

CITY OF MILWAUKEE
MINUTES OF THE DEFERRED COMPENSATION BOARD
MEETING OF THURSDAY, NOVEMBER 21, 2019
2:00 P.M. - ROOM 405, CITY HALL

MEMBERS/DESIGNEES PRESENT:

Mr. Jerry Allen, Board Chair
Mr. Thomas Bell
Ms. Renee Joos
Ms. Paula Kiely
Ms. Molly King
Mr. James Klajbor, Vice Chair – via conference call
Mr. Shawn Lauda – via conference call
Mr. Steven L. Mahan
Mr. Stuart Mukamal

EXCUSED/ABSENT:

Alderwoman Milele Coggs – excused

OTHER PLAN PROVIDERS and STAFF PRESENT:

Mr. John Angliss, J.P. Morgan
Ms. Elaine Bieszk, Plan Coordinator, Deferred Compensation
Mr. Bill Barouski, Chief Information Risk Officer, Northern Trust – via conference call
Mr. Anton Britton, Northern Trust
Mr. Jim Carroll, Assistant City Attorney
Ms. Dawn Conlin, Voya Financial
Ms. Beth Conradson Cleary, Executive Director
Mr. Jeff Deetsch, Invesco
Ms. Lindsey Grande, Northern Trust
Mr. Michael Joecken, Callan Associates LLC
Ms. Kimberly Kuehn, Administrative Assistant II, Deferred Compensation
Mr. Matt Lipuma, Northern Trust
Mr. Brian Merrick, Voya Financial
Mr. Mac Nickey, Northern Trust
Mr. Matthew Petersen, NAGDCA
Mr. Jacob Recker, J.P. Morgan – via conference call
Mr. Brent Reeder, Northern Trust
Mr. Barry Wegrzyn, Northern Trust

OTHERS PRESENT:

2:03 p.m. A quorum being present, Mr. Allen, Chair of the Deferred Compensation Board, called the meeting to order.

1. Roll call and Introductions [00:02]

2. Approval of Meeting Minutes of August 15, 2019 [00:34]

[00:48] Motion by Mr. Klajbor to approve the meeting minutes of August 15, 2019. Seconded by Ms. King. No objections.

3. Investment Manager Presentation by Northern Trust Investment, Inc. [01:03]

Mr. Nickey provided a brief introduction. Currently Northern Trust holds \$11.6 trillion worth of assets under custody, \$124 billion dollars assets on its balance sheet, and about \$1.2 trillion in assets under management. Mr. Reeder provided a high-level overview of the management team, as well as its investment process. Mr. Reeder detailed performance and market value for all three strategies, as of October 31, 2019. Mr. Allen asked for a projected future forecast. Discussion ensued.

[18:43] Motion to convene in closed session at 2:23 p.m. for Items 4, 5 (a) and (b), on proper motion and action pursuant to Section 19.85(1)(d) (for Items 4 and 5 (b), only) and (e), Wisconsin Statutes for considering specific applications of probation, extended supervision or parole, or considering strategy for crime detection or prevention and deliberating or negotiating the purchasing of public properties, the investing of public funds, or conducting other specified public business, whenever competitive or bargaining reasons require a closed session. The Board may then vote to reconvene in open session following the closed session. Roll call taken. No objections to the session not recorded.

4. Cyber Security Presentation by Northern Trust [20:13]

Report given in closed session.

5. EFC Report [20:17]

a. Recommend Approval of J.P Morgan SmartRetirement Passive Blend DRE Funds

- Recommend Approval of Collective Investment Trust (CIT) Agreement

- Target Date Fund (TDF) process and communication efforts

Motion by Mr. Klajbor to convene in open session. Seconded by Mr. Allen. Roll call vote taken. No objections.

2:55 p.m. The Board reconvened in open session. Roll call taken.

Mr. Klajbor stated that everything is on track for the changes to the Target Date Funds to become effective on January 1, 2020. Ms. Cleary stated that the Participation Agreement will be executed in time for the funding status, which happens on January 1, 2020. Mr. Carroll assisted in negotiating a side letter, Exhibit G, Additional Terms and Conditions, which

contains favorable terms for the Plan. Mr. Carroll stated that some of the provisions in the letter are required per City ordinances (*e.g.*, public records and non-discrimination language).

Ms. Cleary referenced the included letter, dated November 15, 2019, (which has been signed, executed and sent) that will allow the drawdown to happen by January 1, 2020. There will be one change to the Investment Policy on page 5 under Target Date Funds. The parenthetical “(Active)” will be deleted under “J.P. Morgan SmartRetirement Funds (Active).” Participants will be provided with high-level information outlining the changes. Ms. Cleary stated that there would be no blackout period required and that she anticipates this to be a smooth transition. There will be specific communications sent out to participants who are currently invested in Target Date Funds. Ms. Cleary and Mr. Merrick are working closely with the local Voya team, the customer service reps and the VRA to ensure that everyone is on the same page. Motion by Mr. Klajbor to approve the Agreement that has been negotiated and make the minor change to our Investment Policy on Page 5. Ms. Kiely commented that the letter did not include the difference in the investment earnings in terms of performance. Mr. Allen went on to explain why it did not. Discussion ensued.

Mr. Carroll stated that no further motion and vote is required, as this item was already approved at the Board meeting in August and the authority was given to the Executive Director to work with the City Attorney’s office and J.P. Morgan. Mr. Klajbor asked if a motion was needed to change the Investment Policy.

[39:17] Motion by Mr. Klajbor to amend the Investment Policy to reflect that change on Page 5. Seconded by Mr. Mukamal. No objections.

b. Financial Engines

Discussion held in closed session.

c. Recommend Approval of proposed 2020 Board/EFC meeting schedule [39:58]

[40:29] Motion by Ms. Kiely to approve the 2020 Board/EFC meeting schedule. Seconded by Mr. Bell. No objections.

d. Updated 2020 Budget Request Form BMD-10 – informational [40:46]

Mr. Klajbor reported that Ms. Cleary updated the BMD-10 to reflect the requested changes (*i.e.*, the inclusion of Plan metrics).

e. Summary of Investment Management and Services Presentations [41:22]

- Baird Investment Managers
- Brandywine Global

Mr. Klajbor reported that Baird gave a presentation at the September EFC meeting and Brandywine Global gave a presentation at the October EFC meeting. As a reminder, all trustees are welcome to attend all EFC meetings, especially if interested in hearing presentations from our various Investment Managers or related services.

6. Executive Director Report [42:05]

a. 2020 Budget Hearing Presentation [42:11]

Ms. Cleary stated that her enclosed 2020 Budget Hearing presentation was similar to those made in previous years. She specifically focused on Plan benchmarks, statistics and changes, and highlighted the Plan's recent accomplishments with its award-winning Financial Wellness Program. Questions asked by the Finance and Personnel Committee focused primarily on younger employees, which led to a good discussion about student loans, rollovers and related trends that the Plan was experiencing.

b. NAGDCA Legislative Committee Update: NAGDCA Engages GASB on Reporting Standards for 457 (b) Plans [43:28]

Ms. Cleary provided a brief introduction for Mr. Petersen, the Executive Director of NAGDCA. Ms. Cleary stated that she recently started serving on the NAGDCA Legislative Committee. There was a recent e-mail from NAGDCA (as enclosed) that reported on a NAGDCA response letter to proposed changes GASB is considering regarding reporting standards that would impact certain 457(b) plans. In the 90's, GASB stated that 457 plans should not be considered in terms of reporting regulations, because all contributions from 457 plans come from employees and not the employer. More recently, GASB noticed that the IRS was allowing for some shifts in some of the retirement plans to allow perceived employer contributions. Ms. Cleary, along with the NAGDCA Board, drafted a response letter that provided additional background and ultimately challenged GASB's interpretation of classifying 457(b) plans as pension plans. Mr. Petersen stated that NAGDCA had a call with GASB a few weeks ago to further discuss the issue, which resulted in a constructive dialogue. This is not a closed issue, as GASB is still working through the deliberation process of these proposed changes. Ms. Cleary stated that, if these proposed changes were to pass, they would not have a direct impact on reporting requirements for certain 457(b) plans; rather, the plan sponsors (e.g., the City) would be impacted by reporting requirements for their financial statements.

c. Report on: [49:11]

- 2019 NAGDCA conference [49:19]

Ms. Cleary reported there were a number of Trustees who attended the NAGDCA conference and that those in attendance found the conference to be worthwhile and educational.

- MRA fall presentation [51:29]

Ms. Cleary reported that Ms. Conlin and Ms. Martin staffed an informational table at the event, and that she and Ms. Martin provided a presentation to the retirees.

- Callan College [51:59]

Ms. Cleary reported that she attended this two-day conference in Chicago and highly recommends that Trustees consider attending, it at all possible.

- Voya Due Diligence [52:43]

Ms. Cleary reported that this due diligence trip included a visit to Voya's headquarters in Windsor, CT and the main team's office in Braintree, MA. Ms. Cleary met with various Voya leadership and staff to discuss a variety of topics, including security, IT, call center improvements, website enhancements, participant experience and operational improvements. She received tours of the facilities, including call center demos and an impromptu sit-down conversation with two call center representatives.

- P&I panel presentation "The Core Menu Conundrum" [56:05]

Ms. Cleary reported that she served on a panel with other plan administrators at this event. Mr. Allen, who was also in attendance at this event, stated that one takeaway was that there is now good comparable data showing that people who make up their own allocations do not fare as well as those who are in model portfolios, like Target Date Funds.

d. Update on Plan survey [57:48]

Ms. Cleary reported that this year's survey response rate was lower than the last year. Most of the questions were the same; however, there was an additional question to assess awareness about certain Plan features (*e.g.*, Roth contributions, rollover opportunities, the ability to stay in the Plan after separation of service, the Healthy Rewards program, etc.). Ms. Cleary plans on creating focus group opportunities to seek further participant feedback and is working with Ms. Joos to possibly allow for Healthy Rewards points to incentivize employee participation.

e. Update on Local Team office Space [59:06]

Ms. Cleary reported that there would be security changes to the Zeidler building, which will no longer accommodate the local reps utilizing the ninth floor conference space for one-on-one appointments. The Department of Public Works (DPW) is building out the fifth floor, which will include a conference space. DPW will allow the local reps to utilize that conference space on Mondays, Wednesdays and Fridays. Mr. Mukamal asked if the fifth floor conference room will be guaranteed availability on those days. Mr. Mahan suggested she double/triple check on that space availability during the Democratic National Convention in July, because Secret Service has been asking for all available space. Ms. Cleary will send an email specifically asking about the availability during that time. Mr. Klajbor requests that there be a formal Memorandum of Understanding written up with DPW to reserve the room for those specific days of the week for Deferred Compensation. This would happen sometime in spring 2020.

f. Other

7. Vendor Reports [01:03:33]

a. Callan Associates Inc. Performance Report [01:13:28]

Mr. Joecken provided a high-level overview of the Investment Manager's performance. Growth managers are out-performing, particularly WCM on the international side. Brandes has been disappointing over the past three years, given its extreme value tilt bias. Alliance Bernstein has also struggled. No changes need to be made at this time. On the income account, Baird, Brandywine and Reams are all outperforming their benchmarks of the past three years.

b. Charles Schwab PCRA Report

Informational and placed on file.

c. Invesco Advisors, Inc. (SVA) Performance Report [01:03:53]

Mr. Deetsch provided a brief overview of the firm. Invesco currently holds about \$60 billion in assets under management. Mr. Deetsch gave a high-level overview of the portfolio's performance over the last quarter. The ending book value is about \$182 million. Mr. Deetsch stated that Invesco spent a lot of time negotiating with wrap providers on fees, and that, as of January 1, 2020, all wrap providers will be at 16 basis points. Discussion ensued. Ms. King asked why the fees are going down. Mr. Deetsch provided a detailed history and explanation.

d. J.P. Morgan SmartRetirement Funds Report

Informational and placed on file.

e. Northern Trust Performance Report

Informational and placed on file.

f. Voya Financial Report(s) [01:20:56]

- 2019 Annual Elections and Enrollment Period Update

Mr. Merrick reported that the Annual Elections period just ended the previous Friday. Of the 570 people who were subject to the process, about 56% defaulted (meaning they took no action). About 31% opted out by either calling or using the micro-site, which was close to last year's numbers. There is an opportunity for those who defaulted to stop contributions and receive a refund for a short time period afterwards. Ms. Conlin stated that the team started a pilot program that involved local reps attending the health appraisals, which gave them access and visibility to many employees and their spouses. As a result, they have scheduled about 70 additional one-on-one meetings. Overall, this program has proven to be very successful. Mr. Merrick reported that he is now providing metrics related to loan defaults in the Plan. The higher proportion of loan defaults are coming from active employees. Ms. Kiely asked, of the employees participating in the Plan, what percentage currently have loans. Mr. Merrick stated there are 1,400 active loans. Ms. Cleary stated that Voya would be sharing a loan default report with the staff

and the local team is going to be conducting call outs to anyone at the 60-day mark. These participants already receive communications and this is just a way to speak with those participants and assist them with what needs to be done to make up the payments and remove the default status. Ms. Cleary provided feedback from an active employee she recently assisted who was attempting to avoid defaulting on her loan. Discussion ensued. Ms. Joos asked if a pre-loan counseling session could be required before a participant was allowed to take out the loan. Mr. Klajbor requested that the EFC look into payroll deduction as a loan payment option.

- Financial Wellness Seminars 3rd Quarter
Informational only.

- 8. Informational [01:44:17]**
 - a. 3rd Quarter newsletter**
 - b. 2020 Contribution Limits**

Informational only.

4:19 p.m. Meeting adjourned. [01:44:38]