

MINUTES
EIGHT HUNDRED AND SECOND MEETING
OF THE
BOARD OF TRUSTEES
TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA
JUNE 25, 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 1:04 P.M., Wednesday, June 25, 2008, 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 in accordance with 25 O.S. 2001 Section 311(9).

TRUSTEES PRESENT:

Cathy Conway, *Chairman*
James Smith, *Vice-Chairman*
Dick Neptune, *Secretary*
Sherrie Barnes*

Bruce DeMuth
Richard Gorman
Darryl Hatcher
John Kirkpatrick

Matti Palluconi
Michael Simpson

TRUSTEES NOT PRESENT:

Galeard Roper
Sandy Garrett
Tony Hutchison

TRS STAFF PRESENT:

Tommy C. Beavers, *Executive Secretary*
Bill Puckett, *Chief Investment Officer*
Edward Romero*, *Secretary/Treasurer*
Kim Bold, *Director of Human Resources*
Joe Ezzell*, *Director of Internal Auditing*
Marta Coombes, *Comptroller*
Kimber Chessmore, *Senior Internal Auditor*
Karen Yost, *Assistant to Executive Secretary and Board of Trustees*
Nellie Pennington*, *Administrative Assistant*

ACTUARY PRESENT:

Christian Conrad, *Gabriel, Roeder, Smith and Company*

LEGAL COUNSEL NOT PRESENT:

David L. Kinney, *Assistant Attorney General*

INVESTMENT CONSULTANT, gregory.w.group, PRESENT:

Gregory T. Weaver, *President, gregory.w.group*
Douglas J. Anderson, *gregory.w.group*
Tony Kay, *Research Analyst*
Eric Burkeholder, *Research Analyst*

OTHERS PRESENT:

Bryan Smith*, *eCapitol News*
Tommy Fulton, *Retired Member*
Dwight Bruss, *State Department of Education*
Norman Cooper, *Oklahoma Retired Educators Association*
John McPhetridge, *House Fiscal Staff*

*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. Hatcher; Mr. DeMuth; Dr. Kirkpatrick; Mr. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Gorman; and Chairman Conway.

MINUTES of MAY 28, 2008, BOARD MEETING APPROVED

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
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The Chairman asked for corrections, additions or a motion to approve the minutes of the May 28, 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 Mr. Gorman for approval of the minutes, as presented. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Dr. Kirkpatrick; Mr. DeMuth; Mr. Hatcher; and Chairman Conway. (*Ms. Barnes arrived after this vote.*)

Mr. Beavers introduced to the Board Nellie Pennington, an employee of the Retirement System who is retiring effective July 1, recognizing her more than 40 years of service.

Mr. Beavers thanked Mrs. Pennington for her service to the Retirement System and the State of Oklahoma.

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

The Investment Committee meeting convened at 9:02 a.m. Wednesday, June 25, 2008, and adjourned at 12:34 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 Ms. Barnes*, Mr. Gorman* and Darryl Hatcher*.

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

**PRESENTATION BY gregory.w.group
Market Performance, Asset Allocation Review,
May 31st 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 Sara Mongerson, Stephen Smith and John Brim with Smith Asset Management Group, Sam Shapiro and Mike McCarthy with Shapiro Capital Management, and Drew Rankin and Doug Adams with Tocqueville Asset Management, had made their respective 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.

Mr. Weaver introduced a new intern with their firm, Eric Burkeholder, a graduate of the University of Tulsa.

Net of Fee and Market Performance Summary

This report indicates performance of the Fund, for periods ending May 31, 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', 4.82% vs. 3.92%; Goldman, 11.35% vs. 8.44%; Aletheia, 6.32% vs. 8.44%; Chase, 6.32% vs. 8.44%; Sawgrass, 4.96% vs. 8.44%; Advisory, 3.73% vs. 6.52%; EPOCH, 10.46% vs. 6.52%; AJO, 8.53% vs. 9.98%; Wellington, 8.83% vs. 9.24%; Frontier, 9.24% vs. 9.98%; H&W Mid-Cap, 10.68% vs. 9.98%; Shapiro, 12.21% vs. 9.43%; Tocqueville, 8.27% vs. 9.43%; Smith, 8.75% vs. 9.43%; Capital Guardian, 4.76% vs. 5.71%; Causeway, 5.95% vs. 5.71%; Brandes, 5.13% vs. 5.71%; Thornburg, 3.51% vs. 5.71%; Hoisington, -3.54% vs. -0.60%; Loomis, 0.34% vs. -0.60%; Lord Abbett, 1.46% vs. -0.60%; MacKay Shields, -0.82% vs. -0.60%; PIMCO: -1.29% vs. -0.60%; Standish, -0.78% vs. -0.60%; Stephens, -1.87% vs. -0.60%; and TRS Cash, 0.77% vs. 0.37%.

Total Fund performance is as follows: Month of MAY 2008, 1.74% vs. 1.48%; last quarter, 4.84% vs. 4.83%; 1-year, -2.89% vs. -1.97%; 3-years, 8.76% vs. 8.82%; 5-years, 11.24% vs. 10.71%; and since inception, 10.06% vs. 10.52%. (*Returns over one year are annualized.*)

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**Manager Status Summary and
Possible Action**

This report indicates the status of each of the System's investment managers. There are currently five (5) managers on "Alert" and one manager on "Notice", with all other managers in "Compliance. The Chairman referred the Board to page 2-9, the letter from Goldman Sachs, reporting a personnel change and it was determined no action would be necessary. Chairman Conway stated there were no changes recommended by the Investment Committee to this report.

Due Diligence to Aldus Equity Partners and Visit to Smith Asset Management Group

Mr. Weaver reported that several Board members along with Mr. Beavers and staff went to Dallas for a due diligence meeting with Aldus Equity and Smith Asset.

Mr. Weaver said several hours were spent at Aldus interviewing several of their staff and looking into the various functions within their firm, how they invest funds, their reporting and what types of entities invested in. He said this was a very informative meeting.

Status on Policy Guidelines and Contract with Aldus Equity Partners

Mr. Beavers stated he and David Kinney were still reviewing a draft of the contract and policy guidelines, and should have these ready for the Board to review at next month's meeting.

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 \$9,410,706,655.53 invested approximately 31% in fixed income, 67% 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 0.22, the three-month return was .77%, and the trailing twelve-month return was 4.72%.

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 April, this report shows commissions paid of \$592,400, recaptured commissions totaled \$53,779 with a net per share of \$0.027, and for the Fiscal Year, commissions paid of \$5,848,868, recaptured of \$732,843, with a net per share of \$0.026.

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.

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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 3 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. Hatcher with a second made by Mr. Simpson. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Hatcher; Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Smith; Mr. Neptune; Ms. Palluconi; Ms. Simpson; Mr. Gorman; and Chairman Conway. 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 \$2,612,821.61 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 \$10,072.10.

Recommendations for Retirement

There were sixteen (16) disability and 1,227 regular contracts filed for retirement.

Disability Retirement Provided by Social Security

There were two (2) 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.

Disability Retirement Re-Evaluated

There were three (3) disability applicants recommended for continuation of benefits.

Termination of Retirement Benefits

Monthly benefits were terminated for 97 members due to their deaths, and twenty-four who returned to teaching.

New Members

There were 223 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 \$196,447.42. (Can include longevity and supplemental payroll.)

Financial Statements

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
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These reports cover the month of May 31, 2008.

Personnel Changes

The position of Programmer/Analyst was filled effective June 3, 2008.

**REPORT BY ACTUARY, GABRIEL, ROEDER, SMITH AND COMPANY
IMPACT OF 2% COLA EFFECTIVE JULY 1, 2008**

Mr. Chris Conradi, actuary with Gabriel, Roeder, Smith and Company, discussed the impact of a change in the System's actuarial COLA assumption. At present the annual actuarial valuation report includes an assumption that retiree COLAs will average 1% per year. Mr. Conradi reported that had the COLA assumption been 2% instead of 1% in the 2007 valuation, the System's liabilities would have increased by approximately \$1.3 billion. He also told the trustees the amortization period, the time required to retire the System's unfunded liabilities, would have been 34 years instead of 22. These estimates also assume an annual return on investments of 8%.

After considerable discussion, Mr. Conradi said he could provide new projections that take into account the investment return for the year ending June 30, 2008, and report these numbers at the July Board meeting.

The Chairman asked Mr. Beavers to report on the next item.

PROPOSED OPERATING BUDGET FOR FISCAL YEAR 2009

Mr. Beavers referred the Board to section 5 in their binders, stating this is the administrative budget and is required to be filed by June 30th of each year. He stated the budget is estimated to increase by 6.85% with the biggest portion of this increase being investment expenses. Without investment expenses, the day-to-day operations of the System only increase by 4.27%. Mr. Beavers stated he is recommending adoption by the Board and said he would answer any questions.

There being no questions, Chairman Conway asked for a motion from the Board

Motion to Adopt FY2009 Operating Budget Carried

A motion was made by Mr. Neptune with a second made by Ms. Palluconi to approve the proposed budget for FY2009. The motion carried by Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; Mr. Hatcher; and Chairman Conway responding yes.

RENEWAL of CONTRACT FOR ACTUARIAL AND CONSULTING SERVICES

Mr. Beavers stated the contract was originally approved in July 2004 and calls for annual renewals. This is the final year of this contract. Mr. Beavers said there are no changes to this contract and that he is recommending renewal.

Motion to Renew Carried

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

MONTHLY STIPEND: TRS MEDICAL BOARD PHYSICIANS

Mr. Beavers stated the System's Medical Board, made up of three medical doctors, was begun in 1947 and at that time, the medical doctors were paid \$50 per month. This amount was increased in 1983 to \$150 per month and has not been changed since that time. Mr. Beavers said these three physicians come to the office once a month and conduct an in-depth review of the applications for Disability

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Retirement. He reported that two of the physicians are retired but one is in active practice. Mr. Beavers said he is recommending the Board increase the amount paid each physician serving on the Retirement System's Medical Board to \$300 per month.

The Chairman asked for a motion from the Board

Motion to Increase Stipend Carried

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

**INTERNAL AUDIT REPORT:
Summary of Prior Findings and
Audit of Investment Accounting Reconciliation Procedures**

Joe Ezzell, director of the Internal Audit Division and Kimber Chessmore, Certified Information Systems Auditor, made a presentation to the Board concerning the summary of prior audit findings and an in-depth report on the audit of Investment Accounting Reconciliation Procedures, and after considerable discussion, the Board determined that it was not necessary to take any action on this report.

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

Mr. Kinney was not present and Mr. Beavers stated the only new item is on page 5, in that Mr. Stephens has appealed the Board's and Oklahoma County Court's decisions to a higher court, responses have been filed. He said he would be glad to answer any questions the Board might have.

ELECTION OF BOARD OFFICERS

CHAIRMAN

Cathy Conway was nominated as Chairman with a request that she be elected by acclamation. Ms. Conway was elected as Chairman by a unanimous voice vote. Trustees responding were as follows: Mr. Hatcher; Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Gorman; and Chairman Conway.

VICE-CHAIRMAN

James Smith was nominated as Vice-Chairman, with a request he be elected by acclamation. Mr. Smith was elected as Vice-Chairman by a unanimous voice vote. Trustees responding were as follows: Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; Mr. Hatcher; and Chairman Conway responding yes.

SECRETARY

Dick Neptune was nominated as Secretary with a request he be elected by acclamation. Mr. Neptune was elected as Secretary by a unanimous voice vote. Trustees responding were as follows: Mr. Hatcher; DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Gorman; and Chairman Conway responding yes.

**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.

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NEW BUSINESS

The Chairman asked if there was any new business.

Chairman Conway informed the Board on the upcoming interviews, stating the Search Committee would conduct interviews in July, bring the results to the Board at the July 23rd meeting. If the full Board concurs with the Committee's choices, then the full Board would conduct final interviews in August, prior to the August 27th meeting.

Mr. Beavers reminded the Board about the NCTR Trustee meeting in California in July, and the Trustee conference in Stillwater in September.

ADJOURNMENT

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There being no further business before the Board, the Chairman declared the meeting adjourned at 3:03 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 - July 23, 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, 5th 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 July 23, 2008.

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