



Wyoming Retirement System

Partnering to Build Financial Security for Members and their Families

Matt Mead
Governor

Ruth Ryerson
Executive Director

MINUTES OF THE November 14-15, 2018 BOARD MEETING

The Wyoming Retirement System Board met on November 14-15, 2018 at Little America 2800 West Lincolnway, Cheyenne, WY.

Board Members present: Ms. Laura Ladd (Chair), Mr. Eric Nelson (Vice-Chair), Mr. Garth Shanklin, Mr. Tom Chapman, Mr. Tim Sullivan, Ms. Lisa Jerde Spillman (November 14-15), Mr. Patrick Fleming (November 15), Mr. Michael Ceballos, Ms. Vicci Colgan, Mr. Keith Hay, Ms. Kay Watson, and Mr. Brian Foster

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, Ms. Samantha Jacobsen, Mr. Adam Waddell, Mr. Dan Paradis and Mr. Evan Giusto

Others in Attendance: Ms. Mika Malone and Mr. Nick Erickson from Meketa, Ms. Rebecca Zisch from the Attorney General's Office, Ms. Alison Adams and Mr. Ian Huculak from RVK, Mr. Gary McDowell from WEA, Ms. Betty Jo Beardsley from WPEA, Mr. Kevin Reddy from Federated Fire Fighters of Wyoming, Senate President Eli Bebout (November 15), and Mr. John Hays

Legislative Liaisons in Attendance: Representative Don Burkhart, Representative Bob Nicholas, Senator Curt Meier (November 15)

Legislative Liaisons absent: Senator John Hastert

Ms. Colgan called the meeting to order at 12:51 and moved into the deferred compensation committee.

DEFERRED COMPENSATION COMMITTEE

Ms. Colgan welcomed Mr. Ian Huculak from RVK, who is attending his first meeting on our behalf, and Ms. Alison Adams. The 457 Committee reviews the cost of the plan each year, and this is supported by analysis from staff and RVK. To this end, two reports were presented – a fee benchmarking report comparing costs to two different peer groups and a fee optimization model projecting the necessary level of participant fees. The plan has undergone a series of changes in recent years including white labeling the fund lineup, adding passive funds, and twice changing

BlackRock LifePath share classes, which has greatly reduced investment management fees. Within the last year, due to a competitive bidding process for recordkeeping, those costs have decreased from 0.12% to 0.085%.

The fee optimization model shows there is room to reduce participant fees. The recommendation from staff and RVK was to reduce participant fees from 27 bps to 26 bps in January 1, 2019 and reduce the High Balance Fee Rebate eligibility from \$182k to \$150k.

MOTION: Mr. Sullivan moved to reduce the wrap fee on assets from 27 to 26 bps with a cap of \$150,000 effective January 1, 2019. Ms. Watson seconded. Motion carries.

Ms. Colgan recognized Ms. Scott to discuss the next agenda item, Deemed IRA. Ms. Scott reviewed goal number five of the WRS strategic plan, “Manage WRS operations and outreach with a customer service centric focus and culture”. Sub-goal D is to create and offer a deemed IRA platform. She reviewed the due diligence she has done starting in 2014, including an on-site visit to the New York City Deferred Compensation Plan which has a deemed IRA. She refreshed the committee on related efforts to position WRS to offer a deemed IRA – specifically, a private letter ruling on the 457 Plan Document and a new recordkeeping contract with a deemed IRA option involving no start-up costs. Ms. Scott explained how risks have been minimized and advocated to move forward with establishing a deemed IRA.

RVK’s due diligence and consultations indicate that the traditional and Roth deemed IRA option could be implemented at a very low cost to the plan and the plan participants. RVK believes that the addition of a traditional and Roth deemed IRA to the plan would be a valuable enhancement for participants and their retirement outcomes.

MOTION: Ms. Colgan moved to establish a deemed traditional IRA and Roth deemed IRA pursuant to section 12.01 of the 457 Plan Document and direct the WRS staff to work out the details of the future launch date, to be subject to timely and satisfactory completion of technical and substantive implementation. Ms. Watson seconded. Motion carries.

Ms. Adams reviewed the 3rd quarter fund performance, various fund balances, manager summaries and due diligence for the 457 plan.

The last agenda item is an update on non-state employers. Ms. Colgan, Ms. Scott, and Mr. Eason have visited various employers including LCSD#1, City of Cheyenne, SCSD#2, and Mr. Nelson is reaching out to the City of Casper and Natrona County employers.

AUDIT COMMITTEE

Mr. Shanklin introduced the Audit Committee members and said the committee has met multiple times since the last Board meeting. One of these meetings was to meet independently with our external auditor. As part of that meeting the audit committee received a management letter regarding the CAFR.

MOTION: Mr. Shanklin moved to acknowledge receipt of the 2017 CAFR. Mr. Hay seconded. There were no audit findings by Eide Bailey for Board action. Motion carries.

Discussion ensued regarding the audit charter and whether the Board should receive or approve the CAFR. The WRS Board does receive a management opinion letter as well as an opinion letter from the external auditor. Currently we recommend acceptance and approval.

Ms. Jacobsen and Mr. Waddell presented the audit reports from the past quarter. The audit team reviewed 16 independent money managers and reconciled the manager fees against Northern Trust and Meketa. The first audit was the investments section – private equities fund performance reconciliation for Oaktree Real Estate Debt Fund. While there was a variance, the difference was attributed to a timing difference and reconciled appropriately. The second audit consists of the investments section: equities, fixed income and marketable alternatives fund performance reconciliation. The variance of \$63 between the independent calculation and the amount reported by Northern Trust for Birdgewater Pure Alpha is attributed to rounding of shares from trades. The next audit of the investments section is a management fee audit of Harding Loevner. The stated fees reconciled without exception.

The audit team was able to audit 76 employers this quarter by collaborating with the Department of Audit. This audit ensures they are abiding by their enrollment agreement, in the correct plan, and that part-time and full-time employees are categorized correctly. The audit revealed three employers participant enrollment did not reconcile to what was in the RAIN system.

Ms. Jacobsen reviewed the 2019 Audit Plan and worked with our external auditor, Eide Bailey, to come up with a plan for best practice and industry standard. Mr. Waddell took our audit plan to APPFA (Association of Public Pension Fund Auditors) so our peers could review the 2019 plan as well. Additionally, Ms. Jacobsen met with the Audit Manager of COPERA. Their team of four produces 23 audits per year and our plan is to produce 24 audits next year.

The final item was a video presentation on materiality and analytical procedures video from Dr. Oler at the University of Wyoming.

LEGISLATIVE & BENEFITS COMMITTEE

COLA Discussion

Mr. Nelson called the committee to order and the first item of business is the COLA discussion. Mr. Bleakley explained that the Coalition for a Healthy Retirement has put forth a proposal for a 13th check. This would grant retirees a one-time additional payment based upon length of service and years in retirement. This would address the career employees who have seen their purchasing power diminish. WRS actuaries put together a presentation about the cost and benefit levels for both a 13th check and a permanent increase. Mr. Swindell explained the methodology behind the numbers and how the proposal was decided. The Board discussed advocacy versus education and general support for a COLA among the Board. Additional discussion regarding the specifics of the proposal and unknown level of support in the legislature.

Mr. Nelson recognized the members of the Coalition who are in attendance to speak about their membership and the need for a COLA. Ms. Ladd requested a copy of the Coalition's talking points. Ms. Betty Jo Beardsley said the Coalition has approached multiple legislators who are willing to sponsor the bill. Representative Nicholas said to ask for a COLA as you may have to ask more than once. Mr. Nicholas wondered who would pay for the COLA and thinks we will have to educate and advocate for this to have a chance to pass. He understands the need and thinks there may be a bill introduced for a small COLA for long-term retirees in the range of \$5M.

MOTION: Ms. Ladd moved that the WRS Board, recognizing that it has been 10 years since a COLA was granted, recognizing inflationary pressures that exist for our constituents, and recognizing that these conditions most severely impact the long-retired populations, supports education and advocacy for a COLA. Ms. Watson seconded. Motion carries.

Paid Fire B & Potential Legislative Changes

Mr. Nelson recognized Mr. Brandes who explained the need for a contribution increase based on the information from our actuaries. After the September meeting, LSO began drafting legislation to increase the contribution rate by 4%. Upon further investigation, the legislature controls the member contribution, but the WRS Board can implement and adjust the employer contribution. To stay in compliance with the statute 15-5-421 the Board needs to adjust the employer contribution.

MOTION: Ms. Ladd moved, to stay in compliance with Wyoming Statute 15-5-421, the WRS Board requires a 4% increase in the employer contribution of Paid Fire B to be phased in 1% per year to achieve 100 percent funding status within 30 years, effective July 1, 2019. Mr. Sullivan seconded. Motion carries.

Mr. Nicholas said if the WRS Board presented clean-up legislation to LSO and JAC they would sponsor the bill to clean-up the outdated statute as it relates to Paid Fire B. Mr. Brandes stated no formal motion was necessary, as the minutes would reflect the discussion and request.

Other legislative changes, including no interest paid on inactive, non-vested accounts, no doubling of account balances upon death of inactive, non-vested members, and prohibiting non-duty disability once a member reaches normal retirement age require a change in statute. Mr. Nicholas said if we present him with these changes, he could proceed with legislation. Mr. Brandes will draft a rule change for the Board's consideration regarding changing the early retirement factor from 5% to 7%.

MOTION: Ms. Colgan moves to leave the statute the same when it comes to prohibiting non-duty disability once a member reaches normal retirement age. Mr. Shanklin seconded. Motion fails. Ms. Colgan and Mr. Shanklin in favor, remainder opposed.

JAC/Legislative Update

Ms. Ladd stated that WRS attended JAC in Buffalo in September and Thermopolis in October. WRS provided additional information regarding compensation levels. Mr. Nicholas stated the two biggest outstanding issues regarding performance compensation are qualitative versus quantitative components and who establishes the benchmarks: WRS or an outside group. He also said both JAC and CAPFIN voted unanimously to have standardization across WRS and Treasury when it comes to base salaries and performance compensation.

Mr. Swindell presented a member issue regarding the updated factors implemented in October 2018. The member received an estimate one year ago and after the new mortality tables were implemented their benefit dropped over \$500 a month. They are requesting we use the higher figure. WRS staff recommendation is that an estimate is only an estimate and if we make an exception for one person we have to make an exception for everyone. Discussion ensued regarding best practices for notifying members prior to new factors being implemented.

Election results and legislative outreach were briefly discussed.

THURSDAY, NOVEMBER 15, 2018

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

MOTION: Mr. Sullivan moved approval of the minutes as amended. Seconded by Ms. Watson. Motion carries.

Conference Updates

Mr. Chapman attended the Blackstone Real Estate conference. Themes included global logistics center as ecommerce continues to disrupt retail sales. Rental housing shortages are now a global problem. Global travel demand is up 38% for air travel. Blackstone presented on the changing global economy.

Mr. Ceballos, Mr. Sullivan, Mr. Chapman, and Ms. Ladd attended the Treasurer's Conference in Wolff, WY. The legislature took some of the ENDOW initiatives and looked at how they would play out from a tax perspective. All industries, other than mining, were tax negative after you brought them in. Ms. Ladd thought the highlight of the conference was the presenter from the ENDOW group who represents the millennial age group. There was a renewed enthusiasm for younger individuals staying in Wyoming.

2019 Board Meeting Locations

Ms. Ladd stated that the September Board meeting location still needs to be finalized. Mr. Ceballos stated Brooks Lake Lodge would be a great location for an educational retreat. Based on logistics, appearance, and other concerns the Board felt Brooks Lake Lodge was not the most appropriate location to hold a meeting. One idea is to have a retreat at Brooks Lake Lodge and then a Board meeting in Jackson. Mr. Ceballos and Mr. Bleakley will start to develop an agenda for a Board retreat and we will circle back on that. For the September meeting the Board asked Mr. Bleakley about the logistics and infrastructure to make sure we have the basic needs met to

conduct our business. Other locations discussed included Powell, Alpine, and Afton. The Board would like WRS staff to look in to additional locations for future meetings. Ms. Ladd said the most important item is that the Board is able to conduct their business. After an informal Board vote the decision was made to hold the September 2019 meeting in Jackson, WY.

EXECUTIVE DIRECTOR'S QUARTERLY REPORT - MS. RYERSON

Ms. Ryerson gave a summary of the 10-page quarterly report that was included in the Board packet and available upon request. The report provides highlights of her activities along with statistics regarding all of the work accomplished by staff over the past 2 months.

Ms. Ryerson said she missed part of the meeting yesterday to attend the Volunteer Fire & EMT meeting also held at Little America. The Board discussed the idea of adding Search & Rescue to the plan and Ms. Ryerson is going to follow-up with Representative Flitner and Sheriff Blackburn.

The Board discussed the turnover at the Information Officer position and the challenges of the state compensation system and requirements with HRD to pay above the market policy position.

INVESTMENT COMMITTEE

Ms. Ladd recognized Treasurer-elect Meier and Senate President Bebout who are in attendance today. President Bebout said he appreciated the relationship with the retirement system. Mr. Chapman opened the meeting and reviewed the day's agenda. Mr. Chapman thanked all members of the team as 25 of 26 individuals replied to the risk assessment survey. Mr. Masoudi and Mr. Kreiter both received prestigious recognition this past quarter. Mr. Masoudi won the 2018 Industry Innovation Award for Public Plans under \$15B, and Mr. Kreiter was recognized as one of the Top 30 Public Pension Institutional Investors. The Board congratulated them and recognized their efforts to improve the returns of the investment system.

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 decisions and general projects were reviewed. Mr. Masoudi gave a summary of the 4-page quarterly report that was included in the Board packet.

Meketa 3rd Qtr Review

Mr. Erickson reviewed the over-allocation of Private Markets, which led Public Equity to become a smaller portion of the portfolio than initially intended. Public Equity accounted for an allocation of only 43.8%, versus the stated IPS policy target of 49.0%, which was a considerable difference. The positive news of the over-allocation to Private Markets has been a positive contribution to portfolio return. YTD performance for the fund was up 2.53%, as of September 30, including key contributors RS Small Cap Growth (+19.5%) within US Equity, Real Assets (15.5%), Pershing Square (11.6%), and AB MSCI USA (10.6%). Some key detractors include emerging market equities (-10.1%), Sanderson Int Value (-6.2%), CopperRock Small Cap (-4.9%), and AQR All Cap Int (-4.3%).

Ms. Malone and Mr. Masoudi reviewed the tactical trades staff has made including being long gold and short Italy. The total profit from all tactical trades are \$7.1M, which translates into a contribution of approximately eight basis points.

October brought quite a bit of volatility to the equity markets and Ms. Malone reviewed various asset classes and disclosed that other than cash no asset class was positive YTD. If all continues, 2018 will turn out to be a tough year. Mr. Masoudi said we are down 4% in October and down 2.3% for the year as of October 31.

Asset Allocation Review Preparation

As the first step in the annual Asset Allocation Review process, Meketa provided a history of the WRS Asset Allocation, as well as a comparison of the Fund to both its full universe of peers and its geographic peers. The WRS portfolio has been de-risked over the last three years, with public equity exposure declining from 59% in 2015 to its 49% target allocation today. In-line with efforts to reduce portfolio risk, exposure to marketable alternative has increased during the same period, increasing from 15.5% in 2015 to 19.0% today as well as a 5% increase to the fixed income segment of the WRS portfolio.

WRS Risk Survey Results

The WRS risk survey was distributed to board meeting attendees to assess participants' perspectives on risk, and to provide content for the responses. The survey will be distributed annually. The majority of respondents (76%) prefer the same level of portfolio risk in the upcoming year. Last year, the majority (59%) preferred less. Questions polled include risk appetite, greatest risk, expectations, return sentiment, periods for evaluation, and assessment tools.

Guest Speaker - BCA Research Vice President, Matt Gertken

Mr. Gertken joined the WRS Board via conference call. His presentation covered the election results and what the markets mean for the 2020 election. Drawing on historical data from 1860, BCA research said there is a 100% chance President Trump will lose reelection if the United States is in a recession in 2020. Similarly, there is an 80% chance President Trump will win reelection if the country is still in a strong economic condition. The 2020 election in the United States Senate favors the Democrats as the Republicans are defending more seats in the cycle in blue and swing states. The only states that matter in 2020 are Pennsylvania, Wisconsin, and Michigan. These states are so close, Trump won them in 2016, and Democrats will need to win them back in almost any simulation tested to win back the White House. In 2018 the Midwest, rust belt states swung back to the Democrats. This strengthens the case for Joe Biden since he is from Pennsylvania. President Obama and Vice President Biden won these states with an economic message of nationalism. Therefore, the Democrats will favor a Midwestern candidate. Americans do vote for celebrities like Ronald Reagan and Donald Trump but the Democrats would want to avoid a coastal elite considered out of touch in the heartland.

The trade war with China favors President Trump and voters in the Midwest are sensitive to this. We have the largest trade deficit with them and voters in these states feel their jobs have been lost to China. The trade war with China favors President Trump as he can use it as a campaign issue and BCA feels there's a 60/40 chance trade talks with China fail and he can introduce a 3rd wave of tariffs against China and look strong on China policy to gain a stronger Midwestern voter base.

Mr. Gertken spoke about the trade wars and the strengthening US dollar. This will lead to a weakening in emerging market economies. If President Trump makes a deal with China in Buenos Aires do not get too excited as the real outcome will take place long after the meeting takes place.

GOVERNANCE COMMITTEE

Governance & Operational Review Update

Mr. Ceballos opened the meeting with a review of the committee's agenda. The first agenda item is the update on the Governance and Operational review. WRS staff has led the charge in uploading documents to Funston Advisory services. Mr. Ceballos thanked Board Trustees and senior staff for filling out the survey. The next step is an on-site visit with Funston November 28-30 and Trustee interviews at the end of November/early December.

Job Attributes & Descriptions

The next item is a review of the Board Chair and Executive Director job descriptions and attributes cheat sheet. Mr. Bleakley explained that each 2-page cheat sheet takes the responsibilities for each position from the Board Policy Manual coupled with specific examples from existing leadership. On the Executive Director cheat sheet Ms. Ladd asked about the investment-related functions and listing a task that outlines this. One example is, "attend weekly investment team meetings". Number four from NASRA could be worded differently to say, "Institutional Investment Knowledge". We can take the prior recruitment knowledge from five years ago and compare it to the current cheat sheet. Another specific example would be to meet with direct reports regularly. Ms. Ladd asked if we could do this for Investment Committee Chair and Chief Investment Officer, as well as Board Trustee.

Reconvene Legislative and Benefits Committee

Yesterday we discussed the new factors and a member issue with regard to their retirement benefit. Available options to the Board include delegating the authority of a reply to the staff or tabling the issue so staff can conduct additional research. Discussion ensued regarding what has been delegated to staff and the role of the Board in this situation. The Board agrees there is a communication and scheduling improvement opportunity.

Reconvene Governance Committee

The next item is to update the 'Emergency Executive Director Succession' policy to a 'Succession Planning Policy'. We are following best practices from NASRA and working with an example succession plan from Missouri. Discussion ensued regarding the updated policy. One item of note is number 1 that states Board Chair and Vice-Chair and making it only the Board Chair. In addition, the Board would like number 1 to list Board Trustees, rather than Directors. Finally, at the end of the third paragraph the Board would like to say, "minimum qualifications". Instead, the board may interview multiple candidates, rather than a minimum of three candidates.

Under Policy Review number 1 it should say succession planning policy not success planning policy.

MOTION: Mr. Hay moves to approve the Succession Planning Policy as amended. Seconded by Ms. Watson. Motion carries.

WRS Plan to Build Relationships with Decision Makers

WRS Staff has developed a plan to build relationships with various decision makers including and expanding upon our current outreach to the legislature. Employer outreach is an improvement opportunity and WRS is pleased to continue working strategic partnerships for all partners' benefit. The plan talks about specific groups we want to reach out to, but how are we reaching these constituents and decision makers. Mr. Sullivan would like to put together a program and take it to various groups, such as Kiwanis or Rotary, and volunteer to be a speaker at their events. Ms. Ladd thinks Governance and Legislative & Benefits can collaborate and come up with a general message on the top three talking points for WRS. If we had a power point Board members could use that would be helpful. Ms. Ladd said if we mapped legislators to Board members, geographically, we could have a rapid response network in place to address any retirement-related issues.

Finally, the strategic initiatives were reviewed and progress reports were given on our efforts to address retention, investment performance, actuarial soundness, and building relationships with decision makers. Ms. Ladd stated Governance should lead on the three talking points whereas L&B should lead on execution.

PUBLIC COMMENT

Mr. McDowell from WEA said he supports our outreach efforts and knows it is a heavy lift to connect with all the important stakeholders within the schools. He said working with both the HR individuals as well as the principals is important for purposes of both automatic enrollment and education. Mr. McDowell also thanked the Board for their conversations about COLA's and said the Coalition supports this effort. Finally, with regard to the factors he said to think about both sides, member and overall financial health.

Mr. Kevin Reedy from the Federated Firefighters of Wyoming said the financial security our system provides is crucial to their membership. He appreciates the COLA discussion as well.

MOTION: Ms. Colgan moved to go in to executive session for the purposes of discussing personnel at 3:21 p.m. Seconded by Mr. Hay. Motion carries.

MOTION: Ms. Colgan moved to come out of executive session at 4:31 p.m. Seconded by Mr. Ceballos. Motion carries.

MOTION: Mr. Ceballos moves to adjourn. Seconded by Ms. Watson. Motion carries. Board adjourned at 4:31 p.m.

Meeting adjourned at 4:31 p.m.