

**MINUTES**  
**SEVEN HUNDRED AND EIGHTIETH MEETING**  
**BOARD OF TRUSTEES**  
**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA**

**AUGUST 23, 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 12:36 P.M., Wednesday, August 23, 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 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>	Betty Minton
Sherrie Barnes	Galeard Roper
Bruce DeMuth	Michael Simpson
Richard Gorman	James Smith

**TRUSTEES NOT PRESENT:**

Sandy Garrett  
Dick Neptune, *Secretary*  
Claudia San Pedro

**TRS STAFF PRESENT:**

Tommy C. Beavers, *Executive Secretary*  
Sue Callahan, *Assistant Executive Secretary*  
Bill Puckett, *Chief Investment Officer*  
Kara Johnson, *Internal Auditor*  
Becky Yearout, *Cash Management Officer*  
Karen Yost, *Assistant to Executive Secretary and Board of Trustees*

**INVESTMENT CONSULTANT PRESENT:**

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

**OTHERS PRESENT:**

Larry Asberry, *Office of State Finance*  
Charles Barnes, *Sand Springs Public Schools*  
Brian Ervin, *Capitol Network News*  
Tommy Fulton, *Retired Member*

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

**MINUTES of JULY 23, 2006, BOARD MEETING APPROVED**

The Chairman asked for corrections, additions or a motion to approve the minutes of the July 23, 2006, meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma. A motion was made by Dr. Kirkpatrick with a second made by Mr. Smith for approval of the minutes. The motion carried by a unanimous voice vote. Trustees responding were as follows: Ms. Minton; Mr. Gorman; Mr. Simpson; Mr. Smith; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Palluconi.

**REPORT FROM THE TWO HUNDRED AND FOURTEENTH**

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**INVESTMENT COMMITTEE MEETING**

The Investment Committee meeting convened at 9:05 a.m. Wednesday, August 23, 2006, and adjourned at 12:07 p.m. Committee members present were as follows: Chairman Matti Palluconi; Cathy Conway; and James Smith\*. Other trustees present were Mr. Gorman; Dr. Kirkpatrick; and Ms. Minton. (*Mr. Simpson and Ms. Barnes were in the Rules Committee meeting.*)

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

**PRESENTATION BY gregory.w.group  
Market Performance, Manager Review, Asset Allocation Review,  
July 31<sup>st</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 July 31<sup>st</sup> monthly report, given in-depth to the Investment Committee earlier in the day. Mr. Weaver reported that both Frontier and Wellington have shown good improvement in recent months. He said the fee for Frontier is 67 basis points and for Wellington, 45 basis points.

The investment managers present during the Investment Committee meeting were Stephen Knightly of Frontier Capital and Alexander Grant and Sarah Sturtevant of Wellington. Both firms gave the Investment Committee very thorough presentations earlier in the day.

**Net of Fee and Market Performance Summary**

This report indicates performance of the Fund, for periods ending July 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, -2.15% vs. -2.13%; H&W Large-Cap, -4.45% vs. 0.48%; Goldman Sachs, -6.25% vs. -5.60%; Aletheia, N/A; Chase, N/A; Sawgrass, N/A; AJO,, -5.30% vs. -5.37%; Wellington, -8.03% vs. -5.37%; Frontier, -8.55% vs. -5.37%; H&W Mid-Cap, -5.91% vs. -5.37%; Shapiro, -2.61% vs. -8.10%; Tocqueville, -11.89% vs. -8.10%; Smith Cap, -12.79% vs. -8.10%; Cap Guardian, -3.99% vs. -2.76%; Causeway Cap, -2.28% vs. -2.76%; Brandes, -3.57% vs. -2.76%; Thornburg, N/A; Hoisington, 4.25% vs. 1.46%; Loomis Sayles, 1.33% vs. 1.46%; Lord, Abbett, 1.35% vs. 1.46%; MacKay Shields, 1.13% vs. 1.46%; PIMCO, 1.51% vs. 1.46%; Standish Mellon, 1.50% vs. 1.46%; Stephens, 1.31% vs. 1.46%; and OTRS Cash, 1.35% vs. 1.22%.

Total Fund performance is as follows: Month of JULY 2006, -0.06% vs. 0.10%; last quarter, -3.41% vs. -2.45%; 1-year, 6.32% vs. 7.19%; 3-years, 12.42% vs. 12.07%; 5-years, 7.54% vs. 7.24%; and since inception, 10.25% vs. 10.81%. (*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 24 managers, five are on "Alert" with all other managers "In Compliance".

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**

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The total market value of the portfolio was \$8,171,041,731.173 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 0.41 basis points, the three-month return was 1.35%, and the trailing twelve-month return was 4.55%.

**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 JUNE 2006**

Total recaptured commissions for the month was \$34,167, total commissions paid was \$434,261, with a net cost per share of \$0.030 and year-to-date net cost per share of \$0.029. Fiscal year-to-date, recaptured commissions total \$643,703 on \$5,324,556 in paid commissions.

**Renewal of Manager Contracts:  
Hoisington; Lord, Abbett; MacKay Shields; Stephens; and Tocqueville**

The Chairman reported there are no changes to these contracts and the Investment Committee is recommending renewal and asked for a vote of the Board.

**Investment Committee Recommendation Carried**

The Investment Committee recommendation carried by, Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Smith; Mr. Simpson; Mr. Gorman; Ms. Minton; and Chairman Palluconi responding yes.

**Loomis Sayles' Request for Exception**

The Chairman asked Mr. Puckett for his comments.

Mr. Puckett stated this request is from Loomis Sayles who is requesting they be allowed to use treasury bond futures to manage their duration, making it faster and less expensive. Mr. Puckett said he had spoken with gregory.w.group concerning this matter and they have stated they are comfortable with this request. Mr. Puckett and the consultant are recommending approval.

**Investment Committee Recommendation Carried**

The Chairman asked for discussion and there being none, asked for a poll of the Board. The Investment Committee recommendation carried by, Ms. Minton; Mr. Gorman; Mr. Simpson; Mr. Smith; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; and Mr. DeMuth responded yes.

**Private Equity Management Questionnaire**

Chairman Palluconi stated this matter had been discussed in detail during the Investment Committee meeting. She said it should be made clear that should the Board look into private equity, it does not obligate the Board in any way to invest or fund a private equity portfolio. She also stated should be Board issue and send out an RFP for private equity, it is the plan of the Board to use it as an educational tool in learning more about private equity and how it could be invested in to improve

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the Fund's portfolio and at the same time, not incur any greater risk factor than we have with our current investment managers.

The Chairman stated the Investment Committee recommendation is to issue an RFP for private equity and to use this information as a learning tool for the trustees and use the information returned for further education.

**Investment Committee Recommendation Carried**

The recommendation carried by Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Smith; Mr. Simpson; Mr. Gorman; Ms. Minton; and Chairman Palluconi responding yes.

After the poll of the Board, Dr. Kirkpatrick asked that the motion be amended to reflect a change from "further education" to "further action".

**"Amended" Motion Carried**

After further discussion, Dr. Kirkpatrick's "amended" motion was seconded, and was approved by a unanimous voice vote. Trustees responding were Ms. Minton; Mr. Gorman; Mr. Simpson; Mr. Smith; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Palluconi responding yes.

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

Mr. Puckett brought the Board up-to-date on the continuing conversion to J.P. Morgan as the Retirement System's new global custodian and securities lending services provider.

Chairman Palluconi stated the next item is the 2<sup>nd</sup> quarter report from gregory.w.group and asked Mr. Weaver and Mr. Anderson for their report.

**gregory.w.group SECOND QUARTER, 2006  
EXECUTIVE SUMMARY**

Greg Weaver and Doug Anderson made a detailed report to the Board, the Second Quarter Executive Summary, on the Fund's investment performance for the period ending June 30, 2006. Mr. Weaver stated the real goal of the Fund's investment strategy is, at a minimum, to meet the 8% actuarial assumption. This second quarter summary shows the Fund with a total market value of \$8.136 billion, with 49% in domestic equity, 20% in international equity; 30% in fixed income; and 1% in cash.

Mr. Beavers handed out material to the Board concerning the performance of the Retirement System's Tax-Sheltered Annuity (403B) account and the report from the Pension Commission on the state's retirement plans, for the period ending June 30, 2006.

Mr. Beavers also talked about the need to perform a due diligence visit to one of the System's newest managers, Advisory Research Investment Management, based in Chicago. He said Greg Weaver, Bill Puckett and he would be making this visit and if any of the trustees were interested in going, to let him know.

A break was taken from 2:08 to 2:22.

Chairman Palluconi asked Mr. Beavers for his reports.

**REPORT OF THE EXECUTIVE SECRETARY**

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**Report of Routine Items and Executive Secretary Report for July 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. DeMuth. The motion carried by Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Smith; Mr. Simpson; Ms. Minton; 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 \$828,893.05 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 \$9,054.90.

**Recommendations for Retirement**

There was 1 disability and 211 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.

**Disability Retirement Not Recommended**

There was one (1) disability retirement account not recommended for retirement.

**Out-of-State Travel**

A request from the Finance Department to attend the Annual Conference of the National Association of Government Defined Contribution Administrators (NAGDCA), in Kansas City, Missouri.

**Tax-Sheltered Annuity Hardship Requests**

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

**Termination of Retirement Benefits**

Monthly benefits were terminated for 107 members due to their deaths, 29 who returned to teaching, and 1 that cancelled their retirement.

**New Members**

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There were 401 new member applications, and the list of new enrollments may be reviewed in the Executive Secretary's office.

**Personnel Changes**

There was one (1) new hire in the Retirement Benefits Division.

**Employees' Salaries**

This report indicates employee's salaries and their positions within the Retirement System. Employee salaries totaled \$184,231.75. (Can include longevity and supplemental payroll.)

**Financial Statements**

Due to the transition to the new custodian, the July financial statements will not be available until the September Board meeting.

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

Mr. Beavers reported that last week the judge issued an order in the Seymour case, awarding Dr. Seymour credit for the 73-74 school year. He said to try and settle this matter, an offer of settlement has been sent to her attorney but no response has been received. Mr. Beavers reported there were no changes to the administrative matters.

**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**

There being no further business before the Board, a motion was made by Mr. Simpson with a second made by Mr. Smith and Chairman Palluconi declaring the meeting adjourned at 2:28 p.m. Trustees present at adjournment were as follows: Ms. Minton; Mr. Gorman; Mr. Simpson; Mr. Smith; 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:

**TUESDAY - September 26, 2006**

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 it's next regularly scheduled meeting on September 26, 2006.

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