

DRAFT

MINUTES

February 9, 2017

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 (via teleconference)
Art Zimmerman

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Bob Conlin, Secretary
John Voelker, Deputy Secretary
Deferred Compensation Program:
Shelly Schueller, Director

Division of Retirement Services:
Matt Stohr, Administrator
Office of the Secretary:
Cheryllynn Wilkins, Board Liaison

OTHERS PRESENT:

ETF Division Management Services:
Kadi Mbanefo
American Beacon: John Montgomery,
Cindy Griffin, Chris Ersbo
Empower Retirement:
Emily Lockwood

Great-West Financial:
Bill Thornton
J.P. Morgan: Mariana Connolly,
Jen Archer (via teleconference)
Vanguard: Eric Simons, Robert Lawler
and Hugh Watters

Mr. Main, Chair, called the meeting of the Deferred Compensation Board (Board) to order at 12:37 p.m.

ANNOUNCEMENTS

Ms. Schueller made the following announcements:

- Mr. Scherer will be joining today's meeting via teleconference.

Board	Mtg Date	Item #
DC	3.9.17	2B

ELECTION OF OFFICERS

Mr. Main informed the Board that Mr. Nelson retired from SWIB at the end of 2016 and plans to resign from the Board. Mr. Nelson's current term expires July 1, 2017. Mr. Main asked for a motion to elect Board officers.

MOTION: Mr. Nelson moved to elect Board officers for 2017 as follows: Ed Main as Chair, Gail Hanson as Vice-Chair and Art Zimmerman as Secretary. Mr. Scherer seconded the motion, which passed unanimously on a voice vote.

LARGE CAP VALUE FUND SELECTION RECAP

Ms. Schueller referred the Board to the memo (Ref. DC | 2.9.17| 3) and the information provided by Mr. Thornton. Mr. Thornton provided a brief recap of the Board's analysis and decisions in 2016 that led to the large cap value fund presentations occurring today. The Wisconsin Deferred Compensation Program (WDC) provides participants with quality investment options in many areas, but currently does not offer participants a large cap value fund option. The Board is considering adding a large cap value option. Three finalist large cap value fund options from the Board's analysis were invited to provide more information regarding their funds.

Mr. Main stated the Board is not required to choose any of the fund options. All discussions and decisions regarding today's presentations and possible selection of a large cap value fund for the WDC will be made at the March 9, 2017, Board meeting.

Ms. Schueller announced that names were drawn out of a hat to decide the order of presentations. She also informed the Board of the timing for each presentation and the time allotted for questions.

LARGE CAP VALUE FUND PRESENTATIONS

American Beacon Bridgeway Large Cap Value (Ref. DC | 2.9.17| 4A)

American Beacon is the advisor and Bridgeway Capital Management is the sub-advisor for this fund. Ms. Griffin discussed Bridgeway's team and its culture.

Mr. Montgomery discussed Bridgeway's philosophy on investing and the experience of its investors. Mr. Montgomery's presentation also reviewed the fund's 1-3-5-10 year performance results.

The Board asked questions and the Bridgeway presenters responded.

J.P. Morgan Equity Income (Ref. DC | 2.9.17| 4B)

Ms. Archer discussed J.P. Morgan's strengths as a firm and J.P. Morgan's investment strategy for this fund. Ms. Connolly discussed the experience of the firm's investors and

the philosophy used with this fund. Ms. Connolly discussed the buy and sell disciplines, the portfolio weightings and characteristics and the fund's 1-3-5-10 year performance results.

The Board asked questions and J.P. Morgan presenters responded.

Board members took a break at 2:12 p.m. and reconvened at 2:30 p.m.

Vanguard Equity-Income (Ref. DC | 2.9.17| 4C)

Mr. Simons provided an overview of Vanguard. Mr. Watters discussed the Vanguard's Equity-Income Fund's multimanager structure and investing model. Management of Vanguard's Equity Income fund is divided between Wellington Management Company (64%) and Vanguard's Quantitative Equity Group (34%), with 2% in cash investments. Mr. Watters discussed the investment focus, characteristics and investment styles of Wellington and the Quantitative Equity Group. He also discussed the fund's 1-3-5-10 year performance results.

The Board asked questions and Vanguard presenters responded.

OPERATIONAL UPDATES

Ms. Schueller stated that John Scherer and Ed Main were confirmed as Board members by the Senate. She referred the Board to the operational updates (Ref. DC | 2.9.17 | 5), which included a memo on Peer Plans' Participant fees (Ref. DC | 2.9.17 | 5a). Ms. Schueller noted that the WDC falls just over the midway point as far as what WDC participants are paying for administrative fees when compared to public employees in other states. Ms. Schueller noted there is a wide range of how participants are paying for the administration of their 457 plans. Some plans are revenue-sharing, others pay on a flat fee basis and others are a mix of both, depending on the funds in their individual portfolios.

Ms. Schueller also noted the previously-requested follow-up on the 2015 Contract Compliance Audit Report and ETF's plans regarding internal audits in 2017 (Ref. DC | 2.9.17 | 5b). The WDC's "Test Drive" campaign as designed and executed by Empower marketing group was submitted to a national awards committee and won a Marcom award for creativity and innovation.

The last item in the operational updates portion of the Board materials is an article (Ref. DC | 2.9.17 | 5q) discussing a lawsuit recently filed against large retirement plans using revenue sharing and multiple record keepers. This lawsuit alleges that the plans are not taking advantage of their size and utilizing economies of scale, resulting in participants paying higher fees than they should pay for record keeping services.

FUTURE ITEMS FOR DISCUSSION

Board members stated they were surprised that there were six states that operate using only revenue share to cover their expenses. A Board member requested an updated graph that identifies which state plans have a revenue share plan. The Board members requested information on the average fee per dollar invested in these plans. This situation would not affect the WDC because the Board members regularly perform their fiduciary responsibility by reviewing share classes, reviewing where the revenue was coming from and returning it to the participants. The Board's actions have been well documented.

ADJOURNMENT

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

The Board adjourned at 3:15 p.m.

Date Approved: _____

Signed: _____
Art Zimmerman, Secretary
Deferred Compensation Board