

**MINUTES**  
**SEVEN HUNDRED AND EIGHTY-SECOND MEETING**  
**BOARD OF TRUSTEES**  
**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA**

**OCTOBER 25, 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 1:30 P.M., Wednesday, October 25, 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    |
| Sherrie Barnes                     | John Kirkpatrick |
| Bruce DeMuth                       | Michael Simpson  |
| Richard Gorman                     | James Smith      |

**TRUSTEES NOT PRESENT:**

Dick Neptune, *Secretary*  
Sandy Garrett  
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*  
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*

**ACTUARY PRESENT:**

Christian Conradi, *Gabriel, Roeder, Smith & Company*

**OTHERS PRESENT:**

Larry Asberry, *Office of State Finance*  
Charles Barnes, *Sand Springs Public Schools*  
Dwight Bruss, *State Department of Education*  
Norman Cooper, *Oklahoma Educators' Association*  
Tommy Fulton, *Retired Member*  
Amber Theinert\*, *Capitol Network News*

\*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.

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**MINUTES of SEPTEMBER 26, 2006, BOARD MEETING APPROVED**

The Chairman asked for corrections, additions or a motion to approve the minutes of the September 26, 2006, meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma. It was noted that Ms. Conway did not attend the September meeting and a correction should be made to show she was not present. A motion was made by Mr. Roper with a second made by Mr. Simpson for approval of the minutes, as corrected. 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 SIXTEENTH  
INVESTMENT COMMITTEE MEETING**

The Investment Committee meeting convened at 10:00 a.m. Wednesday, October 25, 2006, and adjourned at 12:59 p.m. Committee members present were as follows: Chairman Matti Palluconi; Ms. Conway; James Smith and Mr. Neptune\*. Other trustees present were Ms. Barnes; Mr. Gorman; Dr. Kirkpatrick\*; Ms. Minton; 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,  
September 30<sup>th</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 September 30<sup>th</sup> monthly report, given in-depth to the Investment Committee earlier in the day. The report indicated that as of September 30, 2006, the market value of the Fund was \$8.4 billion.

The investment managers present during the Investment Committee meeting were Greg Curran and Beth Stone with Standish Mellon, and Gary Goodenough and Steven Hecht with MacKay Shields. Both firms are Fixed Income managers with \$430 million in assets with Standish Mellon and \$325 million in assets with MacKay Shields. 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 September 30, 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, 4.78% vs. 5.67%; H&W Large-Cap, 5.14% vs. 6.22%; Goldman Sachs, 4.40% vs. 3.94%; Aletheia, N/A; Chase, N/A; Sawgrass, N/A; Advisory, N/A; EPOCH, N/A; AJO Partners, 0.82% vs. 2.11%; Wellington, 3.06% vs. 2.11%; Frontier, 1.69% vs. 2.11%; H&W Mid-Cap, 5.32% vs. 2.11%; Shapiro, 5.67% vs. 0.44%; Tocqueville, 3.61% vs. 0.44%; Smith Capital, -4.73% vs. 0.44%; Capital Guardian, 3.63% vs. 3.99%; Causeway Capital, 4.12% vs. 3.99%; Brandes, 5.62% vs. 3.99%; Thornburg, N/A; Hoisington, 9.58% vs. 3.81%; Loomis Sayles, 3.89% vs. 3.81%; Lord Abbett, 4.02% vs. 3.81%; MacKay Shields, 3.64% vs. 3.81%; PIMCO, 3.93% vs. 3.81%; Standish Mellon, 3.68% vs. 3.81%; Stephens, 4.58% vs. 3.81%; and OTRS Cash, 1.32% vs. 1.33%.

Total Fund performance is as follows: Month of SEPTEMBER 2006, 1.36% vs. 1.37%; last quarter, 3.82% vs. 3.78%; 1-year, 9.15% vs. 9.99%; 3-years, 12.80% vs. 12.34%; 5-years, 10.17% vs. 9.90%; and since inception, 10.40% vs. 10.95%. *(Returns over one year are annualized.)*

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**Market Environment Overview**

gregory.w.group also made a presentation to the Investment Committee on the market's behavior as of September 30, 2006. This report is to give the Board a better understanding of where the Fund's returns come from, which included index and sector performance.

**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**

The total market value of the portfolio was \$8,407,836,590.78 invested approximately 32% in fixed income, 68% 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 0.44 basis points, the three-month return was 1.32%, and the trailing twelve-month return was 4.85%.

**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 2006**

Total recaptured commissions for the month was \$8,708, total commissions paid was \$467,149, with a net cost per share of \$0.028 and year-to-date net cost per share of \$0.031. Fiscal year-to-date, recaptured commissions total \$42,348 on \$851,738 in paid commissions.

**Fiscal Year 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.

**Earnings on Securities Lending**

This report shows last year's and this year's earnings on securities lent and the lendable balance, including the market value and gross returns.

**Renewal of Contract with Shapiro and Thornburg**

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; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Smith; Mr. Simpson; Mr. Gorman; Ms. Minton; and Chairman Palluconi responding yes.

**Transition of Funds to EPOCH and Advisory Research**

Mr. Puckett reported on the transition of funds from Northern Trust Index Fund into the two All-Cap managers, EPOCH and Advisory Research. He stated there was a savings of approximately \$1 million by having State Street perform the transition.

**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 and the results will be presented to the Board.

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

Mr. Christian Conradi, with Gabriel, Roeder, Smith & Company (GRS), actuary for the Teachers' Retirement System of Oklahoma, was present to make the actuarial valuation report to the Board for the period ending June 30, 2006. The purpose of the valuation is to measure the System's liabilities and compare them to the assets, 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. Conradi informed the Board that the valuation also takes into consideration the major changes that occurred during 2006, i.e., the EESIP (Wear Away) bill; the 2% COLA given by the Legislature to retired members; changes in state contributions; an increase in active members; and a gain in asset value. Mr. Conradi stated results of the actuarial valuation indicate that as of June 30, 2006, the Unfunded Accrued Actuarial Liability (UAAL) was \$7.673 billion, due primarily to the passage of the EESIP bill and the 2% COLA. He said the Retirement System's funding ratio decreased from 49.5% to 49.3%, but the amortization period changed from 42.6 years to 37.4 years. He expressed an opinion that, given the expected revenue stream, the Retirement System could be 85% funded in approximately 30 years.

Mr. Conradi said the actuarial valuation is performed on an annual basis as of June 30 each year, by gathering member data from the Retirement System and asset data from the System's financial statement and combines measurements of liabilities and assets to make projections. The valuation report provides data to the Retirement System that is required in compliance with the GASB 25 (*Governmental Accounting Standards Board, Statement No. 25*).

After further discussion by Mr. Conradi and the Board of Trustees, Chairman Palluconi asked for a motion to accept the actuary's report.

**Motion to Approve Actuarial Report Carried**

The Chairman asked for a motion from the Board. A motion was made by Dr. Kirkpatrick with a second being made by Mr. Simpson. The motion carried by Ms. Minton; Mr. Gorman; Mr. Simpson; Mr. Smith; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Palluconi responding yes.

A break was taken from 3:05 to 3:16.

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**INTERNAL AUDIT REPORT  
Summary of Prior Findings**

Kara Johnson, Internal Auditor, gave the Board a report on the findings of former audits, which included the IT audit, an audit of post-retirement employment, and an audit of the school reporting process.

**Motion to Approve the Internal Audit Report Carried**

After further discussion, the Chairman asked for a motion from the Board. A motion was made by Mr. DeMuth with a second being made by Ms. Conway. The motion carried by Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Smith; Mr. Simpson; Mr. Gorman; and Chairman Palluconi responding yes. (*Ms. Minton was temporarily out of the room.*)

Chairman Palluconi asked Mr. Beavers for his reports.

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

Mr. Beavers referred the Board to section five in their binders and gave them a brief report, stating 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 Ms. Conway. The motion carried by Mr. Gorman; Mr. Simpson; Mr. Smith; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Palluconi responding yes. (*Ms. Minton was temporarily out of the room.*) 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 \$2,745,647.75 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 \$3,077.52.

**Recommendations for Retirement**

There were fourteen (14) disability and 92 regular contracts filed for retirement.

**Disability Retirement as Provided by Social Security**

There were nine (9) 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.

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**Disability Retirement Re-Evaluated**

There were four (4) disability retirement accounts recommended for continuation of disability retirement benefits.

**Out-of-State Travel**

A request by Kara Johnson, Internal Auditor to attend the APPFA Conference (Association of Public Pension Fund Auditors, in Chicago, Illinois.

**Termination of Retirement Benefits**

Monthly benefits were terminated for 100 members due to their deaths, 26 who returned to teaching, and 1 that cancelled their retirement.

**New Members**

There were 1,965 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 \$190,082.62. (Can include longevity and supplemental payroll.)

**Financial Statements**

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

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

Mr. Beavers informed the Board the interpleader action has been filed in Oklahoma County court on the TRS vs. Calbert case. He stated there are no other changes to this report.

**BOARD OF TRUSTEES RESOLUTION**

The Chairman reminded the Board that during the September meeting a motion was made to create a Board Resolution that will ultimately be given to the Legislature. She stated the Resolution should include issues on the System's unfunded liability, the Legislature fully funding any COLA's given to TRS retired members, and additional monies given to the Retirement System that could have the System at least 80% funded in 20 years.

After considerable discussion, The Chairman asked Mr. DeMuth and Dr. Kirkpatrick to serve as a committee to work with Mr. Beavers on the final language for this resolution. She stated if any of the trustees had suggestions, to contact the committee or Mr. Beavers. The final resolution will be presented at the November meeting.

The Chairman asked Mr. Beavers to report on this next item.

**BERNSTEIN, LITOWITZ, BERGER & GROSSMANN  
SECURITIES LITIGATION - CONNETICS CORPORATION**

Mr. Beavers reported that he and John McCormick had originally looked into this matter in July and decided to not pursue the issue. He said BLB&G has now sent revised information which

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indicates the Teachers' Retirement System is the largest institutional investor in this case, and based on this new information, he has given BLB&G tentative authority to pursue this matter with the Retirement System as lead plaintiff. Mr. Beavers said he is asking the Board to approve this action.

**Motion for Approval of Litigation Carried**

A motion was made by Dr. Kirkpatrick with a second being made by Ms. Conway. The motion carried by Ms. Minton; Mr. Gorman; Mr. Simpson; Mr. Smith; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Palluconi 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.

Dr. Kirkpatrick gave the Board a brief report on a study conducted for the Texas Teachers' Retirement System by an independent consultant, and thought a study of this nature could be beneficial to the Oklahoma Teachers' Retirement System. Dr. Kirkpatrick said this report is available on the Texas Teachers website.

**NEW BUSINESS**

The Chairman referred the Board to the list of the System's investment managers on the table before them. The Chairman stated other boards have instituted a program called "Adopt a Manager", which would give the Board a focus on the managers and how they do their jobs for the Retirement System. She asked each trustee to consider choosing two or three managers, to track their performance and be those managers contact when they come to Oklahoma City to make their presentations.

Mr. Beavers reported that the Attorney General's (AG's) office has contacted him concerning our legal counsel vacancy. He said the AG's office has three attorneys to be interviewed to fill that position, and this could be accomplished prior to the November meeting.

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**ADJOURNMENT**

There being no further business before the Board, Chairman Palluconi declared the meeting adjourned at 4:12 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:

**WEDNESDAY - November 15, 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 November 15, 2006.

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