

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

JUNE 29, 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 12:00 P.M., Wednesday, June 29, 2005, 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 8:15 a.m., Tuesday, June 28, 2005, 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>	Dick Neptune
Denise Rhodes, <i>Secretary</i>	Susan Raasch
Kenneth Anderson	Galeard Roper
Bruce DeMuth	James Smith

TRUSTEES NOT PRESENT:

Sandy Garrett
Claudia San Pedro
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*
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*
Jeffrey Rudd, *Analyst*, *gregory.w.group*

OTHERS PRESENT:

Dwight Bruss, *State Department of Education*
Norman Cooper, *Oklahoma Education Association*
Charles O. Hopkins, *Oklahoma Retired Educators Association*
Harold Sare, *Oklahoma Retired Educators Association*

*Denotes late arrival or early departure.

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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. Anderson; Mr. Roper; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; Ms. Raasch; Mr. DeMuth; and Chairman Palluconi.

Chairman Palluconi stated Ms. San Pedro was unable to make today's meeting and would be present at the July meeting and be sworn in at that time.

MINUTES of MAY 25, 2005, BOARD MEETING APPROVED

The Chairman asked for corrections, additions or a motion to approve the minutes of the May 25, 2005, meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma. A motion was made by Ms. Raasch 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. DeMuth; Ms. Raasch; Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Conway; Mr. Roper; Mr. Anderson; and Chairman Palluconi.

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

The Investment Committee meeting convened at 10:00 a.m. Wednesday, June 29, 2005, and adjourned at 11:46 a.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: Denise Rhodes.

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

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

Greg Weaver and Jeffrey Rudd of gregory.w.group, investment consultant to the Board, were present to make their monthly report to the Board.

Net of Fee and Market Performance Summary

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

NT S&P500, -0.52% vs. -0.57%; H&W Large-Cap, 2.13% vs. -0.81%; Goldman Sachs, 1.28% vs. 0.97%; AJO, -1.90% vs. 0.65%; Wellington, -0.12% vs. 0.65%; Frontier, -1.14% vs. 0.65%; H&W Mid-Cap, 0.31% vs. 0.65%; Shapiro, -0.03% vs. -2.43%; Tocqueville, -3.15% vs. -2.43%; Smith, N/A vs. -2.43%; Capital Guardian, -4.51% vs. -4.51%; Causeway, -4.20% vs. -4.51%; Brandes, -5.47% vs. -4.51%; Hoisington, N/A vs. 1.92%; Loomis Sayles, 0.62% vs. 1.92%; Lord Abbett, N/A vs. 1.92%; MacKay Shields, N/A vs. 1.92%; Neuberger Berman, 1.85% vs. 1.92%; PIMCO, 2.10% vs. 1.92%; Standish Mellon, 1.91% vs. 1.92%; Stephens, N/A vs. 1.92% and OTRS Cash, 0.73% vs. 0.72%.

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Total Fund performance is as follows: Month of MAY 2005, 2.99% vs. 2.80%; last quarter, -0.34% vs. -0.45%; 1-year, 10.86% vs. 10.17%; 3-years, 9.42% vs. 8.59%; 5-years, 5.50% vs. 4.76%; since inception, 10.34% vs. 10.91%. *(Returns over One Year are annualized.)*

TRS INVESTMENT REPORTS AS OF MAY 31, 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 \$7,438,536,436.38 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 0.27% basis points, the three-month return was 0.73%, and the trailing twelve-month return was 2.12%.

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 APRIL 2005

Total recaptured commissions for the month was \$74,564, total commissions paid was \$513,307, with a net cost per share of \$0.032 and year-to-date net cost per share of \$0.031. Fiscal year-to-date, recaptured commissions total \$645,730 on \$4,164,045 in paid commissions.

**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. Raasch with a second being made by Ms. Rhodes. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Anderson; Mr. Roper; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; Ms. Raasch; Mr. DeMuth; and Chairman Palluconi. *(Dr. Kirkpatrick arrived after the vote.)* 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.

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Receipts and Claims for Authorized Expenditures

Receipts and Claims totaled \$4,097,030.46 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 \$9,413.90.

Recommendations for Retirement

There were 866 regular and thirteen (13) 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 for disability retirement through and by the Social Security Administration, as provided by 70 O.S. § 17-105.

Disability Retirement Re-Evaluated

There were two (2) disability retirement accounts recommended for continuation of benefits.

Tax-Sheltered Annuity Hardship Request Report

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

Out-of-State Travel

Travel is requested for the Director of Human Resources to attend the Southwest Human Resources Conference in October 2005.

Retirement Payroll Termination Report

Monthly benefits were terminated for 110 members due to death, and 23 members who returned to active employment with an education entity.

New Members

There were 217 new member applications in May, 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 \$170,127.93. (Can include longevity and supplemental payroll.)

Financial Statements

The financial statements are for the period ending May 31, 2005.

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Summary of Investment Activity

This report indicates Short-Term and Long-Term investments at market value on a full accrual basis, as of May 31, 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.

LEGISLATION REPORT

Mr. Beavers referred the Board to Section 4 in their binders and gave the Board a brief report on the final legislation that will have an impact on the Teachers' Retirement System. Mr. Beavers commented that very little legislation was passed this year that would affect the Retirement System.

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

Mr. McCormick informed the Board there were no hearings pending at this time. Mr. McCormick stated Nix, Patterson had filed for TRS to be lead plaintiff in the Delphi case and that TRS has been named as co-lead plaintiff in this case, along with Mississippi PERS, the National Pension Fund of the Netherlands, and Mathiason, a mutual fund in Vienna.

PROPOSED OPERATING BUDGET for FY 2006

Mr. Beavers referred the Board to Section 7 in their binders stating this is the administrative budget for the Retirement System. He said the Retirement System is required by legislative mandate to finalize its operating budget by the end of June each year. He said increases were in the following areas: salaries, due to legislative and internal action; investment fees, due to projected increases in investments; investment consultant fees; auditing and actuarial services; computer related services; and management consulting.

Mr. Beavers reported these changes have caused a 7% increase in the operating budget and that he is recommending the Board adopt this new budget.

Motion to Adopt FY2006 Operating Budget Carried

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

RENEWAL OF ACTUARIAL CONTRACT

Mr. Beavers stated this contract was one the Board negotiated last year and action today is a renewal of this contract. He reported that the Retirement System has retained the services of Gabriel, Roeder and Smith since 1990 and that they have done a very good job for the System, both in the valuation and cost analysis for the Board and the Legislature. Mr. Beavers said he is asking the Board to renew this contract.

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Motion to Renewal Actuarial Contract Carried

A motion was made by Ms. Raasch with a second being made by Dr. Kirkpatrick to renew the contract of Gabriel, Roeder and Smith. The motion carried with Dr. Kirkpatrick; Mr. Anderson; Mr. Roper; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; Ms. Raasch; Mr. DeMuth; and Chairman Palluconi responding yes.

The Chairman stated after the break the Board would begin the process to hire a new international equity investment manager and after that would continue with the items remaining on the agenda.

A break was taken from 12:42 to 1:00 p.m.

**PREPARATION FOR SMALL-CAP MANAGER INTERVIEWS
Thornburgh Investment Management, Inc.; Julius Baer Investment
Management, LLC; and Neuberger Berman**

Chairman Palluconi asked Greg Weaver for his comments prior to the commencement of the interviews.

Mr. Weaver referred the Board to handout which gave a summary of the three firms to be interviewed. He said in listening to these presentations, the Board should consider which is articulating the best investment philosophy, and who you trust the most. He stated the Board should also keep in mind that the new manager will be allocated \$150 million.

Chairman Palluconi informed the Board and each manager, in turn, 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 and then a 2 minute summary from each manager. The Chairman stated Ms. Conway would be the official timekeeper and that a five minute break would be taken between interviews.

Presenting for Thornburgh were Wendy Trevisani and Rick Augusto; for Julius Baer were Brigid Flanagan and Andrew Barker; and for Neuberger Berman were Martin McKerrow and Benjamin Segal. After completion of the interview process and lengthy discussion by the Board, investment consultant and staff, the general consensus of the Board is to hire Thornburgh as the newest international equity manager.

The Chairman asked for a motion from the Board.

Motion to Hire Thornburg as New International Equity Manager Carried

A motion was made by Mr. Smith with a second being made by Mr. Neptune to hire Thornburgh, fund them with \$150 million, subject to negotiation of fees. The motion carried by Mr. DeMuth; Ms. Raasch; Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Conway; Mr. Roper; Mr. Anderson; Dr. Kirkpatrick; and Chairman Palluconi responding yes.

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**BOARD PERSONNEL COMMITTEE
Evaluation and Compensation Review**

The Chairman referred the Board to Section 9, the Executive Secretary evaluation. She asked each trustee to leave with her their completed evaluations at the end of the day. The Chairman said the Board's Personnel Committee will review the evaluations and then meet with Mr. Beavers.

The Chairman stated next is the Executive Secretary's compensation and that if the Board wished, an Executive Session was available. After consideration, the Board deemed it unnecessary to convene in Executive Session. After further discussion, compensation for the Executive Secretary was taken to the top of his pay scale and that the Assistant Executive Secretary will receive 80% of the Executive Secretary's increase. Chairman Palluconi asked for a motion from the Board.

Motion to Approve Change in Compensation Carried

A motion was made by Mr. Roper with a second being made by Ms. Rhodes to approve a change in compensation for the Executive Secretary and Assistant Executive Secretary. The motion carried by Dr. Kirkpatrick; Mr. Anderson; Mr. Roper; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; Ms. Raasch; Mr. DeMuth; and Chairman Palluconi responding yes.

ELECTION OF BOARD OFFICERS

CHAIRMAN

Mr. Neptune, with a second by Ms. Rhodes, nominated Matti Palluconi as Chairman. A motion was made by Mr. Roper with a second being made by Ms. Raasch that Ms. Palluconi be elected by acclamation. 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; Mr. Anderson; Dr. Kirkpatrick; and Chairman Palluconi.

VICE-CHAIRMAN

Ms. Rhodes with a second by Mr. Anderson nominated Cathy Conway as Vice-Chairman. A motion was made by Mr. Neptune with a second being made by Ms. Raasch to elect Ms. Conway by acclamation. The motion carried by a unanimous voice vote. Trustees responding were as follows: Dr. Kirkpatrick; Mr. Anderson; Mr. Roper; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; Ms. Raasch; Mr. DeMuth; and Chairman Palluconi.

SECRETARY

Mr. Roper, with a second by Ms. Conway, nominated Denise Rhodes as Secretary. Mr. Roper amended the nomination to nominate by acclamation with a second made by Ms. Raasch. The nomination 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; Mr. Anderson; Dr. Kirkpatrick; and Chairman Palluconi.

The Chairman asked John McCormick, legal counsel to the Board, to speak to the Board about securities litigation agreements.

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SECURITIES LITIGATION AGREEMENTS

Mr. McCormick reminded the Board that during 2003, the Attorney General's (AG) office had asked all the state's retirement systems to select a law firm to represent their fund in any future securities litigation. He said the AG stated that if a system did not pick their own securities lawyer then the AG's office would recommend firms to be considered, that were on an approved AG office list.

Mr. McCormick said at that time Nix, Patterson and Roach was the only firm on the list and now the AG has since interviewed and signed contracts with additional law firms, BLB&G and Schiffrin & Barroway, LLP, and that Mr. Beavers has been contacted by Milberg Weiss for consideration. He said it would be an advantage to have more than one legal firm the Board could consider should the Fund be presented with a securities case.

Mr. McCormick stated he had suggested to Chairman Palluconi that a Board committee be named to interview each firm and report back to the full Board with a recommendation. He said this doesn't mean the Retirement System is hiring any or all of these firms, just that the firm(s) would be on the Board's list of approved firms to use in securities litigation.

Chairman Palluconi stated she was forming a committee for the review of firms for any securities litigation agreements and asked Mr. Neptune, Mr. Smith, and Dr. Kirkpatrick to serve on this committee with Mr. Neptune as chair.

The Chairman said this committee, Mr. McCormick and Mr. Beavers would meet the Tuesday prior to the Board meeting in July with these three legal firms.

**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 she wished to change the Board's Personnel Committee and asked Mr. Roper, Mr. DeMuth and Ms. Conway to serve, with Ms. Conway as chair.

The Chairman asked if there was any new business, and there was none.

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ADJOURNMENT

A motion was made by Ms. Rhodes with a second being made by Mr. Roper 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 4:30 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 - July 27, 2005

Investment Committee Meeting at **10:00 A.M.**
Board Meeting begins at **1:30 P.M.**

Oliver Hodge Education Building
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, Denise Rhodes

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 July 27, 2005.

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