

DRAFT

MINUTES

September 19, 2017

Deferred Compensation Board
Investment Committee
State of Wisconsin



Location:

Department of Revenue
Conference Room 1N-04
2135 Rimrock Road, Madison, WI 53713

COMMITTEE MEMBERS PRESENT:

Ed Main, Chair

Jason Rothenberg, Secretary

PARTICIPANTS:

Deferred Compensation Program:
Shelly Schueller, Director
Matt Stohr, Administrator, Division of
Retirement Services

Great-West Financial (GWF):
Bill Thornton
Vanguard: Bob Lawler (via teleconference)

OTHERS PRESENT:

Art Zimmerman, Deferred
Compensation Board Member

Emily Lockwood, Empower Retirement

Mr. Main, Chair, called the meeting of the Deferred Compensation Board Investment Committee (Committee) to order at 3:02 p.m.

1. ANNOUNCEMENTS

Ms. Schueller reminded the Committee that this is the first meeting since the [Investment Committee Charter](#) was updated by the Deferred Compensation Board (Board) in June 2017. At that meeting, the Board updated the membership section of the charter to include selecting a Chair and Vice Chair, and keep minutes of the meetings. Ed Main was selected as Chair and Jason Rothenberg was selected as Vice Chair by the full Board. Ms. Schueller will take minutes for this meeting.

Board	Mtg Date	Item #
DC	11.15.17	4A

2. JUNE 30, 2017 INVESTMENT PERFORMANCE AND EXPENSE RATIO REVIEW

Mr. Thornton of GWF presented the investment performance and expense ratio review as of June 30, 2017. Mr. Thornton noted that overall, the last quarter was very good for the investment options offered through the Wisconsin Deferred Compensation Program (WDC). Even the options the Board has been watching recently, such as Calvert and Federated, had positive quarters. Likewise, the Vanguard Target Retirement Funds continued to provide returns as expected.

Mr. Thornton noted that the overall expense ratio for the options offered was 27 basis points (bps). This is consistent with what the overall expense ratio has been since Mr. Thornton started calculating this ratio.

3. CALVERT SOCIALLY RESPONSIBLE FUND: ACTIVELY MANAGED VS. INDEX OPTIONS

As requested by the Board at the June 2017 meeting, Jim McInerney and Anthony Eames presented information on the Calvert Equity Portfolio, which is actively managed by Atlanta Capital, and the Calvert US. Large Cap Core Responsible Index Fund, which tracks the Russell 1000 Index.

The presenters discussed the recent acquisition of Calvert by Eaton Vance, and provided an overview of how Calvert uses ESG (environment, social, governance) principles when researching and selecting possible stocks to purchase. The Committee noted that Calvert's current WDC option was selected to be the WDC's socially responsible investment option. The Committee asked questions regarding the differences in these two funds – one fund is an actively managed large cap growth fund with an expense ratio of 70 bps; the other is a large cap index fund with an expense ratio of 19 bps.

After some discussion, the Committee unanimously agreed to recommend the Board consider moving from the current Calvert option (the Calvert Equity Portfolio) to the Calvert US. Large Cap Core Responsible Index Fund. Staff will prepare a memo with this information for discussion with the Board.

4. COLLECTIVE INVESTMENT TRUST OPTIONS

The Committee resumed a previous discussion regarding Collective Investment Trusts (CIT). This is to stay true to the Board's *Investment Option Selection and Reimbursements Policy*, as adopted June 16, 2015, which states that the Board "...seeks to offer participants quality, low-cost investment options through the Wisconsin Deferred Compensation Program (WDC). When available and fiscally feasible, the Board will offer these investment options in share classes (e.g., institutional) that do not provide reimbursements to the plan."

Vanguard CITs. Bob Lawler of Vanguard answered Committee questions related to the Vanguard CIT options currently available. In conversations with ETF and in recognition

of the longstanding relationship with the Board, Vanguard has offered to provide CIT versions of the Vanguard Institutional Index (500 Index) and the Target Retirement Date series (Income, 2015, 2025, 2035, 2045 and 2055) to WDC participants at very low cost.

- The Vanguard Institutional Index (500 Index) currently has a 2 bps expense ratio. If this option was converted to a CIT, the expense ratio would be 1.4 bps.
- The Vanguard Target Institutional Retirement Date funds offered through the WDC each have a 9 bps expense ratio. If the WDC's Target Retirement Date options were converted to CITs, the expense ratios would drop to 7 bps.

Fidelity Contrafund CIT. As presented at the June 2016 Board meeting, the Fidelity Contrafund CIT offers the identical investment approach as the mutual fund version of Contrafund. The Contrafund option offered currently has an expense ratio of 71 bps and provides a reimbursement of 25 bps. The CIT option discussed at that time had an expense ratio of 43 bps. Since that time, Fidelity has opened a second share class of the Contrafund CIT. The CIT "II" share class has an expense ratio of 38 bps. If the WDC converted to a Contrafund CIT, the savings would be between 3 and 8 bps for participants, and reimbursements from the fund would end.

The Committee unanimously agreed to recommend the Board consider converting the Vanguard Target Retirement Funds, the Vanguard Index Fund and the Fidelity Contrafund to CITs. Staff will prepare a memo for discussion at the next Board meeting

5. ADJOURNMENT

The Committee adjourned at 4:15 p.m.

Date Approved: _____

Signed: _____

Jason Rothenberg, Secretary
Deferred Compensation Board Investment
Committee