



Wyoming Retirement System

Partnering to Build Financial Security for Members and their Families

Matt Mead
Governor

Ruth Ryerson
Executive Director

MINUTES OF THE May 16-17, 2018 BOARD MEETING

The Wyoming Retirement System Board met on May 16-17, 2018 at the Holiday Inn 204 30th Street, Laramie, WY.

Board Members present: Mr. Eric Nelson (Vice-Chair), Mr. Garth Shanklin, Mr. Brian Foster, Mr. Tom Chapman, Mr. Tim Sullivan, Mr. Patrick Fleming, Mr. Michael Ceballos, Ms. Vicci Colgan and Mr. Keith Hay

Board Members absent: Ms. Laura Ladd (Chair) 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, 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. Rebecca Zsich from the Attorney General's Office, Ms. Mika Malone, Mr. Nick Erickson and Ms. Paola Nealon from Meketa, Mr. Beau Burggraff and Ms. Alison Adams from RVK, Mr. Gary McDowell and Ms. Tammy Shroeder from WEA, Mr. Chuck Custis from WREP, Mr. Patrick Wozny from WPEA, Dr. Robson Glasscock from the University of Wyoming, Ms. Leslie Thompson, Mr. Mark Randall, and Mr. Paul Wood from GRS, and Mr. Chuck Winningo

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

Legislative Liaisons absent: Representative Bob Nicholas

Mr. Nelson called the meeting to order at 1:00 p.m.

INVESTMENT COMMITTEE

Mr. Chapman opened the meeting and reviewed the day's agenda. Mr. Masoudi reviewed recent investment activity as highlighted in the investment memo for each asset class: equity, fixed income, marketable alternatives, and private markets. Pending investment decision were reviewed including TIPS, gold, and specific investment managers. The investment team has been very busy working on the CAFR and are excited to announce the addition of Mr. Dan Paradis as our new investment analyst. WRS wishes Mr. Giusto well as he is leaving to pursue other opportunities.

The last general update is the Q1 2018 cash flow summary. The Board had previously requested a summary accounting of major inflows and outflows across the portfolio which was provided.

Mr. Masoudi highlighted the attachments included in the packet: there was an assessment of WRS' bond portfolio and defensive capacity of treasuries, and update on the WRS private markets buildout. Of particular interest was the improved performance of 'new' private investments relative to the plan's legacy investments.

Mr. Kreiter then reviewed the fixed income portfolio and Mr. Ziomek reviewed the equity portion of the portfolio including highlights from the quarter.

Meketa 1st Qtr Review

Ms. Malone highlighted various asset classes and their returns in the 1st quarter. This quarter had a little bit more volatility and emerging markets was a strong performer. Our portfolio is positioned more conservatively, which she feels is a positive thing considering the recent uncertainty in the markets. Ms. Malone stated our fund is up to \$8.3B as March 31, 2018.

Ms. Malone reviewed the 1st Qtr 2018 highlights and recommendations. Mr. Erickson reviewed our allocations vs. policy targets and performance relative to benchmarks. The absolute fund performance is -0.36% in Q1 2018. Ms. Nealon from Meketa then went over specific manager performance. Discussion ensued regarding specific managers and investments.

INVESTMENT POLICY STATEMENT

Mr. Chapman outlined where the Investment Committee is at in the process of approving the investment policy statement. WRS did not approve the final IPS at the meeting but the committee wanted to the entire Board to review the new section on duties and responsibilities as well as other changes and amendments that had been suggested. Roman numerals were removed to be consistent with all governance documents, replaced with traditional numbers. Definitions were added to terms where they had not been used before. The entire document was significantly reduced in length. The following additional areas were reviewed: return objective, risk objective, duties and responsibilities, investment philosophy and core beliefs, performance evaluation, manager exposure policy, liquidity objectives, proxy voting requirements and statutory requirements. Additional edits and changes were done on Appendix I, II, and III. Appendix I is WRS' strategic asset allocation. Appendix II is the investment strategy descriptions. Appendix III is new as of May 16, 2018 and describes WRS' Tactical Trading Policy.

The meetings business adjourned at 4:48 p.m.

AUDIT COMMITTEE

Mr. Shanklin introduced the members of the audit committee as well as staff including our new Principal Auditor, Mr. Adam Waddell. We are working with the State Auditor's office on data

sharing and the committee is excited about its new endeavors. Mr. Shanklin recognized Ms. Jacobsen who introduced Mr. Waddell. Ms. Jacobsen stated the Audit committee is meeting monthly.

The first audit reviewed was the cash remuneration follow-up audit of Johnson county school district #1 and Fremont county school district #25 school districts.

The second audit reviewed was the investment section: equities, fixed income and marketable alternatives fund performance reconciliations.

The third audit reviewed was the volunteer fire and EMT pension meeting attendance audit. This audit was conducted to make sure the members were in compliance with the statutes regarding mandatory attendance at district meetings.

The fourth audit was the payroll audit which resulting in an internal payroll training and further clarification to staff about the proper use of leave. Discussion ensued about compensation time pay outs and the potential for 'spiking' one's salary prior to retirement.

Ms. Jacobsen highlighted the revised audit committee plan and noted that investment fee reconciliation will be a function that audit will look at quarterly.

Mr. Shanklin introduced Dr. Robson Glasscock PhD, CPA from the University of Wyoming. The presentation reviewed internal controls, the role of the external auditors, internal auditors, and audit committee.

DEFERRED COMPENSATION COMMITTEE

Ms. Colgan started the committee meeting by reviewing the day's agenda as well as the Deferred Compensation committee meeting in June to talk about increasing participating employers in the automatic enrollment program.

Ms. Adams reviewed the 1st quarter fund performance, various fund balances, manager summaries and due diligence for the 457 plan. WRS white label funds have had a very successful quarter, primarily due to the diligence of the active managers anticipating market changes.

Mr. Burggraff detailed RVK's DC work plan including the capital preservation fund transition, deemed IRA overview and update, performance measurement e valuation and reporting, and investment policy review. RVK and staff recommend changes to the benchmarks for Real Assets and Capital Preservation; the CIO and ED have approved these changes.

MOTION: Mr. Nelson moved to accept the changes to deferred compensation IPS. Seconded by Mr. Sullivan. Motion carries.

Mr. Burggraff reviewed the participant investment utilization and observations. Importantly, 2018 data shows 59 percent of participants have an appropriate equity allocation. This is in

contrast to the same analysis in 2011 showing no correlation. RVK recommends a periodic review and analysis of participant utilization of funds in the Plan's investment menu. Participant utilization analysis offers plan sponsors a framework to evaluate the effectiveness of the investment design, education and communications. RVK finds that WRS investment design offers participants sound structure and opportunities to invest in high quality, diversified white label funds. The review also identified outreach opportunities for member education regarding optimization of their retirement savings.

RVK also noted Managed Account enrollment has been on an upward trend. However, those electing Managed Accounts have low balances with the average being under \$16,000 and a majority of participants having a balance under \$25,000. This is of concern and WRS is evaluating the online experience which might be contributing to a mismatch between the Managed Account service and the participants electing it.

Ms. Scott highlighted the 2017 Annual Member Education & 457 Deferred Compensation Report. WRS had the most new enrollments ever in 2017 with over 2000 enrollments. Additionally, the total deferred compensation plan has over \$700 million in assets which is the highest level ever. Administrative fees continue to be reduced as costs for administering the plan continue to be reduced.

Ms. Scott told the committee that WRS has finalized their contract with Empower as the continued record keeper after going through a competitive bid process. Additionally, Ms. Scott spoke about fraud protection and efforts the deferred compensation plan is taking to protect our members.

GOVERNANCE COMMITTEE

Mr. Ceballos began the meeting reviewing the day's agenda. The Governance committee has an updated strategic plan to present to the Board as well as a summary of the key strategic issues facing the fund.

The first key issue facing WRS is retention. This led to a discussion about the independent fiduciary audit and the value it could bring to the system. Senators Meier, Senator Hastert, and Representative Burkhart spoke to the value of unbiased information and analysis that such a report could provide. Discussion ensued and the Board is generally in favor of moving forward with the RFP process.

As part of retention and succession planning the Board is working to identify senior staff who can partner with a Board member to receive feedback and be a staff liaison to a particular committee. Educational training for Board members is important for succession planning with our Board and staff will identify appropriate conferences and trainings for Board members in their first, second, and third year.

The second strategic initiative is investment performance. We are adding a goal to the strategic plan, "working with the outside consultant, develop appropriate benchmarks to accurately measure risk-adjusted performance".

The third strategic initiative is actuarial soundness. Number four is building relationships with decision makers and constituents, and finally number five is other: incentive compensation and minimum pension levels.

MOTION: Mr. Sullivan moved to formally adopt strategic initiatives 1-5 as the Board's priorities. Seconded by Mr. Shanklin. Motion carries.

Mr. Bleakley reviewed the updated strategic plan. Upon review of all the changes, additions, and deletions to the strategic plan the Board discussed the updates.

MOTION: Mr. Sullivan moves to approve strategic plan as discussed. Seconded by Mr. Shanklin. Motion carries.

MOTION: Mr. Shanklin moved to go in to executive session, seconded by Ms. Colgan. Motion carries.

LEGISLATIVE & BENEFITS COMMITTEE

Mr. Nelson introduced Ms. Thompson from GRS who is here to present the actuarial valuations from 01-01-18. Ms. Thompson is accompanied by Mr. Wood and Mr. Randall from GRS. The latest actuarial assumptions take the new assumptions from the 2017 experience study when calculating the funding levels. Assumption changes were reviewed including a 7.0% investment return versus the prior of 7.75%. WRS also adjusted the wage payroll growth and mortality tables. Even with the assumption changes, there are not drastic decreases to the funding status since 2017 had such a strong investment performance. Paid Fire A has no long-term funding source and the current assets are projected to last approximately 10 years. The thirty year projected funded ratios were reviewed. The State, Warden, Law, Judges, Guard Fire, and Volunteer plans are all projected to be above 100% at the end of 30 years. Paid Fire A will be 0% funded within 10 years and Paid Fire B is moving in a slightly downward trend.

GRS proceeded to talk about the impact of splitting the state plan so the teachers would be separate from the other public employees: state, university, and other. GRS analyzed the cost by group and found that there are minor and mainly inconsequential differences. Pros to split the two groups include potentially assigning costs to more expensive groups, eliminate some cross subsidies between groups, ease in developing a cost attributable to items such as early retirement incentives. Cons include contribution volatility, equitable split of assets, tracking liability of a retiree to a specific group may be challenging, increased administrative costs, and the issues created around portability.

The final presentation was a planning session for plan design and administrative considerations. The purpose is to look at ideas that could help manage long term liability. To decelerate the liability growth, you could slow down the growth in benefits, slow down the growth in highest average salary, and slow down the growth in the account balance. Various ideas were presented and discussion ensued. The Board is going to have GRS look at the idea of not paying interest on non-vested inactive accounts. GRS will look at early retirement reduction factor and no

disability benefit once a member reaches normal retirement age. The inclusion of overtime in the pension benefit was discussed as well.

Self-funded COLA

Mr. Swindell presented a self-funded COLA memo that would provide this as an option for the other plans in which it is not currently available. This option provides future retirees with the option of taking a lower initial benefit for a self-funded cost-of-living increase.

MOTION: Mr. Shanklin moved to approve offering the self-funded COLA in the other plans. Seconded by Ms. Colgan. Motion carries with Mr. Hay dissenting.

JAC/Legislative Update

Mr. Brandes reviewed legislation passed including HB 109, HB 110 and SF 116. These bills cover a contribution increase, change to the refund provision, and a task force to study retirement security for the private sector. The first meeting of that task force will be in Cheyenne on June 21st at AARP.

WRS is scheduled to present to the JAC on June 11-12, 2018 in Cheyenne. Currently, WRS does not have any pending 2019 legislation but staff will study if clean-up legislation is needed.

The Legislative & Benefits committee will convene an interim meeting to plan for legislative outreach and communication.

Finally, the Legislative & Benefits committee will consider COLAs and the Board's approach to dealing with member concerns.

MOTION: Mr. Sullivan moved to approve the minutes as amended. Mr. Hay was listed as attending and also absent. Seconded by Ms. Colgan. Motion carries.

CONFERENCE UPDATES

Mr. Ceballos attended an investment education conference at the Wharton School of Business. He felt the conference was very valuable and challenging.

Mr. Chapman attended the Blackrock conference in New York. The purpose was technology and its impact on finance.

Mr. Hay attended the Mountain States Institutional Investors Forum and heard from Mr. Masoudi and Ms. Malone from Meketa on a panel discussion. One of the focuses was investment in China. Also, one of the panelists said to watch the yield curve and if it goes flat then a recession will occur within 18-24 months.

Mr. Nelson attended the defined contribution summit in Chicago. Some of the focus was on automatic enrollment, ensuring income in retirement, and health savings as a component of retirement. An additional component focused on the private sector.

EXECUTIVE DIRECTOR'S QUARTERLY REPORT

Ms. Ryerson gave a summary of the 12-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. Ryerson also gave an update from JAC as the committee took testimony and voted on HB 109 and 110. The WEA, WAM, and county commissioners all said they supported the contribution increase in HB 109 but opposed the ability of the employer group not having the ability to 'pick-up' the employee contribution. The bill passed unanimously with no amendments. On HB 110 there were some concerns by two representatives that the employer pick-up of the employee portion was really an employee benefit. The bill ultimately passed with two dissenting votes. Both bills move on to the entire house for first reading.

PUBLIC COMMENT

Ms. Tammy Schroeder introduced herself as the new Government Relations Director for WEA. She appreciates how easy the meeting was to follow and said she's taking away a lot.

Mr. Gary McDowell, from the Wyoming Education Association, thanked the Board for their work and stated that the member groups have lobbied on behalf of certain issues faced by WRS. He would like to offer his partnership if there's anything he can do or shouldn't do. Further, he thinks it's a great idea to put out a press release about the positive developments in the past year. Lastly, Mr. McDowell said he saw a 90-year old gentleman he used to teach with that is a long-term volunteer with the Botanic Gardens whose first question to him was when they were going to get a COLA? He told the constituent to call their local legislator but wanted the Board to be aware.

Meeting adjourned at 4:45 p.m.