

DRAFT

MINUTES

March 22, 2018

Deferred Compensation Board
State of Wisconsin



Location:

State Employee Trust Funds Building – Mendota Room

801 W. Badger Road, Madison, WI 53713

1:00 p.m. – 2:45 p.m.

BOARD MEMBERS PRESENT:

Ed Main, Chair

Jason Rothenberg

Gail Hanson, Vice-Chair (teleconference)

Art Zimmerman, Secretary

BOARD MEMBERS ABSENT:

John Scherer

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Bob Conlin, Secretary

Division of Retirement Services:

John Voelker, Deputy Secretary

Matt Stohr, Administrator

Deferred Compensation Program:

Office of the Secretary:

Shelly Schueller, Director

Cherylynn Wilkins, Board Liaison

OTHERS PRESENT:

ETF Bureau of Budget, Contract

ETF Office of the Secretary: Lisa

Administration and Procurement:

Gurley, Tarna Hunter

Bonnie Cyganek

Empower Retirement: Emily Lockwood

ETF Office of Legal Services (OLS):

Galliard: Mike Norman

Monica Anderson, Diana Felsmann

Great-West Financial: Bill Thornton

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

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DC	6.14.18	2

ANNOUNCEMENTS

Ms. Schueller announced that this will be the last Deferred Compensation Board meeting at Badger Road, as ETF is moving to the new Hill Farms state Office Building next week.

MINUTES

MOTION: Mr. Zimmerman moved to accept the November 6, 2017 Open Session minutes as submitted by the Board Liaison. Mr. Rothenberg seconded the motion, which passed unanimously on a voice vote.

ELECTION OF OFFICERS

MOTION: Mr. Rothenberg moved to nominate Edward Main as Chair, Gail Hanson as Vice Chair, and Arthur Zimmerman as Secretary of the Deferred Compensation Board. Mr. Zimmerman seconded the motion, which passed unanimously on a voice vote.

DEFERRED COMPENSATION INVESTMENT COMMITTEE (DCIC)

As discussed at a previous Board meeting, meeting minutes were drafted following the February 5, 2018, DCIC meeting. The draft DCIC minutes are presented to the Board as an update but will remain in draft format until approved at the next DCIC meeting.

INVESTMENT PERFORMANCE AND EXPENSE RATIO REVIEW

Mr. Thornton referred the Board to the December 31, 2017, investment performance and expense ratio report (Ref. DC |3.22.18| 5). The American Beacon Bridgeway Large Cap Value fund was added in November 2017. This fund provides more direct exposure to large cap value for Wisconsin Deferred Compensation program (WDC) participants. Performance of the fund has been very good so far, with returns averaging around 20-30%.

As of December 31, 2017, growth funds were up 22% and small cap funds were up 8%. The market has seen volatility the first quarter of 2018, which is a marked contrast to 2017, which was a very good year for the market, with consistent, positive growth in nearly every sector. The following comments and observations were shared regarding information in the report:

- As of the end of 2017, the Federated U.S. Gov't 2-5 Year fund was trailing its peers. Performance may be a result of how the fund is invested: The Federated fund is 95% Treasuries, while most funds in its peer category are 70% Treasuries. The DCIC recommends leaving the Federated fund on the "watch" list. The Board asked about the possibility of or need to replace the Federated fund. Mr. Thornton noted that the WDC offers four short term options such as the Federated fund, which is more than many peer plans offer. He will research possible options for replacing the Federated fund and the DCIC will discuss Mr. Thornton's research in the future.

- The Board asked about maintaining the Calvert option as the socially conscious fund in the WDC lineup. Mr. Thornton commented that there are not many replacement options for a socially conscious fund, and reminded the Board that at the November Board meeting they agreed to change from the actively managed Calvert fund to a Calvert Index fund.
- American Beacon Bridgeway is doing well, the expense is 55 basis points (bps) which is fairly low comparatively.
- The Vanguard Target Date funds have performed well as well, as have all index funds currently offered by the Board.

STABLE VALUE FUND REVIEW

Mr. Norman referred the Board to the WDC Stable Value Fund Portfolio Review (Ref. DC | 3.22.18 | 6). He provided an overview of the Stable Value Fund (SVF). Highlights included: \$91 billion in assets with all underlying investments performing as expected. SVFs are considered to be one of the lowest-risk investment options available. The objective of a SVF is to preserve the principal with the ability to earn a real return. A SVF is designed to provide day-to-day principal protection with returns comparable to short/intermediate bonds with significantly less volatility.

Mr. Norman explained the different types of SVF contracts and how an underlying bond portfolio is bundled with an insurance contract. One of the benefits of SVFs is the ability to transfer via book value (principal + interest) instead of market value. The insurance contract guarantees a 0% floor (i.e. principal protection). During the market contractions in 2007-08, the SVF market space contracted, but today with the supply and demand, there is no restriction.

The SVF portfolio managed for WDC participants by Galliard has \$650 million in assets, earning a 2.12% yield before fees, with a duration of 2.88 years. More than 23,000 WDC participants are invested in this option.

STRATEGIC PARTNERSHIP PLAN (SPP): 2017 RESULTS AND 2018 ADMINISTRATIVE FEE CHANGE

Ms. Lockwood referred the Board to a memo outlining the results of the 2017 SPP (Ref. DC | 3.22.18 | 7A). She discussed the 2017 SPP Scorecard and presented the results from the 2017 plan year. Overall, Empower Retirement met all of its 2017 goals, with the exception of employer participation. Ms. Lockwood discussed the 2017 events that affected employer participation results, including three mergers and the timing of Dane County converting to offering only the WDC to its employees. In 2018, Emily suggested that the Board should expect to see high employee participation numbers because of Dane County's decision. Ms. Lockwood also discussed the various educational and outreach campaigns, including a rollover campaign offered on the WDC website an element of which is embedded videos.

Ms. Schueller referred the Board to a memo regarding the annual fee paid to Empower Retirement (Ref. DC | 3.22.18 | 7B) and affirmed that Empower Retirement met almost all its SPP goals, with the exception of the adding 12 new employers. This was primarily due to several local employers merging, and one large county that converted its plan to the WDC. Empower Retirement was able to successfully add nine new local employers. Based on the results, ETF recommended a 3.5% increase in Empower's annual administrative fees. The reporting requirement on the U.S. Conference of Mayors will be removed because Empower no longer administers that program.

MOTION: Mr. Zimmerman moved to approve a 3.5% increase in the annual fee paid to Empower Retirement. Mr. Rothenberg seconded the motion, which passed unanimously on a voice vote.

OPERATIONAL UPDATES

Ms. Schueller referred the Board to the Operational Updates in the Board packets (Ref. DC | 3.22.18 | 8) and highlighted the following:

- Board Members were provided the Wisconsin Public Records training materials . Each Board member signed an acknowledgement that they read and understand the information provided.
- Documents included in the Board Governance Manual are updated throughout the year as needed. All documents are available on ETF's website. The memo in the packet lists the documents that were updated in the past year.
- ETF, with the assistance of the Office of Internal Audit, is in the process of looking at features to include in a self-audit that the Board requested last fall. A discussion will be added to a Board meeting later this year.
- The new WDC website will be live on March 22. The improved participant experience on the website includes a dashboard and easy tools participants can use to improve their retirement readiness. On the plan sponsor side, the site should provide better plan metrics, which can be used to help tailor future SPPs.

ADJOURNMENT

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

The Board adjourned at 2:07 p.m.

Date Approved: _____

Signed: _____
Arthur M. Zimmerman, Secretary
Deferred Compensation Board