

# Deferred Compensation Plan BOARD REPORT 14-41

Date: October 8, 2014

To: Board of Deferred Compensation Administration

From: Staff

Subject: Investment Committee Recommendations for the Underlying Providers for the Deferred Compensation Plan Small-Cap Fund

*Board of Deferred  
Compensation Administration  
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## Recommendation:

That the Board of Deferred Compensation Administration approve the underlying providers for the Deferred Compensation Plan Small-Cap Fund:

- a) DFA U.S. Small Cap Value Portfolio as the new active value component of the Deferred Compensation Plan Small-Cap Fund; and
- b) Hartford Small Cap Growth HLS Fund as the new active growth component of the Deferred Compensation Plan Small-Cap Fund.

## Background:

On August 28, 2014, the Investments Committee met to review the search results for the Active Bond, Active Small-Cap Value, and Active Small-Cap Growth fund categories. The Committee established a list of finalists for further review for each category.

On September 29, 2014, the Investments Committee reviewed a subsequent report from Mercer providing more detailed findings regarding the finalists in each category and made selections in each category to recommend to the full Board.

## Discussion:

The Plan currently offers one small-cap investment option, which is presently 100% passively managed by State Street (SSgA). Upon selection of the Small-Cap Active Growth and Value providers, the **DCP Small-Cap Fund** will be established as a newly Plan branded fund and, in accordance with the Plan's Investment Policy, will be comprised of the following underlying fund components: 34% passive, 33% growth, and 33% value.

The Active Small-Cap Value and Growth categories will each make up one-third of the underlying allocation for the DCP Small-Cap Fund. These mandates are presently unfilled (no incumbent). Based on June 30, 2014 values, the estimated mandate size for each category is approximately \$105 million (including assets invested in the risk profiles).

The Investments Committee has completed the review for both categories and submits the following selection recommendations to the Board for its approval.

#### a. ACTIVE SMALL-CAP VALUE

Fourteen funds were initially identified as having met all of the essential criteria adopted by the Board. The Investments Committee identified the following funds as finalists for additional review:

1. William Blair & Company
2. Federated Investors
3. American Beacon Advisors

Upon review of the subsequent report from Mercer, and discussion of the merits of each option, the Investments Committee is recommending that the **Dimensional Fund Advisors U.S. Small Cap Value Portfolio** (“DFA Small-Cap Value”) be selected as the new active value small-cap fund component of the DCP Small-Cap Fund.

#### b. ACTIVE SMALL-CAP GROWTH

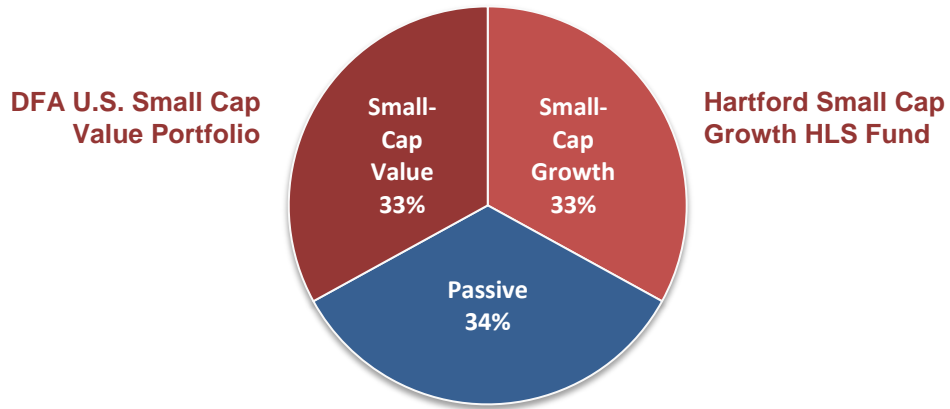
Eleven funds were initially identified as having met all of the essential criteria adopted by the Board. The Investments Committee identified the following funds as finalists for additional review:

1. The Hartford Mutual Funds (HartfordSCG)
2. The Hartford Mutual Funds (HartfordSmCo)
3. Eagle Asset Management

Upon review of the subsequent report from Mercer, and discussion of the merits of each option, the Investments Committee is recommending that the **Hartford Small Cap Growth HLS Fund** be selected as the new active small cap growth fund component of the DCP Small-Cap Fund.

The DFA Small-Cap Value Fund and the Hartford Small Cap Growth Fund are being recommended for their strong results within a range of criteria applied to this fund search, including long-term performance (including considerations to value added above benchmark), management team depth, personnel stability, portfolio construction, competitive fees, performance in different market environments, risk-adjusted returns, and other criteria reviewed by the Committee and detailed in the attached consultant report. The Committee further reviewed hypothetical modeling of different combinations of the finalist funds together with the current passively managed fund, as all three components would become underlying providers of the DCP Small-Cap Fund.

Should the Board approve the Committee’s recommendations, following is what the DCP Small-Cap Fund will look like when it is fully implemented:



**SSGA Russell Small Cap Index Fund NL Series S**

*\* Incumbent provider, however passive fund searches are anticipated to conclude in spring 2015. Fund and provider may change at that time.*

Submitted by: \_\_\_\_\_  
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Approved by: \_\_\_\_\_  
 Steven Montagna