

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

MAY 24, 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 1:30 P.M., Wednesday, May 24, 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, May 23, 2006, in accordance with 25 O.S. 2001 Section 311(9).

TRUSTEES PRESENT:

Matti Palluconi, <i>Chairman</i>	Betty Minton
Cathy Conway, <i>Vice-Chairman</i>	Galeard Roper*
Dick Neptune, <i>Secretary</i>	Michael Simpson
Sherrie Barnes	James Smith
Bruce DeMuth	
Richard Gorman	

TRUSTEES NOT PRESENT:

John Kirkpatrick
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*
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*
Tony Kay, *gregory.w.group*

OTHERS PRESENT:

Larry Asberry, Jr., *Office of State Finance*
Charles Barnes, *Sand Springs Public Schools*
Tommy Fulton, *Retired TRS Member*
Denise Rhodes, *Active TRS Member*
Rex McComas and Family (*present till end of hearing process.*)

*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; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Neptune; Mr. Smith; Mr. Simpson; Mr. Gorman; Ms. Minton; and Chairman Palluconi.

MINUTES of APRIL 19, 2006, BOARD MEETING APPROVED

The Chairman asked for corrections, additions or a motion to approve the minutes of the April 19, 2006, meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma. A motion was

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made by Mr. Roper 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: Ms. Minton; Mr. Gorman; Mr. Simpson; Mr. Smith; Mr. Neptune; Ms. Conway; Mr. Roper; Ms. Barnes; Mr. DeMuth; and Chairman Palluconi.

**CONSIDERATION OF PROPOSED FINDINGS OF FACT, CONCLUSIONS OF LAW
AND RECOMMENDATION FOR HEARING ON REX McCOMAS CASE**

The Chairman stated the next agenda item is for an administration hearing, Case #OTRS-05-001, on appeal from the recommendation of the administrative hearing officer, Judge William S. Myers #OTRS-05-001. Judge Myers has recommended that the protestant's protest for relief be denied.

My role as Chairman and your role as the Board is defined by OTRS grievance rules and you are charged to review and consider the recommendation of the hearing officer. Normally in accordance with our adopted procedures for a hearing, Mr. McComas and his attorney or representative, if any, will be first allowed to make a brief statement to the Board concerning the facts and legal arguments and then make closing arguments. The Retirement System will be afforded the same opportunity and the Board will allow any questions at any time.

The Chairman said at this hearing, we will depart from our normal procedure long enough to allow the Executive Secretary, Tommy Beavers, to make a recommendation. If we adopt his recommendation, we will have no need for further hearing on this matter. The Executive Secretary has reviewed this matter and he has set out in his memo to the Board, under section 2 in your binder, a number of cases that are similar to the one pending before the Board today. At this time Mr. Beavers will address his findings and make his recommendation.

Mr. Beavers explained that our normal procedure has been to use any indication from the member that serves to have put the System on notice that the member's beneficiary may have died. He said the issue is what exactly constitutes sufficient notification. Mr. Beavers informed the Board that for the first time in his seventeen years as director of the Retirement System, he is recommending the Board not follow the administrative hearing officer's recommendation. As background information, when a member retires under certain retirement plans (Option 2 or Option 3), the System continues paying the retirement benefit to the named beneficiary, for the rest of their life. In 1994 statutes were changed to provide that when the named beneficiary pre-deceases the member, the member's retirement would "pop-up" to the maximum plan instead of the original reduced benefit plan. Also, should a member delay in notifying the Retirement System of the death of their named beneficiary, the System could only make a retroactive payment of six months.

He said the System sent information to the membership notifying them to contact the Retirement System, in writing, of the death of their beneficiary. In this case, Mr. McComas had contacted the Retirement System to request a beneficiary change form, but the form was never returned. However, he did notify the Insurance Board to stop the premium deduction for his wife. When the insurance deduction change was received from the Insurance Board, the System did not explore the reason the change was made.

Because there is a question of whether staff should have followed up in this case and other similar we here today are asking the Board for authority to correct Mr. McComas' account and 12 other similar cases. We will bring back revised procedures that hopefully will keep something like this from happening in the future.

Mr. Beavers reported the System did pay Mr. McComas for six months of retroactive benefits but needs to remit benefits missed back to 2001, the year in which Mrs. McComas passed away. He also stated that there are twelve other members who have cases pending of the exact name nature that will be paid retroactive benefits back to the date of notification of the death of their beneficiary.

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The Chairman stated Mr. Beavers' recommendation is that the Board set aside the recommendation of the administrative hearing officer and find in favor of Mr. McComas and in doing so, similar issues may be addressed.

Motion to Adopt Executive Secretary's Recommendation Carried

A motion was made by Mr. Neptune with a second by Ms. Conway to accept the recommendation of the Executive Secretary. The Chairman asked if there was any discussion and there being none asked for a poll of the Board. The motion carried by Mr. DeMuth; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Neptune; Mr. Smith; Mr. Simpson; Mr. Gorman; Ms. Minton; and Chairman Palluconi responding yes.

Mr. Beavers stated to Mr. McComas and his family his apology for having put them through six months of anxiety over this matter and that payment would be placed in the mail the next day.

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

The Investment Committee meeting convened at 10:00 a.m. Wednesday, March 22, 2006, and adjourned at 12:50 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; and Ms. Minton.

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

**PRESENTATION BY gregory.w.group
Market Performance, Manager Review, Asset Allocation Review,
April 30th Performance Summary**

Greg Weaver and Doug Anderson of gregory.w.group, investment consultant to the Board, gave the Board a brief overview of their monthly report, given in-depth to the Investment Committee earlier in the day.

Mr. Weaver reported that George Davis and Stan Majcher with Hotchkis & Wiley and Kenneth Berents and Dennis Byrne with Goldman Sachs, had given the Investment Committee very thorough presentations earlier that day. He stated both Hotchkis and Goldman Sachs are on "Alert", Hotchkis due to a stock held by Hotchkis declaring bankruptcy, and Goldman due to organizational issues that occurred this last year.

Mr. Weaver stated the Investment Committee discussed the Fund's asset allocation and the Investment Committee has made a recommendation for the Board's consideration, later in this meeting. He said considerable re-balancing is required, taking money from several managers and deploying it to several other managers to get the allocation back in balance and to manage the risk of the total portfolio.

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:

NT S&P500, 2.90% vs. 2.88%; H&W Large-Cap, 2.58% vs. 4.56%; Goldman Sachs, 1.25% vs. 1.18%; AJO, 1.71% vs. 3.07%; Wellington, 5.26% vs. 3.07%; Frontier, 5.18% vs. 3.07%; H&W Mid-Cap, 3.56% vs. 3.07%; Shapiro, 4.10% vs. 4.55%; Tocqueville, 6.20% vs. 4.55%; Smith Capital, 0.58% vs. 4.55%; Capital Guardian, 5.37% vs. 8.14%; Causeway, 8.44% vs. 8.14%; Brandes, 11.20% vs.

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8.14%; Thornburg, N/A; Hoisington, -8.51% vs. -0.83%; Loomis Sayles, -0.34% vs. -0.83%; Lord Abbett, -0.50% vs. -0.83%; MacKay Shields, -0.79% vs. -0.83%; Neuberger, -0.51% vs. -0.83%; PIMCO, -0.59% vs. -0.83%; Standish, -0.83% vs. -0.83%; Stephens, -0.94% vs. -0.83%; and OTRS Cash, 1.10% vs. 1.16%.

Total Fund performance is as follows: Month of APRIL 2006, 1.28% vs. 1.36%; last quarter, 3.04% vs. 2.85%; 1-year, 18.27% vs. 17.38%; 3-years, 17.35% vs. 15.82%; 5-years, 8.21% vs. 7.59%; and since inception, 10.69% vs. 11.20%. *(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, seven are "On Alert" and one is "On Notice".

The Chairman 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 \$8,447,522,633.04 invested approximately 24% in fixed income, 73% 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 0.34 basis points, the three-month return was 1.10%, and the trailing twelve-month return was 3.98%.

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 2006

Total recaptured commissions for the month was \$45,770, total commissions paid was \$491,747, with a net cost per share of \$0.030 and year-to-date net cost per share of \$0.029. Fiscal year-to-date, recaptured commissions total \$503,575 on \$3,882,429 in paid commissions.

Commissions Paid

This report shows commissions paid for the first quarter, January 1, 2006 through March 31, 2006, listing each manager and the brokers used.

Renewal of Investment Manager Contracts Aronson+Partners, Wellington Management, and PIMCO

Chairman Palluconi stated the Investment Committee is recommending renewal of the manager contracts with Aronson+Partners, Wellington and PIMCO, and that there are no changes to these contracts.

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Investment Committee Recommendation Carried

The recommendation carried by Ms. Minton; Mr. Gorman; Mr. Simpson; Mr. Smith; Mr. Neptune; Ms. Conway; Mr. Roper; Ms. Barnes; Mr. DeMuth; and Chairman Palluconi responding yes.

Terminate Neuberger Berman Manager Contract

The Chairman stated the Investment Committee has made a recommendation to terminate the manager contract with Neuberger Berman. She asked Greg Weaver for any comments.

Mr. Weaver stated that Neuberger Berman has been a long-standing manager for the System, going back to January of 1990 and had done a competitive job through the years. Lehman Brothers acquired the firm a few years ago and we had anticipated there would be changes as a result of that acquisition. In the last two or three months, Ted Giuliano, the chief investment officer, left the firm and the Fund's other contact will be retiring later this month. After a review of the Lehman Brothers alternatives for a new fixed income product, the consultant believes it is not appropriate for the portfolio. Gregory.w.group recommended to the Investment Committee, the termination of Neuberger Berman's management contract.

Investment Committee Recommendation Carried

The recommendation carried by Mr. DeMuth; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Neptune; Mr. Smith; Mr. Simpson; Mr. Gorman; Ms. Minton; and Chairman Palluconi responding yes.

Personnel Changes, Capital Guardian and Causeway Capital

The Chairman stated after discussion, the Investment Committee determined that no action was necessary.

Asset Allocation to Fixed Income Managers

Mr. Weaver stated the Investment Committee had discussed this matter at length and has made a recommendation for the Board's consideration. This is as a result of actions taken at the April meeting, to reduce the Fund's total equity allocation and to increase the fixed income allocation, to bring it to target. There are several pieces to this process, to include controlling risk, and then determine what to do with assets that have been under the management of Neuberger Berman and, to simultaneously fund the three new large-cap growth managers retained by the Board. Also, within the next 30-45 days, fund the two new all-cap managers hired in April, subject to due diligence visits.

**Investment Committee Recommendation to
Re-Allocate Assets**

The Chairman stated the Investment Committee is recommending the transfer of \$265 million from the Northern Trust S&P500 account, \$135 million from H&W large-cap, plus the \$317 million from the terminated Neuberger Berman account. These funds will be distributed in the following manner; \$50 million each with Hoisington, Stephens, \$50 million to be used for retirement payroll; the remainder, approximately \$567 million, to be allocated as follows: \$283.5 million to PIMCO and \$283.5 million to Lord Abbett.

Also, the Recommendation is to give authority to Mr. Puckett and staff to transition assets in the best way possible.

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**Investment Committee Recommendation for
Re-Allocation Carried**

The Investment Committee Recommendation carried by Ms. Minton; Mr. Gorman; Mr. Simpson; Mr. Smith; Mr. Neptune; Ms. Conway; Mr. Roper; Ms. Barnes; Mr. DeMuth; and Chairman Palluconi responding yes.

Report on Due Diligence to Chase and Sawgrass

The Chairman stated this was discussed during the Investment Committee meeting, and that it had been a very informative and productive trip.

Conversion to JP Morgan for Custodial and Securities Lending Services

The Chairman stated Mr. Puckett had updated the Investment Committee. Mr. Beavers stated that weekly meetings have been held via conference calls with JP Morgan. Mr. Beavers stated JP Morgan is keeping to the schedule set for completion of the conversion.

Chairman Palluconi asked Greg Weaver and Doug Anderson for gregory.w.group's (g.w.g) quarterly summary.

FIRST QUARTER EXECUTIVE SUMMARY, 2006

Mr. Weaver referred the Board to the handout before them, stating he and Mr. Anderson would present this Summary to the Board and answer any questions from the Board. He said this Summary is a thorough review of the entire portfolio structure and is used to ensure the System is accomplishing all objectives, and whether or not all parts are working together. This summary contains data taken from the managers, the custodian and g.w.g's database, as of March 31, 2006.

The Summary states the composite market value increased during the first quarter of 2006, investment income and net appreciation of assets totaled \$428.1 million, income totaled \$47.9 million and asset appreciation totaled \$380.2 million. Risk and return characteristics of the Composite portfolio remain within acceptable ranges of the benchmark index and active management is adding value without an undue amount of risk.

The total performance of the Composite Fund for the last quarter was 5.4%, for the last year, 14.9%, for the last 3 years, 19.6%, and for the last 5 years, 9.3%, with a total end value of \$8,305,382.872. The total Fund ranked in the 17th percentile in the universe of other public pension funds for the first quarter ending March 31, 2006.

Mr. Weaver said in looking forward it is important that gregory.w.group continue to bring to the Board oversight on controlling risk, and costs. Given the outlook for domestic investment returns, it is very important in our opinion that you continue to look at non-traditional opportunities and g.w.g will continue to bring those to you in a prudent, careful manner.

Resolution for JP Morgan

The Chairman asked the Board to return to the JP Morgan item on the agenda, stating the need to address a resolution that comes to you from the Investment Committee authorizing the Chairman of the Board, Mr. Beavers or Mr. Puckett to sign resolutions made with JP Morgan. The Chairman stated this recommendation comes to the Board from the Investment Committee and asked for a poll of the Board.

Investment Committee Recommendation Carried

The Investment Committee Recommendation carried by Mr. Gorman; Mr. Simpson; Mr. Smith; Mr. Neptune; Ms. Conway; Mr. Roper; Ms. Barnes; Mr. DeMuth; and Chairman Palluconi responding yes. (Ms. Minton was temporarily out of the room.)

A break was taken from 2:36 through 2:46.

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Chairman Palluconi asked Ms. Enevoldsen for her report.

**INTERNAL AUDITOR'S REPORT
Summary Schedule of Prior Findings**

Ms. Enevoldsen, TRS Director of Internal Auditing, referred the Board to section 5 in their binders, and stating each quarter, the Internal Auditing Division gives the Board the status of all the recommendations made by her division. Ms. Enevoldsen then gave the Board a summary of her report, stating she would be glad to answer any questions the Board may have.

The Chairman reminded the Board the Audit Committee is made up of Mr. Roper as Chairman, Mr. DeMuth and Dr. Kirkpatrick.

Motion to Accept Internal Auditor's Report Carried

The motion carried by a unanimous voice vote: Trustees responding were: Mr. DeMuth; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Neptune; Mr. Smith; Mr. Simpson; Mr. Gorman; Ms. Minton; 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. Roper with a second being made by Mr. Simpson. The motion carried by a unanimous voice vote. Trustees responding are as follows: Ms. Minton; Mr. Gorman; Mr. Simpson; Mr. Smith; Mr. Neptune; Ms. Conway; Mr. Roper; Ms. Barnes; 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 \$2,010,517.15 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 \$9,097.00.

Recommendations for Retirement

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There were 58 regular and five (5) 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.

Disability Retirement Re-Evaluated

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

Out-of-State Travel

A request by Tommy C. Beavers, TRS Executive Secretary, to attend the NCTR (National Council on Teacher Retirement) Director's meeting in Asheville, North Carolina, in June.

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 126 members due to their deaths and nineteen who returned to teaching.

New Members

There were 269 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 \$173,736.28. (Can include longevity and supplemental payroll.)

Financial Statements

The financial statements are for the period ending April 30, 2006.

**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 another administrative hearing coming before the Board within the next few months.

2006 LEGISLATION

Mr. Beavers referred the Board to Section 8 in their binders and distributed an updated list on pending legislation. He gave the Board a brief summary of 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.

The Chairman gave the Board the evaluation forms for the Executive Secretary, asking the Board to complete the evaluation forms and to bring them, completed, back to the June Board meeting. She

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stated the Board's Personnel Committee will compile the information and then review the information with the Executive Secretary, and make a report to the Board.

The Chairman stated the June 28th Board meeting has been changed to June 21st, but there will be no changes to the times of the Investment Committee or the Board meetings.

**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.

Mr. Beavers said attending the Board meeting today as a visitor is former Trustee Denise Rhodes. Mr. Beavers presented Ms. Rhodes with a previously adopted Board Resolution, reading a portion of the Resolution, and thanked Ms. Rhodes for her service.

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ADJOURNMENT

The Chairman stated there being no further business before the Board, declared the meeting adjourned at 3:09 p.m. Trustees present at adjournment were as follows: Mr. DeMuth; Ms. Barnes; Ms. Conway; Mr. Neptune; Mr. Smith; Mr. Simpson; Mr. Gorman; Ms. Minton; and Chairman Palluconi. (*Mr. Roper left just prior to adjournment.*)

(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 21, 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

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