

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

**AGENDA**

**July 24, 2015 – 8:00 a.m.  
TRS East Building, 5<sup>th</sup> Floor, Boardroom**

*NOTE: The Board may take up any item posted on the agenda in any order during its meeting on Friday, July 24, 2015.*

*The open portions of the July 24, 2015 Board meeting are being broadcast over the Internet. Access to the Internet broadcast of the Board meeting is provided on TRS' website at [www.trs.state.tx.us](http://www.trs.state.tx.us).*

1. Call roll of Board members.
2. Consider the following Board administrative matters – David Kelly:
  - A. Approval of the June 11-12, 2015 Board meeting minutes.
  - B. Consider excusing Board member absences from the June 11-12, 2015 Board meeting.
  - C. Honor the service of outgoing Trustee Todd Barth.
  - D. Setting, rescheduling, or canceling future Board meetings.
3. Provide opportunity for public comments – David Kelly.
4. Discuss and consider selecting Board fiduciary counsel, including considering a finding that deliberating or conferring on the selection of fiduciary counsel in an open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person – David Kelly.
5. Receive an update on the 2015 Pension Trust Fund Experience Study – Joe Newton and Lewis Ward, Gabriel, Roeder, Smith and Co.
6. Review and discuss the Executive Director's report on the following matters – Brian Guthrie:
  - A. Administrative operational matters, including updates on financial, audit, legal, staff services, board administration activities, special projects, long-term space planning, and strategic planning matters.
  - B. Board operational matters, including a review of draft agendas for upcoming meetings.

- C. Event notices or reminders; holiday and other schedules of interest; board member, employee or other individual recognitions; and expressions of thanks, congratulations, or condolences.

**NOTE:** *The Board meeting will likely recess after the last item above to conduct committee meetings and resume upon adjournment of the committee meetings to take up the items listed below.*

- 7. Discuss and consider the following personnel matters:
  - A. Review the report of the Audit Committee on its July 24, 2015 meeting and discuss and consider the evaluation and compensation of the Chief Audit Executive – Christopher Moss.
  - B. Discuss and consider the evaluation, compensation, and duties of the Chief Investment Officer and provide input to the Executive Director – David Kelly.
  - C. Discuss and consider the evaluation, compensation, and duties of the Executive Director – David Kelly.
- 8. Review the report of the Compensation Committee on its July 24, 2015 meeting – Nanette Sissney.
- 9. Review the report of the Budget Committee on its July 24, 2015 meeting and consider adoption of the following related matters – Nanette Sissney:
  - A. The proposed fiscal year 2016 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 2016 budget.
  - B. The proposed fiscal year 2016 administrative operations budgets and general provisions for the two TRS health benefits programs (TRS-Care and TRS-ActiveCare) and optional long-term care insurance program.
  - C. The proposed fiscal year 2016 administrative operations budget and general provisions for the 403(b) company certification and investment product registration program.
- 10. Consider a resolution 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, 2016 – Don Green.
- 11. Consider authorizing the Executive Director to purchase directors’ and officers’ liability insurance, fiduciary liability insurance, and employment practices liability insurance for fiscal year 2016 through the State Office of Risk Management – Don Green.
- 12. Review the reports of the Chief Financial Officer regarding expenditures, mid-year financial review, and other financial matters involving TRS programs – Don Green.

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

## Minutes of the Board of Trustees

July 24, 2015

The Board of Trustees of the Teacher Retirement System of Texas met on July 24, 2015 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  
Nanette Sissney, Vice-Chair  
Todd Barth  
Karen Charleston  
Joe Colonna  
Christopher Moss  
Anita Palmer

### Others present:

Brian Guthrie, TRS	Hugh Ohn, TRS
Ken Welch, TRS	Jamie Pierce, TRS
Jerry Albright, TRS	Heather Traeger, TRS
Amy Barrett, TRS	Kristi Vorce, TRS
Chris Cutler, TRS	Dale West, TRS
Katrina Daniel, TRS	Steve Huff, Reinhart Boerner Van Deuren
Carolina de Onís, TRS	Steve Voss, Aon Hewitt
Howard Goldman, TRS	Mike Comstock, Aon Hewitt
Don Green, TRS	Mike McCormick, Aon Hewitt
T. Britton Harris IV, TRS	Joe Newton, Gabriel Roeder Smith and Company
Barbie Pearson, TRS	Pattie Featherston, Legislative Budget Board
Jase Auby, TRS	Ann Fickel, Texas Classroom Teachers Association
Mohan Balachandran, TRS	Philip Mullins, Texas Retired Teachers Association
Ronnie Bounds, TRS	Ted Melina Raab, Texas American Federation of Teachers
Dan Junell, TRS	Joni Lozano, CVS Caremark
Eric Lang, TRS	Pat Del Rio, Aetna
Lynn Lau, TRS	Josh Sanderson, Association of Texas Professional Educator
T. A. Miller, TRS	Drew Graham, House Committee on Pensions

Mr. Kelly called the meeting to order at 8:13 a.m.

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

Ms. Lau called the roll. A quorum was present. Mr. Corpus and Ms. Ramirez were absent.

### **2. Consider the following Board administrative matters – David Kelly:**

#### **A. Approval of the June 11-12, 2015 Board meeting minutes.**

On a motion by Ms. Palmer, seconded by Ms. Sissney, the board unanimously approved the proposed minutes of the June 11-12, 2015 board meeting, as presented.

**B. Consider excusing Board member absences from the June 11-12, 2015 Board meeting.**

On a motion by Ms. Sissney, seconded by Mr. Moss, the board unanimously voted to excuse Mr. Colonna's absence from the June 11-12, 2015 meeting.

**C. Honor the service of outgoing Trustee Todd Barth.**

Mr. Guthrie read the following resolution honoring Mr. Barth for his service:

Whereas, Todd Barth has served as a member of the board of trustees of the Teacher Retirement System of Texas (TRS) from October 2009 through August 2015, mindful of his duty as caretaker of a trust to those who teach or otherwise serve our state's children and thereby shape its future; and

Whereas, He has provided leadership to the system during a time when the retirement system grew to more than 1.4 million members and annuitants; management controls were strengthened; new investment allocations and procedures were adopted and implemented; the State Auditor's Office reports provided unqualified opinions with no material findings; and TRS annually received the "Certificate of Achievement for Excellence in Financial Reporting" from the Government Finance Officers Association; and

Whereas, He served TRS in numerous ways, including as chair of the Investment Management and Policy Committees as well as a member of the Audit, Benefits, Budget, and Risk Committees; and

Whereas, He served on the board at a time when TRS conducted an important legislative study on pension fund sustainability, which enabled the legislature to make modifications that made the pension fund actuarially sound, allowing for the first permanent cost-of-living increase for a majority of retirees in more than a decade; and

Whereas, He played an active role in selecting a new executive director for TRS in February 2011; and

Whereas, He served on the board during the time of TRS' 75th Anniversary and joined other trustees in commemorating that special event; and

Whereas, He helped guide the agency through prudent oversight of trust assets during a challenging period of extreme capital market volatility, including one of the nation's most serious recessions, when the TRS Pension Fund rebounded from approximately \$90 billion in October 2009 to more than \$132 billion as of July 2015; 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 Todd Barth 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 Todd Barth and entered into the record of the board for July 24, 2015.

Mr. Harris, Mr. Auby, Mr. West, and Mr. Balachandran expressed their appreciation to Mr. Barth for his service. Mr. Barth expressed his appreciation to the board and staff.

**D. Setting, rescheduling, or canceling future Board meetings.**

Mr. Guthrie suggested that the October 23, 2015 board meeting be rescheduled to Thursday, October 22, 2015 because of the impact on travel and lodging caused by the Formula 1 auto race and related events being held in Austin October 23-25, 2015.

On a motion by Mr. Moss, seconded by Ms. Palmer, the board unanimously voted to change the October meeting date from October 23, 2015 to October 22, 2015.

**3. Provide opportunity for public comments – David Kelly.**

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

**4. Discuss and consider selecting Board fiduciary counsel, including considering a finding that deliberating or conferring on the selection of fiduciary counsel in an open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person – David Kelly.**

Ms. de Onís presented staff's recommendation that TRS' contract with Reinhart Boerner Van Deuren s.c. for fiduciary-counsel services be extended for two years. Mr. Kelly and Mr. Colonna expressed their agreement with staff's recommendation. On a motion by Mr. Barth, seconded by Ms. Sissney, the board unanimously adopted the following resolution to extend the contract with Reinhart Boerner Van Deuren s.c. for two years:

*Resolved*, That the Board of Trustees (board) of the Teacher Retirement System of Texas (TRS) hereby selects the law firm of Reinhart Boerner Van Deuren s.c. to serve as fiduciary counsel;

*Resolved*, That the board authorizes the Executive Director to negotiate an outside counsel contract with fiduciary counsel for a two-year term beginning on September 1, 2015 and terminating on August 31, 2017 and to obtain approval from the Office of the Attorney General for the engagement of such outside counsel; and

*Resolved*, That, if negotiations are deemed by the Executive Director in his discretion to be successful, then the Executive Director is hereby authorized to execute such contract, including future amendments, with fiduciary counsel on such terms and conditions as the Executive Director may deem in his discretion to be in the best interest of TRS, and further to execute and deliver all such other documents that the Executive Director may deem necessary or appropriate to effect this resolution and to incur, approve, and pay any budgeted expenses or costs associated with such contract and deemed in the discretion of the Executive Director, or his designee, to be reasonably necessary or advisable with respect to such contract.

**5. Receive an update on the 2015 Pension Trust Fund Experience Study – Joe Newton and Lewis Ward, Gabriel, Roeder, Smith and Co.**

Mr. Newton summarized the findings of the actuarial experience study conducted pursuant to section 825.206 of the Government Code. He said that GRS would present a final report on the study and any recommendations for modifying actuarial assumptions at the board's September

2015 meeting. He explained the process and importance of reviewing and setting actuarial assumptions in connection with the experience study. He described and explained the preliminary recommendations, including the following:

- Maintaining investment return assumptions at 8 percent;
- Changing the investment return assumption from net of all expenses to net of only investment and administrative expenses;
- Increasing life expectancy;
- Decreasing the inflation assumption from 3 percent to 2.5 percent;
- Decreasing the real wage growth assumption by an additional 0.25 percent; and
- Decreasing the overall payroll growth assumption by 1 percent.

Mr. Newton also explained the recommendation to redefine an active member as one who made contributions in the most recent fiscal year and had not retired. Mr. Guthrie confirmed for Ms. Sissney that the redefinition would not affect those members who would be redefined as inactive members. Mr. Welch clarified that the existing processes for non-vested members would continue and not be affected by the redefinition. Mr. Newton explained other minor recommendations, including adding a direct rehire assumption into termination patterns, using individual data instead of celled data for valuation purposes, and removing the market value corridor for the smoothing of assets.

Mr. Newton described the actuarial impact of the new assumptions on the normal cost, unfunded actuarial accrued liability (UAAL), funded ratio, employer contribution, and funding period. He concluded by stating that a full report would be provided for the board's review and the new assumptions would be presented for the board's consideration at the September board meeting.

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

- A. Administrative operational matters, including updates on financial, audit, legal, staff services, board administration activities, special projects, long-term space planning, and strategic planning matters.**
- B. Board operational matters, including a review of draft agendas for upcoming meetings.**
- C. Event notices or reminders; holiday and other schedules of interest; board member, employee or other individual recognitions; and expressions of thanks, congratulations, or condolences.**

Mr. Guthrie shared with the board recent and upcoming events, including the Texas Retired Teachers Association (TRTA) fall conventions, National Council on Teacher Retirement (NCTR) trustee workshop, joint public/private Strategic Partnership Network (SPN) summit, National Association of State Retirement Administrators (NASRA) conference, and NCTR Conference. Mr. Harris also provided a brief overview of the upcoming SPN summit.

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

Mr. Kelly announced that the board would take up agenda items 10, 11, and 12.

**10. Consider a resolution 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, 2016 – Don Green.**

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

At its meeting on July 24, 2015, the Board of Trustees of the Teacher Retirement System, on a motion by Mr. Todd Barth, seconded by Ms. Nanette Sissney, voted to certify \$311,908,213 as the estimated amount of state contributions to be received by the retired school employees group insurance fund (TRS Care) for the 2016 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 \$278,304,826 authorized in the General Appropriations Act (House Bill 1, 84th Legislature, Regular Session), plus an estimated amount of \$33,603,387 due to fiscal year 2015 payroll costs being more than previously estimated. These contributions are based on 1.0 percent of the salary of each active public school employee.

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

**11. Consider authorizing the Executive Director to purchase directors' and officers' liability insurance, fiduciary liability insurance, and employment practices liability insurance for fiscal year 2016 through the State Office of Risk Management – Don Green.**

Mr. Green stated that the board annually authorized the Executive Director to purchase fiduciary liability, directors' and officers' liability, and employment practices liability insurance for the board and TRS employees. He referred to the proposed resolution that would grant the Executive Director or his designee authority to purchase the insurance.

On a motion by Mr. Moss, seconded by Ms. Palmer, the board unanimously adopted the following resolution to authorize the executive director to purchase directors and officers insurance coverage for FY 2016:

**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.



**12. Review the reports of the Chief Financial Officer regarding expenditures, mid-year financial review, and other financial matters involving TRS programs – Don Green.**

Mr. Green presented a report of expenditures paid for May and June of 2015.

At 9:45 a.m., Mr. Kelly announced that the board would recess to conduct committee meetings.

After a recess, the board meeting reconvened at 1:15 p.m. Mr. Kelly announced that the board would take up agenda item 9.

**9. Review the report of the Budget Committee on its July 24, 2015 meeting and consider adoption of the following related matters – Nanette Sissney:**

- A. The proposed fiscal year 2016 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 2016 budget.**
- B. The proposed fiscal year 2016 administrative operations budgets and general provisions for the two TRS health benefits programs (TRS-Care and TRS-ActiveCare) and optional long-term care insurance program.**
- C. The proposed fiscal year 2016 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 24, at 10:08 a.m. The first item of business was the approval of minutes of the June 11, 2015 Budget Committee meeting.

Mr. Don Green was joined by the Managing Director of IMD operations, Sylvia Bell, to discuss a change in the source of funding for research expenses related to investment deals. They spoke of the current issue relating to the shortfall in CSA commissions targets and the impact to the quality and availability of research. Several options were discussed with the preferred option being option number 3, which is to pay the research expenditures from the investment trust account.

Mr. Green presented a high level overview of the proposed administrative operating budget and general provisions for FY 2016. The FY 2016 requested budget is within existing legislative authority. The total FY 2016 operating budget for all funds is \$172.9 million, which includes \$103.6 million for administrative operations, \$24.6 million for TEAM, \$35.9 million for soft dollars and \$5.3 million for the operation of TRS-Care, \$3.4 million for the operation of TRS-ActiveCare and approximately \$85,000 for the 403(b) certification program.

Based on the previous agenda item, Mr. Green introduced an amendment to the general provisions to include a section on investment costs. The Budget Committee also discussed the TEAM program. The total operating and capital expense budget is \$24.6 million and includes 11 new FTEs.

A resolution was discussed in the Budget Committee to bring to the Board authorizing expenditures and the transfer of trust fund for pension trust fund administrative operations in the amount of \$117,033,476 to pay the actual amount of performance incentive compensation, to pay expenses incurred for the TEAM program and for the operational recovery due to a catastrophic occurrence.

On a motion by Ms. Sissney as the committee chair, the board unanimously adopted the fiscal year 2016 administrative operations budgets and general provisions for the pension trust fund, the TRS health benefits fund (including both TRS health benefits programs and the long-term care insurance program), and the 403(b) company certification and investment product registration program, as presented by staff and recommended by the committee.

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 year 2016 budget:

**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**, Rider 18, "Contingent Appropriation of Pension Trust Funds for GASB Statement Implementation," of the TRS bill pattern in the State General Appropriations Act, 84<sup>th</sup> Legislature provides that upon a finding of fact by the TRS board that additional resources are necessary to implement accounting guidelines related to Governmental Accounting Standards Board statements and pronouncements, the TRS is appropriated additional funds from the Pension Trust Fund (960) for fiscal year 2016; now, therefore be it;

**Resolved**, That the board finds the expenditure of pension trust funds for operating expenses in Fiscal Year 2016 is required to perform the fiduciary duties of the board in administering the retirement system in the amount of \$117,033,476, as approved today in the Fiscal Year 2016 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 2016, if any; 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 to implement GASB statements; and

**Resolved**, That the staff is authorized to transfer from the interest account to the expense account an amount necessary to cover the expenses of the retirement system under the approved budget for Fiscal Year 2016, but not to exceed the amount of \$117,033,476 plus, any additional amounts necessary to pay performance incentive compensation payable in Fiscal Year 2016 and, as applicable, to achieve recovery of operational capabilities in the

event of a catastrophic occurrence as contemplated by the General Provisions adopted by the board.

**7. Discuss and consider the following personnel matters:**

- A. Review the report of the Audit Committee on its July 24, 2015 meeting and discuss and consider the evaluation and compensation of the Chief Audit Executive – Christopher Moss.**

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

The Audit Committee met on Friday, July 24 in the 5th Floor boardroom. The Audit Committee received a report on matters related to governance, risk management, and internal controls related to the TEAM program. The Audit Committee received a presentation from Focus Consulting on the executive evaluation process. 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.

On a motion by Mr. Moss as the committee chair, the board unanimously approved the annual performance appraisal of the Chief Audit Executive for fiscal year 2015.

- B. Discuss and consider the evaluation, compensation, and duties of the Chief Investment Officer and provide input to the Executive Director – David Kelly.**
- C. Discuss and consider the evaluation, compensation, and duties of the Executive Director – David Kelly.**

Whereupon, Mr. Kelly announced that the board would go into executive session on agenda items 7B and 7C under sections 551.074 and 551.071 of the Government Code to deliberate personnel matters 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 1:27 p.m.

After completing the executive session, Mr. Kelly announced that the open session reconvened at 3:57 p.m.

On a motion by Mr. Kelly, seconded by Mr. Moss, the board unanimously voted to increase the Executive Director's base annual salary by 5 percent to \$327,443.

On a motion by Mr. Kelly, seconded by Ms. Sissney, the board unanimously voted to reclassify the Chief Audit Officer (CAO) position as Director Level 6 and increase the CAO's base annual salary by 5 percent to \$189,249.

On a motion by Mr. Kelly, seconded by Mr. Colonna, the board unanimously voted to increase the Chief Investment Officer's base annual salary by 4.2 percent to \$525,000.

8. **Review the report of the Compensation Committee on its July 24, 2015 meeting – Nanette Sissney.**

Mr. Kelly announced that the Compensation Committee meeting would be deferred to a future date.

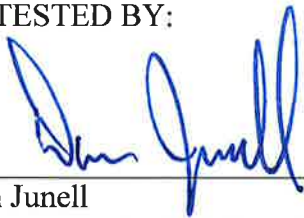
13. **Consult with the Board's attorney(s) in Executive Session on any item listed above on this meeting agenda as authorized by Section 551.071 of the Texas Open Meetings Act (Chapter 551 of the Texas Government Code) – David Kelly.**

The board took up no further business under agenda item 13.

The meeting was adjourned at 4:04 p.m.

APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM OF TEXAS ON THE 24TH DAY OF SEPTEMBER, 2015.

ATTESTED BY:



\_\_\_\_\_  
Dan Junell  
Secretary to the TRS Board of Trustees

Sept. 29, 2015

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Date