

DRAFT

MINUTES

JUNE 8, 2023

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. – 3:47 p.m.



BOARD MEMBERS PRESENT

Jason Rothenberg, Chair	Kate Fleming
Terry Craney, Vice-Chair	Bill Stebbins
Connie Haberkorn, Secretary*	

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF

Wisconsin Deferred Compensation Program:

Shelly Schueller, Director
Office of the Secretary:
Shirley Eckes, Deputy Secretary
Kimberly Schnurr, Board Liaison

Division of Retirement Services:
Matt Stohr, Administrator
Division of Trust Finance:
Amelia Slaney

OTHERS PRESENT

ETF Staff:

Shellee Bauknecht*, Laura Brauer,
Victor Dupuy, Diana Felsmann, Dan
Hayes, Patrick Hughes*, Jill Jorstad*,
Nancy Ketterhagen*, Joanne Klaas,
Cindy Klimke*, Kadi Mbanefo*, Peter
Rank*, Barry Tucker, Kathryn Young

American Family Insurance:

Mark Rhein*

Department of Natural Resources:

Mike Griffin*, Terence Kafka*

Department of Transportation:

Nina Werner*

Empower:

Emily Lockwood, Lauren Vieth

Empower Investments:

Bill Thornton

Fidelity:

Ron Henry, Mike Hickey

Wipfli:

Bryan Johnson

Public:

David Dies*, Steve Ranis*

* Attended via teleconference.

Board	Mtg Date	Item #
DC	06.08.23	2

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

ANNOUNCEMENTS

Ms. Schueller announced that ETF Secretary Voelker was unable to attend the meeting and that Ms. Eckes, ETF's Deputy Secretary, was present if the Board had any questions or wanted to pass a message along to him.

CONSIDERATION OF OPEN MINUTES OF APRIL 20, 2023, MEETING

MOTION: Mr. Craney moved to approve the open session minutes of the April 20, 2023, meeting as submitted by the Board Liaison. Mr. Stebbins seconded the motion, which passed unanimously on a voice vote.

2022 FINANCIAL STATEMENTS REPORT AND AUDIT RESULTS

Ms. Slaney, Financial Compliance Bureau Director for ETF, noted that ETF successfully completed the 2022 Financial Statements Report (Ref. DC | 06.08.23 | 3). She then turned the presentation over to Mr. Johnson, Senior Accountant at Wipfli, who discussed Wipfli's audit of the 2022 Financial Statements. Mr. Johnson reviewed the growth in WDC net assets over the last several years: 12.6% in 2021, 13.9% in 2020, and 19.8% in 2019. He also noted that poor market returns led to a decline in overall WDC assets at the close of 2022. During 2022, participant contributions increased by 5%, and distributions and expenses remained similar to prior years.

Mr. Johnson also discussed a mistake that occurred during Wipfli's confirmation process that resulted in nine participants inadvertently receiving information pertaining to 10 other participants. Wipfli identified the accidental disclosure and resolved it quickly. Wipfli cooperated with ETF's privacy Officer in an effort to reduce the likelihood of privacy incidents going forward.

Mr. Rothenberg asked for a motion to approve the State of Wisconsin Public Employee Deferred Compensation Plan and Trust Financial Statements as of and for the year ended December 31, 2022.

MOTION: Mr. Stebbins moved to approve the State of Wisconsin Public Employee Deferred Compensation Plan and Trust Financial Statements as of and for the year ended December 31, 2022. Mr. Craney seconded the motion, which passed unanimously on a voice vote.

INTERIM PARTICIPANT ADMINISTRATIVE FEE ANALYSIS

Ms. Slaney began her presentation with a recap of the request made at the December 1, 2022, meeting to provide the Board with an interim participant administrative fee analysis. Ms. Slaney reminded the Board that they made this request to review the

impact of the January 1, 2023, participant fee increase on the Board's administrative account balance.

As part of both her presentation and the memo provided to the Board (Ref. DC | 06.08.23 | 4), Ms. Slaney highlighted:

- Program expenses
- Revenues to fund program expenses
- Administrative account balance (in thousands)
- Administrative account balance as a percent of annual expenses
- Change in participant counts by tier
- Fee history

Ms. Schueller stated the Board would receive an update on the WDC administrative account as part of the Operational Updates included with the September 2023 meeting materials. Unless ETF's analysis indicates Board action is necessary, the update will be shared as a written update memo only.

TECHNICAL BOARD POLICY REVISION CONSIDERATION: ADMINISTRATIVE EXPENSE ACCOUNT TARGET

Ms. Schueller referred the Board to the "Technical Board Policy Revision Consideration: Administrative Expense Account Target" memo (Ref. DC | 06.08.23 | 5). She explained that the Board's Administrative Expense Account Investment and Target Balance Policy was last reviewed and updated in 2015, and that ETF recommended the Board replace the existing policy with a completely new policy. The proposed replacement policy:

- 1) Is formatted in a manner to be consistent with other Board policies;
- 2) Is updated to clearly articulate that the Board's Administrative Expense account will be invested in the Stable Value Fund; and
- 3) Provides the Board with additional elasticity by changing "will" to "should" in the first line of the Target Balance Policy and stating the percentage is a guideline, not a firm requirement.

Ms. Schueller also noted that the proposed policy contains policy objectives, which document the Board's desire to provide flexibility, reduce participant fee volatility, and encourage participation by assessing minimal administrative fees for participants with low account balances.

MOTION: Mr. Craney moved to approve revising and replacing the Administrative Expense Account Investment and Target Policy. Mr. Stebbins seconded the motion, which passed unanimously on a voice vote.

TECHNICAL BOARD POLICY REVISION CONSIDERATION: STABLE VALUE FUND SUBADVISORS

Ms. Schueller provided an overview of the revisions proposed to the Stable Value Fund Sub-Advisor Change Policy (Ref. DC | 06.08.23 | 6). Effective March 2021, the Board

approved dissolving the Investment Committee and moving to quarterly Board meetings. This change prompted ETF staff to review and update the Stable Value Fund Sub-Advisor Change Policy. The proposed revised version reflects the dissolution of the Investment Committee, adds an introductory paragraph, made minor grammatical corrections to the policy, and updated the background.

MOTION: Mr. Stebbins moved to update the Stable Value Fund Sub-Advisor Change Policy as shown in the attached revision. Ms. Haberkorn seconded the motion, which passed unanimously on a voice vote.

INVESTMENT OPTION PRESENTATION: FIDELITY CONTRAFUND

Mr. Henry and Mr. Hickey from Fidelity Investments (Fidelity) presented information to the Board regarding the WDC's Fidelity Contrafund Commingled Pool. Mr. Hickey explained that Fidelity follows an investment philosophy intended to capitalize on the strength of their internal research by selecting stocks whose value the manager believes is not fully recognized by the public. This results in Contrafund seeking out firms that Fidelity believes are poised for durable multiyear earnings growth with superior business models and overseen by stewards of shareholder capital. The Fidelity process also emphasizes firms with high returns on capital, solid free cash flow generation, prudently managed balance sheets, and less economic sensitivity.

Mr. Hickey provided an analysis of the Contrafund Commingled Pool investment performance in comparison to the S&P 500 Index. He illustrated the percentages in sector weights for Contrafund and identified the top 10 holdings for each sector. Mr. Hickey provided information regarding Contrafund's portfolio characteristics and market capitalization as of March 31, 2023. The Class 3 performance of the Contrafund as of May 31, 2023, was shared with the Board to indicate average annual total returns year to date. Mr. Hickey also shared a cumulative performance attribution and the top five relative contributors and detractors for the Contrafund Commingled Pool over Q1 (January 1–March 31, 2023).

Ms. Fleming asked how Fidelity built their portfolio. Mr. Henry responded that the Contrafund portfolio is built mostly from the bottom-up. Ms. Fleming then asked how quickly the portfolio could be liquidated if there was a need. She asked if Contrafund's position sizes would be unwieldy and impede flexibility. Mr. Henry and Ms. Schueller indicated that Fidelity would follow up and get back to the Board members[†].

INVESTMENT PERFORMANCE AND EXPENSE RATIO REVIEW AS OF MARCH 31, 2023

The Board reviewed the performance of the WDC's investment options as of March 31, 2023, as presented in the "Investment Performance and Expense Ratio Review" report

[†] Per email dated June 13, 2023: "As of March 31, it would take about 15 days to trade the Contra Fund portfolio assuming average volume in the market and the portfolio being 10% in volume. Some stocks are less and some more but the average is 15."

by Mr. Thornton of Empower Investments (Ref. DC | 06.08.23 | 8). 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 (0.19%), provided insights regarding the economy and the markets, and discussed the performance of certain investment options during the first quarter of 2023.

Mr. Thornton noted that the first quarter of 2023 exhibited favorable improvement compared to the performance of 2022. Most equity indexes saw positive performance the first quarter, and the WDC investment option lineup continued to perform well overall. While there were some underperforming funds in the short-term, none of the actively managed funds in the lineup were trailing their peer groups for three and five-year time periods. This resulted in Mr. Thornton concluding that none of the WDC's investment options needed to be placed on a "Watch" status at this time.

During the discussion around the three-year percentile ranking results for WDC options, Mr. Rothenberg requested that the chart be segregated to show which of the groups/investments of the WDC were active and which were passive. Mr. Thornton and Ms. Schueller agreed that this chart would be modified to identify active and passive groups/investments beginning with the second quarter 2023 report.

Ms. Fleming asked about the possibility of including a small cap growth fund in the WDC investment lineup. Mr. Thornton responded that a small cap growth fund may not be sustainable in a recession. However, as part of the five-year benchmark review of the investment lineup planned for the December 2023 meeting, Mr. Thornton will include an analysis on the need for a small cap growth fund for the Board's consideration.

SECURE 2.0 INITIAL ANALYSIS

Ms. Schueller referred the Board to the "SECURE 2.0 Initial Analysis" memo during her verbal update (Ref. DC | 06.08.23 | 9). She reviewed the various provisions of SECURE 2.0 impacting the WDC, which includes administrative code changes to required minimum distributions (RMDs). Ms. Schueller explained that implementing SECURE 2.0 for the WDC may require revisions to Ch. ETF 70 of the Wisconsin Administrative Code and the WDC Plan and Trust document. In addition, the WDC's record keeper (Empower) will need to update their systems, processes, forms and informational materials for employers and participants. The Board will continue to receive updates on the status of SECURE 2.0 implementation as ETF continues to analyze the sections relevant to the WDC.

2023 STRATEGIC PARTNERSHIP PLAN UPDATE

Ms. Lockwood, Empower Managing State Director, presented highlights of the "2023 Strategic Partnership Plan (SPP) Update" report to the Board (Ref. DC | 06.08.23 | 10). She discussed the new SPP Progress Report, which replaces the SPP Report Card

used during the previous contract period. She also shared updates on 2023 SPP goals achieved as of May 1, 2023. Overall, Ms. Lockwood stated that progress towards goals was going well. While group meetings remained under the forecasted amount, open enrollment numbers were high. Empower was gearing up for an At-Risk Retiree Campaign using target communications to reach out to eligible attendees. The objective of this campaign is to increase Retirement Readiness Reviews (RRRs) for participants at-risk, over the age of 58, and having a termination date on file.

Ms. Lockwood also reported that the Annual Participant Satisfaction Survey for 2023 was sent to all participants with an account balance and email address on file (approximately 50,869 members). Results will be shared with the Board after the survey closes. Along with the results, Ms. Lockwood and Ms. Schueller will investigate the possibility of having a 10-point scale for all participant electronic survey questions, per an inquiry on this from Mr. Craney.

YEAR IN REVIEW: 2022 STATISTICS

Ms. Lockwood highlighted the following items from the 2022 Annual WDC Plan Review:

- The WDC celebrated its 40-year anniversary as a valuable benefit for public sector employees in Wisconsin. As of 2022, the WDC was utilized by nearly 69,000 participants and offered through more than 980 public employers.
- Actively working participants continued to defer income to the plan despite challenging market conditions for most investors.
- Participant investment strategies were fairly evenly divided between “do-it-myself” (43%) participants, those using the target date options (27%) and those who have opted to use the managed account service (29%). Just slightly under 1% of WDC participants use the self-directed option.
- After a rough first three months, call center service times improved greatly as 2022 progressed.
- Participant attendance at both in-person and virtual individual and group meetings was strong during 2022.

RETIREMENT READINESS REVIEW DEMO

Ms. Vieth provided a demonstration of a Retirement Readiness Review to provide the Board with an idea of what these meetings are like for participants, whether they are currently employed or retired. The presentation also showcased some of the features available through the WDC website that are used during the meetings.

OPERATIONAL UPDATES

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

She highlighted:

- Selected 1Q23 WDC Quarterly Statistics (Ref. DC | 06.08.23 | 13B1).

- 1Q23 WDC Quarterly Plan Review (Ref. DC | 06.08.23 | 13B2).
- 1Q23 Service Level Agreement (Ref. DC | 06.08.23 | 13B3).
- Legislative and Biennial Budget Update (Ref. DC | 06.08.23 | 13C).
- Board Authority Contracts Update (Ref. DC | 06.08.23 | 13D).
- Investment Provider Reports (Ref. DC | 06.08.23 | 13E1–13E4).

TENTATIVE SEPTEMBER 2023 AGENDA

Ms. Schueller referred the Board to the tentative list of topics likely to be on the September 2023 Board Meeting agenda (Ref. DC | 06.08.23 | 14). When asked if the Board members had any other topics that they would like to add to the 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 3:47 p.m.

Date Approved: _____

Signed: _____

Connie Haberkorn, Secretary
Deferred Compensation Board