

MINUTES
EIGHT HUNDRED AND FIFTH REGULAR MEETING
OF THE
BOARD OF TRUSTEES
TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA
SEPTEMBER 24, 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 1:15 P.M., Wednesday, September 24, 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*
James Smith, *Vice-Chairman*
Sherrie Barnes

Bruce DeMuth
Richard Gorman
Darryl Hatcher
John Kirkpatrick

Matti Palluconi
Galeard Roper
Michael Simpson

TRUSTEES NOT PRESENT:

Sandy Garrett
Vacant Position

TRS STAFF PRESENT:

Tommy C. Beavers, *Executive Secretary*
Bill Puckett, *Chief Investment Officer*
Edward Romero*, *Secretary-Treasurer*
Marta Coombes, *Comptroller*
Kim Bold, *Director, Human Resources*
Joe Ezzell*, *Director, 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:

Charles Barnes, *Retired Member*
Erin Boeckman, *eCapitol News*
Norman Cooper, *Oklahoma retired Educators Association*
Tommy Fulton, *Retired Member*
James R. Wilbanks*, *Oklahoma State Treasurer's Office*

*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; Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Mr. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Gorman; and Chairman Conway.

MINUTES of AUGUST 27, 2008, BOARD MEETING APPROVED

The Chairman asked for corrections, additions or a motion to approve the minutes of the August 27, 2008, meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma. A motion was made by Mr. Roper with a second made by Mr. Neptune for approval of the minutes, as presented. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; Mr. Hatcher; and Chairman Conway.

BOARD ANNOUNCEMENT CONCERNING

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
SEPTEMBER 24, 2008**

TRS EXECUTIVE SECRETARY POSITION

Chairman Conway announced that Dr. James R. Wilbanks has been selected to be the next Executive Secretary for the Teachers' Retirement System of Oklahoma. The Chairman introduced Dr. Wilbanks giving a brief history of his education and employment. She stated Dr. Wilbanks will begin his position on November 3, 2008, as Deputy Director, and upon Mr. Beavers' retirement effective January 1, 2009, Dr. Wilbanks title and position will change to Executive Secretary.

The Board welcomed Dr. Wilbanks to the Teachers' Retirement System of Oklahoma.

Dr. Wilbanks thanked the Board for the opportunity, stating he thinks it will be a very exciting challenge as we move forward and is looking forward to it. It's going to be tough taking over for the best Executive Secretary in the history of Teachers' Retirement, and hopefully we can leverage the successes that Tom has made and help us move forward even farther.

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

The Investment Committee meeting convened at 9:02 a.m. Wednesday, September 24, 2008, and adjourned at 1:15 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. Roper; and Mr. Hatcher*.

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

**PRESENTATION BY gregory.w.group
Market Performance, Asset Allocation Review,
August 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 Jan T. Bright and David Hoisington with Hoisington Investment Management, Jennifer Bridwell and Marty Feeny with PIMCO, and William Tedford and Alan Tedford with Stephens Capital, gave presentations during the Investment Committee meeting earlier in the day.

Net of Fee and Market Performance Summary

This report indicates performance of the Fund, for periods ending August 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, -14.8% vs. -8.4%; Goldman, -3.8% vs. -8.0%; Aletheia, -11.9% vs. -8.0%; Chase, -5.8% vs. -8.0%; Sawgrass, -5.5% vs. -8.0%; Advisory, -7.6% vs. -7.6%; EPOCH, -8.2% vs. -7.6%; AJO, -8.2% vs. -8.7%; Wellington, -8.7% vs. -8.7%; Frontier, -6.0% vs. -8.7%; H&W Mid-Cap, -8.6% vs. -8.7%; Shapiro, -2.1% vs. -0.8%; Tocqueville, 3.6% vs. -0.8%; Smith, -2.2% vs. -0.8%; Capital Guardian, -16.6% vs. -14.7%; Causeway, -15.4% vs. -14.7%; Brandes, -11.4% vs. -14.7%; Thomburg, -13.3% vs. -14.7%; Hoisington, 5.9% vs. 0.8%; Loomis, -0.3% vs. 0.8%; Lord Abbett, 0.0% vs. 0.8%; MacKay Shields, 0.9% vs. 0.8%; PIMCO, -0.7% vs. 0.8%; Standish, 0.8% vs. 0.8%; Stephens, 1.5% vs. 0.8%; and TRS Cash, 0.6% vs. 0.5%.

Total Fund performance is as follows: Month of August 2008, 1.1% vs. 0.6%; last quarter, -5.5% vs. -5.9%; 1-year, -5.7% vs. -5.6%; 3-years, 5.1% vs. 5.2%; 5-years, 8.7% vs. 8.4%; and since inception, 9.5% vs. 10.0%.. (Returns over one year are annualized.)

**Manager Status Summary and
Possible Action**

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING SEPTEMBER 24, 2008

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.

Capital Guardian Benchmark

The Chairman stated the Investment Committee has made the recommendation that Capital Guardian's benchmark be changed from EAFE to the ACC US Index Fund. This comes before the Board as Capital Guardian feels this change will enhance their performance and is more compatible to their style of investing.

Investment Committee Recommendation Approved

The Investment Committee recommendation was approved by Mr. Hatcher; Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Mr. Smith; Ms. Palluconi; Mr. Simpson; Mr. Gorman; and Chairman Conway responding yes. (*Mr. Neptune was temporarily out of the room.*)

Asset Allocation/Alternative Investments Presentation by gregory.w.group

Greg Weaver reminded the Board about g.w.g.'s presentation at the August meeting regarding the necessity of the Fund to continue to diversify in non-traditional assets. He said g.w.g. would again bring this presentation before the Investment Committee on how TRS can invest in real estate, another component of non-traditional, alternative investing. He said we believe it is a good time to pursue this.

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 \$8,875,783,971.07 invested approximately 34% 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 .63%, and the trailing twelve-month return was 3.95%.

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 July, this report shows commissions paid of \$646,906, recaptured commissions totaled \$94,015 with a net per share of \$0.024, and for the Fiscal Year, commissions paid of \$646,906, recaptured of \$94,015, with a net per share of \$0.024.

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.

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
SEPTEMBER 24, 2008**

Funding for ALDUS/OKTRS Fund LP Portfolio

The Chairman stated the Investment Committee had discussed this matter in detail and recommends TRS staff be given approval to fund capital calls from Aldus up to a maximum of \$15 million, through December 31, 2008. This amount will be transferred from the TRS Cash Flow Account.

Investment Committee Recommendation Approved

The Investment Committee recommendation was approved by Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; Mr. Hatcher; and Chairman Conway responding yes. (*Mr. Roper was temporarily out of the room.*)

Chairman Conway asked Mr. Puckett for his comments on this matter.

**Hotchkis and Wiley Capital Management
Reimbursement**

Mr Puckett stated Hotchkis and Wiley sold a security too early and when Hotchkis performed their reconciliation, they noted a considerable discrepancy in the performance of the TRS portfolio. With this reimbursement, it will cause the TRS portfolio to reflect what the security was trading for at the point of sale. Mr. Puckett stated Hotchkis is requesting they be allowed to reimburse TRS and by signing off on this action, TRS will agree to not take legal action against them in this matter. Mr. Puckett stated the reimbursement will be in the amount of \$1,505,416.14.

Chairman Conway stated the Investment Committee recommended the Board accept the Hotchkis and Wiley reimbursement. The Chairman 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. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Gorman; and Chairman Conway responding yes. (*Mr. Roper returned to room after the vote.*)

PIMCO Distressed Mortgage Fund II Investment

Greg Weaver stated PIMCO had given specific materials to the Investment Committee earlier this morning describing in detail their new Distressed Mortgage Fund II (DMF II). He reminded the Board that last year when the Retirement System committed \$100 million to fund PIMCO's Distressed Mortgage Fund I, the Fund was oversubscribed and the invested amount was only \$75 million. Mr. Weaver said PIMCO is requesting to take \$25 million from their existing portfolio and place that amount in the DMF II account.

Chairman Conway said the recommendation is to authorize investment in the PIMCO Distressed Mortgage Fund II, in the amount of \$25 million, taken from the existing PIMCO Core+ portfolio, subject to review by TRS legal counsel, the Executive Secretary and investment consultant. 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. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; Mr. Hatcher; and Chairman Conway responding yes.

Fee Negotiations with Advisory Research and Shapiro Capital

Greg Weaver informed the Board the fee negotiations with Advisory Research and Shapiro are still pending and under discussion and both should be finalized in October.

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
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Suspension of 5% Cash Limit

Mr. Weaver stated due to volatile economic times, at least one manager has requested an increase in the 5% cash limit. He said the Investment Committee is recommending the cash limit be raised from 5% to 15% through December 31, 2008, which will be a temporary change in the Fund's Investment Policy.

Chairman Conway stated this would also include a letter of exception to the System's Investment Policy, to each manager. She asked if there was any 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. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Gorman; and Chairman Conway responding yes.

Termination of Contract with Standish Mellon

Mr. Beavers stated that Standish Mellon has done an excellent job for the Fund, doing exactly what they were hired to do. He said the recommendation to close the Standish Mellon account in no way shows dissatisfaction with their performance, only the elimination of the passive investments in the Fund's fixed income strategy.

Mr. Weaver stated the termination of Standish Mellon is related to the next agenda item, the Fund's asset reallocation. He said the funds taken from Standish will be deployed primarily into the equity manager portfolios.

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

Re-Allocation of TRS Investment Funds

Chairman Conway stated this item was discussed in detail by the Investment Committee and investment counsel and the Committee's recommendation is as follows:

To withdraw \$50 million from the Hotchkis and Wiley and the Goldman Sachs Large-Cap funds and liquidation of the Standish Mellon portfolio. From these funds allocate \$75 million to Aletheia Large-Cap; \$35 million to Chase Large-Cap; \$75 million to EPOCH All-Cap; \$50 million to Tocqueville Small-Cap; \$50 million to Thornburg International; with the remaining balance allocated equally between Hoisington and Stephens. Also, to allow TRS staff the authority to use the most equitable transition manager to effect this reallocation of assets.

Investment Committee Recommendation Approved

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

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.

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
SEPTEMBER 24, 2008**

**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 Mr. Simpson with a second made by Mr. Smith. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; Mr. Hatcher; 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 \$5,388,281.89 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 \$5,819.07.

Disability Retirement Re-Evaluated

There was one (1) disability retirement recommendation for continuation.

Disability Retirement as Provided by Social Security Disability

There were six (6) disability applicants awarded TRS Disability Retirement, through and by approval for Social Security Disability, as per 70 O.S. § 17-105.

Out-of-State Travel

There is a request by the Audit Department to attend the APPFA (Association of Professional Pension Fund Auditors) Conference in Charleston, South Carolina.

Tax-Sheltered Annuity Hardship Request

There were two members who requested and were approved for withdrawal.

Termination of Retirement Benefits

Monthly benefits were terminated for 103 members due to their deaths, and seven (7) who returned to teaching.

New Members

There were 1,624 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 \$179,760.81. (Can include longevity and supplemental payroll.)

Financial Statements

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
SEPTEMBER 24, 2008**

These reports cover the month of August 2008.

Report of Personnel Changes

There was one retirement and one promotion during the month of September.

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

Mr. Kinney updated the Board on current and future legal issues facing the Retirement System. Mr. Kinney stated he would be glad to answer any questions the Board may have.

PROPOSED OPERATING BUDGET FOR FISCAL YEAR 2010

Mr. Beavers stated this budget is prepared for the Office of State Finance, also sent to the Governor's office and is included in the state's overall budget presented to the Legislature each year.

Mr. Beavers gave the Board a detailed report, stating the only major changes are in personnel services, allowing for increases in insurance premiums and other benefits; professional services which includes the investment managers; and a decrease in data processing since the IT conversion should be completed by the end of this year. He stated the Strategic Plan is almost completed and will be filed September 30, with Office of State Finance, and this item would be on the meeting agenda for October.

Mr. Beavers said he would be glad to answer any questions.

Motion to Approve FY2010 Operating Budget Carried

Chairman Conway asked for a motion from the Board. A motion was made by Mr. DeMuth with a second made by Mr. Roper to approve and adopt the Operating Budget for FY2010. The motion carried by Mr. Hatcher; Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Mr. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Gorman; and Chairman Conway responding yes.

**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.

ADJOURNMENT

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
SEPTEMBER 24, 2008**

There being no further business before the Board, the Chairman declared the meeting adjourned at 1:50 p.m. Trustees present at adjournment were as follows: Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; 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 - October 22, 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 it's next regularly scheduled meeting on October 22, 2008.

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