MUNICIPAL EMPLOYEES' RETIREMENT PLAN

INVESTMENT POLICY GUIDELINES
AND OBJECTIVES STATEMENT

"MERP"

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**INVESTMENT POLICY GUIDELINES AND OBJECTIVES STATEMENT
MUNICIPAL EMPLOYEES' RETIREMENT PLAN
("MERP")**

ARTICLE I

PURPOSE OF THE MERP

The purpose of the fund is to provide plan participants the benefits as provided in the City of Tulsa Municipal Employees' Retirement Plan ("MERP"). The MERP Board of Trustees desires to accomplish its fiduciary responsibilities on behalf of the participants, retirees, and beneficiaries of the MERP. One such duty is the prudent management of the assets of the MERP. The Board of Trustees has developed the Investment Policies, Guidelines, and Objectives in an effort to help insure that the MERP remains financially sound. The members of the Board, employees of the Board, and agents thereof stand in a fiduciary relationship to the members of the system regarding the investment and disbursement of any of the moneys of the fund.

As fiduciaries, the Board will exercise that degree of judgment, skill, and care under the circumstances then prevailing which persons of prudence, discretion, and intelligence, who are familiar with such matters, exercise in the management of their own affairs in investment matters.

All records of investment transactions are available for public inspection at the offices of the Municipal Employees' Retirement Plan.

ARTICLE II

DEFINITIONS

2.1	Asset Class	Categories of the investment vehicles that include equity securities both domestic and international, fixed income securities, cash equivalents, timber, commodities, and/or real estate.
2.2	Asset Allocation	Process by which the Total Fund is divided amongst the different asset classes.
2.3	Total Fund	Aggregate total of all separate investment funds under a defined plan.
2.4	Long Term	Investment approach to the markets in which an investor seeks appreciation by evaluating securities over a complete business cycle, usually 5 - 7 years.
2.5	Equities (stocks)	Ownership interest possessed by shareholders in a corporation - as opposed to bonds.
2.6	Fixed Income	Any interest bearing or discounted government or corporate (bonds) security that obligates the issuer to pay the bondholder a specified sum of money, usually at special intervals, and to repay the principal amount of the loan at maturity. Bonds give no corporate ownership privileges to holders.
2.7	Cash (Equivalents)	Instruments or investments of high quality and safety, i.e., money market funds or treasury bills. Maturity is usually less than one-year average. Investments may be both domestic and international.

2.8	Real Estate	An investment made in commercial properties. These are usually restricted to participation in commingled trusts.
2.9	Investment Advisor	Individual or individuals that provide investment advice for a fee. They must register with the Securities and Exchange Commission and abide by the rules of the Investment Advisors Act. Investment Advisors may specialize in particular kinds of investments - for example, equities, fixed income, commodities, options, or real estate.
2.10	Board	The Board of Trustees as appointed under the Tulsa Revised Ordinance.
2.11	Consultant	The firm retained by the Board to serve as advisor in structuring and monitoring the investment portfolio of the MERP.
2.12	Excess Return	The margin by which an investment advisor can outperform the relative index in a specific asset class
2.13	Risk	Measurable possibility of losing or not gaining value. Risk is differentiated from uncertainty, which is not measurable.
2.14	Inflation	The rise in the prices of goods and services as measured by the Consumer Price Index (CPI).
2.15	Timber	An investment made in timberland properties. These are usually restricted to participation in commingled trusts.
2.16	Commodities	An investment made in commodities traded on an exchange. These are usually restricted to participation in commingled trusts and mutual funds.

ARTICLE III

TOTAL FUND FRAMEWORK

3.1 The investment objective of the total fund is differentiated from the individual objectives of any one of our investment advisors. The total fund objective, established after careful consideration of the pension obligations, reflects the balance of risk and expected return considered most appropriate for the total pension fund. The individual objective of each advisor, in contrast, relates to the special role chosen to best add investment value.

3.2 The investment plan shall contribute directly to the performance of the fund in two ways:

3.2.1 It affords protection in periods of adversity in the financial markets, since it controls risk at a level consistent with the requirements for our Fund. Risks for individual asset categories partially offset each other to the extent that their returns are out of phase. Combined risk is reduced by diversification in several asset classes.

3.2.2 Equally important, the discipline incorporated in planning enables the total Fund to aim at a higher rate of return over the long term. Since risk is reduced by asset diversification, the Fund is able to include a greater proportion of higher return (riskier) investments than would otherwise be the case. By following the plan, it is expected to create more than 50% the chance of returns 4% higher than inflation over the next ten years.

ARTICLE IV

ASSET ALLOCATION

4.1 The Board understands that the primary determinant of Plan investment performance is the asset allocation. Based on the core performance characteristics of various asset classes, focusing on both the risks and rewards, the following asset classes were deemed appropriate for the Plan:

- Domestic Equities
- International Equities
- Fixed Income
- Real Estate
- Timber
- Commodities
- Cash Equivalents

4.2 Based on the Plan's time horizon, risk tolerance, performance expectations and asset class preferences, an efficient or optimal portfolio was identified. The strategic asset allocation of the Plan is as follows:

STRATEGIC ASSET ALLOCATION

	Lower Limit	**Strategic Allocation**	Upper Limit
Domestic Equities	31%	**36%**	41%
International Equities	20%	**24%**	28%
Fixed Income	20%	**24%**	28%
Real Estate	5%	**8%**	11%
Timber	2%	**4**%	6%
Commodities	2%	**3**%	4%
Cash Equivalents	0%	**1%**	10%

To ensure prudent diversification, the Board may employ a multiple manager structure within asset classes. Those asset classes having a single manager will employ a "Core" style. Pursuant to the Asset Allocation, the targets for asset classes with multiple managers are as follows:

	Target
Domestic Equity	
Large Cap	80%
SMID Cap	20%
SMID Cap Equity	
Growth	50%
Value	50%
International Equity	
Passive All Country	20%
All Country Growth	30%
All Country Value	30%
Small Cap	20%
Fixed Income - Nominal	
Passive Core	25%
Core Plus	50%
Global	25%
Real Estate	
Core	80%
Value Add	20%

The Plan will hold cash equivalents on an as-needed basis to fund benefit payments. The long-term return objective of the Plan's investable assets is 7.5% with a 4.5% real return (CPI + 4.5%).

4.3 Re-balancing of Strategic Allocation The Strategic Allocation, shown in the middle column of the top table on page 6 is the target. Some variability around the target is expected and acceptable. Extreme deviation from the target is undesirable -- because it alters the risk and return expectations for the Plan. Therefore, an upper and lower limit is established for each asset class. The percentage allocation to each asset class may vary as much as plus or minus 5% for the larger asset classes before rebalancing to the target is required. When one asset class is over-weighted, another class must be under-weighted.

The rebalancing essentially forces the Plan to sell when the asset is at a high price and buy into the relatively lower priced asset class.

The key elements in the rebalancing policy are: (1) to set the range for each asset class based on the relative size of its allocation and its volatility, with larger asset classes and more volatile asset classes having larger ranges; and (2) to rebalance when the range is exceeded. When rebalancing is necessary for the asset classes with multiple managers, the asset class targets on the bottom table on page 7 will be utilized. Rebalancing is a passive way to capture gains from the cyclical nature of capital markets; it does not require forecasting.

When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation. If the cash flows are insufficient to bring the Plan within the strategic allocation ranges, the staff, in consultation with the Board, shall decide whether to effect transactions to bring the allocation back to the target Strategic Allocation.

ARTICLE V

INVESTMENT ADVISOR ASSIGNMENT

5.1 Within the broad framework of the total plan, each investment advisor will be assigned pension funds to invest in securities that match his special skill. The Board contracts with qualified registered investment advisors and counselors to provide expert professional judgment in all investment decisions. Subject to individually tailored guidelines, each advisor will pursue their own strategies. Establishment of guidelines for each individual advisor permits the combined efforts of the advisors to fulfill the overall objectives of the Fund.

5.2 The benefits of the approach using specialized investment advisors are twofold:

5.2.1 Through appropriate definition of the preferred investment strategy, the individual advisor will be able to concentrate efforts in those areas where he is best able to demonstrate his strengths. The designated securities will exclude those segments of financial markets where research coverage is absent. It will concentrate investment efforts in those activities that are most likely to be advantageous based on the advisor's investment philosophy and decision making process.

5.2.2 Once the preferred investments are defined, the investment advisor can better add value by aggressively exploiting his convictions. The guidelines for each advisor will be carefully coordinated to form the structure desired for the total fund. The sum of our advisors' efforts will be controlled to avoid unacceptable deviation from the normal positions specified for the basic portfolio plan. Given careful planning and control for the fund, the potential negative implications of intensified risk taken by individual advisors will be limited.

ARTICLE VI

SELECTION OF EXTERNAL INVESTMENT ADVISORS

6.1 To achieve the investment objectives of the Plan, external investment advisors will be employed to manage specialized portfolios. Both separate accounts, commingled investment trusts, and mutual fund vehicles may be considered. External advisors must meet the following minimum criteria:

6.1.1 Be a bank, insurance company, independent investment counselor, or investment adviser as defined by the Registered Investment Advisers Act of 1940.

6.1.2 Clearly articulate the investment strategy that will be followed, provide historical performance associated with the strategy, and document that the strategy is consistent with the guidelines of the Investment Policy Statement.

6.1.3 Provide historical quarterly performance numbers calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style, and reported net and gross of fees.

6.1.4 Provide performance evaluation reports that illustrate competitive relative returns and the risk/return profile of the advisor relative to other advisors of like investment style.

6.1.5 Provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel.

6.1.6 Selected firms shall have no outstanding legal judgments or past judgments which may reflect negatively upon the firm's ability to perform.

6.1.7 Demonstrate the absence of conflict of interest.

6.1.8 Offer a competitive fee structure.

6.2 At the beginning of each search, specific additional requirements may be specified including minimum track record and minimum assets under management. These criteria will vary by asset class; however, a track record of less than five years will only be considered under unusual circumstances.

ARTICLE VII

INVESTMENT ADVISOR GENERAL GUIDELINES

7.1 The following guidelines apply to all Plan assets. Any mutual funds or other commingled funds utilized should be reviewed to determine that their governing instruments are substantially consistent with the following guidelines.

7.2 General

7.2.1 All guidelines are considered at the time of purchase. The sale of a security is not automatically required due to a subsequent change in circumstance.

7.2.2 The following securities and transactions are not authorized: letter stock and margin transactions. Transactions that impart leverage to the portfolio are not permitted, except for real estate.

7.2.3 Managers may use derivatives, such as futures, options, and swaps, provided that such instruments do not introduce risks to the manager's portfolio that are not otherwise permitted in this Investment Policy and do not leverage the portfolio.

7.2.4 Each portfolio will be diversified with regard to specific issuer, industry, and economic sector, in order to reduce risk.

7.2.5 Securities may be sold at a loss, if such an action is deemed to be consistent with the overall portfolio investment objectives.

7.2.6 Liquidity in portfolios (except real estate and timber, which are recognized to have limited liquidity) will be maintained sufficient to provide timely payment for pension fund obligations, to permit changes from one asset class to another or to move funds from one investment advisor to another.

Investment positions should be such that they can be liquidated or made without harmful impact on market prices.

7.2.7 Investment advisors will be expected to adhere to the "prudent man" rule in the selection of securities to minimize risk. The "prudent man" rule is stated in the Employee Retirement Income Security Act of 1974 (ERISA) as follows: A fiduciary shall act "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims."

7.2.8 Investment advisors are expected to hold volatility as measured by standard deviation to a level no higher than the asset class(es) for which they have been selected.

7.2.9 Investments for the purpose of exercising control of management are prohibited.

7.3 Fixed Income

Passive Core

7.3.1 Fixed income index managers have full discretion over the fixed income securities selected, but will comply with the following guidelines:

7.3.1.1 Issues selected for investment shall be included in the Barclays Capital Aggregate Bond Index;

7.3.1.2 Bond index managers can use either full replication methodology or random sampling techniques;

7.3.1.3 Bond index managers may use bond index futures contracts to quickly invest excess cash balances so as to minimize annual tracking error.

Core Plus

7.3.2 Active Core Plus fixed income managers have full discretion over the issues selected, but will comply with the following guidelines:

7.3.2.1 No purchase shall be made which would cause the holding of any one issuer, excluding the U.S. Government and agencies of, or guaranteed by, the U.S. Government, to exceed five percent (5%) of the manager's fund valued at market;

7.3.2.2 At the time of purchase, no holding should exceed five percent (5%) of the issue outstanding;

7.3.2.3 Active Core Plus managers may hold any mix of fixed income securities and cash equivalents. However, portfolio duration must be not less than seventy-five percent (75%) nor more than one hundred twenty-five percent (125%) of the duration of the Barclays Capital Aggregate Bond Index;

7.3.2.4 The weighted average credit quality of the portfolio will not fall below "A3/A-/A-" or equivalent; when determining credit quality, the middle rating of Moody's, Standard and Poor's, and Fitch is used after dropping the highest and lowest available ratings. When a rating from only two agencies is available, the lower ("more conservative") rating is used. When a rating from only one agency is available, that rating is used to determine credit quality;

7.3.2.5 No more than twenty percent (20%) of the portfolio may be invested in non-dollar denominated securities;

7.3.2.6 No more than ten percent (10%) of the portfolio may be invested in unhedged non-dollar denominated securities and currencies;

7.3.2.7 No more than twenty percent (20%) of the portfolio may be invested in securities rated below investment grade; and no more than ten percent (10%)

of the portfolio may be invested in non-United States securities (dollar denominated or non-dollar denominated) rated below investment grade);

Global

7.3.3 Global fixed income managers have full discretion over the issues selected, but will comply with the following guidelines:

7.3.3.1 No purchase shall be made which would cause the holding of any one issuer, excluding government issuers, to exceed five percent (5%) of the manager's fund valued at market;

7.3.3.2 At the time of purchase, no holding should exceed five percent (5%) of the issue outstanding;

7.3.3.3 Global managers may hold any mix of fixed income securities and cash equivalents. However, portfolio duration must be not less than sixty percent (60%) nor more than one hundred-forty percent (140%) of the duration of the Barclays Capital Global Aggregate Bond Index;

7.3.3.4 The weighted average credit quality of the portfolio will not fall below "A3/A-/A-" or equivalent; when determining credit quality, the middle rating of Moody's, Standard and Poor's, and Fitch is used after dropping the highest and lowest available ratings. When a rating from only two agencies is available, the lower ("more conservative") rating is used. When a rating from only one agency is available, that rating is used to determine credit quality;

7.3.3.5 No more than twenty percent (20%) of the portfolio may be invested in unhedged non-dollar denominated currencies;

7.3.3.6 No more than twenty percent (20%) of the portfolio may be invested in securities rated below investment grade;

7.3.3.7 No more than twenty percent (20%) of the portfolio may be invested in emerging markets.

7.4 Domestic Equity

7.4.1 The weighted average market capitalization for the Large Cap portfolio will be similar to the S&P 500 index.

7.4.3 The weighted median market capitalization for the SMID Cap portfolios will be similar to the Russell 2500 index.

7.4.4 Domestic equity managers shall maintain cash positions of less than 5% of the portfolio's market value

7.4.5 Domestic equity managers are expected to maintain diversification through security selection and sector concentration. The market value of any single security holding should be limited to a weight of 5% of the portfolio.

7.5 International Equity

7.5.1 The international equity exposure shall focus primarily on countries contained in the MSCI ACWI ex-US IMI Index, which includes emerging markets.

7.5.2 Responsibility for currency management has been delegated to the investment managers.

7.5.3 International equity managers shall maintain cash positions of less than 5% of the portfolio's market value

7.5.4 International equity managers are expected to maintain diversification through security selection and sector concentration. The market value of any single security holding should be limited to a weight of 5% of the portfolio.

7.6 Real Estate

7.6.1 The Plan intends to make use of equity real estate investments through commingled vehicles.

7.6.2 Leverage within real estate commingled trusts will be limited to 40% of the portfolio's gross asset value for the "core" portfolio and 60% for the "value add" portfolio.

7.7 Timber

7.7.1 The timber investment shall be made through a commingled vehicle. The portfolio shall be diversified primarily by geography, species, and age class. The investment manager shall be experienced and successful in all phases of timber management: acquisition, property management, and sales.

7.7.2 With the exception of bridge financing, leverage is not permitted.

7.8 Commodities

7.8.1 The commodities investment shall be made through a commingled trust or mutual fund vehicle. The portfolio shall be diversified and have exposure to a wide variety of commodities and sectors including energy, metals, and agriculture.

ARTICLE VIII

MERP FUND OBJECTIVES BY ASSET CLASS

8.1 Achieve in active SMID capitalization equity portfolios a total return that exceeds the total return of the Russell 2500 Index by 100 basis points per year after fees over a market cycle (typically 5 - 7 years).

8.2 Achieve in active fixed income portfolios a total return that exceeds the total return of the benchmark by 50 basis points per year after fees over a market cycle.

8.3 Achieve in equity real estate a return better than National Council of Real Estate Fiduciaries (NCREIF) Property Index.

8.4 Achieve in active international equity portfolios a total return that exceeds the return of the MSCI ACWI ex-US IMI Index by 100 basis points per year after fees over a market cycle. Passive international portfolios shall achieve a total return that replicates the return of the MSCI ACWI ex-US Index.

8.5 Achieve in passive domestic equity securities a total return that replicates the total return of the S&P 500 Stock Index.

8.6 Achieve in passive fixed income securities a total return that replicates the total return of the appropriate benchmarks.

8.7 Achieve in timber a return better than the NCREIF Timberland Index.

8.8 Achieve in commodities a total return that exceeds the total return of the benchmark return by 50 basis points per year after fees over a market cycle.

ARTICLE IX

MERP FUND PERFORMANCE OBJECTIVES

9.1 Quarterly performance will be evaluated to test progress toward the attainment of longer-term targets. It is understood that there are likely to be short-term periods during which performance deviates from market indices. During such times, greater emphasis shall be placed on peer-performance comparisons with advisors employing similar styles.

9.2 On a timely basis, but not less than four times a year, the Board will meet to focus on:

- Advisor's adherence to the Investment Policy Guidelines and Objectives Statement;
- Material changes in the advisor's organization, investment philosophy and/or personnel; and,
- Comparisons of the advisor's results to appropriate indices and peer groups, specifically:

ASSET CATEGORY	***BENCHMARK***	***PEER GROUP UNIVERSE***
Domestic Equity		
Large Cap	S & P 500	Large Cap Core
SMID Cap Growth	Russell 2500 Growth Russell 2500	SMID Cap Growth
SMID Cap Value	Russell 2500 Value Russell 2500	SMID Cap Value
International Equity		
All Country	MSCI ACWI ex-US	International Equity
Small Cap	MSCI ACWI ex-US SC	International Equity SC
Fixed Income		
Passive Core	BC Aggregate	Core Fixed Income
Core Plus	BC Aggregate	Core Plus Fixed Income
Global	BC Global Aggregate US$ Hedged	Global Fixed Income
Real Estate		
Private Core	NCREIF ODCE	Open End Real Estate Funds
Private Value Add	NCREIF ODCE + 2%	Value Add
Timber	NCREIF Timberland	Real Estate Timber
Commodities	Credit Suisse Commodity	Commodities
Total Plan	36% Russell 3000, 24% MSCI ACWI ex-US IMI, 24% BC Aggregate, 8% NCREIF ODCE, 4% NCREIF Timberland 3% Credit Suisse Commodity, 1% 3-Month Treasury Bill	Callan Mid-Sized Public Plan Database

9.3 The risk associated with each advisor’s portfolio, as measured by the variability of quarterly returns (standard deviation), shall not exceed that of the benchmark index and the peer group without a corresponding increase in performance above the benchmark and peer group.

9.4 In addition to the information covered during the quarterly reviews, the Board will meet at least annually to focus on:

9.4.1 The advisor's performance relative to advisors of like investment style or strategy. Each advisor is expected to perform in the upper half of the advisor's respective style universe.

9.4.2 Overall composite performance figures to determine unaccounted for dispersion between the advisor's reported results and the Plan's actual results.

9.5 Major organizational changes also warrant immediate review of the advisor, including:

- Change in professionals
- Significant account losses
- Significant growth of new business
- Change in ownership

9.6 The performance of the investment advisors will be monitored on an ongoing basis and it is at the Board's discretion to take corrective action by replacing an advisor if they deem it appropriate at any time.

Article X

Guidelines for Manager "Watch List" or Termination

The performance of the Plan's investment managers will be monitored on an ongoing basis. The Board may place a manager on a "Watch List" at any time or terminate a manager at any time.

Managers may be terminated or placed on a Watch List for either qualitative or quantitative factors. Quantitative factors pertain primarily to performance. Qualitative factors that may be grounds for termination or Watch List include, but are not limited to the following:

- Violation of investment guidelines
- Deviation from stated investment style
- Turnover of key personnel
- Change in ownership
- Litigation
- Failure to disclose significant information, including potential conflicts of interest.

Below are some of the quantitative factors to be considered in determining the appropriateness of terminating an investment manager or placing the investment manager on the "Watch List."

- Failure to achieve one or more of the performance tests detailed below may result in placing a manager on the watch list.
- The Board may place the manager on the watch list at any time. Said manager may be terminated at any time if they continue to fail watch list criteria.
- Minimum of three years of performance preferred, but not required prior to termination.

PERFORMANCE TEST	BENCHMARK	FAIL CRITERIA
Test 1: Relative to Market Index, for trailing 7 years	Annualized performance relative to the agreed upon market index or appropriate benchmark	Fail if underperform index over measurement period, net of fees
Test 2: Peer group comparison, for trailing 3 years	Performance compared to that of an appropriate peer group	Fail if cumulative performance is at 75th percentile or lower over relevant time frame
Test 3: Relative to Market Index for trailing 1 year	Performance relative to the agreed upon market index or appropriate benchmark	Fail if performance is below index for four consecutive quarters

When a manager has been placed on Watch List, the Board shall adopt closer monitoring, which shall be determined on a case-by-case basis. Expectations will be established for removal from the Watch List. Failure to achieve these expectations will result in termination. The Board shall notify the manager of its decision to place the manager on Watch List.