

## INVESTMENT COMMITTEE

CSD RETIREMENT TRUST  
305 ST. LOUIS AVENUE, BOX 254  
ST. LOUIS MO 63088

### CALL TO ORDER

Members of the Investment Committee of the CSD Retirement Trust met on Wednesday, November 14, 2018, at 10:00 a.m. at Enterprise Bank and Trust, 11401 Olive Boulevard, St. Louis, Missouri. The meeting was called to order at 10:05 a.m. with the following members in attendance: Dwight Lindhorst, Chairman, (Ritenour), John Stewart (Brentwood) (arriving 10:45 a.m.), Mary Jo Gruber (Clayton), Robert Vogelaar (Liberty), Kathy Wood (Lindbergh), Kurt Kaup (Orchard Farm), Ron Orr (Pattonville) and Brendan Mahon (Washington). Also in attendance were: Ed Hinders (CBIZ), Jack Keller (CBIZ), and Stephen Keyser, CSD Retirement Trust.

Alex Saywell, Investment Analyst with CBIZ, participated via conference call.

### APPROVAL OF AGENDA

The agenda for the November 14, 2018, Investment Committee meeting was presented for approval. There being no topics added to or removed from the agenda, upon motion made by Mr. Lindhorst and seconded by Mr. Kaup, the agenda was approved as presented.

### MINUTES

Minutes for the August 22, 2018, Investment Committee meeting were presented for approval. It was noted that Dave Koller's (sic Kohler) was misspelled. Whereupon, on motion made by Kathy Wood and seconded by Kurt Kaup, the minutes as corrected were unanimously approved.

### GUEST INTRODUCTION

Mr. Hinders introduced Jack Keller, Vice President of CBIZ Retirement Plan Services in Kansas City, Missouri.

### FIDUCIARY GOVERNANCE SOLUTION

#### **Success Tracker**

Mr. Hinders reminded the Investment Committee about Success Tracker, a tool that provides a checklist of fiduciary responsibilities for governance of the Trust. The document is continually updated, and it can be amended as Trust needs change. There were no questions regarding Success Tracker.

### FIDUCIARY REGISTERED INVESTMENT ADVISORY SOLUTION

#### **Third Quarter Investment Review**

Ms. Saywell reviewed the Third Quarter 2018 Investment Report. She stated that the US economy continues to expand. The economic expansion is the second longest in history, and it will become the longest in history if it continues to grow through July 2019. The Bureau of Economic Analysis reported gross domestic product of 4.2 percent. The global economic environment has been strong in many areas

of the developed world, but it continues to be volatile in the emerging economies. China's growth continued to slow, due to a deceleration of investment growth and industrial output, plus uncertainty around trade friction due to tariffs imposed by the US.

The housing segment leveled off in recent months, due to an increase in mortgage rates and reduced tax deductibility of home ownership. Existing home sales grew, but they are down about 1.5 percent from the same time last year.

The unemployment rate in August remained level at 3.9 percent, near its lowest level in 18 years. The employment situation remains strong, with employers adding more jobs than expected and outpacing the prior month's gain.

Fixed income securities generated mixed total returns across the various market segments. Ms. Saywell noted that High Yield Securities delivered a positive return of 2.4 percent, and the Global Aggregate ex-US Index declined by 1.7 percent.

In the Domestic Equity category, the Russell 1000 Index of large cap stocks generated a 7.4 percent return. Within the large cap segment, growth stocks outperformed value stocks. Small cap stocks finished the quarter with a total return of 3.6 percent, underperforming large caps. Small cap value underperformed small cap growth.

Ms. Saywell continued her review, highlighting equity performance. She stated that the ten primary economic sectors produced performance results that were very strong during the quarter. Health care, Industrials, and Telecommunications Services were the strongest performers, generating returns of 14.5 percent, 10.0 percent and 9.9 percent respectively. Materials, Energy and Real Estate were the three poorest performers, posting returns of 0.4 percent, 0.6 percent and 0.9 percent respectively.

International stocks generally posted mixed results relative to US equities. While economic growth has been modest throughout the developed world, emerging economies have struggled due to rising US interest rates. Eastern Europe was the strongest performer, showing a return of 7.5 percent; China was the poorest performer, falling 7.5 percent.

Overall, it appears 2018 will end on a positive note and the economy will be off to a good start in 2019.

### **Fixed Interest Factsheet**

A review of assets by investment was conducted. The VALIC Fixed Interest Option currently holds 17.36 percent of total investments in the 403(b) Plan. Of the Fixed Interest investments, Vanguard holds about 9 percent of those assets. The Vanguard Target Date category of funds contains just over 20 percent of investments in the 403(b) Plan. It was noted that distribution of funds among investment categories is similar in the 457(b) Plan. Some discussion ensued about 457(b) investment growth trends since the inception of the Trust, and it was agreed that this would be reviewed and the findings reported back to the Investment Committee at a future meeting.

### **Investment Detail Reports**

Ms. Saywell reviewed the Watch List. Goldman Sachs Bond R6 is on the Watch List for three-year performance, three-year Sharpe ratio, and five-year upside capture ratio violations. The T. Rowe Price Equity Income I fund is on the List for five- and ten-year performance, five-year Sharpe ratio, and five-year upside capture ratio violations. Vanguard Selected Value is on the List for three- and five-year performance, three- and five-year Sharpe ratio, and five-year upside capture ratio violations. These three

funds were added to the Watch List as of September 30, 2018. Finally, the Vanguard Mid Cap Growth Inv Fund is on the List for three- and five-year performance and three-year Sharpe ratio violations. This fund has shown improvement in the last year. She concluded by noting that no replacement funds are being recommended at this time, and all funds will continue to be monitored.

Ms. Saywell expanded her report on the Watch List by reviewing the Monitoring Report, which provides detailed information about Watch List violations. She stated that Goldman Sachs Box R6 is on the Watch List this quarter due to underperformance. The fund has had a number of supporting sector analysts that have transitioned off the fund. High turnover and management concerns have spilled over to the performance issues. This is the first quarter the fund is on watch, and it will continue to be monitored. T Rowe Price Equity Income I landed the Watch List due to underperformance as a result of the prior manager's investment decisions. Management responsibilities were reassigned after a lengthy transition period, and the fund has outperformed its category peers during the calendar years 2016 and 2017. Despite the improvement, it is still nominally underperforming in its peer group. It will continue to be monitored. Vanguard Selected Value Inv made the Watch List due to its performance and low risk profile. Its underperformance is attributed to both security selection and asset allocation; however, it does have a strong long-term performance and a tenured sub-advisor structure. The fund will continue to be monitored. Finally, the Vanguard Mid Cap Growth Inv fund continues to be on the Watch List due to performance over the three- and five-year time periods, three-year Sharpe Ratio, and downside capture ratio. A move to change investment managers should provide the fund with more of a pure growth strategy. Ms. Saywell also noted that the fund performed in the top quartile over the past year relative to its benchmark. Even though this fund has been on the Watch List since 2017, no change is recommended at this time and it will continue to be closely monitored.

### **Target Date Evaluator**

Ms. Saywell concluded her report by reviewing the Vanguard Target Retirement Funds. She noted the asset class breakdown between equity and fixed income investments. She stated that Target Retirement Funds are outperforming the category average, even though it is currently in the negative as of yesterday (November 13, 2018).

### **VALIC Comdex—Annual Update**

Mr. Hinders reported on additional due diligence pieces that would be provided to the Investment Committee on an annual basis. One of those is the VALIC Comdex rating. He is working with VALIC to provide this information on an annual basis, and it is anticipated that a report will be provided to the Investment Committee at its February meeting.

### **THE PARTICIPANT SOLUTION**

#### **Retirement Matters Newsletter**

The Retirement Matters Newsletter was sent out to districts in October. Districts are asked to share the information with their Trust participants, and they are encouraged to share with all employees.

#### **Financial Finesse**

Work continues with Financial Finesse. It was recommended that a Task Force be formed to review financial wellness and literacy, and the Task Force be charged with reporting back its findings in May. The Investment Committee agreed to charge a five-member group (geographically representative) to conduct the work, and Board of Advisors members will be asked to volunteer to serve.

## ADJOURNMENT

There being no other or further business to come before the Committee, upon motion duly made and seconded, the meeting adjourned at 11:05 a.m.

Respectfully submitted,

Elise Reineck  
Recording Secretary  
CSD Retirement Trust