



STATE OF WISCONSIN
Department of Employee Trust Funds
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CORRESPONDENCE MEMORANDUM

DATE: April 21, 2008
TO: Wisconsin Deferred Compensation Board
FROM: Shelly Schueller, Director
Wisconsin Deferred Compensation Program
SUBJECT: Stable Value Fund Sub-Advisor

Department staff recommends that the Board affirm Galliard's recommendation to replace current Stable Value Fund sub-advisor Alliance Bernstein with Aberdeen Asset Management.

At its meeting on March 25, 2008, the Investment Committee and Galliard Capital Management (Galliard) discussed Galliard's evaluation of the investment performance of the Stable Value Fund sub-advisors and the likelihood that Galliard would seek to replace one of the sub-advisors. At present, there are two Stable Value Fund sub-advisors: Alliance Bernstein and Pacific Investment Management Company (PIMCO). The Investment Committee agreed that it would be appropriate for Galliard to attend the next Board meeting to discuss this potential change. This memo and attachment provide background information for that discussion.

BACKGROUND

The Wisconsin Deferred Compensation Program (WDC) offers a Stable Value Fund managed by Galliard. In November of 2001, the Board amended the Investment Advisory Agreement between the Board and Galliard to provide Galliard with limited discretion to change or add sub-advisors for the actively managed bond portion of the Stable Value Fund. This flexibility was desired because market conditions as well as changes in the companies providing sub-advisor services may necessitate quick action to maintain the performance and quality of the Stable Value Fund's portfolio. The Board also delegated authority to the Department of Employee Trust Funds, with prior approval from the Investment Committee, to add or replace sub-advisors for the Stable Value Fund.

Galliard recommends removing and replacing one of the current Stable Value Fund sub-advisors, Alliance Bernstein. Alliance Bernstein, which manages approximately fourteen percent of the Stable Value Fund portfolio, has been on Galliard's watch list for performance. Through the end of 2007, Alliance Bernstein's 3-Year and 5-Year performance returns have ranked in the 60th to 80th percentile, resulting in a "D" grade from Galliard.

Reviewed and approved by Robert J. Conlin, Deputy Secretary.

Signature

Date

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Galliard recommends moving the Stable Value Fund assets currently managed by Alliance Bernstein to Aberdeen Asset Management. In addition to moving to a sub-advisor with a low style correlation to Galliard, changing sub-advisors will result in a slightly lower sub-advisor administrative fee, as Aberdeen Asset Management charges 22 basis points and Alliance Bernstein charges 23 basis points.

INVESTMENT ADVISORY AGREEMENT

In November of 2001, the Board approved an amendment to its contract agreement with the Stable Value Fund provider, Galliard. Section Two of the amended agreement states that Galliard:

“...shall have full discretionary authority to manage and direct investment of the assets of the Account in accordance with the written investment objectives and guidelines as communicated to the Advisor and amended from time to time and included as Exhibit 1. [...] Advisor will have authority to select sub-advisors from time to time, up to four not including the Advisor, to manage certain of the assets of the Account. Advisor shall review with the Department of Employee Trust Funds staff any changes to existing sub-advisors, including adding new sub-advisors, and provide a written document as to the reasons for any change. A manager profile of each proposed new sub-advisor shall also be provided. Advisor may proceed with the change only upon receiving the written approval of the Department of Employee Trust Funds. [...] Advisor will monitor the investment activity of each sub-advisor, review compliance with investment guidelines and monitor their performance. Advisor is responsible for implementing changes in sub-advisors as deemed appropriate, including adding or removing sub-advisors, with the approval of the Department of Employee Trust Funds.”

Staff from Galliard and the Department will be available at the Board meeting to discuss the information in this memo.

Attachment