

## 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 18, 2020, via Zoom. Ron Orr, Investment Committee Chairman (Pattonville), called the meeting to order at 8:30 a.m. with the following members in attendance: Dwight Lindhorst, Chair Trustee (Ritenour), Mary Jo Gruber, Trustee (Clayton), Robert Vogelaar, Trustee (Liberty), Gene Stephens (Ferguson-Florissant), Brian Adesso (Menasha Joint), Molly Johnson (Independence), Jeff Haug (SSD).

Also participating were: William Abramowicz (AIG), Ed Hinders (CBIZ), Cory McComas (CBIZ), Jack Keller (CBIZ), Michael Dickson (AIG), and Stephen Keyser, CSD Retirement Trust.

Mr. Abramowicz was introduced to the Committee.

### APPROVAL OF AGENDA

Mr. Orr called for a motion to approve the agenda. Whereupon, on motion duly made and seconded, the agenda was approved as presented.

### MINUTES

Minutes from the May 20, 2020, Investment Committee meeting were presented for approval. There being no corrections and upon motion made by Mr. Adesso seconded by Ms. Gruber, the minutes were approved as presented.

### FIDUCIARY GOVERNANCE SOLUTION—SUCCESS TRACKER

Mr. Hinders highlighted Success Tracker, noting that it is a tool used by CBIZ to monitor and document fiduciary governance of the Trust. Success Tracker is continually updated as new tasks are added and others completed.

### AIG UPDATE

### INVESTMENT FUND CHANGE

Michael Dickson, AIG, reported that notifications were mailed to participants regarding the fund changes approved at the September 2, 2020 meeting. There will be a black-out date on December 2 (for 24 hours) to upload the change. While the Trust is not under ERISA requirements, notification to participants regarding the fund changes is in line with ERISA guidelines. The new funds include: Fidelity Total Bond Index Fund (replacing Vanguard Total Bond Index Fund), Fidelity 500 Index Fund (replacing Vanguard Institutional Index Fund), and the addition of Prudential Global Bond Fund. The fund changes become effective December 3, 2020, at which time account access would be restored from the black-out.

### FIDUCIARY REGISTERED INVESTMENT ADVISORY SOLUTION

### THIRD QUARTER INVESTMENT REVIEW

Mr. Hinders shared an Investment Performance Sheet which tracks all funds in the Trust. The information contains 1-, 3- and 5-year performance, the category average, and the expense ratio. The document will be posted to the CSD Retirement Trust website and made available to all participants.

Mr. Hinders also noted the newsletter “On the Margin” published by CBIZ. The newsletter provides periodic stock market updates and investment insights.

Cory McComas provided the Third Quarter 2020 Investment Review. He reported the rebound that began during the latter half of the second quarter continued into the Third Quarter, but at a much slower pace. COVID continues to impact the world’s economy. The US election outcome will bring a significantly different set of economic policies.

Mr. McComas reviewed Asset Class Performance. Third Quarter 2020 shows China (emerging markets) as the top performer, with Large Cap and Small Cap following. High risk stocks also performed well. US equities continued to advance through the summer months, with price adjustments in risk assets and large cap tech stocks in September. Most of the third quarter saw cyclical stocks struggle as COVID-19 continued to spread worldwide. Value-oriented sectors and small caps reported decent quarterly returns, but the energy sector remained under stress. Value underperformed Growth for the third quarter year-to-date, with Value remaining in the red. The Investment Style Box shows two funds on the Watch List—T. Rowe Price Equity Income I and Vanguard Mid Cap Growth Inv.

The presentation continued with a report on assets. Third Quarter 403(b) assets ended at \$140,345,188, an increase of over \$5.7 million for the quarter. Third Quarter 457(b) assets ended at \$33,627,001, an increase of over \$4.4 million for the quarter.

The Investment Committee then received a report on the Watch List. T. Rowe Price Equity Income I continues to appear on the Watch List for underperformance over all monitored areas. Contributing to performance issues is a portfolio heavy in the energy sector, which is currently struggling. Vanguard Mid Cap Growth continues to appear on the Watch List for intermediate-term, relative- and risk-adjusted performance. Turnover in management contributed to the fund’s poor performance, and with new manager changes, it is showing improvement.

Mr. McComas was asked about the increase in Third Quarter assets in the Vanguard Institutional Index I fund (an increase of over \$2.4 million) as well as the increase in the participant count and what might be the reason for such increases? While he did not know the specific reason, it could be attributed to advisor emphasis. He agreed to work with AIG to identify potential reasons and circle back to the Investment Committee at the February meeting.

A question was raised about the unique headcount for each of the two plans. Mr. Keyser stated that he has a total unique headcount for the Trust that is used for calculating participant and service provider fees; however, he does not have the count for each of the two plans. Mr. Dickson stated that he would identify those numbers and begin reporting those on a regular basis.

#### TARGET DATE ANALYSIS UPDATE

The Investment Committee was reminded that an in-depth analysis of the Trust’s target date funds was underway, and a report was presented at the September meeting. The two funds being studied are Vanguard and American Funds. Following the September meeting, the Investment Committee and representatives from CBIZ met with managers from both Vanguard and American Funds for the purpose

of due diligence video conference calls. A summary of the findings from those two calls resulted in the following conclusion:

American Funds active management approach demonstrated outperformance while taking less risk, compared with Vanguard's passive management approach.

Using available data, Mr. McComas shared a scatterplot demonstrating ten years risk/reward for the two funds. Further discussion ensued about whether the last ten years of an up-market would be an appropriate basis to make a fair assessment about the true performance of a target fund. It was explained that target funds are fairly new to the market, coming on about 17 years ago. Long-term data would not necessarily be available; however, 2008 data would be included, and it is a key year in down market data trends. Vanguard was the first to enter the target date fund market in 2003, so its trailing returns is lower than American Funds, which entered the market in 2009 (which is not necessarily a fair comparison).

A comparison of weighted expense between Vanguard and American Funds for 1-, 3-, 5- and 10-year shows Vanguard at \$56,228 and American Fund at \$143,645. Assuming target date series asset values from September 30, 2020, of \$40.7 million, moving to American Funds from Vanguard would increase costs by \$87,417 (0.21 basis points; netted out of return). Further discussion ensued, and it was requested that a down market capture analysis comparing Vanguard and American Funds be provided. It was further requested that it include commentary or information about attributions for the performance—picks, sector choices, strategies, etc. Mr. Hinders agreed that CBIZ would work to provide the comparative information for years 2007, 2008 and perhaps 2018. The Investment Committee was also provided information showing fund growth over a 30-year period for an investment of \$10,000 at 8.8 percent vs. 9.62 percent per year.

Mr. McComas also shared additional information worth noting:

American Funds manages a glidepath through retirement (to retirement and beyond). American Funds' glidepath continues to run through age 95, 30 years beyond traditional retirement age. Vanguard manages the glidepath to retirement, age 65.

American Funds shows superior performance in a down market because it is actively managed—downside protection.

Vanguard emphasizes its efficiency and low fees.

American Funds, while charges higher fees for active management, produces higher returns and shows a better down capture.

Mr. Hinders further noted that there is significant pressure on passive managers to lower fees, and he would not find it surprising if an announcement would come forth before the end of the year that Vanguard is lowering fees on its target date funds. This is only speculation. Active managers are not receiving pressure to lower fees. It may be in the best interest of the Investment Committee to defer a decision until the February 2021 meeting, or perhaps have an ad hoc committee review the matter in the interim.

A question was asked about where American Funds' fees fell in comparison with other actively managed funds. Mr. McComas stated that they are on the lower side and would run an analysis to share with the Investment Committee at its next meeting.

A review of total returns brought forth a question about Vanguard's Target Retirement Income Inv and its better performance when viewing returns for American Funds 2010 Target Date Retirement fund. It was explained that Vanguard's fund holds approximately 10 percent more fixed interest and bond exposure, making it a very conservative fund. It is a different type of fund, thus making such a comparison difficult. American Funds does have an income fund, but it is not part of the target date funds. Mr. McComas agreed to further explore the matter. Additional questions arose about whether or not it would be possible to offer an income fund from one security while offering target date funds from another. This is another question that would require further research, and Mr. McComas agreed to do so.

The Investment Committee received a report on large value options, comparing returns between T. Rowe Price Equity Income I, Vanguard Value Index Adm, and Vanguard Windsor II Admiral. Style boxes were highlighted for each.

It was reported to the Committee that the Trust's fund line-up includes an ESG (environmental, social and governance) investment, Calvert US Large Cap Core Rspnsbl I, a sustainable fund. The Morning Star report on the fund was shared. Mr. Hinders noted that this is a marketing bullet point for the Trust, and this fund fits those interested in environmentally conscious investments.

#### ADJOURNMENT

The purpose of the meeting having been accomplished, the meeting adjourned at 10:05 a.m.

Respectfully submitted,

Elise Reineck  
Recording Secretary  
CSD Retirement Trust