

DRAFT

MINUTES

November 3, 2015

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)
Art Zimmerman

BOARD MEMBERS ABSENT:

None

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

John Voelker, Deputy Secretary
Division of Retirement Services:
Matt Stohr, Administrator
Deferred Compensation Program:
Shelly Schueller, Director

Office of the Secretary: Sharon Walk,
Board Liaison
Office of Policy, Privacy and
Compliance: Lucas Strelow
Division of Management Services:
Steve Mueller

OTHERS PRESENT:

Advised Assets Group (AAG):
Bill Thornton
Galliard Capital Management, Inc.: Mike
Norman (via teleconference)
Empower Retirement: Erica Boyle, Rob
Dwyer, Emily Lockwood

Office of the Secretary: Pam Henning
Office of Legal Services: Dan Hayes,
David Malkus

Board	Mtg Date	Item #
DC	3.8.16	3B

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

ANNOUNCEMENTS

Ms. Schueller made the following announcements:

- A memo with proposed meeting dates for 2016 is included with the meeting materials. Anyone with conflicts should let the board liaison know as soon as possible.
- Ms. Hanson will be joining today's meeting via teleconference.

MINUTES

Ms. Schueller noted corrections to the June 16, 2015, closed session minutes. These minutes will be corrected and submitted for approval at the next Board meeting.

MOTION: Mr. Zimmerman moved acceptance of the open session minutes of the June 16, 2015, meeting as submitted by the Board Liaison. Mr. Nelson seconded the motion, which passed unanimously on a voice vote.

STABLE VALUE FUND

Mr. Norman provided information on a proposed amendment to the Galliard Investment Advisory Agreement. He referred the Board to the memo (Ref. DC | 11.3.15 | 4) for details about discrepancies discovered during a recent compliance review.

Mr. Norman informed the Board about a subadvisor change. Wells Fargo recently selected BlackRock Institutional Company as the new subadvisor to the Short-Term Investment Funds. This change is effective December 1, 2015. No board action is required on this change.

MOTION: Mr. Nelson moved to approve the First Amendment to the Galliard Investment Advisory Agreement, as presented. Mr. Zimmerman seconded the motion, which passed unanimously on a voice vote.

DEFERRED COMPENSATION INVESTMENT COMMITTEE MEETING UPDATE

Ms. Schueller provided an update on the September 1, 2015 Deferred Compensation Investment Committee (Investment Committee) meeting (see Attachment A).

INVESTMENT PERFORMANCE REVIEW AS OF JUNE 30, 2015 AND SEPTEMBER 30, 2015

Mr. Thornton referred to the Investment Fund Performance Review reports for the periods ending June 30, 2015 and September 30, 2015 (Ref. DC | 11.3.15 | 5). The second quarter showed a solid performance and assets went over the \$4 billion mark. Assets are \$3.9 billion as of the end of the third quarter. Expenses continue to be very low. Mr. Thornton will continue to monitor performance of the Calvert Equity Fund and may discuss recommendations for changes with the Investment Committee at a future meeting.

Ms. Hanson joined the meeting at 1:28 p.m. during the Investment Benchmarking Overview.

INVESTMENT BENCHMARKING OVERVIEW

Mr. Thornton shared a study that compared the Wisconsin Deferred Compensation Program to other government defined contribution plans (Ref. DC | 11.3.15 | 6). The study used data from 19 state retirement programs with a minimum of \$100 million in assets. As expected, plans with larger asset bases tend to have lower overall investment expenses.

Mr. Thornton noted an error on page 3 of the report. The Wisconsin weighted average expense ratio is 0.28, not 0.33. A corrected report will be posted to the website.

SOCIALLY RESPONSIBLE FUND REVIEW

Mr. Thornton provided an overview of the Socially-Responsible Fund Comparison. Ms. Schueller reminded the Board that this item was discussed at the September 1, 2015 Investment Committee meeting. The Investment Committee is not recommending any changes to the socially responsible fund option at this time. They asked staff to continue monitoring the investment performance of the Calvert Social Investment Equity Funds on behalf of the Board.

EMPOWER CAMPAIGN UPDATE

Ms. Hunter reviewed the progress of the EMPOWER campaign. The campaign centers on retirement planning for women and incorporates several areas, including health, financial fitness and wellness. Ms. Hunter told the Board that the EMPOWER campaign has received the State's 2015 Affirmative Action Diversity Award and was also one of four recipients of the Pensions and Investments/Defined Contribution Institutional Investor Association 2015 Innovator Awards. The next steps in the campaign include a financial fitness checkup and a white paper that is being written by a University of Wisconsin-Madison Center for Financial Security graduate student.

Ms. Hunter expressed appreciation for the support the campaign has received from the Department of Health Services and ETF's Office of Communications.

The Board thanked Ms. Schueller and Ms. Hunter for their efforts and congratulated them on receipt of the awards.

PLAN ENHANCEMENT PROGRAM

Ms. Lockwood shared a summary of the 2015 Plan Enhancement Program (PEP). She referred the Board to the updated scorecard in their binders (Ref. DC | 11.3.15 | 9A).

Highlights of the PEP include:

- Participation in the WDC has increased by 3.0%. The goal was a 1.5% increase.
- Nine new employers have been added to the WDC.
- Empower Retirement staff assisted individual participants in rolling over \$39 million into the WDC. The target was \$17 million.

Ms. Lockwood reviewed the goals for 2016 (Ref. DC | 11.3.15 | 9B). As in the past, there will be four dimensions: participation, asset allocation, education and learning, retention/retiree outreach.

For 2016, the goals include:

- Participation: increase the number of new employees contributing from 1.5% to 2.5% and add ten new local public employers.
- Asset Allocation: provide a webinar for participants from a specific investment option, offer participants a “free look” trial of the managed accounts service, and conduct a mini-campaign targeted at participants in the money market.
- Education and Learning: provide information on the administrative fee changes
- Retiree Outreach: conduct a pre-retirement outreach campaign for participants nearing age 65.

MOTION: Mr. Zimmerman moved to approve the 2016 Plan Enhancement Program as presented. Mr. Nelson seconded the motion, which passed unanimously on a voice vote.

PARTICIPANT FEE CHANGES COMMUNICATION PLAN UPDATE

Ms. Lockwood provided an update on the participant fee changes communication plan. Information will be publicized in newsletters and online. Ms. Lockwood has talked with several members about the fee changes and indicated that they were satisfied with her explanation. Members will first see the fee changes on their quarterly statements available April 16.

Ms. Schueller will draft a letter of instruction or contract amendment for the third party administrator stating the Board’s desire to have reimbursements go directly to participants in the investment option providing the reimbursement.

POLICY

Mr. Strelow reviewed the Policy on Privacy of Personal Information (Ref. DC | 11.3.15 | 11A) and the Vendor Procurement Appeals Policy (Ref. DC | 11.3.15 | 11B) with the Board.

MOTION: Mr. Zimmerman moved to approve the Privacy of Personal Information Policy and the Vendor Procurement Appeals Policy as presented. Mr. Nelson seconded the motion, which passed unanimously on a voice vote.

INFORMATION TECHNOLOGY UPDATE

Mr. Mueller shared information with the Board on ETF's approach to cyber security. One of the highest priority projects at the present time is ETF Infrastructure Rehosting (ETFIR). ETF is moving from an in-house computer room to a state-of-the-art facility at the Department of Administration (DOA). The DOA data center is a dedicated facility with 24/7/365 monitoring.

Mr. Dwyer and Ms. Boyle shared Empower Retirement's IT security protocols. Empower has a Chief Information Security Officer whose primary focus is IT security. The formal security program has been in place for more than a decade and Empower utilizes a global standard for IT security. Ms. Boyle described the organizational structure for reviewing IT security and approving policies.

Ms. Schueller noted that the investment providers she spoke with have similar security efforts as Empower and ETF.

The Board took a break from 2:53 p.m. until 3:00 p.m.

OPERATIONAL UPDATES

Ms. Schueller referred Board members to the operational updates in their binders. She also shared a letter from a member regarding a positive interaction with Empower staff.

Although a closed session was noted on the agenda, the Board did not go into closed session to discuss the Administrative Services Agreement Contract Extension or the Contract Compliance Audit Contract Extension.

ADMINISTRATIVE SERVICES AGREEMENT: CONTRACT EXTENSION DISCUSSION

Mr. Dwyer and Ms. Schueller discussed Empower Retirement's proposals with respect to the administrative services contract extension (Ref. DC | 11.3.15 | 14). Mr. Dwyer

expressed his appreciation to the Board for the opportunity to continue to provide recordkeeping services to the WDC. Empower envisions a number of enhancements over the next several years including:

- continued support for integrating WDC data into myETF;
- improved online services for participants and employers; and
- a reduction in fees for participants using the Managed Accounts Services.

The Board discussed Empower's contract extension proposals as well as past performance and made the following motion:

MOTION: Mr. Nelson moved to:

- 1. accept Empower Retirement's October 8, 2015, administrative services contract extension proposal; and**
- 2. direct ETF to work with Empower Retirement on the language to be included in the contract extension, including revising areas of the contract as needed including:**
 - a. IT security and privacy;**
 - b. Reality Investment (managed accounts) agreement; and**
 - c. Other areas as mutually agreed upon by the ETF and Empower Retirement.**

Mr. Zimmerman seconded the motion, which passed unanimously on a voice vote.

CONTRACT COMPLIANCE AUDIT: CONTRACT EXTENSION DISCUSSION

Ms. Schuller advised the Board that staff recommends the Board approve extending the WDC Program contract for bi-annual compliance audits with WIPFLI LLP for calendar years 2017 and 2019. (Ref. DC | 11.3.15 | 15)

MOTION: Mr. Zimmerman moved to approve extending the contract compliance audits contract with Wipfli for audits of calendar years 2017 and 2019. Mr. Nelson seconded the motion, which passed unanimously on a voice vote.

ADJOURNMENT

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

The Board adjourned at 3:30 p.m.

Date Approved: _____

Signed: _____
Gail Hanson, Secretary
Deferred Compensation Board



STATE OF WISCONSIN
Department of Employee Trust Funds
Robert J. Conlin
SECRETARY

801 W Badger Road
PO Box 7931
Madison WI 53707-7931

1-877-533-5020 (toll free)
Fax 608-267-4549
etf.wi.gov

CORRESPONDENCE / MEMORANDUM

DATE: September 28, 2015
TO: Deferred Compensation Board (Board) Members
FROM: Shelly Schueller, Deferred Compensation Director
SUBJECT: September 1, 2015 Investment Committee Meeting Notes

This item is informational only. No Board action is required.

On September 1, 2015, the advisory-only Investment Committee met. In attendance were Board members Ed Main, John Nelson (via teleconference) and Art Zimmerman, along with Matt Stohr, Shelly Schueller and Sue Faust of the Department of Employee Trust Funds (Department), Emily Lockwood of Empower Retirement, Bill Thornton from Advised Assets Group (AAG), and Christine Teske and Erica Lansdon of Calvert (via teleconference). The Investment Committee discussed the following:

1. Wisconsin Deferred Compensation (WDC) investment performance results as of June 30, 2015. Bill Thornton presented the quarterly report. Mr. Thornton noted that the report does not reflect the volatility in the last several weeks. This report is from mid-2015, when WDC participant assets topped \$4 billion and the investment performance results were solid. Mr. Thornton noted that some funds' performance looks poor, due to what they can invest in vis-à-vis their benchmarks. For example, Federated is only in Treasuries and Treasury Inflation-Protected Securities (TIPS), but their benchmark peers can also invest in mortgage-backed securities; the Vanguard Long-Term fund has a longer duration than its peers, etc. Mr. Thornton also noted that Vanguard has announced it will reduce its roundtrips from 60 to 30 days in the near future.

Board member John Nelson requested that two additional data points be added to the Stable Value Fund data, which Mr. Thornton will provide in the next report. They are to include fund net assets and a link to the underlying Wells-Fargo fund.

2. Socially responsible fund offerings from Calvert. Christine Teske of Calvert joined the Investment Committee by teleconference to discuss the Board's current socially responsible fund offering (Calvert Social Investment Equity Fund, ticker symbol CEYIX); the Calvert approach to investing; and a Calvert index fund (Calvert U.S. Large Cap Core Responsible Index I, ticker symbol CISIX) in which the Board has expressed interest. Ms. Teske stated that despite the recent market volatility,

Calvert's mutual fund offerings have not been affected. The second quarter of 2015 was positive, primarily due to strong stock selection and overweighting in consumer discretionary companies and underweighting in utilities.

Ms. Teske noted that Atlanta Capital, which is the subadvisor for the CEYIX, has had some fund manager changes. Calvert has done an on-site due diligence review and remains comfortable with Atlanta Capital as the CEYIX fund manager. Erica Lansdon of Calvert also shared insights into Calvert's research system and how a company may make it through their socially responsible screening in the areas of environment, social and government.

Mr. Nelson requested a list of the 722 holdings in the CEYIX fund and the holdings in the CISIX, as he will use these lists to determine how socially responsible the funds are. Ms. Teske will provide these lists to the Department for sharing with the Board. Ms. Teske also offered to find out the cost to the Wisconsin Deferred Compensation Program (WDC) of offering the CISIX as a separate account and this information will also be shared with the Board.

3. AAG's comparison of Calvert's active and index fund options. The Investment Committee reviewed Mr. Thornton's comparison of the Calvert Social Investment Equity Fund (CEYIX) and the Calvert U.S. Large Cap Core Responsible Index I (CISIX). The major difference other than active vs. passive is the cost. The Index fund is approximately 21 basis points (bps) while the active fund is 66 bps. The index fund is also more of a blend fund while the equities fund is more growth-oriented.

The Investment Committee discussed the two Calvert funds and the upcoming administrative fee changes for participants. The Investment Committee recommends that no action be taken on the socially responsible fund option at this time because of similar performance and because the administrative and communication focus of the Department and Empower this fall and winter will center on the fee changes recently adopted by the Board. Instead, the committee would like staff to continue monitoring the CEYIX, share the cost of a possible separate account and the list of holdings from Calvert when available, and include an update on the socially responsible fund on an agenda at a future Investment Committee meeting. A summary of this meeting will be reported to the full Board at the November 2015 meeting.