

**CITY OF MILWAUKEE
MINUTES OF THE DEFERRED COMPENSATION BOARD
MEETING OF THURSDAY, MAY 2, 2013
2:00 P.M. - ROOM 405, CITY HALL**

MEMBERS/DESIGNEES PRESENT:

Mr. W. Martin Morics, Plan Member, Chairman
Mr. Jerry Allen, Chairman
Ms. Margaret Daun, Assistant City Attorney
Mr. James Klajbor, Deputy City Treasurer – arrived at 2:24 p.m.
Ms. Beth Conradson Cleary, Plan Member
Mr. Steven L. Mahan, Community Development Grants Administration Director
Mr. Mark Nicolini, Budget Director – left at 3:25 p.m.
Ms. Renee Joos, Fiscal & Risk Manager – left at 4:08 p.m.
Mr. Michael J. Murphy, Alderman – arrived at 2:27 p.m., left at 3:37 p.m.
Mr. Joe Davis, Sr., Alderman – arrived at 2:06 p.m.

EXCUSED/ABSENT:

Mr. Martin Matson, Comptroller - excused

OTHERS PRESENT:

Ms. Wendy Stojadinovic, Cleary Gull Advisors
Mr. Levi Lathen, Nationwide Retirement Solutions
Ms. Amber Peters, Nationwide Retirement Solutions
Ms. Sharon Hoppel, Morley Financial Services, Inc.
Mr. Phil Suess, Mercer Investment Consulting, Inc.
Ms. Ellen Tangen, Assistant City Attorney
Ms. Elaine Bieszk, Program Assistant II, Deferred Compensation
Mr. Dziadowicz, Executive Director, Deferred Compensation

A quorum being present, Mr. Morics, Chairman of the Deferred Compensation Board, called the meeting to order at 2:04 p.m.

1. Approval of the February 12, 2013 Board Meeting Minutes

Mr. Morics stated that copies of the above minutes had been distributed to the Board members.

Motion was made to approve the meeting minutes as submitted. Hearing no objections so ordered.

2. Plan Participant Benefit Approvals and Denials for the period of January, February and March, 2013

It was moved to approve initial payout benefits and rollover payments for participants who have left City employment and are commencing benefits since the last Deferred Compensation Board Meeting. Report accepted as submitted. Hearing no objections so ordered. It was moved to approve the hardship withdrawal requests. Hearing no objections so ordered.

3. Executive Finance Committee Report

- a. Alternate Payee Distributions Amendment to Administrative Rules and Master Agreement

Ms. Daun reported that the amendment fundamentally alters the Plan. The Master Agreement will be submitted to the Common Council for their approval before implementation.

Motion was made to approve the revisions to the Administrative Rules and Master Agreement. Hearing no objections so ordered.

Motion was made to convene in closed session at 2:11 p.m. for Item #3b, on proper motion and action pursuant to Section 19.85(1)(e), Wisconsin Statutes for deliberating or negotiating the purchasing of public properties, the investing of public funds, or conducting the specified public business, whenever competitive or bargaining reasons require a closed session and conferring with legal counsel for the governmental body who is rendering oral or written advice concerning strategy to be adopted by the body with respect to litigation in which it is or is likely to become involved.

- b. *Contract Renewals
 - Cleary Gull Advisors
 - Nationwide Retirement Solutions
 - US Bank

Motion was made to reconvene in open session at 2:31 p.m. Roll call taken and hearing no objections so ordered.

Motion was made to extend Cleary's contract for a twelve month period ending 2-28-15, extend Nationwide Retirement Solutions contract for eighteen months ending 7-14-15 and US Banks contract for twelve months ending 12-31-14. Mr. Nicolini objected to the motion. Mr. Morics stated hearing one objection so ordered.

c. Ariel Presentation

Ms. Daun stated that all the Members and our vendors should have received a hard copy and two e-mail invitations to hear Melody Hobson speak on May 17th at 10 a.m. scheduled to be in Room 301-B in the City Hall. An invite and the invite list were distributed to the Members who are encouraged to look over the list and invite others that they think may be interested. For clarity sake, this presentation is not a pitch and is being done with zero cost to the City or the Plan, thank you Nationwide Retirement Solutions. Discussion ensued.

Ms. Daun informed the Members that the presentation will be videotaped by Channel 25; the link will be made available on the Deferred Compensation Plan's webpage.

Informational only.

d. Stable Value

Ms. Daun stated that we are beginning with a City Attorney's opinion which speaks to some of the issues that were discussed briefly in closed session earlier, it is basically the same question asked three different ways and that is are we legally required to use an RFP or can we do less formalized searches, are we required to issue RFPs or do RFPs with any particular frequency and can we use an evergreen structure. The answer to all of those questions is it is your business judgment but you must exercise the diligence that your fiduciary duties require.

Ms. Daun pointed out the results of a NAGDCA listserv informal survey that Mr. Dziadowicz did and it is exactly to Alderman Davis's point showing the frequency of most contract terms. She stated that you will see almost to a rule that where evergreen contracts show up it is managers.

Ms. Daun prefaced that the Board will be voting on each of the stable value issues, Mr. Seuss is going to introduce each of those in more detail but there will be three essential decisions before the Board today.

e. CliftonLarsonAllen 2012 Audit Agreement

Ms. Daun explained this is the audit contract and engagement letters, they are standard, they were reviewed in the EFC and they are before the Board.

Motion was made to approve the 2012 audit contract and engagement letters. Hearing no objections so ordered.

4. Stable Value Product

a. Adoption of Investment Guideline Changes

Ms. Daun stated that there is an original and a highlighted version of the new proposed Investment Guideline changes. She stated these that the guideline changes were necessary if in fact we entertain a search and retain the product.

Mr. Suess stated that Mercer has been engaged by the Board to serve as an advisor with respect to the Stable Value Account (SVA). He stated as was mentioned he met with the EFC on several occasions and spoke to several issues with respect to stable value regarding three decisions: the first being some modifications to the Investment Guidelines, the second is really a decision point as to the Board's comfort level with stable value going forward and then the third point is what the Board's approach will be as far as implementing the stable value fund going forward.

Mr. Seuss reported that the most significant change in the Investment Guidelines is on the first page where they are bringing the cash position down back to 5%. Discussion ensued. The other modifications are just housekeeping things that in the current document there is a lot of references to Morley or specific provisions associated with Morley, what Mercer did is deleted those and made it more generic instead of saying Morley saying the manager just so the document becomes more generic. He reported another significance, Item d on page 4, there was previously a provision that said no more than 50% of the assets could be invested in commingled funds; Mercer has stricken that as they go forward their expectation is that the majority of these assets are going to be invested in comingled funds.

Motion was made to approve the Stable Value Account Investment Guidelines changes as recommended by Mercer with the amendment on Page 4 as noted. Hearing no objections so ordered.

b. Retention of Stable Value Product

Mr. Suess stated that they looked at this and when they had they had the opportunity to meet with many of the Members individually they engaged in a conversation as to the comfort level in maintaining stable value as an investment option under the Plan. He pointed out a section in his presentation that addresses that. He stated as you look at this when you have a significant amount of money invested in stable value and the second point he would make as you look at stable value this is a vehicle that is only available in defined contribution plans; it is not a vehicle that participants can get on their own outside the Plan. The third point is the value of this product is essentially principal preservation, participants are not exposed to the market value fluctuation of bonds and the origin of the product really is this idea of book value accounting where the value of your account is equal to your contributions plus interest. The fourth point is the earnings

on the product have been competitive relative to money markets. Today the Plan's fund is earning in the neighborhood of about 1.36% or so, money markets are earning less than ten basis points. There is an earnings premium associated with this product, historically stable value has provided 100-150 basis points premium over money market instruments over an interest rate cycle. He thinks the value of the product is the premium it provides over money markets. He stated that is the case for maintaining it, the other side of the coin is there is complexity associated with the product. There are two alternatives, you could move to a money market where you are going to earn basically ten basis points or you can go into a low duration bond fund or some other structure of bonds and their advice to clients has been that if you want to make the strategic decision and go away from stable value that is fine but Mercer doesn't feel it is the right time to do it. That is the overview of the pros and the cons of the Plans current structure versus the alternatives and it is kind of basis behind Mercer's recommendation that they feel there is value in retaining the stable value fund going forward.

Motion was made to retain the stable value product. Hearing no objections so ordered.

Motion was made to convene in closed session at 2:58 p.m. for Item #4c, on proper motion and action pursuant to Section 19.85(1)(e), Wisconsin Statutes for deliberating or negotiating the purchasing of public properties, the investing of public funds, or conducting the specified public business, whenever competitive or bargaining reasons require a closed session. The Board may reconvene in open session following the closed session for the continuation of the Agenda.

- c. *Conduct a Search/Select a Search Methodology

Motion was made to reconvene in open session at 3:21 p.m. Roll call taken and hearing no objections so ordered.

5. Presentation by Mr. Konrad re Fiduciary Duties

Mr. Konrad, Deputy City Attorney, presented his PowerPoint training pertaining to fiduciary duties to the Committee.

6. Cleary Gull Advisors Inc.

- a. 1st Quarter Investment Performance Review

Copies of the Cleary Gull Advisors Inc. First Quarter Performance Review dated March 31, 2013, were distributed and are on file in the Office of the Executive Director.

Ms. Stojadinovic gave a brief summary of the report.

Ms. Daun stated that there is a ton of information in those reports. She stated that Cleary has been very good about explaining them, there are glossaries included, if people are interested in understanding peer group comparisons, the selection in blending of benchmarks, what that means, how you are tracking them. The presentation that Cleary gave at the last EFC meeting we could certainly make that available to other Members.

7. Morley Financial Services, Inc. – Stable Value Account (SVA)

Ms. Hoppel stated that she sent a note out to all the Members announcing Morley's new website that they launched just this last month. They have a lot of education information on the website that they built specifically for participants, plan sponsors and Boards. If you go to that website, you will see a video there that is about ten minutes and it talks about how they build stable value funds which she thinks it is pretty interesting.

a. 1st Quarter Report – Account Review

Copies of the report dated March 31, 2013, received from Morley Financial Services, Inc. regarding the Stable Value Account (SVA) are on file in the Office of the Executive Director.

Ms. Hoppel gave a summary of the Stable Value Account review. She reported that they took a \$50 million investment out of cash and put it into two collective funds. Now that the investment guidelines have moved to 5% cash they have started to put a little bit of that through the investment in Prudential Intermediate Bond Fund. Mr. Klajbor asked how quickly Morley will get down to the 5% in cash. Ms. Hoppel stated that the goal is to do it rather quickly but they want to make sure they do it correctly and prudently, they will be working with Mr. Suess on that and looking at the long-term plans based on the discussions with the Board, she doesn't have an exact date.

Ms. Hoppel reported that they are still outperforming the benchmark.

Mr. Mahan asked in the future if the charts could just mirror each other as far as percentage wise. Ms. Hoppel stated yes and she will send him an updated page as well.

Ms. Cleary asked Ms. Hoppel to speak to the facts of how they negotiate contracts on the Plan's behalf. Also it is good for transparency for people to understand Morley's association with Principal Life and how that works with Morley negotiating on our behalf.

Ms. Hoppel stated typically on wrap contracts there is a standard contract that goes out to everyone in the industry and from there each manager would take their contract and say these are the things that we think are the most important factors for our clients. From there each manager would negotiate on their own behalf, Morley has a set of factors that they find important for their clients and they don't waiver on some of those. In all categories, you'll see that in the matrix she put together, some of those features they negotiated either into or out of the contract. In her perspective Morley takes a very conservative approach to wrap

negotiations and does not permit certain features to go into contracts that she has seen in some others. In regards to Principal, they are an affiliate, they are owned by Principal and there is a very clear line authority, Morley submits the same information to Principal Life that they do any other wrap provider, they underwrite it just as they would any other plan. Principal is not providing wrap capacity outside of Morley plans at this time; they do provide GIC contracts which are the fixed rate, fixed maturity contracts to most of the industry, not just Morley.

8. Nationwide Retirement Solutions

a. 1st Quarter Plan Update

Copies of the First Quarter Board Report for 2013 were distributed and are on file in the Office of the Executive Director. Mr. Lathen gave a brief overview of the Plan as of March 31, 2013.

Mr. Lathen thanked the Board for extending their contract for another year.

9. Executive Director Report

Mr. Dziadowicz reported that the 2012 financials have been produced by the Deferred Compensation Office, the auditors were here reviewing the financials as well as the agreed upon procedures and the 2014 budget has been completed and submitted.

10. Informational Items

a. Wrap Contract Matrix

Ms. Daun stated the matrix under Tab 3 is essentially three pages of the most important contract provisions. It is an illustration of complexity but also the commonalities. Ms. Hoppel stated that you can see just by the complexity of the matrix having less wrap providers is better. Ms. Daun thanked Ms. Hoppel for her efforts on the matrix.
Informational only.

b. Charles Schwab PCRA – 1st Quarter Report

Informational. Place report on file.

c. NAGDCA 2013 Conference Information

Mr. Dziadowicz reminded the Members that the NAGDCA 2013 Conference sign-up is in

progress so if anybody wants to attend please contact Ms. Bieszk, she will register you for the conference as far as lodging and transportation each member is responsible for those arrangements which will be reimbursed by our office.

d. Deferred Compensation Webpage

Mr. Dziadowicz reported a webpage for the Plan has been created on the City's website.

e. News Articles

Informational only.

There being no further business, the meeting was adjourned at 4:44 p.m.