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## Correspondence Memorandum

**Date:** January 17, 2017  
**To:** Deferred Compensation Board  
**From:** Shelly Schueller, Director  
Wisconsin Deferred Compensation Program  
**Subject:** Large-Cap Value Fund Selection Recap

**This memo is for informational purposes only. No Board action is required.**

This memo summarizes work done thus far regarding a potential addition of a Large-Cap Value Fund to the investment options offered in the Wisconsin Deferred Compensation Program (WDC). This type of fund would complement the existing Large-Cap index and actively managed Large-Cap growth funds currently in the WDC lineup.

Over the course of 2016, the Board discussed the idea of adding a Large-Cap Value Fund. At the Board's direction, the Investment Committee worked with Bill Thornton of Great-West Financial on a fund search that eventually yielded ten funds that met the Board's criteria as stated in both the Investment Policy Statement and additional screening criteria suggested by Mr. Thornton. The additional criteria included data such as manager tenure, standard deviation, total assets and total return.

Mr. Thornton presented the Board with three options at the November 1, 2016 Board meeting and reviewed the basis for selection. The Board voted to invite the three finalist firms to present information on their Large-Cap Value Fund offerings at a future meeting. The finalists will be presenting at the February Board meeting. The Board also directed Mr. Thornton to obtain a statement from each finalist firm regarding how the firm defines "value" as well as the current P/E ratios. This information is attached.

Mr. Thornton and ETF staff will be available at the meeting to discuss this memo with the Board.

Attachment: Large Cap Value Fund Firm Responses to Board Questions

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

Electronically Signed 1/24/17

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## Large Cap Value Fund Finalist Firm Responses to Board Questions

### 1. American Beacon Bridgeway Large Cap Value

#### **P/E Ratios (as of 9/30/16):**

Trailing 12 Months	16.4
Forward 12 Months	13.8

#### **How They Define Value:**

Value stocks are those Bridgeway Capital Management believes are priced cheaply relative to some financial measures of worth, such as the ratio of price to earnings, price to sales, or price to cash flow. Generally, these are stocks represented in the Russell 1000® Value Index, plus large capitalization stocks with similar “value” characteristics. The Russell 1000® Value Index includes those Russell 1000® companies with lower price-to-book ratios and lower forecasted growth values. Using this universe as a starting point, Bridgeway selects a diversified portfolio of value stocks that exhibit the strongest value metrics, company financial health, and price momentum. Bridgeway believes that using multiple measures of value brings diversification and delivers a stronger, more consistent portfolio over time.

### 2. JP Morgan Equity-Income

#### **P/E Ratios (as of 9/30/16):**

Trailing 12 Months	21.2
Forward 12 Months	17.2

#### **How They Define Value:**

A simple definition of our approach to value is investing in above average companies when their stock is trading at average prices. The cornerstone of our investment philosophy is the belief that quality companies that possess the ability to consistently generate free cash flow and effectively allocate capital to generate growth in value per share will maximize our probability of providing consistent returns with lower levels of volatility over the long-term. Our purpose as value investors is to discover those companies that offer the greatest potential against their current market value. While many companies may be considered cheap, our process helps us eliminate those that do not possess the characteristics of a sound, long-term business, and to identify those that we feel have been underrated and overlooked by the market.

### 3. Vanguard Equity-Income

#### **P/E Ratios (as of 9/30/16):**

Trailing 12 Months	20.5
Forward 12 Months	16.4

#### **How They Define Value:**

Stocks that are typically paying above-average dividends and are in the opinion of the advisor, undervalued relative to other such stocks. Wellington utilizes fundamental security analysis, looking for stocks with above average dividend yields, below-average valuations and the potential for dividend increases in the future. Vanguard assembles a diverse portfolio of dividend paying stocks based on assessment of the relative return potential of the securities. Securities that the advisor believes offer an appropriate balance between strong growth prospects and reasonable valuations relative to industry peers. Vanguard uses a quantitative approach.