

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

AGENDA

June 13, 2013 – 11:00 a.m.

June 14, 2013 – 11:15 a.m.

TRS East Building, 5th Floor, Boardroom

A quorum of the TRS Board of Trustees will be physically present for the Board's June 13-14, 2013 meeting at the following location: 1000 Red River Street, Austin, Texas 78701 in the TRS East Building, 5th Floor, Boardroom. The Board intends to have a quorum of the Board physically present at that location. One or more members of the Board may participate remotely in the Board meeting by telephone conference call under Texas Government Code Section 551.130.

NOTE: The Board may take up any item posted on the agenda during its meeting on Thursday, June 13, 2013, or the following day beginning at the time and place specified on this agenda.

The open portions of the June 13-14, 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 administrative matters, including – David Kelly:
 - A. Approval of the April 18-19, 2013 Board meeting minutes.
 - B. Excuse Board member absence from the April 18-19, 2013 Board meeting.
3. Provide opportunity for public comments – David Kelly.
4. Review and discuss the Executive Director's report on the following matters – Brian Guthrie:
 - A. Legislation impacting TRS, including proposed state funding for TRS' administrative budget, the TRS Pension Trust Fund, and the retirees' health benefit program (TRS-Care).
 - B. Board operational matters, including a review of draft agendas for upcoming meetings.
 - C. Enterprise Risk Management program.
 - D. Retirement plan benefits and operations.

- E. Investment activity and operations.
 - F. Health-benefit programs and operations.
 - G. Administrative operations, including financial, audit, legal, staff services, board administration activities, and special projects.
5. Discuss and consider investment matters, including the following items:
- A. Performance review: first quarter 2013 – Brady O’Connell and Steve Voss, Hewitt EnnisKnupp.
 - B. Receive a presentation on and discuss related party fees – Eric Lang.
 - C. Review the report of the Investment Management Committee on its June 13, 2013, meeting – Todd Barth.
 - D. Review of global financial markets – Bob Prince, Bridgewater Associates.
 - E. Market review – Josh Harris and Jim Zelter, Apollo Investment Corporation.
6. Receive an update on and discuss due diligence regarding investment in two master limited partnership funds of funds for the Private Markets Strategic Partnership Network, including the following:
- A. Introduction of the Private Markets Strategic Partnership Network presentations – David Veal.
 - B. Overview of Apollo Management Corporation’s Private Markets Strategic Partnership dealings with TRS – Josh Harris and Jim Zelter, Apollo Management Corporation.
 - C. Review of the legal terms of the master limited partnership funds of funds – Angela Vogeli; Denise Lopez; and Scott Cheskiewicz, Jackson Walker.
 - D. Update on Private Markets Strategic Partnership Network – Courtney Villalta.
 - E. Overview and summary of the Private Markets Strategic Partnership Network – Steve Voss and Brady O’Connell, Hewitt EnnisKnupp.

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

- 7. Provide an opportunity for public comment – David Kelly.
- 8. Receive a presentation on the actuarial impact of recent legislation on the TRS pension fund – Joe Newton, Gabriel Roeder, Smith & Company.

9. Discuss trustee elections and receive an update on nominees to be considered for the active public education member appointment currently held by Charlotte Clifton – Howard Goldman and Karl Koelker, VR Election Services, Inc.
10. Review the report of the Audit Committee on its June 14, 2013, meeting and consider adopting revisions to the Audit Plan for Fiscal Year 2013 – Christopher Moss.
11. Review the report of the Benefits Committee on its June 14, 2013, meeting – Christopher Moss.
12. Review the report of the Policy Committee on its June 14, 2013, meeting and consider the following actions – Committee Presiding Officer:
 - A. Adopt a resolution amending the Policy on Negotiated Rulemaking and Alternative Dispute Resolution.
 - B. Adopt a resolution amending on an emergency basis TRS-ActiveCare Rule 34 Tex. Admin. Code § 41.41.
13. Review the report of the Risk Management Committee on its June 14, 2013, meeting – Eric McDonald.
14. Review the report of the Budget Committee on its June 14, 2013, meeting, and consider adoption of related matters, including – Nanette Sissney and Don Green:
 - A. Consider the adoption of the proposed fiscal year 2014 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 2014 budget.
 - B. Consider the adoption of the proposed fiscal year 2014 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 2014 administrative operations budget and general provisions for the 403(b) company certification and investment product registration program.
15. Receive a presentation from the TEAM Program Independent Program Assessment (IPA) Vendor – Michael Johnson, Bridgepoint Consulting.
16. Receive an update on the TEAM Program, including an update on the schedule and a review of dependencies between TEAM projects – Janet Bray and Jay Masci, Provaliant.
17. Review the 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.

18. Review the report of the Deputy Director, including an update on TRS building security improvements – Ken Welch.
19. 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, and open records – Carolina de Onís and Dennis Gold.
20. 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.
21. 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.



Teacher Retirement System of Texas

Minutes of the Board of Trustees

June 13-14, 2013

The Board of Trustees of the Teacher Retirement System of Texas met on June 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
Charlotte Clifton
Eric McDonald
Chris Moss
Anita Palmer
Nanette Sissney

Others present:

Brian Guthrie, TRS	Melinda Nink, TRS
Ken Welch, TRS	Noel Sherman, TRS
Amy Barrett, TRS	Rebecca Smith, TRS
Janet Bray, TRS	Elizabeth Taylor, TRS
Carolina de Onís, TRS	Sharon Toalson, TRS
Dennis Gold, TRS	David Veal, TRS
Howard Goldman, TRS	Angela Vogeli, TRS
Don Green, TRS	Dr. Keith Brown
T. Britton Harris IV, TRS	Steve Huff, Reinhart Boerner Van Deuren
Jerry Albright, TRS	Steve Voss, Hewitt EnnisKnupp
Ray Spivey, TRS	Brady O'Connell, Hewitt EnnisKnupp
Thomas Albright, TRS	Josh Harris, Apollo Investment Corporation
Jase Auby, TRS	Bob Prince, Bridgewater Associates
Mohan Balachandran, TRS	Steve Meier, State Street
Michelle Bertram, TRS	Ronnie Jung, Texas Retired Teachers Association
Chi Chai, TRS	Tim Lee, Texas Retired Teachers Association
Chase Dierschke, TRS	Shannon Meroney, Aetna
Elvira George, TRS	Josh Sanderson, Association of Texas Professional Educators
Wendy Gershon, TRS	Ted Melina Raab, Texas American Federation of Teachers
Susan Greb, TRS	Alex Smith, Meritage Capital
Rich Hall, TRS	Juan Garcia, Texas Governor's Office
Dan Junell, TRS	Meredith Fowler, Texas Speaker Joe Straus' Office
Lynn Lau, TRS	Jonathan Mathers, State Representative William Callegari's Office
Denise Lopez, TRS	Carly Reedholm, State Representative William Callegari's Office
Teresa Luna, TRS	Rob Kochis, Townsend Group
Rebecca Merrill, TRS	

Mr. Kelly called the meeting to order at 1:10 p.m.

1. Call roll of Board members.

Ms. Lau called the roll. A quorum was present. Mr. Joe Colonna was absent.

2. Consider administrative matters, including:

A. Approval of the April 18-19, 2013 Board meeting minutes.

On a motion by Mr. Moss, seconded by Ms. Clifton, the board unanimously approved the minutes for the April 18-19, 2013 meeting.

B. Excuse Board member absence from the April 18-19, 2013 Board meeting.

On a motion by Ms. Sissney, seconded by Ms. Clifton, the board unanimously excused the absence of Mr. McDonald from the April 19, 2013 board meeting.

3. Provide opportunity for public comments

Mr. Tim Lee of Texas Retired Teachers Association (TRTA) commented on the positive outcome from the current legislative session. He stated that TRTA would continue to assist in preparing for the next legislative session.

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

- A. Legislation impacting TRS, including proposed state funding for TRS' administrative budget, the TRS Pension Trust Fund, and the retirees' health benefit program (TRS-Care).**
- B. Board operational matters, including a review of draft agendas for upcoming meetings.**
- C. Enterprise Risk Management program.**
- D. Retirement plan benefits and operations.**
- E. Investment activity and operations.**
- F. Health-benefit programs and operations.**
- G. Administrative operations, including financial, audit, legal, staff services, board administration activities, and special projects.**

Mr. Guthrie recognized TRS Health and Insurance Benefits Counselor Team as the winner of the Shining Example Award for TRS team excellence in customer service. He introduced team members: Elvira George, Wendy Gershon, Susan Greb, Teresa Luna, Chase Dierschke, Elizabeth Taylor, Trina Miller, and Joann Matthews.

Mr. Guthrie introduced Juan Garcia from the Governor's Office, Meredith Fowler from Speaker Straus' Office, and Jonathan Mathers and Carly Reedholm from Representative William Callegari's Office. He expressed his appreciation to their efforts over the legislative session.

Mr. Guthrie provided an update on the legislative session. He summarized bills impacting TRS, including TRS' omnibus bill (HB 3357) and those related to the pension fund — SB 1458, which contains the Cost of Living Adjustments (COLA), and SB 1, the General Appropriations Act. In response to Mr. Kelly's question concerning the TEAM program funding, Mr. Guthrie stated that a rider in SB 1 would allow TRS to hire people with special talent over the course of summer to ensure that the fund would not need to divert resources from TEAM. He also clarified for Ms. Clifton that the COLA would be paid to eligible annuitants beginning October 1, 2013. Mr. Guthrie stated that the TRS actuary had projected that under the provisions of SB 1458 and SB 1, the funding period of the TRS pension fund would be 29.5 years, meaning the fund would be actuarially sound and able to provide the COLA to the retirees. He confirmed for Mr. Barth that the deferred losses from previous years should be fully amortized by August 31, 2014.

Mr. Guthrie summarized the key provisions of the TRS-Care and TRS-ActiveCare legislation, including the grandfathering provisions.

Mr. Guthrie summarized the key provisions of TRS' omnibus bill (HB 3357). He noted that the bill authorized the board to meet in executive session for board procurements, including those of fiduciary counsel, actuarial services, and health-care contracts.

Mr. Guthrie laid out the plans to implement the SB 1458 provisions.

Mr. Guthrie provided highlights of the all hands meetings with TRS employees to discuss the TEAM program and to express appreciation to employees for their hard work on TEAM . He also laid out the schedule of upcoming conferences and continuing education opportunities for trustees and TRS executives. He provided a brief update on the administrative operations.

Mr. Guthrie provided an overview of the July and September meeting agendas. He also presented a list of board-approved contracts and their expiration dates.

5. Discuss and consider investment matters, including the following items:

A. Performance review: first quarter 2013 – Brady O'Connell and Steve Voss, Hewitt EnnisKnupp.

Mr. O'Connell presented the performance review for the first quarter of 2013. He highlighted the strong performance in terms of absolute return performance and performance relative to the benchmark over the quarter, the trailing year, and the three-year period. He stated that the positive returns could be attributed to the strong capital markets during the second half of 2012. He noted that the value added was attributed to a broad range of asset classes, while the underperformance was attributed mainly to the asset allocation, with the underweight to positive performing asset classes and overweight to the underperforming asset classes. Mr. O'Connell also presented TRS rankings relative to a peer universe based on its return, risk, and risk-adjusted return. He stated that the rankings reflect positive performance for the past three years. Per Dr. Brown's request, Mr. O'Connell discussed the composition of the peer group. He stated that they were composed of public pension funds that were \$1 billion or greater, which would include funds that were smaller than TRS and less heavily invested in alternative investments.

He stated that TRS would outperform those peers if alternative investments performed well. Further discussion followed relating to the composition of the peer group. Mr. O'Connell concurred with Dr. Brown that the peer group could be broadened to include all large public and endowment-type funds. Mr. O'Connell stated that the lack of a comparable peer group was the reason that HEK did not focus on peer comparison to determine a fund's performance. He stated that HEK tried to emphasize the performance relative to the asset allocation performance benchmark as the primary source.

B. Receive a presentation on and discuss related party fees – Eric Lang.

Mr. Barth stated that the board asked staff to prepare the current presentation to keep the board abreast of the current related party transaction fees. He stated that the inquiry responded to public comments made at a previous board meeting suggesting that the fund was paying high fees in some transactions.

Mr. Lang provided a presentation on related party transactions. He described the scope of those transaction fees and explained the fee verification process. Responding to a question from Mr. Kelly, Mr. Lang confirmed that having transaction fees could impose risk on the investment but staff was aligned with the fund manager to reach the highest possible profit.

Mr. Rob Kochis of the Townsend Group provided a presentation on real estate transactions and their fees. He explained the standard process of fee management. Responding to a question from Mr. Kelly, Mr. Lang stated that a tracking system for fees was not in place. Mr. Hall stated that quarterly statements of those fees were presented at the advisory board meetings of the private real estate funds in which TRS was an investor.

C. Review the report of the Investment Management Committee on its June 13, 2013, meeting – Todd Barth.

Mr. Barth, Committee Chair, provided the following committee report:

The Investment Management Committee met today. The first presentation was a review of the private equity portfolio, which was presented by Rich Hall. Next, Eric Lang reviewed the real assets portfolio. The committee then received an introduction to the energy and natural resources investment initiative. The presentation began with a discussion of the Energy and Natural Resources (ENR) opportunities. Then Jase Auby presented a review of the associated risks of the ENR investments. And finally Vaughn Brock reviewed the strategic plan for the investments in this asset class.

D. Review of global financial markets – Bob Prince, Bridgewater Associates.

Mr. Bob Prince of Bridgewater provided a presentation on the global market outlook.

- E. Market review – Josh Harris and Jim Zelter, Apollo Investment Corporation.**

Mr. Josh Harris of Apollo profiled Apollo, including its investments and performance. He also presented his view and projections on the U.S. market.

- 6. Receive an update on and discuss due diligence regarding investment in two master limited partnership funds of funds for the Private Markets Strategic Partnership Network, including the following:**
 - A. Introduction of the Private Markets Strategic Partnership Network presentations – David Veal.**
 - B. Overview of Apollo Management Corporation’s Private Markets Strategic Partnership dealings with TRS – Josh Harris and Jim Zelter, Apollo Management Corporation.**
 - C. Review of the legal terms of the master limited partnership funds of funds – Angela Vogeli; Denise Lopez; and Scott Cheskiewicz, Jackson Walker.**
 - D. Update on Private Markets Strategic Partnership Network – Courtney Villalta.**
 - E. Overview and summary of the Private Markets Strategic Partnership Network – Steve Voss and Brady O’Connell, Hewitt EnnisKnupp.**

Mr. Kelly announced that the board would go into executive session on agenda items 6A through 6E and 21 under the following statutes: §825.3011 of the Government Code, to confer about confidential investment matters relating to the private investment fund or the purchase, holding, or disposal of restricted securities; and §551.071 of the Government Code, to seek advice from the board’s legal counsel as needed. All members of the public and staff not needed for the Executive Session left the meeting room.

Whereupon, the board went into executive session at 5:47 p.m.

The meeting was reconvened in open session and then recessed at 6:45 p.m.

The Board of Trustees of the Teacher Retirement System of Texas reconvened on June 14, 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
Charlotte Clifton
Eric McDonald
Chris Moss
Anita Palmer
Nanette Sissney

Others present:

Brian Guthrie, TRS	Barbie Pearson, TRS
Ken Welch, TRS	Shunne Powell, TRS
Amy Barrett, TRS	Mike Rehling, TRS
Janet Bray, TRS	Noel Sherman, TRS
Carolina de Onís, TRS	Rebecca Smith, TRS
Dennis Gold, TRS	Susan Wade, TRS
Howard Goldman, TRS	Tim Wei, TRS
Don Green, TRS	David Veal, TRS
T. Britton Harris IV, TRS	Angela Vogeli, TRS
Jerry Albright, TRS	Steve Huff, Reinhart Boerner Van Deuren
Betsey Jones, TRS	Ann Fickel, Texas Classroom Teachers Association
Amy Morgan, TRS	David P. Moore, Pension Review Board
Ray Spivey, TRS	Brady O'Connell, Hewitt EnnisKnupp
Marianne Woods Wiley, TRS	Jay Masci, Provaliant
Thomas Albright, TRS	Michael Johnson, Bridgepoint Consulting
Jase Auby, TRS	Andrea Anderson, Bridgepoint Consulting
Mohan Balachandran, TRS	Joe Newton, Gabriel Roeder Smith and Company
Michelle Bertram, TRS	Richard Tonkovich, HP Enterprise Services
Chi Chai, TRS	Ernie Sanders, HP Enterprise Services
Janie Duarte, TRS	Victor Ferreira, HP Enterprise Services
Adam Fambrough, TRS	Ted Melina Raab, Texas American Federation of Teachers
Cindy Haley, TRS	Josh Sanderson, Association of Texas Professional Educators
Dan Herron, TRS	Jim Baker, UnitedHere
Bob Jordan, TRS	Claudio Rodriguez, Harrah's Casino and UnitedHere
Dan Junell, TRS	Cindy Ferrara, Caesars Palace Hotel and UnitedHere
Lynn Lau, TRS	Ollie Stewart, Paris Las Vegas Hotel and Casino
Jay LeBlanc, TRS	Christina Kline, Culinary Workers Union Local 226
Rebecca Merrill, TRS	Elmer Portillo, Las Vegas Planet Hollywood Casino
Jamie Michels, TRS	Francisco Rufino, Paris Las Vegas Hotel and Casino
Melinda Nink, TRS	Karl Koelker, VR Election Services
Hugh Ohn, TRS	

Mr. Kelly called the meeting to order at 11:50 a.m.

1. Call roll of Board members.

Ms. Lau called the roll. A quorum was present. Mr. Colonna was absent.

7. Provide an opportunity for public comment – David Kelly.

Mr. Jim Baker of UniteHere addressed the board concerning TRS' investments in both Apollo Investment Fund VI, sponsored by Apollo Global Management, and TPG Partners V, sponsored by TPG Capital. He stated his concern regarding the high transaction and monitoring fees collected by Apollo and TPG from Caesars Entertainment. He stated that the investment fees and losses relating to those investments had caused Caesars to reduce staff in order to cut costs. He urged all limited partners of those investments, including TRS, to request Apollo and TPG to cease collecting monitoring fees on Caesars Entertainment and invest the money back into Caesars Entertainment.

Mr. Claudio Rodriguez and Ms. Cindy Ferrara addressed the board concerning the negative impact of the investment fees collected by Apollo and TPG. They stated examples of reduced personnel and other resources that had hurt customer service quality and jeopardized workers' safety.

8. Receive a presentation on the actuarial impact of recent legislation on the TRS pension fund – Joe Newton, Gabriel Roeder, Smith & Company.

He noted that the changes enacted by SB 1458, including the COLA, resulted in a slight decrease in the funded ratio in the August 31, 2012 pension fund valuation from 81.9% before the changes to 81.5% after the changes. Describing the increases in member and state contribution rates, and additional contribution from the local school districts under the legislation, he stated that the total contribution rate increased by about 2.66% of payroll, which would equate to about \$1 billion. Together with the positive impact of the increase of minimum retirement age, the net increase of the contribution rate would be 2.95%, or \$1.1 billion, which would be allocated towards amortization of the Unfunded Actuarial Accrued Liability (UAAL) annually and created a new funding period of about 29.5 years on a smoothed basis.

Mr. Newton presented the projections of the next actuarial valuation based on different market return rates and the new provisions outlined in the current legislation. He stated that the legislation improved the projected funded ratio for the upcoming decade. Comparing two different assumed market return rates going forward, Mr. Newton cautioned that the fund currently had a 7.5% return rate and would still need to achieve the 8% target rate to improve the funded ratio. Mr. Newton stated that the increase of minimum retirement age had caused the cash flow to be more manageable because of the delay of those benefit payments.

Mr. Newton concluded that SB 1458 had a positive effect in changing the funding period from "never" to a calculable funding period. He noted that the impact of the COLA was immediate and permanent and would require revenue increases to pay for in the coming decades. Per Mr. Guthrie's request, Mr. Newton also shared his observations on the impact of the new accounting standard under the Governmental Accounting Standards Board (GASB).

9. Discuss trustee elections and receive an update on nominees to be considered for the active public education member appointment currently held by Charlotte Clifton – Howard Goldman and Karl Koelker, VR Election Services, Inc.

Mr. Goldman provided an update and timeline of the trustee elections. He introduced Mr. Karl Koelker of VR Election Services (VRES). He stated that TRS contracted with VRES to manage this year’s election. He stated that the firm provided election management for many public fund board elections nationwide.

Mr. Koelker provided details on the election, including the process and results. He reported that there were 768,802 eligible voters with a voter turnout of 3.25%. He also reported the total votes each candidate received both by mail and internet as follows:

<u>Candidate</u>	<u>Votes</u>	<u>Percentage of Votes</u>
Dolores Ramirez	12,289	49.12%
Lindsey Pollock	9,138	36.52%
Hiram Burguete	3,451	13.79%

10. Review the report of the Audit Committee on its June 14, 2013, meeting and consider adopting revisions to the Audit Plan for Fiscal Year 2013 – Christopher Moss.

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

The Audit Committee met at 8 a.m. on Friday, June 14, 2013. The State Auditor’s Office presented the audit of incentive compensation. The Chief Audit Executive and staff of the Texas Department of Assistive and Rehabilitative Services presented their report on Internal Audit’s external quality assurance review. Internal Audit presented the status of the employer audit project, audit of health care administration, audit of emerging manager program, quarterly investment testing, status of prior audit and consulting recommendations, and quarterly internal audit status reports. The committee considered a recommendation to the board regarding revisions to the audit plan for fiscal year 2013. The audit plan will be amended to cancel two audit projects that include the ethics and communications policies, compliance audit, and the procurement and contracting audit, and revise the audit project employer reporting audit. These audits will be replaced by an investment compliance self-assessment and development of TRS employer self-audits in the areas of pension surcharge, TRS-Care surcharge, and employment after retirement.

On a motion by Mr. Moss as the committee chair, the board unanimously adopted the changes to the Audit Plan for FY 2013.

11. Review the report of the Benefits Committee on its June 14, 2013, meeting – Christopher Moss.

Mr. Moss, Committee Chair, provided the following report of the Benefits Committee:

The Benefits Committee met this morning, June 14, 2013, to receive an update on TRS-ActiveCare. Betsey Jones and Bill Hickman with Gabriel Roeder Smith and Company provided information on the overall financial condition of the program. Discussion included the recommendation that will be made to the Policy Committee to improve solvency by amending TRS-ActiveCare rule §41.41 in 34 Texas Administration Code, relating to premium payments.

12. Review the report of the Policy Committee on its June 14, 2013, meeting and consider the following actions – Committee Presiding Officer:

- A. Adopt a resolution amending the Policy on Negotiated Rulemaking and Alternative Dispute Resolution.**
- B. Adopt a resolution amending on an emergency basis TRS-ActiveCare Rule 34 Tex. Admin. Code § 41.41.**

Mr. Barth, Presiding Chair, provided the following report of the Policy Committee:

The Policy Committee met on June 14, 2013, in the board room. After consideration of the April 2013 minutes, staff discussed the statutorily required review of TRS' 403(b) rules. The committee approved staff's proposed rule review plan and authorized public comment publication of the related rule review notice in the *Texas Register*. The committee then reviewed the Policy on Negotiated Rulemaking and Alternative Dispute Resolution. The committee recommended that the board adopt minor changes to the policy, to delete an obsolete citation, and to improve the wording and format of the current policy. The committee also recommended public comment publication in the *Texas Register* of proposed amendments to TRS rule §47.17 relating to qualified domestic relations orders and discussed the executive director's authorization of public comment publication in the *Texas Register* of proposed amendments to TRS rule §25.1. The committee discussed TRS-ActiveCare funding matters. The committee adopted a resolution that recommends to the board amending on an emergency basis TRS-ActiveCare rule §41.41 and authorizes for public comment publication in the *Texas Register* proposed permanent amendments to rule §41.41.

On a motion by Mr. Barth as the presiding chair of the committee, the board unanimously adopted the following resolution amending the Policy on Negotiated Rulemaking and Alternative Dispute Resolution:

Resolved, That the Board of Trustees (Board) hereby adopts the Alternative Dispute Resolution and Negotiated Rulemaking Policy (Policy) as presented to and recommended for adoption by the Policy Committee, with the changes recommended by the Policy Committee; and

Resolved, That the amended Policy as adopted above, effective upon adoption, supersedes in all respects all prior versions of the Policy.

On a motion by Mr. Barth as the presiding chair of the committee, the board unanimously adopted the following resolution amending on an emergency basis rule §41.41:

Whereas, Chapter 1579, Insurance Code, authorizes the Teacher Retirement System of Texas (TRS), as trustee, to implement and administer the uniform group health benefits program under the Texas School Employees Uniform Group Health Coverage Act (TRS-ActiveCare), as described in the statute;

Whereas, During the current plan year, TRS-ActiveCare has experienced an unexpectedly high level of claims, which has placed the solvency of the TRS-ActiveCare fund at risk;

Whereas, This risk constitutes an imminent peril to the public health, safety, or welfare of individuals enrolled in TRS-ActiveCare;

Whereas, 34 TEX. ADMIN. CODE § 41.41 provides that each participating entity in TRS-ActiveCare shall remit to TRS the amount on each bill for premiums directed to the participating entity by TRS or the administering firm;

Whereas, 34 Tex. Admin. Code § 41.41 further provides that each participating entity shall remit payment on or before the sixth day after the last day of each month in which TRS or the administering firm issues a bill;

Whereas, TRS staff and the TRS health benefits consultant, Gabriel, Roeder, Smith & Company (GRS), have recommended that each participating entity be required to remit payment on or before the fifteenth day of each month in which TRS or the administering firm issue the bill to the participating entity, beginning with bills generated on or after September 1, 2013;

Whereas, By moving the due date of each bill forward in time by approximately three (3) weeks, the risk to the solvency of the TRS-ActiveCare fund can be alleviated and the imminent peril to the public health, safety, or welfare of individuals enrolled in TRS-ActiveCare can be eliminated;

Whereas, By acting quickly, TRS can provide adequate notice, direction, and instruction to both the administering firm and the participating entities in TRS-ActiveCare concerning the proposed new payment deadlines;

Whereas, the TRS Policy Committee has recommended that the TRS Board of Trustees (board) adopt, on an emergency basis, the proposed amendments to 34 Tex. Admin. Code § 41.41, as marked in the text of 34 Tex. Admin. Code § 41.41 attached hereto and incorporated herein for all purposes; now, therefore, be it

Resolved, That the board hereby —

- 1) Finds that during the current plan year, TRS-ActiveCare has experienced an unexpectedly high level of claims, which has placed the solvency of the TRS-ActiveCare fund at risk;
- 2) Finds that this risk to the solvency of the TRS-ActiveCare fund constitutes an imminent peril to the public health, safety, or welfare of individuals enrolled in TRS-ActiveCare;
- 3) Finds that this risk can be alleviated and the imminent peril to the public health, safety, or welfare of individuals enrolled in TRS-ActiveCare can be eliminated by requiring that

each participating entity remit payment on or before the fifteenth day of each month in which TRS or BCBSTX issue the bill for TRS-ActiveCare premiums, beginning with bills generated on or after September 1, 2013;

- 4) Finds that there exists an urgent need for TRS to provide adequate notice, direction, and instruction to both the administering firm and the participating entities in TRS-ActiveCare concerning the proposed new payment deadlines;
- 5) Finds that the above noted risk and need to provide prompt notice, direction, and instruction requires the adoption of amended rule 34 Tex. Admin. Code § 41.41, as marked in the attached and incorporated text, on an emergency basis with fewer than 30 days' notice;
- 6) Adopts amendments to rule 34 Tex. Admin. Code § 41.41, as marked in the attached and incorporated text, on an emergency basis; and
- 7) Grants the Chairman of the board the authority to sign an order showing the action of the board.

13. Review the report of the Risk Management Committee on its June 14, 2013, meeting – Eric McDonald.

Mr. McDonald, Committee Chair, provided the following report of the committee:

The Risk Management Committee met on Friday, June 14, 2013. A report on the Enterprise Risk Management (ERM) program was provided by the Risk Management and Strategic Planning staff, which included information on the annual ERM public pension fund peer group, introduction of the TRS stoplight report used to communicate the rate of risk within TRS, and an update on risk management activities related to the following risk categories: TEAM program, 403(b) program, employer reporting, records management, open government, business continuity, investment accounting, and communication and external relations.

14. Review the report of the Budget Committee on its June 14, 2013, meeting, and consider adoption of related matters, including – Nanette Sissney and Don Green:

Ms. Sissney, Committee Chair, provided the following report of the Budget Committee:

The Budget Committee met today, Friday, June 14, 2013, at 10:15 a.m. The first item of business was the approval of minutes of the April 13, 2013 Budget Committee meeting. Mr. Don Green then provided an overview of the general provisions and recommended administrative operating budget for FY 2014. The total FY 2014 operating budget for all funds is \$154.7 million, which includes \$93.6 million for administrative operations, \$21.4 million for TEAM, \$33.1 million for soft dollars, \$4 million for the operation of TRS-Care, \$2.5 million for the operations of TRS-ActiveCare, and \$66,748 for the 403(b) certification program. The FY 2014 operating budget reflects a 6.7% increase above the approved FY 2013 operating budget. Increases over the FY 2013 budget include approximately \$4.4 million or 3% for salaries and wages due to an expected 1% across-the-board pay raise authorized by the legislature, and funding for additional resources and

benefit increases. An additional \$400,000 is budgeted for SB 1458 implementation. An additional \$4.1 million is included for building repairs that cover the replacement of air handlers and the pressurization of stairwells. Finally, an additional \$2.3 million is budgeted for operating cost increase. Incentive compensation is estimated to be \$9.3 million, which includes the maximum allowed for the first half of the plan year, \$5.1 million, plus the remaining balance of the last plan year, \$4.2 million. The Budget Committee also discussed the TEAM program. The total operating and capital expense that is budgeted to that program is \$21.4 million, or an increase of 1.8% from FY 2013 budget. A new rider 17 authorizes the agency to use funds appropriated to the TEAM capital program budget for salaries and wages for FTEs and contract workers assigned to the TEAM program. The TEAM FTEs are also exempt from the FTE calculation for reporting purposes. For the soft dollar budget, a total of \$33.1 million is being requested in line with the changes to the soft dollar policy, which should allow for the generation of revenues related to Section 28(e) arrangements and will be spent on allowable investment expenditures such as professional services, subscriptions, reference information, software, and contracted services. For the next agenda item, Mr. Green presented the recommended administrative operating budgets for TRS health benefits funds. The total FY 2014 operating budget for TRS-Care is \$4 million and \$2.5 million for both the TRS-ActiveCare plan and the long-term care insurance program. The committee discussed the variance explanations. For the final agenda item, Mr. Green presented the recommended administrative operating budget for the 403(b) certification program. The total FY 2014 operating budget is \$66,748, which reflects a 13.5% increase above the prior year budgeted amount. The proposed resolution reflects the revised language in the Government Code, and eliminates sections repeated by HB 3357. Rider 15 language is included that appropriates TRS additional funds and FTEs to implement modifications to the benefit structure.

- A. Consider the adoption of the proposed fiscal year 2014 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 2014 budget.**
- B. Consider the adoption of the proposed fiscal year 2014 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 2014 administrative operations budget and general provisions for the 403(b) company certification and investment product registration program.**

On a motion by Ms. Sissney as the committee chair, the board adopted the FY 2014 administrative operations budget for the pension trust fund, the TRS health benefit funds, 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 4 and 5 of the budget document.

On a motion by Ms. Sissney, the board 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 2014 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 (the "TRS board" or "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 15, "Contingency for Senate Bill 1458," of the TRS bill pattern in the State General Appropriations Act, 83rd Legislature, R.S., provides that, upon a finding of fact by the TRS board that additional resources are necessary to implement SB 1458, the TRS is appropriated additional funds from the Pension Trust Fund (960) for fiscal year 2014 and authorized additional full-time equivalent employees (FTEs) to be added to the FTE cap for fiscal year 2014 for SB 1458 implementation; now, therefore, be it

Resolved, That the board finds the expenditure of pension trust funds for operating expenses in fiscal year 2014 is required to perform the fiduciary duties of the board in administering the retirement system in the amount of \$105,686,702, as approved today in the Fiscal Year 2014 Budget and General Provisions for the Pension Trust Fund Administrative Operations, plus such additional amount as may be necessary for the following expenditures:

- To pay the actual amount of performance incentive compensation payable in fiscal year 2014, 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 Senate Bill 1458, contingent on its final passage, under this finding of fact by the board that additional resources are necessary for implementation; 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 2014, but not to exceed the amount of \$105,686,702, plus any additional amounts necessary to pay performance incentive compensation payable in fiscal year 2014 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.

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

Mr. Moss and Mr. Guthrie both expressed their appreciation to Bridgepoint Consulting for the work they provided as the TEAM Program Independent Program Assessment (IPA) vendor.

Mr. Johnson provided the IPA observations of the TEAM program. He described the current strength of the TEAM program, including the line of business (LOB) vendor evaluation

methodology and effective communication established with employees, who would be the end users. He also provided an update on the status of the previously reported recommendations.

Mr. Johnson presented three new recommendations. He stated that the overlap of the LOB and financial system replacement (FSR) systems could risk conflict in sharing resources between two systems and needed to be addressed. He stated that the concern relating to matching the data management project plan to match deliverables and milestones and documentation improvement had been addressed. The third new recommendation, he stated, related to the elevated risk of executing the increasingly complex FSR statement of work (SOW) requirements. Mr. Welch agreed with Mr. Johnson's observation that those concerns needed to be addressed. Ms. Michels stated that staff was paying close attention to the overlapping implementation of the LOB and FSR systems. She stated that staff was trying to fulfill the complex SOW requirements through the procurement process and ensure that the pricing of procuring those deliverables stayed within the budget. Responding to a question from Mr. McDonald, Mr. Welch recapped the expansion of the FSR system project. He noted that the project was in the envision stage and the scope could be narrowed down if the expansion was found to be too complex for the current implementation. He responded to Mr. Kelly that the final decision would be made based on the recommendation of staff and consultants, which would be derived from the cost analysis of the pricing received from the vendors. He stated that Mr. Guthrie would make the decision regarding the scope of the project based on those recommendations. Mr. Guthrie stated that he would be willing to narrow the scope of the project if expanding it would jeopardize the LOB implementation.

Mr. Johnson presented a list of completed activities and the IPA budget status.

16. Receive an update on the TEAM Program, including an update on the schedule and a review of dependencies between TEAM projects – Janet Bray and Jay Masci, Provaliant.

Mr. Masci of Provaliant provided an update on the current TEAM program progress. He stated that the FSR team would provide an estimated timeline of contract negotiations in July. He also stated that the organization change management project team was looking into areas that could be completed in house and limit the engagement of consultants in that project. He also briefly updated the board on the progress on the website redesign project. Per Mr. Kelly's request, Mr. Masci also explained the decommissioning process being used to transition from the legacy system to the new system during implementation.

Mr. Masci explained the concept of project interdependencies in terms of resources, schedule, and funding. He provided the current status and timeline of these interdependencies. He stated that, to manage resources, the project dependencies were monitored and reported regularly. He presented the phases of the project. He stated that the actual dependency dates would be available after the contract with a LOB vendor was signed. Per Mr. Kelly's request, Mr. Masci and staff agreed to provide an estimated outcome of any major schedule delays.

Ms. Pearson provided an overview of the accomplishments, including the formation of organizational change advisory groups, completion of FSR development, conducting functionality assessments, and holding the all hands meeting.

Ms. Bray reviewed the all hands meeting. She stated that the meeting was intended mainly to communicate with all TRS employees regarding the TEAM program. She concluded that the meeting received positive feedback from employees in general.

17. Review the 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 March and April 2013 that were required to perform the fiduciary duties of the board. He explained for Ms. Sissney that the increase of expenditures in March was due to the payment for the heating and air conditioning project.

18. Review the report of the Deputy Director, including an update on TRS building security improvements – Ken Welch.

Mr. Welch provided an update on the building security, including the upgrade of elevator security to limit unescorted public access to certain floors.

Mr. Welch stated that staff had shortened the hold time on calls to the telephone counseling to two minutes and 20 seconds with the help of additional phone lines and other resources. Responding to a question from Mr. McDonald regarding the installation of the backup generator, Mr. Welch stated that it had been installed and tested successfully. Ms. Morgan confirmed that the generator had been operating properly.

19. 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, and open records – Carolina de Onís and Dennis Gold.

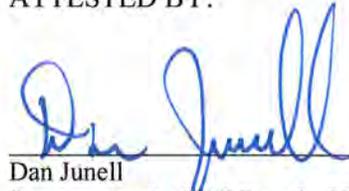
Ms. de Onís stated that no new litigation activity of significance had occurred other than what was stated in the report. She highlighted the new format of the security class action report that provided historical data from each reporting period. She noted that the data did not reflect the opt-out cases in which TRS had filed its own claims rather than proceeding as members of a class in certain securities litigation. Per Mr. Kelly's request, staff agreed to describe the process of deciding whether opting out of a class action was in TRS' best interests with historical data reference at the next quarterly board meeting.

Ms. de Onís stated that a reconciliation process had been implemented with State Street, TRS' custodial bank, to ensure a claim would be filed each time TRS was entitled to take a distribution from a class settlement. She stated that staff would continue to monitor the process to secure recoveries. She explained that staff would continue to handle claims for the foreign cases and those filed prior to the engagement of State Street. She confirmed for Ms. Clifton that the securities litigation-claim service provided by State Street would not incur additional costs to TRS.

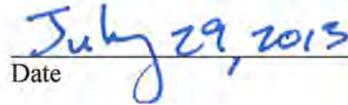
The meeting adjourned at 2:00 p.m.

APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM OF TEXAS ON THE 26TH DAY OF JULY, 2013.

ATTESTED BY:



Dan Junell
Secretary to the TRS Board of Trustees



Date