



**MINUTES FROM THE INVESTMENT COMMITTEE
OF THE PLANS MANAGEMENT BOARD
February 18, 2020**

A meeting of the Investment Committee (the “Committee”) of the Plans Management Board (the “Board”) was held on February 18, 2020, 10:00 a.m., in the Buck Library at the Buena Vista Conference Center, 661 S. Dupont Highway, New Castle, Delaware.

Committee Members Represented or in Attendance:

Mr. Alan Colberg, Committee Chair

Mr. Todd Roselle (telephonically)

Ms. Stephanie Scola, Director of Bond Finance, Department of Finance (on behalf of Mr. Richard Geisenberger, Secretary of Finance) (telephonically)

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 (telephonically)

Committee Members Not Represented or in Attendance:

Mr. Jose Echeverri

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. 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

Ms. Heather Zakian-Institutional Portfolio Manager, Fidelity Investments, Inc. (“Fidelity”)

Mr. Roger Morrissette, Director, Retirement and Income Solutions, Fidelity

CALLED TO ORDER

The meeting was called to order at 10:00 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 19, 2019.

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 \$905.4 million, reflecting a quarterly increase of approximately \$172.1 million, a twenty-three percent change. Annual contributions to the plans were approximately \$66.3 million. Ms. Villeneuve indicated that the weighted average expense ratio of the funds was 0.34 percent, which is two percent less than the NAGDCA survey of similar sized plans.

Ms. Burns reviewed the different tiers of funds within the plans. As of December 31, 2019, Tier 1 held approximately 75.1 percent of the total assets (\$679.8 million). Ninety percent of plan participants are invested in target date funds. Tier 1 received nearly 74.4 percent of all new contributions last 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 December 31, 2019, Tier 2 held approximately \$203.5 million, or 22.5 percent of total assets. Ms. Burns stated that Tier 2 received approximately 25.6 percent (\$17.0 million) of new contributions made within the fourth quarter. Finally, Tier 3 held approximately \$22.1 million, representing 2.4 percent of total assets as of December 31, 2019.

The Voya Fixed Plus Account had a credit rating of 1.55 percent as of December 31, 2019.

Watch List Report – Cammack

Ms. Burns provided analysis of the investment options. Mr. Burns first discussed the PIMCO Total Return Institutional fund. Ms. Burns recommended that the fund be placed on watch due to a recent manager change. Ms. Burns indicated that Cammack does not expect changes in strategy or investment processes.

Ms. Burns next reviewed the Templeton Global Bond R6 fund. Ms. Burns recommended that the fund be placed on watch due to and the retirement of a co-portfolio manager. Ms. Burns indicated that Cammack does not expect changes in strategy or investment processes. Ms. Burns also noted that a sharp decline in interest rates in 2019 was responsible for the fund's underperformance relative to its prospectus benchmark and peers. Ms. Burns stated there were performance issues with the 1 year and 3 year only. The strategy can make up lost ground quickly as the market environment shifts and, is more defensively positioned with exposure to safe haven instruments (e.g., exposure to Japanese Yen). Over the long term, the manager has delivered strong returns on both an absolute and relative basis.

Ms. Burns next 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 representatives from JP Morgan spoke to the Committee regarding the US Small Company R6 fund. Ms. Burns recommended that the fund remain on watch due to continued underperformance. Ms. Burns gave the basis of this due to the fund's investment process blending quantitative and fundamental analysis to construct a portfolio of attractively valued companies with conservative management teams and high-quality earnings. Value is measured through a variety of methods including trailing, stable and forward valuation metrics. The fund's recent tilts to more value factors has been a major detractor from relative performance in markets where growth-oriented stocks outperformed value stocks. The fund's underperformance and recent shifts in JPMorgan's Behavioral Finance team warrants further monitoring of this fund. Mr. Colberg agreed with Cammack to keep JP Morgan US Small Company R6 Fund on watch.

Finally, Ms. Burns discussed the American Funds Washington Mutual R6 fund and Target Date Series. 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. Capital Group has acknowledged the alleged wrong-doing and is conducting internal reviews. Cammack recommends that all American Funds options remain on watch.

2020 Goals – Cammack

Ms. Villeneuve provided a quick overview of 2019 accomplishments and offered goals for 2020, including annual IPS and target date suite review and an investment structure analysis.

Investment Performance on College Investment Plan – Cammack

Mr. Duffy reviewed fourth quarter plan performance for the 529 plan. Fourth quarter plan assets were \$684.4 million, with 75 percent of assets (\$514.9 million) in the age-based option and 25 percent of assets (\$169.4 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 multi-firm age-based option is no longer an active offering, and that the new blended age-based option was introduced on October 1, 2019.

Mr. Duffy reported that, over the last five years, the 529 plan's average annual growth was one percent, which illustrates consistency in growth relative to peers with similar plans.

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 strong long-term performance versus peers when looking at longer timeframes.

DISCUSSION AND ACTION ITEMS

Watch List Discussion and Recommendations

Templeton Global Bond R6. The Committee discussed placing Templeton Global Bond R6 on watch due to a recent manager change and underperformance, as recommended by Cammack. The Committee recognized the complexity of the situation and agreed with Cammack's recommendation.

MOTION was made by Ms. Scola and seconded by Treasurer Davis to recommend that the Board place Templeton Global Bond R6 on watch.

MOTION APPROVED UNANIMOUSLY

JP Morgan US Small Company R6 on watch

The Committee discussed keeping JP Morgan US Small Company R6 on watch due to underperformance. The Committee was not convinced that removal from watch status is appropriate. No motion necessary to maintain the fund on watch status.

American Funds

The Committee discussed keeping both American Funds options on watch due to compliance concerns. The Committee acknowledged that Capital Group is actively addressing the matter but prefers a cautious approach. No motion necessary as the fund will remain on watch status.

PIMCO Total Return Instl.

The Committee discussed putting PIMCO on watch due to a manager change, as recommended by Cammack. The Committee was not convinced that watch status is necessary but will continue to monitor the fund. No motion necessary.

Discussion Regarding ABLE Plan Share Class Change

Mr. Meyer discussed with the Committee a memo outlining a share class change within with the National ABLE investment lineup. The National Alliance, with the consent of OST, voted to approve the share class change. Mr. Meyer will present the item to Board at the March meeting.

Discussion Regarding 2020 Committee Goals

Mr. Meyer addressed the 2020 Committee goals. The Committee outlined goals to include the review of the Investment Policy Statement (“IPS”) for the deferred compensation plans, creation of an IPS for the college investment plan, review of the target date fund provider, investment consultant RFP, and the review of the managed account and self-directed brokerage providers as it relates to Voya’s contract extension. The Committee also discussed reviewing Environmental, Social, and Governance (ESG) factors and how those factors might impact the plans and the annual 529 interview with Morningstar.

Cammack and Fidelity left the room.

Recommendation Regarding the Investment Consultant Request for Proposal

Mr. Colberg presented the Evaluation Committee’s recommendation for the selection of an investment consultant. Mr. Colberg stated that the Evaluation Committee was unanimous in recommending an award to Cammack. The Committee discussed issuing an award to Cammack for a three-year contract with two one-year extensions for advisory services for the 457(b), 403(b), 401(a), and 529 plans.

MOTION was made by Mr. Scoglietti and seconded by Mr. Roselle to recommend that the Board move forward with Cammack as discussed.

MOTION APPROVED UNANIMOUSLY

PUBLIC COMMENTS

No members of the public made a comment.

NEXT MEETING

The next meeting of the Board is scheduled for March 3, 2020.

The next meeting of the Committee is scheduled for May 19, 2020.

ADJOURNMENT

A MOTION was made by Mr. Scoglietti and seconded by Ms. Scola to adjourn the meeting of the Committee at 12:10 p.m.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

Alan Colberg
Chair for the Investment Committee