

KENTUCKY TEACHERS' RETIREMENT SYSTEM
MINUTES OF THE QUARTERLY MEETING OF THE BOARD OF TRUSTEES
June 20, 2011

Under authority of KRS 161.290(1), the Board of Trustees of the Teachers' Retirement System of the State of Kentucky convened in Regular Session in the Board Room of the Teachers' Retirement System Office, 479 Versailles Road, Frankfort, Kentucky, at 9:00 a.m., Monday, June 20, 2011.

Board Called to Order

Barbara G. Sterrett, Chair, called the meeting to order.

Roll Call

Members present were:

Laura A. Zimmerman
Charles Ludwig
Barbara G. Sterrett
Ruth Ann Sweazy
Tom Shelton
Robert M. Conley
Ron Sanders
Todd Hollenbach, State Treasurer (joined the meeting at 9:11 a.m.)
Kathy Jennings, Proxy for the Commissioner of Education

Others present were:

Gary L. Harbin, Kentucky Teachers' Retirement System
Eric Wampler, Kentucky Teachers' Retirement System
Robert Barnes, Kentucky Teachers' Retirement System
Paul Yancey, Kentucky Teachers' Retirement System
Kevin Carrico, Kentucky Teachers' Retirement System
Mark Whelan, Kentucky Teachers' Retirement System
Jane Gilbert, Kentucky Teachers' Retirement System
Nathan Van Sickel, Kentucky Teachers' Retirement System
Glenn Tucker, Kentucky Teachers' Retirement System
Jon P. Cordray, Kentucky Teachers' Retirement System
Felicia Penn, Kentucky Teachers' Retirement System
Erlynn Crowe, Kentucky Education Association-Retired
Fred Hester, Kentucky Education Association-Retired
Edwin Cook, Kentucky Retired Teachers Association
Carolyn M. Falin, Kentucky Retired Teachers Association
Paul Falin, Kentucky Retired Teachers Association
Kayne Ishmael, Kentucky Education Association
Brad Gross, Legislative Research Commission

Chair Sterrett introduced Mr. Charles Ludwig and welcomed him as a new Trustee. Mr. Ludwig is filling the unexpired term of Dr. Jay Morgan who resigned from the Board effective December 31, 2010.

Item 1 – Reports for Consent:

Chair Sterrett reviewed the draft minutes of meetings and asked the Board and Committees to take action on the minutes.

BOARD ACTION:

Quarterly Meeting of the Board of Trustees held March 21, 2011: The Board considered the minutes of the Quarterly Meeting of the Board of Trustees held March 21, 2011. Upon motion duly made by Ms. Zimmerman, and seconded by Ms. Jennings, the minutes were unanimously approved by the Board as written.

COMMITTEE ACTION:

Special Meeting of the Governance and Audit Committee held December 20, 2010

The Governance and Audit Committee considered the minutes of the Special Governance and Audit Committee Meeting held December 20, 2010. Upon motion duly made by Ms. Zimmerman and seconded by Mr. Sanders, the minutes were unanimously approved by the Committee as written.

Special Meeting of the Insurance Committee held May 26, 2011

The Insurance Committee considered the minutes of the Special Insurance Committee Meeting held May 26, 2011. Upon motion duly made by Ms. Sweazy and seconded by Ms. Sterrett, the minutes were unanimously approved by the Committee as written.

Special Meeting of the Governance and Audit Committee held June 8, 2011

The Governance and Audit Committee considered the minutes of the Special Governance and Audit Committee Meeting held June 8, 2011. Upon motion duly made by Mr. Conley and seconded by Ms. Zimmerman, the minutes were unanimously approved by the Committee as written.

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

BOARD ACTION: Upon motion duly made by Mr. Conley, and seconded by Dr. Shelton, the Applications for Retirement and Annuity, Survivor Benefits, Life Insurance Benefits, and Refunds were unanimously 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, 2011. The report was informational and the Board took no action on the Interim Financial Statements.

Item 2 – Report of Results of Trustee Election

Mr. Harbin reported to the Board concerning the results of the election for two positions on the Board of Trustees. The election was held in May 2011 and Dr. Terry Holliday, Commissioner of the Department of Education, certified the results on June 8, 2011. A copy of the letter certifying the results of the election is incorporated herein by reference.

Ruth Ann Sweazy was elected as the active teacher trustee. Ms. Sweazy's term of office will be July 1, 2011 through June 30, 2015.

Ron Sanders was elected as the lay trustee. Mr. Sanders' term of office will be July 1, 2011 through June 30, 2015.

Item 3 – Election of Board Chair and Vice Chair

Mr. Harbin explained that KRS 161.340 provides that the Board of Trustees shall elect from its membership a chair and a vice chair on an annual basis.

Nominations for Chair of the Board: Mr. Harbin asked for nominations for the position of Chair of the Board for fiscal year 2011-2012. Mr. Hollenbach nominated Barbara G. Sterrett to serve as Chair. Mr. Harbin called for other nominations. Upon motion duly made by Mr. Hollenbach and seconded by Ms. Zimmerman, the Board voted unanimously that nominations cease.

BOARD ACTION: By unanimous vote of the Board, Barbara G. Sterrett was elected to the position of Chair of the Board for fiscal year 2011-2012. Ms. Sterrett abstained from voting.

Nominations for Vice Chair of the Board: Chair Sterrett asked for nominations for the position of Vice Chair of the Board for fiscal year 2011-2012. Mr. Conley nominated Ron Sanders to serve as Vice Chair. Chair Sterrett called for other nominations. Upon motion duly made by Mr. Hollenbach and seconded by Ms. Zimmerman, the Board voted unanimously that nominations cease.

BOARD ACTION: By unanimous vote of the Board, Ron Sanders was elected to the position of Vice Chair of the Board for fiscal year 2011-2012. Mr. Sanders abstained from voting.

Item 4 – Committee Appointments

Chair Sterrett reported to the Board concerning the standing committees of the Board. The Chair stated that she will be making committee appointments for the coming year and notify those appointed.

Item 5 – Board Appointment of Investment Committee

Mr. Harbin reported to the Board concerning the appointment of Board members to the Investment Committee. Mr. Harbin referenced information in the memorandum set forth under Tab 5 of the materials provided to the Board.

Chair Sterrett asked for questions or comments. Chair Sterrett asked the Board to take action on the appointment of Board members to the Investment Committee.

BOARD ACTION: Upon motion duly made by Mr. Hollenbach and seconded by Ms. Jennings, the Board voted unanimously to appoint Robert M. Conley (Chair), Ron Sanders, Barbara Sterrett, Tom Shelton, Laura Zimmerman, Ruth Ann Sweazy (alternate), and Charles Ludwig (alternate) to serve on the Investment Committee for the period from July 1, 2011 through June 30, 2012.

Mr. Harbin also reported to the Board concerning the appointment of two non-voting investment experts to the Investment Committee. Mr. Harbin referenced information in paragraph 2 of the memorandum set forth under Tab 5 and the memorandum set forth under Tab 15 of the materials provided to the Board.

BOARD ACTION: Upon motion duly made by Mr. Sanders and seconded by Mr. Conley, the Board voted unanimously to ratify the appointment of Bevis Longstreth and George Philip to serve on the Investment Committee for the period from July 1, 2011 through June 30, 2012.

Item 6 – Resolution Regarding Purchases and 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 6 of the materials provided to the Board.

BOARD ACTION: Upon motion duly made by Mr. Ludwig and seconded by Ms. Jennings, 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.”

Item 7 – Report of the Investment Committee

Mr. Yancey reported to the Board concerning the activities of the Investment Committee and Investment Performance for the quarter ending March 31, 2011. Mr. Harbin reported on the

Investment Committee meeting held May 12, 2011.

Chair Sterrett asked for questions or comments. Chair Sterrett asked the Board to take action on the report of the Investment Committee.

BOARD ACTION: By unanimous consent, the Board accepted and ratified the Report of the Investment Committee.

Item 8 – Report of the Insurance Committee

Ms. Gilbert presented the report of the Insurance Committee meeting held on May 26, 2011, and the recommendations to join the KY Rx Coalition; add a commercial wrap to the EGWP PDP; and employ AON Consulting to conduct audits of Medco.

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

BOARD ACTION: Upon motion duly made by Mr. Hollenbach and seconded by Ms. Sweazy, the Board voted unanimously to join the Kentucky Rx Coalition with Express Scripts becoming the new pharmacy benefits administrator effective January 1, 2012.

BOARD ACTION: Upon motion duly made by Ms. Sweazy and seconded by Dr. Shelton, the Board voted unanimously to add a commercial wrap to the EGWP PDP effective January 1, 2012.

BOARD ACTION: Upon motion duly made by Ms. Jennings and seconded by Mr. Hollenbach, the Board voted unanimously to employ AON Consulting to conduct audits of Medco prescription drug claims as follows: (1) a comprehensive paid claim audit of the self-funded drug plan for the fifty-four (54) month period between January 1, 2006 and June 30, 2010, and (2) a comprehensive paid claim audit of the insured EGWP PDP for the six (6) month period between July 1, 2010 and December 31, 2010.

Item 9 – Report of the Governance and Audit Committee

Mr. Harbin presented the report of the Governance and Audit Committee from its meeting held on June 8, 2011. Based upon the work of the Committee, Mr. Harbin reported two recommendations to the Board:

Sagitec Solutions LLC: The Committee recommends to the full Board that the highest scoring vendor be awarded the mandate for the Pathway Project, subject to completion of legal due diligence and successful contract negotiations. The Executive Secretary recommends that the Board adopt the recommendation of the Committee.

L.R. Wechsler, Ltd.: The Executive Secretary recommends that staff be authorized to contract with L.R. Wechsler, Ltd. for Oversight Project Management services for the term of the KTRS Pathway Project.

Chair Sterrett asked for questions or comments. Chair Sterrett asked the Board to take action on the recommendations.

BOARD ACTION: Upon motion duly made by Mr. Sanders and seconded by Ms. Zimmerman, the Board voted unanimously to award the mandate for the Pathway Project to the highest scoring vendor, subject to completion of legal due diligence and successful contract negotiations.

BOARD ACTION: Upon motion duly made by Mr. Sanders and seconded by Ms. Zimmerman, the Board voted unanimously to contract with L. R. Wechsler, Ltd. for oversight project management services.

The Board recessed at 10:10 a.m. and resumed its meeting at 10:25a.m.

Item 10 – 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 Sterrett asked for questions or comments. Chair Sterrett 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. Hollenbach and seconded by Mr. Sanders, 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, 2011.”

Item 11 – Transfer of Reserve Funds

Mr. Harbin reported to the Board that KRS 161.420 requires KTRS 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 Sterrett asked for questions or comments. Chair Sterrett asked the Board to consider the recommendation of the Executive Secretary.

BOARD ACTION: Upon motion duly made by Mr. Conley and seconded by Mr. Hollenbach, 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 2011-2012 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).”

Item 12 – 2011-2012 Administrative Expense Fund Budget

Mr. Whelan reported to the Board on the 2010-2011 and proposed 2011-2012 Administrative Expense Fund Budget and the report on legal fees.

Chair Sterrett asked for questions or comments. Chair Sterrett asked the Board to consider the recommendation of the Executive Secretary to approve the 2011-2012 Administrative Expense Fund Budget as submitted.

BOARD ACTION: Upon motion duly made by Dr. Shelton and seconded by Ms. Zimmerman, the Board unanimously voted to approve the 2011-2012 Administrative Expense Fund Budget as submitted.

Item 13 – 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 KTRS 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 Sterrett asked for questions or comments. Chair Sterrett asked the Board to consider the recommendation of the Executive Secretary.

BOARD ACTION: Upon motion duly made by Mr. Ludwig and seconded by Ms. Jennings, 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 2011-2012.

Item 14 – Personnel Matters

Mr. Harbin reported to the Board the current status of employee annual salary increments. As reported at this time last year, the 2010 Extraordinary Session of the General Assembly passed a budget that provided no funding for salary increments for state employees. In addition, state employees were required to take six (6) unpaid furlough days in fiscal year 2010-2011. The Executive Secretary requests authorization from the Board of Trustees to approve normal salary advancements that will maintain salary increments for KTRS employees equal to that received by state employees, as provided by the System's Employee Compensation Plan, during fiscal year 2011-2012.

Chair Sterrett asked for questions or comments. Chair Sterrett asked the Board to consider the

recommendation of the Executive Secretary.

BOARD ACTION: Upon motion duly made by Mr. Hollenbach and seconded by Dr. Shelton, the Board unanimously voted to approve normal salary advancements that will maintain salary increments for KTRS employees equal to that received by state employees, as provided by the System's Employee Compensation Plan, during fiscal year 2011-2012.

Item 15 – Contracts

Mr. Harbin reported on the proposed annual renewal of standard investment contracts. On April 10, 2011, the Executive Secretary reviewed the standard investment contracts with the Investment Committee. The Executive Secretary has completed negotiations with the service providers concerning price and terms.

Chair Sterrett asked for questions or comments. Chair Sterrett asked the Board to take action on Mr. Harbin's report regarding the annual renewal of standard investment contracts for fiscal year 2011-2012.

BOARD ACTION: Upon motion duly made by Mr. Conley and seconded by Ms. Sweazy, the Board unanimously approved and authorized the Executive Secretary to renew the contracts for the General Investment Consultant, Money Managers and Actuary for fiscal year 2011-2012.

Item 16 – Executive Secretary's Observations and Comments

Mr. Harbin reported to the Board concerning the volume of retirements, trainings, and other matters concerning the administration of the retirement system. Mr. Harbin's report was informational and the Board took no action.

Chair Sterrett congratulated Dr. Shelton on his recent selection as Superintendent of the Fayette County Schools. Three newspaper articles concerning Dr. Shelton's appointment were distributed to Board members.

Mr. Harbin presented Mr. Hollenbach with a resolution expressing the Board's appreciation for the article he wrote in support of KTRS which was published in the two leading daily newspapers and other media in the state.

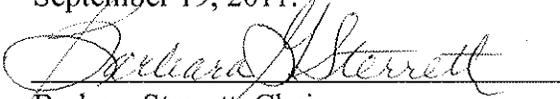
Mr. Harbin distributed copies of a letter to the editor that appeared in the Courier Journal, Lexington Herald and State Journal written by a member who was very complimentary of KTRS and staff.

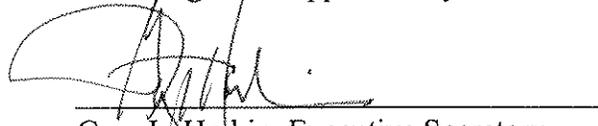
Adjournment

There being no further business to come before the Board of Trustees, and upon motion duly made by Mr. Sanders and seconded by Dr. Shelton, and by unanimous consent of the Board, Chair Sterrett declared the meeting adjourned at 11:15 a.m.

CERTIFICATIONS

We, the Chair and the Executive Secretary of the Board of Trustees of the Kentucky Teachers' Retirement System, do certify that the Minutes of Meeting were approved by the Board on September 19, 2011.

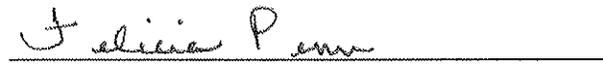

Barbara Sterrett, Chair


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.


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 Kentucky Teachers' Retirement System at its meeting on June 20, 2011.


Felicia Penn
Recording Secretary