



Wyoming Retirement System

Partnering to Build Financial Security for Members and their Families

Matt Mead
Governor

Ruth Ryerson
Executive Director

MINUTES OF THE September 10-12, 2018 BOARD MEETING

The Wyoming Retirement System Board met on September 10-12, 2018 at the Sheridan Inn, 204 30th Street, Sheridan, WY.

Board Members present: Ms. Laura Ladd (Chair), Mr. Eric Nelson (Vice-Chair), Mr. Garth Shanklin, Mr. Tom Chapman, Mr. Tim Sullivan, Mr. Patrick Fleming (September 10), Ms. Lisa Jerde Spillman (September 11-12), Mr. Michael Ceballos, Ms. Vicci Colgan, Mr. Keith Hay, and Ms. Kay Watson

Board Members absent: Mr. Brian Foster

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, Ms. Samantha Jacobsen, and Ms. Summer Wasson

Others in Attendance: Ms. Mika Malone and Ms. Paola Nealon from Meketa, Mr. Beau Burggraff and Ms. Mikaylee O'Conner from RVK, Representative Jamie Flitner, Representative Mike Madden, Mr. Gary McDowell from WEA, Ms. Leslie Thompson and Mr. Paul Wood from GRS, Ms. Caglasu Altunkopru and Mr. Aaron Montano from Alliance Bernstein, Mr. Rick Funston from Funston Advisory Services, Ms. Suzanne Dugan and Mr. Luke Bierman from Cohen Milstein, Mr. Steve Ferber from PIMCO, Mr. Sam Shumway from AARP, Mr. Chuck Winniger

Legislative Liaisons in Attendance: Senator Curt Meier, and Representative Bob Nicholas

Legislative Liaisons absent: Senator John Hastert & Representative Don Burkhart

Ms. Ladd called the meeting to order at 1:05 p.m. Ms. Ladd thanked Representative Flitner and Representative Madden for attending our legislative luncheon, in addition to our legislative liaisons in attendance.

INVESTMENT COMMITTEE

Mr. Chapman opened the meeting and reviewed the day's agenda. Mr. Masoudi highlighted the projects the investment team has worked on this quarter. Manager summaries are close to completion and staff put together informational reports for the Joint Appropriations Committee. Mr. Masoudi reviewed recent investment transactions and upcoming manager meetings.

Alliance Bernstein Presentation

Ms. Caglasu Altunkopru and Mr. Aaron Montano from Alliance Bernstein presented their Investment Outlook, Positioning, and Rationale presentation. Highlights included macro trends, forecasting, and ideas for asset allocation.

Mr. Masoudi reviewed recent investment activity as highlighted in the investment memo for each asset class: equity, fixed income, marketable alternatives, and private markets. Pending investment decision were reviewed.

Meketa 2nd Qtr Review

Ms. Malone highlighted various asset classes and their returns in the 2nd quarter. Our portfolio is positioned more conservatively, which she feels is a positive thing considering the recent uncertainty in the markets. Ms. Malone stated our fund is up to \$8.375B as June 30, 2018.

Ms. Malone reviewed the 2nd Qtr 2018 highlights and recommendations. Ms. Nealon reviewed our allocations vs. policy targets and performance relative to benchmarks. The absolute fund performance is 1.02% in Q2 2018. Ms. Nealon from Meketa then went over specific manager performance. Discussion ensued regarding specific managers and investments.

INVESTMENT POLICY STATEMENT

Ms. Malone reviewed the final change to the investment policy statement which includes considerable time spent by the entire investment department, Mr. Chapman, the investment committee and all investment staff. Discussion ensued regarding approval and some general questions. Mr. Fleming voiced some concerns about manager guidelines and if they allow investment decisions outside the benchmark.

MOTION: Ms. Colgan moved approval of the IPS as submitted. Seconded by Ms. Watson. Motion carries.

The investment committee concluded with a market discussion and staff perspectives.

TUESDAY SEPTEMBER 11, 2018

Independent Fiduciary Audit Finalist Presentation

Ms. Ladd called the meeting to order at 8:02 a.m. She recognized Mr. Ceballos who called the Governance Committee to order. Mr. Swindell introduced Mr. Rick Funston from Funston Advisory Services who is the finalist selected by staff to perform a governance and operational review.

Mr. Funston introduced himself and his company. Funston Advisory Group has done over 70 operational and governance reviews and Mr. Steve Harding, who was on the team that did WRS

operational review in 2007 conducted by the State Auditor's Office, will be part of the team should WRS move forward.

The governance and operational review will focus on governance, investment and administrative policies and procedures, resources associated with managing the system, and functions, roles and responsibilities of the staff, investment managers and consultants.

AUDIT COMMITTEE

Mr. Shanklin introduced the Audit Committee members and said the committee has met three times since the last Board meeting. One of these meetings was to receive the CAFR from our outside independent auditor and the committee is pleased to report a clean independent audit letter. Mr. Shanklin began the meeting by asking each Board Trustee to write down a fear and a hope that they have for Wyoming Retirement System.

Ms. Jacobsen reviewed key issues from the Board such as questions in the Wyoming community regarding what is pension eligible compensation for retirement. All applicable information was e-mailed to participating employers. Audit staff is going to look at spiking, which was brought up by another Board Trustee, and report back at the next Board meeting. The private equities and fund performance reconciliation led to a discrepancy with a particular manager, Ridgewood Oil & Gas II. Ms. Jacobsen stated that this was a process audit that led all parties involved to adjust how they will process fee reporting in the future. Another outcome of this audit is the need for an Investment Accountant. Currently, the investment analysts spend an estimate of 528 hours per calendar year on accounting-related tasks including end-of-year books, CAFR, GASB, performance calculation, studies, and reconciliations. An investment accountant position that has a job function to specifically perform these accounting tasks would allow the analysts to focus their time on investment specific-job duties.

Additional audits include further manager reconciliations for investment fund performance as well as a distributions audit, which indicated that all sampled distributions were properly authorized. Various samples of volunteer fire departments were audited to ensure proper meeting attendance to meet the minimum set by statute as well as participation in the plan by Laramie County #1 in paid fire versus volunteer fire.

Fiduciary Presentation

Mr. Brandes introduced Mr. Luke Berman and Ms. Suzanne Dugan from Cohen Milstein who are here to make a fiduciary presentation. Article 19, section 11 of the Wyoming Constitution states, "all monies from any source paid into any public employee retirement system created by the laws of this State shall be used only for the benefit of the members, retirees and beneficiaries of that system, including the retirement administrative costs". Statute 9-3-436 states, "the trustee has the exclusive authority, subject to this act, to invest and manage those assets". The context for risk, which is the primacy of fiduciary responsibility, was discussed in-depth along with a conversation among the Board Trustees about advocacy versus education and the primary duty of the trustees.

DEFERRED COMPENSATION COMMITTEE

Ms. Colgan started the committee meeting by recognizing Ms. Scott who reviewed the day's agenda. Ms. Scott highlighted the evolution of the 457 plan to a place where best practices have been implemented and plan membership and assets are the largest they have ever been. Ms. Scott introduced our expert panel in attendance today including Mr. Ferber from PIMCO, Ms. O'Conner and Mr. Burggraff from RVK who developed an analysis on the objectives and outcomes of the WRS 457 Plan. Key takeaways for participation and savings were to continue to engage with non-state employers to increase plan usage and automatic enrollment. The addition of auto escalation has the potential to help close the retirement income gap. WRS should pursue an auto escalation default feature when the time is right, and promote voluntary auto escalation in the meanwhile.

Mr. Steve Ferber from PIMCO reviewed best practices and industry trends and characterized the WRS 457 Plan as a very good plan that has implemented all the key best practices known in the industry. He noted there are some areas for improvement. Assets are over-weighted toward participants age 54 and older who hold 69% of plan assets. Leakage of assets out of the plan is something that could be reduced; it was 2.2 percent in 2017, compared to 2.7 percent for Empower's entire client base. He commented a deemed IRA could contribute to reducing leakage.

Mr. Burggraff reviewed the 2nd quarter fund performance, various fund balances, manager summaries and due diligence for the 457 plan.

LEGISLATIVE & BENEFITS COMMITTEE

Mr. Nelson introduced Ms. Thompson from GRS who is here to present potential benefit changes, Paid Fire B contribution adjustment, and the cost of a COLA. Mr. Wood accompanies Ms. Thompson from GRS.

Potential plan adjustments looked at include: non-vested inactive members – no interest crediting on accounts and no doubling of account balances upon death; institute a change in valuation method regarding terminated non-vested liability that are more than 5 or 10 years old; early retirement reduction factor changes from 5.0% per year to 7.0% per year; and no non-duty disability retirement once a member reaches normal retirement age.

In addition to potential plan adjustments, GRS looked at Paid Fire B and a potential phase in of a rate increase. Using a four-year rate increase phase of 1.0% each year would achieve a funding status of 100% in 30 years. A nine-year rate increase phase-in of 0.5% each year would achieve a funded status of 100% in 30 years.

GRS also looked at cost of living adjustments, or COLA's. Current statute states that only in the event that the actuarial funded level for the affected plan remains above one hundred percent before a COLA can be granted. There are multiple options available for evaluation including percentage based, flat dollar COLA, and a potential 13th check. In the first scenario, GRS ran

providing a 1.00% on all benefits. The increase in accrued liability is \$45M, or 2.55%. Another option is a one-time 13th check that would increase the accrued liability by \$4.4M, or 0.25%.

MOTION: Ms. Ladd moves to have legislation drafted to move interest on non-vested, inactive accounts from 3% to 0%, as well as moving to not double account balance upon death for non-vested, inactive accounts, with a 6-month grace period. Seconded by Mr. Nelson. Motion carries.

MOTION: Ms. Ladd moves to change the actuarial approach so terminated, non-vested liability that are more than 10 years old are not accounted for in the valuation. Ms. Colgan seconded. Motion carries.

MOTION: Mr. Sullivan moved to adjust the early retirement reduction factor from 5.0% per year to 7.0% per year. Second by Mr. Hay. Motion carries 5-3. Ms. Colgan, Mr. Nelson, Mr. Ceballos opposed.

MOTION: Ms. Ladd moved to recommend statutory adjustment via legislation to prevent non-duty disability retirement once a member reaches normal retirement age across all plans. Seconded by Mr. Shanklin. Motion carries.

Discussion ensued on Paid Fire B. We have not heard from this constituent group but have attempted outreach via a legislative presentation and inclusion on any coalition e-mails.

MOTION: Ms. Ladd moved approval of a phased-in contribution increase for Paid Fire B and to advise and inform JAC on the two options available. Seconded by Mr. Hay. Motion carries.

Cola Discussion

Part of the Board's fiduciary training this morning was the role of being a fiduciary and the difference between education and advocacy. Ms. Ryerson explained that WRS was a guest at the Wyoming Coalition for a Healthy Retirement meeting and they asked for the Board's opinion. The Coalition wants to make sure the Board is not opposed to a potential COLA. Discussed ensued about a 13th check versus a one-time COLA, who could be eligible, best way to work with our partners in the legislature.

Ms. Ladd welcomed public comment on this issue and recognized Mr. Gary McDowell. Mr. McDowell said he felt a goal of the retirement system is to include a COLA to address the needs of individuals as they retire. Mr. McDowell asked the Board to remember the health of the system prior to the crash in 2008. The reaction afterwards was very conservative to protect the system, and the Coalition understood that. It has been 10 years since the last COLA and many individuals retired at lower income levels, especially according to today's standards.

Mr. Sam Shumway, the Executive Director of AARP Wyoming, said he appreciated the Board having the COLA discussion.

Mr. Hay proposed GRS gather additional information to address three key elements: length of career, length of time retired, and amount of monthly benefit. Representative Nicholas stated that he thinks a one-time COLA would have a better chance to pass in the legislature, but likely only if the cost of coal and natural gas appreciate significantly.

The last piece of GRS' presentation is the actuarially determined contribution change per new accounting rules from GASB. GRS is proposing best practices from the Conference of Consulting Actuaries regarding funding practice and practices for public pension plans. Each 20-year period starts and is paid off on a per-year basis. For example, the 2019 gain/loss will be amortized over 20 years ending in 2039, 2020 in 2040 and so on.

MOTION: Ms. Ladd moved to adopt the actuarially determined contribution using a 20-year amortization period. Seconded by Mr. Hay. Motion carries.

PUBLIC COMMENT

Mr. Sam Shumway and Mr. Gary McDowell thanked the WRS Board for their due diligence and communication regarding the health of the plan.

WEDNESDAY SEPTEMBER 12, 2018

Ms. Ladd called the meeting to order at 8:05 a.m. She recognized the efforts of staff to organize a Town hall presentation as the featured guest speaker at the Wyoming Coalition for Healthy Retirement last night.

The Board moved back into 457 DC Committee and Ms. Scott said the 457 committee met in July to discuss the low, but increasing, rate of participating non-state employers. The committee is supportive of working with non-state employers to adopt automatic enrollment. Staff and committee members have been setting up meetings with these constituent groups. Additionally, Ms. Scott and Ms. Colgan met with the Wyoming Education Association to discuss ideas about how to best partner together.

National Retirement Security Week is coming up October 14 and WRS will have a digital marketing campaign and collaborate with our legislators to sign-on as sponsors to our event. WRS received a leadership award from NAGDCA for our 2017 campaign.

MOTION: Mr. Sullivan moved to approve the minutes. Seconded by Mr. Hay. Motion carries.

CONFERENCE UPDATES

Kay attended the NCPERS Trustee training in New York and completed modules I and II of the training. Ms. Watson stated the conference was really great and she was able to network with Northern Trust, Alliance Bernstein, attend workshops on emerging markets, and bring back a free Governance session with a top Governance consultant.

2019 MEETING LOCATIONS

In November the Board will meet on the 14th and 15th at Little America in Cheyenne. The February meeting is set for February 6-7, 2019 in Cheyenne at the Botanic Gardens. The Board will meet in May and November in Cheyenne as well. For the September meeting the Board has suggested Brooks Lake Lodge, Thermopolis, Jackson, Lander/Riverton, and Cheyenne. The number one choice is Brooks Lake Lodge and number two is Thermopolis/Jackson. The Board has requested late May and early September for 2019 staying with the Wednesday/Thursday format. The Board would like two days for the Cheyenne meetings and two and a half days for the September meeting.

GOVERNANCE COMMITTEE

Mr. Ceballos began the meeting reviewing yesterday's Governance and Operational review presentation by Fiduciary Audit presentation finalist Mr. Rick Funston. The Board reviewed cost, past studies, best practices, and what exactly we want to accomplish with the review. The Board would like specific examples and the summary to be as concise as possible. The Board has given staff the direction to go ahead with the Governance and Operational review.

The next agenda item is to review goal #2 of the strategic plan. WRS has compiled input from various sources and put together final language regarding measuring performance. WRS changed the name of the goal to, "Develop best in class institutional investment program". Discussion ensued. The Board feels there is too much tactical information in the strategic plan. They would remove the specific tactics and change A to, "Continue to improve risk-adjusted performance". Board has instructed staff to make the above changes. All goals have potential changes so Board decided to only make the one change on "Continue".

MOTION: Ms. Ladd moves to approve Goal #2 of the strategic plan as amended. Seconded by Ms. Colgan. Motion carries.

The Governance Committee moved on to discuss the strategic initiatives and which committee they have been assigned to. Retention, investment performance, actuarial soundness, and building relationships with decision makers and constituent groups. Discussion ensued regarding each specific topic and the committee they are assigned to. Retention is with Governance, investment performance with investments, actuarial soundness is assigned to legislative and benefits, and building relationships with decision makes will be worked by a staff-led committee.

Governance committee prepared job descriptions and cheat sheets for each key position as we continue building on retention and succession planning. Having the official job description from our Board policy manual coupled with specific examples of the workload should provide potential replacements with some guidelines as we continue moving forward. The Governance Committee will reach out to the key positions, i.e. Board Chair, Executive Director, and finish updating the 'cheat sheets' so they are complete by the next Board meeting.

At the most recent NASRA conference best practices in succession planning were discussed and the WRS Board was presented with ideas for best in class retention and succession planning.

BOARD ELECTIONS

Ms. Colgan nominated Ms. Ladd as Board Chair. No other nominations were submitted. Ms. Ladd was re-elected as Board Chair unanimously.

Mr. Ceballos nominated Mr. Nelson and Mr. Shanklin nominated Mr. Ceballos for Board Vice-Chair. No other nominations were submitted. Mr. Ceballos said to vote for Mr. Nelson. The Board agreed unanimously.

MOTION: Mr. Shanklin moved to go in to executive session for the purposes of discussing personnel at 10:58 a.m. Seconded by Mr. Hay. Motion carries.

MOTION: Mr. Sullivan moved to come out of executive session at 12:04 p.m. Seconded by Ms. Watson. Motion carries.

MOTION: Mr. Chapman moves to adjourn. Seconded by Mr. Ceballos. Motion carries. Board adjourned at 12:05 p.m.

Meeting adjourned at 12:05 p.m.