

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

**AGENDA**

**March 27, 2014 – 11:15 a.m.**

**March 28, 2014 – 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 during its meeting on Thursday, March 27, or the following day beginning at the time and place specified on this agenda.*

*The open portions of the March 27-28, 2014, Board meetings 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 administrative matters, including the following – David Kelly:
  - A. Consider the approval of the February 12-14, 2014 Board meeting minutes.
  - B. Consider excusing Board member absence from the February 12-14, 2014 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. Administrative operational matters, including financial, audit, legal, staff services, board administration activities, special projects, long-term space planning, and strategic planning.
  - B. Board operational matters, including a review of draft agendas for upcoming meetings.
5. Discuss and consider investment matters, including the following items:
  - A. Performance Review: Fourth Quarter 2013 – Steve Voss and Brady O'Connell, Hewitt EnnisKnupp.
  - B. Quarterly Strategic Partner Update – David Veal.
  - C. Discuss and consider the engagement of Tudor Pickering Holt & Co. as investment advisors to the Board – Vaughn Brock.

- D. 2014 Strategic Asset Allocation Study Update
  - i. Overview of fiduciary duty – Steve Huff, Reinhart Boerner Van Deuren s.c.
  - ii. Review two leading Strategic Asset Allocation methodologies:
    - a. J.P. Morgan Long-Term Capital Market Return Assumptions Review – Tony Werley and Michael Hood, J.P. Morgan.
    - b. Risk Parity Overview – Dr. Keith Brown.
  - iii. Hewitt EnnisKnupp Strategic Asset Allocation Process Update – Steve Voss and Brady O’Connell, Hewitt EnnisKnupp.
  - iv. Third Phase Review of the 2014 Asset Allocation Study – Mohan Balachandran and Ashley Baum.
- E. Review the report of the Investment Management Committee on its March 27, 2014 meeting – Todd Barth.
- F. Review the report of the Risk Management Committee on its March 27, 2014 meeting – Karen Charleston.
- 6. Review the report of the Policy Committee on its March 27, 2014 meeting and consider related matters, including amendments to the Trustee External Communications Policy – Joe Colonna.
- 7. Review the report of the Audit Committee on its March 27, 2014 meeting – Christopher Moss.
- 8. Discuss possible co-investment opportunities involving a foreign pension fund, including potential investments in private investment funds or the purchase, holding, or disposal of restricted securities or a private investment fund’s investment in restricted securities – David Kelly.

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

- 9. Provide an opportunity for public comment – David Kelly.
- 10. Discuss matters involving plan design of the active employees’ health benefit program, TRS-ActiveCare and the retirees’ health benefit program, TRS-Care – Betsey Jones; William Hickman, Gabriel, Roeder, Smith & Company; and Kevin DeStefino, RPh, Towers Watson.

11. Receive a presentation from the TEAM Program Independent Program Assessment (IPA) Vendor – Michael Johnson, Bridgepoint Consulting.
12. Receive a quarterly review of the TEAM Program – Amy Morgan; David Cook; and Jay Masci, Provaliant.
13. Receive the report of the Chief Financial Officer, including – Don Green:
  - A. Mid-year financial review.
  - B. 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.
14. Review the report of the Chief Benefit Officer, and consider related matters – Marianne Woods Wiley:
  - A. Approve members qualified for retirement.
  - B. Approve minutes of Medical Board meetings.
15. Receive the report and update of the General Counsel on pending or contemplated litigation, including updates on litigation involving benefit-program contributions, retirement benefits, health-benefit programs, securities, and open records – Carolina de Onís.
16. 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.
17. 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

March 27-28, 2014

The Board of Trustees of the Teacher Retirement System of Texas met on March 27-28, 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 Standley, TRS
Ken Welch, TRS	Daniel Ting, TRS
Amy Barrett, TRS	Sharon Toalson, TRS
Carolina de Onís, TRS	David Veal, TRS
Howard Goldman, TRS	Courtney Villalta, TRS
T. Britton Harris IV, TRS	Patrick Zerda, TRS
Betsey Jones, TRS	Dr. Keith Brown
Jerry Albright, TRS	Steve Huff, Reinhart Boerner Van Deuren
Thomas Albright, TRS	Brady O'Connell, Hewitt EnnisKnupp
Dr. Mohan Balachandran, TRS	Meredyth Foulmer, Speaker of the House
Ashley Baum, TRS	Juan V. Garcia, Office of the Governor
Vaughn Brock, TRS	Tony Werley, J.P. Morgan
Chi Chai, TRS	Michael Hood, J.P. Morgan
Janis Hydak, TRS	Katie Magee, J. P. Morgan
Dan Junell, TRS	Philip Mullins, Texas State Employee Union
Lynn Lau, TRS	Ted Melina Raab, Texas American Federation of Teachers
Denise Lopez, TRS	Ann Fickel, Texas Classroom Teachers Association
Shayne McGuire, TRS	Josh Sanderson, Association of Texas Professional Educators
James Nield, TRS	Bill Barnes, Texas Retired Teachers Association
Hugh Ohn, TRS	Tom Rogers, Texas Retired Teachers Association & Austin
Mike Pia, TRS	Retired Teachers Association

Mr. Kelly called the meeting to order at 11:35 a.m.

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

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

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

#### **A. Consider the approval of the February 12-14, 2014 Board meeting minutes.**

On a motion by Mr. Moss, seconded by Mr. Barth, the board unanimously adopted the minutes of the February 12-14, 2014 meeting.

**B. Consider excusing Board member absence from the February 12-14, 2014 Board meeting.**

On a motion by Ms. Sissney, seconded by Mr. Moss, the board unanimously approved the absence of Mr. Colonna from the February 12-14, 2014 board meeting.

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

No public comment was received.

**4. 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 acknowledged the departure of his assistant, Mary Gerdes.

Mr. Guthrie provided the updated schedule for board-approved contracts. He noted the proposed selection of an actuarial audit provider in June and the planned issuance of a request for proposal (RFP) for health maintenance organizations (HMOs) for TRS-ActiveCare in April.

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

Mr. Guthrie provided an update on the strategic planning and long-term space planning processes and their timelines. He highlighted major agenda items for the June and July meetings. He provided an update on recent and upcoming TRS events. He confirmed for Ms. Sissney that the strategic plan would be presented to the board for consideration in June. He also laid out the implementation process for the plan.

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

**A. Performance Review: Fourth Quarter 2013 – Steve Voss and Brady O’Connell, Hewitt EnnisKnupp.**

Mr. O’Connell of Hewitt EnnisKnupp presented the trust fund performance review for the fourth quarter of 2013. Discussing the risk metrics peer comparison, Dr. Brown cautioned that the level of risk should be taken into account in judging investment performance.

**B. Quarterly Strategic Partner Update – David Veal.**

Mr. Veal provided a quarterly update on the public and private markets Strategic Partnership Networks (SPNs). Mr. Veal explained for Dr. Brown why the policy benchmarks and asset allocation ranges for the public market SPN differed from those the Investment Management Division (IMD) used for similar asset classes. He confirmed for Dr. Brown that IMD determined the benchmarks and asset positioning for the SPN.

**C. Discuss and consider the engagement of Tudor Pickering Holt & Co. as investment advisors to the Board – Vaughn Brock.**

Mr. Barth recused himself from the discussion and consideration of agenda item 5.C. regarding the engagement of Tudor Pickering Holt & Co. as investment advisors to the board.

Mr. Brock profiled Tudor Pickering Holt & Co. and noted that the firm was approved to manage \$150 million fund for TRS principal investments. He said that staff recommended the firm to be engaged as advisors to the Energy and Natural Resources Portfolio. He explained for Mr. Kelly the proposed contract compensation arrangement.

On a motion by Mr. Colonna, seconded by Mr. Corpus, the board unanimously adopted the following resolution to engage Tudor Pickering Holt & Co. as investment advisors to the board:

**Whereas,** The Investment Management Division of the Teacher Retirement System of Texas (TRS) desires to engage the services of Tudor Pickering Holt & Co. to assist and advise the Energy and Natural Resources staff, and the Chief Investment Officer has recommended that the TRS Board of Trustees authorize such engagement; and

**Whereas,** Tudor Pickering Holt & Co. has demonstrated the requisite qualifications and experience to act as a portfolio consultant to the TRS, assist the Investment Management Division with due diligence, and to deliver prudence letters for prospective investment transactions as required by the board's Investment Policy Statement; now, therefore, be it

**Resolved,** That the TRS Board of Trustees hereby authorizes the engagement of Tudor Pickering Holt & Co. as a consultant to assist and advise the Investment Management Division with respect to the Energy and Natural Resources Portfolio; and

**Resolved,** That the Board authorizes the Executive Director or his designee to implement the board's authorization to engage Tudor Pickering Holt & Co. and further to execute all documents and take all actions deemed by the Executive Director or his designee to be necessary or advisable to implement this resolution, as well as all actions deemed by him to be necessary to negotiate an agreement on substantially the same terms presented to the board and on such other terms and conditions deemed by the Executive Director in his discretion to be in the best interest of the retirement system, and from time to time to amend, modify, or extend the contract as deemed by the Executive Director, in his discretion, to be in the best interest of the retirement system, it being stipulated that the board's authorizations pursuant to this resolution shall not be construed as a binding agreement or obligation to contract, and there shall be no binding agreement among the parties until a definitive written agreement is successfully negotiated and executed by both parties.

Mr. Barth reentered the meeting at 12:20 p.m.

**D. 2014 Strategic Asset Allocation Study Update**

**i. Overview of fiduciary duty – Steve Huff, Reinhart Boerner Van Deuren s.c.**

Mr. Huff discussed the board's fiduciary duties in considering TRS' asset allocation policy.

- ii. **Review two leading Strategic Asset Allocation methodologies:**
  - a. **J.P. Morgan Long-Term Capital Market Return Assumptions Review – Tony Werley and Michael Hood, J.P. Morgan.**

Mr. Werley and Mr. Hood provided a presentation on market return assumptions.

- b. **Risk Parity Overview – Dr. Keith Brown.**

Dr. Brown provided a presentation on risk parity.

After a brief recess at 2:35 p.m., the board reconvened at 2:50 p.m.

- iii. **Hewitt EnnisKnupp Strategic Asset Allocation Process Update – Steve Voss and Brady O’Connell, Hewitt EnnisKnupp.**

Mr. O’Connell provided an update on the strategic asset allocation process.

- iv. **Third Phase Review of the 2014 Asset Allocation Study – Mohan Balachandran and Ashley Baum.**

Dr. Balachandran and Ms. Baum presented the third phase review of the 2014 Asset Allocation Study. Ms. Baum stated that, based on research findings, staff believed that the current asset allocation was productive and would enable the fund to reach its targeted 8 percent return rate over the long term. She said that, therefore, staff did not see the need to significantly overhaul the current asset allocations. Discussing with Dr. Brown the capital market expectations survey of 17 investment partners that staff conducted, Ms. Baum explained why staff used the survey participants' median expected returns, which reflected their common assumptions. She stated that by using a median, staff tried to capture the whole universe of the expectations the partners based on in their individual methodologies.

Dr. Balachandran explained the five potential strategies that could be used to meet the challenge of lower expected long-term returns and the potential impact of those strategies on regime diversification, liquidity, counterparty risk and model risk. He presented 20 key sample portfolios developed to meet the challenge and explained their characteristics and potential issues.

Ms. Baum presented the next steps and timeline of the study. She stated that staff would present formal recommendations for the board’s consideration at the September meeting.

- E. **Review the report of the Investment Management Committee on its March 27, 2014 meeting – Todd Barth.**

Mr. Barth, Committee Chair, provided the Investment Management Committee report as follows:

The Investment Management Committee met on March 27, 2014. The first presentation was a review of the Internal Public Markets Portfolio, which was presented by Chi Chai. Next Bernie Bozzelli reviewed the annual trading management group report.

**F. Review the report of the Risk Management Committee on its March 27, 2014 meeting – Karen Charleston.**

Ms. Charleston, Committee Chair, provided the Risk Management Committee report as follows:

The Risk Management Committee met on March 27, 2014. Jase Auby reviewed the various risk measures, including asset allocation, tracking error and levels of leverage, and derivative exposures.

Mr. Kelly announced that the board would defer item 6 and take up agenda item 7.

**7. Review the report of the Audit Committee on its March 27, 2014 meeting – Christopher Moss.**

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

The Audit Committee met at 9:55 a.m. on Thursday, March 27, 2014 in the fifth floor boardroom. General accounting assistant manager presented the results of the Comptroller of Public Accounts post-payment audit report and management responses. Myers & Stauffer, LLC presented the results of their follow-up audit of the telephone counseling center performance measures. Internal audit staff made presentations on the TRS-ActiveCare vendor selection process, the results of the second quarter testing of Investment Management Division controls, and quarterly investment and benefit payment testing. Internal Audit presented the staff's prior audit and consulting recommendations and audited administrative matters.

**8. Discuss possible co-investment opportunities involving a foreign pension fund, including potential investments in private investment funds or the purchase, holding, or disposal of restricted securities or a private investment fund's investment in restricted securities – David Kelly.**

Mr. Kelly announced that the board would go into executive session on agenda item 8 under the following statutes: section 825.3011 of the Government Code to confer about confidential investment matters, and section 551.071 of the Government Code to seek advice from legal counsel. He asked that all members of the public and staff not needed for the executive session to leave the meeting room and take their belongings with them.

Whereupon, the board went into executive session at 4:10 p.m.

The meeting was reconvened in open session at 5:02 p.m. and then recessed at 5:05 p.m.

The Board of Trustees of the Teacher Retirement System of Texas reconvened on March 28, 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  
Carolina de Onís, TRS  
Janet Bray, TRS  
Howard Goldman, TRS  
Don Green, TRS  
Betsey Jones, TRS  
Amy Morgan, TRS  
Marianne Woods Wiley, TRS  
Ronnie Bounds, TRS  
David Cook, TRS  
Edward Esquivel, TRS  
Adam Fambrough, TRS  
Clarke Howard, TRS  
Bob Jordan, TRS  
Dan Junell, TRS  
Simon Key, TRS  
Lynn Lau, TRS  
Jamie Michels, TRS  
Barbie Pearson, TRS  
Shaun Power, TRS  
Noel Sherman, TRS

Beckie Smith, TRS  
Stephanie Villareal, TRS  
Cindy Yarbough, TRS  
Yimei Zhao, TRS  
Steve Huff, Reinhart Boerner Van Deuren  
Michael Johnson, Bridgepoint Consulting  
Jay Masci, Provaliant  
Meredyth Fouler, Speaker of the House  
Bill Hickman, Gabriel, Roeder, Smith & Company  
Amy Cohen, Gabriel, Roeder, Smith & Company  
Kevin DeStefino, Towers Watson  
Philip Mullins, Texas State Employee Union  
Ted Melina Raab, Texas American Federation of Teachers  
Ann Fickel, Texas Classroom Teachers Association  
Josh Sanderson, Association of Texas Professional Educators  
Bill Barnes, Texas Retired Teachers Association  
Shannon Meroney, Aetna  
Ernie Sanders, HP  
Jason Dohm, ESI  
David Runyan, ESI  
Kelly Alstou, ESI  
Tom Rogers, Texas Retired Teachers Association & Austin  
Retired Teachers Association

Mr. Kelly called the meeting to order at 8:05 a.m.

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

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

**9. Provide an opportunity for public comment – David Kelly.**

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

Mr. Kelly announced that the board would take up agenda item 6.

**6. Review the report of the Policy Committee on its March 27, 2014 meeting and consider related matters, including amendments to the Trustee External Communications Policy – Joe Colonna.**

Mr. Colonna, Committee Chair, provided the Policy Committee report as follows:

The Policy Committee met yesterday, March 27. The committee conducted the required review of the TRS trustee external communications policy. TRS staff recommended minor revisions to update references to relevant Texas statutes, to provide that trustees should not post comments on social media sites regarding TRS business, and to clarify language regarding trustees' ethical obligations and TRS contractual obligations in external communications. The committee recommended that the board adopt the revised policy.

The committee also commenced the four-year statutory review of Chapters 21 to 51 of TRS rules by approving a rule review plan, and authorizing public comment publication of notice of the proposed rule of review in the *Texas Register*.

Finally, the committee authorized for public comment and for publication in the *Texas Register* proposed amendments to certain TRS rules in Chapters 23 through 51 necessary to implement legislation from the most recent legislative session. Staff will bring the legislative implementation rules back to the board for final adoption in June.

On a motion by Mr. Colonna, the board unanimously adopted the proposed amendments to the Trustee External Communications Policy as recommended by the Policy Committee.

**10. Discuss matters involving plan design of the active employees' health benefit program, TRS-ActiveCare and the retirees' health benefit program, TRS-Care – Betsey Jones; William Hickman, Gabriel, Roeder, Smith & Company; and Kevin DeStefino, RPh, Towers Watson.**

Ms. Jones stated that staff would present recommendations for plan designs for TRS-Care and TRS-ActiveCare to the board in June for the upcoming plan year.

Mr. DeStefino of Towers Watson and Mr. Hickman of Gabriel, Roeder, Smith & Company provided an overview of the compound drug trend and the significant increase in plan costs attributable to the trend. Responding to a question from Mr. Corpus regarding the possibility of not offering compound drug prescription benefits, Ms. Jones stated that staff intended to require prior authorization for certain compound drugs under plans other than Medicare Part D. Ms. Sissney expressed her concern that the lack of oversight and regulation of compound drugs presented safety issues for participants in TRS' health plans. Ms. Jones stated that staff would consider other strategies to control costs resulting from compound drug prescriptions and report to the board in June.

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

Mr. Johnson provided an update on the TEAM program assessment. He highlighted critical risk factors associated with execution of the Line of Business (LOB) and Financial System Replacement (FSR) projects, including the over-allocation of resources to multiple projects and the lack of fully dedicated staffing to certain projects and technologies. He discussed with the board recommended solutions to resolve the staffing and resource allocation issues.

**12. Receive a quarterly review of the TEAM Program – Amy Morgan; David Cook; and Jay Masci, Provaliant.**

Mr. Cook and Mr. Masci provided a quarterly update on the TEAM program. Mr. Masci highlighted the completion of the business rules project a year ahead of schedule. Ms. Morgan provided an update on the milestones and new projects, including the new TEAM SharePoint site. Ms. Yarborough presented information about the Organizational Change Management (OCM) project.

**13. Receive the report of the Chief Financial Officer, including – Don Green:**

**A. Mid-year financial review.**

Mr. Green provided a FY 2014 mid-year budget analysis with data comparisons by fund, division, and category. He also presented a summary of the non-TEAM related major capital items.

**B. 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.**

Pursuant to section 825.314(b) of the Government Code, Mr. Green reported on expenditures paid during the months of January and February of 2014.

Ms. Sissney noted that staff would present a detailed budget report with historical comparisons at the June board meeting.

**14. Review the report of the Chief Benefit Officer, and consider 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 September 1, 2013 through February 28, 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. Charleston, 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 November 12, 2013 and January 14, 2014 Medical Board meetings.

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

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

Mr. Kelly announced that the board would go into executive session on agenda item 15 under section 551.071 of the Government Code to seek advice from legal counsel about litigation. He asked that all members of the public and staff not needed for the executive session to leave the meeting room and take their belongings with them.

Whereupon, the board went into executive session at 9:45 a.m.

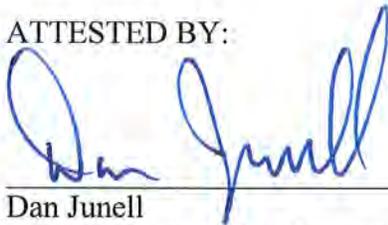
The meeting was reconvened in open session at 10:23 a.m. The board took up no further business under items 15, 16 or 17.

16. **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.**
17. **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.**

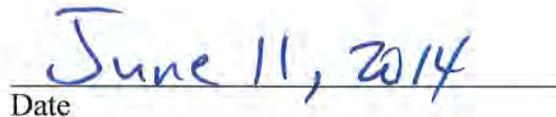
The meeting was adjourned at 10:23 a.m.

APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM OF TEXAS ON THE 5TH DAY OF JUNE, 2014.

ATTESTED BY:



Dan Junell  
Secretary to the TRS Board of Trustees



Date