

DRAFT

# MINUTES

March 7, 2019

## Deferred Compensation Board

State of Wisconsin



### Location:

State Hill Farms Building – CR N110

4822 Madison Yards Way, Madison, WI 53705

1:00 p.m. – 3:15 p.m.

### BOARD MEMBERS PRESENT:

Ed Main, Chair

Gail Hanson, Vice-Chair (teleconference)

Art Zimmerman, Secretary

Jason Rothenberg

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 Policy, Privacy and Compliance:

Laura Patterson

Office of the Secretary:

Lisa Gurley, Board Liaison

### OTHERS PRESENT:

BlackRock:

Tim Murray, Lisa Tyley

Empower Retirement:

Emily Lockwood

ETF Staff:

Bonnie Cyganek, Dan Hayes,

Tarna Hunter, Steve Hurley,

Joanne Klaas, Lucas Strelow

Department of Financial Institutions:

Jim DiUlio

Great-West Financial:

Bill Thornton

Mr. Main, Chair, called the meeting of the Deferred Compensation Board (Board) to order at 1:02 p.m.

Board	Mtg Date	Item #
DC	6.13.19	2A

## **ANNOUNCEMENTS**

Ms. Schueller made an announcement regarding the December 2018 change in FDIC providers. She stated that the transition from Nationwide Bank to Johnson Bank went as planned without any disruption to participants.

Ms. Schueller also stated that the Financial Statements Report Auditor RFP was released February 13, 2019; results are due March 13, 2019. She also said that Mr. Zimmerman has agreed to serve on the RFP Evaluation Committee.

## **MINUTES**

***MOTION: Mr. Zimmerman moved to accept the November 15, 2018 and December 17, 2018 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. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.***

## **INVESTMENT PERFORMANCE AND EXPENSE RATIO REVIEW AS OF DECEMBER 31, 2018**

Mr. Thornton referred the Board to the December 31, 2018, Investment Performance and Expense Ratio report (Ref. DC | 3.7.19 | 4). He provided an overview of the report and noted that returns for the first quarter of 2019 are on target and performing at or above expectations.

Mr. Thornton stated that like the overall investment markets, the Wisconsin Deferred Compensation Program (WDC) investment options had a rough fourth quarter in 2018. He reviewed the overall performance of the WDC's investment options as compared to their respective benchmarks and provided insights regarding the performance of certain funds:

- The T. Rowe Price MidCap Growth fund had a better fourth quarter in 2018 as compared to the fund's performance during the other three quarters of 2018.
- The American Beacon Bridgeway Large Cap Value I CIT fund's fourth quarter 2018 pulled down the fund's one year performance, likely due to poor stock picks and an overweighting in both the financial and health care sectors. Mr. Thornton also mentioned that in the first quarter of 2019, this fund has performed 150 basis points better than its peers.
- The Vanguard Long-Term Investment Grade fund held up well despite the overall negative market performance during fourth quarter 2018.

## **STRATEGIC PARTNERSHIP PLAN**

### **2018 Results**

Ms. Schueller referred the Board to the Strategic Plan Partnership 2018 Results memo (Ref. DC | 3.7.19 | 5A) and discussed the primary goals set by the Board for 2018 which included:

- increasing the number of participants by 2.5%;
- adding ten new local public employers to the WDC;
- increasing the number of participants using target date funds;
- increasing the number of participants using the managed account service; and
- presenting at 500 group informational meetings and 4,000 individual meetings.

Ms. Lockwood stated that Empower Retirement (Empower) was able to accomplish all of the pre-determined goals. She also stated that in 2018, the WDC participants grew by 3.37 percent, which added 4,000 new enrollments. Ms. Lockwood stated that Dane County joining the WDC added approximately 400 participants and that Sauk County also recently joined the WDC. She informed the board that approximately two-thirds of the 72 counties in Wisconsin now offer the WDC to their employees.

### **2019 Administrative Fee Change**

Ms. Schueller referred the Board to the 2019 Administrative Fee Change memo (Ref. DC | 3.7.19 | 5B) and provided an overview of the contract language that determines how Empower may earn an increase in administrative fees. She provided the 2018 results of the Strategic Partnership Plan and stated that ETF concurred with Empower Retirement's requested administrative fee increase amount of 5% since they met the goals.

Ms. Schueller addressed a participant's correspondence regarding Empower's administrative fee increase and explained how the WDC administrative fees are paid under the Administrative Service Contract.

Mr. Conlin stated that there is no incentive for Empower to grow the plan via extra dollars per participant, because Empower is paid a flat fee from the WDC. Empower must meet the goals of the previous year's Strategic Partnership Plan in order to earn any administrative fee increases.

***MOTION: Mr. Zimmerman moved to approve a 5.0% increase in the annual fee paid to Empower Retirement. Mr. Scherer seconded the motion, which passed unanimously on a voice vote.***

### **2019 Plan Progress**

Ms. Lockwood provided an overview of the progress made so far in 2019 towards the 2019 Strategic Partnership Plan goals and objectives (Ref. DC | 3.7.19 | 5C). Highlights include: a brand refresh for printed materials as well as the website, and a name change for the managed account service, which is now called “My Total Retirement.” The online advice feature of managed accounts, which formerly cost \$25 per year for those using it, is now being offered at no additional cost to participants.

### **BLACKROCK FUNDS PRESENTATION**

Ms. Tyley, Account Manager, introduced herself and colleague Tim Murray, Product Strategist, of BlackRock Institutional Defined Contribution (BlackRock). Ms. Tyley provided an overview of the investment options that the WDC currently offers through BlackRock (Ref. DC | 3.7.19 | 6). These accounts include the: EAFE Equity Index Fund T, MidCap Equity Index Fund F, Russell 2000 Index Fund T and the U.S. Debt Index W. She stated that the WDC has approximately \$585.5 million invested in these four BlackRock options.

Ms. Tyley stated that BlackRock may be able to decrease some of the fees for the WDC funds held with BlackRock. Continued conversations with Ms. Schueller and Mr. Thornton on fee decreases will take place and a status update will be provided to the Board on these discussions in the future.

Mr. Murray provided an overview of BlackRock’s global index investment platform, which includes multiple different asset classes including: developed assets, fixed income assets, emerging market equities, multi-asset, global, and commodities.

### **STABLE VALUE FUND: REQUEST FOR INDEPENDENT CONSULTANT REVIEW**

Ms. Schueller referred the Board to the Request for Independent Consultant Review memo (Ref. DC | 3.7.19 | 7), which was discussed by the Investment Committee on February 21, 2019. The Investment Committee and ETF believe that an independent, outside review of the Board’s options regarding stable value funds is appropriate and suggest that ETF investigate the Board’s options regarding the selection of an independent consulting firm to analyze stable value fund options. This due diligence analysis can help the Board determine whether changes to the Stable Value Fund are warranted. Ms. Schueller stated that ETF’s report to the Board should include an estimate of what each firm would charge for such an analysis.

***MOTION: Mr. Scherer moved to authorize ETF to identify independent investment consulting firms capable of providing a review of stable value fund options; and provide the Board with a recommendation regarding selecting a firm to provide a review of stable value fund options, including estimated cost for the review. Mr. Zimmerman seconded the motion, which passed unanimously on a voice vote.***

## **BOARD POLICIES REVIEW AND UPDATE**

Ms. Patterson referred the Board to the Board Policies Update memo (Ref. DC | 3.7.19 | 8A - 8C) and provided a brief overview of the policies that need to be updated. The policies presented include: the Board Member Compensation and Reimbursement, Board Member Qualification, Conduct of Board Meetings, Privacy of Personal Information, Vendor Procurement Appeals and Board Meeting Public Notice Protocol.

Ms. Patterson provided information regarding the two new policies being introduced to the Board: Board Member Compensation and Reimbursement Policy and the Board Member Qualifications Policy (Ref. DC | 3.7.19 | 8A). She explained that the purpose of adding these policies to the Board's Governance Manual is to enhance the Board's governance foundation.

Ms. Patterson stated there were non-substantive changes made in the remaining four policies. These changes were made to keep the policies consistent with ETF's other Boards as well as remain up-to-date with state statutes.

***MOTION: Mr. Zimmerman moved to approve the policies as presented by ETF Staff to the Board for incorporation into the Board Governance Manual. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.***

## **OPERATIONAL UPDATES**

Ms. Schueller referred to the Operational Updates in the Board materials (Ref. DC | 3.7.19 | 9A - 9E) and highlighted the following:

- Two proposed administrative rule changes that affect the WDC:
  - Amending Wis. Admin. Code § ETF 70.03(4) to allow bi-annual audits of the WDC's record keeper to determine compliance with its contract; and
  - Amending Wis. Admin. Code § ETF 70.08(3) to decrease the amount of time required to terminate an investment option in the WDC. Currently, this is a two-step, twelve-month process. ETF proposes shortening this timeframe to provide a 90-day period for participants to move their account balances and deferrals when the Board removes an investment option from the plan.
- Ms. Schueller worked with Mr. Thornton and Ms. Lockwood to analyze managed account fees and reported that the fee increases experienced in 2016-2017 were due primarily to the increase in participants using the Managed Account service as a result of the "Free Look" campaign and the strong stock market performance in 2017;
- The Board Authority Contracts Update memo provides the status of the Board's contracts, including those currently in the RFP process;
- The 2018 financial statements report audit is in process;

- Mr. Zimmerman has agreed to be the Board member that will sit on an RFP evaluation committee; and
- The Governance Manual has been updated online for those Board members that are interested in updating their printed manuals.

Ms. Gurley stated that Public Records Law Basics Training was included in the mailing packets. She stated that this is a Department of Administration-required annual training for state employees and Board members. Ms. Gurley asked that Board members sign and return the acknowledgement when they have completed their training.

### **FUTURE ITEMS FOR DISCUSSION**

Ms. Schueller referred the Board to the June 2019 Agenda Topics memo (Ref. DC | 3.7.19 | 10) and asked the Board if there were any additional items they would like included on the agenda.

Ms. Schueller also reminded the Board that there will be a Board Meeting on April 18, 2019 involving presentations from the Actively Managed Intermediate Bond Fund finalists that were discussed at the August 30, 2018 Deferred Compensation Investment Committee Meeting (Ref. DCIC | 8.30.18 | 3) and subsequently approved at the November 15, 2018 Board meeting (Ref. DC | 11.15.18 | 13).

### **ADJOURNMENT**

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

The Board adjourned at 2:41 p.m.

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

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

Arthur M. Zimmerman, Secretary  
Deferred Compensation Board