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 SECRETARY

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***Correspondence Memorandum***

**Date:** July 26, 2022  
**To:** Deferred Compensation Board  
**From:** Shelly Schueller, Director  
 Wisconsin Deferred Compensation Program  
**Subject:** Proposed Investment Policy Statement Revisions

**The Department of Employee Trust Funds (ETF) recommends the Board revise the Investment Policy Statement as shown in the attached draft.**

After the dissolution of the Board’s advisory-only Investment Committee in March of 2021, ETF and certain staff from the record keeper have assumed responsibility for reviewing the Investment Policy Statement (IPS). In addition to minor grammatical corrections in the attached draft, the revisions below are recommended for approval:

1. Adding “ESG (environmental, social, governance)” – formerly termed as “socially responsible” – to the definition of specialty funds on page 2, as ESG is the term now used when defining these types of investment options.
2. Updating Attachment 2, Benchmarks for Evaluating Investment Options as the American Beacon Bridgeway Large Cap option was removed from the WDC and the JP Morgan US Value R6 option was added.
3. Revising Attachment 2 to reflect current benchmarks and names as shown below:

DFA U.S. Microcap Portfolio	<ul style="list-style-type: none"> <li>• Morningstar Small Cap <del>Growth</del> <u>Blend</u> Average</li> <li>• Russell 2000 Index*</li> </ul>
Dodge & Cox Income	<ul style="list-style-type: none"> <li>• Morningstar Intermediate Core-Plus Bond Average</li> <li>• Bloomberg <del>Barelays</del>-U.S. Aggregate Bond Index</li> </ul>
FDIC Option (Johnson Bank)	<ul style="list-style-type: none"> <li>• <del>50% 3 Month LIBOR / 50% 12 Month LIBOR</del> <u>30-Day Treasury Bill minus 0.05%</u></li> </ul>

Reviewed and approved by Matt Stohr, Administrator, Division of Retirement Services  
 Electronically Signed 08/02/2022

*Matt Stohr*

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Stable Value Fund (Galliard)	<ul style="list-style-type: none"> <li>• Five Year Constant Maturity Treasury Rate <u>Yield</u></li> </ul>
Vanguard Long-Term Investment Grade Fund - Admiral	<ul style="list-style-type: none"> <li>• Morningstar <del>Corporate</del> <u>Long Term</u> Bond Average</li> <li>• <del>Barclay's LT Corporate A</del> <u>Bloomberg US Long Credit A Index</u></li> </ul>
Vanguard Wellington Fund	<ul style="list-style-type: none"> <li>• Morningstar Moderate Allocation Average</li> <li>• Composite 65% S&amp;P 500/35% <del>Barclays</del> <u>Bloomberg U.S. Credit A or Better Index</u></li> <li>• Composite 65% S&amp;P 500 / 35% <del>Barclays</del> <u>Bloomberg U.S. Aggregate</u></li> </ul>
Blackrock U.S. Debt Index Fund	<ul style="list-style-type: none"> <li>• <del>BarCap</del> <u>Bloomberg US Aggregate Bond Index</u></li> </ul>
Calvert U.S. Large Cap Core Responsible Index Fund	<ul style="list-style-type: none"> <li>• <u>S&amp;P 500 Index</u></li> <li>• Morningstar Socially Responsible Large Cap Average</li> <li>• Morningstar Large Cap <del>Blend</del> <u>Growth Average</u></li> <li>• <del>Calvert US Large Core Responsible Index</del></li> </ul>

Staff will be at the meeting to answer any questions.

Attachment A: Investment Policy Statement (with proposed revisions)

**Wisconsin Deferred Compensation Program**  
**Deferred Compensation Board**  
**Investment Policy Statement**

*Approved by the Deferred Compensation Board November 1998*

Last Revised: ~~November 4, 2024~~[draft for September 1, 2022](#)

**Objective**

The Wisconsin Deferred Compensation Program (WDC) will provide participants with the ability to invest retirement savings in a broad range of investment alternatives with diverse risk and return characteristics. The Deferred Compensation Board's goal is to ensure the WDC offers sufficient investment choices to meet participants' needs when establishing their personal retirement savings portfolio.

This Investment Policy Statement (IPS) describes a prudent investment process that the Board has determined is most appropriate for the WDC. The IPS is designed to allow for sufficient flexibility in the management oversight process, while also setting forth reasonable parameters to promote the exercise of reasonable prudence and care with respect to the investment options available in the WDC. The Board may amend the IPS from time to time, as it deems advisable.

**Investment Spectrum**

The Board recognizes that there is investment risk inherent in all investment options, and that individual participants each have their own level of risk tolerance. Accordingly, the Board will select and offer a broad array of investment options providing different levels of risk and historical return, and other financial characteristics as appropriate. The Board will maintain a core investment spectrum, normally between eight and twenty options, to ensure sufficient choices are available and are reasonable in number to allow the average participant to decide which options best meet their personal needs. The spectrum will be comprised of fixed options, publicly traded mutual fund options, and institutional investment products (examples: separate accounts, collective investment trusts) from the following categories:

1. *Capital preservation investments - FDIC insured account option, stable value fund, or money market fund.*
2. *Bond funds - government or corporate bond funds, domestic or international, active or passive management.*
3. *Balanced funds – combining equity and bond investments in one option.*
4. *Domestic large cap equity funds – including both active and passive (index) investments; funds with investment objectives that may include growth and income, growth, aggressive growth, value, and blend of growth and value, and active or passive management.*
5. *Domestic small and mid-cap equity funds – growth, value or blend, and active or passive management.*
6. *International or foreign equity funds – growth, value or blend, and active or passive management.*
7. *Target Date funds – age-based portfolios for multiple time horizons.*

8. *Specialty Funds – may be offered for participants interested in a particular style of investment choice. Any specialty fund offered must remain true to its special criteria (e.g., ESG (environmental, social, governance), formerly commonly termed “socially responsible”) and competitive to its specific asset class.*
9. *Self-Directed Brokerage Account (SDBA) – will offer a wide array of mutual funds that can be accessed by participants. The investment options in the SDBA will not be monitored by the Board. Participants electing the SDBA will be required to acknowledge that they are sufficiently sophisticated and knowledgeable about investing and that they are capable of making, managing and controlling their investment choices.*

### **Selection Process**

The Board may from time to time provide additional investment alternatives and may change the categories of funds offered to maintain a broad spectrum to address participants' changing needs or changes to the investment industry. The Board has established minimum criteria for selecting and evaluating the options offered by the WDC, as shown in Attachment 1.

Capital preservation investments must meet minimum criteria established by the Board (see Attachment 1).

Options are selected from a universe of publicly traded funds and investment trusts through a comprehensive search process. For an option to be considered for the WDC, it must meet ~~the~~ established minimum requirements in regard to asset size, years in operation, costs (expense ratio and sales fees), and historical performance. Once ~~the-an~~ initial screening has occurred, options are further analyzed based on criteria that includes, but is not limited to short and long-term performance as compared to peer group average and benchmarks, risk/return measurements, manager tenure, and industry ratings (such as Morningstar).

### **Evaluation Process**

As required in *Wisconsin Administrative Code ETF 70.03(9)*, to ensure options continue to be suitable for offering to WDC participants and are consistent with the established investment policy statement, the Board will complete a comprehensive evaluation at least once each year. This evaluation will be accomplished using the minimum criteria stated in Attachment 1.

Performance benchmarks are specifically established for each investment option and include a comparison to their peer group average, an appropriate index measurement, and an internal benchmark identified by the fund manager. Volatility is also measured by an analysis of risk versus return. Benchmarks for each investment option are stated in Attachment 2.

The Board recognizes that an investment manager's performance can move in cycles over time and that investment option performance will not always be superior. As such, the Board will generally monitor selected investment option performance on a periodic basis.

While the primary analysis of investment options will be quantitative, the Board reserves the right to make decisions regarding investment options based upon other criteria that the Board believes will be in the best interests of the WDC and its participants.

### ***Underperforming Investment Options***

If the Board determines an option is underperforming or no longer acceptable for continued offering, the Board may close the investment to new participant elections or initiate the process to phase the option out of the WDC and require participants to move account balances to an alternate choice, as required in *Wisconsin Administrative Code ETF 70.08(3)*. The steps in the review process are as follows:

1. *The Board completes an investment performance review of all investment options. If an investment option is determined to be underperforming, the Board may:*
  - a) *Put the investment option on a formal “watch” list. While an investment option is on a “watch” list, no action will be taken to either close or replace the option. WDC participants will be informed of a “watch” decision. The investment option manager may be informed, and additional information may be gathered as to why the investment option is underperforming; or*
  - b) *Close the investment option to new elections and proceed with step 2; or*
  - c) *Initiate the phase out process to remove the investment option from the WDC. If this route is chosen, steps 2 and 3 will be skipped; go directly to step 4.*
2. *As a result of the Board’s investment performance review, if the option’s investment performance is determined to once again be acceptable, the investment option may be taken off the “watch” list and if necessary because the option was closed to new elections, the option will be re- opened to participant elections.*
3. *If improvements have occurred but the investment option is not completely meeting all established criteria and/or there are remaining questions about its performance, the option can be continued on a “watch” list or continue in its closed status.*
4. *If the review demonstrates that the investment option continues to be unacceptable for offering, the Board can initiate the process to phase it out of the WDC (as required in Wisconsin Administrative Code ETF 70.08(3)) beginning on the first business day of the 3<sup>rd</sup> month following the Board’s decision.*
  - a) *Phase 1: Participants are instructed to re-direct deferrals to an alternate choice within a period of not less than 45 days from the original notification. If this action is not taken, deferrals being directed into the option being removed will automatically be redirected to an alternate option as designated by the Board.*
  - b) *Phase 2: Participants are instructed to transfer existing balances to an alternate choice within 45 days after the Phase 1 period has ended. If this action is not taken, account balances not exchanged out of the option being removed will automatically be redirected to an alternate option as designated by the Board.*

### ***Other Considerations***

The Board may conduct informal reviews and evaluations of an investment option at any time. The Board may place an investment option under formal watch or terminate an investment option for any reason, including but not limited to the following:

1. The investment option has changed managers, or such a change appears imminent.
2. The investment option has had a significant change in ownership or control.
3. The investment option has changed its investment mandate or has experienced style drift, departing from the investment objectives or parameters in its prospectus.
4. The investment option has experienced substantial portfolio turnover.
5. The investment option has violated an SEC rule or regulation.
6. The investment option has experienced difficulty in transacting trades, fund transfers or pricing.
7. The investment option has experienced other changes or problems in its procedures, operations, investing or reporting or a lack of employee participation, which in the Board's view has detracted from our could detract from the WDC's objectives.
8. Any other circumstance regarding the investment option that the Board determines is in conflict with this IPS or may be detrimental to the WDC, such as involvement in a scandal process.

### ***Responsibilities***

Deferred Compensation Board – The Board is responsible for selecting appropriate investment options for offering by the WDC and monitoring the selections to ensure they continue to be acceptable for long-term retirement savings.

Investment Providers – The companies contracted to provide an investment option to the WDC are responsible for following the investment objectives that were either, identified during the competitive bid process (for fixed income options or institutional investment products) or stated in their fund prospectus (for mutual funds).

Department of Employee Trust Funds and Administrative Services Provider Staff – Staff is responsible for completing the annual evaluation to monitor the WDC investment choices and providing sufficient analysis and information on which the Board can base decisions regarding maintaining, removing or adding investment options to the WDC. Staff is also responsible for providing sufficient information about the available investment choices and how to structure a retirement savings portfolio to enable participants to make informed decisions.

Participants – Investment decisions are the full responsibility of participants and their beneficiaries. Although the Board monitors the options that are being made available, participants are

responsible for deciding which, if any, of the available choices are the most appropriate for their supplemental retirement savings needs.

Attachment 1: Minimum Criteria for Selecting and Evaluating Investment Options

Attachment 2: Benchmarks for Evaluating Investment Options (effective ~~November 2020~~ October 2022)

**Attachment 1**

<b>Minimum Criteria for Selecting and Evaluating Capital Preservation Options</b>	
Bank Option	<ul style="list-style-type: none"> <li>• FDIC insured</li> <li>• Capital ratio as required by US government to maintain FDIC coverage</li> <li>• Minimum size - \$1 billion in assets</li> </ul>
Insurance Option	<ul style="list-style-type: none"> <li>• Top rating received by at least 2 rating agencies</li> <li>• No rating below a Double A or equivalent</li> <li>• Total capital (equivalent to total assets minus total liabilities) equal to at least 5% of invested assets</li> <li>• High risk assets (non-investment grade bonds and non-performing real estate loans and investments) under 200% of total capital</li> <li>• Performance returns compared to blended 5-year Treasury rates, or other index as appropriate and approved by Board</li> </ul>
Stable Value Fund Manager	<ul style="list-style-type: none"> <li>• Minimum 5 years experience managing stable value assets</li> <li>• Minimum \$2 billion in discretionary assets under management</li> <li>• Investment guidelines and performance benchmark as approved by Board</li> </ul>
<b>Minimum Criteria for Selecting and Evaluating Mutual Fund and Institutional Investment Product Options</b>	
<b>Selection Criteria:</b> <i>Requirements apply to all unless specifically waived</i>	<ul style="list-style-type: none"> <li>• Minimum 5-year operating history – may be waived for index funds</li> <li>• Manager <del>Tenure</del> <u>tenure</u> not less than 3 years</li> <li>• Expense ratio [internal expense charge plus any 12(b)1 fee] not greater than the mean for the appropriate peer group</li> <li>• 5-year rolling average performance must equal or exceed appropriate benchmark or index</li> <li>• Minimum total asset size of \$400 million – may be waived for certain categories of funds</li> <li>• Anticipated WDC assets not greater than 5% of total fund (determined by comparing current WDC asset levels in a comparable fund)</li> <li>• No loads or sales charges unless they are waived for the WDC</li> <li>• Not a sector fund</li> </ul>



<p><b>Monitoring Criteria:</b> <i>Requirements apply to all unless specifically waived</i></p>	<ul style="list-style-type: none"><li>• Performance must meet or exceed one or more of established benchmarks – benchmarks used include but are not limited to 1) peer group average, 2) appropriate index as determined by Board, and 3) internal benchmark assigned by fund manager.</li><li>• For specialty funds selected for reasons other than performance (e.g., <del>socially responsive</del>ESG funds or target date funds), performance will only be evaluated based on a comparison to the funds peer group of funds with same specialty objective. [Participants will be fully advised when a fund is selected for reasons other than investment returns.]</li><li>• WDC assets in fund no greater than 10% of the total mutual fund assets.</li><li>• After 5 years in the WDC, minimum of 3% of participants or 3% of assets.</li></ul>
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**Attachment 2**  
**Benchmarks for Evaluating Investment Options**  
(effective ~~December 2020~~ October 2022)

<u>Investment Product</u>	<u>Benchmarks</u>
<del>American Beacon Bridgeway Large Cap</del>	<ul style="list-style-type: none"> <li>• <del>Morningstar Large Cap Value Average</del></li> <li>• <del>Russell 1000 Value Index*</del></li> </ul>
American Funds EuroPacific Growth R6	<ul style="list-style-type: none"> <li>• Morningstar Foreign Large Blend Average</li> <li>• MSCI EAFE Index</li> <li>• MSCI ACWI ex U.S. Index</li> </ul>
DFA U.S. Microcap Portfolio	<ul style="list-style-type: none"> <li>• Morningstar Small Cap <del>Growth Blend</del> Average</li> <li>• Russell 2000 Index*</li> </ul>
Dodge & Cox Income	<ul style="list-style-type: none"> <li>• Morningstar Intermediate Core-Plus Bond Average</li> <li>• <del>Bloomberg Barclays BarCap</del> <u>Bloomberg</u> U.S. Aggregate Bond Index*</li> </ul>
FDIC Option (Johnson Bank)	<ul style="list-style-type: none"> <li>• <del>50% 3-Month LIBOR / 50% 12-Month LIBOR</del> <u>30-Day Treasury Bill minus 0.05%</u></li> </ul>
Fidelity Contrafund CIT	<ul style="list-style-type: none"> <li>• Morningstar Large Cap Growth Average</li> <li>• Russell 1000 Growth Index</li> <li>• S&amp;P 500 Index</li> </ul>
<u>JP Morgan US Value R6</u>	<ul style="list-style-type: none"> <li>• <u>Morningstar Large Cap Value Average</u></li> <li>• <u>Russell 1000 Value Index*</u></li> </ul>
Stable Value Fund (Galliard)	<ul style="list-style-type: none"> <li>• Five Year Constant Maturity Treasury Rate <u>Yield</u></li> </ul>
Vanguard Admiral Treasury Money Market Fund	<ul style="list-style-type: none"> <li>• Morningstar Taxable Money Mkt Average</li> <li>• U.S. Treasury 90-Day T-Bill</li> <li>• iMoneyNet Money Fund Report Average 100% Treasury Fund</li> </ul>
Vanguard Long-Term Investment Grade <del>Fund</del> <u>Admiral</u>	<ul style="list-style-type: none"> <li>• Morningstar <u>Long Term Corporate</u> Bond Average</li> <li>• <del>Barclay's LT Corporate A*</del> <u>Bloomberg US Long Credit A Index</u></li> </ul>
Vanguard Wellington Fund	<ul style="list-style-type: none"> <li>• Morningstar Moderate Allocation Average</li> <li>• Composite 65% S&amp;P 500/35% <del>Barclays-Bloomberg</del> <u>U.S. Credit A or Better Index</u></li> </ul>

<u>Investment Product</u>	<u>Benchmarks</u>
	<ul style="list-style-type: none"> <li>Composite 65% S&amp;P 500 / 35% <del>Barclays-Bloomberg</del> <u>U.S. Aggregate</u></li> </ul>

## INDEX FUNDS

Blackrock EAFE Equity Index Fund	<ul style="list-style-type: none"> <li>MSCI EAFE</li> </ul>
Blackrock MidCap Equity Index Fund	<ul style="list-style-type: none"> <li>S&amp;P MidCap 400 Index</li> </ul>
Blackrock Small Cap Equity Index Fund	<ul style="list-style-type: none"> <li>Russell 2000 Index</li> </ul>
Blackrock U.S. Debt Index Fund	<ul style="list-style-type: none"> <li><del>BarCap-Bloomberg US US</del> Aggregate <u>Bond</u> Index</li> </ul>
Vanguard Institutional Index Fund (Plus Shares)	<ul style="list-style-type: none"> <li>S&amp;P 500 Index</li> </ul>

## SPECIALTY FUNDS

Calvert U.S. Large Cap Core Responsible Index Fund	<ul style="list-style-type: none"> <li><u>S&amp;P 500 Index</u></li> <li>Morningstar Socially Responsible Large Cap Average**</li> <li>Morningstar Large Cap <del>Blend-Growth</del> Average</li> <li><del>Calvert US Large Core Responsible Index</del></li> </ul>
Vanguard Target Date Funds	<ul style="list-style-type: none"> <li>S&amp;P Target Date Indexes**</li> <li>Composite benchmarks based on asset allocation of funds</li> </ul>

\* Benchmarks that are used by both the Wisconsin Deferred Compensation Board as well as the investment provider.

\*\* Per the Board's Investment Policy Statement, Specialty Funds (funds chosen for reasons other than performance) are measured only against their peer group.

*Other benchmarks may be included to provide additional monitoring criteria.*