

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

**MAY 25, 2005**

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 12:10 P.M., Wednesday, May 25, 2005, 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 at 8:30 a.m., Tuesday, May 25, 2005, in accordance with 25 O.S. 2001 Section 311(9).

**TRUSTEES PRESENT:**

Matti Palluconi, <i>Chairman</i>	Dick Neptune
Cathy Conway, <i>Vice-Chairman</i>	Susan Raasch*
Denise Rhodes, <i>Secretary</i>	Galeard Roper
Bruce DeMuth*	James Smith
John Kirkpatrick	

**TRUSTEES NOT PRESENT:**

Kenneth Anderson  
Sandy Garrett  
Scott Meacham  
Vacant Trustee Position

**TRS STAFF PRESENT:**

Tommy C. Beavers, *Executive Secretary*  
Bill Puckett, *Chief Investment Officer*  
Sue Callahan, *Assistant Executive Secretary*  
Kim Bold, *Human Resources Director*  
Adam Attaoui, *Information Security Administrator*  
Joe Ezzell, *Secretary-Treasurer*  
Jennelle Enevoldsen, *Director, Internal Auditing Department*  
Edward Romero, *Comptroller*  
Kara Johnson, *Senior Internal Auditor*  
Stephan VonDollan, *Intern, Internal Auditing Department*  
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, *Senior Analyst, gregory.w.group*

**OTHERS PRESENT:**

Dwight Bruss, *State Department of Education*  
Investment Managers, *See Page 2 of Minutes*

\*Denotes late arrival or early departure.

**BOARD POLL FOR QUORUM**

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING  
MAY 25, 2005**

---

Chairman Palluconi called for a poll of the Board to determine a quorum being present. Trustees responding were as follows: Dr. Kirkpatrick; Mr. Roper; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; and Chairman Palluconi.

**MINUTES of APRIL 20, 2005, BOARD MEETING APPROVED**

The Chairman asked for corrections, additions or a motion to approve the minutes of the April 20, 2005, meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma. A motion was made by Mr. Neptune with a second being made by Ms. Rhodes for approval of the minutes. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Conway; Mr. Roper; Dr. Kirkpatrick and Chairman Palluconi.

**REPORT FROM THE TWO HUNDREDTH  
INVESTMENT COMMITTEE MEETING**

The Investment Committee meeting convened at 10:00 a.m. Wednesday, May 25, 2005, and adjourned at 12:00 p.m. Committee members present were as follows: Chairman Matti Palluconi; Cathy Conway; Dick Neptune; Susan Raasch; and James Smith. Other Trustees present were as follows: John Kirkpatrick; Denise Rhodes; and Galeard Roper. Ms. Rhodes and Mr. Roper attended the Board's Audit Committee meeting from 10:25 to 11:50.

**PRESENTATION BY gregory.w.group  
Presentations by Investment Managers: Shapiro Capital Management Company and  
Tocqueville Asset Management Company  
Market Performance, Asset Allocation Review, April 30 Performance Summary**

Greg Weaver and Doug Anderson of gregory.w.group, investment consultant to the Board, made their monthly report to the Board and talked about the performance of the managers that had made presentations to the Investment Committee that morning.

Greg Weaver said presentations were made by Sam Shapiro and Mike McCarthy of Shapiro, and Drew Rankin and Doug Adams of Tocqueville. Mr. Weaver stated that Shapiro has approximately \$270 million and Tocqueville has approximately \$230 million in Fund assets, and that both firms gave excellent reports, giving a better understanding of their portfolio structures and securities owned. Mr. Weaver said that both firms have done a very good job for the Fund since inception, relative to the money given to them and that the Retirement Fund is considered a very large client by both firms.

**Net of Fee and Market Performance Summary**

This report indicates performance of the Fund, for periods ending April 30, 2005, 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:

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING  
MAY 25, 2005**

---

NT S&P500, -1.56% vs. -1.61%; H&W Large-Cap, -0.35% vs. 0.07%; Goldman Sachs, -4.46% vs. -2.67%; AJO; -2.30% vs. -0.98%; Wellington; -3.33% vs. -0.98%; Frontier, -4.85% vs. -0.98%; H&W Mid-Cap, -1.77% vs. -0.98%; Shapiro, -2.43% vs. -6.87%; Tocqueville, -7.88% vs. -6.87%; Smith, N/A; Capital Guardian, -1.52% vs. -0.52%; Causeway, -1.40% vs. -0.52%; Brandes, -2.01% vs. -0.52%; Hoisington, 2.63% vs. 0.24%; Loomis Sayles, -0.51% vs. 0.24%; Lord Abbett, 0.28% vs. 0.24%; MacKay Shields, -0.03% vs. 0.24%; Neuberger Berman, 0.88% vs. 0.24%; PIMCO, 0.75% vs. 0.24%; Standish Mellon, 0.25% vs. 0.24%; Stephens, 0.54% vs. 0.24%; OTRS Cash, 0.65% vs. 0.70%.

Total Fund performance is as follows: Month of APRIL 2005, -1.90% vs. -1.66%; last quarter, -1.86% vs. -1.39%; 1-year, 8.09% vs. 8.04%; 3-years, 8.26% vs. 7.49%; 5-years, 4.67% vs. 3.87%; and since inception, 10.17% vs. 10.75%. (*Three and Five years are annualized.*)

### **TRS INVESTMENT REPORTS AS OF APRIL 30, 2005**

Mr. Puckett gave the Board a brief report. The TRS Investment reports are listed as follows:

#### **Portfolio Distribution**

The total market value of the portfolio was \$7,182,041,446.91 invested approximately 27% in fixed income, 69% 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 0.23% basis points, the three-month return was 0.65%, and the trailing twelve-month return was 1.94%.

#### **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 March 2005**

Total recaptured commissions for the month was \$20,712, total commissions paid was \$359,798, with a net cost per share of \$0.037 and year-to-date net cost per share of \$0.031. Fiscal year-to-date, recaptured commissions total \$571,166 on \$3,650,738 in paid commissions.

#### **Renewal of Manager Contracts AJO, PIMCO and Wellington**

The Chairman stated the Investment Committee is recommending renewal of the manager contracts for AJO Partners, Pacific Investment Management Company (PIMCO) and Wellington Management Company. The Chairman asked for a poll of the Board.

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING  
MAY 25, 2005**

---

**Investment Committee Recommendation to Renew Manager Contracts Carried**

The Investment Committee recommendation to renew contracts for AJO, PIMCO and Wellington carried, by Dr. Kirkpatrick; Mr. Roper; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; Ms. Raasch; and Chairman Palluconi responding yes.

The Chairman asked gregory.w.group (g.w.g.) for their report on the progress of the International Equity RFP.

**Progress Report on International Equity RFP**

Mr. Weaver and Mr. Anderson made a presentation to the Board concerning the international equity search and their recommended short list. They said from the 48 firms that responded to the RFP, g.w.g. has pared the list down to six (6) managers for the Board's consideration.

Mr. Weaver said g.w.g looks for consistency in returns, and a stable organization. He said g.w.g's purpose as advisors to the Board is to assist the Board in making the best decisions possible concerning the Retirement Fund.

After a lengthy presentation and considerable discussion, the Investment Committee recommended that from the list of six managers, that Julius Baer Investment Management, LLC., Neuberger Berman and Thornburg Investment Management, Inc. be interviewed for the international equity manager.

**Motion to Interview Julius Baer, Neuberger Berman and Thornburg Carried**

A motion was made by Dr. Kirkpatrick with a second being made by Mr. Roper. The motion carried by Mr. DeMuth; Ms. Raasch; Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Conway; Mr. Roper; Dr. Kirkpatrick; and Chairman Palluconi responding yes.

Mr. Beavers asked for discussion on how the transition will be accomplished and the distribution of funds to the new manager. After some discussion, it was determined a final answer would be better determined at the time the manager is hired.

**Staff Report on Corporate Governance**

This report shows securities ranked in the bottom quartile in Corporate Governance Quotinet scores as rated by Institutional Shareholder Service. This report covers data for Shapiro Capital Management Company and Tocqueville Asset Management Company.

The Chairman asked Mr. Weaver and Mr. Anderson for their first quarter report.

**gregory.w.group FIRST QUARTER, 2005  
EXECUTIVE SUMMARY**

Greg Weaver and Doug Anderson of gregory.w.group, gave a very in-depth executive summary report on the Fund's investment performance for the period ending March 31, 2005. The report showed the Fund ended the first quarter with a total market value of \$7.375 billion. For the year ended March

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING  
MAY 25, 2005**

---

31, the Fund earned a total return of 7.96%, compared to 7.01% for the benchmark index. Out-performance resulted from the Fund's asset allocation and the domestic and international equity portfolios.

**Motion to Accept gregory.w.group Executive Summary Carried**

A motion was made by Mr. Roper with a second being made by Ms. Rhodes to accept the first quarter Executive Summary. The motion carried by a unanimous voice vote. Trustees responding were as follows: Dr. Kirkpatrick; Mr. Roper; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; Ms. Raasch; Mr. DeMuth; and Chairman Palluconi.

A break was taken from 2:32 to 2:40 p.m.

**REPORT BY DIRECTOR OF INTERNAL AUDITING  
Summary of Prior Findings**

Ms. Enevoldsen made her report to the Board concerning the findings of the IT Audit and the Call Center Audit.

**Motion to Approve Audit Report Carried**

A motion was made by Ms. Raasch with a second being made by Ms. Rhodes to accept the audit report. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. DeMuth; Ms. Raasch; Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Conway; Mr. Roper; Dr. Kirkpatrick; and Chairman Palluconi.

**RFP for External Auditor**

Mr. Roper stated there were three responses to the RFP issued for an external auditor to the Teachers' Retirement System. He said that Cole & Reed, KPMG, and Lyle and Compton responded to the RFP and that all three met the very strict guidelines of the RFP. Mr. Roper informed the Board, after looking at all the information contained in each response, the consensus is that Cole & Reed should be retained as the Retirement System's external auditor.

**Motion to Retain Cole & Reed as New External Auditor Carried**

A motion was made by Mr. Roper with a second being made by Ms. Rhodes to hire Cole & Reed. The motion carried by Dr. Kirkpatrick; Mr. Roper; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; Ms. Raasch; Mr. DeMuth; and Chairman Palluconi responding yes.

**SECURITY DEPARTMENT REPORT**

Adam Attaoui, TRS Security Officer, gave the Board his report, including the possibility of installing smoke detectors in the computer area; quarterly log reports on access to the fifth floor after 5:00 p.m., holidays, and weekends; and a review of the System's disaster recovery plan.

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING  
MAY 25, 2005**

---

**Motion to Accept Security Department Report Carried**

A motion was made by Mr. DeMuth with a second being made by Ms. Rhodes to accept. The motion carried by Mr. DeMuth; Ms. Raasch; Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Conway; Mr. Roper; Dr. Kirkpatrick; and Chairman Palluconi responding yes.

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

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 Executive Secretary Report Carried**

The Chairman asked for a motion from the Board. A motion was made by Ms. Rhodes with a second being made by Ms. Raasch. The motion carried by a unanimous voice vote. Trustees responding were as follows: Dr. Kirkpatrick; Mr. Roper; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; Ms. Raasch; 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 \$1,090,003.04 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 \$7,557.31.

**Recommendations for Retirement**

There were 56 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 five (5) disability applicants granted disability retirement by TRS due to approval for 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 account recommended for continuation of benefits.

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING  
MAY 25, 2005**

---

**Tax-Sheltered Annuity Hardship Request Report**

There was one (1) request for a hardship withdrawal from the tax-sheltered program.

**Out-of-State Travel**

Travel for interested Board members to attend the Fifth Annual NCTR Trustee Workshop in July 2005.

**Retirement Payroll Termination Report**

Monthly benefits were terminated for 122 members due to death, and 16 members that returned to active education employment.

**New Members**

There were 252 new member applications in February, and 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 \$169,530.66. (Can include longevity and supplemental payroll.)

**Financial Statements**

The financial statements are for the period ending April 30, 2005.

**Summary of Investment Activity**

This report indicates Short-Term and Long-Term investments at market value on a full accrual basis, as of April 30, 2005. Complete documentation of all sales, purchases, redemptions and income received by TRS is on file in the Investment Division and will be furnished upon request.

Mr. Beavers reminded the Board of the upcoming NCTR Trustee Training Workshop in San Diego at the end of July. He also stated he would be attending the NCTR Director's meeting towards the end of June.

Mr. Beavers also informed the Board that the 2005-06 budget would be on the agenda for June and that the RFP for custodial and securities lending services would be on the July agenda.

**PROPOSED LEGISLATION**

Mr. Beavers referred the Board to Section 7 and gave the Board a brief report on the bills that made it to the end of the Legislative session that will affect the Retirement System.

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING  
MAY 25, 2005**

---

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

Mr. McCormick informed the Board there were no changes in litigation and no hearings pending.

**FINANCIAL CONDITION & UNFUNDED STATUS OF THE  
TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA**

The Chairman asked if there was further discussion on this issue and there was none.

**NEW BUSINESS**

The Chairman stated the Executive Secretary evaluation will be on the June agenda. Also, due to the international equity interviews, the Board meeting will begin at 12:00 p.m. on June 29.

Ms. Enevoldsen introduced Stefan Von Dollen, intern, for the Internal Auditing Department.

## ADJOURNMENT

A motion was made by Ms. Rhodes with a second being made by Mr. Smith for adjournment. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. DeMuth; Ms. Raasch; Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Conway; Mr. Roper; Dr. Kirkpatrick and Chairman Palluconi. The meeting adjourned at 3:37 P.M.

*(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 - June 29, 2005**

Investment Committee Meeting at **10:00 A.M.**  
Board Meeting begins at **12:00 P.M.**

Oliver Hodge Education Building  
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, Matti Palluconi**

ATTEST:

BY: \_\_\_\_\_  
**Secretary, Denise Rhodes**

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 June 29, 2005.

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