



State of Wisconsin
 Department of Employee Trust Funds
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Correspondence Memorandum

Date: May 9, 2017
To: Deferred Compensation Board
From: Shelly Schueller, Director
 Wisconsin Deferred Compensation Program
Subject: Large Cap Value Fund Selection


ETF requests the Board make a decision regarding the addition of a large cap value investment fund to the core investment options.

At the Board's direction, in 2016 the Investment Committee worked with Bill Thornton of Great-West Financial on a large cap value fund search. This search yielded 10 funds that met both the Board's criteria as stated in the Investment Policy Statement, and screening criteria recommended by Mr. Thornton. The additional criteria included data such as manager tenure, standard deviation, total assets and total return. In late 2016 the Board discussed selection criteria, reviewed funds that met the requirements, and heard presentations from three finalist firms. The firms were:

Fund	Ticker Symbol	Inception Date	Fund Size Date	Fund Size	Expense Ratio (%)
• American Beacon Bridgeway Large Cap Value	BRLVX	10/31/2003	2/3/2017	\$4,125,518,456	0.79
• JP Morgan Equity Income	OIEJX	2/28/2011	2/3/2017	\$14,145,284,054	0.50
• Vanguard Equity-Income	VEIRX	8/13/2001	1/31/2017	\$25,874,143,087	0.17

At its March 2017 meeting the Board raised questions about succession plans and expense ratios at American Beacon Bridgeway. Mr. Thornton conveyed the Board's questions to American Beacon Bridgeway and obtained the following responses:

John Montgomery Retirement Date/Succession

Reviewed and approved by Matt Stohr, Administrator
 Division of Retirement Services
 Electronically Signed 5/23/17


Board	Mtg Date	Item #
DC	6.8.17	7

Bridgeway Capital Management maintains a succession plan that provides guidance in the case of a loss or the incapacitation of key persons. This plan covers certain personnel of Bridgeway Capital Management, with a particular emphasis on officers and investment management team members. The plan includes key aspects of succession planning such as replacement of key personnel, responsibilities to address, ownership changes, and other action items.

At Bridgeway, each strategy is team-managed with each Investment Management Team member cross-trained on the portfolio's models and investment processes; therefore, no replacement would be immediately necessary should one team member leave. Portfolio management processes and models are well-documented during the research process and as needed on an ongoing basis. Each portfolio management team member is trained to be able to "take the reins" of the portfolio on a primary (daily) or back-up basis (for vacation coverage and succession planning) basis. This is one of the distinct advantages of Bridgeway's disciplined, quantitative process, automation and team structure.

John Montgomery expects to continue working for as long as he is able to actively contribute. He is currently 61 years old, is very healthy, and has recently completed 2 half marathons.

Share Classes/Vehicles Net Expense Ratio's

Institutional Class: 0.73%

R6 Class (available 4/30/17): 0.71%

CIT: 0.65%

If the Board wishes to add a large cap value investment fund, then ETF recommends the Board select one of the three finalist options. A large cap value fund would complement the existing large cap index and actively managed large cap growth funds currently offered to participants.

If the Board decides to add a large cap value fund, then staff recommends:

- 1) delegating final review and approval of the contract to the Board Chair; and
- 2) directing ETF to work with the fund provider and Empower to determine when the fund can be officially opened to participants. A participant communications plan would be developed and carried out via in-person meetings, online and in the quarterly newsletter.

Staff will be available at the meeting to discuss this memo with the Board.

Attachment: Large Cap Value Search – Finalist Statistics (Data as of 3/31/17)

Wisconsin Deferred Compensation Plan

Large Cap Value Fund Statistics

Data as of March 31, 2017

1 Year

Time Frame: 4/1/2016 - 3/31/2017

Group/Investment	Alpha	Beta	Sharpe Ratio	R2	Std Dev	Information Ratio (arith)	Information Ratio (geo)
American Beacon Bridgeway Lg Cp Val Inst	1.22	0.88	2.26	67.86	6.68	-0.19	-0.16
JPMorgan Equity Income R6	0.01	0.96	2.21	76.83	6.82	-0.23	-0.20
Vanguard Equity-Income Adm	1.15	0.86	2.46	80.87	5.95	-0.45	-0.38
<i>Russell 1000 Value</i>	2.11	0.98	2.49	75.09	7.05		
<i>Morningstar Large Value Category</i>	0.14	1.00	2.29	81.31	6.94	0.06	0.05

3 Years

Time Frame: 4/1/2014 - 3/31/2017

Group/Investment	Alpha	Beta	Sharpe Ratio	R2	Std Dev	Information Ratio (arith)	Information Ratio (geo)
American Beacon Bridgeway Lg Cp Val Inst	-0.70	0.95	0.87	90.61	10.42	-0.40	-0.36
JPMorgan Equity Income R6	-0.21	0.90	0.93	93.51	9.74	-0.46	-0.41
Vanguard Equity-Income Adm	0.26	0.90	0.98	94.18	9.68	-0.29	-0.26
<i>Russell 1000 Value</i>	-1.37	0.98	0.82	93.78	10.56		
<i>Morningstar Large Value Category</i>	-2.87	0.98	0.69	95.56	10.47	-1.49	-1.35

5 Years

Time Frame: 4/1/2012 - 3/31/2017

Group/Investment	Alpha	Beta	Sharpe Ratio	R2	Std Dev	Information Ratio (arith)	Information Ratio (geo)
American Beacon Bridgeway Lg Cp Val Inst	1.51	0.98	1.35	91.33	10.45	0.44	0.39
JPMorgan Equity Income R6	0.57	0.92	1.28	93.61	9.67	-0.20	-0.17
Vanguard Equity-Income Adm	0.74	0.92	1.30	93.93	9.64	-0.13	-0.12
<i>Russell 1000 Value</i>	-0.14	1.00	1.22	94.15	10.53		
<i>Morningstar Large Value Category</i>	-1.84	1.00	1.06	96.10	10.37	-1.04	-0.92

10 Years

Time Frame: 4/1/2007 - 3/31/2017

Group/Investment	Alpha	Beta	Sharpe Ratio	R2	Std Dev	Information Ratio (arith)	Information Ratio (geo)
American Beacon Bridgeway Lg Cp Val Inst	0.17	0.98	0.51	95.92	15.23	0.00	0.00
JPMorgan Equity Income R6	0.96	0.86	0.57	94.98	13.46	0.03	0.03
Vanguard Equity-Income Adm	0.97	0.89	0.57	94.12	14.09	0.09	0.08
<i>Russell 1000 Value</i>	-1.66	1.04	0.40	96.94	16.16		
<i>Morningstar Large Value Category</i>	-2.25	1.01	0.36	98.48	15.60	-1.20	-1.12

Source: Morningstar Direct