

**MINUTES**  
**SEVEN HUNDRED AND NINETY-NINTH MEETING**  
**BOARD OF TRUSTEES**  
**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA**  
**MARCH 26, 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, March 26, 2008, 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:**

Cathy Conway, *Chairman*  
James Smith, *Vice-Chairman*  
Dick Neptune, *Secretary*

Sherrie Barnes  
Bruce DeMuth  
Richard Gorman  
Darryl Hatcher

John Kirkpatrick  
Matti Palluconi  
Galeard Roper  
Michael Simpson

**TRUSTEES NOT PRESENT:**

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*  
Kimber Chessmore, *Senior Internal Auditor*  
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*  
Norman Cooper\*, *Oklahoma Retired Educators Association*  
Tommy Fulton, *Retired Member*  
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. Roper; Mr. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Gorman; Mr. Hatcher; and Chairman Conway.

**MINUTES of FEBRUARY 27, 2008, BOARD MEETING APPROVED, AS AMENDED**

The Chairman asked for corrections, additions or a motion to approve the minutes of the February 27, 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. Neptune for approval of the minutes with an

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amendment made to section 1, page 1-2. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Hatcher; Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Conway.

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

The Investment Committee meeting convened at 9:02 a.m. Wednesday, March 26, 2008, and adjourned at 11:59 a.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\*; Mr. Gorman\*; Dr. Kirkpatrick\*; and Mr. Hatcher\*.

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

**PRESENTATION BY gregory.w.group  
Market Performance, Asset Allocation Review,  
February 29<sup>th</sup> 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 Tom Pernice, David Pearl and Ronan Burke with EPOCH, and Chris Crawshaw, Eric Miller and Bruce Zessar with Advisory Research, both hired in September 2006, made presentations to the Investment Committee earlier in the day. He said each manager is operating within the Retirement System's policies and guidelines.

**Net of Fee and Market Performance Summary**

This report indicates performance of the Fund, for periods ending February 29, 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, -11.19% vs. -8.92%; Goldman, -10.27% vs. -9.96%; Aletheia, -3.02% vs. -9.96%; Chase, -7.62% vs. -9.96%; Sawgrass, -10.10% vs. -9.96%; Advisory Research, -8.16% vs. -9.53%; EPOCH, -6.74% vs. -9.53%; AJO, -8.63% vs. -8.94%; Wellington, -9.48% vs. -8.94%; Frontier, -9.09% vs. -8.94%; H&W Mid-Cap, -11.84% vs. -8.94%; Shapiro, -13.53% vs. -10.33%; Tocqueville, -10.67% vs. -10.33%; Smith, -11.61% vs. -10.33%; Capital Guardian, -8.57% vs. -9.97%; Causeway, -7.59% vs. -9.97%; Brandes, -10.91% vs. -9.97%; Thornburg, -9.25% vs. -9.97%; Hoisington, 0.23% vs. 2.11%; Loomis, 1.07% vs. 2.11%; Lord Abbett, 0.57% vs. 2.11%; MacKay Shields, 1.93% vs. 2.11%; PIMCO, 2.45% vs. 2.11%; Standish, 2.28% vs. 2.11%; Stephens, 3.98% vs. 2.11%; and OTRS Cash, 1.11% vs. 0.94%.

Total Fund performance is as follows: Month of February 2008, -1.50% vs. -1.33%; last quarter, -6.09% vs. -6.19%; 1-year, -1.19% vs. -0.80%; 3-years, 6.94% vs. 6.96%; 5-years, 12.95% vs. 12.15%; and since inception, 9.90% vs. 10.37%. (Returns over one year are annualized)

**Manager Status Summary and  
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 seven (7) managers on "Alert", with all other managers in "Compliance".

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Mr. Weaver said the Investment Committee has several recommendations for changes to the Manager Status Summary report related to performance and organizational issues. He also reported the Investment Committee had discussed Smith Capital's performance and will be on the April agenda for further consideration by the Board.

Chairman Conway stated the Investment Committee has the following recommendation as it relates to managers' status: To Place Goldman Sachs on "Alert" due to personnel and performance issues; place Smith Capital on "Notice" for performance issues; remove MacKay Shields from on "Alert" and change to in "Compliance"; and leave Causeway on "Alert" for performance issues but remove them from on "Alert" status for organizational issues. The Chairman stated there would be no change in status for Hotchkis and Wiley's Mid- and Large-Cap portfolios or for Standish Mellon, and, the remainder of managers continuing in "Compliance". She asked if there were any questions or further discussion, and there being none, asked for a poll of the Board.

### **Investment Committee Recommendation Approved**

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

The Chairman asked Greg Weaver and Doug Anderson for their private equity presentation.

### **Private Equity/Asset Class Presentation by gregory.w.group**

Mr. Weaver stated gregory.w.group (g.w.g.) believes the Teacher' Retirement System should be investing in private equity and to do so as quickly and prudently as possible. He stated it is g.w.g's belief that if the Retirement System had already been in private equity, during the current market environment, the Fund's returns would have been better than they are today. Private equity can give a fund a return in down markets. Mr. Weaver stated that g.w.g has spent more time studying this asset class in the last three years than anything else looked at in two decades, in terms of best understanding how this asset class works and when it doesn't. He said Teachers' Retirement is one of the few public pension funds in America, with several billion dollars in assets, that does not invest in the private equity arena.

Mr. Weaver reminded the Board this process was begun in October 2006 with the issuance of a Request for Proposal (RFP) to find a manager or managers for investing in private equity. He said there were 27 responses to the RFP and from that group, the field was narrowed to five. Mr. Weaver stated g.w.g. is recommending the Board interview three of the five remaining managers, Aldus Equity Partners, Grove Street Advisors, LLC, and Partners Group, ultimately hiring one manager for this new portfolio. Once a manager has been selected, amend the Investment Guidelines permitting the Retirement System to invest in private equities, and to invest 5% of the Fund's portfolio in the private equity arena.

Mr. Weaver and Mr. Anderson gave the Board an informative presentation on private equity investing, reiterating g.w.g's recommendation that the Teachers' Retirement System begin investing in private equity arena.

Mr. Anderson said private equity is simply a pool of capital formed to finance and/or acquire businesses, investing at times in bonds; convertibles; etc. He stated the Private Equity presentation shows the fundamental differences as to how this portfolio would work versus all the Fund's other portfolios, how fees would be paid, funds drawn for investing, when returns would be received, how it is accounted for, and other issues relating to private equity.

After considerable discussion, Chairman Conway asked if there was a motion from the Board.

### **Recommendation to Invest in Private Equity Carried**

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A motion was made by Mr. DeMuth with a second made by Dr. Kirkpatrick that the Board follow the advice of its consultant, g.w.g., interview Aldus, Grove Street and Partners Group, invest 5% of the Fund's portfolio in private equity, amend the investment guidelines, and take whatever steps necessary to implement a private equity portfolio. The motion carried by Mr. Hatcher; Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Conway responding yes.

David Kinney, legal counsel to the Board, stated the Retirement System will consider permanent rule changes later today to cover this type of investing that will then be sent to the Legislature and Governor for their consideration. Once approved, the rule change will become permanent July 15, 2008. Mr. Kinney said the Board might consider waiting until after that date before funding the private equity portfolio and this would also be his recommendation. *(gregory.w.group left after their presentation.)*

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 \$8,962,740,691.13 invested approximately 33% in fixed income, 65% 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 0.29, the three-month return was 1.11%, and the trailing twelve-month return was 5.33%.

### **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 2-29 and made a brief summary, stating for the month of January, this report shows commissions paid of \$811,817, recaptured commissions totaled \$98,730 with a net per share of \$0.028, and for the Fiscal Year, commissions paid of \$4,096,285, recaptured of \$544,348, 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.

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

## **Report from J.P. Morgan**

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**Progress of Custodial Services**

Mr. Puckett reported that Mark Gallagher and Marcia Mathews with J.P. Morgan were present and spoke to the Investment Committee concerning the ongoing work on the data files to be made available to the Retirement System. He again stated J.P. Morgan is confident everything the Retirement System needs will be available by the Board meeting in April, and at that time would make another report to the Board.

The Chairman asked Mr. Beavers for his reports.

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

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

The Chairman asked if there was a motion for approval and adoption from the Board. A motion was made by Mr. Roper with a second made by Mr. DeMuth. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Mr. Smith; Mr. Neptune; 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 \$6,247,846.87 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 \$38,1790.60

**Recommendations for Retirement**

There were fourteen (14) disability and 71 regular contracts filed for retirement.

**Disability Retirement 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.

**Disability Retirement Re-Evaluated**

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

**Termination of Retirement Benefits**

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Monthly benefits were terminated for 106 members due to their deaths, one (1) who cancelled their retirement, and four (4) who returned to teaching.

**New Members**

There were 512 new member applications. The list of new applications may be reviewed in the Executive Secretary's office.

**Employees' Salaries**

This report indicates employee salaries and positions within the Retirement System. Employee salaries totaled \$191,492.50. (Can include longevity and supplemental payroll.)

**Financial Statements**

These reports cover the month of March 2008.

**Personnel Changes**

Kimber Chessmore has been hired for the Retirement System's Senior Internal Auditor position.

*A break was taken from 2:35 p.m. to 2:44 p.m.*

**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. He stated the court has approved Police Pension and Teachers' Retirement as lead plaintiffs in the American Home Mortgage case. Mr. Kinney stated he would be glad to answer any questions the Board may have.

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

**TRS LEGISLATION**

Mr. Beavers gave the Board an update on legislation that could affect the Retirement System. He stated if any Board member wished to see a bill in its entirety, he would be glad to furnish a copy. Mr. Beavers said he would be glad to answer any questions the Board might have.

**SET CONTRIBUTION RATE FOR FISCAL YEAR 2009**

Mr. Beavers stated the Retirement System Board of Trustees is required each year to set the contribution rate school districts pay for their employees being paid by some kind of grant money. Mr. Beavers said he is recommending the contribution rate for FY 2009 be set at 7.5%

**Contribution Rate for FY2009 Approved**

A motion was made by Mr. Roper with a second made by Mr. Simpson to set the contribution rate for FY2009 at 7.5%. The motion carried by Mr. Hatcher; Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Conway responding yes.

**RENEWAL OF CONTRACT FOR EXTERNAL AUDITOR - COLE & REED**

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Mr. Roper, Chairman of the Audit Committee, stated the Audit committee had met earlier in the day with TRS Internal Audit Staff. He stated Joe Ezzell, TRS Director of Internal Auditing, was able to negotiate Cole & Reed's fee to a final cost of \$41,800. Mr. Roper informed the Board the Audit Committee and Mr. Ezzell are recommending renewal of the contract with Cole & Reed for another year.

**Renewal of External Auditor Contract Approved**

A motion was made by Mr. Roper with a second made by Mr. DeMuth to renew the contract with Cole & Reed. The motion was approved by Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Mr. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Gorman; Mr. Hatcher; and Chairman Conway responding yes.

**ADOPTION OF PERMANENT RULES**

Mr. Beavers gave the Board a new set of rules material to replace section 8 in their binders. He reported on the proposed rules and stated that a public hearing was held March 17 to allow any written or verbal comments from the public on the proposed rules. Mr. Beavers informed the Board that no one attended the hearing.

Mr. Beavers stated that most of the proposed rule changes are for housekeeping purposes only and that he is recommending the Board adopt these rules as permanent. He said if these rule changes are adopted today, they will be submitted to the Governor and the Legislature for their review and approval.

**Adoption of Permanent Rules Carried**

A motion was made by Mr. Simpson with a second made by Mr. Hatcher to adopt the rules as permanent. The motion carried by Mr. Hatcher; Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Conway 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, and there was none.

The Chairman commented on the fact there had been a very low response to the advertised position for a new Executive Secretary, stating the position may need to be advertised again.

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**ADJOURNMENT**

There being no further business before the Board, the Chairman declared the meeting adjourned at 3:10 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 - April 30, 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, 5<sup>th</sup> 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 April 30, 2008.

**BY:** \_\_\_\_\_