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CORRESPONDENCE MEMORANDUM

DATE: July 29, 2004
TO: Wisconsin Deferred Compensation Board Investment Committee
FROM: Shelly Schueller, Director
Wisconsin Deferred Compensation Program
SUBJECT: Fund Alternatives

Attached is a report from Curt Morrow at Nationwide Retirement Solutions (NRS) regarding potential replacements for the T. Rowe Price International Stock Fund and the Janus Fund. The Deferred Compensation Board requested this report at its May 2004 meeting after a review of the funds' poor investment performance in 2003 relative to their benchmarks and peer group universe and continued concern regarding management changes, market timing and late trading problems at Janus.

T. Rowe Price International Fund

The T. Rowe Price International Fund is one of the WDC's options for participants seeking exposure to the foreign stock market. As of June 30, 2004, there were 14,234 WDC participant accounts in this fund. This is an increase of 768 participants since January 1, 2004.

The T. Rowe Price International Fund technically meets the Board's investment evaluation criteria, but has had mediocre performance for many years. Alternative international funds with better performance are available. The Board has three options regarding this fund:

- a) Do nothing. Leave the T. Rowe Price International Fund in the WDC;
- b) Remove the T. Rowe Price International Fund but do not replace it; or
- c) Remove the T. Rowe Price International Fund and replace it with another foreign stock option.

The Janus Fund

The Janus Fund provides WDC participants with a large cap growth option. The 2003 investment performance review revealed that the Janus Fund continued to under-perform its established benchmarks. As a result, the Board closed the Janus Fund to new participants effective June 1, 2004. As of June 30, 2004, there were 18,048 WDC participant accounts in this fund. This is a decrease of 2,264 participants since January 1, 2004.

As noted by NRS in the attached report, the Janus Fund's investment performance has improved over 2003 and the first six months of 2004. However, the fund lagged its large growth category peers from 2000 to 2002, and in late 2003 the parent company, Janus Capital Group, became embroiled in the investigations into market timing and late trading by mutual fund

Reviewed and approved by Pam Henning, Office of Strategic Services

Signature _____

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companies. While not impacting the Janus Fund manager directly, the result of these investigations has been overall management and organizational changes at Janus Capital Group. In addition, Janus continues to experience a large loss of assets through withdrawal of institutional funds (see attachments).

The Board has three options regarding the Janus Fund:

- a) Do nothing. Leave the Janus Fund in the WDC and reevaluate as part of the overall WDC 2004 investment performance;
- b) Remove the Janus Fund but do not replace it; or
- c) Remove the Janus Fund and replace it with a large cap stock option.

Recommendations

Staff proposes that the Investment Committee recommend the following to the Board:

- Remove and consider replacing the T. Rowe Price International Fund with a more diversified international fund. If the T. Rowe Price International Fund is removed but not replaced, the WDC will not have alternatives for participants wishing to invest in the international category. The EAFE Equity Index Fund is available, but it is not heavily utilized. As of 12/31/03, only 1,690 of 40,593 WDC participants (4%) had assets in the EAFE Equity Index Fund.
- Remove, but do not replace, the Janus Fund. The WDC already offers a solid actively managed fund in the large cap style category with the Fidelity Contrafund option. Removing the Janus Fund would also help keep the number of options offered by the WDC within a reasonable number¹.

If the Investment Committee decides to make a recommendation on one or both of these funds, this would be presented to the Board at its November 2004 meeting. Implementation of any approved changes would occur during 2005.

Attachments – Janus news articles

¹ The Nationwide Retirement Education Institute published *VOICE* earlier this year, which compiled information and data regarding s. 457 and 401(k) plans, defined benefit plans and others. The report states that the average number of funds available in a 401(k) plan was 13, while the number of funds for the average s. 457 plan administered by NRS was 41. This is quite similar to the number of options offered by plans administered by other providers.

Of the s. 457 plans currently administered by NRS, the WDC has the fewest investment options. New RFP requests that NRS receives typically require investment menus that offer anywhere from 15 to 30 options. NRS typically recommends 20 to 25 options, as indicated in the attached report, and typically looks to fill the 9 Morningstar style boxes for domestic equities plus, foreign, fixed, bond, and asset allocation fund options.