DRAFT

MINUTES

June 14, 2016

Deferred Compensation Board
State of Wisconsin

Location:
State Revenue Building – Events Room
2135 Rimrock Road, Madison, WI

BOARD MEMBERS PRESENT:

Ed Main, Chair
John Nelson, Vice-Chair
Gail Hanson, Secretary (via teleconference)
Art Zimmerman

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Bob Conlin, Secretary
John Voelker, Deputy Secretary
Division of Retirement Services:
Matt Stohr, Administrator
Deferred Compensation Program:
Shelly Schueller, Director
Office of Legal Services:
Daniel Hayes, David Nispel
Office of the Secretary:
Sara Brockman, Board Liaison

OTHERS PRESENT:

ETF Office of Legal Services:
Diana Felsmann
ETF Office of the Secretary:
Pam Henning
Advised Assets Group (AAG):
Bill Thornton
Department of Justice:
Charlotte Gibson, Assistant Attorney General
Empower Retirement:
Emily Lockwood
Federated Investors:
Robert Hurbanek, Andrew Kirschler, Richard Recker
Fidelity Investments: Ron Henry
Wipfli: Bryan Johnson, Zach Mayer
General Public: John Scherer

Board	Mtg Date	Item #
DC	11.1.16	**2**

Mr. Main, Chair, called the meeting of the Deferred Compensation Board (Board) to order at 1:07 p.m.

ANNOUNCEMENTS

Ms. Schueller made the following announcements:

- Ms. Hanson will be joining today's meeting via teleconference.

MINUTES

> ***MOTION: Mr. Nelson moved to accept the March 8, 2016 Open Session minutes, as submitted by the Board Liaison. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.***

DEFERRED COMPENSATION INVESTMENT COMMITTEE MEETING UPDATE

Ms. Schueller provided an update on the April 5 and May 17, 2016 Deferred Compensation Investment Committee (DCIC) meetings (Ref. DC | 6.14.16 | 3).

At the request of the Board, Mike Norman and Jennie Hopper of Galliard joined the April 5 DCIC meeting via teleconference to provide additional information regarding proposed changes to the Stable Value Fund (SVF) subadvisors. At the March 8 Board meeting, Galliard informed the Board that PIMCO had been downgraded and placed on a Galliard watch list, and therefore no longer meets the criteria to be a SVF subadvisor. Galliard recommended that PIMCO be replaced with TCW and Jennison. The DCIC discussed the recommendation from Galliard and determined that the proposed subadvisor changes were reasonable. After approval of the DCIC at the April meeting, Galliard completed the proposed SVF subadvisor changes.

FUND REVIEW – FEDERATED U.S. GOVERNMENT SECURITIES FUND

Ms. Schueller referred the Board to the memo, Federated U.S. Government Securities 2–5 Year Fund Review (Ref. DC | 6.14.16 | 5). The DCIC recommends the Board consider putting the Federated U.S. Government Securities 2–5 Year Fund on watch status. The DCIC also requested a search for possible alternatives and that a short list be presented for discussion later in 2016.

Putting a fund on watch status requires placing a notice on the WDC website and in the next WDC participant newsletter, informing participants that the Board has carefully been watching performance and is evaluating whether to continue with the fund in question as part of the investment lineup.

Ms. Schueller stated that placing a fund on watch status does not automatically eliminate the plan from the WDC investment lineup. In the event that the Board places a fund on watch status, the length of time required to remove a fund from the investment lineup is one year. Participants will be notified of a six-month window, during which they cannot defer into the option in question, followed by a second six-month period in which they are required to move their balance out of the option on watch status. If they do not move their balance, at the end of the second six months, their balance in that option will be moved to a target date fund appropriate for the participant's age.

Mr. Hurbanek, Mr. Kirschler, and Mr. Recker from Federated provided a fund performance overview for the Federated U.S. Government Securities 2–5 Year Fund and an update regarding a recent U.S. Securities and Exchange Commission (SEC) fine paid by Federated.

Mr. Recker provided an update to the Board regarding a $1.5 million fine against Federated Investors, to settle SEC charges. The charges are related to a former consultant of Federated Kaufman Funds, a Federated subsidiary headquartered in New York, who had been a board member of four companies with stocks traded by Federated. Mr. Recker stated there were no findings of any misuse of material nonpublic information. Federated did not admit or deny wrongdoing in agreeing to pay the civil penalty.

Mr. Kirschler also provided a portfolio performance review for the Federated U.S. Government Securities 2–5 Year Fund. The fund's performance showed some improvement during the first quarter of 2016. However, the fund has trailed its market benchmark and underperformed its peer group for the last three consecutive years.

> ***MOTION: Mr. Nelson moved to place the Federated U.S. Government Securities 2–5 Year Fund on watch status. Mr. Zimmerman seconded the motion, which passed unanimously on a voice vote.***

UNFORESEEN FINANCIAL EMERGENCY HARDSHIP WITHDRAWAL POLICY

Ms. Schueller and Mr. Hayes referred the Board to the memo Unforeseen Financial Emergency Hardship Withdrawals (Ref. DC | 6.14.16 | 4). At the March 8 meeting, the Board reviewed and approved changes to the 12-month lookback for expenses related to Unforeseen Financial Emergency Hardship Withdrawals. The Board also requested that ETF staff provide additional analysis on whether or not an administrative rule is needed to implement the Board's policy regarding a 12-month lookback period.

Pursuant to the Board's March 2016 decisions, ETF has:

1. Updated Section 10.03 of the WDC Plan and Trust document to include the provision the Board approved in March regarding a 12-month lookback period; and
2. Requested that the 12-month lookback period be included in hardship withdrawal informational documents and forms provided to WDC participants by Empower.

In accordance with the Board's directive at the March 2016 meeting, ETF staff reviewed language related to lookback periods used by other public sector deferred compensation plans. Ms. Schueller provided a brief overview of the findings. She stated that most WDC peer plans do not include details pertaining to lookback period timeframes on public websites but a 12-month lookback period was common among plans utilizing Empower Retirement as the recordkeeper.

Mr. Hayes and Ms. Gibson provided additional legal interpretation regarding the Board's authority to set WDC-related rules in accordance with the current Administrative Code. Ms. Gibson provided an overview of governing laws applicable to the Board's ability to propagate substantive standards. Under s. 227.10 of the Wisconsin Statutes, the Board is permitted to engage in rulemaking. The Legislature also delegated to the Board the ability to propagate substantive standards in s. 40.80, WI Stats. Ms. Gibson also stated that there are implied administrative powers in the WDC Plan and Trust document. The current administrative rule, Wisconsin Administrative Code s. ETF 70.10, establishes procedures for administering the WDC and stipulates that hardship withdrawal determinations must be fact-based.

With respect to establishing a 12-month lookback period to be used for evaluating requests for emergency hardship withdrawals, Ms. Gibson advised the Board that a 12-month lookback period should be placed in either Administrative Code ETF s. 70.10 or in the WDC's Plan and Trust Document. If the Board desires a hard and fast rule, then the existing administrative rule should be amended. If the Board desires some flexibility, then the language in the WDC Plan and Trust document should be further revised for clarity and consistency.

The Board requested that ETF staff draft and present the Board with optional language for 12-month lookback period language in both the WDC Plan and Trust document and the administrative rule, with the stipulation that the language be approved by the Attorney General's office prior to the Board's next meeting in November 2016.

FIDELITY CONTRAFUND – FUND REVIEW AND COLLECTIVE INVESTMENT TRUST OPTION

Mr. Henry of Fidelity presented a review of the Fidelity Contrafund, including investment philosophy, process, portfolio construction and performance (Ref. DC | 6.14.16 | 6). As of April 30, 2016, over 28,300 of the plan's 58,000 participants held approximately $563,000,000 in Contrafund. Per Mr. Henry, the Contrafund is currently outperforming its benchmarks.

Mr. Henry shared information about a new collective investment trust (CIT) option available to the plan. On May 11, 2016, Fidelity informed ETF that the Contrafund CIT will be opened to clients that are not record kept by Fidelity. Since the WDC is a s. 457(b) qualified governmental plan, the Board may choose to offer CITs to participants. The Board may choose to shift the Fidelity Contrafund option from a mutual fund to a CIT at any time.

Ms. Schueller shared ETF staff's recommendation that the Board learn how information from Fidelity regarding Contrafund CIT performance and pricing could be communicated to WDC participants. Additionally, the ETF staff would like to gauge participant interest in, and understanding of, CITs through a brief survey to be released during the summer of 2016. The results of this survey would be shared at the next Board meeting.

The Board requested additional information regarding the Contrafund CIT be provided to the DCIC for further evaluation.

CONTRACT COMPLIANCE AUDIT RESULTS

Mr. Mayer of Wipfli presented the 2015 Contract Compliance Audit Results (Ref. DC | 6.14.16 | 7), which summarizes Wipfli's findings regarding Empower Retirement's compliance with the administrative services agreement. The executive summary indicates that overall, Empower Retirement is in compliance with the significant elements of the agreement. The review revealed no significant errors or exceptions.

Wipfli did recommend that ETF regularly review Empower Retirement's Statement on Standards for Attestation Engagements (SSAE 16) report to review user controls, and identify and discuss any matters that may affect the WDC, and monitor activities to determine if there are gaps. ETF agrees with these recommendations and will implement them in 2016.

> ***MOTION: Mr. Zimmerman moved to accept the results of the 2015 contract compliance audit. Mr. Nelson seconded the motion, which passed unanimously on a voice vote.***

INVESTMENT PERFORMANCE REVIEW AS OF MARCH 31, 2016

Mr. Thornton provided an overview of the Investment Fund Performance Review report for the period ending March 31, 2016 (Ref. DC | 6.14.16 | 8). Overall, the first quarter of 2016 was a good quarter for many of the funds in the WDC lineup. Mr. Thornton noted the American Funds EuroPacific Growth Fund had a rough quarter, primarily because it has more emerging market exposure than the category average. He also pointed out the Federated U.S. Government Securities 2–5 Year Fund had a better quarter than it has experienced in the recent past and the T. Rowe Price Mid Cap Growth Fund continues to have very strong performance.

LEGISLATIVE UPDATE

Ms. Hunter referred the Board to the Legislative Update memo (Ref. DC | 6.14.16 | 10). On April 6, 2016, the Department of Labor (DOL) released the final rule concerning the expanded definition of who is a "fiduciary" of an employee benefit plan under the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code of 1986, as well as certain exemptions regarding conflicts of interest. The final rule expands the definition of "fiduciary" to encompass a wider range of persons providing investment advice or recommendations to plans or IRAs for a fee.

In conjunction with the final rule, the DOL released two new prohibited transaction exemptions (PTE) and amended the existing ones. The primary new PTE defines a best interest contract exemption (BIC). The principle of these rules is to help protect participants in retirement plans and IRA investors by making financial advisers accountable for acting in their client's best interest.

The final rule is effective June 7, 2016, and becomes applicable on April 10, 2017. Plans and other applicable financial institutions will have a year to prepare for implementation and compliance. Certain sections of the BIC exemption will not be effective until January 1, 2018.

Resolutions to kill the fiduciary rule were passed by the U.S. House of Representatives in April 2016 and the U.S. Senate in May 2016, which President Obama has vetoed. In addition, a lawsuit has been filed by nine organizations, including the U.S. Chamber of Commerce, Securities Industry and Financial Markets Association (SIFMA), the Financial Services Institute and several Texas business groups. The lawsuit alleges the DOL overstepped its authority and violates the Administrative Procedure Act (APA) and the first amendment to the U.S. Constitution.

Ms. Hunter also provided a brief overview of the new Government Relations web pages and resources on the ETF website.

YEAR IN REVIEW – 2015 STATISTICS

Ms. Schueller referred the Board to the 2015 Annual Statistical Report (Ref. DC | 6.14.16 | 9). She provided a brief overview of the WDC assets, participation rates and fees. Of note, the average age of WDC participants is approximately 50 years old, the majority of newly-enrolled WDC participants are between 34 and 48 years of age, and the average account balance is $68,956.

OPERATIONAL UPDATES

Ms. Schueller referred the Board to the operational updates (Ref. DC | 6.14.16 | 11). The operational updates included a retirement announcement for John Caswell from Galliard (Ref. DC | 6.14.16 | 11g4), who was part of the team that brought the Galliard SVF to the WDC. Ms. Schueller noted the inclusion of the first quarter plan fee disclosure statement from Empower Retirement (Ref. DC | 6.14.16 | 11d).

Ms. Schueller invited Ms. Lockwood to provide a brief update in regard to the 2016 WDC Strategic Partnership Plan (Ref. DC | 6.14.16 | 11c).

The Increase Contribution Campaign included the first ever email marketing campaign undertaken by Empower, sending just over 2,400 emails to participants contributing less than $25 per paycheck and encouraged them to increase their contribution amount. Ms. Lockwood stated the campaign was a success and Empower intends to utilize more email marketing campaigns in the future.

The Managed Accounts 90-Day Free Look was effective from April 1 through June 30, 2016, and allowed participants to test the managed account service fee-free for 90 days. During the month of April, website traffic to the Managed Accounts page was almost double the total traffic for March 2016, and 201 new participants signed up with $12.8 million in assets.

The Online Scheduler tool has been in use since November 2015 and related metrics are in the process of being compiled. Ms. Lockwood stated that Empower is receiving an excellent response rate to follow-up surveys sent to participants after meetings, as well as high satisfaction scores in response to the surveys.

The Employer Newsletter mailed on May 13, 2016 was a four-page newsletter, and was mailed to 1,187 contacts at all local employers and state agencies.

ADJOURNMENT

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

The Board adjourned at 3:27 p.m.

Date Approved: ___________________________

Signed: ___________________________________
Gail Hanson, Secretary
Deferred Compensation Board