



**MINUTES FROM THE INVESTMENT COMMITTEE
OF THE PLANS MANAGEMENT BOARD
May 19, 2020**

A meeting of the Investment Committee (the “Committee”) of the Plans Management Board (the “Board”) was held on May 19, 2020, 10:00 a.m. Pursuant to paragraph 5 of Governor Carney’s Emergency Order, dated March 12, 2020, the meeting was held telephonically, without a physical location. Members of the public were able to participate using the provided dial-in information.

Committee Members Represented or in Attendance:

Mr. Alan Colberg, Committee Chair
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)
The Honorable Colleen C. Davis, State Treasurer
Mr. Sean McNeeley, Director of Bond Finance (on behalf of Secretary Rick Geisenberger, Secretary of Finance)
Mr. Jose Echeverri, Committee Member
Mr. Todd Roselle, Committee Member

Committee Members Not Represented or in Attendance:

Mr. Porter Schutt

Others in Attendance:

Mr. Jason Staib, Deputy Attorney General, Delaware Department of Justice
Mr. John Meyer, Director of Contributions and Plans Management, Office of State Treasurer (“OST”)
Mr. Daniel Madrid, Chief Operating Officer, OST
Mr. Mike Green, Investments and Operations Manager, OST
Mr. Dan Kimmel, Promotion and Outreach Manager, OST
Ms. Deborah Bradl, Executive Assistant, OST
Mr. Earle Allen, Partner, Cammack Retirement Group (“Cammack”)
Ms. Marie Villeneuve, Consultant, Cammack
Mr. James Duffy, Research Associate, Cammack
Ms. Denise Burns, Vice President, Cammack
Mr. Rob Peel, Account Manager, Cammack
Ms. Heather Zakian-Institutional Portfolio Manager, Fidelity Investments, Inc. (“Fidelity”)
Mr. Roger Morrissette, Director, Retirement and Income Solutions, Fidelity
Mr. Jeffrey Bowman, Investment Product Manager, Fidelity
Ms. Melissa Ridolfi, Vice President, College and Retirement Leadership, Fidelity
Mr. Andrew Dierdorf, Portfolio Manager, Fidelity
Mr. John Kendall, Nationwide Retirement Plans

CALLED TO ORDER

The meeting was called to order at 10:00 a.m.

APPROVAL OF MINUTES

A MOTION was made by Mr. Colberg and seconded by Mr. Roselle to approve the minutes from the Committee meeting on February 18, 2020 with changes to show Mr. Roselle as attending in person (not telephonically).

MOTION ADOPTED UNANIMOUSLY

PRESENTATIONS

Performance Metrics and Data for the Deferred Compensation Plans – Cammack

Ms. Villeneuve reviewed the primary performance metrics for the deferred compensation plans. Assets in the plans totaled \$791.3 million, reflecting a quarterly decrease of approximately \$114.1 million, a 12.6 percent change. Contributions to the plans for the quarter were approximately \$17.3 million. Ms. Villeneuve indicated that the weighted average expense ratio of the funds was 0.32 percent, which is four percent less than the NAGDCA survey of similar sized plans.

Ms. Burns reviewed the different tiers of funds within the plans. In the first quarter, Tier 1 held approximately 74 percent of the total assets (\$588.7 million). Eighty-nine percent of plan participants are invested in target date funds. Tier 1 received nearly 74 percent of all new contributions in the first quarter. Most of the target date series vintages ranked in the top quartile for averaged annualized returns for the 3-, 5-, and 10-year performance periods. As of March 31, 2020, Tier 2 held approximately \$183 million, or 23 percent of total assets. Ms. Burns stated that Tier 2 received approximately 26 percent (\$4.5 million) of new contributions made within the first quarter. Finally, Tier 3 held approximately \$19.6 million, representing three percent of total assets as of March 31, 2020.

The Voya Fixed Plus Account had a credit rating of 1.35 percent as of March 31, 2020.

Watch List Report – Cammack

Mr. Burns first discussed the PIMCO Total Return Institutional fund. Ms. Burns noted a recent manager change and that the fund lagged its benchmark in the first quarter of 2020 but delivered strong relative performance to most of its aggressively positioned category peers.. Cammack recommended this fund for watch.

Ms. Burns next reviewed the Templeton Global Bond R6 fund. Ms. Burns explained that the sharp decline in interest rates in 2019 was a key source of underperformance relative to its benchmark and peers. The fund continued to be positioned for rising rates but was hurt by falling rates amid the coronavirus outbreak in Q1. Mr. Burns noted that a recent management change was not a major concern because the lead decision-maker for the fund remains. Cammack continues to recommend this fund for watch.

Ms. Burns next discussed the American Funds Washington Mutual R6 fund and Target Date Series offered through the Capital Group. She reminded the Committee that, due to publicly disclosed compliance issues at Capital Group, all American Funds investment options were placed on watch in December 2019. Cammack has fully reviewed and analyzed necessary remedial steps taken by Capital Group as they updated their code of ethics and retrained their investment personnel on personal

disclosure requirements. In addition, Capital Group's internal investigation did not reveal any impact on the funds' investors. Cammack recommended removing Capital Group's American Funds Washington Mutual R6 fund and Target Date Series from watch status.

Finally, Ms. Burns reviewed the JP Morgan US Small Company R6 fund, which has been on watch since June 2019 due to underperformance. Ms. Burns reminded the Committee that the fund's investment process blends quantitative and fundamental analysis to construct a portfolio of attractively valued companies with conservative management teams and high-quality earnings. The fund's recent tilt to value has been a major detractor from relative performance, as growth oriented stocks have outperformed value stocks over the last three years. The fund has had a major shake-up in management, with a new leader for the firm's behavioral finance group, and many analysts stepping up as co-managers for the fund. During the first quarter, the fund performed well with its new change in leadership. Outperformance for the quarter was due to stock selection, as the team's high-quality focus improved relative results. Cammack recommends maintaining watch status for the fund.

The CARES Act Relief Bill Impact

Ms. Villeneuve provided a quick overview of the CARES Act and the legislation's potential impact. The Committee discussed the Board's approval of coronavirus-related distributions at the April 2020 special meeting.

Investment Performance on College Investment Plan – Cammack

Mr. Duffy reviewed first quarter plan performance for the 529 plan. First quarter plan assets were \$623 million, with 76 percent of assets (\$474.7 million) in the age-based option and 24 percent of assets (\$148.3 million) allocated to static portfolios.

Mr. Duffy noted that the active age-based option and the index age-based option outperformed for the quarter and continue to be strong performers for the plan in a volatile market environment. Mr. Duffy also noted that the new blended age-based option (introduced October 1, 2019) also outperformed for the quarter.

Mr. Duffy commented that, relative to the benchmark, Fidelity's active and indexed age-based options outperformed. Mr. Duffy also reported that the new blended offering has underperformed the composite benchmark in all age-bands for Q1, with each age-band averaging a loss of 0.33 percent versus the composite benchmark.

College Investment Plan Strategic Equity Allocation Update-Fidelity

Mr. Dierdorf addressed the Committee regarding a product update and reviewed the investment philosophy regarding how the 529 portfolios are managed. Mr. Dierdorf stated that the investment philosophy seeks to balance risk and reward over time to help participants reach their college savings goals. Fidelity updates the glide path and strategic asset allocation periodically to reflect research on participants' needs and behaviors, diversification and capital markets. Beginning in May 2020, Fidelity has begun to update the composition of the strategic equity allocation, adjusting the percentage mix of U.S./Non-U.S. equity exposure from 70/30 to 60/40. Fidelity stated that total equity exposure in each

portfolio will remain consistent and that the incremental adjustment reflects Fidelity's view that diversification is the best way to manage uncertainty over long horizons.

Mr. Dierdorf stated the transition to the updated 529 Strategic Asset Allocation plan is slated to begin in May 2020 and that full implementation is expected to be completed by the end of the third quarter of 2020. Fidelity will make the product enhancements in the age-based and static portfolios.

The Committee discussed the changes and Cammack indicated support for the product changes.

DISCUSSION AND ACTION ITEMS

Watch List Discussion and Recommendations

American Funds Washington Mutual R6 and Target Date Series

Mr. Meyer reminded the Committee that this fund was put on watch in the third quarter of 2019 due to compliance concerns involving a member of the investment staff and summarized Cammack's assessment and recommendation.

MOTION was made by Mr. Scoglietti and seconded by Treasurer Davis to recommend that the Board remove the American Funds Washington Mutual R6 fund and Target Date Series from watch.

MOTION APPROVED UNANIMOUSLY

Recommendation to add American Funds 2065 Target Date Retirement Fund - Class R-6

The Committee discussed the American Funds Target Date Retirement Fund series. This series of funds makes up the Tier One investment options. American Funds now offers a 2065 vintage. Cammack recommends adding the American Funds 2065 Target Date Retirement Fund - Class R6 as a Tier One option.

MOTION was made by Mr. Colbert and seconded by Mr. Roselle to recommend that the Board approve adding the American Funds 2065 Target Date Retirement Fund - Class R6 to the list of Tier One offerings.

MOTION APPROVED UNANIMOUSLY

Recommendation Regarding Managed Account and Self-Directed Brokerage Services

Mr. Meyer updated the Committee on the Board's approval of the second one-year final extension of the record keeping agreement with Voya. In approving the extension, the Board directed the Committee to review the current providers of managed account and self-directed brokerage services under the Voya arrangement. Ms. Villeneuve presented a memo to the Committee outlining Voya's oversight review process and Cammack's view as to the quality of the providers. Cammack viewed both Morningstar and TD Ameritrade as leading providers in the market for their respective services.

A MOTION was made by Treasurer Davis and seconded by Mr. Roselle to recommend that the Board accept Cammack's analysis regarding the Managed Account and Self-directed Brokerage Services.

MOTION APPROVED UNANIMOUSLY

Discussion Regarding National ABLE Alliance Emerging Markets Manager Search

Mr. Madrid discussed with the Committee the outcome of the National ABLI alliance's search for an emerging markets manager. The Alliance retained Charles Schwab as the manager due to low expense ratios and management fees.

Discussion Regarding National ABLI Alliance and Fifth Third Bank

Mr. Madrid informed the Committee that during a recent round of due diligence meetings it was brought to the Alliance's attention that Fifth Third Bank, the provider of the checking option for all ABLI accounts, experienced a data breach. He explained that a small group of Fifth Third employees had been involved in fraudulent activity concerning personal data. No ABLI participants were directly affected. OST is closely monitoring and will keep the Committee updated on the outcome of further discussions.

PUBLIC COMMENTS

No members of the public made a comment.

NEXT MEETING

The next meeting of the Board is scheduled for June 2, 2020.

The next meeting of the Committee is scheduled for August 18, 2020.

ADJOURNMENT

A MOTION was made by Treasurer Davis and seconded by Mr. Roselle to adjourn the meeting at 11:39 a.m.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

Alan Colberg
Chair for the Investment Committee