

MINUTES OF MEETING
STATE OF WISCONSIN
DEFERRED COMPENSATION BOARD

DRAFT

May 10, 2005
1:00 p.m.

801 West Badger Road
Conference Room GB
Madison, Wisconsin

BOARD PRESENT:

Edward Main, Chair
John Nelson, Vice-Chair
Martin Beil, Secretary
Michael Drury (via conference call)
Jon Traver

PARTICIPATING STAFF:

Eric Stanchfield, Secretary
Dave Stella, Deputy Secretary
Jon Kranz, Budget Director
Shelly Schueller, Director, Wisconsin Deferred
Compensation Program
Sharon Walk, Board Liaison

OTHERS PRESENT:

Brian Belford, Legislative Audit Bureau
Julie Bertone, Nationwide Retirement Solutions
Mark Blank, Employee Trust Funds
Mike Breller, American Funds (via conference call)
Dan Burger, Emjay Corporation
Jonathan Burnham, Advised Assets Group, LLC
Mike Cullen, Federated Investors
Rhonda Dunn, Executive Assistant
Audrey Koehn, Employee Trust Funds
Thomas Houle, Nationwide Retirement Solutions
Duane Jeffers, Great-West Retirement Services
Sari King, Administrator, Division of Retirement Services
Tom Korpady, Administrator, Division of Insurance Services
Curt Morrow, Nationwide Retirement Solutions
Sue Oelke, Nationwide Retirement Solutions
Britt Palmer, Great-West Retirement Services
Matt Riebel, Nationwide Retirement Solutions
Kerry Robinson, Nationwide Retirement Solutions
Gregory Seller, Great-West Retirement Services
Michael Sole, Great-West Retirement Services
Vicki Spittel, Emjay Corporation
Rose Stephenson, U.W. System
Mike Studebaker, Nationwide Retirement Solutions
Lisa Tilley, Great-West Retirement Services
Amy Tlachac, Advised Assets Group, LLC

Board	Mtg Date	Item #
DC	11/15/2005	1

Edward Main, Chair, called the meeting to order at 1:06 p.m.

Consideration of Minutes of February 22, 2005, Meeting

Motion: Mr. Beil moved acceptance of the minutes of the February 22, 2005, meeting as submitted by the Board Liaison. Mr. Traver seconded the motion, which passed without objection on a voice vote.

2004 Investment Performance/Benchmark Review

Ms. Schueller presented the 2004 Annual Investment Performance Report to the members of the Deferred Compensation Board (Board). She noted that the following changes have been made to the Wisconsin Deferred Compensation (WDC) Program investment spectrum:

- The Small Cap Equity Index Fund (Barclays Global Investors) was opened to participants on March 1, 2004.
- The Janus Fund was closed to new deferrals effective June 1, 2004 and will be phased out of the WDC investment spectrum at the end of 2005.
- The Dreyfus Premier Third Century Fund (Class R) was closed out and accounts remaining in the fund were swept to the Vanguard Money Market fund on December 31, 2004.
- The T. Rowe Price International Stock Fund was closed to deferrals effective February 1, 2005 and will be phased out of the WDC investment spectrum at the end of 2005. The EuroPacific Growth Fund (Class R5), offered by American Funds, was opened to participants on February 1, 2005. This fund replaces the T. Rowe Price International Fund as the WDC's active international option.

Curt Morrow, Investment Services Manager, Nationwide Retirement Solutions (NRS), discussed his observations regarding the 2004 investment performance review with the Board. Mr. Morrow attributed the under performance of the Barclays Global Investors EAFE Equity Index Fund to tracking errors from the futures contracts in which the fund invests, client flows, management fees and the fund's exposure to fluctuations in currency. He reminded the Board that the T. Rowe Price International Stock Fund will be removed from the WDC investment spectrum at the end of 2005. With respect to the Calvert Social Investment Fund, Mr. Morrow noted that even with the under performance of the past two years, this fund meets or exceeds all performance benchmarks for the three and five year periods. Finally, he described the Board's action to close the Janus Fund and remove it from the WDC investment spectrum at the end of 2005 as prudent.

The Board also discussed appropriate benchmarks for the EuroPacific Growth Fund and possible additional benchmarks for the Fidelity Contrafund.

Motion: Mr. Traver moved that the Board approve the recommended benchmarks for the American Funds EuroPacific Growth Fund (Class R5), which are the MSCI EAFE Index (used by the fund to benchmark) and the Morningstar Foreign Large Cap Blend category

average. Mr. Nelson seconded the motion, which passed without objection on a voice vote.

Motion: Mr. Traver moved that the Board maintain the current benchmarks for Fidelity Contrafund. Mr. Nelson seconded the motion, which passed without objection on a voice vote.

Mutual Fund Investigations

Ms. Schueller provided an update for the Board on the mutual fund investigations of the Janus Fund and American Funds.

At the February 22, 2005, meeting, the Board directed staff to send a letter to the Janus Fund asking for an update on potential collateral damage to Janus Fund holders. A response was received in which Janus declined to provide any information. Ms. Schueller informed the Board that she spoke with Janus staff who indicated that their legal counsel would not permit them to release any information until it is available publicly. Mr. Main asked Kerry Robinson, NRS legal counsel, to evaluate the filing of a claim with Janus before the report from the independent consultant becomes available. He also asked Department staff to make a similar inquiry with the Wisconsin Attorney General's office. Mr. Robinson and Ms. Schueller will attempt to obtain this information for the next full Board or Deferred Compensation Investment Committee (DCIC) meeting.

Mike Breller, a Financial Analyst with American Funds, joined the meeting via conference call. He updated the Board on the status of the allegations by the National Association of Securities Dealers (NASD) that American Funds violated the NASD Anti-Reciprocal Rule. American Funds denies the allegations and have requested a hearing. There has been no word on a possible hearing date.

In addition, American Funds and the California Attorney General filed countersuits against each other in late March 2005. American Funds filed a complaint asking the Los Angeles Superior Court to find that disclosure of additional compensation by American Funds was accurate and not misleading under federal and state law. They have also asked the Court to prevent the California Attorney General from bringing any enforcement action.

Staff will continue to follow up with each of the investment providers and will keep the Board informed of any new developments.

Default Option for Closed Accounts

In light of the removal of the Janus Fund and the T. Rowe Price International Stock Fund at the end of 2005, Ms. Schueller asked the Board to review its policy of defaulting or "sweeping" closed fund accounts to the Vanguard Money Market fund.

At an earlier meeting, the Investment Committee reviewed all aspects of this policy but did not reach a consensus on a recommendation for the Board.

Ms. Schueller reminded the Board that they have a responsibility to make sure that their decision is made with prudence, diligence and considered as much information as was available. Ultimately, participants are responsible for selecting the investment options within the asset classes.

Mr. Robinson discussed the responsibilities of the Board as fiduciaries and the protections provided by the Plan and Trust Document.

Motion: Mr. Traver moved that the Board maintain its current policy of defaulting closed fund accounts to the Vanguard Money Market Fund. Mr. Nelson seconded the motion, which passed without objection on a voice vote.

Ms. Schueller noted that she is working with NRS staff to notify participants with funds in the accounts being closed. The Board requested that the DCIC look into the legal ramifications of contacting only select participants (for example, those with balances over \$100,000 or with a high percentage of their accounts in the funds being phase out).

Miscellaneous

Numerous miscellaneous items were presented to the Board including the Annual Service Summary report and the Clifton Gunderson audit. Ms. Schueller also mentioned that the number of hardship withdrawals has been increasing.

Motion to Convene in Closed Session

Mr. Main announced that the Board would convene in closed session pursuant to the exemptions contained in Wis. Stats. §19.85 (1)(e), for the purpose of deliberating or negotiating the investing of public funds. Staff from the Department of Employee Trust Funds and Ms. Stephenson from the U.W. System were invited to remain during the closed session deliberations.

Motion: Mr. Beil moved to convene in closed session pursuant to the exemptions contained in Wis. Stats. §19.85(1)(e), for deliberations which involve the investing of public funds. Mr. Traver seconded the motion, which passed without objection on the following roll call vote:

MEMBERS VOTING AYE: Beil, Drury, Main, Nelson and Traver

MEMBERS VOTING NAY: None

The Board convened in closed session at 2:30 p.m. and reconvened in open session at 5:17 p.m.

Announcement of Action Taken on Business Deliberated During Closed Session

Mr. Main announced that the Board took the following action during the closed session:

The Board issued an intent to award the administrative services contract to Great-West Retirement Services, subject to verification of their proposal, successful negotiations of the final contract terms with Department staff and approval of the Board Chair.

Adjournment

Motion: Mr. Traver moved to adjourn. Mr. Nelson seconded the motion, which passed without objection on a voice vote.

The meeting was adjourned at 5:19 p.m.

Date Approved: _____

Signed: _____

Martin Beil
Secretary