

**MINUTES**  
**EIGHT HUNDRED AND SIXTH REGULAR MEETING**  
**OF THE**  
**BOARD OF TRUSTEES**  
**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA**  
**OCTOBER 22, 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 1:00 P.M., Wednesday, October 22, 2008, 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:**

Cathy Conway, *Chairman*  
James Smith, *Vice-Chairman*  
Dick Neptune, *Secretary*

Bruce DeMuth  
Richard Gorman  
Darryl Hatcher

Galeard Roper  
Michael Simpson

**TRUSTEES NOT PRESENT:**

Sherrie Barnes  
Sandy Garrett  
John Kirkpatrick  
Matti Palluconi  
Vacant Position

**TRS STAFF PRESENT:**

Tommy C. Beavers, *Executive Secretary*  
Bill Puckett, *Chief Investment Officer*  
Edward Romero\*, *Secretary-Treasurer*  
Kim Bold\*, *Director, Human Resources*  
Joe Ezzell\*, *Director, Internal Auditing*  
Kimber Chessmore, *Senior Internal Auditor*  
Becky Yearout, *Cash Management Officer*

**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*

**ACTUARIAL CONSULTANT PRESENT: Gabriel, Roeder, Smith & Company**

Chris Conradi, *Consultant*  
Mark Randall, *Consultant*

**OTHERS PRESENT:**

Norman Cooper, *Oklahoma retired Educators Association*  
Tommy Fulton, *Retired Member*

\*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; Mr. Roper; Mr. Smith; Mr. Neptune; Mr. Simpson; Mr. Gorman; and Chairman Conway.

**MINUTES of the SEPTEMBER 23, 2008 SPECIAL BOARD MEETING and**  
**MINUTES of the SEPTEMBER 24, 2008, REGULAR BOARD MEETING APPROVED**

The Chairman asked for corrections, additions or a motion to approve the minutes of the September 23, 2008, special meeting and the September 24, 2008, regular meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma.

**MOTION TO APPROVE MINUTES CARRIED**

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A motion was made by Mr. Simpson with a second made by Mr. Roper to approve the minutes of the September 23, 2008, special meeting. The motion carried by a unanimous voice vote. Trustees responding were Mr. Gorman; Mr. Simpson; Mr. Neptune; Mr. Smith; Mr. Roper; Mr. DeMuth; Mr. Hatcher; and Chairman Conway.

A motion was made by Mr. Simpson with a second by Mr. Roper to approve the minutes of the September 24, 2008, regular meeting, as corrected on page 1-5. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Hatcher; Mr. DeMuth; Mr. Roper; Mr. Smith; Mr. Neptune; Mr. Simpson; Mr. Gorman; and Chairman Conway.

## REPORT FROM THE TWO HUNDRED AND THIRTY-NINTH INVESTMENT COMMITTEE MEETING

The Investment Committee meeting convened at 9:15 a.m. Wednesday, October 22, 2008, and adjourned at 12:25 p.m. Committee members present were as follows: Chairman Cathy Conway\*; members, Michael Simpson; James Smith; and Dick Neptune. Other trustees present were Mr. Gorman\*; Mr. Roper\*; and Mr. Hatcher\*.

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

### PRESENTATION BY gregory.w.group Market Performance, 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 an overview of their monthly report that was presented, in full, to the Investment Committee earlier in the day.

Mr. Weaver stated Bob Ball and Kristin Harper with Lord Abbett, and Bob Betz, Mike Gallagher and Marsha Sargent with JP Morgan Chase gave presentations during the Investment Committee meeting. Mr. Weaver stated Lord Abbett's results have been good with periods of under- and over-performance since inception. He said JP Morgan's presentation concerned their securities lending portfolio.

Mr. Weaver stated the Fund's targeted allocation was out of its range as of September 30, and given the current market, gregory.w.group will bring back to the November meeting an updated version of the asset allocation and recommendations for any action that will need to be taken such as removing funds from fixed income and placing it into equities.

### Net of Fee and Market Performance Summary

This report indicates performance of the Fund, for periods ending September 30, 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, -11.3% vs. -6.1%; Goldman, -12.0% vs. -12.3%; Aletheia, -19.2% vs. -12.3%; Chase, -9.9% vs. -12.3%; Sawgrass, -8.0% vs. -12.3%; Advisory, -6.3% vs. -8.7%; EPOCH, -13.3% vs. -8.7%; AJO, -14.5% vs. -12.9%; Wellington, -15.0% vs. -12.9%; Frontier, -9.7% vs. -12.9%; H&W Mid-Cap, -9.9% vs. -12.9%; Shapiro, 3.3% vs. -1.1%; Tocqueville, 0.2% vs. -1.1%; Smith, -6.9% vs. -1.1%; Capital Guardian, -21.3% vs. -20.5%; Causeway, -19.0% vs. -20.5%; Brandes, -13.5% vs. -20.5%; Thornburg, -17.5% vs. -20.5%; Hoisington, 4.1% vs. -0.5%; Loomis, -3.5% vs. -0.5%; Lord Abbett, -2.0% vs. -0.5%; MacKay Shields, 0.2% vs. -0.5%; PIMCO, -2.1% vs. -0.5%; Standish, -0.3% vs. -0.5%; Stephens, 1.2% vs. -0.5%; and TRS Cash, 0.6% vs. 0.6%.

Total Fund performance is as follows: Month of September 2008, -8.2% vs. -8.0%; last quarter, -8.0% vs. -8.2%; 1-year, -15.6% vs. -15.5%; 3-years, 1.9% vs. 2.0%; 5-years, 6.8% vs. 6.5%; and since inception, 8.9% vs. 9.4%. (Returns over one year are annualized.)

### Manager Status Summary and Possible Action

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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.

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

Mr. Weaver said this was discussed during the Investment Committee meeting and no action was taken on this matter.

The Chairman asked Mr. Puckett for this 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 \$8,188,430,301.20 invested approximately 37% in fixed income, 62% 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 0.19%, the three-month return was .62%, and the trailing twelve-month return was 3.69%.

**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 August, this report shows commissions paid of \$514,427, recaptured commissions totaled \$54,891 with a net per share of \$0.026, and for the Fiscal Year, commissions paid of \$1,161,332, recaptured of \$148,906, with a net per share of \$0.025.

**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.

**Fee Negotiations with Advisory Research and Shapiro Capital**

Mr. Weaver reported this had been discussed in the Investment Committee earlier today and that no action was taken.

**Opportunistic Bond Portfolio**

Mr. Weaver stated he had given a lengthy presentation to the Investment Committee concerning hi-yield markets. He said this would be on the agenda again at the November meeting.

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**Emerging Manager Portfolio**

GREG Weaver said there wasn't time for g.w.g. to make this report and would do so at the November meeting.

**Update on Transition of Funds**

Mr. Weaver reported that Mr. Puckett and his staff have been working on the transition of funds from the Standish-Mellon account. Most of the transition has occurred but due to liquidity issues there are still funds to be deployed. This will be on the November agenda.

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

Mr. Christian Conradi and Mr. Mark Randall, with Gabriel, Roeder, Smith & Company (GRS), actuary for the Teachers' Retirement System of Oklahoma, were present and made an in-depth report on the actuarial valuation to the Board for the period ending June 30, 2008. Mr. Conradi said that Mr. Randall would be on the actuarial consultant team for the Retirement System in the future.

The purpose of this valuation is to measure the Retirement System's liabilities and compare them to its' assets, and 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, 2008, along with actuarial assumptions adopted by the Retirement System's Board of Trustees, including the 2% COLA assumption adopted at the June 2008 Board meeting. Mr. Conradi informed the Board there will be an experience study performed following the actuarial valuation for the year ending June 30, 2009.

The valuation also takes into consideration changes that occurred during 2008, i.e., the 2% COLA assumption; changes in state contributions; increase in active members and payroll; and a loss in asset value. He stated the results of the valuation indicate that as of June 30, 2008, the System is 50% funded and the UAAL (Unfunded Accrued Actuarial Liability) increased from \$7.6 billion to just over \$9 billion, principally due to the change in assumptions for future COLAs. Also, the System's funding period has changed from 21.6 years to 54.4 years.

Mr. Conradi stated 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 about the Retirement System in compliance with GASB 25 (Governmental Accounting Standards Board, Statement No. 25).

The Chairman asked if there were further questions from the Board and there being none, asked for a motion to accept the actuarial report.

**Motion to Accept Actuarial Valuation Report Carried**

Chairman Conway asked for a motion from the Board. A motion was made by Mr. Roper with a second made by Mr. Smith to approve the actuarial valuation report as presented. The motion carried by Mr. Gorman; Mr. Simpson; Mr. Neptune; Mr. Smith; Mr. Roper; Mr. DeMuth; Mr. Hatcher; 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.

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**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. DeMuth with a second made by Mr. Neptune. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Hatcher; Mr. DeMuth; Mr. Roper; Mr. Smith; Mr. Neptune; 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 \$1,499,644.15 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 \$13,300.12.

**Recommendations for Retirement**

There were 88 regular members and six (6) disabled members recommended for retirement.

**Disability Retirement as Provided by Social Security Disability**

There was one (1) disability applicant awarded TRS Disability Retirement, through and by approval for Social Security Disability, as per 70 O.S. § 17-105.

**Termination of Retirement Benefits**

Monthly benefits were terminated for 95 members due to their deaths, and four (4) who returned to teaching.

**New Members**

There were 2,007 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 \$221,116.85. (Can include longevity and supplemental payroll.)

**Financial Statements**

These reports cover the month of September 2008.

**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.

**EXECUTIVE SESSION and POSSIBLE ACTION FOR**

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**CONFIDENTIAL COMMUNICATION**

The Chairman stated this item is for the purpose of receiving confidential communications from our outside counsel in the Delphi cases, and the MoneyGram case in which we are lead plaintiff. The agenda item also includes a report from outside counsel in seeking lead plaintiff status in the Constellation Energy Group case. The Chair recognized Mr. Kinney for his comments.

Mr. Kinney stated in his opinion it is necessary for the Trustees to resolve into executive session, and is his recommendation, since discussion in a public meeting would impair the ability of the Trustees to resolve these matters in the public interest. He said Brad Beckworth with the firm of Nix Patterson is present to update the trustees on the status of the Delphi cases and the MoneyGram case.

The Chairman asked for a motion to enter into executive session.

**Enter into Executive Session**

A motion was made by Mr. Roper to resolve into executive session for the purpose of consideration of Agenda Item 9. A second was made by Mr. Simpson. The Board entered into Executive Session at 2:13 p.m. The motion carried by Mr. Gorman; Mr. Simpson; Mr. Neptune; Mr. Smith; Mr. Roper; Mr. Hatcher; Mr. DeMuth; and Chairman Conway responding yes. The Chairman declared the motion to have prevailed, and declared the meeting to be resolved into executive session.

**Return to Open Session**

A motion was made by Mr. Roper with a second made by Mr. Simpson to return to Open Session at 2:52 p.m. The motion carried by Mr. Hatcher; Mr. DeMuth; Mr. Roper; Mr. Smith; Mr. Neptune; Mr. Simpson; Mr. Gorman; and Chairman Conway responding yes. The Chairman declared the motion to have prevailed and the Board is now back in regular session and will consider Agenda Item 10 at this time.

The Chair recognized Mr. Kinney.

Mr. Kinney stated, for purposes of the record, the Trustees met in executive session to discuss Agenda Item 9 with a Nix Patterson lawyer, also present were Tommy Beavers, Bill Puckett and myself. The Trustees answering roll call for quorum were present. No vote or official action was taken while the Trustees were in executive session.

Chairman Conway asked if there was a motion from the Board.

**No Action Resulting from Executive Session**

The Chairman stated there was no motion forthcoming for Agenda Item 10 from the Board, therefore no action is necessary and the Board will move on to the next agenda item.

**PROMULGATION OF EMERGENCY RULES  
715:10-11-7; 715:10-15-26**

Mr. Beavers stated this item has the proposed emergency rules that were brought to the Board by Ice Miller, legal counsel to TRS on tax matters, and is in conjunction with a filing with the Internal Revenue Service for a new determination letter. He said these changes will bring the System's rules in compliance with the changes that have occurred in the last year with Internal Revenue concerning rollovers and distributions from the System's regular 401A retirement plan. Mr. Beavers said the Internal Revenue Service has put governmental plans on a filing cycle called "Cycle C" and if we don't file for a new determination letter under this schedule, we would have to wait almost 5 years before we could file again.

**Promulgation of Rules Approved**

Chairman Conway asked for a motion from the Board. A motion was made by Mr. Neptune with a second made by Mr. Smith to approve the rules as presented. The motion carried by Mr. Gorman; Mr.

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Simpson; Mr. Neptune; Mr. Smith; Mr. Roper; Mr. DeMuth; Mr. Hatcher; and Chairman Conway responding yes.

Chairman Conway stated the next item for discussion is the review of the 2008-12 strategic plan and asked Mr. Beavers for his comments.

## **REVIEW OF 2008-12 STRATEGIC PLAN**

Mr. Beavers stated this is a copy of the TRS Strategic Plan. The System is required to file its plan every two years, in a format prescribed by the Office of State Finance. The plan includes four general goals, improving member services mainly in the benefits section; adequate funding for the Retirement System; continued staff training; and IT enhancements. We have specific performance measurements and twenty action plans that we will implement over a period of time.

A request was made to include the titles of the various individuals involved with the Strategic Plan, and to maintain such as staff members depart or change positions within the System.

Mr. Beavers stated the Plan was filed as part of the System's budget on September 30 and sent to the Governor. He also said the year should be changed to read 2010-14 rather than 2008-12.

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

## **Strategic Plan for 2010-14 Adopted**

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 the 2010-14 Strategic Plan. The motion carried by Mr. Hatcher; Mr. DeMuth; Mr. Roper; Mr. Smith; Mr. Neptune; Mr. Simpson; Mr. Gorman; and Chairman Conway responding yes.

## **REPORT ON NCTR ANNUAL CONVENTION**

Chairman Conway and those trustees who attended the NCTR annual convention gave the Board a brief report on the meetings and various programs they had attended.

## **NEW BUSINESS**

The Chairman asked if there was any new business.

Mr. Kinney stated an e-mail was received yesterday afternoon after the posting of the agenda, that Aldus has other investments they would like to Board to review. This would be a commitment of \$22.5 million for payment between now and the November Board meeting. The request is to allow Mr. Puckett and TRS staff to make payments for this investment to Aldus from the cash flow account, up to a maximum of \$50 million and to re-allocate those funds at the November meeting.

## **Motion Carried**

A motion was made by Mr. Simpson with a second made by Mr. Neptune for approval. The motion carried by Mr. Gorman; Mr. Simpson; Mr. Neptune; Mr. Smith; Mr. Roper; Mr. DeMuth; Mr. Hatcher; and Chairman Conway responding yes.

## **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.

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**ADJOURNMENT**

There being no further business before the Board, the Chairman declared the meeting adjourned at 3:20 p.m. Trustees present at adjournment were as follows: Mr. Hatcher; Mr. DeMuth; Mr. Roper; Mr. Smith; Mr. Neptune; Mr. Simpson; Mr. Gorman; and Chairman Conway.

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*(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 19, 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, 5<sup>th</sup> 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 19, 2008.

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