CITY OF MILWAUKEE
MINUTES OF THE DEFERRED COMPENSATION BOARD
MEETING OF THURSDAY, MAY 8, 2014
2:00 P.M. - ROOM 405, CITY HALL

MEMBERS/DESIGNEES PRESENT:
Mr. W. Martin Morics, Plan Member, Chairman – left at 2:35 p.m.
Mr. Jerry Allen, ERS Director
Ms. Margaret Daun, Assistant City Attorney – arrived at 2:11 p.m.
Mr. James Klajbor, Deputy City Treasurer, Vice Chair
Ms. Beth Conradson Cleary, Assistant City Attorney – arrived at 2:04 p.m.
Ms. Renee Joos, Fiscal & Risk Manager
Mr. Nicholas Kovac, Alderman – arrived at 2:14 p.m.
Mr. Mark Nicolini, Budget Director - left at 2:21 p.m.
Mr. Joe Davis, Sr., Alderman – arrived at 2:47 p.m.
Mr. Mark Buetow, Milwaukee Police Association

EXCUSED/ABSENT:
Mr. Steven L. Mahan, Community Development Grants Administration – excused

OTHERS PRESENT:
Mr. Brian Andrew, Cleary Gull Advisors
Ms. Amber Peters, Nationwide Retirement Solutions
Mr. Ben Taylor, Callan Associates Inc.
Mr. Michael Joecken, Callan Associates Inc.
Mr. Steve LeLaurin, Invesco
Mr. Jeff Deetsch, Invesco
Ms. Ellen Tangen, Assistant City Attorney
Ms. Elaine Bieszk, Program Assistant, Deferred Compensation
Mr. Witold Dziadowicz, Executive Director, Deferred Compensation

A quorum being present, Mr. Morics, Chairman of the Deferred Compensation Board, called the meeting to order at 2:01 p.m.

1. Approval of the March 6, 2014 Board Meeting Minutes

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 January, February and March 2014

Mr. Dziadowicz reported the rollouts for the quarter were $5.7 million compared to $6 million in the 4th quarter. There were only 27 hardships this quarter compared to 49 the last quarter, the lowest number since 2008 when we had an average of 50 hardships per quarter.

It was moved to approve initial payout benefits and rollover payments for participants who have left the 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.

3. Executive Finance Committee Report

*Motion was made to convene in closed session at 2:06 p.m. for Item 3a, 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.

a. Cleary Gull Advisors Inc. Contract Amendment*****

Motion was made to reconvene in open session at 2:21 p.m. Roll call taken and hearing no objections so ordered.

Mr. Klajbor informed Mr. Andrew with Cleary Gull Advisors Inc. that the Board's decision is to go with Option 2 as far as the insurance within their contract.

b**.** Operating Procedures Amendment

Ms. Daun stated that the Operating Procedure amendment simply relates to removing out specific language with reference to Morley substituting in general language that relates to our Stable Value Manager, clarification of the language with the onboarding of Callan and clarifying and distinguishing between Cleary's ongoing role and Callan's new role and basically it was a clean-up.

Mr. Klajbor commented on Page 5 are where the roles are and the other area was Page 18 where we get into the fees, those were the two substantive changes.

Motion was made to accept the amendments to the Operating Procedures. Hearing no objections so ordered.

c. Investment Guidelines – Attachment A – Universe of Funds – Informational

Item held at the call of the Chair. Item to be noticed as an action item for the next Board meeting in August.

4. Nationwide Retirement Solutions

a. Update on Loan Program

Ms. Peters gave an update on the loan program. She reported the first week they had an increase in call volume by 200%. Currently there are 350 general purpose loans for a total of $5.8 million and one primary residence loan for $27,000, the percent of population actually taking a loan is about 4.5%. She stated the current interest rate is 4.25% and the average loan balance is just under $17,000. Ms. Daun commented that way may need to again explain the consequences of default, when default occurs what you can do to cure late payments. Mr. Klajbor asked Ms. Peters to follow up and at the next meeting and have a reminder about the loan program to be inserted in the next quarterly newsletter. Ms. Daun stated we always want to know the default statistics, late payments and defaults. Mr. Klajbor asked that Nationwide make those statistics part of their quarterly report from here on out, just have another tab reporting on the loan program.

Ms. Peters reported that Ben Elias their other representative is no longer with Nationwide. She informed the Board a new person has been hired, her name is Charmaine Martin, and she worked for Great West for about eight years on the County plan and will be starting with Nationwide toward the end of May. Mr. Klajbor asked that they have Ms. Martin attend the next Board meeting so the Board can meet her.

b. 1st Quarter Plan Update

Ms. Peters gave an overview of the 1st Quarter summary information in the booklet. She reported they received 32 hardship applications and 26 were approved. Hardship applications have decreased. She stated since the loan program started in the middle of April they have had only one inquiry.

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

5. Cleary Gull Advisors Inc. – 1st Quarter Investment Performance Review

Mr. Andrew reviewed the 1st quarter investment booklet for the Board. He gave a quick performance summary and reported on some of the specific investments. The AMEA was up 1.11% during the first quarter as compared to 1.70% for the policy benchmark which he has

listed in the booklet and for the last 12-months the account is up 21.35% as compared to 20.65%. He went on to explain investment performance. The AMIA was up 1.94% a good quarter for bonds as they saw almost a 3/10th of a percent rally in treasury yields. They saw a contraction in yield spreads particularly in the lower credit quality part of the market somewhat of a reflection of risk performing better from a fixed income perspective in the first quarter. They were ahead by about 10 basis points, if you look at the last 12-months you can see that the account was up almost 1.2% as compared to a negative return of .09% for the Barclays Aggregate Index.
The BSCA was up 1% as compared to 1.97% for the blended benchmark over the last 12 months ending March 31st; it was up 13.75% versus 13.14% for the blended benchmark. He explained the funds that detracted from performance in the first quarter of 2014.
In regards to the attribution analysis Mr. Andrew stated there is a lot of data when you go through these reports, the numbers that he was just referencing are the actual NAV returns of each of the funds, the numbers that you see on the attribution reports are sometimes slightly different by a few basis points and that is because the attribution reports are literally built from the individual holding and transaction level up and so there is always a little bit of a residual between what actually happened and what you are trying to explain.

6. Invesco Advisers Inc. – 1st Quarter Performance

Invesco became the Manager of the SVA in March. The March 31, 2014 report which isn't a full quarter, there really isn't a lot of performance to talk about. Mr. Deetsch and Mr. LeLaurin explained the positioning of the portfolio and the way it looks. Mr. LeLaurin distributed a supplementary book that was given out at the EFC meeting because there are some graphs in the back that he would like to use as a highlighting point.

Mr. LeLaurin stated Invesco has a different way of managing stable value portfolios from some other firms; they use collective trust funds as the underlying investment rather than individual bonds whenever they can do that and they do that completely for our portfolio. The reason they do that is because it gets them a tremendous level of a riskification, many many more securities that your stable value fund is exposed to rather than a more limited style, it also allows them to use sub-advisors which is one of the reasons why they were hired because the Plan likes that they use sub-advisors within the portfolio. He stated using collective funds allows them to add sub-advisors because they have a number of sub-advisors that manage some portions of their collective trust fund network.
Mr. Deetsch gave an overview of the quarterly report and the position of the portfolio. He reported the market-to-book ratio is 100.43% and the effective duration is 3.14 years. He commented that one of the things Mr. LeLaurin did not mention was the efficiency which is another benefit of using collective trust funds because on day one when they took over the portfolio they were fully invested and were able to take comingled funds and invest in them and have the portfolio the way they wanted to. He stated that blend gets them book value crediting rate of 1.25%, very high quality portfolio that is a AA+ right below a triple A. The portfolio is very well diversified it has over 3,100 securities. The yield is basically the yield

that we should expect of a general market rate that is in the portfolio right now and that gets amortized into the fund through the market-to-book and the crediting rate; those are all relative metrics that are in the portfolio.
Mr. Klajbor asked going forward would they show us what it was like last time and what it is this time because he knows there was no last time but as we move forward so we can see the change from quarter to quarter. He answered there is definitely a page they can put in the booklet with that information.

Mr. LeLaurin explained Invesco has a very distinct wrapper philosophy; they want to have a broad diversification; they want wrap providers to have relatively similar portions of the overall portfolio they change them out a little bit every now and then. He stated it turns out the Plan had a lot of wrap providers in the fund before Invesco came on but most of them had very small positions and they eliminated all of those, they kept Prudential, Monumental and Mass Mutual and added ING and RGA so basically they did a lot of consolidation of the wrap contracts in the portfolio; they thought it was the more prudent way to manage the overall exposure. He stated each one of these wrap providers are strong and solid; in their view they pass all of their credit tests, all of their administrative review tests, they believe they will stay for the long haul, they don't think that there is any risk that some of them would want to get out of the market. He stated their proportions are roughly equal across the spectrum; their fees are relatively flat there isn't much difference in fees that the wrap providers charge in the industry and their credit ratings are relatively solid in the single A to double A credit quality rating.

Mr. Deetsch reported the cash level is down to 5% which is available for participant activity. Mr. LeLaurin stated that even though 5% is there for participant activity, all of the funds that are in the portfolio are highly liquid sort of next day settled kind of investment structures. He stated if there was a big run on participants and the money was needed right away out of the stable value option, they have full liquidity from everything. The rest of the portfolio is not going to change a whole lot from quarter to quarter but he wanted to point out the model versus the actual, he stated one of the things they were able to do for Milwaukee was put a manager cap for their investment sub-advisors; so normally their process would have two-thirds Invesco management of the bonds, they are working with Mercer and Mr. Dziadowicz on how to work this out properly and the preference was to have a 25% investment manager cap and they were able to accommodate that. This would be having 25% cap in Invesco but also having PIMCO, BlackRock, Jennison, ING, Babson and Goldman Sachs in the portfolio as well. On pages 10 through 20 they have a snapshot in the book of each underlying portfolio that is in the fund and how it did on its own. This is something that they like to show that they have transparency in each one of the funds they can substitute, they are unitized they can go in and out of.

Mr. LeLaurin commented that PIMCO has gotten lots of press lately because of some senior management changes and actually a number of firms have put them on watch and a number of other firms have eliminated PIMCO from their portfolios. Invesco has had PIMCO since 1991 in their stable value portfolios and the reason why Invesco has not gotten rid of them is that they are watching them carefully. They are very good and artful but they like to have lots of flexibility and don't like being constrained; however when Invesco hired them they put big corridors around them, Invesco does not allow them to go outside certain duration bands, certain concentration bands, certain use of derivatives, they constrain them quite a bit so the portfolio that the Plan is exposed to in there is a constrained portfolio - in fact they look at the portfolio as a non-discretionary portfolio in their terms meaning and they don't have free rein to do whatever they want and Invesco likes that. He doesn't want the Board to think that PIMCO here is a risk; Invesco continues to use them because they like them.

Mr. Klajbor asked if Invesco sees any opportunities to increase the crediting rate within the constraints. Mr. Deetsch stated it is the conservative option so Invesco wants to make sure that they are not taking some high risk bets and a lot of times to get that higher yield which would feed through to the crediting rate that is additional risk. They know they have seen some of their competitors even maybe try to put some high yield in but Invesco doesn't think that is prudent for stable value. Mr. Klajbor stated certainly having less in cash helps.
Mr. LeLaurin wanted to point out the graphs in the back of the handout that was given to the EFC in April. He pointed out some comparisons using the graphs of how the fund has looked over time to how it looks like now. The annualized crediting rate back in December 2012 was around 1.15% it is a little bit north of that right now, the market-to-book ratios had gone down from around 1.02% to a little below 1.01% as they mentioned before. The market-to-book ratio is something to pay attention to, this is not a performance issue here this is simply a measure of interest rates rising, interest rates rise and bond values fall so the market-to-book ratio goes down , this is not a bad thing it is just a reflection of the dynamics of the market. He went on to explain the next page STIF balance and the fund duration.

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

7. Callan Associates Inc.

a. 1st Quarter Performance

Mr. Taylor and Mr. Joecken summarized Callan's report to the Board.
Mr. Joecken explained their reporting on Pages 8-11. Mr. Taylor stated it is worth noting the strategies in the benchmarks some are easier to put a peer group to than others given the 80/20 mixture here there are not many that have the 80/20 policy benchmark so in a case of the AMEA the peer group is maybe less of a meaningful comparison than it would be for example for the AMIA because that is a more typical allocation so with each of these it is important to note that the peer groups are going to be more or less diverse or more or less specifically tailored toward these asset allocations, you won't probably find an index that is going to be 80% US and 20% International so just bare that in mind when you look at the numbers.
Mr. Joecken reported on Page 12 in the AMIA seven of the eleven underlying managers

beat the benchmarks over the past five years, six of eleven didn't. The two passive funds at the bottom of the page they do not have peer group rankings for them because they are passive and so their ranking is going to depend on the market. On Page 13 the BSCA four of nine beat their benchmarks over the past five years and five of nine beat their peer group medians over the past five years and then the Stable Value Account is at the bottom of the page.

Ms. Daun stated the information is helpful, however, if there are red flags or things that Callan thinks are worthy of note either on a positive or negative side; an executive summary page would be helpful. She explained a page or two summarizing what Callan's high level take on a lot of this analysis is would be helpful and if it can be annotated (i.e. here is the summary point see these pages if you want additional detail about the substance). Mr. Taylor will include that information as a separate memo to their report. Mr. Klajbor stated that we most certainly want to have things red flagged that Callan thinks needs the Board's attention and those where we may have to take an action so we can notice that appropriately too ahead of time. Mr. Taylor assures the Board as Callan becomes aware and progress in their services that if there are items where they think there is a need for immediate action, they will be contacting the appropriate folks intra-quarter as those things arise and part of their e-mail notification service is designed to do that as well.

Ms. Daun stated and to the degree that the commentary that Callan provided that Cleary Gull wants to be looped in on so that obviously there is some oversight that is happening and we want an integrated set of commentary that is digestible. She stated that they have been good about pointing out the differences between the benchmarks and she would encourage them to continue to remind both the Committee and the Board as to where those differences lie but that where possible sort of integrate the presentation on those key points not that you need to produce a joint product but that you both understand what the other hand is doing.

Mr. Taylor stated there was a slight change that Callan brought up about how to calculate performance based on the rebalancing and NAV which has brought the performance numbers in line for some of the core portfolios based on the methodology that they have been following with Nationwide as well. He stated Nationwide, Callan and Cleary's numbers for the unitized portfolios all should line up precisely; the gap has been closed as of this quarter.

**Motion was made to convene in closed session at 2:25 p.m. for Item #7b, 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.

b. Northern Trust Contract**

Motion was made to reconvene in open session at 2:32 p.m. Roll call taken and hearing no objections so ordered.

8. Charles Schwab PCRA – 1st Quarter Report

Mr. Dziadowicz reported there are $45 million dollars in assets with a total of 367 accounts; there were six new accounts opened this quarter

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

9. Executive Director Report

a. 2013 P&I Conference Summary

Mr. Dziadowicz reported he attended the 2013 P&I Conference; he gave an overview of the summary he submitted to the Board. He reported the trend is towards custom target date funds.

Mr. LeLaurin commented on custom target date funds one of the things they are seeing with some of their stable value plans is they are creating custom target date funds and one of the purposes is they can use stable value in the glide path so instead of putting a money market fund as the conservative part which is kind of a standard thing to do, replace that with stable value which has a higher yield so it ends up being a better performing target date glide path. Mr. LeLaurin stated simplistically you just replace the money market element with a stable value element in the exact same target date fund; you've got to get better performance because stable value is outperforming money markets. He stated it only works with a custom target date fund not the off the shelf.

10. Participant Correspondence***

Mr. Morics stated if someone takes the time to write this Board, this Board should take the time to review it. He reviewed the Nationwide response and it seems to be responsive. Mr. Morics would like Mr. Dziadowicz to review the Nationwide response and determine if the client is for the most part factually correct to share that with the participant. He stated there are several things that happened and we could certainly become finders of fact on this, he would like to avoid that if he could and that is to let Staff review this and then share Nationwide's response.

Motion was made to have the Executive Director investigate this and report back to the Board and in the interim he is to communicate to the participant that is what we are doing. Hearing no objections so ordered.

14. Informational Items – News Articles

Informational only. Placed on file.

There being no further business, the meeting was adjourned at 3:38 p.m.

Ref: 0508min14