



Wyoming Retirement System

Partnering to Build Financial Security for Members and their Families

Matt Mead
Governor

Ruth Ryerson
Executive Director

MINUTES OF THE August 17-18, 2016 BOARD MEETING

The Wyoming Retirement System Board met on August 17-18, 2016 at The Holiday Inn at Buffalo Bill Village, 1701 Sheridan Ave, Cody, WY.

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

Board Members absent: Mr. Keith Hay and Ms. Kay Watson

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. Erin Gorney, Mr. Kalib Simpson and Mr. Seth Consoliver

Others in Attendance: Mr. Patrick Fleming from the Treasurer's Office, Ms. Lisa Spillman from the Attorney General's Office, Mr. Steve McCourt, Ms. Colleen Smiley, Ms. Mika Malone from Meketa, Mr. Beau Burggraft from RVK, Mr. Julian Jones from Polunin Capitol, Ms. Suzanne Dugan, Mr. Luke Bierman, Mr. Richard Lorant from Cohen Milstein, Mr. Gary McDowell from WEA, Ms. Betty Jo Beardsley from WPEA, Mr. Chuck Custis and Mr. Wayne Schatz from WREP, Mr. Ron Sniffin from WEA, Ms. Julian Gorel-Janet, Mr. Chuck Winniger, Mr. Steve O'Donnell Sr.

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

Legislative Liaisons absent:

INVESTMENT COMMITTEE

Ms. Ladd called the Board meeting to order at 10:08 a.m. Ms. Ladd congratulated the Legislative Liaisons on their elections results. Mr. Chapman highlighted the investment committee's lighter than usual agenda and mentioned the apparent stabilization of the markets. Mr. Chapman

welcomed Mr. Bill Ziomek to the team, all the way from Hawaii. Additionally, we have hired a new Investment Consultant, Meketa. Mr. Masoudi recognized Julian Jones from Polunin Capital to make a presentation on Developing Countries Fund.

Polunin Capital

Established in 2001, all they do is emerging markets. Mr. Jones highlighted the firm's background, the fact that they are 100% employee owned, and their focus and specialty. Polunin takes a unique approach to investing. The key themes for 2016 and beyond include low oil prices benefiting emerging markets.

General Overview

Mr. Masoudi said that Meketa would be handing out the July flash and discussed the complexity of onboarding a new client. Mr. Masoudi welcomed Bill Ziomek with his over 20 years of institutional investing experience, and the move from Kamehameha in Hawaii, as well as prior experience at Kellogg and UC-Regents. There are no IC required actions today, but there has been a lot of activity since our last Board meeting. In addition to all the trades and money movement, we hired Bill Ziomek out of over 150 candidates, Mr. Mayer passed his level three CFA and we hired Meketa as our new Investment Consultant.

Mr. Fleming highlighted Mr. Masoudi, Mr. Mayer, and Mr. Blakeley's assistance in the Treasurer's Office hiring a SIO. He reviewed the positive relationship between our two agencies and the benefits.

Mr. Masoudi recognized Ms. Malone from Meketa who proceeded to introduce their firm.

Meketa

Meketa Investment Group was engaged as the WRS' General Consultant, as of August 1, 2016. The contact duration is four years and the primary client team is comprised of Mika Malone, Leo Festino, Jim Meketa and Nick Erickson. Meketa will be in attendance at all upcoming meetings of the Board and Investment Committee. Meketa was hired by their first public fund client in 1998. They currently advise on approximately \$350 billion for 37 public fund clients throughout the nation. Ms. Ladd asked about the timing of the asset allocation study and Ms. Ryerson brought up the fact that we are also undergoing an actuarial experience study so we have to make sure we are coordinating the two projects. Mr. Chapman highlighted the opportunity for our

asset allocation study since we have a fresh outlook with a new consultant. Discussion ensued that Meketa provides Boards with manager selection research and our Board has delegated that authority to our Investment team. Meketa said that shows the Board's confidence in the Investment team and is a great governance model so the Board can focus on the larger goals such as setting the strategic asset allocation. Ms. Smiley said they are excited to collaborate with our investment team and compare lists of suggested managers. Ms. Malone said about a third of her clients have reduced their assumed rate of return in the last year and the average reduction seems to be 10 to 25 basis points, many phased in over time. Mr. McCourt responded to Treasurer Gordon's question that there is a trend to bring more investment decisions in-house by hiring staff, thus saving in fees.

Mr. McCourt reviewed Meketa's tactical views, and discussion ensued regarding industry approaches, expected rates of returns, best practices, etc. Rather than an industry consolidation in best practices, the diversification of ideas has gotten even larger and there is no consensus on the best way to achieve returns.

NEPC/Meketa 2nd Qtr & July Performance Reviews

Mr. Masoudi reviewed NEPC's market environment report, outlook including themes of persistent US dollar strength which tightens global monetary conditions and materially weakens the US corporate earnings profile. Various sector YTD returns were reviewed as well as interest rate expectations.

YTD, as of 06/30/16, the total portfolio has returned 1.8% versus benchmark of 1.6%. The second quarter brought a more positive return and July was extremely positive. This is an important reminder how quickly things can change. Including July, the fund is up YTD 4.8%. Equities are up 3.8%, Fixed Income is up 6.9%. Upon conclusion of July's report, discussion moved to general market discussion and tactical trading ideas.

GOVERNANCE COMMITTEE

Mr. Wolff recognized a brief committee agenda started by Ms. Ryerson who reviewed the updated strategic plan. We removed goal number 5 and replaced it with, "Manage WRS operations and outreach with a customer service centric focus and culture". Added goal number 6, "Build or purchase a WRS office building, co-locating with other Wyoming state functions if feasible, with an emphasis on related organization and/or those with which operating synergies may be gained". Other updates include: 1C3, 1D2, 1E2, 1F, 2D3, 3C, 3C3, 3C4. Discussion regarded Fire A funding status, potential solutions and legislation. Consensus seems to be that Fire A should be its own goal. Goal #6 is new and relates to building or purchasing a WRS office

building, either co-locating with other Wyoming state function. WRS currently invests in office space in building all across the country, this would be an opportunity to invest in our local community and hold it as an asset in the portfolio. Representative Nicholas brought up a concern based on informal conversations he's had that the retirement system would have control over rent and that especially close to the capitol that could be a concern. Ms. Ryerson stated that we would need approximately two Board members to serve on the committee. We need to flesh out the details as there are a lot of questions but also a sense of urgency due to the space we're currently in as well as opportunity for a potential investment. Mr. Wolff suggested we remove goal number 6 and put it under a different section. Mr. Bleakley highlighted the plethora of the issues with the building conditions and being a safe workplace and welcoming to our members.

MOTION: Mr. Ceballos moved to approve the strategic plan as amended, seconded by Mr. Shanklin. Motion Carries.

Ms. Ladd asked for six individuals to be on the committee, two from each of the following groups: Board, Staff, and Legislators. Representative Nicholas, Senator Meier, Mr. Nelson and Mr. Ceballos are the committee members, along with Ms. Ryerson and Mr. Brandes from staff. Over the next three months the committee will develop the economic, political, and legal feasibility of the situation.

Ms. Ladd highlighted tomorrow's agenda and the election of officers. She asked for all Board members to think if they would be interested in running for office.

Fiduciary Presentation – Cohen Milstein

Mr. Brandes just attended a conference where Ms. Dugan was a presenter and is excited to have Ms. Dugan, Mr. Bierman, and Mr. Lorant from Cohen Milstein. Mr. Lorant gave a brief introduction of the group and the company. Mr. Bierman highlighted the agenda including today's environment for public pension plans, the fiduciary standard, governing statutes, fiduciary principals and their application. Current hot topics, case studies and best practices will also be discussed.

There are many challenges facing public pension plans today including: government gridlock, ethics scandals, unfunded liabilities, state budget difficulties. To deal with this you need a focus on "back to basics". The term fiduciary includes any person who exercises discretionary authority or control over the administration of a plan, management or disposition of the assets of a plan, or who renders investment advice for a fee or other compensation to a plan or a member of a trustee board.

Ms. Dugan talked about fitting a square stick in a round hole. For example, the New York Retirement System wanted to send their investment staff to China to have boots on the ground to inspect an investment in a building. Due to New York law governing state employees (which the investment staff is), they were unable to do this and so they had to hire outside consultants and add additional fees to accomplish something. One alternative is if law or rule prohibits travel to say, London, would be to build the parameters into the contract with the investment manager that they pay for the trip. The problem with this is you risk headline risk, but sitting on an advisory committee, doing your fiduciary duty of managing the money and making sure you're involved with the investments you make are the basic principle of being a fiduciary.

Meeting adjourned for the day at 5:25 p.m.

Thursday, August 18th

Ms. Ladd called the meeting to order at 8:00 a.m. Ms. Ladd thanked everyone for their continued attention and highlighted the day's schedule.

In regards to May's meeting minutes, there are a few edits. In the L&B section Ms. Ladd wanted to add one more sentence: Not meeting our return objective and our transition to generational mortality tables was not captured in the minutes. We need to remove the redline on page 5. We also need to remove the following sentence: Ms. Ladd, "Michael Milken, known as the junk bond king, was the featured speaker". This conference was an exchange of innovative ideas across a range of industries and focused on long-term retirement planning and social and demographic changes to retirement systems.

MOTION: Mr. Sullivan moved to approve the minutes with the above changes, seconded by Ms. Colgan. Motion carries.

Conference Updates

Mr. Shanklin attended NCTR and thought it was one of the best conferences he's attended. Topics included mission of pension fund, federal update, cybersecurity and data privacy update which basically said that no one has any privacy anymore.

Mr. Chapman and Mr. Masoudi attended the PPI (Pacific Pension Institute), which was a mix of pensions, endowments and other groups. Jeremy Grantham from GMO was featured speaker and spoke about 60/40 stocks/bonds portfolio that he thinks would deliver 3% over the next 5-10 years.

Ms. Ryerson attended NASRA where every fund turns in 3 pages about their fund and takes 3 minutes to present about their fund. Of particular interest is the general trend to lower the assumed actuarial rate of return. Some funds have just made an abrupt adjustment where others have been more gradual such as 5 or 10 basis points per year.

Treasurer Gordon attended a conference in Singapore. The National Association of State Treasurer's relayed certain trends that are problematic for future growth: baby boomers have been the most productive generation producing and accumulating the most wealth and are now transferring that wealth to the next generation that is not as productive.

Ms. Ladd just returned from a personal holiday in England. The feeling is that Brexit passed because the older generations felt uncomfortable with how things have changed and that the status quo was no longer. The younger generations are angry because they feel this has been imposed on them for their lifetimes. The economic impact is still being studied.

Meeting dates and locations

Ms. Ladd highlighted the length of the meetings, the dates and locations. Certain Board members have conflicts and we are trying to accommodate everyone's schedule. Dates are: November 16-17, February 16-17, May 17-18, and August 23-24. Discussion about state plane being cost neutral was discussed and also the fact that saving staff time actually made the plane cost beneficial. In regards to meeting locations the following were suggested: Gillette, Torrington, Riverton, Sundance, Dubois, Hewlet, Saratoga, and Kemmerer (Harry Labonde – select water, coordinate schedules for). Gillette in May, Lander/Riverton in August (Lander preferred).

Elections

Mr. Shanklin nominated Ms. Ladd as chair, seconded by Mr. Wolff. No other nominations. Ms. Colgan nominated Mr. Shanklin as Vice-Chair, seconded by Mr. Sullivan. The nominations passed unanimously.

DEFERRED COMPENSATION COMMITTEE

Mr. Chapman said he was proud of the innovation of the committee and our white label funds and deemed IRA, and that we continually look for new ways to be the best DC possible. Ms. Scott recognized Mr. Burggraff, who reviewed 2nd quarter performance. Discussion ensued

regarding the transition from the current fund line-up to the white label funds. Due diligence was reviewed for all funds in the line-up.

Ms. Scott highlighted the transition to our white label funds. We have a video on our website explaining the transition and have sent a letter to all of our members in late July. After the letter was received, we got many inquiries from participants and subsequently posted an FAQ about the 457 menu changes on the website. On Friday, September 30th after market close there will be a plan-wide freeze period until Monday, October 3rd. When the plan opens on October 3, the new funds will be established and the outgoing funds removed, as well as the brokerage account will be available.

Mr. Burggraff reviewed the summary of the due diligence visit to WRS' stable value fund manager, JP Morgan Asset Management.

Ms. Scott highlighted the document plan revisions to the 457 plan document. This change is to bring the plan document into alignment with the revision that was passed in law regarding automatic enrollment and the permissible withdrawal period of 90 days.

MOTION: Ms. Colgan moved to approve document plan revisions as put fourth, seconded by Mr. Wolff. With Board approval the document will be submitted to the Secretary of State's Office and will take effect October 1, 2016, after a 30-day review period. Motion carries.

Ms. Scott highlighted the deemed IRA platform. While in New York City for the SVF manager due diligence meeting, she visited the New York City 457 Plan which administers a deemed IRA. Ms. Scott stated she will continue to research the possibility of establishing a deemed IRA and would come in 2017 with recommendations.

National Retirement Security Week is coming up October 16-21st and WRS will be hosting retirement planning activities for members. Ms. Scott is the President of NAGDCA and her project as President has been to create a united national retirement security week campaign. All organizations will share the same message creating a greater impact. The theme is, "Your Whole Story", a savings road map with a series of 12 field notes for your journey.

Ms. Scott also showed the new retirement folders we have been working on. Mr. Chapman highlighted the NAGDCA conference in Denver September 18-21 and encouraged all members to attend.

LEGISLATIVE & BENEFITS COMMITTEE

Mr. Nelson recognized Ms. Scott who said we were first assigned to the JAC committee in 2009. Although the JAC did not have us on their summer agenda, we still wanted to submit a written report to the JAC. The report includes our funding status, plan for experience study and the process for making changes, what our assumptions currently are, etc. In Wyoming, we have been meeting our required contribution amount. WRS is not asking for any changes at this time but the report highlights that we are doing our actuarial experience study in 2017. Additional information includes new audit firm, automatic enrollment and updates to strategic plan.

The annual brochure was handed out and discussion ensued about our funding status and best information to highlight. We're going to do our actuarial experience study, perhaps lower the assumed rate of return, followed by analysis if we need to make any adjustments to the contribution rate. Discussion ensued regarding legislative impact of changing the assumed rate of return. Mr. Nelson stated that more advice from our consultants and actuaries could be helpful in advising us on how often to have an actuarial experience study and how often we need to adjust our assumed rate of return.

Conversation turned to the composure of the legislature and the fact that we may have up to a third of the legislature as new members. We may need to offer different levels of education for new members versus senior members. Half of the JAC will probably be new legislators.

Ms. Ryerson stated that we put out an RFP for an actuarial firm. GRS had the best response as well as price and we enjoy working with them, so they were selected to continue as our actuary. Since we are not switching firms we need to have an actuarial audit and we put out an RFP to audit GRS. This is separate from our experience study. GRS will conduct the experience study. We will have the audit of the current January 1, 2016 actuarial results presented at the February 2017 meeting, the January 1, 2017 actuarial results presented at the May 2017 meeting, and the actuarial experience study presented at the August 2017 Board meeting.

Our legislative outreach program was discussed and Mr. Bleakley highlighted efforts to invite all 90 legislators and the Governor to each meeting.

Ms. Ladd discussed an on-line survey with a few options: would you like our newsletter, would you like to come to a community activity, do you now want to hear from us. Mr. Sullivan said we should send our annual brochure with a summary letter to all legislators who won their primaries. Mr. Ceballos stated that he would take a couple months, every year, and travel to the legislators home districts. He said he would meet with 30-35 every year and over the course of 3 years you meet with each legislator. Senator Hastert stated we would be much more effective to meet them on their turf versus stating, "we are in Rawlins, come to us", for example. Mr. Nelson said we need to come up with two sets of materials, one for newer legislators and one for more experienced legislators, and then come up with a timeline and go out and meet with individuals.

Mr. Sullivan stated we should travel and meet with these people and also reach out via Kiwanis, Rotary, etc. Ms. Ladd stated staff would develop the 'road show' and develop a plan and then if they were in a specific region they would contact the local Board members. Discussion ensued.

The Board also reviewed Paid Fire A and would it be beneficial for them to attend the November Board meeting.

AUDIT COMMITTEE

Ms. Colgan reviewed the audit committee agenda and introduced Ms. Gorney. Ms. Gorney announced that our Internal Auditor, Ms. Jacobsen, had her baby and is pleased to report that both mom and son are doing well. Ms. Gorney presented the results of the Deferred Compensation fee audit. The way overhead expenses were allocated was out of date and needed to be updated. Surveys were sent out to determine how other DC plans allocate their costs. Research was conducted and Mr. Swindell wrote a memo regarding the results. Ms. Ryerson explained that any costs that were 100% to DC or DB stayed that way, but any costs that are proportional used to be split 75/25%. Under the new cost allocation the costs are split 93/7%. This new methodology is based on total assets in the plans. Ms. Scott stated this is a better approach and should bring down overall costs of DC administration over time.

The next audit was the benefits desk manual audit. The audit found there were no standard procedures. The WRS Benefits Manager and Deputy Director are working these findings to ensure all issues are addressed.

Ms. Gorney also reviewed the quarterly update.

Mr. Swindell reviewed the CAFR and the updates.

MOTION: Mr. Shanklin moved to approve and accept the CAFR. Seconded by Mr. Sullivan. Motion carries.

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.

PUBLIC COMMENT

Mr. Schatz, Chair of the Wyoming Retired Educator Personal, is here and introduced his Executive Committee who stood and introduced themselves. The Board represents retired educators and was formed in 1962. They have 1592 members. Mr. Schatz says his membership doesn't understand why they aren't getting COLAs when all the neighboring states are, and we have a better funding status than they do. Ms. Ladd said that affordable COLAs used to be granted based on recommendations from our actuaries. Within the last 5 years, the legislature changed that policy and took back the authority to award COLAs. Now the Board recommends COLAs to the legislature based on parameters set in statute. The legislature set-up new parameters including the fact that the funding status of the plan has to be above 100%. Discussion ensued about options available and how to go about accomplishing their goals.

Mr. Steve O'Donnell Sr, founder of O'Donnell Wealth Management in Cody was in attendance to speak to our Board. He said he has had conversations with Secretary Murray and they spoke about having more local involvement with the investment of the pension money. He said Secretary Murray said he would like to see this. Mr. O'Donnell Sr wanted to give us a business card.

Mr. Ron Sniffin, the ED of the Wyoming Education Association, spoke and said the WEA is proud to be part of the Wyoming Coalition for a Healthy Retirement. The WEA is going to focus on educating the incoming legislators about what the Wyoming Retirement System does. He wants to continue to our partnership and they are very supportive.

Ms. Betty Jo Beardsley from the Wyoming Public Employees Association spoke to thank the staff and Board for all their efforts. She is going to meet with candidates and legislators prior to the November election. She is taking our tri-fold informational piece that she feels is important.

MOTION: Mr. Sullivan moved to go into executive session at 3:10 p.m. for the purposes of discussing personnel, seconded by Mr. Shanklin. Motion carries.

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