

DRAFT

MINUTES

November 5, 2013

Deferred Compensation Board
State of Wisconsin



Location:

Department of Employee Trust Funds
801 West Badger Road (Mendota Room)
Madison, WI

BOARD MEMBERS PRESENT:

Ed Main, Chair

John Nelson, Vice-Chair

Gail Hanson, Secretary (via Teleconference)

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

Office of Communications and Legislation:

Tarna Hunter, Legislative Liaison

OTHERS PRESENT:

Advised Assets Group (AAG):

Mike Burroughs

Bill Thornton

Galliard Capital Management (Galliard):

Mike Norman

Great-West Retirement Services (GWRS):

Kristin Green

Emily Lockwood

Sue Oelke

State Engineering Association (SEA):

Bob Schaefer

Charles Schwab (Schwab)

Ken Nichols

Mr. Main, Chair, called the meeting of the Deferred Compensation Board (Board) to order at 1:00 p.m.

Board	Mtg Date	Item #
DC	3.4.14	2

ANNOUNCEMENTS

Ms. Schueller made the following announcements:

- The *2011 Comprehensive Annual Financial Report* (CAFR) has been provided to each Board member.
- The federal government announced the s. 457 deferral limits for 2014 would remain unchanged from 2013: \$17,500 with the age 50 catch-up remaining at \$5,500.

MINUTES

MOTION: Mr. Nelson moved acceptance of the minutes of the June 5, 2013, meeting as submitted by the Board Liaison. Mr. Gracz seconded the motion, which passed unanimously on a voice vote.

2014 MEETING DATES

Ms. Schueller referred the Board to the memo in the binders that lists the meeting dates for 2014 (Ref. DC | 11.5.13 | 3). She asked that Board members contact the Department of Employee Trust Funds (ETF) as soon as possible if they have a conflict with any of the dates.

LEGISLATIVE UPDATE

Ms. Hunter provided the Board with a legislative analysis of the 2013-2015 state budget and a summary of provisions that relate to ETF. One provision is 2013 Wisconsin Act 20, which changes the return to work law for rehired annuitants and the insurance program. Ms. Hunter noted that the budget included funding for ETF's Transformation, Integration, and Modernization (TIM) initiative to update ETF's Information Technology systems and modernize processes. Recently, two additional bills were introduced in the Wisconsin State Legislature. The first would raise the minimum retirement age for members of the Wisconsin Retirement System (WRS) and the second proposes changing the final earnings calculation for the WRS formula benefit from three high years to five high years.

On the federal level, as a result of the U.S. Supreme Court ruling on the federal Defense of Marriage Act (DOMA), the Internal Revenue Service (IRS) issued Revenue Ruling 2013-17, effective September 16, 2013, related to same-sex marriages. The Department is taking steps to ensure that the WDC remains in compliance with this for federal tax purposes.

DEFERRED COMPENSATION INVESTMENT COMMITTEE UPDATE

Ms. Schueller provided an update on the August 20, 2013, Deferred Compensation Investment Committee (“Committee”) meeting, at which the Committee:

- a) Discussed the investment performance results as of June 30, 2013 with Bill Thornton of AAG. Overall, relative to the respective benchmarks, the options in the investment spectrum are performing well with no major concerns. AAG discussed the recent performance of American Funds EuroPacific and the Calvert Equity Fund, both of which were relatively disappointing in the second quarter of 2013. AAG suggested that EuroPacific’s exposure to emerging markets (greater than the index exposure) hurt its performance, but noted the fund still has an excellent Morningstar rating. The Calvert Equity fund, which is the WDC’s socially responsible offering, also struggled during the second quarter of 2013. The Committee requested that AAG review the benchmarks for Calvert to determine if fine tuning is needed. They also asked that a fund expense ratio be added to the list for the Stable Value Fund.
- b) The Committee discussed the Schwab Personal Choice Retirement Account (PCRA), which was last reviewed in 2007. Through the PCRA, WDC participants have access to additional investment options beyond those in the WDC core lineup. For WDC participants, the PCRA has been limited to mutual funds. Ken Nichols from Schwab discussed additional investment options the Board could provide for participants. The Committee has some concerns regarding fiduciary liability if the PCRA is expanded. They asked staff to review the Schwab participant agreement / enrollment to determine if additional or stronger language regarding responsibilities and holding the Board harmless is needed. Staff will work with Great West Retirement Services (GRWS) to survey the WDC’s PCRA users to determine interest in expanding the options (for stocks and exchange traded funds only).
- c) The Committee heard an update on the on-going LIBOR investigations. Two brokers in England have been charged with crimes and the contract to administer LIBOR as of January 2014 was awarded to the parent company of the New York Stock Exchange.
- d) A statement from GWRS was provided regarding float. GWRS stated that they do not receive float but do receive bank credits. The Committee would like more information on the amount of bank credits received. GWRS’ local representative, Sue Oelke, will find out and report back.
- e) The Committee reviewed a draft Investment Committee Charter, which will be reviewed by the full Board at the next meeting.
- f) Shelly Schueller provided the Committee with a verbal update on the FDIC contract. The draft contract has been received from the bank and the intent is to be ready to transition in November 2013.

- g) The Committee was advised that Galliard is requesting that the Board consider signing a sub advisor agreement with an insurance firm willing to provide a wrap for the Stable Value Fund (SVF). Galliard has been searching for a provider to replace Natixis' portion of the SVF and has an interested insurance company. While the new firm is duly licensed to provide insurance products in Wisconsin, they are not yet licensed in MN (but are going through the process to obtain the appropriate documents). Because of this licensing "hiccup," Galliard asked if the Board would be willing to sign the contract. The Committee tentatively agreed to this idea (in concept), but asked staff to do the following:
1. Due diligence on the insurance company.
 2. Find out when the Minnesota insurance paperwork is estimated to be completed.
 3. Find out what would happen with the SVF if this contract is not signed.

INVESTMENT COMMITTEE CHARTER

Ms. Schueller recommended the Board adopt a charter for the Investment Committee. (Ref. DC |11.5.13| 6). The charter formalizes what the Investment Committee has been doing for the Board since the 1990s. The Committee has been working on the investment standards, evaluating the investment policy statement, monitoring the Board's investment options, and bringing any potential issues on investment options to the Board with recommendations for action or no action. If the Board adopts this charter, it will become part of the Governance Manual and would be periodically reviewed with the Board.

MOTION: Mr. Nelson moved to adopt Investment Committee Charter as presented. Mr. Gracz seconded the motion, which passed unanimously on a voice vote.

FINANCIAL STATEMENTS AUDIT CONTRACT EXTENSION

Ms. Schueller referred members to the memo in the binders (Ref. DC | 11.5.13 | 7) which is confidential until the Board makes its decision. In 2007, the Board contracted for financial statement audit services with Clifton Gunderson. The Board exercised the first two-year extension in 2011. As a result of a merger in 2012, Clifton Gunderson is currently known as CliftonLarsonAllen.

MOTION: Mr. Nelson moved to approve extending the financial statements audit contract with CliftonLarsonAllen for audits of calendar years 2013 and 2014, subject to a rotation change in the audit partner similar to how engagement partner rotations are handled for public companies. Mr. Gracz seconded the motion, which passed unanimously on a voice vote.

Ms. Gail Hanson joined the meeting via telephone.

INVESTMENT PERFORMANCE REVIEWS

Mr. Thornton referred to the Investment Fund Performance Review reports for the periods ending June 30, 2013, (Ref. DC | 11.5.13 | 8A) and September 20, 2013 (Ref. DC | 11.5.13 | 8B). He reintroduced Michael Burroughs as the Board's local, secondary (backup) investment consultant. Mr. Burroughs is also employed by AAG.

Mr. Burroughs discussed the Second Quarter 2013, Investment Fund Performance report. As of June 30, 2013, most of the funds are doing relatively well compared to their peer group. The WDC has over \$3.2 billion in assets with over 228,000 participant accounts. When reviewing the WDC's target date funds, the Vanguard series has continually outperformed Fidelity and slightly trails T. Rowe Price.

Mr. Thornton discussed the Third Quarter 2013, Investment Fund Performance report, noting the nuances between the various funds' investment mandates and stock purchases, which illuminated the differences in performance. During the third quarter of 2013, the Calvert Equity fund was in the 25th percentile for performance. This is primarily due to an underweighting in technology stocks.

As of September 30, 2013, the WDC has over \$3.4 billion in assets with approximately 53,000 participants. The one-year asset-weighted return for the WDC as of September 30, 2013 was 15.54%, with the Fidelity Contrafund, Vanguard Institutional Index, and the Vanguard Wellington Fund being large contributing factors to that return.

Mr. Thornton announced that BlackRock is making a slight change by moving Greece from a developed economy to an emerging markets economy. This should have little to no effect on the WDC.

STABLE VALUE FUND REVIEW

Mr. Norman presented (Ref. DC | 11.5.13 | 9) an overview on Stable Value Fund investing with a comparison to money market funds, discussing the objective of the WDC's Stable Value Fund. He provided a detailed review of how the WDC's Stable Value Fund is constructed as well as a third quarter portfolio review.

SELF DIRECTED BROKERAGE ACCOUNT (SDBA) REVIEW

Mr. Nichols discussed Schwab as a company and the product options Schwab has to offer the WDC through Schwab's self-directed brokerage option called the Personal Choice Retirement Account or PCRA. (Ref. DC | 11.5.13 | 10) He explained that currently, the WDC only uses Schwab's mutual funds. However, the Board could decide to change the trading menu or expand the options beyond mutual funds to include such options as stocks and exchange traded funds (ETFs).

Ms. Schueller expanded on the discussion, reiterating some of the details provided to the Investment Committee at their meeting in August and sharing the results of the fall 2013 online survey of WDC participants using the Schwab PCRA. The Schwab option is utilized by 700 members of the 53,000 total WDC participants. Those responding to the survey were generally happy with the option, although some expressed interest in additional investment options such as stocks and exchange traded funds. After discussion, the Board determined that no changes to the Schwab option were necessary.

MOTION: Mr. Gracz moved to keep the Self-Directed Brokerage Account Option as is, without change. Mr. Nelson seconded the motion, which passed unanimously on a voice vote.

PLAN ENHANCEMENT PROGRAM (PEP)

Ms. Oelke reviewed the 2013 PEP, explaining the metrics/goals and the activities which were included on the 2013 PEP scorecard. (Ref. DC |11.5.13 | 11A) The four dimension concept is used to evaluate GWRS' efforts in the areas of participation (employees and employers), asset allocation, education and learning, and retention. The participation goal as of September has already been exceeded for new employers, with the anticipation of three more employers before the end of 2013. The asset allocations goal has also been met for 2013. The education and learning portions of the PEP are on track. With trends moving toward members wanting individual meetings instead of group meetings to discuss their portfolios, Ms. Oelke opined that the group meeting goal may be under the goal while the individual meeting goal will be exceeded. The online file cabinet and the implementation of the new WDC website have been highly successful. The fourth dimension of the scorecard is retention. While the reduction of participants without a beneficiary designation has been substantially decreased, the various workshops have not been successful due to factors outside of GWRS' control, such as participants do not seem to be interested in attending evening workshops.

Ms. Green presented an demonstration of the WDC website showing the features of the newly designed WDC website that are available to participants after logging in to their accounts, including the Retirement Income Control Panel. This new tool helps participants determine if they are on track for a financially secure retirement, and offers recommendations if they are not.

Ms. Schueller and Ms. Oelke discussed the 2014 PEP proposal (Ref. DC |11.5.13 |11B) explaining the projected goals and the metrics that will be used to measure results. The four dimensions will remain the same with some changes to the specific goals.

MOTION: Mr. Nelson moved to approve the 2014 Plan Enhancement Program as presented. Mr. Gracz seconded the motion, which passed unanimously on a voice vote.

FDIC PROVIDER CONTRACT UPDATE

Ms. Schueller provided a verbal update on the FDIC-Insured Investment Option Provider. The contract with Nationwide Bank was signed. Nationwide, GWRS, and ETF will have a conference call on November 6, 2013, to discuss the transition. It is expected that a seamless transition will occur no later than November 30, 2013.

OPERATIONAL UPDATES

Ms. Schueller referred Board members to materials under the “operational updates” section in the meeting materials for routine reports and additional information and news from the WDC’s investment providers. (Ref. DC | 11.5.13| 13). Ms. Schueller highlighted several follow-up documents provided as answers to questions or requests from the June DC Board meeting, as well as pointing out the 2012 Financial Statements Audit Report final document (Ref. DC | 11.5.13| 13a), a LIBOR rate setting investigation update (Ref. DC | 11.5.13| 13b), and a float investigation update (Ref. DC | 11.5.13| 13c1 and 13c2).

ADJOURNMENT

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

The meeting was adjourned at 2:56 p.m.

Date Approved: _____

Signed: _____

Gail Hanson, Secretary
Deferred Compensation Board