



**MINUTES FROM THE INVESTMENT COMMITTEE
OF THE PLANS MANAGEMENT BOARD
MAY 21, 2019**

A meeting of the Investment Committee (the “Committee”) of the Plans Management Board (the “Board”) was held on May 21, 2019, 10:00 a.m., in the Dupont Rom at the Buena Vista Conference Center, 661 S. Dupont Highway, New Castle, DE 19720.

Committee Members Represented or in Attendance:

Mr. Alan Colberg, Committee Chair
Mr. Todd Roselle, Committee Member
Mr. Porter Schutt, 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

Committee Members Not Represented or in Attendance:

Mr. Jose Echeverri, Committee Member

Others in Attendance:

Mr. Jason Staib, Deputy Attorney General, Delaware Department of Justice
Mr. John Meyer, Director of Contributions and Plans Management, Office of the State Treasurer (“OST”)
Ms. Chris Haas, Director of Communications and Policy Advisor, OST
Mr. Mike Green, Investments and Operations Manager, OST
Mr. Dan Kimmel, Promotion and Outreach Manager, OST
Mr. Earle Allen, Partner, Cammack Retirement Group (“Cammack”)
Mr. James Duffy, Research Associate, Cammack
Ms. Tracey Manzi, Vice President, Investment Services, Cammack
Mr. Andrew Dierdorf, Portfolio Manager, Fidelity Investments (“Fidelity”)
Mr. Eric Kaplan, Head of Target Date & 529 Product, Fidelity
Mr. Chris Pariseault, Head of Fixed Income and Global Asset Allocation, Fidelity
Mr. Roger Morrissette, Director, Retirement and Income Solutions, Fidelity
Ms. Melissa Ridolfi, VP College and Retirement Leadership, Fidelity

CALLED TO ORDER

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

APPROVAL OF MINUTES

A MOTION was made by Ms. Scola and seconded by Mr. Roselle to approve the minutes from the Committee meeting on February 19, 2019.

MOTION ADOPTED UNANIMOUSLY

(Mr. Schutt entered the meeting, Ms. Haas joined telephonically)

PRESENTATIONS

Investment Performance on Deferred Compensation Plan – Cammack Retirement Group

Mr. Allen provided a brief overview of the presentation, highlighting the performance of the plans for the first quarter of 2019. As of March 31, 2019, the plans held approximately \$806 million in total active plan assets not including assets with legacy 403(b) vendors. This represents an increase in total assets from December 31, 2018 of approximately \$72.7 million. In terms of cost, the plans weighted average expense ratio was 0.34 percent for the quarter, well below the NAGDCA average of 0.49 percent for similarly sized plans.

In reviewing the investment plan tiers, Mr. Allen noted that the Tier One Target Date Funds were performing well. Tier One assets totaled approximately \$612.4 million as of March 31, 2019, receiving nearly 75.4 percent of all new contributions within the quarter. Furthermore, this tier continues to represent 76 percent of total assets within the plans. Mr. Allen stated that the Tier Two Core Fund Array continues to represent approximately 22 percent of total assets, totaling \$193.6 million as of the end of first quarter of 2019. Tier Two plans received approximately 24.6 percent of new contributions during the first quarter of 2019. Finally, Tier Three Self Directed Brokerage Accounts ended the quarter holding \$18.3 million, or 2 percent of total plan assets, across 422 participant accounts.

Mr. Allen gave a brief overview of the Cammack deliverables for 2019 including an annual review of the Investment Policy Statements, annual target date suite review, and an annual investment structure review. Mr. Allen highlighted that the Annual Fiduciary Training will need be scheduled for the forthcoming year, and this is currently to be determined with tax counsel.

Mr. Allen highlighted three funds that Cammack is closely watching: Templeton Global Bond R6, JP Morgan US Small Company R6, and the Lazard International Equity R6.

Due Diligence Report of Deferred Compensation Plans

Ms. Manzi presented on the plan investment allocation overview to the Committee. Ms. Manzi highlighted the underperformance of the Lazard International Equity R6 fund, stating that the weak three-year performance was in part due to the macroeconomic events and the significant underperformance of 2016. Ms. Manzi stated that this specific fund was more heavily weighted in United Kingdom stocks, and when considering the economic events of 2016 with respect to Brexit many of these stocks were impacted. Ms. Manzi stated that while the underperformance is concerning, given the strategy employed by the fund, this fund was not a candidate for “watch” at this time.

Ms. Manzi transitioned to discussing the two funds that Cammack was recommending for watch- the JP Morgan Small Company R6 and Templeton Global Bond R6. Ms. Manzi stated that the Templeton Global Bond R6 is being recommended due to a recent manager change. Ms. Manzi did not articulate any specific concerns about the manager change but explained that Cammack believes watch is appropriate for short period of time whenever there is a manager change. The Committee discussed the

overall performance of Templeton Global Bond R6, as well as the manager change, and determined that watch status was not necessary at this time.

As to JP Morgan US Small Company R6, Ms. Manzi cited recent underperformance versus the benchmark. Ms. Manzi stated that the underperformance may be linked to stock selection issues and the current market environment.

The Committee discussed the overall underperformance the fund and agreed with Cammack's recommendation.

**A MOTION was made by Mr. Roselle and seconded by Mr. Schutt to recommend to the Board placing the JP Morgan US Small Company R6 fund on watch.
MOTION APPROVED UNANIMOUSLY**

Investment Performance on College Investment Plan – Cammack Retirement Group

Mr. Duffy provided a brief overview of the College Investment Plan. Mr. Duffy stated that the total plan assets as of March 31, 2019 were \$662.9 million, with approximately \$505.3 million allocated to age-based options. Mr. Duffy focused his remarks on the age-based options, which represent nearly 76 percent of the total assets. In the first quarter of 2019, Active, Index, and Multi-firm options reported increases in assets of 4.22 percent, 8.1 percent, and 12.3 percent, respectively.

Mr. Duffy introduced the case study performed by Cammack for the investment structure of the age-based options of the 529 Plan relative to other direct-sold plans. Mr. Duffy stated that this information has been provided to OST, which is available on the Simbli meeting page.

DISCUSSION

(Mr. Schutt left the meeting.)

Fidelity College Investment Plan Removal of Multi-Firm and Addition of Blend Option

Mr. Dierdorf discussed proposed investment option changes that Fidelity believes will enhance the performance of the 529 Plan for participants.

First, Fidelity proposed adding exposure to long-term U.S. Treasuries and inflation-protected debt to the glide path and strategic allocation in the age-based portfolios. Because of the strategic allocation changes, Fidelity noted the composite benchmarks for the portfolios would need to be updated accordingly.

Second, Fidelity recommended transitioning the underlying investments in the Delaware 529 age-based and static allocation portfolios from publicly available mutual funds to the Fidelity Series Funds.

Third, Fidelity recommended eliminating the multi-firm product as an investment option within the plan. Fidelity noted that 2.5 percent of the plan assets were in the product.

Fourth, Fidelity recommended adding a Blend age-based product offering, consisting of a mix of both active and passive investments, to the plan lineup. Fidelity discussed how participants would receive a combination of the benefits of active management and the cost reduction of passive management.

Fifth, Fidelity proposed to move the current Multi-Firm participants into the Fidelity Active 529 strategy. Fidelity stated that participants would be notified of the change and will be provided the ability to opt into an alternative strategy.

The Committee asked about the change in costs associated with the different funds. Mr. Dierdorf stated that the costs to participants would be lessened under these recommendations. The Committee discussed the proposals and the potential impacts on participants should these changes be enacted. The Committee inquired if the changes proposed by Fidelity were also being proposed to the other state plans managed by Fidelity. Ms. Ridolfi stated that all four state plans managed by Fidelity would be involved in the changes and noted that New Hampshire recently approved the proposed changes. The Committee discussed the migration of assets in the multi-firm option if it was to be removed. Ms. Ridolfi stated they would transition to the Fidelity active option and Cammack agreed with the transition of assets. The Committee discussed past Morningstar rating comments on the higher costs associated with the multi-firm option with in the plan.

A MOTION was made by Ms. Scola and seconded by Mr. Colberg to recommend to the Board the changes to the strategic asset allocation benchmarks as proposed by Fidelity.

MOTION APPROVED UNANIMOUSLY

A MOTION was made by Mr. Roselle and seconded by Ms. Scola to recommend to the Board to replace the mutual funds with the series funds as presented by Fidelity.

MOTION APPROVED UNANIMOUSLY

A MOTION was made by Mr. Roselle and seconded by Ms. Scola to recommend to the Board elimination of the non-fidelity funds (multi-firm) within the age-based portfolios and replace with a blended option of passive and actively managed fidelity funds.

MOTION APPROVED UNANIMOUSLY

A MOTION was made by Mr. Scoglietti and seconded by Ms. Scola to transition all current participants within the multi-firm option to the fidelity blended option.

MOTION APPROVED UNANIMOUSLY

(Treasurer Davis left the meeting)

Proxy Voting Policy

Mr. Meyer introduced the proxy voting policy as part of the work being completed on the governance manual. Mr. Staib presented the proxy voting policy and explained that this policy has been reviewed by the Audit & Governance Committee for review prior to this meeting. Mr. Staib stated that the policy was a joint effort between himself, Ice Miller, and a member of the Audit & Governance. The policy addresses the use of proxies issued by investment funds and does not address the securities or underlying investments within the fund. Mr. Staib reiterated that those are directed by the managers of the funds.

A MOTION was made by Mr. Scoglietti and seconded by Ms. Scola to recommend adoption of the Proxy Voting Policy.

MOTION APPROVED UNANIMOUSLY

PUBLIC COMMENTS

No members of the public made a comment.

NEXT MEETING

The next meeting of the Board is scheduled for June 4, 2019.

The next meeting of the Committee is scheduled for August 20, 2019.

ADJOURNMENT

A MOTION was made by Mr. Colberg and seconded by Ms. Scola to adjourn the meeting of the Committee at 12:45 p.m.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

Alan Colberg
Chair for the Investment Committee