



# Wyoming Retirement System

*Partnering to Build Financial Security for Members and their Families*

Matt Mead  
Governor

Ruth Ryerson  
Executive Director

## ***MINUTES OF THE February 24-25, 2016 BOARD MEETING***

The Wyoming Retirement System Board met on February 24-25, 2016 at Little America, 2800 W Lincolnway, Cheyenne, WY.

***Board Members present:*** Ms. Laura Ladd (Chair), Mr. Steve Wolff, Mr. Eric Nelson, Mr. Garth Shanklin, Mr. Keith Hay, Mr. Tom Chapman, Mr. Tim Sullivan, Treasurer Mark Gordon  
Ms. Vicci Colgan and Board Appointee Mr. Michael Ceballos

***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. Doug Kidd, Mr. John Krieter, Mr. Andy Mayer, Ms. Erin Gorney, Mr. Kalib Simpson, Mr. Seth Consoliver, and Ms. Samantha Jacobsen

***Others in Attendance:*** Mr. Patrick Fleming and Ms. Diana Walters from the Treasurer's Office, Ms. Lisa Spillman from the Attorney General's Office, Ms. Carolyn Smith from NEPC, Mr. Beau Burggraaf from RVK, Mr. Bob Smith and Mr. David Greely from Bridgewater, Mr. Gary McDowell from WEA, Mr. Bob Kuchera and Ms. Lydia Decaria from WPEA, Mr. Chuck Custis, Mr. Brent Conger

***Legislative Liaisons in Attendance:***

***Legislative Liaisons absent:*** Senator John Hastert, Senator Curt Meier, Representative Don Burkhardt, and Representative Bob Nicholas

***Ms. Ladd called the meeting to order at 10:06 a.m.*** Ms. Ladd opened the meeting by introducing Board appointee Mike Ceballos.

***MOTION: Mr. Sullivan moved*** to accept the minutes of the November 2015 Board meeting.  
***Seconded by Mr. Hay. Motion carries.***

***MEETING DATES & TIMES***

Ms. Ladd reviewed the meeting schedule of Tuesday – Thursday versus Wednesday – Friday. Consensus agrees Wed-Fri is better. Discussion continued if we need two days or three and that will be discussed after strategic planning. The August Board meeting will be two days, August 17-18. The May Board meeting will stay at three days. Treasurer Gordon stated the 14-16<sup>th</sup> of September is the Treasurer’s Conference.

### ***CONFERENCE UPDATE***

Mr. Masoudi attended the NEPC conference with Mr. Chapman. This was the third year he attended and thought this was the best yet. NEPC reviewed their view on central banks, economic expansion and belief that maintaining a 60/40 portfolio will return 3% in the next 10 years. Mr. Masoudi was a speaker on the CIO panel.

Treasurer Gordon attended an investment conference in London. Presentations included the world economy and emerging markets.

Ms. Ryerson and Mr. Bleakley highlighted the educational opportunities available to trustees and valuable conferences for new Board members.

### ***GOVERNANCE***

#### ***Board Policy Manual***

Mr. Wolff recognized Mr. Brandes who highlighted the staff review of the Board Policy manual, including efforts by Mr. Bleakley, Ms. Kelley and Mr. Brandes. Page 32 highlights the role of the Board in advocating for legislation. Treasurer Gordon highlighted a case from the AG’s office regarding ‘lobbying’ from a prior Secretary of State and that being on a Board does not take away your first amendment right. Discussion ensued regarding the differences between what staff can do and what the Board can do. Mr. Wolff suggested that legal counsel and the AG’s office need to do some additional research regarding the differential between Board and Staff as well as ‘The Board’ versus a ‘Board Member’. Mr. Brandes reviewed additional updates to the manual including: assigning certain functions to specific committees and adding a note about Governor approval for out-of-country travel. Number five on page 38 should be amended to say Board members will bring “relevant” documentation back from conferences. Board Officers will be elected annually at the August meeting. Also change language to drop “until a successor is chosen”. Number four on page 42 should add language that if a Board member is going to miss a meeting they notify both the Executive Director and Board Chair. Also change language from should to shall notify. Add language on elections to state August or as soon as possible. Page 45

describes the Board committees' role. Do we have the right five committees? Ms. Ryerson talked about Audit & Finance and Ms. Scott put out the possibility of an actuarial committee. Also discussed was an executive committee. Ms. Ladd asked staff to look at other pensions and committee structure. Ms. Ladd stated that the audit committee charter has a different format than the other committees and audit will review. On page 69 we are going to start sending the weekly investment update to the entire Board. Also discussed is the due diligence memo to the Board and how it will be communicated. The annual report was discussed as well and the best way to present to the Board. On page 70, number eight, should the CIO have due diligence meetings annually? In person meetings annually with larger managers. Smaller private market due diligence is done by the fund of one. On number 11 Ms. Ladd had some additional changes. Clarification that the Executive Director works for the Board. Change as long as to so long as on page 55, number four. Consistency on board evaluation/self-evaluation. On page 58 Ms. Ladd would like Mr. Brandes and Ms. Ryerson to review section for possible improvements. Mr. Wolff asked if others had comments to please e-mail them. Should we add a process for Board recruitment?

Mr. Wolff talked about May's strategic planning retreat and the format, who should be there, and strategic planning consultant. Potential topics include investment team compensation, budget autonomy, review of delegation, succession planning, legislative issues, operational and risk management issues, enhanced communication, board effectiveness, and potential WRS building. Everyone should send Mr. Wolff their top three items for the retreat and he will work with Ms. Ladd, Ms. Ryerson and Ms. Gratsinger from RVK to compile the results.

Ms. Ryerson reviewed the strategic plan and talked about the Board reviewing the plan and providing feedback as we don't want to spend too much time going through line by line.

Ms. Ladd reviewed the board vacancy. Mr. Bleakley stated February 23<sup>rd</sup> was the last day for the Governor's Committee to submit names for Senate confirmation so we should have more information any day now.

## Goals

Review of the committee goals including strategic planning retreat, Board and ED evaluations, educational opportunities for Board members, and continuing to develop a prospective list of Board candidates.

## ***AUDIT COMMITTEE***

Ms. Gorney reviewed the risk assessment in the audit packet. Ms. Ladd asked about methodology and Ms. Gorney reviewed the staff survey's that were collected as well as recommendations. Discussion ensued. Ms. Ladd had a request to change some information as she felt was factually inaccurate. The Board wants to make sure we separate out audit vs. management. The new external auditor was very pleased to have the report as it saved them time and they didn't have to ask those questions.

Ms. Gorney reviewed how administrative fees are calculated and paid within the 457 Plan. Ms. Jacobsen performed the audit. The audit revealed payments and fees are calculated correctly and in accordance with generally accepted accounting principles. There are a couple of best practice suggestions regarding accounting, communicating with the program manager, cost allocation, and supplementary information in the CAFR.

Ms. Gorney reviewed the quarterly update which includes the IA 2016 Audit Plan and a column outlining the status update.

Goals were reviewed as well.

### ***LEGISLATIVE & BENEFITS COMMITTEE***

Ms. Ladd sent an e-mail out summarizing our budget. We have a recurring problem for the second budget session in a row where the budget footnote is approved but the appropriation for those salaries has not been made. We can request B-11 money for this but that is not preferred as we have pointed out the problem to various legislators. Ms. Ladd spoke with Ms. Gray at the Governor's Office so we are still optimistic going forward and have some options. Budget discussion ensued. Legislative outreach was also reviewed and will be discussed further later on the agenda.

Legislation reviewed included SF 59 – Deferred compensation automatic enrollment amendments. SF 19 is regarding the treasurer's office public lands investing. SF 29 is legislator participation in the DC plan. HB 48 is related to posting agency information on public websites and we will touch base with the corporations committee to reference the public records act.

The next agenda item is regarding small employer participation in the retirement system. WRS has been approached by certain employers who would like out of the plan as they cannot afford to make the contributions. WRS would need to define what a small employer is. Mr. Brandes

explained the definitions and stated that currently there is no option for employers to leave the plan. Is Wyoming unique due to its low population that we have smaller employers that want to opt out or have other states faced this same problem? Some states have an 'opt-out' provision. Mr. Shanklin asked if other states have experienced this and states that allow opt-out what their experience has been. This has been a very complicated issue as what would be the cut-off to define a small employer.

Mr. Brandes reviewed the Jones ruling that the judge was very active in rejecting the WRS Board determination. The moral of the story is that we need something more substantive to cite in these legal situations. Mr. Brandes will draft a rule for Board approval.

Mr. Brandes proceeded to review the proposed language for potential administrative rule regarding confidential investment information. The Treasurer's office has the same issue and agrees in principal. Discussion ensued as to whether legislation is needed or if administrative rule would suffice. Ms. Colgan would like to see an example of the type of information that is confidential as she feels it's important to be transparent with public money. Staff will make a list of confidential and non-confidential items for Board review.

Ms. Ladd moved on to the legislative outreach which will also be reviewed during the strategic planning session in May. Further, Governor Freudenthal recommended that Board members contact legislators in their home district, and she would like Board members to contact legislators they know. We are also having a legislative breakfast tomorrow at the Jonah building. Ms. Ladd would like all Board members to identify two legislators they know that they can contact before the May meeting.

Goals were reviewed, including Fire A. Ms. Ladd recognized Ms. Ryerson and the WRS team for putting together the annual summary.

#### ***ANNUAL REPORT - MS. RYERSON***

Ms. Ryerson gave a summary of the 13 page annual report that was included in the Board packet. The report provides highlights of Fund activities, and statistics regarding all of the work accomplished by staff over the past 12 months.

Ms. Ladd recognized Mr. Masoudi for two distinct honors: a nomination for one of Institutional Investor's Investor Intelligence Awards and for being named one of Trusted Advisers Top 30 pension fund CIOs.

Ms. Ladd asked if the website vendor will do on-line marketing for us and if we end up developing a series of web videos.

### ***EXECUTIVE DIRECTOR'S QUARTERLY REPORT - MS. RYERSON***

Ms. Ryerson gave a summary of the 6 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.

***MOTION: Mr. Shanklin moved*** to go into executive session for the purpose of discussing personnel matters. ***Seconded by Mr. Wolff. Motion carries. Executive Session started at 4:46 p.m., exited at 5:11 p.m.***

### ***DEFERRED COMPENSATION COMMITTEE***

Ms. Ladd called the meeting to order at 9:18 a.m. Mr. Chapman said the 457 Committee had a conference call last week to discuss different approaches to “mapping” or transitioning assets to the new investment structure. Ms. Scott recommended mapping assets based on a like-to-like approach. Although there is merit to the idea of re-enrolling participants to target date funds, it can become controversial. She recommends continuing to monitor investor outcomes and separately evaluating a re-enrollment over the next two years. There was support for Ms. Scott’s recommendation and staff was directed to proceed in this way.

Mr. Burggraff reviewed the work RVK and WRS have done on analysis and manager interviews pertaining to the new funds. The last remaining item is the real asset class and WRS will be developing its own fund by combining managers rather than using an off-the-shelf real asset fund.

### ***457 Plan Investment Policy Statement***

Ms. Scott reminded the committee that we reviewed changes to the 457 IPS in November and we are now seeking approval of the redlined changes. Ms. Scott highlighted the additional changes added to the document since November: a statement on page three indicating only the board can approve a re-enrollment, the specifications of what the Board is responsible for versus what the CIO is responsible for, and on page 12 there is a new section about the self-directed brokerage account stating it will offer mutual funds only.

***MOTION: Mr. Sullivan moved*** to approve the amended IPS as submitted. ***Seconded by Mr. Wolff.***

The Board approved changes with future effective date of October 1, 2016. Mr. Sullivan amended his motion to reflect this. Motion carries.

#### ***4<sup>th</sup> Qtr Performance***

Mr. Burggraff reviewed performance which showed the core investments and target date funds have bounced back and stable value has stayed constant. T. Rowe Price continues to be on watch due to the fact that it has been below its peers. WRS is taking the opportunity to move to a lower cost share of the LifePath funds, which will lower fees from 20 basis points to 12. PIMCO continues to be on watch due to personnel departures.

Ms. Scott reviewed the highlights of our retiree and active member annual surveys which showed improvement in customer service over last year and very high marks for trust and confidence.

Mr. Burggraff reviewed the higher education defined contribution fee study requested by Tim Sullivan. The study found the community colleges streamlined their supplemental retirement offerings in response to new IRS regulations in 2009. They are all offering TIAA's 403(b) and the WRS 457 Plan. The University of Wyoming offers the WRS 457 Plan, two additional 457 plans and five 403(b) plans; three of the 403(b) vendors did not provide information for this study. The study found the total plan fees across each college were within a small range of each other and appear to be reasonably priced, between 47 bps and 53 bps, although this does not include internal costs. The total plan fees at U.W. ranged from 45 bps to 203 bps, although three plans did not provide data. The total plan fees for the WRS 457 plan were 52 bps excluding internal costs or 68 bps with internal costs. The full study is available from WRS for any interested parties.

Ms. Scott reviewed the committee goals. The committee updated the 457 IPS, core beliefs, and worked with consultant to evaluate the level of fees to charge participants. A priority for 2016 is for committee members to attend DC educational opportunities, including NAGDCA in Denver on September 18-21 where the theme is how we measure success. Additionally, promote automatic enrollment with non-state employers. So far we have a 98% 'stick rate' for automatic enrollment. If Board members have a relationship with non-state employers reach out to them.

#### ***INVESTMENT COMMITTEE REPORT & NEPC 4<sup>TH</sup> QTR & JANUARY PERFORMANCE REVIEWS***

Ms. Ladd called the meeting to order at 10:58 a.m.

Mr. Chapman outlined the highlights, overview and general issues to be discussed by the Investment Committee. This is the most important meeting of the year for IC to decide on WRS' asset allocation. The IC met in Jackson about two weeks ago to discuss all the issues. Discussion started with what individuals think WRS' return will be this year (survey handed out). Mr. Wolff won the 'battle for the buckle' for 2015 (closest prediction of WRS return).

We reviewed Appendix I which sets the benchmark for staff.

Mr. Masoudi reviewed recent investment activities including Pershing Square, Value Act, the Private Market funds of one (Moran/RAPM, Grove, Abbott), MEIF III, and Carl Marks. Also reviewed were high yield opportunities, marketable alternatives managers, Bridgewater, GMO Global Macro, fixed income, private markets program and 457 plan. Operating updates include a general consulting RFP, GASB 72 requirements, and working with the new auditors.

Mr. Chapman reviewed 2015 goals: strategic allocation, supporting the investment team in execution of their strategic goals, ensuring we have adequate staffing and resources to thrive, partnering with the Treasurer's Office for their conference, increased legislative outreach and continuing education.

Mr. Masoudi reviewed 2016 goals including: reviewing the strategic asset allocation, conduct the general consultant RFP, support the Investment teams' goals, summer interns and potential incentive comp, partner with the treasurer's office and continue IC education . In regards to the General consultants RFP, the Board would like two trustees as 'liaisons' in this process. Mr. Chapman, as Chair of the IC, and one other Board will participate with staff in interviews in Cheyenne. The Board would like staff to send out the current contract and RFP for Board review. We will schedule a special phone call and will put out a public notice. Lastly, Ms. Ladd thought we should add a goal to bullet 1 that our first goal is to ensure that we do our best to achieve or exceed our long term return goal. Goal 1 assure that the investment committee does it's best to assure that WRS investment program prudently meets or exceeds its long-term investment goals by incorporating benchmarks. The final wording will be reviewed and finalized for formal inclusion in the IC goals. On bullet point 4 remove, "as recommended by the JAC".

Mr. Masoudi presented the Investment Team's 2015 review.

#### ***4<sup>th</sup> Quarter Performance***

Mr. Chapman recognized Ms. Smith who reviewed the performance of various asset classes for quarterly, annual and 3-year periods. Of note was that if you removed Amazon, Facebook, Netflix and Google from the S&P 500, the index would have been negative for the year. The Due



Diligence report was reviewed included RS Investments changing ownership. We were down 10 basis points for the year but beat the benchmark, which was down 50 basis points. We were in the 64 percentile and 1 is best, 100 is worst. There is trend within public pensions to lower their expected rate of return. The lower the discount rate, or assumed rate of return, then your funding status gets worse.

### *IPS/Appendix I Review and Update*

Mr. Masoudi reviewed our expected rate of return for our current asset allocation (6.5%) vs. proposed rate of return (6.6%) for the 5-7 year time frame and 7.6% vs. 7.6% for 30-year time frame. This is based on NEPC's projected rates of returns for certain time frames. Proposed changes to the IPS – cash allocation from 2.5 to 2.0%. Fixed income divided into 7.5% core plus and 7.5% US government with the ability to have 0-9% opportunistic credit. Equity allocation updated by geography to domestic equity at 26.5%, international equity at 18.7%, and emerging markets at 4.8%. Marketable alternatives allocation to update composition by changing absolute returns to 7.5%-15% and global asset allocation from 0-12%. Footnote four is becoming footnote two. Additionally, we are increasing the private markets target allocation from 15% to 17.5%. We also reviewed the allocation of each benchmark.

Ms. Ladd introduced our guests, the entire first year class of UW's MBA program. We also have Mr. Smith and Mr. Greely from Bridgewater to present their global outlook. Mr. Chapman reviewed the day's activities for the MBA students and introduced Mr. Masoudi who introduced Bridgewater and gave the company history. Bridgewater has been around for 40 years and their core purpose is to understand economy's and asset classes and how they are going to perform. Bridgewater has over \$150B in assets. They mentioned that the biggest effect on your portfolio's return is how you choose to allocate your assets.

Highlights include most economies are near the end of the monetary super-cycle. High debts and near-zero interest rates will produce low-to-moderate growth and low asset returns. Investors face a savings challenge. Risks are asymmetric to the downside, as central banks are constrained. Globally, deflationary forces and tightening dollar liquidity will test policymakers' ability to respond. Question and answer period including discussion of All-Weather portfolio.

Mr. Masoudi recognized Mr. Kidd and Mr. Consoliver who reviewed the equity asset class review. Equities act as a return generator for the portfolio. Mr. Kidd reviewed 2015 activities included the conclusion of the Emerging Markets manager search. The tilted "smart beta"

portfolios have shifted from two global portfolios to three new portfolios, one for each of the major geographies, each portfolio having four factor tilts (risk-weighted, value, quality and momentum).

Mr. Kreiter reviewed the fixed income portion of the portfolio. Current weight is about 17% of the total portfolio. In 2016 we are planning to eliminate emerging market debt exposure, reduce exposure to corporate and non-investment grade credit and change benchmark to reflect the above and create an opportunistic allocation with zero as its target but a range of 0%-9%. We are moving into US Government Bonds, both active and passive, and eliminating the emerging market debt.

Mr. Mayer explained that Marketable Alternatives are a catch-all portfolio, it is structured to take advantage of opportunities we cannot access in the other, more pure asset classes (i.e. currencies, commodities, inflation beta, global equity, and macroeconomic changes across different geographies). We've made a lot of changes in the portfolio over the past few years, and have effectively reduced fee drag by limiting our exposure high management and incentive fee managers.

Mr. Masoudi reviewed WRS's Private Markets Investments. We established the following Fund of One relationships in 2015: Abbott Capital (Private Equity), Grove Street (Private Equity), and RAPM (Private Real Assets). We are increasing the long-term goal from 15% to 17.5%. Commitments, individual investments and due diligence were all reviewed.

Mr. Masoudi and Mr. Mayer reviewed Exhibit E, which highlighted the IPS changes. Component changes included changing interest rates to US Treasury and non-US Government bonds in the section reviewing possible holdings in the Fixed Income asset class. A Global Asset Allocation category was added to the Marketable Alternatives asset class. On Appendix I the changes are as follows: Tactical cash 2.5 to 2.0%, Private Markets 15.0 to 17.5%, increase footnote two from 8% to 12 % and the range and short term equity target in the footnote was updated as well. Footnote one and three are no longer needed and being deleted. Fixed income is changing per description above in fixed income. Discussion ensued.

**MOTION: Ms. Ladd moved** committee approval of IPS as presented with the following amendments: changing strategic planning under equity (see IPS), changing cash allocation from 2.5% to 2%, and adding a global asset allocation asset class subcategory. **Seconded by Mr. Sullivan. Motion carries.**

**MOTION: Mr. Chapman moves** Board approval of IPS. **Seconded by Mr. Sullivan. Motion carries.**

Committee adjourns at 5:04.

***PUBLIC COMMENT***

None.

MOTION: Mr. Shanklin moved to adjourn. ***Seconded by Ms. Colgan. Motion carries.*** Meeting adjourns at 5:05 p.m.