

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 13, 2019, at 10:00 a.m. at Enterprise Bank and Trust, 11401 Olive Boulevard, St. Louis, Missouri. Ron Orr, Investment Committee Chairman (Pattonville), called the meeting to order at 10:05 a.m. with the following members in attendance: Dwight Lindhorst, Chair Trustee (Ritenour), Mary Jo Gruber, Trustee (Clayton), Robert Vogelaar, Trustee (Liberty), Kurt Kaup (Orchard Farm), Brendan Mahon (Washington), and Gene Stephens (Ferguson-Florissant). Brian Adesso (Menasha) participated via conference call.

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

Guests in attendance were: Joel Cracchiolo (Lindbergh), Eric Levy, Executive Vice President (AIG), and Michael Dickson, Executive Relationship Manager (AIG).

MINUTES

Minutes from the August 21, 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 reminded Committee members that Success Tracker continues to be updated and monitored each quarter to reflect completion of tasks and activities related to fiduciary responsibilities for governance of the Trust. It also provides a peek at upcoming tasks and responsibilities, whether they are scheduled to be completed on a quarterly or annual basis.

THE 3(21) FIDUCIARY REGISTERED INVESTMENT ADVISORY SOLUTION

Third Quarter Investment Review

Patrick Donnelly, CBIZ Investment Consultant, presented the Third Quarter Investment Review. He reported that the US economy's growth slowed modestly during the quarter. The unemployment situation continued to moderate, with an average of approximately 156,000 jobs added each month of the quarter. The unemployment rate held steady at 3.7 percent. The Federal Open Market Committee modified its interest rate policy by lowering the federal funds rate target two times, to a range of 1.75-2.0 percent. The rate is expected to be lowered at least one more time before the end of the year. Average hourly earnings increased by 3.2 percent compared to its level one year ago.

The global economic environment continued to decelerate, driven mostly by trade uncertainty and questions around how Brexit will be resolved. China's economy has slowed significantly as a result of trade frictions with the US, and it reported its slowest GDP in 27 years.

Housing continued its steady improvement, mainly due to the decline in mortgage rates, which have fallen 120 basis points since November 2019. Existing home sales for August grew and is up 1.3 percent

higher than July and up 2.6 percent from November 2018. Existing home prices grew 4.7 percent, and home building activity reported gains from the prior month and from levels reported one year ago. Home builders are optimistic about the housing market.

Despite market volatility, growth in domestic equity continued to lead the way. The Russell 1000 Index of large cap stocks generated a 1.4 percent total return, and within the large cap segment, growth stocks slightly outperformed value stocks. Small cap stocks, represented by the Russell 2000 Index, slightly underperformed large caps and finished the quarter with a total return of -2.4 percent. Small cap value outperformed small cap growth.

Performance of the eleven primary economic sectors was mixed during the quarter, with eight sectors delivering positive gains and three producing negative returns. Energy is lagging, partly due to low gasoline prices.

Mr. Donnelly continued his report by reviewing the market valuation report. He stated that Bloomberg estimates the S&P 500 forward price to earnings at 18.14, compared to the 20-year moving average of 17.99. After adjusting to the volatile market conditions, the price-to-earnings trend shows a fairly bought market.

International stocks had a difficult time during the quarter and were generally not able to match the performance of US equities. Japan was the strongest performer on a relative basis, Latin America the poorest relative performer, and emerging markets were weak performers.

The Investment Style Box was then reviewed, and it was noted that Vanguard Selected Value Inv would be coming off the report and replaced with MFS Mid Cap Value R6. Mr. Donnelly then highlighted the performance of the MFS Mid Cap Value R6 fund and indicated that it has been doing extremely well. The decision to add this fund to the investment line-up was excellent. American Funds Growth Fund of Amer R6 and Goldman Sachs Bond R6 continue on the Watch List.

Investments by Style pie charts were then highlighted, comparing second and third quarter investments. The charts are nearly identical for both 403b and 457b investments.

Mr. Donnelly then conducted a high-level review of the monitoring criteria used by CBIZ to evaluate the performance of all investment funds. The criteria include the following categories:

- Performance: 3-year, 5-year and 10-year performance
- Risk: 3-year and 5-year Sharpe ratio; 5-year up-capture; 5-year down-capture
- Style/Operations: style drift; R-squared; manager tenure; total fund assets; expense ratio
- Ratings: score greater than or equal to 70 percent—pass; score below 70 percent—watch; typical number of consecutive watch quarters for action recommendation—4

Funds in the Trust scored 375 out of 399 points.

Mr. Donnelly concluded his review with a detailed discussion of the monitoring report. He stated that two funds remain on the watch list; namely, Goldman Sachs Bond R6 and American Funds Growth Fund of Amer R6.

The Goldman Sachs Bond continues to be on the watch list for its relative and risk-adjusted performance and its down-capture ratio. The fund's underperformance is mainly attributed to exposure in struggling Puerto Rico municipal bonds and Venezuelan debt, which caused the fund to lag behind the majority of funds in its peer class in 2017. In 2018, currency and credit positioning contributed to underperformance. A change in fund management has resulted in improved performance in 2019. Due to recent improvement in performance, the fund will continue to be monitored.

The American Funds Growth Fund of Amer R6 fund is on the watch list for issues regarding performance and other risk metrics. The fund fell to the bottom half of funds in its peer class. The underperformance is attributed to allocation and security selection. Overweight positions in cash and international equities hurt the fund when domestic equities outperformed, and security selection in the short term weighed on performance. Lagging performance impacted risk-adjusted returns, resulting in the three-year Sharpe ratio falling below acceptable standards relative to peers. Furthermore, the fund was unable to effectively capture returns on the upside. The combination of performance issues has resulted in the fund remaining on the watch list.

VALIC/AIG Comdex Update

Mr. Hinders reported that CBIZ monitors the Comdex rating for VALIC/AIG. At this time there are no issues to report with the rating.

THE PARTICIPANT SOLUTION

Retirement Matters Newsletter

As part of the Success Tracker report, Mr. Hinders stated that the Third 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.

GotZoom

Mr. Hinders reported that Kansas City Public Schools was the first district to launch GotZoom, a program that identifies, enrolls and recertifies employees in federal student loan repayment and loan forgiveness programs. Because of a partnership between CBIZ and GotZoom, Trust participants who enroll in GotZoom receive a discounted rate. Implementation of the program in Kansas City was extremely smooth, and the onboarding process proved to be easy and simple. Both CBIZ and Kansas City Public School officials are excited about launching the program.

THE PLAN ADMINISTRATION SOLUTION

Universal Availability Procedures

Meaningful notice of Universal Availability was completed in January and August and sent to employees via participating school districts. It is required only one time per year; however, it is voluntarily completed by the Trust two times per year in an effort to ensure notification reaches all employees and participants.

ADJOURNMENT

The purpose of the meeting having been accomplished, and upon motion duly made and seconded, the CSD Retirement Trust Investment Committee meeting adjourned at 10:55 a.m.

Respectfully submitted,

Elise Reineck
Recording Secretary
CSD Retirement Trust