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Correspondence Memorandum

Date: October 12, 2015

To: Wisconsin Deferred Compensation Board

From: Shelly Schueller, Director
Wisconsin Deferred Compensation Program

Subject: Stable Value Fund
A. Guideline Alignment
B. Subadvisor Change

Staff requests the Deferred Compensation Board (Board) approve the First Amendment to the Galliard Investment Advisory Agreement, as presented. No Board action is required on the subadvisor change.

Galliard Capital Management will attend the November 3, 2015 Board meeting to provide the Board with information on a proposed amendment to the Investment Advisory Agreement and to inform the Board of a subadvisor change that is expected to occur later in 2015.

<u>Guideline Alignment</u>
Galliard recently completed a compliance review and notified the Department about discrepancies in the investment advisory agreement that governs the Wisconsin Deferred Compensation (WDC) Program's Stable Value Fund portfolio and the investment guidelines currently used by Galliard. These guideline discrepancies are the result of outdated language within the WDC's separate account guidelines, which are no longer in sync with the guidelines Galliard uses with its collective fund managers, including those underlying the Stable Value Fund.

The inconsistency of most concern is one that creates a violation of the investment advisory agreement. While Galliard and the managers of the collective funds underlying the Stable Value Fund allow for a small amount to be held in downgraded securities (below "investment grade" BBB-/Baa3) indefinitely, the WDC's guidelines require anything below investment grade to be sold within 90 days. As of September 2015, there is approximately 0.25% in these below investment grade securities in the underlying portfolio of the WDC's Stable Value Fund.

Reviewed and approved by Matt Stohr, Administrator
Division of Retirement Services
Matt Stohr
Electronically Signed 10/21/15

Board	Mtg Date	Item #
DC	11.3.15	4

Attached is a memo from Mike Norman at Galliard that provides additional details on guideline inconsistencies. To remedy this situation, Galliard recommends the Board update the WDC's advisory agreement, as illustrated on the attached draft amendment, to reflect Galliard's current guidelines. The Department concurs with this recommendation.

Subadvisor Change

The Department was notified on October 1, 2015 that Wells Fargo recently selected BlackRock Institutional Company as the new subadvisor to the Short-Term Investment Fund. This change will take place as of December 1, 2015. BlackRock will replace the current manager, Wells Capital Management, and the fund will be renamed to Wells Fargo/BlackRock Short-Term Investment Fund S. Galliard believes this change will deliver competitive investment performance and pricing from a company with substantial expertise and the ability to meet the changing regulatory requirements for commingled money market pooled offerings. While Galliard expects this fund will continue to provide a competitive yield, there is an increase in cost. BlackRock will charge a management fee of 12 basis points. Galliard anticipates the BlackRock management fee impact to be 0.007% (0.07 basis points) to the WDC's Stable Value Fund. Neither Galliard nor Wells Fargo will receive any additional revenue from this fee. No Board action is required on the subadvisor change.

Staff will be at the Board meeting to answer any questions.

Attachment A: October 6, 2015 Letter from Mike Norman of Galliard
Attachment B: Draft First Amendment to Galliard Investment Advisory Agreement
Attachment C: Notice of Changes to the Wells Fargo Short-Term Investment Fund

GALLIARD
Capital Management, Inc.

October 6, 2015

Ms. Shelly Schueller
Wisconsin Department of Employee Trust Funds
Via email

RE: Guideline conflict due to collective fund guideline updates

Dear Shelly,
Thank you for taking the time to talk recently regarding the guideline language conflict we detected with your stable value guidelines. As promised, below is a synopsis of the issue and our recommendation for correction.

Background:
Galliard continually works to maintain optimal portfolio guidelines within the evolving stable value market. One of the components of this process is updating our various sets of investment guidelines to reflect the appropriate latitude as allowed by the book value contract 'wrap' providers and our clients. As you may remember, after the credit crisis in 2008-2009, most stable value wrap contract providers required tightened investment guidelines. The universe of allowable investment parameters has improved over the last few years and Galliard continues to work so that the updated investment guidelines from the wrap providers are incorporated into all of Galliard managed client portfolios. A big component of this process is confirming that the various guidelines that impact a client account are in sync. In particular, as we update the underlying collective investment trust guidelines, we also work to confirm that the guideline language of our stable value separate accounts are aligned with the guidelines of the collective investment trusts in which they are invested. As you may remember, a lot of the current language in your guidelines date back to the late 1990s when we first funded your account and utilized dedicated separate accounts for the underlying fixed income portfolios. Over the years we've been able to migrate your portfolio to bank collective funds, which have allowed the benefit of increased diversification and economies of scale.

Notification
When conducting our guideline compliance review for the Wisconsin portfolio, we noted a discrepancy between the language of your guidelines regarding the ability to hold downgraded securities and those of the collective funds which your portfolio invests in, which is creating the violation. In particular, the interpretation of your guidelines is that securities downgraded below "investment grade" (BBB-/Baa3) need to be sold within 90 days. Currently, at the rollup of all of your collective fund portfolios, there is 0.25% in below BBB- securities. All of the various collective funds currently used in your portfolio do allow for a small amount to be held in below investment grade securities indefinitely, hence the guideline language conflict we are presented with.

Remedy

In addition to the downgrade language discrepancy noted earlier, there are a number of other components of your guidelines that are dated, referring to some guidance that was in place over the years for the fixed income separate accounts as well as previously for the collective funds. In order to clarify guideline language between our stable value separate accounts and the collective funds utilized within those separate accounts, we are currently working on a project to update guideline language so that you and our other separate account clients are comfortable with our methodology on how the various sets of investment guidelines interact with each other. Our recommendation to cure the current violation is to update the stable value fund guidelines to our latest template, which incorporates the allowable investment guidance from the current stable value marketplace. Not only will this cure the current issue regarding the small amount of downgraded securities, but will also address potential other issues that may arise with the variance in guidelines from your separate account to those of the collective funds. Please see attached for our recommended guideline update.

You may notice that our guidelines now look different than our historical format with you. I'm happy to report the content hasn't changed materially, just the format. If you'd like more color on any of the section updates, please let us know.

Thank you for your help with this issue. If we can provide additional information, just let us know.

Mike Norman
Laura Sell

FIRST AMENDMENT TO THE AMENDED AND RESTATED INVESTMENT ADVISORY AGREEMENT

This amendment (the "Amendment") is effective as of _______ __, 2015, by and between Galliard Capital Management, Inc. ("Advisor") and the State of Wisconsin through its Deferred Compensation Board (the "Board").

WHEREAS, Advisor and the Board entered into an Amended and Restated Investment Advisory Agreement effective June 16, 2015 (the "Agreement"); and

WHEREAS, Advisor and the Board now wish to amend the Agreement.

NOW THEREFORE, the parties agree as follows:

AMENDMENT

1. Exhibit 3 of the Agreement is hereby deleted and replaced with the Exhibit 3 attached to this Amendment.

2. Except to the extent modified by this Amendment, the remaining provisions of the Agreement shall remain in full force and effect. In the event of a conflict between the provisions of the Agreement and those of this Amendment, the Amendment shall control.

3. This Amendment may be executed in two or more counterparts, each of which shall be an original, but all of which together shall constitute one and the same agreement. Delivery of an executed counterpart of this Amendment by facsimile, including, without limitation, by facsimile transmission or by electronic delivery in portable document format (".pdf") or tagged image file format (".tiff"), shall be equally effective as delivery of a manually executed counterpart thereof.

State of Wisconsin Deferred Compensation Board

By:________________________________

Name:______________________________

Its:________________________________

Galliard Capital Management, Inc.

By:________________________________

Name:______________________________

Its:________________________________

EXHIBIT 3

Investment Objective & Guidelines

State of Wisconsin Deferred Compensation Plan - Stable Value Fund

Effective: _______, 2015

INVESTMENT OBJECTIVE

The primary investment objective of the Account is preservation of principal. The secondary objective is to provide a competitive, stable crediting rate.

I. OVERALL FUND LEVEL GUIDELINES

A. PERFORMANCE BENCHMARK

The performance objective of the Account is to outperform the 3 year Constant Maturity Treasury yield over a full interest rate/market cycle.

B. SECTOR GUIDELINES

Fund Level	**Maximum Weighting**
Liquidity Buffer *(Cash/Cash Equivalents, Money Market Funds, STIF Vehicles, Stable Value Funds)*	50%
Guaranteed Investment Contracts (GICs)	10%
Separate Account GICs	50%
Synthetic GICs	95%

C. ADDITIONAL DIVERSIFICATION GUIDELINES

No more than 3% of the aggregate Account will be invested in traditional GICs from any one contract issuer, measured at the time of purchase or at the time of the last deposit to the contract.

Exposure to any one separate account GIC issuer shall be limited to not more than 25% of the Account's assets, measured at the time of purchase or at the time of the last deposit to the contract.

Exposure to any one synthetic GIC issuer shall be limited to not more than 35% of the Account's assets, measured at the time of purchase or at the time of the last deposit to the contract.

In the event a contract issuer is terminated, it will not be deemed a violation to the guidelines if the remaining issuers exceed the limit. Galliard will replace the terminated issuer within 180 days or obtain client approval for an extension.

D. QUALITY GUIDELINES

The minimum quality rating of traditional GIC/separate account GIC/synthetic GIC issuers must be A- or equivalent by at least one Nationally Recognized Statistical Rating Organization ("NRSRO"), measured at the time of the initial placement. In the case of a split rating, the higher rating shall apply.

E. DURATION GUIDELINES

The overall duration of the underlying securities in the Account (including the Liquidity Buffer and cash/cash equivalents) shall be limited to a maximum of 3.5 years.

F. PERMITTED INVESTMENTS

Permitted investments will be limited to GICs, synthetic GICs, separate account GICs, collective investment trusts (including stable value collective funds and fixed income collective funds), cash equivalents and/or money market funds.

II. UNDERLYING ASSET GUIDELINES

All assets of the Account invested in GICs, separate account GICs, collective investment trusts, short-term investment funds, and money market mutual funds will be included for purposes of calculating weighted average allocations in Subsection B but such assets will not otherwise be subject to the underlying asset guidelines in Section II below.

Investments in short-term investment funds, money market mutual funds and certain short-term investment grade securities shall be categorized as Cash and Cash Equivalents.

A. PERFORMANCE

The performance of various constituent elements of the Account is expected to exceed the benchmarks or objectives which are selected for the purpose of measuring the performance of those elements of the Account over a market cycle.

B. SECTOR GUIDELINES

The aggregate amount of the securities held by the Account will be managed such that the Account in the aggregate on a weighted-average basis.

Sector/Sub-Sector	**Maximum**
Cash / Cash Equivalents / U.S. Treasury / Agency Obligations	100%
Corporates/Municipals	60%
ABS	30%
Residential Mortgage-Backed (RMBS)	65%
Non-Agency RMBS	*10%*
CMBS (Agency & Non-Agency)	30%
Sovereign/Supranationals	20%

C. DIVERSIFICATION GUIDELINES

No more than 5% of the Account will be invested in any single asset backed or non-government mortgage backed issuing trust held by the Account. In addition, no more than 3% of the Account may be invested in any single corporate issuer.

D. QUALITY GUIDELINES

All securities, or the issuers of the securities, held by the Account will be rated investment grade (BBB- or equivalent) or better by at least one Nationally Recognized Statistical Rating Organization ("NRSRO") at the time of purchase. Securities, or the issuers of securities held by the Account , that are downgraded below investment grade (BBB- or equivalent) may be held in Advisor's discretion, however, the weighted average credit quality of the securities, or the issuers of the securities, held by the Account shall be maintained at a minimum rating of AA- or equivalent.

The minimum rating by at least one NRSRO on individual money market instruments will be A1 or equivalent, measured at the time of purchase.

In the case of a split rating, the higher rating shall apply.

E. PERMISSIBLE SECURITIES AND INVESTMENTS

Under normal circumstances, the Account may invest in:

- Asset backed securities

- Collective funds
- Debt obligations of corporations, financial institutions, or non-corporate credit issuers
- Federal agency securities/or other debts or loans backed by U.S. Government Agencies
- Money market instruments, including mutual funds or collective funds investing in such instruments
- Mortgage backed securities, including CMOs
- Municipal securities
- Private placements, including but not limited to 144A
- Repurchase agreements
- Sovereign/supranational securities
- Treasury notes, bonds, and bills/or other debts or loans guaranteed by the U.S. Treasury
- The Derivatives that may be used in the Account include the following to gain or hedge exposures within the Account include the following:
    - Futures Contracts, including Eurodollar futures, interest rate futures, and Treasury futures
    - Options and Swap agreements, including caps and floors, total return swaps, credit default swaps, options on interest rate futures, and options on MBS.
    - Rights and warrants, if received as the result of a corporate action or ownership of a permissible security or investment
    - TBA securities, forward purchase agreements and mortgage dollar rolls on Agency MBS and Agency CMBS subject to the following:
        - The net value of TBA securities and forward purchase agreements shall be backed by cash (including STIF) and cash equivalents (defined as investment grade fixed income securities with an effective duration of one year or less.) and
        - Net sales of TBA positions shall be covered by like securities deliverable into these positions;

Derivative usage shall not introduce risk that is inconsistent with other aspects of these investment guidelines including, but not limited to, exposure to unexpected asset classes, leverage and illiquidity. Derivatives are generally expected to be used such that they hedge or mitigate market risk unless otherwise permitted in these guidelines.

F. PROHIBITED SECURITIES/STRATEGIES

The Account shall comply with the following investment restrictions:

- No equity securities (except equity or equity-like securities received as the result of a corporate action associated with a permissible security or investment)
- No investments will be used to leverage the Account

- No non-U.S. dollar denominated securities (does not include Yankee Bonds)
- No short sales (except mortgage TBA sales where the portfolio holds sufficient deliverable securities to cover the net TBA sale or intra-day short sales of Treasury securities to facilitate trading that are covered by close of the same business day)
- No writing of uncovered calls or puts

NOTICE OF CHANGES TO THE WELLS FARGO SHORT-TERM INVESTMENT FUND

NOTICE IS HEREBY GIVEN that Wells Fargo Bank, N.A. ("Wells Fargo"), has approved a unit class merger and specified advisor, name, structure and expense changes of the Wells Fargo Bank collective investment funds for employee benefit plans, based on its determination that the actions are in the best interests of plans participating in the funds. In addition, Wells Fargo anticipates that a capital infusion will be made upon the transition activities in order to more closely align the market value and the amortized cost.

The unit class merger will occur on or about November 23, 2015 (11:59 p.m. Eastern Time), and the other changes will occur on or about November 30, 2015 (11:59 p.m. Eastern Time).

Importantly, the Wells Fargo Short-Term Investment Fund's objective and investment strategy **will not** change.

Information about the unit class merger and other changes are set forth below.

RATIONALE FOR WELLS FARGO SHORT-TERM INVESTMENT FUND CHANGES

Wells Fargo Short-Term Investment Fund (STIF) represents our only stable net asset value CIT in a product line of over 30 strategies. Wells Fargo has decided to transition advisory services to BlackRock Institutional Trust Company (BTC) who manages over $83 billion in STIF assets. Wells Fargo believes that BTC has more than adequate scale and has a liquidity asset management product infrastructure that is well equipped to provide our current and future STIF unit holders with a strong stable net asset value product in this changing regulatory environment. Similar to other Wells Fargo sponsored CITs which are sub-advised by BTC, the restructured Wells Fargo/BlackRock Short Term Investment Fund will be a "fund of funds" structure. Importantly, the offering will also continue to trade at a stable $1.00 net asset value in the same fashion as other stable net asset value strategies as required by the Office of the Comptroller of the Currency (OCC); which oversees our CITs.

MERGER OF N15 CLASS UNITS INTO N CLASS UNITS OVERVIEW

On November 23, 2015, the Wells Fargo Short-Term Investment Fund N15 will be merged into the Wells Fargo Short-Term Investment Fund N. The merger will achieve increased operational efficiencies and economies of scale in portfolio management and trust administration, as well as, a lower total expense ratio for Wells Fargo Short-Term Investment Fund N15 participating plans. Immediately upon the merger the value of a Plan Sponsor's or Participant's interest in a fund will remain the same.

INFORMATION ABOUT THE MERGING UNIT CLASSES

As part of the restructuring detailed below, on November 23, 2015 the Merging and the Surviving Wells Fargo Funds are set forth as follows:

Merging Collective Fund	Current Total Expense Ratio	Surviving Collective Fund	New Total Expense Ratio
Wells Fargo Short-Term Investment Fund N15	0.21%	Wells Fargo Short-Term Investment Fund N	0.06%

The merger detailed above will combine the assets of the Wells Fargo Short-Term Investment Fund's unit classes, which are part of the same investment portfolio.

After the merger, plans participating in the Merging Collective Funds will receive the same number of units of the Surviving Collective Fund. The total value of the interest held by a participating plan will not change at the time of the merger (i.e., the dollar value will remain the same immediately after the merger).

There will be no direct costs borne by the participating plans due to merger activities.

ADVISOR AND NAME CHANGE

On November 30, 2015, the Wells Fargo Short-Term Investment Funds will experience an advisor change from Wells Fargo Capital Management to BlackRock Institutional Trust Company. In addition, the name of the collective investment fund will be changed to Wells Fargo/BlackRock Short-Term Investment Fund. Importantly, there will be no change to each unit class cusip or other identifiers. The table below identifies the new naming convention and advisor change.

Current Collective Fund Name	Current Advisor	New Collective Fund Name	New Advisor
Wells Fargo Short-Term Investment Fund F	Wells Capital Management	Wells Fargo/BlackRock Short-Term Investment Fund F	BlackRock Institutional Trust Company
Wells Fargo Short-Term Investment Fund N	Wells Capital Management	Wells Fargo/BlackRock Short-Term Investment Fund N	BlackRock Institutional Trust Company
Wells Fargo Short-Term Investment Fund S	Wells Capital Management	Wells Fargo/BlackRock Short-Term Investment Fund S	BlackRock Institutional Trust Company
Wells Fargo Short-Term Investment Fund AT	Wells Capital Management	Wells Fargo/BlackRock Short-Term Investment Fund TR	BlackRock Institutional Trust Company

ABOUT THE NEW ADVISOR

BlackRock Institutional Trust Company, N.A. (BTC) is a national banking association organized under the laws of the United States. BTC operates as a limited purpose trust company. Its primary regulator is the Office of the Comptroller of the Currency ("OCC"), the agency of the U.S. Treasury Department that regulates United States national banks. BTC is a subsidiary of BlackRock, Inc. ("BlackRock"). BlackRock and its subsidiaries currently provide investment management services globally for institutional, retail and private clients. BTC advises approximately $83 billion in Short Term Investment Fund collective investment fund assets as of June 30, 2015 which is part of their Liquidity Asset Management business totaling $459 billion in assets under management.

PRODUCT STRUCTURE CHANGE

Currently the Wells Fargo Short-Term Investment Fund is structured as a pool of individual securities. The Fund's securities will be transferred-in-kind to a new BlackRock Short Term Investment Fund, and subsequently, the Wells Fargo/BlackRock Short-Term Investment Fund will hold units of the new BlackRock Short Term Investment Fund. The changes result in a new fund of funds structure.

EFFECT ON FEES

The transition activities will result in an increase in third party investment advisory fees and operational expenses being paid at the Fund level as described below.

Current Collective Fund	Current Total Expense Ratio	Newly Named Collective Fund	Anticipated Total Expense Ratio
Wells Fargo Short-Term Investment Fund F	0.03%	Wells Fargo/BlackRock Short-Term Investment Fund F	0.13%
Wells Fargo Short-Term Investment Fund N	0.06%	Wells Fargo/BlackRock Short-Term Investment Fund N	0.16%
Wells Fargo Short-Term Investment Fund S	0.01%	Wells Fargo/BlackRock Short-Term Investment Fund S	0.13%
Wells Fargo Short-Term Investment Fund AT	0.16%	Wells Fargo/BlackRock Short-Term Investment Fund TR	0.20%

There will be no direct costs borne by the participating plans due to transition activities.

FEDERAL INCOME TAXATION CONSEQUENCES OF FUND UNIT CLASS MERGER TO PLANS PARTICIPATING IN A COLLECTIVE INVESTMENT FUND

The collective fund unit class merger is exempt from federal income taxation under section 501(a) of the Internal Revenue Code, and participation in the funds is limited to tax-exempt retirement plans.

Accordingly, the unit class merger of the fund is not expected to have any federal income tax effects on the funds or to any plan participating in the funds. If, however, a plan participating in the funds has incurred debt for the purpose of acquiring or holding an interest in either the Merging Collective Fund or the Surviving Collective Fund, such participating plan should consult with its own tax advisors as to whether it will incur unrelated business taxable income by reason of such debt.

For additional information regarding a specific trust account, the collective investment funds, please contact the Wells Fargo relationship manager assigned to the plan.

ADDITIONAL INFORMATION AND RIGHT TO WITHDRAW FROM THE FUNDS

The current Disclosure Document and Fact Sheets for the Wells Fargo Short-Term Investment Fund accompany this Notice. This Disclosure and Fact Sheets describe in detail the investment objectives, strategy, holdings constituents, and other aspects of the Fund. You may obtain copies of the most recent annual report for the Wells Fargo Short-Term Investment Fund, by contacting your Wells Fargo relationship manager.

If a plan sponsor determines that, based on the information in this Notice or in the Disclosure, it no longer wishes to continue the plan's investment in a Merging Collective Fund, it should notify the Wells Fargo relationship manager assigned to the plan **no later than November 16, 2015**.

The date of this Notice is October 1, 2015