

Galliard Capital Management, Inc.



GALLIARD CAPITAL
MANAGEMENT

Experience. Consistency.
Performance.

State of Wisconsin Deferred Compensation Plan

February 3, 2009

Presenters:
Mike Norman
Principal

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Managing Partner

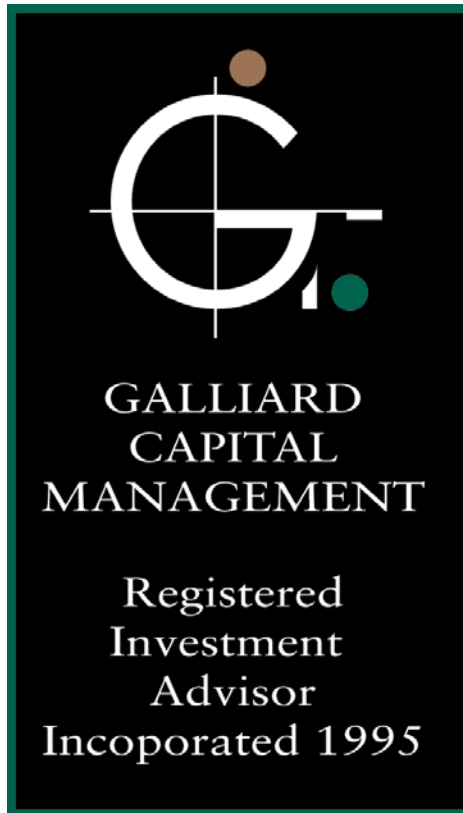
Galliard Capital Management

- Section I:** Galliard Update
- Section II:** Understanding Stable Value Investments
- Section III:** The Wisconsin Portfolio – A Multi-Manager Approach
- Appendix:** Additional Stable Value Investment Process

Section I

Galliard Overview

Fixed Income and Stable Value Specialists



Galliard At A Glance

- Founded in 1995 as a wholly owned subsidiary of Wells Fargo & Co
 - One of the nation's leading fixed income and stable value managers
 - Currently managing in excess of \$41.0 Billion for over 180 clients
 - Superior investment performance in all strategies
- Experienced team focused on managing money and servicing clients
 - Senior management team managing portfolios together since 1988
 - 57 professionals on staff with additional support from Wells Fargo (20+)
- Our firm is independently managed and operated
 - Operating agreement with parent provides management autonomy
 - Provides ability to leverage support services at cost from Wells Fargo
- No changes in ownership since inception – none contemplated

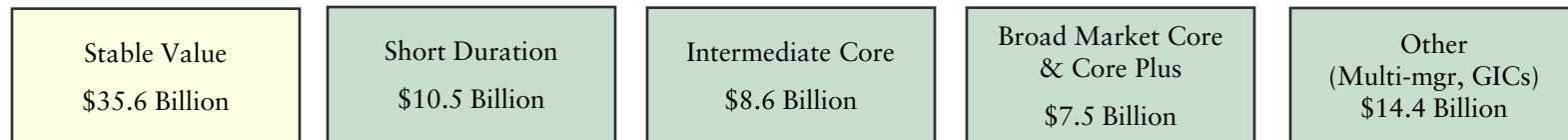
Our client focus and organizational stability have been the key to our long term success

Galliard Overview

Assets Under Management

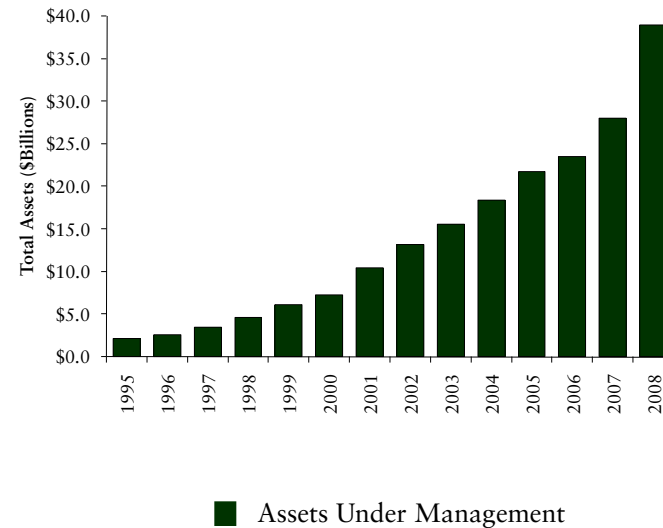
Galliard Firm Assets: \$41.0 Billion

Specialists in Stable Value
\$35.6 Billion
44 Separate Accounts



Galliard Stable Value Clients Include:

- Archer Daniels Midland
- City of Los Angeles
- Fluor Corporation
- Metropolitan Transportation Authority of New York
- New Jersey Transit Authority
- PepsiAmericas
- R.R. Donnelley
- Savannah River Nuclear Solutions
- State of Minnesota
- SYSCO Corporation
- Target Corporation
- Virginia Retirement System



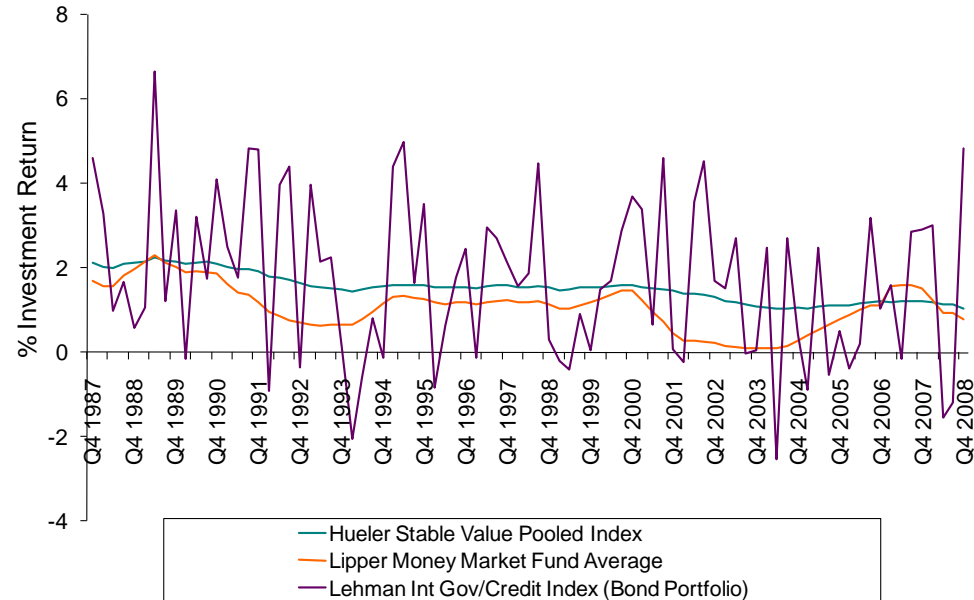
Stable Value Business Overview

- One of the nation's leading stable value managers
 - Senior team in place since 1988
- 2008 account growth
 - \$4.9B assets
 - 13 new stable value separate accounts
 - No lost separate accounts
- Manage \$7.4B+ in Galliard Alliance (Multi-Manager)
 - Both separate accounts and commingled fund

Section II

Understanding Stable Value Investments

Why Stable Value



- A typical investment option provided in 401(k) and 457 plans offering investors a fund choice that seeks principal preservation and a competitive rate of return
- Stable value funds are considered lower risk than bond funds and are comparable to the lower risk levels associated with money market funds
- Expected returns are generally higher than a money market fund

Understanding Stable Value Investments

Goals of Stable Value

- **Conservative option for 404(c) in defined contribution plans**
 - “an income producing, low-risk, liquid fund”
- **Stable Value Objectives**
 - Principal preservation/stability
 - Positive, reasonable stable return
 - Liquidity for participant transactions
- **Key to Meeting These Objectives**
 - Benefit responsive contracts which guarantee participants can transact at book value (i.e., principal value plus accrued interest)
 - High quality, liquid fixed income securities backing contracts
 - Current accounting regulations (S.O.P. 94-4) allow valuation of benefit responsive contracts at “contract value” or “book value” in defined contribution plans

Understanding Stable Value Investments

Various Stable Value Investments

➤ Traditional Stable Value Contracts

- GICs – insurance companies
- BICs - banks

➤ Alternative Stable Value Contracts (i.e. synthetics)

- Insurance company separate account GICs
- Security backed contracts
 - Buy & hold (passive)
 - Targeted duration (active)
 - Actively managed to a benchmark

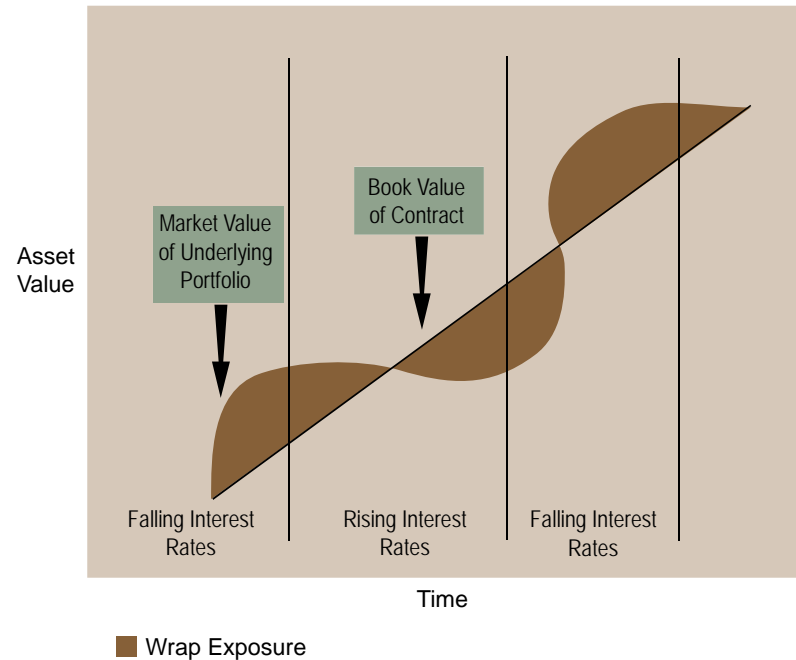
➤ Stable Value Funds

- Pooled insurance company separate accounts
- Bank or trust company collective funds

Understanding Stable Value Investments

How Security Backed Contracts Work

Contracts Provide Book Value



- Contracts allow participants to transact at book value in all market environments
- Why do contract providers require an equity wash for transfers to competing funds?
 - To protect remaining fund holders

Understanding Stable Value Investments

How Synthetic Wrap Contracts Work

➤ Initial Crediting Rate

- Initial crediting rate reflects yield of underlying security/portfolio (or benchmark plus a spread)

➤ Crediting Rate Resets

- Typically occur quarterly (also annual, semi-annual or monthly)
- Equal to the rate that converges market value and book value over duration of portfolio

$$\text{CR} = (\text{MV}/\text{BV})^{1/d} \times (1+i)^{-1}$$

- CR = crediting rate
- MV = market value
- BV = book value
- d = portfolio duration
- i = annualized yield to maturity

➤ What is Guaranteed

- 0% interest rate
- Participants receive full principal value if contract is accessed after fully exhausting other liquidity sources

Understanding Stable Value Investments

Wrap Contract Provider Update

- Recent events have constrained wrap contract capacity
 - Government intervention of AIG
 - Low market/book value ratios
- Wrap contract market is undergoing permanent, fundamental change
 - More restrictive terms and investment guidelines
 - Increased demand for data and increased monitoring
 - Fees likely to increase (15-20 bp possible)
 - Life insurance companies will gain market share (traditional GICs/separate account GICs)
- Wisconsin portfolio currently utilizes 3 different providers plus a stable value collective fund
 - JP Morgan (AA-)
 - Natixis (A+)
 - Monumental Life (AA)
 - Wells Fargo Stable Return Fund – uses 18 different providers

Section III

Stable Value Investment Approach

Philosophy and Objectives

Consistent with the role of stable value as the “safe option,” we manage stable value portfolios conservatively, seeking to consistently outperform our benchmarks while minimizing crediting rate volatility.

Key Objectives:

- Capital preservation
- Maintain sufficient liquidity
- Consistently outperform benchmarks and peer group

Hallmarks of Our Approach:

- High quality and broad diversification
- Disciplined value investing
- Stringent risk control
- Minimal crediting rate volatility

Same philosophy and team since 1988

Investment Approach

Asset Allocation

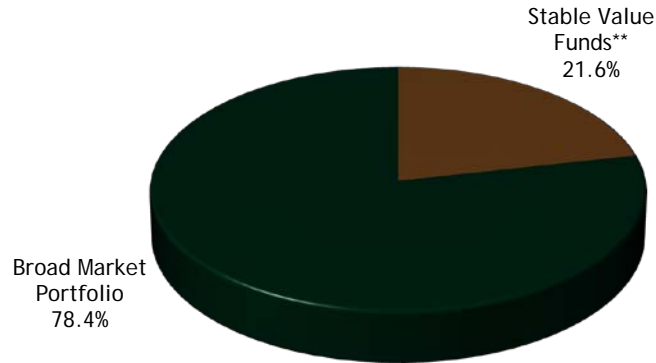
	Global Contract Structure			
Segment	Wells Fargo Stable Return Fund 20 - 25%	Intermediate Portfolio 20 - 30%	Broad Market Portfolio 50 - 60%	
Benchmark	Fund Benchmark	Lehman Brothers Int. Gov't/Credit	Lehman Brothers Aggregate	
Approx. Duration	1.0 yrs	3.5 yrs	4.5 yrs	3.0 - 4.0 yrs
Manager(s)	Galliard	Galliard	Galliard PIMCO Aberdeen	

- Structure has three components – liquidity buffer and (2) core bond segments
 - Global contract structure (similar terms)
- Portfolio is broadly diversified by:
 - Liquidity buffer – uses \$14+ Billion Wells Fargo Stable Return Fund
 - Yield curve – portfolio has both intermediate and broad market portfolios
 - Style – utilizes 3 complementary management approaches
- Assets are allocated among segments based on overall portfolio duration target
 - Ranges between 3.0 – 4.0 years
 - Specific duration target determined by analysis of plan demographics and cash flows

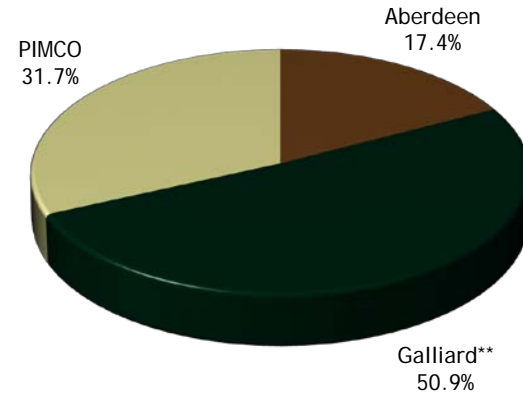
Stable Value Fund Review

Fourth Quarter 2008

Portfolio Distribution*



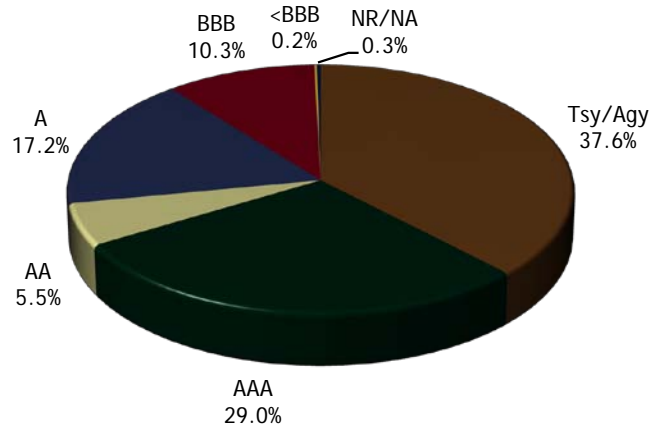
Manager Breakdown*



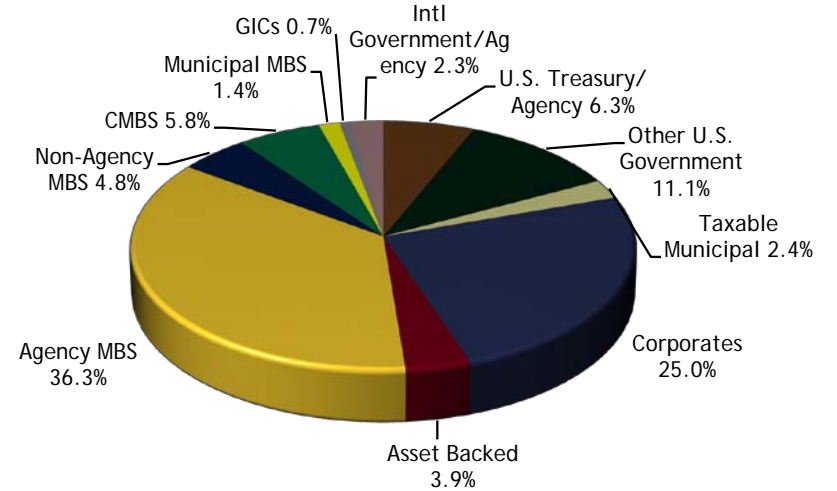
*Book value

**Includes Stable Value Collective Funds, Receivables, and Payables

Underlying Fixed Income Credit Quality*



Underlying Fixed Income Asset Allocation*

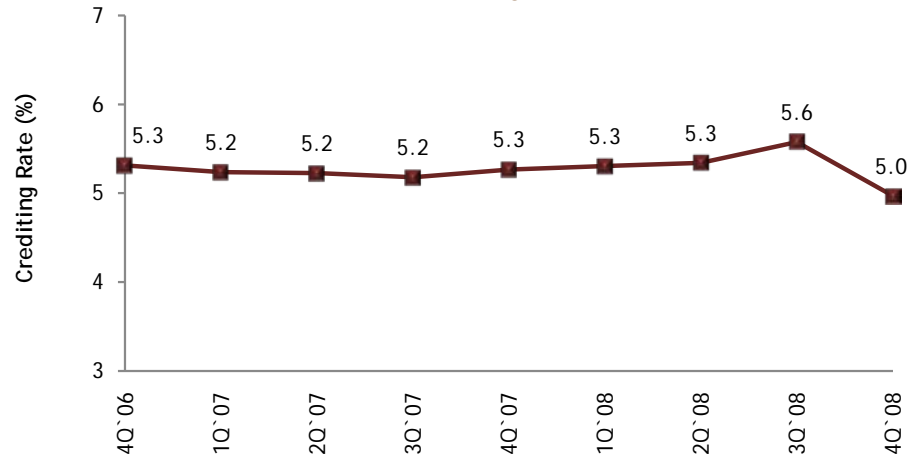


*Market value. Total % of portfolio may not add to 100% due to rounding

Stable Value Fund Review

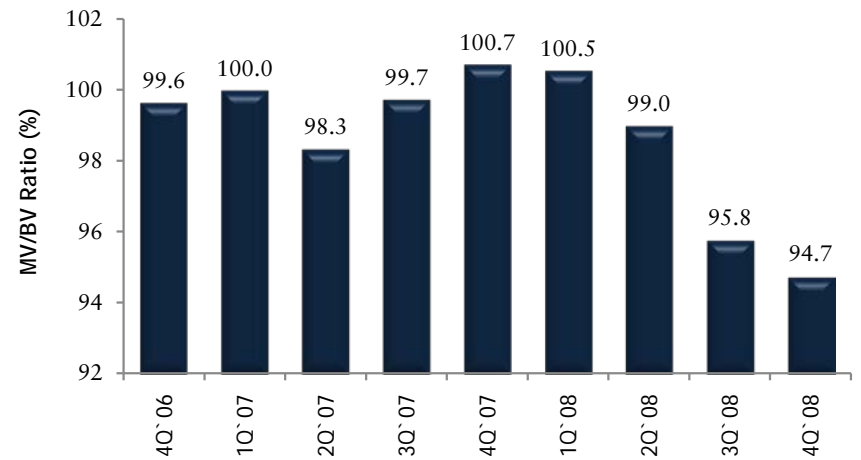
Fourth Quarter 2008

Historical Crediting Rates*

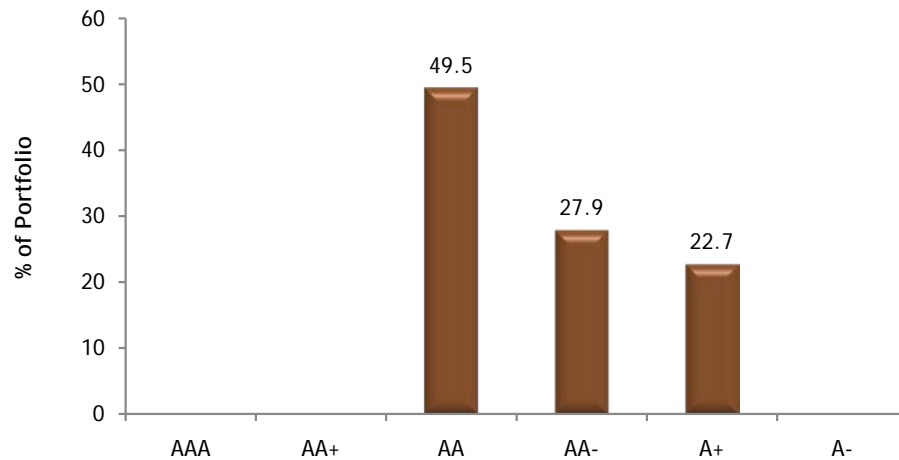


*As of quarter end. Before fees.

Market Value to Book Value Ratio

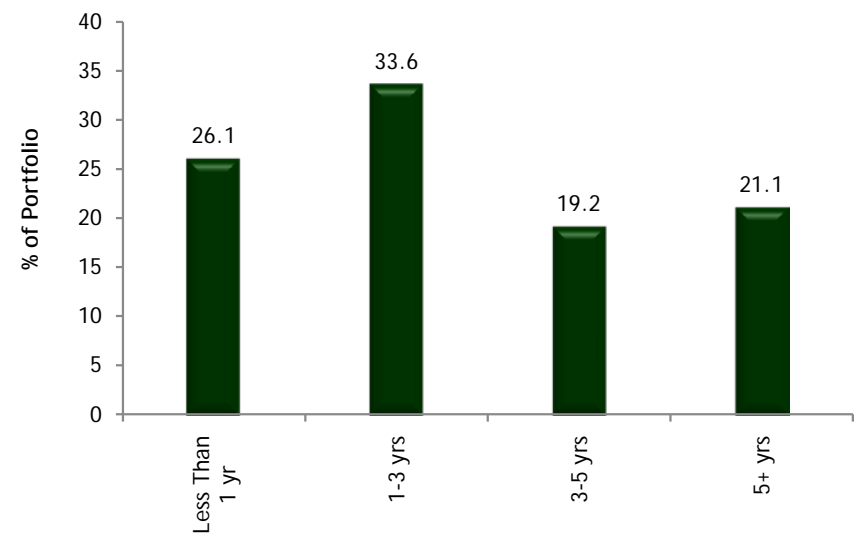


Contract Quality Distribution*



*Total % of portfolio may not add to 100% due to rounding

Duration Distribution*



State of Wisconsin Deferred Compensation Plan Portfolio Review
Portfolio Holdings

12/31/2008

Security Description	Contract Value (\$)	% of Portfolio	Crediting Rate / Yield (%)	Maturity	Effective Duration (yrs)	Moody's Rating	S&P Rating
Money Market							
Cash Receivable / (Payable)	-140,774	0.0	4.12		0.10	Aaa	AAA
Total Money Market	-140,774	0.0	4.12		0.10	Aaa	AAA
Stable Value Funds							
Wells Fargo Stable Return Fund G	91,234,633	21.6	4.12		1.00	Aa2	AA
Total Stable Value Funds	91,234,633	21.6	4.12		1.00	Aa2	AA
Security Backed Contracts							
Broad Market Portfolio							
J.P. Morgan Chase Bank N.A.	117,834,853	27.9	5.22	9/29/2012	3.75	Aaa	AA-
Natixis Financial Products Inc.	95,922,475	22.7	5.17	9/29/2012	3.75	Aa3	A+
Monumental Life Ins. Co.	117,834,853	27.9	5.22	9/29/2012	3.75	Aa3	AA
Total Broad Market Portfolio	331,592,181	78.4	5.21		3.75	Aa2	AA-
Total Security Backed Contracts	331,592,181	78.4	5.21		3.75	Aa2	AA-
Total Fund	422,686,040	100.0	4.97		3.16	Aa2	AA-

Stable Value Portfolio Review

Fourth Quarter 2008

Annualized Investment Performance *

Periods Ending December 31, 2008

	<u>4Q08</u>	<u>YTD</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5 Yr</u>	<u>Since Inception</u> **
Portfolio (before inv. mgmt. fees)	1.32	5.44	5.44	5.38	5.30	5.84
Portfolio (net of inv. mgmt. fees)	1.28	5.26	5.26	5.19	5.11	5.64
5 Year Constant Maturity Treasury Yield	0.55	2.79	2.79	3.96	3.87	4.25

Calendar Year Performance

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Portfolio (before inv. mgmt. fees)	5.44	5.30	5.39	5.19	5.18
Portfolio (net of inv. mgmt. fees)	5.26	5.11	5.20	4.99	4.97
5 Year Constant Maturity Treasury Yield	2.79	4.35	4.74	4.05	3.43

Market Indices

3 Month Treasury Bills	4.55	4.95	3.54	1.67	1.07
Consumer Price Index	4.08	2.54	3.42	3.26	1.88

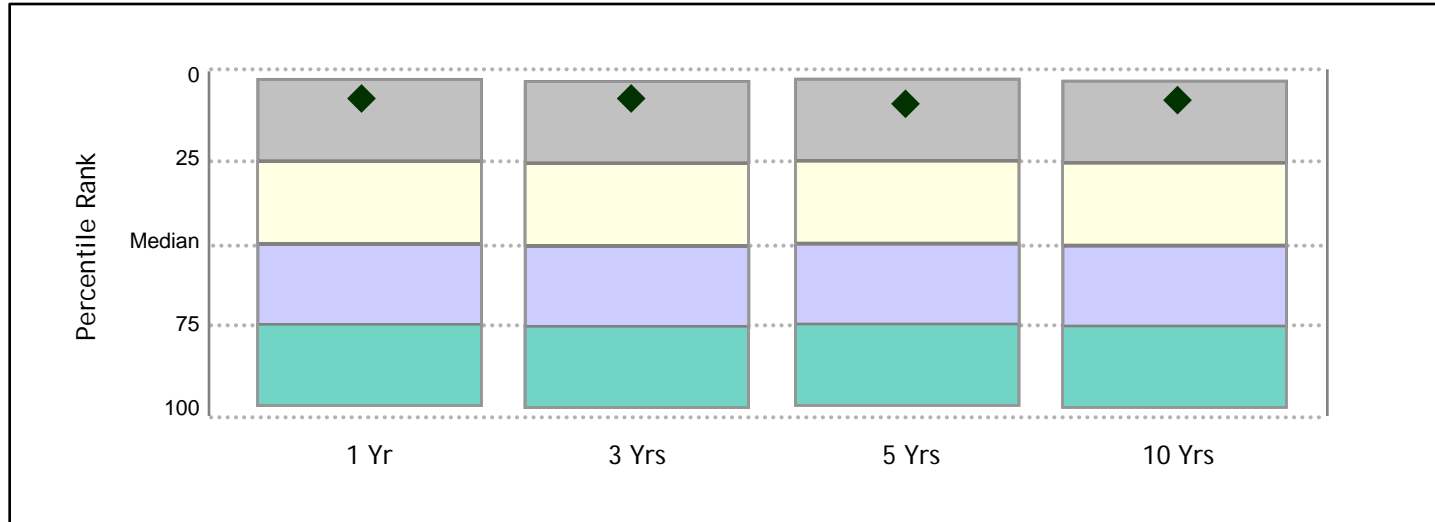
* Returns for periods of less than one year are not annualized.

** Galliard's management of this portfolio began July 1, 1998.

Galliard Performance

Performance versus Peers

PEER GROUP STATISTICS AND RANKING vs. eA STABLE VALUE FIXED INCOME UNIVERSE*



	1 Yr		3 Yr		5 Yr		10 Yr	
	Return	Rank	Return	Rank	Return	Rank	Return	Rank
State of Wisconsin ◆	5.44	9th	5.37	9th	5.30	11th	5.83	10th
eVestment Alliance Universe Median	4.90		4.85		4.68		5.34	
Value Added	+0.54		+0.52		+0.62		+0.49	

The State of Wisconsin portfolio has consistently outperformed the median manager by 49-62 bps per year

*Source eVestment Alliance. Data as of 9/30/08.

Section IV

Investment Approach

Wrap Contract Negotiation

- Extensive contract negotiation experience
 - Negotiating contracts since the mid 1980's
 - One of the first managers to develop and use synthetics

- Key contract terms
 - “Contingency” wraps in place in event of issuer breach, downgrade or merger (with other wrap provider)
 - Illiquid/impaired security bucket (5%)
 - Withdrawal corridor (15% - 20%) for sponsor initiated events
 - Cure periods for termination events

Our key objectives include enforceability, risk control, and flexibility

External Manager Program Overview

Galliard's External Manager Program:

- Began in 1998
- Managers include PIMCO, WAMCO, Aberdeen, and Pyramis
- Dedicated external manager review team, including our investment professionals
- Approach combines quantitative and qualitative review
- Emphasis on building deep understanding of style via rigorous analysis and consistent communication

Our program is comprehensive: Selection – Monitoring – Change Recommendations

External Manager Program Manager Screening and Selection

Criteria:

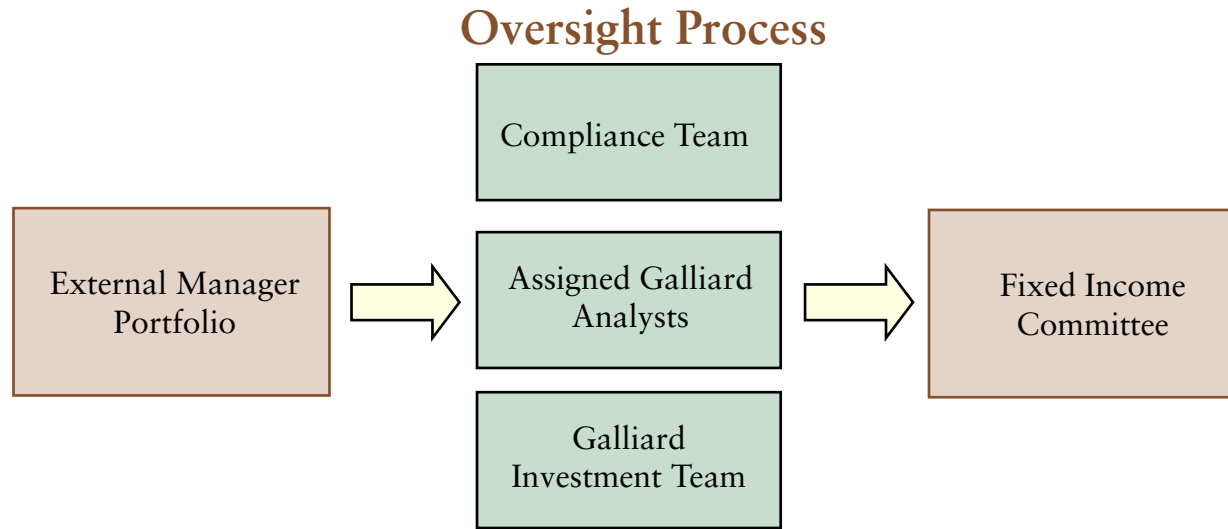
- We continually screen manager universes
- Maintain an internal short list of managers
- Leverage consultant relationships to access additional manager research

Managers must exhibit:

- Understanding of stable value
- Complementing style
- Low excess return correlation
- Strong performance
- Stable organization

Our program is comprehensive: Selection – Monitoring – Change Recommendations

Manager Oversight



- External manager portfolios assigned to Galliard analysts
- Portfolios reviewed by investment team and compliance
- Fixed Income Committee reviews performance and compliance

Manager oversight is fully integrated into our investment process

Manager Oversight

Weekly Review

- Transactions
- Research

Monthly Review

- Holdings and statistics
- Performance

Quarterly Review

- Formal compliance
- Performance grading

Formal Semi-Annual Review

- Portfolio review with manager
- Analyst write-up

Annual Due Diligence Visit

Formal Recommendation

Approve, Watch, Terminate

Our multi-step review process is comprehensive and rigorous

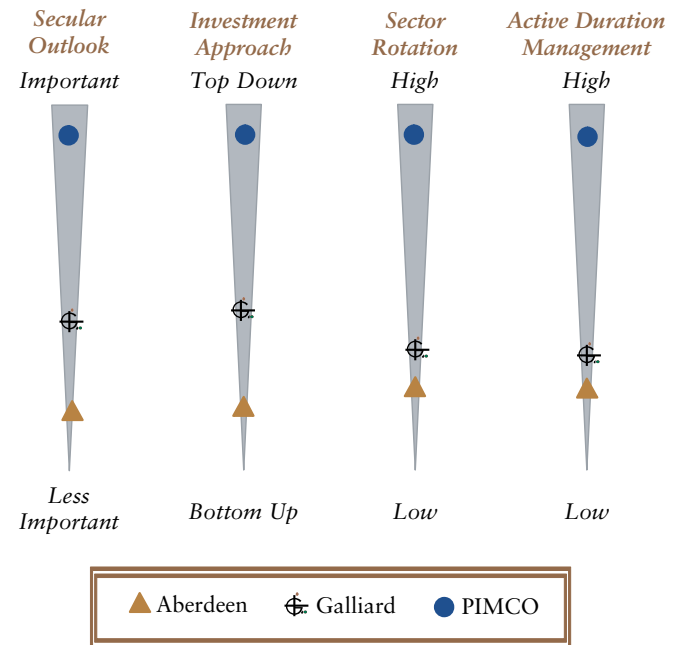
Galliard Alliance Manager Screening

Style Analysis & Manager Comparison

**Correlation Matrix:
10/1998 to 9/2008 using
Barclays Capital Aggregate**

	Aberdeen	Galliard	PIMCO
Aberdeen	1.00	0.81	0.10
Galliard	0.81	1.00	0.18
PIMCO	0.10	0.18	1.00

Fixed Income Style Diversification



Managers selected have strong performance and complementary styles

*10 years