

DRAFT

MINUTES

March 24, 2022

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



Location:

Hill Farms State Office Building – Room N108
4822 Madison Yards Way, Madison WI 53705

ETF BOARD MEMBERS PRESENT:

Wayne Koessl, Chair
John David, Vice Chair
William Ford, Secretary
Stephen Arnold
Chris Heller
Katy Lounsbury

Amy Mizialko (Teleconference)
Leilani Paul
Roberta Rasmus
David Schalow
Steve Wilding

TR BOARD MEMBERS PRESENT:

Chris Heller, Vice Chair
Adam Balz
James Langkamp
Amy Mizialko (Teleconference)

Allison Pratt
Anton Przybylski Jr.
David Schalow

WR BOARD MEMBERS PRESENT:

John David, Chair
Steven Wilding, Vice Chair
Julie Wathke, Secretary
Nathan Houdek

Wayne Koessl
Mary Von Ruden

BOARD MEMBERS NOT PRESENT:

Esther Ancel, TR Board
Malika Evanco, ETF Board

Brent Grochowski, TR Board
Herb Stinski, WR Board

Board	Mtg Date	Item #
JM	12.08.22	2

PARTICIPATING EMPLOYEE TRUST FUNDS STAFF:

Office of the Secretary:

John Voelker, Secretary
Shirley Eckes, Deputy Secretary
Tarna Hunter, Director of Strategic
Engagement and Government Relations
Cherylynn Wilkins, Board Liaison

Division of Retirement Services:

Matt Stohr, Administrator

Division of Trust Finance (DTF):

Cindy Klimke-Armatoski, Chief Trust
Financial Officer

Office of Communications: Mark

Lamkins, Director

OTHERS PRESENT:

ETF Division of Management Services:

Bonnie Cyganek, Patrick Hughes, Jim
Kasombo

ETF Division of Trust Finance (DTF):

Amelia Slaney

ETF Division of Retirement Services:

Anne Boudreau, Roger Fletcher, Jim
Guidry

ETF Office of Communications:

Nancy Ketterhagen

ETF Office of Internal Audit:

Shellee Bauknecht, Michelle Hoehne,
Yikchau Sze, Amanda Williams

ETF Office of Legal Services (OLS):

Diana Felsmann

ETF Office of Policy, Privacy & Compliance:

Steve Hurley, Laura Patterson

ETF Office of the Secretary:

Pam Henning, Kimberly Schnurr,
Kathryn Young

Gabriel, Roeder, Smith & Company (GRS):

Jim Anderson, Mark Buis, Rich Koch,
Brian Murphy

State of Wisconsin Investment Board:

Rochelle Klaskin and Anne-Marie Fink

State Engineering Association:

Bob Schaefer

Mr. Koessler, Chair, ETF Board, called the Joint Meeting of the ETF Board, TR Board, and WR Board to order at 9:01 a.m.

ANNOUNCEMENTS

Mr. Stohr provided the following announcements:

- Welcomed everyone back to the first in-person board meeting since December 2019;
- Reviewed the meeting schedule of the multiple retirement board and committee meetings including the TR Board and the WR Board running concurrently following the Joint Meeting; and
- Introduced Kimberly Schnurr, the new board liaison.

CONSIDERATION OF MINUTES OF PREVIOUS MEETING

MOTION: Mr. David moved to approve the December 9, 2021, minutes of the Joint Meeting of the ETF, WR, and TR Boards, as submitted by the

Board Liaison. Ms. Paul seconded the motion, which passed unanimously on a voice vote.

EDUCATIONAL TOPICS

State of Wisconsin Investment Board (SWIB) – 2021 Wisconsin Retirement System (WRS) Investment Performance and 2022 Outlook

Ms. Klaskin and Ms. Fink stated that the WRS investment performance had a strong 2021 with \$147.2 in total assets. SWIB takes a long-term view and outperformed its benchmark due to active management, which provides additional monies to the WRS. SWIB's investment management has added value to the WRS trust funds of more than \$2.2 billion over benchmark returns the last five years. SWIB's costs are 9.3 bases points (bps) (\$103 million) lower than the U.S. public fund average and 1.4 bps (\$15 million) lower than the CEM Benchmark average. SWIB's cost were 6.2 bps higher than its peer group, due to relatively higher hedge fund performance fees. However, investment performance of SWIB's hedge fund strategy was in the top 10 percent of its peer group in 2020.

SWIB is cost effective, saving \$1.1 billion vs. its peers from 2011-2020. SWIB is able to manage assets internally at considerably lower costs than if those same assets were managed externally. Peers are following SWIB's internal management model.

Ms. Fink discussed changes in the policy portfolio asset allocations including increasing its allocation to private equity asset class to 12% and lowering its allocation to real estate asset class to 7% to recognize current and future market conditions. SWIB removed the multi-asset asset class within its policy allocation model but kept the underlying investment strategy as part of its active risk and return budget. They also discussed private equity and fixed income investment strategies to diversify risk given the volatile market, including investing in treasury inflation protection securities.

With the active management and the diversifications, SWIB has a greater risk challenge than in the past to obtain the 6-7% returns. Inflation is high (above 3%), and with the Ukraine crisis, inflation will be a greater issue.

Wisconsin Retirement System 39th Annual Valuation of Retired Lives - December 31, 2021

Mr. Murphy, Mr. Anderson, and Mr. Buis from Gabriel, Roeder, Smith Company (GRS) presented on the Retired Lives (Ref. JM | 3.24.22 | 3B).

Mr. Murphy reviewed how the system operates and the differences between the Core Fund and the Variable Fund. More assets and participants are in the Core Fund. He explained in greater detail the smoothing mechanism within the Core Fund. Asset smoothing has worked well historically but could not prevent negative dividends in 2009 – 2013.

Mr. Murphy reviewed the ratio of assets compared to liabilities and how that equates to the dividends. He also discussed demographic information about the WRS' participants and an

overview of WRS assets and liabilities, including a summary of the number of annuitants, annuities paid, and fund balances for both the Core and Variable Funds.

It is undesirable for retirees in the Core Fund to experience wide swings in monthly benefits from year to year (especially downward swings) as a result of swings in year-over-year investment earnings. Smoothing the impact over five-years has worked well historically. Smoothing was calculated with a 7.0% investment return assumption this valuation, and GRS will use 6.8% next year. Due to smoothing via a Market Recognition Account (MRA), as of December 31, 2021, there are approximately \$17.7 billion in deferred asset gains that will be shared by annuitants, active members, and employers between 2022-2025.

Mr. Anderson discussed the dividend liability, which is the liability for dividends remaining or the value of all the previously granted dividends. As allowed by statutes, past dividends distributed to retirees could be taken back to “their benefit floor”, or the original retiree’s benefit amount as a mechanism to maintain the financial wellness of the WRS. The dividend liability has continued to grow as a result of strong annual investment earnings and is at \$14.2 billion as of 12/31/2021. Because of the \$17.7 billion in deferred asset gains, the risk of needing to take back dividends in the near future is relatively low. Retiree assets (on MRA basis) would need to decrease by 20.3% to deplete the existing dividend liability.

Mr. Buis presented a brief summary of the WRS stress testing results. The stress testing focused on probability of depleting the dividend liability as well as the WRS funding status. Overall, results are similar to 2019 study. For 2021, there is a slightly lower probability of depleting dividend liability due to increase in dividend liability (as percentage of total liability) and there is a wider range of standard deviations, or risk in achieving a targeted rate of return. The results confirmed the actuarial assumed rate of return target of 6-7% is the best scenario, providing for positive return with appropriate downside protection.

Core Fund Annuity Adjustments and Effective Rate Projections

Ms. Klimke-Armatoski (Ref. JM | 3.24.22 | 3C) explained the current value of annuities, comparing the annuity increases versus the inflation or the Consumer Price Index. She presented information regarding projections for Core Fund annuity adjustments and effective rates, based on varying investment return possibilities. The projections detailed how the current and possible investment gains/losses would be recognized in the next five years and the effect on the dividend liability (previously granted post-retirement annuity adjustments) using a 6.8% investment return.

OPERATIONAL UPDATES

Member Engagement Survey Results

Mr. Lamkins provided the results of the member engagement survey of active employees and retirees. (Ref. JM | 3.24.22 | 4A) Surveys were sent to both active employees and retirees. ETF received 19,313 responses or 10%, which is a typical response rate. Overall, ETF's Engagement Score (ES) decreased. However, compared to its peers, ETF had the second highest ES with higher engagement among those members closest to retirement. ETF scored higher with member satisfaction than the peer average when asked the following question:

- How satisfied are you with ETF overall?
 - I know ETF Operates in my best interest.
 - ETF sends communications that are relevant to my needs.
 - ETF acts ethically.

When asked how ETF could improve, responses were similar to previous year's survey responses:

- Online account access.
- More targeted communications.
- Improved investment performance and transparency on investments.
- Improved customer service.

There were some definite improvements since the previous survey, including

- More awareness of who ETF is and what ETF does.
- Difficulty in getting an appointment was rarely mentioned in the 2021 survey.

Legislative Update

Ms. Hunter highlighted a few of the legislative proposals that affect ETF (Ref. ETF | 3.24.22 | 4B). The Legislative Session ended on March 9, and two bills passed that affect ETF and the benefit programs it administers. Even though it does not directly affect ETF, one allows local employers reimbursement for increased duty disability premiums if an employee incurs an injury while performing duties as a member of an urban search and rescue task force. The other bill allows law changes recommended by ETF. The rest of the bills are likely "dead" and will need to be reintroduced next session if the Legislature intends to act on them.

The Board asked about the status of Milwaukee County/Milwaukee City joining the WRS. ETF's position is that they will need to "come in" like every other employer to protect the integrity of the WRS. A bill was not introduced this session despite discussion.

Mr. Koessl referred the Board to the remaining operational update items (Ref. JM | 03.24.22 | 4C and 4J) and offered that staff were available to answer questions.

FUTURE ITEMS FOR DISCUSSION

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Mr. Stohr reminded the boards of the Active Lives Valuation in June.

ADJOURNMENT

MOTION: Ms. Von Ruden moved to adjourn the meeting. Ms. Rasmus seconded the motion, which passed unanimously on a voice vote.

The meeting adjourned at 11:28 a.m.

Date Approved: _____

Signed: _____

Steve Wilding, Secretary
Employee Trust Funds Board