

Minutes of the Board of Trustees

April 28, 2022

The Board of Trustees of the Teacher Retirement System of Texas met on Thursday, April 28, 2022, in the boardroom located on the Fifth Floor in the East Building of TRS' offices located at 1000 Red River Street, Austin, Texas, 78701.

The following Board members were present:

Jarvis V. Hollingsworth, Chair
Nanette Sissney
Michael Ball
David Corpus
John Elliott
Christopher Moss
James Nance
Robert H. Walls, Jr.

Others present:

| | |
|---|--------------------------------------|
| Brian Guthrie, TRS | Emily Portney, BNY |
| Andrew Roth, TRS | David Blakely, BNY |
| Heather Traeger, TRS | Francisco Aristeguieta, State Street |
| Jase Auby, TRS | Jessica Donahue, State Street |
| Don Green, TRS | Steve Voss, AON |
| Barbie Pearson, TRS | Michael McCormick, AON |
| Katrina Daniel, TRS | Kirsten Schatten, Segal Consulting |
| Amanda Jenami, TRS | Mary McVazin, United HealthCare |
| Martin Cano, TRS | Grace Mueller, RAC |
| Lori LaBrie, TRS | Pamela McPeters, TCTA |
| Katherine Farrell, TRS | Todd Coulter, HDS |
| Melanie Ingleby, TRS | Mark Robbins, HDS |
| LaTresa Stroud, TRS | Dena Huggler, BCBS |
| Aundre Petty, TRS | Steve Alexander, BCBS |
| Kendall Courtney, TRS | Karen Heywood, BCBS |
| Suzanne Dugan, Cohen Milstein | Adriana S. Garza, CVS |
| Dr. Keith Brown, Board Investment Advisor | Bonnie Vale, HMS |

Mr. Hollingsworth called the meeting to order at 8:02 a.m.

1. Call roll of Board members.

Ms. Farrell called the roll. A quorum was present.

2. Consider the following administrative matters:

a. Approval of the February 2022 proposed meeting minutes; and

On a motion by Mr. Corpus, seconded by Mr. Elliott, the Board unanimously voted to approve the February 2022 proposed meeting minutes as presented.

b. Consider excusing Trustee's absences from the February 2022 meeting.

On a motion by Ms. Sissney, seconded by Mr. Nance, the Board unanimously voted to excuse Mr. Moss and Mr. Walls' absences from the February 2022 board meeting.

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

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

Mr. Brian Guthrie reviewed upcoming and past conferences and meetings. He reviewed the Senate and House interim charges that were released since the Board last convened. He provided an update on the implementation of the new classification system noting in July this item will be brought up in the Compensation Committee. He reported on the upcoming Trustee Elections, noting the nomination period begins June 1, 2022. He gave an update on Alpha-Bravo's progress. Mr. Guthrie concluded by reviewing items for February and April Board meetings.

4. Receive TRS Quarterly Ombudsman's Report – Lori LaBrie.

Ms. Heather Traeger noted that Ms. Lori LaBrie was unable to attend today and sent her apologies. Ms. Katherine Farrell provided the fourth quarter report with data from the two leading months of January and February. She noted the increase in extended wait time for the leading months. She reported this was due to the supplemental checks, taxes and retirement questions.

5. Review and consider procurements and contracts, including the following – Martin Cano:

- A. Receive Procurement and Contracts Update;**
- B. Consider Procurement and Contracting Report.**

Mr. Martin Cano announced March was Procurement Month as proclaimed by Governor Abbott. He said TRS took the opportunity to continue to educate TRS staff about the procurement process. He said the updated procedure manual and procurement process manual has been completed and released. He said the TRS HUB Forum will be in person this year held at TRS on June 7, 2022.

Mr. Cano reviewed the Contract Procurement report.

On a motion by Mr. Moss, seconded by Ms. Sissney, the Board unanimously voted to accept the Procurement and Contracting report as presented by staff.

6. Receive the Deputy Director's Update formerly the Chief Operations and Administration Officer (COAO) update – Andrew Roth.

Mr. Andrew Roth provided an update on TEAM. He reported the web self-service MyTRS application implementation went live. He said this is the third major release for the team since taking over the project from the vendor in 2020. He said the diversity equity and inclusion tool solicitation was executed and Lenox Park was selected. He concluded with a discussion about the information technology projects and staffing. He said as a \$200 billion financial institution, the ability to manage multiple large projects is increasingly important. He said while still working on TEAM there are other pressing needs from other lines of business that are becoming critical business requirements. He said in the coming months, especially in July, there will be a specific ask for investment in IT resources. He gave a high-level overview of the current and impending IT projects.

At 9:14 a.m., Mr. Hollingsworth announced the board would recess to take up the scheduled committee meetings and then will reconvene the Board in the afternoon.

At 3:09 p.m., Mr. Hollingsworth announced the Board meeting as reconvened and agenda items 14 and 7 would be taken up.

14. Receive the report of the Benefits Committee on its April 28, 2022 meeting and consider the following – Committee Chair:

- A. Acceptance of the Medical Board Meeting minutes of the November 2021 and January 2022 meetings; and**
- B. Approval of the Benefit Payments for December 2021 to February 2022;**
- C. Approval of plan benefits and rates to be offered under TRS-ActiveCare for FY 2023; and**
- D. Approval of HMO plan benefits and rates to be offered in association with TRS-ActiveCare during FY 2023.**

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

The Benefits Committee met on April 28, 2022. The committee approved the proposed minutes of the Benefits Committee for the December 7, 2021 meeting.

Barbie Pearson, chief benefits officer, provided an update on the Medical Board. The committee recommends to the Board the acceptance of the Medical Board meeting minutes for November 2021 and January 2022.

Ms. Pearson also provided an update on the benefit payments for the second quarter of fiscal year 2022. The committee recommends to the Board the approval of benefit payments for December 2021 through February 2022.

The Committee received an update from Ms. Pearson on Benefit Services operations for the second quarter of fiscal year 2022. This report included an update on Benefit Services

workload, including a discussion on the impact of the new positions approved for the back office processes, update on progress of customer services initiatives presented in the February Board meeting and the incremental improvements in the response times as training and hiring continues for Benefit Services.

Next the Committee received an update from Ms. Grace Mueller regarding the TRS-Care Retirees Advisory Committee meeting on March 29, 2022. Ms. Mueller reported on \$286 million in federal COVID funds returned to TRS-Care plan participants. This resulted in approximately 182,000 retirees receiving \$448 each in March. She went on to report that about 300 retirees who left TRS-Care after the 2018 plan changes returned to the plan as a result of recent legislation.

Ms. Katrina Daniel and Ms. Yimei Zhao provided a review of TRS-ActiveCare and TRS-Care plan year 2019 pharmacy claim and rebate audit. Auditors completed a claims audit and rebate audit, finding less than one-tenth of one percent in error which will be returned to plan funds.

Mr. Ball concluded the report with the following motions and additional request:

On a motion by Mr. Ball, the Board unanimously voted to accept the Medical Board's meeting minutes for November 2021 and January 2022 meetings, as recommended by the Benefits Committee.

On a motion by Mr. Ball, the Board unanimously voted to approve the benefit payments for December 2021 through February 2022, as recommended by the committee.

Mr. Ball requested for a report on Benefits Committee Items 4B and C for full Board discussion and consideration. Mr. Guthrie stated the program has traveled a long road over the last three years with the global pandemic and the adverse impact related to a loophole that was in statute that was closed during this recent legislative session. He said just a few months ago, the program received appropriations not only for ActiveCare but also for Care in the form of federal relief dollars for COVID expenses. He noted the program over the winter experienced a significant impact from the Omicron variant. He said staff was not only going to recommend regional ratings around the state but in addition there was a fairly substantial premium increase across the board on top of that regional rating change that would allow the program to move forward. However, he announced that this afternoon, with the leadership of Governor Greg Abbott, Lieutenant Governor Dan Patrick, Speaker Dave Phelan, Senate Finance Chair Joan Huffman and House Appropriations Chair Greg Bonnen, an additional \$435 million in COVID-19 relief funds. He reported this money will mitigate the impact of both the regional ratings as well as the proposed increase in premiums. He announced the maximum increase any district will see will be zero percent, with other districts actually having a premium reduction for this year.

Ms. Katrina Daniel stated even with this unprecedented funding from the governor and legislative leadership TRS continues to look for ways to bend the cost curve in health care and improve the value and pricing on the products delivered to the members. She reported in comparison to other large self-funded plans across the state in the last seven years they have seen a 38 percent increase in costs, whereas TRS has experienced only 12 percent increase. Ms. Daniel then reviewed the average premiums for the fiscal year 2023 plan that begins on September 1, 2022. She reported a

few changes in benefits, giving the example of Teladoc increasing pricing and having to pass that on to membership. She reviewed other benefits such as implementing the legislation that limit out-of-pocket co-pay to \$25 for insulin.

Ms. Daniel reviewed the proposed 2023 plan year rates and showed the lowest and highest cost areas of the State. She said with the additional funding Mr. Guthrie announced, no area will receive an increase this year and some areas, like the Rio Grande Valley, will receive as much as a 20 percent decrease in some of their plans. Ms. Daniel also announced of the \$203 million the legislature committed to TRS in the third special session, \$187 million will go into plan year 2024 to help buy the rate down and not experience a significant spike in premiums.

Ms. Daniel reviewed the proposed 2023 plan year for the HMOs in three regions of the state under ActiveCare. She reported Blue Cross Blue Shield did not have any proposed plan changes in benefits and rates reflect the additional costs in South or West Texas regions. Baylor Scott & White made significant changes to their benefits and rates in Central Texas.

Ms. Daniel reviewed the communications and outreach plan to discuss the proposed changes. She noted annual enrollments occurs in the summer for the plan that begins in September. She discussed the campaign for branding the regional information noting each region will have their own landing page where they can get information about their specific region.

On a motion by Mr. Ball, seconded by Ms. Sissney, the Board unanimously approved the following resolution approving the benefits and premium rates for the existing plans in TRS-ActiveCare:

RESOLUTION APPROVING BENEFITS AND PREMIUM RATES FOR THE EXISTING PLANS IN TRS-ACTIVECARE

Whereas, Chapter 1579, Insurance Code (the "Texas School Employees Uniform Group Health Coverage Act"), governs the Texas School Employees Uniform Group Health Coverage Program, hereinafter referred to as TRS-ActiveCare, and authorizes the Teacher Retirement System of Texas (TRS), as trustee, to implement and administer TRS-ActiveCare, as described in the statute;

Whereas, TRS staff and consultants assisting staff (the "Consultants") have recommended that benefit changes, as indicated below, be made to TRS-ActiveCare Primary, TRS-ActiveCare Primary+, TRS-ActiveCare HD, and TRS-ActiveCare 2 for the 2022 plan year commencing on September 1, 2022;

Whereas, the Texas Administrative Code, 34 TAC § 41.35, was recently amended to clarify that TRS has the authority to consider regional factors and other underwriting considerations when establishing premium rates for different participating entities;

Whereas, TRS staff and the Consultants recommend that for the 2023 plan year commencing on September 1, 2022, premium rates for TRS-ActiveCare Primary, TRS-ActiveCare Primary+,

TRS-ActiveCare HD, and TRS-ActiveCare 2, be set at the regional premium amounts set out in Exhibit A, attached to this resolution and incorporated herein by reference;

Whereas, The TRS Board of Trustees ("Board") desires to adopt the recommendations of TRS staff and the Consultants; now, therefore, be it

Resolved, That the Board hereby adopts and authorizes the following major benefit changes, subject to all other plan requirements and restrictions, for TRS-ActiveCare Primary, TRS-ActiveCare Primary+, TRS-ActiveCare HD, and TRS-ActiveCare 2, beginning in the 2023 plan year commencing on September 1, 2022 and thereafter, until further action by the Board:

| TRS-ActiveCare Primary | | |
|--|-------------------------------|--|
| Plan Feature | Current 2022 Plan Year | Proposed 2023 Plan Year |
| <u>Virtual care</u> Teladoc consultation fee | \$0 | \$12 |
| <u>Prescription Drugs</u> Insulin Out-of-Pocket Costs | 30% after deductible | \$25 copay for 31-day supply; \$75 for 61-90 |
| Specialty Drugs Not Eligible for PrudentRx | 30% after deductible | 30% after deductible |
| Specialty Drugs Eligible for PrudentRx* | 30% after deductible | 0%, deductible waived* |

**Participants that decline enrollment in PrudentRx will pay 30% coinsurance after deductible.*

| TRS-ActiveCare Primary+ | | |
|--|-------------------------------|--|
| Plan Feature | Current 2022 Plan Year | Proposed 2023 Plan Year |
| <u>Virtual care</u> Teladoc consultation fee | \$0 | \$12 |
| <u>Prescription Drugs</u> Insulin Out-of-Pocket Costs | 25% after deductible | \$25 copay for 31-day supply; \$75 for 61-90 |
| Specialty Drugs Not Eligible for PrudentRx | 20% after deductible | 30% after deductible |
| Specialty Drugs Eligible for PrudentRx* | 20% after deductible | 0%, deductible waived* |

**Participants that decline enrollment in PrudentRx will pay 30% coinsurance after deductible.*

| TRS-ActiveCare HD | | |
|---|-------------------------------|--------------------------------|
| Plan Feature | Current 2022 Plan Year | Proposed 2023 Plan Year |
| <u>In-Network</u> Individual Out-of-Pocket Maximum | \$7,000 \$14,000 | \$7,050 |

| TRS-ActiveCare HD | | |
|---|------------------------|-------------------------|
| Plan Feature | Current 2022 Plan Year | Proposed 2023 Plan Year |
| Family Out-of-Pocket Maximum | | \$14,100 |
| <u>Virtual care</u> Teladoc consultation fee | \$30 | \$42 |

| TRS-ActiveCare 2 | | |
|--|------------------------|--|
| Plan Feature | Current 2022 Plan Year | Proposed 2023 Plan Year |
| <u>Virtual care</u> Teladoc consultation fee | \$0 | \$12 |
| <u>Prescription Drugs</u> Insulin Out-of-Pocket Costs | 25% after deductible | \$25 copay for 31-day supply; \$75 for 61-90 |
| Specialty Drugs Not Eligible for PrudentRx | 20% after deductible | 30% after deductible |
| Specialty Drugs Eligible for PrudentRx* | 20% after deductible | 0%, deductible waived* |

**Participants that decline enrollment in PrudentRx will pay 30% coinsurance after deductible.*

Resolved, That the Board hereby adopts and authorizes the premium rates for TRS-ActiveCare Primary, TRS-ActiveCare Primary+, TRS-ActiveCare HD, and TRS-ActiveCare 2 contained in Exhibit A, for the 2023 plan year commencing on September 1, 2022 and thereafter, until further action by the Board;

Resolved, That the Board hereby authorizes the Executive Director or his designees to take any actions that are necessary or advisable to implement the benefit structures and premium rates as adopted or authorized herein, and to take any actions that are necessary or advisable to otherwise implement, administer, and continue the TRS-ActiveCare, until further action by the Board.

On a motion by Mr. Ball, seconded by Ms. Sissney, the Board unanimously approved the following resolution approving benefits and premium rates for the HMO plans in TRS-ActiveCare:

**RESOLUTION APPROVING BENEFITS,
PREMIUM RATES, AND SERVICE AREAS
FOR HMOs ASSOCIATED WITH
THE TRS-ACTIVECARE PROGRAM**

Whereas, Chapter 1579, Texas Insurance Code (the "Texas School Employees Uniform Group Health Coverage Act"), governs the Texas School Employees Uniform Group Health Coverage Program, hereinafter referred to as TRS-ActiveCare, and authorizes the Teacher Retirement

System of Texas ("TRS"), as trustee, to implement and administer TRS-ActiveCare, as described in the statute;

Whereas, TRS currently has contracts with two health maintenance organizations ("HMOs"), Scott & White Care Plans ("SWCP") and Blue Cross and Blue Shield of Texas ("BCBSTX"), which allows these entities to offer benefits to participants in TRS-ActiveCare who reside or work in the respective service areas of each HMO that have previously been approved by the TRS Board of Trustees (the "Board") and are listed in Exhibit A, attached to this resolution and incorporated herein by reference;

Whereas, SWCP proposed major benefit changes for the 2023 plan year commencing on September 1, 2022, to the respective plan design the HMO offered in the 2022 plan year;

Whereas, BCBSTX did not propose any major benefit changes for the 2023 plan year commencing on September 1, 2022, to the respective plan designs the HMO offered in the 2022 plan year;

Whereas, TRS staff and consultants assisting staff (the "Consultants") evaluated the proposed major benefit changes and recommend that for the 2023 plan year commencing on September 1, 2022, SWCP and BCBSTX be allowed to provide health care services to TRS-ActiveCare participants in their respective service areas, as approved by the Board, under the same respective plan design that each HMO offered in the 2022 plan year, with only those major benefit changes proposed by SWCP and noted hereinafter, along with any minor benefit changes that may be reflected in the applicable TRS and HMO plan documents;

Whereas, the Texas Administrative Code, 34 TAC § 41.35, was recently amended to clarify that TRS has the authority to consider regional factors and other underwriting considerations when establishing premium rates for different participating entities;

Whereas, TRS staff and the Consultants evaluated the benefits and premium rates proposed by SWCP for the HMO plan covering the forty-two (42) "Central Texas" counties listed in Exhibit A, the benefits and premium rates proposed by BCBSTX for the HMO plan covering the four (4) "South Texas" counties listed in Exhibit A, and the benefits and premium rates proposed by BCBSTX for the HMO plan covering the ninety-two (92) "West Texas" counties listed in Exhibit A;

Whereas, TRS staff and the Consultants recommend for the 2023 plan year commencing on September 1, 2022, the Board approve the premium rates noted hereinafter, which premium rates include the same monthly administration fee of \$15.00 per employee enrolled in an HMO as previously approved by the Board for the 2022 plan year, to cover fees and other administrative expenses incurred by the TRS-ActiveCare program; and

Whereas, the Board considered the information provided by TRS staff and the Consultants and desires to approve the recommendations by TRS staff and the Consultants, including the respective, proposed plan designs being offered for the 2023 plan year commencing on September 1, 2022, by each of the two HMOs, with respective changes in benefits (including changes as noted hereinafter) proposed by SWCP, and the premium rates for the 2023 plan year commencing on September 1, 2022; now, therefore, be it

Resolved, that the Board hereby approves the proposal for SWCP to offer to TRS-ActiveCare Participants during the 2023 plan year commencing on September 1, 2022, the same plan design it offered in the 2022 plan year, with the following proposed major benefit changes, along with any minor benefit changes that may be reflected in the applicable TRS and HMO plan documents and subject to all other plan requirements and restrictions; and approves and adopts the following monthly premium rates, which rates include a monthly administration fee payable to TRS of \$15.00 per enrolled employee, for enrollment in this HMO during the 2023 plan year commencing on September 1, 2022, according to coverage tier:

SWCP Major Benefit Change Highlights

| Plan Feature | Current 2022 Plan Year | Proposed 2023 Plan Year |
|---|--|--|
| Individual/Family Deductible | \$1,150/\$3,450 | \$1,900/\$4,750 |
| Individual/Family Out-of-Pocket Maximum | \$7,450/\$14,900 | \$8,000/\$15,000 |
| Primary Care Physician | \$20 copay | \$15 copay |
| Urgent Care Visit | \$50 copay | \$45 copay |
| Pharmacy Deductible | \$200 (excl. generics) | \$200 (excl. generics) |
| Generic Drug <i>(Retail/Mail)</i> | \$10/\$25 | \$12/\$30 |
| Specialty Drug | 15%/25% after deductible (preferred/nonpreferred) | 25%/35% after deductible (preferred/nonpreferred) |

Monthly Premiums

| Region | Coverage Tier | Proposed 2023 Plan Year Premiums Per Month |
|--------|-----------------------|--|
| 4 | Employee Only | \$527.81 |
| | Employee & Spouse | \$1,325.22 |
| | Employee & Child(ren) | \$848.31 |
| | Employee & Family | \$1,525.20 |
| 6 | Employee Only | \$527.81 |
| | Employee & Spouse | \$1,325.22 |
| | Employee & Child(ren) | \$848.31 |
| | Employee & Family | \$1,525.20 |
| 10 | Employee Only | \$543.35 |
| | Employee & Spouse | \$1,364.92 |

| | | |
|----|-----------------------|------------|
| | Employee & Child(ren) | \$873.57 |
| | Employee & Family | \$1,570.98 |
| 11 | Employee Only | \$569.24 |
| | Employee & Spouse | \$1,431.08 |
| | Employee & Child(ren) | \$915.65 |
| | Employee & Family | \$1,647.24 |
| 12 | Employee Only | \$491.55 |
| | Employee & Spouse | \$1,232.58 |
| | Employee & Child(ren) | \$789.39 |
| | Employee & Family | \$1,418.42 |
| 13 | Employee Only | \$491.55 |
| | Employee & Spouse | \$1,232.58 |
| | Employee & Child(ren) | \$789.39 |
| | Employee & Family | \$1,418.42 |

Resolved, the Board hereby approves the proposal for BCBSTX to offer to TRS-ActiveCare Participants who reside in the four (4) "South Texas" counties listed in Exhibit A during the 2023 plan year commencing on September 1, 2022, the same plan design it offered in the 2022 plan year, with no major benefit changes, along with any minor benefit changes that may be reflected in the applicable TRS and HMO plan documents and subject to all other plan requirements and restrictions; and approves and adopts the following monthly premium rates, which rates include a monthly administration fee payable to TRS of \$15.00 per enrolled employee, for enrollment in this HMO during the 2023 plan year commencing on September 1, 2022, according to coverage tier:

Monthly Premiums

| Region | Coverage Tier | Proposed 2023 Plan Year Premiums Per Month |
|---------------|-----------------------|---|
| 1 | Employee Only | \$614.64 |
| | Employee & Spouse | \$1,484.16 |
| | Employee & Child(ren) | \$961.22 |
| | Employee & Family | \$1,579.76 |

Resolved, the Board hereby approves the proposal for BCBSTX to offer to TRS-ActiveCare Participants who reside in the ninety-two (92) “West Texas” counties listed in Exhibit A during the 2023 plan year commencing on September 1, 2022, the same plan design it offered in the 2022 plan year, with no major benefit changes, along with any minor benefit changes that may be reflected in the applicable TRS and HMO plan documents and subject to all other plan requirements and restrictions; and approves and adopts the following monthly premium rates, which rates include a monthly administration fee payable to TRS of \$15.00 per enrolled employee, for enrollment in this HMO during the 2023 plan year commencing on September 1, 2022, according to coverage tier:

Monthly Premiums

| Regions | Coverage Tier | Proposed 2023 Plan Year Premiums Per Month |
|---------------------------|-----------------------|---|
| 9, 13, 14, 15, 16, 17, 18 | Employee Only | \$689.60 |
| | Employee & Spouse | \$1,672.26 |
| | Employee & Child(ren) | \$1,083.58 |
| | Employee & Family | \$1,775.58 |

Resolved, that the approved plans of coverage offered by each HMO only to participants in TRS-ActiveCare who reside or work in the respective service areas of each HMO, each of which commences on September 1, 2022, shall remain unchanged until further action by the Board.

Resolved, that the approved service area of each HMO shall remain unchanged until further action by the Board;

Resolved, that with prior written approval from the Executive Director or his designee, each HMO may offer to participants in TRS-ActiveCare who reside or work in the respective service areas of each HMO, lower premiums than those herein approved, each of which commences on September 1, 2022.

Resolved, that the Board authorizes the Executive Director or his designees to take any actions, including the expenditure of funds and the execution of all documents, deemed by him or such designee to be necessary or advisable to implement this resolution and to administer the TRS-ActiveCare contracts with the HMOs in the best interests of the TRS-ActiveCare program.

- 7. Consider selecting a master custody services and security lending provider, including receiving presentations from vendor finalists including considering a finding that to deliberate or confer in open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person – Jase Auby, Kendall Courtney, LaTresa Stroud and Aundre Petty.**

Mr. Aundre Petty provided an overview of the solicitation process for the master custody services and security lending provider. He said TRS issued a request for proposals (RFP) on September 13, 2021 with an extended deadline of November 2, 2021. He said the evaluation team consisted of eleven subject matter experts that cover a wide variety of key areas within the TRS Investment Management Division and also the Financial Service Division. Ms. LaTresa Stroud stated as a result of the evaluations there are two respondents that will present today in alphabetical order, BNY Mellon and State Street.

Ms. Emily Portney, CFO, and David Blakely, Senior Relationship Executive, both of Bank of New York Mellon, provided an overview of their company and the support and services they provide.

Mr. Francisco Aristequieta, CEO of Institutional Services, and Ms. Jessica Donohue, Executive Vice President, both of State Street, provided an overview of their company and the support and services they provide.

On a motion by Ms. Sissney, seconded by Mr. Nance, the Board unanimously voted to find that to discuss selecting a master custody vendor and securities lending provider in public would have a detrimental effect on the position of the Retirement System in negotiations with a third party.

At 5:05 pm, Mr. Hollingsworth announced the Board would go into executive session regarding Agenda Item 7 under sections 825.115(e) and 551.071 to discuss procurement matters and consult with legal counsel as needed.

At 6:25 pm, Mr. Hollingsworth reconvened the Board meeting.

On a motion by Mr. Walls, seconded by Mr. Corpus, the Board voted on the following resolution, with Mr. Moss opposing, to enter negotiations with State Street Bank as the custodian securities lending agent for a three-year term, with the option for two one-year renewals at the discretion of the Board and designating Bank of New York as secondary if an agreement is not reached with State Street:

**Resolution of Board of Trustees
Relating to the Selection of Master Custodian
and Securities Lending Services**

WHEREAS, Texas Government Code §825.101 provides that the Teacher Retirement System ("TRS") Board of Trustees ("Board") is responsible for the general administration and operation of the retirement system, and §825.103(d) provides that the Board has exclusive authority over the purchase of goods and services using trust funds including, without limitation, professional services;

WHEREAS, Texas Government Code §825.207(e) and §825.303(a) provide that the Board may select one or more commercial banks or other entities to serve as custodian of TRS' assets and to lend TRS's securities under rules adopted by the Board;

WHEREAS, the TRS Bylaws, subsection 1.7(n), state that the Board will select one or more custodian banks to provide custodial services for TRS assets;

WHEREAS, the TRS Bylaws, subsection 4.1.2(f), state that the Executive Director shall recommend to the Board the selection of the custodian for securities;

WHEREAS, the TRS Board Procurement Policy states that the Board will consider and authorize contracts with one or more custodian banks to provide custodial and security lending services for TRS assets;

WHEREAS, Section 2.3 of the TRS Securities Lending Policy states that the Board will, in addition to the custodian, select the lending agent to perform the securities lending function.

WHEREAS, the current contract for Master Custodian and Securities Lending services will expire on December 31, 2023;

WHEREAS, on September 13, 2021, TRS issued a Request for Proposal to solicit a qualified Master Custodian and Securities Lending contractor;

WHEREAS, TRS received two proposals, both of which met TRS minimum qualifications;

WHEREAS, an evaluation team of 11 evaluators ranked and scored the proposals and invited the two respondents to provide TRS with an on-site presentation;

WHEREAS, after scoring the presentations, documented responses, due diligence calls, factoring in vendor interviews, presentations, and Best and Final Offers, and based on qualifications, experience, proposed contract terms and conditions, proposed fees, and other relevant factors, including the impact of timing with regard to technology and innovation, evolving regulation and compliance requirements, personnel considerations brought on as a result of the pandemic, and the impacts of these factors on what is already one of TRS' most complex and critical procurements, staff recommends State Street Bank for Board consideration and selection as TRS' master custodian of TRS' assets and securities lending agent for TRS as representing the best overall value for TRS;

WHEREAS, on April 28, 2022, the two respondents presented presentations to the Board in open session and the Board convened in closed session to deliberate; Now, therefore be it

RESOLVED, That the Board considered the evaluation and recommendation made by TRS Staff related to the candidates for selection as TRS' master custodian of TRS' assets and securities lending agent for TRS.

RESOLVED, That the Board finds that State Street Bank represents the best overall value for TRS based on qualifications, experience, proposed contract terms and conditions, proposed fees, and other relevant factors, including the impact of timing with regard to technology and innovation, evolving regulation and compliance requirements, personnel considerations brought on as a result of the pandemic, and the impacts of these factors on what is already one of TRS's most complex and critical procurements.

RESOLVED, That the Board hereby selects State Street Bank as TRS' master custodian of TRS' assets and securities lending agent for TRS.

RESOLVED, That the Board hereby authorizes the Executive Director or his designee to negotiate, as soon as practicable, with the assistance of legal counsel, a contract with State Street Bank to provide master custodian and securities lending services for a term to commence as soon as possible after negotiations are finalized and terminate three years after the execution date of the contract with the option for extension(s) if approved by the Board at a later date; and, if negotiations are deemed in his or her discretion to be successful, then the Executive Director or his designee is hereby authorized to execute a contract on the same or better financial terms presented to the Board and on such terms and conditions as such officer may deem, in his or her discretion, to be in the best interest of TRS, and further to execute and deliver all such other documents, including all future extensions or amendments to the contract, that such officer may deem reasonably necessary or appropriate to effectuate this resolution, as conclusively evidenced by the taking of the action or the execution and delivery of the documents, and to incur, approve and pay any budgeted expenses or costs reasonably necessary or advisable with respect to such contract or amendments.

RESOLVED, That if for any reason, the Executive Director concludes in his sole judgment that TRS is not reasonably likely to successfully negotiate a contract with State Street Bank, then the Board hereby selects BNY Mellon to provide master custodian and securities lending services and authorizes the Executive Director or his designee to negotiate as soon as practicable, with the assistance of legal counsel, a contract with BNY Mellon to provide master custodian and securities lending services for a term to commence as soon as possible after negotiations are finalized and terminate three years after the execution date of the contract with the option for extension(s) if approved by the Board at a later date.

RESOLVED, That once the Executive Director concludes in his sole judgment that TRS is not reasonably likely to successfully negotiate a contract with State Street Bank, then the Board hereby authorizes the Executive Director or his designees to expend funds and to take all actions deemed by him or a designee to be necessary or advisable to implement this resolution, including the negotiation and execution of all documents needed to finalize an acceptable contract with BNY Mellon on the same or better financial terms presented to the Board and on such other terms and conditions deemed by the Executive Director or a designee to be in the best interest of TRS, and from time to time to amend or modify the contract as deemed by the Executive Director or a designee to be in the best interest of TRS; and,

RESOLVED, That nothing in this resolution may be construed as a contract, an offer to contract with a power of acceptance that would form a contract, or an acceptance of an offer to contract, and TRS is not and will not be legally bound to any agreement unless and until the Executive Director has executed and delivered definitive agreements relating to the subject matter, as applicable.

Mr. Hollingsworth announced no further items would be taken up for the day. He stated the next day would start with Agenda Item 8 and 9

At 6:28 pm, Mr. Hollingsworth recessed for the meeting.

April 29, 2022

The Board of Trustees of the Teacher Retirement System of Texas met on April 29, 2022 in the boardroom located on the Fifth Floor in the East Building of TRS' offices located at 1000 Red River Street, Austin, Texas, 78701.

The following Board members were present:

Jarvis V. Hollingsworth, Chair
Nanette Sissney
Michael Ball
David Corpus
John Elliott
Christopher Moss
James Nance
Robert H. Walls, Jr.

The following Board member attended virtually:

Others present:

| | |
|---|--|
| Brian Guthrie, TRS | Tim Lee, TRTA |
| Andrew Roth, TRS | Craig Campbell, Austin Retired Teacher Association |
| Don Green, TRS | Joe Newton, GRS |
| Heather Traeger, TRS | Dan Siblik, GRS |
| Jase Auby, TRS | Steve Voss, AON |
| Barbie Pearson, TRS | Mike McCormick, AON |
| Katrina Daniel, TRS | Laurie Patton, EY |
| Amanda Jenami, TRS | Doug Holt, EY |
| Caasi Lamb, TRS | Mike Oak, McLagan |
| Martin Cano, TRS | Hillary Eckford, SAO |
| Katy Hoffman, TRS | Tracy Fields, CVS |
| Katherine Farrell, TRS | Brock Gregg, TRTA |
| Christine Bailey, TRS | |
| Suzanne Dugan, Cohen Milstein | |
| Dr. Keith Brown, Board Investment Advisor | |

At 8:55 am the Chair reconvened the board meeting and without objection called up Agenda Item 12.

12. Provide an opportunity for public comment.

Mr. Tim Lee, representing TRTA, expressed appreciation for the Board and staff for providing detailed information about why a change in the rate of return assumption is being considered, how it may impact the fund, and the options available to trustees to make this decision with the best outcomes for the members of the Trust and the least impact to the unfunded accrued actuarial

liability. He said his members are focused on the coming session to secure the cost of living adjustment.

Dr. Craig Campbell, Austin Retired Teachers Association, expressed the need for retirees to receive a cost of living adjustment.

13. Receive the report of the Strategic Planning Committee on its April 28, 2022 meeting and consider adopting the proposed fiscal year 2023 – 27 Strategic Plan Goals, Objectives and Strategies– Committee Chair.

Mr. Walls, Committee Chair, provided the following report of the Strategic Planning Committee:

The Strategic Planning Committee met on April 28, 2022.

Ms. Caasi Lamb provided an overview of TRS' proposed updates to the 2023-2027 strategic plan goals, objectives and strategies. The committee voted unanimously to recommend to the Board adoption of the proposed updates to the 2023-2027 strategic plan goals, objectives and strategies.

Ms. Lamb, along with strategic plan objective owners, discussed and reviewed the results forum information for the 2021 – 2025 TRS strategic plan objectives. Those objectives included increasing identification of underpayments and collection of future contributions, achieving the investment rate of return, improving the customer service experience, and improving the timeliness and accuracy in employer-reported data. Ms. Lamb also provided an overview of the enterprise spotlight report.

Mr. Walls concluded his report with the following motion:

On a motion by Mr Walls, the Board unanimously voted to adopt the 2023-2027 strategic plan goals, objectives and strategies as proposed by the Strategic Planning Committee.

Mr. Hollingsworth announced taking up Agenda Item 15 next.

15. Receive the report of the Budget Committee on its April 28, 2022 meeting – Committee Chair:

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

The Budget Committee met April 28, 2022. The first item of business was approval of the minutes of the December 2021 Budget Committee meeting.

Then Mr. Green presented a high-level overview of the FY22 midyear budget, as well as the FTE status report. He addressed the spending activity for the first six months of the fiscal year and explained the agency efforts in transferring available lapse to cover agency critical needs, such as on boarding staff for Benefit Services.

Mr. Green presented a high-level overview of the FY 2023 administrative operating budget. He discussed the major budget impacts and resources staff will be requesting to address agency critical needs. Mr. Green discussed the budget's impact will be an increase to the appropriated budget. He also presented a high-level overview of the FY24-25 Legislative Appropriations Request, including a timeline for the submission and the components of the request.

16. Receive the report of the Policy Committee on its April 28, 2022 meeting and consider adoption of the following – Committee Chair:

- A. Proposed amendments to TRS Rule 25.21 relating to Compensation Subject to Deposit and Credit in Subchapter B of Chapter 25 of Title 34, Part 3 of the Texas Administrative Code;**
- B. Adopting or amending the Board Resolution Designating Persons Authorized to sign TRS Vouchers.**

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

The Policy Committee met on April 28, 2022.

The committee approved the proposed minutes of its December 2021 meeting.

The committee received an update on the rule review process and authorized for publication in the Texas Register a notice of intent to review TRS rules in Chapters 21 through 51 of Title 34, Part 3 of the Texas Administrative Code.

The committee recommended to the Board adoption of the current resolution designating persons authorized to sign TRS vouchers. The committee recommended to the Board adoption of the proposed amendments to TRS Rule 25.21 relating to compensation subject to deposit and credit in Subchapter B of Chapter 25 of Title 34, Part 3 of the Texas Administrative Code.

The committee authorized for publication in the Texas Register notice of the proposed amendments to TRS Rule 41.33 relating to definitions applicable to the Texas School Employees Uniform Group Health Coverage Program.

Mr. Elliott concluded his report with the following motions:

On a motion by Mr. Elliott, the Board unanimously voted to adopt the current resolution designating persons authorized to sign TRS vouchers, as recommended by the Policy Committee.

On a motion by Mr. Elliott, the Board voted to unanimously adopt the proposed amendments to TRS Rule 25.21, relating to a compensation subject to deposit and credit, in Subchapter B of Chapter 25 of Title 34, Part 3 of the Texas Administrative Code, as recommended by the Policy Committee.

17. Receive the report of the Investment Management Committee on its April 28, 2022 meeting – Committee Chair.

Mr. Corpus, Committee Chair, provided the following report of the Investment Management Committee:

The Investment Management Committee met on April 28, 2022.

Jase Auby began with his CIO Update. The Fourth Quarter 2021 Performance Review was then presented by Steve Voss and Mike McCormick of AON.

James Nield and Stephen Kim provided a review of the semiannual risk report. The committee was then provided with an annual update of public markets presented by Dale West and Brad Gilbert. Following J.B. Daumerie presented an annual review on the Public SPN.

Concluding the Investment Management Committee, Heather Traeger and Denise Lopez provided a review of the IMD Legal and Compliance.

18. Receive the report of the Audit, Compliance, and Ethics Committee on its April 29, 2022 meeting and consider revisions to the Fiscal year 2022 Audit Plan – Committee Chair.

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

The Audit, Compliance and Ethics Committee met on Friday, April 29, 2022. The Committee approved the minutes of the December 7, 2021, Audit Compliance and Ethics Committee meeting.

SAO auditors presented the results of the financial audit of TRS's annual comprehensive financial report for the fiscal year ended August 31, 2021. The general counsel and chief compliance officer presented a routine compliance report.

The chief audit executive presented and recommended revisions to the fiscal year 2022 audit plan. The committee recommended for the Board of Trustees to adopt the proposed revisions to the fiscal year 2022 audit plan.

The Internal Audit staff presented the results of audits on strategic allocation procedures and governance and IT contract oversight. Internal Audit staff also presented the status of prior audit recommendations and various administrative reports.

Mr. Moss concluded his report with the following motion:

On a motion by Mr. Moss, the Board unanimously voted to adopt the proposed revisions to the fiscal year 2022 audit plan, as recommended by the ACE Committee.

19. Review and consider the TRS Experience Study findings and recommendations, including considering the Return Assumption –Joe Newton and Dan Siblik, Gabriel, Roeder, Smith & Co.; Steven Voss and Mike McCormick, AON.

Mr. Joe Newton reviewed the purpose of the experience study and the timing. He discussed how four years later the Board has more flexibility and opportunity than in 2018 when the last experience study was conducted. He said the calculations inside the valuation are built on a series of assumptions about the future behaviors, economic realities of the future, and the probabilities of the future. He noted the vast majority of the assumptions were found to be generally appropriate except the wage inflation piece and the investment return piece that will garner the most discussion. He said the data finds both items reasonable but not the optimal choice.

Mr. Dan Siblik reviewed how future results are impacted when the experience deviates from the assumption. He showed how TRS compared to its peers. He said the median investment return is 7.0 percent and the average is 6.99 percent. He noted two out of every three plans are below or at 7.0 percent.

Mr. Mike McCormick provided AON's forward-looking market expectations for the various markets that TRS invests in and the expected volatility and return for each. He reported over 30 years AON estimates the return will be about 7.2 percent per year on average. He said the performance reports from quarter to quarter show a level of volatility. He stated for over the next ten years the expectation for the return is 6.9 percent per year on average. Mr. Auby reviewed how past projections fared over time. He noted this analysis emphasized the cyclical nature of returns. When there is a period of high returns it is oftentimes followed by a period of lower returns, averaging out to the actuarial projection.

Mr. Newton discussed the survey of investment consultants to verify AON's results. He reported a wide distribution with some below 6.0 percent and one above 7.0 percent providing a range of probabilities. He said if the next ten years do yield lower returns, it would be harder to catch up down the road. He reviewed how deferred investment gains may be used in an opportunistic way. He also stated that last year's over-performance is the reason why expectations are lower going forward.

Mr. Newton said 7.25 percent is likely reasonable, but the data points much more to 7.0 percent as being much more defensible on its own, closer to the median by peer systems, the median of AON's numbers and GRS' survey of other investment consultants. He noted this number is what is used in driving decisions for the Strategic Asset Allocation (SAA) study that will be done in a couple of years. He said if the portfolio needs to achieve 7.25 percent and the portfolio is at 7.0 percent, then either the Board decides to increase risk to garner 7.25 percent or lower the assumption off cycle. He said the 7.0 percent return assumption going into a SAA study felt like a better strategic decision as well. Mr. Auby stated the decision here could possibly constrain options of the Board to put together a prudent investment strategy. Mr. Newton stated to move to 7.0 percent was an incremental step that did not make a big impact unlike it did four years ago.

Mr. Guthrie stated as fiduciaries of the fund, the goal is to provide the legislature with the best equipped, most financially sound pension fund possible. He said the Board has an opportunity to make this change without negatively impacting the amortization period, which is significant compared to four years ago. Mr. Newton then explained how the deferred gains from last year provides an opportunity to change the investment return assumption, taking some of the hedge

over the short term to help make the impacts not as significant. He said if \$5 billion of deferred investment gains were pre-recognized in the valuation, it would drop the funding period to 22 years. He said that with last years \$20 billion of deferred gains on the sideline, recognizing the \$5 billion now keeps the fund where last year's valuation expected it to be at 22 years. He said it is a rational position going into the legislative session to be at 26 to 22 years, 26 being where the original impact statement expected the fund to be for 2022. He noted other clients were recognizing deferred gains to lower the investment return assumption. He said the 26 to 22 range is below the threshold of 30 years, which is what the legislature will use in making decisions regarding a cost of living adjustment. Mr. Newton concluded by reviewing the reasonable options available to the Board and recommended 7.0 percent return assumption as the optimal decision.

**20. Receive an update from the TEAM Program Independent Program Assessment (IPA)
Vendor – Jonathan Scofield and Richard Holt, EY**

Mr. Doug Holt introduced Ms. Laurie Patton, who replaced Mr. Johnathan Scofield on the project as the engagement partner. Ms. Patton reviewed the security and controls area which concluded the initial assessment. She said there was continued progression in the scoring. She said for security and control is at 6.04. She noted one of the main observations was continued improvement with quality and risk. Ms. Patton concluded by reporting quality was reassessed from a 4 to a 7.

21. Overview of IMD Compensation – Katy Hoffman, Chris Bailey and Mike Oak, McLagan.

Mr. Mike Oak provided an overview of compensation in the industry, a history of TRS compensation and description of the services McLagan provides to TRS, such as the benchmarking for compensation for IMD. He said that McLagan exclusively focuses on the financial service industry compensation. He said industry trend is seeing lots and lots of turnover at senior levels and a large part of that is due to private sector pay has grown substantially and jobs are opening up. Mr. Oak stated base pay for the coming year would be up five to 10 percent but incentive compensation, that has more volatility, will likely be down. He provided further detail in the process of how the McLagan survey is developed for TRS IMD employees that targets compensation data of the 75th percentile of public funds peer groups and the 25th percentile of private sector peer groups.

Mr. Hollingsworth announced Agenda Item 8 would be taken up next.

8. Receive an update and consider long term facilities planning, including the disposition of the Red River campus, status updates on the TRS Headquarters project, and lease at 816 Congress, including considering a finding that to deliberate or confer in the open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person – Brian Guthrie, Andrew Roth and Martin Cano.

Mr. Guthrie provided an overview on Red River efforts reporting the building was put on the market in January. He said over 30,000 entities have seen or engaged with the information that was put on the market and over 500 interactions with 40 property tours. He said TRS received 13 serious offers that will be discussed further in executive session.

On a motion by Mr. Moss, seconded by Mr. Corpus, the Board unanimously voted to find that deliberating or conferring on item number 8 in open meeting would have a detrimental effect on the position of the Retirement System to negotiate with a third party.

11. **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, investment matters and open records and on legal or regulatory matters involving certain TRS vendors, investment managers, or other counterparties – Heather Traeger.**

At 11:34 a.m., Mr. Hollingsworth announced the Board will go into Executive Session for the following: item number 8 under Sections 825.115(e), 825.3022, 551.071 and 551.072 to discuss procurement, real property and investment and consult with legal counsel and under item 11, to receive the report from general counsel, Section 551.071 to consult with legal counsel as needed. agenda items 24 under Section 551.071 of the Government Code, to consult with legal counsel.

At 12:21 pm, Mr. Hollingsworth reconvened the Board meeting.

On a motion by Ms. Sissney, seconded by Mr. Nance, the Board unanimously voted to adopt the following resolution regarding authorizing actions relating to the disposition of TRS' Red River Headquarters:

**Resolution of the Board of Trustees
Authorizing Actions**

Relating to the Disposition of TRS' Red River Headquarters

WHEREAS, Texas Government Code §821.007 provides that the buildings comprising the home office (referred to here as "administrative headquarters") of the Teacher Retirement System ("TRS") are under the control and custodianship of the retirement system;

WHEREAS, In September 2021, the Board authorized and instructed the Executive Director or his delegee, with the assistance of TRS employees and TRS's broker and owner's representative, to finalize contracts for new administrative headquarters for TRS, including the purchase of the Alpha and Bravo buildings in the Mueller Development;

WHEREAS, TRS entered into agreements for the purchase of the Alpha and Bravo buildings for the future main campus of TRS;

WHEREAS, on February 15, 2022, as the next step in the One TRS: Moving Forward Together initiative, TRS posted an offering memorandum to the public, requesting project proposals for the disposition of the Red River headquarters;

WHEREAS, TRS seeks to identify through this process the highest and best use and maximum value for the Red River headquarters in order to provide the most benefit to the Pension Fund;

WHEREAS, TRS created a Red River Evaluation Committee ("Evaluation Committee") to review proposals and provide recommendations to the Board;

WHEREAS, Thirteen (13) developers submitted initial offers in response to the offering memorandum;

WHEREAS, The Evaluation Committee conducted a review of the proposals to evaluate the initial offers submitted by developers;

WHEREAS, On April 28, 2022, the Executive Director presented to the Board on the activities of the Evaluation Committee and the preliminary recommendations on the proposals;

WHEREAS, TRS now seeks approval from the Board to begin negotiations with selected respondents in order to bring offers to the Board at a future Board meeting for consideration; Now, therefore be it

RESOLVED, That the Executive Director be and hereby is delegated authority to work with the Evaluation Committee to narrow the field of developers that submitted proposals in response to the posting of the offering memorandum to the top respondents and begin negotiations with those parties in order to bring back the top offer(s) to the Board in a future meeting for consideration;

RESOLVED, That the Executive Director is directed to report to and update the Board at its regular meetings, as requested, on the actions taken and activities performed under these resolutions; and

RESOLVED, That nothing in these resolutions may be construed as giving authority to make any final decisions without explicit approval of the Board.

9. Receive an annual update on TRS Data Protection and Security update – Andrew Roth, Heather Traeger, Frank Williams and Kristi Glasgall.

This item was not taken up.

10. Receive an update from Organizational excellence regarding Executive Succession Planning, including the Deputy Director, Chief Financial Officer and Chief Benefits Officer – Brian Guthrie, Janet Bray and Michelle Gray.

This item was not taken up.

22. Receive governance and risk management training – Amanda Jenami.

This item was not taken up.

At 12:22 p.m., Mr. Hollingsworth reconvened the Board meeting and with no more scheduled business before the Board adjourned the meeting.

APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM
OF TEXAS ON THE 15th DAY OF JULY 2022.

ATTESTED BY:

Katherine H Farrell

Katherine H. Farrell

Secretary to the TRS Board of Trustees

July 15, 2022
Date