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Correspondence / Memorandum

Date: October 16, 2017
To: Deferred Compensation Board
From: Shelly Schueller, Director
 Wisconsin Deferred Compensation Program
Subject: Collective Investment Trust Recommendations

The Deferred Compensation Investment Committee (Committee) recommends the Board convert to Collective Investment Trust (CIT) options for certain investment options currently offered to Wisconsin Deferred Compensation Program participants.

At the Board's request, the Committee discussed certain CIT options for existing Wisconsin Deferred Compensation Program (WDC) investment options at the September 19, 2017 meeting. See <http://etf.wi.gov/boards/agenda-items-2017/dcic0919/item4.pdf>

WDC Investment Options: Mutual Fund v. CIT				
Investment Option	WDC Accounts as of 6/30/17	WDC Total in Option as of 6/30/17	Mutual Fund Expense Ratio in Basis Points	CIT Expense Ratio in Basis Points
Vanguard Institutional Index	24,708	\$491,932,902	2.0	1.4
Vanguard Target Inst'l Retirement Funds (6)	27,037	\$577,671,751	9.0	7.0
Fidelity Contrafund	20,920	\$624,053,365	71.0 with 25.0 reimbursement to pts in option	43.0 for CIT, 38.0 for CIT "II"

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

Matt Stohr Electronically Signed 10/19/17

Board	Mtg Date	Item #
DC	11.6.17	4C

Both Fidelity and Vanguard have indicated that a daily net asset value (NAV) and other information on the performance of its CITs would be available on the respective websites and can be made available directly to the WDC's record keeper for the WDC's website.

If the Board decides to move to CITs for the investment options discussed in this memo, it would require some time before the CITs would open for participants. First, a separate CIT agreement between the Board and each of the fund companies must be completed, and Empower must be notified via a signed letter of instruction regarding the change. Once Empower receives both the letter of instruction and a copy of the signed agreement between the Board and a fund company, Empower can begin the process to establish the CIT on its list of approved funds and recordkeeping system.

The Board has two options regarding changing investment options:

1. Active selection. Historically, the Board has encouraged and required participants to actively transfer their assets from an existing fund to a new fund. Participants who fail to actively make this change are defaulted into the WDC's default option should they not act by a certain deadline. The same process occurs for future contribution allocations; if a participant fails to act by a certain date, their funds are defaulted into the WDC's default option. Note: Since May of 2008, the Board's default fund policy is that the designated default fund will be the Vanguard Target Retirement Date Fund appropriate for the participant's retirement age, using age 65 as the standard retirement age.
2. "Mapping" funds from an existing fund to a new fund. This means participants in the existing Fidelity Contrafund mutual fund option, for example, would automatically be moved to the Fidelity Contrafund CIT at the close of business on the effective date.

With either option, there may be a short quiet period while Advised Assets Group and Morningstar conduct a new analysis of the fund lineup. During this time, Online Investment Guidance, Advice and Managed Account services are not available for participant or WDC representative use. Participants in the Managed Account service will ultimately be rebalanced out of and into the changing investment options.

Participants must be notified thirty days prior to the effective date of any investment option change. The WDC participant newsletter, *MoneyTalks*, has been used in the past to announce fund changes, but information could also be printed directly on quarterly statements; a paper letter and/or email are also options. As with other WDC changes, field staff and the call center representatives will also have information on the changes that they can discuss with participants.

Recommendation

The Committee and ETF recommend the Board convert from mutual funds to CIT options for certain investment options currently offered to WDC program participants, which, at this time, are the following:

1. Fidelity Contrafund - recommend move to Contrafund CIT II
2. Vanguard Institutional Index (500 Index) and the Target Retirement Date series (Income, 2015, 2025, 2035, 2045 and 2055) – recommend move to CITs.

ETF further suggests the Board “map” participants from the current mutual fund version of the investment option to the CIT version.

Staff will be available at the meeting to discuss the contents of this memo.