

**MINUTES OF MEETING**  
**STATE OF WISCONSIN**  
**DEFERRED COMPENSATION BOARD**

**Tuesday, May 14, 2002**

**Department of Employee Trust Funds**  
**801 W. Badger Rd., Conference Room GB**  
**Madison, Wisconsin**

**BOARD PRESENT:** Edward Main, Chair  
Peter Ullrich, Vice-Chair  
John Nelson  
J. Jean Rogers

**BOARD NOT PRESENT:** Martin Beil, Secretary

**PARTICIPATING STAFF:** Eric Stanchfield, Secretary  
Dave Hinrichs, Executive Assistant  
Pam Henning, Director, Office of Strategic Services  
Mary Willett, Director, Deferred Compensation Program  
Janet Klosterman, Board Coordinator

**OTHERS PRESENT:** John Brandt, Janus Fund  
Lincoln Carman, Dreyfus Premier Third Century Fund  
Maureen Geary, Dreyfus Premier Third Century Fund  
Mike Jeffery, Nationwide Retirement Solutions  
Larry Jones, NCM Capital Management Group  
Holly Lemerond, Barclays Global Investors  
Curt Morrow, Nationwide Retirement Solutions  
Sue Oelke, Nationwide Retirement Solutions  
Sonya Park, Dimensional Fund Advisors  
Blain Rollins, Janus Fund  
John Saari, Legislative Audit Bureau  
Lawrence Spieth, Dimensional Fund Advisors  
Marc Spritzer, Janus Fund  
Ryan Wagner, T Rowe Price  
Chip Wendler, T Rowe Price

Edward Main, chair, called the meeting to order at 1:08 p.m.

Mr. Main announced that Peter Ullrich's term on the Deferred Compensation Board will expire in July and that Peter has decided that he would not seek reappointment. Mr. Main introduced a Board resolution recognizing the contributions that Peter Ullrich has made as a member of the Deferred Compensation Board and its Investment Committee for the past thirteen years. Peter was presented with a plaque from the Governor and one from the Board to honor his service.

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**Consideration of Minutes of Previous Meeting**

**MOTION:** Mr. Nelson moved acceptance of the minutes of the November 8, 2001, meeting as submitted by the board coordinator. Mr. Ullrich seconded the motion, which passed without objection on a voice vote.

**Election of Officers**

**NOMINATION:** Mr. Ullrich nominated Ed Main as chair, John Nelson as vice-chair and Marty Beil as secretary. Ms. Rogers seconded the nomination.

**MOTION:** Hearing no further nominations, Mr. Ullrich moved to close the nominations and cast a unanimous ballot for Ed Main as chair, John Nelson as vice-chair and Marty Beil as secretary. Ms. Rogers seconded the motion, which passed without objection on a voice vote.

**Appointment to Investment Committee**

**MOTION:** Mr. Nelson moved appointment of Ed Main to the Investment Committee. Mr. Ullrich seconded the motion, which passed without objection on a voice vote.

**Annual Investment Performance Review**

Curt Morrow from Nationwide Retirement Solutions (NRS) presented information to the Board regarding the performance of the Wisconsin Deferred Compensation Program's (WDC) core investment spectrum. Staff noted that the Investment Committee had reviewed a draft report in March. As a result of the preliminary review, staff and committee members recommended to the Board that three funds be examined more closely because of their failure to meet performance benchmarks. Portfolio managers from the T Rowe Price International Fund, Janus Fund and the Dreyfus Premier Third Century Fund were asked to attend (in person or via conference call) to provide additional information on their fund's performance. All three companies were represented at the meeting as follows:

- T Rowe Price International Fund – Chip Wendler, Portfolio Specialist; Ryan Wagner, Client Manager (both in person)
- Janus Fund – Blain Rollins, Executive VP and Portfolio Manager (by phone); John Brandt, Client Manager; Mark Spitzer (in person)
- Dreyfus Premier Third Century Fund – Maureen Geary, Dreyfus Investments, Senior Account Manager; Larry Jones, Chief Investment Officer, NCM Capital Management Group; Lincoln Carnam, Portfolio Manager [Dreyfus for social responsive screening] (all by phone)

The fund representatives (noted above) provided information to describe investment practices and expectations of future performance. Based on this additional information, the Board determined that the Janus and T Rowe Price Funds continued to be acceptable for offering to participants of the plan. They expressed concern regarding the Dreyfus Fund and directed staff to work with the Investment Committee members to

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explore other socially responsible funds and determine if an alternate fund exists that would be more appropriate for the WDC. Staff stated that they would prepare a report for the Investment Committee on socially responsible funds for their review and schedule a committee meeting for August. Any recommended action to replace the Dreyfus Fund would then be presented to the Board at their November 2002 meeting for implementation in 2003.

The presentations and supporting discussion took longer than anticipated. Consequently, in lieu of the full PowerPoint presentation, Board members were provided with a printed copy of the statistics overview presentation. A modified report will be presented at the November Board meetings to allow discussion.

### **Report on Plan Administrative Expenses and Revenues**

Mary Willett reported on the status of plan expenses and revenues and proposed that WDC participant fees remain at the current level. She noted that this was recommended because of current market conditions and the uncertainties of the direction that participants will take with future investments that can affect mutual fund provider revenues. Sufficient funds to cover annual costs are being generated by fees and reimbursements without reducing the surplus balance. However, should investment performance in 2002 result in another loss to total plan assets and if participants continue to move assets to funds not providing a reimbursement, there could be a significant reduction to the revenues generated from provider reimbursements in 2002.

Although a fee reduction of approximately 5% could be considered at this time, Ms. Willett noted that this would have minimal impact on participants and, considering the time and expense to accomplish a reduction, does not appear warranted. The Board concurred that participant fees should be maintained at their current levels. Ms. Willett noted that a more comprehensive analysis with a possible recommendation for fee changes would be presented at the November meeting.

### **Update on Manager Selection for Stable Value Fund**

Ms. Willett informed the Board of an action approved by the Investment Committee at their March meeting to add another sub-advisor to the WDC's stable value fund. Galliard Capital, with consultation of Department staff, recommended the addition of Peregrine Capital Management to compliment the styles of the other two sub-advisors, PIMCO and Bernstein Alliance. WDC assets would only be placed with the new manager when the market conditions would provide enhanced returns.

**MOTION: Ms. Rogers moved to accept the Investment Committee's recommendation and affirms their decision to add Peregrine Capital Management as a sub-advisor of the stable value fund. Mr. Nelson seconded the motion, which passed without objection on a voice vote.**

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**Status of Implementation of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA)**

Ms. Willett noted that amendments to the Plan and Trust Document, approved at the November Board meeting to address changes to Section 457 resulting from the Economic Growth and Tax Reconciliation Relief Act of 2001, continue to be on hold because of the state income tax conformance issue. The current budget reconciliation bill (being considered in conference committee) includes the EGTRRA update. If enacted, it would conform state income tax laws to the December 31, 2001, Internal Revenue Code. The WDC would then begin implementing the plan enhancements allowed in the amended plan document. If state income tax laws do not conform to EGTRRA before the end of the year, alternate plan document amendments will be needed to maintain the federal tax qualified status of the plan for 2002. Ms. Willett asked the Board to delegate authority to the chair to sign an amended Plan and Trust Document, if needed, to address state income tax law non-conformance with EGTRRA.

**MOTION: Ms. Rogers moved to delegate authority to sign a plan document amendment to conform to the mandated Internal Revenue Code requirements to the Board chair, as requested by staff. Mr. Nelson seconded the motion, which passed without objection on a voice vote.**

**Miscellaneous**

Items under miscellaneous were identified, including information from fund providers, routine reports on hardships, plan assets and participation status, and participant communications.

Ms. Willett also noted that proposed Section 457 regulations were issued by the Department of Treasury last week. These long awaited regulations cover all aspects of plan administration and the WDC appears to meet most, if not all, of the mandatory requirements. Some changes to the plan document may be needed in consideration of the regulations, which would be presented to the Board at their November meeting. One permissive enhancement that staff will be evaluating pertains to participant loans, as the new regulations permit 457 plans to adopt a loan feature.

A discussion was held regarding the feasibility of initiating a loan provision in the WDC. The Board concurred that this should be considered but with a conservative approach to protect participant assets for retirement. Ms. Willett noted that a report regarding loans will be presented at the November Board meeting.

**Barclays Global Advisor Contract Amendment**

Ms. Willett reported that at their March meeting, the Investment Committee reviewed an amendment to the contract with Barclays Global Investors (BGI) for management of three commingled index funds in the WDC investment spectrum. The purpose of the amendment is to state that BGI will waive certain costs that would normally be assessed against the assets in each fund to improve the performance of these options as compared to their corresponding index. Staff and the committee members recommended that the Board approve the contract amendment.

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Ms. Willett explained that a tracking error (difference between fund performance and the corresponding index) was identified in December 2001 for the three BGI funds, which was initially attributed to auditing fees that were being assessed against the assets in each fund. Although the auditing fees were relatively small (approximately \$2,000 per fund), the size of the three funds (on December 31, 2001, they ranged from \$500,000 to \$4.9 million) made a significant impact on the funds' performance and how well it tracked, or corresponded to the index. BGI agreed to absorb the auditing costs and re-credit the funds with the fees that were assessed in 2001 and proposed an amendment to the contract to waive fees for each fund through December 31, 2003, or until the WDC assets in the fund total \$5 million.

Ms. Willett informed the Board that the following additional changes have been made to the BGI funds to improve how they track (or correlate) to the corresponding index.

- Report fund values to the program administrator in six-decimal places instead of two.
- Re-engineer the structure of the three index funds to hold direct units of the larger master funds, instead of units of a shadow or sub-accounts of the master funds.

These changes, in addition to waiving the auditing fees, are expected to result in a closer correlation to the master fund and the corresponding index.

**MOTION: Mr. Nelson moved approval of the proposed contract amendment with BGI. This amendment will require that BGI waive the expenses associated with administering these accounts until December 31, 2003, or until the Wisconsin Deferred Compensation Program assets in the particular fund total \$5 million. Ms. Rogers seconded the motion, which passed without objection on a voice vote.**

The Board chair signed the amendment at the conclusion of the meeting.

#### **Compliance Audit and Administrative Services Provider Contract Extension**

Ms. Willett informed the Board that the compliance audit on the Nationwide Retirement Solutions (NRS) record keeping error was concluded at the end of last year. The audit produced no problematic findings and the corrections appear to have been resolved appropriately. As a result, the Board chair had signed the contract extension with NRS (previously approved by the Board in July 2001) to extend the administrative services agreement through the end of 2005. Ms. Willett noted that a copy of the audit report and executed contract amendment was provided to the Board with the agenda materials. Ms. Willett further stated that the routine contract compliance audit for the years 1999, 2000 and 2001 was scheduled to begin in June 2002.

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**Adjournment**

**MOTION: Mr. Nelson moved to adjourn. Ms. Rogers seconded the motion, which passed without objection on a voice vote.**

The Deferred Compensation Board meeting was adjourned at 3:34 p.m.

Date Approved: \_\_\_\_\_

Signed: \_\_\_\_\_

Martin Beil  
Secretary