

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

AGENDA

November 19, 2015 – 10:30 a.m.

November 20, 2015 – 8:30 a.m.

TRS East Building, 5th Floor, Boardroom

*All or part of the November 19-20, 2015 meeting of the TRS Board of Trustees may be held by telephone conference call as authorized under Texas Government Code Section 551.130. The Board intends to have a quorum physically present at the following location: **1000 Red River Austin, Texas 78701 in the TRS East Building, 5th Floor, Boardroom.***

The Board may take up the items posted on its agenda in any order at its meeting on Thursday, November 19, 2015 or during the meeting on the following day beginning at the time and place specified on this agenda.

The open portions of the November 19-20, 2015 Board meeting are being broadcast over the Internet. Access to the Internet broadcast of the Board meeting is provided on TRS' website at www.trs.state.tx.us.

1. Call roll of Board members and recognize any newly appointed or reappointed member.
2. Consider the following administrative matters – David Kelly:
 - A. Approval of the proposed October 22, 2015 Board meeting minutes.
 - B. Consider the election of the Board Vice-Chair.
 - C. Consider consenting to the Board Chair's appointment of committee members and receive the Board Chair's public announcement of committee chairs.
 - D. Setting, rescheduling, or canceling future Board meetings.
3. Provide opportunity for public comments – David Kelly.
4. Discuss and consider the following investment matters:
 - A. Discussion on Federal Reserve actions – Michael Feroli, JP Morgan.
 - B. Second Quarter 2015 Performance Review – Steve Voss and Mike Comstock, Aon Hewitt.
 - C. Strategic Partnership Update – Michael Pia.

NOTE: *The Board meeting likely will recess after the last item above to conduct committee meetings and will resume later in the day upon adjournment of the committee meetings to take up the items listed below.*

5. Review and discuss the Executive Director's report on the following matters – Brian Guthrie:
 - A. Administrative operational matters, including updates on financial, audit, legal, staff services, and board administration activities; special projects; long-term space planning; 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.
6. Review the report of the Investment Management Committee on its November 19, 2015 meeting – Committee Chair.
7. Review the report of the Risk Management Committee on its November 19, 2015 meeting – Committee Chair.
8. Review the report of the Benefits Committee on its November 19, 2015 meeting and consider the following related matters – Committee Chair:
 - A. Appointments to the Retirees Advisory Committee.
 - B. The contract between TRS and Genworth Life Insurance Company, the carrier authorized by TRS to provide group long-term insurance under Chapter 1576 of the Texas Insurance Code.
9. Review the report of the Policy Committee on its November 19, 2015 meeting and consider the following related matters – Committee Chair:
 - A. Adoption of any amendments to the TRS Mission Statement.
 - B. Adoption of any amendments to the TRS Key Employee Determinations.
 - C. Adoption of proposed amendments to the following TRS rules in Title 34, Part 3 of the Texas Administrative Code:
 - i. Rule § 25.1, relating to Full-time Service;
 - ii. Rule § 25.4, relating to Substitutes;
 - iii. Rule § 25.6, relating to Part-time or Temporary Employment;

- iv. Rule § 25.26, relating to Annual Compensation Creditable for Benefit Calculation;
- v. Rule § 25.46, relating to Determination of Compensation Subject to Deposit and Credit;
- vi. Rule § 25.74, relating to Cost;
- vii. Rule § 25.85, relating to Amount of Out-of-State Service Which Can Be Purchased;
- viii. Rule § 25.121, relating to Employer Verification;
- ix. Rule § 25.131, relating to Required Service;
- x. Rule § 25.133, relating to School Year;
- xi. Rule § 25.181, relating to Minimum Monthly Payment;
- xii. Rule § 25.182, relating to Yearly Increments of Credit;
- xiii. Rule § 27.6, relating to Reinstatement of an Account;
- xiv. Rule § 29.13, relating to Changing Beneficiary for Survivor Benefits;
- xv. Rule § 29.33, relating to Absence from Service;
- xvi. Rule § 31.14, relating to One-half Time Employment;
- xvii. Rule § 31.32, relating to Half-time Employment Up to 90 Days;
- xviii. Rule § 31.34, relating to Employment Up to Three Months on a One-Time Only Trial Basis;
- xix. Rule § 43.16, relating to Notice of Hearing and Other Action;
- xx. Rule § 43.46, relating to Rehearings;
- xxi. Rule § 47.6, relating to Determination That An Order Is Not Qualified Is Final; and
- xxii. Rule § 49.3, relating to Referrals of Delinquent Obligations to Attorney General for Collection.

D. Adoption of any amendments to the TRS Board of Trustees Ethics Policy.

10. Discuss and consider personnel matters, including the appointment, employment, evaluation, compensation, performance, duties, discipline, or dismissal of the Executive Director, Chief Investment Officer, or Chief Audit Executive and the adoption of an executive incentive compensation plan for the Executive Director – David Kelly.

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

11. Provide opportunity for public comments – David Kelly.
12. Review the TRS Pension Trust Fund Actuarial Valuation as of August 31, 2015 – Joseph Newton, Gabriel, Roeder, Smith & Company.
13. Review the TRS-Care Actuarial Valuation and Other Post Employment Benefit (OPEB) reports as of August 31, 2015 and receive an overview and update on TRS-Care and TRS-ActiveCare – Joseph Newton, Amy Cohen, and William Hickman, Gabriel, Roeder, Smith & Company.
14. Review the Comprehensive Annual Financial Report for fiscal year 2015 – Jamie Pierce and Cindy Haley.
15. Review the reports of the Chief Financial Officer regarding expenditures, current financial review, and other financial matters involving TRS programs – Don Green.
16. Receive an update on the TEAM Program – David Cook and Adam Fambrough; Jay Masci, Provaliant.
17. Receive a presentation from the TEAM Program Independent Program Assessment (IPA) Vendor – Michael Johnson, Bridgepoint Consulting.
18. Review the report of the Audit Committee on its November 20, 2015 meeting – Committee Chair.
19. Review and discuss the Deputy Director's report, including matters related to administrative, financial, and staff services operations – Ken Welch.
20. 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 – Carolina de Onís.
21. 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.

Minutes of the Board of Trustees

November 19-20, 2015

The Board of Trustees of the Teacher Retirement System of Texas met on November 19, 2015 in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River Street, Austin, Texas. The following board members were present:

David Kelly, Chair
Nanette Sissney, Vice-Chair
Todd Barth
Karen Charleston
Joe Colonna
David Corpus
Christopher Moss
Anita Palmer
Dolores Ramirez

Others present:

Brian Guthrie, TRS	Stella Mendoza, Eagle Mountain Saginaw ISD
Ken Welch, TRS	Jane Valdez, Eagle Mountain Saginaw ISD
Janet Bray, TRS	Leslie Adkins, BlueCross BlueShield of Texas
Chris Cutler, TRS	Bert Marshall BlueCross BlueShield of Texas
Katrina Daniel, TRS	Carol Riley, BlueCross BlueShield of Texas
Carolina de Onís, TRS	Joe Newton, Gabriel, Roeder, Smith & Company
Howard Goldman, TRS	Lewis Ward, Gabriel, Roeder, Smith & Company
T. Britton Harris IV, TRS	Amy Cohen, Gabriel, Roeder, Smith & Company
Jerry Albright, TRS	Eric St. Pierre, Gabriel, Roeder, Smith & Company
Jase Auby, TRS	Joanne Hamsher, Dallas ISD
Mohan Balachandran, TRS	Charles Richardson, Forth Worth ISD
Chi Chai, TRS	Max Ates, Forth Worth ISD
Christine Bailey, TRS	Tony Magliano, Aetna
Edward Esquivel, TRS	Patricia Del Rio, Aetna
Katy Hoffman, TRS	Gail Shoots, Aetna
Dan Junell, TRS	Rose Pullen, Aetna
Hugh Ohn, TRS	Greg Wood, Aetna
Mike Pia, TRS	Tom Rogers, Austin Retired Teachers Association and Texas Retired Teachers Association
Rebecca Smith, TRS	Josh Sanderson, Association of Texas Professional Educators
Heather Traeger, TRS	Ann Fickel, Texas Classroom Teachers Association
Dr. Keith Brown, Investment Advisor	Tim Lee, Texas Retired Teachers Association
Steve Voss, Aon Hewitt	Philip Mullins, Texas Retired Teachers Association
Mike Comstock, Aon Hewitt	Cindy Walsh, Humana
Steve Huff, Reinhart Boerner Van Deuren	Ted Melina Raab, Texas American Federation of Teachers
Ernie Sanders, HPE	
Victor Ferreira, HPE	

Mr. Kelly called the meeting to order at 10:40 a.m.

1. Call roll of Board members and recognize any newly appointed or reappointed member.

Ms. Lau called the roll. All trustees were present.

2. Consider the following administrative matters – David Kelly:

A. Approval of the proposed October 22, 2015 Board meeting minutes.

On a motion by Ms. Palmer, seconded by Ms. Charleston, the board unanimously approved the proposed minutes of the October 22, 2015 board meeting, as presented.

B. Consider the election of the Board Vice-Chair.

Without objection, the chair deferred taking up agenda item 2B.

C. Consider consenting to the Board Chair's appointment of committee members, and receive the Board Chair's announcement of committee chairs.

Mr. Kelly designated Mr. Colonna to serve as the Investment Management Committee Chair.

3. Provide opportunity for public comments – David Kelly.

Mr. Charles Richardson of Fort Worth ISD addressed his concerns regarding issues with split application coverage under the TRS-ActiveCare program and provided suggestions for improving the current situation. He stated that split application coverage required due diligence on the part of benefit administrators. He requested that future benefit administrator training sessions be on target and concise with all required forms available at the sessions. He noted the difficulties working with multiple health care representatives and suggested having a single point of contact. He suggested that the plan year begin on January 1 instead of August 31 to ease the administrative burden at the beginning of the school year. He stated that moving the open enrollment period from the summer to the fall would facilitate communication with employees and the processing of other benefits. He also suggested that TRS require annual submission of the split premium application beginning in the summer of 2016. He said that failure to file an application would not negate or cancel coverage but would reduce the district or state contribution. He also suggested deleting spousal coverage because of the increasing cost of coverage. He recommended that TRS notify school-district superintendents, chief executive officers, or chief financial officers about important changes relating to the TRS-ActiveCare program by first-class mail or e-mail. Mr. Richardson concluded his remarks by expressing appreciation to TRS staff for their support.

Mr. Max Ates of Fort Worth ISD concurred with Mr. Richardson's comments about issues with split premium processes as well as the determination of enrollment and plan periods. He described ongoing communications between the school district, Aetna, and WellSystems. He informed the board about audits that the school district had undertaken to prevent and resolve recent data transfer and billing issues that arose during the open enrollment period for the TRS-ActiveCare program. As of this day, he said, billing errors and the problems encountered by TRS-ActiveCare participants still existed. He also addressed his concerns relating to compliance with the Consolidated Omnibus Budget Reconciliation Act (COBRA), particularly regarding the potential risk of not being able to receive timely notification to comply with COBRA.

Ms. Joanne Hamsher of Dallas ISD described the actions and efforts taken by her staff in ensuring data accuracy prior to the open enrollment period for the TRS-ActiveCare program. She stated

that, despite efforts in communicating, coordinating, and collaborating with WellSystems to ensure data accuracy and resolve data issues, issues had not been resolved. Mr. Kelly requested the names of parties involved in resolving the data issues. Responding to a question from Ms. Sissney, Ms. Hamsher confirmed that the district was still billed for employees terminated since August for the months of September through November.

Ms. Stella Mendoza of Eagle Mountain Saginaw ISD addressed data transfer and billing issues that occurred during the open enrollment period for the TRS-ActiveCare program. She stated that employees were denied coverage that they should have had. She also stated that the district was still being billed for terminated employees, as well as for incorrect and duplicate coverage. She stated that other districts had also experienced the same issues. In response to a question from Mr. Guthrie regarding the proposal by Mr. Richardson to start the plan year on January 1, Ms. Mendoza stated that, although she had not studied the proposal, her office had experienced similar workload issues that Mr. Richardson was trying to mitigate. Mr. Guthrie confirmed for Mr. Kelly that he would survey the feasibility of the proposal.

Mr. Philip Mullins of the Texas Retired Teachers Association and Texas State Employee Union addressed his concerns relating to the use of executive sessions and the posting of board materials. He stated his belief that certain topics that the board had discussed in executive sessions should have been discussed in open sessions. He stated that board-meeting materials had not been made available to the public in a timely manner. He urged the board to commit to providing meeting materials to the public at least two days prior to the meeting. Mr. Guthrie said that staff would improve the situation and provide meeting materials two days in advance. Mr. Mullins confirmed for Mr. Guthrie that he would prefer a paper copy.

4. Discuss and consider the following investment matters:

A. Discussion on Federal Reserve actions – Michael Feroli, JP Morgan.

Mr. Balachandran introduced and conducted an interview with Mr. Feroli. During the interview, Mr. Feroli discussed the Federal Reserve System, including its history, purpose, structure, interest rate, and impact on inflation. He also addressed projections on future interest rates and the U.S. economy and job market.

B. Second Quarter 2015 Performance Review – Steve Voss and Mike Comstock, Aon Hewitt.

Mr. Comstock presented the trust performance summary for the third quarter of 2015 ending September 30, 2015, including market returns, market value change, asset allocation, total fund performance and attribution, and risk profile. Responding to a comment by Dr. Brown regarding the disparity between private and public equities, Mr. Comstock projected that, in the long term, private equities would generate returns exceeding that of public equities. Mr. Voss stated that quarterly returns for private equities were not as meaningful as longer-term returns.

C. Strategic Partnership Update – Michael Pia.

Mr. Pia provided an update on the Strategic Partnership Network program.

Mr. Corpus provided a review of his visit to the London office in November. He stated that the office would be instrumental in exploring investment opportunities, reducing turnaround time for investment transactions, improving risk control and due diligence, creating efficiencies, and developing business relationships. Mr. Harris stated that the transition of related operations to the office had been smooth. He noted the significant economic benefits of the office in creating additional returns for the trust. He stated that the office would help improve information flow and competitiveness for the fund.

The board recessed at 12:45 p.m. to conduct committee meetings. After the recess, the board meeting reconvened at 5:40 p.m.

Mr. Kelly announced that the board would take up agenda 10.

10. Discuss and consider personnel matters, including the appointment, employment, evaluation, compensation, performance, duties, discipline, or dismissal of the Executive Director, Chief Investment Officer, or Chief Audit Executive and the adoption of an executive incentive compensation plan for the Executive Director – David Kelly.

Mr. Keith Robinson of Focus Consulting provided an update on the development of a proposed incentive compensation plan for the executive director position. He described the plan philosophy, design, methodology, and process. He also detailed evaluation metrics and explained each of the four performance categories, including membership satisfaction, leadership effectiveness, operational effectiveness, and employee engagement. He confirmed for Ms. Sissney that the turnover rate comparisons would be based on voluntary turnovers only. He also confirmed for Ms. Palmer that the evaluation period would be every two years and the employee must be employed by TRS to receive incentive compensation.

Mr. Kelly announced that the committee would go into executive session on agenda item 10 under sections 551.074 and 551.071 of the Government Code to discuss personnel matters and, as needed, to consult with legal counsel. He asked all members of the public and staff to leave the meeting room and to take their belongings with them.

Whereupon the open session of the board meeting recessed at 5:55 p.m.

At 6:31 p.m., Mr. Kelly reconvened the board meeting in open session.

Mr. Kelly called for a motion to adopt the proposed executive performance incentive pay plan, including the performance goals set out in Appendix A of the plan document, with an effective date of December 1, 2015, as presented. Mr. Corpus made the motion. Mr. Colonna seconded the motion, provided that Mr. Corpus' motion be modified by changing the maximum award opportunity from 35 to 25 percent of base salary for overall performance scores of 4.75 and above, thereby requiring, the corresponding award opportunities for overall performance scores of 4.00 and 4.50 to be scaled back to 15 percent and 20 percent of base salary, respectively. Mr. Corpus modified his motion in accordance with Mr. Colonna's proposal, and Mr. Colonna's second was applied to the modified motion. As modified, the motion passed on a voice vote of 5-4 as follows:

Ayes: Mr. Barth, Mr. Colonna, Mr. Corpus, Mr. Kelly, and Mr. Moss.
Nays: Ms. Charleston, Ms. Palmer, Ms. Ramirez, and Ms. Sissney.

Whereupon, the board meeting recessed at 6:32 p.m.

The Board of Trustees of the Teacher Retirement System of Texas reconvened on November 20, 2015 in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River Street, Austin, Texas. The following board members were present:

David Kelly, Chair
Nanette Sissney, Vice-Chair
Todd Barth
Karen Charleston
Joe Colonna
David Corpus
Christopher Moss
Anita Palmer
Dolores Ramirez

Others present:

Brian Guthrie, TRS
Ken Welch, TRS
Amy Barrett, TRS
Chris Cutler, TRS
Katrina Daniel, TRS
Carolina de Onís, TRS
Howard Goldman, TRS
Don Green, TRS
Bob Jordan, TRS
Barbie Pearson, TRS
Ronnie Bounds, TRS
David Cook, TRS
Jan Engler, TRS
Edward Esquivel, TRS
Adam Fambrough, TRS
Cindy Haley, TRS
Clarke Howard, TRS
Dan Junell, TRS
Lynn Lau, TRS

Toma Miller, TRS
Gloria Nichols, TRS
Rebecca Smith, TRS
Heather Traeger, TRS
Yimei Zhao, TRS
Lewis Ward, Gabriel, Roeder, Smith & Company
Amy Cohen, Gabriel, Roeder, Smith & Company
Eric St. Pierre, Gabriel, Roeder, Smith & Company
Joe Newton, Gabriel, Roeder, Smith & Company
Patricia Del Rio, Aetna
Rose Pullen, Aetna
Ted Melina Raab, Texas American Federation of Teachers
Ann Fickel, Texas Classroom Teachers Association
Tim Lee, Texas Retired Teachers Association
Philip Mullins, Texas Retired Teachers Association
Ernie Sanders, HPE
Victor Ferreira, HPE
Jay Masci, Provaliant
Michael Johnson, Bridgepoint Consulting

Mr. Kelly called the meeting to order at 9:14 a.m.

1. Call roll of Board members and recognize any newly appointed or reappointed member.

Ms. Lau called the roll. All trustees were present.

11. Provide opportunity for public comments – David Kelly.

Mr. Kelly called for public comment. No comment was received.

Mr. Kelly announced that the board would take up agenda items 6 through 9 to hear committee reports.

6. Review the report of the Investment Management Committee on its November 19, 2015 meeting – Committee Chair.

Mr. Barth, Presiding Chair, provided the following committee report:

The Investment Management Committee met on November 19, 2015. The first presentation was a review of risk management strategies presented by Jase Auby and James Nield. The final presentation was a review of asset allocation presented by Dr. Mohan Balachandran.

7. Review the report of the Risk Management Committee on its November 19, 2015 meeting – Committee Chair.

Ms. Charleston, Committee Chair, provided the following committee report:

The Risk Management Committee met on November 19, 2015. Risk Management and Strategic Planning staff provided a report on the Enterprise Risk Management (ERM) function, which included an update on the spotlight report and related ERM activities. In addition, an overview of TRS disaster recovery and business continuity initiatives was provided by staff on information, technology, and risk management.

8. Review the report of the Benefits Committee on its November 19, 2015 meeting and consider the following related matters – Committee Chair:

A. Appointments to the Retirees Advisory Committee.

B. The contract between TRS and Genworth Life Insurance Company, the carrier authorized by TRS to provide group long-term insurance under Chapter 1576 of the Texas Insurance Code.

Ms. Palmer, Committee Chair, provided the following committee report:

The Benefits Committee met on November 19, 2015. The committee discussed the status of TRS-ActiveCare open enrollment and suggested that the full board hold a meeting in Dallas in early December to further discuss the administration of TRS-ActiveCare.

The Benefits Committee then recommended to the board a slate of nominees to fill open positions on the Retiree Advisory Committee (RAC). The committee recommended nominees to fill six positions on the RAC. There were no eligible nominees for the active auxiliary personnel position. A slate of committee-recommended nominees is as follows: active teacher nominees, two positions, Dr. Celeste Cardenas, Teresa Koehler; active school administrator nominee, one position, Dr. Bruce Gearing; retired teacher nominee, one position, Grace Mueller; retired school administrator nominee, one position, Dr. H. John Fuller; retired school auxiliary staff nominee, one position, Jesus H. Soto.

The committee also recommended to the board adoption of a resolution authorizing staff to negotiate and execute a one-year extension to the Genworth Long-Term Care Insurance contract.

On a motion by Ms. Palmer, the board unanimously appointed the following nominees to the following positions on the RAC, as recommended by the Benefits Committee:

Active teacher positions: Dr. Celeste Cardenas, Teresa Koehler;

Active school administrator position: Dr. Bruce Gearing;

Retired teacher position: Grace Mueller;

Retired school administrator position: Dr. H. John Fuller; and

Retired school auxiliary staff position: Jesus H. Soto.

On a motion by Ms. Palmer, the board unanimously adopted the following resolution authorizing the extension to the contract between TRS and Genworth Life Insurance Company for one year, as recommended by the Benefits Committee:

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

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

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

Whereas, TRS staff recommends that the Contract be extended for an additional one (1) year period, effective from September 1, 2015 through August 31, 2016, with changes to the Contract as presented to the TRS Board of Trustees ("Board");

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

Resolved, That the Board, pursuant to Chapter 1576 of the Insurance Code, hereby authorizes a one-year extension of the Contract with Genworth, with changes to the Contract as presented to the Board, beginning on September 1, 2015 through August 31, 2016, unless sooner terminated, subject to negotiation and execution of an extension agreement;

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

Resolved, That the Board hereby authorizes the Executive Director or his designees to negotiate, with the assistance and advice of legal counsel, a one (1) year extension, effective from September 1, 2015 through August 31, 2016, of the Contract with Genworth to underwrite the Program and, thereby, to offer benefits to participants in the Program; and, if negotiations are deemed by the Executive Director, in his discretion to be successful, then the Executive Director is hereby authorized to execute the one (1) year extension of the Contract with Genworth on such terms and conditions as the Executive Director deems, in his discretion, to be in the best interest of TRS, and further to execute and deliver all such other documents that the Executive Director may deem necessary or appropriate to effect this resolution, 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 reasonably necessary or advisable with respect to such contract extension, it being understood that the Board's approval of a contract extension pursuant to this resolution shall not be construed as a binding agreement or obligation to extend the Contract, and there shall be no binding agreement among the parties until a full and final written contract extension is negotiated and signed by both parties.

9. Review the report of the Policy Committee on its November 19, 2015 meeting and consider the following related matters – Committee Chair:

- A. Adoption of any amendments to the TRS Mission Statement.**
- B. Adoption of any amendments to the TRS Key Employee Determinations.**
- C. Adoption of proposed amendments to the following TRS rules in Title 34, Part 3 of the Texas Administrative Code:**
 - i. Rule § 25.1, relating to Full-time Service;**
 - ii. Rule § 25.4, relating to Substitutes;**
 - iii. Rule § 25.6, relating to Part-time or Temporary Employment;**
 - iv. Rule § 25.26, relating to Annual Compensation Creditable for Benefit Calculation;**
 - v. Rule § 25.46, relating to Determination of Compensation Subject to Deposit and Credit;**
 - vi. Rule § 25.74, relating to Cost;**
 - vii. Rule § 25.85, relating to Amount of Out-of-State Service Which Can Be Purchased;**
 - viii. Rule § 25.121, relating to Employer Verification;**
 - ix. Rule § 25.131, relating to Required Service;**
 - x. Rule § 25.133, relating to School Year;**
 - xi. Rule § 25.181, relating to Minimum Monthly Payment;**
 - xii. Rule § 25.182, relating to Yearly Increments of Credit;**
 - xiii. Rule § 27.6, relating to Reinstatement of an Account;**
 - xiv. Rule § 29.13, relating to Changing Beneficiary for Survivor Benefits;**
 - xv. Rule § 29.33, relating to Absence from Service;**

- xvi. **Rule § 31.14, relating to One-half Time Employment;**
- xvii. **Rule § 31.32, relating to Half-time Employment Up to 90 Days;**
- xviii. **Rule § 31.34, relating to Employment Up to Three Months on a One-Time Only Trial Basis;**
- xix. **Rule § 43.16, relating to Notice of Hearing and Other Action;**
- xx. **Rule § 43.46, relating to Rehearings;**
- xxi. **Rule § 47.6, relating to Determination That An Order Is Not Qualified Is Final; and**
- xxii. **Rule § 49.3, relating to Referrals of Delinquent Obligations to Attorney General for Collection.**

D. Adoption of any amendments to the TRS Board of Trustees Ethics Policy.

Mr. Colonna, Committee Chair, provided the committee report as follows:

The Policy Committee met on November 19, 2015. The committee conducted the required comprehensive review of the TRS mission statement. No amendments were recommended. The committee then conducted the required comprehensive review of the TRS Key Employee Determinations and recommended to the board the adoption of amendments. The committee also recommended to the Board adoption of proposed amended rules in Chapters 25 through 49 of TRS Rules. Finally, the committee recommended to the board the adoption of the proposed amendments to the Trustee Ethics Policy.

On a motion by Mr. Colonna as the Committee Chair, the board unanimously adopted the following resolution adopting revised TRS Key Employee Determinations, as recommended by the Policy Committee:

Whereas, In accordance with Government Code Section 825.212 and the Employee Ethics Policy, as revised from time to time, the Board of Trustees of the Teacher Retirement System of Texas (the "Board") has authority to determine employees who exercise significant fiduciary authority ("key employees"); and

Whereas, The Board desires to adopt the following determinations of key employees; now, therefore be it

Resolved, That the following positions are determined to be key employees and their current and future incumbents subject to all applicable requirements for key employees:

Title
Executive Director
Deputy Director
Chief Investment Officer
Deputy Chief Investment Officer
Chief Benefit Officer
Chief Financial Officer

General Counsel
Chief Audit Executive
Chief Information Officer
Deputy Chief Information Officer
Chief Healthcare Officer
Director of Strategic Initiatives
Director of General Accounting & Budget
Director of Investment Accounting

Further resolved, That all employees who hold a voting position on the Internal Investment Committee at any time during a reporting period are determined to be key employees subject to all applicable requirements for key employees;

Further resolved, That all Investment Management Division employees who hold the working title of Director or higher during a reporting period are determined to be key employees and subject to all applicable requirements for key employees;

Further resolved, That all employees who have authority to approve or execute securities trades in the TRS order management system during a reporting period are determined to be key employees and subject to all applicable requirements for key employees;

Further resolved, That all employees who hold authority during a reporting period under the Board's General Authority Resolution, through direct delegation from the Board, by designation of the Executive Director under the General Authority Resolution, or otherwise, are hereby determined to be key employees and subject to all applicable requirements for key employees;

Further resolved, That, in addition to the authority granted under the Board's General Authority Resolution, the Executive Director is authorized to designate, upon notice to the General Counsel, an employee not identified above to be a supplemental key employee if the Executive Director determines that it would be prudent for TRS to have the employee subject to the key employee requirements because of the influence the employee exercises, the nature of the employee's job, the information to which the employee has access, or another appropriate reason; at the next meeting of the Board after any supplemental key employee designations, the Executive Director shall notify the Board of the designations for the Board to consider ratification of the designations; and

Further resolved, That the foregoing resolutions and all applicable key employee requirements, including submitting enhanced disclosures required by the Employee Ethics Policy, are effective for the 2014 reporting year and shall remain effective until modified by the Board.

On a motion by Mr. Colonna as the Committee Chair, the board unanimously voted to adopt the order adopting the proposed amended rules in Chapters 25 through 49 of TRS' rules, as recommended by the Policy Committee.

On a motion by Mr. Colonna as the Committee Chair, the board unanimously adopted the proposed amendments to the Trustee Ethics Policy, as recommended by the Policy Committee.

18. Review the report of the Audit Committee – Committee Chair.

Mr. Moss, Committee Chair, provided the committee report as follows:

The Audit Committee met at 8:00 a.m. on Friday, November 20, 2015, in the fifth floor boardroom. The State Auditor's Office staff presented the results of the audit of benefits proportionality at the Office of the Comptroller Public Accounts, the Teacher Retirement System, and the Employees Retirement System. Internal Audit staff presented the results of the audit of actuarial data controls in Northside Independent School District and the quarterly investment testing. Additionally, the Fiscal Year 2015 Internal Audit report, the status of prior auditing and consulting recommendations, audit administrative matters, and Chief Audit Executive's goals for Fiscal Year 2016 were presented.

12. Review the TRS Pension Trust Fund Actuarial Valuation as of August 31, 2015 – Joseph Newton, Gabriel, Roeder, Smith & Company.

Mr. Newton presented the pension trust fund actuarial valuation as of August 31, 2015. Mr. Newton described the impact of deferred investment losses and the new assumptions approved by the board in September 2015. He stated that the current funding period was 33 years, above the 30-year target. He stated that the funding status should begin to increase after five years. He highlighted key evaluation results, including the projected Unfunded Actuarial Accrued Liability (UAAL) and funding ratio. Responding to a question from Mr. Colonna, Mr. Newton stated that the biggest drivers of the difference between the 2014 and 2015 projections were the increased mortality and reduced payroll growth assumptions. He stated that the increased mortality assumption would increase liabilities and the reduced payroll growth assumption would reduce the revenue stream.

Mr. Ward provided a historical review of the following: investment returns; actuarial values of assets and liabilities; and funded ratio on smooth and market bases over the past decade. He highlighted the volatility of investment returns. He stated that, although returns had been below the 8 percent target rate in shorter terms, the 8 percent target rate had been met in the 30-year term. Mr. Newton also compared TRS' funded ratio with that of other large public pension funds. He stated that TRS was at about the 68th percentile, with the trust being 80 percent funded.

Mr. Newton projected the funded ratio and described how it would be affected by future investment returns. He also provided next year's projections regarding UAAL, funded ratio, and funding period based on different market return rates. Finally, he stated that the trust would need time, increased contributions, better-than-anticipated investment or demographic experience, or a combination of those factors to be in an actuarially sound position in the future.

13. Review the TRS-Care Actuarial Valuation and Other Post Employment Benefit (OPEB) reports as of August 31, 2015 and receive an overview and update on TRS-Care and TRS-ActiveCare – Joseph Newton, Amy Cohen, and William Hickman, Gabriel, Roeder, Smith & Company.

Mr. Newton provided background regarding the TRS-Care actuarial valuation and other post-employment benefit studies based on GASB Statements No. 43 and 45. He discussed the current funding policy. He highlighted key drivers for the significant increase in the unfunded liability: negative claim and premium experience; an increased drug cost assumption; unchanged retiree contributions; and new mortality and withdrawal assumptions. Comparing the 2015 results under the current funding policy and discount rate of 5.25 percent with the advanced funding policy and discount rate of 8 percent, he stated that the latter would reduce the unfunded liability from \$43 billion to \$28 billion, but total annual required contribution (ARC) would need to increase from

the current 2.2 to 9.15 percent. Mr. Newton clarified that the projected 9.15 percent of payroll to be collected from active employees would only be used to fund post-employment benefits and would not be used for active member coverage. Further discussion followed regarding the possibility of using the advanced funding option and other possible long-term funding solutions.

Mr. Kelly announced that the board would take up agenda item 2D before taking up item 14.

2. Consider the following administrative matters – David Kelly:

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

Mr. Kelly stated that the board would like to conduct a special board meeting on December 7, 2015 to consider issuing a Request for Proposals for certain health care matters.

On a motion by Ms. Palmer, seconded by Ms. Ramirez, the board unanimously approved setting a special board meeting on December 7, 2015 at Region 10 Service Center, 400 East Spring Valley Road in Richardson, Texas 75081.

14. Review the Comprehensive Annual Financial Report for fiscal year 2015 – Jamie Pierce and Cindy Haley.

Ms. Pierce and Ms. Haley presented the Comprehensive Annual Financial Report for the fiscal year ended August 31, 2015.

15. Review the reports of the Chief Financial Officer regarding expenditures, current financial review, and other financial matters involving TRS programs – Don Green.

Mr. Green provided a report of cash disbursements from the pension fund for September and October 2015.

5. Review and discuss the Executive Director's report on the following matters – Brian Guthrie:

A. Administrative operational matters, including updates on financial, audit, legal, staff services, and board administration activities; special projects; long-term space planning; and strategic planning.

Mr. Guthrie provided an update on legislative activities. He summarized interim charges relating to TRS and the interim committees formed to examine those charges. He highlighted the charge of the Joint Interim Committee to review health benefits for both TRS health care programs, the financial soundness of the programs, and the cost and affordability of plan coverage. He stated that the committee would also examine issues specifically relating to the TRS-ActiveCare program.

Mr. Guthrie announced that TRS had been selected as “A Top Workplace of Austin” for the fourth consecutive year.

Mr. Guthrie also noted recent news about a school district violating state laws relating to the 403(b) program.

Mr. Guthrie provided a general update about agency-related activities, including the opening of the London investment office, the Public and Private Market Summit, the Executive Council Strategic Planning Retreat, new trustee appointments, the National Association of State Retirement Administrators (NASRA) meeting, and the National Council on Teacher Retirement (NCTR) Executive Committee meeting. Mr. Guthrie also announced that he had been invited to be a panelist for the December meeting of the Council for State Governments.

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 stated that TRS sponsored an artwork contest for students from kindergarten through fifth grade across Texas. He presented the final top 11 winning entries that appeared in the 2015 Comprehensive Annual Financial Report (CAFR). He then announced and introduced the following winners:

First place: A third grader from Clark Elementary in Laredo;

Second place: A fourth grader from Roosevelt Elementary in San Antonio;

Third place: A third grader from Live Oak Learning Center in Rockport; and

Honorable Mention: A fourth grader from Ramirez Elementary in Lubbock.

After a brief recess at 10:50 a.m., the board reconvened at 11:02 a.m.

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

Mr. Guthrie reviewed proposed agenda items for the upcoming February board meeting.

16. Receive an update on the TEAM Program – David Cook and Adam Fambrough; Jay Masci, Provaliant.

Mr. Masci provided an update on the TRS website redesign project. He stated that the project was projected to be completed by the end of fiscal year 2016. He also provided a brief update on the Line of Business (LOB) project. Per Mr. Kelly's suggestion, staff would reverse the direction of the arrow symbol for the severity level of future trend so that increasing severity will have a down arrow while decreasing severity will have an up arrow.

Mr. Cook provided an update on the LOB project and overall TEAM program budgets.

Mr. Masci provided an update on the milestones achieved since September. He also highlighted key upcoming milestones, including pre-user acceptance testing (pre-UAT) recertification, end-user training, and Phrase 1 UAT.

Mr. Fambrough provided an update on the testing and certification processes. He stated that all reporting entities would be expected to complete training on the new system. He also provided an

update on the user acceptance testing process. In response to a question as to whether the defects identified in the Phase 1A code were anticipated, Mr. Fambrough stated that the volume of defects was slightly higher than expected. He stated that most of the defects had been resolved. He noted that the development of Phase 1A code involved more customization because more changes were needed for TRS' reporting requirements; therefore, more defects would be expected. Mr. Cook also noted that Phase 1 contained new rules such as the new GASB reporting requirements that would require more and different types of data. He said that some defects were due to lack of experience in dealing with those new requirements. Mr. Masci also noted that the majority of the defects were at the lower severity level, being cosmetic and minor in nature. He stated for Ms. Sissney that major catastrophic defects were fixed immediately.

Mr. Fambrough provided a brief review of the Detailed Level Requirements celebration which was held to mark the transition from the design phase to the testing phase.

17. Receive a presentation from the TEAM Program Independent Program Assessment (IPA) Vendor – Michael Johnson, Bridgepoint Consulting.

Mr. Johnson provided an update on the scorecard and observations for the Independent Program Assessment (IPA). He reported no new observations and no change to the scorecard for this reporting period. He stated that current strengths were in data security and user acceptance testing. Concerning code quality and defect tracking, he stated that progress had been made in resolving those issues.

19. Review and discuss the Deputy Director's report, including matters related to administrative, financial, and staff services operations – Ken Welch.

Mr. Welch discussed recent operational matters. He reported that the average speed of telephone answer was below target by two seconds because of unexpected employee absences. He also described the fall training workshops held for reporting entities and state-wide counseling sessions. Mr. Welch reminded trustees that they were in a blackout period because of the active procurement to select the health plan administrator for the TRS-Care program. He also provided an update regarding open positions in the Purchasing department. He announced that Chet Henry had been named the new Deputy Information Officer. He reported that staff were in the process of preparing the fall issue of *TRS News*, which should be available in December. He also reported on the successful completion of the State Employees Charitable Contribution campaign and annual tailgate and employee recognition ceremony.

Mr. Welch also recognized this year's Golden Apple employee-award recipients: Joe Tannehill; Lorena Cobb-Wells; Rebecca Neidig; Maria Tovar; Veronica Faz; and James Tullos.

Mr. Welch announced the imminent retirement of Bob Jordan, Director of the Health and Insurance Benefits Department. He expressed his appreciation to Mr. Jordan for his tremendous contributions to the system. Mr. Jordan also provided a brief remark. He expressed his appreciation to TRS staff and the trustees for their support of both the TRS-ActiveCare and TRS-Care plans.

20. 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 – Carolina de Onís.

Ms. de Onís stated no material development to be added to the written litigation report.

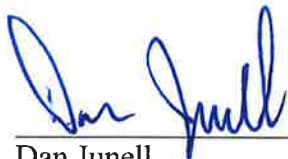
- 21. Consult with the Board's attorney(s) in executive session on any item listed above on this meeting agenda as authorized by Section 551.071 of the Texas Open Meetings Act (Chapter 551 of the Texas Government Code) – David Kelly.**

The board took up no further business under agenda item 21.

The meeting was adjourned at 11:49 a.m.

APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM
OF TEXAS ON THE 24TH DAY OF FEBRUARY 2015.

ATTESTED BY:



Dan Junell
Secretary to the TRS Board of Trustees

March 23, 2014

Date