

DRAFT

# MINUTES

November 15, 2018

## Deferred Compensation Board

State of Wisconsin



### Location:

Hill Farms State Office Building – CR N802  
4822 Madison Yards Way, Madison, WI 53705  
1:00 p.m. – 4:00 p.m.

### BOARD MEMBERS PRESENT:

Ed Main, Chair  
Gail Hanson, Vice-Chair  
Art Zimmerman, Secretary  
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 the Secretary:  
Lisa Gurley, Board Liaison  
Bureau of Budget, Contract  
Administration and Procurement:  
Bonnie Cyganek, Joanne Klaas  
Bureau of Information Security  
Management:  
Trae Matte  
Division of Trust Finance:  
Cindy Klimke-Armatoski

### OTHERS PRESENT:

**Department of Employee Trust Funds:**  
Monica Anderson, Diana Felsmann,  
Dan Hayes, Pam Henning,  
Tarna Hunter, Steve Hurley,  
David Nispel  
**Empower Retirement:**  
Emily Lockwood, Doug Peterson (via  
teleconference)  
**Galliard:**  
Mike Norman (via teleconference)  
**Great-West Financial**  
Bill Thornton

Mr. Main, Chair, called the meeting of the Deferred Compensation Board (Board) to order at 1:03 p.m.

Board	Mtg Date	Item #
DC	3.7.19	2A

## MINUTES

***MOTION: Mr. Zimmerman moved to accept the June 14, 2018 Open Session minutes as submitted by the Board Liaison. Mr. Scherer seconded the motion, which passed unanimously on a voice vote.***

## 2019 MEETING DATES

Ms. Schueller referred the Board to the 2019 Meeting Dates memo (Ref. DC | 11.15.18 | 3) and stated that Board meetings will be held on Thursdays during 2019. She reminded the Board that the dates were selected to avoid conflicts with other meetings and professional organization conferences.

## EMPOWER CONTRACT AMENDMENT

Ms. Schueller referred the Board to the Empower Contract Amendment memo (Ref. DC | 11.15.18 | 4) and provided an overview of the recommended amendment to the administrative services contract. She explained that the amendment would formalize the process for sharing of certain data elements from the Wisconsin Retirement System (WRS) to Empower. The data would be transferred annually through a secure process. The data would be included in the Lifetime Income Scores (LIS) calculated and displayed for participants on the website as provided by Empower Retirement. Ms. Schueller also explained that the LIS gives plan participants the ability to see where they stand financially when it comes to replacing working income with retirement income. Mr. Conlin noted that issues surrounding appropriate notice to participants needed to be resolved before this can be implemented.

***MOTION: Mr. Scherer moved to approve an amendment to the Wisconsin Deferred Compensation (WDC) Program administrative services agreement with Empower Retirement as presented. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.***

## PARTICIPANT ADMINISTRATIVE FEE ANALYSIS

Ms. Klimke-Armatoski referred the Board to the Participant Administrative Fee Analysis memo (Ref. DC | 11.15.18 | 5) and explained how the revenue to fund the WDC comes from participant fees, alongside any gains on the Board's administrative account. She stated that the Board's policy for the administrative account is to maintain an account balance equal to fifty to seventy-five percent of the projected annual plan expenses. Based on internal review, ETF's recommendation is to maintain the current administrative fees for calendar year 2019.

***MOTION: Mr. Zimmerman moved to approve maintaining the current administrative fees paid by plan participants for calendar year 2019. Mr. Scherer seconded the motion, which passed unanimously on a voice vote.***

## **FINANCIAL STATEMENTS AUDITOR RFP REQUEST 2019**

Ms. Cyganek introduced Ms. Klaas as a contract specialist in the Bureau of Budget, Contract Administration and Procurement. Ms. Klaas referred the Board to the Financial Statements Auditor RFP Request 2019 memo (Ref. DC | 11.15.18 | 6). Ms. Klaas provided a high-level overview of the current procurement process for financial statements audit services. She also discussed the purpose for contracting with a certified public accounting firm for annual WDC financial statement audits. Ms. Klaas stated that ETF recommends issuing a Request for Proposals (RFP) in 2019 to solicit proposals from and select the best qualified vendor to audit the WDC financial statements going forward.

***MOTION: Ms. Hanson moved to delegate authority to the ETF Secretary to solicit proposals and contract with a qualified firm to perform financial statements audits of the WDC. Mr. Zimmerman seconded the motion, which passed unanimously on a voice vote.***

## **STABLE VALUE FUND: PROPOSED CONTRACT REVISIONS**

Ms. Schueller referred the Board to the Stable Value Fund: Proposed Contract Revisions memo (Ref. DC | 11.15.18 | 7) and informed the Board that Mr. Norman from Galliard had joined the meeting via teleconference. She provided an overview of the recommended revisions to Exhibit 3 of the Stable Value Fund contract, which included updating sector guideline allocations and standardizing the WDC contract language to be consistent with other stable value fund portfolios managed by Galliard.

Mr. Norman stated that the WDC already uses synthetic guaranteed investment contracts (GICs) and that updating the sector guideline allocations will not affect how the portfolio is currently managed; it will simply transition WDC out of a soon to-be-closed stable value pool fund and permit Galliard to maintain a two to three percent cash liquidity in the plan's fund versus the previous five percent that was required with the contract. Mr. Norman also stated that this revision will provide Galliard with more flexibility to manage the fund.

***MOTION: Ms. Hanson moved to approve the revisions to Exhibit 3 of the Stable Value Fund contract with Galliard which will update the sector guideline allocations, increasing the Synthetic Guaranteed Investment Contract (GIC) allocation to one hundred percent; and standardize the WDC contract language to be consistent with other stable value fund portfolios managed by Galliard. Mr. Zimmerman seconded the motion, which passed unanimously on a voice vote.***

## **INFORMATION TECHNOLOGY UPDATE**

Mr. Matte provided an update to the board regarding security initiatives and controls that ETF has in place. He also discussed some improvements ETF has made to ensure the security of information within the organization, such as bringing on more security staff, fine-tuning technical controls, and revising how ETF responds to security incidents. Mr. Matte provided an overview of the Incident Response Plan that ETF launched this year. This plan details work flows and procedures on how to report and track incidents. Mr. Matte also discussed examples of cyber-security breaches at various firms that have taken place in 2018 that made national news.

Mr. Peterson, Chief Information Security Officer at Empower Retirement, provided an overview of his qualifications and expertise in the area of cyber-security. He discussed initiatives that Empower has taken to prevent both physical and cyber breaches and Empower's security guarantee to participants. Mr. Peterson stated that the primary way accounts are attacked at this time is via phishing scams and provided some recent examples.

## **PLAN AND TRUST REVISIONS**

Ms. Schueller referred the Board to the Plan and Trust Revisions memo (Ref. DC | 11.15.18 | 11) and provided an overview of the recommended changes. She explained that there was a non-substantive change made to reflect a typographical error in Article XIV and that ETF recommends revising Article XIII to reflect that plan changes requiring notice to participants will be included on the ETF and WDC websites as well as in the quarterly newsletter.

***MOTION: Mr. Scherer moved to approve revising the Wisconsin Deferred Compensation Program (WDC) Plan and Trust document to reflect how amendments to the plan are noticed to participants and to correct one typographical error. Mr. Zimmerman seconded the motion, which passed unanimously on a voice vote.***

## **INVESTMENT PERFORMANCE AND EXPENSE RATIO REVIEW AS OF JUNE 30, 2018, AND SEPTEMBER 30, 2018**

Mr. Thornton referred the Board to the Investment Performance and Expense Ratio Reviews for June 30, 2018 and September 30, 2018 (Ref. DC | 11.15.18 | 9A & 9B) and provided a high-overview analysis of the funds making the following comments:

- In the second quarter overview, the funds did well overall.
- The American Funds Euro Pacific fund is behind, primarily due to emerging market exposure. This fund is sitting at 25% exposure to emerging markets, compared to the peer average of 12%.
- T. Rowe Price Mid-Cap Growth fund was a little behind for the second quarter but rebounded in the third quarter and continues to do well in the fourth quarter.

- Vanguard Long-Term Investment fund performance has suffered, as bond rates are rising.
- The Target Date funds continue to do very well.
- The Federated fund continues to be up and down.

## **STRATEGIC PARTNERSHIP PLAN**

### **2018 Year-to-Date Review**

Ms. Schueller provided an overview of the 2018 Strategic Partnership Plan which was approved by the Board in November 2017 (Ref. DC | 11.6.17 | 8B). She identified specific enhancements and initiatives on which Empower was directed to focus and the metrics used to measure the results.

Ms. Lockwood discussed the annual WDC plan review, outlining the growth figures for 2019 and summarized the efforts and results of Empower Retirement's outreach efforts during 2018. Highlights included a new employee website, the "update your beneficiary" campaign, a "save more/increase your contribution" campaign, a diversification campaign, releasing an employer newsletter, employer webinar, an online participant survey, the "stay in the plan" campaign and promoting national retirement savings week in October. Ms. Lockwood referred the Board to the attachments to Item 10 (Ref. DC | 11.15.18 | 10) and informed the Board that with the additions of Oconto County and Sauk County approximately two-thirds of the counties in Wisconsin now offer the WDC to their employees.

### **2018 Online Participant Survey**

Ms. Lockwood referred the Board to the 2018 Participant Survey Results letter (Ref. DC | 11.15.18 | 10B) and provided an overview of the 2018 Online Participant Survey. A total of 5,961 WDC participant responses were received. Eight questions were specifically designed to help gauge participants' satisfaction levels with the WDC and Empower as the service provider. Ms. Lockwood noted that question 18 asked participants to indicate their level of interest in fixed and capital preservation funds, and stated that based on the results, respondents were equally as interested in an FDIC Bank Option as a Money Market Fund and more interested in the Stable Value Fund than the other two fixed funds.

### **Proposed 2019 Strategic Partnership Plan**

Ms. Schueller referred the Board to the Proposed 2019 Strategic Partnership Plan (SPP) memo (Ref. DC | 11.15.18 | 10C) and discussed the proposed goals and metrics for the 2019 SPP. The Board discussed campaign proposals and how communications could be altered to increase newsletter readership as well as keep participants better informed of changes to the WDC. The Board agreed to move forward with the 2019 SPP as presented.

***MOTION: Mr. Zimmerman moved to approve the 2019 Strategic Partnership Plan as proposed. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.***

## **INVESTMENT POLICY STATEMENT**

Ms. Schueller referred the Board to the Investment Policy Statement memo (Ref. DC | 11.15.18 | 12) and informed the Board that this document was reviewed by the Deferred Compensation Investment Committee last summer. She explained that notable changes include updating language of fixed income to capital preservation to better reflect the intent of options offered in the investment category; adding the American Beacon Bridgeway Large Cap option and appropriate benchmarks; and updating the socially responsible offering to indicate the change to the Calvert U.S. Large Cap Core Responsible Index Fund and appropriate Large Cap blend benchmark.

***MOTION: Ms. Hanson moved to approve revision of the Investment Policy Statement as recommended by the Investment Committee and ETF. Mr. Scherer seconded the motion, which passed unanimously on a voice vote.***

## **INVESTMENT DESIGN REVIEW WITH RECOMMENDATIONS**

Ms. Schueller referred the Board to the Investment Design Review with Recommendation memo (Ref. DC | 1.15.18 | 13) and provided an overview of the recommendations in front of the Board. She informed the Board that after reviewing the investment design of the WDC, the Investment Committee recommends the Board consider adding an actively-managed intermediate bond fund and reducing the number of capital preservation investment options offered.

***MOTION: Mr. Scherer moved to accept the Investment Committee's recommendation to consider adding an actively-managed intermediate bond fund to the WDC. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.***

### **Federated Fund Recommendation**

Ms. Schueller referred the Board to the Federated Fund Recommendation memo (Ref. DC | 11.15.18 | 13A) and noted that the Federated US Government 2-5 Year Fund has been part of the WDC since 1992. As of June 29, 2018, approximately 6,000 WDC participants held \$31.2 million in this option. She reminded the Board that the Federated fund has been "on watch" status since June 2016, due to its poor investment performance in comparison to its peers. Since the vote, the Federated Fund's performance has continued to lag in four of the last six quarters.

***MOTION: Mr. Scherer moved to approve terminating the Federated US Government 2-5 Year Institutional Fund and bring mapping options back to the Board at the next meeting. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.***

### **FDIC Option Recommendation**

Ms. Schueller referred the Board to the FDIC Option Recommendation memo (Ref. DC | 11.15.18 | 13B) and stated the Board must review the FDIC option because Nationwide

Bank intends to exit the retail bank business by the end of 2018. Ms. Schueller provided the Board with possible options to consider, which included:

1. Allowing the WDC FDIC account to be sold by Nationwide Bank to a successor financial institution;
2. Authorizing an RFP process that could result in a contract with a new FDIC option provider; or
3. Discontinuing the WDC FDIC option and sweeping FDIC account balances to a fund with a similar capital preservation objective.

Under the terms of the FDIC contract, a qualified successor bank can be assigned to provide the WDC's FDIC option. Nationwide Bank and Johnson Bank of Racine, Wisconsin, have entered into an omnibus deposits purchase agreement regarding the WDC's FDIC option. Johnson Bank meets the capital preservation requirements stated in the Board's Investment Policy Statement and is willing to become the FDIC option provider under the terms and conditions of the current contract.

After discussion, the Board approved assigning the FDIC contract to Johnson Bank as the successor financial institution for the FDIC option. This ensures that the WDC can continue to offer the FDIC option after Nationwide Bank is gone.

The Board declined to take formal action to discontinue the FDIC option. Instead, they requested that the FDIC option be monitored during 2019. If the financial markets continue to be volatile, the FDIC option may again be more popular with participants.

***MOTION: Ms. Hanson moved to approve Johnson Bank as the successor bank to Nationwide for the FDIC account and transfer the FDIC account to Johnson Bank with a modification for ETF to monitor the FDIC market and bring an FDIC recommendation back to the Board for further discussion in 2020. Mr. Zimmerman seconded the motion, which passed unanimously on a voice vote.***

## **OPERATIONAL UPDATES**

Ms. Schueller referred the Board to the Operational Updates cover memo (Ref. DC | 11.15.18 | 15) and highlighted some of the information in it. She also discussed the Board correspondence that was received for this meeting and highlighted the concerns of participants, which included a participant expressing concern regarding unrelated marketing efforts of Empower Retirement; changing the Fidelity Contra Fund from a mutual fund to a collective investment trust; dissatisfaction with the stable value fund equity wash; a desire to purchase exchange traded funds via the Schwab option; concerns over the potential removal of an FDIC investment option and correspondence regarding personal fund transfers.

Ms. Schueller also called attention to the 2018 leadership recognition award the Board received from the National Association of Government Defined Contribution Administrators (NAGDCA).

**FUTURE ITEMS FOR DISCUSSION**

Ms. Schueller referred the Board to the March 2019 Agenda Topics memo (Ref. DC | 11.15.18 | 16) and explained that this is a new addition to the Board’s materials. It is intended to be an opportunity for the Board to stay informed on topics that will be at the next meeting and will be provided at each meeting moving forward. She also informed the Board that a base agenda for the year’s meetings are included with this memo as a reference tool.

**ADJOURNMENT**

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

The Board adjourned at 3:35 p.m.

Date Approved: \_\_\_\_\_

Signed: \_\_\_\_\_

Arthur M. Zimmerman, Secretary  
Deferred Compensation Board