



**MINUTES FROM THE MEETING OF THE INVESTMENT
COMMITTEE OF THE PLANS MANAGEMENT BOARD
May 18, 2021**

A meeting of the Investment Committee (the “Committee”) of the Plans Management Board (the “Board”) was held on May 18, 2021, commencing at 10:00 a.m. Pursuant to Governor Carney’s Emergency Orders relating to the Covid-19 pandemic, 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
The Honorable Colleen C. Davis, State Treasurer
Secretary Rick Geisenberger, Secretary of Finance
Mr. David Biddle
Mr. Todd Roselle

Others in Attendance:

Mr. Sean McNeeley, Director of Bond Finance
Ms. Liza Davis, Deputy State Treasurer, Office of the State Treasurer (“OST”)
Mr. Jason Staib, Deputy Attorney General, Delaware Department of Justice
Mr. John Meyer, Director of Contributions and Plans Management, OST
Mr. Daniel Madrid, Chief Operating Officer, OST
Mr. Mike Green, Investments and Operations Manager, OST
Mr. Dan Kimmel, Promotion and Outreach Manager, OST
Mr. Earle Allen, Principal Financial Advisor, CAPTRUST
Mr. James Duffy, Research Associate, CAPTRUST
Ms. Heather Zakian-Institutional Portfolio Manager, Fidelity Investments, Inc. (“Fidelity”)
Mr. Roger Morrissette, Director, Retirement and Income Solutions, Fidelity
Mr. Dan Terio, Vice President, Investment Product, Fidelity
Ms. Jessica Bialas, Director, Investment Product, Fidelity

CALL 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. Biddle to approve the minutes from the Committee meeting on November 17, 2020.

MOTION ADOPTED UNANIMOUSLY

PRESENTATIONS

Investment Performance on Deferred Compensation Plans – CAPTRUST

Mr. Allen reviewed the performance metrics for the three deferred compensation plans. As of March 31, 2021, assets in the plans totaled approximately \$1.10 billion, excluding assets held at legacy 403(b) vendors (valued at approximately \$307.6 million as of March 31, 2021), reflecting a quarterly increase of approximately \$35.4 million, a 3.3 percent change. Quarterly contributions were approximately \$16.3 million. Mr. Allen indicated that the average weighted expense ratio of the funds was 0.32 percent, which is .04 percent less than the average NAGDCA survey result of similar sized plans.

Mr. Allen reviewed the different tiers of funds within the plans. As of March 31, 2020, Tier 1 held approximately 72 percent of the total assets (\$793 million). Tier 1 received nearly 72 percent (\$11.7 million) of all new contributions in the first quarter of 2021. Ninety-three percent of unique participants are invested in Tier 1 target date funds. As of March 31, 2020, Tier 2 held approximately 25 percent of total assets (\$271.8 million). Mr. Allen stated that Tier 2 received approximately 28 percent (\$4.6 million) of new contributions in the first quarter of 2021. Mr. Allen reviewed the Tier 3 self-directed brokerage option with the Committee. He stated that Tier 3 held approximately three percent of total assets (\$31.8 million) as of March 31, 2021. Mr. Allen stated that 471 unique participants were investing through the brokerage window at the end of the first quarter of 2021, versus 418 as of December 31, 2020.

Mr. Biddle inquired about the number of participants who opt in or out of the target date funds. Mr. Allen responded that Voya did not have a report on this request. Mr. Allen stated he will request that report for the Committee.

Mr. Allen discussed investment highlights noting that the Lazard International Equity R6 fund is being recommended to be placed on watch. The fund is recommended for watch due to underperformance versus the benchmark and category peer group. Mr. Allen stated that it is a value-oriented fund and has not performed as well as expected for the last two quarters in current market conditions. Mr. Colberg asked if American Funds Washington Mutual R6 was not being recommended for watch due to overall qualitative performance in 2020. Mr. Allen confirmed that American Funds Washington Mutual R6 was not being recommended for watch.

Mr. Duffy provided market commentary. Mr. Duffy stated that the first quarter themes focused on vaccine optimism and stimulus assistance, which have fueled stock market returns. Also, corporate earnings in the first quarter are the focus in Q2 2021 for US Equity. Emerging markets growth has slowed while real estate continues to do well due to rising yields. Mr. Duffy stated fixed income is optimistic for the 1-year and 10-year yields increasing from seventy to 174 basis points from March 2020 to March 2021.

Mr. Duffy then reviewed the economic outlook stating that vaccines, stimulus checks and consumer spending could lead to growth. However, the uncertainty surrounding the virus remains a concern, as are inflation fears. The Federal Reserve believes inflation rates are transitory, which contrasts with the general market.

Mr. Duffy reviewed the investment analysis. He stated that CAPTRUST is using the 3- and 5-year data for quantitative review and 10-year data for qualitative scoring. Mr. Duffy stated that Lazard

International Equity fund had poor performance in 2016-2017 versus the benchmark and peer group and has continued to underperform. CAPTRUST recommends that the fund be placed on Watch.

Investment Performance on College Investment Plan – CAPTRUST

Mr. Duffy reviewed first-quarter plan performance for the 529 plan. Total plan assets as of March 31, 2021 were approximately \$734.2 million, a \$5.9 million increase over year-end 2020 (\$728.3 million). Approximately 73 percent of assets (\$534.2 million) are in the age-based option, with approximately 27 percent of assets (\$200 million) residing in static portfolios.

Mr. Duffy updated the Committee on the level of growth for the blend age-based option. This option holds \$6.9 million as of March 31, 2021, versus \$5.2 million at the end of 2020. Mr. Duffy stated that the active age-based category holds the majority of assets.

Mr. Duffy noted that all age-based options and all age bands outperformed their benchmarks for the quarter. Mr. Duffy reported that the active age-based option outperformed in 75 percent of its age-bands for the 1-year versus peers and performed the best (on average) out of the Plan’s age-based options on an absolute basis.

Strong first quarter performance was due to strong equity performance. Both index age-based and blend age-based options outperformed versus their benchmarks. The first quarter of 2021 saw strong performance across all age-based options.

DISCUSSION AND ACTION ITEMS

Recommendation Regarding Placing Lazard International R6 on Watch

Mr. Colberg led discussion with the Committee regarding placing Lazard International R6 on watch. He stated that performance has been in the bottom quartile from fund management perspective. Discussion followed by Committee members regarding the length of time the deferred compensation plans have held the investment as well as next steps. Mr. Biddle stated from a fiduciary perspective it may be beneficial to have both an index option and an active option. The Committee agreed to the recommendation to place Lazard International R6 on watch and requested CAPTRUST to look for potential replacement fund options.

A MOTION was made by Mr. Geisenberger and seconded by Mr. Biddle to recommend that the Board approve placing Lazard International R6 on watch.

MOTION ADOPTED UNANIMOUSLY

Discussion and Recommendation on College Plan Administration Fund Balances

Mr. Meyer updated the Committee regarding the strategy for the 529 plan administrative fund and best practices CAPTRUST stated that most 529 clients are not investing their administrative fee fund balances. The Committee discussed approaching the Cash Management Policy Board for input on investment strategy. OST will speak with the Cash Management Policy Board and the Committee will work with CAPTRUST to identify potential investment options. The Committee will report back to the full Board.

PUBLIC COMMENTS

No members of the public made a comment.

NEXT MEETING

The next meeting of the Board is scheduled for June 8, 2021.

The next meeting of the Committee is scheduled for August 17, 2021.

ADJOURNMENT

A MOTION was made by Mr. Biddle and seconded by Treasurer Davis to adjourn the meeting at 11:38 a.m.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

Alan Colberg
Chair for the Investment Committee

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