

MINUTES
SEVEN HUNDRED AND NINETY-EIGHTH MEETING
BOARD OF TRUSTEES
TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA
FEBRUARY 27, 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 1:03 P.M., Wednesday, February 27, 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*
Dick Neptune, *Secretary*

Sherrie Barnes
Bruce DeMuth
Darryl Hatcher

John Kirkpatrick
Matti Palluconi
Michael Simpson

TRUSTEES NOT PRESENT:

Richard Gorman
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:

Larry Asberry, *Office of State Finance*
Dwight Bruss*, *State Department of Education*
Norman Cooper*, *Oklahoma Retired Educators Association*
Tommy Fulton, *Retired Member*
Michael Gallagher, *J.P. Morgan/Chase*
Marcia Mathews, *J.P. Morgan/Chase*
Bryan Smith*, *e Capitol News Service*

*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; Ms. Barnes; Mr. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Hatcher; and Chairman Conway.

MINUTES of JANUARY 23, 2008, BOARD MEETING APPROVED

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
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The Chairman asked for corrections, additions or a motion to approve the minutes of the January 23, 2008, meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma. A motion was made by Mr. DeMuth with a second made by Mr. Smith for approval of the minutes with amendments made to pages 1-4 and 1-6. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Hatcher; Mr. Simpson; Ms. Palluconi; Mr. Smith; Mr. Neptune; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Conway.

**REPORT FROM THE TWO HUNDRED AND THIRTY-FIRST
INVESTMENT COMMITTEE MEETING**

The Investment Committee meeting convened at 9:04 a.m. Wednesday, ~~January 23, 2008~~, February 27, 2008, and adjourned at 12:26 p.m. Committee members present were as follows: Chairman Cathy Conway; members, Matti Palluconi; Michael Simpson; Dick Neptune; and James Smith*. Other trustees present were Ms. Barnes*; and Dr. Kirkpatrick.

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

**PRESENTATION BY gregory.w.group
Market Performance, 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 an overview of their monthly report that was presented, in full, to the Investment Committee earlier in the day.

Net of Fee and Market Performance Summary

This report indicates performance of the Fund, for periods ending January 31, 2008, 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, -8.50% vs. -9.58%; Goldman, -13.69% vs. -11.52%; Aletheia, -10.22% vs. -11.52%; Chase, -9.16% vs. -11.52%; Sawgrass, -11.87% vs. -11.52%; Advisory Research, -11.60% vs. -10.83%; EPOCH, -9.62% vs. -10.83%; AJO, -11.20% vs. -11.26%; Wellington, -14.21% vs. -11.26%; Frontier, -11.98% vs. -11.26%; H&W Mid-Cap, -10.35% vs. -11.26%; Shapiro, -17.23% vs. -13.56%; Tocqueville, -14.26% vs. -13.56%; Smith Cap, -16.39% vs. -13.56%; Capital Guardian, -13.11% vs. -14.16%; Causeway, -11.73% vs. -14.16%; Brandes, -9.00% vs. -14.16%; Thomburg, -14.52% vs. -14.16%; Hoisington, 6.20% vs. 3.80%; Loomis, 3.40% vs. 3.80%; Lord Abbett, 2.71% vs. 3.80%; MacKay Shields, 3.01% vs. 3.80%; PIMCO, 5.12% vs. 3.80%; Standish, 3.90% vs. 3.80%; Stephens, 6.01% vs. 3.80%; and OTRS Cash, 1.28% vs. 1.26%.

Total Fund performance is as follows: Month of January 2008, -4.23% vs. -4.40%; last quarter, -7.38% vs. -7.42%; 1-year, 0.75% vs. 0.54%; 3-years, 7.99% vs. 8.09%; 5-years, 12.93% vs. 12.26%; and since inception, 10.06% vs. 10.52%. *(Returns over one year are annualized.)*

**Manager Status Summary
Possible Action**

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".

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Status of Goldman Sachs

Chairman Conway stated the Investment Committee discussed this matter and is recommending Goldman Sachs be removed from on "Notice" status due to personnel issues and placed on "Alert" status due to performance issues.

Investment Committee Recommendation Approved

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

Status of Hotchkis & Wiley - Large-Cap

The Chairman said the Investment Committee is recommending the Hotchkis & Wiley Large-Cap portfolio be removed from on "Alert" status due to personnel issues and placed on "Alert" status due to performance issues.

Investment Committee Recommendation Approved

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

Status of Hotchkis & Wiley - Mid-Cap

The Chairman said the Investment Committee is recommending the Hotchkis & Wiley Mid-Cap portfolio be taken from on "Alert" status due to personnel issues and placed on "Alert" status due to performance issues.

Investment Committee Recommendation Approved

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

Chairman Conway stated the March agenda will contain an item for consideration, remove Smith Capital from on "Alert" status and place on "Notice" status due to performance issues. Also there will be an item for consideration, to remove MacKay Shields from on "Alert" to "In Compliance" status.

Chairman Conway 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 \$9,143,596,005.81 invested approximately 31% in fixed income, 65% in equities with the balance in accrued income and residual cash positions. It was noted the date for the first column on pages 2-12 through 2-15 should read December 31, 2007, and not December 31, 2008.

Short-Term Investment Account

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The monthly rate of return for Short-Term cash was 0.40%, the three-month return was 1.28%, and the trailing twelve-month return was 5.37%.

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 their binders, page 2-25, and made a brief summary, stating for the month of December, this report shows commissions paid of \$475,474, recaptured commissions totaled \$67,562 with a net per share of \$0.027, and for the Fiscal Year, commissions paid of \$3,281,002, recaptured of \$445,619, with a net per share of \$0.026.

Domestic Equity Commissions Paid

Mr. Puckett stated this report indicates the commissions paid by the Retirement System to its investment managers for the period September 1, 2007 through December 31, 2007.

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.

Re-Allocation of TRS Assets

Chairman Conway stated the Investment Committee had discussed this matter with gregory.w.group during the Committee meeting earlier in the day and determined that no action should be taken at this time.

Renewal of Manager Contracts Capital Guardian and Causeway Capital

The Chairman said the contracts of Capital Guardian and Causeway Capital need to be ratified, through April 1, 2009, with no changes to their contracts and, that the Investment Committee is recommending renewal.

Investment Committee Recommendation Approved

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

The Chairman asked Mr. Puckett to report on the next item.

Exception Request to Investment Guidelines from Shapiro Capital Management

Mr. Puckett stated Shapiro Capital had sent a letter requesting an exception to the Retirement System's Investment Policy. Currently Item III-B of the Investment Policy states "...not to invest more than 5% of the portfolio at cost or 7% at market", Shapiro is asking for this to read, "...not to invest more than the greater of 5% of the portfolio at cost or 7% of the market of any issue". Mr. Puckett stated he is

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recommending this exception be approved.

The Chairman stated this would be unique to Shapiro and not apply to any other of the Fund's managers. She said the Investment Committee is recommending approval and asked for a poll of the Board.

Investment Committee Recommendation Approved

The Investment Committee Recommendation to grant Shapiro's request was approved by Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Hatcher; and Chairman Conway responding yes.

**Report from J.P. Morgan
Progress of Custodial Services**

Mr. Puckett reported that Mark Gallagher and Marcia Mathews with J.P. Morgan were present and gave a report to the Investment Committee. He stated J.P. Morgan is working on the problems TRS is having with J.P. Morgan's data files and they would have the information available in early April and, would make a report to the Board at April's meeting.

**4TH QUARTER EXECUTIVE SUMMARY
gregory.w.group**

Mr. Greg Weaver and Mr. Doug Anderson of gregory.w.group, investment consultant to the Board, gave the Board an in-depth presentation on the 2007 fourth quarter investment performance of the Teachers' Retirement System., period ending December 31, 2007. The 4th Quarter Executive Summary shows the Fund's total market value as of December 31, 2007, was \$9,498,943,821 billion.

They reported the Retirement System had a loss during the final quarter of 2007, stating while domestic and international equity allocations declined, fixed income investments had positive results. The Executive Summary shows the Retirement System exceeded its actuarial assumption of 8% over the trailing three, five and ten year periods, but lagged behind the assumption by 1.16% for the trailing one year period. The Retirement System was invested with 51.6% in domestic equity, 18.1% in international equity, 29.0% in fixed income and approximately 1.3% in cash.

g.w.g. 4th Quarter Executive Summary Approved

Chairman Conway asked for a motion from the Board. A motion was made by Mr. Simpson with a second made by Dr. Kirkpatrick for approval. The motion carried by a unanimous voice vote. Trustees responding were: Mr. Hatcher; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Conway responding yes.

A break was taken from 2:25 p.m. to 2:35 p.m.

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 Chairm an asked for a motion from the Board. A motion was made by Mr. Simpson 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; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Hatcher; and Chairman Conway. 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 \$1,071,536.68 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 \$32,116.41.

Recommendations for Retirement

There were six (6) disability and 73 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 as Re-Evaluated

There was one (1) disability retirement recommended for continuation.

Tax-Sheltered Annuity Hardship Request

There were two (2) requests that were approved for the month of January 2008.

Out-of-State Travel

A request was made by TRS Finance Department staff to attend the Plan Sponsor 403(b) Summit meeting in Florida, April 9th through the 10th.

Termination of Retirement Benefits

Monthly benefits were terminated for 126 members due to their deaths, two (2) who returned to teaching for the month of January.

New Members

There were 404 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 \$193,577.79. (Can include longevity and supplemental payroll.)

Financial Statements

These reports cover the month of January 2008.

Mr. Joe Ezzell, Director of TRS Internal Auditing, introduced Kimber Chessmore to the Board as the new Senior Internal Auditor.

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

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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.

Mr. Kinney also noted that the Supreme Court has denied the most recent petition, filed by Dr. Seymour against the Retirement System.

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

TRS LEGISLATION

Mr. Beavers gave the Board a new list, and gave the Trustees an update on bills in this Legislative Session that are still under consideration by the Legislature that could affect the Teachers' Retirement System.

**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 reported that the Board's Personnel Committee had met yesterday afternoon concerning the Executive Secretary Search and Replace Plan that was approved by the Board at the February meeting. The Chairman stated the new handout before the Board is the final approved Plan resulting from last month's Board meeting.

The Chairman stated the Committee met yesterday to review the job description, the ad, and who would be the direct contact person by the applicants. Kim Bold, Director of TRS Human Resources, was present at the meeting and was a great help to the Committee. The Chairman reminded the Board that the Personnel Committee is made up of six trustees: Dr. Kirkpatrick, Mr. Simpson, Ms. Palluconi, Mr. Neptune, Mr. Smith, and herself.

Chairman Conway stated the complete job description with requirements necessary to make application for the Executive Secretary position will be posted on the TRS website. She said a short ad will be placed in several publications, beginning March 1st, referring those interested in the position to the TRS website for the complete job description. Those interested will be given from March 1 until May 15 to submit their application for this position.

The Chairman stated the applications will be sent to her and she would, in turn, forward them to the contact person, Kim Bold.

Mr. Beavers reminded the Board that Teachers' Retirement is hosting the Southern Conference on Teacher Retirement this year, April 19th through April 23rd, in downtown Oklahoma City at the Skirvin Hotel. He said the attendees will be able to register for the conference on the SCTR website, www.sctr.org and this site also has a link to the hotel for room reservations. This site also gives the agenda/program and activities available to the attendees.

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ADJOURNMENT

There being no further business before the Board, the Chairman declared the meeting adjourned at 3:17 p.m. Trustees present at adjournment were as follows: Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; 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 - March 26, 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 it's next regularly scheduled meeting on March 26, 2008.

BY: _____