

Texas County & District Retirement System

Board of Trustees' Policy Manual

Amendments through 09-14-17

Preamble

Any policy within this manual may be added to, amended, or deleted by a vote of the board at any meeting.

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Policy Type — Ends

EI — Ends Policies

TCDRS gives Texas counties and districts a way to provide secure retirement benefits that meet their workforce needs and budgets.

1. Assets are safeguarded.
2. Investments are prudently managed.
3. Employers
 - make informed decisions about their benefit plans;
 - have flexibility and local control to adjust benefits and financial commitments; and
 - are able to easily administer their plan.
4. Members
 - make informed decisions about their benefits; and
 - retire with confidence.
5. Legislators and key stakeholders make informed policy decisions regarding TCDRS.

Policy Type — Executive Limitations

ELI — Global Executive Constraints¹

Neither the director nor the investment officer shall fail to perform as fiduciaries of the trust or cause or allow any practice, activity, decision, or organizational circumstance that is (a) unlawful, (b) imprudent, (c) inconsistent with commonly accepted business and professional practices, or (d) inconsistent with the TCDRS Code of Ethics.

Adopted 11-08-02; Amended 09-15-16

¹ This policy forms the largest (i.e., broadest and therefore most open to interpretation) of any policy in the executive limitations policy category. Any further executive limitations policies will merely be a narrowing of the provisions of this policy. The next several pages that follow are examples of such further narrowing. Remember that the director and investment officer are granted the authority to use any reasonable interpretation of the board's policies.

EL2 — Services to Members and Employers

In providing services to members and employers, the director shall not allow conditions, procedures or decisions that are inappropriate or contrary to the purpose of the organization.

Further, without limiting the scope of the above, the director shall not:

1. Fail to provide customer service hours of operation that are appropriate.
2. Fail to communicate about the services available.
3. Fail to provide education and communications tailored to individual members' and employers' needs.
4. Fail to provide timely services to members and employers.

This Limitation shall be reported on to the board at its second regular meeting each year.

EL3 — Staff

The director and investment officer shall not allow conditions for staff that are inconsistent with commonly accepted business practices or jeopardize the organization's public image.

Further, neither the director nor investment officer shall:

1. Operate without written personnel rules which:
 - a. specify rules for staff,
 - b. provide for effective handling of grievances,
 - c. protect against unlawful conditions, and
 - d. include the full text of this executive limitation.
2. Fail to provide staff with a copy of the personnel rules.
3. Discriminate or retaliate against any staff member for unlawful reasons.
4. Prevent staff from grieving to the board when:
 - a. internal grievance procedures have been exhausted, and
 - b. the employee alleges that board policy has been violated to his or her detriment.
5. Promise or imply permanent or guaranteed employment, or any other employment on any basis that is not at will. "At-will" employment means employment where either party may terminate the relationship for any reason, or no reason, at any time, with or without notice.
6. Provide compensation and benefits that deviate materially from those available in the local marketplace for positions requiring similar skills and experience.
7. Change his or her own compensation or benefits, except for changes to his or her benefits that are consistent with a change to the benefits of all employees.
8. Establish or change pension benefits.

This Limitation shall be reported on to the board at its fourth regular meeting each year.

EL4 — Operational Budgets

Budget and operational financial planning for any fiscal year or the remaining part of any fiscal year shall not deviate materially from board's Ends priorities, exceed financial resources, or fail to be derived from a multi-year plan.

Further, without limiting the scope of the above, neither the director nor the investment officer shall plan in a manner that:

- I. Fails to present to the board by the final regular board meeting of the year a budget for the following year that includes:
 - a. plans and budget data for the operations of the administrative, investment and building areas,
 - b. budget amounts categorized by major components with separate components for capital items, major projects, and other proposed expenditures as needed for clarity,
 - c. descriptions of variances in major budget components,
 - d. descriptions of commitments to major projects and capital items,
 - e. a reasonable level of detail of the major budget components,
 - f. benchmarks of TCDRS' operational expenses against other retirement plans, and
 - g. comparisons of historical budget data for the past five years.
2. Fails to determine the amount necessary to transfer to the Expense Fund to provide funding for the budgeted operating expenditures for the following year.
3. Fails to provide sufficient amounts for board training consistent with GP4.
4. Fails to provide plan administration and services at costs that are comparable for similar services at other public retirement systems.

EL5 — Financial Activities

With respect to financial activities, neither the director nor the investment officer shall operate their respective areas in a manner that is inconsistent with the board's Ends policies or prudent business practices.

Further, without limiting the scope of the above,

1. Neither the director nor the investment officer shall, regarding their respective budgets, allow total budget expenses to exceed the approved amount. Further, neither shall:
 - a. Exceed the funds allocated to the personnel budget category.
 - b. Reallocate more than \$100,000 among board-approved budget categories.
 - c. Fail to report a reallocation of funds among budget categories to the board at its next regular meeting.
2. Neither the director nor the investment officer shall fail to ensure that prudent business practices govern all purchases made and contracts entered into by TCDRS. Further, neither shall:
 - a. Fail to obtain comparative bids for purchases exceeding \$25,000 when a purchasing decision can be based on price.
3. The director shall not fail to settle payroll and other operating expenses in a timely manner. The investment officer shall not fail to provide invoices and other necessary information to the administrative accounting department in a manner that enables timely payment.
4. The director shall not fail to provide the board with quarterly and yearly statements of financial activities. The investment officer shall not fail to provide the administrative accounting department with investment-related financial data and information necessary to timely produce financial reports.
5. The director shall not fail to prepare a comprehensive annual financial report under applicable accounting standards and GFOA guidelines. The investment officer shall not fail to provide the administrative accounting department with investment-related financial data and information necessary to timely produce the annual report.

The director shall not:

6. Fail to pay benefits in a timely manner.
7. Fail to pay benefits accurately.
8. Allow tax payments or other government ordered payments or filings to be overdue or inaccurately filed.
9. Acquire, encumber or dispose of real property.

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10. Fail to pursue the collection of receivables in a manner that is consistent with prudent business practices and is in the best interests of the system and its membership.
 11. Fail to ensure that funds are available to pay benefits and operational expenses as they become due.

This Limitation shall be reported on to the board at each regular meeting.

EL6 — Emergency Director/Investment Officer Succession

In order to protect the board and TCDRS from sudden loss of the director or the investment officer, the director and the investment officer shall each have at least one other executive familiar with issues and processes pertaining to their respective work and the work of the board.

Further, without limiting the scope of the above:

1. He or she shall not fail to develop, implement and maintain an appropriate succession plan and to provide timely notice to the board of any change in the succession plan; and
2. Any successor shall succeed to the powers and duties of his or her predecessor, until otherwise determined by the board, and shall notify the board of his or her succession within 24 hours thereof.

EL7 — Asset Protection

Neither the director nor the investment officer shall allow the system's assets to be unprotected, inadequately maintained or unnecessarily risked.

Further, without limiting the scope of the above, neither the director nor the investment officer shall:

1. Fail to identify and mitigate risks including ensuring the following:
 - 1.1. Controls for receiving, processing and disbursing funds are appropriate.
 - 1.2. Information security controls are appropriate.
 - 1.3. Business continuity and disaster recovery plans are appropriate.
 - 1.4. Insurance coverage is appropriate and includes insurance protection for:
 - a. property and casualty losses,
 - b. general liability claims,
 - c. professional liability claims, and
 - d. theft or misappropriation of monies, securities or other assets.
2. Fail to review all insurance coverage annually, using comparisons with industry standards, third-party appraisers, and risk managers when necessary.
3. Fail to ensure that the organizational infrastructure is appropriate to efficiently administer benefits plans and provide services.
4. Fail to ensure that technology is adequate and appropriately utilized.
5. Fail to protect the organization's good public image or credibility.
6. Invest or hold funds currently available for operations in a manner that risks unacceptable loss of principal or failure to earn a reasonable investment rate of return.
7. Allow the building or equipment to be subjected to improper use, wear and tear or insufficient maintenance.

This Limitation shall be reported on to the board at its fourth regular meeting each year.

Adopted 11-08-02; Amended 12-04-03; 06-14-07; 09-15-16

EL8 — Plan Funding

The board establishes a funding policy for TCDRS plans to ensure that benefits are responsibly funded. Regular actuarial valuations and reviews are necessary to maintain the financial health of each employer’s plan of benefits and comply with the board’s Funding Policy and statutory requirements. A board-appointed independent consulting actuary (see GPI3 – Consulting Actuary) and an independent reviewing actuary will perform this program of actuarial services which meets or exceeds the statutory requirements in Section 845.206 of the Texas Government Code (TCDRS Act).

Accordingly, the director shall not:

1. Cause or allow actions or conditions that are inconsistent with the board’s Funding Policy.
2. Fail to cause the consulting actuary to perform an Actuarial Valuation annually for each employer’s plan and provide each employer a Summary Valuation Report summarizing the results of the valuation.
3. Fail to cause the consulting actuary to perform an Investigation of Experience at least once every four years.
4. Fail to cause a reviewing actuary to perform audits of the annual valuation and the investigation of experience. The audits will be performed every four years and the audit types will alternate between a Peer Review Audit and a Full Replication Audit as shown in the table following.
5. Fail to obtain the services of an independent reviewing actuary, using the selection standards described in GPI3, to perform the reviews and audits required by this policy.
6. Fail to adhere to the following schedule in the performance of the above-described actuarial services. The schedule refers to the year the work is presented to the board.

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Actuarial Valuation	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Investigation of Experience				x				x				x			
Peer Review Audit of Valuation and Investigation								x							
Full Replication Audit of Valuation and Investigation				x								x			

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7. Fail to cause the consulting actuary to prepare actuarial analyses as described in Chapter 802 of the Texas Government Code.
 8. Fail to ensure that actuarial assumptions are coordinated appropriately with the TCDRS Investment Policy.

Definitions of selected terms

- *Actuarial Valuation* is the determination of a plan's assets, liabilities and funding requirements as of the date of the valuation.
- *Investigation of Experience* is an examination of the actuarial assumptions and methods used in the Actuarial Valuation. Based on the results of the Investigation of Experience, new assumptions and methods may be recommended.
- *Full Replication Valuation Audit* is a type of audit in which the reviewing actuary fully replicates the original Actuarial Valuation, based on the same data, assumptions, and actuarial methods used by the consulting actuary. The reviewing actuary also examines the consulting actuary's methods and assumptions for reasonableness and internal consistency.
- *Peer Review Valuation Audit* is a type of audit in which the reviewing actuary does not fully replicate the Actuarial Valuation, but instead uses a sample of participant data and TCDRS plans to test the results of the valuation. The reviewing actuary also examines the consulting actuary's methods and assumptions for reasonableness and internal consistency.
- *Full Replication Investigation of Experience Audit* is a type of audit in which the reviewing actuary fully replicates the original Investigation of Experience, based on the same data, assumptions, and actuarial methods used by the consulting actuary. In addition, the reviewing actuary independently analyzes economic assumptions to test the results and recommendations of the consulting actuary. The reviewing actuary also examines the consulting actuary's methods and assumptions for reasonableness and internal consistency.
- *Peer Review Investigation of Experience Audit* is a type of audit in which the reviewing actuary does not replicate the Investigation of Experience. Instead, for demographic assumptions the reviewing actuary uses the raw results of the investigation as calculated by the consulting actuary to test the conclusions and recommendations. In addition, the reviewing actuary independently analyzes economic assumptions to test the results and recommendations of the consulting actuary. The reviewing actuary also examines the consulting actuary's methods and assumptions for reasonableness and internal consistency.

This Limitation shall be reported on to the board at the first regular meeting each year.

Adopted 06-14-07; Amended 04-10-14; 09-15-16.

EL9 — Communication and Support to the Board

Neither the director nor the investment officer shall permit the board to be uninformed or unsupported in its work.

Further, without limiting the scope of the above, he or she shall not:

1. Neglect to submit monitoring data required by the board (see policy on Monitoring Director and Investment Officer Performance (BSR5)) in a timely, accurate and understandable fashion, directly addressing provisions of board policies being monitored.
2. Fail to report in a timely manner an actual or anticipated noncompliance with any policy of the board.
3. Fail to make the board aware of relevant trends, anticipated adverse media coverage, threatened or pending lawsuits, material external and internal changes, particularly changes in the assumptions upon which any board policy has previously been established.
4. Fail to advise the board if, in the director's or the investment officer's opinion, the board is not in compliance with its own policies on Governance Process and Board-Staff Relationship.
5. Fail to provide the board with as much information and as many available points of view as the board determines it needs for fully informed board decisions.
6. Present information in unnecessarily complex or lengthy form or in a form that fails to differentiate among information of three types: monitoring, decision preparation, and other.
7. Fail to provide a mechanism for official board, officer or committee communications.
8. Fail to deal with the board as a whole except when fulfilling individual requests for information or responding to officers or committees duly charged by the board.
9. Fail to supply for the consent agenda all items delegated to the director or investment officer yet required by law to be board-approved, along with the monitoring assurance pertaining thereto.²

Adopted 11-08-02; Amended 09-11-03; 06-24-10; 04-06-17

² For purposes of this policy statement, the items that require the consent of the board are items pursuant to provisions of the TCDRS Act which specifically provide for "approval" or "adoption" by the board. As appropriate, such items may receive board consent as "consent agenda" items. However, items pursuant to provisions of the TCDRS Act which direct the board to "determine" or "consider" may be delegated in total, pursuant to Section 845.202(c), and do not require board consent.

EL10 — Pension Plan Financial Planning

Financial planning for TCDRS as a pension plan shall not deviate materially from the board's Ends policies or fail to address both short-term and long-term perspectives.

Further, without limiting the scope of the above, neither the director nor the investment officer shall:

- I. Fail to provide the board with their assessment of significant financial matters.

ELI I — Investment Policies

The investment officer shall not cause or allow actions or conditions that are inconsistent with the TCDRS Investment Policy.

Policy Type — Governance Process

GPI — Global Governance Commitment

The purpose of the board is to fulfill its trust and fiduciary responsibilities and, on behalf of the member counties and districts, to see that TCDRS (a) achieves appropriate results for member/beneficiaries of the system at an appropriate cost (as defined in Ends), and (b) avoids unacceptable actions and situations (as defined in Executive Limitations).

GP2 — Governing Style

The board will govern lawfully with an emphasis on (a) outward vision rather than an internal preoccupation, (b) encouragement of diversity in viewpoints, (c) strategic leadership more than administrative detail, (d) clear distinction of board and chief executive roles, (e) collective rather than individual decisions, (f) future rather than past or present, and (g) proactivity rather than reactivity.

Accordingly:

1. The board will cultivate a sense of group responsibility. The board, not the staff, will be responsible for excellence in governing. The board will be the initiator of policy, not merely a reactor to staff initiatives. The board will not use the expertise of individual trustees to substitute for the judgment of the board, although the expertise of individual trustees may be used to enhance the understanding of the board as a body.
2. The board will direct, control and inspire the organization through the careful establishment of broad written policies reflecting the board's values and perspectives. The board's major policy focus will be on the intended long-term impacts outside TCDRS, not on the administrative or programmatic means of attaining those effects.
3. The board will enforce upon itself whatever discipline, to the extent permitted by applicable law, is needed to govern with excellence. Discipline will apply to matters such as attendance, preparation for meetings, policymaking principles, respect of roles, and ensuring the continuance of governance capability. Although the board can change its governance process policies at any time, it will observe them scrupulously while in force.
4. Continual board development will include orientation of new trustees in the board's governance process and periodic board discussion of process improvement.
5. The board will fulfill its commitments and obligations notwithstanding the actions or omissions of any board officer, individual trustee or committee of the board.
6. The board will monitor and discuss its process and performance at each meeting, including comparison of board activity and discipline with respect to policies in the Governance Process and Board-Staff Relationship categories.

Adopted 11-08-02

GP3 — Board Job Description

The trustees of the board perform as fiduciaries of the trust. The board also has direct responsibility as the link between the participating counties and districts and the operation of TCDRS. The job responsibilities include those that ensure appropriate organizational governance and performance.

1. To perform and satisfy all applicable trust and fiduciary responsibilities.
2. To create written governing policies which address the broadest levels of all organizational decisions and situations.
 - a. Ends: Organizational products, impacts, benefits, outcomes, recipients, and their relative worth (what good for which recipients at what cost).
 - b. Executive Limitations: Constraints on executive authority that establish the prudence and ethics boundaries within which all executive activity and decisions must take place.
 - c. Governance Process: Specification of how the board conceives, carries out and monitors its own task.
 - d. Board-Staff Relationship: How power is delegated and its proper use monitored; the director and investment officer role, authority and accountability.
3. To appoint the director and investment officer and assure successful performance.
4. To approve proposals of amendments to State statutes.
5. To adopt rules as provided by TCDRS Act.
6. To appoint a consulting actuary, an external auditor, external legal counsel, depository banks, a medical board, investment consultants, external money managers, investment performance consultants, custodian banks, and other investment professionals for TCDRS.
7. To perform all investment activities required by the TCDRS Act and the TCDRS Investment Policy.
8. To approve or adopt any item required to be approved or adopted by law.

GP4 — Trustee Education/Cost of Governance

The board will invest in its education and training in order to govern in a manner consistent with its fiduciary duties.

Accordingly:

1. Ongoing education will be provided to maintain up-to-date knowledge of investment strategies, funding policies and governance practices. Training and educational opportunities will be used to orient new trustees, as well as to maintain and increase existing trustee skills and understandings.
2. The board establishes the following as its trustee education program:
 - a. Each trustee will comply with all training required by the state of Texas to include:
 - i. The Texas Attorney General's Open Meetings & Public Information training within 90 days of appointment (unless a course completion certificate for this training has been previously received by the trustee).
 - ii. Minimum educational training requirements adopted by the Texas Pension Review Board (PRB).
 - b. New trustees will receive orientation training at TCDRS' offices within 90 days of the appointment. Orientation training will meet the PRB minimum educational training requirements for new trustees.
 - c. After the first year of service, trustees must complete a minimum of four hours of PRB-accredited training every two years.
 - d. After the first year of service, trustees shall attend at least one continuing education program every two years. Continuing education programs that satisfy this requirement include:
 - i. TCDRS investments-related due diligence education with money managers, consultants or other service providers
 - ii. International Foundation of Employee Benefit Plans (IFEBC) CAPPP™ Program
 - iii. Any other conference or training designed to educate public pension administrators and trustees
3. TCDRS will file reports on trustee training activity with the PRB, keep trustees informed on the status of their compliance with training requirements and maintain records of board education and travel expenses related to education and training. When applicable, TCDRS may apply to the PRB for accreditation of individual continuing education courses taken by trustees.
4. The board chair shall have broad authority to accommodate an individual trustee's personal and work schedules to help her/him comply with this policy.

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5. The following require pre-approval by the board chair before staff may arrange for any such programs or travel on behalf of the board; and the vice-chair will pre-approve the following for the board chair, if applicable:
- i. Educational program requiring travel outside the continental United States;
 - ii. Any educational programs and related travel (other than investments-related due diligence visits) in the final year of a trustee's scheduled term of office

GP5 — Agenda Planning

To accomplish its objectives with a governance style consistent with board policies, the board will follow an annual cycle which (a) completes a re-exploration of Ends policies annually and (b) continually improves board performance through board education and enriched input and deliberation.

1. The annual planning cycle will start with the board's development of its schedule for the following calendar year during the third regular meeting.
2. At the first regular meeting of each year, the board will:
 - a. Review agreements and contracts for all services and providers hired by the board. The board shall determine its need to issue RFQs, RFPs, or other methods to help evaluate providers and appropriate costs, at least as often as the following schedule provides:
 - i. Investment consultant — every 4 years, next review in 2019
 - ii. Depository bank — every 5 years, next review in 2020
 - iii. Medical board — every 5 years, next review in 2020
 - iv. Outside auditor — every 5 years, next review in 2021
 - v. Consulting actuary — every 4 years, next review in 2021
 - vi. Custodial bank — every 5 years, next review in 2022
 - vii. Investment counsel — every 5 years, next review in 2022
 - viii. Fiduciary and benefit plan administration counsel — every 5 years, next review in 2022
 - b. Establish plans for any contract reevaluations, renewals, etc. that will occur during the year.
 - c. Establish the means desired by the board to ensure that appropriate input is gained to effectively establish the board-employer (member counties and districts) linkage.
 - d. Establish the board's desired education opportunities for the remainder of the year in the areas of:
 - i. governance training and education,
 - ii. education related to Ends setting,
 - iii. institutional investment education and training, and
 - iv. pension plan education and training.
3. The implementation of the plans established at the first regular meeting each year will occur following that meeting but prior to the third regular meeting if related to Ends setting and prior to the fourth regular meeting for work not related to Ends.
4. The board will attend to consent agenda items as expeditiously as possible, but are not required to call a special meeting for such purpose.

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5. Monitoring reports will be included on the board's agenda.
 6. Director and investment officer remuneration will be decided during the fourth regular meeting after a review of monitoring reports received within the current year.
 7. The board will hold regular meetings as required by law and such other special meetings that may be called by the director at the request of the chair, director, investment officer, or a majority of the trustees.
 - a. Agenda items may be added by any trustee, the director, or the investment officer. The director, as secretary to the board, shall be provided with agenda items no later than two weeks prior to the first day of the meeting. The director shall provide each trustee with a copy of the final agenda as filed.
 - b. Any previously scheduled meeting may be rescheduled or canceled by the chair, except that meetings called at the request of a majority of the board may be rescheduled or canceled only by the consent of a majority of the board.
 - i. If, in the opinion of the chair, a meeting called by any allowable means will be unable to fulfill its intended purpose due to changed, unforeseen, extenuating or extraordinary circumstances, the chair may reschedule or cancel such meeting. Such circumstances could include weather-related events, unavailability of key meeting resources including meeting space, a majority of trustees, key staff or consultants, etc.
 - c. Reasonable time will be allowed for public comment by persons attending any public meeting of the board.
 - d. The current edition of Robert's Rules of Order Newly Revised shall be the rules of parliamentary procedure when not in conflict with board policies, board rules, or applicable law.
 - e. The minutes of the board shall contain each subject of deliberation, all motions, and the vote, if any, on such motions. Each trustee shall, upon request, have an opportunity to record his or her vote on a motion and to have included in the minutes the reasons stated during the meeting for his or her vote.
 - f. Consent agenda items (including, but not limited to, items delegated to the director and investment officer, but legally required to be approved or adopted by the board) will be placed on the consent agenda by the director or investment officer and will be considered by the board in total without debate. The director or investment officer will provide, prior to the meeting, the monitoring information necessary for the board to make an informed decision on consent agenda items. A trustee may remove any item from the consent agenda for deliberation.

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- g. The final agenda item of each regular meeting will be a board discussion of its compliance, during that meeting, with its Governance Process and Board-Staff Relationship policies. The chair will lead this discussion (or delegate leadership to the vice-chair). Special meetings will not contain this agenda item.

Adopted 11-08-02; Amended 12-04-03; 03-03-05; 09-06-07; 03-06-08; 06-25-09; 06-24-10; 03-03-11; 11-29-12; 04-04-13; 04-02-15; 12-10-15; 04-07-16; 04-06-17

GP6 — Board Officers Roles

Board officers shall be used to support the board's process.

Accordingly:

1. The board shall elect a chair and vice-chair from among its membership.
2. Terms of the chair and vice-chair shall expire immediately following the fourth regular meeting each year. Elections shall be held at the fourth regular meeting or as soon as practicable following the occurrence of a vacancy.
3. The vice-chair shall serve as chair in the chair's temporary absence, incapacity or unavailability and shall become the chair upon the permanent absence of the chair.
4. In the absence of both the chair and vice-chair, the available trustee with the longest service on the board shall serve as acting chair. If the absence is likely to be permanent, elections are to be held at the next meeting of the board.

Role of the Board Chair

The board chair, a specially empowered member of the board, assures the integrity of the board's process and, secondarily, occasionally represents the board to outside parties.

Accordingly:

1. The assigned result of the board chair's job is that the board behaves consistently with its own rules and those legitimately imposed upon it from outside the organization.
 - a. Meeting discussion content will be on those issues that, according to board policy, clearly belong to the board to decide or to monitor.
 - b. Information that is for neither monitoring performance nor board decisions will be avoided or minimized and clearly identified.
 - c. Deliberation will be fair, open, and thorough, but also timely, orderly, and kept to the point.
2. The authority of the board chair consists in making decisions that fall within topics covered by board policies on Governance Process and Board-Staff Relationship, except where board policy specifically delegates portions of this authority to others. The board chair is authorized to use any reasonable interpretation of the provisions in these policies.
3. The board chair is empowered to chair board meetings with all the power of that position as provided under the current edition of Robert's Rules of Order Newly Revised.

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4. The board chair has no authority to make decisions about policies created by the board within Ends and Executive Limitations policy areas. Therefore, the board chair has no authority to supervise or direct the director and investment officer, unless specifically empowered by the board.
 5. The board chair represents the board to outside parties in negotiations, disputes, or similar matters in which the involvement of a board representative is required or desirable in announcing board-stated positions and in stating chair decisions and interpretations within the area delegated to her or him.
 6. The board chair may delegate this authority, but remains accountable for its use.
 7. The board chair shall designate all ad hoc committees of the board, define the charters and timeframes for ad hoc committees, appoint the members for all board committees, and designate the committee chair for all board committees.

Board Secretary Role

The director shall serve as the secretary of the board and as such shall:

1. Make arrangements for all meetings of the board.
2. Assist in the preparation and distribution of the meeting agendas.
3. Post official notices of all meetings as required by law.
4. Record, prepare and index the official minutes of the board proceedings.
5. Maintain custody of the official seal, affixing it to, and attesting, all official documents executed in the name of the board.
6. Maintain the current copy of the board policies.

GP7 — Trustees' Conduct

In addition to strict compliance with legal requirements, all trustees are expected to be guided by the basic principles of honesty and fairness in the conduct of TCDRS' affairs and to comply with these policies. It is the policy of TCDRS that a trustee may not have a direct or indirect professional activity, or incur any obligation of any nature that is in conflict with the proper discharge of the trustee's duties in the interests of TCDRS.

Although, the general principles outlined above shall apply in the conduct of all TCDRS activities, trustees are also bound by the following specific policies:

1. Trustees are bound by and shall comply with the TCDRS Code of Ethics.
2. Trustees may not attempt to exercise individual authority over the organization.
 - a. Trustees' interaction with the director and investment officer or with staff must recognize the lack of authority vested in individuals except when explicitly board authorized.
 - b. Trustees' interaction with public, press, or other entities must recognize the same limitation and the inability of any trustee to speak for the board except to repeat explicitly stated board decisions.
 - c. Except for participation in board deliberation about whether reasonable interpretation of board policy has been achieved by the director and investment officer, members will not express individual judgments of performance of employees of the director and investment officer.
3. Trustees will be properly prepared for board deliberation.

GP8 — Board Committee Principles

Board committees, when used, will be assigned so as to reinforce the wholeness of the board's job and so as never to interfere with delegation from board to director and investment officer.

Accordingly:

1. Board committees are to help the board do its job, not to help or advise the staff. Committees ordinarily will assist the board by preparing policy alternatives and implications for board deliberation. In keeping with the board's broader focus, board committees will normally not have direct dealings with current staff operations.
2. Board committees may not speak or act for the board except when formally given such authority for specific and time-limited purposes. Expectations and authority will be carefully stated in order not to conflict with authority delegated to the director and investment officer.
3. Board committees cannot exercise authority over staff. Because the director and investment officer work for the full board, he or she will not be required to obtain approval of a board committee before an executive action.
4. Committees will be used sparingly and ordinarily on an as needed basis.
5. This policy applies to any group which is formed by board action, whether or not it is called a committee and regardless whether the group includes trustees. It does not apply to committees formed under the authority of the director or investment officer.

GP9 — Board Committee Structure

A committee is a board committee only if its existence and charge come from the board, regardless whether trustees sit on the committee. The only permanent board committees are those which are set forth in this policy. Unless otherwise stated, a committee ceases to exist as soon as its task is complete.

GPI0 — Board Expense Reimbursement

Trustees shall be reimbursed by TCDRS for all reasonable actual expenses incurred while engaged in the official business of TCDRS.

Accordingly:

1. Travel expenses shall include transportation, lodging, meals, and incidental expenses.
2. Reimbursement for the use of a non-TCDRS owned automobile shall be based on the same rate per mile as is paid with regard to travel by TCDRS staff.
3. Reimbursement for automobile travel to an out-of-state destination shall not exceed the amount that would have been reimbursed for coach-class commercial airline and applicable ground transportation.

GPII — *Reserved for future use*

Adopted 11-08-02; Incorporated into GP4 03-06-08

GPI2 — Independent Financial Audit

As required by law, the board will engage an external auditor to perform an independent audit of the annual financial statements. This audit will also serve to satisfy the external monitoring of the policy EL5 — Executive Limitations policy on Financial Activities (as defined in policy BSR5 — Monitoring Director and Investment Officer Performance)

Accordingly, the board has direct responsibility:

1. To undertake a competitive process for the selection of the independent auditor at the end of the term of each audit contract. Firms considered will be limited to national firms with experience auditing public employee retirement systems
2. To enter into multiyear agreements of at least five years in duration for the services of an external auditor. Such multiyear agreement shall take the form of a series of single-year contracts and be consistent with applicable legal requirements.
3. To ensure that the audit procurement process is structured so that the principal factor in the selection of an auditor is the auditor's ability to perform a quality audit. In no case should cost be allowed to serve as the sole criterion for the selection of an auditor.
4. To receive assurance from the auditor that the scope of the audit will encompass the fair presentation of the basic financial statements of TCDRS.
5. To require in the audit contract that the auditors conform to the independence standard as defined by generally accepted auditing standards.
6. To oversee the independence of the auditor by:
 - a. Receiving from the auditor, at least annually, a formal written statement delineating all relationships between the auditor and TCDRS (including the staff and trustees of TCDRS),
 - b. Discussing with the auditor any disclosed relationships or services that may impact the objectivity and independence of the auditor, and
 - c. Taking any other appropriate action necessary to satisfy itself of the independence of the auditor.
7. To evaluate, annually, the performance of the auditor and decide whether to continue the existing contract or to select a new auditor for the next audit.
8. To ensure that the auditor's lead partner rotate off the audit engagement every five years provided there are other qualified partners with the appropriate public pension plan knowledge and experience. The auditor may also offer alternative measures that will serve to eliminate or reduce the need to rotate the lead partner.

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9. To receive and discuss all reports (written or verbal) issued by the auditor, including any significant accounting issues regarding accounting and auditing principles and practices as well as the adequacy of internal controls that could significantly affect the financial statements and any significant reporting issues and judgments made in connection with the financial statements.
 10. To review with the external auditor any changes required in the planned scope of the audit, any management letter provided by the auditor, any problems or difficulties that the auditor may have encountered in the course of audit work, and any restrictions placed by TCDRS on the scope of the auditors activities or on access to required information.

GP13 — Consulting Actuary

The board will engage a consulting actuary (an outside, independent actuary) to perform actuarial services as identified in EL8.

Accordingly, the board has direct responsibility:

1. To oversee and review the selection and retention process and, as necessary, undertake a competitive selection process for the hiring of a consulting actuary.
2. To ensure that the selection process is structured so that the principal factor in the selection of a consulting actuary is the actuary's ability to accurately perform actuarial services. In no case should cost be allowed to serve as the sole criterion for the selection of a consulting actuary.
3. Consulting actuarial firms considered will be limited to national and international firms that have large and experienced U.S. public retirement plan practices.
 - a. The office of the consulting actuary handling TCDRS' account must have a concentration of actuaries experienced in large public retirement plan work.
 - b. The consulting actuary shall have as lead actuary on TCDRS' account an actuary who is a Fellow of the Society of Actuaries (FSA designation) and a member of the American Academy of Actuaries.
 - c. The consulting actuary shall have as a backup to the lead actuary an individual with the credentials mentioned in paragraph b. above. The backup shall be familiar with and able to oversee and review the work performed for TCDRS and its employers if necessary.
 - d. The consulting actuary shall have as valuation actuary on TCDRS' account an actuary who is an Associate or Fellow of the Society of Actuaries (ASA or FSA designation) and a member of the American Academy of Actuaries. The valuation actuary shall be responsible for performing actuarial valuations and other actuarial calculations made on behalf of TCDRS.
4. To enter into agreements for actuarial services that are at least four years in duration.

Policy Type — Board-Staff Relationship

BSRI — Global Board-Staff Relationship

The board's sole official connection to the operations of TCDRS will be through the director and investment officer.

The director is the Chief Executive Officer of TCDRS and is responsible for the general administration of the agency (other than matters relating to investments or to the investment officer and other investment department personnel).

The investment officer is responsible for matters related to investments and for the investment department.

The director and investment officer are employed at-will, and nothing contained in this policy manual or any other document or verbal statement is intended to provide or guarantee the director and investment officer with employment for any specific period of time. Nothing contained in this manual or any verbal statement should be construed as creating any type of employment contract, either express or implied. This at-will employment relationship can only be modified by a written contract signed by the director/investment officer and the board.

BSR2 — Unity of Control

Only officially passed motions of the board are binding on the director and investment officer.

Accordingly:

1. Decisions or instructions of individual trustees, officers, or committees are not binding on the director and investment officer except in rare instances when the board has specifically authorized such exercise of authority.
2. In the case of trustees or committees requesting information or assistance without board authorization, the director and investment officer, to the extent permitted by applicable law, can refuse such requests that require, in the director's and investment officer's opinion, a material amount of staff time or funds or is disruptive.

BSR3 — Accountability of the Director and Investment Officer

The director and investment officer are the board's only link to operational achievement and conduct, so that all authority and accountability of staff, as far as the board is concerned, is considered the authority and accountability of the director and investment officer.

Accordingly:

1. The board will never give instructions to persons who report directly or indirectly to the director and investment officer.
2. The board will not evaluate, either formally or informally, any staff other than the director and investment officer.
3. The board will view director and investment officer performances as identical to organizational performance, so that organizational accomplishment of board stated Ends and compliance with board stated Executive Limitations will be viewed as successful director and investment officer performances.

BSR4 — Delegation to the Director and Investment Officer

The board will instruct the director and investment officer through written policies that prescribe the organizational Ends to be achieved, and describe organizational situations and actions to be avoided (Executive Limitations), allowing the director and investment officer to use any reasonable interpretation of these policies.

Accordingly:

1. The board will develop policies instructing the director and investment officer to achieve specified results, for specified recipients, at a specified cost. These policies will be developed systematically from the broadest, most general level to more defined levels, and will be called Ends policies.
2. The board will develop policies that limit the latitude the director and investment officer may exercise in choosing the means to achieve the Ends policies. These policies will be developed systematically from the broadest, most general level to more defined levels, and they will be called Executive Limitations policies.
3. As long as the director and investment officer use *any reasonable interpretation* of the board's Ends and Executive Limitations policies, the director and investment officer are authorized to establish all further policies, make all decisions, take all actions, establish all practices and develop all activities. Such decisions of the director and investment officer shall be treated as having the full force and authority of a board action.
4. The board may change its Ends and Executive Limitations policies, thereby shifting the boundary between board and director and investment officer domains. By doing so, the board changes the latitude of choice given to the director and investment officer. The board will respect and support the director's and investment officer's choices according to the policies in place at the time that they were made.

BSR5 — Monitoring Director and Investment Officer Performance

Systematic and thorough monitoring of director and investment officer job performances will be solely against the only expected director and investment officer job outputs: organizational accomplishment of board policies on Ends and organizational operation within the boundaries established in board policies on Executive Limitations.

Accordingly:

1. Monitoring is simply to determine the degree to which board policies are being met. Data that do not accomplish this will not be considered to be monitoring data.

The board will acquire monitoring data by one or more of three methods: (a) by internal report, in which the director and investment officer disclose compliance information to the board, (b) by external report, in which an external, disinterested third party selected by the board assesses compliance with board policies, and (c) by direct board inspection, in which a designated member or members of the board assess compliance with the appropriate policy criteria.

2. In every case, the standard for compliance shall be *any reasonable director and investment officer interpretation* of the board policy being monitored. The board is final arbiter of reasonableness, but will always judge with a “reasonable person” test rather than with interpretations favored by trustees or by the board as a whole.
3. All policies, which instruct the director and investment officer, will be monitored at a frequency and by a method chosen by the board. The board can monitor any policy at any time by any method, but will ordinarily be monitored on the following schedule.

(See following page for table)

BSR5 — Monitoring Report Schedule

Policy Title	Nbr.	Method	Frequency	Mtg.
Global Executive Constraints	EL1	Internal	Annually	1
Services to Members and Employers	EL2	Internal	Annually	2
Staff	EL3	Internal	Annually	4
Operational Budgets	EL4	Internal	Annually	1
Financial Activities	EL5	Internal	Quarterly	All
		External	Annually	2
Emergency Director/Investment Off. Succession	EL6	Internal	Annually	4
Asset Protection	EL7	Internal	Annually	4
Plan Funding	EL8	Internal	Annually	1
Communication and Support to the Board	EL9	Board Review	Annually	4
Pension Plan Financial Planning	EL10	Internal	Annually	1
Investment Policies	EL11	Internal	Quarterly	All
		External	Quarterly	All
Ends (all)	E1	Internal	Annually	3

Adopted 11-08-02; Amended 06-26-03; 12-02-04; 06-22-06; 06-14-07; 09-14-17