

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

DECEMBER 14, 2005

The rescheduled meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma was called to order by Matti Palluconi, Chairman, at 1:3 P.M., Wednesday, December 14, 2005, 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 at 8:20 a.m., Monday, December 13, 2005, in accordance with 25 O.S. 2001 Section 311(9).

TRUSTEES PRESENT:

Matti Palluconi, <i>Chairman</i>	John Kirkpatrick
Cathy Conway, <i>Vice-Chairman</i>	Dick Neptune
Denise Rhodes, <i>Secretary*</i>	Galeard Roper
Sherrie Barnes	Michael Simpson
Bruce DeMuth	James Smith

TRUSTEES NOT PRESENT:

Sandy Garrett
Claudia San Pedro
Vacant Position

TRS STAFF PRESENT:

Tommy C. Beavers, *Executive Secretary*
Sue Callahan, *Assistant Executive Secretary*
Bill Puckett, *Chief Investment Officer*
Kim Bold, *Director, Human Resources*
Jennelle Enevoldsen, *Director, Internal Auditing*
Edward Romero, *Comptroller*
Adam Attaoui, *Security Officer*
Kara Johnson, *Senior Internal Auditor*
Stefan Von Dolle n, *TRS Audit Department*
Becky Yearout, *Cash Management Officer*
Karen Yost, *Assistant to Executive Secretary and Board of Trustees*

LEGAL COUNSEL PRESENT:

John M. McCormick*, *Asst. Attorney General, Office of the Oklahoma Attorney General*

INVESTMENT CONSULTANT PRESENT:

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

OTHERS PRESENT:

Charles Barnes, *Sand Springs Public Schools*
Norman Cooper, *OEA*
Don Davis, *Governor's Office*
Alicia Emerson, *Senate Staff*
Tommy Fulton, *Retired Member*
Randy McLerran, *State Department of Education*

*Denotes late arrival or early departure

BOARD POLL FOR QUORUM

Chairman Palluconi called the meeting to order and asked for a poll of the Board to determine a quorum being present. Trustees responding were as follows: Mr Simpson; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Mr. Neptune; Mr. Smith; Mr. DeMuth; and Chairman Palluconi.

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
DECEMBER 14, 2005**

MINUTES of NOVEMBER 14, 2005, BOARD MEETING APPROVED

The Chairman asked for corrections, additions or a motion to approve the minutes of the November 14, 2005, meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma. A motion was made by Mr. Simpson with a second made by Ms. Conway for approval of the minutes. The motion carried by a unanimous voice vote. Trustees responding were as follows: Mr. DeMuth; Mr. Smith; Mr. Neptune; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. Simpson; and Chairman Palluconi. (*Ms. Rhodes arrived after the vote.*)

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

The Investment Committee meeting convened at 10:00 a.m. Wednesday, December 14, 2005, and adjourned at 11:59 a.m. Committee members present were as follows: Chairman Matti Palluconi; Cathy Conway; Dick Neptune; and James Smith. Other trustees present were Michael Simpson, Sherrie Barnes, and Denise Rhodes.

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

**PRESENTATION BY gregory.w.group
Market Performance, Asset Allocation Review, November 30 Performance Summary**

Greg Weaver and Doug Anderson of gregory.w.group, investment consultant to the Board, were present to give the Board a brief synopsis of their monthly report, given in-depth to the Investment Committee earlier that morning.

Mr. Weaver reported that Mr. Robert J. Ball and Mr. Robert I. Gerber with Lord, Abbett & Company, LLC, had made their presentation to the Investment Committee meeting earlier in the day. giving great detail on their organization, investment processes, disciplines and their investment strategies. He said the firm manages approximately \$250 million in their portfolio, and have added value since their inception approximately one year ago.

Net of Fee and Market Performance Summary

This report indicates performance of the Fund, for periods ending November 30, 2005, 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:

NTS&P500, 2.88% vs. 2.88%; H&W Large-Cap, 1.02% vs. 2.06%; Goldman Sachs, 3.49% vs. 3.78%; AJO, 1.30% vs. 2.64%; Wellington, 5.53% vs. 2.64%; Frontier, 5.07% vs. 2.64%; H&W Mid-Cap, 0.28% vs. 2.64%; Shapiro, -1.86% vs. 1.92%; Tocqueville, 3.06% vs. 1.92%; Smith Group, 3.74% vs. 1.92%; Capital Guardian, 5.79% vs. 3.94%; Causeway, 0.34% vs. 3.94%; Brandes, 5.46% vs. 3.94%; Hoisington, -7.12% vs. -1.38%; Loomis Sayles, -1.31% vs. -1.38%; Lord, Abbett, -1.32% vs. -1.38%; MacKay Shields, -1.33% vs. -1.38%; Neuberger Berman, -1.40% vs. -1.38%; PIMCO, -1.33% vs. -1.38%; Standish Mellon, -1.37% vs. -1.38%; Stephens, -1.60% vs. -1.38%; and OTRS Cash, 0.97 vs. 0.94%.

Total Fund performance is as follows: Month of NOVEMBER 2005, 2.98% vs. 2.83%; last quarter, 1.56% vs. 1.78%; 1-year, 8.81% vs. 8.77%; 3-years, 14.43% vs. 13.30%; 5-years, 6.95% vs. 6.32%; and since inception, 10.42% vs. 10.96%. (*Returns over one year are annualized.*)

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
DECEMBER 14, 2005**

Manager Status Summary

This report gives the status of each investment manager, i.e. In Compliance, on Alert, and on Notice, which could be caused by performance or organizational issues. Of 22 managers, four are "On Alert" and two are "On Notice".

The Chairman asked Mr. Puckett for his reports.

TRS INVESTMENT REPORTS AS OF NOVEMBER 30, 2005

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 \$7,848,109,062.74 invested approximately 27% in fixed income, 71% 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 0.32 basis points, the three-month return was 0.97%, and the trailing twelve-month return was 3.16%.

Book Value to Market Value Comparison

This lists equity holdings where the market value has fallen at least 20% below cost, along with securities that have been removed from the previous month's report due to appreciation in value or having been sold.

Domestic Equity Commissions Recaptured, Period Ending October 2005

Total recaptured commissions for the month was \$39,080 total commissions paid was \$358,405, with a net cost per share of \$0.032 and year-to-date net cost per share of \$0.029. Fiscal year-to-date, recaptured commissions total \$208,727 on \$1,649,944 in paid commissions.

The Chairman asked Mr. Weaver to comment on the next item.

Northern Trust S&P 500 Status

Mr. Weaver reported that the Northern Trust S&P 500 portfolio had been placed on "Alert" status due to personnel changes that occurred in 2003 and 2004. He said gregory.w.group recommended to the Investment Committee that Northern Trust be taken off "Alert" due to Northern's continued stability, and their consistency of returns. Mr. Weaver reported that the Investment Committee agreed with their recommendation.

**IC Recommendation Carried
Remove NT From "Alert" Status**

Chairman Palluconi stated the recommendation from the Investment Committee is to remove the Northern trust S&P 500 portfolio from on "Alert" status to "In Compliance". The Chairman asked for a roll call vote. The Recommendation carried by Mr. Simpson; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; and Chairman Palluconi responding ye s. (*Mr. DeMuth was out of the room.*)

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
DECEMBER 14, 2005**

**RFP for All-Cap Equity Search
Possible Extension of Time**

The Chairman referred the Board to a letter sent by gregory.w.group and asked Mr. Weaver for his comments.

Mr. Weaver said there had been a misunderstanding among the investment management community regarding the All Cap Equity search being conducted by Teachers' Retirement. He stated that gregory.w.group is recommending that the All Cap portion of the search extend its deadline to January 13, 2006, to insure that the full spectrum of bidders have had the opportunity to respond.

Mr. Weaver also commented that the Large Cap Growth search results will be reviewed by his firm and those findings will be presented to the Board at its January meeting. He said the findings of the All Cap Equity search would be presented at the Board's February meeting.

**Investment Committee Recommendation Carried
Extend ALL-CAP Search Deadline to January 13, 2006**

After discussion, the Chairman asked for a poll of the Board. The Investment Committee Recommendation carried by Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. Simpson; and Chairman Palluconi responding yes. *(Mr. DeMuth was out of the room.)*

Goldman Sachs Personnel Changes

The Chairman asked Mr. Weaver for his comments.

Mr. Weaver referred to the letter from Goldman Sachs stating they were notifying staff and the Board about changes to their staff and that as a matter of course, Goldman Sachs should be placed on "Alert" status as a result of the personnel restructuring.

**Investment Committee Recommendation Carries
Place Goldman Sachs on "Alert" Due to Personnel Issues**

The Chairman asked for a poll of the Board. The Investment Committee Recommendation carried by Mr. Simpson, Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; and Chairman Palluconi responding yes. *(Mr. DeMuth was out of the room.)*

**Renewal of Investment Manager Contract
Smith Asset Management**

Mr. Puckett stated this is the annual renewal of the contract and there are no changes to this contract, with the fee schedule remaining the same.

The Chairman stated the Investment Committee is recommending renewal and asked for a poll of the Board.

**Investment Committee Recommendation Carried
Renewal of Manager Contract**

The Investment Committee Recommendation carried by Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. Simpson and Chairman Palluconi responding yes and Mr. DeMuth abstaining.

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
DECEMBER 14, 2005**

Exception Request by Thornburg Investment Management

The Chairman asked Mr. Puckett for his comments.

Mr. Puckett stated the letter from Thornburg is requesting an exception to TRS policy, allowing their firm to raise their emerging market cap from 20% to 30%. Mr. Puckett stated part of the reason for hiring Thornburg was their performance in this area which was due to a 30% exposure, and that he is recommending Thornburg be allowed this exception to policy.

After further discussion, the Chairman asked for a poll of the Board.

**Investment Committee Recommendation Carried
Grant Exception Request by Thornburg**

The Chairman stated the request is to increase their limit on emerging markets to a 30% cap, with measurement at market value. The Investment Committee Recommendation carried by Mr. Simpson; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; Mr. DeMuth; and Chairman Palluconi responding yes.

Chairman Palluconi asked Mr. Beavers for his reports.

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

Mr. Beavers made his report to the Board and stated he would be glad to answer any questions.

**Motion for the Approval of Routine Items
and Adoption of Executive Secretary Report Carried**

The Chairman asked for a motion from the Board. A motion was made by Ms. Rhodes with a second being made by Ms. Conway. The motion carried by Mr. Simpson; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; Mr. DeMuth; and Chairman Palluconi responding yes. 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 \$3,803,164.26 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 \$28,046.55.

Recommendations for Retirement

There were 50 regular and twelve (12) disability member applications recommended for approval. (Disabled members being recommended by the TRS Medical Board for TRS Disability Retirement.)

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
DECEMBER 14, 2005**

Disability Retirement as Provided by Social Security

There were three (3) disability applicants granted 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 Re-Evaluated

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

Out-of-State Travel

A request by TRS Finance staff to attend the GFOA (Governmental Finance Officers Association) seminar in January.

Termination of Retirement Benefits

Monthly benefits were terminated for 99 members due to death and thirteen (13) members who returned to active employment with an Oklahoma education entity.

New Members

There were 455 new member applications, and the list of new enrollments may be reviewed in the Executive Secretary's office.

Employees' Salaries

This report indicates employee's salaries and their positions within the Retirement System. Employee salaries totaled \$181,101.77. (Can include longevity and supplemental payroll.)

Financial Statements

The financial statements are for the period ending November 30, 2005.

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

Mr. McCormick stated his report is approximately the same. He stated that sometime in the near future the Seymour matter will come back to the Board concerning the purchase of service. Mr. McCormick informed the Board that the Blankemeyer case will probably come before the Board for a hearing at its March meeting.

LEGISLATIVE RECOMMENDATIONS

Mr. Beavers referred the Board to section five in the Board packet. Mr. Beavers said that the legislative recommendations include those from last year with current updates.

After giving the Board a brief review of the goals and recommendations, Mr. Beavers stated a new goal was added due to passage by the Legislature of Senate Concurrent Resolution 4, calling for the Teachers' Retirement System to be 60% funded by the year 2015.

Mr. Beavers stated he is asking the Board to adopt an action that would request additional funding from the Legislature to accelerate the retirement of the Retirement System's outstanding liabilities. Mr. Beavers said the best way to approach this task is to ask the Legislature to have a percentage of the gas tax re-dedicated to the Retirement System. He said the goal would be \$50 million per year in

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
DECEMBER 14, 2005**

additional funding into the Teachers' Retirement System. This would not only provide for future benefit increases but help retire the unfunded liabilities. He said the goal is to at least achieve 90% funding within 30 years.

After further discussion, Chairman Palluconi asked for a motion from the Board

Adopt 2006 Legislative Recommendations

A motion was made by Ms. Conway with a second being made by Mr. DeMuth that the Board adopt the 2006 Legislative Recommendations as presented, with the stipulation the Mr. Beavers be authorized to adjust the percentage of the gas tax so it would equal \$50 million per year in additional funds to the Retirement System.

The motion carried by a unanimous voice vote. Trustees responding are as follows: Mr. DeMuth; Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. Simpson; and Chairman Palluconi.

REPORT ON GOVERNOR'S TASK FORCE ON TEACHERS' RETIREMENT

Mr. Beavers stated page 6-1 is a list of ten of the Task Force members appointed by the Governor, and that we are awaiting the 11th and final appointment, which will be an active member of the Teachers' Retirement System.

The Governor's Executive Order creating the Task Force states that the Retirement System is to provide legal, actuarial and any other type of professional services needed by the Task Force. Mr. Beavers said he asking the Board to give him the authority to use the System's current actuary for the necessary professional support needed in that area.

Task Force Authorization Carried

A motion was made by Mr. DeMuth with a second being made by Ms. Rhodes to authorize Mr. Beavers to obtain the necessary support for professional services from the System's actuary, Gabriel, Roeder, Smith and Company. The motion carried by Mr. Simpson; Dr. Kirkpatrick; Ms. Barnes; Mr. Roper; Ms. Conway; Ms. Rhodes; Mr. Neptune; Mr. Smith; Mr. DeMuth; and Chairman Palluconi responding yes.

**FINANCIAL CONDITION & UNFUNDED STATUS OF THE
TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA**

There was no further discussion on this issue.

NEW BUSINESS

The Chairman asked if there was any new business to discuss.

Mr. Neptune stated that several Trustees were contacted during the NCTR meeting in Tampa and at a meeting in Portland by a law firm suggesting there could be potential litigation that could be pursued by the Retirement System concerning the AOL Time Warner settlement. Mr. Neptune said he would like to have Mr. McCormick and Mr. Beavers to make their comments on this issue.

Mr. McCormick said the System is an inactive member in the AOL Time Warner class action matter

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
DECEMBER 14, 2005**

and from estimates received, the Retirement System may receive .20 to .30 cents on the dollar value upon settlement and the settlement should be very soon.

Mr. McCormick said that the law firm is suggesting the Retirement System opt out of the class action lawsuit because they believe the System could receive .70 cents or more on the dollar. If the System opts out, it would then have to file in district court and the System would not receive any settlement reached in the class action suit. He said this creates additional risk, losing any share of the class action proceeds and the possibility of losing in district court.

Mr. McCormick said information contained in the packet was sent to Nix Patterson, the System's current securities counsel who has been asked to do a risk analysis as to whether or not opting out of the class action should be considered. The deadline for any decision is January 9, 2006.

After further discussion, Chairman Palluconi asked for a motion from the Board.

Motion to Authorize Staff to Act on Recommendation of Counsel

A motion was made by Mr. Neptune with a second made by Mr. Smith that the Executive Secretary be given the authority to act upon the recommendation by Nix Patterson prior to the January 9, 2006, deadline, if necessary. The motion carried by Mr. DeMuth; Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Conway; Ms. Barnes; Dr. Kirkpatrick; Mr. Simpson; and Chairman Palluconi responding yes and Mr. Roper abstaining.

**TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA BOARD OF TRUSTEES MEETING
DECEMBER 14, 2005**

ADJOURNMENT

The Chairman asked for a motion to adjourn, motion was made by Ms. Conway with a second made by Mr. Neptune, and declared the meeting adjourned at 2:30 p.m. Trustees present at adjournment were as follows: Mr. DeMuth; Mr. Smith; Mr. Neptune; Ms. Rhodes; Ms. Conway; Mr. Roper; Ms. Barnes; Dr. Kirkpatrick; Mr. Simpson; and Chairman Palluconi.

(NOTE: An audio recording of this meeting is on file in the Executive Secretary's office.)

The next regularly scheduled meeting of the Board of Trustees of the Teachers' Retirement System of Oklahoma will be:

Wednesday - January 25, 2006

Investment Committee Meeting at **10:00 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, Matti Palluconi

ATTEST:

BY: _____
Secretary, Denise Rhodes

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 scheduled meeting on January 25, 2006

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