DRAFT

MINUTES

June 3, 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
Michael Gracz

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Division of Retirement Services:
Matt Stohr, Administrator
Deferred Compensation Program:
Shelly Schueller, Director
Cheryllynn Mullins, Board Liaison
Office of Trust Finance: Bob Willett,
Chief Trust Financial Officer

OTHERS PRESENT:

ETF Legal Services: David Nispel
ETF Legislative Liaison:
Tarna Hunter
Advised Assets Group (AAG):
Bill Thornton
CliftonLarsonAllen: T.R. Rey
(via teleconference)
Great-West Financial (GWF):
Theresa Myers (via teleconference)
Sue Oelke
Wipfli: Zach Mayer, Courtney Putz

Mr. Main, Chair, called the meeting of the Deferred Compensation Board (Board) to order at 1:01 p.m.

Board	Mtg Date	Item #
DC	11.4.14	2

MINUTES

> ***MOTION: Mr. Nelson moved acceptance of the minutes of the March 4, 2014, meeting as submitted by the Board Liaison. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.***

GREAT-WEST FINANCIAL CORPORATE EXPANSION

Ms. Myers referenced the two press releases (Ref. DC | 6.3.14 | 11, 11a) regarding the corporate expansion at Great-West Financial (GWF), formerly known as Great-West Retirement Services. These changes will not affect the services GWF provides for the WDC. GWF will review the best practices of the newly-acquired organizations to determine if there are any best practices GWF can adopt and utilize for its clients, including the WDC.

2013 CONTRACT COMPLIANCE AUDIT RESULTS

Mr. Mayer, Senior Manager at Wipfli, referred to the report his firm recently completed for the Board: the Independent Accountants' Report on Applying Agreed-Upon Procedures for Third-Party Administration of State of Wisconsin Deferred Compensation Plan for the year ending December 31, 2013 (Ref. DC | 6.3.14 | 4). He explained this report is not a financial audit but rather a review of the WDC administrator's work. Wipfli reviews the WDC's contract with GWF then looks at GWF's internal procedures in an attempt to identify areas of noncompliance with the contract or areas in need of improvement. From a transactional and compliance perspective, the report for the year 2013 is a clean report for GWF; the firm is meeting the terms of the WDC administrative services contract.

> ***MOTION: Mr. Gracz moved to accept the contract compliance report for the year ending December 31, 2013 as presented by Wipfli. Mr. Nelson seconded the motion, which passed unanimously on a voice vote.***

WDC PLAN AND TRUST REVISION – CLARIFICATION REGARDING ALTERNATE PAYEE

Ms. Schueller proposed revisions to the WDC Plan and Trust document to make it clear that an alternate payee must be living in order for a Domestic Relations Order (DRO) to be valid. (Ref. DC | 6.3.14 | 5).

> ***MOTION: Ms. Hanson moved to approve proposed changes to the Plan and Trust document as presented, which will clarify that an alternate payee must be living in order for a DRO to be valid. Mr. Nelson seconded the motion, which passed unanimously on a voice vote.***

INVESTMENT PERFORMANCE REVIEW

Mr. Thornton referred to the Investment Fund Performance Review report for the period ending December 31, 2013 (Ref. DC | 6.3.14 | 6). He reported that all funds have met or exceeded the benchmarks with the exception of the Calvert Equity Fund. Mr. Thornton noted that the Vanguard Long-Term Investment Grade Fund continues to do well when compared with the revised benchmark category. Morningstar recently updated their fixed income category, which resulted in this fund moving from the long-term bond category to the corporate bond category.

The one year weighted return for the WDC as of March 31, 2014 was 16%, with much of the return attributed to the significant level of funds invested in the Fidelity Contrafund, which returned 23.45%. Mr. Thornton discussed Lifecycle/Target Date Funds, the performance of which offered no major changes or surprises.

BENCHMARKING INVESTMENT OPTIONS

Mr. Thornton discussed benchmarking the investment options and referenced the memo with that title in the Board's materials (Ref. DC | 6.3.14 | 7). To be more consistent with the WDC's Investment Policy Statement regarding benchmarking, Mr. Thornton proposed that the Board consider updating the benchmark criteria. Mr. Thornton's recommendations were threefold: 1) a peer group benchmark, 2) a market benchmark selected by the Board and 3) a benchmark used by the fund family. Mr. Thornton discussed the various benchmarking revisions and answered questions from the Board.

The following table shows the current benchmarks in the middle column and the proposed new benchmarks in the column to the right:

Benchmark Clarifications:

1. *benchmarks that are used by both the Wisconsin ETF Deferred Compensation Board as well as the mutual fund family are marked with a single asterisk "*."*
2. Specialty Funds may not have a market benchmark. These are marked with a double asterisk "**". As stated in the IPS, these are selected by the Board for reasons other than performance) and are measured only against their peer group. Regarding the Calvert Social Inv. Equity Fund, the Investment Policy Statement does not require a market (Board-selected) benchmark, but the Board has been comparing this fund to the) Morningstar Socially Responsible Large Cap Average and Mr. Thornton recommended retaining.
3. *Other benchmarks maybe included at the Board's discretion to provide additional monitoring criteria.*

State of Wisconsin Deferred Compensation Program

Benchmark Comparison

(P) Peer (M) Market (Selected by the Board) (F) Fund Family

Investment Product	Current Benchmarks	Revised Benchmarks

Core Funds

American Funds EuroPacific Growth R6	MSCI EAFE Free Index Lipper International Funds Average MSCI All Country World Index ex-USA Morningstar Foreign Large Cap Blend Category Average	**(P)** Morningstar Foreign Large Blend Avg **(M)** MSCI EAFE Index **(F)** MSCI ACWI ex U.S.
DFA U.S. Microcap Portfolio	Russell 2000 Index Russell Microcap Index	**(P)** Morningstar Small Cap Growth Avg **(M) (F)** Russell 2000 Index*
T. Rowe Price MidCap Growth Fund	Lipper Mid Cap Growth Funds Average Russell Mid Cap Growth Index S&P 400 Mid Cap Index Morningstar Mid Cap Growth Category Average	**(P)** Morningstar Mid Cap Growth Avg **(M)** Russell Mid Cap Growth Index **(F)** S&P Midcap 400 Index
Fidelity Contrafund	S&P 500 Index Lipper Growth Fund Average Morningstar Large Growth Category Average	**(P)** Morningstar Large Cap Growth Avg **(M)** Russell 1000 Growth Index **(F)** S&P 500 Index
Vanguard Wellington Fund (Admiral Shares)	Lipper Balanced Morningstar Moderate Allocation Funds Average Composite 65% S&P 500/35% Lehman Aggregate Index	**(P)** Morningstar Moderate Allocation Avg **(M)** Composite 65% S&P 500 / 35% Barclay's Aggregate **(F)** Composite 65% S&P 500 / 35% Barclay's U.S. Credit A or Better Idx
Vanguard Long-Term Investment Grade-Fund Adm	BarCap LT Corporate A Morningstar LT Corporate Category Average	**(P)** Morningstar Corporate Bond Avg **(M) (F)** Barclay's LT Corporate A*
Federated U.S. Government Securities Fund 2-5 Years Instl	Merrill Lynch 3-5 Year Treasure Index Lipper Short-Intermediate U.S. Government Average Morningstar Short-term Government Category	**(P)** Morningstar Short Government Avg **(M)** Barclay's US Treas/Agency 3-5 Yr **(F)** BofA Merrill Lynch US Treas 3-5 Yr

Vanguard Admiral Treasury Money Market Fund	iMoneyNet Money Fund Report Avg 100% Treas Fund	**(P)** Morningstar Taxable Money Mkt Avg **(M)** U.S. Treasury 90-Day T-Bill **(F)** iMoneyNet Money Fund Report Avg 100% Treas Fund
Stable Value Fund (Galliard)	Five Year Constant Maturity Treasury Rate (CMT) Hueler Analytics Pooled Fund Universe Average	**(P) (none - not applicable)** **(M) (F)** Five Year Constant Maturity Treas Rate*
FDIC Option- Nationwide Bank	50% 3-Month LIBOR / 50% 12-Month LIBOR	**(P)** Morningstar Taxable Money Mkt Avg **(M)** 50% 3-Month LIBOR / 50% 12-Month LIBOR **(F) (none - not applicable)**

<u>Index Funds (note: no changes)</u>

Blackrock EAFE Equity Index Fund	MSCI EAFE	MSCI EAFE
Blackrock Small Cap Equity Index Fund	Russell 2000 Index	Russell 2000 Index
Blackrock MidCap Equity Index Fund	S&P MidCap 400 Index	S&P MidCap 400 Index
Vanguard Institutional Index Fund (Plus Shares)	S&P 500 Index	S&P 500 Index
Blackrock U.S. Debt Index Fund	BarCap Aggregate Index	BarCap Aggregate Index

<u>Specialty Funds</u>

Calvert Social Investment Equity Fund- Institutional Class**	S&P 500 Index Lipper Multi-Cap Core Funds Average Calvert Social Index Morningstar Socially Responsible Large Cap Fund Average	**(P)** Morningstar Large Cap Growth Avg **(M)** Morningstar Socially Resp Large Cap Avg** **(F)** S&P 500 Index
Vanguard Lifecycle Funds**	Composite benchmarks based on asset allocation of funds Dow Jones U.S. Target Date Indexes	**(P)** S&P Target Date Indexes** **(M)** (none per IPS) **(F)** Composite benchmarks selected by Vanguard based on asset allocation of funds

MOTION: Ms. Hanson moved to approve the proposed revisions to benchmarking as presented. Mr. Nelson seconded the motion, which passed unanimously on a voice vote.

2013 FINANCIAL STATEMENTS AUDIT

Mr. Rey of CliftonLarsonAllen, LLP, joined the meeting via telephone. CliftonLarsonAllen completed the financial statements audit for calendar years December 31, 2012 and 2013. (Ref. DC | 6.3.14 | 3) There were no material weaknesses or significant deficiencies found during the audit. There were no new disclosures from the prior year. Highlights from the report include:

- The net increase was $625 million driven primarily by investment earnings;
- The WDC's rate of return on mutual fund investments was approximately 22.69%; and
- Employee contributions increased from $136.7 million for year end 2012 to $139.1 million at year end 2013.

Ms. Schueller noted that the document before the Board is in "draft" form of the audit report. 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: Mr. Gracz moved to accept the December 31, 2013 and 2012, financial statements audit report as presented by CliftonLarsonAllen. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.

PLAN EXPENSES, INCOME, AND REIMBURSEMENT REVIEW

Ms. Schueller recapped the Board's request from the March meeting that staff research share classes and reimbursements provided to the Board by certain WDC investment options. Referencing the Share Class Review memo (Ref. DC |6.3.14 | 9A), she discussed four WDC funds with opportunities to potentially lower costs via alternative share classes and the recommendations for each of those funds. Ms. Schueller explained how changes would affect participant costs and the WDC as a whole. Ms. Schueller recommended that the Board consider moving the T. Rowe Price Mid-Cap Growth fund from the retail to the institutional share class, as this lower-cost share class would benefit participants without unsettling the existing participant administrative fee structure. She also noted that there is a lower cost share class (institutional) for the Fidelity Contrafund available. However, regarding the Federated US Gov't Securities fund, the Board is already using the lowest cost share class; the Federated US Gov't Securities fund only offers share classes with reimbursements. The Board also receives small marketing-related reimbursements from the Stable Value Fund and FDIC Fund providers. These small reimbursements were written into contracts and are not share class-related.

Ms. Schueller referred to the Plan Expenses and Income Memo (Ref. DC |6.3.14 | 9B) while outlining the intertwining of plan expenses, income, participant administrative fees and investment option reimbursements. She presented an overview of the plan expenses and how the Board has generally utilized the income from investment option reimbursements to keep participant fees low for all participants. Currently, depending on which funds individuals are investing in and the individual's account balance, some WDC participants are subsidizing other WDC participants because some WDC investment options provide reimbursements to the Board while others do not.

The Board discussed how best to use fund reimbursements. A survey of WDC peer plans identified several different fund reimbursement options. Several plans handle reimbursements the same as the WDC does today, using the reimbursements to keep plan expenses low for all participants, some provide direct reimbursement to participants in the funds providing the reimbursements once or twice a year, and others give a fee holiday to all participants or just to those in the options providing the reimbursements. At least one plan uses the reimbursement funds to purchase additional shares of the fund providing the reimbursements. Board members expressed an interest in the idea of the WDC using reimbursements to purchase additional shares for fund participants. Staff was directed to further research the costs and pros and cons of various reimbursement options for discussion at a future Board meeting.

The Board also discussed the issue of excess funds in the Board's operating account and whether or not the Board should carryover funds into the next year. The concern with fully depleting the WDC operating account is that it would complicate managing the plan's income and expenses, and could lead to fluctuating participant administrative fees. Additionally, with the potential changing of share classes and subsequent loss of reimbursements, the participant administrative fee structure is likely to be affected. If the fee structure is to change, ideally, the Board would prefer to make changes once. The overall challenge with changing share classes and administrative fees would be how to best educate and inform participants that even with (potentially) higher participant administrative fees, with the move to lower cost share classes that do not provide reimbursements, the net effect is expected to be a higher personal WDC account balance because more of participants' account balances are going to purchase shares and less to pay expenses.

The Board asked staff to examine alternatives specifically related to changing the Fidelity Contrafund share class to the institutional level (which does not provide a reimbursement) while analyzing the net cost of reimbursements and administrative fees to participants. Staff analysis indicates that participants' annual WDC administrative fee would need to increase by fifty percent (50%) if the Fidelity Contrafund share class is changed to institutional. Staff also noted that a plan to communicate this change to participants would need to be developed.

MOTION: Ms. Hanson moved to approve changing from the retail share class to the institutional share class for the T. Rowe Price MidCap Growth Fund. Mr. Nelson seconded the motion, which passed unanimously on a voice vote.

PARTICIPANT FEE ANALYSIS

Mr. Willett discussed participant plan administration fees. (Ref. DC |6.3.14 | 8) He reiterated the fact that the WDC's sources of revenue for administrative expenses are participant fees, provider reimbursements (which are directly tied to asset/account balances), and income on the Board's operating account which is invested in the Stable Value Fund. Currently, approximately half of the WDC's income is participant fees and the other half is reimbursements. The higher the participant's account balances and the Board's operating account balance rises, the more income the WDC receives. With the current asset level, the WDC is now generating more income than is needed for plan expenses. This excess will continue to grow unless there is a market event that lowers asset balances to a point that does not support plan expenses.

Assuming normal market growth in the next few years, the WDC will continue generating more income than expense, and there would be an opportunity to make the Fidelity Contrafund share class change without a fee increase.

MOTION: Ms. Hanson moved to affirm no changes to the participant administrative fees at this time until other issues are resolved. Mr. Gracz seconded the motion, which passed unanimously on a voice vote.

YEAR IN REVIEW AND 2013 STATISTICS

Ms. Schueller reviewed the 2013 statistics (Ref. DC | 6.3.14| 10). Employee contributions were steady at $139.1 million and the increase in overall plan assets reflects a healthy market. The WDC participation rate has continued to increase, with approximately 53,000 participants as of the end of 2013. Due to the percentage of eligible public employees (local verses state), more growth can be expected from the local sector. Men continue to have larger WDC account balances than women. Lifecycle (target retirement date) funds seem to be well utilized and many participants are also taking advantage of the Managed Account service.

Ms. Oelke discussed the success of the pilot webinar held this spring. Webinars are a new way for GWF to communicate to participants and employers. Working with Galliard and Ms. Schueller, GWF offered its first ever lunch-time webinar on the Stable Value Fund, which was well attended with over 100 participants. The next webinar will be on fiduciary oversight and will be offered to all local public employers in Wisconsin.

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 | 6.3.14| 12).

ADJOURNMENT

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

The meeting was adjourned at 2:45 p.m.

Date Approved: ___________________________

Signed: ___________________________________
Gail Hanson, Secretary
Deferred Compensation Board