



Wyoming Retirement System

Partnering to Build Financial Security for Members and their Families

Mark Gordon
Governor

David Swindell
Executive Director

MINUTES OF THE May 15-16, 2019 BOARD MEETING

The Wyoming Retirement System Board met on May 15-16, 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: Governor Mark Gordon (Investment Committee), Deputy State Auditor Eydie Trautwein, Mr. Kevin Ready from FF, Mr. Lanny Applegate and Mr. Gene Diedtrich from Volunteer Fire & EMT, Ms. Mika Malone and Mr. Nick Erickson from Meketa, Ms. Rebecca Zisch from the Attorney General's Office, Mr. Beau Burggraff and Ms. Alison Adams from RVK, Mr. Philip Boron, Mr. Ken Decaria and Ms. Tammy Johnson from WEA, Ms. Betty Jo Beardsley from WPEA, Mr. Bill Whipp, Mr. Mark Randall, Mr. Thomas Wood, Ms. Leslie Thompson, and Mr. Paul Wood from GRS, and Mr. Joseph Zidle from Blackstone

Legislative Liaisons in Attendance: Senator Dave Kinskey, Representative Don Burkhart, Representative Andy Schwartz

Legislative Liaisons absent: Senator Wasserburger

Ms. Ladd called the meeting to order at 9:32 a.m. The meeting began with recognition of our continuing legislative liaison, Representative Burkhart, as well as our new legislative liaisons in attendance, Senator Kinskey and Representative Schwartz. Ms. Ladd recognized Ms. Colgan, the Chair of the 457 Deferred Compensation committee.

DEFERRED COMPENSATION COMMITTEE

The meeting started with an exercise to highlight the content in the 2018 Annual Member Education and 457 Plan report, which is included in the board packet. There are over 32,000 local government employees eligible to participate in WRS' 457 plan. Discussion ensued regarding best practices for outreach and education to these individuals and employers. WRS highlights the low administrative costs of our program and the best in class investment line-up offered to our members. The presentation included the continuous improvement in plan design, highlighting the changes and enhancements since WRS took over administration of the plan in 2001.

The first agenda item is the Deemed IRA update and decision points. WRS will need to establish an IPS for the deemed IRA. RVK is quantifying the potential impact of portfolios vs. unitized funds. WRS will utilize Ice Miller to review forms and disclosures. Ms. Scott and Ms. Colgan visited Millennium Trust Company for a due diligence visit where their depth in custodial and trustee services was verified. All parties involved committed to working toward a January 1, 2020 launch. A smooth and successful launch is more important than the specific date of the launch, and if technical or operational concerns become apparent that information would be brought forward to the Board. Deemed IRA delivery structure, second quarter action items including Deemed IRA platform, investment choices, and Investment Policy Statement were all reviewed.

Ms. Adams and Mr. Burggraff are in attendance from RVK and Ms. Adams opened her remarks with RVK's participation, guidance, and role in the Deemed IRA roll-out.

Ms. Colgan welcomed Mr. Burggraff from RVK who reviewed the first 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 and the team at RVK also examined the current Qualified Default Investment Alternative in the Wyoming Retirement 457 Plan. This review included comparing LifePath funds to other passive target date funds managers, upcoming changes to the BlackRock LifePath Targets date funds, and degrees of customization in the Target Date fund space. RVK maintains its favorable assessment of the BlackRock LifePath team, investment process, and glide path design. Fees are competitive with other Target Date Fund suites at the current size of \$280M.

Ms. Scott reviewed the planned termination for managed account services currently provided by Advised Assets Group, a subsidiary of Empower. At the request of WRS, RVK has closely analyzed the cost and benefits of managed account usage in the 457 Plan for over two years. RVK's analysis showed that the managed account services may not offer participants significant return advantages when compared to the Plan's target date fund investments. Given the high additional fees, the participant's average low account balance, the lack of achieved higher savings

rates, and the limited additional benefit of the advisory services WRS has initiated the process to eliminate it from the Plan platform.

AUDIT COMMITTEE

Mr. Shanklin began the audit committee with introductions of WRS' professional audit staff and members of the audit committee. Ms. Jacobsen reviewed the busy quarter of activity including seven audits for Board review.

The first audit is the Laramie County School District #1 – Rehired Retiree Audit. This is important as the retiree is filing a vacant position that would typically pay in to WRS and the retiree is responsible for the same duties as a regular full-time position employee. This is important to the financial integrity of the system.

In response to a finding in a prior audit of contributions involving Laramie County School District #1, the 457 Plan Manager has established a contribution alert service with our record keeper, Empower. Starting in July, WRS will be notified if an employer has not submitted contributions within set timeframes.

The second audit is the Natrona county school district #1 payroll contribution audit. The purpose of this audit was to determine if 457 contribution reporting is accurate and complete, to determine if cash transfers are timely and accurate, and to evaluate the operating effectiveness of internal controls. One of the findings was to establish a contribution alert service with our record keeper, Empower, which will notify WRS if an employer has not submitted contributions within set timeframes.

The third audit is the Fremont county school district #25/Johnson County School District #1 Cash Remuneration Audit. These audits were conducted as follow-up to previous findings and to verify compliance with the associated statutes. Fremont County will adjust the salary in question as the district was mistakenly including non-pension eligible benefits, including a tax-sheltered annuity and health insurance.

The fourth audit is the distributions audit. The purpose of this audit was to review the current distribution processes for WRS members, verify distributions are accurate and have supporting documentation, ensure compliance with federal regulations and statutes and verify compliance with the State of Wyoming distribution policies. The audit had no findings.

The fifth audit is the investment section performance reconciliation audit. For this quarter the audit department looked at five managers: Cantillon Global Equities, Altum Credit Fund,

DoubleLine Long Duration, Dorsal Capital Partners, and Alinda Infrastructure. Variances in valuations were explained.

The sixth audit is the management fee audit. Audit looked at investment manager, Dorsal, and found no discrepancies.

The audit committee performed a review of the Audit Committee Charter and discussed changes including the procedures regarding presentation of the CAFR. Rather than presenting the CAFR for approval, the CAFR will just be presented for acceptance by the Board going forward.

LEGISLATIVE & BENEFITS COMMITTEE

GRS Presentation

Mr. Nelson called the meeting to order and recognized the team from GRS: Ms. Thompson, Mr. Lyle, Mr. Randell, and Mr. Wood.

Ms. Thompson started the presentation by stating that actuarial valuations are a snapshot of a single point in time. GRS is recommending WRS consider a rate increase for Warden and Law Enforcement. Increase are already in effect for State and Fire B. In 2018 the plan experienced asset losses as the earnings were below the assumed rate of return of 7%. The normal cost is still stable from year to year. Recent legislation has helped improve the projected funded status including contribution adjustments to the state plan, Fire B, the elimination of interest crediting for non-vested members, and the addition premium tax allocation for the addition of search and rescue to the Volunteer Plan.

Paid Fire A has no funding source and is currently expected to run out of money, depending on market returns, in approximately eight years. By 2027 annual benefit payments will be \$17.92 million and the Actuarial Accrued Liability is expected to be \$206 million.

The Board made changes to mitigate our risk including looking at assumptions, benefits, and contributions. These conservative changes have helped the overall health of the fund. All plans experienced decreases in their 2018 funded ratios from 2017 largely due to lower than expected asset returns. Both the market value and actuarial value returns were less than the assumed rate of return of 7.00%. Generally, liabilities increased less than assumed, which means the assumptions are doing a good job.

GRS reviewed the funding ratio comparisons from 2017 vs. 2018, the actuarially determined contribution, normal cost, amortization payment, and surplus/deficit contribution. GRS made a few observations from 2018 including lower than expected salary increases, sooner than expected retirements, and contributions in excess of the ADC for the Guard Fire plan. Projected funded

ratios in 2048 were reviewed for all plans. GRS' actuaries are recommending a 4% increase to the Warden plan and 3% for Law Enforcement. With these contribution increases the 30-year projected funding status is above 100% funding. All other plans should stay the course.

MOTION: Mr. Shanklin moved to approve contribution adjustments as suggested, seconded by Mr. Hay. Motion carries.

Conference Attendance

Mr. Sullivan attended the Mountain States Institutional Investors Forum. Currency hedging came up and no one on the panel had a good answer for this. Also, Mr. Sullivan said that Mr. Fleming did a terrific job on the panel. Mr. Hay said the panel discussions were very valuable. Ms. Ladd attended the Goldman Sachs conference in New York in early April. General sentiment was very positive on the private markets space for bullish growth. Picking good managers is more important than ever. China presents an opportunity to get in before it gets too rich. Top 3 issues framing the debate include: proper form of capitalism and tax policy, policies that are good for the masses but bad for the economy, and 70% of the people who work at Goldman Sachs are millennials and Generation Z. They are focused on mission and purpose more than just compensation. Ms. Ladd also attended a CIO panel where the Alaska CIO focused on transparency with all assets listed on the website, any member of the public can call in for meetings, and download any of the materials. Mr. Shanklin talked about the greying of China and by 2050 there will be more than 330 million age 65+ Chinese and no younger population to take care of them. Important to think about short-term decisions and their long-term implications.

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 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.

LEGISLATIVE & BENEFITS COMMITTEE

Mr. Nelson reconvened the legislative and benefits committee to discuss implementation of the GRS recommendations. Discussion ensued regarding timing, discussions with JAC, and long-term implications. GRS will be in attendance at our September Board meeting for additional discussion and to finalize implementation of recommendations.

GOVERNANCE COMMITTEE

Governance & Operational Review Presentation – Funston Advisory Services

Ms. Ladd called the meeting to order and recognized Mr. Bleakley who introduced Mr. Miller and Mr. Harding from Funston Advisory Services. Funston conducted a Governance and Operational review of the defined benefit plan administration, investment operations and sponsorship of the 457 Plan. The purpose of the review was to ensure WRS' practices meet its fiduciary duties and to obtain an independent evaluation of six areas: legal and regulatory framework; governance framework; enterprise strategies and risks; investment operations; pension administration operations; and administrative operations. Today's presentation will focus on critical priority recommendations that are easy to implement.

Due to limited budgetary authority for the Board, the overall WRS level of staffing is thin and compensation levels are significantly lower, resulting in increased operational risk. Growth in key middle- and back-office capabilities has been much more limited and not kept up with portfolio complexity, resulting in operational risk.

Additional assessments include annual revisions to the asset allocation as a lagging practice and there are opportunities to improve performance measurement and reporting in virtually all departments. WRS should continue to advocate for the Legislature to grant the Board full authority for budgets, staffing, compensation and procurement. The Board should create a Human Resources/Compensation Committee to oversee the new incentive compensation program and other resources issues. The legislature should provide budgetary capabilities for the WRS Board to be more responsive to rapidly changing circumstances thorough: elimination of the requirement for legislative approval of the WRS budget, allow the Board to select the master custodial bank without seeking approval from the State Treasurer, allow WRS to fully manage its financial accounts, as stated in the WRA, without requiring all disbursements through the State Auditor's Office.

Additional recommendations covering the six areas listed above were highlighted in the Funston presentation. The presentation is available upon request.

The next agenda item is board appointments, candidates, and upcoming elections. Discussion ensued regarding qualifications, what statutory position will be available, and sending a list of suggested candidates to Governor Gordon. Ms. Ladd spoke to the elections topic and stated the Board Chair election could take place as soon as September or as late as February 2020.

The final topic for Governance committee is the budget discussion. Ms. Ryerson and Mr. Swindell reviewed the straw poll, WRS' initial budget exception requests for the legislature.

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.

INVESTMENT COMMITTEE

Guest Speaker – Mr. Joseph Zidle from Blackstone

Mr. Chapman introduced our guest speaker, Mr. Joseph Zidle from Blackstone. After introductions, Mr. Zidle gave his views on the tariff disagreement with China and presented on Blackstone's economic views for 2019. Mr. Zidle believes we are in a period of slow growth for

an extended period and central banks are still in a global monetary easing cycle. The presentation covered the ten surprises of 2019, global monetary easing cycle, U.S. soft landing, corporate profits slowing, driving the last leg of this cycle, other trends to watch, and life's lessons.

Mr. Masoudi reviewed recent investment activities. Pending investment decisions and general projects were reviewed.

Ms. Ladd paused to recognize Governor Gordon who joined us for a portion of the Investment Committee meeting.

Meketa 1st Qtr Review

Ms. Malone reviewed the world markets for the first quarter of 2019 and asset class returns. Allocation vs. targets and policy, compliance check, and overall performance summary were discussed. The 10-year return is 9.9%, which is over 80 basis points above WRS' benchmark. Ms. Malone stated that the 2008 recession has now dropped off the 10-year, drastically improving performance numbers for the public fund universe. The 1-year return is 4.3%, which beat the benchmark by almost 100 basis points.

Mr. Erickson reviewed individual manager performance. ValueAct outperformed the benchmark in the quarter by 1.7% and RS Small Cap Growth has been a leader in the portfolio since their addition in 2012 as they have outperformed by 3.4%. Specific manager performances were reviewed including TCI and Pershing Square's high performance in the 1-year and first quarter performance.

The next item on the agenda is discussion and approval of benchmarks for the performance compensation plan. Mr. Chapman reviewed the layers of protections we have in place to ensure accurate benchmarks and best practices. The investment committee, Board as a whole, investment consultant, and IFC are all involved with the oversight.

Ms. Malone reviewed the proposed benchmarks for each asset class: For U.S. Equity the benchmark is the Russell 3000 at 21.2% allocation. For Developed International Equity the benchmark is MSCI EAFE IMI Net Index at 14.2% allocation. Emerging Markets Equity is benchmarked against the MSCI Emerging Markets IMI Net Index at 8.6% allocation. Core Plus Fixed Income is benchmarked against the Bloomberg Barclays Aggregate at 5.0% allocation. U.S. Government Debt is benchmarked to the Bloomberg Barclays Government at 9% allocation. Opportunistic credit uses a benchmark of 50% Bloomberg Barclays High Yield, 50% Credit Suisse Leveraged Loans at 4.0% allocation. Marketable Alternatives benchmark is HFRI Fund of Funds Composite at 19.0% allocation. Private Equity is benchmarked against Cambridge

Associates Global All Private Equity (Qtr lag) at 4.5% allocation. Private Debt is benchmarked against Cambridge Associates Vintage Year Blended Benchmark (Qtr lag), at a 3% allocation. Private Real Assets will be benchmarked against the Cambridge Vintage Year Blended Benchmark (Qtr lag) at 6.0% allocation. Private Real Estate is benchmarked against the NCREIF ODCE at 3.5% allocation. Tactical cash uses the Barclays Short Treasury at 2.0% allocation. All private market assets will be rebalanced on a quarterly basis.

After further discussion, Ms. Ladd turned to the procedural items the Board needs to attend to. The Board needs to approve the benchmark prior to May 31, 2019.

MOTION: Mr. Sullivan moved to approve the benchmark as proposed on page 61-63 of the Board materials. Seconded by Mr. Ceballos. Motion carries.

MOTION: Mr. Sullivan moved approval to the changes to Appendix I to align with the new benchmarks. Seconded by Ms. Watson. 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.

