

DRAFT

MINUTES

November 19, 2020

Deferred Compensation Board

State of Wisconsin



Location:

This meeting was held via teleconference

BOARD MEMBERS PRESENT:

| | |
|--------------------------|------------------|
| Ed Main, Chair | Terry Craney |
| Gail Hanson, Vice-Chair | Jason Rothenberg |
| Art Zimmerman, Secretary | |

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

| | |
|---|---------------------------------------|
| Bob Conlin, Secretary | Bureau of Information Security |
| John Voelker, Deputy Secretary | Management: |
| Wisconsin Deferred Compensation Program: | Greg Beach |
| Shelly Schueller, Director | Division of Trust Finance: |
| Division of Retirement Services: | Ramona Yee |
| Matt Stohr, Administrator | Office of Legal Services: |
| Bureau of Budget, Contract Compliance and Procurement: | Dan Hayes |
| Joanne Klaas, Tim Steiner | Office of the Secretary: |
| | Lisa Gurley |

OTHERS PRESENT:

| | |
|-----------------------------------|--------------------------------------|
| Empower Retirement: | Great-West Financial: |
| Rob Dwyer, Emily Lockwood, | Bill Thornton |
| Trish McGinity | Others (Unidentified): |
| ETF Staff: | 1 individual connected via telephone |
| Monica Anderson, Bonnie Cyganek, | Voya Financial: |
| Patrick Hughes, Tarna Hunter, | Trampus Bright |
| Kadi Mbanefo, Michelle Thode, | |
| Kathryn Young, Cheryllynn Wilkins | |

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

ANNOUNCEMENTS

Ms. Schueller informed the Board that Secretary Conlin will be stepping down from his position with ETF in March 2020. There is a nationwide search underway by the ETF Board for his replacement.

| Board | Mtg Date | Item # |
|-------|----------|--------|
| DC | 3.11.21 | 4A |

CONSIDERATION OF OPEN MEETING MINUTES OF JUNE 11, 2020

MOTION: Ms. Hanson moved to approve the June 11, 2020, Open Session minutes as submitted by the Board Liaison. Mr. Craney seconded the motion, which passed unanimously on a voice vote.

2021 BOARD MEETING DATES

Ms. Schueller stated the Board Liaison worked with the Board members to finalize 2021 Board meeting dates. The board dates will be March 11, June 10, and November 4.

PARTICIPANT ADMINISTRATIVE FEE ANALYSIS

Ms. Yee referred the Board to the Participant Administrative Fee Analysis memo dated October 23, 2020 (REF. DC | 11.19.20 | 4) and recommended no change in the fee paid by participants. Ms. Yee's memo highlighted:

- Plan administrative expenses.
- Participant fee account balances.
- Revenues coming from account balances.
- The Board's policy regarding maintaining a balance in the administrative account.
- Projections regarding the administrative account balance based on anticipated market returns.
- Current administrative fees
- Suggested participant fees should the Board determined an increase was needed.

MOTION: Mr. Zimmerman moved to maintain the current administrative fees paid by plan participants for calendar year 2021. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.

PROPOSED INVESTMENT POLICY STATEMENT REVISIONS

Ms. Schueller referred the Board to the Proposed Investment Policy Statement Revisions memo dated October 26, 2020 (Ref. DC | 11.19.20 | 5) and stated that the Deferred Compensation Investment Committee recommended two changes: 1) updating the bank listed as offering the FDIC fund to Johnson Bank and 2) removing the Federated U.S. Government Securities Fund 2-5 Years Institutional option and benchmarks, as this fund has been discontinued.

MOTION: Mr. Zimmerman moved to approve revisions to the Investment Policy Statement as provided to the Board. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.

EMPOWER FIRM UPDATE

Mr. Dwyer, the Board's executive contact at Empower Retirement, noted that 2020 has been a challenging year. Mr. Dwyer said Empower has successfully transitioned to staff working remotely. He also said their call center is operating at 100% staff capacity and calls are being answered within seconds. He stated Empower continues to create financial education content to keep participants informed of critical changes, including the pandemic and uncertain markets. Empower has also made some business acquisitions that they believe will further strengthen the firm.

INVESTMENT PERFORMANCE AND EXPENSE RATIO REVIEW AS OF:

June 30, 2020

The Board reviewed the performance of the WDC's investment options as of June 30, 2020, as presented in the "Investment Performance and Expense Ratio Review" report by Mr. Thornton of Great-West Investments (Ref. DC | 11.19.20 | 7A). 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 second quarter of 2020, primarily due to the fund's selections in the technology sector and holding five percent in cash.
- The performance of the DFA US Micro-Cap Index fund also trailed its peers in the second quarter 2020, due mainly to stock selections in the consumer cyclical and financial sectors. Mr. Thornton reminded the Board that this fund holds more microcap stocks than its benchmarks, which also impacts its performance.
- The American Beacon Bridgeway Large Cap Value Collective Investment Trust's (CIT) second quarter 2020 performance continued to trail its peers, primarily due to stock selections in the technology and financial sectors. This fund hasn't rebounded and has trailed its peers since fourth quarter 2018.

Mr. Thornton also pointed out WDC's asset-weighted average expense ratio was 0.22% for the second quarter of 2020.

September 30, 2020

The Board reviewed the performance of the WDC's investment options as of September 30, 2020, as presented in the "Investment Performance and Expense Ratio Review" report by Mr. Thornton of Great-West Investments (Ref. DC | 11.19.20 | 7B). He stated another strong quarter has pulled the S&P 500 into positive territory for 2020 and observed that the stock market recovery has disproportionately favored the largest technology companies.

Mr. Thornton provided his perspective regarding the markets and the impact of the pandemic. He stated that we are seeing things continue to improve in the third quarter

in regard to unemployment; however, over the past few weeks there has been a resumption in increased levels of COVID cases and the markets are reacting to that.

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

- Euro Pacific is trailing its peer group; however, this fund tends to not be as growth oriented as its peer groups.
- The DFA US Micro-Cap Index fund tends to be value oriented, but it is officially categorized as a blend fund. This fund is four to five percentage points behind the benchmark average for the year.
- The T Rowe Price Mid-Cap Growth fund is one of the top midcap growth funds. The one-year performance for this fund is a little behind where he would expect the fund to be, but he believes this underperformance is short term.
- The Fidelity Contrafund Commingled Pool has done well over the past year.
- The American Beacon Bridgeway Large Cap Value CIT is still trailing its peer group as of the third quarter 2020.

Mr. Thornton pointed out WDC's asset-weighted average expense ratio remained at 0.22% for the 3rd quarter of 2020.

Mr. Thornton stated he had hoped to see better returns in the last seven weeks from the American Beacon Bridgeway Large Cap Value CIT. He mentioned that since this fund was added to the WDC, it has struggled. Mr. Thornton mentioned that the Board could consider replacing this fund with a better performing large cap value fund.

Ms. Schueller reminded the Board that based on administrative rule, it takes a year to remove a fund from the WDC lineup.

The Board stated they would like to see American Beacon speak with the Deferred Compensation Investment Committee (DCIC) at their next meeting about the CIT's performance.

ETF will schedule a DCIC meeting for the first week in February 2021 to review performance as of December 31, 2020 and will reach out to DCIC members regarding their availability. Ms. Schueller stated that if, after reviewing performance as of the end of 2020, the DCIC determines that changes need to be made to the WDC lineup, this will be on the Board's March meeting agenda.

Ms. Hanson asked whether there is concern with potential negative after fee returns in the money market funds due to low interest rates in the funds included in the WDC lineup. Mr. Thornton responded that he does not believe this is a concern at this time. He will make a note to watch this closely and report back to the Board at future meetings.

The Board took a break from 1:55 p.m. to 2:00 p.m.

STRATEGIC PARTNERSHIP PLAN (SPP)

2020 Year-to-Date Review

Ms. Lockwood provided an overview of Empower Retirement's progress towards the goals listed in the 2020 SPP. She also shared a few retirement readiness review success stories from 2020.

Mr. Conlin questioned what Empower Retirement may be hearing from employers as to why they are adding the Wisconsin Deferred Compensation Program (WDC) to their employee benefits and what employers are noting as being attractive regarding the plan. Ms. Lockwood stated employers that have recently added the WDC often do not have other supplemental retirement savings plans to offer to their employees, and that is the main reason why they have elected to join the WDC.

Mr. Conlin asked if this is consistent with past years. Ms. Lockwood responded that in the past, employers have added the WDC side-by-side with another supplemental retirement plan because these employers wanted to offer employees options and didn't want to make the savings or investment decisions for their employees.

Proposed 2021 Strategic Partnership Plan

Ms. Schueller referred the Board to the Proposed 2021 Strategic Partnership Plan memo dated October 29, 2020 (Ref. DC | 11.19.20 | 8B) and stated the 2021 SPP was developed around the following concepts:

- Enrollment.
- Asset allocation.
- Participant education.
- Retention of retiree accounts.

In addition to goals in each of the four areas listed above, in 2021 Empower could provide point-in-time fiduciary advice services at no cost and access to certified financial planners, which would be paid for directly by participants using the service. Under fiduciary standards, any recommendations made to plan participants using these services would be made in the best interests of participants. Both services would require the Board and Empower to amend the administrative services contract.

Mr. Craney asked if a survey to participants could be sent asking whether the Retirement Readiness Reviews, point-in-time advice, and certified financial planning services were helpful and worth the added fees. Ms. Lockwood stated a survey could be sent to participants to gauge this information.

MOTION: Mr. Zimmerman moved to approve the proposed 2021 Strategic Partnership Plan as presented including the fiduciary point-in-time advice and CFP services. Ms. Hanson seconded the motion, which passed unanimously on a voice vote.

IN-SERVICE DISTRIBUTIONS DISCUSSION

Mr. Hayes referred the Board to the In-Service Distributions Discussion memo dated October 27, 2020 (Ref. DC | 11.19.20 | 9) and stated that the Plan and Trust document could be revised to permit in-service distributions, beginning at age 59 ½. He stated the lower age limit for in-service distributions from the current age 72 to 59 ½ is a result of the SECURE Act and Bipartisan Miners Act and is optional for s. 457 plans such as the WDC.

The WDC does not currently permit in-service distributions and is interested in learning more regarding this option. Consequently, the Board requested that ETF provide additional detail on the pros and cons of permitting in-services distributions, along with potential Plan and Trust language for the Board's consideration in March.

REQUEST FOR PROPOSALS (RFP)

RFP Process Presentation

Mr. Steiner introduced himself to the Board and walked the Board through the Request for Proposal (RFP) process. He discussed:

- Chapter 40 Authority to enter into an RFP.
- ETF's detailed procurement procedure.
- What an RFP is.
- Types of RFP procurements.
- RFP procurement principles.
- Standard RFP process stages.

RFP Authorization for Administrative Services

Ms. Schueller referred the Board to the RFP Authorization for Administrative Services memo dated October 23, 2020 (Ref. DC | 11.19.20 | 10B) and provided background information on the current administrative services vendor, Empower Retirement. She also shared the anticipated RFP timeline from November 2020 through January 2022.

MOTION: Mr. Craney moved to delegate the Board's authority to the ETF Secretary to solicit proposals for a qualified firm to provide third party administration and record keeping services for the WDC. 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. One board member volunteered to serve on the evaluation committee on behalf of the Board.

FIDUCIARY RESPONSIBILITIES REVIEW

Ms. Schueller referred the Board to the Fiduciary Responsibilities Review memo dated October 23, 2020 (Ref. DC | 11.19.20 | 11) and reminded the Board that they requested an annual review of items related to the Board's fiduciary responsibilities. She provided a brief overview of selected responsibilities and stated the Board is meeting its responsibilities.

CONTRACT COMPLIANCE AUDIT FOLLOW-UP

Ms. Schueller referred the Board to the Contract Compliance Audit Follow-Up memo dated October 26, 2020 (Ref. DC | 11.19.20 | 12) and discussed progress towards completing the items identified during the contract compliance audit. ETF has been working with Empower on these, and there is only one item still in progress, the annual report data discrepancies. She expects the report cleanup will be done this year and that the Board will see the improvements in the 2020 annual report. All other items have been resolved or addressed.

OPERATIONAL UPDATES

Ms. Schueller referred to the Operational Updates in the Board materials (Ref. DC | 11.19.20 | 13A – 13H) and stated ETF staff were available if there were any questions. She highlighted:

- Ongoing legislative proposals at the federal level which affect s. 457 plans, such as:
 - Eliminating the first day of the month requirement for participants making deferral changes in their s. 457 plan accounts.
 - Further raising the required minimum distribution age from 72 ½ to 75.
 - Increasing the amount participants aged 60 and older may defer when using certain catch-up contributions.
- Board Authority Contracts Update.
- ETF and the Department of Financial Institutions were awarded a \$100,000 competitive grant to build an employee financial wellness program. This program will include WDC education components. The grant is part of a new national initiative supported by the Wells Fargo Foundation in collaboration with the Center for State and Local Government Excellence, the International Public Management Association for Human Resources and National Association of State Treasurers' Foundation.

FUTURE ITEMS FOR DISCUSSION

Ms. Schueller referred the Board to the March 2021 Agenda Topics memo dated October 20, 2020 (Ref. DC | 11.19.20 | 14) and asked the Board if there were any additional items they would like included on the agenda.

Mr. Main suggested that in lieu of the entire Board needing to return to the open session, as the Board Chair, he could solely return to open session after the closed session to make an announcement on business deliberated during closed session. Mr. Main asked if there were any questions or objections to this proposal, then asked for a consensus on his return to the open session alone to make the announcement and adjourn the meeting. The full Board was in agreement.

MOTION: Ms. Hanson moved to approve Mr. Main, Board Chair, returning to open session following the closed session alone to make the announcement of business deliberated during closed session and to adjourn the Board meeting. Mr. Craney seconded the motion, which passed unanimously on a voice vote.

Mr. Main stated the Board would be convening in closed session pursuant to the exemption contained in Wis. Stats. §19.85 (1) (d) to consider strategy for crime detection or prevention.

MOTION: Mr. Craney moved to convene in closed session pursuant to the exemption contained in Wis. Stats. §19.85 (1) (d) to consider strategy for crime detection or prevention. Mr. Zimmerman seconded the motion, which passed unanimously on the following roll call vote:

Aye: Craney, Hanson, Main, Rothenberg, Zimmerman

Nay: None

The Board convened in closed session at 3:33 p.m.

Mr. Main returned to open session at 4:17 p.m.

ANNOUNCEMENT OF BUSINESS DELIBERATED DURING CLOSED SESSION

Mr. Main stated the Board met in closed session to hear presentations regarding information security. No action was taken.

ADJOURNMENT

Mr. Main adjourned the meeting at 4:20 p.m.

Date Approved: _____

Signed: _____

Arthur M. Zimmerman, Secretary
Deferred Compensation Board