

Minutes of the Board of Trustees

December 14, 2018

The Board of Trustees of the Teacher Retirement System of Texas met on December 14, 2018 in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River, Austin, Texas. The following Board members were present:

Jarvis V. Hollingsworth, Chair
Dolores Ramirez, Vice Chair
Joe Colonna
David Corpus
John Elliott
Greg Gibson
Christopher Moss
James Nance
Nanette Sissney

Others present:

Brian Guthrie, TRS	Ann Fickel, TCTA
Don Green, TRS	LeRoy DeHaven, TRTA
Carolina de Onis, TRS	Tom Rogers, TRTA and ARTA
Jerry Albright, TRS	Pat Macias, TRTA
Jase Auby, TRS	Johnny Macias, TRTA
Barbie Pearson, TRS	Joni Lozani, CVS
Chet Henry, TRS	Cheryl Anderson, AFT
Amanda Jenami, TRS	Mike Tentrott, Aetna
Heather Traeger, TRS	Nick Arnold, Humana
Katherine Farrell, TRS	Patty Quinzi, TX AFT
Michael Johnson, Bridgepoint	Brock Gregg, TRTA
Steve Voss, Aon Hewitt	Amy Barrett
Keith Brown, Investment Advisor	Joe Newton, GRS
Steve Huff, Reinhart Boerner Van Deuren	Amy Cohen, GRS
	Dan Siblik, GRS
	Jeff Adair, Prospecta

Mr. Hollingsworth called the meeting to order at 9:00 a.m.

1. Call roll of Board members.

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

2. Provide opportunity for public comment – Jarvis Hollingsworth.

Mr. Tom Rogers, representing the Austin Retired Teachers Association, expressed concerns over the TRS lowered rate of assumption and the retirees need for a raise.

3. Consider the following administrative items – Jarvis Hollingsworth:

a. Approval of the proposed September 2018 Board meeting minutes.

On a motion by Mr. Elliott, seconded by Dr. Gibson, the Board voted, with Mr. Hollingsworth abstaining, to approve the proposed minutes of the September 2018 Board meeting as amended to show Mr. Colonna present and that the Board vote adopting the Executive Director and Investment Management Division's Performance Incentive Payment Plan was by motion rather than resolution.

b. Excusing Board member absences from the September 2018 Board meeting.

On a motion by Ms. Sissney and seconded by Ms. Ramirez, the Board voted to excuse Mr. Hollingsworth's absence from the September 2018, with Mr. Hollingsworth abstaining.

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

On a motion by Mr. Nance, seconded by Ms. Ramirez, the Board unanimously voted to approve moving the July 25 – 26, 2019 scheduled meetings to July 18-19, 2019.

4. Recognize the service of Amy Barrett – Jarvis Hollingsworth.

Mr. Hollingsworth noted he was fortunate to be part of the Board that hired Amy Barrett back in 2008. Mr. Hollingsworth presented Ms. Barrett with a flag flown over the Capitol in honor of her service, and a plate from the Board of Trustees. Mr. Hollingsworth then proceeded to read the following:

Resolution

Whereas, Amy Barrett joined the Teacher Retirement System of Texas (TRS) in January 2008 and served as TRS' Chief Audit Executive (CAE); and

Whereas, she exemplified the values of The Institute of Internal Auditors and has maintained the highest standards of professionalism, played an invaluable role in leading the internal audit function and acted with loyalty to TRS; and

Whereas, Amy was a great leader and continued to seek innovative leadership skills to build effective management and stakeholder relationships; and

Whereas, she led by example and challenged the internal audit staff to live up to the core values of TRS; and

Whereas, "Trusted Assurance and Valued Advice" was the vision Amy set for her staff and methodically and strategically positioned them within TRS for optimal effectiveness and service as a trusted advisor to the board; and

Whereas, Amy would be the first to champion and credit her staff for the success that her department has garnered during her tenure as CAE; and

Whereas, she was well recognized in the internal audit community and among her peers in state government and public pension fund systems; she continually strived for personal and professional development and gave back to the profession by sharing her wealth of knowledge and experience; and

Whereas, she was sought after for her eagerness to listen and helped mentor numerous leaders in her profession; and

Whereas, Amy also placed great importance on TRS employees understanding the roles and responsibilities of TRS auditors, and wanted the agency to know that her staff were not stereotypical auditors, but were truly a part of the TRS family; and

Whereas, Amy gained the trust of board members by ensuring that audit projects were impactful and delivered value-added services to the agency; and

Whereas, she was never hesitant to have tough conversations and never failed to impress you when she had to take a stand which fostered credibility for her and the internal audit team; and

Whereas, Amy was able to live her values and ethical standards as comfortably and easily as wearing a favorite T-shirt and old blue jeans; her passion for TRS, education, her team, and life carried over into everything she did and we will truly miss her; 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 Amy Barrett at TRS during her highly successful career with the retirement system and express their sincere appreciation on behalf of TRS members both present and future,

And be it further resolved, that a copy of this resolution be presented to Amy Barrett and entered into the record of the board for September 21, 2018.

Ms. Barrett expressed her appreciation and thanked her Internal Audit staff.

On a motion by Mr. Colonna, seconded by Mr. Corpus, the Board unanimously voted to approve the resolution.

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

Mr. Guthrie provided an update regarding the continuous improvements in TEAM's Phase 1 delivery and the work towards completing Phase 2. He emphasized the importance of Phase 2's roll out being right due to the direct impact it has upon member interactions and benefit payments. He said quality is the utmost importance regarding Phase 2. He reported the first round of coding for Phase 2 was sent back to Perspecta for it did not meet the testing standards. Because of this, the TEAM report grade dropped.

Mr. Jeff Adair, representing Perspecta, stated they have changed the manner in which they test the code focusing more on regression testing. He noted that now the specifications are complete allowing code to be more manageable.

Mr. Guthrie concluded by stating work continues on Phase 1 corrections and improvements, primarily the service credit purchase module. He also stated they are working on contact management with another vendor, Microsoft Dynamics to ensure the software is working as intended.

6. Receive a presentation from the TEAM Program Independent Program Assessment (IPA) Vendor – Michael Johnson.

Mr. Michael Johnson agreed with the previous assessment of TEAM and said their focus is on two things. One is to continue monitoring prioritization of the Phase 1 defects and the second is to strictly monitor the quality of the code being delivered by Perspecta.

7. Discuss the Executive Director's report on the following – Brian Guthrie:

- A. Administrative operational matters, including updates on the following: Executive Director's goals, financial awareness project, audit, legal, staff services, investments, board administration, special projects, actuarial matters, 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 the Board with general and legislative updates. Mr. Guthrie announced the release of the update to the pension design study. He listed upcoming events for TRS and the Board. He provided updates as to the upcoming Trustee election and the deputy director search. He then reviewed the executive performance appraisal process.

Mr. Guthrie then reviewed the proposed items for the next two upcoming Board meetings.

8. Review the TRS Pension Trust Fund Actuarial Valuation as of August 2018 – Joe Newton and Dan Siblik, GRS.

Mr. Dan Siblik provided an overview of the report stating the purpose of the report is to determine the adequacy of the current statutory contributions, measure the liabilities, and track changes over time. He noted the actual 2018 results very closely resemble what was projected in the experience study. He said an increase to the funding rate of 1.76 percent, assuming all assumptions are met, would get the funding period down to 30 years.

Mr. Joe Newton discussed negative amortization. He noted that every dollar of benefit paid has to be either contributions or investment earnings. He said if there are less investment earnings, more contributions are needed, and the interest on the unfunded liability is actually investment earnings not being generated. He stated to go to 30 years, will cost \$800 million but it will save \$725 billion less in interest loss over that period. Mr. Newton noted the actuarial, accounting and bond rating industry is looking at 20 years and not 30 as best practices.

9. Review the TRS-Care Actuarial Valuation and Other Post Employment Benefit (OPEB) reports as of August 31, 2018 and receive an overview and update on TRS-Care and TRS-ActiveCare –

Mr. Joe Newton reported for the retiree medical program, TRS-Care the state disclosure items have to calculate the liability of the program as if it is continuing indefinitely and value it like the pension plan. Mr. Newton stated since the program is unfunded a bond yield is used to calculate the liabilities which under GASB 74 is 3.69 percent. At that discount rate, he said the net OPEB liability for the current program is \$49.9 billion. He noted the increase from \$43 billion to \$49 billion over the year was due to the premiums being unchanged for the year.

Ms. Amy Cohen reviewed the history, revenue source and current status of TRS-Care. She noted cost drivers for the plan include medical and prescription drug trend, cost of services, maintaining access to choice of providers, increased utilization due to an aging population, and changes in the number of retirees in the group.

Ms. Cohen then reviewed the history, revenue source and current status of TRS-ActiveCare. She noted the cost drivers for TRS-ActiveCare are very similar to that of TRS-Care. In response to Dr. Gibson's inquiry, Ms. Daniel reported there was a wellness program provided as a benefit and is an effort to contain costs through wellness.

10. Receive the report of the Strategic Planning Committee on its December 13, 2018 meeting: - Committee Chair.

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

The Strategic Planning Committee met on December 13, 2018. The Committee approved the minutes of the September 2018 meeting.

First, Brian Guthrie and Rebecca Merrill reviewed the status of the executive director's areas of focus, key performance indicators, and strategic plan progress for the following strategic plan goals and objectives: achieve the Trust's actuarial assumed rate of return, improve the customer service experience, improve timeliness and accuracy in employer reported data, modernize and improve awareness of the 403(b) program, improve strategic communications, and foster a culture of fiduciary responsibility and ethical conduct.

Then Ms. Merrill provided an update on engaging TRS in the 2019-2023 TRS Strategic plan.

Mr. Hollingsworth, without objection, announced agenda item 12 would be taken up next.

12. Receive the report of the Policy Committee on its December 13, 2018 meeting and consider the following: – Committee Chair.

- A. Consider adoption of proposed amendments to the Board Training Policy.**
- B. Consider adoption of proposed amendments to the TRS Board of Trustees Bylaws.**
- C. Consider adoption of proposed Resolution Authorizing Executive Director to Designate Persons Authorized to Sign TRS Vouchers.**

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

The Policy Committee met on December 13, 2018. The committee approved the proposed minutes of the September 20, 2018 meeting.

The committee conducted the required review of the Board's training policy. The committee recommended to the Board adoption of the proposed amendments to the policy.

The committee conducted the required review of the TRS Board of Trustees bylaws. The committee recommended to the Board adoption of the proposed amendments to the bylaws.

The committee authorized for publication in the Texas Register the proposed new and amended TRS Rules 25.11, 5131, 51.2 and 51.11 in title 34, Part 3 of the Texas Administrative Code.

The committee recommended to the Board adoption of the proposed resolution authorizing the executive director to designate persons authorized to sign TRS vouchers.

On a motion by Mr. Corpus, the Board adopted the proposed amendments to the Board training policy, as recommended by the Policy Committee.

On a motion by Mr. Corpus, the Board adopted the proposed amendments to the TRS Board of Trustees bylaws, as recommended by the Policy Committee.

On a motion by Mr. Corpus, the Board adopted the following proposed resolution authorizing the executive director to designate persons authorized to sign TRS vouchers, as recommended by the Policy Committee.

**RESOLUTION AUTHORIZING EXECUTIVE DIRECTOR TO DESIGNATE PERSONS
AUTHORIZED TO SIGN TRS VOUCHERS**

December 14, 2018

WHEREAS, In accordance with section 825.104 of the Texas Government Code and Section 5.6 of the Bylaws of the Board of Trustees ("Board") of the Teacher Retirement System of Texas ("TRS"); and

WHEREAS, In addition to designating certain TRS officers and employees, pursuant to Section 2103.061 of the Texas Government Code, the Board may also authorize the TRS Executive Director to designate one or more TRS officers or employees to approve vouchers for TRS; now, therefore, be it

RESOLVED, That the Board authorizes the TRS Executive Director to designate one or more TRS employees to approve and sign vouchers for payment from accounts of TRS on or after December 14, 2018, and until the designation is revoked or until the designated person separates from employment with TRS, is no longer employed in any capacity for which authority is granted, or is not re-designated by the Executive Director, whichever occurs first.

Mr. Hollingsworth, without objection, announced agenda item 11 would be taken up next.

11. Receive the report of the Benefit Committee on its December 13, 2018 meeting and consider the following: – Committee Chair.

- a. Consider approving Benefit Payments for retirement for September through November 2018; and**
- b. Consider accepting the minutes of the September 2018 Medical Board meeting.**

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

The Benefits Committee met on December 13, 2018. The committee approved the proposed minutes of the Benefits Committee for the September 20, 2018 meeting.

The committee received an update from Ms. Katrina Daniel on the Health and Insurance Benefits Services operation, including initiatives to contain rising drug costs in TRS-Care and TRS-ActiveCare. She also provided an update on TRS-Care plan year 2019 enrollment results, along with communication and engagement efforts and customer service. No action is required.

Next, Ms. Barbie Pearson presented the Medical Board minutes from the September 11, 2018 meeting. The committee recommends to the Board acceptance of the Medical Board minutes for September 11, 2018.

Ms. Pearson also presented for the committee's consideration to recommend to the Board the approval of benefit payments for September through November 2018. The committee recommends to the Board approval of the presented benefit payments.

The committee received an update on Benefit Services Operations from Ms. Pearson of the first quarter of fiscal year 2019.

On a motion by Ms. Sissney, the Board accepted the Medical Board minutes from the September 11, 2018 meeting, as recommended by the Benefits Committee.

On a motion by Ms. Sissney, the Board approved the benefit payments for September through November 2018, as recommended by the Benefits Committee.

13. Receive the report of the Budget Committee on its December 13, 2018 meeting – Committee Chair.

Dr. Gibson, Committee Chair, provided the following report of the Budget Committee:

The Budget Committee met Thursday, December 13. The first item of business was approval of the minutes of the September 20, 2018 Budget Committee meeting.

Mr. Scheel presented an overview of the Comprehensive Annual Financial Report, or CAFR, for the fiscal year 2018. This is the first CAFR since the implementation of CAPPS. The 2018 CAFR includes some actuarial changes in comparison to last year's CAFR.

Mr. Green presented a high level overview of the FY2018 year-end budget as well as the first two months of 2019. He addressed the unexpended balances of FY2018 as well as the spending activity for the first two months of the current fiscal year.

Mr. Green and Ms. Stroud presented an update of the procurement initiatives in response to the 2018 procurement audit. They discussed the agency's engagement with Ernst & Young for a procurement assessment and the policy design. A future update is planned for the April Budget Committee meeting.

Mr. Green presented an update on the employment levels, the current FTE count.

14. Receive the report of the Investment Management Committee on its December 13, 2018 meeting – Committee Chair.

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

The Investment Management Committee met on December 13, 2018. The committee approved the proposed minutes of the Investment Management Committee for the September 2018 meeting.

The first presentation conducted was by Jerry Albright with his CIO update. Following, the third quarter 2018 performance review was presented by Steve Voss with Aon.

Bernie Bozzelli then followed with an annual update on the trading group. Next, James Nield provided the annual update of the risk group.

Concluding the Investment Management Committee meeting, Mohan Balachandran provided an annual update on the multi-asset strategies group, including an overview of the strategic asset allocation study.

15. Receive the report of the Audit Compliance and Ethics Committee on its December 13, 2018 meeting - Committee Chair.

Mr. Moss, Committee Chair, presented the following Audit, Compliance and Ethics Committee report.

The Audit, Compliance and Ethics Committee met on Thursday, December 13, 2018 in the 5th Floor Boardroom. The committee approved the minutes of the September 2018 Audit, Compliance and Ethics Committee.

State Auditor's Office staff presented the results of the TRS incentive pay plan audit for 2017. Grant Thornton auditors presented the results of the financial audit of the TRS Investment Company of Texas, TRICOT, for the fiscal year 2018.

IBM Watson Health representatives presented the results of the health and pharmacy claims audits for TRS-Care and TRS-ActiveCare. A representative from the Department of Information Resources and TRS's information security officer presented an overview of cybersecurity assessments provided by DIR.

TRS staff presented an overview of TRS business continuity and disaster recovery programs. The chief compliance officer presented routine compliance reports. Internal Audit staff presented the results of projects, including reports on TRS compliance, testing, employer testing, and the disability retirements and Medical board audit. Internal Audit staff also presented the annual report, follow up on outstanding audit and consulting recommendations and various administrative reports.

16. Discuss Personnel Matters relating to the Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of the Executive director and Chief Investment Officer.

At 11:11 am, Mr. Hollingsworth announced the Board would recess into executive session on the following agenda items and sections of the Government Code:

Agenda Item 16, under Government Code 551.074 and .071 on personnel matters; and Agenda Item 17, under Government Code 551.071 to discuss contemplated litigation.

At 11:48 a.m., Mr. Hollingsworth reconvened the meeting in open session.

17. Review the report of the general Counsel on pending and contemplated litigation, including updates on litigation involving benefit-program, contributions, retirement benefits, health-benefit programs, and open records.

No discussion on this item

At 11:49 a.m., Mr. Hollingsworth adjourned the meeting.

APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM
OF TEXAS ON THE 21st DAY OF FEBRUARY, 2019.

ATTESTED BY:

Katherine H Farrell

Katherine H. Farrell

Secretary to the TRS Board of Trustees

2/25/19
Date