

Minutes of the Board of Trustees

February 21-22, 2019

The Board of Trustees of the Teacher Retirement System of Texas met on February 21-22, 2019, 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
Joe Colonna
David Corpus
John Elliott
Greg Gibson
Christopher Moss
Dolores Ramirez
James D. Nance
Nanette Sissney

Others present:

Brian Guthrie, TRS	Jonathan Mayhew, Aetna
Don Green, TRS	Troyen A. Brennan, CVS Health
Barbie Pearson, TRS	Tim Synder, Humana, Inc.
Carolina de Onis, TRS	Robert Prentice, UT Austin
Katrina Daniel, TRS	Jodi Monger, Customer Relationship Metrics
Jerry Albright, TRS	Leroy DeHaven, TRTA
Jase Auby, TRS	Marcy Cann, TRTA
Amanda Jenami, TRS	Patricia Macias, TRTA
Janet Bray, TRS	Nancy Byler, TRTA
Rebecca Merrill, TRS	Dery Rivera, ARTA
Katherine Farrell, TRS	Tim Lee, TRTA
Heather Traeger, TRS	“B” Zimmer, TRTA
Chet Henry, TRS	Michael Bentrott, Aetna
Adam Fambrough, TRS	Tiffany Calderon, Humana
Jennifer Gasior, TRS	Nick Arnold, Humana
Simin Ping, TRS	Cheryl Anderson, TX AFT
Mary Presley, TRS	Ted Raab, TX AFT
Lih-Jen Lan, TRS	Rebecca Slezak, Aetna
Richard Scheel, TRS	Joni Lozano, CVS
Grant Walker, TRS	Richard Edwards, CVS
Keith Johnson, Reinhart Boerner Van Deuren	Sean Donovan, CVS
Steve Voss, Aon Hewitt	Ann Fickel TRTA
Mike Comstock, Aon Hewitt	Sally Imig, Aetna
Dr. Keith Brown, Investment Advisor	Jeff Cook, Aetna
Dr. Robert Prentiss, UT McCombs School of Business	Pallar Tatapodi, CVS Health

Mr. Hollingsworth called the meeting to order at 9:00 a.m.

1. Call roll of Board members.

Ms. Farrell called the roll. A quorum was present. **Consider administrative matters, including the approval of the December 2018 proposed meeting minutes – Jarvis V. Hollingsworth:**

Mr. Hollingsworth noted the December minutes needed to reflect he read Ms. Barrett's resolution at the last meeting, not Ms. Ramirez

On a motion by Ms. Sissney, seconded by Ms. Ramirez, the Board unanimously voted to approve the proposed minutes of the December 2018 Board meeting as amended.

2. Provide opportunity for public comment – Jarvis V. Hollingsworth.

Ms. Lavon Rogers, representing the Austin Retired Teachers Association, spoke in support of the resolution for Mike Lehr. She said he was a great friend and leader, he had a great compassion for public school education.

3. Resolution recognizing the service of past TRTA President Mr. Mike Lehr – Jarvis V. Hollingsworth.

Before reading the Resolution in honor of Mr. Lehr, Mr. Hollingsworth invited Mr. Tim Lee, current executive director of TRTA to come forward. Mr. Lee thanked the board on behalf of Mrs. Francine Lehr, Mr. Lehr's widow.

Resolution

Whereas, Mike Lehr worked for 38 years in public education as a teacher, coach, principal and administrator until his retirement in 1985; and

Whereas, Mike also worked as an aide to State Representative Tom Massey on the House Education Committee and with House Speaker Billy Clayton on a special committee for public school finance where he earned great rapport with legislators and became highly respected; and

Whereas, he became the legislative coordinator in 1987 for the Texas Retired Teachers Association (TRTA), a volunteer position he held even after he became the organization's executive director in 1994; and

Whereas, Mike served as executive director for TRTA from 1994-2003 at which time he spearheaded the development and lobbying of the Consumer Price Index (CPI) Catch-up Plan which provided benefit increases for retired public educators for four consecutive legislative sessions; and

Whereas, he was able to convince House Speaker Gib Lewis and Lieutenant Governor Bob Bullock to support the CPI plan; and

Whereas, Mike was also at the forefront of securing the land that TRTA's office sits on which turned out to be a great investment as it stands less than 300 feet from the Capitol; and

Whereas, he received the E.L. Galyean Service Award in 2002, TRTA's highest honor, recognizing him for his invaluable and deeply impactful role and accomplishments during his leadership; and

Whereas, Mike retired from TRTA in 2003 and was recognized by both the House and the Senate for his tireless work helping all retired teachers in Texas; and

Whereas, TRTA also named him executive director emeritus to honor his distinguished work; and

Whereas, according to his family and friends, Mike's untold energy and passion was a force to be reckoned with as his optimism enabled him never to meet a problem he couldn't solve; and

Whereas, he was one of the most respected leaders in the history of TRTA and will remain a huge part of its legacy; and

Whereas, with Mike's passing on January 17, 2019, he will be remembered with admiration and respect by former colleagues, TRS' staff, retirees, and members for his advocacy on behalf of retired educators; and

Now, therefore, be it resolved, that the board of trustees, staff, retirees, and members both present and future of the Teacher Retirement System of Texas recognize the accomplishments and contributions of Mike Lehr during his highly successful career in education and TRTA and express their sincere sympathy for the loss of an amazing colleague, leader and friend.

And be it further resolved, that the Teacher Retirement System of Texas extends its sympathy to TRTA and Mike Lehr's family after his death and entered into the record of the board for February 21, 2019.

On a motion by Mr. Colonna, seconded by Mr. Moss, the Board unanimously voted to approve the proposed resolution.

4. Receive an overview and update on TRS Member and Partner Communications – Rebecca Merrill.

Ms. Rebecca Merrill provided an overview on the many ways TRS listens to its members, partners and stakeholders. She said information gained from a single member is used tactically and strategically to determine how to improve services and increase or alter communications. She reviewed the TRS surveys, Compact with Texans, social media and TRS Comments.

5. Receive an overview and update on TRS Phone Survey – Dr. Jodi Monger, Customer Relationship Metrics; Barbie Pearson and Jennifer Gasior.

Ms. Pearson provided an overview of TRS' partnership with Customer Relationship Metrics. It began in February 2008 with the development of an after-call survey where members could share how to serve them better. She said this survey was also used to gauge the appropriate service level for members.

Dr. Jodi Monger provided information on how the surveys are conducted, what is learned and how it is used. She reported in the contact center they are doing constant quality assurance monitoring. What the survey does is add numerical response from members as to how the members perceived the service they received. She stated this is something that is very subjective and CRM adds a numeric analysis to it, so there is an objective view of the experience.

Ms. Jennifer Gasior discussed how the results from the surveys are used by Benefit Counseling leadership on a monthly basis. She noted with over 50 percent of the counselors having less than a one year tenure, the survey results are used for specific coaching opportunities. She said last summer a refresher training was held on a weekend to review more complex topics because it was recognized counselors were struggling with those topics. Ms. Pearson concluded by showing how after a holiday or on a Monday, those are the highest call volume days. She noted as the more counselors are added the service level continues to improve.

6. Receive an overview and discussion on the life cycle of a Member – Adam Fambrough.

Mr. Adam Fambrough reviewed the life cycle of a member. He noted an employee in an eligible position of a TRS-covered entity begins their membership with TRS on their first day of employment. He said a member works for 90 days and earns a year's service credit. When a member terminates their employment, he said they can apply for a refund or for retirement if eligible. He said they also process active and retiree death benefits. He discussed the six membership tiers. He provided a high-level overview of the retirement process.

7. Receive an overview and discussion on TRS Workforce and Diversity in the Workplace – Janet Bray.

Ms. Janet Bray provided an overview of TRS' workforce. She noted the millennials comprise of the largest portion of TRS workforce and continue to expand. She said because they are all tech savvy, the ability to work from anywhere will be more essential. Ms. Bray discussed their expanded efforts to 23 different education institutions and organizations that specialize in diversity. She reviewed studies and publications that support the increase of diversity in the workplace resulting in higher performance. She said diversity alone is not enough, there also needs to be an inclusive workplace. She said the diversity and inclusion program to be meaningful needs to be embedded into TRS' core values. That the successes of the Diversity and Inclusion Program should be tied directly to the strategic goals and are servable and measurable. She reported the new director for diversity and inclusion (D&I) position was posted. In response to Mr. Colonna's inquiry, Ms. Bray stated the new D&I director would report directly to the Chief Operating and Administrative Officer. Mr. Corpus commented he was glad to see this in motion and complimented the leadership for taking these important steps. Ms. Sissney commented she is very proud of the diversity in TRS and cautioned that diversity and excellence are not mutually exclusive. Ms. Bray agreed that the most qualified candidates should be hired for the position and that those candidates can be found in places TRS has not looked in the past.

8. 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, security, strategic planning, legislative session, executive consulting projects and TEAM update.**
- B. Board operational matters, including a review of draft agendas for upcoming meetings.**
- C. Event notices or reminders; holiday and other schedules of interest; board member, employee or other individual recognitions; and expressions of thanks, congratulations, or condolences.**

Mr. Brian Guthrie provided an update on legislative activities. He gave a full time employee (FTE) update. He also reported on the increase in compensation for all of the counselors at TRS to be more competitive in the tight Austin job market. He said in July they will be bringing back to the Board the complete compensation review for the entire agency. Mr. Guthrie reviewed the RFQs issued for executive coaching and executive assessment and the timelines. He then provided an update on TEAM. He noted the completion of the project is more likely early 2020 due to the need for quality coding.

Mr. Guthrie reviewed past and upcoming meetings and conferences. He then discussed upcoming agendas.

Mr. Hollingsworth announced, without objection, taking up agenda item 12.

12. Discuss Internal Audit's proposed approach on the External Quality Assurance Reivew – Amanda Jenami.

Ms. Amanda Jenami reported the External Quality Assurance Review comes every three years. She reviewed the criteria for the review, the timeline, and the qualifications and independence of the external reviewers. She stated the review will be a self-assessment that will be validated by an independent third party team. In response to Mr. Moss' inquiry, Ms. Jenami said while the audit profession is constantly evolving, there has been no significant changes to the standards since the last review.

13. Receive an update and discussion on Internal Audit's Data Analytics Maturity Model and Enhancement Strategy – Amanda Jenami.

Ms. Jenami discussed the data explosion and technology advancements that the audit profession is recognizing, changing the way business is done. She said these advancements change the risk universe. In order to handle these challenges, the audit profession is adopting a data centric strategy utilizing data analytics which gives greater visibility into anomalies and trends. She reported her division is developing a data analytics strategic plan and procedures and will also receive advanced training this summer.

Mr. Hollingsworth announced, without objection, taking up agenda item 15.

15. Review the report of the General Counsel on pending and contemplated litigation, including updates on litigation involving benefit-program contributions, retirement benefits, health-benefit programs and open records, and on material regulatory matters involving certain TRS vendors, investment managers, or other counterparties – Carolina de Onís.

Mr. Steve Voss provided an update on a matter involving Aon Hewitt and the SEC. He reported the SEC conducted a routine review and an audit of Aon and Aon Hewitt Investment Consultants in 2017. In 2018, this review and audit shifted to an enforcement fact-finding inquiry examining the way Aon presented assets under advisement data. He said during that time Aon was responding to a TRS RFQ in which they disclosed the SEC inquiry to TRS. In light of the SEC inquiries, Mr. Voss reported Aon has changed the manner in which they calculate assets under advisement going back to the first quarter of last year.

Mr. Hollingsworth announced that the board would go into executive session on agenda items 9(a), item 14 and item 15, item 16 and item 17 pursuant to Government Code 825.115(e), 551.071, 551.072 and 551.074.

On a motion by Mr. Corpus, seconded by Ms. Ramirez, the Board unanimously voted that delivering or conferring on matters in open session would have a detrimental effect on the position of the Retirement System in negotiating with a third person.

At 11:54 a.m., the Board recessed into executive session.

At 12:55 p.m., after completing the executive session, Mr. Hollingsworth announced the Board reconvened in open session.

Mr. Hollingsworth announced, without objection, the Board would take up agenda item 10.

9. Receive fiduciary training, including a presentation on ethics – Dr. Robert Prentice, UT Austin, McCombs School of Business.

Dr. Robert Prentice reviewed various ethical dilemmas and the various approaches one could take to the dilemmas. He focused on behavioral ethics and on how ethical decisions can be influenced.

10. Receive an Overview of TRS-ActiveCare and TRS-Ccare operations and impact of the changing health care industry on health coverage – Katrina Daniel; Jonathan Mayhew, Aetna; Troyen A. Brennan, CVS Health; and Tim Synder, Humana, Inc.

Ms. Katrina Daniel provided an overview of the two health care programs TRS provides. She noted TRS is the second-largest purchaser of health care in Texas behind the Medicaid program. She noted the 50 staff who administers the TRS health care benefits is just the tip of the iceberg that it takes true partnership with the Aetna, CVS or Humana to deliver the benefits to the members.

Dr. Johnathan Mayhew noted how Aetna has seen for the past four years, a total average pharmacy trend increase of zero. He discussed future strategies that will allow them to continue to have such an impact on the pharmacy trend. He said for medical inflation for Texas the market trend is 3.9 percent, which is among the lowest for them in the US. The medical inflation for their US book is closer to 6 percent. He said Texas is one of the better-run organizations throughout the country due to the terrific team and its commitment to value-based arrangements. He stated that with CVS recently merging with Aetna an enormous footprint has opened up through retail locations.

Dr. Troyen Brennen reviewed how to get to a zero percent final trend in pharmaceuticals when prices are going up tremendously. He noted the two ways on how they are keeping costs down. One was through utilization management, which is prior authorization and step therapy for pharmaceuticals. The other was through the contract terms, rebates received from the pharmaceutical manufacturers. Dr. Brennen discussed partnering with primary care doctors providing them real time benefit information to assist with understanding prescription costs while the member is sitting in the doctor's office. Preventing the sticker shock that occurs when a member goes to the pharmacy and refuses to fill a prescription due to the unexpected associated cost.

Mr. Tim Snyder discussed Humana's work within the Medicare Advantage space. Ms. Daniel commented this population and type of product is different and managed differently. Mr. Snyder reviewed their efforts to reduce unhealthy days for it costs \$15 per member per month for every unhealthy day. He said they have well over 100 open enrollment meetings to make sure members have an opportunity to interface with them. He reviewed different ways they have engaged members through various customer care programs.

Mr. Hollingsworth announced, without objection, the Board would take up agenda item 14.

14. Receive an update regarding TRS Facilities – Don Green, Grant Walker, Richard Scheel.

Mr. Don Green reviewed the Red River campus and how many employees and contractors on site between the two buildings. He noted the locations is in one of the fastest growing financial areas in Austin. He reviewed IMD's current location at 816 Congress. Mr. Guthrie said that in assessing whether to do renovations at Red River and the costs associated is it the best long-term use for the facility. He reported engaging with an outside broker to identify viable options with cost benefit analysis and to provide recommendations on how to proceed.

Mr. Hollingsworth announced that the board would go into executive session on agenda items 9(a), item 15, and item 16 pursuant to Government Code 825.115(e), 551.071, and 551.074.

On a motion by Mr. Corpus, seconded by Dr. Gibson, the Board unanimously voted that delivering or conferring on matters in open session would have a detrimental effect on the position of the Retirement System in negotiating with a third person.

At 3:45 p.m., the Board recessed into executive session.

At 5:19 p.m., after completing the executive session, Mr. Hollingsworth announced the Board at recess until 8:00 a.m., Friday, February 22, 2019.

February 22, 2019

The Board of Trustees of the Teacher Retirement System of Texas met on February 22, 2019, 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
Dolores Ramirez
Joe Colonna
David Corpus
John Elliott
Greg Gibson
Christopher Moss
James Nance
Nanette Sissney

Others present:

Brian Guthrie, TRS	Leroy DeHaven, TRTA
Don Green, TRS	Derly Rivera, Austin Retired Teacher
Jerry Albright, TRS	Ann Fickel, TCTA
Carolina de Onís, TRS	Ted Raab, Texas AFT
Katrina Daniel, TRS	Kirk Sims
Amanda Jenami, TRS	Michael Bentrutt, Aetna
Jase Auby, TRS	Nick Arnold, Humana
Barbie Pearson, TRS	Joni Lazano, CVS
Heather Traeger, TRS	Sean Donovan, CVSC
Mohan Balachandran, TRS	Cheryl Anderson, Texas AFT
Sylvia Bell, TRS	Becca Slezak, Aetna
Katherine Farrell, TRS	Rosalva Reyna, La Joya TRTA
Adam Fambrough, TRS	Shawn O'Donnell, Socorro AFT
Jennifer Gaisor, TRS	Chris Ardis, McAllen AFT
James Nield, TRS	Andrew Erickson, State Street Corp.
Matt Talbert, TRS	
Horacio Zambrana, TRS	
Keith Johnson, Reinhart Boerner Van Deuren	
Dr. Keith Brown, Investment Advisor	
Steve Voss, Aon Hewitt	
Mike McCormick, Aon Hewitt	

Mr. Hollingsworth called the meeting to order at 8:05 a.m.

1. Call roll of Board members.

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

18. Provide opportunity for public comment.

No public comment was provided.

19. Receive the Emerging Manager Annual Update – Sylvia Bell.

Ms. Sylvia Bell reviewed the key objectives and accomplishments for this program. The first objective is performance and second is diversity. She stated the program has outperformed significantly and as for diversity of the \$3.5 billion allocated to this program since inception, 52 percent has been to diverse managers. She noted one of the key accomplishments is the Board-approved recommendation to establish a long-term target allocation for the program.

Mr. Jerry Albright thanked Ms. Bell for her leadership in managing the program since 2005. He announced Mr. Kirk Sims will be joining TRS from the Teacher Retirement System of Illinois as the new head of the Emerging Manager Program. Mr. Hollingsworth welcomed Mr. Sims and congratulated Ms. Bell on a job well done.

Mr. Hollingsworth announced, without objection, the Board would take up agenda item 21.

21. Receive a market update and Strategic Asset Allocation Introduction – Jase Auby.

Mr. Jase Auby provided his semiannual market update. Mr. Auby noted 2018 was a negative year after nine straight years of positive returns from the S&P 500. He reported December was the worst December since 1931 but January was the best January since 1987, noting market volatility. He also noted the United States is undervalued versus history but overvalued for compared to the rest of the world. He said there is a consensus the market is in a late cycle, however there are still market projections that earnings will grow in 2019. Mr. Auby reviewed the annual best idea of partners on the one year and three year time horizons. He said this is the first time that equity was not in the top ideas, the focus was more cautious about risk.

Mr. Auby then gave an introduction to the strategic asset allocation discussion. He said it is essentially two choices: what are the types of assets to invest in and the weight in which to invest into them. He said these are weighty decisions for the Board. He stated the Board has a very strong set of advisors on this issue. Since this is brought before the Board every five years, he said, there is a developed, repeatable, honed process to assess the strategic asset allocation.

22. Receive an Overview and update on Strategic Asset Allocation Study - Mohan Balachandran, James Nield, Matt Talbert, Dr. Keith Brown; and Steve Voss and Mike McCormick, AON Hewitt.

Dr. Keith Brown discussed general issues for the Board to consider when choosing the strategic asset allocation (SAA). He stated the most important decision is to determine how broadly to allocate the assets. He noted the allocation is also the first line of controlling the risk in the

portfolio as well. Dr. Brown concluded by stating he would add the choice of which benchmark index is an important aspect to the Board's decision.

Mr. Steve Voss reiterated the importance of the SAA for the Board. Mr. Mike McCormick reviewed best practices and issues to analyze when choosing the SAA and its implementation. Mr. Voss then discussed the importance of transparency in the information provided to the Board and documentation of the process in the Board's decision. He said this process is what he considers a best practice in terms of setting asset allocation for a very large public pension system.

Dr. Mohan Balachandran discussed the capital market survey. He said they consult with their external partners, strategic partners, consultants or external managers asking them for their views on market returns, risk, and what correlations are going to be. He said they also perform a peer review examining other US pensions, endowments and Canadian funds to get an idea of how they are looking at asset allocation. Mr. Matt Talbert discussed the capital market survey process.

Dr. Balachandran discussed risk tolerance, due to Mr. James Nield suffering from laryngitis. He said the right amount of risk is the Goldilocks problem, you want risk to be just right, not too hot or too cold. He reviewed the various risk measures: volatility, probability and draw down, how the portfolio would behave when there is a stress period in the portfolio.

21. Receive Annual Update on IMD Operations and Talent Management Group – Sylvia Bell and Andrew Erickson, State Street Corp.

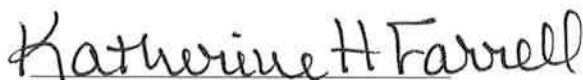
Ms. Bell reviewed IMD Operations and Talent Management Group's objectives. She said Investment Operations supports the execution on all of the investment decisions made every single day. She noted this is done by managing transactions in a cost-effective and accurate and risk controlled way. She stated the second function is talent management, attracting, growing, and retaining the high-performing investment teams.

Mr. Andrew Erickson reviewed the full circle of services that State Street provides to TRS.

At 10:51 a.m., Mr. Hollingsworth announce the meeting was adjourned.

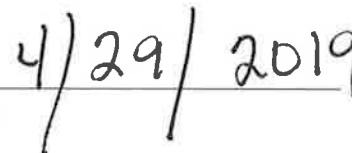
APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM OF TEXAS ON THE 26th DAY OF APRIL 2019.

ATTESTED BY:



Katherine H. Farrell

Secretary to the TRS Board of Trustees


Date