

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

**September 22-23, 2016**

The Board of Trustees of the Teacher Retirement System of Texas met on September 22, 2016 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  
Anita Palmer  
Dolores Ramirez

### **Others present:**

Brian Guthrie, TRS	Leroy DeHaven, TRTA
Ken Welch, TRS	Victor Ferreira, HPE
Don Green, TRS	Ernie Sanders, HPE
Carolina de Onís, TRS	Steve Tolbert, HPE
Katrina Daniel, TRS	Tiffany Calderon, Humana
Britt Harris, TRS	Andrew Clark, Speaker's Office
Jerry Albright, TRS	Maggie Parker, Aetna
Amy Barrett, TRS	Ann Fickel, TCTA
Katherine Farrell, TRS	Ted Melina Raab, Texas AFT
Lane Arnold, TRS	Tom Rogers, TRTA, ARTA
	Philip Mullins, TRTA, Texas State Employee Union
	John Hryhorchuk, OOG
	Jeff Scott, ESI
	John Claise, Albourn
	Michael Johnson, Bridgepoint
	Steve Voss, Aon Hewitt
	Mike Comstock, Aon Hewitt
	Jes Staley, Barclays

Mr. Kelly called the meeting to order at 9:22 a.m.

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

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

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

### **A. Approval of the proposed July 29, 2016 Board meeting minutes.**

On a motion by Ms. Charleston, seconded by Ms. Ramirez, the Board unanimously voted to approve the proposed minutes of the July 29, 2016 Board meeting.

### **B. Excusing Board member absences from the June 16-17, 2016 Board meeting.**

On a motion by Ms. Palmer, seconded by Dr. Gibson, the Board unanimously voted to excuse the absence of Ms. Karen Charleston from the July 29, 2016 Board meeting.

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

On a motion by Dr. Gibson, seconded by Ms. Ramirez, the Board unanimously voted to approve the proposed schedule for the calendar-year 2017 Board and committee meetings.

On a motion by Mr. Corpus, seconded by Ms. Palmer, the Board unanimously voted to reschedule the October 28, 2016 board meeting to October 27, 2016.

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

Mr. Leroy DeHaven from Corpus Christi expressed several areas of concern, such as annuity payments and changes to the TRS-Care Program, including the pharmacy benefit management program administered through Express Scripts.

Mr. Ted Melina Raab with Texas AFT addressed the Board about statutory investment restrictions.

Mr. Kelly announced without objection that the Board would next take up Agenda Item 6B to hear a trustee statement from Ms. Charleston.

## **6. Discuss the Executive Director's report on the following:**

### **B. Board operational matters, including a review of draft agendas for upcoming meetings**

Ms. Charleston announced she was no longer with her former public-university employer and, until a replacement is appointed, she will continue to serve as a holdover trustee on an ongoing basis.

## **4. Receive an update on the TEAM Program and revised schedule – Brian Guthrie.**

Mr. Guthrie described the history, purpose, goals, achievements, and future milestones of the TEAM program, which began in 2009.

Mr. Guthrie described the advantageous features of TEAM, including its user-friendly format, automated workflow processes, and e-signature functionality. Members will be able to interact with TRS online, to have the ability to chat online once the new system is in place. The business rules engine will be centralized, right now all of the business rules are in different places.

Mr. Guthrie provided information about the two phases of TEAM. Phase 1 is outward-facing technology, how TRS interacts with employers and all the school district that send data and money on a monthly basis. Phase 2 is more directed towards internal processing of materials and information about our members that they can access about themselves and interact with TRS. Mr. Guthrie stated Phase 1A is done, implemented earlier this year.

Moving to the new system, Mr. Guthrie reported members will be given a participant ID number to all existing and new members, moving away from using social security numbers. This provides a higher degree of privacy and also security. Mr. Guthrie described the increased functionality staff will have in searching for members and the information will be given in a very accessible format.

Mr. Guthrie then focused on what is already available, having already mentioned the improved technical infrastructure in place. Mr. Guthrie announced the new website would go live on September 26, 2016. Mr. Guthrie described the site as a hub, sort of framework, for members to perform self-service under the new system. Mr. Guthrie noted that a lot of people have worked very hard, many weekends, in cleaning data on members. Additionally, through this process, business rules have been documented sometimes for the first time.

Mr. Guthrie described the six key groups involved in TEAM. The first three are made up of TRS internal staff, the Executive Steering Committee (ESC), the Core Management Team (CMT), and the subject matter experts (SMEs). Mr. Guthrie announced the big change to this is the addition of Chet Henry on top of that structure as a program director.

Mr. Guthrie then turned to the three vendors: HP, Bridgepoint, and Provaliant.

Mr. Guthrie reviewed the project timeline. The timeline experienced a second change. Originally, the project was scheduled to finish May of 2017. He stated 2019 is still within the timeline that was told to the legislature. Mr. Guthrie reported, from a legislative perspective, the project is still on time and on budget.

Mr. Guthrie further addressed the delays experienced in the project. Mr. Guthrie described the GASB new rules for reporting for pension systems as a significant game changer. Mr. Guthrie reported everyone is rolling-up their sleeves and figuring out what GASB meant and how to make it functional moving forward. Mr. Guthrie informed the Board that these are the reasons Phase 1B is not going live this month but a year from now.

Mr. Guthrie noted that even though the timeline has slipped for final implementation, we are still under budget on this contract.

Mr. Guthrie then discussed the new schedule. In reviewing the scope of the project, a couple of deliverables in Phase 2 should be done internally at TRS rather than to ask HP to do them. Mr. Guthrie announced that taking these two deliverables will allow for some compression of the timeline, allowing HP to work on the rest of Phase 2. Mr. Guthrie reminded the Board of the Comptroller's Office denied the request to do our own financial system implementation requiring

TRS to be part of the statewide financial system instead. Mr. Guthrie announced that the Comptroller's Office is going to pay for it.

Mr. Guthrie continued to discuss the new schedule. The development of Phase 2 will start in July of next year and planned to go live August 2019.

Mr. Guthrie stated moving forward he would provide to the Board a report. In response to Mr. Colonna's inquiry as to who would prepare it, Mr. Guthrie said Chet would prepare the report in conjunction with Bridgepoint, Provaliant, and HP. Mr. Guthrie then took the opportunity to thank the Board and a number of people who have been working really hard over the past several months to get us where we are today.

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

Mr. Michael Johnson reported TRS asked Bridgepoint to assist in focusing on three areas in particular regarding TEAM. Mr. Johnson said the first was to identify common metrics. The second request was to get involved with the schedule and really look at it for reasonableness. The third was to provide guidance on the TEAM Transparency Report. To that extent, Mr. Johnson announced bringing on David Roe, Director of Risk and Compliance Practice. Mr. Johnson said that once the Transparency Report, metrics are in place and all understand the common ways to execute, then Bridgepoint remain more in a compliance role.

Mr. Johnson stated with the expanded scope, Bridgepoint has asked for an expansion of their contract to cover four components: the additional advisory consulting; the incremental involvement of Mr. Roe; ongoing activities including involvement in the Transparency Report; and finally the true-up of the IPA budget variance.

Mr. Johnson provided the Budget Variance Report. Mr. Johnson noted the contract ends prior to the current expected end of the TEAM program.

**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. A joint Public/Private Joint Strategic Partnership Summit was held August 3, in New York City. Mr. Guthrie attended NASRA in Idaho, August 5<sup>th</sup> through 9<sup>th</sup>. Mr. Guthrie reported he was re-elected as the Regional Vice-President for NASRA which means he will continue to serve on the Executive Committee for another two years.

Mr. Guthrie listed upcoming events for TRS and the Board.

Mr. Guthrie noted the successful implementation of a new agency-wide 360 evaluation process. He also noted that most if not all of the EC members have started the Claritas Program. Mr. Guthrie then reviewed the renovations to the boardroom.

Mr. Guthrie turned to providing the Board information on what is happening around the country as it relates to the return assumption. Mr. Guthrie reported that the Pension Review Board (PRB) is looking at this issue right now. The PRB every couple of years release the PRB Guidelines for Actuarial Soundness. Mr. Guthrie stated TRS responded to PRB's questions issued.

Mr. Guthrie then discussed investment return assumptions. NASRA in February put together its annual Issue Brief on Public Pension Plan Investment Return Assumptions. Mr. Guthrie commented it is appropriate for TRS to start the discussion and to take a look at a Plan Management Policy.

Mr. Guthrie announced the viewing of the financial awareness videos put together by Ms. Cassi Lamb and her team. The first video in this series will launch on Monday with the new website. Mr. Guthrie then provided the Board an update on the internal communications that have taken place. Ken and he conduct TEAM Huddles on a routine basis on a departmental level. Mr. Guthrie stated three or four rounds of huddles have been held over a three year period, 67 in total.

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

**7. Discuss and consider investment matters, including Performance Review: Second Quarter 2016. – Steve Voss and Mike Comstock, Aon Hewitt.**

Mr. Mike Comstock presented the trust performance review on a year-to-date basis through June 30<sup>th</sup>, which included market returns, market value change, asset allocation, and total fund performance. Mr. Comstock summarized the last year has been a very difficult environment for alpha-seeking investors. Mr. Harris noted there has been an increasing trend for money to move from active to passive – moving from an active portfolio to a passive index. Further discussion was had regarding investment philosophy of active managers versus passive indexes and the cyclical aspects of markets. Mr. Comstock noted that 90 percent of active U.S. equity managers have underperformed their benchmark.

A brief recess was taken.

**8. Receive an update on Brexit and Global Banking – Jes Staley, CEO of Barclays and Britt Harris**

Mr. Britt Harris introduced Mr. Jes Staley, CEO of Barclays, to have a joint discussion on Brexit. Mr. Harris provided a synopsis on how the referendum vote for the UK was a massive miscalculation. Mr. Staley and Mr. Harris discussed how the UK vote affected and may continue to affect global economic integration, the bank systems and monetary policies.

**9. Consider opting out of a pending securities class action lawsuit to assert claims directly against the defendants and 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 – Carolina de Onis and Lane Arnold.**

At 4:00 p.m. Mr. Kelly announced the Board would recess to enter into executive session to take up the above item and then would continue in recess for the rest of the day in order to take up the noticed committee meetings.

The Board of Trustees of the Teacher Retirement System of Texas reconvened on September 23, 2016, 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  
Christopher Moss  
Anita Palmer  
Dolores Ramirez

**Others present:**

Brian Guthrie, TRS  
Ken Welch, TRS  
Amy Barrett, TRS  
Carolina de Onis, TRS  
Barbie Pearson, TRS  
Don Green, TRS  
Howard Goldman, TRS  
Chris Cutler, TRS  
David Cook, TRS  
Katherine Farrell, TRS  
Jamie Pierce, TRS  
Janie Duarte, TRS  
Jim Pinkard, TRS  
Roberto Ruiz, TRS

Jessica Brown, TRS  
Youssef Fakhreddine, TRS  
Rhonda Price, TRS  
Barbara Forssell, TRS  
Teresa Granger, TRS  
Greg Wood, Aetna  
Philip Mullins, TRTA  
Leroy DeHaven, TRTA  
Tom Rogers, ARTA and TRTA  
Trevor Simmons, LBB  
Tiffany Calderon, Humana  
Ted Melina Raab, Texas AFT  
Ann Fickel, TCTA

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

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

Ms. Farrell called the roll. A quorum was present. Dr. Gibson was absent.

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

Tom Rogers addressed the Board regarding his concerns for sustainable TRS health care. Mr. Rogers stated the legislators should be told the details of all the sustainable propositions without prejudice.

**11. Receive the report of the Investment Management Committee on its September 22, 2016, meeting. – Joe Colonna.**

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

The Investment Management Committee met on September 22, 2016. The committee approved the proposed minutes of the June 16, 2016 meeting. The first presentation was a review of the Public Strategic Partnership Network given by Mike Pia and J.B. Daumerie. Following, there was a presentation given by Dale West, Susanne Gealy and Brad Gilbert with a review of the External Public Markets Portfolio.

**12. Receive the report of the Risk Management Committee on its September 22, 2016, meeting. – Karen Charleston.**

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

The Risk Management Committee met on September 22, 2016. The committee approved the proposed minutes of June 16, 2016 meeting. A presentation was given on the review of the investment risk report which was presented by Jase Auby and James Nield.

**13. Receive the report of the Policy Committee on its September 22, 2016, meeting and consider related matters– David Corpus:**

- A. Consider proposed amendments to the Investment Policy Statement.**
- B. Consider proposed amendments to the General Authority Resolutions.**
- C. Consider proposed rule amendments to TRS-ActiveCare Rule § 41.36.**

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

The Policy Committee met on September 22, 2016. The committee approved the proposed minutes of the June 16, 2016 meeting. The committee recommended to the Board adoption of proposed amendments to the Investment Policy Statement. The committee recommended to the Board adoption of proposed amendments to the General Authority Resolutions. The committee recommended to the Board adoption of the proposed rule amendments to TRS Active-Care Rule § 41.36, relating to enrollment periods for TRS-ActiveCare.

The committee authorized public comment publication in the *Texas Register* the proposed amended rules in Chapters 23, 25 and 29 of TRS' rules. Those rules will be brought back to the committee at a future meeting for recommendation to the Board and final adoption. Additionally, the committee opened the Rule Review for the Chapter 53, 403(b) rules and authorized publication of the Rule Review notice and timeline. The proposed rule review will be completed in June 2017. Finally, the updated the Policy Review Schedule.

Mr. Corpus then moved and the Board unanimously voted to adopt the proposed amendments to the Investment Policy Statement, as recommended by the committee.

Mr. Corpus then moved and the Board unanimously voted to adopt the proposed amendments to the General Authority Resolutions, as recommended by the committee.

Mr. Corpus then moved and the Board unanimously voted to adopt the proposed rule amendments to TRS Active-Care Rule § 41.36, relating to enrollment periods for TRS-ActiveCare, as recommended by the committee.

**14. Receive the report of the Compensation Committee on its September 22, 2016, meeting and consider related matters, including the annual adoption of the Performance Incentive Payment Plan and any proposed amendments. – Dolores Ramirez.**

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

The Compensation Committee met on September 22, 2016. The committee adopted the proposed minutes of the September 24, 2015 meeting. The committee received a presentation on matters related to the performance incentive pay plan for investment staff from Jerry Albright and Sylvia Bell. The committee recommended continuation and adoption of the performance incentive pay plan and amendments for the performance period beginning October 1, 2016.

Ms. Ramirez then moved and the Board unanimously voted to adopt the continuation of the investment performance incentive pay plan and amendments for the performance period beginning October 1, 2016, as recommended by the committee.

**15. Receive the report of the Audit Committee on its September 23, 2016, meeting and consider related matters, including the following – Chris Moss:**

- A. Proposed revisions to the Internal Audit Charter.**
- B. Proposed Audit Plan for Fiscal Year 2017.**

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 23, 2016 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 2016 and results of the audit of TRS' fiscal year 2015 schedule of employers' proportionate shares. TRS staff provided an



update on the TRS-ActiveCare open enrollment process and the final report of the TRS-ActiveCare open enrollment readiness review. Investment Compliance staff presented information about the new conflicts disclosure forms and routine administrative reports.

Internal Audit staff presented the results of projects, including the quarterly investment compliance testing, second half test results of investment controls, overall opinion on the Investment Management Division internal controls, annual testing of benefit payments, two employer audits, the status of prior audit and consulting recommendations and audit administrative matters.

The committee approved the recommendation to the Board of Trustees to approve the proposed revisions to the Internal Audit Charter and approved the proposed audit plan for fiscal year 2017.

Mr. Moss then moved and the Board unanimously voted to adopt the proposed revisions to the Internal Audit Charter, as recommended by the committee.

Mr. Moss then moved and the Board unanimously voted to approve the proposed audit plan for Fiscal Year 2017, as recommended by the committee.

**16. Review the reports of the Chief Financial Officer regarding expenditures, current financial review and other financial matters involving TRS programs. – Don Green.**

Mr. Green provided the Board with an update on the year end of Fiscal Year (FY) 2016 which ended on August 31. The cash that was disbursed from the Pension Trust Fund for FY 2016 was \$110.4 million for administrative purposes which was \$7 million more than FY 2015. Mr. Green noted about half of that is TEAM related. The overall budget for FY 2016 was \$159.2 million, 82 percent of that from the Pension Trust Fund, 14 percent from soft dollars and about 5 percent from healthcare. Mr. Green reported that \$130.5 million was expended and encumbered for FY 2016, noting these are unaudited numbers. This was \$28.6 million below what was approved for expenditure. Mr. Green then provided a detailed analysis as to expenses.

Mr. Green took the opportunity to introduce the budget staff and expressed appreciation for their hard work. Mr. Green then mentioned the legislative appropriations request was submitted and can be found on TRS website. Mr. Green, in response to a previous inquiry from Ms. Ramirez and Mr. Corpus, announced that \$65,000 a year is generated from the parking revenues outside the building. Mr. Green noted there are plans to re-strip and resurface the lot and it is to be paid for out of the revenues generated for parking.

**17. Review 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 June through August 2016.**

**B. Consider approving the minutes of the May and July 2016 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 June through August of 2016.

Mr. Corpus moved, Mr. Colonna seconded, and the Board unanimously approved the list of members qualified for benefits for June through August of 2016.

The second item Ms. Pearson presented for approval was the minutes of the May and July 2016 Medical Board meeting minutes.

Ms. Palmer moved, Ms. Ramirez seconded, and the Board unanimously approved the minutes of the May and July 2016 Medical Board meeting minutes.

**18. Receive an update on the Website Redesign Project. – Howard Goldman.**

Mr. Goldman announced the completion of the website redesign. Mr. Goldman reported this is the first website redesign in the last ten years. Mr. Goldman noted the contractor, Catapult Systems, did good work. Mr. Goldman recognized Michael Kennedy, director of public cloud strategy and David Cook, project manager, for their integral part of the project's success. Mr. Goldman reviewed the notable features of the new website. He then reviewed the communication and promotion of the new site to the TRS' various audiences. Mr. Goldman announced the best of all is the project was completed on time and within budget. Mr. Goldman then introduced and commended the people who worked on the project.

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

Mr. Welch shared for the first time, 100 percent of all reporting entities had their reports in, finalized and made it into the year-end close. Mr. Welch commended Ms. Barbie Pearson and her team, Mr. Don Green and his team and Mr. Chris Cutler and his team in IT. With the year closed, Mr. Welch was able to report that more was done than in the past. There were about 1,700 more retirements, 426 more refunds were processed and unfortunately, 527 more death claims. The only item we did less of was service credit purchase. There were more than 48,554 telephone calls this year. On the TEAM front, there are 485 districts certified.

Mr. Welch noted that staff is exploring Spanish language forms, an idea which was generated during one of the TEAM huddles. Mr. Welch announced that John Cody, a lead developer in our IT Division was honored last month by receiving the Rising Star Award from the Texas Association of State Systems for Computing and Communications.

Mr. Welch discussed various activities occurring around the agency.

**20. Consider personnel matters in Executive Session, including the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee as authorized by Section 551.074 of the Texas Open Meetings Act (Chapter 551 of the Texas Government Code). – David Kelly.**

This item was not taken up.

**21. 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 11:02 a.m., Ms. Ramirez moved, Mr. Corpus 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, 2016

ATTESTED BY:

Katherine H. Farrell

Katherine H. Farrell

Secretary to the TRS Board of Trustees

10/31/16  
Date