

Minutes Open Session	Regular Meeting Teachers' Retirement Board	September 4, 2014 Thursday
LOCATION: Board Room, 100 Waterfront Place, West Sacramento, CA 95605		

BOARD MEMBERS PRESENT

Harry Keiley, Chairperson
 Sharon Hendricks, Vice Chairperson
 Dana Dillon
 Joy Higa
 Paul Rosenstiel
 Tom Unterman
 Terry McGuire, representing the State Controller, John Chiang
 Eraina Ortega, representing the Director of Finance, Michael Cohen
 Grant Boyken, representing the State Treasurer, Bill Lockyer
 Michelle Zumot, representing the State Superintendent of Public Instruction, Tom Torlakson

OTHER BOARD MEMBERS PRESENT

Robert Biegler, representing the State Treasurer, Bill Lockyer

STAFF PRESENT

Jack Ehnes, Chief Executive Officer
 Christopher Ailman, Chief Investment Officer
 Brian J. Bartow, General Counsel
 Cassandra Lichnock, Chief Operating Officer
 Chris Caietti, BusinessRenew Executive Officer
 Ed Derman, Deputy Chief Executive Officer, Plan Design and Communication
 Ashish Jain, Chief Technology Officer
 Robin Madsen, Chief Financial Officer
 Peggy Plett, Deputy Chief Executive Officer, Benefits and Services
 Lisa Blatnick, Chief of Administrative Services
 Jennifer Yamane, Senior Counsel

OTHERS PRESENT

Ian Lanoff, Groom Law Group (Fiduciary Counsel)	Loretta Toggenburger, UTLA-Retired
Graeme Finley, Grant Thornton, LLP	Polly Bacich, CalRTA
Christine Balentine, CTA	Dave Davini, ACSA
Maggie Ellis, CTA	Steve DePue, CTA
Phyllis Hall, CTA	Pat Geyer, CalRTA
Dr. Sandy Keaton, UTLA-Active	Rose Luna, CTA
	Sal Villaseñor, ACSA

A quorum being present, Chairperson Keiley called the Open Session meeting of the Teachers' Retirement Board to order at 1:05 p.m.

I. APPROVAL OF BOARD AGENDA/WORK PLAN (Item 1)

MOTION duly made by Mr. Unterman, seconded by Ms. Hendricks, and carried to approve the Board Agenda/Work Plan.

RECESS

The Open Session of the board meeting recessed at 1:05 p.m. and the board went into Closed Session. The board meeting reconvened in Open Session at 2:35 p.m.

Chairperson Keiley reported that the board took action to adjust the salaries for the CEO and CIO for the fiscal year 2014-15.

II. NOTICE OF BOARD ELECTION (Item 7)

The board received an overview of the timeline for the board election.

MOTION duly made by Mr. Boyken, seconded by Ms. Zumot, and carried to adopt the resolutions concerning the Notice of Election Governing the 2015 Election of Active Employee Members to the Teachers' Retirement Board.

III. ADOPTION OF CREDITABLE COMPENSATION REGULATIONS (Item 8)

The board received an overview of the process and purpose of the creditable compensation regulations from Mr. Derman. The board discussed the appreciated transparency of the process and work with the constituency.

Mr. Villaseñor, ACSA, commented that the process was very open and this regulation would bring clarity to school districts, and that he hoped the work with CalSTRS would continue during the implementation of the regulations.

Ms. Ellis, CTA, echoed Mr. Villaseñor's comments and thanked CalSTRS for including the stakeholders in the process.

MOTION duly made by Ms. Hendricks, seconded by Ms. Ortega, and carried to adopt the proposed regulations, effective January 1, 2015.

IV. PROPOSED FY 2015-16 OPERATING BUDGET (Item 9)

The board received an overview of the first reading of the 2015-16 operating budget from Ms. Madsen, including the changes and adjustments from the prior year budget. The board discussed the increases in costs and whether future escalations were considered.

Ms. Dillon joined the dais at 3:00 p.m.

V. SYSTEM RISK MANAGEMENT REPORT (Item 10)

The board received an overview of the System Risk Management Report from Ms. Lichnock and Ms. Madsen, including the integration of the existing report into the operating environment and the risk metrics. The board discussed the need for more

information on cybersecurity in closed sessions, and considered having the Audits and Risk Management Committee oversee such matters.

VI. FUNDING STRATEGY IMPLEMENTATION UPDATE (Item 11)

The board received an overview of the proposed plan for implementing the funding strategy from Mr. Derman. The board considered the plan for informing members of the return of any excess contributions they may expect from their employers and that Milliman would provide a report in November providing more detailed information.

Mr. Villaseñor commented that this is a complex issue and may require further legislative fixes, and looks forward to working with CalSTRS to resolve any challenges presented by implementation of this funding strategy.

Dr. Keaton, UTLA, commented that she continues to be startled by the number of people who do not read their statements or go online, and cautions this may create an issue for informing members.

Mr. Davini, ACSA, commented that the rising costs of contribution and what is involved, there should be some caution concerning the burdens placed on school administrators to implement these changes.

VII. CHIEF EXECUTIVE OFFICER REPORT (Item 12)

The board was introduced to Ms. Blatnick, the newest member of the executive team. Mr. Ehnes also noted that when the November financial statements are completed, they will provide a net pension liability number.

VIII. BUSINESSRENEW OVERSIGHT ASSESSMENT (Item 13)

The board received an overview of the Pension Solution and Data Preparation projects from Mr. Finley and Mr. Caietti, including the active procurement in Pension Solution and the data issues in the Data Preparation.

IX. CONSENT AGENDA - ACTION (Item 14)

a. Committee Reports

- 1. Audits and Risk Management Committee:** The Audits and Risk Management Committee met on Tuesday, September 4, 2014. The committee received an update on the status of the External Financial Auditor's Report on Internal Control – Corrective Actions, and received the Annual Report of Benefit Underpayments and Overpayments. The committee engaged in an educational overview on cybersecurity. The committee reviewed and discussed the Fiscal Year 2012-14 Audit Plan – Audit Results for the Fiscal Year 2013-014, and received the Audit Director's update.
- 2. Benefits and Services Committee:** The Benefits and Services Committee met on Thursday, September 4, 2014 and received the revised policy concerning Employer Contribution Rates for Reduced Workload Program and Elected

Officials of Employee Organizations. The committee also received an overview of the Cash Balance Programs and a report from the Deputy Chief Executive Officers. The committee considered and discussed a report regarding the 2014-15 Member Service Performance Objectives, and adopted the recommended objectives.

MOTION duly made by Ms. Higa, on behalf of the Benefits and Services Committee, and carried to adopt the 2014-15 Member Service Performance Objectives.

3. **Compensation Committee:** The Compensation Committee met on Thursday, September 4, 2014. The committee evaluated the new Incentive Criteria for the Chief Operating Investment Officer and Director of Inflation Sensitive positions. The committee also updated the performance benchmark used as incentive criteria for the Private Equity asset class.

MOTION duly made by Mr. Keiley, on behalf of the Compensation Committee, and carried to adopt the proposed changes to Section 700 of the Board Policy Manual to (1) create an incentive compensation evaluation format for the Chief Operating Investment Officer, (2) create an incentive compensation evaluation for the Director of Inflation Sensitive and associated Benchmark Definitions, and (3) change the incentive compensation evaluation format for the Private Equity asset class and associated Benchmark Definitions.

b. Approval of Minutes of the July 11, 2014, Regular Meeting – Open Session

c. Board Member Education

d. Contracts Requiring Board Approval

The Consent Agenda was adopted by unanimous consent.

**X. CONSENT AGENDA - INFORMATION (Item 15)
Committee Reports**

- a. **Appeals Committee:** The Appeals Committee met on Thursday, September 4, 2014. The committee added to its Closed Session Agenda the Appellate decision in the matter of Richard Tworek. The committee received an annual summary of appeal activity and the Deputy Chief Executive Officer's Report. The committee considered and adopted the proposed administrative decisions in the matters of Carlos Montoya and John McKee. The committee considered and rejected the proposed administrative decision in the matter of James Tracy for Marianne Tracy, and decided to hear the matter itself, based upon the record and not on new evidence. The committee intended to take written but not oral argument and following receipt of the record and

transcript and the committee's review, the committee intended to send direction to the parties regarding the focus of their written arguments. Finally, the committee considered and adopted as a precedential decision, *In the Matter of the Retirement Benefits of MARGARET DEETZ* as adopted by the Appeals Committee on June 6, 2014, effective July 5, 2014.

- b. **Investment Committee:** The Investment Committee met on Friday, July 11, 2014, and approved the 2014-15 Investment Plans and the Private Equity Policy revision. The committee conducted the annual review of delegations to staff, reviewed the Private Equity Benchmark, and reviewed the 2013-14 Investment Committee Objectives. The committee also received the Chief Investment Officer's Open Session Report.

XI. ITEMS REFERRED BY COMMITTEE FOR BOARD DECISION (Item 16)

The board referred the oversight of cybersecurity to the Audits and Risk Management Committee.

XII. NEW BUSINESS/REVIEW INFORMATION REQUESTS (Item 17)

Pursuant to item 9, the board requested a breakdown of increases to operational increases for the second reading of the 2015-16 operating budget.

Pursuant to item 12, the board requested Mr. Ehnes provide his July report on the monitoring and progress of BusinessDirect.

XIII. DRAFT AGENDA FOR NEXT REGULAR MEETING OF THE TEACHERS' RETIREMENT BOARD (Item 18)

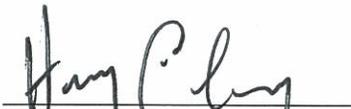
There were no changes to the draft agenda.

XIV. OPPORTUNITY FOR ADDITIONAL STATEMENTS FROM THE PUBLIC

Ms. Geyer commented that there was still no retired teacher representative on the board, and asked the board to keep that in mind.

XV. ADJOURNMENT

There being no further business to conduct, Chairperson Keiley adjourned the meeting at 3:50 p.m.



Harry Keiley, Chairperson



Jack Ehnes, Chief Executive Officer
And Secretary to the Teachers' Retirement Board

Prepared by: Jennifer Yamane, Senior Counsel