MINUTES OF NOVEMBER 16, 2010, MEETING

STATE OF WISCONSIN
DEFERRED COMPENSATION BOARD
801 West Badger Road
Conference Room GB
Madison, WI

BOARD PRESENT:

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<th>Ed Main, Chair</th>
<th>Michael Drury</th>
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<td>John Nelson, Vice-Chair</td>
<td>Gail Hanson</td>
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BOARD ABSENT:

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<th>Martin Beil, Secretary</th>
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PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

| Dave Stella, Secretary     | Matt Stohr, Office of Communications and Legislation |
| Bob Conlin, Deputy Secretary | Sharon Walk, Board Liaison                           |
| Jean Gilding, Division of Retirement Services | Bob Willett, Office of Budget and Trust Finance |
| Steve Hurley, Office of Policy, Privacy and Compliance | |
| Shelly Schueller, Division of Retirement Services | |

OTHERS PRESENT:

| ETF Office of the Secretary: Rhonda Dunn | Dimensional Fund Advisors: Larry Spieth |
| ETF Office of Budget and Trust Finance: Jon Kranz | Great-West Retirement Services: Sue Oelke, Michelle Williams and Eric Zeegers |
| ETF Office of Policy, Privacy and Compliance: Mary Alice McGreevy | Vanguard: Bob Lawler and Lee Norton |
| ETF Division of Retirement Services: Anne Boudreau Advised Assets Group: Steve Conkin | Wisconsin 529 College Savings Program: Jim DiUlio |

Edward Main, Chair, called the meeting of the Deferred Compensation Board (Board) to order at 1:02 p.m.

ANNOUNCEMENTS

Shelly Schueller, Director, Wisconsin Deferred Compensation (WDC) Program directed the Board members’ attention to the WDC Governance Manual and WDC Reference DRAFT

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Manual. These are new manuals that were compiled by Board Liaison Sharon Walk and distributed to each Board member. The Governance Manual includes general information on s. 457 deferred compensation plans. The Reference Manual contains pertinent information regarding open meetings law and public records law, as well as information on the Wisconsin Retirement System.

Ms. Schueller advised the Board that the Department of Employee Trust Funds (Department) and University of Wisconsin-Madison (UW) staff applied for a Social Security Grant to study the demographics of the WDC program and specifically savings trends of women. Ms. Schueller was pleased to report the Department and UW were awarded a grant of approximately $90,000 for federal fiscal year 2011. The information gathered from this study will be used to develop educational and marketing initiatives with a focus on encouraging women to take action to save. Two UW research staff (graduate students) will assist with the data collection and analysis.

CONSIDERATION OF MINUTES OF THE MAY 18, 2010, AND OCTOBER 18, 2010, MEETINGS

The Board Chair noted that there is an error in the May 18, 2010, minutes (page 2, para. 5, line 3). The word “referrals” should be “deferrals.”

MOTION: Ms. Hanson moved acceptance of the minutes of the May 18, 2010, (with the change as noted above) and October 18, 2010, meetings as submitted by the Board Liaison. Mr. Drury seconded the motion, which passed without objection on a voice vote.

2011 MEETING DATES

Ms. Schueller referred the Board members to the memo containing the 2011 proposed meeting dates. Ms. Hanson indicated she is not available on February 22, 2011. This meeting will be rescheduled.

(Note: After the meeting, the Board Liaison contacted the Board members regarding a new meeting date. The first meeting of 2011 will be held on March 1, 2011.)

LEGISLATIVE UPDATE

Matt Stohr, Director, Office of Communications and Legislation, provided an update on legislative matters that impact the WDC Program. Mr. Stohr discussed the makeup of the new state legislature and the timeline for the upcoming legislative session. The general business portion of the next legislative session is set to begin in January 2011. At the next Board meeting, Mr. Stohr will provide an update on any bills that are introduced at the state level that would have an impact on the WDC.
At the last Board meeting, H.R. 2021, the Savings Recovery Act, was discussed. This bill would have extended the moratorium on the required minimum distribution until the end of 2012. This bill did not have any hearings and did not pass. It may be reintroduced in the next Congressional session scheduled to begin in January 2011.

The other bill that affects WDC participants is H.R. 5297, also known as the Small Business Jobs Act of 2010. There are two major changes that are brought about by this Act.

- Adds deferred compensation plans under § 457(b) to the definition of “applicable retirement plans” that can offer a qualified Roth contribution program; and
- Allows participants to convert pre-tax amounts that are otherwise eligible for distribution from a § 457(b) plan and other plans to Roth accounts within the same plan.

These changes are effective on January 1, 2011. Great-West Retirement Services (Great-West) has been very proactive in communicating the changes that will take place to plan sponsors.

**WDC PLAN AND TRUST DOCUMENT: PROPOSED REVISIONS TO CONFORM WITH RECENT CHANGES IN FEDERAL AND STATE LAWS AND REGULATIONS AND ADDING A ROTH OPTION**

Ms. Schueller referred the Board members to the October 26, 2010, memo in their binders, which outlines proposed changes to the Plan and Trust Document. These changes were developed after consultation with Great-West legal staff and affect the following state and federal regulations:

1. The Small Business Jobs Act of 2010
2. The Heroes Earnings Assistance and Relief Tax (HEART) Act of 2008
3. The Worker, Retiree, and Employer Recovery Act
4. Domestic Partner Alternate Payee Distributions

Ms. Schueller reviewed each Act and discussed the major changes as they affect WDC participants. Ms. Oelke noted that if the Roth option is adopted by the Board, Great-West is prepared to educate employers on their role and responsibilities as well as share news of this new feature with participants.

*MOTION: Ms. Hanson moved to authorize the changes as outlined in the October 26, 2010, memorandum. Mr. Nelson seconded the motion, which passed without objection on a voice vote.*
PARTICIPANT FEE ANALYSIS

Bob Willett, Controller, Office of Budget and Trust Finance, updated the Board on the status of the account used to pay administrative expenses for the WDC Program. The revenue for this account comes from participant fees and mutual fund reimbursements. The target fund balance is 50% of annual expenses. As of June 2010, the fund balance was at 74%, which is above the target balance. Mr. Willett recommended that another participant fee analysis be done for the May Board meeting.

MOTION: Ms. Hanson moved that the Board approve staff’s recommendation to make no changes to the administrative fee paid by participants at this time. Mr. Drury seconded the motion, which passed without objection on a voice vote.

ADMINISTRATIVE SERVICES CONTRACT AMENDMENT

Michelle Williams, Director, Great-West Retirement Services, described an incident involving participant data files that occurred on June 24, 2010 and July 15, 2010. Two WDC Plan Service Center users requested participant data files during the normal course of business. Due to a coding change at Great-West, these files included WDC participants across all divisions, rather than WDC participants in the users' division only. The users accessing the information had authorization to view the personal information, although not for the entire WDC population. Great-West has investigated and corrected the coding issue to prevent its reoccurrence. Great-West also determined that no data from the WDC went to an external unauthorized user and received confirmation that the reports were properly destroyed.

DRAFT 2011 PLAN ENHANCEMENT PROGRAM (PEP)

Ms. Schueller discussed the Draft 2011 Plan Enhancement Program (PEP) that was outlined in her October 26, 2010, memo to the Board. The draft PEP outlined four goals for 2011:

1. Participation—increase participant and new employer participation.
2. Asset Allocation—decrease the number of participants with one investment option, increase lifecycle fund use and increase advisory services use.
3. Education and Learning—maintain high visibility in group and individual meetings.
4. Retention—offer retirement seminars and hold the increase in number of full distributions to less than 2%.

A goal related to the Roth option (outreach and education) may be added. Ms. Oelke discussed the PEP with the Board, how the goals were set and what Great-West will do to attain them.
The final PEP will be presented to the Board for approval at its first meeting in 2011.

ADMINISTRATIVE SERVICES AGREEMENT AMENDMENT: CONTRACT COMPLIANCE AUDIT RECOMMENDATIONS

Ms. Schueller presented a contract amendment proposal that would make two changes to Standard Operating Procedure for Enrollment Processing as follows:

1. Clarify that Great-West is to establish participant accounts within five working days of receipt.
2. Indicate that Great-West is to transmit participant deferral information to the participant’s employer on the next scheduled transmission date for that employer.

MOTION: Ms. Hanson moved to approve the amendment to the administrative services contract with Great-West. Mr. Nelson seconded the motion, which passed without objection on a voice vote.

ADMINISTRATIVE SERVICES CONTRACT COMPLIANCE AUDIT

Ms. Schueller asked the Board for approval of the Department’s request to develop and release a Request for Bid (RFB) for contract compliance audits of the Board’s administrative services agreement with the third party administrator (TPA). The contract compliance audits are used to evaluate and report on the TPA’s management of the WDC program, the TPA’s compliance with administrative services agreement terms and conditions, and the TPA’s compliance with applicable state and federal statutes, rules and regulations.

MOTION: Mr. Nelson moved to delegate authority to the Department to develop and release a Request for Bid for contract compliance audits of the Board’s administrative services agreement with the third party administrator and to delegate review and approval authority for the release of the RFB to the Board Chair. Ms. Hanson seconded the motion, which passed without objection on a voice vote.

INVESTMENT PERFORMANCE REVIEW

Steve Conkin, Senior Analyst with Advised Assets Group (AAG), presented the Fund Performance Review as of September 30, 2010, to the Board. The Board discussed the report and requested the following topics for participant education/information, perhaps in the next MoneyTalks newsletter:

- Vanguard Long Term Investment Grade Fund. The Board suggested that it would be helpful to remind participants what “duration” means with respect to
bond funds, in an effort to make sure they understand the types of risks possible with this particular bond fund.

- **The Vanguard Money Market Fund.** This fund is currently closed to new investors and the returns are historically low; participants should be aware of this and consider whether or not this is an appropriate investment for their risk tolerance and time horizon.

Ms. Schueller, Great-West and Vanguard will draft these for inclusion in the next quarterly WDC newsletter and on the website.

**FDIC FIXED/FLOATING INTEREST RATE DECISION**

Ms. Schueller referred the Board to the November 1, 2010, memo, which summarized the FDIC fixed/floating interest rate. She reminded the Board that every November the Board reviews the percentage of the FDIC account assigned to the fixed and floating interest rate calculation. Mr. Conkin recommended the Board make no change to the existing allocation (seventy-five (75%) to the fixed portion and twenty-five (25%)) to the floating portion. This is the same allocation that the Board has selected for the past three years.

**MOTION:** Mr. Nelson moved to approve AAG’s FDIC interest rate recommendation for 2011 (75% of the interest rate to the fixed portion and 25% to the floating portion). Mr. Drury seconded the motion, which passed without objection on a voice vote.

**VANGUARD TARGET RETIREMENT DATE 2055 FUND**

Bob Lawler, Vanguard Relationship Executive, and Lee Norton, Vanguard Investment Analyst, discussed the addition of the Target Retirement Date 2055 Fund. Ms. Schueller noted the Deferred Compensation Investment Committee (DCIC) met on August 31, 2010, to discuss the Vanguard Target Retirement Date 2055 Fund. The DCIC determined that adding this fund to the lifecycle series is appropriate as there is no other lifecycle fund within the WDC that is appropriate for younger participants.

**MOTION:** Mr. Drury moved to add the Vanguard Target Retirement Date 2055 Fund to the lifecycle series of investment options for WDC participants. Mr. Nelson seconded the motion, which passed without objection on a voice vote.

Mr. Lawler and Mr. Norton also discussed Vanguard’s plan to change the target benchmark on its Total International Stock Fund and Vanguard’s plan to simplify the construction of its Target Retirement Funds. No action is needed by the Board on these items. This was provided for information only.
DIMENSIONAL FUND ADVISORS U.S. MICRO CAP FUND PERFORMANCE

Larry Spieth, Vice President, Dimensional Fund Advisors (DFA), discussed the performance of the DFA U.S. Micro Cap Fund. Ms. Schueller referred the Board to her October 19, 2010, memo, which outlined the criteria for WDC investment options. She asked the Board to consider placing the DFA U.S. Micro Cap Fund on the “watch” list for possible future removal from the WDC core investment spectrum.

After discussion, the Board deferred action regarding placing this fund on “watch” and directed the DCIC to review the benchmarks. The Board asked the DCIC to consider what the appropriate benchmark is and whether it should be a blend of the Russell 2000 and the Russell Microcap. Mr. Spieth was asked to provide data for AAG and the DCIC to use in its analysis. The DCIC will report back to the Board on its findings.

OPERATIONAL/FUTURE AGENDA ITEMS

Ms. Schueller directed the Board’s attention to a letter from Gregory E. Thornton, Ed.D., Superintendent, Milwaukee Public Schools (MPS). The letter was written to ETF Secretary Stella and expressed Dr. Thornton’s appreciation of the assistance provided by Great-West staff during the implementation and startup of the WDC Program at MPS.

Ms. Schueller also said she received a telephone call from Galliard in which she was advised that Galliard is continuing to look at adding additional wrap providers for the WDC Program’s Stable Value Fund.

Ms. Schueller referred the Board members to the operational updates in their meeting binders.

ADJOURNMENT

MOTION: Mr. Nelson moved to adjourn. Mr. Drury seconded the motion, which passed without objection on a voice vote.

The meeting was adjourned at 3:25 p.m.

Date Approved: ____________________________

Signed: ____________________________________

Martin Beil, Secretary
Deferred Compensation Board