

**MINUTES**  
**EIGHT HUNDRED AND SEVENTH REGULAR MEETING**  
**OF THE**  
**BOARD OF TRUSTEES**  
**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA**  
**NOVEMBER 19, 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 1:03 P.M., Wednesday, November 19, 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*

Sherrie Barnes  
Bruce DeMuth  
Richard Gorman  
Darryl Hatcher

John Kirkpatrick  
Matti Palluconi  
Galeard Roper  
Michael Simpson

**TRUSTEES NOT PRESENT:**

Sandy Garrett  
Vacant Position

**TRS STAFF PRESENT:**

Tommy C. Beavers, *Executive Secretary*  
James Wilbanks, *Deputy Director*  
Bill Puckett, *Chief Investment Officer*  
Edward Romero\*, *Secretary-Treasurer*  
Joe Ezzell\*, *Director, Internal Auditing*  
Kimber Chessmore, *Senior Internal Auditor*  
Adam Attaoui, *Information Security Administrator*  
Becky Yearout, *Cash Management Officer*  
Karen Yost, *Assistant to the Executive Secretary and Board of Trustees*

**LEGAL COUNSEL PRESENT:**

David L. Kinney, *Assistant Attorney General*

**INVESTMENT CONSULTANT PRESENT: gregory.w.group**

Douglas J. Anderson, *gregory.w.group*

**EXTERNAL AUDITOR PRESENT: Cole & Reed**

Garrett Morelock  
Mike Gibson

**OTHERS PRESENT:**

Candice Adson\*, *eCapitol News*  
Billie Brown, *Oklahoma Education Association*  
Norman Cooper, *Oklahoma retired Educators Association*  
Tommy Fulton, *Retired Member*  
Claudia Schloss\*, *T.C.W.*

\*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; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Mr. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Gorman; and Chairman Conway.

**MINUTES of the OCTOBER 22, 2008, REGULAR BOARD MEETING APPROVED**

The Chairman asked for corrections, additions or a motion to approve the minutes of the October 22, 2008, regular meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma.

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**Motion to Approve Minutes Carried**

A motion was made by Mr. Roper with a second made by Mr. De Muth to approve the minutes of the October 22, 2008, meeting. The motion carried by a unanimous voice vote. Trustees responding were Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune, Mr. Smith; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; Mr. Hatcher; and Chairman Conway.

**REPORT FROM THE TWO HUNDRED AND FORTIETH  
INVESTMENT COMMITTEE MEETING**

The Investment Committee meeting convened at 9:03 a.m. Wednesday, November 19, 2008, and adjourned at 12:20 p.m. Committee members present were as follows: Chairman Cathy Conway; members, Mr. Neptune; Ms. Palluconi; Mr. Simpson and Mr. Smith. Other trustees present were Ms. Barnes\*; Mr. DeMuth\*; Mr. Gorman\*; Dr. Kirkpatrick\*; 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**

Doug Anderson of gregory.w.group, investment consultant to the Board, gave the Board an overview of g.w.g.'s monthly report that was presented, in full, to the Investment Committee earlier in the day. Mr. Weaver was not present due to an illness.

Mr. Anderson stated Peter Palfrey and Ken Johnson with Loomis Sayles, and Gary Goodenough, Matthew Philo, and James Ramsay with MacKay Shields were present at the Investment Committee meeting and made their respective presentations.

**Net of Fee and Market Performance Summary**

This report indicates performance of the Fund, for periods ending October 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, -27.0% VS. -22.1%; Goldman, -29.2% vs. -26.4%; Aletheia, -36.2% vs. -26.4%; Chase, -22.0% vs. -26.4%; Sawgrass, -23.4% vs. -26.4%; Advisory, -19.9% vs. -24.3%; EPOCH, -27.1% vs. -24.3%; AJO, -30.9% vs. -30.6%; Wellington, -32.6% vs. -30.6%; Frontier, -24.6% vs. -30.6%; H&W Mid-Cap, -28.0% vs. -30.6%; Shapiro, -24.9% vs. -24.5%; Tocqueville, -24.2% vs. -24.5%; Smith, -29.7% vs. -24.5%; Capital Guardian, -35.4% vs. -34.4%; Causeway, -36.0% vs. -34.4%; Brandes, -30.6% vs. -34.4%; Thornburg, -30.5% vs. -34.4%; Hoisington, 1.7% vs. -2.8%; Loomis, -7.3% vs. -2.8%; Lord Abbett, -7.2% vs. -2.8%; MacKay Shields, -2.6% vs. -2.8%; PIMCO, -5.4% vs. -2.8%; Standish, -0.9% vs. -2.8%; Stephens, 0.4% vs. -2.8%; and TRS Cash, 0.6% vs. 0.6%.

Total Fund performance is as follows: Month of October 2008, -14.4% vs. -14.3%; last quarter, -20.5% vs. -20.6%; 1-year, -29.0% vs. -28.9%; 3-years, -2.5% vs. -2.5%; 5-years, 2.6% vs. 2.4%, and since inception, 7.9% vs. 8.3%. (Returns over one year are annualized.)

**Manager Status Summary and  
Possible Action**

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". After discussion during the Investment Committee meeting, it is recommended that Aletheia be placed on "Alert" due to personnel changes. All remaining managers continue in "Compliance".

**Investment Committee Recommendation Approved**

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Chairman Conway asked for a poll of the Board to place Aletheia on "Alert" with all other managers to remain the same. The recommendation was approved by Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Mr. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Gorman; and Chairman Conway. (*Mr. Hatcher was temporarily out of the room.*)

### **Asset Re-Allocation by gregory.w.group**

Chairman Conway stated no action was taken on this item. Mr. Anderson stated g.w.g would again bring this matter before the Board at the December meeting.

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 \$6,956,950,245.85 invested approximately 37% in fixed income, 61% 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 0.14%, the three-month return was .55%, and the trailing twelve-month return was 3.35%.

#### **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 \$611,503 recaptured commissions totaled \$82,388 with a net per share of \$0.021, and for the Fiscal Year, commissions paid of \$1,772,835, recaptured of \$231,294, with a net per share of \$0.024.

#### **Domestic Equity Commissions Paid**

This indicates commissions paid to each investment manager for the period July 1, 2008, through September 30, 2008.

#### **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.

#### **Renewal of Investment Manager Contracts**

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Mr. Puckett stated the renewal is for Goldman Sachs, Hotchkis & Wiley Large-Cap, Hotchkis & Wiley Mid-Cap, and the Brandes manager contracts. He indicated there are no changes to these contracts and is recommending renewal.

### **Investment Committee Recommendation Approved**

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

### **Amendment to Guidelines to Include Mutual Funds and Exchange Traded Funds**

Mr. Puckett referred to the handout before the Board. In reviewing the System's investment guidelines, we have not listed exchange traded funded or mutual funds, and want to add this section to the guidelines. There are actually 3 different sections, common stocks, fixed income and international equity sections.

Chairman Conway stated after discussion during the Investment Committee meeting, it has been recommended that the Domestic Common Stock, Fixed Income and International Equity sections of the Investment Guidelines be amended to include the following language. "Investment managers may invest in pool funds including Exchange Traded Funds (ETFs), their own sector and their own mutual funds upon Board approval. The assets underlying these pooled funds must be consistent with the managers' investment mandates. The Chairman asked for a poll of the Board.

### **Investment Committee Recommendation Approved**

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

### **Loomis Sayles Bank Loan Fund; Opportunistic Bond Portfolio; and Emerging Manager Portfolio**

No action was taken on these matters and will be placed on the December agenda.

### **Update on Transition of Funds**

Mr. Puckett stated there are actually 54 securities left to be liquidated and the Board had authorized these funds be given to Hoisington and Stephens. But the transition manager has liquidated everything they can within 2%. Mr. Puckett stated after talking with Doug Anderson concerning this matter, he is requesting authorization to move these securities to the Systems' existing fixed income managers, PIMCO, Lord Abbett, Loomis and MacKay Shields.

### **Re-Allocation of Funds - Hoisington, Stephens, PIMCO, Lord Abbett, Loomis Sayles, and MacKay Shields**

The Investment Committee is recommending the remaining securities in the transition account be transferred into PIMCO, Lord Abbett, Loomis Sayles, MacKay Shields accounts and to give TRS staff authorization to affect the most effect way to make this transition of funds.

### **Recommendation for Transfer of Funds Approved**

The recommendation carried by Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; Mr. Hatcher; and Chairman Conway responding yes.

## **2008 THIRD QUARTER EXECUTIVE SUMMARY gregory.w.group**

Mr. Doug Anderson gave the Board an in-depth break-down of the System's investment performance

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for the third quarter of 2008. Mr. Anderson stated the market value of the Fund was \$8.19 billion September 30, 2008. He reported, even though the Fund suffered a loss during this period the portfolio performance ranked slightly above its peer universe median and outperformed its passive benchmark, which is attributed to the international equity allocation.

The Chairman asked for a motion from the Board.

**Third Quarter Summary Approved**

A motion was made by Mr. DeMuth with a second made by Mr. Simpson for approval. The motion carried by Mr. Hatcher; Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Mr. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Gorman; 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 5 in their binders and made his reports, stating he would be glad to answer any questions.

**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 Dr. Kirkpatrick with a second made by Mr. Smith. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; Mr. Hatcher; and Chairman Conway.

**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 \$1,621,143.33 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 \$10,269.88.

**Recommendations for Retirement**

There were 78 regular members and nine (9) disabled members recommended for retirement.

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

There were three (3) disability applicants awarded TRS Disability Retirement, through and by approval for Social Security Disability, as per 70 O.S. § 17-105.

**Disability Retirement Re-Evaluated**

There were two (2) disability applicants recommended for continuation of disability retirement benefits.

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**Tax-Sheltered Annuity Hardship Requests**

There were two (2) hardship requested accepted in September 2008, and one (1) in the month of October 2008.

**Termination of Retirement Benefits**

Monthly benefits were terminated for 100 members due to their deaths, and eleven (11) who returned to teaching.

**New Members**

There were 1,036 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 \$194,404.03. (Can include longevity and supplemental payroll.)

**Financial Statements**

These reports cover the month of October 2008.

**Personnel Changes**

There was one (1) new hire, three (3) promotions, and two (2) transfers.

**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.

**2009 BOARD AND INVESTMENT MANAGER SCHEDULE**

Mr. Beavers stated this is the Calendar Year 2009 schedule of Board and Investment Committee meetings, including times and location. The System is required to file this meeting schedule by December 15<sup>th</sup> of each year with the Secretary of State's office. He said this also includes the date each of the System's investment managers are to appear and make their presentations.

**2009 Schedule Approved**

A motion was made by Mr. Simpson with a second made by Mr. DeMuth to approve the schedule as presented. The motion carried by a unanimous voice vote. Trustees responding are as follows: Mr. Hatcher; Mr. DeMuth; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Mr. Smith; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Gorman; and Chairman Conway responding yes.

**PRESENTATION BY EXTERNAL AUDITOR  
COLE & REED**

Mr. Garrett Morelock and Mr. Mike Gibson of Cole & Reed referred the Board to the audit materials before them and presented the external audit report for the period ending June 30, 2008.

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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 objective of any audit and 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 respects, the net assets of the System ending June 30, 2008, 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.

Mr. Gibson said again 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, that they performed tests of certain internal control areas and also performed 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 are required reporting under government auditing standards. There was one matter not considered to be a significant deficiency but a recommendation made to management concerning reconciliations in the investment department being performed more completely and timely. He said management has already taken corrective steps in this matter.

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. DeMuth with a second made by Dr. Kirkpatrick to approve the audit. The motion carried by Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Mr. Smith; Ms. Barnes; Dr. Kirkpatrick; Mr. DeMuth; Mr. Hatcher; and Chairman Conway responding yes. (*Mr. Roper had left prior to the audit report for the day.*)

A break was taken from 2:06 through 2:14.

### **EXECUTIVE SESSION and POSSIBLE ACTION FOR CONFIDENTIAL COMMUNICATION**

The Chairman stated this item is for the purpose of receiving confidential communications from one of our three outside legal counsel in the Constellation Energy Group, Inc. 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 one of the System's three outside law firms has provided a confidential report to be presented, along with recommendations.

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

### **Enter into Executive Session**

A motion was made by Ms. Barnes to resolve into executive session for the purpose of consideration of Agenda Item 8. A second was made by Dr. Kirkpatrick. The Board entered into Executive Session at 2:17 p.m. The motion carried by Mr. Hatcher; Dr. Kirkpatrick; Ms. Barnes; Mr. Neptune; Ms. Palluconi; Mr. Simpson; Mr. Gorman; and Chairman Conway responding yes. The Chairman declared the motion to have prevailed by a vote of all in favor, and declared the meeting to be resolved into executive session. (*Mr. DeMuth; Mr. Roper and Mr. Smith had previously left for the day.*)

### **Return to Open Session**

A motion was made by Mr. Simpson with a second made by Mr. Neptune to return to Open Session

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at 2:20 p.m. The motion carried by Mr. Gorman; Mr. Simpson; Ms. Palluconi; Mr. Neptune; Ms. Barnes; Dr. Kirkpatrick; Mr. Hatcher; and Chairman Conway responding yes.

The Chair recognized Mr. Kinney.

Mr. Kinney stated, for purposes of the record, the Trustees met in executive session to discuss Agenda Item 8, also present were Tommy Beavers, Bill Puckett, Karen Yost and myself. Trustees present were those voting to return to Open Session. 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 9 from the Board, therefore no action is necessary and the Board will move on to the next agenda item.

**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 any new business, and there was none.

**ADJOURNMENT**

There being no further business before the Board, the Chairman declared the meeting adjourned at 2:21 p.m. Trustees present at adjournment were as follows: Mr. Hatcher; Dr. Kirkpatrick; Ms. Barnes; Mr. Neptune; Ms. Palluconi; 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 - December 17, 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 December 17, 2008.

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