

DRAFT

MINUTES

December 14, 2017

JOINT MEETING OF THE
Employee Trust Funds (ETF),
Teachers Retirement (TR),
and Wisconsin Retirement (WR) Boards
State of Wisconsin



Location:
State Revenue Building – Events Room
2135 Rimrock Road, Madison, WI

ETF BOARD MEMBERS PRESENT:

- | | |
|----------------------------|--|
| Wayne Koessler, Chair | Roberta Rasmus |
| John David, Vice Chair | Jim Underhill (designee of Stacey Rolston) |
| Robert Niendorf, Secretary | Victor Shier |
| William Ford | Bob Ziegelbauer |
| Michael Langyel | |
| Leilani Paul | |

TR BOARD MEMBERS PRESENT:

- | | |
|-----------------------------|---------------|
| Tom Pedersen, Vice Chair | Craig Hubbell |
| Brent Grochowski, Secretary | Dennis Murphy |
| Sandra Claflin-Chalton | Allison Pratt |
| Gary Epping | Kim Schroeder |
| Chris Heller | |

WR BOARD MEMBERS PRESENT:

- | | |
|---------------------------|------------------|
| Wayne Koessler, Chair | Scott Nordstrand |
| John David, Vice Chair | Herb Stinski |
| Steven Wilding, Secretary | Julie Wathke |

BOARD MEMBERS NOT PRESENT:

- | | |
|------------------------|----------------------------------|
| Ted Nickel, WR Board | Mary Von Ruden, ETF and WR Board |
| Dave Schalow, TR Board | David Wiltgen, ETF and WR Board |
| Robin Starck, TR Board | |

Board	Mtg Date	Item #
JM	6.21.18	1

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Office of the Secretary:

Bob Conlin, Secretary
John Voelker, Deputy Secretary
Tarna Hunter, Director of Strategic
Engagement and Government
Relations
Cheryllynn Wilkins, Board Liaison

Division of Retirement Services:

Matt Stohr, Administrator
Anne Boudreau, Deputy Administrator

OTHERS PRESENT:

ETF Division of Management Services:

Wes Gudenkauf, Ryan Perkins, Dana
Perry, Lori Pierick

ETF Division of Retirement Services:

Roger Fletcher, Jim Guidry, Julie
Keal, Gene Janke

ETF Division of Trust Finance:

Cindy Klimke-Armatoski

ETF Office of Communications:

Nancy Ketterhagen, Mark Lamkins

ETF Office of Internal Audit: Michelle

Hoehne, Yikchau Sze

ETF Office of Legal Services (OLS):

Monica Anderson, Diana Felsmann,
David Nispel, Mary Richardson

ETF Office of Policy, Privacy &

Compliance: Steve Hurley, Laura
Patterson

ETF Office of the Secretary: Jennie

Bauernhuber, Pam Henning

Department of Administration: Derek
Sherwin

Gabriel, Roeder, Smith & Company
(GRS): Jim Anderson, Mark Buis,
Brian Murphy

Legislative Audit Bureau (LAB): Emily
Pape

Legislative Fiscal Bureau (LFB): Rachel
Janke

State of Wisconsin Investment Board
(SWIB): Chris Preisler, Rick Smirl,
Michael Williamson

Others: Hickory Hurie, Sharon
Hutchinson

Wayne Koessl, Chair, ETF and WR Boards, called the Joint Meeting of the ETF Board, TR Board and WR Board to order at 9:00 a.m.

CONSIDERATION OF MINUTES OF PREVIOUS MEETING

MOTION: Mr. David moved to approve the September 21, 2017, minutes of the Joint Meeting of the ETF, WR, and TR Boards, as submitted by the Board Liaison. Ms. Rasmus seconded the motion, which passed unanimously on a voice vote.

ANNOUNCEMENTS

Mr. Stohr made the following announcements:

- Welcomed Jim Underhill, designee for Stacey Rolston.
- There were seven nominations for the Teachers Retirement Board Election for the Annuitant Teacher Member seat, currently held by Dennis Murphy; therefore, there will be an election. The TR Board election to fill the Technical College Teacher Member seat, currently held by Tom Pedersen, received one qualified nomination; therefore, no election will be held.
- Two volunteers are needed from the TR Board for the Election Certification Committee. Mr. Grochowski and Ms. Claflin-Chalton volunteered to serve on the committee.
- The 2016 Comprehensive Annual Financial Report (CAFR) is available in print and on ETF's website.
- There will not be separate TR Board and WR Board meetings today.
- Introduced Jim Guidry, new Director of the Benefit Services Bureau. He replaces Deb Roemer, who recently retired.

EDUCATIONAL TOPICS

State of Wisconsin Investment Board (SWIB) Update

After 41 years of public service -- including 21 total years under the WRS -- Michael Williamson is retiring as the Executive Director of SWIB, a post he has held since 2012. Mr. Williamson introduced his successor, Rick Smirl, and provided an overview of Mr. Smirl's extensive financial background and connections to Wisconsin.

Mr. Williamson (Ref. JM | 12.14.17 | 3A) provided an overview of SWIB's investment performance through 2017 for both the Core and Variable Trust Funds. This included calendar-year-to-date returns of 14.7% for the Core Fund and 21.5% for the Variable Fund. Even with the positive returns, Mr. Williamson emphasized that we live in volatile times and the market is due for a correction.

Mr. Williamson stated that SWIB's investment strategy is designed first to protect members from another major downturn and to lessen the down turn, keep contribution rates stable and then generate reasonable returns over the years. SWIB's investment strategy is disciplined, balanced and focused on long-term results, he concluded.

Mr. Williamson also provided a breakdown of the Core Fund's asset allocation, explaining that the "right" asset allocation requires striking a balance between taking *too much* risk and taking *enough* risk to generate expected returns of 7.8% -7.9% over the next 30 years. SWIB works closely with ETF and GRS to explore future allocation changes based on shifting market conditions.

Mr. Williamson discussed SWIB's new integrated platform, comprised of leading technologies, services and processes. This allows SWIB to remain at the forefront of the industry. SWIB saved \$79 million with the new system in the first year of operation.

Mr. Williamson stated that SWIB continues to save money for the WRS by moving assets from external management to internal management and keeping SWIB's total cost lower than its peer group. For example, SWIB costs were 43.1 cents per \$100, compared to the median 55.6 cents per \$100 for other large U.S. public pension funds. SWIB's cost to internally manage assets is 37% of outside manager costs. This can only be accomplished by hiring and retaining highly qualified staff.

Overall, Mr. Williamson believes achieving a 7.2% rate of return over the long-term is obtainable, and SWIB is positioned to meet the challenging financial environment and keep the WRS financially healthy.

Setting Investment Return Assumptions and WRS Analysis of Investment Return vs. Risk

Mr. Murphy reviewed the process of setting the WRS investment return assumption and reviewed associated trends and factors, including mortality improvements and other demographic factors, and investment risk.

Mr. Murphy explained the WRS uses a 3-year experience study that investigates economic and demographic assumptions. GRS's process for setting actuarial assumptions 1) research and adopt an expected price inflation assumption, 2) formal investment forecast 3) develop a range of reasonableness, and 4) consider range of reasonableness and professional judgement. Assumptions selected are mainly based on economic capital market expectations using the plan's target asset allocation. Mr. Murphy provided examples of utilization of the assumption setting approach.

Mr. Anderson discussed how GRS and SWIB work together to review and set the asset allocation of the WRS trust funds. This is evidenced by 1) stable and affordable contribution rates, 2) the plan usually generates dividends and avoids takebacks and 3) maintains a fully funded retiree reserve. Mr. Anderson highlighted the changes from the 2015 experience study. He also explained the meaning of Retiree Reserve and Dividend Reserve and the probability of Dividend Reserve depletion.

Mr. Buis discussed the dividend reserve and the retiree reserve, offering a range of worse-case scenarios and how these scenarios might affect contribution rates. Mr. Buis provided projections/observations if the expected rate of return is too low or too high. At the current asset allocation, the probability of dividend reserve depletion is low, he stated.

SWIB Appointee Annual Update

Teachers Retirement Board

Ms. Claflin-Chalton provided an update regarding her appointment and role as a SWIB trustee. Ms. Claflin-Chalton described the work of the four standing committees: Audit, Compensation, Benchmarking and Strategic Planning. The Strategic Planning and Corporate Governance Committee has a broad scope of duties with a focus on long-term

planning as well as oversight on all board policies and procedures. The chair of Corporate Governance Committee has extensive knowledge of governance and has done a scrupulous review of all governance issues. Over the last two decades, SWIB has expanded current asset classes, in-house investing and new and innovative investment strategies. With these expansions and changes, a more comprehensive Trustee Governance Manual was developed. Additionally, revised investment guidelines were approved in 2017 by the Board of Trustees to serve as a more cohesive and integrated set of guidelines.

Wisconsin Retirement Board

Mr. Conlin provided an update regarding his appointment and role as a SWIB trustee. Mr. Conlin discussed the work of the search committee, which resulted in the hiring of Rick Smirl as the new Executive Director. The committee of trustees, including Mr. Conlin, were very pleased with the large pool of well-qualified candidates. Mr. Conlin is confident that Mr. Smirl will continue SWIB's sound funding principles, which will ensure the WRS remains strong for its members.

Modernization of Information Technology (IT) Systems

Mr. Voelker (Ref. JM | 12.14.17 | 3D) provided an update on the postponement of Benefit Administration System (BAS) Rollout 2 implementation date from January 1, 2018. He stated that Rollout 2 will be much more extensive than Rollout 1, as it will involve receiving payroll information from employers. The decision to postpone Rollout 2 was made based on implementation criteria established for quality, performance and security. He also noted that the performance criteria in the vendor contract was not met.

Mr. Voelker said that, among other things, ETF reviewed the product and project team structure, and a new plan was formed. By mid-2018, ETF will decide whether the product delivered will be ready for deployment on January 1, 2019. Mr. Voelker provided a phased rollout plan through 2019. Staff and employers are generally pleased with the decision to defer the rollout for one year.

OPERATIONAL UPDATES

Retirement Services Update

Ms. Boudreau referred Board members to the Retirement Services Update memo (Ref. JM | 12.14.17 | 4A), which shows the 2017 third quarter statistics compared to third quarter 2016. ETF had six vacancies in the call center in 2017, which led to increased wait times for customers. ETF has since filled those positions. ETF has also been making a concerted effort to discontinue walk-in service and encourage members to make appointments. This approach will address logistical issues presented by the move to the new building.

Ms. Boudreau also discussed the Retirement Services Scorecard and explained the performance ratings.

Legislative Update

Ms. Hunter referred the Board to the memo (Ref. JM | 12.14.17 | 4B). Since the last meeting, ETF proposed five bills that make small substantive changes. Last week the Law Revision Committee met and agreed to introduce these bills on behalf of ETF.

Another bill being considered by the Legislature provides that county jailers would be classified as protectives; employees would pay the extra expense of being categorized as protective. Under the bill, the employees will have a non-revocable, one-time choice whether to be classified as protective (or not) and pay the extra cost.

Finally, the Joint Finance Committee added a provision to the state's 2017-2019 budget that would require an audit of the Group Insurance Board.

Mr. Stohr referred the Board to the remaining operational update items (Ref. JM | 12.14.17 | 4C, 4D, 4E, 4F, 4G).

ADJOURNMENT

MOTION: Mr. Langyel moved to adjourn the meeting. Ms. Paul seconded the motion, which passed unanimously on a voice vote.

The meeting adjourned at 11:30 a.m.

Date Approved: _____

Signed: _____

Robert Niendorf, Secretary
Employee Trust Funds Board