

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

MARCH 22, 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 1:50 P.M., Wednesday, March 22, 2006, 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 at 8:30 a.m., Tuesday, March 21, 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>	Betty Minton
Dick Neptune, <i>Secretary</i>	Galeard Roper
Sherrie Bames	Michael Simpson
Bruce DeMuth	James Smith
Richard Gorman	

TRUSTEES NOT PRESENT:

Sandy Garrett
Claudia San Pedro

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*
Kara Johnson, *Senior Internal Auditor*
Edward Romero, *Comptroller*
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 TRS Member*
Charles Hopkins, *Oklahoma Retired Educators Association*
Amber Theinert, *Capitol Network News/LIN*

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

SWEARING IN NEW TRUSTEE
Richard Gorman

Chairman Palluconi stated the Board would like to welcome Richard Gorman as a new member of the TRS Board of Trustees and asked Mr. Gorman to recite the Oath of Office. The Oath reads as follows:

"I do solemnly swear that I will support, obey, and defend the Constitution of the United States and the Constitution of the State of Oklahoma and that I will not, knowingly, receive, directly or indirectly, any money or other valuable thing, for the performance or nonperformance of any act or duty pertaining to my office, other than the compensation allowed by law as a member of the Board of Trustees. I further swear that I will diligently and honestly administer the affairs of the Board of Trustees and that I will not knowingly violate or willingly permit to be violated any of the provisions of law applicable to the Teachers' Retirement System of Oklahoma to the best of my ability."

Mr. Gorman was welcomed to the Board of Trustees by members of the Board, and TRS staff.

REPORT FROM THE TWO HUNDRED AND TENTH
INVESTMENT COMMITTEE MEETING

The Investment Committee meeting convened at 10:00 a.m. Wednesday, March 22, 2006, and adjourned at 1:35 p.m. Committee members present were as follows: Chairman Matti Palluconi; Cathy Conway; Dick Neptune; and James Smith. Other trustees present were Ms. Barnes, Dr. Kirkpatrick*; Ms. Minton; Mr. Roper*; and Mr. Simpson.

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

PRESENTATION BY gregory.w.group
Manager Review, Market Performance, Asset Allocation Review,
February 28 Performance Summary

Mr. Weaver reported that Paula Pretlow and Lionel Sauvage with Capital Guardian, and William Fries and Peter Trevisani with Thornburg Investment Management, and given the Investment Committee thorough presentations earlier in the day. He stated Capital Guardian has \$430 million in assets, and Thornburg has \$165 million in assets with the Fund. Mr. Weaver stated there are no issues with either firm and that each manager had given excellent reports detailing their organizations, investment processes, disciplines and 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.

Net of Fee and Market Performance Summary

This report indicates performance of the Fund, for periods ending February 28, 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:

NT S&P500, 2.98% vs. 2.96%; H&W Large-Cap, 3.54% vs. 5.16%; Goldman Sachs, 3.29% vs. 1.28%; AJO, 5.34% vs. 6.10%; Wellington, 4.79% vs. 6.10%; Frontier, 10.07% vs. 6.10%; H&W Mid-Cap, 6.65% vs. 6.10%; Shapiro, 8.24% vs. 8.17%; Tocqueville, 10.94% vs. 8.17%; Smith Capital, 6.57% vs. 8.17%; Capital Guardian, 10.94% vs. 10.87%; Causeway, 11.30% vs. 10.87%; Brandes, 9.91% vs. 10.87%; Thornburg, N/A; Hoisington, 3.99% vs. 1.29%; Loomis Sayles, 1.73% vs. 1.29%; Lord Abbett, 1.46% vs. 1.29%; MacKay Shields, 1.33% vs. 1.29%; Neuberger

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
MARCH 22, 2006**

Berman, 1.08% vs. 1.29%; PIMCO, 1.52% vs. 1.29%; Standish Mellon, 1.30% vs. 1.29%; Stephens, 0.57% vs. 1.29%; and OTRS Cash, 1.11% vs. 1.07%.

Total Fund performance is as follows: Month of FEBRUARY 2006, 0.30% vs. -0.01%; last quarter, 5.19% vs. 4.74%; 1-year, 11.40% vs. 10.51%; 3-years, 18.73% vs. 17.01%; 5-years, 7.75% vs. 7.17%; and since inception, 10.62% vs. 11.11%. *(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 could be caused by performance or organizational issues. Of 22 managers, six are "On Alert" and one is "On Notice".

Mr. Weaver gave materials to the Board on non-traditional asset classes, hedge funds, real estate, private equity and commodities. Mr. Weaver said gregory.w.group believes it is important to periodically review the Fund's performance expectations and asset classes it invests in. He said return expectations suggest that attaining the Plan's long-term return assumption will be difficult without some level of added value or alpha from the managers or structure of the portfolio. Mr. Weaver said he and Doug would present to the Board, at its April meeting, material concerning these non-traditional investments.

MINUTES of FEBRUARY 22, 2006, BOARD MEETING APPROVED

The Chairman asked for corrections, additions or a motion to approve the minutes of the February 22, 2006, 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. Simpson for approval of the minutes. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Gorman; Ms. Minton; Mr. DeMuth; Mr. Smith; Mr. Neptune; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick Mr. Simpson; and Chairman Palluconi.

The Chairman asked Mr. Puckett for his reports.

TRS INVESTMENT REPORTS AS OF FEBRUARY 28, 2006

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 \$8,241,264,809.58 invested approximately 25% in fixed income, 72% 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 0.36 basis points, the three-month return was 1.11%, and the trailing twelve-month return was 3.70%.

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 JANUARY 2006

Total recaptured commissions for the month was \$75,562, total commissions paid was \$519,628, with a net cost per share of \$0.033 and year-to-date net cost per share of \$0.030. Fiscal year-to-date, recaptured commissions total \$410,882 on \$2,931,262 in paid commissions.

Shapiro Organizational Changes

Chairman Palluconi stated this issue had been discussed thoroughly during the Investment Committee meeting earlier in the day and it was determined that there was no action to take on this matter.

Global Custody and Securities Lending

The Chairman asked Mr. Puckett for his comments on this matter.

Mr. Puckett referred the Board to pages 2-25 and 2-26 in their binders, stating the Investment Committee had requested he research this issue further and then give the Board a final report. This report would cover who would be involved and what their responsibilities would be.

The Chairman stated that Mr. Puckett has also been asked to give the Board written transition procedures that would take place should the Board decide to make a change in custodian. She stated Mr. Puckett's recommendation is to change custodians from Northern Trust to JP Morgan. The Chairman stated a decision will be made at the April Board meeting.

Report on Securities Fraud - BLB&G

Chairman Palluconi stated BLB&G had contacted he and Mr. McCormick concerning the possibility of filing for lead plaintiff in a class action law suit but had since withdrawn that request. Therefore, there is no action necessary on this item.

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

Report on Finalists for ALL-Cap Equity Search

Mr. Weaver said, as previously reported, an All-Cap Equity RFP had been issued and that 46 firms had responded. He stated gregory.w.group had reduced this down to six firms after reviewing each firm's qualitative skills and experience. Mr. Weaver said his firm's recommendation is to choose three firms to interview and of those three, hire two new All-Cap managers.

Chairman Palluconi stated the motion from the Investment Committee is to interview Advisory Research, Inc., Boston Partners Asset Management, L.P., and Epoch Investment Partners, Inc., and from those three, choose two managers to hire.

Investment Committee Recommendation Approved Report on Finalists for ALL-Cap Equity Search

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

The Chairman informed the Board that due to these interviews, the April Investment Committee meeting would begin at 9:00 a.m. and the Board meeting would begin at 12:00 noon. She also stated that two of the investment managers scheduled to make presentations to the Investment Committee would be changed to the August meeting, leaving only one manager making a presentation.

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
MARCH 22, 2006**

The Chairman asked Greg Weaver for his comments concerning the changes at Neuberger Berman.

Report on Neuberger Berman Organizational Changes

Mr. Weaver stated he and Mr. Beavers had been contacted by Neuberger Berman stating that Lehman Brothers has changed Neuberger's fixed income unit's infrastructure. He said the Fund's portfolio manager, Ted Giuliano, would no longer be in that position. Mr. Weaver stated these are significant changes and gregory.w.group is recommending that Neuberger Berman be placed on "Notice", and conduct further review.

**Investment Committee Recommendation Approved
Place Neuberger Berman on "Notice"**

A motion was made by Ms. Conway and a second by Dr. Kirkpatrick, to approve the Investment Committee recommendation. The Investment Committee recommendation was approved by Ms. Minton; Mr. Gorman; Mr. DeMuth; Mr. Smith; Mr. Neptune; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. Simpson; and Chairman Palluconi responding yes.

Chairman Palluconi asked Ms. Enevoldsen for her report.

**INTERNAL AUDITOR'S REPORT
Monitoring Money Managers and External Auditor**

Ms. Enevoldsen, TRS Director of Internal Auditing, referred the Board to section 3 in their binders. She stated this audit found that the money managers are monitored by the Fund's investment consultant, Mr. Puckett and his investment staff, and the Fund's custodian. She gave the Board a detailed accounting of the findings and recommendations from this audit and said she would answer any questions the Board might have.

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

Motion to Accept Internal Auditor's Report Carried

A motion was made by Mr. DeMuth with a second being made by Dr. Kirkpatrick to accept the Internal Audit Report. The motion carried by Mr. Simpson; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Neptune; Mr. Smith; Mr. DeMuth; Mr. Gorman; Ms. Minton; and Chairman Palluconi responding yes.

The Chairman asked Ms. Enevoldsen to comment on the external auditor matter.

EXTERNAL AUDITOR

Ms. Enevoldsen stated it is time for the Retirement System to extend the contract of the System's external auditor, Cole & Reed, for Fiscal Year 2007.

Dr. Kirkpatrick said due to the promptness and completeness of Cole & Reed's last year's audit report, he would recommend the Board renew the contract with Cole & Reed to conduct the audit for FY2007.

Motion Carried to Retain Cole & Reed as External Auditor

A motion was made by Dr. Kirkpatrick with a second being made by Mr. Roper to retain Cole & Reed as the TRS external auditor. The motion carried by Ms. Minton; Mr. Gorman; Mr. DeMuth; Mr.

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
MARCH 22, 2006**

Smith; Mr. Neptune; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. Simpson; and Chairman Palluconi responding yes.

The Chairman asked Mr. Beavers for his reports.

**REPORT OF THE EXECUTIVE SECRETARY
Report of Routine Items and Executive Secretary Report for February 2006**

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**

The Chairman asked for a motion from the Board. A motion was made by Mr. DeMuth with a second being made by Mr. Roper. The motion carried by a unanimous voice vote. Trustees responding are as follows: Mr. Simpson; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Neptune; Mr. Smith; Mr. DeMuth; Mr. Gorman; Ms. Minton; 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 \$3,948,059.80 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 \$13,938.89.

Recommendations for Retirement

There were 67 regular and three (3) 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 two (2) 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.

Out-of-State Travel

A request by the Director of Internal Auditing Department and staff to attend the Quality Assessment of the Audit Activity Seminar in San Francisco, California.

Termination of Retirement Benefits

Monthly benefits were terminated for 134 members due to their death and one (1) who returned to teaching.

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
MARCH 22, 2006**

New Members

There were 330 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 \$171,340.19. (Can include longevity and supplemental payroll.)

Financial Statements

The financial statements are for the period ending February 28, 2006.

Personnel Changes

Teachers' Retirement had one employee retire, one that was promoted and one new employee.

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

Mr. McCormick gave the Board a brief overview of those matters named in the legal report. He stated there have been no changes to the litigation or administration sections of his report but there is still the possibility of an administrative hearing before the Board within the next few months.

2006 LEGISLATION

Mr. Beavers referred the Board to Section 6 in their binders. He gave the Board 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. Mr. Beavers went into more detail with House Bill 2468, providing blended health insurance rates for active and retired members; House Bill 2986, a "Wear-Away" bill; Senate Bill 752 is the Senate version of HB2986; and House Bill 1894, calling for deeper studies of any legislation affecting a state pension plan that would have a fiscal impact on the pension plan.

SET CONTRIBUTION RATE FOR FY2007

Mr. Beavers stated this is a complicated issue but basically, the Board must set the contribution rate local school districts must pay when salaries are being paid by a non-state grant, whether it be federal or private. Mr. Beavers said he is recommending the rate be increased to 7% for FY2007.

The Chairman asked for a motion from the Board.

Motion to Change Contribution Rate Carried

A motion was made by Mr. Roper with a second being made by Mr. DeMuth to change the contribution rate to 7%. The motion carried by Ms. Minton; Mr. Gorman; Mr. DeMuth; Mr. Smith; Mr. Neptune; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. Simpson; and Chairman Palluconi responding yes.

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
MARCH 22, 2006**

**ADOPTION OF PERMANENT RULES
715: 10-1-7; 715:10-9-7; and 715:10-3-4**

Mr. Beavers referred the Board to Section 8 in their binders stating this is the final step in promulgating new or revised permanent rules. He said a public hearing was held on March 20th and no one appeared nor had anyone made written comments on the rule changes.

After promulgation, the Governor must still sign off approving them, and the Legislature may rescind any rule within 30 legislative days, before the rules become effective. The rule on page 1 is changing the amount of credit a member in an education association can obtain when not employed by a main-line public school. This change is necessary because of a statute rule change in 2004, with the requirement the statute would not go into effect until TRS received a private letter ruling from Internal Revenue authorizing this.

Mr. Beavers said rule 715:10-3-4 was requested by TRS staff and has to do with combining a partial year of service with 90 days or more of unused sick leave; and rule 715:10-9-7 was also requested by TRS staff to clarify how a member's beneficiary might be affected after a divorce.

Mr. Beavers stated he is asking the Board to adopt these rules as permanent.

The Chairman asked for a motion from the Board.

Motion to Adopt Permanent Rules Carried

A motion was made by Dr. Kirkpatrick with a second being made by Mr. Simpson to adopt. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Simpson; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Neptune; Mr. Smith; Mr. DeMuth; Mr. Gorman; Ms. Minton; 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.

Mr. Norman Cooper with the Oklahoma Retired Educators Association asked if there have been any preliminary studies conducted as to what the Retirement System might lose in state revenue should there be a cut in income tax rates.

Mr. Beavers stated he was unaware of any studies being conducted and did not know what the impact would be. He said he tries to impress on the legislative leaders and their staff, the need to be aware of how any change in revenue would affect the System and possibly obtaining funds from some other source.

Mr. Beavers also spoke to the Board about the recent newspaper articles concerning the Retirement System and about the latest report from the Oklahoma State Pension Commission.

NEW BUSINESS

The Chairman asked if there was any new business to discuss and there was none.

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
MARCH 22, 2006

ADJOURNMENT

The Chairman asked for a motion to adjourn, with a motion made by Ms. Conway and a second made by Mr. Smith, and declared the meeting adjourned at 3:35 p.m. Trustees present at adjournment were as follows: Mr. Simpson; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Neptune; Mr. Smith; Mr. DeMuth; Mr. Gorman; 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 - April 19, 2006

Investment Committee Meeting at 9:00 A.M.
Board Meeting begins at 12:00 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, Matti Palluconi

ATTEST:

BY: _____
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 scheduled meeting on April 19, 2006.

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