

**MINUTES**  
**SEVEN HUNDRED AND EIGHTY-FIFTH MEETING**  
**BOARD OF TRUSTEES**  
**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA**

**JANUARY 24, 2007**

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 1:45 P.M., Wednesday, January 24, 2007, 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 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>	Betty Minton
Dick Neptune, <i>Secretary</i>	Galeard Roper
Sherrie Barnes	Michael Simpson
Bruce DeMuth	James Smith

**TRUSTEES NOT PRESENT:**

Richard Gorman  
Sandy Garrett, *State Superintendent of Public Instruction*  
Tony Hutchison, *Interim Director, Office of State Finance*

**TRS STAFF PRESENT:**

Tommy C. Beavers, *Executive Secretary*  
Bill Puckett, *Chief Investment Officer*  
Kim Bold, *Human Resources Director*  
Kara Johnson, *Internal Auditor*  
Adam Attaoui, *Security*  
Edward Romero, *Comptroller*  
Karen Yost, *Assistant to Executive Secretary and Board of Trustees*

**INVESTMENT CONSULTANT PRESENT:**

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

**OTHERS PRESENT:**

Charles Barnes, *Sand Springs Public Schools*  
Dwight Bruss, *State Department of Education*  
Norman Cooper, *Oklahoma Educators' Association*  
Tommy Fulton, *Retired Member*

\*Indicates late arrival or early departure.

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

**AMENDED MINUTES of DECEMBER 20, 2006, BOARD MEETING APPROVED**

The Chairman asked for corrections, additions or a motion to approve the minutes of the December 20, 2006, meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma. The minutes were amended to note a change to the Internal Audit report concerning audit(s) performed.

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A motion was made by Mr. DeMuth with a second made by Dr. Kirkpatrick for approval of the minutes, as amended. The motion carried by a unanimous voice vote. Trustees responding were as follows: Ms. Minton; Mr. Simpson; Mr. Smith; Mr. Neptune; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Palluconi.

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

The Investment Committee meeting convened at 10:01 a.m. Wednesday, January 24, 2007, and adjourned at 1:40 p.m. Committee members present were as follows: Chairman Matti Palluconi; Ms. Conway; James Smith and Mr. Neptune. Other trustees present were Mr. Simpson\*; Ms. Barnes\*; Dr. Kirkpatrick; Mr. Roper\*; and Ms. Minton.

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

**PRESENTATION BY gregory.w.group  
Market Performance, Manager Review, Asset Allocation Review,  
December 31<sup>st</sup> Performance Summary and Manager Status**

Greg Weaver and Doug Anderson of gregory.w.group, investment consultant to the Board, gave the Board a brief overview of their monthly report, given in-depth to the Investment Committee earlier in the day.

Tom Pernice, David Pearl and Philip Clark with EPOCH Investment, and Chris Crawshaw and Eric Miller with Advisory Research were present and each manager gave the Board an in-depth report.

Mr. Weaver stated both managers firms are all-cap managers, each funded with \$250 million. He said both firms have experienced very good results with EPOCH up about 7% and Advisory Research up about 10% since inception, October 1, 2006.

**Net of Fee and Market Performance Summary**

This report indicates performance of the Fund, for periods ending December 31, 2006, 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, 8.23% vs. 8.00%; Goldman Sachs, 6.12% vs. 5.93%; Aletheia, 5.78% vs. 5.93%; Chase, 1.88% vs. 5.93%; Sawgrass, 3.21% vs. 5.93%; Advisory, 9.76% vs. 7.12%; EPOCH, 6.94% vs. 7.12%; AJO Partners, 7.18% vs. 7.67%; Wellington, 8.23% vs. 7.67%; Frontier, 5.77% vs. 7.67%; H&W Mid-Cap, 7.81% vs. 7.67%; Shapiro, 7.13% vs. 8.90% Tocqueville, 11.07% vs. 8.90%; Smith, 4.48% vs. 8.90%; Capital Guardian, 8.67% vs. 10.40%; Causeway Capital, 9.57% vs. 10.40%; Brandes, 10.18% vs. 10.40%; Thornburg 10.62% vs. 10.40%; Hoisington, 0.16% vs. 1.24%; Loomis Sayles, 2.78% vs. 1.24%; Lord Abbett, 1.26% vs. 1.24%; MacKay Shields, 1.66% vs. 1.24%; PIMCO, 1.11% vs. 1.24%; Standish Mellon, 1.23% vs. 1.24%; Stephens, 0.87% vs. 1.24%; and OTRS Cash, 1.35% vs. 1.26%.

Total Fund performance is as follows: Month of December 2006, 0.82% vs. 0.01%; last quarter, 5.98% vs. 5.21%; 1-year, 13.45% vs. 13.34%; 3-years, 11.24% vs. 10.77%; 5-years, 9.75% vs. 9.31%; and since inception, 10.64% vs. 10.95%. (Returns over one year are annualized.)

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**Market Environment Overview**

gregory.w.group made a presentation to the Investment Committee on the market's behavior as of December 31, 2006. This report is to give the Board a better understanding of the Fund's returns, where they come from, including index and sector performance.

**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 24 managers, five are on "Alert" and one is on "Notice". Mr. Weaver stated there are concerns about Smith Group and they will appear at the February meeting to address those concerns.

**Private Equity Search Review**

This matter will be discussed in more detail at the February meeting.

The Chairman asked Mr. Puckett for his reports.

**TRS INVESTMENT REPORTS**

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 \$8,928,517,958.63 invested approximately 30% in fixed income, 69% 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 0.46 basis points, the three-month return was 1.35%, and the trailing twelve-month return was 5.17%.

**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 2006**

Total recaptured commissions for the month was \$37,233, total commissions paid was \$395,560, with a net cost per share of \$0.028 and year-to-date net cost per share of \$0.027. Fiscal year-to-date, recaptured commissions total \$230,267 on \$2,261,711 in paid commissions.

**Fiscal Year Comparison of Securities Lending**

Mr. Puckett stated 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 last year's and this year's earnings on securities lent and the lendable balance, including the market value and gross returns.

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

Chairman Palluconi stated this is to renew the contract with gregory.w.group with the Teachers' Retirement System for an additional year, with the appropriate fee schedule change as noted in the contract, effective February 1, 2007, and asked for a motion from the Board. Mr. Beavers said he is recommending renewal of this contract.

**Motion to Renew gregory.w.group Contract Carried**

A motion was made by Mr. Roper with a second being made by Mr. Simpson for renewal. The motion carried by Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Neptune; Mr. Smith; Mr. Simpson; Ms. Minton; and Chairman Palluconi responding yes.

**Brandes Security**

Mr. Beavers referred the Board to the e-mail received from Brandes concerning this matter. Brandes is holding a security in Venezuela and the president of Venezuela may nationalize one of the companies we own through Brandes. Brandes is notifying the Board of this possibility and will continue to monitor the situation to determine whether or not this security should be sold.

**Motion Carried**

After considerable discussion, a motion was made by Mr. Simpson with a second being made by Ms. Conway to give authority to Tommy Beavers, Bill Puckett, and the TRS consultant, g.w.g., to make the decision whether or not to liquidate the Brandes holdings in Venezuela. The motion carried by Ms. Minton; Mr. Simpson; Mr. Smith; Mr. Neptune; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Palluconi responding yes.

**Conversion to J.P. Morgan for Custodial and Securities Lending Services**

Mr. Puckett referred the Board to the materials before them and gave the Board a brief up-date.

The Chairman asked that Mr. Puckett bring back his report to the Board at the February meeting, allowing ample time for the trustees to review all the materials concerning the conversion.

Chairman Palluconi asked Mr. Beavers for his reports.

**REPORT OF THE EXECUTIVE SECRETARY**

**Report of Routine Items and Executive Secretary Report for December 2006**

Mr. Beavers referred the Board to Section Three in their binders and gave them a brief report, stating he would be glad to answer any questions.

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

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

**Monthly Expenditures**

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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 \$3,144,498.05 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 \$8,381.47.

**Recommendations for Retirement**

There were ten (10) disability and 195 regular contracts filed for retirement.

**Disability Retirement as 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.

**Tax-Sheltered Hardship Requests**

There was one (1) hardship request made by a member.

**Out-of-State Travel**

A request was made by the Comptroller, Edward Romero, to attend the Governmental Finance Officers Association conference.

**Termination of Retirement Benefits**

Monthly benefits were terminated for 90 members due to their deaths, and 2 who returned to teaching.

**New Members**

There were 419 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 \$189,857.72. (Can include longevity and supplemental payroll.)

**Financial Statements**

These reports cover the month of December 2006.

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

Mr. Kinney was not present for the Board meeting and Mr. Beavers stated there was nothing new on the legal report. He said we may have several hearings during the next few months.

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**TRS LEGISLATION**

Mr. Beavers gave the Board an update on legislation being proposed that may affect the Teachers' Retirement System.

**HOST the 2008 SOUTHERN CONFERENCE ON TEACHER RETIREMENT (SCTR)**

Mr. Beavers asked for Board approval to host the 2008 Southern Conference on Teacher Retirement. Mr. Beavers stated the Southern Conference is composed of 17 southern states and the Retirement System has participated in this organization for over 60 years. He reported that Teachers' Retirement hosted the conference in 1994 with about 275 persons attending from across the country.

Mr. Beavers said there is no cost to the Retirement System other than his and staff, time and effort. The financing is provided by organizations willing to sponsor an event or speaker. The meeting would be set for late April or early May for three or four days. After discussion, the Chairman asked for a motion from the Board.

**Motion to Approve SCTR Carried**

A motion was made by Mr. DeMuth with a second by Mr. Neptune to approve the Teachers' Retirement System hosting the 2008 Southern Conference on Teacher Retirement. The motion carried by Ms. Minton; Mr. Simpson; Mr. Smith; Mr. Neptune; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Palluconi 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 to be brought before the Board, and there was none.

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**ADJOURNMENT**

There being no further business before the Board, Chairman Palluconi declared the meeting adjourned at 2:45p.m. Trustees present at adjournment were as follows: Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Neptune; Mr. Smith; Mr. Simpson; Ms. Minton; 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 28, 2007**

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

Board Meeting begins at **12:30 P.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:** \_\_\_\_\_  
**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 it's next regularly scheduled meeting on February 28, 2007.

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