

Minutes of the Board of Trustees

July 15, 2020

The Board of Trustees of the Teacher Retirement System of Texas met on July 15, 2020 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 Nance
Robert H. Walls, Jr.

Others present:

Brian Guthrie, TRS	Michael Johnson, Bridgepoint Consulting
Andrew Roth, TRS	Keith Brown, Investment Advisor
Don Green, TRS	Suzanne Dugan, Cohen Millstein
Carolina de Onis, TRS	
Jase Auby, TRS	
Barbie Pearson, TRS	
Katrina Daniel, TRS	
Amanda Jenami, TRS	
Rebecca Merrill, TRS	
Heather Traeger, TRS	
Sylvia Bell, TRS	
Eric Lang, TRS	
Katherine Farrell, TRS	
Billy Lowe, TRS	
Jennifer Whitman, TRS	
Adam Fambrough, TRS	

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. Moss joined the meeting at 8:22 am.

Mr. Hollingsworth provided welcoming remarks noting the unprecedented times continuing and the historical significance of today's meeting being held virtually. He said since last time the Board met, many of our members, TRS staff and even a couple of Trustees have been personally affected by the COVID-19 virus. He stated it is important that the Board continues to meet to fulfill their duties and was thankful for the opportunity to do so in a safe manner. He provided an overview of the three day of meetings.

At 8:04 am, the Chair recessed the meeting to take up the scheduled committees for the day, noting the Board would reconvene later that morning.

At 10:59 am, the Chair reconvened the Board meeting.

1. Receive an update on the TEAM Program – Brian Guthrie, Billy Lowe, Jennifer Whitman and Adam Fambrough.

Mr. Brian Guthrie provided an overview of the project since transitioning the TEAM program internally. This process, he noted, started at the end of calendar year 2019. Since March, TRS has operated the program and developed a timeline to implement functionality over the next four years. Mr. Guthrie said moving forward the TEAM program will be fully operationalized into the existing IT budget, TRS will not add any additional project-specific resources either through the LAR process or the annual budget process with the Board. Mr. Guthrie also noted additional changes with other vendor relationships. He said Provaliant will continue in a reduced basis and the oversight services provided with Bridgepoint will be put out for bid again, bringing the finalists to the Board in December. Ms. Amanda Jenami stated Internal Audit decided the best way forward for the oversight function was to move forward with an outside vendor. She reported Internal Audit will be leading the procurement of this vendor and will manage the contract on behalf of the Board. Mr. Guthrie also described the new governance structure for the program.

Ms. Jennifer Whitman presented the new reporting format identifying progress against key milestones. She reviewed the multistep process in identifying the roadmap to determine the technical scope, order and timing of the release of remaining functionality. Mr. Adam Fambrough identified on the business side the functionality being released and how under the new plan the functionality is being delivered sooner rather than waiting to implement all functionality at one time. He said the incremental release will be an easier transition for staff learning smaller pieces than to transition to a completely new system while continuing to service members.

Mr. Billy Lowe reviewed the release dates and noted how closely they have worked with the business to incorporate any new requirements. He provided an example of how COVID affected the health side requirements and the accounting for pending deductions. Mr. Andrew Roth reviewed the budget. He said based upon the final tranche of code and functionality being delivered by 2024 it is projected to spend approximately \$8.5 million a year. He said the majority of the cost consist of internal staff with some contractors. He reiterated that they do not foresee additional

appropriations will be required to complete the project. He said they are able to absorb the costs by re-prioritizing the internal project portfolio.

2. Receive an update from the TEAM Program Independent Program Assessment (IPA) Vendor – Michael Johnson, Bridgepoint Consulting.

Mr. Michael Johnson noted with the TEAM project pivoting in internal delivery they are assessing the way these services are being delivered and focusing on two key objectives for this meeting. He said the first being a review of the plan going forward and the second is to formulate recommendations for the oversight role as it continues. He noted the alignment of business and IT and internal delivery of this program has significantly been enhanced. He stated the scope has been defined to deliver the functionality that was originally intended in the Phase 2 as well as some additional enhancements of things like the TRS portal. Mr. Johnson reported they reviewed the scope, roadmap and schedule and believe that it is appropriate and are working closely with TRS staff reviewing the resource plan and budget going forward.

At 12:03 p.m. Chair Hollingsworth recessed the Board meeting noting the Board would reconvene tomorrow, July 16, 2020.

July 16, 2020

The Board of Trustees of the Teacher Retirement System of Texas met on July 16, 2020 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 Nance
Robert H. Walls, Jr.

Others present:

Brian Guthrie, TRS	Keith Brown, Investment Advisor
Andrew Roth, TRS	Suzanne Dugan, Cohen Millstein
Don Green, TRS	Keith Robinson, Focus Consulting
Carolina de Onis, TRS	Nick Collier, Milliman
Jase Auby, TRS	Daniel Wade, Milliman
Barbie Pearson, TRS	Joe Newton, GRS
Katrina Daniel, TRS	

Amanda Jenami, TRS
Rebecca Merrill, TRS
Heather Traeger, TRS
Katherine Farrell, TRS

At 8:53 AM the Chair reconvened the board meeting and called up Agenda Item 7, without objection.

7. Chief Operations and Administration Officer (COAO) update – Andrew Roth.

Mr. Andrew Roth provided an overview of the five phased approach TRS has taken for return to office efforts. He noted TRS was currently in phase 2 which had essential workers onsite and additional staff that benefit highly from being onsite. He said the phases were being driving by guidance from the Governor's office and public health authorities. He also referenced cleaning supplies as another driving factor. Mr. Roth then reviewed the benefits TRS has experienced in terms of staff working from home and some of the drawbacks. Mr. Roth concluded by providing acknowledgements to the essential workers who come into the building on a regular basis.

The Chair, without objection, called up Agenda Item 4.

4. 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, 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. Brian Guthrie reviewed the upcoming proposed September Board and Committee agendas. He said due to the spike in cases in the Austin area, it is anticipated the September meeting will be virtual and several months prior to being fully back at the office. He said tomorrow staff would propose adding a third day to the September meeting dates to provide greatest flexibility in the event the meeting will be virtual.

At 9:28 am, Chair Hollingsworth recessed the Board meeting, without objection, to take up the scheduled Audit, Compliance and Ethics Committee.

At 11:05 am, Chair Hollingsworth reconvened the Board meeting continuing with Agenda Item 4.

Mr. Guthrie reviewed meetings and conferences attended over the past months virtually and noted upcoming virtual meetings. He reported giving daily updates to the Governor and to the legislative leadership offices since March on how the fund is doing and how TRS is responding to the pandemic. He also presented to a Senate work group on the economic impact of COVID. He said TRS would be participating in TRTAs district conferences virtually as well.

Mr. Guthrie shared the return to office efforts, noting the spike in COVID cases in Austin meant a slower approach to returning to the offices as long as the members services continue at the proper levels.

Mr. Guthrie reported the Sunset public hearing for the agency had yet to be set. He announced the Trustee elections were underway for Dr. Gibson's seat on the Board. He said the nomination period runs until the end of January and signatures for the petitions can be in paper or electronically.

Mr. Guthrie announced winners of the Executive Director's Award of Excellence which is given each year to ad hoc teams, as Organizational Excellence COVID-19 response team and the Sunset review team. He also shared the winner of the Shining Example Award which is given to an existing team that goes above and beyond to really meet the needs of the agency and our members, as being the IT Division. The final award, Mr. Guthrie said, was one TRS received from the Employer Support of the Guard and Reserve (ESGR) Above and Beyond Award. Ms. Roxanne Quintero, who serves in the Army Reserve as military-police, nominated TRS for the award in appreciation of all of the support she received when she was most recently deployed.

Mr. Guthrie concluded with an update regarding the General Counsel search.

5. Receive report from Milliman on the 2019 Actuarial Audit of Gabriel, Roeder, Smith & Co. – Nick Collier and Daniel Wade, Milliman.

Mr. Guthrie introduced the item noting an audit of actuarial services is required by statute at least every five years. The last audit was conducted back in 2014, based on the August 31, 2013 valuation. Milliman was selected by the Board back in December of 2019 to conduct this year's audit on the August 31, 2019 valuation.

Mr. Nick Collier provided an overview of the scope, simply put are the results of the valuation accurate and are those results based on assumptions and methods that are reasonable. He reported that the audit found the valuation results were accurate, reflect TRS' plan provisions and were based on reasonable assumptions. He said the assumptions are more subjective, but they found the assumptions are reasonable and supported the move made to lower the investment current assumption to 7.25 percent. Mr. Daniel Wade said the most significant of the assumptions was the investment rate of return assumption. He said the Board's recent step to move from an 8 percent assumption to a 7.25 assumption was a good and important move. He reviewed other assumptions utilized by GRS and how TRS was in line with other pension systems.

6. Receive an overview of Executive Evaluations by Focus Consulting – Liz Severyns and Keith Robinson, Focus Consulting.

Mr. Keith Robinson provided background and an overview on the executive assessment process used in 2020. He noted in 2013, this process was initiated by the Board to get an independent view of the executives' performance for TRS, specifically the executive director, the chief audit officer and the chief investment officer. He reported this year's process was underway having started in June. He said the process concludes in September when he comes back to the board with a comprehensive report for each executive that includes a qualitative and quantitative feedback.

At 12:25 pm, Chair Hollingsworth recessed the board meeting for the day noting the meeting would reconvene on Friday, July 17, 2020 at 8:00 am.

July 17, 2020

The Board of Trustees of the Teacher Retirement System of Texas met on July 17, 2020 via videoconference by 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 Nance
Robert H. Walls, Jr.

Others present:

Brian Guthrie, TRS	
Andrew Roth, TRS	Keith Brown, Investment Advisor
Don Green, TRS	Suzanne Dugan, Cohen Millstein
Carolina de Onis, TRS	Eileen O'Grady, Private Equity Stakeholder Project
Jase Auby, TRS	
Barbie Pearson, TRS	
Katrina Daniel, TRS	
Amanda Jenami, TRS	
Rebecca Merrill, TRS	
Heather Traeger, TRS	
Eric Lang, TRS	

Mark Albert, TRS
Katherine Farrell, TRS

At 8:00 am Chair Hollingsworth reconvened the board meeting, a quorum being present.

**8. Consider the following administrative matters including – Jarvis V. Hollingsworth:
A. Approval of the April 2020 proposed meeting minutes; and**

On a motion by Mr. Corpus, seconded by Ms. Sissney, the board unanimously approved the minutes of the April 2020 Board Meeting.

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

Chair Hollingsworth noted that just like July, there is a possibility that the September Board meeting will need to be virtual. He proposed that if the meeting is held virtually, it be expanded to cover three days by adding September 16, 2020.

On a motion by Mr. Nance, seconded by Mr. Moss, the Board unanimously voted to amend the September Board Meeting to three days, September 16 – 18, 2020, if the meeting is held virtually.

9. Provide an opportunity for public comment – Jarvis V. Hollingsworth.

Ms. Eileen O’Grady with Private Equity Stakeholder Project expressed concern about TRS’ investment with Leonard Green and partners and its ownership of safety net hospital chain Prospect Medical Holdings. She reiterated that Leonard Green should return the fees and dividends they collected from Prospect Medical Holdings to ensure that the hospitals and health care workers have as many resources as possible to respond to the pandemic.

10. Recognize the service of Carolina de Onis – Jarvis V. Hollingsworth.

Mr. Hollingsworth stated they wished to recognize Ms. Carolina de Onis and thank her for her wonderful service as TRS General Counsel.

On a motion by Mr. Nance, seconded by Mr. Walls, the Board unanimously approved the following resolution in honor of Carolina de Onis:

RESOLUTION

WHEREAS, Carolina de Onís joined the Teacher Retirement System of Texas (TRS) in April 2013 and served as TRS’ General Counsel; and

WHEREAS, she brought years of Wall Street experience with her and after moving back to her hometown of Austin, she found the position she had been searching for – serving the teachers of Texas; and

WHEREAS, being a daughter of two teachers, Carolina desired to work on behalf of Texas teachers who give so much to their community and she wanted to make an impact on their future - always mindful of her duty to those who teach or otherwise serve our state's children; and

WHEREAS, as General Counsel, Carolina oversaw all legal services and compliance at the TRS headquarters and London office in addition to the two health care funds; and

WHEREAS, she is an accomplished public speaker on fiduciary matters, governance, investment funds, compliance matters, and securities litigation; and

WHEREAS, Carolina has been a member of the Texas and New York bars, a Fellow of the 2019 class of Aspen Finance Leaders Fellowship, a member of the Aspen Global Leadership Network, and served on the board of directors for the Thinkery and Council of Institutional Investors; and

WHEREAS, she has also been honored as one of Hispanic Magazine's "Top 10 Leaders"; and

WHEREAS, she exemplified the values of TRS, especially candor, has maintained the highest standards of professionalism, and cultivated highly effective working relationships with TRS managers and the board; and

WHEREAS, although she is a quick study, she took a hard lesson in the winter of 2015 to learn the value of reminding the Executive Director and then-Chief Investment Officer not to drive off with her cell phone without her; and

WHEREAS, a "servant's heart" was the vision Carolina set for her staff as she played an invaluable role in leading Legal & Compliance toward a new culture of professional engagement and meticulous member/client services which will continue well into the future; and

WHEREAS, throughout her years of leadership to the retirement system and its members, Carolina's approach to employment has embodied a fiduciary's duties of loyalty and care, always placing the retirement system and its participants first, and will greatly be missed by all her colleagues; 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 Carolina de Onís 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 Carolina de Onís and entered into the record of the board for July 17, 2020.

Ms. de Onis expressed appreciation to the trustees for their leadership and noted serving in the role of TRS general counsel was the privilege of her life.

11. Consider selection of Proxy Advisor Services, including considering a finding that deliberating or conferring on the selection of proxy advisor services in an open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person – Mark Albert.

Mr. Mark Albert stated per the proxy voting policy, the Board selects the proxy advisor. He said TRS issued an RFP and only one vendor responded to it. He reported the evaluation team recommends ISS as proxy advisor to TRS. He noted ISS meets or exceeds all the evaluation criteria and has provided strong service to TRS for over ten years at a competitive price.

On a motion by Mr. Corpus, seconded by Mr. Elliott, the Board unanimously voted to adopt the following resolution approving ISS as the Board’s proxy advisor:

**RESOLUTION CONCERNING THE SELECTION AND
ENGAGEMENT OF
PROVIDER OF PROXY ADVISORY SERVICES**

July 17, 2020

WHEREAS, pursuant to the TRS Proxy Voting Policy, the Board of Trustees (the “Board”) of the Teacher Retirement System of Texas (“TRS”) shall retain a reputable, independent proxy advisory service (the “Proxy Advisor”) to analyze proxy issues, make voting recommendations, and vote proxies as TRS’ agent.

WHEREAS, Under the Board Procurement Policy, the Board considers and authorizes the selection of one or more proxy advisors; Now, therefore, be it

RESOLVED, That the Board of Trustees (the “Board”) of the Teacher Retirement System of Texas (“TRS”) hereby selects ISS as the provider of independent proxy advisory services ("Proxy Advisor") to the Board and TRS, having determined that engaging the firm represents the best overall value for TRS;

RESOLVED, That the Executive Director or a designee, with the assistance of legal counsel, is authorized to negotiate and to execute a contract with the selected Proxy Advisor that is consistent with the best interests of TRS for an initial term not to exceed

five (5) years in duration beginning on December 1, 2020 or as soon thereafter as practicable, with one option for an extension not to exceed a total of one (1) year; and

RESOLVED, That the Executive Director or a designee, in implementing this resolution in the best interests of TRS, may execute contract amendments and other ancillary instruments that the Executive Director or a designee may deem necessary or appropriate and to incur, approve, and pay reasonable and necessary budgeted expenses or costs associated with the executed contract and any amendment.

RESOLVED, it being understood that the Board's selection of a finalist pursuant to this resolution shall not be construed as a binding agreement or obligation to contract, and there shall be no binding agreement among the parties until a full and final written contract is successfully negotiated and executed by both parties.

12. Receive the report of the Strategic Planning Committee on its July 15, 2020 meeting – Committee Chair.

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

The Strategic Planning Committee met on July 15, 2020. The chief strategy officer, Rebecca Merrill, began the meeting by noting that instead of using the meeting time to present the quarterly strategic plan results forum data, that the executive director, Mr. Guthrie, would be discussing his area of focus priorities for the fourth quarter of fiscal year 2020.

The executive director provided an update on his areas of focus and priorities for the fourth quarter of fiscal year 2020. Our director of Diversity, Equity and Inclusion provided an overview of her program's priorities for the remainder of this fiscal year, and then the chief strategy office reviewed enterprise risk management spotlight report for the current quarter.

13. Receive the report of the Benefits Committee on its July 15, 2020 meeting and consider adoption, approval or acceptance of the following – Committee Chair:

- A. Medical Board Meeting minutes for November 2019;**
- B. Benefit Payments for March 1, 2020 – May 31, 2020; and**
- C. Authorizing a two-year extension of the contract between TRS and Genworth Life Insurance Company, the carrier authorized by TRS to provide group long-term care insurance under Chapter 1576 of the Texas Insurance Code.**

Mr. Ball, Committee Chair, provided the following report of the Benefits Committee:

The Benefits Committee met on July 15, 2020. The committee approved the proposed minutes of the Benefits Committee for the December 12, 2019 meeting.

Ms. Barbie Pearson, chief benefits officer, provided an update on the Medical Board. The committee recommends to the Board the acceptance of the Medical Board meeting minutes for November 2019.

Ms. Pearson asked the committee to recommend to the Board approval of benefit payments for March through May 2020. The committee recommends to the Board the approval of benefit payments for March through May 2020.

The committee received an update on Benefit Services operations, including discussions on the proposed benefit counseling policy, from Ms. Pearson on the second and third quarters of fiscal year 2020. The committee received an update on the regional counseling office project from Ms. Frances Torres.

Next the committee considered renewal of the contract between TRS and Genworth Life Insurance Company, the carrier authorized by TRS to provide group long-term care insurance, as presented by Ms. Katrina Daniel, chief health care officer. The committee recommends that the Board adopt the staff recommendation to renew the contraction for one more year with the option to extend the contract one more year.

Then Ms. Daniel presented an update on the health benefits program performance, including an update from the Retiree Advisory Committee, provided by Ms. Grace Mueller, committee chair.

Mr. Ball concluded the report with the following motions:

On a motion by Mr. Ball, the Board unanimously voted to accept the Medical Board's November 2019 meeting minutes as recommended by the Benefits Committee.

On a motion by Mr. Ball, the Board unanimously voted to approve benefit payments for March through May 2020, as recommended by the Benefits Committee.

On a motion by Mr. Ball, the Board unanimously voted to adopt the following resolution approving the extension of the contract with Genworth Life Insurance for one year with the option to extend an additional year, as recommended by the Benefits Committee:

**RESOLUTION APPROVING THE EXTENSION
OF CONTRACT K200900188 WITH
GENWORTH LIFE INSURANCE COMPANY**

July 15 - 17, 2020

Whereas, Chapter 1576 of the Insurance Code, authorizes the Teacher Retirement System of Texas (TRS), as trustee, to establish a group long-term care insurance program (the "Program") to provide long-term care insurance coverage for eligible active employees and retirees, and their eligible family members;

Whereas, Chapter 1576, Insurance Code, also provides that TRS may contract with a carrier authorized to provide long-term care insurance;

Whereas, TRS currently has a contract, K200900188 (the "Contract") with Genworth Life Insurance Company ("Genworth"), a carrier authorized to provide long-term care insurance, to underwrite the Program and, thereby, to offer benefits to participants in this Program;

Whereas, The current contract expires August 31, 2020 and TRS staff recommends that the Contract be extended for an additional one (1) year period, effective from September 1, 2020 through August 31, 2021, with the ability of TRS to exercise an option to thereafter extend the Contract for an additional one (1) year period, effective from September 1, 2021 through August 31, 2022;

Whereas, The TRS Board of Trustees ("Board") desires to adopt the recommendations of TRS staff; now, therefore, be it

Resolved, That the Board, pursuant to Chapter 1576 of the Insurance Code, hereby authorizes a one-year extension of the Contract with Genworth, beginning on September 1, 2020 through August 31, 2021, with the ability of TRS to exercise an option to thereafter extend the Contract for an additional one (1) year period, effective from September 1, 2021 through August 31, 2022, unless sooner terminated, subject to negotiation and execution of an extension agreement;

Resolved, That the Board finds that the requested extension of the Contract continues to provide the best overall value to TRS and serves the best interests of TRS; and

Resolved, That the Board hereby authorizes the Executive Director or his designees to expend funds and, with the assistance and advice of legal counsel and Procurement and Contracts, to take all actions deemed necessary or advisable to implement this resolution, including the negotiation and execution of all necessary documentation to allow Genworth to continue to underwrite the Program and, thereby, to continue to offer benefits to participants in the Program; and, if negotiations are deemed by the Executive Director or his designees, in their discretion, to be successful, then the Executive Director or his designees are hereby authorized to execute an extension of the Contract through August 31, 2021, and if the Executive Director or his designees deem that the Contract continues to provide the best overall value to TRS and serves the best interests of TRS, to exercise the option to thereafter extend the Contract through August 31, 2022, on such terms and conditions as the Executive Director or his designee deem, in their discretion, to be in the best interest of TRS, and to incur, approve and pay any budgeted expenses or costs reasonably necessary or advisable with respect to each such contract extension, it being understood that the Board's approval of these contract extensions pursuant to this resolution shall not be construed as a binding agreement or obligation to extend the Contract, and there shall be no binding agreement among the parties until full and final written contract extensions are negotiated and signed by both parties.

- 14. Receive the report of the Budget Committee on its July 15, 2020 meeting and consider adoption of the following – Committee Chair:**
- A. The proposed fiscal year 2021 pension trust fund administrative operations budget, general provisions, and resolution authorizing transfer of pension trust funds to the TRS expense account to cover the expenses approved under the fiscal year 2021 budget;**
 - B. The proposed fiscal year 2021 administrative operations budgets and general provisions for the TRS health benefits funds (retired and active plans), including the optional long-term care insurance program;**
 - C. The proposed Historically Underutilized Businesses program (HUB) goals for fiscal year 2021; and**
 - D. Consider the statutory certifications of estimated state contributions:**
 - i. To the State Comptroller of Public Accounts, the estimated amount of state contributions to be received by the retired school employees group health benefit fund for the fiscal year ending August 31, 2021.**
 - ii. To the Legislative Budget Board and the Office of the Governor, the estimated amount of state contributions to be received by the retired school employees group health benefit fund for fiscal years 2022 and 2023.**
 - iii. To the State Comptroller of Public Accounts, the estimated amount of state contributions to the Pension Trust Fund for fiscal years 2022 and 2023.**

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

The Budget Committee met on July 15, 2020. The first item of business was approval of the minutes of the December 12, 2019 meeting.

Mr. Don Green presented a high-level overview of the proposed administrative operating budget of \$211.2 million for fiscal year 2021, and the associated general provisions. The FY 2021 requested budget is approximately 9 percent less than the FY 2021 base budget. It includes a hiring freeze through at least December 2020, a salary freeze, and significant cuts to travel and operating expenses.

Mr. Green also introduced two amendments to the general provision. The first amendment would increase transfer authority between major expense categories from 12.5 percent to 25 percent. The second amendment would establish a contingency fund for unanticipated mission-critical expenses.

Mr. Green then presented a report on the HUB goals for FY 2020 as well as the HUB goals for FY 2021. The committee recommends to the Board the following HUB FY 2021 goals: commodities 40 percent, other services 25 percent, professional services 10 percent, and special trades 40 percent.

Mr. Green then presented on the preliminary legislative appropriations request for the 2022-2023 biennium. This presentation included the required state contribution

certification for the retired school employee group health benefit fund for the FY 2021 through 2023, and the required state contribution certification for the pension trust fund for FY 2022 and 2023. The certification amount totals \$5.9 billion for the 2022-2023 biennium. This includes \$5 billion to cover the statutorily required contributions to the pension trust fund, which equals 7.75 percent in FY 2022 and 8 percent in FY 2023. It also includes \$0.9 billion to cover the statutorily required contribution to TRS-Care which equals 1.25 percent of public education payroll. The FY 2022-23 administrative budget request will include 25 additional FTEs for building the fleet initiatives and additional funding for the pilot regional office for Benefit Services.

Ms. Sissney concluded her report with the following motions:

On a motion by Ms. Sissney, the Board unanimously voted to adopt the fiscal year 2021 pension trust fund administrative operating budget general provisions and resolution authorizing the transfer of pension trust funds to the TRS expense account to cover the expenses approved under fiscal year 2021 budget as recommended by the Budget Committee:

Resolution
Authorizing Expenditure and Transfer of Trust Funds
For Pension Trust Fund Administrative Operations

Whereas, Section 825.312 of the Government Code provides that the retirement system shall pay from the expense account of the retirement system account for the pension trust fund all administrative expenses of the retirement system that are required to perform the fiduciary duties of the board;

Whereas, Section 825.313(d) of the Government Code provides that the TRS Board of Trustees (board) may authorize transferring from the interest account to the expense account of the retirement system an amount necessary to cover TRS' operating expenses for the fiscal year that are required to perform the fiduciary duties of the board;

Whereas, Rider 16, "Contingent Appropriation of Pension Trust Funds for GASB Statement Implementation," of the TRS bill pattern in the State General Appropriations Act, 86th Legislature provides that upon a finding of fact by the TRS board that additional resources are necessary to implement accounting guidelines related to Governmental Accounting Standards Board statements and pronouncements, the TRS is appropriated additional funds from the Pension Trust Fund (960) for fiscal year 2021; now, therefore be it;

Resolved, That the board finds the expenditure of pension trust funds for operating expenses in Fiscal Year 2021 is required to perform the fiduciary duties of the board in administering the retirement system in the amount of \$164,257,740, as approved today in the Fiscal Year 2021 Budget and General Provisions for the Pension Trust Fund Administrative Operations, plus such additional amounts as may be necessary for the following expenditures:

- To pay the actual amount of performance incentive compensation payable in Fiscal Year 2021, if any; and

- To pay expenses incurred for the TEAM and CAPPS Program in Fiscal Year 2021 with unexpended balances in capital budget funds reappropriated in accordance with Rider 22, “Unexpended Balances: TEAM and CAPPS Projects” of the TRS bill pattern in the State General Appropriations Act, 86th Legislature; and
- To achieve recovery of operational capabilities in the event of a catastrophic occurrence as contemplated by such General Provisions adopted by the board; and to implement GASB statements; and
- A reduction of the administrative budget will be held in a contingency account for items vital to the agency’s mission or to be lapsed and remain in the trust funds; and

Resolved, That the staff is authorized to transfer from the interest account to the expense account an amount necessary to cover the expenses of the retirement system under the approved budget for Fiscal Year 2021, but not to exceed the amount of \$164,257,740 plus, any additional amounts necessary to pay performance incentive compensation payable in Fiscal Year 2021 and, as applicable, to achieve recovery of operational capabilities in the event of a catastrophic occurrence as contemplated by the General Provisions adopted by the board.

On a motion by Ms. Sissney, the Board unanimously voted to adopt the proposed fiscal year 2021 administrative operations budget and general provisions for the TRS health benefits fund, retired and active plans, including the optional long-term care insurance program, as recommended by the Budget Committee.

On a motion by Ms. Sissney, the Board unanimously voted to adopt the following resolution regarding the fiscal year 2021 HUB goals, as recommended by the Budget Committee:

**Resolution
Historically Underutilized Business (HUB) Goals**

Whereas, TRS staff developed proposed HUB goals for FY21 for the Board to consider; and

Whereas, The Board has received and discussed the proposed HUB goals, and the Board desires to adopt TRS’ HUB goals for FY21; now, therefore, be it

Resolved, That the Board hereby adopts the following HUB expenditure goals for FY21:

- **Commodities - 40%**
- **Other Services – 25%**
- **Professional Services – 10%**
- **Special Trade – 40%**

On a motion by Ms. Sissney, the Board unanimously voted to adopt the state certification for TRS-Care for fiscal years 2021, 2022 and 2023 and the state contribution certification for the pension trust fund for fiscal years 2022 and 2023, as recommended by the Budget Committee.

15. Receive the report of the Policy Committee on its July 15, 2020 meeting and consider adoption of the proposed amendments to the Proxy Policy and Procedures – Committee Chair

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

The Policy Committee met on July 15, 2020. The first item of business was approval of minutes of the December 2019 Policy Committee meeting. Mr. Mark Albert provided an overview of the proxy policy, noting that the review was performed in accordance with the policy review schedule. He stated the current proxy policy was adopted effective April 7, 2017.

Mr. Albert reported staff reviewed the policy with input from the Board advisors and determined the current policy is appropriately designed to achieve the stated policy purpose set forth, consistent with fiduciary obligations to manage trust assets, and did not recommend any changes to the policy. With no recommended changes from staff or the committee, the committee voted to re-adopt the proxy policy.

Mr. Elliott concluded his report with the following motion.

On a motion by Mr. Elliott, the Board unanimously voted to re-adopt the proxy policy, as recommended by the Policy Committee.

16. Receive the report of the Investment Management Committee on its July 16, 2020 meeting – Committee Chair.

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

The Investment Management Committee met on July 16, 2020. The committee adopted the minutes of its December 2019 meeting.

Jase Auby began with his CIO update. The first quarter 2020 performance review was presented by Steve Voss and Mike McCormick with Aon.

Next Eric Lang presented the external private markets update, which included a review of energy, natural resources, infrastructure, private equity and real estate.

Concluding the Investment Management Committee, Katy Hoffman discussed proposed modification to the investment policy statement.

17. Receive the report of the Audit, Compliance, and Ethics Committee on its July 16, 2020 meeting and consider proposed revisions to the FY 2020 Audit plan – Committee Chair.

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

The Audit, Compliance and Ethics Committee met on July 16, 2020 via videoconference. The committee approved the minutes of the December 2019 Audit, Compliance and Ethics Committee. HIB staff presented the results of the health and pharmacy claims audits for TRS-Care and TRS-ActiveCare. The Chief compliance officer and deputy general counsel presented routine compliance reports.

The chief audit executive presented recommended revisions to the fiscal year 2020 audit plan. The committee approved the proposed revisions to the fiscal year 2020 audit plan and recommended adoption by the Board of Trustees.

The Internal Audit staff presented the results of audits on accounting operations, energy, natural resources and infrastructure, quantitative equity strategy operations, employer testing and annual benefit payment testing. Internal Audit staff also presented an update on the implementation of prior audit and consulting recommendations and some administrative reports.

On a motion by Mr. Moss, the Board unanimously voted to approve changes to the 2020 audit plan, as recommended by the ACE Committee.

18. **Receive an update on 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 – Brian Guthrie, Andrew Roth, Eric Lang, Studio 8, CBRE and Cushman.**

Mr. Guthrie provided an overview of the presentation. He noted TRS has a facilities issue and needs to identify space for all of the Austin headquarters staff. He said his long-term vision was for TRS to occupy TRS-owned facilities by 2025 and occupied by the entire Austin headquarters staff. He said in terms of the long-term plan, there are near-term considerations in-order to get to the long-term solution. His goal is in December to set forth a complete recommendation to the Board. He reported the most pressing issue of near-term consideration is the IMD lease at 816, which is set to expire in March 2021. He said TRS has revised the assumption of work from home from approximately 5 to 10 percent prior to the pandemic to now at least 25 percent of staff who will work from home. He said the floor plans will need to change based on this new assumption. He stated the build-to-suit option has been put on pause. He said the pandemic has impacted the economic market conditions in Austin as well as around the world and noted options needed to be re-evaluated through this new lens.

Mr. Eric Lang said for IMD space needs, the immediate plan is to look at a shorter-term renewal at 816. He reported the hiring of Cushman and Wakefield to sublease the Block 71 space.

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Mr. Roth provided an update on the selection of the vendor, Colliers, to conduct an appraisal of the Red River campus. He said at the September board meeting they will define various scenarios and present the financial associated with the options. He reported the selection of CBRE as the broker for the disposition of Red River. He also noted contracting with Studio 8 to conduct a workplace study to perform a workplace study. He stated in September staff will have a comprehensive report on all the options and associated costs to inform in order to make a sound decision in December.

Mr. Guthrie, in response to concerns expressed by Ms. Sissney about market uncertainty, stated they were hyper-aware of the environment and how it is constantly changing; however, there are near-term decisions to be made as to where the investment team is housed. He said directionally, he did not see things to have materially changed, there is still a long-term need. He said they have identified perhaps the most cost-effective solution as moving into a new facility at some point in the future, it is the timing that is up for discussion.

19. **Review the report of the General Counsel on pending and contemplated litigation, including updates on litigation involving benefit-program contributions, investment matters, retirement benefits, health benefit programs, open records, and on a request for an Attorney General Opinion, RQ-0334-KP, and request for an audit from the State Auditor's Office, filed February 27, 2020 – Carolina de Onis.**

This item was not taken up for discussion.

At 9:31 am, Mr. Hollingsworth adjourned the meeting.

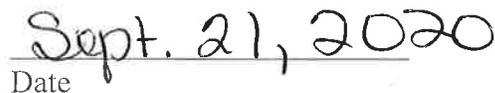
APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM OF TEXAS ON THE 18th DAY OF SEPTEMBER 2020.

ATTESTED BY:



Katherine H. Farrell

Secretary to the TRS Board of Trustees



Date