

**STATE OF WISCONSIN
DEPARTMENT OF EMPLOYEE TRUST FUNDS
801 West Badger Road
Madison, WI 53702**

CORRESPONDENCE MEMORANDUM

DATE: April 10, 2002

TO: Deferred Compensation Board Members

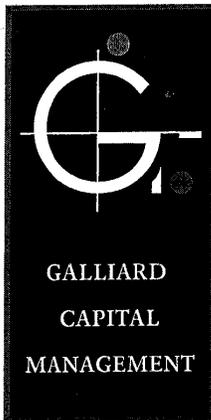
FROM: Mary Willett, Director
Supplemental Retirement Plans

SUBJECT: Affirmation of Investment Committee Action -
Sub-advisor for the Stable Value Fund

This memo is to inform the Deferred Compensation Board of a new sub-advisor that has been approved to manage a portion of the Wisconsin Deferred Compensation Program (WDC) stable value fund assets. At the March meeting, the Investment Committee approved a recommendation from Galliard Capital Management to include Peregrine Capital Management as sub-advisor for this fund to compliment the investment styles of PIMCO and Bernstein Alliance. Galliard will begin placing WDC assets with this new sub-advisor when market conditions are such that the fund's performance will benefit from this action, which, to date, has not yet occurred.

At the November 2001 meeting, the Board delegated authority to the Department of Employee Trust Funds, with prior approval from the Investment Committee, to add or replace sub-advisors for the stable value fund. The contract with Galliard was amended to provide limited discretion to change or add sub-advisor relationships for the actively managed bond portion of the stable value fund. This flexibility was desired because market conditions as well as changes in the companies providing sub-advisor services may necessitate quick action to maintain the performance and quality of this fund's portfolio.

Karl Tourville, Managing Partner, Galliard Capital Management, provided justification to the Department and the Investment Committee to add Peregrine Capital Management to the approved list of sub-advisors (see attached documentation). Based on manager interviews and a review of the style and performance of potential managers, staff authorized the proposed addition with approval from the Investment Committee. At the May meeting, staff will ask the Board to affirm this action for official Board records.



MEMORANDUM

Date: March 13, 2002

To: Mary Willett, Director
Supplemental Retirement Plans/Office of Federal Colpliance

From: Karl Tourville, Managing Partner
Galliard Capital Management, Inc.

RE: Stable Value Fund – Sub-advisor Addition

Mary, as a result of our due diligence and subsequent interview on March 4, we would like to recommend that Peregrine Capital Management be added as an approved sub-advisor to the Stable Value Fund. We believe their disciplined investment philosophy and style, and solid long term track record warrant inclusion in the portfolio and would complement the other sub-advisors from a style diversification standpoint. The following is a brief overview of the firm, its investment philosophy and style, and its expected role in the portfolio.

Firm Overview

Peregrine Capital Management was established in 1984 and currently has in excess of \$10 billion in assets under management across four specialty investment styles. Their philosophy for investment management is that experienced teams of investment professionals, each focused exclusively on their respective investment styles, leads to superior investment returns and high quality client service.

Peregrine's sole office location is in Minneapolis, MN. Peregrine currently has a staff of 44, including 16 investment professionals. Peregrine Capital Management is 100% owned by Wells Fargo Bank Minnesota, N.A., which, in turn, is 100% owned by Wells Fargo & Company.

The Positive Return Product, which we are recommending, has over \$1.5 billion in assets.

Investment Philosophy

Peregrine's Positive Return style of fixed income management is based upon the belief that long-run success is best achieved by avoiding short-run calamity. Without resorting to market timing or interest rate forecasting, they use a proven asset allocation model that triggers disciplined shifts in portfolio holdings of short-term and long-term bonds. These shifts are designed to take advantage of bond price changes by lengthening portfolio duration to capture appreciation and enhance returns when bond prices are rising, and by shortening duration to protect capital when bond prices decline. *In any bond market environment, their approach is designed with an objective of producing a positive total return over a pre-defined one-year horizon, making it ideal for stable value portfolios.*

Description of Investment Style

The Positive Return Enhanced Cash portfolio blends two components: short-term bonds with maturities less than 2 years, and long-term bonds with maturities of 8-10 years. Each year, the portfolio begins with a neutral mix of 50% long-term bonds and 50% short-term bonds. Subsequent shifts between long-term and short-term bonds are determined by actual bond price movements. Every day, their model measures the portfolio's progress year-to-date against its goal of a positive total return over a pre-defined 12-month horizon. When bond prices rise and the portfolio increases in value, a "cushion" exists which affords the opportunity to take additional risk, which results in increased use of long maturity bonds. When bond prices fall, however, the cushion shrinks, which results in the sale of long bonds to boost reserves to protect principal. *In the jargon of the bond market, it introduces "positive convexity" into a portfolio, as its duration lengthens in a rally and shortens in a selloff.*

Sector and quality guidelines are monitored to assure that safety, liquidity, and diversification are maintained. Within the long portion of the portfolio, they use only U. S. Treasuries to minimize transactions costs and avoid credit and call risks. In the short portion (maturities less than 2 years) federal agency issues, asset-backed securities, and high-grade corporate notes are utilized. All holdings are denominated in U.S. dollars and no derivatives are used.

Role in Stable Value Fund

Positive Return is designed to benefit from significant moves in bond prices. Optimum conditions occur when prices trend predominantly in one direction, either up or down. When prices move back and forth and end a year about where they began, the opportunity to capitalize on price change is absent and their approach will generally trail more common yield-enhancement strategies.

During much of the past decade, the bond market has shown a pronounced tendency toward "trending behavior" - an environment that is very favorable for their style. *Since their approach adds the most value in "trending environments" and traditional portfolios are structured to add the most value in "trendless environments", the combination of both types of strategies enable the creation of an overall fixed income portfolio that is better positioned to outperform regardless of the market environment.*

Portfolio Managers:

Bill Giese and Pat Burns are the two portfolio managers responsible for this style. They have worked together since 1983. Bill and Pat developed Positive Return and have managed all accounts as a team since inception of the style in 1987 and are two of the original founders of Peregrine. *Detailed biographies are attached.*

Mary, I believe their inclusion in the portfolio at an opportune time will be value added for the plan participants. Please let me know if you have any questions or desire additional information. I will be available for questions via conference call during the committee meeting on March 27th.

Overview

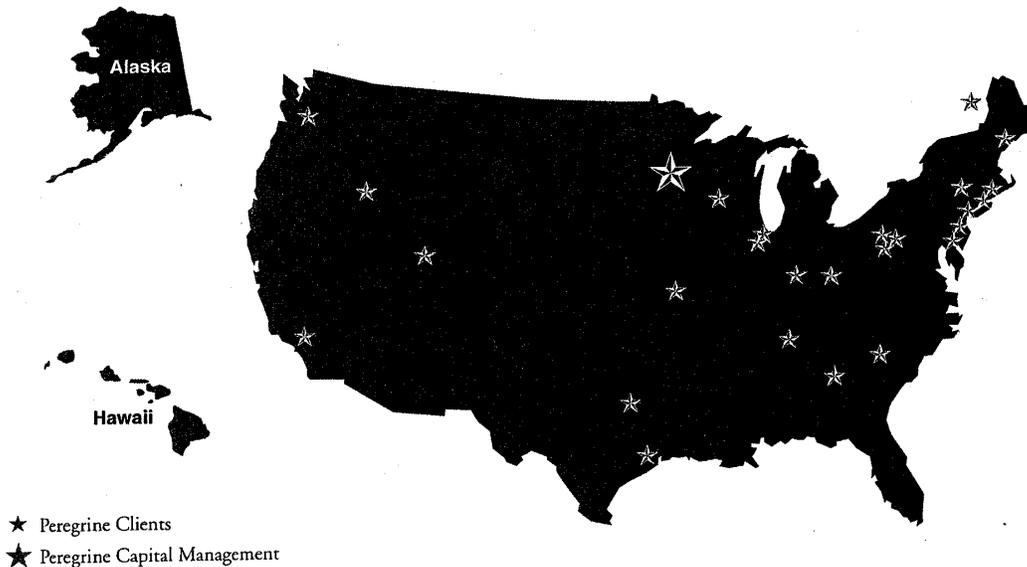


Small, Specialized Teams Deliver Quality Results

Peregrine Capital Management provides specialty equity and fixed income management for institutional clients. Peregrine was founded in 1984 and is a wholly-owned subsidiary of Wells Fargo & Company. The firm was organized on the premise that small teams of experienced professionals, focused on specialty styles, deliver superior investment results. Peregrine has four portfolio management teams, each exclusively responsible for the development and implementation of their style, philosophy and process. Our clients have direct contact with their portfolio managers and our client service and marketing team. This structure has been beneficial to our clients in the quality of performance and service they have received and remains an integral part of our success.

Strategic Business Plan Assures Excellence in Client Service

Peregrine Capital Management has \$10.7 billion in assets under management. Our business plan has a controlled growth strategy where we limit the number of relationships per style. Administrative and reporting services are tailored to meet clients' specific needs. Peregrine Capital Management focuses on tax-exempt assets; defined benefit plans, defined contribution plans, endowments, foundations, public funds and Taft-Hartley plans.



Select Group of Investment Services Offered

- Positive Return Fixed Income
- Small Cap Value
- Small Cap Equity
- Growth Equity

PEREGRINE CAPITAL MANAGEMENT

800 LaSalle Avenue • Suite 1850 • Minneapolis, Minnesota 55402

Telephone: 612/343-7600 • Toll-free: 888/343-7600

www.peregrinecapital.com



Positive Return Enhanced Cash

Disciplined Investment Process Combines Appreciation and Safety

Your results are predictable and consistent because our process eliminates emotion and guesswork. We do not forecast interest rates. Instead, purchases and sales are driven by our proven asset allocation model, which measures each portfolio's progress every day against our goal of a positive annual return.

Positive Return blends two components: short-term bonds with maturities less than 2 years, and long-term bonds with maturities of 10-30 years, depending upon your benchmark. Every portfolio begins each year with its target mix of short-term and long-term bonds. Shifts between short- and long-term bonds are then determined by subsequent bond price movements. When bond prices move up, we shift more of your portfolio into long-term bonds in measured increments to capture appreciation and enhance your returns. If bond prices fall, long-term bonds are sold and reserves increased to protect principal.

Once the short/long mix is in place, we monitor quality and sector guidelines to ensure that safety, liquidity and diversification are achieved. At least 50% of your portfolio would always be invested in U.S. Treasury and agency securities, and all long bonds are U.S. Treasuries. Every holding is rated at least AA. All holdings are denominated in U.S. dollars. Options, futures, mortgage pass-throughs, convertibles and private placements are never used.

Positive Return Offers You More

- Reliable investment process with no interest rate forecasting
- Exceptional returns when bond markets rally
- Protection from losses in years when bond prices fall
- Exclusively high quality, liquid holdings for safety and flexibility
- No speculative derivatives or mortgage-backed exposure
- Three variations of Positive Return accommodate short, intermediate, and broad market benchmarks

Dedicated to Your Success

Portfolio Management Team

William D. Giese, CFA

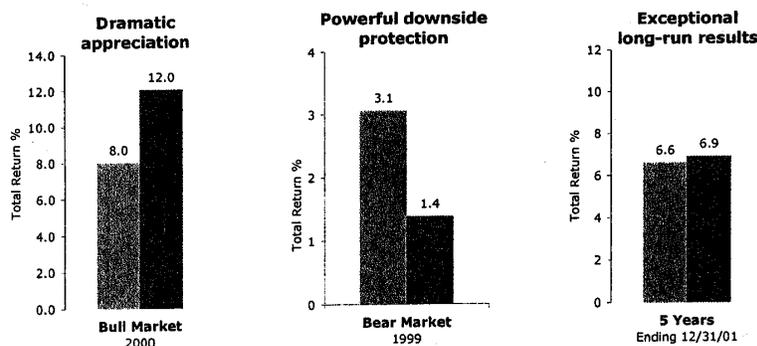
Patricia Burns, CFA

Client Service & Marketing

Julie M. Gerend

Jay H. Strohmaier

John A. Maschoff



■ Merrill Lynch 1-3 Year Treasury ■ Positive Return Enhanced Cash

The Positive Return Enhanced Cash composite includes all fee-paying, discretionary accounts with comparable objectives commencing with the beginning of each full fiscal year following their respective inception dates and including the last fully invested day (last fully invested quarter prior to 2001) for accounts no longer with the firm. The composite is asset-weighted, includes dividends and interest and is gross of management fees. The composite is comprised of accounts using a 50% long/50% short initial blend and 10 year long bonds. Adjusting for a 0.30% management fee (\$30 million account), Peregrine's 5-year return would have been 6.5%. Peregrine manages other client portfolios in the Positive Return style with varying investment objectives that have different performance results (available upon request). Past performance is no guarantee of future results. AIMR Disclosure Statement available upon request.

Positive Return Team



Patricia Burns, CFA
Senior Vice President, Portfolio Manager

Pat is one of Peregrine's founding principals. She co-manages the Positive Return style and shares responsibility for all fixed income investment activities, encompassing research, portfolio management, trading, and client communication. Prior to Peregrine, Pat was a member of the Fixed Income team at Norwest Bank Minnesota, N.A. (now Wells Fargo Bank).

Pat holds a BA and an MBA from the University of Minnesota. She is an officer of the company, a member of the firm's Management Policy Group, and a member of the Association for Investment Management and Research.



William D. Giese, CFA
Senior Vice President, Portfolio Manager

As one of Peregrine's founding principals, Bill is a member of the team responsible for all fixed income investment activities, encompassing research, portfolio management, trading, and client communication.

Before joining Peregrine, Bill was Vice President of Fixed Income Products at Norwest Bank Minnesota, N.A. (now Wells Fargo Bank), was a bond portfolio manager at Penmark Investments and Continental Illinois Bank, and worked in taxable fixed income sales at Salomon Brothers.

Bill has an undergraduate degree from Illinois Institute of Technology and an MBA in finance from the University of Michigan. He is an officer of the company, a member of the firm's Management Policy Group and a member of the Association for Investment Management and Research.