

Retirement Plan Committee Meeting Minutes

ATTENDEES: Ms. Lauren Cosentino
Listed alphabetically Ms. Michelle del Giudice
by last name Dr. Michael Feltner
Dr. Joseph Fritsch
Mr. Pete Peterson
Ms. Joan Singleton – Committee Chair

ABSENT: Mr. Larry Bumgardner
Ms. Naomi Goodno
Dr. Jack McManus
Ms. Nicolle Taylor

GUESTS: Mr. Chris Rowey – Benefit Financial Services Group (BFSG)
Mr. Chad A. Noorani – BFSG

Opening: The regular meeting of the Pepperdine University Retirement Plan Committee was called to order on September 27, 2018 at 12:12 PM in Malibu, California. A quorum was present throughout the meeting.

Approval of prior meeting minutes: The Committee reviewed the minutes from the May 22, 2018 meeting.

A **MOTION** was made, seconded, and carried:
To approve the minutes from the May 22, 2018 meeting.

FIDUCIARY AGENDA

Second Quarter 2018 Retirement Plan Quarterly Investment Review (Transamerica, TIAA, and Prudential)

The Committee reviewed the Quarterly Investment Review (the “Report”) prepared by BFSG for the quarter ending June 30, 2018. Mr. Rowey provided an overview of the economy and capital markets in the second quarter to provide context for the performance of the Plan’s investment options. The review included a discussion about the evaluation methodology scores of each investment option as outlined in the Investment Policy Statement (“IPS”).

The Committee also reviewed the one-, 3-, 5- and 10-year annualized performance of each investment option relative to its respective benchmark and peer group. A summary of assets and commentary on investment options related to each account is below.

Transamerica

Plan assets, including Personal Choice assets, held at Transamerica totaled approximately \$345 million, representing 2,492 participant accounts as of the end of the reporting period. Of the 24 funds receiving a score, 14 earned an “outperform” ranking and 7 earned a “perform” ranking.

JHancock Disciplined Value – The fund produced negative results during the quarter while the benchmark index and peer group average were both positive. During this period, stock selection in the Industrials,

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Consumer Discretionary, and Health Care sectors was the primary detractor from performance. Long-term performance remains in the top quartile relative to peers.

TIAA-CREF Growth and Income – The fund is on the Watch List due to short term volatility and underperformance relative to peers. The fund has underperformed its benchmark index across all time periods in the report. The portfolio typically consists of steady core growers trading at reasonable prices, with a smaller portion made up of stocks that have gone through a rough patch but have a catalyst in place to boost future earnings. Stock selection, specifically in the Financial, Health Care, and Utilities sectors, remained the largest detractor from performance during the last 12 months. Considering the extent of the underperformance, the fund will remain on the Watch List.

TIAA-CREF Mid-Cap Value Instl – This fund is on the Watch List due to underperformance relative to peers and has underperformed its benchmark index and peer group average across nearly all time periods in the report. Stock selection in the Energy, Technology, and Communication Services sectors was the largest detractor from relative performance during the quarter. A relative underweight within the Real Estate sector also detracted from performance. Considering the extent of the underperformance, the Committee agreed to keep the fund on the Watch List and will review a Fund Search later in this meeting to consider alternative options.

AllianzGI NFJ Small-Cap Value – The fund is currently on Watch due to underperformance relative to its benchmarks. After rebounding in the first quarter of 2018, performance trailed the benchmark index and peer group by 5% and 3%, respectively, during the second quarter. Stock selection, primarily in the Energy and Industrials sectors, was the largest detractor from performance during the period. A Fund Search will be reviewed later in this meeting to consider alternative options.

Lord Abbett Developing Growth – This fund is on the Watch List due to significant short-term underperformance relative to the benchmark index and peer group average. During the second quarter the portfolio outperformed the passive and active benchmarks by more than 7%, contributing to outperformance over the last 12-months of nearly 20%. Stock selection, specifically in the Technology, Health Care, and Discretionary sectors, was the largest relative contributor to performance during the last 12-months. Considering the volatile nature of the strategy, the Committee agreed to keep the fund on the Watch List.

Franklin Mutual Global Discovery – The fund is on the Watch List due to significant short-term underperformance relative to the benchmark index and peer group average. Performance has trailed both benchmarks across the 1-, 3-, and 5-year periods. Stock selection, specifically in the Technology, Consumer Discretionary, and Consumer Staples sectors, was the primary detractor from performance during the last 12 months. Additionally, with the broad equity markets outperforming fixed income as an asset class, a 6%-8% allocation to fixed income continued to weigh on relative performance. Considering the extent of the underperformance, a Fund Search will be reviewed later in this meeting to consider removing fund and mapping the assets to American Funds New Perspective.

Van Eck Global Hard Assets: This fund is on the Watch List due to underperformance relative to the benchmark index and peer group average. Performance during the second quarter nearly matched the

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peer group average but trailed the index by 7%. Metals and mining companies were the largest detractors from performance, with gold companies suffering from a strengthening U.S. dollar and flatlining margins, and shares of copper companies appearing to decline with uncertainty over U.S. and China relations. Considering the extent of the relative underperformance, a Fund Search will be reviewed later in this meeting to consider alternative options.

The Committee reviewed the performance of the T. Rowe Price Retirement series and noted that nearly all vintages of the series have outperformed its respective benchmark on a 3-, 5-, and 10-year basis.

Plan-level returns as of the end of the reporting period were reviewed. It was noted that the Plan outperformed its custom active benchmark across the one-, 3-, and 5-year time periods. The Plan, as allocated on June 30, 2018, demonstrated higher risk-adjusted performance than the peer group benchmark as measured by 3-year Sharpe Ratio. It was noted the Plan-weighted expense ratio of 0.39% was less than the active benchmark of 0.75%.

TIAA-CREF

Plan assets held at TIAA-CREF totaled approximately \$132 million as of the end of the reporting period. Of the 6 funds receiving an IPS evaluation methodology score, two earned an overall “outperform” ranking, three earned a “perform” ranking, and one earned an “underperform” ranking.

The Committee reviewed Plan-level returns as of the end of the reporting period and noted that the Plan outperformed its proportionately-weighted custom active and passive benchmarks across one-, 3-, 5-, and 10-year time periods.

Prudential

Plan assets held at Prudential totaled approximately \$2.8 million, representing 33 participant accounts as of the end of the reporting period. Of the 7 funds receiving an IPS evaluation methodology score, two earned an “outperform,” one earned a “perform,” and 4 earned an “underperform” ranking.

The Committee reviewed Plan-level returns and it was noted that the Plan outperformed its proportionately-weighted custom active and passive benchmarks across the one-, 3-, 5-, and 10-year time periods. The outperformance is largely attributable to a significant portion of the assets being invested in the Guaranteed Interest Account.

Second Quarter 2018 VEBA Further Account Investment Review

Due to the investment menu being mirrored between this Program and the Transamerica platform, the decisions and analysis discussed above is intended for this Plan as well.

Fund Search

Due to concerns with several underperforming investment options in the menu, the Committee review a Fund Search to consider alternative options. Each fund was reviewed in accordance with the Plan’s IPS criteria, including performance, risk-adjusted performance, style consistency, costs, and qualitative factors. Following the discussion, a

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MOTION was made, seconded, and carried:

- To replace TIAA-CREF Mid Cap Value with American Century Mid Cap Value
- To replace AllianzGI NFJ Small-Cap Value with Wells Fargo Special Small Cap Value
- To remove Franklin Mutual Global Discovery from the Plan and map all assets and future contributions to the other existing option in the category, American Funds New Perspective
- To replace Van Eck Global Hard Assets with PGIM Jennison Natural Resources

Addendum:

Following the meeting, the Committee approved making the above changes to the investment menu in the VEBA Further Account as well. These changes are being made to continue mirroring this program with the 403(b) Plan at Transamerica.

Adjournment: The meeting was adjourned at 2:01 PM