

MINUTES
SEVEN HUNDRED AND NINETY-FOURTH MEETING
BOARD OF TRUSTEES
TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA
OCTOBER 24, 2007

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 1:32 P.M., Wednesday, October 24, 2007, 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, <i>Chairman</i>	Richard Goman
Dick Neptune, <i>Secretary</i>	John Kirkpatrick
Sherrie Barnes	Matti Palluconi
Bruce DeMuth	Michael Simpson

TRUSTEES NOT PRESENT:

Sandy Garrett
Tony Hutchison
Galeard Roper
James Smith
Vacant Position

TRS STAFF PRESENT:

Tommy C. Beavers, *Executive Secretary*
Sue Callahan, *Assistant Executive Secretary*
Bill Puckett, *Chief Investment Officer*
Joe Ezzell, *Secretary-Treasurer*
Edward Romero, *Comptroller*
Adam Attaoui, *Information Security Administrator*
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 PRESENT:

Gregory T. Weaver, *President, gregory.w.group*
Douglas J. Anderson, *gregory.w.group*

OTHERS PRESENT:

Dwight Bruss, *State Department of Education*
Chris Conradi, *Gabriel, Roeder, Smith and Company, TRS Actuarial Consultant*
Norman Cooper, *Oklahoma Retired Educators Association*
Tommy Fulton
Jerry Johnson, *Oklahoma Education Association*

*Indicates late arrival or early departure.

BOARD POLL FOR QUORUM

Chairman Conway 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. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Gorman; and Chairman Conway.

MINUTES of SEPTEMBER 27, 2007, BOARD MEETING APPROVED

The Chairman asked for corrections, additions or a motion to approve the minutes of the September 27, 2007, meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma. A motion

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING OCTOBER 24, 2007

was made by Mr. DeMuth with a second made by Dr. Kirkpatrick for approval of the minutes. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Conway.

Chairman Conway said agenda item 5, the Promulgation of Emergency Rules, would be heard next and asked Mr. Beavers for his comments.

PROMULGATION OF EMERGENCY RULES

Mr. Beavers referred the Board to section 5 in their binders. He said in the course of looking at item E in the Investment Committee portion of the agenda, we determined that the Administrative Rules have language that needs to be corrected concerning the System's Investment Guidelines due to obsolete language in the Guidelines. He said when the Investment Guidelines were approved several years ago, corresponding language was not changed in the Administrative Rules.

Mr. Beavers referred to page 5-2, stating paragraph "g" of Rule 715:10-21-2 is being deleted because it is obsolete language, and that rules 715:10-21-3, 715:10-21-4, and 715:10-21-5 are being deleted from the Administrative Rules. This language remains in the Guidelines with no changes.

Mr. Beavers said he is recommending the Board adopt these Emergency Rules and would answer any question the Board may have.

The Chairman asked for discussion and there being none, asked for a motion from the Board.

Motion to Adopt Emergency Rules Carried

A motion was made by Mr. Simpson with a second made by Dr. Kirkpatrick for adoption. The motion carried by Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Gorman; and Chairman Conway responding yes.

Mr. Kinney pointed out that the Emergency Rules won't go into effect until the Governor has signed them. Once this occurs, staff will inform the Board.

REPORT FROM THE TWO HUNDRED AND TWENTY-SEVENTH INVESTMENT COMMITTEE MEETING

The Investment Committee meeting convened at 10:02 a.m. Wednesday, October 24, 2007, and adjourned at 1:28 p.m. Committee members present were as follows: Chairman Cathy Conway; Matti Palluconi; Michael Simpson; and Dick Neptune. Other trustees present were Ms. Barnes*; and Mr. Gorman; Bruce DeMuth*; and Dr. Kirkpatrick*.

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

PRESENTATION BY gregory.w.group Market Performance, Manager Review, Asset Allocation Review, September 30th 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, given in-depth to the Investment Committee earlier in the day.

Mr. Weaver reported that Ted Aronson of Aronson+Johnson+Ortiz, and Steve Knightly and Kirk

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING OCTOBER 24, 2007

Smith of Frontier Capital Investment, and Frank Boggen and Zander Grant of Wellington, were present at the Investment Committee meeting, with all managers giving informative and detailed presentations to the Committee.

Mr. Weaver stated that g.w.g. is in contact with the managers each month and there are currently no organizational or compliance issues with any manager. He reported he and Mr. Anderson gave the Investment Committee an overview regarding possible re-allocation of the large-cap portfolio and that this item would be included on the Board's November agenda.

Net of Fee and Market Performance Summary

This report indicates performance of the Fund, for periods ending September 30, 2007, 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, -6.89% vs. -0.24%; Goldman, 4.59% vs. 4.21%; Aletheia, 8.85% vs. 4.21%; Chase, 9.91% vs. 4.21%; Sawgrass, 5.86% vs. 4.21%; Advisory Research, -4.58% vs. 1.55%; EPOCH, 2.39% vs. 1.55%; AJO, -2.10% vs. -0.39%; Wellington, -0.36% vs. -0.39%; Frontier, 6.11% vs. -0.39%; H&W Mid-Cap, -13.25% vs. -0.39%; Shapiro, -2.25% vs. -3.09%; Tocqueville, 0.24% vs. -3.09%; Smith, -3.26% vs. -3.09%; Capital Guardian, 3.04% vs. 2.23%; Causeway, -0.12% vs. 2.23%; Brandes, -0.72% vs. 2.23%; Thomburg, 10.44% vs. 2.23%; Hoisington, 6.05% vs. 2.84%; Loomis, 3.30% vs. 2.84%; Lord Abbett, 2.88% vs. 2.84%; MacKay Shields, 2.66% vs. 2.84%; PIMCO, 3.45% vs. 2.84%; Standish, 2.88% vs. 2.84%; Stephens, 4.30% vs. 2.84%; and OTRS Cash, 1.37% vs. 1.34%.

Total Fund performance is as follows: Month of September 2007, 2.52% vs. 2.85%; last quarter, 0.82% vs. 1.47%; 1-year, 14.77% vs. 14.34% 3-years, 12.81% vs. 12.68%; 5-years, 15.03% vs. 14.36%; and since inception, 10.72% vs. 11.16%. *(Returns over one year are annualized.)*

Manager Status Summary - Update/Change

This report gives the status of each investment manager, i.e. in "Compliance", on "Alert", and on "Notice", which may be caused by performance or organizational issues. There are six managers on "Alert", one manager on "Notice", 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 \$9,689,765,470.36 invested approximately 29% in fixed income, 69% 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%, the three-month return was 1.37%, and the trailing twelve-month return was 5.51%. At the bottom of this report, the Money Market Funds average maturity should read 24, not 0.0, and Total Purchases should read 23, not 3.9.

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

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING OCTOBER 24, 2007

For the month of August, this report shows for the month, commissions paid of \$621,924, recaptured commissions totaled \$69,344 with a net per share of \$0.024, and for the Fiscal Year, commissions paid of \$1,178,335, recaptured of \$191,104, with a net per share of \$0.024.

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 the previous and current year's earnings on securities lent and the lendable balance, including the market value and gross returns.

Renewal of Manager Contracts Shapiro and Thornburg

The Chairman stated the Investment Committee is recommending renewal of the manager contracts for Shapiro Capital Management and Thornburg Investment Management. The Chairman asked if there were any questions and there being none, asked for a poll of the Board.

Investment Committee Recommendation to Renew Approved

The Investment Committee Recommendation was approved by a unanimous voice vote. Trustees responding were: Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Conway responding yes.

Addendum to Statement of Investment Policy, Objectives and Guidelines Deletion of Guideline, Section I., Paragraph A.

Mr. Kinney reported the Board had approved investing in PIMCO's Distressed Mortgage Fund. He said the current Statement of Investment Policy, Objectives and Guidelines does not allow investment in this type of fund and by taking this action, it will change the Guidelines to allow investing in this type of fund.

Mr. Puckett says he has discussed this with the Board's investment consultant, g.w.g., and does not see any benefit in keeping this restriction in the Guidelines and is recommending removal of this language.

Chairman Conway stated there is a recommendation from the Investment Committee, to delete guideline I.A, Prohibition on Restricted Securities. The Chairman asked if there was further discussion, and there being none asked for a poll of the Board.

Investment Committee Recommendation Approved

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

Addition to Guidelines, Section X, Distressed Mortgage Fund

Mr. Puckett referred the Board to page 2-28, stating this item is to ensure that language is present in the Guidelines prior to the Distressed Mortgage Fund actually being funded.

Chairman Conway stated there is a recommendation from the Investment Committee for approval. She asked if there was further discussion, and there being none asked for a poll of the Board.

Investment Committee Recommendation Approved

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
OCTOBER 24, 2007**

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

**Investment Committee Recommendation to Invest
in New PIMCO Distressed Mortgage Fund**

Mr. Kinney said with the changes to the Investment Guidelines, it would now be appropriate to once again have the Board approve investing in the PIMCO Distressed Mortgage Fund. He stated he recommends the Board affirm their action taken at the September Board meeting.

Chairman Conway stated in September the Board acted on this due to a deadline of October 15 to invest in this Fund. She said after this action it was found that a change was needed in the System's Investment Guidelines, enabling investment in the Fund, and PIMCO delayed their deadline until after today's Board meeting. The System still has the opportunity to invest in this Fund and this is why it appears on the agenda today.

The Chairman stated the Investment Committee is recommending the Board authorize investment in the PIMCO Distressed Mortgage Fund. She asked if there was further discussion.

Mr. Beavers stated one of the administrative issues was the possibility the System might have to pay an unrelated business tax on this investment. He informed the Board the System's tax attorney and staff had a lengthy telephone conference with PIMCO representatives concerning this issue. Mr. Beavers said this will probably not come to pass but wanted the Board to be aware of the possibility. He said should it happen, a tax statement will be issued to all partners in the PIMCO Fund with each partner then determining whether there is any tax liability. Mr. Beavers reported if a favorable ruling is not received from the Internal Revenue, then it will be dealt with at that time.

Investment Committee Recommendation Approved

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

**Re-Allocation of TRS Investment Funds
PIMCO Distressed Mortgage Fund**

Chairman Conway stated there is a recommendation from the Investment Committee, to the full Board, to re-allocate funds to the new PIMCO Distressed Mortgage Fund. She reported that the recommendation is to take \$100 million from the PIMCO Fixed Income Portfolio to fund this investment, and to give TRS staff authority to find the most expeditious way in which to act on this transfer of funds. The Chairman stated, in consulting with PIMCO, it was found it would be more expeditious to move the funds through PIMCO rather than taking the funds from Standish Mellon as discussed last month.

Mr. Kinney stated this will also reaffirm action taken by the Board at the September meeting.

The Chairman asked if there was further 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; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; and Chairman Conway responding yes.

The Chairman stated the Investment Committee is recommending \$100 million be taken from the Standish Mellon portfolio and placed in the Hoisington fixed income portfolio and this recommendation includes giving TRS staff authority to make this transfer of funds in the most expeditious way.

Chairman Conway asked if there was further discussion and there being none, asked for a poll of the Board.

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
OCTOBER 24, 2007**

Investment Committee Recommendation Approved

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

Mr. Beavers said he and Doug Anderson had a discussion about the reallocation of funds and with the transfer of funds to Hoisington, this would in some way balance the new investment in PIMCO.

Mr. Anderson reported in his research and discussions with PIMCO concerning the Distressed Mortgage Fund, it was found the risk factor that would pose the most danger to the System is if the housing market has a complete meltdown. He said last month the Board voted to give additional funds to Hoisington and g.w.g. feels the gains in the Hoisington portfolio will more than offset those losses, if any, PIMCO would suffer should the housing market go down.

Chairman Conway asked if there were further comments or discussion and there being none stated the next item is the actuarial report from Gabriel, Roeder, Smith & Company (GRS). She asked Chris Conradi with GRS for the actuarial report.

**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, 2007. 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 to fully fund the Teachers' Retirement System. The valuation uses financial and membership data and the System's plan provisions, as of June 30, 2007, along with actuarial assumptions adopted by the Retirement System's Board of Trustees after GRS performed an experience study in 2004. Mr. Conradi stated experience studies are performed every five years and the next experience study is scheduled to follow the actuarial valuation for the year ending June 30, 2009.

Mr. Conradi informed the Board the valuation also takes into consideration the major changes that occurred during 2006, i.e., the EESIP (Wear Away) bill; 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, 2007, the Unfunded Accrued Actuarial Liability (UAAL) decreased from \$7.673 billion to \$7.603 billion, due primarily to asset gains and larger-than-expected contributions. He said the Retirement System's funding period has been reduced from 37.4 years to 21.6 years. He expressed an opinion that, given the expected revenue stream, the Retirement System could be fully amortized by the end of FY 2029 assuming a 1% COLA each year; no benefit changes; an 8% net market return each year; and no change in active membership.

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, the Board and staff, the Chairman called for a motion to accept the actuarial report.

Motion to Approve Actuarial Report Carried

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

The Chairman asked Mr. Beavers for his reports.

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
OCTOBER 24, 2007**

**REPORT OF THE EXECUTIVE SECRETARY
Report of Routine Items and Executive Secretary Report for September 2007**

Mr. Beavers referred the Board to section 4 in their binders and made his 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. DeMuth with a second made by Dr. Kirkpatrick. The motion carried by a unanimous voice vote. Trustees responding were: Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; 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 \$1,395,229.20 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 \$6,794.86.

Recommendations for Retirement

There were four (4) disability and 89 regular contracts filed for retirement.

Disability Retirement as Provided by Social Security

There were three (3) 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 as Re-Evaluated

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

Termination of Retirement Benefits

Monthly benefits were terminated for 96 members due to their deaths and 26 who returned to teaching, and two (2) who cancelled their retirement.

New Members

There were 1,911 new member applications. 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 \$203,580.69. (Can include longevity and supplemental payroll.)

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
OCTOBER 24, 2007**

Financial Statements

These reports cover the month of August 2007.

Personnel Change

Mr. Joe Ezzell was hired as the Retirement System's Director of Internal Auditing.

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

Mr. Kinney gave the Board an update on current and future legal issues facing the Retirement System. Mr. Kinney said he would be glad to answer any questions the Board might have.

REPORT ON NCTR ANNUAL CONVENTION

Mr. Neptune, Chairman Conway and Mr. Beavers gave the Board a brief overview of the NCTR annual convention held earlier this month.

Mr. Beavers reported Mr. Conradi would remain after the Board meeting for a informational session with Board. He said that binders of the NCTR Trustee Workshop, held in Boston this past summer, have been put together and are available for those trustees that were unable to attend.

**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 new business before the Board and there being none asked for adjournment.

Mr. Beavers referred the Board to the material before them concerning dates for the 2008 Board and Investment Committee meetings. He asked the Board to look at their calendars for next year for any conflicts. He stated the Board's meeting times and dates must be submitted to the Secretary of State's office prior to the December Board meeting and would be an agenda item at the November meeting for the Board's action.

After discussion the Chairman stated that g.w.g. would have a presentation for the Board in the next couple of months on investment terms and strategies.

With no further discussion, the Chairman declared the meeting adjourned.

ADJOURNMENT

There being no further business before the Board, the Board adjourned at 3:17 p.m. Trustees present

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
OCTOBER 24, 2007**

at adjournment were as follows: Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Gorman; 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 - NOVEMBER 28, 2007

Investment Committee Meeting begins at **9:00 A.M.**

Board Meeting begins at **1:30 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 November 28, 2007.

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