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Correspondence Memorandum

Date: May 19, 2016

To: Deferred Compensation Board

From: Shelly Schueller, Director
 Wisconsin Deferred Compensation Program

Subject: Federated U.S. Government Securities 2-5 Year Fund Review

The Investment Committee recommends that the Board consider putting the Federated U.S. Government Securities 2-5 Year Fund on watch status.

Representatives of the Federated U.S. Government Securities 2-5 Year Fund (Federated fund) will be at the June meeting to provide the Board with additional information on the fund, its recent performance, and a fine imposed on the firm by the Securities and Exchange Commission (SEC) regarding lack of oversight over an outside consultant from 2001 to 2010. The Board and the Investment Committee have discussed the performance of the Federated fund at the last several meetings because the fund's performance has consistently been lagging. It has trailed its market benchmark and underperformed its peer group for the last three consecutive calendar years. As shown in the table below, the Federated fund has not been in the upper two quartiles of the 3-year percentile ranks since mid-2014.

3-Year Percentile Ranks

Name	2016	2015	2015	2015	2015	2014	2014	2014	2014	2013	2013
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
American Funds EuroPacific Gr R6	66	64	69	76	82	73	79	65	67	69	42
Calvert Equity I	61	40	61	42	38	43	21	16	30	40	23
DFA U.S. Micro Cap	82	79	73	79	78	82	77	87	86	90	92
Federated U.S. Govt: 2-5 Yr Instl	38	19	30	25	32	23	17	69	73	78	59
Fidelity Contrafund	63	59	59	44	58	47	50	75	71	67	53
T. Rowe Price Mid-Cap Growth	99	97	98	91	92	86	74	85	78	75	78
Vanguard Institutional Index Instl PI	89	84	74	64	72	74	71	82	79	80	79
Vanguard Long-Term Inv Grade Adm	100	98	69	61	95	95	77	93	94	94	50
Vanguard Wellington Adm	92	88	88	82	88	85	89	93	94	91	88

76-100	1st Quartile
51-75	2nd Quartile
26-50	3rd Quartile
1-25	4th Quartile

Source: WDC Plan Investment Review Performance as of March 31, 2016 (page 7)

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

 Electronically Signed 5/31/16

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Federated U.S. Government Securities 2-5 Year Fund

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The Investment Committee heard a presentation from Federated at its April 2016 meeting, and also discussed the fund with Bill Thornton of Advised Assets Group at that meeting and a subsequent meeting in May 2016. As shown in the attached single page document from Federated, the fund's performance during the first quarter of 2016 did show some improvement. However, between the Federated fund's low investment performance over the last few years and its relatively high expense ratio, the Investment Committee believes it is prudent to begin the process of finding a potential replacement.

The Investment Committee recommends that the Board consider putting the Federated fund on watch status. The Investment Committee also requested that a search for possible alternatives begin and that a short list be presented to them for discussion later this year. Department staff concurs with these recommendations.

If the Board were to place the Federated fund on watch status, the WDC record keeper's staff would ensure that this information is shared with participants via an article in the next WDC participant newsletter and on the WDC web site.

Staff from Federated and the Department will be at the June Board meeting to discuss the fund and answer questions.

Attachment A: Federated Fixed Income Mutual Fund Analysis - Performance & Portfolio Analysis

Attachment B: Stempel, J. (May 27, 2016) "[SEC fines Federated Investors for Oversight Shortfalls](#)" *Reuters*

Attachment C: Summary of Settlement of Administrative Proceeding



Fixed Income Mutual Fund Analysis - Performance & Portfolio Analysis
 Unless Otherwise Noted All Data is as of:
 4/30/2016

Fund Name	Federated US Govt 2-5 Yr Instl	BofAML US Treasuries 3-5 Yr TR USD
Ticker	FIGTX	-
Share Class Type	Inst	-
Morningstar Category	US OE Short Government	-
Prospectus Benchmark	BofAML US Treasuries 3-5 Yr TR USD	-
Prospectus Net Expense Ratio	0.58	-
Dividend Distribution Frequency	Monthly	-
12 Mo Yield Date	4/30/2016	-
12 Mo Yield %	1.26	-
Return Date	4/30/2016	4/30/2016
Total Ret 1 Mo	0.02	-0.06
Total Ret 2 Mo	0.40	0.25
Total Ret 3 Mo	0.66	0.66
Total Ret 6 Mo	1.26	1.80
Total Ret YTD %	1.91	2.39
Total Ret 1 Yr %	1.00	2.49
Total Ret Annlzd 2 Yr %	1.28	2.64
Total Ret Annlzd 3 Yr %	0.33	1.52
Total Ret Annlzd 5 Yr %	1.17	2.33
Total Ret Annlzd 10 Yr %	3.42	4.32
Annual Ret 2015 %	0.13	1.59
Annual Ret 2014 %	0.83	2.14
Annual Ret 2013 %	-1.84	-0.91
Annual Ret 2012 %	1.16	1.58
Annual Ret 2011 %	4.67	6.23

Sources: Federated Investors, Morningstar Direct

Highlight shows where FIGTX either matched or outperformed the Benchmark.

All returns are calculated at no-load. If sales charges were reflected, they would reduce the performance quoted.

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Total Returns % (LOAD ADJUSTED) as of: 3/31/2016

Fund Name	Share Class	1 Year Return	5 Year Annual Return	10 Year Annual Return	Annual Return Since Inception	Inception Date	SEC Yield Date	30-Day SEC Yield
Federated US Govt 2-5 Yr Instl	Inst	0.91	1.37	3.44	5.96	2/18/1983	4/29/2016	0.60

Source: Morningstar Direct

Performance data quoted represents past performance which is no guarantee of future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.

For Class A Shares of the Federated funds, load figures reflect the maximum sales charge of 4.5% for fixed income funds and 5.5% for equity funds (except that returns for Short-Term Income Fund and Short-Intermediate Duration Municipal Trust reflect the maximum 1% sales charge, returns for Government Ultrashort Duration Fund, Municipal Ultrashort Fund, and Ultrashort Bond Fund reflect the maximum 2% sales charge, and returns for Michigan Intermediate Municipal Trust reflect the maximum 3% sales charge). For other share classes, load figures reflect the maximum sales charge of 1% for Class F Shares and the maximum contingent deferred sales charge of 5.5% for Class B Shares, 1% for Class C Shares, and 1% for Class F Shares. If shares of the High Yield funds are redeemed or exchanged within 90 days of purchase, a 2% redemption fee will be charged. If shares of the Federated International Small-Mid Company Fund are redeemed or exchanged within 30 days of purchase, a 2% redemption will be charged. The redemption fee will be paid to the fund.

Current performance may be lower or higher than what is stated. For current to the most recent month end performance and after tax returns for the Federated Funds, visit FederatedInvestors.com or call 1-800-341-7400.

Total return represents the value of an investment after reinvesting all income and capital gains. See the prospectus for other fees and expenses that apply to a continued investment in the Fund.

Total returns for periods of less than one year are cumulative. All other returns are average annual total returns, unless otherwise indicated.

30-day yield (also known as "SEC yield") is a compounded and annualized figure calculated according to a formula set by the SEC. The formula requires use of a specific methodology for calculating dividends and interest earned, and expenses accrued, during the period, and reflects the maximum offering price per fund share. The standardized computation is designed to facilitate yield comparisons among different funds.

Performance for some of these funds may have been lower in the absence of temporary expense waivers or reimbursements. Please consult the prospectuses for more information.

Some of these funds may offer separate classes of shares, which will have different performance due to differences in charges and expenses. Consult your investment representative for information on these classes.

The information contained herein has been obtained from sources deemed to be reliable but neither its accuracy nor completeness is guaranteed.

The attached is being provided to you at your request for specific information and may not be representative of the funds' performance during different market conditions. Moreover, because of differences in factors such as portfolio composition, investment objectives, management policies, fund fees and expenses, the attached information, by itself, might not permit you to make a complete comparison of the funds. Please consult the prospectuses for a discussion of these differences and consider them carefully when comparing performance.

Performance shown is before-tax.

Any performance information reported for periods prior to the fund's inception date is extended performance as calculated by Morningstar, Inc., and is based upon the performance of an older class of shares of the fund. If the expenses of the older class are lower, the performance has been adjusted to reflect the higher expenses of the newer class. This extended performance is not calculated according to SEC standards and may not be used with the public in sales literature or advertising.

Mutual funds are not bank deposits or obligations, are not guaranteed by any bank, and are not insured or guaranteed by the U.S. government, the FDIC, the Federal Reserve Board, or any other government agency. Investment in mutual funds involves investment risk, including possible loss of principal.

Performance for some of the Federated Funds is derived from the performance of a predecessor fund or class of shares. See the product performance on FederatedInvestors.com or refer to the fund prospectuses for more information.

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SEC Fines Federated Investors for Oversight Shortfalls

By Jonathan Stempel

Article published on May 27, 2016

Federated Investors Inc (FII.N) will pay a \$1.5 million fine to settle U.S. Securities and Exchange Commission charges that it failed to properly monitor whether outside consultants it employed might have misused potential market-moving information.

The SEC announced the civil settlement with Federated Global Investment Management Corp on Friday. It said Federated did not admit or deny wrongdoing in agreeing to pay the civil penalty.

The settlement resolves issues tied largely to a consultant who from 2001 to 2010 made biotechnology and pharmaceutical stock recommendations to the Federated Kaufmann Funds.

Meghan McAndrew, a Federated spokeswoman, said the company addressed the issues raised by the SEC prior to the regulator's inquiry. "There was no finding of any misuse of material nonpublic information," she added.

Federated, based in Pittsburgh, is one of the largest U.S. asset managers, with about \$369.7 billion of assets under management as of March 31.

According to an order instituting settled administrative proceedings, Federated was unaware that the consultant in question had been a board member of four companies whose stocks Federated traded.

The SEC said the consultant at times also traded stocks that Federated owned in his own brokerage accounts, "sometimes in close proximity" to the funds' trades, and should have been subjected to "blackout periods" surrounding the funds' trades.

"FGIMC's written policies and procedures were not reasonably designed to prevent the misuse of material, nonpublic information with respect to outside consultants," the SEC said.

Federated ended its relationship with the consultant in May 2010, the SEC said.



Summary of Settlement of Administrative Proceeding

- On May 27, 2016, Federated Global Investment Management Corp. (Fed Global), an indirect wholly owned subsidiary of Federated Investors, Inc., and an investment adviser registered under the Investment Advisers Act of 1940 (Advisers Act), consented to the entry of an Order Instituting Administrative and Cease and Desist Proceedings (Order) in settlement of an Administrative Proceeding, *In the Matter of Federated Global Investment Management Corp.*, Administrative Procedure File No. 3-17264, instituted by the SEC pursuant to Sections 203(e) and 203(k) of the Advisers Act.
- Fed Global consented to the Order without admitting or denying any findings contained in the Order, except as to the Commission's jurisdiction over Fed Global and the subject matter of the proceedings. The proceeding related to the period from approximately 2001 to 2010. Although Fed Global maintained extensive written policies and procedures and trained its personnel to prevent the misuse of material nonpublic information by employees, the Order stated that these policies and procedures were not reasonably designed to prevent the misuse of material nonpublic information with respect to the use of an outside consultant as part of its securities research and analysis activities.
- There was no finding of any misuse of material nonpublic information.
- As a result, Fed Global was found to have violated Section 204A of the Advisers Act (Section 204A). The Order noted that Fed Global took remedial action regarding its use of the outside consultant, including, among other things, terminating its agreement with the outside consultant in May 2010, prior to notification by the SEC staff of any investigation into this matter.
- Pursuant to the Order, Fed Global must cease and desist from committing or causing any violations and any future violations of Section 204A, Fed Global was censured, and Fed Global will pay a civil money penalty in the amount of \$1.5 million.
- The Order concludes the SEC's inquiry into this matter.