

## **Minutes of the Board of Trustees**

**September 21-22, 2017**

The Board of Trustees of the Teacher Retirement System of Texas met on September 21, 2017 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:

David Kelly, Chair  
Karen Charleston  
Joe Colonna  
David Corpus  
John Elliott  
Greg Gibson  
Christopher Moss  
Dolores Ramirez

### **Others present:**

Brian Guthrie, TRS	Nancy Byler, TRTA President
Ken Welch, TRS	Sabina Rahman-Garcia, Humana
Don Green, TRS	Tiffany Calderon, Humana
Carolina de Onís, TRS	Jennifer Cawley, TALHI
Jerry Albright, TRS	Jay Thompson, TALHI
Jase Auby, TRS	Tom Rogers, TRTA, ARTA
Barbie Pearson, TRS	Victor Ferreira, DXC
Chet Henry, TRS	Scot McAfee, DXC
Katherine Farrell, TRS	Trevor Simmons, LBB
Horacio Zambrana, TRS	Ann Fickel, TCTA
Michael Johnson, Bridgepoint	David Gonzales, Humana
Steve Voss, Aon Hewitt	Shannon Meroney, AIG & Nat'l Life Ins. Group
Mike Comstock, Aon Hewitt	Sean Donovan, CVS
Michael McCormick, Aon Hewitt	Ted Melina Raab, Texas AFT
Keith Brown, Investment Advisor	James Walsh, Albourn
Steve Huff, Reinhart Boerner Van Deuren	Ta Lohachiffard, Albourn

Mr. Kelly called the meeting to order at 9:10 a.m.

### **1. Call roll of Board members.**

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

### **2. Consider the following administrative items – David Kelly:**

#### **A. Approval of the proposed September 1, 2017 Board meeting minutes.**

On a motion by Ms. Ramirez, seconded by Mr. Moss, the Board unanimously voted to approve the proposed minutes of the September 1, 2017 Board meeting.

**B. Excusing Board member absences from the September 1, 2017 Board meeting.**

On a motion by Mr. Moss, seconded by Dr. Gibson, the Board unanimously voted to excuse the absence of Mr. Joe Colonna and Mr. David Corpus from the September 1, 2017 Board meeting.

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

On a motion by Mr. Colonna, seconded by Mr. Moss, the Board unanimously voted to approve the proposed schedule for the calendar-year 2018 Board and committee meetings.

**3. Provide opportunity for public comment – David Kelly.**

Mr. Tom Rogers, representing the Austin Retired Teachers Association, addressed the Board regarding concerns of the future possibility of lowering the 8 percent earnings benchmark for the TRS fund.

Mr. Jay Thompson, representing the Texas Association of Life and Health Insurers, addressed the Board regarding the 403(b) proposed rules and expressed appreciation for the efforts of TRS staff in administering the related rule review.

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

Mr. Guthrie reported that despite disruption and in some cases major damage to facilities from Hurricane Harvey, reporting entities for the most part were still able to get their September reports submitted to TRS on a timely basis. He said only one reporting entity was directly impacted by Harvey and unable to submit data on time. Mr. Guthrie announced that TRS was only ten days away from going live with TEAM Phase 1. He said the cutover process began on September 9, and Phase 1 was scheduled to go live on October 2, 2017. Mr. Guthrie discussed the go/no-go decision points leading up to October 2.

Mr. Ken Welch, in response to Mr. Kelly's inquiry, stated that there were no amendments to the project budget, which was still within the original contract amount for the HPE/DXC contract.

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

Mr. Michael Johnson provided an execution score from Bridgepoint's independent view. He said there were two differences regarding scheduling and quality from the TRS TEAM Transparency report. He stated the strengths were the training classes, and communications with the reporting entities. Mr. Johnson noted scheduling concerns involving resources being pulled from Phase 2 activities to focus on Phase 1. As to quality control, he said they were still identifying defects.

**6. 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 updates. Mr. Guthrie listed upcoming events for TRS and the Board. He then reviewed his goals and objectives for the upcoming fiscal year.

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

**7. Receive the report of the Chief Benefit Officer, and consider the following related matters – Barbie Pearson:**

- A. Consider approving the list of members qualified for retirement for March through May 2017 and June through August 2017.**
- B. Consider approving the minutes of the March 22, 2017 and May 9, 2017 Medical Board meetings.**

Ms. Pearson presented two items for the Board's approval. The first one is the list of members qualified for benefits for March through May 2017 and June through August 2017.

Dr. Gibson moved, Mr. Corpus seconded, and the Board unanimously approved the list of members qualified for benefits for March through May 2017 and June through August 2017.

The second item Ms. Pearson presented for approval comprised the minutes of the March 22, 2017 and May 9, 2017 Medical Board meetings.

Mr. Corpus moved, Ms. Ramirez seconded, and the Board unanimously approved the minutes of the March 22, 2017 and May 9, 2017 Medical Board meetings.

**8. Receive a report on Market Update – Jase Auby.**

Mr. Jase Auby provided a market report. He announced the fund has returned 12.9 percent over the past year and 8.9 percent over the past five years. Mr. Auby stated the first half of 2017 was characterized by slower than expected growth and inflation but that the market remained healthy and still continued to outperform. He provided a macroeconomic backdrop. He reviewed the normal business cycle. He discussed each of TRS asset classes. Mr. Auby concluded with a discussion regarding recessions. He said there will be a recession again at some point, and he described what the potential impact of a recession to the trust might be.

**9. Discuss the Second Quarter 2017 Performance Review – Steve Voss and Mike Comstock, Aon Hewitt.**

Mr. Mike Comstock presented the trust performance review on a year-to-date basis through June 30. He said over the last one-year period, there has been outperformance and in some cases significant outperformance in the underlying asset classes. Mr. McCormick discussed what drove the 160 basis points of outperformance for the one-year period. There was further discussion regarding benchmarking, including that related to risk parity.

Mr. Kelly announced without objection that the Board would next take up Agenda Item 12.

**12. Receive an update on 403(b) product registration system – Rebecca Merrill.**

Ms. Rebecca Merrill provided an update on the 403(b) product registration system. She demonstrated what the product registration system looked like via the website from a company's vantage and from a member's vantage point. Ms. Merrill stated that the system must be restructured and updated in order to make sure the new data is captured as a result of the proposed rule changes and to make it easier to interface. Ms. Merrill proposed that once the pending rules are adopted, staff would kick off the product registration update to be completed by December 1, 2017. She said IT believes the project will take about 6,500 hours to complete, the equivalent of two developers. She said that because all of TRS developers are understandably focused on TEAM and TRUST, contractors may be necessary. Ms. Merrill noted that 403(b) is not a drain on the trust fund, there is a separate reimbursement that occurs from 403(b) funds.

At 12:58 p.m. Mr. Kelly announced the Board would recess to in order to take up the noticed committee meetings.

The Board of Trustees of the Teacher Retirement System of Texas reconvened on September 22, 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 Elliott  
Greg Gibson  
Christopher Moss  
Dolores Ramirez

**Others present:**

Brian Guthrie, TRS	Dina Arce
Ken Welch, TRS	Michael Clayton, SAO
Amy Barrett, TRS	Anca Pinchas, SAO
Carolina de Onis, TRS	Sabina Rahman-Garcia, Humana
Jerry Albright, TRS	Eddie Solis, AXA
Don Green, TRS	Ann Fickel, TCTA
Jase Auby, TRS	
Katherine Farrell, TRS	
Eileen O'Grady, TRS	
Steve Huff, Reinhart Boerner Van Deuren	

Mr. Kelly called the meeting to order at 10:20 a.m.

**1. Call role of Board members.**

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

**10. Provide opportunity for public comment – David Kelly.**

No public comment was received.

**11. Receive the Deputy Director's report, including matters related to administrative, financial, and staff services operations – Ken Welch.**

Mr. Welch provided an update as to what is going on operationally around the agency. He noted that over the past weekend of September 16-17, 2017, TRS performed the year-end close. He said this was the last year-end in the legacy system. Mr. Welch also stated this year-end close was of great importance because the data set would be migrated into TRUST.

Mr. Welch reported the 2017 fiscal year closed with a 9.2 percent increase in the number of people TRS saw in office counseling visits and an 8.5 percent increase in telephone counseling calls.

Mr. Welch provided an update on communications regarding the TRS-Care changes, for which educational mailings and mass communications have begun. He announced the Government Financial Officers Association (GFOA) recognized TRS' 2016 Comprehensive Annual Financial Report (CAFR) submission with a distinguished budget presentation award. He also announced that, for 27<sup>th</sup> straight year, the 2016 CAFR was awarded the GFOA certificate of excellence.

**13. Receive the report of the Investment Management Committee on its September 21, 2016, meeting - Committee Chair.**

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

The Investment Management Committee met on September 21, 2017. The committee approved the proposed minutes of the June 1, 2017 meeting. The first presentation was an overview of external public markets led by Dale West, Susanne Gealy and Brad Gilbert. Next there was a presentation by Michael Pia and J.B. Daumerie with a review of the public strategic partnership network. The final presentation was given by Jase Auby and Dale West with an update on the global equity best practices.

Mr. Kelly announced without objection that the Board would next take up Agenda Item 15.

**15. Receive the report of the Policy Committee on its September 21, 2017 meeting and consider final proposed amendments to or adoption or repeal of the following TRS rules in Title 34, Part 3 of the Texas Administrative Code – Committee Chair.**

- A. § 23.9, relating to Communicating Information Electronically
- B. § 25.10, relating to Student Employment
- C. § 25.28, relating to Payroll Report

- D.    § 25.173, relating to Correction of Ineligible Participation in TRS
- E.    § 25.191, relating to Time Period at Retirement to Complete Purchase of Service Credit
- F.    § 31.2, relating to Monthly Certified Statement
- G.    § 31.11, relating to Employment Resulting in Forfeiture of Service Retirement Annuity
- H.    § 31.12, relating to Exceptions to Forfeiture of Service Retirement Annuity
- I.    § 31.13, relating to Substitute Service
- J.    § 31.14, relating to One-half Time Employment
- K.    § 31.15, relating to Full-Time Employment after 12 Consecutive Month Break in Service
- L.    § 31.31, relating to Employment Resulting in Forfeiture of Disability Retirement Annuity
- M.    § 31.32, relating to Half-time Employment Up to 90 Days
- N.    § 31.33, relating to Substitute Service up to 90 Days
- O.    § 31.34, relating to Employment Up to Three Months on a One-Time Only Trial Basis
- P.    § 31.41, relating to Return to Work Employer Pension Surcharge
- Q.    § 41.2, relating to Additional Enrollment Opportunities
- R.    § 41.6, relating to Required Contributions from Public Schools
- S.    § 41.10, relating to Eligibility to Enroll in the Health Benefits Program Under the Texas Public School Retired Employees Group Benefits Act (TRS-Care)
- T.    § 41.33, relating to Definitions Applicable to the Texas School Employees Uniform Group Health Coverage Program
- U.    § 41.91, relating to Certification of Insurance Coverage
- V.    § 43.4, relating to Decisions Subject to Review by an Adjudicative Hearing

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

The Policy Committee met on September 21, 2017. The committee approved the proposed minutes of the June 1, 2017 meeting. The committee conducted the required review of the Resolution Regarding Correction of Errors and Other Edits. There were no proposed amendments to the Resolution.

The committee approved the updates to the Policy Review Schedule as proposed by Staff.

The committee authorized public comment publication in the Texas Register of proposed rule amendments to Chapter 29 and 41 of TRS' rules. Those rules will be brought back to the committee at a future meeting for recommendation to the Board and final adoption.

And finally, the committee approved recommending to the Board adoption of the new, amended, or repealed TRS rules within the following chapters: 23, 25, 31, 41, and 43 in Title 34, Part 3 of the Administrative Code.

Mr. Corpus then moved and the Board unanimously voted to adopt the proposed new, amended or repealed TRS rules listed on Board agenda item 15.

**14. Receive the report of the Risk Management Committee on its September 22, 2016, meeting – Committee Chair.**

Ms. Charleston, Committee Chair, provided the following report of the Risk Management Committee:

The Risk Management Committee met on September 21, 2017. The committee approved the proposed minutes of June 1, 2017 meeting. A presentation was given on the review of the investment risk report which was presented by Jase Auby and James Nield.

**16. Receive the report of the Audit Committee on its September 22, 2017, meeting and consider related matters, including adoption of the Proposed Audit Plan for Fiscal Year 2018 – Committee Chair.**

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

The Audit Committee met at 8:00 a.m. on Friday, September 22, 2017 in the 5th Floor Boardroom. The State Auditor's Office staff presented the plan for the audit of TRS' comprehensive annual of the financial report for fiscal year 2017 and results of the audit of TRS' fiscal year 2016 employer pension liability allocation schedules. The chief compliance officer presented routine compliance reports.

Internal Audit staff, joined by the chief compliance officer, PWC external auditor, and chief operating officer for the investment management division presented the results of projects on TRS compliance testing, the Investment Management division, benefit services division, executive division, and reports on the internal audit quality assurance and improvement program self-assessment, follow-up on outstanding audit and consulting recommendations and various administrative reports.

The committee approved the recommendation to the Board of Trustees to approve the proposed audit plan for fiscal year 2018.

Mr. Moss then moved and the Board unanimously voted to approve the proposed audit plan for Fiscal Year 2018, as recommended by the Audit Committee.

**17. Receive the report of the Compensation Committee on its September 21, 2017, meeting and consider related matters, including the annual adoption of the Performance Incentive Payment Plan and any proposed amendments – Committee Chair.**

Ms. Ramirez, the Committee Chair, provided the following report of the Compensation Committee:

The Compensation Committee met on September 21, 2017. The committee adopted the proposed minutes of the September 22, 2016 meeting. The committee received a presentation on matters related to the current performance incentive pay plan for

investment staff from Sylvia Bell and Katy Hoffman. The committee recommended continuation and adoption of the performance incentive pay plan and amendments for the performance period beginning October 1, 2017.

Ms. Ramirez then moved for the Board to confirm the continuation and adoption of the investment performance incentive pay plan for the performance period beginning October 1, 2017, as recommended by the committee.

Mr. Colonna proposed a modification based upon the request for Internal Audit to review the plan. He said the chief audit executive had recommended the following to be added to addendum A and B: "The term executive include the general counsel is classified as a senior associate for the purpose of this Plan."

Mr. Colonna moved, Ms. Ramirez seconded, and the Board unanimously voted to amend the proposed plan as discussed.

Mr. Kelly then took up Ms. Ramirez's motion, as amended, and the Board unanimously voted to confirm the continuation and adoption of the investment performance incentive pay plan for the performance period beginning October 1, 2017 as recommended by the committee and amended by the Board.

Mr. Kelly announced without objection that the Board would next take up Agenda Item 19.

**19. 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.**

Ms. Carolina de Onis noted that it had been a banner quarter for class-action recoveries.

**18. Consider personnel matters, including the appointment, employment, evaluation, compensation, performance, duties discipline or dismissal of the Executive Director, Chief Investment Officer, Chief Audit Executive or Investment Management Division Directors. – David Kelly.**

Mr. Kelly announced that the board would go into executive session on agenda item 18 under Section 551.074 and 551.071 of the Government Code to discuss personnel matters and to consult with legal counsel as needed. At 10:45 a.m. the open session recessed.

After completing the executive session, Mr. Kelly announced that the Board was reconvened in open session at 12:14 p.m.

Mr. Corpus moved, Mr. Elliott seconded, and the Board voted unanimously to award the chief audit executive a salary increase of 4.66 percent with a one-time merit payment of \$10,000.

Mr. Moss moved, Ms. Ramirez second and the Board unanimously voted to increase the executive director's base salary by three percent.



**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.**

This item was not taken up.

At 12:16 p.m., Mr. Moss moved, Mr. Elliott seconded and the Board unanimously voted to adjourn.

APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM  
OF TEXAS ON THE 27<sup>TH</sup> DAY OF OCTOBER, 2017

ATTESTED BY:

Katherine H Farrell

Katherine H. Farrell

Secretary to the TRS Board of Trustees

October 30, 2017

Date