

MINUTES
SEVEN HUNDRED AND SIXTY-FIRST MEETING
BOARD OF TRUSTEES
TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

JANUARY 26, 2005

The regularly scheduled meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma was called to order by Tommy G. Fulton, Chairman, at 12:09 P.M., Wednesday, January 26, 2005, 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 at 8:30 a.m., Tuesday, January 25, 2005, in accordance with 25 O.S. 2001 Section 311(9).

TRUSTEES PRESENT:

| | |
|---------------------------------------|-----------------|
| Tommy G. Fulton, <i>Chairman</i> | Dick Neptune* |
| Matti Palluconi, <i>Vice-Chairman</i> | Dale E. Nye* |
| Denise Rhodes, <i>Secretary</i> | Susan L. Raasch |
| Kenneth Anderson | Galeard Roper |
| Cathy A. Conway | James E. Smith |
| Sandy Garrett* | |

TRUSTEES NOT PRESENT:

Scott Meacham

TRS STAFF PRESENT:

Tommy C. Beavers, *Executive Secretary*
Bill Puckett, *Chief Investment Officer*
Adam Attaoui, *Information Security Administrator*
Kim Bold, *Director, Human Resources*
Gerda Elpedes, *Accountant II*
Jennelle Enevoldsen, *Director, Internal Auditing Department*
Joe Ezzell, *Secretary-Treasurer*
Kara Johnson, *Senior Internal Auditor*
Edward Romero, *Comptroller*
Becky Yearout, *Cash Management Officer*
Karen Yost, *Assistant to Executive Secretary and Board of Trustees*

LEGAL COUNSEL PRESENT:

John M. McCormick, *Asst. Attorney General, Office of the Oklahoma Attorney General*

INVESTMENT CONSULTANT PRESENT:

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

OTHERS PRESENT:

Dwight Bruss, *State Department of Education*
Norman Cooper, *Oklahoma Education Association*
Joyce Drew Parsons, *Oklahoma Retired Educators Association*
Diane L. Thomas, *Staff, House of Representatives*
Small-Cap Managers, *See Page 6 of Minutes*

*Denotes late arrival or early departure.

BOARD POLL FOR QUORUM

Chairman Fulton called for a poll of the Board to determine a quorum being present. Trustees responding were as follows: Kenneth Anderson; Cathy Conway; Galeard Roper; Matti Palluconi; Denise Rhodes; Dick Neptune; James Smith; Susan Raasch; Dale Nye; and Chairman Tommy Fulton.

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
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MINUTES of December 15, 2004, BOARD MEETING APPROVED

The Chairman asked for corrections, additions or a motion to approve the minutes of the December 15, 2004, meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma. A motion was made by Ms. Raasch with a second made by Ms. Rhodes for approval of the minutes. The motion was carried by a unanimous voice vote. Trustees responding were as follows: Mr. Nye; Ms. Raasch; Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Palluconi; Mr. Roper; Ms. Conway; Mr. Anderson; and Chairman Fulton.

TRS INVESTMENT REPORTS AS OF NOVEMBER 30, 2004

The TRS Investment reports are listed as follows:

Portfolio Distribution

The total market value of the portfolio was \$7,476,302,591.76 invested approximately 25% in fixed income, 71% 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 0.19 basis points, the three-month return was 0.50%, and the trailing twelve-month return was 1.44%.

Book Value to Market Value Comparison

This lists 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, Period Ending November 2004

Total recaptured commissions for the month was \$44,636, total commissions paid was \$340,549, with a net cost per share of \$0.031 and year-to-date net cost per share of \$0.032. Fiscal year-to-date, recaptured commissions total \$301,221 on \$2,062,131 in paid commissions.

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

**REPORT FROM THE ONE HUNDRED AND NINETY-SIXTH
INVESTMENT COMMITTEE MEETING**

The Investment Committee meeting convened at 9:08 a.m. Wednesday, January 26, 2005, and adjourned at 11:34 p.m. Committee members present were as follows: Chairman Tommy Fulton; Dale Nye*; Matti Palluconi; Susan Raasch; and James Smith. Other Trustees in attendance were Cathy Conway*; Dick Neptune; and Denise Rhodes. **Denotes late arrival or early departure.*

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PRESENTATION BY gregory.w.group

**Manager Presentations by Brandes Investment Partners and TT International
Market Performance, Asset Allocation Review, December 31 Performance Summary**

Greg Weaver and Doug Anderson of gregory.w.group, investment consultant to the Board, made their monthly report to the Board and a brief summary of the managers that had made presentations to the Investment Committee earlier in the day. Mr. Weaver stated that Brandes' performance, except for two quarters, has been ahead of the market since inception. He said currently, TT International is on "Alert" for performance and organizational issues and their results have been very disappointing, since their inception date.

Mr. Weaver gave the Board a handout covering the Fund's fourth quarter 2004 performance report. This report includes the Fund's ranking versus the allocation index with favorable results relative to the universe of other public entities of comparable size and make-up. Mr. Anderson said that relative to the market, over the last 10 years the Fund has earned 13.83% versus a market return of 12.07%.

Net of Fee and Market Performance Summary

This report indicates performance of the Fund, for periods ending December 31, 2004, 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:

NT S&P500, 9.22% vs. 9.23%; H&W Large-Cap, 12.77% vs. 10.38%; Goldman Sachs, 9.57% vs. 9.17%; AJO Partners, 12.68% vs. 13.66%; Wellington, 11.67% vs. 13.66%; Frontier Capital, 11.12% vs. 13.66%; H&W Mid-Cap, 13.68% vs. 13.66%; SSGA R2000 Growth, 11.89% vs. 14.09%; Shapiro, 13.63% vs. 14.09%; Tocqueville, 8.32% vs. 14.09%; Kopp, 22.42% vs. 14.09%; Capital Guardian, 13.41% vs. 15.36%; Causeway, 15.25% vs. 15.36%; Brandes, 17.31% vs. 15.36%; TT Int'l, 15.27% vs. 15.36%; Hoisington, N/A; Loomis Sayles, 1.53% vs. 0.95%; Lord Abbett, N/A; MacKay Shields, N/A; Neuberger Berman, 0.52% vs. 0.95%; PIMCO, 1.11% vs. 0.95%; Standish Mellon, 0.60% vs. 0.95%; Stephens, N/A; and TRS Cash, 0.50% vs. 0.51%.

Total Fund performance is as follows: Month of DECEMBER 2004, 2.95% vs. 2.90%; last quarter, 9.03% vs. 8.64%; one-year, 13.35% vs. 12.16%; 3-years, 9.47% vs. 6.54%; 5-years, 5.49% vs. 3.51%; and since inception, 10.74% vs. 10.82%. *(Three and Five years are annualized.)*

Letter of Clarification by MacKay Shields

The Chairman stated the letter from MacKay Shields was asking for clarification on their understanding of certain language in the investment manager contract. He said the Investment Committee is recommending acceptance of MacKay Shields understanding, as stated in their letter. The Chairman asked for discussion and there being none, asked for a vote from the Board.

Motion on Clarification by MacKay Shields Carried

The Investment Committee Recommendation carried by a unanimous voice vote. Trustees responding were as follows: Mr. Nye; Ms. Raasch; Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Palluconi; Mr. Roper; Ms. Conway; Mr. Anderson; and Chairman Fulton.

Contract with gregory.w.group

The Chairman stated he had formed a Board committee to take under its consideration the new contract with gregory.w.group. He asked Ms. Palluconi for her committee's report.

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Ms. Palluconi stated the committee members were herself, Mr. Neptune, Jim Smith, Dale Nye and Galeard Roper, with Chairman Fulton sitting in. She said the committee looked at the contract as a whole, with changes made to Section 9, Section 15 and Section 16 and that this committee is recommending approval.

After lengthy discussion, Chairman Fulton informed those present the reason for this action is that Greg Weaver had asked the Board for a change in the way his firm, gregory.w.group (gwg), is compensated. The Chairman asked for a vote from the Board.

Motion to Approve New Contract with gregory.w.group Carried

The recommendation carried by Mr. Anderson; Ms. Conway; Mr. Roper; Ms. Palluconi; Ms. Rhodes; Mr. Neptune; Mr. Smith; Ms. Raasch; Mr. Nye; and Chairman Fulton responding yes.

TT International Issues

Chairman Fulton stated the Investment Committee is recommending termination of TT International as an investment manager for the Teachers' Retirement System. After discussion between the Board and it's investment consultant, the Chairman asked for a poll of the Board.

Investment Committee Recommendation Carried

The Investment Committee recommendation to terminate TT International carried, by Mr. Anderson; Ms. Conway; Mr. Roper; Ms. Palluconi; Ms. Rhodes; Mr. Neptune; Mr. Smith; Mr. Nye; and Chairman Fulton responding yes and Ms. Raasch responding no.

International Equity RFP

Mr. Weaver said gregory.w.group informed the Investment Committee he and Mr. Anderson could bring an RFP for International Equity to the Board at the February meeting, determine at that time exactly where the cash will be placed upon liquidation of TT International's portfolio, and to decide whether or not a transition manager will be necessary to implement this movement of funds.

After further discussion, the Chairman stated Board action is needed to issue an international RFP; to possibly hire a transition or temporary manager; determine the deployment of certain assets; determine an amount of funds to be available to a new manager; and to give Mr. Puckett appropriate authority to implement the Board's intent.

Motion Carried

A motion was made by Ms. Rhodes with a second made by Raasch to approve the issuance of an international equity RFP. The motion carried by Mr. Nye; Ms. Raasch; Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Palluconi; Mr. Roper; Ms. Conway; Mr. Anderson; and Chairman Fulton responding yes.

**PRESENTATION BY DIRECTOR OF INTERNAL AUDITING DEPARTMENT
Summary of Prior Findings as of December 31, 2004**

The Chairman stated the Audit Committee was unable to meet this morning and Jennelle Enevoldsen, Director of Internal Auditing, has suggested her report be moved to a later date, therefore this item will be moved to the February Board meeting.

Mr. Beavers was asked to make his Report of Routine Items and the Executive Secretary Report.

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

Mr. Beavers made his report to the Board and stated he would be glad to answer any questions.

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

The Chairman asked for a motion from the Board. A motion was made by Ms. Rhodes with a second made by Ms. Raasch. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Anderson; Ms. Conway; Mr. Roper; Ms. Palluconi; Ms. Rhodes; Mr. Neptune; Mr. Smith; Ms. Raasch; Mr. Nye; and Chairman Fulton. 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 \$533,214.67 and may include payments for: Board expenses, TRS staff travel, communications, contingency, maintenance, insurance, rent, etc.; investment expenditures, Social Security, and retirement payments.

Claims

Claims submitted for approval totaled \$17,564.68.

Recommendations for Retirement

There were 197 regular and sixteen (16) disability member applications recommended for approval. (Disabled members being recommended by the TRS Medical Board for TRS Disability Retirement.)

Disability Retirement Re-Evaluated

There were two (2) disability applicant accounts re-evaluated and recommended for continuation of TRS disability retirement benefits.

Disability Retirement as Provided by Social Security

There were nine (9) disability applicants granted disability retirement by TRS due to approval for disability retirement through and by the Social Security Administration, as provided by 70 O.S. § 17-105.

Retirement Payroll Termination Report

Monthly benefits were terminated for 80 members due to death.

New Members

There were 534 new member applications in December, and may be reviewed in the Executive Secretary's office.

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Employees' Salaries

This report indicates employee's salaries and their positions within the Retirement System. Employee salaries totaled \$164,138.06. (Can include longevity and supplemental payroll.)

Financial Statements

The financial statements are for the period ending December 31, 2004.

Summary of Investment Activity

This report indicates Short-Term and Long-Term investments at market value on a full accrual basis, as of December 31, 2004. Complete documentation of all sales, purchases, redemptions and income received by TRS is on file in the Investment Division and will be furnished upon request.

A break was taken from 1:02 to 1:11.

**PREPARATION FOR SMALL-CAP MANAGER INTERVIEWS
Smith Group Asset Management; Wentworth, Hauser and Violich;
and Neuberger and Berman**

Chairman Fulton asked Greg Weaver for his comments prior to the commencement of the interviews.

Mr. Weaver said due to a deeper look into the firms to be interviewed, it was determined that only three firms would be brought for interview, Smith Group Asset Management, Wentworth, Hauser and Violich, and Neuberger and Berman. Mr. Weaver referred the Board to section 5 in their binders which contains a review of these managers. In listening to the presentations made today, the Board should keep in mind how the new manager will fit in with the current small-cap allocation and investment style of the Fund.

Chairman Fulton informed the Board and each manager, in turn, that each firm will be given thirty minutes to make their presentation, with an additional fifteen minutes for questions from the Board and response from each individual firm and then a 2 minute summary from each manager. The Chairman stated Ms. Palluconi would be the official timekeeper and that a five minute break would be taken between interviews.

Presenting for Smith Asset Management Group were Stephen S. Smith, John D. Brim and Sara E. Eichholz, for Wentworth, Hauser and Violich were George B. Springman and Jeffrey K. Romrell, and for Neuberger Berman were Michael Fasciano, Martin McKerrow and Enrique J.M. Lopez-Balboa, II.

After completion of the interview process and lengthy discussion by the Board, investment consultant and staff, Chairman Fulton asked for a motion from the Board.

Motion to hire Smith Asset Management Group Carried

A motion was made by Ms. Raasch with a second made by Ms. Garrett to hire Smith Asset Management Group as the newest Small-Cap Equity manager. The motion carried by Mr. Nye; Ms. Raasch; Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Palluconi; Mr. Roper; Ms. Conway; Mr. Anderson; Ms. Garrett; and Chairman Fulton responding yes. (*Ms. Garrett arrived shortly after the first presentation began.*)

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A break was taken from 3:55 to 4:05
(Ms. Garrett and Mr. Nye left during break)

The Chairman stated that Mr. Beavers had informed him of a deadline in sending the notice of rule making intent to the Secretary of State's office. He said due to this deadline, he was going to vary the agenda and the Board would now consider action on Item 8 of the agenda.

**NOTICE OF RULE MAKING INTENT
715:1-1-15 as Amended and 715:10-17-14 - New**

Mr. Beavers stated the Board's action today is to only approve the Retirement System's "Intent" for rule making. He said what this will do is issue notice that the System is going to either amend a rule or add a new rule to the Rules and Laws of the Retirement System. Mr. Beavers stated action by the Board today would be on only the rule making intent.

Motion to Approve Notice of Rule Making Intent Carried

A motion was made by Mr. Roper with a second made by Mr. Neptune to approve the rule making intent. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Anderson; Ms. Conway; Mr. Roper; Ms. Palluconi; Ms. Rhodes; Mr. Neptune; Mr. Smith; Ms. Raasch; and Chairman Fulton.

Proposed Permanent Rules

Mr. Beavers reminded the Board that by their action at the December 2004 Board meeting, authority was given to initiate the rule making process for the rules as listed on pages 8-1 through 8-18, stating that most are due to changes in statutes and to bring the Retirement System's rules and laws into alignment. He said the Board could take action on these rules today or have the Board's Rules Committee take them under advisement.

Chairman Fulton stated the Rules Committee made up of Susan Raasch, Denise Rhodes and he, as Chair, would look at the rules and bring back a recommendation to the full Board at the February meeting.

Motion to Refer to Rules Committee Carried

A motion was made by Ms. Raasch with a second made by Mr. Rhodes. The motion carried by a unanimous voice vote. Trustees responding were as follows: Ms. Raasch; Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Palluconi; Mr. Roper; Ms. Conway; Mr. Anderson; and Chairman Fulton.

LEGISLATIVE GOALS AND RECOMMENDATIONS

Mr. Beavers referred the Board to section 6 in their binder, stating the Board had approved these same Goals and Recommendations in 2004. He said page 6-1 is an updated version of the goals and recommendations.

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Mr. Roper informed the Board that he had served on the Task Force for the Study of Public Retirement Systems' Benefit Design and Equity, that it has had its last meeting and has issued a final report. He stated this report shines a light on the vast differences in funding and benefits for all of the different state retirement programs and he would like the Board to have copies.

Mr. Beavers stated as soon as a copy of the Task Force report was made available, he would see that the Board received copies.

Motion to Adopt the Goals and Recommendations

A motion was made by Ms. Rhodes with second made by Mr. Neptune to approve. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Anderson; Ms. Conway; Mr. Roper; Ms. Palluconi; Ms. Rhodes; Mr. Neptune; Mr. Smith; Ms. Raasch; and Chairman Fulton.

PROPOSED LEGISLATION

Mr. Beavers referred the Board to section 7 and gave the Board a brief rundown on the bills that have been introduced so far this Legislative session. *(Mr. Neptune left the meeting for the day.)*

**DISCONTINUATION OF MEMBERSHIP IN THE
COUNCIL OF INSTITUTIONAL INVESTORS**

Mr. Beavers reminded the Board that the System joined the Council of Institutional Investors last year, and that dues this year would be \$8,300. He stated he had seen minimal benefit from this membership and is recommending the Board discontinue membership in this organization.

Ms. Raasch expressed her disappointment and suggested the Board explore other avenues. She said she had discussed this with Greg Weaver and had asked him for his firm's help.

Motion to Discontinue Membership Carried

The Chairman asked for a motion from the Board. A motion was made by Ms. Raasch with a second made by Ms. Rhodes to discontinue membership. The motion carried by a unanimous voice vote. Trustees responding were as follows: Ms. Raasch; Mr. Smith; Ms. Rhodes; Ms. Palluconi; Mr. Roper; Ms. Conway; Mr. Anderson; and Chairman Fulton.

**REPORT OF LEGAL COUNSEL
Litigation and Administrative Matters
Attorney General Opinion**

Mr. McCormick informed the Board there were no changes in litigation or administrative matters.

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

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

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NEW BUSINESS

The Chairman asked if there was any new business.

TRS STAFF AUTHORITY FOR RFP

Ms. Rhodes stated, on the advice of counsel, I would like to make a motion to amend the previously made motion concerning the transfer of funds to Smith Group, i.e., to give Bill Puckett authority to determine the best way for the transfer of funds to Smith Group.

Motion Carried to Authorize Staff

A motion was made by Ms. Rhodes with a second made by Ms. Conway. The motion carried by Ms. Raasch; Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Palluconi; Mr. Roper; Ms. Conway; Mr. Anderson; and Chairman Fulton responding yes.

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ADJOURNMENT

Chairman Fulton declared the meeting adjourned at 4:43 P.M. Trustees present at adjournment were as follows: Mr. Anderson; Ms. Conway; Mr. Roper; Ms. Palluconi; Ms. Rhodes; Mr. Smith; Ms. Raasch; and Chairman Fulton.

(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 - February 23, 2005

Investment Committee Meeting at **10:00 A.M.**
Board Meeting begins at **1:30 P.M.**

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

BOARD OF TRUSTEES, TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

BY: _____
Tommy G. Fulton, Chairman

ATTEST:

BY: _____
Denise Rhodes, Secretary

Certified correct minutes, subject to approval of the Board of Trustees of the Teachers' Retirement System of Oklahoma, will be available at it's next scheduled meeting on February 23, 2005.

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