

TEACHERS' RETIREMENT SYSTEM OF KENTUCKY  
REGULAR QUARTERLY MEETING OF THE BOARD OF TRUSTEES  
JUNE 20, 2016

Minutes of Meeting:

After giving proper notice of a regular quarterly meeting, and a quorum being present, Chair Arthur Green called the TRS Board of Trustees to order at 12:30 p.m., Monday, June 20, 2016, in the Board Room of the Teachers' Retirement System of Kentucky, 479 Versailles Road, Frankfort, Kentucky.

Members present:

Arthur Green, Chair  
Jay Morgan, Vice Chair  
Hollis Gritton  
Quin Sutton  
Alison Wright  
Charles Harman, proxy for Commissioner of Education  
Allison Ball, State Treasurer

Others present:

Gary L. Harbin, Teachers' Retirement System of Kentucky  
Robert Barnes, Teachers' Retirement System of Kentucky  
Eric Wampler, Teachers' Retirement System of Kentucky  
Tom Siderewicz, Teachers' Retirement System of Kentucky  
Norm Combest, Teachers' Retirement System of Kentucky  
Mark Whelan, Teachers' Retirement System of Kentucky  
Nate Van Sickle, Teachers' Retirement System of Kentucky  
Greg Hall, Teachers' Retirement System of Kentucky  
Jane Gilbert, Teachers' Retirement System of Kentucky  
Felicia Penn, Teachers' Retirement System of Kentucky  
Teresa Sanders, Office of the State Budget Director  
Jim Bondurant, Legislative Research Commission  
Chuck Truesdell, Legislative Research Commission  
Brad Gross, Legislative Research Commission  
Jennifer Black Hans, Legislative Research Commission  
Steve Starkweather, Office of Financial Management  
Jean Roederer, TRS Retiree

1. Reports for Consent: Chair Green reviewed the draft minutes of the March 21, 2016 meeting and asked the Board to take action on the minutes.

Board Action: The Board considered the minutes of the Quarterly Meeting of the Board of Trustees held on March 21, 2016. Upon motion duly made by Mr. Sutton, and seconded by Mr. Harman, the minutes were unanimously approved by the Board as written.

Applications for Retirement and Annuity, Survivor Benefits, Life Insurance Benefits and Refunds: Mr. Wampler reported to the Board regarding benefit payments. Chair Green asked the Board to take action on the report of benefit payments.

Board Action: Upon motion duly made by Mr. Gritton, and seconded by Ms. Wright, the Applications for Retirement and Annuity, Survivor Benefits, Life Insurance Benefits and Refunds were approved by the Board as reported.

Interim Financial Statements: The Board considered the report on the Interim Financial Statements for the quarter ended March 31, 2016. The report was informational and the Board took no action on the Interim Financial Statements.

## 2. Standard Annual Board Actions

2.1. Report of Results of Trustee Election: Mr. Harbin reported to the Board concerning the results of the election for the active teacher trustee position on the Board of Trustees. The election was held in May 2016 and Dr. Stephen Pruitt, Commissioner of the Department of Education, certified the results on June 15, 2016. A copy of the letter certifying the results of the election is incorporated into the minutes.

Josh Underwood was elected as the active teacher trustee. Mr. Underwood's term of office will be July 1, 2016 through June 30, 2020.

2.2. Election of 2016-2017 Board Chair and Vice Chair: Mr. Harbin reported that KRS 161.340 provides that the Board shall elect from its membership a chair and a vice chair on an annual basis.

Nominations for Chair of the Board: Chair Green asked for nominations for the position of Chair of the Board for fiscal year 2016-2017. Mr. Gritton nominated Arthur Green to serve as Chair. Chair Green called for other nominations. Upon motion duly made by Ms. Wright, and seconded by Mr. Harman, the Board voted unanimously that nominations cease.

Board Action: By unanimous vote of the Board, Arthur Green was elected to the position of Chair of the Board for fiscal year 2016-2017. Mr. Green abstained from voting.

Nominations for Vice Chair of the Board: Chair Green asked for nominations for the position of Vice Chair of the Board for fiscal year 2016-2017. Ms. Wright nominated Jay Morgan to serve as Vice Chair. Chair Green called for other nominations. Upon motion duly made by Mr. Harman, and seconded by Mr. Sutton, the Board voted unanimously that nominations cease.

Board Action: By unanimous vote of the Board, Jay Morgan was elected to the position of Vice Chair of the Board for fiscal year 2016-2017. Dr. Morgan abstained from voting.

2.3. 2016-2017 Committee Appointments: Chair Green reported to the Board concerning the standing committees of the Board. Chair Green asked members to contact him to express interest in serving on a particular committee.

2.4. Board Appointment of Investment Committee: Chair Green reported to the Board concerning the appointment of Board members to the Investment Committee. Chair Green referenced information in the memorandum set forth under Tab 2.4. of the materials provided to the Board. Chair Green asked for questions or comments. Chair Green asked the Board to take action on the appointment of Board members to the Investment Committee.

Board Action: Upon motion duly made by Mr. Harman, and seconded by Ms. Wright, the Board voted unanimously to appoint Ron Sanders (Chair), Arthur Green (Vice Chair), Hollis Gritton, Jay Morgan, Alison Wright, Mary Adams (alternate), Josh Underwood (alternate) and experts Bevis Longstreth and George Philip to serve on the Investment Committee for the period from July 1, 2016 through June 30, 2017.

2.5. Resolution Regarding Purchases or Sales of Investment Instruments: Mr. Harbin reported to the Board concerning the resolution regarding the purchases and sales of investment instruments. Mr. Harbin referenced information in the memorandum set forth under Tab 2.5. of the materials provided to the Board.

Board Action: Upon motion duly made by Mr. Gritton, and seconded by Mr. Sutton, the Board voted unanimously to adopt the following resolution to confirm the authority granted to the Executive Secretary and the Chief Investment Officer to execute purchases or sales of investment instruments on behalf of the Board.

“BE IT RESOLVED, by the Board of Trustees of the Teachers’ Retirement System of the State of Kentucky, that the Executive Secretary or Chief Investment Officer, be and hereby are authorized and empowered to execute purchases or sales of all investment instruments in the name of, or belonging to, the Teachers’ Retirement System of the State of Kentucky, or in its nominee name “KENTRES”, in any capacity.”

2.6. Transfer of Interest: Mr. Harbin reported to the Board that KRS 161.440 requires that a transfer of interest be made from the Guarantee Fund to other funds, except the Expense Fund and Medical Insurance Fund.

Chair Green asked for questions or comments. Chair Green asked the Board to take action and direct the Executive Secretary to transfer interest as required by KRS 161.440.

Board Action: Upon motion duly made by Mr. Sutton, and seconded by Ms. Wright, the Board unanimously issued the following directive:

“In accordance with KRS 161.440, the Executive Secretary is authorized and directed to credit the required interest on average monthly balances to (1)

Teachers' Savings Fund, (2) State Accumulation Fund and (3) Allowance Reserve Fund, such credits to be transferred from the Guarantee Fund and credited on July 1, 2016.”

2.7. Transfer of Reserve Funds: Mr. Harbin reported to the Board that KRS 161.420 requires TRS to transfer an amount equal to the accounts of members retiring on July 1, along with an equal amount from the State Accumulation Fund, to the Allowance Reserve Fund each year. In addition, sufficient sums must be transferred during the year at the time of retirement of individual teachers.

Chair Green asked for questions or comments. Chair Green asked the Board to consider the recommendation of the Executive Secretary.

Board Action: Upon motion duly made by Mr. Gritton, and seconded by Mr. Sutton, the Board unanimously issued the following directive:

“The Executive Secretary is directed to determine the aggregate amount of the accumulated accounts of teachers retiring during 2016-2017 and to transfer from the Teachers' Savings Fund to the Allowance Reserve Fund a sum equal to that amount; and further, to transfer a matching amount from the State Accumulation fund to the Allowance Reserve Fund, both of which transfers are authorized by KRS 161.420(2), and (3).”

2.8. 2016-2017 Administrative Expense Fund Budget: Mr. Harbin reported to the Board on the 2015-2016 and proposed 2016-2017 Administrative Expense Fund Budget.

Chair Green asked for questions or comments. Chair Green asked the Board to take action on the report by the Executive Secretary.

Board Action: Upon motion duly made by Mr. Harman, and seconded by Dr. Morgan, the Board unanimously voted to approve the 2016-2017 Administrative Expense Fund Budget as presented.

2.9. IRC Section 415(b) Limit: Mr. Harbin reported to the Board that KRS 161.611 authorizes a supplemental retirement benefit plan for the sole purpose of enabling TRS to apply the same formula for determining benefits payable to all members of the retirement system whose benefits under the retirement system are limited by Section 415 of the Internal Revenue Code. This plan requires annual transfers from employer contributions to fund the limited benefit.

Chair Green asked for questions or comments. Chair Green asked the Board to consider the recommendation of the Executive Secretary.

Board Action: Upon motion duly made by Dr. Morgan, and seconded by Ms. Wright, the Board unanimously voted to authorize the Executive Secretary to make necessary transfers from employer contributions sufficient to provide the benefits authorized in KRS 161.611 for fiscal year 2016-2017.

2.10. Personnel Matters: Mr. Harbin reported the TRS Employee Compensation Plan provides that all employees eligible for annual salary increments shall receive increments equal to the percent funding available for state employees that is provided in the budget approved by the General Assembly. In the 2016 Regular Session of the General Assembly a budget was passed that provides for no state employee annual increments. Therefore, the Executive Secretary requests authorization from the Board of Trustees to approve normal salary advancements that will maintain salary increments for TRS employees equal to that received by state employees, as provided by the System's Employee Compensation Plan, during fiscal year 2016-2017.

Chair Green asked for questions or comments. Chair Green asked the Board to consider the recommendation of the Executive Secretary.

Board Action: Upon motion duly made by Dr. Morgan, and seconded by Mr. Harman, the Board unanimously voted to approve normal salary advancements that will maintain salary increments for TRS employees equal to that received by state employees, as provided by the System's Employee Compensation Plan, during fiscal year 2016-2017.

3. Report of the Investment Committee: Mr. Harbin reported that the proposed investment in the Highbridge Principal Strategies – Specialty Loan Fund 2016, L. P. was cancelled because additional due diligence revealed the involvement of a placement agent. Mr. Siderewicz reported to the Board concerning the activities of the Investment Committee and Investment Performance for the quarter ended March 31, 2016 and the Special Meeting of the Investment Committee held on May 24, 2016.

Chair Green asked for questions or comments. Chair Green asked the Board to take action on the report by Mr. Siderewicz.

Board Action: Upon motion duly made by Dr. Morgan, and seconded by Mr. Gritton, the Board voted unanimously to accept and ratify the report of the Investment Committee.

4. Report of the Insurance Committee: Mr. Harman reported that the Insurance Committee met in special session on June 20, 2016, prior to the quarterly meeting of the Board of Trustees. The Insurance Committee took the following actions:

- The Committee heard a report from Edumedics staff regarding the pilot program with TRS and a report from TRS staff regarding the Turning 65 Seminars being conducted at four locations in the state. The reports were informational, and the Committee took no action.
- The Committee reviewed information on the non-single subsidy benefit for TRS retirees and took action to recommend to the full Board to pay the non-single subsidy benefit for those TRS retirees affected for the period of July 1 through December 31, 2016, and request reimbursement from the Department of Employee Insurance Kentucky Employees' Health Plan.

Chair Green asked for questions or comments. Chair Green asked the Board to take action on the Report of the Insurance Committee.

Board Action: Upon motion duly made by Mr. Sutton, and seconded by Dr. Morgan, the Board voted unanimously to accept and ratify the report of the Insurance Committee.

5. Report of the Governance and Audit Committee: Mr. Sutton reported that the Governance and Audit Committee met in special session on June 20, 2016, prior to the quarterly meeting of the Board of Trustees. The Governance and Audit Committee took the following actions:

- The Committee reviewed and approved the Fiscal Year 2017 Audit Plan.
- The Committee reviewed and approved the contract terms for the general investment consultant, investment experts, actuary, investment legal counsel, Pathway system project management consultant for the warranty period, fiduciary/litigation counsel and GASB 68 audit services.

Chair Green asked for questions or comments. Chair Green asked the Board to take action on the Report of the Governance and Audit Committee.

Board Action: Upon motion duly made by Mr. Sutton, and seconded by Dr. Morgan, the Board voted unanimously to accept and ratify the Report of the Governance and Audit Committee.

6. Report of the Legislative Committee: Mr. Green reported that the Legislative Committee met in special session on June 20, 2016, prior to the quarterly meeting of the Board of Trustees. The Legislative Committee took the following actions:

- The Committee reviewed staff-recommended changes to 102 KAR 1:165, 102 KAR 1:290 and 102 KAR 1:320 and voted to recommend to the full Board approval of those changes.
- The Committee heard a report from staff regarding the 2016 Regular Session of the General Assembly and voted to recommend to the full Board that a letter of appreciation be sent to the Governor and members of the General Assembly from the Board of Trustees expressing appreciation for the additional funding for TRS included in the 2016-2018 biennial budget.

Board Action: Upon motion duly made by Mr. Sutton, and seconded by Mr. Gritton, the Board voted unanimously to accept and ratify the report of the Legislative Committee.

Board Action: Upon motion duly made by Mr. Green, and seconded by Dr. Morgan, the Board voted unanimously to send a letter of appreciation to the Governor and members of the General Assembly from the Board of Trustees expressing appreciation for the additional funding for TRS included in the 2016-2018 biennial budget.

7. Executive Secretary's Observations and Comments: Mr. Harbin reported to the Board on the additional funding included in the 2016-2018 biennial budget, number of retirements, activities of the Public Sector Healthcare Roundtable, recent meetings of the Executive Secretary, the status of the Pathway Project, the rebranding initiative and other matters. The Executive Secretary's report was informational and the Board took no action.

Resolution Honoring Quin Sutton: Chair Green recognized Quin Sutton for his service on the Board of Trustees as an active teacher trustee from March 16, 2015 through June 30, 2016.

Board Action: Upon motion duly made by Ms. Ball, and seconded by Dr. Morgan, the Board voted unanimously to approve the Resolution honoring Mr. Sutton. The Chair directed that a copy of the Resolution, which was read during the meeting, be included with the minutes of meeting.

Adjournment: There being no further business to come before the Board, and upon motion duly made by Mr. Sutton, and seconded by Dr. Morgan, and by unanimous consent of the Board, Chair Green declared the meeting adjourned at 1:39 p.m.

#### CERTIFICATIONS

We, the Chair and the Executive Secretary of the Board of Trustees of the Teachers' Retirement System of Kentucky, do certify that the Minutes of Meeting were approved by the Board on September 19, 2016.

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Arthur Green, Chair

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Gary L. Harbin, Executive Secretary

I, Robert B. Barnes, do certify adherence to the Kentucky Open Meetings Act, KRS 61.800 et seq., in the conduct of this meeting. I have reviewed the minutes for form, content, and legality.

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Robert B. Barnes, Deputy Executive Secretary  
and General Counsel

I, Felicia Penn, do certify that I was present at the meeting and duly recorded the actions of the Board of Trustees of the Teachers' Retirement System of Kentucky at its meeting on June 20, 2016.

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Felicia Penn  
Recording Secretary