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CORRESPONDENCE MEMORANDUM

DATE: December 10, 2010

TO: Wisconsin Deferred Compensation Board Investment Committee

FROM: Shelly Schueller, Director
Wisconsin Deferred Compensation Program

SUBJECT: Dimensional Fund Advisors (DFA) U.S. Micro Cap Fund Benchmarks

Staff proposes the Investment Committee recommend the removal of the Morningstar U.S. Small Blend Category average from the list of benchmarks used by the Board to assess the performance of the Dimensional Fund Advisors (DFA) U.S. Micro Cap Fund.

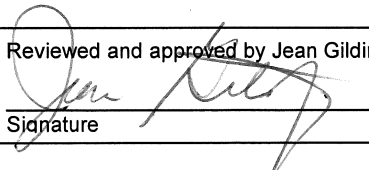
The DFA U.S. Micro Cap Fund was added to the Wisconsin Deferred Compensation Program (WDC) core investment options lineup in 1997. Over 16,850 WDC participants held assets valued at approximately \$138,217,125 in the DFA U.S. Micro Cap Fund as of November 30, 2010.

The Board uses four benchmarks to assess the performance of the DFA U.S. Micro Cap Fund: the Russell 2000 Index, the Russell Microcap Index, the Morningstar Small Blend Category Average, and a custom DFA Market Cap developed by Advised Assets Group (AAG) at the Board's request. As shown in the table below, which is from the September 30, 2010 quarterly fund performance review provided to the Board by AAG, during the most recent five-year periods reviewed, the only benchmark the DFA U.S. Micro Cap Fund has beaten is the Board's custom benchmark. Its returns have trailed the three more traditional benchmarks (Russell 2000, Russell Micro Cap and the Morningstar Small Blend category).

WDC Fund Compliance Report Card 9/30/10 by AAG							
Name	Tot Ret 3 Mo	Tot Ret 1 Yr	Tot Ret Annld 3 Yr	Tot Ret Annld 5 Yr	Tot Ret Annld 10 Yr	Tot Net Assets \$M	Expense Ratio
DFA US Microcap I	10.58	14.44	-5.59	0.26	6.02	3,057	0.54
Russell 2000 TR USD	11.29	13.35	-4.29	1.60	4.00	---	---
Russell Micro Cap TR USD	7.81	7.43	-8.49	-2.09	4.08	---	---
DFA Market Cap Benchmark*	8.96	11.36	-6.02	0.32	6.42	---	---
Morningstar Cat: Small Blend	10.93	13.56	-4.61	1.11	5.56	---	---

* Board's custom benchmark

Reviewed and approved by Jean Gilding, DRS Division Administrator

 12/13/10

Signature Date

Board	Mtg Date	Item #
DCIC	12.15.10	1

At the November 16, 2010, Board meeting, the DFA U.S. Micro Cap Fund was again discussed during the quarterly investment performance update. Although the DFA U.S. Micro Cap Fund performance has improved somewhat, the fund continues to be a concern. It has lagged in comparison to the performance of its three- and five-year benchmarks. The discussion turned to the benchmarks used to evaluate the DFA U.S. Micro Cap Fund and led to a request by the Board for a review of appropriateness of the DFA fund benchmarks. A suggestion was also made to consider a blend of two benchmarks, in an effort to better align the benchmark average market capitalization with that of the DFA U.S. Micro Cap Fund.

Per the Board's request, Steve Conkin of AAG reviewed the suitability of the DFA U.S. Micro Cap Fund benchmarks and provided the following observations regarding market capitalization.

- The Russell 2000 Index. Average market capitalization is approximately \$987 million.
- The Russell Microcap Index. Average market capitalization is roughly \$262 million.
- The Morningstar Small Blend Category Average. Average market capitalization is approximately \$1,782 million.
- The custom DFA Market Cap. The attached page contains the list of the nineteen funds that were used to develop this benchmark. All nineteen are from the Morningstar database and have an average market capitalization of between \$150 to \$455 million, which has been near the average market capitalization of the DFA U.S. Micro Cap Fund of \$304 million.

Mr. Conkin did not recommend attempting to blend two benchmarks to create another custom benchmark for the DFA U.S. Micro Cap Fund. A blend of the Russell 2000 and Microcap benchmarks could be created to match the current DFA average market cap of \$398 by allocating twenty percent to the Russell 2000 and eighty percent to the Russell Microcap Index. However, this blended benchmark would have to be adjusted regularly over time to match the changes in the DFA fund's average market cap. In addition, the indices also have drift in their average market capitalization. Another potential problem with this approach would be in calculating the historical returns of this dynamic allocation among the two indices; creating returns on a static allocation is relatively easy but allowing for a moving allocation would make the calculation much more cumbersome.

The market capitalization of the Morningstar U.S. Small Blend benchmark is significantly higher than that of the DFA U.S. Micro Cap Fund, making it difficult to say this is an appropriate benchmark. AAG and Department staff propose that the Investment Committee recommend the removal of the Morningstar U.S. Small Blend Category average from the list of benchmarks used by the Board to assess the performance of the DFA U.S. Micro Cap Fund.

Staff from AAG and the Department will be available to discuss this recommendation with you at the Investment Committee meeting on December 15, 2010.

Attachment: DFA Benchmarks

Name	Returns as of 9-30-2010					
	3 Month	1 Year	3 Years	5 Years	10 Years	Average Market Cap
DFA US Micro Cap I	10.58	14.44	-5.59	0.26	6.02	398
Russell 2000 TR USD	11.29	13.35	-4.29	1.60	4.00	
Russell Micro Cap TR USD	7.81	7.43	-8.49	-2.09	4.08	
US OE Small Blend	10.93	13.56	-4.61	1.11	5.56	1,782
DFA Custom Benchmark	8.96	11.37	-6.02	0.32	6.42	440

DFA Custom Benchmark Fund Population						
Bridgeway Ultra-Small Company Market	8.62	7.77	-8.87	-2.50	8.40	166
Catalyst Value A	6.09	11.00	4.52			176
Columbia Small Cap Core Z	11.39	15.33	-2.19	3.23	8.49	660
DFA Tax-Managed US Small Cap	10.90	12.99	-7.06	-0.30	4.10	596
Gabelli Woodland Sm Cp Value A	15.11	12.94	-3.74	1.45		506
GAMCO Westwood Mighty Mites AAA	10.17	17.22	1.73	7.29	8.90	216
Goldman Sachs Structured Small Cap Eq A	9.71	14.98	-5.45	-2.84	2.63	789
Johnson Disciplined Small-Cap	9.57	-3.11	-15.58			384
Lotsoff Capital Mgmt Micro Cap	9.44	10.21	-11.57	-4.68		297
Pacific Advisors Small Cap A	5.23	3.28	-10.60	2.86	9.38	368
Perritt Micro Cap Opportunities	8.57	12.70	-6.48	0.89	9.48	204
RBC Enterprise R	-7.38	14.54	-12.66	-2.45		268
RBC Small Cap Core S	12.02	17.64	-2.97	3.18	6.50	575
Royce Discovery Svc	6.31	4.12	-6.76	-1.27		284
Royce Micro-Cap Invmt	12.49	18.25	0.05	6.59	10.54	375
Schwab Fdmtl US Sm Mid Co Idx TM	11.72	14.08	-0.41			752
SSgA Small Cap Instl	11.88	9.39	-13.55	-6.20	0.35	831
STAAR Smaller Company Stock	8.22	8.82	-6.78	-0.47	1.85	619
Westcore Micro Cap Opportunity	10.24	13.92				300