



# Wyoming Retirement System

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

Matt Mead  
Governor

Ruth Ryerson  
Executive Director

## MINUTES OF THE May 25-27, 2016 BOARD MEETING

The Wyoming Retirement System Board met on May 25-27, 2016 at The Hilton Garden Inn, 1150 N Poplar St, Casper, WY.

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

**Board Members absent:** Ms. Vicci Colgan

**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. 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, Ms. Carolyn Smith from NEPC, Mr. Beau Burggraff and Ms. Becky Gratsinger from RVK, Mr. Gary McDowell from WEA, Ms. Betty Jo Beardsley from WPEA, Mr. Chuck Custis from WREP, Mr. Ken Decaria from WEA, Ms. Leslie Thompson, Mr. Mark Randall, Mr. Paul Wood and Mr. Thomas Lyle from GRS, Mr. Robert Grauberger and Mr. Scott Hannum from the City of Rawlins

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

**Legislative Liaisons absent:** Senator John Hastert

**Mr. Shanklin called the meeting to order at 12:45 p.m.** Ms. Ladd opened the meeting by introducing Board appointee Kay Watson.

**MOTION:** Mr. Hay moved to accept the minutes of the February 2016 Board meeting. Seconded by Mr. Wolff. Motion carries.

## STRATEGIC PLANNING RETREAT

Ms. Ladd recognized Mr. Wolff who kicked off the meeting by recognizing Ms. Gratsinger from RVK who will lead the strategic planning retreat. Mr. Wolff highlighted the four topics we are covering: review of 2014 strategic plan, investment committee/board best practices, succession planning, where does WRS want to be in 3-5 years and an overview of experience studies. The Board broke out into individual groups to brainstorm ideas and then the group came back

together and compiled their ideas to update our strategic plan. Meeting adjourned for the day at 5:03 p.m.

Mr. Wolff called the Thursday meeting to order at 8:04 a.m. Mr. Wolff led the remaining Board discussion regarding Board effectiveness.

## **GOVERNANCE COMMITTEE**

Mr. Wolff recognized Mr. Brandes who reviewed the edits to the Board Policy Manual. Mr. Brandes reviewed the changes made in February 2016 at the Board meeting and via e-mail. Mr. Brandes changed the wording to new board member orientation saying, "new board members shall attend orientation" rather than specifying that it's a half day. The audit committee charter will be adopted this afternoon as it has been reformatted as well to maintain uniformity. There was an amendment on page 59 outlining the delegation to the Executive Director. The Board had a discussion that they have delegated the authority to the Executive Director to set the salaries for the investment team as outlined in the statute.

Mr. Brandes reviewed the administrative rulemaking update memo including disability retirement and public records information. Also reviewed were the volunteer and EMT rule amendment. Mr. Wolff thanked Mr. Brandes, Mr. Bleakley and Ms. Kelley for their efforts to update the Board Policy Manual.

## **LEGISLATIVE & BENEFITS COMMITTEE**

Ms. Ladd recognized the team members from GRS who are here to present the actuarial study from January 1, 2016. Paid Fire A is expected to run out of money in 12 years. All plans had a decrease in funding status except guard fire and judges. Funding status changed from 78.96 to 78.21, still way above the national average per Actuary Leslie Thompson. Actuaries recommend waiting another year and conducting the experience study before making any changes to the assumed rate of return or contribution rates. Ms. Ladd added that we are not meeting our return objective and we have transitioned to generational mortality tables.

Ms. Ladd highlighted the legislative outreach program. WRS Staff will develop a list of talking points including DB/DC, pension payments staying in Wyoming, return expectations, timeline for experience study and the prospect of building a financial center within the portfolio.

Ms. Ryerson reviewed the budget as well as the legislative session.

**MOTION:** Mr. Shanklin moved to approve the salary to pay the new SIO up to the budgeted footnote and that the Board has delegated the authority to Mr. Masoudi and Ms. Ryerson to hire within the appropriate range based on experience. Seconded by Mr. Hay.

Ms. Ladd asked Mr. Bleakley to see if we can get on LSO's new legislator orientation. Mr. Bleakley will follow-up with LSO.

## **AUDIT COMMITTEE**

Mr. Sullivan reviewed the City Manager Audit and recognized the City Attorney from Rawlins who was in attendance. Mr. Brandes had a positive conversation with the attorneys representing the cities. Mr. Sullivan recognized Ms. Gorney who reviewed the Audit Quarterly update. The audit committee will meet June 16<sup>th</sup>.

**MOTION:** Mr. Hay moved to approve the audit charter. Seconded by Mr. Shanklin. Motion carries.

## **DEFERRED COMPENSATION COMMITTEE**

Mr. Chapman reviewed the agenda items to be discussed in the committee meeting. Ms. Scott highlighted the overview of the white label funds and thanked Mr. Kreiter for his work to implement the new funds in our plan. Mr. Burgraff reviewed the construction of the white label funds, the self-directed brokerage option, the revised IPS and the underlying investment manager that are confirmed to use the empower platform. The new menu will include target date funds, Large Cap U.S. equity, small/midcap U.S. equity, International equity, fixed income fund, capital preservation fund, real assets fund and a self-directed brokerage account. The committee reviewed some additional language pertaining to real assets in the IPS.

**MOTION:** Mr. Wolff moved to approve the revised IPS. Second by Mr. Sullivan. Motion carries.

1<sup>st</sup> Quarter performance was reviewed and assets in the DC stand at approximately \$550M. Due diligence was reviewed including T. Rowe Price and GE. T. Rowe Price has had some challenging performance and GE is being acquired by State Street. Blackrock has an overweight to international which has led to weaker returns. Mr. Burgraff also reviewed participant fund flows and the April flash report.

Ms. Scott explained deemed IRA's as an untapped resource that we could add to the 457 plan. This would allow for new features and opportunities for our members. Ms. Scott reviewed the survey of our members regarding this feature which were generally positive in terms of assessing the demand for a deemed IRA.

Ms. Scott reviewed the 2015 Annual Member Education & 457 Deferred Compensation Report. 2015 Highlights and Challenges were reviewed including record number of employees reached in person for 2015.

NADGA is meeting September 18-21 in Denver and everyone is invited.

**MOTION:** Mr. Wolff moved to approve the changes to the Board Policy Manual. Seconded by Mr. Nelson. Motion carries.

## **CONFERENCE UPDATE**

Mr. Shanklin attended Mountain States Institutional Investors forum in Denver where Mr. Masoudi and Ms. Ryerson were the guest speakers. Mr. Chapman and Mr. Masoudi attended the Institutional Investors conference in California where Mr. Masoudi won an award for Investor Intelligence. At the conference the conversation was framed based on three choices: accept lower returns, take more risk, or invest more efficiently. Ms. Ladd and Mr. Chapman attended Pension Bridge. Ms. Ladd explained that best practices for investment committees were discussed including investment committee selection. Ms. Ladd thanked the Treasurer's Office for extending their invitation to the Milken conference. Mr. Fleming thanked Mr. Masoudi for his help on conference attendance. The Milken conference was an exchange of innovative ideas across a range of industries. Long-term retirement planning and social and demographic changes to retirement systems were discussed. The focus of the conference was on the merging of health care and finance. Mr. Nelson and Mr. Ceballos attending the NCPERS Trustee training in San Diego. It was an entry-level conference but valuable lessons were learned about marketable alternatives and the importance of defined benefit plans. Mr. Masoudi attended the CIO's conference in New York. Ms. Ryerson attended the SALT Conference in Las Vegas.

### **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.

### **INVESTMENT COMMITTEE REPORT & NEPC 1<sup>st</sup> QTR & APRIL PERFORMANCE REVIEWS**

Ms. Ladd called the meeting to order at 8:02 a.m. She recognized Mr. Chapman to run the IC meeting. Mr. Masoudi highlighted the major trades during the prior quarter. This includes investing \$52 million in the GMO Global Macro fund and liquidating our assets that were invested in emerging market debt. Additional investments were made with Moran/RAPM, Grove and Carl Marks. Pending investments include emerging markets hedge fund search and Bridgewater Optimal Portfolio. We are evaluating an investment with a long only international manager and continue to research new fixed income managers. Senator Meier asked about how we evaluate managers and Mr. Masoudi explained our methodology.

For operating updates the investment team has been very busy with the CAFR and staffing. Mr. Masoudi recognized Mr. Bleakley for his efforts to navigate the state process in hiring a new SIO, renewing the Investment Analyst AWEC contracts, as well as hiring two summer interns. Both interns are from Wyoming and we are really excited to have Ms. Purdy and Ms. Penner on the team. Mr. Masoudi recognized Ms. Kelley who has been extremely helpful in coordinating travel arrangements for the SIO candidates.

Mr. Chapman recognized Ms. Smith who reviewed the performance of various asset classes for quarterly, annual and 3-year periods.

Ms. Smith asked everyone to write down their definition of defining success at WRS. She collected those and later reviewed them.

As of February, returns were challenging, but we ended the 1<sup>st</sup> quarter in positive territory. The length since the last recession (over 7 years), the persistent strength of the US dollar, and the strength of emerging markets all contributed to positive returns in our portfolio.

Several firms were highlighted as “watch list” and Ms. Smith stated that she is happy to review in detail any of the funds on watch but there is currently no action needed. We looked at the fund allocation and the strategic asset allocation vs. the actual weight of the portfolio. Marketable alternatives had the greatest positive return on the portfolio. Ms. Ladd asked about our strategic asset allocation seeming to lag our peers and what we needed to do to change that. Ms. Smith said that when the Board approved the strategic asset allocation in 2012, we didn’t have the staff necessary to implement this allocation. It takes time to build that allocation and take time for those investments to come to fruition.

In the short term Copper Rock has underperformed the benchmark and emerging markets have really paid dividends. By holding emerging market equity even when the returns weren’t as strong, has led to higher returns in the portfolio. Marketable Alternatives are meant to add diversification to the portfolio with a lower level of risk. Private markets, including private debt, real assets and private equity were also reviewed and have been a bright spot in the portfolio.

Mr. Masoudi introduced our new investment interns, Ms. Penner and Ms. Purdy. They are from Gillette and Pine Bluffs, respectively.

YTD, as of 04-30-16, the fund is up 1.4%.

Ms. Smith then reviewed what individuals wrote down for defining success: sustainability, ability to pay benefits, stable investment program, meeting strategic goals and objectives, top quartile, professional exceptional service, stable retirement for career and non-career employees and constant above-average returns. Progress takes time and none of our investment staff were here 5 years ago. Mr. Bleakley will compile the results and disseminate them to the group.

## **TACTICAL TRADING PRESENTATION**

Mr. Chapman highlighted that our team has a higher level of discretion than many retirement systems and our team has been very transparent as they’ve attempted to make strategic moves within the portfolio. Mr. Masoudi said that tactical trades are typically shorter term, 6-months or less. Two approaches: opportunistic or hedging. Tactical trading has the potential to add profit to the portfolio. Not all pensions have this tactical trading authorization. Thus far, we’ve had a \$26.3M cumulative profit with an 80% hit rate. For each trade the investment team will compile a brief memo that incorporates: trade rationale, description of positioning, potential P&L estimates and sale/exit triggers. The investment team will provide the Board with an annual review of the program with trade details and a P&L report.

## **MARKET DISCUSSION**

The market is expecting lower interest rates than the Fed is. The team has also spent some time looking at inflation expectations and possible trades resulting from mismatches between the market sentiment and reality. The hedge fund industry was discussed briefly and in aggregate has accumulated total assets of approximately \$3T.

## **PUBLIC COMMENT**

Senator Meier asked the members of the public ‘how much’ their members would be willing to invest in contributions to the retirement plan. In this tough economic environment with no raises it’s tough to ask individuals to contribute more. Senator Meier thought they could sit down together to come up with ideas. Chuck Custis stated that there hasn’t been a COLA in 8 years. Ken Decaria stated that they want a healthy retirement system but feels that public employees have stepped up to pay increased contribution rates. While the economy is tough right now we have to stay focused on the long term time horizon as Wyoming has been through this cycle before.

Discussion ensued about the possibility of lowering the expected rate of return next year when we conduct the experience study.

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