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**Department of Employee Trust Funds**  
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***Correspondence Memorandum***

**Date:** May 19, 2016  
**To:** Deferred Compensation Board  
**From:** Shelly Schueller, Director  
Wisconsin Deferred Compensation Program  
**Subject:** Fidelity Contrafund – Fund Review and Collective Trust Option

**This item is for informational purposes only. No action is required.**

At the June 2016 board meeting, Fidelity will present a review of its Contrafund, including investment philosophy, process, portfolio construction and performance. Contrafund is a very popular option in the Wisconsin Deferred Compensation Program (WDC). As of April 30, 2016, over 28,300 of the plan's 58,000 participants held approximately \$563,000,000 in Contrafund.

Fidelity will also share information on a newly-available collective investment trust (CIT) option. On May 11, 2016, Fidelity shared news with the Department that they are opening the Contrafund CIT to clients that are not record kept by Fidelity. As the WDC is a section 457(b) qualified governmental plan, the Board can offer CITs to participants.

Like mutual funds, CITs have specific investment objectives, may purchase stocks and bonds, etc. and are offered through investment managers. CITs are pooled investment vehicles that are created and maintained by a bank or a trust company that holds ultimate responsibility for the investments. Collective trusts are subject to federal regulations via the IRS and U.S. Department of Labor, but not federal securities laws. The underlying mutual funds in the trusts are registered investment companies subject to the same regulatory oversight as other mutual funds.

The primary appeal of CITs is that they have lower expense ratios than mutual funds. However, there are a few potential drawbacks for CITs:

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

Electronically Signed 5/31/16

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- 1) CITs do not have to produce a prospectus, nor do they have to comply with federal Securities and Exchange Commission (SEC) regulations. However, CITs are subject to SEC anti-fraud provisions, as well as banking laws, the Internal Revenue Code, ERISA and Department of Labor regulations. Annual audited financial reports are available to plan sponsors.
- 2) CITs do not trade publicly, so transparency is lost. Investors cannot simply look up a trust via a ticker symbol.
- 3) CITs are only required to provide an annual net asset value (NAV), whereas mutual funds report daily NAVs.

Note: Fidelity is currently exploring ways to make CIT performance and pricing details available to the WDC, the record keeper and other interested parties.

The Contrafund CIT offers the identical investment approach as the mutual fund version of Contrafund. The appeal of changing to a CIT is that CITs are generally lower cost than mutual funds. The Fidelity Contrafund option offered currently through the WDC has an expense ratio of 71 bps (basis points) and provides a reimbursement of 25 bps. The CIT option has an expense ratio of 43 bps. If the Board were to convert to the Contrafund CIT, there would be no reimbursement and there would be a savings of 3 bps to participants.

Staff believes that it is prudent for the Board to evaluate shifting the Fidelity Contrafund option from a mutual fund to a CIT. Although moving to a CIT would eliminate some of the transparency currently provided by offering the retail mutual fund version of the Contrafund, this change would be consistent with the Board's stated policies regarding offering low cost options like CITs, and could result in potentially better net returns for participants investing in Contrafund.

However, before any changes are made, the Department recommends requesting additional information from Fidelity regarding the details of how information such as performance and pricing could be communicated to WDC participants. In addition, to gauge participants' interest in and understanding of CITs, the WDC should ask participants to respond to a brief survey during the summer of 2016 that includes questions about participants' familiarity with CITs, preferences for using daily ticker symbols, etc. The results of this survey could be shared at the next Board meeting and help the Board determine if moving the Contrafund to a CIT is a good idea.

Staff from Fidelity and the Department will be available at the June 14, 2016, meeting to discuss the contents of this memo with the Board.