

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

JULY 27, 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, July 27, 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:

Galeard Roper
Sandy Garrett
Claudia San Pedro
Sherrie Barnes

TRS STAFF PRESENT:

Tommy C. Beavers, *Executive Secretary*
Bill Puckett, *Chief Investment Officer*
Sue Callahan, *Assistant Executive Secretary*
Joe Ezzell, *Secretary-Treasurer*
Jennelle Enevoldsen, *Director, Internal Auditing*
Adam Attaoui, *Information Security Administrator*
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*
Douglas J. Anderson, *gregory.w.group*
Darrel Pfeifouf, *gregory.w.group*

OTHERS PRESENT:

Norman Cooper, *Oklahoma Education Association*
Tommy Fulton, *TRS Retired Member*
Harold Sare, *Oklahoma Retired Educators Association*

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
JULY 27, 2005**

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: Dr. Kirkpatrick; Mr. Anderson; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; Ms. Raasch; Mr. DeMuth; and Chairman Palluconi.

MINUTES of June 29, 2005, BOARD MEETING APPROVED

The Chairman asked for corrections, additions or a motion to approve the minutes of the June 29, 2005, meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma. A motion was made by Ms. Conway 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. Anderson; Dr. Kirkpatrick; and Chairman Palluconi.

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

The Investment Committee meeting convened at 10:00 a.m. Wednesday, July 27, 2005, and adjourned at 12:58 p.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: Kenneth Anderson; Bruce DeMuth; John Kirkpatrick; and Denise Rhodes.

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

**PRESENTATION BY gregory.w.group
Market Performance, Asset Allocation Review, June 30 Performance Summary**

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

Mr. Weaver said Hoisington Investment Management and Stephens Capital Management had made their reports to the Investment Committee earlier today. Mr. Weaver stated that both managers were very thorough in their presentations talking about their portfolio structure and strategy, and their outlook on the economy, interest rates, and positioning. He reported for the month of June the total Fund was up 1.48% relative to a market at 1.17% with a total value of slightly over \$7.5 billion.

Net of Fee and Market Performance Summary

This report indicates performance of the Fund, for periods ending June 30, 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, 1.39% vs. 1.37%; H&W Large-Cap, 4.85% vs. 1.65%; Goldman Sachs, 3.28% vs. 2.46%; AJO, 3.24% vs. 4.18%; Wellington, 2.17% vs. 4.18%; Frontier, 2.45% vs. 4.18%; H&W Mid-Cap, 5.20% vs. 4.18%; Shapiro, 2.26% vs. 4.32%; Tocqueville, 3.24% vs. 4.32%; Smith, N/A vs. 4.32%; Capital Guardian, -0.87% vs. -0.75%; Causeway, -0.46% vs. -0.75%; Brandes, -1.53% vs. -0.75%; Hoisington, 12.77% vs. 3.01%; Loomis Sayles, 2.31% vs. 3.01%; Lord, Abbett, 3.08% vs. 3.01%; MacKay Shields, 2.83% vs. 3.01%; Neuberger Berman, 2.49% vs. 3.01%; PIMCO, 3.25%

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
JULY 27, 2005**

vs. 3.01%; Standish Mellon, 3.00% vs. 3.01%; Stephens, 2.72% vs. 3.01%; and OTRS Cash, 0.76% vs. 0.74%.

Total Fund performance is as follows: Month of JUNE 2005, 1.45% vs. 1.17%; last quarter, 2.50% vs. 2.27%; 1-year, 10.07% vs. 9.43%; 3-years, 11.55% vs. 10.30%; 5-years, 5.06% vs. 4.44%; and since inception, 10.39% vs. 10.93%. *(Returns over one year are annualized.)*

TRS INVESTMENT REPORTS AS OF June 30, 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 \$7,546,599,102.76 invested approximately 27% in fixed income, 70% 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 0.26% basis points, the three-month return was 0.76%, and the trailing twelve-month return was 2.28%.

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 MAY 2005

Total recaptured commissions for the month was \$68,192 total commissions paid was \$342,423, with a net cost per share of \$0.024 and year-to-date net cost per share of \$0.030. Fiscal year-to-date, recaptured commissions total \$713,922 on \$4,506,468 in paid commissions.

Report on RFP for Custodial and Securities Lending Services

The Chairman stated Mr. Beavers and Mr. Puckett had made a report to the Investment Committee on their evaluation of the RFPs for custodial and securities lending services for the Fund. She said the recommendation from the Investment Committee is to authorize staff and any trustees, to conduct on-site visits to Northern Trust, JP Morgan/Chase Bank, and State Street for the purposes of evaluation before making a final selection.

Approval of Investment Committee Recommendation Carried

The Investment Committee Recommendation was approved. The Recommendation carried by Dr. Kirkpatrick; Mr. Anderson; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; Ms. Raasch; Mr. DeMuth; and Chairman Palluconi responding Yes.

The Chairman asked Greg Weaver for his comments on negotiations with Thornburg.

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
JULY 27, 2005**

Report on Thornburg Fee Negotiation

Mr. Weaver stated the Board had directed gregory.w.group to negotiate the fee with Thornburg down to 50 basis points. He said this was not successful due to Thornburg's favored nations clause with other funds. He stated the fee is set at 57 ½ basis points if funded with \$150 million and a fee of 50 basis points if funded with \$300 million. Since the final fee is different than that discussed at the July Board meeting, Mr. Beavers and Mr. Puckett deemed it necessary to bring this back to the Board for any further discussion.

The Chairman stated the Investment Committee discussed how to fund Thornburg and is recommending that \$75 million be taken from Brandes and \$75 million from Causeway for this portfolio and also to authorize staff to find the best transition manager for this transfer of funds. She also commented that it is important that an on-site visit be scheduled for staff and trustees to go to Thornburg's facilities and as soon as possible.

Chairman Palluconi stated the Investment Committee Recommendation is to retain Thornburg with the fee of 57 ½ basis points and asked for a poll of the Board

Investment Committee Recommendation to Hire Thornburg Approved

The Investment Committee Recommendation to hire Thornburg as the newest international equity manager at 57.5 basis points, was approved. The Recommendation carried by Mr. DeMuth; Ms. Raasch; Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Conway; Mr. Anderson; Dr. Kirkpatrick; and Chairman Palluconi responding Yes.

**Investment Committee Recommendation for Funding Thornburg Approved:
Reallocation of Funds and Transition Manager**

The Investment Committee recommends that funding for Thornburg be obtained by taking \$75 million each from Brandes and Causeway, and to authorize TRS staff to use the best transition manager possible. The Recommendation carried by Dr. Kirkpatrick; Mr. Anderson; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; Ms. Raasch; Mr. DeMuth; and Chairman Palluconi responding Yes.

Ratify Special Procedures for Japanese Government Bonds

Mr. Beavers stated the issue at hand is to modify our arrangements with Northern Trust in respect to the purchase of Japanese government bonds. He stated there are special handling features that both Teachers' Retirement and Northern Trust must go through to have those bonds held in a bookentry form in Japan in order to maintain the Fund's non-taxable status on these types of bonds, and to be able to recover the withholding made for taxes.

Mr. Beavers stated, by the Board's action today, this would give him the ability to sign the authorization for ratification of the contract with Northern Trust to implement the procedures necessary for the purchase of these bonds. He said in almost everything the Fund does, we require the laws of the state of Oklahoma govern the transactions of contracts the Retirement System enters into, but in this case the Japanese authority allows only laws of certain states within the United States to be applicable for these types of purchases. Mr. Beavers stated one of these is the state of New York, which Teachers' Retirement has chosen for applicable laws governing the purchase of Japanese government bonds.

Chairman Palluconi stated the Investment Committee Recommendation is to approve ratification of the special procedures for holding Japanese government bonds as an amendment to the Northern

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
JULY 27, 2005**

Trust contract.

**Investment Committee Recommendation Carried
Ratification of Northern Trust Contract**

The Chairman asked for a vote from the Board. The Investment Committee Recommendation carried by Mr. DeMuth; Ms. Raasch; Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Conway; Mr. Anderson; Dr. Kirkpatrick; and Chairman Palluconi responding Yes.

**REPORT BY DIRECTOR OF INTERNAL AUDITING
Retirement Benefit Processing and
Internal Audit Plan FY2006**

Ms. Enevoldsen gave the Board an in-depth report on the audits performed and the findings and recommendations resulting from those audits. She also reported to the Board her FY2006 Audit Plan.

After discussion, The Chairman asked for a motion from the Board.

Motion to Approve Internal Auditing Report Carried

A motion was made by Mr. Anderson with a second being made by Ms. Raasch to accept the audit report. The motion carried by a unanimous voice vote. Trustees responding were as follows: Dr. Kirkpatrick; Mr. Anderson; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; Ms. Raasch; Mr. DeMuth; and Chairman Palluconi responding Yes.

Mr. Anderson stated he wanted the Board to know that he thinks the Internal Auditing Division is the eyes and ears of System management and the Board and that he believes what this Division does is important and wanted to commend Ms. Enevoldsen and her staff along with Mr. Beavers and TRS management for being committed to the audit process and for also backing it up with action.

Chairman Palluconi stated that she appreciated the audit reports, seeing just how deeply this Division has looked at the Retirement System, which she believes to be extremely efficient in most areas.

**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 Dr. Kirkpatrick. 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. Anderson; Dr. Kirkpatrick; and Chairman Palluconi. The Reports are as follows:

Monthly Expenditures

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

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
JULY 27, 2005**

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 \$1,093,412.41 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 \$8,570.94.

Recommendations for Retirement

There were 344 regular and eleven (11) 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 three (3) disability retirement accounts recommended for continuation of benefits.

Retirement Payroll Termination Report

Monthly benefits were terminated for 108 members due to death, one (1) retirement that was cancelled, and 12 members who returned to active employment with an Oklahoma education entity.

New Members

There were 243 new member applications in June, 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 \$172,024.82. (Can include longevity and supplemental payroll.)

Financial Statements

The financial statements are for the period ending June 30, 2005.

Summary of Investment Activity

This report indicates Short-Term and Long-Term investments at market value on a full accrual basis, as of June 30, 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.

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
JULY 27, 2005**

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

Mr. McCormick informed the Board there are no changes in his legal report.

PROMULGATION OF EMERGENCY RULE 715:10-1-7

Mr. Beavers referred the Board to Section 6 in their binders. He stated this is an emergency rule that the System is asking the Board to promulgate. This rule applies to those members who become employed or are elected to a national, state or local education association office, allowing those persons to continue to participate in the Teachers' Retirement System for a specific period of time. Mr. Beavers said in this case, the Legislature changed the period of time from eight years to 12 years, providing the Retirement System would receive a favorable ruling from the Internal Revenue Service, and the System has received that private letter ruling from the IRS.

Mr. Beavers stated if the Board adopts this rule, it will be sent to the Governor and he must approve it before it becomes permanent. Mr. Beavers stated he is recommending the Board adopt this rule.

Motion to Adopt Rule 715:10-1-7 Carried

A motion was made by Ms Rhodes with a second being made by Mr. Neptune to adopt. The motion carried by a unanimous voice vote. Trustees responding were as following: Dr. Kirkpatrick; Mr. Anderson; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; Ms. Raasch; Mr. DeMuth; and Chairman Palluconi responding Yes.

The Chairman asked Mr. Neptune for his comments.

SECURITIES LITIGATION COMMITTEE REPORT

Mr. Neptune stated the Committee consisted of himself as Chairman, Jim Smith and John Kirkpatrick, and was formed for the purpose of analyzing and interviewing law firms that might be interested in litigation where either corporate fraud or some other type of wrongdoing has resulted in a substantial loss to the Retirement Fund.

Mr. Neptune said the Committee along with Mr. Beavers, Mr. McCormick and Mr. Puckett, heard from three firms yesterday, Tuesday, July 26. Those firms were Schiffrin & Barroway, LLP in Pennsylvania, Bernstein Litowitz Berger & Grossmann LLP (BLB&G) from New Orleans, and Milberg Weiss out of Florida. He stated each firm was given approximately 45 minutes their presentation, a question and answer session with the Board, and a final summary from each.

Mr. Neptune stated the Securities Lending Committee is recommending the Board retain BLB&G as additional securities litigation counsel for the Fund and that staff negotiate a standard contingency contract to include the firm's monitoring services as presented in BLB&G's presentation materials. Ms. Rhodes made a second to the Committee's recommendation.

After further discussion, Chairman Palluconi asked for a vote from the Board.

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
JULY 27, 2005**

Securities Lending Committee Recommendation Carried

The Recommendation carried by Mr. DeMuth; Ms. Raasch; Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Conway; Mr. Anderson; Dr. Kirkpatrick; and Chairman Palluconi responding Yes.

REPORT FROM THE BOARD PERSONNEL COMMITTEE

Ms. Conway said the Personnel Committee is made up of herself as chair, along with Mr. Roper and Mr. DeMuth. Ms. Conway stated for the first time this Board, for that matter, any previous Teachers' Retirement Board, the Executive Secretary was evaluated by the trustees. She stated after making a tally of the completed evaluations, it was presented to the Personnel Committee for review yesterday, Tuesday, July 26. Ms. Conway said that Mr. Beavers was also asked to attend this meeting.

Ms. Conway stated the Committee went over the evaluations with Mr. Beavers and that she is pleased to announce that on average, our Board rated Mr. Beavers substantially above expectations and wanted to express to him how much the Board appreciates his work, that they admire him and hope this coordination between the Board and Mr. Beavers continues for a long time.

Mr. Beavers thanked the Board and expressed his appreciation.

Personnel Committee Report Accepted

The Chairman asked for a poll of the Board. The report was accepted by Dr. Kirkpatrick; Mr. Anderson; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; Ms. Raasch; Mr. DeMuth; and Chairman Palluconi responding Yes.

**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 asked if there was any new business, and Mr. Beavers stated he had material for the Board.

Mr. Beavers gave the Board information on the upcoming NCTR annual convention in October, which will be held in New Orleans this year. He also gave the Board a copy of a newspaper article concerning a situation at Lawton Public Schools that could eventually come before the Board.

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
JULY 27, 2005**

Chairman Palluconi determined all business before the Board had concluded and declared the meeting adjourned.

ADJOURNMENT

The meeting adjourned at 2:46 p.m. Trustees present at adjournment were as follows: Mr. DeMuth; Ms. Raasch; Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Conway; Mr. Anderson; Dr. Kirkpatrick; 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 - August 24, 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 its next scheduled meeting on August 24, 2005.

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