DRAFT

MINUTES

September 12, 2024

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. – 3:51 p.m.

BOARD MEMBERS PRESENT
Jason Rothenberg, Chair
Connie Haberkorn, Vice Chair
Bill Stebbins, Secretary
Kate Fleming*
Tim Graham

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF

Office of the Secretary:
John Voelker, Secretary
Shirley Eckes, Deputy Secretary
Kimberly Schnurr, Board Liaison
Trust Finance:
Amelia Slaney, Bureau Director
Office of Legal Services:
Diana Felsmann, General Counsel
Dan Hayes, Attorney
Wisconsin Deferred Compensation Program (WDC):
Shelly Schueller, Director

OTHERS PRESENT

Office of the Secretary:
Pam Henning
ETF Staff:
Shellee Bauknecht*, Erin Casper, Taylor DeBroux, Patti Epstein, Paulina Erdman, Sheila Gubin*, Michelle Hoehne*, Tarna Hunter, Cindy Klimke, Caroline Marsh*, Laura Patterson, Peter Rank, Yikchau Sze*, Barry Tucker*, Andrea Vitale*, Kathryn Young
Calvert:
John Farley, Jim McInerney
Empower:
Emily Lockwood
Empower Investments:
Bill Thornton
FIN News:
Gar Chung

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

* Attended virtually.

Board	Mtg Date	Item #
DC	12.05.24	2

ANNOUNCEMENTS

Ms. Schueller made the following announcements:

- Connie Haberkorn's reappointment to the Board was confirmed by the Senate in late June.
- Patricia (Patti) Epstein was introduced as the Department of Employee Trust Funds' (ETF's) new Division of Benefits Administration Chief Benefits Officer.
- The annual board satisfaction survey, asking for anonymous feedback related to Board meeting content and preferred areas of focus for the Wisconsin Deferred Compensation Program (WDC), will be sent to Board members the following week.

CONSIDERATION OF OPEN MINUTES OF JUNE 6, 2024, MEETING (Ref. DC | 09.12.24 | 2)

> ***MOTION: Mr. Graham moved to approve the open session minutes of the June 6, 2024, meeting as submitted by the Board Liaison. Mr. Stebbins seconded the motion, which passed unanimously on a voice vote.***

INVESTMENT PERFORMANCE AND EXPENSE RATIO REVIEW AS OF JUNE 30, 2024 (Ref. DC | 09.12.24 | 3)

Mr. Thornton presented the WDC investment performance and expense ratio review as of June 30, 2024, and an overview of national and international economies and labor market trends. Mr. Thornton commented that inflation was coming down.

Mr. Thornton discussed equity market returns and performance benchmarking, noting that many stocks were down by 3%, except the large technology names (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla). In addition, value funds outperformed growth funds, and the same trend was true for small-cap, mid-cap, and bonds. Mr. Thornton also reported that bond rates and yields had declined.

Overall, in Q2 2024, performance across all WDC investment options was good. Mr. Thornton highlighted that the T. Rowe Price Mid-Cap Growth Fund was slightly behind its peers. This is not surprising because this fund tends to lag peers when the economy is in a growth cycle. He briefly summarized performance of the WDC's target date funds and reviewed style drift analysis. Target date fund performance continued to be stable.

Ms. Fleming inquired about the style drift of the Blackrock Mid Cap Equity Index option, which is shifting from core towards value. She also requested that Empower keep an eye on Fidelity Contrafund because that option continues to drift towards core. Mr. Thornton responded that he was unsure about the reasons behind the Blackrock Mid

Cap Equity Index drift but would investigate Ms. Fleming's question. Mr. Thornton and Ms. Lockwood also confirmed Empower would continue to watch Fidelity Contrafund.

Mr. Thornton discussed the 3-year percentile rankings and the asset, participant, and expense summaries for the WDC options. He highlighted the large increase in usage of the Calvert option between 2023 and 2024, stating that this was a result of including the Calvert option in the managed accounts service. He added that there had been no real changes in the WDC expense summary since he last reported on it.

Mr. Thornton concluded by commenting on the ProPublica article, "A Top Mutual Fund Executive Made Millions for Himself Trading the Same Stocks His Giant Fund Was Trading." The article alleged that David Hoeft, Chief Investment Officer of Dodge & Cox, was one of many investment managers who were "frontrunning" and bought and sold the same stocks their companies were trading in advance of their companies' trades. Mr. Thornton stated that Dodge and Cox determined that all trades in question were in compliance with their Code of Ethics.

Mr. Stebbins asked if front-running was common, and Mr. Thornton said that based on allegations made in the article, it appeared so. Mr. Stebbins wondered if the article discussed the gains Mr. Hoeft made personally. Mr. Thornton stated investigators went back several years, and Mr. Hoeft made about $3 million. Mr. Rothenberg requested that ETF ask Dodge & Cox if they had a response to the article[†].

INVESTMENT OPTION PROVIDER PRESENTATION: CALVERT (Ref. DC | 09.12.24 | 4)

Mr. McInerney and Mr. Farley introduced themselves to the Board and provided an overview of their presentation. Mr. Farley shared that Calvert was acquired by Morgan Stanley in 2022, but Calvert continues to operate separately. Ms. Fleming asked a series of questions related to how Morgan Stanley and Calvert work together. Mr. Farley said Morgan Stanley has done a good job of devoting resources to Calvert. For example, the Calvert team has grown since being acquired by Morgan Stanley. Calvert has also launched roughly 20 new strategies, including ones that can be utilized overseas. Mr. Farley added that Calvert has been able to take advantage of Morgan Stanley's technology budget.

[†] Response from WDC's Dodge & Cox contact, Katie Fast, was received via email to the Board on November 11, 2024. Ms. Fast wrote, "We thoroughly examined David's personal trades in question and the timing of those trades relative to the firm's trades … we confirmed (1) that all the trades in question were in compliance with our Code of Ethics; and (2) there was no evidence that he engaged in front-running or any other improper trading activity." Email also included a link to the Morningstar article "Dodge & Cox Leader's Personal Trading Unlikely to Have Been Unethical." The article suggests that it is "unlikely that Hoeft's trading was unethical" and concludes by stating Morningstar sees "no reason to change Dodge & Cox's High Parent rating or its strategies' Morningstar Medalist Ratings."

Mr. Farley explained that Calvert has a three-pronged approach that supports their investment goals and utilizes the Russell 1000 Index for benchmarking. The three-pronged Calvert approach consists of the following:

- Research: Use a proprietary environmental, social, and governance (ESG) research process conducted by sector-focused ESG research analysts.
- Engagement: Seek to strengthen companies by improving their operations on financially material ESG issues.
- Impact: Recognize companies' externalities on the environment and society; and measure, manage, and report Calvert's ESG exposures and impacts.

ESG research is central to Calvert's operations, according to Mr. Farley. Calvert does not rely on exclusions or screenings when making investment decisions. Instead, Calvert uses data analytics and looks at companies' individual ESG management. Generally, companies that manage ESG well also tend to perform well.

Mr. Stebbins asked for a recent example of Calvert's methods in practice. Mr. Farley said that Calvert made the decision to stop investing in Tesla due to the company's poor governance and allegations of misconduct within the company. However, once Tesla improved their governance and rectified the misconduct, Calvert reinvested in Tesla. Mr. Farley noted that Calvert also looks at a company's diversity, because it frequently plays a large role in increased income for a company. Mr. Farley commented that ESG issues vary and can play out differently from one company to the next, which are factors Calvert considers when investing.

Mr. Farley said that most Calvert investment options are actively managed and noted that the WDC's Calvert option is passively managed. Mr. Farley shared that Calvert has a big ESG team in Washington, D.C. that identifies companies with well-managed ESGs that generally outperform others. At the end of their process, Calvert has an index of these companies, "Calvert US Large-Cap Core Responsible Index (CALCOR)." Mr. Farley stated that companies selected for inclusion into the CALCOR are weighted based on their float market capitalizations within each Sustainable Industry Classification Standard (SICS) sector. Calvert's initial index universe of large-cap stocks is highly correlated to the Russell 1000 Index. Mr. Farley reported that as of June 30, 2024, there were 788 companies on the CALCOR.

Mr. Stebbins asked how frequently the names on the CALCOR change. Mr. Farley replied that market movement is the most common reason for changes to the CALCOR. However, the CALCOR is also adjusted due to company buyouts and controversy. Mr. Stebbins asked how often rates were changed. Mr. Farley stated Calvert completes quarterly rebalancing in addition to an annual reconstitution each June.

Ms. Fleming wondered if the WDC paid for index construction and licensing. Mr. Farley replied that WDC does not pay for licensing. Calvert conducts the CALCOR, and

Parametric manages it. Calvert pays Parametric directly. Therefore, even though the WDC pays Calvert, it does not get charged any licensing costs that Calvert takes on from Parametric. Mr. Farley added that the cost the WDC pays to Calvert covers the ESG process.

Mr. Farley said that Calvert has a ten-person engagement team that does a significant amount of work helping companies improve their risks, which Calvert believes makes these companies better long-term investments. Mr. Farley stated that the WDC's Calvert option performed similarly to the Russell 1000 index but with less volatility than the Russell 1000.

Mr. Stebbins asked how Calvert compared to other ESG funds. Mr. Farley said that Calvert went in a different direction than most other ESG funds because Calvert is more confident doing individual analyses and focusing on data versus screening and subjective judgement.

FIDUCIARY LITIGATION UPDATE (Ref. DC | 09.12.24 | 5)

Ms. Felsmann began her presentation by reviewing the legal foundation for fiduciary duties, which includes common law of trusts, Federal Employee Retirement Income Security Act (ERISA), and Wisconsin state laws.

Ms. Felsmann clarified that as the WDC is a s. 457 supplemental defined contribution plan, it is not directly governed by ERISA. However, ETF looks to ERISA for best practice/guidance.

Ms. Felsmann discussed several Board responsibilities outlined in Wis. Admin. Code ETF § 70.03 related to fiduciary duties. She highlighted the importance of having a single record keeper for the plan along with the following Board responsibilities:

- Determining and implementing the most efficient and cost-effective method for program administration, consistent with high quality services to members
- Establishing standards for evaluating the plan administrator
- Evaluating the performance of the administrator, biennially, for contractual compliance and compliance with standards
- Defining general categories of investment products to be offered
- Establishing criteria by which specific investment products shall be evaluated for initial and continued participation in the plan and evaluate investment products annually

Ms. Felsmann updated the Board on trends in fiduciary litigation since her last update to the Board in 2022 (Ref. DC I 12.01.22 I 7). She said that the number of total fiduciary cases filed decreased compared to 2022. She also stated that, for the most part, plan participants had been unsuccessful with their lawsuits. Ms. Felsmann mentioned that elements of successful cases frequently involved demonstrating a lack of documentation related to a board's consideration of an issue and failure to use a prudent process when arriving at a decision. In addition, Ms. Felsmann noted a recent trend in litigation challenging the use of plan forfeitures.

Ms. Felsmann provided several notable updates on past cases, such as Hughes v. Northwestern University and Vellali v. Yale University. She added that in 2022, numerous lawsuits were filed against plan fiduciaries for the use of BlackRock LifePath indexed target date funds, claiming the funds had consistently lower returns than other actively managed target date funds. All but the following were dismissed: Trauernicht et al. vs. Genworth Financial Inc. et al. and Kristler et al. vs. Stanley Black & Decker Inc.

Ms. Felsmann then reviewed several recent fiduciary cases, including Matney v. Barrick Gold of North America, Kelley et al v. TIAA-CREF and Morningstar, and Johnson et al v. Carpenters of Wester Washing Board of Trustees.

Ms. Felsmann explained that over the past several months, lawsuits were filed against companies asserting that these firms' retirement plans violated the fiduciary duty of loyalty by using forfeited non-vested plan assets to reduce plan expenses or future employer contributions, instead of using those assets for the exclusive benefit of plan participants. However, Internal Revenue Service (IRS) guidance and proposed rules allow this practice. Ms. Felsmann commented that adoption of discretionary plan terms is a fiduciary decision.

FIDUCIARY RESPONSIBILITIES REVIEW (Ref. DC | 09.12.24 | 6)

Ms. Schueller and Mr. Hayes referred the Board to the "Fiduciary Responsibilities Review" memo. They provided an overview of selected updates made to Attachment A of the memo, which contained examples of the Board's fiduciary responsibilities, in addition to suggested best practices from the National Association of Government Defined Contribution Administrators.

INVESTMENT POLICY STATEMENT (IPS) REVIEW (Ref. DC | 09.12.24 | 7)

Ms. Schueller referred the Board to the "IPS Review" memo. Ms. Schueller noted that an annual review of the IPS was part of the Board's fiduciary responsibilities and highlighted the following proposed revisions during her presentation:

1. Correcting a minor grammatical issue in the monitoring criteria
2. Updating the formal names of certain WDC investment product options
3. Removing one benchmark for the WDC's actively managed mid-cap fund

MOTION: Mr. Stebbins moved to revise the IPS as shown in Attachment A: Investment Policy Statement. Mr. Graham seconded the motion, which passed unanimously on the following roll call vote:

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

Nays: None.

Absents: None.

PARTICIPANT ADMINISTRATIVE FEE STRUCTURE (Ref. DC | 09.12.24 | 8)

Ms. Slaney provided an overview of the current WDC participant administrative fee structure. With the current structure, participant fees are based on participant account balances, and a tiered fee schedule is utilized. Market volatility and changes between tiers cause participant fees to fluctuate from year-to-year. The current tiered structure includes disparity in fees based on account balances. For example, in mid-2024, about 18% of participant accounts had balances less than $5,000 and were not charged participant fees. In contrast, approximately 12% of accounts had balances higher than $250,000 and paid about 38% of the total participant fees. Ms. Slaney noted that the current structure makes it challenging to meet some of the Board's Administrative Expense Account policy objectives, which are maintaining an administrative account balance between 50% and 75% of projected expenses and reducing volatility in fees.

ETF staff researched potential changes to the WDC plan participant administrative fee structure. Considerations included:

- Fee structures of peer plans (other states' s. 457 plans)
- Plan expenses and what causes them to change
- Analysis if a flat fee structure was used, beginning with 2020

ETF staff determined that a flat fee structure provided less volatility in both participant fees and in the reserve balance. Ms. Slaney presented three options to the Board for consideration:

1. Flat fee for all accounts
2. Flat fee for account balances above $5,000
3. Flat fee for account balances above $5,000, with smaller flat fee for account balances less than or equal to $5,000

Ms. Slaney said that, while all options were reasonable, the second and third options best achieved the Board's Administrative Expense Account policy objective of "encouraging plan participation by assessing minimal administrative fees for individual participants with low account balances." Ms. Slaney noted that Option 3 would likely have the biggest impact on participants.

The Board asked if moving to a flat fee structure would reduce the workload for ETF staff. Ms. Slaney noted that using a flat fee structure would simplify the analysis, as the current participant fee analysis model is more complex. Board members discussed the implications of each of the three options. Ultimately, a vote by Board members revealed a preference for Option 2. Board members noted Option 2 seems less confusing for participants, offers an incentive for participants to start an account, and simplifies work for ETF staff.

MOTION: Mr. Graham moved to approve the recommended alternative participant fee structure Option 2: a flat fee for an account balance above $5,000 to use in setting fees for 2025 and beyond. Mr. Stebbins seconded the motion, which passed unanimously on the following roll call vote:

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

Nays: None.

Absents: None.

2023 CONTRACT COMPLIANCE AUDIT FINDINGS UPDATE (Ref. DC | 09.12.24 | 9)

Ms. Schueller referred the Board to the "2023 Contract Compliance Audit Findings Update" memo. Ms. Schueller provided a brief update on the action taken related to the Office of Internal Audit's (OIA's) recommendations, which were presented in the "2023 Contract Compliance Audit Results" memo at the June 2024 Board meeting (Ref. DC | 06.06.24 | 4). Ms. Schueller said that, overall, ETF was satisfied with the changes made thus far. She added that ETF expects closure on all calendar year 2023 WDC Contract Compliance Audit findings by the end of 2024. The Board will receive a final update at the December meeting.

SECURE 2.0 UPDATE AS OF JULY 30, 2024 (Ref. DC | 09.12.24 | 10)

Ms. Schueller and Mr. Hayes referred the Board to the "SECURE 2.0 Update as of July 30, 2024" memo. They provided an overview of the updates for certain provisions of SECURE 2.0 and explained that more details would be shared as part of the next agenda item, proposed Plan and Trust revisions.

PROPOSED PLAN AND TRUST REVISIONS: IMPLEMENTATION OF CERTAIN SECURE 2.0 PROVISIONS, AN AUDIT RECOMMENDATION, AND A TECHNICAL CORRECTION (Ref. DC | 09.12.24 | 11)

Ms. Schueller and Mr. Hayes referred the Board to the "Proposed Plan and Trust Revisions: Implementation of Certain SECURE 2.0 Provisions, an Audit Recommendation, and a Technical Correction" memo. They stated that if the Board approves the revisions, changes to the Plan and Trust would take effect on January 1, 2025. The following changes related to SECURE 2.0 were proposed:

1. Section 311: Repayment of Qualified Birth or Adoption Distribution
2. Section 314: Penalty-free Withdrawal from Retirement Plans for Individual in case of Domestic Abuse
3. Section 331: Qualified Federally Declared Disaster Distributions

Ms. Schueller and Mr. Hayes also proposed the Plan and Trust be revised to implement recommendations from the Office of Internal Audit's 2023 contract compliance audit. These included the following:

- Add "mutual fund" to 8.01, to help clarify that the WDC's Self-Directed Option (SDO) is only for investing in mutual funds not in the core investment spectrum.
- Delete the last sentence in 8.01, which requires SDO investments begin only from the core options.
- Update the SDO language such that it reflects current practices regarding online enrollment and using either a traditional or Roth sweep account for transfers.
- Increase the minimum required balance from $1,000 to $3,000 in 8.04.
- Add a $60 annual administrative fee for any participant using the SDO in 8.10.
- Eliminate language regarding notification if core investment balances fall below $250 in 8.11.

Lastly, Ms. Schueller and Mr. Hayes proposed revising the Plan and Trust to make a technical correction. They recommended correcting the definition of "normal retirement age" to mirror the Internal Revenue Code (IRC).

> ***MOTION: Mr. Stebbins moved to revise the Plan and Trust to implement certain SECURE 2.0 provisions, an audit recommendation, and make a technical correction. Mr. Graham seconded the motion, which passed unanimously on the following roll call vote:***
>
> ***Ayes: Fleming, Graham, Haberkorn, Rothenberg, Stebbins.***
>
> ***Nays: None.***
>
> ***Absents: None.***

STRATEGIC PARTNERSHIP PLAN UPDATE (Ref. DC | 09.12.24 | 12)

Ms. Lockwood provided a 2024 WDC Strategic Partnership Plan progress update. She highlighted that to gain more information from younger and employed participants in addition to retirees, the annual participant satisfaction survey was sent to 8,095 participants across several age bands. The survey received a significantly higher response rate (15%) than the previous year. Ms. Lockwood noted that the survey revealed satisfaction with WDC services went up in all areas except for the call center. Ms. Lockwood noted that while Empower's call center experienced some challenges in early 2024, resulting in missed service standards, service has returned to expected levels, including 80% of participant calls answered within 20 seconds and less than 3% of calls abandoned.

OPERATIONAL UPDATES

Ms. Schueller referred to the Operational Updates section of the meeting materials and said ETF staff were available if there were any questions. She highlighted the following items:

- Deferred Compensation Board Membership Roster (Ref. DC | 09.12.24 | 13A)
- Final 2023 Financial Statements Report and Audit Results (Ref. DC | 09.12.24 | 13B)
- Evaluation of Managed Account Service (Ref. DC | 09.12.24 | 13C)
- WDC Information
    - Selected 2Q24 WDC Quarterly Statistics (Ref. DC | 09.12.24 | 13D1)
    - 2Q24 WDC Quarterly Plan Review (Ref. DC | 09.12.24 | 13D2)
    - 2Q24 Service Level Agreement (Ref. DC | 09.12.24 | 13D3)
- Board Authority Contracts Update (Ref. DC | 09.12.24 | 13E)
- Investment Provider Information
    - 2Q24 Portfolio Review (Ref. DC | 09.12.24 | 13F1)
    - 2Q24 PCRA Report (Ref. DC | 09.12.24 | 13F2)

TENTATIVE DECEMBER 2024 AGENDA (Ref. DC | 09.12.24 | 14)

Ms. Schueller referred the Board to the agenda of topics likely to be covered at the December 2024 Board meeting. 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. Graham moved to adjourn the meeting. Mr. Stebbins seconded the motion, which passed unanimously on a voice vote.***

The meeting adjourned at 3:51 p.m.

Date Approved: ______________________________

Signed: ______________________________________
Bill Stebbins, Secretary
Deferred Compensation Board