

DRAFT

MINUTES

March 12, 2020

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
Gail Hanson, Vice-Chair (teleconference)
Art Zimmerman, Secretary (teleconference)
Terry Craney
Jason Rothenberg

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Bob Conlin, Secretary
John Voelker, Deputy Secretary
Wisconsin Deferred Compensation Program:
Shelly Schueller, Director
Division of Retirement Services:
Matt Stohr, Administrator
Bureau of Budget, Contract Compliance and Procurement:
Joanne Klaas
Office of Legal Services:
David Nispel
Office of the Secretary:
Lisa Gurley, Tarna Hunter

OTHERS PRESENT:

Department of Financial Institutions:
Jim Diulio
Empower Retirement:
Emily Lockwood
ETF Staff:
Monica Anderson, Patrick Hughes,
Kathryn Young
Ethics Commission:
Dan Carlton
Great-West Financial (teleconference):
Bill Thornton
Resolute Investment Managers:
Cindy Griffin, Paul Slakter
Vanguard (teleconference):
Bob Lawler, Brian Scott

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

Board	Mtg Date	Item #
DC	6.11.20	2A

ANNOUNCEMENTS

Ms. Schueller introduced Terry Craney, who was appointed to the Board and confirmed by the Senate for a term expiring July 1, 2023. She also stated that Governor Evers has reappointed Gail Hanson to serve for another term on the Board.

CONSIDERATION OF OPEN MEETING MINUTES

MOTION: Mr. Rothenberg moved to approve the October 31, 2019, and December 19, 2019 Open Session minutes as submitted by the Board Liaison. Mr. Craney seconded the motion, which passed unanimously on a voice vote.

ELECTION OF DEFERRED COMPENSATION BOARD OFFICERS

MOTION: Mr. Rothenberg moved to maintain the current slate of officers: 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.

ETHICS TRAINING

Mr. Carlton, Administrator of the Wisconsin Ethics Commission, provided background information on the Ethics Commission and stated they are responsible for administering Wisconsin Statutes Chapter 11: Campaign Finance, Subchapter III, Chapter 13: Lobbying and Subchapter III, and Chapter 19: Code of Ethics. He highlighted the importance of Wisconsin's finance, lobbying and ethics laws, as well as the prohibited practices under each chapter.

INVESTMENT OPTION PERFORMANCE

December 31, 2019 Review

The Board reviewed the performance of the WDC's investment options, as of December 31, 2019, that was presented in the "Investment Performance and Expense Ratio Review" report by Mr. Thornton of Great-West Investments (Ref. DC | 3.12.20 | 5A). Mr. Thornton 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 Mid-Cap Growth fund trailed its peer groups and benchmarks in the fourth quarter of 2019, primarily due to fund selection in technology and holding five percent in cash.
- The DFA US Micro-Cap Index fund performance also trailed its peers in the fourth quarter 2019, due mainly to poor stock selections. Mr. Thornton reminded the Board that this fund holds more microcap stocks than the benchmarks, which also impacts its performance.

- The American Beacon Bridgeway Large Cap Value I CIT fund's fourth quarter 2019 performance continued to trail its peers, primarily due to poor stock selections.

Mr. Thornton also pointed out that for the last four quarters, ending December 31, 2019, the WDC's asset-weighted average expense ratio has remained consistent at 0.21%.

Board Watch List Recommendations

Ms. Schueller referred the Board to the Board Watch List Recommendations memo, dated February 10, 2020, (Ref. DC | 3.12.20 | 5B) and stated ETF is recommending the Board consider placing the American Beacon Bridgeway Large Cap Value option "on watch" due to poor investment performance. She reminded the Board that this fund has been discussed at the last few Board and Investment Committee meetings due to its performance lagging its peers when comparing 1-year, 3-year, and 5-year total returns. However, the WDC has not employed this strategy for the full 5 years. Ms. Schueller also noted this option opened to participants in November 2017 and has been in the lowest quartile for 3-year rolling percentile ranks since the end of 2018 (Ref. DC | 3.12.20 | 5A, pg. 7).

MOTION: Mr. Zimmerman moved to approve placing the American Beacon Bridgeway Large Cap Value option "on watch" due to poor investment performance. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.

The Board took a break from 2:25 p.m. to 2:30 p.m.

AMERICAN BEACON BRIDGEWAY INVESTMENT PERFORMANCE REVIEW

Mr. Slakter provided an overview of American Beacon Advisors, Inc, which included a sub-advisor overview of Bridgeway Capital Management, Inc. (Bridgeway). Bridgeway is the firm performing the investment management function for the American Beacon Bridgeway Large Cap Value option.

Ms. Griffin stated while the fund's performance has not kept up with its benchmarks or peer funds, the firm's philosophy, process, and ownership have not changed. She also stated there has not been a change in the investment management team; the same portfolio managers have been on the team since 2003. Ms. Griffin stated American Beacon Bridgeway believes in a disciplined, statistical process grounded in academic theory and fundamental data over long periods of time.

Ms. Griffin provided information on American Beacon Bridgeway's:

- Investment research;
- Portfolio construction;
- Risk management;
- Sell discipline that is used for each of their investors;
- Fund's performance;

- Investment themes; and
- Fund characteristics since inception on October 31, 2003.

VANGUARD: OVERVIEW OF INVESTMENTS PROVIDED

Mr. Lawler, Relationship Executive, provided an overview of Vanguard, as well as a relationship summary of the 10 Vanguard options offered through the WDC. He highlighted:

- Fund stability;
- Low-cost investing;
- History of investment management;
- Net cash flows for funds with diverse asset mix; and
- Target-date fund growth over the years.

Mr. Scott, Senior Investment Specialist, provided the Board with an investment performance summary of the funds the WDC has with Vanguard. He also discussed Vanguard's equity indexing process and the way the funds track their benchmarks against their peers.

LEGISLATIVE UPDATE: FEDERAL SECURE ACT CHANGES TO THE WDC PLAN AND TRUST

Ms. Hunter referred the Board to the Legislative Update: Federal SECURE Act and Bipartisan American Miners Act memo dated February 6, 2020 (Ref. DC | 3.12.20 | 8) stating both the SECURE Act and the Bipartisan American Miners Act became Federal law on December 20, 2019. She provided an overview of the provisions in the legislation that impact s. 457 plans, including the WDC, which include:

- Increasing the age for Required Minimum Distributions from 70 1/2 to age 72 for participants who turn age 70 1/2 on or after January 1, 2020;
- Modifying the rules for inherited account assets by requiring distribution of inherited assets be completed within ten years of the death of the participant (account owner), effective January 1, 2022;
- An optional plan provision permitting withdrawals for individuals in case of birth or adoption. This would allow penalty-free withdrawals of up to \$5,000 if the withdrawal is made during a one-year period, beginning on the date of birth of the participant's child or the date the participant finalized an adoption; and
- An optional plan provision allowing qualified plans to make direct trustee-to-trustee transfers of a lifetime income investment option in the form of a qualified plan distribution annuity, beginning on or after January 1, 2020.

Ms. Hunter stated the lifetime income option does not impact the WDC at this time because the WDC does not currently offer lifetime income options.

Ms. Hunter noted the Bipartisan American Miners Act provides plans with the option to offer in-service distributions from s. 457 plans at age 59 1/2 instead of the previous age of 70 1/2, beginning on or after January 1, 2020.

Ms. Schueller stated ETF is analyzing the changes and the impact of this legislation to the WDC and expects to return to a future Board meeting with recommendations. She said Empower Retirement is identifying likely revisions to its record keeping systems, processes, communications, and forms that will be necessary for Empower to implement the new law provisions.

ANNUAL WISCONSIN PUBLIC RECORDS LAW BASICS TRAINING

Mr. Nispel stated Wisconsin Public Records Training is required of WDC Board members on an annual basis by the Department of Administration. He discussed roles and responsibilities for individuals who may work with public records, the definition of a public record, and items that are and are not considered public records.

Mr. Nispel reminded the Board they should sign and return to the Board Liaison the acknowledgement form stating they have received the annual Wisconsin Public Records Training.

WDC STRATEGIC PARTNERSHIP PLAN

2019 Results and 2020 Recordkeeping Fee Change Recommendation

Ms. Schueller referred the Board to the 2020 Recordkeeping Fee Change Recommendation memo, dated February 4, 2020, (Ref. DC | 3.12.20 | 10A). Because Empower Retirement met all the goals for 2019, ETF is recommending the Board approve a 5% increase in the annual fee paid to Empower Retirement. 2019 Strategic Partnership Plan (SPP) results include:

- Increasing the number of WDC participants by 3.30%;
- Adding 12 new local employers;
- Attending 2 conventions and staffing 65 benefit fairs;
- Enrolling 1,334 managed account users during the “Free Look” period;
- Presenting at 430 group informational meetings;
- Providing 2,900 retirement readiness reviews; and
- Completing the communications plans outlined in the 2019 Communications Calendar (Ref. DC | 11.15.18 | 10C).

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

2020 Year to Date Progress

Ms. Lockwood provided an overview of Empower Retirement’s progress towards the WDC’s 2020 SPP, which includes a pilot that will display Wisconsin Retirement System pension information online and on participants’ WDC statements and the ongoing “Stay

in the Plan” campaign. She also shared Retirement Readiness Review success stories from 2020.

PROCUREMENT OF FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC) OPTION PROVIDER

Ms. Klaas referred the Board to the Procurement of FDIC Option Provider memo, dated February 6, 2020 (Ref. DC | 3.12.20 | 11) and discussed previous FDIC options partnerships. She stated there have been no issues with the current FDIC Option provider, Johnson Bank. However, due to the unusual exit of the previous FDIC Option provider and the non-competitive procurement process used to award this contract, ETF believes it is appropriate for the Board to authorize a new Request for Proposal (RFP) procurement for the FDIC Option.

MOTION: Mr. Zimmerman moved to approve delegating the Board’s authority to the ETF Secretary to solicit proposals for, and contract with, a qualified firm to provide the WDC FDIC Option. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.

Ms. Schueller asked if any of the Board members would be interested in serving on the RFP evaluation committee for procurement of an FDIC option provider. Ms. Hanson volunteered to serve on the evaluation committee on behalf of the Board.

OPERATIONAL UPDATES

Ms. Schueller referred to the Operational Updates in the Board materials (Ref. DC | 3.12.20 | 12A – 12H) and stated ETF staff were available if there were any questions. She highlighted the following:

- Board Authority Contracts Update;
- Draft Annual Report Form;
- Dodge and Cox Income Reimbursement; and
- *MoneyTalks* Newsletter. This edition is the last, as the newsletter has been discontinued.

FUTURE ITEMS FOR DISCUSSION

Ms. Schueller referred the Board to the June 2020 Agenda Topics memo (Ref. DC | 10.31.19 | 13) and asked the Board if there were any additional items they would like included on the agenda.

ADJOURNMENT

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

The Board adjourned at 3:29 p.m.

Date Approved: _____

Signed: _____

Arthur M. Zimmerman, Secretary
Deferred Compensation Board