THE STATE OF WYOMING

Wyoming Retirement System

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MINUTES OF MARCH 4, 2005 BOARD MEETING

The Wyoming Retirement System Board met on Friday, March 4, 2005 at 8:00 a.m. in the WRS Conference Room at 6101 Yellowstone Rd., 5th Floor West, Cheyenne,Wyoming.

Board Members present: Ms. Colleen Peterson, Mr. Matthew Potter, Mr. Kenneth Erickson, Mr. Carl Jensen, Mr. James Applegate, Mr. Danny Romero, Mr. Richard Cuthbertson, Mr. Marty Kelsey, Mr.Dick Stribling, Mrs. Sharon Rasmussen, and Ms. Cynthia Lummis.

Board Members absent: None

Wyoming Retirement System Staff present: Mr. Thomas Mann, Mr. Harry Wales, Ms. Roxane Hudson and Ms. Ellen Lewis.

Others in attendance: Mr. Chuck Custis (WY Education Association), Mr. Don Eibsen, Mellon Consultants, Mr. Todd Milliken, Smith Barney, and Mr. Gary McDowell (WY Education Association).

Legislative Liaisons present: Honorable Jack Landon

Ms. Peterson called the meeting to order at 8:05 a.m.

Approval of Minutes: Ms. Peterson asked the Board to review the minutes of the January 21, 2005 Board meeting.

> **MOTION:** Mr. Stribling moved to accept the minutes as presented. Mrs. Rasmussen seconded. **Motion carried unanimously.**

Review List of Retirees: Ms. Peterson asked the Board to review the January and February 2005 lists of retirees.

> **MOTION:** Mr. Erickson moved to accept the retiree lists as presented. Mr. Applegate seconded. **Motion carried unanimously.**

Election of Officers, Governor Reappointments

Ms. Peterson acknowledged Governor Reappointments of Mr. Jim Applegate, Mr. Marty Kelsey, Mr. Danny Romero and Mr. Carl Jensen. Ms. Peterson announced her plans to retire in the future from her position at the City of Rock Springs.

Ms. Peterson called for nominations for the position of Chairman of the Board.

MOTION: Mr. Applegate moved to nominate Ms. Peterson for the position of Chairman of the Board for 2005. Mr. Potter seconded. **Motion carried unanimously.**

Ms. Peterson called for nominations for the position of Vice Chairman of the Board.

MOTION: Mr. Erickson nominated Mr. Applegate for the position of Vice Chairman of the Board. Mr. Stribling seconded. **Motion carried unanimously**.

Ms. Peterson indicated her appreciation for the work of the committees and said that unless someone desires to change she would like the committee assignments to remain the same. Ms. Peterson asked Board members to contact her if they are interested in changing to a different committee.

Mr. Mann invited Wyoming Retirement System (WRS) staff members to join the meeting for presentation of a 40 year State of Wyoming Service Award to Ms. Jan Wiejek. Ms. Wiejek is currently the Active System Supervisor at the WRS and has been employed at WRS since June of 1980. Her previous years of State service were with the Department of Administration and Information.

Ms. Peterson invited all WRS staff members to introduce themselves to the Board members.

Alliance Portfolio Manager Interviews – Mr. Matt Potter

Mr. Potter reported that he traveled with Mr. Mann and Mr. Stribling to Denver to interview three portfolio managers from Alliance. The meeting took place at Mellon Consultants office with Mr. Don Eibsen and Ms. Amy McGarrity. The successful candidate was Mr. Dutch Handke who has been working for Alliance for many years. Mr. Handke is from Cleveland, OH. He is experienced managing equities and public fund money. Mr. Potter said that the group recommends that Mr. Handke replace Mr. Koltes upon his retirement.

Mr. Stribling added that all three of the candidates were very good but felt that Mr. Handke would maintain the same investment outlook that was enjoyed with Mr. Koltes.

Discussion of Investment Activities - Alliance Capital Portfolio and Investment Review
Ms. Liz Smith, Mr. Jack Koltes, Mr. David (Dutch) Handke

Liz Smith introduced the portfolio managers and commented on Mr. Jack Koltes and his relationship with the Wyoming Retirement System. Since his relationship with Wyoming began he produced annual returns of 5% in excess of the benchmark.

She reported Alliance Capital assets under management had grown to $539 billion. She reminded the board members that the lawsuit by the state of Florida would be coming to trial next week and Alliance was confident in their position.

Mr. Koltes explained his reduction in workload and expressed his enjoyment while working with the system. He said Wyoming should be very proud of the people who have managed their retirement system. He emphasized the best investment philosophy is one that the portfolio manager believes in and stays with even during tough times.

He focused on the current portfolio and the investment environment, indicating corporate profits are estimated to be up 10% this year and cash flows are strong. Turbulence may come from higher energy prices and interest rate increases. He also discussed the impact of China on the world economy. He also mentioned that the energy sector will be a powerful force in the economy for the next ten to twenty years.

Mr. Handke discussed the current investment environment emphasizing the further potential of broadband and indicating the current domestic penetration is low. He mentioned Ebay, Starbucks and Qualcomm in particular as companies that Alliance is bullish about.

Discussion of Investment Activities
Mr. Larry Hill, Alliance Capital

Mr. Hill discussed the current performance of the fixed income portfolio, indicating they are ahead of the benchmark by 15 basis points for this year. The market, however, is only up three basis points. He said last year was unusual in the interest rate markets because short-term interest rates were raided and long term rates were lowered. It is anticipated that all interest rates will rise moderately.

He discussed the attribution of the year's returns compared to the benchmark, indicating TIPS (Treasury Inflation Protected Notes) provided positive out performance along with portable corporate bonds and a yield curve strategy emphasizing long term bonds. The expectation is that short term rates will rise quicker than long term rates, flattening the yield curve and providing opportunities to outperform the benchmark.

Alliance's short term strategy is to keep the duration of the portfolio low compared to the benchmark and continue to be overweight in corporate bonds. The underweighting in mortgages may change because of the volatility being experienced in the mortgage market.

Ms. Lummis asked if Alliance had concerns about Ginny Mae, with the restatement in earnings, and Agencies going forward. Mr. Hill stated he believed, with Ginny Mae being backed by the full faith and credit of the U.S. Government there is not a problem. Unlike Fannie Mae and Freddie Mac, who are independent companies, and do not enjoy that guarantee. He explained that most mortgages in the Alliance's portfolio are Ginny Mae's. Although the biggest concern is with the unknown, he felt that what the regulators were doing would ultimately be in the best interests of the bond holders.

Mr. Eibsen inquired as to what would be the maximum exposure to TIPS that could be expected in the Alliance portfolio. Mr. Hill said they have been as high as 15% of the portfolio but as the expectation of higher interest rates fluctuates the value of the TIPS is reduced.

Discussion of Investment Performance
Mr. Don Eibsen, Mellon Consultants

Mr. Eibsen opened his remarks by discussing the markets from the year 2004 in general. He indicated returns for the fourth quarter carried the strong returns for the year. He went over the

performance of the domestic equity and bond sectors and indicated international equity, including emerging markets performed quite well. He highlighted the bond markets struggle for returns and indicated the high yield sector was adding value to bond returns.

Mr. Eibsen then focused on the WRS portfolio, noting the portfolio ended the year with $5.3 billion, up $500 million from last year. He said that total return for the portfolio was 11.5% for the year. He proceeded to review the individual manager performances, showing the domestic equity managers, in total, outperformed the benchmarks but because of lagging performance by Bank of Ireland the international portfolio did not perform as well relatively.

He then focused on the real estate component, indicating returns were very strong. He also reviewed the fixed income manager performance indicating the two managers, Western Asset and Alliance were a good compliment to each other and each continued to outperform their benchmarks. He talked about Seix and their underperformance as it related to their investment strategy. Because of their large return over investment grade bond, he felt there should not be concern over underperformance to the total high yield market.

Mr. Mann asked if the board should be using a different index to assess returns for Seix. Mr. Eibsen said he will try to address that issue in the future. Mr. Potter asked if Mr. Eibsen had concerns with the Seneca mandate and how should we address them. Mr. Eibsen indicated he would like to see a change in the markets that would emphasize growth to get a better feel for their capabilities. Ms. Lummis asked if Seneca had been losing clients and Mr. Eibsen said in their analysis there appeared to be some erosion in the client base. Mr. Mann indicated the board would have the opportunity to review their six month returns at the July meeting and revisit the issue at that time.

Investment Committee Report
Mr. Matt Potter

The Investment Committee of the Wyoming Retirement System Board met on March 3, 2005 at 10:30 a.m. to conduct interviews for an Absolute Return Manager. Committee members in attendance were Mr. Matthew Potter, Chairman, Mr. Dick Stribling, Ms. Colleen Peterson, Mr. Ken Erickson and Ms. Cynthia Lummis. Other Board members in attendance were Mr. Jim Applegate, Mrs. Sharon Rasmussen, and Mr. Danny Romero.

Staff members in attendance were Mr. Thomas Mann, Mr. Harry Wales, and Ms. Roxane Hudson. Also attending were Mr. Michael Walden-Newman and Ms. Sharon Garland of the State Treasurer's Office.

The purpose of the meeting was to interview investment managers responding to the absolute return Request for Proposal (RFP). Approximately 36 firms responded to the RFP, and four firms were selected for the interviews; PIMCO, AJO, UBS and GMO.

After the interviews were held Mr. Stribling moved the Investment Committee recommend to the Board that PIMCO be awarded the absolute return mandate at a funding level of 2% of the portfolio, approximately $100 Million, with the funding source to be divided equally between the Alliance fixed income and equity allocations.

MOTION: Mr. Potter moved that the PIMCO be awarded the absolute return mandate at a funding level of 2% of the portfolio, approximately $100 million, with the funding source to be divided equally between the Alliance fixed income and equity allocations. Mr. Stribling seconded.

Mr. Mann asked if in light of the asset allocation is it advisable to pull more money from the fixed income portion of the portfolio or should the Board concentrate it? Mr. Eibsen responded that there was discussion about reducing the large cap target and investment grade bond target by 1% each to create the 2% target. Mr. Mann asked if the recommendation should be changed to base the allocation on what is needed in the portfolio.

MOTION: Mr. Potter amended the above motion to say PIMCO be awarded the absolute return mandate reducing the large cap target and investment grade bond target by 1% each to create the 2% target with funding for the mandate to be determined by staff. Mr. Stribling seconded. **Motion carried unanimously.**

Actuarial Audit Response
Mr. Dave Slishinsky, Mellon Consultants

Mr. David Slishinsky, introduced himself to the board as the new actuarial consultant from Mellon in replacement of Flick Fornia who left the firm. His purpose was to introduce himself and comment on the recommendations of the actuarial audit by Milliman Company that was presented at the last board meeting.

In general, Mr. Slishinsky, praised the work done by Milliman and was happy to find their valuations were so close to those of Mellon. He did want to comment on some of the minor issues raised by the audit. He felt that the recommendations raised had merit and his firm would adjust their reporting, including a procedure to flag participants who may run up against the 415(b) limits of the IRS, adjusting the actuarial value of assets by the net income of the securities lending program, and valuing the deferred vested liabilities to better reflect the total cost. He also defended the quality of the data, saying that considerable work has been accomplished over the last few years to minimize the discrepancies, and felt that Milliman's concerns over the amortization period were unfounded.

Mr. Slishinsky answered several questions on the mortality tables being used for the system. He indicated the tables were the latest available and were appropriate for the system. Mr. Stribling requested that the valuation include one based on a zero percent cost of living and a separate 3% valuation. Mr. Slishinsky agreed and said they would show both scenarios in the valuation.

Discussion of Investment Performance
Mr. Josh Kevan, RV Kuhns

Mr. Josh Kevan of R.V. Kuhns reported on the investment performance of the offerings in the deferred compensation program. He first talked about the investment performance of the market in general and then focused on the offerings of the plan. He reported total plan assets exceeding

$212 million, and indicated the Stable Value Fund had the highest proportion with over $104 million. He said thirteen out of the nineteen funds offered exceeded their benchmarks.

Mr. Kevan stated that all of the funds in the plan are either in line with the WRS investment policies or exceeding expectations. He has no significant concerns or qualitative issues that need to be addressed with the plan at this time. Mr. Potter asked how the plan can effectively educate members to be more successful with their investments. Mr. Kevan said the fact that WRS has an in house education staff in place it has the ability to provide the needed education for the members to make informed decisions.

A discussion ensued on the content and progress of the presentations being developed with Mr. Ericksen reminding the staff that the needs of retirees should also be addressed. Ms. Lummis asked Mr. Kevan if any asset classes should be added to the mix. Mr. Kevan indicated the current line up of fifteen offerings plus the four lifestyle funds is about equal to industry standard.

Memorandum of Understanding, Wyoming Retirement Board and the Volunteer Firemen's Pension Board
Mr. Tom Mann

Several meetings ago the Board discussed concerns regarding the Volunteer Firemen's Pension Board and to address the concerns a memorandum of understanding was drafted and approved by the Attorney General and the Volunteer Firemen's Pension Board. The memorandum states that the WRS will be responsible for hiring an investment consultant and individual money managers. WRS will also be responsible for hiring an actuarial firm and an audit firm for an annual audit. Mr. Mann asked for the Board's approval.

> **MOTION:** Mr. Applegate moved that the Board approve participation in the memorandum of understanding as prepared by the Attorney General and authorize the chairman to proceed signing. Mr. Kelsey seconded. **Motion carried unanimously.**

Legislative Update
Mr. Tom Mann

Mr. Mann reported on the retirement issues that were addressed in the legislative session recently concluded and handed out a table of those bills successfully enacted. He reported the needed in crease in employer contributions for the Judicial System was enacted, and also the expansion of the coverage for the rehired retirees. Changes in the disability programs for law enforcement, supported by the board were approved as was the inclusion of Probation and Parole agents in the Law Enforcement Program.

Mr. Mann also explained the proposed adoption of the Uniform Management of Public Employees Pension Act was approved with enactment being delayed until 2006 to determine what other statutes need to be amended for full compliance. He also reported that $10,000 was appropriated to hire a consultant to determine the membership criteria for inclusion in the law enforcement program.

Representative Jack Landon reflected on the reasons the law enforcement program was developed and expressed his desire to examine the unfunded liability created by that program and offer the legislature the ability to erase the liability with a one time payment. He explained the current surplus provides an opportunity for this type of payment and should be pursued.

Mr. Mann also brought up the legislature's desire to do something for retiree health care and their appropriation of $85,000 to study the problem. He said the system would be intimately involved in the study which could take a considerable amount of effort. Mr. Landon explained the legislature was concerned that the retirement benefit of some long time retirees was insufficient to cover the required Medicare match, and he talked about various approaches to solving this problem for future retirees.

Educational Opportunities
Mr. Tom Mann

Mr. Mann distributed information regarding educational opportunities that are available through national organizations that WRS belongs to. He encouraged board members to review and consider attending one of the conferences. Board members were asked to contact Mr. Mann for more information.

Mr. Romero distributed handouts to board members regarding trustee responsibility.

Other

Mr. Romero discussed evaluating Mr. Mann's performance. Mr. Romero stated that the performance evaluation should be fair and objective. There should be a standard to determine how the Mr. Mann's performance should be rated. He recommended to the board that Mr. Mann provide in writing to the board, specific goals, special projects and various work activities for the next year. Mr. Mann indicated that he would supply this information to Mr. Romero by the end of March. Mr. Romero will disseminate to board members for input and the evaluation period would begin in May.

Mr. Erickson said the actual evaluation would be in May 2006, giving board members one year to assess performance.

Mr. Landon said there are instruments available to help develop goals and criteria. He also suggested that the board might consider developing a list of goals and objectives for the coming year.

Mr. Mann said that the Deminimus rule was given to LSO and the Attorney General. LSO approved and the Attorney General has advised the Governor that it is inside our rights to make a rule of this nature. We are waiting for the Governor's signature.

Mr. Mann updated the board on the requested letter of determination by Campbell County. Mr. Hubbard has researched the issue and has advised that we go through the process at the same time we go through the process of researching our laws according to HB 155. He said the WRS can come up with the conclusion as to whether we are inside the requirements under 401(a) of

the IRS code. He thinks an internal audit shall be sufficient to satisfy the requirement. Mr. Mann will write a response letter to Campbell County.

Mr. Mann also reported that there are two hearings pending regarding benefit issues. Mr. Mann said he would discuss with the Chairman whether or not to forward the issues to the disability committee or hire an outside hearing officer.

Mr. Mann reported that for the 12th consecutive year the WRS has been awarded the Certificate of Achievement for Excellence in Financial Reporting.

Mrs. Rasmussen thanked board members for their support of House Bill 185.

The next WRS Board meeting will be held on May 20, 2005 in the WRS Conference Room.

Adjournment: With no further business, Ms. Peterson adjourned the meeting at 11:55 a.m.

Signature on File		Signature on File	
Colleen Peterson, Chairman	Date	Thomas Mann, Director	Date