

Policy Committee Meeting

June 11, 2015

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

(Mr. Colonna, Committee Chair; Mr. Barth; Mr. Corpus; Mr. Kelly; & Ms. Ramirez, Committee Members)

AGENDA

**June 11, 2015 – 1:30 p.m.
TRS East Building, 5th Floor, Boardroom**

1. Consider the approval of the proposed minutes of the March 26, 2015 committee meeting – Joe Colonna.
2. Discuss and consider recommending to the Board adoption of the TRS Trustee Procurement Policy – Carolina de Onís and Robert Dunn.
3. Conduct the comprehensive review of the Resolution Delegating Authority to Approve Benefit and Refund Payments under the Policy Review Schedule, and consider recommending that the Board rescind that resolution and amend the TRS Board of Trustee Bylaws – Dan Junell.

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 the full Policy Committee constitutes a quorum of the Board, the meeting of the Committee is also being posted as a meeting of the Board out of an abundance of caution.

Tab 1



Minutes of the Policy Committee

March 26, 2015

The Policy Committee of the Board of Trustees of the Teacher Retirement System of Texas met on March 26, 2015 in the boardroom on the fifth floor of the East Building of TRS offices located at 1000 Red River Street, Austin, Texas 78701. The following committee members were present:

Joe Colonna, Chair
Todd Barth
David Corpus
Dolores Ramirez, via telephone conference

Others present:

Karen Charleston, TRS Trustee	Dan Junell, TRS
Christopher Moss, TRS Trustee	Lynn Lau, TRS
Anita Palmer, TRS Trustee	James Nield, TRS
Nanette Sissney, TRS Trustee	Hugh Ohn, TRS
Brian Guthrie, TRS	Mike Rehling, TRS
Carolina de Onís, TRS	Beckie Smith, TRS
Britt Harris, TRS	Susan White, TRS
Jerry Albright, TRS	Dr. Keith Brown, Investment Advisor
Jase Auby, TRS	Steven Huff, Fiduciary Counsel, Reinhart Boerner Van Deuren
Ronnie Bounds, TRS	Steve Voss, Hewitt EnnisKnupp
Chris Cutler, TRS	Ann Fickel, Texas Classroom Teachers Association
Clarke Howard, TRS	Philip Mullins, Texas State Employee Union
	Josh Sanderson, Association of Texas Professional Educators

Mr. Colonna called the meeting to order at 2:15 p.m. A quorum was present.

1. Consider the approval of the proposed minutes of the November 20, 2014 committee meeting – Joe Colonna.

On a motion by Mr. Barth, seconded by Mr. Kelly, the committee approved the proposed minutes of the November 20, 2014 meeting, as presented.

2. Discuss and consider recommending to the Board adoption of a TRS Litigation Policy – Carolina de Onís.

Ms. de Onís described the current process for managing litigation. She stated that staff intended to create a new Litigation Policy to formalize and clarify rules and responsibilities in the process. She stated that the policy framework would cover three areas: case initiation and development authority; case management; and required reporting to the board. She stated that the policy would require staff to consult with the board on filing or settling a lawsuit, except for the following: routine client administrative matters; cases involving TRS' judicial review proceedings; minor forensic litigation; and consideration of aggregate circumstances. She stated that the policy would also allow the General Counsel to decide whether to pursue cases if the amount of damages was \$15 million or less. If damages were estimated to exceed \$15 million, staff would need board approval to participate in the lawsuit. She explained for Mr. Moss that the \$15 million threshold

was based on other funds' policies and the maximum cost that TRS would be willing to pay to pursue a case. Ms. de Onís also explained the processes and different legal mechanisms involved in pursuing securities claims in foreign jurisdictions. She concluded by describing current case management, reporting procedures, and processes.

Without further questions from the committee, on a motion by Mr. Kelly, seconded by Mr. Barth, the committee unanimously voted to recommend that the board adopt the Litigation Policy.

3. Discuss the process and framework for adoption of a Trustee Procurement Policy – Carolina de Onís.

Ms. de Onís discussed the proposed plan and framework for a new Trustee Procurement Policy. She explained that, currently, statutes and the board's bylaws determined which procurements the board versus staff made. She stated that staff planned to revise the Contract Administrative Manual (CAM), which governed contracts procured by staff, to increase its readability and flexibility and to comply with any newly enacted legislation.

Ms. de Onís described board procurement methods, including requests for proposals (RFP) and requests for qualifications (RFQ). She also discussed the internal assessment process. The proposed policy, she said, would address evaluation and oversight of contracts procured by the board by defining roles and responsibilities in the management of a contract. She stated that staff would establish periodic review of certain contracts with board guidance. She also stated that staff would report contractors' performance and any issues leading to termination of a contract to the board. Responding to Mr. Colonna's question about next steps, she said that staff would present a draft policy to the committee in June.

4. Discuss and seek advice from the Board's attorneys about specific legal matters or issues regarding the Code of Ethics for Contractors, applicable forms, and related rules, including potential amendments to them – Carolina de Onís and Heather Traeger.

Whereupon, Mr. Colonna announced that the board would go into executive session on agenda item 4 under section 551.071 of the Government Code to seek advice from legal counsel on specific legal matters or issues in connection with the Code of Ethics for Contractors. He asked all members of the public and staff not needed for executive session to leave the meeting room and take their belongings with them.

Whereupon, the open session of the committee meeting recessed at 1:50 p.m. to go into executive session. The committee reconvened in open session and adjourned at 3:26 p.m.

Approved by the Policy Committee of the Board of Trustees of the Teacher Retirement System of Texas on the 11th day of June, 2015.

ATTESTED BY:

Dan Junell
Secretary to the TRS Board of Trustees

Date



Tab 2

Teacher Retirement System of Texas



Trustee Procurement Policy



Purpose & Scope

- The Procurement Policy applies to the acquisition of goods and services by the TRS Board of Trustees.
- Nothing in the Policy will be construed to impede the exercise of the fiduciary duties of the Board or TRS staff.
- Competitive procedures will be used when acquiring goods and services, unless the circumstances are such that using such procedures would not be likely to serve the best interests of the system.



Board Consideration; Delegation of Other Procurements

- The Board will consider and authorize awards of the following acquisitions of goods and services:
 - Any contract explicitly required by the Board's Bylaws and policies
 - Any contract required to be authorized by the Board pursuant to state law
- A list of potential contracts having an estimated yearly value of \$5 million or more will be provided to the Board to determine the level of participation in the procurement by the Board.
- All other contracting and purchasing decisions are delegated to the Executive Director (or his/her designee); contracting activities performed by TRS staff will follow established TRS guidelines and procedures.



Preferred Methods of Procurement

- The Board will generally use one of these methods to procure goods and services:
 - Request for Proposal (RFP)
 - Request for Qualifications (RFQ)
 - Internal Assessment
 - Any other method required by law or determined by the Board to be appropriate



Preferred Methods of Procurement (cont.)

- The Board will consider the following factors in determining which procurement method is most appropriate:
 - The length of time since the last contracting opportunity for the goods or services
 - The need for or suitability of a competitive process
 - The type of contract, goods or services to be acquired
 - The level of competition in the relevant market
 - TRS' familiarity with the relevant vendors and market
 - The cost of the relevant procurement methods relative to the benefits received for each method
 - The length of time available to complete the procurement process
- The Board may seek the recommendation of TRS staff and advice of legal counsel when determining which method is most appropriate.



Preferred Methods of Procurement (cont.)

- Regardless of whether TRS utilizes the RFP, RFQ Internal Assessment or other method, TRS will follow applicable federal and state law and applicable TRS policies and procedures.
- If the Board elects the Internal Assessment method, records will be created and maintained by TRS staff to document the process through the final contracting phase and a description of the actual procurement process will be provided to the Board at the time of vendor selection.



Selection of Vendor

- For each opportunity considered by the Board, the Board and all prospective vendors will observe a blackout period. TRS staff will provide the Board with details and information about the blackout period.
- As requested by the Board, the Executive Director will evaluate submissions, perform due diligence, and provide a recommendation on one or more finalists.
- When considering an acquisition, the Board will select the vendor that, in the Board's judgment, represents the best overall value for TRS.
- Except as otherwise authorized by the Board, contracts for acquisitions authorized by the Board may have an initial term not to exceed five (5) years in duration, with one or more options for extensions not to exceed a total of two (2) years.



Selection of Vendor (cont.)

- A record that documents the process and rationale for the vendor selection shall be maintained for each Board contracting opportunity.
- No procurement, agreement, contract or award considered or authorized by the Board will be legally binding on TRS unless and until a definitive agreement has been negotiated, executed and delivered on behalf of TRS by the Executive Director or authorized signatory.



Evaluation and Oversight of Contracts

- All vendors who are parties to contracts authorized by the Board will be subject to performance monitoring and periodic evaluation by management and staff throughout the terms of their contracts.
- At the Board's direction, the Executive Director will report to the Board the results of the monitoring and evaluation activities.
- The Executive Director will also identify in a timely manner any significant issues or actions taken, or any material failures by vendors to comply with the terms of their respective contracts.



Trustee Training

- Training for the Board regarding procurement shall be provided by TRS management, staff, and fiduciary counsel at the commencement of a new Trustee's tenure on the Board and further on an as-needed basis.

Tab 3



Legal Services

Memorandum

DATE: June 1, 2015

TO: Policy Committee and Board of Trustees

FROM: Dan Junell, Assistant General Counsel

COPY: Brian Guthrie, Executive Director; Ken Welch, Deputy Director; Carolina de Onís, General Counsel

RE: Review of Resolution Delegating Authority to Approve Pension Benefit and Refund Payments

Purpose of Agenda Item

In accordance with the Policy Review Schedule, the Policy Committee will comprehensively review the attached Resolution Delegating Authority to Approve Pension Benefit and Refund Payments (Benefit Authority Resolution or policy resolution). This policy resolution is on a five-year review cycle and was last reviewed in June 2010.

Staff has reviewed the Benefit Authority Resolution and, as discussed further below, reviewed a related provision in the Board's Bylaws.

Background

The Benefit Authority Resolution implements section 5.6(d) of the Board's Bylaws, which delegates authority for the approval of benefit payments and refunds "in accordance with resolutions and policies of the Board and applicable state law." The policy resolution delegates to the executive director or the person acting as the chief administrative officer of TRS the authority to approve benefit and refund payments.

The Benefit Authority Resolution does not address health benefits. Further, the policy resolution does not empower a delegatee to sign a voucher for a pension benefit or refund payment. The Board has adopted the separate Resolution Designating Persons Authorized to Sign TRS Vouchers for that purpose.

Recommended Action

Staff recommends that the board consolidate its grant of authority to approve pension benefit and refund payments into Bylaws § 5.6(d). Unifying the delegation in a single provision of the Bylaws would promote clarity, ease of reference, and administrative efficiency in reviewing board policies. Staff also recommends delegating that authority to the executive director and his or her designees rather than to the executive director and the "chief administrative officer," which is an ambiguous designation. That change would give the executive director more flexibility to designate an appropriate person as the administrative organization changes. Finally, staff recommends borrowing language from the Benefit Authority Resolution for the unifying Bylaws provision to clarify that pension benefit payments include death and survivor benefits.

To accomplish the foregoing, staff asks the committee to recommend that the board take the following actions:

- *Amend Bylaws § 5.6(d) to read as follows:*

5.6 Authority to Act for TRS. The Board delegates authority for the following matters:

....

- (d) approval of retirement, death, and survivor benefit payments and refunds to the executive director and his or her designees, in accordance with actions of the Board and applicable state law;

....;

and

- *Rescind the Resolution Delegating Authority to Approve Pension Benefit and Refund Payments.*

Included in your materials is a proposed board resolution for implementing those recommendations.

Suggested Motion Language

"I move that the committee recommend that the board adopt the proposed resolution amending section 5.6 of the Board's Bylaws and rescinding the Resolution Delegating Authority to Approve Pension Benefit and Refund Payments."

AGENDA ITEM EXHIBIT

Proposed Rescinded Resolution



Teacher Retirement System of Texas

RESOLUTION DELEGATING AUTHORITY TO APPROVE PENSION BENEFIT AND REFUND PAYMENTS

June 14-15, 2007

WHEREAS, Article 16, section 67, Texas Constitution, and title 8, subtitle C, Texas Government Code, including sections 821.002–.004 and 821.008, establish the Teacher Retirement System of Texas (TRS) to manage and to deliver benefits provided by law; Section 825.101, Texas Government Code makes the TRS Board of Trustees (the Board) responsible for the general administration and operation of the retirement system; and section 825.113(b), Texas Government Code, requires the Board to develop and to implement policies that clearly separate the policymaking responsibilities of the Board and the management responsibilities of the Executive Director and the staff of TRS;

WHEREAS, The Board has adopted section 5.6 of its Bylaws delegating approval of retirement, benefit payments, and refunds in accordance with resolutions and policies of the Board and applicable state law;

WHEREAS, The Board desires to grant authority to approve payments for retirement, death, and survivor benefits as well as refund payments to the Executive Director or, in his or her absence, to the person acting as the chief administrative officer of TRS; now, therefore, be it

RESOLVED, That the Board hereby delegates to the Executive Director or, in the absence of the Executive Director, to the person acting as the chief administrative officer of TRS the authority to approve pension benefit and refund payments; and

RESOLVED, That the Executive Director or the person acting as the chief administrative officer of TRS may designate one or more persons to assist in approving pension benefit and refund payments.

Adopted June 14, 2007

AGENDA ITEM EXHIBIT

Proposed Bylaws Amendment

Bylaws of the Board of Trustees of the Teacher Retirement System of Texas AMENDED JUNE 11, 2015~~SEPTEMBER 18, 2014~~

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**Bylaws of the Board of Trustees
of the
Teacher Retirement System of Texas**
AMENDED ~~SEPTEMBER 18, 2014~~ JUNE 11, 2015

.....

ARTICLE 5*
Miscellaneous Organizational Provisions

5.1 Administration of TRS. The administration of TRS is governed by these Bylaws, Board policies, and applicable state law. In the event of a conflict between these Bylaws and applicable state law, the applicable state law shall govern to the extent necessary to resolve the conflict.

5.2 Investments of TRS. TRS investments are authorized to be made only in accordance with policies adopted by the Board and applicable state, federal, and foreign law.

5.3 Custody of TRS Assets. TRS trust assets shall be entrusted to one or more custodians only in accordance with policies and other actions of the Board and applicable state law. The Board shall select the custodian or custodians to hold TRS assets.

5.4 Budgets and Fiscal Year. The budgets of the pension trust fund and any other trust funds administered by TRS are adopted by the Board and may be amended by the Board in subsequent meetings. The TRS fiscal year shall begin September 1 and shall end the following August 31.

5.5 Title to and Ownership of Assets. Accounts or assets of TRS may be held in the name of TRS, a nominee, or other agent in accordance with state law. The assets of TRS shall not be considered at any time to be assets of the state or any employer of TRS members but are to be held in trust for the exclusive benefit of TRS members, annuitants, beneficiaries, or other trust participants.

5.6 Authority to Act for TRS. The Board delegates authority for the following matters:

- (a) investment decisions, in accordance with actions of the Board, including investment policies and applicable state law;
- (b) contracts for the purchase of goods and services, to the executive director or his designee in accordance with the budget, subject to applicable actions of the Board;
- (c) release of assets held in the name of TRS, its nominees, or other agents, in accordance with actions of the Board;

* Article 5 begins on page 18 of the full text of the current bylaws.

- (d) approval of retirement, death, and survivor benefit payments and refunds to the executive director and his or her designees, in accordance with actions of the Board and applicable state law;
- (e) execution of vouchers for payment of TRS funds, in accordance with actions of the Board; and
- (f) initiation, defense, and settlement of lawsuits and other claims, to the executive director or his designee, subject to applicable actions of the Board.

5.7 TRS Rules. The executive director is authorized to draft and submit proposed rules for TRS to the Texas Secretary of State to be considered by the Board for adoption in accordance with state law.

5.8 Personnel Policies. TRS personnel policies shall be issued and disseminated to all employees by the executive director and revised from time to time, in compliance with Board policies and state law. TRS is an at-will employer.

5.9 Official Seal of TRS. The form of the official seal of TRS shall consist of a five-point star surrounded by a pair of branches and two concentric circles with the name “Teacher Retirement System of Texas” displayed in the space between the two circles. The seal may be either embossed or stamped. The executive director may designate in writing those TRS employees, in addition to and not in lieu of the secretary to the Board, who are authorized to use and affix the seal to TRS documents when the secretary is absent, incapacitated, or otherwise unavailable. Such a designated employee is authorized, in the capacity of an assistant secretary to the Board, to attest, to affix the seal, or to certify as to any matter as to which the secretary to the Board could attest, affix the seal, or certify. Purchase and use of identical counterparts of the seal is authorized when each counterpart is held by an authorized designee of the executive director. Affixing the TRS seal is not necessary to authenticate or attest a TRS document unless the seal is required by applicable law.

ARTICLE 6

Amendment of Bylaws

6.1 Amendment of Bylaws. These Bylaws may be amended only by a majority vote of the Board at any duly posted meeting of the Board for which notice of consideration of the proposed amendment has been properly given under the Open Meetings Act.

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

A RESOLUTION

Amending the Board's Bylaws
and
Rescinding the Board's Resolution Delegating Authority
to Approve Pension Benefit and Refund Payments

June 11-12, 2015

Whereas, The Board adopted Section 5.6(d) of its Bylaws to delegate approval of retirement benefit payments and refunds in accordance with resolutions and policies of the Board and applicable state law without specifying a delegatee;

Whereas, the Board of Trustees of the Teacher Retirement System of Texas adopted the Resolution Delegating Authority To Approve Pension Benefit and Refund Payments to grant authority to approve payments for retirement, death, and survivor benefits (pension benefit payments) and refund payments to the executive director or, in his or her absence, to the person acting as the chief administrative officer of TRS;

Whereas, The Board now desires to consolidate its grant of authority to approve pension benefit and refund payments into Bylaws Section 5.6(d), to delegate that authority to the executive director and his or her designees, and to make minor clarifying changes to Section 5.6(d); now, therefore, be it

Resolved, That the Board hereby amends Section 5.6(d) of its Bylaws to read as follows:

5.6 Authority to Act for TRS. The Board delegates authority for the following matters:

. . . .

- (d) approval of retirement, death, and survivor benefit payments and refunds to the executive director and his or her designees, in accordance with actions of the Board and applicable state law;

. . . . ;

and it is further

Resolved, That the Board hereby rescinds the Resolution Delegating Authority To Approve Pension Benefit and Refund Payments without negating or otherwise affecting any approval, payment, decision, or other action taken pursuant to that resolution before its rescission.