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CORRESPONDENCE MEMORANDUM

DATE: February 7, 2005
TO: Wisconsin Deferred Compensation Board
FROM: Shelly Schueller, Director
Wisconsin Deferred Compensation Program
SUBJECT: Lifecycle Fund Series Selection

Throughout 2004, the Wisconsin Deferred Compensation (WDC) Board discussed and debated the merits of lifecycle funds. In November 2004, the Board approved adding a series of lifecycle funds to the WDC Investment Spectrum. The Investment Committee subsequently met on December 7, 2004, to evaluate specific lifecycle funds for inclusion in the WDC.

Discussion

The Investment Committee reviewed the philosophical reasons for adding lifecycle funds to the WDC and discussed the advantages that lifecycle funds would offer for certain WDC participants. The Committee agreed that it was important to offer lifecycle funds from a well-known, reputable firm with a solid track record. The Committee also felt that offering low cost index style lifecycle funds would be most beneficial and preferred over lifecycle fund offerings with active management.

Recommendations

After reviewing potential lifecycle funds, Investment Committee recommends that the Board add the Vanguard Target Retirement fund series to the WDC spectrum of investment options. Because the Vanguard Target Retirement funds use an index strategy, the Committee felt it would be easier to benchmark their performance and explain performance to participants. The combination of low cost and reputable name also contributed to their recommendation.

As noted in previous memos on this topic, the Board should also revise the WDC investment policy statement to include criteria for lifecycle funds. The attached document shows the proposed revision recommended by staff, which is to include a new #7: "Lifecycle funds -- age-based portfolios for multiple time horizons." Because the monitoring criteria already discusses specialty funds in bullet two, it is not necessary to list any unique benchmark requirements for lifecycle funds in the Investment Policy. At this time, the performance of the Vanguard Target Retirement Funds will be monitored using the internal Vanguard benchmarks, which are also attached to this memo.

Next Steps

If the Board approves the addition of lifecycle funds and the revision to the investment policy statement, staff will work with Nationwide Retirement Solutions to develop and implement a marketing campaign that will introduce lifecycle funds to WDC participants.

Attachments

Reviewed and approved by Dave Stella, Deputy Secretary

Signature _____

Date _____