

DRAFT

# MINUTES

December 5, 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. – 3:55 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  
Kimberly Schnurr, Board Liaison

### Office of Legal Services:

Diana Felsmann, incoming Deputy  
Secretary

### Division of Benefits Administration:

Patti Epstein, Chief Benefits Officer

### Division of Trust Finance:

Amelia Slaney, Financial Compliance  
Bureau Director

### Wisconsin Deferred Compensation Program (WDC):

Shelly Schueller, Director

## OTHERS PRESENT

### Office of the Secretary:

Pam Henning, Assistant Deputy  
Secretary

### ETF Staff:

Laura Brauer, Erin Casper, Taylor  
DeBroux, Paulina Erdman, Tarna  
Hunter, Michelle Hoehne\*, Cindy  
Klimke\*, Noah Muhammad\*, Laura  
Patterson, Peter Rank, Erin Seliger,  
Yikchau Sze\*, Barry Tucker, Kathryn  
Young

### BlackRock:

Niyati Mohan, Craig Voelker

### Empower:

Emily Lockwood

### Empower Investments:

Bill Thornton

### Ethics Commission:

David Buerger

### Financial Investment News:

Zack Cziryak\*

\* Attended virtually.

Board	Mtg Date	Item #
DC	03.13.25	2A

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

## **ANNOUNCEMENTS**

Ms. Schueller made the following announcements:

- Deputy Secretary Shirley Eckes is retiring from ETF in February 2025.
- Secretary Voelker has appointed Diana Felsmann, ETF's current General Counsel, as the next ETF Deputy Secretary. Ms. Felsmann will formally begin her new role on February 9, 2025.

## **CONSIDERATION OF OPEN MINUTES OF SEPTEMBER 12, 2024, MEETING ([Ref. DC | 12.05.24 | 2](#))**

***MOTION: Mr. Graham moved to approve the open session minutes of the September 12, 2024, meeting as submitted by the Board Liaison. Mr. Stebbins seconded the motion, which passed unanimously on a voice vote.***

## **ETHICS AND LOBBYING LAW TRAINING ([Ref. DC | 12.05.24 | 3](#))**

Mr. David Buerger from the State of Wisconsin Ethics Commission provided the Board with Wisconsin ethics and lobbying laws and rules for public officials. He shared 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 was a specific dollar amount in regard to the guidance on influence and rewards outlined in Wis. Stat § 19.45(3). Mr. Buerger responded that there was no minimal threshold when it came to the monetary value of a gift or reward. However, public officials could accept items of nominal value, such as a plaque. He said that Wis. Stat. § 19.45(14) has been added so that public officials could purchase items from anyone who was not a lobbyist or part of an organization that employed lobbyists. The official would need to pay full retail value, however, which could be difficult to determine. Therefore, this practice is still discouraged by the Ethics Commission.

## **INVESTMENT PERFORMANCE AND EXPENSE RATIO REVIEW AS OF SEPTEMBER 30, 2024 ([Ref. DC | 12.05.24 | 4](#))**

Mr. Thornton presented the WDC investment performance and expense ratio review as of September 30, 2024, and an overview of national and international economies and labor market trends in the United States. Mr. Thornton commented that as of December 2024, inflation in the United States was continuing to slowly subside.

Mr. Thornton discussed equity market returns and performance benchmarking. He noted that in September, the Federal Reserve Board cut interest rates by 50 basis points, which helped push stocks to solid gains across the board. For the third quarter of 2024, the S&P 500 was up nearly 6%, taking its year-to-date (YTD) and one-year totals to 22% and 36%, respectively. Mid-sized and small capitalization stocks both returned more than 9% during the third quarter of 2024. Mr. Thornton added that declining interest rates finally pushed fixed income indices into positive territory for the year, as the Bloomberg Aggregate Bond Index advanced more than 5% for the quarter, bringing its YTD return to nearly 4.5%.

Overall, in the third quarter of 2024, performance across all WDC investment options was good. Mr. Thornton stated that all total returns in the WDC's investment options were above or near the performance of their peer groups over three and five years, except for the Vanguard Long-Term Investment-Grade Fund. He explained that the longer duration of that fund has been a challenge during the rising interest rate cycle since 2022, so its underperformance was to be expected. Mr. Thornton did not suggest any actions to change or put any investment options in the lineup on watch. He briefly summarized performance of the WDC's target date funds and reviewed the style drift of certain WDC options. Target date fund performance continued to be stable.

Mr. Thornton spoke on the review he conducted after the Board's request during the September 2024 meeting concerning the BlackRock Mid-Cap Equity Index. ([Ref. DC | 12.05.24 | 2](#)). He explained that the style allocation of the index's collective investment trust tilts towards more of a value orientation. He stated that the fund appeared to be operating as it should. Mr. Thornton explained that he studied other mid-capitalization index funds to review what benchmarks are most prevalent and found that the most widely used benchmarks are the S&P Midcap 400 Index and the Russell Midcap Index. He explained how the benchmarks differ in the style analysis typically shown in his quarterly investment report, noting that the S&P Midcap 400 Index historically has more of a value orientation than the Russell Midcap Index. Mr. Thornton stated that while both indexes have distinct differences in their composition, the performance is very similar over time. He related this back to the goal of the WDC, which is to allow participants to accumulate assets for their retirement over many years. He does not believe that the more value-oriented style of the S&P Midcap 400 is detrimental to that goal.

Mr. Rothenberg asked if Mr. Thornton felt managed account providers were favoring U.S. funds or were continuing forward with diversified fund options. Mr. Thornton stated that he did not see any favorability towards U.S. funds at this point but observed that the new administration could introduce policies that may change this. He stated that Empower would continue to monitor how certain fund families responded to any new policies coming out of the new administration.

The Board noted that there is only one option in the lineup for large capitalization growth funds, Fidelity Contrafund Commingled Pool, but with somewhat unusual small capitalization fund options: BlackRock's Russell 2000 Index and the actively managed

DFA US Micro Cap. Ms. Fleming expressed concern that the performance of the WDC's actively managed small capitalization funds appeared to be struggling. The Board asked that Mr. Thornton research what other large and small capitalization growth options might meet the Board's criteria for inclusion in the WDC categories and share information on these options at a future meeting.

**INVESTMENT OPTION PROVIDER PRESENTATION: BLACKROCK** ([Ref. DC | 09.12.24 | 5](#))

Mr. Craig Voelker and Ms. Niyati Mohan from BlackRock introduced themselves to the Board. Mr. Voelker provided an overview of BlackRock's acquisition strategy. He explained that BlackRock acquired Merrill Lynch investment managers in 2006 and Barclays Global Investors (BGI), who was a pioneer in indexing, in 2009, which is also the year when the WDC offered BGI index funds that were subsequently renamed to BlackRock funds. Mr. Voelker said BlackRock most recently acquired Global Infrastructure Partners, which was one of the largest infrastructure managers in the world; and BlackRock acquired HPS, which was one of the largest private credit managers in the world. Mr. Voelker stated that BlackRock expects these acquisitions to help build a firm that can partner with clients to provide holistic solutions. Mr. Voelker said that BlackRock believes there is a need for private investment in large infrastructure and finance.

Ms. Mohan explained that BlackRock uses a central platform called Aladdin, which is a sophisticated operating system that connects information, people, and technology to support the entire investment lifecycle. She stated that Aladdin does the "heavy lifting" to enable portfolio managers to focus on key drivers affecting portfolio return.

Mr. Voelker, then, provided a snapshot of the WDC participants and assets BlackRock served. He walked the Board through the WDC's BlackRock offerings which include the Russell 2000 Index Fund M, the Mid Cap Equity Index Fund F, the US Debt Index Fund M and the EAFE Equity Index Fund F. Mr. Voelker highlighted the performance and characteristics of each fund.

When the Board was invited to ask questions, Mr. Stebbins inquired about the critical press BlackRock had received last year, especially related to their shares in the PG&E Corporation. Mr. Voelker confirmed that BlackRock continued to receive press coverage on that matter. He speculated the media continued to focus on BlackRock because it was a large company. Mr. Voelker stated that BlackRock was committed to driving the best financial outcomes for the people that invest with them.

**2025 PARTICIPANT ADMINISTRATIVE FEE RECOMMENDATION** ([Ref. DC | 12.05.24 | 6](#))

Ms. Slaney began her presentation by stating that revenues to fund plan expenses primarily come from participant administrative fees and a small amount of investment

income on the Board's account balance. WDC participant administrative fees are deducted from participant accounts monthly and used to pay plan expenses. She, then, provided an overview of the participant administrative fee analysis, which consists of the following steps:

- Obtain updated administrative account balance for most recent quarter
- Estimate future expenses impacting the administrative account
- Determine participant count with balances over \$5,000
- Consider Board's administrative account balance policy target, which is between 50-75% of projected annual expenses

Ms. Slaney reviewed the number of participants in the WDC. She noted that there was a slight increase in participation from last year. As of September 30, 2024, there were approximately 58,000 participants with account balances over \$5,000. She presented the Board with three fee options that could maintain the target account balance range in the Board's administrative account policy. She went over the three options in detail and shared a timeline of participant annual fee history with the Board as reference in considering which fee option to select.

Ms. Slaney reminded the Board that at their September 2024 Board meeting, the Board approved a change in the participant administrative fee structure such that effective January 1, 2025, participants will be charged a flat fee. This was a change from the previous tiered structure, where participant administrative fees are based on account balance ([Ref. DC | 09.12.24 | 8](#)). As a result of the structure change, Ms. Slaney noted there would be less risk of volatility regardless of which of the three options the Board chose. Additionally, all three options meet the Board's administrative account balance policy target, which states that the balance should equal to 50-75% of estimated annual plan expenses.

***MOTION: Mr. Graham moved to approve that the administrative fees paid by the WDC plan participants be \$3.90/month or \$46.80/year, effective January 1, 2025. Mr. Stebbins 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 (SPP)**

2024 SPP Update ([Ref. DC | 12.05.24 | 7A](#))

Ms. Lockwood stated that between September 30 and October 25, 2024, Empower held 34 Open Enrollment/Benefits Fair webinars. Attendance for these events increased by

3% over the same webinars in 2023. As of October 31, 2024, Empower had conducted 3,792 total meetings, including 286 group meetings and 2,288 Retirement Readiness Reviews (RRRs). A total of 3,506 total participants had one-on-one meetings, which resulted in 2,607 positive actions taken. This meant that roughly 74% of participants were either enrolling in the WDC, diversifying their assets, or personalizing their assets after individual meetings.

2025 SPP Proposal ([Ref. DC | 12.05.24 | 7B](#))

Ms. Lockwood explained that after discussion with ETF, the proposed WDC goals for 2025 would be similar to the 2024 goals. This means Empower's WDC staff will continue their concentrated efforts on participants, employers, and communications. Proposed 2025 SPP goals include:

- Increasing employee participation by 1.5%
- Completing 2,700 RRRs
- Adding 10 new employers
- Conducting 300 group meetings
- Offering two Steppingstones webinars
- Offering a retiree-specific webinar
- Implementing the SECURE 2.0 provisions and administrative fee structure changes approved by the Board during 2024
- Encouraging WDC participant enrollment during October 2025 with a National Retirement Security Month campaign that will include digitally "geo-fencing" areas around various state and local government buildings

***MOTION: Ms. Haberkorn moved to approve the 2025 SPP as outlined in the memo. Mr. Graham 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 | 12.05.24 | 8](#))

Ms. Schueller provided the final update on actions taken based on the 2023 WDC contract compliance audit since the September Board meeting. Ms. Schueller mentioned that because of the contract compliance audit, changes had been made to Empower's Quarterly Service Level Agreement (SLA) reporting. She explained that Empower would provide an appendix with available monthly backup data in addition to the summary page showing quarterly results.

Ms. Schueller reported that ETF was satisfied with the audit deliverables completed by Empower and considered the audit closed.

## OPERATIONAL UPDATES

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

- SECURE 2.0 Update as of November 11, 2024 ([Ref. DC | 12.05.24 | 9A](#))
- Calvert U.S. Large Cap Core Responsible Index Fund Benchmark Updates ([Ref. DC | 12.05.24 | 9B](#))
- Stable Value Fund Subadvisor Change: IR+M Replacing Jennison ([Ref. DC | 12.05.24 | 9C](#))
- 2024 Board Survey Results ([Ref. DC | 12.05.24 | 9D](#))
- 2025-2027 Biennial Budget Update ([Ref. DC | 12.05.24 | 9F](#))
- Board Correspondence ([Ref. DC | 12.05.24 | 9I](#))

Ms. Fleming requested additional background information on the new Stable Value Fund subadvisor firm (IR+M). Ms. Schueller stated that she would obtain that information from Galliard and share it with the Board at the next meeting.

## TENTATIVE MARCH 2025 AGENDA ([Ref. DC | 12.05.24 | 10](#))

Ms. Schueller reviewed the anticipated March 2025 agenda items and noted that Fidelity would be invited to present on Contrafund. She also stated that she would ask Galliard to attend the March meeting to discuss a proposed Stable Value Fund Investment Management Agreement revision with the Board.

## MOVE TO CLOSED SESSION

Mr. Rothenberg announced that the Board would be meeting in closed session to discuss information security management.

***MOTION: Ms. Fleming moved to meet in closed session pursuant to the exemption contained in Wis. Stats. §19.85 (1) (d) to consider strategy for crime detection or prevention. If a closed session is held, the Board may vote to reconvene in open session following the closed session. Mr. Graham seconded the motion, which passed unanimously on the following roll call vote:***

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

***Nays: None.***

***Absents: None.***

The Board convened in closed session at 3:10 p.m.

The Board returned to open session at 3:54 p.m.

**ANNOUNCEMENT OF BUSINESS DELIBERATED DURING CLOSED SESSION  
DISCUSSION**

Mr. Rothenberg announced that the Board met in closed session to discuss information security management. No action was taken.

**ADJOURNMENT**

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

The meeting adjourned at 3:55 p.m.

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

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

Bill Stebbins, Secretary  
Deferred Compensation Board