



TRS Board of Trustees Meeting

June 13 - 14, 2013

**TEACHER RETIREMENT SYSTEM OF TEXAS MEETING
BOARD OF TRUSTEES**

AGENDA

June 13, 2013 – 11:00 a.m.

June 14, 2013 – 11:15 a.m.

TRS East Building, 5th Floor, Boardroom

A quorum of the TRS Board of Trustees will be physically present for the Board's June 13-14, 2013 meeting at the following location: 1000 Red River Street, Austin, Texas 78701 in the TRS East Building, 5th Floor, Boardroom. The Board intends to have a quorum of the Board physically present at that location. One or more members of the Board may participate remotely in the Board meeting by telephone conference call under Texas Government Code Section 551.130.

NOTE: The Board may take up any item posted on the agenda during its meeting on Thursday, June 13, 2013, or the following day beginning at the time and place specified on this agenda.

The open portions of the June 13-14, 2013, Board meetings are being broadcast over the Internet. Access to the Internet broadcast of the Board meeting is provided on TRS' Web site at www.trs.state.tx.us.

1. Call roll of Board members.
2. Consider administrative matters, including – David Kelly:
 - A. Approval of the April 18-19, 2013 Board meeting minutes.
 - B. Excuse Board member absence from the April 18-19, 2013 Board meeting.
3. Provide opportunity for public comments – David Kelly.
4. Review and discuss the Executive Director's report on the following matters – Brian Guthrie:
 - A. Legislation impacting TRS, including proposed state funding for TRS' administrative budget, the TRS Pension Trust Fund, and the retirees' health benefit program (TRS-Care).
 - B. Board operational matters, including a review of draft agendas for upcoming meetings.
 - C. Enterprise Risk Management program.
 - D. Retirement plan benefits and operations.

- E. Investment activity and operations.
 - F. Health-benefit programs and operations.
 - G. Administrative operations, including financial, audit, legal, staff services, board administration activities, and special projects.
5. Discuss and consider investment matters, including the following items:
- A. Performance review: first quarter 2013 – Brady O’Connell and Steve Voss, Hewitt EnnisKnupp.
 - B. Receive a presentation on and discuss related party fees – Eric Lang.
 - C. Review the report of the Investment Management Committee on its June 13, 2013, meeting – Todd Barth.
 - D. Review of global financial markets – Bob Prince, Bridgewater Associates.
 - E. Market review – Josh Harris and Jim Zelter, Apollo Investment Corporation.
6. Receive an update on and discuss due diligence regarding investment in two master limited partnership funds of funds for the Private Markets Strategic Partnership Network, including the following:
- A. Introduction of the Private Markets Strategic Partnership Network presentations – David Veal.
 - B. Overview of Apollo Management Corporation’s Private Markets Strategic Partnership dealings with TRS – Josh Harris and Jim Zelter, Apollo Management Corporation.
 - C. Review of the legal terms of the master limited partnership funds of funds – Angela Vogeli; Denise Lopez; and Scott Cheskiewicz, Jackson Walker.
 - D. Update on Private Markets Strategic Partnership Network – Courtney Villalta.
 - E. Overview and summary of the Private Markets Strategic Partnership Network – Steve Voss and Brady O’Connell, Hewitt EnnisKnupp.

***NOTE:** The Board meeting likely will recess after the last item above and resume Friday morning to take up items listed below.*

- 7. Provide an opportunity for public comment – David Kelly.
- 8. Receive a presentation on the actuarial impact of recent legislation on the TRS pension fund – Joe Newton, Gabriel Roeder, Smith & Company.

9. Discuss trustee elections and receive an update on nominees to be considered for the active public education member appointment currently held by Charlotte Clifton – Howard Goldman and Karl Koelker, VR Election Services, Inc.
10. Review the report of the Audit Committee on its June 14, 2013, meeting and consider adopting revisions to the Audit Plan for Fiscal Year 2013 – Christopher Moss.
11. Review the report of the Benefits Committee on its June 14, 2013, meeting – Christopher Moss.
12. Review the report of the Policy Committee on its June 14, 2013, meeting and consider the following actions – Committee Presiding Officer:
 - A. Adopt a resolution amending the Policy on Negotiated Rulemaking and Alternative Dispute Resolution.
 - B. Adopt a resolution amending on an emergency basis TRS-ActiveCare Rule 34 Tex. Admin. Code § 41.41.
13. Review the report of the Risk Management Committee on its June 14, 2013, meeting – Eric McDonald.
14. Review the report of the Budget Committee on its June 14, 2013, meeting, and consider adoption of related matters, including – Nanette Sissney and Don Green:
 - A. Consider the adoption of the proposed fiscal year 2014 pension trust fund administrative operations budget, general provisions, and resolution authorizing transfer of pension trust funds to the TRS expense account to cover the expenses approved under the fiscal year 2014 budget.
 - B. Consider the adoption of the proposed fiscal year 2014 administrative operations budgets and general provisions for the TRS health benefits funds (retired and active plans), including the optional long-term care insurance program.
 - C. Consider the adoption of the proposed fiscal year 2014 administrative operations budget and general provisions for the 403(b) company certification and investment product registration program.
15. Receive a presentation from the TEAM Program Independent Program Assessment (IPA) Vendor – Michael Johnson, Bridgepoint Consulting.
16. Receive an update on the TEAM Program, including an update on the schedule and a review of dependencies between TEAM projects – Janet Bray and Jay Masci, Provaliant.
17. Review the report under § 825.314(b), Government Code, of expenditures that exceed the amount of operating expenses appropriated from the general revenue fund and are required to perform the fiduciary duties of the Board – Don Green.

18. Review the report of the Deputy Director, including an update on TRS building security improvements – Ken Welch.
19. Review the report of the General Counsel on pending or contemplated litigation, including updates on litigation involving benefit-program contributions, retirement benefits, health-benefit programs, and open records – Carolina de Onís and Dennis Gold.
20. Consider personnel matters, including the appointment, employment, evaluation, compensation, performance, duties, discipline, or dismissal of the Executive Director, Chief Investment Officer, or Chief Audit Executive – David Kelly.
21. Consult with the Board's attorney(s) in Executive Session on any item listed above on this meeting agenda as authorized by Section 551.071 of the Texas Open Meetings Act (Chapter 551 of the Texas Government Code) – David Kelly.

Tab 2



Teacher Retirement System of Texas

Minutes of the Board of Trustees

April 18-19, 2013

The Board of Trustees of the Teacher Retirement System of Texas met on April 18, 2013, in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River Street, Austin, Texas. The following board members were present:

David Kelly, Chair
Todd Barth
Karen Charleston
Charlotte Clifton
Joe Colonna
Eric McDonald
Chris Moss
Anita Palmer
Nanette Sissney

Others present:

Brian Guthrie, TRS	Dan Junell, TRS
Ken Welch, TRS	Lynn Lau, TRS
Amy Barrett, TRS	Denise Lopez, TRS
Janet Bray, TRS	Rebecca Merrill, TRS
Carolina de Onís, TRS	Melinda Nink, TRS
Dennis Gold, TRS	Noel Sherman, TRS
Howard Goldman, TRS	Rebecca Smith, TRS
Don Green, TRS	Sharon Toalson, TRS
T. Britton Harris IV, TRS	David Veal, TRS
Jerry Albright, TRS	Angela Vogeli, TRS
Ray Spivey, TRS	Dr. Keith Brown
Thomas Albright, TRS	Steve Huff, Reinhart Boerner Van Deuren
Jase Auby, TRS	Keith Johnson, Reinhart Boerner Van Deuren
Mohan Balachandran, TRS	Brady O'Connell, Hewitt EnnisKnupp
Chi Chai, TRS	Philip Mullins, Austin Retired Teachers Association and Texas State Employees Union
Michelle Bertram, TRS	Tathata Lohachitkul, Albourne America
Rich Hall, TRS	Craig teDuits, State Street
Terry Harris, TRS	John Powell, State Street
Dan Herron, TRS	Steve Meier, State Street
Janis Hydak, TRS	

Mr. Kelly called the meeting to order at 1:45 p.m.

1. Call roll of Board members.

Ms. Lau called the roll. A quorum was present. Ms. Charleston arrived at 1:46 p.m.

2. Consider approval of the February 20-22, 2013 Board meeting minutes

On a motion by Ms. Sissney, seconded by Mr. Barth, the board unanimously approved the

minutes for the February 20-22, 2013 meeting.

3. Consider the Board meeting date and location for the February 2014 Board meeting

On a motion by Mr. Barth, seconded by Mr. McDonald, the board unanimously approved Region 2 Education Service Center in Corpus Christi as the location at which to conduct the February 2014 meeting.

4. Provide opportunity for public comments

Mr. Jim Baker of UNITE HERE addressed the board regarding the investments Walton Street Real Estate Fund (Walton Street fund) had made. He expressed concerns about the transaction fees paid by the limited partners of the Walton Street fund and whether their interest was being protected in those transactions.

Per Mr. Kelly's request, Mr. Baker described UNITE HERE. Responding to Mr. Kelly's suggestion that TRS review current transaction fees of its real estate investments, Mr. Barth concurred and further suggested that the review be expanded to other investments.

5. Review and discuss the Executive Director's report on the following matters

C. The General Counsel search.

Mr. Guthrie announced that he had selected Ms. Carolina de Onís to be the new General Counsel. He briefly provided Ms. de Onís' professional background. Ms. de Onís stated her commitment to fulfill the board's general expectations in the new general counsel and the mission to serve Texas teachers.

Mr. Kelly, Mr. Guthrie, and Mr. Huff expressed their appreciation to Mr. Gold for serving as the interim general counsel during the transition and complimented his performance.

B. Legislation impacting TRS, including proposed state funding for TRS' administrative budget, the TRS Pension Trust Fund, and the retirees' health benefit program (TRS-Care).

Mr. Guthrie presented a summary of the bills that would affect TRS, including legislation related to pension and health benefits. Mr. Kelly stated that the board hoped to lower TRS-ActiveCare premiums. Mr. Guthrie confirmed for Ms. Sissney that the pending legislation reducing the interest rate creditable on a member's account from 5% to 2%, if passed, would become effective on September 1, 2014. He also confirmed that the lower rate would have no actuarial impact on the fund. Responding to a question from Ms. Sissney regarding members' feedback on the one-time permanent cost of living adjustment (COLA), Mr. Guthrie stated that Texas Retired Teachers Association had testified that they wanted more retirees to be eligible for it.

A. The most recent actuarial valuation of the TRS Pension Trust Fund.

Mr. Guthrie summarized the mid-year actuarial valuation, which the legislature requested

because of proposed statutory changes in retirement benefits and contributions. He presented the actuarial impact developed by Gabriel Roeder Smith & Company (GRS) based on three scenarios with different combinations of state and member contribution rates.

D. Update on Meeting with OMERS.

Mr. Guthrie provided an update on his visit to the Ontario Municipal Employees Retirement System (OMERS) with Mr. Barth, Mr. Colonna and Mr. Harris. Mr. Barth and Mr. Guthrie shared the constructive exchanges with OMERS relating to both investment-related processes and technology development issues.

E. New Process for Identifying and Processing Class Action Lawsuits.

Mr. Guthrie stated that staff had discussed with State Street outsourcing the identification and filing of securities class actions. Mr. Gold described the current internal process for Mr. Kelly, explaining that State Street recently became capable of handling such claims. He also noted that TRS would continue to internally track class actions in foreign countries and separately contract for the filing of those claims.

F. Board operational matters, including a review of draft agendas for upcoming meetings.

Mr. Guthrie provided an overview of the agendas for the June and July board meetings.

G. Enterprise Risk Management program.

H. Retirement plan benefits and operations.

I. Investment activity and operations.

J. Health-benefit programs and operations.

K. Administrative operations, including financial, audit, legal, staff services, board administration activities, including trustee nominating elections, and special projects.

Mr. Guthrie referred the board to the latest version of TRS Value Brochure. He also mentioned legislative initiatives to protect members' personal information.

Mr. Kelly announced that the board would take up agenda item number 6.C.

6. Discuss and consider investment matters, including the following items:

C. Measuring Investment Performance: A Primer – Dr. Keith Brown.

Dr. Brown provided a presentation on investment performance measurement. Dr. Brown, Mr. Kelly and Mr. Barth discussed the problems in finding the right measurement process and compared the merits of different methods. Mr. Barth said peer group and benchmark

comparisons were useful tools. Dr. Brown said he believed that peer group comparisons were valuable and informative but that benchmarks best showed the opportunity cost of having this particular staff invest trust fund assets. Mr. Barth said that he believed peer group comparisons would still be useful in comparing and evaluating the fund's strategies. Further discussion followed relating to the Sharpe ratio, information ratio, tracking error and the benchmark used by TRS.

A. Performance Review: Fourth Quarter 2012 – Brady O’Connell and Steve Voss, Hewitt EnnisKnupp.

Mr. O’Connell presented the performance review for the fourth quarter of 2012. He stated that 2012 overall was a good year in terms of absolute return performance and performance relative to the benchmark. Responding to a question from Dr. Brown, Mr. O’Connell stated that the returns excluded fees paid to external investment managers as well as incentive fees paid out of the net asset value (NAV). Mr. Harris responded to Mr. Barth that internal staff costs were about two to three basis points. Mr. O’Connell noted that the value added was attributed to a broad range of asset classes, security selection decisions and asset allocation decisions. He presented the risk-return of the total fund versus its peers. Mr. Barth and Mr. Kelly both expressed their interest in understanding investment decisions made by better performing peers.

B. Review Quarterly Portfolio Performance and market update – Britt Harris.

Mr. Harris provided an overview of the quarterly portfolio performance. He presented the four attributes to an excellent investment plan: market exposure (beta), alpha, risk management, and cost structure. He explained the other two factors to long-term success: right people and right metrics. Mr. Harris elaborated the current metrics used by the trust. Responding to questions from Mr. Colonna and Mr. Barth, Mr. Harris provided a historical overview of the bond market performance and recovery from the 2008-2009 financial crisis. Responding to the questions from Dr. Brown concerning the definition of a bubble, Mr. Auby stated that a bubble was defined as a fall of 50% in the subsequent three-year period after the bubble alarm was triggered. Mr. Harris noted that it was difficult to judge when to take action in light of a bubble opportunity, but staff would start small before making a significant allocation adjustment. He concluded his presentation with an overview of the division's organization and culture and the investment governance structure.

D. Review the report of the Investment Management Committee on its April 18, 2013 meeting – Todd Barth

Mr. Barth, Committee Chair, provided a report of the Investment Management Committee:

The Investment Management Committee met today and reviewed the Internal Public Markets. That presentation was by Chi Chai, Janis Hydak, Shayne McGuire and Mark Albert. Bernie Bozzelli and his team reviewed the Trade Management Group.

E. Review the report of the Risk Management Committee on its April 18, 2013 meeting – Eric McDonald.

Mr. McDonald, Committee Chair provided a report of the Risk Management Committee:

The Risk Management Committee met today, April 18, 2013. Jase Auby reviewed various risk measures involving asset allocation, tracking error, and levels of leverage and derivatives exposure. State Street representatives Nicholas Bonn, Joyce Dardonis and John Powell reviewed an annual report on the Securities Lending Program.

7. Receive the report of the Policy Committee and consider the following – Joe Colonna:

Mr. Colonna, Committee Chair, provided a report of the Policy Committee:

The Policy Committee met on April 18, 2013 in the boardroom. After consideration of the December 2012 minutes, staff presented a proposed amendment to the Resolution Designating Persons Authorized to Approve and Sign Vouchers. The proposed revision adds the new position of Assistant Manager of General Accounting and Budget to the resolution. The committee recommended that the board adopt the resolution. The committee also recommended the adoption of proposed amendments to Chapter 23 of the TRS rules relating to contractor ethics and reporting. Additionally, the committee also recommended adoption of proposed amendments to certain pension and health care benefit rules in Chapters 25, 31, 41, and 47 of the TRS rules. The rule proposals include amendments relating to employment by institutions of higher education, the pension and health benefit surcharges, and a standard form for Qualified Domestic Relation Orders. Based on public comment and staff recommendations, the committee recommended adopting a minor clarifying change to the proposed rule 31.14 relating to one-half time employment as published.

A. Proposed amendments to the Resolution Designating Persons Authorized to Approve and Sign Vouchers.

On a motion by Mr. Colonna, seconded by Mr. Barth, the board unanimously adopted the following resolution to adopt proposed amendments to the Resolution Designating Persons Authorized to Approve and Sign Vouchers as recommended by the committee:

Whereas, In accordance with section 825.104 of the Texas Government Code, the Board of Trustees (the "Board") of the Teacher Retirement System of Texas ("TRS") has previously granted authority to certain persons to approve and sign vouchers for payment from accounts of TRS; and

Whereas, The Board desires to re-designate those persons to whom this authority has been granted and to add Janie Duarte as Assistant Manager of General Accounting and Budgeting as an additional authorized designee; now, therefore, be it

Resolved, That the Board designates the following persons to approve and sign vouchers for payment from accounts of TRS from and after April 18, 2013, and until the designated person

separates from employment with TRS, is no longer employed in any capacity for which authority is granted under this resolution, or is not re-designated by the Board, whichever occurs first:

Brian K. Guthrie	Executive Director
Ken Welch	Deputy Director
Don Green	Chief Financial Officer
Jamie Michels	Manager of General Accounting
Scot Leith	Manager of Investment Accounting
Janie Duarte	Assistant Manager of General Accounting & Budgeting
Cindy Haley	Team Leader of Financial Reporting
Martha Rivera	Team Leader of Employee Payroll & Benefits
Vicki Garcia	Team Leader of Investment Accounting

B. Final adoption of proposed amendments to the following Chapter 23 (Administrative Procedures) TRS rules in Title 34 of the Texas Administrative Code.

On a motion by Mr. Colonna, seconded Mr. Barth, the board unanimously adopted the following resolutions regarding Chapters 23, 24, 31, 41 and 47 of the TRS rules and Title 34 of the Texas Administrative Code as recommended by the committee:

i. Rule § 23.7, relating to the Code of Ethics for Consultants; and

Whereas, Section 825.212(e) of the Texas Government Code requires the board to adopt by rule standards of conduct applicable to TRS consultants and advisors who may reasonably be expected to receive more than \$10,000 compensation from TRS for a fiscal year or who render important investment advice to TRS;

Whereas, The board previously adopted Rule § 23.7 to implement this requirement under section 825.212(e), which rule adopted by reference TRS' Code of Ethics for Contractors ("Code");

Whereas, In April 2012, the board adopted a revised Code;

Whereas, Staff has recommended amendments to Rule § 23.7 to adopt the April 2012 revisions to the Code;

Whereas, Pursuant to the authority granted by the Policy Committee at its December 2012 meeting, TRS published proposed amendments to Rule § 23.7 for public comment in the February 8, 2013 issue of the *Texas Register* (38 TexReg 633), and the public had at least 30 days' notice of TRS' intention to adopt the proposed amendments before the board considered their adoption, and TRS received no comments; and

Whereas, The Policy Committee has recommended that the board adopt the proposed amendments to Rule § 23.7 without changes to the text of the proposed rule as published in the *Texas Register*; now therefore, be it

Resolved, That the board hereby:

- 1) Adopts amended rule 34 TEX. ADMIN. CODE § 23.7, without changes to the text of the proposed rule as published in the February 8, 2013 issue of the *Texas Register* (38 TexReg 633);
- 2) Incorporates by reference into this Resolution, as though fully set out in it, the applicable Policy Committee and board meeting materials, discussions, and actions, including the approved rule text and reasoned justification for its adoption as presented in those meeting materials, discussions and actions;
- 3) Grants the TRS staff authority to prepare and to file all documents required by this Resolution, to work with the Office of the Secretary of State in preparing and filings such documents, and to make any technical changes required for publication of the adopted rule; and
- 4) Grants the board chairman authority to sign an order showing the action of the board.

ii. **Rule § 23.8, relating to the Expenditure Reporting by Consultants, Agents, Financial Advisors, Financial Services Providers, and Brokers.**

Whereas, Section 825.212(g) of the Texas Government Code requires the board by rule to require consultants and advisors to TRS and brokers to file regularly with TRS a report detailing any expenditure of more than \$50 made on behalf of a trustee or employee of TRS;

Whereas, The board previously adopted Rule § 23.8 to implement this requirement under section 825.212(e), which rule adopted by reference certain documents, including an expenditure reporting memorandum;

Whereas, In December 2012, the executive director issued a revised expenditure reporting memorandum;

Whereas, Staff has recommended amendments to Rule § 23.8 to adopt the December 2012 revisions to the expenditure reporting memorandum;

Whereas, Pursuant to the authority granted by the Policy Committee at its December 2012 meeting, TRS published proposed amendments to Rule § 23.8 for public comment in the February 8, 2013 issue of the *Texas Register* (38 TexReg 633), and the public had at least 30 days' notice of TRS' intention to adopt the proposed amendments before the board considered their adoption, and TRS received no comments; and

Whereas, The Policy Committee recommends that the board adopt the proposed amendments to Rule § 23.8 without changes to the text of the proposed rule as published in the *Texas Register*; now therefore, be it

Resolved, That the board hereby:

- 1) Adopts amended rule 34 TEX. ADMIN. CODE § 23.8, without changes to the text of the proposed rule as published in the February 8, 2013 issue of the *Texas Register* (38 TexReg 633);
- 2) Incorporates by reference into this Resolution, as though fully set out in it, the applicable Policy Committee and board meeting materials, discussions, and actions, including the approved amended rule text and reasoned justification for its adoption as presented in those meeting materials, discussions and actions;
- 3) Grants the TRS staff authority to prepare and to file all documents required by this Resolution, to work with the Office of the Secretary of State in preparing and filings such

- documents, and to make any technical changes required for publication of the adopted rule;
and
- 4) Grants the board chairman authority to sign an order showing the action of the board.
- C. **Final adoption of proposed amendments to the following Chapter 25 (Membership Credit) TRS rules in Title 34 of the Texas Administrative Code.**
- i. **Rule § 25.1, relating to Full-time Service;**
 - ii. **Rule § 25.6, relating to Part-time or Temporary Employment;**
 - iii. **Rule § 25.21, relating to Compensation Subject to Deposit and Credit;**
 - iv. **Rule § 25.43, relating to Cost for Unreported Service or Compensation;**
 - v. **Rule § 25.47, relating to Deadline for Verification; and**
 - vi. **Rule § 25.81, relating to Out-of-State Service Eligible for Credit.**

Whereas, Section 825.102 of the Texas Government Code authorizes the Board of Trustees (board) of the Teacher Retirement System of Texas (TRS) to adopt rules regarding eligibility for membership, the administration of the funds of the system, and the transaction of the business of the board;

Whereas, The standards for membership eligibility in TRS are established in TRS rule §25.1 and provide that employment for one-half or more of the standard full-time work load, for a period of four and one-half months or more, with pay at a rate comparable to the rate of compensation for other persons employed in similar positions is eligible for membership and consistent application of this standard is difficult when the work load is expressed in terms of the number of semester hours or course credits taught by faculty employed in institutions of higher education rather than in clock hours;

Whereas, The proposed rule amendments establish the same ratio for converting semester hours or course credits to clock hours for the purpose of determining eligibility for membership as that used for the purpose of determining the number of hours worked by a retiree under the one-half time exception to employment after retirement and the conversion ratio of two clock hours for every hour of instruction in the classroom or lab reflects the instructional time as well as preparation, grading, and other time typically associated with one hour of instruction;

Whereas, Providing the same conversion ratio for membership eligibility and employment after retirement will reduce confusion, ease communication, and improve consistent administration of the standard and will also clarify that employment in an institution of higher education is "regular" employment if it is *expected* to continue more than one full semester in the same school year or if it continues for more than one full semester in a school year;

Whereas, The proposed amendment in TRS rule §25.6 incorporates the current administrative interpretation of temporary employment for purposes of determining eligibility for membership

for employees of institutions of higher education and amending the rule to specifically define temporary employment for faculty in higher education as employment for no more than one semester in a school year will further the consistent application of the eligibility requirements and simplify communication regarding the standard for temporary employment; and

Whereas, The proposed amendments to TRS rule §25.21 regard the eligibility of workers compensation paid as temporary wage replacement pay for credit with TRS which is not currently addressed in TRS rules and the proposed amendments provide that workers compensation is creditable compensation provided that the compensation is reported or verified to TRS by the end of the school year following the year in which it was paid, which will give a member sufficient time to verify the compensation and pay the member contributions before the cost increases;

Whereas, The proposed changes to TRS rule §25.43 address the amount that must be paid to TRS to receive not only compensation credit for workers compensation but also service credit associated with the workers compensation and provide if the workers compensation is reported or verified to TRS no later than the last day of the school year following the school year in which the workers compensation is paid, the cost to establish the compensation and associated service credit is the amount of member contributions owed on the compensation and the cost of the compensation and associated service credit must be paid in a lump sum no later than the last day of the school year following the year in which the workers compensation was paid or be purchased as unreported compensation;

Whereas, The proposed amendment to TRS rule §25.47 clarifies that workers compensation paid as temporary wage replacement pay is not unreported compensation until after the end of the school year following the school year in which the compensation was paid;

Whereas, The proposed amendments to TRS rule §25.81 reflect the new 90-day standard for the amount of time that a member must have worked in an otherwise eligible position in an out-of-state school in order to purchase the service credit;

Whereas, Pursuant to the authority granted by the Policy Committee of the board at its December 2012 meeting, TRS published proposed changes to the rules in Chapter 25 for public comment in the March 15, 2013 issue of the *Texas Register*, and the public had at least 30 days' notice of TRS' intention to adopt the proposed amendments before the board considered their adoption and TRS received no comments; and

Whereas, The board's policy committee has recommended that the board adopt the proposed amendments, and the board desires to adopt the proposed amendments without changes to the published texts of the proposed rule; now, therefore, be it

Resolved, That the board hereby:

- 1) Adopts amended TRS rule 34 TEX. ADMIN. CODE §25.1, 25.6, 25.21, 25.43, 25.47, and 25.81 as published in the March 15, 2013 issue of the *Texas Register* (38 TexReg 1844-47);
- 2) Incorporates by reference into this Resolution, as though fully set out in it, the applicable policy committee and board meeting materials, discussions and actions, including the approved rule text and reasoned justification for its adoption as presented in those meeting materials, discussions and actions;
- 3) Grants the TRS staff authority to prepare and to file all documents required by this Resolution, to work with the Office of the Secretary of State in preparing and filing such documents, and to make any technical changes required for publication of the adopted rule; and
- 4) Grants the board chairman the authority to sign an order showing the action of the board.

D. Final adoption of proposed amendments to the following Chapter 31 (Employment After Retirement) TRS rules in Title 34 of the Texas Administrative Code.

- i. Rule § 31.14, relating to One-half Time Employment; and**
- ii. Rule § 31.41, relating to Return to Work Employer Pension Surcharge.**

Whereas, Section 824.601 of the Texas Government Code authorizes the Board of Trustees (board) of the Teacher Retirement System of Texas (TRS) to adopt rules to implement the limits on employment after retirement and §825.102 of the Texas Government Code authorizes the board to adopt rules regarding eligibility for membership, the administration of the funds of the system, and the transaction of the business of the board;

Whereas, Recent changes to §31.14 created one standard for one-half time employment for all service retirees working for TRS-covered employers that allows each retiree to work the equivalent of four clock hours for each work day in that calendar month without forfeiting the annuity for that month and a conversion ratio was also added to the rule that required work expressed in the number of course or semester hours taught to be converted to clock hours with each course or semester hour counted as two clock hours;

Whereas, Experience with the new standard revealed a further need for clarification in the conversion ratio language to eliminate the need to include the many different terms used to describe the amount of work performed by faculty by using a single standard of the amount of time in the classroom or lab to ensure consistent application and the proposed amendments provide a conversion ratio of 2 clock hours for every hour of instruction or time in the classroom or lab that takes into account not only the amount of time spent instructing students, but also the amount of preparation time, time spent grading work and submitting grades, and similar work related to the classroom instruction;

Whereas, The proposed amendments to §31.41 address the requirements for triggering payment of the pension surcharge which currently require that a pension surcharge be paid when a retiree is employed for one-half or more of the full-time load but the limit on one-half time employment for the retiree utilizes a standard of working no more than the equivalent of 4 clock hours for each working day in the month;

Whereas, Experience with using two different one-half time standards to evaluate the employment of a retiree highlighted the confusion experienced by employers, the difficulty in communicating the two standards to employers and retirees, and the unanticipated cost to both parties when the work triggered the surcharges and the proposed amendments will establish the same standard for triggering payment of the surcharge and the loss of annuity for exceeding one-half time employment; and

Whereas, Pursuant to the authority granted by the Policy Committee of the board (policy committee) at its December 2012 meeting, TRS published proposed changes to the rules in Chapter 31 for public comment in the March 15, 2013 issue of the *Texas Register*, and the public had at least 30 days' notice of TRS' intention to adopt the proposed amendments before the board considered their adoption and TRS received only oral comments;

Whereas, Based on those comments and the staff's and Policy Committee's recommendation based on them, the board desires to make a minor, clarifying change to proposed rule §31.14 as published for public comment; and

Whereas, The board's Policy Committee has recommended that the board adopt the proposed amendments, and the board desires to adopt the proposed amendments without changes to the published texts of the proposed rule; now, therefore, be it

Resolved, That the board hereby:

- 1) Adopts amended TRS rule 34 TEX. ADMIN. CODE §31.14 with a minor, clarifying change to the proposed rule as published in the March 15, 2013 issue of the *Texas Register* (38 TexReg 1848);
- 2) Adopts amended TRS rule 34 TEX. ADMIN. CODE §31.41 as published in the March 15, 2013 issue of the *Texas Register* (38 TexReg 1848);
- 3) Incorporates by reference into this Resolution, as though fully set out in it, the applicable Policy Committee and board meeting materials, discussions and actions, including the approved rule text and reasoned justification for its adoption as presented in those meeting materials, discussions and actions;
- 4) Grants the TRS staff authority to prepare and to file all documents required by this Resolution, to work with the Office of the Secretary of State in preparing and filing such documents, and to make any technical changes required for publication of the adopted rule; and
- 5) Grants the board chairman the authority to sign an order showing the action of the board.

E. Final adoption of proposed amendment to Rule § 41.4, relating to the Employer Health Benefit Surcharge of Subchapter A, Retiree Health Care Benefits (TRS-Care) of Chapter 41, Health Care and Insurance Programs.

Whereas, The Texas Public School Retired Employees Group Benefits Act (the "Act"), Chapter 1575, Insurance Code, authorizes the Teacher Retirement System of Texas (TRS), as trustee, to implement and administer a uniform group health benefits program ("TRS-Care"), as described in the Act;

Whereas, Section 1575.204, Insurance Code, requires the employer of a reported retiree to pay a health benefit surcharge based on the difference between the amount the retiree is required to pay monthly for the retiree's and any enrolled dependent's coverage under TRS-Care and the monthly full cost of such coverage for the retiree and any enrolled dependent (the "monthly employer health benefit surcharge amount");

Whereas, Section 1575.052, Insurance Code, authorizes the TRS Board of Trustees ("board") to adopt rules it considers necessary to implement and administer the TRS-Care program;

Whereas, Recent changes to TRS rule §31.14, relating to one-half time employment, establish a new standard for one-half time employment after retirement and establish a ratio for converting course credits or semester hours to clock hours;

Whereas, The proposed amendments to TRS rule §41.4, relating to the return-to-work employer health benefit surcharge, establish a new standard for triggering payment of the monthly employer health benefit surcharge by incorporating the same standard used for triggering payment of the pension surcharge;

Whereas, Pursuant to the authority granted by the Policy Committee of the board at its December 2012 meeting, TRS published proposed changes to §41.4 for public comment in the March 15, 2013 issue of the *Texas Register*, and the public had at least 30 days' notice of TRS' intention to adopt the proposed amendments before the board considered their adoption and TRS received no comments; and

Whereas, The board's policy committee has recommended that the board adopt the proposed amendments, and the board desires to adopt the proposed amendments without changes to the published texts of the proposed rule; now, therefore, be it

Resolved, That the board hereby:

- 1) Adopts amended TRS rule 34 TEX. ADMIN. CODE §41.4 as published in the March 15, 2013 issue of the *Texas Register* (38 TexReg 1851);
- 2) Incorporates by reference into this Resolution, as though fully set out in it, the applicable policy committee and board meeting materials, discussions and actions, including the approved rule text and reasoned justification for its adoption as presented in those meeting materials, discussions and actions;
- 3) Grants the TRS staff authority to prepare and to file all documents required by this Resolution, to work with the Office of the Secretary of State in preparing and filing such documents, and to make any technical changes required for publication of the adopted rule; and
- 4) Grants the board chairman the authority to sign an order showing the action of the board.

F. Final adoption of proposed amendment to Rule § 47.10, relating to Determination of Whether an Order is a Qualified Domestic Relations Order of Chapter 47, Qualified Domestic Relations Orders.

Whereas, Section 804.003(n) of the Texas Government Code authorizes the Board of Trustees (board) of the Teacher Retirement System of Texas (TRS) to adopt rules to implement the provisions for payments to an alternate payee under the terms of a qualified domestic relations order, and §825.102 of the Texas Government Code authorizes the board to adopt rules regarding eligibility for membership, the administration of the funds of the system, and the transaction of the business of the board;

Whereas, TRS first developed a model domestic relations order in 1992 to assist parties and their attorneys in drafting an order that meets all of the plan's requirements for a qualified order;

Whereas, Experience with the model order reflects that, in the absence of a requirement to use the model order, many parties revise the order, making changes that must be evaluated for compliance with the plan's terms and often require manual administration of the order, a process which introduces the possibility of human error and liability for the trust fund;

Whereas, Recent changes to §804.003(g) of the Texas Government Code authorize TRS to reject a domestic relations order as a qualified order unless the order conforms to a model order;

Whereas, Requiring the parties to use a model order prescribed by TRS will reduce the amount of staff time required to review the orders and manually track payments, will allow TRS to develop programming to ensure accurate administration of the order, and will reduce liability for the trust fund;

Whereas, The proposed amendment to TRS rule §47.10 implements the statutory authority to require use of a prescribed form in order for the domestic relations order to be approved by TRS as a qualified order;

Whereas, Pursuant to the authority granted by the Policy Committee of the board at its December 2012 meeting, TRS published proposed changes to the rule in Chapter 47 for public comment in the March 15, 2013 issue of the *Texas Register*, and the public had at least 30 days notice of TRS' intention to adopt the proposed amendments before the board considered their adoption and TRS received no comments; and

Whereas, The board's policy committee has recommended that the board adopt the proposed amendments, and the board desires to adopt the proposed amendments without changes to the published text of the proposed rule; now, therefore, be it

Resolved, That the board hereby:

- 1) Adopts amended TRS rule 34 TEX. ADMIN. CODE §47.10 as published in the March 15, 2013 issue of the *Texas Register* (38 TexReg 1853);
- 2) Incorporates by reference into this Resolution, as though fully set out in it, the applicable policy committee and board meeting materials, discussions and actions, including the approved rule text and reasoned justification for its adoption as presented in those meeting materials, discussions and actions;
- 3) Grants the TRS staff authority to prepare and to file all documents required by this Resolution, to work with the Office of the Secretary of State in preparing and filing such documents, and to make any technical changes required for publication of the adopted rule; and
- 4) Grants the board chairman the authority to sign an order showing the action of the board.

8. Receive the report of the Budget Committee on its April 18, 2013 meeting – Nanette Sissney.

Ms. Sissney, Committee Chair, provided the following report of the Budget Committee:

The Budget Committee met at 1:05 p.m. on Thursday, April 18, 2013, and the first item of business was approval of the minutes from June 7, 2012. Mr. Don Green then provided the status update on TRS budget and the appropriation process. He spoke of the appropriations bill in each chamber and highlighted any significant differences. The Senate version includes \$3.9 billion in all funds and \$3.5 billion in general revenue while the House version includes \$3.94 billion in all funds with \$3.54 billion in general revenue. State contributions are funded at 6.4% for fiscal year (FY) 2014 and 6.7% for FY 2015 in the Senate version, while the House version provides 6.6% in both years. Both versions include 505.3 FTEs, a 1% contribution rate for TRS-Care, \$6.18 million for capital projects related to safety and building maintenance, and include \$4.6 million for TEAM. Next Mr. Green provided a brief update on the administrative operations budget for FY 2013 and reviewed dispersal budget information and background. He presented charts analyzing FTE growth in the agency from 435 in FY 2008 to 487 in FY 2012, and indicated the changes were largely because of the addition of investment resources. Membership has grown by 16% in active members and 53% in retired members in the past decade. The trust fund balance has grown to over \$111 billion as of the end of FY 2012. Benefits processing has seen an increase of 22% overall and activity

was at a 59% increase in retirements process and 27% increase in beneficiary claims process since 2008. The benefit costs per member remain under target and have been less than \$25 per member except in 2011 when technology project was expensed as a one-time adjustment. To conclude the presentation, Mr. Green provided charts highlighting expense categories detailing FY 2012 and FY 2013 by department and then for benefit operations, investment operations, TRS-Active Care, TRS Care, and the 403(b) certification program. For the next agenda item Mr. Green gave a highlighted overview of proposed administrative operating budget and general provisions for FY 2014. Increases over FY 2013 included approximately \$3 million for salary and wages due to an expected 3% across-the-board pay increase authorized by the legislature, and funding for additional resources and benefit increases. An additional \$4 million is included for building repairs. That covers the replacement of air handlers and the pressurization of stairwells. Extended compensation is estimated to be \$9.8 million, which includes the remaining balances of last year's plan, which was \$2 million plus the maximum allowed for the first half of the current plan year, \$5.6 million. Expected biennial funding for the TEAM program is \$34.6 million, including an additional 13 FTEs. Continued efforts are underway to secure unexpended balance authority for TEAM but no significant changes were noted in the general provisions. The complete details of the FY 2014 operating budget will be brought to the board for approval at the June meeting.

- 19. Consider personnel matters, including the appointment, employment, evaluation, compensation, performance, duties, discipline, or dismissal of the Executive Director, Chief Investment Officer, or Chief Audit Executive – David Kelly.**
- 20. Consult with the Board's attorney(s) in Executive Session on any item listed above on this meeting agenda as authorized by Section 551.071 of the Texas Open Meetings Act (Chapter 551 of the Texas Government Code) – David Kelly.**

Mr. Kelly announced that the board would go into executive session under section 551.074 of the Texas Open Meeting Act for agenda item No. 19 to deliberate the personnel matter posted under that item, including the duties of the executive director. The executive session would be also held under section 551.071 of the Act to seek advice from its legal counsel on agenda items 19 and 20 as needed. All members of the public and staff not needed for the executive session were asked to leave the meeting room at this time and take their belongings with them.

Whereupon, the open session recessed at 5:47 p.m.

The meeting was reconvened in open session at 7:26 p.m. and then recessed at 7:30 p.m.

The Board of Trustees of the Teacher Retirement System of Texas reconvened on April 19, 2013, in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River Street, Austin, Texas. The following board members were present:

David Kelly, Chair
Todd Barth
Karen Charleston
Charlotte Clifton
Joe Colonna

Chris Moss
Anita Palmer
Nanette Sissney

Others present:

Brian Guthrie, TRS	T. A. Miller, TRS
Ken Welch, TRS	Melinda Nink, TRS
Amy Barrett, TRS	Hugh Ohn, TRS
Janet Bray, TRS	Barbie Pearson, TRS
Carolina de Onís, TRS	Shunne Powell, TRS
Dennis Gold, TRS	Mike Rehling, TRS
Howard Goldman, TRS	Noel Shelman, TRS
Don Green, TRS	Rebecca Smith, TRS
T. Britton Harris IV, TRS	David Veal, TRS
Betsey Jones, TRS	Angela Vogeli, TRS
Amy Morgan, TRS	Susan Wade, TRS
Ray Spivey, TRS	Tim Wei, TRS
Marianne Woods Wiley, TRS	Jay Masci, Provaliant
Michelle Bertram, TRS	Keith Robinson, Focus Consulting Group
John Dobrich, TRS	Michael Johnson, Bridgepoint Consulting
Janie Duarte, TRS	Brady O'Connell, Hewitt EnnisKnupp
Adam Fambrough, TRS	Steve Huff, Reinhart Boerner Van Deuren
Cindy Haley, TRS	Bill Barnes, Texas Retired Teachers Association
Dan Herron, TRS	Ronnie Jung, Texas Retired Teachers Association
Bob Jordan, TRS	Tim Lee, Texas Retired Teachers Association
Dan Junell, TRS	David Runyan, Express Scripts
Lynn Lau, TRS	Andy Tonkovich, HP
Jay LeBlanc, TRS	Ernie Sanders, HP
Rebecca Merrill, TRS	Victor Ferreira, HP
Jamie Michels, TRS	Jeff Lambert, State Street

Mr. Kelly called the meeting to order at 10:00 a.m.

1. Call roll of Board members.

Ms. Lau called the roll. A quorum was present. Mr. McDonald was absent.

9. Provide opportunity for public comment – R. David Kelly.

Mr. Tim Lee of the Texas Retired Teachers Association complimented TRS on the interim pension study and the system's investment performance. He expressed concerns about the solvency of the TRS-Care fund and the need for a legislative response. He said that the members' associations were available to discuss funding the health benefit plans.

10. Receive a presentation from Focus Consulting on options for conducting executive personnel evaluations – Keith Robinson, Focus Consulting.

Mr. Guthrie introduced the evaluation process for the Executive Director, Chief Investment Officer and Chief Audit Executive. Mr. Robinson of Focus Consulting described the process and timeline of the evaluations. Mr. Robinson explained for Ms. Sissney that the person being evaluated would choose his or her peers to be compared with but that other directors would be consulted to avoid stacking the deck. Mr. Robinson talked about the development of the

evaluation design and process and answered board members' questions.

11. Receive a presentation from the TEAM Program Independent Program Assessment (IPA) Vendor – Michael Johnson, Bridgepoint Consulting.

Mr. Johnson of Bridgepoint Consulting (Bridgepoint) explained the Independent Program Assessment (IPA) process and the role of Bridgepoint as the IPA vendor. He provided the evaluation results of the TEAM program and summarized the observations and management responses. Per Mr. Kelly's request, Mr. Johnson said he would include in the IPA report typical problems one would expect to see at different stages of a long-term, high-budget technology project like TEAM.

12. Receive a review of the TEAM Program –Jamie Michels; Barbie Pearson; Adam Fambrough; and Jay Masci, Provaliant.

Ms. Pearson provided an overview of the ongoing activity for the implementation of the TEAM program.

Mr. Fambrough described the commitments in the Line of Business (LOB) system defining the objectives of the new system, including participant searches, beneficiary designations, requesting and processing refunds, disability certification process and workflow. He explained how the new system would reduce manual processes and expand self-service. Responding to a question from Mr. Kelly regarding the current process for searching common members' names, Mr. Fambrough stated that the current system required a lot of manual research, and that the new system enabled advanced searches using multiple fields of information.

Ms. Michels described the objectives of the future financial system replacement (FSR) project. She provided examples of the current manual, paper-driven processes and explained the plan to streamline and enhance those processes, including benefit payments and other transactions, reporting, reconciliations, accounts payable, time keeping and leave accounting, procurement and contract management, investment accounting and human resources data management.

Mr. Fambrough noted that the enterprise system has been named TRUST, which stands for Teacher Retirement Unified System for Technology.

Responding to Mr. Kelly's concerns about the grand scale of commitments that were put on the list, Ms. Michels stated that staff was open to the products readily available in the market. Mr. Masci noted that a lot of the commitments were standard LOB system items and would not entail additional cost for the project. He stated that the FSR team has also put in place a cost-benefit analysis to decide whether customization is required to fulfill a commitment.

Responding to Ms. Palmer's request for a calendar indicating the status of accomplished milestones, Mr. Masci said he would provide it at the next meeting.

Mr. Welch presented upcoming activities relating to pension administration LOB-system replacement, which involved assessing current functionality and selecting vendors. He also

presented the upcoming major milestones. Mr. Guthrie explained for Mr. Kelly steps taken to ensure normal business functionality.

13. Review the reports on the Historically Underutilized Businesses (HUB) and consider related goals, as appropriate, for fiscal year 2013 – John Dobrich.

Mr. Guthrie provided the background of the Historically Underutilized Businesses (HUB) program.

Mr. Dobrich presented the HUB utilization and expenditures by category for FY 2012 and their comparisons with other state agencies. He noted that the high-dollar, non-HUB IT contracts for the TEAM program had skewed TRS' HUB percentage in FY 2012. He stated that TRS would continue to promote and expand HUB opportunities.

On a motion by Mr. Barth, seconded by Ms. Clifton, the board voted unanimously to adopt the following resolution:

Whereas, TRS staff met on March 26, 2013 and reviewed the report of the Texas Comptroller of Public Accounts on TRS HUB expenditures for fiscal year 2012 and discussed the 2012 HUB Program Annual Status Report to be presented to the TRS Board of Trustees (Board);

Whereas, TRS staff developed proposed HUB goals for fiscal year 2013 for the Board to consider; and

Whereas, The Board has received and discussed the HUB expenditure reports, and the Board desires to adopt TRS' HUB goals for fiscal year 2013; now, therefore, be it

Resolved, That the Board hereby adopts the following HUB expenditure goals for fiscal year 2013:

Category	TRS FY12 Goals	TRS FY12 Actual	TRS FY13 Goals
Special Trade	25%	40.84%	25%
Professional Services	5%	7.65%	5%
Other Services	20%	8.85%	20%
Commodity Purchases	50%	30.95%	50%

14. Review the report of the Audit Committee on its April 19, 2013 meeting – Christopher Moss.

Mr. Moss, Committee Chair provided the following report of the Audit Committee:

The Audit Committee met at 8:00 a.m. on Friday, April 19, 2013. The following reports were presented: ethics policy's follow-up audit by the State Auditor's Office; employee ethics survey by Internal Audit; audit of TRS-ActiveCare service providers by Sagebrush Solutions; Audit of Derivatives by Internal Audit and Protiviti; quarterly investment

testing by Internal Audit; audit of backup and recovery by Myers and Stauffer; audit of telephone counseling center performance measures by Myers and Stauffer; semiannual testing of benefit payments by Internal Audit; status of prior audit and consulting recommendations by Internal Audit; and quarterly Internal Audit status report by Internal Audit. The meeting adjourned at approximately 9:45 a.m.

15. Review the report of the Chief Benefit Officer, and consider related matters – Marianne Woods Wiley:

A. Approve members qualified for retirement.

Ms. Woods Wiley presented the list of members and beneficiaries receiving initial benefit payments during the period from September 1, 2012 through February 28, 2013 (reporting period). She referred the board to the detailed list of payments made available for their review.

On a motion by Mr. Moss, seconded by Ms. Sissney, the board unanimously approved the list of members and beneficiaries who qualified for retirement, disability, DROP, PLSO, survivor, or death benefits initiated during the reporting period.

B. Approve minutes of Medical Board meetings.

Ms. Woods Wiley presented the minutes of the September 11, 2012, November 13, 2012, and January 8, 2013 Medical Board meetings. On a motion by Mr. Moss, seconded by Ms. Charleston, the board approved the minutes of the Medical Board meetings as presented, thereby ratifying the actions of the Medical Board reflected in those minutes.

16. Review the report of the Chief Financial Officer – Don Green:

A. Review the report under § 825.314(b), Government Code, of expenditures that exceed the amount of operating expenses appropriated from the general revenue fund and are required to perform the fiduciary duties of the Board.

Pursuant to section 825.314(b) of the Government Code, Mr. Green presented a report of the expenditures paid during the months of January and February 2013 that were required to perform the fiduciary duties of the board.

B. Quarterly financial reports on TRS programs.

Mr. Green provided the quarterly financial reports on TRS programs as of February 28, 2013.

17. Review the report of the Deputy Director, including – Ken Welch:

A. An update on the TRS Telephone Counseling Center.

Mr. Welch addressed the issue relating to high call volume due to changes in the retiree health benefit program. He reported that human resources had been reallocated and phone lines added to handle the increased number of calls.

Mr. Welch recognized the finalists of the TEAM logo design contest: Tom Guerin, Mike Beuerlein, and Andre Chambers. He stated that Mr. Guerin was the winner of the contest.

- 18. Review the report of the General Counsel on pending or contemplated litigation, including updates on the following: the Bank of America securities class action; the Countrywide securities litigation; the Facebook securities litigation; the Pfizer securities litigation; the Tyco securities litigation; other securities litigation; the LIBOR litigation; litigation involving fiduciary duties related to investments; and litigation involving benefit-program contributions, retirement benefits, health-benefit programs, and open records – Dennis Gold.**

Mr. Gold stated no further new activity other than what was stated in the report. The board members had no questions about the litigation report or other related materials.

The meeting adjourned at 12:19 p.m.

May 30, 2013

MEMORANDUM

TO: Board of Trustees

FROM: Brian Guthrie

SUBJECT: Consideration of Board Members' Absence from April 19, 2013 Board Meeting.

Board member absences may be excused by majority vote of the Board. Eric McDonald was unable to attend the Board meeting on April 19, 2013.

mn

Tab 4

Teacher Retirement System of Texas



Executive Director's Report

Brian Guthrie
June 13, 2013





Presentation Objectives

- Provide Legislative update.
- Summarize activities outside of the Legislative Session.
- Provide update on agendas for July and September Board Meetings.



Legislative Update



Legislative Update

- A total of 5,868 bills were filed in both the House and Senate during the 83rd Legislature. Of those, only 1,437 passed both chambers and were sent to the Governor. Approximately 24% of the bills made it through the legislative process.
- For example, a total of 67 bills were referred to the House Committee on Pensions. Of those, 13 are on their way to the Governor's office.
- The Governor has three options: sign the bill into law, allow the bill to become law without his signature, or veto the bill.
- Last day for the Governor to sign or veto legislation is Sunday June 16th.



Bills Impacting TRS

- SB 1458 – Pension benefits and fund solvency
- SB 1 – General Appropriations Act (GAA)
- HB 3353 – TRS Omnibus “clean-up” legislation
- SB 1484 – Autism coverage
- SB 1812 – Junior College proportionality
- Other miscellaneous legislation

Also of note:

- ERS fund still not actuarially sound
- Firefighters Pension Commissioner abolished
- PRB now responsible for Firefighters and Iran Divestment



Legislative Update

- Pension Fund Legislation (SB 1458 and SB 1 GAA):
 - State contribution rate set at 6.4% for FY 14 and 6.8% for FY 15.
 - Rider added to SB 1 to use FY 13 settle-up funds to bring the state effective contribution rate up to 6.8% for FY 14. Any additional funds would be applied to TRS-Care.
 - Member contribution rate will remain at 6.4% in FY 14, but increase to 6.7% in FY 15, 7.2% in FY 16, and 7.7% in FY 17.
 - 1.5% payroll contribution by school districts for those TRS members who do not participate in OASDI (only applies to minimum salary schedule; starts in FY 15.)
 - Any future reductions in the state contribution rate reduces member and school district rate by corresponding tenth.
 - Minimum age 62 is now normal-age retirement for new hires and members who are not vested (less than 5 years of service) on 8/31/2014.
 - Penalty of 5% per year for each year of retirement before age 62.
 - Provides a COLA of 3% (capped at \$100) to those who retired 8/31/2004 or earlier. COLA will be paid later this calendar year.

Legislative Update

■ Pension Fund Legislation (cont'd)

- Reduce interest on withdrawn service from 5% to 2% prospectively.
- State agreed to fund 50 percent of the state contribution for public community college employees. This cost-sharing percentage is new and is aimed at addressing the issue of proportionality. This arrangement is formalized in statute by SB 1812.
- The actuarial impact of the sum total of these changes is as follows:

Valuation	Funding Period
2/28/13	Never
2/28/13 Revised Under SB 1458 and SB 1	29.5 Years
8/31/13 Estimated	31.7 Years
Market Value	39.0 Years



Legislative Update

- TRS-Care Legislation (SB 1458 and SB 1 General Appropriations Bill)
 - State contribution rate set at 1%.
 - Receive junior college funds for FY 13 (approximately \$72 million).
 - Receive additional FY 13 settle-up funds above amounts required to achieve 6.8% contribution rate in FY 14.
 - Settle-up funds for FY 14 and FY 15 go to TRS-Care.
 - Intent rider for the Board not to increase retiree premiums for FY 14 and FY 15.
 - Minimum age 62 for TRS-Care 2 or 3 with a grandfather for those who as of 8/31/2014 meet the rule of 70 or have 25 years of service credit.
- TRS-ActiveCare (SB 1458 and SB 1484)
 - No longer have to offer an ERS-equivalent plan in TRS-ActiveCare.
 - Requires a health benefit plan to provide lifetime coverage for an enrollee diagnosed with autism spectrum disorder before the child's 10th birthday.
 - Additional issues related to TRS-ActiveCare will be discussed tomorrow in Benefits and Policy Committees.



Legislative Update

- TRS' omnibus bill (HB 3357)
 - Addresses common law conflict of interest provisions.
 - Authorizes the Board to meet in executive session for Board procurements with certain qualifications and audit items, such as internal control weaknesses.
 - Makes confidential TRS employees' personal information, such as account numbers and names of family members, contained on financial disclosure statements and disclosure statements of conflicts of interest.
 - Allows retirees to modify annuity option under certain conditions.
 - Updates TRS-Care and TRS-ActiveCare as required under federal Affordable Care Act.

Other Legislation Impacting TRS:

- TEAM Funding and FTE Riders in SB 1 GAA:
 - Received requested TEAM Program funding for FY 14 and FY 15.
 - FTE Flexibility:
 - TEAM rider;
 - Article IX rider, which we will not use at this time; and
 - SB 1458 implementation rider.

- SB 59 removes statutory requirements to report the following to the Governor, Legislature, LBB, and PRB: a report detailing any cost savings achieved in TRS-ActiveCare through the prior authorization of certain drugs; investment reports; and a report on member contribution withdrawals.



Legislative Update

- SB 200 is the Pension Review Board sunset bill. An amendment was added to require TRS as well as other retirement systems to divest investments from companies that do business with Iran. The PRB will maintain the list of scrutinized companies, complied under a previous order by the Governor.
- SB 1368 requires that a contract between a state governmental entity and a nongovernmental vendor must contain a provision that requires the vendor to make the information not otherwise excepted available and accessible to the public in a contractually agreed format.
- SB 1812 places in statute an agreement between state appropriators and community colleges regarding the appropriate level of state funding toward the benefits of certain employees at two-year institutions of higher education. The state will cover half of the costs of retirement benefits for instructional and administrative employees at public community and junior colleges.



Legislative Update

- HB 13 would expand reporting requirements for all public pension systems to include the reporting of investment returns to the Pension Review Board (PRB) and require the PRB to post these reports and other information on its website or linked to another website.
- HB 2929 prohibits a health benefit plan from limiting the number of days of treatment for brain injury under a health benefit plan that does not specifically identify a particular therapy, treatment, testing, remediation, or other service. The bill would prohibit a health benefit plan from limiting the number of days covered for post-acute care. The bill would prohibit a health benefit plan from refusing to contract with a facility to provide certain services solely because the facility is an assisted living facility.



Legislative Update

■ Legislative Implementation

- SB 1458 COLA provision is effective September 1, 2013.
- In July, Board will adopt a resolution directing staff to prepare for COLA payment.
- TRS will begin programming with the goal to starting paying the COLA in October or November 2013.
- Implementation work group for all legislation is headed by Ken Welch. Held first meeting at the end of May. Work group will:
 - Determine what new policies, rules, and rule amendments are necessary, including amendments to pension benefit rules and amendments to TRS-Care and TRS-ActiveCare rules for compliance with the federal Affordable Care Act.
 - Assess necessary communications initiatives for members and reporting entities; and
 - Identify the resources necessary for implementation of all legislation.



Activities Outside of the Legislative Session



Outside of the Legislative Session

- Held three “All Hands” Meetings with the goal of:
 - Communicating with staff regarding the TEAM Program;
 - Thank employees for all their hard work;
 - Roll out TRS Core Values; and
 - Presenting the “casual yet appropriate” summer dress policy.

- Upcoming conferences and continuing education:
 - NCTR Directors meeting in June;
 - NASRA in August;
 - Transformative Leadership in late September;
 - NCTR Annual meeting in October;
 - State Street visit in October; and
 - OMERS meeting in October.



Outside of the Legislative Session

- Improvements in Open Records Process, include:
 - Additional Open Records Attorney will be on board in July;
 - Implementing FOIAXpress Software for managing open records and media requests. First round of training already held; and
 - Investments, Legal, and Communications coordinate use of the Super 16 database to help streamline public information responses.

- Other happenings of note, include:
 - Communications Specialist for Investments will be on board in July;
 - New attorney hired to help with benefits, tax, and investment matters starting in late June;
 - Shining Example Award for Public Service Recognition Week went to the TRS Health & Insurance Benefits Counseling Team.



Upcoming Agendas



Upcoming Agendas

July 26, 2013 Major items include:

Board

- Implementation of legislation and adoption of rule amendments, as needed.
- Conduct annual evaluations of Executive Director, Chief Audit Executive, and Chief Investment Officer.
- Interview and consider selection of fiduciary counsel.
- Consider selection of actuarial valuation and pension consulting services.
- Adopt TRS-Care rates for FY 14.
- Amend TRS-ActiveCare rates for FY 14.
- Evaluate health benefits consultant and consider extending existing contract.
- Certify state contributions to TRS-Care.
- Authorize purchase of D&O and fiduciary liability insurance.
- Recognize outgoing Trustees.

Committees

- Audit Committee will meet to conduct an evaluation of the Chief Audit Executive



2013 Board Agendas (Cont'd)

September 12-13, 2013 Major items include:

Board

- Welcome new trustees.
- Receive committee chairs and concur on committee appointments.
- Adopt Board calendar for CY 2014.
- Report on Q2 earnings and market review.
- Discuss ED's goals and objectives for FY 2014.
- Ratify Incentive Compensation Policy.
- Amend IPS as necessary to implement the Energy & Natural Resources Portfolio.
- Adopt rules as necessary to implement legislation.

Committees

- Review External Public Markets Portfolio.
- Begin review of Mission Statement.
- Begin review of the Proxy Voting Policy.
- Review the Investment Risk Report.

Tab 5A



Teacher Retirement System of Texas

Performance Review: First Quarter 2013
June 2013

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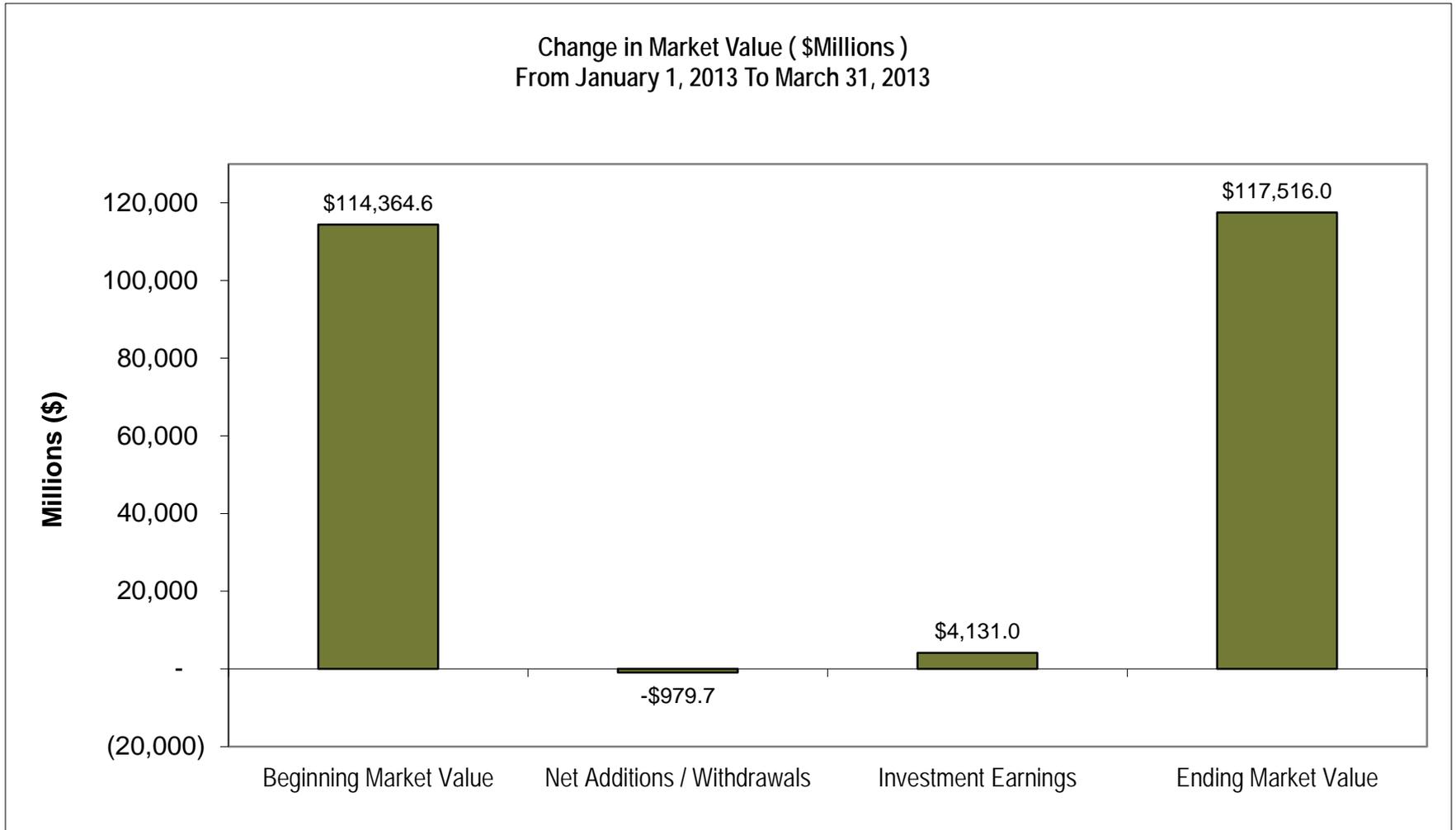
Summary

- Equity markets posted a strong start to 2013 with positive returns despite Eurozone worries resulting from an Italian election, corruption allegations in Spain, and a Cypriot bailout
 - Equity markets were pushed higher by positive U.S. economic data and the U.S. fiscal cliff deal that was reached at the beginning of the quarter
- TRS gained 3.6% during the first quarter and outperformed its benchmark
 - Trailing results were particularly favorable during the past 12 months, but TRS also exceeded its performance benchmark during the trailing 3, 5, and 10 year periods
- Major sources of outperformance during the first quarter included:
 - Global Equity
 - Directional Hedge Funds
 - Private Equity
 - Non-U.S. Emerging Markets
 - Real Return
 - Real Assets
 - Stable Value
 - Other Absolute Return (opportunistic credit investments)
 - Long Treasuries (an underweight allocation)
- Commodities and U.S. Large Cap had the largest negative impacts during the quarter

1. Market Summary – First Quarter 2013

	First Quarter	One Year	Three Years	Five Years	Ten Years
Global Equity:					
MSCI USA Standard	10.7%	13.9%	12.8%	5.9%	8.7%
MSCI USA Small Cap	12.9	17.6	14.8	10.5	12.8
MSCI EAFE + Canada Index	4.7	10.4	4.8	-0.8	10.0
MSCI Emerging Markets Index	-1.6	2.0	3.3	1.1	17.1
HFRI Fund of Funds Composite Index	3.4	4.8	2.1	-0.2	3.9
State Street Private Equity Index (qtr lagged)	3.5	12.2	12.1	3.1	12.2
Global Equity Policy Benchmark	5.3	10.4	8.3	3.5	--
Stable Value:					
Barclays Capital Long Treasury Index	-2.4%	7.3%	12.5%	8.3%	7.2%
HFRI Fund of Funds Conservative Index	2.8	4.6	2.2	-0.4	2.9
3 Month LIBOR + 2%	0.6	2.4	2.4	2.8	4.2
90 Day US Treasury Bill	0.0	0.1	0.1	0.3	1.8
Stable Value Policy Benchmark	-1.1	6.4	10.2	7.0	--
Real Return:					
Barclays Capital US Treasury TIPS Index	-0.4%	5.7%	8.6%	5.9%	6.3%
NCREIF ODCE (qtr lagged)	2.1	9.8	13.3	-2.0	--
Goldman Sachs Commodities Index	0.5	-5.0	3.0	-9.7	2.3
MSCI US REIT	8.1	14.9	17.3	6.8	12.3
Real Return Policy Benchmark	1.5	8.7	11.4	2.6	--
TRS Policy Benchmark	3.4	9.5	9.9	4.6	8.4

2. Market Value Change



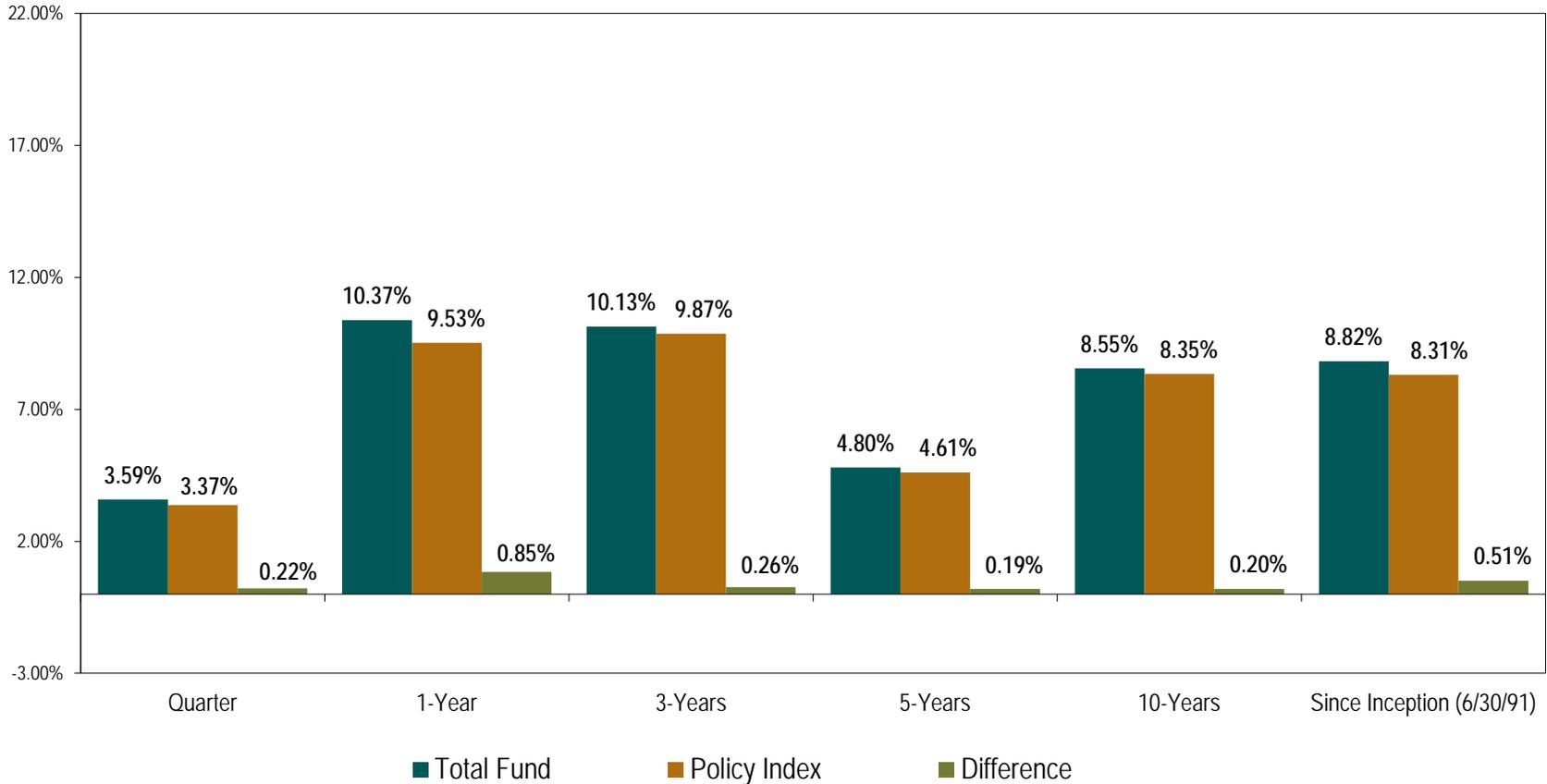
3. Asset Allocation Detail

	Market Value (\$ in millions) as of 3/31/2013		Policy Target	Relative Allocation to Policy Target	Ranges
	(\$)	(%)			
Total Fund	\$117,516	100%	100%	---	--
U.S. Large	\$23,268	19.8%	18%	+1.8%	13-23%
U.S. Small	\$2,805	2.4%	2%	+0.4%	0-7%
Non-U.S. Developed	\$18,364	15.6%	15%	+0.6%	10-20%
Emerging Markets	\$12,630	10.7%	10%	+0.7%	5-15%
Directional Hedge Funds	\$5,916	5.0%	5%	+0.0%	0-10%
Private Equity	\$13,856	11.8%	12%	-0.2%	7-17%
Global Equity	\$76,839	65.4%	62%	+3.4%	55-69%
Long Treasuries	\$12,252	10.4%	13%	-2.6%	0-20%
Stable Value Hedge Funds	\$4,026	3.4%	4%	-0.6%	0-10%
Absolute Return (including OAR)	\$769	0.7%	0%	+0.7%	0-20%
Cash	\$1,854	1.6%	1%	+0.6%	0-5%
Stable Value	\$18,901	16.1%	18%	-1.9%	13-23%
TIPS	\$6,124	5.2%	5%	+0.2%	0-10%
Real Assets	\$14,886	12.7%	15%	-2.3%	5-20%
Commodities	\$766	0.7%	0%	+0.7%	0-5%
Real Return	\$21,776	18.5%	20%	-1.5%	15-25%

Note: Actual allocations above are based upon Account Level information

4. Total TRS Performance Ending 3/31/2013

Investment Results As of 3/31/2013



Note: The excess returns shown above may not be a perfect difference between the actual and benchmark returns due entirely to rounding.

5. Total Fund Attribution - Quarter Ending 3/31/2013

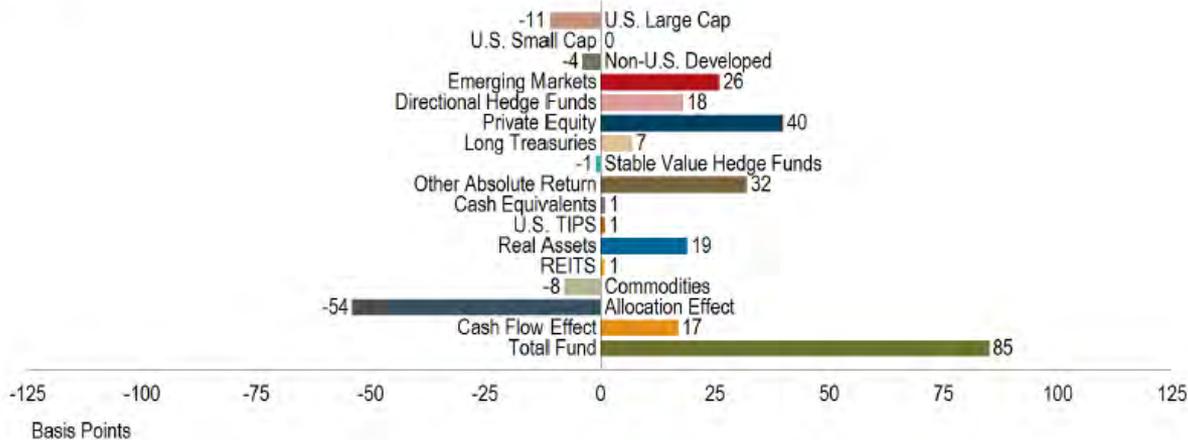
TOTAL FUND ATTRIBUTION ANALYSIS
3 MONTHS ENDING 3/31/13



Asset Class	Allocation Effect (in bps)
U.S. Large Cap	7
U.S. Small Cap	-1
Non-U.S. Developed	-8
Emerging Markets	-10
Directional Hedge Funds	0
Private Equity	0
Long Treasuries	9
Stable Value Hedge Funds	0
Other Absolute Return	-2
Cash Equivalents	-3
U.S. TIPS	-1
Real Assets	4
REITS	0
Commodities	-1
Total Allocation Effect	-6

5. Total Fund Attribution – Trailing One Year Ending 3/31/2013

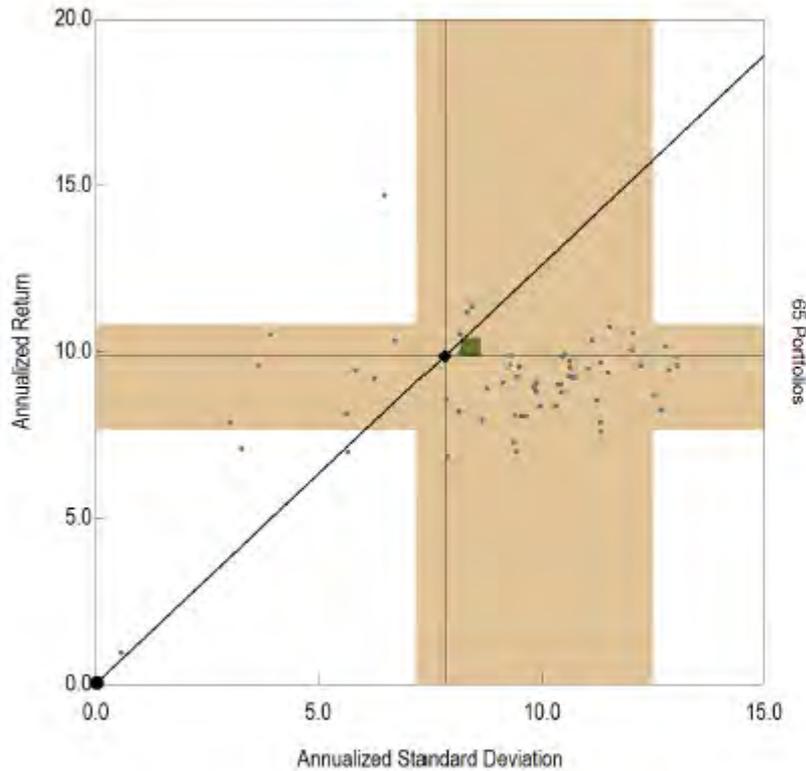
TOTAL FUND ATTRIBUTION ANALYSIS
1 YEAR ENDING 3/31/13



Asset Class	Allocation Effect (in bps)
U.S. Large Cap	1
U.S. Small Cap	0
Non-U.S. Developed	-14
Emerging Markets	-16
Directional Hedge Funds	0
Private Equity	-1
Long Treasuries	-3
Stable Value Hedge Funds	2
Other Absolute Return	-6
Cash Equivalents	-5
U.S. TIPS	2
Real Assets	-2
REITS	0
Commodities	-12
Total Allocation Effect	-54

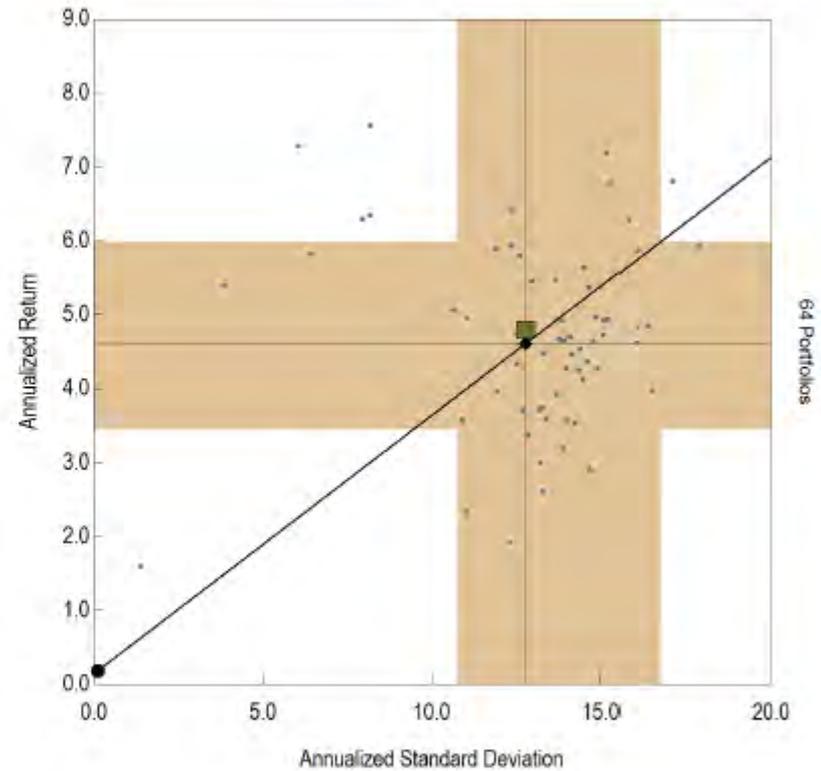
6. Risk Profile: Total Fund Risk-Return vs. Peers

Annualized Return vs. Annualized Standard Deviation
3 Years Ending March 31, 2013



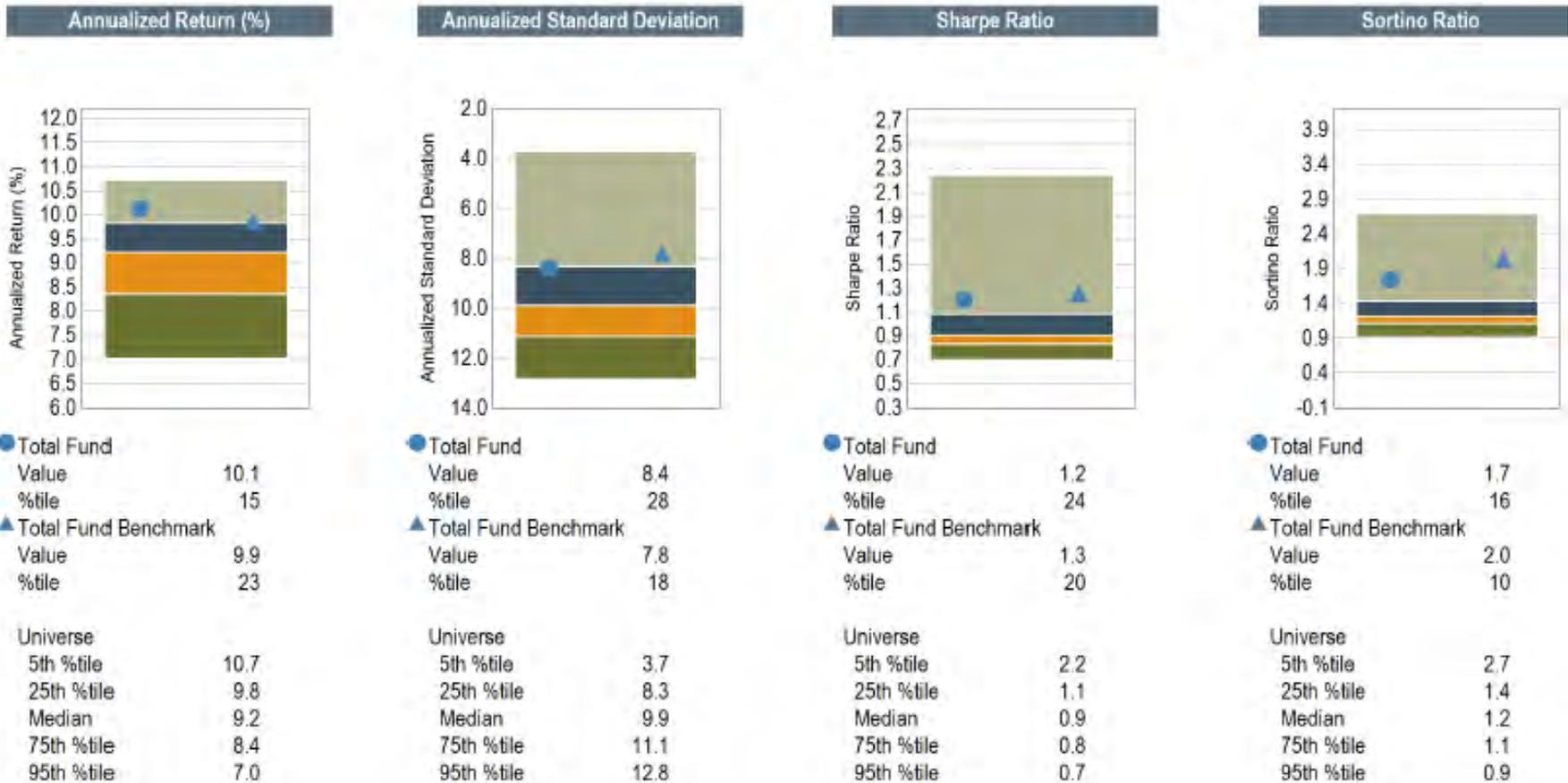
- Total Fund
- Total Fund Benchmark
- Risk Free
- 68% Confidence Interval
- Public Funds >\$1B Net

Annualized Return vs. Annualized Standard Deviation
5 Years Ending March 31, 2013



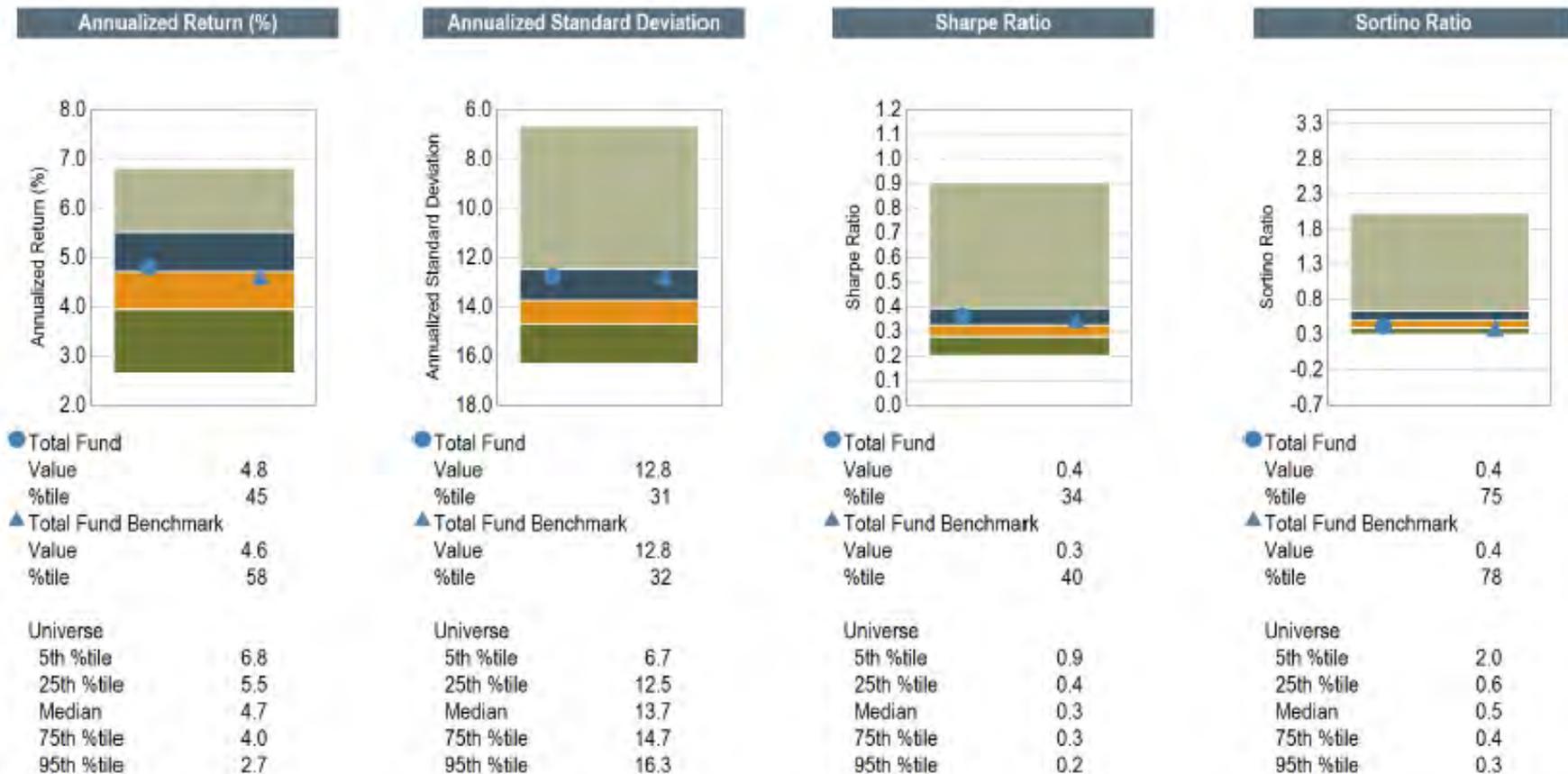
- Total Fund
- Total Fund Benchmark
- Risk Free
- 68% Confidence Interval
- Public Funds >\$1B Net

6. Risk Profile: Trailing 3-Year Risk Metrics Peer Comparison



Universe: Public Funds > \$1B Net

6. Risk Profile: Trailing 5-Year Risk Metrics Peer Comparison



Universe: Public Funds > \$1B Net

7. Global Equity: Performance Summary Ending 3/31/2013

	First Quarter	One Year	Three Years	Five Years
Total Global Equity	5.3%	11.0%	8.4%	3.3%
Global Equity Benchmark	5.3	10.4	8.3	3.5
<i>Difference</i>	+0.0	+0.6	+0.1	-0.2
Total U.S.	10.0	13.5	12.1	6.3
U.S. Benchmark	10.9	14.3	12.8	6.2
<i>Difference</i>	-0.9	-0.8	-0.7	+0.1
<u>U.S. Large Cap</u>	9.8	13.1	11.9	-
Large Cap Benchmark	10.7	13.9	12.5	-
<i>Difference</i>	-0.9	-0.8	-0.6	-
<u>U.S. Small Cap</u>	12.9	18.4	16.1	10.9
Small Cap Benchmark	12.9	17.6	14.8	9.4
<i>Difference</i>	+0.0	+0.8	+1.3	+1.5
Non-U.S. Equity	2.4	7.5	4.5	1.1
Non-U.S. Benchmark	2.1	7.0	4.3	0.3
<i>Difference</i>	+0.3	+0.5	+0.2	+0.8
<u>Non-U.S. Developed</u>	4.8	10.1	5.4	-0.1
MSCI EAFE + Canada	4.7	10.4	4.8	-0.8
<i>Difference</i>	+0.1	-0.3	+0.6	+0.7
<u>Emerging Markets</u>	-0.6	4.2	3.6	1.6
MSCI Emerging Markets	-1.6	2.0	3.3	1.1
<i>Difference</i>	+1.0	+2.2	+0.3	+0.5

Note: The excess returns shown in this presentation may differ from State Street statements due entirely to rounding. These differences are generally within a few basis points and are not material.

7. Global Equity: Performance Summary Ending 3/31/2013 (cont'd)

	First Quarter	One Year	Three Years	Five Years
Directional Hedge Funds	4.8%	8.3%	-	-
HFRI Fund of Funds Composite Index	3.4	4.8	-	-
<i>Difference</i>	+1.4	+3.5	-	-
Total Public Equity	5.6	9.8	7.3	2.8
Public Equity Benchmark	5.7	9.8	7.5	2.8
<i>Difference</i>	-0.1	0.0	-0.2	0.0
Total Private Equity	4.1	16.0	14.8	5.2
Private Equity Benchmark	3.5	12.2	12.1	7.4
<i>Difference</i>	+0.6	+3.8	+2.7	-2.2

Note: The excess returns shown in this presentation may differ from State Street statements due entirely to rounding. These differences are generally within a few basis points and are not material.

8. Stable Value: Performance Summary Ending 3/31/2013

	First Quarter	One Year	Three Years	Five Years
Total Stable Value	-0.7%	8.1%	10.5%	7.9%
Total Stable Value Benchmark	-1.1	6.4	10.2	7.0
<i>Difference</i>	+0.4	+1.7	+0.3	+0.9
Long Treasuries	-2.3	8.0	13.2	9.4
Treasury Benchmark	-2.4	7.3	12.5	8.3
<i>Difference</i>	+0.1	+0.7	+0.7	+1.1
Stable Value Hedge Funds	2.3	4.4	2.5	1.3
Hedge Funds Benchmark	2.8	4.6	3.5	3.5
<i>Difference</i>	-0.5	-0.2	-1.0	-2.2
Other Absolute Return	5.3	35.0	16.7	-
Other Absolute Return Benchmark	0.6	2.4	2.4	-
<i>Difference</i>	+4.7	+32.6	+14.3	-
Cash Equivalents	0.2	1.0	0.0	0.1
Cash Benchmark	0.0	0.1	0.1	0.3
<i>Difference</i>	+0.2	+0.9	-0.1	-0.2

Note: Performance of Cash Equivalents is shown net of fees paid to TRS Strategic Partners

Note: The excess returns shown in this presentation may differ from State Street statements due entirely to rounding. These differences are generally within a few basis points and are not material.

9. Real Return: Performance Summary Ending 3/31/2013

	First Quarter	One Year	Three Years	Five Years
Total Real Return	1.8%	8.8%	11.6%	3.0%
Real Return Benchmark	1.5	8.7	11.4	2.6
<i>Difference</i>	+0.3	+0.1	+0.2	+0.4
TIPS	-0.3	5.9	8.8	5.7
U.S. TIPS Benchmark	-0.4	5.7	8.6	4.9
<i>Difference</i>	+0.1	+0.2	+0.2	+0.8
Real Assets	3.4	11.6	14.4	0.2
Real Asset Benchmark	2.1	9.8	13.3	-1.5
<i>Difference</i>	+1.3	+1.8	+1.1	+1.7
Commodities	-11.2	-15.0	-1.1	-10.0
Commodities Benchmark	0.5	-5.0	3.0	-9.7
<i>Difference</i>	-11.7	-10.0	-4.1	-0.3

Note: The excess returns shown in this presentation may differ from State Street statements due entirely to rounding. These differences are generally within a few basis points and are not material.



Appendix – Supplemental Reporting

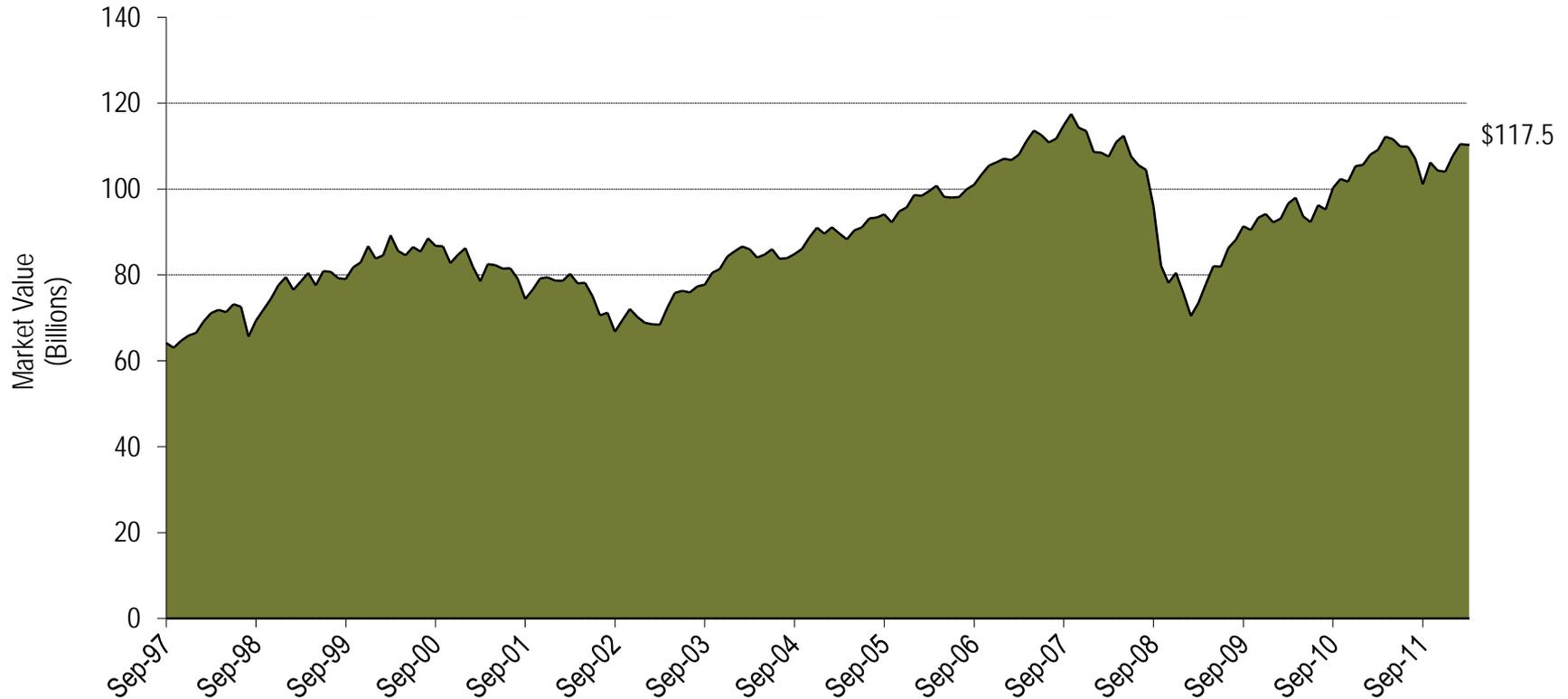
Historical Excess Performance

Quarterly and Cumulative Excess Performance
Total Fund vs. Total Fund Benchmark



TRS Asset Growth

Total Fund Historical Growth (September 1997 - March 2012)



External Manager Program: Public Equity Performance as of 3/31/2013

	Allocation (\$ in billions)	First Quarter	One Year	Three Years
EP Total Global Equity	\$31.7	5.8%	10.4%	7.6%
EP Global Equity Benchmark	--	5.2	9.1	7.3
<i>Difference</i>	--	+0.6	+1.3	+0.3
EP U.S. Large Cap	\$7.8	9.7	13.9	12.2
EP Large Cap Benchmark	--	10.7	13.9	12.5
<i>Difference</i>	--	-1.0	0.0	-0.3
EP U.S. Small Cap	\$2.1	12.2	16.5	-
EP Small Cap Benchmark	--	12.9	17.6	-
<i>Difference</i>	--	-0.7	-1.1	-
EP Non-U.S. Developed	\$5.7	4.0	7.7	4.5
MSCI EAFE + Canada Index	--	4.7	10.4	4.8
<i>Difference</i>	--	-0.7	-2.7	-0.3
EP Emerging Markets	\$6.7	0.0	4.5	3.9
MSCI Emerging Markets Index	--	-1.6	2.0	3.3
<i>Difference</i>	--	+1.6	+2.5	+0.6
EP World Equity	\$4.3	8.0	14.0	9.3
EP World Equity Benchmark	--	6.5	10.6	7.8
<i>Difference</i>	--	+1.5	+3.4	+1.5
EP Directional Hedge Funds	\$5.1	5.6	10.6	-
HFRI Fund of Funds Composite Index	--	3.4	4.8	-
<i>Difference</i>	--	+2.2	+5.8	-

Note: The excess returns shown in this presentation may differ from State Street statements due entirely to rounding. These differences are generally within a few basis points and are not material.

External Manager Program: Stable Value/Total Program Performance as of 3/31/2013

	Allocation (\$ in billions)	First Quarter	One Year	Three Years
EP Total Stable Value	\$4.1	3.1%	10.0%	6.1%
EP Stable Value Benchmark	--	0.0	0.3	1.4
<i>Difference</i>	--	+3.1	+9.7	+4.7
EP Stable Value Hedge Funds	\$4.0	2.3	4.4	2.5
EP Stable Value Hedge Funds Benchmark	--	2.8	4.6	3.5
<i>Difference</i>	--	-0.5	-0.2	-1.0
EP OAR	\$0.1	35.5	86.7	28.9
EP OAR Benchmark	--	0.6	2.4	2.4
<i>Difference</i>	--	+34.9	+84.3	+26.5
Total External Public Program	\$35.9	5.4	10.6	7.8
EP External Public Benchmark	--	4.9	8.6	6.8
<i>Difference</i>	--	+0.5	+2.0	+1.0

Note: The excess returns shown in this presentation may differ from State Street statements due entirely to rounding. These differences are generally within a few basis points and are not material.

Strategic Partnership Program (SPN): Performance Summary

Ending 3/31/2013

	Allocation (\$ in billions)	First Quarter	One Year	Three Years
Public Strategic Partnership	\$6.0	4.5%	10.5%	10.5%
Public SPN Benchmark	--	3.9	9.6	10.2
<i>Difference</i>	--	+0.6	+0.9	+0.3
Blackrock	\$1.3	3.5%	8.1%	9.6%
J.P. Morgan	\$1.4	5.2%	11.8%	10.9%
Neuberger Berman	\$1.4	4.9%	10.5%	10.5%
Morgan Stanley	\$1.3	4.5%	10.8%	10.7%
Barclays Capital	\$0.6	4.5%	11.7%	--

- The Public SPNs in aggregate outperformed the benchmark during all time periods shown above
 - Recent underperformance has deteriorated the 3-year return for BlackRock, the only SPN with a 3-year return below benchmark

Note: The excess returns shown in this presentation may differ from State Street statements due entirely to rounding. These differences are generally within a few basis points and are not material.

Benchmarks

- **Total Fund Performance Benchmark** – 18% MSCI US Standard, 2% MSCI US Small Cap, 10% MSCI Emerging Markets, 15% MSCI EAFE plus Canada, 5% HFRI FoF Composite Index, 12% State Street Private Equity (1 qtr lagged), 13% BC Long Term Treasury, 4% HFRI FoF Conservative Index, 1% Citigroup 3 Mo T-Bill, 5% BC US TIPS, and 15% NCREIF ODCE (1 qtr lagged)
- **Global Equity Benchmark**– 24% MSCI EAFE plus Canada, 29% MSCI US Standard, 3% MSCI US Small Cap, 16% MSCI Emerging markets index, 8% HFRI FoF Composite Index, and 19% State Street Private Equity (1 qtr lagged)
- US Large Cap Benchmark - MSCI US Standard Index
- US Small Cap Benchmark - MSCI US Small Cap Index
- Emerging Markets Benchmark – MSCI Emerging Markets
- Non-US Developed Benchmark– MSCI EAFE plus Canada
- Directional Hedge Funds – HFRI Fund of Funds (FoF) Composite Index
- Private Equity Benchmark - State Street Private Equity (1 qtr lagged)
- **Stable Value Benchmark** – 22% HFRI FoF Conservative Index, 72% BC Long Term Treasury, and 6% Citigroup 3 mo T-Bill.
- US Treasuries Benchmark – Barclays Capital (BC) Long Term Treasury
- Stable Value Hedge Funds – HFRI Fund of Funds (FoF) Conservative Index
- Other Absolute Return Benchmark - 3 Mo LIBOR + 2%
- Cash Benchmark - Citigroup 3 Mo T-Bill

Benchmarks (cont'd)

- **Real Return Benchmark** – 25% BC US TIPS and 75% NCREIF ODCE
- US TIPS Benchmark - BC US TIPS Index
- Real Assets Benchmark –NCREIF ODCE (1qtr lagged)
- Commodities Benchmark - Goldman Sachs Commodity Index

Note: Returns and market values (based on account level) reported are provided by State Street. Net additions/withdrawals are reported on a gross (adjusted for expenses) total fund level as provided by State Street. All rates of return for time periods greater than one year are annualized. The excess returns shown in this presentation may differ from State Street statements due entirely to rounding. These differences are generally within a few basis points and are not material.

Description of Performance Attribution

- A measure of the source of the deviation of a fund's performance from that of its policy benchmark. Each bar on the attribution graph represents the contribution made by the asset class to the total difference in performance. A positive value for a component indicates a positive contribution to the aggregate relative performance. A negative value indicates a detrimental impact. The magnitude of each component's contribution is a function of (1) the performance of the component relative to its benchmark, and (2) the weight (*beginning of period*) of the component in the aggregate.
- The individual Asset Class effect, also called Selection Effect, is calculated as
Actual Weight of Asset Class x (Actual Asset Class Return – Asset Class Benchmark Return)
- The bar labeled Allocation Effect illustrates the effect that a Total Fund's asset allocation has on its relative performance. Allocation Effect calculation = (Asset Class Benchmark Return – Total Benchmark Return) x (Actual Weight of Asset Class – Target Policy Weight of Asset Class).
- The bar labeled Cash Flow Effect describes the impact of asset movements on the Total Fund results. Cash Flow Effect calculation = (Total Fund Actual Return – Total Fund Policy Return) – Current Selection Effect – Current Allocation Effect
- The bar labeled Benchmark Effect results from the weighted average return of the asset classes' benchmarks being different from the Total Funds' policy benchmark return. Benchmark Effect calculation = Total Fund Policy Return – (Asset Class Benchmark Return x Target Policy Weight of Asset Class)
- Cumulative Effect
Cumulative Effect calculation = Current Effect t *(1+Cumulative Total Fund Actual Return t-1) + Cumulative Effect t-1*(1+Total Fund Benchmark Return t)

Tab 5B



Related Party Transactions in Private Markets

Eric Lang

Managing Director

June 2013

Related Party Transactions

- Related party transactions are commonplace in a private markets portfolio
- These can include the following:

Property Operations	Other
Property management	Acquisition and transaction
Leasing commissions	Debt arrangement
Construction management	Director's fees
Routine audit	Insurance brokerage
Maintenance	Advisory fees

- Disclosed to TRS at underwriting, quarterly reports, financial statements and typically discussed and approved at advisory board meetings
- The terms of these transactions are arms length (or better)
- TRS monitors them at the fund and at advisory board level

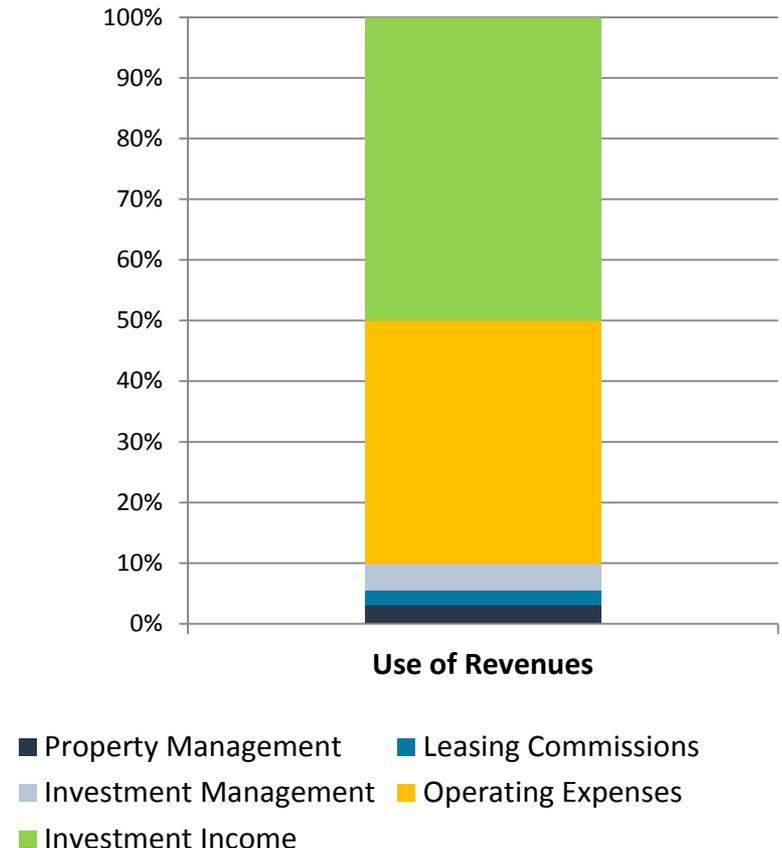
Related Party Transactions

- TRS verifies the fairness of related party transactions when they are presented to us in the following ways:
 - Most fees are standard in the industry within markets
 - The services are typical and necessary costs of operating a property or company (they will be incurred regardless of who gets paid)
 - Managers and investors evaluate the transactions in the context of market comparables, surveys as well as their own experience
 - Usually involves a discussion of who is the best provider of the services
- Outside parties that complain about them often have their own agendas, and do not have access to the information we do or understand them

Townsend Group Discussion on Affiliate Fees

- A commercial property is a multi-million dollar operating entity that uses many vendors (services for a fee)
- Above and beyond investment management fees, approximately one-third of manager fund offerings disclose up-front that affiliates will likely provide services to fund investments for additional fees
- Investor protections against abuse include:
 - Set off against investment management fees (full or partial)
 - Disclosure and consent of investor advisory committees
 - Pledges that affiliate fees charged will be at or below “market” fees for such services

Typical Core Office Building
Use of Revenues



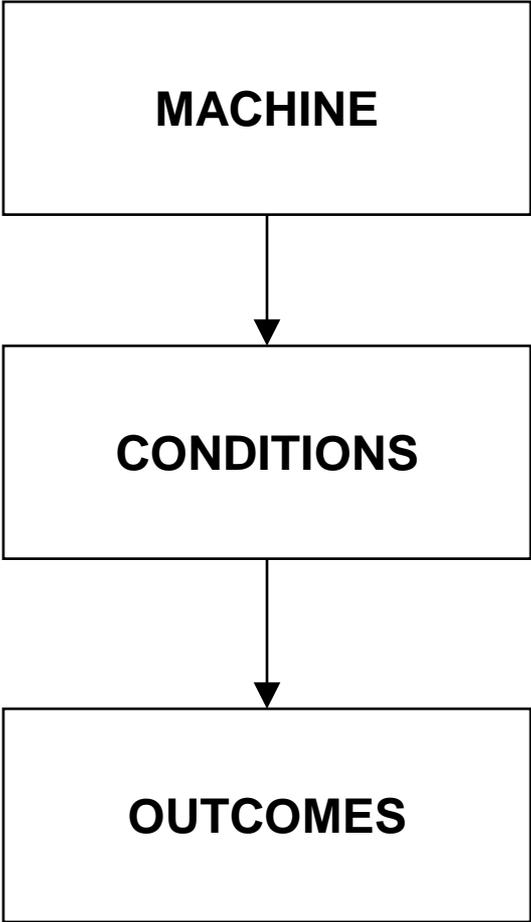
Tab 5D



Global Outlook

Bob Prince, Co-Chief Investment Officer

May 2013

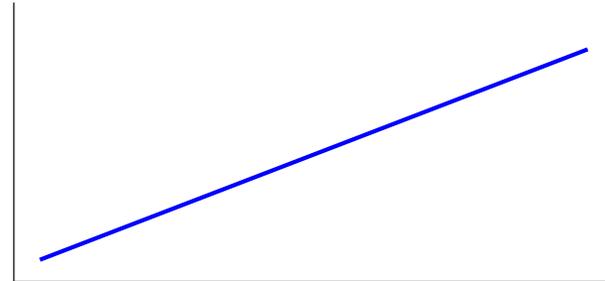


BASIC PRINCIPLE

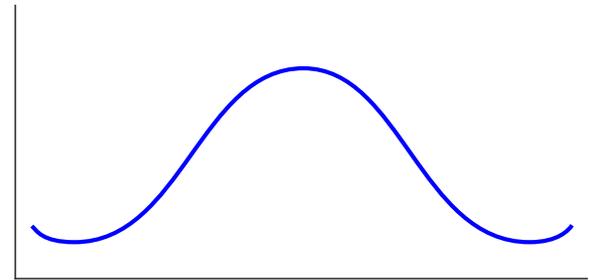
**SPENDING REQUIRES INCOME OR
BORROWING**

OUR TEMPLATE: THREE BIG FORCES

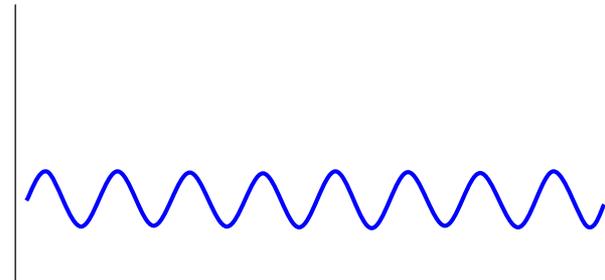
1. PRODUCTIVITY



2. THE LONG-TERM DEBT CYCLE (50 – 75 years)

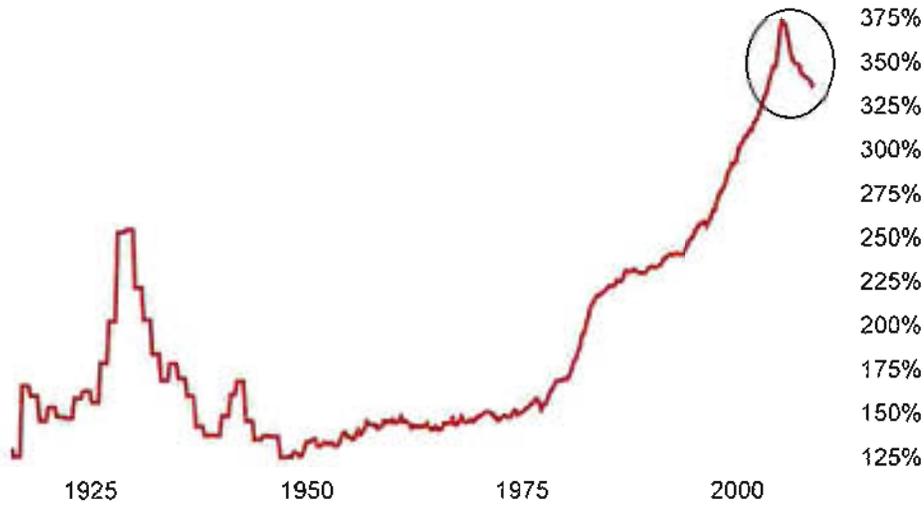


3. THE SHORT-TERM DEBT CYCLE (5 – 8 years)

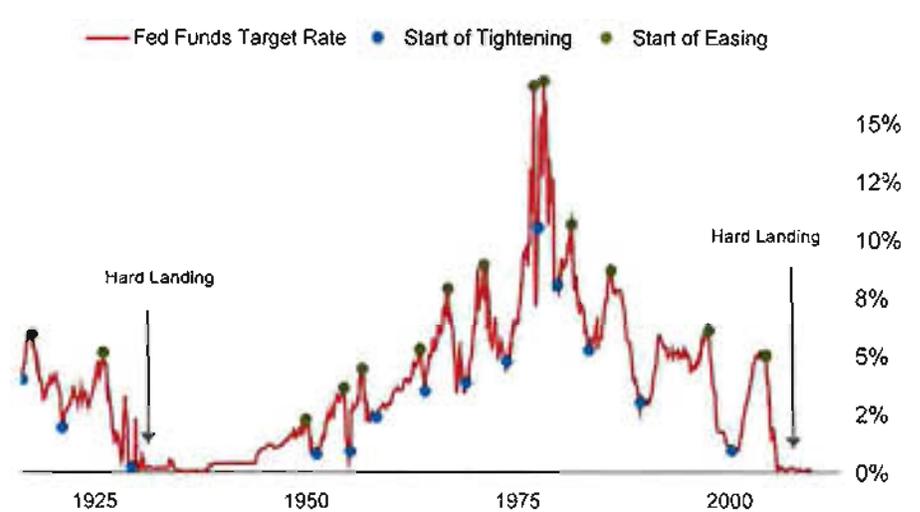


LONG-TERM DEBT CYCLE: US EXAMPLE

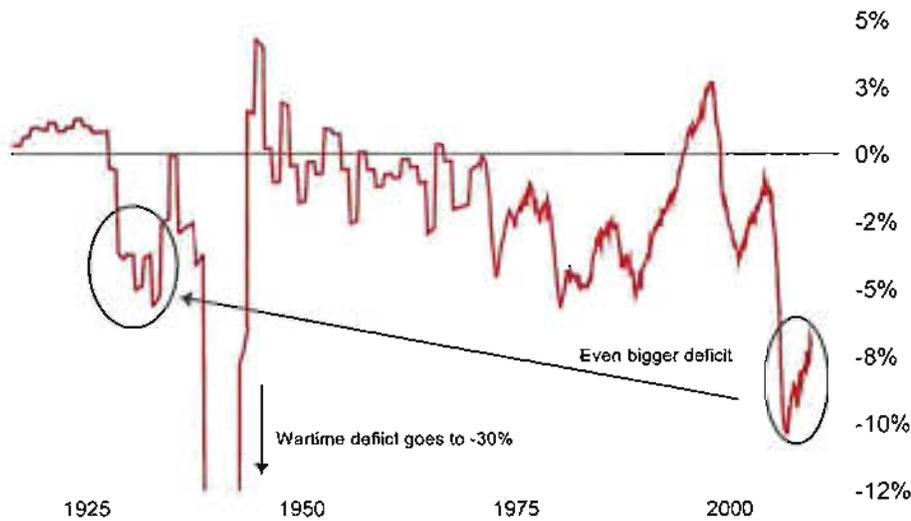
USA Total Debt (% GDP)



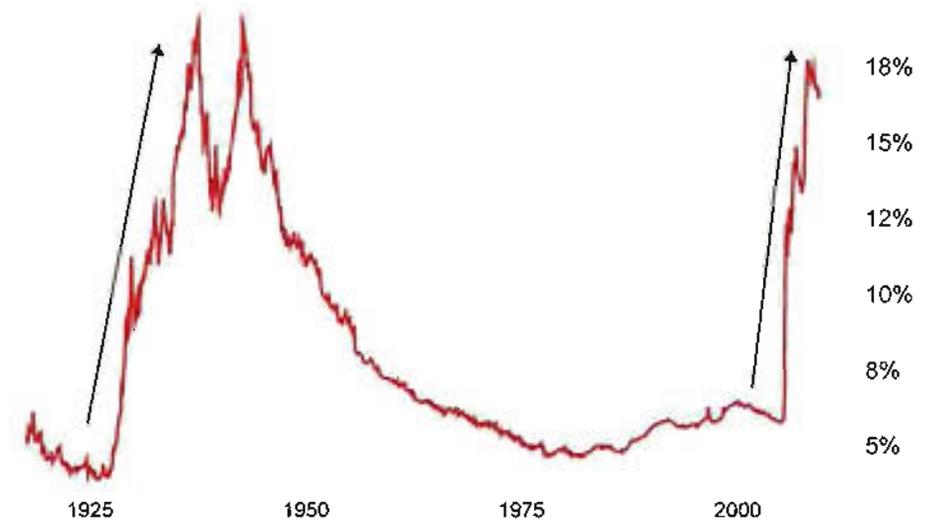
US Interest Rate Cycles



US Federal Budget Balance (% GDP)



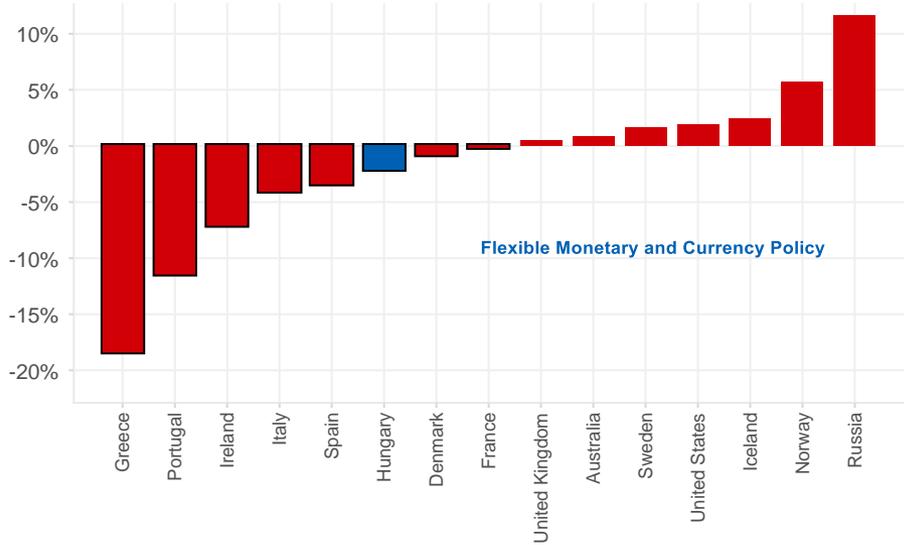
US Monetary Base (% GDP)



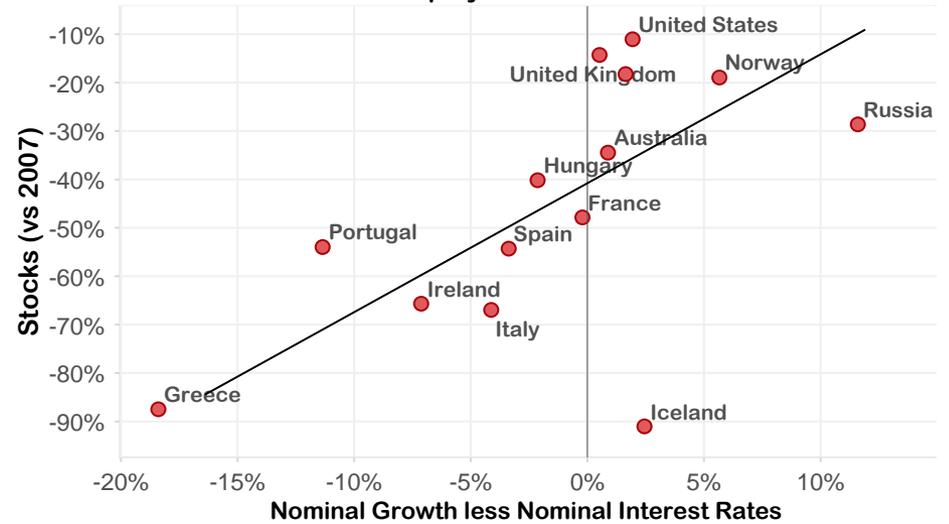
Source: Global Financial Data Inc. and Bridgewater Analysis

BEAUTIFUL & UGLY DELEVERAGINGS AROUND THE GLOBE

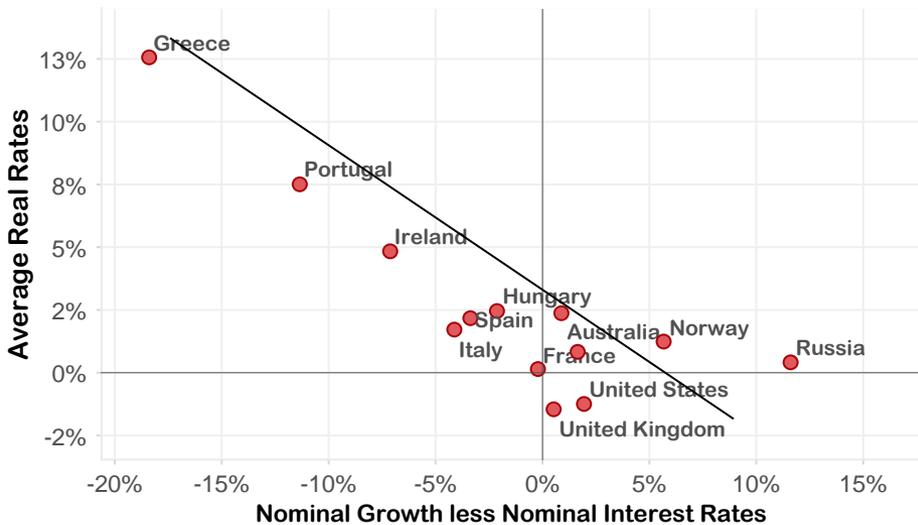
Nominal Growth less Nominal Interest Rates



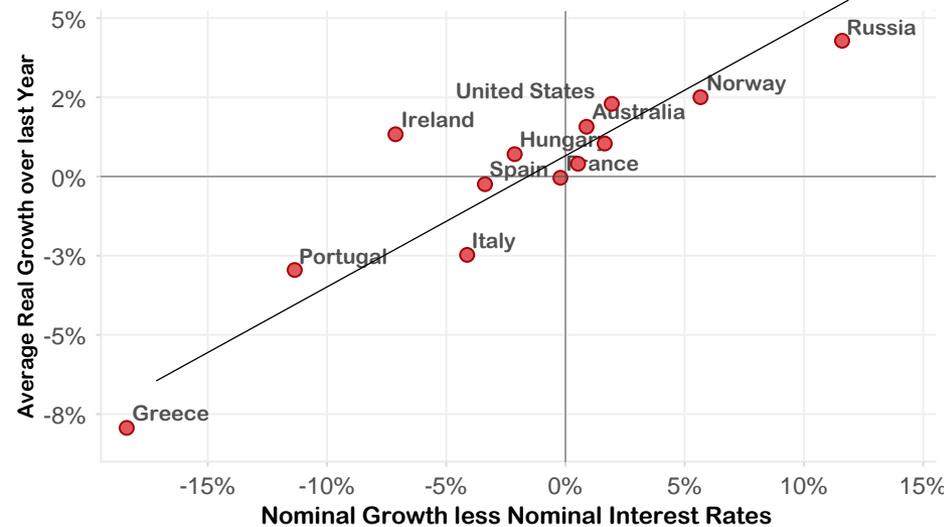
Equity Performance



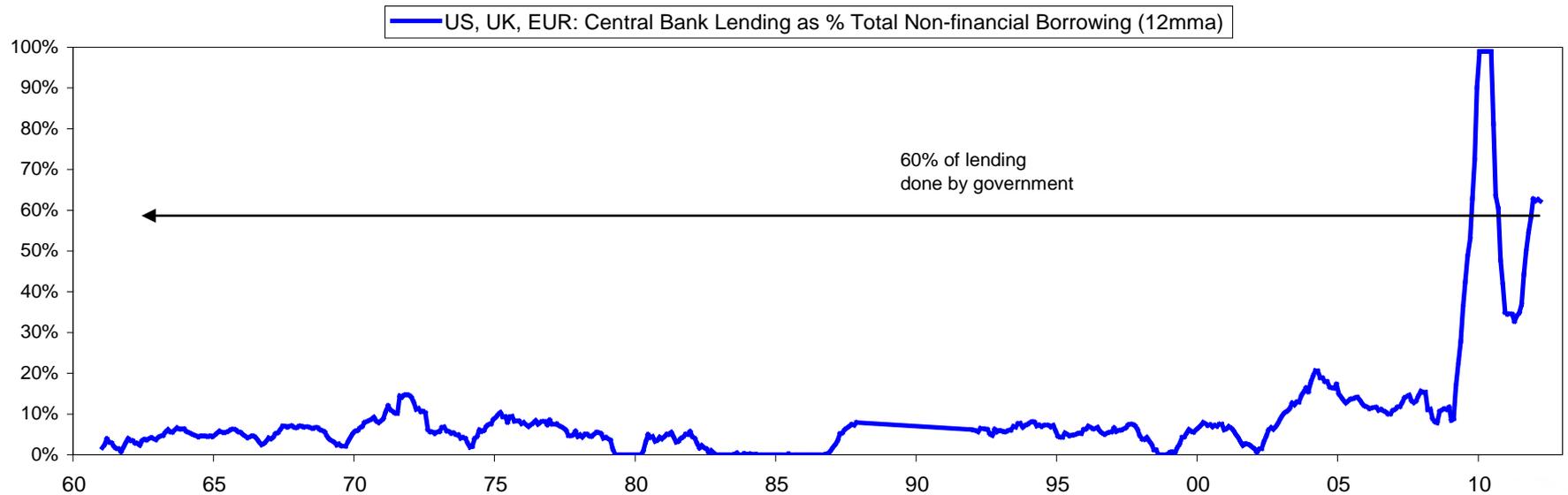
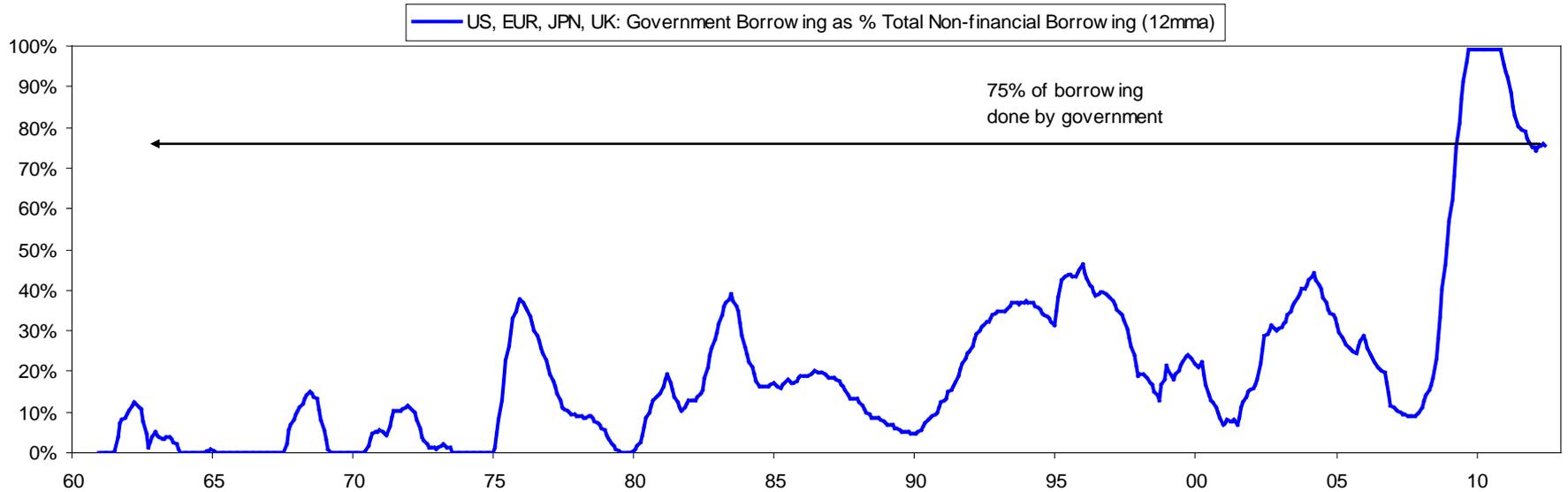
Real Interest Rates



Real Growth

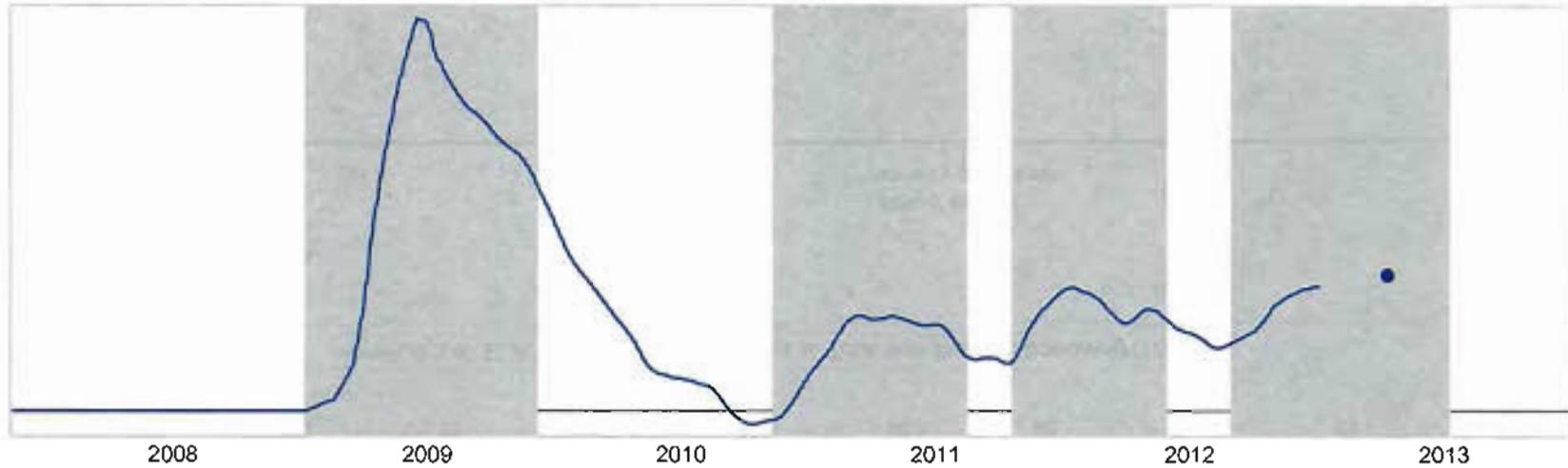


DEVELOPED ECONOMIES DEPENDENT ON GOVERNMENT SUPPORT

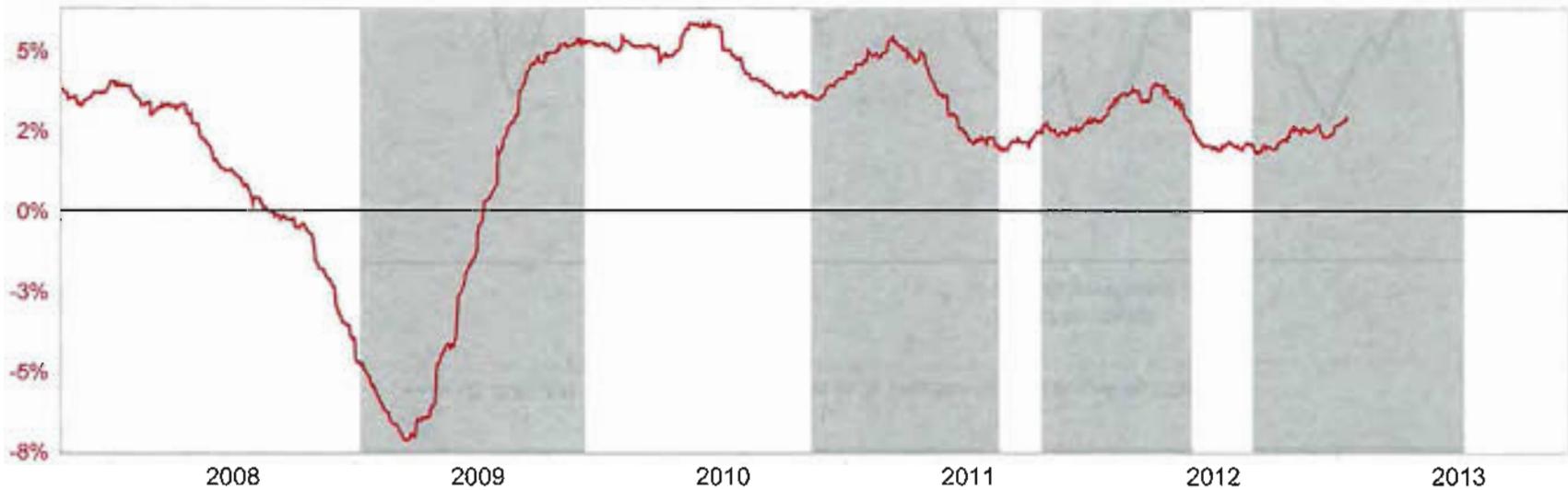


MONETARY STIMULATION PULLED BACK, GROWTH SLOWED, NOW STIMULATING AGAIN

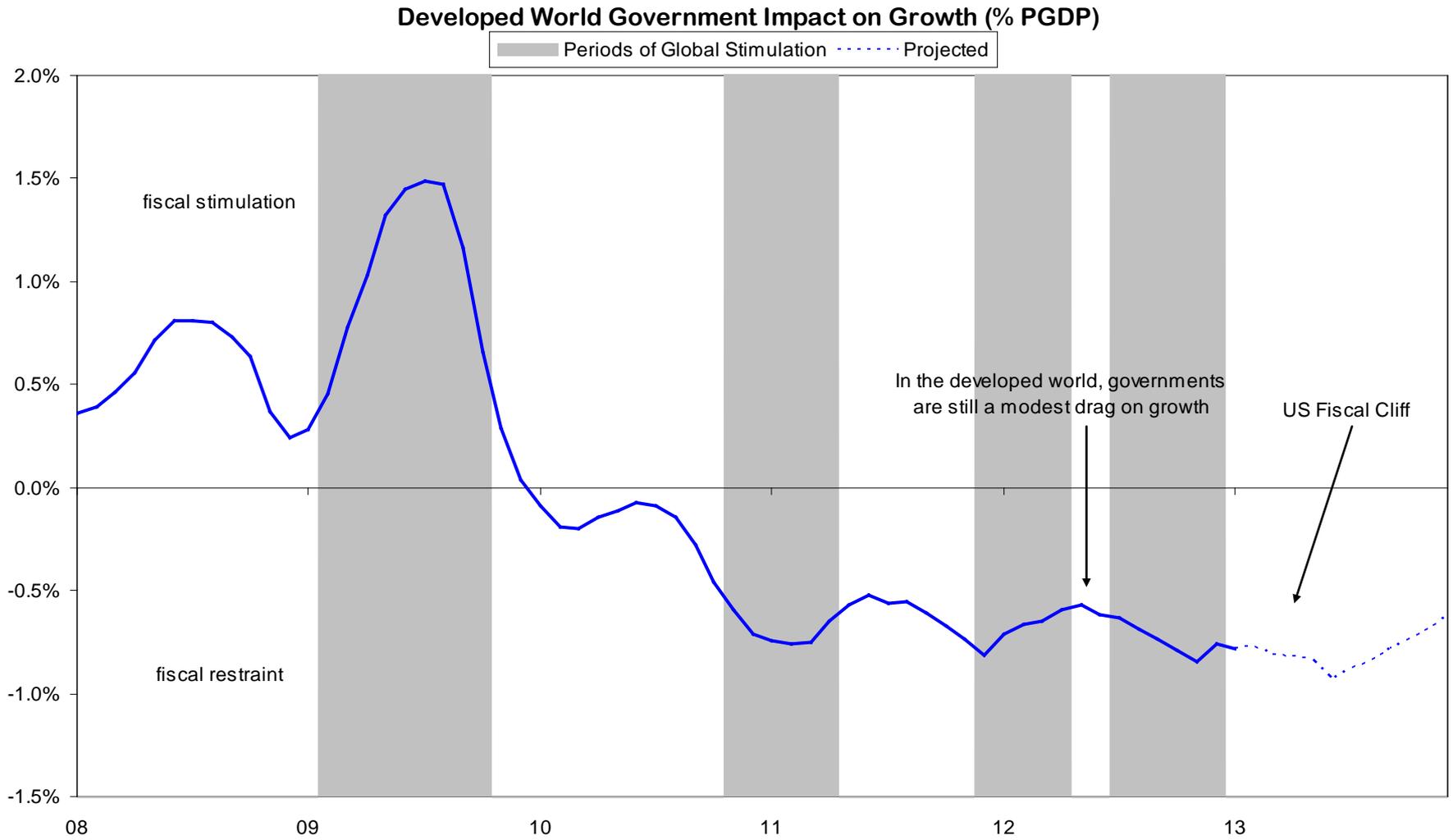
Global Monetary Simulation Gauge



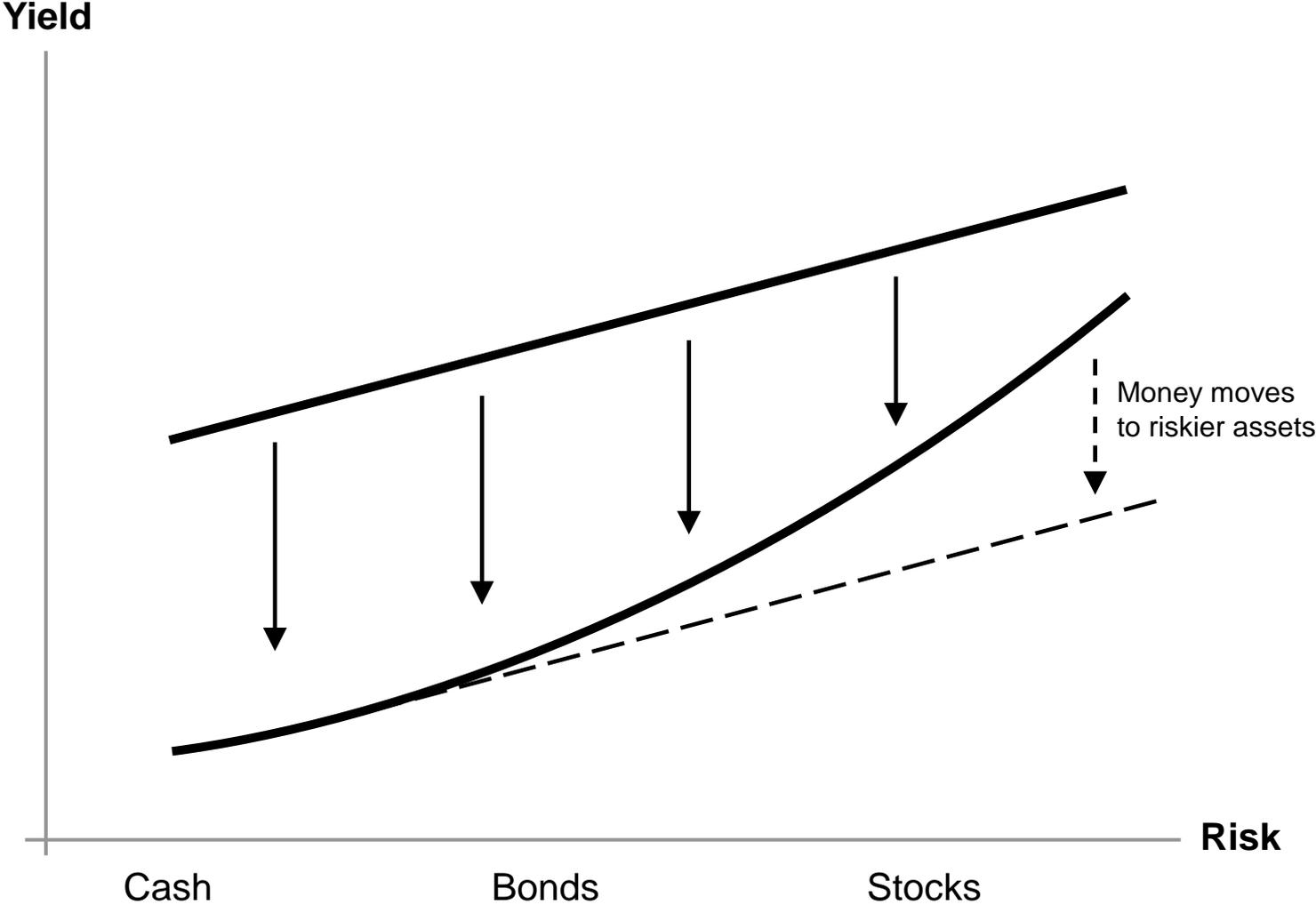
Global Growth



GLOBAL FISCAL TIGHTENING IS A DRAG ON GROWTH

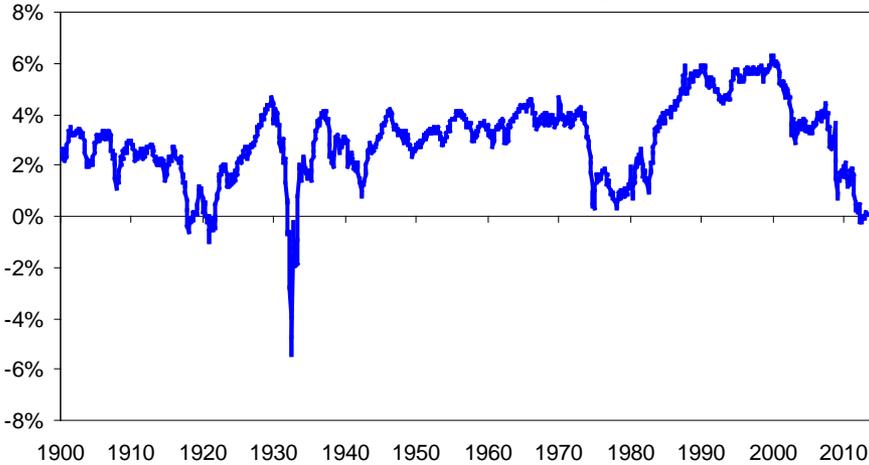


LIQUIDITY IMPACT

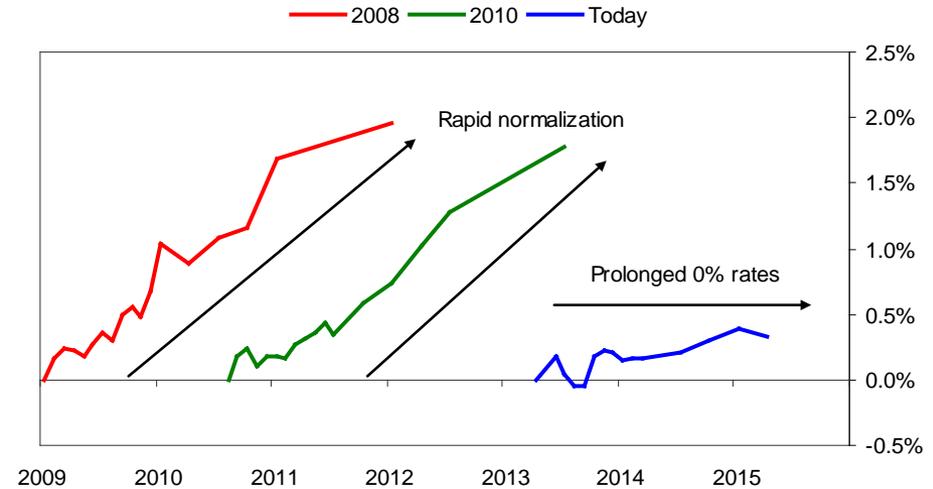


MARKETS ARE NOW DISCOUNTING A PROLONGED DELEVERAGING

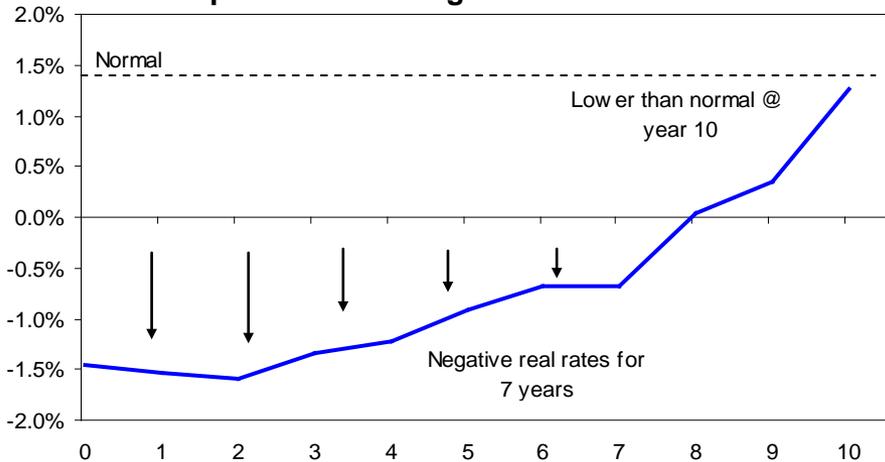
**Developed World Implied Real Earnings Growth
(based on trend earnings)**



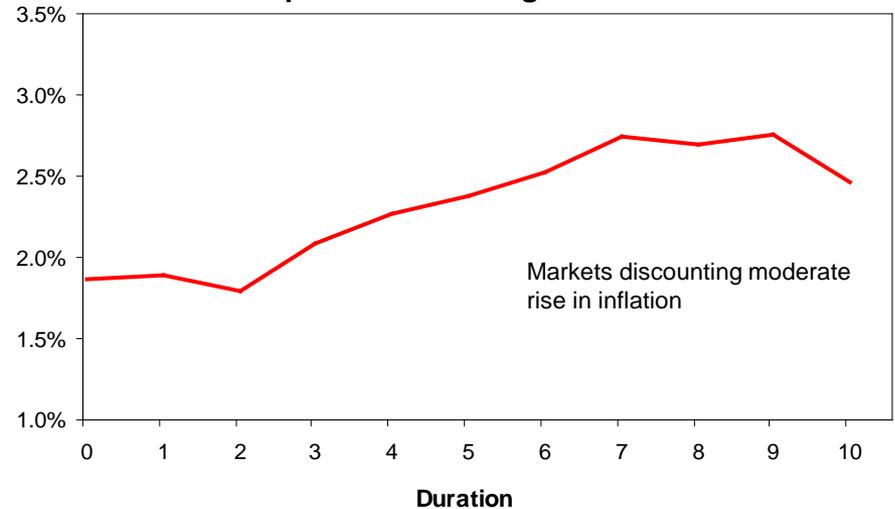
Discounted Path of U.S. Short Rates



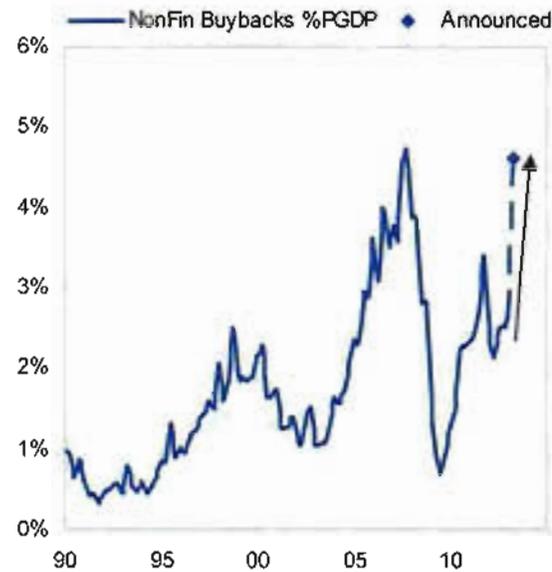
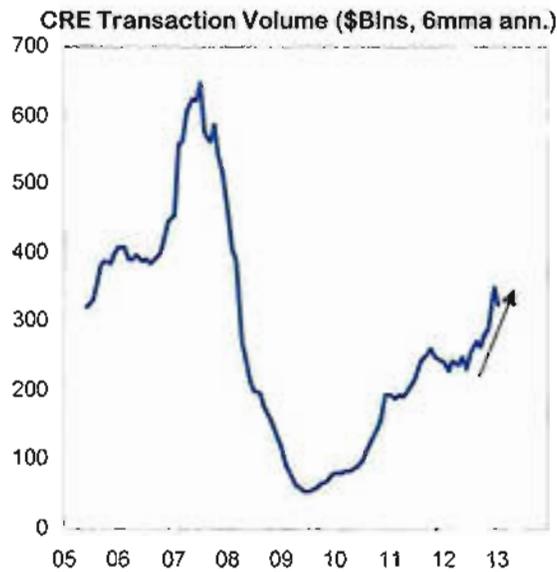
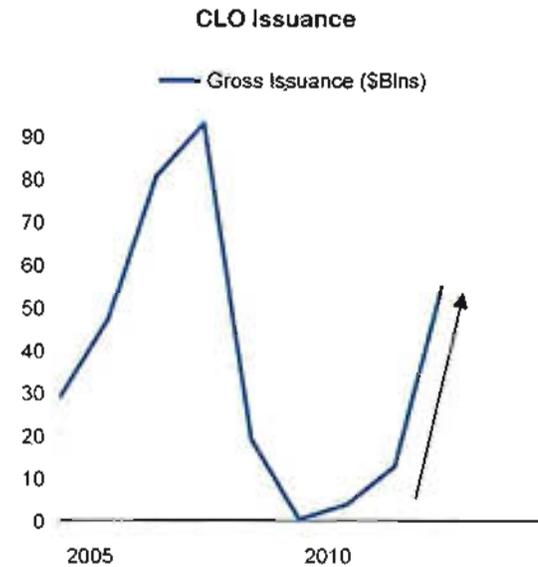
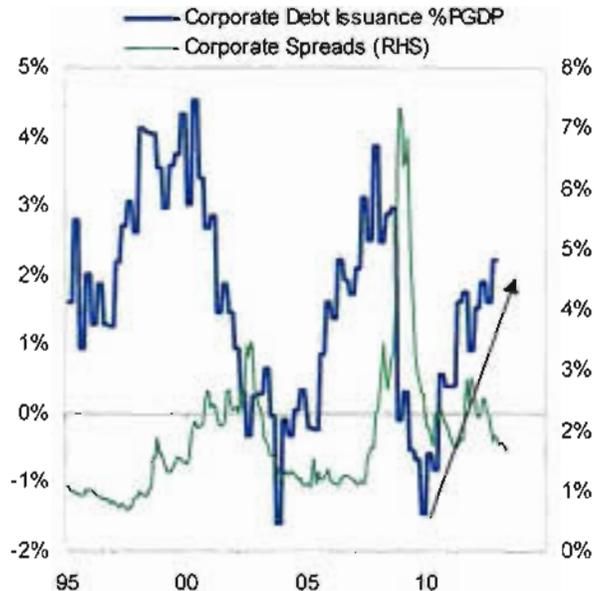
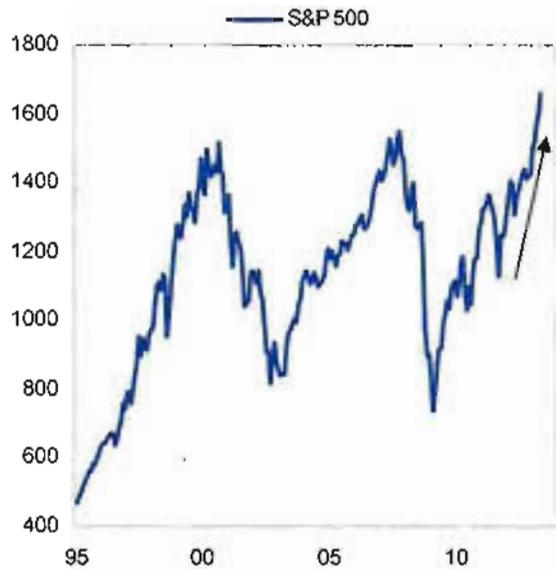
Developed World Pricing of Future Real Short Rates



Developed World Pricing of Future Inflation



US: SIGNS OF MONEY MOVING OUT ON THE RISK CURVE



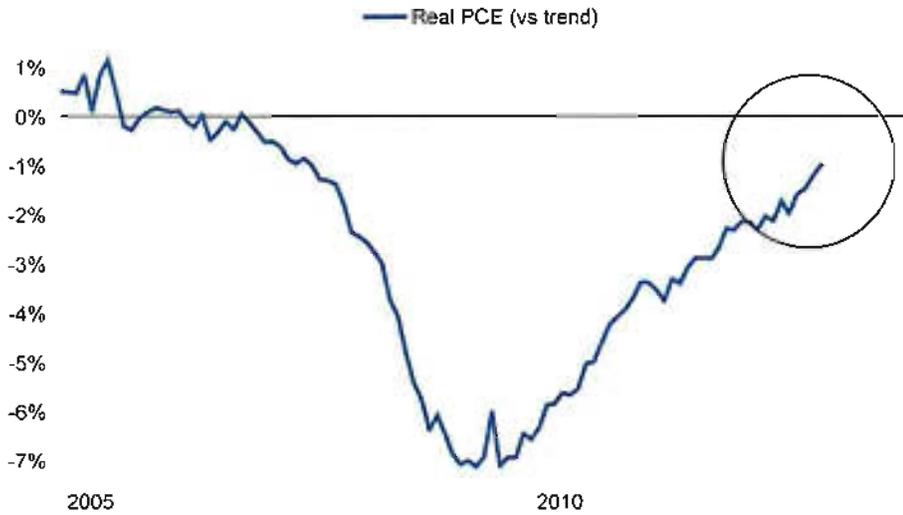
THE HEALING OF THE US CREDIT SYSTEM

Do Conditions Support Credit Expansion? - 2013	Balance Sheet	Income vs. debt service	Credit Pipes	Importance
Household consumer credit	Partial	Yes	Yes	Medium
Household mortgage	No	Yes	Partial	High
Business loans	Yes	Yes	Yes	High
Business commercial paper	Yes	Yes	Yes	Medium
Business bonds	Yes	Yes	Yes	Medium
Commercial real estate	Partial	Partial	Yes	Medium
Federal government bonds	Yes	Yes	Yes	High
State and local government bonds	Yes	Yes	Yes	Low
Bank short term funding	Yes	Yes	Yes	High
Bank bonds	Yes	Yes	Yes	Medium
GSE short term funding	Yes	Yes	Yes	Medium
GSE bonds	Yes	Yes	Yes	High
Other financial short term funding	Yes	Yes	Yes	Medium
Other financial bonds	Yes	Yes	Yes	Medium

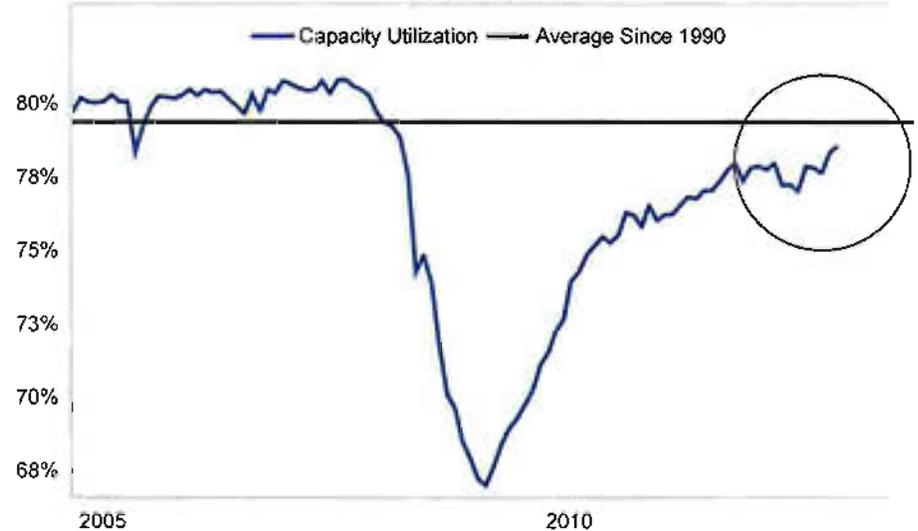
Do Conditions Support Credit Expansion? - 2008	Balance Sheet	Income vs. debt service	Credit Pipes	Importance
Household consumer credit	No	No	No	Medium
Household mortgage	No	No	No	High
Business loans	No	No	No	High
Business commercial paper	Partial	Partial	No	Medium
Business bonds	Partial	Yes	Yes	Medium
Commercial real estate	No	No	No	Medium
Federal government bonds	Yes	Yes	Yes	High
State and local government bonds	Yes	No	No	Low
Bank short term funding	No	No	No	High
Bank bonds	No	No	No	Low
GSE short term funding	No	No	Partial	Medium
GSE bonds	No	No	Partial	High
Other financial short term funding	No	No	No	Medium
Other financial bonds	No	No	No	Medium

GRADUAL NORMALIZATION OF THE US ECONOMY

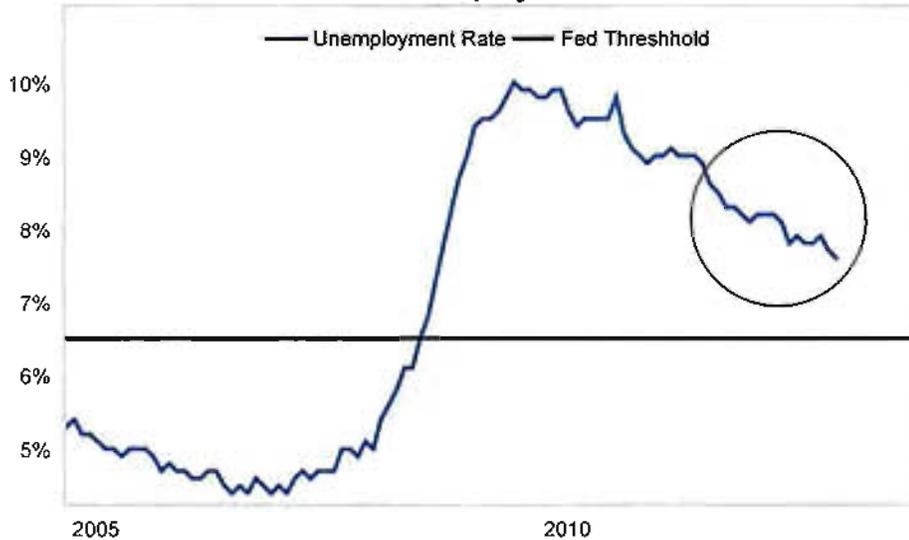
Demand



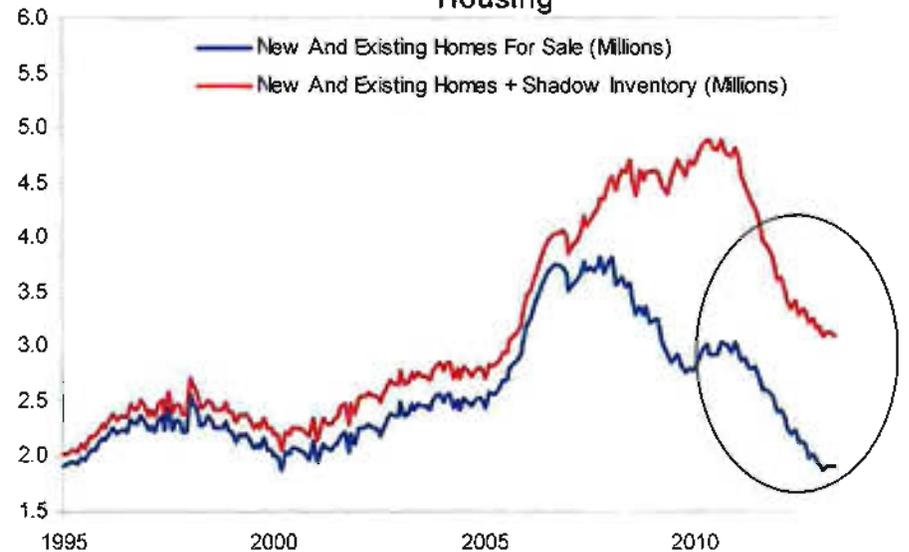
Production



Employment

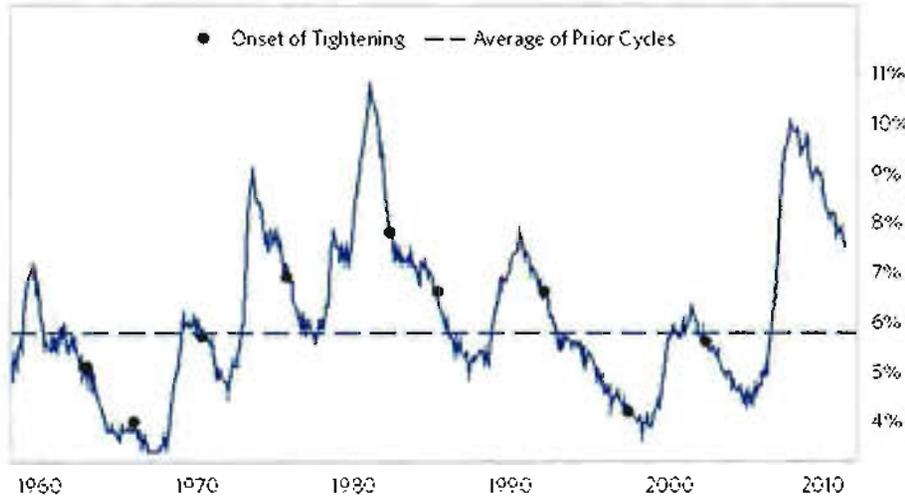


Housing

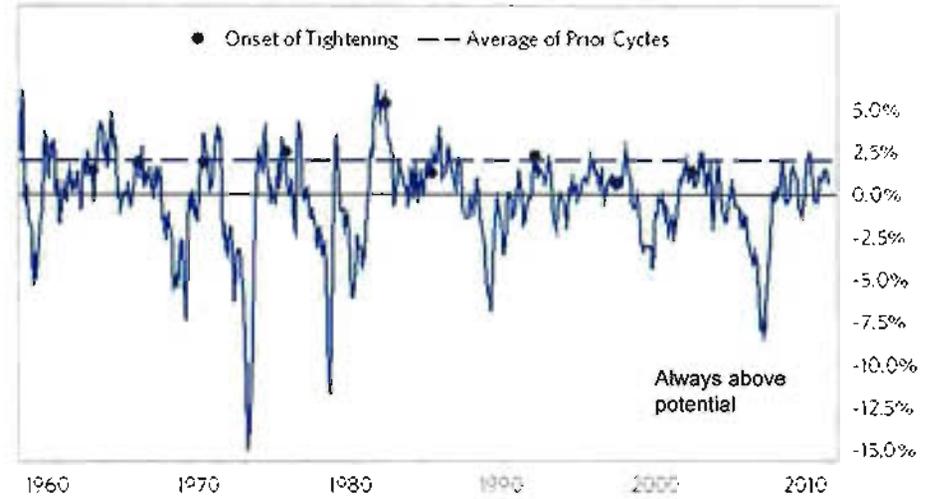


CURRENT CONDITIONS STILL LOOK WEAK RELATIVE TO START OF PREVIOUS TIGHTENINGS

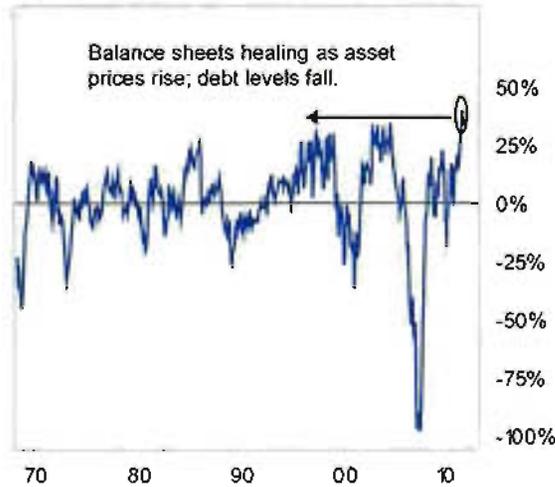
US Unemployment Rate



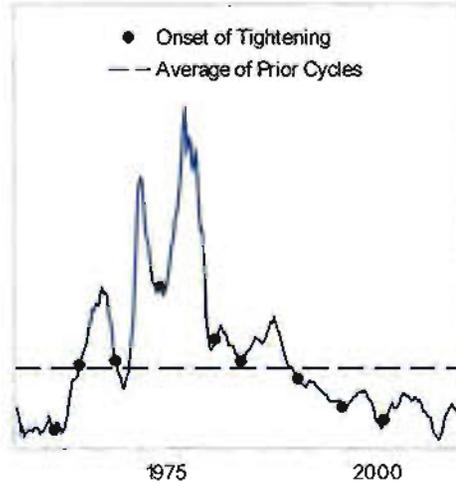
US Growth Relative to Potential



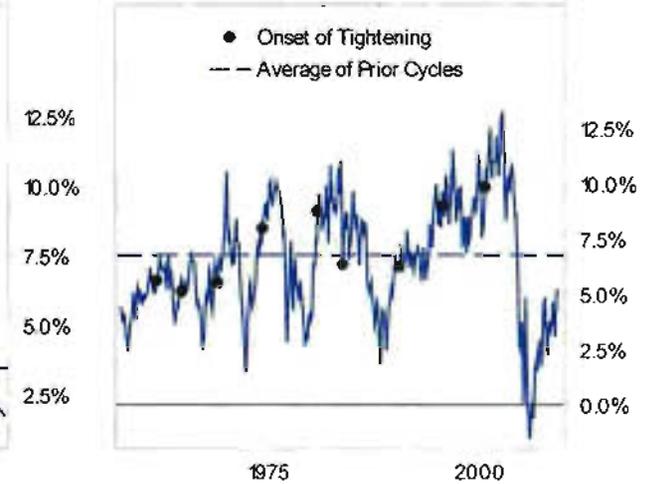
9M Change in US HH Wealth (%GDP, Ann)



US Core Inflation



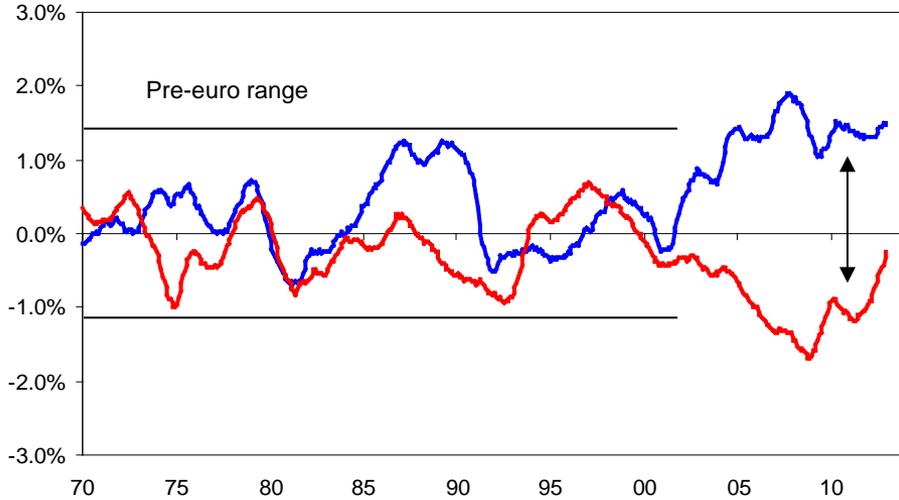
US Private Sector Credit Growth (%GDP)



EUROPEAN IMBALANCES

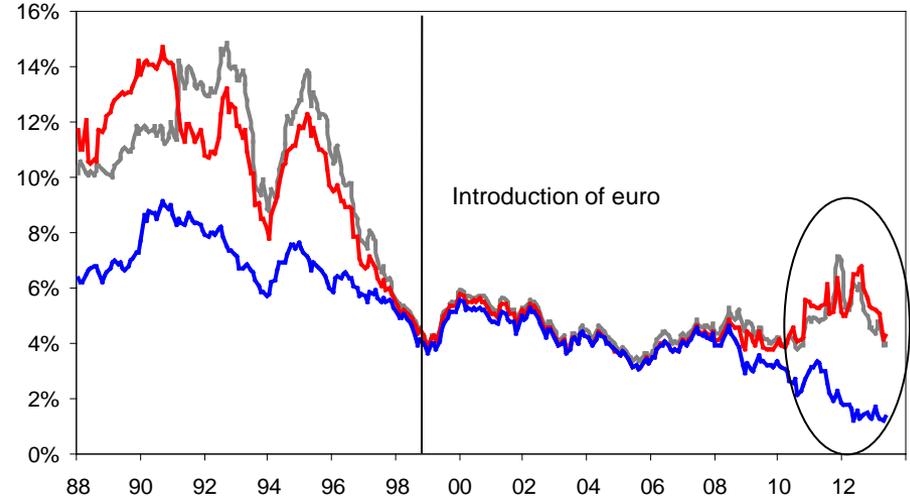
Current Account (%GDP)

— Core — Periphery



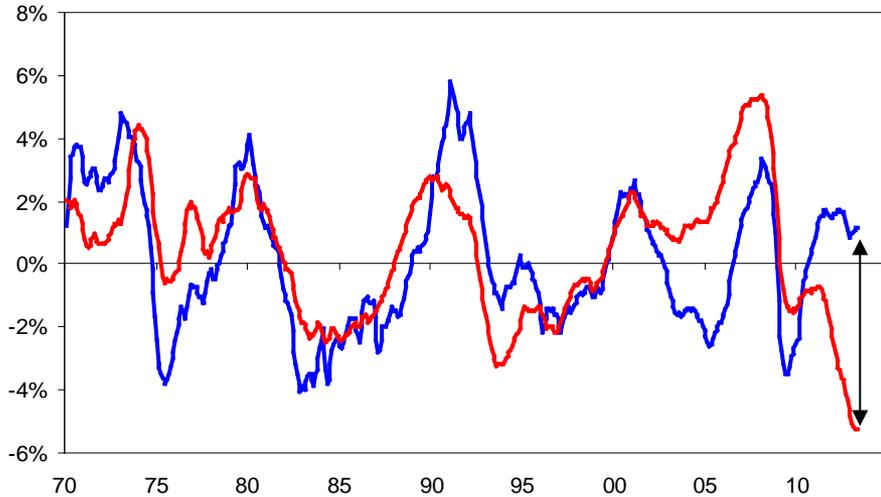
Nominal Bond Yields

— Italy — Spain — Germany



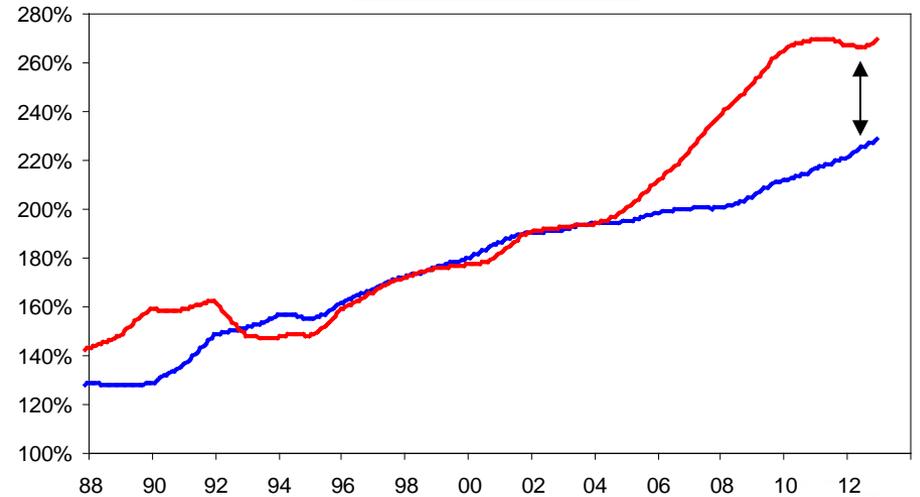
Output vs. Potential

— Germany — Periphery



Euroland Total Nonfinancial Debt %GDP

— Core — Periphery

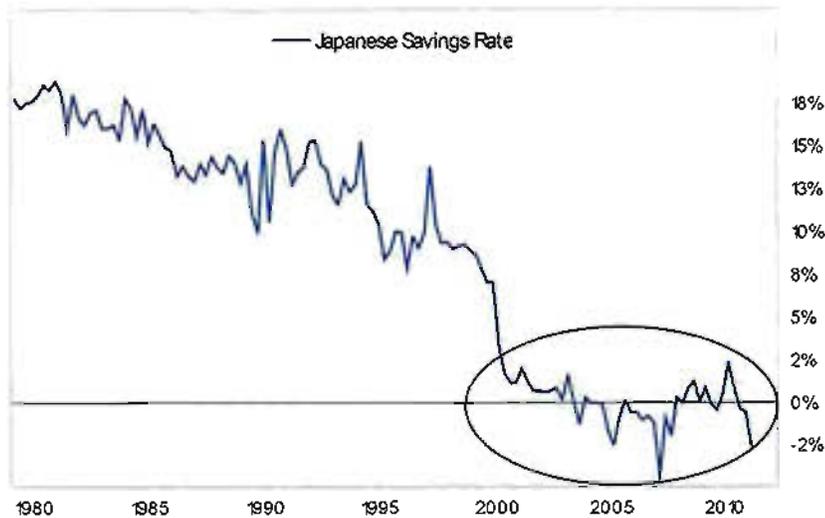
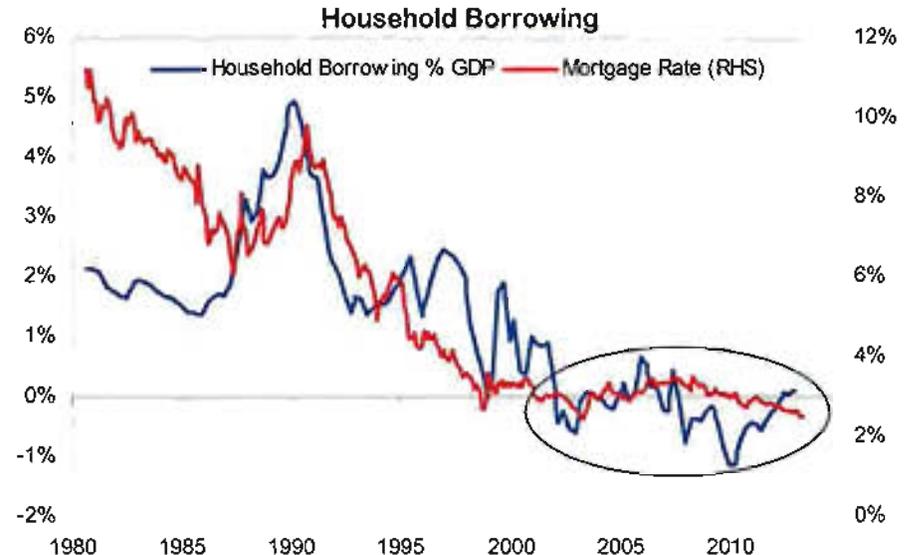


JAPAN: IT WILL BE DIFFICULT FOR THE BOJ TO DIRECTLY STIMULATE JAPANESE HOUSEHOLDS

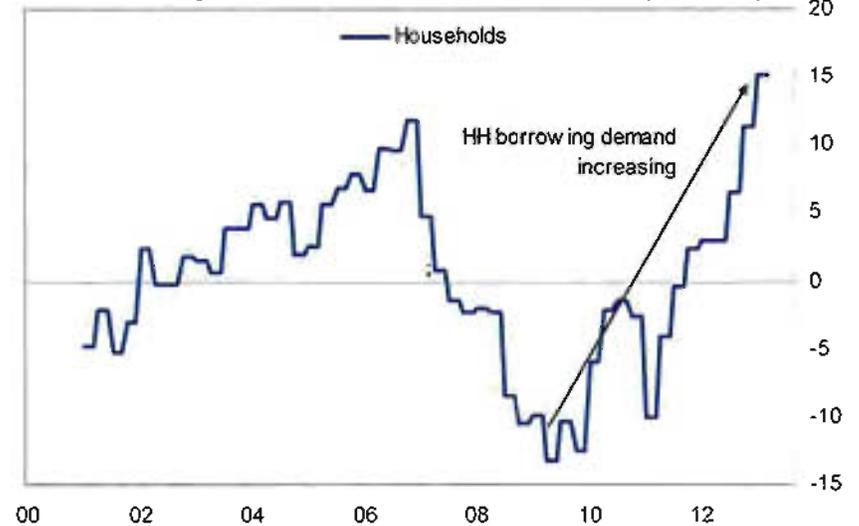
Japanese Household Asset Allocations (Financial Assets)

	US	Euroland	Japan	UK
Stocks	47%	27%	12%	30%
Directly Held	34%	19%	10%	15%
In Mutual Funds & Similar	13%	8%	2%	16%
Bonds	26%	24%	8%	12%
Cash	27%	49%	80%	58%

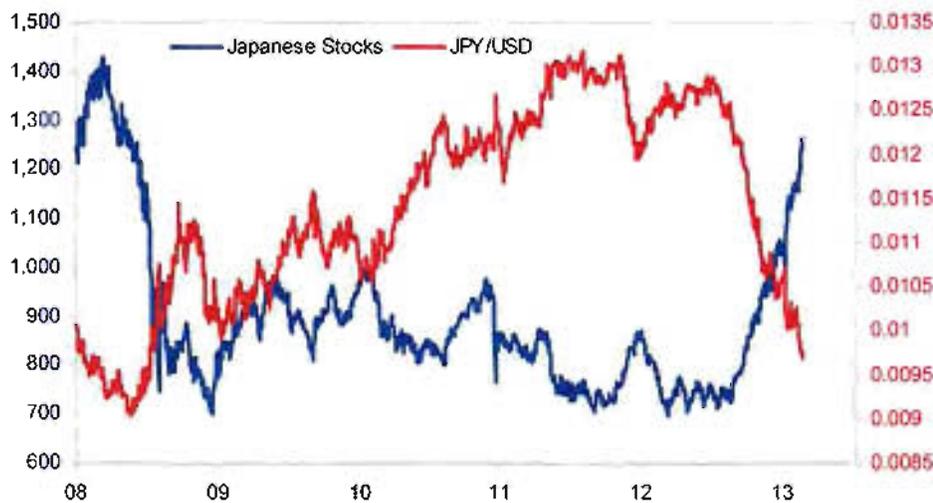
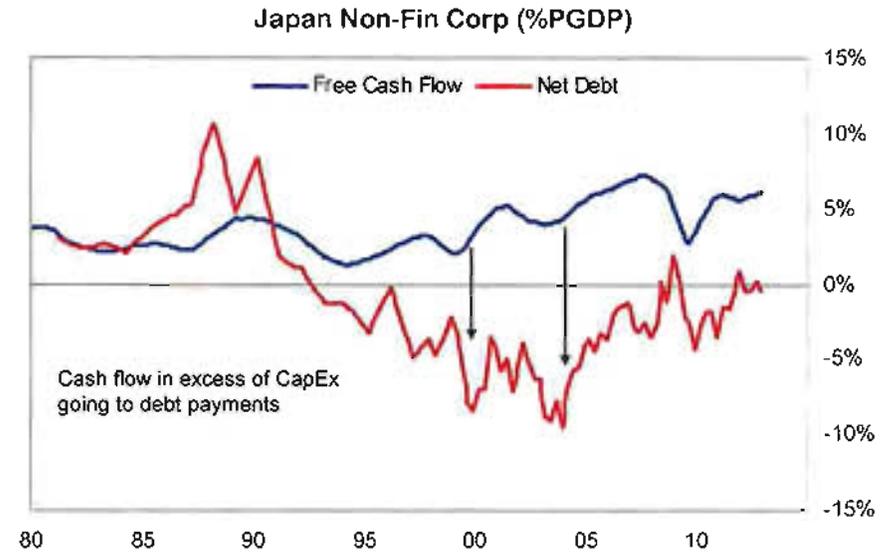
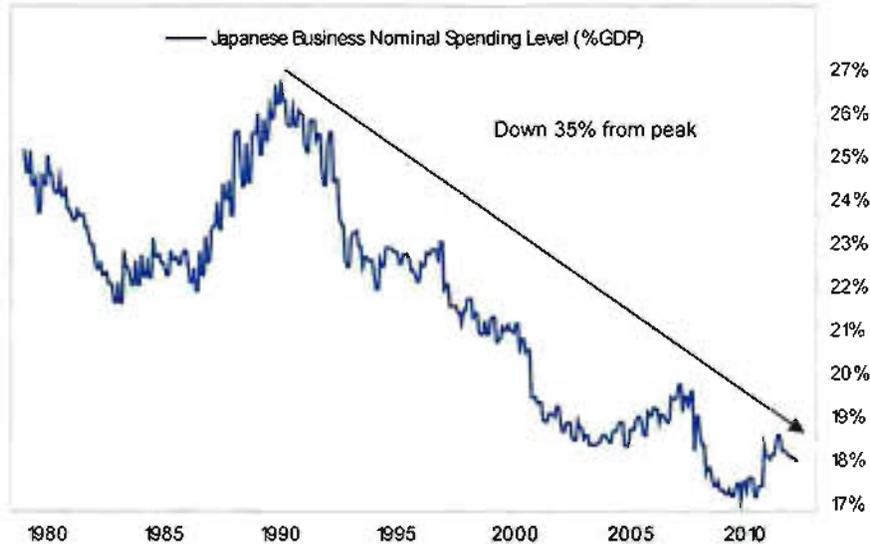
Japanese households hold lots of cash, few risky assets relative to global counterparts



BoJ Survey: Households' Demand For Loans (Next 3m)



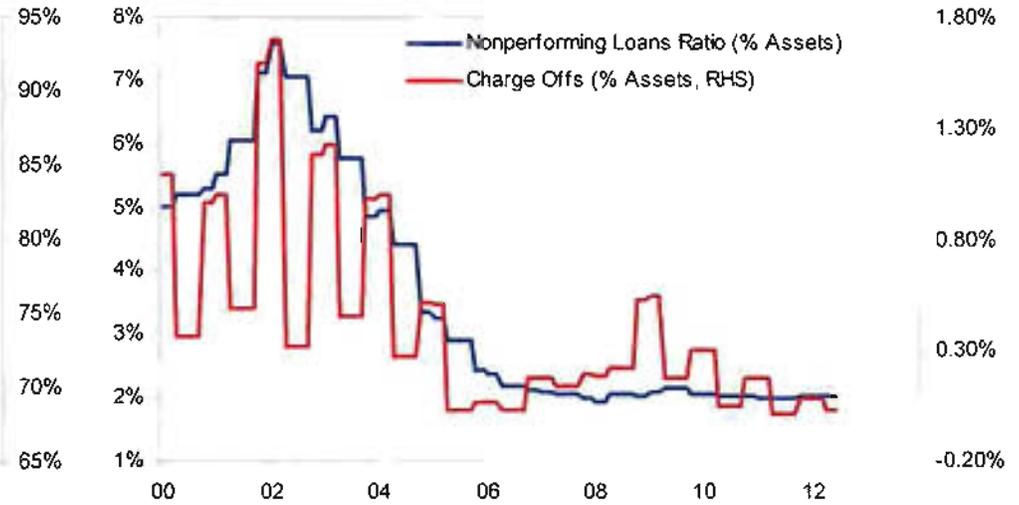
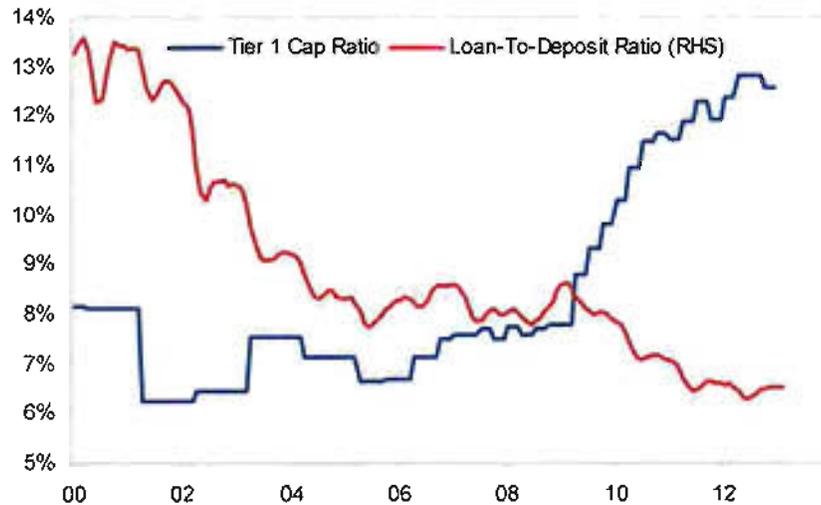
BUSINESSES ARE BECOMING MORE COMPETITIVE AS THE YEN HAS DECLINED



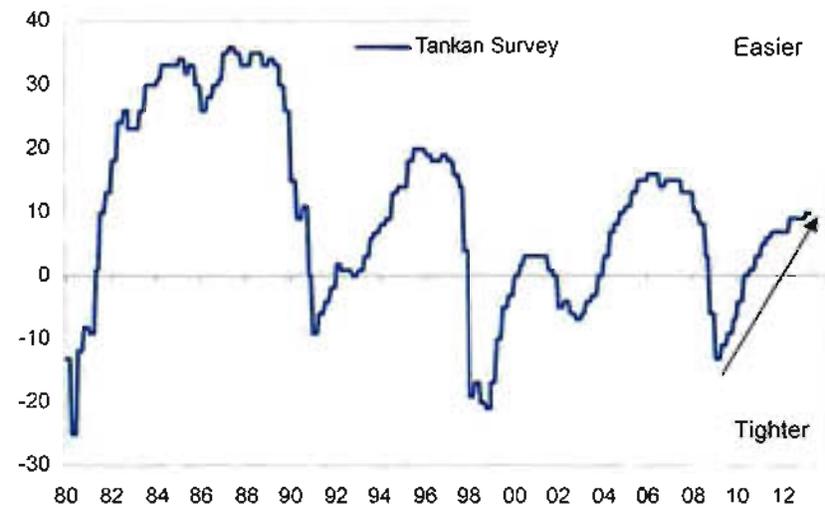
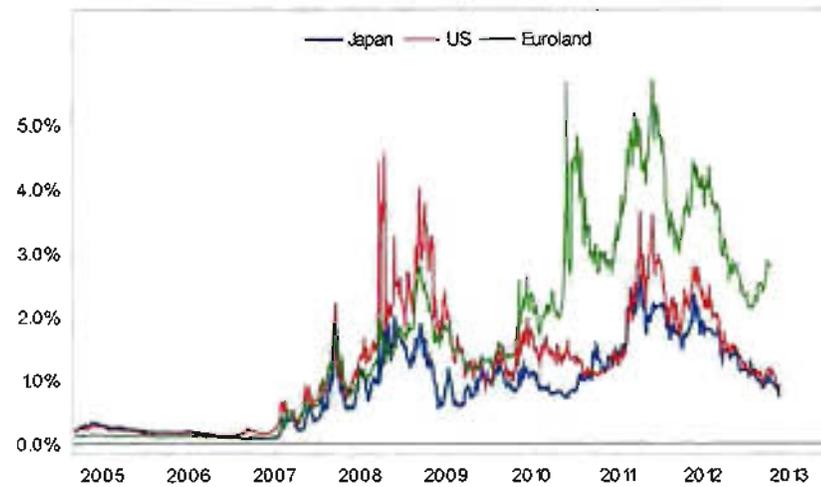
First-Order Impact of Yen on Earnings Since Q3

	Average During Q3 2012	Estimate Based on Yen Level	Impact of Change In Yen*
Wld FX v Yen			28.2%
Sales (¥tns)	540	594	9.9%
Operating Costs (¥tns)	523	571	9.0%
Operating Income (¥tns)	17	23	36.1%
Operating Margins	3.1%	3.9%	0.7%

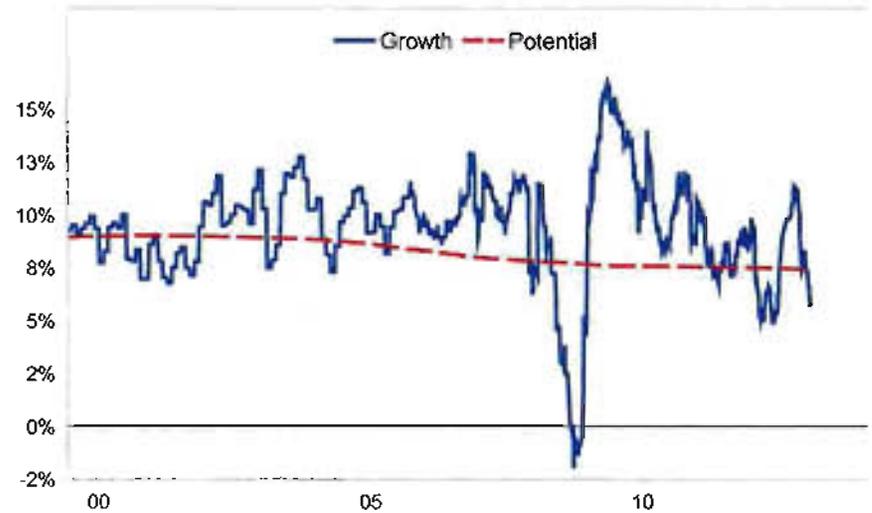
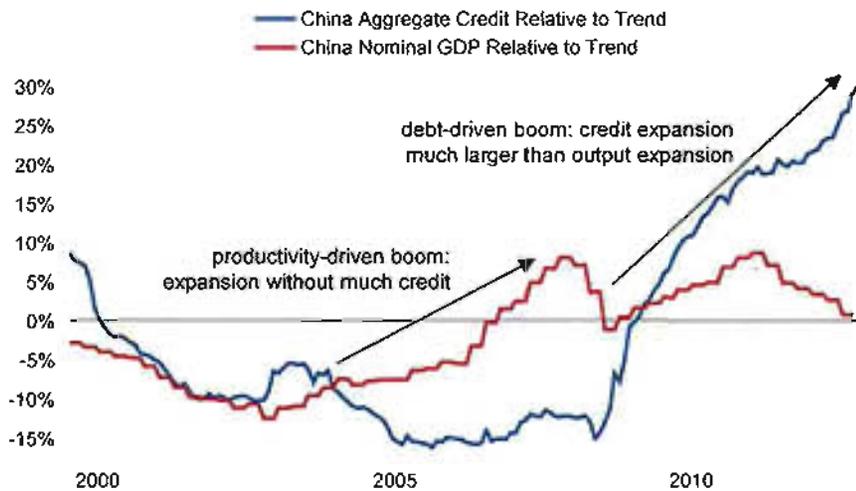
BANKING SYSTEM IS CAPABLE OF SUPPORTING AN EXPANSION OF CREDIT



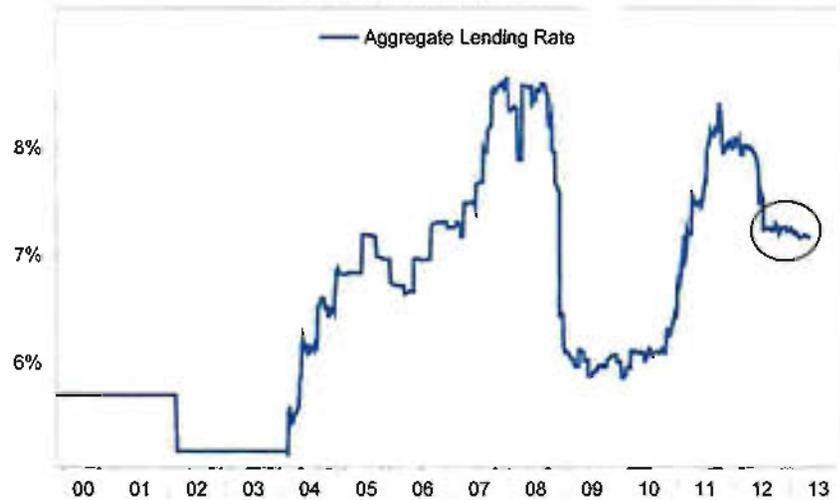
Senior Bank Bond Spreads (5yr)



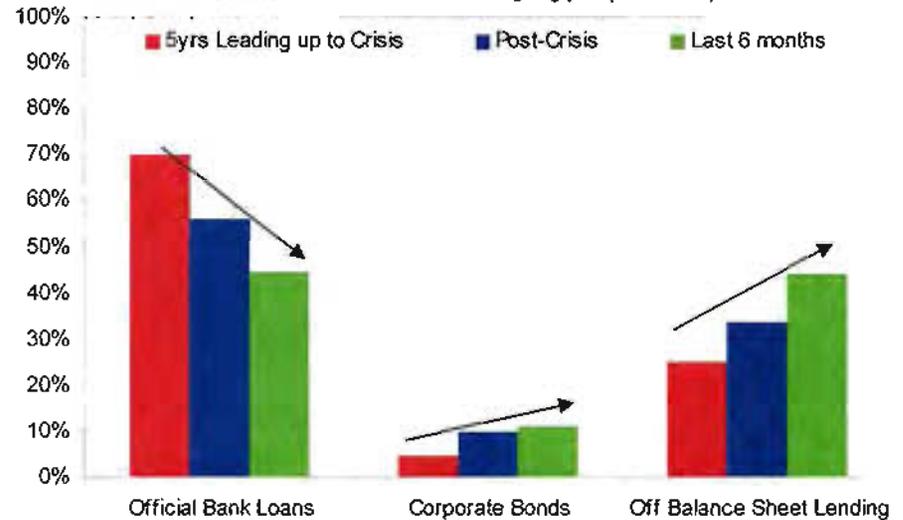
CHINA: HIGH LEVEL OF ACTIVITY DRIVEN BY CREDIT



China Borrowing Rates



China Credit Creation By Type (% Total)



IS THE DEVELOPED WORLD NOW CHEAP AND THE EMERGING WORLD EXPENSIVE?

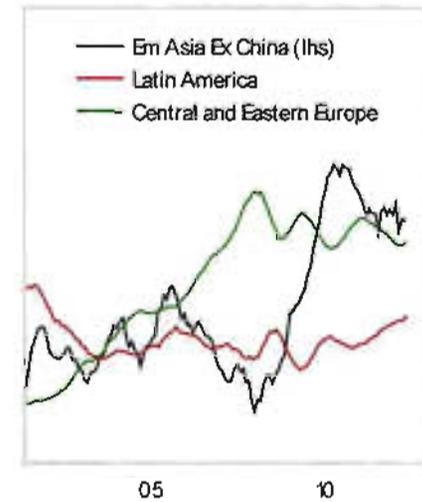
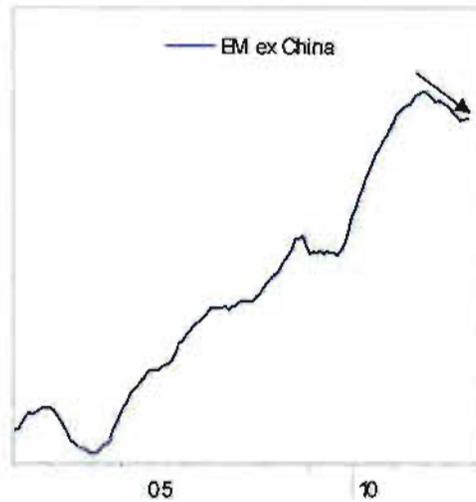
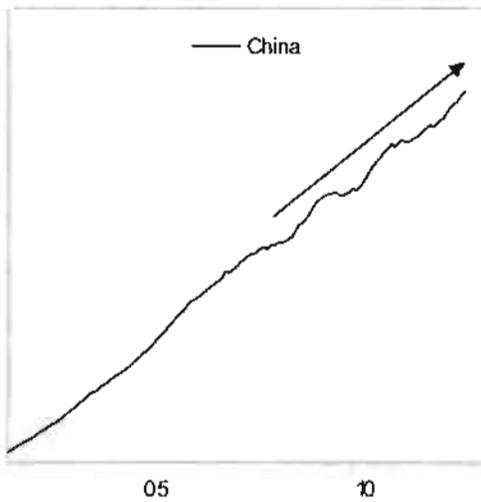
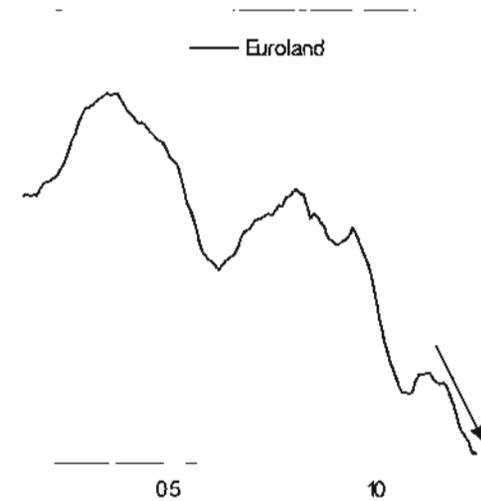
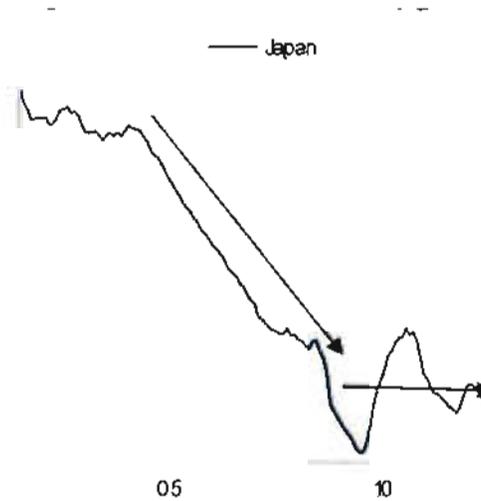
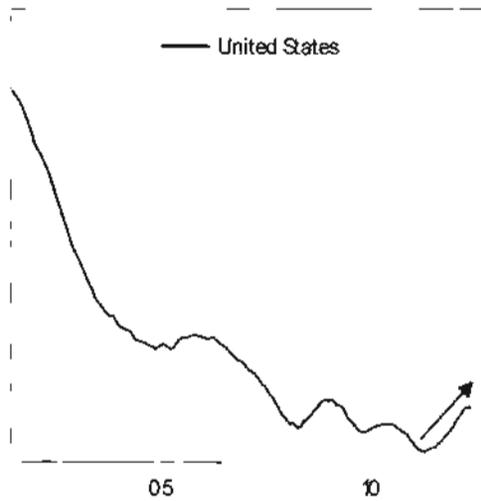
Developed World United Labor Costs (Local FX)



Emerging World United Labor Costs (Local FX)



SHIFTS IN GLOBAL COMPETITIVENESS AND EXPORT MARKET SHARE



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Tab 5E

A P O L L O

*Teacher Retirement System of Texas Board of Trustees Meeting – June 13, 2013
Apollo Overview-Public Session*

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Information contained herein may include information respecting prior investment performance of one or more Funds or investments including gross and/or net internal rates of return ("IRRs"). Information respecting prior performance, while a useful tool in evaluating each Fund's investment activities, is not necessarily indicative of actual results that may be achieved for unrealized investments. The realization of such performance is dependent upon many factors, many of which are beyond the control of Apollo. Further, there can be no assurance that the indicated valuations for unrealized investments accurately reflect the amounts for which the subject investments could be sold. Unless otherwise noted, all IRR amounts described herein are calculated as of the dates indicated. "Gross IRR" of each Fund represents the cumulative investment-related cash flows for all of the investors in the applicable Fund on the basis of the actual timing of investment inflows and outflows (for unrealized investment assuming disposition of the respective "as of" dates referenced) aggregated on a gross basis quarterly, and the return is annualized and compounded before management fees, carried interest and certain other Fund expenses (including interest incurred by the Fund itself) and measures the returns on each Fund's investments as a whole without regard to whether all of the returns would, if distributed, be payable to each Fund's investors. "Net IRR" of a Fund means the Gross IRR applicable to all investors, including related parties which may not pay fees, net of management fees, organizational expenses, transaction costs, and certain other Fund expenses (including interest incurred by the Fund itself); realized and estimated unrealized value is adjusted such that a percentage of up to 20% of the unrealized gain is allocated to the general partner, thereby reducing the balance attributable to Fund investors' carried interest all offset to the extent of interest income, and measures returns based on amounts that, if distributed, would be paid to investors of the Fund to the extent that a Fund exceeds all requirements detailed within the applicable Fund agreement.

References to EBITDA in the attached presentation should not be construed as a substitute for income from operations, net income or cash flow from operating activities (as determined in accordance with GAAP) for the purpose of analyzing operating performance, financial position and cash flows. To the extent applicable, reference is made to the subject portfolio company's publicly available reports and filings with the United States Securities and Exchange Commission.

Investing in a Fund is speculative and involves a substantial degree of risk. Risks include, but are not limited to, the fact that each of the Funds has or may have: limited or no operating history; volatile performance; leverage use; limited liquidity with no secondary market expected and restrictions on transferring interests; high fees and expenses; and a dependence on Apollo, which will have exclusive authority to select and manage a Fund's investments. Prospective investors should carefully consider all risks described in the applicable PPM in determining whether an investment in a Fund is suitable. There can be no assurance that the investment objectives described herein will be achieved. Nothing herein is intended to imply that a Fund's investment methodology may be considered "conservative", "safe", "risk free", or "risk averse". Economic, market and other conditions could also cause a Fund to alter its investment objectives, guidelines and restrictions. Investment losses may occur.

Past performance is not indicative nor a guarantee of future returns.

Certain information contained herein may be "forward-looking" in nature. Due to various risks and uncertainties, actual events or results or the actual performance of a Fund may differ materially from those reflected or contemplated in such forward-looking information. As such, undue reliance should not be placed on such information. Forward-looking statements may be identified by the use of terminology including, but not limited to, "may", "will", "should", "expect", "anticipate", "target", "project", "estimate", "intend", "continue" or "believe" or the negatives thereof or other variations thereon or comparable terminology.

Index performance and yield data are shown for illustrative purposes only and have limitations when used for comparison or for other purposes due to, among other matters, volatility, credit or other factors (such as number and types of securities). It may not be possible to directly invest in one or more of these indices and the holdings of any Apollo Fund may differ markedly from the holdings of any such index in terms of levels of diversification, types of securities or assets represented and other significant factors. Indices are unmanaged, do not charge any fees or expenses, assume reinvestment of income and do not employ special investment techniques such as leveraging or short selling. No such index is indicative of the future results of any Apollo Fund.

Additional information may be available upon request.

Apollo Global Management Overview



Firm Profile	
Founded:	1990
AUM:	~\$114 bn ^(1,2, 3)
Employees:	644 ⁽¹⁾
Offices:	9 Worldwide

Principal Investment Businesses

Private Equity \$39bn AUM ^(1,2)
<ul style="list-style-type: none"> ➤ Distressed buyouts and debt investments ➤ Corporate carve-outs ➤ Opportunistic buyouts

Credit \$64bn AUM ^(1,2)
<ul style="list-style-type: none"> ➤ U.S. Performing Credit ➤ Opportunistic Credit ➤ European Credit ➤ Non-Performing Loans ➤ Structured Credit ➤ Athene

Real Estate \$9bn AUM ^(1,2)
<ul style="list-style-type: none"> ➤ Residential and commercial ➤ Global private equity and distressed debt investments ➤ Performing fixed income (CMBS, CRE Loans)

Key Attributes
➤ <i>Value-oriented</i>
➤ <i>Contrarian approach</i>
➤ <i>Opportunistic across market cycles</i>
➤ <i>Integrated platform across asset classes and geographies</i>
➤ <i>Deep industry knowledge</i>

Global Footprint



(1) As of March 31, 2013. (2) Please refer to the last slide of this presentation for the definition of AUM. (3) Includes \$2.1 billion of commitments that have yet to be deployed to an Apollo Fund within Apollo's three business segments.

Apollo's Size and Reach

- In aggregate, companies in which Apollo's funds have investments significantly surpass the average of the S&P 500 companies
- Apollo portfolio companies in the aggregate have a **global workforce of ~370,000¹**

	Average S&P 500 Company	Apollo Portfolio	Apollo Percentile
Total Enterprise Value	\$31 billion	\$150 billion	97%
LTM Sales	\$21 billion	\$130 billion	98%
LTM EBITDA	\$4 billion	\$19 billion	97%
Employees	47,000	367,167	99%

<i>Largest S&P 500 Companies by Sales</i>		
Rank	Company	LTM Sales
#1	Wal-Mart	\$464 bn
2	Exxon Mobile	426
3	ConocoPhillips	230
4	Chevron Corp.	225
5	Phillips 66	170
6	Apple	157
7	Berkshire Hathaway	156
8	General Electric	142
9	Valero	138
10	Ford Motor	132
11	Apollo Fund Portfolio Companies	130
12	AT&T	127
13	McKesson	123
14	Hewlett-Packard	120
15	CVS	120
...		



Note: S&P 500 Companies based on latest publicly available information and stock prices as of December 4, 2012. Figures reflect aggregate statistics for all unrealized private equity portfolio company investments of the private equity funds managed by Apollo with applicable metrics as of September 30, 2012. Apollo percentile reflects where portfolio companies rank vs. the S&P 500 companies. (1) Data represents employees of Apollo private equity funds' portfolio companies as of December 31, 2012. See last page of this presentation for important notes regarding the use of index comparisons.

Our Private Equity Funds Have Performed Well Over a Long Period of Time

A P O L L O

\$ in millions

As of March 31, 2013

	Committed Capital	Total Invested Capital	Committed Capital Less Unfunded Capital Commitments ⁽¹⁾	Realized	Unrealized ⁽²⁾	Total Value	Gross Multiple ⁽³⁾	Gross IRR ⁽⁴⁾	Net IRR ⁽⁴⁾	Vintage Year Top Quartile ⁽⁵⁾
Fund VII (2008)	\$14,676	\$14,719	\$11,107	\$12,370	\$13,522	\$25,892	2.3x	37%	28%	18%
Fund VI (2006)	\$10,136	\$11,816	\$9,065	\$7,100	\$11,624	\$18,724	2.1x	13%	10%	9%
Fund V (2001)	\$3,742	\$5,192	\$3,742	\$11,627	\$1,263	\$12,890	3.4x	61%	44%	22%
Fund IV (1998)	\$3,600	\$3,481	\$3,600	\$6,767	\$58	\$6,825	1.9x	12%	9%	5%
Fund III (1995)	\$1,500	\$1,499	\$1,500	\$2,654	\$39	\$2,693	1.8x	18%	11%	16%
Fund I, II & MIA (1990/1992)	\$2,220	\$3,773	\$2,220	\$7,924	\$0	\$7,924	3.6x	47%	37%	28%
Total	\$35,874	\$40,480	\$31,234	\$48,442	\$26,506	\$74,948	2.4x	39%	26%	14%

S&P 500 Index⁽⁶⁾:

9%

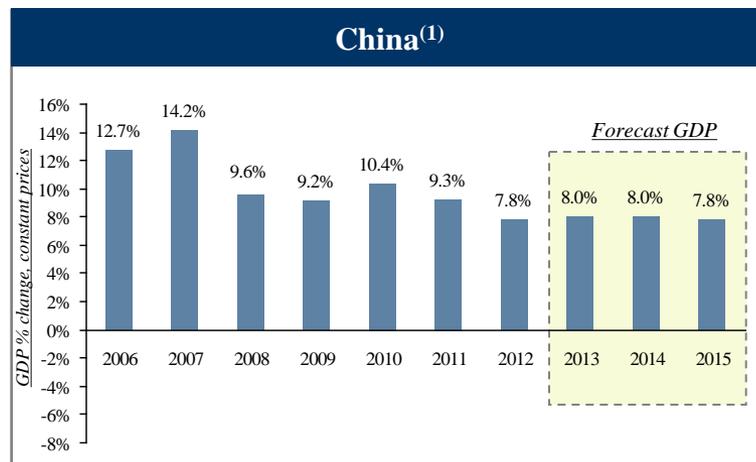
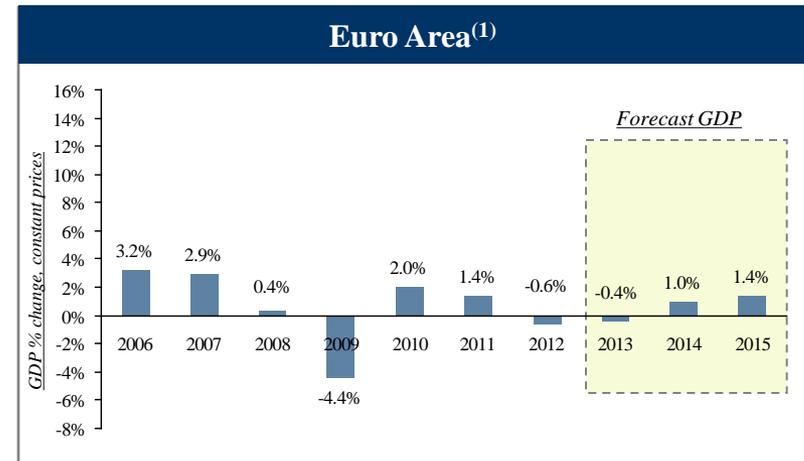
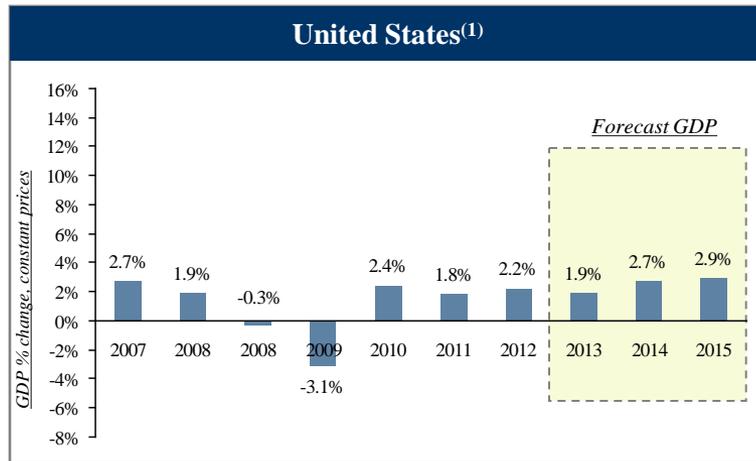
Note: As of March 31, 2013. Past performance is not indicative of future results.

- (1) "Committed Capital Less Unfunded Capital Commitments" represent capital commitments from limited partners to invest in a particular fund less capital that is available for investment or reinvestment subject to the provisions of the applicable limited partnership agreements.
- (2) Figures include the market values, estimated fair value of certain unrealized investments and capital committed to investments.
- (3) Gross Multiple is determined by dividing Total Value by Committed Capital Less Unfunded Capital Commitments.
- (4) See important information regarding IRRs on page 2.
- (5) Thomson Reuters. Data as of December 31, 2012, the latest data currently available. Vintage Year Top Quartile represents the Upper Quartile Net IRRs for U.S. Buyout Funds of greater than \$500 million by vintage year, unless otherwise noted.
- (6) As of March 31, 2013. See the last page for "Important Notes Regarding the Use of Index Comparisons."

What do we think is happening?

General Consensus is that Growth Will Be Muted

- Developed economies continue to experience low growth rates, while growth in emerging markets, such as China, has softened



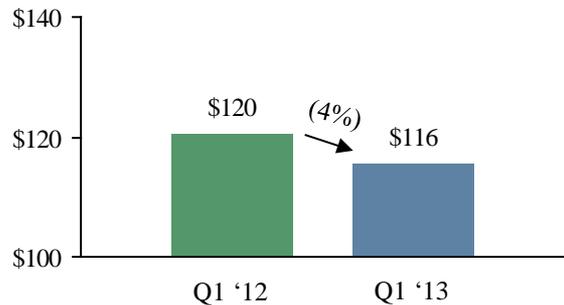
(1) Source: Bloomberg as of March 31, 2013.

Fundamentals Remain Soft

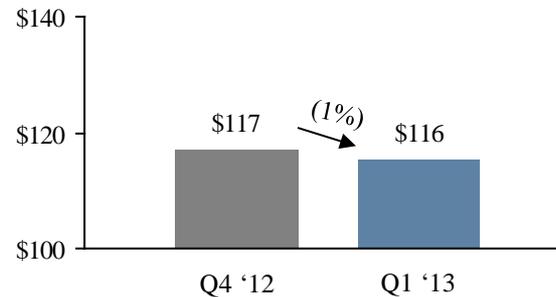
(\$ in millions)

Revenue

Year over Year

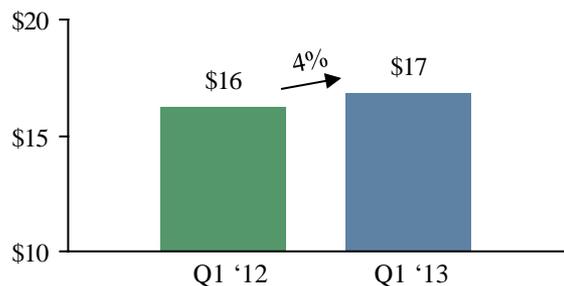


Quarter over Quarter

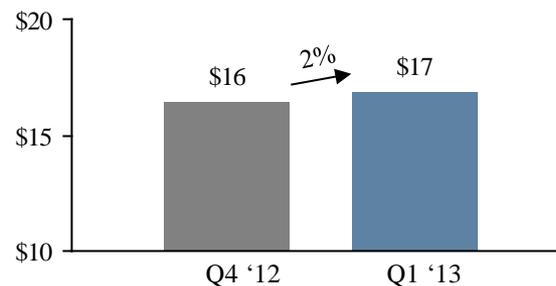


EBITDA

Year over Year

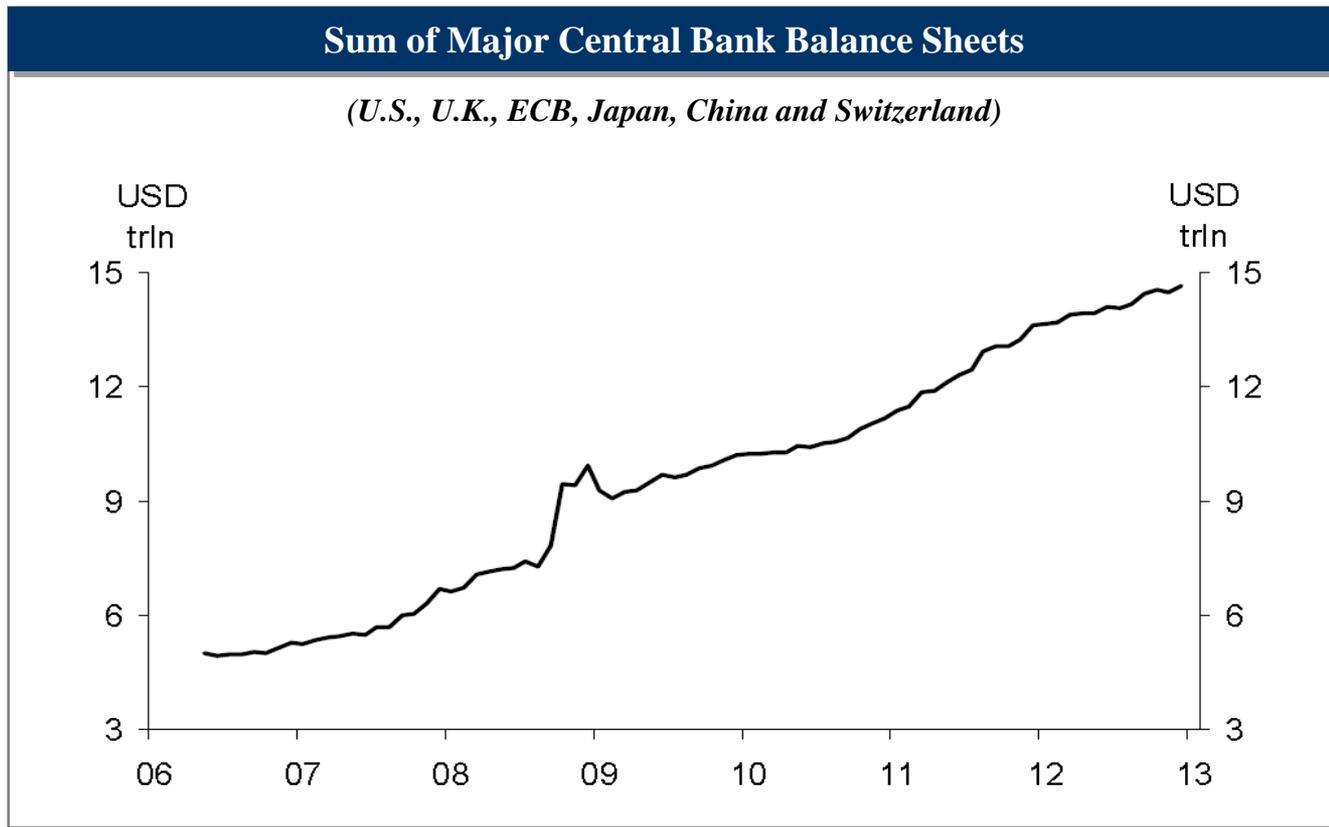


Quarter over Quarter



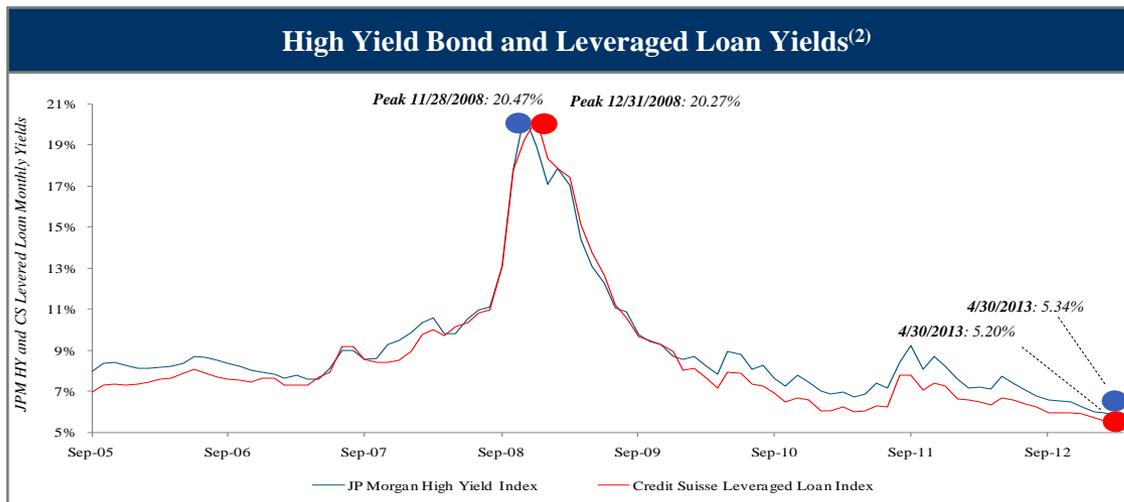
■ LTM Q1 2012
 ■ LTM Q4 2012
 ■ LTM Q1 2013

Global Monetary Easing Fueling Increase in Asset Prices



Major Central Banks Have Printed ~\$10 Trillion Since 2007

Stock Markets are Close to All-Time Highs; Levered Credit at All-Time Low Yields



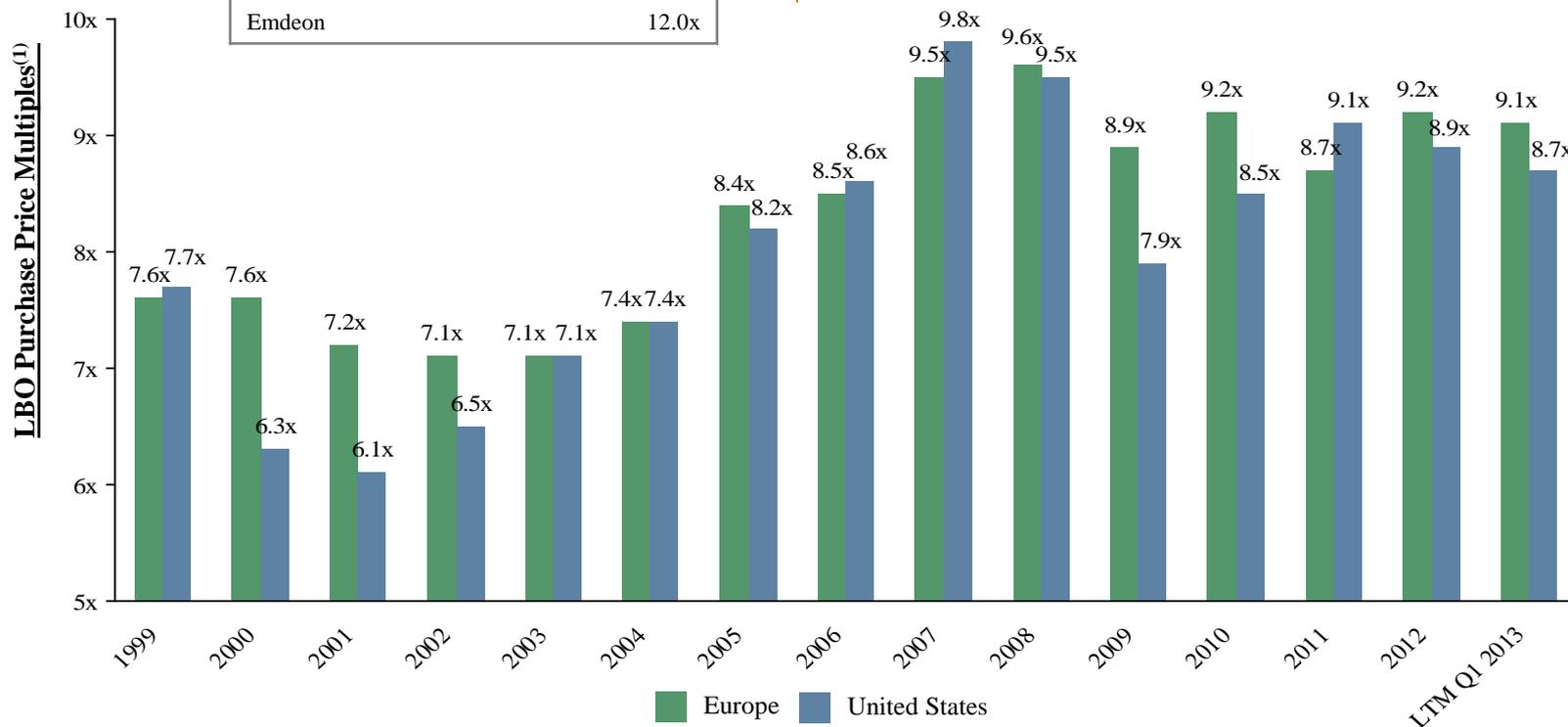
(1) Source: Yahoo Finance. As of May 1, 2013.
 (2) Source: Bloomberg. As of May 1, 2013.

Private Equity Valuations Remain High

Private Equity Valuations in the U.S. and Europe

Select LBOs: 2011 – 2013 ⁽²⁾	
DuPont Performance Coatings ⁽³⁾	8.9x
Heinz	13.7x
Chesapeake Midstream Partners	14.9x
Pharmaceutical Product Development	10.6x
TransUnion	9.4x
Emdeon	12.0x

Average purchase price 2006 – LTM 2013
Europe: 9.1x
United States: 8.9x



(1) Source: Standard & Poor's LCD's Global Leverage Lending Report – 1Q '13. Represents average purchase price multiples of pro forma LTM EBITDA of €/\$50mm or more.

(2) Source: SDC, Prequin and Bank of America Merrill Lynch.

(3) Source: Based on Management's estimate of LTM EBITDA at the time of transaction.

How Do You Invest In This Environment?

Maintain Value Discipline

We Consistently Trade Complexity For Value...

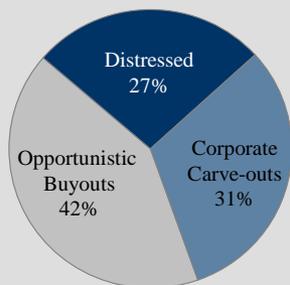
Fund V

Vintage: 2001
Total Commitments: \$3.7 bn

Average Entry Multiple



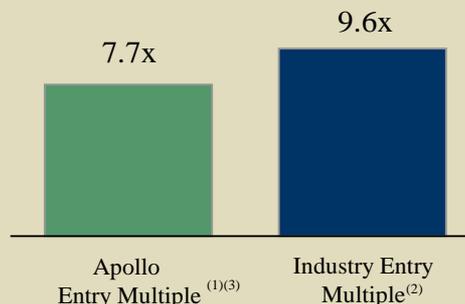
Composition



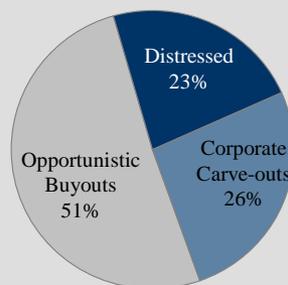
Fund VI

Vintage: 2006
Total Commitments: \$10.1 bn

Average Entry Multiple



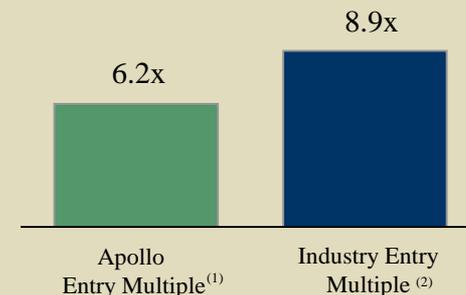
Composition



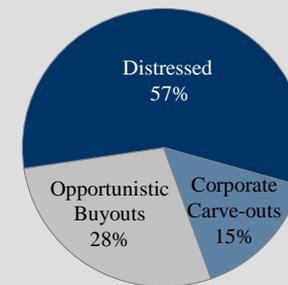
Fund VII

Vintage: 2008
Total Commitments: \$14.7 bn

Average Entry Multiple



Composition



Note: As of March 31, 2013. Composition of pie charts is based on Total Invested Capital as per our initial investment strategy at time of acquisition. Distressed investments include Credit and Distressed Buyouts. Past performance is not indicative of future results.

(1) The average entry multiple is the average of the total enterprise value over an applicable EBITDA. Average entry multiples may incorporate pro forma or other adjustments based on investment team's estimates and/or calculations.

(2) Source: S&P LCD database.

(3) Where Fund VI invested in the equity and debt of a portfolio company, a capital weighted average creation multiple was used.

...And Continue to Find Attractive Value-Oriented Opportunities

Invested Capital Per Year Across Apollo's Private Equity Funds

(\$ in billions)



*If the bar for investing is high...
then the time is ripe for exit*

Apollo Funds Have Been Active in Generating Realizations

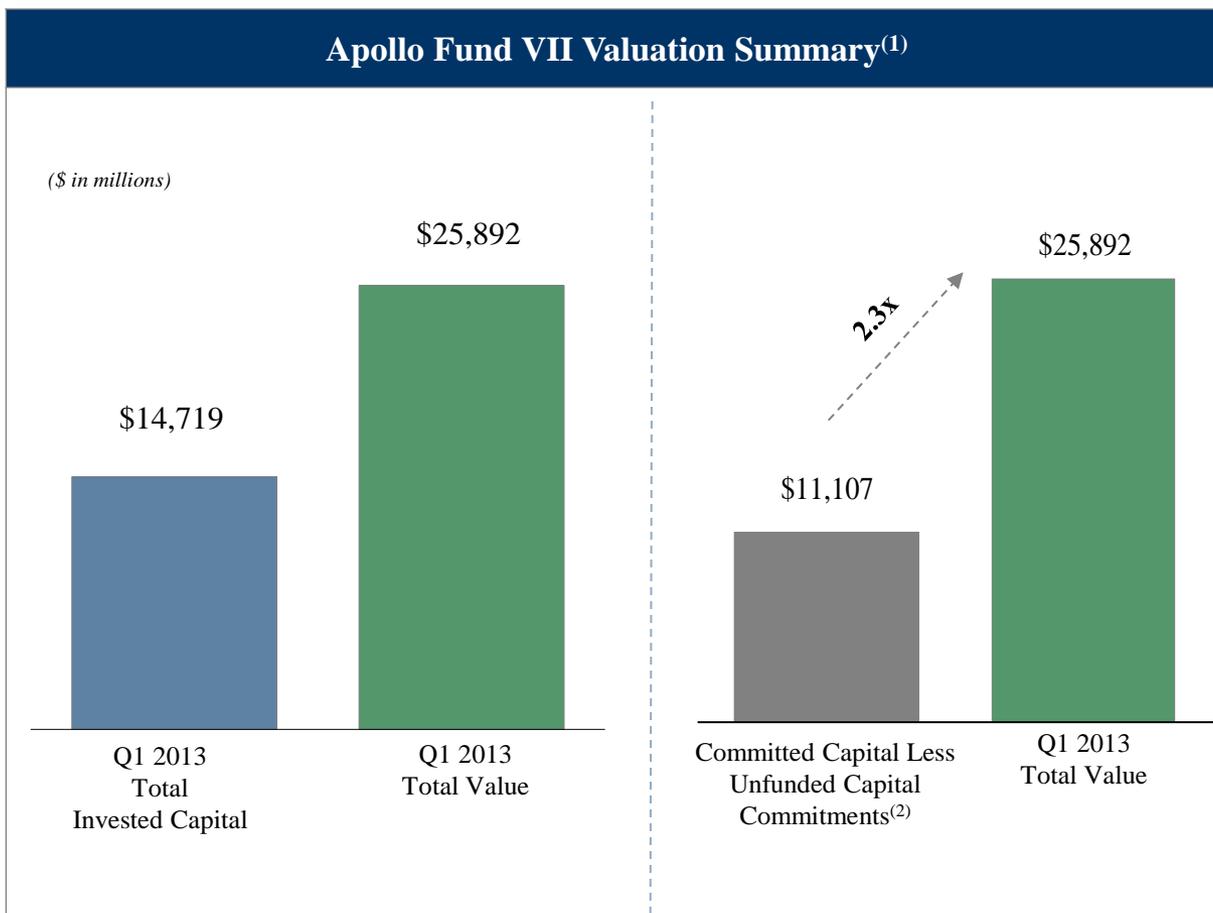
➤ Apollo's Private Equity Funds have realized approximately **\$13 billion of proceeds** over the last 16 months

	Public Market Monetization	Interest / Other	Sales to Strategic and Financial Sponsors	Dividends / Recaps
Dollars Realized	\$6.3 billion	\$3.1 billion	\$2.4 billion	\$1.6 billion
% of Total Proceeds	47%	23%	18%	12%
Portfolio Companies				

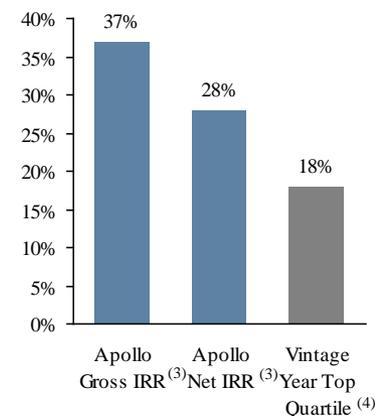
Note: As of May 1, 2013. Examples represent all realization events within Apollo's private equity funds V, VI and VII that are of the respective transaction types outlined and includes companies which are no longer currently held in any Apollo portfolio. Apollo believes the categorization of each investment realization to be accurate, but there can be no assurance as to the accuracy of such classification nor the methodology with which Apollo made such categorization determinations.

Apollo Fund VII Overview as of March 31, 2013

Apollo Fund VII Valuation Summary⁽¹⁾



Performance



TRS committed \$750 million to Fund VII, and Fund VII is one of the best performing funds in the TRS Trust

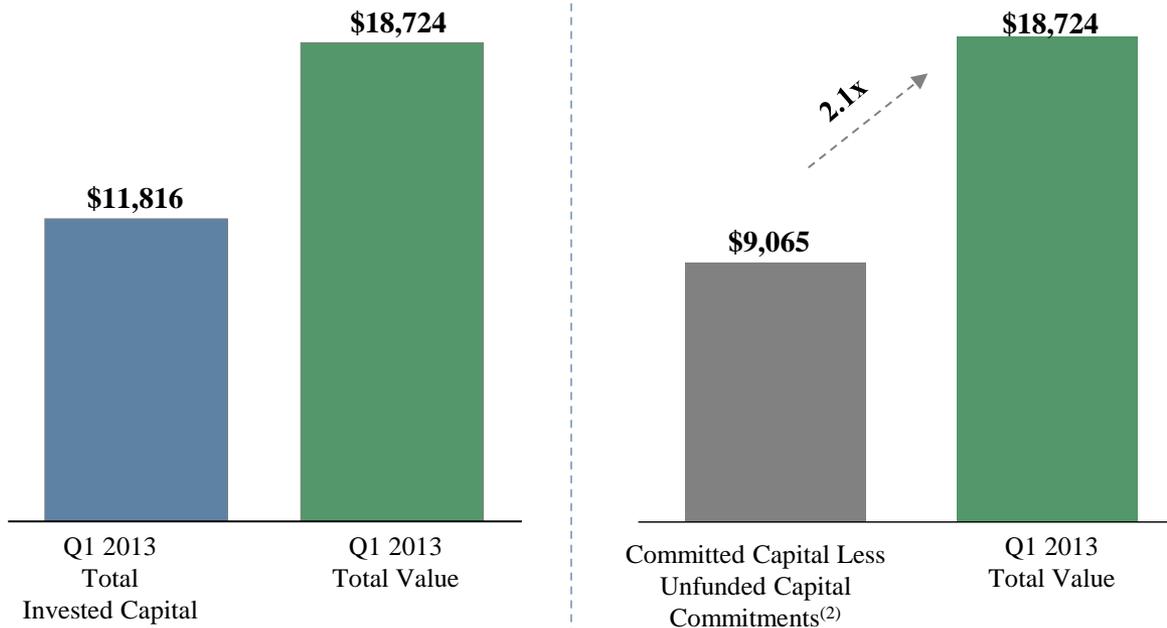
Note: Past performance is not indicative nor a guarantee of future results.

(1) Reflects unaudited fair market valuations as of March 31, 2013. Valuations reflect the estimated fair value consistent with U.S. Generally Accepted Accounting Principles (GAAP). (2) "Committed Capital Less Unfunded Capital Commitments" represent capital commitments from limited partners to invest in a particular fund less capital that is available for investment or reinvestment subject to the provisions of the applicable limited partnership agreements. (3) Please see important information regarding IRRs on page 2. (4) Thomson Reuters. Data as of December 31, 2012, the latest data currently available. Vintage Year Top Quartile represents the Upper Quartile net IRR for U.S. Buyout Funds of greater than \$500 million by vintage year.

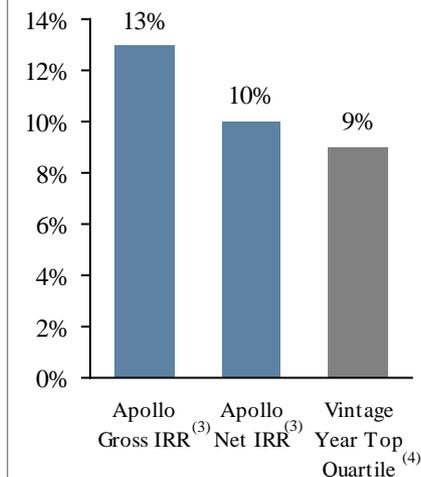
Apollo Fund VI Overview as of March 31, 2013

Apollo Fund VI Valuation Summary⁽¹⁾

(\$ in millions)



Performance



Despite a challenging vintage, we believe Fund VI is performing well on an absolute and relative basis. It did not lose a single portfolio company during the downturn

Note: Past performance is not indicative nor a guarantee of future results.

(1) Reflects unaudited fair market valuations as of March 31, 2013. Valuations reflect the estimated fair value consistent with U.S. Generally Accepted Accounting Principles (GAAP). (2) "Committed Capital Less Unfunded Capital Commitments" represent capital commitments from limited partners to invest in a particular fund less capital that is available for investment or reinvestment subject to the provisions of the applicable limited partnership agreements. (3) Please see important information regarding IRRs on page 2. (4) Thomson Reuters. Data as of December 31, 2012, the latest data currently available. Vintage Year Top Quartile represents the Upper Quartile net IRR for U.S. Buyout Funds of greater than \$500 million by vintage year.

Conclusion

- The pond for plain vanilla investments is crowded
- There's a disconnect between fundamentals and technicals and we're being patient with capital deployment
- We are planning for a rising interest rate environment caused by a reduction in global monetary easing
- We are seeking lower entry valuations and higher investment returns by tackling complexity
- It's important to monetize investments when markets are attractive

Appendix

Recent Sales of Portfolio Companies to Strategic & Financial Buyers

Investment	Fund	Timing	Buyer
 Charter	VI/VII	Closed: Q2 2013	Liberty Media
 METALS USA [®]	V	Closed: Q2 2013	Reliance Steel & Aluminum
 Smart & Final	VI	Closed: Q4 2012	Ares Management
 SOURCEHOV <small>Results that Exceed Expectations</small>	V	Closed: Q2 2013	CVC Private Equity
 AMC	V	Closed: Q3 2012	Dalian Wanda Group
 HUGHES TELEMATICS	V	Closed: Q3 2012	Verizon Communications

Returned approximately \$2.4 billion through sales to strategic and financial sponsors over the last 16 months

Recent Initial Public Offerings

Company	Fund	IPO Date	IPO Price	Current Price (4/30/13)	% Increase IPO to 4/30/13
 CAESARS ENTERTAINMENT	VI	February 2012	\$9.00	\$15.91	77%
 REXNORD	VI	March 2012	\$18.00	\$18.22	1%
 REALOGY	VI	October 2012	\$27.00	\$48.00	78%
 BERRY PLASTICS CORPORATION AND SUBSIDIARIES	V/VI	October 2012	\$16.00	\$19.00	19%
 NCL NORWEGIAN CRUISE LINE	VI	January 2013	\$19.00	\$31.01	63%
 Countrywide Integrated solutions. Local expertise.	VI	March 2013	£3.50	£4.70	34%
 EVERTEC	VII	April 2013	\$20.00	\$20.05	-
 TAMCO people & materials	VII	April 2013	\$15.00	\$15.12	1%

Recent Financings

Select Transactions Include:



\$2,200 Million
Senior Unsecured Notes due 2024 /
Term Loan due 2019
April 2013



\$800 Million
Senior Secured Credit Facilities
due 2018-2020
April 2013



\$500 Million
Unsecured Notes due 2016
April 2013



\$500 Million
Senior Notes due 2018
April 2013



\$1,645 Million
Revolver due 2018 / Term Loan B due 2019 /
1st Lien Notes due 2021
March 2013



\$535 Million
Term Loan due 2019
March 2013



\$460 Million
Term Loan due 2020
March 2013



\$285 Million
Senior Notes / Term Loan B due 2019
March 2013



\$210 Million
1st Lien Notes due 2020
March 2013



£100 Million
Term Loan / Revolver due 2017
March 2013



\$2,395 Million
Term Loan due 2020 / Revolver due
2018
February 2013



\$1,500 Million
Senior Secured Notes due 2020; A&E
February 2013



\$1,400 Million
Incremental Term Loan due 2020
February 2013



\$1,000 Million
Senior Unsecured Notes due 2021 / 2023
February 2013



\$840 Million
Term Loan due 2020 / Revolver due 2018
February 2013



\$300 Million
Senior Notes due 2018
February 2013



\$93 Million
1st Lien Notes due 2019
February 2013



\$1,750 Million
1st Lien Senior Secured Notes due 2020 /
HoldCo Debt Exchange / Revolver due 2018
January 2013



\$704 Million
Term Loan due 2019
January 2013



\$300 Million
Senior Notes due 2018
January 2013

Apollo was one of the most active sponsors in the debt capital markets in 2012

Risk Factors and Definitions

Risk Factors

An investment in a Fund entails substantial risks, including, but not limited to, those listed below. Prospective investors should carefully consider the following summary of risk factors and carefully read the applicable Fund's PPM for additional risk factors in determining whether an investment in a Fund is suitable:

- **Potential loss of investment** – No guarantee or representation is made that a Fund's investment program will be successful. An investment in a Fund is speculative and involves a high degree of risk. Investors must have the financial ability, sophistication/experience and willingness to bear the risks of an investment in a Fund. An investment in a Fund is not suitable for all investors. Investors could lose part or all of an investment and a Fund may incur losses in markets where major indices are rising and falling. Only qualified eligible investors may invest in a Fund. Results may be volatile. Accordingly, investors should understand that past performance is not indicative nor a guarantee of future results.
- **Use of leverage** – A Fund may utilize leverage and may also invest in forward contracts, options, swaps and over-the-counter derivative instruments, among others. Like other leveraged investments, trading in these securities may result in losses in excess of the amount invested.
- **Regulatory risk** – The Funds are not registered under the Investment Company Act of 1940. As a result, investors will not receive the protections of the Investment Company Act afforded to investors in registered investment companies (e.g., "mutual funds"). The Funds' offering documents are not reviewed or approved by federal or state regulators and the Funds' privately placed interests are not federally or state registered. In addition, the Funds may engage in trading on non-U.S. exchanges and markets. These markets and exchanges may exercise less regulatory oversight and supervision over transactions and participants in transactions.
- **Valuations** – The net asset value of a Fund may be determined by its manager, adviser or general partner, as applicable, or based on information reported from underlying portfolio companies. Certain portfolio assets may be illiquid and without a readily ascertainable market value. Valuations of portfolio companies may be difficult to verify.
- **Fees and expenses** – The Funds are subject to substantial charges for management, performance and other fees regardless of whether a Fund has a positive return. Please refer to the applicable Fund's PPM for a more complete description of risks and a comprehensive description of expenses to be charged to that Fund.
- **Lack of operating history** – The Funds have little or no operating history.
- **Reliance on key persons** – Apollo and/or its affiliates have total trading authority over the Funds and may be subject to various conflicts of interest. The death, disability or departure of certain individuals affiliated with Apollo may have a material effect on the Funds.
- **Concentration** – The Funds may hold only a limited number of investments, which could mean a lack of diversification and higher risk.
- **Counterparty and bankruptcy risk** – Although Apollo will attempt to limit its transactions to counterparties which are established, well-capitalized and creditworthy, the Funds may be subject to the risk of the inability of counterparties to perform with respect to transactions, whether due to insolvency, bankruptcy or other causes, which could subject the Funds to substantial losses.
- **Limited liquidity** – Investments in the Funds are illiquid and there are significant restrictions on transferring interests in the Funds. No secondary public market for the sale of the Funds' interests exists, nor is one likely or expected to develop. In addition, interests will not be freely transferable.
- **Tax risks** – Investors in the Funds are subject to pass-through tax treatment of their investment. Since profits generally will be reinvested in the Funds rather than distributed to investors, investors may incur tax liabilities during a year in which they have not received a distribution of any cash from the Funds.
- **Possible Delays in Reporting Tax Information** - Each Fund's investment strategy may cause delays in important tax information being sent to investors.
- **Volatile markets** – Market prices are difficult to predict and are influenced by many factors, including: changes in interest rates, weather conditions, government intervention and changes in national and international political and economic events.
- **May establish information barriers** - We may acquire confidential or material non-public information and be restricted from initiating transactions in certain securities. This risk affects us more than it does many other investment managers, as we generally do not use information barriers that many firms implement to separate persons who make investment decisions from others who might possess material, non-public information that could influence such decisions. Our decision not to implement these barriers could prevent our investment professionals from undertaking advantageous investments or dispositions that would be permissible for them otherwise.

In order to manage possible risks resulting from our decision not to implement information barriers, our compliance personnel maintain a list of restricted securities as to which we have access to material, non-public information and in which our funds and investment professionals are not permitted to trade. Inadvertent trading on material non-public information could have adverse effects on our reputation, result in the imposition of regulatory or financial sanctions and as a consequence, negatively impact our financial condition. In addition, we could in the future decide that it is advisable to establish information barriers, particularly as our business expands and diversifies. In such event, our ability to operate as an integrated platform will be restricted. The establishment of such information barriers may also lead to operational disruptions and result in restructuring costs, including costs related to hiring additional personnel as existing investment professionals are allocated to either side of such barriers, which may adversely affect our business.

See also risk factors described under the section titled "Risk Factors" in Apollo Global Management, LLC's Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission on March 1, 2013, as such factors may be updated from time to time.

Assets Under Management ("AUM") Definition – refers to the investments we manage or with respect to which we have control, including capital we have the right to call from our investors pursuant to their capital commitments to various funds. Our AUM equals the sum of: (i) the fair value of our private equity investments plus the capital that we are entitled to call from our investors pursuant to the terms of their capital commitments to the extent a fund is within the commitment period in which management fees are calculated based on total commitments to the fund; (ii) the net asset value of our credit funds, other than certain collateralized loan obligations ("CLOs"), which we measure by using the mark-to-market value of the aggregate principal amount of the underlying CLO and collateralized debt obligation credit funds that have a fee generating basis other than mark-to-market assets or liabilities, plus used or available leverage and/or capital commitments; (iii) the gross asset value or net asset value of our real estate entities and the structured portfolio company investments included within the funds we manage, which includes the leverage used by such structured portfolio companies; (iv) the incremental value associated with the reinsurance investments of the portfolio company assets that we manage; and (v) the fair value of any other investments that we manage plus unused credit facilities, including capital commitments for investments that may require pre-qualification before investment plus any other capital commitments available for investment that are not otherwise included in the clauses above. Our AUM measure includes AUM for which we charge either no or nominal fees. Our definition of AUM is not based on any definition of AUM contained in our operating agreement or in any of our Apollo fund management agreements. We consider multiple factors for determining what should be included in our definition of AUM. Such factors include but are not limited to (1) our ability to influence the investment decisions for existing and available assets; (2) our ability to generate income from the underlying assets in our funds; and (3) the AUM measures that we use internally or believe are used by other investment managers. Given the differences in the investment strategies and structures among other alternative investment managers, our calculation of AUM may differ from the calculations employed by other investment managers and, as a result, this measure may not be directly comparable to similar measures presented by other investment managers.

Index Definitions

➤ **NASDAQ**: is a stock market index of components listed on the exchange and is highly followed in the U.S. as an indicator of the performance of stocks of technology companies and growth companies across U.S. and non-U.S. companies. **S&P 500**: is a free floating capitalization-weighted index of the prices of 500 large-cap common stocks actively traded in the U.S. **Dow**: is a price-weighted average of 30 actively traded blue-chip stocks that typically trade on the New York Stock Exchange. It is often viewed as a barometer of how shares of the largest U.S. companies are performing. **GDP**: Gross domestic product (GDP) is the market value of all officially recognized final goods and services produced within a country in a given period. **JP Morgan High Yield Index**: is an unmanaged index of high-yield fixed-income securities issued in developed countries. **Credit Suisse Leveraged Loan Index**: is an index that tracks the investable market of the U.S. dollar denominated leveraged loan market. It consists of issues rated "5B" or lower, meaning that the highest rated issues included in this index are Moody's/S&P ratings of Baa1/BB+ or Ba1/BBB+. All loans are funded term loans with a tenor of at least one year and are made by issuers domiciled in developed countries.

Important Notes Regarding the Use of Index Comparisons

There are significant differences between the Funds and the indices described above. For instance, the Funds may use leverage and invest in securities or financial instruments that have a greater degree of risk and volatility, as well as less liquidity than those securities or financial instruments contained in the indices. It should not be assumed the Funds will invest in any specific securities that comprise an index nor should it be understood to mean there is a correlation between the Funds' returns and any indices' performance.

Tab 8



Impact of Legislative Changes

Joseph Newton, FSA
June 14, 2013



Gabriel Roeder Smith & Company
Consultants & Actuaries
www.gabrielroeder.com



Agenda

- ◆ Impact on Liabilities
 - ▶ Updated valuation results
- ◆ Impact on Contributions
 - ▶ Updated funding period
- ◆ Impact on Projections
- ◆ Impact on Cash Flows
- ◆ Summary, including implied risks



Liabilities (Benefits)

- ◆ A one-time cost of living adjustment to members who where retired prior to August 31, 2004 equal to the lesser amount of 3% of the retiree's monthly annuity or \$100 per month
 - ▶ Approximate liability increase of \$700 B
- ◆ Members non-vested as of August 31, 2014 and future hires will have to achieve age 62 to be eligible for unreduced retirement benefits
 - ▶ Current age 60 for post 8/31/2007 hires
- ◆ Interest credited to member account balances is decreased from 5% to 2%, prospectively
- ◆ TRS-Care eligibilities modified for members more than 5 years away from retirement eligibility
- ◆ *Net impact is a net increase in current liabilities and a decrease in the current funded ratio*



Determination of the UAAL

August 31, 2012 Valuation Results

	<u>After changes</u>	<u>Prior to Changes</u>
Present Value of All Benefits		
Active Members	\$104.6	\$105.1
Retired Members	69.2	68.5
Inactive Members	<u>4.3</u>	<u>4.3</u>
Total Present Value of Benefits	\$178.1	\$177.9
Present Value of Future Normal Costs		
(Normal Costs * Future Salaries)	<u>(33.0)</u>	<u>(33.5)</u>
Actuarial Accrued Liability	\$145.1	\$144.4
Actuarial Value of Assets	<u>(118.3)</u>	<u>(118.3)</u>
Unfunded Accrued Liability	\$26.8	\$26.1
Funded Ratio	81.5%	81.9%



Revenue (Contributions)

- ◆ Member contribution rates will increase to 7.70% by FY2017
 - ▶ Currently 6.40%
- ◆ State contribution rates to increase to 6.80% in FY2015
 - ▶ Currently 6.40%
- ◆ Local School Districts which do not participate in Social Security will contribute 1.50% of minimum salary in FY2015
 - ▶ 64% of payroll impacted, effective increase of 0.96%
 - ▶ Currently 0.00%
- ◆ TRS can keep the settle up money at the end of FY2013 and apply it as additional contributions in FY2014
 - ▶ Approximately 0.40%
- ◆ Long term contribution rates increased by approximately 2.66% of payroll
 - ▶ Would equate to approximately \$966 B if effective in FY2014



Funding Period

(as of Feb 28th, 2013)

Item	Before	New	Net	Comments
Total Contribution Received *	12.80%	15.46%	+2.66%	
Less Total Normal Cost (Cost of Benefit Accruals)	<u>10.60%</u>	<u>10.31%</u>	<u>(0.29%)</u>	Lower future accruals allows more contributions to be allocated to amortization of UAAL
Net Contributions allocated to amortization of UAAL	2.20%	5.15%	2.95%	Allows for an additional \$1.1 B annually towards amortization of UAAL
Funding Period (Based on smoothed assets) #	Never	29.5		
Funding Period (Based on market assets) #	Never	39.0		

* Expected total contribution once all phase-ins are complete

Includes impact of phase-in



Maximum UAAL

- ◆ Common Question: What contribution rate is needed to produce a 30 year funding period given a specific UAAL
- ◆ Inverse of that Question: How large can the UAAL be given a specific contribution rate and still produce a 30 year funding period
 - ▶ Before Legislation: $2.20\% * \$36.3 \text{ B Payroll (estimated FY2014)} * 16.66 \text{ (30 year amortization factor)} = \13.3 B
 - ▶ After Legislation: $5.15\% * \$36.3 \text{ B Payroll (estimated FY2014)} * 16.66 \text{ (30 year amortization factor)} = \31.2 B
- ◆ The System can absorb a lot more variation in experience with the larger spread between the total contribution rate and the normal cost



August 31, 2013 Projections

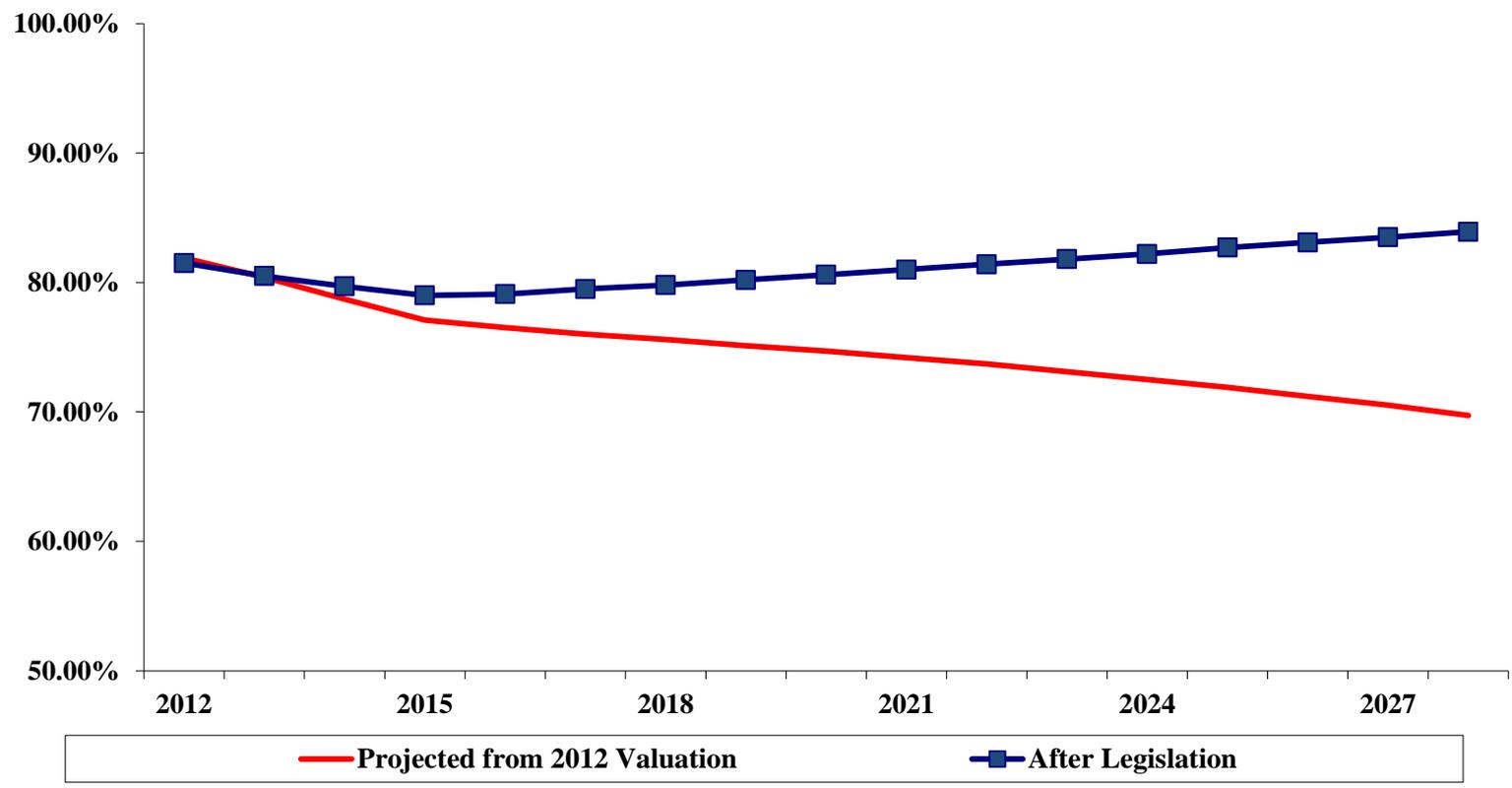
	Market Return for 12 month period ending August 31, 2013						
	16%	12%	10.39%	8%	4%	0%	-4%
UAAL	\$27.9	\$29.1	\$29.7	\$30.5	\$31.3	\$32.3	\$33.2
Funded Ratio	81.7%	80.9%	80.5%	80.0%	79.4%	78.6%	78.1%
Funding Period - Smoothed in Years (reflects phase in)	27.1	29.2	30.4	32.0	33.9	36.1	38.4
Funding Period - Market in Years (reflects phase in)	24.7	32.7	36.9	45.0	72.2	Never	Never

10.39% is the approximation of 4% return for the last half of FY2013 using known assets as of 2/28/2013

All funding period calculations assume contribution policy outlined in legislation continues indefinitely and no future changes to benefits



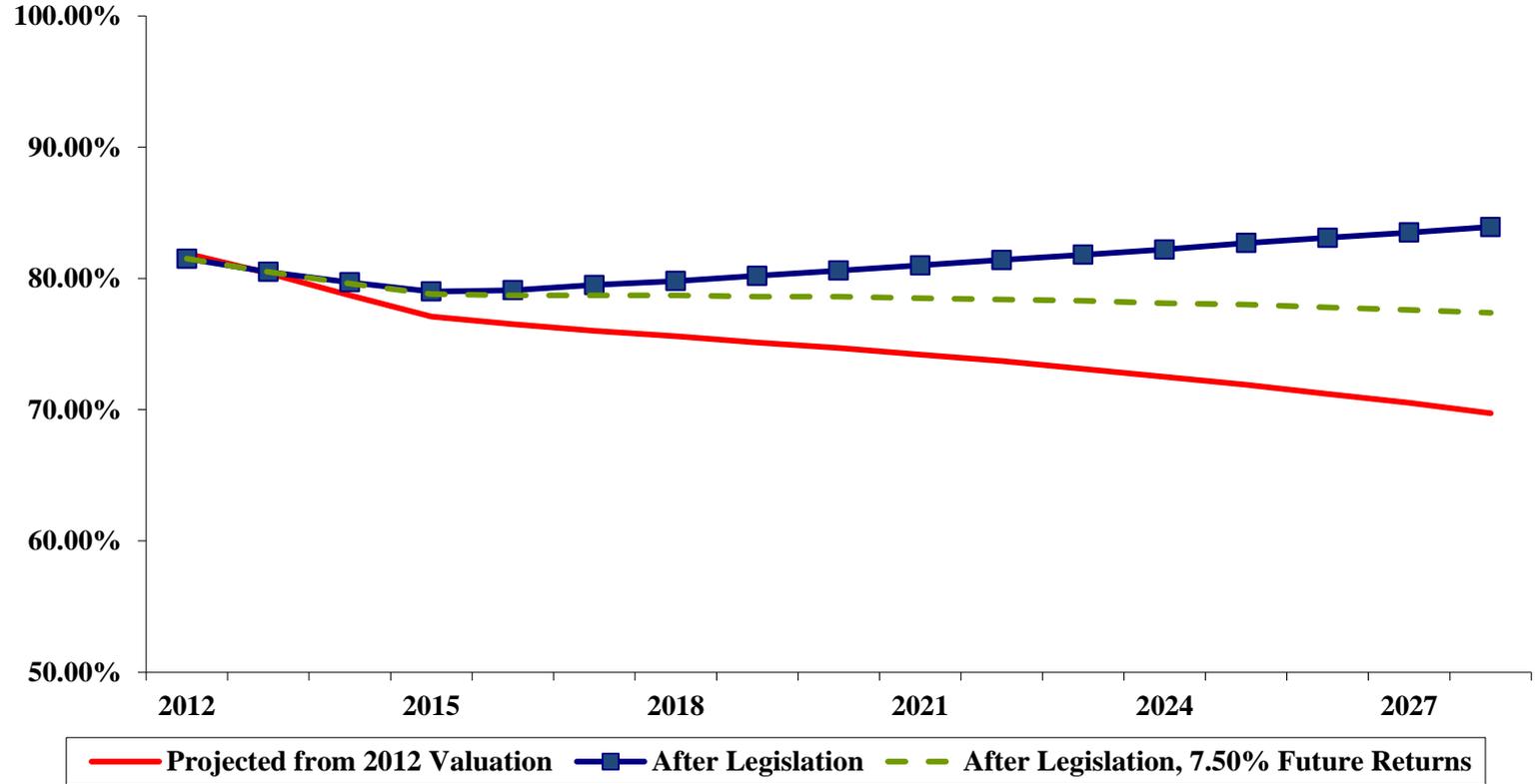
Projection of Funded Ratio



All projections assume contribution policy outlined in legislation continues indefinitely and no future changes to benefits



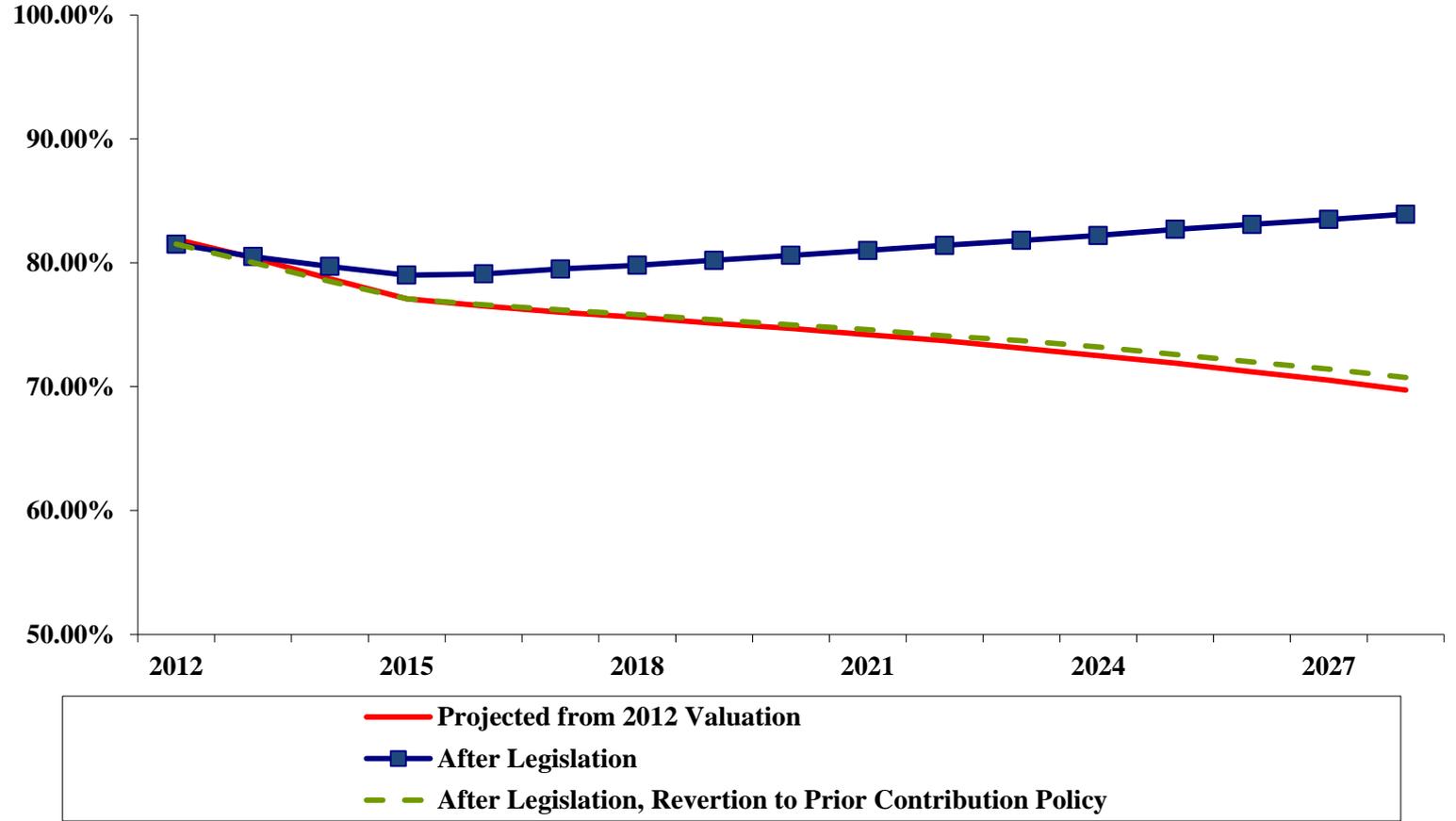
Projection of Funded Ratio Investment Return Sensitivity



All projections assume contribution policy outlined
in legislation continues indefinitely and no future changes to benefits

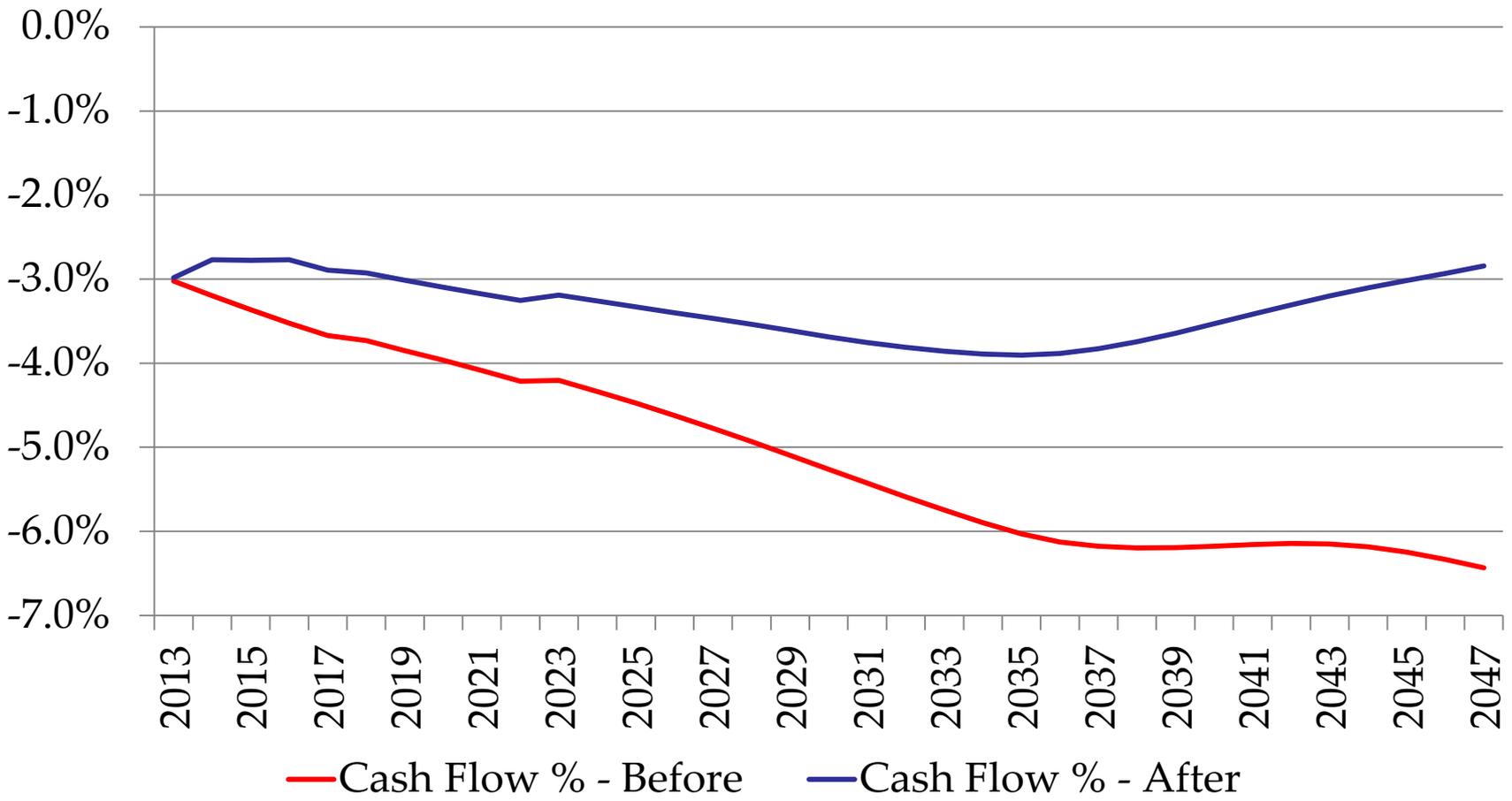


Projection of Funded Ratio Contribution Policy





Cash Flow as a % of Assets





Summary

- ◆ The legislation was very positive for the TRS System
 - ▶ Replaced the date of depletion with a calculable, reasonable funding period
- ◆ However, the cola change is immediate, permanent, and will occur over the next 10-15 years while the revenue increases are delayed, are not guaranteed, and need the next 30-40 years to accomplish the goals of the legislation

Tab 9

-- M E M O R A N D U M --

DATE: June 14, 2013

TO: TRS Board of Trustees
Brian Guthrie, Executive Director
Ken Welch, Deputy Director

FROM: Howard Goldman, Director of Communications

SUBJECT: Update on 2013 Board of Trustees Election

The spring 2013 TRS Board of Trustees election has ended, and all three candidates have been certified to the governor. Governor Perry will appoint one of the individuals who appeared on this year's active public education election ballot to fill the board seat currently held by Charlotte Clifton. Listed below are the final vote counts. Totals have been rounded to two digits.

<u>Name</u>	<u>Votes</u>	<u>Percent of Votes</u>
Hiram Burguete	3,451	13.79%
Lindsey Pollock	9,138	36.52%
Dolores Ramirez	12,289	49.12%
Write-in Candidates	141	0.56%
TOTALS	25,019	100.00%

A total of 25,019 votes were cast in the 2013 election. This represents a small increase over the 24,237 votes cast in previous active public education member election, which was held in the spring of 2009.

As in recent years, TRS contracted with VR Election Services (VRES) of Carrollton, Texas, to manage this year's election. VRES Election Director Karl Koelker will provide additional details on the election at the June board meeting. If you have questions in the meantime, please let us know.

Thank you.

Attachment

Timeline for the 2013 TRS Trustee Election

June 2012	Spring 2013 election publicized in the June <i>Update</i> newsletter.
July/August 2012	TRS members informed of the active public school employee election through the August issue of <i>TRS News</i> . Information was also added to the TRS website.
Mid-August 2012	TRS announced on its website that nominating petitions were available upon request via telephone, mail, fax, and through the website.
September 2012	Information was sent to associations with a request that they help publicize that nominating petition forms are now available.
October 2012	Members were reminded of the approaching elections through the October <i>TRS News</i> . Information was also added to the TRS website.
Nov./Dec. 2012	The Spring 2013 election and availability of nominating petitions publicized in the November and December <i>Update</i> newsletters.
January 2013	A reminder was sent to associations with a request that they help publicize the availability of nominating petition forms. Information was also included on the TRS website.
January 22, 2013	Deadline for submitting nominating petitions to TRS
February 1, 2013	Drawing was held to determine the order in which candidates' names will appear on the ballots.
March 15, 2013	Ballots were mailed on or before this date in a <i>TRS News</i> issue with candidate biographical information and postage-paid return envelopes.
May 6, 2013	Deadline for receiving returned completed ballots
May 7-18, 2013	Ballots were counted, sorted, and verified.
May 29, 2013	An independent election review committee reviewed the election procedures and ballot count -- including a visual inspection of sample ballots -- to attest to the election results.
Late May 2013	Names of three candidates who received the most votes in the election will be certified to the governor.
Summer 2013	Normally during the summer (at the governor's discretion), the governor will appoint the new board member.
September 1, 2013	Earliest date that new board member will take office.

Tab 10

**TEACHER RETIREMENT SYSTEM OF TEXAS
BOARD OF TRUSTEES
AUDIT COMMITTEE**

MEETING AGENDA

**June 14, 2013 – 8:00 a.m.
TRS East Building – 5th Floor, Boardroom**

The Audit Committee will meet at 8:00 a.m. on Friday, June 14, 2013, in the 5th Floor Boardroom and conclude at approximately 9:30 a.m.

The State Auditor's Office will present the Audit of Incentive Compensation.

The Chief Audit Executive of the Texas Department of Assistive and Rehabilitative Services will present the report on TRS Internal Audit's External Quality Assurance Review

Internal Audit will present the Status of the Employer Audit Project, Audit of Health Care Administration, Audit of Emerging Manager Program, Quarterly Investment Testing, Status of Prior Audit and Consulting Recommendations, and Quarterly Internal Audit Status Reports.

The Committee will consider a recommendation to the Board of Trustees regarding revisions to the Audit Plan for Fiscal Year 2013.

MEMORANDUM

TO: Audit Committee Members, TRS Board of Trustees
Brian Guthrie, Executive Director

FROM: Amy Barrett, Chief Audit Executive

SUBJECT: Proposed Revisions to Fiscal Year 2013 Audit Plan

DATE: June 14, 2013

Per the approved *Fiscal Year 2013 Audit Plan*, amendments to the approved Audit Plan deemed to be significant will be submitted to the Audit Committee for recommendation to the Board of Trustees for approval. The State Auditor's Office also requires notification of material changes to the Audit Plan. Below is a list of proposed changes for your consideration:

Proposed Changes to Fiscal Year 2013 Audit Plan¹

Project	Proposed Change	Reason	Substitution
Ethics and Communications Policies Compliance Audit	Cancel	Ethics follow-up audit conducted by the State Auditor's Office (report issued)	Investment Compliance Self-Assessment
Procurement and Contracting Audit	Cancel	Post payment audit conducted by Comptroller of Public Accounts (fieldwork began in May)	Health Care Administration Audit – additional time required
Employer Reporting Audit	Revise	Staff requested additional time to communicate audit initiatives to employers and determine processes for consistent handling of issues identified	In coordination with Benefit Accounting and Legal Services, develop employer self-audits in three areas: <ul style="list-style-type: none"> • Pension Surcharge • TRS-Care Surcharge • Employment After Retirement

¹ Changes proposed will not impact TRS Internal Audit's ability to meet its performance measure: Execute 80% of [original] audit and agreed-upon procedures projects.

Tab 12A



Legal Services

Memorandum

DATE: May 28, 2013

TO: Policy Committee of the Board of Trustees and Board of Trustees

FROM: Tina M. Carnes, Assistant General Counsel

COPY: Brian K. Guthrie, TRS Executive Director; Ken Welch, TRS Deputy Director; Janet Bray, Director of Human Resources; Carolina de Onis, TRS General Counsel

RE: Resolution for the Re-Adoption of the Alternative Dispute Resolution (ADR) and Negotiated Rulemaking Policy

Introduction

At the June 2013 meeting of the Policy Committee, the committee will consider recommending to the Board of Trustees (board) the re-adoption of a policy regarding negotiated rulemaking and alternative dispute resolution. The policy was adopted by the board in June of 2008 and the Policy Review Schedule requires the policy to be reviewed every five years.

Background

Section 825.1025 of the Government Code requires the board to implement a policy regarding negotiated rulemaking and alternative dispute resolution. The policy under consideration satisfies this requirement.

- Section 825.1025 requires the board to develop and implement a policy to encourage the use of negotiated rulemaking procedures for adoption of TRS rules and appropriate alternative dispute resolution procedures to assist in the resolution of internal and external disputes under TRS' jurisdiction.
- The statute also requires the board to designate a trained person to coordinate the implementation of the policy; serve as a resource for any training needed to implement the procedures for negotiated rulemaking and alternative dispute resolution; and collect data concerning the effectiveness of the procedures that are implemented.
- The law specifies that the implementation of procedures must be consistent with the board's fiduciary responsibilities.

Considerations for TRS

A negotiated rulemaking and alternative dispute resolution policy provides TRS staff the authority and framework for resolving disputes in a collaborative manner. However, the law recognizes that TRS may have unique considerations regarding disputes because of its fiduciary responsibilities.

TRS actively uses methods consistent with alternative dispute resolution procedures to settle differences. For example, TRS routinely engages in mediation at the State Office of Administrative Hearings (SOAH) for appeals relating to pension benefits when the assigned TRS attorney, another party, or the assigned SOAH administrative law judge determine that mediation is a promising avenue for settling the appeal. Additionally, rules adopted by TRS regarding vendor disputes provide an interested party an opportunity to protest a solicitation or award of a contract without resorting to litigation. TRS has also developed a Grievance and Appeal Policy to resolve internal personnel conflicts. As for negotiated rulemaking, TRS has not encountered the need for such a formal process, but TRS regularly seeks to understand and address the concerns of its stakeholders as rulemaking issues arise.

Staff proposes minor changes to delete an obsolete citation and to improve the wording and format of the current policy.

Requested Action

Staff requests that the Policy Committee recommend that the Board of Trustees adopt the attached amended policy. It supports the use of a collaborative agreement-seeking approach to resolving disputes as appropriate; recognizes that TRS already uses alternative dispute resolution processes in its operations; and designates the Executive Director or his designee to handle duties as necessary to implement the policy. Staff also proposes continuing the five-year review cycle of the policy.

Staff also requests the Board of Trustees adopt the attached policy.

Board of Trustees
Policy on Negotiated Rulemaking and Alternative Dispute Resolution
June 13 - 14, 2013

- I. In accordance with Tex. Gov't Code §825.1025, the Board of Trustees of the Teacher Retirement System of Texas (TRS) hereby establishes this policy regarding negotiated rulemaking and alternative dispute resolution.
- II. It is the policy of TRS to encourage the use of a collaborative agreement-seeking approach when appropriate to resolve disputes within the jurisdiction of TRS, including those involving rulemaking.
- III. It is the policy of TRS to consider the use of negotiated rulemaking as appropriate for rulemaking in connection with new programs administered by TRS or significant modifications to existing programs.
- IV. TRS currently uses several processes that include a collaborative element to resolve disputes, including mediation of appropriate administrative appeals referred to the State Office of Administrative Hearings (SOAH); TRS rule 34 Tex. Admin. Code §23.4, providing procedures for public participation in the adoption of TRS rules beyond those established for public comment on proposed rules under the Administrative Procedure Act (Chapter 2001, Tex. Gov't Code); TRS rule 34 Tex. Admin. Code §51.2, providing an internal process for vendor protests, including settlement through mutual agreement; and the Grievances and Appeals Policy administered for TRS employee concerns.
- V. The Executive Director is authorized to establish, revise, and administer appropriate processes supporting collaborative dispute resolution consistent with the fiduciary responsibilities of TRS, retirement plan qualification requirements, and statutory program responsibilities.
- VI. The Board of Trustees designates the Executive Director or his designee to fulfill the responsibilities described by §825.1025(c), Tex. Gov't Code. Under the Bylaws of the Board of Trustees, the Board delegates this authority to the staff through the Executive Director, and the Executive Director is authorized to assign duties to TRS personnel. Therefore, it is appropriate from time to time for the Executive Director to designate a TRS employee to carry out on his behalf the responsibilities described by §825.1025(c), Tex. Gov't Code, specifically, to coordinate the implementation of this policy; to serve as a resource for any training needed to implement the procedures for negotiated rulemaking and alternative dispute resolution; and to collect data regarding the effectiveness of the procedures that are implemented.

Tab 12B



M E M O R A N D U M

To: TRS Policy Committee and TRS Board of Trustees

From: Wm. Clarke Howard, TRS Assistant General Counsel

Copy: Brian Guthrie, TRS Executive Director
Ken Welch, TRS Deputy Director
Carolina de Onís, TRS General Counsel

Date: May 31, 2013

Re: Proposed Amendment to 34 Texas Administrative Code (TAC),
TRS-ActiveCare Rule § 41.41

Background

Currently, on or about the fifteenth (15th) of each month, the Teacher Retirement System of Texas (TRS) or the administering firm (*i.e.*, Blue Cross and Blue Shield of Texas or BCBSTX) sends bills for premiums to participating entities in TRS-ActiveCare. Under TRS-ActiveCare rule § 41.41, each participating entity is required to remit payment on or before the sixth day after the last day of each month in which TRS or BCBSTX issues the bill to the participating entity. The bill issued is for that month of coverage, which means that payment is then rendered a month in arrears.

During the current plan year, TRS-ActiveCare has experienced an unexpectedly high level of claims. This high level of claims has placed the solvency of the TRS-ActiveCare fund at risk. This risk constitutes an imminent peril to the public health, safety, or welfare of individuals enrolled in TRS-ActiveCare.

As a result, TRS staff and the TRS health benefits consultant, Gabriel, Roeder, Smith & Company (GRS), are recommending that each participating entity be required to remit payment on or before the fifteenth day of each month in which TRS or BCBSTX issue the bill to the participating entity, beginning with bills generated on or after September 1, 2013. By moving the due date of each bill forward in time by approximately three (3) weeks, the amendment moves the payment from a month in arrears to the month of coverage. With this change, the risk to the solvency of the TRS-ActiveCare fund can

be alleviated and the imminent peril to the public health, safety, or welfare of individuals enrolled in TRS-ActiveCare can be eliminated.

Additionally, TRS staff is seeking adoption of the above noted changes to TRS-ActiveCare rule § 41.41 as quickly as possible due to the need to provide adequate notice, direction, and instruction to both BCBSTX and the participating entities in TRS-ActiveCare.

Summary of Proposed Amendments to TRS-ActiveCare Rule § 41.41

As noted above, each participating entity is currently required to remit payment on or before the sixth day after the last day of each month in which TRS or BCBSTX issues the bill to the participating entity. The proposed amendments will require each participating entity to remit payment approximately three (3) weeks earlier, on or before the fifteenth day of each month in which TRS or BCBSTX issue the bill to the participating entity, beginning with bills generated on or after September 1, 2013. Attached to this memorandum are the marked rule texts for your review.

Adoption of an Emergency Rule

Staff submits these amendments for the consideration of the TRS Policy Committee (committee), requesting that the committee recommend to TRS Board of Trustees (board) the adoption, on an emergency basis, of the attached resolution amending TRS-ActiveCare rule § 41.41.

Staff submits these amendments for the consideration of the board, requesting that the board adopt, on an emergency basis, the attached resolution amending TRS-ActiveCare rule § 41.41, in order to avoid the insolvency of the TRS-ActiveCare fund and the imminent peril, caused thereby, to the public health, safety, or welfare of individuals enrolled in TRS-ActiveCare.

Authorization to Publish Proposed Rule Amendments for a Permanent Rule

Staff also submits these amendments for the committee's consideration, requesting that the committee authorize staff to publish the proposed amendments to TRS-ActiveCare rule § 41.41 in the *Texas Register* for public comment. At this time, this course of action does not seek final adoption of these proposed amendments as a permanent rule. The public will have at least 30 days to comment on the proposed rule amendments as a permanent rule. After the public comment period, the rule amendments will be brought before the committee and the board to consider final adoption as a permanent rule, most likely during the September 2013 meetings.

Requested *Committee* Action

Staff requests that the committee adopt the proposed resolution that does the following:

- 1) It recommends that the board adopt a related resolution that amends TRS-ActiveCare rule § 41.41 on an emergency basis, as described in this memorandum and the attached marked rule texts.
- 2) It authorizes public comment publication in the *Texas Register* of the same proposed amendments to rule § 41.41, as part of a concurrent process to adopt the amended rule on a permanent, non-emergency basis.

Requested *Board* Action

Staff asks the board, if recommended by the committee, to adopt the proposed resolution amending TRS-ActiveCare rule § 41.41 on an emergency basis, as described herein and the attachments hereto. Adopting the emergency rule amendments will avoid the insolvency of the TRS-ActiveCare fund and the imminent peril, caused thereby, to the public health, safety, or welfare of individuals enrolled in TRS-ActiveCare.

Texas Administrative Code

TITLE 34

PUBLIC FINANCE

PART 3

TEACHER RETIREMENT SYSTEM OF TEXAS

CHAPTER 41

HEALTH CARE AND INSURANCE PROGRAMS

SUBCHAPTER C

TEXAS SCHOOL EMPLOYEES GROUP HEALTH (TRS-ACTIVECARE)

RULE §41.41

Premium Payments

- (a) For each bill generated by TRS or its designee on or before August 31, 2013, ~~Each~~ participating entity shall remit to TRS the amount on each bill directed to the participating entity by TRS or the administering firm. The participating entity shall remit payment on or before the sixth day after the last day of each month in which TRS or the administering firm issued a bill. Payment shall be delivered in the same manner (*e.g.*, currently, TEXNET) in which the participating entity delivers retirement contributions. Any waiver granted to a participating entity under §825.408(a), Government Code, does not apply to amounts billed under this section or to amounts otherwise owed to TRS for TRS-ActiveCare.
- (b) For each bill generated by TRS or its designee on or after September 1, 2013, each participating entity shall remit to TRS the amount on each bill directed to the participating entity by TRS or the administering firm. The participating entity shall remit payment on or before the fifteenth day of each month in which TRS or the administering firm issued a bill. Payment shall be delivered in the same manner (*e.g.*, currently, TEXNET) in which the participating entity delivers retirement contributions. Any waiver granted to a participating entity under §825.408(a), Government Code, does not apply to amounts billed under this section or to amounts otherwise owed to TRS for TRS-ActiveCare.
- (c)(b) A participating entity will be billed for all full-time and part-time employees enrolled in TRS-ActiveCare who were employed by the participating entity on the date that TRS or its designee generates the bill for that billing month as reported by the participating entity. In addition, a participating entity will be billed retroactively for all full-time and part-time employees who enroll after the date on which the bill is generated for that month and choose coverage for that month. A participating entity will also be billed for any individual covered in accordance with §41.40 of this title (relating to Coverage Continuation While on Leave Without Pay.) Participating entities are responsible for collecting all applicable premiums and other costs that are required to be paid by its full-time employees, part-time employees, and any individuals covered in accordance with §41.40 of this title. A participating entity shall remit the full amount billed each month.
- (d)(e) Participating entities shall not modify the amount of any bill or remit any amount different from the amount billed. A participating entity shall report adopted adjustments, including those seeking credit for terminated employees, to the administering firm no later than the 45th day after the billing date. TRS may reject any adopted adjustments that are inappropriate or untimely, including those adjustments seeking credit for terminated employees reported later than 45 days after the billing date on which the employee was first incorrectly reported as eligible for coverage. Approved adjustments will be reflected on a subsequent bill.

| ~~(e)(4)~~ TRS may take corrective action against a participating entity that fails to remit payment in accordance with the timelines and other requirements of this section, including but not limited to placement of a warrant hold with the Comptroller of Public Accounts.



Teacher Retirement System of Texas

BOARD OF TRUSTEES

RESOLUTION AUTHORIZING EMERGENCY ADOPTION OF AMENDMENTS TO TRS-ACTIVECARE RULE 34 TEX. ADMIN. CODE § 41.41

June 14, 2013

Whereas, Chapter 1579, Insurance Code, authorizes the Teacher Retirement System of Texas (TRS), as trustee, to implement and administer the uniform group health benefits program under the Texas School Employees Uniform Group Health Coverage Act (TRS-ActiveCare), as described in the statute;

Whereas, During the current plan year, TRS-ActiveCare has experienced an unexpectedly high level of claims, which has placed the solvency of the TRS-ActiveCare fund at risk;

Whereas, This risk constitutes an imminent peril to the public health, safety, or welfare of individuals enrolled in TRS-ActiveCare;

Whereas, 34 TEX. ADMIN. CODE § 41.41 provides that each participating entity in TRS-ActiveCare shall remit to TRS the amount on each bill for premiums directed to the participating entity by TRS or the administering firm;

Whereas, 34 Tex. Admin. Code § 41.41 further provides that each participating entity shall remit payment on or before the sixth day after the last day of each month in which TRS or the administering firm issues a bill;

Whereas, TRS staff and the TRS health benefits consultant, Gabriel, Roeder, Smith & Company (GRS), have recommended that each participating entity be required to remit payment on or before the fifteenth day of each month in which TRS or the administering firm issue the bill to the participating entity, beginning with bills generated on or after September 1, 2013;

Whereas, By moving the due date of each bill forward in time by approximately three (3) weeks, the risk to the solvency of the TRS-ActiveCare fund can be alleviated and the imminent peril to the public health, safety, or welfare of individuals enrolled in TRS-ActiveCare can be eliminated;

Whereas, By acting quickly, TRS can provide adequate notice, direction, and instruction to both the administering firm and the participating entities in TRS-ActiveCare concerning the proposed new payment deadlines;

Whereas, the TRS Policy Committee has recommended that the TRS Board of Trustees (board) adopt, on an emergency basis, the proposed amendments to 34 Tex. Admin. Code § 41.41, as marked in the text of 34 Tex. Admin. Code § 41.41 attached hereto and incorporated herein for all purposes; now, therefore, be it

Resolved, That the board hereby —

- 1) Finds that during the current plan year, TRS-ActiveCare has experienced an unexpectedly high level of claims, which has placed the solvency of the TRS-ActiveCare fund at risk;
- 2) Finds that this risk to the solvency of the TRS-ActiveCare fund constitutes an imminent peril to the public health, safety, or welfare of individuals enrolled in TRS-ActiveCare;
- 3) Finds that this risk can be alleviated and the imminent peril to the public health, safety, or welfare of individuals enrolled in TRS-ActiveCare can be eliminated by requiring that each participating entity remit payment on or before the fifteenth day of each month in which TRS or BCBSTX issue the bill for TRS-ActiveCare premiums, beginning with bills generated on or after September 1, 2013;
- 4) Finds that there exists an urgent need for TRS to provide adequate notice, direction, and instruction to both the administering firm and the participating entities in TRS-ActiveCare concerning the proposed new payment deadlines;
- 5) Finds that the above noted risk and need to provide prompt notice, direction, and instruction requires the adoption of amended rule 34 Tex. Admin. Code § 41.41, as marked in the attached and incorporated text, on an emergency basis with fewer than 30 days' notice;
- 6) Adopts amendments to rule 34 Tex. Admin. Code § 41.41, as marked in the attached and incorporated text, on an emergency basis; and
- 7) Grants the Chairman of the board the authority to sign an order showing the action of the board.

Tab 15

Teacher Retirement System of Texas

**TEAM Program:
Independent Program Assessment**

Board Presentation

June 14, 2013



- Independent Program Assessment (IPA):
 - Provide independent reporting and oversight to the TRS Board and Executive Director or designee regarding critical risks related to the TRS Enterprise Application Modernization (TEAM) Program to enable informed decision-making.

 - Critical Risks Focus:
 - Failure to meet TEAM objectives
 - Lack of user acceptance
 - Program substantially delayed
 - Program substantially over budget

Observations – Strengths

1. LOB RFO Vendor response evaluation methodology is robust and well documented
 - *CMT is working together with Program Manager to develop and document the vendor evaluation criteria including scoring of proposals, reference calls ranking and final selection.*

2. Effective communication by Organizational Change Management Project
 - *OCM published results from Advisory Group surveys, representing employee feedback and specific questions about TEAM.*
 - *An action plan is being created for responding to the input.*

IPA Scorecard

TEAM Program Governance	Prior Score	Current Score	Observation
1.Program/Project Management	2	2	4,5
2.Risk Management	1	1	
3.Issues Management and Tracking	1	1	4
4. Program Communication	1	1	
5. Change Management/ Quality Control	2	1	
6. Staffing and Organization	2	2	
7. Budget Tracking	1	1	
TEAM Projects			
1.LOB Implementation	1	1	
2.FSR Implementation	2	2	
3.Data Management	2	2	10
4.Reporting Entity Outreach	1	1	
5.Organizational Change Management	2	1	
6.Business Rules Development	1	1	
7.Business Procedures and Training	NA	NA	
8. Legacy System Decommissioning	NA	NA	
9.External Website Enhancement	NA	NA	
10.Legacy System Decommissioning	N/A	N/A	

Legend

1 = LOW

2= GUARDED

3= CAUTION

4= ELEVATED

5= SEVERE

N/A= Project not started, rating is not applicable at this time



Observations – Previously Reported

ID #	Date	Observation	Status
1	Jan '13	Re-engineering of internal controls has not yet been addressed within the TEAM Program	Controls related tasks identified <i>Close and monitor</i>
2	Jan '13	Approach not formalized and timely for hiring and retention of high tech IT staff	Approach identified, 9 of the 15 IT staff already in place <i>Close and monitor</i>
3	Feb '13	Project plan inconsistent with project reporting	Project plans aligned with milestone reporting <i>Close and monitor</i>
4	Feb '13	TEAM Program and project staffing plan is not detailed enough	<i>In Progress</i>

Observations – Previously Reported

ID #	Date	Observation	Status
5	Feb '13	Project interdependencies have not been documented	<i>In Progress</i>
6	Feb '13	Financial System Replacement (FSR) contingency plan has not been developed	Go/No Go decision will be part of Envision phase <i>Close and monitor</i>
7	Feb '13	Organizational Change Management project scope and plan have not been clearly identified	Project Charter has been updated and published <i>Close and monitor</i>
8	Feb '13	Change Management and Quality Control Procedures have not been finalized and published	Procedures finalized and published <i>Close and monitor</i>

Observations – New

ID#	Date	Observation	Management Responses
9	Apr '13	TEAM Program Implementation Timeline: LOB and FSR system implementations projects are executed concurrently	The overlap of the LOB and the FSR systems was anticipated and actually planned as part of the TEAM Program. The LOB vendor and the FSR vendor need to overlap to plan the data interchanges between these two systems. In addition, the resources required for the FSR and the LOB are largely separate resources so we anticipate that the overlap between the two systems will produce limited resource conflicts. TRS has also created project schedules that aggregate into a global resource report that shows resource conflicts and over allocations.
10	Apr '13	Data Management Project: A. Delayed deliverables comparing timeline to baseline project plan B. Inadequate Deliverable acceptance documentation	A. TRS worked with the vendor to revise the deliverable schedule beginning in October. The tasks associated with the deliverable did not map well to the milestones or project stage. The Project Plan was not updated to match the schedule at that time. The Vendor is working with TRS PMO to update the project schedule to match deliverables and milestones. Due: 5/31/2013 B. The SharePoint repository was reorganized and cleaned up removing duplications or documents that were not the actual documents submitted for approval.

Observations – New

ID#	Date	Observation	Management Responses
11	Apr '13	FSR SOW Overly complex and detailed requirements – SOW appears to be more aligned with requirements for custom development	Lessons learned from other ERP solutions stated that the lack of scope understanding and detail requirements caused a cost increase and/or failure to implement successfully. SOW is focused on "out-of-the-box" with minimal customization. The consolidated envision phase main focus is to analyze each requirement based on the new solution.

Activities Completed

1. Reviewed FSR SOW vendor contract and detailed requirements documentation including attachments and provided specific observations, risks and recommendations to the FSR project team.
2. Reviewed and analyzed Data Management vendor invoices and specific deliverables identified within each invoice. Verified deliverable artifacts signoff and approval. Reviewed observations with Management and provided specific recommendations for improvements.
3. Attended weekly ESC and CMT meetings and Project Team Meetings including Communications sub-team meeting, Project Interdependency and FSR project meetings.
4. Continued with a detailed project management documentation review, including: Team Program Management status reports, individual project plans and status reports, and Updated Risk Logs and other program/project related reports.
5. Reviewed and Evaluated finalized Organizational Change Management (OCM) Charter and vendor statement of work (SOW) document (when finalized) and provided feedback to project sponsor.
6. Prepared presentations on the IPA objectives, scope of work, reporting requirements and status, including specific timeline for 2013 and presented to ESC and CMT teams in order to clarify IPA's role and purpose within the TEAM program.

Activities for Next Period

1. Continue attending ESC, CMT and specific project meetings as needed for monitoring progress.
2. Finalize the review and analysis of TEAM Program budget tracking documentation and present recommendations to PMO Program Manager.
3. Continue to review current TEAM vendor contracts in place and vendor payment schedules (Provaliant).
4. Monitor staffing and resource allocation plans, including strategic planning for high tech IT staffing needs.
5. Review and evaluate project level risk logs and provide feedback to Risk Management.
6. Review and evaluate Website Redesign Project Charter and Project Plan.
7. Review TEAM Program Budget tracking, allocation and reporting including the analysis of TEAM Budget to Actual financial reporting.
8. Prepare and present Monthly IPA status reports and observations with risks and specific recommendations.

IPA Budget Status

IPA Financial summary status through April 30, 2013

➤ Total hours incurred	645
➤ Total calculated cost incurred	\$118,855
➤ Total billings for deliverables	\$105,000
➤ Variance	\$ 13,855

Observations Detail – New

9. TEAM Program Implementation timeline, LOB and FSR system implementations projects are executed concurrently

Risks:

- Increase demand on TRS staff
- IT expertise

Recommendations:

Develop a consolidated MS Project Plan fully resources loaded; plan should incorporate estimated major milestones and interdependencies from each key project in order to determine proper resource allocation.

Management Response:

The overlap of the LOB and the FSR systems was anticipated and actually planned as part of the TEAM Program. The LOB vendor and the FSR vendor need to overlap to plan the data interchanges between these two systems. In addition, the resources required for the FSR and the LOB are largely separate resources so we anticipate that the overlap between the two systems will produce limited resource conflicts. TRS has also created project schedules that aggregate into a global resource report that shows resource conflicts and over allocations.

Observations Detail – New

10. Data Management project delayed deliverables comparing timeline to baseline project plan – and inadequate deliverable acceptance documentation

Risks:

- May impact overall schedule and timeline
- Insufficient clean data for LOB solution

Recommendations:

- Compare milestone deliverables current plan/actual dates to baseline project plan ("Final project plan" developed by vendor) to determine if deliverables were completed on time per schedule
- Milestone Deliverable delays should be reported and highlighted within the published TEAM Dashboard report

Management Response:

- A. TRS worked with the vendor to revise the Deliverables schedule beginning in October. The tasks associated with the deliverable did not map well to the milestones or project stage. The Project Plan was not updated to match the schedule at that time. The Vendor is working with TRS PMO to update the project schedule to match deliverables and milestones. The TRS PM, Vendor PM, TEAM Program Manager, and Sponsors are currently working on refining the Project Plan for the Data Management Project to include resources and more granular tasks within the project. The plan will also include the Cleansing that will need to be done by TRS Staff. - Completion Due Date: 5/31/2013

Observations Detail – New

10. Data Management Project Deliverables - continued

Management Response - continued:

B. TRS has refined the deliverable acceptance process. We have refined the deliverables acceptance procedures and tightened the controls. Before an invoice is approved it will be documented by the TRS PMO and the invoice will be mapped to each deliverable and cost associated with the deliverable. TRS has not accepted a deliverable that did not meet the acceptance criteria. The SharePoint site where invoices and deliverables were kept contained outdated documents that were not submitted as deliverables.

The SharePoint repository was reorganized and cleaned up removing duplications or documents that were not the actual documents submitted for approval.

Observations Detail – New

11. Financial System Replacement (FSR) Project Statement of Work (SOW) evaluation:
 - A. Overly complex and detailed requirements – SOW appears to be more aligned with requirements for custom development
 - B. Proprietary software maintenance tools
 - C. Heavy integration requirements
 - D. Leveraging existing NeoGov and FileNet functionality
 - E. No upfront business process reengineering
 - F. Focus on customization versus leveraging baseline functionality

Risks:

- Scope of project may expand substantially during the design phase
- Will require specialized training, technical resources and increased cost
- Will increase implementation and ongoing costs
- Dual maintenance and integration cost
- May drive system customization and increased maintenance costs
- Will increase implementation and ongoing costs

Recommendations:

- Reevaluate FSR implementation timeline and consider reducing scope

Observations Detail – New

11. FSR SOW : - continued

Management Response:

- A. Lessons learned from other ERP solutions stated that the lack of scope understanding and detail requirements caused a cost increase and/or failure to implement successfully. SOW is focused on "out-of-the-box" with minimal customization. The main focus of the initial assessment phase is to analyze each requirement based on the new solution. Appendix O are fields and reporting elements for reports for vendor with estimations. SOW requirements are our "what" not "how".

- B. IT stated that since everything was bundled together the vendor would maintain the application and the software infrastructure. TRS would make any of the on-going configuration changes as well as the maintenance and development of reports (outside of the reports that were part of the scope and needed at time of the implementation).

- C. TRS IT made a consensus decision to utilize the vendor platform to minimize any additional risks required to customize their platform to meet LOB requirements. This will also minimize any unnecessary costs.

Observations Detail – New

11. FSR SOW : - continued

Management Response - continued:

- D. This is already planned to be integrated as it is already included in the Human Resources module.
- E. It is best practice to determine any re-engineering process post-implementation. The reason is to allow the team enough time to get familiar with the new product prior to any changes. If we reengineer prior to implementation and not allow the team a "familiarization" period the team may need to redo all processes after implementation. Business process re-engineering will be driven and enabled by vendor system functionality and best practices, not vendor system configuration dictated by current TRS practices.
- F. The team is dedicated to NO customization. The vendor was unable to fulfill only about 19 of the 1700 plus requirements with their current version. Addressing those 19 requirements may require customization. The main objective of the initial assessment phase is to provide TRS with the necessary information to make an informative decision based on the new solution and our current requirements.

Tab 16

Teacher Retirement System of Texas



TEAM Program Management Update

Jay Masci – Provaliant

June 2013



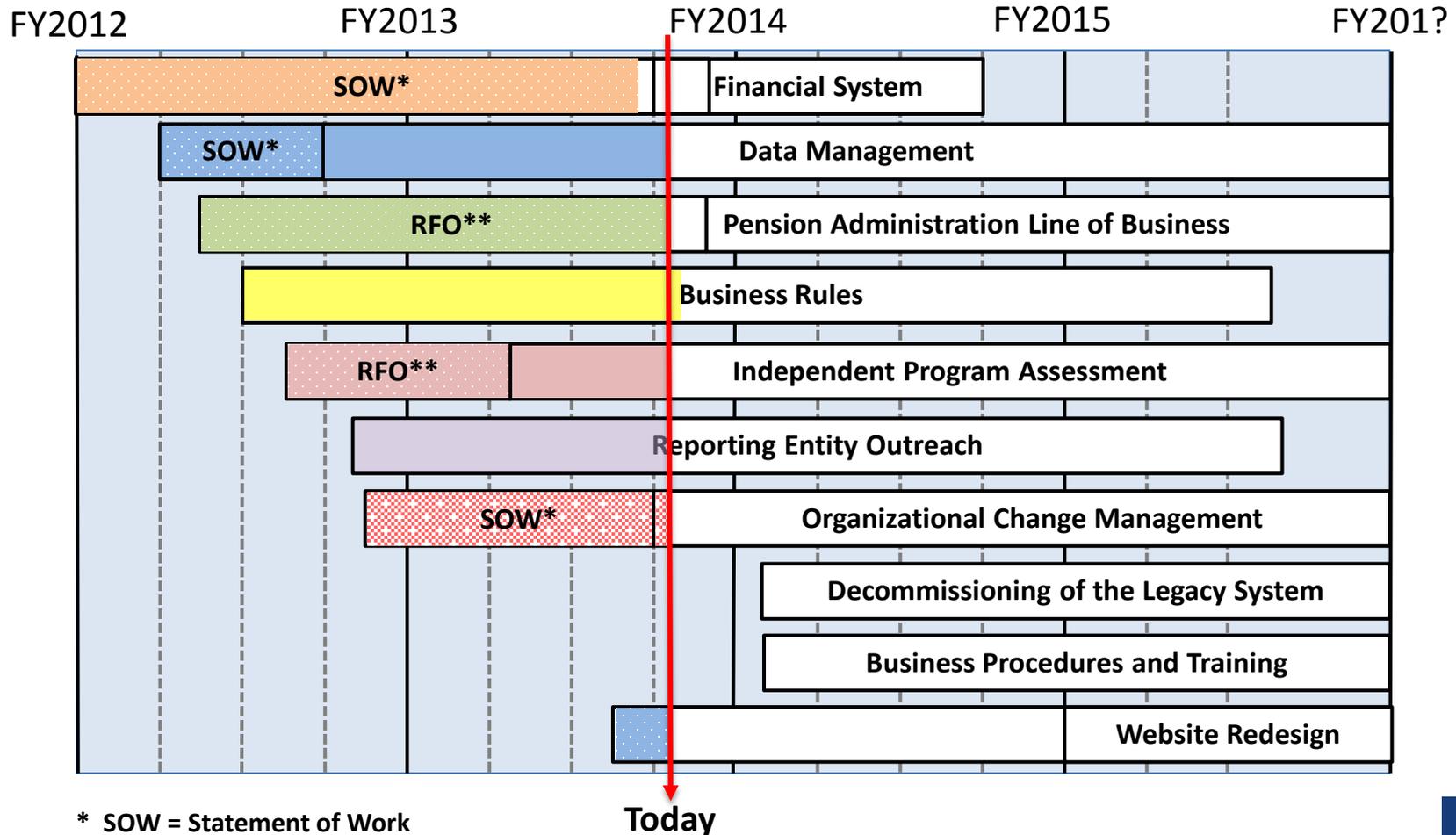
Agenda

- TEAM Program Progress
- TEAM Project Interdependencies
- TEAM Project Accomplishments
- TEAM Project Milestones
- Update on TRS All Hands Meeting



TEAM PROGRAM

TEAM Program Progress



* SOW = Statement of Work
** RFO = Request for Offer



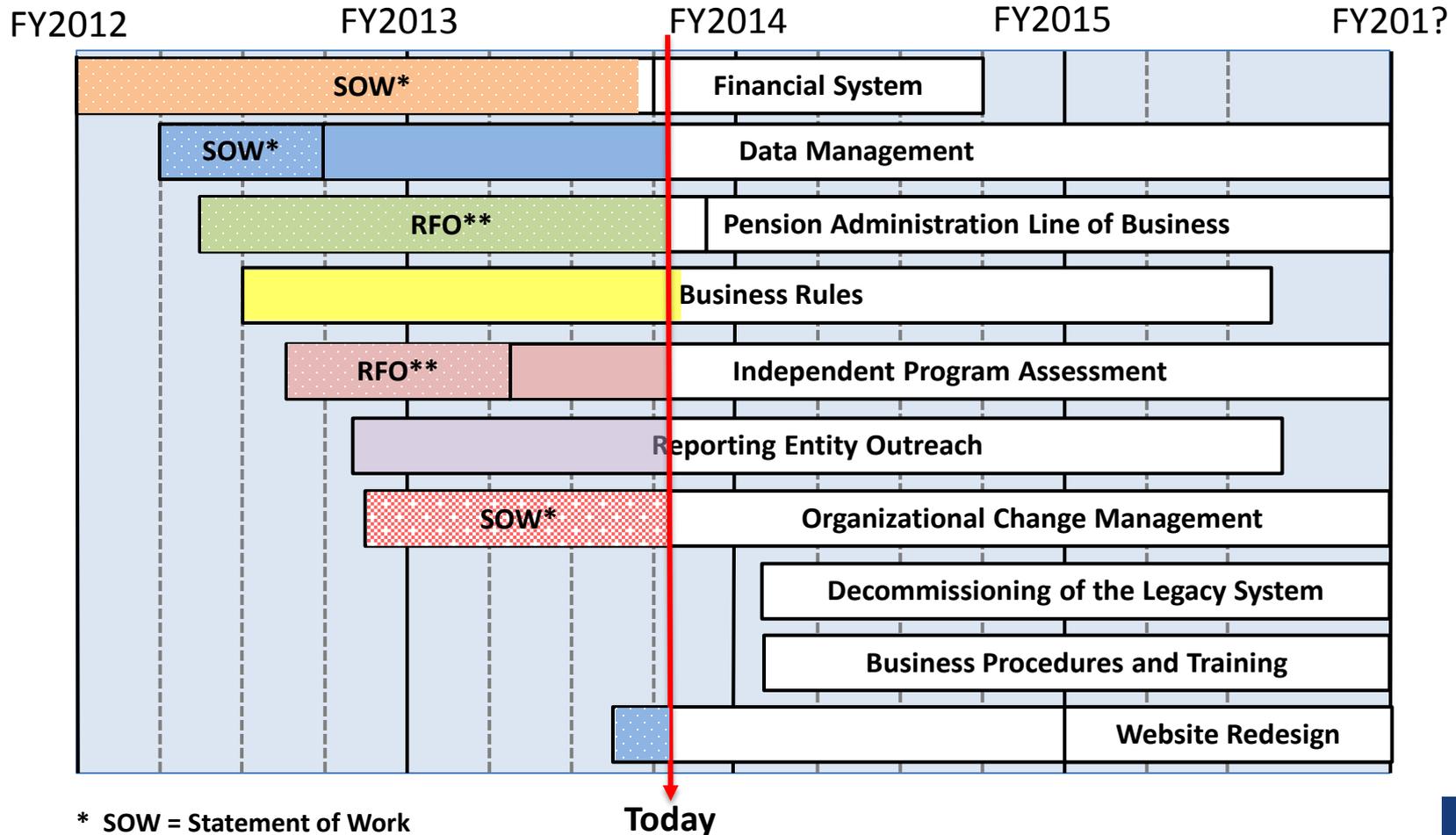
TEAM Project Interdependencies

- What constitutes an interdependency?
 - Resource(s) assigned to another project
 - Result / deliverable from another project
 - Funding of another project



TEAM PROGRAM

TEAM Project Interdependencies



* SOW = Statement of Work
** RFO = Request for Offer





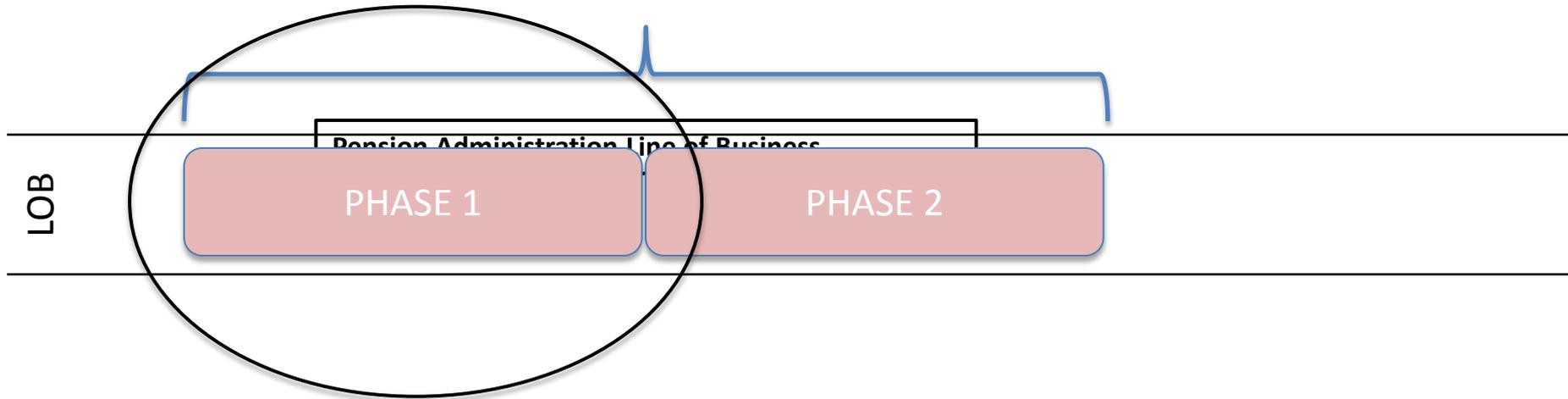
TEAM PROGRAM

TEAM Project Interdependencies

2014

2016

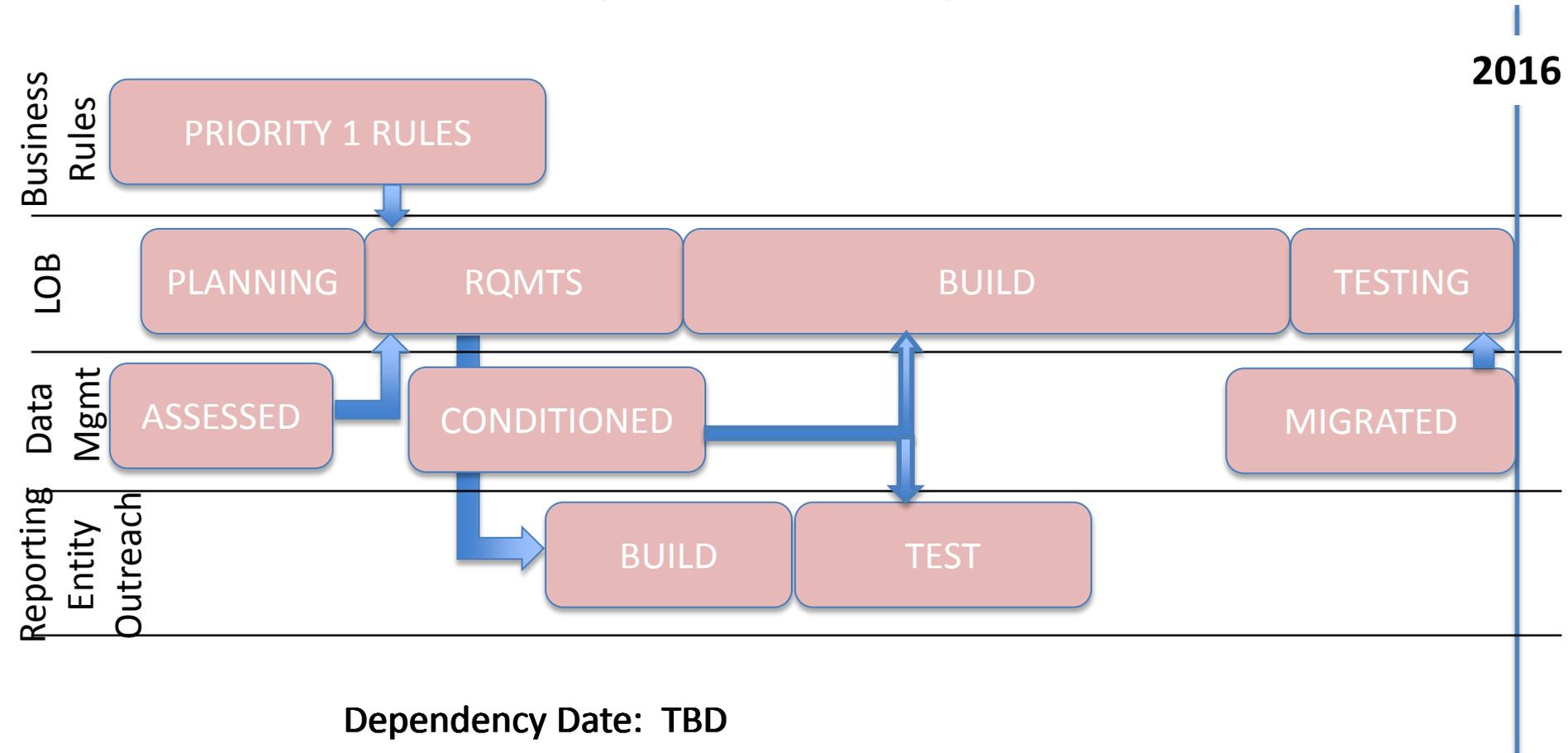
2018





TEAM PROGRAM

TEAM Project Interdependencies



TEAM Project Interdependencies

The TEAM Project Interdependencies Microsoft project schedule

TEAM Project Accomplishments

- Website Redesign vision approved
- Organizational Change advisory groups formed
- Financial statement of work development completed
- Data conditioning schedule incorporated into the data assessment schedule
- TRS data conditioning team formed
- Current functionality assessments conducted
- Reporting entity demographic data conditioning started
- All-hands meeting held

TEAM Project Accomplishments

- Financial Vendor Negotiations in progress
- Line Of Business (LOB) RFO Scoring for the Finalists completed

TEAM Project Milestones

- 06/28/13 : Complete of Line of Business (LOB) RFO
Finalists Presentation and Demonstrations
- 07/01/13 : Award Financial System Replacement
contract
- 07/15/13 : Complete of Priority 1 Business Rules
- 07/31/13 : Begin LOB Proof of Concept

Teacher Retirement System of Texas



TEAM Program Management Update All Hands Meeting

Janet Bray

June 2013



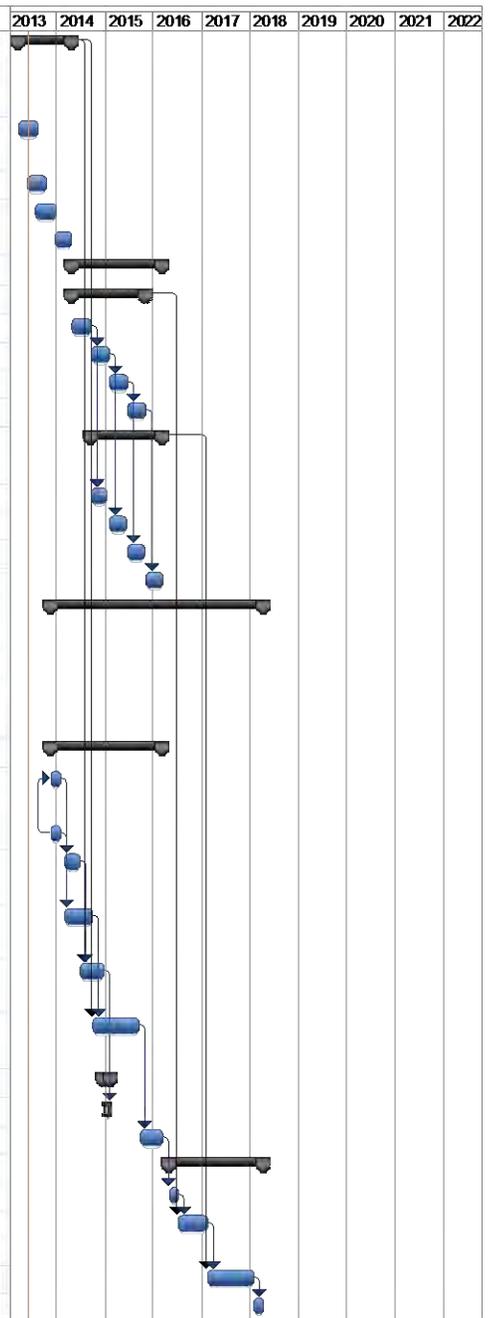


All Hands Meeting

- Held May 14
- Employee Appreciation
- Advisory Group participation
- Layman's language
- Positive feedback

ID	Task Name	Start	Finish	Notes	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1	TEAM Program Project Interdependencies	Fri 6/1/12	Thu 3/29/18	Interdependency Assumptions:...										
2	Financial System Replacement (FSR) Project	Tue 7/2/13	Thu 12/11/14											
3	Envisioning	Tue 7/2/13	Thu 10/24/13											
4	Envisioning tasks	Tue 7/2/13	Thu 10/24/13											
5	State Financial System TINS Reqmts Defined	Thu 10/24/13	Thu 10/24/13											
6	Go-NoGo	Thu 10/24/13	Thu 10/24/13											
7	Build	Thu 10/31/13	Fri 2/28/14											
8	Software Configuration	Thu 10/31/13	Fri 2/28/14											
9	Data Cleansing (In-House)	Thu 10/31/13	Fri 2/28/14											
10	Achieve	Mon 3/3/14	Fri 7/4/14	FROM-OCM (Need the OCM completed); WITH-LOB (There needs to be a 30 day overlap with the LOB vendor for integration)										
11	Post-Implementation	Thu 1/2/14	Thu 12/11/14											
12	Support	Mon 7/7/14	Thu 9/4/14											
13	State Financial System TINS Implementation (Integration)	Thu 1/2/14	Tue 3/4/14											
14	Integration with LOB	Mon 10/13/14	Thu 12/11/14	WITH-LOB (The development of the integration between the FSR and the LOB needs to be completed with Phase 1 of the LOB so they can be tested together)										
15	Business Rules (BR) Project	Fri 6/1/12	Thu 4/23/15											
16	Phase 1 - Active Membership	Fri 6/1/12	Thu 2/20/14	TO-LOB (Business rules for Phase 1 Elaboration)										
17	Phase 1 Priority A	Fri 6/1/12	Wed 1/23/13											
18	Phase 1 Priority B	Thu 1/24/13	Thu 2/20/14											
19	Phase 2 - Benefits	Fri 2/21/14	Thu 4/23/15	TO-LOB (Business rules for Phase 2 Elaboration)										
20	Phase 2 Priority A	Fri 2/21/14	Thu 12/11/14											
21	Phase 2 Priority B	Fri 12/12/14	Thu 4/23/15											
22	Data Management (DM) Project	Wed 1/2/13	Tue 3/1/16											
23	Phase 1 - Active Membership	Wed 1/2/13	Thu 4/17/14											
24	Phase 1 Data Assessment (can be migrate	Wed 1/2/13	Tue 12/10/13	TO-LOB (data for Phase 1 Elaboration)										
25	Data Level 1 Demographic/Foundational Data	Wed 1/2/13	Thu 3/7/13											
26	Data Level 2 Employment History	Fri 3/8/13	Thu 5/9/13											
27	Data Level 3 Contribution/Wage History	Fri 5/10/13	Tue 7/16/13											
28	Data Level 4 Invoicing History	Wed 7/17/13	Tue 12/10/13											

ID	Task Name	Start	Finish	Notes	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
29	Phase 1 Data Conditioned	Fri 3/8/13	Thu 4/17/14	TO-REO (cleansed data for training); TO-LOB (conditioned data for Phase 1 system and UAT testing)										
30	Data Level 1 Demographic/Foundational Data	Fri 3/8/13	Mon 8/5/13											
31	Data Level 2 Employment History	Fri 5/10/13	Tue 10/8/13											
32	Data Level 3 Contribution/Wage History	Wed 7/17/13	Fri 12/13/13											
33	Data Level 4 Invoicing History	Wed 12/11/13	Thu 4/17/14											
34	Phase 2 - Benefits	Fri 4/18/14	Tue 3/1/16											
35	Phase 2 Data Assessment (can be migrate	Fri 4/18/14	Thu 10/29/15	TO-LOB (data for Phase 2 Elaboration)										
36	Data Level 5 Member Benefits	Fri 4/18/14	Thu 9/4/14											
37	Data Level 6 Beneficiary Benefits	Fri 9/5/14	Thu 1/22/15											
38	Data Level 7 Insurance	Fri 1/23/15	Thu 6/11/15											
39	Data Level 8 Other	Fri 6/12/15	Thu 10/29/15											
40	Phase 2 Data Conditioned	Fri 9/5/14	Tue 3/1/16	TO-LOB (conditioned data for Phase 2 system and UAT testing)										
41	Data Level 5 Member Benefits	Fri 9/5/14	Tue 1/6/15											
42	Data Level 6 Beneficiary Benefits	Fri 1/23/15	Tue 5/26/15											
43	Data Level 7 Insurance	Fri 6/12/15	Tue 10/13/15											
44	Data Level 8 Other	Fri 10/30/15	Tue 3/1/16											
45	Pension Admin (LOB) Line of Business Project	Fri 11/1/13	Thu 3/29/18	The phases are laid out according to a RUP which are 10% Inception (high-level scoping), 30% Elaboration (requirements gathering), 50% Construction (vendor develop and test), 10% Transition (TRS UAT) it assumes a 4 year project										
46	Phase 1 - Active Membership	Fri 11/1/13	Sun 2/28/16											
47	Phase 1 - Inception: REO	Fri 11/1/13	Mon 1/20/14	WITH-FSR (There needs to be a 30 day overlap with the FSR vendor for integration)										
48	Phase 1 - Inception: LOB	Fri 11/1/13	Mon 1/20/14											
49	Phase 1 - Elaboration: REO	Fri 2/21/14	Thu 6/12/14	FROM-BR (first set of business rules for "active mbrship"), FROM-DM (data migrated over)										
50	Phase 1 - Elaboration: LOB	Fri 2/21/14	Thu 9/18/14	FROM-BR (first set of business rules for "active mbrship"), FROM-DM (data migrated over)										
51	Phase 1 - Construction: REO	Fri 6/13/14	Thu 12/11/14	TO-REO (provide report format (draft & final); FROM-DM (cleansed data for "active mbrship")										
52	Phase 1 - Construction: LOB	Fri 9/19/14	Thu 9/3/15	FROM-DM (cleansed data for active mbrship), WITH-FSR (integration)										
53	Phase 1 - Transition: REO	Fri 12/12/14	Thu 2/5/15											
54	User Acceptance Testing: REO	Fri 12/12/14	Thu 2/5/15											
55	Phase 1 - Transition: LOB	Mon 9/14/15	Sun 2/28/16	FROM-REO (all REs must be certified before go-live)										
56	Phase 2 - Benefits	Thu 4/21/16	Thu 3/29/18											
57	Phase 2 - Inception	Thu 4/21/16	Wed 6/29/16											
58	Phase 2 - Elaboration	Thu 6/30/16	Thu 2/2/17	FROM-BR (second set [Benefits] of BRs), FROM-DM (data migrated over)										
59	Phase 2 - Construction	Fri 2/3/17	Thu 1/18/18	FROM-DM (cleansed data for "benefits")										
60	Phase 2 - Transition	Fri 1/19/18	Thu 3/29/18											



ID	Task Name	Start	Finish	Notes	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
91	Organizational Change Management (OCM) Project	Fri 10/25/13	Thu 3/29/18												
92	Financial Org Change Mgmt	Fri 10/25/13	Fri 11/22/13	TO-FSR (org change mgmt for General Acctg, HR)											
93	Phase 1 - Active Membership	Mon 1/18/16	Sun 2/28/16												
94	Business	Mon 1/18/16	Sun 2/28/16												
95	IT	Mon 1/18/16	Sun 2/28/16												
96	Phase 2 - Benefits	Fri 2/16/18	Thu 3/29/18												
97	Business	Fri 2/16/18	Thu 3/29/18												
98	IT	Fri 2/16/18	Thu 3/29/18												
99	Maintenance & Enhancements (M&E) Project	Mon 2/29/16	Fri 6/17/16												
100	Code Deployment #1	Mon 2/29/16	Fri 3/25/16	FROM-LOB (Start to provide new LOB system fixes and enhancements after Phase 1 is implemented)											
101	Code Deployment #2	Mon 3/28/16	Fri 4/22/16												
102	Code Deployment #3	Mon 4/25/16	Fri 5/20/16												
103	Code Deployment #4	Mon 5/23/16	Fri 6/17/16												

Interdependency Assumptions:

1. All the dates are estimated. They will be finalized once the Pension Administration Line of Business and the Financial vendors are selected and their schedules are approved.
2. The Pension Administration Line of Business project timeframe is 4 years
3. The Pension Administration Line of Business project will be divided into 2 phases
4. The Pension Administration Line of Business project will utilize a standard methodology called Rational Unified Process (RUP), which consists of four phases called Inception, Elaboration, Construction and Transition.

Tab 17

Teacher Retirement System of Texas



Cash Disbursements March and April, 2013

Don Green, Chief Financial Officer

Board of Trustees Meeting
June 14, 2013



Financial Statements

March and April 2013 Cash Disbursements Pension Trust Fund

To: TRS Board of Trustees
Brian Guthrie, Executive Director
Ken Welch, Deputy Director

From: Don Green, Chief Financial Officer

Date: June 14, 2013

Section 825.314(b) of the Texas Government Code requires the staff of the retirement system to report to the board at each board meeting the amounts and uses since the preceding board meeting of any money expended by the system from the Pension Trust Fund along with an explanation of why the amounts were needed to perform the fiduciary duties of the board. The 82nd Texas State Legislature adopted provisions allowing operating expenses of the system to be paid out of the Pension Trust Fund. On June 8, 2012, the board approved the Administrative Operations budget for fiscal year 2013.

Total Administrative Expenses (excluding TEAM Program) of \$5.8 million were disbursed in March, 2013. *Salaries and Other Personnel Costs* were \$4.0 million, *Professional Fees* were \$0.6 million, *Capital Projects* were \$0.4 million, and *Other Operating Expenses* were \$0.8 million. Items of interest include \$331 thousand for investment counsel and \$120 thousand for outside legal counsel.

Total Administrative Expenses (excluding TEAM Program) of \$4.9 million were disbursed in April, 2013. *Salaries and Other Personnel Costs* were \$3.9 million, *Professional Fees* were \$0.2 million, *Capital Projects* were \$14 thousand, and *Other Operating Expenses* were \$0.8 million. Items of interest include \$155 thousand for investment counsel and \$115 thousand for newsletter printing.

TEAM Program Expenses of \$1.2 million were disbursed in March, 2013. *Salaries and Other Personnel Costs* were \$.1 million, *Professional Fees* were \$.1 million, and *Other Operating Expenses* were \$1.0 million. Items of interest include \$101 thousand for program management services and \$891 thousand for capitalized equipment associated with the network storage expansion.

TEAM Program Expenses of \$397 thousand were disbursed in April, 2013. *Salaries and Other Personnel Costs* were \$123 thousand, *Professional Fees* were \$212 thousand, and *Other Operating Expenses* were \$62 thousand. Item of interest includes \$144 thousand for data management services.



Financial Statements

Pension Trust Fund				
Cash Disbursements - FY 2013				
YTD for the Month Ended April 30				
	2013		2012	
September	\$	6,956,188	\$	6,793,546
October		7,527,488		6,450,857
November		7,342,717		4,929,626
December		5,384,514		5,984,486
January		13,588,764 (a)		12,409,354
February		5,410,553		5,413,959
March		7,046,291		5,482,609
April		5,272,203		5,071,073
Totals	\$	58,528,718 (b)	\$	52,535,510 (c)

(a) Includes \$6.9 million in incentive compensation pay.
 (b) Includes reimbursements of \$18,092.74
 (c) Cash Disbursements totaled \$74,094,530 at August 31, 2012.

