

DRAFT

MINUTES

June 8, 2017

Deferred Compensation Board
State of Wisconsin

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



BOARD MEMBERS PRESENT:

Ed Main, Chair
Gail Hanson, Vice Chair (via
teleconference)

Art Zimmerman, Secretary
Jason Rothenberg
John Scherer

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Bob Conlin, Secretary
John Voelker, Deputy Secretary
Deferred Compensation Program:
Shelly Schueller, Director
Division of Retirement Services:
Matt Stohr, Administrator

Office of Legal Services (OLS):
David Nispel, General Counsel
Diana Felsmann, Attorney
Office of the Secretary:
Cherylynn Wilkins, Board Liaison

OTHERS PRESENT:

ETF Division of Management Services:
Ryan Perkins, Dana Perry
ETF Division of Trust Finance: Nanette
Strennen, Michelle Thode
ETF Office of Legal Services (OLS):
Amanda Postel
ETF Office of the Secretary:
Pam Henning

Coleman & Williams, Ltd: Bill Coleman,
Akash Shah
Empower Retirement: Emily Lockwood
Eaton Vance - Calvert: Joe Hudepohl,
Erik Saarinen
Federated Investors: Andrew Kirschler,
Richard Recker
Great-West Financial (GWF): Marilyn
Collister, Bill Thornton

Mr. Main, Chair, called the meeting of the Deferred Compensation Board (Board) to order at 1:01 p.m.

Board	Mtg Date	Item #
DC	11.6.17	2

ANNOUNCEMENTS

Ms. Schueller made the following announcements:

- Welcomed Mr. Jason Rothenberg to the Board
- Ms. Hanson will be joining today's meeting via teleconference.

MINUTES

MOTION: Mr. Zimmerman moved to accept the March 9, 2017 Open Session minutes, as submitted by the Board Liaison. Mr. Scherer seconded the motion, which passed unanimously on a voice vote.

DEFERRED COMPENSATION INVESTMENT COMMITTEE (DCIC)

Charter Review

Ms. Schueller proposed changes to the DCIC charter (Ref. DC | 6.8.17| 3A) to include the committee keeping formal minutes and formally appointing a Chair and Secretary.

Membership Appointment

Ms. Schueller said the Board needs to nominate a member to the DCIC, due to the departure of John Nelson. The DCIC is comprised of two Board members designated by the Board.

MOTION: Mr. Zimmerman moved to appoint Jason Rothenberg to the Deferred Compensation Investment Committee. Mr. Scherer seconded the motion, which passed unanimously on a voice vote.

MOTION: Mr. Scherer moved to revise the Investment Committee Charter as presented and to keep formal meeting minutes for the DCIC going forward. Mr. Zimmerman seconded the motion, which passed unanimously on a voice vote.

MOTION: Mr. Zimmerman moved to elect the following slate of officers for the Deferred Compensation Investment Committee, Edward Main as Chair and Jason Rothenberg as Secretary. Mr. Scherer seconded the motion, which passed unanimously on a voice vote.

INVESTMENT POLICY STATEMENT

Ms. Schueller referred the Board to the memo and proposed draft revisions (Ref. DC | 6.8.17 | 4) in the Investment Policy Statement (IPS). The IPS reflects the Board's philosophy regarding investment options, why various options are included, and when, why and how options might be removed. As a result of Board discussions from the Large Cap Value Fund search, ETF recommends adding, "Manager Tenure not less than 3 years," to the IPS and other minor substantive changes.

MOTION: Mr. Scherer moved to revise the Investment Policy Statement as presented. Mr. Zimmerman seconded the motion, which passed unanimously on a voice vote.

2016 FINANCIAL STATEMENTS AUDIT REPORT

Mr. Coleman and Mr. Shah of Coleman & Williams, LTD (Ref. DC | 6.8.17 | 5) discussed the firm's findings regarding the WDC's 2016 financial statements. Coleman & Williams indicated the audit did not have any findings or make any adjustments. WDC's 2016 financial statements present fairly, in all material respects, the financial status of the Plan as of December 31, 2016, and the changes in its financial status for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

The audit did not disclose any significant deficiencies in the WDC. Pending Board acceptance of the draft audit report, Coleman & Williams will issue a final report and a letter to the Board.

Ms. Hanson noted a difference in administrative expenses that were paid to the fund administrators exclusive net of the revenue sharing, which was new in 2016. The Board requested adding clarification to the final audit report regarding the changes in administrative expense fees.

MOTION: Ms. Hanson moved to accept the 2016 Financial Statements Audit as presented pending clarification with additional explanation added regarding net administrative expenses and the change in reimbursements from certain investment options from 2015 and 2016. Mr. Zimmerman seconded the motion, which passed unanimously on a voice vote.

FIDUCIARY TRAINING

Ms. Schueller introduced Ms. Collister, senior director of legislative and regulatory affairs with Great West Financial (GWF). Ms. Collister presented information on identifying plan fiduciaries, fiduciary responsibilities for the plan and Board members, fiduciary best practices and limiting fiduciary liability.

Ms. Collister stated the Board is a fiduciary because it sets criteria and makes decisions on behalf of others. Basic fiduciary principles are loyalty, prudence, ensuring diversity of plan assets, monitoring funds for providers and making changes when warranted and following the terms of plan documents. All decisions must be in the best interest of the participants only and without conflict of interest.

A fiduciary must document all processes, monitor chosen investments and operate and administer the plan in compliance with all plan documents. To reduce potential liability against plan fiduciaries, the plan should have a single recordkeeper, provide ongoing

education and communication to plan participants, offer a broad range of investments and advise plan participants so they can make informed decisions.

Ms. Collister suggested the Board may wish to perform a self-audit of its plan documents and compliance of those documents with federal requirements. The Board asked ETF to complete this task and requested a list of WDC fiduciaries.

LARGE CAP VALUE FUND DECISION

Ms. Schueller referred the Board to the memo (Ref. DC | 6.8.17| 7) and the 5-year performance graph provided by Mr. Thornton.

Mr. Thornton provided a response to the Board's inquiry of American Beacon at the March meeting. American Beacon is reducing the fee on its Collective Investment Trust (CIT) to 55 bps. The Board discussed the benefits and disadvantages of CITs. One difference between mutual funds and a CIT is that the Board must have a contract directly with American Beacon.

The funds under consideration are: American Beacon Bridgeway Large Cap Value fund, JP Morgan Equity Income fund and the Vanguard Equity-Income fund. Mr. Thornton and the Board discussed the benefits and possible concerns associated with each of the three funds and the differences and benefits of choosing one fund over the other. With strong contemplation over fees, the Board also considered performance consistency and the ownership of each fund in its decision.

MOTION: Mr. Zimmerman moved to add American Beacon Bridgeway CIT as the Large Cap Value investment option and delegate the authority to the Board Chair for final review and approval of a contract with this Large Cap Value Fund. Mr. Scherer seconded the motion, which passed unanimously on a voice vote.

APPLETON GROUP'S REQUEST FOR CERTAIN CHANGES TO WISCONSIN ADMINISTRATIVE CODE CHAPTER ETF 70.05

Ms. Schueller shared the letter from the Appleton Group and ETF's response (Ref. DC | 6.8.17| 8).

Mr. Main shared his concern about multiple recordkeepers and putting the Board at risk of being challenged for not performing its fiduciary responsibility. Ms. Hanson commented about the Board's fiduciary duty being for the sole interest of the plan participants and not for the interest of any municipalities. Ms. Hanson also shared concerns that offering conflicting fund options, asset classes could cause confusion to participants and increase cost.

WISCONSIN DEFERRED COMPENSATION PROGRAM CONTRACT UPDATE

Ms. Felsmann and Mr. Nispel provided a status update on the revisions to the WDC Program contract (Ref. DC | 6.8.17 | 9). Besides restructuring the contract and

incorporating the numerous amendments, the contract was updated to include ETF's standard terms and conditions, including cyber security language and, with the future state benefit administration system (myETF) in mind, member single sign-in access. Negotiations between ETF and Empower have begun; the expectation is to bring the final contract to the Board for consideration and approval.

WISCONSIN PUBLIC RECORDS TRAINING

Mr. Nispel referred board members to the PowerPoint (Ref. DC | 6.8.17 | 10). He went through the Department of Administration's training and discussed the public records laws. Mr. Nispel discussed how to recognize what is and what is not a public record, how to recognize a public records request and how to handle the request appropriately. Board members are advised to contact ETF's Office of Legal Services if further clarification is needed or if they receive a public records request. Mr. Nispel reviewed the five-question assessment and answers at the end of the training with the Board.

INVESTMENT PERFORMANCE AND EXPENSE RATIO REVIEW AS OF MARCH 31, 2017

Mr. Thornton provided an overview of the Investment Fund Performance and Expense Ratio Review for the period ending March 31, 2017 (Ref. DC | 6.8.17 | 11). Mr. Thornton stated that over the first quarter, the investment options performed well. Mr. Thornton noted the Calvert fund rebounded nicely in the first quarter and that T.Rowe Price Mid-cap continues to do very well. Mr. Thornton noted that, in the fourth quarter, the Vanguard Long-Term Investment Grade fund did not perform well, when compared to the market benchmarks -- but it came back in line with that category during this most recent quarter. Total WDC assets are just under \$4.5 billion with 60,289 participants. Funds overall have done well on an absolute and relative basis.

CALVERT: SOCIAL INVESTMENT EQUITIES FUND PERFORMANCE REVIEW AND INDEX OPTIONS

Mr. Hudepohl and Mr. Saarinen (Ref. DC | 6.8.17 | 12) provided an overview of Eaton Vance and its purchase of Calvert Research and Management on December 30, 2016. Mr. Hudepohl discussed the responsible investing philosophy of Calvert, which will remain under Eaton Vance, and outlined its history of consistent growth and stability in earnings. Eaton Vance will continue the same socially responsible investments through disciplined analysis of environmental, social and governance factors. Mr. Saarinen shared the index fund comparison of the Calvert Equity Portfolio to other funds. The impact of responsible investing must include social impact that is material, measurable and reportable.

FEDERATED U.S. GOVERNMENT SECURITIES 2-5 YEAR FUND: PERFORMANCE REVIEW

Mr. Recker (Ref. DC | 6.8.17 | 13) provided an overview of Federated U.S. Government Securities 2-5 Year Fund and its operations. Mr. Kirschler discussed the fund's extremely conservative portfolio, which holds approximately 83.5% in U.S. Treasury Securities.

OPERATIONAL UPDATES

Ms. Schueller referred the Board to the operational updates memo (Ref. DC | 6.8.17 | 14), highlighting the WDC participation map provided by Empower and the Year in Review report. Fifty percent of state employees are currently participating in the WDC. Empower and outreach staff have been busy with the roll-out of a valuable new service for members, the retirement readiness check-up.

FUTURE ITEMS FOR DISCUSSION

Ms. Schueller reiterated the following items will be appropriate for future agenda topics: an update on large cap value fund addition, a compliance overview or self-audit, and providing a WDC fiduciary list. In addition, the Board should anticipate the scheduling of an additional special Board meeting to discuss the Administrative Services Contract.

ADJOURNMENT

MOTION: Mr. Zimmerman moved to adjourn. Mr. Scherer seconded the motion, which passed unanimously on a voice vote.

The Board adjourned at 3:22 p.m.

Date Approved: _____

Signed: _____
Arthur M. Zimmerman, Secretary
Deferred Compensation Board