



**MINUTES FROM THE INVESTMENT COMMITTEE  
OF THE PLANS MANAGEMENT BOARD  
AUGUST 21, 2018**

A meeting of the Investment Committee (the "Committee") of the Plans Management Board (the "Board") was held on August 21, 2018, 10:00 a.m., at the Carvel State Building in the Office of the State Treasurer ("OST"), located at 820 N. French Street, Wilmington, Delaware.

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 Kenneth Simpler, 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  
Ms. Nora Gonzalez, Deputy State Treasurer, OST  
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  
Mr. Earle Allen, Partner, Cammack Retirement Group ("Cammack")  
Ms. Denise Burns, Vice President, Head of Investments, Cammack  
Ms. Marie Villeneuve, Consultant, Cammack  
Ms. Melissa Ridolfi, Vice President of Retirement and College Products, Fidelity Investments ("Fidelity")  
Mr. Justin Rozzero, Director-529 Product and Relationship Manager, Fidelity  
Mr. Roger Morrissette, Retirement and College Leadership Squad Member, Fidelity  
Mr. Peter Walsh, Institutional Portfolio Manager for 529 Plans, Fidelity  
Mr. Bryan Tseng, Director- Investment Product, Fidelity  
Mr. Ronan Burke, Relationship Manager, Capital Group  
Mr. John Doyle, Senior Defined Contribution Strategist at American Funds, Capital Group  
Mr. Brian Angerame, Managing Director, ClearBridge Investments ("ClearBridge")

## **CALLED TO ORDER**

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

## **APPROVAL OF MINUTES**

**A MOTION was made by Mr. Schutt and seconded by Mr. Roselle to approve the revised minutes from the Committee meeting on May 22, 2018.**

**MOTION ADOPTED UNANIMOUSLY**

## **PRESENTATIONS**

### *College Investment Plan – Fidelity Investments*

Mr. Walsh provided an overview of the plan performance for the second quarter of 2018. He stated that a revised version of this presentation is being developed for the next quarter. The third quarter presentation will address previous comments and provide the Committee a new structure to better assess Fidelity's performance.

Mr. Walsh stated he would focus his update on the age-based Fidelity managed portfolios and the individually managed static portfolios. The latter is comprised of funds included within the age-based portfolios managed by Fidelity, with little participant management as a "set it and forget it" option. These portfolios comprise of a total of \$617 million, or 91 percent of the overall Delaware College plan assets.

For the second quarter of 2018, Mr. Walsh stated that several economic factors domestically and internationally contributed to changes in the portfolios. Furthermore, Fidelity believes the U.S. market is moving from a mid- to late-cycle economy now, and anticipates at least one additional rate hike from the Federal Reserve this year. Some of this economic activity may be reflected in the returns for this quarter, but most likely will be seen in the performance for the third quarter as the managers shift their investment strategies.

According to Mr. Walsh, Delaware shareholders over this time did add value to their portfolios with 3-month returns ranging from a half to two percent growth. However, given the global and domestic economic concerns, many of the age-based portfolios underperformed their benchmarks for the quarter. The one year return on the investments over this time ranged from 12.5 to approximately 2 percent, with most portfolios at or beating their composite benchmark.

Mr. Colberg asked if there was any concern about the duration of the bond portfolio in the rising interest rate environment. Mr. Walsh stated that there was some concern, and Fidelity remains underweight in bonds for the total portfolio. Within the bond portfolio, Mr. Walsh noted that there has been an increase across all of the age-based portfolios in inflation-protected debt. Mr. Walsh stated that this combined with the offset in commodities should adjust for any response from the rising interest rate environment in the market.

Mr. Tseng provided an overview of the competitor age-based portfolios to Delaware, with respect to their Morningstar categories. He noted that policies are defined differently across competitors, and the use of the Morningstar categories for portfolios provide a method of benchmarking for comparison. Mr. Tseng reiterated that the actively managed portfolios over time have outperformed the passive, or static, portfolio which is how these plans should operate. Most of the active portfolios are doing well compared to peers, with many in the top one-third of portfolios in the one-year ranking perspective.

The Committee discussed the methodology used by Fidelity in comparing competitor plans using the Morningstar categories. Mr. Tseng commented that each age-based portfolio also represents a different series, and although the comparison is not exact it's a reasonable comparison for comparing plans of different mixtures and sizes. Mr. Rozzero commented that Fidelity will continue to seek the best method for reporting this metric to the Committee, and invites feedback from the Committee to meet their reporting needs.

*Deferred Compensation Plan – Cammack Retirement Group*

Ms. Villeneuve provided the Committee with an overview of the plan changes in the second quarter of 2018. Total assets in the plans grew by \$16.1 million since the end of March 2018, with quarterly contributions totaling \$14.4 million. She informed the Committee that the combined five basis point asset-based administrative fee (not to exceed \$200 annually) and the asset-based fee of eight basis points for Voya recordkeeping for the plans is less than the most recent National Association of Government Defined Contribution Administrators (“NAGDCA”) survey average of 14 basis points for similarly sized plans. Ms. Villeneuve stated that the eight basis point asset-based fee paid to Voya was recently reduced as a result of missing their contractual performance goal for the 457(b) plan. She also reminded the Committee that as of June 2018, the administrative fee will not be charged to 457(b) participants for four calendar quarters based on the prior determination of the Board to use prior reserves to offset such fees

Ms. Burns reviewed the analysis of funds under the Plans with respect to the Investment Policy Statement for the Committee. She informed the Committee that as of the February 2018 meeting, the ClearBridge Mid-Cap Growth fund has been on watch due to their continued underperformance relative to the benchmark. Ms. Burns informed the Committee that a representative from ClearBridge was in attendance and would speak on behalf of the fund's performance.

Ms. Burns reported to the Committee that the other funds, Templeton Global Bond R6 and Lazard International Equity R6, were both “recommended to maintain.” Templeton Global Bond fund invests in high real-yielding sovereign markets and currencies, listing their benchmark as the Citigroup World Government Bond Index-unhedged. Ms. Burns stated that the fund over the long-term has performed well and that with a strong dollar the fund has offset any weaknesses from their emerging market currency holdings.

Finally, Ms. Burns reviewed the Lazard International Equity R6. She informed the Committee that this fund takes a valuation approach, investing in companies where the cash flow or assets are undervalued. Ms. Burns stated that funds with this strategy often perform well in down markets, such as this fund did during the financial crisis when the fund loss was 7.2 percent relative to other funds that experienced 14.0 percent for this category.

The Committee discussed the criteria used to determine the funds to be placed on watch. Ms. Burns stated that criteria can vary based on the fund strategy, but the main driver is performance concerns versus expectations. She informed the Committee that the process is more qualitative than quantitative, with an emphasis on consistency with respect to the investment objectives being met.

Ms. Villeneuve continued the review of the plans, informing the Committee that as of June 2018 there were 19,215 unique participants in the target date funds (or Tier One), representing 77.6 percent of assets

and 79.4 percent of new contributions (or \$11.5 million to the plans.) Tier Two investments accounted for 20.3 percent of the plans total assets with \$139.4 million in mutual fund options, and \$15.8 million in the Voya Fixed Plus Account III. According to Ms. Villeneuve, participants in this tier contributed approximately \$3.0 million in the second quarter. Finally, Ms. Villeneuve reported that the Tier Three, or self-directed TD Ameritrade Brokerage Account, currently represented \$15.9 million in assets, or 2.1 percent of total assets for the plans.

Mr. Schutt asked if Cammack tracked the participants' experience and how people are making changes within their plans. Ms. Villeneuve stated that the amount of changes within in Tier One has been minimal, but there was some movement from Tier One to Two after re-enrollment, and that was expected. Ms. Villeneuve believes that Voya does provide more metrics.

The Committee discussed re-enrollment, and the practice across the industry for individuals. Mr. Doyle commented that in a plan where many individuals don't tend to deviate away from the default option, Delaware may be able to opt for an on as needed basis. Treasurer Simpler asked if this is the practice with assets that are currently invested, or for future contributions. Mr. Doyle stated that he has seen it with assets currently invested, but what is more common is the auto-re-enrollment of individuals each year.

#### *Deferred Compensation Plan – ClearBridge*

Mr. Angerame provided the Committee with the background of the fund, along with performance for the Committee. He reported to the Committee that this strategy will often generate consistent returns, but may more often underperform the benchmark or their peers. In years where the fund has underperformed they have been able to identify the exact investment that led to the underperformance.

Mr. Allen asked Mr. Angerame about the exposure and method by which ClearBridge assess quality with respect to their investments. Mr. Angerame explained the methodology employed by ClearBridge, including the analyses used for those firms that are often spinoffs from larger companies or early life-cycle firms. Mr. Allen asked about the mitigation strategies employed when a stock does not perform to expectations. Mr. Angerame informed the Committee that when the market does not appreciate the stock as expected, then ClearBridge often will be more patient given the level of volatility and the sector.

Mr. Angerame reported that the flows of the fund are positive, with a feasible 10 percent growth this year.

#### *Deferred Compensation Plan – American Funds Presentation*

Mr. Burke introduced himself and Mr. Doyle to the Committee. Mr. Burke stated that Capital Group and American Funds are the same company, with investment management being their sole business and \$1.79 trillion in assets under management.

Mr. Doyle provided an overview of the Target Date Funds and the results being reported. Mr. Doyle provided a brief history of the Target Date Funds, and as of today has \$95.1 billion assets. He stated that 72 percent of the underlying funds have a track record of 25 or more years, which is used in the glide path calculation for the funds. Mr. Doyle continued the presentation by describing the strategy employed by Capital Group for the American Funds, and the group overseeing the fund.

The Committee and Mr. Doyle discussed the development of the underlying glide path used to develop the fund strategy. Mr. Doyle stated that they review the top providers by asset size in target dates and those funds in a comparable group to determine their peer-ranking, especially in terms of volatility almost daily. He stated that some in their peer group have moved to include passive elements in their management, whereas the American Funds believe in active management and will continue this method of management.

## **DISCUSSION**

### *Investment Policy Statement – Deferred Compensation Plans*

The Committee discussed the draft Investment Policy Statement provided by OST prior to the meeting. Mr. Colberg stated that OST had provided a redlined and clean copy of the Investment Policy Statement, whereby the suggested edits have been tracked in the redline version from the May meeting.

Ms. Burns and Ms. Villeneuve stated on page eight the Committee should note that stable value funds offered to the Delaware plans at this time are not separate account stable value funds but general account stable value funds (Voya Fixed Plus Account III). Therefore, aspects such as the book and market values, fund duration, and credit ratings would be unavailable. Ms. Villeneuve stated that this is acceptable, as long as the Committee recognized that it does not apply to the current structure but would be feasible if it was desired in the future.

**A MOTION was made by Mr. Schutt and seconded by Mr. Roselle to recommend the Investment Policy Statement for the Deferred Compensation Plans to the Board.  
MOTION ADOPTED UNANIMOUSLY**

## **PUBLIC COMMENTS**

No members of the public present for comment.

## **NEXT MEETING**

The next meeting of the Board is scheduled for September 5, 2018.

The next meeting of the Committee is scheduled for November 20, 2018.

## **ADJOURNMENT**

**A MOTION was made by Treasurer Simpler and seconded by Mr. Schutt to adjourn the meeting of the Committee at 12:53 p.m.  
MOTION ADOPTED UNANIMOUSLY**

Respectfully submitted,

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Alan Colberg  
Chair for the Investment Committee