

**MINUTES**  
**SEVEN HUNDRED AND SEVENTY-THIRD MEETING**  
**BOARD OF TRUSTEES**  
**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA**

**JANUARY 25, 2006**

The regularly scheduled meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma was called to order by Matti Palluconi, Chairman, at 1:47 P.M., Wednesday, January 25, 2006, in the Administrative Conference Room of the Teachers' Retirement System, 5<sup>th</sup> Floor, Oliver Hodge Building, 2500 North Lincoln Boulevard, Oklahoma City, Oklahoma. The agenda/meeting notice was posted at 9:20 a.m., Tuesday, January 24, 2006, in accordance with 25 O.S. 2001 Section 311(9).

**TRUSTEES PRESENT:**

Matti Palluconi, <i>Chairman</i>	John Kirkpatrick
Cathy Conway, <i>Vice-Chairman</i>	Dick Neptune
Denise Rhodes, <i>Secretary</i>	Galeard Roper
Sherrie Barnes	Michael Simpson
Bruce DeMuth	James Smith

**TRUSTEES NOT PRESENT:**

Sandy Garrett  
Claudia San Pedro  
Vacant Position

**TRS STAFF PRESENT:**

Tommy C. Beavers, *Executive Secretary*  
Sue Callahan, *Assistant Executive Secretary*  
Bill Puckett, *Chief Investment Officer*  
Kim Bold, *Director, Human Resources*  
Jennelle Enevoldsen, *Director, Internal Auditing*  
Edward Romero, *Comptroller*  
Adam Attaoui, *Security Officer*  
Kara Johnson, *Senior Internal Auditor*  
Stefan Von Dolle n, *TRS Audit Department*  
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, *gregory.w.group*

**OTHERS PRESENT:**

Larry Asberry, Jr., *Office of State Finance*  
Charles Barnes, *Sand Springs Public Schools*  
Norman Cooper, *Oklahoma Educators Association*  
Tommy Fulton, *Retired Member*  
Randy McLerran, *State Department of Education*  
Amber Theinert, *CNN/LIN*

**BOARD POLL FOR QUORUM**

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

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING  
JANUARY 25, 2006**

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**MINUTES of DECEMBER 14, 2005, BOARD MEETING APPROVED**

The Chairman asked for corrections, additions or a motion to approve the minutes of the December 14, 2005, meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma. A motion was made by Ms. Rhodes with a second made by Ms. Conway for approval of the minutes. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. DeMuth; Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. Simpson; and Chairman Palluconi.

**REPORT FROM THE TWO HUNDRED AND EIGHTH  
INVESTMENT COMMITTEE MEETING**

The Investment Committee meeting convened at 10:00 a.m. Wednesday, January 25, 2006, and adjourned at 1:38 p.m. Committee members present were as follows: Chairman Matti Palluconi; Cathy Conway; Dick Neptune; and James Smith. Other trustees present were Michael Simpson, Sherrie Barnes, and Denise Rhodes.

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

**PRESENTATION BY gregory.w.group  
Manager Review, Market Performance, Asset Allocation Review,  
December 31 Performance Summary**

Mr. Weaver reported that Eric Crabtree and Harry Hartford with Causeway Capital Management and Ian Sunder and Patrick Feller with Brandes Investment Partners, had each made a presentation to the Investment Committee meeting earlier in the day. Both managers gave excellent reports, giving great detail on their organization, investment processes, disciplines and their investment strategies.

Greg Weaver and Doug Anderson of gregory.w.group, investment consultant to the Board, gave the Board a brief synopsis of their monthly report, given in-depth to the Investment Committee earlier in the morning. Mr. Weaver reported that as of close of business on January 24, 2006, the fund had a value of \$8.135 billion.

**Net of Fee and Market Performance Summary**

This report indicates performance of the Fund, for periods ending December 31, 2005, 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, 2.10% vs. 2.09%; H&W Large-Cap, 0.95% vs. 1.27%; Goldman Sachs, 3.37% vs. 2.98%; AJO, 1.59% vs. 2.35%; Wellington, 3.71% vs. 2.35%; Frontier, 4.43% vs. 2.35%; H&W Mid-Cap, 1.98% vs. 2.35%; Shapiro, -1.31% vs. 1.13%; Tocqueville, -1.28% vs. 1.13%; Smith Capital, 0.89% vs. 1.13%; Capital Guardian, 7.45% vs. 4.12%; Causeway, 3.03% vs. 4.12%; Brandes, 3.79% vs. 4.12%; Thornburg, N/A vs. 4.12%; Hoisington, 1.64% vs. 0.59%; Loomis Sayles, 0.56% vs. 0.59%; Lord, Abbett, 0.65% vs. 0.59%; MacKay Shields, 0.52% vs. 0.59%; Neuberger Berman, 0.43% vs. 0.59%; PIMCO, 0.52% vs. 0.59%; Standish Mellon, 0.65% vs. 0.59%; Stephens, 0.37% vs. 0.59%, and OTRS Cash, 1.04% vs. 0.98%.

Total Fund performance is as follows: Month of DECEMBER 2005, 1.31% vs. 1.14%; last quarter, 1.97% vs. 2.10%; 1-year, 7.08% vs. 6.92%; 3-years, 16.01% vs. 14.62%; 5-years, 6.52% vs. 5.89%; and since inception, 10.46% vs. 10.98%. (Returns over one year are annualized.)

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING  
JANUARY 25, 2006**

---

**Manager Status Summary**

This report gives the status of each investment manager, i.e. In Compliance, on Alert, and on Notice, which could be caused by performance or organizational issues. Of 22 managers, four are "On Alert" and two are "On Notice".

The Chairman stated that Neuberger Berman is currently placed on "Notice", which was due to Neuberger's merger with Lehman Brothers. The Investment Committee is recommending that Neuberger Berman be removed from on "Notice", but due to performance issues, should be placed on "Alert" status.

**Investment Committee Recommendation  
Place Neuberger Berman on "Alert"**

After discussion, the Chairman asked for a poll of the Board. The Investment Committee Recommendation was approved by Mr. Simpson; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; Mr. DeMuth; and Chairman Palluconi responding yes.

The Chairman asked Mr. Puckett for his reports.

**TRS INVESTMENT REPORTS AS OF DECEMBER 31, 2005**

Mr. Puckett gave the Board a brief report and stated he would be glad to answer any questions the Board might have. The TRS Investment reports are listed as follows:

**Portfolio Distribution**

The total market value of the portfolio was \$7,910,306,697.03 invested approximately 27% 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 0.38 basis points, the three-month return was 1.04%, and the trailing twelve-month return was 3.35%.

**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 2005**

Total recaptured commissions for the month was \$55,720, total commissions paid was \$386,980, with a net cost per share of \$0.029 and year-to-date net cost per share of \$0.033. Fiscal year-to-date, recaptured commissions total \$264,447 on \$2,036,925 in paid commissions.

**Schedule of Cost and Savings on Transitions - December 2005**

Mr. Puckett stated this report covers the transition that was used to fund Thornburg and to raise cash to pay benefits. The transition went very well operationally. The total cost was a little less than 22 basis points and saved around 39 basis points.

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING  
JANUARY 25, 2006**

---

**Renew Manager Contract with Shapiro Capital Management**

Chairman Palluconi stated the recommendation from the Investment Committee is to renew the manager contract with Shapiro. She said this is the exact same contract as was renewed last year.

**Investment Committee Recommendation  
Approve Shapiro Investments Manager Contract**

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

**Renewal of gregory.w.group Consultant Contract**

The Chairman referred the Board to section 2 in their binders, pages 2-22 through 2-27, renewal of the contract for gregory.w.group and a letter stating that Mr. Weaver and/or Mr. Anderson would attend each of the Retirement System's meetings. The Chairman stated the Investment Committee's recommendation is to approve the renewal of gregory.w.group's contract.

**Investment Committee Recommendation Approved  
Approve gregory.w.group Consultant Contract**

The Chairman asked for a poll of the Board. The Investment Committee Recommendation was approved by Mr. Simpson; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; Mr. DeMuth; and Chairman Palluconi responding yes.

**Request for Policy Change by Capital Guardian**

The Chairman stated this request is for an exception to the investment guidelines. She asked gregory.w.group for their comments.

Doug Anderson stated that gregory.w.group recommended approval to the Investment Committee of Capital Guardian's request for exception, for the countries of Japan and the United Kingdom. He said currently the guidelines limit investments in these areas to 30% and Capital Guardian is requesting the Board allow them to invest up to 40%. Mr. Anderson stated if this exception is approved, the increase from 30% to 40% exposure would only constitute 3.2% of the Fund's entire portfolio.

**Investment Committee Recommendation to Allow Exception Request Approved**

The Chairman stated the Investment Committee is recommending approval of the exception request by Capital Guardian. The Chairman asked for a poll of the Board. The Investment Committee Recommendation was approved by Mr. DeMuth; Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. Simpson; and Chairman Palluconi responding yes.

Chairman Palluconi asked Greg Weaver for his comments concerning MacKay Shields.

**Change in MacKay Shields LLC Personnel**

Mr. Weaver referred to page 2-29, a letter from MacKay Shields informing the Board of changes in their portfolio personnel. He stated with the new portfolio team at MacKay Shields, that MacKay Shields should be placed on "Alert".

The Chairman stated the Investment Committee is recommending MacKay Shields LLC be placed

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING  
JANUARY 25, 2006**

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on "Alert" due to the personnel changes and asked for a poll of the Board.

**Investment Committee Recommendation Carried  
Place MacKay Shields LLC on "Alert"**

The Investment Committee Recommendation carried by Mr. Simpson; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; Mr. DeMuth; and Chairman Palluconi responding yes.

**g.w.g Report on Large-Cap Growth Finalists**

Greg Weaver and Doug Anderson gave the Board a report on the response to the RFP for Large-Cap Growth. They pointed out that in all, 57 firms responded to the RFP and gregory.w.group has narrowed the field to six firms, recommending the Board select four firms to interview next month. Mr. Weaver suggest that the Board hire at least two firms for this portfolio. The two firms hired should complement the current Goldman Sachs large-cap growth portfolio. The two firms hired will be funded by removing \$300 million from the Goldman Sachs portfolio and giving each new firm, \$150 million.

After considerable discussion, the Chairman asked the Board for a motion.

**Motion to Interview Four Firms Carried**

A motion was made by Mr. Smith with a second being made by Dr. Kirkpatrick to interview four firms for the Large-Cap Growth Portfolio, with the following firms to be invited to make presentations to the Board in February: Sawgrass Asset Management, LLC, Neuberger Berman, Chase Investment Counsel, and Aletheia Research and Management, Inc. The motion carried by Mr. DeMuth; Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. Simpson; and Chairman Palluconi responding yes.

Chairman Palluconi stated with gregory.w.group making their fourth quarter presentation next month and having four interviews to conduct, the Investment Committee meeting will begin at 9:00 a.m. and the Board meeting at 10:00 a.m. The Chairman stated that the Board would interview two of the firms prior to lunch and the remaining two firms after lunch.

The Chairman asked Greg Weaver to comment on the All-Cap Equity RFP.

**RFP for All-Cap Equity Search**

Mr. Weaver stated there have been 45 responses to the All-Cap Equity RFP and that he would have more definitive information for the Board in the very near future.

Chairman Palluconi asked Mr. Beaver s for his reports.

**REPORT OF THE EXECUTIVE SECRETARY  
Report of Routine Items and Executive Secretary Report for December 2005**

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

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

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING  
JANUARY 25, 2006**

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The Chairman asked for a motion from the Board. A motion was made by Dr. Kirkpatrick with a second being made by Ms. Rhodes. The motion carried by a unanimous voice vote. Trustees responding yes are as follows: Mr. DeMuth; Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. Simpson; and Chairman Palluconi. 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 \$727,994.01 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 \$26,246.70.

**Recommendations for Retirement**

There were 189 regular and eleven (11) disability member applications recommended for approval. (Disabled members being recommended by the TRS Medical Board for TRS Disability Retirement.)

**Disability Retirement as Provided by Social Security**

There were three (3) disability applicants granted 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.

**Disability Retirement Re-Evaluated**

There were two (2) disability retirement accounts recommended for continuation of benefits.

**Tax-Sheltered Annuity Hardship Requests**

There were two (2) requests for withdrawal of Tax-Sheltered funds for the month of December 2005.

**Termination of Retirement Benefits**

Monthly benefits were terminated for 85 members due to their deaths.

**New Members**

There were 625 new member applications, and the list of new enrollments may be reviewed in the Executive Secretary's office.

**Employees' Salaries**

This report indicates employee's salaries and their positions within the Retirement System. Employee salaries totaled \$173,007.52. (Can include longevity and supplemental payroll.)

**Financial Statements**

The financial statements are for the period ending December 31, 2005. Mr. Beavers gave the

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING  
JANUARY 25, 2006**

---

Board additional materials and information on funds received by the Retirement System

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

Mr. McCormick stated there have been no changes to the litigation or administration sections of his report. Still have possibility of administrative hearing before the Board within the next few months.

Mr. McCormick spoke to the Board concerning the AOL Time/Warner suit. He stated material was received by the Retirement System on this matter and Mr. Neptune, Chair of the Board's Securities Committee, requested this information be forwarded to Nix Patterson, the Board's securities litigation counsel, for analysis. Mr. McCormick said Nix Patterson had returned a very thorough report and recommended the Board take no action and simply participate as an inactive class member in this suit.

**2006 LEGISLATION**

Mr. Beavers referred the Board to section five in the Board packet and an updated legislation list on the table before them. Mr. Beavers gave a brief summary of those bills that may affect the Retirement System, stating he would be glad to obtain copies of any bill(s) the Board might wish to see.

**NOTICE OF RULE MAKING INTENT**

Denise Rhodes, Chair of the Board's Rules Committee, said the Rules Committee had met earlier this morning and asked Mr. Beavers for an explanation of the rule changes.

Mr. Beavers referred the Board the materials before the Board that are to replace the pages currently in section 6 of the Board binder. Mr. Beavers stated the first two pages in this section give required information that must be published in the Oklahoma Register when the Retirement System, or any state agency, is in the process of changing, modifying, or adding new rules. The notification informs interested parties how they can make written comments or attend a public hearing, conducted by staff, on rule changes before they are promulgated.

Mr. Beavers said pages 6-3 and 6-4 concern rule 715:10-1-7, which pertains to TRS membership when working in or having been elected or appointed, to a local, state or national education association. This rule is an emergency rule that the Board promulgated this last July and must be promulgated as a permanent rule. Mr. Beavers stated page 6-5 concerns rule 715:10-3-4, combining fractional years of service, and page 6-6 is rule 715:10-9-7, about beneficiary designation following a divorce.

Mr. Beavers gave the Board a brief synopsis of each rule and what effect they would have on the Retirement System and its membership.

**Rules Committee Recommendation Approved**

Ms. Rhodes stated the Rules Committee is recommending adoption of these rules. The Rules Committee recommendation was approved by Mr. Simpson; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; Mr. DeMuth and Chairman Palluconi responding yes.

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

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING  
JANUARY 25, 2006**

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There was no further discussion on this issue.

**NEW BUSINESS**

The Chairman asked if there was any new business to discuss.

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING  
JANUARY 25, 2006**

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**ADJOURNMENT**

The Chairman asked for a motion to adjourn, with a motion made by Mr. Roper and a second made by Ms. Rhodes, and declared the meeting adjourned at 3:08 p.m. Trustees present at adjournment were as follows: Ms. Barnes; Ms. Conway; Mr. DeMuth; Dr. Kirkpatrick; Mr. Neptune; Ms. Rhodes; Mr. Roper; Mr. Simpson; Mr. Smith; and Chairman Palluconi.

*(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 22, 2006**

Investment Committee Meeting at **9:00 A.M.**  
Board Meeting begins at **10:00 A.M.**

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

**BOARD OF TRUSTEES, TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA**

**BY:** \_\_\_\_\_  
**Chairman, Matti Palluconi**

**ATTEST:**

**BY:** \_\_\_\_\_  
**Secretary, Denise Rhodes**

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 22, 2006.

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

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA  
BOARD OF TRUSTEES RESCHEDULED MONTHLY MEETING**