

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

**AGENDA**

**October 18, 2013 – 10:00 a.m.**

**TRS East Building, 5<sup>th</sup> Floor, Boardroom**

*NOTE: The Board may take up in any order the items posted on the agenda during its meeting on Friday, October 18, 2013.*

*The open portions of the October 18, 2013 Board meeting 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](http://www.trs.state.tx.us).*

1. Call roll of Board members.
2. Consider administrative matters, including the following – David Kelly:
  - A. Approval of the September 12-13, 2013 Board meeting minutes.
  - B. Excuse Board member absences from the September 12-13, 2013 Board meeting.
  - C. Consider the election of the Board Vice-Chair.
  - D. Consider consenting to the Board Chair's appointment of committee members, and receive the Board Chair's announcement of committee chairs.
  - E. Consider Board and committee meeting dates for calendar year 2014, including any off-site meeting locations.
3. Receive public comment – David Kelly.
4. Review and discuss the Executive Director's report on the following matters – Brian Guthrie:
  - A. Review of draft agendas for upcoming meetings.
  - B. Administrative operations, including financial, audit, legal, staff services, board administration activities, and special projects.
5. Receive the Deputy Director's report – Ken Welch.
6. Receive a presentation from CEM on pension administration benchmarking – Rogier Slingerland, CEM
7. Receive an overview of custody services – Sylvia Bell and Scot Leith.

8. Receive a presentation on State Street Bank and Trust, Co. – Gunjan Kedia, Rick Young, Joseph Barry, Jessica Donohue, and Nicholas Bonn, State Street Bank and Trust Co.
9. Receive a presentation on and discuss potential future amendments to the Trustee Ethics Policy and position description and the Employee Ethics Policy and related documents, including the process and next steps for adoption of amendments – Carolina de Onís; Tim Wei; and Steve Huff, Reinhart Boerner Van Deuren, sc.
10. Receive the Chief Financial Officer’s report under § 825.314(b), Government Code, of expenditures that exceed the amount of operating expenses appropriated from the general revenue fund and are required to perform the fiduciary duties of the Board – Don Green.
11. Discuss a principal investment transaction in the financial sector in a foreign jurisdiction, which relates to an investment in a private investment fund or the purchase, holding, or disposal of restricted securities or a private investment fund’s investment in restricted securities – Rich Hall, Mike Lazorik, and Tim Wei.
12. 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.
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  
October 18, 2013

The Board of Trustees of the Teacher Retirement System of Texas met on October 18, 2013, in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River Street, Austin, Texas. The following board members were present:

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

Others present:

Brian Guthrie, TRS  
Ken Welch, TRS  
Amy Barrett, TRS  
Carolina de Onís, TRS  
Howard Goldman, TRS  
Don Green, TRS  
T. Britton Harris IV, TRS  
Marianne Woods Wiley, TRS  
Jerry Albright, TRS  
Thomas Albright, TRS  
Michelle Bertram, TRS  
Ronnie Bounds, TRS  
Cindy Collins, TRS  
Dennis Gold, TRS  
Rich Hall, TRS  
Dan Herron, TRS  
Dan Junell, TRS  
Lynn Lau, TRS  
Scot Leith, TRS  
Rebecca Merrill, TRS  
Melinda Nink, TRS  
Hugh Ohn, TRS

Noel Sherman, TRS  
Steve Huff, Reinhart Boerner Van Deuren  
Steve Voss, Hewitt EnnisKnupp  
Karla Corpus  
Philip Mullins, Austin Retired Teachers Association  
Ann Fickel, Texas Classroom Teachers Association  
Josh Sanderson, Association of Texas Professional Educators  
Victor Farrera, Hewlett-Packard  
Ernie Sanders, Hewlett-Packard  
Rogier Slingerland, CEM  
Gunjan Kedia, State Street  
Rick Young, State Street  
Joseph Barry, State Street  
Jessica Donohue, State Street  
Jack Eckenrode, State Street  
Chris Holzwarth, State Street  
Jeff Lambert, State Street  
John Powell, State Street  
Derly Rivera, Austin Retired Teachers Association  
Ted Melina Raab, Texas American Federation of Teachers  
Marie Drummond, Retired Education Austin  
Tom Rogers, Austin Retired Teachers Association and Texas Retired Teachers Association

Mr. Kelly called the meeting to order at 10:00 a.m.

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

Ms. Lau called the roll. A quorum was present. Mr. Moss was absent. Ms. Charleston arrived at 10:25 a.m.

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

**A. Approval of the September 12-13, 2013 Board meeting minutes.**

On a motion by Ms. Palmer, seconded by Mr. Colonna, the board unanimously approved the minutes for the September 12-13, 2013 meeting.

**B. Excuse Board member absences from the September 12-13, 2013 Board meeting.**

On a motion by Ms. Sissney, seconded by Mr. Barth, the board unanimously excused the absences of Ms. Charlotte Clifton and Mr. Eric McDonald from the September 12-13, 2013 board meeting.

**C. Consider the election of the Board Vice-Chair.**

On a motion by Mr. Kelly, seconded by Ms. Palmer, the board unanimously elected Ms. Sissney to be the board vice-chair.

Mr. Kelly introduced new trustees, Ms. Dolores Ramirez and Mr. David Corpus. The new trustees briefly introduced themselves. Mr. Colonna also noted his reappointment for a new term.

**D. Consider consenting to the Board Chair's appointment of committee members, and receive the Board Chair's announcement of committee chairs.**

On a motion by Mr. Corpus, seconded by Mr. Barth, the board unanimously approved the following appointment of committee members:

**Audit Committee**

Chris Moss, Chair  
Karen Charleston  
David Corpus  
Anita Palmer  
Nanette Sissney

**Benefits Committee**

Anita Palmer, Chair  
Karen Charleston  
Chris Moss  
Dolores Ramirez  
Nanette Sissney

**Budget Committee**

Nanette Sissney, Chair  
Todd Barth  
Karen Charleston  
Chris Moss  
Dolores Ramirez

**Policy Committee**

Joe Colonna, Chair  
Todd Barth  
David Corpus  
David Kelly  
Dolores Ramirez

**Investment Management Committee**

Todd Barth, Chair  
Joe Colonna  
David Corpus  
David Kelly  
Nanette Sissney

**Risk Management Committee**

Karen Charleston, Chair  
Todd Barth  
David Corpus  
David Kelly  
Chris Moss

**Ethics Committee**

Nanette Sissney

**Board Vice-Chair**

Nanette Sissney

**Compensation Committee**

Nanette Sissney, Chair

Joe Colonna

David Kelly

Anita Palmer

Dolores Ramirez

**E. Consider Board and committee meeting dates for calendar year 2014, including any off-site meeting locations.**

On a motion by Ms. Sissney, seconded by Ms. Palmer, the board unanimously approved the following board and committee meeting dates for calendar year 2014:

February 12 – 14, 2014  
March 27-28, 2014 (Quarterly Meeting)  
June 5 – 6, 2014 (Quarterly Meeting)  
July 11, 2014  
September 18 – 19, 2014 (Quarterly Meeting)  
October 17, 2014  
November 20-21, 2014 (Quarterly Meeting)

**3. Receive public comment**

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

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

**A. Review of draft agendas for upcoming meetings.**

Mr. Guthrie reviewed the draft agendas for the December 2013 and February 2014 meetings. He also briefly discussed the options to deal with office space issues.

**B. Administrative operations, including financial, audit, legal, staff services, board administration activities, and special projects.**

Mr. Guthrie provided an update on the Transformative Leadership Training Program and the National Council on Teacher Retirement (NCTR) meetings he attended.

Mr. Guthrie introduced the new online *My TRS Rewards Program*, a membership discount program, which would be available November 1, 2013 via *MyTRS*. He responded to Ms. Sissney that about 30 to 35 percent of TRS members have registered for *MyTRS*. He stated that the implementation of TEAM would facilitate more online transactions by members.

**5. Receive the Deputy Director's report – Ken Welch.**

Mr. Welch reported that the annual state contribution rate would increase from 6.4% to 6.8% because there were sufficient funds from the settle-up process with the State of Texas over the health care fund. Mr. Kelly asked what the settle-up meant for TRS in dollar amounts, and Mr.

Welch replied that it meant an additional \$90 million, with \$36 million going into the health care fund.

Mr. Welch updated the board on the process of paying the Cost of Living Adjustments (COLA) to the retirees. He confirmed for Ms. Sissney that it would be reflected in the retirees' September annuity check, which was paid on October 1, 2013.

Mr. Welch also reported on the answering time in the Telephone Counseling Center and the community programs in which TRS staff participated. Finally, Mr. Welch announced that the contract for the Line of Business (LOB) vendor for the TEAM program had been awarded to Hewlett-Packard.

**6. Receive a presentation from CEM on pension administration benchmarking – Rogier Slingerland, CEM**

Mr. Slingerland of CEM summarized the results of TRS pension administration benchmarking study. Mr. Kelly asked why larger plans were not included in the study sample. Mr. Slingerland responded that the study did not include larger plans in TRS' peer group to limit the effects of economies of scale and to compare TRS with plans of similar size. He noted that CEM benchmarked TRS against CEM's entire universe of benchmarking participants.

Discussing the calculation of the total costs, Mr. Slingerland explained that the study weighted transactions per member based on how labor-intensive the type of transaction was. He described factors of productivity and pension administration costs, excluding investment management costs. Mr. Kelly asked if the study could include data on efficiency. Mr. Slingerland stated that CEM had not found a correlation between service levels and costs.

Mr. Slingerland explained why TRS' administrative costs were \$57 lower than their peer group's average of \$86. He stated that TRS had fewer higher-weighted transactions, such as member presentations and one-on-one counseling. He responded to Ms. Sissney that the average number of attendees attending each presentation was about 75. Ms. Woods Wiley noted that counselors would provide one-on-one counseling after each presentation. Mr. Slingerland confirmed for Ms. Sissney that the average cost of living in Travis County was above those in the counties where other plans were located, despite the fact that TRS had lower costs on salaries and benefits.

Presenting the service scores, Mr. Slingerland noted that only quantifiable items were included in the calculation. He noted that the call center performance weighed heavily in the service scoring. He confirmed for Mr. Guthrie that a call back would be considered as an undesirable outcome of a phone call. Mr. Slingerland pointed out for Ms. Sissney that the trend lines for both services and costs were included in the complete report. Further discussion followed relating to possible mitigations to improve the service score in the future. At Mr. Kelly's request, staff would post the report on the board meeting site.

After a recess 11:55 a.m., the board reconvened at 12:22 p.m.

**7. Receive an overview of custody services – Sylvia Bell and Scot Leith.**

Ms. Bell introduced Ms. Gunjan Kedia, Mr. Rick Young, Mr. Joseph Barry, Mr. Chris Holzwarth, Ms. Jessica Donohue, and Mr. Jack Eckenrode of State Street Bank and Trust Co. Ms. Bell reviewed the current TRS financial process involving services provided by State Street. Responding to Mr. Colonna's questions about derivatives transactions, she explained how derivatives were cleared. She said that Goldman Sachs acting as a futures commission merchant, not State Street, cleared derivatives for TRS. She noted that State Street kept the records on derivatives transactions and ensured their accuracy. She noted that the investment operations and accounting functions were connected with State Street. Mr. Leith provided details on the functions of Investment Accounting and its interaction with State Street.

**8. Receive a presentation on State Street Bank and Trust, Co. – Gunjan Kedia, Rick Young, Joseph Barry, Jessica Donohue, and Nicholas Bonn, State Street Bank and Trust Co.**

Ms. Kedia, Mr. Young, Mr. Barry, Mr. Eckenrode, Ms. Donohue, and Mr. Holzwarth provided a presentation on State Street's values, strategies, services, performance, technological tools, regulatory coordination and reform, data security, research partnership, and the securities lending program. There was a discussion relating to TRS' liquidity control and arrangement and how State Street kept TRS' assets. Responding to a question from Ms. Palmer regarding potential areas for improvement, Mr. Young said that State Street would be providing faster services. Mr. Harris mentioned the importance of cybersecurity and data accuracy. Mr. Albright stated that he preferred automatic rather than manual processing of data.

The meeting recessed at 2:30 p.m. and reconvened at 2:55 p.m.

**9. Receive a presentation on and discuss potential future amendments to the Trustee Ethics Policy and position description and the Employee Ethics Policy and related documents, including the process and next steps for adoption of amendments – Carolina de Onís; Tim Wei; and Steve Huff, Reinhart Boerner Van Deuren, sc.**

Mr. Huff and Mr. Wei provided an overview of the proposed changes to the Trustee Ethics Policy and the Employee Ethics Policy. Mr. Huff explained that the proposed modifications resulted from statutory changes enacted during the last legislative session. Mr. Huff confirmed for Ms. Sissney that the proposed change relating to the prohibition on trustee investment and private investment funds would allow trustees to recuse themselves from voting on an investment that presented an issue and allow TRS to invest in it. Mr. Guthrie noted that staff would present the complete proposed policies for the board's consideration in December.

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

Pursuant to section 825.314(b) of the Government Code, Mr. Green presented a report of the expenditures paid during the month of August 2013 that were required to perform the fiduciary

duties of the board. He noted that the expenditures on TEAM in FY 2013 were between \$6 and \$7 million compared to just over \$1.5 million in FY 2012.

- 11. Discuss a principal investment transaction in the financial sector in a foreign jurisdiction, which relates to an investment in a private investment fund or the purchase, holding, or disposal of restricted securities or a private investment fund's investment in restricted securities – Rich Hall, Mike Lazarik, and Tim Wei.**

Mr. Hall introduced the topic relating to a principal investment transaction in the financial sector in a foreign jurisdiction.

Mr. Kelly announced that the board would go into executive session on agenda item 11 under section 825.3011 of the Government Code to confer about confidential investment matters, and under section 551.071 of the Government Code to seek advice from legal counsel. He asked all members of the public and staff not needed for the executive session to leave the meeting room and take their belongings with them.

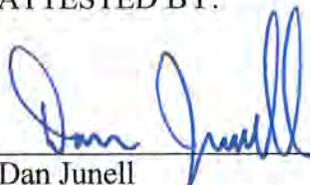
Whereupon, the board went into executive session at 3:07 p.m.

The meeting was reconvened in open session and then adjourned at 3:55 p.m. The board did not take up further matters under agenda item 12 or 13.

- 12. 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.**
- 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.**

APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM OF TEXAS ON THE 12TH DAY OF DECEMBER, 2013.

ATTESTED BY:



Dan Junell  
Secretary to the TRS Board of Trustees

Dec. 16, 2013

Date