

CITY OF MILWAUKEE
MINUTES OF THE DEFERRED COMPENSATION BOARD
MEETING OF THURSDAY, NOVEMBER 16, 2017
2:00 P.M. - ROOM 405, CITY HALL

MEMBERS/DESIGNEES PRESENT:

Mr. Jerry Allen, Arrived 2:04 p.m.
Mr. Mark Buetow
Ms. Renee Joos
Mr. James Klajbor, Vice Chair
Mr. Steven L. Mahan
Mr. Stuart Mukamal
Ms. Sandra Rotar

EXCUSED/ABSENT:

Alderwoman Milele Coggs – excused
Ms. Paula Kiely -- excused

OTHER PLAN PROVIDERS and STAFF PRESENT:

Mr. Andy Apostle, Invesco
Ms. Elaine Bieszk, Plan Coordinator, Deferred Compensation
Ms. Beth Conradson Cleary, Executive Director
Ms. Dawn Conlin, Voya Financial
Mr. Chas Duval, Invesco
Mr. Michael Joecken, Callan Associates Inc.
Ms. Kimberly Kuehn, Administrative Assistant II, Deferred Compensation
Mr. Matt Lipuma, Northern Trust – via conference call
Mr. Joshua Lieberman, J.P. Morgan
Ms. Lynn Avitable, J.P. Morgan
Mr. Brian Merrick, Voya Financial
Ms. Diane Middleman, Baker Tilly
Mr. Wayne Morgan, Baker Tilly
Ms. Ellen Tangen, Assistant City Attorney
Mr. Ben Taylor, Callan Associates Inc.
Ms. Laura Williams, Voya Financial

OTHERS PRESENT:

02:02 p.m. A quorum being present, Mr. Klajbor, Vice Chair of the Deferred Compensation Board, called the meeting to order.

1. Approval of Meeting Minutes of August 17, 2017 [01:03]

[01:16] Motion by Mr. Buetow to approve the minutes. Seconded by Mr. Mukamal. No objections.

2. Callan Associates Inc. Presentation re. Vendor Due Diligence [01:26]

Mr. Taylor stated that the presentation would focus on Callan's administrative due diligence resources and processes, as well as cyber security. Mr. Taylor reported that Callan attempts to visit the top 20 record keepers onsite at least once every two years. Mr. Taylor referenced the provided record keeper list. A component of the onsite visits includes due diligence requirements. In the past year, Callan has been participating in a new Data Security Oversight Board (DSOB) as part of the Society of Plan Asset-Manager and Record Keepers (SPARK). Mr. Taylor reported that there is no universal, industry-wide standard for cyber security; rather, a handful of different frameworks are used. The purpose of DSOB is to arrive at a standard process and language for cyber security due diligence efforts. Discussion ensued.

3. Investment Manager Presentation by J.P. Morgan SmartRetirement [00:46:30]

Mr. Lieberman provided a brief overview of the portfolio performance. Ms. Avitable provided a detailed overview of the organizational changes, stating that the team has remained the same with the exception of some additional resources. Ms. Avitable detailed the process in which the portfolio is managed and gave a brief overview of risk management and what components are considered. Ms. Avitable stated that the team looks at the glide path every year, based on long-term capital market assumptions and participant data, to decide if changes in the glide path are necessary. Mr. Allen asked what, if any, asset classes are missing or could be added? Ms. Avitable stated that private equity is one of the largest but the problem is that you cannot invest it in a Target Date Fund directly and it does not benefit you in the end. She also commented that the issue with hedge funds is that they are not transparent enough for a fund such as this. Discussion ensued.

4. 2018 Proposed Board and EFC Meeting Dates [01:06:15]

[01:07:00] Motion by Mr. Klajbor to approve the 2018 Board and EFC Meeting Dates. Seconded by Mr. Buetow. No objections.

5. Executive Finance Committee Report [01:07:16]

a. Approval of the 2016 Audit [32:15]

Mr. Morgan stated that Baker Tilly presented in detail to the Executive Finance Committee on November 2, 2017 and all of the required communications to those in governance have taken place. Ms. Middleman referenced the provided draft financial statements; she stated the financial statements include required supplementary information. Ms. Middleman stated that the firm will be issuing an unmodified Plan opinion, which is the highest-level assurance that a plan can receive. Ms. Middleman reported on a new accounting policy, GASB Statement No. 72, which is a fair value measurement. Plans are now required to categorize their investments into levels so the readers of the financial statements know how liquid the investments are. Ms. Middleman further explained the various levels. Mr. Morgan stated that the overall intent of GASB Statement No. 72 is to illustrate how marketable assets are and how quickly securities can be priced. Ms. Middleman stated that the two other documents provided are required communications. Ms. Cleary stated that, going forward, there may be a motion for the EFC to explore options for next year regarding finding another vendor to prepare the financial statements. Mr. Morgan stated that when his firm conducts the audit, as well as prepares the financial statements, it is automatically deemed a significant deficiency comment to those in governance. The significant deficiency would be eliminated by having another vendor complete the financial statements and other required communications. Discussion ensued. Mr. Allen stated that the EFC would explore options for vendors to prepare the financial statements.

[45:40] Motion by Mr. Klajbor to approve the 2016 Draft Audit. Seconded by Mr. Buetow. No objections.

b. Administrative Fees for SDBA accountholders update [01:07:26]

Mr. Merrick reported that the initial communication was sent to the 31 impacted participants and that these participants were given one month to move money into the Core Funds. After the initial month, 15 participants had either moved the money or separated from service and moved their money out of the Plan. A second letter was sent to the 16 remaining participants, stating they must take action or Voya will instruct Schwab to pull money out of their brokerage account and move it into the Core Funds. Participants were given another month to complete this action. After December 1, 2017, Voya will re-evaluate and provide an update in December.

c. 2018 Budget [01:09:48]

Mr. Klajbor stated that he and Mr. Allen attended the hearing and Ms. Cleary did an outstanding job representing the Board. There were no amendments to the budget; the requested 2018 budget was approved.

d. Summary of Investment Management Presentations [01:10:46]

Mr. Klajbor reported that that EFC met with the following Investment Managers at its past few meetings: Dimensional Fund Advisors, Brandes Investment Partners, L.P., and Northern Trust Investment, Inc. Mr. Klajbor stated that the EFC will continue to

schedule advisors throughout the year to exercise due diligence and monitor our Investment Managers' performance.

6. Executive Director Report [01:14:42]

a. Open Enrollment/Default Election update [01:14:46]

Ms. Cleary reported that there were 982 employees impacted by this year's Annual Enrollment process. She reported on the results of these 982 employees' results, based on the following breakdown: 439 went to the microsite and made elections; 35 employees went to the regular site (for a total of 474 employees that took action on their elections, which is 48% of the total population impacted); 335 employees were currently contributing less than 3% and were defaulted to 3%; and 173 employees were currently not contributing and defaulted to 3%.

b. Update in Legal Service requests [01:18:24]

-Ice Miller opinion re Federal tax compliance matters [01:18:26]

Ms. Cleary reported that she and Ms. Tangen are working with Ice Miller on their requests for the federal tax compliance matter. Ms. Cleary stated that questions have arisen regarding those who serve on Boards, post employment (*e.g.*, whether or not this is considered a rehire, can they make withdrawals during that time, how the RMD requirements are impacted, etc.). Mr. Allen asked if they would receive a full opinion in writing regarding the RMD issue. Ms. Tangen answered yes.

-Schroders CIT [01:19:06]

Ms. Cleary stated that the City Attorney's Office is currently reviewing the Schroder CIT documents.

c. Investment Updates [01:21:21]

-JPMC TDF 2060 fees / class sheet

Ms. Cleary reported that the transfer to the JP Morgan 2060 Target date fund was completed at the beginning of October. Mr. Allen asked if that was a one or two day event. Ms. Cleary answered it was a one-day event that took place October 6, 2017.

7. Vendor Quarterly Reports [01:21:48]

Mr. Allen reported that all of the standing strategic vendor reports have been provided.

a. Callan Associates Inc. Performance Report [01:50:33]

Mr. Joecken gave a brief overview of Investment Manager Performance for third quarter. Mr. Joecken reported that the fund with the most participants is the Target Date Fund Suite; almost 24% of assets are in Target Date Funds followed by the Passively Managed US Equity and then Stable Value. The Actively Managed Equity Account was up 4% for the quarter was up about 17.5% for the year however, that did fall below the benchmark. All of the underperformance was due to the international managers. All three fixed income managers outperformed. Discussion ensued with Mr. Taylor. Mr. Klajbor stated that all of the managers continue to do what we expect them to do. Mr. Taylor gave his report on tax reform. Discussion ensued.

- b. Charles Schwab PCRA Report**
- c. Invesco Advisers, Inc. (SVA) Performance Report [01:22:16]**

Mr. Apostle gave a brief, detailed overview of the portfolio performance.

- d. Northern Trust Performance Report**
- e. Voya Financial – Plan Report [01:29:55]**

Mr. Merrick provided an update on personnel changes. Mr. Merrick gave a brief presentation on website enhancements. Mr. Merrick stated that Voya is launching an experimental video experience that is personalized for each participant. Mr. Merrick stated that the project regarding the enchantments to the participant website for individuals who take out a loan (which he had previously presented to the Board via a demo) is still in the process of being launched. Mr. Merrick gave a detailed report on the rollovers out of the Plan. On average, Voya is seeing about 20 rollovers out of the Plan a month. Most of these rollovers are going to retail brokers. Mr. Merrick gave a detailed report on the quarterly analysis on participation and savings rates across the different demographic groups. Mr. Klajbor asked for a detailed report on why retirees are rolling their monies out of the Plan. Ms. Cleary stated that at the next EFC meeting they would present the participant survey for review.

[02:07:34] Motion by Mr. Klajbor to receive and place on file all of the vendor reports. Seconded by Mr. Buetow. No objections.

- 8. Informational Items [02:07:40]**
 - Financial Wellness Session Schedule**
 - Rollovers –Consolidation Team Flyer**
 - Distribution Options Flyer**
 - Voya’s Loan Enhancement Feature**

4:10 p.m. Meeting adjourned. [02:09:00]