



# Wyoming Retirement System

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

**Mark Gordon**  
Governor

**Ruth Ryerson**  
Executive Director

## MINUTES OF THE February 6-7, 2019 BOARD MEETING

The Wyoming Retirement System Board met on February 6-7, 2019 at Botanic Gardens 710 S. Lions Drive, Cheyenne, WY.

**Board Members present:** Ms. Laura Ladd (Chair), Mr. Eric Nelson (Vice-Chair), Mr. Garth Shanklin, Mr. Tom Chapman, Mr. Tim Sullivan, Treasurer Curt Meier, Mr. Patrick Fleming, 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, Mr. Joe Briones, Ms. Samantha Jacobsen, Mr. Adam Waddell, Mr. Dan Paradis, Ms. Shuyeh WangLiu, and Mr. Michael Vuyk

**Others in Attendance:** Ms. Mika Malone and Mr. Nick Erickson from Meketa, Ms. Rebecca Zisch from the Attorney General's Office, Mr. Beau Burggraff from RVK, Mr. Gary McDowell from WEA, Mr. Chuck Custis from WREP, and Mr. Brent Burnett from Hamilton Lane

### **Legislative Liaisons in Attendance:**

**Legislative Liaisons absent:** Representative Don Burkhart, Representative Bob Nicholas

Mr. Shanklin called the meeting to order at 12:35 and moved into approval of minutes. Ms. Colgan highlighted a couple of grammatical changes under the Audit and L&B committee sections.

\*VICCI has changes in May folder!!

**MOTION:** Ms. Watson moved to approve the minutes with above-mentioned changes. Ms. Colgan seconded. Motion carries.

## NOVEMBER 2019 MEETING LOCATIONS

The Board choose November 21-22 as the meeting date for November 2019. Mr. Bleakley will send the updated schedule to LSO for inclusion on their calendar.

## **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 3 months.

Ms. Ryerson stated staff had to prepare quite a few fiscal notes for potential legislation and while she attended a Volunteer Fire & EMT meeting, Mr. Swindell and Mr. Brandes testified before the legislature on WRS' behalf.

## **LEGISLATIVE & BENEFITS COMMITTEE**

Mr. Nelson called the meeting to order and reviewed the day's agenda. The first item is a legislative update, which was mostly covered in Director Ryerson's report. The two high-profile bills the Board is following are HB-0246 and HB-0222, Volunteer Search & Rescue and Performance Compensation. These are both before the Senate today and tomorrow and present a good opportunity for conversations at tomorrow's legislative breakfast.

Mr. Brandes and Ms. Zisch spoke to the proposed Senate rule changes. We are still gathering information and Treasurer Meier spoke about certain bills taking power away from some of the elected officials. Discussion ensued.

### **COLA Discussion**

The Board discussed HB-0314 for a potential COLA. This bill was defeated in the House 26-30-2-0-2. Some members of the House felt the COLA was coming out of fund assets rather than a separate general fund appropriation. This presents an educational opportunity moving forward. Ms. Ryerson discussed a letter from a teacher regarding the need for a COLA and we are going to pass her information along to Wyoming Educational Association and Coalition for a Healthy Retirement.

### **Execution Strategy for Communications and Outreach**

The Board discussed legislative outreach and if Trustees were able to make phone calls to legislators. There is some hesitation for various reasons, albeit conflict of interests, inability to call from work, etc. Some Trustees were able to make calls and the Board discussed the best way

to outreach to legislators moving forward. Consensus around the best way to move forward included a summary email from Director Ryerson to legislators regarding the Board's position on specific bills.

## Chapter 14 Rule Amendment

Mr. Brandes explained that to change the early retirement benefit discount factor from 7 to 5 percent legislation will be required, which stems from statutory directive of Wyo. Stat 9-3-415 (b) and (k). Mr. Brandes discovered that the 5 percent factor results from a non-codified 1990 session law in which the legislature directed the Board to amend the discount factor to 5 percent. Discussed ensued regarding Board action and next steps. Mr. Nelson asked to review the actuarial impact, which Mr. Brandes and Mr. Swindell said was one and a half percent. Mr. Nelson said it might behoove the Board to wait and see who the new liaisons are and what the 2020 session is looking like and proceed at that time.

## 2018/2019 Goals

Mr. Brandes reviewed the committee goals including looking back at 2018 goals. The goal to develop a timeline for conducting and completing a comprehensive plan design review is complete and demonstrated by much of the legislation moving forward this session. WRS also developed legislative recommendations and developed a communication and outreach plan for both stakeholders and our membership. Finally, WRS continues to work on developing an administrative rule to increase clarity regarding law enforcement duty-connected disability interpretation.

Mr. Nelson asks if we could have a communication calendar of when certain informational pieces were developed and when they were sent out. If WRS can develop a calendar of when we send out educational fliers and develop a spreadsheet outlining the timeline that would be very helpful. Ms. Ladd asked if we had specific goals related to a COLA, something about collaborating with stakeholder organizations to move towards this. To address this we should add a sub bullet, under 2 and 3, canvassing the constituent groups about their informational needs.

**MOTION:** Ms. Colgan moved to adopt the 2019 goals. Seconded by Ms. Watson. Motion carries.

## GOVERNANCE COMMITTEE

### Governance & Operational Review Update

Mr. Ceballos called the Governance committee to order and began with the Governance and Operational Review from Funston Advisory Services. The Board received a draft of one piece of the review. Mr. Bleakley reviewed the preliminary report from Funston and asked for any Board feedback. Ms. Colgan referenced UMPERSA and asked if we could double check if this is leading practice if only two states have passed this legislation. Additionally, will they make the report more user friendly and easier to read? Our Board functions as a whole, not only representing their specific constituent group. Mr. Chapman said some of the comments represent individual opinions, rather than the collective Board as a whole. Ms. Colgan is also looking for specific recommendations. Ms. Ladd wanted an opportunity to review the draft with them in person as the Board will need to defend the final draft. Ms. Ladd asked if we could review the draft after staff has reviewed it. Mr. Chapman asked if they could rate their priorities so the Board can address critical issues first. For example, could Funston create category one, two, and three issues. Ms. Colgan would like factual back up in an appendix for some of their statements such as, “best practice among peers”.

#### Job Descriptions & Attributes

Mr. Ceballos explained that after the Board Chair and Executive Director attributes the Governance Committee created job attributes for Investment Committee Chair and Chief Investment Officer. One of the items that came to light is the fact that some of the job attributes are taken from the Investment Policy Statement and some from the Investment Committee Charter. There is some disagreement in the language between those two portions of the Board Policy Manual that highlight the need to look at other areas of the Board Policy Manual. The specific examples are to show the potential time commitment to anyone interested in a particular position. Ms. Ladd said some of the specific examples under IC Chair also apply to Board Trustees and Mr. Ceballos thought it would be important to outline the specific examples for an individual Board Trustee.

#### Talking Points

Mr. Bleakley reviewed the 2019 talking points memo and explained that much of this language is incorporated into our talking points and that the WRS Board is accomplishing the tasks highlighted in the talking points. This includes legislative changes, looking at the benefit side of the equation in addition to the contribution side, performance compensation, independence of WRS, and the need for a COLA. These talking points are for legislative conversations and incorporation to one-page talking points. Ms. Ladd appreciated the value the document provided in taking the WRS values and making them your own. Mr. Foster said he uses this document to help with communications in his department at WyDOT. Ms. Colgan asked if we should update the talking points on a yearly basis. For example, if performance compensation

goes through that talking point may be replaced with a new initiative. Mr. Chapman said if we are the only independent fiduciary board in the state he would like to focus on the independence of WRS.

### Strategic Initiatives Update

There are four strategic initiatives: retention, investment performance, actuarial soundness, and building relationships with decision makers. Mr. Ceballos reviewed the details of each initiative and who is responsible

### 2018 Goal Review and 2019 Goals

Mr. Ceballos reviewed the 2018 Governance Committee goals and proposed 2019 goals. One of the 2019 goals includes continuing to develop a network of prospective board candidates and vetting them for potential interest and fit on the WRS Board. Ms. Ladd described the process we used in the past where the Board develops an internal list, made phone calls and vetted the candidates, and prepared a list of recommendations to send to the Governor. Funston Advisory Services highlighted this in their preliminary report as a leading practice among pension systems. Discussion ensued regarding best practice. Ms. Ladd requested we update our list of prospective Board Trustee candidates and create a current list for discussion at a future meeting. In addition, Mr. Hay requested any interested candidate submit an application to the Governor's office. Ms. Ladd said (a) and (b) under goal number seven are probably unnecessary.

### **DEFERRED COMPENSATION COMMITTEE**

Ms. Colgan welcomed Mr. Burggraff from RVK who reviewed the fourth quarter fund performance, various fund balances, manager summaries, and due diligence for the 457 plan. He reviewed the performance of the investment menu. Mr. Burggraff reviewed an RVK memo putting the market drawdown in context. Fourth quarter 2018 results now rank the quarter within the top 15 most significant quarterly drawdowns since 1970.

Mr. Burggraff outlined RVK's 2019 Work Plan including performance measurement evaluation and reporting, managed accounts overview, Millennium Trust on-site for the deemed IRA, and an international equity white label overview.

Finally, the progress on 2018 was reviewed. It was agreed to continue to advance the same goals for 2019 and the following were adopted.

1. Plan & calendar for 457 committee member education
2. Receive and act on consultant & staff reports including participant fees, IPS and Deemed IRA
3. Support staff in outreach to large employers in the 457 Plan on automatic enrollment & online enrollment
4. Hold expert DC panel in conjunction with either May or August meetings
5. Refresh on research about auto escalation

Ms. Scott reviewed supplemental handouts highlighting the annual member survey. This is the fifth year WRS conducted the survey and results are publicly available on the WRS website.

**MOTION:** Mr. Ceballos moved to adjourn. Seconded by Ms. Watson. Motion carries.  
Adjournment at 5:05 p.m.

THURSDAY, FEBRUARY 7, 2019

After a productive legislative breakfast, Ms. Ladd called the meeting to order at 9:49 a.m.

## **AUDIT COMMITTEE**

Mr. Shanklin kicked off the audit committee with a fun activity about the importance of audit committee. Ms. Jacobsen started the audit reports with the investment manager performance reconciliation. As of today, the audit department has audited 15 of 50 WRS money managers. This quarter they looked at LFL Advisors, Polunin Emerging Markets, and KSL Capital Partners. The only material difference was KSL Capital Partners. The reason for the discrepancy was a 12/27 capital call and the timing of the reports between WRS, Northern Trust, and Meketa. Ms. Jacobsen recognized the addition of Ms. WangLiu to the team as our new Investment Accountant. Her responsibilities will include manager reconciliation, performance management fees, and work on the CAFR.

The next audit is the management fee audit looking at the fee schedule in the money manager contracts. The audit department wants to make sure the fees paid by WRS match the schedule of fees in the contract set forth between WRS and Polunin. There were no findings in the audit as the fees matched the provisions in the contract.

The next audit is the Laramie County School District #1 Payroll Contribution Audit. The purpose of this audit was to determine if contributions are reported in a timely manner, to determine if contribution reporting is accurate and complete, to determine if cash transfers are

timely and accurate, to evaluate the operating effectiveness of the internal controls, identify any material weaknesses, and verify. An isolated error occurred where payroll contribution cash transfers for the 457 Plan participants were not performed in a timely manner for the months of November and December of 2018. The audit includes five recommendations. Ms. Scott commented on a monthly contribution variance report that WRS is establishing. Discussion ensued about best practices and opportunities for process improvement. Ms. Jacobsen stated Natrona County has been engaged for a similar audit and results will be reported at the next Board meeting.

The audit committee engaged Eide Bailey to facilitate a review of the Audit Committee Charter, including the procedures regarding presentation of the CAFR. For example, one change regarding the CAFR is how it is presented to the Board. Rather than present the CAFR for approval, the CAFR will just be presented for acceptance.

Ms. Jacobsen reviewed the 2018 goals and presented the 2019 goals. The 2018 were accomplished and the 2019 goals are based on the updated charter and meeting with Eide Bailey.

## **INVESTMENT COMMITTEE**

Mr. Chapman previewed the day's investment activities, including the minor changes to Appendix I. In addition, WRS' annual battle for the buckle is on where Trustees guess what the portfolio will return in 2019. Mr. Chapman recognized Mr. Masoudi who won the CIO Industry innovation award since the last Board meeting.

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 3-page quarterly report that was included in the Board packet.

Mr. Chapman reviewed the 2018 investment goals as well as the 2019 goals. Identification of appropriate benchmarks for managers in each asset class is a critical goal as well as making sure the investment team has adequate resources in terms of staffing by hiring two analysts and two summer interns. WRS wants to continue to build on our partnership with Treasury and continue IC education to members of the committee.

Mr. Masoudi reviewed 2018 performance, including peer performance and the strong performance in 4Q versus the benchmark as our long duration US treasuries performed especially well. Peer performance improved dramatically for the 1- and 3-year periods over the course of the past year, but still lags for the 5-year period. Staffing challenges and opportunities

were reviewed including the loss of three analysts this past year for various reasons. Last years' Investment activity was reviewed, including a tactical trading history and performance review.

### **Meketa 4<sup>th</sup> Qtr Review**

Mr. Erickson reviewed the over-allocation to Private Markets, which led Public Equity to become a smaller portion of the portfolio than initially intended. Most of the selling in the 4<sup>th</sup> quarter was concentrated in December because of three factors: monetary policy, trade wars and tariffs, and concerns about the government shutdown. Private Markets have been a bright spot in the portfolio as they were positive for the 4<sup>th</sup> quarter, and up almost 10% for the year due to the quarterly lag used to price Private Market assets.

Nick Erickson reported that as of December 31, 2018, the total fund was at \$7.9 Billion, down from \$8.4 Billion at the end of the third quarter. All asset classes were within their target ranges, with equities and fixed income modestly underweight versus short-term targets but overweight long-term targets. Private markets were overweight versus short-term targets but underweight long-term targets.

For many years leading up to 2018, the markets were distorted based on global central bank activity. Public equities, especially in the U.S., drove portfolio returns. Diversification has not tended to help, and active management has struggled as well. Calendar year 2018 was a negative year for nearly all diversified institutional investors. Meketa generally attributed the selloff in December to three main occurrences: 1) the Federal Reserve raising interest rates; 2) market fears over trade wars and slowing Chinese growth; and 3) market concerns over the U.S. government shutdown.

For the quarter, the total fund was down 5.2%, resulting in top quartile performance versus peers. For all of 2018, the fund was down 3.5%. The overlay slightly hurt returns in 2018, while currency hedging helped on the total fund level. The five-year trailing return was 4.3% annualized, with 10 years at 8.2% annualized.

Overall portfolio positioning helped relative performance in the fourth quarter. Allocations to Marketable Alternatives, especially Absolute Return managers, and Private Markets, helped to balance out negative returns from public equities.

### **Asset Allocation Proposal for Appendix I**

Mr. Masoudi reviewed a memorandum providing a brief discussion and rationale for the Investment Committee's proposed changes to Appendix I. The Investment team discussed their



investment strategy, philosophy, and the rationale for each asset class weighting in greater detail in their asset class reviews.

Generally, the changes to Appendix I were minimal. The only large-scale change in expected exposure is due to growing our Private Market exposure towards the long-term target. As that exposure has increased 5% in 2018, WRS has reduced public equity by the same amount, as it has always been the temporary placeholder as we scale in to Private Equity. The other material changes were reflecting the preference to classify some private market assets with the public market counterparts to better frame the risk of the portfolio by category. This meant moving the Private Equity exposure to the Equity asset class and the Private Debt exposure to the Fixed Income asset class.

Ms. Malone went through the Meketa 2019 Asset Allocation Review. This review includes the current methodology and an example of an alternative structure where private equity is moved from private markets to the equity portion of the portfolio. Discussion ensued whether the Board wants to weigh in on sub-asset class allocations. The board then discussed the best benchmark to use based on the composition of the portfolio. Meketa noted that the proposed benchmark alternatives would only be relevant if the Board wishes to direct staff to follow these alternative broad/global targets for allocating capital through a change to the strategic asset allocation policy. Then, staff would retain discretion for making tactical movements around these benchmarks, as they currently have. If the Board prefers to retain decision-making around areas such as emerging market equity vs. U.S. equity exposure, for example, then moving to global benchmarks would not be beneficial for measurement. The consensus was to leave the benchmark the same.

Guest Speaker – Mr. Brent Burnett from Hamilton Lane

Mr. Chapman and Mr. Masoudi introduced Mr. Burnett from Hamilton Lane. They highlighted the five plus year relationship we have together and how the returns on their portion of the portfolio have been a highlight in our portfolio. Mr. Burnett reviewed the history of the company and the composition of their board. The company is focused on Real Assets and they start with the deal or fund sponsor and how they think about investing. Real Estate and Natural Resources are included in a portfolio for the following four reasons: total return and alpha a generator, yield component (current income), positive correlation to inflation, and diversification benefit to other private market assets.

Mr Burnett outlined the funds that Hamilton Lane has built specifically for WRS: Moran Real Assets Fund I and II. The total commitment to date is \$420 million and the investment to date is \$441M due to recycled capitol and investment gains. There are 21 investments within 15

relationships. Mr. Burnett highlighted some of the unique relationships in our holdings and the value of different assets in our portfolio.

#### Marketable Alternatives Asset Class Review

WRS' marketable alternative holdings illustrated the value of diversification and the benefits to building a robust and non-correlated asset class by conserving value better than other traditional asset class options. WRS' MA portfolio returned -0.9% versus -6.1% for the classical 60/40 global portfolio or -3.1% for the domestic version.

#### Fixed Income Review

The role of fixed income in the portfolio is to mitigate risk and stabilize the portfolio. Ideally, most of our FI exposure will be negatively correlated to equities during periods of uncertainty or instability. Fixed income represents a source of capital that is liquid and can be redeployed opportunistically. It also generates current income.

#### Equity Asset Class Review

Two thousand eighteen became a volatile and risk-averse environment for global marketable equities mostly due to a higher US risk-free rate and credit costs. US rates caused the US dollar to appreciate against DM and EM currencies, and drained US Dollar liquidity globally. Equity market corrections began in Q1 2018 in Emerging Markets, next rolled across Asia, Europe and then enveloped the United States markets during Q4 2018. The WRS team also proposed replacing the current EM benchmark into a blended benchmark (with the blend 40% currency hedged to USD): 80% Emerging Markets ex China, and 20% China Country Index.

#### Private Markets Review

The role of private markets is capital appreciation, illiquidity premium, and active management premium. The WRS Investment team is recommending we increase the total private markets short-term strategic target to 17% and long-term target to 23%. The initial vintage fund-of-one vehicles continue to generate strong positive performance relative to our legacy assets.

#### Asset Allocation and Appendix I

Meketa has projected a 20-year expected return of 7.7% with our proposed asset allocation, while lowering the risk profile from 11.6 to 11.5.

**MOTION:** Mr. Chapman moved to adopt the proposed Appendix I from page 60 with keeping the old MSCI EM IMI benchmark the same. Seconded by Mr. Sullivan. Discussion ensued. Motion carries.

**MOTION:** Mr. Chapman moved to amend the above motion to leave the benchmark for emerging market equities at the existing MSCI EM IMI. Seconded by Mr. Sullivan. Motion carries.

**MOTION:** Mr. Nelson moved to delete the proposed addition pertaining to global equity. Seconded by Ms. Colgan. Motion carries.

### **PUBLIC COMMENT**

Mr. McDowell from WEA said he appreciates Chair Ladd's editorial regarding a COLA. He really appreciate all the data and information WRS provides to all the stakeholders involved.

With no additional members of the public present, public comment was closed.

**MOTION:** Mr. Nelson moved to go in to executive session for the purposes of discussing personnel at 2:54 p.m. Seconded by Mr. Shanklin. Motion carries.

**MOTION:** Mr. Shanklin moved to come out of executive session at 3:28 p.m. Seconded by Mr. Sullivan. Motion carries.

**MOTION:** Ms. Watson moves to adjourn. Seconded by Mr. Hay. Motion carries. Board adjourned at 3:31 p.m.

**Meeting adjourned at 3:31 p.m.**