

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

AGENDA

December 12, 2013 – 12:30 p.m.

December 13, 2013 – 10:00 a.m.

TRS East Building, 5th Floor, Boardroom

NOTE: The Board may take up any item posted on the agenda during its meeting on Thursday, December 12, 2013, or the following day beginning at the time and place specified on this agenda.

The open portions of the December 12-13, 2013 Board meetings are being broadcast over the Internet. Access to the Internet broadcast of the Board meeting is provided on TRS' Web site at www.trs.state.tx.us.

1. Call roll of Board members.
2. Consider the approval of the October 18, 2013 Board meeting minutes – David Kelly.
3. Receive public comment – David Kelly.
4. Review and discuss the Executive Director's report on the following matters – Brian Guthrie:
 - A. Board operational matters, including a review of draft agendas for upcoming meetings.
 - B. Additional updates, including administrative operations, financial, audit, legal, staff services, board administration activities, and strategic initiatives.
 - C. Discussion of TRS being named one of the Austin-American Statesman's top workplaces and a screening of the associated TRS video.
5. Review and discuss the Deputy Director's Report, including matters related to administrative, financial, and staff services operations – Ken Welch.
6. Discuss and consider investment matters, including the following items:
 - A. Receive presentation from Dr. Keith Brown on investment risk management and asset allocation – Dr. Keith Brown.
 - B. Performance Review: Third Quarter 2013 – Brady O'Connell and Steve Voss, Hewitt EnnisKnupp.
 - C. Review Quarterly Portfolio Performance and market update – Britt Harris.
 - D. Receive an update on the Strategic Partnership Network – David Veal.
 - E. Review the report of the Investment Management Committee on its December 12, 2013 meeting, and consider related matters – Todd Barth.

7. Receive the report of the Policy Committee on its December 12, 2013 meeting, and consider related matters – Joe Colonna:
 - A. Consider proposed changes to the TRS Mission Statement, if necessary;
 - B. Consider adoption of the four-year statutory rule review of Chapter 53 of TRS’ rules in Title 34, Part 3, of the Texas Administrative Code, including the re-adoption of the Chapter 53 rules with or without changes;
 - C. Consider proposed changes to the Proxy Voting Policy;
 - D. Consider proposed changes to the Soft Dollar / Commission Sharing Arrangement Policy and the Securities Lending Policy, if necessary;
 - E. Consider proposed changes to the Trustee Ethics Policy and Position Description; and
 - F. Consider proposed changes to the Employees Ethics Policy and related materials, the proposed resolution adopting revised determination of Key Employees, and the proposed new Key Employee Enhanced Disclosure Form.
8. Review the report of the Risk Committee on its December 12, 2013 meeting, and consider related matters – Karen Charleston.
9. Discuss possible co-investment opportunities involving a foreign pension fund, including potential investments in private investment funds or the purchase, holding, or disposal of restricted securities or a private investment fund’s investment in restricted securities – David Kelly.
10. Consider personnel matters, including the appointment, employment, evaluation, compensation, performance, duties, discipline, or dismissal of the Executive Director, Chief Investment Officer, or Chief Audit Executive – David Kelly.

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

11. Receive public comment – David Kelly.
12. Receive the Chief Financial Officer’s report under § 825.314(b), Government Code, of expenditures that exceed the amount of operating expenses appropriated from the general revenue fund and are required to perform the fiduciary duties of the Board – Don Green.
13. Review the Comprehensive Annual Financial Report for fiscal year 2013 – Jamie Michels and Cindy Haley.
14. Review the TRS Pension Trust Fund Actuarial Valuation as of August 31, 2013 – Joseph Newton, Gabriel, Roeder, Smith & Company.
15. Review the TRS-Care Actuarial Valuation and Other Post Employment Benefit (OPEB) reports as of August 31, 2013, and receive an overview and update on TRS-ActiveCare – Joseph Newton; William Hickman; and Amy Cohen, Gabriel, Roeder, Smith & Company.

16. Receive an update on the procurement of the TRS-ActiveCare Health Plan Administrator (HPA) and Pharmacy Benefit Manager (PBM) contracts, including potentially receiving information from staff in closed session after considering a finding that deliberating or conferring on the selection in open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person – Betsey Jones.
17. Review the report of the Benefits Committee on its December 13, 2013 meeting, and consider appointments to the Retirees Advisory Committee – Anita Palmer.
18. Review the reports on the Historically Underutilized Businesses (HUB) and consider related goals for fiscal year 2014 – John Dobrich.
19. Receive the report of the Audit Committee on its December 13, 2013 meeting, and discuss and consider related matters – Chris Moss.
20. Receive a presentation from the TEAM Program Independent Program Assessment (IPA) Vendor – Michael Johnson, Bridgepoint Consulting.
21. Receive a presentation on the progress of the TEAM Program, including a discussion on project interdependencies and the pension line of business project entitled TRUST (Teacher Retirement Unified System for Technology) – Jay Masci, Barbie Pearson, and Adam Fambrough.
22. Review the report of the Chief Benefit Officer, and consider the following related matters – Marianne Woods Wiley:
 - A. Approve members qualified for retirement.
 - B. Approve minutes of Medical Board meetings.
23. Consider concurring in the Medical Board's certification regarding a disability retiree under § 824.307 of the Government Code, discontinuing annuity payments, and restoring the individual to membership – Marianne Woods Wiley.
24. Review the report of the General Counsel on pending or contemplated litigation, including updates on litigation involving benefit-program contributions, retirement benefits, health-benefit programs, securities, and open records – Carolina de Onís.
25. Consult with the Board's attorney(s) in Executive Session on any item listed above on this meeting agenda as authorized by § 551.071 of the Texas Open Meetings Act (Chapter 551 of the Texas Government Code) – David Kelly.

Minutes of the Board of Trustees

December 12-13, 2013

The Board of Trustees of the Teacher Retirement System of Texas met on December 12, 2013, in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River Street, Austin, Texas. The following board members were present:

David Kelly, Chair
Todd Barth
Karen Charleston
Joe Colonna
David Corpus
Chris Moss
Anita Palmer
Dolores Ramirez
Nanette Sissney

Others present:

Brian Guthrie, TRS	Terry Harris, TRS
Ken Welch, TRS	Janis Hydak, TRS
Amy Barrett, TRS	Dan Junell, TRS
Janet Bray, TRS	Eric Lang, TRS
Carolina de Onís, TRS	Lynn Lau, TRS
Howard Goldman, TRS	Denise Lopez, TRS
Don Green, TRS	Rebecca Merrill, TRS
T. Britton Harris IV, TRS	James Nield, TRS
Marianne Woods Wiley, TRS	Hugh Ohn, TRS
Jerry Albright, TRS	Noel Sherman, TRS
Larry Abrahamson, TRS	Rebecca Smith, TRS
Thomas Albright, TRS	Steve Huff, Reinhart Boerner Van Deuren
Michelle Bertram, TRS	Steve Voss, Hewitt EnnisKnupp
Grant Birdwell, TRS	Brady O'Connell, Hewitt EnnisKnupp
Chi Chai, TRS	Philip Mullins, Texas State Employee Union
Michael Friedman, TRS	Ted Melina Raab, Texas American Federation of Teachers
Rich Hall, TRS	Ann Fickel, Texas Classroom Teachers Association

Mr. Kelly called the meeting to order at 1:05 p.m.

1. Call roll of Board members.

Ms. Lau called the roll. All trustees were present.

The meeting recessed briefly for technical matters to be addressed, then reconvened at 1:16 p.m.

2. Consider the approval of the October 18, 2013 Board meeting minutes – David Kelly.

On a motion by Mr. Colonna, seconded by Ms. Palmer, the board unanimously approved the minutes of the October 18, 2013 board meeting.

3. Receive public comment – David Kelly.

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

4. Review and discuss the Executive Director's report on the following matters – Brian Guthrie:

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

On behalf of the board, Mr. Kelly presented a plaque to Ms. Sissney, Ms. Charleston, and Ms. Palmer, respectively, for their attendance at the National Council on Teacher Retirement (NCTR) conference.

Mr. Guthrie reviewed the draft agenda items for the February 2014 meeting.

B. Additional updates, including administrative operations, financial, audit, legal, staff services, board administration activities, and strategic initiatives.

Mr. Guthrie highlighted notable events since October 2013, including the State Street visit, TRS Golden Apple Awards, Institutional Investor Forum, and Mr. Harris receiving the Lifetime Achievement Award from *aiCIO* magazine.

Mr. Guthrie laid out the timeline and process for disbursing the investment incentive compensation for this year.

C. Discussion of TRS being named one of the Austin-American Statesman's top workplaces and a screening of the associated TRS video.

Mr. Guthrie announced that TRS was included in the *Austin American-Statesman's* top ten work places of 2013 in Austin. A feature video about the designation was then shown.

5. Review and discuss the Deputy Director's Report, including matters related to administrative, financial, and staff services operations – Ken Welch.

Mr. Welch recognized the 2013 Golden Apple winners: Larry Abrahamson, Grant Birdwell, Michael Friedman, Luis Ramirez, and Iliana Raup.

Mr. Welch provided a brief update on the recent enactment of Senate Bill 200 relating to a prohibition on TRS investments in companies identified as doing business with the government of Iran. He also updated the board on the implementation of Senate Bill 1458 relating to member contributions and benefits.

Mr. Welch provided other operational updates, including the current hold time of the Telephone Counseling Center, the Leadership Training Program, TEAM-related activities, and charitable events held within the agency.

Responding to a question from Mr. Colonna regarding hiring interns for full-time positions after they finish school, Mr. Welch replied that the Investment Management Division had been most successful in doing that.

- 6. Discuss and consider investment matters, including the following items:**
 - A. Receive presentation from Dr. Keith Brown on investment risk management and asset allocation – Dr. Keith Brown.**

Dr. Brown provided a presentation on risk management and asset allocation.

- B. Performance Review: Third Quarter 2013 – Brady O’Connell and Steve Voss, Hewitt EnnisKnupp.**

Mr. Voss of Hewitt EnnisKnupp presented the performance review for the third quarter of 2013.

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

Mr. Harris discussed the US regional economic development and highlighted some global financial market phenomena.

- D. Receive an update on the Strategic Partnership Network – David Veal.**

Mr. Veal provided a brief update on the Public and Private Markets Strategic Partnership Networks, including their asset allocations and commitments as well as their performance targets and track records.

- E. Review the report of the Investment Management Committee on its December 12, 2013 meeting, and consider related matters – Todd Barth.**

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

The Investment Management Committee met today. The first presentation was a review of the investment risk management team, strategies, 2013 priorities and 2014 priorities, by Jase Auby. Next Mohan Balachandran reviewed the strategic asset allocation, stable value and tactical asset allocation teams and their respective processes and 2014 priorities.

- 7. Receive the report of the Policy Committee on its December 12, 2013 meeting, and consider related matters – Joe Colonna:**

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

The Policy Committee met today, December 12. The committee conducted required reviews of the TRS Mission Statement, Soft Dollar/Commission Sharing Agreement policy, and Securities Lending Policy. No changes were recommended to the Mission Statement or the policies.

The committee then completed the four-year statutory review of TRS' 403(b) rules. The committee recommended to the board adoption of the four-year rule review and re-adoption of the rules with no amendments.

The committee also completed the required review of the Proxy Voting Policy and recommended to the board Proxy Voting Policy amendments.

The committee recommended board adoption of amendments to the Trustee Ethics Policy, Employee Ethics Policy, and related documents.

A. Consider proposed changes to the TRS Mission Statement, if necessary;

No changes to the Mission Statement were proposed.

B. Consider adoption of the four-year statutory rule review of Chapter 53 of TRS' rules in Title 34, Part 3, of the Texas Administrative Code, including the re-adoption of the Chapter 53 rules with or without changes;

On a motion by Mr. Colonna, the board unanimously adopted the proposed order completing the statutory review of Chapter 53 of TRS rules and authorizing the board chair to sign the order on behalf of the board as recommended by the Policy Committee.

C. Consider proposed changes to the Proxy Voting Policy;

On a motion by Mr. Colonna, the board unanimously adopted the amended Proxy Voting Policy as recommended by the Policy Committee.

D. Consider proposed changes to the Soft Dollar / Commission Sharing Arrangement Policy and the Securities Lending Policy, if necessary;

No changes to the Soft Dollar/Commission Sharing Arrangement Policy were proposed.

E. Consider proposed changes to the Trustee Ethics Policy and Position Description; and

F. Consider proposed changes to the Employees Ethics Policy and related materials, the proposed resolution adopting revised determination of Key Employees, and the proposed new Key Employee Enhanced Disclosure Form.

On a motion by Mr. Colonna, the board unanimously adopted the following resolutions amending the Trustee Ethics Policy, the Employee Ethics Policy and related documents, and revising key employee determinations as recommended by the Policy Committee:

Resolution Approving Certain Changes to the Board of Trustees Ethics Policy

Whereas, In December 2011, the Board of Trustees of the Teacher Retirement System of Texas (the "Board") adopted the Board of Trustees Ethics Policy; and

Whereas, It is now necessary and prudent to adopt certain changes to the Board of Trustees Ethics Policy to implement changes made possible by 2013 revisions to TRS' ethics statute, Gov't Code § 825.212, and to conform it, in part, to the Employee Ethics Policy; and now, therefore be it

Resolved, That the Board hereby adopts the revisions to the Board of Trustees Ethics Policy, as presented by the staff to the Policy Committee.

Resolution Approving Certain Changes to the Employee Ethics Policy and Related Forms

Whereas, In October 2009, the Board of Trustees of the Teacher Retirement System of Texas (the "Board") adopted the Employee Ethics Policy and last revised the Policy in April 2012; and

Whereas, It is now necessary and prudent to adopt certain changes to the Employee Ethics Policy to implement changes made possible by 2013 amendments to TRS' ethics statute, Gov't Code § 825.212, and to make other prudent revisions, including to forms related to the Employee Ethics Policy; and now, therefore be it

Resolved, That the Board hereby adopts the revisions to the Employee Ethics Policy, the Ethics Compliance Statement for Employees and Certain Contractors, and the Key Employee Enhanced Disclosure Form, as presented by the staff to the Policy Committee.

Resolution Adopting Revised TRS Key Employee Determinations

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 authority to determine employees who exercise significant fiduciary authority ("key employees"); and

Whereas, The Board desires to adopt the following determinations of key employees; now, therefore be it

Resolved, That the following positions are determined to be key employees and their current and future incumbents subject to all applicable requirements for key employees:

Title
Executive Director
Deputy Director
Chief Investment Officer
Deputy Chief Investment Officer
Chief Benefit Officer
Chief Financial Officer

General Counsel
Chief Audit Executive
Chief Information Officer
Deputy Chief Information Officer
Director of Health Care Policy and Administration
Director of Strategic Initiatives
Manager of General Accounting
Manager of Investment Accounting

Further resolved, That all employees who hold a voting position on the Internal Investment Committee at any time during a reporting period are determined to be key employees subject to all applicable requirements for key employees;

Further resolved, That all Investment Management Division employees who hold the working title of Director or higher during a reporting period are determined to be key employees and subject to all applicable requirements for key employees;

Further resolved, That all employees who have authority to approve or execute securities trades in the TRS order management system during a reporting period are determined to be key employees and subject to all applicable requirements for key employees;

Further resolved, That all employees who hold authority during a reporting period under the Board's Authority Resolution (TRS 477) either through direct delegation from the Board or otherwise are determined to be key employees and subject to all applicable requirements for key employees;

Further resolved, That the Executive Director is authorized to designate, upon notice to the General Counsel, an employee not identified above to be a supplemental key employee if the Executive Director determines that it would be prudent for TRS to have the employee subject to the key employee requirements because of the influence the employee exercises, the nature of the employee's job, the information to which the employee has access, or another appropriate reason; at the next meeting of the Board after any supplemental key employee designations, the Executive Director shall notify the Board of the designations for the Board to consider ratification of the designations;

Further resolved, That the foregoing resolutions and all applicable key employee requirements, including submitting enhanced disclosures required by the Employee Ethics Policy, are effective for the 2012 reporting year and shall remain effective until modified by the Board.

8. Review the report of the Risk Committee on its December 12, 2013 meeting, and consider related matters – Karen Charleston.

Ms. Charleston, Committee Chair, provided a report of the Risk Management Committee:

The Risk Committee met on December 12, 2013. Risk management and strategic planning staff provided a report on the Enterprise Risk Management (ERM) function, which included information on TRS ERM structure and an update on the spotlight report and related Enterprise Risk Management activities. The Chief Benefit Officer provided a report on the value of ERM from the perspective of the user.

9. **Discuss possible co-investment opportunities involving a foreign pension fund, including potential investments in private investment funds or the purchase, holding, or disposal of restricted securities or a private investment fund's investment in restricted securities – David Kelly.**
10. **Consider personnel matters, including the appointment, employment, evaluation, compensation, performance, duties, discipline, or dismissal of the Executive Director, Chief Investment Officer, or Chief Audit Executive – David Kelly.**

Mr. Kelly announced that the board would go into executive session on agenda items 9 and 10 under section 825.3011 of the Government Code to confer about confidential investment matters, and under section 551.071 of the Government Code to seek advice from legal counsel. He stated that the board would also go into executive session on agenda item 10 under section 551.074 of the Government Code to discuss the personnel matters posted under that item. He asked all members of the public and staff not needed for the executive session to leave the meeting room and take their belongings with them.

Whereupon, the board went into executive session at 4:32 p.m.

The meeting was reconvened in open session and then recessed at 5:46 p.m.

The Board of Trustees of the Teacher Retirement System of Texas reconvened on December 13, 2013, in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River Street, Austin, Texas. The following board members were present:

David Kelly, Chair
 Todd Barth
 Karen Charleston
 Joe Colonna
 David Corpus
 Chris Moss
 Anita Palmer
 Dolores Ramirez
 Nanette Sissney

Others present:

Brian Guthrie, TRS	T. A. Miller, TRS
Ken Welch, TRS	Melinda Nink, TRS
Amy Barrett, TRS	Scot Leith, TRS
Janet Bray, TRS	Mike Rehling, TRS
Carolina de Onís, TRS	Hugh Ohn, TRS
Jerry Albright, TRS	Noel Sherman, TRS
Janet Bray, TRS	Garry Sitz, TRS
Howard Goldman, TRS	Beckie Smith, TRS
Don Green, TRS	Tim Wei, TRS
Betsey Jones, TRS	Cindy Yarbrough, TRS
Amy Morgan, TRS	Yimei Zhao, TRS
Marianne Woods Wiley, TRS	Steve Voss, Hewitt EnnisKnupp
Michelle Bertram, TRS	Brady O'Connell, Hewitt EnnisKnupp
David Cook, TRS	Steve Huff, Reinhart Boerner Van Deuren
John Dobrich, TRS	Tim Lee, Texas Retired Teachers Association

Darryl Gaona, TRS
Dennis Gold, TRS
Cindy Haley, TRS
Clarke Howard, TRS
Dan Junell, TRS
Lynn Lau, TRS
Jay LeBlanc, TRS
Rebecca Merrill, TRS
Jamie Michels, TRS

Bill Hickman, Gabriel Roeder Smith and Company
Joe Newton, Gabriel Roeder Smith and Company
Amy Cohen, Gabriel Roeder Smith and Company
Jay Masci, Provaliant
Michael Johnson, Bridgepoint Consulting
Philip Mullins, Texas State Employees Union
Ted Melina Raab, Texas American Federation of Teachers
Ann Fickel, Texas Classroom Teachers Association

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

2. Call roll of Board members.

Ms. Lau called the roll. All trustees were present.

11. Receive public comment – David Kelly.

Mr. Derly Rivera of the Austin Retired Teachers Association expressed his appreciation to board members and TRS staff for the services they provided to over a quarter million Texas retirees.

Mr. Tim Lee of the Texas Retired Teachers Association provided his input on the matters relating to the appointments to the Retiree Advisory Committee and funding for TRS-Care. He expressed his appreciation to board members for their services.

Mr. Kelly then asked for a motion to excuse the absence of Mr. Moss from the October 18, 2013 board meeting. On a motion by Mr. Barth, seconded by Ms. Sissney, the board unanimously excused the absence of Mr. Moss.

12. Receive the Chief Financial Officer's report under § 825.314(b), Government Code, of expenditures that exceed the amount of operating expenses appropriated from the general revenue fund and are required to perform the fiduciary duties of the Board – Don Green.

Pursuant to section 825.314(b) of the Government Code, Mr. Green presented a report of the expenditures paid during the months of September and October of 2013. He confirmed for Ms. Sissney that the administrative expenses excluded benefit payments.

13. Review the Comprehensive Annual Financial Report for fiscal year 2013 – Jamie Michels and Cindy Haley.

Ms. Michels and Ms. Haley presented the Comprehensive Annual Financial Report for the fiscal year ended August 31, 2013.

14. Review the TRS Pension Trust Fund Actuarial Valuation as of August 31, 2013 – Joseph Newton, Gabriel, Roeder, Smith & Company.

Mr. Newton presented the pension trust fund actuarial valuation as of August 31, 2013. He highlighted the changes to the pension accounting standards adopted by the Governmental

Accounting Standards Board (GASB). He discussed the slow wage growth and the rising benefit, pension and healthcare costs in the U.S. economy. He noted the positive impact of population growth in Texas on the pension plan. Responding to a question from Mr. Barth concerning the 2011 changes in the asset smoothing methodology, Mr. Newton described the effects, including how they had helped accelerate the convergence of actuarial and market values.

Mr. Newton concluded that the current valuation was positive. He stated that future benefit increases should accompany additional funding from other sources to avoid potential risk to the financial health of the pension plan.

15. Review the TRS-Care Actuarial Valuation and Other Post Employment Benefit (OPEB) reports as of August 31, 2013, and receive an overview and update on TRS-ActiveCare – Joseph Newton; William Hickman; and Amy Cohen, Gabriel, Roeder, Smith & Company.

Mr. Newton provided the background of the TRS-Care actuarial valuation and other post-employment benefit studies based on the GASB Statements No. 43 and No. 45. Mr. Newton highlighted the cash estimates for FY 2014 and stated that the current projected contribution rate was 2.2% of payroll, which would need to be increased to 5.86% for advance funding.

Mr. Hickman and Ms. Cohen provided a health benefits briefing. Ms. Cohen provided an overview of TRS-Care, including the plans' benefits and levels of coverage, participation, claims cost, funding sources, historical expenditures, and cost drivers. She noted that there was no relationship between the revenue and incurred cost. Presenting the financial history and projection through FY 2018 with data through August 2013, Ms. Cohen stated that with the implementation of the Medicare Advantage and Part D plans, TRS-Care was projected to be solvent through the end of FY 2015 instead of FY 2013, as previously projected.

Ms. Cohen provided an overview of TRS-ActiveCare. She highlighted the plan design changes implemented over the past year. She provided an overview of the levels of coverage, current and historical plan participation and expenditures, claims cost, funding sources, and cost drivers.

Mr. Kelly asked staff to present at a future board meeting potential issues and solutions for keeping the health benefits plans solvent.

16. Receive an update on the procurement of the TRS-ActiveCare Health Plan Administrator (HPA) and Pharmacy Benefit Manager (PBM) contracts, including potentially receiving information from staff in closed session after considering a finding that deliberating or conferring on the selection in open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person – Betsey Jones.

Ms. Jones provided a brief update on the procurement process for the TRS-ActiveCare Health Plan Administrator (HPA) and Pharmacy Benefit Manager (PBM). She stated that the current contracts would expire on August 31, 2014. She stated that in light of the complexity of the selection, staff recommended deferring selections of vendors until the February 2014 board meeting to provide additional time to discuss and consider the proposals.

17. Review the report of the Benefits Committee on its December 13, 2013 meeting, and consider appointments to the Retirees Advisory Committee – Anita Palmer.

Ms. Palmer, Committee Chair, provided the report of the Benefits Committee as follows:

The Benefits Committee met on December 13, 2013 to review reports on benefit services and TRS website statistics and to consider proposed appointments to the Retirees Advisory Committee (RAC), and make a related recommendation to the board. Marianne Woods Wiley, Chief Benefit Officer, presented FY 2013 and past fiscal year information on some of the activities of the Benefits Service Division, including benefit processing and counseling. She also provided current average service delivery turnaround time and current telephone hold times. For additional details, board members may refer to item 2 on the Benefits Committee agenda.

Howard Goldman, Director of Communications, presented an overview of TRS website activity during FY 2013. He also reviewed outreach activities, the website redesign project, and social media information.

Betsey Jones, Director of Health Care Policy and Administration, explained the RAC appointment process and presented information on nominees for the five expiring RAC positions. There were no nominations for the retired school auxiliary position. Based on committee discussion, the following motion is proposed for the board to consider, and these are the positions: Position for retired teacher, Bill Barnes; retired teacher, Marcia McNeill; active teacher, Grace Mueller; and active administrator, Ignacio Salinas.

On a motion by Mr. Corpus, seconded by Mr. Moss, the board unanimously appointed the following four individuals for a four-year term on the RAC from February 1, 2014 to January 31, 2018 in the following positions:

Retired teacher:	Bill Barnes;
Retired teacher:	Marcia McNeill;
Active teacher:	Grace Mueller; and
Active administrator:	Ignacio Salinas.

18. Review the reports on the Historically Underutilized Businesses (HUB) and consider related goals for fiscal year 2014 – John Dobrich.

Mr. Dobrich provided the reports on the Historically Underutilized Businesses (HUB) with details on current and historical HUB utilizations, accomplishments, and future initiatives. He noted that state agencies could set goals that differed from statewide goals in each category to accommodate expenditure differences resulting from each agency's unique mission. Agencies could also set goals that were higher than statewide goals to further support the HUB program. He stated that TRS' goals were structured to address both of these situations.

On a motion by Mr. Barth, seconded by Ms. Sissney, the board unanimously adopted the following resolution to approve the HUB goals for fiscal year 2014:

Whereas, TRS staff met on November 8, 2013 and reviewed the report of the Texas Comptroller of Public Accounts on TRS HUB expenditures for fiscal year 2013 and discussed the 2013 HUB Program Annual Status Report to be presented to the TRS Board of Trustees (Board);

Whereas, TRS staff developed proposed HUB goals for fiscal year 2014 for the Board to consider; and

Whereas, The Board has received and discussed the HUB expenditure reports, and the Board desires to adopt TRS' HUB goals for fiscal year 2014; now, therefore, be it

Resolved, That the Board hereby adopts the following HUB expenditure goals for fiscal year 2014:

Category	TRS FY13 Goals	TRS FY13 Actual	TRS FY14 Goals
Special Trade	25%	22.47%	25%
Professional Services	5%	4.35%	5%
Other Services	20%	10.08%	15%
Commodity Purchases	50%	26.52%	35%

19. Receive the report of the Audit Committee on its December 13, 2013 meeting, and discuss and consider related matters – Chris Moss.

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

The Audit Committee met at 8:30 a.m. on Friday, December 13, 2013 in the 5th Floor Boardroom. The State Auditor's Office presented the results of the audit of the TRS comprehensive annual financial report for FY 2013. Protiviti presented their plan for developing a health care risk assessment and model three-year audit plan. TRS staff provided overviews of implementation activities for legislative changes for cost of living adjustments and changes to calculations of service purchase credit. Internal Audit presented the results of two audits in those areas.

Internal Audit presented a plan for issuing an overall opinion on the effectiveness of controls in the Investment Management Division and the related results of quarterly interim testing. They also presented the results of the quarterly investment compliance testing. Internal Audit presented an overview of the annual internal audit report, the status of prior audit and consulting recommendations, and audit administrative matters.

Mr. Kelly announced that the board would take up agenda item 21.

21. Receive a presentation on the progress of the TEAM Program, including a discussion on project interdependencies and the pension line of business project entitled TRUST (Teacher Retirement Unified System for Technology) – Jay Masci, Barbie Pearson, and Adam Fambrough.

Mr. Masci provided an update on the TEAM program progress and stated that all the projects

were on or ahead of schedule.

Mr. Cook presented the current TEAM budget report. He noted that future reports would track budgets for each project as well as the overall program. Mr. Kelly suggested including the buyout, cost to complete, and current expenditure in the report and aggregating the contingency left in each project into an overall program contingency. He stated that by combining all the contingencies into an aggregate, any change order would come out of the overall contingency. Mr. Cook concurred with Mr. Kelly's suggestion. Mr. Green stated that he would work with Ms. Sissney and Mr. Cook on the report and present some options at the February meeting.

Mr. Cook noted that the total project cost had risen to the \$95 million threshold because of a contingency added to the Hewlett-Packard contract and the hardware and software maintenance costs added after the end of the project implementation. Mr. Green and Mr. Welch noted that the ongoing maintenance cost would be an add-on and would be budgeted separately during the Legislative Appropriation Request process. Mr. Masci clarified for Mr. Barth that the estimated starting date for the enterprise financial system implementation was inaccurate because the contract negotiations took longer than expected. He stated that staff would notify the board if there was a budgetary or scheduling change-control.

Mr. Kelly suggested having a refresher training on the TEAM project in February for trustees to have a clear understanding of the budgetary and scheduling issues as well as the monitoring and control process. Mr. Welch stated that staff would include it on the February agenda.

Mr. Masci gave a presentation on the TEAM program interdependencies. He presented the projected interdependencies from now through FY 2016.

Mr. Fambrough provided an update on the pension Line of Business (LOB) project. He described the implementation plan for each solution.

Ms. Pearson provided an update on the TEAM milestones and accomplishments.

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

Mr. Johnson provided an update on the TEAM program assessment. He stated that the risks identified during the planning phase had substantially been addressed, and no new risk had been identified since then. He described the risk-based approach and discussed the risks associated with the execution of the LOB project. He confirmed for Mr. Kelly that he believed HP was the right vendor for the LOB project, and the process of selecting HP was deliberative.

Mr. Johnson profiled the HP Clarety Pension Administration network. He noted the staffing and execution risks identified during this reporting period. He stated that TRS currently did not have the level of skills for maintaining a large-scale enterprise system on a new platform and highlighted the need to have the skill sets for acceptance testing. He concluded his report by presenting the activities for the next reporting period.

Mr. Moss requested that a glossary of acronyms be provided at the February meeting. He noted that he was comfortable with the status of CGI's progress.

Responding to a question from Mr. Colonna concerning ownership of the TEAM project, Mr. Guthrie stated that he and Mr. Welch owned the project. Mr. Colonna concurred with Mr. Guthrie, and stated that he prioritized the success of the project over the proposed budget and schedule issues. Mr. Kelly concurred with Mr. Colonna and stated that staff would have the board's support when issues arose.

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

A. Approve members qualified for retirement.

Ms. Woods Wiley presented the list of members and beneficiaries receiving initial benefit payments during the reporting period from June 1, 2013 through August 31, 2013. She referred the board to the detailed list of payments made available for their review.

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

B. Approve minutes of Medical Board meetings.

Ms. Woods Wiley presented the minutes of the July 9, 2013 and September 17, 2013 Medical Board meetings.

On a motion by Ms. Sissney, seconded by Mr. Moss, the board approved the minutes of the Medical Board meetings as presented, thereby ratifying the actions of the Medical Board reflected in those minutes.

23. Consider concurring in the Medical Board's certification regarding a disability retiree under § 824.307 of the Government Code, discontinuing annuity payments, and restoring the individual to membership – Marianne Woods Wiley.

Ms. Woods Wiley presented information regarding a determination made by the Medical Board that a specific disability retiree was no longer disabled. She noted that per a previous discussion with the board regarding the procedure for reviewing the disability status of a retiree, the Medical Board had reviewed the case again and made the final determination that the retiree was no longer disabled and should be restored to membership.

On a motion by Mr. Colonna, seconded by Ms. Sissney, the board unanimously voted to concur with the Medical Board certification in discontinuing the disability retiree's annuity payments and restoring her to active status.

24. **Review the report of the General Counsel on pending or contemplated litigation, including updates on litigation involving benefit-program contributions, retirement benefits, health-benefit programs, securities, and open records – Carolina de Onís.**

The board members had no questions about the litigation report.

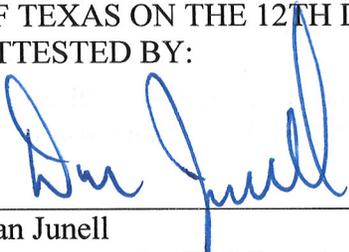
25. **Consult with the Board's attorney(s) in Executive Session on any item listed above on this meeting agenda as authorized by § 551.071 of the Texas Open Meetings Act (Chapter 551 of the Texas Government Code) – David Kelly.**

The board took up no further business under agenda item 25.

The meeting was adjourned at 1:50 p.m.

APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM OF TEXAS ON THE 12TH DAY OF FEBRUARY, 2014.

ATTESTED BY:



Dan Junell
Secretary to the TRS Board of Trustees

3-14-14

Date