

Commissioners of the Land Office Investment Plan and Policy

Last Revised on November 12, 2015

This document establishes the Investment Plan and Policy (“Investment Policy”) of State of Oklahoma Commissioners of the Land Office (“CLO”) for the management of the assets held to provide funds for the beneficiaries of the Permanent School Land Trust (“Trust”). This policy is designed to:

- Describe the roles and responsibilities of parties involved with the Trust.
- Provide guidelines for the prudent investment of the CLO assets.
- Provide a framework for ongoing monitoring of investment performance in the Trust.

I. POLICY STATEMENT

The assets of the Trust shall be invested in a manner consistent with fiduciary standards, as set forth in the Oklahoma Constitution, Article 11, Section 6.

The CLO has arrived at the investment guidelines outlined below through prudent consideration of the returns and risks associated with various investment strategies allowed under Oklahoma law in relation to the current and projected needs of the CLO.

II. INVESTMENT OBJECTIVE

The CLO manages a perpetual trust created to benefit present and future beneficiaries; the Commissioners have a fiduciary duty to all the beneficiaries, both current and future. The investments of the Trust assets must be prudently diversified with a goal to protect and grow the corpus of the Trust for the future beneficiaries, while also generating the maximum income for the present beneficiaries.

For reasons of expertise and diversification, the assets of the Fund are to be managed by staff and other professional investment managers with various investment strategies and styles consistently applied.

III. PERFORMANCE GOALS AND BENCHMARKS

The goal for the generation of income for distribution to the present beneficiaries will be to distribute approximately 4% of the total value of the Funds of the Trust invested on an annual basis.

The long-term goal for the growth of the corpus of the Trust will be to generate growth at the CPI inflation rate plus the spending rate over a full market cycle.

The **Relative Performance Goal** is to seek competitive investment performance versus appropriate or relative capital market measures, such as securities indices. Performance is expected to be in excess of appropriate index by 25 basis points (“bps”). Achievement of the Relative Performance Goal shall be measured primarily by comparing investment results over a moving annualized three and five year time period to a weighted strategic benchmark created by weighting appropriate indexes (e.g., Barclays Capital Aggregate, S&P 500, and so forth) according to the asset class weighting in the portfolio’s target allocation. Current allocation benchmarks and average capital base weighted benchmarks may also be utilized to determine appropriate performance. This will allow for disparities from target allocations caused by large inflows and outflows of funds in the portfolio and/or tactical allocation that would cause the target benchmark to be inappropriate for the time period being examined.

The general policy shall be to diversify investments across allowable asset classes so as to provide a balance that will generate current income and enhance total return while avoiding undue risk concentration in any single asset class or investment category.

IV. RESPONSIBILITIES

The following parties associated with the CLO Trust shall discharge their respective responsibilities in accordance with all applicable fiduciary standards as follows:

- A. **Commissioners**: The Commissioners have full fiduciary responsibility regarding Trust investments. The Commissioners shall establish an investment committee (“Investment Committee”) that shall be composed of not more than three (3) members of the Commissioners of the Land Office or their designee. The Commissioners shall promulgate and adopt, on an annual basis, an Investment Policy. The Investment Policy shall state the criteria for selecting investment managers, the allocation of assets among investment managers, and establish standards of investment and fund management.
- B. **Investment Committee**: The committee shall make recommendations to the Commissioners on matters related to: (1) the choice of managers of the assets of the funds, (2) on the establishment of investment and fund

management guidelines, and (3) in planning future Investment Policy. The committee shall have no authority to act on behalf of the CLO in any circumstances whatsoever, nor shall recommendations of the committee have effect as an action of the CLO or take effect without the approval of the Commissioners as provided by law. Specific recommendations for which the committee is tasked include:

1. Recommend modifications to the Investment Policy when deemed necessary.
2. Recommend investment goals and objectives for approval by the Commissioners.
3. Recommend selection of professional investment fund managers, custodial bank, investment consultant, and other service providers deemed necessary to manage Trust assets appropriately.
4. Provide recommendations to staff in connection with monitoring performance of investment options on an ongoing basis, at least quarterly and more often if necessary.

C. **External Investment Consultant:** Specific responsibilities include the following:

1. Prepare a condensed monthly performance report. Also prepare a quarterly performance report including performance attribution on CLO investment manager portfolios and total assets, including a check on policy compliance and adherence to investment style and discipline.
2. Report quarterly to the Commissioners on the Trust, the investment results, the composition of investments, and other information the Commissioners may request.
3. Attend the Investment Committee meetings in person or by electronic means and present the monthly (or quarterly) performance report and any other reports specifically requested by staff or the Investment Committee.
4. Prepare topical research and education about investment subjects that are relevant to CLO.
5. Assist in the review and recommendation of a qualified custodian, if necessary.
6. Assist the Investment Committee and staff in the review and recommendation of qualified investment managers, and assist in the oversight of existing investment managers, including monitoring changes in personnel, ownership and the investment process.
7. Make recommendations to the staff and Investment Committee regarding Investment Policy and strategic asset allocation.
8. Advise the Investment Committee and staff of any restrictions within this Investment Policy that may prevent the investment manager(s) from obtaining the objectives and goals set forth herein.

Any violation of the investment guidelines or other sections of the Investment Policy discovered by the investment consultant in the preparation of its regular performance review shall be reported immediately to the staff and Investment Committee and discussed at their next regularly scheduled meeting.

9. Present the yearly Target Asset Allocation to the Investment Committee.

- D. **Investment Manager(s)**: When appropriate, investment manager(s) is (are) delegated the responsibility of investing and managing the CLO assets in accordance with this Investment Policy and all applicable law. Each investment manager must either be (1) registered under the Investment Company Act of 1940; (2) registered under the Investment Advisors Act of 1940; (3) a bank, as defined in that Act; (4) an insurance company qualified under the laws of more than one state to perform the services of managing, acquiring or disposing of the CLO assets; or, (5) such other person or organization authorized by applicable law or regulation to function as an investment manager.

The investment manager(s) must disclose all major changes in organization or investment philosophy to the CLO staff within 30 calendar days of such change, which shall be defined as a change in any key personnel or any change which the Investment Manager knows or should reasonably know may materially affect performance or return. Furthermore, all registered investment advisors must present updated ADV Part 2 forms on an annual basis to the staff, in conjunction and in addition to the additional requirements in the Contract for Investment Services.

As part of its overall asset allocation strategy, the Investment Committee will make recommendations to the Commissioners for the selection of managers with certain styles and approaches to portfolio diversification. Therefore, it is critical that managers adhere to the original intent of the Investment Committee. Significant changes in investment style may be grounds for termination.

It is expected that professional management responsible for these funds shall report monthly on the performance of the portfolio, including comparative gross returns for the funds and their respective benchmarks, as well as a complete accounting of all transactions involving the CLO investments during the month, together with a statement of beginning balance, capital appreciation, income and ending balance for each account.

Investment manager(s) must also disclose to CLO staff and its Consultant whether any of the investment manager's principals, employees, agents or affiliates has compensated or agreed to compensate, directly or indirectly, any person or entity to act as a Placement Agent in connection with the

investments being considered. If a Placement Agent, or a person/entity acting as a Placement Agent, is retained by the investment manager, the investment manager will provide a resume for each officer, partner or principal of the Placement Agent detailing the individual's education, professional designations, regulatory licenses and investment experience. In addition, the investment manager must provide to CLO staff and its Consultant a description of the services to be performed by the Placement Agent and any and all compensation agreements between the Placement Agent and the investment manager. The investment manager must also provide the names of any Commissioners, Investment Committee members, Staff, or Consultants who suggested the retention of the Placement Agent, a statement that the Placement Agent is registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association and a statement whether the Placement Agent, or any of its affiliates, is registered as a lobbyist with any state or national government.

- E. **Transition Manager(s):** Transition Manager(s) may be retained by the Commissioners pursuant to recommendations received by the Investment Committee and CLO Staff from External Investment Consultant. Transition Manager(s) assist in the transfer of assets from/to one or more investment managers to another or liquidation/funding activities, and serve as a liaison between the CLO, the custodian, the manager(s) distributing assets, and the manager(s) receiving assets, as applicable. Transition manager(s) specific responsibilities include:
1. Facilitate clear communication between all parties.
 2. Prepare and execute a trading strategy designed to minimize trading costs including explicit and implicit costs while managing market exposure and opportunity cost.
 3. Provide detailed pre-trade and post-trade analysis for CLO Staff and External Investment Consultant.
- F. **Staff:** The staff, including the Chief Financial Officer or other individual assigned with oversight over the fund, has the responsibility for administration of this Investment Policy in overseeing the day-to-day management of the Trust assets. Staff will consult the Investment Policy and the following guidelines in the management of the Trust assets:
1. Assist in establishing and, when deemed necessary, recommending modifications to the Investment Policy which outlines investment goals and objectives. Staff will be responsible for the timely execution and implementation of the Investment Policy and any subsequent amendments.
 2. Provide each investment manager with a written set of specific investment objectives and guidelines consistent with the Investment Policy of CLO and the investment strategy and style for which the

manager was retained, not in conflict with the Contract for Investment Services.

3. Manage day-to-day operations and delegate work to external resources as appropriate.
4. Work with Consultant and Investment Committee to develop and review target asset allocation as outlined in **Exhibit A**.
5. Invest any additional monies and any withdrawals from individual money managers in a manner to rebalance the portfolio to the Target Asset Allocation approved by the Commissioners.
6. Review the performance and services of the external investment consultant. Every five years, or as deemed necessary, conduct an extensive review and recommend to the Investment Committee any changes deemed necessary.
7. Assist in selecting professional investment fund managers, custodial bank and investment consultant.
8. Negotiate and monitor terms and conditions of managers, custodian, and consultant services.
9. Monitor performance of investment options on an ongoing basis, at least quarterly and more often if necessary.
10. Monitor the Trust portfolio, on a timely basis, to ensure not more than 5% of the entire Trust portfolio is held in a single equity security or in a single bond issue.

V. INVESTMENT MANAGEMENT – ASSET CLASS GUIDELINES

The Trust assets may be invested in separately managed accounts, mutual funds, exchange-traded funds (ETFs), or other commingled investment vehicles organized under the laws of the United States. In such cases, the investment manager(s) of these funds will have full discretion over the portfolio management decisions in accordance with the following guidelines and those established by respective prospectuses or commingled fund investment guidelines. The Trust assets may only be invested in bonds issued in the United States, United States dollar denominated or other investments settled in United States dollars or traded on the United States exchange markets.

Investment in derivatives such as futures and options is generally prohibited. However, the use of index futures contracts which are Commodities and Futures Trading Commission (CFTC)-approved are permitted to be used by mutual fund and commingled fund manager(s) to maintain market exposure in a non-leveraged and non-speculative manner consistent with prospectuses or investment guidelines.

- A. **Equity Investments:** The overall investment objective of the equity portion is to provide above median long-term total returns relative to the appropriate index and relative to the returns of other funds with similar

objectives and investment styles. The equity portion shall be invested under the following guidelines:

1. Allowed investments include publicly traded common stocks, stock warrants and rights, securities issued by non-U.S. companies traded on U.S. exchanges or over-the-counter (including sponsored and unsponsored American Depository Receipts – ADRs), as well as publicly traded REITs (Real Estate Investment Trusts), master limited partnerships (MLPs), and any other investments as allowed by law.
2. Equity manager will use the following guidelines to determine the maximum allowable investment in a single company:
 - a. At the time of purchase, the maximum allowable investment in a single company shall be the greater of:
 - i. 5% of their portfolio based on the portfolio's market value at the time of purchase, or
 - ii. 150% of the company's weighting in the primary benchmark against which the manager's performance is measured by the CLO.
 - b. A holding in one company shall not exceed 10% of the current portfolio's market value. If a holding is expected to exceed 10% of the portfolio's current market value the manager will reduce the holding below 10% as soon as is prudent.
 - c. Due to index weighting concentrations, dedicated REIT managers may invest up to 7.5% of their portfolio based on the portfolio's market value at the time of purchase in a single issuer.
 - d. Due to index weighting concentrations, dedicated MLP managers may invest up to 15% of their portfolio based on the portfolio's market value at the time of purchase in a single issuer.

A manager may seek a waiver of these requirements from the Commissioners in specific circumstances in which such an investment is deemed attractive to the CLO.

3. Cash is a residual of the investment process and is not utilized as a method of risk control. Portfolios are typically fully invested, with cash and equivalents usually ranging from 0-10%. During the initial start-up period of the relationship and during periods of cash flows or periods when the portfolio manager believes stocks are not fairly valued, the

portfolio manager may hold cash and cash equivalents in larger proportions for an extended period of time in order to invest and manage the portfolio in an orderly manner.

B. **Fixed Income Investments:** The overall investment objective of the fixed income portion is to provide above median long-term total return relative to an appropriate index and the returns of other fixed income funds through traditional fixed income management techniques. The fixed income managers will stress current income returns. The fixed income portion shall be invested under the following guidelines:

1. The Trust assets may only be invested in bonds issued in the United States or United States dollar denominated bonds. Allowed investments include corporate and government bonds, convertible bonds, preferred stock, asset-backed securities, mortgage-backed securities, commercial mortgage-backed securities, Yankee bonds (non-domesticated bonds issued in the United States and United States dollar denominated bonds), and other United States issued and United States dollar denominated fixed income investments that are eligible for inclusion in the Barclays Capital U.S. Universal Bond Index or as allowed by law and deemed prudent by the Commissioners.
2. With the exception of U.S. Government and Agency issues, no more than 10% of the bond portfolio at market will be invested in the securities of a single issuer or 5% of the bond portfolio in an individual issue.
3. Commercial mortgage-backed securities are limited to 10% of the total fixed income portfolio at time of purchase.
4. Generally, corporate, mortgage, asset-backed, or Yankee fixed income investments are to be limited to instruments that have an investment grade rating at time of purchase as determined by at least one of the major rating agencies (Standard & Poor's, Moody's Investor Service Inc., Fitch Investors Service, DBRS, and/or Realpoint), except as set forth below. Investment grade ratings are defined as the top four rating categories: Standard & Poor's (AAA, AA, A, and BBB), Moody's Investor Service Inc. (AAA, Aa, A, Baa), Realpoint, and/or the equivalent from Fitch Investors Service and/or DBRS. In the event a manager is permitted by contract or direction from the CLO to invest in fixed income investments that are below investment grade, the following restrictions will apply:
 - a. Fixed income investments that are below investment grade at the time of purchase shall be limited to twenty (20) percent of the

investment manager's total portfolio. This restriction shall not apply to a dedicated high yield manager(s) or convertible manager(s). Below investment grade rated fixed income investments shall be limited to quality ratings above Standard & Poor's CCC+ or Moody's Investor Service Caa1 ratings except for a dedicated convertible manager(s) which may invest up to 20% of the investment manager's total portfolio in securities rated CCC+ or below.

- b. Ratings generated by the major credit rating agencies are not to be taken for granted. Intensive financial analyses should be performed by the fixed income managers on all investments prior to committing the assets of the fund and frequent reviews by the manager(s) should be undertaken after the instrument is contained in the portfolio.
5. High Yield Fixed Income manager mandate in aggregate shall not exceed 15% of the value of the Permanent Trust Fund.
6. Investment in derivatives such as futures, options, inverse floaters, inverse IO's, interest rate swaps, and credit default swaps is generally prohibited. However, mortgage-related securities such as IO's, PO's, inverse floaters, inverse IO's, and Collateralized Mortgage Obligation (CMO) tranches whose sensitivity to prepayments approximates that of the underlying mortgage pass-through securities, are acceptable to manage duration or when an appropriate offsetting position is also maintained. The maximum exposure to IO's, PO's, inverse floaters and inverse IO's shall be limited to 10% of the managers' portfolio at market value. To Be Announced (TBA) mortgage transactions and forward commitments are acceptable if sufficient cash or cash equivalents are held at all times to settle such transactions.
7. Investment in Rule 144A securities is permitted. However, to prevent investment in debt instruments for which there is no market price and there is the additional risk of illiquidity, the following restrictions apply to the purchase of Rule 144A securities:
 - a. Only Rule 144A securities (i) with Registration Rights or (ii) issued by a firm (or its affiliate under common control) that files, furnishes or provides financial statements with the Securities and Exchange Commission as part of a minimum deal size of \$250 million are permitted in the Portfolio.
 - b. All Rule 144A securities included in the Portfolio should clear through The Depository Trust Company (DTC).

- C. **Convertible Securities:** Convertible securities that are traded over-the-counter should be of acceptable credit quality. However, a convertible manager may invest in below investment grade and non-rated securities. Since ratings of major credit rating agencies may be delinquent in changing a specific rating, the convertible manager must complete a thorough analysis to determine its own rating in the absence of a rating by a major rating agency or to bring about a further updated opinion on a specific security. In addition, investments in Rule 144A securities are permitted, but are restricted to those 144A securities that clear through The Depository Trust Company (DTC) and are issued (i) with Registration Rights or (ii) by a publicly traded firm as part of a minimum deal size of \$150 million.
- D. **Preferred Securities:** Preferred securities are a class of stock that provides priority over common stockholders on earnings in the event of liquidation; preferred securities typically have less potential for appreciation and do not provide voting rights. However, preferred securities typically offer a fixed dividend payment to compensate investors. The investment criteria and guidelines for investment managers investing in preferred securities will be subject to the prospectus, offering circular, or other offering documents prepared by the investment manager. In addition, investment managers investing in preferred securities must adhere to the following restriction: Preferred securities rated BB at the time of purchase will be limited to no more than 30% of the investment manager's total portfolio.
- E. **Real Return Investments:** Real return strategies, also called all asset strategies, target a return that exceeds inflation by a premium (e.g. CPI + 5%). Real return managers typically invest in a core of “real” return assets, such as TIPS, commodities, and real estate securities, as well as traditional asset classes such as equity and fixed income. Additionally, managers attempt to add value by tactically allocating to asset classes they perceive to be undervalued, thus contributing to the “real” return orientation. The investment criteria and guidelines for alternative asset class investment managers and all other investment managers utilizing a mutual fund or commingled fund will be subject to the prospectus, offering circular, or other offering documents prepared by the investment manager.
- F. **Short Term Investments:** Cash shall be continuously invested until needed in the following:
1. U.S. Treasury Bills;
 2. Quality (A1/P1 or equivalent at the time of purchase) commercial paper;
 3. Pooled short-term investment funds provided by the custodian or Treasurer; or

4. Other cash equivalent instruments deemed prudent by the investment managers and allowed by Oklahoma law.

G. **Real Property Investments:** Effective September 1, 2013, up to 3% of the total value of the assets of the permanent school funds may be invested in real property pursuant to Okla. Stat. tit. 64, § 1013(B) (Supp. 2013). No single investment may constitute more than 40% of the total real property investments hereunder.

Recommendations for real property investments will be made pursuant to the Real Property Acquisition Guidelines developed by the Secretary in consultation with the Investment Committee. The Real Property Acquisition Guidelines will be reviewed on an annual basis concurrent with the CLO Investment Policy and may be amended from time to time as necessary.

All individual acquisitions shall be approved by the Commission.

VI. INVESTMENT MANAGEMENT – GENERAL GUIDELINES

A. **Manager Selection:** The selection of investment managers may be accomplished with assistance of the external investment consultant. A formal set of investment guidelines for each investment manager has been, or will be, established, as set forth in **Exhibit B**. In addition, the required steps to complete an investment manager search are outlined in **Exhibit C**. Investment managers should satisfy the following criteria to be considered in the selection process:

1. Be a bank, insurance company, or investment advisor as defined by the Registered Investment Advisors Act of 1940.
2. Have a minimum five-year history with the desired investment style, demonstrate continuity of key personnel, and offer a reasonable fee schedule; shorter-term histories will be considered for entire portfolio management teams that have portable track records from predecessor firms.
3. Have a clearly defined investment philosophy and decision-making process.
4. Demonstrate generally favorable, consistent historical performance, calculated on a time-weighted basis, based on a composite of all of their fully discretionary accounts of similar investment style relative to a predetermined benchmark.

B. **Manager Termination:** CLO reserves the right to terminate an investment manager for any reason. Possible breaches of contract may include, but are not limited to the following:

1. Failure to comply with the guidelines agreed upon for management of CLO's funds.
2. Failure to achieve performance objectives specified in the contract.
3. Significant deviation from the investment manager's stated Investment Policy and/or process.
4. Loss of key investment personnel.
5. Evidence of illegal or unethical behavior by the investment manager firm.
6. Significant increase in fee schedule.
7. Violation of terms of contract without prior approval from the Commissioners.
8. Managers may be replaced at any time as part of an overall restructuring.

The Investment Committee, staff and external investment consultant will carefully review the presence of any one of these factors on a timely basis.

If the Investment Committee deems appropriate, the investment manager may be called upon to discuss changes.

- C. **Proxy Voting:** The investment manager(s) shall promptly vote all proxies and related actions in a manner consistent with the long-term interests and objectives of the investment program set forth herein, unless it is in the best interest of the Trust not to vote. The investment manager(s) shall furnish the CLO with a written proxy voting policy statement, and shall keep records with respect to its voting decisions and submit a report annually to the CLO summarizing votes cast. The CLO reserves the right to withdraw in writing the delegation to vote proxies.
- D. **Trading and Execution:** The investment manager(s) shall use their best efforts to obtain “best execution”.
- E. **Margin:** Securities shall not be purchased on margin.
- F. **Short Sales:** No short sales shall be made, unless used to facilitate a 130/30 or absolute return type of strategy that the Commissioners have approved for a specific portfolio.
- G. **Commission Recapture:** Prudent management of the Trust requires the need to maximize Trust resources, including commission reduction generated through commission recapture trade activity. As such, directed commissions may be used to reduce cost of trades with the following guidelines:
 - 1. Commission rates will not be increased for the sole purpose of generating directed commissions.
 - 2. Directed commission brokerage statements must be reconciled quarterly.
 - 3. Any directed brokerage trade does not relieve investment manager(s) of responsibility for “best execution”.
 - 4. All commission hard dollar rebates shall be paid in cash and accrue to the CLO Trust.
 - 5. All arrangements shall be fully disclosed in writing.
- H. **Audit:** All securities transactions are subject to audit to verify transaction costs and the effectiveness of execution.
- I. **Security Lending:** The lending of securities is permitted subject to the following guidelines:
 - 1. Upon origination of a loan, collateral is set at 102% of the market value of the loaned security plus accrued income. If on any business day, the market value of the collateral is less than 100%

of the market value of a loaned security plus accrued income, the approved counterparty shall deliver additional collateral in an amount equal to 102% of the then market value of such loaned security plus accrued income.

2. Securities are not released until the custodian receives the collateral for the book entry withdrawal of the loaned security.
3. Neither the CLO nor the custodial bank shall permit any of the funds under the control of the CLO or securities to be located in any place other than within a jurisdiction or territory under the control or regulatory power of the U.S. Government

Securities lending contracts for all separate account relationships are between the custodial bank and the CLO.

- J. **Distributions:** Investment income is the principal source of funds for the distribution of funds to the beneficiaries of the Trust. The Custodian shall transfer to the Treasurer for distribution on a monthly basis all net investment income from the investment of the assets of the Permanent Trust Fund. The Custodian shall also transfer to the Treasurer quarterly the amounts to be paid for investment manager fees and custodial fees.
- K. **Investment Performance Review and Evaluation:** With the advice and analysis provided by the investment consultant, staff and the Investment Committee will review the investment results of the investment manager(s) at least quarterly. Performance comparisons will be made against a representative performance universe and the performance objectives set forth in this policy statement.
- L. **Investment Manager Transitions:** In the event of the need to perform transition management activities (including, but not limited to, the transfer of the management of assets from one investment management firm to another, exposure management during funding or de-funding of an investment management mandate, or the like), the CLO Staff, including the Chief Financial Officer, or other individual assigned with oversight over the fund, with advice from the External Investment Consultant, will determine the most efficient and prudent manner to perform such transition, including determining whether to use a transition manager, the legacy manager(s) or the target manager(s) to effect the contemplated asset restructuring.
 1. If it is determined CLO will use a transition manager, Staff will select a transition manager from the CLO pre-approved list of transition managers after review of pre-trade analysis submitted by the transition managers, as well as each transition manager's expertise for the asset class(es) to be transitioned.

2. CLO Staff are authorized to engage a transition manager on the CLO preapproved list of transition managers under the terms of a master agreement executed with each such transition manager requiring that the transition manager:
 - a. Be a Registered Investment Advisor (unless exempt from such registration requirement),
 - b. Act as a fiduciary to CLO and not delegate such fiduciary responsibility
 - c. Unless specifically authorized in writing, provide agency-only execution services.
3. Following the completion of each transition event, Staff will report to the Commissioners on the results of the selection process, the estimated costs of the transition, and the actual costs of the transition.
4. On a periodic and as-needed basis, Staff and External Investment Consultant will provide analysis and a written opinion to the Commissioners as to the status of the CLO pre-approved list of transition managers, the qualifications and performance of its members, and other relevant information.

VII. INVESTMENT POLICY REVIEW AND REVISIONS

The Commissioners reserve the right to amend the Investment Policy at any time they deem such amendment to be prudent and necessary.

The Investment Policy shall also be reviewed annually to ensure compliance and relevance to the current law, financial and economic trends, and to meet the needs of the Trust. By August 1 of each year, the Commissioners shall approve a written Investment Policy for the CLO.

Nothing contained in this Investment Policy shall be construed to change, relieve, or expand the terms of any contract for services by any Investment Manager, Investment Consultant, Custodial Bank or any other party subject to a contract for services.

The Investment Policy of the CLO is intended to effectuate the Constitutional, statutory and common law duties concerning the Trust. In no way is any part or portion of this Investment Policy to be used, understood or construed to diminish the duties under the law, or to establish a lesser standard than required by law.

EXHIBIT A

Allocation of Assets

The target asset allocation for the Trust is determined by the Commissioners, and recommended by the Investment Committee to facilitate the achievement of the Trust investment objectives within the established risk parameters. Due to the fact that the allocation of funds between asset classes may be the single most important determinant of the investment performance, the Trust assets shall be divided into the following asset classes:

Asset Class	Minimum Percent	Target Percent	Maximum Percent
Large Cap US Equity	4%	16%	25%
Small/Mid Cap US Equity	1%	5%	9%
International Equity	5%	10%	15%
REITs	1%	3%	5%
MLPs	0%	10%	15%
Total Equity		44%	
Core Fixed Income	25%	36%	60%
TIPS	0%	0%	10%
High Yield	4%	11%	15%
Convertibles	0%	0%	8%
Preferreds	1%	9%	15%
Total Fixed Income		56%	
Real Return	0%	0%	5%
Real Property Investments	0%	0%*	3%
Cash Equivalents	0%	0%	5%

* The investment plan and policy does not set a specific target allocation to real property. Investments in real property will be pursued opportunistically with a maximum allocation of 3% based on valuation at the time of purchase.

Total Constraints

As per Oklahoma statute (64 Okl.St. Ann. § 51), the total combined value of equities may not exceed a maximum allocation of 60%, and therefore the minimum allocation to non-equity asset classes is 40%. Each individual asset class will be governed by the total constraints and underlying allowable ranges.

Liquidity

The staff will monitor cash flow on a regular basis, and sufficient liquidity shall be maintained to fulfill the CLO objectives and operational costs. When withdrawals become necessary, the staff will notify the investment manager(s) as far in advance as possible to allow them sufficient time to acquire the necessary liquid reserves.

Rebalancing

Formal asset allocation studies will be conducted at least every two years, with annual evaluations of the validity of the adopted asset allocation. The consultant will present the yearly Target Asset Allocation to the Investment Committee. The Commissioners will approve the yearly Target Asset Allocation.

The staff, on an ongoing basis and in accordance with market fluctuations and based on the recommendations of the investment consultant, will rebalance the investment portfolio so it remains within the range of targeted asset allocations, and the planned distribution among investment managers.

As significant cash flows occur, staff will rebalance as approved by the Commissioners to maintain the allocation of assets within the appropriate ranges.

EXHIBIT B

Performance Monitoring Return Expectations

In addition to the qualitative guidelines outlined in Section VI B, the following quantitative guidelines will be utilized in performance monitoring. Performance measurement shall be based on total rate of return and shall be monitored over a sufficient time period to reflect the investment expertise of the investment manager(s) over one full market cycle, or five years, whichever is less. The managers will be compared to an appropriate benchmark and peer group based on their stated investment philosophy and process.

Fixed Income: Investments are generally index-eligible fixed income securities including corporate bonds and government debt instruments and mortgage-backed issues. Unless otherwise specified by more appropriate performance criteria:

1. Total return net of fees to exceed an appropriate fixed income index by 25 basis points over a market cycle or five years, whichever is less.
2. Volatility to be comparable to an appropriate fixed income index.
3. Total return to rank above the 50th percentile in a universe of other fixed income managers with a similar investment style over a market cycle or five years, whichever is less.

Investment Grade Corporate Bonds: Investments are in fixed income securities of U.S. corporations with investment ratings of BBB (including BBB+ and BBB-) or higher.

1. Total return net of fees to exceed an appropriate investment grade corporate bond index by 25 basis points over a market cycle or five years, whichever is less.
2. Volatility to be comparable to an appropriate investment grade corporate bond index.
3. Total return to rank above the 50th percentile in a universe of other Investment Grade Corporate Bond managers over a market cycle or five years, whichever is less.

High Yield: Investments are in high yielding, below investment-grade fixed income securities, which are typically comprised of corporate bonds.

1. Total return net of fees to exceed an appropriate high-yield fixed income index by 25 basis points over a market cycle or five years, whichever is less.
2. Volatility to be comparable to an appropriate high-yield fixed income index.
3. Total return to rank above the 50th percentile in a universe of other high yield fixed income managers over a market cycle or five years, whichever is less.

Convertible Bonds: Investments are fixed income securities that can be

converted into a predetermined amount of the company's equity at certain times during the life of the bonds.

1. Total return net of fees to exceed an appropriate convertible bond index by 25 basis points over a market cycle or five years, whichever is less.
2. Volatility to be comparable to an appropriate convertible bond index.
3. Total return to rank above the 50th percentile in a universe of other convertible bond managers over a market cycle or five years, whichever is less.

Treasury Inflation Protected Securities (TIPS): Investments are in U.S. government issued fixed income securities in which the principal is adjusted with changes in inflation.

1. Total return net of fees to be comparable to an appropriate TIPS index over a market cycle or five years, whichever is less.
2. Volatility to be comparable to an appropriate TIPS index.
3. Total return to rank above the 50th percentile in a universe of other TIPS managers (if such a universe is available) over a market cycle or five years, whichever is less.

Preferreds: Investments are hybrid securities that are typically below senior secured debt and above common stock in the capital structure of a given company and pay perpetual interest or dividends.

1. Total return net of fees to exceed an appropriate custom index that best matches a dedicated investment in preferred securities by 25 basis points over a market cycle or five years, whichever is less.
2. Volatility to be comparable to an appropriate custom index that best matches a dedicated investment in preferred securities.
3. Total return to rank above the 50th percentile in a universe of other preferred equity managers (if such a universe is available) over a market cycle or five years, whichever is less.

Commercial Mortgage-Backed Securities (CMBS): Investments are in fixed income securities backed by commercial real estate mortgages.

1. Total return net of fees to exceed an appropriate CMBS index by 25 basis points over a market cycle or five years, whichever is less.
2. Volatility to be comparable to an appropriate CMBS index.

Mortgage-Backed Securities (MBS): Investments are in fixed income securities backed by residential real estate mortgages.

1. Total return net of fees to exceed an appropriate residential real estate mortgage index by 25 basis points over a market cycle or five years,

- whichever is less.
2. Volatility to be comparable to an appropriate residential real estate mortgage index.
 3. Total return to rank above the 50th percentile in a universe of other MBS managers over a market cycle or five years, whichever is less.

Equity Securities

Large Cap Value Equity: Investments will be primarily in undervalued stocks of medium and large companies, characterized by above-average income yields and below-average price/earnings ratios.

1. Total return net of fees to exceed an appropriate large cap value equity index by at least 25 basis points over a market cycle or five years, whichever is less.
2. Volatility to be comparable to an appropriate large cap value equity index.
3. Total return to rank above the 50th percentile in a universe of other large cap value funds over a market cycle or five years, whichever is less.

Large Cap Core Equity: Investments will be primarily in stocks of large and medium companies.

Indexed Strategies

1. Total return gross of fees to mirror the return of a comparable market index with a reasonable amount of tracking error.

Active Strategies

1. Total return net of fees to exceed an appropriate large cap core equity index by at least 25 basis points over a market cycle or five years, whichever is less.
2. Volatility to be comparable to an appropriate large cap core equity index.
3. Total return to rank above the 50th percentile in a universe of other large cap core funds over a market cycle or five years, whichever is less.

Large Cap Growth Equity: Investments will be primarily in stocks of medium and large companies, characterized by above-average earnings growth potential.

1. Total return net of fees to exceed an appropriate large cap growth equity index by a minimum of 25 basis points over a market cycle or five years, whichever is less.
2. Volatility to be comparable to an appropriate large cap growth equity index.
3. Total return to rank above the 50th percentile in a universe of other large growth funds over a market cycle or five years, whichever is less.

Small/Mid Cap Value Equity: Investments will be primarily in stocks of small and medium companies characterized by above-average income yields and below-

average price/earnings ratios relative to the appropriate capitalization style benchmark.

1. Total return net of fees to exceed an appropriate small/mid cap value equity index by at least 25 basis points over a market cycle or five years, whichever is less.
2. Volatility to be comparable to an appropriate small/mid cap value equity index.
3. Total return to rank above the 50th percentile in a universe of other small or mid cap funds, as applicable over a market cycle or five years, whichever is less.

All Cap Equity: Investments will be primarily in stocks of small, medium and large companies.

1. Total return net of fees to exceed an appropriate broad U.S. equity index by a minimum of 25 basis points over a market cycle or five years, whichever is less.
2. Volatility should be similar an appropriate broad U.S. equity index.
3. Total return to rank above the 50th percentile in a universe of similar funds over a market cycle or five years, whichever is less.

International Equity: Investments will include U.S.-based mutual funds that invest in international equity securities. Performance objectives are as follows:

Indexed Strategies

1. Total return gross of fees to mirror the return of a comparable non-U.S. equity market index with a reasonable amount of tracking error.

Active Strategies

1. Total return net of fees to exceed an appropriate index of non-U.S. equities by at least 25 basis points over a market cycle or five years, whichever is less.
2. Volatility to be comparable to an appropriate index of non-U.S. equities.
3. Total return to rank above the 50th percentile in a universe of other non U.S. equity funds over a market cycle or five years, whichever is less.

Real Estate Investment Trust: Investments will be primarily in publicly traded REITs.

1. Total return net of fees to exceed an appropriate REIT index, or other REIT benchmark, as applicable, by at least 25 basis points over a market cycle or five years, whichever is less.
2. Volatility to be comparable to an appropriate REIT index, or other REIT benchmark, as applicable.

3. Total return to rank above the 50th percentile in a universe of other REIT oriented investment products, over a market cycle or 5 years, whichever is less.

Master Limited Partnerships: Investments will be primarily in publicly traded MLPs.

1. Total return net of fees to exceed an appropriate MLP index by at least 25 basis points over a market cycle or five years, whichever is less.
2. Volatility to be comparable to an appropriate MLP index.

Real Return Securities

Real return investments may include TIPS, commodities, REIT's, equities and/or fixed income securities. Specific performance objectives include, but may not be limited to, the following:

1. Total return net of fees to exceed a real return composite or other appropriate index, as applicable, by at least 25 basis points over a market cycle or five years, whichever is less.
2. Tactical asset allocation strategies that have broad flexibility to adjust their allocation and utilize a broad set of investments are expected to exceed the increase in the CPI by at least five percent (5%) annually net of fees.

Real Property

Real Property may be acquired by the CLO in an amount up to 3% of the CLO's permanent fund. The net minimum rate of return will be equal to or greater than the average rate of return for the CLO permanent fund, excluding Real Property Investments, as measured by the most recent five year period ending on December 31. For purposes of Real Property Investments, the most recent five year period shall be the equivalent of one full market cycle.

EXHIBIT C

Investment Manager Selection Standards

Title 64 requires that the Commissioners shall retain qualified investment managers to be chosen by a solicitation of proposals on a competitive bid basis pursuant to standards set by the Commissioners. The following standards shall be used for the solicitation of proposals for investment managers.

1. The Investment Consultant, in consultation with the CLO investment staff, develops and sends a letter or email with the same content to no less than three highly qualified vendors offering the desired services in a particular asset class. The Investment Consultant will be responsible to identify and prequalify potential vendors and to complete the process.
2. The potential vendors receiving the written solicitation are given a deadline by which to respond.
3. The solicitation letter or email communication identifies the items of information to be provided by responding vendors so that the Investment Consultant, the Investment Committee, and CLO staff may make an objective comparison of the offerings of each vendor. It is anticipated that items for inclusion may be subject to change based on the type of services being requested. At a minimum, responses must contain affirmation that investment selection criteria is met in accordance with CLO's Investment Policy, qualifications for the type of asset management under consideration, key personnel to be assigned to the account, company history, statement of investment strategy, pricing offered to the CLO, a copy of the proposed contract, and any others to be added based on the type of services desired or circumstances presented.
4. Copies of the solicitation letter or email form, the list of qualifying vendors, and vendor responses are provided to the CLO investment staff to be used during the evaluation process and to be retained on file.
5. The Investment Consultant confers with CLO investment staff in the evaluation process, provides a summary of the evaluation performed, and makes its recommendations to the Investment Committee.
6. Copies of the summary of evaluation, along with the other solicitation documents mentioned previously are retained in CLO's files as easily accessible evidence that a Commission approved solicitation for proposals on a competitive bid basis was performed.