

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

**February 26, 2021**

The Board of Trustees of the Teacher Retirement System of Texas met on February 26, 2021 via videoconference in accordance with the Governor's authorization concerning suspension of certain Open Meeting law requirements in response to the COVID-19 (Coronavirus) disaster.

### **The following Board members were present:**

Jarvis V. Hollingsworth, Chair  
Nanette Sissney, Vice Chair  
Michael Ball  
David Corpus  
John Elliott  
Christopher Moss  
James Dick Nance  
Robert H. Walls, Jr.

### **Others present:**

Brian Guthrie, TRS	Mr. Craig Campbell, Retiree
Andrew Roth, TRS	Ms. Eileen O'Grady, Private Equity Stakeholder Project
Don Green, TRS	Mr. Keith Robinson, Focus Consulting
Heather Traeger, TRS	Ms. Kirsten S, Segal
Jase Auby, TRS	Mr. Ken Vieira, Segal
Barbie Pearson, TRS	Mr. Steve Voss, Aon
Katrina Daniel, TRS	Mr. Mike McCormick
Amanda Jenami, TRS	Ms. Meredith Jones, Aon
Chris Cutler, TRS	Ms. Grace Mueller, RAC Chair
Caasi Lamb, TRS	Dr. Keith Brown, Board Investment Advisor
Kevin Wakley, TRS	
Lauren Gellhaus, TRS	
Kellie Sauls, TRS	
Katherine Farrell, TRS	
Suzanne Dugan, Cohen Milstein	

Mr. Hollingsworth called the meeting to order at 8:00 a.m.

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

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

Mr. Hollingsworth provided welcoming remarks noting the Board was convening by videoconference under the Governor's Office's authorization concerning suspension of certain Open Meetings law requirements in response to COVID-19. Mr. Hollingsworth stated he hoped all fared well during last week's winter storm. He noted originally the board meeting was to cover

three half-days of meetings. However, due to the winter storms of last week that affected everyone in the state, the Board decided it was important for us to take up the business of the Board, but tailor it to one day of meetings. He announced items would be taken out of order and that the following items would not be taken up that were posted for today's meeting: Items 5, 6, 12, 13, 15, 16, 20, 21 and 22.

Mr. Hollingsworth announced agenda item 17 would be taken up first.

**17. Provide an opportunity for public comment – Jarvis V. Hollingsworth.**

Mr. Craig Campbell, a TRS retiree, expressed a need for a cost of living adjustment and not a 13<sup>th</sup> check. He said he did not understand how bonuses were awarded but there should not be anymore bonuses until every retired school district employee gets a compounding cost of living raise. He said the Sunset Commission made some good recommendations and hope the Board will support.

Ms. Eileen O'Grady, representing the Private Equity Stakeholder Project, expressed concern regarding a TRS investment with private equity and real estate firm, Oaktree Capital., who despite the CDC eviction moratorium, affiliates of Oaktree Capital have continued to file and advance residential eviction cases.

Mr. Hollingsworth announced agenda item two would be taken up next.

**2. Consider the following administrative matters – Jarvis V. Hollingsworth:**

**A. Approval of the December 2020 proposed meeting minutes; and**

On a motion by Mr. Corpus, seconded by Mr. Moss, the Board unanimously approved the minutes from the December 2020 meeting, as presented.

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

On a motion by Mr. Nance, seconded by Mr. Corpus, the Board unanimously voted to amend the schedule adding a third day, Wednesday, April 14, to the schedule if the April meeting is held virtually.

Mr. Hollingsworth announced agenda item nine would be taken up next.

**9. Review and Discuss the Executive Director's report on the following matters – Brian Guthrie:**

**A. Administrative operational matters, including updates on financial, audit, legal, staff services, special projects, strategic planning, legislative, Sunset Update, Trustee Elections and personnel matters.**

**B. Update on COVID-19 and TRS operations.**

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

**D. 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 shared images of TRS facilities covered in snow and specifically thanked the security team who were on site during the recent crisis. He provided an overview of past and upcoming conferences. He gave a legislative update and how COVID is affecting session. He then gave an update on Return to Office for TRS staff. He reported Austin moved to Stage 5 before the Christmas holiday, the highest stage with more restrictions in place. Since then Austin ratcheted back in early February back to Stage 4. During this time, he said, in-person office visits were suspended but are planning and ramping up to restart the office visits in person beginning March 1, 2021. He said the office continues to operate at Phase 2, 25 percent capacity and will look at increasing it to 50 percent in the spring.

Mr. Guthrie reviewed employee demographics. He noted the average age is 44.2 years and average tenure is six, almost seven years. He reported nearly 10 percent of employees are eligible to retire. He then provided an update regarding the Trustee Election. He said the nominations period closed in January with six candidates. He said the ballots will be mailed mid-March with the deadline to get all the ballots back in is May 5<sup>th</sup>.

Mr. Guthrie announced TRS received top workplace in the country designation for the first time. He concluded by reviewing the proposed items for the April and July Board meetings.

Mr. Hollingsworth announced agenda item three would be taken up next.

### **3. Chief Operations and Administration Officer (COAO) update – Andrew Roth.**

Mr. Andrew Roth stated his goal for the year is to highlight opportunities in the agency from an operational standpoint in terms of staff investment or adequate resourcing. He noted there was no immediate ask but that it was to provide background. He reviewed cybersecurity first for it is one of the most critical things, as an agency, we are responsible for, protecting our data and information. He stated TRS delivers health care and are a \$175 billion financial institution with an investment portfolio that is global in reach and has instantaneous need for data and security. He discussed the key activities of the cybersecurity group and the ever demanding and changing workload. In response to Mr. Hollingsworth's inquiry, Mr. Roth stated he did not feel the security of our data or our members' data was at immediate risk. However, he said in order to stay in front of that risk, additional resources will need to be added in the near future. Mr. Roth concluded by comparing TRS staff of nine with peers who have cybersecurity teams of 20 to 36 FTEs.

Mr. Hollingsworth announced agenda item fourteen would be taken up next.

### **14. Receive an update regarding Benefit Services – Brian Guthrie, Andrew Roth, Don Green and Barbie Pearson.**

Mr. Guthrie provided an overview noting the critical need in Benefit Services. Mr. Roth noted that when compared with TRS peers, the Benefit's front office staff has one of the lowest ratios of staff to member but is in the middle in terms of service levels provided. He said if you doubled the staff by adding 200 or 400 more FTEs, TRS would still be in the middle of its peers. Ms. Barbie Pearson focused on Benefit Services' immediate staffing needs emphasizing how the workload has

increased year over year. She said at the July board meeting there will be a more comprehensive long term plan for Benefit Services.

Ms. Pearson described how it takes all of Benefit Services to deliver exceptional customer service to our members. She noted when Processing struggles, there is a huge impact on the Contact Center by increased call volume. She then described the key activities in the various divisions of Benefit Services that are struggling. She broke down the actual retirement process from a member making the initial request of benefits estimate, to receiving their first payment, to death claims and benefits. Ms. Pearson concluded by stating the proposal to address the immediate need is not enough, but it will help specifically the Benefit Processing area. She said there are currently 248 FTEs in Benefit Services; this proposal would raise staffing to 258, a four percent increase. She said the goal is to focus on the members, on member service and provide the service members deserve. She said with the appropriate resources, service levels can improve and staff within Benefit Services can be cross-trained to be moved around to critical areas.

Mr. Don Green reviewed the fiscal impact of the additional FTEs for Benefits Services. He noted the FY 21 budget contained a nine percent reduction from the appropriated level of funding, resulting in an expected savings of \$20 million plus. He said a large portion of those savings resulted from a hiring freeze that was in place from July 2020 through December 31, 2020. He said the 10 positions could be filled for Benefits Services from available revenue without dipping into the \$20 million plus savings that was placed in a contingency fund. He said the plan is to bring back a proposal further on this issue in July as part of the regular budget development process.

Mr. Hollingsworth announced agenda item seven would be taken up next.

**7. Receive an update on the enhanced TRS Complaint Process – Andrew Roth and Heather Traeger.**

Mr. Roth stated TRS has had a complaints process in place for many years, and in recent years have begun the effort to enhance this existing process. He said the recent Sunset review highlighted further opportunities with regards to communication, both in terms of plain language and in terms of responding to complaints. He reviewed the various channels available to members who wish to communicate to TRS regarding an issue and the volume received through those channels.

Ms. Traeger reviewed the types of communications TRS receives and the new process. She reported a complaints log has been developed as an overlay to the various communication pathways referenced by Mr. Roth. She said the log, managed by TRS Compliance, is designed to target areas of concern, complaints, for membership and retirees that are a subset of the thousands of communications TRS receives each month. She said reports will be provided on a monthly basis to the TRS executives as well as on a quarterly basis to the Board. She noted the term complaint for these purposes is aligned with the definition found in the State's mandated Compact with Texans program. She concluded by stating this new process is to identify and analyze any trends in our complaint categories and TRS member interactions, as well as if there are areas where TRS needs to take action.

Mr. Hollingsworth announced agenda item four would be taken up next.

**4. Receive an update on TRS Core Values – Caasi Lamb and Keith Robinson, Focus Consulting.**

Ms. Caasi Lamb provided an update on TRS Core Values. She stated TRS' core values identify expected behaviors of TRS staff and are designed to create a culture that supports the agency's mission. The values represent TRS' guiding principles, deeply-held beliefs, and highest priorities. She stated core values are communicated regularly to TRS employees when they are hired, during annual performance evaluations, and through employee recognition programs. She noted the current set of values were established in 2013. Since that time TRS has grown and evolved as an organization. She said a cross-functional project team consisting of representatives from Organizational Excellence, DE&I, Legal and Compliance and Strategy Office worked together with Focus Consulting on this initiative.

Mr. Keith Robinson provided background on the culture survey Focus performed to help inform TRS about the organization and the strength of culture that was established in 2013. He noted the survey was confidential and anonymity was important to get at the truth. He reported robust participation in the survey, 73 percent of the agency. He reviewed the results of the survey and focus groups. He said TRS has been extraordinarily deliberate in designing, executing, and reinforcing its culture, and it shows up in the strong results that came out of the culture survey.

Ms. Lamb reviewed the new core values noting there was overlap between the 2013 values and the new ones. She reported the new values are the following: member-focused; diversity; and efficiency. She said member-focused replaced customer satisfaction for it not only encompasses customer satisfaction but is directly related to TRS mission of making decisions with members' best interests in mind. Ms. Lamb concluded by reviewing the plan to roll out the new core values to the agency. She said going forward the review of core values will occur every four years, in conjunction with the review of the mission statement.

Mr. Hollingsworth announced agenda item eight would be taken up next.

**8. Receive governance training on Teachable Moments of the Last Decade and Thoughts on the Risks of 2021 and Beyond – Amanda Jenami.**

Ms. Amanda Jenami noted that the Internal Audit charter requires management, the Trustees, to be kept informed of emerging trends in risk management and governance. She reviewed the Institute of Internal Auditors' three lines of defense model, which was updated in July 2020, as a model to help explain how key organizational roles work together to facilitate strong governance and risk management. She discussed lessons learned from the biggest corporate scandals of the last decade. She provided the top four risks that pose the greatest challenges to organizations in 2021: crisis management, cybersecurity, talent management and culture. She noted that business continuity and crisis response were driven to the top of the list by the unprecedented challenges brought on by the COVID-19 pandemic and the increased reliance on technology and data. She concluded by reviewing how these risks apply to TRS and efforts being made by management to mitigate these risks.

At 11:45 am, Mr. Hollingsworth announced a break for lunch.

At 12:29 pm, Mr. Hollingsworth reconvened the meeting and announced agenda item eleven would be taken up next.

**11. Receive an annual review of TRS health plans performance, including benchmark comparisons, COVID and new plan year, new carrier installation and Retiree Advisory Council (RAC) update – Katrina Daniel, Grace Mueller, RAC Chair; Kirsten Schatten and Kenneth Vieira, Segal.**

Ms. Grace Mueller presented the quarterly update from the Retirees Advisory Committee. She reported the RAC's last meeting was on January 26, 2021, via Zoom. The RAC received updates regarding the legislative session, Sunset Advisory Commission's recommendations, the trust fund balance, long term facilities plan for TRS, a COVID report and a TRS-Care vendor transition update. She said the next meeting is scheduled for June 17, 2021, via Zoom.

Ms. Daniel introduced Ms. Kirsten Schatten and Mr. Ken Vieira with Segal. Ms. Schatten stated Segal provides health consulting services with clients that include 21 state health plans and have worked with TRS since 2019. She said the peers used in benchmarking TRS' plans were Alabama, Georgia, Illinois, North Carolina, Tennessee and Wisconsin. She noted the plans were majority teachers but some of the state health plans included other state employees. She said for plan efficiency they reviewed the total costs of the plan made up of what members pay when they see providers; what's the premium the member pays; and what's the portion of the premium the employer or state contributes. She stated they found TRS plans are efficient compared to peers in the benchmarking study, which means that every dollar of premium comes into TRS buys more health care than their peers. She reported this is especially pronounced for TRS-ActiveCare where total costs are 15 to 25 percent less than peers. She noted TRS health plans receive considerably less funding than peers, especially with TRS-ActiveCare. She stated that the benefits that TRS is covering are similar to the benefits that other states in this benchmarking cover.

Ms. Schatten reviewed the actuarial value. She said because TRS members pick up more cost-sharing compared to the benchmark states, it lowers TRS actuarial value. TRS members are picking up about 25 percent. She noted the average actuarial value is more in the 85 percent range in which members are only picking up 15 percent. She stated when everything is on the same dollar basis, the TRS plans in in ActiveCare are the lowest costs of all plans. She said this shows how the plan is being managed very efficiently.

Ms. Schatten noted it was more difficult to benchmark the TRS Care because it is an under-65 group that is smaller and likely some risk differentials. She reported 62 percent of those that are eligible are currently participating, meaning some folks out there are picking up a plan somewhere else. For the employer subsidy percent, she said it falls in the middle of the pack. She said the reason for the lower TRS costs starts with the successful procurement, with best in class RFPs with a deep dive into how vendors did their medical management. She reported the two change in vendors saves over \$700 million over the next few years. She also noted the administrative fees for TRS are less than four percent of total costs. Mr. Vieira stated a large state's administrative

costs are probably seven to nine percent. Ms. Schatten said once the best contracts in the country are in place, the next reason for lower costs is successful contract management.

Ms. Daniel concluded the presentation with a discussion of the Districts of Innovation's offering competing coverage. She noted about 145 districts are now offering competing coverage, it is split evenly between metropolitan areas and rural areas. She noted the potential impact on the costs to ActiveCare, is about \$41 million with just the current population. She said this is a challenge and despite best efforts it will probably drive up costs in ActiveCare.

Mr. Hollingsworth announced agenda item 19 would be taken up next.

**19. Receive the CIO Update including Fleet Strategy; Talent Management; Accomplishments; Notices; Awards; Key Dates and Upcoming Events; and Market Update – Jase Auby.**

Mr. Jase Auby announced that the Trust ended the year 2020 at an all-time high of \$176.9 billion. He noted during the midst of the COVID crisis at the April Board meeting last year, that number was 149 billion, so the Trust gained \$28 billion since last April. He reported the return on the Trust for the year to date through April was minus eight percent but ended the year at a positive 11.6 percent. He said COVID affected the emerging managers program this year, the conference in February was 100 percent virtual. He said there significantly greater participation, 2,600 attendees.

Mr. Auby provided the market update. He noted the U.S. equity market was one of the top performers with a 21.1 percent return last year. He said Korea, Taiwan and China all outperformed the U.S. for they emerged early from the COVID crisis. He said one area hit hard by COVID and did not recover was the oil price, oil was off by 27.5 percent during the year.

Mr. Auby concluded by discussing the concept of valuation and long-term investing.

Mr. Hollingsworth announced agenda item 18 would be taken up next.

**18. Receive an Investment Education Presentation including information on Interest Rates and PE Ratio – Steve Voss and Mike McCormick, Aon.**

Mr. Steve Voss stated they would provide a high level overview of some of the elements of stock and bond investing and some of the elements of diversification. Mr. Mike McCormick discussed the two decisions an investor must make: to own assets or to take the dollars and loan them to others. He reviewed the ownership of assets, how asset owners make or lose money and the general forces that drive these outcomes. He said the two things that drives asset values to go up are inflation and economic growth. He stated two causes for fluctuation in the stock market in short term is price to earnings (P/E) ratios and the Federal controlled interest rate levels. He further reviewed what drove interest rates and their impact on bonds. He discussed importance of diversification and need to re-balance a portfolio.

Mr. Hollingsworth announced agenda item 23 would be taken up next.

**23. Receive an update on ESG Investing - Lauren Gellhaus, Steve Voss, Mike McCormick and Meredith Jones, Aon.**

Mr. Auby introduced the topic noting the Board received a presentation on environmental, social and governance (ESG) back in February 2020. Ms. Meredith Jones provided an update on the current status of ESG development since last February. She said there has been a dramatic increase in attention on ESG risks and investments. She reported numerous studies have shown a positive correlation between ESG and corporate financial performance, meaning companies that do ESG well tend to perform better. She stated recent events have exposed almost every company to being impacted by ESG such as COVID-19, George Floyd and Breonna Taylor murders, climate change and the new Biden administration.

Ms. Lauren Gellhaus stated the ESG landscape continues to evolve, with no standard approach when it comes to ESG investing. She noted that ESG education has been a focus for many U.S. pensions in the past, with a shift to go beyond education and start integrating ESG into processes. She said just as there is no standard for ESG investment approaches, how organizations address ESG policies also differs widely. She reported some approaches include incorporating ESG specific language into investment policy statements (IPS) or creating stand-alone ESG policies. She reviewed how TRS peers are addressing the issue of policies. She stated TRS aims to build off of the work done in 2020 and continue to take prudent steps forward. She said there were four key goals for 2021 which included IMD recommending to the Board adding a statement on ESG within the IPS. She concluded by stating the fiduciary duty and the Trust objectives are top of mind. She said IMD's objectives are to manage risk and produce a long-term rate of return and the ESG efforts are not done despite these objectives rather they are done as a direct response to them.

Mr. Hollingsworth announced agenda item 10 would be taken up next.

**10. Receive the annual update on TRS Diversity, Equity and Inclusion – Kellie Sauls.**

Ms. Kellie Sauls stated the business case is strong for diversity, equity and inclusion (DE&I), there are large demographic shifts happening in the workforce. She noted the underlying data that is being tracked is member demographics as well as State of Texas demographics and student demographic data. She provided the broad overview of the DE&I vision. She discussed the accomplishments over the past year and the current state of DE&I work. She also discussed DE&I strategy, performance metrics and measurements and discussed areas of focus going forward in 2021. She said industry best practices involve using a third-party measurement to ensure a consistent approach to standardization and realistic benchmarking. She reported TRS is in the process of issuing a related RFP in mid-March.

Ms. Sauls concluded by reviewing the outreach activities TRS made partnering with various professional affinity networks and universities.

Mr. Hollingsworth announced agenda item 24 would be taken up next.

- 24. Receive an update and consider long-term facilities planning on potential new building, potential renovations or sale of the Red River campus, and leases at 816 Congress and Indeed Tower, including considering a finding that to deliberate or confer in open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person – Brian Guthrie, Andrew Roth and Eric Lang.**

Mr. Guthrie stated TRS is in a holding pattern to assess options and wait for the pandemic to end and the real estate market in Austin to come back to some semblance of order. He stated a new factor in the long-term space need consideration is an analysis of work from home. He noted currently they have anecdotal evidence and need to review the proper ratio of work from home and work in the office. He said they continue to evaluate all options that exist in the market as it currently stands and continues to review options of not doing anything and what it would take to renovate existing facilities.

Mr. Roth discussed progress made on related activities since December. He reviewed current work streams such as moving forward with critical maintenance projects at Red River and developing three, five and seven year facilities plans.

Mr. Hollingsworth announced the Board would recess and go into executive session on item number 24, matters relating to real property and the long-term facilities discussion.

On a motion by Mr. Corpus, seconded by Mr. Elliott, the Board unanimously found that deliberating or conferring on long-term space planning activities in open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person.

At 3:49 p.m., Mr. Hollingsworth announced the Board would go into executive session under the following agenda item and sections of the Government Code: item 24 under Sections 825.115(e), 551.071 and 551.072, to discuss Board procurement matters, real property and consult with legal counsel as needed.

At 4:29 p.m., Mr. Hollingsworth reconvened the Board Meeting.

- 5. Receive an update on the 2021-25 Strategic Plan – Caasi Lamb.**

This item was not taken up for discussion.

- 6. Receive an update on the Member Satisfaction Survey and Reporting Employer Satisfaction Survey results – Caasi Lamb; Dr. Rene Paulson Elite Research and Dr. Kirby Goidel, Texas A&M University.**

This item was not taken up for discussion.

- 12. Receive an update on the TEAM Program – Andrew Roth, Billy Lowe, Jennifer Whitman and Adam Fambrough.**

This item was not taken up for discussion.

- 13. Receive an update from the TEAM Program Independent Program Assessment (IPA) Vendor – Doug Holt and Jonathan Scofield, EY.**

This item was not taken up for discussion.

- 15. Receive annual update on Cybersecurity – Frank Williams.**

This item was not taken up for discussion.

- 16. 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, investment matters, open records – Heather Traeger.**

This item was not taken up for discussion.

- 20. Receive the Emerging Manager Annual Update - Kirk Sims.**

This item was not taken up for discussion.

- 21. Receive the Annual Update on IMD Operations & Talent Management Group - Sylvia Bell.**

This item was not taken up for discussion.

- 22. Review of IMD Legal & Compliance - Heather Traeger.**

This item was not taken up for discussion.

At 4:30 pm, Mr. Hollingsworth adjourned the meeting.

APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM OF TEXAS ON THE 14 DAY OF APRIL 2021.

ATTESTED BY:

Katherine H Farrell

Katherine H. Farrell

Secretary to the TRS Board of Trustees

April 16, 2021

Date