

DRAFT

MINUTES

November 6, 2017

Deferred Compensation Board
State of Wisconsin

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



BOARD MEMBERS PRESENT:

Ed Main, Chair
Art Zimmerman, Secretary

Jason Rothenberg
John Scherer (via teleconference)

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Office of the Secretary:
Bob Conlin, Secretary
John Voelker, Deputy Secretary
Deferred Compensation Program:
Shelly Schueller, Director
Bureau of Information Technology: Trae
Matte, Chief Information Security
Officer

Division of Retirement Services:
Matt Stohr, Administrator
Office of the Secretary:
Cheryllynn Wilkins, Board Liaison
Division of Trust Finance: Cindy Klimke

OTHERS PRESENT:

ETF Division of Management Services:
Bonnie Cyganek, Ryan Perkins
ETF Office of Legal Services (OLS):
Diana Felsmann
ETF Office of the Secretary: Pam
Henning, Tarna Hunter
Eaton Vance: Anthony Eames (Via
teleconference) Sue Brengle and Jim
McInerney

Empower Retirement: Emily Lockwood
and Robert Dwyer, Jim Gearin (via
teleconference)
Fidelity: Ron Henry (via teleconference)
Great-West Financial: Bill Thornton
SVP Security: Jeff Knight (via
teleconference)
Vanguard: Bob Lawler (via
teleconference)

BOARD MEMBERS ABSENT:

Gail Hanson, Vice Chair

Board	Mtg Date	Item #
DC	3.xx.18	2

Mr. Main, Chair, called the meeting of the Deferred Compensation Board (Board) to order at 1:09 p.m.

ANNOUNCEMENTS

Ms. Schueller made the following announcements:

- Jason Rothenberg and Art Zimmerman were reappointed to the Board.
- American Beacon Bridgeway Large Cap Value CIT will open to participants in mid-November.

MINUTES

MOTION: Mr. Zimmerman moved to accept the October 16, 2017, Open Session minutes, as submitted by the Board Liaison. Mr. Rothenberg seconded the motion, which passed unanimously on a voice vote.

2018 MEETING DATES

Ms. Schueller directed the Board to the memo with Board meeting dates for 2018 (Ref. DC | 11.6.17| 3). Board meetings will be held on Thursdays during 2018. Dates were selected to avoid conflicts with other meetings and professional organizational conferences. If any of these dates are problematic, please contact the board liaison, Cherylynn Wilkins.

DEFERRED COMPENSATION INVESTMENT COMMITTEE (DCIC)

September 19, 2017, Draft DCIC Meeting Minutes

As discussed at a previous Board meeting, formal DCIC meeting minutes will now be prepared after each DCIC meeting. Draft DCIC minutes will be presented to the Board as an update but will remain in draft format until approved at the next DCIC meeting.

Socially Responsible Fund: Calvert Equity Fund versus Calvert Index Fund

Mr. McInerney and Ms. Brengle thanked the Board for including the Calvert Equity Fund as the Wisconsin Deferred Compensation (WDC) Program's socially responsible option in the investment lineup for the past 14 years.

They updated the Board regarding the acquisition of Calvert Investment Management Inc. by Eaton Vance, and remarked that there have been no notable changes.

Mr. Eames discussed his firm's four pillars of responsible investing, which are: performance, research, engagement and impact. (Ref. DC | 11.6.17| 4B) He explained how the firm identifies and weighs the environmental, social and governance (ESG) factors based on financial and social impact. Calvert's research process embeds the ESG risks of certain types of businesses which include, for example, alcohol, gambling, tobacco, weapons, ammunition and companies that mistreat and abuse animals.

Eaton Vance uses a sustainable and responsible investment approach that evaluates companies according to traditional financial analysis coupled with the principles of responsible investing. The presentation provided a comparison between the Calvert Equity Fund and the Calvert US Large Cap Core (LCC) Responsible Index Fund. The DCIC recommended that the Board move to the Index fund because of the substantially lower expense ratio and the fact that the Calvert Equity Fund is an actively managed investment strategy which selects from stocks that pass an Environmental, Social and Governance (ESG) screen using a wide range of factors unrelated to ESG performance. The Board expressed some concern about mapping participants in the existing Calvert Equity Fund, however, this was alleviated by the fact that the Fund's holdings are a subset of the holdings in the LCC Index Fund and Participants desiring to stay with the Calvert Equity Fund can access the original Calvert fund through the Schwab window.

MOTION: Mr. Rothenberg moved to convert the Calvert Equity Fund to the Calvert U.S. Large Cap Core Socially Responsible Index Fund and “map” participants respectively. Mr. Scherer seconded the motion, which passed unanimously on a voice vote.

Collective Investment Trust (CIT)

Mr. Henry explained the opportunity the Board has to move the Fidelity Contrafund to a CIT. The Contrafund CIT has the same investment philosophy as the mutual fund version of Contrafund, but is offered at a lower cost. The Contrafund mutual fund has an expense ratio of 43 basis points (bps) and the CIT is 38 bps.

Mr. Lawler shared information on the opportunity to move the Vanguard Institutional Index and the Vanguard Target Retirement Date Series [Income, 2015, 2025, 2035, 2045, 2055] to CITs, and also stated that this change would also provide participants with savings on investment fees.

MOTION: Mr. Zimmerman moved to convert the following mutual fund options to CIT options: Fidelity Contrafund to Contrafund CIT II, the Vanguard Institutional Index and the Vanguard Target Retirement Date Series [Income, 2015, 2025, 2035, 2045, 2055] and “map” participants respectively. Mr. Rothenberg seconded the motion, which passed unanimously on a voice vote.

INVESTMENT PERFORMANCE AND EXPENSE RATIO REVIEW AS OF JUNE 30, 2017 AND SEPTEMBER 30, 2017

Mr. Thornton referred the Board to the two investment performance reports (Ref. DC | 11.6.17| 5) making the following comments:

- American Beacon Bridgeway Large Cap is not in these reports but will be added as it opens to participants this month.
- Overall, there are several very positive numbers.

- The market has been favorable and has been rising.
- Calvert is ahead of its socially responsible benchmark.
- Federated continues to be up and down.
- The Target Date Funds continue to do very well.
- Expense ratios continue to be consistent but may decrease in the future with the move to CITs for selected investment options.
- The WDC program is one of the least expensive plans across the county.

PARTICIPANT ADMINISTRATIVE FEE ANALYSIS

Ms. Klimke referred the Board to her memo (Ref. DC | 11.6.17| 6) and explained how the revenue to fund the WDC comes primarily from participant fees, along with any gains on the Board's administrative account. It is the Board's policy for the administrative account to maintain an account balance equal to 50-75% of the projected annual plan expenses. ETF recommends no fee changes for 2018.

Based on current projections, the administrative account balance is expected to remain between 50-75% of the annual expenses for the next couple of years. However, investment earnings are a variable in the estimated account balance. An administrative fee analysis is provided annually.

MOTION: Mr. Zimmerman moved to maintain the current administrative fees paid by plan participants for calendar year 2018. Mr. Rothenberg seconded the motion, which passed unanimously on a voice vote.

PLAN AND TRUST REVISIONS: REMOVAL OF DOMESTIC PARTNERSHIPS

Ms. Schueller (Ref. DC | 11.6.17| 7) informed the Board that 2017 WI Act 59 eliminated the Chapter 40 domestic partnership program. The Board must update the WDC Plan and Trust document and the WDC Domestic Relations Order document to reflect this change and ensure the WDC complies with state law.

Removing the Chapter 40 domestic partner provision does not significantly affect WDC participants. If the participant wants to designate their domestic partner as their beneficiary, this can still be done by filing a beneficiary form.

MOTION: Mr. Rothenberg moved to revise the Wisconsin Deferred Compensation Program Plan and Trust document to conform with recent changes in Wisconsin law that eliminate Chapter 40 domestic partnership program. Mr. Scherer seconded the motion, which passed unanimously on a voice vote.

STRATEGIC PARTNERSHIP PLAN (SPP)

Ms. Schueller reviewed the SPP (Ref. DC | 11.6.17| 8), identifying specific enhancements and initiatives the local office of Empower Retirement was directly focused on for the WDC during 2017 and the metrics used to measure the results.

2017 Year-to-Date Review

Ms. Lockwood commented that because Empower was not fully staffed in 2017, the goal for employer participation will likely not be met. Of the approximately 1,500 Wisconsin Retirement System employers, 924 currently participate in the WDC. Ms. Lockwood stated that Empower expects to be able to meet the 2018 employer participation goal.

Proposed 2018 SPP

Ms. Lockwood discussed the proposed goals and metrics for the 2018 SSP. The Board discussed the campaign proposals, learned why the communications will be slightly modified, and agreed to move forward with the 2018 SPP proposals.

MOTION: Mr. Zimmerman moved to approve the 2018 Strategic Partnership Plan, including the asset allocation goal of improving target date fund use as discussed. Mr. Rothenberg seconded the motion, which passed unanimously on a voice vote.

INFORMATION TECHNOLOGY: Annual Update

Mr. Matte provided an update to the Board. Mr. Matte came to ETF in May 2017, as the Chief Information Security Officer. He brought to the Board's attention examples of cyber security breaches that made national news in 2017. Mr. Matte described controls currently in place at ETF as well as development of ETF's Security Incident Response Plan, and cybersecurity insurance.

Secretary Conlin offered insights regarding the BAS project (myETF) and security at ETF's new location. Mr. Dwyer and Mr. Gearin from Empower Retirement discussed Empower's cyber security practices and how the combined goals of Empower and myETF benefit members. Empower played a video (Ref. DC | 11.6.17| 9) that outlined its strategies and practices for maintaining cyber security.

Mr. Gearin shared that Empower has seen a significant increase in attempted breaches of its systems, and indicated that to date, there has not been a breach or a loss of money. When there is a suspected incident, extra security measures like outgoing phone calls are being made. If there is a breach with a member and there is a financial loss, as long as the security breach is not the fault of the participant, Empower will make the participant's account whole.

PLAN COMPLIANCE OVERVIEW

In response to the Board's June discussion and direction, ETF has been developing a plan compliance self-audit. More details will be discussed with the Board at a future meeting.

OPERATIONAL UPDATES

Ms. Schueller reviewed the operational updates memo (Ref. DC | 11.6.17| 11), highlighting inclusion of the final 2016 financial statements audit report and the legislative update detailing the domestic partnership change.

Ms. Schueller showcased the 2017 Leadership Award plaque the WDC received at the National Association of Government Defined Contribution Administrators, Inc. (NAGDCA) conference in Milwaukee.

ADJOURNMENT

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

The Board adjourned at 2:45 p.m.

Date Approved: _____

Signed: _____

Arthur M. Zimmerman, Secretary
Deferred Compensation Board