

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
FEBRUARY 28, 2007

MINUTES
SEVEN HUNDRED AND EIGHTY-SIXTH MEETING
BOARD OF TRUSTEES
TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA
FEBRUARY 28, 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 12:35 P.M., Wednesday, February 28, 2007, 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:

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
Richard Gorman	

TRUSTEES NOT PRESENT:

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*
Brenda McCormack, *Paradigm Asset Management*
(Investment Committee meeting only)

*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; Mr. Gorman; Ms. Minton; and Chairman Palluconi.

MINUTES of JANUARY 24, 2007, BOARD MEETING APPROVED

The Chairman asked for corrections, additions or a motion to approve the minutes of the January 24, 2007, meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma. A motion was made by Ms. Conway with a second made by Mr. Simpson for approval of the minutes. 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.

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

The Investment Committee meeting convened at 9:01 a.m. Wednesday, February 28, 2007, and adjourned at 11:20 a.m. Committee members present were as follows: Chairman Matti Palluconi; Cathy Conway; James Smith* and Dick Neptune. Other trustees present were Mr. Simpson; Mr. Gorman; Ms. Barnes; Dr. Kirkpatrick*; and Ms. Minton.

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

**PRESENTATION BY gregory.w.group
Market Performance, Manager Review, Asset Allocation Review,
January 31st 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.

Steve Smith, John Brimm and Royce Medlin with Smith Asset Management, were present and gave the Board an in-depth report concerning their investment portfolio. Mr. Weaver stated Smith Asset was hired in the Spring of 2005 and was funded with approximately \$185 million. He said the market value of their portfolio through yesterday, was approximately \$210 million. Mr. Weaver reported that Smith Asset is a small-cap growth portfolio. The Investment Committee had a lengthy discussion with Smith Asset.

Mr. Weaver said g.w.g.'s recommendation is that the Board be patient. He stated Smith Asset's process is consistent with their philosophy, all their fundamentals are in place, and there are no organizational issues. Mr. Weaver said the Board and g.w.g. should continue to watch them closely.

Mr. Weaver placed material before the Board on market performance research. He said this report explains why TRS and other managers underperformed their benchmarks in 2006. This report talks about the breadth of the market, where returns came from, and reasons why many managers did not beat the index for the one, five and ten year periods.

Net of Fee and Market Performance Summary

This report indicates performance of the Fund, for periods ending January 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, 6.66% vs. 5.92%; Goldman Sachs, 4.26% vs. 4.96%; Aletheia, 3.35% vs. 4.96%; Chase, 2.22% vs. 4.96%; Sawgrass, 4.32% vs. 4.96%; Advisory, 7.99% vs. 5.37%; EPOCH, 6.11% vs. 5.37%; AJO Partners, 7.10% vs. 7.09%; Wellington, 5.69% vs. 7.09%; Frontier, 7.59% vs. 7.09%; H&W Mid-Cap, 7.95% vs. 7.09%; Shapiro, 5.50% vs. 4.70%; Tocqueville, 6.21% vs. 4.70%; Smith, 2.75% vs. 4.70%; Capital Guardian, 5.03% vs. 6.98%; Causeway, 7.00% vs. 6.98%; Brandes, 6.41% vs. 6.98%; Thornburg, 6.67% vs. 6.98%; Hoisington, -2.33% vs. 0.53%; Loomis Sayles, 1.91% vs. 0.53%; Lord Abbett, 0.59% vs. 0.53%; MacKay Shields, 0.65% vs. 0.53%; PIMCO, 0.19% vs. 0.53%; Standish Mellon, 0.54% vs. 0.53%; Stephens, 0.10% vs. 0.53%; and OTRS Cash, 1.35% vs. 1.29%.

Total Fund performance is as follows: Month of January 2007, 1.21% vs. 1.21%; last quarter, 4.45% vs. 2.22%; 1-year, 10.94% vs. 9.44%; 3-years, 10.92% vs. 10.13%; 5-years, 10.28% vs. 9.56%; and since inception, 10.69% vs. 10.95%. (Returns over one year are annualized.)

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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".

Place Hotchkis and Wiley on "Alert"

The Chairman stated the Investment Committee had a discussion about Hotchkis and Wiley and has made a recommendation to place Hotchkis and Wiley on "Alert" due to personnel changes within their organization. There was no further discussion, and the Chairman asked the Board for a vote.

Investment Committee Recommendation Carried

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

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 \$9,082,033,969.90 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 0.46 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 DECEMBER 2006

Total recaptured commissions for the month was \$35,300, total commissions paid was \$325,549, with a net cost per share of \$0.027 and year-to-date net cost per share of \$0.028. Fiscal year-to-date, recaptured commissions total \$234,989 on \$2,587,152 in paid commissions.

Commissions Paid Report

This report shows commissions paid for the period October 1, 2006 through December 31, 2006.

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.

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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.

Final Update on Conversion to JP Morgan

The Chairman stated Mr. Puckett discussed this at great length this morning with the Investment Committee, and will have a follow-up report within the next few months. The Chairman reported that ultimately, the transition has gone as well as could be expected, with on-going resolution.

Renewal of Contracts with Capital Guardian and Causeway Capital

Chairman Palluconi stated there are no changes to these contracts and the Investment Committee is recommending renewal. The Chairman asked for discussion, and there being none, asked for a vote from the Board

Motion to Renew Contracts with Capital Guardian and Causeway Capital Carried

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

**gregory.w.group FOURTH QUARTER
EXECUTIVE SUMMARY**

Greg Weaver and Doug Anderson made a very detailed report to the Board, the 2006 Fourth Quarter Executive Summary, concerning the Fund's investment performance for the period ending December 31, 2006. Mr. Weaver stated the real goal of the Fund's investment strategy is, at a minimum, to meet the 8% actuarial assumption. This fourth quarter summary indicates the Fund earned 13.82%, well above the actuarial assumption of 8%; with a total market value of \$8.93 billion, with 50.3% in domestic equity, 20.5% in international equity; 28.7% in fixed income, and 0.5% in cash.

Mr. Weaver stated going forward, g.w.g. will have the Board look at increasing the Fund's exposure to emerging markets, have more European concentration, find better stock pickers, and hire more growth oriented managers. He stated with these areas, the Fund can have more returns without excessive risk.

**Motion Carried to Approve and Adopt
the gregory.w.group 2006 4th Quarter Executive Summary**

A motion was made by Mr. Roper with a second being made by Ms. Conway to accept the report made by gregory.w.group for the 4th quarter of 2006. 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; Mr. Gorman; Ms. Minton; and Chairman Palluconi.

Chairman Palluconi asked Mr. Beavers for his reports.

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

Mr. Beavers referred the Board to Section Four in their binders and made his report, stating he would be glad to answer any questions.

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**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. Simpson with a second being made by Dr. Kirkpatrick. The motion carried by a unanimous voice vote. Trustees responding were: Ms. Minton; Mr. Gorman; Mr. Simpson; Mr. Smith; Mr. Neptune; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; 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 \$280,572.85 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 \$12,467.96.

Recommendations for Retirement

There were three (3) disability and 87 regular contracts filed for retirement.

Disability Retirement as Provided by Social Security

There were three (3) 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.

Disability Retirement Re-Evaluated

There were two (2) disability applicants recommended for continuation of retirement benefits and one (1) that was not recommended for continuation.

Disability Retirement Not Recommended

There was one disability retirement application not recommended for disability retirement.

Tax-Sheltered Hardship Requests

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

Termination of Retirement Benefits

Monthly benefits were terminated for 115 members due to their deaths, and one (1) who cancelled their retirement.

New Members

There were 334 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 \$190,689.27. (Can include longevity and supplemental payroll.)

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Financial Statements

These reports cover the month of January 2007.

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

Mr. Kinney stated there were two minor updates. The Calbert case will have a pre-trial conference in July in District Oklahoma County Court, at which time a trial date may be set, and the Seymour case record has been forwarded to the Oklahoma Supreme Court and Ms. Seymour has until March 13 to file a brief, after which TRS will have 45 days to respond.

TRS LEGISLATION

Mr. Beavers referred the Board to section 6 in their binders and gave the Board an update on legislation being proposed that may affect the Teachers' Retirement System.

PROMULGATION OF PERMANENT RULES

Mr. Beavers stated the Board had promulgated these rules as emergency rules in August, in connection with the passage by the Legislature of the EESIP statute. He said these rules were advertised appropriately in the Oklahoma Register and a public hearing was held on February 15. By the Board's action today, these rules will then be sent to the Legislature for their review and then sent to the Governor for his signature, to become permanent rules.

Motion Carried to Adopt Permanent Rules

A motion was made by Mr. Roper with a second being made by Ms. Conway to adopt as new rules, 715:10-5-4.1 and 715:10-15-7.2; and as amended rules, 715:10-5-32; 715:10-5-35; 715:10-13-3.1. The motion carried by Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Neptune; Mr. Smith; Mr. Simpson; Mr. Gorman; Ms. Minton; and Chairman Palluconi responding yes. (*Ms. Minton left after this vote.*)

**OUT-OF-STATE TRAVEL
SOUTHERN CONFERENCE ON TEACHER RETIREMENT**

Mr. Beavers reported to the Board on the upcoming Southern Conference on Teacher Retirement, to be held in Point Clear, Alabama, April 19 through April 22, 2006, attended by interested trustees and TRS staff. Mr. Beavers pointed out that Teachers' Retirement will be hosting this event in 2008, here in Oklahoma.

Motion to Approve Southern Conference Trip Carried

A motion was made by Mr. Roper with a second being made by Dr. Kirkpatrick to approve travel to the Southern Conference. The motion carried by a unanimous voice vote. Trustees responding were: Mr. Gorman; Mr. Simpson; Mr. Smith; Mr. Neptune; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Palluconi.

**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.

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NEW BUSINESS

The Chairman asked if there was any new business to be brought before the Board.

Mr. Roper reported that the vacant position for Director of the TRS Internal Audit Division has been listed and that progress is being made.

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There being no further business before the Board, Chairman Palluconi declared the meeting adjourned.

ADJOURNMENT

The meeting adjourned at 2:15p.m. Trustees present at adjournment were as follows: Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Neptune; Mr. Smith; Mr. Simpson; Mr. Gorman; 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 - March 28, 2007

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

Board Meeting begins at **1:30 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, 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 March 28, 2007.

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