

CITY OF MILWAUKEE
MINUTES OF THE DEFERRED COMPENSATION BOARD
MEETING OF THURSDAY, FEBRUARY 19, 2015
2:00 P.M. - ROOM 405, CITY HALL

MEMBERS/DESIGNEES PRESENT:

Mr. W. Martin Morics, Plan Member, - left at 2:12 p.m.
Mr. Jerry Allen, ERS Director, Chair
Mr. Mark Buetow, Milwaukee Police Association
Ms. Margaret Daun, Assistant City Attorney
Mr. Joe Davis, Sr., Alderman – arrived at 2:15, left 3:29 p.m.
Ms. Renee Joos, Fiscal & Risk Manager
Mr. James Klajbor, Deputy City Treasurer, Vice Chair
Mr. Nicholas Kovac, Alderman – arrived at 2:15 p.m.
Mr. Steven L. Mahan, Community Development Grants Administration – arrived at 3:31 p.m.
Mr. Mark Nicolini, Budget Director – arrived at 2:15 p.m.
Ms. Sandra Rotar, DCD - Finance & Admin. Manager

EXCUSED/ABSENT:

OTHERS PRESENT:

Mr. Brian Andrew, Cleary Gull Advisors
Mr. Levi Lathen, Nationwide Retirement Solutions
Mr. Michael Joecken, Callan Associates Inc.
Mr. Ben Taylor, Callan Associates Inc.
Ms. Dyice Ellis-Beckham, Invesco
Mr. Jeff Deetsch, Invesco
Mr. Andy Apostol, Invesco
Ms. Ellen Tangen, Assistant City Attorney
Ms. Miriam Horwitz, Assistant City Attorney
Mr. Grant Langley, City Attorney
Ms. Elaine Bieszk, Administrative Assistant, Deferred Compensation

A quorum being present, Mr. Morics, Chairman of the Deferred Compensation Board, called the meeting to order at 2:05 p.m.

1. Election of Board Officers – Chairperson and Vice Chairperson

Mr. Morics asked for a motion for nominations for the Chair. Mr. Buetow nominated Mr. Allen for Chair, seconded by Ms. Rotar. There being no other nominations the motion to elect Mr. Allen for Chair unanimously carried. Mr. Morics resigned from the Board; gavel was passed to Mr. Allen.

Mr. Allen asked for nominations for Vice Chair. Mr. Buetow nominated Mr. Klajbor for Vice Chair, seconded by Ms. Daun. The motion to elect Mr. Klajbor for Vice Chair unanimously carried.

2. Commendatory Resolution

Mr. Klajbor presented Mr. Morics with the resolution for his service to the Board. Mr. Morics thanked the Board.

3. Election of Hardship Appeal Committee

The Hardship Appeal Committee is comprised of five members of the Board it rotates among three of those five to make sure the Committee can meet within 10 days if there is someone who asks for an appeal. Mr. Klajbor, Ms. Joos, Mr. Buetow, Mr. Mahan and Ms. Rotar will be the Members of the Committee.

4. Appointment of Additional Executive Finance Committee (EFC) Members

The EFC is comprised of a representative of the City Attorney's office (Ms. Daun), City Comptroller's office (Mr. Buetow), City Treasurer's office (Mr. Klajbor) and two members appointed by the Board. Mr. Allen and Ms. Rotar were appointed to the Committee.

5. Appointment of Additional Personnel Committee (PC) Members

The PC is comprised of the Board Chair (Mr. Allen), DER (Ms. Joos), Chair of the Common Council F&P committee (Alderman Kovac), EFC Chair-Ms. Daun currently is EFC Chair and also by Rule designee of the City Attorney's office. Mr. Nicolini was appointed to the Committee.

6. Appointment of Communication and Education Committee (CEC) Members

The CEC is comprised of five members of the Board. Mr. Klajbor, Ms. Daun, Mr. Mahan, Mr. Buetow and Ms. Rotar will be members of the Committee.

7. Approval of the Regular Board and Special Meeting Minutes of:

November 19, 2014 January 7, 2015
January 28, 2015
February 3, 2015

Motion was made to approve all meeting minutes with minor edits from Ms. Rotar to the November 19, 2014 minutes. Hearing no objections so ordered.

Ms. Rotar stated she thinks we need some assistance from the City Attorney about what needs to be in the minutes versus as to how we are preparing them now. They seem incredibly detailed and there are certain items in here that are discussed at length and she is not sure we want that all stated. Mr. Allen will meet with Ms. Bieszk and they will have an agenda meeting as well. Ms. Daun stated it will be on the May agenda for referral to the EFC by the Board to work with the City Attorney's office to develop some standardization for the minutes and then she will come back before the Board with those. Mr. Klajbor stated and that would be done for all the committees across the Board as well.

8. Plan Participant Benefit Approvals and Denials for the period of October, November and December 2014

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.

Mr. Klajbor asked if Nationwide would include an item count, you have that on the hardship withdrawals if they could just do that on the rollover and first time payouts. Mr. Lathen stated they can do that. Mr. Klajbor moves approval of the report. Mr. Nicolini seconded. Hearing no objections so ordered.

Motion was made to convene in closed session for Item 9, on proper motion and action pursuant to Section 19.85(1)(e) and (g), 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 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. The Board may reconvene in open session following the

closed session. It was moved by Mr. Klajbor and seconded by Ms. Daun that the Board convene in closed session. AYES: Mses. Daun, Joos, Rotar, Messrs. Allen, Davis, Kovac, Nicolini, Buetow, and Klajbor. NOES: None.

9. Matters related to transition to Northern Trust as Custodial Bank

The Board convened in closed session at 2:26 p.m. The Board reconvened in open session at 3:12 p.m.

Motion was made to convene in closed session on the following Item 10, as provided in Section 19.85 (1)(c) and (f), Wisconsin State Statutes, for (c) considering employment, promotion, compensation or performance evaluation data of any public employee over which the governmental body has jurisdiction or exercises responsibility. (f) Considering financial, medical, social or personal histories or disciplinary data of specific persons, preliminary consideration of specific personnel problems or the investigation of charges against specific persons except where par. (b) applies which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of any person referred to in such histories or data, or involved in such problems or investigations. The Board may then reconvene in open session following the closed session. It was moved by Mr. Klajbor and seconded by Mr. Nicolini that the Board convene in closed session. AYES: Mses. Daun, Joos, Rotar, Messrs. Allen, Davis, Kovac, Nicolini, Buetow, and Klajbor. NOES: None.

10. Interim Executive Director

The Board convened in closed session at 3:14 p.m. The Board reconvened in open session at 3:50 p.m.

Mr. Allen reported the Board authorized the normal expiration of Mr. Dziadowicz's appointment. The Board has funded an Interim Executive Director, Ms. Margaret Daun, pursuant to terms and conditions that with the City Attorney's office will put into a contract and will be executed by the Chair. The Board will direct Callan to include in the recordkeeping RFP as it is disclosed to require the recordkeepers also be able to have the ability to have Executive Director functions as part of the outsourced arrangement. It was moved by Mr. Klajbor, seconded by Mr. Buetow to approve the above actions. Hearing no objections so ordered.

11. Communication and Education Committee (CEC) Report

a. Services available to eligible plan participants from Nationwide

The CEC with the help of Ms. Peters and Mr. Lathen have created a one page handout of the services offered to the Plan, how the website works, different calculators to help

people prepare for retirement, a segment about the healthcare, etc. The flyer will be found on the Plan's website, inserted in an email blast and distributed at new employee enrollments, departmental visits, etc. Nationwide will have a representative from that their team out here working with ERS they will do a group presentation, they will work with the Police and Fire unions and there will be other one on one meetings.

Ms. Daun suggested a friendly amendment where at the end you list all available links to tools, calculators, etc. as hyperlink bullet points. Mr. Lathen will take care of that. Mr. Klajbor moved for approval and an email blast go out with this flyer. Mr. Allen asked if there were any further questions or comments. Hearing none the motion carries.

- b. Revisions to Administrative Rules re First Point of Contact for eligible plan participant's inquiries

Mr. Klajbor informed the Board especially considering our current situation with an Interim ED we wanted to just emphasize that the first point of contact for Plan members regarding the basic question should be our TPA and that is what this addition to the Administrative Rules does. Mr. Allen asked for clarification the CEC is asking for this specific text to be entered in the Rules? Mr. Klajbor answered yes and that would be his motion, Ms. Daun seconded. Hearing no objections so ordered.

12. Executive Finance Committee Report

- a. Investment Manager Interview Schedule

All Board members are welcome to attend the interview meetings; however the votes will only be taken by the Committee members. Informational.

- b. Revisions to Master Agreement (MA) (as required by Vanguard Total Stock Market Index Trust) incorporating trust document language into MA

Prepared by Ms. Tangen related to Vanguard it is straightforward it is simply the addition of the words with respect to investments in a group trust which is exempt from taxation under the code terms and provisions of each such group trust are hereby adopted as part of the Master Agreement. She stated it requires no explanation we are incorporating by reference, it is standard. Ms. Daun moved that we go ahead and make that amendment as she just read into the record to the Master Agreement. Mr. Buetow seconded. Hearing no objections so ordered.

- c. Consideration of documents required for Vanguard Total Stock Market Index Trust: Investment Authorization, Adoption Agreement and Declaration of Trust

Issues related to the Plan's continued use of the Vanguard Total Stock Market Index Fund

– it is a fund that has been in the Plan’s fund of funds in the AMEA for quite some time. She stated with the changeover in custodial banks Vanguard asked us to reexecute Trust related documents for our use of this fund. Ms. Tangen has prepared a letter that points out some of the weaknesses in the underlying Declaration of Trust document which is a nonnegotiable document because it is used with all trustee participants in the fund. Ms. Tangen discussed this with Vanguard, they will not amend the Trust but they are representing that these are fairly industry standard terms meaning that all such Trust agreements when you are looking at collective investment trusts have this sort of language. Ms. Daun stated it is less than ideal these are contracts of adhesion meaning you don’t really negotiate them our choices are essentially confirm with Callan that these are industry standard terms or look for a different investment vehicle. In order to give the Board more time to consider that Ms. Tangen has negotiated and Vanguard has agreed to extend the deadline for executing new documents until May 21, 2015.

Ms. Tangen reported since her letter went out she did pull the Morley 2011 CIT and the unfavorable provisions are identically mimicked in that at this point she is going to conjecture that maybe one of these group Trusts got a private letter ruling and everybody else piggy-backed on the language for tax compliance status. Ms. Tangen will continue to work with Callan and get what intel she can on what other group trusts of this nature say but if it is as represented a pretty uniform provision that gives you a more reliable footing as fiduciaries to proceed with the investment.

Ms. Tangen stated all the changes we wanted to the investment authorization and adoption agreement were agreed to. Ms. Daun also pointed out that in effect Vanguard has argued that this new Declaration of Trust document has been in place for the Plan since December 20, 2011, what they do is they send a form notice via email to your Executive Director and they say unless you tell us no good within two weeks this document takes affect so effectively we have been operating under it but just for completeness of information that is the current status. No action to be taken. Mr. Klajbor asked Mr. Joecken if it is his experience that this is industry standard? Mr. Joecken replied yes.

d. Revisions to NRS contract to (i) specify source of loan (Roth issue; (ii) extension

Revisions to the NRS contract to specify the source of the loan and to extend the term of their contract. The provisions are summarized in the memo that was distributed from Ms. Tangen. The contract is extended by seven months and we shortened the termination provision to be 60 days instead of six months and then the loan program provisions to specify what the Board previously approved which was although Roth sources will be considered in the calculation of your maximum loan amount, you cannot actually use Roth money. Ms. Tangen stated a point of clarification the loan language in the one page executive summary is what is going to be in the Ninth Addendum provided by Nationwide.

Ms. Daun moved to approve the contract amendments as specified in the summary document prepared by Ms. Tangen. Mr. Buetow seconded. Hearing no objections the motion carries.

- e. Status update on opinions: (i) automated options; and (ii) '40 Act advisory services

Because we do not want to have participant whiplash more than once with any changes we make to our line-up and our platform options we need the opinions on each of these items for potential consideration in the new roll-out in Q1, 2016 by approximately end of April or early May. The Board should expect to see those opinions for its May Board meeting and they may see some recommendations from the EFC as to how to potentially adopt and incorporate those into the new lineup. Informational, no action is needed.

13. Accrual of Fees – Operating Procedures

Mr. Allen stated this is a referral item to the EFC for further study. At this time the fees are accrued monthly, we are in a daily valuation requirement so the EFC is going to take a look at this issue towards having daily accrual of fees. Mr. Klajbor moved, Mr. Mahan seconded. Hearing no objections motion carries.

14. Board Workload and Meeting Schedule

Mr. Klajbor stated the Board has great responsibility, the Plan has grown in complexity and size, and it is meeting quarterly which is what they did thirty years ago. He asked should we be meeting on a more frequent basis like every other month or even monthly like ERS does considering we are at \$800 million and look what we are all dealing with. Ms. Daun commented that it is highly likely that we will need special meetings and she would ask Trustees and she knows it is particularly hard for the Aldermen on the Board and we will be as sensitive to that as possible but we are just going to need special meetings. Ms. Daun stated we may need to reconsider that. Mr. Klajbor moved to refer to the Committee for further study and a recommendation. Mr. Buetow seconded. Hearing no objections the motion carries.

15. Assuring Adequate Operational Support for the Board and Plan

Ms. Rotar would like to suggest that the Board request the Personnel Committee on the evaluation policies look at the Administrative staff and if there is any additional positions that are needed. Mr. Allen commented even if we would decide to grant a total outsource to one of the recordkeeping institutions they are not going to prepare our financial statements for us they are going to give us reports and we will still have to prepare our own financial statements so we can either send that out to a CPA or we can have in-house people do it.

Right and she thinks with our earlier discussion with some of the issues we found, it appears to her is that nobody was reconciling the different reports that were coming in and analyzing them. That is just her suggestion to the Personnel Committee maybe they decide it is not needed. Mr. Klajbor stated that is why this was added again the Plan has grown in complexity and even if you outsource some of the work you still need someone like minding the store and watching the contractors and so what is the adequate support staff for a Plan like ours size and complexity. Mr. Klajbor moved to refer to the Committee for further study and a recommendation. Mr. Buetow seconded. Hearing no objections the motion carries.

16. Nationwide Retirement Solutions – 4th Quarter Plan Update

Mr. Lathen gave a brief summary of the 4th Quarter Report. There were 14 hardships approved, two were denied and one denial was appealed and approved. He reported implementing the loan program has significantly reduced the hardship requests. There were 244 general purpose loans by the end of the 4th quarter for a current loan principal balance of \$17.7 million - 11 primary residence loans for the quarter for a current loan principal balance of \$657,367.

Mr. Klajbor asked on Page 4 they show total assets of just shy of \$800 million where does NRS get those dollar amounts from? Mr. Lathen from participant records off of their DC Direct platform. Mr. Klajbor so it is accumulating what the Plan member's accounts show. Mr. Lathen yes and do not see statements from the custodian, they do see statements from the mutual fund companies.

Mr. Taylor as a point of information on that last question going forward that will be changing for the statements for the next quarterly report all of that will be collected from Northern Trust and provided to Nationwide up until this point for the data reflected in the current report it is coming from mutual fund companies as opposed to those being held at the custodian. Mr. Allen interjected it is hard to reconcile participants equity through the assets if you don't have the asset statements from the custodian. Mr. Taylor agrees.

17. Cleary Gull Advisors Inc. – 4th Quarter Investment Performance Review

Mr. Andrew stated everyone should have a booklet in front of them that reflects both the 4th quarter and 2014 performance report, the primary purpose of the report is to provide some attribution information regarding the performance of the actively managed accounts as well as the model portfolios. Page 2 represents the performance for the 4th quarter for the AMEA was up just under 4% for the quarter the benchmark was up just under 3.4% for the quarter. The portfolio was up just under 7% for the year with a balance of about 80% US and 20 International.

The AMIA's 12-month performance the primary thing that affected performance in the 4th quarter was the continued decline in interest rates so they have historically had underweight to US Treasuries and when you get a big rally in the bond market like we had in the 4th

quarter we have seen underperformance and you can see if you look at the net returns – the portfolio is up about .3% the benchmark was up 1.8% for the quarter. The Income Account was up actually over 4% last year with a lot of the contribution coming from good returns in agency securities, mortgaged-backed securities and credit. They have had an overweight to corporate credit and for the most part that has helped the underperformance last year was almost entirely a function of being underweight Treasuries in a period where we had a significant decline in interest rates.

The BSCA's 12-month performance was up just under 8% slightly underperforming the benchmark really as a result of active equity manager's underperformance.

Motion was made to receive and place on file. Hearing no objections so ordered.

18. INVESCO Advisers, Inc. – Stable Value Account (SVA) – 4th Quarter Update

Mr. Apostol reported not a lot of changes in the wrap market since their November report. Mr. Deetsch gave the portfolio review and went over the summary page.

The underlying health of the portfolio increased over the period so that will trickle out into the crediting rate you see it is rather flat over time but if we look at January 31st rate looks like it is more like 1.6%, the duration is 3.8 and the underlying yield to maturity about 1.58% that is indicative of the low interest rate environment we are in right now. Since they started managing the portfolio they have seen about 5% outflows that is the trend, it appears participants are moving towards equity. Mr. Klajbor asked if it is people moving into equities or is it people that are in the payout phase and they are drawing down their account? He answered it can be some of both they would have to look to Nationwide to get that. He stated they typically see a trend of transfers to stable value with the majority of their clients and then the distributions trickling out over time.

The cash balance of the STIF went up a little bit that is a reflection of as money moves out of the Stable Value option that STIF is where it hits first so they raised cash to accommodate that liquidity. Mr. Nicolini asked for the next time if they could comment on the underlying default rate for the auto loans in the asset-back security sector. He stated yes and for the most part the types of credit card, auto and ABS debt that they are investing in is AAA so it is the high end of the spectrum. The way that the securities typically work they are pooled investments so it is in a pooled investment trust and the specific securities that they are investing in are the highest priority in the capital structure, they have protections that are overpricing, overcollateralization there are different mechanisms that would actually absorb the default risk in the portfolio before it would actually sort of trickle into the Stable Value fund here. Mr. Nicolini still thinks it would be helpful if they report next time on Invesco's process which he does find interesting and their internally rated bond by bond and if they can about extra collateralization perhaps in the whole ABS sector. Mr. Deetsch stated no problem they have slides they use for other presentations that outline the tranch structure and the different collaterals. They will bring that to the next Board meeting.

Ms. Daun commented one other thing as we proceed with the investment architecture changes with the assistance and guidance of Callan to direct some sort of informational piece that will go to all of the Plan's wrappers, we will need Invesco to start thinking about that and

with each different layer of architecture change and/or modification we will need Invesco's input and knowledge as to whether or not we might anticipate any pushback from wrappers. Mr. Deetsch stated they have been reading the minutes and pass those along to their contract team to get their input they are not anticipating any problems from the wraps but it is really more of a formal notification process and he thinks there is nothing that would alarm them. What Ms. Daun is most particularly concerned about is related to any potential use of automated options and any potential mandatory reenrollment that might be considered by the Plan those are going to be she thinks of the utmost concern and she would anticipate the utmost concern to wrappers so if they can start thinking about that they will begin the dialogue in short order on those issues. Mr. Deetsch stated reenrollment would be a very big issue for the wrappers but we have flexibility today that flexibility dissipates if the market to book value ratio deteriorates from the one-on-one level. Ms. Daun right we are in a good position timing wise particularly because we are not looking at what we would anticipate to be large dispersions market to book over the next we are looking at Q1, 2016 we still should be in decent shape there but she wants to maximally preserve options for this Board to consider and again considering that a reenrollment with automated options would be likely looking at a default in a target-date funds clearly we want to be on top of that and be in dialogue with Invesco in facilitating that with Nationwide and our recordkeeping service providers and Callan. He asked who they should talk with. Ms. Daun stated herself, Mr. Taylor, Mr. Joecken, Mr. Studebaker and Mr. Lathen. Mr. Klajbor moved to receive and place on file. Hearing no objections so ordered.

19. Charles Schwab

Mr. Klajbor moved to receive and place on file. Hearing no objections so ordered.

20. Callan Associates Inc. – 4th Quarter Report

The Board has the performance reports that Callan produces on a quarterly basis it is essentially the same information that Cleary Gull and Invesco went over. Mr. Klajbor asked on Page 8 where do they get their numbers from for the portfolio dollars. Mr. Taylor stated they cross check them between both Nationwide and US Bank for difference of the balances, they get the balances for the SVA from Invesco and US Bank the rest are coming from a collection of the others in coordination with Nationwide, they actually cross reference as much as they can with their analysts with all those different pieces. So there are elements that are coming from multiple different areas but in each case it is whoever the direct source is going to be because some of the funds are held in different places. He stated going forward they all will be coming from the same place by virtue of the Trust custody transition. Mr. Klajbor stated what surprised him with the asset balances is that Callan, Invesco and Nationwide all have different numbers. Mr. Taylor stated he will reconfirm what that is as to the source and timeliness of that and either report back to the EFC or the Executive Director as desired by the Board.

Mr. Klajbor moved to receive report and place on file. Hearing no objections so ordered.

21. Articles

Informational items.

There being no further business, the meeting was adjourned at 4:45 p.m.

Ref: 0219min15