

**CITY OF MILWAUKEE**  
**MINUTES OF THE DEFERRED COMPENSATION BOARD**  
**MEETING OF WEDNESDAY, NOVEMBER 19, 2014**  
**9:30 A.M. - ROOM 405, CITY HALL**

**MEMBERS/DESIGNEES PRESENT:**

Mr. W. Martin Morics, Plan Member, Chairman - left at 11:50 a.m.  
Mr. Jerry Allen, ERS Director – left at 11:55 a.m.-returned 12:13 p.m.  
Mr. Mark Buetow, Milwaukee Police Association  
Ms. Margaret Daun, Assistant City Attorney – left at 11:30 a.m.  
Ms. Renee Joos, Fiscal & Risk Manager  
Mr. James Klajbor, Deputy City Treasurer, Vice Chair  
Mr. Steven L. Mahan, Community Development Grants Administration  
Mr. Mark Nicolini, Budget Director – left at 11:12 a.m.  
Ms. Sandra Rotar, DCD - Finance & Admin. Manager

**EXCUSED/ABSENT:**

Mr. Nicholas Kovac, Alderman – excused  
Mr. Joe Davis, Sr., Alderman – excused

**OTHERS PRESENT:**

Ms. Wendy Stojadinovic, Cleary Gull Advisors  
Mr. Brian Andrew, Cleary Gull Advisors  
Mr. Mike Studebaker, Nationwide Retirement Solutions  
Mr. Levi Lathen, Nationwide Retirement Solutions  
Mr. Kris Morton, Nationwide Retirement Solutions  
Mr. Michael Joecken, Callan Associates Inc.  
Mr. Ben Taylor, Callan Associates Inc.  
Mr. Jeff Deetsch, Invesco  
Ms. Dyice Ellis-Beckham, Invesco  
Mr. Steve LeLaurin, Invesco  
Mr. Andy Apostol, Invesco  
Mr. Timothy Bryan, Prudential Retirement/A Prudential Financial Company  
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 9:33 a.m.

**1. Approval of the August 6, 2014 Board Meeting Minutes and Special Meeting of October 1, 2014**

Mr. Morics stated that copies of the above minutes had been distributed to the Board members.

Motion was made to approve the minutes as distributed. Hearing no objections so ordered.

**2. Plan Participant Benefit Approvals and Denials for the period of July, August and September 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. It was moved to approve the hardship withdrawal requests. Report accepted as submitted. Hearing no objections so ordered.

**3. 2015 Proposed Meeting Dates**

Mr. Morics stated the dates will be received and placed on file. Mr. Klajbor made the Board aware that the EFC recommends moving back the Board meetings so we can have additional reports which will all be explained later in the Administrative Rule changes. Mr. Morics stated let's move on then.

**4. Financial Literacy Sub-Committee Report**

a. Recommendations to the Board

Mr. Klajbor stated ideally a Financial Literacy or Financial Wellness program needs to be made a permanent part of the City's Employee Wellness Program or its Employee Assistance Program. There are numerous reports that indicate if people don't experience financial wellness they also experience health issues and so many employers now are integrating the two.

The Board's primary focus should be assuring participants understand the Plan and its investment options this becomes even more critical with the numerous and rather dramatic changes that are being contemplated then researching possible participant financial education programs deemed relevant and appropriate delivery methods and channels which could be the website, lunch and learns, even being part of the open enrollment where you have those fairs and then educating Board members on their fiduciary responsibilities because again if the Board is going to be taking on more responsibility for investment oversight we need to make sure that Trustees understand the

responsibilities.

The Plan is one means that can assist members in achieving financial viability in retirement as it relates to healthcare costs.

The recommendation is that the FLS be renamed the Communication and Education Committee (CEC) which is more appropriate to its role become a permanent Committee of the Board they are suggesting that it would be five Board members appointed by the Chair, the Committee would elect its Chair amongst its members at the first meeting subsequent to the Board meeting and then the Committee would be tasked with the primary focus explained above.

Mr. Klajbor stated one of the things they are hoping the Board will be open to is automatic enrollment, auto enroll and auto escalate and again there are numerous studies out there that show this is very effective more employers are going in that direction so you actually have to opt out and then that is kind of forcing folks to save. The City Attorney's office is currently researching an opinion on whether that would be feasible or not but we are hoping the Board would be open to it. Mr. Nicolini would ask that the folks touch base early on with Ms. Ford from Labor Relations to determine what percentage of the membership in the City still has collective bargaining rights, check and see what those implications are.

Mr. Klajbor explained there are employee savings expos, a number of employers have done that maybe we could even make it part of the open enrollment fairs where people have an opportunity to go to different sessions. Lastly there is a sample from the Dallas Federal Reserve Bank a beginners guide to securing your financial future that is available to everyone, it is a pdf we could at a minimum post it on our website.

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

## **5. Executive Finance Committee Report**

### **a. City Attorney opinion regarding automatic enrollment, escalation and re-enrollment**

Ms. Daun stated the opinion request submitted to the City Attorney's office regards the legalities and would therefore implicate any collective bargaining issues that may arise related to auto enrollments, presumptively those would be therefore then covered in any City Attorney opine on such matters. This is more of a point of fact for the Board that that opinion request has been submitted.

### **b. Administrative Rules: Personnel and Communication and Education Committees**

Ms. Daun walked the Board through the corrections/revisions. The first correction that you see on Page 2 is simply adjusting the Board meetings from the first Thursday to the

third Thursday of each month that is to primarily allow Callan sufficient amount of time to prepare their reports on a quarterly basis so that they are finalized and ready for the Board to review them. This indicates those meeting dates shall be presented to the Board for adoption at its last meeting of the calendar year, that is today. She will make a subsequent motion initially is a point of parliamentary procedure and then secondly as a substantive motion that we do in fact adopt the meeting dates that have been proposed and that the regular meetings shall not be rescheduled unless a majority of the Board agrees to those reschedules.

Ms. Daun stated at the pleasure of the Board we can take any or all of these changes either as a unit at the end of the description or individually if there is discussion that the Board would like to have on any of these individual changes. Mr. Morics stated why don't we take this as a single action unless any Board member wants separate action on something please let the Chair know otherwise we will take these as a body.

Ms. Daun – Page 3, Item 11 this is simply a hiccup from our earlier hardship changes this need not exist anymore because we have an entire section in the Administrative Rules on hardships.

Page 4 – the EFC changes, most of the changes that you are going to see in the EFC section are simply to make it more uniform to group like issues together within the Rule and then to have the same format for each of the EFC, the new Communication and Education Committee (CEC) and the Personal Committee (PC) which she will be speaking to in a moment. Also it specifies the number of members and doesn't leave it up to potentially an open-ended membership, this is done for two reasons 1) five is an odd number you will always therefore hopefully have disposition of any given motion i.e. it is not an even number of members and 2) it does not constitute itself a standing quorum of the full Board so that was the logic behind that particular number and also the fixing of the numbers of that Committee you are going to see that same format now throughout the other Committees. there was no change other than those two issues.

The second change made in point 2 is that at its first meeting there shall be an election of a Chair and Vice Chair but that shall occur subsequent to the first Board meeting of the year. For example this year our first EFC meeting will occur ahead of the first full Board meeting of course you would want the newly elected Board Chair to have the opportunity to appoint two members to the EFC and then have those two new members then vote on that Committee's Chair and Vice Chair, point 3 this is just a clean-up there is no substantive change just moving some things around. The other changes in the EFC Administrative Rule again are none substantive just some reorganization so the substance remains the same.

The next Administrative Rule is creating a Communication and Education Committee (CEC) as a permanent standing Committee, again five Board members appointed by the Board Chair, again first meeting will be subsequent to the first Board meeting of the year to elect Chair and Vice Chair. In point 3 the meeting schedule was set for same those

meetings again similar to the Board meetings will be adopted and changed only by motion and then point five then sets forward what the modus operandi or purpose of the CEC shall be which Mr. Klajbor already summarized.

The Personnel Committee (PC) as a permanent committee comprised of the following five Board members, these Board members were chosen for either or both of the following reasons 1) because of their function in City government have exposure to HR and personnel issues and/or interact most frequently with the Board's and the Plan's staff and/or vendors so those are the selected Members of course you could have someone like herself under this new Rule she both sits as the City Attorney's designee and she is the current Chair assuming reelection to the Head of the EFC therefore she would be listed both times here in this list of personnel and hence the Board Chair would therefore need to designate one or more members to that Committee in order to finally fill that Committee out to a total of five members. She stated the only interesting point here is the suggestion under point 3 they are mandating at least four meetings during the calendar year 2015 to establish personnel formalize job descriptions and evaluation procedures. We thought that likely four meetings would be necessary in 2015 subsequent to that in calendar year 2016 the meetings shall be at least twice a year but up to the timing of that being to the discretion of the PC's Chairperson that to enable both evaluation and feedback from staff and/or gathering other information necessary for that feedback and then again point 4 sets forth the main purposes for that Committee. Mr. Klajbor pointed out the thing that is different between the PC, the Board, the EFC and the CEC is that the Chair of the PC would appoint a member of the Committee to serve as the Secretary so we don't have the awkwardness of Plan staff documenting whatever happens, that has been considered as well. Mr. Klajbor moves approval of the Administrative Rules as drafted.

Mr. Morics stated he was doing the math and we now have as a Board three Committees of five members each with the Board Chair as required to be on PC. What you are looking at is a future where each member will be on one likely two Committees and it will be a lot more active time for this Board as it will with changes so his comment is because he will not be succeeding himself as Chair this year he will be stepping down, he will finish out his term as Chair but then he will be resigning from the Board. He would say that whoever is the next Chair is going to have their hands full they should think of that before the first meeting of really crafting and creating these committees and getting the consensus and getting Chairs of these committees who are really committed to and understand the goals of these committees and getting them to work. He thinks it is a great structure, the only way it wouldn't work is for lack of trying on the Board's part but he thinks we have the talent on this Board. Mr. Morics stated with that any other editorials. Any objections? Hearing none so ordered.

Mr. Klajbor moves for reconsideration of Item #3 – 2015 Proposed Meeting Dates. Mr. Morics stated Item 3 is back before us and Mr. Klajbor moves approval of the meeting dates as submitted. Hearing no objections so ordered.

**c. Project List**

Ms. Daun stated there was no central repository of the ongoing projects it made it very hard to coordinate across minimally three to four vendors plus number of committees that may be involved to deal to varying degrees with these issues and the Board, this is more informational it is to be maintained by Plan staff. She is not going through the detail here. It is going to be a moving document so it will be changing periodically largely she thinks in response to work projects that move forward and input from Callan and Nationwide as to many of these issues. If any Board members have specific questions about issues or tasks that are listed, they are best directed to the Executive Director.

**d. City Attorney Opinion/Assistance Requests**

Ms. Daun stated it is fairly self-explanatory we are trying to put some dates on things this will be used as a tracking mechanism. Mr. Morics stated we have this at every single ERS Board meeting it is a good tracking tool.

Mr. Morics wanted to make an announcement for the record and that is we have formally received word since our last meeting that the 2017 NAGDCA conference has been awarded to Milwaukee and will be coming here. He stated we had the Mayor, County Executive, then President Hines, Alderman Murphy, Frank Gimbel all come out and he would like to now formally write them and thank them. Ms. Daun informed the Board's that Visit Milwaukee which is an arm of Convention and Visitors Bureau which was instrumental in helping coordinate for that and they are going to be issuing a press release will then be added hopefully and run in the Business Journal so she thinks that would be a nice springing off point to then do whatever personal reach out is appropriate and she will get a copy of that release in the next couple of weeks.

Mr. Morics stated his was just a letter of thanks to those five individuals; he will work with Ms. Bieszk to send those.

**6. Vendor Contract Extensions**

Mr. Dziadowicz pointed out that there are four contracts that are expiring in 2015 some of them early in the year and basically what we need to do is an authorization from the Board for the EFC to negotiate contract extensions for those vendors and proceed with RFPs where appropriate, we probably need to extend them before we proceed with an RFP because there may simply not be enough time to do an RFP for some of them. They have a list of the expiration dates as well as a vendor list detailing the function of each vendor and the contract dates and termination provisions that are attached to the cover memo.

Mr. Klajbor would recommend that the Board authorize the EFC to negotiate the extensions and proceed with RFPs if appropriate and then continually report to the Board.

Ms. Daun a point of clarification you're talking about 1) a recordkeeping RFP which likely would stand alone right you're talking about subsidiary RFPs if necessary to replace Cleary which it doesn't look will be necessary but we have no idea what the Board's pleasure will be. In other words she is looking at this motion and just thinks it is too aggregated at this point. Ms. Daun is requesting as EFC Chair does the Board anticipate that individual Board votes are going to be required for each individual extension and for each individual RFP if so the motion should specify that. If it is to negotiate contract extensions in conferencing with the approval of the City Attorney's office, the motion should technically state that just so we know what the scope of our delegation is. Mr. Morics has always taken the Board as a body unless specifically delegated then any subcommittee can't negotiate a contract. Mr. Klajbor stated they can negotiate it but they can't approve it. It has to come back to the Board. Ms. Daun suggests that we more specifically denominate the motion so that she thinks the Committee has very clear limits to its delegation and what should be done i.e. add in subject to Board approval of each contract and each RFP. Mr. Morics stated to be brought back to the Board for approval that is what you really are doing. Ms. Daun that is fine and with the City Attorney's office. Mr. Klajbor moved after being vetted by the City Attorney's office and approved by the Board, he is open to that friendly amendment. Hearing no objections so ordered.

## **7. Nationwide Retirement Solutions**

### **a. Loan Program Update**

Mr. Lathen reported that April 14, 2014 the loan program started. The first day of the loans they initiated 67 loans as of the end of this quarter there are 973 loans outstanding for approximately \$15.9 million, the bulk of the loans are going for general purpose loans there are few primary residence loans to date. He reported eleven loans have defaulted which at the end of the year there will be tax consequences, the participant will be sent a 1099.

Mr. Lathen informed the Board through the creation of the loan process they did have one missed step. They had eight individuals who were allowed to take out two general purpose loans. He did talk to Mr. Dziadowicz about that and it has been corrected – based on the Plan guidelines they are only allowed to take out one general purpose loan and one primary residence. Mr. Klajbor asked what caused that to happen was it just like a computer thing. Mr. Lathen stated it was a computer glitch, there were two switches and one was turned on and one was turned off that allowed a participant to take out more than one loan.

### **b. Loans: Roth Source Recommendation**

Mr. Lathen reported when they set up the loans they do not calculate the Roth

contribution when they do the calculation they just use the traditional 457 money to do the calculation, the Plan does now have that option for participants to use both Roth money and traditional 457 money to use both of those buckets of money to do the calculation so the question he has is would the Plan like that to happen it is just a matter of turning a switch on, Nationwide just needs direction from the Board. Discussion ensued. Ms. Daun stated so your point was if they use post-tax Roth dollars and they default, the tax consequences are more adverse than they would be in a default situation with pretax. Ms. Daun stated if the Board is comfortable with moving forward based on that analysis then we would assume that for most people the default should remain pretax dollars of course if you have a participant that only has money from post-tax Roth that you would allow them to take loan from that. Mr. Allen as he understands one of Mr. Lathen's suggested alternatives is to allow the Plan to count the Roth money towards the amount that is available for the loan but the loan will only be pretax dollars. Mr. Lathen stated correct. Mr. Klajbor stated so no action needs to be taken at this time.

Ms. Daun stated as a point of clarification as to the loan updates and those issues she would like to specify what are our instructions even though we are not going to require action items are 1) is that we presume that available loan amounts will be calculated based upon post-tax Roth plus the pretax monies and we are assuming that is completely acceptable under all the applicable IRS code provisions and it doesn't end up with an eligibility problem with the Plan and 2) the loans are to be presumptively coming from pretax dollars in all cases unless a participant is anomalous and only has on Roth availability in which case the Plan will accommodate that. She stated they had also made note in their memorandum about the 60-month maximum loan period for general purpose loans and it appeared that you were requesting that we provide instruction as to whether or not we wanted to continue with 60-months as the maximum loan period for general purpose loans. Mr. Lathen they wanted to clarify because of the way the language is written in the actual agreement but the maximum is 60 months under Law. Ms. Daun stated the Board's instruction is that will remain the same if he believes a language change is necessary to clarify that point in the loan agreement, do make the recommendation so that it is clear to participants that is the maximum. She would suggest the Executive Director make suggestions to Administrative Rule changes as to the Roth and pretax dollar issues that we just outlined to our Administrative Rules so that those continue to reflect comprehensively and accurately what in fact the loan program is operating at. Mr. Klajbor stated there might be something in the Operating Procedures as well.

c. Interactive Retirement Planner Update

Mr. Lathen explained the Interactive Retirement Planner. The planner allows participants to take an in-depth look at what it takes to retire. They can launch the calculator and collect data on their current salary, salary increases that they may receive, the spouses information, outside assets for them and their spouse and what will be their retirement

age, takes a look at pension, social security benefits and gives them a projection based upon what you know right now this what your retirement income looks like now. In most cases there is a gap between what they believe their retirement income is and the actual numbers. It gives them the opportunity to increase their deferral amounts, to change the way they allocated their funds, change their retirement date to see how that will impact their ability to be successful in retirement. Mr. Buetow stated he logged on and it is a very nice tool, very simple. Mr. Lathen stated all the information is saved in your own personal file so every time you log on if you have changes in your life you can update that information. It helps people plan for retirement. Mr. Klajbor asked how do we get the word out on this. He asked if DER would be open to send out an e-notify to City employees. Ms. Joos stated yes. Mr. Allen stated if Nationwide gives them something ERS can include it as a news item on the ERS website too. Mr. Lathen stated they will write up something for both groups, they will present it at their workshops; they can walk people through it. Mr. Klajbor stated then it will be in the quarterly newsletter too. Ms. Bieszk stated she can also include the direct link on the Deferred Comp webpage.

d. 3<sup>rd</sup> Quarter Plan Update

Copies of the Third Quarter 2014 Plan update were distributed and are on file in the Deferred Compensation Office. Mr. Lathen gave a brief overview of the Plan as of September 30, 2014. He reported hardship requests have decreased since the loan program was implemented; they had 24 this quarter with 21 approved.

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

**8. Callan Associates Inc.**

a. Recordkeeping RFP  
- Discussion and Action on proposed RFP timeline

Mr. Taylor and Mr. Joecken reviewed some of the differential criteria that is involved in the search process, the timeline and look at the infrastructure to assist Callan with this process. Discussion ensued.

Ms. Daun stated no one sitting at this table with the exception of Mr. Joecken, Mr. Taylor and Nationwide folks understand the level of detail and sort of specialization that Nationwide has done for us nor does she believe their current contract lists all those things out so this is going to be a key element when we move forward so that the Committee and/or the Board understands what we are looking at, that we understand Nationwide's recommendation, Callan's recommendation as we consider those. There is a ton of complexity and it hasn't been reviewed in a very long time. Mr. Taylor stated absolutely.

Mr. Taylor went on to explain the DRAFT timeline.

Callan will begin by providing preliminary results of what they have learned and strategic direction that they think is most important for the City and the Board to consider and have a candidate list of priorities and a scope of services that they think will be most appropriate they will present that in a preliminary draft for the February Board meeting or special meeting whatever is most appropriate but approximately February/March timeline for developing a draft of the RFP that describes the Plan's operations as well as goals. They will then have feedback on the RFP provided sometime in February/March back to Callan from which ever entity is providing that review. They will then take probably parts of March to incorporate that feedback and provide a revised draft of the RFP and be prepared to issue it in March. This is again predominately just the addendum in the scope of work as well as any pertinent items that are necessary to the RFP because again the core questions of how do you ask about communication or select your contributions or loans they already have covered in the database provided it is considered complete by the Board and/or its designees.

Ms. Daun stated the one thing that is not on here and she thinks we need to consider is whether or not eventually we are going to incorporate automated options and that is going to have its own communications piece that needs to be integrated she would prefer to see that in here expressly so it doesn't get lost and obviously that needs to be a criterion for the recordkeeper. Mr. Taylor stated every recordkeeper that Callan considers will have opportunity to provide auto features and will provide them largely but absent instruction as to what features should be provided and any particular implementation will be hard to distinguish them. He doesn't expect that to be a major windowing factor for someone who is likely to bid on the Plan. The communication definitely does have to be part of the timeline.

Mr. Taylor stated if you intend to package any auto features those should be approved prior to the implementation timeframe in the beginning or in the early stages of that, they will need approximately four months to communicate and program any auto features from a recordkeeping perspective setting aside anything to do with collective bargaining or other things in the interim. Ms. Daun stated her strong preference would be that we do not have separate implementation timelines that whenever the new Plan lineup happens if we are doing auto enrollment or whatever it is that all be done at once in order to avoid participant whiplash with multiple changes happening at multiple times. The City Attorney opinion is outstanding she thinks we can proceed and take either at the EFC or Board level advice from Callan on the different levers that can be switched and the different options for those pros and cons so the collective bargaining if that is even an issue and the City Attorney's opinion says we can consider these and provide instruction at the earliest possible point so that the communication strategy and then the development of those materials is incorporated all of the changes at once for the participants. Discussion ensued.

Ms. Daun stated her point was to simply ask our consultant hey can you help us put some meat on the bones so that whomever has those conversations can reach out to all of the interested stakeholders to do that we absolutely would never want to entertain anything

like this for all of the excellent reasons that we have noted but we have to have the information particularly the volumes of behavioral finance data and policy analysis on the effectiveness of these programs only then can we allow policymakers to have the appropriate data information to make a good policy informed choice and/or have that discussion with the existing collective bargaining units and she thinks as is the buzz word these days data driven policy they have to know what their options are and they also need to be armed with the numerous white papers and research points on automatic different options and there is a variety of what those options are we just don't have that information so her suggestion was if you even wanted to try to do this in one swoop sort of transition for participants we would want to start gathering that information now to engender those conversations sometime during Q1 or Q2, 2015, that was all she meant. Mr. Morics stated in a way the decision whether to do that he doesn't see that as something that is part of the Board's job description, the decision ultimately on whether to do that since it is a policy decision it is a personnel policy for the City that is why you have the City Board of Directors and they are the ones that are going to have to decide whether to do that and we can provide whatever information is needed. Ms. Daun thinks that is the purpose City Attorney's opinion, we have to find out what the Law is on that.

b. Investment Structure

- Discussion and Action on proposed investment structure implementation

Mr. Taylor stated they have the searches ongoing, the material is ready, they need to determine who the Board would prefer Callan to present that to for weighing in on finalizing those approvals but the searches are being done now for preliminary sifting and feedback and suggestion at Callan as they are coming up with their ideas for the Board and are prepared to present. They have gone through kind of an initial sift of ten managers each for asset class. He stated that component since we are on it will involve kind of two pieces and these are decisions that need to be made by the Board to transition to the structure and one is what managers you would like to select. Callan will prepare a list of managers and their thoughts on the best pairings for the timing that suits the Board, the other is how you wish to have those managers rebalanced and managed once they are selected. He stated currently both those processes are undertaken at the discretion of Cleary Gull based on manager selection as well as rebalancing, when they wish to rebalance and what portfolio Cleary Gull wishes to undertake. One option that Callan proposed and it was covered by the Board but not in this depth is how do you maintain the target weights for those portfolios. An option is to provide standing instructions to your fund custodian that unitizes them to simply rebalance within a certain range and to have triggers if they deviate to some extent and have that process be automated, the second alternative of course is to continue to employ Cleary Gull or any other entity to provide those instructions to rebalance those portfolios. The Board can pursue any number of options there but Callan is prepared to present as well an option of guidance which is what they see most normally in this industry of your peer plans is a rebalancing range with the custodian undertaking the automated rebalancing of the managers. Discussion ensued.

Mr. Taylor reviewed the timeline as proposed presuming the current instruction remains.

Ms. Daun summarized for the Board the only changes that are going to be visible to the participants, we can count on one hand it is going to be the elimination of the managed risk-based funds and movement to target-date funds that is the one change that will be visible to them, all of their building block investment options will remain identical, we will remove the Socially Conscious Balanced Fund and then presuming we do some sort of automated options that will happen that is the only changes they will see. If they want to inquire about whether or not or they are not clear if we are using unitized rebalancing we should have a piece that explains what that is but those are the only three changes that will be visible to them. Mr. Taylor stated slight modification to one of those which is that the core building blocks will remain titled the same but there will be a necessary notification that there is going to be a different proposed structure to the AMEA and AMIA that aside, that is correct.

Mr. Joecken stated there are two questions we have to answer, there are two paths we are walking down one is the recordkeeper RFP and the other is implementing the new investment structure. The question is who from this group is going to be responsible to work with Callan to make those decisions and get them made by the Board. Mr. Taylor stated Callan can proceed with one or both tracks now with Board direction, if the Board approves to direct Callan to do so, Callan would request if you do, you also provide delegation of some portion of the review process to whatever entity/staff or combination thereof to committees the Board thinks most appropriate because Callan will need to talk often on these items because they will have to have priorities given to them. Mr. Klajbor thinks the EFC is the appropriate group to do that. Mr. Morics agrees. Mr. Klajbor stated moving forward then maybe we can divvy out assignments again because he thinks it is quite clear all Board members have to have some involvement. Mr. Klajbor asked Callan then what are they asking the Board to do today. Mr. Taylor stated to approve the beginning of an RFP process for Callan including basically providing direction to Callan to begin the RFP process for recordkeeping and to approve tentatively the submitted timeline or modify the timeline if the Board wishes to set a goal date of the end of next year. Also we should address in that motion whether or not you wish to link the investment decisions now or have them defer those investment decisions for implementation to coordinate with the RFP process, those are in process now for June 30<sup>th</sup> implementation so if you can address both tracks investment and also recordkeeper.

Mr. Klajbor asked what the Board's pleasure on the timeline is. Mr. Morics stated the timeline will be received and placed on file; we are not adopting it because we are receiving it and accepting it as the road map.

Mr. Taylor stated they would actually proceed on two parallel tracks there is a period of time once they are authorized to begin this process there is a significant amount of data gathering and clarifying and documentation preparation behind the scenes where they will

be interacting predominantly with Nationwide, Mr. Dziadowicz and Ms. Bieszk so that is where they will be doing a lot of the work and so between now and the first quarter Board meeting Callan will come to you with the investment selection piece but they can also defer the RFP until sometime in the Spring fairly easily and you probably would want to have a special Board meeting to cover that particular topic because it is a rather weighty one in any event. Mr. Taylor thinks that makes the most sense to separate those discussions. Callan will need several months to review everything about your Plan and seek feedback about what should be changed and what shouldn't be changed prior to any of the rest of this so if they did this as scheduled you could still have the June 30 investment transition and the Board address these items in the first quarter while they are working on an off track without taking Board agenda time on the RFP. The RFP is something that takes a lengthy period of time and they are hoping to begin that process sooner so that they don't have that process further delayed so they can proceed parallel but not synced up it is completely fine as it is now the only difference is if you don't authorize Callan to begin now then they will do it three months behind the scenes after you do the investment transition. Mr. Klajbor stated you already have authorization to pursue the investment managers from August right? Mr. Taylor stated yes so they just need direction for the recordkeeping RFP and whenever the Board would like Callan to present the investment selection recommendations. Mr. Klajbor so according to the timeline you will have them ready for our February Board meeting. Mr. Taylor that is correct. Mr. Klajbor stated he is comfortable moving that Callan be authorized to pursue the recordkeeping RFP. Mr. Joecken just a point of clarification Callan is instructed to work with the EFC on both of these projects. Mr. Morics stated until February and then we will have a different Board, we will have the new committees and then from there we can decide how to delegate things. Mr. Allen seconded the motion. Mr. Morics hearing no objections so ordered.

Mr. Mahan stated he sees anomalies in this timeline and would like to hear it one more time how this is going to roll. Mr. Taylor stated effectively speaking from this moment forward Callan will be developing two items one will be presented at the February Board meeting for certain and that will be the investment selection recommendations for the investment structure. Provided those recommendations are approved those investment selection recommendations will also include a rebalancing policy or instructions for rebalancing so that would be Cleary Gull's involvement, or Northern Trust or whoever else for maintaining those portfolios so a complete set of instructions for investment selection as well as rebalancing upon approval then Nationwide begins to communicate those changes over approximately a 90-day period and begin to execute them. That process is complete upon Board direction in February for execution June 30, 2015 or whatever date the Board designates but appropriate timeline for notification to participants. He went on while Callan is doing that Mr. Taylor's group will be working on gathering the due diligence information and preparing the considerations for the RFP, after the February Board meeting at the Board's pleasure Callan can present a draft RFP or their preliminary findings for that process sometime between the first quarter Board meeting and summer. Callan would need to have Board direction to issue the RFP. It is

actually easier for the recordkeeper to execute any transition, any date other than 1/1; it is usually easier for City auditors to have an end of the year transition. So basically sometime in Q2 or early Q3 Callan would begin the process of issuing the RFP they would need to have at least one special Board meeting during which they receive full airing for the Board of the strategic direction chosen so that is the effective timeline that is contemplated at this point. You would see mid-summer for the transition, you would see end of the year at the earliest for any potential recordkeeper changes for the incumbent changing services or for any new provider. Mr. Mahan stated at the same time we have the EFC looking at the extension of contracts. Mr. Morics stated yes. Mr. Mahan that is why he sees so many anomalies in this. Mr. Morics stated the Board is going to have to figure out a way to kind of broaden the workload because the EFC has day jobs too. Mr. Mahan stated exactly. Mr. Taylor stated yes these processes when you have a single point of contact often are done start to finish in 6 months so we are looking at 13 months here for the recordkeeping. Mr. Morics stated the motion is on the floor. He asked any further discussion or objections hearing none the motion carries.

c. 3<sup>rd</sup> Quarter Performance Review

Copies of Callan's 3<sup>rd</sup> Quarter Investment Measurement Service Review dated September 30, 2014 had been distributed and are on file in the Deferred Compensation Office.

**9. Cleary Gull Advisors Inc. – 3<sup>rd</sup> Quarter Investment Performance Review**

Copies of the Cleary Gull Advisors Performance Review were distributed and are on file in the Deferred Compensation Office.

Mr. Andrew summarized the performance of the accounts. He reported the performance on the equity side is generally behind benchmark and there are three reasons for that they have a very significant divergence between domestic and international equity, a very significant divergence between actively managed equity and passive equity and a significant divergence in the performance of high quality versus low quality stocks. The performance on a year-to-date basis is behind the blended benchmark for the active portfolios and about flat for the AMIA although on a longer term basis remains ahead.

Ms. Stojadinovic reported the AMIA performance on a year-to-date basis the account is trailing by just a smidge but it is holding in there it is pretty much benchmark-like performance on a year-to-date basis. If you look at a one-year basis at 5.22%, they are outperforming by about 127 basis points and then on a five-year basis it is outperforming by 146 basis points relative to the benchmark. She went on to talk about volatile performance and funds that were added to the AMIA.

Motion was made to receive Cleary's report and place on file. Hearing no objections so ordered.

Mr. Andrew reiterated Mr. Taylor's earlier comment that with direction from the appropriate parties Cleary would have the ability to move these portfolios in the direction of being closer allocated between active and passive the way the proposed portfolios would be. Cleary would be happy to work with the group on that at a time deemed appropriate.

#### **10. Invesco Advisers, Inc. – Stable Value Portfolio Strategy and 3<sup>rd</sup> Quarter Performance Update**

Ms. Ellis-Beckham introduced Andy Apostol-Client Portfolio Manager who works with Mr. LeLaurin. She stated there have been no changes on the overall operational level that would impact the management of the portfolio.

Mr. LeLaurin gave an update on the stable value market. He reported right now they have more wrap capacity in the stable value market than they have had in the last ten years there is plenty of supply for wrap contract issuers. If there is a lot of supply, will the fees come down? More than likely what will happen is the additional supplies will put a cap on the rising fees, fees have gone up over the years and sort of topped out at 20 basis points and that is where about the Plan's SVF averages, they don't expect those fees to go down maybe they will taper down a little bit as time moves on maybe they will down to the mid to high teens but they don't expect them to go up anymore. In that sense Invesco thinks the stable value market is a healthy market and you add to that the interest rate market has been relatively stable, the interest rates are very low so crediting rates are low but there is not a lot of volatility in the fixed income markets that results in relatively calm times in the stable value world. They sort of expect interest rates will rise over time and the design of the portfolio is to take advantage of that and operate successfully during a period of rising interest rates.

Mr. LeLaurin will be retiring the end of February, Invesco has a process called auto-upgrade and the auto-upgrade is going to be Mr. Apostol sort of being the auto-upgrade as Mr. LeLaurin leaves the account. Mr. Apostol worked for Invesco for a long time and then he left to pursue other stable value endeavors and has come back to Invesco this year.

Mr. Apostol gave an overview of the overall structure of the Stable Value Fund. The lowest duration is the cash piece that is 5% that serves as the primary liquidity buffer and day-to-day inflows and outflows as participants move money in and out of the portfolio. The yield curve the short duration portfolio is roughly a 2 1/2 year duration that allocation is 45% that gives them a secondary or back up source of liquidity if they need to change duration, rebalance the portfolio, add to the liquidity buffers as a secondary source there and then the third component is the intermediate investment rate the duration of that piece is roughly 3.8 years and that is a 35% allocation and the last component is the core mandate which is a 15% allocation and the core benchmark is now slightly longer than five years so it really gives them the opportunity invest all along the yield curve. The actual portfolio allocation the STIF is down at 2% and that is a result of negative cash flows, they are comfortable with the

overall allocations here, short duration is at 49% and you will see of the managers they have listed there and they way those are constructed is those are all liquid comingled funds. For example the Invesco short duration component that is a \$13 billion portfolio it has 946 securities, you have roughly a \$40 million slice within that portfolio so you get the benefit of extensive amount of diversification through using those funds, a very cost effective approach to accessing those. So you have multiple managers in each of the component pieces.

The supplement that was handed out shows the portfolio positioning from quarter to quarter it is not going to change significantly on a quarter over quarter basis. Mr. Apostol explained how to read the report and the compiled data. He reported there are seven managers in the portfolio, the largest exposure is Invesco at roughly 25% but per the guidelines an asset allocation per manager is 30%, you have five wrap contract issuers their maximum allocation is 22.5% per guidelines 25% so they are well within the guidelines and targets for all managers and wrap allocation.

Mr. Deetsch reported PIMCO is one of their largest managers. Invesco has decided to retain them as a manager for right now they like to differentiate what PIMCO offers the marketplace and what you might read about in the press. The PIMCO that is in the SV portfolio are Invesco only comingled funds that are very restrictive in their investment guidelines and constraints so as an example PIMCO considers Invesco's portfolios nondiscretionary these are not in the total return fund these are not retail funds Invesco has a separate portfolio manager who also is on the Investment Committee. Invesco does have them under sort of a heightened level of scrutiny however as a result of their management changes Invesco thinks they are ultimately going to be net positive. They have a lot of very smart and very well established portfolio managers and portfolio team so Invesco felt that it is prudent to keep them right now and keep them under a heightened scrutiny. He stated because of the way Invesco's funds are structured they have a lot of attention from PIMCO, Invesco has over a \$5 million dollar relationship with them so they have some negotiating prowess with them he supposes and the communication has been good and right now they will retain them as a manager.

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

#### **11. Charles Schwab PCRA – 3<sup>rd</sup> Quarter Report**

Copies of the 3<sup>rd</sup> Quarter 2014 Charles Schwab PCRA report was distributed and are on file in the Deferred Compensation Office.

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

## **12. Executive Director Report**

- a. 2014 NAGDCA Conference Summary
- b. Commentary regarding *Tussey v. ABB* (8<sup>th</sup> Cir. 2014)
- c. 2015 IRS Deferral Limits
- d. Mercer's contract termination

Mr. Klajbor stated in the interest of time, everybody has had an opportunity to look these over, any comments or questions. Receive and place on file, hearing no objections so ordered.

There being no further business, the meeting was adjourned at 12:10 p.m.