2015 OKLAHOMA TEACHERS RETIREMENT SYSTEM

POPULAR ANNUAL FINANCIAL REPORT

for the Fiscal Year Ended June 30, 2015

ABOUT OTRS

OTRS was established in 1943 by the Oklahoma Legislature. As of June 30, 2015, the Plan consisted of 607 participating employers comprised of state institutions of higher education, state education entities, local school districts as well as career tech districts. The membership includes 90,388 active members, 10,457 inactive vested members, 9,930 inactive non-vested and 58,929 retirees and beneficiaries for a total of 169,704 members.

COMPREHENSIVE ANNUAL FINANCIAL REPORT ONLINE

The 2015 Popular Annual Financial Report of the Oklahoma Teachers Retirement System (OTRS) contains summary financial information from the 2015 Comprehensive Annual Financial Report. The full report can be viewed in its entirety online at: www.ok.gov/TRS/publications

Continued Progress at OTRS

Dear Clients:

This is the second time that the Oklahoma Teachers' Retirement System is publishing a "Popular" Annual Financial Report (PAFR). This is not only for the benefit of our membership but also for our many stakeholders and state leaders who are interested in the financial condition of OTRS. It is a summarized version of the System's official Comprehensive Annual Financial Report (CAFR) written in laymen's terms. It's shorter than the CAFR, but it still contains the most important statistics of your retirement plan.

The clients of OTRS rely on the continuing viability and fiscal strength of the System. Their retirement security depends on it. Our public educators and support staff members are crucial to the State's economy and quality of life. OTRS is the oldest and largest state pension plan. The System serves more than 169,000 clients employed by 607 employers. Not only is it important for our clients and stakeholders to know the financial status of the System, but it is also important for Oklahoma citizens to have this information. We at OTRS are proud to serve Oklahoma's educators and staff. The entire state benefits from the retirement income security OTRS provides to its clients. Your retirement system has been providing this service for more than seven decades and we want to be a part of this State's bright future.

Sincerely,

Tom Spencer
Executive Director

Plan Net Position

The "Plan Net Position" is calculated by taking the amount of assets of OTRS and subtracting liabilities restricted for payment of monthly retirement benefits and other qualified distributions to OTRS' clients. A summary of net position restricted for benefits on June 30, 2015, 2014, and 2013, is shown to the right. As of June 30, 2015, OTRS net position was approximately $14.6 billion.

Changes in Plan Net Position

OTRS is funded through a combination of member contributions, employer contributions, dedicated state revenue and investment earnings. For fiscal year 2015, plan net position increased $204,932,962 or 1.42%. While this increase was positive, the increase was far lower than last year's increase of $2.39 billion or 19.9%. A decrease in investment returns from 24.2% last year to 3.5% in FY 2015 was the main cause. The drop in both assets and liabilities was from a slowdown in securities lending activity as the Plan transitioned to a new custodian bank. Deductions to plan net position are incurred primarily for the purpose for which OTRS was created, namely the payment of benefits to retirees. In fiscal year 2015, retirement, death and survivor benefits increased $48,299,300 million or 4.19% due to a 4.5% increase (2,540 members) in the number of retired members and a 1.75% increase in the average benefit. Refunds and withdrawals also increased $7,001,656 or 13.99% as more participants withdrew their contributions on severance of service in fiscal 2015. Administrative costs increased by $76,333 (or 1.78%). The increase in administrative costs was primarily due to an increase in auditing services related to the adoption of new auditing standards.

CONDENSED SCHEDULE OF FIDUCIARY NET POSITION

	JUNE 30,		
	2015	2014	2013
ASSETS:			
Cash	$ 95,635,452	$ 17,695,733	$ 14,903,504
Receivables	207,991,357	201,958,789	286,998,149
Investments	14,635,937,831	14,531,814,990	12,133,453,542
Securities lending collateral	4,729,952	2,475,662,654	2,363,777,689
Capital assets, net	3,649,149	2,848,571	2,180,235
Total assets	14,947,943,741	17,229,980,737	14,801,313,119
LIABILITIES:			
Other liabilities	299,107,398	314,844,654	397,929,117
Securities lending collateral	4,729,952	2,475,662,654	2,363,777,689
Total liabilities	303,837,350	2,790,507,308	2,761,706,806
Net position restricted for pensions	$ 14,644,106,391	$ 14,439,473,429	$ 12,039,606,313

CONDENSED SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION

	JUNE 30,		
	2015	2014	2013
Member contributions	$ 303,677,304	$ 301,300,811	$ 290,044,395
Employer contributions	392,051,458	386,895,127	373,789,020
Matching contributions	24,445,212	24,352,831	26,995,423
Dedicated tax revenue	311,945,400	295,804,717	300,509,886
Member tax shelter contributions	2,823,513	3,026,532	2,910,706
Net investment income	420,630,551	2,587,292,673	1,783,073,902
Security lending net income	11,832,523	8,590,136	9,531,387
Total additions	1,467,405,961	3,607,262,827	2,786,854,719
Benefit payments	1,201,350,906	1,153,051,607	1,095,144,055
Refunds of member contributions and tax sheltered annuity	57,063,155	50,061,499	52,732,344
Administrative expenses	4,358,938	4,282,605	4,156,867
Total deductions	1,262,772,999	1,207,395,711	1,152,033,266
Net increase in net position	$ 204,632,962	$ 2,399,867,116	$ 1,634,821,453

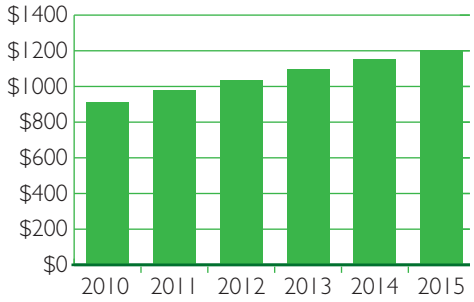
Benefits Paid to Clients

Clients qualify for full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member on or after June 30, 1992, when the member's age and years of credited service equals or exceeds 90 (Rule of 90). Normal retirement age under the Plan is 62 or Rule of 80/90 if the participant became a member prior to November 1, 2011, or age 65 or Rule of 90 if the participant became a member on or after November 1, 2011.

The Schedule of Benefit Payments below provides information on the total benefit expenses incurred by the Plan consisting of age and service, disability, and beneficiary death benefits.

SCHEDULE OF BENEFIT PAYMENTS

(in millions)



Investments

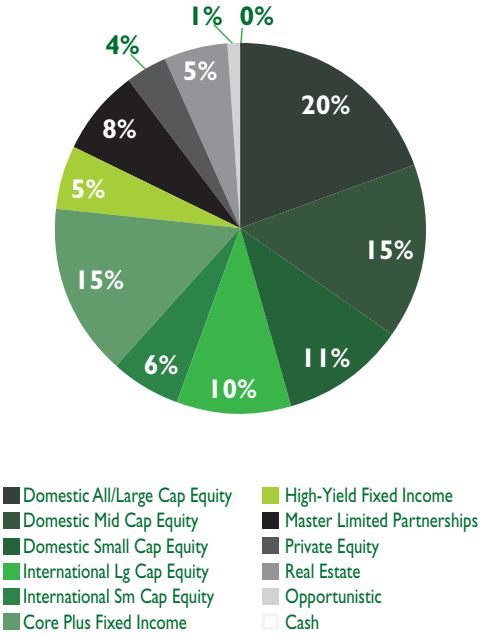
The Board of Trustees follows the "Prudent Investor Rule" which is considered the highest standard in making investment decisions for the Plan. The Board and its advisors invest the Plan's assets for the sole interest of our clients and their beneficiaries. In addition, funds are to be diversified to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so. The Plan's overall investment return for the year ended June 30, 2015, was 3.5 percent. The increase in the Plan's managed investments was nowhere near the FY 2014 return of 22.4%. Domestic equity returns were only 6.5%. International equity returns showed a loss of 1.7%. Core fixed income returns were only 0.6%. The System's Master Limited Partnership investments were down more than 9.4% for the year after several years of double-digit returns, and high yield bonds returned only 0.7%. The Rate of Return table below reflects overall investment returns for the Plan over the past five fiscal years.

RATE OF RETURN

Year Ending June 30,	Total
2015	3.5%
2014	22.4%
2013	17.8%
2012	1.80%
2011	23.5%

The Board of Trustees has established the Investment Policy Statement to guide investment decisions and outline the overall investment philosophy of the Plan. The primary investment goal of the Plan is total return, consistent with prudent investment management standards. Total return includes income plus realized and unrealized gains and losses on Plan assets. In addition, assets of the Plan are invested to ensure that principal is preserved and enhanced over time. All investments are managed by external investment managers. The managers are required to adhere to the investment policy and their respective mandates, but may use full discretion within the policy and guidelines. In the pursuit of long-term returns while maintaining the goal of capital preservation, OTRS has adopted a diversified asset allocation policy that is carried out primarily through active management. The resulting portfolio is designed to enhance long-term returns while mitigating short-term volatility. At fiscal year-end, the portfolio was managed by 31 investment management firms across several asset classes and areas of expertise. For fiscal year-end 2015, investments provided a 3.5% percent rate of return. The annualized rate of return was 14.3 percent over the last three years and 13.4 percent over the last five years. The allocation of the investment portfolio as of June 30, 2015 is shown in the Asset Mix chart below.

ASSET MIX
June 30, 2015



Funding

A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. It must also have a revenue source sufficient to keep up with future obligations. The funding objective for OTRS is to meet long-term benefit promises through contributions that remain approximately level as a percent of member payroll. The greater the level of funding, the larger the

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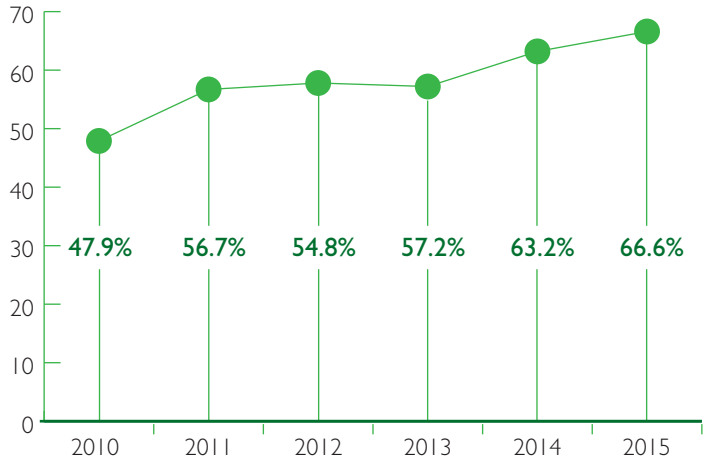
ratio of assets accumulated to the actuarial accrued liability and the greater the level of investment potential. The advantage of a well-funded plan is that the participants can look at assets that are committed to the payment of benefits. The actuarial accrued liability (the amount the System owes) and actuarial value of assets (the amount the System has) of OTRS as of July 1, 2015, amounted to $20.69 billion and $13.77 billion, respectively.

The OTRS funded status was 66.6 percent at June 30, 2015, compared to 63.2 percent at June 30, 2014. The key item responsible for the change in funded status was an actuarial asset gain of $626 million. In addition legislation enacted in 2011 has increased the funded ratio since that time. This new legislation required cost of living adjustments to be funded by the Legislature before they can be passed into law and provided for the removal of the cost of living adjustment assumption from actuarial assumptions and methods. The Funded Ratio chart above right shows the change in funded status over the past five fiscal years.

FUNDED RATIO



OTRS Awarded For Excellence In Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Annual Financial Reporting to the Oklahoma Teachers Retirement System for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014. The Award for Outstanding Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

To receive an Award for Outstanding Achievement in Annual Financial Reporting, a government unit must publish a Comprehensive Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal. An Award for Outstanding Achievement in Annual Financial Reporting is valid for a period of one year only. OTRS has received the award for the last 22 consecutive years. We believe our current CAFR continues to conform to the award requirements, and it has been submitted to the GFOA.

In addition, this new shorter version of financial statistics will be submitted to the GFOA for consideration of its award program for Outstanding Achievement in Popular Annual Financial Reporting (PAFR). We believe that this publication conforms to the award requirements and we look forward to continuing our commitment to quality financial reporting of all kinds.

OKLAHOMA TEACHERS RETIREMENT SYSTEM

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