



# Wyoming Retirement System

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

Matt Mead  
Governor

Ruth Ryerson  
Executive Director

## MINUTES OF THE May 15-16, 2017 BOARD MEETING

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

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

### **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, Mr. John Kreiter, Mr. Bill Ziomek, Mr. Andy Mayer, and Mr. Seth Consoliver, Mr. Joe Briones, Mr. Brady Goyn, Mr. Ben Tonak, Ms. Cindy Kushnir

**Others in Attendance:** Ms. Lisa Spillman from the Attorney General's Office, Ms. Leslie Thompson, Mr. Mark Randall, Mr. Paul Wood and Mr. Thomas Lyle from GRS, Ms. Mika Malone and Mr. Nick Erickson from Meketa, Mr. Beau Burggraff from RVK, Mr. Gary McDowell from WEA, Mr. Chuck Custis from WREP, Mr. Ken Decaria from WEA, Ms. Betty Jo Beardsley from WPEA

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

### **Legislative Liaisons absent:**

Ms. Ladd called the meeting to order at 1:03 p.m. and recognized Mr. Foster who is our newest Board Trustee.

In regards to the Board minutes, Mr. Chapman had an amendment. On page nine during the portion of the minutes about recording the meeting the minutes should say, "The Board discussed recording our meetings...".

**MOTION:** Mr. Hay moved to approve the minutes as amended. Seconded by Ms. Watson. Motion passed unanimously.

## **CONFERENCE UPDATES**

Mr. Sullivan attended the Mountain States Institutional Investors Forum in Denver. Of particular interest was the public pension analysis discussion with demographic asset allocation discussion. There was an interview for maximizing your returns while minimizing your risk that Mr. Masoudi conducted. Mr. Chapman attended the Institutional Investors Conference with Ms. Ryerson and Mr. Masoudi. All the programs seemed to be bullish on hedge funds. Mr. Masoudi reviewed the success of South Dakota and Minnesota as they presented on their strengths in recruiting regional talent as well as their internship programs. Ms. Ladd attended the Goldman Sachs conference where some of our managers presented. In addition this conference is a conversation amongst managers and industry experts with many topics covered. Ms. Ladd also attended Pension Bridge in San Francisco and heard Ms. Ryerson participate in a panel discussion. Ms. Scott attended DC East and spoke on a panel about white label funds. Mr. Masoudi went to the Milken conference with Mr. Chapman, Treasurer Gordon, and Mr. Fleming. Mr. Masoudi focused on a few panels as the conference offers many including topics of Cyber security, North Korea, and automation. Mr. Ceballos went to the Western Pathways conference where the focus was on career and technical skills. There is a pending employment concern as many individuals are eligible to retire and there is a lack of qualified individuals in the workforce.

## **2016 ACTUARIAL VALUATIONS – GRS**

Ms. Ladd recognized Mr. Randall and the team from GRS who are here to present the 1-1-2017 actuarial valuations. The 2016 investment returns were slightly less than the actuarial return assumption, 7.7 vs 7.75. The salary increases were considerably less than projected and that actually helped the funding status. On the opposite side of the spectrum reduced hiring hurt the funding status as a smaller number of active employees are paying for the same or larger portion of retired employees.

Fire A is scheduled to run out of money in 10 years at which point the annual contributions will be \$17.5M. Judges, Law Enforcement, Volunteer, Fire B and Warden plans had increases in their funded ratios while State, Fire A, and Guard Fire had slight decreases in their funded ratios. Liabilities increased less than assumed. The normal cost for the big plan is going down due to Tier II phasing in.

GRS gave a summary of the 39 page annual report that was included in the Board packet. Layoffs and attrition hurt the 30-year funding status as fewer employees are paying in to the plan.

GRS also presented, “Looking Forward: 2017 Experience Study for the Wyoming Retirement System”. Topics include reasonable assumptions, assumptions versus methods, global versus category specific assumptions, inflation, investment return assumptions, and mortality.

## **LEGISLATIVE & BENEFITS COMMITTEE**

Mr. Nelson recognized Ms. Ryerson who reviewed her summer travel schedule April through November (Cheyenne Board meeting). We have been invited to be the guest speaker at a series of Equality State Policy Center Town Halls and the interested groups such as WPEA, WEA, and others invite their members to attend. In addition, we are coordinating legislative breakfasts and luncheons while we are in particular areas to have more one-on-one time with particular legislators. Mr. Bleakley has prepared a list of legislators we've met with in various areas. All Board Trustees are invited to attend any and all Town Halls and legislative meetings around the state as their schedule permits.

### **Website Presentation**

Mr. Nelson recognized Mr. Tonak who highlighted the new website as a component of our strategic plan. Behind every number is a person, and the new website is meant to illustrate why we do what we do every day. Design features, photos and visuals, color scheme, user-friendly layout, user outcomes and more were reviewed. User outcomes were reviewed including streamlining pension touchpoints, 457 plan and retirement education promotion, and improved transparency.

Mr. Nelson brought attention to the S&P report regarding a downgrade to Wyoming's credit score. Mr. Gordon has written a response which will be disseminated to our Board.

**MOTION:** Mr. Shanklin moved to go into Executive Session for the purpose of obtaining legal advice. Seconded by Mr. Sullivan. Motion carries.

**MOTION:** Mr. Sullivan moved to exit executive session. Seconded by Ms. Colgan. Motion carries.

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

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

Ms. Ladd adjourned the meeting at 5:40 p.m.

### **Tuesday, May 16<sup>th</sup>**

Ms. Ladd called the meeting to order at 8:00 a.m.

## **INVESTMENT COMMITTEE**

Mr. Chapman started the Investment Committee. Mr. Chapman highlighted a lighter agenda with the main focus on Meketa's fund analysis. Mr. Chapman recognized Mr. Masoudi who said there is no required action by the Board today. Mr. Masoudi reviewed strategic changes

including an increase to fixed income and a decrease to our equity portfolio based on current market conditions. Mr. Masoudi also reviewed recent investment activities, pending investment decisions, and general updates. Additionally, Mr. Masoudi mentioned upcoming staff changes. Mr. Evan Guisto will be joining WRS effectively June 1, 2017 bringing WRS to eight investment professionals and full staffing levels. Mr. Mayer was promoted to Senior Investment Officer and we will have two summer interns as well.

### **Meketa 1<sup>st</sup> Qtr & April Performance Reviews**

Ms. Malone from Meketa reviewed the 1<sup>st</sup> Qtr 2017 highlights and recommendations. Ms. Malone stated that we are within our IPS policy ranges as we continue to reduce equity exposure to reflect our updated IPS from changes made in February, 2017. Equity performance was a very strong component of our total returns, which beat the benchmark by 50 basis point. Meketa has included a new slide this year which highlights the key contributors and key detractors to the absolute fund performance. Meketa is still including performance both net and gross of fees but will be focusing most prominently going forward on the net of fees peer performance. For the 1<sup>st</sup> quarter and one-year returns WRS is in the top quartile. This has raised our two and three-year performance into the upper half of the peer universe. Mr. Erickson from Meketa then reviewed specific manager performance.

### **Initial Fund Review**

Ms. Malone spoke to Meketa Investment Group's initial review of the Wyoming Retirement System, which is designed to achieve the following objectives: to identify the major components and characteristics essential to the long-term success of the system; and to describe these components and provide their present status for the system. They are seeking to identify areas of potential improvement for the System's structure, efficiency and performance. Ms. Malone highlighted some potential suggestions including: minor changes to our investment policy statement, investment manager guidelines, governance structure, asset allocation policy, active and passive investment management, investment manager evaluation, risk management, custody services, transition management, securities lending, expenses, commission recapture, legal and actuarial services, proxy voting, currency overlay, and cash overlay/equalization. The Board relayed their appreciation as this comprehensive analysis was not performed by our previous consultant. Ms. Ladd thanked Meketa and asked them to take all the recommendations and compile a summary report.

### **Board Member Requests**

At the conclusion of the Initial fund review, the Investment Committee turned their focus to an analysis of various Board member requests. The first was how we evaluate performance. Financial resources to achieve all investment results are based on the Board's fiduciary responsibility for the investment results while the JAC is responsible for providing the resources to execute the investment process. Most of this conversation will carry over to our strategic planning conversation.

The manager search process was reviewed so the Board understands the staff's processes. Investment targets are identified based on quantitative screening, past experience, networking, consultation with investment consultants and inbound calls. The two-person asset class team covering the prospective fund conducts preliminary due diligence. Initial conversations with the ED and entire investment team are held to determine support for the potential investment. Detailed due diligence, legal documents, formal recommendation, CIO approval and ED approval are final steps in the process.

Additional discussions regarding the decomposition of risk within marketable alternatives, sources and uses of funds, and Meketa's scenario analysis summary were discussed. Mr. Chapman highlighted the Manager call with GMO that we had that was well attended by Board members and asked if the Board would like us to continue to do these trainings. The consensus among the Board was that it was valuable and should be continued.

### **Expected Return Assumptions**

Ms. Ladd introduced Senator Pappas who joined us for lunch in addition to Treasurer Gordon and our other legislative liaisons. Yesterday we reviewed our actuarial assumptions and the upcoming 5-year experience study where we will look at all the assumptions and if any changes are needed. This includes inflation, actual investment returns, wage growth and many others although these are the largest pieces that affect our long-term funding status. Mr. Chapman turned the Investment Committee over to Mr. Masoudi and Mr. Mayer to review the 10-year return assumptions. WRS surveyed various money managers, banks, and consultants to understand their expectations of future asset returns. These estimates will help set stakeholder expectations for the short and medium term (1-10) year; however, they are less useful in understanding the actuarial expected return, which is a 30+ year assumption. Discussion ensued about how best to look at 10-year return assumptions when the 30-year number is what our actuaries base their calculation upon. Even if we were in a lower return environment, say 6% for the next ten years, WRS has the cash and ability to pay out all of our accumulated benefits. Continuing conversation about our conversion rate, what will happen if assumed rate of returns are lower than expected, upcoming experience study and potential for contribution rate increases. The Board discussed if they come to the legislature for a contribution rate increase what would that look like. We would include any adjustment to our assumed rate of return, the percentage contribution requested, and the goal (i.e. 100% funding status within 30 years). What does the contribution rate need to be to achieve 100% funding status within 30 years?

### **AUDIT COMMITTEE**

Ms. Colgan highlighted the activities of the audit committee including Ms. Gorney following up on three audits including desk manuals and part-time employment. In External Audit, Ms. Jacobsen had audited an early childhood development center audit to determine how service hours are computed. Should early childhood development centers be treated as educators since summer service was in question? The audit was done of the Fremont county early childhood development center. Ms. Colgan reviewed the audit structure within WRS highlighting the difference between internal and external auditing functions and the reporting lines.

## GOVERNANCE COMMITTEE

### Strategic Planning Updates

Ms. Ladd recognized Mr. Ceballos who is the new chair of Governance and Strategic Planning Committee. Ms. Ladd stated Mr. Ceballos is working with Mr. Bleakley as the new staff liaison to the Governance committee. Mr. Ceballos spoke about upcoming goals including the Executive Director Evaluation in August and continuing search for a new building for WRS. For this meeting we wanted to focus on a couple of particular areas: strategic planning and Board self-evaluation. WRS ordered a reference book for all Trustees, "One of a Kind". One of Meketa's senior staff members was an author of the book so we may look at having them present at a future Board meeting.

The current strategic plan had been divided into sub-goals with each topic being assigned to a specific staff member. Mr. Ceballos reviewed Chapter 13 from 'One of a Kind' with a focus on Board strategy. The book confirms that there should only be one strategic plan for the entire organization, versus separate plans for the Board and staff. The current version of the strategic plan has five goals and the revised version of the strategic plan which has eight categories. Mr. Ceballos took the new eight categories of goals along with input from Ms. Ryerson and Mr. Bleakley to try and make the goals more measurable and easier to track.

Ms. Ladd stated the first three goals read easier than the old goals and read more like goals that are actionable. Discussion ensued. Should we 'White Board' the highest level policy issues we might be dealing with? The discussion today is more regarding the process than the output or actual product. Ms. Colgan would like to start with what our responsibilities are and what the WRS wants to accomplish. We should go back and look at the report from IFS. Mr. Nelson said we have great content but it's a little overwhelming. Mr. Chapman asked what we are trying to accomplish and filter it from there. If we can identify three to four main goals and have a sub-committee to fill it in. Does what we have address our key policy issues, does it say who's responsible for what, does it get down into the weeds? The strategic plan was originally created utilizing a facilitator and we white-boarded the big issues affecting the organization and then created the five goals. Since then, the level of details has expanded quite a bit and the plan includes quite a bit of tactics. Mr. Bleakley highlighted that our first major strategic planning retreat was in May of 2014 in Thermopolis continuing on comments from Ms. Ladd. In May of 2016 we had a consultant out to continue that conversation and are planning to do that every two years. Should we have a high-level strategic plan and then a tactics plan that is maintained by staff? Not two separate plans, but one at a higher level and one that gets down to the detailed level.

Mr. Ceballos summarized the conversation by stating it's a collective process to update the strategic plan, that we're looking for three-five strategic initiatives for the Board, and finally taking a working group to flush it out at a tactical level mainly for purposes of staff execution. The Board will pull back into strategy instead of tactics which leads to a tendency to micro-manage.

## **Board Self Evaluation**

Mr. Ceballos stated we need to evaluate the Board, the committees and ourselves. Mr. Bleakley compiled the results including an average and the spread for each category. Looking at the results a couple areas are worth examining. The lowest category is, "The Board engages in long-range strategic thinking and planning". Mr. Chapman said in 2013 our average was 4.0 and this year it was 4.3. The area we improved the most was Board Orientation, almost a one point increase. Ms. Ladd asked about the definition of 'ethical stewardship' to which Mr. Shanklin replied, "the honoring of duties owed to employees, staff, and stockholders in the growth of wealth in an honorable way". Are some of the comments from the Board evaluation really norms of the Board? Roles are important to meet the strategic plan of WRS and what are we doing to meet those roles? How are we going to measure these roles? Discussion included specific challenges and opportunities including succession planning for both the Board and senior staff. Ms. Ladd would like to look at best practices for Board succession planning. Mr. Chapman brought up the idea that all the committee chairs should have additional conversations with each other. Mr. Chapman had results for 2013 and the Board thought it would be good to go back and look at prior results (we didn't have results from last year). Mr. Shanklin reflected that he wasn't able to review 100% of the information as there is too much information to review. Other Board members concurred and there is a general consensus to provide executive summaries and concise information.

## **Recording of Board Meetings**

This item is on the agenda for discussion purposes only. The pros and cons of this were reviewed. Transparency, encourage remote participation, and the issue of whether an end user has ever requested a recording of the meeting. Discussion ensued regarding what we are able to do from a technology standpoint, and what we want to do via a philosophical standpoint. We want to make sure we don't hinder any conversations and wonder where interest is coming from. Mr. Tonak reported more individuals access our Board minutes and information from outside Wyoming than from inside Wyoming. With the launch of our new website we will be able to keep track of hits to websites and what resources our members are looking for. The Board also spoke about creating educational videos, telephone town halls, one-hour video chats, and other resources that may be of further value to our members versus listening to a two-day recording of our meeting. Mr. Ceballos offered the idea of call-in information for our members at the end of the Board meetings. No motions were made at this time but the staff will continue to offer solutions to increase transparency and education for our members and interested parties.

## **Rule-making**

WRS has secured favorable determination letters from the IRS for the Public Employee Plan and Law Enforcement Plan. These favorable determination letters, as outlined by Mr. Brandes, were contingent on WRS amending the plans to reflect certain changes in deferral law relative to military service credit provisions contained in the federal code. Mr. Brandes submitted two memos. The first explains the IRS letters and the second explains the rule-making process and

proposed chapter 21 rules. Additionally, there are amendments to chapter 7 which are being proposed. In addition to submitting a formal rule request to the rule-making process, Mr. Brandes is asking the Board to move to approve emergency rules for approval which the favorable determination letters from the IRS are contingent upon.

**MOTION:** Mr. Nelson moves to adopt the language of the emergency rules as submitted. Seconded by Treasurer Gordon. Measure carries.

**MOTION:** Mr. Nelson and direct Mr. Brandes to proceed with formal rule-making on the public records act and chapter 7, military service. Seconded by Treasurer Gordon. Motion carries.

### **Executive Session**

**MOTION:** Garth moves to go into Executive session at 2:49pm. Seconded by Mr. Hay. Motion carries.

**MOTION:** Garth moved to exit executive session at 3:24pm. Seconded by Mr. Sullivan. Motion carries.

### **DEFERRED COMPENSATION COMMITTEE**

Ms. Ladd started the meeting by saying this would be Mr. Chapman's last committee meeting as Chair of this committee. She then recognized Ms. Scott to start the 457 committee materials. Ms. Scott took a moment to thank Mr. Chapman for all he's done for the committee including his guidance and leadership on long-lasting issues of great benefit of our members such as automatic enrollment and white-label funds.

Mr. Chapman recognized Ms. Scott who stated that today's action item is to consider 457 plan document amendments for adoption and receive staff and consultant updates.

Ms. Scott said most defined contribution plans have their plan documents approved by the IRS. We have hired Ice Miller to be our legal representative for the work with the IRS to get this approved. Ice Miller has reviewed the document and offered four changes that are not substantive in their nature: differential wage payments to individuals on military leave, exclusive benefit rule, unforeseeable emergencies, and treatment of excess deferrals. Mr. Brandes has reviewed the plan documents as well. We have also requested Ice Miller to add language about a Deemed IRA and finally the section in Article VI for eligibility for Distribution Due to Death has been amended with language known to be acceptable to the IRS.

**MOTION:** Mr. Sullivan moved to accept the plan amendments as submitted with the verification of "457 (e)" on page 3. Seconded by Ms. Watson. Motion carries.

Mr. Burggraaf reviewed the 1<sup>st</sup> quarter fund performance, manager summaries and due diligence for the 457 plan. Participation is trending positive and Ms. Scott outlined the fact that we have broken the \$615M mark in the 457 plan. Mr. Burggraaf outlined the downward trend of the administrative costs and how any savings are returned to members.



Ms. Scott provided a verbal update on our RFP. Currently we use Empower and are under contract with them until March of 2018. We pay 13 basis points out of a total of 30 for our recordkeeping services. If we select a new provider the transition period would be September 2017 to March of 2018.

Ms. Scott presented the 2016 member education & 457 deferred compensation report. Ms. Scott has included a one-page summary of 2016 highlights and 2016 challenges. One of the larger takeaways is the success of automatic enrollment. Two opportunities where we're hoping to make progress are the low savings rate and Ms. Scott believes we can get individuals to start savings more and the automatic enrollment will assist that. Furthermore, we have implemented a couple of retention strategies to prevent the trend of high outgoing rollovers.

## **PUBLIC COMMENT**

Mr. Ken Decaria, from the Wyoming Education Association, wanted to convey the Director and Board's willingness to travel the state and have the Town Halls around the state. WEA is committed to inviting members in each area to join the Coalition for a Health Retirement. WEA appreciates the legislative outreach pieces so they can pass those along to their members.

Mr. Chuck Custis from WREP rose to thank the Board and staff for all they've done.

Mr. Gary McDowell, from the Wyoming Education Association, said thank you for the work that you do for us. He also spoke about the importance of attending the Board meetings and that it would be great to get younger people attending the meeting.

**MOTION:** Ms. Watson moved to adjourn. Seconded by Mr. Hay. Motion passed unanimously.

**Meeting adjourned at 4:29 p.m.**