

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

**CORRESPONDENCE MEMORANDUM**

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**DATE:** January 15, 2003

**TO:** Deferred Compensation Board Members

**FROM:** Pam Henning, Director  
Office of Strategic Services

**SUBJECT:** Socially Responsible Investment Fund Search – Reconsideration of Analysis and Board Action

Background

At the November 2002 meeting, the Board approved adding the Ariel Appreciation Fund as an alternative socially responsible investment option to replace the Dreyfus Premier Third Century Fund (Class R), effective February 1, 2003.

In December 2002, staff was notified that the manager of the Ariel Appreciation Fund had resigned. The Investment Committee held a special meeting to discuss this issue and to speak with an Ariel Appreciation Fund representative. As a result, the Investment Committee decided to reevaluate the universe of socially responsible funds to determine if the Ariel Appreciation Fund would continue to be the most appropriate choice for the Wisconsin Deferred Compensation (WDC) program.

The Investment Committee met again in December 2002 and reviewed an updated report prepared by Curt Morrow, Nationwide Retirement Solutions (NRS), that presented possible socially responsible investment options. Based on this information, the Investment Committee recommended the following:

- Rescind the Board's motion and action at the November 11, 2002, meeting which added the Ariel Appreciation Fund.
- Add the Calvert Social Investment Equity Fund (Class I), a socially responsible, large blend equity option to the WDC's core spectrum. The historical performance of the fund and tenure of the manager compares favorably to other socially responsible funds that also met the Board's established selection criteria.

Summary of Review Process and Selection Criteria

- Minimum five-year operating history – may be waived for index funds.
- Expense ratio not greater than mean for appropriate peer group.
- Five-year rolling average performance must equal or exceed appropriate benchmark or index.

- Minimum total asset size of \$400 million – may be waived for certain fund categories.
- Anticipated WDC assets not greater than 5% of total fund – determined by reviewing current WDC asset levels in a comparable fund.
- No loads or sales charges unless they are waived for the WDC.
- Not a sector fund.

After applying the above screening criteria and removing funds that have a recent portfolio management change, the following three socially responsible funds remained:

1. Calvert Social Investment Equity Fund (Class I) – large blend;
2. Domini Social Equity Fund – large blend; and
3. Vanguard Calvert Social Index Fund (Admiral Shares) – large growth.

The Investment Committee reviewed these funds and concluded that the Calvert Social Investment Equity Fund (Class I) performed well over the last 4 years. It also has a relatively concentrated portfolio that usually holds 50-55 stocks. The fund uses a multi-cap approach, with approximately one-third of the holdings in small and mid-cap equities. Performance of this fund has been in the top decile among large blend funds for the one and three year periods.

#### Summary

The Investment Committee recommends rescinding the November 2002 motion to add the Ariel Appreciation Fund to the WDC core investment spectrum because of the change in portfolio manager.

The Investment Committee and staff concluded that the Calvert Social Investment Equity Fund (Class I) offers a better investment opportunity to WDC participants who are seeking a socially responsible investment option and recommends that it be added to the core investment spectrum. If the Board approves this recommendation, staff will work with the plan administrator to add this fund to the WDC offerings effective April 2003.