

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

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**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA**

**SEPTEMBER 26, 2006**

The rescheduled meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma was called to order by Matti Palluconi, Chairman, at 1:35 P.M., Tuesday, September 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 in accordance with 25 O.S. 2001 Section 311(9).

**TRUSTEES PRESENT:**

Matti Palluconi, <i>Chairman</i>	Betty Minton
Cathy Conway, <i>Vice-Chairman</i>	Galeard Roper
Bruce DeMuth	Michael Simpson
Richard Gorman	James Smith

**TRUSTEES NOT PRESENT:**

Cathy Conway, *Vice-Chairman*  
Sherrie Bames  
Sandy Garrett  
John Kirkpatrick  
Claudia San Pedro

**TRS STAFF PRESENT:**

Tommy C. Beavers, *Executive Secretary\**  
Bill Puckett, *Chief Investment Officer*  
Kim Bold, *Director, Human Resources*  
Kara Johnson, *Internal Auditor*  
Edward Romero, *Comptroller*  
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*  
Tony Kay, *gregory.w.group*

**OTHERS PRESENT:**

Larry Asberry, *Office of State Finance*  
Erin Boeckman, *Capitol Network News*  
Dwight Bruss, *State Department of Education*

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

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

The Chairman asked for corrections, additions or a motion to approve the minutes of the August 23, 2006, meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma. A motion was made by Mr. Simpson with a second made by Mr. Roper 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; Mr. Neptune; Mr. Roper; Mr. DeMuth; and Chairman Palluconi.

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

The Investment Committee meeting convened at 10:05 a.m. Tuesday, September 26, 2006, and adjourned at 1:10 p.m. Committee members present were as follows: Chairman Matti Palluconi; James Smith and Mr. Neptune. Other trustees present were Mr. Gorman; and Ms. Minton, Mr. Roper, and Mr. Simpson.

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

**PRESENTATION BY gregory.w.group  
Market Performance, Manager Review, Asset Allocation Review,  
August 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 a brief overview of their August 31<sup>st</sup> monthly report, given in-depth to the Investment Committee earlier in the day.

The investment managers present during the Investment Committee meeting were Keith Johnson and Peter Palfrey of Loomis Sayles and Marcia Clark and Marty Feeney of PIMCO (Pacific Investment Management Company). Both firms are Fixed Income managers with significant assets, \$621 million with PIMCO and \$325 million with Loomis Sayles. Each manager gave the Investment Committee very thorough presentations.

**Net of Fee and Market Performance Summary**

This report indicates performance of the Fund, for periods ending August 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:

NTS&P500, 3.14% vs. 3.16%; H&W Large-Cap, 2.32% vs. 4.81%; Goldman Sachs, 0.34% vs. 0.76%; Aletheia, N/A; Chase, N/A; Sawgrass, N/A; AJO Partners, 0.11% vs. 0.41%; Wellington, -1.82% vs. 0.41%; Frontier, 0.26% vs. 0.41%; H&W Mid-Cap, 2.74% vs. 0.41%; Shapiro, 5.14% vs. 0.25%; Tocqueville, 0.17% vs. 0.25%; Smith Capital, -8.01% vs. 0.25%; Capital Guardian, 3.42% vs. 3.84%; Causeway Capital, 3.03% vs. 3.84%; Brandes, 3.76% vs. 3.84%; Thomburg, N/A; Hoisington, 8.62% vs. 3.12%; Loomis Sayles, 2.95% vs. 3.12%; Lord Abbett, 2.96% vs. 3.12%; MacKay Shields, 3.14% vs. 3.12%; Standish Mellon, 2.95% vs. 3.12%; Stephens, 3.37% vs. 3.12%; and OTRS Cash, Unavailable vs. 1.25%.

Total Fund performance is as follows: Month of AUGUST 2006, 2.48% vs. 2.28%; last quarter, 2.11% vs. 2.56%; 1-year, 8.66% vs. 9.40%; 3-years, s, 12.42% vs. 12.07%; 5-years, 7.54% vs. 7.24%; the since inception numbers were not available. *(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.

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**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 \$8,352,332,675.10 invested approximately 32% 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 0.46 basis points, the three-month return was 1.33%, and the trailing twelve-month return was 4.71%.

**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 JULY 2006**

Total recaptured commissions for the month was \$33,640, total commissions paid was \$384,589, with a net cost per share of \$0.034 and year-to-date net cost per share of \$0.031. Fiscal year-to-date, recaptured commissions total \$33,640 on \$384,589 in paid commissions.

**Comparison of Securities Lending**

Mr. Puckett stated this report monitors securities lending and how it has performed this year compared to last year's numbers.

**PIMCO Request**

The Chairman stated the request from PIMCO is to use direct currency exposure to enable PIMCO to separate any investment decision between interest rate risk and currency risk, which will enhance the efficiency of the portfolio structure. The Chairman reported that the Investment Committee did not take any action to approve this request.

**Lord, Abnett & Company Request**

Chairman Palluconi stated this is a request for exception by Lord, Abnett, to use collateralized mortgage backed securities as a sector and not as an industry. This would allow Lord, Abnett to hold more than the 25% that the industry now limits. The Investment Committee has recommended approval.

**Investment Committee Recommendation Carried**

The recommendation carried by Ms Minton; Mr. Gorman; Mr. Simpson; Mr. Smith; Mr. Neptune; Mr. Roper; Mr. DeMuth; and Chairman Palluconi responding yes.

**Renewal of Contract with Bloomberg**

Chairman Palluconi stated this is for one year, with no change to the contract, and the Investment Committee has recommended approval.

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**Investment Committee Recommendation Carried**

The recommendation carried by Mr. DeMuth, Mr. Roper; Mr. Neptune; Mr. Smith; Mr. Simpson; Mr. Gorman; Ms. Minton; 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, the Retirement System's new global custodian and securities lending services provider. He stated the training sessions are almost completed, and once completed, an evaluation will be conducted.

**PROMULGATION OF EMERGENCY RULES  
EESIP**

The Chairman reported that the Board's Rules Committee is made up of Mr. Simpson as chairman, with Mr. Neptune, Ms. Barnes, and Mr. DeMuth. She asked Mr. Simpson for his comments.

Mr. Simpson referred the Board to section 4 in their binders, stating these are the proposed rules for EESIP and said the new language for the rule is underlined. He stated his Committee has met as a group once and had two lengthy teleconferences regarding the EESIP rule. Mr. Simpson said these changes are necessary based on legislation passed and TRS rules and regulations. Mr. Simpson gave the Board a detailed report and stated the Rules Committee is recommending the Board's approval.

**Motion for Adoption of Rules 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 Ms Minton; Mr. Gorman; Mr. Simpson; Mr. Smith; Mr. Neptune; Mr. Roper; Mr. DeMuth; and Chairman Palluconi responding yes.

**REPORT OF THE EXECUTIVE SECRETARY  
Report of Routine Items and Executive Secretary Report for August 2006**

The Chairman referred the Board to section 3 and informed the Board that Mr. Beavers was in a meeting at the Capitol and unable to give this report. She asked if there were any questions concerning the Executive Secretary's report, and there were none.

**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. Neptune with a second being made by Mr. Roper. The motion carried by Mr. DeMuth; Mr. Roper; Mr. Neptune; Mr. Smith; Mr. Simpson; Mr. Gorman; 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.

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**Receipts and Claims for Authorized Expenditures**

Receipts and Claims totaled \$3,901,762.72 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 \$15,542.86.

**Recommendations for Retirement**

There were five (5) disability and 135 regular contracts filed for retirement.

**Disability Retirement as Provided by Social Security**

There were six (6) 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 retirement accounts recommended for continuation of disability retirement benefits.

**Out-of-State Travel**

Requests have been made by Mr. Beavers, staff and interested trustees to attend the 84<sup>th</sup> NCR convention in Austin, Texas, by Mr. Puckett to attend the NASI conference in Saint Louis, Missouri, and by Kim Bold, Director of Human Resources, to attend the Southwest HR conference in Fort Worth, Texas.

**Tax-Sheltered Annuity Hardship Requests**

There were three (3) hardship requests for withdrawal of Tax-Sheltered funds.

**Termination of Retirement Benefits**

Monthly benefits were terminated for 105 members due to their deaths, 32 who returned to teaching, and 1 that cancelled their retirement.

**New Members**

There were 1,284 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 Investment Division.

**Employees' Salaries**

This report indicates employee's salaries and their positions within the Retirement System. Employee salaries totaled \$176,519.04. (Can include longevity and supplemental payroll.)

**Financial Statements**

Due to the transition to the new custodian, the July and August financial statements are not available at this time.

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**OPERATING BUDGET FOR FY2008**

The Chairman stated Mr. Beavers is still at the Capitol, and asked Edward Romero, TRS Comptroller, who has also been involved with the content of the budget, for his comments.

Mr. Romero stated the System's operating budget for FY 2008, must be at the Governor's office by October 1, 2006. He said the only increases in the budget are for salary benefits for employees of the Retirement System and an increase of \$2 million for professional expenses. Mr. Romero reported that professional expenses are for the System's money managers' fees, which would become larger with an increase in the assets under their management. He stated there is a decrease in data processing expenses of \$435,000 and that every other budget item has been increased or decreased based on past experience.

After further discussion, the Chairman asked if there was a motion from the Board.

**Motion for Adoption of Operating Budget Carried**

A motion was made by Mr. Simpson with a second being made by Mr. Smith. For approval of the budget. The motion carried by Ms Minton; Mr. Gorman; Mr. Simpson; Mr. Smith; Mr. Neptune; Mr. Roper; Mr. DeMuth; and Chairman Palluconi responding yes.

**STRATEGIC PLAN  
FY 2007-2012**

The Chairman stated this report must also be to the Governor's office by October 1. She stated she had read the proposed Strategic Plan and felt very comfortable in recommending it be approved by the Board.

**Motion for Approval of the FY2007-12 Strategic Plan Carried**

A motion was made by Mr. Roper with a second being made by Mr. Neptune. The motion carried by Mr. DeMuth; Mr. Roper; Mr. Neptune; Mr. Smith; Mr. Simpson; Mr. Gorman; Ms. Minton; and Chairman Palluconi responding yes.

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

The Chairman stated there was no discussion necessary for the legal report.

The Chairman stated there had been no opportunity to report on the NCTR trustee conference held in Park City, Utah, at last month's Board meeting, and said she would read from a written report sent her by Dr. Kirkpatrick.

Dr. Kirkpatrick reports that one of the workshops concerned an evaluation of Texas Teachers' Retirement System, by an outside consultant group, concerning how the state of Texas statistically benefits from their Texas TRS retirement benefits. Dr. Kirkpatrick's report said that the Oklahoma TRS website has much of the same information.

After further discussion, the Chairman asked Mr. DeMuth to work on a resolution for the Board's approval, that would let the Governor and Legislature know how concerned the Board of Trustees is about the underfunded status of the Retirement System. Mr. DeMuth asked that Mr. Beavers also be involved with creating the resolution.

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Mr. Beavers returned from his meeting at the Capitol and requested a slight change to the rules. He referred the Board to section 4, page 1, item e, and asked that the words "at least" be inserted between the words "completed" and "thirty (30)". The Board agreed to this change in wording.

**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. DeMuth with a second made by Mr. Neptune, Chairman Palluconi declared the meeting adjourned at 2:25 p.m. Trustees present at adjournment were as follows: Ms. Minton; Mr. Gorman; Mr. Simpson; Mr. Smith; Mr. Neptune; Mr. Roper; 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 - October 25, 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 October 25, 2006.

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