

DRAFT

MINUTES

March 4, 2014

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)

BOARD MEMBERS ABSENT:

Michael Gracz

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Rob Marchant, Deputy Secretary
Division of Retirement Services:
Matt Stohr, Administrator

Deferred Compensation Program:
Shelly Schueller, Director
Cheryllynn Mullins, Board Liaison

OTHERS PRESENT:

Advised Assets Group (AAG):
Mike Burroughs
Bill Thornton
Atlanta Capital Management (ACM):
Paul Marshall
Calvert Investments (Calvert):
Christine Teske

Great-West Financial (GWF):
Marilyn Collister
Emily Lockwood
Sue Oelke
State Engineering Association (SEA):
Bob Schaefer

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

Board	Mtg Date	Item #
DC	6.3.14	2

MINUTES

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

ELECTION OF OFFICERS

Mr. Main asked for nominations for Board officers.

MOTION: Ms. Hanson moved to elect Board officers for 2014 as follows: Ed Main as Chair, John Nelson as Vice-Chair, and Gail Hanson as Secretary. Mr. Nelson seconded the motion, which passed unanimously on a voice vote.

DEFERRED COMPENSATION INVESTMENT COMMITTEE UPDATE

Ms. Schueller provided an update on the February 13, 2014, Deferred Compensation Investment Committee (Committee) meeting, at which the Committee:

- a) Discussed the investment performance results as of December 31, 2013 with Bill Thornton of AAG. Overall, relative to the respective benchmarks, most equity options in the investment spectrum had a solid year and are performing well – the entire spectrum averaged a 22.61% positive return in 2013. The Calvert Equity fund (the Board's socially-responsible offering) fared better during the last quarter of 2013. The Vanguard Long-Term Investment Grade fund has lagged, primarily due to its long average duration relative to its benchmarks.
 1. Mr. Nelson asked that AAG notify the Board when there are significant changes in the Vanguard Target Date fund asset allocations.
 2. Mr. Nelson asked if staff would confirm the Wisconsin Deferred Compensation program (WDC) is using the lowest/most inexpensive share classes available from the fund houses.

- b) Reviewed an analysis of the WDC's investment option benchmarks completed by AAG. Mr. Thornton recommended the Board become more consistent, using both a peer benchmark and other benchmarks chosen by the Board for all funds. Mr. Thornton specifically recommended the Board include a more appropriate benchmark for the Vanguard Long-Term Investment Grade fund. Staff will work with Mr. Thornton to develop standardized benchmark recommendations for the June Board meeting, including:
 1. adding an appropriate long term bond benchmark for the Vanguard Long-Term Investment Grade fund;
 2. replacing the benchmarks for the target date funds, instead using the S&P target benchmarks instead of the Dow Jones benchmarks.

- c) Heard a presentation from Mr. Marshall and Ms. Teske, from ACM and Calvert, respectively, regarding the recent performance of the Calvert Equity fund. Mr. Marshall noted that the fund faced “significant high-quality headwinds” during most of 2013 (first through third quarter) and lagged the benchmark, but rebounded in the fourth quarter. The fund’s social screening did not create the benchmark lag. Rather, the fund’s underexposure to the tech sector and certain companies’ explosive growth (e.g., LinkedIn, Facebook) during this time period did play a role. At the request of the Board, Ms. Teske will review the benchmarks used by the fund and prepare a report for the Board.
- d) Fidelity will update the PER (Plan Expense Reimbursement) document to reflect current names, etc. This document has been reviewed by the Department’s legal counsel and will be presented to the full Board at the March 2014 meeting for review and approval.

INVESTMENT PERFORMANCE REVIEW

Mr. Thornton referred to the Investment Fund Performance Review reports for the period ending December 31, 2013, (Ref. DC | 3.4.14 | 6). He reported that all funds are beating the benchmarks. There are no concerns except for the Vanguard Long-term Investment Grade fund. However, this is an aggressive long-term fund that has a longer duration than most funds. Morningstar changed the fixed income category, which moved this fund from the long-term bond category to the corporate bond category. Corporate bonds are less than 40% in foreign and 35% in high yield with a duration greater than 75% of the Morningstar core index. The longer-term bond is the same, but with durations greater than 125% of the core bond index. This fund’s benchmarking will be reviewed for the next Board meeting.

Mr. Thornton discussed the Rolling Three Year Quartile Ranking ending December 31, 2013. The WDC has more than \$3.6 billion in assets at the end of calendar year 2013. The expenses are the only aspect the Board can control, and the Board has done a good job: the overall WDC expense ratio is well below the average, at .30%. The one year weighted average return for the WDC for 2013 was 22.61%, with much of this attributed to the Fidelity Contrafund, which returned 34.15%. Mr. Thornton also discussed Lifecycle/Target Date Funds.

FIDUCIARY TRAINING

Ms. Schueller introduced Ms. Collister, a senior attorney with GWF who specializes in employer sponsored retirement plans, including s. 457 plans such as the WDC. Ms. Collister presented information to the Board on identifying plan fiduciaries, fiduciary responsibilities for the plan and Board members, fiduciary best practices, and limiting fiduciary liability.

Since 1999, all governmental s. 457 plan assets must be held in trust. Most states have adopted the Uniform Trust Act and Prudent Investor Act. Basic fiduciary principles are loyalty, prudence, ensuring diversity of plan assets, monitoring funds and providers and

making changes when warranted, and following the terms of plan documents. Ms. Collister strongly recommended the Board always read and follow the WDC's Investment Policy Statement plan document and know where the plan's signed original documents are located.

CALVERT EQUITY FUND

Ms. Teske presented (Ref. DC |3.4.14 | 7) an overview on the Calvert Equity fund portfolio. Ms. Teske provided insight into the processes of the investment teams, in-house management, sustainable and responsible research team and sub-advisory oversight team. She highlighted the investment exclusions, investment criteria, and the advocacy approach.

ACM has been a sub-advisor for this fund for more than 15 years. Mr. Marshall explained the relationship between Calvert and ACM. He discussed ACM's investing approach and philosophy. The portfolio investment approach is to invest in companies with a consistent 8% (ideally 10-12%) growth rate over ten or more years.

2013 PLAN ENHANCEMENT PROGRAM (PEP) YEAR IN REVIEW AND 2014 ADMINISTRATIVE FEE CHANGE

Ms. Oelke of GWF discussed the 2013 WDC scorecard, noting that all goals were exceeded. (Ref. DC |3.4.14 | 8) She highlighted several accomplishments including:

- implementing a new website;
- adding 20 new employers (the goal was to add 10)
- decreasing the number of participants in more than one target date fund by 8.6% (the goal was 3%); and
- reducing the number of participants without a beneficiary designation by 8.1% (the goal was 2%).

MOTION: Mr. Nelson moved to approve a 3.0% increase in the annual fee paid to Great-West Financial, resulting from meeting 2013 Plan Enhancement Program goals. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.

FIDELITY PLAN EXPENSE REIMBURSEMENT (PER) AGREEMENT UPDATE

Ms. Schueller explained the Board's PER agreement with Fidelity and explained Fidelity's requested changes to the agreement. (Ref. DC |3.4.14 | 9) The Board discussed the distribution of the reimbursement and how it affects WDC participants. The Board questioned whether or not the WDC is offering the lowest possible share classes for the Fidelity Contrafund and all other mutual funds currently in the core investment lineup. ETF staff will research share class offerings and report back to the Board in June.

MOTION: Ms. Hanson moved to approve the amended and updated Plan Expense Reimbursement offered by Fidelity with the stipulation that the Board is not locked into this agreement if a lower share class option is available and

to authorize the Board Chair to sign the document if the contingency is met. Mr. Nelson seconded the motion, which passed unanimously on a voice vote.

PROCUREMENT AUTHORIZATION FOR FUTURE FINANCIAL STATEMENTS AUDITOR

Ms. Schueller explained that CliftonLarsonAllen has been the auditor for the annual financial statements of the WDC for the past nine years and under the current contract, there are no more extensions. Consequently, the Board will need to secure the services of an auditing firm for future financial statements via a new procurement process. (Ref. DC |3.4.14 | 10)

MOTION: Ms. Hanson moved to authorize Department staff to begin the procurement process to secure a firm to complete the financial statements audits for five calendar years with appropriate extensions. Mr. Nelson seconded the motion, which passed unanimously on a voice vote.

DEFERRED COMPENSATION BOARD GOVERNANCE MANUAL UPDATE

Ms. Schueller referred the Board to the memo (Ref. DC |3.4.14 | 10) for a list of updated documents. ETF's website has been updated with the current documents. A hard copy of the *Governance Manual* and *Reference Manual* will be provided to Board members every five years. The Board requested that today's fiduciary training be added to the *Governance Manual*.

OPERATIONAL UPDATES

Ms. Schueller referred Board members to the 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 | 3.4.14| 12). Ms. Schueller highlighted several follow-up documents provided as answers to questions or requests from the November DC Board meeting.

ADJOURNMENT

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

The meeting was adjourned at 3:14 p.m.

Date Approved: _____

Signed: _____

Gail Hanson, Secretary
Deferred Compensation Board