

DRAFT

# MINUTES

April 18, 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. – 4:00 p.m.

### BOARD MEMBERS PRESENT:

Ed Main, Chair	Jason Rothenberg
Gail Hanson, Vice-Chair	John Scherer
Art Zimmerman, Secretary	

### 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	Lisa Gurley, Board Liaison

### OTHERS PRESENT:

Dodge & Cox Income:	Fidelity Total Bond Fund:
Tom Dugan	Beau Coash, Ron Henry
Empower Retirement:	Great-West Financial:
Emily Lockwood, Kristy Igl	Bill Thornton
ETF Staff:	Western Asset Core Bond Fund:
Cheryllynn Wilkins	Travis Carr, Charles Colby

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

### ANNOUNCEMENTS

Ms. Schueller announced ETF is making progress with the Financial Statements Auditor RFP. She stated that an update will come to the Board at the June meeting.

### FDIC CONTRACT AMENDMENT RECOMMENDATION

Ms. Schueller referred the Board to the Proposed FDIC Bank Option Contract Revisions memo (Ref. DC | 4.18.19 | 2) and stated the Board approved a contract with Johnson Bank to provide the Wisconsin Deferred Compensation Program (WDC) a FDIC bank

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option at its December 17, 2018, meeting. She reminded the Board that Johnson Bank had noted at the December meeting the FDIC contract interest rate of return was above what the marketplace currently returns and had requested the Board consider revising the contract language related to the interest rate methodology.

ETF and Johnson Bank have agreed to a proposed change to reset the interest rate from quarterly to monthly and WDC's record keeper, Empower Retirement, has indicated it can accommodate the change to a monthly interest reset rate with a 60 to 90-day full fund change to be processed. This fund change process will include programming alterations and participant notification. Additionally, this interest rate resetting methodology will be based on the 90-day U.S. Treasury bill less a spread of 15 basis points calculated monthly.

***MOTION: Mr. Sherer moved to amend the FDIC bank option contract (ETI0041) to reflect a revised interest rate methodology based on the 90-day U.S. Treasury bill less a spread of 15 basis points and move from a quarterly rate reset to a monthly rate reset. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.***

#### **ACTIVELY MANAGED INTERMEDIATE BOND FUND SELECTION RECAP**

Ms. Schueller referred the Board to the February 26, 2019 Actively Managed Intermediate Bond Fund Recap memo (Ref. DC | 4.18.19 | 3) and provided a high-level overview of the work done thus far regarding a potential addition of an actively managed intermediate bond fund to the investment options offered in the WDC and added that this fund would complement the existing BlackRock U.S. Debt Index bond fund currently in the WDC lineup.

Mr. Thornton referred the Board to the Fund Data Report as of December 31, 2018 (Ref. DC | 4.18.19 | 3A). He provided an overview of the report and provided a recap of how the Board decided which finalists would be presenting to them at this meeting. He stated that the Investment Committee looked at the capital preservation area of the Board's investments as well as the overlap of funds in that investment area. Mr. Thornton stated that upon review with the Investment Committee, an area that was missing from the Wisconsin Deferred Compensation Program's lineup was actively managed core bond funds. Mr. Thornton also provided an overview of the 3 different finalists that would be presenting to the Board.

#### **ACTIVELY MANAGED INTERMEDIATE BOND FUND PRESENTATIONS**

##### **Dodge & Cox Income**

Mr. Dugan introduced himself as the Director of Dodge & Cox and referred the Board to the report provided by Dodge & Cox (Ref. DC | 4.18.19 | 4A). He also discussed Dodge & Cox's team and its culture, highlighting the tenure of the account management team and its profitability with zero debt. Mr. Dugan discussed Dodge & Cox's philosophy, the 6 different types of income funds that they manage, customer experiences of its'

investors, as well as the fund's 3-5-10 year performance results. He also answered questions asked by the Board.

**Fidelity Total Bond Fund**

Mr. Henry provided a high-level overview of Fidelity Total Bond Funds (Ref. DC | 4.18.19 | 4C) and reminded the Board that they currently hold the Fidelity Contrafund account for the Board.

Mr. Coash provided an overview of the professionals that work with Fidelity in the fixed income sector. Additionally, he discussed Fidelity's strengths as a firm and the investment strategy for this fund. Mr. Coash discussed the experiences of the firm's investors, the sell disciplines, portfolio weightings as well as the 3-5-10 year performance results.

Mr. Thornton inquired on whether Fidelity also offers CITs in which Mr. Henry stated that they do. Mr. Thornton asked what the asset minimum was with Fidelity's CIT option. Mr. Henry stated that deferred compensation plans do not have an asset minimum—it is waived. Mr. Henry added there is a 30-basis point spread with a CIT.

**Western Asset Core Bond Fund**

Mr. Colby introduced himself to the Board along with his associate, Mr. Carr and provided an overview of the organization and the global footprint that they have (Ref. DC 4.18.19 | 4C). He also stated that the company is based out of southern California.

Mr. Carr provided an overview of the construction of different portfolios under Western Asset's management and provided information on the organization's investing strategies. He added that Western Asset's strategies are team-based approaches throughout both the United States and global markets. Mr. Carr also discussed the organization's 3-5-10 year performance results.

The Board determined that further discussion regarding the addition of an actively managed intermediate bond fund should be conducted by the Board's Investment Committee at its May 16, 2019 meeting. The Committee may make a recommendation on the selection of a fund for the Board's consideration at its June 13, 2019 meeting.

**ADJOURNMENT**

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

The Board adjourned at 3:32 p.m.

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

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

Arthur M. Zimmerman, Secretary  
Deferred Compensation Board