

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

**AGENDA**

**October 18, 2013 – 10:00 a.m.**

**TRS East Building, 5<sup>th</sup> Floor, Boardroom**

*NOTE: The Board may take up in any order the items posted on the agenda during its meeting on Friday, October 18, 2013.*

*The open portions of the October 18, 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](http://www.trs.state.tx.us).*

1. Call roll of Board members.
2. Consider administrative matters, including the following – David Kelly:
  - A. Approval of the September 12-13, 2013 Board meeting minutes.
  - B. Excuse Board member absences from the September 12-13, 2013 Board meeting.
  - C. Consider the election of the Board Vice-Chair.
  - D. Consider consenting to the Board Chair's appointment of committee members, and receive the Board Chair's announcement of committee chairs.
  - E. Consider Board and committee meeting dates for calendar year 2014, including any off-site meeting locations.
3. Receive public comment – David Kelly.
4. Review and discuss the Executive Director's report on the following matters – Brian Guthrie:
  - A. Review of draft agendas for upcoming meetings.
  - B. Administrative operations, including financial, audit, legal, staff services, board administration activities, and special projects.
5. Receive the Deputy Director's report – Ken Welch.
6. Receive a presentation from CEM on pension administration benchmarking – Rogier Slingerland, CEM
7. Receive an overview of custody services – Sylvia Bell and Scot Leith.

8. Receive a presentation on State Street Bank and Trust, Co. – Gunjan Kedia, Rick Young, Joseph Barry, Jessica Donohue, and Nicholas Bonn, State Street Bank and Trust Co.
9. Receive a presentation on and discuss potential future amendments to the Trustee Ethics Policy and position description and the Employee Ethics Policy and related documents, including the process and next steps for adoption of amendments – Carolina de Onís; Tim Wei; and Steve Huff, Reinhart Boerner Van Deuren s.c.
10. Receive the Chief Financial Officer’s 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.
11. Discuss a principal investment transaction in the financial sector in a foreign jurisdiction, which relates to an investment in a private investment fund or the purchase, holding, or disposal of restricted securities or a private investment fund’s investment in restricted securities – Rich Hall, Mike Lazorik, and Tim Wei.
12. 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.
13. 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 A



## Teacher Retirement System of Texas

Minutes of the Board of Trustees  
September 12-13, 2013

The Board of Trustees of the Teacher Retirement System of Texas met on September 12, 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  
Joe Colonna  
Chris Moss  
Anita Palmer  
Nanette Sissney

Others present:

Brian Guthrie, TRS	Lynn Lau, TRS
Ken Welch, TRS	Scot Leith, TRS
Amy Barrett, TRS	Denise Lopez, TRS
Janet Bray, TRS	Rebecca Merrill, TRS
Carolina de Onís, TRS	Melinda Nink, TRS
Howard Goldman, TRS	Hugh Ohn, TRS
Don Green, TRS	Noel Sherman, TRS
T. Britton Harris IV, TRS	Garry Sitz, TRS
Jerry Albright, TRS	Rebecca Smith, TRS
Thomas Albright, TRS	Sharon Toalson, TRS
Jase Auby, TRS	David Veal, TRS
Mohan Balachandran, TRS	Angela Vogeli, TRS
Michelle Bertram, TRS	Dale West, TRS
Ronnie Bounds, TRS	Dr. Keith Brown
Tina Carnes, TRS	Steve Huff, Reinhart Boerner Van Deuren
Cindy Collins, TRS	Steve Voss, Hewitt EnnisKnupp
Susanne Gealy, TRS	Brady O'Connell, Hewitt EnnisKnupp
Dennis Gold, TRS	Ruchir Sharma, Morgan Stanley
Brian Golmoski, TRS	John Claisse, Albourne America
Terry Harris, TRS	Ronnie Jung, Texas Retired Teachers Association
Dan Herron, TRS	Leroy DeHaven, Texas Retired Teachers Association
Katy Hoffman, TRS	Ann Fickel, Texas Classroom Teachers Association
Clarke Howard, TRS	Jeff Lambert, State Street
Janis Hydak, TRS	Ted Melina Raab, Texas American Federation of Teachers
Dan Junell, TRS	Josh Sanderson, Association of Texas Professional Educators
Eric Lang, TRS	Tom Roger, Austin Retired Teachers Association & Texas Retired Teachers Association

Mr. Kelly called the meeting to order at 1:50 p.m.

**1. Call roll of Board members.**

Ms. Lau called the roll. A quorum was present. Ms. Charleston, Ms. Clifton and Mr. McDonald were absent.

Mr. Kelly announced that the board would take up agenda item 2.B.

**2. Consider administrative matters, including the following:**

**B. Consider the election of the Board Vice-Chair**

On a motion by Mr. Barth, seconded by Ms. Palmer, the board unanimously elected Ms. Sissney to be the board vice-chair.

**A. Consider the approval of the July 26, 2013 Board meeting minutes.**

On a motion by Mr. Moss, seconded by Ms. Sissney, the board unanimously approved the minutes for the July 26, 2013 meeting.

**C. Consider consenting to the Board Chair's appointment of committee members, and receive the Board Chair's announcement of committee chairs.**

The board deferred the appointment of committee members until two new trustees replacing Ms. Clifton and Mr. McDonald were appointed.

**D. Consider Board and committee meeting dates for calendar year 2014, including any off-site meeting locations.**

The board deferred the consideration of the 2014 meeting dates until after the governor has made the pending appointments to the board and the appointees have assumed their duties.

Mr. Kelly requested that staff prepare alternative dates for the April 2014 meeting to accommodate trustees who will be busy that month.

**3. Receive public comment**

Mr. Kelly called for public comment. No comment was received.

After a recess at 8:37 a.m., the board reconvened at 1:00 p.m.

**4. Review and discuss the Executive Director's report, including matters related to**

**A. Executive Director's agency goals and objectives for Fiscal Year 2014, including strategic planning and identified priorities.**

Mr. Guthrie presented the agency goals and objectives for fiscal year (FY) 2014. He updated the board on the activities relating to TRS-Care and TRS-ActiveCare. He said the health care study would be expanded to include TRS-ActiveCare and its enrollment. He reported on the progress of implementing the TEAM program. He talked about the development of agency core values. Mr. Guthrie also addressed space planning for TRS' offices. Mr. Kelly requested that staff provide the board a study on the space planning options and their pros and cons. Ms. Sissney

asked that the study include the concerns that the proposed options would remedy. Mr. Guthrie stated that staff would present the study at the February 2014 meeting.

**B. An update on recent and upcoming educational opportunities.**

Mr. Guthrie reviewed the recent and upcoming training opportunities for both trustees and staff.

**C. Review upcoming agendas.**

Mr. Guthrie reviewed the October, December and February board meeting agendas. Mr. Kelly requested that staff arrange a presentation on the Affordable Care Act and its impact on TRS members. He suggested inviting other public retirement funds in the area to the discussion.

Mr. Kelly announced that the board would take up agenda item 12.

**12. Receive the Chief Financial Officer's 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 June and July 2013 that were required to perform the fiduciary duties of the board. He also provided highlights on the Comprehensive Annual Financial Report and noted that about \$17 million of the funds budgeted for FY 2013 remained unspent, including funding for the TEAM program, soft dollar expenditure, salary and benefits, travel, and professional fees. Per Mr. Kelly's request, Mr. Green said he would provide further details on those savings. Mr. Green also noted that, with Ms. Sissney's guidance, redesigned monthly financial reports would be provided to trustees.

After a recess at 1:40 p.m., the board reconvened at 1:51 p.m.

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

**A. Performance Review: Second Quarter 2013 – Brady O'Connell and Steve Voss, Hewitt EnnisKnupp.**

Mr. Brady O'Connell of Hewitt EnnisKnupp presented the performance review for the second quarter of 2013 ending June 30, 2013.

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

Mr. Harris discussed the global market analysis comparing the economic performance of the US market with other countries since 2006.

Mr. Colonna left at 2:30 p.m.

- C. Receive a presentation on emerging markets entitled, “The Post-BRICS World” – Ruchir Sharma, Morgan Stanley.**

Mr. Ruchir Sharma of Morgan Stanley gave a presentation on emerging markets with a focus on the economies of Brazil, Russia, India, China and South Africa (BRICS).

After a recess at 3:15 p.m., the board reconvened at 3:36 p.m., by which time Ms. Charleston had arrived.

- D. Review the report of the Investment Management Committee on its September 12, 2013 meeting, and consider related matters – Committee Chair.**

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

The Investment Management Committee met today. The first presentation was a review of the external public markets portfolio, which was presented by Dale West and his group. Next David Veal reviewed the five-year anniversary of the public markets strategic partnership network. Then Mohan Balachandran discussed the Investment Management Division (IMD) process for developing new internal portfolios. The last presentation was made by James Nield regarding risk parity strategies.

- E. Review the report of the Risk Committee on its September 12, 2013 meeting, and consider related matters – Committee Chair.**

Mr. Barth, Presiding Chair, provided the report of the Risk Management Committee as follows:

The Risk Committee met today. Jase Auby reviewed the various risk measures including asset allocation, tracking error, and levels of leverage and derivative exposures.

Taking up agenda item 7, Mr. Kelly asked Mr. Barth to present the report of the Policy Committee.

- 7. Review the report of the Policy Committee on its September 12, 2013 meeting, and consider related matters – Committee Chair:**

**Consider proposed changes to the Investment Policy Statement.**

**Consider proposed changes to the Employment At-Will Policy.**

**Consider final adoption of proposed amended TRS Rule 34 Tex. Admin Code § 47.17 of Chapter 47, Qualified Domestic Relations Orders, relating to calculation for alternate payee benefits before a member’s benefit begins.**

**Consider final adoption of proposed amended TRS-ActiveCare Rule 34 Tex. Admin. Code § 41.41, relating to premium payments.**

Mr. Barth, Presiding Chair, provided the report of the Policy Committee as follows:

The Policy Committee considered and recommended adoption of five amendments to the Investment Policy Statement. The committee also began the required review of the Proxy Voting Policy, and recommended amendments to the Employment At-Will Policy. Additionally, the committee adopted an updated policy review schedule. Finally, the committee recommended to the board final adoption of proposed TRS rules § 47.17 and § 41.41.

On a motion by Mr. Barth, the board unanimously adopted the following resolution amending the Investment Policy Statement as recommended by the committee:

**Resolved**, That the Policy Committee of the Board hereby recommends to the Board adoption of the proposed revised version of the Investment Policy Statement ("IPS") as presented to the Policy Committee.

On a motion by Mr. Barth, the board unanimously adopted the following resolution amending the Employment At-Will Policy as recommended by the committee:

**Whereas**, It is the policy of the Board of Trustees of the Teacher Retirement System of Texas (TRS) that employees of TRS are employed at will; now, therefore, be it

**Resolved**, That the Board readopts the attached At-Will Employment Policy of TRS.

On a motion by Mr. Barth, the board unanimously adopted the following resolutions amending § 47.17 and § 41.41 of the TRS rules as recommended by the committee:

**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**, 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 and provides the deadline for making such payments to TRS;

**Whereas**, In June 2013, in response to an unexpectedly high level of claims during the current plan year, which has placed the solvency of the TRS-ActiveCare fund at risk, the TRS Board of Trustees (board) adopted proposed amendments to TRS-ActiveCare rule § 41.41 on an emergency basis;

**Whereas**, Pursuant to the authority granted by the Policy Committee (committee) of the board at its June 2013 meeting, TRS published the very same proposed amendments to TRS-ActiveCare rule § 41.41 for public comment in the June 28, 2013 issue of the *Texas Register* (38 TexReg 4162-4163);

**Whereas,** The public has had at least 30 days' notice of TRS' intention to adopt the proposed amendments on a permanent, non-emergency basis and TRS received no comments; and

**Whereas,** The committee has recommended that the board adopt the proposed amendments to TRS-ActiveCare rule § 41.41 on a permanent, non-emergency basis, and the board desires to adopt the proposed amendments on a permanent, non-emergency basis, without changes to the published texts of the proposed rule; now, therefore, be it

**Resolved,** That the board hereby:

- 1) Adopts on a permanent, non-emergency basis, amended TRS rule 34 Tex. Admin. Code § 41.41 as published in the June 28, 2013 issue of the *Texas Register* (38 TexReg 4162-4163);
- 2) Incorporates by reference into this Resolution, as though fully set out in it, the applicable 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.

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**Whereas,** Chapter 804, Texas Government Code gives the Teacher Retirement System of Texas (TRS), as trustee, the exclusive authority to determine whether a domestic relations order is a qualified domestic relations order (QDRO) that requires TRS to pay a portion of the benefits payable on behalf of a participant to an alternate payee;

**Whereas,** Section 804.005, Texas Government Code authorizes an alternate payee to elect and receive an amount in lieu of the amount awarded under the terms of a QDRO, that is the alternate payee's portion of the actuarial equivalent of the accrued retirement benefit of the TRS participant, determined as if the participant retired on the date of the alternate payee's election, provided the participant is at least age 62 and eligible for normal age retirement and the amount is payable in the form of annuity for the life of the alternate payee;

**Whereas,** Section 804.005(g), Texas Government Code, authorizes the TRS Board of Trustees ("board") to adopt rules it considers necessary to implement and administer the section;

**Whereas,** A recent review of TRS rule § 47.17(y), relating to Calculation for Alternate Payee Benefits Before a Member's Benefit Begins, revealed an error in the text that results in the alternate payee receiving less than the amount required under the statute;

**Whereas,** The proposed amendment to TRS rule § 47.17(y), relating to Calculation for Alternate Payee Benefits Before a Member's Benefit Begins, provides the correct

instructions for calculating the alternate payee's portion of the actuarial equivalent of the member's accrued benefit when the QDRO directs TRS to pay the alternate payee a stated monthly amount;

**Whereas**, pursuant to the authority granted by the Policy Committee of the board at its June 2013 meeting, TRS published proposed changes to § 47.17 for public comment in the July 5, 2013 issue of the *Texas Register*, and the public had at least 30 days' notice of TRS' intention to adopt the proposed amendment before the board considered its adoption and TRS received no comments; and

**Whereas**, The board's policy committee has recommended that the board adopt the proposed amendment, and the board desires to adopt the proposed amendment 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 § 47.17 as published in the July 5, 2013 issue of the *Texas Register* (38 TexReg 4305);
- 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.

**6. Review the report of the Compensation Committee on its September 12, 2013 meeting, and consider proposed amendments to and ratification of the Performance Incentive Pay Plan for the period beginning October 1, 2013 – Committee Chair.**

Ms. Sissney, Committee Chair, provided the report of the Compensation Committee as follows:

The Compensation Committee met on September 12, 2013. Jerry Albright presented a state auditor-recommended change to the Performance Incentive Pay Plan that would require the board to ratify the plan each year. The committee recommended to the board adoption of a resolution amending and ratifying the pay plan for the performance period beginning October 1, 2013.

On a motion by Ms. Sissney, the board unanimously adopted the following resolution amending and ratifying the Performance Incentive Pay Plan as recommended by the committee:

**Resolved**, That the Board hereby adopts the amended Performance Incentive Pay Plan as recommended by the Compensation Committee, and hereby ratifies and confirms continuation of the Plan, as amended, for the Performance Periods beginning October 1, 2013.

Mr. Kelly announced that the board would take up agenda item 8.

**8. Receive the Deputy Director's report, including an update on legislative implementation**

Mr. Welch provided a brief update on legislative issues. He noted the increased workload on the benefits staff because of members' rush to purchase service credit by August 31, 2013 before the cost increased under legislation enacted in 2011. He also updated the process of distributing the cost-of-living adjustment benefits passed in the last legislative session.

Mr. Welch reviewed current operational activities. He mentioned strategic planning efforts and remodeling to accommodate contractors. He addressed hold times in the Telephone Counseling Center in July and the challenges in accurately calculating them.

Mr. Welch stated that the five positions of the Retirees Advisory Committee (RAC) would be up for nomination in January. He stated that staff would recommend candidates to the Benefits Committee in December to fill the positions. Mr. Guthrie noted that after the new RAC was formed, the RAC members would be invited to address the issues relating to the health care programs and their recommended approach to those issues.

Mr. Kelly announced that the board would take up agenda item 13.

**13. 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, and discuss the determination of whether to seek lead plaintiff status in securities class action litigation**

Mr. Kelly announced that the board would go into executive session for items 13 and 15 to seek advice from legal counsel about litigation pursuant to § 551.071 of the Government Code. He asked that all members of the public and staff not needed for the session to leave the meeting room and take their belongings with them.

Whereupon, the board went into executive session at 3:55 p.m.

The meeting reconvened in open session and recessed at 4:25 p.m.

The Board of Trustees of the Teacher Retirement System of Texas reconvened on September 13, 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  
Joe Colonna (via telephone conferencing)  
Chris Moss  
Anita Palmer  
Nanette Sissney

Others present:

Brian Guthrie, TRS  
Ken Welch, TRS  
Amy Barrett, TRS  
Janet Bray, TRS  
Carolina de Onís, TRS  
Dennis Gold, TRS  
Howard Goldman, TRS  
Don Green, TRS  
Jerry Albright, TRS  
Amy Morgan, TRS  
Marianne Woods Wiley, TRS  
Michelle Bertram, TRS  
Cindy Collins, TRS  
Adam Fambrough, TRS  
Cindy Haley, TRS  
Dan Herron, TRS  
Ronnie Bounds, TRS  
David Cook, TRS

Dan Junell, TRS  
Lynn Lau, TRS  
Jay LeBlanc, TRS  
Rebecca Merrill, TRS  
Jamie Michels, TRS  
T. A. Miller, TRS  
Melinda Nink, TRS  
Scot Leith, TRS  
Noel Sherman, TRS  
Tim Wei, TRS  
Keith Robinson, Focus Consulting Group  
Michael Johnson, Bridgepoint Consulting  
Steve Huff, Reinhart Boerner Van Deuren  
Ted Melina Raab, Texas American Federation of Teachers  
Ann Fickel, Texas Classroom Teachers Association  
Leroy DeHaven, Texas Retired Teachers Association  
Andy Tonkovich, HP  
Ernie Sanders, HP  
Sergio Rodriguez , CGI Technology

Mr. Kelly called the meeting to order at 9:47 a.m.

**1. Call roll of Board members.**

Ms. Lau called the roll. A quorum was present. Mr. Clifton and Mr. McDonald were absent. Mr. Colonna participated in the board meeting by telephone conference call pursuant to § 551.130 of the Texas Open Meetings Act (chapter 551 of the Texas Government Code), concerning participation by a TRS board member in a board meeting by telephone conference call.

**3. Public Comments**

Mr. Leroy DeHaven of the Texas Retired Teachers Association expressed his appreciation to TRS board and staff for their effort in working with the legislators on the cost-of-living adjustment benefits for the retirees.

**9. Receive a presentation from the TEAM Program Independent Program Assessment (IPA) Vendor**

Mr. Michael Johnson reviewed the objectives and the status of previously reported observations. Concerning the observation relating to budget tracking, Mr. Green stated that staff was incorporating all the comments into future budget reports.

Mr. Johnson reviewed activities completed since June and activities planned for the next observation period.

**10. Receive an update on the TEAM Program, including details on the Pension Line of Business Proof of Concept and the Financial System Replacement project**

Ms. Pearson presented the overall progress of the TEAM projects.

Ms. Michels presented the latest developments concerning the financial system replacement (FSR) project and explained the envision phrase. She announced that CGI Technology (CGI) had been awarded the contract on the FSR project. Mr. Sergio Rodriguez of CGI introduced himself and described CGI. Ms. Michels stated that the FSR project was currently in the envision phase, which involved project team training, familiarization sessions, knowledge transfer and technical assessment of the hardware and software support needs. Ms. Michels also provided an overview of the scope of the FSR project.

Mr. Cook presented the proof of concept process in the line of business (LOB), including its purpose, objectives, structure, results and lessons learned. Responding to a question from Mr. Kelly regarding any unexpected issues experienced during the process so far, Mr. Cook replied that the vendors had shown staff new solutions and processes. He stated that staff would use lessons learned in the procurement phases to implement the line of business and financial system replacement projects.

Ms. Pearson reviewed the milestones and accomplishments of the TEAM program.

Mr. Kelly complimented staff for reporting concerns. Mr. Moss explained that warning signs had been put in place and had alerted project participants to issues like straying from the main purpose of a product. Mr. Welch expressed his appreciation to Mr. Moss for being the board liaison in the TEAM project. Mr. Guthrie and Mr. Kelly discussed the benefits of having visited other systems that had undertaken similar large technology projects and having learned from their experiences.

**11. Receive the report of the Audit Committee on its September 13, 2013 meeting, and discuss and consider adoption of the proposed Audit Plan for Fiscal Year 2014**

Mr. Moss provided the report of the Audit Committee as follows:

The Audit Committee met at 8:00 a.m. on Friday, September 13, 2013, in the fifth floor boardroom. The State Auditor's Office presented their plan to conduct the audit of TRS Comprehensive Annual Financial Report for fiscal year (FY) 2013. Internal Audit presented the fraud risk identification and prevention controls audit, the semi-annual testing of benefit payments, the investment compliance program self-assessment, the quarterly investment testing, the information security follow-up audit, the status of prior audit and consulting recommendations, and the quality internal audit administrative reports. The committee was briefed on § 825.115 of the Texas Government Code regarding closed meetings with the retirement system's internal or external auditors, which became effective September 1, 2013. The committee approved a recommendation

to the Board of Trustees to adopt the proposed audit plan for FY 2014. The committee concluded at approximately 9:30 a.m.

On a motion by Mr. Moss as the committee chair, the board voted unanimously to adopt the proposed audit plan for FY 2014, as recommended by the Audit Committee.

The board did not take up agenda item 14, relating to personnel matters.

Whereupon, the meeting adjourned at 10:42 a.m.

Teacher Retirement System of Texas  
**Employment At-Will Policy**

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***Purpose*** To inform employees of the at-will nature of their employment at TRS.

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***Definition*** **At-Will Employment**  
In an at-will employment relationship:

- An employee does not have a contract guaranteeing employment for any period of time.
- An employer can terminate an employee at any time for any reason or no reason at all so long as that reason is not unlawful.
- An employee can resign at any time for any reason or no reason at all.

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***Applies To*** All TRS employees.

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***Policy*** Employees of TRS are employed at-will. This at-will employment relationship can only be modified by a written contract signed by the Chair of the TRS Board of Trustees or his or her designee.

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***Related Policies***

- *Grievance and Appeals Policy*
- *Involuntary Termination of Employment Policy*
- *Progressive Corrective Action Policy*

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*This policy does not constitute a contract nor a guarantee of employment and may be modified, superseded, or eliminated by TRS without notice to the employee. This policy statement supersedes all previous policy statements on this subject.*

Tab 2 B

October 3, 2013

MEMORANDUM

TO: Board of Trustees

FROM: Brian Guthrie

SUBJECT: Consideration of Board Members' Absence from September 12 - 13, 2013  
Board Meeting.

Board member absences may be excused by majority vote of the Board. Charlotte Clifton and Eric McDonald were unable to attend the Board meeting on September 12 – 13, 2013.

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Tab 4

# Teacher Retirement System of Texas



## *Executive Director's Report*

Brian Guthrie  
October 18, 2013





- Upcoming agendas.
- Update on LBJ School of Public Affairs Professional Development Center, Transformative Leadership Training.



# Upcoming Agendas



# 2013 Board Agendas (Cont'd)

## December 12-13, 2013 Major items include:

### Board

- Dr. Brown educational presentation.
- Review Comprehensive Annual Financial Report (CAFR).
- Review actuarial valuations.
- Make the TRS-ActiveCare procurements.
- Adopt ethics policy amendments.
- Adopt amendments to Proxy Voting Policy.
- Select new Retirees Advisory Committee members.

### Committees

- Review Tactical Asset Allocation, Strategic Asset Allocation, Risk Strategies, and Strategic Partnership Network.
- Begin review of Mission Statement.
- Review of the Commission Sharing Credits (CSA) and Soft Dollar Policy.
- Review of the Securities Lending Policy.
- Receive report on Enterprise Risk Management.



# 2013 Board Agendas (Cont'd)

## **February 12-14, 2014**

Three day “Board retreat” meeting to be held in Corpus Christi this year.

Do not anticipate committee meetings.

Major agenda items include the following:

- Substantial focus on TRS-Care and TRS-ActiveCare.
- Investment educational presentations.
- TEAM.
- Long-term space planning.
- Training on ethics and fiduciary, including qualifications for office.
- Training on open meetings and open records.



# Update on Transformative Leadership Training

Tab 6

# Teachers' Retirement System of Texas

## Pension Administration Benchmarking

### Results FY 2012



# This report is a management tool:

## To improve service levels

- Compare your service levels to your peers
- Insight into best practices

## To manage costs

- Understand the factors that influence costs
- Support arguments for investments in people or infrastructure

## To support business decisions

- Understand how and where other funds are investing in people, technology, service and growth

## To develop performance goals and standards

- Develop your performance framework and set realistic goals
- Measure the impact of major operations changes

## To measure and manage your performance

- Monitor your annual progress using an outside benchmark

## To communicate to stakeholders

- Demonstrate success and achievements to governing bodies
- Show progress to employees to recognize success and motivate

# CEM's universe of benchmarking participants:

## Participants

### Canada

APS  
 BC Pension Corporation  
 Canada Post  
 Defence Canada  
 Federal Public Service  
 (formerly PWGSC)  
 HOOPP  
 LAPP  
 OMERS  
 Ontario Pension Board  
 Ontario Teachers  
 OPTrust  
 RCMP  
 RRQ

### Denmark

ATP

### United Arab Emirates

Abu Dhabi RPB

### The Netherlands

ABN-AMRO  
 ABP  
 bpfBOUW  
 Pensioenfonds Metaal en Techniek  
 Pensioenfonds van de Metalektro  
 PF Horeca en Catering  
 PFZW  
 Rabobank  
 Stichting Algemeen Pensioenfonds KLM  
 Stichting Shell Pensioenfonds

### United Kingdom\*

BMW  
 BSA NHS Pension Scheme  
 National Grid UK Pension Scheme  
 Railways Pension Scheme  
 Principal Civil Service Pension Scheme  
 Scottish Public Pension Agency (SPPA)  
 The Pension Protection Fund (PPF)  
 Universities Superannuation Scheme (USS)

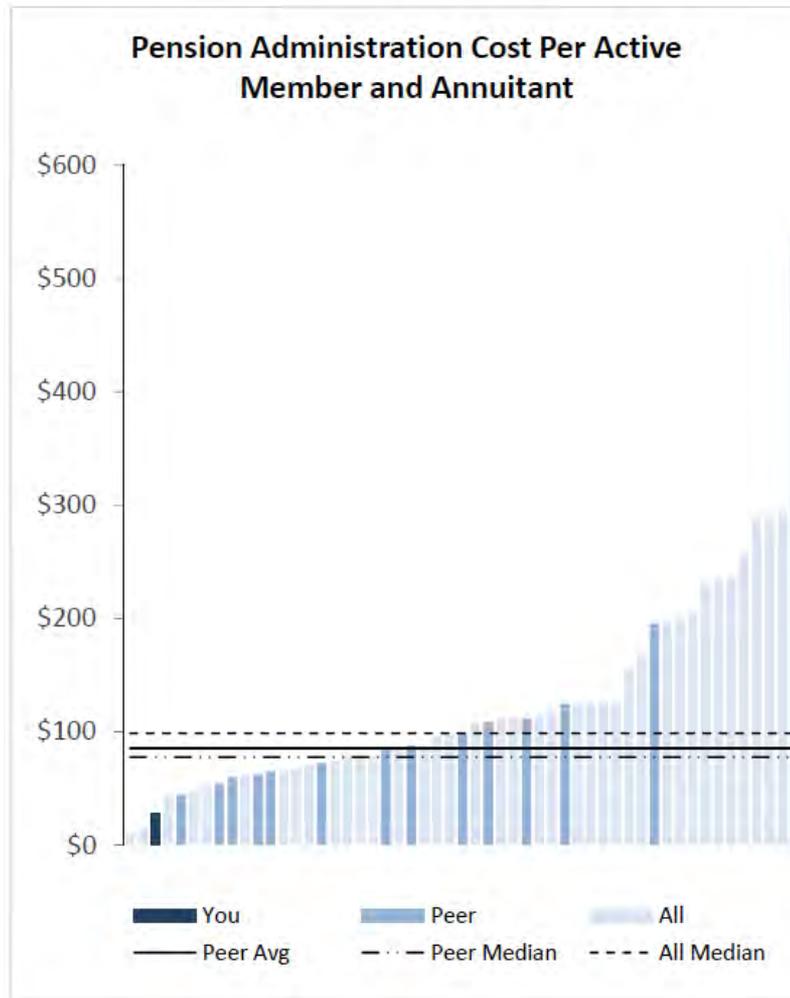
### United States

Arizona SRS  
 CalSTRS  
 Colorado PERA  
 Delaware PERS  
 Idaho PERS  
 Illinois MRF  
 Indiana PRS  
 Iowa PERS  
 KPERS  
 LACERA  
 Michigan ORS  
 MOSERS  
 Nebraska PERS  
 Nevada PERS  
 NYC TRS  
 NYSLRS  
 Ohio PERS  
 Ohio SERS  
 Orange County ERS  
 Oregon PERS  
 Pennsylvania PSERS  
 STRS Ohio  
 TRS Louisiana  
 TRS of Texas  
 Utah RS  
 Virginia RS  
 Washington State DRS  
 Wisconsin DETF

# TRS of Texas was compared to the following peers:

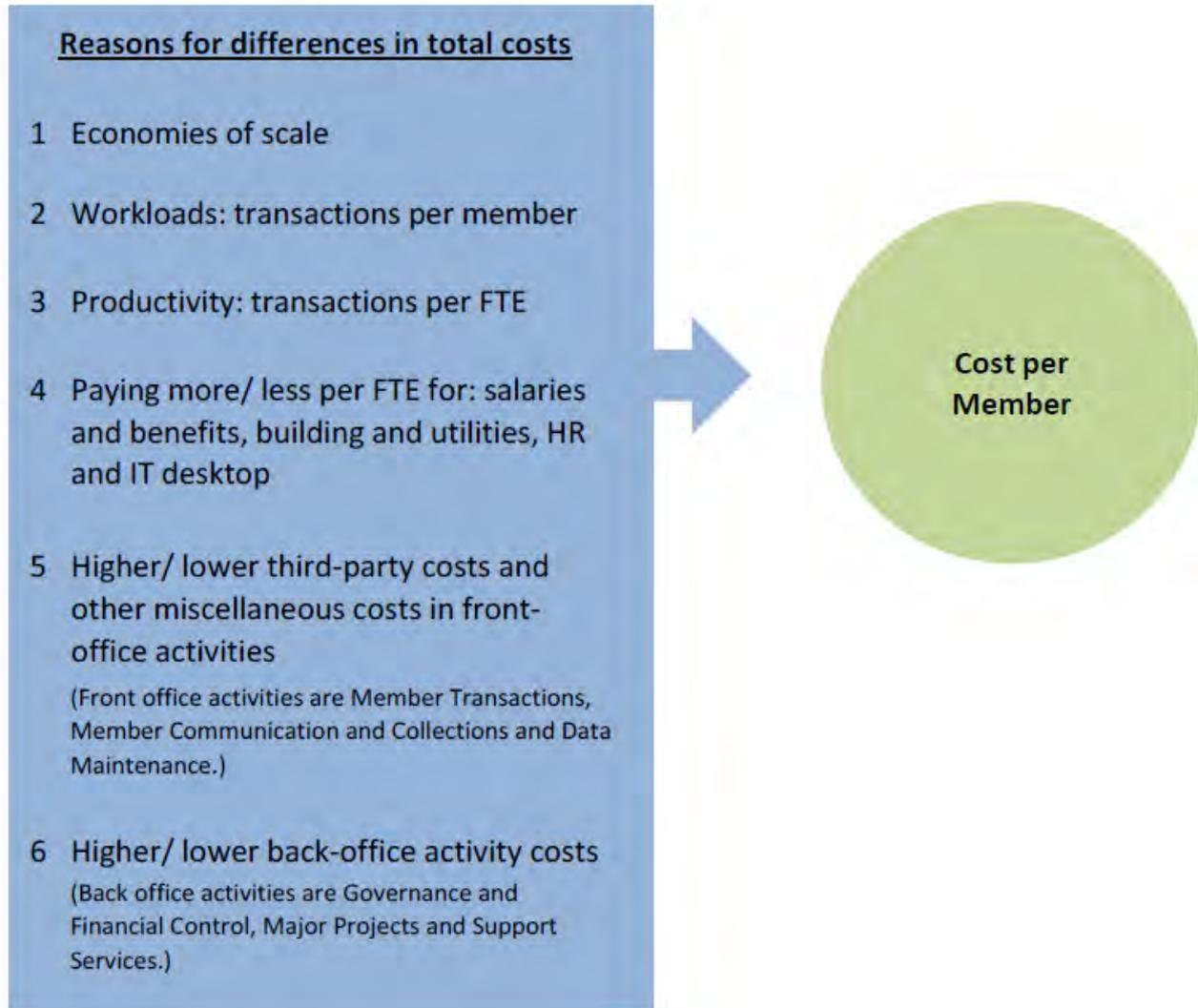
Custom Peer Group for TRS of Texas			
Peers (sorted by size)	Membership (in 000's)		
	Members	Annuitants	Total
<b>TRS of Texas</b>	830	332	1,162
NYSLRS	537	403	940
CalSTRS	421	247	668
Ohio PERS	349	182	532
Michigan ORS	264	255	520
Virginia RS	342	163	505
Pennsylvania PSERS	300	199	499
Washington State DRS	290	144	435
Wisconsin DETF	257	167	425
Indiana PRS	258	127	385
STRS Ohio	198	143	341
Colorado PERA	229	98	327
Arizona SRS	204	119	323
Oregon PERS	171	122	293
Peer Median	277	165	467
Peer Average	332	193	525

# Your Total Pension Administration Cost was \$28 per active and annuitant.



1. This was \$57 below the peer average of \$86.
2. Your cost per member are the lowest in your peer group and near the lowest in our universe.
3. Your total pension administration cost was \$33.1 million.

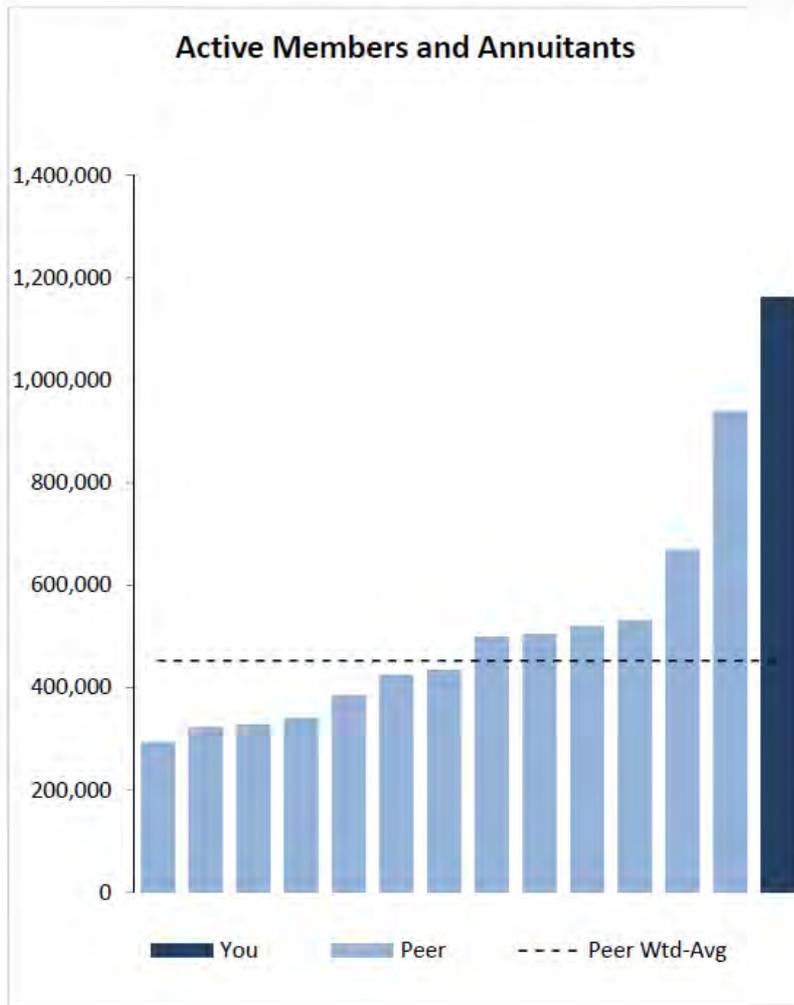
# CEM's Cost Model



# Reasons why your total cost was \$57 below the peer average:

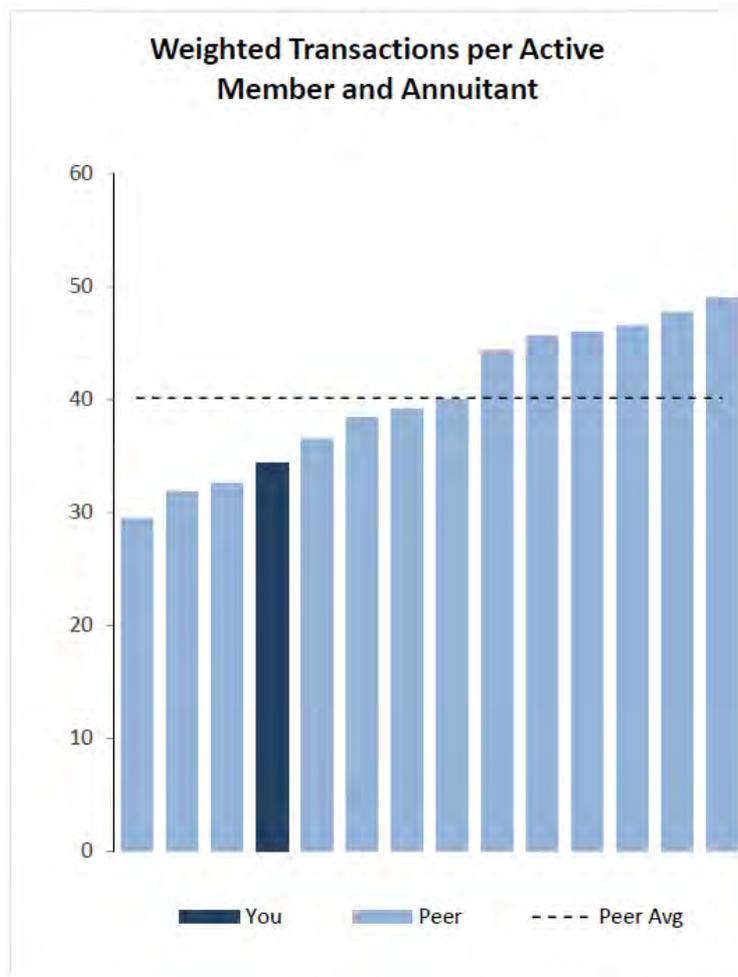
Reason	Impact
1. Economies of scale advantage	-\$5.75
2. Lower transactions per member (workloads)	-\$2.56
3. Higher transactions per FTE (productivity)	-\$18.63
4. Lower costs per FTE for: salaries and benefits, building and utilities, HR and IT desktop	-\$2.57
5. Lower third-party and other costs in front-office activities	-\$4.17
6. Paying more/-less for back-office activities:	
- Governance and Financial Control	-\$2.69
- Major Projects	-\$4.85
- IT Strategy, Database, Applications (excl. major projects)	-\$11.41
- Actuarial, Legal, Audit, Other Support Services	-\$4.42
<b>Total</b>	<b>-\$57.04</b>

# Reason 1: You had an economies of scale advantage.



1. You had 157% more members than the peer average.
2. This means you had a cost advantage relative to the average peer of \$5.75 per member.

## Reason 2: You had lower transaction volumes (workloads).



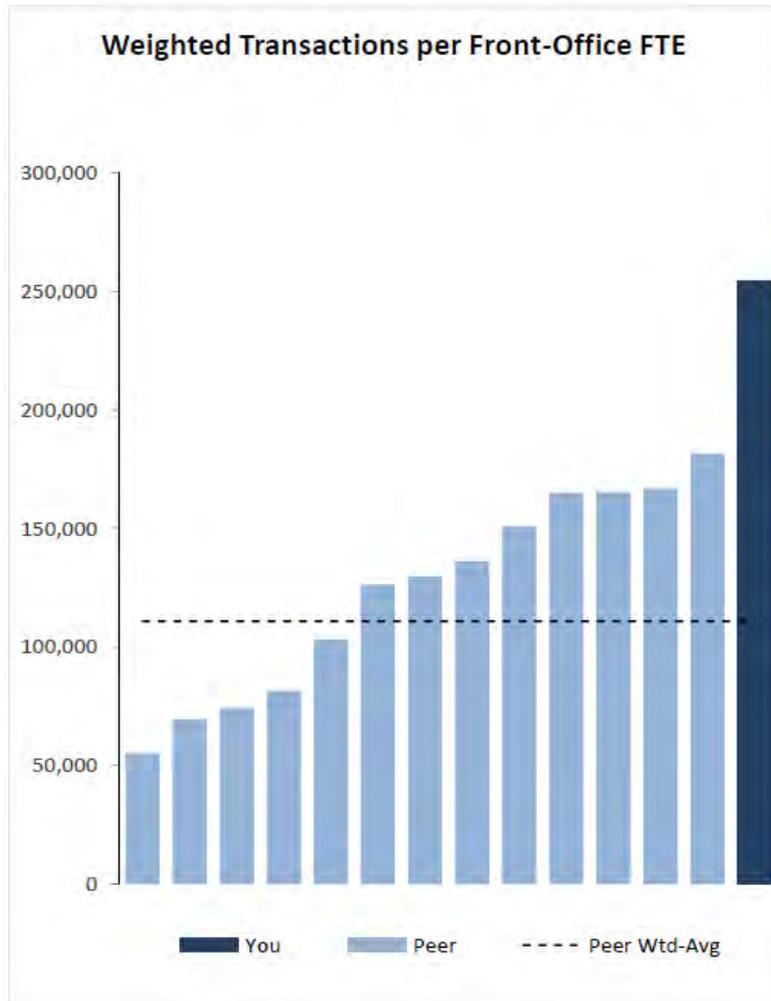
1. Your transactions were 14% below the peer average.
2. Your lower transaction volumes decreased your total cost per member by \$2.56 relative to the peer average.

# Where you did fewer transactions:

Where did you do more/fewer transactions?				
Front Office Transactions (or Transaction Driver)	Volume per 1,000 Active Members and Annuitants			\$ per Member Transaction Impact
	You	Peer Average	More/-Less	
<b>1. Member Transactions</b>				
a. Pension Payments (Annuitants)	285	371	-23%	-\$0.36
b. New Payee Inceptions	22	29	-24%	-\$0.46
c. Withdrawals and Transfers-out	37	35	5%	\$0.08
d. Purchases and Transfers-in	7	10	-27%	-\$0.21
e. Disability Applications	0.8	1.9	-57%	-\$0.47
<b>2. Member Communication</b>				
a. Calls and Emails	658	703	-6%	-\$0.17
b. Incoming Mail	479	478	0%	\$0.00
c. Members Counseled 1-on-1	9	27	-68%	-\$0.61
d. Member Presentations	0.2	1.3	-88%	-\$0.63
e. Written Estimates	24	24	2%	\$0.02
<b>3. Collections and Data Maintenance</b>				
a. Data and Money from Employers (Active Members)	715	629	14%	\$0.24
b. Service to Employers (Active Members)	715	629	14%	\$0.11
c. Data Not from Employers (Actives, Inactives, Annuitants)	1,149	1,405	-18%	-\$0.10
<b>Weighted Total</b>	<b>34,361</b>	<b>40,124</b>	<b>-14%</b>	<b>\$2.56</b>

- Differences in transaction volumes per member reflect differences in:
  - Membership mix
  - Member demographics
  - Member type/ industry group
  - System and plan complexity
  - Service levels

## Reason 3: You had higher transactions per FTE (total productivity).



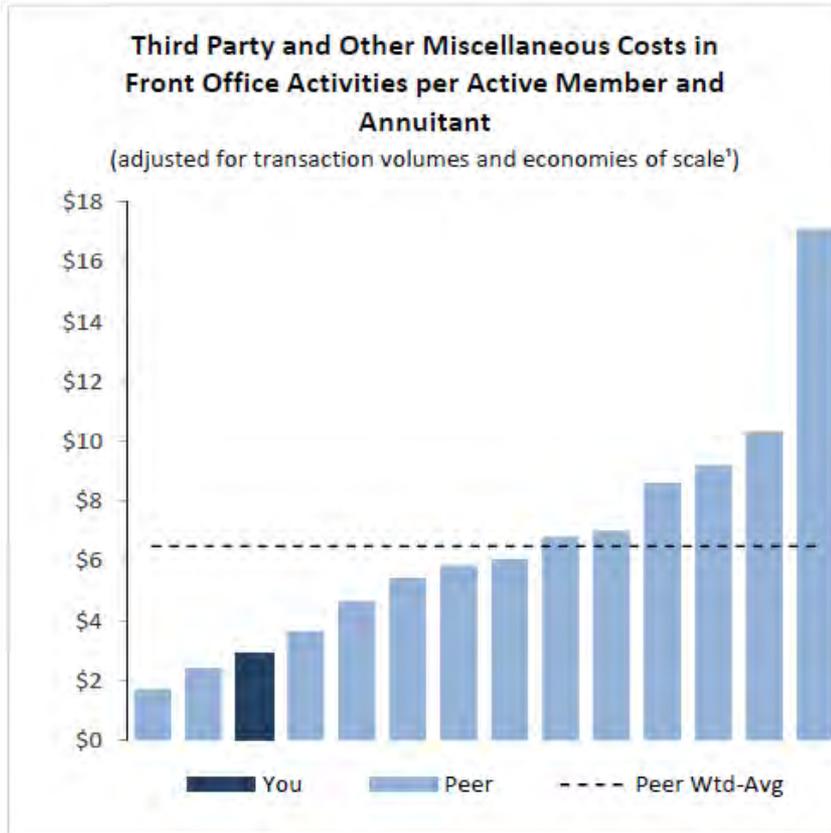
1. Your transactions per front-office FTE were 129% above the peer average.
2. Your higher transaction volumes per FTE decreased your cost per member by \$18.63 relative to the peer average.

## Reason 4: You had lower costs for Salaries and Benefits

Cost per FTE			
	You	Peer Avg	FTE-Wtd Peer Avg
Salaries and Benefits	\$64,129	\$78,846	\$79,123
Benefits for Retired Staff	\$0	\$895	\$1,406
Building and Utilities	\$14,175	\$11,075	\$10,987
Human Resources	\$2,003	\$2,839	\$3,075
IT Desktop, Networks, Telecom	\$20,791	\$11,734	\$10,966
Total	\$101,097	\$105,389	\$105,557

Your lower costs per FTE decreased your total cost by \$2.57 per member relative to the peer average.

## Reason 5: You had lower third party and other miscellaneous costs in the front-office activities.



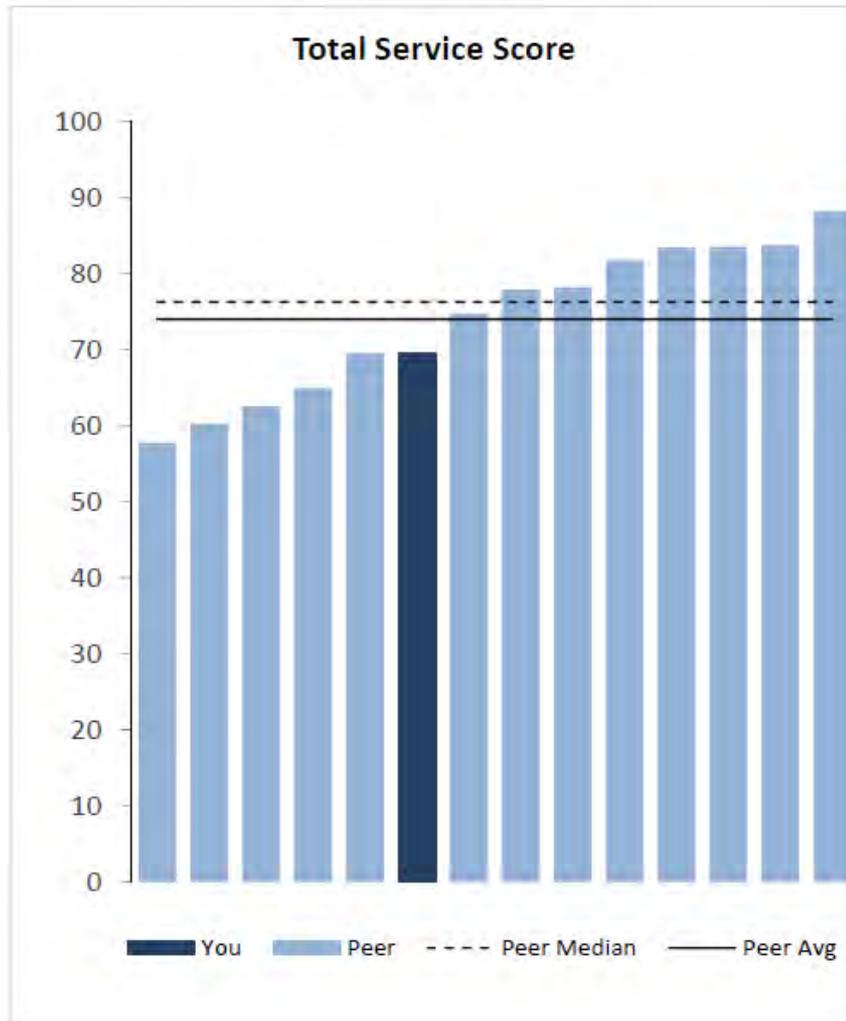
1. Your third party and other miscellaneous costs in the front-office activities were \$2.91 per member.
2. This was 55% below the peer average of \$6.48.
3. This decreased your total cost per member by \$4.17 relative to the peer average.

## Reason 6: You paid less for back-office activities.

Back-Office Activities - Adjusted Cost per Member			
Back Office Activities	You	Peer Avg	More/ -less
Governance and Financial Control	\$3.54	\$6.23	-\$2.69
Major Projects	\$1.63	\$6.48	-\$4.85
IT Strategy, Database, Applications (	\$2.47	\$13.88	-\$11.41
Actuarial, Legal, Audit, Other	\$5.60	\$10.02	-\$4.42
Total	\$13.24	\$36.60	-\$23.37

1. Your cost per active and retiree of \$13.24 for back-office activities was below the peer average of \$36.60.
2. This decreased your total cost per member by \$23.37 relative to the peer average.

# Your total service score was 70 out of 100.



1. This was below the peer median of 76.
2. CEM defines service from the member's perspective:
  - Faster turnaround times
  - More availability
  - More choice
  - Higher quality
3. Higher service may not always be cost effective or optimal.

Service Scores by Activity				
Activity	Weight	Score out of 100		
		You	Peer Median	% Higher /-Lower
<b>1. Member Transactions</b>				
a. Pension Payments	19.7%	95	97	-2%
b. Pension Inceptions	7.4%	86	84	2%
c. Withdrawals and Transfers-out	0.3%	90	74	22%
d. Purchases and Transfers-in	3.1%	64	80	-20%
e. Disability	4.8%	90	82	10%
<b>2. Member Communication</b>				
a. Call Center	21.2%	36	53	-32%
b. 1-on-1 Counseling	7.4%	75	75	0%
c. Member Presentations	6.5%	48	90	-47%
d. Written Pension Estimates	4.7%	68	78	-13%
e. Mass Communication				
a. Website	7.6%	75	76	-1%
b. Newsletters	3.8%	90	88	2%
c. Member statements	6.6%	88	81	9%
d. Other mass communication	0.9%	67	54	24%
<b>3. Other</b>				
Satisfaction Surveying	5.0%	45	38	18%
Disaster Recovery	1.0%	90	85	6%
<b>Weighted Total Service Score</b>	<b>100.0%</b>	<b>70</b>	<b>76</b>	<b>-8%</b>

### Biggest potential improvements to your total service score

Rank	Factor	Potential Improvement
# 1	24.5% of your incoming calls resulted in undesired outcomes, and 0.0% of your incoming calls resulted in irritating outcomes. To achieve a perfect service score, members must experience no undesired or irritating call outcomes.	+ 5.3
# 2	On average, members calling your call center reach a knowledgeable person in 311 seconds. To achieve a perfect service score, members must reach a knowledgeable person on the phone in 20 seconds or less.	+ 5.2
# 3	You offer 6 of the 13 member website transactions and tools applicable to you. To achieve a perfect service score you must offer all 13 on-line transactions and tools.	+ 1.5
# 4	On average, you had 75.7 attendees per presentation. To achieve a perfect service score you must average 20 attendees per presentation or fewer.	+ 1.4
# 5	You have 2 menu layers. To achieve a perfect service score you must have one or less menu layers.	+ 1.3

Select Key Service Metrics	You	Peer Avg
<u>Member Contacts</u>		
• % of calls resulting in undesired outcomes (busy signals, messages, hang-ups)	24%	15%
• Average total wait time including time negotiating auto attendants, etc.	311 secs	216 secs
<u>Website</u>		
• Can members access their own data in a secure environment?	Yes	93% Yes
• Do you have an online calculator linked to member data?	Yes	79% Yes
• # of other website tools offered such as changing address information, registering for counseling sessions and/or workshops, viewing or printing tax receipts, etc.	6	7
<u>1-on-1 Counseling and Member Presentations</u>		
• % of your active membership that attended a 1-on-1 counseling session	1.2%	4.4%
• % of your active membership that attended a presentation	1.7%	4.3%
<u>Pension Inceptions</u>		
• What % of annuity pension inceptions are paid without an interruption of cash flow greater than 1 month between the final pay check and the first pension check?	99.8%	86.3%
• What % of annuity pension inceptions were initiated online?	n/a	23%
<u>Member Statements</u>		
• How current is an active member's data in the statements that the member receives?	2.0 mos	2.4 mos
• Do statements provide an estimate of the future pension entitlement?	Yes	57% Yes

# Pension online transactions

Online Tool	% offering tool			<u>If offered: Volume per 1,000 active members and annuitants</u>		
	You	Peer	All	You	Peer Median	All Median
Benefit calculators						
In non-secure area	Yes	71%	51%	167.0	245.1	290.9
In secure area not linked to member data	No	21%	13%	n/a	21.2	104.9
In secure area linked to member's salary and service data	Yes	79%	79%	324.5	403.6	324.4
Service credit purchase calculator	Yes	64%	67%	12.6	43.1	45.2
Download forms	Yes	100%	98%	156.9	229.3	206.3
Register for counseling sessions or presentations	Yes	79%	65%	3.6	7.1	13.2
Change address	Yes	64%	76%	9.8	13.3	30.8
Change beneficiary	No	43%	45%	n/a	22.1	24.5
Change family information	No	29%	30%	n/a	59.6	47.3
Tools for annuitants						
Change banking information for direct deposit	No	36%	40%	n/a	5.4	5.4
Change tax withholding amount	No	43%	42%	n/a	15.4	6.1
Download or print duplicate tax receipts	Yes	93%	63%	13.4	23.6	23.6
View annuity payment details	Yes	93%	68%	122.4	122.4	110.3
Apply for retirement	No	50%	30%	n/a	3.2	3.3
View status of disability application	No	0%	4%	n/a	n/a	0.0
Secure mailbox	No	50%	32%	n/a	40.7	40.7
Download member statement	Yes	79%	77%	47.5	152.9	202.4
View pensionable earnings and/or service without downloading	Yes	79%	83%	553.2	586.2	607.4
If yes:						
Are both salary and service data available?	Yes	100%	95%			
Is online data up-to-date to the most recent pay period?	Yes	82%	73%			
Is a complete annual history from the beginning of employment provided?	No	55%	52%			

# Key Takeaways:

1. Your total cost was \$28 per active and retiree - below the peer average of \$86.
2. Your lower than average cost reflects:
  - Lower transaction volumes per member (workloads)
  - Higher transaction volumes per FTE (productivity)
  - Lower cost for salaries and benefits
  - Lower cost for back office activities
3. You have a lower than average total service score

# Best practices come from around the world

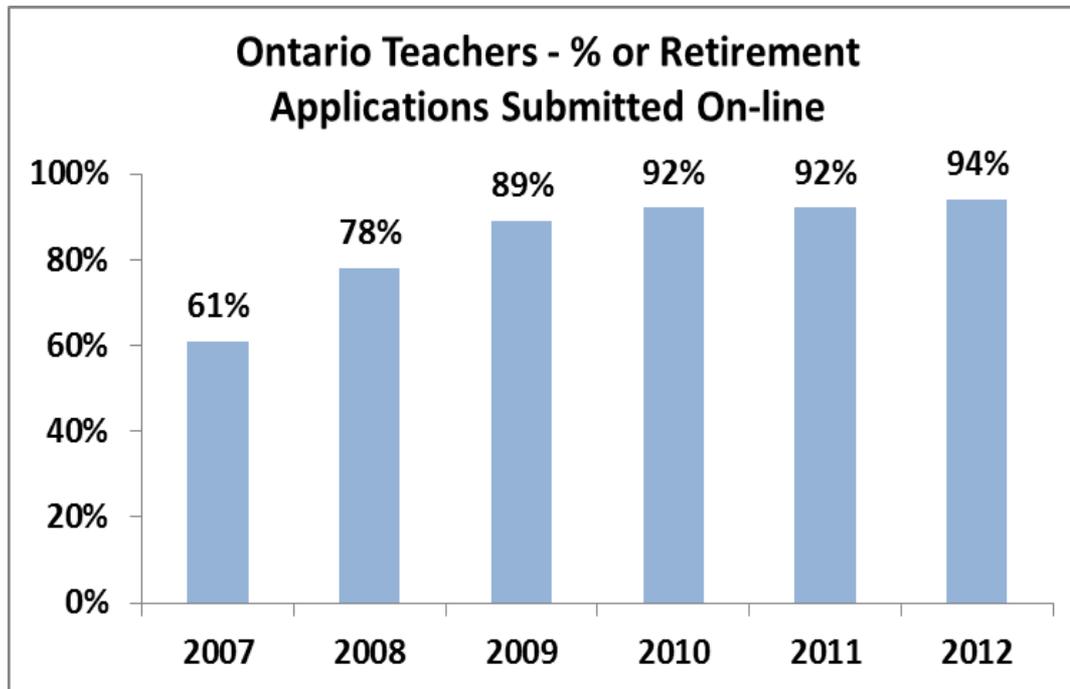


# Paperless Pension Administration Transactions

Process / Communication	% Yes
Web-based tools enabling employers to submit data	82%
Members can initiate a change of address on-line	82%
Members can change address over the telephone	70%
Board members access papers electronically	69%
Employers are required to submit data electronically	66%
Members can get an estimate over the telephone	63%
Members can opt out of paper member statements	50%
Board materials are 100% electronic	46%
Members can initiate an annuity inception on-line	44%
Members can change beneficiaries on-line	45%
Members can change bank details on-line	42%
Newsletters emailed to active members	18%

# The impact of straight through processing:

The % of retirement applications Ontario Teachers Pension Plan has received on-line has increased every year:



## Impact

**60% of retirement statements are delivered on the same-day**

**43% of statements are delivered within an hour with no manual intervention**

**Error rate reduced from 35% of applications to almost none**



Tab 7



## TRS Investment Operations and Accounting

Sylvia Bell, Managing Director of Investment Operations

&

Scot Leith, Director of Investment and Benefit Accounting

# TRS Financial Process



- Custodian of assets
- Investment Book of Record
- Daily/monthly/annual data feeds and communication

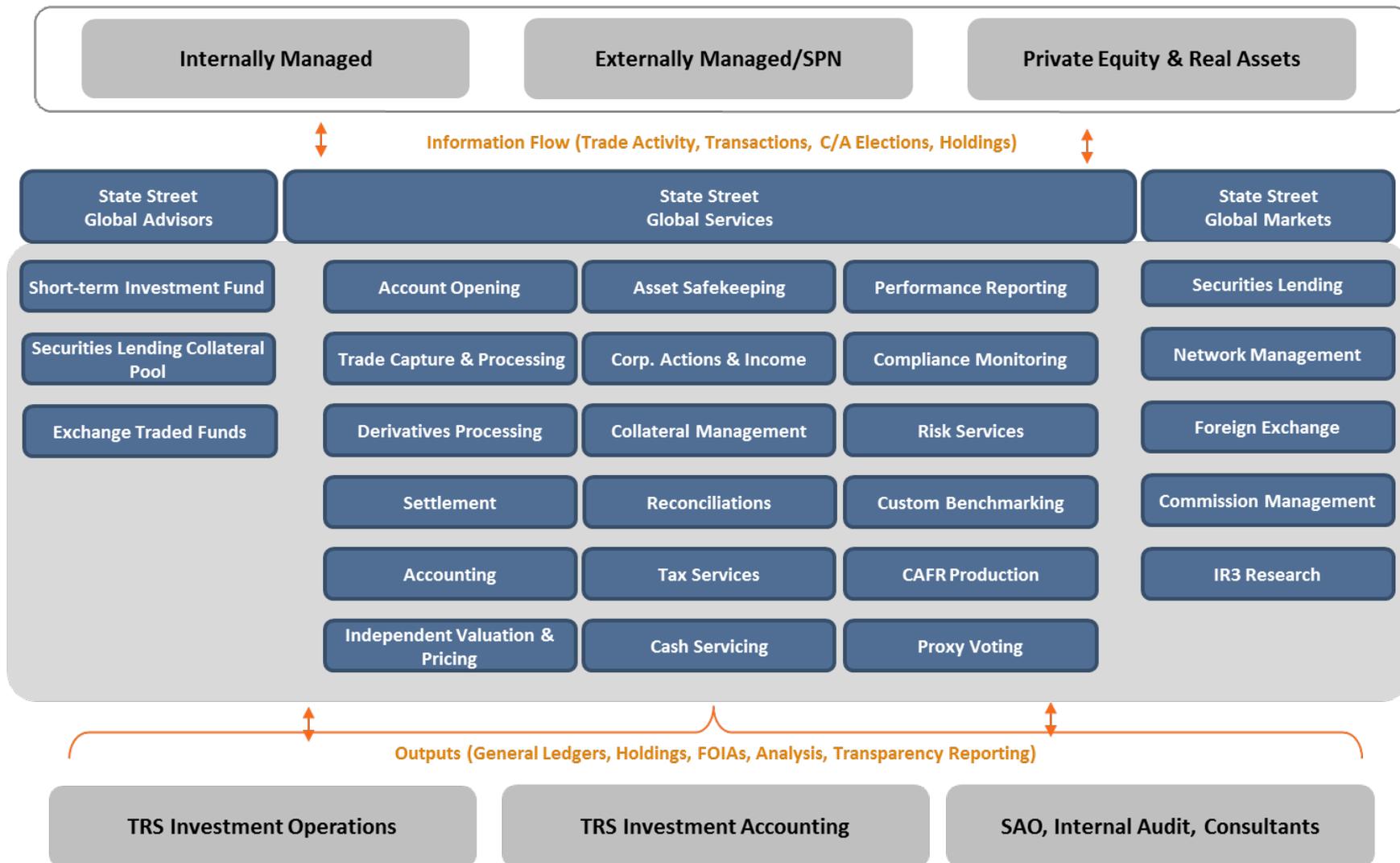
- Daily trade settlement and position reconciliation
- Performance verification

- Valuation oversight
- Investment financial reporting

- Monthly/quarterly financial reporting
- Annual CAFR production

- Audit coverage
- Control tests
- Valuation tests

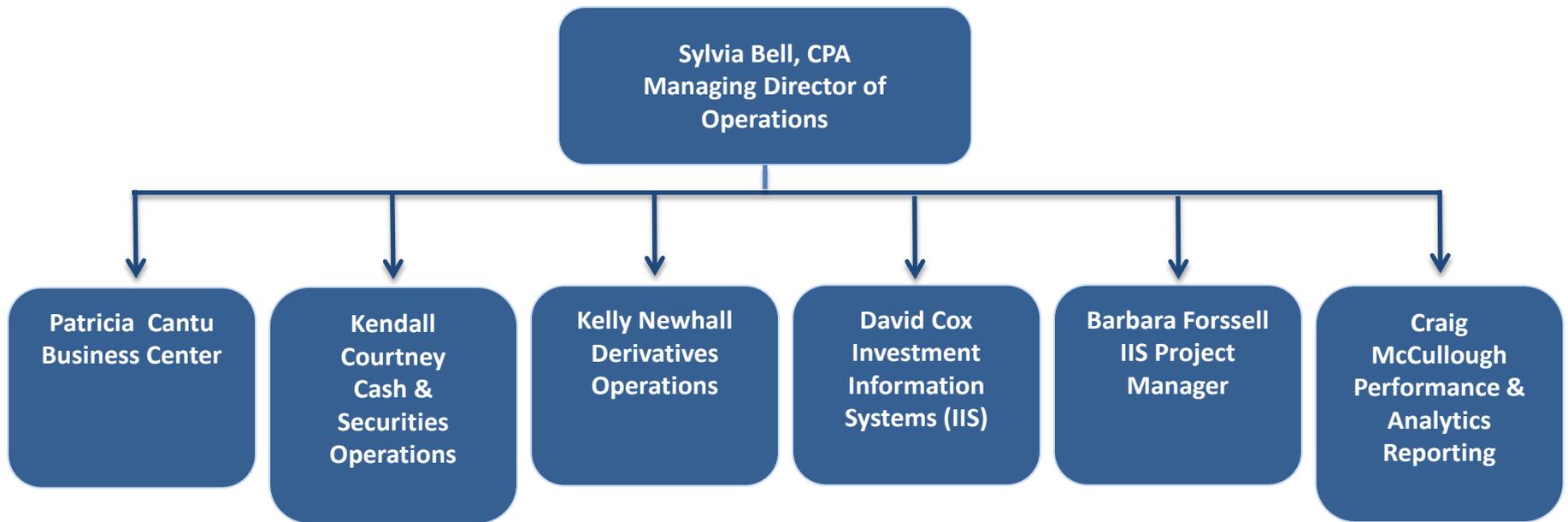
# TRS Investment Management and Operations



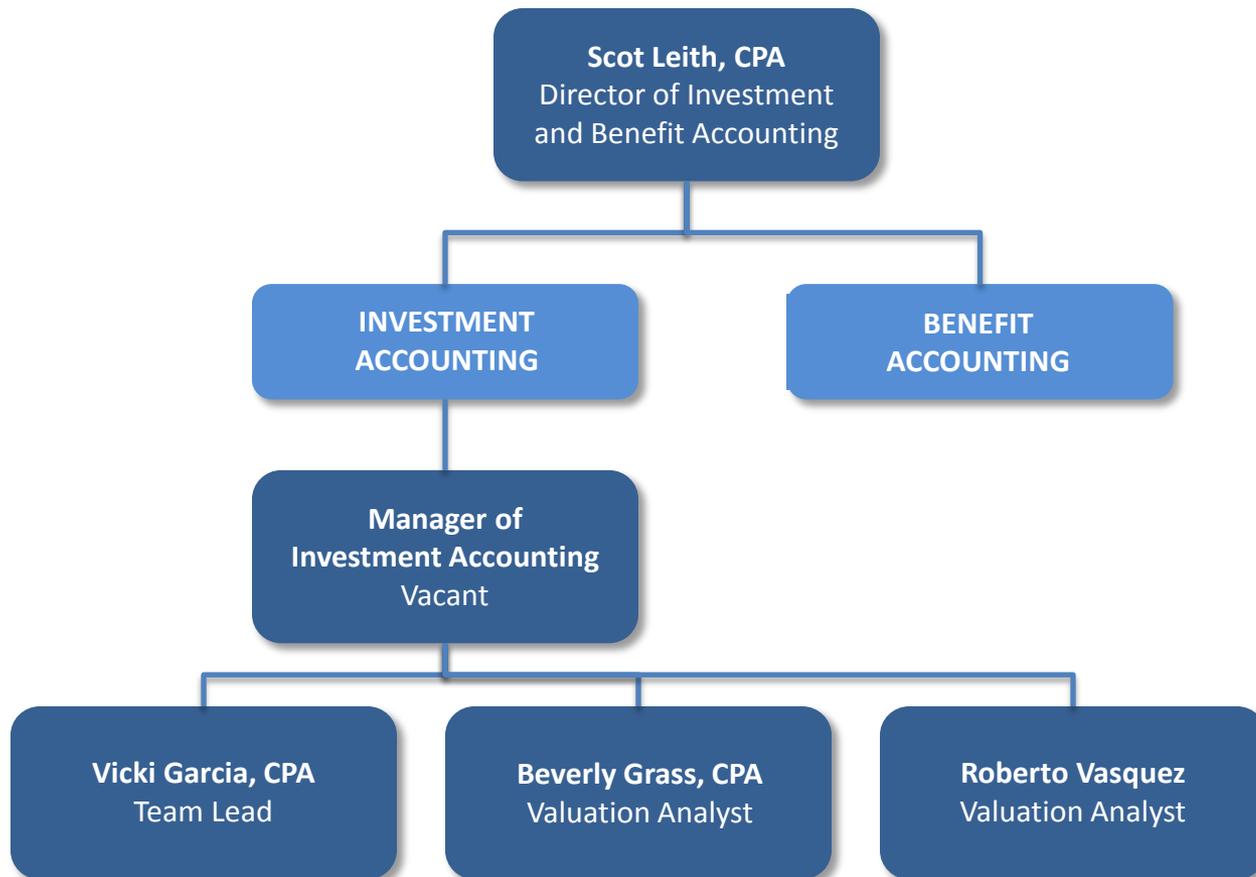
Source: State Street



# Investment Operations



# Investment Accounting



# Investment Operations Core Functions

## Security and Derivative Trade Operations

- Trade settlement (equities, fixed income, futures, swaps, FX, options)
- Daily cash and position reconciliation
- Corporate action and proxy policy management
- Cash and currency projections
- Funds collection and distribution
- Collateral management
- Daily valuation checks

## Performance and Analytics

- Performance return and attribution validation
- Standard and custom internal performance reporting
- Ad hoc information requests
- Research portfolios

## Transition Management

- On-boarding
- Terminations
- Transitions/rebalances
- Funding/distributions
- Internal vs. external portfolios
- Post-transition analysis

## Legal/Compliance

- Internal and external audits
- Market or new account openings
- External tax service management
- Class actions and litigations
- Restricted security lists
- Policy adherence

## IMD Information Systems

- Investments related application Support
  - Bloomberg, FACTSET, eFront, Tamale, State Street
- Investment Data Warehouse
- Business Intelligence
  - COGNOS
  - SSRS
- Coordination with Enterprise IT

## • Business Center

- Purchasing
- Budgeting and IMD Financial Reporting
- Travel
- Records Retention and Document Management

# Investment Accounting Core Functions

---

- **Valuation Oversight** – Reviews and monitors TRS investment valuations, including independently calculating and reconciling all LP valuations and activities and reviewing all audited GP financial statements
- **Financial Reporting** – Verifies investment financial information reported by State Street Bank and delivered to TRS
- **Cash Funding** – Verifies and approves all external Investment fundings including capital calls, distributions, manager fee payments, derivative collateral movements and comptroller cash transfers
- **Custody Oversight** – Manages the State Street Bank accounting custody relationship
- **Annual CAFR Reporting** – Contributes to Financial Statements and notes disclosures related to investments

Tab 8



STATE STREET®

# Teacher Retirement System of Texas

## *Board of Trustees Meeting*



October 18th, 2013

## STATE STREET.

### STATE STREET GLOBAL ADVISORS.

#### *Developing investment strategies that make the best use of client capital*

- Assets under management of \$2.1 trillion\* as of June 30, 2013
- One of the world's largest managers of institutional assets
- Provider of a comprehensive range of investment strategies that span the risk/return spectrum
- With approximately \$337 billion\* in ETF assets under management, we have one of the broadest ranges of ETFs in the industry

### STATE STREET GLOBAL MARKETS.

#### *Research and trading solutions that improve the efficient use of client capital*

- Global leader in investment research, trading and securities lending
- Total of approximately \$2.7 trillion in average lendable assets for Q2 2013
- \$16.8 trillion in foreign exchange and interbank volume traded in 2012
- Source of investor behavior and other research, advanced portfolio strategies, trade process optimization and global connectivity across multiple asset classes and markets

### STATE STREET GLOBAL SERVICES.

#### *Maintaining the inventory of client capital and dividends/ interest owing products*

- Assets under custody and administration of \$25.7 trillion as of June 30, 2013
- One of the world's leading investment service providers
- Provides fund accounting, fund administration, custody, investment operations outsourcing, recordkeeping, performance and analytics, and transfer agency services

\*This AUM includes the assets of the SPDR Gold Trust (approx. \$37 billion as of June 30, 2013), for which State Street Global Markets, LLC, an affiliate of State Street Global Advisors, serves as the distribution agent.

## Our Values

### Always Finding Better Ways

We are committed to continuous improvement — in our delivery of value to clients, in our operating efficiency, in the development of our employees and in the returns that we provide to our shareholders.

**We believe that being innovative, creative and flexible is essential for earning our place as the most trusted partner to our clients globally.**

We are passionate about delivering on our commitments whether in the form of performance, financial results, consistency, insights or reliability.

### Stronger Together

We are one company, accountable to each other, to our clients and to our shareholders.

We believe that a team-based, diverse and inclusive culture promotes a more effective, meaningful and creative work environment, and delivers better outcomes for our clients.

**We are passionate about building relationships and creating shared goals that enable our employees and our clients to achieve success.**

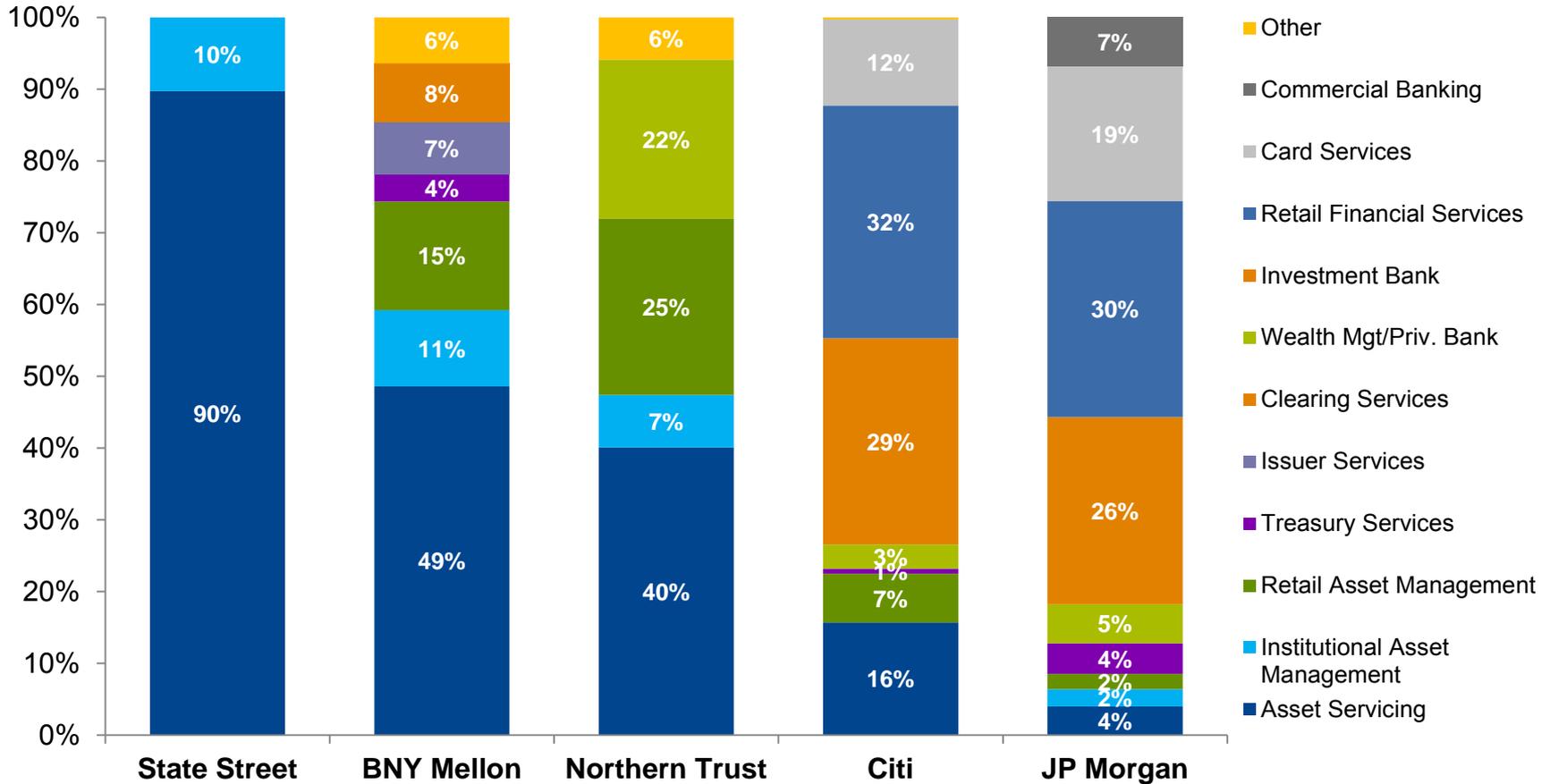
### Global Force, Local Citizen

We are a global company with a deep commitment to individual markets and the clients we serve.

**We believe that our reputation and our integrity are two of our most important assets.**

We are passionate about corporate social responsibility and giving back to the communities in which we live and work.

## State Street Focus On Asset Servicing



As of 12/31/2012

Note: Based on 2012 Year End Annual Reports – revenue comparison;  
JPM data is based on 2012 10K

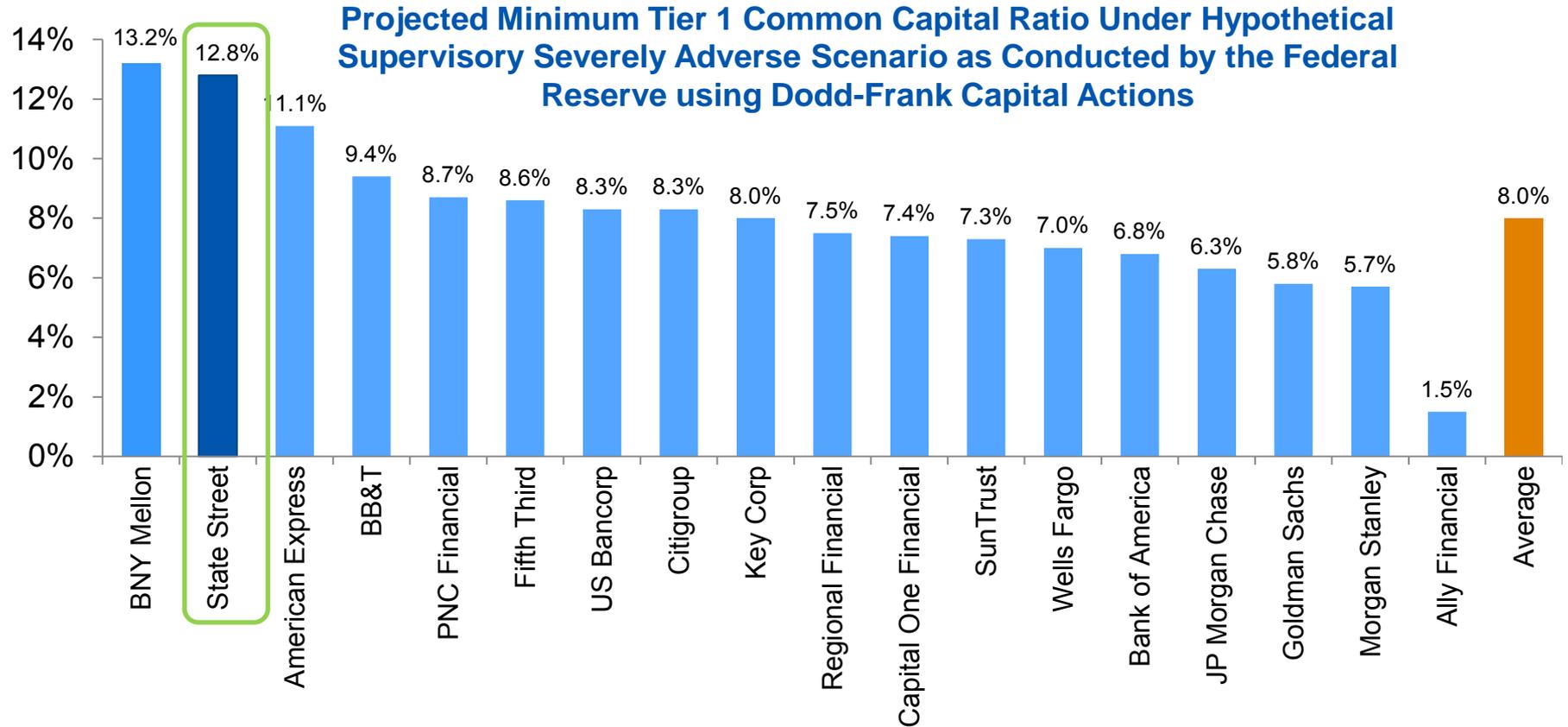
## Capital Update

### Our Capital Ratios are Among the Highest in the Financial Services Industry

Ratios*	June 30, 2013	March 31, 2013
Tier 1 leverage	6.9%	6.9%
Tier 1 capital	16.6	18.0
Tier 1 common	14.9	16.1
TCE	6.5	7.1

All capital ratios presented are for State Street Corporation and not State Street Bank and Trust Company. Tier 1 leverage and tier 1 risk-based capital, or tier 1 capital, ratios were each calculated in accordance with currently applicable regulatory requirements. The tier 1 risk-based common, or tier 1 common, ratio was calculated by dividing (a) tier 1 capital, which was calculated in accordance with currently applicable regulatory requirements, less non-common elements including qualifying perpetual preferred stock, qualifying minority interest in subsidiaries and qualifying trust preferred securities, by (b) total risk-weighted assets, which assets were calculated in accordance with currently applicable regulatory requirements. The ratio of tangible common equity to adjusted tangible assets, or TCE ratio, was calculated by dividing consolidated total common shareholders' equity by consolidated total assets, after reducing both amounts by goodwill and other intangible assets net of related deferred taxes. Total assets reflected in the TCE ratio also excluded cash balances on deposit at the Federal Reserve Bank and other central banks in excess of required reserves. Certain reconciliations of information used in calculating the tier 1 common and TCE ratios are included in the Appendix.

# Strong Capital Position: Results of Federal Reserve's 2013 Dodd-Frank Act Stress Test\*



\*Source: Board of Governors of the Federal Reserve System, "Dodd-Frank Act Stress Test 2013: Supervisory Stress Test Methodology and Results," March 2013 (the "2013 FRB DFAST Results"). See the 2012 FRB DFAST Results for a description of the methodology and results of the 2013 Federal Reserve Dodd-Frank Act Stress Test, including a more complete description of the hypothetical supervisory severely adverse stress scenario, related hypothetical stresses, projections and results. The capital ratios presented represent the minimum projected for the period Q4 2012 through Q4 2014 and assume Dodd-Frank capital actions only. The results of stress represent estimates based on proposed hypothetical economic conditions for purposes of the stress test. The prescribed hypothetical economic conditions do not represent State Street's projections, and the estimates representing the results of the stress test are not forecasts of expected regulatory capital ratios or other results.

# Challenges in Today's Environment

## New Sources of Value

- Underfunding versus liabilities
  - Identification of strategies and / or investment partners to deliver above benchmark returns at acceptable risk
  - Access to leading-edge research to inform investment strategies
- 

## Data Quality and Timeliness

- Delivery of an integrated “look through” across all security types (traditional and alternative) and investment structures (LPs, commingled funds)
  - Transparency into all investment costs
  - Quality and timeliness of information available to investment team and Board regarding investments held and their performance
- 

## Operational Efficiency

- Streamlining of investment processes
  - Generation of customized reporting, suited to the needs of each stakeholder
  - Cost effective achievement of benchmarked performance
- 

## Risk Management

- More robust approaches to identifying, quantifying and measuring risk at the investment, asset class and portfolio level
  - Effective management of counter-party and provider risks
- 

## Regulation and Compliance

- Compliance with investment policies
- Staying abreast of regulatory changes in the formative stage
- Effective solutions to comply with regulatory change

## Our Promise of Distinctive Value

### Areas of Benefit

State Street provides the end-to-end investment management and servicing environment that enables our clients to manage their complex investments more effectively and transparently in the post-2008 financial crisis environment

Excellence in Execution	Risk Mitigation	Insight	Aligned Interests
<p>Our integrated, scalable platform delivers TRS (and TRS' advisors) solutions within a daily processing environment for better processing and tighter controls</p>	<p>TRS gains transparency into all assets by the utilization of our fully integrated platform that enables credible reporting and risk management oversight</p>	<p>TRS utilizes our scale and specialized public fund expertise to gain access to actionable information and insight for credible decision making</p>	<p>TRS gets the best thinking, from the top of the house and through to the teams that deliver meaningful solutions, while mutually growing our relationship</p>
<p>Global capabilities and asset servicing solutions across the full range of investments</p>	<p>Strong operational and financial risk controls</p>	<p>Transparency/visibility into your data across all asset classes</p>	<p>High touch service model delivered through dedicated, global &amp; local client service teams</p>
<p>Specific expertise in alternative assets</p>	<p>Strength of State Street as a financial counter-party</p>	<p>Advanced analytical capabilities for performance attribution and risk analysis</p>	<p>Un-conflicted agency model</p>
<p>Market leading capabilities in cash and passive management</p>	<p>Strong regulatory oversight</p> <p>Safeguarding of your reputation</p>	<p>Monitoring of regulatory developments</p>	<p>Strong corporate social responsibility programs</p>

## Strategic Direction

### Key Goals

#### Leverage the Power of the Core Franchise

- Drive operating efficiencies through operational transformation and rigorous expense management
- Execute IT transformation to enable creation of new services

#### Drive New Revenue

- Extend geographic reach
- Deepen share in global asset management segment
- Open new vertical high-growth markets
- Expand presence in alternative investment servicing market
- Broaden product set
- Increase ETF offerings

#### Optimize Capital

- Execute current quarterly common stock dividend and common stock purchase program
- Return of capital to shareholders is a priority

## Strategic Direction

### Long-Term Trends Support Growth

#### Globalization

- Ongoing globalization of investment and distribution channels
- Continued growth in emerging markets

#### Retirement Savings

- Evolution of retirement / savings schemes
- Driven by demographics, especially in Europe and Asia

#### Regulation and Complexity

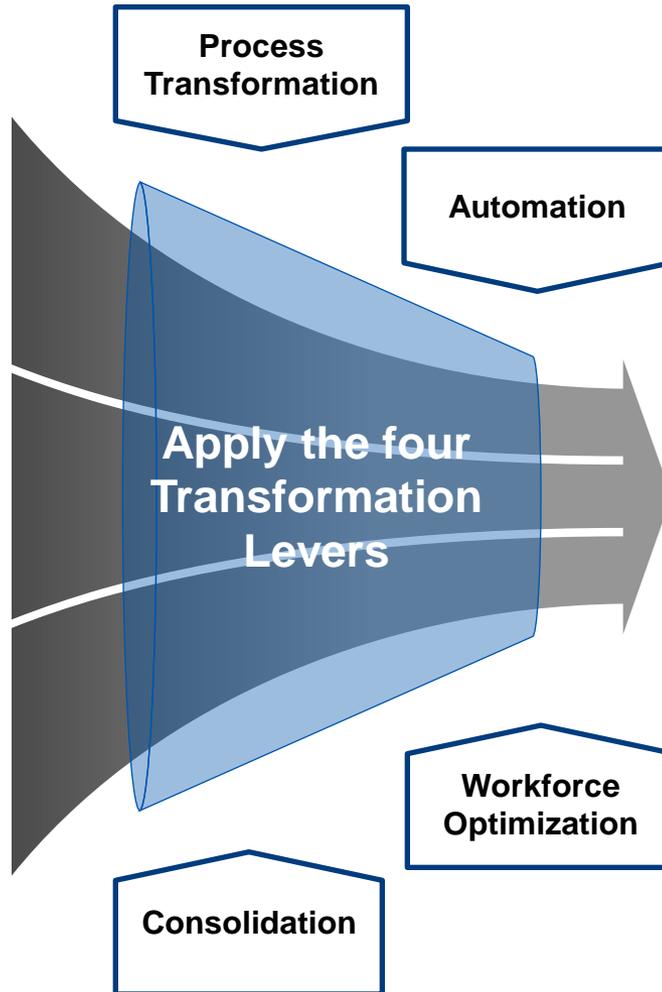
- Demand for transparency and increased complexity in operating models of asset owners and asset managers
- Growth in alternative assets globally

# Business Update

## Business Operations and IT Transformation Program

### Fourteen core business processes are in scope

- Accounting
- Fund Administration
- Cash
- Transaction Processing
- Client Operations
- Corporate Actions
- Derivatives
- Performance & Analytics
- Internal Recon.
- External Recon.
- Reference Data
- Securities Valuation
- Securities Settlement
- Trade Infrastructure



### Transformation Outcomes

- Globally standardized processes
- More automated processes
- Balanced global footprint
- Enhanced data integrity

## Business Update

### Business Operations and IT Transformation Program – Private Cloud Plan



#### Key Benefits

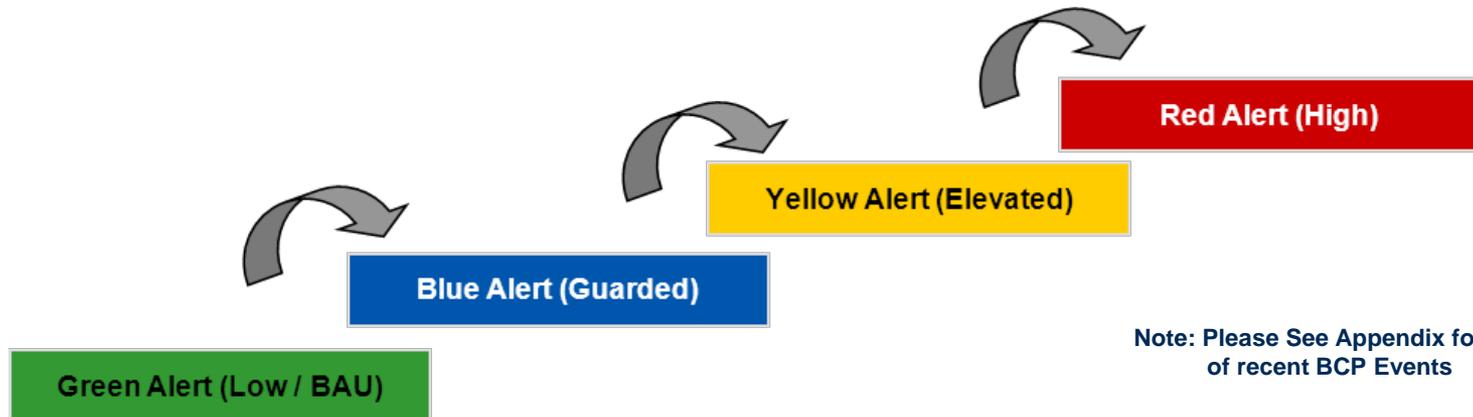
- Automation / capacity on demand
- Accelerated time to market
- Integrated security environment
- Real-time data infrastructure
- Advanced platform for product innovation
- Enhanced client service

## Business Continuity Program

- Business Contingency Plans
  - Plans are built in accordance with State Street's Corporate Planning Standards
    - 5 core standards (50 points of criteria): Business Functions, Organizational Structure/Staff, Applications & Technology, Facilities, Incident Management
  - Plans are housed in the corporate continuity LDRPS continuity tool
  - Annual Executive Vice President sign-off is required on all business continuity plans
  
- Business Impact Analysis (BIA)
  - Business functions and associated Recovery Time Objectives (RTO's) are reviewed annually
  - Each function is assigned a Downtime Tolerance Level (DTL) based on how quickly the business operation must be restored.
    - Level 1 (0-4 hour RTO)
    - Level 2 (5-8 hour RTO)
    - Level 3 (9-24 hour RTO)
    - Level 4 (25-72 hour RTO)
    - Level 5 (73+ hour RTO)
  
  - EVP sign-off is required on all BIA's

## Business Continuity Program (continued)

- Incident Management – Business Continuity Responsibilities
  - Monitoring – Review application, infrastructure and building status throughout the day and evening via Data Center and Help Desk notifications. On-call 24x7 for telephone notification.
  - Escalation - Work with the Data Center and Help Desks directly to receive updates on time sensitive issues impacting USIS and IIS business units.
  - Communication - Provide direct communication to USIS and IIS for infrastructure issues (building, servers, network) from notification through resolution. Communicate supplemental information for application issues being managed through Help Desk status updates.
  - Contingency Calls - Participate on corporate continuity calls and coordinate USIS and IIS business calls. Track business impact and open items through to resolution.
  - Post Incident Debrief - Coordinate action items from large scale incidents and incorporate process improvements into continuity plans and procedures as appropriate.

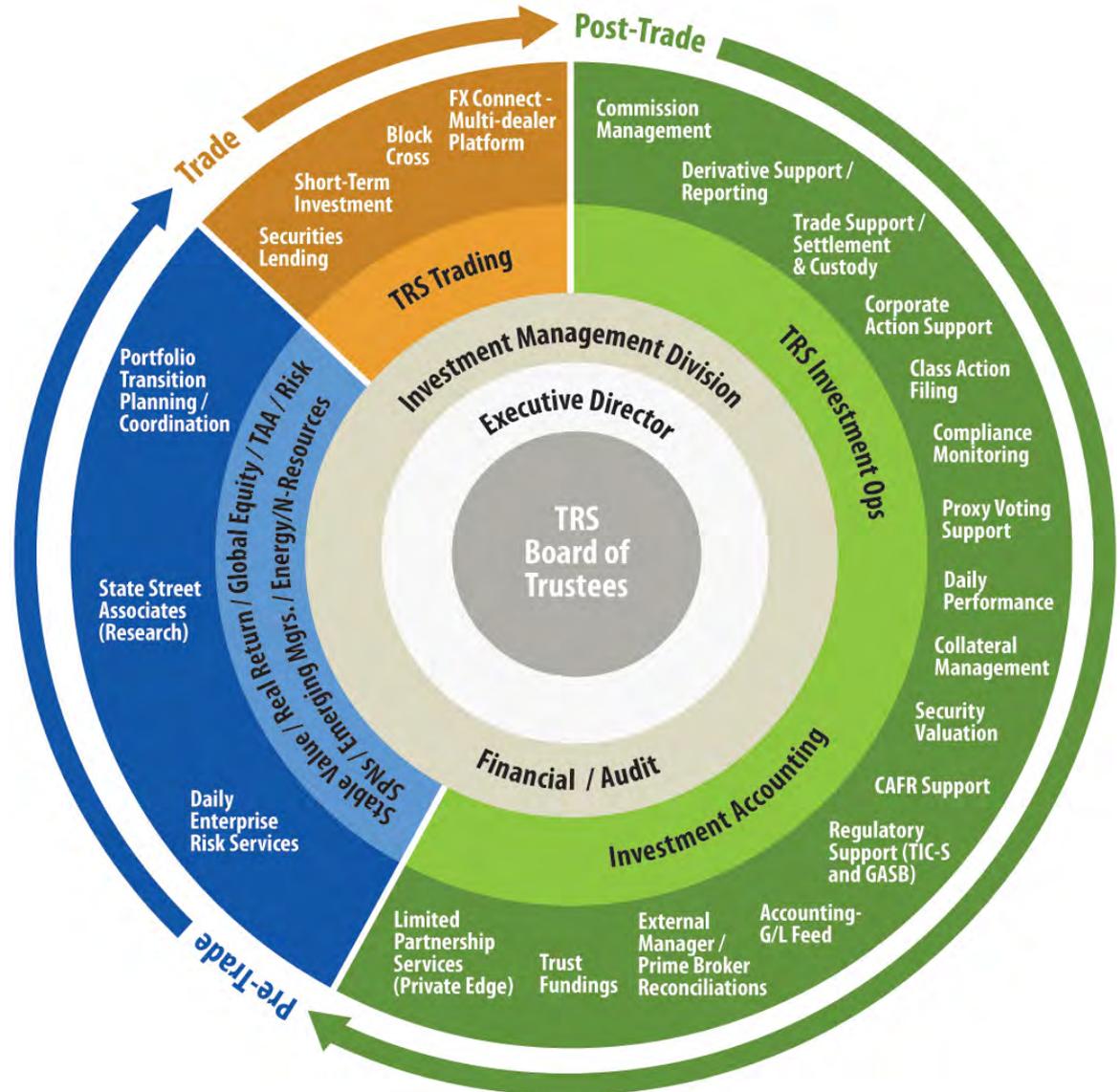


Note: Please See Appendix for list of recent BCP Events

## TRS / State Street Relationship

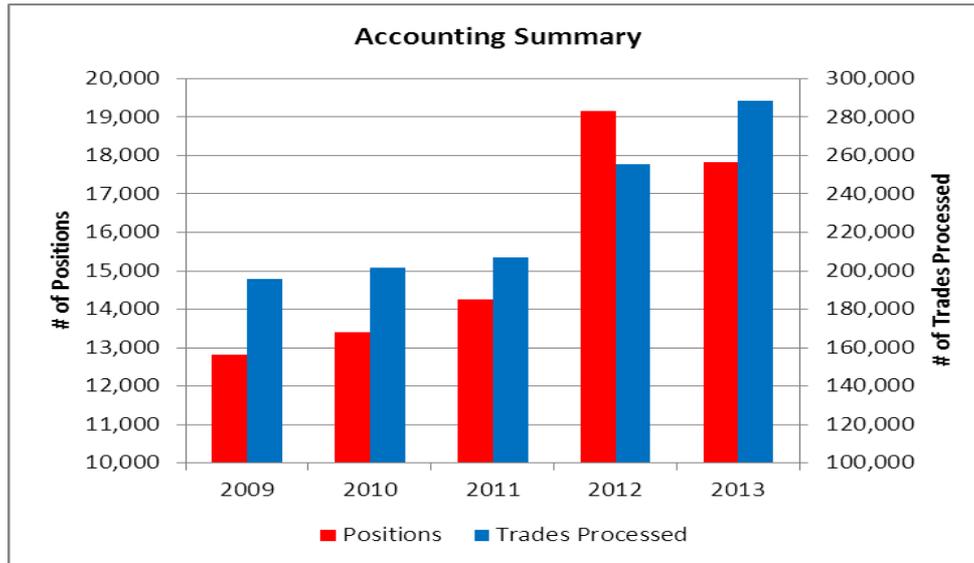
# State Street Supports TRS Investment Process Holistically

- TRS drives innovation
- Alignment of core competencies with needs
- Custom solutions
- Procedure and controls oriented
- Data and technology-focused
- Dedicated service infrastructure



## Relationship Highlights

Portfolios						
Year	2009	2010	2011	2012	2013	Increase
# of Accounts	350	381	450	530	551	157%



Alternative Investments (Value in \$B)				
Fiscal Year	Real Assets	Private Equity	Hedge Funds	Total
2009	5.9	3.7	3.6	13.2
2010	8.5	5.7	4.0	18.2
2011	11.1	10.3	4.3	25.8
2012	13.1	13.0	9.5	35.7
2013	14.3	15.8	10.1	40.2
<b>Increase</b>	<b>244%</b>	<b>422%</b>	<b>283%</b>	<b>305%</b>

- Strategic partner of the *Teacher Retirement System of Texas* for over a decade
- Local Austin, Texas presence since 2007
- Custom solutions implemented throughout relationship
- Complex derivative instruments
- Integration with multiple clearing agents and prime broker
- Consistently favorable audit results
- 78 local markets from developed to emerging to frontier
- 6000+ individual local market accounts established (1000+ emerging, 100+ frontier)

## Enhanced Asset Owner Services (EAOS)

- Owners with Significant Assets Managed “In-House”
- Value Added Services/Capabilities
  - Daily fund performance analysis - “Attribution Lite”
  - Expense processing
  - Complex fund structures
  - Consultative role
- Dedicated accounting team specialized in servicing investment managers
  - Investment acumen within the accounting environment
  - Direct portfolio manager, operational, and accounting interaction
  - Specialized by client type and investment strategies
- Daily “mind-set” and Accounting Close
- Consolidation of operational processing within one fund unit
  - Ownership, Accountability, Oversight

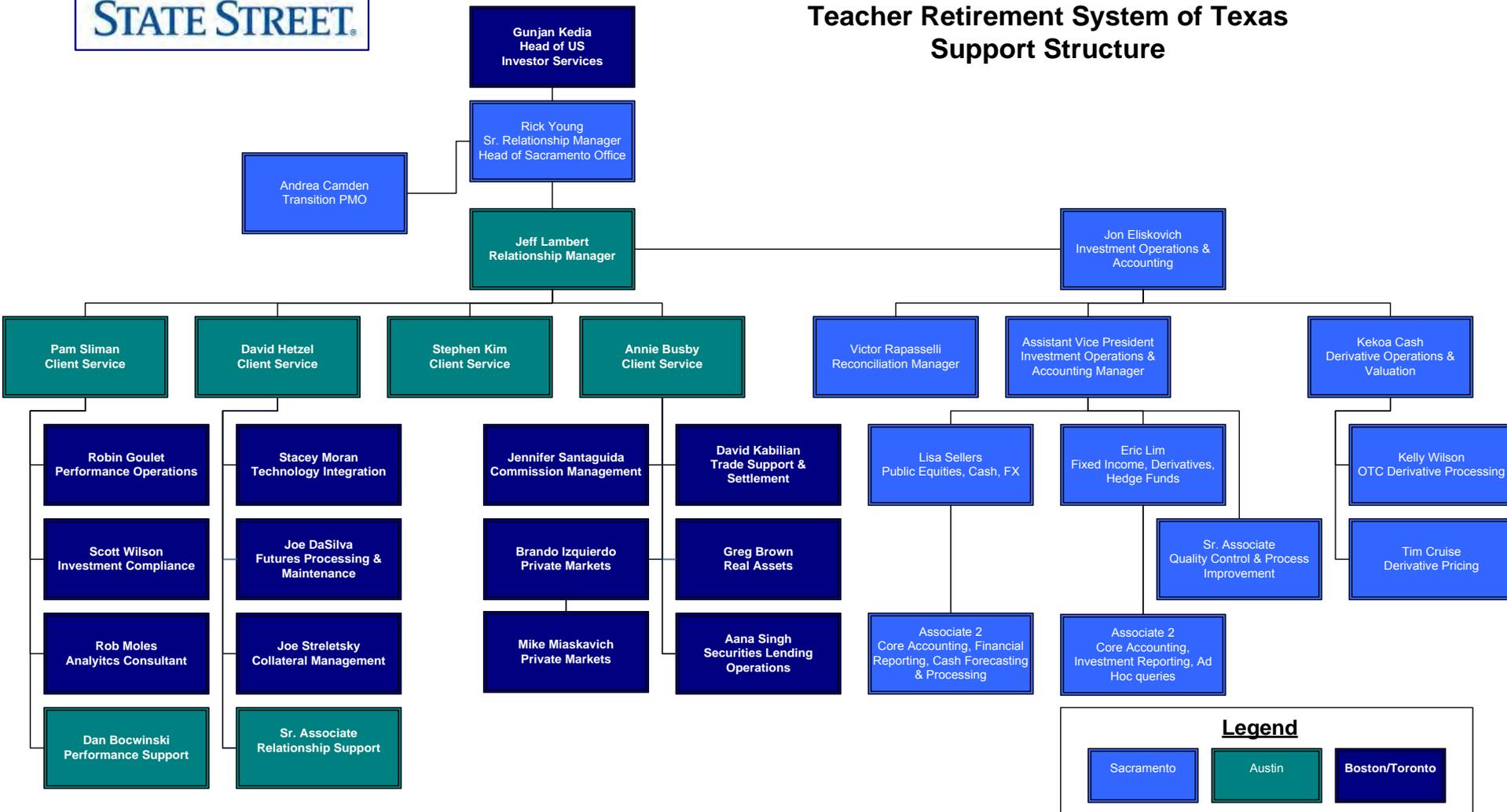
## Enhanced Asset Owner Services (EAOS) cont.

Service Delivery	Former	EAOS
Global Trade Processing & Settlement	X	X
Asset Servicing (Valuation, Corporate Actions, Proxy, Tax Reclaim, GASB)	X	X
Month-End accounting and book-of-record services	X	X
On-site Client Service support	X	X
Daily Performance Services	X	X
Daily Compliance Services	X	X
Private Equity & Real Asset Services	X	X
IT Allowance	X	X
Commission Management Services	X	X
Global Risk Services		X
Daily operations, accounting and book-of-record services		X
Additional dedicated operations and accounting support		X
Dedicated reconciliation support team		X
Integrated OTC Derivatives trade processing and valuation		X
Customized Service Level Agreement and KPIs		X
Additional Services (eHorizon and Expense Manager)		X

# State Street Service Team



## Teacher Retirement System of Texas Support Structure



## Client Service Model, Governance & Reporting



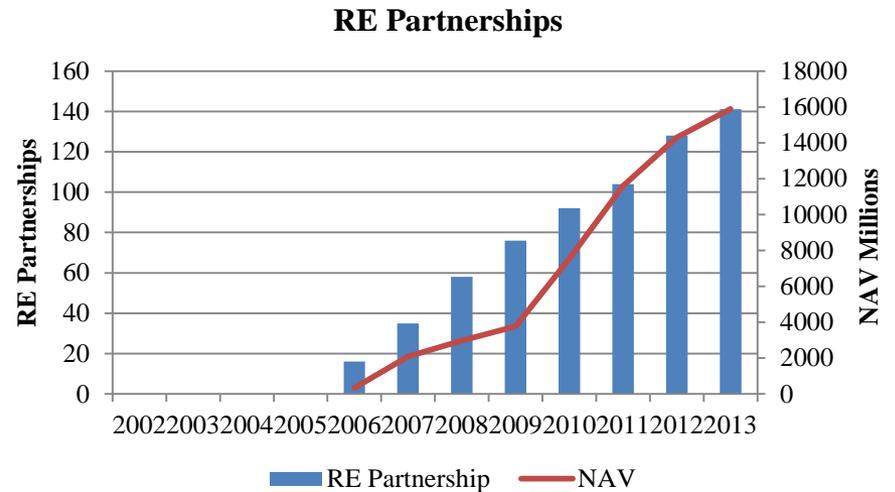
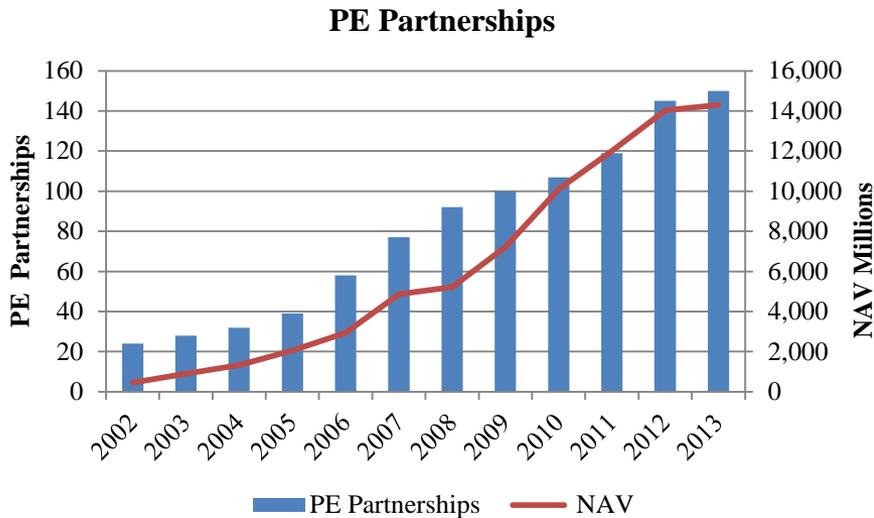
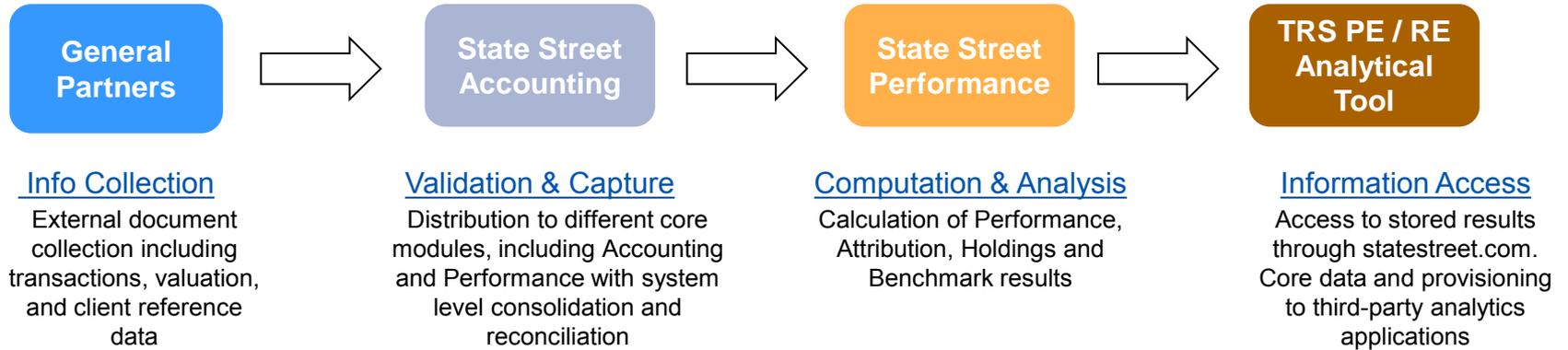
### Contractual Requirements

- Custodian Contract: Governs the client relationship
- Monthly Report Card: Service level performance and business updates across various categories
- Service Level Agreement (SLA): Robust and dynamic living document that details SSB responsibilities and client dependencies

### Stakeholders

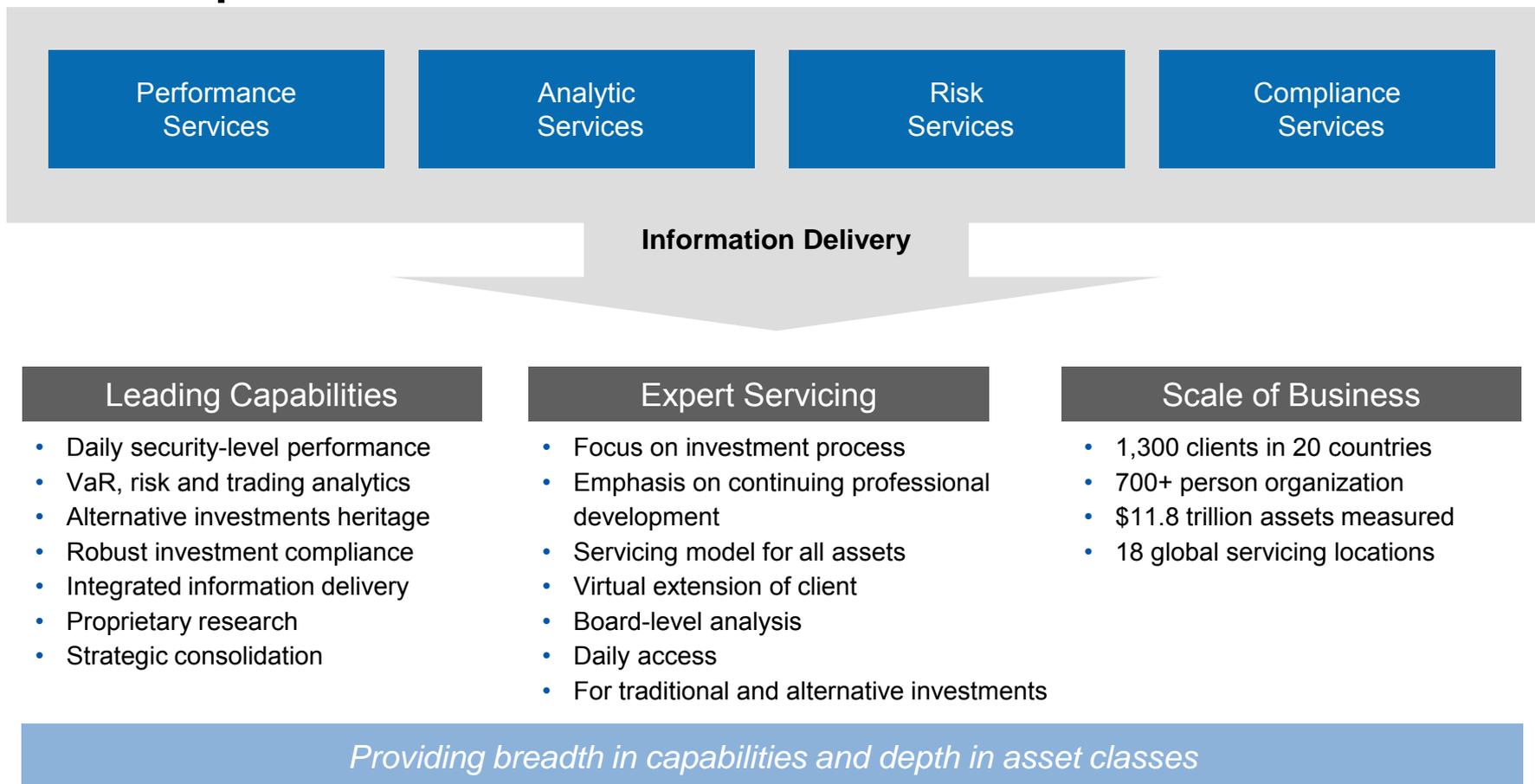
- Steering Committees who present a strategic vision, discuss feasibility and take action on pending initiatives
- Monitors and assesses progress and accomplishments of projects

# Private Equity & Real Assets Support



# Investment Analytics

## The Complete Investment Picture



# Performance & Analytics Services

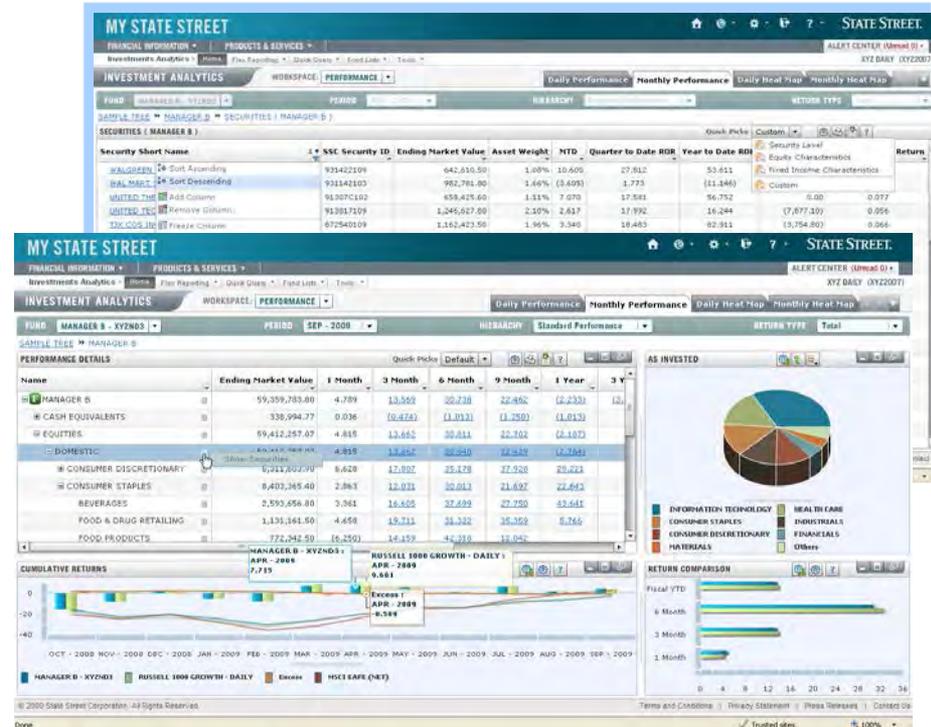
## Measures of Assets and Strategies

- Daily and Monthly Performance return calculation from total fund and portfolio to security level
- Comparative analysis to investment policy benchmarks
- Access to daily and monthly performance results via on-line tools including the Performance and analytics dashboards, query functionality, interactive views and spreadsheets
- Custom rules based security level classification hierarchy (Pure View)
- Monthly Total Plan Attribution highlighting impact of asset allocation and selection decisions relative to policy benchmarks
- Quarterly TUCS Universe comparison relative to Peers
- **Independent Valuation & Performance Results are the foundation of Management Committee, Transparency, and Board Reporting.**

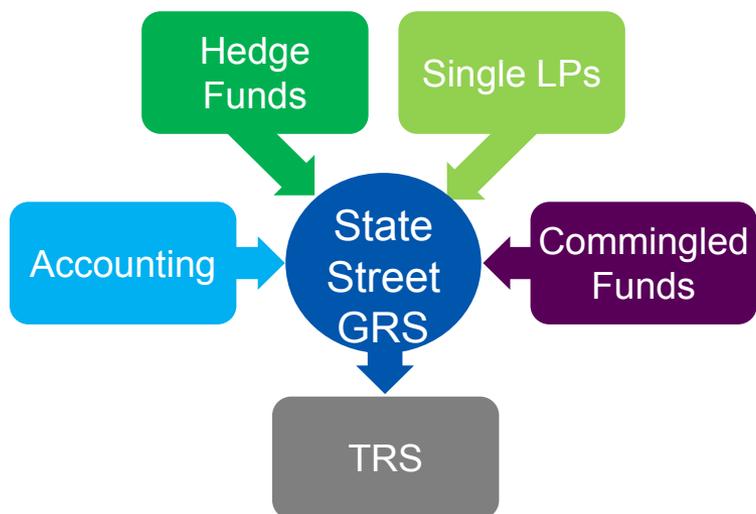
- 512 Funds/Portfolios
- 795 Composites (Groupings of Portfolios)
- Approximately 18,000 Positions
- 252 Custom Benchmarks

### TRS & State Street Partnership at Work

#### Global Performance Analytics "Build out"



## State Street Risk Operations



- **Complex portfolios processed:**
  - 21k+ internal / separate account positions
    - Stocks, bonds, private equity, derivatives
  - 14k+ commingled positions
  - 85k+ hedge fund positions
  - 4k+ Private Equity Portfolio Companies / Real Asset Properties
- Includes: equities, fixed income and alternative assets; (internally and externally managed)

- Dedicated operations staff to handle custom rules or individual queries
- Custom reporting and analysis (Daily & Monthly Processing)
  - Trust, portfolio and holdings-level reports
  - Look-through on commingled funds
  - Counterparty Exposures
  - Hedge Fund Transparency
  - Total trust risk budgeting
  - Bespoke board and investment committee reports

## Investment Compliance Services Breach Awareness and Management

### Daily Investment Policy Statement (IPS) Compliance Monitoring

- Total Fund Summary
- External & Internal Public Markets Summary
- Asset Allocation Summary
- Overlay Portfolio Compliance Summary
- Private Markets Compliance Summary
- Counterparty Report

### Daily Investment Management Agreement (IMA) Compliance

- SPN Compliance Reports
- SPN Asset Allocation Reports
- External Manager Compliance Reports
- Weekly TRS Senior Management Compliance Report
- Quarter-End Leverage Calculations

#### SCOPE:

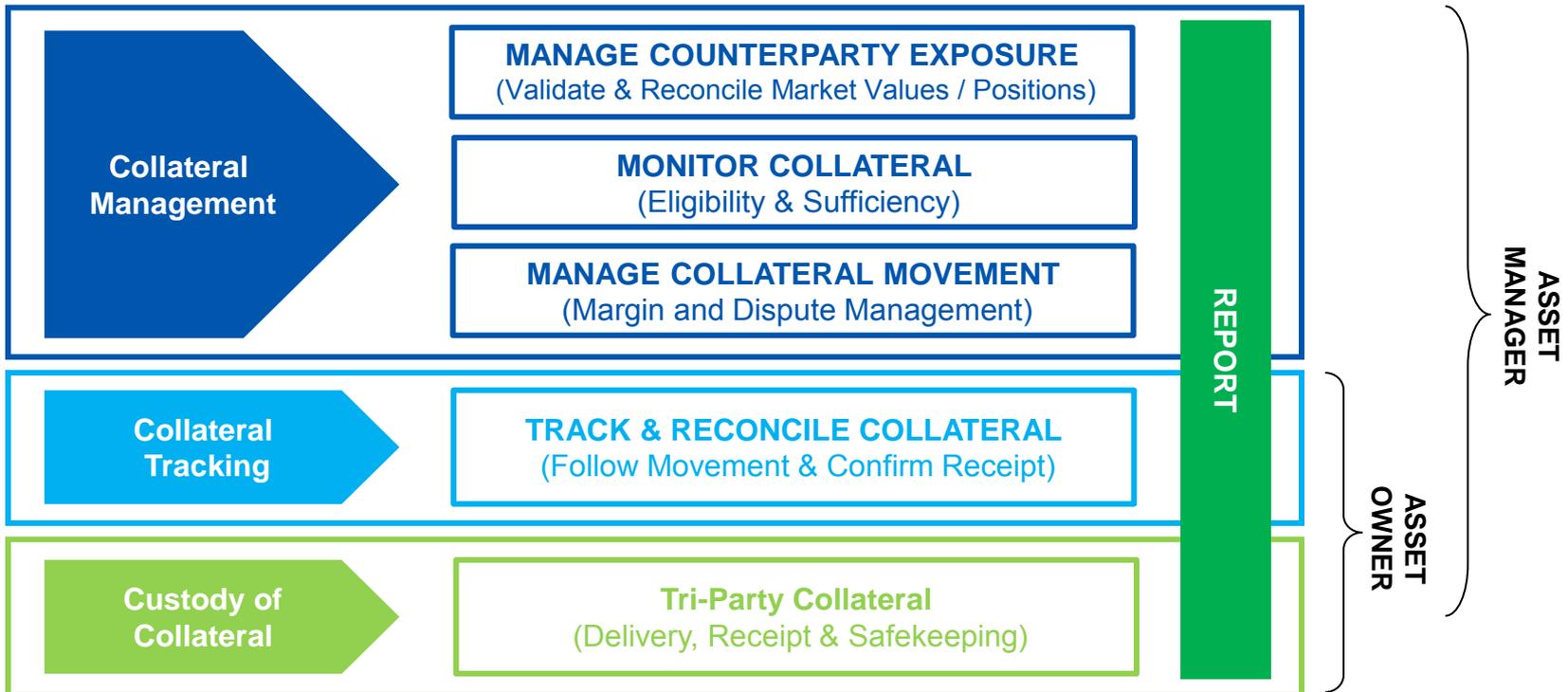
- Monitoring of 37 external manager / SPN IMA agreements
- IPS monitoring of more than 500 portfolios on a daily basis
- Over 1000 individual compliance checks performed each day that encompass IPS, IMA, restricted countries (i.e. Sudan & Iran), and TRS internally defined rules

# Collateral Services - Derivatives



**SCOPE:**

- Eleven (11) ISDA (bi-lateral agreement) counterparties
- Two FCMs
- Includes both *external/internal* management of derivatives



## Class Actions Overview



### Sources Include:

- Direct mailings from law firms
- Direct mailings from claims administrators
- Vendors (Interactive Data, Risk Metrics)
- DTCC legal notices
- CDS Bulletins
- Wall Street Journal
- Class Action web sites

- Research terms of event
  - Affected asset IDs
  - Class period

- Query Global Horizon® to identify positions and activity during class period
- Portfolio level detail report created

- Class Action Processing Unit distributes notifications, files actions, collects distributions, and produces reporting

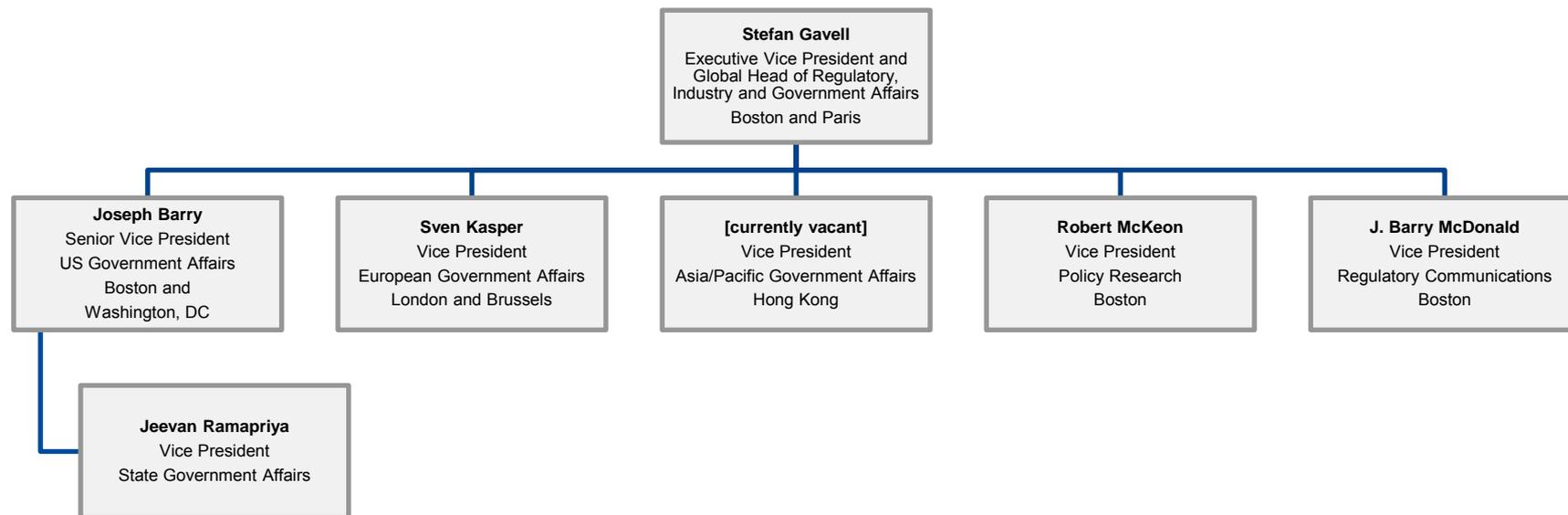
## Recent Accomplishments & Initiatives

- Full conversion of servicing from Boston to Sacramento (EAOS support model)
- Updates to Master Custody Agreement & Service Level Agreement (SLA)
- Support Expansion of Derivative Infrastructure:
  - Added Futures Clearing Merchant (FCM) Relationship
  - Expansion of ISDA counterparty network
  - Operationally executed Cleared Swaps under “Dodd-Frank” requirements
  - Implemented new collateral solutions for cleared derivatives
  - Assumed valuation responsibility of OTC Derivative activity
- Integrated Prime Brokerage Relationship
- Implemented Domestic Class Action Filing Services
- Implemented & converted TRS to *Continuous Link Settlement* (FX Pre-matching and Netting Capabilities)
- Installed “Transport Layer Security” (TLS) encrypting all email traffic between State Street & TRS

## Regulatory Reform Update

## Regulatory, Industry and Government Affairs Division

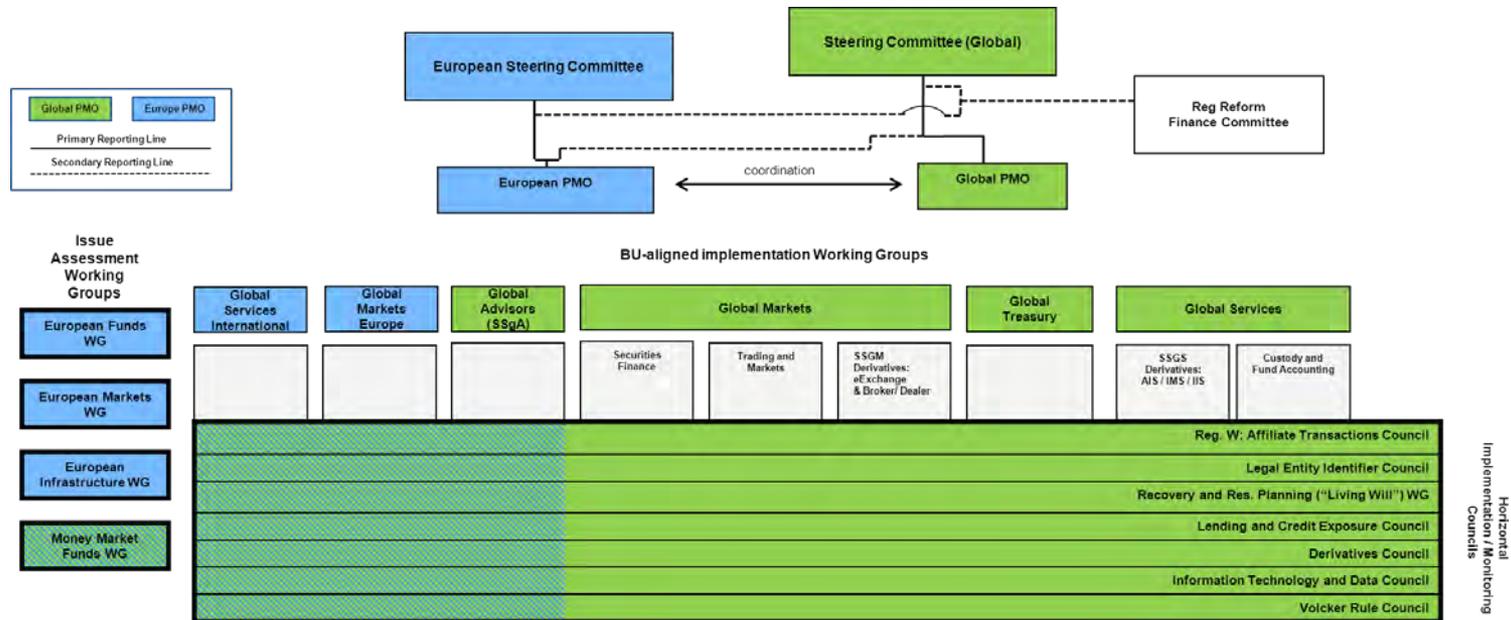
Regulatory, Industry and Government Affairs (“RIGA”) is responsible for overall coordination of State Street’s global regulatory interactions, development (with impacted business units and corporate functions) of public policy positions and all activities relating to advocacy and lobbying. RIGA manages trade association relationships with a significant policy and/or lobbying component, and supplies officers to State Street’s federal and Massachusetts Political Action Committees.



RIGA has 11 staff members located in Boston/DC, Paris, London/Brussels and Hong Kong.

## Regulatory Reform Implementation Project

- Post passage of the Dodd-Frank Act (July 2010), State Street set up a company-wide, Regulatory Reform Project to guide assessment and implementation of the provisions of the new regulatory environment
- The Steering Committee, headed by Stefan Gavell, is made up of senior executives from Legal, Finance, Risk and Compliance, as well as business leaders
- A European steering committee oversees key European reg reform issues and implementation
- Currently, the Regulatory Reform Project involves more than 300 people from around the company



## Regulatory Reform – A Ten Year Project:

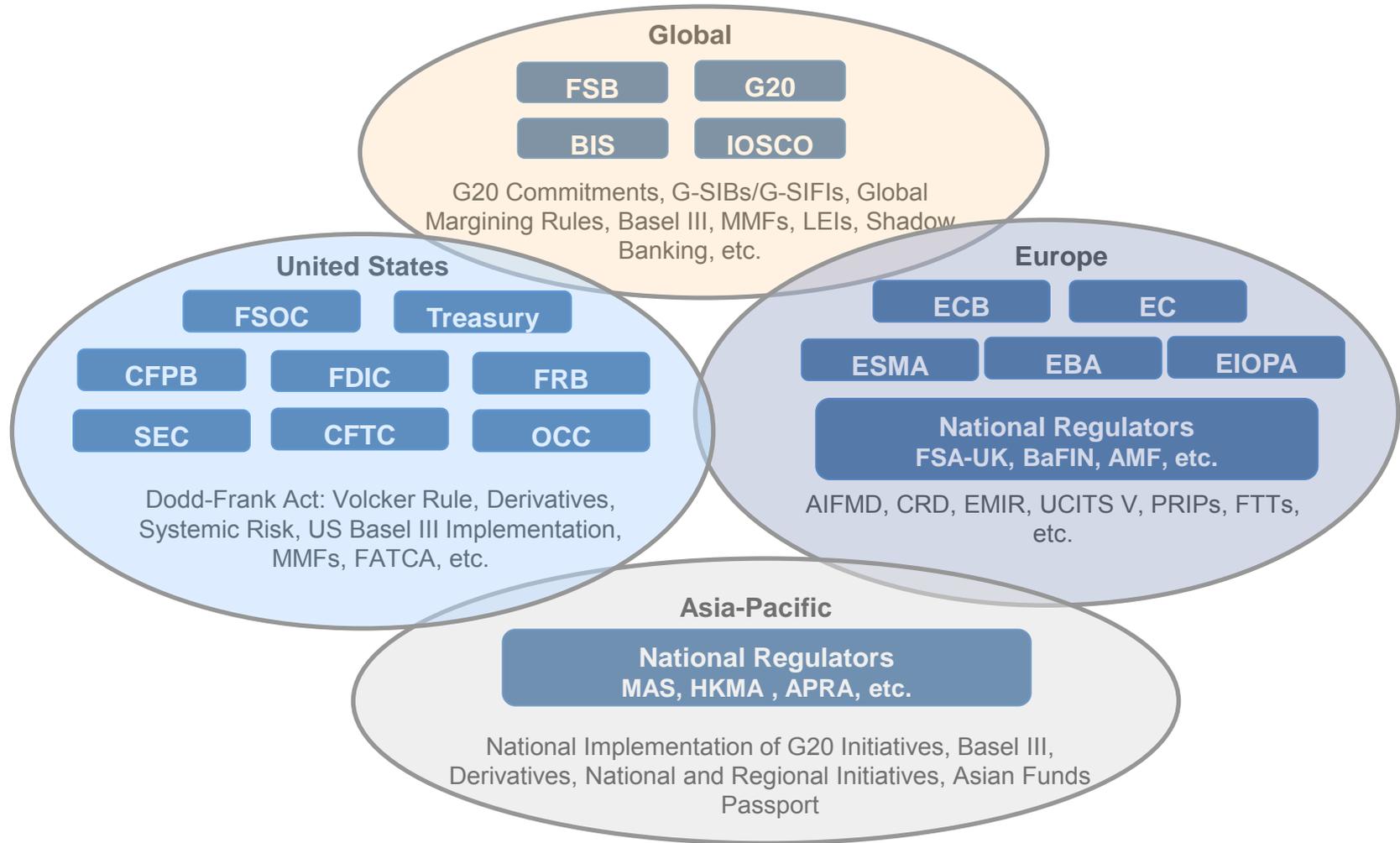
- It's been **six years** since the start of the financial crisis (Aug. 2007– BNP Paribas Investment Funds) and **four years** since the start of the global regulatory reform effort (Sept. 2009 – G-20 Pittsburgh Summit)
- Since then, we have seen the enactment of numerous **national and global reform initiatives**, including the Dodd Frank Act (Jul. 2010), the Basel III Capital and Liquidity Accords (Dec. 2010), and EU legislation on alternative investment funds and OTC derivatives
- Still, we are only **one-third** of the way through the regulatory reform process, which is likely to take **10 years** to complete (Jan. 2019 – final implementation of the Basel III Accords)
- “Downstream” impacts of largely bank-focused reforms are yet to come for non-bank market participants

## Since 2009, State Street has:

- Filed six official regulatory stress tests;
- Submitted a resolution plan (“living will”) of over 1,000 pages;
- Reviewed over 3,700 regulatory proposals;
- Submitted over 230 comment letters;
- Held over 75 meetings of our Reg Reform Steering Committee (since formed in 2010)

***State Street’s RIGA group has made almost 500 internal and external presentations on reg reform***

## We've Created a "World Government" of Regulation



**But Overlap, National Interest, Extraterritoriality Risk Gridlock**

## Update on Key US Issues

### Financial Stability

- Dodd-Frank mandates enhanced prudential standards for SIFIs (capital, liquidity, risk management, etc.); SIFI designation for large insurers; greatest area of industry concern is measurement of single counterparty credit exposure limits; 'living wills' submitted as of July 2012
  - US proposed minimum loss absorbency (debt/capital) expected soon
- 

### Capital and Liquidity

- Final US Basel III capital rules have been issued; largely unchanged from original proposals
  - Higher G-SIB leverage ratio proposal issued; 5% for holding company, 6% for bank
  - US Basel III liquidity proposal expected soon
  - US SIFI surcharge proposal expected soon
  - US short-term wholesale funding proposal expected soon
- 

### Volcker Rule

- Dodd-Frank introduces limits on proprietary trading and sponsorship of hedge/private equity funds; proposed rule strongly opposed by the industry because of impact on market liquidity; final rule expected late 2013
- 

### Derivatives

- Dodd-Frank imposes new reporting, clearing and trade execution requirements for OTC derivatives; several major rulemakings are complete, margin for uncleared swaps is significant unresolved issue
- 

### Money Market Mutual Funds

- US SEC has proposed two options: 1) floating NAV for prime institutional funds and/or 2) redemption gates and fees in times of stress

## Update on Key US Issues, cont'd.

### Pensions

- US pension tax incentives under threat due to Federal fiscal crisis; continued DoL efforts to increase transparency and revise ERISA fiduciary duty; perceived underfunding of public plans; challenges of compliance with new derivatives rules; possible interest in pensions by CFPB
- 

### Tax and Fiscal Policy

- Ongoing Congressional/White House debates over spending/revenue; tax reforms, particularly corporate, remain a priority; proposed new tax rules for financial products
  - FATCA is major implementation challenge
- 

### Housing Finance

- Qualified mortgage determinations likely to reshape mortgage markets; Fannie/Freddie reform significant looming issue
-

## Key European Initiatives

### Supervision

- **Banking Union (published September 2012):** proposal for ECB as supervisory authority for all Eurozone banks
- **Recovery and Resolution Plans (published June 2012):** The proposal sets out the necessary steps and powers to deal with bank failures, including the requirement for banks to provide 'living wills'
- **European Resolution Fund (expected summer 2013):** EU proposal intended to complete framework to complete EU supervisory framework for banks participating in the Banking Union

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### Taxation

- **Financial Transaction Tax (published February 2013):** 11 Member States agreed in January 2013 to introduce an FTT under so-called 'enhanced cooperation procedure' and Commission published the proposal on 14 February 2013

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### Financial Markets

- **MiFID review (published October 2011):** Covers pre/post trade transparency, regulation of trading venues, algorithmic trading, derivatives trading, client classification, retrocessions, and execution-only regimes
- **Derivatives (effective August 2012):** Mandatory clearing of standardized contracts, risk mitigation for bilateral contracts, reporting rules for CCPs (except trading – part of MiFID II); mandatory clearing expected to start H1 2014

## Key European Initiatives, cont'd.

### Capital

- **CRD IV (published July 2011):** Implements new Basel III capital/liquidity rules in EU
  - **Solvency II:** Introduces risk-based solvency requirements for insurers from 2014 onwards (delay expected)
- 

### Investment Management

- **AIFM Directive** (effective July 2013): Common framework for the authorization and supervision of AIFM in the EU; new rules for AIF depositaries will result in greater liability for agent risk
  - **UCITS V** (published July 2012): Harmonization of depositary provisions (building on AIFMD), remuneration and sanctions. Work on further UCITS reviews has started
  - **Corporate Governance:** EU Commission published Action Plan on 12 December 2012 on corporate governance; various legislative proposals expected in 2013
  - **Money Market Funds:** Legislation proposed in September 2013 to require floating NAV or 3% capital buffer
- 

### Pensions

- Commission presented its White Paper on pensions in the EU looking at ways to tackle the major challenges that confront the EU's pension systems

## State Street Regulatory Reform Goals and Priorities

- Educate policy-makers on needs of institutional investors, and the custody bank business model and services
- Align advocacy efforts with client regulatory concerns and challenges.
- Advocate for regulatory policies which support our ability to continue to provide essential services to institutional investors.
- Manage rigorous and comprehensive regulatory reform implementation program
- Serve as a resource to clients on regulatory reform issues
- Key priority issues:
  - Heightened prudential standards (capital, liquidity, credit limits) for custody banks;
  - Derivatives reform, including treatment of foreign exchange services, central clearing, reporting, and trade execution;
  - Volcker Rule and other proposals to limit bank asset management services;
  - New reporting requirements, such as Form PF and FATCA;
  - Pension reform;
  - Money market fund, UCITS, mutual fund and similar reforms; and
  - Securities lending market reforms

## State Street Global Markets – Securities Lending

## Securities Lending Relationship Highlights

- **Lending with State Street since September 2002**
- **Since inception TRS's earnings: \$995mm (to August 31, 2013)**
- **Acceptable Forms of Collateral**
  - Cash:
    - U.S. dollars only
    - Invested in a separately managed cash collateral reinvestment pool
    - Investment guidelines reviewed annually
  - Non-Cash: U.S. Treasuries and Agencies only
- **Custom list of approved borrowers and credit limits**
- **State Street provides indemnification of borrower default**
- **State Street provides indemnification against principal loss on all repo transactions**

## Role of State Street as your Agent Lender

- Facilitates each lending transaction between TRS and Borrowers
- Receives cash or non-cash collateral with a margin of:
  - 102% for US securities
  - 105% for non-US securities
- Marks-to-market the securities on loan daily, to maintain adequate margin
- Invests cash collateral into a segregated account managed by SSgA & following TRS Board approved investment guidelines
- Negotiates rebate (cash collateral) or premium rate (non-cash collateral) with the Borrowers when loans are initiated
  - Rates determined by the level of demand for the security in the marketplace.
- Provides Dedicated Departments:
  - Global Trading
  - Investment Management
  - Legal
  - Compliance
  - Marketing & Account Management
  - Data Control

## Specific Functions of Participants in a TRS loan

Broker / Dealer		SSB as Agent for TRS
Identifies Demand for Security In Market	»	Monitors Demand for Securities in Market
Contacts Lending Agent and Negotiates Loan fee	»	Loans Security to Broker/Dealer after Negotiating Loan fee
Provides either Cash Collateral or Non-Cash Collateral (102% vs US securities, 105% vs Non US Equity securities)	»	Invests Cash Collateral (to generate a spread) or accepts and holds in safekeeping Non-Cash Collateral
Performs Daily Mark-to-Market to Maintain Collateral Levels	»	Performs Daily Mark to Market to Maintain Collateral Levels
At close of loan; Receives either a portion of the interest earned by the Agent from its cash collateral (a rebate) or pays a fee if it used non-cash collateral	»	At close of loan; TRS & SSB Receive the difference between invested collateral interest and interest paid back to the Broker/Dealer or, SSB receives a fee if non-cash collateral was used TRS and SSB split net proceeds 90/10 according to contract

# Global Markets - Services

## Core Product Offerings within the Global Markets Division

**Securities Lending**  
 One of the largest agent securities lending programs in the world. Covers all types of lendable asset classes globally

**Enhanced Custody**  
 An integrated platform that allows clients to borrow and finance from the safety of a segregated custody account

**Foreign Exchange**  
 Globally connected team helps clients optimize their FX returns and manage currency risk through powerful currency strategies based on quantitative analysis

**Portfolio Solutions**  
 Our ability to provide a natural liquidity to our clients that adds up to a cost effective solution for all their transition needs



**Equity Trading**  
 Client-focused execution model and deep pool of natural liquidity help clients enhance and preserve portfolio value with global, regional and sector focuses

**Electronic Trading Technologies**  
 Leading suite of integrated electronic solutions including our BlockCross equities alternative trading system, facilitating increased crossing rates for traders

**Commission Management**  
 Offering the ability to reduce trading costs by turning trading commissions into credits. A complete end-to-end global solution enabling managers to better manage commission flows, address regulatory reporting and administer commission sharing arrangements

## State Street Associates

## **State Street Associates is well positioned to take on research responsibilities**

To keep pace with changing markets, cutting-edge innovation is no longer a luxury, it's a necessity. State Street Associates sits at the intersection of academic thought and investment practice, providing strategic advisory solutions to institutional investors around the world. We combine innovative analytics, deep industry experience, and State Street's information resources to help our clients formulate strategy, enhance performance, and manage risk. Our clients are among the world's largest and most sophisticated investors.

We are distinguished by:

- **A strong track record of innovation** fueled by our partnerships with renowned academics:
  - **Ken Froot**, Harvard Business School  
*Investor Behavior*
  - **Mark Kritzman**, MIT Sloan School  
*Portfolio and Risk Management*
  - **Roberto Rigobon**, MIT Sloan School  
*Inflation and Economics*
  - **Alberto Cavallo**, MIT Sloan School  
*Inflation and Economics*
- **Timely, actionable investment insights** derived from State Street's unique industry position servicing \$25 trillion in institutional assets (as of March 2013)
- **Thoughtful, solution-oriented advisory analyses** underpinned by quantitative rigor and presented in clear, intuitive terms
- **An experienced team of researchers in the US, Europe and Asia** with backgrounds in industry and a range of academic disciplines

*Staying on top of new research in finance is a resource intensive process. Developing tradable strategies based on academic and practitioner journals and conferences is more than a full time job for most researchers.*

*SSA will work with TRS to craft unique solutions to their specific needs.*

**Your Questions**

Our research partnership starts with TRS' needs. We will customize our search process to focus on TRS investment goals, sourcing ideas on Alpha, Alternative Beta, Valuation, Risk, Asset Allocation and Investment Process.

**Building a Solution Together**

- Our Quarterly Literature Scan covers relevant insights from top journals and conferences, providing a starting point for idea generation.
- During the identification process, we will work closely with representatives from TRS, embedding them in the Literature Scan and tradable idea identification process.
- State Street's vast resources will be available to provide TRS with a customized research process: sourcing, testing and implementing innovative investment ideas.

THE SCAN							
#	Journal Edition	Title/Authors	Asset Class	Tags	Alpha	Risk	Short Description/Claims
1	EFA	Asset-Pricing Anomalies and Financial Climates - Agrawal, Chordia, Joshi and Philipov	Equities	RESEARCH FACTOR, EQUITY, MARKET, RISK	+	+	Trading strategies around mood about firms anomalies (such as price and earnings measures) have performance comparable to companies with the worst credit and may not be implementable. Accrual and value based strategies are implementable.
2	EFA	Dividend-Payout Ratio, Dividend Growth Rates Implied in Domestic Markets and Expanded Market Returns - Gode	Equities	RESEARCH FACTOR	+	+	Correcting the dividend-payout ratio for expected dividend growth yields a better predictor of market returns.
3	JML, Oct	Do implied volatilities predict stock returns? - Ammann, Verhulst and Sipp	Equities	RESEARCH FACTOR	+	+	Positive, highly significant relationship between equity returns and lagged implied volatility controlling for several factors. Lagged historical volatility is not relevant for stock returns.
4	EFA	Information effects of announced stock index additions: Evidence from S&P 500 - Merton	Equities	RESEARCH FACTOR	+	+	Announcements of additions to the S&P 500 have information effects at both the firm and industry level.
5	WFA	Myopic Extrapolation, Price Momentum and Price Reversal - Chen, Mose and Zhao	Equities	RESEARCH FACTOR	+	+	Realized momentum profits are positive due to myopic extrapolation on current equity prices.
6	RFS, Feb	Out-of-Sample Equity Premium Prediction, Combination Forecasts and Links to the Real Economy - Rapach, Strauss and Zhou	Equities	RESEARCH FACTOR, FINANCIAL, EQUITIES	+	+	Moving average rules and economic data capture different aspects of variation in the equity premium and can be combined for improved forecasting.
7	EFA	The Frequency of Recommendation Changes and Probability of Analysts' Recommendations - Sharma, Inada and Andric	Equities	RESEARCH FACTOR	+	+	Following analysts with more frequent recommendation changes earn higher returns. Transaction costs notwithstanding.

Source: State Street Associates

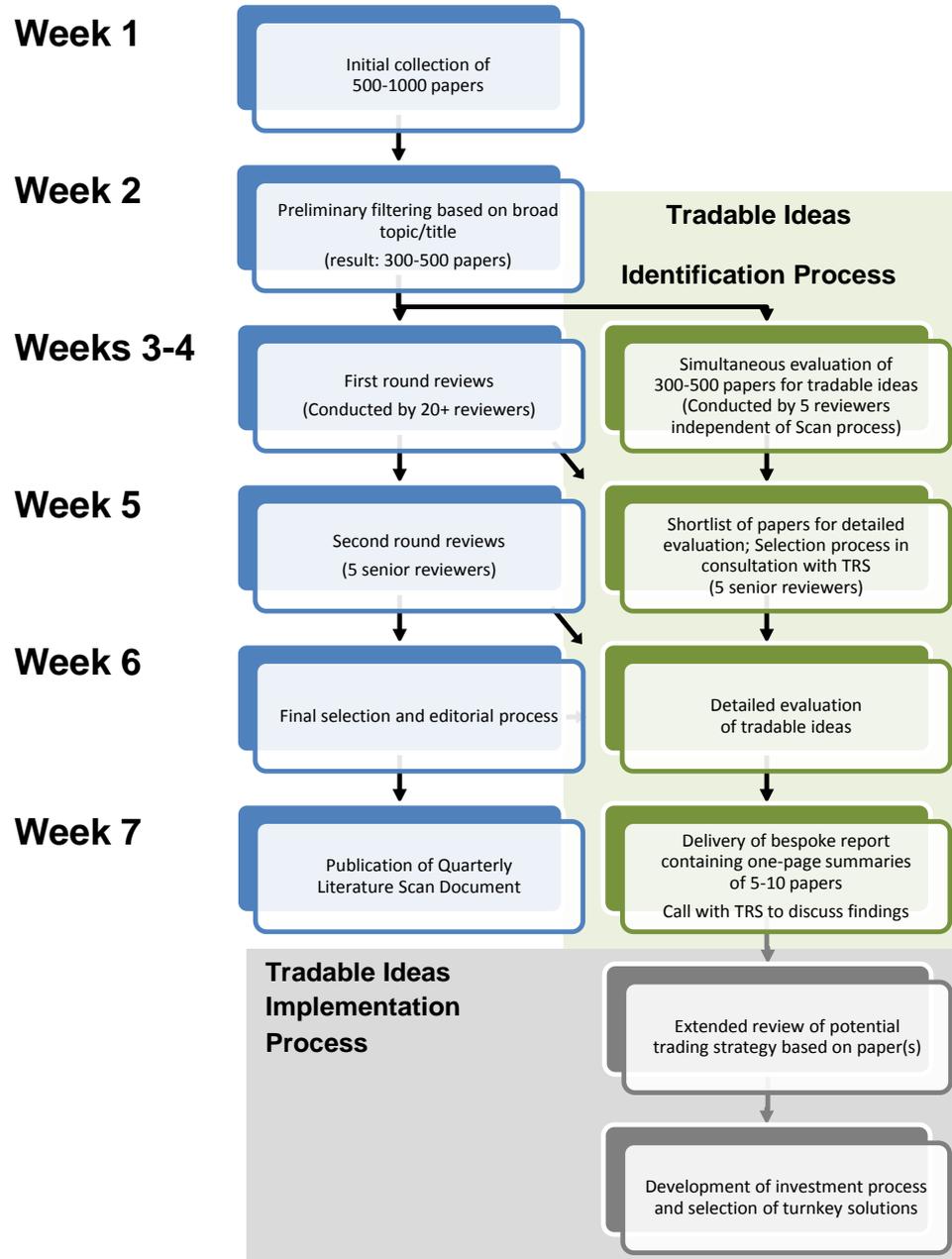
**Our Expertise**

State Street Associates has built an infrastructure for evaluating research, testing new ideas and developing tradable strategies. Our direct ties to academia guide us as we review all recent papers from top conferences and journals relevant to asset management.

**A Strategic Research Partnership Between SSA and TRS**

Guiding your research process with our expertise, ties to academia and proven quantitative resources

# SSA Literature Scan and TRS Tradable Idea Identification Process



## Key Components of the Tradable Ideas Process

### Project Initiation Meeting

- We will train the researchers at State Street Associates on TRS goals and the policies of TRS's Internal Investment Committee and Management Committee in collaborating with a member of TRS's Staff
- We will outline the development of a strategy (including securing the support of the Management Committee), launching paper portfolios, research and development portfolio and the final phase of full allocation

### Tradable Ideas Identification Process

- A collaborative process with members of TRS and SSA working closely to identify suitable ideas
- Ideas will be sourced from academic and practitioner conferences and journals through the literature scan process. They may also be sourced directly from TRS for evaluation
- Researchers will evaluate papers in greater detail for potential relevance and implementation.

### Development of a Paper Portfolio and a Turn-key Investment Solution

- Work within TRS's guidelines for developing new internal portfolios
- In collaboration with TRS representatives, develop and track paper portfolio models
- Utilize resources within State Street to streamline the implementation and establish a turnkey solution

## Metrics of Success

To properly evaluate the success of this process, we propose the following metrics:

- Number of papers shortlisted.
- Number of papers reviewed.
- Number of papers selected for detailed evaluation.
- Models identified based on papers.
- Models implemented and recent performance.

*A healthy review process will take multiple papers from start to finish of this process but may take time to establish a proven track record from start to finish.*

- **Disclaimers:**
- Many papers may turn out to be untenable as a tradable idea.
- The success of investigating a given paper is not guaranteed.

## **Deliverables:**

### **Investable Ideas from SSA**

- Interactive discussion between TRS and SSA during the selection process with on-site inclusion of a TRS employee at SSA, Cambridge, MA.
- A quarterly report summarizing the most relevant investment ideas from academic and practitioner conferences and journals

### **Supporting the TRS Best Paper Award**

- A report delivered one month after the “best paper” award submission deadline with a detailed summary of the top five papers;
- If requested by TRS, a bespoke report evaluating the results of SSA’s implementation and backtesting of papers selected from this report by TRS in discussion with SSA and based on relevance to TRS objectives.

## State Street Global Security

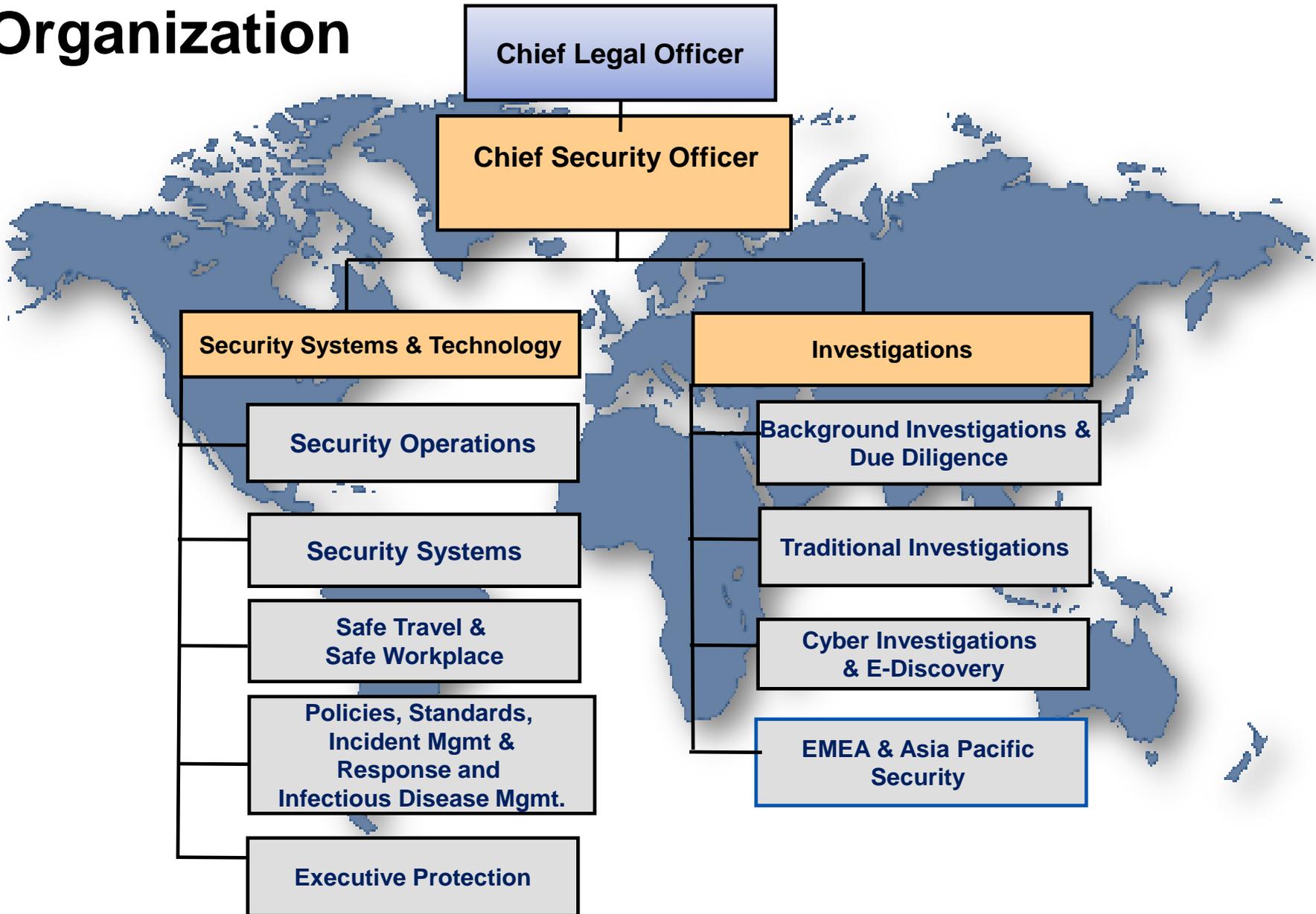
## How Are We Protecting SSC

**Global Security safeguards State Street's people, clients, assets, information, continuity of operations and reputation through the development and management of security programs and services worldwide**



**A HISTORY OF CONSISTENT PERFORMANCE**

# Organization



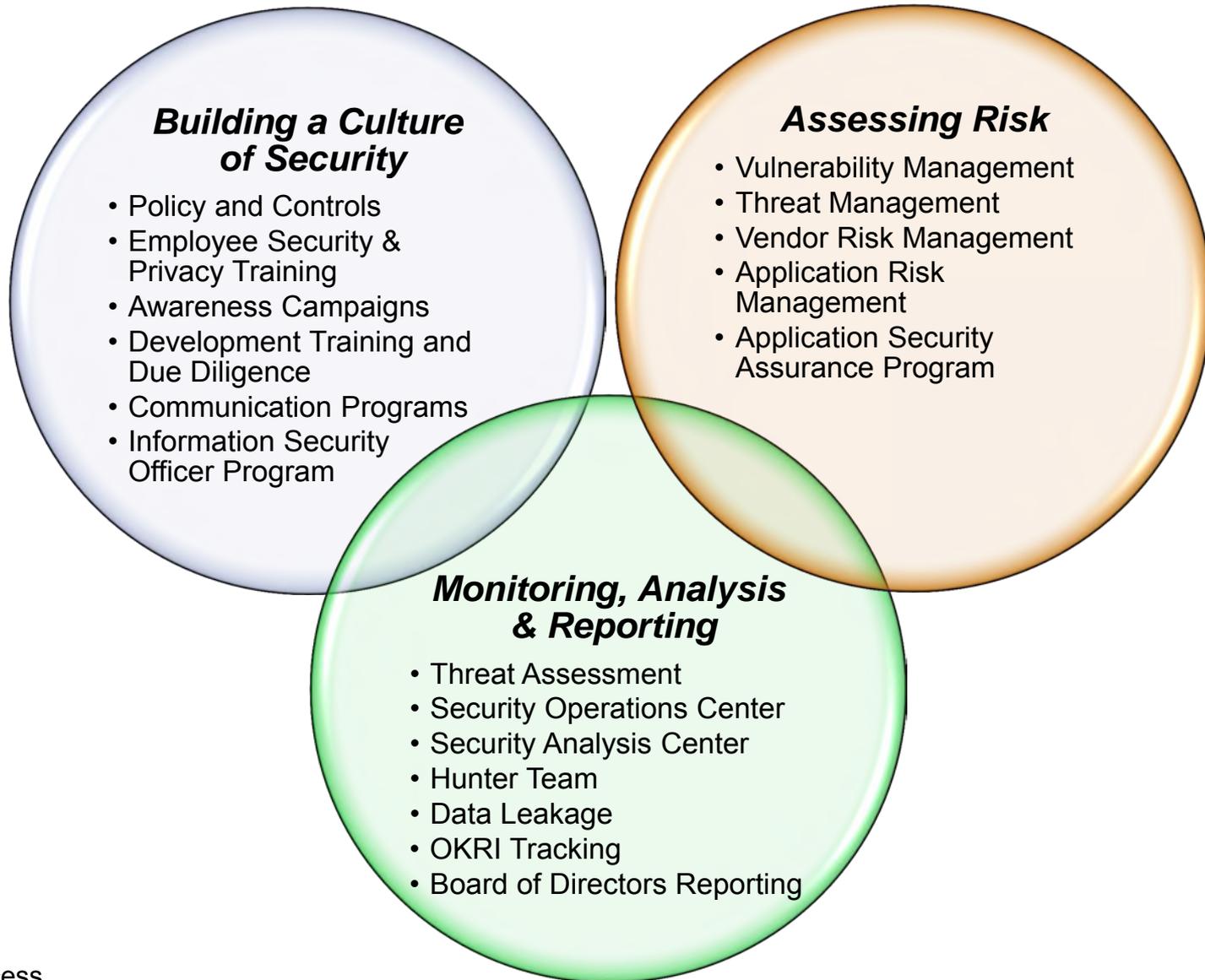
## Corporate Information Security at State Street: *Protecting the Data in our Care*



- Enterprise-wide program covering all business units and locations around the world.
- Aligned with the ISO27001/27002 controls framework
- Managed through tiered governance model aligned with strategic goals and mitigating risks associated with information management

***The protection of information assets and the related processing systems is vital to meeting the expectations of our customers and helping to ensure the success of State Street business***

## Information Security Organization Functions



## People and Personal Security



### ***Acceptable Use and Code of Conduct***

- Acceptance of logon notices including *Terms and Conditions*; and *Privacy Statements*
- Compliance with internal guidelines designed to protect the integrity and confidentiality of customer information
- Internal network monitoring
- ID Abuse monitoring program



### ***Security Awareness Training***

- Employees receive training on safeguarding information and reducing risk of theft
- Guidance on security procedures, best practices and industry events
- Annual Information Security Forum
- Secure Application Development training

## Appendix

## Our Company Today

### Industry Leadership

#### No. 1 Bank by Overall Financial Health

*Forbes*

2012 Best Banks in America

#### Best Global Custodian for Fund Managers, Best Transition Management Provider

*AsianInvestor*

2012 Service Provider Awards

#### Most Recognized ETF Brand, Best ETF Service Provider in Asia Pacific and Europe

*exchangetradedfunds.com*

2012 Global ETF Awards

#### Outsourcing Provider of the Year

*Custody Risk*

2012 Americas Awards

#### No. 1 in Flow Research for Real Money Clients

*Euromoney*

2012 Foreign Exchange Survey

#### Best Securities Financing House, Best ETF Manager in Asia

*Asia Asset Management*

2012 Best of the Best Awards

#### Global Custody Award Winner

*aiCIO*

2013 European Innovation Awards

2012 Industry Innovation Awards

#### No. 1 Custodian Lender, Most Innovative Provider

*Global Investor /isf*

2013 Beneficial Owners Survey

#### Securities Lender of the Year, Property Fund Administrator of the Year

*Custody Risk*

2012 European Awards

# Our Company Today

Strong Global Presence\*

29,460 employees worldwide



\* As of March 31, 2013

## Q2 2013 Financial Results

### Highlights

#### Solid Performance

- We reported operating-basis\* diluted earnings per common share of \$1.24, up 29 percent from the first quarter of 2013 and up 23 percent from the second quarter of 2012
- Due to our continued strong expense management, we achieved positive operating leverage\*\* of 347 basis points compared to the second quarter of 2012
- Excluding expenses related to equity incentive compensation for retirement-eligible employees and payroll taxes, we achieved positive operating leverage\*\* of 97 basis points compared to the first quarter of 2013
- Our Business Operations and IT Transformation program remains on track to deliver additional pre-tax expense savings of approximately \$220 million in 2013\*\*\*

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#### Q2 Results Demonstrate Resilience of Business Model

- New asset servicing wins, including 30 new alternative asset servicing mandates, totaled \$201 billion, compared with the \$133 billion in new wins that we reported in the second quarter of 2012
- Total of \$11 billion in net new assets, excluding the SPDR® Gold ETF, to be managed at State Street Global Advisors

## Q2 2013 Operating-Basis Financial Results\*

### Financial Performance Compared to Q1 2013 and Q2 2012

\$ in millions, except per share data	Q2 2013	Q1 2013	Q2 2012	Change	
				Q2 2013 v. Q1 2013	Q2 2013 v. Q2 2012
Operating-basis revenue	\$2,580	\$2,470	\$2,459	4.5%	4.9%
Operating-basis expenses	1,753	1,812	1,728	(3.3)	1.4
Operating-basis EPS	1.24	0.96	1.01	29.2	22.8
Operating-basis ROE	11.3%	8.9%	10.3%	240 bps	100 bps

## Recent Business Continuity Events

Date	Incident	Response
<p>April 2013 Boston Back Bay Explosion s</p>	<p>Two late afternoon explosions at the Boston Marathon on Monday, 4/15 resulted in three State Street buildings being closed on Tuesday, 4/16. A manhunt for the bombing suspect resulted in Boston public transportation closures and in-shelter lockdowns on Friday, 4/16.</p> <ul style="list-style-type: none"> <li>• 4/16: 1,750 GS employees relocated (3 Boston buildings)</li> <li>• 4/19: 3,000 GS employees impacted (5 Boston buildings)</li> </ul>	<p>Enacted Call Tree Enacted Relocation Plan √ Training Rooms, Flex Centers, DR Seats √ Work From Home √ Workload Swap (onsite coverage) √ SunGard (declared, not needed)</p>
<p>February 2013 MA Blizzard &amp; KC Snow Storms</p>	<p>A MA blizzard on Friday, 2/08 resulted in Boston public transportation and MA road closures. Two major snow storms impacted KC on Thursday, 2/21 - Friday, 2/22 and Tuesday, 2/26.</p> <ul style="list-style-type: none"> <li>• MA: 1,150 GS employees worked remotely; 93 stayed in hotel rooms</li> <li>• KC: 500 GS employees worked remotely; 126 stayed in hotel rooms</li> </ul>	<p>Enacted Inclement Weather Plan √ Hotels, √ Work From Home √ Workload Swap (onsite coverage) Enacted Generator Power Plan (MA)</p>
<p>October 2012 Hurricane Sandy</p>	<p>Damaging winds and Boston public transportation closures from Hurricane Sandy impacted the Boston area on Monday, 10/29 and Tuesday, 10/30.</p> <ul style="list-style-type: none"> <li>• 1,300 GS employees worked remotely; 45 stayed in hotel rooms</li> </ul>	<p>Enacted Inclement Weather Plan √ Hotels, √ Work From Home √ Workload Swap (onsite coverage) Enacted Generator Power Plan</p>
<p>March 2012 Boston Back Bay Power Outage</p>	<p>An evening transformer fire at a Boston power substation on Tuesday, 3/13 resulted in two State Street buildings being closed Wednesday, 3/14 - Friday, 3/16.</p> <ul style="list-style-type: none"> <li>• 700 GS employees relocated</li> </ul>	<p>Enacted Generator Power Plan Enacted Call Tree Enacted Relocation Plan √ Training Rooms, Flex Centers, DR Seats √ Work From Home √ SunGard (alerted, not needed)</p>
<p>November 2011 Quincy Water Main Break</p>	<p>A water main break outside a State Street building in Quincy resulted in the closure of the building on Monday, 11/14 from 9:00 AM through end of day.</p> <ul style="list-style-type: none"> <li>• 330 GS employees relocated</li> </ul>	<p>Enacted Evacuation Plan Enacted Call Tree Enacted Relocation Plan √ Training Rooms √ Work From Home</p>
<p>August 2011 Hurricane Irene</p>	<p>A projected Category 1 hurricane reached the Boston area on Sunday, 8/28.</p> <ul style="list-style-type: none"> <li>• 310 GS employees worked remotely; 82 stayed in hotel rooms</li> </ul>	<p>Enacted Inclement Weather Plan √ Hotels, √ Work From Home √ Workload Swap (onsite coverage) Enacted Generator Power Plan</p>
<p>January, 2011 &amp; February, 2011 Snow Storms</p>	<p>Three major snow storms (1/12, 1/27, 2/01-2/02) impacted Boston and/or Kansas City</p> <ul style="list-style-type: none"> <li>• 2,030 GS employees worked remotely; 919 stayed in hotel rooms</li> </ul>	<p>Enacted Inclement Weather Plan √ Hotels, √ Work From Home √ Workload Swap (onsite coverage)</p>



## **Gunjan Kedia, Executive Vice President, Head of US Investor Services**

Gunjan Kedia is executive vice president of State Street's investment services. Ms. Kedia is responsible for the operational and financial aspects for some of State Street's premier US Investment Servicing clients. She is also responsible for our client services and product management functions and helping to set the strategic direction of State Street's industry-leading mutual fund servicing business.

Prior to joining State Street in 2008, Ms. Kedia was an executive vice president of global product management at Bank of New York Mellon. She was responsible for the design, development, deployment and management of all asset servicing products globally. Ms. Kedia also served as the executive director of Investment Manager Solutions, where she led sales and client relationships in the Americas region. Additionally, Ms. Kedia was a partner with McKinsey & Company.

Ms. Kedia holds a Bachelor of Science degree in engineering, with distinction, from the Delhi School of Engineering. She also holds a Master of Business Administration degree, with distinction, from Carnegie Mellon University.



## **Rick Young, Senior Vice President, Investment Services**

Rick has over 18 years of managerial experience in various sectors of the financial services industry. Currently, he is a Senior Vice President at State Street Bank overseeing the investment services for their Sacramento office. In addition Rick is responsible for the Barclays Global Investors institutional business. He joined State Street in July 2007, as part of the Investors Bank acquisition. Prior to Investors Bank, Rick was a Principal with Barclays Global Investors in the Fund Accounting Group. With Barclays Global Investors, Rick spent two years as Chief Operations Officer for their Australian division.

Rick holds a Bachelor's degree in Economics from Southern Oregon University.



## **Joseph J. Barry, Senior Vice President, Regulatory, Industry, and Government Affairs**

Joe Barry is a Senior Vice President in State Street's Regulatory, Industry, and Government Affairs department. In that role, Mr. Barry is responsible for U.S. government and public policy related activities. He divides his time between Boston, MA and Washington, DC.

Prior to joining State Street, Mr. Barry served for over a decade as a Legislative Assistant to a United States Senator, where he covered a broad range business, taxation, transportation, and energy policy issues.

Mr. Barry is a graduate of Harvard College, with an undergraduate degree in Philosophy. He resides in Framingham, MA with his wife and son.



## **Nicholas Bonn, Executive Vice President, Head of Securities Finance**

Nicholas Bonn is head of the Securities Finance division of State Street, president and chairman of the board of State Street Global Markets, LLC, State Street's US broker/dealer subsidiary, and State Street's Transition Management team. Prior to this, he served as global head of sales for State Street Global Markets and Securities Finance. During his tenure at State Street, Mr. Bonn established State Street's broker/dealer subsidiaries in Canada, Japan and the United Kingdom and currently acts as a board member of those entities. He has also sat on various management committees within State Street's asset management, trading and securities lending businesses.

Mr. Bonn joined State Street in 1992 to establish State Street's equity trading and transition management business, which he managed through 2008. In 2009, he was appointed to head of sales for the company's combined trading and lending businesses, and has remained a member of its Sales Council, responsible for strategy and governance for enterprise-wide sales, relationship management and client initiatives.

Prior to joining State Street, Mr. Bonn had been with the National Association of Securities Dealers since 1986, working in market and broker surveillance. Before that, he was with Fidelity Investments in trading roles since 1980.

Mr. Bonn holds degrees in finance and accounting from Northeastern University. He is a former director of the Boston Stock Exchange, and currently sits on the board of visitors of Northeastern University's College of Business Administration. He is a member of the Institutional Brokerage Committee of the Securities Industry and Financial Markets Association.



## **Jessica Donohue, Senior Managing Director, State Street Associates**

Jessica Donohue, Ph.D. is senior managing director and the head of State Street Associates (SSA). In this role she directs the development of proprietary investor behavior, risk and inflation indicators, the production of cutting-edge publications and advisory research, and the staging of major annual international conferences. Previously, she served as Head of Investor Behavior Research at SSA.

Prior to her work with State Street Ms. Donohue was an instructor at Brandeis University and the University of Minnesota. Her published research can be found in the *International Economic Review*, the *Emerging Markets Review* and *Finance Research Letters*.

Ms. Donohue holds a Bachelor of Arts degree in international relations and a Master of Arts degree in economics from the University of Minnesota, a Master of Science degree in agricultural economics from Virginia Tech, and a Ph.D. in economics from the University of Minnesota.



## **John (Jack) C. Eckenrode, Senior Vice President , Chief Security Officer**

John assumed the role of Chief Security Officer in August 2006 after a thirty-two year career in federal law enforcement with the Federal Bureau of Investigation. He is responsible for all of State Street's Security operations and programs globally, including investigative matters, background screening policies, executive protection programs, and shared responsibilities for information security, business continuity and data privacy. Jack retired from the FBI as the Special Agent in Charge of the Philadelphia Division where he was responsible for the executive management of all aspects of the FBI's investigative operations for Pennsylvania and part of New Jersey. His other tours of duty with the FBI included assignments in Washington, DC; Memphis, TN; New York City; Boston, MA; New Haven, CT; and Sacramento, CA. Jack commanded the FBI's Joint Operations Center established on 9/11/01 in lower Manhattan and was later promoted to the FBI's Inspector – Senior Executive Service before taking charge of the Philadelphia office.

Jack's undergraduate training was at St. Francis University in PA and graduate work at the University of Maryland and Virginia Commonwealth University. He has completed executive management training at the Yale School of Management and the Kellogg School of Management.

Tab 9

# Teacher Retirement System of Texas



## Trustee and Employee Ethics Policies Updates Board of Trustees Meeting October 18, 2013

Reinhart Boerner Van Deuren s.c. and TRS Legal Services Division





# Trustee Ethics Policy Background - What Changed?

- The TRS Omnibus Bill significantly changed certain statutory ethics requirements imposed on Trustees
- The Omnibus Bill gives TRS the opportunity to revise the Trustee Ethics Policy to reduce certain potential negative impacts on TRS operations and Trustees. It:
  - Modified the application of the Common Law Conflict of Interest ("CLCOI") doctrine to TRS
  - Repealed the prohibition on Trustee investment in private investments funds in which TRS is invested
  - Provides Trustees discretion in adopting codes of ethics and disclosure requirements applicable to Trustees, employees, and contractors



## Trustee Ethics Policy Background - Preexisting Investments in Contractors

- The CLCOI doctrine provides that a contract with a governing body is void if a public officer has a direct or indirect personal pecuniary interest in the contract
- Until divested, a Trustee's pecuniary interest in the contract voids future contracts with vendor and prohibits TRS from otherwise amending, renewing or extending an existing contract



# Trustee Ethics Policy Background - Preexisting Investments in Contractors

- The Omnibus Bill modified the CLCOI doctrine as applied to Trustees, employees, and contracts of TRS
  - Violating the CLCOI doctrine no longer automatically voids a contract with TRS
  - TRS must adopt procedures for disclosing and curing violations of the CLCOI doctrine
- Other statutory restrictions on Trustee ownership of contractors continue to apply
  - For example, a Trustee is ineligible (and must resign) if the Trustee or the Trustee's spouse owns or controls, directly or indirectly, more than a 10% interest in a business entity or other organization receiving funds from TRS



# Trustee Ethics Policy Background - Preexisting Investments in Contractors

- Benefits to TRS as a result of Omnibus Bill modification of CLCOI doctrine:
  - Reduce potential impact on TRS operations caused by Trustees' preexisting conflicts that inadvertently conflict with TRS
    - Slow entry into contracts
    - Trustee must divest prior to TRS action with the contractor
  - Eliminates a disincentive for qualified individuals to serve as Trustees



## Trustee Ethics Policy Background - Preexisting Investment in Private Investment Funds

- The Omnibus Bill repealed Government Code section 825.211, which generally prohibited a Trustee from participating in the same investment in which TRS is invested
- Benefits to TRS as a result of the Omnibus Bill:
  - Reduction in potential investment delays while Trustees' conflicts are cleared
  - TRS may have had to forgo high quality investments because of Trustee investments



# Trustee Ethics Policy - Recommended Revisions

- Align Trustee Ethics Policy with the changes provided by the Omnibus Bill
- Harmonize Trustee Ethics Policy and Employee Ethics Policy where state law allows
- Policies will not be expanded – Seeking to clarify, sharpen and harmonize the policies

- Revise to permit a Trustee to continue holding investments in TRS contractors that a trustee held before becoming a Trustee or before entity becomes a vendor
  - Subject to certain conditions, such as disclosure of the interest and recusal from discussions concerning those contractors



## Trustee Ethics Policy Recommended Revisions – Statutory Changes

- Revise to permit a Trustee to continue holding investments in private investment funds in which TRS is considering investing if a Trustee invested before becoming a Trustee or before TRS invests
  - Subject to certain conditions, such as disclosure of the interest and recusal from discussions concerning those investment funds

- Trustee Ethics Policy is more restrictive than the Employee Ethics Policy and statutory requirements
  - Certain Meals, Transportation and Lodging
- Benefit to revising Trustee Ethics Policy:
  - Consistency between the two policies
  - Clarity for Trustees: same standards in Trustee Ethics Policy and statutes



# Employee Ethics Policy Background – What Changed?

- As a result of the Omnibus Bill, the Employee Ethics Policy can be revised to incorporate new provisions regarding
  - Key employees
  - Key employees' enhanced disclosures
  - Conflicts of interest
- TRS may also want to consider other prudent changes



# Employee Ethics Policy - Key Employees

## ■ Key Employees

- New statutory language identifies Key Employees as those that “exercise significant fiduciary authority.”
- Not a significant change from prior language.
- Review of last year’s overhaul of Key Employee determinations may point to revisions at the margin.



# Employee Ethics – Key Employees’ Enhanced Disclosures

- Key Employees’ Enhanced Disclosures
  - New statutory language allows Board to “impose enhanced disclosure requirements” on Key Employees.
  - New enhanced disclosures can be more useful and focused than prior disclosures.
  - Enhanced disclosures would likely focus on private investments, outside activities, and gifts.



# Employee Ethics Policy – Conflict of Interest Definitions

- Conflict of Interest Definitions
  - Prior statutory language repealed.
  - Opportunity to craft new definition or improve the old definitions.



# Employee Ethics Policy – Other Revisions

- Other Possible Revisions
  - Outside Employment Approval for All Employees.
  - Revisions to Improve Readability.
  - Review of Annual Compliance Forms.
  - Review of Restrictions on Personal Investments.

Tab 10

# Teacher Retirement System of Texas



## ***Cash Disbursements*** ***August 2013***

Don Green, Chief Financial Officer

Board of Trustees Meeting  
October 18, 2013



# Financial Statements

## August 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:** October 18, 2013

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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 82<sup>nd</sup> 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 August, 2013. *Salaries and Other Personnel Costs* were \$4.0 million, *Professional Fees* were \$800 thousand, capital projects were \$300 thousand, and *Other Operating Expenses* were \$700 thousand. Items of interest include \$737 thousand in professional fees and services, \$104 thousand for printing of newsletters, and \$113 thousand for capital projects.

*TEAM Program Expenses* of \$753 thousand were disbursed in August, 2013. *Salaries and Other Personnel Costs* were \$168 thousand, *Professional Fees* were \$207 thousand, and *Other Operating Expenses* were \$378 thousand. Items of interest include \$107 thousand for program management services and \$210 thousand for the co-location project software.

# Financial Statements



## Pension Trust Fund Cash Disbursements - FY 2013 YTD for the Month Ended August 31

	<u>2013</u>		<u>2012</u>
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		5,359,992
April	5,272,203		5,071,073
May	6,204,350		5,398,688
June	5,034,559		5,264,585
July	6,663,591		6,285,330
<b>August</b>	<b>6,527,999</b>		<b>4,733,034</b>
<b>Totals</b>	<b><u>\$ 82,959,217</u></b> (b)		<b><u>\$ 74,094,530</u></b>

(a) Includes \$7 million in incentive compensation pay.  
 (b) Includes reimbursements of \$439,220.26

## TEAM Administrative Expenses - FY 2013 YTD for the Month ended August 31

