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**Correspondence Memorandum**

**Date:** October 24, 2018  
**To:** Deferred Compensation Board  
**From:** Shelly Schueller, Director  
 Wisconsin Deferred Compensation Program  
**Subject:** Investment Design Review with Recommendations

**After reviewing the investment design of the Wisconsin Deferred Compensation Program (WDC), the Investment Committee recommends that the Board consider adding an actively-managed intermediate bond fund and reduce the number of capital preservation investment options offered.**


At the Board’s request, the Investment Committee reviewed the investment design of the Wisconsin Deferred Compensation Program (WDC), using an analysis created by Bill Thornton of Great West Financial as the starting point. Mr. Thornton’s report (attached Ref. DCIC | 6.17.18 | 4) includes a review of the WDC’s capital preservation or fixed investment offerings, including short-term bond funds, and a general overview of stable value funds. The Investment Committee met twice over the summer of 2018 to review the investment design and consider options. The results of the Investment Committee’s investment design review include recommending the addition of an actively-managed intermediate bond fund and reducing in the number of capital preservation offerings.

Actively-Managed Intermediate Bond Fund

The Investment Committee recommends that the Board consider adding an actively-managed intermediate bond fund. This fund would serve as the actively-managed bond fund complement to the Blackrock U.S. Debt Index fund. In preparation for discussing this proposal with the Board, the Investment Committee asked Mr. Thornton to complete an initial fund search. The Investment Committee discussed the results of the actively-managed intermediate bond search (attached Ref. DCIC | 8.30.18 | 3) and recommends that the Board invite three finalist firms to present at a future Board meeting.

Capital Preservation Options

The investment design review also revealed that the WDC is over-weighted with capital preservation options. The Investment Committee reviewed several alternatives,

Reviewed and approved by Matt Stohr, Administrator, Division of Retirement Services  
 Electronically Signed 10/29/18

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including eliminating one or more of the capital preservation options, consolidating some combination of the capital preservation options, and/or replacing some capital preservation options. After discussion, the Investment Committee recommends that the Board phase out the Federated US Gov't 2-5 Year option and close the FDIC option.

- Federated US Gov't 2-5 Year  
Memo 13A provides background on the Investment Committee's recommendation to phase out the Federated option. The Federated fund has been "on watch" since June of 2016, and performance continues to lag.
- FDIC  
Because current FDIC provider, Nationwide Bank, intends to exit the retail banking sector by the end of 2018, the Board must take action on this investment option. Memo 13B provides background on the Investment Committee's recommendation to close the FDIC option. ETF concurs with this recommendation.

The Investment Committee is sensitive to the disruptions these WDC changes may create for participants, and thus also recommends that the timing of any approved change(s) should be coordinated as much as possible.

Staff will be at the meeting to answer any questions.

Attachment A: June 19, 2018 Investment Design Review Memo from ETF to Investment Committee and *WDC Program – Investment Design Review* by Bill Thornton of Great-West Financial ([Ref. DCIC | 6.27.18 | 4](#))

Attachment B: *Actively Managed Intermediate Bond Fund Options* by Bill Thornton ([Ref. DCIC | 8.30.18 | 3](#))