

# WRS GOVERNANCE POLICY

**POLICY TYPE: OUTCOMES**

**POLICY TITLE: *INVESTMENTS***

**Approved December 4, 2009  
Revised November 19, 2010**

---

## **THE INVESTMENT “OUTCOMES”**

This policy defines the desired outcome of the investment program for the investment of funds for the legislatively created defined benefit plans. It will be the Board’s responsibility to carry out the following duties with the assistance of staff:

### **RETURN OBJECTIVE**

Based on actuarial assumptions adopted by the Board effective 01/01/2009, it is estimated that the portfolio must generate the compound annual return on invested assets shown in Appendix I in order for WRS to accumulate the assets needed to meet benefit obligations.

### **INVESTMENT PHILOSOPHY & CORE BELIEFS**

WRS’ investment philosophy is based upon a set of factors that have a widely accepted theoretical basis.

1. The Board recognizes that strategic asset allocation has the most significant impact on investment results and will develop and maintain a strategic asset allocation that strives to optimally fulfill investment objectives.
  - Strategic asset allocation sets the amount of resources (risk) spent on each asset class.
  - Strategic allocation determines downside risk and portfolio volatility.
2. Some markets are efficient while others are less so, or inefficient. As such, investment strategies will reflect a mix of active and passive investments.
3. Costs have a meaningful impact on returns. Investment strategies will utilize the most cost effective approaches.
4. Performance measurement and monitoring activities provide an assessment of the success of WRS investment strategies and implementation of those strategies. Clear, unambiguous, market-based benchmarks will be selected for each investment strategy.
5. Use of tactical or Risk Overlays adjusts the portfolio (based on fundamental and/or economic theory), making tilts explicit versus implicit.
6. WRS believes the fund should be invested for the future and not rely solely on historical investment data to structure the portfolio. There is value in forecasting and making an effort to determine the most critical factors that will affect assets and liabilities in the coming years. This forecasting will be part of the discussion and asset allocation process.

7. Diversification is critical because the future is unknown.
8. WRS believes that, over the long term, there is a relationship between the level of investment risk taken and the rate of expected investment return. It believes the assumption of a moderate level of risk is reasonable and justified to enhance potential long-term returns, understanding that it will produce a wider range of expected returns than more conservative asset mixes.

## **TARGET ASSET ALLOCATION (TAA)**

It will be the Board's responsibility to carry out the following duties in consultation with staff and the external investment consultant:

1. Develop a Return Objective (RO) that will:
  - a. Keep contribution rates reasonably level over long periods of time subject to and recognizing that changes made in the law, actuarial assumptions and benefit levels will impact contribution rates.
  - b. Adequately fund aggregate liabilities.
2. Establish a Target Asset Allocation that is expected to meet the RO while minimizing the impact of the fund's volatility on the contribution rate. Secondary considerations include, but are not limited to, the expected rate of return for each asset class, the expected risk of each asset class, the correlation between rates of return among the asset classes, liquidity of the fund, and the investment objectives and risk constraints of the fund.
3. Monitor costs associated with the efficient implementation of the Target Asset Allocation through the use of internal and external resources.

The Board has adopted the TAA as shown in Appendix I. This table outlines the Board authorized Target Asset Allocation investment categories and the Target Asset Allocation weights which will be used to measure performance. This asset allocation is expected to fulfill WRS's need to meet its actuarial Assumed Investment Rate (AIR). These are target allocations. As investments in non-public markets can take some time to implement, the Board recognizes that this asset allocation is a long term goal, and that short term positions may represent an intermediate point in the process of attaining these targets.

## **STRATEGIC ASSET ALLOCATION (SAA)**

The Board has granted the Chief Investment Officer (CIO), subject to approval by the Executive Director, the authority for establishing the Strategic (sub-asset class) Asset Allocation (SAA) of the portfolio within broad ranges approved by the Board. The CIO will make Strategic Asset Allocation decisions away from the Target Asset Allocation only in consultation with the external investment consultant and Executive Director and with approval from the Executive Director that the change is in compliance with the Board's policy. Occasionally, the CIO may elect to exceed the allowed maximum allocation by up to 10% in a particular asset class. If this occurs, the deviation must be approved by the Executive Director and the variance must not last

for more than one year. The minimum and maximum allocations are meant to serve as guidelines for allowing the assets to fluctuate before the CIO must consider re-allocation of assets from one asset class to another and to allow tactical asset allocation, when deemed appropriate.

Based on a variety of considerations, the Board has selected the Strategic Asset Allocation ranges that are allowable. These ranges are outlined in the table shown in Appendix I.

## **COMPONENTS OF INVESTMENT RETURN:**

The approved Target Asset Allocation categories and their Strategic Asset Allocation sub-sectors are:

### **1. TACTICAL CASH**

### **2. FIXED INCOME**

#### **a. Interest Rates – U.S. Treasury and non-U.S. Government bonds**

This sub-asset class is designed to provide a source of current income and to reduce overall fund volatility. In addition, investments in this category will maintain the highest correlation with the value of the plan liabilities. Investments in this category may include, but are not limited to, U.S. Treasuries, agencies and highly rated securities issued by other non-U.S. sovereign nations.

#### **b. Credit**

##### **1. Investment Grade bonds**

This sub-asset class is expected to generate current income and have limited risk of principal loss. Bonds in this category will be issued by corporations with strong balance sheets and adequate debt coverage ratios. The rating agencies will generally rate securities in this category at BBB or better.

##### **2. High Yield bonds**

This sub-asset class seeks to provide capital appreciation within the portfolio through investment in below investment grade debt instruments and debt considered to be “opportunistic” in nature. Generally, it is expected that securities in this asset class will be in “current pay” status with superior coupon cash flow because of the lower credit quality bias. Investments in this portfolio may include non-investment grade debt of both U.S. and non-U.S. issuers.

### **3. Distressed / Private debt**

This sub-asset class is expected to generate high returns with commensurately high risk. Generally, private investments are long term and illiquid in nature.

Private debt would be expected to provide equity-like returns by purchasing debt securities to gain controlling interest in companies at a significant discount to fair value. Investments include debt instruments of U.S. and international companies which may be publicly traded or privately held that are financially distressed and are either in bankruptcy or likely candidates for bankruptcy. Typical holdings are senior and subordinated debt instruments and bank loans. Equity exposure is acceptable in this sub-asset class as debt positions are often converted to equity during the bankruptcy reorganization process.

#### **c. Mortgages / Opportunistic**

This sub-asset class will generally consist of securities that represent an interest in a pool of mortgage loans. These instruments may be issued by a wide variety of financial institutions, including several government sponsored agencies. While they usually have some income producing features, mortgages contain prepayment risk thus making cash flows less predictable than other fixed income securities.

#### **d. Emerging Market debt**

This sub-asset class encompasses bonds issued by less developed countries. It does not include borrowing from government, supranational organization such as the IMF, or private sources, though emerging market loans that are securitized and issued to the markets would be included. Emerging market debt tends to have a lower credit rating than other sovereign debt because of the increased economic and political risks. For these reasons this sub-sector will generally have higher coupons and higher potential capital appreciation than other sub-sectors of fixed income.

#### **e. TIPS**

This sub-asset class is designed to provide a source of current income to the portfolio, while providing a hedge for the inflation sensitivity of the system's liabilities. TIPS are fully guaranteed by the full faith and credit of the U.S. government and are highly liquid. Additionally, the specific guidelines for the TIPS portfolio allows for the inclusion of a small portion (a maximum of 10%) of non-guaranteed securities that must also be structured to provide inflation protection but may be of agency quality or corporates of AAA or AA credit quality. Other instruments which are allowable holdings may include international inflation protected securities, nominal treasuries, swaps, forward contracts, and inflation futures.

#### **f. Market Neutral**

This sub-asset class provides diversification to the total portfolio and strives to reduce total fund volatility. The reasoning behind this sub-asset class being positioned within Public Fixed Income, in addition to Public Equity, is not that all of its exposure will be to debt instruments, but, more importantly that it will be expected to have lower volatility (standard deviation) and similar returns over long periods of time to other public fixed income investments. This area will include investments in a group of skill-based managers using a variety of strategies to produce absolute returns. At any given point in time, the number of managers and types of investments and strategies being utilized may include the entire universe of available investment options. In addition, a variety of marketable alternative strategies may be utilized within this sub-asset class including, but not limited to hedged equity, convertible arbitrage, event driven, relative value, global fixed income/currencies, managed futures, and commodities.

### **3. EQUITY**

#### **a. Domestic Equity**

This sub-asset class seeks to provide a combination of long-term capital appreciation and dividend income that in aggregate is expected to exceed the rate of inflation. It is expected that investments in this class will perform well during periods of rising economic growth. Investments in this sub-asset class may include a variety of U.S. stock investments with varying characteristics related to market capitalization and investment style, including long/short hedged equity.

#### **b. International Equity - Developed Markets**

Like the Domestic Equity sub-asset class, International Equity – Developed Markets seeks to provide long-term capital appreciation and dividend income that in aggregate are expected to exceed the rate of inflation. Investments in this category will be made through a diverse group of strategies varying in size, investment style, and exposure to opportunities in a large group of developed countries. It is expected that investments in this sub-asset class will perform well during periods of rising economic growth; however, because of the non-US nature of these investments, they will also include non-dollar currency exposure not found within the US equity portfolio. This currency exposure during periods of dollar weakness will improve this portfolio's performance, and to the contrary, during periods of dollar strength it is more likely that these investments will lag the US equity sub-asset class

#### **c. Emerging Markets**

This sub-asset class seeks to provide long-term capital appreciation in excess of inflation primarily through non-U.S. equity investments in countries outside of those included in the MSCI EAFE Index.

#### **d. Private Equity**

This sub-asset class is expected to generate high returns with commensurately high risk. Generally, private investments are long term and illiquid in nature.

Private Equity would be expected to provide high real returns over long periods of time while providing additional diversification to the fund even though it is understood that the diversification benefit is likely due to the lack of market pricing on these investments as opposed to a “true” diversification characteristic of these investments. Investments in this category are expected to be very illiquid and long term in nature. Investments in this category include corporate buyout, venture capital, and opportunistic/special situations. These opportunities may be identified domestically or on a global basis.

#### **4. GLOBAL TACTICAL ASSET ALLOCATION (GTAA)**

The purpose of employing a GTAA manager (or multiples thereof) is to provide an additional layer of diversification with the twin goals of increasing return and decreasing risk. The tools of a GTAA manager will include valuing various global markets and making opportunistic investment shifts. To the extent necessary, the managers can use active underlying portfolios, or passive. The return goal of these portfolios should be a blended benchmark (60% MSCI ACWI + 40% Barclays US Aggregate Bond Index).

Due to the global nature of these mandates, managers are expected to be evaluating and/or investing in non-US instruments, to include derivative instruments allowing for market exposure or risk mitigation (e.g., index futures and currency forwards).

#### **5. ALTERNATIVES**

##### **a. Real Assets**

This sub-asset class is expected to perform well in periods of rising inflation. There are several types of real asset investments that may be included in this sub-asset type. The most common are outlined below and comprise our blended benchmark. However, from time to time other real assets may be identified that do not fit nicely into one of these buckets. In these instances it is expected that the investment will be assessed based upon its risk, return, and diversification characteristics relative to the buckets identified and only made if it is expected that the asset improves the overall risk adjusted return of the portfolio.

- 1) *Real Estate / Infrastructure*: would be expected to provide a relatively high level of income and provide diversification to the overall fund. Real estate includes real estate investment trusts (REITS), opportunistic real estate funds, direct real estate holdings, and mezzanine debt investments. The infrastructure portfolio will be comprised primarily of investments in public assets which enjoy semi-monopoly positions such as toll roads, electricity generators and distributors, seaports and airports, pipelines, rail links, royalties, public/private partnerships and similar assets. The primary

investment vehicle is expected to be commingled funds. The long run objective of this asset class is to provide returns in excess of investment grade bonds with volatility substantially less than the equity markets.

- 2) *Natural Resources*: would be expected to provide superior returns during periods of unexpected inflation. Investments in this category might include a variety of derivative instruments including futures, total return swaps, options, and forward contracts, as this is how most commodities exposure is obtained. It is also possible that this category might include limited partnerships and/or commodity trading advisors (CTAs) who seek exposure to various types of commodities and commodity-related investments, including oil, gas, and other energy investments.

## **8. Overlay**

The use of cash overlay manager to adjust any under or over exposure of an asset class (primarily pertains to public equity and public debt allocations and excludes tactical allocations and alternative asset classes) to its target allocation should, under normal circumstances, keep the portfolio within the minimum and maximum allocations of each class. The CIO shall review the asset allocation levels and the overlay positions regularly. Should the value of an asset class exceed the minimum or maximum range of the policy before the adjustments by the overlay, the CIO shall rebalance the portfolio by moving assets either into or out of the identified asset class by half of the deviation from target to restore the asset class allocation to within guidelines. At all times the cost, timeliness and liquidity of the rebalancing shall be a consideration. The CIO shall report to the Board any rebalancing actions taken.

Periodically payroll needs require the liquidation of assets from the portfolio. The CIO shall identify the asset classes most over-allocated relative to the target to provide the cash needed. The CIO shall report to the Board any liquidation action taken.

## **PERFORMANCE OBJECTIVES and MONITORING PROCESS**

WRS' success in achieving the Return Objective (RO) shown in Appendix I will be evaluated over reasonably long time periods. The reason for the long-term focus on this objective is to preclude the temptation to overreact to events in the marketplace that have no relevance in long-term asset/liability management. The resulting dilemma is the conflicting need to evaluate investment policy implementation decisions over shorter time frames while maintaining the longer-term focus necessary to manage and measure the fund's performance relative to the RO.

To address this problem, the Board evaluates performance relative to TAA and SAA benchmarks which help to evaluate the Board's broad asset allocation decisions and the staff and external investment consultant's strategic and implementation decisions.

The Target Asset Allocation measures the broad investment opportunities of each asset class in which WRS has chosen to invest.

The Strategic Asset Allocation represents decisions made by the CIO to strategically deviate from the midpoint of the TAA within each sub-asset class. The returns of the strategic benchmarks are determined based upon the actual weight of the asset class multiplied by the appropriate benchmark.

The TAA and SAA benchmarks are used in the following manner to evaluate decisions made by the Board and the CIO:

- Board Decisions - The value added through Board policy decisions is measured by the difference between the Target Asset Allocation return and the RO. This difference captures the value added by the Board through their broad asset allocation decisions relative to the required rate of return objective necessary to meet the actuarial assumptions. A TAA return greater than the RO reflects value added through Board decisions. A TAA return less than the RO reflects losses or shortfalls in performance in funding the liabilities of the system. These policy decisions are measured over long periods of time.
- CIO Decisions - There are two components to decisions made by the CIO that are monitored by the Board on an ongoing basis. These include 1) Strategic Asset Allocation decisions made by the CIO with the approval of the Executive Director and, 2) implementation decisions which include manager hiring and termination decisions made by the CIO with the approval of the Executive Director.

*Strategic Decisions* are sub-asset class allocation choices made by the CIO with the approval of the Executive Director to deviate from the Target Asset Allocation weight. The value added through these decisions to overweight or underweight these sub-asset classes is measured by the difference between the SAA benchmark return and the TAA benchmark return. This difference captures the value added by the CIO through sub-asset class strategic decisions relative to the Board's broad asset allocation decisions. Strategic Asset Allocation returns greater than the Target Asset Allocation returns reflects value added through the sub-asset class allocation decisions. Strategic Asset Allocation returns less than the Target Asset Allocation returns reflect losses to the fund's performance based upon strategy decisions. Strategy decisions should be measured over all periods of time, with majority weight placed on outcomes that have occurred over a market cycle.

*Implementation Decisions* are money manager selection choices made by the CIO with the approval of the Executive Director. The value added through these manager selection decisions is measured by the difference between the actual portfolio return and the Strategic Asset Allocation return. This difference captures the value added through these manager hiring decisions. An actual portfolio return greater than the SAA benchmark return reflects value added through these manager selection decisions. An actual portfolio return less than the SAA benchmark return reflects losses to the fund's performance based upon implementation decisions. Implementation decisions should be measured over all periods of time, with a majority weight placed on outcomes that have occurred over a market cycle.

The Board receives performance information on a quarterly basis to help ensure adequate monitoring of the fund's overall performance objectives.

At the broad asset class level, Target and Strategic benchmarks have been established to measure Board, strategic, and implementation decisions. At the manager level, performance is measured against appropriate benchmarks for each particular investment mandate. Investment guidelines have been established for each manager outlining specific expectations for each portfolio. In addition, many managers are employed with performance-based fee structures which help to align the manager's interests with the total fund's objectives.

## **MANAGER ASSET POLICY**

WRS has adopted the following general policies to be used in limiting exposure to any single manager or product. The Board may override these policies under special circumstances:

1. The maximum allocation to a single active manager in its own investment products is 15%. This implies that a single active manager could manage up to 15% of the aggregate market value of the Fund. The maximum allocation to a single passive manager in its own products is 25%. This implies that a single passive manager could manage up to 25% of the aggregate market value of the Fund.
2. The maximum allocation to a single active management product is 10%. This limitation applies to any non-index investment vehicle.

## **INVESTMENT MANAGER GENERAL GUIDELINES**

### **Scope**

1. The manager shall have full discretion to direct and manage the investment and reinvestment of assets in accordance with this document, applicable federal and state statutes and regulations, and the executed contract. Guidelines will be detailed in each individual manager contract.
2. The manager will adhere to the style concepts and the investment principles that were in use at the time WRS appointed the firm to manage WRS assets.
3. Proxy voting is a function and duty of the investment manager which shall be executed in accordance with WRS guidelines.

### **Communication**

The firm must provide notification to WRS within two (2) days of any changes in the firm's organizational relationships, professional staff, or services that impact the service of the account.

### **Derivative Securities**

Certain of WRS's investment managers may be permitted under the terms of individual investment guidelines to use pre-approved derivative instruments as set forth in each manager's

investment contract to control portfolio risk or add additional return potential. A separate set of guidelines for derivatives securities will be developed and attached to this document as an appendix.

### **Ineligible Investments**

Unless specifically approved by the CIO and the Executive Director or elsewhere in this Investment Policy, the following securities or strategies shall not be purchased for or employed by the Plans and Trust:

- Derivative instruments except as permitted in the Derivatives Policy in Appendix II or as specifically provided in the investment management agreement (“IMA”) for a particular external investment manager.
- Non-taxable municipal securities, unless pricing anomalies in the marketplace suggest the likelihood of near-term capital gains when normal spread relationships resume.
- “Naked” short sales (i.e., shorting a security not owned).
- Any transaction prohibited by law, including any federal law or Wyoming statute.

### **Liquidity Requirements**

External investment managers will be given adequate notice of WRS’ cash needs and an estimation of liquidity requirements. External investment managers will be expected to manage their funds to provide for anticipated withdrawals without impairing the investment process.

### **Commingled Funds**

Mutual funds and other types of commingled investment vehicles (such as commingled investment funds (“CIFs”), private equity funds, hedge funds, and ETFs), can provide lower costs and better diversification than can be obtained with a separately managed fund pursuing the same investment objectives. However, commingled investment funds cannot customize investment policies and guidelines to the specific needs of individual clients. WRS is willing to accept the policies of such funds in order to achieve the lower costs and diversification benefits of commingled funds. Therefore, commingled investment vehicles shall be exempt from the policies and restrictions specified herein but shall otherwise satisfy all requirements imposed by law.

### **REVIEW PROCESS**

- On a quarterly basis, the Board will review the actual results achieved to determine whether the managers have performed in accordance with this Investment Policy and the return objectives as set forth herein.
- Annually, the Board will review the asset allocation guidelines and make any necessary Target Asset Allocation changes.
- Annually, the Board will perform a comprehensive review of the suitability of its managers.

- The Board will periodically invite managers to Board meetings, where they will have the opportunity to review their approach, results, and perceptions of the market.
- The Board, the CIO, the Executive Director and external investment consultant will monitor the portfolio on an ongoing basis for the purpose of determining whether any ad hoc meetings are required. Such situation might occur, for example, in the event of a dramatic market move, or if disturbing news were to emerge with respect to an investment manager.
- The Board will monitor performance through periodic reports that will allow assessment of Target Asset Allocation decisions, Strategic Asset Allocation decisions, and implementation decisions.
- All performance shall be calculated using time-weighted rate of return methodology.
  1. Quarterly, the CIO will submit a report to the Board addressing WRS' success or lack thereof in accomplishing the investment "outcomes" based on the benchmarks described within this policy at the total fund level and asset class levels. This report will also include a summary of due diligence meetings held throughout the quarter, and will also provide the Board with a brief commentary by the CIO and/or external investment consultant which summarizes their thoughts on the market and key strategic decisions made in the quarter along with justification for those decisions.
  2. Not less often than every five years, a formal asset/liability study will be conducted. In the interim, the CIO shall submit an opinion to the Board on an annual basis, at the first board meeting following the beginning of the new fiscal year that addresses the continued prudence of the current asset mix in achieving the RO.

## **PROXY VOTING REQUIREMENTS:**

The Investment Managers shall:

Vote all common stocks in the portfolio in accordance with policies to protect the financial interest of WRS participants and report semi-annually (reflecting votes cast through June and December of each year) to the Board including:

- A. Affirmation that all stock holdings with votes due had, in fact, been voted.
- B. A description of any proposed changes in proxy voting policies or procedures.
- C. Confirmation that all votes cast were consistent with established policy.
- D. An explanation of any votes not cast or of any votes cast that were not consistent with established policy.
- E. A summary listing of all votes cast.

## **STATUTORY AND REGULATORY COMPLIANCE**

Each investment manager, trustee, consultant or other agent of WRS is strictly responsible for compliance with all relevant statutory and regulatory requirements as those requirements pertain to their duties and responsibilities as fiduciaries.

**Adopted: December 4, 2009**

**Revised: February 19, 2010**

**APPENDIX I – Adopted December 4, 2009, Revised April 16, 2010**

Return Objective: 8% net of expenses

<b>Asset Class</b>	<b>Target Asset Allocation Weight</b>	<b>Strategic Asset Allocation Range</b>	<b>Asset Class Benchmark Index</b>
<b>Tactical Cash</b>	<b>0.0%</b>	<b>0.0% - 5.0%</b>	<b>Barclays Short Treasury - Unhedged</b>
<b>Fixed Income</b>	<b>30.0%</b>	<b>20.0% - 40.0%</b>	<b>Barclays U.S. Aggregate Bond</b>
Interest Rates	Benchmark Weight	+ / - 10.0%	
Credit	Benchmark Weight	+ / - 10.0%	
1. Investment Grade bonds			
2. High Yield bonds			
3. Distressed / Private Debt			
Mortgages / Opportunistic	Benchmark Weight	+ / - 10.0%	
Emerging Market debt		0.0% - 10.0%	
Hedge Funds – Fixed Income		0.0% - 10.0%	
TIPS		0.0% - 10.0%	
Market Neutral		0.0% - 10.0%	
<b>Equity</b>	<b>50.0%</b>	<b>40.0% - 60.0%</b>	<b>MSCI ACWI</b>
Domestic Equity	Benchmark Weight	+ / - 10.0%	
International Developed Equity	Benchmark Weight	+ / - 10.0%	
Emerging Markets Equity	Benchmark Weight	+ / - 10.0%	
Hedge Funds – Equity	Benchmark Weight	+ / - 10.0%	
Private Equity	0.0%		
<b>Global Tactical Asset Allocation</b>	<b>10.0%</b>	<b>0.0% - 20.0%</b>	<b>60.0% MSCI ACWI / 40.0% Barclays U.S. Aggregate Bond</b>
<b>Alternative</b>	<b>10.0%</b>	<b>0.0% - 20.0%</b>	<b>Blended Return</b>
Real Return		0.0% - 10.0%	
1. Infrastructure			
2. Natural Resources / Commodities			
3. Real Estate			
Absolute Return		0.0% - 10.0%	

Benchmark Weight = Targets allocations are not static weights. Weights float based upon capitalization of the relevant benchmark. The Target Asset Allocation weights, a percentage of portfolio value, should be viewed as long-term strategic objectives. Target Asset Allocation weights of 0.0% are sub-asset classes not yet approved by the WRS Board for investment. Normal market value fluctuations may require a periodic rebalancing to the target objectives.

## Wyoming Retirement System

### DERIVATIVES POLICY

#### A. Objectives

Unless the Board otherwise directs, this derivatives policy (“Derivatives Policy”) identifies and permits external investment managers of the Plans and Trust to deploy common derivative investments and strategies which are consistent with applicable law and the Investment Policy. This Derivatives Policy also requires the external investment managers of the Plans and Trust to follow certain controls, documentation and risk management procedures when employing derivatives. Derivatives may be employed by the Plans’ and Trust’s external investment managers based on an analysis by the Plans’ Chief Investment Officer that the use of such derivatives will have a positive impact on the Plan’s or the Trust’s ability to manage its underlying assets and liabilities. Unless otherwise authorized by the Board, the Chief Investment Officer and his/her staff shall not employ derivatives in the management of the Plans or Trust’s internally managed portfolios, except that nothing in this Derivatives Policy shall preclude the Chief Investment Officer or his/her investment staff from purchasing ETFs, CIFs, mutual funds, or commingled securities authorized by the Board (or any Appendix to the Investment Policy) which technically, might be characterized as derivatives.

#### B. Definition and Classification of Derivatives

A derivative is a security or contractual agreement which derives its value from some underlying security, commodity, currency, or index.

**Derivative Contracts.** The following derivative contracts are authorized derivatives to be entered into by the Plans’ and Trust’s external investment managers on behalf of the Plans and Trust:

- a) Forward-based derivatives, including forward contracts, futures contracts, swaps, and similar instruments
- b) Option-based derivatives, including put options, call options, swaptions, interest rate caps and floors, and similar instruments

#### C. Allowed Uses of Derivatives

##### Derivative Contracts

- a) **Hedging.** To the extent that the non-derivative component of a Plan’s or the Trust’s portfolio is exposed to clearly defined risks and derivative contracts exist which can be used to prudently reduce those risks, to the extent authorized by an external investment manager’s IMA with the Plans and Trust, such manager is permitted to use derivatives contracts for hedging purposes, including cross-hedging of currency exposures, subject to the documentation requirements below.

- b) **Creation of Market Exposures.** If specifically authorized by their applicable IMA with the Plans or Trust, external investment managers of the Plans and Trust may use derivatives to replicate the risk/return profile of an asset or asset class.
- c) **Management of Country and Asset Allocation Exposure.** External investment managers of the Plans and Trust may use derivative contracts to change the exposure of their portfolio to different countries and/or asset classes, so long as their IMA authorizes such strategies.

#### **D. Prohibited Uses of Derivatives**

Any use of derivatives not referenced in section C is prohibited without the prior written approval of the Board. The Plans' and Trust's external investment managers are encouraged to solicit such approval if they believe the list in section C is too restrictive. By way of amplification, it is noted that the following two uses of derivatives are prohibited in any portfolio of the Plans and Trust, unless specifically authorized by the Board:

1. **Leverage.** Derivatives shall not be used to magnify exposure to an asset, asset class, interest rate, or any other financial variable beyond that which would be allowed by a manager's IMA if derivatives were not used. Derivatives shall not be employed so as to subject the Plans or Trust to liability in excess of their committed capital to any investment.
2. **Unrelated Speculation.** Derivatives shall not be used to create exposures to securities, currencies, indices, or any other financial variable unless such exposures would be allowed by a portfolio's IMA if created with non-derivative securities.

#### **E. Portfolio-Level Risk Control Procedures and Documentation Requirements**

##### **1. Counterparty Credit Risk For Non-Publicly Traded Derivatives**

External investment managers are required to measure and monitor exposure to counterparty credit risk. All counterparties contracting directly with the Trust or Plans must have commercial paper credit ratings of at least "A2" or its equivalent by at least one nationally recognized rating agency at the time the related derivative is entered into. If the term of the derivative contract exceeds one year, an analysis shall be conducted to determine the counterparty's long-term rating and risk exposure. Documentation relating to each derivative shall require that upon the downgrade to a specified level or withdrawal of the rating of such counterparty, the Plans, the Trust or the external investment manager, as applicable, may elect to terminate the derivative or to cause the related counterparty to collateralize its obligations under such derivative with cash or securities acceptable to the Plan, the Trust or the external investment manager (on behalf of the Plans or the Trust) at levels acceptable to the Plans, the Trust or the external investment manager (on behalf of the Plans or the Trust). Counterparty exposure should be evaluated with respect to concentration and diversification.

##### **2. Ongoing Monitoring of Risk Exposures**

The term and other risk exposure limits specified in this Derivatives Policy, the Investment Policy or a particular external investment manager's IMA with respect to investments made by that investment manager for the Plans or Trust are expected to be satisfied on an ongoing basis. Thus, the Chief Investment Officer and external investment managers must monitor changing risk exposures.

### **3. Valuation of Holdings**

External investment managers employing derivative strategies and the custodian shall provide the Plans and the Trust with pricing policies, including a list of sources used to value the Plans' or the Trust's holdings. The Plans and the Trust should be notified of any exceptions to these policies. The custodian is required to obtain prices independent of the external investment manager, or to notify the Plans and the Trust that independent prices are not available.

At least monthly, external investment managers employing derivatives shall reconcile the valuations of all of their derivatives positions with the custodian.

### **4. Quarterly Reporting**

Each external investment manager using derivatives for the benefit of the Plans and Trust shall submit to the Plans and the Trust, within thirty days of the end of each quarter, a written report with the following information:

- a) A list of all derivative positions of the Plans and the Trust as of quarter-end (and those terminated since the last report) including, without limitation, the related notional amount, the term and the rating of the related counterparty.
- b) An explanation of any significant pricing discrepancies between the investment manager and custodian bank.
- c) An explanation of any events of non-compliance with respect to any aspect or element of this Derivatives Policy, the Investment Policy or the IMA of said manager with the Plans and/or Trust.

### **5. Execution of Derivatives Documentation**

Subject to the terms of this Derivatives Policy, the Investment Policy and any IMA governing an external investment manager's contract with the Plans and/or Trust, an external investment manager will be authorized to execute derivatives on behalf of a Plan or the Trust in connection with the applicable investment strategies authorized by the Plans or Trust for such investment manager. Derivatives executed by the Plans, the Trust or the external investment managers (on behalf of the Plans or the Trust) must include all provisions required to be in contracts executed by the Plans or the Trust pursuant to Arizona law.

## **F. Guidelines for Use of Pooled or Commingled Funds which Employ Derivatives**

Mutual funds, CIFs, ETFs and other types of commingled investment vehicles provide, under some circumstances, lower costs and better diversification than can be obtained with separately managed funds pursuing the same investment objectives. However, commingled investment funds cannot customize investment policies and guidelines to the specific needs of individual clients. The Plans and the Trust are willing to accept the policies of such funds in order to achieve the lower costs and diversification benefits of commingled funds. Therefore commingled investment vehicles (such as mutual funds, CIFs or ETFs) are exempt from all policies specified above *unless the Board concludes*:

The commingled fund's use of derivatives is so inconsistent with the spirit of this Derivatives Policy that value to be gained by investment in the fund is outweighed by the risks of such investment.

Wyoming Retirement System

DEFINED BENEFIT PLAN LIQUIDITY POLICY

A. Objectives

The liquidity policy is intended to provide limitations on less liquid assets so as to ensure adequate liquidity for plan needs. Adequate liquidity is defined primarily as the amount necessary to meet the immediate obligations for plan benefits and operation. Secondly, adequate liquidity should be maintained to accommodate rebalancing and reallocation during most economic environments.

B. Limitations

- **Minimum current liquidity** – At least 30% of the current market value of the plan should be in assets or collective investment vehicles that can be liquidated at fair market value within 30 days.

- **Maximum private investments** – New investments in private markets (investment terms greater than or equal to five (5) years) shall not be made that would cause allocation to exceed the following limits:

1. **Invested Capital** –

Private Debt	> 10% of Total Fund AUM
Private Equity	> 10% of Total Fund AUM
Infrastructure/Real Estate/Other	> 10% of Total Fund AUM

2. **Committed Capital** – Market value of invested capital plus total value of future commitments should not exceed:

Private Debt	>15% of Total Fund AUM
Private Equity	>15% of Total Fund AUM
Infrastructure/Real Estate/Other	>15% of Total Fund AUM

- **Monitoring** –

Ongoing – liquidity schedule will be determined for all potential investment disciplines by the CIO. Compliance with stated limitations will be confirmed prior to further commitments to private investments.

Annual – A liquidity study will be constructed by the CIO and Investment Consultant for presentation to the Board at least annually. This study will identify allocation of assets by their defined liquidity provisions and confirm compliance with this policy.

**Wyoming Retirement System**

**SECURITIES LITIGATION**

The Wyoming Retirement Board (Board) owes a fiduciary responsibility to the members and retirees of the Wyoming Retirement System (WRS) to manage System assets. That responsibility includes the duty to evaluate and monitor securities class actions in which WRS may be a member of the class. The Board recognizes that resources devoted to securities class actions may reduce resources needed to satisfy other fiduciary duties. The Board thereby delegates to the Executive Director of WRS the responsibility to monitor and evaluate potential actions and recommend to the Board class actions in which the probable benefits to the System outweigh the costs, both financial and otherwise, of participating in the action. In appropriate cases, the Board will direct WRS to take reasonable steps to reduce attorney's fees awards, increase class recoveries, obtain monetary recoveries from individual corporate wrongdoers and achieve appropriate corporate governance.

In order to adequately monitor and evaluate potential class actions, the Executive Director of WRS may exercise discretion to retain one or more experienced outside service providers to monitor class action filings and to estimate losses incurred by the System. The Executive Director of WRS may, with approval from the Wyoming Attorney General, retain one or more private law firms to advise and/or represent the Board in class action matters.

WRS Legal Counsel, in conjunction with retained outside counsel, shall monitor all cases determined to have merit and in which it is estimated that the System has sustained a loss. Active monitoring shall include periodic status reports to the Board, coordination with class counsel and participation in significant motions and settlement discussions.

The Executive Director of WRS may, with approval from the Wyoming Attorney General and in coordination with WRS Legal Counsel and retained outside counsel, seek lead plaintiff status in cases determined to have significant merit and in which it is estimated that the System has sustained a loss.

WRS Legal Counsel shall report to the Board at least on a quarterly basis the status of cases under active monitoring and cases in which WRS has been named lead plaintiff.