

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

**OCTOBER 26, 2005**

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 1:30 P.M., Wednesday, October 26, 2005, 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 8:30 a.m., Tuesday, October 26, 2005, in accordance with 25 O.S. 2001 Section 311(9).

**TRUSTEES PRESENT:**

Matti Palluconi, *Chairman*  
Cathy Conway, *Vice-Chairman*  
Denise Rhodes, *Secretary*  
Sherrie Bames  
Bruce DeMuth

John Kirkpatrick  
Dick Neptune  
Galeard Roper  
Michael Simpson  
James Smith

**TRUSTEES NOT PRESENT:**

Sandy Garrett  
Claudia San Pedro  
Vacant Position

**TRS STAFF PRESENT:**

Tommy C. Beavers, *Executive Secretary*  
Sue Callahan, *Assistant Executive Secretary*  
Bill Puckett, *Chief Investment Officer*  
Joe Ezzell, *Chief Financial Officer*  
Jennelle Enevoldsen, *Director, Internal Auditing*  
Edward Romero, *Comptroller*  
Adam Attaoui, *Security Officer*  
Kara Johnson, *Senior 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*

**ACTUARY PRESENT:**

Chris Conradi, *Gabriel, Roeder, Smith and Company*  
Flick Fornia, *Gabriel, Roeder, Smith and Company*

**OTHERS PRESENT:**

Charles Barnes, *Sand Springs Public Schools*  
Dwight Bruss, *State Department of Education*  
Dan Bledsoe, *Cole & Reed, P.C., External Auditor*  
Norman Cooper, *Oklahoma Education Association*  
Alicia Emerson, *Senate Staff Member*  
Tommy Fulton, *TRS Retired Member*

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**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING  
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**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 Simpson; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; Mr. DeMuth; and Chairman Palluconi.

**MINUTES of September 28, 2005, BOARD MEETING APPROVED**

The Chairman asked for corrections, additions or a motion to approve the minutes of the September 28, 2005, meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma. A motion was made by Mr. Simpson with a second being made by Ms. Rhodes for approval of the minutes. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. DeMuth; Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. Simpson; and Chairman Palluconi.

**PRESENTATION BY ACTUARY  
GABRIEL, ROEDER, SMITH & COMPANY**

Mr. Christian Conradi, Mr. William "Flick" Fornia with Gabriel, Roeder, Smith & Company (GRS), actuary for the Teachers' Retirement System of Oklahoma, were present to make the actuarial valuation report to the Board for the period ending June 30, 2005. The purpose of the valuation is to measure the System's liabilities and to determine whether funding sources are adequate enough to fully fund the Teachers' Retirement System. The valuation uses financial data, membership data and the System's plan provisions along with actuarial assumptions recommended by GRS and previously adopted by the Retirement System's Board of Trustees.

Mr. Fornia stated the actuarial valuation is performed on an annual basis as of June 30 each year, gathering member and asset data from the System's external auditor and combines measurements of liabilities and assets and makes a projection. The valuation report provides data from the Retirement System that is required in connection with the GASB 25 (*Governmental Accounting Standards Board, Statement No. 25*) which is used in the Retirement System's annual financial report.

Mr. Fornia said the changes adopted by the Board in August 2005 because of the experience study performed by GRS, caused the System's unfunded liability to decrease from \$7.419 billion to \$7.1 billion this year. The System's funded ratio has gone from 47.3% to 49.5%, with the funding period reduced from infinity to 42.6 years, which means the System, assuming no benefit changes or other gains/losses, should be fully funded by the year 2048.

After further discussion by Gabriel, Roeder, Smith & Company and the Board of Trustees, Chairman Palluconi asked for a motion from the Board.

**Motion to Adopt Actuarial Valuation Carried**

A motion was made by Ms. Rhodes with a second made by Dr. Kirkpatrick to adopt the Actuarial Valuation as presented. The motion carried by Mr. Simpson, Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; Mr. DeMuth; and Chairman Palluconi responding yes.

**REPORT FROM THE TWO HUNDRED AND FIFTH**

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**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING  
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**INVESTMENT COMMITTEE MEETING**

The Investment Committee meeting convened at 10:00 a.m. Wednesday, October 26, 2005, and adjourned at 12:38 p.m. Committee members present were as follows: Chairman Matti Palluconi; Cathy Conway; Dick Neptune; and James Smith. Other trustees present were Michael Simpson, Sherrie Barnes, and Denise Rhodes.

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

**PRESENTATION BY gregory.w.group**

**Market Performance, Asset Allocation Review, September 30 Performance Summary**

Greg Weaver and Doug Anderson of gregory.w.group, investment consultant to the Board, were present to give the Board a brief synopsis of their monthly report, given in-depth to the Investment Committee earlier that morning.

Mr. Weaver reported that Gary Goodenough and Steve Hecht with MacKay Shields had made their presentation to the Investment Committee meeting earlier in the day. He said their portfolio is approximately \$250 million and was employed about a year ago. He stated that MacKay Shields' Core Plus strategy has done a very good job relative to other managers, with a very good outlook for the interest rate environment and good portfolio positioning. Mr. Weaver said they are following policy and guidelines and are in "Compliance", have a competitive fee, good exposure to the market, and are outperforming their benchmark.

**Net of Fee and Market Performance Summary**

This report indicates performance of the Fund, for periods ending September 30, 2005, 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, 3.61% vs. 3.61%; H&W Large-Cap, 2.68% vs. 3.88%; Goldman Sachs, 3.59% vs. 4.01%; AJO, 4.83% vs. 5.92%; Wellington, 7.40% vs. 5.92%; Frontier, 7.16% vs. 5.92%; H&W Mid-Cap, 3.62% vs. 5.92%; Shapiro, 4.52% vs. 4.69%; Tocqueville, 15.82% vs. 4.69%; Smith Capital, 4.63% vs. 4.69%; Capital Guardian, 11.69% vs. 10.44%; Causeway, 5.34% vs. 10.44%; Brandes, 11.11% vs. 10.44%; Hoisington, -4.50% vs. -0.67%; Loomis Sayles, -0.17% vs. -0.67%; Lord Abbett, -0.56% vs. -0.67%; MacKay Shields, -0.44% vs. -0.67%; Neuberger Berman, -0.06% vs. -0.67%; PIMCO, -0.29% vs. -0.67%; Standish Mellon, -0.70% vs. -0.67%; Stephens, -0.97% vs. -0.67%; and OTRS Cash, 0.89% vs. 0.88%.

Total Fund performance is as follows: Month of SEPTEMBER 2005, 0.90% vs. 0.83%; last quarter, 4.03% vs. 3.78%; 1-year, 14.51% vs. 13.77%; 3-years, 17.10% vs. 15.86%; 5-years; 5.73% vs. 4.98%; and since inception, 10.50% vs. 11.02%. (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 would stem from performance or organizational issues.

**Hotchkis & Wiley - Delphi Matter**

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Mr. Weaver reported that Hotchkis & Wiley (H&W) had notified the Retirement System in a timely manner about this holding and H&W feels this security will recover and some value will be recovered.

Mr. Weaver said the recommendation from the Investment Committee is to place Hotchkis & Wiley on "Alert" which means they will be under "Special Watch", and communicates to the manager as well as the System's membership that the Board is keeping abreast of what the investment managers are doing in their respective portfolios.

Chairman Palluconi stated the recommendation to place Hotchkis & Wiley on "Alert" and asked for a poll of the Board.

**Investment Committee Recommendation Carried  
Place Hotchkis & Wiley on "Alert"**

The Investment Committee Recommendation carried by Mr. DeMuth; Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. Simpson and Chair Palluconi responded yes.

**TRS INVESTMENT REPORTS AS OF SEPTEMBER 30, 2005**

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 \$7,770,416,920.36 invested approximately 27% in fixed income, 71% 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 0.31 basis points, the three-month return was 0.89%, and the trailing twelve-month return was 2.79%.

**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 AUGUST 2005**

Total recaptured commissions for the month was \$56,360 total commissions paid was \$441,244, with a net cost per share of \$0.028 and year-to-date net cost per share of \$0.029. Fiscal year-to-date, recaptured commissions total \$108,658 on \$826,273 in paid commissions.

**Renewal of Contract for Custody and Securities Lending Services**

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Chairman Palluconi reported to the Board on the visits by herself, Mr. Beavers, Mr. Puckett and Ms. Enevoldsen, to Northern Trust, JP Morgan and State Street concerning the RFP for custodial and securities lending RFP. The Chairman stated that we are not at a point where a decision can be made on the RFP and it is time for the renewal of Northern Trust's current contract. The Chairman said the Investment Committee is recommending that the Board renew the Northern Trust contract for six months, with the contractual fee remaining as is or at the reduced amount proposed by Northern Trust, providing the custodian would agree to the six month period.

**Investment Committee Recommendation Carried**

The Investment Committee Recommendation to renew the Northern Trust contract for up to six (6) months, with terms no worse than those currently agreed to, carried by Mr. Simpson; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; Mr. DeMuth; and Chairman Palluconi responding yes.

**PIMCO Personnel Departure**

Mr. Weaver referred the Board to page 3-21 in the binder, stating this letter from PIMCO is informing the Board of the departure of one of PIMCO's executive team, Mohammed El-Erian. He said this is a meaningful departure but was not recommending that the Board take any action at this time. Mr. El-Erian will not actually vacate his position for another four to six months and that the Board wait until his actual departure before an alert, if any, is considered.

**Asset Allocation**

Mr. Weaver reported that gregory.w.group was not requesting any action be taken at this time on the Fund's asset allocation.

**Investment Committee Recommendation  
Issue RFPs for Large-Cap Growth and for All-Cap Equity**

The Chairman stated that a lengthy discussion was held on this matter during the Investment Committee meeting and the Committee is recommending that two RFPs be issued, one for Large-Cap Growth and a second for All-Cap Equity.

**Investment Committee Recommendation Carried**

The Investment Committee Recommendation carried by Mr. DeMuth; Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. Simpson; and Chairman Palluconi responding yes.

Chairman Palluconi stated since there are so many new trustees and gregory.w.group's (g.w.g) contract will be up for renewal within the next few months, she has created a Contract Committee and has asked Mr. Neptune to act as chair and Mr. Roper and Dr. Kirkpatrick to also serve. The Chairman said she has asked Mr. Weaver and Mr. Anderson to make their contract presentation to the Contract Committee, then the Committee will come back to the Board with any recommendations on g.w.g's contract.

A break was taken from 3:05 to 3:15

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The Chairman asked Mr. Dan Bledsoe of Cole & Reed, the new external auditor to TRS, for his audit report.

**AUDIT REPORT BY COLE & REED**

Mr. Dan Bledsoe of Cole & Reed, the new external auditor to the Teachers' Retirement System of Oklahoma, was present and gave his firm's first audit report for the period ending June 30, 2005. Mr. Bledsoe reported he had made a detailed report to the Audit Committee this morning, going over a draft of the financials, the management letter as well as a summary of the required communications between the auditor and the Audit Committee.

Briefly, Mr. Bledsoe stated that Cole & Reed was engaged to issue an audit report on the System's financials as of June 30, 2005. The auditor's responsibility under Governmental Auditing Standards is to perform an audit with reasonable assurances that those financials are fairly stated and not misstated by error or fraud.

Mr. Bledsoe gave the Board an in-depth presentation on the audit performed and said they had dug deeply into TRS records since this was Cole & Reed's first year to audit Teachers' Retirement. Mr. Bledsoe said he was happy to report there were no audit adjustments and that TRS accounting staff had done a very good job. He reported the audit did include the UAAL of the Retirement System as of June 30, 2005, and that the results of Cole & Reed's audit leads to an unqualified opinion for the Teachers' Retirement System.

After further discussion, the Chairman asked for a motion from the Board.

**Motion to Accept External Audit Report Carried**

A motion was made by Mr. Roper with a second made by Ms. Rhodes to accept the audit report as presented by Cole & Reed. The motion carried by Mr. Simpson; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; Mr. DeMuth; and Chairman Palluconi responding yes.

Chairman Palluconi asked Ms. Enevoldsen for her report.

**INTERNAL AUDITOR'S REPORT  
POST-RETIREMENT EMPLOYMENT**

Mr. Enevoldsen referred the Board to section 5 in their binder and stated the audit was performed on post-retirement employment. Ms. Enevoldsen gave the Board a detailed report of the audit, noting the findings from this audit that should have action taken.

Mr. Beavers stated this had been discussed during the Audit Committee meeting earlier in the day and reported steps have been taken to address the issues at hand. He said some items can be taken care of within the next couple of months and others will not be able to be completed until the Spring or Summer of 2006.

The Chairman asked for a motion from the Board.

**Motion to Accept Internal Auditor's Report Carried**

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A motion was made by Mr. Roper with a second being made by Mr. DeMuth to accept the Internal Audit Report. The motion carried by Mr. DeMuth; Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. Simpson; and Chairman Palluconi 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 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 Executive Secretary Report Carried**

The Chairman asked for a motion from the Board. A motion was made by Dr. Kirkpatrick with a second being made by Ms. Rhodes. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Simpson; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; Mr. DeMuth; and Chairman Palluconi. 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 \$3,185,713.47 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 \$34,493.17.

**Recommendations for Retirement**

There were 98 regular and six (6) disability member applications recommended for approval. (Disabled members being recommended by the TRS Medical Board for TRS Disability Retirement.)

**Disability Retirement as Provided by Social Security**

There were three (3) 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.

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**Disability Retirement Re-Evaluated**

There was only one (1) disability retirement account recommended for continuation of benefits.

**Out-of-State Travel**

Requests by TRS Internal Audit staff to attend a conference in November.

**Tax-Sheltered Annuity Hardship Requests**

There was one hardship request granted for the month of September 2005.

**Termination of Retirement Benefits**

Monthly benefits were terminated for 76 members due to death, two (2) that cancelled their retirement, and thirty-five members who returned to active employment with an Oklahoma education entity.

**New Members**

There were 2,016 new member applications, and the list of new enrollments may be reviewed in the Executive Secretary's office.

**Employees' Salaries**

This report indicates employee's salaries and their positions within the Retirement System. Employee salaries totaled \$184,755.87. (Can include longevity and supplemental payroll.)

**Financial Statements**

The financial statements are for the period ending September 30, 2005.

**Summary of Investment Activity**

This report indicates Short-Term and Long-Term investments at market value on a full accrual basis, as of September 30, 2005. Complete documentation of all sales, purchases, redemptions and income received by TRS is on file in the Investment Division and will be furnished upon request.

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

Mr. McCormick reported to the Board on the Delphi matter and on the Wanda Seymour case. Mr. McCormick stated there were no changes in his report.

Chairman Palluconi asked Mr. Beavers to speak to the Board concerning the Executive Order issued by Governor Henry.

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**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING  
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**EXECUTIVE ORDER ISSUED BY GOVERNOR**

Mr. Beavers said the Executive Order issued by the Governor calls for a new task force to be formed to study the Teachers' Retirement System. He stated the members of the task force will be appointed by the Governor, and include a retired member, an active member, a member of higher education and a non-member professional. There will also be a member of the Retirement System Board and the State Superintendent of Public Instruction.

Mr. Beavers stated the purpose of the task force is to conduct a study of the Teachers' Retirement System to see how TRS is meeting the needs of its members or how it can better meet those needs. It will also look at all types of benefit design plans and make recommendations to the Governor's office by January 15, 2006.

Mr. Beavers said he has already begun contacting other state systems who have conducted similar studies and may be able to have reports for the task force's first meeting. He stated he will contact the Governor's office to get a timetable of the upcoming meetings.

Mr. DeMuth made a suggestion that Mr. Roper be recommended to the Governor to serve as the representative of the Teachers' Retirement System on this task force. Mr. Neptune stated it was his opinion that the representative should be the Chairman of the Board.

**Motion to Recommend Designee for Task Force**

A motion was made by Mr. DeMuth and seconded by Ms. Barnes that Mr. Roper be recommended to the Governor as the representative of the Teachers' Retirement System. The motion failed with Mr. DeMuth; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; and Mr. Simpson responding yes, Mr. Smith; Mr. Neptune; Ms. Rhodes; and Ms. Conway responding no, and Chairman Palluconi abstaining.

A motion can only be carried by a majority vote of the Board, which is seven (7) votes responding yes. Therefore the Board will make no recommendation.

Chairman Palluconi pointed out the "draft" 2006 meeting dates on the table before the Board. The Chairman said also listed are the dates when each investment manager will make their reports to the Board. She asked that each member check their calendars for any conflicts as this will be an item on the agenda in November.

The Chairman also noted that the months of February and August will begin one hour early, to allow the full quarterly executive summary report from gregory.w.group during the Board meeting.

**FINANCIAL CONDITION & UNFUNDED STATUS OF THE  
TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA**

There was no further discussion on this issue.

**NEW BUSINESS**

There was no further business to be discussed.

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Chairman Palluconi determined all business before the Board had concluded and declared the meeting adjourned.

**ADJOURNMENT**

The Chair declared the meeting adjourned at 3:45 p.m. Trustees present at adjournment were as follows: Mr. Simpson; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; 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 - November 16, 2005**

Investment Committee Meeting at **9:00 A.M.**  
Board Meeting begins at **12:30 P.M.**

Oliver Hodge Education Building  
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:** \_\_\_\_\_  
**Secretary, Denise Rhodes**

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 scheduled meeting on October 26, 2005.

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