

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

AGENDA

September 18, 2014 – 8:00 a.m.

September 19, 2014 – 9:00 a.m.

TRS East Building, 5th Floor, Boardroom

*The September 18-19, 2014 meeting of the TRS Board of Trustees will be held by telephone conference call as authorized under Texas Government Code Section 551.130. The Board intends to have a quorum physically present at the following location: **1000 Red River Austin, Texas 78701 in the TRS East Building, 5th Floor, Boardroom.***

NOTE: The Board may take up any item posted on the agenda during its meeting on Thursday, September 18, 2014 or during the meeting on the following day beginning at the time and place specified on this agenda.

The open portions of the September 18-19, 2014 Board meeting are being broadcast over the Internet. Access to the Internet broadcast of the Board meeting is provided on TRS' website at www.trs.state.tx.us.

1. Call roll of Board members.
2. Consider Board administrative matters, including – David Kelly:
 - A. Approval of the July 10-11, 2014 Board meeting minutes.
 - B. Consider the election of the Board Vice-Chair.
 - C. Consider consenting to the Board Chair's appointment of committee members, and receive the Board Chair's public announcement of committee chairs.
 - D. Consider Board and committee meeting dates for calendar year 2015.
3. Provide opportunity for public comments – David Kelly.
4. Discuss and consider investment matters, including the following items:
 - A. Final Phase Review of the 2014 Asset Allocation Study – Britt Harris and Mohan Balachandran.
 - B. Performance Review: Second Quarter 2014 – Brady O'Connell and Steve Voss, Hewitt EnnisKnupp.

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

5. Review and discuss the Executive Director's report on the following matters – Brian Guthrie:
 - A. Administrative operational matters, including goals for Fiscal Year 2015 and updates on 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.
6. Review the report of the Investment Management Committee on its September 18, 2014 meeting, and consider related matters – Committee Chair.
7. Review the report of the Risk Management Committee on its September 18, 2014 meeting, and consider related matters – Committee Chair.
8. Review the report of the Policy Committee on its September 18, 2014 meeting, and consider the following related matters – Committee Chair:
 - A. Consider proposed amendments to the Investment Policy Statement.
 - B. Consider proposed amendments to the General Authority Resolutions.
 - C. Consider proposed amendments to the TRS Board of Trustees Bylaws.
9. Review the report of the Compensation Committee on its September 18, 2014 meeting, and consider related matters, including amendments to and ratification of the Performance Incentive Pay Plan for the period beginning October 1, 2014 – Committee Chair.

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

10. Provide opportunity for public comments – David Kelly.
11. Receive an update on the TEAM Program, including MyTRS changes – Adam Fambrough; Barbie Pearson; David Cook; and Jay Masci, Provaliant.
12. Receive a presentation from the TEAM Program Independent Program Assessment (IPA) Vendor – Michael Johnson, Bridgepoint Consulting.

13. Receive a report from Segal Consulting on the 2014 Actuarial Audit of Gabriel, Roeder, Smith & Co. – Kim Nichols and Matthew Strom, Segal Consulting; Joseph Newton, Gabriel, Roeder, Smith & Co.
14. Review the report of the Audit Committee on its September 19, 2014 meeting, and discuss and consider the following items – Committee Chair:
 - A. Proposed revisions to the Internal Audit Charter.
 - B. Adoption of the proposed Audit Plan for Fiscal Year 2015.
15. Review the reports of the Chief Financial Officer – Don Green:
 - A. Anticipated year-end overview.
 - B. Report 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.
16. Review the report of the Chief Benefit Officer, and consider the following related matters – Marianne Woods Wiley:
 - A. Approve members qualified for retirement.
 - B. Approve minutes of Medical Board meetings.
17. Review and discuss the Deputy Director’s Report, including matters related to administrative, financial, and staff services operations – Ken Welch
18. 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 and the adoption of a resolution regarding salary limits for certain TRS employees listed as exempt positions in the 2014 - 2015 General Appropriations Act – David Kelly.
19. Review the report of the General Counsel on pending and contemplated litigation, including updates on litigation involving benefit-program contributions, retirement benefits, health-benefit programs, and open records – Carolina de Onís.
20. 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

September 18-19, 2014

The Board of Trustees of the Teacher Retirement System of Texas met on September 18, 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
Anita Palmer
Dolores Ramirez
Nanette Sissney

Others present:

Brian Guthrie, TRS	James Nield, TRS
Ken Welch, TRS	Mike Pia, TRS
Carolina de Onís, TRS	Neil Randall, TRS
Don Green, TRS	Rebecca Smith, TRS
Howard Goldman, TRS	Ken Stanley, TRS
T. Britton Harris IV, TRS	Daniel Ting, TRS
Jerry Albright, TRS	Grant Walker, TRS
Jase Auby, TRS	Dr. Keith Brown, Investment Advisor
Michael Aluko, TRS	Steve Huff, Reinhart Boerner Van Deuren
Dr. Mohan Balachandran, TRS	Steve Voss, Hewitt EnnisKnupp
Ashley Baum, TRS	John Claisse, Albourne
Ronnie Bounds, TRS	Tathata Lohachitkul, Albourne
Vaughn Brock, TRS	Bill Barnes, Texas Retired Teachers Association
Robert Dunn, TRS	Ronnie Jung, Texas Retired Teachers Association
Michelle Fasel, TRS	John Ide, JPM
Dan Herron, TRS	Ann Fickel, Texas Classroom Teachers Association
Janis Hydak, TRS	Josh Sanderson, Association of Texas Professional Educators
Dan Junell, TRS	John Grey, Texas State Teachers Association
Eric Lang, TRS	Barbara Franklin, Texas State Teachers Association
Lynn Lau, TRS	Ted Melina Raab, Texas American Federation of Teachers
Rebecca Merrill, TRS	

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

1. Call roll of Board members.

Ms. Lau called the roll. A quorum was present. Mr. Moss was absent during roll call and joined the meeting later via telephone conferencing under section 551.130 of the Government Code.

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

A. Approval of the July 10-11, 2014 Board meeting minutes.

On a motion by Mr. Barth, seconded by Ms. Ramirez, the board unanimously adopted the minutes of the July 10-11, 2014 meeting, as presented.

B. Consider the election of the Board Vice-Chair.

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

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

On a motion by Ms. Palmer, seconded by Ms. Sissney, the board unanimously approved the following appointment of committee members:

Audit Committee

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

Investment Management Committee

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

Benefits Committee

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

Risk Management Committee

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

Budget Committee

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

Ethics Committee

(Committee of the Whole)
Nanette Sissney, Chair

Policy Committee

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

Compensation Committee

Nanette Sissney, Chair
Joe Colonna
David Kelly
Anita Palmer
Dolores Ramirez

Board Vice-Chair

Nanette Sissney

D. Consider Board and committee meeting dates for calendar year 2015.

On a motion by Ms. Ramirez, seconded by Mr. Barth, the board unanimously approved the following board and committee meeting dates for calendar year 2015:

February 11 – 13, 2015 (educational meeting)
March 26 – 27, 2015 (quarterly meeting)

May 1, 2015
June 11 – 12, 2015 (quarterly meeting)
July 24, 2015
September 24 – 25, 2015 (quarterly meeting)
October 23, 2015
November 19 – 20, 2015 (quarterly meeting)

3. Provide opportunity for public comments – David Kelly.

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

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

A. Final Phase Review of the 2014 Asset Allocation Study – Britt Harris and Mohan Balachandran.

Dr. Balachandran presented the proposed changes to the asset allocation. He highlighted three proposed increased allocations: a 2 percent increase in private equity; a 3 percent increase in real assets; and a new allocation of 5 percent to risk parity strategies. Those allocations, he explained, would be funded by the following reductions: 2 percent out of US large cap and US small cap; 2 percent out of non-U.S. developed countries' markets; 1 out of emerging markets; 1 percent out of directional hedge funds; 2 percent out of US Treasuries; and 2 percent out of global inflation-linked bonds. Dr. Balachandran discussed with board members the rationale for the proposed changes. He addressed the following areas: increased expected returns; slightly increased volatility and illiquidity; and improved Sharpe ratio and risk adjusted returns. Mr. Harris and Dr. Balachandran discussed liquidity scores with Mr. Barth. They assured him that the liquidity of the fund under either the current allocation or the proposed one was more than adequate.

In response to the finding that TRS' fund had higher risk-adjusted returns than other public and private funds and endowments, Dr. Brown noted that endowments measure the inflation rate with the Higher Education Price Index (HEPI), which is higher than the Consumer Price Index (CPI) used by public and private funds.

Dr. Balachandran stated that adding risk parity strategies and using leverage would result in higher long-term investment returns and lower volatility. Per Mr. Colonna's request, he clarified that the 2.1x leverage refers to the leverage added to the risk parity strategies, primarily to bonds. Responding to a question from Dr. Brown, Dr. Balachandran stated that the leverage would be applied primarily through futures exposure but not borrowed money.

Dr. Balachandran presented the transition plan. He estimated that it would take about five years to deploy the target allocation to private equity and real assets, and the internally managed portfolios would take longer.

Dr. Balachandran concluded his presentation with a summary of the proposed changes as follows:

- Increase private markets allocation by 5 percent;
- Add 5 percent to Risk Parity;

- Dynamic asset allocation weights for real assets, private equity, energy and natural resources, and risk parity based on the actual holdings;
- Consolidate US Large Cap and US Small Cap into a single asset class; and
- Allow non-US developed sovereign bonds to be held in the US Treasury Portfolio for the purposes of underweighting non-US sovereign bonds only.

B. Performance Review: Second Quarter 2014 – Brady O’Connell and Steve Voss, Hewitt EnnisKnupp.

Mr. Voss presented the trust fund performance review for the second quarter of 2014. Mr. Barth asked why TRS continued to invest in hedge funds while other public funds decided to eliminate them from their asset allocation. Mr. Harris stated that large funds like California Public Employee Retirement System had a 1 percent allocation to hedge funds with a 7 percent return, which were inconsequential to both their total asset value and returns. He stated that TRS’ 5 percent allocation to hedge funds and its 12.5 percent return from the portfolio were more significant. With little incremental risk added to the total fund, he said, hedge funds fit well into the overall portfolio and provide a diversifier against the U.S. equity market. He stated that hedge funds had performed as staff expected. Mr. Kelly stated that staff had built a good platform for the Hedge Fund Portfolio.

Mr. Voss presented the fund’s annualized returns for the five-year period ending June 30, 2014. The report compared TRS’ returns with a peer universe composed of 68 public funds with total assets in excess of \$1 billion. He stated that the fund outperformed the public fund universe median, on both the return and risk bases. He confirmed for Dr. Brown that the data did not include the peer group’s actual performances relative to their policies. Mr. Harris noted that the data indicated TRS took on less risk than other funds. Ms. Sissney stated that an \$8 billion fund should not be included in the peer universe. Mr. Harris and Mr. Voss concurred.

Mr. Voss concluded with a performance summary ending June 30, 2014. He reported that the fund had an excess return in 15 out of 20 quarters and ended the last quarter with \$130.2 billion in total assets, an all-time-high. Further discussion followed in response to a question from Mr. Barth concerning the reasons behind the underperformance in five of the 20 quarters reported. Mr. Harris discussed some major market events that could have led to underperformance in those quarters.

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

A. Administrative operational matters, including goals for Fiscal Year 2015 and updates on financial, audit, legal, staff services, board administration activities, special projects, long-term space planning, and strategic planning.

Mr. Guthrie provided an overview of the fiscal year 2015 goals and objectives in strategic planning. In response to a question from Mr. Kelly concerning the applicable regulatory framework for managing the TRS fund, Ms. de Onís stated that the fund is subject to different regulations that govern different types of investments and functions; as a pension fund, it is subject to the regulations of the Pension Review Board. Mr. Kelly stated that he would like to have an

overview of the regulations governing both the public and private funds. Mr. Guthrie stated that staff could include the topic in the February board meeting. Ms. de Onís stated that she planned to have the new compliance officer take a holistic approach and produce and implement a compliance plan covering all the investment activities within a year. She also noted that she would like the new compliance officer to review the Code of Ethics for Contractors and provide recommendations during the board's next review of the policy.

Mr. Guthrie stated that because of the significant investment outperformance over the past year, the fund was expected to be actuarially sound this year. He said that excess returns would allow deferred loss to be recognized earlier and result in a funding period between 25 and 27 years. He also recapped commitments made through the enactment of Senate Bill 1458.

Mr. Guthrie discussed the goal of enhancing customer service through a customer satisfaction survey, online videos, publications, and online tools. In response to a question from Ms. Sissney concerning customer satisfaction measurement, Mr. Guthrie confirmed that the survey would filter out responses from members who had not used TRS services in the past year and ask those members why they did not contact TRS. Mr. Goldman confirmed that the survey is conducted every two years with a sample consisting of 800 retirees and 1,200 active members and compares prior years' performance. Mr. Guthrie also discussed the goal of improving overall satisfaction with TRS healthcare programs.

Mr. Kelly suggested providing educational materials to members relating to financial planning. Mr. Guthrie stated that TRS could provide financial education, but should avoid giving advice. He stated that Ms. Merrill and her division were preparing a financial education video that would cover topics relating to the 403(b) and 401(k) programs. Ms. Sissney stated that active members in their first 20 years of career typically would not be engaged in topics relating to retirement planning. Ms. Ramirez concurred and stated the financial education video should reach out to teachers and make them more aware of the importance of retirement planning. Mr. Corpus stated that having a spokesperson who has gone through the same experience would help draw awareness. Ms. Merrill laid out the process of making the video and the topics to be covered. Mr. Harris suggested encouraging school principals to educate their employees on retirement planning once a year. Ms. Sissney suggested broadening the spectrum of members by including support staff and presenting the video at the beginning of the year. Ms. Charleston stated that current information and communications were insufficient and she would like to see more being offered to members. Mr. Guthrie stated that staff would keep the board apprised about the production of the video and would present the video for the board's advance screening before its official release.

Mr. Guthrie provided an update on the TEAM project and the new Chief Information Officer (CIO) search. He stated that T. A. Miller had taken over the role of interim CIO. Mr. Welch provided an update on the status of the search process for the CIO. He stated that the goal was to fill the position by the first week of October.

Mr. Guthrie discussed TRS' continued plan to address the TRS-Care funding issues. He stated that staff would provide proposed recommended solutions to the board in October and release the final report in November, giving staff two additional months of experience with the Affordable Care Act programs. He stated that staff would provide the legislature with helpful information that would provide for a better understanding of the issues. He stated that he would strive for the best

outcome possible in the next legislative session to resolve those challenges.

Mr. Guthrie reiterated his plan to develop effective personnel recruitment and retention strategies and his commitment to increase the use of Historically Underutilized Businesses (HUB).

Mr. Guthrie provided an update on long-term space planning. He discussed the building renovation plan and stated that staff would provide trustees with blueprints for review. Mr. Green confirmed for Ms. Palmer that staff would stay within the budget appropriated for the project. Mr. Guthrie stated that staff was trying to obtain the most efficient outcome with minimum change.

Mr. Guthrie provided an overview of professional development opportunities. He highlighted the Claritas Investment Certificate program that provides financial and investment education. He also shared his experience attending the HEK Aon client conference and the National Association of State Retirement Administrators conference. He announced that he was being considered for a board position the National Conference on Teacher Retirement.

Mr. Guthrie discussed the *MyTRS Rewards* program, a member discount program available to members who access the online *MyTRS* application. He stated that the reward program would offer money-saving opportunities in areas such as auto insurance, wireless phones, and restaurants. He stated that the program was designed to encourage members to sign up for *MyTRS*. He noted that the program would not incur any cost to the fund. He stated that staff would evaluate whether the program enhances *MyTRS* registration and would provide the board with data when available. Ms. Palmer stated that she would not like TRS to be in competition with similar programs provided by some member organizations. Mr. Guthrie confirmed for Mr. Kelly that Mr. Tim Lee of Texas Retired Teachers Association (TRTA) expressed concern that the program would be competing with TRTA's similar program. Ms. de Onís stated that the program can only be justified if it provides better and more efficient customer service by encouraging members to enroll in *MyTRS*. Without that objective, she said, it cannot be legally justified.

Per Mr. Kelly's request, the board took up item 3 to hear public comments from Mr. Tim Lee of TRTA concerning the program.

3. Provide opportunity for public comments – David Kelly.

Mr. Tim Lee of TRTA stated that he believes TRTA and other organizations can play a role in sending messages to members about *MyTRS*. He stated that TRTA would like to be in partnership with TRS in promoting *MyTRS*.

The board took up agenda 5A to further discuss the *MyTRS Rewards* program.

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

A. Administrative operational matters, including goals for Fiscal Year 2015 and updates on financial, audit, legal, staff services, board administration activities, special projects, long-term space planning, and strategic planning.

Mr. Kelly asked about the possibility of creating a collaborative and mutually beneficial program

with member organizations. Mr. Guthrie stated that the program would need to be discontinued if it was not solely for increasing enrollment in *MyTRS*. Concerning collaborating with TRTA, he stated that TRS would not be able to lobby for the program offered by TRTA. Ms. de Onis confirmed that the program would need to be offered to all TRS members without excluding anyone and that TRS and TRTA would not be able to have a joint website for a joint program. Mr. Guthrie confirmed for Ms. Sissney that one purpose of the initiative was to eliminate paper publication by encouraging members to access online information, resulting in cost savings for the system.

Mr. Kelly asked that the topic be added to the agenda in October, if possible, or in November and discussed in closed session.

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

Mr. Guthrie highlighted items in the October and November meeting agendas. He noted that a Retirees Advisory Committee meeting may be conducted after the board meeting to discuss the health care study. He stated that staff would discuss the health care studies and seek feedback from the board and member organizations in October. He stated that staff would discuss options for the TRS-Care pharmacy benefit manager procurement in executive session.

Mr. Harris clarified for Mr. Barth that Dr. Balachandran's team would discuss the tactical asset allocation process and the quantitative portfolios and Mr. Auby's group would discuss the risk bubble reports, risk monitoring systems, and risk parity strategies. Per Mr. Kelly's request, Mr. Harris would provide a CIO presentation to the board in February.

Mr. Kelly announced that the board would take up agenda item 15.

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

A. Anticipated year-end overview.

Mr. Green presented an estimated year-end financial report for fiscal year 2014 by division and category of expense. He confirmed for Ms. Palmer that several budget item balances, including TEAM and capital projects, could be carried forward to the next year. He confirmed for Ms. Sissney that the travel item includes both national and international travel which are tracked separately. He also clarified for Ms. Sissney that the air handler project was started in the last quarter and the remainder of the project would be spent in FY 2015; the stairwell pressurization project would be a new project and was within the amounts allowable for fire safety. He confirmed for Ms. Palmer that those two items would not be allowed to be re-appropriated into another type of budget but can be carried over to the same type of budget for the following year. He explained for Ms. Sissney that the \$5.4 million lapse was the amount budgeted in the FY 2014 pension fund budget that was not spent. Mr. Green stated that staff was planning to move forward \$4 million of the \$5.4 million lapse into the TEAM budget for FY 2015. He noted that staff had asked for the authority to carry forward the lapse fund into the next biennium in the legislative appropriation request (LAR) and that the legislature did not allow that in the last session.

B. Report 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.

Mr. Green presented the fiscal year-end cash disbursements report. He noted that the statute no longer required staff to present a monthly cash disbursement report to the board.

Mr. Kelly announced that the board would take up agenda item 17.

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

Mr. Welch presented matters relating to TRS operations. He stated that the production of end-of-year annual financial statements was going well. In regards to the call center and office visit performance, he stated that the hold time stayed within 2 minutes in August, typically the busiest time of the year, and that the wait for an office-visit appointment was currently six weeks. Mr. Barth stated that necessary actions would need to be taken to hire and train staff to ease the wait time. Mr. Welch also provided a brief update on a few community events, including the State Employees Charitable Contribution Campaign, the Austin Independent School District Partners in Education Program, and the quarterly blood drive.

After a recess at 11:51 a.m., the board reconvened the meeting at 3:20 p.m.

Mr. Kelly announced that the board would take up agenda item 9.

9. Review the report of the Compensation Committee on its September 18, 2014 meeting, and consider related matters, including amendments to and ratification of the Performance Incentive Pay Plan for the period beginning October 1, 2014 – Committee Chair.

Ms. Sissney, Committee Chair, provided the following committee report:

The Compensation Committee met on September 18, 2014. The committee adopted the minutes of its July 11, 2014 meeting. The committee received a presentation on amendments to the Performance Incentive Pay Plan (plan). The committee recommended to the board adoption of these amendments and ratification of the amended plan but did not amend the Chief Investment Officer's maximum award opportunity in the plan.

On a motion by Ms. Sissney as the committee chair, the board unanimously adopted the amendments to the Performance Incentive Pay Plan and ratified the amended plan as recommended by the Compensation Committee.

6. Review the report of the Investment Management Committee on its September 18, 2014 meeting, and consider related matters – Committee Chair.

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

The Investment Management Committee met today, September 18, 2014. The first

presentation was a review of the Public Strategic Partnership Network update presented by David Veal and Grant Birdwell. Next, Dale West, Susanne Gealy, Brad Gilbert, and Katy Hoffman presented a review of the external Public Markets Portfolio.

- 8. Review the report of the Policy Committee on its September 18, 2014 meeting, and consider the following related matters – Committee Chair:**
 - A. Consider proposed amendments to the Investment Policy Statement.**
 - B. Consider proposed amendments to the General Authority Resolutions.**
 - C. Consider proposed amendments to the TRS Board of Trustees Bylaws.**

Before Mr. Colonna, Committee Chair, provided the committee report, he asked Mr. Auby to address an error staff found in the asset allocation table included in the proposed Investment Policy Statement presented at the Policy Committee meeting. Mr. Auby stated that the typo occurred in the minimum range for the total real return line item, which should be 17 percent instead of 18 percent.

Mr. Colonna presented the following committee report:

The Policy Committee met today, September 18, and adopted the minutes of the June 5 meeting. The committee considered and recommended adoption of amendments to the Investment Policy Statement, including adjustments to the strategic asset allocation. The committee also conducted the required review of the General Authority Resolutions and recommended amendments to the board. The committee began the review of the required Code of Ethics for Contractors and related documents. The committee will consider amendments to the Code of Ethics at a future meeting. The committee authorized public comment publication of proposed amended rules in Chapters 25 through 51 of TRS rules. The committee recommended board adoption of amendments to the Board of Trustees Bylaws. Finally, the committee adopted an updated policy review schedule.

On a motion by Mr. Colonna, the board unanimously voted to adopt the revised Investment Policy Statement, as recommended by the Policy Committee, including the necessary correction identified and described by staff subsequent to the Policy Committee meeting.

On a motion by Mr. Colonna, the board unanimously adopted the proposed amendments to the TRS Board of Trustees Bylaws, as recommended by the Policy Committee.

Mr. Kelly announced that the board would take up agenda item 18 to consider personnel matters.

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

Mr. Guthrie recapped that the board took action in July on the certain exempt positions listed in

the appropriations bill, including increasing the deputy director's salary by two percent and directing the executive director to remove the deputy director from the exempt position list, so that he would be subject to the State Classification Plan. He stated that staff found out after the meeting that such an action would limit the executive director's discretion over the deputy director's salary. Therefore, staff would like to request that the deputy director's exempt position be increased to the state classification maximum for a Deputy Director III position. He also noted that the current proposed resolution also includes limiting the increase for the Chief Investment Officer's salary to 8%.

On a motion by Mr. Barth, seconded by Mr. Corpus, the board adopted the following resolution by a majority vote (8-1) with Ms. Charleston voting against the motion:

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

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

Whereas, The General Provisions in the TRS Budget provide discretion to the Executive Director regarding salaries and specifically authorize the Executive Director to set the annual base salary rate for all exempt positions, other than the Executive Director position, within the not-to-exceed amounts listed in the General Appropriations Act that became effective September 1, 2013 ("GAA"), or any amended limits adopted by the board from time to time;

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

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

Whereas, in order to allow the Executive Director greater discretion in setting the Deputy Administrative Officer's salary, the Board on July 11, 2014 increased the not-to-exceed amount for the Deputy Administrative Officer by 2% and directed the Executive Director to move the Deputy Administrative Officer out of the Schedule of Exempt Positions and into the State Classification Plan under Deputy Director III;

Whereas, The Executive Director has subsequently determined that meaningful discretion over the Deputy Administrative Officer's salary necessitates setting the GAA not-to-exceed amount for the Deputy Administrative Officer to the maximum salary amount for the Deputy Director III position on the State Classification Plan prior to moving the Deputy Administrative Officer onto the State Classification Plan, and the Board desires to grant the Executive Director such discretion;

Whereas, In order to allow the Executive Director greater discretion in setting the salary of the Chief Investment Officer under Bylaw subsection 4.1.2(c) and under the General Provisions of the

TRS Budget, the Board desires to adopt an adjusted GAA not-to-exceed amount for this position effective September 1, 2014; now, therefore be it

Resolved, That effective September 18, 2014, the board hereby adopts the following GAA not-to-exceed amount for the Deputy Administrative Officer:

Deputy Administrative Officer (incumbent Ken Welch): Increase the GAA not-to-exceed amount to the maximum salary amount for the Deputy Director III on the State Classification Schedule;

Resolved, That the Board directs the Executive Director to move the incumbent Deputy Administrative Officer out of the Schedule of Exempt positions and to the Deputy Director III classified position as soon as possible after September 18, 2014;

Resolved, That effective September 1, 2014, the board hereby adopts the following GAA not-to-exceed amount for the Chief Investment Officer:

Chief Investment Officer (incumbent Britt Harris): Increase the GAA not-to-exceed amount by 8%; and

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

19. Review the report of the General Counsel on pending and contemplated litigation, including updates on litigation involving benefit-program contributions, retirement benefits, health-benefit programs, and open records – Carolina de Onís.

At 3:30 p.m., Mr. Kelly announced that the board would go into executive session on agenda item 19 under section 551.071 of the Government Code to seek advice from the board's legal counsel about litigation and related legal matters. 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.

After completion of the executive session, Mr. Kelly announced that the open session was reconvened at 3:46 p.m. Whereupon the board meeting recessed at 3:47 p.m.

The Board of Trustees of the Teacher Retirement System of Texas reconvened on September 19, 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	Steve Huff, Reinhart Boerner Van Deuren
Ken Welch, TRS	Michael Johnson, Bridgepoint Consulting
Carolina de Onís, TRS	Matt Strom, FSA
Don Green, TRS	Joe Newton, Gabriel Roeder Smith & Co.
Howard Goldman, TRS	Ann Fickel, Texas Classroom Teachers Association
Marianne Woods Wiley, TRS	Josh Sanderson, Association of Texas Professional Educators
Ronnie Bounds, TRS	Ted Melina Raab, Texas American Federation of Teachers
Michelle Fasel, TRS	Victor Ferrero, HP
Dan Herron, TRS	Brian Kitzmiller, HP
Dan Junell, TRS	Ernie Sanders, HP
Lynn Lau, TRS	Melinda Maczko, HP
Jay Masci, Provaliant	Prashant Jaiswal, HP
Rebecca Merrill, TRS	Murali Kyasa, HP
David Cook, TRS	Gary Fuchs, HP
Barbie Pearson, TRS	Mike Freese, HP
Adam Fambrough, TRS	Matt Strom, Segal Consulting
Jamie Pierce, TRS	Brad Ramirez, Segal Consulting
	Jim Bauer, United Here

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

1. Call roll of Board members.

Ms. Lau called the roll. A quorum was present. Mr. Colonna was absent during roll call and joined the meeting shortly after.

10. Provide opportunity for public comments – David Kelly.

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

11. Receive an update on the TEAM Program, including MyTRS changes – Adam Fambrough; Barbie Pearson; David Cook; and Jay Masci, Provaliant.

Mr. Masci provided an update on the progress of the TEAM projects, including the website redesign project, the financial system replacement (FSR) project, and project interdependencies. Mr. Cook provided an update on the budget and project timeline. Mr. Cook confirmed for Mr. Barth that the project is still operating within the overall program budget. Responding to a question from Mr. Kelly concerning the timeline, Mr. Guthrie confirmed that 2016 would be the effective start date and testing would be conducted a year before that. Mr. Masci provided a projected timeline for testing before launching. Mr. Guthrie noted that two phases would involve the reporting entities and active members, respectively. Mr. Kelly suggested including the testing and launching dates for each project for tracking purposes. Mr. Welch concurred with Mr. Kelly's suggestion and stated that staff would provide the timeline tracking data as suggested by Mr. Kelly.

Mr. Fambrough provided an update on the pension line of business (LOB) project. He introduced Mr. Victor Ferrero, Vice President of Hewlett Packard (HP) Business Development. Mr. Ferrero introduced his colleagues, Brian Kitzmiller, Melinda Maczko, Ernie Sanders, Mike Freese, Prashant Jaiswal, Murali Kyasa, and Gary Fuchs. Mr. Fambrough reported the performance issue relating to the HP business analyst. Mr. Kelly asked how long it took to identify the issue and

solution and to resolve it. Mr. Cook stated that staff worked with HP and it took about six weeks in total. Mr. Fambrough also reported a delay due to an unexpected leave of absence of a key TRS subject matter expert. Mr. Kelly asked who oversees Quality Control in the project. Mr. Cook stated that both TRS and HP have a quality control process. Mr. Cook pointed out the delay in getting the components and stated that the project could further be delayed because of the challenge of fitting the components together. Ms. Sissney emphasized that it is more important to do it right, than be on schedule. Mr. Kelly asked staff to focus on quality assurance and ensuring that the vendor is providing all the expertise and man power to resolve the issues. Mr. Fambrough continued presenting the contact management system and workflow management. He addressed a software upgrade on Microsoft Dynamic that caused some contact and workflow management functions to be unavailable in 2013. Mr. Cook confirmed for Ms. Sissney that Microsoft would not support the older version, MS Dynamic 2011, which offered those two functions. Mr. Fambrough stated that staff was evaluating the functionality of an alternative software and potential cost adjustments needed. Trustees discussed the issues caused by the software upgrade. Mr. Welch stated that, as a norm of the current computer industry, software upgrade is inevitable. He stated that staff would do their due diligence to make the best decision to meet the system's needs. Mr. Fambrough confirmed for Ms. Sissney that staff would only look at the 2013 version. Mr. Fambrough presented accomplishments. Ms. Pearson provided an update on changes to the online MyTRS application. She explained that new functions and special features provide for member self-service and provided an implementation timeline.

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

Mr. Johnson recapped the objectives and role of Bridgepoint as the independent program assessment vendor in association with the TEAM project.

Mr. Johnson provided an overview of the observations and strengths for this period. He highlighted the observation that the project needs a resource allocated project plan which would assign specific resources to execute specific tasks, key leads for each of the subject areas, and backup leads for each area. Mr. Cook concurred with that recommendation and stated that staff had completed a preliminary pass-through of detailed requirements and assigned specific individuals at the individual task level. He stated that there were currently 3,500 tasks. He further explained the approach of implementing the recommendation. Mr. Johnson confirmed for Mr. Kelly that the current delay and obstacles are typical for projects of this size. Mr. Welch stated that staff was taking a very measured, deliberate approach to address the issues that had been identified. Mr. Kelly stated that the board had total confidence in staff and would provide necessary resources to meet project needs.

Mr. Kelly announced that the board would take up agenda items 8 and 13.

7. Review the report of the Risk Management Committee on its September 18, 2014 meeting, and consider related matters – Committee Chair.

Ms. Charleston, Committee Chair, provided the following committee report:

The Risk Management Committee met on September 18, 2014. The presentation was given, a review of the investment risk report, which was presented by Jase Auby.

- 14. Review the report of the Audit Committee on its September 19, 2014 meeting, and discuss and consider the following items – Committee Chair:**
 - A. Proposed revisions to the Internal Audit Charter.**
 - B. Adoption of the proposed Audit Plan for Fiscal Year 2015.**

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

The Audit Committee met at 8:00 a.m. on Friday, September 19, 2014, in the board room. State Auditor's Office (SAO) staff presented their plan to conduct the audit of the TRS Comprehensive Annual Financial Report for fiscal year 2014. SAO staff also presented the results of the audit of TRS incentive compensation. Internal Audit staff presented the results of the Purchasing and Contract Administration audit, semiannual, of benefit payments, fourth quarter testing and Investment Management Division controls, the overall opinion on Investment Management Division internal controls, quarterly investment testing, the status of prior audit and consulting recommendations, including the information security follow-up audit, and audit administrative matters. The committee approved the recommendation to the Board of Trustees to approve the proposed revisions to the Internal Audit Charter, and approve the proposed Audit Plan for the fiscal year 2015.

On a motion by Mr. Moss, the board unanimously approved the proposed revisions to the Internal Audit Charter.

On a motion by Mr. Moss, the board unanimously approved the proposed Audit Plan for fiscal year 2015.

- 13. Receive a report from Segal Consulting on the 2014 Actuarial Audit of Gabriel, Roeder, Smith & Co. – Kim Nichols and Matthew Strom, Segal Consulting; Joseph Newton, Gabriel, Roeder, Smith & Co.**

Mr. Matt Strom and Mr. Brad Ramirez of Segal Consulting presented the findings from the actuarial audit of the August 31, 2013 actuarial valuation conducted by Gabriel, Roeder, Smith & Co. The calculations of the various liability measures and funding metrics were found to be within a reasonable range and provided a reasonable basis for setting actuarial assumptions. Mr. Strom stated that GRS' economic assumptions on inflation and investment return were found to be reasonable. Concerning the mortality assumption, Mr. Ramirez suggested building a table based on the current mortality scale to project future mortality improvement. He stated that some minor assumptions were not disclosed, including pay increases for inactive vested members and interest assumption on account balances.

Mr. Ramirez highlighted suggested improvements on the format of the valuation report. He stated that it would be useful to show results under both the current and ultimate member contribution rates in light of a 4-year period gap between the report date and the date that ultimate contribution rates take effect. He also commented that the actuarial asset valuation method could be simplified.

Mr. Newton of GRS stated that GRS would review audit findings and recommendations for the next experience study and include items that were not disclosed in the next study.

16. Review the report of the Chief Benefit Officer, and consider the following related matters – Marianne Woods Wiley;

A. Approve members qualified for retirement.

Ms. Woods Wiley presented the list of members and beneficiaries receiving initial benefit payments during the reporting period from June 1, 2014, through August 31, 2014. She referred the board to the detailed list of payments made available for their review.

On a motion by Mr. Moss, seconded by Ms. Ramirez, 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 stated that Dr. Wilson provided a brief report on the typical ailments faced by the member population. She also reported positive comments received from visitors on the new furniture in the lobby.

Ms. Woods Wiley presented the minutes of the May 13, 2014 Medical Board meeting. On a motion by Ms. Charleston, seconded by Ms. Palmer, the board approved the minutes of the Medical Board meeting as presented, thereby ratifying the actions of the Medical Board reflected in those minutes.

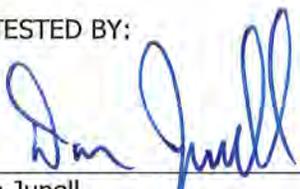
20. Consult with the Board's attorney(s) in Executive Session on any item listed above on this meeting agenda as authorized by Section 551.071 of the Texas Open Meetings Act (Chapter 551 of the Texas Government Code) – David Kelly.

The board took up no further business under agenda item 20.

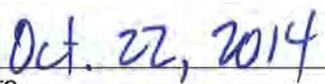
The meeting was adjourned at 11:55 a.m.

APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM OF TEXAS ON THE 17TH DAY OF OCTOBER, 2014.

ATTESTED BY:



Dan Junell
Secretary to the TRS Board of Trustees



Date