

Minutes of the Board of Trustees

July 13, 2017

The Board of Trustees of the Teacher Retirement System of Texas met on July 13, 2017, 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
Karen Charleston
Joe Colonna
David Corpus
John Elliot
Greg Gibson
Christopher Moss
Dolores Ramirez

Others present:

Brian Guthrie, TRS
Ken Welch, TRS
Don Green, TRS
Carolina de Onís, TRS
Jerry Albright, TRS
Amy Barrett, TRS
Rebecca Merrill, TRS
Howard Goldman, TRS
Katherine Farrell, TRS
Heather Traeger, TRS
Steve Huff, Reinhart Boerner Van Deuren

Robert Dollard, BNY Mellon
Joyce Dardonis, BNY Mellon
Mike Bentrutt, Aetna
Philip Mullins, TRTA
Sabina Rahman-Garcia, Humana
Ann Fickel, TCTA
Joni Lozano, CVSE
Gary Lane, State Street
John Powell, State Street
Ted Melina Raab, Tx AFT
Derly Rivera, Austin RTA

Mr. Kelly called the meeting to order at 8:10 a.m.

1. Call roll of Board members.

Ms. Farrell called the roll. A quorum was present. Ms. Charleston arrived shortly after the roll call.

2. Consider the following administrative items – David Kelly:

A. Approval of the proposed June 1-2, 2017 Board meeting minutes.

Mr. Brian Guthrie noted a correction was made regarding one of the Resolutions adopted by the Board during the June meeting. He reported the Resolution regarding Adjusting Plans Offered under TRS-Care and Approving Premium Rates and Benefit Plan Designs incorrectly listed the out-of-pocket maximum limit amounts for individuals and families. Mr. Guthrie said the correction was in the members favor and would reflect amounts required to qualify as an IRS Health Savings Account plan, an outcome which the Board intended. Mr. Guthrie asked that the correction be considered as part of the motion for adoption of the minutes.

On a motion by Ms. Ramirez, seconded by Mr. Corpus, the Board unanimously voted to approve correcting the errors and to approve the proposed minutes of the June 1-2, 2017 Board meeting, including the corrected text of the TRS-Care resolution as described by Mr. Guthrie.

B. Excusing Board member absences from the June 1-2, 2017 Board meeting.

On a motion by Dr. Gibson, seconded by Mr. Moss, the Board unanimously voted to excuse the absences of Dolores Ramirez from the June 1-2, 2017 Board meeting.

C. Setting, rescheduling, or canceling future Board meetings.

No changes to the future Board meetings schedule were addressed.

3. Provide opportunity for public comment – David Kelly.

No public comment was provided.

4. Recognize the service of Britt Harris – Brian Guthrie.

Mr. Britt Harris said it has been the honor of his life to serve TRS and its members, and thanked everybody for their support and friendship during his tenure at the agency. The Board offered words of appreciation for how Mr. Harris has been a great asset to the agency.

Mr. Kelly requested a resolution in recognition of Mr. Harris be formally entered into the record:

**RESOLUTION OF THE BOARD OF TRUSTEES REGARDING THE SERVICE OF
THOMAS BRITTON HARRIS IV**

Whereas, Thomas Britton Harris IV joined the Teacher Retirement System of Texas (TRS) in November 2006, as the retirement system's Chief Investment Officer; and

Whereas, he served TRS in numerous ways, including as a member of the TRS Executive Council and Internal Investment Committee; and

Whereas, as a highly respected investment industry leader with more than 30 years of investment experience, he brought TRS international recognition as the sixth largest public fund in the United States and one of the 25 largest investment funds in the world; and

Whereas, he provided critical leadership during a time when the retirement system grew from approximately 1.2 million to more than 1.5 million members and annuitants; and

Whereas, as a testament to his talents and abilities, he demonstrated exemplary skills in providing the critical vision, leadership and strategic direction required to achieve success; and

Whereas, he demonstrated exemplary skills in successfully guiding the agency through prudent oversight of trust assets during challenging periods of extreme capital market volatility, including the Great Financial Crisis, during which he and the Investment Management Division (IMD) team

restored the fund's financial health from a low of \$67 billion to its \$140 billion value today – a much stronger financial position than when he joined the agency; and

Whereas, he restructured and expanded TRS' Investment Management Division, implemented leading-edge portfolio management strategies, guided development of a new asset allocation policy and entered into a series of innovative strategic partnerships; and

Whereas, with his guidance, the agency's world-class staff earned TRS a reputation as an investment industry leader with highly regarded performance, innovation and effective risk management; and

Whereas, to further support the "Preferred Destination" initiative, he and the IMD team opened TRICOT London, TRS' first international office in London in November 2015, making TRS the first US-based public pension plan to have an office there, continuing to build upon TRS' reputation as leading institutional investor and increasing access to more investment opportunities; and

Whereas, his accomplishments and admiration have earned him and the Investment Division numerous recognitions and awards during his time at TRS, including "Large Public Plan Manager of the Year" by *Institutional Investor* magazine, Private Equity ranked first by the American Investment Council, North American LP of the Year awards in Real Assets and Private Equity, and a Lifetime Achievement Award, for distinguished service to the financial industry, by *aiCIO* magazine; and

Whereas, being a teacher at heart, he mentored a new generation of investment professionals, instilling a strong culture of excellence and delivering a new level of sophistication to TRS' investment program as well as throughout the agency; and

Whereas, in recognition of his leadership and significant contributions, he will be remembered by TRS, its participants and staff for his invaluable expertise, integrity, commitment, exceptional performance, and dedication to public service, with Texas public education employees foremost on his mind; and

Now, therefore, be it resolved, that the Board of Trustees and staff of the Teacher Retirement System of Texas recognize the accomplishments and contributions of Thomas Britton Harris IV over the last decade of his extremely successful career with the retirement system and express appreciation on behalf of TRS members both present and future,

And be it further resolved, that a copy of this resolution be presented to Thomas Britton Harris IV and entered into the record of the board for July 13, 2017.

5. Discuss and consider personnel matters including the appointment, selection, compensation, and duties of the Chief Executive Officer in consultation with the Executive Director – Brian Guthrie.

At 8:42 a.m., Mr. Kelly announced without objection that the Board meeting would recess to go into executive session on agenda item 5 under Section 551.074 and 551.071 of the Government Code to discuss confidential personnel matters and to seek the advice of counsel as needed.

At 9:50 a.m., Mr. Kelly reconvened the Board meeting in open session. Mr. Kelly noted that in executive session the Board received a briefing on succession planning for individual positions in the Investment Management Division and discussed employment of a chief investment officer. Mr. Kelly asked for a motion for the installation of Jerry Albright as chief investment officer on a permanent basis.

On a motion by Mr. Colonna, seconded by Mr. Corpus, the Board unanimously approved the following resolution concerning the selection of a chief investment officer. Mr. Kelly requested that the following resolution be read into the record:

**RESOLUTION OF THE BOARD OF TRUSTEES REGARDING THE SELECTION
OF CHIEF INVESTMENT OFFICER**

JULY 13, 2017

WHEREAS, a vacancy exists in the position of Chief Investment Officer (CIO) and section 1.7(v) provides that the Board of Trustees (Board) of the Teacher Retirement System of Texas (TRS) shall select the CIO, in consultation with the executive director;

WHEREAS, TRS Bylaws subsection 4.1.2(c)(2) provides that the Executive Director is authorized by the Board to set the salary of the CIO within approved ranges and applicable laws; now, therefore, be it

RESOLVED, that the Board hereby selects *Jerry Albright*, who currently serves as Interim CIO and formerly served as the Deputy Chief Investment Officer, to fill the position of CIO, and the Board authorizes the Executive Director to extend terms for the monthly salary, as the Executive Director deems reasonable and in the best interest of TRS.

6. Receive a presentation from Focus Consulting on the evaluation of the Chief Audit Executive, and Executive Director – Keith Robinson, Focus Consulting.

Mr. Keith Robinson provided an overview of the process that was used in evaluating the chief audit executive and the executive director.

Mr. Kelly announced without objection that the Board meeting would recess to allow the Audit Committee to meet and would reconvene after they met. Whereupon, at 10:05 a.m., the Board meeting recessed, to reconvene that same day, Thursday, July 13, 2017, following the conclusion of the Audit Committee meeting.

After the meeting of the Audit Committee, Mr. Kelly reconvened the Board meeting at 11:10 a.m.

8. Consider personnel matters, including the appointment, employment, evaluation, compensation, performance, duties, discipline, or dismissal of the Executive Director, Chief Audit Executive – David Kelly:

A. Discuss and consider the evaluation, compensation, and duties of the Executive Director.

B. Discuss and consider the compensation and duties of the Chief Audit Executive.

C. Discuss and consider the salary limits for the Deputy Director Investment Officer and Investment Fund Directors listed in the schedule of exempt positions in the General Appropriations Acts for fiscal years 2017 and 2018.

At 11:11 a.m., Mr. Kelly announced without objection that the Board meeting would recess to go into executive session under Sections 551.074 and 552.071 of the Government Code to discuss the personnel matters under agenda items 8A through C, and as needed to seek advice of legal counsel.

At 12:17 p.m., Mr. Kelly reconvened the Board meeting in open session.

On a motion by Dr. Gibson, seconded by Ms. Ramirez, the Board unanimously voted to table agenda items 8B and 8C.

7. Review the report of the Audit Committee on its July, 13, 2017 meeting, and consider adoption of the Evaluation of the Chief Audit Executive – Chris Moss.

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

The Audit Committee met on Thursday, July 13 in the 5th Floor Boardroom. The Audit Committee discussed and approved the recommendation to the Board of Trustees regarding the annual performance appraisal of the chief audit executive. The Audit committee deferred consideration of any salary increase to the Board of Trustees.

On a motion by Mr. Moss, the Board unanimously approved the annual performance appraisal of the chief audit executive for fiscal year 2017.

9. Discuss and consider adoption of fiscal year 2018 operating budgets, including – Don Green:

A. Consider the adoption of the proposed fiscal year 2018 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 2018 budget.

B. Consider the adoption of the proposed fiscal year 2018 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 adoption of the proposed fiscal year 2018 administrative operations budget and general provisions for the 403(b) company certification and investment product registration program.

Mr. Don Green provided an overview of the budget. He noted that the total amount of increase from the pension trust fund compared to last fiscal year is 3.7%. He stated that the legislature approved funding for 21 FTEs. Mr. Green mentioned that there are three major initiatives funded out of the pension trust fund aside from TEAM: the eRecords Project, and the financial and HR systems that will be undertaken in the next biennium, starting in September. Mr. Green stated that TEAM expenditures were trending downward, and noted that some TEAM transition costs are anticipated in the future. Mr. Green briefly discussed capital projects, highlighting the Centralized Accounting and Personnel System and building renovations. Mr. Green stated that commission credits remain the same. He noted the call center contract to handle the potential increased call volume from members in response to the major changes in their health care plans. Mr. Green recognized his team for their role in putting together the budget. Mr. Green highlighted the general provisions, and noted suggested technical word changes within the general provisions.

On a motion by Mr. Moss, seconded by Ms. Charleston, the Board unanimously adopted the Fiscal Year 2018 administrative operations budget for the pension trust TRS health benefits funds, retired and active plans, including the long-term insurance program and the 403(b) certification program as presented by staff, and the general provisions as provided by staff.

On a motion by Mr. Moss, seconded by Dr. Gibson, the Board unanimously adopted the following resolution authorizing staff to transfer pension trust funds to the TRS expense account for pension administration operations expenses under the approved fiscal year 2018 budget.

**RESOLUTION AUTHORIZING EXPENDITURE AND TRANSFER OF TRUST FUNDS FOR PENSION
TRUST FUND ADMINISTRATIVE OPERATIONS**

JULY 13, 2017

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 17, "Contingent Appropriation of Pension Trust Funds for GASB Statement Implementation," of the TRS bill pattern in the State General Appropriations Act, 85th 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, the TRS is appropriated additional funds from the Pension Trust Fund (960) for fiscal year 2018; now, therefore be it;

Resolved, That the board finds the expenditure of pension trust funds for operating expenses in Fiscal Year 2018 is required to perform the fiduciary duties of the board in administering the retirement system in the amount of \$128,543,186, as approved today in the Fiscal Year 2018

Budget and General Provisions for the Pension Trust Fund Administrative Operations, plus such additional amounts as may be necessary for the following expenditures:

- To pay the actual amount of performance incentive compensation payable in Fiscal Year 2018, if any; and
- To pay expenses incurred for the TEAM Program in Fiscal Year 2018 with any unexpended TEAM Program capital budget funds reappropriated in accordance with Section 14.03(i) of Article IX of the General Appropriations Act for the 2018-2019; 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

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 2018, but not to exceed the amount of \$128,543,186 plus, any additional amounts necessary to pay performance incentive compensation payable in Fiscal Year 2018 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.

10. Consider the engagement of a provider of pension fund actuarial consulting and related services including considering a finding that deliberating or conferring on the selection of the actuarial consultant in open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person – Rebecca Merrill.

Mr. Guthrie stated that TRS was going through the procurement process of awarding a new contractor for pension actuarial services or continuing with the existing provider. Ms. Rebecca Merrill stated that every four years state law requires that the Board rebid the contract for pension actuary. Ms. Merrill said TRS received two RFP responses. Ms. Merrill outlined the selection process staff used in making its recommendation for the pension actuary. Ms. Merrill stated that based on the selection process, staff recommended that the Board authorize the Executive Director to enter into negotiations with Gabriel, Roeder, Smith & Company (GRS).

Ms. Merrill answered several questions in response to the recommendation from the Board. In response to Dr. Gibson's question, Ms. Merrill noted that there are provisions within the proposed contract that specify how the pension actuary selected is to perform in their evaluation and pension consulting services.

On a motion by Ms. Charleston, seconded by Mr. Moss, the Board unanimously voted to adopt the following resolution selecting GRS as pension fund actuarial consultant and authorizing staff to negotiate and execute a contract with the same firm:

**TEACHER RETIRMENT SYSTEM OF TEXAS
BOARD RESOLUTION**

RESOLUTION REGARDING THE SELECTION AND PAYMENT OF PENSION ACTUARY

JULY 13, 2017

Whereas, Section 825.206(a) of the Government Code and TRS Bylaws subsection 1.7(o) provides that the Board of Trustees (Board) of the Teacher Retirement System of Texas (TRS) shall select, designate, and evaluate an actuary as its technical advisor;

Whereas, Section 825.206(c) of the Government Code provides that the Board shall redesignate its actuary every four years after advertising for and reviewing proposals from providers of actuarial services;

Whereas, Section 825.101 of the Texas Government Code states that the Board is responsible for the general administration and operation of the retirement system and its assets, and Section 825.103 of the Texas Government Code provides that the Board has exclusive authority over the purchase of goods and services when using trust funds, including the purchase of actuarial valuation and pension consulting services;

Whereas, TRS Bylaws subsections 5.6(b) and 5.6(e) delegate authority to the TRS executive director to contract for the purchase of services and the execution of vouchers for payments, in accordance with actions of the Board;

Whereas, TRS conducted a competitive procurement for actuarial valuation and pension consulting services;

Whereas, The Board wishes to authorize the executive director to enter into a contract for actuarial valuation and pension consulting services; now, therefore be it

Resolved, That the Board, pursuant to Section 825.206 of the Texas Government Code, hereby authorizes the executive director or the deputy director of TRS to negotiate, with the assistance and advice of legal counsel, a contract with Gabriel, Roeder, Smith & Company (GRS) to provide actuarial valuation and pension consulting services for the TRS pension fund; and

Resolved, That, if negotiations are deemed in his or her discretion to be successful, then the executive director or the deputy director is hereby authorized to execute a contract on such terms and conditions as such officer may deem, in his or her discretion, to be in the best interest of TRS, and further to execute and deliver all such other documents, including all future extensions or amendments to the contract, that such officer may deem 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 reasonably necessary or advisable with respect to such contract or amendments.

11. Consider the engagement of a provider of fiduciary counsel and related services including a finding that deliberating or conferring on the selection of the fiduciary counsel in open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person – Carolina de Onís.

Mr. Guthrie stated that every four years TRS goes through the procurement process of selecting fiduciary counsel. Ms. de Onís stated that there were five responses to the Request for Qualifications (RFQ) for fiduciary counsel, and three of the five were asked to present at the Board meeting.

The Board heard presentations from Jackson Walker, Reinhart Boerner Van Deuren s.c., and Squire Patton Boggs regarding the selection of fiduciary counsel and related services.

On a motion by Ms. Ramirez, seconded by Mr. Elliott, the Board unanimously found that deliberating or conferring in an open meeting about the selection of fiduciary counsel would have a detrimental effect on TRS's position in negotiation with a third person.

At 1:33 p.m., Mr. Kelly announced without objection that the Board meeting would go into executive session under Section 825.115(e) of the Government Code to discuss agenda item 11.

At 2:18 p.m., Mr. Kelly reconvened the Board in open session.

On a motion by Mr. Moss, seconded by Mr. Corpus, the Board unanimously voted to adopt the following resolution selecting Reinhart Boerner Van Dueren s.c. as fiduciary counsel and authorizing staff to negotiate and execute a contract with the same firm.

**TEACHER RETIRMENT SYSTEM OF TEXAS
BOARD RESOLUTION**

RESOLUTION REGARDING THE SELECTION AND PAYMENT OF FIDUCIARY COUNSEL

JULY 13, 2017

Resolved, That the Board of Trustees (the "board") of the Teacher Retirement System of Texas ("TRS") hereby selects the law firm of Reinhart Boerner Van Deuren s.c. to serve as fiduciary counsel; and

Resolved, That the board authorizes the Executive Director or a designee to negotiate an outside counsel contract with fiduciary counsel for a term of two fiscal years commencing on September 1, 2017, having determined that the firm provides the best overall value to TRS for the required services, and to obtain approval from the Office of the Attorney General ("OAG") for the engagement of such outside counsel; and, if negotiations are deemed by the Executive Director in his discretion to be successful, then the Executive Director is hereby authorized to execute such contract, including future amendments, with fiduciary counsel on such terms and conditions as the Executive Director may deem in his discretion to be in the best interest of TRS, and further 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, or his designee, to be reasonably necessary or advisable with respect to such contract; and

Resolved, That the board authorizes the Executive Director or a designee, prior to August 31, 2019, to seek the necessary approval from the OAG to engage fiduciary counsel under a new contract for the FY2020-FY2021 biennium without issuing another Request for Qualifications for services to be performed between now and August 31, 2021 if the board determines that another two-year contract with the fiduciary counsel engaged under this Resolution will continue to provide the best overall value for TRS.

12. Receive an update on the TEAM Program – Brian Guthrie and Chet Henry.

Mr. Guthrie provided an update regarding the progress of the TEAM program. He walked through the timeline stating TRS is 81 days from the October 2 “Go Live” date for Phase One. He said the program was making good progress. Mr. Guthrie thanked everyone working on the program for their hard work. Mr. Guthrie reviewed the transparency report. He stated that Phase One is tracking as hoped. Mr. Guthrie said that although Phase Two is in the development phase, the primary priority is Phase One. Mr. Ken Welch highlighted the feedback loop embedded within the training process.

Mr. Guthrie reviewed some of issues and risks. He noted that the level of defects is below the target point. Mr. Guthrie stated that the primary focus was on getting Severity 1 and Severity 2 defects down to zero by the User Acceptance Testing exit. He said that Severity 3 and Severity 4 defects will be addressed, most likely after the “Go Live” date because those defects would not hamper the ability to do business like Severity 1 and Severity 2 defects could. Mr. Guthrie stated that they continue to work closely with DXC to ensure that TEAM is completed according to schedule.

Mr. Guthrie stated that there is a certification process for reporting entities that would help ensure that they would be able to communicate with TRS using the new system. He noted that only about seven reporting entities were uncertified out of 1,316 total reporting entities.

13. Discuss the Executive Director’s report on the following – Brian Guthrie:

- A. Administrative operational matters, including updates on the Executive Director’s goals, financial, audit, legal, staff services, investment, board administration, special projects, long-term space planning, and strategic planning.**
- 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. Guthrie provided general updates about the agency. He noted a few upcoming conferences and meetings. Mr. Guthrie provided a brief overview of the Executive Council retreat, stating it was a productive meeting.

Mr. Guthrie highlighted a few recent agencywide events. Mr. Guthrie noted that he and Ms. Katrina Daniel were invited to the Texas Retired Teachers Association (TRTA) headquarters to do a Facebook Live event with Mr. Tim Lee regarding changes made to TRS-Care. The issues discussed during this event were in response to Mr. Lee's testimony to the Board in June. Mr. Guthrie discussed the All Hands meetings. Mr. Guthrie noted that the meetings were held to provide an opportunity for the TRS employees to get to know him better, as well as to inform staff about updates in legislation, TEAM, and other initiatives. Mr. Guthrie stated that as a follow up to the All Hands meetings, he and Mr. Welch are having one-on-one meetings with different groups in the agency in order to facilitate an exchange of ideas. Mr. Guthrie provided a brief legislative update about the upcoming special session. He noted items on the Governor's special-session call list that were relevant to TRS.

Mr. Guthrie outlined a few goals that he would be presenting to the Board in September. The goals relate to sustaining a financially sound pension system, improving benefit delivery, successfully implementing health care changes and effectively communicating those changes, and aligning people, processes and technology to achieve TRS' overall mission.

Mr. Guthrie reviewed upcoming agenda items for the August and September meetings.

14. 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.

This agenda item was not taken up.

At 3:08 p.m., on a motion by Ms. Ramirez, seconded by Mr. Colonna, the Board unanimously voted to adjourn.

APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM
ON THE 1st DAY OF September, 2017.

ATTESTED BY:

Katherine H Farrell

Katherine H. Farrell
Secretary of the TRS Board of Trustees

9/4/17
Date