



**MINUTES OF THE INVESTMENT COMMITTEE
OF THE PLANS MANAGEMENT BOARD
May 14, 2024**

A virtual meeting of the Investment Committee (the “Committee”) of the Plans Management Board (“Board”) was held on May 7, 2024, at 10:00 AM. Committee 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

The Honorable Colleen C. Davis, State Treasurer

Ms. Melissa Marlin, Deputy Principal Assistant, Department of Finance (on behalf of Secretary Rick Geisenberger, Department of Finance)

Mr. Todd Roselle, Founder and President, Blue Rock Financial Group

Mr. David Biddle, Founder and President, Biddle Capital Management

Mr. Bryan Sullivan, Director of Management Efficiency (on behalf of Director Cade, Office of Management and Budget)

Members Absent:

None.

Others in Attendance:

Mr. Jordan Seemans, Deputy State Treasurer

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. Khairat Makanjuola, Chief Operating Officer, OST

Mr. Dan Kimmel, Promotion and Outreach Manager, OST

Mr. Matthew Rosen, Senior Policy Advisor, OST

Mr. Earle Allen, Principal Financial Advisor, CAPTRUST

Mr. James Duffy, Research Associate, CAPTRUST

Mr. Anthony Durkan, Vice-President, Head of 529 Relationship Management, Fidelity Investments, Inc. (“Fidelity”)

Ms. Priya Vaidya, Accounting Specialist, OST

CALLED TO ORDER

The meeting was called to order at 10:01 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 February 13th, 2024.

MOTION PASSED UNANIMOUSLY.

PRESENTATION

Investment Performance on Deferred Compensation Plans – CAPTRUST

Mr. Allen reviewed the performance metrics for the three deferred compensation plans. As of March 31, 2024, assets in the plans totaled approximately \$1.30 billion, excluding assets held at legacy 403(b) vendors (valued at approximately \$318.2 million as of March 31, 2024), representing an increase of approximately \$75 million or six percent from the end of the year. Quarterly contributions were approximately \$18.1 million. Mr. Allen indicated that the average weighted expense ratio of the funds was 0.30 percent, which is .06 percent less than the average NAGDCA survey result of similar sized plans.

Mr. Allen reviewed the different investment tiers within the plans. As of March 31, 2024, Tier 1 held approximately 70 percent of total assets (\$917.3 million). Sixty-nine percent of participants were invested in Tier 1 target date funds. Tier 1 received approximately 69 percent (\$12.6 million) of new contributions for the first quarter of 2024?

As of March 31, 2024, Tier 2 held approximately 27 percent of total assets (\$341.2 million). Mr. Allen stated that Tier 2 received approximately thirty-one percent (\$5.6 million) of new contributions in the first quarter of 2024.

The Tier 3 self-directed brokerage option held approximately 3 percent of total assets (\$43.4 million) as of March 31, 2024. Mr. Allen stated that 494 unique participants were investing through the brokerage window at the end of the first quarter of 2024, versus 495 as of December 31, 2023.

Mr. Allen covered the investment highlights with the Committee. He stated that no fund recommendations are being made for consideration by the Committee at this time. He also stated that CAPTRUST will continue conversations regarding PIMCO Total Return Instl.

Mr. Allen provided an overview of industry practices related to automatic enrollment, contribution and escalation features of private-sector 401(k) plans. As of March 31, 2024, 64 percent of 401(k) plans use auto-enrollment, as compared to 42 percent in 2012. The typical default contribution rate is between 3 to 6 percent, versus 3 percent contribution rate ten years ago. Mr. Allen also mentioned that 51 percent of 401(k) plans have automatic escalation provisions, as compared to 40 percent in 2012. The most common maximum deferral rate is at 10 percent for 401(k) plans, as compared to 6 percent in 2012.

Mr. Duffy provided market commentary to the Committee. Mr. Duffy stated that the first quarter of 2024 continued to be resilient, especially for US equities. Along with the shift from 6 to 2 interest rate cuts projected expectations, US large CAP stocks increased by 10.6 percent while US bonds were lower by 0.8 percent. U.S. large cap stocks and equities outperformed small cap stocks due to sectors such as AI, supply-chain, finance, communication, and healthcare. Mr.

Duffy stated that the outlook for fixed income continues to have negative returns even with positive absolute performance during first quarter of 2024.

Mr. Duffy stated that financial markets and the economy are getting conflicting signals due to a disconnect between the Fed's view versus the consumer's view.

Lastly, PIMCO Total Return fund improved its performance, finishing 2023 in the 49th decile, and is currently in the top quartile year-to-date as of May 14th, outperforming the index by 80 basis points. TIAA-CREF Real Estate fund has been underperforming by 2.5% year-to-date and ranking in the bottom decile due to overweight positions in industrial REITs and underweight positions in office space. The American Funds Target Date Fund series is making strategic changes to asset allocations, increasing exposure to emerging markets and debt to offset lower salary growth assumptions.

Investment Performance on College Investment Plan – CAPTRUST

Mr. Duffy reviewed third quarter plan performance for the 529 plan. He stated total plan assets as of March 31, 2024, were approximately \$673.5 million. Mr. Duffy stated there continues to be a slight decrease in assets for active age-based options and a slight increase in blend and index age-based options. Approximately 65 percent of assets (\$440.8 million) are in the age-based options, with approximately 35 percent of assets (\$232.7million) residing in static portfolios or individual funds. The majority of plan assets are in active age-based funds (78 percent).

Mr. Duffy stated that the active age-based option outperformed by an average of 2.4 percent with higher equity allocation in non-US equity markets for first quarter in 2024. The active age-based option also outperformed the mutual fund composite benchmark with weighted outperformance from Fidelity Series Growth Company fund (4.35 percent) and weighted underperformance by Fidelity Series Value Discovery Fund (-1.96 percent).

DISCUSSION AND ACTION ITEMS

Discussion and Possible Vote on Recommendation for Watch List

No funds were recommended for the Watch list. No vote taken.

Discussion and Vote Regarding Due Diligence Report on Managed Account and Self-Directed Brokerage Service Providers

Mr. Meyer informed the Committee that the Investment Policy Statement for the plans requires a review of Voya's third-party managed account service providers (Voya Retirement Advisors powered by Morningstar and Schwab/TD Ameritrade). Mr. Allen provided a summary of the due diligence memo. The self-directed brokerage account, now handled by Schwab after transitioning from TD Ameritrade in 2023, has about 500 users and maintains average fees in the market's mid-range. Participants can work with advisors, who can be paid directly from the account assets if affiliated with the Schwab Advisor Center. The Committee inquired about the services a participant would receive through working with affiliated advisor. Mr. Allen agreed to research and bring the information to a future meeting.

The managed account service offered through Voya Retirement Advisors and powered by Morningstar, is used by 612 participants. Voya's managed account fees are slightly higher than average, particularly for smaller account balances, but remain competitive. Regular benchmarking will be performed to ensure that Voya's services stay aligned with market standards. No vote taken.

Update Regarding SECURE Act 2.0 Provisions

Mr. Meyer discussed the SECURE Act 2.0's catch-up provisions for participants ages 60 to 63. Starting January 2025, this age group can defer an additional \$10,000 or 150% of the over-50 catch-up amount. Mr. Meyer will consult with Ice Miller and Mr. Staib on necessary plan revisions.

Legislative Updates

Mr. Seemans stated that the Board is currently working on two legislative initiatives. The first is Senate Bill 94, which aims to reinstate the state match for the deferred compensation plan. The second initiative is a conceptual proposal to shift the procurement process for external plan audits from the Auditor's Office to the Board and OST. This change aims to align the process with how the Pension Board operates.

EXECUTIVE SESSION

No executive session was held.

PUBLIC COMMENT

No member of the public was available for comment.

NEXT MEETING

The next meeting of the Committee is scheduled for August 13, 2024

The next meeting of the Board is scheduled for June 4, 2024

ADJOURNMENT

Meeting was adjourned by the Chair at 11:17 a.m.

Respectfully submitted,

Alan Colberg, Chair for the Investment Committee