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Correspondence Memorandum

Date: May 16, 2022
To: Deferred Compensation Board
From: Laura Patterson, Policy Advisor
 Office of Policy, Privacy and Compliance
Subject: Dodge and Cox Income Fund Share Class Change

ETF recommends the Deferred Compensation Board (Board) change Dodge and Cox Income share classes: move from Dodge and Cox Share Class I to the new Dodge and Cox Share Class X.


In June 2015, the Board adopted its [Investment Option Selection and Reimbursement Policy](#). The policy requires the Board to offer participants quality, low-cost investment options through the Wisconsin Deferred Compensation Program (WDC), and, when available and fiscally feasible, to offer these investment options in share classes that do not provide reimbursements to the plan. Reimbursements are sometimes offered by mutual fund companies to compensate the plan or record keeper for performing administrative functions that would normally be performed by the fund company.

The Board adopted its Investment Option Selection and Reimbursement Policy to formalize the Board’s desire to avoid offering investment options that offer reimbursements. In addition, this policy changed how reimbursements would be utilized. Prior to implementing this policy in 2016, the WDC kept reimbursements at the plan level and used them to offset administrative costs for all participants. As of January 2016, any reimbursements provided are credited to WDC participants active in the fund providing the reimbursements.

Current Dodge and Cox Income Fund Share Class Provides Reimbursements

The WDC currently offers the Dodge and Cox Income Fund to WDC participants as part of the fixed income offerings. The Dodge and Cox Income Fund provides reimbursements for all ordinary expenses to the extent necessary to maintain total annual fund operating expenses. In 2021, this was 0.42%, or a cost of 42 basis points (bps) for this fund (expense ratio). That means for every \$1,000 invested in this fund, a WDC participant is paying Dodge and Cox \$4.20. However, this option also reimburses WDC participants 10 bps. When this reimbursement is included in the expense ratio, the expense ratio paid by WDC participants invested in this option during 2021 was 32 bps.

Reviewed and approved by Steve Hurley, Director, Office of Policy, Privacy, and Compliance



Electronically Signed 05/25/2022

Board	Mtg Date	Item #
DC	06.09.22	11

As of March 31, 2022, there were 13,401 WDC participants holding approximately \$89,802,308 in the Dodge and Cox Income Fund. For the first three months of 2022, these participants each received an average reimbursement of \$2.06 from the fund.

New Dodge and Cox Income Fund Share Class Does Not Provide Reimbursements

The Dodge and Cox Income Fund debuted a second share class on May 1, 2022, that does not provide expense reimbursements. The new share class option, "X," has a proposed share class price of 33 bps, per the attached pre-launch fact sheet.

The Department of Employee Trust Funds recommends the Board move the current share class to the new Dodge and Cox Share Income Fund Class X. Existing WDC participants would be notified of the change and automatically transitioned into the new share class.

While the direct cost to WDC participants will slightly increase by approximately 20 cents per \$1,000 invested, moving to share class X would ensure adherence with the Board's Investment Option Selection and Reimbursement Policy and provide efficiencies by eliminating processing needed for quarterly small reimbursements. See the Annual Fund Operating Expenses Chart below for a comparison of share class expenses.

Table 1: Dodge and Cox Income Fund - 2022 Annual Fund Operating Expenses (Source: Dodge and Cox Income pre-launch fact sheet and WDC Investment Performance and Expense Ratio Review as of 12/31/2021)

(Expenses paid each year as a percentage of the value of the investment)	Dodge and Cox Income -- - Class I	Dodge and Cox Income -- Class X
Management Fees	0.40%	0.35%
Distribution and/or service (12b-1) fees	None	None
Other Expenses (custody, accounting, legal, etc.)	0.01%	0.01%
Total Fund Operating Expenses	0.41%	0.36%
Expense Reimbursements (to WDC participants)	0.10%	None
Expense Reimbursements to Dodge and Cox (WDC participants and Empower would not receive this)	None	0.03%
Net Expenses (paid by WDC participants in fund)	0.31%	0.33%

Transitioning to Share Class X

The Dodge and Cox Income Fund is offered to WDC participants via an existing service agreement between Empower and Dodge and Cox. If the Board approves moving to Dodge and Cox Income Fund share class X, ETF will notify Dodge and Cox and Empower, but no Board agreements are needed. ETF will work with Empower and Dodge and Cox to develop a timeline for transition and to create a communications plan to inform WDC participants of the change. In the past, communication plans have included notices on the WDC website and direct messages (email and paper) to participants invested in the fund.

Staff will be at the Board meeting to answer any questions.

Attachment: [Dodge and Cox Income pre-launch fact sheet](#)