

**TEACHER RETIREMENT SYSTEM OF TEXAS MEETING  
BOARD OF TRUSTEES  
AND  
POLICY COMMITTEE**

*(Mr. Barth, Chairman; Ms. Clifton; Mr. Colonna; Mr. Kelly; & Mr. McDonald, Committee Members)*

**AGENDA**

**June 7, 2012 – 10:00 a.m.  
TRS East Building – Boardroom**

1. Consider the approval of the proposed minutes of the April 19, 2012 committee meeting – Todd Barth.
2. Discuss and consider recommending to the Board final adoption of proposed amendments to TRS Rule 41.4, relating to the employer health benefit surcharge under the Texas Public School Retired Employees Group Benefits Act (TRS-Care) of Title 34 of the Texas Administrative Code – Clarke Howard.
3. Discuss and consider recommending to the Board adoption of a customized, statutorily compliant Personal Financial Statement form for use by key employees – Tim Wei
4. Discuss and consider a fiduciary finding regarding business class travel – Don Green and Sylvia Bell.
5. Receive an update on the review of the Investment Policy Statement – Steve Voss and Brady O’Connell, Hewitt EnnisKnupp.

NOTE: The Board of Trustees (Board) of the Teacher Retirement System of Texas will not consider or act upon any item before the Policy Committee (Committee) at this meeting of the Committee. This meeting is not a regular meeting of the Board. However, because a quorum of the Board may attend the Committee meeting, the meeting of the Committee is also being posted as a meeting of the Board out of an abundance of caution.





Minutes of the Policy Committee  
April 19, 2012

The Policy Committee of the Board of Trustees of the Teacher Retirement System of Texas met on April 19, 2012, in Room E 345 on the Third Floor of the East Building of TRS offices located at 1000 Red River Street, Austin, Texas 78701. The following committee members were present:

Committee members present:

Todd Barth, Chair  
Charlotte Clifton  
David Kelly  
Eric McDonald

Other board members present:

Karen Charleston  
Chris Moss  
Anita Palmer  
Nanette Sissney

TRS executives and other staff present:

Brian Guthrie, Executive Director  
Ken Welch, Deputy Director  
Amy Barrett, Chief Audit Executive  
Conni Brennan, General Counsel  
T. Britton Harris IV, Chief Investment Officer  
Jerry Albright, Deputy Chief Investment Officer  
Howard Goldman, Director of Communications  
Don Green, Chief Financial Officer  
Betsey Jones, Director of Health Care Policy and Administration  
Marianne Woods Wiley, Chief Benefit Officer  
Jase Auby, Chief Risk Officer  
Ashley Baum, Chief of Staff, Investment Management Division  
Sylvia Bell, Director of Investment Operations  
Bernie Bozzelli, Senior Director of Trading  
Patricia Cantú, Director – Investment Business Management  
Mary Chang, Assistant General Counsel  
Dennis Gold, Assistant General Counsel  
Katy Hoffman, Director – External Public Markets  
Dan Junell, Assistant General Counsel and Secretary to the Board  
Eric Lang, Managing Director – Real Assets  
Lynn Lau, Program Specialist and Assistant Secretary to the Board  
Scott Leith, Manager – Investment Accounting  
Jaime Llano, US Equity, Futures and Currency Trader  
Denise Lopez, Assistant General Counsel  
Rebecca Merrill, Special Advisor to Executive Director and Manager of Special Projects

Hugh Ohn, Director of Investment Audit and Compliance  
Angela Vogeli, Assistant General Counsel  
Tim Wei, Assistant General Counsel  
Dale West, Managing Director – External Public Markets

Outside counsel, consultants, contractors, representatives of associations and organizations, and members of the public present:

Dr. Keith Brown, Investment Advisor  
Steven Huff, Reinhart Boerner Van Deuren, s.c., Fiduciary Counsel  
Steve Voss, Hewitt EnnisKnupp, Investment Counsel  
Ann Fickel, Texas Classroom Teachers Association  
Ted Melina-Raab, Texas American Federation of Teachers  
Leroy DeHaven, Texas Retired Teachers Association  
Craig teDuits, State Street  
John Powell, State Street  
Herman Martina

With a quorum of the committee present, the meeting convened at 9:03 a.m.

**1. Consider the approval of the proposed minutes of the December 8, 2011 committee meeting – Todd Barth.**

On a motion by Mr. Kelly, seconded by Ms. Clifton, the committee approved the proposed minutes of the December 8, 2011 meeting as presented.

**2. Discuss and consider recommending to the Board proposed amendments to the following – Brian Guthrie, Conni Brennan and Tim Wei:**

**A. Key Employee Determinations adopted under Government Code Section 825.212 and related financial disclosures.**

Mr. Wei presented the proposed revised TRS key employee determinations. He recommended that the board add two additional senior staff positions to the key employee list—the Director of Health Care Policy and Administration, currently held by Betsey Jones, and the Deputy Chief Information Officer, currently held by T. A. Miller. Mr. Wei recommended that the board determine the following Investment Management Division (IMD) employees as key: the Internal Investment Committee (IIC) members, IMD employees with the title of Director or higher, and IMD employees with authority to execute or approve trades. Mr. Wei stated that employees with authority delegated under the board’s Investment Authority Resolution (TRS 477) and Voucher Authority Resolution, which include IMD and some financial and executive staff members, would also be considered key employees. Mr. Wei recommended that the Executive Director be authorized to designate other employees that he thinks should be subject to the key employee requirements.

Mr. Wei stated that the same statute that requires the board to determine key employees also requires key employees to file a personal financial statement like the one board members file. He said that TRS could create its own financial statement form as long as it substantially

complies with what the statute requires. He stated that staff likely would propose to the committee in June a form that was easier to complete and review. For that reason, he said, staff asked the committee to put off any decision on changing the key employee personal financial statement. Ms. Palmer later asked why TRS would want to create its own financial statement form since one has already been created by the Texas Ethics Commission. Mr. Guthrie replied that the financial statement on the ethics commission form did not contain all the information that TRS needed in a format that was easy to review. He stated that he wanted to pull out the salient points about the person's holdings, how their net worth changed from one year to the next and whether any significant changes had occurred in their assets. He said he also wanted to simplify the form so he could readily determine if an issue existed. Responding to a question from Ms. Palmer as to whether TRS could ask the Ethics Commission to revise its form, Mr. Guthrie responded that he believed the commission had developed the form over time to accommodate a wide range of reporting officials, including elected officials.

Responding to a question from Mr. Kelly as to whether the board could be given notice of key employee designations made by the Executive Director or if the board could be given notice and ratify those changes, Mr. Wei replied that it could be done either way. Mr. Guthrie stated that he viewed the proposed authority as giving him the latitude to make the determination so that an employee put into a key employee role between board meetings could conduct TRS business until the next meeting, when the board could be notified and ratify the change. Mr. Barth pointed out that the proposed resolution did not provide for board notice or ratification. Mr. Kelly stated that he would like a modification for changes to be brought back to the board for ratification or notice. Mr. Barth asked for a motion to approve the resolution as presented with the change that any Executive Director changes be brought to the board at the next board meeting. Mr. Wei asked for clarification as to whether the change was for notice or for ratification. Mr. Kelly stated that he wanted notice and ratification and Mr. Barth agreed.

On a motion by Mr. Kelly, seconded by Mr. McDonald, the committee unanimously voted to approve the following resolution as presented by staff and revised by the committee:

**Whereas**, In accordance with Government Code Section 825.212 and the Employee Ethics Policy, as revised from time to time, The Board of Trustees of the Teacher Retirement System of Texas (the "Board") has previously determined employees who exercise significant decision making or fiduciary authority ("key employees"); and now, therefore be it

**Resolved**, That the Policy Committee of the Board hereby recommends that the Board adopt the Resolution Adopting Revised TRS Key Employee Determinations as presented to the Policy Committee, with the following changes to the recommended version of that Resolution:

- That at the next meeting of the Board after any supplemental key employee designations by the Executive Director, the Executive Director shall notify the Board of the designations for the Board to consider ratification of the designations.

## **B. Employee Ethics Policy.**

Mr. Wei presented the proposed changes to the Employee Ethics Policy. Concerning the proposed section on trustee-staff relations and communications, Mr. Wei stated that most of the changes were conforming changes to make the Employee Ethics Policy consistent with the new Trustee Ethics Policy that the board adopted in December 2011.

Concerning the section on benefits, Mr. Wei stated that one of the proposed revisions would allow, with Executive Director approval, third parties to pay for certain expenses of staff related to attendance at business conferences that served a TRS purpose. He stated that the other proposed change would not permit TRS employees to solicit benefits from a person or entity doing business with TRS.

Concerning the section on outside employment, Mr. Wei stated that the section currently did not permit IMD or other staff who had access to TRS' investment information from serving as an investment advisor outside of TRS. Rather than a flat ban, he said, the proposed change would allow the Executive Director to approve outside employment as an investment advisor to another entity or to an individual. Responding to a question from Mr. McDonald concerning the circumstances under which this arises, Mr. Guthrie responded that it could come up with someone serving on the board of a church, where due to that person's leadership role, the TRS employee may have some latitude over some of the church's assets. Responding to a question from Mr. Barth about notifying the Audit Committee chair of any approvals given by Mr. Guthrie under the proposed policy for gifts and outside employment, Mr. Guthrie indicated that it would be appropriate to do so.

Concerning trustee-staff communications, Mr. Kelly asked staff to check on Item D (relating to referrals of potential investments or third-party service providers). He stated that he thought the trustee policy permitted trustees to direct referrals of potential investments or third-party service providers to the Executive Director, the Chief Investment Officer, the Deputy Director, or the Deputy Chief Investment Officer; and he wanted to make sure the construction is parallel. Ms. Brennan indicated that staff would check on that and change it if necessary. She said that Mr. Kelly was correct as that is what the old trustee policy provided, but she thought the new trustee policy was consistent with the proposed change to the employee ethics policy.

Concerning the heading of the section on outside employment, Mr. Moss stated that he was having trouble with the word "employment" since the discussion was about charitable foundations and church boards. Mr. Wei stated that the heading could be changed to outside employment and/or activities or something along those lines. Mr. Guthrie agreed with Mr. Moss. Responding to a question from Ms. Palmer, Mr. Barth replied that the employees ethics policy would not apply to trustees, and that he did not believe the trustee ethics policy had a parallel provision.

On a motion by Mr. Kelly, seconded by Mr. McDonald, the committee unanimously voted to approve the following resolution as presented by staff and revised by the committee:

**Whereas**, In October 2009, the Board of Trustees of the Teacher Retirement System of Texas (the "Board") adopted the Employee Ethics Policy; and

**Whereas**, It is now necessary and prudent to adopt certain changes to the Employee Ethics Policy to conform it to the related and newly adopted Trustee Ethics Policy and to make certain other changes; and now, therefore be it

**Resolved**, That the Policy Committee of the Board hereby recommends that the Board (1) authorize the staff to make any technical changes to the Employee Ethics Policy necessitated by the adoption of the Trustee Ethics Policy and (2) adopt the substantive revisions to the Employee Ethics Policy, as presented by the staff to the Policy Committee with the following changes, to the recommended revisions:

- That included in the proposed changes to Section VII. Benefits of the Employee Ethics Policy be the requirement that the Executive Director notify the Chair of the Audit Committee of the Board of any instances in which the Executive Director approved a Restricted Donor to pay for the enumerated expenses related to a TRS employee's attendance at a business conference;
- That included in the proposed changes to Section VIII. Outside Employment of the Employee Ethics Policy be the requirement that the Executive Director notify the Chair of the Audit Committee of the Board of any approvals he grants under Section VIII.B as proposed to be amended; and
- That clarification to Section VIII be made so it is clear that Section VIII applies not only to employment but to such other activities as described in the Section that are volunteer or otherwise not for compensation.

### **C. Code of Ethics for Contractors.**

Mr. Wei presented the proposed changes to the Code of Ethics for Contractors. He stated that, under the code's current definition of conflicts of interest, a TRS investment consultant might have a technical conflict of interest when the investment consultant provided TRS a prudence letter for a prospective TRS investment in a private investment fund because the investment consultant or an affiliate of the investment consultant might be considering putting money into the same fund. He stated that the proposed changes would still require the investment consultant to disclose those situations to TRS and that the TRS General Counsel would determine whether a conflict existed.

Mr. Wei described a proposed change to the section on curing conflicts of interest. He stated that the current section allowed the General Counsel to evaluate proposed cures of actual conflicts, and the proposed change would allow the General Counsel to review proposed cures of potential conflicts.

On a motion by Mr. McDonald, seconded by Ms. Clifton, the committee unanimously voted to approve the Resolution Recommending that the Board Approve Certain Changes to the Code of Ethics for Contractors as presented by staff:

**Whereas**, In September 1994, the Board of Trustees of the Teacher Retirement System of Texas (the "Board") adopted the Code of Ethics for Contractors ("Code") and last revised it in September 2010; and

**Whereas**, It is now necessary and prudent to adopt certain changes to the Code; and now, therefore be it

**Resolved**, That the Policy Committee of the Board hereby recommends that the Board adopt the substantive revisions to the Code, as presented by the staff to the Policy Committee.

**3. Receive an overview of the Soft Dollar / Commission Sharing Arrangement program and discuss and consider recommending to the Board revisions to the Soft Dollar Policy – Sylvia Bell, Don Green, and Angela Vogeli.**

Ms. Bell presented a brief overview of the TRS Soft Dollar / Commission Sharing Arrangement (CSA) program. She stated that the two programs were commonly known as commission recapture and provided for TRS to get a rebate on a broker's commission as a credit that TRS could use for goods and services or research. She explained that soft dollars paid for software for investment services, while CSA paid for investment research. Ms. Sissney and Ms. Bell discussed the related chart on funding sources for the Investment Management Division (IMD) and the desirability of providing something similar to the board in June for the deliberations on IMD's proposed operating budget. She stated that although TRS is not subject to SEC rules as a public entity, the programs follow the guidelines set forth in SEC Rule 28(e). She explained the difference in how the credits were generated under the soft dollar program and the CSA program. She stated that because TRS' internally managed equities portfolio had decreased significantly over the last few years, their ability to generate the credit had decreased.

Ms. Bell stated that the proposed changes to the Soft Dollar Policy would give TRS the ability to generate the commission credits needed to pay for investment research. She stated that the proposed changes would allow TRS to replace credits lost on internal equities commissions by adding authorization for TRS to earn commission credits on futures transactions. She stated that the proposed changes would also provide for commissions on futures transactions to be handled in the same manner as those for internal equities commissions.

Responding to a question from Mr. Barth regarding how TRS tracked the use of soft dollars and CSAs, Ms. Bell described the related invoicing, reconciling, reporting, and auditing of their receipt and expenditure. Ms. Bell also stated that IMD routinely consulted with Legal staff about new types of expenditures. Ms. Bell discussed the different approvals required for IMD's operating budget. She stated that the State Street Budget, CSA and soft dollar budgets did not go through the same process, but that she and Mr. Green, TRS' Chief Financial Officer, would provide the board as much information as possible.

Ms. Bell explained the different credit rates and payment arrangements for soft dollars

and CSA. She stated that CSA did not have any contracts, but credits are used to pay for investment research through a broker vote process that was managed by Mr. Chi Chai's group, Internal Public Markets (IPM), and that IPM had a procedure and protocol in place. Ms. Bell said that IPM ranked the quality and relevancy of the research, which ended up translating into the amount of dollars TRS instructed State Street to pay for the research. Ms. Bell stated that the soft dollar arrangement was a tri-party contract between TRS, the broker and the vendor, in which the parties agreed on the amount of dollars to be paid. Responding to questions from Mr. Kelly and Mr. Barth concerning the research obtained through soft dollars and the value and price of the research, Ms. Bell replied that IPM used a voting process to determine how much to pay for the research and that the determination was made after TRS received the research. Responding to a question from Ms. Sissney, Ms. Bell replied that the determination of the value of the research was done on a quarterly basis. Responding to another question from Mr. Kelly regarding contract employees, Ms. Bell stated that IMD checked with Legal and HR to ensure compliance, and that the amounts paid to contract workers paid through the State Street budget were agreed upon amounts. Ms. Vogeli noted that State Street heavily monitored the CSA funds and had its own compliance regimes in place and expected the program to be Rule 28(e) compliant. Mr. McDonald, Ms. Vogeli and Ms. Bell agreed that the regulations had become more stringent in the last decade.

Ms. Bell reviewed the controls for the Soft Dollars and CSA programs and stated that there are multi-level approvals and reconciliations, Rule 28(e) was followed, and that TRS Legal, Hewitt EnnisKnupp, and Dr. Brown had opined that the programs were used in a normal and customary manner for an investment management operation such as IMD.

On a motion by Mr. McDonald, seconded by Ms. Clifton, the committee unanimously voted to recommend the proposed changes to the Soft Dollar Policy to the board for consideration at the next meeting when it was on the agenda for proposed adoption.

Mr. Barth announced that the committee would consider Item No. 5 ahead of Item No. 4.

**5. Receive a presentation on and discuss IMD process approval and authority – Jase Auby.**

Mr. Auby presented the IMD's process of exercising its authority granted through the Investment Policy Statement (IPS). He stated that the board's duties were to establish the long-term asset allocation policy, approve long-term risk and return parameters, provide appropriate resources, incentives, and processes, establish reporting standards, comply with applicable laws, and assure professional audit systems. Mr. Auby stated that the board delegated duties to the Internal Investment Committee (IIC) to implement the policy, use resources effectively, deliver transparent reporting, comply with all applicable law, collaborate with internal audit, and collaborate with the board.

Mr. Auby reviewed the membership of the IIC and stated that the committee reviewed IMD processes annually. The results of those IMD processes, he said, were reported monthly to the board. Mr. Kelly stated that the board had delegated certain investment matters to highly qualified, competent and accomplished investment professionals and that the board had put a prudent investment process into place. Mr. Auby agreed and stated that the IIC viewed its duties

as stated in the IPS and that the board controlled the IPS. Mr. Kelly stated that the board had delegated certain authority, not abdicated it. Mr. Auby agreed and stated that the IMD exercised its authority within the clear limits specified in the IPS.

Mr. Auby described IIC's annual reviews of the different areas of IMD, reports to the board and the delegation of authority to the investment centers, subject to risk controls. He stated that the authority delegation took two forms—security selection and asset allocation authority within prescribed limits—and explained each form. Mr. Auby, Mr. Barth and Mr. Kelly discussed the management of the allocation limits and the overweight and tracking error targets. Mr. Auby stated that the IIC delegation of the management of the trust assets used a process based on allocated dollars. He stated that the Portfolio Strategy and Execution (PSE) Team managed the allocation to each of the investment centers from month to month, rebalancing monthly to maintain the total allocation to each investment center at a constant level. Responding to a question from Mr. Kelly, Mr. Auby replied that the public strategic partners' constraints mirrored the constraints of the PSE group. After Mr. Barth noted differences in the public strategic partners' percentages, Mr. Kelly explained that the public strategic partners' ability to use derivatives, overweights or underweights, and their concentration decisions were similar to that of the PSE group, but their respective performances were closely evaluated. Mr. Auby agreed, and stated that the restrictions on the public strategic partners were a bit more liberal because they were a much smaller portion of the trust and that they had the ability to incur some net leverage.

Mr. Auby described the Tactical Asset Allocation (TAA) overlays on the entire trust and management of the overweights and underweights using a derivatives portfolio that had a net zero notional position. Responding to a question from Mr. Kelly, Mr. Auby explained how the overweights and underweights would be managed if derivatives could not be used. Mr. Auby explained using tracking error as a risk control for Public Markets, including hedge funds. He stated that Private Markets could not be risk-controlled using tracking error because of the opacity of their benchmarks. Mr. Auby stated that Private Markets were risk-controlled using dollars. He stated that the Private Markets groups put together a capital plan developed in collaboration with the fund's consultants, approved annually by the IIC, and presented to the board each June. Mr. Auby stated that the dollars allocated were reported each month to the IIC and IIC approval of each new deal was made with reference to the portfolio fit versus the capital plan.

Mr. Auby stated that each investment center had an investment process that is designed and implemented in consultation with consultants and advisors. He reviewed the funding decision process for External Public Markets (hedge funds), including the involvement of the fund's consultants and advisors. He stated that post-funding involved ongoing portfolio monitoring, managing and reporting. Mr. Auby said all the other investment centers' investment processes follow a similar format, but were modified to be specific to each investment center.

The committee took up Item No. 4.

**4. Receive an overview of and discuss the Investment Policy Statement – Steve Voss and Brady O’Connell, Hewitt EnnisKnupp.**

Mr. Barth explained for the benefit of the new trustees the process of reviewing the Investment Policy Statement (IPS). He stated that the board would take a holistic view of the IPS this year. Mr. Guthrie stated that the board review and the staff review were on dual tracks that would meet in mid-July. Mr. Kelly stated that the board’s review could be done as part of institutional history, in terms of looking at the whole IPS and comparing the changes that were being made against where the IPS was in the last full review, and Mr. Voss agreed. Dr. Brown pointed out that this is the board’s primary way of monitoring and the board’s way, as fiduciaries for TRS, of letting staff know how the board thinks the portfolio should be managed. Dr. Brown stated that, during his time advising the board, all of the changes to the IPS had been initiated by staff and not the board, so he believed that Hewitt EnnisKnupp (HEK) provided a buffer to help think through whether a proposed change was reasonable from the board’s standpoint.

Mr. Voss stated that the most important element of the IPS is the asset allocation, which drives most of the fund’s returns over time. He reviewed the eleven elements of the best practices template. He stated that one of the more important items is the investment objective. He stated that the first objective is risk control through proper diversification of asset classes and by the establishment of long-term risk return expectations; and the second objective is to generate returns in excess of 8 percent in the long term, exceed long-term inflation by at least 5 percent, and exceed the returns of the benchmark in the long term. Mr. Voss stated that other important items are clarity in terms of roles and responsibilities, asset class guidelines and benchmarks, rebalancing, and risk management. Concerning rebalancing, Mr. Voss stated that the Chief Investment Officer has the authority in times of crisis or unique opportunity to seek to go outside the asset class policy targets. Responding to a question from Mr. Kelly as to whether the authority was limited to a time of crisis rather than to take advantage of opportunities, Mr. Voss replied that the authority allowed both. Responding to Mr. Kelly’s statement that he thought the authority was intended for a crisis situation, Mr. Barth responded that he thought it was for both, but that he wanted to discuss the authority issue at a later committee meeting.

Mr. Voss highlighted five critically important components in the IPS: asset allocation and rebalancing, risk management, benchmarks, monitoring and reporting, and governance and/or delegation. Mr. Voss discussed the risks inherent in delegation, asset allocation, and risk management. Concerning the investment program, Mr. Voss and Mr. Kelly described the program as going from a large index fund to a progressive investment program. Mr. Auby clarified that when this transition was made, there was a substantial re-write of the IPS. Mr. Voss then discussed how the risks he identified are addressed within the IPS.

Mr. Voss concluded that HEK would be asking the board members for input regarding the IPS and the next steps for the review of the IPS.

**6. Receive an overview of and discuss the Investment Authority Resolution (TRS 477) – Dennis Gold.**

Mr. Gold stated that the General Authority Resolution (TRS 477) was created so that third parties, especially brokers, would know who was authorized to sign documents, deliver

securities or settle trades on TRS' behalf. He said that the resolution had been modified over the years as the complexity of the investment program had grown.

Mr. Gold stated that the proposed updates to the resolution were intended to address funds transfers authority as between TRS' operations staff and the custodian. He stated that the proposed revisions were a work in progress and asked the committee for input or questions concerning the draft revisions. Responding to a question from Mr. Barth concerning the lack of dollar limits in the resolution, Mr. Gold replied that he thought it would be too binding on staff if dollar limits were expressed in the resolution and that dollar limits could be imposed internally through procedure. Mr. Barth stated that his goal was not to restrict staff, but to protect TRS and requested that Mr. Gold discuss how and why the revisions were chosen when the revisions are finally brought to the committee for approval. Mr. Guthrie stated that the review of the resolution was being done at this time because of a comment made by Mr. Kelly during the last IPS review, in which Mr. Kelly stated he wanted the IPS to be reviewed in conjunction with a review of the resolution.

Mr. Gold stated that when employees ask if they can sign a document on TRS' behalf, his reply is that employees rely solely on the resolution at their peril and they should comply with policy and the directives of their supervisor. Mr. Barth responded that he was more concerned about the perspective of third parties, who may think that the employee is authorized to take the action. Mr. Gold briefly discussed the concept of apparent authority and its applicability to public entities.

Mr. Kelly discussed the usability of the IPS and stated that it might be easier to understand the policy if it was structured more like a contract, which generally has a base document which contains the understanding and then a series of appendices or exhibits that grant more specific authority. Mr. Gold stated that idea was something that could be considered since staff was struggling with the distinction between policy and procedure in revising the resolution to reflect current procedure without putting too much procedure in it. Ms. Bell stated that the resolution was intended to be the policy document with the high-level rules and that the process and procedure would be in a State Street instruction called the Funds Transfer Operating Procedures (FTOP) or other sets of instructions. Mr. Gold stated that the goal is for the resolution to work with the FTOP when internal processing of funding requests moves from a paper system to an electronic system. Mr. Barth stated that his intention is to ensure that when the board approves something, some limitations are included as opposed to it appearing like a blank check is being written.

Responding to a question by Mr. McDonald concerning the impetus for the revisions, Ms. Bell replied that it was being done because staff felt that it was good risk management and practice. Responding to another question by Mr. McDonald, Ms. Bell responded that all funds go through the custodian when TRS funds a private investment.

The meeting adjourned at 10:45 a.m.



## **M E M O R A N D U M**

**To:** TRS Policy Committee & Board of Trustees

**From:** Wm. Clarke Howard, TRS Assistant General Counsel

**Copy:** Brian K. Guthrie, TRS Executive Director; Ken Welch, TRS Deputy Director; Betsey Jones, Director of Health Care Policy and Administration; Conni Brennan, TRS General Counsel

**Date:** May 29, 2012

**Re:** Adoption of Proposed Amendments to TRS-Care rule 34 TAC §41.4 (Relating to Employer Health Benefit Surcharge in TRS-Care)

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### **Background**

TRS-Care rule §41.4, Employer Health Benefit Surcharge, implements the statutory health benefit surcharge owed by a TRS covered employer for each month that the employer reports that a retiree enrolled in TRS-Care is working in a TRS-covered position. The surcharge is not owed by an employer for any retiree employed by that employer who retired from TRS before September 1, 2005.

### **Adoption of Proposed Rule Amendments**

At its December 2011 meeting, the Policy Committee authorized publication of proposed amendments to this rule. The staff submitted the proposed amendments to the Texas Secretary of State for publication in the *Texas Register*. The proposed amendments were published for at least 30 days before this meeting, and they now may be adopted by the Board of Trustees. No public comments were submitted on the proposed changes.

### **Summary of Proposed Rule Amendments**

From its inception, rule §41.4 has directed each retiree to submit a TRS-generated form to his or her employer that provides the details of the retiree's TRS-Care coverage (*i.e.*, the coverage tier, years of service credit, category of enrollment, all employers of the retiree, and all employers of any other retiree enrolled under the same TRS-Care account identification number).

To facilitate administrative efficiency and more accurate payment of the TRS-Care surcharge, staff recommends a new approach in which TRS itself will provide, directly to the employer, the amount of the surcharge associated with the employment of a given retiree enrolled in TRS-Care. The retiree will no longer be required to provide information to the employer concerning the details of his enrollment in TRS-Care.

#### Substantive changes

- Existing subsections (b) and (c), respectively, direct the retiree to submit a TRS-generated health benefit surcharge information form to his or her employer that provides the details of the retiree's TRS-Care coverage and to submit an updated copy of the same form when changes occur in coverage or employment status. With the proposed deletion of these two subsections, the retiree will no longer be required to provide the health benefit surcharge information form to the employer. However, the retiree will still be required to inform the employer of the identification of all employers of the retiree and all employers of any other retiree enrolled under the same account identification number; this requirement is being moved from the deleted subsection (b) to the re-lettered subsection (f).
- The proposed changes to existing subsection (d), which will become the new subsection (b), provide that the employer will pay the surcharge established by the TRS Board of Trustees. The deletion of the language in existing subsection (d) that refers to the health benefit surcharge information form is consistent with the deletions in existing subsection (b), noted above; this deletion also provides greater flexibility in administering this rule.
- Existing subsections (f), (g) and (n), along with the opening clause of existing subsection (h), all address various aspects of the surcharge that have applied to specific time periods in the past. However, with the passage of time, the language of these subsections is no longer needed and, for the sake of clarity, staff is proposing that the language of these subsections be deleted from this rule.
- The proposed addition of new subsection (k) states that the employer will maintain the confidentiality of any information provided to the employer under this rule.

#### Non-Substantive changes

- The last portion of existing subsection (d) is a restatement of existing law and is no longer needed in the rule itself. Consequently, staff proposes the deletion of this language.

- In staff's proposal, the last sentence of existing subsection (b) is being moved to proposed subsection (c).
- All of the other proposed changes that appear throughout this rule are for clarification purposes or to provide accurate internal references.

### **Staff Recommendation**

Staff asks the Policy Committee to recommend that the Board of Trustees adopt the proposed amendments to TRS-Care rule §41.4, concerning the employer health benefit surcharge, as published in the *Texas Register*.





Teacher Retirement System of Texas

## **BOARD RESOLUTION**

### **Adopting Amended TRS-Care Rule 34 TAC §41.4**

June 7 - 8, 2012

**Whereas**, Section 1575.204 of the Texas Insurance Code requires that each state fiscal year, each employer who reports to TRS the employment of a retiree who retired from TRS on or after September 1, 2005 and is enrolled in TRS-Care shall contribute to the TRS-Care fund the difference, if any, between the contribution amount that the reported retiree is required to pay for coverage of himself and his dependents in TRS-Care and the full cost of coverage for the retiree and his dependents (hereinafter, the "health benefit surcharge");

**Whereas**, TRS-Care rule §41.4 provides details about the health benefit surcharge, including the responsibilities of employers and retirees with regard to the health benefit surcharge;

**Whereas**, staff has recommended amendments to TRS-Care rule §41.4 in order to facilitate administrative efficiency, to promote more accurate payments of the health benefit surcharge, and to clarify and update the rule itself;

**Whereas**, pursuant to the authority granted by the Policy Committee at its December 2011 meeting, TRS published proposed amendments to TRS-Care rule §41.4 for public comment in the January 6, 2012 issue of the *Texas Register*, and the public had at least 30 days notice of TRS' intention to adopt the proposed amendments before the board considered their adoption, and TRS received no comments; and

**Whereas**, The board's policy committee has recommended that the board adopt the proposed amendments, and the board desires to adopt the

proposed amendments without changes to the published texts of the proposed rule; now, therefore, be it

***Resolved***, That the board hereby:

- 1) Adopts amended TRS-Care rule 34 TEX. ADMIN. CODE §41.4 as published in the January 6, 2012 issue of the *Texas Register* (37 TexReg 58);
- 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.

**CONSIDERATION OF ADOPTION OF PROPOSED  
AMENDMENTS TO TRS-CARE RULE §41.4**

**TRS Policy Committee Meeting**

*June 7 - 8, 2012*

**Text of Proposed Rule Changes Published  
for Public Comment in the *Texas Register***

*TEXAS ADMINISTRATIVE CODE*

<u>TITLE 34</u>	PUBLIC FINANCE
<u>PART 3</u>	TEACHER RETIREMENT SYSTEM OF TEXAS
<u>CHAPTER 41</u>	HEALTH CARE AND INSURANCE PROGRAMS
<u>SUBCHAPTER A</u>	RETIREE HEALTH CARE BENEFITS (TRS-CARE)

**RULE §41.4    Employer Health Benefit Surcharge**

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(a) When used in this section, the term "employer" has the meaning given in §821.001(7), Government Code.

~~(b) A retiree who is enrolled in the health benefits program ("TRS-Care") provided pursuant to the Texas Public School Retired Employees Group Benefits Act, is working in a TRS-covered position, and is reported on the Employment of Retired Members Report to the Teacher Retirement System of Texas ("TRS") shall submit the TRS-Care Employer Health Benefit Surcharge Information Form, promulgated by TRS, to the employer, providing details of the retiree's TRS-Care coverage tier, years of service credit, and category of enrollment, as well as the identification of all employers of the retiree and all employers of any other retiree enrolled under the same account identification number, as required by the form. The criteria used to determine if the retiree is working in a TRS-covered position are the same as the criteria for determining employment eligible for TRS membership.~~

~~(c) The retiree must submit to the employer an updated Employer Health Benefit Surcharge form when changes occur in coverage or the employment status of any retiree or other individual enrolled under the same account identification number.~~

~~(b~~d~~) For each report month a retiree is enrolled in the health benefits program ("TRS-Care") provided pursuant to the Texas Public School Retired Employees Group Benefits Act, is working in a TRS-covered position, and is reported on the Employment of Retired Members Report to the Teacher Retirement System of Texas ("TRS"), the employer that reports the retiree shall, using the information provided by the retiree to the employer on the Employer Health Benefit Surcharge form, pay monthly to the Retired School Employees Group Insurance Fund (the "Fund") a surcharge established by the Board of Trustees of TRS, ~~amount that is derived by taking the difference, if any, between:~~~~

- ~~(1) the monthly full cost, as set by the trustee, for all individuals (including a spouse and children, if any) enrolled under the same account identification number; and~~
- ~~(2) the monthly total premium, as set by the trustee, for all individuals (including a spouse and children, if any) enrolled under the same account identification number.~~

~~(c) The criteria used to determine if the retiree is working in a TRS-covered position are the same as the criteria for determining employment eligible for TRS membership.~~

~~(de) The surcharge is also owed by the employer on any retiree who is enrolled in TRS-Care, is working for a third party entity but is serving in a TRS-covered position, and who is considered an employee of that employer under §824.601(d) of the Government Code.~~

~~(f) The surcharge under subsection (d) of this section is due from each employer that reports a retiree as working in a TRS-covered position on or after September 1, 2005, beginning with the report month for September 2005.~~

~~(g) For the 2005-2006 and 2006-2007 school years, the surcharge under subsection (d) of this section is not owed:~~

~~(1) by an employer for any retiree reported by that employer on the Employment of Retired Members Report for the report month of January 2005;~~

~~(2) by an employer for any retiree reported by a second employer on the Employment of Retired Members Report for the report month of January 2005, if both employers are school districts that consolidate into a consolidated school district on or before September 1, 2005;~~

~~or~~

~~(3) by an employer for a retiree reported as working under the exception for Substitute Service as provided in §31.13 of this title unless that retiree combines Substitute Service under §31.13 of this title with other TRS-covered employment in the same calendar month. For each calendar month that the retiree combines substitute service and other TRS-covered employment, the surcharge is owed by the employer that reports the retiree on all compensation earned by the retiree, including compensation for the substitute service.~~

~~(ch) Beginning with the 2007-2008 school year, †The surcharge under subsection (bd) of this section is not owed:~~

~~(1) by an employer for any retiree employed by that employer who retired from TRS before September 1, 2005; or~~

~~(2) by an employer for a retiree reported as working under the exception for Substitute Service as provided in §31.13 of this title unless that retiree combines Substitute Service under §31.13 of this title with other TRS-covered employment in the same calendar month. For each calendar month that the retiree combines substitute service and other TRS-covered employment, the surcharge is owed by each employer as provided in this section.~~

~~(fi) A retiree who is enrolled in TRS-Care, is working in a TRS-covered position, and is reported on the Employment of Retired Members Report to TRS shall inform the employer the identification of all employers of the retiree and all employers of any other retiree enrolled under the same account identification number. An employer who reports to TRS the employment of a retiree who is enrolled in TRS-Care and is working in a TRS-covered position shall inform TRS as soon as possible in writing of the name, address, and telephone number of any other employer that employs the retiree or any other retiree who is also enrolled under the same account identification number.~~

~~(gj) If more than one employer reports the employment of a retiree who is enrolled in TRS-Care to TRS during any part of a month, the surcharge under subsection (bd) of this section required to be paid into the Fund by each reporting employer for that month is the total amount of the~~

surcharge due that month divided by the number of reporting employers. The pro rata share owed by each employer is not based on the number of hours respectively worked each week by the retiree for each employer, nor is it based on the number of days respectively worked during the month by the retiree for each employer.

(~~h~~k) If a retiree who is enrolled in TRS-Care is employed concurrently in more than one position that is not eligible for TRS membership, the surcharge is owed if the combined employment is eligible for membership under §25.6 of this title. If the employment is with more than one employer, the surcharge will be paid according to subsection (~~g~~j) of this section by each employer.

(~~i~~l) If a retiree who is enrolled in TRS-Care is employed concurrently in more than one position and one of the positions is eligible for TRS membership and one is not, the surcharge is owed on the combined employment. If the employment is with more than one employer, the surcharge will be paid according to subsection (~~g~~j) of this section by each employer.

(~~j~~m) If a retiree who is enrolled in TRS-Care is employed in a position eligible for TRS membership, the surcharge will be paid according to subsection (~~g~~j) of this section by each employer on all subsequent employment, whether eligible for membership or not, with a TRS-covered employer for the same school year.

~~(n) Notwithstanding subsections (a)–(m) of this section, for the 2005–2006 school year only, a retiree~~

~~(1) who retired before September 1, 2005,~~

~~(2) who is enrolled in TRS-Care, and~~

~~(3) who is employed for a period of more than four and one-half months due to the enrollment of students displaced by Hurricane Katrina may be considered a temporary employee whose employment is not subject to the surcharge under this section.~~

(k) The employer shall maintain the confidentiality of any information provided to the employer under this section and shall use the information only as needed to carry out the purposes stated in this section and related applicable rules or statutes.



## MEMORANDUM

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

**FROM:** Brian Guthrie, Executive Director  
Timothy Wei, Assistant General Counsel

**COPIES:** Board of Trustees  
Steven Huff, Fiduciary Counsel

**DATE:** May 29, 2012

**RE:** Key Employee Personal Financial Disclosure

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TRS' statute requires key employees to file personal financial statements ("PFS") with TRS. The statute provides that the "content of a financial disclosure statement must comply substantially with the requirements of" the PFS required by Subchapter B of Chapter 572 of the Texas Government Code. The Texas Ethics Commission has promulgated a form PFS that meets the requirements of Subchapter B.<sup>1</sup> Historically, TRS has required key employees to use the Ethics Commission form, although TRS has authority to develop its own form that substantially complies with Subchapter B's requirements.

The staff recommends that the Board adopt a customized PFS ("TRS PFS," attached as Exhibit 1) for use by TRS key employees. The proposed TRS PFS substantially complies with statutory requirements. It is modified, however, to:

- Be reviewer friendly;
- Require additional disclosures; and
- Use plain English and be user friendly.

The TRS PFS is designed to be reviewer friendly. It uses a cover page that summarizes the detailed responses contained elsewhere in the form. This summary sheet will facilitate review of the statements filed by key employees.

Unlike the Ethics Commission PFS, the TRS PFS requires disclosure of the net value of the filer's brokerage accounts for the current reporting year and the prior reporting year. This information will assist reviewers in understanding the filer's financial situation. The TRS PFS also requires disclosures from attorneys for information related to referrals. This information is required to be disclosed by statute but is not included in the Ethics Commission PFS.

Finally, the TRS PFS strives to use plain English and simple clear instructions to ease completion of the form. As permitted by Section 132.001 of the Civil Practice and Remedies Code, the TRS PFS also substitutes an unsworn declaration, made under penalty of perjury, for the notarized affidavit required by the Ethics Commission.

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<sup>1</sup> Trustees are also required to fill out the Ethics Commission form and file it with the Texas Ethics Commission and TRS. The Board must use the Ethics Commission form.



# **Exhibit 1**



**TEACHER RETIREMENT SYSTEM OF TEXAS**  
**KEY EMPLOYEE FINANCIAL DISCLOSURE FORM**

Name: [Click here to enter text.](#)

Spouse's Name: [Click here to enter text.](#)

Dependent Children's Names: [Click here to enter text.](#)

**SUMMARY OF INFORMATION**

I have non-TRS Employment (page 2): [Choose an item.](#)

Total Value of All Brokerage Accounts at the end of current reporting period (page 3): [Click here to enter text.](#)

Total Value of All Brokerage Accounts at the end of prior reporting period (page 3): [Click here to enter text.](#)

I have disclosable debts of more than \$25,000 (page 5): [Choose an item.](#)

I received disclosable gifts (page 8): [Choose an item.](#)

I am the beneficiary of a trust (page 9): [Choose an item.](#)

I own more than 50% of a business (page 11): [Choose an item.](#)

I serve on the Board of Directors or have an executive position in a business (page 12): [Choose an item.](#)

I received expenses under the honorarium exception (page 13): [Choose an item.](#)

I own a business in common with a lobbyist (page 14): [Choose an item.](#)

I received fees from a lobbyist (page 15): [Choose an item.](#)

I am a Texas state legislator (page 16): [Choose an item.](#)

I am an attorney who has received compensation from a referral (page 17): [Choose an item.](#)

I have derived a benefit from a function in my honor (page 18): [Choose an item.](#)

## EMPLOYMENT

### Your Non-TRS Employment

I have non-TRS employment: Choose an item.

If yes, provide the following information.

Name and address of employer: Click here to enter text.

Nature of employment: Click here to enter text.

Disclose any retainer received: Click here to enter text.

### Spousal Employment:

Choose an item.

Name and address of employer: Click here to enter text.

Nature of employment: Click here to enter text.

Disclose any retainer received: Choose an item.

### Dependent Child Employment:

Choose an item.

Name and address of employer: Click here to enter text.

Nature of employment: Click here to enter text.

Disclose any retainer received: Choose an item.

Name and address of employer: Click here to enter text.

Nature of employment: Click here to enter text.

Disclose any retainer received: Choose an item.

Name and address of employer: Click here to enter text.

Nature of employment: Click here to enter text.

Disclose any retainer received: Choose an item.

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Nature of employment: Click here to enter text.

Disclose any retainer received: Choose an item.

Name and address of employer: Click here to enter text.

Nature of employment: Click here to enter text.

Disclose any retainer received: Choose an item.

Name and address of employer: Click here to enter text.

Nature of employment: Click here to enter text.

Disclose any retainer received: Choose an item.

### STOCKS, BONDS, MUTUAL FUNDS, ETFs and OTHER PUBLICLY TRADED SECURITIES

Disclose the aggregate value of every brokerage or similar account in which you, your spouse, or dependent child have or had an interest at the end of the prior reporting year, and the value at the end of the current reporting year. Include 401(k) or 403(b), IRAs, 457 accounts, and similar accounts.

Aggregate account value at end of current reporting period: [Click here to enter text.](#)

Aggregate account value at end of prior reporting period: [Click here to enter text.](#)

For each stock, bond, mutual fund, ETF, and other publicly traded securities (including options and other publicly traded derivatives) you held during the reporting period, disclose the below information.

Additional sheets for this information are available. **Alternatively, you may attach a spreadsheet that contains this information.**

Issuer or name of fund: [Click here to enter text.](#)

Held by: *Choose an item.*

Type of security: *Choose an item.*

Number of shares held, if applicable: *Choose an item.*

Net *Choose an item.* if sold: *Choose an item.*

Issuer or name of fund: [Click here to enter text.](#)

Held by: *Choose an item.*

Type of security: *Choose an item.*

Number of shares held, if applicable: *Choose an item.*

Net *Choose an item.* if sold: *Choose an item.*

Issuer or name of fund: [Click here to enter text.](#)

Held by: *Choose an item.*

Type of security: *Choose an item.*

Number of shares held, if applicable: *Choose an item.*

Net *Choose an item.* if sold: *Choose an item.*

Issuer or name of fund: [Click here to enter text.](#)

Held by: *Choose an item.*

Type of security: *Choose an item.*

Number of shares held, if applicable: *Choose an item.*

Net *Choose an item.* if sold: *Choose an item.*

**INCOME FROM INTEREST, DIVIDENDS, ROYALTIES & RENTS**

To the extent not disclosed above, did or do you, your spouse, or your dependent child receive in excess of \$500 from interest, dividends, royalties, and rent?

Choose an item.

If no, move to the next section. If yes, disclose the following information.

Name and address of source of income: Click here to enter text.

Received by: Choose an item.

Amount: Choose an item.

Name and address of source of income: Click here to enter text.

Received by: Choose an item.

Amount: Choose an item.

Name and address of source of income: Click here to enter text.

Received by: Choose an item.

Amount: Choose an item.

Name and address of source of income: Click here to enter text.

Received by: Choose an item.

Amount: Choose an item.

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Amount: Choose an item.

Name and address of source of income: Click here to enter text.

Received by: Choose an item.

Amount: Choose an item.

Name and address of source of income: Click here to enter text.

Received by: Choose an item.

Amount: Choose an item.

**PERSONAL NOTES and LEASE AGREEMENTS:**

Do or did you, your spouse, or dependent child owe any loan greater than \$1,000?

Choose an item.

Were or are you, your spouse, or dependent child liable for more than \$1,000 under any lease?

Choose an item.

If the answer to both questions is no, move on to the next section. If the answer to either question is yes, provide the following information.

Creditor or lessor: Click here to enter text.

Borrower or lessee: Choose an item.

Guarantor if any: Click here to enter text.

Amount owed under loan or lease: Choose an item.

Creditor or lessor: Click here to enter text.

Borrower or lessee: Choose an item.

Guarantor if any: Click here to enter text.

Amount owed under loan or lease: Choose an item.

Creditor or lessor: Click here to enter text.

Borrower or lessee: Choose an item.

Guarantor if any: Click here to enter text.

Amount owed under loan or lease: Choose an item.

Creditor or lessor: Click here to enter text.

Borrower or lessee: Choose an item.

Guarantor if any: Click here to enter text.

Amount owed under loan or lease: Choose an item.

Creditor or lessor: Click here to enter text.

Borrower or lessee: Choose an item.

Guarantor if any: Click here to enter text.

Amount owed under loan or lease: Choose an item.

## REAL PROPERTY

Do or did you, your spouse, or dependent child have an interest in any real estate?

Choose an item.

If no, move to the next section. If yes, provide the following information.

Address of real estate:<sup>1</sup> Click here to enter text.

Description: Choose an item.

Names of all persons owning an interest: Click here to enter text.

If sold, the net gain or loss: Choose an item.

Address of real estate: Click here to enter text.

Description: Choose an item.

Names of all persons owning an interest: Click here to enter text.

If sold, the net gain or loss: Choose an item.

Address of real estate: Click here to enter text.

Description: Choose an item.

Names of all persons owning an interest: Click here to enter text.

If sold, the net gain or loss: Choose an item.

Address of real estate: Click here to enter text.

Description: Choose an item.

Names of all persons owning an interest: Click here to enter text.

If sold, the net gain or loss: Choose an item.

Address of real estate: Click here to enter text.

Description: Choose an item.

Names of all persons owning an interest: Click here to enter text.

If sold, the net gain or loss: Choose an item.

Address of real estate: Click here to enter text.

Description: Choose an item.

Names of all persons owning an interest: Click here to enter text.

If sold, the net gain or loss: Choose an item.

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<sup>1</sup> If you do not have the street address, enter the number of acres, county, and state of the property.

## BUSINESS INTERESTS

Other than what you have disclosed elsewhere in this form, do or did you, your spouse, or dependent child hold an interest in a business entity?

Choose an item.

If no, move to the next section. If yes, provide the following information.

Held by: Choose an item.

Name and address of business: Click here to enter text.

If sold, net gain or loss: Choose an item.

Held by: Choose an item.

Name and address of business: Click here to enter text.

If sold, net gain or loss: Choose an item.

Held by: Choose an item.

Name and address of business: Click here to enter text.

If sold, net gain or loss: Choose an item.

Held by: Choose an item.

Name and address of business: Click here to enter text.

If sold, net gain or loss: Choose an item.

Held by: Choose an item.

Name and address of business: Click here to enter text.

If sold, net gain or loss: Choose an item.

Held by: Choose an item.

Name and address of business: Click here to enter text.

If sold, net gain or loss: Choose an item.

Held by: Choose an item.

Name and address of business: Click here to enter text.

If sold, net gain or loss: Choose an item.

Held by: Choose an item.

Name and address of business: Click here to enter text.

If sold, net gain or loss: Choose an item.

## GIFTS

Have you, your spouse, or dependent child received any gift worth more than \$250? **DO NOT** include gifts given by (1) your spouse; (2) your or your spouse's son, daughter, son-in-law, or daughter-in-law; (2) your or your spouse's mother, father, mother-in-law, or father-in-law; (3) your or your spouse's brother, sister, brother-in-law, or sister-in-law; or (4) your or your spouse's grandparent.

Choose an item.

If no, move to the next section. If yes, provide the following information.

Name and address of donor: Click here to enter text.

Description of gift: Click here to enter text.

Value of gift: Click here to enter text.

Name and address of donor: Click here to enter text.

Description of gift: Click here to enter text.

Value of gift: Click here to enter text.

Name and address of donor: Click here to enter text.

Description of gift: Click here to enter text.

Value of gift: Click here to enter text.

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Value of gift: Click here to enter text.

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Description of gift: Click here to enter text.

Value of gift: Click here to enter text.

Name and address of donor: Click here to enter text.

Description of gift: Click here to enter text.

Value of gift: Click here to enter text.

## TRUST INCOME

Are you, your spouse, or dependent child the beneficiary of a trust?

Choose an item.

If yes, disclose the following information.

Name of the Trust: Click here to enter text.

Beneficiary: Choose an item.

Income from trust: Choose an item.

Assets from which >\$500 was received if known: Click here to enter text.

Name of the Trust: Click here to enter text.

Beneficiary: Choose an item.

Income from trust: Choose an item.

Assets from which >\$500 was received if known: Click here to enter text.

Name of the Trust: Click here to enter text.

Beneficiary: Choose an item.

Income from trust: Choose an item.

Assets from which >\$500 was received if known: Click here to enter text.

Name of the Trust: Click here to enter text.

Beneficiary: Choose an item.

Income from trust: Choose an item.

Assets from which >\$500 was received if known: Click here to enter text.

**BLIND TRUSTS**

Are you, your spouse, or dependent child the beneficiary of a blind trust?

Choose an item.

If no, move to the next page. If yes, contact the Executive Director or Ethics Coordinator as soon as possible regarding further disclosure requirements.

DRAFT

### ASSETS OF BUSINESS ASSOCIATIONS

Do or did you, your spouse, or dependent child own 50 percent or more of a corporation, firm, partnership, limited partnership, limited liability partnership, professional corporation, professional association, joint venture, or other business association?

Choose an item.

If no, move to the next page. If yes, provide the following information. Additional sheets for this information are available.

Name and address of business: Click here to enter text.

Business type: Choose an item.

Interest held by: Choose an item.

Describe each asset and provide the value of each asset rounded to the nearest \$1,000:

Click here to enter text. Choose an item.

Describe each liability and provide the value of each liability rounded to the nearest \$1,000:

Click here to enter text. Choose an item.

Name and address of business: Click here to enter text.

Business type: Choose an item.

Interest held by: Choose an item.

Describe each asset and provide the value of each asset rounded to the nearest \$1,000:

Click here to enter text. Choose an item.

Describe each liability and provide the value of each liability rounded to the nearest \$1,000:

Click here to enter text. Choose an item.

### BOARDS AND EXECUTIVE POSITIONS

Did or do you, your spouse, or dependent child sit on any Board of Directors?

Choose an item.

Did or do you, your spouse, or dependent child hold an executive position in any corporation, firm, partnership, limited partnership, limited liability partnership, professional corporation, professional association, joint venture or other business association or proprietorship?

Choose an item.

If no to both of these questions, move to the next section. If yes to either of these questions, provide the following information.

Organization: Click here to enter text.  
Position Held: Click here to enter text.  
Position Held by: Choose an item.

Organization: Click here to enter text.  
Position Held: Click here to enter text.  
Position Held by: Choose an item.

Organization: Click here to enter text.  
Position Held: Click here to enter text.  
Position Held by: Choose an item.

Organization: Click here to enter text.  
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Position Held by: Choose an item.

Organization: Click here to enter text.  
Position Held: Click here to enter text.  
Position Held by: Choose an item.

Organization: Click here to enter text.  
Position Held: Click here to enter text.  
Position Held by: Choose an item.

**EXPENSES ACCEPTED UNDER HONORARIUM EXCEPTION**

Did you speak at a conference, seminar, or similar event this year?

Choose an item.

If no, move to the next section. If yes, provide the following information.

Did you receive food, lodging, or transportation in connection with the event or events?

Choose an item.

If no, move to the next section. If yes, provide the following information.

Name and address of provider: Click here to enter text.

Type of expenditure: Choose an item.

Amount of expenditure: Click here to enter text.

Name and address of provider: Click here to enter text.

Type of expenditure: Choose an item.

Amount of expenditure: Click here to enter text.

Name and address of provider: Click here to enter text.

Type of expenditure: Choose an item.

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Type of expenditure: Choose an item.

Amount of expenditure: Click here to enter text.

Name and address of provider: Click here to enter text.

Type of expenditure: Choose an item.

Amount of expenditure: Click here to enter text.

**BUSINESS IN COMMON WITH A LOBBYIST**

Not including publicly traded companies, do you, your spouse, or dependent child have an interest in a corporation, firm, partnership, limited partnership, limited liability partnership, professional corporation, professional association, joint venture, or other business association in which a Texas-registered lobbyist also has an interest?

Choose an item.

If yes, provide the following information.

Name and address of business: Click here to enter text.  
Interest held by: Choose an item.

Name and address of business: Click here to enter text.  
Interest held by: Choose an item.

Name and address of business: Click here to enter text.  
Interest held by: Choose an item.

Name and address of business: Click here to enter text.  
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Interest held by: Choose an item.

Name and address of business: Click here to enter text.  
Interest held by: Choose an item.

Name and address of business: Click here to enter text.  
Interest held by: Choose an item.

Name and address of business: Click here to enter text.  
Interest held by: Choose an item.

**FEES RECEIVED FROM A LOBBYIST**

Did you receive any fees for services provided to a lobbyist?

Choose an item.

Did you receive any fees for services provided to someone who compensates or reimburses a lobbyist?

Choose an item.

If you answered no to both of these questions, move on to the next section. If you answered yes, to either of these questions, provide the following information.

Person to whom services were provided: [Click here to enter text.](#)  
Amount of fees: Choose an item.

Person to whom services were provided: [Click here to enter text.](#)  
Amount of fees: Choose an item.

Person to whom services were provided: [Click here to enter text.](#)  
Amount of fees: Choose an item.

Person to whom services were provided: [Click here to enter text.](#)  
Amount of fees: Choose an item.

Person to whom services were provided: [Click here to enter text.](#)  
Amount of fees: Choose an item.

Person to whom services were provided: [Click here to enter text.](#)  
Amount of fees: Choose an item.

Person to whom services were provided: [Click here to enter text.](#)  
Amount of fees: Choose an item.

Person to whom services were provided: [Click here to enter text.](#)  
Amount of fees: Choose an item.

### LEGISLATOR INFORMATION

Are you a member of the Texas Legislature?

Choose an item.

If no, move to the next section. If yes, answer the following questions.

Have you represented a person for compensation before a state agency in the executive branch?

Choose an item.

If yes, provide the following information.

State agency: [Click here to enter text.](#)

Person Represented: [Click here to enter text.](#)

Fee earned: [Choose an item.](#)

Have you applied for or obtained any legislative continuance under Section 30.003 of the Civil Practice and Remedies Code or other law or rule that permits a court to grant continuances because an attorney for a party is a member or member-elect of the Texas Legislature?

Choose an item.

If yes, provide the following information.

Name of party represented: [Click here to enter text.](#)

Date retained: [Click here to enter text.](#)

Case name, number, and jurisdiction: [Click here to enter text.](#)

Was continuance granted? [Choose an item.](#)

**ATTORNEY REFERRAL INFORMATION**

Are you an attorney?

Choose an item.

If no, move to the next section. If yes, answer the following questions.

Have you received compensation for making or receiving any referral for legal services?

Choose an item.

If yes, provide the following information for each referral.

Name of party referred: Click here to enter text.

Fee earned: Choose an item.

Name of party referred: Click here to enter text.

Fee earned: Choose an item.

Name of party referred: Click here to enter text.

Fee earned: Choose an item.

Name of party referred: Click here to enter text.

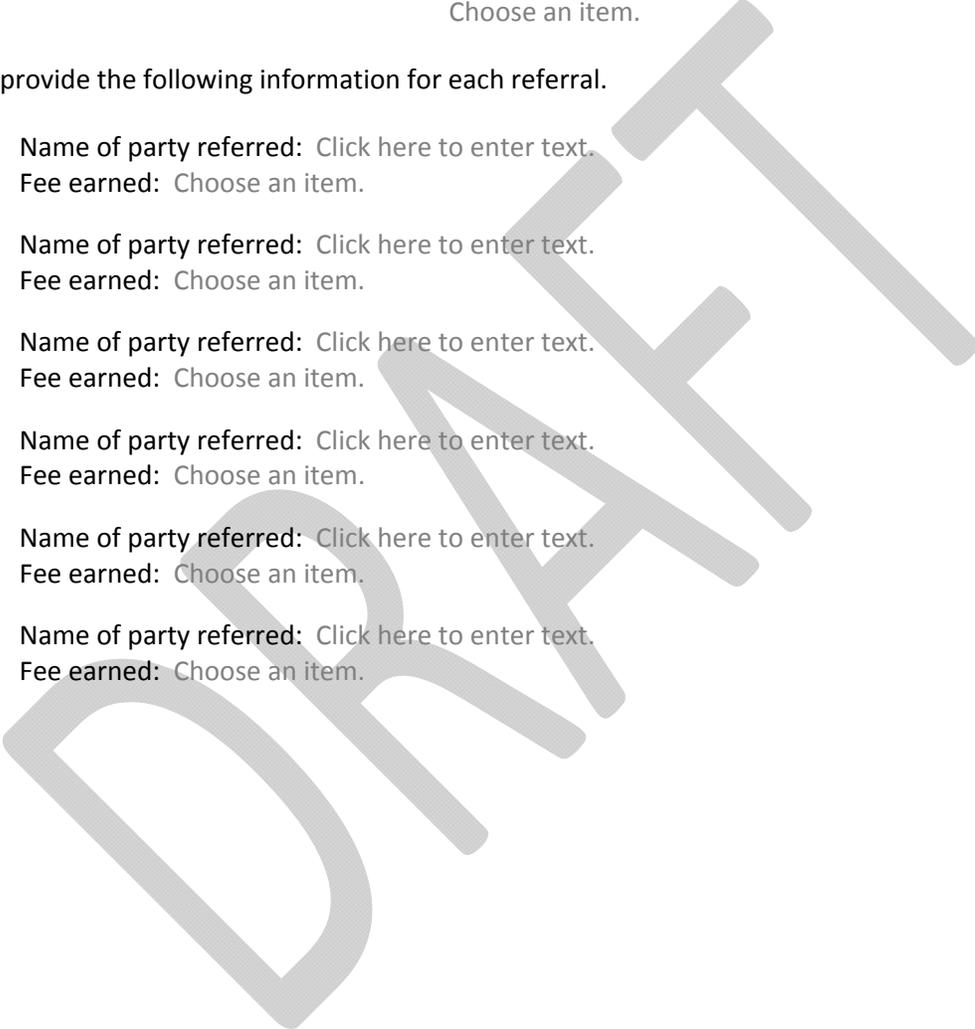
Fee earned: Choose an item.

Name of party referred: Click here to enter text.

Fee earned: Choose an item.

Name of party referred: Click here to enter text.

Fee earned: Choose an item.



### BENEFITS DERIVED FROM FUNCTION IN YOUR HONOR

Have you derived a benefit of more than \$50 in value from a function honoring or in appreciation of you?

Choose an item.

If no, move to the next section.

If yes, provide the following information for each benefit received.

Did you use the benefit solely to defray expenses that were accrued in the performance of your TRS duties or activities and that are non-reimbursable by TRS? Choose an item.

Name and address of source of the benefit: Click here to enter text.

Description and value of the benefit: Click here to enter text.

Did you use the benefit solely to defray expenses that were accrued in the performance of your TRS duties or activities and that are non-reimbursable by TRS? Choose an item.

Name and address or source of the benefit: Click here to enter text.

Description and value of the benefit: Click here to enter text.

Did you use the benefit solely to defray expenses that were accrued in the performance of your TRS duties or activities and that are non-reimbursable by TRS? Choose an item.

Name and address of source of the benefit: Click here to enter text.

Description and value of the benefit: Click here to enter text.

Did you use the benefit solely to defray expenses that were accrued in the performance of your TRS duties or activities and that are non-reimbursable by TRS? Choose an item.

Name and address of source of the benefit: Click here to enter text.

Description and value of the benefit: Click here to enter text.

Did you use the benefit solely to defray expenses that were accrued in the performance of your TRS duties or activities and that are non-reimbursable by TRS? Choose an item.

Name and address of source of the benefit: Click here to enter text.

Description and value of the benefit: Click here to enter text.

Did you use the benefit solely to defray expenses that were accrued in the performance of your TRS duties or activities and that are non-reimbursable by TRS? Choose an item.

Name and address of source of the benefit: Click here to enter text.

Description and value of the benefit: Click here to enter text.

**DECLARATION**

My name is Click here to enter text., my date of birth is Click here to enter text., and my address is Click here to enter text..

**I declare under penalty of perjury that the foregoing is true and correct.**

Executed in Click here to enter text. County, State of Click here to enter text., on the Click here to enter text. day of Click here to enter text..

Signature: \_\_\_\_\_

Print Name: Click here to enter text.

DRAFT

**Additional Blind Trust Disclosure**

For each blind trust for which you, your spouse, or dependent child is the beneficiary, please disclose the below information. Additionally, have each trustee for each blind trust sign the trustee statement below.

- Name of Trust: [Click here to enter text.](#)
- Trustee: [Click here to enter text.](#)
- Beneficiary: [Choose an item.](#)
- Fair Market Value: [Choose an item.](#)
- Date Created: [Click here to enter text.](#)

Trustee statement: I affirm, under penalty of perjury, that I have not revealed any information to the beneficiary of this trust except information that may be disclosed under Section 572.023(b)(8) of the Government Code and that to the best of my knowledge, the trust complies with 572.053 of the Government Code.

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Trustee Signature

- Name of Trust: [Click here to enter text.](#)
- Trustee: [Click here to enter text.](#)
- Beneficiary: [Choose an item.](#)
- Fair Market Value: [Choose an item.](#)
- Date Created: [Click here to enter text.](#)

Trustee statement: I affirm, under penalty of perjury, that I have not revealed any information to the beneficiary of this trust except information that may be disclosed under Section 572.023(b)(8) of the Government Code and that to the best of my knowledge, the trust complies with 572.053 of the Government Code.

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Trustee Signature



**June 7-8, 2012**

**Teacher Retirement System of Texas**

**Board of Trustees**

**Resolution Adopting a Customized Financial Disclosure Statement as Permitted by Government Code Section 825.212(b)**

**Whereas**, In accordance with Government Code Section 825.212(b), Teacher Retirement System (“TRS”) employees who exercise significant decisionmaking or fiduciary authority shall file financial disclosure statements with TRS the content of which must comply substantially with the requirements of Subchapter B of Chapter 572 of the Government Code (“Subchapter B”); and

**Whereas**, The Board of TRS wishes to adopt a customized financial disclosure statement that substantially complies with Subchapter B and that will facilitate review of the statement and completion of the statement; now therefore be it

**Resolved**, That the Board adopts the customized financial disclosure statement (TRS Form 678) as presented by the staff to the Policy Committee; and

**Further resolved**, That the foregoing resolution is effective for the 2011 reporting year and shall remain effective until modified by the Board.





## MEMORANDUM

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

**FROM:** Don Green and Sylvia Bell

**COPIES:** Board of Trustees

**DATE:** May 30, 2012

**RE:** Authorization of Business Class Travel

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Increasingly, TRS is finding attractive investment opportunities outside of the United States. To conduct the appropriate due diligence required by the fiduciary duty of care, TRS IMD staff must perform on-site pre- and post-investment due diligence. Accordingly, TRS IMD staff is traveling longer and farther than ever before in order to appropriately diligence foreign investment opportunities. To illustrate, there has been an increase from 13% to 27% in foreign travel cost relative to our out-of-state travel budget in the last 3 years.

TRS is subject to Chapter 660 Travel Expenses of the Government Code. Section 660.093 permits TRS to pay or reimburse for business-class airfare only if a lower airfare is not available. Other circumstances, such as disabilities, are covered under other laws and may permit business-class airfare.

Under a provision of its own statute, Section 825.208(b) of the Government Code, TRS may exempt itself from the requirements of Chapter 660 "to the extent that the Board determines an exemption is necessary for the performance of fiduciary duties." The Board is being asked to consider such an exemption for business-class airfare in certain, limited circumstances for travel related to TRS' foreign investments.

Accordingly, the staff requests that the Board determine that TRS is permitted to pay or reimburse business-class airfare where three conditions are met as follows:

(1) the travel is between either the continental United States and a location outside the continental United States or two locations outside the continental United States; and

(2) in either event, the scheduled one-way flight time (not including layover time) exceeds six consecutive hours; and

(3) the Executive Director is satisfied that the business-class airfare is required to serve TRS business purposes including the business purpose of the travel (*e.g.*, a business meeting is scheduled within a short time after arrival of the flight).





**June 7-8, 2012**

**Teacher Retirement System of Texas**

**Board of Trustees**

**Resolution Permitting Payment or Reimbursement for Business-Class Airfare under Limited Circumstances**

**Whereas**, Pursuant to Section 660.003(c) of the Government Code, the provisions of Chapter 660 Travel Expenses of the Government Code generally apply to the Teacher Retirement System of Texas ("TRS"); and

**Whereas**, TRS may pay or reimburse for business-class airfare only if a lower airfare is not available pursuant to Section 660.093 of the Government Code or as otherwise permitted by law;

**Whereas**, Pursuant to Section 825.208(b) of the Government Code, TRS is exempt from Chapter 660 to the extent the Board of Trustees of TRS ("Board") determines an exemption is necessary for the performance of fiduciary duties;

**Whereas**, The Board determines, based on information presented by staff to the Policy Committee, that in certain circumstances (in addition to circumstances provided in Chapter 660 or other applicable law), it is necessary for the performance of fiduciary duties for TRS to pay or reimburse for business-class airfare; now therefore be it

**Resolved**, That, in addition to other circumstances permitted by Chapter 660 or other applicable law, TRS may pay or reimburse for business-class airfare for employees traveling on TRS business where (1) the travel is between either the continental United States and a location outside the continental United States or two locations outside the continental United States; and (2) in either event, the scheduled one-way flight time (not including layover time) exceeds six consecutive hours; and (3) the Executive Director is satisfied that the business-class airfare is required to serve TRS business purposes including the business purpose of the travel (*e.g.*, a business meeting is scheduled within a short time after arrival of the flight).



# Update on Investment Policy Review Process

## Presentation to the Board of Trustees Policy Committee

June 2012

**Hewitt**ennisknupp

*An Aon Company*

## Discussion Topics

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- Building up to the IPS Review
- Steps of Review Process
- Key Dates

### ***Evaluation of Board Decision Making***

Presented by:

Britt Harris, Chief Investment Officer

February 15, 2012 Board Retreat

- Provided detailed historical context on:
  - Asset Allocation
  - Diversification Framework
  - Transition Plan
  - Legislative Authority
  - Delegated Investment Authority

# Delegated Investment Authority



	2006	2007	Current
<b>INTERNAL</b>			
Public Equities	Asset Allocation/Risk	Asset Allocation/Risk	Asset Allocation/Risk
Fixed Income	Asset Allocation/Risk	Asset Allocation/Risk	Asset Allocation/Risk
<b>EXTERNAL LONG ONLY</b>			
First	NA	1.0%	0.5%
Follow-On	NA	NA	1% <sup>3</sup>
Re-Balancing	NA	NA	0.6% monthly
<b>HEDGE FUNDS</b>			
First	Board Approved List <sup>1</sup>	5%	0.5%
Follow-On	NA	NA	1% <sup>3</sup>
Re-Balancing	NA	NA	0.18% Monthly
<b>PRIVATE EQUITY</b>			
First	\$150 million	0.5%	0.5%
Follow-On	1.5x First Allocation	1%	1% <sup>3</sup>
Re-Balancing	NA	NA	0.24% Monthly
<b>REAL ASSETS</b>			
First	Board Approved List <sup>2</sup>	0.5%	0.5%
Follow-On	\$150 million	1%	1% <sup>3</sup>
Re-Balancing	NA	NA	0.3% Monthly
<b>EMERGING</b>	\$100 million (PE)	Same as Non-Emerging	\$1.65 billion

## General Restrictions

- Advisor must agree with Staff recommendation
- All Policy limitations (risk/allocation) apply
- IIC Approval Required on all external Investments
- Board notification required on all external Investments
- Manager limitations of 3% per investment sleeve
- Manager limitations of 6% of TRS portfolio

<sup>1</sup> Maximum limit of 0.5% to any one manager

<sup>2</sup> Maximum of 0.75% to any one manager

<sup>3</sup> Maximum limit of 3% with 90 day lapse for each 1% follow-on

### ***IMD Process Approval and Authority***

Presented by:

Jase Auby, Chief Risk Officer

April 19, 2012 Board Meeting

- Provided overview of:
  - Manager concentration limits
  - Board Reporting Cycle
  - Delegation
  - Risk Controls: Tracking Error and Allocation Targets

# Risk Control for Public Markets

## Tracking Error Risk Budget



- Public Markets Investment Centers exercise their Authority using a Tracking Error (bp) target and, in the case of external managers, subject to manager approval by the IIC

Tracking Error (bp)	PSE <sup>(1)</sup>			SPN	EPU	IPM <sup>(2)</sup>	EPM
	Total	Passive	TAA				
<b>Neutral Allocation</b>							
US Large Cap		100	300		300	100	
Non-US Developed		100	300		300	100	
Emerging Market		100	300		300	100	
US Small Cap		100	500		500		
Directional HF		600			600		
Private Equity <sup>(3)</sup>							NA
US Treasury		50	50				
Absolute Return					400		
Stable Value HF							
Cash		50					
Inflation Linked		50	50				
Real Assets <sup>(3)</sup>							NA
Commodities			50				
REITS							100
<b>Total</b>	<b>100</b>			<b>250</b>			
<b>Tactical Allocations</b>							
PSE Tactical Asset Allocation <sup>(4)</sup>			50				
Dislocated Credit <sup>(3)</sup>					NA		
Precious Metals Fund <sup>(5)</sup>						300	

<sup>1</sup> PSE asset class tracking errors result from efficient, liquid replication rather than from explicit security selection and are not specified in Investment Policy

<sup>2</sup> IPM Tracking Error target of 100 bp is applied to total Global Best Ideas portfolio (US Large Cap + Non-US Developed + Emerging Markets)

<sup>3</sup> Private asset classes (PE, Dislocated Credit, Real Assets) are risk-controlled on a dollars allocated rather than tracking error basis

<sup>4</sup> PSE Tactical Asset Allocation blends replication tracking error with asset allocation overweight/underweight to contribute 50 bp of tracking error to the Trust over the long term

<sup>5</sup> Tracking error is versus the Precious Metals Fund custom benchmark (not the GSCI policy benchmark) and is not specified in Investment Policy

### ***Board Review of Investment Policy***

Presented by:

Steve Voss, HEK

April 19, 2012 Board Meeting

- Overview presentation on:
  - Importance of Policy
  - Best Practices on IPS Components
  - Key Risks Associated with IPS;
  - and how TRS addresses these Risks

## Steps of Review Process

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- Steve Voss conducted background calls with Board members
- Jase Auby (IMD) and Steve Voss (HEK) to coordinate all aspects of the review:
  1. Seek input and feedback from:
    - IMD Investment Centers
    - Hewitt EnnisKnupp
  2. IMD to work with TRS Legal Department in drafting language
  3. Internal Audit and Fiduciary Council Review
  4. Dr. Brown and HEK Review; issue opinion memorandum

## Current Potential Modification to IPS

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- Increase minimum elapsed time between initial and follow-on investments
  - 3 months to 6 months
- Clarify derivatives usage language
- Clarify description of IMD operational duties
- Addition of an Executive Summary

## Key Dates

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- July 20 – Policy Committee Meeting – Discuss initial set of proposed changes to IPS
- September 13-14 – Policy Committee/Board
  - Discuss and approve final set of IPS changes