

Lighthouse Youth Services – 3Q2018

MINUTES

NOVEMBER 20, 2018

12:00

CONFERENCE CALL

MEETING CALLED BY	Lighthouse Youth & Family Services HR Committee
TYPE OF MEETING	Conference Call
FACILITATOR	Aaron Taylor, Kim Sherwood, Debbie Fisher
NOTE TAKER	Kim Sherwood & Aaron Taylor
TIMEKEEPER	Debbie Fisher
ATTENDEES	Via Phone: Debbie Fisher, Bob Zepf, Cathy Goold, Amber Simpson, Donna Eby, Judy Oakman, Ken Feldmann, Kevin McDonnell, Paul Haffner
THOSE ABSENT	Lisa O'Brien

Agenda topics

MARKET CONDITIONS/PLAN SERVICING

AARON TAYLOR

DISCUSSION	Discussion regarding market volatility and possible future employee benefits meeting		
CONCLUSIONS	LYS will notify LFG as to needs during open enrollment		
ACTION ITEMS	PERSON RESPONSIBLE	DEADLINE	
NO ACTION AT THIS TIME	Aaron Taylor	This Meeting	

ENVESTNET REPORTING

AARON TAYLOR

DISCUSSION	High percentage allocated to target date funds (Plan's default investment option) Source: Investnet Report		
Reiteration of target dates funds with a past target year and their allocation			
CONCLUSIONS	Further discussion on past target date funds and their allocation will be done in the next investment committee meeting.		
Education for participants might be in order to explain allocation of these target date funds.			
ACTION ITEMS	PERSON RESPONSIBLE	DEADLINE	
NO ACTION AT THIS TIME	Aaron Taylor / Kyle Redmond	Next Meeting	

FEE ANALYSIS

AARON TAYLOR

DISCUSSION	Current investment fee analysis – Fee is at 0.70% of assets. (not incl. 20 bps in advisory fees)		
CONCLUSIONS	No further action now, but will continue to monitor and benchmark against 401(k) plans of similar size		
ACTION ITEMS	PERSON RESPONSIBLE	DEADLINE	
NO ACTION AT THIS TIME	Aaron Taylor	Next Meeting	

FLAGGING FUNDS

KIM E SHERWOOD

DISCUSSION	Review previous and current flagging funds and their history (Chart: PowerPoint page 13)	
<u>Funds with Assets: Watch List:</u>		
<ol style="list-style-type: none"> 1. Fidelity Advisor Short -Term Bond, (FBNIX) --REPLACE 2. MFS Equity Opportunities R4 (SRFGX) – NO ACTION 3. Fidelity Advisor Value (FVIFX) – NO ACTION 4. Lord Abbet Value Opportunities (LVOYX) -- REPLACE 5. JP Morgan Small Cap R5 (JSVRX) -- REPLACE 6. Fidelity Advisor Small Cap I (FSCIX) – NO ACTION 7. Nuveen NWQ Small Cap Value I – NO ACTION 		
CONCLUSIONS	<ul style="list-style-type: none"> • Fidelity Advisor Short -Term Bond, (FBNIX) REPLACE → JP Morgan Limited Duration Bond R6 (JUSUX) 	
	<ul style="list-style-type: none"> • Lord Abbet Value Opportunities (LVOYX) – REPLACE → iShares Russell Mid-Cap Index Instl (BRMIX) 	
	<ul style="list-style-type: none"> • JP Morgan Small Cap R5 (JSVRX) – REPLACE → Janus Henderson Small Cap Value N (JDSNX) 	
ACTION ITEMS	PERSON RESPONSIBLE	DEADLINE
Removal of flagging and duplicated funds	Investment Committee	Next Meeting

FBNIX

FIDELITY SHORT TERM BOND I

KIM E SHERWOOD

DISCUSSION	Been on Watch List since 4Q2017 – Three quarters on the Watch List	
Fund is lagging in the 1, 3, and 5-year return categories against peers		
Because of the short maturity (Average duration of 1.75 yrs) recent rate increase may help increase yield. If we enter a rising interest rate environment, short term duration funds may hold up better than long-term duration funds. Duration increase from Q1 to Q2 from 1.66 to 1.75		
CONCLUSIONS	<ul style="list-style-type: none"> • Duration has decreased from Q2 to Q3 to 1.70 • Yield has increased with rising interest rates (1.66% Source: 11/15/2018 Yahoo Finance) however, still lagging peers. As of 11/15/2018 it is in the 51% category • Yield has increased from last meeting from 1.46% to 1.66% 	
Fourth Quarter on Watch List – Meets criteria for removal		
Consider Replacing		
SUGGESTED FUND: JP Morgan Limited Duration Bond R6 (JUSUX)		
<ul style="list-style-type: none"> • Higher yield (2.31% Source: Yahoo Finance) with shorter duration • Better long-term record 		
ACTION ITEMS	PERSON RESPONSIBLE	DEADLINE
Committee Vote on Replacement	Lighthouse Youth Services Investment Committee	NA

SRFGX

MFS EQUITY OPPORTUNITIES R4

KIM E SHERWOOD

DISCUSSION	Has found the Watch List in the past, but has not entered Removal territory.	
<ul style="list-style-type: none"> • 2017 was a poor showing (78% Rank in Category), and • YTD performance as of 12/05/2018 is lagging (97% Rank in Category) and producing a -4.89% return • This is the third quarter on the watch list 		
Per Morningstar Analysis:		
Lead manager Matthew Krummell and MFS' quantitative team took over this fund in February 2010 after MFS removed the fund's prior subadvisor, Valley Forge Capital Advisors. Krummell and team implemented a new investment process that tries to do better in a variety of market environments by tapping research from MFS' fundamental and quantitative equity teams. The portfolio only owns stocks that MFS' multifactor models rank in the top 10% of a 6,000 stock universe and that MFS' well-regarded fundamental analyst team rates as buys. That helps the managers settle on 40 to 50 high-conviction stock ideas. The team sells stocks when their quant rankings fall out of the top 10% or the fundamental analysts downgrade them. While the fund's process is well-codified, the rules-based approach entails high portfolio turnover, which adds trading and tax costs. Moreover, nearly all assets are in share classes with above-average or high fees. Lowering expenses would better serve investors.		
<ul style="list-style-type: none"> • Has a high turnover – 114% 		

CONCLUSIONS	This fund has found the Watch List in the past but tends to recover and fall off of the list.	
	Continue to monitor to see if performance rebounds and does not drag down the 3-year and the 5-year averages.	
	We are recommending NO ACTION. However, our belief is this fund will flag for 4Q2018 and a replacement should be discussed	
ACTION ITEMS	PERSON RESPONSIBLE	DEADLINE
NO ACTION AT THIS TIME, BUT WE SHOULD BE READY TO DISCUSS REPLACEMENT AT NEXT MEETING	NA	NA

FBRNX

**FIDELITY ADVISOR STOCK
SELECTOR ALL CAP**

KIM E SHERWOOD

DISCUSSION	2 nd quarter on the watch list	
	<ul style="list-style-type: none"> 2017 showed a lagging performance with a 66% Rank in Category, however still produced a 25.20% return YTD YTD (08/09/2018) is showing lagging returns with a 7.51% and 77% amongst peer group 	
CONCLUSIONS	No significant changes have happened in the portfolio or management	
	<ul style="list-style-type: none"> Continue to monitor for management changes and improved investment returns 	
ACTION ITEMS	PERSON RESPONSIBLE	DEADLINE
NO ACTION AT THIS TIME	NA	NA

FVIFX

FIDELITY ADVISOR VALUE I

KIM E SHERWOOD

DISCUSSION	3 rd quarter on the watch list	
	As of 09/30/2018 there ZERO assets in this fund	
	<ul style="list-style-type: none"> 2017 performed well among its peers (26%) 2018 is showing lagging performance with a -8.15% return and is in the 84% in peer group YTD performance is lagging among peer (83%) which may create future flags. 	
	Per the Morningstar Analysis, Christopher Franz on 02/28/2018 "Fidelity Advisor Value's team-managed structure doesn't stand out and hasn't added value, warranting a Morningstar Analyst Rating of Neutral."	
CONCLUSIONS	No change currently.	
	<ul style="list-style-type: none"> Continue to monitor for manager change and performance ranking. We are recommending NO ACTION. However, our belief is this fund will flag for 4Q2018 and a replacement should be discussed 	
ACTION ITEMS	PERSON RESPONSIBLE	DEADLINE
NO ACTION AT THIS TIME, BUT WE SHOULD BE READY TO DISCUSS REPLACEMENT AT NEXT MEETING	NA	NA

LVOYX

LORD ABBETT VALUE OPP.

KIM E SHERWOOD

DISCUSSION	Been on Watch List since 4Q2017 – Four Quarters on the Watch List and meets REPLACE criteria.	
	<ul style="list-style-type: none"> YTD (10/31/2018) performance is -2.73% and helping to move up in the peer group to 44% Long term manager tenure, but has lagged in the 1, 3, and 5, year category. Fund manager change as of Oct., 2018 	
CONCLUSIONS	Recommending Replacing with iShares Russell Mid-Cap Index (BRMIX)	
	Reasons for the recommendation: <ul style="list-style-type: none"> Index fund with lower fees As an index fund, it should be more consistent within the style box 	
ACTION ITEMS	PERSON RESPONSIBLE	DEADLINE
Committee Vote on Replacement	Lighthouse Youth Services Investment Committee	NA

JSVRX

JP MORGAN SMALL CAP R5

KIM E SHERWOOD

DISCUSSION	Been on watch list since 3Q2017 (4 Quarters) – Recommendation is to replace	
	<ul style="list-style-type: none"> • 2017 performance is bringing down 1 and 5-year returns. • Long term manager tenure (12.84 years) • Small fund balance: \$216 • YTD (10/31/2018) is showing a rebound in the peer group ranking of 38% 	
CONCLUSIONS	The small cap funds can be rather volatile and can move in and out of favor quickly. Small caps appears to be coming back in favor due to recent talk of trade wars and tariffs. However, based on the current process, replacement should be considered.	
	Recent performance did not remove this fund from flagging in the current quarter	
	<ul style="list-style-type: none"> • Report is suggesting replacement; however, 2017 returns are causing a drag on all yearly figures. • The fund is returning to favor, however it DOES meet the replacement criteria • With the fund showing a small balance, and the possibility that the fund will remain on the watch list this quarter, the suggestion would be to replace the fund 	
	REPLACEMENT SUGGESTION: Janus Henderson Small Cap Value N (JDSNX)	
	Reasons:	
	<ul style="list-style-type: none"> • 5-Star Fund and a Silver analyst rating by Morningstar • Long manager tenure (9.5 years) • Better performance since 2014 in peer group • Currently lagging based on current market conditions 	
ACTION ITEMS	PERSON RESPONSIBLE	DEADLINE
Committee Vote on Replacement	Lighthouse Youth Services Investment Committee	NA

FSCIX

FIDELITY ADVISOR SMALL CAP I

KIM E SHERWOOD

DISCUSSION	2 nd Quarter on Watch List	
	The 2017 performance pull the fund off of the watch list which it was on since 2Q2017.	
	There is a manager change coming in June 2019.	
	2016 returns pushed this fund into the 98% in peer group. It rebounded in 2017 to 31%, but YTD (08/09/2018) is showing a 78% in peer group.	
CONCLUSIONS	Continue to monitor, however, 2016 and (potential) 2018 returns may cause further discussion of removal in future quarters.	
	Fund will go through periods of volatile times as a result of the asset class it is representing	
ACTION ITEMS	PERSON RESPONSIBLE	DEADLINE
NO ACTION AT THIS TIME	Investment Committee	Next Meeting

NSCRX

NUVEEN NWQ SMALL CAP VALUE I

KIM E SHERWOOD

DISCUSSION	First time on watch list	
	<ul style="list-style-type: none"> • Assets in the fund as of 09/30/2018: 44,928 • YTD (10/31/2018) is lagging in the 87% of peer group • More volatile than the benchmark (Russell 2000) 	
CONCLUSIONS	2018 returns (if they don't improve) might affect trailing returns and warrant the discussion of removal in the future	
ACTION ITEMS	PERSON RESPONSIBLE	DEADLINE
NO ACTION AT THIS TIME	Investment Committee	Next Meeting