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## Correspondence Memorandum

**Date:** May 16, 2020  
**To:** Deferred Compensation Board  
**From:** Shelly Schueller, Director  
Wisconsin Deferred Compensation Program  
**Subject:** Stable Value Fund Options Review

**Staff recommends the Deferred Compensation Board retain the existing stable value fund manager.**

In 2019, the Deferred Compensation Board authorized the Department of Employee Trust Funds (ETF) to enter into a contract with an independent consulting firm, Wilshire Associates (Wilshire), to perform a review of the stable value fund marketplace. This includes the current stable value fund from Galliard Capital Management (Galliard) and a custom stable value fund from Great-West Investments (Great-West), which is an affiliate of the WDC's record keeping firm, Empower Retirement.

Wilshire's review included:

1. Developing a universe of comparable high-quality institutional stable value funds;
2. Evaluating the current stable value fund option from Galliard;
3. Evaluating the stable value fund offer made by Great-West; and
4. Determining the competitiveness of the Galliard and Great-West options in comparison to the universe of stable value funds.

After completing a quantitative and qualitative review of the stable value marketplace, including evaluating returns, program structures, and fees, Wilshire determined there are 18 stable value fund managers offering the type of high-quality stable value fund necessary for the WDC. These 18 stable value funds were used as the universe for comparing the stable value funds offered by Galliard and Great-West.

Wilshire met with both firms to discuss the firm's philosophy and construction of the stable value funds offered to the WDC. Wilshire's review (attached) provides an in-depth look at both the Galliard and Great-West options. Wilshire documented specific data for both firms, including assets under management, personnel, portfolio duration, maturity structure construction, and investment portfolio quality.

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

Electronically Signed 5/27/20

Board	Mtg Date	Item #
DC	6.11.20	6

Both Great-West and Galliard offer top-rated stable value funds with strong resources. Galliard and Great-West have differences in how they manage their stable value funds and in wrap provider philosophy. While Great-West uses one “in-house” manager and one “in-house” wrap provider (Great-West Life and Annuity Insurance), Galliard’s Wisconsin option uses a multi-manager approach and always has five wrap providers.

According to Wilshire, both the Galliard and Great-West stable value funds are solid options for the WDC. They have similar quality weightings and credit ratings, as well as consistent market-to-book ratios. As of December 31, 2019, both funds performed in the upper half when compared to the peer universe developed by Wilshire. The performance of the Great-West option slightly outperformed the Galliard option during this time period. Wilshire attributed that to the Great-West fund’s higher duration and higher weighting to corporate bonds during the time period reviewed.

The analysis provided by Wilshire demonstrates that either the Great-West or Galliard stable value fund would be a solid investment option for WDC participants. The lower cost of a Great-West stable value fund coupled with potentially lower recordkeeping fees from Empower is attractive; however, staff recognize that the WDC has consistently been an unbundled plan (investment options are not tied to the record keeper) and believes this is a prudent course for the WDC. The Great-West option would also be all “in-house” at Great-West, with one wrap provider and internal bond management. Wilshire accurately points out that sole providers increase risks. Staff does not believe the plan needs to take this risk on at this time.

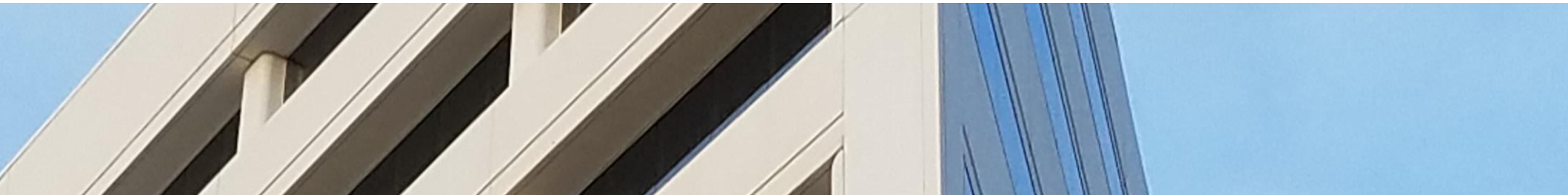
Although Galliard’s multi-manager system has a higher cost than the Great-West offering, the Galliard approach has worked well for WDC participants. Galliard has been an excellent stable value fund manager, with a strong track record and consistent performance. Staff recommends the Board retain the existing stable value fund manager. Maintaining Galliard as the stable value fund means no potential blackout periods associated with changing option providers, and that an experienced and deep team of experts will continue to manage this option for WDC participants.

Staff from Wilshire and ETF will be at the meeting to answer any questions.



# WILSHIRE ASSOCIATES

Wilshire Consulting



Wisconsin Department of Employee Trust Funds  
Stable Value Fund Options Review

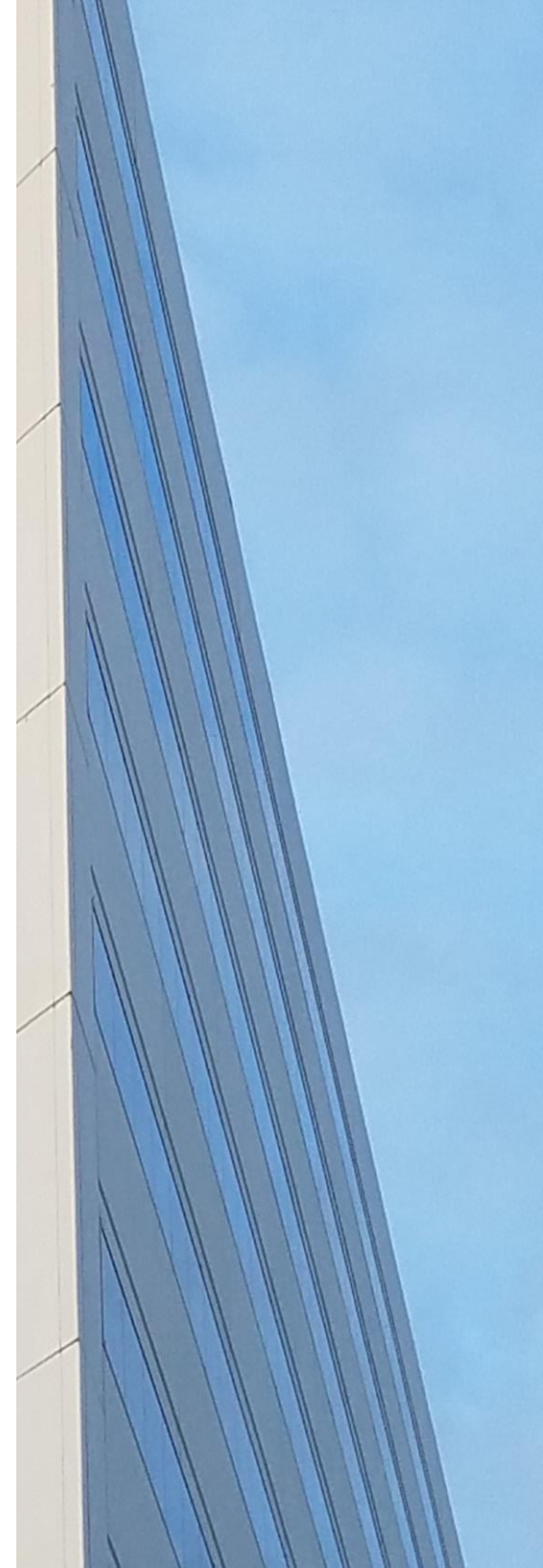
June 2020

## Wilshire Consulting

# Stable Value Fund Options Review

On behalf of Wisconsin ETF, Wilshire Associates performed the following steps to assist in a stable value manager evaluation

- Compiled data and analyzed the market of stable value fund offerings from institutional quality managers and developed a universe of funds. Universe constituents displayed the following criteria:
  - Institutional quality managers with verifiable track records
  - Competitive terms including fees and fund structure
- Held educational meetings with Great-West Investments to evaluate the custom stable value offering from Empower Retirement
- Assessed the current stable value fund offered by Galliard Capital Management in the WDC in comparison to the universe of stable value funds and the custom offering from Empower Retirement



# Stable Value Fund Options Review

## Search Process and Summary

Below is a summary of the Wilshire Associates process for the Wisconsin Department of Employee Trust Funds, Stable Value Fund Options Review:



## Wilshire Consulting

# Stable Value Fund Options Review Great-West Investments

### Assets Under Management:

Total Assets Under Management:	\$46.3 Billion
Total Stable Value AUM:	\$10.0 Billion

### Key Stable Value Personnel:

Jack E. Brown, CFA	SVP, Lead Portfolio Manager
Maria Mendelsberg, CFA	AVP, Portfolio Manager

### Key Stable Value Resources and Experience:

Investment Professionals:	29
Avg. Investment Experience:	17.4
Avg. Tenure at Great West:	13.7

### Portfolio Duration and Maturity Structure Construction:

Portfolio duration is typically between 2-4 years  
Flexibility in managing portfolio duration to meet client needs

### Investment Portfolio:

Average Overall Portfolio Quality:	AA-
Minimum Issue Credit Quality:	Customizable
Maximum Industry Issue Position:	Customizable

### Wrap Provider Philosophy:

Great-West's wrap protection is provided by Great-West Life & Annuity Insurance Company (GWL&A), a subsidiary of Empower Retirement. GWL&A is the sole wrap provider. Great-West implies this guarantees participant book value within the stable value fund and provides stability of principal and credited interest at book value.

## **Pros**

- Fully customizable portfolio to meet the needs of the investor
- Research team has experience and depth
- Fee offering is built into the fee structure for administration

## **Cons**

- Having a sole wrap provider, which is also a subsidiary of the Administrator, increases key party risk

### **Fee Schedule (~\$600 million mandate)**

0.24% all in fee (includes investment fees and wrap/operating fees)

## Wilshire Consulting

# Stable Value Fund Options Review

## Galliard Capital Management

### Assets Under Management:

Total Assets Under Management:	\$90.7 Billion
Total Stable Value AUM:	\$76.3 Billion

### Key Stable Value Personnel:

Nick Gage, CFA	Senior Principal, Portfolio Manager
Leela Scattum	Managing Principal, Portfolio Manager
Laura Sell, CFA	Principal, Portfolio Manager

### Key Stable Value Resources and Experience:

Investment Professionals:	25
Avg. Investment Experience:	15
Avg. Tenure at Galliard:	12

### Portfolio Duration and Maturity Structure Construction:

Portfolio duration is held neutral to slightly short positioning to the benchmark  
Multi-manager strategy to provide diversification in maturity

### Investment Portfolio:

Average Overall Portfolio Quality:	A+
Minimum Issue Credit Quality:	A-
Maximum Industry Issue Position:	25%

### Wrap Provider Philosophy:

Galliard uses 5 wrap providers at all times. They have an approved contract issuer list, which currently includes 11 issuers. They are constantly monitoring these wrap providers, leveraging their fixed income credit analysts.

### **Pros**

- Diversified multi-manager approach
- Research team has experience and depth

### **Cons**

- Fee is higher than offered by Great West due to multi-manager approach and number of wrap providers

### **Fee Schedule (~\$600 million mandate)**

Expense	Expense Ratio 12/31/19
Investment Management Fees paid to Galliard*	0.075%
Investment Management fees paid to Non-Affiliated Investment Advisors	None
Investment Contract Fees <sup>1</sup>	0.164%
Acquired Fund Fees <sup>2</sup>	0.059%
-Investment Contract Fees	None
-Other Acquired Fund Fees and Non-Affiliated Investment Management Fees paid to Non-Affiliated Investment Advisors <sup>3</sup>	0.059%
12b-1 Distribution Fee	None
Other Expenses	None
Total Annual Fund Operating Expenses <sup>4</sup>	0.297%

1: These are fees paid to create and maintain the investments used by a stable value fund.

2: These are fees borne indirectly by the Fund when it acquires an interest in another fund which pays its own separate fees.

3: Includes audit fees for the cost of producing a report by a qualified auditor.

4: Total Annual Fund Operating Expenses are reflected daily in the Fund's net asset value (NAV).



### Firm & Product Characteristics (As of 12/31/2019)

Firm-Product	Location	Firm Inception	Product Inception	Firm AUM (\$MM)	Product AUM (\$MM)
Great-West Investments - Stable Value	Denver, CO	1895	1979	46,300	10,000
Galliard Capital Management - Stable Value	Minneapolis, MN	1995	1995	90,700	76,300

### Investment Characteristics (As of 12/31/2019)

	General Characteristics (As of 12/31/2019)			
	Market Value/Book Value	Spot Yield	Portfolio Duration	Average Quality
Great-West Investments - Stable Value	101.4	2.3	4.0	A+
Galliard Capital Management - Stable Value	101.8	2.5	2.9	AA
<b>Stable Value Product Universe Median*</b>	<b>101.6</b>	<b>2.2</b>	<b>2.9</b>	<b>AA</b>
<b>Bloomberg Barclays Stable Market Index</b>	--	<b>2.2</b>	<b>2.3</b>	<b>AA</b>
<b>Bloomberg Barclays - U.S. Gov't/Credit 1-5 Year Index</b>	--	<b>1.8</b>	<b>2.7</b>	<b>AA</b>

\*Custom Stable Value Universe created by Wilshire Associates



### Quality Weightings (As of 12/31/2019)

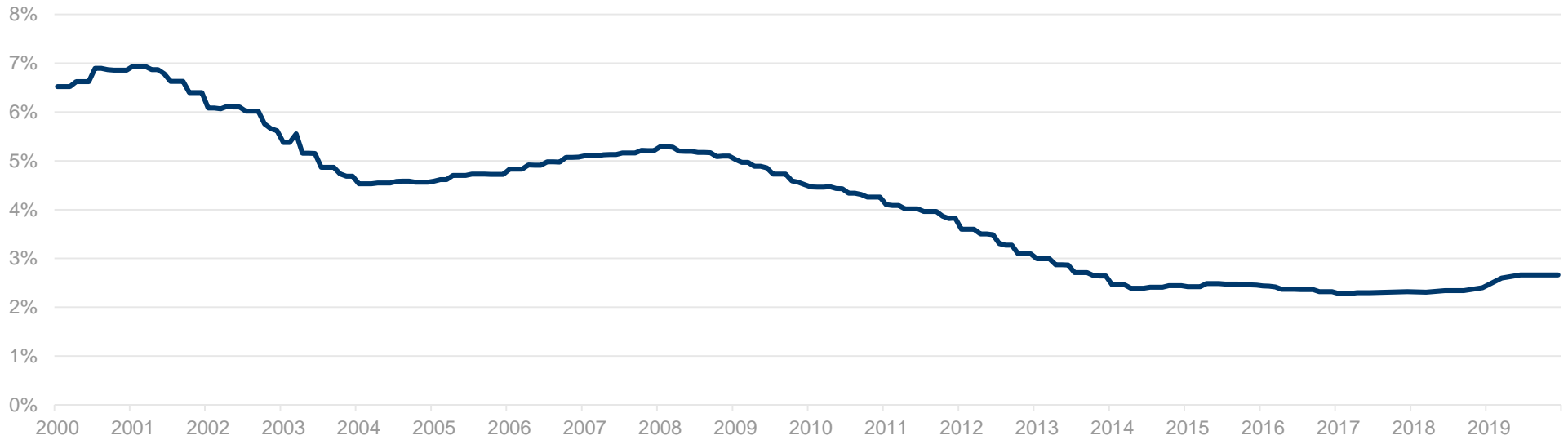
	Quality Weightings (%) (As of 12/31/2019)								
	AAA	AA	A	BAA	BA	B	<B	NR	AVG
Great-West Investments - Stable Value	54.0	6.0	22.0	10.0	0.0	0.0	0.0	8.0	A+
Galliard Capital Management - Stable Value	64.4	7.0	16.0	12.5	0.0	0.0	0.0	0.0	AA
<b>Stable Value Product Universe Median*</b>	<b>66.3</b>	<b>4.8</b>	<b>15.1</b>	<b>12.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>AA</b>
<b>Bloomberg Barclays Stable Market Index</b>	<b>35.1</b>	<b>64.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>AA</b>
<b>Bloomberg Barclays - U.S. Gov't/Credit 1-5 Year Index</b>	<b>71.5</b>	<b>4.7</b>	<b>11.8</b>	<b>12.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>AA</b>

### Sector Weightings (As of 12/31/2019)

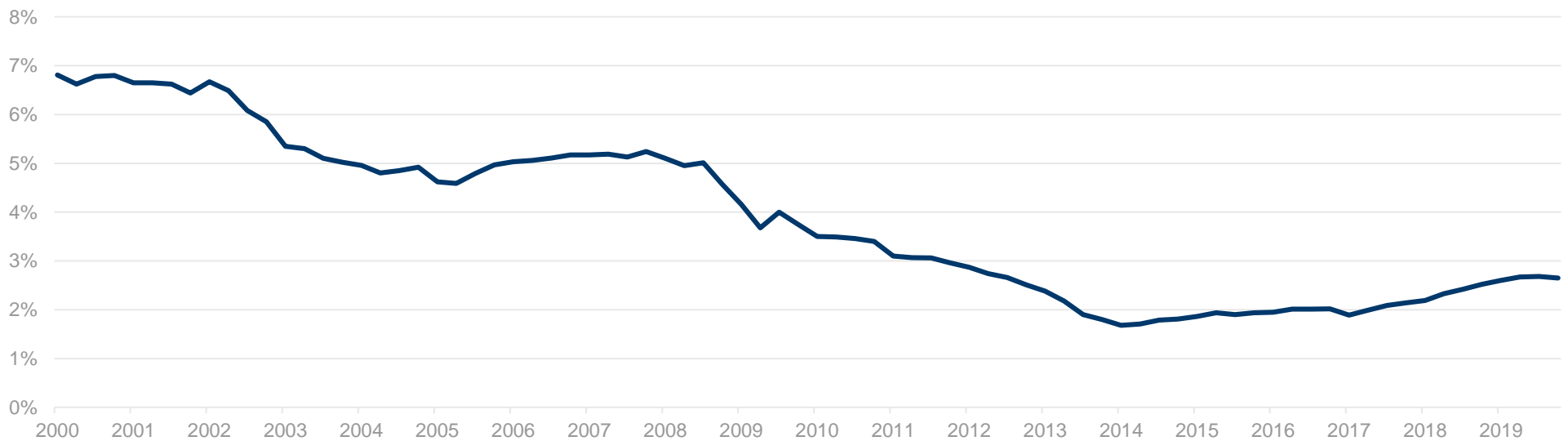
	Sector Weightings (%) (As of 12/31/2019)							
	MBS	CMBS	ABS	US Govt	Corporates	Derivatives	Other	Cash/ST
Great-West Investments - Stable Value	30.8	7.8	15.6	0.0	45.9	0.0	0.0	0.0
Galliard Capital Management - Stable Value	18.2	5.0	11.5	23.8	31.8	0.0	4.4	5.3
<b>Stable Value Product Universe Median*</b>	<b>21.6</b>	<b>6.9</b>	<b>14.1</b>	<b>24.8</b>	<b>25.0</b>	<b>0.0</b>	<b>1.0</b>	<b>5.0</b>
<b>Bloomberg Barclays Stable Market Index</b>	<b>25.0</b>	<b>5.0</b>	<b>5.0</b>	<b>65.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Bloomberg Barclays - U.S. Gov't/Credit 1-5 Year Index</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>73.7</b>	<b>26.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

\*Custom Stable Value Universe created by Wilshire Associates

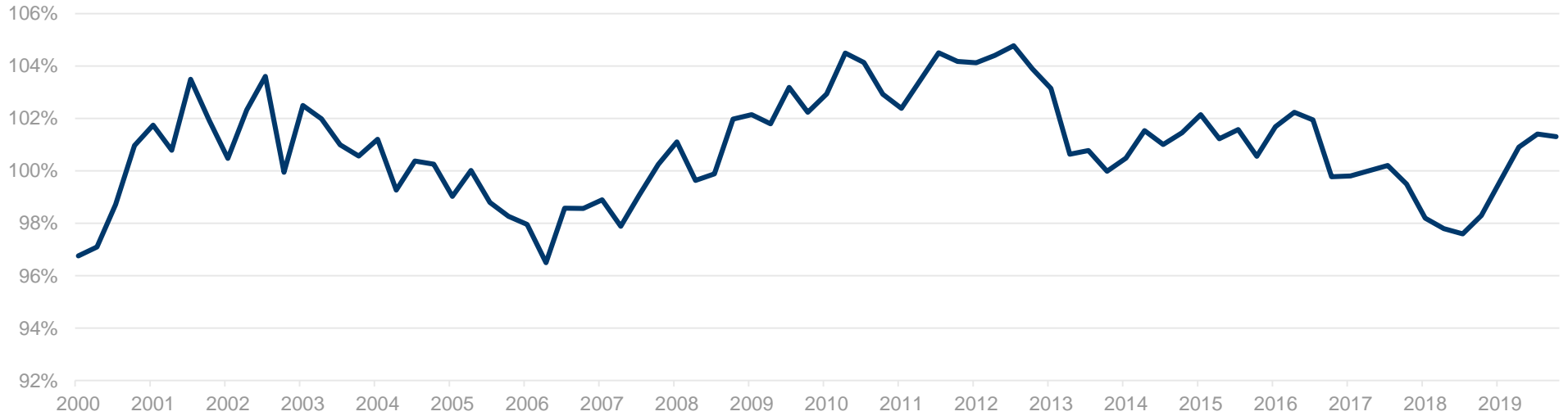
Great-West - Historical Credit Rating



Galliard - Historical Credit Rating



Great-West - Historical Market-to-Book Value Ratio



Galliard - Historical Market-to-Book Value Ratio



# Manager Evaluations

## QUALITATIVE DUE DILIGENCE

### Organization

- Evaluating the investment team resources and background, including how the overall organizational structure promotes stability and focus

### Information

- Understanding a manager's edge in gathering and processing information

### Forecasting

- Evaluating how a manager creates forecasts, the accuracy, and how they compare to peers in terms of uniqueness.

### Portfolio Construction

- Rating how a manager properly aligns assumed risks with their forecasting ability/skill

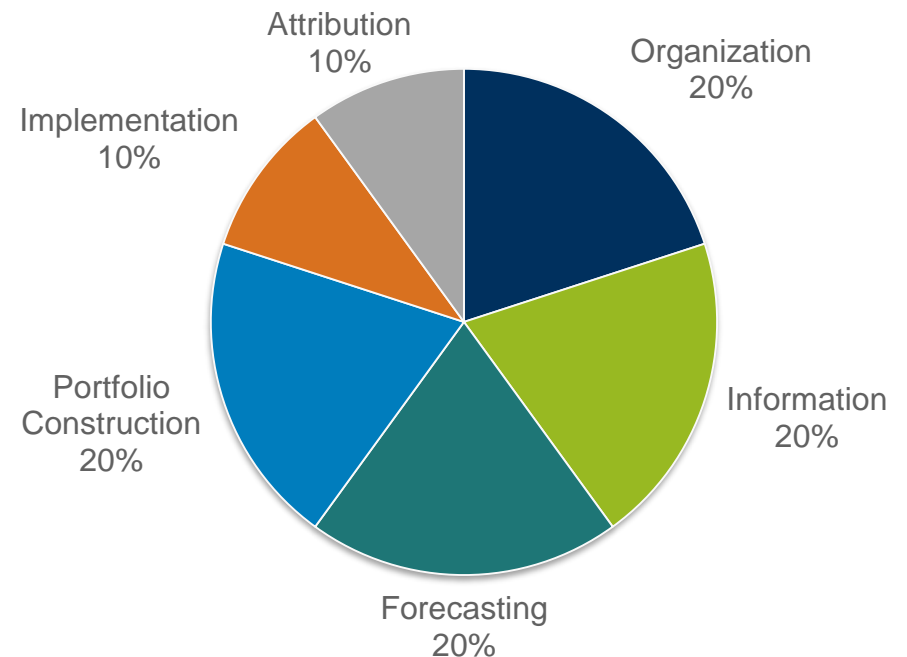
### Implementation

- Strong focus on operational effectiveness: measuring a manager's ability in regards to trading and back office efficiency

### Attribution

- Assessing a firm's willingness and ability to constantly reevaluate its own investment process / performance and incorporate feedback to improve their decision making ability

## BREAKDOWN OF TOTAL RATING



# Stable Value Fund Options Review

## Galliard External Manager Program Review



### Wilshire Manager Research Evaluations (As of 12/31/2019)

	Wilshire Manager Research Evaluations						
	Organization	Information	Forecasting	Portfolio Construction	Implementation	Attribution	Total Score
Dodge & Cox	A	A	A	B	B	C	B
Jennison	A	A	A	A	A	B	A
TCW	B	A	A	B	A	B	A

Rating										
Decile	1	2	3	4	5	6	7	8	9	10
Corresponding Grade	A		B		C		D		F	

# Stable Value Fund Options Review

## Galliard External Manager Program Review

### Manager Styles (As of 12/31/2019)

	Investment Approach	Sector Rotation	Active Duration/ Yield Curve Mgmt.	Issue Selection	SECTOR EMPHASIS
<b>GALLIARD</b>	Bottom Up / Top Down	Low / High	Low / High	Less / More Important	Diversified high quality spread sector emphasis, multi-sector relative value
<b>DODGE &amp; COX</b>	Bottom Up / Top Down	Low / High	Low / High	Less / More Important	Corporate credit, Agency MBS
<b>JENNISON</b>	Bottom Up / Top Down	Low / High	Low / High	Less / More Important	Credit, yield-curve positioning
<b>TCW</b>	Bottom Up / Top Down	Low / High	Low / High	Less / More Important	Duration, multi-sector relative value

**Wrap Provider Details (As of 12/31/2019)**

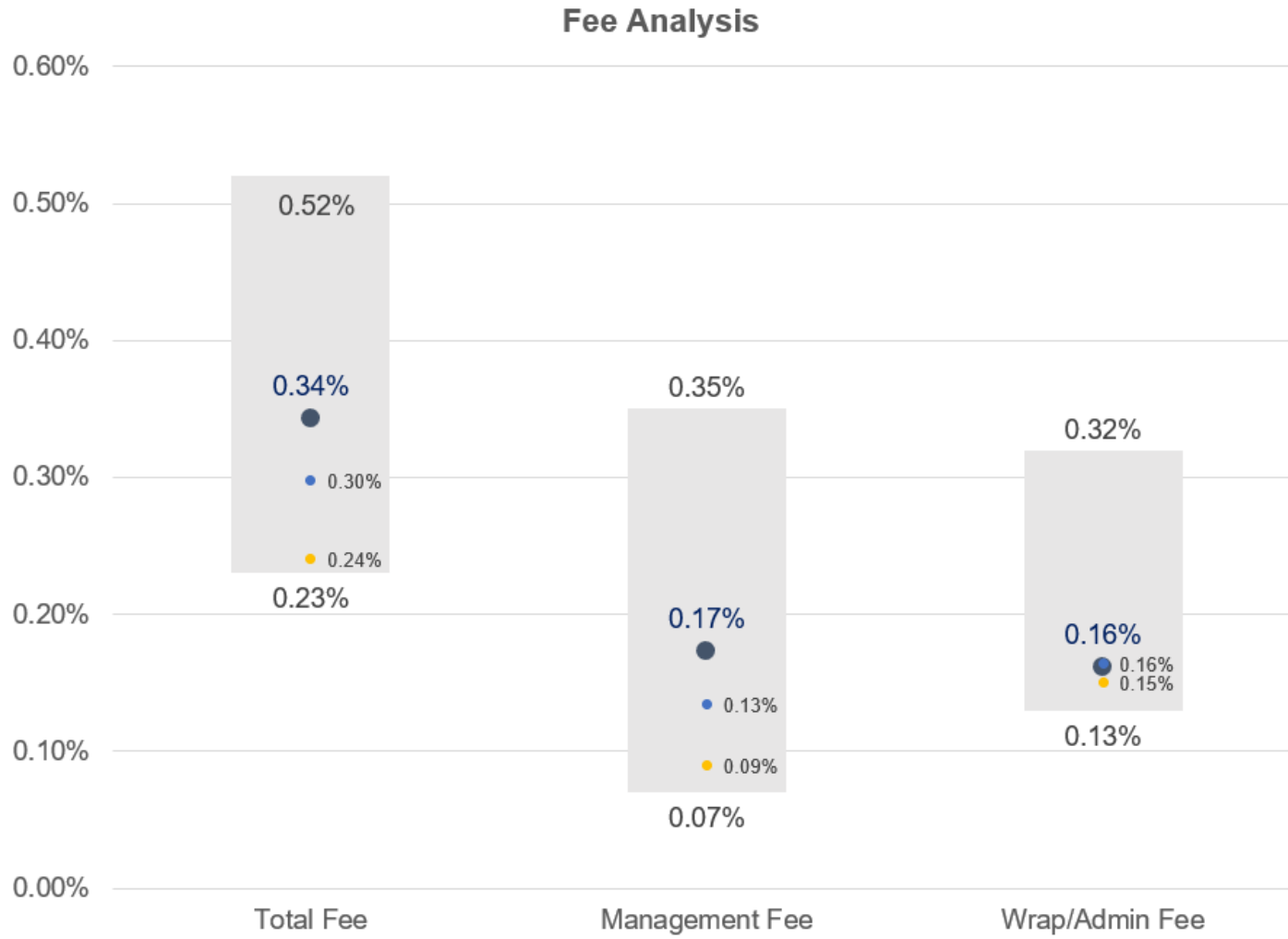
Wrap Provider	Credit Rating	Great-West Investments - Stable Value
GWL&A Co.	AA	100.0%

Wrap Provider	Credit Rating	Galliard Capital Management - Stable Value
American General Life Ins. Co	A+	20.0%
Nationwide Life Ins. Co	A+	14.9%
Prudential Ins. Co. of America	AA-	20.4%
Transamerica Premier Life Ins. Co.	A+	23.7%
Voya Ret. Ins. and Annuity Co.	A	18.7%
<b>Additional Approved Wrap Providers</b>		
Massmutual Life Ins. Co.	A+	--
Metropolitan Life Ins. Co.	AA+	--
Pacific Life Ins. Co.	AA-	--
RGA Reinsurance Co.	AA-	--
Royal Bank of Canada	AA-	--
State Street Bank and Trust Co.	AA-	--

\*Credit ratings represent average of S&P, Moody's and Fitch as of 12/31/2019



Fee Analysis (As of 12/31/2019)



- Stable Value Peer Median
- Great-West
- Galliard

# Stable Value Fund Options Review

## Performance Summary



### Cumulative Performance (As of 12/31/2019)

	Cumulative Performance (As of 12/31/2019)					
	Quarter	One Year	Three Years	Five Years	Seven Years	Ten Years
<b>Great-West Investments - Stable Value</b> <i>Value Added vs. Bloomberg Barclays Stable Market Index</i>	0.63 0.09	2.47 -2.67	2.25 -0.35	2.25 0.16	2.29 0.51	2.69 0.37
<b>Galliard Capital Management - Stable Value</b> <i>Value Added vs. Bloomberg Barclays Stable Market Index</i>	0.64 0.10	2.55 -2.59	2.23 -0.37	2.09 0.00	2.04 0.25	2.40 0.08
<b>Stable Value Product Universe Median*</b> <i>Value Added vs. Bloomberg Barclays Stable Market Index</i>	0.59 0.05	2.41 -2.73	2.20 -0.40	2.01 -0.08	1.93 0.15	2.25 -0.07
<b>Bloomberg Barclays Stable Market Index</b>	0.54	5.14	2.60	2.09	1.79	2.32
<b>Bloomberg Barclays - U.S. Gov't/Credit 1-5 Year Index</b>	0.50	5.01	2.54	2.03	1.69	2.13

### Annual Performance (As of 12/31/2019)

	Annual Performance (As of 12/31/2019)									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
<b>Great-West Investments - Stable Value</b> <i>Value Added vs. Bloomberg Barclays Stable Market Index</i>	2.47 -2.67	2.18 0.88	2.10 0.69	2.19 0.61	2.29 1.24	2.23 0.12	2.58 2.61	3.16 0.58	3.71 0.06	3.96 -0.54
<b>Galliard Capital Management - Stable Value</b> <i>Value Added vs. Bloomberg Barclays Stable Market Index</i>	2.55 -2.59	2.25 0.95	1.90 0.48	1.89 0.30	1.86 0.80	1.72 -0.39	2.10 2.13	2.65 0.07	3.15 -0.50	3.94 -0.56
<b>Stable Value Product Universe Median*</b> <i>Value Added vs. Bloomberg Barclays Stable Market Index</i>	2.41 -2.73	2.14 0.84	1.88 0.47	1.79 0.21	1.73 0.67	1.73 -0.39	1.66 1.69	2.30 -0.29	2.97 -0.69	3.17 -1.33
<b>Bloomberg Barclays Stable Market Index</b>	5.14	1.30	1.41	1.58	1.06	2.11	-0.03	2.58	3.66	4.50
<b>Bloomberg Barclays - U.S. Gov't/Credit 1-5 Year Index</b>	5.01	1.38	1.27	1.56	0.97	1.42	0.28	2.24	3.14	4.08

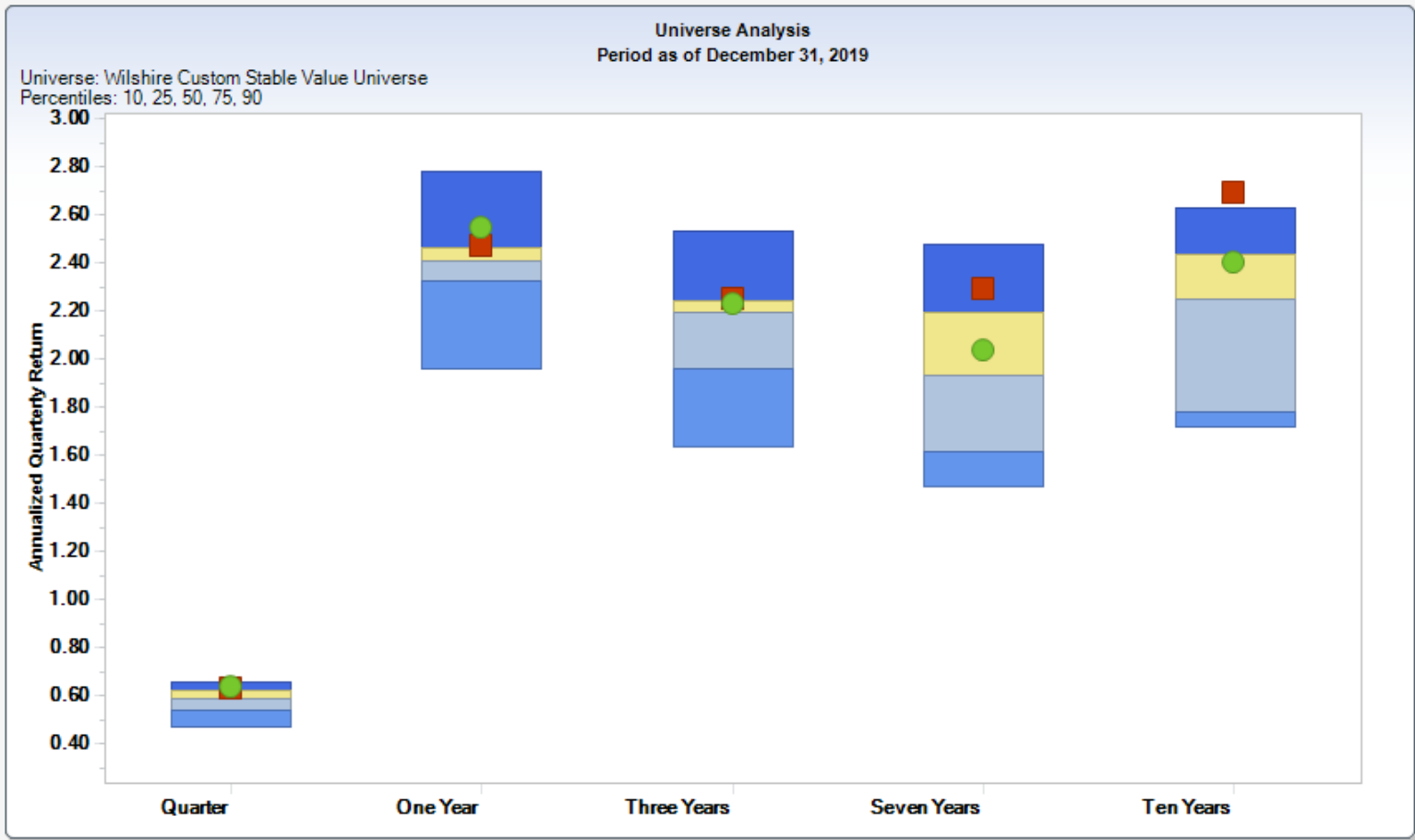
\* Custom Stable Value Universe created by Wilshire Associates

\*\* Investment Returns are net of fees

# Stable Value Fund Options Review

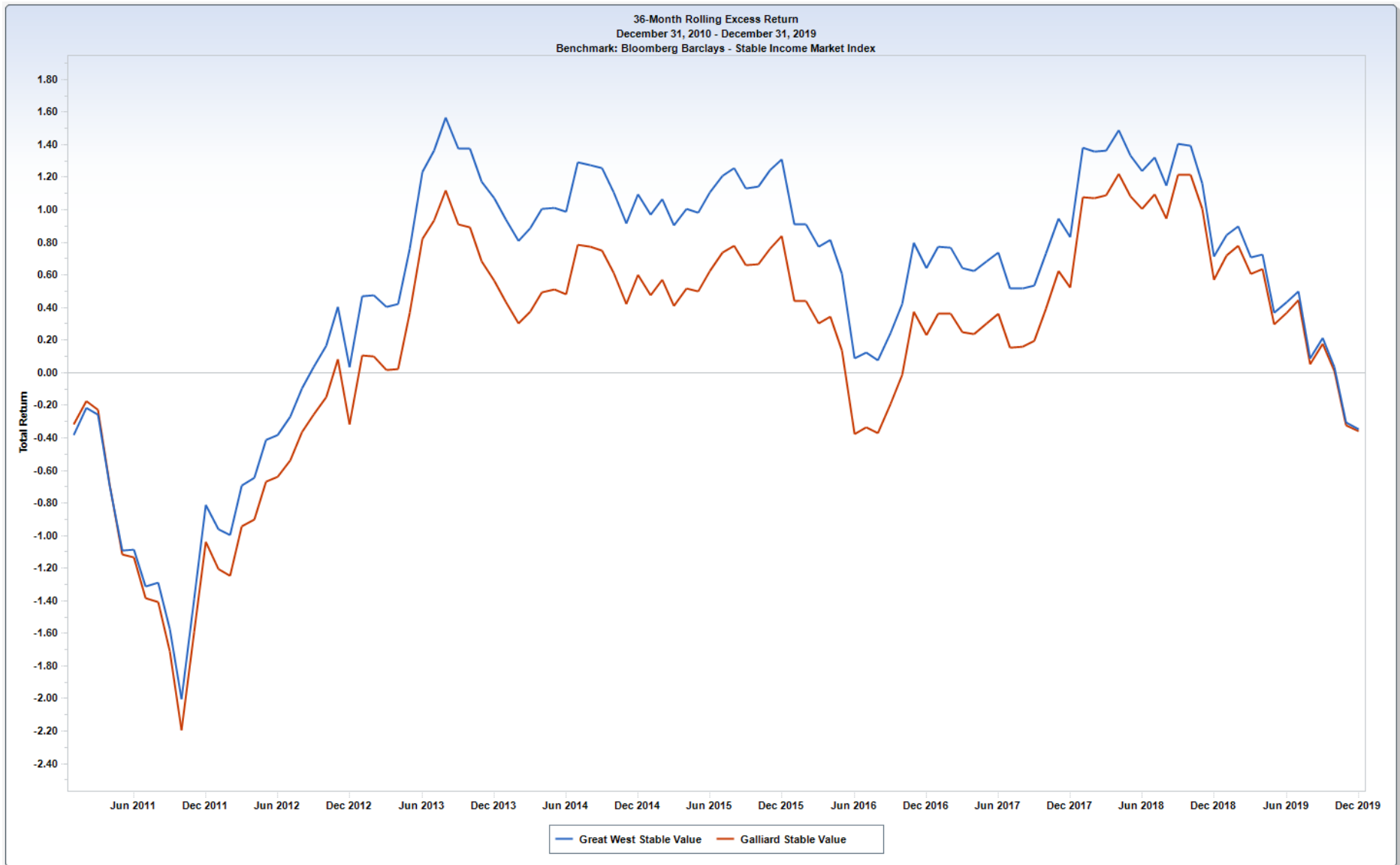
## Performance Comparison

**Performance Comparison (As of 12/31/2019)**

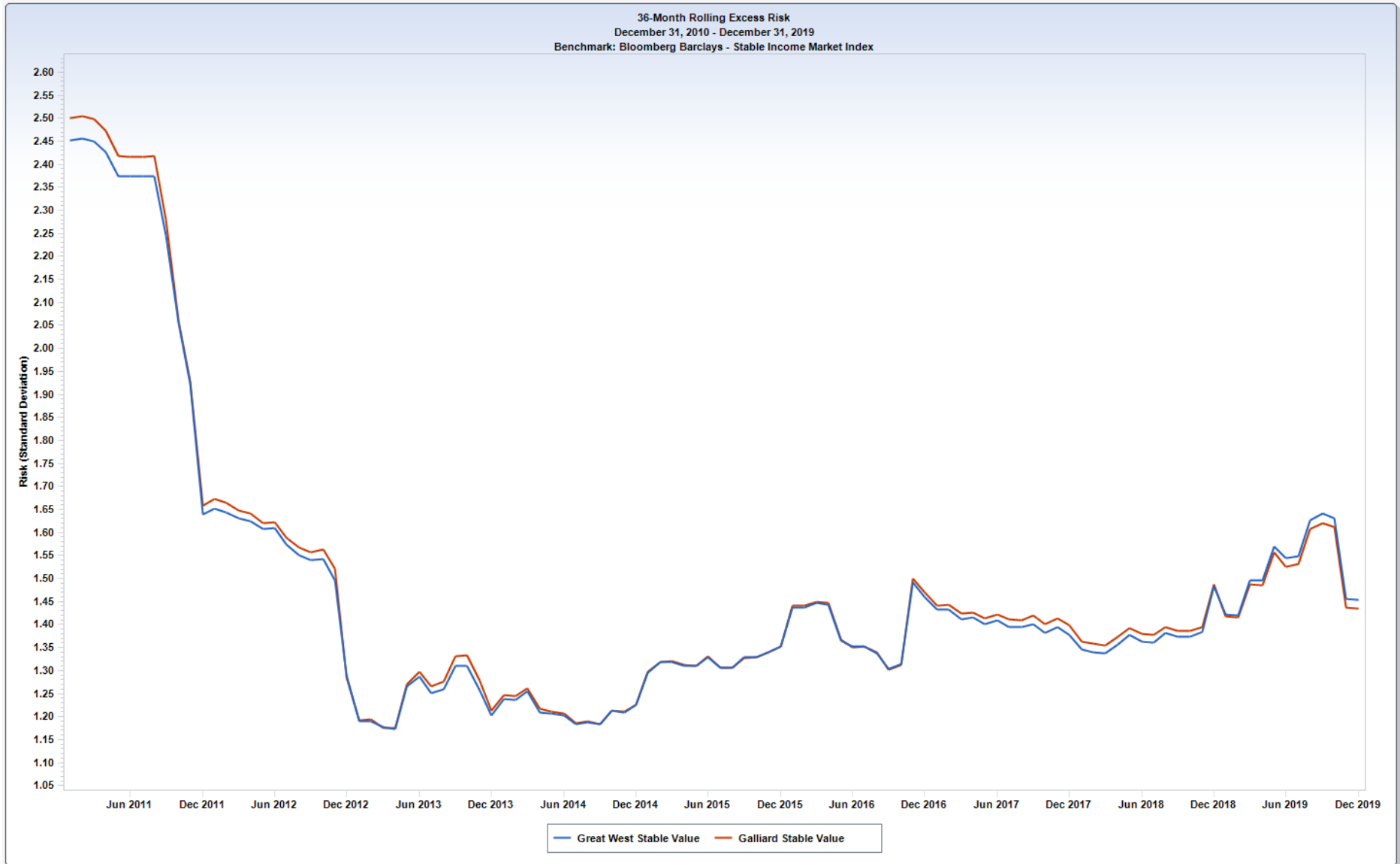


		Quarter	One Year	Three Years	Seven Years	Ten Years
●	Galliard Stable Value	0.64 ( 13% )	2.55 ( 18% )	2.23 ( 30% )	2.04 ( 42% )	2.40 ( 41% )
■	Great West Stable Value	0.63 ( 18% )	2.47 ( 24% )	2.25 ( 24% )	2.29 ( 13% )	2.69 ( 8% )
	# of Products	18	18	18	18	16

### 36-Month Rolling Excess Return (As of 12/31/2019)



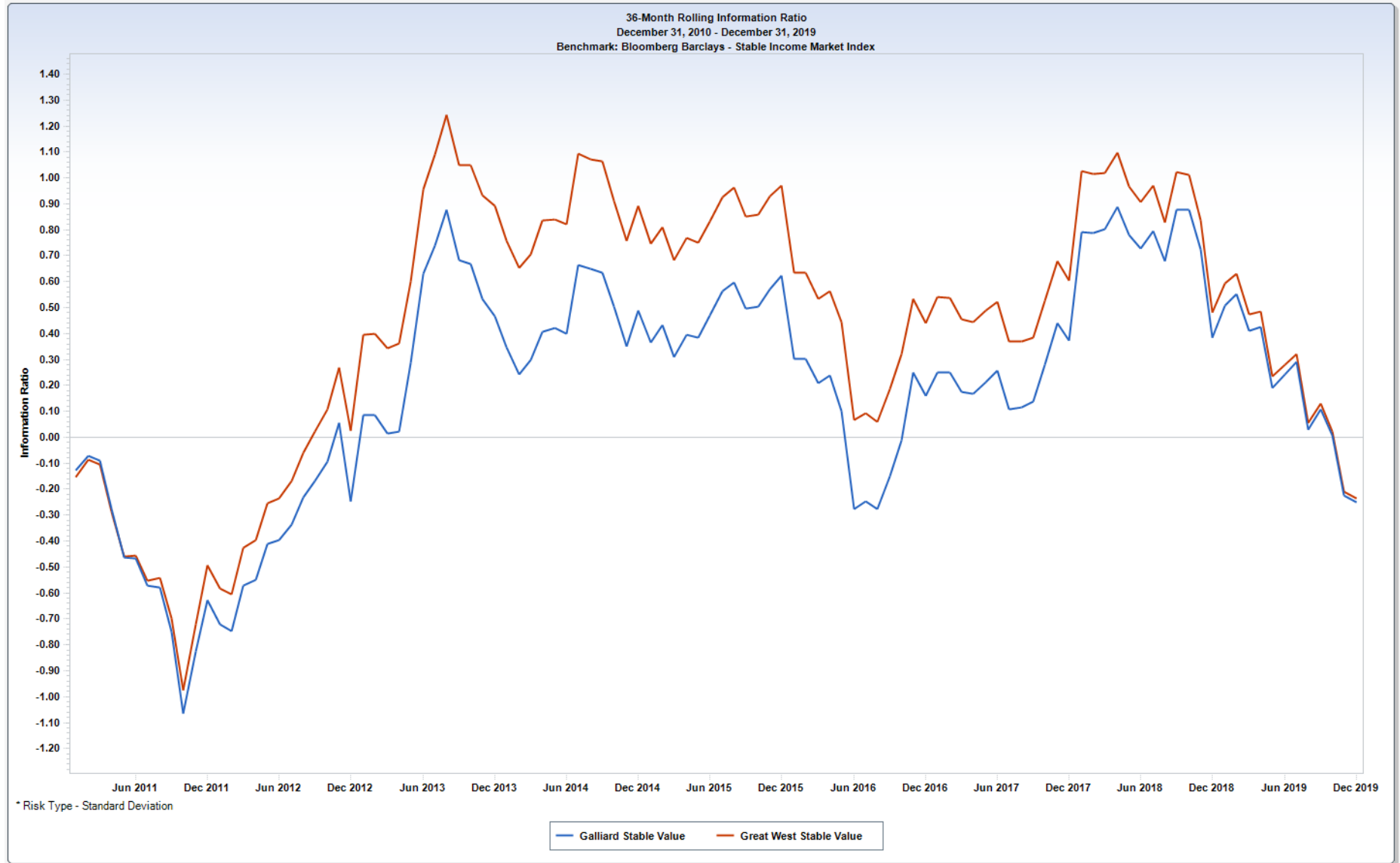
### 36-Month Rolling Excess Risk (As of 12/31/2019)



# Stable Value Fund Options Review

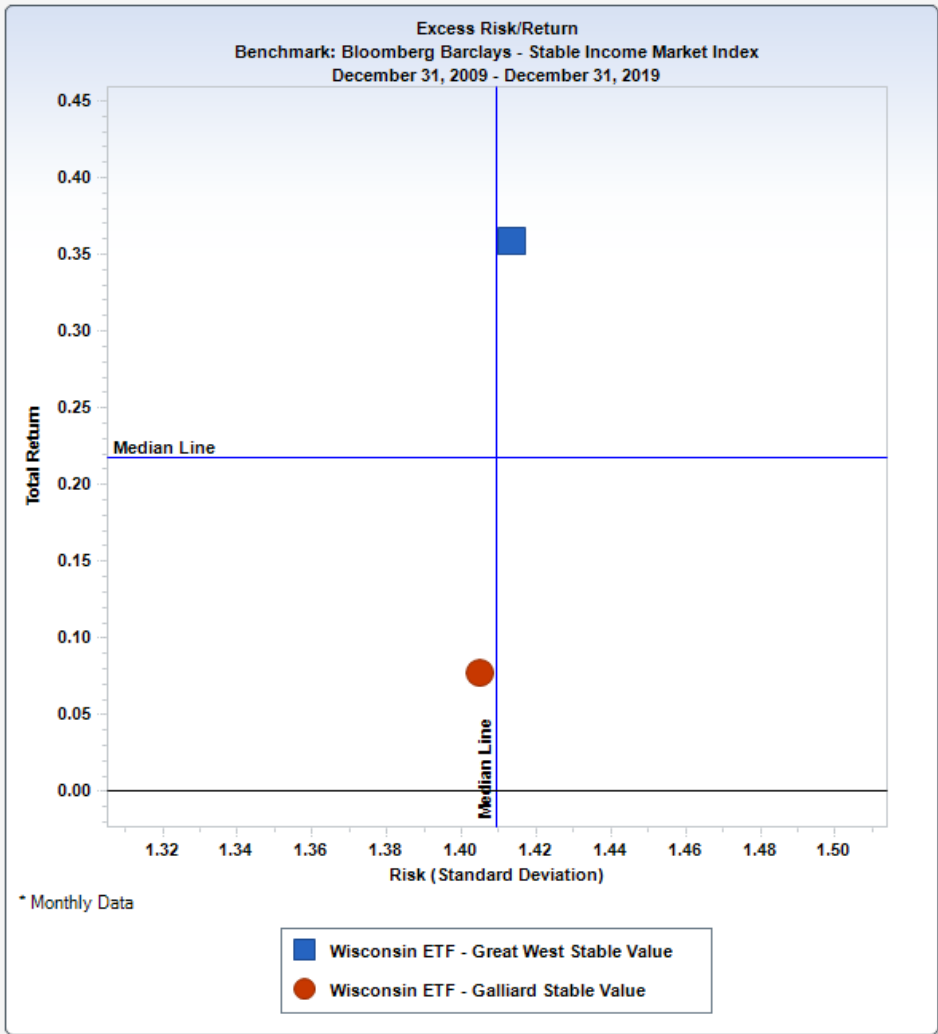
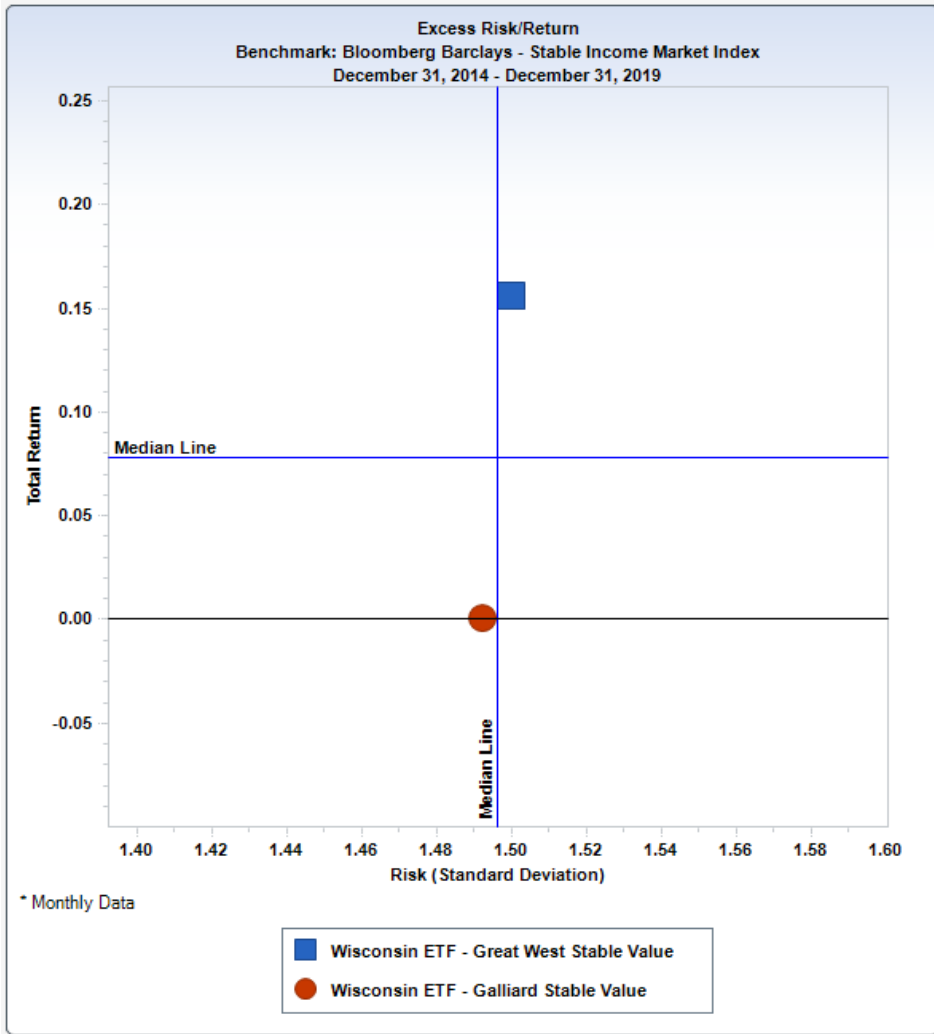
## Information Ratio

36-Month Rolling Information Ratio (As of 12/31/2019)



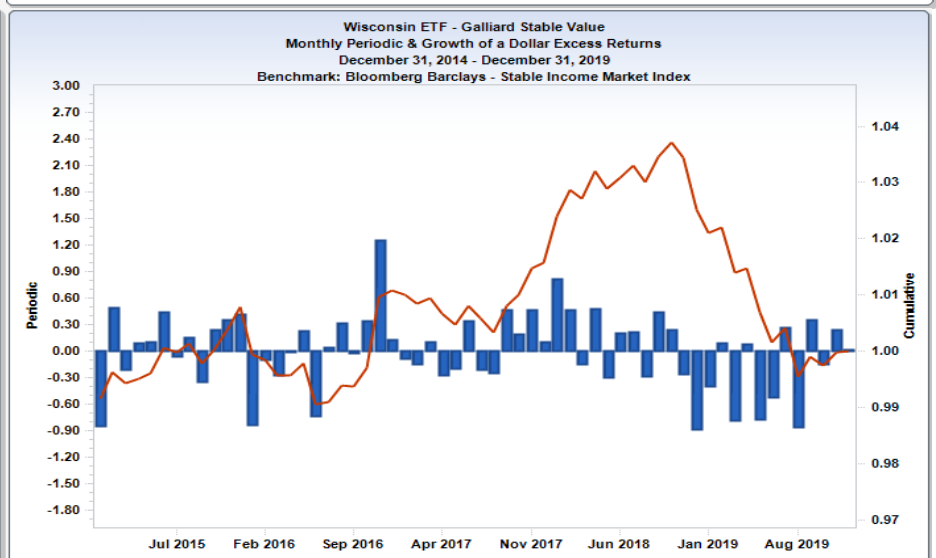
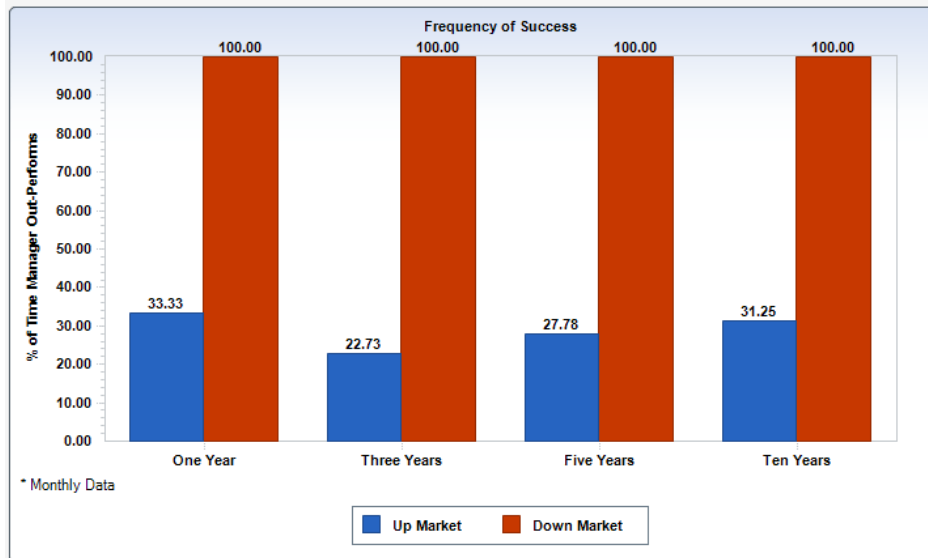
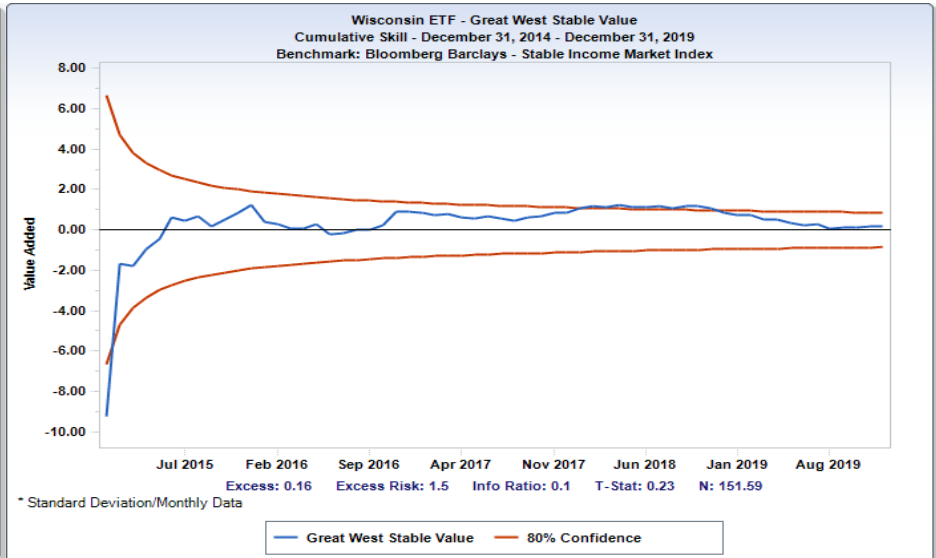
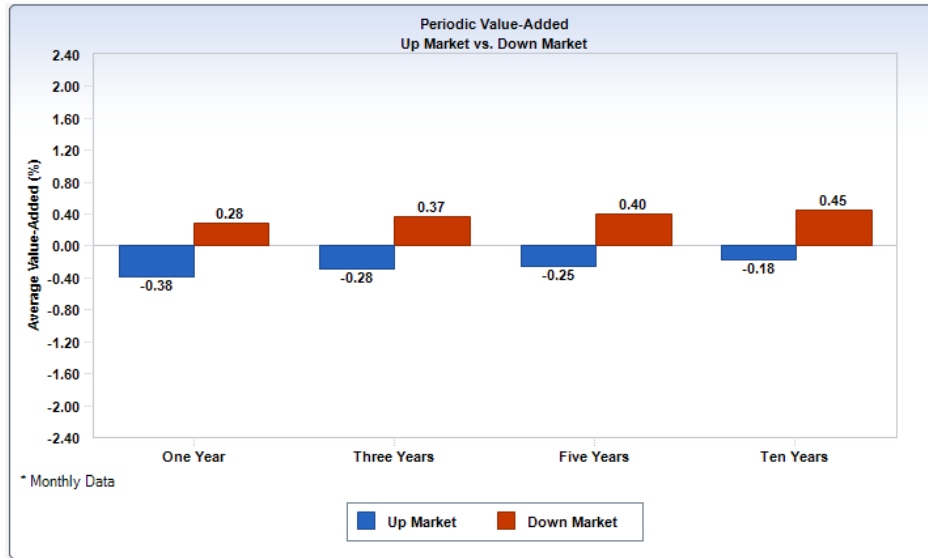
### 5-Year Excess Risk/Return (As of 12/31/2019)

### 10-Year Excess Risk/Return (As of 12/31/2019)

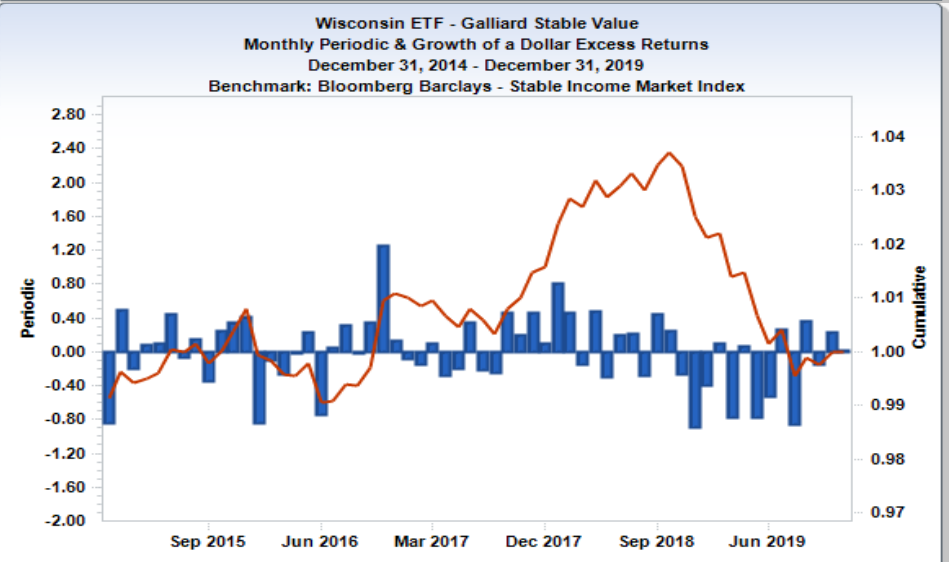
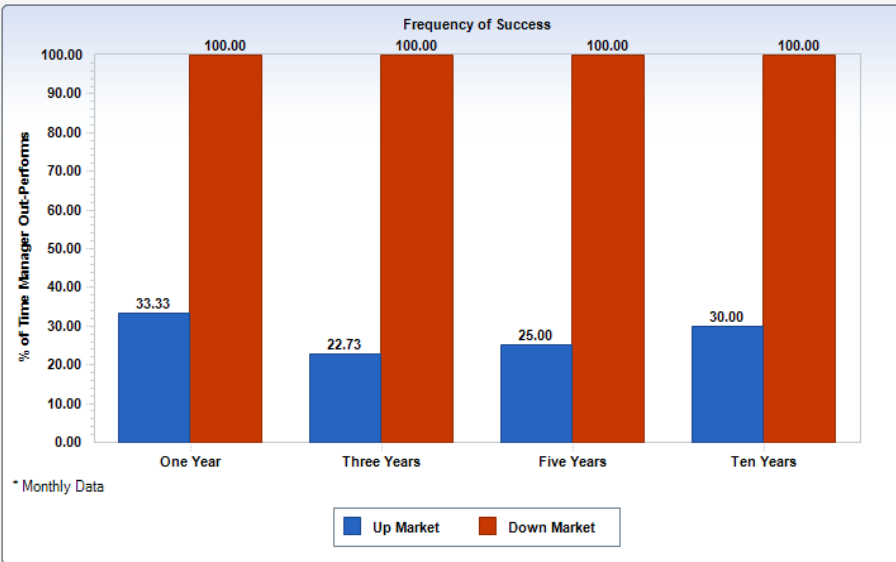
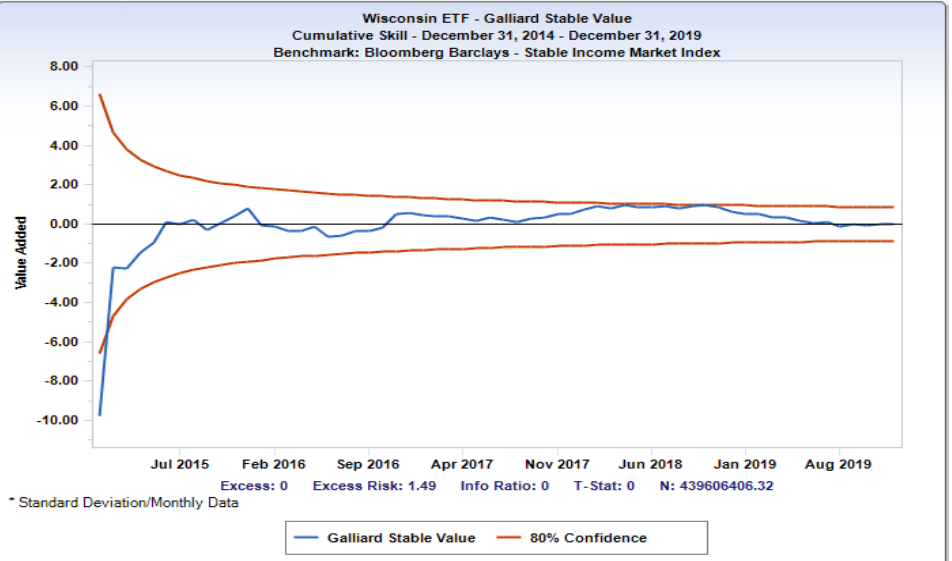
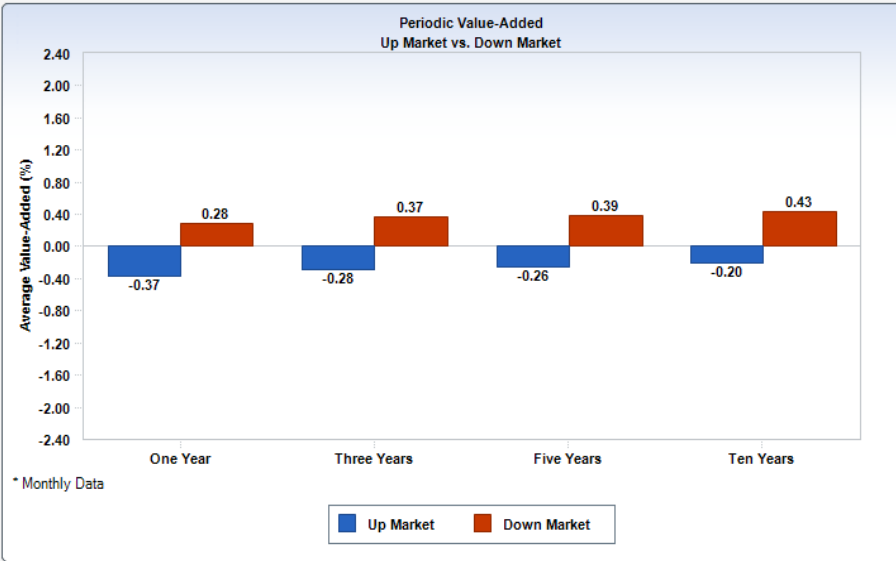




### Manager Review (As of 12/31/2019)



### Manager Review (As of 12/31/2019)



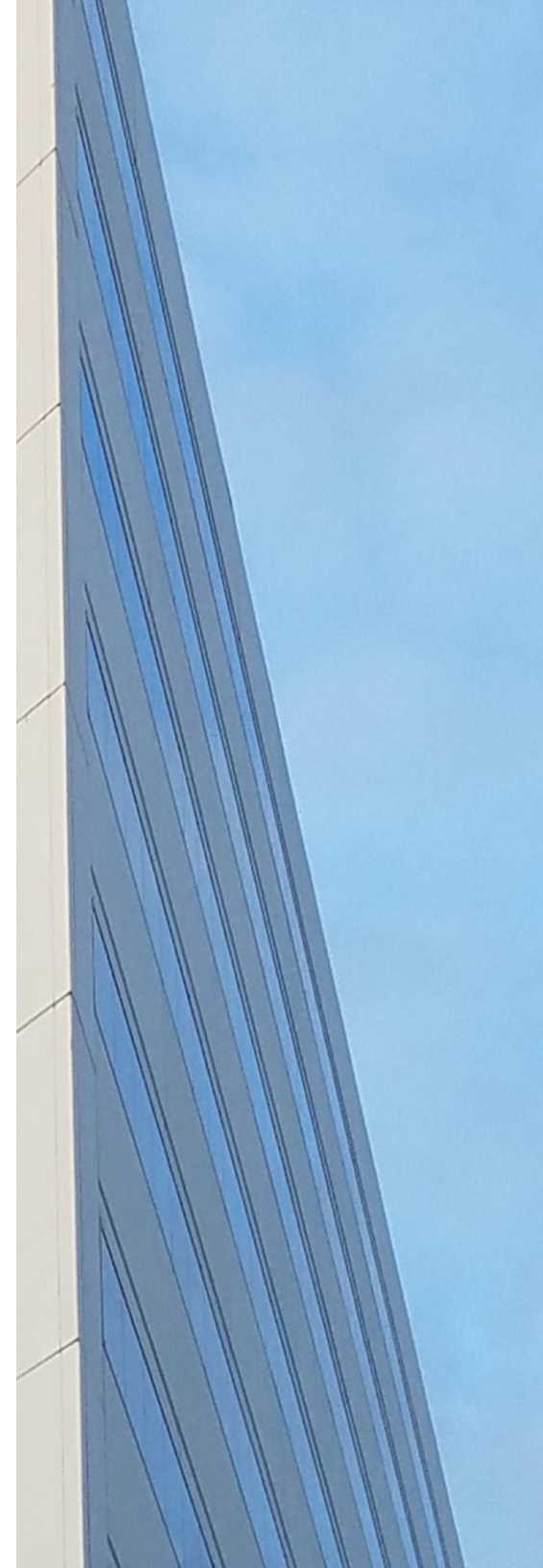
Wilshire Consulting  
Stable Value Fund Options Review  
Final Observations

Highlights

- Both managers are top tier Stable Value investment options
- Both managers possess experienced and deep investment teams
- Each manager boasts a significant number of assets under management
- Return generation is a strong suit for both investment options

Differentiators

- Great-West offers significant fee savings compared to Galliard
  - Due diligence costs for Great-West could partially offset these fee savings
- Galliard offers a more diversified investment, and a more diversified wrap provider lineup





# APPENDIX

Wilshire Consulting  
Stable Value Product Universe



Firm	Product Name
Ameriprise Trust Company	Columbia Stable Value – Government Strategy
Ameriprise Trust Company	Columbia Stable Value – Investment Grade Strategy
BMO Global Asset Management	BMO Stable Value Strategy
Fidelity Investments	Fidelity Advisor Stable Value Fund
Galliard Capital Management	Stable Value Separate Account Composite
Goldman Sachs Asset Management	GSAM Stable Value Core Broad-Market Focused
Goldman Sachs Asset Management	GSAM Stable Value Core Maturing Focused
Great-West Life and Annuity Insurance Company	Great-West Trust Stable Value Fund
Invesco Advisers, Inc.	Stable Value
Morley Capital Management	Stable Value Composite
Pacific Investment Management Company LLC (PIMCO)	Stable Value
Putnam Investments, LLC	Putnam Stable Value
Mellon Investments Corporation	Mellon Investments Corporation - Stable Value
T. Rowe Price	Stable Value Strategy
Guggenheim Investments	Stable Value
J.P. Morgan Asset Management	JPM Stable Value Full Fund - Individually Managed
Wilmington Trust	MetLife Stable Value Solutions Fund J
Vanguard	Stable Value