

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

**JUNE 21, 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, June 21, 2006, 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, June 20, 2006, in accordance with 25 O.S. 2001 Section 311(9).

**TRUSTEES PRESENT:**

Matti Palluconi, <i>Chairman</i>	Bruce DeMuth
Cathy Conway, <i>Vice-Chairman</i>	Richard Gorman
Dick Neptune, <i>Secretary</i>	Michael Simpson
Sherrie Bames	James Smith

**TRUSTEES NOT PRESENT:**

Sandy Garrett  
John Kirkpatrick  
Betty Minton  
Galeard Roper  
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*  
Edward Romero, *Comptroller*  
Kara Johnson, *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*  
Douglas J. Anderson, *gregory.w.group*  
Tony Kay, *gregory.w.group*

**OTHERS PRESENT:**

Dwight Bruss, *State Department of Education*  
Summer Holleyman, *Capitol Network News*  
Randy McLerran, *State Department of Education*  
Joyce Drew Parsons, *Oklahoma Retired Educators Association*

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

**MINUTES of MAY 24, 2006, BOARD MEETING APPROVED**

The Chairman asked for corrections, additions or a motion to approve the minutes of the May 24, 2006, meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma. A motion was

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made by Mr. Simpson with a second made by Ms. Conway for approval of the minutes. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Gorman; Mr. Simpson; Mr. Smith; Mr. Neptune; Ms. Conway; Ms. Barnes; Mr. DeMuth; and Chairman Palluconi.

**REPORT FROM THE TWO HUNDRED AND TWELFTH  
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, and Mr. Simpson.

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

**PRESENTATION BY gregory.w.group  
Market Performance, Manager Review, Asset Allocation Review,  
May 31<sup>st</sup> Performance Summary**

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

Mr. Weaver reported that John Brim, Sara Mongerson and Stephen Smith of Smith Group; Drew Rankin and Doug Adams of Tocqueville; and Sam Shapiro and Michael McCarthy of Shapiro, had given the Investment Committee very thorough presentations earlier that day. Mr. Weaver reported there is approximately \$860 million of the Fund's total assets among these three managers.

**Net of Fee and Market Performance Summary**

This report indicates performance of the Fund, for periods ending May 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, -0.33% vs. -0.35%; H&W Large-Cap, -1.70% vs. 1.30%; Goldman Sachs, -2.61% vs. -2.10%; AJO, -1.66% vs. -0.28%; Wellington, 0.47% vs. -0.28%; Frontier, -2.09% vs. -0.28%; H&W Mid-Cap, -2.15% vs. -0.28%; Shapiro, -1.48% vs. -1.05%; Tocqueville, 1.81% vs. -1.05%; Smith Capital, -4.80% vs. -1.05%; Capital Guardian, 2.65% vs. 4.28%; Causeway, 4.74% vs. 4.28%; Brandes, 4.45% vs. 4.45%; Thornburg, N/A; Hoisington, -9.96% vs. -1.27%; Loomis Sayles, -0.96% vs. -1.27%; Lord Abbett, -0.87% vs. -1.27%; MacKay Shields, -1.28% vs. -1.27%; Neuberger, -0.39% vs. -1.27%; PIMCO, -1.05% vs. -1.27%; Standish, -1.28% vs. -1.27%; Stephens, -0.99% vs. -1.27%; and OTRS Cash, 1.23% vs. 1.18%.

Total Fund performance is as follows: Month of MAY 2006, -3.05% vs. -2.72%; last quarter, -0.40% vs. 0.06%; 1-year, 11.33% vs. 11.08%; 3-years, 13.80% vs. 12.77%; 5-years, 7.46% vs. 6.90%; and since inception, 10.40% vs. 10.92%. *(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 21 managers, seven are on "Alert".

**Non-Traditional Investing**

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Mr. Weaver stated g.w.g would bring before the Board at the July Investment Committee meeting, a report on Non-Traditional investing.

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 \$8,195,643,740.06 invested approximately 23% 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 0.48 basis points, the three-month return was 1.23%, and the trailing twelve-month return was 4.21%.

**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 2006**

Total recaptured commissions for the month was \$32,917, total commissions paid was \$405,671, with a net cost per share of \$0.026 and year-to-date net cost per share of \$0.029. Fiscal year-to-date, recaptured commissions total \$536,492 on \$4,288,100 in paid commissions.

**Personnel Change at MacKay Shields**

Chairman Palluconi stated the Investment Committee discussed this matter and determined no action is necessary at this time.

**Status of Hotchkis & Wiley**

Chairman Palluconi stated gregory.w.group has made a recommendation to the Investment Committee that Hotchkis & Wiley, their small-cap and large-cap portfolios, be removed from on "Alert" status, and the Investment Committee agreed. She said the Investment Committee brings this recommendation before the Board and asked if there was any discussion on this matter.

There being no discussion, the Chairman asked for a poll of the Board.

**Investment Committee Recommendation Carried**

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

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**Review of Asset Allocation to Fixed Income and New Managers**

Mr. Weaver stated the Investment Committee had discussed this matter at length and has made a recommendation for the Board's consideration.

The Chairman stated the recommendation is to terminate the Northern Trust S&P 500 portfolio and asked if there was any discussion.

There being no discussion, the Chairman asked for a poll of the Board.

**Investment Committee Recommendation Carried, to  
Terminate the Northern Trust S&P 500 Portfolio**

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

Chairman Palluconi stated a decision was made at the May Board meeting to fund the two new managers, Epoch and Advisory Research, with \$250 million each with funds coming from the S&P 500 account, and at this time the S&P 500 account is below the \$500 million amount. The Chairman stated there is a new recommendation from the Investment Committee, that these two managers will be funded by a 50/50 split of the final funds remaining in the S&P 500 account at the time the transition is begun, whether more or less than \$500 million, and to also allow Mr. Puckett and staff to use what they would deem the most efficient manner to effect this transition.

**Investment Committee Recommendation Carried**

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

**Report on Due Diligence to Epoch and Aletheia**

The Chairman stated Ms. Conway had made a report to the Investment Committee about the visit to Epoch and Mr. Neptune made a report on the trip to Aletheia.

**Conversion to JP Morgan for Custodial and Securities Lending Services**

The Chairman stated Mr. Puckett had updated the Investment Committee on the conversion process and how it is progressing. The Chairman reported that Mr. Puckett said the conversion is going very well.

Chairman Palluconi 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: Mr. Gorman; Mr. Simpson; Mr. Smith; Mr. Neptune; Ms. Conway; Ms. Barnes; Mr. DeMuth; and Chairman Palluconi. The Reports are as follows:

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**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 \$4,657,219.99 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 \$10,762.30.

**Recommendations for Retirement**

This report was not available due in part to the Legislature's Special Session.

**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.

**Disability Retirement Re-Evaluated**

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

**Tax-Sheltered Annuity Hardship Requests**

There were two (2) requests for withdrawal of Tax-Sheltered funds.

**Termination of Retirement Benefits**

Monthly benefits were terminated for 91 members due to their deaths and twenty-nine who returned to teaching.

**New Members**

There were 208 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 \$185,248.49. (Can include longevity and supplemental payroll.)

**Financial Statements**

The financial statements are for the period ending May 31, 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. Mr. McCormick gave the Board an update on the matter of the Wanda S.

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Seymour case. He also spoke to the Board on the issue of securities litigation and when and if the Board should pursue such litigation.

Mr. McCormick said this next item in his report concerns a designation of beneficiary and will require action from the Board. The matter is concerning a member who began their career as a single person, naming two nieces and a nephew as his beneficiaries. He later married and had children, but never made a change to his designation of beneficiaries. After time, a divorce action was filed and before the divorce action was complete, sadly, the member died. Again, the beneficiary designation in his file does not name the wife nor the children.

This has created a problem between the wife and natural children and the other relatives named as beneficiaries. Mr. McCormick stated he sees this issue causing the Retirement System to ultimately be named as a third party in a family legal battle. He said as an alternative, he could use an instrument available through the Attorney General's office called an interpleader. With the interpleader, the System can go to District Court and state the Retirement System doesn't know whom to pay and file an action that asks for the System to be dismissed from any suit and await the court's order for payment. Mr. McCormick asked the Board to give him the authorization to file an interpleader in district court.

**Motion for Legal Interpleader Carried**

After further discussion, a motion was made by Ms. Conway with a second being made by Mr. Gorman, giving Mr. McCormick the authority to file an interpleader. The motion carried by Mr. Gorman; Mr. Simpson; Mr. Smith; Mr. Neptune; Ms. Conway; Ms. Barnes; Mr. DeMuth; and Chairman Palluconi responding yes.

**2006 LEGISLATION**

Mr. Beavers referred the Board to Section 5 in their binders. He said that the bills sent to the Board in the binder and the updated list distributed today, are basically shell bills. He stated there have been several bills introduced that would provide some type of COLA for the System's retirees and there is the WearAway, or EESIP proposal pending and a couple of bills that talk about money being appropriated from the Rainy Day Fund, and sent to unnamed state agencies. Mr. Beavers said one bill that has been passed states that any bill that will affect the fiscal status of a retirement system can have no action taken until the second year of the legislative session. The first year the bill will be studied and then the second year it may be acted upon.

The Chairman asked Mr. Beavers for his report on the proposed budget.

**PROPOSED OPERATING BUDGET  
FISCAL YEAR 2007**

Mr. Beavers referred the Board to section 6 in their binders stating this is the administrative budget for the Retirement System, required to be filed by June 30 of each year. He also referred to the budget supplement on the table before the Board. He said this was necessary to change the personnel expenses due to passage of a 5% pay increase for state employees. Mr. Beavers went over the budget with the Board and stated he is recommending the Board adopt the new budget.

**Motion to Adopt Proposed Operating Budget  
Fiscal Year 2007 Carried**

The Chairman asked for a motion and poll of the Board. A motion was made by Ms. Conway with a second being made by Mr. Smith to adopt the FY2007 Operating Budget. The motion carried by Mr. DeMuth; Ms. Barnes; Ms. Conway; Mr. Neptune; Mr. Smith; Mr. Simpson; Mr. Gorman; and Chairman Palluconi responding yes.

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**ELECTION OF BOARD OFFICERS**

**CHAIRMAN**

Ms. Conway, with a second by Mr. Simpson, nominated Matti Palluconi as Chairman, with a motion made by Mr. DeMuth that nominations cease. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Gorman; Mr. Simpson; Mr. Smith; Mr. Neptune; Ms. Conway; Ms. Barnes; Mr. DeMuth; and Chairman Palluconi.

**VICE-CHAIRMAN**

Mr. Neptune, with a second by Mr. Smith, nominated Cathy Conway as Vice-Chairman, with a motion made by Mr. DeMuth calling for nominations to cease. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. DeMuth; Ms. Barnes; Ms. Conway; Mr. Neptune; Mr. Smith; Mr. Simpson; Mr. Gorman; and Chairman Palluconi.

**SECRETARY**

Ms. Conway, with a second by Mr. DeMuth, nominated Dick Neptune as Secretary, with a motion from Mr. Simpson for nominations to cease. The nomination carried by a unanimous voice vote. Trustees responding were as follows: Mr. Gorman; Mr. Simpson; Mr. Smith; Mr. Neptune; Ms. Conway; Ms. Barnes; Mr. DeMuth; and Chairman Palluconi.

The Chairman asked the Board to give Ms. Conway, chairman of the Board's Personnel Committee, the completed evaluation forms handed out at the May Board meeting. She stated the Board's Personnel Committee will compile the information and then review the information with the Executive Secretary, and then make a report to the Board.

**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 stated there being no further business before the Board, declared the meeting adjourned at 2:55 p.m. Trustees present at adjournment were as follows: Mr. Gorman; Mr. Simpson; Mr. Smith; Mr. Neptune; Ms. Conway; Ms. Barnes; Mr. DeMuth; 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 - July 26, 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, 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:** \_\_\_\_\_  
**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 it's next scheduled meeting on July 26, 2006.

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