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

CORRESPONDENCE MEMORANDUM

DATE: January 15, 2003

TO: Deferred Compensation Board Members

FROM: Pam Henning, Director
Office of Strategic Services

SUBJECT: Report on Excessive Trading Policy

This memo is to inform Board members of the policy statement approved by the Board Chair to address the issue of excessive day trading in the international equity fund offered by the Wisconsin Deferred Compensation (WDC) program. At the November 2002 meeting, the Board instructed staff to consult with legal counsel and the Board Chair to revise the proposed policy statement to include all WDC investment options and better reflect the restrictions that will be imposed on participant exchanges.

You may recall that Barclays Global Investors (BGI) and T. Rowe Price originally raised this concern with staff because of the impact that excessive trading has on internal expenses and performance returns. In particular, because of the small asset base of the BGI fund, the activity of a few participants has had a negative effect on the performance of the EAFE Equity Index Fund. Despite its much larger asset base, T. Rowe Price has indicated that if the excessive trading of a few of their fund participants is not addressed, they may be required to restrict all same day trading activities.

At the November 2002 meeting, the Board agreed to establish a policy to restrict excessive participant trading on all WDC investment options and delegated authority to finalize the policy language to the Board Chair. Staff worked with Kerry Robinson, legal counsel for Nationwide Retirement Solutions (NRS), and Ed Main to finalize the following trading policy:

> Excessive trading or market timing in your Wisconsin Deferred Compensation (WDC) account disrupts management of investment options, increases expenses and negatively affects performance to the detriment of other investors. Many investment providers to the WDC have adopted underlying restrictions and limitations with respect to transfers into, and withdrawals from, their investment options. All participant and beneficiary accounts are subject to such restrictions or limitations. In the event that an investment provider identifies a participant or beneficiary account in violation, and notifies the Department of the problem, the Department shall direct the Plan Administrator to take the appropriate action to cause this practice to cease.

Staff will prepare an article for the next 2003 quarterly newsletter informing participants of this policy. Following the meeting, contact will be made with individual participants identified as excessive traders in order to achieve compliance with the Board's policy.