

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

**JULY 26, 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 1:31 P.M., Wednesday, July 26, 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 8:45 a.m., Tuesday, July 25, 2006, in accordance with 25 O.S. 2001 Section 311(9).

**TRUSTEES PRESENT:**

Matti Palluconi, <i>Chairman</i>	Bruce De Muth
Cathy Conway, <i>Vice-Chairman</i>	John Kirkpatrick
Dick Neptune, <i>Secretary</i>	Galeard Roper
Sherrie Bames	Michael Simpson
	James Smith

**TRUSTEES NOT PRESENT:**

Sandy Garrett  
Richard Gorman  
Betty Minton  
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*  
Brian MacMillan, *gregory.w.group*

**OTHERS PRESENT:**

Charles Barnes, *Sand Springs Public Schools*  
Vivian Baber, *State Department of Education*  
Erin Boeckman, *Capitol Network News*  
Norman Cooper, *Oklahoma Education Association*  
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; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Mr. Neptune; Mr. Smith; Mr. Simpson; and Chairman Palluconi. (*Ms. Conway was out of the room.*)

**MINUTES of JUNE 21, 2006, BOARD MEETING APPROVED**

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING  
JULY 26, 2006**

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The Chairman asked for corrections, additions or a motion to approve the minutes of the June 21, 2006, meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma. A motion was made by Mr. Neptune 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. Simpson; Mr. Smith; Mr. Neptune; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Palluconi.

**REPORT FROM THE TWO HUNDRED AND THIRTEENTH  
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. (*Ms. Conway returned to room after this vote.*)

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

**PRESENTATION BY gregory.w.group  
Market Performance, Manager Review, Asset Allocation Review,  
June 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 an overview of their June 30<sup>th</sup> monthly report, given in-depth to the Investment Committee earlier in the day.

Managers present during the Investment Committee meeting were Van Hoisington, Jan Teague-Bright, and David Hoisington of Hoisington and Bill Tedford and Allan Tedford of Stephens. Both firms gave the Investment Committee very thorough presentations earlier in the day. Mr. Anderson reported these two are interest-rate sensitive managers and there is approximately \$400 million of the Fund's total assets between these two managers.

**Net of Fee and Market Performance Summary**

This report indicates performance of the Fund, for periods ending June 30, 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, -1.43% vs. -1.44%; H&W Large-Cap, -3.38% vs. 0.59%; Goldman Sachs, -5.09% vs. -3.90%; Aletheia, N/A; Chase, N/A; Sawgrass, N/A; AJO, -2.70% vs. -2.57% Wellington, -4.28% vs. -2.57%; Frontier, -6.31% vs. -2.57%; H&W Mid-Cap, -4.41% vs. 2.57%; Shapiro, -3.31% vs. -5.02%; Tocqueville, -6.96% vs. -5.02%; Smith Cap, -8.20% vs. -5.02%; Cap Guardian, -0.38% vs. 0.94%; Causeway Cap, 2.18% vs. 0.94%; Brandes, 0.81% vs. 0.94%; Thomburg, N/A; Hoisington, -3.28% vs. -0.08%; Loomis Sayles, -0.07% vs. -0.08%; Lord Abbett, -0.11% vs. -0.08%; MacKay Shields, -0.26% vs. -0.08%; PIMCO, 0.03% vs. -0.08%; Standish Mellon, -0.08% vs. -0.08%; Stephens, -1.35% vs. -0.08%; and OTRS Cash, 1.27% vs. 1.21%.

Total Fund performance is as follows: Month of JUNE 2006, -0.34% vs. 0.18%; last quarter, -2.14% vs. -1.22%; 1-year, 9.34% vs. 9.99%; 3-years, 13.15% vs. 12.43%; 5-years, 7.48% vs. 7.12%; and since inception, 10.30% vs. 10.87%. (*Returns over one year are annualized.*)

**Manager Status Summary**

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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 24 managers, five are on "Alert".

## **Non-Traditional Investing**

Mr. Weaver and Mr. Anderson gave materials to the Investment Committee concerning investing in private equities and made an in-depth presentation on this issue. The Investment Committee decided that no action was necessary at this time, but to continue to study the matter.

The Chairman reminded the Board that the August Investment Committee would begin at 9:00 a.m. and the Board meeting would begin at 12:30 p.m. due to the complete second quarter summary being presented by gregory.w.group.

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 \$8,133,950,490.93 invested approximately 29% in fixed income, 68% 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 0.45 basis points, the three-month return was 1.27%, and the trailing twelve-month return was 4.40%.

### **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 2006**

Total recaptured commissions for the month was \$73,044, total commissions paid was \$603,731, with a net cost per share of \$0.029 and year-to-date net cost per share of \$0.029. Fiscal year-to-date, recaptured commissions total \$609,536 on \$4,891,830 in paid commissions.

### **Update on Transition of Funds to New Large-Cap and All-Cap Managers, and Fixed Income**

Mr. Puckett stated the large-cap managers that have been given additional funding, are Aletheia, Chase, and Sawgrass. Mr. Puckett said by hiring a transition manager the Fund saved a little over \$1.3 million with a cost of just over \$1.2 million. He said the motion today is concerning the funding of the all-cap managers, Epoch and Advisory Research, and also includes taking funds from the Hotchkis & Wiley Large-Cap portfolio and the liquidation of the S&P 500 portfolio.

Chairman Palluconi stated this item had come before the Board previously and was now again being addressed by the Board and asked Mr. Puckett for further explanation.

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Mr. Puckett stated during the previous Board meeting, a motion was made to liquidate the S&P500 portfolio, which totaled \$500 million, to fund Epoch and Advisory Research each, with \$250 million. Due to market swings the S&P account is less than \$500 million. In reviewing the contract with Epoch, it states if funded with \$250 million, there would be a 2 basis point reduction in their fee. This 2 basis point reduction would save the Fund \$50,000 annually.

Chairman Palluconi stated the Investment Committee recommendation is, to ensure that Epoch and Advisory Research are each funded with \$250 million, funds will come from the liquidation of the S&P500 account and if, at the time of transition there is a shortfall in the S&P500 account, additional funds to bring the amount to \$500 million would be taken from the Hotchkis & Wiley Large-Cap portfolio. The Chairman also stated this recommendation gives Mr. Puckett and staff the authority to perform the transition in the most efficient and cost-effective manner possible.

**Epoch and Advisory Research Motion Carried**

The motion carried by Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Neptune; Mr. Simpson; and Chairman Palluconi responding yes.

**Conversion to J.P. Morgan for Custodial and Securities Lending Services**

Mr. Puckett and Mr. Beavers gave a report to the Board concerning the ongoing transition from Northern Trust to J.P. Morgan as the Retirement System's global custodian and for securities lending services. Both stated that the transition is going well.

Chairman Palluconi asked Ms. Enevoldsen for her department's report.

**INTERNAL AUDITING REPORT  
Annual Audit Plan and Inactive Accounts Audit**

Mr. Enevoldsen, Director of the Internal Auditing Department, gave the Board a report on the audit of the inactive accounts, whether vested or non-vested. She stated the audit determined there are adequate controls over these accounts and that staff is following procedures.

**Motion for Approval of the Audit Report Carried**

The Chairman asked for a motion from the Board. A motion was made by Mr. Roper with a second being made by Dr. Kirkpatrick. The motion carried by a unanimous voice vote. Trustees responding are as follows: Mr. Simpson; Mr. Smith; Mr. Neptune; Ms. Conway; Mr. Roper; Ms. Barnes; Dr., Kirkpatrick; Mr. DeMuth; and Chairman Palluconi.

Ms. Enevoldsen then reported on her department's Audit Plan for Fiscal Year 2007. She said the Audit Plan was determined in part by input from the Board of Trustees as well as from TRS management.

Ms. Enevoldsen informed the Board that every five years, internal auditors are to have their own audit performed on themselves. To prepare for this, an internal assessment is performed and part of that assessment will be to perform a quality assessment on the internal auditor for CalSTERS (California State Employees Retirement System) for their quality review. She stated the Board's Audit Committee will contract with either an outside firm or another retirement system to perform the internal assessment. Mr. Enevoldsen stated she would be glad to answer any questions.

**Motion to Approve Audit Plan Carried**

A motion was made by Mr. DeMuth with a second being made by Dr. Kirkpatrick for approval. The

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motion carried by Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Neptune; Mr. Smith; Mr. Simpson; and Chairman Palluconi responding yes.

A break was taken from 2:07 to 2:29, during which a short reception was held for John McCormick, who has been appointed by Governor Henry as a judge to the Workers' Compensation Court.

The Chairman 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. Smith with a second being made by Ms. Conway. The motion carried by Mr. Simpson; Mr. Smith; Mr. Neptune; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Palluconi responding yes. 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 \$268,011.30 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 \$4,437.54.

**Recommendations for Retirement - June and July**

The month of June, there were 640 regular and 13 disability contracts and for the month of July, there were 586 regular and 7 disability contracts filed for retirement.

**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.

**Out-of-State Travel**

A request from the Finance Department to attend the 3<sup>rd</sup> Annual Professional Development Conference in Savannah, Georgia.

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**Tax-Sheltered Annuity Hardship Requests**

There was one (1) request for withdrawal of Tax-Sheltered funds.

**Termination of Retirement Benefits**

Monthly benefits were terminated for 98 members due to their deaths, 25 who returned to teaching, and 3 who cancelled their retirement.

**New Members**

There were 260 new member applications, and the list of new enrollments may be reviewed in the Executive Secretary's office.

**Personnel Changes**

There were two (2) resignations, one (1) new hire, one (1) voluntary demotion, and one (1) promotion.

**Employees' Salaries**

This report indicates employee's salaries and their positions within the Retirement System. Employee salaries totaled \$183,352.77. (Can include longevity and supplemental payroll.)

**Financial Statements**

The financial statements are for the period ending June 30, 2006.

The Chairman asked Mr. Beavers for his comments.

**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..

**Motion Carried**

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

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

Mr. McCormick made his legal report to the Board stating the interpleader had been filed in the Calbert case, and the Seymour case will have a court hearing on August 18<sup>th</sup>. Mr. McCormick stated, when he assumes his position with the Workers' Compensation Court, that Assistant Attorney General Scott Boughton, who currently represents the Retirement System in the Raff case, would represent the Retirement System in the Seymour case.

Mr. Beavers and Mr. McCormick spoke to the Board about future litigation as it pertains to securities fraud.

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Mr. Neptune and Dr. Kirkpatrick, the Board's Securities Litigation Committee, stated it is their feeling that the Executive Secretary and/or legal counsel for the Board should review those items brought to their attention by the Retirement System's securities litigation counsels, and then bring recommendations back to the Securities Committee or to the Board for consideration.

Mr. McCormick also stated he thought it would be appropriate for the Board to delegate to Mr. Beavers the ability to review and make decisions on cases for securities litigation, allowing the litigation firms to go forward with a review of the case and if it is determined the matter is ready for litigation, then have Mr. Beavers come back to the Board for a decision.

**Motion Carried**

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

**RENEWAL OF CONTRACT WITH  
ICE MILLER  
FEDERAL PENSION LAW AND TAX CONSULTANT**

Mr. Beavers stated this is a renewal of one of the System's professional services contracts. This is the firm we have retained for a number of years to advise the Retirement System staff on matters pertaining to Internal Revenue regulations. This firm specializes in pension law and federal tax issues. Mr. Beavers said he is recommending renewal of this contract.

**Motion Carried**

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

**2006 LEGISLATION**

Mr. Beavers referred the Board to Section 8 in their binders, concerning those bills passed during the Special Session of the Legislature and signed by the Governor that will affect the Retirement System. The Wear-Away bill, two appropriation bills, and an FTE bill that gives the number of full-time positions the Retirement System is allowed to employ.

**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 3:05 p.m. Trustees present at adjournment were as follows: 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 - August 23, 2006**

Investment Committee Meeting at **9:00 A.M.**

Board Meeting begins at **12:30 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 regularly scheduled meeting on August 23, 2006.

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

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA  
BOARD OF TRUSTEES  
REGULARLY SCHEDULED MONTHLY MEETING**