

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

AGENDA

April 18, 2013 – 12:30 p.m.

April 19, 2013 – 9:15 a.m.

TRS East Building, 5th Floor, Boardroom

NOTE: The Board may take up any item posted on the agenda during its meeting on Thursday, April 18, 2013, or the following day beginning at the time and place specified on this agenda.

The open portions of the April 18-19, 2013, Board meetings are being broadcast over the Internet. Access to the Internet broadcast of the Board meeting is provided on TRS' Web site at www.trs.state.tx.us.

1. Call roll of Board members.
2. Consider approval of the February 20-22, 2013 Board meeting minutes – David Kelly.
3. Consider the Board meeting date and location for the February 2014 Board meeting – David Kelly.
4. Provide opportunity for public comments – David Kelly.
5. Review and discuss the Executive Director's report on the following matters – Brian Guthrie:
 - A. The most recent actuarial valuation of the TRS Pension Trust Fund.
 - B. Legislation impacting TRS, including proposed state funding for TRS' administrative budget, the TRS Pension Trust Fund, and the retirees' health benefit program (TRS-Care).
 - C. The General Counsel search.
 - D. Update on Meeting with OMERS.
 - E. New Process for Identifying and Processing Class Action Lawsuits.
 - F. Board operational matters, including a review of draft agendas for upcoming meetings.
 - G. Enterprise Risk Management program.
 - H. Retirement plan benefits and operations.

- I. Investment activity and operations.
 - J. Health-benefit programs and operations.
 - K. Administrative operations, including financial, audit, legal, staff services, board administration activities, including trustee nominating elections, and special projects.
6. Discuss and consider investment matters, including the following items:
- A. Performance Review: Fourth Quarter 2012 – Brady O’Connell and Steve Voss, Hewitt EnnisKnupp.
 - B. Review Quarterly Portfolio Performance and market update – Britt Harris.
 - C. Measuring Investment Performance: A Primer – Dr. Keith Brown.
 - D. Review the report of the Investment Management Committee on its April 18, 2013 meeting – Todd Barth
 - E. Review the report of the Risk Management Committee on its April 18, 2013 meeting – Eric McDonald.
7. Receive the report of the Policy Committee and consider the following – Joe Colonna:
- A. Proposed amendments to the Resolution Designating Persons Authorized to Approve and Sign Vouchers.
 - B. Final adoption of proposed amendments to the following Chapter 23 (Administrative Procedures) TRS rules in Title 34 of the Texas Administrative Code.
 - i. Rule § 23.7, relating to the Code of Ethics for Consultants; and
 - ii. Rule § 23.8, relating to the Expenditure Reporting by Consultants, Agents, Financial Advisors, Financial Services Providers, and Brokers.
 - C. Final adoption of proposed amendments to the following Chapter 25 (Membership Credit) TRS rules in Title 34 of the Texas Administrative Code.
 - i. Rule § 25.1, relating to Full-time Service;
 - ii. Rule § 25.6, relating to Part-time or Temporary Employment;
 - iii. Rule § 25.21, relating to Compensation Subject to Deposit and Credit;
 - iv. Rule § 25.43, relating to Cost for Unreported Service or Compensation;

- v. Rule § 25.47, relating to Deadline for Verification; and
 - vi. Rule § 25.81, relating to Out-of-State Service Eligible for Credit.
- D. Final adoption of proposed amendments to the following Chapter 31 (Employment After Retirement) TRS rules in Title 34 of the Texas Administrative Code.
- i. Rule § 31.14, relating to One-half Time Employment; and
 - ii. Rule § 31.41, relating to Return to Work Employer Pension Surcharge.
- E. Final adoption of proposed amendment to Rule § 41.4, relating to the Employer Health Benefit Surcharge of Subchapter A, Retiree Health Care Benefits (TRS-Care) of Chapter 41, Health Care and Insurance Programs.
- F. Final adoption of proposed amendment to Rule § 47.10, relating to Determination of Whether an Order is a Qualified Domestic Relations Order of Chapter 47, Qualified Domestic Relations Orders.
8. Receive the report of the Budget Committee on its April 18, 2013 meeting – Nanette Sissney.

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

- 9. Provide an opportunity for public comment – David Kelly.
- 10. Receive a presentation from Focus Consulting on options for conducting executive personnel evaluations – Keith Robinson, Focus Consulting.
- 11. Receive a presentation from the TEAM Program Independent Program Assessment (IPA) Vendor – Michael Johnson, Bridgepoint Consulting.
- 12. Receive a review of the TEAM Program –Jamie Michels; Barbie Pearson; Adam Fambrough; and Jay Masci, Provaliant.
- 13. Review the reports on the Historically Underutilized Businesses (HUB) and consider related goals, as appropriate, for fiscal year 2013 – John Dobrich.
- 14. Review the report of the Audit Committee on its April 19, 2013 meeting – Christopher Moss.

15. Review the report of the Chief Benefit Officer, and consider related matters – Marianne Woods Wiley:
 - A. Approve members qualified for retirement.
 - B. Approve minutes of Medical Board meetings.
16. Review the report of the Chief Financial Officer – Don Green:
 - A. Review the report under § 825.314(b), Government Code, of expenditures that exceed the amount of operating expenses appropriated from the general revenue fund and are required to perform the fiduciary duties of the Board.
 - B. Quarterly financial reports on TRS programs.
17. Review the report of the Deputy Director, including – Ken Welch:
 - A. An update on the TRS Telephone Counseling Center.
18. Review the report of the General Counsel on pending or contemplated litigation, including updates on the following: the Bank of America securities class action; the Countrywide securities litigation; the Facebook securities litigation; the Pfizer securities litigation; the Tyco securities litigation; other securities litigation; the LIBOR litigation; litigation involving fiduciary duties related to investments; and litigation involving benefit-program contributions, retirement benefits, health-benefit programs, and open records – Dennis Gold.
19. Consider personnel matters, including the appointment, employment, evaluation, compensation, performance, duties, discipline, or dismissal of the Executive Director, Chief Investment Officer, or Chief Audit Executive – David Kelly.
20. Consult with the Board's attorney(s) in Executive Session on any item listed above on this meeting agenda as authorized by Section 551.071 of the Texas Open Meetings Act (Chapter 551 of the Texas Government Code) – David Kelly.



Teacher Retirement System of Texas

Minutes of the Board of Trustees

April 18-19, 2013

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

David Kelly, Chair
Todd Barth
Karen Charleston
Charlotte Clifton
Joe Colonna
Eric McDonald
Chris Moss
Anita Palmer
Nanette Sissney

Others present:

Brian Guthrie, TRS	Dan Junell, TRS
Ken Welch, TRS	Lynn Lau, TRS
Amy Barrett, TRS	Denise Lopez, TRS
Janet Bray, TRS	Rebecca Merrill, TRS
Carolina de Onís, TRS	Melinda Nink, TRS
Dennis Gold, TRS	Noel Sherman, TRS
Howard Goldman, TRS	Rebecca Smith, TRS
Don Green, TRS	Sharon Toalson, TRS
T. Britton Harris IV, TRS	David Veal, TRS
Jerry Albright, TRS	Angela Vogeli, TRS
Ray Spivey, TRS	Dr. Keith Brown
Thomas Albright, TRS	Steve Huff, Reinhart Boerner Van Deuren
Jase Auby, TRS	Keith Johnson, Reinhart Boerner Van Deuren
Mohan Balachandran, TRS	Brady O'Connell, Hewitt EnnisKnupp
Chi Chai, TRS	Philip Mullins, Austin Retired Teachers Association and Texas State
Michelle Bertram, TRS	Employees Union
Rich Hall, TRS	Tathata Lohachitkul, Albourne America
Terry Harris, TRS	Craig teDuits, State Street
Dan Herron, TRS	John Powell, State Street
Janis Hydak, TRS	Steve Meier, State Street

Mr. Kelly called the meeting to order at 1:45 p.m.

1. Call roll of Board members.

Ms. Lau called the roll. A quorum was present. Ms. Charleston arrived at 1:46 p.m.

2. Consider approval of the February 20-22, 2013 Board meeting minutes

On a motion by Ms. Sissney, seconded by Mr. Barth, the board unanimously approved the

minutes for the February 20-22, 2013 meeting.

3. Consider the Board meeting date and location for the February 2014 Board meeting

On a motion by Mr. Barth, seconded by Mr. McDonald, the board unanimously approved Region 2 Education Service Center in Corpus Christi as the location at which to conduct the February 2014 meeting.

4. Provide opportunity for public comments

Mr. Jim Baker of UNITE HERE addressed the board regarding the investments Walton Street Real Estate Fund (Walton Street fund) had made. He expressed concerns about the transaction fees paid by the limited partners of the Walton Street fund and whether their interest was being protected in those transactions.

Per Mr. Kelly's request, Mr. Baker described UNITE HERE. Responding to Mr. Kelly's suggestion that TRS review current transaction fees of its real estate investments, Mr. Barth concurred and further suggested that the review be expanded to other investments.

5. Review and discuss the Executive Director's report on the following matters

C. The General Counsel search.

Mr. Guthrie announced that he had selected Ms. Carolina de Onís to be the new General Counsel. He briefly provided Ms. de Onís' professional background. Ms. de Onís stated her commitment to fulfill the board's general expectations in the new general counsel and the mission to serve Texas teachers.

Mr. Kelly, Mr. Guthrie, and Mr. Huff expressed their appreciation to Mr. Gold for serving as the interim general counsel during the transition and complimented his performance.

B. Legislation impacting TRS, including proposed state funding for TRS' administrative budget, the TRS Pension Trust Fund, and the retirees' health benefit program (TRS-Care).

Mr. Guthrie presented a summary of the bills that would affect TRS, including legislation related to pension and health benefits. Mr. Kelly stated that the board hoped to lower TRS-ActiveCare premiums. Mr. Guthrie confirmed for Ms. Sissney that the pending legislation reducing the interest rate creditable on a member's account from 5% to 2%, if passed, would become effective on September 1, 2014. He also confirmed that the lower rate would have no actuarial impact on the fund. Responding to a question from Ms. Sissney regarding members' feedback on the one-time permanent cost of living adjustment (COLA), Mr. Guthrie stated that Texas Retired Teachers Association had testified that they wanted more retirees to be eligible for it.

A. The most recent actuarial valuation of the TRS Pension Trust Fund.

Mr. Guthrie summarized the mid-year actuarial valuation, which the legislature requested

because of proposed statutory changes in retirement benefits and contributions. He presented the actuarial impact developed by Gabriel Roeder Smith & Company (GRS) based on three scenarios with different combinations of state and member contribution rates.

D. Update on Meeting with OMERS.

Mr. Guthrie provided an update on his visit to the Ontario Municipal Employees Retirement System (OMERS) with Mr. Barth, Mr. Colonna and Mr. Harris. Mr. Barth and Mr. Guthrie shared the constructive exchanges with OMERS relating to both investment-related processes and technology development issues.

E. New Process for Identifying and Processing Class Action Lawsuits.

Mr. Guthrie stated that staff had discussed with State Street outsourcing the identification and filing of securities class actions. Mr. Gold described the current internal process for Mr. Kelly, explaining that State Street recently became capable of handling such claims. He also noted that TRS would continue to internally track class actions in foreign countries and separately contract for the filing of those claims.

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

Mr. Guthrie provided an overview of the agendas for the June and July board meetings.

G. Enterprise Risk Management program.

H. Retirement plan benefits and operations.

I. Investment activity and operations.

J. Health-benefit programs and operations.

K. Administrative operations, including financial, audit, legal, staff services, board administration activities, including trustee nominating elections, and special projects.

Mr. Guthrie referred the board to the latest version of TRS Value Brochure. He also mentioned legislative initiatives to protect members' personal information.

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

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

C. Measuring Investment Performance: A Primer – Dr. Keith Brown.

Dr. Brown provided a presentation on investment performance measurement. Dr. Brown, Mr. Kelly and Mr. Barth discussed the problems in finding the right measurement process and compared the merits of different methods. Mr. Barth said peer group and benchmark

comparisons were useful tools. Dr. Brown said he believed that peer group comparisons were valuable and informative but that benchmarks best showed the opportunity cost of having this particular staff invest trust fund assets. Mr. Barth said that he believed peer group comparisons would still be useful in comparing and evaluating the fund's strategies. Further discussion followed relating to the Sharpe ratio, information ratio, tracking error and the benchmark used by TRS.

A. Performance Review: Fourth Quarter 2012 – Brady O'Connell and Steve Voss, Hewitt EnnisKnupp.

Mr. O'Connell presented the performance review for the fourth quarter of 2012. He stated that 2012 overall was a good year in terms of absolute return performance and performance relative to the benchmark. Responding to a question from Dr. Brown, Mr. O'Connell stated that the returns excluded fees paid to external investment managers as well as incentive fees paid out of the net asset value (NAV). Mr. Harris responded to Mr. Barth that internal staff costs were about two to three basis points. Mr. O'Connell noted that the value added was attributed to a broad range of asset classes, security selection decisions and asset allocation decisions. He presented the risk-return of the total fund versus its peers. Mr. Barth and Mr. Kelly both expressed their interest in understanding investment decisions made by better performing peers.

B. Review Quarterly Portfolio Performance and market update – Britt Harris.

Mr. Harris provided an overview of the quarterly portfolio performance. He presented the four attributes to an excellent investment plan: market exposure (beta), alpha, risk management, and cost structure. He explained the other two factors to long-term success: right people and right metrics. Mr. Harris elaborated the current metrics used by the trust. Responding to questions from Mr. Colonna and Mr. Barth, Mr. Harris provided a historical overview of the bond market performance and recovery from the 2008-2009 financial crisis. Responding to the questions from Dr. Brown concerning the definition of a bubble, Mr. Auby stated that a bubble was defined as a fall of 50% in the subsequent three-year period after the bubble alarm was triggered. Mr. Harris noted that it was difficult to judge when to take action in light of a bubble opportunity, but staff would start small before making a significant allocation adjustment. He concluded his presentation with an overview of the division's organization and culture and the investment governance structure.

D. Review the report of the Investment Management Committee on its April 18, 2013 meeting – Todd Barth

Mr. Barth, Committee Chair, provided a report of the Investment Management Committee:

The Investment Management Committee met today and reviewed the Internal Public Markets. That presentation was by Chi Chai, Janis Hydak, Shayne McGuire and Mark Albert. Bernie Bozzelli and his team reviewed the Trade Management Group.

E. Review the report of the Risk Management Committee on its April 18, 2013 meeting – Eric McDonald.

Mr. McDonald, Committee Chair provided a report of the Risk Management Committee:

The Risk Management Committee met today, April 18, 2013. Jase Auby reviewed various risk measures involving asset allocation, tracking error, and levels of leverage and derivatives exposure. State Street representatives Nicholas Bonn, Joyce Dardonis and John Powell reviewed an annual report on the Securities Lending Program.

7. Receive the report of the Policy Committee and consider the following – Joe Colonna:

Mr. Colonna, Committee Chair, provided a report of the Policy Committee:

The Policy Committee met on April 18, 2013 in the boardroom. After consideration of the December 2012 minutes, staff presented a proposed amendment to the Resolution Designating Persons Authorized to Approve and Sign Vouchers. The proposed revision adds the new position of Assistant Manager of General Accounting and Budget to the resolution. The committee recommended that the board adopt the resolution. The committee also recommended the adoption of proposed amendments to Chapter 23 of the TRS rules relating to contractor ethics and reporting. Additionally, the committee also recommended adoption of proposed amendments to certain pension and health care benefit rules in Chapters 25, 31, 41, and 47 of the TRS rules. The rule proposals include amendments relating to employment by institutions of higher education, the pension and health benefit surcharges, and a standard form for Qualified Domestic Relation Orders. Based on public comment and staff recommendations, the committee recommended adopting a minor clarifying change to the proposed rule 31.14 relating to one-half time employment as published.

A. Proposed amendments to the Resolution Designating Persons Authorized to Approve and Sign Vouchers.

On a motion by Mr. Colonna, seconded by Mr. Barth, the board unanimously adopted the following resolution to adopt proposed amendments to the Resolution Designating Persons Authorized to Approve and Sign Vouchers as recommended by the committee:

Whereas, In accordance with section 825.104 of the Texas Government Code, the Board of Trustees (the "Board") of the Teacher Retirement System of Texas ("TRS") has previously granted authority to certain persons to approve and sign vouchers for payment from accounts of TRS; and

Whereas, The Board desires to re-designate those persons to whom this authority has been granted and to add Janie Duarte as Assistant Manager of General Accounting and Budgeting as an additional authorized designee; now, therefore, be it

Resolved, That the Board designates the following persons to approve and sign vouchers for payment from accounts of TRS from and after April 18, 2013, and until the designated person

separates from employment with TRS, is no longer employed in any capacity for which authority is granted under this resolution, or is not re-designated by the Board, whichever occurs first:

Brian K. Guthrie	Executive Director
Ken Welch	Deputy Director
Don Green	Chief Financial Officer
Jamie Michels	Manager of General Accounting
Scot Leith	Manager of Investment Accounting
Janie Duarte	Assistant Manager of General Accounting & Budgeting
Cindy Haley	Team Leader of Financial Reporting
Martha Rivera	Team Leader of Employee Payroll & Benefits
Vicki Garcia	Team Leader of Investment Accounting

B. Final adoption of proposed amendments to the following Chapter 23 (Administrative Procedures) TRS rules in Title 34 of the Texas Administrative Code.

On a motion by Mr. Colonna, seconded Mr. Barth, the board unanimously adopted the following resolutions regarding Chapters 23, 24, 31, 41 and 47 of the TRS rules and Title 34 of the Texas Administrative Code as recommended by the committee:

i. Rule § 23.7, relating to the Code of Ethics for Consultants; and

Whereas, Section 825.212(e) of the Texas Government Code requires the board to adopt by rule standards of conduct applicable to TRS consultants and advisors who may reasonably be expected to receive more than \$10,000 compensation from TRS for a fiscal year or who render important investment advice to TRS;

Whereas, The board previously adopted Rule § 23.7 to implement this requirement under section 825.212(e), which rule adopted by reference TRS' Code of Ethics for Contractors ("Code");

Whereas, In April 2012, the board adopted a revised Code;

Whereas, Staff has recommended amendments to Rule § 23.7 to adopt the April 2012 revisions to the Code;

Whereas, Pursuant to the authority granted by the Policy Committee at its December 2012 meeting, TRS published proposed amendments to Rule § 23.7 for public comment in the February 8, 2013 issue of the *Texas Register* (38 TexReg 633), and the public had at least 30 days' notice of TRS' intention to adopt the proposed amendments before the board considered their adoption, and TRS received no comments; and

Whereas, The Policy Committee has recommended that the board adopt the proposed amendments to Rule § 23.7 without changes to the text of the proposed rule as published in the *Texas Register*; now therefore, be it

Resolved, That the board hereby:

- 1) Adopts amended rule 34 TEX. ADMIN. CODE § 23.7, without changes to the text of the proposed rule as published in the February 8, 2013 issue of the *Texas Register* (38 TexReg 633);
- 2) Incorporates by reference into this Resolution, as though fully set out in it, the applicable Policy Committee and board meeting materials, discussions, and actions, including the approved rule text and reasoned justification for its adoption as presented in those meeting materials, discussions and actions;
- 3) Grants the TRS staff authority to prepare and to file all documents required by this Resolution, to work with the Office of the Secretary of State in preparing and filings such documents, and to make any technical changes required for publication of the adopted rule; and
- 4) Grants the board chairman authority to sign an order showing the action of the board.

ii. Rule § 23.8, relating to the Expenditure Reporting by Consultants, Agents, Financial Advisors, Financial Services Providers, and Brokers.

Whereas, Section 825.212(g) of the Texas Government Code requires the board by rule to require consultants and advisors to TRS and brokers to file regularly with TRS a report detailing any expenditure of more than \$50 made on behalf of a trustee or employee of TRS;

Whereas, The board previously adopted Rule § 23.8 to implement this requirement under section 825.212(e), which rule adopted by reference certain documents, including an expenditure reporting memorandum;

Whereas, In December 2012, the executive director issued a revised expenditure reporting memorandum;

Whereas, Staff has recommended amendments to Rule § 23.8 to adopt the December 2012 revisions to the expenditure reporting memorandum;

Whereas, Pursuant to the authority granted by the Policy Committee at its December 2012 meeting, TRS published proposed amendments to Rule § 23.8 for public comment in the February 8, 2013 issue of the *Texas Register* (38 TexReg 633), and the public had at least 30 days' notice of TRS' intention to adopt the proposed amendments before the board considered their adoption, and TRS received no comments; and

Whereas, The Policy Committee recommends that the board adopt the proposed amendments to Rule § 23.8 without changes to the text of the proposed rule as published in the *Texas Register*; now therefore, be it

Resolved, That the board hereby:

- 1) Adopts amended rule 34 TEX. ADMIN. CODE § 23.8, without changes to the text of the proposed rule as published in the February 8, 2013 issue of the *Texas Register* (38 TexReg 633);
- 2) Incorporates by reference into this Resolution, as though fully set out in it, the applicable Policy Committee and board meeting materials, discussions, and actions, including the approved amended rule text and reasoned justification for its adoption as presented in those meeting materials, discussions and actions;
- 3) Grants the TRS staff authority to prepare and to file all documents required by this Resolution, to work with the Office of the Secretary of State in preparing and filings such

documents, and to make any technical changes required for publication of the adopted rule;
and

4) Grants the board chairman authority to sign an order showing the action of the board.

C. Final adoption of proposed amendments to the following Chapter 25 (Membership Credit) TRS rules in Title 34 of the Texas Administrative Code.

- i. **Rule § 25.1, relating to Full-time Service;**
- ii. **Rule § 25.6, relating to Part-time or Temporary Employment;**
- iii. **Rule § 25.21, relating to Compensation Subject to Deposit and Credit;**
- iv. **Rule § 25.43, relating to Cost for Unreported Service or Compensation;**
- v. **Rule § 25.47, relating to Deadline for Verification; and**
- vi. **Rule § 25.81, relating to Out-of-State Service Eligible for Credit.**

Whereas, Section 825.102 of the Texas Government Code authorizes the Board of Trustees (board) of the Teacher Retirement System of Texas (TRS) to adopt rules regarding eligibility for membership, the administration of the funds of the system, and the transaction of the business of the board;

Whereas, The standards for membership eligibility in TRS are established in TRS rule §25.1 and provide that employment for one-half or more of the standard full-time work load, for a period of four and one-half months or more, with pay at a rate comparable to the rate of compensation for other persons employed in similar positions is eligible for membership and consistent application of this standard is difficult when the work load is expressed in terms of the number of semester hours or course credits taught by faculty employed in institutions of higher education rather than in clock hours;

Whereas, The proposed rule amendments establish the same ratio for converting semester hours or course credits to clock hours for the purpose of determining eligibility for membership as that used for the purpose of determining the number of hours worked by a retiree under the one-half time exception to employment after retirement and the conversion ratio of two clock hours for every hour of instruction in the classroom or lab reflects the instructional time as well as preparation, grading, and other time typically associated with one hour of instruction;

Whereas, Providing the same conversion ratio for membership eligibility and employment after retirement will reduce confusion, ease communication, and improve consistent administration of the standard and will also clarify that employment in an institution of higher education is "regular" employment if it is *expected* to continue more than one full semester in the same school year or if it continues for more than one full semester in a school year;

Whereas, The proposed amendment in TRS rule §25.6 incorporates the current administrative interpretation of temporary employment for purposes of determining eligibility for membership

for employees of institutions of higher education and amending the rule to specifically define temporary employment for faculty in higher education as employment for no more than one semester in a school year will further the consistent application of the eligibility requirements and simplify communication regarding the standard for temporary employment; and

Whereas, The proposed amendments to TRS rule §25.21 regard the eligibility of workers compensation paid as temporary wage replacement pay for credit with TRS which is not currently addressed in TRS rules and the proposed amendments provide that workers compensation is creditable compensation provided that the compensation is reported or verified to TRS by the end of the school year following the year in which it was paid, which will give a member sufficient time to verify the compensation and pay the member contributions before the cost increases;

Whereas, The proposed changes to TRS rule §25.43 address the amount that must be paid to TRS to receive not only compensation credit for workers compensation but also service credit associated with the workers compensation and provide if the workers compensation is reported or verified to TRS no later than the last day of the school year following the school year in which the workers compensation is paid, the cost to establish the compensation and associated service credit is the amount of member contributions owed on the compensation and the cost of the compensation and associated service credit must be paid in a lump sum no later than the last day of the school year following the year in which the workers compensation was paid or be purchased as unreported compensation;

Whereas, The proposed amendment to TRS rule §25.47 clarifies that workers compensation paid as temporary wage replacement pay is not unreported compensation until after the end of the school year following the school year in which the compensation was paid;

Whereas, The proposed amendments to TRS rule §25.81 reflect the new 90-day standard for the amount of time that a member must have worked in an otherwise eligible position in an out-of-state school in order to purchase the service credit;

Whereas, Pursuant to the authority granted by the Policy Committee of the board at its December 2012 meeting, TRS published proposed changes to the rules in Chapter 25 for public comment in the March 15, 2013 issue of the *Texas Register*, and the public had at least 30 days' notice of TRS' intention to adopt the proposed amendments before the board considered their adoption and TRS received no comments; and

Whereas, The board's policy committee has recommended that the board adopt the proposed amendments, and the board desires to adopt the proposed amendments without changes to the published texts of the proposed rule; now, therefore, be it

Resolved, That the board hereby:

- 1) Adopts amended TRS rule 34 TEX. ADMIN. CODE §25.1, 25.6, 25.21, 25.43, 25.47, and 25.81 as published in the March 15, 2013 issue of the *Texas Register* (38 TexReg 1844-47);
- 2) Incorporates by reference into this Resolution, as though fully set out in it, the applicable policy committee and board meeting materials, discussions and actions, including the approved rule text and reasoned justification for its adoption as presented in those meeting materials, discussions and actions;
- 3) Grants the TRS staff authority to prepare and to file all documents required by this Resolution, to work with the Office of the Secretary of State in preparing and filing such documents, and to make any technical changes required for publication of the adopted rule; and
- 4) Grants the board chairman the authority to sign an order showing the action of the board.

D. Final adoption of proposed amendments to the following Chapter 31 (Employment After Retirement) TRS rules in Title 34 of the Texas Administrative Code.

- i. Rule § 31.14, relating to One-half Time Employment; and**
- ii. Rule § 31.41, relating to Return to Work Employer Pension Surcharge.**

Whereas, Section 824.601 of the Texas Government Code authorizes the Board of Trustees (board) of the Teacher Retirement System of Texas (TRS) to adopt rules to implement the limits on employment after retirement and §825.102 of the Texas Government Code authorizes the board to adopt rules regarding eligibility for membership, the administration of the funds of the system, and the transaction of the business of the board;

Whereas, Recent changes to §31.14 created one standard for one-half time employment for all service retirees working for TRS-covered employers that allows each retiree to work the equivalent of four clock hours for each work day in that calendar month without forfeiting the annuity for that month and a conversion ratio was also added to the rule that required work expressed in the number of course or semester hours taught to be converted to clock hours with each course or semester hour counted as two clock hours;

Whereas, Experience with the new standard revealed a further need for clarification in the conversion ratio language to eliminate the need to include the many different terms used to describe the amount of work performed by faculty by using a single standard of the amount of time in the classroom or lab to ensure consistent application and the proposed amendments provide a conversion ratio of 2 clock hours for every hour of instruction or time in the classroom or lab that takes into account not only the amount of time spent instructing students, but also the amount of preparation time, time spent grading work and submitting grades, and similar work related to the classroom instruction;

Whereas, The proposed amendments to §31.41 address the requirements for triggering payment of the pension surcharge which currently require that a pension surcharge be paid when a retiree is employed for one-half or more of the full-time load but the limit on one-half time employment for the retiree utilizes a standard of working no more than the equivalent of 4 clock hours for each working day in the month;

Whereas, Experience with using two different one-half time standards to evaluate the employment of a retiree highlighted the confusion experienced by employers, the difficulty in communicating the two standards to employers and retirees, and the unanticipated cost to both parties when the work triggered the surcharges and the proposed amendments will establish the same standard for triggering payment of the surcharge and the loss of annuity for exceeding one-half time employment; and

Whereas, Pursuant to the authority granted by the Policy Committee of the board (policy committee) at its December 2012 meeting, TRS published proposed changes to the rules in Chapter 31 for public comment in the March 15, 2013 issue of the *Texas Register*, and the public had at least 30 days' notice of TRS' intention to adopt the proposed amendments before the board considered their adoption and TRS received only oral comments;

Whereas, Based on those comments and the staff's and Policy Committee's recommendation based on them, the board desires to make a minor, clarifying change to proposed rule §31.14 as published for public comment; and

Whereas, The board's Policy Committee has recommended that the board adopt the proposed amendments, and the board desires to adopt the proposed amendments without changes to the published texts of the proposed rule; now, therefore, be it

Resolved, That the board hereby:

- 1) Adopts amended TRS rule 34 TEX. ADMIN. CODE §31.14 with a minor, clarifying change to the proposed rule as published in the March 15, 2013 issue of the *Texas Register* (38 TexReg 1848);
- 2) Adopts amended TRS rule 34 TEX. ADMIN. CODE §31.41 as published in the March 15, 2013 issue of the *Texas Register* (38 TexReg 1848);
- 3) Incorporates by reference into this Resolution, as though fully set out in it, the applicable Policy Committee and board meeting materials, discussions and actions, including the approved rule text and reasoned justification for its adoption as presented in those meeting materials, discussions and actions;
- 4) Grants the TRS staff authority to prepare and to file all documents required by this Resolution, to work with the Office of the Secretary of State in preparing and filing such documents, and to make any technical changes required for publication of the adopted rule; and
- 5) Grants the board chairman the authority to sign an order showing the action of the board.

E. Final adoption of proposed amendment to Rule § 41.4, relating to the Employer Health Benefit Surcharge of Subchapter A, Retiree Health Care Benefits (TRS-Care) of Chapter 41, Health Care and Insurance Programs.

Whereas, The Texas Public School Retired Employees Group Benefits Act (the "Act"), Chapter 1575, Insurance Code, authorizes the Teacher Retirement System of Texas (TRS), as trustee, to implement and administer a uniform group health benefits program ("TRS-Care"), as described in the Act;

Whereas, Section 1575.204, Insurance Code, requires the employer of a reported retiree to pay a health benefit surcharge based on the difference between the amount the retiree is required to pay monthly for the retiree's and any enrolled dependent's coverage under TRS-Care and the monthly full cost of such coverage for the retiree and any enrolled dependent (the "monthly employer health benefit surcharge amount");

Whereas, Section 1575.052, Insurance Code, authorizes the TRS Board of Trustees ("board") to adopt rules it considers necessary to implement and administer the TRS-Care program;

Whereas, Recent changes to TRS rule §31.14, relating to one-half time employment, establish a new standard for one-half time employment after retirement and establish a ratio for converting course credits or semester hours to clock hours;

Whereas, The proposed amendments to TRS rule §41.4, relating to the return-to-work employer health benefit surcharge, establish a new standard for triggering payment of the monthly employer health benefit surcharge by incorporating the same standard used for triggering payment of the pension surcharge;

Whereas, Pursuant to the authority granted by the Policy Committee of the board at its December 2012 meeting, TRS published proposed changes to §41.4 for public comment in the March 15, 2013 issue of the *Texas Register*, and the public had at least 30 days' notice of TRS' intention to adopt the proposed amendments before the board considered their adoption and TRS received no comments; and

Whereas, The board's policy committee has recommended that the board adopt the proposed amendments, and the board desires to adopt the proposed amendments without changes to the published texts of the proposed rule; now, therefore, be it

Resolved, That the board hereby:

- 1) Adopts amended TRS rule 34 TEX. ADMIN. CODE §41.4 as published in the March 15, 2013 issue of the *Texas Register* (38 TexReg 1851);
- 2) Incorporates by reference into this Resolution, as though fully set out in it, the applicable policy committee and board meeting materials, discussions and actions, including the approved rule text and reasoned justification for its adoption as presented in those meeting materials, discussions and actions;
- 3) Grants the TRS staff authority to prepare and to file all documents required by this Resolution, to work with the Office of the Secretary of State in preparing and filing such documents, and to make any technical changes required for publication of the adopted rule; and
- 4) Grants the board chairman the authority to sign an order showing the action of the board.

F. Final adoption of proposed amendment to Rule § 47.10, relating to Determination of Whether an Order is a Qualified Domestic Relations Order of Chapter 47, Qualified Domestic Relations Orders.

Whereas, Section 804.003(n) of the Texas Government Code authorizes the Board of Trustees (board) of the Teacher Retirement System of Texas (TRS) to adopt rules to implement the provisions for payments to an alternate payee under the terms of a qualified domestic relations order, and §825.102 of the Texas Government Code authorizes the board to adopt rules regarding eligibility for membership, the administration of the funds of the system, and the transaction of the business of the board;

Whereas, TRS first developed a model domestic relations order in 1992 to assist parties and their attorneys in drafting an order that meets all of the plan's requirements for a qualified order;

Whereas, Experience with the model order reflects that, in the absence of a requirement to use the model order, many parties revise the order, making changes that must be evaluated for compliance with the plan's terms and often require manual administration of the order, a process which introduces the possibility of human error and liability for the trust fund;

Whereas, Recent changes to §804.003(g) of the Texas Government Code authorize TRS to reject a domestic relations order as a qualified order unless the order conforms to a model order;

Whereas, Requiring the parties to use a model order prescribed by TRS will reduce the amount of staff time required to review the orders and manually track payments, will allow TRS to develop programming to ensure accurate administration of the order, and will reduce liability for the trust fund;

Whereas, The proposed amendment to TRS rule §47.10 implements the statutory authority to require use of a prescribed form in order for the domestic relations order to be approved by TRS as a qualified order;

Whereas, Pursuant to the authority granted by the Policy Committee of the board at its December 2012 meeting, TRS published proposed changes to the rule in Chapter 47 for public comment in the March 15, 2013 issue of the *Texas Register*, and the public had at least 30 days notice of TRS' intention to adopt the proposed amendments before the board considered their adoption and TRS received no comments; and

Whereas, The board's policy committee has recommended that the board adopt the proposed amendments, and the board desires to adopt the proposed amendments without changes to the published text of the proposed rule; now, therefore, be it

Resolved, That the board hereby:

- 1) Adopts amended TRS rule 34 TEX. ADMIN. CODE §47.10 as published in the March 15, 2013 issue of the *Texas Register* (38 TexReg 1853);
- 2) Incorporates by reference into this Resolution, as though fully set out in it, the applicable policy committee and board meeting materials, discussions and actions, including the approved rule text and reasoned justification for its adoption as presented in those meeting materials, discussions and actions;
- 3) Grants the TRS staff authority to prepare and to file all documents required by this Resolution, to work with the Office of the Secretary of State in preparing and filing such documents, and to make any technical changes required for publication of the adopted rule; and
- 4) Grants the board chairman the authority to sign an order showing the action of the board.

8. Receive the report of the Budget Committee on its April 18, 2013 meeting – Nanette Sissney.

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

The Budget Committee met at 1:05 p.m. on Thursday, April 18, 2013, and the first item of business was approval of the minutes from June 7, 2012. Mr. Don Green then provided the status update on TRS budget and the appropriation process. He spoke of the appropriations bill in each chamber and highlighted any significant differences. The Senate version includes \$3.9 billion in all funds and \$3.5 billion in general revenue while the House version includes \$3.94 billion in all funds with \$3.54 billion in general revenue. State contributions are funded at 6.4% for fiscal year (FY) 2014 and 6.7% for FY 2015 in the Senate version, while the House version provides 6.6% in both years. Both versions include 505.3 FTEs, a 1% contribution rate for TRS-Care, \$6.18 million for capital projects related to safety and building maintenance, and include \$4.6 million for TEAM. Next Mr. Green provided a brief update on the administrative operations budget for FY 2013 and reviewed dispersal budget information and background. He presented charts analyzing FTE growth in the agency from 435 in FY 2008 to 487 in FY 2012, and indicated the changes were largely because of the addition of investment resources. Membership has grown by 16% in active members and 53% in retired members in the past decade. The trust fund balance has grown to over \$111 billion as of the end of FY 2012. Benefits processing has seen an increase of 22% overall and activity

was at a 59% increase in retirements process and 27% increase in beneficiary claims process since 2008. The benefit costs per member remain under target and have been less than \$25 per member except in 2011 when technology project was expensed as a one-time adjustment. To conclude the presentation, Mr. Green provided charts highlighting expense categories detailing FY 2012 and FY 2013 by department and then for benefit operations, investment operations, TRS-Active Care, TRS Care, and the 403(b) certification program. For the next agenda item Mr. Green gave a highlighted overview of proposed administrative operating budget and general provisions for FY 2014. Increases over FY 2013 included approximately \$3 million for salary and wages due to an expected 3% across-the-board pay increase authorized by the legislature, and funding for additional resources and benefit increases. An additional \$4 million is included for building repairs. That covers the replacement of air handlers and the pressurization of stairwells. Extended compensation is estimated to be \$9.8 million, which includes the remaining balances of last year's plan, which was \$2 million plus the maximum allowed for the first half of the current plan year, \$5.6 million. Expected biennial funding for the TEAM program is \$34.6 million, including an additional 13 FTEs. Continued efforts are underway to secure unexpended balance authority for TEAM but no significant changes were noted in the general provisions. The complete details of the FY 2014 operating budget will be brought to the board for approval at the June meeting.

- 19. Consider personnel matters, including the appointment, employment, evaluation, compensation, performance, duties, discipline, or dismissal of the Executive Director, Chief Investment Officer, or Chief Audit Executive – David Kelly.**
- 20. Consult with the Board's attorney(s) in Executive Session on any item listed above on this meeting agenda as authorized by Section 551.071 of the Texas Open Meetings Act (Chapter 551 of the Texas Government Code) – David Kelly.**

Mr. Kelly announced that the board would go into executive session under section 551.074 of the Texas Open Meeting Act for agenda item No. 19 to deliberate the personnel matter posted under that item, including the duties of the executive director. The executive session would be also held under section 551.071 of the Act to seek advice from its legal counsel on agenda items 19 and 20 as needed. All members of the public and staff not needed for the executive session were asked to leave the meeting room at this time and take their belongings with them.

Whereupon, the open session recessed at 5:47 p.m.

The meeting was reconvened in open session at 7:26 p.m. and then recessed at 7:30 p.m.

The Board of Trustees of the Teacher Retirement System of Texas reconvened on April 19, 2013, in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River Street, Austin, Texas. The following board members were present:

David Kelly, Chair
Todd Barth
Karen Charleston
Charlotte Clifton
Joe Colonna

Chris Moss
Anita Palmer
Nanette Sissney

Others present:

Brian Guthrie, TRS
Ken Welch, TRS
Amy Barrett, TRS
Janet Bray, TRS
Carolina de Onís, TRS
Dennis Gold, TRS
Howard Goldman, TRS
Don Green, TRS
T. Britton Harris IV, TRS
Betsey Jones, TRS
Amy Morgan, TRS
Ray Spivey, TRS
Marianne Woods Wiley, TRS
Michelle Bertram, TRS
John Dobrich, TRS
Janie Duarte, TRS
Adam Fambrough, TRS
Cindy Haley, TRS
Dan Herron, TRS
Bob Jordan, TRS
Dan Junell, TRS
Lynn Lau, TRS
Jay LeBlanc, TRS
Rebecca Merrill, TRS
Jamie Michels, TRS

T. A. Miller, TRS
Melinda Nink, TRS
Hugh Ohn, TRS
Barbie Pearson, TRS
Shunne Powell, TRS
Mike Rehling, TRS
Noel Shelman, TRS
Rebecca Smith, TRS
David Veal, TRS
Angela Vogeli, TRS
Susan Wade, TRS
Tim Wei, TRS
Jay Masci, Provaliant
Keith Robinson, Focus Consulting Group
Michael Johnson, Bridgepoint Consulting
Brady O'Connell, Hewitt EnnisKnupp
Steve Huff, Reinhart Boerner Van Deuren
Bill Barnes, Texas Retired Teachers Association
Ronnie Jung, Texas Retired Teachers Association
Tim Lee, Texas Retired Teachers Association
David Runyan, Express Scripts
Andy Tonkovich, HP
Ernie Sanders, HP
Victor Ferreira, HP
Jeff Lambert, State Street

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

1. Call roll of Board members.

Ms. Lau called the roll. A quorum was present. Mr. McDonald was absent.

9. Provide opportunity for public comment – R. David Kelly.

Mr. Tim Lee of the Texas Retired Teachers Association complimented TRS on the interim pension study and the system's investment performance. He expressed concerns about the solvency of the TRS-Care fund and the need for a legislative response. He said that the members' associations were available to discuss funding the health benefit plans.

10. Receive a presentation from Focus Consulting on options for conducting executive personnel evaluations – Keith Robinson, Focus Consulting.

Mr. Guthrie introduced the evaluation process for the Executive Director, Chief Investment Officer and Chief Audit Executive. Mr. Robinson of Focus Consulting described the process and timeline of the evaluations. Mr. Robinson explained for Ms. Sissney that the person being evaluated would choose his or her peers to be compared with but that other directors would be consulted to avoid stacking the deck. Mr. Robinson talked about the development of the

evaluation design and process and answered board members' questions.

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

Mr. Johnson of Bridgepoint Consulting (Bridgepoint) explained the Independent Program Assessment (IPA) process and the role of Bridgepoint as the IPA vendor. He provided the evaluation results of the TEAM program and summarized the observations and management responses. Per Mr. Kelly's request, Mr. Johnson said he would include in the IPA report typical problems one would expect to see at different stages of a long-term, high-budget technology project like TEAM.

12. Receive a review of the TEAM Program –Jamie Michels; Barbie Pearson; Adam Fambrough; and Jay Masci, Provaliant.

Ms. Pearson provided an overview of the ongoing activity for the implementation of the TEAM program.

Mr. Fambrough described the commitments in the Line of Business (LOB) system defining the objectives of the new system, including participant searches, beneficiary designations, requesting and processing refunds, disability certification process and workflow. He explained how the new system would reduce manual processes and expand self-service. Responding to a question from Mr. Kelly regarding the current process for searching common members' names, Mr. Fambrough stated that the current system required a lot of manual research, and that the new system enabled advanced searches using multiple fields of information.

Ms. Michels described the objectives of the future financial system replacement (FSR) project. She provided examples of the current manual, paper-driven processes and explained the plan to streamline and enhance those processes, including benefit payments and other transactions, reporting, reconciliations, accounts payable, time keeping and leave accounting, procurement and contract management, investment accounting and human resources data management.

Mr. Fambrough noted that the enterprise system has been named TRUST, which stands for Teacher Retirement Unified System for Technology.

Responding to Mr. Kelly's concerns about the grand scale of commitments that were put on the list, Ms. Michels stated that staff was open to the products readily available in the market. Mr. Masci noted that a lot of the commitments were standard LOB system items and would not entail additional cost for the project. He stated that the FSR team has also put in place a cost-benefit analysis to decide whether customization is required to fulfill a commitment.

Responding to Ms. Palmer's request for a calendar indicating the status of accomplished milestones, Mr. Masci said he would provide it at the next meeting.

Mr. Welch presented upcoming activities relating to pension administration LOB-system replacement, which involved assessing current functionality and selecting vendors. He also

presented the upcoming major milestones. Mr. Guthrie explained for Mr. Kelly steps taken to ensure normal business functionality.

13. Review the reports on the Historically Underutilized Businesses (HUB) and consider related goals, as appropriate, for fiscal year 2013 – John Dobrich.

Mr. Guthrie provided the background of the Historically Underutilized Businesses (HUB) program.

Mr. Dobrich presented the HUB utilization and expenditures by category for FY 2012 and their comparisons with other state agencies. He noted that the high-dollar, non-HUB IT contracts for the TEAM program had skewed TRS' HUB percentage in FY 2012. He stated that TRS would continue to promote and expand HUB opportunities.

On a motion by Mr. Barth, seconded by Ms. Clifton, the board voted unanimously to adopt the following resolution:

Whereas, TRS staff met on March 26, 2013 and reviewed the report of the Texas Comptroller of Public Accounts on TRS HUB expenditures for fiscal year 2012 and discussed the 2012 HUB Program Annual Status Report to be presented to the TRS Board of Trustees (Board);

Whereas, TRS staff developed proposed HUB goals for fiscal year 2013 for the Board to consider; and

Whereas, The Board has received and discussed the HUB expenditure reports, and the Board desires to adopt TRS' HUB goals for fiscal year 2013; now, therefore, be it

Resolved, That the Board hereby adopts the following HUB expenditure goals for fiscal year 2013:

Category	TRS FY12 Goals	TRS FY12 Actual	TRS FY13 Goals
Special Trade	25%	40.84%	25%
Professional Services	5%	7.65%	5%
Other Services	20%	8.85%	20%
Commodity Purchases	50%	30.95%	50%

14. Review the report of the Audit Committee on its April 19, 2013 meeting – Christopher Moss.

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

The Audit Committee met at 8:00 a.m. on Friday, April 19, 2013. The following reports were presented: ethics policy's follow-up audit by the State Auditor's Office; employee ethics survey by Internal Audit; audit of TRS-ActiveCare service providers by Sagebrush

Solutions; Audit of Derivatives by Internal Audit and Protiviti; quarterly investment testing by Internal Audit; audit of backup and recovery by Myers and Stauffer; audit of telephone counseling center performance measures by Myers and Stauffer; semiannual testing of benefit payments by Internal Audit; status of prior audit and consulting recommendations by Internal Audit; and quarterly Internal Audit status report by Internal Audit. The meeting adjourned at approximately 9:45 a.m.

15. Review the report of the Chief Benefit Officer, and consider related matters – Marianne Woods Wiley:

A. Approve members qualified for retirement.

Ms. Woods Wiley presented the list of members and beneficiaries receiving initial benefit payments during the period from September 1, 2012 through February 28, 2013 (reporting period). She referred the board to the detailed list of payments made available for their review.

On a motion by Mr. Moss, seconded by Ms. Sissney, the board unanimously approved the list of members and beneficiaries who qualified for retirement, disability, DROP, PLSO, survivor, or death benefits initiated during the reporting period.

B. Approve minutes of Medical Board meetings.

Ms. Woods Wiley presented the minutes of the September 11, 2012, November 13, 2012, and January 8, 2013 Medical Board meetings. On a motion by Mr. Moss, seconded by Ms. Charleston, the board approved the minutes of the Medical Board meetings as presented, thereby ratifying the actions of the Medical Board reflected in those minutes.

16. Review the report of the Chief Financial Officer – Don Green:

A. Review the report under § 825.314(b), Government Code, of expenditures that exceed the amount of operating expenses appropriated from the general revenue fund and are required to perform the fiduciary duties of the Board.

Pursuant to section 825.314(b) of the Government Code, Mr. Green presented a report of the expenditures paid during the months of January and February 2013 that were required to perform the fiduciary duties of the board.

B. Quarterly financial reports on TRS programs.

Mr. Green provided the quarterly financial reports on TRS programs as of February 28, 2013.

17. Review the report of the Deputy Director, including – Ken Welch:

A. An update on the TRS Telephone Counseling Center.

Mr. Welch addressed the issue relating to high call volume due to changes in the retiree health benefit program. He reported that human resources had been reallocated and phone lines added

to handle the increased number of calls.

Mr. Welch recognized the finalists of the TEAM logo design contest: Tom Guerin, Mike Beuerlein, and Andre Chambers. He stated that Mr. Guerin was the winner of the contest.

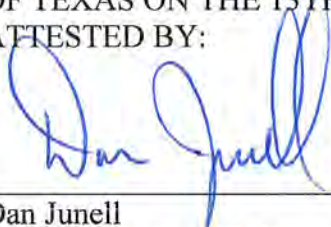
18. **Review the report of the General Counsel on pending or contemplated litigation, including updates on the following: the Bank of America securities class action; the Countrywide securities litigation; the Facebook securities litigation; the Pfizer securities litigation; the Tyco securities litigation; other securities litigation; the LIBOR litigation; litigation involving fiduciary duties related to investments; and litigation involving benefit-program contributions, retirement benefits, health-benefit programs, and open records – Dennis Gold.**

Mr. Gold stated no further new activity other than what was stated in the report. The board members had no questions about the litigation report or other related materials.

The meeting adjourned at 12:19 p.m.

APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM
OF TEXAS ON THE 13TH DAY OF JUNE, 2013.

ATTESTED BY:



Dan Junell
Secretary to the TRS Board of Trustees

6-19-13

Date