

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
JULY 23, 2008

**MINUTES
EIGHT HUNDRED AND THIRD MEETING
OF THE
BOARD OF TRUSTEES
TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA**

JULY 23, 2008

The regularly scheduled meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma was called to order by Cathy Conway, Chairman, at 1:02 P.M., Wednesday, July 23, 2008, in the Administrative Conference Room of the Teachers' Retirement System, 5th Floor, Oliver Hodge Building, 2500 North Lincoln Boulevard, Oklahoma City, Oklahoma. The agenda/meeting notice was posted in accordance with 25 O.S. 2001 Section 311(9).

TRUSTEES PRESENT:

Cathy Conway, *Chairman*
James Smith, *Vice-Chairman*
Dick Neptune, *Secretary*
Sherrie Barnes

Bruce DeMuth
Richard Gorman
John Kirkpatrick

Matti Palluconi
Galeard Roper
Michael Simpson

TRUSTEES NOT PRESENT:

Darryl Hatcher
Sandy Garrett
Vacant Position

TRS STAFF PRESENT:

Tommy C. Beavers, *Executive Secretary*
Bill Puckett, *Chief Investment Officer*
Joe Ezzell*, *Director of Internal Auditing*
Kimber Chessmore, *Senior Internal Auditor*
Becky Yearout, *Cash Management Officer*
Karen Yost, *Assistant to Executive Secretary and Board of Trustees*

LEGAL COUNSEL PRESENT:

David L. Kinney, *Assistant Attorney General*

INVESTMENT CONSULTANT, gregory.w.group, PRESENT:

Gregory T. Weaver, *President, gregory.w.group*
Douglas J. Anderson, *gregory.w.group*

OTHERS PRESENT:

Candice Adson, *eCapitol News*
Larry Asberry, Jr., *Office of State Finance*
Dwight Bruss, *State Department of Education*
Norman Cooper, *Oklahoma Retired Educators Association*
Tommy Fulton, *Retired Member*
John McPhetridge, *House Fiscal Staff*
Brian Phillips, *Senate Staff*
Debra Schwartz, *Attorney General's Office*

*Indicates late arrival or early departure.

BOARD POLL FOR QUORUM

Chairman Conway called the meeting to order and asked for a poll of the Board to determine a quorum being present. Trustees responding were as follows: Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Mr. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Gorman; and Chairman Conway.

MINUTES of JUNE 25, 2008, BOARD MEETING APPROVED

The Chairman asked for corrections, additions or a motion to approve the minutes of the June 25, 2008, meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma. A motion was made by Mr. Neptune with a second made by Mr. Simpson for approval of the minutes, as presented. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Gorman; Mr.

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Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Conway.

**REPORT FROM THE TWO HUNDRED AND THIRTY-SIXTH
INVESTMENT COMMITTEE MEETING**

The Investment Committee meeting convened at 9:02 a.m. Wednesday, July 23, 2008, and adjourned at 12:21 p.m. Committee members present were as follows: Chairman Cathy Conway; members, Matti Palluconi; Michael Simpson; Dick Neptune; and James Smith. Other trustees present were Ms. Barnes*, Dr. Kirkpatrick; Mr. Roper*; Mr. DeMuth*; and Mr. Gorman*.

The Chairman asked gregory.w.group for their report.

**PRESENTATION BY gregory.w.group
Market Performance, Asset Allocation Review,
June 30th Performance Summary and Manager Status**

Greg Weaver and Doug Anderson of gregory.w.group, investment consultant to the Board, gave the Board an overview of their monthly report that was presented, in full, to the Investment Committee earlier in the day.

Mr. Weaver reported that Eric Crabtree and Harry Hartford with Causeway Capital Management, Paula Pretlow and David Polak with Capital Guardian Trust, and Dana Dean and Frances D'Allesio with Thornburg Investment Management, had made their respective presentations during the Investment Committee earlier in the day. He said each manager is operating within the Retirement System's policies and guidelines and there are no organizational issues at this time.

Greg Weaver stated he would be making a report to the Board at the August meeting on how emerging markets are changing and the possibility of increasing investments in that market.

Net of Fee and Market Performance Summary

This report indicates performance of the Fund, for periods ending June 30, 2008, for each portfolio, net of fees, comparing actual returns versus each manager's benchmark. The results for the last quarter for each portfolio manager are as follows:

H&W Large-Cap, -10.0% vs. -5.3%; Goldman, 6.2% vs. 1.2%; Aletheia, 4.4% vs. 1.2%; Chase, 1.0% vs. 1.2%; Sawgrass, -1.0% vs. 1.2%; Advisory, -0.2% vs. -1.7%; EPOCH, 4.7% vs. -1.7%; AJO, 3.6% vs. 2.7%; Wellington, 5.8% vs. 2.7%; Frontier, 3.2% vs. 2.7%; H&W Mid-Cap, -5.3% vs. 2.7%; Shapiro, -3.5% vs. 0.6%; Tocqueville, 2.5% vs. 0.6%; Smith, 4.4% vs. 0.6%; Capital Guardian, -1.8% vs. -1.9%; Causeway, -4.6% vs. -1.9%; Brandes, -2.0% vs. -1.9%; Thornburg, -2.4% vs. -1.9%; Hoisington, -2.7% vs. -1.0%; Loomis, -0.8% vs. -1.0%; Lord Abbett, 0.3% vs. -1.0%; MacKay Shields, -0.9% vs. -1.0%; PIMCO, -1.9% vs. -1.0%; Standish, -1.1% vs. -1.0%; Stephens, -2.1% vs. -1.0% and TRS Cash, 0.7% vs. 0.3%.

Total Fund performance is as follows: Month of June 2008, -5.7% vs. -5.7%; last quarter, -0.2% vs. -0.8%; 1-year, -7.5% vs. -6.7%; 3-years, 6.1% vs. 6.3%; 5-years, 9.6% vs. 9.2%; and since inception, 9.6% vs. 10.1%. (Returns over one year are annualized.)

**Manager Status Summary and
Possible Action**

This report indicates the status of each of the System's investment managers. There are currently five (5) managers on "Alert" and one manager on "Notice", with all other managers in "Compliance. Chairman Conway stated there were no changes recommended by the Investment Committee at this time.

**Amend Existing Manager Contract
Smith Asset Management Group L.P.**

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Chairman Conway stated the Investment Committee is recommending a change to Smith Asset Management Group's contract by accepting a new fee schedule labeled Proposal 2. Under Proposal 2, effective July 1, 2008, Smith's total annual fee would be reduced to 0.35% for the first \$75 million, with a 0.30% fee for all assets over \$75 million, and this fee will be locked in from July 1, 2008 to June 30, 2011. Beginning July 1, 2011, the total annual fee for their services will return to the current investment advisory agreement.

Investment Committee Recommendation Approved

The Investment Committee recommendation was approved by Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Conway responding yes.

Status on Policy Guidelines and Contract with Aldus Equity Partners

Mr. Weaver said since the draft of the original guidelines and contract with Aldus Equity Partners was submitted to the Board in May this year, that an item be placed on the August or September agenda to go over this material line by line before adoption of the investment policy or their contract is signed. He said this would need to take place prior to funding Aldus.

Mr. Beavers stated the Board will have to decide the amount of funding Aldus will receive which originally was estimated at 5% of the Fund's total portfolio. He said this could be around \$450 or \$500 million. He said the Board might want to consider having Matt O'Reilly with Aldus come to the Board meeting to answer questions the Board might have concerning the policy and contract. Mr. Beavers stated this is a major step the Board is taking and wants everyone to understand what this entails and to be comfortable with investment in private equity.

Mr. Kinney stated this will be a limited partnership where TRS is the only limited partner and provides all funds to be invested. He said there will be a general partner working with Aldus determining investments decisions that will be made on the Fund's behalf, and this is why the investment policy should be in place since the Fund has no say over the investments made by the limited partnership. Mr. Kinney reported as the draft states now, Aldus will notify the Fund at least 2 weeks prior to making an investment, allowing the Board the opportunity for comments, but Aldus will still have full decision making authority whether or not to proceed in that investment. Also, all other manager contracts have a 30 day notice and out in order to change managers and it would be prudent that this be placed in the contract in case Aldus is not performing the way the Board thinks they should. Mr. Kinney said one of the Fund's outside law firms will conduct a courthouse search to ensure there is no outstanding litigation of which the Fund should be aware.

Mr. Kinney recommended the amount to fund Aldus be \$445 million because there must be a dollar amount named in the contract when presented.

After further discussion, the Chairman stated no action would be taken on this matter at this time.

Renewal of Manager Contracts MacKay Shields, Lord Abbett, Hoisington, Stephens, and Bloomberg

The Chairman stated there are no changes to these contracts and the Investment Committee is recommending renewal of these manager contracts. She asked for discussion and there being none asked for a poll of the Board.

Investment Committee Recommendation Approved

The Investment Committee recommendation was approved by Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Mr. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Gorman; and Chairman Conway responding yes.

TRS INVESTMENT REPORTS

Mr. Puckett gave the Board a brief report and stated he would be glad to answer any questions the

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Board might have. The TRS Investment reports are listed as follows:

Portfolio Distribution

The total market value of the portfolio was \$8,935,336,126.00 invested approximately 32% in fixed income, 65% in equities with the balance in accrued income and residual cash positions.

Short-Term Investment Account

The monthly rate of return for Short-Term cash was 0.21, the three-month return was .65%, and the trailing twelve-month return was 4.47%.

Book Value to Market Value Comparison

This report gives equity holdings where the market value has fallen at least 20% below cost, along with securities that have been removed from the previous month's report due to appreciation in value or having been sold.

Domestic Equity Commissions Recaptured

For the month of April, this report shows commissions paid of \$586,121, recaptured commissions totaled \$56,613 with a net per share of \$0.026, and for the Fiscal Year, commissions paid of \$6,434,757, recaptured of \$789,456, with a net per share of \$0.026.

Fiscal Year Comparison of Securities Lending

This report monitors securities lending and how it has performed this year compared to last year's numbers.

Earnings on Securities Lending

This report shows the previous and current year's earnings on securities lent and the lendable balance, including the market value and gross returns.

The Chairman asked Mr. Beavers for his reports.

**REPORT OF THE EXECUTIVE SECRETARY
Report of Routine Items and Executive Secretary Report**

Mr. Beavers referred the Board to section 3 in their binders and made his reports, stating he would be glad to answer any questions.

**Motion for the Approval of Routine Items
and Adoption of the Executive Secretary Report Carried**

The Chairman asked if there was a motion for approval and adoption from the Board. A motion was made by Mr. Smith with a second made by Dr. Kirkpatrick. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Conway. The reports are as follows:

Monthly Expenditures

Monthly Expenditures consists of claims, receipts and claims for authorized expenditures, retirement payroll, tax-deferred annuity withdrawals, payment to beneficiaries of retired and active members, persons withdrawing contributions and total dedicated revenue.

Receipts and Claims for Authorized Expenditures

Receipts and Claims totaled \$3,334,259.34 and may include payments for: Board expenses, TRS staff travel, communications, contingency, maintenance, insurance, rent, investment expenditures, Social

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Security, etc. and retirement payments.

Claims

Claims submitted for approval totaled \$6,119.86.

Recommendations for Retirement

There were twelve (12) disability and 450 regular contracts filed for retirement.

Disability Retirement Provided by Social Security

There were two (2) disability applicants granted either a continuation of benefits, or a new disability retirement by TRS due to approval of disability retirement through and by the Social Security Administration, as provided by 70 O.S. § 17-105.

Out-of-State Travel

There were three (3) requests for travel, Mr. Puckett to attend the NASIO Conference in Pennsylvania, and Mr. Ezzell and Mrs. Chessmore to attend the IIA Seminar in Massachusetts.

Termination of Retirement Benefits

Monthly benefits were terminated for 89 members due to their deaths, four (4) who returned to teaching, and one (1) whose retirement was cancelled.

New Members

There were 255 new member applications. The list of new applications may be reviewed in the Executive Secretary's office.

Employees' Salaries

This report indicates employee salaries and positions within the Teachers' Retirement System. Employee salaries totaled \$235,357.75. (Can include longevity and supplemental payroll.)

Financial Statements

These reports cover the month of June 2008.

Personnel Changes

There was one (1) new employee hired and three (3) employees who retired effective June 30, 2008.

**REPORT OF LEGAL COUNSEL
Litigation and Administrative Matters**

Mr. Kinney reported to the Board updated information on current and future legal issues facing the Retirement System, most significant, responses have been filed in the Connetics case and notification was received that the Retirement System was appointed lead plaintiff in the MBA case and our response will be filed in September. Mr. Kinney stated he would be glad to answer any questions the Board may have.

REVIEW OF COLA ASSUMPTION FOR ANNUAL ACTUARIAL VALUATION

Mr. Beavers referred the Board to Section 4 and to a handout prepared by Chris Conradi, entitled "Comparison of Projected Benefits Assuming a 1% or 2% Cola". He said the actuarial projection

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presented by the actuary are updates from last month's meeting and take into account the expected investment loss for the year ending June 30, 2008.

Mr. Beavers referred to page 4-3 in the binder. He said Table 1 shows the expected change in the System's unfunded liabilities based on a negative 7.65% return on investments compared to the actuarial assumed return of 8%. This table is intended to show what the System's valuation would look like if nothing had changed during the year except investment returns.

Mr. Beavers said Table 2, on page 4-4 shows how a change in the System's cost-of-living assumption would impact liabilities if the COLA assumption is increased from 1% per year to 2% per year. He said he had asked Mr. Conradi to prepare the handout on projected benefits to help the trustees understand why the 1% per year increase can increase total liabilities by almost \$1.5 billion. Mr. Beavers said he could not recommend the Board adopt the proposed increase.

After considerable discussion concerning the effect on liabilities and the impact the proposed change might have with legislative leaders and the general public, the consensus of the trustees was that the Board should be on record affirming that retired TRS members should receive the same COLA as other retired members in state run pension plans.

Motion to Change COLA Assumption Approved

Chairman Conway asked for further discussion and there being none, asked for a motion from the Board. A motion was made by Ms. Palluconi with a second made by Dr. Kirkpatrick for adoption of a 2% COLA per year for the actuarial valuation. The motion carried by Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Conway responding yes.

REQUEST FROM OKLAHOMA RETIRED EDUCATORS ASSOCIATION Membership Mailing

Mr. Beavers referred the Board to the additional agenda item, section 6, a request from the Oklahoma Retired Educators Association asking the Retirement System assist them in a general mailing to retired educators. He said this is used as an OREA membership drive and the System has done this in the past, and there is no cost to the Retirement System. Mr. Beavers stated he is recommending the Board approve this action.

Motion to Approve Request by OREA Carried

A motion was made by Mr. Simpson with a second made by Mr. Neptune to approve this mailing. The motion carried by Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Mr. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Gorman; and Chairman Conway responding yes.

A break was taken from 2:40 to 2:55

EXECUTIVE SESSION and POSSIBLE ACTION FOR CONFIDENTIAL COMMUNICATION CONCERNING WACHOVIA CORPORATION

The Chairman stated this item is for the purpose of receiving confidential communications from one of our three outside law firms in the matter of Wachovia Corporation. The Chair recognized Mr. Kinney for his comments.

Mr. Kinney stated in his opinion it is necessary for the Trustees to resolve into executive session, and is his recommendation, since discussion in a public meeting would impair the ability of the Trustees to resolve these matters in the public interest. One of our three outside law firms has provided a confidential report to be presented along with their recommendation.

The Chairman stated the Board has heard the explanation and recommendation of the Board's legal counsel to resolve into executive session for the purpose of discussing confidential communications with the System's outside law firm in the matter of Wachovia Corporation.

The Chairman asked if there were any questions and there being none, asked for a motion to enter

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into executive session.

Enter into Executive Session

A motion was made by Mr. Roper to resolve into executive session for the purpose of consideration of Agenda Item 7. A second was made by Mr. DeMuth. The Board entered into Executive Session at 2:56 p.m. The motion carried by Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; Mr. Hatcher; and Chairman Conway responding yes. The Chairman declared the motion to have prevailed, and declared the meeting to be resolved into executive session.

Return to Open Session

A motion was made by Mr. Roper with a second made by Dr. Kirkpatrick to return to Open Session at 2:58 p.m. The motion carried by Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Mr. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Gorman; and Chairman Conway responding yes. The Chairman declared the motion to have prevailed and the Board is now back in regular session and will consider Agenda Item 7 at this time.

The Chair recognized Mr. Kinney.

Mr. Kinney stated for purposes of the record, the Trustees considered Agenda Item 7 during the executive session, the Trustees answering the roll call for quorum were present. Other persons present were: Mr. Puckett; Mr. Beavers; Ms. Yost; and myself. No vote or official action was taken while the Trustees were in executive session.

Chairman Conway asked if there was a motion from the Board.

No Action Resulting from Executive Session

The Chairman stated there was no motion forthcoming from the Board, therefore no action is necessary and the Board will move on to the next agenda item.

**EXECUTIVE SESSION PURSUANT TO 25 O.S. SUPP. 2007 § 307 (b)(1)
FOR CONFIDENTIAL COMMUNICATION BETWEEN TRUSTEES CONCERNING
PERSONNEL MATTERS**

David Kinney stated, "For purposes of the record, I will recuse myself for Agenda Items 9 and 10, Debra Schwarz from the Attorney General's office will take my place."

The Chairman stated Agenda Item 9 is for discussion and possible action to resolve into executive session pursuant 25 O.S. Supp. 2007 § 307(b)(1) for the purpose of confidential communications between the Trustees concerning personnel matters relating to the employment, hiring, or appointment of candidates for the position of Executive Secretary.

The Chairman asked for a motion to resolve into executive session.

Enter into Executive Session

A motion was made by Mr. Roper to resolve into executive session for the purpose of consideration of Agenda Item 9. A second was made by Mr. Simpson. The Board entered into Executive Session at 3:03 p.m. The motion carried by Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Mr. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Gorman; and Chairman Conway responding yes. The Chairman declared the motion to have prevailed, and declared the meeting to be resolved into executive session.

Return to Open Session

A motion was made by Mr. Neptune with a second made by Mr. Smith to return to Open Session at 4:23 p.m. The motion carried by Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Conway responding yes. The

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Chairman declared the motion to have prevailed and the Board is now back in regular session and will consider Agenda Item 10 at this time.

**Motion for Possible Action Relating to Executive Secretary Position
and Special Board Meeting Carried**

A motion was made by Mr. Roper with a second by Mr. DeMuth, that a Special Board meeting be held on Tuesday, September 23, 2008, at 10:30 a.m., for the purpose of interviewing candidates #7 and #8 at that time, and to enter into an executive session for purposes of making a decision, then return to an open session to vote on the appointment of a new TRS Executive Secretary.

Chairman Conway asked for discussion, and there being none asked for a poll of the Board.

The motion carried by Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Mr. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Gorman; and Chairman Conway responding yes.

**FINANCIAL CONDITION & UNFUNDED STATUS OF THE
TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA**

The Chairman asked if there was any further discussion on this issue, and there was none.

NEW BUSINESS

The Chairman asked if there was any new business and there was none.

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ADJOURNMENT

There being no further business before the Board, the Chairman declared the meeting adjourned at 4:28 p.m. Trustees present at adjournment were as follows: Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Conway.

(NOTE: An audio recording of this meeting is on file in the Executive Secretary's office.)

The next regularly scheduled meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma will be:

WEDNESDAY - July 23, 2008

Investment Committee Meeting begins at **9:00 A.M.**

Board Meeting begins at **1:00 P.M.**

Oliver Hodge Education Building
Administrative Conference Room
2500 North Lincoln Boulevard, 5th Floor
Administration Conference Room
Oklahoma City, Oklahoma

BOARD OF TRUSTEES, TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

BY: _____
Chairman, Cathy Conway

ATTEST:

BY: _____
Dick Neptune, Secretary

Certified correct minutes, subject to approval of the Board of Trustees of the Teachers' Retirement System of Oklahoma, will be available at its next regularly scheduled meeting on July 23, 2008.

BY: _____
Karen A. Yost, Assistant to the Executive Secretary and the Board of Trustees