

## **Benefit Coordinating Committee**

### **February 28, 2019**

#### **1. Innovest Plan Report**

- Jared Martin from Innovest began the report with retirement plan topics and trends. He discussed participant behavior and behavioral economic studies, indicating that people like having more investment choices but reality shows differently. Data shows that the average participant invests in 3.6 funds, a consistent pattern over time despite any increase in the number of choices in the plan. Simplified investment menus improve participant's comprehension, making them more likely to engage in their plan. Simplified plan design consists of 3 tiers, tier 1 being Target Date/Risk Based Portfolios, tier 2 Core Investments and tier 3 Self-Directed Brokerage Option. He addressed Fiduciary Responsibilities, stating that plan sponsors must monitor all investment options offered for suitability, cost and performance. Periodic evaluation can help discern if plans should take advantage of higher minimum products at lower fees, taking advantage of economies of scale as well as looking at other investment vehicles such as CIT's.
- He discussed the City's current plan design, plan provisions, governance, contributions, distributions, costs, investments and education. The City's fee structure was reviewed, total plan fees are 42 basis points, similarly sized plans are at 73 basis points. As of 12/31/18, total plan assets were \$127.6M, down from \$141.3M at the end of the 3<sup>rd</sup> quarter. 15.99% of plan assets are in the Nationwide Fixed Account, 26.5% of the assets are in the Vanguard Target Date Funds, the two largest holdings of plan assets. An overview of the City's PEHP plan was also discussed.
- Paul Nacario from Innovest provided an overview of the markets. There was significant market volatility in the 4<sup>th</sup> quarter of 2018. The markets hit their all-time high in late September 2018, the markets hit the calendar year lows on December 24<sup>th</sup>, almost a 20% drop from the all-time market highs in September. The market rebounded nicely in the beginning of 2019, having one of the best Januarys all time, off about 6% on the market highs in September. The volatility in the 4<sup>th</sup> quarter was a result of four factors, the markets are concerned about rising short-term and long-term interest rates, fear of rising inflation, ongoing trade war with China and the potential effects of the upcoming Brexit deadline. In the 4<sup>th</sup> quarter of 2018, the Bloomberg Barclays US Bond Aggregate Index was up 1.64%, the S&P 500 Index was -13.52%, the Russell 2000 Index was -20.20%, the MSCI EAFE Index was -12.54% and the MSCI Emerging Markets Index was -7.47%. Charts addressing the slowdown of global GDP, the markets expectations of future central bank interest rates, a review of the U.S. Leading Economic Index, valuations of equities, current yield curve and returns of asset classes were reviewed. Sector performance for the 4<sup>th</sup> quarter was reviewed, Utilities were the only asset class that had positive performance at 1.4%, with Energy being the worst performing sector at -23.8%. Lastly, Fixed Income was discussed, returns have been flat.
- Jared Martin reviewed the Plan's Manager Scorecard, highlighting 3 funds, Harbor Capital Appreciation, Victory Munder MidCap Core and Harbor Small Cap Growth opportunities. In down

markets, Innovest really likes to look at manager performance against their benchmark and peer performance, minor concerns were brought to the BCC's attention on Harbor Capital Appreciation and Harbor Small Cap Growth due to strategy of using single subadvisors, however, no issues with performance. Regarding Victory Munder MidCap Core, major concern with performance was discussed. Due to Munder's conservative position, it has lagged over its peers for the 3- and 5-year periods, minor concerns were brought up regarding outflows from the fund and overall performance. A concern with Vanguard Select Value was brought up regarding performance, the fund has lagged its benchmark and peers for 3- and 5-year periods, recommendation to monitor fund, only \$6500 in total plan assets are in fund. A review of the "high use" funds was addressed, showing the funds performance against their peers and their percentile ranking in their respective categories

- There was no action on any of the funds.
- Innovest suggested that with a large amount of assets with Vanguard, it may make sense to hold a future meeting at their Scottsdale facility and here from Vanguard's Target Date team.
- Innovest, starting with this meeting, will be assisting HR with future agenda items on the 457 and PEHP plans, along with keeping minutes. A draft of meeting minutes will be provided to Luran, changes can be made to the BCC's liking.