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# DEFERRED COMPENSATION PLAN BOARD REPORT 09-16



Date: March 4, 2009

To: Board of Deferred Compensation Administration

From: Investments Committee and Staff

Subject: - Recommendation to Add Passively Managed Mid-Cap Index Fund  
- Asset Allocation Fund Restructuring

Recommendation:

That the Board of Deferred Compensation Administration:

- (a) Approve the recommendation of the Investments Committee that the Vanguard Mid-Cap Capitalization Index Institutional Fund be added to the Deferred Compensation Plan core investment menu; and
- (b) Approve staff's recommendation to instruct staff to proceed with implementation of the Plan's restructured risk-based asset allocation ("Profile") funds at the earliest possible date consistent with other potential investment menu changes occurring in the near term.

Discussion:

**Mid-Cap Index Fund** – The Board's Investments Committee, working with staff and the Board's consultant, Mercer Investment Consulting, is recommending that the Board add the Vanguard Mid-Capitalization Index Institutional Fund to the Plan's core investment menu. The Plan already offers an actively managed mid-cap fund, but the Board previously made a decision to add a passively managed mid-cap fund for the purpose of filling a hole in the Plan's core investment menu and as part of revising the Plan's risk-based asset allocation, or "Profile" funds.

The Investments Committee considered the candidate firms outlined in the attached research report provided by Mercer. As Board members may recall, this investment provider search originally began with a Request for Proposal (RFP). When the RFP failed to produce a viable candidate pool, the Board requested that Mercer review the universe of potential providers and produce an assessment of their relative strength and capabilities. The evaluation of candidate firms was referred to the Investments Committee for the purpose of developing a recommendation to the full Board.

One of the threshold questions addressed by the Committee concerned whether, in assessing potential providers, Mercer should limit its search to a single mid-cap index or consider candidates with strategies tracking multiple mid-cap indices. Given the small number of providers in the mid-cap space, the Committee elected to consider multiple indices. Following its deliberation of alternatives, the Committee elected to recommend selection of the Vanguard Mid-Cap Index Institutional Fund based on its low expenses, larger amount of assets under management, and minimal tracking error. This Fund follows its internally generated Vanguard Mid-Cap Spliced Index.

Staff is submitting the recommendation to approve the Vanguard Mid-Cap Index Institutional Fund on behalf of the Investments Committee. Great-West indicates that this Fund could be made available to Plan participants within approximately 30 days of the Board's approval action.

**Asset Allocation Funds** – One of the goals for adding a passively managed index fund was to enhance the Plan's risk-based asset allocation ("Profile") funds. At the Board's May 20, 2008 meeting, the Board approved a restructuring of the Plan's asset allocation funds as re-stated in the attached consultant report. The consultant's review at the time addressed not only the addition of the mid-cap index fund but other changes to update and improve these products for Plan participants.

Since this process involves reconfiguring the underlying components of the asset allocation funds, it will require an advance notification to participants, the specific dates of which staff has not identified as of the time of writing of this report. Further, given some of the other significant investment changes occurring in the Plan in approximate proximity to one another (including the potential elimination of the Hartford funds, the transition to a new Stable Value provider, and a change in providers for the FDIC-insured savings option) this change will need to be coordinated in that context. Following the introduction of the new passively managed mid-cap offering, staff is recommending that the Board instruct staff to proceed with implementation of the restructured funds at the earliest possible date consistent with other potential investment menu changes occurring in the near term.

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

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