DRAFT

MINUTES

June 5, 2013

Deferred Compensation Board
State of Wisconsin

Location:
Department of Employee Trust Funds
801 West Badger Road
Madison, WI

BOARD MEMBERS PRESENT:
Ed Main, Chair
John Nelson, Vice-Chair
Gail Hanson, Secretary

BOARD MEMBERS ABSENT:
Martin Beil
Michael Gracz

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:
Bob Conlin, Secretary
Rob Marchant, Deputy Secretary
Cheryllynn Mullins, Board Liaison
Division of Retirement Services:
Matt Stohr, Administrator
Deferred Compensation Program:
Shelly Schueller, Director
ETF Legal Services:
David Nispel, General Counsel
Office of Budget and Trust Finance:
Bob Willett, Director
Office of Communications and Legislation:
Tarna Hunter, Legislative Liaison

OTHERS PRESENT:
ETF Legal Services:
Cris Borgogni
Advised Assets Group (AAG):
Mike Burroughs
Bill Thornton
CliftonLarsonAllen LLP:
Thomas (TR) Rey (via telephone)
Fidelity
Ron Henry
Ed Schollmeyer
Great-West Retirement Services (GWRS):
Sue Oelke
Eric Zeegers
Vanguard
Bob Lawler
Edward Saracino
Cydney Gilbertson

Board	Mtg Date	Item #
DC	11.5.13	2

Edward Main, Chair, called the meeting of the Deferred Compensation Board (Board) to order at 1:03 p.m.

ANNOUNCEMENTS

Ms. Shelly Schueller noted the Wisconsin Deferred Compensation (WDC) Board has a new Board member, Mr. Michael Gracz, who was confirmed by the State Senate after the February Board meeting. He was unable to attend today's meeting, but will be present at future meetings.

DEFERRED COMPENSATION INVESTMENT COMMITTEE UPDATE

Ms. Schueller provided an update on the March 21, 2012, Deferred Compensation Investment Committee (Committee) meeting, at which the Committee:

a) Discussed the investment performance results as of December 31, 2012. Overall, relative to their respective benchmarks, the options in the investment spectrum are performing well and there are no major concerns to report. The T. Rowe Price MidCap Fund lagged the market by 2%, but still outperformed its peers.

   The Committee requested that AAG expand information on the average duration of the Target Date Funds (TDF). When TDFs are discussed in the newsletter or elsewhere, the Committee also recommended the importance of understanding how TDF's mature. AAG offered to add a page to future editions of the investment performance report comparing the Vanguard target date funds to peers such as Fidelity.

b) Received a briefing from ETF's chief counsel, David Nispel, regarding the LIBOR rate setting situation. Since the news broke, additional banks have been fined and responsibility for setting LIBOR will be shifting or, perhaps, LIBOR will be replaced altogether. There is another investigation on-going by several state attorneys general. The Wisconsin Attorney General's Office shared with Mr. Nispel that they are "fully engaged" and investigating this, and will keep ETF informed of any events or activities related to LIBOR. The State of Wisconsin Investment Board (SWIB) has retained private counsel to investigate any damages to the Public Employee Trust Fund resulting from LIBOR manipulations. At the request of the Board, Mr. Nispel will attempt to determine whether any of the fine money assessed by the federal government was going to affected shareholders. ETF staff will continue to monitor the media regarding LIBOR on behalf of the Board and will report any news at the next Board meeting.

c) Received a briefing from Attorney Nispel regarding a lawsuit brought against Fidelity in early March 2013, by at least three 401(k) plans for allegedly improper use of float income in its record keeping services. The lawsuit defines float income as “the interest earned when contributions and disbursement are held temporarily in overnight accounts or disbursement accounts.” Fidelity is disputing the claims. The official statement from Fidelity as of March 18, 2013 is below:

> “As an investment-only client, the State of Wisconsin 457 Plan does not use Fidelity Management and Trust Company (FMTC) as directed trustee or record keeper, so plan deposits or withdrawals are not subject to the practices which are in dispute in the float litigation. Instead, investment-only plan record keepers place fund-specific purchase and redemption orders with Fidelity. Moneys related to those transactions are not held overnight by Fidelity and thus there is no float income on such amounts.
>
> Fidelity would also like to say that we vigorously deny the claims being asserted in these lawsuits. They were based on a prior lawsuit which we are appealing. That appeal is still pending. We look forward to the opportunity to address these claims in the Court of Appeals. Fidelity believes that its former float practices are consistent with the law and fair to all parties.”

The WDC offers the Fidelity Contrafund as an investment option, but does not use Fidelity’s record keeping service. The Committee asked if Fidelity could provide any evidence of their statement regarding no float in the Contrafund. GWRS will be providing the Board with a statement regarding float and their practices later this month. ETF staff will continue to monitor this situation on behalf of the Board.

MINUTES

MOTION: Ms. Hanson moved acceptance of the minutes of the February 19, 2013, meeting as submitted by the Board Liaison. Mr. Nelson seconded the motion, which passed unanimously on a voice vote.

PARTICIPANT FEE ANALYSIS

Mr. Bob Willett recommended that no changes be made to the administrative fees paid by participants for the next year (Ref. DC | 6.5.13| 3). In order to fund the administrative expenses for the WDC, fees are collected from every participant and deposited in the Board’s administrative expenses account. The funds collected are used to pay for services provided under contract by GWRS, annual audits and to pay for ETF’s expenses related to the WDC. Since 2008, the Board’s reserves in the administrative expenses account have been slowly dropping. This is likely a reflection of the past few years' economic recession. However, during the past year, revenue and expenses have been in balance. Assuming moderate or good investment returns, it is expected the Board's administrative expenses account will be in a positive cash flow situation for the foreseeable future and therefore no increase in participant fees is necessary at this time.

> ***MOTION: Ms. Hanson moved to accept the recommendation to make no changes to the current administrative fees paid by WDC participants. Mr. Nelson seconded the motion, which passed unanimously on a voice vote.***

INVESTMENT PERFORMANCE REVIEWS

Mr. Bill Thornton referred to the Investment Fund Performance Review reports for the periods ending December 31, 2012, (Ref. DC | 6.5.13 | 4a) and March 31, 2013 (Ref. DC | 6.5.13 | 4b). He introduced Michael Burroughs as the Board's local, secondary (backup) investment consultant. Mr. Burroughs works out of the Milwaukee branch of AAG and will fill in for Mr. Thornton at meetings if/when Mr. Thornton is unavailable due to his promotion and increased responsibilities at AAG.

The 2012 fourth quarter report was discussed at the March DCIC. There were no additional questions regarding the report.

As of March 31, 2013, the WDC's investment options had performed well relative to their benchmarks. The WDC had over $3.2 billion in assets, including 18.2% in the Stable Value Fund and 13.6% in the Fidelity Contrafund. The average expense rates of the funds offered by the WDC remain well below their category averages. Mr. Thornton noted that while many things on the asset side cannot be controlled by the plan, on the expense side, the Board has a large amount of control as illustrated by the Board's selection of low cost investment options. The asset-weighted average cost of all the Board's options is 0.30%, which is typical. The one-year asset-weighted return for the WDC plan as of March 31, 2013 was just under 10% with the Fidelity Contrafund, and Vanguard Institutional Index, and the Vanguard Wellington Fund being contributing factors.

Lifecycle options (Vanguard Target Retirement Date funds) continue to perform very well.

2012 FINANCIAL STATEMENTS AUDIT

Mr. Thomas Rey of the audit firm CliftonLarsonAllen, LLP, joined the meeting via telephone. This firm completed the audit for financial statements report dated December 31, 2012 and 2011. (Ref. DC | 6.5.13 | 5) There were no material weaknesses or significant deficiencies found in the audit. There were no new disclosures from the prior year. The only change was some of the language in the Independent Auditor's Report. Highlights from the report include:

- The WDC's rate of return on mutual fund investments was approximately 13.51%;
- Employee contributions decreased from $147.5 million for year end 2011 to $136.7 million at year end 2012.

Ms. Schueller noted that the document before the Board is in "draft" form. After the "draft" is approved by the Board, the final audit report will be submitted to the Board in November with the signed representation letters.

> ***MOTION: Ms. Hanson moved to accept the December 31, 2012 and 2011, financial statements audit report as presented by CliftonLarsonAllen. Mr. Nelson seconded the motion, which passed unanimously on a voice vote.***

VANGUARD

In a presentation document dated June 5, 2013, Mr. Robert Lawler of Vanguard provided an overview of the Vanguard investment options currently offered by the Wisconsin Deferred Compensation Program. (Ref. DC | 6.5.13| 6a) At the beginning of 2013, Vanguard had over two trillion dollars in assets under management worldwide. The WDC has more than $1.1 billion with Vanguard.

Mr. Edward Saracinio discussed the philosophy of Vanguard's Target Retirement Funds, and noted that the changes made recently are not tactical in nature but rather part of Vanguard's strategic long-term approach.

Mr. Lawler reviewed the benchmark changes Vanguard is making for 22 index funds. The ones relevant to the WDC are to the Vanguard Total Stock Market Index Fund and Vanguard Total International Stock Index Fund benchmarks. The reason for the change is that the licensing fee with the previous benchmarking firm to track these underlying indexes was becoming very costly. Mr. Lawler noted that while Vangaurd cannot guarantee the expense ratios will decline, based upon some conservative modeling, Vanguard believes that the change to lower cost benchmarks could prove to be meaningful in the next three to five years.

Mr. Main asked that Vanguard share a full listing of the countries currently included in the Vanguard Total International Bond Index Fund. Mr. Lawler provided a link to the table below, which shows the as of May 31, 2013:

Total International Bond Index Fund Institutional Shares (VTIFX) Country diversification (% of equities)		
Country	**VTIFX**	**Region**
Japan	24.10%	Pacific
France	11.60%	Europe
Germany	11.00%	Europe
United Kingdom	7.30%	Europe
Italy	7.10%	Europe
Canada	6.10%	North America
Spain	5.50%	Europe
Supranational	3.90%	Other
Netherlands	3.30%	Europe
Australia	2.60%	Pacific
Korea	2.10%	Pacific
Belgium	2.00%	Europe
Sweden	1.80%	Europe
United States	1.80%	North America
Austria	1.50%	Europe
Switzerland	1.00%	Europe
Denmark	0.90%	Europe
Thailand	0.80%	Emerging Markets
Malaysia	0.70%	Emerging Markets
Poland	0.70%	Emerging Markets
Finland	0.60%	Europe
Ireland	0.60%	Europe
Norway	0.60%	Europe
South Africa	0.50%	Emerging Markets
Singapore	0.40%	Pacific
New Zealand	0.30%	Pacific
Czech Republic	0.30%	Emerging Markets
Mexico	0.20%	Emerging Markets
Israel	0.20%	Middle East
Slovakia	0.10%	Europe
Hong Kong	0.10%	Pacific
Brazil	0.10%	Emerging Markets
Russia	0.10%	Emerging Markets
Romania	0.10%	Emerging Markets
Total:	100.00%	

YEAR IN REVIEW – 2012 STATISTICS

Ms. Schueller briefly reviewed the 2012 statistics (Ref. DC | 6.5.13| 9). Employee contributions have declined, most likely due to changes in employee benefits enacted during 2011 by state legislation. Men continued to have larger WDC account balances than women, even though there is an even number in the program. The average age of the WDC participant is still approximately 50 years old and participants, on average, are invested in 4.4 investment options each.

The Board pointed out the noticeable reduction in WDC participant annual administrative fees. When the program started, the annual cost $487 for a participant with a $50,000 WDC account balance. Currently that fee is down to $48 per year. As the assets have grown and fees have been carefully managed, WDC participants have benefited.

LIBOR RATE MANIPULATION UPDATE

Mr. Nispel summarized the LIBOR Rate Manipulation and provided an update to the Board (Ref. DC | 6.5.13| 8). In late March, a New York federal court dismissed claims by three out of the four main plaintiff groups. On May 13, 2013, a federal court in Manhattan ruled on the lawsuit against Barclays. The court indicated the alleged misstatements did not meet the legal standard to proceed and were dismissed. The judge's opinion was that it would be "futile" to let the investors re-file the lawsuit.

FIDELITY INVESTMENTS

Mr. Ed Schollmeyer of Fidelity shared information on the pending float lawsuit (Ref. DC | 6.5.13| 7b). Fidelity's legal counsel prepared formal comments to be read at this board meeting. Mr. Main requested a copy of the comments but his request was denied, based on the advice of Fidelity's legal counsel. The following statement was read by Mr. Schollmeyer:

> "The State of Wisconsin is what we call an investment only-client, which means they record keep, trade, process their business away from the Fidelity platform with this relationship as Great-West as the recordkeeper. The State of Wisconsin does not use Fidelity Management Trust Company as a direct trustee or record keeper, so WDC plan deposits or withdrawals are not subject to the practices which are in dispute in the float litigation. Instead, the investment-only plan record keepers place funds-specific purchases in redemption orders with Fidelity directly. Moneys related to these transactions are not held overnight by Fidelity and thus there's no float income on such amounts. We certainly deny the claims that are being asserted in these lawsuits. They're based on prior lawsuits which we are appealing. That appeal is still pending. We are looking forward to the opportunity to address these claims in the Court of Appeals. Fidelity certainly

believes its former float practices are consistent with the law and fair to all parties."

Mr. Ron Henry reviewed the asset management philosophy of Fidelity Contrafund manager Will Danoff in a documented dated June 2013. (Ref. DC | 6.5.13| 7a) Contrafund includes domestic and international markets, small and mid-caps even though it is primarily a large cap fund. It has produced an average annual return of 12.92% compared to 9.62% for the S&P 500. Research is the key to the overall process of the fund. Mr. Henry discussed Contrafund's sector weights in comparison to the index weights. At present, information technology and consumer discretionary are the fund's top over-weighted sectors and the top under-weighted sectors are industrials and energy. Overall fund performance was discussed, with the Board requesting the Fidelity Contrafund compound returns since inception for 1-3-5-10 year time periods. These were provided by Fidelity after the Board meeting and are reproduced here:

Fund Name	Date	YTD	1 Month	3 Month	6 Month	1 Year	2 Year	3 Year	5 Year	10 Year
Contrafund	Mar-2013	9.18	3.69	9.18	7.45	10.41	20.79	43.06	35.54	165
Note: Returns are historical and include changes in share price, reinvestment of dividends and capital gains. Past performance is not a guarantee of future results.										

OPERATIONAL UPDATES

Ms. Tarna Hunter provided the Board with a legislative update. The Wisconsin Legislature's Joint Committee on Finance (JCF) finished the work on the state budget, 2013 Assembly Bill 40, very early this morning (June 5, 2013). The amended budget will now go to the full legislature for approval. The current budget proposal provides additional funding and resources for ETF's Transformation, Integration and Modernization (TIM) initiative. The JCF budget provides $3.5 million in fiscal year 2014 and $4.3 million in fiscal year 2015 to support this multi-year initiative to modernize ETF's business processes and systems. The JCF approved the use of a passive review process for ETF to ask for additional funding and positions to support the TIM initiative over the next 6 years. The budget also included changes to the law governing WRS retirees who return to work for a WRS employer, technical statutory changes to remain compliant with the Internal Revenue Code, and changes to the group health insurance program. In addition, the budget includes funding in the compensation reserve for potential wage increases for state employees. Details on this provision have not been provided and budget items may change as the bill moves through the legislature and to the governor. Ms. Hunter will provide a recap of the final details of the state budget as it affects ETF and the WDC to the Board at the next meeting.

Ms. Schueller referred the Board members to the materials under the operational updates section in their meeting materials for routine reports and additional information and news from the WDC's investment providers. (Ref. DC | 6.5.13| 10).

Ms. Sue Oelke of GWRS briefly discussed the WDC's first evening workshop. (Ref. DC | 6.5.13| 10c1). This was a pilot event, held in Sun Prairie on May 1, 2013. A total of 33 individuals attended and the survey feedback was very positive. While the turnout was less than hoped for the event seemed to be of value to those who attended. Ms. Schueller referred the Board members to a memo in the operational updates section from Galliard Capital Management, the firm providing the WDC's Stable Value Fund (Ref. DC | 6.5.13| 10d1). The memo from Galliard provides information on impending changes to the WDC Stable Value Fund. Galliard is implementing a policy across its stable value portfolios that utilize the Wells Fargo Stable Return Fund (SRF) as their primary liquidity vehicle. The policy includes implementing a three percent cash allocation in front of the SRF in order to better buffer daily cash flows. The other change regarding the Stable Value Fund is the announcement that Natixis Financial Products intends to exit from the book value wrap business. Natixis currently wraps about 18% of the portfolio and is the primary wrapper for the PIMCO portfolio. Galliard anticipates having a solution in place by the end of 2013 and will attend the November Board meeting to provide a status update to the Board.

FUTURE ITEMS FOR DISCUSSION

Ms. Schueller referred Board members to a GWRS publication called, *Focus on 457* dated June 3, 2013. This newsletter outlines multiple reasons why in-plan Roth conversions are not occurring for any s. 457 plans at present. While the Board has already approved offering in-plan Roth conversions, the IRS needs to answer several questions regarding how they expect in-plan Roth conversions to be handled from both administrative and tax perspectives. Until these issues are clarified by the IRS, GWRS and other record keeping firms will not be implementing in-plan Roth conversions for any s. 457 plans including the WDC. Staff from ETF and GWRS will continue to watch for IRS clarification and will report back when implementation becomes a possibility.

FDIC OPTION PROVIDER RECOMMENDATION

The Board discussed the contents of the memo regarding the results of ETC0022, the RFP for an FDIC-Insured Investment Option Provider. Ms. Schueller referred the Board to the memo at (Ref. DC | 6.5.13| 12). The Board Chair determined it was not necessary to meet in closed session to discuss this item as only ETF staff, GWRS staff, and Board members were present for the discussion. In November 2012, BMO Harris/M & I Bank notified the Board that it intends to exit as the FDIC-Insured option provider. This option is used by approximately 4,600 WDC participants. The RFP responses were evaluated by three State of Wisconsin employees with accounting, banking and finance industry experience and knowledge. Ultimately, they recommended the Board consider contracting with Nationwide Bank. GWRS has confirmed that they are able to do business on behalf of clients such as the WDC with Nationwide Bank.

The Board requested that the contract include a clause requiring the bank to provide the Board with a one-year exit notice.

> ***MOTION: Ms. Hanson moved to begin contract negotiations with Nationwide Bank to provide an FDIC-insured investment option using the "variable-only" pricing option, subject to a due diligence review, with final contract approval delegated to the Board Chair. Mr. Nelson seconded the motion, which passed unanimously on a voice vote.***

There was discussion with the Board and GWRS regarding the transitioning of participant accounts in the FDIC fund. Ms. Oelke stated that because it is not a named fund but is instead titled as the WDC FDIC-insured bank option, mapping can be done. This means that a participant's FDIC account balances can be moved from the old FDIC option provider to the new one; the option phase-out timelines and requirements stated in WI Admin. Code Ch. ETF 70.08 are not applicable.

ADJOURNMENT

> ***MOTION: Ms. Hanson moved to adjourn. Mr. Nelson seconded the motion, which passed unanimously on a voice vote.***

The meeting was adjourned at 3:13 p.m.

Date Approved: ___________________________

Signed: ___________________________________
Gail Hanson, Secretary
Deferred Compensation Board