

**CITY OF MILWAUKEE**  
**MINUTES OF THE DEFERRED COMPENSATION BOARD**  
**SPECIAL MEETING OF FRIDAY, JUNE 11, 2014**  
**1:30 P.M. - ROOM 405, CITY HALL**

**MEMBERS/DESIGNEES PRESENT:**

Mr. Jerry Allen, Vice Chairman  
Ms. Margaret Daun, Assistant City Attorney – arrived at 1:43 p.m.  
Mr. James Klajbor, Deputy City Treasurer  
Mr. Martin Matson, Comptroller  
Ms. Beth Conradson Cleary, Plan Member  
Ms. Renee Joos, Fiscal & Risk Manager  
Mr. Nicholas Kovac, Alderman  
Mr. W. Martin Morics, Plan Member, Board Chair  
Mr. Steven L. Mahan, Community Development Grants Administration

**EXCUSED/ABSENT:**

Mr. Mark Nicolini, Budget Director - excused  
Mr. Joe Davis, Sr., Alderman - excused

**OTHERS PRESENT:**

Ms. Elaine Bieszk, Program Assistant II  
Mr. Witold Dziadowicz, Executive Director  
Ms. Ellen Tangen, Assistant City Attorney  
Mr. Brian Andrew, Cleary Gull Advisors  
Mr. Ben Taylor, Callan Associates Inc.  
Mr. Michael Joecken, Callan Associates Inc.

A quorum being present, Mr. Morics, Chairman of the Deferred Compensation Board, called the meeting to order at 1:35 p.m.

Mr. Morics requested to have the August Board meeting rescheduled to the week of August 4<sup>th</sup>. Hearing no objections Ms. Bieszk will reschedule the meeting.

## 1. Callan Associates Inc.

### a. Analysis of the Plan's Investment Structure

- Regulatory and industry trends affecting the Plan
- Best practices for Plan design and behavioral insights from Nationwide data
- An analysis of the strengths and weakness of the current options
- Pros and cons for potential fund offering changes
- One or more potential alternative line-up structures
- Analysis of Plan investment fees

Callan's analysis had been distributed to the Board members. Mr. Ben Taylor and Mr. Mike Joecken have taken a look at the Plan and will discuss the structure. Mr. Joecken explained the first half of the presentation explains the structure in terms of the number of options and the types of options the Plan offers participants to invest in and the second half is an introduction to how Callan thinks about manager structure in terms of the underlying funds.

Mr. Taylor and Mr. Joecken discussed their observations and what Callan's preference would be to Tier I-Asset Allocation, Tier II-Core Options (capital preservation and fixed income), AMIA-Tier II-Core Options, AMEA-Tier III-Specialty Options (BSCA). Mr. Joecken stated Callan prefers the target-date options, the time-based options. He explained time-based, target-date asset allocation funds allow for a more intuitive framework for participants to assess their risk tolerance. He stated participants do not need to actively initiate a shift between funds as their retirement approaches. It is worth exploring the potential compatibility of off-the-shelf target-date funds versus custom target-date funds as a replacement for the risk-based options. Mr. Joecken stated exploring the possibility or the capability of building a customized target-date glide path that corresponds with the Plan's specific and unique liability stream or population taking into account that a defined benefit plan is offered. Discussion ensued.

Mr. Taylor and Mr. Joecken went on to explain Callan's proposed alternative structure alternatives featured on page 19 and 20 of the presentation booklet.

Alternative I – Replace target-risk funds with target-date funds. Remove passive options and include passive components in redesigned multi-manager portfolios. Remove socially conscious Tier III option.

Alternative II – Replace target-risk funds with target-date funds. Retain passive funds and include passive components in redesigned multi-manager portfolios. Remove socially conscious Tier III option (currently, only 4% of participant assets are invested in the BSCA)

Ms. Daun asked over the long run, what is the best set of options when you are looking at Tier II for participants. Do they end up with better outcomes when they have the ability to select among passive US equity, passive international equity and global equity or are they better off with three outcomes from a peer theory and performance standpoint? Mr. Taylor

stated what you should expect is that you are going to have a slightly higher allocation to equity if you include the index funds. You will have a more balanced equity allocation if you merge the two together therefore the one that is most likely to have the best diversification within equity is the more consolidated on Page 19 the one that is going to have a higher equity allocation which the Board may see as desirable given the other two would be fixed income options, that is kind of the tradeoff. He would think you are going to get a better benchmarked, more diversified single equity fund but you probably will maintain a higher allocation in your Plan as a whole to equity which may be desirable if you maintain the index funds. Discussion ensued.

Mr. Taylor stated there are a number of decisions to make; we don't have to make these a la carte or immediately. He will point out it seems that there is a consensus on two aspects of this which is to pursue a target-date funds search to eliminate at least the SBCA which means they have things they do. They can also bring examples of what some of these portfolios might look like with or without the index pair. Mr. Morics stated that he thinks there is a consensus in a lot of areas. He thinks if something were as simple as Page 19 but yet still gave people the option of doing passive versus active, if there were some tweaks that way or maybe some blending of Alternative I and Alternative II that you can put together that addresses the concern of the loss of the passively managed and yet keep some element of simplicity. Mr. Morics stated if it is enough for Callan to go on and we are not slowing you down, maybe that is the best way to go about it.

Mr. Taylor asked if a motion will be made directing for the target-date fund search. Mr. Morics asked if that was what they needed to proceed. Mr. Taylor stated they can do it however the Board wishes to do it. Mr. Morics asked if it was on the agenda as an action item, if it is not on the agenda you are just going to have to take us at our word. Mr. Taylor stated they will take that into account when constructing their agenda items.

Meeting adjourned from closed session at 3:45 p.m.