



**MINUTES FROM THE MEETING OF THE INVESTMENT
COMMITTEE OF THE PLANS MANAGEMENT BOARD
August 17, 2021**

A meeting of the Investment Committee (the “Committee”) of the Plans Management Board (the “Board”) was held on August 17, 2021, commencing at 10:00 a.m., at the Office of State Treasurer (“OST”), Carvel State Building, 820 N. French Street, Wilmington, DE. Board members and 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

Ms. Liza Davis, Deputy State Treasurer (on behalf of the Honorable Colleen C. Davis, State Treasurer)

Mr. Sean McNeeley, Director of Bond Finance (on behalf of Secretary Rick Geisenberger, Department of Finance)

Ms. Courtney Stewart, Deputy Director (on behalf of Secretary Cade, Director of the Office of Management and Budget)

Mr. David Biddle

Members not in attendance:

Mr. Todd Roselle

Others in Attendance:

Mr. Jason Staib, Deputy Attorney General, Delaware Department of Justice

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

Ms. Deborah Bradl, Executive Assistant, OST

Mr. Jordan Seemans, Director of Policy and Communications, OST

Mr. Matt Rosen, 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. Layne Finnerty, Client Relationship Manager, Senior Vice-President, Capital Group

Mr. John Doyle, SVP, Senior Retirement Strategist, Capital Group

CALL TO ORDER

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

APPROVAL OF MINUTES

A MOTION was made by Deputy Treasurer Davis and seconded by Mr. Biddle to approve the minutes from the Committee meeting on May 18, 2021.

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 June 30, 2021, assets in the plans totaled approximately \$1.16 billion, excluding assets held at legacy 403(b) vendors (valued at approximately \$315.1 million as of June 30, 2021), reflecting a quarterly increase of approximately \$97.6 million, a 9.2 percent change. Quarterly contributions were approximately \$15.9 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 June 30, 2021, Tier 1 held approximately 72 percent of total assets (\$834.2 million). Tier 1 received nearly 72 percent (\$11.5 million) of all new contributions in the second quarter of 2021. Ninety-three percent of unique participants are invested in Tier 1 target date funds. As of June 30, 2021, Tier 2 held approximately 25 percent of total assets (\$288.9 million). Mr. Allen stated that Tier 2 received approximately 28 percent (\$4.5 million) of new contributions in the second quarter of 2021. The Tier 3 self-directed brokerage option held approximately three percent of total assets (\$35.8 million) as of June 30, 2021. Mr. Allen stated that 486 unique participants were investing through the brokerage window at the end of the second quarter of 2021, versus 418 as of December 31, 2020.

Mr. Colberg inquired about the average number of options that participants are invested in within Tier 2. Mr. Allen responded that he believed it was four but will verify that for the Committee.

Mr. Allen discussed investment highlights, noting that the Lazard International Equity R6 fund is being recommended to remain on watch due to continued underperformance versus the benchmark and category peer group. It is a value-oriented fund and has not performed as well as expected for the last few quarters in current market conditions and has failed to add value relative to the benchmark.

Mr. Duffy provided market commentary. Mr. Duffy stated that the second quarter saw strong growth due to increased consumer spending and corporate earnings, which have fueled stock market returns. Also, bonds were still positive for the second quarter but were negative year-to-date due to an increase in yields from the first quarter. Emerging markets grew slightly 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.

Mr. Duffy stated that the economy is seeing a strong but atypical recovery. Uncertainty surrounding inflation remains a concern, as do labor market challenges. The Federal Reserve believes inflation rates are transitory, which contrasts with the outlook among market participants.

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 remain on Watch.

Target Date Overview – Capital Group

Ms. Finnerty provided an overview of Capital Group. Ms. Finnerty noted the seventy-two percent of Delaware’s plan assets are in the target date fund series. She noted that as of December 31, 2020, Capital Group’s performance generated the greatest amount of wealth relative to peers. Ms. Finnerty stated that Environmental, Social and Governance (“ESG”) factors are integrated into investment options. She further stated that Capital Group had \$2.6 trillion in assets under management as of July 31, 2021. Fixed income was a key differentiator for the firm.

Mr. Doyle presented the target date fund overview. He stated that the S&P Target Date 2030 Index had a 6.19 percent excess return as of December 31, 2020. He stated that multiple managers manage the funds in the target date fund series. The goal is to build and preserve wealth. Capital Group has an objective-based glide path that is aligned to participant goals. Mr. Doyle stated that target date funds are meant to be a retirement income vehicle. He stated that the underlying funds are meant to be flexible to adapt to changing market conditions. Mr. Doyle stated that American Funds Target Date Retirement Series historically has a greater 10-year upside and downside protection versus peers. Finally, Mr. Doyle stated that Capital Group has among the lowest fees for actively managed target date series, with an average expense ratio of .36 percent.

Investment Performance on College Investment Plan – CAPTRUST

Mr. Duffy reviewed second-quarter plan performance for the 529 plan. Total plan assets as of June 30, 2021 were approximately \$767.4 million, a \$33.2 million increase over year-end 2020 (\$734.2 million). Approximately 72 percent of assets (\$554.5 million) are in the age-based option, with approximately 28 percent of assets (\$212.9 million) residing in static portfolios.

Mr. Duffy updated the Committee on the level of growth for the blend age-based option. This option holds \$8.2 million as of June 30, 2021, versus \$6.9 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 52 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 second quarter of 2021 saw strong performance across all age-based options.

Mr. Duffy reviewed three program changes that Fidelity is proposing. First, Fidelity is proposing to reduce the program management fees for the 529 active age-based offerings from twenty basis points to seventeen basis points. Second, Fidelity is adding a new sustainable investment strategy. This new strategy would be comprised of seventy percent equity and thirty percent fixed income that would invest that would invest in securities with high environmental, social, and governance (ESG) ratings. CAPTRUST will be meeting with Fidelity’s ESG team over the next several quarters to fully explore their proprietary rating methodology, and how it compares to other widely used ESG rating groups (Sustainalytics, MSCI, Morningstar, etc.). CAPTRUST recommends that the Committee consider adding this investment strategy to the current lineup. The third change Fidelity is proposing is the

addition of a stable value product. CAPTRUST recommends that the Committee wait for the current market environment to shift before implementing this option.

Ms. Courtney Stewart left the meeting.

DISCUSSION AND ACTION ITEMS

Recommendation Regarding Watch List Fund-Lazard International R6

Mr. Duffy led a discussion regarding Lazard International R6. He stated that performance has been in the bottom quartile. Mr. Duffy presented two fund replacement options. The first option is T. Rowe Price Overseas Stock I, a lower cost fund with more consistent performance. The second option is American Funds Europacific Growth R6, a fund with more market exposure. The Committee discussed the replacement options. Mr. Colberg recommended leaving Lazard International R6 on watch for at least one more quarter while the Committee reviews the two replacement options. No motion required.

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. At this time, there is no formal recommendation. The Board will discuss 529 plan strategic objectives at the September 14, 2021 meeting. OST will report back to the Committee at the November 16, 2021 meeting.

PUBLIC COMMENTS

No members of the public made a comment.

NEXT MEETING

The next meeting of the Board is scheduled for September 14, 2021.

The next meeting of the Committee is scheduled for November 16, 2021.

ADJOURNMENT

The meeting was adjourned by the Chair at 12:01p.m.

Respectfully submitted,

Alan Colberg
Chair for the Investment Committee