

**Oklahoma Law Enforcement Retirement System**  
*Statement of Investment Policy Objectives and Guidelines*

**As Amended February 15, 2024**

**I. Purpose and Objectives**

The primary objective of the Oklahoma Law Enforcement Retirement System (the “System”) is to provide eligible employees with retirement benefits. Assets will be invested in a diversified portfolio to achieve attractive real rates of return. Following prudent standards for preservation of capital, the goal is to achieve the highest possible rate of return consistent with the System’s tolerance for risk as determined by the Board of Trustees in its role as fiduciary.

**II. Parties Associated with the Plan**

**A. Board of Trustees (Board)**

1. Holds ultimate responsibility for the Plan and the appropriateness of its investment policy and its execution.
2. Retains consultants, investment managers and other advisors to implement and execute investment policy as it relates to the Plan.
3. Reviews adequacy or need for change of this Statement.
4. Meets with investment managers and reviews quarterly reports concerning Plan asset management.
5. Administers and interprets the Plan.
6. Engages a custodian.
7. Defines investment policy, objectives and guidelines for the plan including risk tolerance.
8. Responsible for changes in funding of investment management.

**B. Investment Committee**

1. Composed of not more than five members of the Board appointed by the President of the Board.
2. Makes recommendations to the full Board on all matters related to the choice of custodians and managers of the assets of the system, on the establishment of investment and fund management guidelines, and in planning future investment policy.
3. The Investment Committee has no authority to act on behalf of the Board in any circumstances whatsoever.
4. No recommendation of the Committee shall have effect as an action of the Board or take effect without the approval of the Board as provided by law.

### **C. Investment Managers**

1. Will have full discretion in the management of assets allocated to the investment managers, subject to the overall investment guidelines set by the Board.
2. Serve as fiduciaries responsible for specific securities decision.
3. Will abide by duties, responsibilities and guidelines detailed in any specific investment manager agreement.

### **D. Custodian**

1. Accepts possession of securities for safekeeping; collects and disburses income, collects principal of sold, matured or called items; provides periodic accounting statements; and processes and maintains securities lending program.
2. Meets as required with the Board and provides reports relative to the status of the Plan.
3. The custodian shall, in a timely fashion, forward and transmit to the Investment Manager all proxies related to equity securities held in an account.

Each manager shall vote the individual proxy's in the manner which they feel will benefit the OLERS Funds the most. The Board reserves the right to instruct the managers on how to vote individual proxies. The manager will keep a record of proxy voting and upon request, will make these records available to the Board.

4. The custodian shall employ an "alert" system to monitor investment manager compliance with policy guidelines.

### **E. Investment Consultant**

1. Assists Board in developing investment policy guidelines, including asset class choices, asset allocation targets and risk diversification.
2. Provides Board with objective information on a broad spectrum of investment management specialists and helps construct a portfolio management team of superior investment managers.
3. Monitors the performance of the Investment Managers and provides regular quarterly reports to the Board, which will aid them in carrying out the intent of this Statement.
4. Reports conclusions and recommendations to the Board as required.
5. Evaluates and makes recommendations, as needed, on other areas of investment, such as real estate, foreign securities or venture capital.

### III. Investment Objectives and Guidelines

#### A. Policies

1. To structure the Fund's portfolio for maximum investment style diversification and to achieve expected total return investment results, the Board:

- a) May retain multiple equity portfolio managers who will be granted full investment discretion.

The total return concept as it applies to this portion of the Fund means dividend income plus realized and unrealized capital appreciation. Complementary multiple managers across various market capitalizations and styles will be used in structuring the domestic equity asset mix.

- b) May retain multiple managers of private equity and venture capital investment vehicles.

With recognition of the illiquid nature of these types of investments, investment in these types of strategies is deemed appropriate as a complement to more traditional equity and fixed income strategies in an effort to further diversify the overall portfolio and enhance portfolio returns.

- c) May retain separate fixed income portfolio managers who will be granted full investment discretion.

Fixed income investments will constitute a portion of the System's assets to primarily reduce the volatility of the total portfolio, in addition to providing current income. The total return concept as it applies to this portion of the Fund means interest income plus realized and unrealized capital appreciation.

- d) May retain separate real estate portfolio managers.

2. Real estate investment will constitute a portion of the System's assets to provide current income and/or capital appreciation. With recognition of the illiquid nature of these types of investments, investment in this type of asset is deemed prudent for purposes of reduction of total portfolio volatility. Investment management will be delegated to external professional organizations. The managers will operate within a set of guidelines, objectives and constraints which are attached hereto.
3. The Board will follow the policy that, except for established guidelines and unusual circumstances, no restrictions will be placed on the selection of individual investments by the Plan's investment managers.
4. Proxies shall be voted by the Plan's managers. If policy clarification is needed by an investment manager, the Investment Committee should be considered as the source for such clarification.

5. The Board may institute a securities lending program to generate additional income above and beyond that produced through dividend, interest and capital appreciation.

The Board will receive collateral, consistent with industry standards, of at least 102% of market value, initially, on equity securities and 100% on fixed income securities. Securities are priced daily and collateral adjustments (marked to market) made as required.

In view of the rapid changes within the capital markets and investment management techniques, these guidelines will be reviewed by the Oklahoma Law Enforcement Retirement System annually. Exceptions to these guidelines may be made anytime with the prior written approval of the Trustees of the Oklahoma Law Enforcement Retirement System.

## **B. Portfolio Asset Allocation Guidelines**

The Trustees have adopted the asset allocation policy shown below for Plan assets. Target percentages have been determined for each asset class. Percentage allocations are intended to serve as guidelines; the board will not be required to remain strictly at the designated allocation. Market conditions or an investment transition (asset class or manager) may require an interim investment strategy and, therefore, a temporary imbalance in asset mix.

<b>Asset Class</b>	<b>Minimum</b>	<b>Target</b>	<b>Maximum</b>
<b>Equity</b>	<b>55%</b>	<b>62.5%</b>	<b>75%</b>
<b>Fixed Income (Inc Cash)</b>	<b>10%</b>	<b>25%</b>	<b>35%</b>
<b>Real Assets</b>	<b>5%</b>	<b>12.5%</b>	<b>25%</b>

Equity is further defined as:

Large Cap Equity	12.5%	17.5%	22.5%
Small Cap Equity	5%	10%	15%
International Developed Equity	10%	15%	20%
Emerging Markets	0%	5%	10%
Global Long / Short Equity	0%	0%	10%
Private Equity*	10%	15%	20%

Fixed Income is further defined as:

Core Bonds	0%	7.5%	12.5%
Core Plus Bonds	5%	10%	15%
Multi-Sector Bonds	0%	7.5%	12.5%

Real Assets is further defined as:

Core Real Estate	5%	9%	15%
Value Add Real Estate	0%	3.5%	10%

*\*Allocation calculated partially on a committed not invested basis.*

The Board, in conjunction with its investment consultant, will formally review asset allocation on an annual basis for potential rebalancing to target levels as established by the investment policy. The Board will informally monitor rebalancing needs to maintain compliance with the investment policy on a monthly basis.

### **C. Total Portfolio Objectives**

The Plan's total return will be expected to provide equal or superior results, using a three-year moving average, relative to the following benchmarks:

1. An absolute return objective of 7.5% (or current actuarial rate).
2. The Return of a Policy Index that is constructed as follows:
  - 32.5% S&P 500 Index
  - 10% Russell 2000 Index
  - 20% MSCI ACWI ex. US Index
  - 25% Bloomberg US Aggregate Bond Index
  - 12.5% NFI ODCE Index
3. A relative return objective of above median in consultant's total fund peer group universe.

### **D. Individual Manager / Strategy Performance Objectives and Communications**

#### **1. Criteria**

Manager performance shall be monitored over current and long term time periods. Performance will be reviewed over the following periods with an emphasis on 3 and 5 year periods:

3 months  
6 months  
Year to date  
One Year  
Three Years  
Five Years

The manager's performance will be evaluated on absolute return, relative return, risk-adjusted return, volatility profile, and consistency with stated style.

#### **2. Performance Expectations**

Manager performance should outperform their broad market benchmark and the relevant style benchmark over a market cycle. Relative performance should be above median over a market cycle when compared to relevant peer groups. Although performance expectations are established for a market cycle, performance comparisons to relevant peer groups will be on an on-going basis. Passive portfolio allocations are expected to match the risk and return profile of their appropriate benchmarks.

### 3. Communications

Communications with the Oklahoma Law Enforcement Retirement System, at a minimum, should include:

- A. Quarterly written statements, including actions taken in the portfolio, the current outlook and expected changes in the portfolio.
- B. On a quarterly basis, performance results should address compliance with the criteria established by the Investment Policy in terms of investment guidelines and portfolio results.
- C. Annual meetings with the Board of Trustees, with the location and time to be determined by the Board of Trustees.
- D. All pertinent changes in the firm should be reported as they occur, by phone and in writing. Included among these changes, but not limited to, are the following:
  - 1. Changes in personnel,
  - 2. Major changes in areas of responsibility,
  - 3. Changes in assets gained or lost, as well as clients gained or lost,
  - 4. Changes in investment philosophy or major strategies,
  - 5. Changes in ownership or the manager
  - 6. Material Litigation or Regulatory Issues

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## *Large Cap Domestic Equity Guidelines*

### **I. Investment Objective**

The investment management style and process of each manager is important because of the manner in which each style blends with the structure of the total Plan; therefore, adherence to this discipline is a critical issue. The portfolio should be managed in a style consistent with the asset manager's other portfolios within the same investment mandate or product. Any significant deviation from the manager's stated style will require written approval from the Oklahoma Law Enforcement Retirement System Board.

### **II. Common Stock Guidelines**

- A. The manager is expected to prudently diversify the portfolio across industry/economic sectors, number of securities, and size of positions.
- B. Equity securities shall mean common stocks or equivalent (ADRs, or stocks of foreign corporations which trade primarily on a major U.S. exchange, issues convertible into common stocks, etc.)
- C. Equity investment in any one company may not exceed 15% of the market value of the individual portfolio, or 5% of any one company's outstanding equity.
- D. Though short term cash positions within the portfolio will fluctuate, on an ongoing basis cash should not exceed 10% of an investment manager's portfolio. If at any time the manager should believe that it would be in the best interest of the fund to raise this maximum limitation above 10% on an ongoing basis, the manager must contact the Board of Trustees and provide a recommendation and basis for modifying this guideline.
- E. Assets can be held in commingled/mutual funds as well as privately managed separate accounts. Assets held in commingled accounts should be managed in style/strategy consistent with the fund's stated objective and constraints. If assets are held in a commingled account the Board will make its best efforts to utilize funds that are managed in strategies that are generally consistent with this Policy.
- F. Separate account managers shall be prohibited from purchasing or holding the publicly traded securities of companies on the Oklahoma State Treasurer's Restricted Financial Company List. The System shall notify investment managers of the list of companies placed on the Treasurer's List on an annual basis or as updated by the Treasurer from time to time.

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## *Small Cap Equity Manager Guidelines*

### **I. Investment Objective**

The investment management style and process of each manager is important because of the manner in which each style blends with the structure of the total Plan; therefore, adherence to this discipline is a critical issue. The portfolio should be managed in a style consistent with the asset manager's other portfolios within the same investment mandate or product. Any significant deviation from the manager's stated style will require written approval from the Oklahoma Law Enforcement Retirement System Board.

### **II. Common Stock Guidelines**

- A. The manager is expected to prudently diversify the portfolio across industry/economic sectors, number of securities, and size of positions.
- B. Equity securities shall mean common stocks or equivalent (ADRs, or stocks of foreign corporations which trade primarily on a major U.S. exchange, issues convertible into common stocks, etc.)
- C. Equity investment in any one company may not exceed 10% of the market value of the individual portfolio, or 5% of any one company's outstanding equity.
- D. Though short-term cash positions within the portfolio will fluctuate, on an ongoing basis cash should not exceed 10% of an investment manager's portfolio. If at any time you should believe that it would be in the best interest of the fund to raise this maximum limitation above 10% on an ongoing basis, the manager must contact the Board of Trustees and provide a recommendation and basis for modifying this guideline.
- E. Assets can be held in commingled/mutual funds as well as privately managed separate accounts. Assets held in commingled accounts should be managed in style/strategy consistent with the fund's stated objective and constraints. If assets are held in a commingled account the Board will make its best efforts to utilize funds that are managed in strategies that are generally consistent with this Policy.
- F. Separate account managers shall be prohibited from purchasing or holding the publicly traded securities of companies on the Oklahoma State Treasurer's Restricted Financial Company List. The System shall notify investment managers of the list of companies placed on the Treasurer's List on an annual basis or as updated by the Treasurer from time to time.

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## *International Equity Manager Guidelines*

### **I. Investment Objective**

The investment management style and process of each manager is important because of the manner in which each style blends with the structure of the total Plan; therefore, adherence to this discipline is a critical issue. The portfolio should be managed in a style consistent with the asset manager's other portfolios within the same investment mandate or product. Any significant deviation from the manager's stated style will require written approval from the Oklahoma Law Enforcement Retirement Board.

### **II. International Equity Guidelines**

- A. Diversification – The manager will broadly diversify across country markets utilizing medium to large capitalization companies.
- B. Equity securities shall be of non-U.S. issues (including ADRs, convertible bonds, and U.S. registered securities) whose principal markets are outside of the U.S.
- C. While there are no percentage limits in regard to country weightings, the manager should use prudence and reasonable good judgment.
- D. Investment in common stock of any company may not exceed 5% of its shares outstanding; and no single stock investment may exceed 5% of the market value of the individual portfolio.
- E. The cash assets of the individual portfolio may be invested in short-term fixed income investments (cash equivalents). These securities may be denominated in U.S. dollars or other foreign currencies. Fixed income investments typically should not exceed 10% of the total individual portfolio.
- F. Assets can be held in commingled/mutual funds as well as privately managed separate accounts. Assets held in commingled accounts should be managed in style/strategy consistent with the fund's stated objective and constraints. If assets are held in a commingled account the Board will make its best efforts to utilize funds that are managed in strategies that are generally consistent with this Policy.
- G. Separate account managers shall be prohibited from purchasing or holding the publicly traded securities of companies on the Oklahoma State Treasurer's Restricted Financial Company List. The System shall notify investment managers of the list of companies placed on the Treasurer's List on an annual basis or as updated by the Treasurer from time to time.

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## *Emerging Markets Equity Manager Guidelines*

### **I. Investment Objective**

The investment management style and process of each manager is important because of the manner in which each style blends with the structure of the total Plan; therefore, adherence to this discipline is a critical issue. The portfolio should be managed in a style consistent with the asset manager's other portfolios within the same investment mandate or product. Any significant deviation from the manager's stated style will require written approval from the Oklahoma Law Enforcement Retirement Board.

### **II. Emerging Markets Equity Guidelines**

- A. Diversification – The manager will broadly diversify across various country markets utilizing small to large capitalization companies.
- B. Equity securities shall be of non-U.S. issues (including ADRs, convertible bonds, and U.S. registered securities) whose principal markets are outside of the U.S.
- C. While there are no percentage limits in regard to country weightings, the manager should use prudence and reasonable good judgment.
- D. Investment in common stock of any company may not exceed 5% of its shares outstanding; and no single stock investment may exceed 5% of the market value of the individual portfolio.
- E. The cash assets of the individual portfolio may be invested in short-term fixed income investments (cash equivalents). These securities may be denominated in U.S. dollars or other foreign currencies. Fixed income investments typically should not exceed 10% of the total individual portfolio.
- F. Assets can be held in commingled/mutual funds as well as privately managed separate accounts. Assets held in commingled accounts should be managed in style/strategy consistent with the fund's stated objective and constraints. If assets are held in a commingled account the Board will make its best efforts to utilize funds that are managed in strategies that are generally consistent with this Policy.
- G. Separate account managers shall be prohibited from purchasing or holding the publicly traded securities of companies on the Oklahoma State Treasurer's Restricted Financial Company List. The System shall notify investment managers of the list of companies placed on the Treasurer's List on an annual basis or as updated by the Treasurer from time to time.

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## *Long/Short Equity Guidelines*

### **I. Investment Objective**

The Primary emphasis of this portfolio should be on positive absolute returns with low correlation to the long only equity markets. The portfolio should be managed in a style that will provide less volatility in returns than the broad long only equity markets so as to provide protection in down markets but allow participation in up markets. The focus of individual security selections will be on strong companies on the long side and companies with deteriorating fundamentals on the short side.

### **II. Investment Guidelines**

1. This portfolio will be implemented through a fund of funds approach. The manager will have complete discretion to determine the proper asset allocation among equity oriented strategies within the bounds of the following limitations: The manager is expected to prudently diversify the portfolio across market capitalization, geography, industry/economic sectors, number of managers, and size of positions.
2. Equity oriented strategies shall include primarily fundamental long/short equity managers but may include other primarily equity oriented strategies at the managers discretion.
3. Assets can be held in commingled/mutual funds as well as privately managed separate accounts. Assets held in commingled accounts should be managed in style/strategy consistent with the fund's stated objective and constraints. If assets are held in a commingled account the Board will make its best efforts to utilize funds that are managed in strategies that are generally consistent with this Policy.

### **III. Performance Evaluation**

1. The Investment Consultant shall monitor the Investment Manager's performance on a monthly basis to ensure that the Investment Manager's performance is meeting or exceeding the portfolio objectives described below.
2. The Investment Consultant, along with the Board, shall conduct evaluations of each Investment Manager on a quarterly basis. The quarterly evaluation shall include, but not be limited to, a review of the following:
  - a. The Investment Manager's organizational structure, process and philosophy and personnel changes to ensure the consistency of these items over time.
  - b. The Investment Manager's performance relative to the Performance Criteria described below.
  - c. The Investment Manager's adherence to its specific style of management.

### **IV. Performance Criteria**

1. The manager's performance will be evaluated on absolute return, relative return, volatility profile, and consistency with stated style. Investment Manager performance shall be monitored using one-year, three-year, and five-year risk and return characteristics.

2. The primary performance objectives each Long/Short equity managers shall be expected to meet over a 3-5 year time period are as follows:
  - Meet or exceed the return of the MSCI All Country World Index (MSCI ACWI) over a market cycle.
  - Annualized volatility less than two-thirds than that of the MSCI ACWI as measured by standard deviation.
3. Performance will be reviewed for the following periods:
  - a. One month, three months, calendar and fiscal year to date, one-, three- and five years.
  - b. Up markets (trough-to-peak).
  - c. Down markets (peak-to-trough).

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## *Private Equity and Venture Capital Guidelines*

### **I. General Objective:**

A premium to the return objective of the public equity portfolio to compensate for the loss in liquidity. The portfolio may consist of strategies which when combined, produce a portfolio of complementary areas of focus, industries, stages of financing, vintage year and geographic representation designed to diversify the private equity/venture capital allocation.

Benchmark for measuring value added:

S&P 500 return plus 500 basis points over a 5-7 year time period.

### **II. Liquidity:**

Generally, no liquidity for the term of the investment (5-12 years).

### **III. Securities and Strategies:**

Within the Private Equity/Venture Capital investment portfolio, the following securities and/or strategies may be included:

- Seed, Early, and Late Stage Venture Capital
- Small, Mid and Large Market Buyout
- Mezzanine Debt
- Distressed Debt

Both Domestic and International investments are eligible.

Other strategies that improve the potential risk/reward profile of the private equity and venture capital profile may be included.

The private equity investment portfolio should make all attempts to avoid all issues relating to Unrelated Business Taxable Income (UBTI). All post-venture distributions will be forwarded in kind to the appropriate public equity manager to be included in their discretionary portfolio or sold in an appropriate manner at the manager's discretion.

### **IV. Performance Expectations:**

The private equity investment portfolio shall be expected to meet the following objectives over a 5-7 year time period:

- Internal rates of return greater than those available in the public equity markets
- Low relative correlation to the broad public equity market
- IRR of mature partnerships above median for like peers as measured by Venture Economics.

## *Opportunistic Core Plus Fixed Income Manager Guidelines*

### **I. Investment Objective**

The investment management style and process of each manager is important because of the manner in which each style blends with the structure of the total Plan; therefore, adherence to this discipline is a critical issue. The portfolio should be managed in a style consistent with the asset manager's other portfolios within the same investment mandate or product. Any significant deviation from the manager's stated style will require written approval from the Oklahoma Law Enforcement Retirement System Board.

### **II. Asset Allocation**

This fund will be structured as an "opportunistic core plus" fixed income portfolio. You will have complete discretion to determine the proper asset allocation within the parameters established below:

*Core- (U.S. Government Securities, Corporate Bonds Mortgage-Backed Securities and Asset Backed Securities) 60%-100%*

*Plus- (High Yield Bonds, Emerging Market Fixed Income, International Fixed Income, Convertible Bonds and Bank Loans) 0- 40%*

### **III. Opportunistic Core Plus Guidelines**

- A. Obligations of the U.S. Government or U.S. Government agencies may be held in any amount.
- B. Corporate bonds, which are obligations of U.S. corporations, shall be diversified by issuer type; by industry, for example (utility, financial, etc.); and no more than 5% of the portfolio shall be invested in the obligations of any one issuer, with the exception of U.S. Government securities.
- C. The Portfolio shall be required to maintain an average credit quality of BBB or higher.
- D. The original issue size of the securities selected should be such to afford a high degree of marketability.
- E. In order to adequately diversify the Account, the manager may invest in a strategy indirectly by acquiring interests in a commingled investment vehicle (limited partnership or mutual fund) managed by the manager or its affiliates, which has an investment objective of investing primarily in a particular asset class.
- F. No more than 5% of the portfolio may be invested in any one country (excluding the U.S.).
- G. Average option adjusted duration of the portfolio shall stay within a range of +/- 1.0 year of the option-adjusted duration of the relevant benchmark.
- H. Derivatives may be used to reduce or eliminate undesirable portfolio risks, caused by currency exposure, duration, and yield curve position. Derivatives may not be used to

create exposure to an asset or asset class that is not permitted by portfolio guidelines. Derivatives may not be used to create portfolio leverage or for speculative purposes. All derivatives must have price characteristics that are consistent with fixed income issues.

- I. Assets can be held in commingled/mutual funds as well as privately managed separate accounts. Assets held in commingled accounts should be managed in style/strategy consistent with the fund's stated objective and constraints. If assets are held in a commingled account the Board will make its best efforts to utilize funds that are managed in strategies that are generally consistent with this Policy.
- J. Separate account managers shall be prohibited from purchasing or holding the publicly traded securities of companies on the Oklahoma State Treasurer's Restricted Financial Company List. The System shall notify investment managers of the list of companies placed on the Treasurer's List on an annual basis or as updated by the Treasurer from time to time.

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## *Cash Manager Guidelines*

### **I. Investment Objective**

The investment objective of the Fund is to seek to maximize current income to the extent consistent with the preservation of capital, maintenance of liquidity and the investment guidelines set forth below.

### **II. Investment Guidelines**

#### **1. Eligible Investments:**

- a. Obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities and custodial receipts with respect thereto.
- b. Repurchase agreements with counterparties listed in (1) or (2) below collateralized fully by investments described in paragraph (a) above which have a market value, including accrued interest, of at least 102% of the amount invested in the repurchase agreement.
  - (i.) Banks on the Eligible Credit List which are approved for investment at the time of purchase; and
  - (ii) Broker-dealers, which are designated at the time of purchase as Primary Dealers by the Federal Reserve Bank of New York and are, approved repurchase agreement counterparties.
- c. In the case of each investment noted above:
  - (i.) All investments shall be denominated in U.S. dollars;  
Investments may include variable and floating rate instruments.

#### **2. Diversification**

- a. A maximum of 25% of the value of the total assets of the Fund may be invested in repurchase agreements with one counterparty.

#### **3. Maturity/Liquidity**

- a. The Fund shall maintain a dollar-weighted average portfolio maturity of 90 days. Subject to this requirement, the following additional maturity requirements shall apply to the Fund:
  - (i) A minimum of 5% of the value of the total assets of the Fund should be available each business day, a minimum of 15% of the value of the total assets of the Fund should be available within one week and a minimum of 30% of the value of the total assets of the Fund should be available



within one month. These requirements may be satisfied by maturities, demand features or buy-back agreements with brokers-dealers.

- (ii) A maximum of 25% of the value of the total assets of the Fund may be invested in securities with maturities beyond 180 days.
- b. For purposes of determining the maturity of each eligible investment, (a) instruments which have a variable rate of interest shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate or (b) floating rate instruments which incorporate a demand feature shall be deemed to have a maturity equal to the period of time remaining until the principal amount can be recovered through demand and (c) a repurchase agreement shall be deemed to have a maturity equal to the period of time remaining until the date on which the repurchase is scheduled to occur, or, if no date is specified but the agreement is subject to demand, the notice period applicable to a demand for the repurchase of the securities.

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## *Real Estate Manager Guidelines*

### **K. Investment Objective**

The investment management style and process of each manager is important because of the manner in which each style blends with the structure of the total Plan; therefore, adherence to this discipline is a critical issue. The portfolio should be managed in a style consistent with the asset manager's other portfolios within the same investment mandate or product. Any significant deviation from the manager's stated style will require written approval from the Oklahoma Law Enforcement Retirement System Board

### **I. Real Estate Guidelines**

- A. The manager may invest in real estate and related securities permitted under Oklahoma Law including improved or unimproved real property, mortgages, collective investment fund (Real Estate Investment Trusts or Real Estate Funds, notes secured by real property, mortgage-backed bonds and pass-through securities backed by mortgages).
- B. If a manager is operating a commingled fund, it is expected that the manager will adhere to the stated guidelines for that fund. If there are ever any deviations from the original guidelines, the Oklahoma Law Enforcement Retirement System Board expects to be advised of the change prior to being made.
- C. Investments in real estate properties will be broadly diversified by geography, by property type and the number of properties.
- D. The manager should employ adequate procedures to minimize potential conflicts of interest.
- E. The manager must be a Registered Investment Advisor or otherwise qualified under ERISA to manage pension monies.
- F. The manager's investment vehicle should be a fund of adequate size such that the Oklahoma Law Enforcement Retirement System owns no more than 10% of the pooled fund's total assets under management.
- G. The manager should not assume excessive risk in terms of raw land, developmental projects or leverage on properties owned.
- H. While cash may from time-to-time represent a significant portion of the total portfolio, the manager is expected to maintain a relatively fully invested position most of the time. If, for whatever reason, the manager intends to hold a significant amount of cash for an extended period of time, the manager must inform the Board in writing as to the manager's rationale for holding such assets in cash, and the manager shall provide the Board with the manager's proposed strategy for handling this situation.
- I. The System may also invest directly in real estate, either 100% owned or through joint ventures or other co-investment vehicles for the primary purpose of providing office space for the System, while generating return through income and capital appreciation

competitive with institutional grade properties within the greater Oklahoma City market.

- J. Assets can be held in commingled/mutual funds as well as privately managed separate accounts. Assets held in commingled accounts should be managed in style/strategy consistent with the fund's stated objective and constraints. If assets are held in a commingled account the Board will make its best efforts to utilize funds that are managed in strategies that are generally consistent with this Policy.

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**Placement Agents Disclosure Policy**  
*(Initially adopted on July 16, 2009)*

In order to preserve the independence and integrity of the System, the Board has determined that it is in the best interest of the System to require full disclosure and transparency in the engaging, investing with, committing to, or doing business with an Investment Manager that is using the services of a third party marketer, solicitor, placement agent, registered lobbyist or other intermediary (“Placement Agent”), to assist the Investment Manager in obtaining investments by the System, or otherwise doing business with the System. This policy is designed to prevent conflicts of interest, or the appearance of conflicts of interests in the System’s investment decision-making process, and ensure that investment decisions are made solely on the merits of proposed investments for the benefit of the System’s members and beneficiaries.

The Board recognizes that Placement Agents may provide useful information concerning Investment Managers and their business practices, performance or products. The Board has determined that the disclosure and notification requirements set forth in this policy constitute a threshold issue for all Investment Managers, and adopt this policy as part of the Board’s Investment Policy.

1. Investment Managers seeking to do business with, or currently doing business with the System must fully comply with Rule 206(4)-3 promulgated under the Investment Advisors Act of 1940 (“SEC Rule 206(4)-3”) with regard to Placement Agent disclosure.
2. In addition to the disclosure requirements set forth in SEC Rule 206(4)-3, Investment Managers that hire or retain Placement Agents to seek System business shall disclose in writing their retention of Placement Agents, the fees they pay them, the services performed, and other relevant information about their engagement. The disclosed information must include the Placement Agents’ identities, resumes of key people, description of compensation and paid services provided, copies of any agreements, and if the agent is registered with the SEC or as a lobbyist in any state or the national government.
3. Each Investment Manager currently doing business with the System will provide the Placement Agent disclosure information as part of the yearly renewal of the Investment Manager’s contract or contracts with the System. Any Investment Manager seeking to do business with the System must disclose the required Placement Agent information as part of its initial response to the Board, including its initial response to any request for proposals (RFPs) issued by the Board.
4. Placement Agents of any Investment Managers seeking to do business with the System shall comply with the restrictions on communications applicable to such Investment Manager pursuant to the Board’s Investment Policy, as the same may be amended from time to time.

**Securities Litigation Policy**  
*(Initially adopted on July 16, 2009)*

**I. Purpose**

The Board adopts this Securities Litigation Policy to establish procedures and guidelines for evaluating, monitoring, and, when appropriate, participating in securities class action lawsuits to protect the System's interests.

As an institutional shareholder, the System is periodically a class member in securities class action lawsuits that seek to recover damages resulting from alleged wrongful acts or omissions of others. The enactment by Congress of the Private Securities Litigation Reform Act ("PSLRA") in 1995 allows institutional investors and other large shareholders to seek "lead plaintiff" status in securities class action litigation. The lead plaintiff gains the right to supervise and control the prosecution of the case. Since the enactment of the PSLRA, it has been demonstrated that participation as lead plaintiff by large, sophisticated shareholders, including institutional shareholders, can result in lower attorneys' fees and larger recoveries on behalf of shareholders in certain class action lawsuits.

The Board desires to establish formal procedures to monitor potential and ongoing securities class action lawsuits in which the System has an interest not only for the purpose of insuring that claims are timely filed on behalf of the System in cases in which the System is an eligible claimant, but also to participate as lead plaintiff where such participation is appropriate and is likely to enhance the recovery by members of the class.

**II. Monitoring Proofs of Claim**

The System shall utilize the services of the Board Counsel, the Staff and the System's custodial banks for the purposes of monitoring and managing the timely filing of proofs of claim in securities class action litigation matters that have already reached settlement, with respect to investments held by the System from time to time. Except as otherwise provided below, the Board Counsel shall be responsible for the timely and effective filing of proofs of claim in all settled class actions involving securities held on behalf of the System. However, in those securities class action lawsuits in which the System has retained Outside Securities Counsel to represent the System as lead plaintiff or to actively monitor the progress of the case, then the Outside Securities Counsel shall be responsible for the timely and effective filing of proofs of claim in such lawsuits on behalf of the System and will notify, in writing, the System, the Board Counsel and the System's custodian and applicable investment manager, if any, of the proofs of claim that have been filed on behalf of the System. The System's Staff shall be responsible for assisting the Board Counsel and/or Outside Securities Counsel, if requested to do so, in the timely and accurate filing of proofs of claim by the Board Counsel and/or Outside Securities Counsel employed by the System for these purposes.

To assist Board Counsel in monitoring proofs of claim, the Board authorizes the System's custodial banks to provide Board Counsel with information, in electronic and/or other format, regarding the System's current holdings, transactions and investments in securities, as well as its holdings, transactions and investments in securities for the past three years. The custodial banks shall provide ongoing periodic information to Board Counsel on a regular basis to ensure that counsel has current information.

### **III. Identification of Potential and Filed Securities Class Action Litigation**

In addition to the filing of proofs of claim as described above, the System will consider and assess whether and under what circumstances it may choose to become more actively involved in securities class action litigation matters from time to time. To this end, the System will retain one or more Outside Securities Counsel experienced in securities litigation matters to review potential and filed class action lawsuits and to bring to the attention of the System meritorious cases that the Outside Securities Counsel concludes are worthy of further monitoring or involvement by the System and for which the System has suffered losses on its investment. The Outside Securities Counsel shall make its recommendations to the Board, including a statement as to whether the System should actively monitor the case, seek lead plaintiff status, or take some other course of action with respect to the particular securities class action lawsuit.

To assist Outside Securities Counsel, the Board authorizes the System's custodial banks to provide Outside Securities Counsel with information, in electronic and/or other format, regarding the System's current holdings, transactions and investments in securities, as well as its holdings, transactions and investments in securities, as necessary. The custodial banks shall provide ongoing periodic information to Outside Securities Counsel on a regular basis to ensure that counsel has current information.

With regard to whether the System should undertake an active role in pending or potential securities litigation, the Board shall consider appropriate criteria and factors, which may include, without limitation, the following:

- A) The recommendation of the Outside Securities Counsel, Board Counsel, and Executive Director regarding the System's role in the litigation.
- B) The size of the claim which, absent other considerations at the Board's discretion, should exceed \$250,000 for the System to consider seeking a position of lead plaintiff.
- C) The likely nature and amount of recovery versus the time and costs involved in pursuing the matter actively and any staffing constraints that might make it difficult for the System to effectively pursue the case actively.
- D) The effectiveness of potential alternatives for recovering the value of the claim, such as corporate governance actions or less costly methods for monitoring the litigation.
- E) Whether the active involvement of the System will add value to the potential resolution or management of the case.
- F) Whether any other institutional investors are members of the class, and the extent to which they plan to become actively involved.

It is within the Board's discretion whether to seek lead plaintiff status, actively monitor the case, or take such other action, if any, as it deems to be appropriate and in the best interests of the System and its participants and beneficiaries. In appropriate situations, the System may seek lead plaintiff status jointly with one or more other public retirement funds or other suitable

lead plaintiff candidates. Further, all retainer agreements with any Outside Securities Counsel must be approved in advance by the Board.

Upon the Board's approval of the System seeking lead plaintiff status or taking any action in any particular case, the Chairperson of the Board or another designated representative is authorized to sign any affidavits or other documents relating to a lead plaintiff application or any fee agreements with Outside Securities Counsel in the case. The System's Executive Director, Staff and Board Counsel shall provide any other assistance necessary to facilitate the lead plaintiff application process, and to assist Outside Securities Counsel in the conduct of the litigation or its resolution should the System secure appointment as a lead plaintiff.

If the Board decides that the System should not seek appointment as lead plaintiff but should actively monitor a particular lawsuit, or if the System applies for but fails to secure a lead plaintiff position in a particular case, then the Executive Director and the Board Counsel shall, with the assistance of Outside Securities Counsel, as needed, actively monitor the case and report to the Board. Such monitoring may include participation by the System in the settlement approval process.

The authority to settle, withdraw from or otherwise terminate a securities litigation matter initiated by the System pursuant to this policy shall rest solely with the Board.

## Competitive Bid Standards

Contractual services with pension fund custodians, investment managers, investment consultants and other professionals which are exempt from competitive bidding procedures of the Oklahoma Central Purchasing Act shall be chosen by a solicitation of proposals on a competitive bid basis pursuant to the following standards:

1. The Board shall approve all solicitations of proposals to be issued by the Oklahoma Law Enforcement Retirement System (the System).
2. Respondents to a proposal shall comply with the bid procedures set forth in the solicitation of proposals and these standards.
3. The Executive Director and the Board's Investment Consultant are responsible for developing a list of qualified bidders for each approved proposal, including those bidders who have registered with the Central Purchasing Division of the Oklahoma Department of Central Services.
4. Proposals will be mailed by and returned to the System's independent certified public accountant that will verify to the Board whether the solicitation is in compliance with these standards.
5. A solicitation does not commit the Board to award a contract, to pay any costs incurred in the preparation of a proposal, or to procure or contract for the proposed services.
6. The Board reserves the right to accept or reject any or all proposals received as a result of a solicitation, to negotiate with any and all qualified bidders, to select any qualified bidder to provide additional or ancillary services to the Board, or to cancel in part or in its entirety a solicitation if it is in the best interest of the System to do so.
7. The Board shall award contracts at a specified time and place, which shall be open to the public pursuant to the provisions of the Oklahoma Open Meeting Act.
8. Proposals shall be evaluated by the Executive Director and the Board's Investment Consultant, and any other person or organization as determined by the Chairmen of the Board. The Executive Director, Investment Consultant and other persons or organizations shall present the evaluations and recommendations to the Board.
9.
  - a. No member of the Board or its staff shall knowingly communicate concerning any matter relating to the contract or selection process with any party financially interested in the contract, an officer or employee of that party, or a placement agent retained or employed by that party, unless the communication is (1) part of the process expressly described in the request for proposal or other solicitation invitation, or (2) part of a noticed board meeting, or (3) as provided in subsection c. of this section. Any bidder who knowingly participates in a communication that is prohibited by this subsection shall be disqualified from the contract award.
  - b. During the evaluation of any solicitation of proposal, no party who is financially interested in a proposal, an officer or employee of that party, placement agent or a person retained or employed by that party, may knowingly communicate with any Board Member concerning any matter relating to the transaction or its evaluation, unless the financially interested



party discloses the content of the communication in a writing addressed and submitted to the Executive Director and the Board prior to the Board's action on the prospective proposal. This subsection shall not apply to communications that are part of a noticed board meeting, or as provided in subsection c of this section.

- (1) The writing shall disclose the date and location of the communication, and the substance of the matters discussed. The Board shall prescribe other procedures concerning this disclosure.
- (2) Any Board Member who participates in a communication subject to this subsection shall also have the obligation to disclose the communication to the Executive Director and the Board, prior to the Board's action on the proposal. The Board shall prescribe procedures for this disclosure, including procedures to apply to Board Members who fail to disclose communications as required by this subsection.
- (3) Consistent with its fiduciary duties, the Board shall determine the appropriate remedy for any knowing failure of a financially interested party to comply this subsection including, but not limited to, outright rejection of the prospective proposal, reduction in fee received, or any other sanction.
- (4) The communications disclosed under this subsection shall be made public, either at the open meeting of the Board in which the proposal is considered, or if in closed executive session, upon public disclosure of any closed executive session votes concerning the proposal.

- c. The procedures and prohibitions prescribed by this section shall not apply to:
- (1) Communications that are incidental, exclusively social, and do not involve the System or its business, or the Board or staff member's role as a System official
  - (2) Communications that do not involve the System or its business and are within the scope of the Board or staff member's private business or public office wholly unrelated to the System.

10. Proposals will be evaluated using various criteria, including but not limited to:
- 2) Bidder's demonstrated understanding of the problems and the needs of the solicitation as outlined in the proposal as well as the perceptiveness to address areas not specifically identified.
  - 3) Soundness of the bidder's approach to the problems and needs presented by the proposal including methodology for achieving specific tasks and objectives.
  - 4) Experience and capacity of bidder including recent, related experience and performance, qualification of personnel and bidder's ability to commit capable staff to support the project requested by the proposal.
- d. Cost effectiveness and reasonableness of bidder's fees.

## **Rationale for Establishing Alternative Process for Selection of Certain Private Equity and Private Real Estate Strategies**

Certain investment strategies that the Oklahoma Law Enforcement Board of Trustees (Board) have determined to be appropriate and prudent as part of their long term strategic investment plan are primarily organized as closed end Limited Partnerships or Limited Liability Companies with limited offering periods. The nature of these investments allows for a very short window of opportunity in which to invest. The primary areas where this type of fund structure exists are private equity, venture capital, mezzanine and distressed debt as well as certain real estate and natural resource funds.

A fund selection process that requires solicitation of proposals on a traditional competitive bid basis can severely limit or hinder the ability of the Board to prudently invest in closed end funds with limited offering periods. Best practices in the due diligence and selection of this type of offering require the ability to conduct on-going prospective due diligence in order to make timely decisions when fund options become available. Because of the short window of opportunity available to make investment decisions with respect to this type of offering and the limited capacity of these offerings, a fiduciary must be in a constant search process. Further, each closed end fund is unique in its style, strategy, focus, and timing of investment.

As such the Board finds that the current competitive bid process, adopted by the Board, is not conducive to these offerings in that there are not numerous vendors offering the same or similar products at the same time. Therefore, the Board establishes a selection process for closed end funds with limited offering periods that does not require the issuance of a formal Request for Proposal as is described below, consistent with the authority granted to the Board pursuant to 47 OS section 2-303.1D:

### **Evaluation and Due Diligence Process**

In the development of a diversified private equity investment program, it is the intent of the Board, pursuant to recommendations made by the investment consultant, to implement this program through the recommendation of various investment offerings that are typically structured as illiquid limited partnership interests. Recommended investments may be in individual limited partnerships or in vehicles that invest in multiple partnerships (Fund-of-Funds or Sub-Advisory relationships).

The Investment Consultant's due diligence process and ultimate fund selection criteria considers a variety of attributes of individual managers. This enables the Investment Consultant to recommend funds that show the greatest potential for superior future financial returns. In most cases, these attributes would apply to both individual partnership investments as well as Fund-of-Funds/sub advisory relationships. The following outlines the qualities and attributes to be sought in identifying private equity funds for the Board's consideration.

- 1) **People / Organization** – Stable, established organization with a committed team that has successfully worked together for a significant period of time, indicating high compatibility and low organizational risk. Key areas of focus include:
  - a) Assets under management
  - b) Industry presence / tenure
  - c) Significant GP commitment to the fund
  - d) Significant and relevant experience of senior professionals
  - e) Low turnover rates and significant tenures
  - f) Alignment of interests, including:

- i) Reasonable distribution of ownership among senior professionals
  - ii) Reasonable compensation, including the sharing of carried interest
  - iii) Regular performance reviews
  - g) Sufficient staffing to support the attention needs of the portfolio
  - h) Good "bench strength" and a business that is not overly reliant on any single person
  - i) With respect to "next generation" funds, a history of the principals working together as a team and a clear attribution of prior success to that team.
- 2) **Operational Expertise** - Operational expertise, either internal or through some proprietary relationship, especially that gained through prior difficult market cycles or leveraged situations. Exceptional returns are driven by post-acquisition operational improvements and not so much by financial engineering. In addition, operational expertise can be crucial in attracting deals and facilitating transactions.
- 3) **Independence** – Preference is given to truly independent managers because of the lower tendency for conflicts of interests, widely variable investment focus, and potential misalignment of interests among the principals. In general, situations to be avoided include:
- a) Funds sponsored by investment banks or large financial institutions engaged in other activities focused on investment or financing businesses.
  - b) Firms with large or controlling LPs.
- 4) **Investment Strategy/Philosophy** - A clearly defined and articulated strategy that is supported by the experience of the firm's professionals and consistently applied. Preference is given to firms whose funds are appropriately sized for the stated strategy since they are better able to deliver the type of return required from this illiquid asset class.
- 5) **Track Record** - Manager track records are examined as an indicator of their ability to add value to companies in which they invest. However, it is often difficult to evaluate managers on Fund returns alone, because data is often immature. As such, considerable emphasis is placed on qualitative factors (i.e. adherence to strategy; team dynamics; etc.). It is important that the track record provide evidence that the strategy employed has been successful and will likely remain so in the future. The track record information will be reviewed in the following manner:
- a) *Historical rates of return*: Internal Rates of Returns (IRR) are calculated on a consistent basis in order to assure accuracy and some degree of comparability between managers. Returns are analyzed in a variety of ways: absolute and relative to benchmarks; realized and unrealized; returns attributable to current principals; returns attributable to deals following the current strategy, etc. In addition to IRRs, cash-on-cash returns are also considered.
  - b) *Historical quality of returns*: The quality and consistency of returns are as important as the absolute level of returns. Therefore, examination will be conducted of the concentration of returns and the timing of capital deployment and exits. The manager's rate of deploying capital in past funds is analyzed against the size of the new fund and any difference between past and prevailing market conditions, which may affect future deployment.
  - c) *Record of realizations*: A record of realizations from past investments shall be reviewed. This provides a valuable measurement of returns; it indicates a manager's ability to properly manage exits; and it lessens the time required by the manager to manage past funds' investments (where such activity would dilute their attention to the new fund).
  - d) **Financing Experience** - Firms with solid reputations in the leveraged finance markets, proven ability to access debt and other capital, and a demonstrated ability to manage through difficult periods in the capital markets cycle. A manager's history of dealing with problem investments, loan workouts, and restructurings will be addressed.

- e) **Deal Flow / Research** - Firms with proprietary sources of deal flow and, therefore, the ability to make acquisitions at reasonable multiples. In addition, preference will be given to firms that perform target-market research to help focus investment activity and deal sourcing.
- f) **Decision Making** - Defined processes and shared decision-making. A concentration of decision-making power is not desirable. A diversity of backgrounds and experience within a firm may add to the quality of decision-making.
- g) **Investor Base** - Firms that have a significant number of returning institutional LPs. It can be a warning sign when LPs opt not to return or reduce their commitments to subsequent funds. The quality and diversity of the investor base is also considered.
- h) **Terms** - Investments will have suitable financial terms (management fees, carried interest, clawback, key man, etc.) and governance provisions, which will be properly reflected in the underlying partnership documents.

### **Process For Investment in Closed End Funds with Limited Offering Periods**

Pursuant to the recommendation of the Investment Consultant to the Board, the following process in the selection of these types of funds is necessary and prudent for the Board to most effectively carry out its fiduciary responsibility in the on-going development and implementation of its long-term investment strategy. Approval authority for all investment decisions will continue to rest solely with the OLERS Board of Trustees. Therefore, the OLERS Board of Trustees will adhere to the following process:

- 1) The Investment Consultant will submit investment recommendations to the OLERS Board of Trustees following due diligence of candidate fund(s) that fit within strategic guidelines. The recommendation from the Investment Consultant will include:
  - a) Summary Recommendation with recommended commitment amount and anticipated cash flow requirements.
  - b) Evaluation Report
  - c) Timeframe for decision
- 2) Following the submission of the Investment Consultant's recommendation, the OLERS Board of Trustees will then review the investment recommendation and will take one of the following actions within the time allocated for decisions:
  - a) Approve commitment
  - b) Request additional information
  - c) Determine not to proceed with investment

### **Annual Review of Guidelines**

In view of the rapid changes within the capital markets and investment management techniques, the Oklahoma Law Enforcement Retirement System Board and its investment managers should review these guidelines annually. Any recommended changes to this Policy should be communicated in writing to the Oklahoma Law Enforcement Retirement System Board for review. Exceptions to these guidelines may be made anytime with the written approval of the Oklahoma Law Enforcement Retirement System Board.

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