

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

APRIL 19, 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 12:30 P.M., Wednesday, April 19, 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, April 18, 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 Barnes	Michael Simpson
Bruce DeMuth	James Smith
Richard Gorman	

TRUSTEES NOT PRESENT:

Sandy Garrett
Claudia San Pedro

TRS STAFF PRESENT:

Tommy C. Beavers, *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*
Dwight Bruss, *State Department of Education*
Brian Ervin, *G.I.T.*
Tommy Fulton, *Retired TRS Member*

*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.

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

The Chairman asked for corrections, additions or a motion to approve the minutes of the March 22, 2006, meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma. A motion was made by Dr. Kirkpatrick with a second made by Mr. DeMuth for approval of the minutes. The motion carried by a unanimous voice vote. Trustees responding were as follows: Ms. Minton; Mr. Gorman; Mr. Simpson; Mr. Smith; Mr. Neptune; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Palluconi.

**PREPARATION FOR ALL-CAP EQUITY MANAGER INTERVIEWS
Advisory Research Inc., Boston Partners Asset Management, L.P.,
and Epoch Investment Partners, Inc.**

Chairman Palluconi stated Greg Weaver and Doug Anderson of gregory.w.group, (g.w.g.) investment consultant to the Board, will give the Board a brief report on the three managers to be interviewed today.

Mr. Weaver referred the Board to the handout before them, an overview of the three firms giving a summary of their statistics and their investment process which the Board may find helpful. He said these are three distinct firms, and you have presentation books before you from each manager. Mr. Weaver stated g.w.g.'s recommendation is to select two of the three firms interviewed today, and to fund each of the two with \$250 million for the new All-Cap Equity portfolio.

Mr. Weaver stated the purpose today is to replace in the index fund, the passive equity exposure and add sources of return alpha and to continue to improve the returns of the total domestic equity portfolio. The three managers to be seen today

Chairman Palluconi informed the Board and explained to each manager, that each firm will be given thirty minutes to make their presentation, with an additional fifteen minutes for questions from the Board and response from each individual firm followed by a two (2) minute summary from each respective manager. The Chairman stated Ms. Conway would be the official timekeeper and that a five minute break would be taken between interviews.

Presenting today for Advisory Research Inc., Chris Crawshaw, John Gallop and Kip Meyer, for Boston Partners, Paul Heffernan and Duilio Ramallo, and for Epoch Investment, William Priest, David Pearl and Philip Clark.

After completion of the interview process and in-depth discussion by the Board, investment consultant and staff, the Chairman asked for a motion from the Board.

Motion to Hire Advisory Research and Epoch Carried

A motion was made by Mr. Roper with a second being made by Mr. DeMuth to hire Advisory Research, Inc. and Epoch Investment Partners, Inc. as the new All-Cap Equity managers, fund each manager with \$250 million and to allow staff to use the same method of transition as used in the past. 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.

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

The Investment Committee meeting convened at 9:00 a.m. Wednesday, March 22, 2006, and adjourned at 12:10 p.m. Committee members present were as follows: Chairman Matti Palluconi; Cathy Conway; Dick Neptune; and James Smith. Other trustees present were Ms. Barnes, Mr. Gorman; Ms. Minton; and Mr. Simpson.

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

**PRESENTATION BY gregory.w.group
Market Performance, Manager Review, Asset Allocation Review,
March 31 Performance Summary**

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 day.

Mr. Weaver reported that Martha Ortiz and Gina Moore with Aronson + Johnson + Ortiz (AJO), had given the Investment Committee a very thorough presentation earlier that day. Their firm is very solid and their portfolio has approximately \$300 million.

Net of Fee and Market Performance Summary

This report indicates performance of the Fund, for periods ending March 31, 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:

NTS&P500, 4.23% vs. 4.21%; H&W Large-Cap, 4.14% vs. 5.93%; Goldman Sachs, 4.35% vs. 3.09%; AJO, 6.21% vs. 7.61%; Wellington, 9.49% vs. 7.61%; Frontier, 12.35% vs. 7.61%; H&W Mid-Cap, 7.38% vs. 7.61%; Shapiro, 9.58% vs. 13.94%; Tocqueville, 16.50% vs. 13.94%; Smith Capital, 10.83% vs. 13.94%; Capital Guardian, 7.52% vs. 9.47%; Causeway, 8.89% vs. 9.47%; Brandes, 9.90% vs. 9.47%; Thornburg, N/A; Hoisington, -6.28% vs. -0.65%; Loomis Sayles, -0.09% vs. -0.65%; Lord Abbett, -0.38% vs. -0.65%; MacKay Shields, -0.52% vs. -0.65%; Neuberger, -0.28% vs. -0.65%; PIMCO, -0.50% vs. -0.65%; Standish Mellon, -0.65% vs. -0.65%; Stephens, -0.98% vs. -0.65%; and OTRS Cash, 1.13% vs. 1.13%.

Total Fund performance is as follows: Month of MARCH 2006, 1.43% vs. 1.48%; last quarter, 5.31% vs. 5.09%; 1-year, 14.55% vs. 13.89%; 3-years, 19.21% vs. 17.49%; 5-years, 8.91% vs. 8.38%; and since inception, 10.66% vs. 11.16%. *(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, five are "On Alert" and two are "On Notice".

**Investment Committee Recommendation
Increase Fixed Income Portfolio**

The Chairman stated the Investment Committee is recommending \$135 million be taken from the Hotchkis & Wiley Large-Cap portfolio and moved into the Fixed Income portfolio, and take \$265 million be moved from the S&P500 passive index to Fixed Income, allowing Mr. Puckett, TRS staff and consultant to choose the appropriate transition manager.

Investment Committee Recommendation Carried

The recommendation carried by Mr. Gorman; Mr. Simpson; Mr. Smith; Mr. Neptune; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Palluconi responding yes. *(Ms. Minton was out of the room.)*

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**Investment Committee Recommendation
Fund Newest Large-Cap Growth Managers**

The Chairman stated the Investment Committee is recommending \$300 million be taken from the Goldman Sachs portfolio to fund the three newest large-cap growth managers, giving \$100 million to each manager, and allow Mr. Puckett, TRS staff and the consultant to choose the appropriate transition manager.

Investment Committee Recommendation Carried

The recommendation carried by Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Neptune; Mr. Smith; Mr. Simpson; Mr. Gorman; and Chairman Palluconi responding yes. (*Ms. Minton was out of the room.*)

**Investment Committee Recommendation
Funding for the New All-Cap Managers**

Chairman Palluconi stated the Investment Committee is recommending the remaining balance in the S&P500, approximately \$500 million, will be used to fund the two new All-Cap Managers and again, Mr. Puckett, TRS staff and the consultant will select the appropriate transition manager.

Investment Committee Recommendation Carried

The recommendation carried by Mr. Gorman; Mr. Simpson; Mr. Smith; Mr. Neptune; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Palluconi responding yes. (*Ms. Minton was out of the room.*)

The Chairman asked Mr. Puckett for his reports.

TRS INVESTMENT REPORTS AS OF MARCH 31, 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 \$8,305,222,089.23 invested approximately 24% 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 0.40 basis points, the three-month return was 1.13%, and the trailing twelve-month return was 3.88%.

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 FEBRUARY 2006

Total recaptured commissions for the month was \$46,924, total commissions paid was \$459,420, with a net cost per share of \$0.028 and year-to-date net cost per share of \$0.029. Fiscal year-to-date, recaptured commissions total \$457,806 on \$3,390,682 in paid commissions.

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**Renewal of Investment Manager Contracts
Frontier Capital, and Loomis, Sayles and Company**

Chairman Palluconi stated the Investment Committee is recommending renewal and there are no changes to these contracts. Frontier is currently on "Notice" and Loomis Sayles has had recent personnel changes. The recommendation includes a change in status for Frontier, to remove them from on "Notice" and place on "Alert" status, due to improved performance, and to place Loomis Sayles on "Alert" due to their personnel changes.

Investment Committee Recommendation Carried

The recommendation carried by Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Neptune; Mr. Smith; Mr. Simpson; Mr. Gorman; and Chairman Palluconi responding yes. (*Ms. Minton was out of the room.*)

The Chairman stated a report was made by Mr. Beavers and Mr. Puckett during the Investment Committee meeting concerning a meeting with JP Morgan and the materials generated from that meeting is in your binders.

Global Custody and Securities Lending Report

The Chairman stated after considerable discussion, the recommendation from the Investment Committee is to renew the custodial and securities lending contract with the Northern Trust Company for one year. Chairman Palluconi asked if there was any discussion.

After further discussion by the Board on whether to renew the current contract with The Northern Trust Company or to hire JP Morgan as the Fund's new custodian and securities lending provider, the Chairman asked for a vote from the Board on the Investment Committee recommendation to renew the contract with Northern Trust.

**Investment Committee Recommendation to
Renew Northern Trust Contract for Securities Lending and Custodial Services
for One Year Failed**

The Investment Committee recommendation failed by Ms. Minton; Mr. Gorman; Mr. Simpson; Mr. Smith; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth responding no, and Mr. Neptune; Ms. Conway; and Chairman Palluconi responding yes.

**Motion Carried to Hire JP Morgan as New
Custodian and Securities Lending Provider**

A motion was made by Mr. Neptune with a second made by Mr. DeMuth to hire JP Morgan for the Fund's custodial and securities lending services, for one year. 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.

MacKay Shields Personnel Changes

The Chairman stated the Investment Committee had discussed this matter and determined no action was necessary.

Chairman Palluconi asked Ms. Enevoldsen for her report.

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**INTERNAL AUDITOR'S REPORT
Check Writing Procedures**

Ms. Enevoldsen, TRS Director of Internal Auditing, referred the Board to section 4 in their binders, stating this audit was on new procedures for check writing. She gave the Board a detailed report on the findings and recommendations from the audit stating with the implementation of the recommendations, adequate segregation of duties has been achieved. Ms. Enevoldsen stated she would be glad to answer any questions the Board may have.

Motion to Accept Internal Auditor's Report Carried

A motion was made by Ms. Conway with a second being made by Dr. Kirkpatrick to accept the Internal Audit Report. 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 Chairman asked Mr. Beavers for his reports.

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

Mr. Beavers made his report to the Board and stated 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 being made by Mr. Roper. The motion carried by a unanimous voice vote. Trustees responding are 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. 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 \$1,788,578.34 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 \$11,426.41.

Recommendations for Retirement

There were 47 regular and eight (8) 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 four (4) 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.

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Out-of-State Travel

A request by the TRS Systems Administrator has been made to attend the FileNet Regional UserNet Conference in Dallas, Texas, in May.

Tax-Sheltered Annuity Hardship Requests

There was one (1) request for withdrawal of Tax-Sheltered funds.

Termination of Retirement Benefits

Monthly benefits were terminated for 112 members due to their death and three (3) who returned to teaching.

New Members

There were 303 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 \$181,291.15. (Can include longevity and supplemental payroll.)

Financial Statements

The financial statements are for the period ending March 31, 2006.

Personnel Changes

Teachers' Retirement had one employee that was promoted, and the loss of an internal auditor due to the internship program appointment expiring.

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

Mr. McCormick stated there have been no changes to the litigation or administration sections of his report but there is still the possibility of two administrative hearings before the Board during the May meeting.

2006 LEGISLATION

Mr. Beavers referred the Board to Section 7 in their binders and an updated list in the table before the Board. 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 2986 and Senate Bill 752, concerning the proposed "Wear-Away" plan and COLA to retired members.

**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 to discuss and there was none.

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ADJOURNMENT

The Chairman asked for a motion to adjourn, with a motion made by Mr. DeMuth and a second made by Mr. Roper, and declared the meeting adjourned at 4:24 p.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. Goman; 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 - May 24, 2006

Investment Committee Meeting 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: _____
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 scheduled meeting on May 24, 2006.

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