



**MINUTES FROM THE INVESTMENT COMMITTEE
OF THE PLANS MANAGEMENT BOARD
FEBRUARY 19, 2019**

A meeting of the Investment Committee (the “Committee”) of the Plans Management Board (the “Board”) was held on February 19, 2019, 10:00 a.m., at the Carvel State Office Building, Office of the State Treasurer (“OST”) Conference Room, 820 N. French Street, Wilmington, DE 19803.

Committee Members Represented or in Attendance:

Mr. Alan Colberg, Committee Chair
Mr. Todd Roselle, Committee Member
Mr. Robert Scoglietti, Director of Policy and External Affairs, Office of Management and Budget (on behalf of Mr. Michael Jackson, Director of Office of Management and Budget)
Ms. Stephanie Scola, Director of Bond Finance, Department of Finance (on behalf of Mr. Richard Geisenberger, Secretary of Finance)
The Honorable Colleen C. Davis, State Treasurer
Mr. Jose Echeverri, Committee Member

Committee Members Not Represented or in Attendance:

Mr. Porter Schutt, Committee Member

Others in Attendance:

Mr. Daniel Scholl, Deputy State Treasurer, OST
Mr. Jason Staib, Deputy Attorney General, Delaware Department of Justice
Mr. John Meyer, Director of Contributions and Plans Management, OST
Mr. Mike Green, Investments and Operations Manager, OST
Mr. Dan Kimmel, Promotion and Outreach Manager, OST
Ms. Susan Steward, Economic Policy Advisor, OST
Mr. Earle Allen, Partner, Cammack Retirement Group (“Cammack”)
Ms. Marie Villeneuve, Consultant, Cammack
Mr. James Duffy, Research Associate, Cammack
Mr. John Italiano, Investment Analyst, Cammack
Mr. Rob Peel, Account Manager, Cammack
Melissa Ridolfi – Vice President, Retirement and College Leadership
Mr. Chris Pariseault, Head of Institutional Portfolio Managers, Fidelity Investments (“Fidelity”)
Mr. Brian Tseng, Director, Investment Product, Fidelity
Mr. Roger Morrissette, Director, Retirement and Income Solutions, Fidelity

CALLED TO ORDER

The meeting was called to order at 10:01 a.m.

APPROVAL OF MINUTES

A MOTION was made by Mr. Scoglietti and seconded by Ms. Scola to approve the minutes from the Committee meeting on November 20, 2018.

MOTION ADOPTED UNANIMOUSLY

PRESENTATIONS

Investment Performance on Deferred Compensation Plan – Cammack Retirement Group

Mr. Allen introduced members of the team to the new administration, and outlined the discussion about the deferred compensation plans with respect to investments, fees, and performance.

Ms. Villeneuve stated that due to an illness Ms. Burns would not be present and that Mr. Italiano would lead on the deferred compensation investment analysis portion of the presentation. Ms. Villeneuve walked through the executive summary, and noted this report is for the plan as of December 31, 2018. As of December 31, the plans held approximately \$733.3 million in total assets, not including the legacy assets within the 403(b) plan. Ms. Villeneuve called the Committee's attention to the footnote stating that for the end of 2018 assets with legacy vendors totaled approximately \$361.3 million.

Ms. Villeneuve stated that there was a decrease in the assets from December 31, 2017 to December 31, 2018 of approximately \$8.2 million, or 1.11 percent. She attributed much of this change to the volatility experienced within the markets over the course of the year. Regardless, Ms. Villeneuve reported that there was approximately \$62.5 million in new contributions to the plans over the same period.

Ms. Villeneuve discussed the weighted-average expense ratio for the plans was about 35 basis points, or approximately 11 basis points less than the NAGDCA Perspectives in Practice Plan survey of similar sized plans for the year. Ms. Villeneuve also noted that expenses for the 457 plan have been paid through legacy fee balances since June 2018.

Ms. Villeneuve transitioned the discussion from fees to review of the plan performance on a quarterly basis. On a quarterly basis Ms. Villeneuve reported that Cammack uses the Investment Policy Statement ("IPS") to make recommendations through a qualitative and quantitative analysis about the investments within the plan. For this quarter, Ms. Villeneuve indicated that Mr. Italiano would discuss the analysis and recommendation regarding ClearBridge from Cammack.

Further, Ms. Villeneuve stated that Cammack did perform additional analysis to determine a replacement fund for ClearBridge within the guidelines of the IPS and optimize the return for the plans. Ms. Villeneuve informed the Committee that there was an additional change Cammack wished to discuss today that was done after the presentation was provided regarding a portfolio manager change at Templeton Global Bond. Ms. Villeneuve explained that one of the two portfolio managers has left, and Cammack will provide an updated analysis to the State regarding this change.

Finally, Ms. Villeneuve discussed Lazard International and highlighted the additional commentary regarding the fund. Ms. Villeneuve indicated that on the scorecard it would raise several questions, but the commentary explains more of the details regarding the strategy of the fund, and Cammack's current position that the fund not be added to the watch list.

Ms. Villeneuve reviewed the different tiers of funds within the plans, highlighting the individual components with respect to size and return. As of December 31, 2018, Tier 1 held approximately 76.8 percent of the total assets, or \$563.1 million in funds. There were 92 percent unique plan participants invested in the target date series across all plans, and Tier 1 received nearly 79.3 percent of all new contributions last year. The target date series average annualized returns for 3-, 5-, and 10-year performance ranked in the top quartile, for all vintages. Tier 2 held approximately \$153.6 million, or 20.9 percent of the total assets for plan year ending in December 31, 2018. Ms. Villeneuve stated that Tier 2 received approximately 20.7 percent, or \$12.9 million of new contributions made within the plan year. Finally, Tier 3 held approximately \$16.6 million, or 2.3 percent of total assets as of December 31, 2018.

Ms. Villeneuve provide a quick overview of the 2018 accomplishments including the quarterly review of Plan investment options, and Target Date Fund analysis. Looking forward, Ms. Villeneuve provided the Committee with a summary of the planned goals in 2019, including an annual review of the IPS and the annual fiduciary training. Cammack does plan to complete an Annual Target Date suite review and investment structure review by the August 2019 meeting, pending Committee approval.

Mr. Colberg stated that in the September meeting of the Board, the Board approved the review of the IPS. Mr. Colberg commented that Cammack should wait to complete the IPS review until the August meeting to allow for more time to work on the IPS for the College plan.

Mr. Italiano provided commentary to the Committee on the money market performance, stating that for the year rates had been close to zero with little yield in this investment space. However, as rates have begun to rise, Mr. Italiano stated that the yields are beginning to pick up in the money market investment space. As rates continue to rise, Mr. Italiano expects that yield will continue to pick up noting this as a positive for those invested in the money market.

Investment Performance on College Investment Plan – Cammack Retirement Group

Mr. Duffy provided a review on the College (“529”) plan. Mr. Duffy noted that this is the first time Cammack has reviewed the plan in this capacity and that as they progress through 2019 Cammack would like to review further investment objectives for the plan.

Mr. Duffy stated they would focus on the plan growth and how individuals are using the plans. Citing that there is not a lot of analysis being done within the 529 plan market, with the exception of Morningstar, Mr. Duffy stated that Cammack’s review attempts to tailor the review in a manner that reviews the growth and rating of the plan. Mr. Duffy reported on the peer analysis of the 529 plan for Delaware with respect to its peers.

Mr. Duffy commented that often Morningstar will categorize plans based on three potential areas: high equity, mid-equity, and low equity. All of these bands are largely based on age bands, whereas Mr. Duffy stated Cammack attempted to provide more detail by disseminating each of the vintages for age offered within the plan and compare them with the amount of equity exposure relevant to peers. Mr. Duffy further discussed the equity exposure score, and the average score of other accounts within the universe. Mr. Duffy stated that Cammack’s review will continue to push for the optimization of the underlying funds within the 529 plan as this is what contributes greatly to the rating and participation within a selected plan.

Mr. Duffy commented that relative to the benchmark, Fidelity's index funds and fixed income were performing well overall. Relative to Delaware's peers, the inclusion of the fixed income has been a positive in the plan's overall performance. However, Mr. Duffy stated that the active and the multi-funds did underperform for the majority of 2018. Given the level of volatility and growth orientation, Mr. Duffy stated that Cammack was not surprised, but definitely stated this is something to discuss with Fidelity to make sure that the right funds are being used with respect to the overall construction of the plan.

DISCUSSION

Fiduciary Responsibility and Review (Mr. Echeverri left the meeting)

Mr. Meyer reported to the Committee that the Audit and Governance Committee ("A&G Committee") met last week and one of the actions was to recommend to the Board the extension of the Voya contract. Furthermore, the A&G Committee expressed the desire to document the fiduciary duties with respect to the record-keeper, managed services, and the self-direct brokerage account. The Committee discussed the roles that would take place during a future Request for Proposals ("RFP"). It was determined during that time the Consultant, in this case Cammack, would act as a consultant to review the fiduciary responsibilities and capabilities of the firms and the underneath attributes.

Committee Goals and Action Items for 2019

Mr. Meyer presented goals for the Committee moving into 2019 which included RFP for an investment consultant and a Tier Two review of the fund offerings. Mr. Meyer stated that there may be another review of the IPS for the deferred compensation plans within the forthcoming year. Mr. Colberg suggested that the review of the IPS for the deferred compensation be coordinated with the development of the IPS for the 529 plan.

Watch List and Replacement Recommendations

Ms. Villeneuve introduced the scorecard to the Committee, and a brief explanation about the methodology for reporting. Ms. Villeneuve reiterated that there was a change made after this scorecard was provided to the State with respect to the manager for Templeton Global Bond, which is not reflected in this presentation.

Mr. Italiano discussed the Lazard International Equity R6 fund, stating it was not on watch at this time. He stated that the fund is underweight in emerging markets and relative to its competitor and peers that the fund will lag slightly. When the emerging markets were strong, this fund did relatively better against its peers; however, with the decline in strength of the emerging markets in the three of the last four quarters the fund did lag behind its peers. Mr. Italiano did mention there was growth in the last quarter that has strengthened the funds' performance, and given this knowledge Cammack is not recommending it to be placed on watch at this time.

Mr. Italiano then discussed ClearBridge Mid-Cap Growth, stating that fund in terms of performance against peers and benchmark has not performed well. Since the fund was initially placed on watch, the fund has continued to not perform well, and the stock selection has not continued to add value to the strategy. Mr. Italiano stated that the Mid-Cap manager marketplace was highly competitive, and there were several good managers operating within the market. Mr. Italiano stated that typically when a fund such as ClearBridge has a conservative leaning towards the downside of the market, there would be some positive performance in a quarter such as the fourth quarter of 2018. However, this was not the

case. Mr. Italiano stated that given the historic lack of underperformance, Cammack recommends ClearBridge Mid-Cap Growth be replaced at this time.

Mr. Colberg requested that the Committee review the IPS for the criteria set forth for approval of a replacement fund. Referring to Section A of the IPS, Mr. Colberg reported on the criteria listed for consideration of a replacement of a fund within Tier 1 and/or Tier 2 of the portfolio. The Committee discussed the investment manager, with respect to the criteria as laid out in Section A of the IPS. Mr. Scholl asked about the process of replacement for a fund. Mr. Allen walked the Committee through the process of transition from the prior fund to the replacement fund and how new or existing contributions would be mapped to the replacement fund.

A MOTION was made by Mr. Scoglietti and seconded by Treasurer Davis to recommend to the Board to remove ClearBridge from the fund offerings.
MOTION APPROVED UNANIMOUSLY

Mr. Italiano provided detail to the Committee regarding Cammack's three potential funds to replace ClearBridge. Mr. Italiano discussed the criteria used by Cammack to make the recommendation with respect to return, style, and process. Mr. Italiano listed Champlain Mid-Cap ("Champlain"), MFS Mid-Cap ("MFS"), and Pioneer Select Mid-Cap Growth K ("Pioneer"), and reported on the scorecard assessment as provided within the presentation provided for the Committee. In reviewing the strategic differences and returns, Mr. Italiano expressed Cammack's view that Champlain was a replacement option. Mr. Colberg inquired about the appropriateness of the Champlain fund in this capacity, as he has seen the fund used as a core fund instead of a growth fund in other portfolios. Mr. Italiano stated that Cammack would be comfortable using the fund as a growth fund in this portfolio given the caveat noted by Mr. Colberg.

Mr. Scholl asked Mr. Italiano about which firm would be a better fit in transition from growth to value in the mid-cap investment space given the future potential shift in markets. Mr. Italiano stated that if value picked up then Champlain would perform better. However, in terms of purity with respect to consistency in growth, Cammack would suggest MFS. In the long-run MFS would deliver continued performance. The Committee discussed the options of adding both a mid-cap growth and a value fund to investment menu. Mr. Allen suggested that the initial philosophy to the investment menu was to simplify choice in the investment menu.

The Committee reviewed the criteria as outlined within the IPS for replacement of ClearBridge for each of the three potential funds. Based on the criteria, history, and returns the Committee elected to move forward with recommending Champlain as the replacement for ClearBridge.

A MOTION was made by Ms. Scola and seconded by Mr. Roselle to recommend to the Board the replacement of ClearBridge Mid-Cap with Champlain Mid-Cap Growth.
MOTION ADOPTED UNANIMOUSLY

Discussion continued about potentially placing Templeton on watch as a result of the manager change. The Committee discussed the possibility of having Cammack closely monitor them as a result of the manager change but no formal decision at this time.

PUBLIC COMMENTS

No members of the public made a comment.

NEXT MEETING

The next meeting of the Board is scheduled for March 5, 2019.

The next meeting of the Committee is scheduled for May 21, 2019.

ADJOURNMENT

A MOTION was made by Mr. Roselle and seconded by Ms. Scola to adjourn the meeting of the Committee at 11:55 p.m.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

Alan Colberg
Chair for the Investment Committee