



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

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CORRESPONDENCE / MEMORANDUM

DATE: February 23, 2016
TO: Wisconsin Deferred Compensation Board
FROM: Shelly Schueller, Director
Wisconsin Deferred Compensation Program
SUBJECT: Stable Value Fund – Subadvisor Change

Staff recommends the Board approve a revision to the Galliard Investment Advisory Agreement, as presented. No Board action is required on the subadvisor change from PIMCO to TCW.

Galliard Capital Management will attend the March 8, 2016 Board meeting via conference call to inform the Board of subadvisor changes in the Stable Value Fund (SVF) that are expected to occur in early May 2016.

Adding Jennison Associates

Galliard also wishes to further diversify the investment management of the SVF by adding Jennison Associates as a subadvisor. This allocation would utilize another collective fund that Jennison has been managing for Galliard clients since August 2010.

The Board's approval of an amendment to Schedule A of the Investment Advisory Agreement is required in order to implement this change. The change to that schedule, as shown on the attached unsigned amendment, is to add the collective fund managed by Jennison, including the fee and expense disclosure section for that fund.

Replacing PIMCO

The Department was formally notified by Galliard on February 23, 2016 that they intend to replace the manager of one of the underlying collective funds. PIMCO will be replaced by TCW. Galliard anticipates improved performance as well as a reduction in expenses as a result of this change, which will take place as of May 2, 2016. No Board action is required on this change.

According to Galliard, based on the SVF reallocations (8% allocation TCW, 10% allocation to Jennison and 12% allocation to Dodge and Cox), the average fee savings from the current PIMCO allocation will be 0.014% to the overall portfolio. Further,

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

Electronically Signed 2/25/16

Board	Mtg Date	Item #
DC	3.8.16	11

Stable Value Fund – Subadvisor Change

February 23, 2016

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because these are sub-advisor changes on underlying collective funds to the SVR, there will be no impact on trading and the transition will be transparent to WDC participants.

Staff recommends the Board approve the collective fund changes, including delegating final review and approval of the proposed amendment to the Board Chair.

Staff will be available at the Board meeting to discuss these changes and answer your questions.

Attachments: Letter from Mike Norman of Galliard received February 23, 2016
Jennison Manager Review as of December 31, 2015
TCW Manager Review as of December 31, 2015
Draft Second Amendment to Galliard Investment Advisory Agreement

Dear Shelly,

As previously discussed, we are planning on transitioning the management of one of the underlying collective funds within your stable value fund from PIMCO to TCW. Due to persistent underperformance over the past few years, organizational instability, and the availability of other solutions at a more competitive cost, we believe it is the right time to make a change. After a thorough search we are looking to replace PIMCO with TCW. TCW will take over the existing PIMCO collective fund you currently use on 5/2/16. We anticipate this change will result in overall better underlying performance as well as result in an expense reductions to the State of Wisconsin Stable Value Fund.

In addition, we would also like to take this opportunity to further diversify the investment management of the Wisconsin Stable Value Fund and add an allocation to Jennison Associates, utilizing another collective fund that they have been managing for Galliard clients since August 2, 2010.

In addition to adding additional style diversification and the potential for enhanced performance, we also anticipate an overall reduction to the expense ratio of the fund. Based on a 8% allocation to TCW, a 10% allocation to Jennison and a 12% allocation to Dodge and Cox, the average fee savings from the current PIMCO allocation will be 0.014% to the overall portfolio.

We would like to implement both changes effective 5/2/16. Per our advisory agreement, I'm hoping you will be able to give us the approval to implement this change to the underlying portfolio for the State of WI account.

This will be just a sub-advisor change on an underlying collective fund utilized by your account and an addition of another collective fund to be utilized by your account. There will be no impact on trading with Great West and the transition will be transparent to your participants as well.

The only paperwork needed will be an amended Schedule A to Exhibit 1 of the Investment Advisory Agreement. The change to that schedule will be to add the collective fund managed by Jennison and the fee and expense disclosure section for that fund.

Attached are profiles for each manager.

If we can answer any additional questions, or be available for an update with your investment committee, please let us know.

Sincerely,

Mike Norman and Laura Sell

JENNISON – FUND N

INVESTMENT STRATEGY AS OF 12/31/15

INVESTMENT STYLE

Jennison’s investment process uses a bottom-up approach that focuses on fundamental research and individual security selection. Jennison monitors the market environment and may express duration and yield curve views when significant yield curve dislocations are identified. Security selection and yield curve management are primary drivers of relative performance.



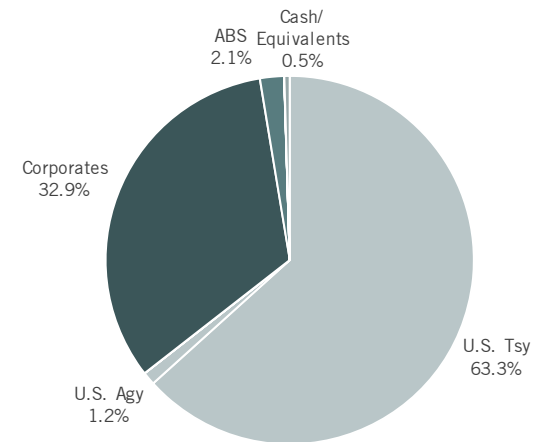
FUND CHARACTERISTICS

Characteristic	Jennison	Barclays U.S. Intermediate Gov't/Credit Bond Index
Weighted Average Quality	AA+	AA
Effective Duration	4.15 Yrs	3.89 Yrs
Yield to Maturity	1.84%	2.05%

ANNUALIZED INVESTMENT PERFORMANCE (%) *

	4Q'15	1 Yr	3 Yr	5 Yr
Jennison	(0.51)	1.06	1.16	2.88
Barclays U.S. Int. Gov't/Credit Bond Index	(0.69)	1.07	1.10	2.58
Excess Return	0.18	(0.01)	0.06	0.30

SECTOR DISTRIBUTION **



CURRENT STRATEGY

- Maintaining a yield curve flattening bias
- Actively adjusting yield curve positioning
- Overweight credit
- Active in the new issue market

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

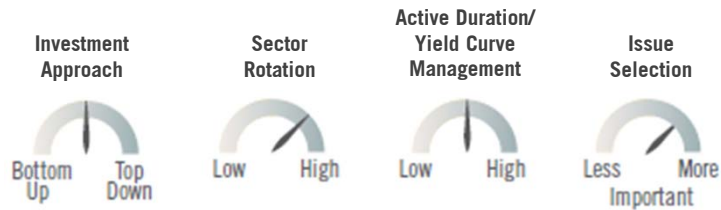
**The external managers provide portfolio holdings, and the securities are classified using Galliard's analytics and methodology.

TCW

INVESTMENT STRATEGY AS OF 12/31/15

INVESTMENT STYLE

TCW's investment process integrates their long-term economic outlook and bottom-up security selection. TCW's process focuses on identifying inefficiencies and the mean reverting nature of fixed income markets. Security selection is a key driver of performance. Active sector rotation also contributes strongly to performance.



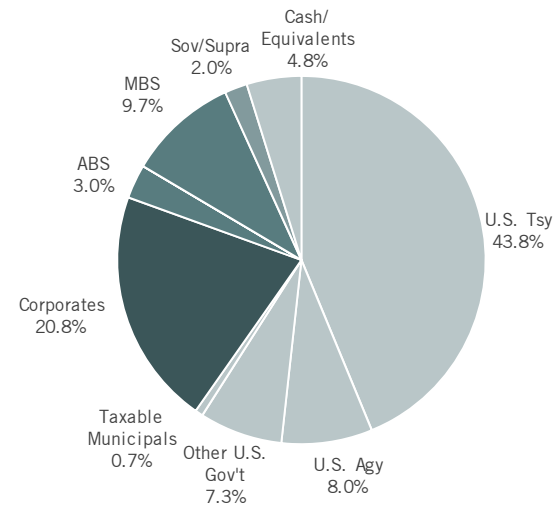
FUND CHARACTERISTICS *

Characteristic	TCW	Barclays U.S. Intermediate Gov't/Credit Bond Index
Weighted Average Quality	AA+	AA
Effective Duration	3.31 Yrs	3.89 Yrs
Yield to Maturity	1.98%	2.05%

ANNUALIZED INVESTMENT PERFORMANCE (%) **

	4Q'15	1 Yr	3 Yr	5 Yr
TCW Representative Portfolio	(0.57)	0.89	1.54	2.97
TCW Intermediate Fixed Income Strategy Composite	(0.45)	0.83	1.67	3.51
Barclays U.S. Int. Gov't/Credit Bond Index	(0.69)	1.07	1.10	2.58
Excess Return (vs. Representative Portfolio)	0.12	(0.18)	0.44	0.39

SECTOR DISTRIBUTION ***



CURRENT STRATEGY

- Remain short duration
- Underweight Corporates notably in industrials
- Continue to hold MBS allocation focused on Agency CMOs
- Maintain Agency CMBS allocation (noted in Other U.S. Gov't)

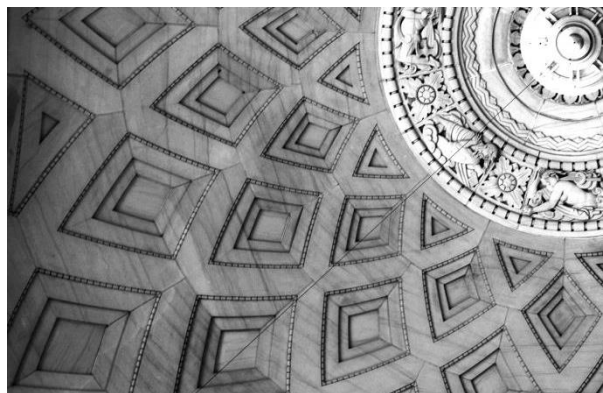
*Characteristics as provided by TCW for a representative portfolio

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***Sector distribution provided by TCW for a representative portfolio.



ARCHITECTS OF INVESTMENT SOLUTIONS



WDC External Manager Update

MARCH 2016

GALLIARD EXTERNAL MANAGER OVERSIGHT

PIMCO DOWNGRADE

GALLIARD HAS DOWNGRADED PIMCO'S RATING FROM GOOD TO ACCEPTABLE PIMCO REMAINS ON OUR WATCH LIST

- Placed on Watch List in September 2014 as a result of significant organizational change
 - Departure of Mohammad El-Erian and Bill Gross
- Following in-depth evaluation since Watch List placement, Galliard has downgraded PIMCO's rating from 'Good' to 'Acceptable' for the following reasons:
 - Persistent underperformance over past few years resulting in rolling 3-year and 5-year period underperformance
 - Concerns surrounding continuing declines in PIMCO's assets under management in key strategies
 - "Wells notice" issued to PIMCO last in 2015 related to the firm's pricing practices for certain non-Agency MBS securities
 - Lawsuit filed by former CIO Bill Gross
- Downgrade from 'Good' to 'Acceptable' places PIMCO below rating threshold needed to remain a Recommended manager



GALLIARD CAPITAL MANAGEMENT

TRANSITION AWAY FROM PIMCO

BACKGROUND

- The WDC stable value portfolio has ~30% allocated to external management: ~15% to Dodge & Cox and ~15% to PIMCO. Galliard recently downgraded PIMCO from good to acceptable and will be replacing them in the portfolio.

WHY: BETTER ALTERNATIVE MANAGERS

- Performance
- Fees
- Organizational stability

SOLUTION:

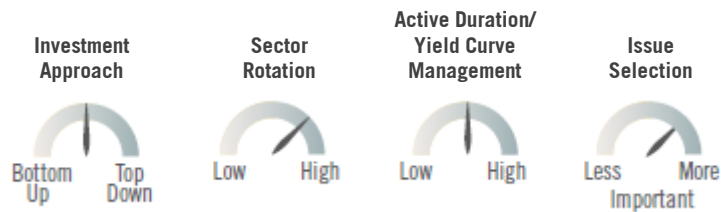
Remove PIMCO and add TCW and Jennison. Split the external manager allocation between Jennison, TCW, and Dodge & Cox;
Fee savings of ~1 bp at the fund level

TCW

INVESTMENT STRATEGY AS OF 12/31/15

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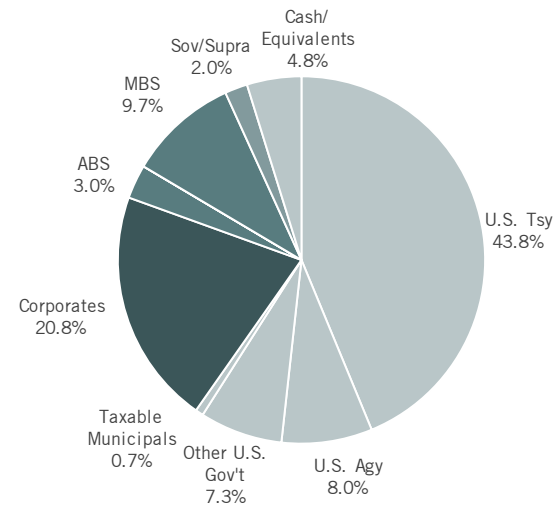
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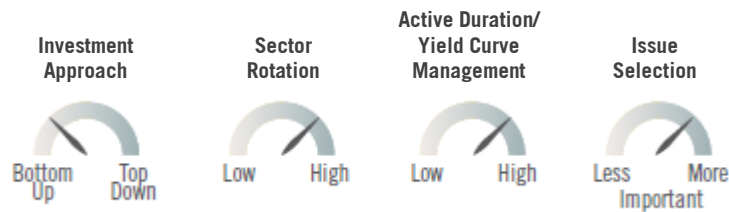
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JENNISON – FUND N

INVESTMENT STRATEGY AS OF 12/31/15

INVESTMENT STYLE

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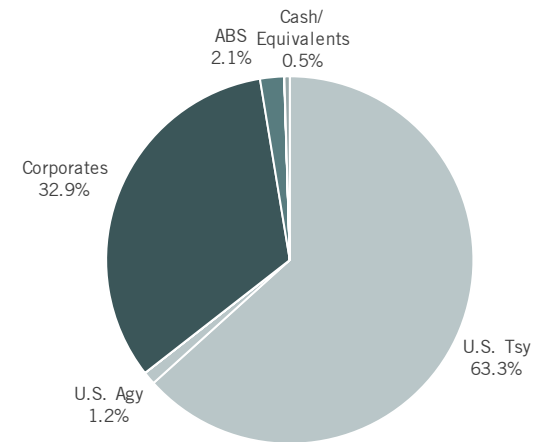
FUND CHARACTERISTICS

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SECTOR DISTRIBUTION **



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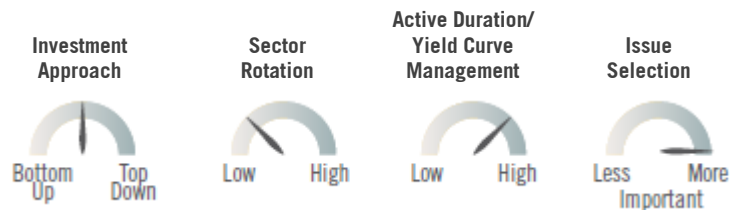
**The external managers provide portfolio holdings, and the securities are classified using Galliard’s analytics and methodology.

DODGE & COX – FUND J

INVESTMENT STRATEGY AS OF 12/31/15

INVESTMENT STYLE

Dodge & Cox's investment process is based on fundamental security analysis. This bottom-up analysis is coupled with economic information to produce target sector weights. Dodge & Cox portfolios tend to be overweight the Corporate sector. Security selection is a primary driver of relative performance.



FUND CHARACTERISTICS

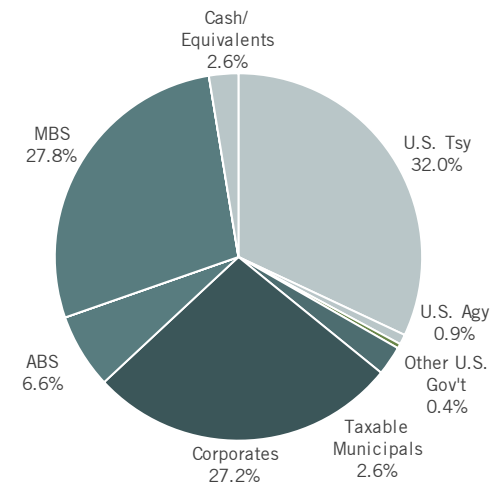
Characteristic	Dodge & Cox	Barclays U.S. Intermediate Aggregate Bond Index
Weighted Average Quality	AA	AA+
Effective Duration	3.62 Yrs	4.08 Yrs
Yield to Maturity	2.24%	2.31%

ANNUALIZED INVESTMENT PERFORMANCE (%) *

	4Q'15	1 Yr	3 Yr
Dodge & Cox	(0.20)	1.60	1.99
Barclays U.S. Int. Agg. Bond Index	(0.51)	1.21	1.41
Excess Return	0.31	0.39	0.58

Note: Prior to 1/2/2011, Fund J was managed by another subadvisor. Performance shown here includes only those time-periods managed by Dodge & Cox.

SECTOR DISTRIBUTION **



CURRENT STRATEGY

- Maintaining shorter duration positioning
- Overweight to Corporates is being maintained with a focus on security selection
- Underweight Agency mortgage-backed securities
- Overweight asset-backed securities with a focus on issues providing high quality collateral, liquidity and incremental yield

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EXTERNAL MANAGER REALLOCATION MANAGER PERFORMANCE

Performance as of 12/31/2015 (gross-of-fee)	3 Months	1 Year	3 Years	5 Years	10 Years	Current
PIMCO Fund C	-0.38	0.81	0.56	2.58	4.93	19.13
Barclays Aggregate linked to Barclays Intermediate Aggregate 4/2010	-0.51	1.21	1.41	2.74	4.22	
Excess	0.13	-0.41	-0.85	-0.16	0.72	
Jennison Fund N	-0.51	1.06	1.16	2.88	--	9.00
Barclays Intermediate Gov/Credit	-0.69	1.07	1.10	2.58	4.04	
Excess	0.18	-0.01	0.06	0.30		
Dodge & Cox - Fund J	-0.20	1.60	1.99	3.24	--	10.54
Barclays Aggregate linked to Barclays Intermediate Aggregate 4/2010	-0.51	1.21	1.41	2.74	4.22	
Excess	0.31	0.39	0.58	0.50		
TCW - Representative Portfolio	-0.57	0.89	1.54	2.97		Estimated 12.5
TCW - Intermediate Fixed Income Strategy Composite	-0.45	0.83	1.67	3.51	5.41	
Barclays Intermediate Gov/Credit	-0.69	1.07	1.10	2.58	4.04	
Excess - Representative Portfolio	0.12	-0.18	0.44	0.39		
Excess - Composite	0.24	-0.24	0.57	0.93	1.37	