

Appendix A

Oklahoma Tobacco Settlement Endowment Trust Fund

INVESTMENT POLICY STATEMENT

INTRODUCTION

The Oklahoma Tobacco Settlement Endowment Trust Fund (the “Fund”) is a permanent trust fund, established under Article X, Section 40, of the Oklahoma Constitution (approved by the voters in 2000), for the collection and investment of monies received by the state of Oklahoma (and allocated by the legislature) pursuant to any settlement with or judgment against any tobacco company.

This policy statement is issued for the guidance of fiduciaries, including the members of the Board of Investors (the “Board”), investment managers and consultants responsible for investing the assets of the Fund.

The Board, both upon their own initiative and upon consideration of the advice and recommendations of the investment managers and other fund professionals involved with the assets, may amend policy guidelines. Proposed modifications should be documented in writing to the Board.

STATEMENT OF GOALS AND OBJECTIVES

This statement of investment goals and objectives is to set forth an appropriate set of goals and objectives for the Fund’s assets and to define guidelines within which the investment managers may formulate and execute their investment decisions. The Board recognizes two competing objectives: maximize long-term growth of the fund and maximizing current income that can be spent by the Board of Director’s on tobacco cessation and health programs. The Board therefore adopts the following goals-

1. The primary goal of the fund is to achieve the 5% spending target after the effect of inflation while maintaining and enhancing the real value of the fund in the long-run, in a manner consistent with prudent investment management.
2. The Fund currently operates under constitutional and statutory restrictions which limit distributions and spending from the Fund. Annual certified earnings are measured by the dividends, interest, and net capital gains of the Fund, less fees to manage the fund, from the beginning to the end of the previous fiscal year. Within these restrictions, the Board of Directors makes the specific spending decisions for the Fund. The Board of Investors will seek to invest in strategies that will allow for maximum, stable, predictable annual earnings distributions while not reducing the real purchasing power of the fund.
3. Total return, as used herein, includes income plus realized and unrealized gains and losses on Fund assets. In addition, assets of the Fund shall be invested to ensure that principal is preserved and enhanced over time. The Board seeks to limit and control risks which jeopardize the safety of principal and, to prohibit investments that are not prudent.
4. The total return for the overall Fund shall meet or exceed the Fund’s Policy Index (as described in Appendix I).

5. Total risk exposure and risk-adjusted returns will be regularly evaluated and compared with the objectives of the fund.
6. Investment managers' return shall exceed the return of the designated benchmark index noted below and rank in the top-third of the appropriate asset class and style universe returns. Passive managers shall match the return of the designated index.

Asset Class	Benchmark	Asset Class Universe	Style Universe
Domestic Large Cap Equity (Growth, Value)	Russell 1000 Growth or Value Index	Equity Funds	Investor Force Large Cap Equity Funds (or style specific universe)
Domestic Fixed Income	Barclays Aggregate	Fixed Income	Investor Force Domestic Fixed Income Funds
Domestic Small/Mid Cap Equity	Russell 2500 Index	Small/Mid Cap Equity Funds	Investor Force Small/Mid Cap Equity Funds (or equivalent)
International Equity	MSCI ACWI ex-US Index	International Equity Funds	Investor Force International Equity Funds
Domestic High Yield Fixed	ML US BB-B Index	High Yields Funds	Investor Force High Yield Funds
Absolute Return Fixed Income	Libor + 3%	Fixed Income	
Senior Secured Direct Lending	LIBOR + 5%	Direct Lending	
GTAA	Libor + 3%	GTAA	Investor Force GTAA
Real Estate	NCREIF Property Index	Real Estate	Investor Force Real Estate
Dynamic Fixed Income	T-Bills + 2%	Fixed Income	

7. The Board is aware that there may be deviations from these performance targets. Normally, results are evaluated over a three to five year time horizon, but shorter-term results will be regularly reviewed and earlier action taken if in the best interest of the Fund for Items 1 through 6 above.

INVESTMENT GUIDELINES

The overall capital structure targets and permissible ranges for eligible asset classes are detailed in Appendix I.

Full discretion, within the parameters of the guidelines described herein, is granted to the investment managers regarding the asset allocation, the selection of securities, and the timing of transactions.

1. Equity investments, i.e., common stocks, convertibles, warrants, deposit receipts and rights are permitted; subject to the guidelines in Appendix I. While managers are expected to keep funds

allocated to them fully invested, equity specialists may vary equity commitment from 90% to 100% of assets under management.

2. Domestic and Foreign fixed income investments are permitted, subject to the guidelines in Appendix I, and may include U.S. Government and Agency obligations, corporate bonds, and other securities deemed appropriate by the investment managers.
3. The minimum quality rating of any fixed income issue purchased in the domestic core fixed income portfolio shall be BB as rated by Moody's, or an equivalent rating agency, and the overall weighted average quality shall be AA or higher. The ratings in this Policy Statement are minimum guidelines only; the investment managers are responsible for making an independent analysis of the credit worthiness of securities and their suitability as investments regardless of the classifications provided by rating agencies.
4. The overall weighted average quality of the dedicated high yield portfolio shall be BB or higher, though up to 10% may be invested in securities with a Caa/CCC rating. All individual holdings must be rated Caa(3)/CCC- or higher by Moody's/S&P at the time of investment. Split rated securities are permitted, with the higher rating used to determine eligibility for the dedicated high yield portfolio.
5. The overall weighted average quality of the Global Fixed Income Absolute Return allocation shall be BBB- or higher. At least 30% of the portfolio will be investment grade.
6. The effective duration (interest rate sensitivity) of an actively managed fixed income portfolio shall not exceed seven years.
7. Securities of an individual issuer, excepting the U.S. government and agencies and sovereign nations and their agencies, shall not constitute more than 6% of an investment manager's portfolio at any time, at market value, unless the security constitutes more than 6% of the managers benchmark, in which case such holding shall not exceed the index holding by more than 3%.
8. Investment managers may maintain reserve and cash equivalent investments. However, these investments should be made on the basis of safety and liquidity, and only secondarily by yield available. Such securities shall carry the equivalent of S&P A1 or A2 ratings.
9. Senior Secured direct loans shall have an average loan to value ratio of at least 40%. No loan shall constitute more than 10% of the portfolio at time of initial investment.
10. Investments in Bank Debt shall be permissible up to a maximum of 25% of the dedicated high yield portfolio at the time of purchase.
11. Investments in non-U.S. dollar denominated securities shall be permissible up to 10% of the dedicated high yield portfolio at the time of purchase. Forward foreign exchange currencies may be purchased to hedge investments in non-U.S. dollar denominated securities.

Investment Guidelines for International Equity

12. The fund is permitted to invest in Canada.
13. The International fund will not hold more than 10% of the net asset value in investments outside the countries in the MSCI ACWI ex US index. Individual non-ACWI ex US country allocations will be limited to 10% of the net asset value. The International fund may effect transactions between the fund and any other client of the Investment Manager provided that the interests of the clients are best served in such transactions (“cross trades”).
14. The International fund may effect transactions in new issues or offers for sale of securities (including those where the prices may be subject to stabilization).
15. Investment Manager is permitted to carry out spot transactions.

The fund will not borrow cash; however, it will allow temporary overdrafts pending settlement of transactions.

Global Asset Allocation Managers

1. The purpose of employing a GTAA manager is to provide an additional layer of diversification with the twin goals of increasing return and decreasing risk. To the extent necessary, the managers can use active or passive underlying portfolios. Due to the global nature of these mandates, managers are expected to be evaluating and/or investing in non-US instruments, to include derivative investments allowing for market exposure in non-US instruments.
2. GTAA strategies are allowed, where the manager has the ability to invest in, but is neither limited by nor required to hold, domestic, international and emerging equities, bonds and real assets. Managers may pursue strategies that change the capital structure of the portfolio at any time as market conditions dictate within the strategy guidelines of the manager.
3. GTAA managers may employed either a passive or active approach with regard to how the assets are invested. These strategies should be employed to improve the overall portfolio’s diversification and to provide attractive risk-adjusted returns. These strategies may include products that are focused on generating absolute or real returns, compared to other strategies in the portfolio which may be more benchmark sensitive.

Real Estate Managers

1. Real estate typically exhibits low correlation to equities and fixed income markets and provides diversification benefits to the overall portfolio. Investments will include domestic and foreign income producing properties, raw land, and other real estate related opportunities.
2. Given that the investments will be made via commingled vehicles, the fund recognizes that the portfolio cannot be customized or altered for any one investor. Accordingly, the fund shall adopt the investment guidelines of the commingled vehicle as its own so long as it is keeping with the spirit and intent of the guidelines contained herein.

3. Real estate assets will be diversified among managers, with allocation to both Core and Value-added strategies. Core investments generally refer to leased properties where the focus is on income. Value-added strategies generally focus on properties that can be improved in some fashion to increase either the rents or the occupancy rates. Value-added investments are expected to provide a greater amount of their returns from capital appreciation.

Ineligible Investments

Unless specifically approved by the Board, certain securities, strategies and investments are ineligible for inclusion within the Fund. Among these are:

1. Securities issued by companies engaged in the manufacture of tobacco products. This includes any company which is a signatory to the Master Settlement Agreement to which the State of Oklahoma is a party. A list of these companies, as updated periodically, is available on the website of the National Association of Attorneys General at <http://www.naag.org/Tobacco/pdffiles/ParticipatingManufacturerslist.pdf>. It shall also include tobacco manufactures identified and reported by the Investor Responsibility Research Center ("IRRC"). The board of investors realizes it cannot dictate specific guidelines to commingled vehicles, including mutual funds and exchange traded funds. Therefore, all investment managers are prohibited from purchasing securities directly issued by a tobacco company. This restriction does not apply to the underlying holdings of commingled funds, mutual funds, or exchange traded funds.
2. Lettered, legend or other so-called restricted stock.
3. Straight preferred stocks and non-taxable municipal securities should not normally be held unless pricing anomalies in the marketplace suggest the likelihood of near-term capital gains when normal spread relationships resume.
4. Short sales, unless part of a hedging strategy or market neutral equity account.
5. Direct investments in private placements, real estate, oil and gas and venture capital.

Spending Policy

The Board of Directors has the discretion to decide how and when to spend earnings from the Fund as certified by the Board of Investors. The Board of Investors will provide liquidity in the Fund to meet these withdrawals.

Investment managers should assume that withdrawals might be made from the Fund from time to time to meet distribution needs. The Board will endeavor to provide ample notice of any material withdrawals.

Investment managers will be given adequate notice of cash needs and an estimation of the liquidity

requirements from their funds. They will be expected to manage their funds to provide for anticipated withdrawals without impairing the investment process.

Proxy Voting

Responsibility for the exercise of ownership rights through proxy solicitations shall rest solely with the investment managers, who shall exercise this responsibility strictly for the benefit of the Fund.

Managers shall annually report to the Board standing policies with respect to proxy voting, including any changes that have occurred in those policies. Additionally, investment managers shall provide a written annual report of the proxy votes for all shares of stock in companies held in the Funds investment program. These reports shall specifically note and explain any instances where proxies were not voted in accordance with standing policy.

Directed Commissions

Investment managers shall use their best efforts to ensure that portfolio transactions are placed on a "best execution" basis. Additionally, arrangements to direct commissions shall only be implemented by specific authorization of the Board.

Securities Lending

The Board may engage their custodian or other financial institution to act as securities lending agent. Securities lending should be managed to gain an incremental return while protecting principal and not impeding the operation of the managed investment accounts. Securities lending agent shall:

1. Provide indemnification against borrower default.
2. Have written agreements with each borrower prior to engaging in securities lending activities.
3. Lending shall be fully collateralized and securities should not be lent before acceptable collateral valued at 102% of domestic securities and 105% of international securities lent is received.
4. Lending agent shall monitor collateral at least daily and ensure that any necessary calls for additional collateral are made and that collateral is received in a timely basis.
5. Lending agent shall regularly review and monitor their approved borrowers to minimize risk.

Acceptable collateral shall include cash, securities issue by US Government or its agencies or instrumentalities, and irrevocable letters of credit from issuers with short term debt ratings of at least (A-1) by S&P or (P-1) by Moody's and an (A) long term debt rating. No more than 5% of securities on loan will be subject to the letter of credit of a single financial institution.

Lending agent shall select prudent investments for collateral based on a thorough evaluation of all risks including market, interest rate, concentration risk, and credit risk. Acceptable collateral investments include:

1. Securities issued or fully guaranteed by the US Government and any agency instrumentality or establishment of the United States government.
2. High grade commercial paper, notes, bonds and other debt obligations including promissory notes, funding agreement and guaranteed investment contracts. Quality must be rated (A-1) by S&P or (P-1) by Moody's if maturing within one year and S&P A or Moody's A2 if maturing beyond one year.
3. Asset-Backed securities which carry the highest credit rating by S&P or Moody's whose underlying assets are restricted to automobile credit and credit card receivables.
4. Fully collateralized repurchase agreements with respect to approved investments with approved counterparties where the collateral is held by the agent or for the account by an agent or sub-custodian of agent or a third party bank, depository or a third party custodian. Agent shall only use counterparties that have a short-term debt rating of (A-1) which are diversified securities broker-dealers who are members of the National Association of Securities Dealers or bank or savings and loan association having \$5 billion in assets and based on credit review of the lending agent.

Collateral shall not be invested in leveraged securities or derivatives. The aggregate mismatch of loans and investments shall be less than 45 days. Maturity of fixed rate investments shall be 1-year and maximum maturity of floating rate investments shall be 3-year provided that the reset period does not exceed 3 months. Issuer diversification shall be limited to 5% per issuer except for US government and agency securities. Overnight liquidity shall be at least 15% of portfolio.

Hiring Investment Managers

When the Board selects investment managers to manage assets of the Fund, factors to be considered shall include, but not be limited to, the stability of the investment organization, staff and client base, consistency of the investment process, style and philosophy, competitiveness of risk and return versus indices and peers, and reasonableness of fees.

Manager Oversight Philosophy and Policy

The Board of Investors (Board) will review the investment management organizations and investment performance of each portfolio and investment option on a quarterly basis. A portfolio and investment option will be evaluated over a full market cycle, generally defined as three to five years. This time period may be longer depending on the current market environment. This allows for the investment process and style of a particular portfolio to fully manifest itself in terms of risk, return, style, and overall portfolio characteristics. The presence of this policy does not imply that a manager underperforming their benchmark is sufficient cause to terminate that manager, simply a factor in the broad mosaic of reviewing the continued employment of that manager. It should be noted that while the Board will scrutinize all types of manager, this policy primarily relates to public market managers due to the funds inability to exit private market investments in a cost-effective manner.

At its discretion, the Board may choose to evaluate a fund over a shorter period. In addition to considering the Investment Consultant's recommendation of a fund based on their independent evaluation criteria, the Board will review the following with respect to each portfolio and investment option and determine if additional action should be taken at the sole discretion of the Board:

1. Portfolio management, expenses and administrative feasibility;
 - A. Appropriate diversification and prudent management.
 - B. Reasonable investment management fees and/or expense ratios as compared to other institutionally managed portfolios.
 - C. Consistent investment style.
2. Performance;
 - A. Performance versus indices.
 - B. Performance relative to peer group.
 - C. Performance reviewed over a three and five year time period unless shorter term underperformance is so severe that it warrants the Board's immediate consideration for termination and/or replacement. The Board may also elect to evaluate a manager over longer time periods given current market conditions.
 - D. Portfolio risk characteristics shall remain consistent with the underlying investment manager or portfolio style.
3. Communication and reporting;
 - A. Each investment manager shall communicate any changes to their organization, personnel and investment process to the Board.
 - B. Each investment manager shall be responsive to the Board and staff's requests.
4. Corporate stability and personnel;
 - A. Corporate governance issues including change in company ownership, turnover of the underlying investment management personnel, significant change to the investment process or issues with governing regulatory body.
 - B. Portfolio size should be less than 15% of the firm's assets under advisement within the particular investment strategy employed by the Board
5. Operations;
 - A. Operational problems with the accuracy of transactions and processing of cash flow will be reviewed periodically.
6. Compliance with individual fund investment guidelines.
7. In the case of separate accounts compliance with individual investment guidelines as outlined in the Investment Policy Statement.

Non-compliance, and/or non-adherence to the aforementioned standards and performance objectives can be immediate grounds for termination and replacement at the sole discretion of the Board.

Other issues, such as significant changes from current operational and reporting standards, may be considered by the Board within the monitoring, termination and replacement decision making process. If any of these issues develop the board will have sole discretion to take action as appropriate.

ROLES AND RESPONSIBILITIES

Board of Investors

The Board of Investors shall be responsible for the overall management of the Fund. The Board shall review the total investment program, shall establish the investment policy and provide overall direction to the State Treasurer's Office, the Investment Consultant and retained investment managers in the execution of the investment policy. The Board is responsible for evaluating, hiring, and terminating investment managers, custodian banks, transition managers, and consultants.

Investment Consultant

The Investment Consultant shall assist the Board in developing and modifying policy objectives and guidelines, including the development of asset allocation strategies, recommendations on long-term asset allocation and the appropriate mix of investment manager styles and strategies. The Consultant shall assist the Board by monitoring compliance with this Investment Policy. The Consultant shall also provide assistance in manager searches and selection, and in investment performance calculation, evaluation, and analysis. The Consultant shall provide timely information, written and/or oral, on investment strategies, instruments, managers and other related issues, as requested by the Board. The Consultant shall monitor the Board's investment managers and notify the Board of any material changes in the investment managers' firms or their staffing.

Investment Managers

The duties and responsibilities of each of the investment managers retained by the Board include:

1. Managing the Fund's assets in accordance with the policy guidelines and objectives expressed herein.
2. Prudently selecting investments based on thorough evaluation of all risks including market, interest rate, and credit risk.
3. Meeting with the Board at their request. Each manager shall report to the Board and the Investment Consultant as outlined in Appendix II. Quarterly reports should be submitted in writing within 30 days of the end of each quarter.
4. Working with the custodian bank and the Investment Consultant to verify monthly accounting and performance reports.
5. Acknowledging in writing to the Board the investment manager's intention to comply with this Statement as it currently exists or as modified in the future.

Custodian Bank

In order to maximize the Fund's return, no money should be allowed to remain idle. Dividends, interest, proceed from sales, new contributions and all other monies are to be invested or reinvested promptly. Custodian should temporarily place funds in a fully collateralized interest bearing bank account or any of the short term money market vehicles commonly used for funds awaiting investment distribution. Securities lending shall only be engaged in by the custodian or third party lending agent with the express agreement of the Board.

The custodian bank(s) will be responsible for performing the following functions:

1. Accept daily instructions from designated staff.
2. Notify investment managers of proxies, tenders, rights, fractional shares or other dispositions of holdings.
3. Resolve any problems that designated staff may have relating to the custodial account.
4. Safekeeping of securities.
5. Timely collection of interest, dividends, and processing and filing foreign tax reclaims.
6. Daily cash sweep of idle principal and income cash balances.
7. Processing of all investment manager transactions.
8. Collection of proceeds from maturing securities.
9. Disbursement of all income or principal cash balances as directed.
10. Providing monthly statements by investment account and a consolidated statement of all assets.
11. Working with the investment consultant and the Fund's accountant to ensure accuracy in reporting.
12. Provide written statements revealing monthly reconciliation of custody and investment managers' accounting statements.
13. Monitor compliance with policy against investment in tobacco manufacturers.

Securities Lending Agent

The securities lending agent will be responsible for managing the securities lending program including the following functions:

1. Arrange terms and conditions of securities loans.
2. Monitor the market value of the securities lent and mark to market at least daily and ensure that any necessary calls for additional collateral are made and that such collateral is obtained on a timely basis.
3. Lending agent will direct the investment of cash received as collateral provided such investments are consistent with guidelines provided in this document.

OTHER CONSIDERATIONS

It is the intent of the Board to revise this statement of goals and objectives to reflect modifications and revisions to the Fund, which may develop from time to time. It is also the policy of the Board to review these goals and objectives at least once per year and to communicate any material change thereto to the investment managers.

This policy statement is prepared to provide appropriate guidelines for the investment managers, consistent with the Fund's return objectives and risk tolerances. Should any investment manager believe that the guidelines are unduly restrictive or inappropriate, the Board expects to be advised accordingly.

IMPLEMENTATION

All monies invested for the Fund by its investment managers after the adoption of this Investment Policy shall conform to this policy. The Investment Policy statement was adopted by the Board of Investors of the Oklahoma Tobacco Settlement Endowment Trust Fund at their meeting on February 12, 2014.

** The investment policy statement of the Oklahoma Tobacco Settlement Fund has been amended on the following dates:

June 8, 2016
February 12, 2014
December 1, 2010**International Benchmark is effective 12-01-10
November 17, 2010
August 12, 2009
August 13, 2008
June 18, 2007
February 14, 2007
February 17, 2005
November 10, 2004
August 13, 2004
June 17, 2004
February 12, 2004
August 21, 2003
May 14, 2002

Oklahoma Tobacco Settlement Endowment Trust Fund

ASSET ALLOCATION POLICY

In order to have a reasonable probability of achieving the target return at an acceptable risk level, to reduce the risk of losses resulting from over-concentration of assets, and providing a stable level of earnings distributions, the Board has adopted the asset allocation policy outlined below. The actual asset allocation will be reviewed on a quarterly basis and will be readjusted when an asset class weighting is outside its target range.

ASSET CLASS	TARGET WEIGHT (%)	TARGET RANGE (%)	TARGET BENCHMARK
EQUITY	40	35 – 45	
Large Cap	20	15 – 25	Russell 1000
Small-Mid Cap	5	2 – 8	Russell 2500
International	15	10 – 20	MSCI ACWI ex-US
FIXED INCOME	31	29 – 39	
Domestic Fixed	20	19 – 29	Barclay's Aggregate
High-Yield	7	4 – 11	Merrill Lynch US BB-B
Dynamic Fixed Income	4	2 – 6	90-Day T-Bill + 2%
Senior Secured Direct Lending	10	7 -13	LIBOR + 5%
Global Tactical Asset Allocation	9	6 - 12	LIBOR + 3%
Real Estate	10	7 – 13	NCREIF Property Index
CASH	0	0-5	90 Day T-Bill

The Fund's Policy Index is a custom benchmark designed to indicate the returns that a passive investor would earn by consistently following the asset allocation targets set forth in this investment policy statement. It is useful in separating the impact of investment policy from execution of the investment strategy in evaluating the performance of the Funds investment program.

The Policy Index is calculated by multiplying the target commitment to each asset class by the rate of return of the appropriate market index, as listed above, on a monthly basis.

REBALANCING POLICY

General. The purpose of this rebalancing policy is to establish a framework of discipline and decision-making. A form of systematic asset allocation has been chosen which the Board believes can be implemented reasonably effectively within the organization structure of this Fund.

Overall Fund Allocation

1. The system of asset allocation rebalancing to be utilized involves a target asset mix around which variance is allowed within prescribed limits. Rebalancing will be effected when a limit is reached or exceeded. In addition to monitoring target and actual allocations quarterly, the Board will formally review the policy and actual allocations in light of anticipated cash flows at the last meeting prior to the receipt of the annual contribution.
2. The following rebalancing procedure will be employed by the Fund:

The Investment Consultant will report asset class exposures to the State Treasurer, or his/her designee, at the end of each calendar quarter. If the percentage of the Fund's assets allocated to an asset class has reached or exceeded the asset class's target range, the following action shall take place. After giving consideration to Consultant recommendations concerning which Manager(s) should lose and/or gain assets, the State Treasurer, or his/her designee, may cause assets to be shifted between managers so as to bring the asset allocation of the "out of range" asset class back to its appropriate target. Such action shall be reported to the Board at their next scheduled meeting. In order to accomplish a required rebalancing with as little transaction cost as is reasonably possible, the State Treasurer, or his/her designee, is authorized to take into account any cash flows which are anticipated to occur within a reasonable period of time (generally three months or less). Examples of such cash flows would be a contribution to the Fund from the State or a Manager termination.

Allocation among Equity Styles

1. The Board, with the assistance of its Consultant(s), will from time to time establish target allocations and allowable ranges for each equity style.
2. Rebalancing of the allocation among equity styles is desirable: If rebalancing of the Funds overall asset allocation (described above) is required, the general policy will be to rebalance among equity style weightings in such a way as to restore the balance of styles within an asset class. The State Treasurer, or his/her designee, will consider Consultant recommendations on this issue. No manager on the Hold List (a designation which indicates significant concern about a Managers performance, process or organization) shall receive additional assets.
3. These actions shall be reported to the Board at its next scheduled meeting.

TRANSITION MANAGEMENT POLICY

General. The purpose of this transition management policy is to establish an effective and efficient procedure for transitioning assets during manager replacement, funding a new asset class, or investing contributions to the Fund.

As timing is a key factor in realizing the benefits of transition management, the Board has approved the following abbreviated selection process:

- Step 1. **Creating List of Approved Providers:** The Investment Consultant will create a list of potential providers for review. The Investment Consultant will then create a list of recommended providers. The Investment Consultant will specify whether each recommended provider is recommended for transitions involving fixed income only, equity only, or multiple asset classes.
- Step 2. **Board of Investors Reviews and Approves Lists of Providers:** Annually, the Board of Investors will review the list of reviewed providers and the list of providers recommended by the Investment Consultant. The Investment Consultant will provide education on each of the recommended providers as requested. The Investment Consultant will also provide information regarding potential providers who were not recommended as requested. The Board of Investors may add potential providers to or delete potential providers from the recommended lists before adopting final approved provider lists. The Board of Investors will review the approved provider lists annually.
- Step 3. **Board of Investors Approves Prudent Use of Transition Management.** Annually, the Board of Investors will approve the prudent use of transition management and empower the State Treasurer, or his or her designees, to solicit and evaluate pre-trade analyses and select a Transition Manager as further described below.
- Step 4. **The State Treasurer, or his or her designees, and the Investment Consultant May Determine Vendor for Each Specific Transition:** The State Treasurer and/or designated staff may select the appropriate provider off of the approved provider list through a competitive bid process in which pre-trade analyses are solicited from at least two of the approved providers. As each transition (and transition manager) is unique with particular strengths and weaknesses, the Investment Consultant and the State Treasurer and/or designated staff will consult to discuss which of the providers on the short list should be solicited for bids. At a meeting held pursuant to the Open Meeting Act, a winning manager may be selected based on cost as well as fit for the particular transition according to the State Treasurer and/or designated staff and Investment Consultant's advice. Upon review of the pre-trade analyses and the Investment Consultant's advice, the State Treasurer and/or designated staff may determine not to proceed with Transition Management if it does not make sense to do so.
- Step 5. **The State Treasurer, or his or her designees, and the Investment Consultant Present Post-Trade Results to the Board of Investors:** The transition manager will provide post-trade analytics that describe the trading process and results. This will be made available to all involved to review the success of the transition.

Oklahoma Tobacco Settlement Endowment Trust Fund**INVESTMENT MANAGER REPORTING REQUIREMENTS**

As Necessary (based on occurrence and on a timely basis)

1. Review of Organizational Structure
 - A. Organizational changes (i.e., ownership).
 - B. Discussion of any material changes to the investment process.
 - C. Departures/additions to investment staff.
 - D. Material changes in assets under management for the product managed on behalf of the Fund and for total firm.

Monthly**Quarterly**

1. Summary of Investment Guidelines
 - A. Discuss adherence to guidelines.
 - B. Comments, concerns, or suggestions regarding the policy statement.
2. Performance Review
 - A. Present total fund and asset class returns for last calendar quarter, year-to-date, last year, last three years, last five years and since inception versus designated benchmarks.
 - B. Discuss performance relative to benchmarks; provide attribution analysis that identifies returns due to allocation and selection decisions, as appropriate.
 - C. Provide portfolio characteristics relative to benchmark.
3. Provide Portfolio Holdings
 - A. Present book value and current market value.
 - B. List individual securities by sector, as appropriate.
4. Other Comments or Information

Annually

1. Review of Investment Process and Evaluation of Portfolio Management Process
 - A. Brief review of investment process.
 - B. Investment strategy used over the past year and underlying rationale.
 - C. Evaluation (in hindsight) of strategy's appropriateness.
 - D. Evaluation of strategy's success/disappointments.
 - E. Current investment strategy and underlying rationale.

Oklahoma Tobacco Settlement Endowment Trust

DERIVATIVES POLICY STATEMENT

Objectives

This derivatives policy statement identifies and allows common derivative investments and strategies which are consistent with applicable law and the Investment Policy Statement and requires investment managers to petition for the inclusion of additional derivative instruments and strategies. The guidelines also require investment managers to follow certain controls, documentation and risk management procedures.

Definition and Classification of Derivatives

A derivative is a security or contractual agreement that derives its value from some underlying security, commodity, currency, or index. These guidelines classify derivatives into four separate categories distributed across two classes: derivative contracts and derivative securities:

1. Derivative Contracts
 - A. Forward-based derivatives, including forward contracts, futures contracts, swaps, and similar instruments
 - B. Option-based derivatives, including put options, call options, interest rate caps and floors, and similar instruments
2. Derivative Securities
 - A. Collateralized Mortgage Obligations (CMOs)
 - B. Structured Notes

Allowed Uses of Derivatives

1. Derivative Contracts
 - A. Hedging. To the extent that the non-derivative component of a portfolio is exposed to clearly defined risks and derivative contracts exist which can be used to reduce those risks, the investment managers are permitted to use such derivatives for hedging purposes, including cross-hedging of currency exposures, subject to the documentation requirements below.
 - B. Creation of Market Exposures. Investment managers are permitted to use derivatives to replicate the risk/return profile of an asset or asset class, provided that the guidelines for the investment manager allow for such exposures to be created with the underlying assets themselves.
 - C. Management of Country and Asset Allocation Exposure. Managers charged with tactically changing the exposure of their portfolio to different countries and/or asset classes are permitted to use derivative contracts for this purpose.
2. Derivative Securities
 - A. "Plain Vanilla" CMOs. For the purpose of this policy, we will define a "plain vanilla" CMO as one which satisfies one or both of the following criteria: i) It passes the Federal

Financial Institutions Examination Council (FFIEC) test; ii) It can be shown that the CMO is less exposed to interest rate and prepayment risk than the underlying collateral.

B. Other CMOs. CMOs, which are not plain vanilla, are restricted to 10% of a manager's portfolio.

C. Structured Notes. Structured notes may be used so long as the exposure implied by their payment formula would be allowed if created without use of structured notes.

Transaction-Level Risk Control Procedures and Documentation Requirements

For each over-the-counter derivative transaction, except foreign exchange forward contracts, investment managers are required to demonstrate compliance with their best execution policies and procedures, and, when feasible, will obtain at least two competitive bids or offers. For small-issue CMOs, it is acceptable to obtain competitive prices on similar securities.

For all derivatives transactions, investment managers should maintain appropriate records to support that all derivative contracts used are employed for allowed strategies. In addition, the following requirements apply to derivative securities:

1. "Plain Vanilla" CMOs

Document that the CMO is in fact "plain vanilla", according to the definition in section C.2.a.

2. Other CMOs

These CMOs must be stress tested to estimate how their value and duration will change with extreme changes in interest rates. An extreme change is one of at least 300 basis points.

3. Structured Notes

Document that note does not create exposures which would not be allowed if created without derivatives.

Portfolio-Level Risk Control Procedures and Documentation Requirements

1. Counterparty Credit Risk

Managers are required to measure and monitor exposure to counterparty credit risk. All counterparties must have commercial paper credit ratings of at least A1 or equivalent rating.

2. Ongoing Monitoring of Risk Exposures

The duration and other risk exposure limits specified in the managers' guidelines are expected to be satisfied on an ongoing basis. Thus, managers must monitor changing risk exposures. Fixed income managers investing in CMOs should pay particular attention to the changing duration of their CMOs, and should anticipate potential changes in duration at the time CMOs are purchased so that interest rate and prepayment rate changes do not inadvertently move the portfolio out of compliance.

3. Valuation of Holdings

The investment managers and custodian shall provide the Investment Committee with their pricing policies including a list of sources used. The Investment Committee should be notified of any exceptions to these policies. The custodian is required to obtain prices independent of the manager, or to notify the Investment Committee that independent prices are not available.

The investment managers are required to reconcile the valuations of all derivatives positions with the custodian not less than monthly.

4. Quarterly Reporting

Each manager using derivatives shall submit within thirty days of the end of each quarter a report with the following information:

- A. A list of all derivative positions as of quarter-end.
- B. An assessment of how the derivatives positions affect the risk exposures of the total portfolio.
- C. An explanation of any significant pricing discrepancies between the manager and custodian bank.
- D. An explanation of any events of non-compliance.
- E. For managers of commingled funds, a list of derivative positions and assessment of the effect on the risk exposure of the portfolio.

Guidelines for Use of Pooled Funds which Employ Derivatives

Mutual funds and other types of commingled investment vehicles provide, under some circumstances, lower costs and better diversification than can be obtained with separately managed fund pursuing the same investment objectives. However, commingled investment funds cannot customize investment policies and guidelines to the specific needs of individual clients. The Investment Committee is willing to accept the policies of such funds in order to achieve the lower costs and diversification benefits of commingled funds.

Therefore commingled investment vehicles are exempt from all policies specified above except F.4.e if:

1. The investment practices of the commingled fund are consistent with the spirit of this derivatives policy, and are not significantly different in letter.
2. The benefits of using a commingled vehicle rather than a separate account are material.

Oklahoma Tobacco Settlement Endowment Trust Fund**PLACEMENT AGENT POLICY****I. PURPOSE**

The following language describes the circumstances under which the Oklahoma Tobacco Settlement Endowment Trust Fund (“the Fund”) shall require the disclosure of payments to Placement Agents in connection with the Fund’s investments with external investment managers. External investment managers is a broad term which includes investment managers, general partners, and sponsors of hedge funds, private equity funds, real estate funds and other closed-end investment vehicles. The adoption of this policy requires broad, timely and updated disclosure of all Placement Agent relationships, compensation and fees. In the event the external investment manager utilizes a fund of funds approach, Placement Agent disclosure will only be required at the fund level, not of each underlying fund.

This Policy is to be applied to all agreements with external investment managers after the date this addendum is approved. It will also apply to existing external investment managers if, after approval, agreements are amended to extend the length of the agreement, renegotiate fees, increase the commitment of funds or change the agreement in a substantial way. In the event such amendments to the original agreement are made, the disclosure provisions of this Policy will apply to the amendment and not to the original agreement.

II. GOALS

Disclosure of all Placement Agent relationships, compensation and fees is intended to provide:

1. Transparency and confidence in the Fund’s investment decision-making without concerns of impropriety.
2. Supplemental information to the Fund’s Board members, Staff and Consultants when evaluating investment opportunities.
3. Investment decisions that are consistent with the Statement of Investment Policy.

III. RESPONSIBILITIES

A. Each of the Fund’s external investment managers are responsible for:

1. Providing the following information (subsequently referred to as the “Placement Agent Information Disclosure”) to the Fund’s Staff and its Consultant at the time investment discussions are initiated:

- a. A statement disclosing whether the external 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 investments being considered or those that have already been made by the Fund (in the event there is a change to the existing agreement).
 - b. A resume for each officer, partner or principal of the Placement Agent detailing the individual's education, professional designations, regulatory licenses, and investment experience. If any of these individuals is a current Board member, Staff member or employed by the Consultant, or this is applicable to any of these individual's immediate family members, this will be specifically noted.
 - c. A description of any and all compensation of any kind provided or agreed to be provided to a Placement Agent, including the value, timing, and nature of the compensation.
 - d. A description of the services to be performed or that are currently being performed by the Placement Agent and a statement as to whether the Placement Agent is utilized with all prospective clients or a subset of prospective clients.
 - e. Copies of any and all agreements between the external investment manager and the Placement Agent.
 - f. The names of any Fund Board members, Staff or Consultants who suggested the retention of a Placement Agent.
 - g. A statement that the Placement Agent (or any of its affiliates, if applicable) is registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association and the details of such registration.
 - h. A statement whether the Placement Agent, or any of its affiliates, is registered as a lobbyist with any state or national government.
2. Providing updates of any changes to any of the information included in the Placement Agent Information Disclosure within 14 calendar days of the date that the external investment manager knew or should have known of a change in the information originally provided.
 3. Representing and warranting the accuracy of the information included in the Placement Agent Information Disclosure in any final written agreement between the external investment manager and the Fund with a continuing obligation to update any changes in accordance with Appendix A of this Policy.

B. The Fund's Staff is responsible for all of the following:

1. Providing external investment managers with a copy of this Policy at the time that discussions are initiated with respect to a prospective investment or with respect to amendments to agreements with current investments.
2. Confirming that the Placement Agent Information Disclosure has been received prior to the completion of any due diligence and before any recommendation is made regarding prospective investments or amendments to agreements with current investments.
3. Declining the opportunity to retain or initiate an investment with an external investment manager if the Placement Agent Information Disclosure reveals that a Placement Agent was employed that is not registered with either the Securities and Exchange Commission or the Financial Industry Regulatory Association.
4. Securing in the final written agreement between the Fund and the external investment manager the following remedies in the event it is discovered that the external investment manager knew or should have known about any material omission or inaccuracy in the Placement Agent Information Disclosure or any other violation of this Policy:
 - a. Whichever is greater, the reimbursement of any management or advisory fees for two years or an amount equal to the amounts paid or promised to be paid to the Placement Agent; and
 - b. The authority to terminate immediately the investment management contract or other agreement with the external investment manager without penalty, to withdraw without penalty from the limited partnership, limited liability company or other investment vehicle, or to cease making further capital contributions (and paying any fees on these uncalled commitments) to the limited partnership, limited liability company or other investment vehicle.
5. Confirming that the final written agreement between the Fund and the external investment manager states that the external investment manager shall be solely responsible for, and the Fund shall not pay for (directly or indirectly), any fees, compensation or expenses for any Placement Agent used by the external investment manager.
6. Prohibiting any external investment manager or Placement Agent from soliciting new investments from the Fund for a two year period after commitment of a material violation of this Policy.
7. Providing a copy of the Placement Agent Information Disclosure to the Board whenever decisions to invest in external investment managers are up for approval or whenever decisions to amend current external investment manager agreements are up for approval.
8. Compiling a quarterly report containing the names and amount of compensation agreed to be provided to each Placement Agent by each external investment manager as

reported in the Placement Agent Information Disclosures, and providing the report to the Board.

9. Reporting to the Board at least quarterly any material violations of this Policy.
- C. External investment managers shall comply with this Policy and cooperate with Staff in meeting their obligations under this Policy.
 - D. Only the Board can provide exceptions to this Policy and any such exceptions granted shall be reported to the public within 45 days.

Glossary of Investment Terms

144(a) Securities - 144a securities are in concept semi-private placement securities that are normally traded by sophisticated institutional investors with limited financial information on the issuing company. SEC rule 144a exempts issuers from SEC registration requirements. While not legally required to file with the SEC, issuers normally do provide some sort of documentation describing the issue and financial information about the issuing company.

Accrual Basis Accounting - As opposed to cash basis accounting, this values assets based upon accrued changes in values, not actual cash flows. For example, dividends are included in the portfolio value (i.e. accrued) as of the ex-dividend date, rather than the payment date (or the declaration date).

Active Management - A form of investment management which involves buying and selling financial assets with the objective of earning positive risk-adjusted returns.

AIMR - The Association for Investment Management and Research is the umbrella organization for the two big investment management advisers groups, the Institute of Chartered Financial Analysts and the Financial Analysts Federation. This organization administers the annual examinations for the CFA designation and also publishes industry guidelines for performance measurement reporting and calculations. AIMR instituted a standardized performance reporting format on January 1, 1993.

Alpha - A statistical measurement to determine whether a portfolio of securities in which a fund has invested is priced as would be expected, given the funds beta. If the alpha of a fund is zero, the portfolio is priced as would be expected. If its alpha is greater than zero, the portfolio is priced higher than could be expected, and vice versa.

Alternative Investments - These generally refer to institutional blind pool limited partnerships, which make private debt and equity investments in privately held companies, as well as hedge funds, and other publicly traded derivatives-based strategies.

Asset Allocation - The process of determining the optimal allocation of a funds portfolio among broad asset classes.

Benchmark Portfolio - A portfolio against which the investment performance of an investment manager can be compared for the purpose of determining the value-added of the manager. A benchmark portfolio must be of the same style as the manager, and in particular, similar in terms of risk.

Best Execution - This is formally defined as the difference between the strike price (the price at which a security is actually bought or sold) and the fair market price which involves calculating opportunity costs by examining the security price immediately after the trade is placed. Best execution occurs when the trade involves no opportunity cost, for example when there is no increase in the price of a security shortly after it is sold.

Beta - A statistical measure of the volatility, or sensitivity, of rates of return on a portfolio or security in comparison to a market index. The beta value measures the expected change in return per one percent change in the return on the market. For example, if the beta of a portfolio is 1.5, a 1 percent

increase (decrease) in the return of the market will result, on average, in a 1.5 percent increase (decrease) in the return of the portfolio.

Bottom-up Analysis - An approach to valuing securities which first involves analyzing individual companies, then the industry, and finally the economy and overall capital market.

Capitalization-weighted Market Index - A method of calculating a market index where the return of a security (or group of securities) is weighted by the market value of the security (or group of securities) relative to total value of all securities.

Commingled Fund - An investment fund that is similar to a mutual fund in that investors purchase and redeem units that represent ownership in a pool of securities.

Commission Recapture - An agreement by which a fund sponsor earns credits based upon the amount of brokerage commissions paid. These credits can be used to reduce commission costs or for service which will benefit the fund, such as consulting services, custodial fees, or software expenses.

Core Bond - A fixed income investment strategy, which approximates the investment results of the Lehman Government/Corporate Bond Index with a modest amount of variability in duration around the index. The objective is to achieve value added from sector or issue selection.

Core Equity - An investment strategy where the portfolios characteristics are similar to that of the S&P 500 Index, with the objective of adding value over and above the index, typically from sector or issue selection.

Correlation Coefficient - A statistical measure similar to covariance, in that it measures the mutual variation between two variables. The correlation coefficient is bounded by the values -1 and +1.

Covariance - A statistical measure of the mutual variation between two variables.

Derivative - A financial derivative is a security that derives its value from a more fundamental financial security such as a stock or bond. For example, the value of a stock option depends upon the value from the underlying stock. Because the stock option cannot exist without the underlying stock, the stock option is derived from the stock itself.

Duration - A measure of the average maturity of the stream of interest payments of a bond. The value of a given bond is more sensitive to interest rate changes as duration increases, i.e. longer duration bonds have greater interest rate volatility than shorter duration bonds.

Dollar-weighted Measurement - In calculating summary statistics, a process by which performance measures are weighted by the dollar amounts of assets in each time period.

Economically-targeted Investment - Investments where the goal is to target a certain economic activity, sector or area in order to produce corollary benefits in addition to the main objective of earning a competitive risk-adjusted rate of return.

Efficient Market - A theory that posits that a security's market price equals its true investment value at all times since all information is fully and immediately reflected in the market price.

Efficient Portfolio - A portfolio that offers maximum expected return for a given level of risk or minimum risk for a given level of expected return.

ERISA - The Employee Retirement Security Act, signed into law in September 1974. ERISA established a strict set of fiduciary responsibilities for corporate pension funds, and some states have adopted the ERISA provisions for public plans. It is recommended that public pension plans use the ERISA regulations as guidelines for managing the fund's assets in a procedurally prudent manner.

Exchange Traded Funds (ETF) - ETFs are registered, open-ended unit investment trusts that invest in a basket of stocks designed to track the performance of a given index. However, like a closed-end fund, investors buy shares in ETFs from another shareholder on the open market rather than from a fund company.

Fiduciary - Indicates the relationship of trust and confidence where one person (the fiduciary) holds or controls property for the benefit of another person.

Funding Risk - The risk that anticipated contributions to the fund would not be made.

Geometric Returns - A method of calculating returns which links portfolio results on a quarterly or monthly basis. This method is best illustrated by an example, and a comparison to *arithmetic returns*, which does not utilize a time link. Suppose a \$100 portfolio returned +25% in the first quarter (ending value is \$125) but lost 20% in the second quarter (ending value is \$100). Over the two quarters the return was 0%, and the method of calculating the geometric return would indicate this. However, the arithmetic calculation would simply average the two returns: $(25\%)(.5) + (20\%)(.5) + 2.5\%$.

Growth Equity - Managers who invest in companies that are expected to have above average prospects for long-term growth in earnings and profitability.

High Yield - A fixed income investment strategy where the objective is to obtain high current income by investing in lower rated, higher default-risk fixed-income securities. As a result, security selection focuses on credit risk analysis.

Index Fund - A passively managed investment in a diversified portfolio of financial assets designed to mimic the performance of a specific market index.

Interest Rate Risk - The uncertainty in the return on a bond caused by unanticipated changes in its value due to changes in the market interest rate.

Investment Policy Statement - The statement of policy is the communication of a risk policy to the fund's investment manager(s). It states unambiguously the degree of investment risk which fiduciaries are willing to undertake with fund trust assets. A statement of investment policy differs importantly from a statement of investment objectives. An investment policy prescribes acceptable courses of action; a policy can be acted upon, implemented. An investment objective (such as a performance standard) is a desired result. A manager cannot implement an objective; he can only pursue a course of action, consistent with investment policy, which he believes offers a reasonable likelihood of realizing the objective.

Lehman Brothers Aggregate Index - Is composed of securities from Lehman Brothers Government/Corporate Bond Index, Mortgage-Backed securities Index and Yankee Bond Index and is

generally considered to be representative of all unmanaged domestic, dollar denominated fixed-rate investment grade bonds with maturities greater than one year.

Liquidity - In general, liquidity refers to the ease by which a financial asset can be converted into cash. Liquidity is often more narrowly defined as the ability to sell an asset quickly without having to make a substantial price concession.

Liquidity Risk - The risk that there will be insufficient cash to meet the funds disbursement and expense requirements.

Manager Structure - The identification of the type(s) of managers to be selected within each broad class of assets.

Marked to the Market - The daily process of adjusting the value of a portfolio to reflect daily changes in the market prices of the assets held in the portfolio.

Market Risk - See Systematic Risk.

Market Timing - A form of active management that shifts funds between asset classes based on short-term expectations of movements in the capital markets.

Money Markets - Financial markets in which financial assets with a maturity of less than one year are traded.

Nominal Return - The nominal return on an asset is the rate of return in monetary terms, i.e., unadjusted for any change in the price level. The nominal return is contrasted with the real return that is adjusted for changes in the price level.

Passive Management - For a given asset class, the process of buying a diversified portfolio that attempts to duplicate the overall performance of the asset class (i.e. the relevant market index).

Performance Attribution - The identification of the sources of returns for a security or portfolio over a particular time period.

Proxy Voting - A written authorization given by a shareholder to someone else to vote his or her shares at a stockholders annual or special meeting called to elect directors or for some other corporate purpose.

Purchasing Power Risk - The risk that a portfolio will earn a return less than the rate of inflation, i.e., a negative real return.

Quartile - Grouping of statistics in four equal sections. Performance measurement results are commonly grouped into "quartiles;" that is, first quartile would include those funds ranking from one to 25 in a sample of 100 funds.

Real Return - An inflation adjusted return. See NOMINAL RETURN.

Risk-adjusted Return - The return on an asset or portfolio, modified to explicitly account for the risk of the asset or portfolio.

R-squared (R^2) - Formally called the coefficient of determination, this measures the overall strength or explanatory power of a statistical relationship. In general, a higher R^2 means a stronger statistical relationship between the variables that have been estimated, and therefore more confidence in using the estimation for decision-making.

Russell 1000 <Large> Stock Index - An unmanaged index of the largest 1000 companies ranked by market capitalization.

Sharpe Ratio - This statistic is a commonly used measure of risk-adjusted return. It is calculated by subtracting the risk-free return (usually 3 Month Treasury Bill) from the portfolio return and dividing the resulting excess return by the portfolio's risk level (standard deviation). The result is a measure of return gained per unit of risk taken. The higher the Sharpe ratio, the better the fund's historical risk-adjusted performance.

Small Capitalization - Managers who invest in equities of companies with relatively small capitalization. The cut-off point for small capitalization varies from manager to manager, but on average targets firms with capitalization of \$750 million to \$2 Billion.

Socially targeted Investment - An investment that is undertaken based upon social, rather than purely financial, guidelines.

Soft Dollars - The portion of a fund's commissions expense incurred in the buying and selling of securities that is allocated through a directed brokerage arrangement for the purpose of acquiring goods or services for the benefit of the fund. In many soft dollar arrangements, the payment scheme is affected through a brokerage affiliate of the investment consultant. Broker-investment consultants servicing smaller plans receive commissions directly from the counseled account. Other soft dollar schemes are affected through brokerages that, while acting as the clearing/transfer agent, also serve as the conduit for the payment of fees between the primary parties to the directed fee arrangement.

Specific Risk - The part of a security's total risk that is not related to movements in the market and therefore can be diversified away.

Standard Deviation - A statistical measure of portfolio risk. It reflects the average deviation of the observations from their sample mean. Standard deviation is used as an estimate of risk since it measures how wide the range of returns typically is. The wider the typical range of returns, the higher the standard deviation of returns, and the higher the portfolio risks. If returns were normally distributed (i.e. has a bell shaped curve distribution) then approximately 2/3 of the returns would occur within plus or minus one standard deviation from the sample mean.

Strategic Asset Allocation - Rebalancing back to the normal mix at specified time intervals (quarterly) or when established tolerance bands (e.g., + and -10%) are violated.

Style Universe - A predetermined group of active managers chosen to have an investment style comparable to a manager selected by the fund.

Systematic Risk - The part of a security's total risk that is related to movements in the market and therefore cannot be diversified away.

Tactical Asset Allocation - closely related to a strategy of market timing, this strategy uses certain indicators to make adjustments in the proportions of a portfolio invested in stocks, bonds, and cash.

Time-weighted Return - A method of measuring the performance of a portfolio over a particular period of time. It is the cumulative compounded rate of return of the portfolio, calculated on each date that cash flow moves into or out of the portfolio.

Top-down Analysis - An approach to valuing equities which first looks at the economy and overall capital market, then industries, and finally individual firms.

Value Equity - Managers who invest in companies believed to be undervalued or possessing lower than average price/earnings ratios, based on their potential for capital appreciation.