

**TEACHER RETIREMENT SYSTEM OF TEXAS MEETING
BOARD OF TRUSTEES**

AGENDA

February 20, 2020 – 8:00 a.m.

February 21, 2020 – 8:00 a.m.

TRS East Building, 5th Floor, Boardroom

*All or part of the February 20-21, 2020, meeting of the TRS Board of Trustees may be held by telephone or video conference call as authorized under Sections 551.130 and 551.127 of the Texas Government Code. The Board intends to have a quorum physically present at the following location, which will be open to the public during the open portions of the meeting: **1000 Red River, Austin, Texas 78701 in the TRS East Building, 5th Floor, Boardroom.***

NOTE: The Board may take up any item posted on the agenda during its meeting on Thursday, February 20, 2020, or during the meeting on the following day, February 21, 2020, beginning at the time and place specified on this agenda.

The open portions of the February 20-21, 2020, Board meeting are being broadcast over the Internet. Access to the Internet broadcast of the Board meeting is provided at www.trs.texas.gov.

1. Call roll of Board members.
2. Consider Board administrative matters, including the following – Jarvis Hollingsworth.
 - A. Approval of the December 12-13, 2019 proposed meeting minutes; and
 - B. Excusing Board member absences from the December 12-13, 2019, Board meeting.
3. Resolution recognizing the service of Trustees Dolores Ramirez and Joe Colonna – Jarvis Hollingsworth.
4. Provide an opportunity for public comment – Jarvis Hollingsworth.
5. Receive an update regarding TRS Long-Term Facilities planning including plans for a future headquarters and considering leases at 816 Congress and Indeed Tower – Brian Guthrie, Andrew Roth, Jerry Albright, Eric Lang; and Julie Becker and Jeanna Cullins, Aon Hewitt Fiduciary Services.
6. Consider adoption of the proposed amendments to the General Authority Resolutions – Heather Traeger.

7. Consider the adoption of amendments to the TRS rules in Chapters 41 and 43 of Title 34, Part 3 of the Texas Administrative Code – Carolina de Onis, Clarke Howard, and Kevin Wakley.
 - A. Amended §41.51 Appeals Relating to Eligibility;
 - B. Amended §43.1 Administrative Review of Individual Requests;
 - C. Amended §43.3 Definitions;
 - D. Amended §43.5 Request for Adjudicative Hearing;
 - E. Amended §43.6 Filing of Documents;
 - F. Amended §43.8 Extensions;
 - G. Amended §43.9 Docketing of Appeal for Adjudicative Hearing and Dismissal for Failure to Obtain Setting;
 - H. Amended §43.10 Authority to Grant Relief; and
 - I. Amended §43.12 Form of Petitions and Other Pleadings
8. Consider authorizing for publication in the *Texas Register* notice of proposed amendments of the TRS rule in Chapter 23 of Title 34, Part 3 of the Texas Administrative Code Amended; §23.5 Nominations for Appointment to the Board of Trustees – Katherine Farrell.
9. Receive an overview of the proposed Strategic Plan for 2021 – 2025 including consideration of the Mission Statement – Brian Guthrie, Rebecca Merrill, and Caasi Lamb.
10. Discuss the Executive Director's report on the following – Brian Guthrie:
 - A. Administrative operational matters, including updates on financial, audit, legal, staff services, board administration activities, special projects, and security.
 - B. Sunset Review update.
 - 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.
11. CIO Update including Fleet Strategy; Talent Management; Accomplishments; Notices; Awards; and Key Dates and Upcoming Events – Jase Auby.
12. Receive a Market Update – Jase Auby.
13. Discuss and consider selecting a broker and delegating authority to the Executive Director to negotiate a broker agreement on TRS' current headquarters on Red River with selected broker, including considering a finding that deliberating or conferring on the procurements in open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person – Brian Guthrie and Andrew Roth.

NOTE: The Board meeting likely will recess after the last item above and resume Friday morning to take up items listed below.

14. Recognize the service of Ray Spivey – Jarvis Hollingsworth.
15. Discuss and consider selecting a health plan administrator(s) (HPAs) for TRS-ActiveCare plans, the TRS-Care Standard and Alternative plans, and a carrier for TRS-MedicareAdvantage plan, including considering a finding that deliberating or conferring on the selection of the HPA(s) and Medicare Advantage carrier in open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person. – Katrina Daniel and Yimei Zhao.
16. Receive an update on TRS-ActiveCare district participation, including the potential consequences to TRS-ActiveCare of participating Districts of Innovation (DOI) offering competing health care coverage to their employees and protecting the stability of TRS-ActiveCare – Katrina Daniel.
17. Receive a Diversity, Equity and Inclusion Update – Kellie Sauls.
18. Receive Emerging Manager Annual Update - Kirk Sims.
19. Receive an update and discuss Environmental, Social and Governance (ESG) Investing - Steve Voss and Meredith Jones, Aon Hewitt; Ken Bertsch, Council of Institutional Investors (CII); and Dr. Keith Brown.
20. Receive an update regarding Proxy Voting – Pat McGurn and Brian Walker, ISS.
21. Receive COAO update – Andrew Roth.

The Board may convene in Executive Session under the following but not limited to:

- A. Texas Government Code, Section 551.071: Consultation with Attorney;
- B. Texas Government Code, Section 551.072: Deliberation Regarding Real Property;
- C. Texas Government Code, Section 551.074: Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees including but not limited to the Executive Director, Chief Operations and Administration Officer, Chief Auditor Executive, Chief Investment Officer.
- D. Texas Government Code, Section 551.076: Deliberation Regarding Security Devices or Security Audits;
- E. Texas Government Code, Section 551.089: Deliberation Regarding Security Devices or Security Audits;

- F. Texas Government Code, Section 825.115(e): Deliberation Regarding a Procurement; or
- G. Texas Government Code, Section 825.3011: Certain Consultations Concerning Investments.

Minutes of the Board of Trustees

February 20, 2020

The Board of Trustees of the Teacher Retirement System of Texas met on February 20, 2020 in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River, Austin, Texas. The following Board members were present:

Jarvis V. Hollingsworth, Chair
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
Don Green, TRS
Carolina de Onis, TRS
Jase Auby, TRS
Jerry Albright, TRS
Barbie Pearson, TRS
Katrina Daniel, TRS
Amanda Jenami, TRS
Heather Traeger, TRS
Eric Lang, TRS
Katherine Farrell, TRS
Clarke Howard, TRS
Kevin Wakley, TRS
Caasi Lamb, TRS
Steve Voss, Aon Hewitt
Keith Brown, Investment Advisor
Suzanne Dugan, Cohen Millstein
Jeanna Cullins, Aon Hewitt
Troy Holme, CBRE

Dolores Ramirez
Joe Colonna
Patricia Macias, TRTA
Earline Hopkins, Katy Area Retired Educators
David Hopkins, Katy Area Retired Educators
Ann Fickel, TCTA
Tera Collum, Teachers for Texas
Nick Arnold, Humana
Leroy DeHaven, TRTA
Becca Suzak, Aetna
Mike Bentrout, Aetna
Jamie Maldonado, TRTA
Shelly Sargent, TRTA
Adrienne Cabrera, OOG
Viki Hicks, TRTA
Susan Pulis, TRTA
Barbara Hollis, TRTA
Gene Stokes, TRTA
Linda Jones, UHC
Kim Farmer, UHC
Craig Campbell, ARTA
Kevin Gillespie, ARTA
Bob Sechler, Statesman
Eric St. Pierre, Humana
Mary Sue Neptune, ARTA

Cheryl Anderson, Texas AFT Retiree Plus
Tim Lee, TRTA
Michael Meyer, WCRTA
Kathy Carriker, TRTA
Carole Smith, TRTA
Rosemary Morrow, TRTA
Brock Gregg, TRTA
Marian Wallace, Office of Lt. Governor
Joaquin Guadarramy, Office of Lt. Governor
Joni Lozano, CVS Health
Sean Donovan, CVS Health
Mike Heck, CVS Health
Vicki Truitt, TRTA
Laura Atlas Kramlitz, TSTA
Sue Duncan, TRTA
Tiffany Calderon, Humana
Carla Whaley, Humana
Joe Braley, BCBS TX
M. Tessler, BCBS TX

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, Dr. Gibson was absent.

2. Consider the following administrative items – Jarvis Hollingsworth:

a. Approval of the proposed December 2019 Board meeting minutes;

On a motion by Mr. Corpus, seconded by Mr. Elliott, the Board voted to approve the proposed minutes of the December 12, 2019 Board meeting.

b. Excusing Board member absences from the December 2019 Board meeting.

On a motion by Mr. Ball and seconded by Mr. Nance, the Board voted to excuse Trustee Moss and Gibson from the December 2019 meeting.

3. Resolution recognizing the service of Trustees Dolores Ramirez and Joe Colonna – Jarvis V. Hollingsworth.

Mr. Hollingsworth noted they had the wonderful occasion to recognize two long-serving Trustees, Dolores Ramirez and Joe Colonna, who are no longer on the Board.

Mr. Hollingsworth read the following resolution for Dolores Ramirez:

Whereas, Dolores Ramirez has served as a member of the Board of Trustees of the Teacher Retirement System of Texas from October 18, 2013, until October 22, 2019, mindful of her duty as a caretaker of a trust to those who teach or otherwise serve our state's children and therefore shape its future; and

Whereas, she provided leadership during a time when the Retirement System grew from approximately 1.3 to more than 1.6 million members and annuities, and the net position of the Fund increased from 107.4 billion to 158 billion;

Whereas, she was unanimously elected Vice Chair in 2016 and served as Chair of the Ethics Committee from 2016 to 2018, and served as a member of the Benefits, Budget, Compensation, Investment Management and Policy Committees; and

Whereas, she helped guide the agency through organizational changes to focus on key challenges such as health care fund solvency, pension trust fund sustainability, long term investment returns and replacing legacy technical systems; and

Whereas, she served at a time where special emphasis was given to promote the agency's core value, customer satisfaction, collaboration and team work, accountability, respect, ethics, excellence and employee fulfillment; and

Whereas, she contributed greatly to the national discussion on the retirement security for teachers and other public employees by representing TRS at the National Council on Teacher Retirement and served as Chair of NCTR's Resolution Committee; and

Whereas, she proudly served her team when TRS continued progress on the TRS Enterprise application, TEAM program, promoted financial awareness and member education through a series of videos, opened an investment office in London, completed an update pension benefit design study, and Compact with Texans, annually received the certificate of achievement for excellence in financial reporting from the Government Financial Member Satisfaction Surveys, and sent new membership cards to members and retirees in a continuous effort to improve customer service, annually hosted the largest Emerging Managers Conference in the country with over 1,000 attendees, oversaw TRS executives as they provided information and testified to the 86th Texas Legislature which passed historic legislation leading to the actuarial soundness of the TRS Pension Fund, resulting in raises for teachers and others, to keep TRS Fund solvent and a 13th check for retirees; and

Whereas, on July 19, 2019, Dolores served as the acting Benefits Committee Chair, and in that capacity, proudly and wholeheartedly moved for the Board of Trustees to direct TRS staff to prepare for and issue the 13th check, the Board unanimously approved Dolores' motion to which recipients of the 13th check have written to TRS expressing much appreciation and gratitude; and

Whereas, TRS, recognizing her exemplary teaching career of over 40 years and being named teacher of the year for Rangerville Elementary in 2006; and

Whereas, TRS is proud to welcome Dolores as a retiree and look forward to serving her in this capacity for years to come; 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 Dolores Ramirez, honor her valued contributions and express appreciation on behalf of TRS members, both present and future; and be it further

Resolved that a copy of this resolution be presented to Dolores Ramirez and entered into the record of the Board for February 20, 2020.

On a motion by Mr. Moss and seconded by Ms. Sissney, the Board unanimously approved the resolution.

Ms. Ramirez thanked the Board for the wonderful six years and that it was a pleasure to serve. She said as a recent retiree, she knows the staff is doing their best for the school employees of the state of Texas.

Mr. Hollingsworth then read into the record the following resolution for Joe Colonna:

Whereas, Joe Colonna was first appointed to the Board of Trustees of the Teacher Retirement System of Texas by Governor Perry on August 30, 2011, and reappointed by Governor Abbott on October 18, 2013, until October 22, 2019, mindful of his duty as caretaker of a Trust to those who teach or otherwise serve our state's children and thereby shape its future; and

Whereas, he provided leadership during a time when the Retirement System grew from approximately 1.3 to more than 1.6 million members and annuities, and the net position of the Fund increased from 107.4 to 158 billion;

Whereas, he served as Chair of the Investment Management Committee, the IMC, as we know it, and the Policy Committee, as well as in 2016 and served as a member on the Budget, Compensation and Risk Committees; and

Whereas, Joe's investment experience directly contributed to the overall growth of the TRS' unique and innovative investment structures; and

Whereas, during his four-year chairmanship of the IMC – which might be a record, by the way – he dedicated time to thoroughly review nearly 450 individual investments, representing an estimated \$106.7 billion of invested capital; and

Whereas, Joe had a prominent impact in laying the foundation for a key milestone for TRS with the opening of our first international satellite presence in London; and

Whereas, Joe has provided continuous support and guidance in the Investment Management Building the Fleet Initiative; and

Whereas, he proudly served TRS' continued progress on the TEAM program, promoted financial awareness and member education through a series of videos, completed an updated pension benefit design fund study and Compact with Texans, annually received the certificate of achievement for excellence in financial reporting, conducted biennial Member Satisfaction Surveys, and sent new membership cards to members and retirees in a continuous effort to improve customer service, and annually provided the largest Emerging Managers Conference in the country with over 1,000 attendees; and

Whereas, Joe oversaw and provided valuable insight to TRS executives as they testified and provided information to the 84th, 85th and 86th Texas Legislatures, during this session, historic legislation passed leading to the actuarial soundness of the TRS Pension Fund, resulting in raises for teachers and others, a 13th check for retirees and finding to keep TRS-Care solvent; and

Whereas, Joe embodied substantial investment experience and the highest standard of professionalism as he served as an invaluable role to TRS and its many, many members; Therefore, be it

Resolved, that the Board of Trustees and staff of the Teacher Retirement System of Texas recognize the accomplishments and contributions of Joe Colonna, and express 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 Joe Colonna and entered into the record of the Board for February 20, 2020.

On a motion by Mr. Corpus and seconded by Mr. Nance, the Board unanimously approved the resolution.

Mr. Colonna said it has been a great honor for this almost decade to serve our members. He shared he is proud of even the smallest things we accomplished, because looking back, they have made a big impact to the members.

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

Ms. Patricia Macias, State President of Texas Retired Teacher Association, expressed public educators are understandably angry over finding out through the media that TRS was slated to lease a luxury office building downtown Austin for \$326,000 a month, when retirees struggle on a day-to-day basis to meet basic needs. She stated there is an inherent disconnect between retirees and TRS and the Indeed Tower lease highlights the difference between the administrative perception of agency needs versus retirees' reality.

Ms. Earline Hopkins, Katy Area Retired Educators (KARE), expressed how her members were really upset with TRS choosing an upscale and modern in downtown Austin when there could be other places TRS could purchase and not lease. She noted if the fund was not strong enough for a cost of living adjustment, then it probably was not ready to absorb the \$4 million a year lease that goes up in 10 years.

Ms. Ann Fickle, Texas Classroom Teachers Association, expressed appreciation for Ms. Ramirez and Mr. Colonna's service. She requested the space planning and office leasing situation be done in public and that the teacher's concerns be taken into consideration.

Ms. Tera Collum, Executive Director of Teachers for Texas, expressed concern the Trustees were not being good stewards of the Fund by entering into a \$4 million a year rent in one of the best office spaces in Austin.

5. Receive an update regarding TRS Long-Term Facilities planning including plans for a future headquarters and considering leases at 816 Congress and Indeed Tower – Brian Guthrie and Andrew Roth.

Mr. Brian Guthrie discussed the various comments and concerns TRS received through Facebook, TRS Comments, Compact with Texans and with Legislators. He said the presentations goal is to address these concerns within the statutory limitations. He reviewed the timeline starting with how the current building constructed in 1973, when membership was at 400,000, was a generational solution for about 20 to 30 years. After 50 years, space is running out. He noted over a decade ago the Investment Management Division (IMD) moved out of the headquarters in 2008 and leased space downtown at 816 Congress. Mr. Guthrie stated as membership grows, TRS grows to serve the members, by 2014, the membership was over 1.4 million and space at Red River started to become an issue. He reported in 2014 long-term facilities planning was discussed, alternatives examined and the Board decided to maintain the status quo.

Mr. Guthrie referenced in 2018, the Building the Fleet Initiative, designed to bring more investment expertise in-house was approved. With no more space available to lease at 816 Congress, the process began which ultimately led to signing the lease at the Indeed Tower while also reviewing options for the Red River Headquarters.

Mr. Jerry Albright provided the background on the decision made in 2008 to relocate the IMD from Red River headquarters to 816 Congress. He said the decision to remain downtown was for recruiting purposes. Due to the Great Financial Crisis (GFC) in 2008, there was cost competitive space available downtown, close to headquarters. In response to Mr. Moss' inquiry, Mr. Eric Lang stated the Board voted on a resolution for IMD to move to 816 Congress, after much deliberation on what was best.

Mr. Guthrie stated that in 2014 when the review of long-term facilities occurred the Board decided to remain at the current locations because there was room to continue to grow at 816 , space issues were manageable at Red River, and wanted to see what the marketplace would do in terms of value increasing. He reported the market placed into our favor but another decision point is coming up regarding headquarters.

Mr. Albright stated that TRS is a \$165 billion institution, an economic engine for the State of Texas. He noted the Fund will be \$200 billion in the next five years or so. As the Fund grows incrementally in the asset values that required a corresponding incremental growth in the FTE count to manage those assets. Additionally, with the Board approval of increasing staff to increase internal management capabilities in February 2018 to save \$1.4 billion over the next five years also increased FTE count and need for space. He said their recruiting and retention of talent strategy is to stay in downtown.

Mr. Albright said in 2018, there was no space additional space to lease in 816 Congress and the lease was to expire in March 2021. The experts at the time were saying there would be no leasing available in downtown Austin, much less finding an additional 100,000 square feet needed for the Build the Fleet Initiative. Mr. Albright said they researched Indeed Tower and/ found preleasing during the early construction phase would get an attractive rental rate.

Mr. Guthrie reviewed the facts that were known at the time the Indeed lease decision was made. He said at that time, 2018, there was not as well developed long-term facilities plan at the time when additional space was needed for IMD. There was not sufficient space available in the downtown market and the Indeed tower rent that was negotiated, pre-construction, was comparable to what was being paid at 816 Congress.

Ms. Jeanna Cullins with Aon Hewitt Investment Consulting's (AHIC) fiduciary services practice stated she was engaged to independently analyze the process that TRS used to make decisions regarding its space planning needs, focusing particularly on the decision of whether or not to move into Indeed Towers, and to advise TRS on whether the process utilized was a prudent process, consistent with TRS' fiduciary responsibilities. She reported reviewing documentation, emails and performed interviews with key parties to determine if the documentation and process used and the information given to the Board was prudent in order for them to fulfill their fiduciary responsibilities. She noted to determine if a fiduciary acted prudently in any given situation depends on the facts and circumstances of each situation at the time the decision was made. Ms. Cullins said that based on the information reviewed, they found TRS engaged in a rigorous thoughtful evaluation of its space planning needs and its available options. She noted TRS used extensive information provided by internal and external experts in a manner that was consistent with procedural prudence in fulfillment of fiduciary responsibilities.

Mr. Andrew Roth provided an overview of TRS long-term facilities current plan. First part, he said, was the possibility of relocating headquarters outside of the downtown business core area. He reported TRS was in exclusive negotiations with a developer in the Mueller Development, the cost of the development is estimated to be between \$150 to \$200 million. Next essential component is the value of the existing Red River headquarters. He said TRS needs to acquire a professional consultant or broker to provide information about what options this campus has and what kind of value to expect to receive that will offset the potential cost of the new building. He said they are also exploring regional offices to better serve members. He noted a large majority of both retired and active members are very supportive of opening regional offices in remote areas of the State. Mr. Guthrie added TRS would not build and is looking to possibly utilize space from other government entities.

Mr. Guthrie then transitioned the discussion from what was known when the Indeed Tower lease was signed to what changed in the two years since that decision was made. Mr. Eric Lang reported that since the decision to sign the lease with Indeed Tower, space has become available at 816 Congress to accommodate IMD's growth after 2021. He said the cost to refit the space in 816 Congress was lower than at Indeed Tower, mainly because 816 Congress is an older building. He stated staff's recommendation is to renew and expand the lease at 816 for a total of around 95,000 square feet at \$34 per square foot. He said they did not have to take expansion space immediately, saving money and recommend a seven-year term. He said the major consideration for this option was subleasing Indeed Tower. The other option was to remain in Indeed tower with 101,673 square feet at \$38.50 per square foot. He said Indeed does carry additional build-out costs above landlord-tenant improvements but does not carry the risk of a sublease. However, he noted with the new space at 816 to accommodate IMD's growth, there are lower tenant improvement costs and no moving costs.

Mr. Troy Holme with CBRE stated this has been the best office market in the last two years. He discussed central business district vacancy and growth estimates now and in 2023. In response to Mr. Hollingsworth's inquiry, Mr. Holme stated he thought TRS' ability to sublease is really strong.

Mr. Guthrie stated in response to Ms. Sissney's inquiry that the Indeed Tower lease was for 10 years and that worst, worst, case TRS would be responsible for the lease that TRS is guaranteeing the lease.

Mr. Jase Auby reviewed staff's recommendation of remaining in 816 Congress which includes a one-time right to terminate the lease if in fact TRS did consolidate to a new headquarters in Mueller. Ms. Sissney wanted to emphasize for the members that two years ago, no space was available to lease in 816 Congress and only as of recent times did space become available in 816 Congress to accommodate IMD. Ms. Carolina de Onis then reviewed the proposed resolution highlighting the authorizations and responsibilities that the Board is delegating in the resolution.

Ms. Suzanne Dugan as the Board's fiduciary counsel stated she had reviewed the resolution and noted it was fine with the Board to move forward with if it determined to be in the best interest. Ms. Amanda Jenami also had reviewed the resolution and did not have any issue with it.

On a motion by Mr. Corpus and seconded by Ms. Sissney the Board unanimously adopted the following resolution:

**Resolutions Authorizing Actions Relating to TRS Office Leases and
Authorizing Expenditures of Trust Funds
February 20-21, 2020**

WHEREAS, in 2009 the Investment Management Division outgrew the TRS home office facilities located at 1000 Red River Street and moved to leased offices at 816 Congress Avenue as authorized by the Board of Trustees at its July 11, 2008 meeting, initially leasing 47,034 square feet and later expanding the premises to 73,659 square feet as of 2018 and amending the lease to extend the term to March 2021;

WHEREAS, Beginning in 2017-18, the Investment Management Division (IMD) discussed with the Board of Trustees a strategic expansion initiative known as “Building the Fleet” which would transform the IMD to reduce external fees and carried interest by up to \$1.4 billion over 10 years while preserving net alpha investment performance for the benefit of TRS members;

WHEREAS, The IMD’s “Building the Fleet” initiative involves adding additional employees to the IMD and the IMD projected that “Building the Fleet” would require more office space than would be available for expansion at the 816 Congress premises;

WHEREAS, Concurrently with the IMD’s “Building the Fleet” initiative TRS embarked on an expansion of the numbers of employees hired for benefits, healthcare insurance, and agency-wide support services needed to keep pace with the rapid growth in the state’s population and the number of TRS members, retirees, and beneficiaries;

WHEREAS, In connection with TRS’s overall projected expansion needs, TRS and the Board of Trustees also engaged in a multi-year space-planning project, still under way, to determine the available options for one or more home office facilities that would best serve the interests of TRS members, retirees, and beneficiaries;

WHEREAS, Having conducted due diligence the IMD determined that contiguous space for IMD expansion at 816 Congress would not be available when the lease expires in March 2021. The IMD, after further due diligence, identified other leasing opportunities with the most advantageous being an opportunity to lease space comprising approximately 101,673 square feet on three contiguous floors that would be available for pre-leasing in a building to be constructed at 200 W. 6th Street (aka “Block 71”) and which is projected to be ready for occupancy in summer 2021;

WHEREAS, As part of IMD presentations to the Board relating to the “Building the Fleet” initiative, the IMD advised the Board of the leasing opportunity and the pendency of the negotiations of the Block 71 lease;

WHEREAS, TRS commenced negotiations with the Block 71 landlord in the summer of 2018 and signed a lease agreement in February 2019 with a rental commencement date anticipated for July 2021;

WHEREAS, TRS has after signing the Block 71 lease learned in January 2020 that expansion space has since become or will be available at 816 Congress, possibly at base rental rates competitive with or below those in the Block 71 lease, and has resumed discussions with the 816 Congress landlord; and

WHEREAS, the Board of Trustees has determined that it is prudent considering pending TRS space-planning projects relating to home office facilities to consider leasing space for the IMD for a term not longer than seven years (including extension options) with a termination option notwithstanding the maximum five-year term specified in the Board Procurement Policy;
Now therefore be it

RESOLVED, That the Board of Trustees finds that given the new facts and circumstances for TRS it is prudent to consider new leasing opportunities that could reduce the projected overall costs associated with leasing space at Block 71 for the Investment Management Division, but which will also accommodate the IMD's planned expansion under the "Building the Fleet" initiative; and

RESOLVED, That the Board of Trustees finds that it is prudent under the new facts and circumstances that, for the time being and pending comprehensive planning related to TRS home office facilities, the Investment Management Division should if possible continue to occupy suitable leased office space at 816 Congress; and

RESOLVED, That the Executive Director be and hereby is delegated authority and directed to negotiate and execute a new or amended and extended lease with the 816 Congress landlord for IMD investment and related support operations, on such terms and conditions and for such period as the Executive Director in his discretion deems to be advisable and in the best interest of TRS, except that (a) the terms and conditions of the new or amended 816 Congress lease must be no less favorable in the aggregate than the terms and conditions of the Block 71 lease, (b) the term of the new or amended 816 Congress lease may not exceed 7 years (including extension options) with at least one termination option, and (c) the premises leased at 816 Congress under these resolutions may not exceed 100,000 square feet; and

RESOLVED, That the Executive Director be and hereby is delegated authority to negotiate and execute one or more subleases of the leased premises at Block 71 with the consent of the Block 71 landlord and, if applicable, the required consent of the landlord's lender or other tenants having a right to consent, and to use commercially reasonable efforts to negotiate the terms of such sublease with one or more qualified subtenants such that the net cost to TRS of the prime lease is minimized as much as is reasonably possible, except that the Executive Director is in any event authorized to (a) contract and pay for brokerage services and commissions for subleases, (b) consider, negotiate, and agree to sublease terms

that the Executive Director deems reasonable and in the best interest of TRS, (c) negotiate and agree with the Block 71 landlord for expenditure of any unused allowances under the prime TRS lease for tenant improvements for a subtenant, (d) assign, modify, or transfer contracts or space plans and designs to a subtenant for purposes of the subtenant's tenant improvements under a sublease; (e) pay to the Block 71 landlord amounts owed under the lease, and (f) expend such budgeted and available TRS funds and enter any agreements and related documents as the Executive Director deems in his discretion to be reasonably necessary and advisable to achieve the objectives of these resolutions; and

RESOLVED, That the Executive Director be and hereby is authorized, in lieu of one or more subleases of the Block 71 premises, to negotiate with the Block 71 landlord to terminate the TRS Block 71 lease (in whole or part as to the leased premises that is not subleased) on such terms and conditions as the Executive Director, after consultation with legal counsel, determines in his discretion are in the best interest of the retirement system, including agreements to (a) contract and pay for brokerage services and commissions required to lease directly the TRS Block 71 premises to one or more new qualified tenants, (b) pay to the Block 71 landlord amounts owed under the lease, (c) assign, modify, or transfer contracts or space plans and designs relating to the Block 71 premises in connection with a direct lease by the Block 71 landlord with a replacement tenant, (f) expend such budgeted and available TRS funds as the Executive Director deems in his discretion to be reasonably necessary and advisable to achieve the objectives of these resolutions, and (g) mutually settle and release in writing all claims between the Block 71 landlord and TRS relating to such termination (whether in whole or part);

RESOLVED, That, if negotiations under these resolutions are deemed by the Executive Director, in his discretion, to be successful, the Executive Director is authorized to execute any agreements and ancillary documents with subtenants, a sublease broker for the Block 71 premises, the Block 71 landlord, the 816 Congress landlord, and the landlords' lenders, as applicable, on such terms and conditions as the Executive Director may deem, in his discretion, to provide the best overall value to TRS, and further to execute and deliver all such other documents that the Executive Director and legal counsel may deem necessary or appropriate to implement the intention and purposes of these resolutions, as conclusively evidenced by the taking of the action or the execution and delivery of the documents, and to incur, approve, and pay any budgeted expenses or costs associated with such agreements and deemed in the discretion of the Executive Director to be reasonably necessary or advisable with respect to such agreements;

RESOLVED, That the Executive Director is directed to report to and update the Board at its regular meetings the actions taken and activities performed under these resolutions; and

RESOLVED, That nothing in these resolutions may be construed as a contract, an offer to contract with a power of acceptance that would form a contract, or an acceptance of an offer to contract and the retirement system is not and will not be legally bound to any agreement unless and until the Executive Director has executed and delivered definitive agreements relating to the subject matter, as applicable.

6. **Consider adoption of the proposed amendment to the General Authority Resolutions – Heather Traeger.**

Ms. Heather Traeger stated the proposed amendment for the General Authority Resolution (GAR) reflects the change in management personnel in the Investment Management Division. She noted at this time, IMD has determined not to have a deputy CIO for the near term, and as a best practice in governance, staff recommends this change also be reflected in the GAR and associated incumbency certificates.

On a motion by Mr. Nance and seconded by Mr. Walls, the Board unanimously approved the proposed changes to the GAR.

7. **Consider the adoption of amendments to the TRS rules in Chapters 41 and 43 of Title 34, Part 3 of the Texas Administrative Code – Carolina de Onis, Clarke Howard, and Kevin Wakley.**

- A. Amended §41.51 Appeals Relating to Eligibility;**
- B. Amended §43.1 Administrative Review of Individual Requests;**
- C. Amended §43.3 Definitions;**
- D. Amended §43.5 Request for Adjudicative Hearing;**
- E. Amended §43.6 Filing of Documents;**
- F. Amended §43.8 Extensions;**
- G. Amended §43.9 Docketing of Appeal for Adjudicative Hearing and Dismissal for Failure to Obtain Setting;**
- H. Amended §43.10 Authority to Grant Relief; and**
- I. Amended §43.12 Form of Petitions and Other Pleadings**

Mr. Kevin Wakley stated that in December staff presented to the Policy Committee proposed changes to several rules in Chapter 43 of the TRS Rules and one rule in Chapter 41. He provided a quick review over the proposed changes and noted not public comment was received.

On a motion by Mr. Nance and seconded by Ms. Sissney the Board unanimously voted to approve the proposed amendments to Chapter 41 and 43.

8. **Consider authorizing for publication in the Texas Register notice of proposed amendments of the TRS rule in Chapter 23 of Title 34, Part 3 of the Texas**

Administrative Code Amended; §23.5 Nominations for Appointment to the Board of Trustees – Katherine Farrell.

Ms. Katherine Farrell presented the proposed amendments to the Chapter 23 TRS rule regarding Trustees nominations for appointment to the Board. She noted the amendments is to restructure the rule to bring clarity, to provide definitions and to move the due date for the petition from January 20 to January 25th. And the final proposed change of note is to put in rule the practice of requiring 250 votes to be able to be considered as one of the top three nominees for the Governor to select from for those candidates that did not go through the signature process.

On a motion by Mr. Elliott and seconded by Mr. Nance the Board unanimously voted to approve publishing in the Texas Register notice of proposed amendments of the TRS rule in Chapter 23.

9. Receive an overview of the proposed Strategic Plan for 2021 – 2025 including consideration of the Mission Statement – Brian Guthrie, Rebecca Merrill, and Caasi Lamb.

Mr. Guthrie noted that in December there was an active discussion around the proposed changes to the TRS Mission Statement. He said staff's recommendation based on those discussions is to keep the current Mission Statement: "Improving the retirement security of our members by prudently investing and managing the Trust assets and delivering benefits that make a positive difference in their lives." Mr. Hollingsworth queried the Trustees and none wanted a change. Ms. Rebecca Merrill stated if there was no change to the Mission Statement then no action was needed.

Ms. Merrill then discussed the updates to the TRS strategic plan for the fiscal years 2021 to 2025. She reviewed the process the Executive Council used to develop the strategic plan updates and previewed the potential changes the Board will consider in April. Ms. Caasi Lamb provided a high level summary of the major changes and additions to the plan that are being proposed, as well as a few of the strategies that are being carried over from the current plan to the new plan. She said that goal language does not typically change much from one plan to the next. She noted the recommendation of taking the current goal five, relating to HUB purchasing to be folded into a new procurement and contracting objective under goal four. Ms. Lamb then reviewed the new objectives and strategies in the draft plan which included "one team, one mission" initiative, regional centers and procurement and contracting. Ms. Merrill then reviewed the timeline of implementing the strategic plan and how it relates to the Executive Director's Areas of Focus and budget planning.

10. Discuss the Executive Director's report on the following – Brian Guthrie:
A. Administrative operational matters, including updates on financial, audit, legal, staff services, board administration activities, special projects, and security.
B. Sunset Review update.
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 provided updates on meetings and conferences. He reviewed upcoming legislative hearings and Sunset activity and timeline. Mr. Guthrie concluded by reviewing the proposed April and July Board meeting agendas.

11. CIO Update including Fleet Strategy; Talent Management; Accomplishments; Notices; Awards; and Key Dates and Upcoming Events – Jase Auby.

Mr. Jase Auby provided his first CIO update. He stated during his first 100 days he has focused on what got us where we are today and also focusing on innovation in the future. He reported completion of implementing the new strategic asset allocation (SAA) that the Board adopted last September. He provided an update on the fleet hires, 27 of 32 hires for Phase One and three of 31 for Phase Two. Mr. Auby reviewed the annual investment network partners survey of best and least attractive idea for the upcoming years.

12. Receive a Market Update – Jase Auby.

Mr. Auby reported 2019 was a very good year for the markets. He said both stock markets and bond markets are positive. The negative are the more esoteric markets like currency or commodities. He pointed to the actions of the Federal Reserve, loosening monetary policy, as driving the outsize returns. He noted the current expansion is now 126 months long. Dr. Brown noted that while the length of the expansion was remarkable on one level, it is a fairly tepid expansion in general.

Mr. Auby reported of the seven indicators for a recession only one is negative, U.S. manufacturing. He quickly reviewed the end of the decade as being the fourth best decade of the S&P. He noted FAANG stocks quickly outpaced the broader market: Facebook, Apple, Amazon, Netflix and Google. He reviewed the best asset class per decade concluding with predicting the next decade, 2020. He said he believes diversification will reassert itself and there will be value in diversification in the future. Mr. Auby reviewed the past and various markets to assert how diversification paid off, except for the immediate past decade.

13. Discuss and consider selecting a broker and delegating authority to the Executive Director to negotiate a broker agreement on TRS' current headquarters on Red River with selected broker, including considering a finding that deliberating or conferring on the procurements in open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person – Brian Guthrie and Andrew Roth.

Mr. Ball noted for the record he wish to recuse himself from this item.

Mr. Guthrie referencing the morning discussions, stated it is appropriate at this time to work with a broker to figure out how much the Red River buildings are worth. He said an RFP was issued a few months ago, multiple finalists were interviewed.

On a motion by Mr. Nance and seconded by Mr. Walls the Board unanimously voted to find that deliberating or conferring on the procurements in open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person.

At 2:44 pm, Mr. Hollingsworth announced the Board would recess into executive session for the following agenda item and sections of the Government Code:

Item 13, Sections 825.115(e), 551.071, and 551.072 to discuss Board procurement matters, real estate and consult with legal counsel as needed.

At 4:02 pm, Mr. Hollingsworth reconvened the Board meeting. Mr. Guthrie provided the staff recommendation that CBRE be selected as the broker for taking the Red River headquarters out to the market and finding its true worth.

On a motion by Mr. Corpus and seconded by Mr. Nance the board approved the proposed resolution with Mr. Ball abstaining:

Resolution of Board of Trustees

February 20, 2020

Relating to Selection of a Commercial Real Estate Advisory and Brokerage Firm for the TRS Red River Administrative Headquarters

WHEREAS, Texas Government Code §821.007 provides that the buildings comprising the home office of the Teacher Retirement System (TRS) are under the control and custodianship of the retirement system;

WHEREAS, In connection with TRS's overall projected expansion needs, TRS and the TRS Board of Trustees (the "Board") engaged in a multi-year space-planning project, still under way, to determine the available options for one or more home office facilities that would best serve the interests of TRS members, retirees, and beneficiaries;

WHEREAS, TRS performed due diligence activities and presented to the Board on the following: space planning and long-term facilities options, engaged a broker and an owner's representative, and conducted a workplace study and an employee perspectives survey to evaluate the long-term facilities planning needs of the agency;

WHEREAS, A Request for Proposal (“RFP”) was issued to interested entities to solicit design and build proposals to develop a potential new administrative headquarters for TRS;

WHEREAS, An RFP was also issued to interested entities to solicit a commercial real estate advisory and brokerage firm in order for TRS to determine a fair assessment of TRS’s best options for the Red River property, whether to redevelop and stay, convert to an investment, or sell and move;

WHEREAS, The TRS evaluation committee received and evaluated the responsive proposals to the RFP for a commercial real estate advisory and brokerage firm and interviewed the top three finalists;

WHEREAS, The TRS evaluation committee discussed the proposals with the Board, provided relevant information to the Board, and presented an evaluation to the Board concerning the final recommendation;

WHEREAS, The Board considered the evaluation and recommendation made by TRS staff of the broker solicitations submitted in response to the RFP;

WHEREAS, TRS Bylaws subsections 5.6(b) and 5.6(e) authorize the Executive Director to contract for the purchase of services and the execution of vouchers for payments, in accordance with actions of the Board; and

Now, therefore, be it

RESOLVED, That the Board of Trustees finds that it is prudent under the facts and circumstances presented for TRS to consider an agreement with a commercial real estate advisory and brokerage firm to determine a fair assessment of TRS’s best options for the Red River property, whether to redevelop and stay, convert to an investment, or sell and move.

RESOLVED, That the Board hereby authorizes and instructs the Executive Director or his delegate, with the assistance of TRS employees and TRS’s owner’s representative, to take all actions and do all things necessary or desirable to negotiate and execute a contract on the same or better financial terms presented to the Board and on such other terms and conditions deemed by the Executive Director to be in the best interest of TRS for a final broker agreement for the Red River property with the following finalist: CBRE ;

RESOLVED, That the Executive Director is directed to report to and update the Board at its regular meetings the actions taken and activities performed under this resolution; and

RESOLVED, That nothing in this resolution may be construed as a contract, an offer to contract with a power of acceptance that would form a contract, or an acceptance of an offer to contract, and TRS is not and will not be legally bound to any agreement unless and until the Executive Director has executed and delivered definitive agreements relating to the subject matter, as applicable.

At 4:07 pm, Mr. Hollingsworth, without objection, announced the Board would recess until tomorrow morning at 8:00 am.

Minutes of the Board of Trustees

February 21, 2020

The Board of Trustees of the Teacher Retirement System of Texas met on February 21, 2020 in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River, Austin, Texas. The following Board members were present:

Jarvis V. Hollingsworth, Chair
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
Don Green, TRS
Carolina de Onis, TRS
Jerry Albright, TRS
Jase Auby, TRS
Barbie Pearson, TRS
Katrina Daniel, TRS
Yimei Zhao, TRS
Meaghan Bludau, TRS
Amanda Jenami, TRS
Heather Traeger, TRS
Janet Bray, TRS
Katherine Farrell, TRS
Caasi Lamb, TRS
Kellie Sauls, TRS
Kirk Sims, TRS
Joel Hinkhouse, TRS
Mark Albert, TRS

Ray Spivey
Michael Bentrout, Aetna
Jeff Cook, Aetna
Becca S. Cecak, Aetna
Sean Donovan, CVS
Joni Lozano, CVS
Mike Heck, CVS
Joe Braley, BCBS
Melissa Tessler, BCBS
Eric St. Pierre, Humana
Nick Arnold, Humana
Meiddle Goff, Aetna
Leroy DeHaven, TRTA
Sally Irving, Aetna
Patricia Macias, TRTA
Sherri Rossoff, Rock Creek
Alifia Doriwale, Rock Creek
Afsaneh Beschloss, Rock Creek
Dan McCoy, BCBS TX

Keith Brown, Investment Advisor
Steve Voss, Aon Hewitt
Suzanne Dugan, Cohen Millstein
Meredith Jones, Aon Hewitt
Ken Bertsch, CII
Pat McGurn, ISS
Brian Walker, ISS

Darren Bukut, BCBS TX
Tiffany Calderon, Humana
Carla Whaley, Humana
Tim Snyder, Humana
Kim Furned, UHC
Linda Jones, UHC
Adrienne Cabrera, OOG
Amy Timmons, Segal
Kirsten Shatten, Segal
Ken Vieira, Segal
Joanna Balogh-Reynolds, Segal
Ann Fickel, TCTA
Laura Atlas Kravitz, TSTA
Gregg Brock, TRTA
Ken Welch, Retiree

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

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

14. Recognize the service of Ray Spivey – Jarvis Hollingsworth.

Mr. Hollingsworth noted yesterday they had the honor of saying goodbye to two Trustees whose terms expired and today we are to say goodbye to Mr. Ray Spivey. He said Ray has been a big part of our government relations for many years. Mr. Hollingsworth read the following resolution into the record:

Whereas, Ray Spivey joined the Teacher Retirement System of Texas in August 2005, as director of Government Relations with his vast understanding of pension issues at both the state and federal level, and also served as a member of the TRS Executive Council; and

Whereas, he played an important role in strengthening the communication between the retirement system and the Texas Legislature and served as TRS' fourth director of Government Relations; and

Whereas, he has 32 years of service with the State of Texas, including 14 ½ years here at the Teacher Retirement System of Texas; and

Whereas, Ray has been active in the National Association of State Retirement Administrators; and

Whereas, during his time at TRS the retirement system grew approximately 1.1 to more than 1.6 million members and annuitants and the net position of the System grew from \$93.7 to \$165 billion; and

Whereas, during his last seven sessions working with the Texas Legislature, changes were made to diversify TRS' investment portfolio to allow the use of external managers and certain alternative investments to improve the TRS-Care program sustainability, to provide retirees with benefit enhancements, and he worked on landmark legislation that increased contributions to the trust fund; and

Whereas, Ray always had the best interests of our members and retirees at heart, serving the educators of Texas, current, past and future, with a sense of responsibility, compassion and concern for all; and

Whereas, Ray would travel all over the state to share his wealth of knowledge with different active retiree and stakeholder groups; and

Whereas, Ray is also known as the Capitol Artist – I have one of those on my wall – painting in end-of-session print of each Texas Legislature since 1997; and

Whereas, Ray will always be known for portraying the highest standards of professionalism and strong work ethic and is well deserving of a retirement full of family vacations, film production and art;

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 Ray Spivey at TRS during his 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 Ray Spivey and entered into the record of the Board for February 21, 2020.

On a motion by Mr. Corpus and seconded by Ms. Sissney the Board unanimously approved the resolution.

Mr. Spivey thanked the Board and in particular Jarvis who was the first chairman when he arrived in '05. He thanked Brian Guthrie noting Brian had been through some of TRS' greatest challenges and definitely helped achieve TRS' greatest wins. He thanked staff, the legislators, members and retirees.

Mr. Guthrie noted there is so much behind-the-scenes work that no one ever sees, there is so many meetings, so many efforts to try to turn and make sure that legislation is fashioned in a way that is beneficial to the system and Ray was responsible for that.

Mr. Hollingsworth announced taking up Agenda Item 15 and 16 together.

15. **Discuss and consider selecting a health plan administrator(s) (HPAs) for TRS-ActiveCare plans, the TRS-Care Standard and Alternative plans, and a carrier for TRS-MedicareAdvantage plan, including considering a finding that deliberating or conferring on the selection of the HPA(s) and Medicare Advantage carrier in open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person. – Katrina Daniel and Yimei Zhao.**
16. **Receive an update on TRS-ActiveCare district participation, including the potential consequences to TRS-ActiveCare of participating Districts of Innovation (DOI) offering competing health care coverage to their employees and protecting the stability of TRS-ActiveCare – Katrina Daniel.**

Ms. Katrina Daniel reviewed the process for procurement. She noted TRS is the second largest purchaser of health care in Texas, behind the Medicaid program, so the contracts are significant in size, significant in market and of utmost importance to our members. Ms. Yimei Zhao discussed the process staff went through to evaluate the bids. She said they received 13 proposals from the industry.

Ms. Daniel stated they had been hearing from two districts who have a District of Innovation designation that were exercising an exemption under the Education Code to offer competing coverage to ActiveCare. She said they do not know of how many other districts may engage such an exemption. She said they plan to undertake a significant engagement effort with districts to look at ways to tailor ActiveCare to better meet districts needs.

On a motion by Ms. Sissney and seconded by Mr. Ball, the Board voted to find that deliberating or conferring on the selection of the HPA(s) and Medicare Advantage carrier in open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person.

At 8:26 am, Mr. Hollingsworth announced the Board would recess into executive session for the following agenda items and sections of the Government Code:

Item 15 under Sections 825.115(e) and 551.071, to discuss Board procurement matters and consult with legal counsel as needed.

Item 16 under Section 551.071 to consult with legal counsel.

At 9:49 am, Mr. Hollingsworth reconvened the Board meeting.

Ms. Daniel stated staff is making recommendations to the Board for ActiveCare, Care Standard and MedicareAdvantage. She noted for ActiveCare they received four bids and pursuant to the following resolution staff recommends awarding the ActiveCare contract to Blue Cross Blue Shield and as an alternative Aetna.

On a motion by Mr. Moss and seconded by Ms. Sissney the Board unanimously adopted the following resolution:

**RESOLUTION SELECTING THE HEALTH PLAN
ADMINISTRATOR FOR THE TRS-ACTIVECARE PROGRAM**

February 20 - 21, 2020

Whereas, Chapter 1579, Texas Insurance Code, governs the Texas School Employees Uniform Group Health Coverage Program (the “TRS-ActiveCare program”) and authorizes the Teacher Retirement System of Texas (“TRS”), as trustee, to implement the group coverage program described in the statute;

Whereas, TRS issued a Request for Proposals (the “RFP”) to entities interested in serving as the health plan administrator for the TRS-ActiveCare program;

Whereas, TRS received a number of responsive proposals to the RFP;

Whereas, TRS staff and consultants assisting staff have evaluated these proposals, and TRS staff has provided relevant information and presented an evaluation to the TRS Board of Trustees (the “Board”) concerning the selection of a health plan administrator for the TRS-ActiveCare program and has discussed this selection with the Board;

Whereas, The Board has considered this information and evaluation; now, therefore, be it

Resolved, That the Board hereby selects Blue Cross and Blue Shield of Texas to be the health plan administrator for the TRS-ActiveCare program, subject to the successful negotiation and execution of a final agreement, for a two-year term to commence on September 1, 2020, with four optional one-year renewals;

Resolved, That the Board hereby authorizes the Executive Director or his designees to expend funds and to take all actions deemed by him or a designee to be necessary or advisable to implement this resolution, including the negotiation and execution of all documents needed to finalize an acceptable contract with Blue Cross and Blue Shield of Texas on the same or better financial terms presented to the Board and on such other terms and conditions deemed by the Executive Director or a designee to be in the best interest of the TRS-ActiveCare program, and from time to time to amend, modify, or extend the contract as deemed by the Executive Director or a designee to be in the best interest of the TRS-ActiveCare program, it being understood that the Board’s selection of Blue Cross and Blue Shield of Texas 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.

Resolved, That if for any reason, the Executive Director concludes in his sole judgment that TRS is not reasonably likely to successfully negotiate a contract with Blue Cross and Blue Shield of Texas, then the Board hereby selects Aetna Life

Insurance Company to be the health plan administrator for the TRS-ActiveCare program, subject to the successful negotiation and execution of a final agreement, for a two-year term to commence on September 1, 2020, with four optional one-year renewals.

Resolved, That once the Executive Director concludes in his sole judgment that TRS is not reasonably likely to successfully negotiate a contract with Blue Cross and Blue Shield of Texas, then the Board hereby authorizes the Executive Director or his designees to expend funds and to take all actions deemed by him or a designee to be necessary or advisable to implement this resolution, including the negotiation and execution of all documents needed to finalize an acceptable contract with Aetna Life Insurance Company on the same or better financial terms presented to the Board and on such other terms and conditions deemed by the Executive Director or a designee to be in the best interest of the TRS-ActiveCare program, and from time to time to amend or modify the contract as deemed by the Executive Director or a designee to be in the best interest of the TRS-ActiveCare program, it being understood that the Board's selection of Aetna Life Insurance Company 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.

Ms. Daniel stated staff recommended to award the MedicareAdvantage contract to UnitedHealthCare and as an alternative Humana.

On a motion by Mr. Corpus and seconded by Mr. Nance the board unanimously adopted the following resolution:

**RESOLUTION SELECTING THE MEDICARE
ADVANTAGE CARRIER FOR THE TRS-CARE PROGRAM**

February 20 – 21, 2020

Whereas, Chapter 1575, Texas Insurance Code, governs the Texas Public School Retired Employees Group Insurance Program (the "TRS-Care program") and authorizes the Teacher Retirement System of Texas ("TRS"), as trustee, to implement the group coverage program described in the statute;

Whereas, TRS issued a Request for Proposals ("RFP") to entities interested in serving as the carrier of a fully insured Medicare Advantage plan to be offered in association with the TRS-Care program;

Whereas, TRS received a number of responsive proposals to the RFP;

Whereas, TRS staff and consultants assisting staff have evaluated these proposals, and TRS staff has provided relevant information and presented an evaluation to the TRS Board of Trustees (the "Board") concerning the selection of

a carrier of the fully insured Medicare Advantage plan to be offered in association with the TRS-Care program and has discussed this selection with the Board;

Whereas, The Board has considered this information and evaluation; now therefore, be it

Resolved, That the Board hereby selects United Health Group, Inc. to serve as the carrier of a fully insured Medicare Advantage plan to be offered in association with the TRS-Care program, subject to the successful negotiation and execution of a final agreement, for a five-year term to commence on January 1, 2021, with one optional one-year renewal.

Resolved, That the Board hereby authorizes the Executive Director or his designees to expend funds and to take all actions deemed by him or a designee to be necessary or advisable to implement this resolution, including the negotiation and execution of all documents needed to finalize an acceptable contract with United Health Group, Inc. on the same or better financial terms presented to the Board and on such other terms and conditions deemed by the Executive Director or a designee to be in the best interest of the TRS-Care program, and from time to time to amend or modify the contract as deemed by the Executive Director or a designee to be in the best interest of the TRS-Care program, it being understood that the Board's selection of United Health Group, Inc. 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.

Resolved, That if for any reason, the Executive Director concludes in his sole judgment that TRS is not reasonably likely to successfully negotiate a contract with United Health Group, Inc., then the Board hereby selects Humana Insurance Company and Humana Health Plan, Inc. to serve as the carrier of a fully insured Medicare Advantage plan to be offered in association with the TRS-Care program, subject to the successful negotiation and execution of a final agreement, for a five-year term to commence on January 1, 2021, with one optional one-year renewal.

Resolved, That once the Executive Director concludes in his sole judgment that TRS is not reasonably likely to successfully negotiate a contract with United Health Group, Inc., then the Board hereby authorizes the Executive Director or his designees to expend funds and to take all actions deemed by him or a designee to be necessary or advisable to implement this resolution, including the negotiation and execution of all documents needed to finalize an acceptable contract with Humana Insurance Company and Humana Health Plan, Inc. on the same or better financial terms presented to the Board and on such other terms and conditions deemed by the Executive Director or a designee to be in the best interest of the TRS-Care program, and from time to time to amend or modify the contract as deemed by the Executive Director or a designee to be in the best interest of the TRS-Care program, it being understood that the Board's selection of Humana

Insurance Company and Humana Health Plan, Inc. 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.

Ms. Daniel stated staff recommended to award the TRS-Care Standard plan contract to Blue Cross Blue Shield as the administrator for Care Standard and as an alternative Aetna.

On a motion by Mr. Nance and seconded by Mr. Moss the board unanimously adopted the following resolution:

**RESOLUTION SELECTING THE HEALTH PLAN
ADMINISTRATOR FOR THE STANDARD PLAN
AND FOR THE ALTERNATIVE PLAN
IN THE TRS-CARE PROGRAM**

February 20 - 21, 2020

Whereas, Chapter 1575, Texas Insurance Code, governs the Texas Public School Retired Employees Group Benefits Program (the “TRS-Care program”) and authorizes the Teacher Retirement System of Texas (“TRS”), as trustee, to implement the group coverage program described in the statute;

Whereas, TRS issued a Request for Proposals (“RFP”) to entities interested in serving as the health plan administrator for the Standard plan and for the Alternative plan in the TRS-Care program;

Whereas, TRS received a number of responsive proposals to the RFP;

Whereas, TRS staff and consultants assisting staff have evaluated these proposals, and TRS staff has provided relevant information and presented an evaluation to the TRS Board of Trustees (the “Board”) concerning the selection of a health plan administrator for the Standard plan and for the Alternative plan in the TRS-Care program, and has discussed this selection with the Board;

Whereas, The Board has considered this information and evaluation; now therefore, be it

Resolved, That the Board hereby selects Blue Cross and Blue Shield of Texas to be the health plan administrator for the Standard plan and for the Alternative plan in the TRS-Care program, subject to the successful negotiation and execution of a final agreement, for a two-year term to commence on January 1, 2021, with four optional one-year renewals;

Resolved, That the Board hereby authorizes the Executive Director or his designees to expend funds and to take all actions deemed by him or a designee to be necessary or advisable to implement this resolution, including the negotiation

and execution of all documents needed to finalize an acceptable contract with Blue Cross and Blue Shield of Texas on the same or better financial terms presented to the Board and on such other terms and conditions deemed by the Executive Director or a designee to be in the best interest of the TRS-Care program, and from time to time to amend, modify, or extend the contract as deemed by the Executive Director or a designee to be in the best interest of the TRS-Care program, it being understood that the Board's selection of Blue Cross and Blue Shield of Texas 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.

Resolved, That if for any reason, the Executive Director concludes in his sole judgment that TRS is not reasonably likely to successfully negotiate a contract with Blue Cross and Blue Shield of Texas, then the Board hereby selects Aetna Life Insurance Company to be the health plan administrator for the Standard plan and for the Alternative plan in the TRS-Care program, subject to the successful negotiation and execution of a final agreement, for a two-year term to commence on January 1, 2021, with four optional one-year renewals.

Resolved, That once the Executive Director concludes in his sole judgment that TRS is not reasonably likely to successfully negotiate a contract with Blue Cross and Blue Shield of Texas, then the Board hereby authorizes the Executive Director or his designees to expend funds and to take all actions deemed by him or a designee to be necessary or advisable to implement this resolution, including the negotiation and execution of all documents needed to finalize an acceptable contract with Aetna Life Insurance Company on the same or better financial terms presented to the Board and on such other terms and conditions deemed by the Executive Director or a designee to be in the best interest of the TRS-Care program, and from time to time to amend or modify the contract as deemed by the Executive Director or a designee to be in the best interest of the TRS-Care program, it being understood that the Board's selection of Aetna Life Insurance Company 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.

Ms. Daniel recognizing change as difficult for the plan members, she reported they have started planning for the communication and engagement strategies. Ms. Meaghan Bludau reviewed the communication timeline and the robust campaign in place to get the message out about the upcoming transition.

17. Receive a Diversity, Equity and Inclusion Update – Kellie Sauls.

Ms. Kellie Sauls opened with the foundation as to why this work is important with the quote, “Diversity isn’t just a diversity issue, it is a business issue.” She said research proves that diverse teams produce better outcomes, make better decisions and are better able to reach their goals. Ms. Sauls stated she had gathered the assessments already done at TRS and is pulling more data and in reviewing those have identified some priority areas. She reported they have started drafting a strategic plan that will roll up into the overall TRS strategic plan discussed earlier. She said they will produce an annual report to the Board assessing the work and progress made.

Ms. Sauls stated concurrently they are working on the TRS Employee Diversity Council. She said the Council is made up of volunteers representing each major sector of the organization that will meet once a quarter. Ms. Sauls reviewed other initiatives including community outreach and employee affinity groups.

18. Receive Emerging Manager Annual Update - Kirk Sims.

Mr. Kirk Sims shared the Emerging Managers program’s objectives. He said they are very straightforward: performance first and foremost, diversity and graduation. He reported for performance they have outperformed the benchmark by 270 basis points for one year and 142 basis points for the three year. He noted the program in 2019 was allocated \$633 million to 29 emerging managers across varying asset classes. Mr. Sims said they had seven graduations from the program and those seven are currently managing \$2.8 billion across the trust as a whole. He reviewed other program accomplishments, including the upcoming Emerging Manager Conference with 1,850 registrants.

19. Receive an update and discuss Environmental, Social and Governance (ESG) Investing - Steve Voss and Meredith Jones, Aon Hewitt; Ken Bertsch, Council of Institutional Investors (CII); and Dr. Keith Brown.

Mr. Jase Auby stated they first presented on ESG back in 2016. He noted it is probably one of the most commonly discussed and researched topics in investing today. Ms. Meredith Jones began by providing the definition of ESG as non-financial data that relates to a company or an investment that can not really be boiled down to a financial metric. She said these non-financial, non-quantifiable things can become financial very quickly if there is an issue. She provided data privacy as an example if you do not have a robust data privacy policy and you get hacked, the company and an investor will be impacted. She noted ESG falls under the umbrella of responsible investing. ESG is different than value-based investing which incorporates socially responsible investing, impact investing and mission-related investing. She said ESG is taking into consideration a different set of risk factors that have been underutilized historically in the investment landscape. She said ESG data may be more beneficial if volatility returns in the marketplace. She referenced a study by Bank of America that showed 15 of the last 17 corporate bankruptcies could have been avoided if they looked at the ESG data.

Mr. Mike McCormick provided a comparison between TRS and their other public funds. He said of the 19 public funds they work with 16 do not have an explicit policy. In response to an inquiry from Mr. Hollingsworth, Mr. Voss stated there is not definitive data that says one must be doing

this or you are doing a disservice to your organization. He said the data is not robust enough to make that determination. He commented TRS is where it should be, having educational discussions looking at the evidence and seeing what other peers are doing.

Dr. Brown noted the evidence is not there to determine if this would be to your detriment or benefit to pursue but the literature is evolving. Mr. McCormick then reviewed TRS policies and procedures and how and where ESG is integrated. Mr. Hollingsworth established the expectation for Aon, Dr. Brown, IMD and legal counsel to continue to educate and monitor this process and keep the Board informed and advised with respect to how ESG should be considered moving forward. Mr. Ken Bertsch further discussed the valuation of ESG for investments. He said governance has received attention over the years but there is a wariness on social/environmental of being caught within a political context.

20. Receive an update regarding Proxy Voting – Pat McGurn and Brian Walker, ISS.

Mr. Joel Hinkhouse reviewed the process of review for the proxy voting policy. The review began in December and will come back in April to adopt the policy.

Mr. McGurn discussed ISS' policy development process, the services they provide TRS and identified some of the key trends. He reviewed the threshold question of why vote proxies. He noted as a shareholder investing in public equities your rights are limited and as an academic said rights are boiled down to selling shares, voting your proxies or suing the company. Mr. McGurn described what you vote on is public companies are republic in that you are electing a board of directors to represent your interests in the company. But also a direct democracy where shareholders get to vote on very specific things like charter and bylaw provisions, mergers and acquisitions, and compensation. He reviewed the policy formulation process in greater detail. He reported on a major trend is gender diversity in the boardroom. He noted there are still about 7.4 percent of Russell 3000 companies that do not have a single woman serving on the board today. The policy was implemented with a one-year grace period so companies could take time to find a good qualified candidate that would fit with their board. The other trend is accountability and risk oversight issues, see more discussion about directors who are on too many boards or who have served an excessive number of years. He also discussed the proposed SEC rule. He reviewed the policies they have in place to mitigate any potential conflicts that could arise.

Mr. Hinkhouse reviewed the timeline for voting on the proxy voting policy. He said ISS' contract expires per schedule this November, an RFP was issued and in July propose to have advisors present for Board selection.

21. Receive COAO update – Andrew Roth.

Mr. Andrew Roth provided a quick shared services update. He reported Information Technology are finalizing the selection of a mainframe managed service vendor. He noted the annual record retention schedule was underway. He provided recognition to facilities and security division for

always responding with great professionalism during times such as a when a heritage oak fell or a kitchen fire occurred.

At 12:42 pm, Mr. Hollingsworth adjourned the meeting.

APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM
OF TEXAS ON THE 17th DAY OF APRIL 2020.

ATTESTED BY:

Katherine H. Farrell

Katherine H. Farrell

Secretary to the TRS Board of Trustees

April 28, 2020

Date