

POPULAR ANNUAL FINANCIAL REPORT

for the Fiscal Year Ended June 30, 2016

ABOUT TRS

TRS was established in 1943 by the Oklahoma Legislature. As of June 30, 2016, the Plan consisted of 604 participating employers comprised of state institutions of higher education, state education entities, local school districts as well as career tech districts. The membership includes 90,167 active members, 11,066 inactive vested members, 11,450 inactive non-vested and 60,680 retirees and beneficiaries for a total of 173,363 members.

COMPREHENSIVE ANNUAL FINANCIAL REPORT ONLINE

The 2016 Popular Annual Financial Report of the Teachers' Retirement System of Oklahoma (TRS) contains summary financial information from the 2016 Comprehensive Annual Financial Report. The full report can be viewed in its entirety online at www.ok.gov/TRS/Publications/Annual_Report.html

Staying the Course

Dear Members:

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

The members of TRS rely on the continuing viability and fiscal strength of the System. Their retirement security depends on it. Our public educators and support staff members are crucial to the State's economy and quality of life. TRS is the oldest and largest state pension plan. The System serves about 174,000 members employed by 604 employers. Not only is it important for our members and stakeholders to know the financial status of the System, but it is also important for Oklahoma citizens to have this information. We at TRS are proud to serve Oklahoma's educators and staff. The entire state benefits from the retirement income security TRS provides to its members. Your retirement system has been providing this service for more than seven decades and we want to be a part of this State's bright future. We at TRS are "staying the course" for our retired and active membership.

Sincerely,

Tom Spencer
Executive Director



2016 TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA
POPULAR ANNUAL FINANCIAL REPORT

Plan Net Position

The "Plan Net Position" is calculated by taking the amount of assets of TRS and subtracting liabilities restricted for payment of monthly retirement benefits and other qualified distributions to TRS members. A summary of net position restricted for benefits on June 30, 2016, 2015, and 2014, is shown to the right. As of June 30, 2016, TRS net position was nearly \$14 billion.

Changes in Plan Net Position

TRS is funded through a combination of member contributions, employer contributions, dedicated state revenue and investment earnings. For fiscal year 2016, plan net position decreased \$650,076,074 or -4.4%. This decrease followed a very small increase in FY 2015 of \$204 million or 1.4%. The main cause of the net position decrease was an investment loss of -2.02% in FY 2016. Deductions to plan net position are incurred primarily for the purpose for which TRS was created, namely the payment of benefits to retirees. In fiscal year 2016, retirement, death and survivor benefits increased \$55,925,799 million or 4.65% due to a 3.0% increase (1,751 members) in the number of retired members and a 1.40% increase in the average benefit. Refunds and withdrawals actually decreased \$1,221,885 or 2.14% as fewer participants withdrew their contributions on severance of service in fiscal 2016. Administrative costs increased by \$ 99,400 or 2.28%. The increase in administrative costs was primarily due to the addition of a Chief Investment Officer to the staff to continue improving investment oversight and performance.

CONDENSED SCHEDULE OF FIDUCIARY NET POSITION

	JUNE 30,		
	2016	2015	2014
ASSETS:			
CASH	\$ 19,857,301	\$ 95,635,452	\$ 17,695,733
RECEIVABLES	389,393,726	207,991,357	201,958,789
INVESTMENTS	14,058,889,353	14,635,937,831	14,531,814,990
SECURITIES LENDING COLLATERAL	1,624,015,378	4,729,952	2,475,662,654
CAPITAL ASSETS, NET	4,072,745	3,649,149	2,848,571
TOTAL ASSETS	16,096,228,503	14,947,943,741	17,229,980,737
LIABILITIES:			
OTHER LIABILITIES	478,182,808	299,107,398	314,844,654
SECURITIES LENDING COLLATERAL	1,624,015,378	4,729,952	2,475,662,654
TOTAL LIABILITIES	2,102,198,186	303,837,350	2,790,507,308
NET POSITION RESTRICTED FOR PENSIONS	\$ 13,994,030,317	\$ 14,644,106,391	\$ 14,439,473,429

CONDENSED SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION

	JUNE 30,		
	2016	2015	2014
MEMBER CONTRIBUTIONS	\$ 294,459,091	\$ 303,677,304	\$ 301,300,811
EMPLOYER CONTRIBUTIONS	409,753,221	392,051,458	386,895,127
MATCHING CONTRIBUTIONS	25,787,244	24,445,212	24,352,831
DEDICATED TAX REVENUE	289,884,752	311,945,400	295,804,717
MEMBER TAX SHELTER CONTRIBUTIONS	2,222,812	2,823,513	3,026,532
NET INVESTMENT INCOME GAIN (LOSS)	(362,477,638)	420,630,551	2,587,292,673
SECURITY LENDING NET INCOME	7,870,757	11,832,523	8,590,136
TOTAL ADDITIONS	667,500,239	1,467,405,961	3,607,262,827
BENEFIT PAYMENTS	1,257,276,705	1,201,350,906	1,153,051,607
REFUNDS OF MEMBER CONTRIBUTIONS AND TAX SHELTERED ANNUITY	55,841,270	57,063,155	50,061,499
ADMINISTRATIVE EXPENSES	4,458,338	4,358,938	4,282,605
TOTAL DEDUCTIONS	1,317,576,313	1,262,772,999	1,207,395,711
NET INCREASE (DECREASE) IN NET POSITION	\$ (650,076,074)	\$ 204,632,962	\$ 2,399,867,116

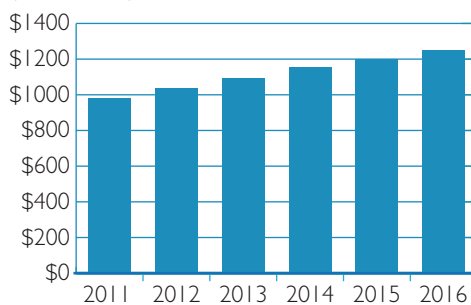
Benefits Paid to Members

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

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

SCHEDULE OF BENEFIT PAYMENTS

(in millions)



Investments

The Board of Trustees follows the "Prudent Investor Rule" which is considered the highest standard in making investment decisions for the Plan. The Board and its advisors invest the Plan's assets for the sole interest of our members and their beneficiaries. In addition, funds are to be diversified to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so. The Plan's overall investment return for the year ended June 30, 2016, was a

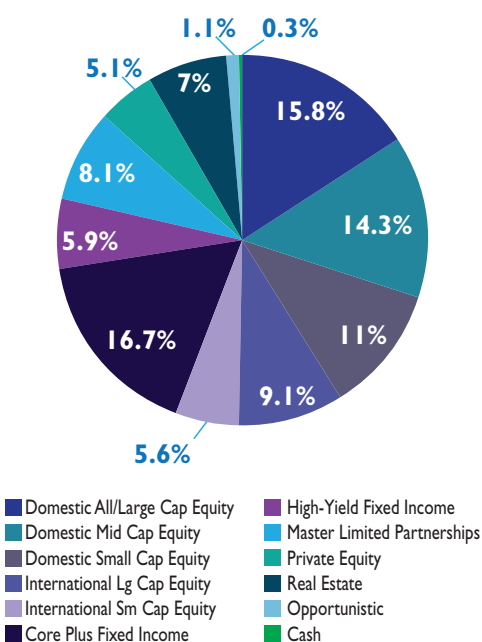
loss of -2.02 percent. Plan returns are primarily determined by how investments are diversified across asset classes. Both domestic and international equity returns were down. Domestic equity lost -3.3% and international equity returns showed a loss of -8.8%. The only bright spots were in fixed income with core fixed income returns at 6.8%, long U.S. bonds returned 21.3% and high yield bonds returned 2.4%. The System's Master Limited Partnership investments were down for a second year in a row losing -21.7%. The Rate of Return table below reflects overall investment returns for the Plan over the past five fiscal years.

Year Ending June 30,	Total
2016	-2.02%
2015	3.5%
2014	22.4%
2013	17.8%
2012	1.80%

The Board of Trustees has established the Statement of Investment Policy to guide investment decisions and outline the overall investment philosophy of the Plan. The primary investment goal of the Plan is total return, consistent with prudent investment management standards. Total return includes income plus realized and unrealized gains and losses on Plan assets. In addition, assets of the Plan are invested to ensure that principal is preserved and enhanced over time. All investments are managed by external investment managers. The advisors are required to adhere to the investment policy and their respective mandates, but may use full discretion within the policy and guidelines. In the pursuit of long-term returns while maintaining the goal of capital preservation, TRS has adopted a diversified asset allocation policy that

is carried out primarily through active management. The resulting portfolio is designed to enhance long-term returns while mitigating short-term volatility. At fiscal yearend, the portfolio was managed by 34 investment management firms across several asset classes and areas of expertise. For fiscal yearend 2016, investments provided a loss of -2.02 percent. The annualized rate of return was 7.5 percent over the last three years and 8.3 percent over the last five years. The allocation of the investment portfolio as of June 30, 2016 is shown in the Asset Mix chart below.

ASSET MIX June 30, 2016



Funding

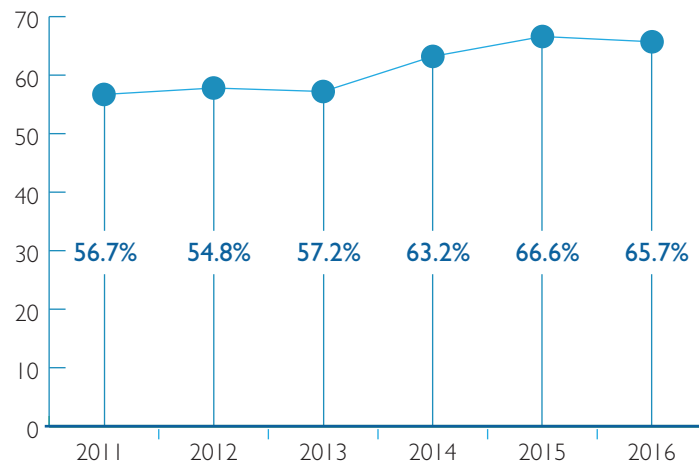
A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. It must also have a revenue source sufficient to keep up with future obligations. The funding objective for TRS is to meet long-term benefit promises through contributions that remain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

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accumulated to the actuarial accrued liability and the greater the level of investment potential. The advantage of a well-funded plan is that the participants can look at assets that are committed to the payment of benefits. The actuarial accrued liability (the amount the System owes) and actuarial value of assets (the amount the System has) of TRS as of July 1, 2016, amounted to \$22.19 billion and \$14.57 billion, respectively.

The TRS funded status was 65.7 percent at June 30, 2016, compared to 66.6 percent at June 30, 2015. The key items responsible for the change in funded status were actuarial assumption changes. The most significance change was the rate used to discount TRS' liabilities. After many years using an 8% return assumption, the Board lowered the assumption to 7.5%. Investment losses also played a part. The Funded Ratio chart to the upper right shows the change in funded status over the past five fiscal years.

FUNDED RATIO



TRS Awarded For Excellence In Financial Reporting And Popular Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Annual Financial Reporting to the Teachers' Retirement System of Oklahoma for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015. The Award for Outstanding Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

To receive an Award for Outstanding Achievement in Annual Financial Reporting, a government unit must publish a Comprehensive Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal. An Award for Outstanding Achievement in Annual Financial Reporting is valid for a period of one year only. TRS has received the award for the last 23 consecutive years. We believe our current CAFR continues to conform to the award requirements, and it has been submitted to the GFOA.

In addition, TRS also received an award from the GFOA for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) for its first ever submission in FY 2015. We will continue to strive for excellence and we look forward to continuing our commitment to quality financial reporting of all kinds.



OKLAHOMA TEACHERS
RETIREMENT SYSTEM

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