

**MINUTES**  
**EIGHT HUNDRED AND FIRST MEETING**  
**OF THE**  
**BOARD OF TRUSTEES**  
**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA**  
**MAY 28, 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 1:02 P.M., Wednesday, May 28, 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*

Bruce DeMuth  
Darryl Hatcher  
Richard Gorman

John Kirkpatrick  
Matti Palluconi  
Galeard Roper  
Michael Simpson

**TRUSTEES NOT PRESENT:**

Sherrie Barnes  
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*  
Marta Coombes, *Comptroller*  
Kimber Chessmore, *Senior Internal Auditor*  
Becky Yearout, *Cash Management Officer*  
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*

**OTHERS PRESENT:**

Candice Adson, *eCapitol News*  
Larry Asberry\*, *State Office of Finance*  
Dwight Bruss\*, *State Department of Education*  
Norman Cooper\*, *Oklahoma Retired Educators Association*  
Jeff Packham\*, *Journal Record*

\*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; Mr. Roper; Mr. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Gorman; Mr. Hatcher; and Chairman Conway.

**MINUTES of APRIL 30, 2008, BOARD MEETING APPROVED**

The Chairman asked for corrections, additions or a motion to approve the minutes of the April 30, 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 Dr. Kirkpatrick for approval of the minutes, as amended

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on page 1-6. The motion carried by a unanymous voice vote. Trustees responding were as follows: Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Mr. Roper; Dr. Kirkpatrick; Mr. DeMuth; Mr. Hatcher; and Chairman Conway.

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

The Investment Committee meeting convened at 9:02 a.m. Wednesday, May 28, 2008, and adjourned at 12:20 p.m. Committee members present were as follows: Chairman Cathy Conway; members, Matti Palluconi; Michael Simpson; Dick Neptune; and James Smith. Other trustees present were Mr. Gorman\* and Dr. Kirkpatrick.

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

**PRESENTATION BY gregory.w.group  
Market Performance, Asset Allocation Review,  
April 30<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 Gina Marie Moore with Aronson + Johnson + Ortiz, Alexander Grant and Gregory Johnson with Wellington, and Stephen Knightly, Christopher Premock and Christopher Scarpa with Frontier, had made presentations to the Investment Committee earlier in the day. He said each manager is operating within the Retirement System's policies and guidelines and there are no organizational issues at this time.

**Net of Fee and Market Performance Summary**

This report indicates performance of the Fund, for periods ending April 30, 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, -5.13% vs. -0.27%; Goldman, 5.49% vs. 2.53%; Aletheia, 3.60% vs. 2.53%; Chase, 2.38% vs. 2.53%; Sawgrass, 0.35% vs. 2.53%; Advisory, -1.25% vs. 1.14%; EPOCH, 5.64% vs. 1.14%; AJO, 1.71% vs. 2.81%; Wellington, 2.78% vs. 2.81%; Frontier, 3.75% vs. 2.81%; H&W Mid-Cap, -1.27% vs. 2.81%; Shapiro, 4.92% vs. 0.74%; Tocqueville, -3.18% vs. 0.74%; Smith, 1.16% vs. 0.74%; Capital Guardian, 5.05% vs. 6.03%; Causeway, 6.47% vs. 6.03%; Brandes, 1.03% vs. 6.03%; Thornburg, 5.57% vs. 6.03%; Hoisington, -1.17% vs. 0.27%; Loomis, 0.84% vs. 0.27%; Lord Abbett, 1.01% vs. 0.27%; MacKay Shields, 0.13% vs. 0.27%; PIMCO, -0.59% vs. 0.27%; Standish, 0.31% vs. 0.27%; Stephens, 0.17% vs. 0.27%; and OTRS Cash, 1.00% vs. 0.49%.

Total Fund performance is as follows: Month of APRIL 2008, 4.01% vs. 3.68%; last quarter, 1.51% vs. 1.92%; 1-year, -2.16% vs. -1.42%; 3-years, 9.22% vs. 9.29%; 5-years, 12.24% vs. 11.56%; and since inception, 10.00% vs. 10.48%. (Returns over one year are annualized.)

**Manager Status Summary and  
Possible Action**

Chairman Conway stated the Investment Committee is recommending Advisory Research be placed on "Alert" status due to performance issues and that Standish Melon be changed from on "Alert" to in "Compliance". The Chairman asked for a poll of the Board.

**Investment Committee Recommendation Carried**

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

**Exception Request by Stephens, Inc.**

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Mr. Weaver referred the Board to pages 2-09 and 2-10, a letter from Stephens, Inc., and said in brief, they are requesting they be allowed to invest in corporate bonds, primarily in ETFs (corporate exchange traded funds), which is the iShares Lehman Intermediate Credit Bond Fund.

Chairman Conway stated the Investment Committee, discussed this matter and is recommending approval of Stephens, Inc. exception request. She said Stephens will be allowed to invest up to a maximum of 10% and if they wish to go above this percentage, will again need to address this matter in writing, for the Board to review. The Chairman asked for a poll of the Board.

## **Investment Committee Recommendation Carried**

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

## **Status on Policy Guidelines and Contract with Aldus Equity Partners**

Mr. Weaver reminded the Board that Aldus Equity was hired at the last Board meeting as the Fund's new Private Equity manager. He said g.w.g. had given the Investment Committee a "draft" investment policy as it relates to private equity and a recommendation on how to amend the Fund's current investment policy to incorporate this new asset class into the Fund's policy guidelines.

Mr. Weaver stated that Aldus Equity's legal counsel is preparing a contract that will be submitted to the Board and its legal counsel for review. Mr. Weaver said he recommends a "due diligence" visit to Aldus Equity in Dallas be scheduled as soon as possible.

Chairman Conway stated Mr. Smith, Mr. Simpson and herself were interested in going and asked other trustees interested to let her know.

## **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 \$9,282,277,326.72 invested approximately 32% in fixed income, 66% 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 0.25, the three-month return was .84%, and the trailing twelve-month return was 4.97%.

### **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**

For the month of March, this report shows commissions paid of \$538,275, recaptured commissions totaled \$74,395 with a net per share of \$0.025, and for the Fiscal Year, commissions paid of \$5,256,468, recaptured of \$679,064, with a net per share of \$0.026.

### **Commissions Paid**

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This report shows commissions paid for the period January 1, 2008 through March 31, 2008.

**Fiscal Year Comparison of Securities Lending**

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.

**Renewal of Manager Contracts**

**Aronson+Johnson+Ortiz, Wellington, Advisory Research, Epoch Investment, and PIMCO**

The Chairman stated the Investment Committee is recommending renewal of these contracts, through July 1, 2009, and that there are no changes to these contracts. She asked for discussion and there being none asked for a poll of the Board.

**Investment Committee Recommendation Approved**

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

**g.w.g. 1<sup>ST</sup> QUARTER EXECUTIVE SUMMARY  
gregory.w.group**

Mr. Greg Weaver and Mr. Doug Anderson of gregory.w.group made an in-depth presentation on the Retirement System's first quarter investment performance for 2008, period ending March 31, 2008. The Executive Summary indicated the Fund's total market value for this time period was \$8,876,816,741.

They reported that the Retirement System suffered a loss during the first quarter of 2008, stating the only allocation with positive results was fixed income. The Executive Summary shows the Fund exceeded its actuarial assumption of 8% over the trailing five year period ending March 31, 2008, but lagged the assumption for the trailing one year period. The Retirement System was invested with approximately 17.0% in international equity, 32.0% in fixed income, 1.0% in cash and 50.0% in domestic equity. The domestic equity allocation was invested 37% in large-cap, 29% in mid-cap, 15% in all-cap, and 19% in small-cap.

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 4 in their binders and made his reports, 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. DeMuth with a second made by Mr. Roper. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Mr. Roper; Dr. Kirkpatrick; Mr. DeMuth; Mr. Hatcher; and Chairman Conway. The reports are as follows:

**Monthly Expenditures**

Monthly Expenditures consists of claims, receipts and claims for authorized expenditures,

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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 \$4,095,154.55 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 \$14,012.88

**Recommendations for Retirement**

There were six (6) disability and 58 regular contracts filed for retirement.

**Disability Retirement Provided by Social Security**

There were three (3) 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.

**Out-of-State Travel**

Requests for the Executive Secretary and legal counsel to attend respective meetings.

**Tax-Sheltered Annuity Hardship Requests**

There was one hardship request for the month of March that was approved.

**Termination of Retirement Benefits**

Monthly benefits were terminated for 136 members due to their deaths, and thirteen (13) who returned to teaching.

**New Members**

There were 260 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 Teachers' Retirement System. Employee salaries totaled \$188,351.51. (Can include longevity and supplemental payroll.)

**Financial Statements**

These reports cover the month of April 2008.

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

Mr. Kinney stated he would discuss the Wanda Sue Seymour matter in more detail with Agenda Item #6. Mr. Kinney gave the Board updated information concerning current and any future legal issues that may face the Retirement System. He said he would be glad to answer any questions the Board might have.

Mr. Kinney also informed the Board he would not be present at the June meeting as he would be attending the National Association of Public Pension Attorneys Conference in Boston.

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**CONSENT ORDER:  
WANDA SUE SEYMOUR**

Mr. Kinney stated as part of the order from District Court, TRS was ordered to determine what the value of the year Dr. Seymour was awarded, under that order. As part of that order Dr. Seymour would have to pay TRS for an additional year of service plus interest accrued and, TRS would have to pay Dr. Seymour for the additional year of service plus accrued interest. To facilitate a settlement, Dr. Seymour, her attorney and myself have signed a Consent Order that says TRS will forgive the payment for that additional year of service plus interest, and she will forgive all the past interest and additional payments she would receive going forward, for an additional year of service, upon approval by the Board. Mr. Kinney stated it is his, the Executive Secretary's, Dr. Seymour's and her attorney's recommendation that the Board approve this settlement.

Mr. Beavers stated this settlement will conclude this case with no future rights going forward.

**Motion for Consent Order Carried**

The Chairman asked for a motion from the Board. A motion was made by Mr. Neptune with a second made by Dr. Kirkpatrick to approve the settlement. The motion carried by Mr. Hatcher; Mr. DeMuth; Dr. Kirkpatrick; Mr. Roper; Mr. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Gorman; and Chairman Conway responding yes.

A break was taken from 2:18 to 2:28.

**SETTLEMENT AGREEMENT:  
SUSAN G MUELLER**

Mr. Beavers referred the Board to section 7 in their binders. He stated traditionally TRS has required a person to work 2/3s of a school year to obtain a year of service, or 120 days of full-time employment. He said in this particular case information was given to the member, including a retirement estimate and contract for retirement June 1<sup>st</sup> this year. When the final audit was performed on the member's account it was determined there were years counted as full years that should not have been.

Mr. Beavers said in his letter to the member he said the service in question could not be counted, but had extended an offer to settle by allowing her to retire August 1<sup>st</sup>, when the member would be another year older. Mr. Beavers stated in discussing this with the member, the member agreed and, that he is recommending the Board accept this settlement.

**Motion for Settlement Agreement Carried**

A motion was made by Mr. Neptune with a second made by Mr. Roper to accept the Executive Secretary's recommendation. The motion carried by Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Mr. Roper; Dr. Kirkpatrick; Mr. DeMuth; Mr. Hatcher; and Chairman Conway responding yes.

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

**TRS LEGISLATION**

Mr. Beavers referred the Board to section 8 in their binders and handed out an update on legislation. He stated if any Board member wished to see a bill in its entirety, he would be glad to furnish a copy and would be glad to answer any questions the Board might have. Mr. Beavers also said the Legislature has passed a bill giving the retired members of Teachers' Retirement a 2% COLA which will appear on the retired member's August 1 check. He stated that Gabriel, Roeder, Smith and Company (GRS), the System's actuary would be present at the June Board meeting to report on the effect this COLA will have on the System's unfunded liability.

**POSSIBLE EXECUTIVE SESSION and ACTION FOR CONFIDENTIAL**

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**COMMUNICATION CONCERNING MERCK & COMPANY**

The Chairman stated this item is for the purpose of receiving confidential communications from two of our three outside law firms in the matter of Merck & Company. She stated the Chair recognizes Mr. Kinney

Mr. Kinney stated in his opinion it is necessary for the Trustees to resolve into executive session, and is his recommendation, since discussion in a public meeting would impair the ability of the Trustees to resolve these matters in the public interest. Two of our three outside law firms have provided confidential reports to be presented along with their recommendations.

The Chairman stated the Board has heard the explanation and recommendation of the Board's legal counsel to resolve into executive session for the purpose of discussing confidential communications with our outside law firms in the matter of Merck & Company. The Chairman asked if there were any questions and there were none.

**Enter into Executive Session**

A motion was made by Mr. Roper to resolve into executive session for the purpose of consideration of Agenda Item 9. A second was made by Mr. Smith. The Board entered into Executive Session at 2:55 p.m. The motion carried by Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Mr. Roper; Dr. Kirkpatrick; Mr. DeMuth; Mr. Hatcher; and Chairman Conway responding yes. The Chairman declared the motion to have prevailed, and declared the meeting to be resolved into executive session.

**Return to Open Session**

A motion was made by Mr. Simpson with a second made by Dr. Kirkpatrick to return to Open Session at 3:04 p.m. The motion carried by Mr. DeMuth; Dr. Kirkpatrick; Mr. Hatcher; Mr. Roper; Mr. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Gorman; and Chairman Conway responding yes. The Chairman declared the motion to have prevailed and the Board is now back in regular session and will consider Agenda Item 10 at this time.

The Chair recognized Mr. Kinney.

Mr. Kinney stated for purposes of the record, the Trustees considered Agenda Item 9 during the executive session, the following Trustees were present: Mr. DeMuth, Ms. Barnes, Mr. Roper, Ms. Conway, Mr. Smith, Mr. Neptune; Ms. Palluconi, Mr. Simpson, Mr. Gorman; and Mr. Hatcher; the following other individuals were present: Mr. Puckett; Ms. Bold; Ms. Yost; Mr. Beavers, and myself. No vote or official action was taken while the Trustees were in executive session.

Chairman Conway asked if there was a motion from the Board.

**No Action Resulting from Executive Session**

There was no motion forthcoming from the Board, therefore no action was taken on this item.

**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. A request from Mr. Neptune asked if the Chairman would consider a more casual dress code, as has been done in the past, for the Board meetings held in June, July and August, and the Chair agreed.

There was no further discussion.

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The Chairman informed the Board that the Search Committee for the new Executive Secretary had met yesterday. Those applications were reviewed and those that were not appropriate for the position were removed from consideration (i.e. secretarial or clerk positions). We will begin in June checking references and hope to begin interviews in July and have a report for the Board in August.

**ADJOURNMENT**

There being no further business before the Board, the Chairman declared the meeting adjourned at

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3:09 p.m. Trustees present at adjournment were as follows: Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Roper; Dr. Kirkpatrick; Mr. DeMuth; 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 - June 25, 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 June 25, 2008.

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