



Kenneth A. Simpler  
State Treasurer

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**MINUTES FROM MEETING OF THE  
PLANS MANAGEMENT BOARD  
March 6, 2018**

The Plans Management Board (the “Board”) held a meeting on March 6, 2018 at 10:00 a.m. at the Buena Vista Conference Center located at 661 South DuPont Hwy, New Castle, Delaware.

Board Members Represented or in Attendance:

Stephen Saville, Board Chair  
Charles Campbell-King, Audit and Governance Committee Chair  
Alan Colberg, Investment Committee Chair  
The Honorable Ken Simpler, State Treasurer  
Robert Scoglietti, Director of Policy and External Affairs, Office of Management and Budget (on behalf of Director Jackson)  
Deloris Hayes-Arrington, Director of Human Resources, Department of Finance (on behalf of Secretary Geisenberger)  
Karen Field Rogers, Deputy Secretary, Department of Education (on behalf of Secretary Bunting)  
Jerry Gallagher, Member at Large  
Don Shandler, Member at Large  
Ralph Cetrulo, Member at Large

Board Members not Represented or in Attendance:

The Honorable Trinidad Navarro, Insurance Commissioner

Others in Attendance:

Mr. Jason Staib, Deputy Attorney General, Delaware Department of Justice  
Ms. Stephanie Scola, Director of Bond Finance, Department of Finance  
Ms. Nora Gonzalez, Deputy State Treasurer, OST  
Mr. Dan Madrid, Director of Performance and Planning, OST  
Mr. John Meyer, Director of Contributions and Plan Management, OST  
Mr. Mike Green, Investments and Operations Manager, OST  
Mr. Daniel Kimmel, Promotion and Outreach Manager, OST  
Mr. Omar Masood, Policy Advisor, OST  
Mr. Earle Allen, Cammack Retirement Group (“Cammack”)  
Ms. Marie Villeneuve, Cammack  
Ms. Melissa Ridolfi, Fidelity Investments (“Fidelity”)  
Ms. Sharon Rogers, Fidelity  
Mr. Justin Rozzero, Fidelity  
Ms. Heather Lavalley, Voya Financial (“Voya”)  
Mr. Mark Jackowitz, Voya  
Ms. Natalie Daniels, Voya  
Ms. Sarala Katta, Voya

## **CALLED TO ORDER**

The meeting was called to order at 10:07 a.m.

## **MEETING MINUTES**

Mr. Saville presented the minutes from the October 24, 2017 and February 2, 2018 meetings of the Board.

## **APPROVAL OF MINUTES**

**A MOTION was made by Mr. Cetrulo and seconded by Treasurer Simpler to accept the October 24, 2017 and February 2, 2018 Board meeting minutes.**

**MOTION ADOPTED UNANIMOUSLY**

## **PRESENTATIONS—COLLEGE PLAN**

Mr. Rozzero provided an update on business metrics for the Delaware College Investment Plan (“529 Plan”). New accounts have continued to grow since July 2017. Mr. Rozzero said 40% of people have recurring contributions seven to twelve times a year, which he considered a positive statistic.

Mr. Rozzero outlined Delaware’s “age wave” in the 529 Plan, which indicates that many beneficiaries are approaching college age. Treasurer Simpler requested a slide comparing Delaware’s age wave to a typical age wave in other Fidelity 529 Plans to provide context.

The Board discussed K-12 expenditures and the impact on the investment approach. Mr. Saville noted that allowing 529 Plan funds to be used for K-12 tuition is an opportunity to bring in more assets and market the plan.

Fidelity’s early projections indicated only a small percentage of account holders would use it for K-12.

Ms. Rogers provided an update on marketing of the 529 Plan. The update included results on digital advertising, local market promotion and the growth in new accounts. Mr. Scoglietti asked if Fidelity does any marketing to grandparents, noting that grandparents are a good target population. Ms. Rogers replied that Fidelity is testing new creative imagery to target grandparents.

Ms. Rogers noted that Fidelity is contractually obligated to spend its marketing dollars in Delaware, as marketing in neighboring states has to be done on behalf of its national plan, New Hampshire, per the terms of Fidelity’s agreement with New Hampshire. Mr. Saville asked if marketing could be done in contiguous areas at least. Ms. Rogers said that would fall under the same contractual restriction, and as an example pointed out that Fidelity cannot advertise the 529 Plan on some popular Delaware radio stations with market share in other states.

Mr. Rozzero shared three proposed mission statements for the 529 Plan. Fidelity also proposed three potential goals for the Board involving the plan participation rate, college readiness, and investment return. The Board discussed a focus on Delaware resident participation in the 529 Plan as a potential goal.

In discussing college readiness, Mr. Rozzero explained Fidelity’s “2k” rule for savings which targets a goal of saving \$2,000 for each year of age for the beneficiary. Mr. Rozzero said this was based on Fidelity research showing that parents typically cover 43-47% of college costs. Fidelity uses 50% of the four-year cost of a public college as the goal for the investment strategy. Mr. Rozzero indicated that Fidelity’s data show Delaware parents want to cover 67% of costs but are on track for covering only a third of the costs.

## **PRESENTATIONS—DEFERRED COMPENSATION PLANS**

Voya began with a review of the strategic goals for the plans, namely increasing participation by 2% per year from 2017-2019, increasing retirement readiness by 20% per year during the same period, and ensuring investment results are meeting or exceeding their respective benchmarks. Voya's data showed no change in the participation rate and an improvement in the retirement readiness percentage in the 457 plan.

Voya provided an overview of Voya's engagement efforts and noted that Voya would continue to promote the plans in the first and second quarters of 2018. Voya identified that digital efforts such as sending state-wide emails contributed to an increase in web traffic, appointment requests and new enrollments into the plan.

Mr. Scoglietti said Voya's data on participation is good but a deeper dive on retirement readiness would be helpful.

Ms. Daniels introduced Ms. Lavalley who presented a brief corporate update on Voya. Mr. Jackowitz was introduced as the new senior leader for the regional advisor team.

## **COMMITTEE REPORTS/ACTION ITEMS**

Mr. Saville asked Mr. Meyer to summarize committee recommendations and action items as listed in the Committee Report memo to the Board dated March 1, 2018.

### *Investment Committee Report*

#### *ClearBridge Mid Cap Growth Fund*

The first was a recommendation by the Investment Committee ("IC") of the Board to add the ClearBridge Mid Cap Growth fund to the watch list. The IC considered this action after receiving a recommendation from Cammack. Cammack made the recommendation due to relative underperformance of the fund. Mr. Colberg explained the issue. Mr. Colberg indicated that ClearBridge should improve as the market experiences new volatility but agreed that it should be placed on the watch list.

Mr. Saville asked how a fund gets watch listed. Mr. Colberg replied that factors that may trigger watch listing include a change in the management of the fund, the loss of a key analyst, a change in the firm's ownership, or underperformance net of positions. Mr. Saville asked if the Board has an obligation to give notice to participants when a fund has been watch listed. Treasurer Simpler said there is a scorecard for each "Tier II" investment, but said we have been advised against having hard and fast rules on watch listing because that is not industry practice. Treasurer Simpler said there is no formula for watch listing and the IC relies on Cammack's judgement, not precise factors.

Mr. Saville said he would want to know about watch listing in advance of removal. Treasurer Simpler said you don't want to scare people off by having them jump to conclusions based on watch listing. Mr. Colberg expressed that as a fiduciary if a fund is not doing well participants should be informed.

Ms. Villeneuve noted that a fund being watch listed does not necessarily lead to ultimate removal. Ms. Villeneuve expressed concern that some participants may not understand what being on watch means and that the watch list is more for internal purposes.

Mr. Saville said at some point the Board has to decide—if a fund is being carried on a watch list the Board has to decide how long a fund should be carried and if a fund is watch listed for an extended period of time the Board has to come up with a notice policy. Mr. Campbell-King concurred, saying that as a participant if a fund had been watch listed for an extended period he would want to know. Mr. Campbell-King mentioned notification after two consecutive quarters on a watch list as a potential compromise.

Mr. Saville pointed out that a change in investment leadership is a materially different matter than investment underperformance. Treasurer Simpler said this issue would be taken back to the IC and be fleshed out in the investment policy statement, which is a prime goal for 2018.

**A MOTION was made by Mr. Colberg and seconded by Treasurer Simpler to add the ClearBridge Mid Cap Growth Fund to the Watch List.  
MOTION ADOPTED UNANIMOUSLY**

*Audit and Governance Committee Report*

*Declaration of Delaware Qualified Savings Plan Trust*

Mr. Meyer discussed a recommendation from the Audit & Governance Committee (“AGC”) to make several modifications to the Delaware Qualified Tuition Savings Trust. Mr. Meyer said OST had a legal review of the trust done, both via internal and external counsel. Mr. Meyer described the changes as mostly non-substantive changes to update the trust. Mr. Meyer noted three changes were presented to the AGC: (1) creation of an administrative fund; (2) creation of an endowment fund; and (3) updating language on qualified expenses to reflect the recent tax law as it relates to K-12 tuition expenses.

1) Creation of Administrative Fund

Mr. Meyer provided background on the administrative fund. Mr. Meyer explained that when the 529 Plan returned to OST in July of 2016 there was an account at PNC Bank that received the state’s administrative fee. The fees help pay for audit, promotional, communications, and administrative expenses. OST has been treating the funds as trust assets and would like to transfer the funds to a new trust account at Fidelity. Ms. Gonzalez explained this would mirror the set-up that exists for the deferred compensation plans.

**A MOTION was made by Mr. Campbell-King and seconded by Mr. Cetrulo to (a) accept the recommendation to modify the Delaware Qualified Tuition Savings Trust by adding an administrative fund and (b) authorize OST to take all necessary steps to effectuate the transfer of the funds from the PNC account to a new trust account at Fidelity.  
MOTION ADOPTED UNANIMOUSLY**

2) Creation of an Endowment Fund

Mr. Meyer reported that the AGC tabled a proposed endowment fund addition.

3) Updating Language on Qualified Expenses as it relates to K-12 Tuition Expenses

Mr. Saville asked about the AGC’s concerns with allowing K-12 tuition expenses. Mr. Staib stated there were questions raised in the AGC regarding whether this was in conflict with the mission of the 529 Plan, which traditionally has been to promote saving for college.

Mr. Saville asked whether the tax change was binding on the plan. Mr. Staib explained that any deviation from federal law would require a statutory amendment by the General Assembly. Mr. Staib said the K-12 policy change is already implemented as a matter of current state law and that the trust amendment would merely clarify the trust document.

**A MOTION was made by Mr. Campbell-King and seconded by Mr. Scoglietti to amend the Delaware Qualified Tuition Savings Trust document to allow K-12 tuition expenses.  
MOTION ADOPTED UNANIMOUSLY**

#### *Annual Plan Budget*

Mr. Meyer presented an overview of budgets for the three deferred compensation plans, which are done on a calendar year basis, and noted that the AGC had approved the proposed budgets. Mr. Scoglietti asked if there were any real changes in the budgets compared to prior years. Mr. Meyer said there were not, other than a potential reduction in auditing fees due a vendor change.

**A MOTION was made by Mr. Campbell-King and seconded by Mr. Saville to approve the 2018 budget for the Deferred Compensation, College Investment and ABLE Plans.  
MOTION ADOPTED UNANIMOUSLY**

#### *Update to Committee Membership*

Mr. Meyer introduced John Macedo and Pete Kennedy to the Board. Mr. Meyer also requested retroactively moving Tim Snyder's effective date on the AGC to 2/28. Mr. Colberg said he would abstain from voting on these changes because he knows Mr. Macedo.

**A MOTION was made by Mr. Campbell-King and seconded by Treasurer Simpler to approve John R. Macedo and Peter Kennedy as members to the AGC and to revise the effective date of Timothy Snyder's appointment from March 1, 2018 to February 28, 2018.  
MOTION ADOPTED WITH NINE VOTES IN FAVOR AND ONE ABSTENTION**

#### **ABLE UPDATE**

Mr. Meyer updated the Board on the status of ABLE implementation in Delaware. Mr. Meyer said the implementing agreement with the vendor, Ascensus, was signed this week. Mr. Meyer indicated that OST is targeting a June launch date for ABLE.

#### *ABLE Administration Fee Recommendation*

Mr. Meyer provided an overview of the National ABLE Alliance's ("Alliance") state administration fee. Mr. Meyer explained the Alliance requires that plans assess the fee for out-of-state residents (to ensure parity among the plans) but gives states the option to waive the fee for in-state residents. Mr. Meyer noted that the fee is only \$5 per year, per account, and that the AGC recommended waiving the fee for in-state residents. Mr. Meyer noted that the fee would not generate significant revenue and explained that the fee waiver could serve as a marketing feature.

**A MOTION was made by Mr. Campbell-King and seconded by Mr. Cetrulo to approve the waiver of the administration fee for Delaware residents that open a Delaware ABLE account.  
MOTION ADOPTED UNANIMOUSLY**

### **UPCOMING MEETINGS**

Mr. Meyer discussed upcoming meetings. He said the next meeting would be in Dover on June 12 (Tuesday), and that meetings will alternate between Dover and locations in New Castle County.

### **PUBLIC COMMENTS**

No members of the public attended the meeting.

### **ADJOURNMENT**

**A MOTION was made by Treasurer Simpler and seconded by Mr. Saville to adjourn the meeting at 1:08 p.m.**

**MOTION ADOPTED UNANIMOUSLY**

Respectfully submitted,

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Stephen Saville,  
Chair, Plans Management Board