

DRAFT

MINUTES

November 1, 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

John Scherer

Art Zimmerman

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Bob Conlin, Secretary

John Voelker, Deputy Secretary

Bureau of Information Technology

Services: Steve Mueller, Chief
Information Officer

Deferred Compensation Program:

Shelly Schueller, Director

Division of Retirement Services:

Matt Stohr, Administrator

Division of Trust Finance: Cindy Klimke,
Chief Trust Financial Officer

Office of Legal Services:

David Nispel, Chief Legal Counsel

Office of the Secretary:

Cheryllynn Wilkins, Board Liaison

OTHERS PRESENT:

ETF Division of Trust Finance:

Bob Willett

ETF Office of Legal Services:

Diana Felsmann

ETF Office of the Secretary: Pam

Henning, Tarna Hunter

Appleton Group: Mark Scheffler,

Timothy Dahlstrom

Coleman and Williams: Kweku

Koomson

Great West Financial:

Bill Thornton

Empower Retirement:

Emily Lockwood, Scott Schewe

State of Wisconsin Investment Board:

Andrea Ruiz

Board	Mtg Date	Item #
DC	3.9.17	2A

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

ANNOUNCEMENTS

Ms. Schueller introduced the newest Board member, John Scherer. She also referred the Board to a memo listing anticipated 2017 meeting dates (Ref. DC | 11.1.16 | 1). Due to conflicts with other board meetings, the Board will be meeting on weekdays other than Tuesdays during 2017.

MINUTES

MOTION: Mr. Nelson moved to accept the June 14, 2016 Open Session minutes, as submitted by the Board Liaison. 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 August 23, 2016, Deferred Compensation Investment Committee (DCIC) meeting (Ref. DC | 11.1.16 | 3).

Mr. Thornton was in attendance and provided the Board an overview of the Investment Performance Review. The DCIC reviewed the short government fund options and the Federated Fund's performance, per the Board's June 2016 request. At the time of the DCIC meeting, there was strong improvement in the Federated Fund but the fund will remain on watch. The DCIC does not recommend any changes. Mr. Thornton provided the DCIC information on the large cap value fund search. Based on the Board's Investment Policy Statement and additional criteria he believed appropriate for the WDC, Mr. Thornton established criteria that ultimately yielded 42 fund possibilities. The DCIC requested Mr. Thornton return to the Board with recommendations for three finalist firms.

2015 FINANCIAL STATEMENTS AUDIT REPORT

Mr. Koomson of Coleman & Williams, LTD (Ref. DC | 11.1.16 | 3) discussed the firm's findings regarding the WDC's 2015 financial statements. Coleman & Williams indicated the WDC's 2015 financial statements present fairly, in all material respects, the financial status of the Plan as of December 31, 2015, and the changes in its financial status for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

The audit did not disclose any significant deficiencies in the WDC. Pending Board acceptance of the draft audit report, Coleman & Williams will issue a final report and a letter to the Board.

MOTION: Mr. Zimmerman moved to accept the financial statements audit report as presented by Coleman & Williams. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.

INVESTMENT PERFORMANCE REVIEW AS OF JUNE 30, 2016 AND SEPTEMBER 30, 2016

Mr. Thornton explained his current dual registration with Great West Financial (GWF) and Advised Assets Group (AAG). AAG is the Registered Asset Advisor (RAA) for GWF. Mr. Thornton's role with the Board is to review and provide investment monitoring for the WDC.

Mr. Thornton provided an overview of the Investment Fund Performance Review report for the periods ending June 30, 2016 and September 30, 2016 (Ref. DC | 11.1.16 | 5). Overall, the second quarter was good for many of the funds in the WDC lineup. A few of the funds were discussed at the DCIC in August. Mr. Thornton noted the American Funds EuroPacific Growth Fund one year performance number is slightly behind the Morningstar category, but this is because Morningstar categorizes this fund as foreign large growth and previously the fund was considered a foreign large blend fund. There has been a significant dichotomy between value and growth on the international market. At the end of June there was a 10% difference between growth and value performance results.

Mr. Thornton noted that the chief investment officer at T. Rowe Price is retiring (Ref. DC | 11.1.16 | 13w) after 35 years on the job. The company plans to split the chief investment officer position into approximately six positions. Mr. Thornton does not expect the change to have any effect on the T. Rowe Price MidCap Growth fund offered in the WDC.

The Calvert Fund, the WDC's socially responsible large cap fund, has been in the news recently. First, there was a \$4 million case settlement for mispricing, which was discovered to be the result of a third party pricing tool used incorrectly. Second, Calvert was sold to Eaton Vance Corporation; Calvert will operate as an Eaton Vance affiliate under the name Calvert Research and Management. Mr. Thornton does not anticipate that either of these events will be a problem for the Calvert Fund or the WDC.

The Board questioned whether the WDC is offering the lowest-cost share classes for its mutual funds. Mr. Thornton confirmed the WDC does offer the lowest-cost share classes for all mutual funds offered, pending any changes out of mutual funds, such as offering collective investment trusts (CIT) like the Fidelity option the Board has been discussing. The WDC has moved to the institutional share classes whenever possible. Vanguard Target Date Funds continue to do very well compared to their peer group.

ADMINISTRATIVE FEE ANALYSIS

Ms. Klimke and Ms. Schueller referred the Board to a memo (Ref. DC | 11.1.16 | 6) reviewing the need for raising participant administrative fees to maintain the balance in the WDC's Administrative Expense Account within the range set by the Board. Ms. Schueller provided some background as to actions the Board has taken in recent years regarding administrative fees. She reminded the Board that no state funds are used for the administration of the WDC. The Board has an account in which it pays for audits,

the third party administrator fee and all expenses associated with the WDC. Prior to January 1, 2016, revenues in the Board's account also included investment provider reimbursements. With the adoption of the Board's Investment Option Selection and Reimbursements Policy, WDC investment option reimbursements are now allocated back to participants. This has lowered the overall balance in the Board's account. As a result, the Board approved a recommended increase in participant administrative fees, effective January 1, 2016.

The Administrative Expense Account Investment and Target Balance Policy the Board reviewed and revised in June 2015 states that the Board's account balance should be between 50-75% of projected annual plan expenses. Ms. Klimke shared two graphs forecasting the account's future balances based on an assumed 7.2% investment return, the first with no administrative fee increase and the second with an approximate 13% administrative fee increase. Ms. Klimke explained that even with the increase in participant administrative fees in January 1, 2016, without an additional participant administrative fee increase in 2017, the target balance of the account will likely fall below the desired policy balance of 50-75% of projected annual plan expenses.

Ms. Klimke and Ms. Schueller responded to questions from the Board.

MOTION: Ms. Hanson moved to approve the proposed revisions to the participant administrative fees effective January 1, 2107, as presented and shown in Table 3 of the memo. Mr. Scherer seconded the motion, which passed unanimously on a voice vote.

LARGE CAP VALUE FUND DISCUSSION

Ms. Schueller referred the Board to the memo (Ref. DC | 11.1.16 | 7) and Mr. Thornton's search criteria and analysis completed to develop a list of possible large cap value funds for the Board to consider adding to the WDC investment spectrum.

Starting with the criteria in the WDC Investment Policy Statement (IPS), Mr. Thornton discussed how he developed the large cap value fund search. Using only the Board's IPS criteria yielded 101 distinct funds with almost 300 share classes. To further refine the search, Mr. Thornton added the criteria listed on page 7 of the memo. This resulted in 10 funds comprising of 42 share classes. The top three funds discussed were the Vanguard Equity Income, J.P. Morgan Equity Income and the American Beacon Bridgeway Large Cap Value funds.

The DCIC requested Mr. Thornton review his search and the top three funds with the Board so the Board could collectively discuss and decide whether the WDC should add a large cap value fund to its offerings. Adding a large cap value fund would not create redundancy, as this fund would be in a different category in the WDC. Mr. Thornton commented that there are no other types of funds the WDC lacks or would need to add beyond a large cap value fund.

MOTION: Mr. Zimmerman moved to begin the process for adding a large cap value fund to the WDC lineup, including a request that staff make arrangements for large cap value fund finalist presentations to full Board. Mr. Scherer seconded the motion, which passed unanimously on a voice vote.

HARDSHIP TIMEFRAME REVIEW

Ms. Schueller referred the Board to the memo (Ref. DC | 11.1.16 | 8) regarding determining where the language related to a 12-month lookback period for hardships should be placed. The Department of Justice did review and approve the language included in the memo. ETF is recommending the language be placed in the Plan and Trust document.

Mr. Nispel answered the questions of Board members regarding the clarifying language. Mr. Nispel affirmed that if the clarifying language was added to the Plan and Trust document, it would be adequate to provide sufficient flexibility to address the particular needs of the recent two appellants and any future similarly situated appellants.

MOTION: Mr. Zimmerman moved to change the hardship timeframe in the Plan and Trust document with the inclusion of "...and loss of income..." in the introduction sentence in both the Plan and Trust and policy. Mr. Nelson seconded the motion, which passed unanimously on a voice vote.

MOTION: Ms. Hanson moved to approve revisions to the Board's Unforeseeable Financial Emergency Hardship Withdrawal Policy as presented in Attachment C. Mr. Zimmerman seconded the motion, which passed unanimously on a voice vote.

STRATEGIC PARTNERSHIP PLAN

Ms. Lockwood shared a summary of the 2016 Strategic Partnership Plan (SPP) and updated scorecard presenting the 2016 plan results year-to-date (Ref. DC | 11.1.16 | 9A) and the 2017 Strategic Partnership Plan (SPP) proposal (Ref. DC | 11.1.16 | 9B). Referring to the 2016 scorecard,

Highlights of the SPP include:

- Participation in the WDC has increased by 2.16%. The goal was a 2.5% increase.
- 12 new employers have been added to the WDC. The goal was 10.
- Increase in email communications to members. The scorecard provides a quick review of the different campaigns approved by the Board and the positive results from each campaign to date.
- Empower Retirement's recordkeeping system for tracking group and individual attendance indicates a drop in overall numbers. Ms. Lockwood attributed that to a new reporting system. With the new system, each individual's contact information

needs to be entered as opposed to previously just recording a count of attendees. There are benefits to the new self-service system and the participants' responses via the survey are extremely positive (4.2 out of 5).

Ms. Lockwood reviewed the goals for the 2017 SPP (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 2017, the goals include:

- Participation: increasing the number of new employees contributing 2.5%, adding twelve new local public employers and attending 2-3 conventions and more than 40 benefit fairs.
- Asset Allocation: helping participants consolidate assets with the WDC with \$30M in rollovers.
- Education and Learning: conduct 500 group meetings and 4,000 one-on-one meetings/retirement readiness reviews
- Retention/Retiree Outreach: 2.5% in-force growth

MOTION: Mr. Zimmerman moved to approve the 2017 Strategic Partnership Plan as presented, with a revision to the “stay in the plan” campaign to target those aged 58. Mr. Scherer seconded the motion, which passed unanimously on a voice vote.

RETIREMENT READINESS REVIEW DEMONSTRATION

Accessing a dummy account, WDC field representative Scott Schewe (Empower Retirement), demonstrated examples of how a participant could utilize the Retirement Readiness Review (RRR) program. The readiness review presents participants with various options/scenarios, built on four factors:

- 1) The age the participant wants to retire;
- 2) Actual savings rate and determine if that is accurate to reach their retirement goal;
- 3) Actual annual income and whether they on track to retire and replace the income at retirement through their life expectancy; and
- 4) the recommendations for assets allocation.

This program uses third party software developed by Morningstar and investment recommendations being presented to participants are that of Morningstar. Mr. Schewe explained how a discussion with a participant generally proceed when the review is in use. The participant can save the different options, exit the program and log-in later and print the recommendation. In addition, they can choose to change their investments or allocations on their own or employ the advice of the managed account services. The RRR program is a great way for participants to see the holistic picture and decide if they have enough money saved to retire and for their life expectancy. The RRR program is another step in providing services to WDC members without an additional cost.

Empower Retirement will have eight certified consultants in Wisconsin to assist participants with the RRR program.

DEPARTMENT OF LABOR (DOL) FIDUCIARY RULE

Ms. Lockwood referred the Board to the memo (Ref. DC | 11.3.15 | 11). Empower is monitoring the DOL's Fiduciary Rule. The rule primarily affects participants who are rolling in and out of the WDC plan and ensuring it is happening in the participants' best interest. Empower has always operated under these circumstances. As a company, Empower is looking to see if any changes are necessary in making service models that will allow even better service. No issues are anticipated.

INFORMATION TECHNOLOGY (IT) UPDATE

Mr. Mueller provided an update since his last report to the Board in November 2015. ETF's largest IT project (besides the Benefit Administration System) is the ETF Infrastructure Rehosting (ETFIR). ETFIR involves moving all of ETF's infrastructure from the Badger Road data center to the State's data center at the Division of Enterprise Technology (DET). ETF has been working with the Department of Administration to review insurance policies for cyber liability insurance. In addition, the largest threat is ensuring staff have an understanding of IT security risks. DET has acquired security awareness training modules. Over the next 24 months, all ETF staff and contractors will be required to complete monthly security training modules. This will ensure regular security awareness opposed to only once a year training.

As part of ETF's work on behalf of the Board, Ms. Schueller, Mr. Stohr, and Mr. Voelker made a due diligence visit to Empower's corporate offices in Denver, Colorado in September 2016. They toured Empower's data center and met with several key Empower staff, including Empower's Chief Information Officer, to review overall IT security policies and procedures. He discussed many of the points Mr. Mueller discussed today regarding IT security. Empower takes cyber security very seriously and carries a large cyber insurance policy. Empower conducts regular ethical hacking of their system to test their firewalls and security. Empower is in the process of upgrading all of their offices, nationwide, for even better IT security.

OPERATIONAL UPDATES

Ms. Schueller referred the Board to the operational updates (Ref. DC | 11.1.16 | 13), highlighting the WDC contract update status. Empower is working with ETF's staff to organize the contract and make multiple language revisions because much of the language in the current contract is more than 10 years old. Also included with the operational update items is a final copy of the compliance audit from Wipfli, which the Board approved in June 2016.

RECOGNIZE OUTGOING BOARD MEMBER

The Chair recognized John Nelson, who has served as a member of the Deferred Compensation Board since July 1997. Mr. Nelson will retire from his State of Wisconsin Investment Board position in December 2016 and resign from his position on this Board

soon. Mr. Nelson has been a dedicated member of the Board, offering valuable knowledge and thoughtful insight. Mr. Nelson has faithfully served the public employees in the State of Wisconsin, offering his careful consideration and good counsel at all times.

Deferred Compensation Board, on behalf of all those who participate in the Wisconsin Deferred Compensation Program for which the Board is responsible, extends best wishes and sincere thanks to John Nelson for his years of service, dedication and leadership to the Wisconsin Deferred Compensation Program.

ADJOURNMENT

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

The Board adjourned at 3:25 p.m.

Date Approved: _____

Signed: _____

Gail Hanson, Secretary
Deferred Compensation Board