

**CITY OF MILWAUKEE
MINUTES OF THE DEFERRED COMPENSATION BOARD
MEETING OF THURSDAY, MARCH 6, 2014
1:30 P.M. - ROOM 405, CITY HALL**

MEMBERS/DESIGNEES PRESENT:

Mr. W. Martin Morics, Plan Member, Chairman
Mr. Jerry Allen, ERS Director
Ms. Margaret Daun, Assistant City Attorney
Mr. James Klajbor, Deputy City Treasurer, Vice Chair
Ms. Beth Conradson Cleary, Assistant City Attorney
Ms. Renee Joos, Fiscal & Risk Manager
Mr. Nicholas Kovac, Alderman – arrived at 1:41, left at 3:36 p.m.
Mr. Mark Nicolini, Budget Director
Mr. Joe Davis, Sr., Alderman
Mr. Steven L. Mahan, Community Development Grants Administration

EXCUSED/ABSENT:

Mr. Mark Buetow, Milwaukee Police Association – excused

OTHERS PRESENT:

Ms. Wendy Stojadinovic, Cleary Gull Advisors
Mr. Levi Lathen, Nationwide Retirement Solutions
Mr. Kris Morton, Nationwide Retirement Solutions
Mr. Ben Taylor, Callan Associates Inc.
Mr. Steve LeLaurin, Invesco
Mr. Jeff Deetsch, Invesco
Ms. Dyice Ellis-Beckham, Invesco
Ms. Ellen Tangen, Assistant City Attorney
Ms. Elaine Bieszk, Program Assistant, 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 1:40 p.m.

1. Election of Officers

Mr. Morics asked for a motion for nominations for the Chair. Mr. Allen nominated Mr. Morics for Chair, seconded by Ms. Daun. There being no other nominations, the motion to elect Mr. Morics for Chair unanimously carried.

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

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

Mr. Morics stated this is an annual appointment. The EFC is composed of the City Treasurer, City Comptroller, City Attorney and any members appointed by the Chair at the Chair's discretion so in the absence of the principals the deputies are the principals that would be Mr. Klajbor and Ms. Daun, he is not sure with the situation with the Comptroller's designee. Mr. Dziadowicz stated the Administrative Rules state these individuals can name designees, they don't specify who they should be. Mr. Klajbor read the Administrative Rule. Mr. Morics asked Mr. Dziadowicz to research this further to see if this is even an issue. Mr. Morics stated we will continue with the EFC the way it has been and he will designate whoever is currently on the EFC.

Ms. Daun stated for the record the City Attorney will not be issuing any opinion on this issue; designees are designees there are no constraints on who may be designated by a Member that sits by Statute on this Board. She is just speaking to a designee to the full Board. She thinks the question then from Mr. Morics and herself is do we need to fix the Administrative Rules to allow designees to serve. Mr. Morics stated he can fix it just by virtue of appointment. Ms. Daun stated he can but she means the formality of the Administrative Rules as to the composition of the EFC.

Mr. Morics reappointed Mr. Allen, Ms. Cleary, Mr. Buetow and Ms. Daun designating them by name. Hearing no objections so ordered.

3. Appointment of Hardship Appeal Committee

Ms. Daun reported we are going to create a five member committee only three who will be randomly chosen ad hoc will hear any one appeal that way you always have an odd number so that a decision will be made. It is not going to be the same three people all the time hopefully, appeal hearings have to be held within 10 days of receipt of the appeal packet from a recipient. She stated the idea is if you are actually having a financial emergency we need to make a decision pretty quickly.

Mr. Klajbor stated that we just approved the Rules which read, "Each year a five-member Hardship Appeal Committee shall be elected from Board members by a simple majority of the Board. The election shall be held at the first Board meeting of a calendar year. The members of the Appeal Committee may be proposed and elected by slate or individually, at the Board's preference. Mr. Morics asked for volunteers. Mr. Klajbor, Mr. Allen, Mr. Buetow, Mr. Mahan and Ms. Cleary volunteered. Ms. Daun asked Ms. Joos if she would

volunteer. Ms. Joos volunteered. Hearing no objections so ordered.

**4. Approval of the Regular Board and Special Meeting Minutes of:
November 7, 2013
January 7, 2014
January 21, 2014
February 25, 2014**

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.

5. Plan Participant Benefit Approvals and Denials for the period of October, November and December 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. It was moved to approve the hardship withdrawal requests. Report accepted as submitted. Hearing no objections so ordered.

*Motion was made to convene in closed session at 1:45 p.m. for Item 6 and Item 7a, on proper motion and action pursuant to Section 19.85(1)(e), Wisconsin Statutes 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. The Board may reconvene in open session following the closed session for the continuation of the Agenda.

6. *Cleary Gull Advisors Inc. Contract Amendment*

Item held over.

7. Executive Finance Committee Report

a. INVESCO Contract*

Motion was made to reconvene in open session at 2:15 p.m. Roll call taken and hearing no objections so ordered.

b. Unforeseeable Emergency Hardship Withdrawal Documents (Initial Determination

Form Denial Letter, Hardship Appeal Packet to Participant, NRS Appeal Packet Transmittal Form, Appeal Guidelines)

Ms. Daun informed the Board they have seven documents six of which need Board action, the documents comprise a new hardship application and appeal review program. There are now firm deadlines for decisions both upon receipt of the initial application, a deadline for appealing for the participant and a deadline for an appellate decision by the Hardship Appeal Committee now. There are clear forms for all of these things for the applicant to fill out upon an initial application and an appeal and there is a clear unequivocal form for the precise findings that would need to be made by the Appeal Committee. Finally there is now a clear memo of guidance from the City Attorney's office which explains the three buckets that exist in hardship land, there are the clear approves where the Internal Revenue Service (IRS) has provided a Rev ruling or a letter ruling that says these qualify, there are the clear denials again where the IRS has clearly indicated that these circumstances do not qualify for a hardship then there is the bucket of unknowns where the IRS has said nothing about and where the subjective standard must apply which is explained in the memorandum, there are four or five criteria that must be met. She stated there is no more guidance that the City Attorney's office can provide that's it, the yeses, the nos and the maybes and as to the maybes it then becomes the Board or whatever body or individual it would delegate its authority to, to review those four standards and decide whether or not they apply to those circumstances which haven't been clearly ruled upon by the IRS. She stated that's now explained very clearly to participants in their application and appeal packets. There is a form denial letter from Nationwide. Nationwide does not execute discretion on behalf of the Board. Nationwide approves or denies if it is in the clear yes or no bucket per the IRS guidelines if it is a maybe, they deny and then it is up to the participant to appeal that is the way the Rules are set up now. Nationwide cannot exercise the discretion of the Board for it. Finally we have the steps for the appellate Committee exactly what should happen and the deadlines for those actions. Discussion ensued.

Alderman Davis asked if the IRS code requires social security numbers. Ms. Daun stated it is used because it is related to taxes, if we would like to remove any reference to social security numbers from all the documents, we will take it off all of the documents and forms to the extent it is on there.

Motion was made to accept the City Attorney's documents and place them on file and we approve the other documents with the change to remove any reference to social security numbers and use participant account number instead. Hearing no objections so ordered.

8. Nationwide Retirement Solutions – 4th Quarter Plan Update

Mr. Lathen introduced Mr. Chris Morton. Mr. Morton will assist Mr. Lathen with various projects, he will attend meetings and he will work with Mr. Dziadowicz and Ms. Bieszk on

make sure they are on track.

Mr. Lathen stated that the loan program is scheduled to start on April 12th officially we are going to have a communication (unveiling) going out to all participants the latter part of March. Nationwide will also inform participants about the switch to Invesco, as the new Stable Value Manager in the quarterly newsletter. They will also talk about the new hardship rules. Discussion ensued. Mr. Morics stated the hardship information and announcing the change in stable value managers to INVESCO will be in the newsletter. Mr. Lathen stated NRS will do first draft, Ms. Daun will work with Mr. Dean Scoular on the edits, he will get a draft to Ms. Daun within the next two weeks and by the first week in April they would like to have everything in order, no later than Friday, April 4th. Mr. Klajbor asked if we were going to mention the change in the investment guidelines to the Stable Value Account at the same time. Mr. Morics stated that we could reference saying with these changes, appropriate changes were made to the guidelines please refer to the website, and then you are being transparent about it.

Motion to accept Nationwide's quarterly report and place on file. Hearing no objections so ordered.

9. Cleary Gull Advisors Inc. – Market Outlook and 4th Quarter Investment Performance Review

Ms. Stojadinovic gave an overview of the attribution reports and fund performance. She reported that Cleary did not do significant repositioning during the fourth quarter but they did do some changes in the percentages held in different sectors using the cash flows from payroll. She stated as far as the allocations they are looking to get Granger Peak International which is a small cap international fund and as soon as that is available for use they will be making some changes to the international look through as well. She went on to explain the exposure to international stocks.

Ms. Cleary referred to Page 11 asked if the 32.41% the total is that net of fees. Ms. Stojadinovic answered it would be net of the fund fees. Ms. Cleary was comparing it to Page 8, she asked shouldn't they be the same. Ms. Stojadinovic answered the attribution report will sometimes be slightly different because when there are trades that happen it doesn't always get reflected exactly correctly so the real return that you would want to be looking at is the return on Page 8. She informed them that the attribution is to just give us a story of how did they manage the portfolio, what decisions did they make that were good and bad and you try to tie out but because you are linking different time periods with transactions in there it will sometimes be off on the total return that it will put on there. It is a slight difference but the actual experience of the equity account would be on Page 8. She stated that typically the figure is closer but the longer the time period the more transactions and the more linking that happens.

Ms. Stojadinovic reported the AMIA over the 5-year period has been run with slightly higher

risk but better return, the return at 7.78% over a 5-year period relative to the benchmark of 4.93% is good. They have had slightly higher standard deviation again. The information ratio is very high and the alpha is very high and they did so with a lower beta believe it or not. She explained in comparison to the benchmark they are managing the account with much lower duration than the benchmark, they do believe that rates are moving up they don't believe that they are going to move up fairly quickly but they believe they are moving up. She reported that fund is going to change its duration they saw it get a little bit longer near the end of the year when interest rates were at the peak over the last couple of months and then they shortened up again later so they are very active in terms of duration wise they tend to be plus or minus two years in duration. She reported Cleary hired Blackrock so they could have some more active management around interest rate sensitivity. She reported for the quarter the AMIA is ahead by 1.3% relative to the benchmark of a negative .14%. The main detractor for both the quarter and the year is having exposure to TIPs through the Vanguard Inflation fund; it is a small position which they have been reducing for quite some time. She reported the account had a positive .06% relative to a minus 2.02% return for the benchmark while not a great year for fixed income they had still managed to not lose money for participants relative to what happened in the fixed income market place.

Ms. Stojadinovic did an analysis on the Stable Value Account (SVA) benchmark just in case there would be some turnover there how that might look if the portfolio were to be wound down. She pointed out in terms of compliance there were two points: Morley's SVA portfolio cash level is at 31% which is out of the compliance of 5-10% goal. Ms. Daun stated she thought Morley brought it down to 20%. Mr. Dziadowicz reported that \$50 million was invested at the end of January 2014 that still didn't bring it back down.

The other compliance item she wanted to point out which is the Actively Managed Fixed Income Account, the returns should be higher with less risk as measured by the Sharpe ratio so on a five-year basis the return is higher and the Sharpe ratio is also higher both are in compliance but on a ten-year basis the total return is higher but the Sharpe ratio is still behind at .81% relative to .85%.

*Motion was made to convene in closed session at 3:37 p.m. for Item #10a, on proper motion and action pursuant to Section 19.85(1)(e), Wisconsin Statutes 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. The Board may reconvene in open session following the closed session for the continuation of the Agenda.

10. Callan Associates Inc.

a. Custodial Contract Bidders**

Motion was made to reconvene in open session at 3:52 p.m. Roll call taken and hearing no

objections so ordered.

b. Request for Proposal Information**

Timeline – “Proposed Work Timeline for City of Milwaukee” – Mr. Taylor explained the process.

Present Investment Structure Recommendations to Board – Mr. Taylor stated there is going to be a full process 20-30 page written report for the Board that they will receive in advance that will outline Callan’s thoughts and potential portfolio structure options. He stated the reason they want to do that is not only is it a component of their core scope for the first year but also it flows through to almost every other decision that would be reflected in the RFPs that they contemplate for later in the year for both custody for the long term and also recordkeeping and that is reflected in the subsequent points. These will be two separate procurements, to be pursued in parallel. The draft of RFPs to be developed between the May and August Board meetings for those core services. The motivation again being that they haven’t been taken to bid since the 90s, Callan wants to make sure they are following the process for best practices for Nationwide and for custody since they are doing the sole source. He would also note that in the cost of the custody services there is an increase in costs directly for custody but that increase in cost is something that is a burden lifted partially off of Nationwide and there are other things that they have identified in the on-site visit; several of them fairly significant with Nationwide where they think Nationwide and Callan jointly that without any loss really to the City, in fact in some cases probably some risk savings, are you reducing liability for the City you would have opportunity to reduce costs for how the Plan is currently administered.

There are other items that he found, he gave a case example something that you could consider not a hard recommendation but during his on-site visit he found that there is an old scope item that came from a prior record keeper contract - Nationwide maintains physical printed records of all of the employee records in their offices which seemingly no one uses but there is 8,000 employee records with private information in printed paper in file cabinets in their office, that cost quite a bit of money but it also is less secure than the data driven structure that they have for the recordkeeping system. He stated that there are things like that they are doing now and if you just said stop and see what you could reduce your fees for, you could probably save money. Callan would like to have a process soon where you have opportunity to have those accessed prior to launching an RFP where you say what are the things we want to keep, what is the benefit in keeping some of these things and what is industry best practice so with respect to investment structure there are some ways you might potentially save on custody depending on who maintains the same structure or not, unitizing a portfolio has a cost, in addition there are other areas with respect to recordkeeping. Callan could do an inventory of each of these and then submit for the Board pros and cons for the investment structure in the May meeting, in between the May and August meetings Callan will be bringing the Board the pros and cons for plan administrative structure and reflect any decisions the Board would make with respect to investment structure and planning in the scope of services of those

RFPs and be prepared to issue them, implementation of both investment, custody, recordkeeping would follow through the course of the next 12-18 months after that.

Mr. Taylor stated the one thing that he thinks would merit the Board's discussion either now or later is that Callan has a way of doing RFPs generally speaking is they have a database of recordkeeping responses and Nationwide fills one out every year, they have 1,000 questions in the database covering every potential service they could provide and they have a specific addendum to that RFP database covering anything specific to the Plan, any of the work scope, the service team they would propose, fees all those things that are specific to each case, they don't ask them to redescribe how their recordkeeping system works. In the Board's response to Callan they stated that could not be used for an RFP so depending on how Callan would scope the RFP the key decision for the Board is if they would be comfortable using Callan's recordkeeping database or if they would just issue that process again. It doesn't require a decision today but as Callan goes forward and they begin constructing it he would be happy to give the Board more information about how the database works, the contents, etc. to see if the Board would like them to use that or a no. Mr. Klajbor thinks in order to make an informed decision they need to know because why would they want to reinvent the wheel if Callan has a proven process that works. Ms. Daun stated they have a database that has these 1,000 questions, if the Board tells you not to use the database Callan basically pulls out the same questions and just reissue them and get the same answers that exist in the database. Mr. Taylor stated largely perhaps not entirely, yes. Mr. Morics questioned about 80-90% at least? Mr. Taylor stated yes. Mr. Klajbor stated that if the consensus is comfortable doing that, he means they just mentioned it now we haven't seen the database, we don't know what kind of questions are asked. Mr. Morics stated that would be for the session when we do our due diligence this is appropriate but he doesn't see anything stopping it right now. Mr. Taylor stated it doesn't require anything now just as they go forward, Callan will be happy to bring that information for the Board's due diligence as well. The other benefit is that it has 24 record-keepers in it presently with it filled out so you have comparison data that unless you got 20 respondents you wouldn't have elsewhere as well. He stated the Board can authorize direction going forward on that but in the meantime Callan will proceed with the intention of moving with those RFPs unless the Board directs Callan otherwise.

c. December 2013 Performance

Mr. Taylor went into the market review, added some additional comments to Cleary Gull's comments with respect to Callan's view of the market and then discussed how their performance report is structured. Mr. Taylor gave an overview on how Callan provides performance reporting.

Mr. Taylor stated historically the performance you have received for these funds reflects a policy benchmark it is a fixed benchmark for each of your multi-manager funds so in other words no matter what you are actually invested in the performance of the fund is compared against a static allocation of indexes. He stated what Callan has reported here

for each of these is an actual asset-weighted benchmark performance. For example if you had an 80/20 split it would match exactly your 80/20 benchmark but if you went 85/15 their performance will actually track an 85/15 allocation to all of the underlying benchmarks that are appropriate to each of the underlying managers. For example, you will see they list a benchmark beneath each fund manager, they are calculating a weighted average relative to the actual investments to calculate performance which is substantially different from what you have been receiving from Cleary Gull so far. He noted that this methodology remains still somewhat imperfect because of the frequent changes of fund managers through time and also the performance stream that they get from Nationwide doesn't distinguish between certain types of purchases in a way that would help Callan clarify further fund performance differences which is to say the allocation system does not distinguish between dividend income or other payments like that and other casual purchases from normal fund operations. Since they don't have daily cash flows with that segregation for performance it is less precise than they would hope to be able to achieve for providing same kind of performance you get say for a DB plan.

Mr. Taylor informed the Board that the performance summary for the AMEA regarding the return on Page 12 was erroneously put in by his analyst and the correct return is on Page 93 it was a significant error on that one page. Mr. Taylor will make that change and have it for the next Board meeting.

Mr. Klajbor asked if it would be possible where Callan flags things that they believe should be definitely discussed, have the commentary like here is the issue, here is why Callan thinks it is a concern and maybe here is the resolution. Mr. Taylor stated absolutely and in fact intra-quarter as well for any Board members that sign up through e-mail notifications they also have a regular process whereby any substantial manager changes for any of the Plan's portfolio managers Callan will provide within 24 hours an e-mail update to all of their clients.

Alderman Davis asked in the international markets what countries are included in the core international. Mr. Taylor stated broadly speaking if you are looking at the developed markets what you would be looking at would be the EFA index – Europe, Asia, the Far East some of them would include developed countries like Japan, South Korea, Taiwan, Indonesia, most of the European Union. Alderman Davis asked Mr. Taylor to get him a list of the countries that fit into this portfolio core international and then also the emerging markets.

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

11. Morley Financial Services, Inc. - Stable Value Account (SVA) - 4th Quarter Report

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

12. Executive Director Report

a. 2014 City's Fee

Mr. Dziadowicz reported the fee for 2014 is \$10,988 which is our office expenses and that is a City fee that is being charged to the Plan. He stated the reason being for the past few years we have had an amortized credit that just expired. Mr. Klajbor commented so there is no need to raise fees at this time. Mr. Dziadowicz stated no actually they are lower.

b. Glossary of Terms

Mr. Dziadowicz submitted a combined glossary of terms; this document represents combined alphabetical glossaries of all of our vendors that are currently servicing the Plan. Ms. Daun stated ideally the whole usefulness of this is we put it on the website, it is like our own internal dictionary of financial terms and it would be important that a word that didn't appear in say Invesco's glossary that did appear in say in Callan's that they both felt comfortable with the definition of those terms, if we are saying these are the definitions of terms for our Plan, all of our vendors need to be comfortable with all of the words. Mr. Dziadowicz will submit them for the vendor's approval.

13. Charles Schwab PCRA – 4th Quarter Report

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

14. Informational Items

Ms. Bieszk informed the Board that there have been a number of Board members who have visited the webpage and noticed some of the changes have not been made to the Administrative Rules, Master Agreement, etc. She stated we have had so many moving parts and so many changes that she wanted to wait until everything was approved by the Board before making the changes to the webpage. The webpage should be updated with the most current information and documents no later than the beginning of April. Also, now that the Board has had their elections she will be updating the roster and will post it and send to all the members.

a. Plan Legislative History

The Plan legislative history will be posted to the webpage.

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

- b. Communication Letter to Morley Financial Services, Inc.

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

- c. News Articles

Informational.

There being no further business, the meeting was adjourned at 4:10 p.m.