



STATE OF WISCONSIN
Department of Employee Trust Funds
Robert J. Conlin
SECRETARY

801 W Badger Road
PO Box 7931
Madison WI 53707-7931
1-877-533-5020 (toll free)
Fax (608) 267-4549
<http://etf.wi.gov>

CORRESPONDENCE MEMORANDUM

DATE: February 9, 2015
TO: Deferred Compensation Board
FROM: Shelly Schueller, Deferred Compensation Director
SUBJECT: Stable Value Fund Update: Trustee Fee and PIMCO

This memo is for your information only. No Board action is required.

At the November 2014 Board meeting, the Board discussed the Stable Value Fund (SVF) and a possible trustee fee increase presented by Galliard Capital Management (Galliard) on behalf of the SVF's trustee, Wells Fargo. The Board directed staff to review the contract to determine if Galliard could implement a trustee fee.

Trustee Fee and Contract

After a review of the existing contract, the Department and Galliard agreed that the trustee fee could not be implemented. Galliard has obtained an agreement from Wells Fargo that the Wells Fargo trustee fee for the SVF will not be implemented until the contract has been updated and approved by Galliard and the Board. Staff anticipates this will occur later in 2015.

Both the Department and Galliard have also agreed that the contract is badly outdated. The contract dates back to the late 1990s and does not reflect the current name of the trustee (NorWest is now Wells Fargo) or the current operating environment regarding book value wrap providers, disclosures, etc. Department legal and procurement staff are working with Galliard to revise and update the contract. It will be presented to the Board for discussion at a future meeting.

PIMCO Update

Galliard continues to monitor PIMCO and the firm remains on the Galliard "watch" list. The attached "PIMCO UPDATE" from Galliard's external manager team is provided to keep the Board informed of Galliard's on-going monitoring efforts.

Staff will be at the Board meeting to discuss the contents of this memo with the Board.

Attachment: Galliard PIMCO Update (January 26, 2015)

Reviewed and approved by Matt Stohr, Administrator
Division of Retirement Services

Electronically Signed 2/20/15

Board	Mtg Date	Item #
DC	3.12.15	11

PIMCO UPDATE

Following the recent organizational and personnel changes at PIMCO, the firm remains on our Watch List. Galliard's External Manager Team continues to closely monitor and evaluate PIMCO's organizational structure, key personnel and investment strategies. With the January 12, 2015 announcement of Saumil Parikh's departure impacting our common client portfolios, PIMCO appointed Marc Seidner as the Primary Portfolio Manager with David Braun serving as the secondary portfolio manager. Mr. Seidner is an integral member of the PIMCO senior leadership team, serving as a co-CIO and member of the Investment Committee, and we believe Mr. Seidner to be an experienced and insightful stable value portfolio manager. We are comfortable with Mr. Seidner stepping in to replace Saumil in our common client accounts.

With respect to the organizational and portfolio manager changes, Galliard's team thoroughly reviewed the fixed income process and philosophy. Over multiple meetings and discussions with a variety of PIMCO team members we are comfortable with the continuity of the process and philosophy currently in place. While the Galliard team has gained comfort with the change in portfolio oversight, our team continues to be in discussions with PIMCO regarding fees. Galliard recognizes that PIMCO has a deep and talented investment team but we believe the historical fee schedules in place, relative to other top tier fixed income peers, are not justifiable going forward. While residing on Galliard's Watch List we have highlighted key factors for review in order for Galliard to maintain its current exposure to PIMCO including: retaining key investment personnel, particularly Marc Seidner; improvement in performance; and delivering a meaningful fee concession.

Galliard External Manager Team

The information contained herein reflects the views of Galliard Capital Management, Inc. and sources believed to be reliable by Galliard as of the date of publication. No representation or warranty is made concerning the accuracy of any data and there is no guarantee that any projection, opinion, or forecast herein will be realized. The views expressed may change at any time subsequent to the date of publication. This publication is for information purposes only; it is not investment advice or a recommendation for a particular security strategy or investment product.

FOR INSTITUTIONAL INVESTOR USE ONLY
