

DRAFT

# MINUTES

June 10, 2021

## Deferred Compensation Board

State of Wisconsin



### Location:

This meeting was held via teleconference

#### BOARD MEMBERS PRESENT:

- |                              |                  |
|------------------------------|------------------|
| Gail Hanson, Chair           | Connie Haberkorn |
| Jason Rothenberg, Vice-Chair | Art Zimmerman    |
| Terry Craney, Secretary      |                  |

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

- |                                                 |                                   |
|-------------------------------------------------|-----------------------------------|
| John Voelker, Secretary                         | <b>Division of Trust Finance:</b> |
| Shirley Eckes, Deputy Secretary                 | Ramona Yee                        |
| <b>Wisconsin Deferred Compensation Program:</b> | <b>Office of the Secretary:</b>   |
| Shelly Schueller, Director                      | Lisa Gurley                       |
| <b>Division of Retirement Services:</b>         |                                   |
| Matt Stohr, Administrator                       |                                   |

#### OTHERS PRESENT:

- |                                          |                                        |
|------------------------------------------|----------------------------------------|
| <b>Empower Retirement:</b>               | <b>Great-West Investments:</b>         |
| Kristy Igl, Emily Lockwood               | Bill Thornton                          |
| <b>Department of Public Instruction:</b> | <b>Others (Unidentified):</b>          |
| Amy Booth                                | 2 individuals connected via telephones |
| <b>ETF Staff:</b>                        | <b>T. Rowe Price</b>                   |
| Monica Anderson, Pauline Erdman,         | Brian Dausch, Michelle Porter-Ward     |
| Pam Henning, Michelle Hoehne,            | <b>Wipfli, LLC:</b>                    |
| Patrick Hughes, Tarna Hunter,            | Bryan Johnson, Zach Mayer              |
| Steve Hurley, Kadi Mbanefo,              |                                        |
| Kathryn Young                            |                                        |

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

### ANNOUNCEMENTS

- Ms. Schueller informed the Board:
- The Senate Committee on Financial Institutions and Revenue confirmed Ms. Haberkorn’s appointment and Ms. Hanson’s reappointment to the Board with a 5-

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0 vote for both. With these votes, their Board appointment recommendations will move to the full Senate for confirmation.

- Ms. Hanson will read two resolutions at the end of the meeting, one for former Board Chair, Ed Main, and the other for former ETF Secretary, Bob Conlin.
- Shirley Eckes has joined ETF as the Deputy Secretary.

## **CONSIDERATION OF OPEN MEETING MINUTES OF MARCH 11, 2021 BOARD MEETING**

***MOTION: Mr. Craney moved to approve the March 11, 2021, open session minutes as submitted by the Board Liaison. Mr. Zimmerman seconded the motion, which passed unanimously on a roll call vote.***

## **FINAL OPEN MINUTES OF AUGUST 31, 2020 DEFERRED COMPENSATION INVESTMENT COMMITTEE MEETING**

Ms. Hanson noted that the Deferred Compensation Investment Committee final open meeting minutes for August 31, 2020, reflected an incorrect expense ratio for the plan of 18 basis points (bps) instead of the correct 22 bps and requested that it be corrected.

## **2020 FINANCIAL STATEMENTS REPORT AND AUDIT RESULTS**

Ms. Yee referred the Board to the 2020 Financial Statements Report and Audit Results memo dated May 12, 2021 (Ref. DC | 6.10.21 | 3) and stated that ETF prepared the Wisconsin Deferred Compensation Program (WDC) financial statements.

Mr. Johnson, Senior Manager at Wipfli, stated Wipfli issued an unqualified or “clean” opinion, noting that the 2020 WDC financial statements present fairly, in all material respects, the financial position of the WDC. He stated the 2020 financial statements report is in draft form until approved by the Board, at which time Wipfli will finalize the report and send it to the Board.

Mr. Johnson highlighted several aspects of the 2020 financial statements report, including the statement of net position and statement of changes in net position. Mr. Johnson pointed out several notes in the financial statements, including new plan provisions resulting from the SECURE and CARES Act, most notably the addition of virus relief payments. There were no other significant plan changes, account rule changes, or amendments; and from Wipfli’s perspective, the audit process went smoothly, with ETF and Empower providing timely information and documentation.

***MOTION: Ms. Haberkorn moved to approve the State of Wisconsin Public Employees Deferred Compensation Plan and Trust Financial Statements as of December 31, 2020. Mr. Rothenberg seconded the motion, which passed unanimously on a roll call vote.***

## **INVESTMENT PERFORMANCE AND EXPENSE RATIO REVIEW AS OF MARCH 31, 2021**

The Board reviewed the performance of the WDC's investment options as of March 31, 2021, as presented in the "Investment Performance and Expense Ratio Review" report by Mr. Thornton of Great-West Investments (Ref. DC | 6.10.21 | 4). Mr. Thornton stated a bull market continues thus far in 2021 and noted that the S&P 500 Index continues to move in a healthy direction. Some small cap value funds are up 97% over the past year and many small and large cap returns performed better than mid cap funds in the first quarter of 2021

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 during the first quarter of 2021:

- The Fidelity Contrafund Commingled Pool continued to lag its peers but had a little rebound compared to its fourth quarter of 2020 performance.
- The American Beacon Bridgeway Large Cap Value continues to trail its peer group in 3-year percentile rank performance. The fund is in the fourth quartile and has beaten only 6% of its peer group. Mr. Thornton noted that the market environment is better for this fund than it has been the last few years; however, this fund's recent performance was less than anticipated.
- The Vanguard Target Retirement Date 2015 Trust fund trailed its peers for the first quarter of 2021.

Mr. Thornton pointed out that the WDC's asset-weighted average expense ratio remained at 0.22% for the first quarter of 2021.

### **T. ROWE PRICE MID-CAP GROWTH FUND PRESENTATION**

Ms. Porter-Ward, Institutional Client Service Executive with T. Rowe Price, introduced herself and Mr. Dausch, Portfolio Specialist – U.S. Equities, to the Board.

Mr. Dausch provided an overview of the T. Rowe Price Mid-Cap Equity Growth fund, which included a review of performance, an attribution analysis, portfolio consistency and sector diversification. He also highlighted the expertise on the five-member T. Rowe Price US Mid-Cap Growth Equity Investment team and discussed what the firm will look like after a transition later this year to T. Rowe Price Associates (TRPA) and T. Rowe Price Investment Management (TRPIM).

### **LARGE CAP VALUE FUND OPTIONS**

Mr. Thornton referred the Board to the Large Cap Value Fund Options memo dated May 12, 2021 (Ref. DC | 6.10.21 | 6) and provided background information that included search criteria, initial results, and fund analytics for active mutual funds. The

Department of Employee Trust Funds recommended the Board choose up to three finalists to present to the Board at a future meeting.

Ms. Hanson and Mr. Rothenberg asked if any of the current finalist firms were also under consideration when American Beacon Bridgeway was selected. Mr. Thornton stated that the JPMorgan US Value fund was also considered during the last search, along with a Vanguard fund. The Board discussed the funds identified as a result of Mr. Thornton's search at length to narrow down to three potential funds.

***MOTION: Mr. Rothenberg moved to invite the following three large cap value funds to present to the Board:***

- ***JPMorgan Large Cap Value R6***
- ***T. Rowe Price Large Cap Value I***
- ***MFS Large Cap Value CIT CI 5***

***Mr. Craney seconded the motion, which passed unanimously on a roll call vote.***

The Board took a break from 2:42 p.m. until 2:48 p.m.

## **YEAR IN REVIEW – 2020 STATISTICS**

Ms. Lockwood provided an overview of the WDC's 2020 statistics, which included:

- WDC overall assets and by fund .
- 2020 participation by age and gender.
- 2020 average participant balance for contributing participants.
- New WDC enrollments by participant age.
- WDC participant annual fee history.
- WDC participant asset growth from 2006 to 2020.
- 2020 distributions by reason.
- 2008-2020 hardship withdrawal applications compared to their status; and
- CARES Act withdrawals due to COVID-19.

## **2021 STRATEGIC PARTNERSHIP PLAN UPDATE AND CERTIFIED FINANCIAL PLANNING (CFP) SERVICES**

Ms. Lockwood provided an overview of the 2021 Strategic Partnership Plan to date. She highlighted:

- 2021 scorecard goals and activity as of April 30, 2021,
- First quarter 2021 communications to participants, which included campaigns for participants identified as at-risk regarding investment allocation; the WRS pension estimate launch; and the initial phase of the Certified Financial Planning offering.
- Lifetime income score results for the overall WDC plan.

Ms. Igl discussed the new financial planning services available to WDC participants and stated the experience was designed to engage employees with actionable next steps for a comprehensive solution to financial wellness. She noted that a broad range of financial topics are discussed and included information on how the services are personalized to develop a plan designed to support individual participants' goals.

## **OPERATIONAL UPDATES**

Ms. Schueller referred to the Operational Updates in the Board materials (Ref. DC | 6.10.21 | 9A – 9G) and stated ETF staff were available if there were any questions. She highlighted:

- Non-substantive change to Vendor Procurement Appeals Policy
- Legislative update
- Administrative Rule Status Update: CR 19-126
- DC Board Correspondence; and
- Board Authority Contracts Update.

## **FUTURE ITEMS FOR DISCUSSION**

Ms. Schueller referred the Board to the November 2021 Agenda Topics memo dated May 19, 2021 (Ref. DC | 6.10.21 | 10) and asked the Board if there were any additional items they would like included on the agenda.

Ms. Hanson read the Board resolutions recognizing the services provided to WDC participants by former Chair Ed Main and former ETF Secretary Bob Conlin.

Ms. Hanson clarified there will be a future Board agenda item to decide where remaining balances in the American Beacon Bridgeway Large Cap Value fund will be swept if participants do not take action. The Board indicated it would like to see these funds swept to a new large cap value fund versus following the Board's Default Fund Policy, which would require sweeping any remaining balances in the American Beacon Bridgeway fund to the Vanguard Target Retirement Date fund appropriate for the participant's retirement age, using age 65 as the standard retirement age.

Ms. Schueller stated ETF will look into potential meeting dates for the large cap value fund finalists to present to the Board and will reach out to the Board to confirm a date.

**ADJOURNMENT**

***MOTION: Mr. Zimmerman moved to adjourn. Mr. Craney seconded the motion, which passed unanimously on a roll call vote.***

The meeting adjourned at 3:44 p.m.

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

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

Terry Craney, Secretary  
Deferred Compensation Board