

CITY OF MILWAUKEE
MINUTES OF THE DEFERRED COMPENSATION BOARD
MEETING OF THURSDAY, FEBRUARY 20, 2025
2:00 P.M.

MEMBERS/DESIGNEES PRESENT:

Mr. Jerry Allen,
Mr. Richard Bare
Ms. Molly Christianson, Board Vice Chair
Mr. Harper Donahue, IV – left at 3:30 p.m.
Mr. James Klajbor, Board Chair
Mr. Steven Mahan
Mr. Stuart Mukamal
Ms. Tea Norfolk
Assistant Chief Joshua Parish
Mr. Robin Pederson

EXCUSED/ABSENT:

OTHER PLAN PROVIDERS and STAFF PRESENT:

Mr. Bo Abesamis III, Callan LLC
Mr. Brad Blackwell, Northern Trust
Mr. Tyler Calligaro, Budget Department
Ms. Adria Campbell, Voya Financial
Mr. Preston Cole, Director of the Department of Administration
Ms. Dawn Conlin, Voya Financial
Ms. Beth Conradson Cleary, Executive Director, Deferred Compensation
Mr. Jeff Deetsch, Invesco
Mr. Travis Gresham, Assistant City Attorney
Mr. Charles Griffin, Voya Financial
Mr. Mike Joecken, Callan LLC
Mr. Vince Kentzinger, Northern Trust
Mr. Mark Kinoshita, Callan LLC
Ms. Kimberly Kuehn, Plan Coordinator, Deferred Compensation
Mr. Jack Malone, Callan LLC
Ms. Charmaine Martin, Voya Financial
Mr. Chris Martin, member of the public
Mr. Dan Oldroyd, JP Morgan
Ms. Kathy Stevenson, Northern Trust
Mr. Ben Taylor, Callan LLC
Ms. Christine Thomas, JP Morgan
Ms. Carli Turritin, JP Morgan
Mr. Greg Ungerman, Callan LLC
Mr. Alvaro Vega, Callan LLC

2:00 p.m. A quorum being present, Mr. Klajbor, Chair of the Deferred Compensation Board, called the meeting to order.

1. Roll call and Introductions [00:17]

2. Election of Board Officers – Chairperson and Vice Chairperson [00:43]

Election of Chair. Ms. Cleary asked for nominations for Board Chairperson. Mr. Allen nominated Mr. Klajbor. There being no further nominations, nominations were closed and a unanimous vote was cast for Mr. Klajbor as Chair of the Milwaukee Deferred Compensation Board. There were no objections.

Election of Vice-Chair. Mr. Klajbor asked for nominations for Board Vice Chairperson. Mr. Klajbor nominated Ms. Christianson. There being no other nominations, nominations were closed and a unanimous vote was cast for Ms. Christianson as Vice Chair of the Milwaukee Deferred Compensation Board. There were no objections.

3. Election of Hardship Appeal Committee [02:59]

Mr. Klajbor explained that the Appeal Committee consists of five people. For the record, the current Committee consists of Mr. Donahue, Mr. Klajbor, Mr. Mahan, Mr. Bare and Ms. Christianson. All current Committee members agreed to continue to serve. There being no other nominations, nominations were closed and a unanimous vote was cast for the current Hardship Appeal Committee members to continue to serve.

4. Appointment of Executive Finance Committee Members [02:34]

Mr. Klajbor stated that this Committee consists of five trustees and three of these members are *ex officio* appointments—those trustees representing the City Attorney, Treasurer and Comptroller’s offices. Ms. Christianson and Mr. Mukamal served last year and are willing to continue to serve. Mr. Mukamal and Ms. Christianson affirmed their appointments. There were no objections.

5. Appointment of Personnel Committee Members [02:50]

This Committee consists of all *ex officio* members – the Board Chair, City Attorney, Department of Employee Relations, EFC Chair and the Finance & Personnel Chair. This panel will be reappointed, as it currently exists, due to its *ex officio* membership.

6. Approval of Meeting Minutes of November 21, 2024 [03:46]

Motion by Mr. Mukamal to approve the meeting minutes of November 21, 2024. No objections

Please be advised that the Board may vote to convene in closed session on the following Items 7, 8, 9 and 10 on proper motion and action pursuant to Section 19.85(1)(d), Wisconsin Statute for when governmental bodies consider strategy for crime detection or prevention (Item 7 and 8), and (e), Wisconsin Statute 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 (Items 9 and 10). Please note: A roll call is required for the Board to enter closed session. The Board may then vote to reconvene in open session following the closed session.

[18:09] Motion by Mr. Allen to convene in closed session. No objections.

2:19 p.m. Board enters closed session.

7. Voya Cybersecurity Presentation [see p. 5 of Voya's Report, per agenda item 13(f)]

8. Northern Trust Cybersecurity Presentation

9. Discussion Callan Presentation of Custodial Service Benchmarking and Fee Review

10. Discussion Regarding Callan's Agreement

3:58 p.m. Board adjourns from closed session.

11. EFC Report [26:59]

a. Retirement Income Solutions Overview Presentation by Callan [57:25]

Ms. Cleary reported that this presentation is included as a reference for Board members who were unable to attend the EFC meeting. Mr. Joecken provided brief comments.

b. SECURE 2.0 [58:45]

Ms. Cleary reported that there have been little to no updates from regulatory agencies regarding technical corrections or further clarification on SECURE 2.0 items. She reported that the Plan is implementing the additional contribution head room for the 50 plus catch-up contributions that took place as of January 1st and that staff and Voya are working with the WorkDay implementation team to ensure that this change is incorporated in the new platform. Ms. Cleary also reported that a few participants have utilized the recently adopted emergency withdrawal Please option and that this provision appears to be a helpful tool for those who find themselves in need of this option.

c. Summary of Investment Management and Services Presentations [58:45]

- Baird Advisors
- AllianceBernstein

Mr. Klajbor provided a brief overview of the Investment Manager presentations and reminded all Board members they are welcome to attend the EFC meetings.

12. Executive Director Report [1:00:29]

a. Updated 2024 Fee Disclosure [1:00:31]

Ms. Cleary provided a brief overview of the 2024 fee disclosure, highlighting that there are no increases in investment fees and that the administrative and professional fees for 2014 decreased by one basis point. The expenditures are calculated against the total assets, which were up, based on the high performing markets

b. Personnel Update [01:01:49]

Ms. Cleary reported that there were no updates at this time.

c. Financial Wellness Updates [01:02:33]

Ms. Cleary reported there is nothing to add from what was already presented. She also thanked the local team for their continued amazing work on behalf of the Plan.

d. Other [01:03:03]

Ms. Cleary reported that the May NAGDCA Board meeting will be in D.C. and will include a Hill visit.

Ms. Cleary reminded the Board members that they are required to file a Statement of Economic Interests and these reports are due at the end of February.

13. Vendor Reports

a. Callan Associates Inc. Performance Report [48:38]

Mr. Joecken provided an update on market performance, noting recent volatility in the domestic equity markets driven by election-related uncertainty. Despite this, the domestic equity markets ended the period with positive returns, as the S&P 500 increased by 2.4%. However, the international equity market experienced a decline of 7.6% during the quarter, primarily due to the impact of tariff-related news.

Interest rates showed mixed behavior, with short-term rates declining while long-term rates rose. As a result, the Bloomberg Aggregate Index experienced a negative return of 3% for the quarter, consistent with the inverse relationship between interest rates and fixed income values.

Mr. Joecken highlighted that domestic equities performed strongly for the year, with the S&P 500 gaining over 25% for the second consecutive year, small-cap stocks rising by 11.5%, and international equities delivering a positive return of 5.5%. Fixed income assets also contributed positive returns for the year. Over a five-year period, the S&P 500 achieved an annualized return of 14.5%, small caps grew by more than 7%, and international equities increased by over 4%. In contrast, the Bloomberg Aggregate Index showed a slight negative annualized return of -0.33% due to the ongoing impact of rising interest rates.

As of December, the total market value of the Plan stood at \$1.2 billion. Although the Plan experienced a \$10 million decline in market value during the quarter, it achieved a net positive asset growth of \$14 million for the year.

Mr. Joecken reported that the Actively Managed Equity Account (AMEA) demonstrated resilience during the quarter, declining by only 1.46% compared to the benchmark's 1.8% decline. For the year, the AMEA delivered a return of over 17%, outperforming the benchmark. Over a five-year period, the AMEA has averaged an 11% return, surpassing the benchmark's 9.7% performance.

The Actively Managed Income Account (AMIA), however, underperformed relative to the benchmark in the quarter, on a one-year, and three-year basis. Despite this, it maintained a slight outperformance of 20 basis points over the benchmark on a five-year, net-of-fees basis.

Mr. Malone provided an update on Brandywine, the Plan's global fixed income manager, noting that the portfolio's significant allocation to non-dollar-denominated assets was negatively impacted by an 8% appreciation of the U.S. dollar against a basket of other currencies. Given Brandywine's approach as a high-tracking-error manager, short-term deviations from the benchmark are expected, particularly due to their strategy of maintaining unhedged currency exposure.

Mr. Klajbor inquired about the potential for reviewing the performance of actively managed accounts. Mr. Joecken confirmed that such a review is planned, as it has not been conducted in some time, and it is considered a routine best practice.

Ms. Cleary noted that the fees listed for JP Morgan on page 11 appeared inaccurate. Mr. Joecken acknowledged the discrepancy and committed to investigating the matter.

b. Charles Schwab PCRA Report

c. Invesco Advisers, Inc. (SVA) Performance Report [04:20]

Mr. Deetsch provided a detailed overview, noting that Invesco recently celebrated its 40th year as a stable value provider, reflecting its extensive experience and expertise in this sector. The firm currently manages \$65.7 billion in stable value assets, maintaining its position as the industry leader in stable value assets under management (AUM). Despite a slight decline in AUM, Invesco's scale enables it to leverage favorable terms in wrap contracts and subadvisory agreements.

In response to a question from Mr. Klajbor regarding the decrease in assets, Mr. Deetsch explained that this decline is primarily driven by participant activity. Following the COVID-19 pandemic, there was a notable influx of assets into stable value as participants adopted a more conservative approach. However, the industry has since observed a general trend of cash outflows, with participants reallocating funds from stable value to higher-risk investments, including age-based or equity-based options. Within the Plan, the client base saw an average reallocation of approximately 10%, while the Plan experienced a more modest outflow of around 5%.

Mr. Deetsch further explained that the stable value wrap market remains strong, with significant capacity available, particularly for Invesco, which continues to benefit from its strong market position. While some wrap providers have reduced their exposure, Invesco has successfully leveraged this environment to secure better terms, conditions, and fees on wrap contracts. He noted that while there were periods in the past decade when the Plan maintained higher cash balances due to an abundance of wrap capacity, this is not currently an issue. Although a few wrap providers are seeking to reduce their book of business, Invesco's position has enabled it to maintain favorable conditions.

The stable value crediting rate has remained steady at approximately 3.1% over recent quarters, while the market-to-book ratio has experienced fluctuations, largely driven by changes in market interest rates. Mr. Deetsch clarified that the crediting rate is designed to gradually converge with the yield to maturity. Despite recent short-term underperformance relative to money market funds, stable value continues to offer superior value over the long term.

Mr. Klajbor inquired about the nearly \$2.3 million in negative cash flow within the Stable Value account, questioning whether this was due to participants withdrawing funds from the Plan or reallocating within it. Mr. Deetsch confirmed that the majority of outflows were due to reallocations within the Plan rather than participants exiting the Plan entirely.

Mr. Deetsch concluded with a high-level overview of the portfolio characteristics, providing

further context for the Plan's Stable Value performance.

d. JP Morgan SmartRetirement Funds [19:03]

Ms. Turittin provided a brief introduction, followed by Ms. Thomas, who presented an overview of the investment team. Ms. Thomas explained that the investment process remains consistent, beginning with the glidepath, which is driven by two primary factors: long-term capital market assumptions and participant behavior. She noted that an update to their participant behavior research study is planned for the fall, with further insights to be provided at that time. Once the glidepath is established, it is populated with underlying JP Morgan managers and managed through an active asset allocation process, allowing for adjustments to risk exposure in response to market conditions.

Mr. Oldroyd emphasized the cost-effectiveness of the portfolio's implementation, explaining that the equity portions are passively managed, while the fixed income and real estate portions are actively managed. As a result, the portfolio's expenses rank in the bottom quartile relative to other target date funds.

Ms. Thomas reported that there were no significant changes to long-term capital market assumptions this year, and as a result, no modifications were made to the glidepath. She expressed confidence in the current glidepath positioning, noting that the adjustments implemented in 2021 and subsequent years have added an average of 62 to 94 basis points of value annually. This process of regularly reviewing and adjusting the glidepath has consistently benefited participants.

Mr. Oldroyd provided further details on portfolio positioning, explaining that the portfolios were largely maintained in a neutral position last year, with one notable exception—an underweight position in real estate. This strategic underweight allocation proved beneficial. Recently, the firm transitioned the portfolio from an underweight to an overweight position in real estate, seizing an opportunity presented by favorable valuation conditions. Given that the real estate sector has experienced only three significant drawdowns over the past 45 years, the firm believes this overweight position will be advantageous for the next few years, though they will continue to monitor it.

In terms of performance, Ms. Thomas highlighted that high yield fixed income and emerging markets debt have outperformed core fixed income by more than 500 basis points over the past year. These portfolios benefit from their diversified nature, as they hold high yield and emerging markets debt—asset classes that are difficult to access within fully passive funds. This diversification has been a significant advantage for both the funds and Plan participants.

Ms. Thomas further noted that while there were no changes to the glidepath over the past year, the allocation to high yield and emerging markets debt within the fixed income category has added value. From a portfolio construction perspective, active managers contributed an average of 35 basis points across all vintages, with over 60 basis points of added value in the vintages closest to retirement, where participants have higher exposure to fixed income. The active asset allocation approach, including careful management of real estate exposure, was also beneficial.

Performance data for the past quarter demonstrated that the active components of the portfolios added value relative to the custom benchmark across the entire glidepath. This positive impact was driven by strong results from active fixed income managers, the direct real estate manager, and strategic management of real estate exposure.

Mr. Klajbor inquired about the potential impact of tariffs on the glidepath. Discussion ensued.

e. Northern Trust Performance Report

f. Voya Financial Report(s) [35:58]

Ms. Campbell reported that, during the quarter, Voya handled over 850,000 calls, responded to 20,000 live chats, and answered 4,200 emails. Additionally, usage of the Voya Pal, their chatbot, significantly increased over the last few quarters, with the Pal handling 146,000 chat interactions. Customer satisfaction remains strong, with a 97% overall satisfaction score. Of all transactions, 42% were successfully resolved through the IVR (interactive voice response) system, while 86% were fully resolved via the Pal chatbot.

Ms. Campbell noted that Voya has identified a gap in engagement with participants who are in their mid-career to early retirement phase. While the firm has historically focused on onboarding new participants and assisting those approaching retirement, there has been less emphasis on those in the intermediate phase of their careers. In response, Voya is now placing a greater focus on this group, particularly those around age 50, recognizing that this population typically has higher earnings and greater potential to contribute to their retirement plans.

As part of this initiative, Voya conducted a survey of pre-retirees and mid-career participants, providing insights into their needs and behaviors. For 2024, Voya processed the re-enrollment of 327 eligible participants. Initially, 206 of these participants were defaulted into a 3% contribution rate. Of those, 115 participants have remained at the 3% rate, 21 reduced their contribution to either 1% or 2%, seven increased their contributions beyond 3%, and 63 reduced their contributions to zero.

Ms. Campbell highlighted key accomplishments for the Plan this year, including the implementation of fund-specific withdrawals, recurring required minimum distributions (RMDs), emergency savings withdrawals, and domestic abuse withdrawals, all under SECURE 2.0. Additionally, the 2065 fund was introduced. Voya has also initiated a project to support the City's transition to Workday, which will include the implementation of Single Sign-On (SSO), a significant enhancement that will streamline participant access. Ms. Campbell detailed the benefits of SSO, emphasizing its convenience for participants.

The local representatives have conducted 42 presentation sessions, with over 1,600 participants attending these meetings, and facilitated more than 500 one-on-one

appointments. Voya has also launched multiple communication initiatives this year, including a highly successful and award-winning testimonial video.

Looking ahead, Ms. Campbell outlined Voya's focus on SECURE 2.0 Option 603, which mandates that catch-up contributions for participants above a certain salary threshold must be made as Roth dollars, effective January 1, 2026. Voya is also preparing for the implementation of the super catch-up provision, which will allow participants aged 60-63 to make additional contributions.

Mr. Mahan inquired about Voya's concerns regarding participant loan balances. Ms. Campbell acknowledged that Voya maintains a proactive approach in this area, especially with this Plan, which has a higher level of direct participant engagement. When a participant is at risk of defaulting on a loan, Voya provides multiple outreach efforts beyond the standard 30-60-90-day letters. Ms. Martin actively conducts additional follow-up, which has resulted in much lower loan default rates compared to industry averages. This high-touch approach has proven effective in supporting participants.

- 14. Informational [01:05:21]**
 - a. Q4 Newsletter**
 - b. 2025 P&I Eddy Award Winner**
 - c. Voya 2024 Year-end Letter**

Informational only.

5:23 p.m. Meeting adjourned