

**CITY OF MILWAUKEE
MINUTES OF THE DEFERRED COMPENSATION BOARD
MEETING OF THURSDAY, JULY 30, 2013
1:30 P.M. - ROOM 405, CITY HALL**

MEMBERS/DESIGNEES PRESENT:

Mr. W. Martin Morics, Plan Member, Chairman
Mr. Jerry Allen, Vice Chair – left at 1:36, returned 2:11 p.m.
Ms. Margaret Daun, Assistant City Attorney
Mr. James Klajbor, Deputy City Treasurer
Ms. Beth Conradson Cleary, Assistant City Attorney – arrived at 2:11 p.m.
Mr. Steven L. Mahan, Community Development Grants Administration – left at 3:01 p.m.
Mr. Martin Matson, Comptroller
Mr. Michael J. Murphy, Alderman – left at 3:07 p.m.
Mr. Mark Nicolini, Budget Director – left at 2:53 p.m.

EXCUSED/ABSENT:

Mr. Joe Davis, Sr., Alderman – excused
Ms. Renee Joos, Fiscal & Risk Manager - excused

OTHERS PRESENT:

Ms. Brian Andrew, Cleary Gull Advisors
Mr. Levi Lathen, Nationwide Retirement Solutions
Ms. Sharon Hoppel, Morley Financial Services, Inc.
Mr. William Finley, Morley Financial Services, Inc.
Ms. Terry Halfman, CliftonLarsonAllen
Ms. Irena Shinkevich, CliftonLarsonAllen
Mr. Mark Buetow, Milwaukee Police Association
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 1:34 p.m.

Mr. Morics stated with the Board's indulgence he may move the agenda items around because we may lose some Members over the course of the meeting so we get as many people voting on items; vendor reports will be first.

1. Approval of the May 2, 2013 Board Meeting Minutes and Special Meeting of July 9, 2013

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 April, May and June, 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.

Motion was made to convene in closed session at 2:14 p.m. for Item #2a and Item #4, on proper motion and action pursuant to 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 had jurisdiction or exercises responsibility and (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 will reconvene in open session following the closed session for the continuation of the Agenda.

a. *Hardship/Emergency Application Processing

Motion was made to reconvene in open session at 2:52 p.m. Roll call taken and hearing no objections so ordered.

3. Executive Finance Committee Report

a. CliftonLarsonAllen re 2012 Audit Results

Ms. Halfman distributed to the Committee a summary of the Board deliverables which include the financial statements, the auditors opinion which they issued a clean opinion - no issues, no limitations, no qualifications so very positive. The management discussion and analysis that Mr. Dziadowicz puts together, financial statements which Mr. Dziadowicz drafted and the footnote disclosures, those were all very well put together, no significant adjustments, no changes.

Ms. Halfman stated that there are a few things she wanted to point out in the Agreed Upon Procedures report with the findings and one had to do with Board approval for three of the distributions that they tested, they weren't included on the list for approval by the Board and it appears that for some reason they were left off of the list provided by Nationwide to the Board. During their testing they noted that there was proper request forms, authorizations review, all of that was done supporting those payouts, they didn't have a concern that they were not proper payouts, the whole issue was that they were not on the list that was approved by the Board. It is her understanding and it was talked about at the EFC meeting that there will be steps taken to make sure Mr. Dziadowicz is reviewing distribution payments that there is some matching up to make sure that they are on the list to the Board. The second finding is in regards to what she just discussed in terms of the internal control matter because it did impact their audit results. The third finding is four differences that they noted they do confirmations of all the investment balances with the fund houses comparing those confirmations to what Nationwide is reporting and what is being used in the financial statements. There were four differences they came across with four different funds. She stated that this has been a common difference that they have reported the last couple of years having to do with settlement dates and timing of settlements for transactions that are being done on the last day of the year; from those differences they were able to see where there were participants that elected transactions, sales purchases on the last day of the year and they can see where there is a one or two day difference as far as settlement. These differences were discussed with the EFC and to see what can be done to work with Nationwide and look into these timing and settlement differences, try to get a handle on them and avoid having these differences at year-end or at least have them recognized ahead of time before the auditors do the confirmations and come across them. Mr. Morics questioned that there were no unreconcilable differences. Ms. Halfman answered no, they were able to see the supports as far as those transactions on the last day of the year; that is why they did not note it as in internal control matter it is more of a reporting issue and the differences overall were not material to the financials, they know what they are related to. Mr. Morics stated otherwise he would see it in the management letter.

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

b. Nationwide's Response to Audit Findings

Letter of response to the audit findings is on file in the Deferred Compensation office.

- c. Contract Renewals re City Attorney opinions – receive and place on file
- Cleary Gull Advisors
 - Nationwide Retirement Solutions
 - US Bank

Items held over until the next Board meeting.

d. Fiduciary Liability Insurance re policy renewal

Ms. Daun stated that the recommendation to the Board is to approve the fiduciary liability insurance coverage as proposed. Discussion ensued.

Motion was made to renew the coverage with Travelers for \$30,500, Chubb for \$19,600 and Travelers for \$8,955 for a total of \$59,055. Hearing no objections so ordered.

e. Update on Communication to Participants re Equity Wash

Item held over until the next Board meeting.

f. Cleary Gull – Using Separately Managed Accounts – informational

Item held over until the next Board meeting.

4. *Personnel Matters

Item was taken up during the earlier closed session, see above.

5. Literacy Working Group or Sub-committee

Item held over until the next Board meeting.

6. Cleary Gull Advisors Inc.

a. 2nd Quarter Investment Performance Review

Copies of the Second Quarter Board Report for 2013 were distributed and are on file in the Office of the Executive Director. Mr. Andrew gave an overview of the Plan from a market perspective as of July 30, 2013.

Mr. Andrew reported on the Income Account (IA) given the change in interest rates during the second quarter to give some perspective on how they are thinking about managing the IA on a go forward basis. He explained where they are from a positioning standpoint. He pointed out that the portfolio has a duration that is about 15% shorter than its benchmark in a rising rate environment less interest rate sensitivity obviously makes some sense. He stated that looking at the asset allocation bonds there are managers carrying cash about 10% of the portfolio is in cash which obviously adds to the defensive nature of the portfolio. He mentioned that if you look under sector distributions on Page 20 of the booklet, you can see that the portfolio's exposure to treasuries is significantly

lower, treasuries being the most interest rate sensitive part of the portfolio and with the belief that rates will move higher albeit slowly it makes sense to have an underweight and so they've positioned themselves that way.

Motion to accept report and place on file. Hearing no objections so ordered.

b. BlackRock Strategic Income Opportunities Fund

Mr. Andrew reported that BlackRock Strategic Income Opportunities Fund is a new investment in the Income Account; Tab 7 has a summary of that Fund. He stated what they have done is moved more of the IA into a total return type of bond strategy. He explained the idea is that in a potentially rising rate environment a total or absolute return strategy has the ability to make money from both domestic and global interest rate environments, not all interest rate environments are the same around the globe, it has the ability to take advantage of the change in yield spreads between different sectors of the fixed income market as well as take advantage of a change in currency valuation. In addition, it has the ability to be short credit or short interest rate sensitivity which allows it to be more defensive. The policy of this Fund allows it to have a duration between -2 and 7 whereas an aggregate sort of core manager that they might use in the portfolio like Dodge and Cox Income will manage its duration to be relatively close to the Barclays, they are not really in a position to be defensive in a rising rate environment. Discussion ensued. Item is informational.

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

a. 2nd Quarter Report – Account Review

Copies of the report dated June 30, 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 reported that in the overall fund holdings they still have about 28% in cash. They are talking with several managers and several wrap providers to get some money invested; once they get down to choices that they have they will get in touch with Mercer and go through those and figure out the best strategy that works for the Plan. She reported that the SVA did lose about \$4 million in assets from March to June attributable to participant outflows, they actually lost a little more than that but they had some pay downs in the buy and hold contracts that increased cash a little bit. The market to book value ratio has come down slightly this quarter; they actually have seen some rebound in that during July. The duration extended about a tenth of a year, there is about 60% in the fund that is invested in the Stable Income Market Index strategy which is a Barclays index that was designed for stable value funds in conjunction with the Stable Value Investment Association along with the intermediate strategy and those are the pieces that extended in

duration about a quarter of a year over the quarter.

Mr. Finley gave a general overview on the investment side of the portfolio. Their rate outlook as far as inflation they think looking out over the next year will be less than 2%, they think it will be contained, interest rates will rise somewhat, the economy is growing slowly. What does that mean as far as their sectors, it means they like corporate bonds so they will overweight those so they think the spread pick up on those corporate bonds is still attractive; they did sell off pretty heavily in June.

Mr. Finley reported that in their active strategies they added more corporates to the portfolio and they bounced back in July also; that is one of the reasons you will see the market value to book value come back. They have shortened the longer bonds in the portfolio; bonds that have a duration beyond five years they have taken almost all of them out of the portfolio thinking that the yield curve is going to rise on that longer portion of the curve. They have come from about almost 100 basis points on the ten year and they think it probably has another 40 to go. The risk is that if it goes higher, if the economy picks up one rule of thumb is they took GDP and added inflation to it so if you're going in at 2.5% and have 2% inflation you could see the ten year at 4.5%. They do have room as things normalize through those longer bonds to move up. He reported that housing and autos seem to be the two that are moving the economy forward. He reported that mortgages have extended obviously as rates go up plus people refinance so they have a neutral outlook on mortgages because the Fed is still buying \$45 billion a month of those. With the government playing such a big roll it is hard to get a clear read on how that will play out. What they have done to protect against rising interest rates it is hard to believe but there is a 2% mortgage and 2.5% mortgage pools, they have moved out of those and moved up into the 3-3.5% mortgage pools with the idea that they will be less subject to extension risk.

Ms. Hoppel informed the Board that the Principal Life contract has been extended until September 30, 2013, it is still actively managed but as of September 30 if it is not converted to the new contract with Principal then it would begin to payout P&I payments out of the bonds that are in the account. The fee does reduce to 20 basis points from 22 basis points at that conversion point. She pointed out because Principal is an affiliate of theirs they can't sign the contract for the Plan, the contract is signed by the Plan. Ms. Daun asked where we are administratively in the approval process, is there a formal proposed contract. Ms. Hoppel stated yes and she can e-mail another copy of it to Mr. Dziadowicz. Mr. Dziadowicz stated that he hasn't seen it. Ms. Daun stated that we will not have another full Board before then. She asked Ms. Hoppel to copy herself and Mr. Matson on the e-mail. Ms. Daun will talk with Mr. Morics to figure out administratively what needs to be done to get it on an agenda. Ms. Hoppel stated that it is the first extension that we have asked for so if it needs to be extended they can talk to Principal. Ms. Daun asked if it is an evergreen contract. Ms. Hoppel stated yes. Mr. Morics stated to keep in mind our next scheduled Board meeting is November 7th either the extension will work around that or we will call a special meeting. Ms. Hoppel will just start working on an extension maybe to the end of the year. Ms. Daun stated that she thinks that should be done in conference with Mr. Suess and whatever he thinks is the best course is likely what should be done and then pass the

information along to the Board. If Mr. Suess thinks it is either here or there relatively speaking to do an extension, and then let that be the course.

Ms. Daun asked Ms. Hoppel to do a term sheet summary with highlights when the contract is transmitted. Ms. Hoppel stated she will do that.

8. Nationwide Retirement Solutions

a. 2nd Quarter Plan Update

Copies of the Second 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 June 30, 2013.

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

b. Additional Education Service

Nationwide is providing additional education services at no additional costs. The services include online fiduciary education available 24 hours a day; they hired a consulting firm to build the modules for them. They are looking at what is a fiduciary, who is a fiduciary, what is the role of a fiduciary, the rules, the responsibilities, how you fulfill those duties and what happens if you do not fulfill those duties. If you want to catch up on your fiduciary education, this is one resource you could use. The other things they plan to do with their larger clients, the consultant firm that they hired, they are basically going to put them on the road and have them do one on one workshop with the larger clients who request it. They will be offering through JP Morgan an online economic update on a quarterly basis. What JP Morgan plans to do for plan sponsors is to gear their communication toward 457 plan sponsors and what is important to them and what Nationwide is asking from plan sponsors who visit that website is to provide feedback, are they hitting the target, do they need to change the messaging, do you find it valuable. Item is informational.

9. Executive Director Report

Mr. Dziadowicz reported that since the last meeting our office has prepared financial reports which have been reported by the auditors. We also prepared and submitted a budget. We are working with Nationwide on quarterly reconciliation of reported balances to the mutual fund houses as a result of an audit finding. We are working with Cleary on separately managed accounts and reduction in cost structure.

10. Informational Items

Mr. Morics reminded the Members to not forget the NAGDCA convention; he encouraged the Members to make a good showing as we are waiting to hear if Milwaukee will be chosen to be a site for the convention.

- a. City Attorney Opinion re Walking Quorum – Receive and place on file

Held over until the next Board meeting.

- b. Charles Schwab PCRA – 2nd Quarter Report – Receive and place on file

Held over until the next Board meeting.

- c. News Articles

Informational.

There being no further business, the meeting was adjourned at 3:35 p.m.