

Minutes of the Board of Trustees

October 27, 2017

The Board of Trustees of the Teacher Retirement System of Texas met on October 27, 2017 in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River, Austin, Texas. The following Board members were present:

David Kelly, Chair
Joe Colonna
David Corpus
John Elliott
Greg Gibson
Christopher Moss
Dolores Ramirez

Others present:

Brian Guthrie, TRS	Desiree Day, National Life Group
Ken Welch, TRS	Fran Plemmons, TRTA
Don Green, TRS	Shannon Meroney, National Life of AIG
Carolina de Onís, TRS	Eileen O'Grady, Unite Here
Jerry Albright, TRS	Mitra Elie, Unite Here
Jase Auby, TRS	Tom Rogers, TRTA, ARTA
Barbie Pearson, TRS	Jay Thompson, TALHI
Chet Henry, TRS	Tiffany Calderon, Humana
Rebecca Merrill, TRS	Nick Arnold, Humana
Amy Barrett, TRS	Alfred Ayensu Gharty, AXA Equilibrium
Katherine Farrell, TRS	Eddie Solis, AXA
Steve Huff, Reinhart Boerner Van Deuren	Brock Gregg, TRTA
	Mike Meroney, TALHI
	Deborah Polan, AIG
	Ted Melina Raab, Texas AFT
	Ted Kennedy, AIG
	Mike Bentrutt, AETNA

Mr. Kelly called the meeting to order at 11:05 a.m.

1. Call roll of Board members.

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

2. Consider the following administrative items – David Kelly:

A. Approval of the proposed September 21-22, 2017 Board meeting minutes.

On a motion by Mr. Colonna, seconded by Ms. Ramirez, the Board unanimously voted to approve the proposed minutes of the September 21-22, 2017 meeting.

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

On a motion by Dr. Gibson, seconded by Mr. Kelly, the Board unanimously voted to approve rescheduling the June 14-15, 2018, meeting to June 21-22, 2018.

3. Provide opportunity for public comment – David Kelly.

Ms. Mitra Ellie from the Pullman San Francisco Bay Hotel and Ms. Eileen O'Grady, from Unite Here, addressed the Board regarding hospitality union concerns with CBRE Global Investors.

Mr. Jay Thompson representing the Texas Association of Life and Health Insurers, addressed the Board regarding appreciation of staff and concerns for the 403(b) proposed rules.

4. Discuss the Executive Director's report on the following – Brian Guthrie:

- A. Administrative operational matters, including updates on the following: Executive Director's goals, financial awareness project, audit, legal, staff services, investments, board administration, special projects, actuarial matters, and strategic planning.**
- B. Board operational matters, including a review of draft agendas for upcoming meetings.**
- C. Event notices or reminders; holiday and other schedules of interest; board member, employee, or other individual recognitions; and expressions of thanks, congratulations, or condolences.**

Mr. Guthrie provided the board with updates on the national meetings in which TRS has participated over the past few months, including the National Institute for Retirement Security's Visionary Circle Meeting and the National Council on Teacher Retirement's Annual Meeting (NCTR). He noted that Ms. Ramirez and Ms. Charleston both attended the NCTR annual conference and Mr. Mohan Balachandran of TRS's Investment Management Division spoke as part of panel on fixed income that was very well received. Ms. Ramirez noted that it was a good meeting. Mr. Guthrie stated that NCTR's Resolutions Committee adopted a resolution memorializing Ms. Palmer and her contributions to NCTR over the years. Mr. Guthrie also discussed the Public Pension Financial Forum (P2F2) that Mr. Ken Welch attended and at which Ms. Barbie Pearson presented. Mr. Welch stated that Ms. Pearson gave a great presentation on data and the TEAM Program and that Mr. Rees Coombe, of TRS's Information Technology Division, presented on e-signature. Mr. Guthrie then provided general updates on upcoming meetings, including the Strategic Partnership Network Summit in Austin.

Mr. Guthrie thanked Dr. Gibson for presenting at a joint training day for some Benefits and Health Insurance Benefits staff on TEAM cut over day. Dr. Gibson stated that he enjoyed the opportunity very much and presented on managing energy and bringing your best self to work each day.

Mr. Guthrie discussed the House and Senate committee interim charges.

Mr. Guthrie then presented the summary of TRS's communications outreach on the TRS-Care and TRS-ActiveCare changes. Mr. Guthrie said the in-person meetings have been well attended and when all is complete, 42,000 total will have come to one of the TRS meetings. The Board then

watched a video that is being shown as part of the communication effort of Chief Healthcare Officer, Ms. Katrina Daniel discussing the legislative changes.

Mr. Guthrie then reviewed the proposed items for the next two upcoming Board meetings: December and February.

Mr. Guthrie informed the Board there was an issue relating to legislative implementation that would need to be addressed in executive session. Mr. Kelly announced, without objection, that this item would be taken up at the end of the agenda.

5. Receive an update on the TEAM Program – Brian Guthrie

Mr. Guthrie gave an update on the TEAM Program. He stated that Phase 1 Go Live was successful with some processing issues, including processing refunds. Mr. Guthrie stated that the refund processing would be addressed by mid-November and noted that because of these processing issues call volume has increased. Mr. Guthrie thanked Chairman Kelly for sponsoring breakfast for the TRS employees who contributed to TEAM. Mr. Guthrie then discussed Phase 2 and next steps in TEAM.

6. Consider the evaluation and performance of Bridgepoint Consulting as the TEAM Program Independent Program Assessment (IPA) Vendor and as appropriate, consider extending the related agreement – Amy Barrett.

Ms. Amy Barrett presented an evaluation of Bridgepoint as the Independent Program Assessment vendor. Ms. Barrett noted that Bridgepoint has been timely, responsive, and knowledgeable, and she recommended that the Board extend Bridgepoint's contract. On a motion by Mr. Corpus, seconded by Ms. Ramirez, the Board voted unanimously to extend Bridgepoint's contract for a period from January 1, 2018 to December 31, 2018.

7. Review the reports of the Chief Financial Officer regarding end of Fiscal Year 2017 Budget Report, expenditures, current financial review and other financial matters involving TRS programs – Don Green.

Mr. Don Green gave an update on the Fiscal Year 2017 year-end budget. Mr. Green reviewed the operating budget by functional areas and object of expense. He noted that TRS personnel, including wages and benefits, is about 50% of the budget. He stated that the remaining budget expenditures consist of 20% operating costs, 20% professional fees, 1% travel, and 4% capital. Mr. Green stated that there is \$20.2 million of operating budget unspent, which translates into roughly 12% of the operating budget unspent. In response to a question from Mr. Moss, Mr. Green noted that \$3 million of the savings were due to the hiring freeze. Mr. Green also stated that TRS lapsed 42% of the travel budget, which he mentioned could be contributed to TRS Tricot in London. Mr. Green discussed TRS's conscious efforts in energy conservation, which saved about \$176,000 in utilities cost. Mr. Green stated that TRS lapsed about \$1.3 million in TEAM funds of

which the majority was professional fees and services. Mr. Green discussed the \$5.5 million lapsed in spending out of commission credits and that the funds from those credits are carried forward to the Fiscal Year 2018 budget. Mr. Green stated that TRS lapsed \$1.7 million in spending in TRS-Care and TRS-Active Care, most of which were related to consulting services. In response to a question from Mr. Kelly, Mr. Green stated that it is too early to determine how the 2018 expenditures are trending relative to the budget, but that requested but unbudgeted items are trending lower thus far in the fiscal year. Based on questions from the Board, Mr. Green discussed the relationship between full time equivalent employees and the impact on the operating budget. Mr. Green and Dr. Gibson discussed communication between TRS staff and the Board on budget matters.

8. Consider adoption of proposed amendments to the Resolution Designating Persons Authorized to Sign TRS Vouchers – Don Green.

Mr. Green stated that the Resolution Designating Persons Authorized to Sign TRS Vouchers lists the individuals who are authorized to sign TRS vouchers on behalf of TRS. Mr. Green stated that the resolution needs to be updated because TRS has hired additional individuals who need to be included on the resolution. Mr. Green introduced Mr. Richard Scheel who will serve as TRS's new controller and director of operations. On a motion from Dr. Gibson, seconded by Mr. Corpus, the Board unanimously approved the updated resolution. Mr. Green also introduced Mr. Martin Cano, who is serving as TRS's new director of facilities security. Mr. Green discussed the reorganization of the Financial Division and brought u Janie Duarte, who has a new position as director of administration. Before concluding the presentation, Mr. Kelly and Mr. Guthrie discussed developing a discreet list of items over which the Board does not have control but impact TRS.

9. Receive an update on Records Management Project – Don Green.

Mr. Green introduced the electronic records management program and its goal to create centralized repositories for TRS electronic records and processes to improve efficiency of information management. Mr. Green reviewed the governance structure of the project and TRS's partnership with Access Sciences to accomplish the project. Mr. Robert O'Connor discussed the size of TRS's electronic file storage and the costs associated with those files. Ms. Kristin Homer discussed the work time lost when an employee has to sift through a large number of electronic files to identify documents and the goal of the e-records project to mitigate that lost time. Mr. Kelly, Mr. Green, and Mr. Jerry Albright discussed the efficiencies that needed to be derived during the hiring freeze and how TRS's e-records project will help improve employee efficiency.

10. Consider adoption of the proposed 403(b) rules, Title 34, Part 3, Chapter 53 of the Texas Administrative Code – Rebecca Merrill.

Ms. Rebecca Merrill presented to the Board the proposed new, amended and repealed rules for final adoption for the TRS 403(b) program. Ms. Merrill reviewed the major provisions of the rule, including proposed changes in the maximum allowable fees companies may charge for the sale of

registered products and investment options. On a motion by Mr. Corpus, seconded by Ms. Ramirez, the Board unanimously adopted the final proposed rule changes to TRS's 403(b) program.

11. Receive a report on Experience Study Overview – Rebecca Merrill.

Ms. Rebecca Merrill presented to the Board an overview of actuarial matters impacting TRS. Ms. Merrill noted that this presentation is to help the Board prepare for the actuarial valuation presentation in December and in preparation for the experience study and assumption set adoption that will be presented in February 2018. Ms. Merrill discussed the elements of the actuarial valuation, including the metrics used by the actuary to assess the actuarial profile of the pension trust fund. Ms. Merrill noted that the actuarial valuation is not an item adopted by the Board unlike the assumption set on which the Board does vote. Ms. Merrill discussed the difference between the economic and demographic assumptions that are included in the assumption set. She also addressed the "pension formula" of contributions plus investment earnings equals the amount of benefits that can be paid and how each of the assumptions fits into the formula. Ms. Merrill discussed that the actuaries use their own independent assessment of TRS's return by mapping TRS's strategic asset allocation to GRS's independently developed capital market expectations. Ms. Merrill reviewed the assumptions that were adopted as part of the 2015 experience study. She also provided the timeline for the 2017 experience study and discussed plans to bring an updated assumption set to the Board at the February meeting. Ms. Merrill, Dr. Gibson, and Jerry Albright then discussed that while historical experience is a factor in developing the investment return assumptions, historical performance is not a predictor of future performance. So, while the actuary examines how TRS has performed over the last 20 years, the most important element in setting the investment return assumption are the forward-looking capital expectations of independent investment firms mapped to the TRS strategic asset allocation.

4. Discuss the Executive Director's report on the following – Brian Guthrie:

- A. Administrative operational matters, including updates on legislative implementation of investment matters, the Executive Director's goals, audit, legal, staff services, investment, special projects, long-term space planning, and strategic planning.**

Mr. Kelly announced that the board would go into executive session on agenda items 4A and 13 under Section 551.071 of the Government Code to consult with legal counsel as needed. At 2:40 p.m. the open session recessed.

After completing the executive session, Mr. Kelly at 3:03 p.m. reconvened the open session.

12. Consider personnel matters, including the appointment, employment, evaluation, compensation, performance, duties discipline or dismissal of the Executive Director, Chief Investment Officer, Chief Audit Executive or Investment Management Division Directors. – David Kelly.

This item was not taken up.

13. Consult with the Board's attorney(s) in Executive Session on any item listed above on this meeting agenda as authorized by Section 551.071 of the Texas Open Meetings Act (Chapter 551 of the Texas Government Code). – David Kelly.

This item was not taken up.

At 3:03 p.m., Mr. Moss moved, Ms. Ramirez seconded and the Board unanimously voted to adjourn.

APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM
OF TEXAS ON THE 14th DAY OF DECEMBER, 2017

ATTESTED BY:

Katherine H Farrell

Katherine H. Farrell

Secretary to the TRS Board of Trustees

12/20/17
Date