

DRAFT

MINUTES

December 1, 2022

Deferred Compensation Board

State of Wisconsin

Location:

Hill Farms State Office Building – CR N134
4822 Madison Yards Way, Madison, WI 53705
1:01 p.m. – 5:17 p.m.



BOARD MEMBERS PRESENT

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

Kate Fleming
Bill Stebbins

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, Administrator

Division of Trust Finance:

Cindy Klimke

Office of Legal Services:

Diana Felsmann

Office of Policy, Privacy and

Compliance:

Laura Patterson

OTHERS PRESENT

Office of the Secretary:

Pam Henning

ETF Staff:

Laura Brauer, Julie Coleman*, Taylor DeBroux, Paulina Erdman, Dan Hayes, Michelle Hoehne*, Patrick Hughes*, Tarna Hunter, Nancy Ketterhagen*, Joanne Klaas*, David Maradiaga, Peter Rank, Erin Seliger, Amelia Slaney, Barry Tucker, Cheryllynn Wilkins, Kathryn Young

Empower:

Rob Dwyer, Emily Lockwood, Trish McGinity*

Empower Investments:

Bill Thornton

Financial Investment News:

Lauren Albanese*

Ethics Commission:

Dan Carlton

* Attended via teleconference.

Board	Mtg Date	Item #
DC	04.20.23	2A

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

ANNOUNCEMENTS

There were three announcements:

1. Ms. Schueller introduced and welcomed the newest Board member, Kate Fleming, to her first meeting. Board members exchanged brief introductions.
2. Ms. Schnurr read a resolution recognizing the service provided to the WDC participants by former Board chair Gail Hanson.
3. Mr. Stohr shared information regarding ETF's Insurance Administration System (IAS) project. ETF contracted with Benefitfocus for this modernization project, which will improve the online experience for members. Mr. Stohr wanted to ensure the Board knew that Voya had recently purchased Benefitfocus. ETF does not believe the IAS project timeline will be impacted by this purchase.

CONSIDERATION OF OPEN MINUTES OF SEPTEMBER 1, 2022, BOARD MEETING

MOTION: Mr. Stebbins moved to approve the open session minutes of the September 1, 2022, meeting as submitted by the Board Liaison. Mr. Craney seconded the motion, which passed on a voice vote (Fleming abstained).

2023 BOARD MEETING DATES

Ms. Schnurr referred the board to the 2023 Meeting Dates memo (Ref. DC | 12.01.22 | 3) and requested that Board members could bring scheduling conflicts or concerns with the dates listed to ETF's attention by December 16, 2022.

INVESTMENT REPORTING

Investment Performance and Expense Ratio Review as of September 30, 2022

The Board reviewed the performance of the WDC's investment options as of September 30, 2022, as presented in the "Investment Performance and Expense Ratio Review" report by Bill Thornton of Empower Investments (Ref. DC | 12.01.22 | 4A). In his presentation to the Board, Mr. Thornton reviewed the overall performance of the WDC's investment options compared to the 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 third quarter of 2022.

Mr. Thornton noted that inflation and a tight labor market continued to create high levels of uncertainty across global and national markets and the capital market performance continued to lag during the third quarter of 2022. Fixed income total returns were negative across all sectors, and most equity indices were in bear market territory.

Despite these challenging circumstances, most WDC investment options continued to outperform their peer groups during the third quarter of 2022. Mr. Thornton highlighted the following:

- The EuroPacific Growth Fund's 18% investment in emerging markets led to some drag on performance when compared to peers, which typically have about 10% in emerging markets. Ms. Fleming asked about the MSCI ACWI benchmark. Mr. Thornton stated that he would provide follow-up information to the Board on the composition of the MSCI ACWI benchmark asset classes related to emerging markets and relative to the EuroPacific Growth investment option.
- The DFA US MicroCap option is ahead of peers, due to having a more value orientation than most of its peers.
- The JP Morgan US Value R6 Fund performed quite well.
- While the performance of the T. Rowe Price Mid-Cap Equity Fund struggled for most of 2021, with the 2020 performance coming out of the 3-year percentile ranks, the fund's performance for 2022 has improved slightly. However, it still lags its peers because it is slightly more conservative than the category.
- There is some concern that if rates continue to increase, the performance of the Vanguard Long-Term Investment Grade option will suffer because it has a longer duration (12.9) than the category average (11.5).
- In general, the performance of the Vanguard target date options is lagging behind their peers, but this can likely be attributed to the Vanguard options' exposure to fixed income. In addition, it can be easy for actively managed target date options to outperform index options such as the Vanguard options offered through the WDC.

The overall WDC investment options' asset-weighted average expense ratio for the third quarter of 2022 was 0.19%.

The Board was invited to ask questions on the information Mr. Thornton provided. Mr. Rothenberg requested additional information on the T. Rowe Price Mid Cap Growth investment option. Mr. Thornton agreed to provide a performance attribution analysis relative to the T. Rowe Price Mid Cap Growth investment option.

Mr. Rothenberg also asked Mr. Thornton what other WDC peer plans were doing regarding investment options. Mr. Thornton shared that some peer plans were reducing the number of investment options to simplify their investment lineup. This strategy is to avoid offering duplicative investment options with similar strategies and objectives.

Mr. Craney asked if any of the funds have exposure to crypto currency. Mr. Thornton thought it was unlikely given the nature of the WDC's investment options. Ms. Fleming highlighted the Securities and Exchange Commission (SEC) rules relative to mutual funds and concurred that it was unlikely.

Mr. Stebbins asked Mr. Thornton about the relative differences in performance between the S&P and the Dow Jones Industrial Average (DOW) and whether the DOW had a

higher value investing component. Mr. Thornton suggested the DOW movement was indeed due mostly to large value funds.

Investment Reporting — Additional Options

At the September meeting, the Board requested examples of additional investment performance data that could be reported quarterly, such as a style drift analysis between a fund's investment profile (risk/return) and benchmark.

Mr. Thornton shared some examples of the reporting he could include with the regular quarterly investment performance report. Mr. Rothenberg and Ms. Fleming both expressed interest in making the style drift analysis part of the investment performance report. Mr. Thornton will include this in future quarterly reports.

PARTICIPANT ADMINISTRATIVE FEE ANALYSIS

Ms. Klimke referred the Board to the Participant Administrative Fee Analysis memo (Ref. DC | 12.01.22 | 5) and stated that ETF recommended increasing the administrative fees paid by WDC participants, effective January 1, 2023. Ms. Klimke explained that increasing the participant administrative fees was recommended due to unfavorable market conditions for 2022 and the Board's policy that the administrative account maintain an account balance equal to 50%–75% of projected annual plan expenses. The difficult market had caused the number of participants with higher-tiered account balances in 2022 to decrease, which, in turn, decreased the participant fee revenue for 2022 and has contributed to the decline in the Board's administrative account.

Ms. Klimke shared a breakdown of the current administrative account balance revenues and expenses, as well as participant fee changes based on three different fee increase options — 35.4%, 52%, and 100% — presented for Board consideration. Ms. Klimke emphasized that the projected account balances for each of the three different fee increase scenarios already accounted for the reduced cost of the new administrative services contract with Empower Retirement, which runs from December 1, 2022, through November 30, 2027. An overview of WDC participant fee changes going back to 2015 was also highlighted for context regarding the participant fee history.

Ms. Fleming asked what the repercussions would be if the Board didn't adjust WDC participant fees at all. In line with the Board's current Administrative Expense Account Investment and Target Balance Policy, Ms. Klimke responded that the reserve would be depleted by the first quarter of 2025. Ms. Schueller suggested that the Administrative Expense Account Investment and Target Balance policy, which is located in the Governance Manual and requires an account balance equal to 50%–75% of projected annual plan expenses, be revisited during a future Board meeting.

Mr. Craney asked if the three fee increase options provided by Ms. Klimke were the only choices available, or if the Board had more flexibility. Ms. Klimke responded that the three options of 35.4%, 52%, and 100% were given as points of reference to show how

the amount of fee increase would impact the projected administrative account balance by December 31, 2023.

Mr. Craney asked Ms. Klimke which of the three options she would recommend. She responded that increasing the participant fee 52% would mean that participants would be paying approximately the same amount in participant fees that they had paid in 2020. Therefore, a 52% increase was what Ms. Klimke would recommend.

Mr. Rothenberg asked if an interim participant fee analysis could be shared with the Board at the June 2023 meeting, so the Board could review the impact of the participant fee increase on the administrative account balance after it went into effect January 1, 2023. Ms. Klimke and Ms. Schueller agreed that they would prepare an interim participant fee analysis along with an administrative account balance policy review for the June 2023 Board meeting.

MOTION: Mr. Craney moved to approve an increase to the administrative fees paid by the WDC plan participants effective January 1, 2023, by an average of 52%. Mr. Stebbins seconded the motion, which passed on the following roll call vote:

Ayes: Craney, Fleming, Haberkorn, Rothenberg, Stebbins.

Nays: None.

ETHICS AND LOBBYING LAW FOR WISCONSIN DEFERRED COMPENSATION BOARD MEMBERS

Mr. Carlton from the State of Wisconsin Ethics Commission presented on Wisconsin ethics and lobbying laws and rules for public officials. He began his presentation by sharing background information on the Ethics Commission and how the agency works to provide support and guidance by answering questions or topics of uncertainty from public officials. He highlighted why Wisconsin's finance, lobbying, and ethics laws are important and gave examples of prohibited practices and exceptions for each.

Mr. Stebbins asked if there were any ramifications to seeking Ethics Commission advice. Mr. Carlton explained that the role of the Ethics Commission differs depending on whether or not a violation has already taken place. If a public official is seeking advice to prevent a violation from potentially being made, the Ethics Commission can give guidance and recommendations for the official to follow. This advice is not subject to non-compliance violations. However, if a violation has already taken place before the public official seeks advice, the Ethics Commission's responsibility is to follow enforcement actions and investigate the situation.

Mr. Carlton reiterated that part of the training he was giving to the Board members was to help them feel comfortable reaching out to the Ethics Commission if they had any questions or uncertainty regarding the Wisconsin's finance, lobbying, and ethics laws.

He shared additional resources, along with how to contact the Ethics Commission with members of the Board and encouraged them to reach out at any time.

CURRENT DEVELOPMENTS IN FIDUCIARY LITIGATION

Ms. Felsmann provided information on the Board's fiduciary responsibilities as it relates to an increase in fiduciary litigation across retirement plan types, including ss. 401(k), 403(b) and 457 plans. Ms. Felsmann shared a selection of recent fiduciary litigation cases, as well as key takeaways from those cases. While the fiduciary litigation case examples shared do not indicate a direct impact to the WDC, ETF's Office of Legal Services will be monitoring the activity and outcomes of these types of litigations and bring any specific concerns or identified trends to the Board's attention.

In the meantime, Ms. Felsmann indicated the Board should feel confident that they are meeting their respective fiduciary duties. Using the takeaways that were highlighted in her presentation, Ms. Felsmann organized a checklist of fiduciary duties alongside corresponding Board activities. The Board's engagement with the information provided by Ms. Klimke as part of the Participant Administrative Fee Analysis agenda item was identified as one of the ways that the Board ensured participant administration fees were reasonable.

Ms. Felsmann concluded her presentation by providing a list of practical guidelines for Board members to follow individually and collectively to ensure they were meeting their fiduciary duties to the fullest extent.

UPDATE ON NEW OUT-OF-STATE LITIGATION FILED AGAINST EMPOWER, SHAFFER V. EMPOWER RETIREMENT

Rob Dwyer, Vice-President of Government Markets for Empower and Ms. Lockwood with Empower's Wisconsin office shared a verbal update with the Board on the status of the Shaffer v. Empower Retirement case. Board members were then invited to ask questions.

Mr. Craney asked if all staff named in the suit were Empower employees. Mr. Dwyer responded that yes, all of them were employed by Empower. Mr. Stebbins, Mr. Rothenberg, and Mr. Craney asked for clarification regarding the expectations and incentives for Retirement Plan Advisors (RPAs) on Empower's staff. Mr. Dwyer explained that RPAs foster a "stewardship" with participants by meeting to review participants' assets and contributions towards meeting the participant's desired financial goals for retirement. Mr. Dwyer said that Empower RPAs are not expected to get individuals to enroll in managed account services. Mr. Dwyer will provide the Board with comparison data on managed account service costs.

When asked how many of the seven RPAs dedicated to serving Wisconsin received a bonus over the last year, Ms. Lockwood of Empower stated that not all of the Wisconsin

RPA's were eligible for the bonus in 2021 and stated that she would provide follow-up for the Board on the specific number.

Ms. Schueller reiterated that ETF and Empower would monitor developments in the Shaffer v. Empower Retirement litigation and provide updates to the Board.

The Board took a break from 3:20 p.m. – 3:35 p.m.

STRATEGIC PARTNERSHIP PLAN (SPP)

A Strategic Partnership Plan joint presentation was provided by Ms. Schueller and Ms. Lockwood. The information included a 2022 SPP Update as well as a 2023 SPP Proposal for the Board's consideration.

2022 SPP Update

Ms. Lockwood referred the Board to the 2022 SPP Update provided in their Board materials and stated that the information was current as of October 14, 2022. She shared that earlier in 2022 there were still challenges because of the ongoing COVID-19 pandemic. However, virtual alternatives to traditional in-person events continued to be offered along with the implementation of new online tools. The WDC website demo that Lauren Vieth provided at the September 2022 Board meeting was one example of how Empower is improving their online resources to deliver quality services to WDC participants.

Field activity results were mixed regarding the number of actual meetings that took place compared to the goals set as part of the 2022 SPP. Out of the 415 group meetings set as a goal for 2022, only 380 have been conducted thus far. Additionally, only 2,467 of the 2,800 Retirement Readiness Reviews (RRRs) had been completed. On a positive note, the WDC field staff had exceeded the 2022 goal for At Risk RRRs by completing 1,048 thus far.

2023 SPP Proposal

For the second half of their presentation, Ms. Schueller and Ms. Lockwood directed the Board to the 2023 SPP Proposal memo (Ref. DC | 12.01.22 | 9B). They reminded the Board that as was done for past SPPs, the 2023 SPP proposed goals were developed around four concepts: enrollment, asset allocation, education, and retention. Unlike in past years, however, the 2023 SPP does not include financial incentives for Empower reaching certain goals and metrics. This change reflects the language in the new administrative services contract, which began December 1, 2022.

The 2023 SPP Proposal contains a proposed SPP progress report in place of the previous scorecard, and a redesigned communications proposal. The SPP progress report layout remains similar to the scorecard and specifies which of the four concepts an activity is intended to follow, the objective, the audience, and results as of a certain date. The communications proposal includes quarterly updates. Furthermore, a separate column titled "Automated Campaigns" has been created to call out Empower

Communications Engine (ECEs) topics. The ECE will deliver timely personalized automated messaging to participants.

Some of the proposed 2023 SPP goals highlighted by Ms. Schueller and Ms. Lockwood included:

- Increasing participation by 2.0%
- Adding 12 new local public employers
- Completing 2,700 RRRs
 - Reaching out to terminated at-risk participants over the age of 58 to offer RRRs and encourage retention
 - Reaching out to active at-risk participants to help them understand resources available to them for investment help
- Conducting 400 group meetings
- Providing participant communications related to the expansion of the Vanguard target date fund options in January 2023

As part of the new administrative services contract, Empower will also be offering three or more presentations (in person or virtual) for participants. Other education efforts planned for 2023 include hosting at least 25 open enrollment season webinars/events and launching the National Retirement Security Month campaign in October 2023 to engage WDC participants.

Mr. Craney asked if the goal to add 12 new employers was reasonable. Ms. Lockwood responded that there are still plenty of employers that could participate in the WDC. The employer type that offers the greatest opportunity for increasing employer participation is local school districts.

Before moving to the next agenda topic, Ms. Eckes shared with the Board that ETF has developed a cross-functional Customer Experience (CX) Workgroup that is expected to enhance the experiences of ETF's customers, which included members and employers. The CX Workgroup has created an Employer Engagement Framework intended to identify opportunities for working holistically with current and new employers rather than with individual ETF benefit programs. While the Employer Engagement Framework is still in its infancy, the support it could give to WDC employers is very promising.

MOTION: Mr. Stebbins moved to approve the 2023 Strategic Partnership Plan as outlined in the materials provided to the Board. Ms. Haberkorn seconded the motion, which passed on the following roll call vote:

Ayes: Craney, Fleming, Haberkorn, Rothenberg, Stebbins.

Nays: None.

WDC PARTICIPATION IN THE NAGDCA PUBLIC RETIREMENT RESEARCH LAB

Ms. Patterson referred the Board to the WDC Participation in the National Association of Government Defined Contribution Administrators (NAGDCA) Public Retirement Research LAB (PRRL) memo (Ref. DC | 12.01.22 | 10). She began her presentation by defining the PRRL as a joint venture between NAGDCA and the Employee Benefits Research Institute (EBRI). The PRRL is a database made up of plan-level and participant-level data that is populated directly by plans' recordkeepers. This data is used exclusively by NAGDCA to conduct research to help s. 457 plan sponsors with peer-level comparisons and better understand the big picture of the public sector defined contribution industry. However, the WDC is not a current participant in the PRRL, which means the peer benchmarking data contained in the PRRL database is inaccessible.

Ms. Patterson provided a detailed explanation of what type of data would be shared, the security measures in place to protect participants' personally identifiable information (PII), and how ETF would be able to access plan data through NAGDCA's Data Portal. A critical part of the data sharing process is agreement on a Data Sharing Agreement between ETF, NAGDCA/EBRI and Empower Retirement, the WDC's third-party record keeping firm. Ms. Patterson explained that if the Board approved WDC participation in the PRRL, the Board could delegate authority to the ETF secretary to execute a data sharing agreement. This would ensure the agreement language would be reviewed and recommendations considered from ETF's subject matter experts regarding risk, information, security, and in compliance with applicable contractual requirements, statutes, and regulations.

Ms. Fleming asked Ms. Patterson if an adequate risk-benefit analysis had been completed regarding the risk of sharing PII and the value this data provided to the WDC overall. Ms. Patterson explained that the proposal had been fully vetted within ETF internally, and that ETF's Chief Information Security Officer, Dave Maradiaga, and his team had no concerns with sharing the de-identified and encrypted data.

MOTION: Ms. Fleming moved to approve the WDC participation in the PRRL database, and delegate authority to the ETF Secretary to execute an agreement to share data with the PRRL. Mr. Stebbins seconded the motion, which passed on the following roll call vote:

Ayes: Craney, Fleming, Haberkorn, Rothenberg, Stebbins.

Nays: None.

OPERATIONAL UPDATES

Ms. Schueller referred to the Operational Updates and stated ETF staff were available if there were any questions. She highlighted:

- The Investment Policy Statement had been updated to correct an inadvertent typo in the American Funds EuroPacific Growth Benchmark (Ref. DC | 12.01.22 | 11A).

- The 2022 Employer Survey Results and the 2022 Cybersecurity: Best Practices Overview from Empower (Ref. DC | 12.01.22 | 11B5).
- ETF's 2023–2025 Biennial Budget Update (Ref. DC | 12.01.22 | 11C).
- Board Correspondence (Ref. DC | 12.01.22 | 11F).

Mr. Rothenberg asked if there had been any calls from investment managers concerned with a significant inflow or outflow of cash from a fund, such as Dodge and Cox. Ms. Schueller responded that there hadn't been any influx of calls regarding Dodge and Cox or any other particular funds.

TENTATIVE MARCH 2023 AGENDA

Ms. Schueller referred the Board to the tentative agenda for topics likely to be covered at the March 2023 Board Meeting (Ref. DC | 12.01.22 | 12). If there is enough time on the agenda, Fidelity or Galliard may be invited to provide an investment option presentation.

MOVE TO CLOSED SESSION

Mr. Rothenberg announced that the Board would meet in closed session to discuss ETF's Information Security Management program and get an update on security measures in place to protect WDC data at Empower; following that, the Board would meet in closed session in consultation with legal counsel concerning out-of-state litigation filed against Empower Retirement.

MOTION: Mr. Craney moved to approve moving to closed session pursuant to the exemptions contained in Wis. Stats. §19.85 (1) (d) and (g) to consider strategy for crime detection or prevention, and to confer with legal counsel for the governmental body concerning strategy to be adopted with respect to litigation in which it is or is likely to become involved. Mr. Stebbins seconded the motion, which passed on the following roll call vote:

Ayes: Craney, Fleming, Haberkorn, Rothenberg, Stebbins.

Nays: None.

The Board convened in closed session at 4:11 p.m.

The Board returned to open session at 5:15 p.m.

ANNOUNCEMENT OF BUSINESS DELIBERATED IN CLOSED SESSION DISCUSSION

Mr. Rothenberg announced that during the first closed session, members of the Board heard a presentation regarding ETF's Information Security Management program and

received an update on security measures in place to protect WDC data at Empower. No action was taken.

During the second closed session, the Board met in consultation with legal counsel concerning out-of-state litigation filed against Empower Retirement. No action was taken.

ADJOURNMENT

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

The meeting adjourned at 5:17 p.m.

Date Approved: _____

Signed: _____

Connie Haberkorn, Secretary
Deferred Compensation Board