DRAFT

MINUTES

March 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
Gail Hanson, Vice-Chair
Art Zimmerman, Secretary
John Nelson
John Scherer

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 Legal Services (OLS):
David Nispel, General Counsel
Diana Felsmann, Attorney
Office of the Secretary:
Cheryllynn Wilkins, Board Liaison

OTHERS PRESENT:
ETF Office of the Secretary: Jennie Bauernhuber, Tarna Hunter
Appleton Group: Mark Scheffler
Dana Investment Advisors: John Mueller
Empower Retirement: Emily Lockwood
Great-West Financial: Bill Thornton
HAI: Mike Bruihe
Reinhat Partners: Zach Grines
Representing State Senator Roger Roth: Jason Vick
Sumnicht & Associates: David Hackney

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

Board	Mtg Date	Item #
DC	6.8.17	**2**

ANNOUNCEMENTS

Ms. Schueller made the following announcements:

- Mr. Nelson will resign from the Board after this meeting because he has retired from the State of Wisconsin Investment Board. The Governor will appoint another individual to the Board.

MINUTES

MOTION: Ms. Hanson moved to accept the November 1, 2016 Open Session minutes, with minor grammatical corrections as noted by Ms. Hanson and the February 9, 2017 Open Session minutes, as submitted by the Board Liaison. Mr. Nelson seconded the motion, which passed unanimously on a voice vote.

INVESTMENT PERFORMANCE AND EXPENSE RATIO REVIEW AS OF DECEMBER 31, 2016

Mr. Thornton provided an overview of the Investment Fund Performance and Expense Ratio Review for the period ending December 31, 2016 (Ref. DC | 3.9.17 | 3). Mr. Thornton stated that overall, the funds performed well. Mr. Thornton noted that the American Funds EuroPacific Growth fund had a dramatic shift from growth to value as far as performance in the last two quarters of 2016. The DFA Microcap fund also had a very good quarter, which pushed its one-year number well above its benchmark.

Mr. Thornton noted the Vanguard Long-Term Investment Grade fund did not perform well, compared to the market benchmarks – this is likely due to the change in benchmark categories and the duration of the fund, when compared to its peers. Mr. Thornton stated that the Federated US Gov't 2-5 Year fund also had a tough quarter versus the category, but it was slightly ahead of the market benchmarks. Mr. Thornton stated that the performance of the Federated fund may also look bad when compared to its benchmarks due to the small size of the benchmark group and because the Federated fund has a longer duration than most of its benchmarks.

The Board requested that the firms operating the Calvert and Federated funds present at the June Board meeting.

DEFERRED COMPENSATION INVESTMENT COMMITTEE (DCIC) MEMBERSHIP SELECTION

Ms. Schueller explained that the DCIC typically meets prior to the Board meeting. The DCIC is composed of two Board members designated by the Board. With the departure of Board member John Nelson, the Board needs a different Board member to sit on the DCIC. The DCIC reviews the investment performance and expense ratio report with Bill Thornton and may meet with investment option providers if there are questions. Because the DCIC is advisory only, all recommendations come back to the full Board for any action. The Board decided to defer this discussion to the June meeting, when the Board is expected to have a full roster.

LARGE CAP VALUE FUND DECISION
Ms. Schueller referred the Board to the memo (Ref. DC | 3.9.17| 5) and the additional statistics on the finalist funds provided by Mr. Thornton. The funds are: American Beacon Bridgeway Large Cap Value fund, JP Morgan Equity Income fund and the Vanguard Equity-Income fund. Mr. Thornton provided a brief analysis of the three finalist funds, discussing Sharpe ratios, correlation of efficiencies, standard deviations and expense ratios. He detailed the differences in each fund, as well as benefits and risks. Typically, when reviewing fund performance, plan sponsors look at the three- and five-year numbers, expense ratios and net expense.

American Beacon

- Consistently outperformed its peer group in the past 10 years.
- The expense ratio is 72 bps. (R6 share class due to launch April 30, 2017 at 60 bps.)
- Asset base of $4 Billion

Vanguard

- Performance has not been as consistent, has trailed its peer groups four times.
- The expense ratio is 17 bps.
- Asset base of $25.9 Billion.

JP Morgan

- Performance has been a little behind, trailing its peer group three times.
- The expense ratio is 50 bps.
- Asset base of $14 Billion

Mr. Thornton and the Board discussed the benefits and possible concerns associated with each of the three funds, and the risk of choosing one fund over the other. They also discussed performance and expenses.

The Board requested Mr. Thornton ask the fund providers if any offer a revenue share. Additionally, Mr. Thornton was to ask American Beacon if it had any less expensive share classes and to provide its succession plan for key staff.

ADMINISTRATIVE SERVICES CONTRACT UPDATE
Mr. Nispel referred the Board to a memo (Ref. DC | 3.9.17| 6). Ms. Felsmann explained that over the last several months, the Office of Legal Services (OLS) has been revising the language of the WDC Administrative Services Contract, which expires November 30, 2017. This work reflects ETF's overall desire to standardize the language in all ETF contracts. For example, since November 2016, ETF has been adding cyber security language into all contract revisions. The cyber security language exists as a companion to the privacy language. OLS has been merging past amendments into the contract to create a single document. OLS is also reorganizing the contract to be uniform, with the same standardized terms, format and structure as other ETF contracts.

OLS has made considerable progress in the reorganized contract with the expectation to engage Empower Retirement in April or May.

OPEN MEETINGS LAW UPDATE

Mr. Nispel explained that in July 2016 the Wisconsin Department of Justice sent a letter to Winnebago County regarding possible violations of the Open Meetings Law (Ref. DC | 3.9.17 | 7) and discussed how the contents of this letter could affect the DC Board and the Deferred Compensation Investment Committee (DCIC) members.

Mr. Nispel explained that a governmental body includes members of a board and the corresponding committee. To define a meeting, two requirements must be satisfied: 1) there must be a purpose to engage in governmental business and 2) the number of members present must be there to make a decision. The open meetings law requires a public notice, which must include time, date, place and purpose of the meeting. If there is the presence of a quorum of another board in attendance, the meeting notice needs to reflect the attendance of the secondary board.

For the Board, this could be an issue for DCIC meetings. That committee has two members, and if another Board member attends, then there is a quorum of the Board. To ensure proper meeting notice and avoid violating the open meetings requirements, staff request Board members notify the Chair or the board liaison at the earliest possible date, if they intend to attend a DCIC meeting. This will allow time for a revised Agenda/Notice of the meeting to be provided to the public.

PARTICIPANT SURVEY 2016 RESULTS

Ms. Lockwood discussed the 50-question participant survey (Ref. DC | 3.9.17 | 8), approximately 1,500 people completed between August and September 2016.
Ms. Lockwood emphasized the three areas where Empower Retirement's performance was rated as satisfied or extremely satisfied: satisfaction with the WDC office in Madison; accuracy of their WDC quarterly account statement; and overall satisfaction with the WDC website.

Other survey questions centered on participant preferences for receiving WDC information on investments and webinar topics. Empower has already made service enhancements in 2017 based on the survey results, including offering new webinar topics. For example, just as participants today can log into their accounts and move money from one fund to another, participants will soon be able to request a distribution. Empower will also increase education on underutilized services, such as the asset allocation rebalancing service and automatic contribution increase.

STRATEGIC PARTNERSHIP PLAN (SPP): 2016 RESULTS AND 2017 ADMINISTATIVE FEE CHANGE

Ms. Lockwood discussed the SPP Scorecard (Ref. DC | 3.9.17 | 9) and presented the 2016 goals in each of the four dimensions, including the activities and the results as of December 31, 2016. Overall, the WDC grew by 3.6%. Ms. Lockwood also discussed the various promotional campaigns, including the money market educational effort, which was an email campaign. The “Free Look” at the managed accounts option was an award winning campaign in which 534 participants joined the managed account service and 94% of those participants remained in the service after the free look period ended. Empower Retirement also conducted many group meetings and seminars. Fees were a big topic in 2016 and there were multiple communications on fee changes throughout 2016.

Ms. Schueller affirmed that Empower Retirement met almost all of its goals, with the exception of the number of group seminars and individual meetings completed. This was primarily because of a shortfall in a new scheduling system. While the new system provides participants a tool for online self-scheduling, it also creates an issue for tracking because it requires complete information including attendee name, email and phone number in order for an individual to be counted. Based on the results, ETF is recommending a 3.0% increase in annual administrative fees.

> ***MOTION: Mr. Zimmerman moved to approve a 3.0% increase in the annual fee paid to Empower Retirement. Mr. Scherer seconded the motion, which passed unanimously on a voice vote.***

OPTIONAL ALTERNATE PLAN AND WISCONSIN SELECT

Mr. Scheffler of the Appleton Group introduced Wisconsin Select as a Wisconsin based cooperative offering Wisconsin-domiciled investment options only. He proposed adding a second administrator to the WDC plan and suggested action steps for the Board. (Ref. DC **|** 3.9.17 **|** 10)

Wisconsin Select program is a cooperative venture, with Appleton Group as the fiduciary and Cuna Retirement Plan Services as the record keeper. Wisconsin Select currently has 22 investment manager firms plus 130 registered advisory firms, all located in Wisconsin. Mr. Scheffler explained how he chooses funds with the goal of having as many funds as possible from Wisconsin offered in the Wisconsin Select plan.

Mr. Scheffler suggested that the Wisconsin Select model could offer many advantages to the WDC and to Wisconsin’s economy. He asked the Board to support the concept of a second administrator, to make modifications to Chapter ETF 70.05, Wisconsin Administrative Code, and proposed a timeline in which an alternate administrator could be onboard with an effective date of January 1, 2018.

The Board noted that all funds invested in the WDC are voluntary participant funds and not state funds. As a fiduciary, the Board needs to do what is best for the participants. The Board remarked on several drawbacks of a secondary administrator including, but not limited to, a likely higher cost, a doubling of fiduciary responsibilities and administrative work, and a greater chance of litigation due to the non-utilization of economies of scale that the WDC currently enjoys. The Board stated that the proposed timeline is unrealistic and further noted that the Appleton Group can already solicit local municipalities to offer Wisconsin Select.

OPERATIONAL UPDATES
Ms. Schueller referred the Board to the operational updates memo (Ref. DC | 3.9.17 | 11), and the final copy of the Financial Statements Audit Report for the years ending December 31, 2015 and 2014 , which was approved at the November 2016 Board meeting.

Ms. Schueller met with OLS to discuss the Contrafund Collective Investment Trusts (CITs) language shared by Fidelity and learn whether it was permissible for the Board to pursue this option. OLS reviewed the language of the Contrafund contract ETF received as an example from Fidelity in 2016. OLS found some issues, however, the language should not prevent the Board from offering a Contrafund CIT, if interested.

FUTURE ITEMS FOR DISCUSSION
Ms. Hanson believes the Board's fiduciary duty is to its individual participants and not to other economic interests. She requested a reiteration of the fiduciary training received in 2014 to refresh the Board's understanding of its fiduciary duty.

ADJOURNMENT

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

The Board adjourned at 3:22 p.m.

Date Approved: ___________________________

Signed: __________________________________
Art Zimmerman, Secretary
Deferred Compensation Board