Date: April 25, 2016

To: Shelly Schueller, Director
Wisconsin Deferred Compensation Program

From: Bill Thornton
Empower Retirement

Subject: Considerations for the Wisconsin Deferred Compensation Program Investment Offerings

Before the May 17, 2016, Investment Committee meeting, I wanted to share some thoughts on two of the funds currently in the Wisconsin Deferred Compensation lineup:

1. **Federated U.S. Govt 2-5 Yr Instl Fund** – As we have discussed in several previous quarterly investment reviews, the fund has consistently trailed the performance of the Barclay's US Treas/Agency 3-5 Yr Index, which is the market benchmark listed in the Plan's Investment Policy. Additionally, from a peer group perspective, the fund has underperformed its Morningstar Short Government category for the last three consecutive calendar years.

As we have talked about, there are some considerations to take into account when looking at the fund versus these two benchmarks. The Barclay's index has a slightly narrower maturity focus than the fund, which could impact relative returns. Also, the Morningstar peer has a small number of funds in the Short Government category (40 distinct funds with a 5 year track record). Given that the five year standard deviation of the group is just over 1.0, a few basis points of performance can make a substantial difference in peer rankings.

Beyond performance, though, I think the Plan would be better served by removing the fund and replacing it with a value-oriented equity fund in the lineup. Currently, the Plan provides participants with four options that I would consider short-term bond funds: the Federated fund, the stable asset fund, the Vanguard Treasury Money Market, and the Nationwide FDIC Bank fund. All four of these funds are highly-correlated to short-term U.S. interest rates and, as a result, probably offer some redundancy in the Plan's lineup.

Conversely, the Plan doesn't currently offer participants a fund that provides direct exposure to value-oriented equities. While participants have a certain level of exposure through the large, mid, and small cap index funds, it is unusual not to provide an equity fund that utilizes a value-oriented investment style.

Given the underperformance of the Federated fund, I believe this would be an opportune time to look at making this change in the Plan's lineup.

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2. **Stable Asset Fund** – Although the performance of the stable value fund has been acceptable, Rob Dwyer informed me that participants would realize a substantial cost savings if the Plan utilized a custom stable value fund provided by Great-West as opposed to the fund currently in the Plan. By Rob's estimates, participants could see savings of nearly 30% between the direct expenses of the fund as well as savings in recordkeeping fees. Given the large cost savings, it may be prudent to discuss the option further with the Investment Committee.

Please let me know if you have any questions or would like to discuss anything before the Investment Committee Meeting on May 17th.