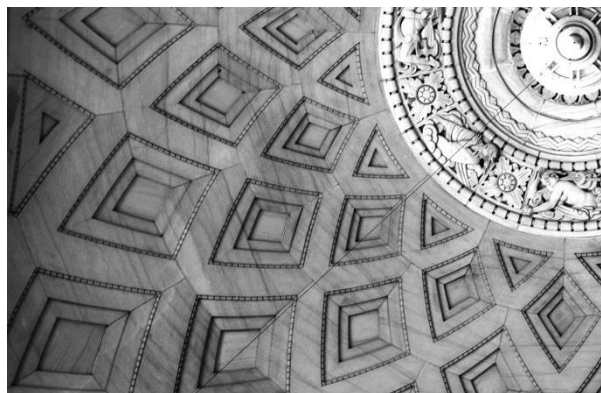




ARCHITECTS OF INVESTMENT SOLUTIONS



## WDC External Manager Update

MARCH 2016

Board	Meeting Date	Item #
DCIC	4.5.16	1A

## 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

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### **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:**

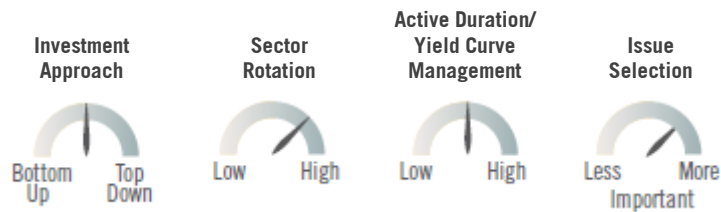
Remove PIMCO and add TCW and Jennison. Split the external manager allocation between Jennison, TCW, and Dodge & Cox;  
Fee savings of ~1 bp at the fund level

# TCW

## INVESTMENT STRATEGY AS OF 12/31/15

### 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.



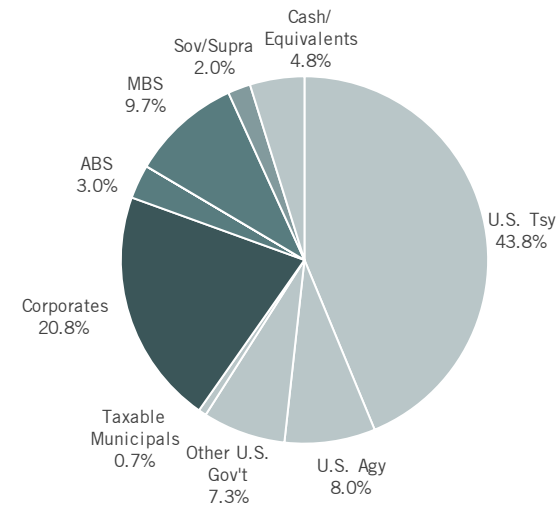
### FUND CHARACTERISTICS \*

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
<b>Excess Return</b> (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

\*\*Returns for periods less than one year are not annualized. Both performance streams provided by TCW and shown gross of fees.

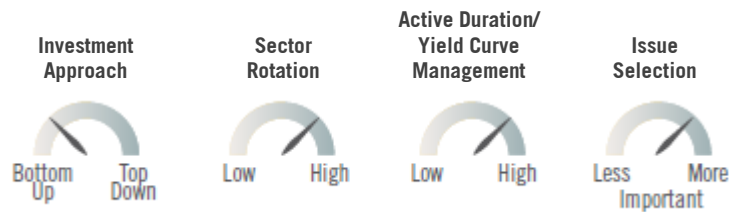
\*\*\*Sector distribution provided by TCW for a representative portfolio.

# 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.



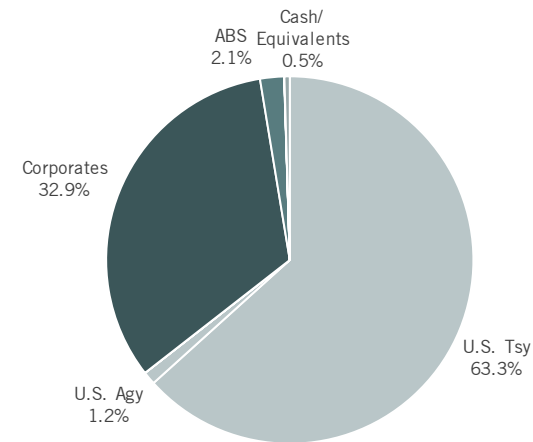
### FUND CHARACTERISTICS

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
<b>Excess Return</b>	<b>0.18</b>	<b>(0.01)</b>	<b>0.06</b>	<b>0.30</b>

### 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.

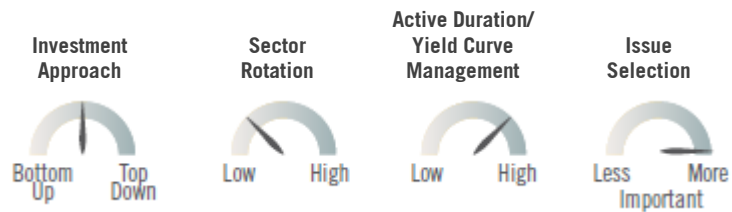
\*\*The external managers provide portfolio holdings, and the securities are classified using Galliard’s analytics and methodology.

# 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

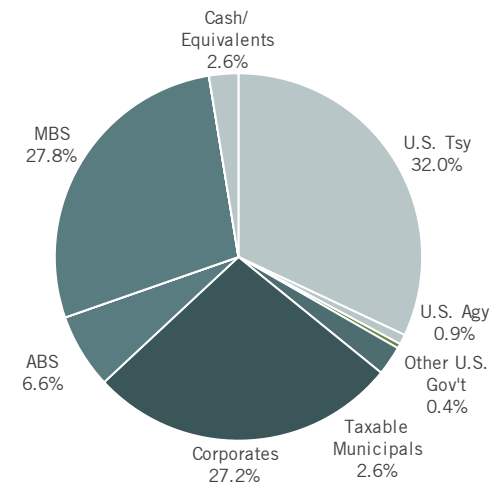
Characteristic	Dodge & Cox	Barclays U.S. Intermediate Aggregate Bond Index
Weighted Average Quality	AA	AA+
Effective Duration	3.62 Yrs	4.08 Yrs
Yield to Maturity	2.24%	2.31%

### 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
<b>Excess Return</b>	<b>0.31</b>	<b>0.39</b>	<b>0.58</b>

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

\*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.

## EXTERNAL MANAGER REALLOCATION MANAGER PERFORMANCE

<b>Performance as of 12/31/2015 (gross-of-fee)</b>	<b>3 Months</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>	<b>Current</b>
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	

## JENNISON

Jennison is an approved manager in Galliard's external manager program with a rating of Superior. Jennison has managed the Wells Fargo Fixed Income Fund N since August, 2010.

### Organization & Team

Jennison Associates LLC was founded in 1969 and has been a wholly owned subsidiary of Prudential Financial since 1985. Jennison began managing fixed income assets in 1975. Jennison has been managing stable value assets since 1991. Jennison manages \$174.18 billion in assets as of December 31, 2015, including \$64.97 billion in fixed income. Included in the fixed income assets is \$16.55 billion in Stable Value. Approximately two-thirds of the stable value assets are in the Barclays Intermediate Government/Credit strategy managed for Galliard. Jennison also manages stable value assets against Intermediate Aggregate, 1-5 Year Gov/Credit, 1-3 year Treasury and Intermediate Government indices.

Jennison's fixed income team is based in Boston, MA. The portfolio management team is highly experienced, averaging over twenty years of investment experience. Jennison uses a team approach to managing portfolios.

### Strategy

Jennison's strategy combines a top-down economic perspective with bottom-up fundamental security selection. Underlying Jennison's investment strategy is a belief in mean reversion of yield spreads and yield curve shapes. Jennison typically maintains a higher quality bias and expects to outperform in the tail of the cycle.

Jennison typically maintains neutral duration positioning relative to the benchmark, but does actively manage yield curve positioning. Yield curve positioning is based on the curve relative to historical positioning and the potential upside compared to downside risks of the positioning. Treasury futures are typically used to adjust yield curve positioning.

Jennison's credit process is based on fundamental research and security selection. In determining the level of credit exposure, Jennison focuses on reviewing spreads and valuations within a historical context. Security selection is based on bottom-up analysis

Board	Meeting Date	Item #
DCIC	4.5.16	1B