

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

**AGENDA**

**September 12, 2013 – 8:15 a.m.**

**September 13, 2013 – 9:30 a.m.**

**TRS East Building, 5<sup>th</sup> Floor, Boardroom**

*NOTE: The Board may take up any item posted on the agenda during its meeting on Thursday, September 12, 2013, or the following day beginning at the time and place specified on this agenda.*

*The open portions of the September 12-13, 2013 Board meetings are being broadcast over the Internet. Access to the Internet broadcast of the Board meeting is provided on TRS' Web site at [www.trs.state.tx.us](http://www.trs.state.tx.us).*

*The September 12-13, 2013 meeting of the TRS Board of Trustees will 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 **1000 Red River Austin, Texas 78701 in the TRS East Building, 5<sup>th</sup> Floor, Boardroom.***

1. Call roll of Board members.
2. Consider administrative matters, including the following – David Kelly:
  - A. Consider the approval of the July 26, 2013 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 announcement of committee chairs.
  - D. Consider Board and committee meeting dates for calendar year 2014, including any off-site meeting locations.
3. Receive public comment – David Kelly.

***NOTE:** The Board meeting likely will recess after the last item above for committee meetings and resume Thursday afternoon to take up items listed below.*

4. Receive the Executive Director's report, including matters related to – Brian Guthrie:
  - A. Executive Director's agency goals and objectives for Fiscal Year 2014, including strategic planning and identified priorities.
  - B. An update on recent and upcoming educational opportunities.

- C. Review upcoming agendas.
  - D. Administrative operations and other financial, audit, legal, staff services, and special project matters.
5. Discuss and consider investment matters, including the following items:
- A. Performance Review: Second Quarter 2013 – Brady O’Connell and Steve Voss, Hewitt EnnisKnupp.
  - B. Review Quarterly Portfolio Performance and market update – Britt Harris.
  - C. Receive a presentation on emerging markets entitled, “The Post-BRICS World” – Ruchir Sharma, Morgan Stanley.
  - D. Review the report of the Investment Management Committee on its September 12, 2013 meeting, and consider related matters – Committee Chair.
  - E. Review the report of the Risk Committee on its September 12, 2013 meeting, and consider related matters – Committee Chair.
6. Review the report of the Compensation Committee on its September 12, 2013 meeting, and consider proposed amendments to and ratification of the Performance Incentive Pay Plan for the period beginning October 1, 2013 – Committee Chair.
7. Review the report of the Policy Committee on its September 12, 2013 meeting, and consider related matters – Committee Chair:
- A. Consider proposed changes to the Investment Policy Statement.
  - B. Consider proposed changes to the Employment At-Will Policy.
  - C. Consider final adoption of proposed amended TRS Rule 34 Tex. Admin Code § 47.17 of Chapter 47, Qualified Domestic Relations Orders, relating to calculation for alternate payee benefits before a member’s benefit begins.
  - D. Consider final adoption of proposed amended TRS-ActiveCare Rule 34 Tex. Admin. Code § 41.41, relating to premium payments.

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

- 8. Receive the Deputy Director’s report, including an update on legislative implementation – Ken Welch.
- 9. Receive a presentation from the TEAM Program Independent Program Assessment (IPA) Vendor – Michael Johnson, Bridgepoint Consulting.

10. Receive an update on the TEAM Program, including details on the Pension Line of Business Proof of Concept and the Financial System Replacement project – Barbie Pearson, Jamie Michels, and David Cook.
11. Receive the report of the Audit Committee on its September 13, 2013 meeting, and discuss and consider adoption of the proposed Audit Plan for Fiscal Year 2014 – Committee Chair.
12. Receive the Chief Financial Officer's report under § 825.314(b), Government Code, of expenditures that exceed the amount of operating expenses appropriated from the general revenue fund and are required to perform the fiduciary duties of the Board – Don Green.
13. Review the report of the General Counsel on pending or contemplated litigation, including updates on litigation involving benefit-program contributions, retirement benefits, health-benefit programs, and open records, and discuss the determination of whether to seek lead plaintiff status in securities class action litigation – Carolina de Onís.
14. 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 – David Kelly.
15. 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.



## Teacher Retirement System of Texas

### Minutes of the Board of Trustees

September 12-13, 2013

The Board of Trustees of the Teacher Retirement System of Texas met on September 12, 2013, 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  
Todd Barth  
Joe Colonna  
Chris Moss  
Anita Palmer  
Nanette Sissney

#### Others present:

Brian Guthrie, TRS  
Ken Welch, TRS  
Amy Barrett, TRS  
Janet Bray, TRS  
Carolina de Onís, TRS  
Howard Goldman, TRS  
Don Green, TRS  
T. Britton Harris IV, TRS  
Jerry Albright, TRS  
Thomas Albright, TRS  
Jase Auby, TRS  
Mohan Balachandran, TRS  
Michelle Bertram, TRS  
Ronnie Bounds, TRS  
Tina Carnes, TRS  
Cindy Collins, TRS  
Susanne Gealy, TRS  
Dennis Gold, TRS  
Brian Golmoski, TRS  
Terry Harris, TRS  
Dan Herron, TRS  
Katy Hoffman, TRS  
Clarke Howard, TRS  
Janis Hydak, TRS  
Dan Junell, TRS  
Eric Lang, TRS

Lynn Lau, TRS  
Scot Leith, TRS  
Denise Lopez, TRS  
Rebecca Merrill, TRS  
Melinda Nink, TRS  
Hugh Ohn, TRS  
Noel Sherman, TRS  
Garry Sitz, TRS  
Rebecca Smith, TRS  
Sharon Toalson, TRS  
David Veal, TRS  
Angela Vogeli, TRS  
Dale West, TRS  
Dr. Keith Brown  
Steve Huff, Reinhart Boerner Van Deuren  
Steve Voss, Hewitt EnnisKnupp  
Brady O'Connell, Hewitt EnnisKnupp  
Ruchir Sharma, Morgan Stanley  
John Claisse, Albourn America  
Ronnie Jung, Texas Retired Teachers Association  
Leroy DeHaven, Texas Retired Teachers Association  
Ann Fickel, Texas Classroom Teachers Association  
Jeff Lambert, State Street  
Ted Melina Raab, Texas American Federation of Teachers  
Josh Sanderson, Association of Texas Professional Educators  
Tom Rogers, Austin Retired Teachers Association & Texas Retired Teachers Association

Mr. Kelly called the meeting to order at 1:50 p.m.

#### **1. Call roll of Board members.**

Ms. Lau called the roll. A quorum was present. Ms. Charleston, Ms. Clifton and Mr. McDonald were absent.

Mr. Kelly announced that the board would take up agenda item 2.B.

**2. Consider administrative matters, including the following:**

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

On a motion by Mr. Barth, seconded by Ms. Palmer, the board unanimously elected Ms. Sissney to be the board vice-chair.

**A. Consider the approval of the July 26, 2013 Board meeting minutes.**

On a motion by Mr. Moss, seconded by Ms. Sissney, the board unanimously approved the minutes for the July 26, 2013 meeting.

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

The board deferred the appointment of committee members until two new trustees replacing Ms. Clifton and Mr. McDonald were appointed.

**D. Consider Board and committee meeting dates for calendar year 2014, including any off-site meeting locations.**

The board deferred the consideration of the 2014 meeting dates until after the governor has made the pending appointments to the board and the appointees have assumed their duties.

Mr. Kelly requested that staff prepare alternative dates for the April 2014 meeting to accommodate trustees who will be busy that month.

**3. Receive public comment**

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

After a recess at 8:37 a.m., the board reconvened at 1:00 p.m.

**4. Review and discuss the Executive Director's report, including matters related to**

**A. Executive Director's agency goals and objectives for Fiscal Year 2014, including strategic planning and identified priorities.**

Mr. Guthrie presented the agency goals and objectives for fiscal year (FY) 2014. He updated the board on the activities relating to TRS-Care and TRS-ActiveCare. He said the health care study would be expanded to include TRS-ActiveCare and its enrollment. He reported on the progress of implementing the TEAM program. He talked about the development of agency core values. Mr. Guthrie also addressed space planning for TRS' offices. Mr. Kelly requested that staff provide the board a study on the space planning options and their pros and cons. Ms. Sissney

asked that the study include the concerns that the proposed options would remedy. Mr. Guthrie stated that staff would present the study at the February 2014 meeting.

**B. An update on recent and upcoming educational opportunities.**

Mr. Guthrie reviewed the recent and upcoming training opportunities for both trustees and staff.

**C. Review upcoming agendas.**

Mr. Guthrie reviewed the October, December and February board meeting agendas. Mr. Kelly requested that staff arrange a presentation on the Affordable Care Act and its impact on TRS members. He suggested inviting other public retirement funds in the area to the discussion.

Mr. Kelly announced that the board would take up agenda item 12.

**12. Receive the Chief Financial Officer's report under § 825.314(b), Government Code, of expenditures that exceed the amount of operating expenses appropriated from the general revenue fund and are required to perform the fiduciary duties of the Board**

Pursuant to section 825.314(b) of the Government Code, Mr. Green presented a report of the expenditures paid during the months of June and July 2013 that were required to perform the fiduciary duties of the board. He also provided highlights on the Comprehensive Annual Financial Report and noted that about \$17 million of the funds budgeted for FY 2013 remained unspent, including funding for the TEAM program, soft dollar expenditure, salary and benefits, travel, and professional fees. Per Mr. Kelly's request, Mr. Green said he would provide further details on those savings. Mr. Green also noted that, with Ms. Sissney's guidance, redesigned monthly financial reports would be provided to trustees.

After a recess at 1:40 p.m., the board reconvened at 1:51 p.m.

**5. Discuss and consider investment matters, including the following items:**

**A. Performance Review: Second Quarter 2013 – Brady O'Connell and Steve Voss, Hewitt EnnisKnupp.**

Mr. Brady O'Connell of Hewitt EnnisKnupp presented the performance review for the second quarter of 2013 ending June 30, 2013.

**B. Review Quarterly Portfolio Performance and market update – Britt Harris.**

Mr. Harris discussed the global market analysis comparing the economic performance of the US market with other countries since 2006.

Mr. Colonna left at 2:30 p.m.

**C. Receive a presentation on emerging markets entitled, “The Post-BRICS World” – Ruchir Sharma, Morgan Stanley.**

Mr. Ruchir Sharma of Morgan Stanley gave a presentation on emerging markets with a focus on the economies of Brazil, Russia, India, China and South Africa (BRICS).

After a recess at 3:15 p.m., the board reconvened at 3:36 p.m., by which time Ms. Charleston had arrived.

**D. Review the report of the Investment Management Committee on its September 12, 2013 meeting, and consider related matters – Committee Chair.**

Mr. Barth, Committee Chair, provided the report of the Investment Management Committee as follows:

The Investment Management Committee met today. The first presentation was a review of the external public markets portfolio, which was presented by Dale West and his group. Next David Veal reviewed the five-year anniversary of the public markets strategic partnership network. Then Mohan Balachandran discussed the Investment Management Division (IMD) process for developing new internal portfolios. The last presentation was made by James Nield regarding risk parity strategies.

**E. Review the report of the Risk Committee on its September 12, 2013 meeting, and consider related matters – Committee Chair.**

Mr. Barth, Presiding Chair, provided the report of the Risk Management Committee as follows:

The Risk Committee met today. Jase Auby reviewed the various risk measures including asset allocation, tracking error, and levels of leverage and derivative exposures.

Taking up agenda item 7, Mr. Kelly asked Mr. Barth to present the report of the Policy Committee.

**7. Review the report of the Policy Committee on its September 12, 2013 meeting, and consider related matters – Committee Chair:**

**Consider proposed changes to the Investment Policy Statement.**

**Consider proposed changes to the Employment At-Will Policy.**

**Consider final adoption of proposed amended TRS Rule 34 Tex. Admin Code § 47.17 of Chapter 47, Qualified Domestic Relations Orders, relating to calculation for alternate payee benefits before a member’s benefit begins.**

**Consider final adoption of proposed amended TRS-ActiveCare Rule 34 Tex. Admin. Code § 41.41, relating to premium payments.**

Mr. Barth, Presiding Chair, provided the report of the Policy Committee as follows:

The Policy Committee considered and recommended adoption of five amendments to the Investment Policy Statement. The committee also began the required review of the Proxy Voting Policy, and recommended amendments to the Employment At-Will Policy. Additionally, the committee adopted an updated policy review schedule. Finally, the committee recommended to the board final adoption of proposed TRS rules § 47.17 and § 41.41.

On a motion by Mr. Barth, the board unanimously adopted the following resolution amending the Investment Policy Statement as recommended by the committee:

**Resolved**, That the Policy Committee of the Board hereby recommends to the Board adoption of the proposed revised version of the Investment Policy Statement ("IPS") as presented to the Policy Committee.

On a motion by Mr. Barth, the board unanimously adopted the following resolution amending the Employment At-Will Policy as recommended by the committee:

**Whereas**, It is the policy of the Board of Trustees of the Teacher Retirement System of Texas (TRS) that employees of TRS are employed at will; now, therefore, be it

**Resolved**, That the Board readopts the attached At-Will Employment Policy of TRS.

On a motion by Mr. Barth, the board unanimously adopted the following resolutions amending § 47.17 and § 41.41 of the TRS rules as recommended by the committee:

**Whereas**, Chapter 1579, Insurance Code, authorizes the Teacher Retirement System of Texas (TRS), as trustee, to implement and administer the uniform group health benefits program under the Texas School Employees Uniform Group Health Coverage Act (TRS-ActiveCare), as described in the statute;

**Whereas**, 34 TEX. ADMIN. CODE § 41.41 provides that each participating entity in TRS-ActiveCare shall remit to TRS the amount on each bill for premiums directed to the participating entity by TRS or the administering firm and provides the deadline for making such payments to TRS;

**Whereas**, In June 2013, in response to an unexpectedly high level of claims during the current plan year, which has placed the solvency of the TRS-ActiveCare fund at risk, the TRS Board of Trustees (board) adopted proposed amendments to TRS-ActiveCare rule § 41.41 on an emergency basis;

**Whereas**, Pursuant to the authority granted by the Policy Committee (committee) of the board at its June 2013 meeting, TRS published the very same proposed amendments to TRS-ActiveCare rule § 41.41 for public comment in the June 28, 2013 issue of the *Texas Register* (38 TexReg 4162-4163);



**Whereas,** The public has had at least 30 days' notice of TRS' intention to adopt the proposed amendments on a permanent, non-emergency basis and TRS received no comments; and

**Whereas,** The committee has recommended that the board adopt the proposed amendments to TRS-ActiveCare rule § 41.41 on a permanent, non-emergency basis, and the board desires to adopt the proposed amendments on a permanent, non-emergency basis, without changes to the published texts of the proposed rule; now, therefore, be it

**Resolved,** That the board hereby:

- 1) Adopts on a permanent, non-emergency basis, amended TRS rule 34 Tex. Admin. Code § 41.41 as published in the June 28, 2013 issue of the *Texas Register* (38 TexReg 4162-4163);
- 2) Incorporates by reference into this Resolution, as though fully set out in it, the applicable committee and board meeting materials, discussions and actions, including the approved rule text and reasoned justification for its adoption as presented in those meeting materials, discussions and actions;
- 3) Grants the TRS staff authority to prepare and to file all documents required by this Resolution, to work with the Office of the Secretary of State in preparing and filing such documents, and to make any technical changes required for publication of the adopted rule; and
- 4) Grants the board chairman the authority to sign an order showing the action of the board.

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**Whereas,** Chapter 804, Texas Government Code gives the Teacher Retirement System of Texas (TRS), as trustee, the exclusive authority to determine whether a domestic relations order is a qualified domestic relations order (QDRO) that requires TRS to pay a portion of the benefits payable on behalf of a participant to an alternate payee;

**Whereas,** Section 804.005, Texas Government Code authorizes an alternate payee to elect and receive an amount in lieu of the amount awarded under the terms of a QDRO, that is the alternate payee's portion of the actuarial equivalent of the accrued retirement benefit of the TRS participant, determined as if the participant retired on the date of the alternate payee's election, provided the participant is at least age 62 and eligible for normal age retirement and the amount is payable in the form of annuity for the life of the alternate payee;

**Whereas,** Section 804.005(g), Texas Government Code, authorizes the TRS Board of Trustees ("board") to adopt rules it considers necessary to implement and administer the section;

**Whereas,** A recent review of TRS rule § 47.17(y), relating to Calculation for Alternate Payee Benefits Before a Member's Benefit Begins, revealed an error in the text that results in the alternate payee receiving less than the amount required under the statute;

**Whereas,** The proposed amendment to TRS rule § 47.17(y), relating to Calculation for Alternate Payee Benefits Before a Member's Benefit Begins, provides the correct

instructions for calculating the alternate payee's portion of the actuarial equivalent of the member's accrued benefit when the QDRO directs TRS to pay the alternate payee a stated monthly amount;

**Whereas**, pursuant to the authority granted by the Policy Committee of the board at its June 2013 meeting, TRS published proposed changes to § 47.17 for public comment in the July 5, 2013 issue of the *Texas Register*, and the public had at least 30 days' notice of TRS' intention to adopt the proposed amendment before the board considered its adoption and TRS received no comments; and

**Whereas**, The board's policy committee has recommended that the board adopt the proposed amendment, and the board desires to adopt the proposed amendment without changes to the published text of the proposed rule; now, therefore, be it

**Resolved**, That the board hereby:

- 1) Adopts amended TRS rule 34 TEX. ADMIN. CODE § 47.17 as published in the July 5, 2013 issue of the *Texas Register* (38 TexReg 4305);
- 2) Incorporates by reference into this Resolution, as though fully set out in it, the applicable policy committee and board meeting materials, discussions and actions, including the approved rule text and reasoned justification for its adoption as presented in those meeting materials, discussions and actions;
- 3) Grants the TRS staff authority to prepare and to file all documents required by this Resolution, to work with the Office of the Secretary of State in preparing and filing such documents, and to make any technical changes required for publication of the adopted rule; and
- 4) Grants the board chairman the authority to sign an order showing the action of the board.

**6. Review the report of the Compensation Committee on its September 12, 2013 meeting, and consider proposed amendments to and ratification of the Performance Incentive Pay Plan for the period beginning October 1, 2013 – Committee Chair.**

Ms. Sissney, Committee Chair, provided the report of the Compensation Committee as follows:

The Compensation Committee met on September 12, 2013. Jerry Albright presented a state auditor-recommended change to the Performance Incentive Pay Plan that would require the board to ratify the plan each year. The committee recommended to the board adoption of a resolution amending and ratifying the pay plan for the performance period beginning October 1, 2013.

On a motion by Ms. Sissney, the board unanimously adopted the following resolution amending and ratifying the Performance Incentive Pay Plan as recommended by the committee:

**Resolved**, That the Board hereby adopts the amended Performance Incentive Pay Plan as recommended by the Compensation Committee, and hereby ratifies and confirms continuation of the Plan, as amended, for the Performance Periods beginning October 1, 2013.

Mr. Kelly announced that the board would take up agenda item 8.

**8. Receive the Deputy Director's report, including an update on legislative implementation**

Mr. Welch provided a brief update on legislative issues. He noted the increased workload on the benefits staff because of members' rush to purchase service credit by August 31, 2013 before the cost increased under legislation enacted in 2011. He also updated the process of distributing the cost-of-living adjustment benefits passed in the last legislative session.

Mr. Welch reviewed current operational activities. He mentioned strategic planning efforts and remodeling to accommodate contractors. He addressed hold times in the Telephone Counseling Center in July and the challenges in accurately calculating them.

Mr. Welch stated that the five positions of the Retirees Advisory Committee (RAC) would be up for nomination in January. He stated that staff would recommend candidates to the Benefits Committee in December to fill the positions. Mr. Guthrie noted that after the new RAC was formed, the RAC members would be invited to address the issues relating to the health care programs and their recommended approach to those issues.

Mr. Kelly announced that the board would take up agenda item 13.

**13. Review the report of the General Counsel on pending or contemplated litigation, including updates on litigation involving benefit-program contributions, retirement benefits, health-benefit programs, and open records, and discuss the determination of whether to seek lead plaintiff status in securities class action litigation**

Mr. Kelly announced that the board would go into executive session for items 13 and 15 to seek advice from legal counsel about litigation pursuant to § 551.071 of the Government Code. He asked that all members of the public and staff not needed for the session to leave the meeting room and take their belongings with them.

Whereupon, the board went into executive session at 3:55 p.m.

The meeting reconvened in open session and recessed at 4:25 p.m.

The Board of Trustees of the Teacher Retirement System of Texas reconvened on September 13, 2013, 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  
Todd Barth  
Karen Charleston  
Joe Colonna (via telephone conferencing)  
Chris Moss  
Anita Palmer  
Nanette Sissney

Others present:

Brian Guthrie, TRS  
Ken Welch, TRS  
Amy Barrett, TRS  
Janet Bray, TRS  
Carolina de Onís, TRS  
Dennis Gold, TRS  
Howard Goldman, TRS  
Don Green, TRS  
Jerry Albright, TRS  
Amy Morgan, TRS  
Marianne Woods Wiley, TRS  
Michelle Bertram, TRS  
Cindy Collins, TRS  
Adam Fambrough, TRS  
Cindy Haley, TRS  
Dan Herron, TRS  
Ronnie Bounds, TRS  
David Cook, TRS

Dan Junell, TRS  
Lynn Lau, TRS  
Jay LeBlanc, TRS  
Rebecca Merrill, TRS  
Jamie Michels, TRS  
T. A. Miller, TRS  
Melinda Nink, TRS  
Scot Leith, TRS  
Noel Sherman, TRS  
Tim Wei, TRS  
Keith Robinson, Focus Consulting Group  
Michael Johnson, Bridgepoint Consulting  
Steve Huff, Reinhart Boerner Van Deuren  
Ted Melina Raab, Texas American Federation of Teachers  
Ann Fickel, Texas Classroom Teachers Association  
Leroy DeHaven, Texas Retired Teachers Association  
Andy Tonkovich, HP  
Ernie Sanders, HP  
Sergio Rodriguez , CGI Technology

Mr. Kelly called the meeting to order at 9:47 a.m.

**1. Call roll of Board members.**

Ms. Lau called the roll. A quorum was present. Mr. Clifton and Mr. McDonald were absent. Mr. Colonneta participated in the board meeting by telephone conference call pursuant to § 551.130 of the Texas Open Meetings Act (chapter 551 of the Texas Government Code), concerning participation by a TRS board member in a board meeting by telephone conference call.

**3. Public Comments**

Mr. Leroy DeHaven of the Texas Retired Teachers Association expressed his appreciation to TRS board and staff for their effort in working with the legislators on the cost-of-living adjustment benefits for the retirees.

**9. Receive a presentation from the TEAM Program Independent Program Assessment (IPA) Vendor**

Mr. Michael Johnson reviewed the objectives and the status of previously reported observations. Concerning the observation relating to budget tracking, Mr. Green stated that staff was incorporating all the comments into future budget reports.

Mr. Johnson reviewed activities completed since June and activities planned for the next observation period.

**10. Receive an update on the TEAM Program, including details on the Pension Line of Business Proof of Concept and the Financial System Replacement project**

Ms. Pearson presented the overall progress of the TEAM projects.

Ms. Michels presented the latest developments concerning the financial system replacement (FSR) project and explained the envision phrase. She announced that CGI Technology (CGI) had been awarded the contract on the FSR project. Mr. Sergio Rodriguez of CGI introduced himself and described CGI. Ms. Michels stated that the FSR project was currently in the envision phase, which involved project team training, familiarization sessions, knowledge transfer and technical assessment of the hardware and software support needs. Ms. Michels also provided an overview of the scope of the FSR project.

Mr. Cook presented the proof of concept process in the line of business (LOB), including its purpose, objectives, structure, results and lessons learned. Responding to a question from Mr. Kelly regarding any unexpected issues experienced during the process so far, Mr. Cook replied that the vendors had shown staff new solutions and processes. He stated that staff would use lessons learned in the procurement phases to implement the line of business and financial system replacement projects.

Ms. Pearson reviewed the milestones and accomplishments of the TEAM program.

Mr. Kelly complimented staff for reporting concerns. Mr. Moss explained that warning signs had been put in place and had alerted project participants to issues like straying from the main purpose of a product. Mr. Welch expressed his appreciation to Mr. Moss for being the board liaison in the TEAM project. Mr. Guthrie and Mr. Kelly discussed the benefits of having visited other systems that had undertaken similar large technology projects and having learned from their experiences.

**11. Receive the report of the Audit Committee on its September 13, 2013 meeting, and discuss and consider adoption of the proposed Audit Plan for Fiscal Year 2014**

Mr. Moss provided the report of the Audit Committee as follows:

The Audit Committee met at 8:00 a.m. on Friday, September 13, 2013, in the fifth floor boardroom. The State Auditor's Office presented their plan to conduct the audit of TRS Comprehensive Annual Financial Report for fiscal year (FY) 2013. Internal Audit presented the fraud risk identification and prevention controls audit, the semi-annual testing of benefit payments, the investment compliance program self-assessment, the quarterly investment testing, the information security follow-up audit, the status of prior audit and consulting recommendations, and the quality internal audit administrative reports. The committee was briefed on § 825.115 of the Texas Government Code regarding closed meetings with the retirement system's internal or external auditors, which became effective September 1, 2013. The committee approved a recommendation

to the Board of Trustees to adopt the proposed audit plan for FY 2014. The committee concluded at approximately 9:30 a.m.

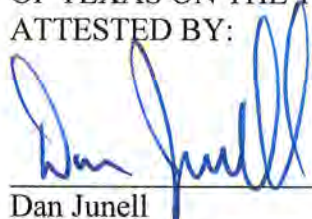
On a motion by Mr. Moss as the committee chair, the board voted unanimously to adopt the proposed audit plan for FY 2014, as recommended by the Audit Committee.

The board did not take up agenda item 14, relating to personnel matters.

Whereupon, the meeting adjourned at 10:42 a.m.

APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM  
OF TEXAS ON THE 18TH DAY OF OCTOBER, 2013.

ATTESTED BY:



Dan Junell  
Secretary to the TRS Board of Trustees

Oct. 29, 2013

Date

Teacher Retirement System of Texas  
**Employment At-Will Policy**

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***Purpose*** To inform employees of the at-will nature of their employment at TRS.

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***Definition*** **At-Will Employment**  
In an at-will employment relationship:

- An employee does not have a contract guaranteeing employment for any period of time.
- An employer can terminate an employee at any time for any reason or no reason at all so long as that reason is not unlawful.
- An employee can resign at any time for any reason or no reason at all.

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***Applies To*** All TRS employees.

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***Policy*** Employees of TRS are employed at-will. This at-will employment relationship can only be modified by a written contract signed by the Chair of the TRS Board of Trustees or his or her designee.

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***Related Policies***

- *Grievance and Appeals Policy*
- *Involuntary Termination of Employment Policy*
- *Progressive Corrective Action Policy*

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*This policy does not constitute a contract nor a guarantee of employment and may be modified, superseded, or eliminated by TRS without notice to the employee. This policy statement supersedes all previous policy statements on this subject.*