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, August 21, 2019, 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, Chair Trustee (Ritenour), Mary Jo Gruber, Trustee (Clayton), Ron Orr, Investment Committee Chairman (Pattonville), John Stewart (Brentwood), Kurt Kaup (Orchard Farm), Brendan Mahon (Washington) and Gene Stephens (Ferguson-Florissant). Participating via conference call were: Robert Vogelaar, Trustee (Liberty) and Brian Adesso (Menasha).

Also in attendance were: Ed Hinders (CBIZ), Jack Keller (CBIZ) (via conference call), Ryan Wehking (CBIZ), Richard Counts (VALIC), and Stephen Keyser, CSD Retirement Trust.

MINUTES

Minutes from the May 15, 2019, Investment Committee meeting were presented for approval. There being no corrections and upon motion duly made and seconded, the minutes were approved as presented.

FIDUCIARY GOVERNANCE SOLUTION

Success Tracker

Mr. Hinders presented Committee members with the Second Quarter (April-June 2019) Success Tracker report. He stated that Success Tracker provides a checklist of fiduciary responsibilities for governance of the Trust, and it is continually updated as tasks and activities are added or completed.

THE PARTICIPANT SOLUTION

Retirement Matters Newsletter

As part of the Success Tracker report, Mr. Hinders stated that the Second Quarter Retirement Matters newsletter was recently distributed to school districts. It is a retirement planning publication of CBIZ. Mr. Hinders encouraged districts/charters to share with not only Trust participants but to all district/school employees.

THE 3(21) FIDUCIARY REGISTERED INVESTMENT ADVISORY SOLUTION

Mr. Hinders presented the Second Quarter investment review. He opened with an overall economic summary. He reported that the United States economy’s growth accelerated again during the second quarter. The Bureau of Economic Analysis reported an estimated First Quarter gross domestic product (GDP) at 3.1 percent, in line with prior estimates and higher than the Fourth Quarter 2018.

The employment situation slowed, yet it continued to deliver with an average of approximately 151,000 jobs added each month of the quarter. Unemployment held steady at 3.6 percent, contrary to predictions of more significant gains, and average hourly earnings increased by 3.1 percent from one year ago.

The Federal Open Market Committee kept the federal funds rate target at a range of 2.25-2.50 percent, and economists expect the rate to be lowered due to perceived slowing growth.

The global economic environment continued to soften due to protectionist trade policies and uncertainties about the outcome and impact of Brexit. China's growth also slowed.

The housing segment gained ground after a two-month period of sluggish growth. This is attributed to a decline in mortgage interest rates.

Total returns on fixed income securities were positive across the various market segments. The US aggregate for Second Quarter 2019 came in at 3.08, and the Global Aggregate-ex-US at 3.42 percent. Domestic equity showed positive results in the Second Quarter. The Russell 1000 Index of large cap stocks generated 4.3 percent total return, and within the large cap segment, growth stocks sharply outperformed value stocks. Small cap stocks, represented by the Russell 2000 Index, slightly underperformed large caps. Small caps finished the quarter with a total return of 2.1 percent. Small cap value underperformed small cap growth. There continues to be lots of volatility in the market.

In the equity performance category, ten of the eleven primary economic sectors produced performance results that were positive during the quarter. Financials led the growth, with energy being the only sector in the negative, most likely due to low energy prices.

Mr. Hinders continued his report with a review of market valuation. He stated that Bloomberg estimates the S&P 500 forward price-to-earnings at 17.73, compared to the 20-year moving average of 17.94. After adjusting to the volatile market conditions, the price-to-earnings trend signals a "fairly bought market."

International stocks again showed healthy quarterly returns that are in line with the gains in US equities.

Mr. Hinders then reported on the Investment Style Boxes, noting that all categories are filled--small, medium and large; value, blend and growth. He also pointed to three additional categories, risk-based/target-date funds, international and specialty, noting that platforms built for the masses typically do not invest in specialty funds.

The Investment Committee then received a report on the Investment Watch List. Three funds are currently on the list: Goldman Sachs Bond R6, American Funds Growth Fund of Amer R6, and Vanguard Selected Value Inv.

The fixed interest account is currently crediting 2.00 percent.

Mr. Hinders continued his report by discussing the breakdown of assets by investment. Second Quarter 403b assets ended at $124,530,863, an increase of $7.1 million over the end of the close of the First Quarter. The 457b plan ended the Second Quarter with plan assets at $26,715,757, an increase of $1.6 million over the close of the First Quarter. The increased value in assets for both plans is attributed to an increase in value plus monthly contributions.

There were no changes in allocations by style. Target date funds currently hold over 21 percent of assets, and stable value at 18 percent. This is a shift from prior years and is hopefully due to advisors communicating more strategic retirement planning.

A review of the Monitoring Report was conducted. Goldman Sachs Bond R6 has been on the watch list since September 2018 due to its relative and risk-adjusted performance over the three-year period. The underperformance is mainly attributed to the fund's exposure to Puerto Rican municipal bonds and Venezuelan debt. This caused the fund to lag behind the majority of its peers in 2017. Over the past five years, the fund has struggled to keep pace with its typical peer and benchmarks. Despite this, the fund has recently shown improvement with quarterly performance. It is recommended the fund remain on the Watch List.

The American Funds Growth Fund of America has been on the Watch List since June 30, 2019. It landed on the Watch List due to performance over the five- and ten-year periods and upside capture ratio. This fund is more “growthy” and has larger exposure to growth-oriented “FAANG” stocks. Performance has been hindered by overweight allocations in some areas and underweight allocations in others. The fund does marginally miss performance standards over the five- and ten-year periods. It is recommended the fund remain on the Watch List for monitoring.

The Vanguard Selected Value Inv fund has been on the Watch List since September 2018, and performance continues to be problematic. Watch List violations include performance over the intermediate-term, five-year Sharpe ratio, and upside capture ratio. The fund utilizes three sub-advisors who employ complementary value investment styles. Some of the strained returns over the intermediate-term are attributed to underlying security selection. When assessing the risk profile of the fund, muted returns and volatility have marginally dragged down the five-year Sharpe ratio below acceptable standards when compared to peer funds. Additionally, it fails to meet acceptable downside capture ratio standards. Even though there has been some improvement over the year-to-date, it performed in the bottom decile of peers in 2018, which weighs on the five-year performance metric. For all these reasons, and due to the fund’s tenure on the Watch List, discussion around replacement of the fund was recommended.

Mr. Hinders then reviewed the MFS Mid Cap Value R6 and asked the Investment Committee to consider it as a replacement fund for the Vanguard Selected Value Inv fund. He discussed the funds returns over the last quarter and 1-, 3-, 5-, and 10-year periods. He also shared information about risk and operations and compared the MFS Mid Cap Value R6 fund against the Vanguard Selected Value Inv fund. The review of risk and operations included discussion about up-capture ratio, down-capture ratio, Sharpe ratio, manager tenure, fund size, and inception date. He also pointed to performance relative to its peer group.

Discussion then ensued among Investment Committee members, including the benefits of changing funds, timing, notification requirements, and more. Going back to the Investment Style Box, it was noted that the Vanguard Selected Value Inv Fund is the only option in its category (Medium, Value), leaving the financial advisors no good alternative fund to direct participants to invest in under that category. After due discussion, Mr. Stewart moved to remove Vanguard Selected Value Inv fund from the investment lineup, and to replace it with MFS Mid Cap Value R6 fund. Mr. Lindhorst duly seconded the motion, and upon the vote, the motion carried unanimously. Mr. Keyser stated that this action would be reported to the Board of Advisors, and a recommendation would be made to the Trustees to approve the removal of Vanguard Selected Value Inv Fund and replace it with the MFS Mid Cap Value R6 fund.

Mr. Hinders closed his report with a comment related to Vanguard Target Date Funds. He noted that while their expense ratio may be higher when compared to others in its peer class, the Investment Team looks at a variety of other factors before making a recommendation to change a fund. No call to action was requested; just a point of information.

ADJOURNMENT

The purpose of the meeting having been accomplished, the meeting adjourned at 11:10 a.m.

Respectfully submitted,
Elise Reineck, Recording Secretary
CSD Retirement Trust