

Minutes of the Board of Trustees

October 27, 2016

The Board of Trustees of the Teacher Retirement System of Texas met on October 27, 2016, 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
Karen Charleston
David Corpus
John Elliott
Greg Gibson
Dolores Ramirez

The following Board member attended telephonically:

Anita Palmer

Others present:

Brian Guthrie, TRS	Philip Mullins, ARTA
Ken Welch, TRS	Nancy Byler, TRTA
Don Green, TRS	Marcy Cann, TRTA
Carolina de Onís, TRS	Bill Barnes, TRTA
Katrina Daniel, TRS	Tom Rogers, AISD, ARTA
Britt Harris, TRS	Jane Eixmann, TRTA
Jerry Albright, TRS	Mary Widmier, TRTA
Amy Barrett, TRS	Ella Gauthier, TRTA
Toma Miller, TRS	Mark Wiggins, ATPE
Ashley Inman, TRS	Ann Fickel, TCTA
Katherine Farrell, TRS	Ted Melina Raab, Texas AFT
	Jim Baker, Unite Here
	Dermot Delude-Dix, Unite Here
	Brandy Miller, Homeowner
	Richard Proffitt, Homeowner
	Sandra Cohen, Homeowner
	Brent Hagewood, Humana
	Sabina Rahmeen-Garcia, Humana
	Jennifer Smith, Humana
	Pat Del Rio, Aetna
	Rose Pullen, Aetna
	Joni Zozaro, Caremark

Mr. Kelly called the meeting to order at 11:10 a.m.

1. Call roll of Board members.

Ms. Farrell called the roll. A quorum was present. Mr. Colonna and Mr. Moss were absent. Ms. Palmer attended the meeting telephonically.

2. Consider the following administrative items – David Kelly:

A. Approval of the proposed September 22 and 23, 2016 Board meeting minutes.

The Board unanimously voted to approve the proposed minutes of the September 22 and 23, 2016, Board meeting.

B. Excusing Board member absences from the September 22 and 23, 2016 Board meeting.

On a motion by Ms. Ramirez, seconded by Ms. Charleston, the Board unanimously voted to excuse the absence of Dr. Greg Gibson from September 23, 2016, Board meeting.

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

No changes to the future Board meetings schedule were addressed.

3. Provide opportunity for public comment – David Kelly.

Mr. Kelly took the opportunity to recognize the following officers of the Texas Retired Teachers Association (TRTA) - Nancy Byler, Marcy Cann, Bill Barnes and other local TRTA presidents.

The following individuals made public comments:

Mr. Dermot Delude-Dix a researcher working with Unite Here, appeared on behalf of the union for hospitality workers. He came with homeowners from Baltimore, Maryland to raise concerns about Oak Tree Capital Management's investment in residential mortgages.

Ms. Sandra Cohen of Baltimore, Maryland, shared her personal experience with Oak Tree and implored TRS, as a homeowner directly impacted by Oak Tree investments in Baltimore, to hold the companies accountable for actions in their communities.

Mr. Richard Proffitt of Baltimore, Maryland, shared his and his wife's personal experiences with Oak Tree. Mr. Proffitt requested TRS to investigate Oak Tree and hold them accountable for their actions in his community.

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

A. Administrative operational matters, including updates on the Executive Director's goals; audit, legal, staff services, investment, board administration, 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.

Mr. Guthrie provided general updates. The 94th annual NCTR Conference occurred on October 8th through the 12th in Providence, Rhode Island. Mr. Guthrie announced he was reappointed to the executive committee of NCTR at this meeting and will serve another three-year term. On October 12, 2016, Mr. Guthrie testified before the House General Investigating and Ethics Committee on the use of emergency leave. Mr. Guthrie then listed upcoming events, including the semiannual Private/Public SPN Summit in Austin, November 2 and 3, 2016.

Mr. Green provided an update on the automation of the incentive compensation payment process. He thanked Barbara Forsell, Chris Bailey, Scott Leith and Hugh Ohn for helping with the implementation of the new software.

Mr. Guthrie announced Janet Bray won the National Diversity Council's 2016 Most Powerful Businesswoman Award.

Mr. Guthrie previewed the annual pension fund valuation that TRS' actuary, Gabriel, Roeder, Smith & Company (GRS) will present at the December 2016 Board meeting. Mr. Guthrie reported the market return for the past year was 7.3 percent. He said that the unfunded actuarial liability had increased from \$33 billion to \$35.5 billion. Mr. Guthrie noted the funded ratio is at 79.7 percent.

Mr. Guthrie gave an overview of potential omnibus bill topics. Mr. Guthrie reviewed a few of the recommended changes that are necessary to help administer the plan better or to come into compliance with federal law.

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

Mr. Guthrie announced the transparency report was completed for the Board's review and consideration. He stated it was a team effort put together by TRS staff, HP, Bridgepoint, and Provaliant and all are in agreement with the metrics that are included. Mr. Guthrie reported as of September 30th, the grade given was a B – minus, slightly above average but with work still needed. Mr. Guthrie reviewed the various components that went into the grade – schedule, cost, quality and individual assessments – three objective components comprising of 90 percent and one subjective component comprising of 10 percent of the grade. Mr. Chet Henry provided further background and information as to how the components were developed.

6. Receive a report from CEM on customer service benchmarks – Rogier Slingerland

Mr. Rogier Slingerland reported CEM Benchmarking (CEM) holds a pension administration conference once a year, it is the largest independent conference in the world. TRS was the co-host this past year, it was the highest rated conference that CEM has ever had. Mr. Slingerland expressed thanks to Ms. Merrill, Ms. Lamb and Mr. Guthrie and everyone else at TRS that helped make the conference such a success.

Mr. Slingerland reviewed the benchmarking report for fiscal year 2015. There are two comparisons in the report – one is against custom peer group and the other is against an entire universe of participating funds. Mr. Slingerland pointed out that among TRS' peers it has the second lowest total pension administration cost in its peer group and ranks fourth lowest worldwide. He reported TRS is below its peers in every cost category. Mr. Slingerland also reported TRS transactions done per FTE is more productive, 144 percent above the peer average. Mr. Slingerland reviewed the service scoring, TRS ranked very near the peer median. Mr. Slingerland then shared some global trends they have observed. In response to Mr. Guthrie's inquiry, Mr. Slingerland stated European funds are in some ways ahead of most U.S. funds with chat functions, avatars, really going far in how to service their members.

7. Consider a resolution increasing the amount of the fiscal year 2017 operating budget for the 403(b) Program – Rebecca Merrill.

Ms. Rebecca Merrill reminded the Board that four-year review of the 403(b) rules had begun. She said that the rule review would consider, among other things, fee caps set by the Board on 403(b) vendors. Ms. Merrill noted the need to partner with an outside consultant to provide expertise on how the market is operating to allow for a robust rule review. Ms. Merrill requested as part of the 403(b) budget an additional \$70,000. This amount, she said, is to pay the consultant, as well as outside legal counsel regarding identified tax issues. Ms. Merrill informed the Board the 403(b) budget is completely separate from the pension trust fund, requested amounts will come from the registration and certification fees paid for by the 403(b) vendors.

On a motion by Dr. Gibson, seconded by Mr. Corpus, the Board voted unanimously to adopt the resolution to increase the 403(b) budget as proposed by staff.

8. Discuss and consider personnel matters, the appointment, employment, evaluation, reassignment, duties, discipline, dismissal and other personnel matters involving compensation, of a public officer or employee, including the following:

A. Adoption of a resolution regarding the salary limit for the Deputy Director Investment Officer listed as an exempt position in the 2016-2017 General Appropriations Act.

B. Senior executive staff succession plan.

Mr. Guthrie provided a brief overview on the agency wide succession plan. Mr. Guthrie stated they have gone through a process of identifying not only those eligible to retire but also high potential employees and preparing them for advancement into critical positions which are key to the success of the business operations and objectives. Mr. Guthrie noted there are 66 critical positions in terms of business continuity and 77 high potential employees who are in a position to perhaps fill those critical positions. Mr. Guthrie reviewed each of the divisions and the percentage of employees already eligible to retire now and by 2022.

Mr. Guthrie reviewed the resolution for increasing the salary limit of the Deputy Director Investment Officer.

On a motion by Ms. Ramirez, seconded by Mr. Corpus, the Board unanimously voted to approve the resolution as proposed by staff to increase the not to exceed rate by 5 percent for the Deputy Director Investment Officer.

Mr. Kelly then announced at 1:10 p.m. the Board would go into executive session on agenda items 8(a) and (b) under Sections 551.074 and 551.071 of the Government Code to discuss personnel matters and to consult with legal counsel as needed.

9. 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 agenda item was not taken up.

At 2:27 p.m. the Board reconvened in open meeting.

At 2:28 p.m., Dr. Gibson moved, Ms. Charleston seconded, and the Board unanimously voted to adjourn.

APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM OF TEXAS ON THE 1st DAY OF DECEMBER, 2016

ATTESTED BY:

Katherine H Farrell
Katherine H. Farrell
Secretary to the TRS Board of Trustees

12/5/16
Date