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# DEFERRED COMPENSATION PLAN BOARD REPORT 09-01



Date: January 7, 2009

To: Board of Deferred Compensation Administration

From: Staff

Subject: Watch Status – Hartford Advisers Fund/Hartford Stock Fund

Recommendation:

That the Board of Deferred Compensation Administration place the **Hartford Advisers Fund** and **Hartford Stock Fund** on Watch status for a period of at least two and not more than six quarters, with the first effective quarter on Watch being the quarter ending 09/30/08.

Discussion:

In conjunction with Mercer Investment Consulting's quarterly investment performance review for periods ending September 30, 2008, staff is recommending that the Hartford Advisers Fund and Hartford Stock Fund be placed on Watch status. Both funds were previously on Monitor status beginning with the second quarter of 2006, and in its most recent report Mercer identified factors indicating deteriorating performance. Specifically, Mercer indicated the following:

*"Hartford Advisers - The Fund underperformed the index and placed in or near the bottom quartile of the universe for all periods shown. Within equities, poor stock selection in financials, health care, and energy along with an underweight to the consumer staples and financial sector detracted. Notable detractors were Washington Mutual (-98.3% return), Elan (-70.0% return) and Lehman Brothers (-98.9% return). Within fixed income, an underweight to the government sector and overweight MBS, credit, and ABS negatively impacted performance as did the exposure to high-yield. Both the fixed income and equity portions are sub-advised by Wellington Management Company. The firm has extensive fixed income resources that include a large, well-organized staff of portfolio managers who average about 20 years of experience as well as a large staff of credit analysts. In addition, fixed income analysts maintain regular communication with the firm's large staff of equity research analysts. The process allows portfolio managers to select from an approved list of securities,*

which is supported by Wellington's strong credit analysis. The equity portion of the fund is managed by the same team of portfolio managers on the Hartford Stock Fund, which is commented on below.

*"Hartford Stock Fund - The fund underperformed the index and ranked in or near the bottom quartile of the Mercer Mutual Fund US Equity Large Cap Core Universe. An underweight allocation combined with poor stock selection in consumer staples hurt returns. Stock picks in financials and health care also detracted, with notable detractors including Washington Mutual (-98.3% return), Elan (-70.0% return) and Lehman Brothers (-98.9% return). The fund blends top-down sector analysis and bottom-up security selection leading to a conservative investment style with a long-term approach. However, the themes and therefore style of this product will shift between growth and value based on the team's top-down outlook. As a result, performance may fluctuate depending on the team's top-down outlook and the current market environment."*

Pursuant to the Board's adopted policy, a fund placed on "Watch" status will have a minimum of two and not more than six quarters in which to correct its noted deviance, based upon the recommendation of the consultant and adoption of that recommendation by the Board. Removal from "Watch" status will occur in one of two ways: (1) by action of the Board and notice to the investment manager that the Board is satisfied with improved performance or corrective measures taken; or (2) by action of the Board and notice of termination given to the investment manager.

The specific timeframe for resolution of an issue or issues is to be established by the Board and communicated in writing to the investment manager. Given the length of time that both funds have been on "Monitor" status (ten quarters) staff recommends that the Board tentatively plan to eliminate the funds if they continue to be on Watch for two consecutive quarters (quarters ending 09/30/08 and 12/31/08). Based on their ongoing performance the consultant may subsequently recommend a revision to this timetable. However, adoption of the proposed time frame in this report will be immediately communicated in writing to the investment manager following the Board's action.

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

Approved by: \_\_\_\_\_  
Maryanne Keehn