

Minutes of the Board of Trustees

July 10-11, 2014

The Board of Trustees of the Teacher Retirement System of Texas met on July 10, 2014 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
Christopher Moss
Anita Palmer
Dolores Ramirez
Nanette Sissney

Others present:

Brian Guthrie, TRS	Dan Herron, TRS
Ken Welch, TRS	Lynn Lau, TRS
Amy Barrett, TRS	Rebecca Merrill, TRS
Janet Bray, TRS	Mike Pia, TRS
Carolina de Onís, TRS	Garry Sitz, TRS
Don Green, TRS	Rebecca Smith, TRS
Howard Goldman, TRS	Sharon Toalson, TRS
T. Britton Harris IV, TRS	Cindy Yarbrough, TRS
Betsey Jones, TRS	Grant Walker, TRS
Amy Morgan, TRS	Keith Robinson, Focus Consulting
Jerry Albright, TRS	Steve Huff, Reinhart Boerner Van Deuren
Lane Arnold, TRS	Brady O'Connell, Hewitt EnnisKnupp
Christine Bailey, TRS	Lenny Beaudoin, CBRE
Ronnie Bounds, TRS	Peter Jansen, CBRE
Amber Conrad, TRS	Will Douglas, CBRE
Chris Cutler, TRS	Peter Larkin, CBRE

Mr. Kelly called the meeting to order at 2:30 p.m.

1. Call roll of Board members.

Ms. Lau called the roll. A quorum was present. Ms. Charleston, Mr. Colonna, and Mr. Moss were absent and arrived later in the meeting.

2. Consider Board administrative matters, including – David Kelly:

A. Approval of the June 5-6, 2014 Board meeting minutes.

On a motion by Ms. Palmer, seconded by Mr. Corpus, the board unanimously adopted the minutes of the June 5-6, 2014 meeting, as presented.

B. Consider excusing Board member absences from the June 5-6, 2014 Board meeting.

On a motion by Ms. Sissney, seconded by Ms. Palmer, the board unanimously voted to excuse the absence of Ms. Ramirez from the June 5, 2014 board meeting and the absence of Mr. Barth from the June 6, 2014 board meeting.

C. Setting, rescheduling, or canceling future Board meetings.

Mr. Guthrie provided a proposed schedule of board meetings for 2015 for the board's review and consideration in September.

Mr. Moss arrived in the meeting at 2:38 p.m.

3. Recognize the service of Amy Morgan – David Kelly.

Ms. Morgan expressed her appreciation to the board for the support over the years and to the TEAM program, the opportunity to serve Texas public education employees and work with TRS staff. Trustees, Mr. Guthrie, and Mr. Welch acknowledged Ms. Morgan's accomplishments and expressed their appreciation to her contribution and dedication to the system. Mr. Kelly read the following resolution into record:

Whereas, Amy Morgan joined the Teacher Retirement System of Texas (TRS) in March 1995, as the Director of the Management Information Systems Department; and

Whereas, She was an active member of the Executive Council, who provided strategic technical direction for TRS; and

Whereas, In recognition of her leadership and significant contributions to TRS, she was named Chief Information Officer for the Information Technology Division in September 2009; and

Whereas, As a member of the Executive Steering Committee, she was a driving force for the current application modernization effort for the TRS Enterprise Application Modernization (TEAM) Program often sharing information with other retirement entities about lessons learned and best practices; and

Whereas, She professionally represented TRS with peer retirement organizations as the past president of Public Retirement Information Systems Management (PRISM); and

Whereas, Throughout her years of leadership to the retirement system and its members, **Ms. Morgan's approach to employment has embodied a fiduciary's duties** of loyalty and care, always placing the retirement system and its participants first, ahead of any personal concerns; and

Whereas, She has exhibited the highest level of integrity, providing technical insights, analyses, and advice that have been proven over time to be accurate and well thought out; and

Whereas, TRS recognized Ms. Morgan with a TRS Golden Apple Award in 1998 in part for her demonstrated ability to handle complex matters, maintain infinite attention to detail, meet challenging deadlines and deal successfully with high-pressure and high-profile situations; and

Whereas, She has demonstrated quiet courage and persistence in delivering sometimes unpopular advice and always handling challenging matters with grace, dignity and courtesy; and

Whereas, She has maintained the highest standards of professionalism and played an invaluable role to TRS and its beneficiaries; and

Whereas, She provided critical leadership during a time when the retirement system grew from approximately 769,000 to more than 1.3 million members and annuitants; reached \$130 billion in its investment portfolio by the time of her retirement; developed and implemented a statewide active member health benefits program; strengthened management controls; implemented electronic imaging to enhance business processes; led the effort for electronic reporting by public schools, charter schools and higher education; instituted changes necessary to support the new millennium; implemented software support for several cost-of-living adjustments for annuitants; ensured that TRS was prepared for disasters and business continuity through annual testing; provided a secure and robust technical environment to support members and business processes; and

Whereas, Amy Morgan is retiring from TRS after **serving as the retirement system's Chief Information Officer** for over 19 years and 37 years of public service, mindful of her duty to **those who teach or otherwise serve our state's children** and thereby shape its future; and now, therefore, be it

Resolved, That the board of trustees and staff of the Teacher Retirement System of Texas recognize the accomplishments and contributions of Amy Morgan during her 19-year highly successful career with the retirement system and express appreciation on behalf of TRS members both present and future, and be it further

Resolved, That a copy of this resolution be presented to Amy Morgan and entered into the record of the board for July 10, 2014.

4. Provide opportunity for public comments – David Kelly.

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

5. Discuss TRS' long-term space planning project, including matters related to real property – Meredith Bell, CBRE Workplace Strategy; Lenny Beaudoin, CBRE Workplace Strategy; Peter Jansen, CBRE Public Institutions and Education Services; and Peter Larkin, CBRE Public Institutions and Education Services.

Mr. Lenny Beaudoin, Mr. Peter Jansen, Mr. Peter Larkin, and Mr. Will Douglas of CBRE recapped the TRS workplace study findings and presented additional detail concerning TRS workforce growth assumptions, occupancy scenarios and market options. Mr. Jansen stated for Mr. Kelly that the scenarios and options were based on a 20-year time horizon. Mr. Beaudoin shared a few case studies of corporate space planning and their positive outcome.

Mr. Colonna arrived in the meeting at 3:02 p.m.

Whereupon, Mr. Kelly announced that the board would go into executive session on agenda item 5 under § 551.072 of the Government Code to discuss real property matters because deliberation in an open meeting would have a detrimental effect on TRS' position in negotiations with a third person. 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 board meeting recessed at 3:05 p.m. to go into executive session.

Ms. Charleston arrived during the executive session.

The board meeting reconvened in open session at 4:55 p.m. Mr. Kelly announced that the board would take up agenda item 6.

6. Receive a presentation from Focus Consulting on the evaluation of the Chief Audit Executive, Chief Investment Officer, and Executive Director – Keith Robinson, Focus Consulting.

Mr. Robinson provided an overview of the executive assessment process. He highlighted the key assessment results of each executive with a focus on their competencies, contributions and personality types. He explained for Ms. Sissney that the executives took tests to assess their personality types.

Mr. Kelly announced that the board would recess and reconvene following the conclusion of the Audit Committee meeting.

Whereupon, the board meeting recessed at 5:05 p.m.

The board reconvened at 6 p.m. Mr. Kelly announced that the board would take up agenda item 7.

7. Discuss and consider personnel matters, including the following items:

A. Review the report of the Audit Committee on its July 10, 2014 meeting, and discuss and consider the evaluation and compensation of the Chief Audit Executive – Chris Moss.

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

The Audit Committee met at 5:10 p.m. on Thursday, July 10, 2014, in the Fifth Floor Boardroom. The Audit Committee discussed and approved the recommendation to the Board of Trustees regarding the annual performance appraisal for the Chief Audit Executive. The Audit Committee deferred consideration of any salary increase to the Board of Trustees. The committee concluded at approximately 6:00 p.m.

On a motion by Mr. Moss as committee chair, the board approved the annual performance appraisal of the Chief Audit Executive for fiscal year 2014.

Whereupon, Mr. Kelly announced that the board would go into executive session on agenda items 7B through 7D under § 551.074 and § 551.071 of the Government Code to deliberate personnel matters, and as needed, to seek advice from legal counsel. 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 board meeting recessed at 6:00 p.m. to go into executive session.

- B. Discuss the evaluation, compensation, and duties of the Chief Investment Officer and provide input to the Executive Director – David Kelly and Keith Robinson, Focus Consulting.**
- C. Discuss and consider the evaluation, compensation, and duties of the Executive Director – David Kelly and Keith Robinson, Focus Consulting.**
- D. Discuss and consider the adoption of a resolution regarding salary limits for TRS employees listed as exempt positions in the 2014 - 2015 General Appropriations Act – David Kelly.**

The board meeting reconvened in open session at 8:17 p.m. Mr. Kelly announced that the board would continue deliberations on agenda item 7 the next day.

Whereupon the board meeting recessed at 8:20 p.m.

The Board of Trustees of the Teacher Retirement System of Texas reconvened on July 11, 2014 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
Christopher Moss
Anita Palmer
Dolores Ramirez
Nanette Sissney

Others present:

Brian Guthrie, TRS
Ken Welch, TRS
Amy Barrett, TRS
Carolina de Onís, TRS
Howard Goldman, TRS

Kelly Newhall, TRS
Mike Pia, TRS
Jim Pinkard, TRS
Sarah Prince, TRS
Kristi Vorce, TRS

Don Green, TRS
T. Britton Harris, TRS
Betsey Jones, TRS
Amy Morgan, TRS
Marianne Woods Wiley, TRS
Jerry Albright, TRS
Sylvia Bell, TRS
Stuart Bernstein, TRS
Ronnie Bounds, TRS
Kendall Courtney, TRS
John Dobrich, TRS
Janie Duarte, TRS
Cindy Haley, TRS
Barbara Forssell, TRS
Dan Junell, TRS
Lynn Lau, TRS
Scot Leith, TRS

Susan Wade, TRS
Steve Huff, Reinhart Boerner Van Deuren
Brady O'Connell, Hewitt EnnisKnupp
Gunjan Kedia, State Street Bank
Jay Hooley, State Street Bank
Bob Carroll, BNY Mellon
Yvonne Utz, BNY Mellon
Samir Pandiri, BNY Mellon
Bob Tumberlinson
Sandra Tumberlinson
Diane Mullen, Mullen Pension & Benefits Group
Rameshea Waits, Ethos Benefit Services
Philip Mullins, Texas State Employee Union
Tim Lee, Texas Retired Teachers Association
Ted Melina Raab, Texas American Federation of Teachers

Mr. Kelly called the meeting to order at 11:37 a.m.

1. Call roll of Board members.

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

8. Provide opportunity for public comments – David Kelly.

Ms. Rameshea Wait and Ms. Diane Mullen presented a health care cost-saving proposal to the board.

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

A. Administrative operational matters, including financial, audit, legal, staff services, board administration activities, special projects, long-term space planning, and strategic planning.

Mr. Guthrie shared with the board recent and upcoming notable events. He highlighted the Tri-State Institutional Investors Forum where he participated as a panelist discussing pension issues and sharing the Texas experience with the East Coast states. He also noted other upcoming events, including the joint public/private strategic partnership network (SPN) summit, NCTR trustee workshop, NASRA conference, training in Chicago by Hewitt EnnisKnupp, the Fiduciary Investors Symposium, and the TRTA fall conventions.

Mr. Guthrie provided an overview of the joint hearing conducted between the Pensions Committee and the House Appropriations subcommittee for TRS health care programs. He reported that, during the hearing, staff had received positive feedback and questions from the committee

members as well as requests for more information related to a long-term solution to health care issues. Based on the feedbacks at the hearing and recent public testimony presented to TRS Board, he suggested devoting the October board meeting to discussing the final drafts of the health care studies and other related issues and options.

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

Mr. Guthrie highlighted major agenda items planned for the September and November meetings.

10. Review the report of the Compensation Committee on its July 11, 2014 meeting – Nanette Sissney.

Ms. Sissney, committee chair, provided the Compensation Committee report, as follows:

The Compensation Committee met on July 11, 2014. The committee adopted the minutes of its June 5, 2014 meeting. The committee received a presentation from Mr. Brian Guthrie on matters related to compensation for TRS employees. Mr. Guthrie briefed the board on his plan to develop a TRS compensation philosophy and discussed current compensation challenges faced by the Legal Division in recruiting and retaining staff. TRS will address any misclassified employees and resolve compensation issues related to Legal staff by implementing targeted market adjustments and using positions outside the state classification plan as necessary. Mr. Guthrie also outlined budget items related to compensation for the FY 2016-2017 biennium.

Mr. Kelly announced that the board would take up agenda item 7 to consider personnel matters.

7. Discuss and consider personnel matters, including the following items:

A. Review the report of the Audit Committee on its July 10, 2014 meeting, and discuss and consider the evaluation and compensation of the Chief Audit Executive – Chris Moss.

On a motion by Mr. Moss, seconded by Mr. Corpus, the board unanimously adopted the following resolution regarding the base salary of the Chief Audit Executive:

Whereas, Section 825.208 of the Texas Government Code provides that, notwithstanding any other law, the Board of Trustees (the "Board") shall approve the rate of compensation of all persons it employs;

Whereas, Subsection 1.8(u) of the Board's bylaws provides that the Board shall be responsible for the selection, replacement, dismissal, performance evaluation, and compensation, in consultation with the Audit Committee and the Executive Director, of the Chief Audit Executive;

Whereas, The Board wishes to amend the salary of the Chief Audit Executive; now, therefore be it

Resolved, That effective September 1, 2014, the Board hereby increases the salary of the Chief Audit Executive as follows:

Chief Audit Executive's salary (the incumbent is Amy L. Barrett): Increase the base salary amount beginning in FY 2015 by 3%;

Resolved, That nothing in the adoption of this resolution alters the at-will nature of employment that TRS has with any of its employees, creates a contract between TRS and any TRS employee, or confers on any TRS employee the right to continued employment with TRS, including the Executive Director or any other employee holding a position in the Schedule of Exempt Positions.

C. Discuss and consider the evaluation, compensation, and duties of the Executive Director – David Kelly and Keith Robinson, Focus Consulting.

On a motion by Ms. Sissney, seconded by Mr. Barth, the board adopted the following resolution regarding the base salary of the Executive Director by a majority vote (8-1) with Ms. Charleston voting against the motion:

Whereas, Section 825.208 of the Texas Government Code provides that, notwithstanding any other law, the Board of Trustees (the "Board") shall approve the rate of compensation of all persons it employs;

Whereas, Subsection 1.8(d) of the Board's bylaws provides that the Board shall be responsible for the selection, job description, performance evaluation, and compensation of the Executive Director;

Whereas, The Board wishes to amend the salary of the Executive Director; now, therefore be it

Resolved, That effective September 1, 2014, the Board hereby increases the salary of the Executive Director as follows:

Executive Director's salary (the incumbent is Brian K. Guthrie): Increase the base salary amount beginning in FY 2015 by 5%;

Resolved, That nothing in the adoption of this resolution alters the at-will nature of employment that TRS has with any of its employees, creates a contract between TRS and any TRS employee, or confers on any TRS employee the right to continued employment with TRS, including the Executive Director or any other employee holding a position in the Schedule of Exempt Positions.

D. Discuss and consider the adoption of a resolution regarding salary limits for TRS employees listed as exempt positions in the 2014 - 2015 General Appropriations Act – David Kelly.

On a motion by Ms. Sissney, seconded by Mr. Barth, the board adopted the following resolution regarding the salary ranges for certain exempt positions by a majority vote (8-1) with Ms. Charleston voting against the motion:

Whereas, Section 825.208 of the Texas Government Code provides that, notwithstanding any other law, the Board of Trustees (Board) shall approve the rate of compensation of all persons it employs;

Whereas, The Bylaws of the Board of Trustees delegate authority to the Executive Director and Bylaw subsection 4.1.2(c) specifically provides that the Executive Director assumes responsibility for the compensation of all TRS personnel, with limited exceptions for the Executive Director and Chief Audit Executive whose salaries are set by the board;

Whereas, The General Provisions in the TRS Budget provide discretion to the Executive Director regarding salaries and specifically authorize the Executive Director to set the annual base salary rate for all exempt positions, other than the Executive Director position, within the not-to-exceed amounts listed in the General Appropriations Act that became effective September 1, 2014 ("GAA"), or any amended limits adopted by the board from time to time;

Whereas, The GAA, consistent with general law, provides that notwithstanding the compensation amounts set in the GAA, the board may determine the not-to-exceed amounts of the positions listed in the Schedule of Exempt Positions without limitation;

Whereas, For the majority of positions listed in the Schedule of Exempt Positions, the GAA not-to-exceed amounts are sufficient for the Executive Director to exercise his discretion in setting salaries under Bylaw subsection 4.1.2(c) and under the General Provisions of the TRS Budget, but the GAA not-to-exceed amounts for the Deputy Director Investment Officer and the Deputy Administrative Officer are not sufficient for the Executive Director to exercise his discretion in setting the salaries for those positions.

Whereas, For the purpose of allowing the Executive Director to exercise his discretion in setting the salaries of the Deputy Director Investment Officer and the Deputy Administrative Officer under Bylaw subsection 4.1.2(c) and under the General Provisions of the TRS Budget, the Board wishes to adopt adjusted GAA not-to-exceed amounts for FY 2015 for those positions and wishes to direct the Executive Director to move the incumbent Deputy Administrative Officer out of the Schedule of Exempt positions and to the Deputy Director III classified position; now, therefore be it

Resolved, That effective September 1, 2014, the board hereby adopts the following GAA not-to-exceed amounts for the Deputy Director Investment Officer and the Deputy Administrative Officer:

Deputy Director Investment Officer (incumbent Jerry G. Albright): Increase the GAA not-to-exceed amount to \$340,000; and

Deputy Administrative Officer (incumbent Ken Welch): Increase the GAA not-to-exceed amount by 2% above the current not-to-exceed amount;

Resolved, That the Board directs the Executive Director to move the incumbent Deputy Administrative Officer out of the Schedule of Exempt positions and to the Deputy Director III classified position as soon as possible after September 1, 2014;

Resolved, That nothing in the adoption of this resolution alters the at-will nature of employment that TRS has with its employees, creates a contract between TRS and any TRS employee, or confers on any TRS employee the right to continued employment with TRS, including any employee holding a position in the Schedule of Exempt Positions.

- 11. Review the report of the Budget Committee on its July 11, 2014 meeting, and consider adoption of related matters, including the following – Nanette Sissney:**
- A. Consider the adoption of the proposed fiscal year 2015 pension trust fund administrative operations budget, general provisions, and resolution authorizing transfer of pension trust funds to the TRS expense account to cover the expenses approved under the fiscal year 2015 budget.**
 - B. Consider the adoption of the proposed fiscal year 2015 administrative operations budgets and general provisions for the TRS health benefits funds (retired and active plans), including the optional long-term care insurance program.**
 - C. Consider the adoption of the proposed fiscal year 2015 administrative operations budget and general provisions for the 403(b) company certification and investment product registration program.**

Ms. Sissney, committee chair, provided the Budget Committee report, as follows:

The Budget Committee met today Friday, July 11th at 10:00 am. The first item of business was approval of the minutes of the June 5, 2014 Budget Committee meeting.

Mr. Don Green then provided an overview of the recommended administrative operating budget for FY 2015. The total FY 2015 operating budget for all funds is \$155.2 million; which includes \$94.8 million for administrative operations, \$19.2 million for TEAM, \$33.1 million for soft dollars, \$4.6 million for the operation of TRS-Care, \$3.4 million for the operation of TRS-ActiveCare and \$207,528 for the 403(b) Certification Program.

The Budget Committee also discussed the TEAM program. The total operating and capital expenses budget is \$19.2 million. Mr. Green mentioned that an unexpended FY 2014 capital balance of \$7.7 million will be carried forward to FY 2015. Mr. Green referenced the board to Appendix A for more detailed supporting information related to the FY2015 Operating Budget.

Mr. Green reviewed TRS' Legislative Appropriations Request (LAR) for the next biennium. He highlighted that the pension fund salary growth assumptions are 2% for public education and 4% for higher education. He discussed issues related to the funding and long-term sustainability of TRS-Care. He discussed funding for compensation and facilities as they related to the LAR.

A resolution was discussed in the budget committee to bring to the board, authorizing expenditure and the transfer of trust funds for pension trust fund administrative operations in the amount of \$103,482,363; to pay the actual amount of performance incentive compensation; to pay expenses incurred and unexpended funds for the TEAM Program; and for operational recovery due to a catastrophic occurrence.

The committee discussed and considered the proposed budget.

On a motion by Ms. Sissney as the committee chair, the board unanimously adopted the fiscal year 2015 administrative operations budget for the pension trust fund, the TRS health benefits fund (retired and active plans), including the long-term care insurance program and the 403(b) certification program, as presented, and the general provisions described on pages 35 and 36 of the budget document.

On a motion by Ms. Sissney as the committee chair, the board unanimously adopted the following resolution authorizing staff to transfer pension trust funds to the TRS expense account for pension administrative operation expenses under the approved fiscal budget 2015:

Whereas, Section 825.312 of the Government Code provides that the retirement system shall pay from the expense account of the retirement system account for the pension trust fund all administrative expenses of the retirement system that are required to perform the fiduciary duties of the board;

Whereas, Section 825.313(d) of the Government Code provides that the TRS Board of Trustees (board) may authorize transferring from the interest account to the expense account of the retirement system an amount necessary to cover TRS' operating expenses for the fiscal year that are required to perform the fiduciary duties of the board;

Whereas, The General Provisions for the TRS Fiscal Year 2014 Budget adopted by the Board on June 13, 2013 authorizes the transfer of up to 12.5% of budgeted funds of an expense category between major expense categories so long as the total approved budget for operating expenses and capital outlay is not exceeded and the Executive Director in accordance with the General Provisions has authorized the transfer of Fiscal Year 2014 budgeted but unexpended funds from non-capital major expense categories in amounts less than 12.5% of each category into the TEAM Program capital expense category;

Whereas, Section 14.03(h) of Article IX of the General Appropriations Act for the 2014-2015 Biennium authorizes the transfer of appropriated but unexpended non-capital budget funds to capital budget funds and Section 14.03(i) of Article IX of the General Appropriations Act for the 2014-2015 Biennium provides that appropriated but unexpended capital budget funds from Fiscal Year 2014 are reappropriated and carried forward for Fiscal Year 2015; now, therefore be it

Resolved, That the board finds the expenditure of pension trust funds for operating expenses in Fiscal Year 2015 is required to perform the fiduciary duties of the board in administering the retirement system in the amount of \$103,482,363, as approved today in the Fiscal Year 2015 Budget and General Provisions for the Pension Trust Fund Administrative Operations, plus such additional amounts as may be necessary for the following expenditures:

- To pay the actual amount of performance incentive compensation payable in Fiscal Year 2015, if any; and
- To pay expenses incurred for the TEAM Program in Fiscal Year 2015 any unexpended TEAM Program capital budget funds that have been reappropriated in accordance with Section 14.03(i) of Article IX of the General Appropriations Act for the 2014-2015; and
- To achieve recovery of operational capabilities in the event of a catastrophic occurrence as contemplated by such General Provisions adopted by the board; and

12. Consider the following statutory certifications of estimated state contributions – Don Green:

Mr. Green explained the three certifications presented for the board's consideration in agenda items 12A through 12C.

A. Consider certifying to the State Comptroller of Public Accounts the estimated amount of state contributions to be received by the retired school employees group health benefit fund for the fiscal year ending August 31, 2015.

On a motion by Ms. Sissney, seconded by Mr. Corpus, the board unanimously adopted the following certification to the State Comptroller of Public Accounts:

At its meeting on July 11, 2014, the Board of Trustees of the Teacher Retirement System, on a motion by Ms. Nanette Sissney, seconded by Mr. David Corpus, voted to certify \$292,768,402 as the estimated amount of state contributions to be received by the retired school employees group insurance fund (TRS Care) for the 2015 fiscal year under the appropriations authorized by Chapter 1575 of the Insurance Code, the Texas Public School Retired Employees Group Benefits Program. This amount includes \$247,531,484 authorized in the General Appropriations Act (Senate Bill 1, 83rd Legislature, Regular Session), plus an amount of \$17,533,564 due to fiscal year 2014 payroll costs being more than previously estimated. These contributions are based on 1.0 percent of the salary of each active public school employee.

The amount certified also includes an estimated \$27,703,354 due to provisions in Rider 14 of the TRS bill pattern (Senate Bill 1, 83rd Legislature, Regular Session) which allows for any payments made by the pension fund for FY2014 settle up be re-appropriated to the Texas Public School Retired Employees Group Insurance Trust Fund.

This estimate of state contributions is required by Section 1575.209 of the Insurance Code.

B. Consider certifying to the Legislative Budget Board and the Office of the Governor the estimate of state contributions to be received by the retired school employees group health benefit fund for fiscal years 2016 and 2017.

On a motion by Mr. Barth, seconded by Mr. Moss, the board unanimously adopted the following certification to the Legislative Budget Board and the Office of the Governor:

At its meeting on July 11, 2014, the Board of Trustees of the Teacher Retirement System, on a motion by Mr. Todd Barth, seconded by Mr. Christopher Moss, voted to certify the following estimated amounts as necessary to pay the state's contributions to the retired school employees' group insurance fund for the 2016–2017 biennium:

Fiscal Year 2016	\$ 275,628,467
Fiscal Year 2017	\$ 281,141,037

These estimates are required by Section 1575.208 of the Insurance Code and are based on the assumption that covered payroll will grow 2% per year and that the minimum statutory contribution rate of 1.0 percent will apply to both fiscal year 2016 and fiscal year 2017. Additionally, the Board of Trustees will ask for an exceptional item in the Legislative Appropriations Request in the amount of \$874.8 million to sustain the program through the end of FY2017.

C. Consider certifying to the State Comptroller of Public Accounts the estimate of state contributions to the Pension Trust Fund for fiscal years 2016 and 2017.

On a motion by Mr. Moss, seconded by Ms. Ramirez, the board unanimously adopted the following certification to the State Comptroller of Public Accounts:

At its meeting on July 11, 2014, the Board of Trustees of the Teacher Retirement System, in compliance with Texas Government Code, Section 825.404 (b), on a motion by Mr. Christopher Moss, seconded by Ms. Dolores Ramirez, voted to certify the following **estimated amounts as necessary to pay the state's contributions from General Revenue** to the retirement system for the 2016–2017 biennium based on the appropriated contribution rate of 6.8% of the aggregate annual compensation of all members of the Teacher Retirement System to be:

Fiscal Year 2016	\$ 1,785,869,140
Fiscal Year 2017	\$ 1,825,724,466

These amounts are net of estimated funds to be received by the System for contributions based on compensation above the statutory minimum, other educational and general income, federal/private funding sources, and new member contributions. These estimates assume a covered payroll growth rate of 2% per year for public education and 4% per year for higher education.

13. Consider authorizing the Executive Director to purchase directors' and officers' and fiduciary liability insurance for fiscal year 2015 through the State Office of Risk Management – Don Green.

Mr. Green presented the memo from Jay LeBlanc outlining the specifics of the proposed directors' and officers' and fiduciary liability insurance coverage for FY 2015 through the State Office of Risk Management. On a motion by Mr. Moss, seconded by Ms. Ramirez, the board unanimously adopted the following resolution to authorize the executive director to purchase directors' and officers' and fiduciary liability insurance for FY 2015:

Resolved, That, pursuant to Texas Government Code Section 825.112, the Executive Director or his designee is authorized to purchase directors and officers insurance coverage, including fiduciary liability and employment practices liability insurance with coverage limits of up to \$25 million under each policy for fiscal year 2015, at a cost to be determined by the Executive Director, and to negotiate and agree to such terms and conditions of coverage as the Executive Director or his designee may deem in his or her discretion to be in the best interest of TRS, and to execute and deliver any authorizations to bind coverage and such other documents, applications, contracts, amendments, extensions, agreements, certificates, or affidavits, or modifications as may be necessary or desirable in connection with acquiring and maintaining such insurance.

14. Review the reports of the Chief Financial Officer – Don Green:

- A. Report on 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.**
- B. Financial reports on TRS programs.**

Mr. Green presented a report of expenditures paid for the third quarter as of May 31, 2014.

15. 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 March 1, 2014 through May 31, 2014. She referred the board to the detailed list of payments made available for their review.

On a motion by Ms. Sissney, seconded by Ms. Palmer, 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 March 11, 2014 Medical Board meeting.

On a motion by Ms. Palmer, seconded by Ms. Charleston, the board approved the minutes of the Medical Board meeting as presented, thereby ratifying the actions of the Medical Board reflected in those minutes.

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

Mr. Welch provided an update on TRS operations, including the high call volume in the summer, the building renovation, and the implementation plan for GASB 57. He also provided an update on the TEAM program, including the financial system replacement (FSR) project. He projected that a new vendor for the FSR project would be selected at the end of fiscal year 2015 and that the project would go live in fiscal year 2016.

- 17. Discuss and consider selecting a master custody services provider, including receiving presentations from vendor finalists and considering a finding that deliberating or conferring on the selection of a master custody services provider in open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person – Scot Leith, Sylvia Bell, and John Dobrich.**

Ms. Bell gave an overview of the master custody services used by TRS, including securities lending services. She explained the current process for selecting a provider of those services. She described the functions and minimum qualifications expected of a custody bank. She introduced two finalists: State Street Bank, incumbent custodian, and BNY Mellon.

Representatives of State Street Bank, Jay Hooley and Gunjan Kedia, described their bank's history, services, strengths, risk management function and relationship with TRS. Trustees asked questions regarding the performance of the current security lending program and the process for evaluating the custodian's services.

Prior to the presentation by the second finalist, BNY Mellon, the board took up agenda item 9A to acknowledge the departure of Mr. Stuart Bernstein.

- 9. Review and discuss the Executive Director's report on the following matters – Brian Guthrie:**
 - A. Administrative operational matters, including financial, audit, legal, staff services, board administration activities, special projects, long-term space planning, and strategic planning.**

Mr. Kelly, Mr. Harris and Mr. Albright recognized the performance and contribution of Mr. Bernstein to TRS' investment program. Mr. Bernstein expressed his appreciation to the board and to Mr. Harris and Mr. Albright for their support of the Emerging Manager Program, which he directed.

The board took up agenda item 17 to receive the presentation from BNY Mellon representatives.

- 17. Discuss and consider selecting a master custody services provider, including receiving presentations from vendor finalists and considering a finding that deliberating or conferring on the selection of a master custody services provider in open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person – Scot Leith, Sylvia Bell, and John Dobrich.**

Mr. Bob Carroll, Ms. Yvonne Utz, and Mr. Samir Pandiri of BNY Mellon provided an overview of BNY Mellon, including its services and products, clientele and team structure. The representatives answered questions from trustees about how the system would transition to a new custodian and how long that would take. The representatives also addressed the customized services BNY Mellon could provide TRS and the benefits of switching to a new custodian.

On a motion by Mr. Barth, seconded by Ms. Sissney, the board voted unanimously to determine that deliberating or conferring in an open meeting about the procurement of a master custodian

and securities lending services provider would have a detrimental effect on TRS' position and negotiation with a third person.

Whereupon, based on the board's determination, Mr. Kelly announced that the board would go into executive session on agenda item 17 under § 825.115(e) and § 551.071 of the Government Code to discuss the procurement and, as needed, to seek the advice of legal counsel. 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 recessed at 1:35 p.m.

After completing the executive session, Mr. Kelly announced that the open session reconvened at 2:17 p.m.

Whereupon, on a motion by Ms. Sissney, seconded by Mr. Barth, the board unanimously voted to retain State Street to provide master custody and securities lending services.

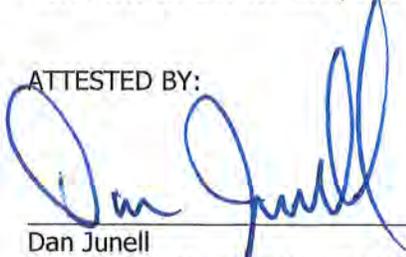
18. Consult with the Board's attorney(s) in Executive Session on any item listed above on this meeting agenda as authorized by Section 551.071 of the Texas Open Meetings Act (Chapter 551 of the Texas Government Code) – David Kelly.

The board took up no further business under agenda item 18.

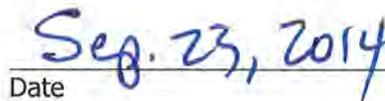
The meeting was adjourned at 2:20 p.m.

APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM OF TEXAS ON THE 18TH DAY OF SEPTEMBER, 2014.

ATTESTED BY:



Dan Junell
Secretary to the TRS Board of Trustees



Date