

## Public Agenda Item #30

Review, Discussion and Consideration of the Texa\$aver Program Updates:  
Texa\$aver Product Review Committee Recommendations -  
*(Action - BOT)*

December 9, 2020

Diana Kongevick, Director of Group Benefits  
Georgina Bouton, CTCM, Assistant Director of Group Benefits  
Thomas Nun, CFA®, GWI Portfolio Strategist

# TexaSaver<sup>SM</sup> 401(k) / 457 Program



## Program Overview

### TEXA\$AVER 401(k) Program

- Defined contribution plan established in 1985
- Available to employees of state agencies
- Procure plan administrator and investment advisory service providers through competitive bid process
- Feature automatic enrollment for new hires since 1/1/2008
- Offer traditional and Roth contributions



### TEXA\$AVER 457 Program

- Defined contribution plan established in 1974
- Available to employees of eligible higher education and state agencies
- Procure plan administrator and investment advisory service providers through competitive bid process
- Offer traditional and Roth contributions

# Texa\$aver program

## Executive Summary



### 401(k) Plan, 3Q20

Assets under Management (AUM)	\$2,802 million
Traditional balances	\$2,740 million
Roth balances	\$61 million
No. of Participant Accounts	218,749
Contributing	105,470
Non-contributing	113,279
Contributions, deposits, loan repayments	\$53 million
Change in value & Interest/Dividends	\$172 million
Plan withdrawals	(\$51) million

### 457 Plan, 3Q20

Assets under Management (AUM)	\$1,029 million
Traditional balances	\$978 million
Roth balances	\$51 million
No. of Participant Accounts	26,263
Contributing	16,037
Non-contributing	10,226
Contributions, deposits, loan repayments	\$20 million
Change in value & Interest/Dividends, annual	\$58 million
Plan withdrawals	(\$16) million

# Texa\$aver program

## *Investment funds*



- Texa\$aver 401(k)/457 Program Investment Policy
- Diversified assortment of mutual funds and collective trust funds, self-directed brokerage account, and a target date fund series
- Institutionally priced offerings between the plans are the same
- All fee reimbursements are paid to participants
  - Through 3Q20, approximately \$1.4 million in 12b-1 fee reimbursements were paid to participants

# Texa\$aver Investment Offerings

September 30, 2020



# Product Review Committee (PRC)



## Members

- **Porter Wilson** – ERS Executive Director
- **Catherine Terrell** – ERS Deputy Executive Director
- **Diana Kongevick** – ERS Director of Group Benefits
- **Tom Tull** – ERS Chief Investment Officer
- **Leighton Shantz** – ERS Director of Fixed Income
- **Carlos Chujoy** – ERS Investment Risk Officer
- **Gene L. Needles, Jr.** – Chairman and CEO Resolute Investment Managers and Vice-chair of ERS' Investment Advisory Committee (IAC)
- **Laurie L. Dotter, CPA** – IAC member
- **Laura T. Starks, Ph.D.** – Charles E. and Sarah M. Seay Regents Chair in Finance and Co-Executive Director, Social Innovation Initiative, McCombs School of Business, University of Texas at Austin



- PRC may appoint a sub-committee for a specific purpose (e.g., due diligence, fund evaluation, research, etc.), assisting the PRC in fulfilling its duties.
- PRC sub-committee members include:
  - Carlos Chujoy – PRC Member
  - Leighton Shantz – PRC Member
  - Dr. Laura T. Starks – PRC Member
  - Lauren Honza – ERS Portfolio Manager
  - Brannon Andrews – ERS Assistant General Counsel
  - Gene Needles – PRC Member to serve as an alternate, if necessary



# PRC Semi-annual Meeting

*July 28, 2020*



- The PRC meets at least semi-annually to conduct investment reviews and undertake any other action required for the administration of the Program
- July 28, 2020 meeting PRC addressed
  - Concerns and next steps regarding Davis New York Venture A (NYVTX) – program’s large cap blend fund
  - Opportunities to enhance the program’s fund line-up





# Fund Line-up Opportunities

# Texa\$aver Investment Offerings



## *Enhancement opportunities*

- GWI Portfolio Strategist led the PRC through a strategic review of the funds offered within the program
- PRC determined the following
  - Adequate coverage of major equity and fixed income categories
  - Opportunity to explore a passive international equity
  - Opportunity to explore a high yield bond
- Sub-committee appointed to determine options for a passive international equity and high yield bond fund within the program

# Texa\$aver Investment Offerings

## *Enhancement opportunities update*



- Passive International Fund
  - Due diligence for a passive international offering is underway
  - The prospective fund would be in addition to the existing international fund, Fidelity Diversified International
  - There would not be a fund transfer to this new (prospective) core fund offering
  - Target recommendation is 1<sup>st</sup> calendar quarter 2021

# Texa\$aver Investment Offerings

## *Enhancement opportunities update*



- High yield bond fund and large cap value fund
  - Due diligence on both of these funds would be conducted following the passive international fund search
  - There would not be fund transfers to the new (prospective) core fund offerings
  - Target recommendation would be on or before 3<sup>rd</sup> calendar quarter 2021

# Davis New York Venture A

# Davis New York Venture

## *Due Diligence*



- PRC has been closely monitoring Davis New York Venture A fund
  - Performance issues
    - Underperformed 90% of peers over 10 years
    - Underperformed its benchmark (S&P 500 Index) 2 of the last 3 calendar quarters
    - Carries a 1-star rating from Morningstar
  - 47 stock holdings comprise the entire portfolio
    - Non-US holdings
    - Heavy bias in financial services sector (>35%)

# Davis New York Venture A (NYVTX)

## Large Cap Blend

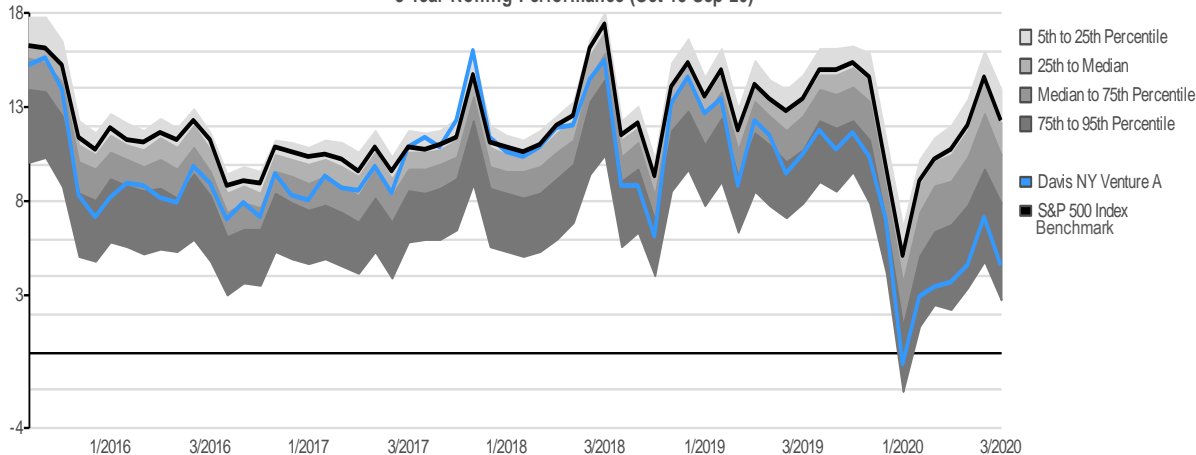


Program Assets: \$141 million

No. of Texa\$aver accounts: 32,128

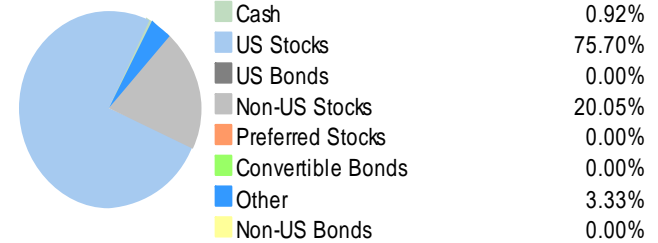
PERFORMANCE, 9/30/2020	1Y	3Y	5Y	7Y	10Y
<b>Fund</b>	<b>2.15</b>	<b>4.56</b>	<b>9.26</b>	<b>8.57</b>	<b>9.86</b>
Benchmark: S&P Index	15.15	12.28	14.15	12.68	13.74
Peer Group Median	11.92	10.44	12.43	11.07	12.52

3 Year Rolling Performance (Oct 15-Sep 20)



### PORTFOLIO COMPOSITION

#### Assets



Overall Morningstar  
Rating™



### FUND OVERVIEW

Investment type	Mutual fund
Investment strategy	Active
Fund expense ratio	0.89%
Fund reimbursement	0.55%
Net Texa\$aver expense	0.34%

# Davis New York Venture

## *Due Diligence*



- April 23, 2020 meeting with GWI Portfolio Strategist
- July 20, 2020 meeting with members of PRC, Texa\$aver<sup>SM</sup> and GWI Portfolio Strategist
  - Fund's overall poor performance
  - Lack of appropriate risk controls
  - Large sector deviation to financials
  - Exposure to international private equities



# Davis New York Venture

## *Due Diligence*



- At the July 28, 2020 PRC meeting, GWI Portfolio Strategist presented a performance overview for Davis NY Venture noting:
  - Year-to-date performance is at -9.8% versus its benchmark
  - One year performance is reported at -10.6%
  - Underperformed to its benchmark for 2 of the last 3 calendar quarters
- Findings on inappropriate risk controls, large sector deviations, exposure to non-US holdings were discussed
- PRC appointed a sub-committee to determine fund for potential asset mapping

# Fund Mapping



## *Vanguard Institutional Index (VIIIX)*

- Recommend mapping assets to the Vanguard Institutional Index (VIIIX), a large cap blend fund (same category as Davis NY Venture)
  - Employs an indexing investment approach designed to track the performance of the S&P 500 Index
  - Replicates the target index, holding each stock in approximately the same proportion as its weighting in the index
  - Diversifies risk and accurately represents the composition of the US large cap market
  - Holds a 5-star Morningstar rating, as well as a Gold rating by Morningstar

- TPA and ERS staff will coordinate the operational process for fund transitions
  - Timing considerations
  - Funds transfers
  - Communication strategy for participants

# Texa\$aver program

## *Staff recommendation*



The Texa\$aver Product Review Committee and staff recommend Board of Trustees of the Employees Retirement System remove the Davis New York Venture A (NYVTX) fund from the Texa\$aver program with the program assets being moved to the Vanguard Institutional Index (VIXX) fund.

Questions?  
**Action Item -BOT**