

**MINUTES**  
**SEVEN HUNDRED AND NINETIETH MEETING**  
**BOARD OF TRUSTEES**  
**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA**  
**JUNE 27, 2007**

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 27, 2007, 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:**

Matti Palluconi, <i>Chairman</i>	Richard Goman
Cathy Conway, <i>Vice-Chairman</i>	John Kirkpatrick
Dick Neptune, <i>Secretary</i>	Galeard Roper
Sherrie Barnes	Michael Simpson
Bruce DeMuth	James Smith

**TRUSTEES NOT PRESENT:**

Sandy Garrett  
Betty Minton  
Tony Hutchison

**TRS STAFF PRESENT:**

Tommy C. Beavers, *Executive Secretary*  
Sue Callahan, *Assistant Executive Secretary*  
Joe Ezzell, *Secretary-Treasurer\**  
Bill Puckett, *Chief Investment Officer*  
Kim Bold, *Human Resources Director*  
Adam Attaoui, *Information Security Administrator*  
Karen Yost, *Assistant to Executive Secretary and Board of Trustees*

**LEGAL COUNSEL PRESENT:**

David L. Kinney, *Assistant Attorney General*  
Debra Schwartz, *Assistant Attorney General\**

**INVESTMENT CONSULTANT PRESENT:**

Gregory T. Weaver, *President, gregory.w.group*  
Douglas J. Anderson, *gregory.w.group*

**OTHERS PRESENT:**

Larry Asberry, Jr., *Office of State Finance\**  
Dwight Bruss, *State Department of Education*  
Norman Cooper, *Oklahoma Education Association*  
Tommy Fulton, *Retired Member*  
Erin Boeckman, *Capitol Network News*  
Jeff Packham, *Journal Record*

\*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; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Neptune; Mr. Smith; Mr. Simpson; Mr. Goman; and Chairman Palluconi.

**MINUTES of MAY 23, 2007, BOARD MEETING APPROVED**

The Chairman asked for corrections, additions or a motion to approve the minutes of the May 23, 2007, meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma. A motion was

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

**CONSIDERATION OF PROPOSED FINDINGS OF FACT, CONCLUSIONS OF LAW  
AND RECOMMENDATION FOR HEARING ON the WILLIAM R. STEPHENS CASE**

The Chairman stated that the next item on the agenda is an administrative hearing on appeal from the denial of William R. Stephens' request to have retirement benefits based on the Education Employees Service Incentive Plan (EESIP) Act of 2006. The Administrative Hearing Officer, Judge William S. Myers, Case #OTRS-07-001, recommends that the protestant's request to participate in the Education Employees Service Incentive Plan be denied.

Chairman Palluconi stated for the record that this hearing will be conducted under the authority of the Oklahoma Administrative Procedures Act. Each trustee has received a copy of the Administrative Hearing Officer's Findings of Fact, Conclusions of Law and Recommendation. The trustees also received a copy of written briefs, exhibits, and/or statements from the parties involved. The member, through his counsel, will be afforded time to make a brief statement to the Board concerning the facts and any arguments they wish to present.

The staff or counsel will be afforded time to respond and the member or counsel and staff will be allowed to respond to questions from the trustees. Each side will have up to 10 minutes to present their arguments to the Board. After consideration of all evidence and arguments the Board will make a final determination on the proposed recommendation of the hearing officer. If the Board feels it would like to discuss the arguments of each side and the record in closed session, an Executive Session is available, on the agenda, following the close of all presentations. The Board of Trustees may accept, reject or accept as modified the recommendation of the hearing officer. The Board may reach its own conclusions and issue an order or the Board may reopen the case and hear evidence. As in all matters before the Board, seven (7) votes are necessary to approve any motion, resolution or order under consideration.

The Chairman introduced Debra Schwartz, an Assistant Attorney General, who will be representing only the Board of Trustees. If we need guidance regarding procedure, those questions should be directed to Ms. Schwartz. She stated Assistant Attorney General David L. Kinney, will represent the Retirement System.

The Chairman stated Mr. Stephens is here today and he is represented by his attorney Michael J. Romero, and that they may begin their comments.

Mr. Stephens stated he had brought materials with him and handed them out to the Board for reference. Mr. Stephens and his legal counsel, Mr. Romero, stated the reason for this hearing is to appeal the hearing officer's decision, that Mr. Stephens does not qualify for EESIP, citing rules and statute as partial reasoning. Both Mr. Stephens and Mr. Romero presented their appeal to the Board.

A response was heard from Mr. Beavers, Executive Secretary of the Teachers' Retirement System, and the Retirement System's legal counsel, Assistant Attorney General, David L. Kinney.

The Chairman, after hearing from each party, asked if the Board wished to enter into an Executive Session, and if so, a motion should be made to that effect.

**Vote to Enter into Executive Session**

A motion was made by Mr. Neptune with a second being made by Mr. Simpson to enter into Executive Session to discuss Case #OTRS-07-001 on William R. Stephens. The motion carried by Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Neptune; Mr. Smith; Mr. Simpson; Mr.

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Gorman; and Chairman Palluconi responding yes.

**Vote to Return to Open Session**

A motion was made by Ms. Conway with a second being made by Dr. Kirkpatrick to return to the Open Session. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Gorman; Mr. Simpson; Mr. Smith; Mr. Neptune; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Palluconi.

The Chairman stated during the Executive Session the Board took under consideration the Findings of Fact and Conclusions of Law reached by the Hearing Officer. The Chairman said she would entertain a motion that either affirms, rejects, or modifies the recommendation of the Hearing Officer.

**Motion to Affirm Hearing Officer's Order Carried**

A motion was made by Ms. Barnes with a second made by Dr. Kirkpatrick to affirm the Findings of Fact and Conclusions of Law made by the Hearing Officer, in its entirety. 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; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Neptune; Mr. Smith; Mr. Simpson; Mr. Gorman; and Chairman Palluconi responding yes.

Mr. Romero thanked the Board and gave notice that the Board's decision would be appealed to District Court.

A Break Was Taken from 2:17 to 2:23

**REPORT FROM THE TWO HUNDRED AND TWENTY-THIRD  
INVESTMENT COMMITTEE MEETING**

The Investment Committee meeting convened at 10:00 a.m. Wednesday, June 27, 2007, and adjourned at 12:40 p.m. Committee members present were as follows: Chairman Matti Palluconi; Cathy Conway; James Smith and Dick Neptune. Other trustees present were Ms. Barnes; Mr. Gorman\*; and Mr. Simpson.

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

**PRESENTATION BY gregory.w.group  
Market Performance, Manager Review, 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 a brief overview of their monthly report, given in-depth to the Investment Committee earlier in the day.

Mr. Weaver reported that Mike Keough, Greg Ekezian and Dennis Byrne with Goldman Sachs and Stan Majcher with Hotchkis & Wiley, were present at the Investment Committee meeting. He said both firms have been employed by the System since 1990. Mr. Weaver said each manager had given detailed presentations, explaining their investment philosophy, their individual results and how they are looking towards the future. Mr. Weaver stated Goldman Sachs is currently on "Notice" due to personnel changes and Hotchkis & Wiley in on "Alert" also due to personnel changes.

**Net of Fee and Market Performance Summary**

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This report indicates performance of the Fund, for periods ending May 31, 2007, 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, 7.29% vs. 9.10%; Goldman Sachs, 10.62% vs. 9.06%; Aletheia, 7.98% vs. 9.06%; Chase, 7.08% vs. 9.06%; Sawgrass, 8.35% vs. 9.06%; Advisory Research, 10.58% vs. 8.91%; EPOCH, 9.18% vs. 8.91%; AJO, 10.29% vs. 8.59%; Wellington, 12.75% vs. 8.59%; Frontier, 14.67% vs. 8.59%; H&W Mid-Cap, 7.95% vs. 8.59%; Shapiro, 9.20% vs. 7.10%; Tocqueville, 8.40% vs. 7.10%; Smith, 11.03% vs. 7.10%; Capital Guardian, 9.39% vs. 9.27%; Causeway, 10.20% vs. 9.27%; Brandes, 9.47% vs. 9.27%; Thornburg, 14.04% vs. 9.27%; Hoisington, -4.26% vs. -0.22%; Loomis Sayles, -0.29% vs. -0.22%; Lord Abbett, -0.16% vs. -0.22%; Mackay Shields, 0.05% vs. -0.22%; PIMCO, -0.45% vs. -0.22%; Standish, -0.16% vs. -0.22%; Stephens, -0.74% vs. -0.22%; and OTRS Cash, 1.36% vs. 1.34%.

Total Fund performance is as follows: Month of May 2007, 2.49% vs. 2.05%; last quarter, 6.68% vs. 6.08%; 1-year, 19.02% vs. 16.94%; 3-years, 13.70% vs. 12.69%; 5-years, 11.69% vs. 10.72%; and since inception, 10.97% vs. 11.30%. *(Returns over one year are annualized)*

### **Manager Status Summary - Update/Change**

This report gives the status of each investment manager, i.e. in "Compliance", on "Alert", and on "Notice", which may be caused by performance or organizational issues. There are five managers on "Alert", one manager on "Notice", with all other managers in "Compliance".

### **Place Standish Mellon on "Alert"**

gregory.w.group stated there has been a change in the System's portfolio management at Standish Mellon and recommended the Investment Committee place Standish Mellon on "Alert" due to this change.

### **Recommendation to Place Standish Mellon on "Alert" Carried**

The Chairman asked for a poll of the Board. The Investment Committee recommendation was approved by Mr. Gorman; Mr. Simpson; Mr. Smith; Mr. Neptune; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Palluconi responding yes.

### **Private Equity Review**

Mr. Weaver stated gregory.w.group had given materials to the Investment Committee concerning the private equity review that occurred several months ago, and talked about whether or not private equity should be part of the System's portfolio structure.

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 \$9,730,741,566.01 invested approximately 28% 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 0.46 basis points, the three-month return was

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1.36%, and the trailing twelve-month return was 5.46%.

**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, Period Ending APRIL 2007**

Total recaptured commissions for the month was \$54,866, total commissions paid was \$485,902, with a net cost per share of \$0.030 and year-to-date net cost per share of \$0.028. Fiscal year-to-date, recaptured commissions total \$443,484 on \$4,421,049 in paid commissions.

**Fiscal Year Comparison of Securities Lending**

Mr. Puckett stated 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 last year's and this year's earnings on securities lent and the lendable balance, including the market value and gross returns.

**Request by Lord Abbett to Invest in Credit Default Swaps (CDS)**

The Chairman stated the Investment Committee is recommending approval of Lord Abbett's request to allow investments in Collateralized Default Swap, staying within their Fixed Income guidelines. Mr. Smith stated in his business dealings he is in contact with Lord Abbett on a daily basis but feels he can make a fair and impartial decision. The Chairman asked if there were any questions and there being none asked for a poll of the Board.

**Investment Committee Recommendation Approved**

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

The Chairman asked Mr. Beavers for his reports.

**REPORT OF THE EXECUTIVE SECRETARY**  
**Report of Routine Items and Executive Secretary Report for June 2007**

Mr. Beavers referred the Board to section 4 in their binders and made his report, stating 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 Ms. Conway with a second being made by Mr. DeMuth. The motion carried by a unanimous voice vote. Trustees responding were: Mr. Gorman; Mr. Simpson; Mr. Smith; Mr. Neptune; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; 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

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members, persons withdrawing contributions and total dedicated revenue.

**Receipts and Claims for Authorized Expenditures**

Receipts and Claims totaled \$6,759,575.39 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 \$11,633.48.

**Recommendations for Retirement**

There were fifteen (15) disability and 999 regular contracts filed for retirement.

**Disability Retirement as Provided by Social Security**

There were four (4) 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.

**Termination of Retirement Benefits**

Monthly benefits were terminated for 81 members due to their deaths, and twenty (20) who returned to teaching and one (1) retirement cancelled.

**New Members**

There were 256 new member applications. 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 \$185,915.76. (Can include longevity and supplemental payroll.)

**Financial Statements**

These reports cover the month of May 2007.

**REPORT OF LEGAL COUNSEL**

**Litigation and Administrative Matters**

Mr. Kinney gave the Board a brief overview and update on current and future legal issues facing the Retirement System. Mr. Kinney said he would be glad to answer any questions the Board might have.

The Chairman asked Mr. Beavers for his comments for renewal of the actuarial contract with TRS.

**RENEWAL OF ACTUARIAL CONTRACT**

**Gabriel, Roeder, Smith & Company (GRS)**

Mr. Beavers stated this is to renew the contract currently in effect with Gabriel, Roeder, Smith & Company for actuarial and consulting services. He said this contract originally went into effect in 2004, with fee increases built into the contract and that he is recommending renewal for another year.

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**Motion to Renew Actuary Contract Carried**

A motion was made by Mr. Roper with a second being made by Dr. Kirkpatrick for renewal. The motion carried by Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Neptune; Mr. Smith; Mr. Simpson; Mr. Gorman; and Chairman Palluconi responding yes.

**TRS LEGISLATION**

Mr. Beavers gave the Board a brief summary on final legislation passed during this past legislative Session.

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

**PROPOSED OPERATING BUDGET  
FISCAL YEAR 2008**

Mr. Beavers referred the Board to section 7 in their binders stating this is the administrative budget for the Retirement System, required to be filed by June 30 of each year. He stated the budget indicates a total increase of approximately \$1.4 million of which \$1.2 million is the investment expenses. Mr. Beavers said there is an overall budget increase of about 3%. 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 2008 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 FY2008 Operating Budget. The motion carried by Mr. Gorman; Mr. Simpson; Mr. Smith; Mr. Neptune; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Palluconi responding yes.

The Chairman stated she would open the floor for nominations for Board officers.

**ELECTION OF BOARD OFFICERS**

**CHAIRMAN**

A nomination was made by Mr. Neptune that Cathy Conway be elected as Chairman. With no further nominations, Chairman Palluconi asked for a vote from the Board. Ms. Conway was elected as Chairman by a unanimous voice vote. Trustees responding were as follows: Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Neptune; Mr. Smith; Mr. Simpson; Mr. Gorman; and Chairman Palluconi.

**VICE-CHAIRMAN**

Mr. Neptune nominated James Smith as Vice-Chairman. With no further nominations, Chairman Palluconi asked for a vote from the Board. Mr. Smith was elected as Vice-Chairman by a unanimous voice vote. Trustees responding were as follows: Mr. Gorman; Mr. Simpson; Mr. Smith; Mr. Neptune; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Palluconi responding yes.

**SECRETARY**

Ms. Conway nominated Dick Neptune to continue as Secretary. With no further nominations, Chairman Palluconi asked for a vote from the Board. Mr. Neptune was elected as Secretary by a unanimous voice vote. Trustees responding were as follows: Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Neptune; Mr. Smith; Mr. Simpson; Mr. Gorman; and Chairman Palluconi responding yes.

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**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 before the Board. Mr. Beavers referred the Board to the latest copy of the TRS Newsletter on the tables before them, stating it is also on the TRS website. Also, Mr. Beavers reported there are two applicants being considered to replace the System's Director of Internal Audit and would bring those names before the Board's personnel and audit committees.

**ADJOURNMENT**

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There being no further business before the Board, a motion to adjourn was made by Mr. DeMuth and seconded by Ms. Conway. Chairman Matti Palluconi declared the meeting adjourned at 3:17 p.m. Trustees present at adjournment were as follows: Mr. Gorman; Mr. Simpson; Mr. Smith; Mr. Neptune; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; 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 25, 2007**

Investment Committee Meeting begins 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 its next regularly scheduled meeting on July 25, 2007.

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