

MINUTES
EIGHT HUNDRED AND FOURTH REGULAR MEETING
OF THE
BOARD OF TRUSTEES
TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA
AUGUST 27, 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 1:06 P.M., Wednesday, August 27, 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*
Dick Neptune, *Secretary*
Sherrie Barnes
Bruce DeMuth*

Richard Gorman
Darryl Hatcher
John Kirkpatrick

Matti Palluconi
Galeard Roper
Michael Simpson

TRUSTEES NOT PRESENT:

James Smith, *Vice-Chairman*
Sandy Garrett
Vacant Position

TRS STAFF PRESENT:

Tommy C. Beavers, *Executive Secretary*
Bill Puckett, *Chief Investment Officer*
Edward Romero*, *Secretary-Treasurer*
Marta Coombes, *Comptroller*
Joe Ezzell*, *Director of Internal Auditing*
Kimber Chessmore, *Senior Internal Auditor*
Becky Yearout, *Cash Management Officer*
Karen Yost, *Assistant to Executive Secretary and Board of Trustees*

LEGAL COUNSEL 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, *gregory.w.group*

OTHERS PRESENT:

Candice Adson, *eCapitol News*
Larry Asberry, Jr*, *Office of State Finance*
Jim McGoodwin*, *Office of State Finance*
Dwight Bruss, *State Department of Education*
Norman Cooper, *Oklahoma Retired Educators Association*

*Indicates late arrival or early departure.

BOARD POLL FOR QUORUM

Chairman Conway called the Board meeting to order and asked for a poll to determine if a quorum was present. Trustees responding were as follows: Mr. Hatcher; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Gorman; and Chairman Conway.

MINUTES of JULY 23, 2008, BOARD MEETING APPROVED

The Chairman asked for corrections, additions or a motion to approve the minutes of the July 23, 2008, 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, as presented.

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The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. Hatcher; and Chairman Conway. (Mr. DeMuth returned after this vote.)

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

The Investment Committee meeting convened at 9:02 a.m. Wednesday, August 27, 2008, and adjourned at 11:50 p.m. Committee members present were as follows: Chairman Cathy Conway; members, Matti Palluconi; Michael Simpson; and Dick Neptune. Other trustees present were Ms. Barnes*, Dr. Kirkpatrick*; Mr. DeMuth*; and Mr. Gorman*.

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

**PRESENTATION BY gregory.w.group
Market Performance, Asset Allocation Review,
July 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 stated Patrick Feller and Chris Garrett with Brandes Investment Partners, an international investment manager for the Fund, gave a presentation during the Investment Committee meeting earlier in the day. He said at this time Brandes is operating within the Retirement System's policies and guidelines and there are no organizational issues.

Net of Fee and Market Performance Summary

This report indicates performance of the Fund, for periods ending July 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, -15.02% vs. -10.04%; Goldman, -1.44% vs. -5.63%; Aletheia, -8.24% vs. -5.63%; Chase, -3.80% vs. -5.63%; Sawgrass, -4.54% vs. -5.63%; Advisory, -8.24% vs. -7.12%; EPOCH, -6.08% vs. -7.12%; AJO, -5.01% vs. -6.27%; Wellington, -6.07% vs. -6.27%; Frontier, -4.22% vs. -6.27%; H&W Mid-Cap, -11.66% vs. -6.27%; Shapiro, -6.16% vs. 0.11%; Tocqueville, 5.25% vs. 0.11%; Smith, 2.24% vs. 0.11%; Capital Guardian, -11.00% vs. -10.06%; Causeway, -11.79% vs. -10.06%; Brandes, -9.05% vs. -10.06%; Thornburg, -9.94% vs. -10.06%; Hoisington, -1.12% vs. -0.89%; Loomis, -2.07% vs. -0.89%; Lord Abbett, -1.03% vs. -0.89%; MacKay Shields, -0.60% vs. -0.89%; PIMCO, -2.40% vs. -0.89%; Standish, -0.90% vs. -0.89%; Stephens, -0.37% vs. -0.89%; and TRS Cash, 0.61% vs. 0.38%.

Total Fund performance is as follows: Month of July 2008, -0.87% vs. -0.82%; last quarter, -4.89% vs. -5.13%; 1-year, -6.20% vs. -5.43%; 3-years, 4.86% vs. 5.05%; 5-years, 9.04% vs. 8.77%; and since inception, 9.51% vs. 9.97%. (Returns over one year are annualized.)

**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. Chairman Conway stated there were no changes recommended by the Investment Committee at this time. Continuing to watch H&W very closely, Smith Capital as well.

Asset Allocation/Alternative Investments Presentation

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by gregory.w.group

Greg Weaver referred the Board to the handout before them. Mr. Weaver stated this was presented to the Investment Committee earlier this morning for awareness, consideration, and possible future action. Mr. Weaver stated the bottom line of this report, study, analysis, our recommendation, is that the Fund must continue to diversify its investments. He said having slightly less than 5% of the portfolio committed to non-traditional investing will not get the Fund where it needs to go in earnings, moving forward. Mr. Weaver said that g.w.g. would continue to meet with the Investment Committee to discuss increased exposure in non-traditional investing and to decide if and how to move forward in greater diversification.

Chairman Conway informed the Board that the discussion concerning Capital Guardian's investment benchmark has been postponed to the September 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 \$8,859,697,236.17 invested approximately 33% in fixed income, 65% 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 0.21%, the three-month return was .64%, and the trailing twelve-month return was 4.21%.

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 June, this report shows commissions paid of \$514,080, recaptured commissions totaled \$43,150 with a net per share of \$0.028, and for the Fiscal Year, commissions paid of \$6,948,304, recaptured of \$832,606, with a net per share of \$0.026.

Commissions Paid

This report indicates commissions paid for the period April 1, 2008, through June 30, 2008.

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.

Status on Policy Guidelines with Aldus Equity Partners

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The Chairman stated Matt O'Reilly with Aldus Equity Partners brought materials and made a presentation to the Investment Committee concerning Aldus' rollout strategy.

Greg Weaver stated Mr. O'Reilly had made a very thorough presentation and the material he brought included how funds will be invested, a primer on what private equity is, and lastly, an overview of global markets as they relate to private equity and where opportunities and valuations are today.

Chairman Conway stated the Investment Committee brings to the full Board a recommendation to approve the Investment Guidelines for Aldus Equity, with a few minor grammatical changes, and adding the name of Aldus Equity to the front of the document.

Mr. Weaver stated this document is specific to Aldus and will be an addendum to the System's general investment policy. He said this will be the governing document behind the private equity investment process, subject to the partnership language, which David Kinney, legal counsel to the Board, has diligently researched.

Investment Committee Recommendation Approved

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

Status on Aldus Equity Partners Contract

Mr. Beavers stated the Investment Committee recommended approval of the Aldus Equity contract earlier today after having a lengthy discussion, which included the fee schedule. Aldus will eventually be funded with approximately \$445 million.

Mr. Kinney said at the request of the Board, a due diligence search had been performed on Aldus and there was nothing disclosed that would cause any concern for character, of either the entity or people involved with Aldus Equity.

Chairman Conway stated the Investment Committee is recommending approval of the private equity contract which will be named the OKTRS Fund Limited Partnership. This recommendation also includes authorizing Tommy Beavers to sign the document for the Board.

Investment Committee Recommendation Approved

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

Renewal of Manager Contract Tocqueville Asset Management

The Chairman stated there is no change in the contract and the Investment Committee is recommending renewal. She asked for discussion and there being none asked for a poll of the Board.

Investment Committee Recommendation Approved

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

Chairman Conway asked Mr. Weaver and Mr. Anderson for their quarterly summary.

2nd QUARTER EXECUTIVE SUMMARY gregory.w.group

Mr. Greg Weaver and Mr. Doug Anderson of gregory.w.group made an in-depth presentation on the Retirement System's second quarter investment performance for 2008, period April 1 through June 30,

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2008. The Executive Summary indicated the Fund's total market value for this time period was approximately \$8.94 billion. They reported the second quarter of 2008 began strong and ended poorly in part due to the surging oil prices. Despite suffering a loss during this period, the Fund's performance was above the median in its peer universe due to relatively strong results in domestic equity with all-cap being the best performer.

Going forward, Mr. Weaver said it will be a tough third and fourth quarter and this difficulty will probably continue into the first quarter of 2009.

2nd Quarter Executive Summary Approved

A motion was made by Mr. Roper with a second made by Dr. Kirkpatrick to accept g.w.g.'s 2nd Quarter Executive Summary. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; Mr. Hatcher; and Chairman Conway.

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 4 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 Dr. Kirkpatrick with a second made by Mr. DeMuth. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Hatcher; Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Mr. Neptune; Ms. Palluconi; Mr. 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 \$1,817,244.72 and may include payments for: Board expenses, TRS staff travel, communications, contingency, maintenance, insurance, rent, investment expenditures, Social Security, etc. and retirement payments.

Claims

Claims submitted for approval totaled \$11,607.85.

Recommendations for Retirement

There were five (5) disability and 200 regular contracts filed for retirement.

Out-of-State Travel

There were several requests by staff to attend seminars and conferences, and a request for the Board and staff to attend the NCTR annual convention.

Termination of Retirement Benefits

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Monthly benefits were terminated for 106 members due to their deaths, and eight (8) who returned to teaching.

New Members

There were 526 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 \$198,587.22. (Can include longevity and supplemental payroll.)

Financial Statements

These reports cover the month of July 2008.

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

Mr. Kinney reported to the Board updated information on current and future legal issues facing the Retirement System, most significant, Dr. Seymour has filed her motion to dismiss and the Seymour matter is concluded. Mr. Kinney stated he would be glad to answer any questions the Board may have.

**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.

Mr. Beavers reminded the Board about registering for the NCTR Convention in October and also the OK Public Fund Trustee Education conference to be held in Stillwater again, and will begin on September 24.

Chairman Conway reminded the Board of its Special Meeting on Tuesday, September 23, and will begin at 10:30 a.m.

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ADJOURNMENT

There being no further business before the Board, the Chairman declared the meeting adjourned at 2:15 p.m. Trustees present at adjournment were as follows: Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Roper; Ms. Barnes; 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 - September 24, 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 September 24, 2008.

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