

DRAFT

MINUTES

June 11, 2020

Deferred Compensation Board

State of Wisconsin



Location:

IMPORTANT NOTICE

The Board meeting was held via teleconference.

BOARD MEMBERS PRESENT:

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

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF (teleconference):

- Bob Conlin, Secretary
- John Voelker, Deputy Secretary
- Wisconsin Deferred Compensation Program:**
- Shelly Schueller, Director
- Division of Retirement Services:**
- Matt Stohr, Administrator
- Division of Trust Finance:**
- Ramona Yee
- Office of Legal Services:**
- Dan Hayes
- Office of the Secretary:**
- Lisa Gurley, Tarna Hunter

OTHERS PRESENT (teleconference):

- Empower Retirement:**
- Emily Lockwood
- ETF Staff:**
- Monica Anderson, Joanne Klaas,
- Cindy Klimke, Kadi Mbanefo,
- Michelle Thode, Cherylynn Wilkins,
- Kathryn Young
- Great-West Financial:**
- Bill Thornton
- Other Guests (unidentified):**
- 1 guest connected via telephone
- Vanguard:**
- Robert Lawler
- Wilshire Consulting:**
- Steven DiGirolamo, Jake McClelland
- Wipfli LLC:**
- Bryan Johnson, Zach Mayer

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

Board	Mtg Date	Item #
DC	11.19.20	2A

ANNOUNCEMENTS

Ms. Schueller discussed meeting logistics for virtual meetings and offered ETF's IT staff assistance if technical issues were encountered during the meeting. She also informed the Board the Federated US Gov't 2-5 Year fund was officially removed from the WDC investment spectrum in May.

CONSIDERATION OF OPEN MEETING MINUTES

MOTION: Mr. Main moved to approve the March 12, 2020, Open Session minutes as submitted by the Board Liaison. Mr. Zimmerman seconded the motion, which passed unanimously on a roll call vote.

WDC 2019 FINANCIAL STATEMENTS REPORT AUDIT

Ms. Yee referred the Board to the 2019 Financial Statements Report memo dated May 18, 2020 (Ref. DC | 6.11.20 | 3). ETF prepared the financial statements, which were audited by Wipfli. Wipfli issued a clean opinion.

Mr. Johnson stated Wipfli issued an unqualified opinion, stating the 2019 financial statements present fairly, in all material respects, the financial position of the Wisconsin Deferred Compensation Program (WDC). He stated the financial statements report is in draft form until approved by the Board, at which time Wipfli will finalize the report and send to the Board.

Mr. Johnson highlighted areas of the 2019 financial statements report, which included:

- Statement of changes in net position;
- Reporting of liabilities;
- Total assets;
- Accounting changes: GASB 84;
- Change in classification of FDIC investment;
- Change in accounting for the WDC's expense account; and
- Fair value table.

MOTION: Mr. Zimmerman moved to approve the State of Wisconsin Public Employees Deferred Compensation Plan and Trust Financial Statements as of December 31, 2019. Ms. Hanson seconded the motion, which passed unanimously on a roll call vote.

2019 CONTRACT COMPLIANCE REVIEW

Ms. Schueller referred the Board to the 2019 Contract Compliance Review memo dated May 28, 2020 (Ref. DC | 6.11.20 | 4). Contract compliance reviews are used to evaluate and report on the third-party administrator's management of the WDC, including compliance with contract terms and conditions as well as applicable state and federal statutes, rules and regulations. The 2019 contract compliance review, completed as an

agreed upon procedure engagement, was done to assure the Board, the Department, employers and participants that the WDC is properly administered. Wipfli has been completing contract compliance reviews for the Board since 2010.

Mr. Johnson highlighted areas of the 2019 contract compliance review, including:

- Executive summary;
- Accountant's report; and
- Overview of testing and recommendations.

Mr. Johnson noted there were no significant exceptions. Wipfli's testing identified a minor exception in the area of equity wash transfers and minimal exceptions with unsupported data reported in the Annual Plan Report. Wipfli made recommendations in these areas, with which ETF concurred. Additionally, Wipfli completed a summary review of the WDC administrator's Service Organization Controls report and provided three additional recommendations. ETF concurred with these recommendations and will discuss implementation of the recommendations with the WDC's administrator.

MOTION: Mr. Craney moved to accept the results of the 2019 Contract Compliance review as provided to the Board. Ms. Hanson seconded the motion, which passed unanimously on a roll call vote.

INVESTMENT PERFORMANCE REVIEW AS OF MARCH 31, 2020

The Board reviewed the performance of the investment options as of March 31, 2020, as presented in the "Investment Performance and Expense Ratio Review" report by Mr. Thornton of Great-West Investments (Ref. DC | 6.11.20 | 5).

Mr. Thornton stated the movements of the financial markets over the past eight to ten weeks have been unprecedented. The COVID-19 pandemic has caused a rapid descent into a bear market. Mr. Thornton stated Great-West Financial has been monitoring participants accounts for any movement between or withdrawals from investments, but to date, not much movement has taken place. This indicates that so far, there hasn't been much wide-spread participant reaction to the volatile markets.

Mr. Thornton reviewed the overall performance of the WDC's investment options compared to their respective benchmarks, and provided insights regarding the performance of certain options:

- American Funds EuroPacific is trailing its benchmarks, probably due to holding more emerging market exposure than its peers.
- American Beacon Bridgeway is still struggling, but its underperformance as a value oriented fund is understandable given preference to the current financial markets are giving to growth.
- DFA US MicroCap fund has struggled in early 2020, likely due to "headwinds" this fund faces; its benchmark peers hold over 20% more in midcap funds than the DFA fund does.

- Dodge & Cox Income had a rough first quarter 2020; however, they are still ahead of the peer average.
- The Federated US Gov't 2-5 Year fund had a good first quarter 2020.
- The T. Rowe Price Mid-Cap Growth fund has underperformed thus far this year, likely due to valuations.
- The Vanguard Long-Term Investment Grade fund has done well. This fund does well when rates fall.

Mr. Rothenberg and Mr. Main requested that American Beacon Bridgeway meet with the investment committee and provide an update on the investment option's performance this year.

STABLE VALUE FUND OPTIONS REVIEW

Ms. Schueller referred the Board to the Stable Value Fund (SVF) Options Review memo dated May 16, 2020 (Ref. DC | 6.11.20 | 6) and summarized why the Board had requested a review of stable value fund options. In 2019, the Board authorized ETF to contract with a consulting firm for a review of the stable value fund marketplace, including the current stable value fund from Galliard Capital Management (Galliard) and a custom stable value fund from Great-West Investments (Great West), which is an affiliate of the WDC's administrator, Empower Retirement. Wilshire Associates was contracted to perform this review.

Mr. DiGirolamo provided background information on Wilshire Associates. He discussed the process used by Wilshire during their review, which included analyzing a custom group of like SVF funds and meeting with both Great-West and Galliard to discuss their fund offerings. Mr. DiGirolamo highlighted the main findings of Wilshire's review and provided "pros and cons" for the funds offered by Great-West and Galliard, as follows:

- Great-West's stable value fund:
 - Pros: fully customizable portfolio, research team has experience and depth, fee built into the fee structure for plan administration; and
 - Cons: fund has more risk because it is all "in-house;" both the sole manager and single wrap provider are affiliated with the plan's administrator.
- Galliard's stable value fund:
 - Pros: diversified multi-manager approach, research team has experience and depth; and
 - Cons: fee is higher than offered by Great-West due to multi-manager approach and number of wrap providers (5).

Mr. DiGirolamo told the Board that both the Great-West and Galliard stable value funds have great cumulative performance, from a qualitative and quantitative perspective, and that either would be a solid option for the WDC. ETF recommended that the Board retain Galliard, noting that Galliard has provided consistent performance and the diversified multi-manager approach has worked well for WDC participants.

MOTION: Ms. Hanson moved to retain the existing stable value fund manager, Galliard Capital Management. Mr. Rothenberg seconded the motion, which passed unanimously on a roll call vote.

FEDERAL LEGISLATION UPDATE: SECURE ACT AND CARES ACT

Ms. Hunter referred the Board to the Federal Legislation Update: SECURE Act and CARES Act memo dated May 18, 2020 (Ref. DC | 6.11.20 | 7) and provided an overview of federal legislation changes which affect the WDC. These include:

- SECURE Act provisions:
 - Increasing the age for Required Minimum Distributions (RMDs);
 - Modifying distribution rules for inherited account assets;
 - Permitting withdrawals for individuals in case of birth or adoption;
 - Expanding portability of Lifetime Income options;
- Bipartisan American Miners Act: Expanding permitted in-service distributions;
- CARES Act provisions:
 - Permitting COVID-19 related emergency distributions;
 - Waiving RMDs in calendar year 2020; and
 - Increasing plan loan limits and extending the repayment period.

SECURE Act Revisions

Mr. Hayes referred the Board to the Plan and Trust Revisions memo dated May 18, 2020 (Ref. DC | 6.11.20 | 8A) and discussed a proposed revision to the Plan and Trust document related to the federal SECURE Act: revising the RMD age from 70 ½ to age 72. Mr. Hayes noted this is a mandatory revision per the federal legislation.

Mr. Hayes also reviewed provisions of the SECURE Act and CARES Act that may require additional Plan and Trust revisions. Mr. Hayes noted that ETF would provide the Board with suggested revisions after further guidance on these provisions is released by the Internal Revenue Service and the Department of the Treasury.

MOTION: Mr. Zimmerman moved to approve revising the WDC Plan and Trust document as presented to the Board. Mr. Rothenberg seconded the motion, which passed unanimously on a roll call vote.

CARES Act Implementation and Related COVID-19 Changes

Ms. Schueller referred the Board to the CARES Act and Related COVID-19 Changes memo dated May 17, 2020 (Ref. DC | 6.11.20 | 8B) and discussed the CARES Act, stating it was signed by President Trump on March 25, 2020, two weeks after the last Board meeting. She stated this act contains several provisions intended to provide financial relief to participants of retirement plans such as the WDC who are suffering as a result of the coronavirus pandemic.

Ms. Schueller stated that in light of the pandemic and in the best interest of participants, ETF and the WDC's administrator, Empower Retirement (Empower), moved quickly to implement two provisions of the CARES Act: suspension of RMDs and permitting coronavirus-related distributions, pending approval by the Board, and added appropriate coronavirus-related information on the WDC website and after a participant has logged into their WDC account.

MOTION: Mr. Zimmerman moved to approve the implementation of two CARES Act provisions: 1) suspension of RMDs in 2020 and 2) allowing eligible participants to take coronavirus-related distributions. Mr. Rothenberg seconded the motion, which passed unanimously on a roll call vote.

CASH CUSTODIAN DECISION

Ms. Schueller referred the Board to the Cash Custodian Decision memo dated May 28, 2020 (Ref. DC | 6.11.20 | 9). The WDC is self-trusted and is not required to have a custodian bank for securities and mutual funds; however, the plan needs a cash (pass-through) custodian bank for certain transactions such as when local employers are submitting checks for their employees' WDC deferrals.

Ms. Schueller stated Wells Fargo Bank's Institutional Retirement & Trust division (Wells Fargo) has served as the WDC's cash custodian since late 2005. Wells Fargo contacted ETF in April 2020 to inform the Board that the Principal Financial Group had taken ownership of the Wells Fargo business, necessitating a decision by the Board on a bank to use as cash custodian.

Ms. Schueller provided an overview of the WDC cash custodian options, which included a fee analysis, how the fee would be paid, integration with recordkeeping services, transition and execution of successor or continued service agreements.

MOTION: Ms. Hanson moved to approve appointing Great West Trust Company as the successor financial institution to serve as the plan's cash custodian, and delegate its authority to the ETF Secretary to contract with the selected financial institution. Mr. Zimmerman seconded the motion, which passed unanimously on a roll call vote.

CONDUCT OF BOARD MEETINGS POLICY

Ms. Patterson referred the Board to the Conduct of Board Meetings Policy memo dated May 12, 2020 (Ref. DC | 6.11.20 | 10) and provided an overview of changes to the current policy, which included:

- Revising language on page one to align the policy with Wisconsin's Open Meeting Laws regarding majority of the Board's membership constituting a quorum; and

- Requiring Board members to contact the Board Liaison 72 hours before affiliated committee or Board meeting if a Board member intends to attend so the meeting may be properly noticed as a “joint meeting.”

MOTION: Mr. Zimmerman moved to approve the revised Conduct of Board Meetings Policy for incorporation into the Board Governance Manual. Ms. Hanson seconded the motion, which passed unanimously on a roll call vote.

COVID-19 PANDEMIC EFFECTS ON ETF AND THE WDC

Ms. Schueller referred the Board to the COVID-19 Pandemic Effects on ETF and the WDC memo dated May 18, 2020 (Ref. DC | 6.11.20 | 11) and stated ETF is working under social distancing procedures and protocols found in the Governor’s Safer at Home order and the Department of Administration’s guidance.

Ms. Henning provided an update on the pandemic’s effects at ETF since the memo was written on May 18, 2020. ETF’s Bounce Back plan mirrors many of the provisions found in the Governor’s Badger Bounce Back plan. The ETF plan has 3 phases. ETF will be moving as slowly as possible to ensure productivity, morale, and performance. ETF is currently in phase 1 of the plan, which goes through Labor Day (September 7, 2020) and includes a stringent approach to how and when employees may return to the office.

Ms. Henning noted that ETF has had a work from home (WFH) policy for the past few years. Because many employees had already been WFH, the transition to most staff working remotely went fairly smoothly; ETF has successfully maintained operations.

Ms. Henning stated ETF will continue to monitor the Center for Disease Control (CDC) and Department of Human Services (DHS) websites for virus rates and other conditions which may impose risks on members and employees.

Ms. Lockwood discussed COVID-19 actions at Empower and the WDC and shared participant feedback, which included:

- Empower releasing a survey to plan sponsors to gauge plan and participant needs and provide an avenue for feedback;
- A summary of participant behavior and trends observed by Empower in the first part of 2020; and
- Action taken to help increase the number of meetings with participants:
 - Continuing sending individual invitations to most-at-risk members;
 - Sending emails and following up with phone calls;
 - Returning to a group meeting focus offering education and promoting retirement readiness reviews;
 - Sending follow up emails after group meetings;
 - Maintaining communications with employers; and
 - Providing a pop-up bulletin on the WDC website promoting virtual meetings.

2020 STRATEGIC PARTERSHIP PLAN UPDATE AND PROPOSED REVISION

Ms. Lockwood discussed the 2020 WDC Scorecard and highlighted progress toward the 2020 goals as of April 30, 2020, which included:

- 1,023 new enrollments as of March 31, 2020;
- 3 new employers;
- The asset allocation campaign being moved to 3Q20;
- 75 Retirement Readiness Reviews (RRRs) being completed with the aged 58+/90%+ target group, 246 RRRs conducted with 55+/twice average balance target group, and 1,152 RRRs being conducted with other members not in targeted groups;
- The “Free Look campaign running May 1 – August 31, 2020; and
- The in-progress WRS Data Pilot.

Ms. Schueller referred the Board to the 2020 Strategic Partnership Plan (SPP) Update and Proposed Revision memo dated May 17, 2020 (Ref. DC | 6.11.20 | 12) and discussed a proposed revision to the SPP approved by the Board at its December 19, 2019, meeting.

MOTION: Ms. Hanson moved to approve revising the 2020 Strategic Partnership Plan to remove the “save more” campaign and replace it with a beneficiary update campaign. Mr. Zimmerman seconded the motion, which passed unanimously on a roll call vote.

YEAR IN REVIEW – 2019 STATISTICS

Ms. Lockwood referred the Board to the Year in Review: 2019 Statistics memo dated May 16, 2020 (Ref. DC | 6.11.20 | 13) and highlighted:

- Overall WDC assets;
- Asset components;
- 2019 total contributions and withdrawals;
- 2019 participation by age and gender;
- Average account balances for all participants as of December 31, 2019;
- Average account balance for contributing participants as of December 31, 2019;
- Participant fees;
- Distributions; and
- Website usage.

OPERATIONAL UPDATES

Ms. Schueller referred to the Operational Updates in the Board materials (Ref. DC | 6.11.20 | 14A – 14D3) and stated staff were available if there were any questions. She highlighted the following:

- Board Authority Contracts Update: The FDIC RFP Committee made a recommendation to the Department Secretary, which was approved.

Consequently, ETF issued a notice of intent to contract for the FDIC option with Johnson Bank, and are beginning negotiations.

Ms. Klaas stated today (June 11, 2020) was the last day of the RFP appeal window.

- Administrative Rule Update: There are two WDC changes awaiting the Governor's approval before being sent to the state Legislature for review. Because the Legislature's regular session has concluded, the administrative rule change will not be reviewed until the next regular legislative session. ETF will provide updates as more information becomes available.

The Board requested ETF discuss any possible stable value fund fee reductions from Galliard in light of the review conducted by Wilshire Consulting.

FUTURE ITEMS FOR DISCUSSION

Ms. Schueller referred the Board to the November 2020 Agenda Topics memo (Ref. DC | 6.11.20 | 15) and asked the Board if there were any additional items they would like included on the agenda.

Ms. Schueller stated that per the Board's directive, ETF will invite American Beacon Bridgeway to present at the next Deferred Compensation Investment Committee meeting.

Mr. Zimmerman requested that the Investment Performance and Expense Ratio Review as of June 30, 2020, be distributed to the Board for review as soon as it is available.

ADJOURNMENT

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

The Board adjourned at 3:12 p.m.

Date Approved: _____

Signed: _____

Arthur M. Zimmerman, Secretary
Deferred Compensation Board