



# Wyoming Retirement System

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

Matt Mead  
Governor

Ruth Ryerson  
Executive Director

## MINUTES OF THE February 16-17, 2017 BOARD MEETING

The Wyoming Retirement System Board met on February 16-17, 2017 at Little America, 2800 W Lincolnway, Cheyenne, 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, 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, Ms. Rachel Kelley, 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:** Governor Matt Mead, Ms. Lisa Spillman from the Attorney General's Office, Ms. Mika Malone and Mr. Nick Erickson from Meketa, Mr. Beau Burggraff from RVK, Mr. Leland Miller and Mr. Brad Berls from Eide Bailly, Mr. Gary McDowell from WEA, Mr. Chuck Custis from WREP, and Ms. Pat Beckham and Mr. Joe Nichols from Cavanaugh Macdonald Consulting

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

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

Mr. Shanklin called the meeting to order at 8:46 a.m. and recognized Mr. Chapman.

## INVESTMENT COMMITTEE

Mr. Chapman started the Investment Committee. Mr. Chapman introduced two new staff members, Mr. Briones and Mr. Goyn. The focus of today's meeting is to update the IPS as well as other updates, asset class reviews and IC goals. 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. The investment committee has two overarching goals: first to produce outstanding long-term returns and second to establish a robust, sustainable investment operation, which is critical to achieving goal #1. Mr. Masoudi highlighted that we had an extremely active year; that approximately 20% of the portfolio was reallocated in 2016. We are

pleased with the progress we've made in the staffing area and now each senior person has an analyst for the three areas of the portfolio where we directly invest: equity, fixed income, and marketable alternatives. Our investment team was a finalist for Public Defined Benefit Pan of the Year from CIO magazine.

### **Meketa 4<sup>th</sup> Qtr & January Performance Reviews**

Ms. Malone from Meketa reviewed the 2016 highlights and recommendations. Meketa thinks it would be beneficial to our Board to show our relative performance net of fees versus that peer set rather than gross of fees as NEPC had showed. Ms. Malone reviewed return performance for various asset classes for 2016. Our investments are within their approved strategic and tactical asset allocation ranges. Ms. Malone spoke about WRS' return for the quarter, year, 3, 5, and 10-year periods and how we compare versus the benchmarks and our peers. Discussion ensued about gross versus net and what is the best number to report. The Board consensus was we want to have the best comparison data and to be transparent and report using the most open and honest way possible. Returns for various asset classes were highlighted including WRS' outperformance in the Marketable Alternatives asset class and the relative underperformance of Developed Market Equities in WRS' portfolio. Mr. Erickson from Meketa then reviewed specific manager performance.

### **IPS Recommendations & Appendix I**

Mr. Masoudi reviewed the biggest potential change to Appendix I which is to increase the asset allocation to fixed income by 5%. The 5% will come from equities. Mr. Ziomek reviewed the targets within equity: US, International Developed, and Emerging Markets. The primary role of the Equity asset class is capital appreciation. Mr. Ziomek highlighted our investment philosophy as well as a review of our 2016 goals, strategies, and tactics. Discussion ensued about governance and process for manager selection and the board versus staff role. Mr. Kreiter reviewed the critical role Fixed Income plays within the WRS portfolio. First, it mitigates risk and stabilizes the portfolio. Second, it provides a source of capital that is liquid and can be redeployed opportunistically to higher return assets. Finally, it generates current income. The goals, strategies, and tactics from 2016 highlighted a reduction of the fixed income portfolio to 15% overall and eliminating Emerging Markets Debt from the portfolio. Mr. Kreiter went over the 2017 goals, strategies, and tactics. Mr. Mayer started his presentation saying that WRS plans to marginally increase our target exposure for Marketable Alternatives to 17.5% of the portfolio. Additional discussion surrounding 2016 hits and misses, review of 2016 priorities, portfolio changes, manager scorecard and 2017 priorities. Mr. Kreiter explained the Private Markets portfolio overview. This investment category covers thousands of managers, so we have a fund-of-one structure with three consultants who then find the underlying managers.

At the conclusion of all asset class presentations, Mr. Chapman and Mr. Masoudi presented the potential updates to Appendix I. This includes changes to both the strategic asset allocation weights and tactical asset allocation ranges. All of this information is on file at WRS and available to the public.

Mr. Masoudi had an amendment to the Opportunistic Credit subcategory in Fixed Income. The tactical asset allocation range should be 2.5%-9.0% rather than 0.0%-9.0%. This was based on a recommendation from Meketa that the Investment Committee approved.

Ms. Ladd took a moment to pause to recognize Governor Mead who joined the Board to answer questions and thank them for their service and dedication.

Mr. Chapman recognized Ms. Malone to present Meketa's asset allocation recommendation and scenario testing presentation. The Investment Committee felt that a 10 basis point reduction in expected return was worth an 80 basis point reduction in the standard deviation (lower risk). Our new proposed asset allocation, according to their models, has lower risk and is a more stable allocation. Meketa has prepared various big data simulations and scenario simulations based on the current asset allocation and the proposed asset allocation. Discussion ensued regarding asset allocation and approval of the proposed Appendix I.

**MOTION:** Mr. Gordon moved to approve the Appendix I adjustments as amended by Mr. Masoudi above with a February 16<sup>th</sup> adopted date. Seconded by Mr. Sullivan. The motion passed unanimously.

## **Goals**

Mr. Masoudi went through the 2016 goals, which had close to a 100% completion rate other than looking in to incentive comp, which is carried forward to 2017. The Investment team is asking for the support of the Investment Committee with regard to the goals. The entire list of goals is included in the Board packet. A few of the highlighted goals were to ensure the organization has sufficient resources and support to thrive, and to further look into ways to partner with the Treasurer's Office. Discussion regarding goals and priorities ensued.

## **DEFERRED COMPENSATION COMMITTEE**

Mr. Chapman recognized Ms. Scott who stated that today's action item is to receive performance information and program updates.

Mr. Burggraff reviewed the 4<sup>th</sup> quarter fund performance, manager summaries and due diligence for the 457 plan. He also highlighted the funds that make up the white label funds and the status of the white label mapping and participant comparison. Participation is trending positive and Ms. Scott outlined the fact that we have broken the \$600M mark in the 457 plan. Mr. Burggraff outlined the downward trend of the administrative costs and how any savings are returned to members.

Ms. Scott presented a member survey memo. The survey results are representative of our overall population and also relates to our strategic plan in terms of a customer service rating from members and member attitudes about WRS. Survey results cover the importance of DB, WRS image, customer service, engagement, retirement readiness, assets, social media and outreach, and deemed IRA.

Ms. Scott gave an update on automatic enrollment, which has been successful in increasing participation among state employees. We've had 629 employees notified for automatic enrollment and 609 remain in the 457 Plan, which is a 97% stick rate. Ms. Scott is going to send a letter to all non-state employers to reach out to them about signing up for automatic enrollment.

Additional updates include RFI for recordkeeping services conducted in 4Q2016. Six firms were contacted and three firms provided responses. The responses varied in regards to start-up fees, basis points versus a per-person fee, and potential lengths of contracts. Based upon the results and WRS' interest in a deemed IRA, we are proceeding with a record-keeper RFP.

## **Goals**

2016 Goals were reviewed and all were accomplished. The one exception is the on-line retirement readiness tool which is not readily available on the market. A memo is included in the packet recommending putting this goal on hold. The committee reviewed suggested 2017 goals and agreed on the following:

1. Plan & calendar for 457 committee member education
2. Receive consultant report on fees and make determination on participant fees to be charged
3. Receive due diligence on target date funds
4. Address any amendments or changes needed to the 457 Plan Document as a result of the IRS qualification process
5. Promote automatic enrollment with non-state employers
6. Receive staff research on deemed IRA and decide on next steps

## **AUDIT COMMITTEE**

Ms. Colgan reviewed a new structure for the audit committee. Most of the Board conversation is at a policy level and a majority of the audit committee material was at a staff level. Additionally, the audit function has been restructured to have an internal and external audit structure as many plans are set up that way and that seems to be the best for internal controls. Ms. Gorney is the internal auditor and Ms. Jacobsen is the external auditor. Ms. Colgan reviewed the front desk manual audit which found no deficiencies and was a successful audit. 2016 and 2017 Audit Committee goals were reviewed including many recurring audit goals and the revisit of the audit charter.

Mr. Lealan Miller and Mr. Brad Berls from Eide Bailly reported the external audit is going well and this is their second year working with WRS. The Investment team has been very cooperative and they have no cause for concern. All proper controls are in place as well as proper checks and balances in Management. They are making sure we have the internal controls so that our policies are being followed and implemented.

## **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.

### **Friday, February 17<sup>th</sup>**

Ms. Ladd called the meeting to order at 8:06 a.m. In regard to the approval of the minutes, Ms. Ladd had an edit to the minutes where Mr. Chapman's name was spelled wrong in the asset allocation section and Mr. Bleakley said the investment section needs to say 3<sup>rd</sup> quarter, not 2<sup>nd</sup> quarter. The Board agrees the shorter format of the minutes is a good thing.

**MOTION:** Mr. Sullivan moved to approve the minutes as amended. Seconded by Mr. Shanklin. Motion passed unanimously.

Ms. Ladd brought up the Board's outreach and our meeting locations around the state versus Cheyenne. Discussion included opportunity to have staff participation, economics of various meeting locations, and outreach to members. There is an opportunity to have town hall meetings when we host them outside of Cheyenne. The Board concurs that town halls should always be held when we meet both in and outside Cheyenne. The Board would like three meetings a year in Cheyenne and one outside of Cheyenne. They would like to continue outreach, town halls, etc. The use of technology came up as well. This will be discussed later in Governance committee. We will continue to use the state plane but only when it's cost-effective. Discussion ensued. How do we use technology to reach our members and interested parties in a rural state where travel can be difficult? Ms. Ladd asked Ms. Ryerson to double the town halls (from one per quarter to two per quarter) and asked if there is a way to incorporate the use of technology for the meetings' promotion. The Board discussed recording our meetings and providing a link on the website to listen to our meeting and download it via audio. This will be discussed further at our May Board meeting. With the new website we can track how many interested parties download the material and then continue to assess the most effective way to reach our members. Ms. Colgan said the one out of town meeting should be a little longer to accommodate a town hall.

### **CONFERENCE UPDATES**

Ms. Ladd was a speaker at the Institutional Investor conference in Park City, UT. Comments included the fact that pensions have the highest expectations of any institutional investor. Performance based fees, consolidation in the industry and reduced margins were all discussion points.

Treasurer Gordon was at the National Association of State Treasurers in Washington. One of the panels was about deregulation and the possible repeal of Dodd-Frank and the resignation of the Governor of FOMC. Much of the speculation was regarding Trump's policies and their potential. There was also a panel discussion about medical marijuana and banking regulation and what the federal government can do for the states. Robert Costa, who covered Trump for the

election, was very interesting and talked about Trump reading the news and absorbing themes on his twitter feed.

## **GOVERNANCE COMMITTEE**

### **Strategic Planning Updates**

Mr. Wolff recognized Ms. Ryerson who highlighted updates to the strategic plan. There were staff memos written on 14 action items in the strategic plan. After reporting the updates to the committee, the discussion turned to the format of the strategic plan. Mr. Wolff highlighted the possibility of breaking the strategic plan into two separate plans, one for Board and one for staff. Ms. Ladd announced that Mr. Ceballos will be the new chair of the Governance committee as Mr. Wolff is retiring from the Board. Although the Board came up with the strategic plans' five goals, it has evolved into a hybrid document with many operational updates that are probably not needed for the Board. Treasurer Gordon brought up Secure-Choice Savings, which is an initiative in many states to get more participants in savings vehicles for retirement.

### **Board Appointee Update**

Ms. Ladd stated that the Governor and Chief of Staff Gray were meeting today to discuss the Board Appointment for our vacancy and needs to report that to the Senate on February 22<sup>nd</sup>. We should be hearing very soon who the appointee will be. The three Board members seeking reappointment should all be reappointed.

Ms. Ladd set the November Board meeting for November 15-16, 2017 as a date had not previously been set. Mr. Shanklin requested to move the February 2018 meeting due to Valentine's Day, President's Day, and other conflicts. Mike will send out a Doodle pool and work with Board to schedule the February dates as there seem to be a few conflicts and we may want to move earlier if there is any potential legislation.

### **Goals**

Mr. Wolff reviewed the 2016 goals as well as tentative 2017 goals. Discussion ensued about Board orientation and trustee training. The Board would like a list of good pension news e-mail updates to receive, plus a subscription per Board member for P&I. Ms. Ladd asked if we could have an evaluation of conferences. Ms. Ladd said if we could have a consistent process of education for newer Board members that includes conferences that are valuable, things to sign-up for, etc. Board effectiveness was discussed and could we bring someone in (outside consultant) to talk about Board effectiveness.

## **LEGISLATIVE & BENEFITS COMMITTEE**

Mr. Nelson recognized Ms. Scott who stated the Legislative session is always a busy time at the WRS office. In November, WRS started to receive requests for information and always provides that to the LSO. Discussion ensued regarding trends in legislation, potential for upcoming legislation, and educating non-state employers about GASB requirements.

Ms. Beckham and Mr. Nichols from Cavanaugh Macdonald Consulting joined the meeting to present the actuarial audit of GRS. They are pleased to report it was a clean audit. While there are a few minor observations, there were no concerns regarding the financial result of the audit. The actuarial audit seeks to verify the actuarial work being performed. Key review items include: appropriateness of the actuarial assumptions, compliance of assumptions and methods with general actuarial principals and other relevant policies, evaluation of data as to sufficiency and appropriateness, verification of valuation calculations/opinion on accuracy of results, and communication of results.

Mr. Nelson reviewed pending legislation and noted that at this time there is no need to create emergency rules for any potential legislation.

The WRS Legislative outreach program was reviewed, including conversations with legislators at receptions, invitations to town halls and breakfasts, legislative informational e-mails and their respective open rates, and WRS messaging. We looked at some legislative outreach that other systems have done.

In 2005, the WRS Board passed a resolution highlighting their support of DB, reaffirming this in 2011. The Board was discussing if a new resolution should be passed. Rather than pass a resolution the consensus of the Board was to create a one-page legislator and taxpayer brief. We can use some ideas from other funds and the information already compiled on our annual summary report. Using this in addition to increased town halls and one-on-one meetings will be the plan going forward.

## **PUBLIC COMMENT**

Mr. Gary McDowell, from the Wyoming Education Association, spoke about the potential for legislation and staying ahead of the curve. Additionally, he referenced the actuarial presentation and variances in educational study. Lastly, he highlighted the importance for superintendents and business managers to attend our Board meetings.

**Motion:** Mr. Shanklin moved to go into Executive session for the purposes of obtaining legal advice at 11:59 a.m. Seconded by Mr. Wolff. Motion passed unanimously.

**Motion:** Mr. Nelson moved to adjourn. Seconded by Ms. Colgan. Motion passed unanimously.

**Meeting adjourned at 12:29 p.m.**