

Minutes of the Board of Trustees

July 14, 2022

The Board of Trustees of the Teacher Retirement System of Texas met on Thursday, July 14, 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

Others present:

Brian Guthrie, TRS	Tracy Fields, CVS Caremark
Andrew Roth, TRS	Kirby Goidel, Texas A&M
Heather Traeger, TRS	Rita Runnels, AFT Retiree Plus
Jase Auby, TRS	Mary McKenzie, UHC
Don Green, TRS	Hope Berry, UCB
Barbie Pearson, TRS	Steve Alexander, BCBSTX
Katrina Daniel, TRS	Karen Haywood, BCBS
Amanda Jenami, TRS	Frank Friends, Retiree
Martin Cano, TRS	Herman Martina, Retired TRS
Lori LaBrie, TRS	Ranek Yameron, EY
Kellie Sauls, TRS	Bill Hunger, EY
Katherine Farrell, TRS	Russell Ingram, CBRE
Suzanne Dugan, Cohen Milstein	Austin George, EY
Dr. Keith Brown, Board Investment Advisor	Michael Clayton, SAO

Mr. Hollingsworth called the meeting to order at 8:00 a.m.

1. Call roll of Board members.

Ms. Farrell called the roll. A quorum was present, Mr. Walls was absent

2. Consider administrative matters including approval of the April 2022 proposed meeting minutes – Jarvis V. Hollingsworth.

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

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, investment matters, strategic planning, legislative, trustee elections, 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 said that TRS provided assistance to the extent that they could to those affected by the Uvalde tragedy, including staff members, employees of the district and surrounding district during this difficult time and will continue to do so. He provided an update to the new construction activities in Alpha-Bravo; buildout remains on schedule. Mr. Guthrie announced the winner of the Shining Example Award for 2022 was the TRS-ActiveCare transformation team and the winner for the Executive Director's Award of Excellence winner was the Data Center move team. He concluded the report by reviewing items for September and December Board meetings.

17. Receive an update from the Deputy Director – Andrew Roth.

Mr. Andrew Roth focused his update on the CEM 2021 cost report to provide information around where TRS stands among its peers nationally. He noted TRS' administration cost is \$54 per active member and that is well below peer average of TRS peer group of \$108 per member. In regards to service score, TRS is below the peer median, he said TRS is low cost but also low service. He noted in the Budget Committee today, staff would propose some large numbers but relative to our peers, TRS would still rank among the lower cost systems. Mr. Roth concluded his report with an update on the Diversity, Equity and Inclusion tool implementation.

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

Ms. Lori LaBrie reviewed the Ombuds communications received from January to May 2022. She reviewed the top three large-scale agency issues and point-in-time complaints. In response to Mr. Hollingsworth's inquiry, Ms. Traeger noted there is a monthly meeting with the Ombuds and business units where all items relevant to the office are discussed, allowing any identified enhancements to operations to be made during the course of the year.

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

- A. Receive Procurement and Contracts Update, including executive assessment and coaching;**

B. Consider Procurement and Contracting Report.

Mr. Martin Cano stated since the implementation of the procurement and vendor E-systems (PAVES) in September of 2021, Procurement & Contracting (P&C) continues regular meetings with business units which allows for additional training and guidance when necessary. On June 7th, he said, TRS held a HUB forum here at TRS, where 18 state agencies attended along with 33 other vendors associated with the HUB program. He reported the executive coaching and assessment contract solicitation will come to the Board at a future date for approval, even though its amount does not rise to the value of the quarterly board contract report.

Mr. Cano reviewed the Contract Procurement report.

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

6. Consider the role, performance and engagement of Board Investment Advisor, Dr. Keith Brown – Brian Guthrie.

Mr. Guthrie provided the history and background of the Board Investment Advisor. He said Dr. Keith Brown has served in this role since 2022. His current contract was signed in 2017 for a five-year term with two one-year renewals.

On a motion by Mr. Corpus, seconded by Ms. Sissney, the Board unanimously voted to approve the one-year renewal on Dr. Brown's contract.

At 8:58 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 7:18 p.m., Mr. Hollingsworth announced the Board meeting as reconvened and agenda item 7 would be taken up.

7. Receive an update and consider long term facilities planning on potential new building, potential renovations or sale of the Red River campus, 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 efforts to sell Red River. He reported there was a lot of interaction with the market, with over 40 property tours and ultimately received 13 offers on the facility. He said the objectives of the transaction is to maximize the value to TRS. He said the staff recommendation will be discussed with the Board today and recommend an action item of the Board delegating authority to begin final negotiations with the selected finalist and a backup, if necessary.

On a motion by Ms. Sissney, seconded by Mr. Moss, the Board unanimously voted to find that deliberating or conferring on item number 7 in open meeting would have a detrimental effect on the position of the Retirement System to negotiate with a third party.

At 7:26 p.m. Mr. Hollingsworth announced the Board would recess into executive session for agenda item 7 under Sections 825.115(e), 825.3011, 551.071, and 551.072, to discuss procurement matters, real property, investment and consult with legal counsel as needed.

At 7:50 pm, the Board reconvened in open session.

On a motion by Mr. Ball, seconded by Mr. Elliott, the Board unanimously adopted the following resolution with respect to the disposition of the Red River Campus to proceed first with bidder number A and then secondarily with bidder number B, and to delegate authority to negotiate and execute to Mr. Guthrie.

Resolution of the Board of Trustees
July 14, 2022
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, through this process TRS seeks to identify 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 Selection Committee ("Selection Committee") to review proposals and provide recommendations to the Board;

WHEREAS, Thirteen 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 status of the Selection Committee;

WHEREAS, Initial offers were followed by a second round of offers and buyer interviews in May 2022;

WHEREAS, After evaluation of the proposals submitted, the Selection Committee recommends the proposal submitted by Bidder A for the purchase of the Red River headquarters as it represents the highest and best use and maximum value that will provide most benefit to the Pension Fund;

WHEREAS, TRS now seeks approval from the Board to negotiate the Purchase and Sale Agreement (PSA), Leaseback Lease Agreement, and Access Agreement with the selected finalist(s) in order to finalize the sale of the Red River headquarters;
Now, therefore be it

RESOLVED, That Bidder A is selected as the top finalist for the purchase of the Red River Headquarters;

RESOLVED, That the Board hereby authorizes and instructs the Executive Director or his delegee, with the assistance of TRS employees to procure all necessary goods or services, and to take all actions and do all things necessary or desirable to negotiate a final contract with Bidder A on the same or better terms presented to the Board or on such other terms and conditions deemed by the Executive Director to be in the best interest of TRS to finalize and sign all agreements related to the sale of the Red River headquarters.

RESOLVED, That if for any reason, the Executive Director concludes in his sole judgment that TRS is not reasonably likely to successfully negotiate a final contract with Bidder A for the sale of the Red River headquarters, then the Board hereby selects Bidder B and authorizes and instructs the Executive Director or his delegee, with the assistance of TRS employees to procure all necessary goods or services, and to take all actions and do all things necessary or desirable to negotiate a final contract with Bidder B on the same or better terms presented to the Board or on such other terms and conditions deemed by the Executive Director to be in the best interest of TRS to finalize and sign all agreements related to the sale of the Red River headquarters. and

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.

At 7:52 p.m., Mr. Hollingsworth announced the Board stands in recess until 8:00 a.m. tomorrow morning.

July 15, 2022

The Board of Trustees of the Teacher Retirement System of Texas met on July 15, 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

The following Board member attended virtually:

Robert H. Walls, Jr.

Others present:

Brian Guthrie, TRS	Brock Gregg, TRTA
Andrew Roth, TRS	Beaman Floyd, TASA
Don Green, TRS	Thomas H. Kreneck, Retiree, AFT & TRTA
Heather Traeger, TRS	Joe Newton, GRS
Jase Auby, TRS	Dan Siblik, GRS
Barbie Pearson, TRS	Steve Voss, AON
Katrina Daniel, TRS	Mike McCormick, AON
Amanda Jenami, TRS	Laurie Patton, EY
Caasi Lamb, TRS	Doug Holt, EY
Martin Cano, TRS	Rita Runnels, TX AFT Retiree Plus
Katy Hoffman, TRS	Herman Martina, Retired
Frank Williams, TRS	
Janet Bray, TRS	
Katherine Farrell, TRS	
Kristi Glasgall, TRS	
Michelle Gray, TRS	
Christine Bailey, TRS	
J.R. Morgan, TRS	
Suzanne Dugan, Cohen Milstein	
Dr. Keith Brown, Board Investment Advisor	

At 8:55 am the Chair reconvened the board meeting.

8. Provide an opportunity for public comment.

Mr. Brock Gregg, representing TRTA, expressed belief in TRS when it publicly states that the proposal to lower the investment return assumption to 7 percent from 7.25 percent will not affect the legislature's ability to provide a cost of living adjustment (COLA) in the next session. He said their members are laser-focused on one thing and one thing only: doing everything possible to ensure that retired educators receive a substantial and meaningful COLA that is appropriate to meet the unprecedented needs that exist right now.

Mr. Beaman Floyd, representing Texas Association of School Administrators, expressed support of the concept of lowering the rate of return assumption to 7 percent based upon the experience study.

9. Review and consider the TRS of Texas Experience Study findings and recommendations, including considering the Return Assumption – Joe Newton and Dan Siblik, Gabriel, Roeder, Smith & Co.; Steve Voss, AON.

Mr. Guthrie stated this item was discussed at the April Board meeting and today it is before the Board for consideration. Mr. Joe Newton reviewed what the experience study entailed and how it sets the communication with stakeholders on the health of the plan and how it is trending through time. He reported in general, the set of assumptions were reasonable with minor adjustments except for the investment return assumption noting 7 percent was more defensible than 7.25. Mr. Dan Siblik highlighted some of the national trends. He reported of the ten largest plans in the country the range is from 7 down to 5.9 with the average at 6.77, and median at 6.85. Mr. Newton recommended to use a portion (\$7 billion) of the \$21 billion in deferred investment gains of the last year to try to stay on track by addressing the expected minus 7 percent returns from this fiscal year. In response to Mr. Moss' inquiry, Mr. Guthrie stated that Senate Bill 12 envisioned TRS to be at 26 years at this point in time, to use the recommended amount of deferred gains would keep TRS on track with that original plan.

On a motion by Mr. corpus, seconded by Mr. Nance, the board unanimously approved the following resolution regarding actuarial assumptions for the TRS Pension Trust Fund:

**RESOLUTION REGARDING ACTUARIAL ASSUMPTIONS FOR THE
TRS PENSION TRUST FUND**

Whereas, Gabriel Roeder Smith & Company ("GRS"), the consulting actuary for the Teacher Retirement of Texas ("TRS"), performed an actuarial experience study for TRS as authorized under TEX. GOV'T CODE §§825.105 and 825.206 and reported the results of the study to the TRS Board of Trustees (the "Board") at its meeting on April 29, 2022;

Whereas, as part of the Actuarial Experience Study as of August 31, 2021 (the "Study"), GRS reviewed the current actuarial assumptions and methods

used to determine the actuarial valuation of the retirement plan and made recommendations to the Board;

Whereas, the Pension Trust Fund ("Fund") ended the fiscal year 2021 with \$21.2 billion of deferred investment gains;

Whereas, after considering the results of the actuary's investigation of the investment performance, future capital market expectations, mortality, service, and compensation experience of the system and its members and beneficiaries, the Board desires to adopt the assumptions and methods provided in the GRS Study for the period ending August 31, 2021 to evaluate the assets and liabilities of the system; now, therefore, be it

Resolved, That the Board hereby adopts the recommended assumptions and methods provided in the GRS Study for the period ending August 31, 2021, to determine the valuation of the retirement plan's assets and liabilities, including setting the investment return assumption at 7% and the inflation assumption at 2.3%.

Resolved, That of the \$21.2 billion of deferred investment gains from the fiscal year ending August 31, 2021, TRS shall recognize in advance \$7 billion in deferred gains to mitigate the impact of lowering the return assumption.

Resolved, That the adopted assumptions and methods are effective for actuarial valuations prepared after the date of adoption of this resolution until superseded by further action of the Board.

10. Receive the report of the Strategic Planning Committee on its July 14, 2022 meeting – Committee Chair.

Mr. Ball, Acting- Committee Chair, provided the following report of the Strategic Planning Committee:

The Strategic Planning Committee met on July 14, 2022. The committee approved the proposed minutes of April 2022 meeting. The executive director provided an update on his areas of focus for fiscal year 2022.

Ms. Lamb, along with strategic plan objective owners, discussed and reviewed the results forum information for the 2021 – 2025 TRS strategic plan objectives. The objectives included advancing and enhancing IT systems and services, enhancing the information security program, fostering a culture of fiduciary responsibility and ethical conduct, and improving and maintaining effective procurement and contract management practices. Ms. Lamb also provided an overview of the enterprise spotlight report and highlighted changes to the risk levels and trending.

Ms. Lamb, Ms. Sunitha Downing, and a representative from the Public Policy Research Institute provided survey results from the reporting employer satisfaction survey and an overview of changes in the methodology for the member satisfaction survey.

11. 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;**
- B. Consider the appointment of members of the Medical Board;**
- C. Consider the approval of the Benefit Payments for March 2022 – May 2022;**
- D. Consider the appointment of members of the Retiree Advisory Committee; and**
- E. Consider revised Schott and White Care Plan HMO rates and plan benefits 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 July 14, 2022. The committee approved the proposed minutes of the Benefits Committee for the April 28, 2022 meeting.

Ms. 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 March 2022.

Mr. Adam Fambrough, senior director of Benefit Processing, provided an update on the solicitation and selection of candidates to the Medical Board, including the staff recommendation for the appointment of two members, Dr. David Rothschild as the Medical Board chair, and Dr. Brian Buck. Mr. Fambrough noted the current contracts expire August 31, 2022.

Ms. Barbie Pearson provided an update on the benefit payments for the third quarter of fiscal year 2022. The committee recommends to the Board the approval of benefit payments for March through May 2022.

The Committee received an update from Ms. Pearson on Benefit Services operations for the third quarter of fiscal year 2022. This report included an update on progress of customer service initiatives. The report also includes updates on increased workloads, improved service levels in benefit processing, and on boarding of additional staff.

Next the Committee received an update from Ms. Katrina Daniel, Chief Health Care Officer. Ms. Daniel first provided a general update to the Board on TRS-Care and TRS-ActiveCare, including engagement efforts.

Next, Ms. Daniel recommended Ms. Sherry Miller to fill a vacancy on the TRS Retirement Advisory Committee following significant outreach to attract applicants and an interview process. The committee adopted the staff recommendation.

Finally, Ms. Daniel described a proposal from Baylor Scott & White Health plan to change benefits and premiums for their TRS-ActiveCare HMO plan and the feedback she had received from the employers in the service area. As this was an informational item, committee members did not make a motion and the April rates and benefits adopted by the Board will remain in place.

Mr. Ball concluded the report with the following motions:

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

On a motion by Mr. Ball, the Board unanimously voted to adopt the following resolution appointing Dr. Brian Buck to the Medical Board and Dr. David Rothschild as the Medical Board chair, as recommended by the Benefits Committee:

RESOLUTION TO APPOINT TRS MEDICAL BOARD MEMBER

Whereas, Texas Government Code section 825.204 requires the Board of Trustees of the Teacher Retirement System of Texas to appoint a Medical Board composed of three physicians to perform services under contracts with TRS;

Whereas, The term of two of the current three members will expire August 31, 2022;

Whereas, TRS staff recommends that the Board of Trustees appoint Dr. David Rothschild and Dr. Brian Buck as members of the TRS Medical Board effective September 1, 2022 for a two-year term that ends on August 31, 2024;

Whereas, as TRS staff recommends re-appointing Dr. David Rothschild as chair of the TRS Medical Board; now therefore, be it

Resolved, That the Board of Trustees appoints Dr. David Rothschild and Dr. Brian Buck to the TRS Medical Board for a two-year term beginning on September 1, 2022 and expiring on August 31, 2024; and

Resolved, That the Executive Director, or his designee, is hereby authorized to negotiate, with the assistance and advice of legal counsel, a contract for Medical Board services with Dr. Rothschild and Dr. Buck and, if negotiations are deemed by the Executive Director in his discretion to be successful, then the Executive Director or his designee is hereby authorized to execute a contract with Dr. Rothschild and Dr. Buck for two years coinciding with the term of their appointment and according to such terms, conditions, and fees as the Executive Director may deem in his discretion to be appropriate and to provide the best overall value for TRS, and to execute and deliver all such other documents that the Executive Director may deem necessary or appropriate to effect 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 associated with such contract and deemed in the discretion of the Executive Director to be reasonably necessary or advisable with respect to such contract; and

Resolved, That the Board of Trustees re-appoints Dr. David Rothschild as chair of the TRS Medical Board for a two-year term beginning on September 1, 2022 and expiring on August 31, 2024.

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

On a motion by Mr. Ball, the Board unanimously voted to appoint Ms. Sherry Miller to the TRS-Care Retirement Advisory Committee, as recommended by the Benefits Committee.

12. Receive the report of the Compensation Committee on its July 14, 2022 meeting – Committee Chair.

Mr. Nance, Committee Chair, provided the following report of the Compensation Committee:

The Compensation Committee met July 14, 2022. The committee approved the proposed minutes of its September 2021 meeting.

The committee received an update from Janet Bray, Chief Organizational Excellence Officer, and Christine Bailey, director of Compensation and Workforce Analytics, on staffing turnover, the implementation of the TRS classification plan, and an overview of fiscal year 2023 committee schedule.

13. Receive the report of the Budget Committee on its July 14, 2022 meeting and consider adopting the following – Committee Chair:

- A. Consider the adoption of the proposed fiscal year 2023 pension trust fund administrative operations budget, general provisions, and resolution authorizing transfer of pension trust funds to the TRS expense account to cover the expenses approved under the fiscal year 2023 budget;**
- B. Consider the adoption of the proposed fiscal year 2023 administrative operations budgets and general provisions for the TRS health benefits funds (retired and active plans), including the optional long-term care insurance program;**
- C. Consider the statutory certification of estimated state contributions.**

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

The Budget Committee met July 14, 2022. The first item of business was approval of the minutes of the April 2021 Budget Committee meeting. Prior to the first item, Chair Sissney gave a brief historical review, beginning with the FY 2017 of the growth of both operational budget and FTEs. She also reviewed membership

numbers and health care numbers for the same time period. The first item of business was the approval of the minutes of the April 2022 Budget 19 Committee meeting.

Mr. Don Green presented a detailed overview of the proposed administrative operating budget of \$276.8 million for FY 2023 and the associated general provisions. The FY23 budget is approximately 16.6 percent more than the FY 2022 base budget. It includes the annualization of additional resources approved for the customer service improvement initiative, challenges with recruiting and retention, and the unprecedented inflation. In addition to the annualization of the FY22 budget, the adopted FY23 budget includes 93 new FTEs and funding for the IMD modernization program and fraud detection tool.

Mr. Green also introduced three amendments to the general provisions. The first amendment would revise the Chief Operation and Administrative Officer title to Deputy Director. The second amendment would establish authority to pay up to \$27 million for incentive compensation for the Investment Management. The third amendment authorizes TRS to be able to reimburse agency staff who remote work for travel and staff development activities conducted at TRS headquarters.

Mr. Green then presented on the preliminary legislative appropriations request for the '24-25 biennium. This presentation included the required state contribution certification for the Retired School Employee Group Health Benefit Fund for fiscal year '23 through '25 and the required state contribution certification for the Pension Trust Fund for fiscal years 2024-25.

The certification amount totals \$6.8 billion for the '24-25 biennium. This includes \$5.8 billion to cover the statutorily required contributions to the Pension Trust Fund, which equal 8.25 percent in FY 2024 and FY 2025. It also includes \$.9 billion to cover this statutorily required contribution for TRS-Care, which equals 1.25 percent of the public education payroll. The FY24-25 budget request is projected to be \$217- to \$226 million for the biennium.

Ms. Sissney concluded her report with the following motions:

On a motion by Ms. Sissney, the Board unanimously voted to adopt the fiscal year 2023 budget Trust Fund administrative operations budget, general provisions and resolution authorizing the transfer of Pension Trust funds to the TRS expense account to cover the expenses approved under the fiscal year 2023 budget, as recommended by the Budget Committee.

Resolution
Authorizing Expenditure and Transfer of Trust Funds
For Pension Trust Fund Administrative Operations

Whereas, Section 825.312 of the Government Code provides that the retirement system shall pay from the expense account of the retirement system account for the pension trust fund all administrative expenses of the retirement

system that are required to perform the fiduciary duties of the board;

Whereas, Section 825.313(d) of the Government Code provides that the TRS Board of Trustees (board) may authorize transferring from the interest account to the expense account of the retirement system an amount necessary to cover TRS' operating expenses for the fiscal year that are required to perform the fiduciary duties of the board;

Whereas, Rider 16, "Contingent Appropriation of Pension Trust Funds for GASB Statement Implementation," of the TRS bill pattern in the State General Appropriations Act, 87th Legislature provides that upon a finding of fact by the TRS board that additional resources are necessary to implement accounting guidelines related to Governmental Accounting Standards Board statements and pronouncements;

Whereas, Rider 20, "Exception to FTE Limitation for Board Fiduciary Finding," of the TRS bill pattern in the State General Appropriations Act, 87th Legislature provides that in addition to the funding and "Number of Full-Time Equivalents (FTE)" appropriated above, TRS is authorized to employ additional FTEs and contract workers under a Fiduciary Finding of the TRS board; the TRS is appropriated additional funds from the Pension Trust Fund (960) for fiscal year 2023; now, therefore be it;

Resolved, That the board approves the amendments to the General Provisions for the Pension Trust Fund Administrative Operations, including the change of title designation from "Chief Operations and Administration Officer" to "Deputy Director".

Resolved, That the board finds the expenditure of pension trust funds for operating expenses in Fiscal Year 2023 including the changes listed below are required to perform the fiduciary duties of the board in administering the retirement system in the amount of \$233,890,000, as approved today in the Fiscal Year 2023 Budget and General Provisions for the Pension Trust Fund Administrative Operations, as amended, plus such additional amounts as may be necessary for the following expenditures and changes to the General Provisions:

- To pay the actual amount of performance incentive compensation payable up to \$27.0 million in Fiscal Year 2023, if any; and
- To reimburse reasonable and necessary employee transportation and other expenditures necessary for employees to attend orientation, training and staff development activities conducted at TRS headquarters; and
- To achieve recovery of operational capabilities in the event of a catastrophic occurrence as contemplated by such General Provisions adopted by the board; and to implement GASB statements; and

- To pay operating expenses incurred as a result of changes in market conditions as may be required to ensure funding levels remain sufficient for ongoing agency key initiatives.

Resolved, That the staff is authorized to transfer from the interest account to the expense account an amount necessary to cover the expenses of the retirement system under the approved budget for Fiscal Year 2023, but not to exceed the amount of \$233,890,000 plus, any additional amounts necessary to pay performance incentive compensation payable in Fiscal Year 2023 and, as applicable, to achieve recovery of operational capabilities in the event of a catastrophic occurrence as contemplated by the General Provisions adopted by the board.

On a motion by Ms. Sissney, the Board unanimously voted to adopt the proposed fiscal year 2023 administrative operations budget and general provisions for the TRS Health Benefits Fund, retired and active plans, as recommended by the Budget Committee.

On a motion by Ms. Sissney, the Board unanimously voted to adopt the state contribution certifications for TRS-Care for fiscal years 2023, 2024, 2025 and the state contribution certification for the Pension Trust Fund for fiscal years 2024 and 2025, as recommended by the Budget Committee.

14. Receive the report of the Policy Committee on its July 14, 2022 meeting and consider adoption of the following – Committee Chair:

- A. Adopt proposed amendments to the Key Employee and General Authority Resolution;**
- B. Adopt proposed amendments to the Investment Policy Statement;**
- C. Adopt notice of completed rule review of TRS Rules in Chapters 21 through 51 of Title 34, Part 3 of the Texas Administrative Code; and**
- D. Adopt proposed amendments to TRS Rule 41.33, relating to Definitions Applicable to the Texas School Employees Uniform Group Health Coverage Program in Subchapter C of Chapter 41 of Title 34, Part 3 of Texas Administrative Code.**

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

The Policy Committee met on July 14, 2022.

The committee approved the proposed minutes of its April 2022 meeting.

The committee recommended to the Board adoption of the proposed amendments to the Key Employee and General Authority Resolution.

The committee recommended to the Board adoption of the resolution approving the proposed amendments to the Investment Policy Statement.

The committee recommended to the Board the adoption of the notice of completed rule review for TRS rules in Chapters 21 through 51, Title 34, Part 3 of the Texas Administrative Code.

The committee recommended to the Board adoption of the proposed amendments to TRS Rule 41.33, relating to definitions applicable to the Texas School Employees Uniform Group Health Coverage Program in Subchapter C of Chapter 41 of Title 34, Part 3 of the Texas Administrative Code.

Mr. Elliott concluded his report with the following motions:

On a motion by Mr. Elliott, the Board unanimously voted to adopt the proposed amendments to the Key Employee and General Authority Resolution, as recommended by the Policy Committee.

On a motion by Mr. Elliott, the Board voted to unanimously adopt the resolution approving the proposed amendments to the Investment Policy Statement, as recommended by the Policy Committee.

RESOLUTION FOR MODIFICATION OF THE PRIVATE EQUITY MAXIMUM
ALLOCATION IN THE INVESTMENT POLICY STATEMENT

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;

WHEREAS, The Investment Policy Statement ("IPS") Article 1.3 provides the Board establishes investment objections and policy;

WHEREAS, The IPS Article 1.6 footnote 1 authorizes the Chief Investment Officer ("CIO") to increase the asset class maximum range by 5% if the CIO concludes in writing as delivered to the Executive Director and the Board stating the action has been taken and the reasons why the CIO believes the increase would be in the best interest of TRS;

WHEREAS, The CIO found it prudent to increase the Private Equity asset class maximum range to 24% due to the allocation approaching the existing 19% limit driven by the decline in the Trust's public market assets and delivered the required notice to the Executive Director, Board of Trustees and Chief Compliance Officer on June, 13, 2022;

WHEREAS, The IPS Article 1.6 footnote 1 requires the CIO to seek Board authorization at the next succeeding Board meeting to maintain the increased range and the CIO recommends the modification of the IPS to temporarily increase the Private Equity limit to 24% to enable the Investment Management Division ("IMD") to continue to commit to the asset class; Now, therefore be it

Resolved, That the Board finds the extension of the maximum range for Private Equity prudent and in the best interest of TRS;

Resolved, The Board approves the modification of the IPS as recommended by staff to add footnote 9 to Article 1.6 as follows;

⁹The Maximum Range for the Private Equity Asset Class will be 24% until July 31, 2023.

and

Resolved, That the Board hereby further directs staff to amend the IPS to include footnote 9 and make other administrative changes such as page numbers and the Table of Contents as required.

On a motion by Mr. Elliott, the Board voted to unanimously to adopt the notice of completed rule review of TRS rules in Chapters 21 through 51, Title 34, Part 3 of the Texas Administrative Code, as recommended by the Policy Committee.

On a motion by Mr. Elliott, the Board voted to unanimously to adopt the proposed amendments to the TRS Rule 41.33, relating to definitions applicable to the Texas School Employees Uniform Group Health Coverage Program in Subchapter C of Chapter 41, Title 34, Part 3 of the Texas Administrative Code, as recommended by the Policy Committee.

15. Receive the report of the Investment Management Committee on its July 14, 2022 meeting – Committee Chair.

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

The Investment Management Committee met on July 14, 2022. The committee approved the proposed April 2022 minutes.

Jase Auby began with his CIO Update. The First Quarter 2022 Performance Review was then presented by Steve Voss and Mike McCormick of AON. Following, Eric Lang and Kimberly Carey presented the private markets annual update, Carolyn Hansard provided the review of energy, natural resources and infrastructure, and Neil Randall presented for private equity. To conclude the Investment Management Committee, Grant Walker provided the annual update for real estate.

16. Receive the report of the Audit, Compliance, and Ethics Committee on its July 14, 2022 meeting – 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 Thursday, July 14, 2022 in the Fifth Floor Boardroom. The Committee approved the minutes of the April 29, 2022, Audit Compliance and Ethics Committee meeting.

The committee went into executive session at comprehensive financial report for the 5:24 p.m. to discuss the audit reports on IT system hardening and software patching and external network penetration testing. The executive session ended at 5:56 p.m., after which the committee reconvened the meeting in open session.

Mr. Stephen Hillerman of New York State Office of the State Comptroller presented the results of the TRS Internal Audit quality assurance and improvement program, external assessment for the period June 1, 2019, through May 31, 2022.

The SAO auditors presented the results of the audit of fiscal year 2021 other post-employment benefits and employer pension liability allocation schedules.

The general counsel and chief compliance officer and the senior compliance counsel presented routine compliance reports.

Internal Audit staff presented the results of the audits on records management and investment performance management. Internal Audit staff presented an update on the Internal Audit's data analytics program, the status of prior audit recommendations, and various administrative reports.

The meeting adjourned at 7:17 p.m.

At 9:46 a.m., Mr. Walls left the meeting.

18. Receive an update from the TEAM Program Independent Program Assessment (IPA) Vendor – Laurie Patton and Richard Holt, EY

Ms. Laurie Patton stated the focus is on methodology, looking for best practices in Agile, logging and understanding risks and maintaining that kind of flexibility and identifying, reacting to and staying on top of challenges as they come up. She said for this quarter the focus is on how the MyTRS web self-service portal implementation goes, what was the process for when problems arose and how were they handled. She said they saw improved discipline in the process and methodology. She said EY is seeing more quality in performance management, along with strong discipline. She reported continued improvement in the overall score up from 5.81 last quarter to 6.11 this quarter.

19. Receive an update on the TEAM Program – Andrew Roth, Chris Cutler, Billy Lowe, Jennifer Whitman, Adam Fambrough.

Mr. Adam Fambrough noted the success seen since bringing the TEAM Program in house. He said the most recent success was the MyTRS go-live. He said the weekend of April 22nd is when they brought down the legacy MyTRS Friday evening and brought the new portal up Monday morning at 7:00am as planned. Within two hours, it was identified members were not able to create accounts. The project team immediately brought the system down, worked a marathon day, and was able to bring the portal back up Tuesday morning at 7:00 a.m. He

reported as of today, 113,956 accounts were created in MyTRS since April 26. For a point of reference, he said, the legacy MyTRS had about 800,000 accounts registered over its lifetime. He noted that all members are being required to re-register and a new security was implemented around the identity management program. He said this is where most of the member frustration is being seen. He reported 88 percent that attempt to register are able to do so. He said since July 7th we have seen close to 6,000 address changes and 2,000 appointments scheduled, and that 5,400 refund applications have been submitted through MyTRS. Mr. Fambrough then reviewed near term enhancements they are working on.

Ms. Jennifer Whitman reviewed the remaining major releases remaining on the program roadmap, retirement application and death claims processing and annuity payroll and tax reporting. She said the annuity payroll and tax reporting release is being pushed six months to go live at the end of the second quarter of calendar year 2025.

Mr. Billy Lowe reported the upcoming release for the death claims and retirement application are still targeted for spring of 2023. He said with a legislative session in 2023 and another in 2025, they will have to respond to those but want to make sure resources are not pulled the TEAM roadmap again. Specifically he said there is a need for nine additional resources with varying roles to keep the roadmap according to the new schedule. Ms. Whitman concluded by reviewing that three of the six customer service releases are completed. She reported they are tracking under budget and they have in previous years since taking over the program.

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

Ms. Amanda Jenami provided a training reviewing latest trends and best practices in corporate governance and risk management. She did so by reviewing lessons from recent governance failures and guiding principles of corporate governance. She discussed the American Corporate Governance Index, which is a survey on corporate governance, and the Institute of Internal Auditors' top risks of 2022.

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

Mr. Roth discussed the different components of data protection and security posture such as the physical, electronic, digital and policy standards. He said the sources of data need to be considered data comes from members, employers, vendors, business partners and different government organizations. He noted everyone has the responsibility of protecting data. He said TRS is maturing its approach to data protection by establishing a new Enterprise Data Governance Council to review projects that involve data.

At 10:58 a.m., Mr. Hollingsworth announced the Board would recess into executive session for the following items: agenda item 21 under Sections 551.076 and 551.089 of the Texas Government Code to discuss TRS data protection and security; agenda item 22 under Section 551.074 to discuss executive succession planning, including the deputy director, chief

financial officer, chief benefits officer and communications director; and agenda item 23 under Section 551.071 to consult with legal counsel as needed.

22. Receive an update from Organizational Excellence regarding Executive Succession Planning for members of the Executive Committee, including the Chief Financial Officer, Chief Benefits Officer and the Communications Director – Brian Guthrie, Janet Bray, Michelle Gray.

23. 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 manaters, or other counterparties – Heather Traeger and J.R. Morgan.

At 12:34 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 SEPTEMBER 2022.

ATTESTED BY:

Katherine H Farrell
Katherine H. Farrell
Secretary to the TRS Board of Trustees

Sept. 16, 2022
Date