



Wyoming Retirement System

Partnering to Build Financial Security for Members and their Families

Matt Mead
Governor

Ruth Ryerson
Executive Director

MINUTES OF THE November 15-16, 2017 BOARD MEETING

The Wyoming Retirement System Board met on November 15-16, 2017 at Little America, 2800 W Lincolnway, Cheyenne, WY.

Board Members present: Ms. Laura Ladd (Chair), Mr. Eric Nelson (Vice-Chair), Mr. Garth Shanklin, Mr. Brian Foster, Mr. Tom Chapman, Mr. Tim Sullivan, Treasurer Mark Gordon, Mr. Michael Ceballos, Ms. Vicci Colgan, Mr. Keith Hay, and Ms. Kay Watson (via telephone)

Board Members absent:

Wyoming Retirement System Staff present: Ms. Ruth Ryerson, Mr. Sam Masoudi, Mr. David Swindell, Ms. Polly Scott, Mr. Ben Brandes, Mr. Mike Bleakley, Ms. Rachel Kelley, Mr. John Kreiter, Mr. Bill Ziomek, Mr. Andy Mayer, and Mr. Seth Consoliver, Mr. Joe Briones, Mr. Brady Goyn, Mr. Evan Giusto, and Ms. Summer Wasson

Others in Attendance: Ms. Rebecca Zsich and Mr. Karl Anderson from the Attorney General's Office, Ms. Mika Malone, Mr. Nick Erickson, Mr. Jim Meketa and Ms. Paola Nealon from Meketa, Mr. Beau Burggraff and Ms. Alison Adams from RVK, Mr. Gary McDowell from WEA, Mr. Chuck Custis from WREP, Ms. Betty Jo Beardsley and Mr. Patrick Wozny from WPEA, Mr. Lanny Applegate, Mr. Kim Lee, and Mr. Gene Diedtrich from WRS Volunteer Fire & EMT Board, and Mr. Pete Brown

Legislative Liaisons in Attendance: Senator Curt Meier, Senator John Hastert, Representative Don Burkhart, and Representative Bob Nicholas

Legislative Liaisons absent:

Ms. Ladd called the meeting to order at 1:05 p.m. The first item of business is to approve the minutes. Ms. Ladd asked if we had made a decision regarding how often we conduct an experience study, every five years or four years. No vote was taken at the August Board meeting but we will take a vote during our Legislative and Benefits committee tomorrow.

MOTION: Mr. Sullivan moved to approve the minutes. Seconded by Mr. Foster. Motion passed unanimously.

CONFERENCE UPDATES

Treasurer Gordon spoke about the Treasurer's Conference that was held this September in Saddlestring. Ms. Ryerson, Mr. Masoudi, and Mr. Chapman also attended. Multiple panels

presented on a wide range of topics and Texas had a presentation on how they moved their economy to be less dependent on minerals. Ms. Ladd presented Mr. Shanklin with a certificate of completion for the NCTR Trustee Training. Ms. Ladd recognized Mr. Diedrich from the Volunteer Fire & EMT Board who has 54 years of service to the State of Wyoming and the Volunteer plan.

AUDIT COMMITTEE

Mr. Shanklin thanked Mr. Foster who volunteered to fill the vacancy on the Audit Committee. The structure of our audit department was reviewed including Internal Auditor Erin Gorney and External Auditor Samantha Jacobsen. Agenda items include 2017's completed audits, staff accomplishments compared to 2017 audit plan, and the agency's 2018 audit plan. Mr. Shanklin went through the audits conducted this quarter and provided examples of the information each audit provides.

INVESTMENT COMMITTEE

Jim Meketa Presentation – A United Europe – Past, Present, Future?

Last year, Mr. Meketa reviewed the four unknowns we should be most concerned about: a United Europe, China, deflation and global debt. Focusing his discussion on Europe, Mr. Meketa walked through the historical and recent volatility in the area, reviewing the possible outcomes of Europe remaining united or disaggregating. In contrast to Brexit, he spoke of other more recent developments, such as Macron and the reelection of Merkel, and more generally about generational attitudes being more emblematic of a United Europe going forward.

Mr. Chapman started the remaining portion of the Investment Committee. Mr. Chapman recognized Mr. Masoudi who said there is no required action by the Board today. Mr. Masoudi reviewed recent investment activities, including increases and decreases with specific managers within the marketable alternatives portion of the portfolio, pending investment decisions, and general updates.

Meketa 3rd Qtr Review

Ms. Malone from Meketa reviewed the 3rd Qtr 2017 highlights and recommendations. Mr. Erickson reviewed our allocations vs. policy targets and performance relative to benchmarks. The absolute fund performance is 10.3% YTD. Ms. Nealon from Meketa then went over specific manager performance. Discussion ensued regarding specific managers and investments.

Asset Allocation Review

Ms. Malone highlighted the timeline for WRS' 2018 asset allocation planning, which had started with the October IC meeting and is anticipated to finish in the 2018 February Board meeting. Ms. Malone looked at our allocation compared to our mountain state peers. She discussed our current policies and mentioned alternatives, thereafter reviewing scenario testing for different allocations. WRS has lower exposure to fixed income and private equity, and higher exposure to

hedge funds/marketable alternatives than our peers. When Meketa reviewed current and alternative policies, they considered return assumptions of both 7.0 and 7.75%. Lowering the required rate from 7.75 to 7.0% allows for higher fixed income exposure and a lower equity allocation, thus reducing the overall risk in the portfolio. Furthermore, it was highlighted that very few asset classes are expected to return 8% or more. Usually, we wouldn't look at comprehensive changes this often, but since we changed the return assumption from 7.75% to 7.0% in the August Board meeting there are now more allocation options available to us that would allow the plan to reach its target return.

Ms. Ladd adjourned the meeting at 5:31 p.m.

Thursday, November 16th

Ms. Ladd called the meeting to order at 8:04 a.m.

GOVERNANCE COMMITTEE

Building Update

Ms. Ladd recognized Mr. Ceballos who is the chair of Governance and Strategic Planning Committee. The first committee item is a building update and Mr. Brandes introduced Mr. Anderson and Ms. Zsich from the AG's office. Mr. Anderson stated that Ms. Spillman left a draft opinion prior to departing the AG's office for Treasury and currently Mr. Anderson and Ms. Zsich are reviewing the document. Mr. Anderson said they need more time to make sure from a fiduciary and legal standpoint they give an appropriate opinion to advise the Board. As soon as the opinion is done it will be available to the Board. Ms. Ladd asked about the status of the project to which Ms. Ryerson stated we have some plans and have talked with various contractors but the project is on hold pending the AG opinion. Discussion included the possibility of retirement moving to the 4th floor of the Herschler building. Representative Nicholas said WRS is the leading candidate to move to the Herschler building and that Treasury would be on the 3rd floor so our two agencies can collaborate. The Herschler building is expected to be done in June of 2019.

Strategic Planning & SWOT Analysis Update

At our last meeting we underwent a SWOT analysis that identified key policy issues and our strengths, weaknesses, opportunities, and threats facing WRS. Mr. Ceballos went through the highlights of the work we need to be doing to meet our goals and vision. What tactics do we need to undergo to communicate with our key stakeholders, including legislators, to accomplish our strategic initiatives? Our key goals are: achieving 100% funding status, succession planning, legislative outreach, retirement security, economic and financial markets, and how we measure our effectiveness in attaining these goals. Mr. Ceballos and Mr. Bleakley presented a strategic planning memo and document relating to 100% funding. To reach full funding, the goal was broken down into four categories: investment performance, revenues, expenses, and efficiency. Underneath investment performance the key issues are: retention, which includes succession planning, compensation and incentive plan, staff development. Mr. Masoudi reviewed the

staffing appendix and gaps in the investment team. WRS is finally at full staffing with a CIO, three SIO's, and four Investment Analysts. We want to make sure we retain our key talent. Senator Meier asked about incentive compensation to retain those employees. Mr. Ceballos asked if we could track our performance relative to staff turnover. Tenure is a piece of the resiliency of the program, Treasurer Gordon said, but are there other items to discuss as well. Discussion ensued. Ms. Ladd felt we should add risk-adjusted investment performance and that we are striving to be a consistent second quartile performer. Ms. Ryerson spoke about building out the program to include a Senior Analyst position so there isn't such a huge jump between analyst and SIO. Which strategic priorities can be accomplished quickly with the support of the legislature? Representative Nicholas stated the legislature would rather adjust a footnote as then they can keep control over position salary. The legislature needs to know what WRS needs, from a compensation standpoint, to hire top quartile talent and how many positions we need to accomplish that goal. The JAC would be willing to increase salaries if we can justify that it will save money or increase returns. Representative Nicholas would like to have an interim committee on incentive compensation with members from WRS and Treasury to study incentive compensation. Discussion covered a wide range of topics but Senator Hastert brought up the misinformation that is being circulated regarding WRS. Ms. Ladd asked our legislative liaisons to please be conduits for communication and to point out false information when they see it.

While a majority of the conversation focused on investment performance and compensation, Mr. Ceballos highlighted other priorities of the Board such as potential contribution adjustments, funding from the legislature, benefit levels, bringing higher cost activities in-house, switching payments to our custodial bank and potential to increase efficiencies and effectiveness. Ms. Ladd suggested a structure around compensation and another piece around a nominal increase, 50 basis points, to the contribution rate. Next year WRS will do a comprehensive plan design study that will incorporate further potential changes. Finally, how do we quantify and recommend moving our benefits payments from SAO to Northern Trust? A potential benefit change would be employees who refund their account would only get the contributions back that they put in, not the employer pick-up of the employee portion.

Mr. Ceballos summarized the conversation by confirming that the Board should move forward with development of an incentive compensation program. Mr. Nicholas said the process was started when Mr. Masoudi presented to the JAC. JAC is open and generally supportive of this concept and requested the information from WRS. Mr. Ceballos would like to include timeframes, deliverables, and who the task is assigned to. Ms. Ladd would like to focus on incentive compensation in Governance Committee and the other items in Legislative & Benefits Committee and Ms. Ryerson's report.

Ms. Ryerson thanked Mr. Goyn for compiling the incentive compensation criteria based on Mr. Bleakley reaching out to HR professionals at other public pensions around the country. As the information conveys, there is a wide variance in how incentive compensation is paid. WRS has put together information from seven different systems describing the percentages paid as a portion of base salary for various positions. Ms. Ladd wondered if we could gather information from regional and similar-sized funds. Representative Nicholas wanted exact numbers from salary studies and it was pointed out that the sample incentive compensation plans were included in the Board packets. WRS staff is going to gather information about the size of the funds we're

comparing to as well as when they started their incentive compensation program. Ms. Ladd stated Mr. Chapman, Ms. Ryerson, Mr. Masoudi, would come up with a one to two page summary and recommendation to the Board prior to the December 6th JAC budget hearing.

LEGISLATIVE & BENEFITS COMMITTEE

Mr. Nelson recognized staff in attendance that appeared at the JAC hearing in Casper on October 27th. Mr. Masoudi, Mr. Brandes, Ms. Scott, and Representative Nicholas all gave brief summaries of the hearing, which is summarized in the Board packet. Mr. Nelson brought up the idea of a contribution rate increase and if the Board needed a formalized opinion. Ms. Ladd discussed the idea with Governor Mead and Ms. Ryerson last month. There have been multiple numbers suggested but much of this depends on our investment returns this year and potential changes to benefits based on a future comprehensive plan design. We also want to wait for the January 1, 2018 actuarial valuations. Could WRS recommend 50 basis points now, with further recommendations next year? Discussion ensued. Representative Nicholas asked WRS to review potential benefit changes that might offset the need for additional contribution increases.

MOTION: Mr. Shanklin moved to recommend a 50 basis point increase in the contribution rate to be shared equally between the employee and employer beginning July 1, 2018. Seconded by Mr. Hay. Motion carries.

Ms. Ryerson handed out a piece we designed for the Governor's Office. The piece highlights investment contributions to benefit payments, the varying employer pick-up of employer contributions, Wyoming's above-median funded ratio, and the conservative return assumptions. One potential benefit adjustment is to amend the statutory provisions related to refunds to only include the actual employee contributions made by a reduction in salary, plus interest, and not the employer pick-up of the employee contribution. This would be part of a comprehensive package, but in meetings with Governor Mead he said why don't we bring that now if it's a relatively simple and partial solution. Ms. Ladd said we would never take away benefits retroactively. Discussion ensued if the employer pick-up of the employee portion is a benefit that employers are using in their hiring practices.

MOTION: Mr. Foster moved to recommend to the JAC that it consider amending the definition of "member account" to include only the member contributions actually contributed by the member by a reduction in salary, plus interest, for purposes of determining the amount of a member's refund upon terminating and taking a refund, effective July 1, 2018. Seconded by Mr. Shanklin. Motion carries.

This situation will not apply to the death benefit payout to the beneficiary of any member who dies in service.

Mr. Nelson brought up potential for changes to the personnel rules. Senator Meier suggested that WRS look at potential legislative changes that could be made that he could hand off to someone on JAC. This legislation would ask for an exception that would exempt WRS from certain A&I Personnel Division rules that would enable WRS and the Board to set policies, salary, and incentives appropriate for retirement system and investment personnel. Senator

Meier feels WRS's budget should be based upon a percentage of assets and the Board would have the ability to set salaries. There would still be legislative oversight. Mr. Nelson is going to work with Mr. Brandes and an Ad Hoc committee comprised of Mr. Foster, Ms. Ryerson, Mr. Masoudi, and Mr. Bleakley. There may be language from the Wyoming Business Council or Livestock Board we can utilize.

Ms. Ryerson reviewed the Government Efficiency study and the idea of using Northern Trust for our benefit payments instead of the State Auditor's Office. Additionally, we could move money WRS receives from our employers to Northern Trust immediately, versus a delay with moving the money between Treasury and SAO. WRS is going to coordinate a meeting between us, Treasury, and SAO to discuss money sweeps and payroll efficiencies. WRS processes over 29,000 payments to pensioners every month. We would pay Northern Trust around \$150,000 and they would issue 1099's which we currently have to outsource as SAO doesn't do this. The check cost would be much cheaper and we would have the ability to withhold state taxes which currently we do not.

MOTION: Mr. Hay moved to adopt the recommendation of the Government Efficiency Study pertaining to WRS to proceed with benefit payment options through Northern Trust. Seconded by Mr. Sullivan. Motion carries.

Mr. Nelson brought up the frequency of our experience study. Ms. Ladd stated that COPERA has moved to every four years versus WRS' current every five years. Ms. Ladd thinks this will allow us to react quicker to changes in plan assumptions.

MOTION: Mr. Ceballos moved to change the Board policy to say, "An Experience Study will be conducted at least every three to five years" (not more than every three or less than every five). Seconded by Treasurer Gordon. Motion carries.

Mr. Nelson brought up other potential legislation that may come this session. Ms. Ryerson stated there is possibility of an early retirement bill. We don't know if something is coming out but GRS is working with LSO to simplify the calculation.

Mr. Nelson brought up our legislative outreach program. Mr. Bleakley has prepared a list of legislators we've met with in various areas. Representative Burkhart said the legislature has a positive relationship with WRS. He had never seen the map that was circulated earlier. He feels if they trust us they will reach out to us. Representative Burkhart said there are two new members of the house and asked if we had reached out to them. Senator Meier and Representative Burkhart feel we need to start with the JAC. Ms. Ladd suggested we call all members of the JAC before the December budget meeting. Senator Meier said that WRS is doing more legislative outreach than ever before and that's appreciated.

DEFERRED COMPENSATION COMMITTEE

Ms. Colgan attended P&I's Defined Contribution West conference and one of the major takeaways was individuals are not saving enough for retirement. One way to combat this is automatic enrollment which was already spearheaded by Mr. Chapman and Ms. Scott. The 457

Committee is also in the process of considering some sort of gradual, automatic increase in the percentage contribution to the 457 plan.

Mr. Burggraff reviewed the 3rd quarter fund performance, manager summaries and due diligence for the 457 plan. WRS Equity funds have had a very successful year, primarily due to the strength of growth stocks in the market.

Ms. Adams outlined the downward trend of the administrative costs and how any savings are returned to members. For each of our 20,000+ participants we've been able to reduce fees by an average of \$51 per person. Changing to white label funds and to the Q shares of the LifePath Funds has greatly reduced investment management fees. Due to the recent Recordkeeper RFP, and asset growth administrative costs are expected to decrease going forward. Included in the analysis were best practice plan fee management, per participant costs, historical comparison, peer comparison, and total administrative costs vs. NAGDCA.

Mr. Burggraff reviewed the administrative account analysis. WRS Administrative costs, recordkeeper costs and contribution to administrative reserve were all analyzed to determine the asset based wrap fee. As total plan costs are expected to decrease, forecasting indicates participant fees can be reduced. RVK and staff recommend reducing participant fees to 27 basis points as of January 1, 2018.

MOTION: Mr. Nelson moved to reduce the WRS bps asset based wrap fee to 27 basis points beginning January 1, 2018, contingent on final approvals for transitioning the Stable Value Fund portfolio management to Great West Life & Annuity. Seconded by Mr. Sullivan. Motion carries.

Ms. Scott spoke about the success of National Retirement Security Week. WRS had a digital communications campaign developed around the "Your Whole Story" theme. Ms. Scott included a report on the NRSW daily emails, website and Facebook activity as well as the in-person event attendance.

EXECUTIVE DIRECTOR'S QUARTERLY REPORT - MS. RYERSON

Ms. Ryerson gave a summary of the 9 page quarterly report that was included in the Board packet. The report provides highlights of her activities along with statistics regarding all of the work accomplished by staff over the past 3 months.

OTHER BUSINESS

Mr. Brandes and Ms. Kelley reviewed the 2017 Disability report.

Ms. Ladd said the last item of business before public comment was to determine the 2018 meeting dates and locations. 2018 meeting locations have been set as follows: May 16-17 in Laramie, September 10-11 in Sheridan, and November 14-15 in Cheyenne.

PUBLIC COMMENT

Patrick Wozny is the new representative from the Wyoming Public Employees Association. He appreciated the opportunity to be here and learn.

Mr. Gary McDowell, from the Wyoming Education Association, said thank you for the work that you do for us. Mr. McDowell referenced Senator Meier and Ms. Cogan's comments from earlier in the session regarding the employer pick-up of the employee contribution. The change made today can be detrimental to employee retention. The history of this going forward is important as Boards and Staffs change and individuals do not always remember why certain agreements were made. Mr. McDowell also addressed the accuracy of information and how certain information seems to be circulating that isn't true. The Coalition for a Healthy Retirement would like us to communicate to them if we hear miss-information so they can inform their members.

MOTION: Mr. Shanklin moved to go into Executive Session at 4:20 p.m. Seconded by Mr. Sullivan. Motion carries.

MOTION: Mr. Hay moved to exit executive session. Seconded by Mr. Sullivan. Motion Carries.

MOTION: Ms. Watson moved to adjourn. Seconded by Mr. Hay. Motion carries.

Meeting adjourned at 4:29 p.m.