

MINUTES
SEVEN HUNDRED AND NINETY-FIFTH MEETING
BOARD OF TRUSTEES
TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA
NOVEMBER 28, 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, November 28, 2007, ~~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, *Chairman*
James Smith, *Vice-Chairman*
Dick Neptune, *Secretary*

Sherrie Barnes
Bruce DeMuth
Darryl Hatcher

Matti Palluconi
Galeard Roper
Michael Simpson

TRUSTEES NOT PRESENT:

Sandy Garrett
Richard Gorman
Tony Hutchison
John Kirkpatrick

TRS STAFF PRESENT:

Tommy C. Beavers, *Executive Secretary*
Bill Puckett, *Chief Investment Officer*
Kim Bold, *Director of Human Resources*
Joe Ezzell, *Director of Internal Auditing**
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:

Mike Gibson, *Cole & Reed, TRS External Auditor*
Garrett Morelock, *Cole & Reed, TRS External Auditor*
Larry Asberry, *Oklahoma Office of State Finance*
Dwight Bruss, *State Department of Education*
Norman Cooper, *Oklahoma Retired Educators Association*
Tommy Fulton
Mark Schlachtenhaufer, *Capital Network News*

*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; Ms. Barnes; Mr. Roper; Mr. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; and Chairman Conway.

SWEARING IN NEW TRUSTEE

Darryl Hatcher

Chairman Conway stated the Board would like to welcome Darryl Hatcher as a new member of the TRS Board of Trustees and asked Mr. Hatcher to recite the Oath of Office. The Oath reads as follows:

"I do solemnly swear that I will support, obey, and defend the Constitution of the United States

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING NOVEMBER 28, 2007

and the Constitution of the State of Oklahoma and that I will not, knowingly, receive, directly or indirectly, any money or other valuable thing, for the performance or nonperformance of any act or duty pertaining to my office, other than the compensation allowed by law as a member of the Board of Trustees. I further swear that I will diligently and honestly administer the affairs of the Board of Trustees and that I will not knowingly violate or willingly permit to be violated any of the provisions of law applicable to the Teachers' Retirement System of Oklahoma to the best of my ability."

Mr. Hatcher was welcomed to the Board of Trustees by members of the Board, and TRS staff.

MINUTES of OCTOBER 24, 2007, BOARD MEETING APPROVED

The Chairman asked for corrections, additions or a motion to approve the minutes of the October 24, 2007, meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma. A motion was made by Mr. DeMuth with a second made by Mr. Simpson for approval of the minutes as presented. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Hatcher; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Mr. Roper; Ms. Barnes; Mr. DeMuth; and Chairman Conway.

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

The Investment Committee meeting convened at 9:03 a.m. Wednesday, November 28, 2007, and adjourned at 12:32 p.m. Committee members present were as follows: Chairman Cathy Conway; Dick Neptune; Matti Palluconi; Michael Simpson; and James Smith. Other trustee present was Ms. Barnes*.

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

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

Mr. Weaver reported that Kristen Harper, Robert Dow and Robert Lee with Lord Abbett, Gary Goodenough and Kirk Kashavass with MacKay Shields, and Beth Stone and Dawn Guffey with Standish Mellon, were present at the Investment Committee meeting, with all managers giving informative and detailed presentations to the Committee. Mr. Weaver stated there are currently no organizational or compliance issues with any manager that was here today.

Net of Fee and Market Performance Summary

This report indicates performance of the Fund, for periods ending October 31, 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, -1.32% vs. 4.61%; Goldman, 10.64% vs. 9.45%; Aletheia, 13.29% vs. 9.45%; Chase, 14.43% vs. 9.45%; Sawgrass, 10.30% vs. 9.45%; Advisory Research, 3.37% vs. 7.06%; EPOCH, 8.68% vs. 7.06%; AJO, 4.70% vs. 5.14%; Wellington, 5.77% vs. 5.14%; Frontier, 11.02% vs. 5.14%; H&W Mid-Cap, -4.75% vs. 5.14%; Shapiro, 3.68% vs. 7.01%; Tocqueville, 2.57% vs. 7.01%; Smith, 4.71% vs. 7.01%; Capital Guardian, 5.15% vs. 3.94%; Causeway, 5.54% vs. 7.84%; Brandes, 4.18% vs. 7.84%; Thornburg, 13.83% vs. 7.84%; Hoisington, 4.17% vs. 2.91%; Loomis, 3.43% vs. 2.91%; Lord Abbett, 2.98% vs. 2.91%; MacKay Shields, 5.41% vs. 5.38%; PIMCO, 5.40% vs. 5.38%;

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING NOVEMBER 28, 2007

Standish, 2.90% vs. 2.91%; Stephens, 3.22% vs. 2.91%; and OTRS Cash, 1.39% vs. 1.24%.

Total Fund performance is as follows: Month of October 2007, 1.73% vs. 1.92%; last quarter, 4.91% vs. 5.64%; 1-year, 13.66% vs. 13.20%; 3-years, 12.85% vs. 12.76%; 5-years, 14.71% vs. 13.92%; and since inception, 10.76% vs. 11.23% *(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 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 \$9,869,387,977.08 invested approximately 28% 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 0.48%, the three-month return was 1.39%, and the trailing twelve-month return was 5.55%.

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 September, this report shows commissions paid of \$372,737, recaptured commissions totaled \$56,539 with a net per share of \$0.027, and for the Fiscal Year, commissions paid of \$1,551,072, recaptured of \$247,643, with a net per share of \$0.025.

Commissions Paid

This report shows commissions paid to the Retirement System's investment managers for the period July 1, 2007, through September 30, 2007.

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

Goldman Sachs; Hotchkis & Wiley Large- & Mid-Cap; Standish Mellon; and Brandes

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING NOVEMBER 28, 2007

The Chairman stated the Investment Committee is recommending renewal of the manager's contracts. There are no changes to these contracts. 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 Mr. DeMuth; Ms. Barnes; Mr. Roper; Mr. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; and Chairman Conway responding yes, and Mr. Hatcher abstaining.

Request from Loomis Sayles to Invest in Emerging Markets

Doug Anderson referred the Board to page 2-54 in their binders, a letter from Loomis Sayles requesting the ability to invest in non-U.S. dollar denominated emerging markets bonds as another way to add value to the Fund's portfolio.

Chairman Conway stated there is a recommendation from the Investment Committee to allow Loomis-Sayles to invest up to 20% of the portfolio in emerging market securities, both U.S. and non-U.S. currencies. 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. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Mr. Roper; Ms. Barnes; Mr. DeMuth; and Chairman Conway responding yes, and Mr. Hatcher abstaining.

Asset Re-Allocation

Greg Weaver referred the Board to the handout before them reviewing the large-cap and all-cap portfolios, four (4) are large-cap growth, two (2) are all-cap value, and one (1) large-cap value. Mr. Weaver stated the re-allocation was discussed at length during the Investment Committee meeting earlier in the day.

Chairman Conway stated the recommendation from the Investment Committee is to take \$250 million from H&W Large-Cap portfolio and of that amount, give \$80 million to Aletheia, \$85 million to Chase and \$85 million to Sawgrass and to allow TRS staff to use the most expedient and cost effective manner necessary to finalize this transaction. The Chairman asked for further discussion from the Board and there being none asked for a poll of the Board.

Investment Committee Recommendation Approved

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

Mr. Kinney reminded the Board concerning the allocation of \$100 million to the new PIMCO Distressed Mortgage Fund approved at last month's meeting. He reported PIMCO's new fund had an over-subscription from other entities such as the Retirement System which allowed only \$75 million to be invested. Mr. Kinney said there is still \$25 million that needs to be re-allocated back out. He stated this amount is still sitting in the PIMCO Bond Fund and he is recommending the Board continue to keep the \$25 million in that fund. Mr. Kinney stated this is merely a housekeeping detail since the Retirement System was unable to invest the entire \$100 million.

Chairman Conway stated this is also the recommendation of the Investment Committee. 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
NOVEMBER 28, 2007**

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

Report on Transition of Funds to Hoisington

Mr. Puckett reported that the transfer of \$100 million from Standish Mellon into the Hoisington portfolio was completed on November 1st.

Chairman Conway asked if there were further comments or discussion and there being none stated the next item is a report from gregory.w.group on Hotchkis & Wiley.

Mr. Weaver referenced the handout before the Board prepared by gregory.w.group concerning the status of Hotchkis & Wiley and the Retirement System and an overview of Hotchkis & Wiley's results, year-to-year, and how they compare to similar entities. He said this matter had been discussed at length during the Investment Committee meeting earlier in the day.

Mr. Weaver stated he will be meeting with Hotchkis & Wiley later this month and will report back to the Board at the December 19th meeting on his findings. He also reminded the Board that Hotchkis will be here in January to make their presentation to the Investment Committee.

After discussion, it was determined to hold any decision concerning Hotchkis & Wiley until after the January Investment Committee meeting.

**PRESENTATION BY gregory.w.group
3RD QUARTER EXECUTIVE SUMMARY**

Mr. Greg Weaver and Mr. Doug Anderson of gregory.w.group, investment consultant to the Board, made an in-depth presentation to the Board concerning investment performance for the third quarter of 2007, period ending September 30, 2007.

The Executive Summary indicates that the Fund's total market value for the period ending September 30, was \$9.69 billion. Mr. Weaver said as always, the goal of the Fund's investment strategy is, at a minimum, to meet the actuarial assumption of 8% and the Fund has exceeded this over the last one, three, and five year periods. He stated for the year just ended, the actuarial assumption was exceeded by 7.08%. The Fund was invested with 53% in domestic equity, 18% in international equity, 28% in fixed income, and approximately 2% in cash.

A break was taken from 3:51 to 3:59.

Chairman Conway stated the next item to be heard by the Board is the external audit report from Cole & Reed. She asked Cole & Reed for the audit report.

**PRESENTATION BY EXTERNAL AUDITOR
COLE & REED**

Mr. Mike Gibson and Mr. Garrett Morelock with Cole & Reed were present to make the external audit report to the Board. They referred the trustees to the audit materials before the Board.

Mr. Gibson stated he and Mr. Morelock had met earlier in the day with the Board's Audit Committee and TRS staff, and went over the audit in detail. Mr. Gibson reported that Cole & Reed's audit opinion on the Retirement System's financial statements is unqualified, which is the best the System can obtain and is a testament to the quality job performed by management and staff. He reported the audit states that, in their opinion, all financial statements referred to in the audit are presented fairly in all material

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
NOVEMBER 28, 2007**

respects, the net assets of the System ending June 30, 2005 and 2006, and the change in net assets for the years then ended are in conformity with accounting principles generally accepted in the United States of America. He also reported that no material weaknesses were found as a result of the audit.

Member contributions increased from 249 million in 2006 to 285 million in 2007, about 15% increase, due to increases in employer contribution rates, an increase in covered payroll, the dedicated tax revenue, EESIP, and investment performance. Those are the highlights, at the end of the year the System's net increase in assets was \$1.476 billion in FY2007 compared to \$634 million in FY2006. The biggest highlight of the year from a financial statement perspective. Mr. Gibson stated the amount of time that's required to be fully funded decreased from an estimated 38 years in FY2006 down to just under 22 years during FY2007.

Mr. Gibson said that Cole & Reed is issuing an "unqualified Opinion" on the TRS financial statements. He stated the audit also encompasses an evaluation of the System's internal controls and perform tests of certain internal control areas and we also perform tests on compliance with laws and regulations. Mr. Gibson reported the audit did not reveal any deficiencies that we would consider to be material weakness with internal TRS controls. Nor did it reveal any findings of non-compliance that we were required to report under government auditing standards.

After further discussion, the Chairman asked for a motion from the Board to approve the external audit report.

Motion to Approve the External Audit Report Carried

A motion was made by Mr. Roper with a second by Mr. DeMuth to approve the audit. The motion carried by a unanimous voice vote. Trustees responding were: Mr. DeMuth; Ms. Barnes; Mr. Roper; Mr. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Hatcher; and Chairman Conway.

The Chairman asked Mr. Beavers for his reports.

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

Mr. Beavers referred the Board to section 5 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. Simpson with a second made by Mr. DeMuth. The motion carried by a unanimous voice vote. Trustees responding were: Mr. Hatcher; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Mr. Roper; Ms. Barnes; Mr. DeMuth; 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 \$3,026,705.52 and may include payments for: Board expenses, TRS staff travel, communications, contingency, maintenance, insurance, rent, etc.; investment expenditures, Social Security, and retirement payments.

Claims

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
NOVEMBER 28, 2007**

Claims submitted for approval totaled \$3,990.88.

Recommendations for Retirement

There were eleven (11) disability and 77 regular contracts filed for retirement.

Disability Retirement as Provided by Social Security

There were four (4) 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.

Tax-Sheltered Annuity Hardship Request

There were four (4) requests that were approved for the month of October.

Out-of-State Travel

A request was made by the TRS Executive Secretary to attend the NCTR Mid-Winter Conference in January.

Termination of Retirement Benefits

Monthly benefits were terminated for 98 members due to their deaths and 16 who returned to teaching.

New Members

There were 1,009 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 \$194,084.60. (Can include longevity and supplemental payroll.)

Financial Statements

These reports cover the month of October 2007.

RESOLUTION AND 2008 LEGISLATIVE RECOMMENDATIONS

Mr. Beavers stated the Resolution and Recommendations are something the board does once a year. He said and draft versions of the Resolution and Recommendations were handed out at the Board meeting last month. He said the Legislative Recommendations remain the same as last month's but the Resolution has an addition, the third paragraph, which was requested by Dr. Kirkpatrick who thought the Resolution should include a statement regarding a continuing commitment to bring TRS' funded level on a par with other state pension plans, which would have a benefit to the state as a whole. Mr. Beavers stated he is recommending the Board's adoption of both the Resolution and the Legislative Recommendations.

Motion to Adopt Resolution and Legislative Recommendations Carried

The Chairman asked for a motion from the Board. A motion was made by Mr. DeMuth to adopt the Resolution and the Legislative Recommendations, with a second made by Mr. Simpson. The motion carried by a unanimous voice vote. Trustees responding were: Mr. DeMuth; Ms. Barnes; Mr. Roper; Mr. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Hatcher; and Chairman Conway.

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
NOVEMBER 28, 2007**

SCHEDULE FOR 2008 CALENDAR YEAR

Mr. Beavers referred the Board to section 7 in their binders, stating this action must be taken each year by the Board. He said, as in the past, the meetings are scheduled for the fourth Wednesday of each month with the Investment Committee meeting beginning at 9:00 a.m. and the Board meeting beginning at 1:30 p.m.

The Chairman asked if there was any discussion, and there being none asked for a motion.

Motion to Approve 2008 Schedule Carried

A motion was made by Mr. Neptune with a second made by Ms. Palluconi. The motion carried by a unanimous voice vote. Trustees responding were: Mr. Hatcher; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Mr. Roper; Ms. Barnes; Mr. DeMuth; and Chairman Conway.

**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. He said House Bill 1804 states in part that anyone receiving a state benefit must prove they are a U.S. citizen. Mr. Kinney stated that TRS staff are ensuring that the Retirement System becomes compliant with the new law. Mr. Kinney said he would be glad to answer any questions the Board might have.

**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.

The Chairman reminded the Board that Greg and Doug would present an educational session for the Trustees immediately following the Board meeting in December. Will include some specific information concerning the TRS portfolio, terminology used in investments, etc.

Mr. Beavers commented if at all possible, a Rules Committee meeting should be held in December also.

ADJOURNMENT

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
NOVEMBER 28, 2007**

There being no further business before the Board, the Board adjourned at 3:35 p.m. Trustees present at adjournment were as follows: Mr. DeMuth; Ms. Barnes; Mr. Roper; Ms. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; 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 - DECEMBER 19, 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 its next regularly scheduled meeting on December 19, 2007.

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