

# MINUTES

September 1, 2022

DRAFT

## Deferred Compensation Board

State of Wisconsin

### Location:

Hill Farms State Office Building – CR N134  
4822 Madison Yards Way, Madison, WI 53705  
1:00 p.m. – 3:14 p.m.



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### BOARD MEMBERS PRESENT

Jason Rothenberg, Chair  
Terry Craney, Vice-Chair  
Connie Haberkorn, Secretary

Gail Hanson  
Bill Stebbins

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### PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF

#### Wisconsin Deferred Compensation Program:

Shelly Schueller, Director

#### Office of the Secretary:

John Voelker, Secretary  
Shirley Eckes, Deputy Secretary  
Kimberly Schnurr, Board Liaison

#### Division of Retirement Services:

Matt Stohr

#### Office of Legal Services:

Dan Hayes

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### OTHERS PRESENT

#### Office of the Secretary:

Pam Henning

#### ETF Staff:

Laura Brauer, Taylor DeBroux, Diana Felsmann, Michelle Hoehne\*, Patrick Hughes\*, Kadimma Mbanefo\*, Laura Patterson, Peter Rank\*, Barry Tucker, Cherylynn Wilkins, Kathryn Young

#### Empower:

Emily Lockwood, Lauren Vieth

#### Empower Investments:

Bill Thornton\*

#### T. Rowe Price:

Tedd Alexander, Kyle Lagratta, Michelle Porter-Ward

#### Others (Unidentified):

1 individual connected via telephone

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

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\* Attended via teleconference.

Board	Mtg Date	Item #
DC	12.01.22	2

## **ANNOUNCEMENTS**

Ms. Schueller shared the following announcements:

- The Wisconsin Deferred Compensation Program (WDC) is celebrating 40 years in 2022.
- Laura Brauer is a new attorney in the Office of Legal Services.

## **CONSIDERATION OF OPEN MINUTES OF JUNE 9, 2022, BOARD MEETING**

***MOTION: Ms. Hanson moved to approve the open session minutes of the June 9, 2022, meeting as submitted by the Board Liaison with amendments to include (as amended):***

- ***Page 2 to correct a typo from the plural “Wipfli correspondences” to the singular “Wipfli correspondence.”***
- ***Page 3 under the 2021 Financial Statements Report and Audit Results to remove the word “report” in the second paragraph.***
- ***Page 5 to correct “Vanguard Target Retirement 2015” to “Vanguard Target Retirement Trust Plus 2015.”***

***Mr. Stebbins seconded the motion, which passed unanimously on a voice vote.***

## **INVESTMENT POLICY STATEMENT REVISIONS**

Ms. Schueller referred the Board to the 2021 Investment Policy Statement Revisions memo (Ref. DC | 09.01.22 | 3). She highlighted some of the changes proposed in the memo during her presentation, which included:

- Adding “ESG (environmental, social, governance)” – formerly termed as “socially responsible” – to the definition of specialty funds.
- Updating Attachment 2 of the policy, which contains a list of investment options and benchmarks, to replace the American Beacon Bridgeway Large Cap Value option with the JP Morgan US Value R6 option.
- Updating Attachment 2 to reflect current benchmarks and names.

The Board requested that future policy revision memos articulate technical versus non-technical changes. The Board also asked if it was possible to provide a style drift analysis between the funds’ investment profile (risk/return) versus the proposed benchmark. Ms. Schueller agreed to look into both of these requests and take them into consideration for subsequent meetings when Investment Policy Statement revisions are discussed.

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

## **INVESTMENT PERFORMANCE AND EXPENSE RATIO REVIEW AS OF JUNE 30, 2022**

The Board reviewed the performance of the WDC's investment options as of June 30, 2022, as presented in the "Investment Performance and Expense Ratio Review" report by Bill Thornton of Empower Investments (Ref. DC | 09.01.22 | 4). In his presentation to the Board, Mr. Thornton reviewed the overall performance of the WDC's investment options compared to their respective benchmarks, discussed expense ratios and the asset-weighted average expense ratio for the plan, provided insights regarding the economy and the markets, and discussed the performance of certain investment options during the second quarter of 2022.

Mr. Thornton noted that overall uncertainty in the global and national environments continues to have a ripple effect on market volatility. Energy inflation and oil prices continued to increase, and the second quarter of 2022 ended in bear market territory amidst high inflation and weakening growth.

Overall, however, the options in the WDC lineup continued to outperform peer groups, with options such as the T. Rowe Price Mid-Cap Growth Fund showing an improvement in its percentile ranking between the first and second quarters of 2022.

The WDC's asset-weighted average expense ratio continued at 0.20% for the second quarter of 2022.

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

Ms. Porter-Ward, Mr. Alexander, and Mr. Lagratta from T. Rowe Price presented information to the Board regarding T. Rowe Price's Institutional Mid-Cap Equity Growth Fund. Mr. Alexander discussed the ways that the fund outperformed the benchmark in most market environments and explained that the firm's "various quality-orientation and attention to risk strategies" promoted growth in down, flat, and up markets. Mr. Alexander also discussed the diverse sectors of the market in which the T. Rowe Price Institutional Mid-Cap Equity Growth Fund was invested.

Ms. Haberkorn left at 1:58 p.m. and returned at 2:07 p.m.

### **POLICY ON LEGACY FUNDS IN THE SELF-DIRECTED BROKERAGE OPTION**

Ms. Schueller referred the Board to the Policy on Legacy Funds in the Self-Directed Brokerage (SDB) Option memo (Ref. DC | 09.01.22 | 6). She reminded the board that the WDC's SDB option is for mutual funds only. She further explained that mutual fund providers occasionally convert their mutual funds to different investment vehicles such as exchanged traded funds, which means the option is no longer eligible to be available to WDC participants using the SDB option. When this occurs, the converted fund becomes known as a "legacy" fund. As of June 30, 2022, five WDC participants using the SDB option held approximately \$34,400 in three legacy funds.

Ms. Schueller stated that it was ETF's recommendation that the Board create a policy to provide direction to the SDB option provider on how to handle legacy funds, and that the policy could either allow legacy funds to remain in the plan as grandfathered assets or remove the legacy funds entirely. Because the decision to convert a mutual fund to an exchange-traded fund or closed-ended mutual fund was made by the fund company instead of by WDC participants, ETF recommended the Board permit legacy funds in the SDB option as "grandfathered" assets and only allow participants to hold or sell their existing shares.

***MOTION: Mr. Stebbins moved to adopt a policy for the self-directed brokerage option that permits legacy funds to remain in the self-directed brokerage option as "grandfathered" assets as recommended by ETF. Ms. Haberkorn seconded the motion, which passed unanimously on a voice vote.***

## **FIDUCIARY RESPONSIBILITIES REVIEW**

Ms. Schueller referred the Board to the Fiduciary Responsibilities Review memo (Ref. DC | 09.01.22 | 7) 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 updated responsibilities and stated the Board is meeting its responsibilities.

## **2022 STRATEGIC PARTNERSHIP PLAN (SPP) UPDATE**

Ms. Schueller and Ms. Lockwood with Empower provided an update on the 2022 SPP. They provided an overview of the 2022 Scorecard results and field activities completed as of July 15, 2022. Ms. Lockwood highlighted some of the key trends and data points that were discovered during the 2022 Participant Survey. One notable change was that the call center's score improved around the end of June, which indicated that the plans Empower put in place to address the challenges experienced by the call center previously appeared to be successful. Ms. Schueller told the Board that results from the 2022 Participant Survey would be factored into the 2023 SPP proposal. The Board asked whether additional peer benchmarking is available, and Ms. Schueller indicated it may be possible and would include in future plan updates as appropriate.

## **PERSONALIZED WDC WEBSITE EXPERIENCE - DEMO**

Ms. Lockwood and Ms. Vieth with Empower provided a demonstration of the new WDC website experience to the Board. Ms. Vieth highlighted some of the online features of the website, such as a "one-stop shop" for individuals that choose to link and aggregate their accounts to not only see their estimated retirement income, but also current net worth, savings, spending, and debt. The new features of the WDC website mean it can better meet individual participants' unique financial wellness needs, whether they are just getting started in the plan or have been contributing to their supplemental retirement savings for decades.

## OPERATIONAL UPDATES

Ms. Schueller referred to the Operational Updates (Ref. DC | 09.01.22 | 10A – 10F) and stated ETF staff were available if there were any questions. She highlighted:

- Final 2021 Financial Statements Audit Report
- Final 2021 Agreed Upon Procedures Report
- Empower's response to findings in the 2021 WDC 2021 Agreed Upon Procedures Report
- Board Authority Contracts Update.

## TENTATIVE DECEMBER 2022 AGENDA

Ms. Schueller referred the Board to the tentative agenda for topics likely to be covered at the December 2022 Board Meeting (Ref. DC | 09.01.22 | 11).

When asked if the Board members had any other topics that they would like to add to either list, no suggestions were given.

## ADJOURNMENT

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

The meeting adjourned at 3:14 p.m.

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

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

Connie Haberkorn, Secretary  
Deferred Compensation Board