

DRAFT

# MINUTES

June 13, 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. – 3:30 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:

Pam Henning, Assistant Deputy Secretary Deferred Compensation Program: Shelly Schueller, Director	Division of Trust Finance: Cindy Klimke
Division of Retirement Services: Matt Stohr, Administrator	Office of the Secretary: Lisa Gurley, Board Liaison

### OTHERS PRESENT:

BlackRock (via teleconference): Lisa Tyley, Ryan Campbell	ETF Staff: Dan Hayes, Tarna Hunter, Joanne Klaas, Tim Steiner, Michelle Thode
Coleman & Williams, LTD: Bill Coleman, Fidel Wambura	Great-West Financial: Bill Thornton
Empower Retirement: Emily Lockwood	

Mr. Main, Chair, called the meeting of the Deferred Compensation Board (Board) to order at 1:01 p.m.

### ANNOUNCEMENTS

Ms. Schueller announced ETF has been working on a new interactive and more user-friendly website. A “soft” launch is scheduled for the week of June 17, 2019. ETF plans a formal launch with more external promotion in July 2019.

Board	Mtg Date	Item #
DC	10.31.19	2A

## CONSIDERATION OF OPEN MEETING MINUTES

***MOTION: Mr. Scherer motioned to accept the March 7, 2019, and April 18, 2019, Open Session minutes as submitted by the Board Liaison. Mr. Zimmerman seconded the motion, which passed unanimously on a voice vote.***

## 2018 FINANCIAL STATEMENTS REPORT AND AUDIT RESULTS

Ms. Klimke referred the Board to the 2018 Financial Statements Report and Audit Results memo dated May 21, 2019 (Ref. DC | 6.13.19 | 3) and provided a comparative overview of the WDC's financial highlights in 2017 and 2018. She stated the auditors, Coleman & Williams, LTD, have issued an unqualified or "clean" opinion, indicating the WDC's financial statements are free from material misstatement as of December 31, 2018.

Mr. Coleman from Coleman & Williams, LTD introduced his colleague, Mr. Wambura, to the Board. Mr. Wambura stated that Coleman & Williams' opinion of the financial statements report was clean and unmodified and that no deficiencies were discovered during the audit. He also stated there were no proposed changes to the financial statements and there were no disagreements with ETF management.

***MOTION: Mr. Zimmerman motioned to approve the State of Wisconsin Public Employees Deferred Compensation Plan and Trust Financial Statements report and audit results as of December 31, 2017 and December 31, 2018 and for the years then ended, as presented. Mr. Rothenberg seconded the motion, which passed unanimously on a voice vote.***

## FEDERATED FUND: REMAINING BALANCES AFTER 5/1/2020 RECOMMENDATION

Ms. Schueller referred the Board to the April 16, 2019, Federated Fund: Remaining Balances memo (Ref. DC | 6.13.19 | 4) and reminded the Board they voted at the November 2018 Board meeting to close the Federated US Gov't Securities 2-5 Year fund (Federated fund) to WDC participants due to the Federated fund's continued underperformance.

Ms. Schueller noted that Wisconsin Administrative Code Ch. ETF 70.08 states that the investment option termination process may begin on the first business day of the sixth month following the Board's decision. The timeline to close the Federated fund includes notifying participants who are deferring funds to the Federated fund as of May 1, 2019, that they must redirect existing deferrals before November 1, 2019, then further notifying any participant with a balance in the fund that they must move it to a different fund prior to May 1, 2020.

Ms. Schueller reminded Board members that at the November 2018 meeting they requested ETF review the Board's options regarding where any remaining balances in

the Federated fund after May 1, 2020, could be directed. She stated if the Board takes no action, then the Board's Default Fund Policy would be followed, which would send participants' remaining Federated balances to the Vanguard target retirement date fund appropriate for the participant's retirement age, using age 65 as the standard retirement age.

Because the Stable Value Fund is the WDC option most like the Federated fund and expected participant inertia regarding moving remaining balances, ETF recommended that the Board direct any balances remaining in the Federated fund after it is closed be moved to the Stable Value Fund.

***MOTION: Ms. Hanson motioned to approve moving deferrals and any balances remaining in the Federated US Government 2-5 Year Institutional Fund after the fund is closed on May 1, 2020, to the Stable Value Fund. Mr. Scherer seconded the motion, which passed unanimously on a voice vote.***

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

Ms. Schueller referred the Board to the May 30, 2019 Actively Managed Intermediate Bond Fund Selection memo (Ref. DC | 6.13.19 | 5) and provided a high-level overview on the process that has been undertaken to select an actively managed intermediate bond fund for potential inclusion in the WDC. She informed the Board that the Investment Committee (Committee) had a discussion regarding the three finalist funds on May 16, 2019, at which time the Committee acknowledged that each of the funds were very high quality and would be appropriate additions to the WDC. The Committee did not make a recommendation on which fund should be selected and thought a full Board discussion was warranted in making the selection.

Mr. Thornton provided a brief analysis of the three finalist funds, discussing Sharpe ratios, correlation of efficiencies, standard deviations and expense ratios. He detailed the differences in each fund, as well as benefits and risks.

Mr. Thornton and the Board discussed the benefits and possible concerns associated with each of the three funds and the risk of choosing one fund over the other. They also discussed performance and expenses.

***MOTION: Mr. Scherer motioned to add the Dodge and Cox Income fund to the WDC lineup. Mr. Zimmerman seconded the motion, which passed unanimously on a voice vote.***

### **BLACKROCK INVESTMENT OPTIONS: PROPOSED AGREEMENT REVISIONS AND FUND/FEE CHANGES**

Ms. Schueller referred the Board to the May 17, 2019 BlackRock Investment Options memo (Ref. DC | 6.13.19 | 6) and provided an overview of the BlackRock collective investment trust (CIT) index funds that are currently part of the WDC investment lineup,

along with the BlackRock CIT investment structure and investment management fees. She noted that the Board's investment agreement for these options dates to 2009 and should be updated to reflect that BlackRock and not Barclays holds the agreement and to include required current regulatory language.

BlackRock representative Lisa Tyley provided an overview of the WDC's BlackRock CITs and outlined the differences in how management fees are paid in the BlackRock CITs. Ms. Tyley also discussed the offer BlackRock has made to provide the Board with lower cost versions of the CITs. If the WDC moved to the lower expense CITs, more of participants' savings would remain with the participants investment in the CITs instead of being used to pay management fees.

***MOTION: Ms. Hanson motioned to approve amending the Board's investment agreement with BlackRock to enact updated language and lower investment management fees and delegate its authority to the Board Chair to sign the amended investment agreement. Mr. Scherer seconded the motion, which passed unanimously on a voice vote.***

## **INVESTMENT PERFORMANCE AND EXPENSE RATIO REVIEW AS OF MARCH 31, 2019**

The Board reviewed the performance of the investment options as of March 31, 2019, as presented in the "Investment Performance and Expense Ratio Review" report by Mr. Thornton of Great-West Investments (Ref. DC | 6.13.19 | 7).

Mr. Thornton stated the majority of WDC investment options had good performance during the first quarter of 2019. 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 rough first quarter 2019. However, its overall performance in 2018 was pretty good versus its peers. This fund was underweighted in both the financial and technology sectors, which had the best growth during the first quarter of 2019. In addition, it appears the six percent this fund held in cash in early 2019 cost this fund about 1.1 basis points in relative performance.
- The American Beacon Bridgeway Large Cap Value I CIT was over weighted in financials and consumer cyclicals, which contributed to the fund's underperformance in 2018. The fund is back in line and on track with peers as of the first quarter of 2019.
- The Vanguard Long Term Investment Grade fund did well in the first quarter.

Mr. Thornton also pointed out that as of March 31, 2019, the WDC's asset-weighted average expense ratio was 0.21%.

## **2019 WDC STRATEGIC PARTNERSHIP PLAN UPDATE**

Ms. Lockwood provided an overview on WDC initiatives (Ref. DC | 6.13.19 | 8) and the 2019 Scorecard and Communications calendar. She stated that in the first three months of 2019, Empower completed a brand refresh for the WDC, which included the “My Total Retirement” (MTR) name change and a new look for the *MoneyTalks* newsletter. Ms. Lockwood also provided an overview on how MTR works, targeted 2Q19 communications to participants and 2019 fund changes.

## **YEAR IN REVIEW – 2018 STATISTICS**

Ms. Schueller referred the Board to the letter from Empower to ETF (Ref. DC | 6.14.18 | 9) included in the 2018 annual report, which discussed the annual WDC Plan Review for 2018. The review provided growth figures for 2018 and summarized the results of Empower Retirement’s local WDC office outreach efforts to participants during 2018. Ms. Schueller also provided an overview of the information included within the 2018 annual report, highlighting the addition of 10 new employers and an increase of approximately 4,500 participants in the plan. She stated there are currently 932 local employers participating in the WDC, along with the State of Wisconsin.

Ms. Lockwood highlighted additional 2018 statistics, including participant deferrals by asset class, assets by investment options, advisory services usage from 2008-2018, self-directed broker account usage, benefit payment history, participant hardships, website and call center statistics, and group meeting and individual planning session information.

## **OPERATIONAL UPDATES**

Ms. Schueller referred to the Operational Updates in the Board materials (Ref. DC | 6.13.19 | 10A – 10F2) and highlighted the following:

- WDC Board Contracts Update from May 20, 2019 (Ref. DC | 6.13.19 | 10A). As a result of the Request for Proposals for the Financial Statement Audits, Wipfli, LLP has been awarded the contract. Wipfli will complete the 2019, 2020 and 2021 WDC financial statement audits. This contract begins July 1, 2019 and continues through June 30, 2022.
- Legislative Update from June 12, 2019 (Ref. DC | 6.13.19 | 10B). This memo includes information on potential federal legislative changes to supplemental retirement savings plans that could affect the WDC. ETF staff are monitoring these proposals closely.
- Employee Engagement and Education – Oconto County Pilot from May 28, 2019 (Ref. DC | 6.13.19 | 10C2). ETF successfully partnered with Oconto County to provide holistic retirement planning information and encourage members to start thinking about retirement regardless of their age. The WDC was added to the benefits offered by Oconto County and the benefits of saving with the WDC were stressed as part of this presentation. ETF will explore expanding partnerships with additional employers interested in providing additional retirement-related information to their staff in the future.

- Benchmarking the Managed Accounts Service from May 21, 2019 (Ref. DC | 6.13.19 | 10C4). ETF shared a white paper from the Empower Institute that discusses various measurement tools being used to gauge the success of managed account services in retirement plans.

Ms. Schueller also provided an update on the Stable Value Fund Independent Consultant Request for Information (RFI) process. Information was due June 7, 2019, and four firms submitted responses. ETF's Bureau of Budget, Contract Administration and Procurement is in the process of reviewing the responses. ETF anticipates discussing the results with the Deferred Compensation Investment Committee later this summer and that this item will be on the Board's agenda for a future meeting.

### **FUTURE ITEMS FOR DISCUSSION**

Ms. Schueller referred the Board to the October 2019 Agenda Topics memo (Ref. DC | 6.13.19 | 11) and asked the Board if there were any additional items they would like included on the agenda.

The Board expressed interest in inviting Mr. Brian Cosmano from the Empower Institute to a future Board meeting to discuss managed accounts benchmarking in more detail.

### **ADJOURNMENT**

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

The Board adjourned at 2:42 p.m.

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

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

Arthur M. Zimmerman, Secretary  
Deferred Compensation Board