

MINUTES
SEVEN HUNDRED AND NINETY-SEVENTH MEETING
BOARD OF TRUSTEES
TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA
JANUARY 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 1:00 P.M., Wednesday, January 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*
Sherrie Barnes

Bruce DeMuth
Richard Gorman
Darryl Hatcher

John Kirkpatrick
Matti Palluconi
Michael Simpson

TRUSTEES NOT PRESENT:

Dick Neptune, *Secretary*
Galeard Roper
Sandy Garrett
Tony Hutchison

TRS STAFF PRESENT:

Tommy C. Beavers, *Executive Secretary*
Bill Puckett, *Chief Investment Officer*
Kim Bold, *Director of Human Resources*
Joe Ezzell, *Director of Internal Auditing*
Edward Romero, *Comptroller**
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 PRESENT:

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

OTHERS PRESENT:

Dwight Bruss, *State Department of Education*
Tommy Fulton, *Retired Member*

*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; Mr. Smith; Ms. Palluconi; Mr. Simpson; Mr. Gorman; Mr. Hatcher; and Chairman Conway. (*Ms. Barnes returned after the poll.*)

MINUTES of DECEMBER 19, 2007, BOARD MEETING APPROVED

The Chairman asked for corrections, additions or a motion to approve the minutes of the December 19, 2007, meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma. A motion was made by Mr. Simpson with a second made by Dr. Kirkpatrick for approval of the minutes as

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

presented. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Hatcher; Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Smith; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Conway.

REPORT FROM THE TWO HUNDRED AND THIRTIETH INVESTMENT COMMITTEE MEETING

The Investment Committee meeting convened at 9:04 a.m. Wednesday, January 23, 2008, and adjourned at 12:26 p.m. Committee members present were as follows: Chairman Cathy Conway; members, Matti Palluconi; Michael Simpson; and James Smith. Other trustees present were Ms. Barnes*; Mr. Gorman*; Dr. Kirkpatrick*; and Darryl Hatcher*.

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

PRESENTATION BY gregory.w.group Market Performance, Manager Review, Asset Allocation Review, December 31st 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 Dennis Byrne and David Shell with Goldman Sachs, and George Davis and Stan Majcher with Hotchkis & Wiley's Large-Cap and Mid-Cap portfolios, were present at the Investment Committee meeting. Both firms have very long relationships with the Retirement System. Each firm gave the Investment Committee informative and detailed presentations. Mr. Weaver stated that the Hotchkis & Wiley Mid-Cap Value portfolio would be on February's agenda for review.

Net of Fee and Market Performance Summary

This report indicates performance of the Fund, for periods ending December 31, 2007, 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, -8.44% vs. -5.80%; Goldman, -1.67% vs. -0.77%; Aletheia, -0.22% vs. -0.77%; Chase, 2.47% vs. -0.77%; Sawgrass, -0.98% vs. -0.77%; Advisory Research, -5.93% vs. -3.34%; EPOCH, -0.64% vs. -3.34%; AJO, -3.67% vs. -3.55%; Wellington, -4.69% vs. -3.55%; Frontier, 0.63% vs. -3.55%; H&W Mid-Cap, -9.72% vs. -3.55%; Shapiro, -9.47% vs. -4.58%; Tocqueville, -9.32% vs. -4.58%; Smith, -7.53% vs. -4.58%; Capital Guardian, -0.08% vs. -1.71%; Causeway, -0.97% vs. -1.71%; Brandes, -0.90% vs. -1.71%; Thornburg, 0.49% vs. -1.71%; Hoisington, 6.49% vs. 3.00%; Loomis, 2.71% vs. 3.00%; Lord Abbett, 2.43% vs. 3.00%; MacKay Shields, 2.59% vs. 3.00%; PIMCO, 3.22% vs. 3.00%; Standish, 2.96% vs. 3.00%; Stephens, 3.91% vs. 3.00%; and OTRS Cash, 1.36% vs. 1.05%.

Total Fund performance is as follows: Month of December 2007, -0.45% vs. -0.54%; last quarter, -1.61% vs. -1.30%; 1-year, 6.49% vs. 6.44%; 3-years, 8.97% vs. 9.14%; 5-years, 13.54% vs. 12.86%; and since inception, 10.40% vs. 10.89%. (Returns over one year are annualized.)

Manager Status Summary

This report gives the status of each investment manager, i.e. in "Compliance", on "Alert", and on "Notice", which may be caused by performance or organizational issues. There are six managers on "Alert", one manager on "Notice", with all other managers in "Compliance". The Chairman said a possible item for the next agenda will be to remove MacKay Shields from on "Alert" status.

Chairman Conway asked Mr. Puckett for his reports.

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

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 \$9,498,943,820.60 invested approximately 30% in fixed income, 68% 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 0.42%, the three-month return was 1.36%, and the trailing twelve-month return was 5.52%.

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

Mr. Puckett referred the Board to a replacement page for the Commissions Recaptured page in the binder. For the month of November, this report shows commissions paid of \$731,153, recaptured commissions totaled \$70,473 with a net per share of \$0.028, and for the Fiscal Year, commissions paid of \$2,808,256, recaptured of \$378,056, with a net per share of \$0.026.

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

**Update on Transition of Assets from
Hotchkis & Wiley to Chase, Aletheia and Sawgrass**

Mr. Puckett referred to page 2-27 in the binder and made his report to the Board. Stating the actual cost was \$511,070 in commissions and the Fund was able to save around \$498,000 for this transaction.

The Chairman asked Mr. Kinney to report on the next item on the Agenda.

Possible Agreement for Portfolio Monitoring Services

Mr. Kinney stated the law firm of Bemen, DeValerio, Pease, Tabacco, Burt & Pucillo (Berman DeValerio) has proposed a portfolio monitoring service for the Retirement System. This service would provide an on-line site that would allow tracking those securities fraud cases that have been settled in court with the possibility of filing a claim on that settlement and receive the System's shareholder portion. He said there is no fee for this service, but from time-to-time, Berman DeValerio may ask the Retirement System to file for lead plaintiff status in case(s) they would want to represent the Retirement System's interest. In doing so, the fee would be on a contingency basis. Mr. Kinney said this firm has been approved by the Attorney General and that he and staff are recommending the Board approve using Berman DeValerio's monitoring service, allowing the Executive Secretary to sign such agreements as may be necessary to implement this service.

Investment Committee Recommendation Approved

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

The Investment Committee Recommendation was approved by a unanimous voice vote. Trustees responding were: Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Smith; Ms. Palluconi; Mr. Simpson; Mr. Gorman; Mr. Hatcher; and Chairman Conway responding yes.

**INTERNAL AUDITOR'S REPORT
SUMMARY OF PRIOR FINDINGS and AUDIT PLAN - FY2008 and BEYOND**

Joe Ezzell, Director of Internal Auditing, stated his primary objective is to strengthen the internal controls and secondly, promote operational efficiency of the Retirement System. Mr. Ezzell gave the Board a report on the findings of previous internal audits. Mr. Ezzell stated the Audit Plan is developed in accordance with the "International Standards for the Professional Practice of Internal Auditing", issued by the Institute of Internal Auditors. He gave the Board a brief report on the Audit Plan for FY2008 and Beyond, and said he would be glad to answer any questions the Board might have.

After discussion, the Chairman called for a motion from the Board to accept and approve the audit report and audit plan.

Internal Auditor's Report Approved

A motion was made by Mr. DeMuth with a second being made by Dr. Kirkpatrick for approval. The motion carried by Mr. Hatcher; Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Smith; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman ~~Palluconi~~ Conway responding yes.

The Chairman asked Mr. Beavers for his reports.

**REPORT OF THE EXECUTIVE SECRETARY
Report of Routine Items and Executive Secretary Report for November 2007**

Mr. Beavers referred the Board to section 3 in their binders and made his 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. DeMuth with a second by Dr. Kirkpatrick. The motion carried by a unanimous voice vote. Trustees responding were: Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Smith; Ms. Palluconi; Mr. Simpson; Mr. Gorman; Mr. Hatcher; 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 \$1,526,614.39 and may include payments for: Board expenses, TRS staff travel, communications, contingency, maintenance, insurance, rent, etc.; investment expenditures, Social Security, and retirement payments. *Amended Page*

Claims

Claims submitted for approval totaled \$11,379.75

Recommendations for Retirement

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

There were nine (9) disability and 209 regular contracts filed for retirement.

Tax-Sheltered Annuity Hardship Requests

There was one request for the month of December 2007.

Termination of Retirement Benefits

Monthly benefits were terminated for 85 members due to their deaths, two (2) who returned to teaching.

New Members

There were 370 new member applications. 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 \$192,037.75. (Can include longevity and supplemental payroll.)

Financial Statements

These reports cover the month of December 2007.

Personnel Changes

Edward Romero has been promoted from the position of Comptroller to Secretary Treasurer of the Retirement System.

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

Mr. Kinney gave the Board an update on current and future legal issues facing the Retirement System. Mr. Kinney said he would be glad to answer any questions the Board might have.

PROMULGATION OF PERMANENT RULES

Mr. Beavers referred the Board to section 6 in their binders and gave the Board a brief overview of the rule changes listed. He said some of the rules are emergency rules previously approved by the Board and must now be promulgated as permanent, which is one of the requirements of rulemaking statutes. Mr. Beavers stated these rule changes have been made due to statute changes and from staff recommendations.

Mr. Beavers stated he had met with the Board's Rules Committee last week to go over the rule changes. Mr. Beavers reported that the Rules Committee is recommending Promulgation of the rules, as presented in their binder.

Promulgation of Rules Approved

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

Chairman Conway stated Greg and Doug have stayed to continue their training session with the Board after the meeting.

A break was taken from 2:18 through 2:24.

Chairman Conway stated Mr. Beavers wanted to say something to the Board before continuing with

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

the next item.

Mr. Beavers made his official statement that he intends to retire at the end of December 2008. He said he wanted to thank the Board and those that came before, and staff, Mr. Beavers said he has enjoyed every minute of working for the Teachers' Retirement System of Oklahoma.

A round of applause was given to Mr. Beavers as a tribute to his tireless devotion and service to the Teachers' Retirement System of Oklahoma.

EXECUTIVE SECRETARY SEARCH AND REPLACE PLAN

The Chairman stated the Board's Personnel Committee has been working on a Search and Replace Plan and asked Ms. Palluconi for her comments.

Ms. Palluconi said to begin the process, Mr. Smith had contacted another retirement system, asking them for a copy of their search plan to replace their director. She stated this has been adapted to meet the Retirement System's specific requirements for replacing the Executive Secretary. You will note this is a "Draft" plan and there are still a few places that need minor changes.

After further discussion, the Chairman asked for trustees interested in serving on the Search Committee, to see her immediately following the Board meeting.

**Approve the Executive Secretary Search and Replace Plan
as Amended, and made the "Final" Draft Plan**

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

The Chairman asked Mr. Beavers for his update on legislation.

TRS LEGISLATION

Mr. Beavers referred the Board to new legislation on the table before them and reported on bills carried over from the 2007 Legislative Session and current bills being considered by the Legislature.

**SEEK LEAD PLAINTIFF STATUS
AND CHOOSE REPRESENTATION**

David Kinney stated the BLB&G law firm has provided the Retirement System an opportunity to seek lead plaintiff status in the case against MBIA, a guarantor, providing insurance for primarily municipal bond type issues. He said BLB&G has identified a number of securities violations especially with accounting rules, specifically financial Accounting Statements No.133 and No.5 and also statements made in the press by MBIA where they have not fully disclosed their involvement in the executive officer's collateralized mortgage obligation. Mr. Kinney reported that the only portfolio manager currently holding shares is Wellington. He stated the System has an approximately \$7 million loss.

Mr. Kinney said BLB&G has recommended TRS seek lead plaintiff status and it is also his recommendation the Board seek the same in this matter.

Amended Page

Motion Carries to Seek Lead Plaintiff Status

A motion was made by Dr. Kirkpatrick with a second made by Mr. DeMuth for approval. The motion carried by Mr. Hatcher; Mr. Gorman; Mr. Simpson; Ms. Palluconi; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Conway responding yes and Mr. Smith responding no.

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

**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 new business before the Board.

ADJOURNMENT

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

There being no further business before the Board, the Chairman declared the meeting adjourned at 3:02 p.m. Trustees present at adjournment were as follows: Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Smith; Ms. Palluconi; Mr. Simpson; Mr. Gorman; Mr. Hatcher; 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 - February 27, 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 February 27, 2008.

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

Amended Minutes as approved at the February 28, 2008, Board meeting.