



HYAS
GROUP

CITY OF SAN JOSE

VEBA Plans

Plan Structure Review – September 2020

CITY OF SAN JOSE VEBA PLANS

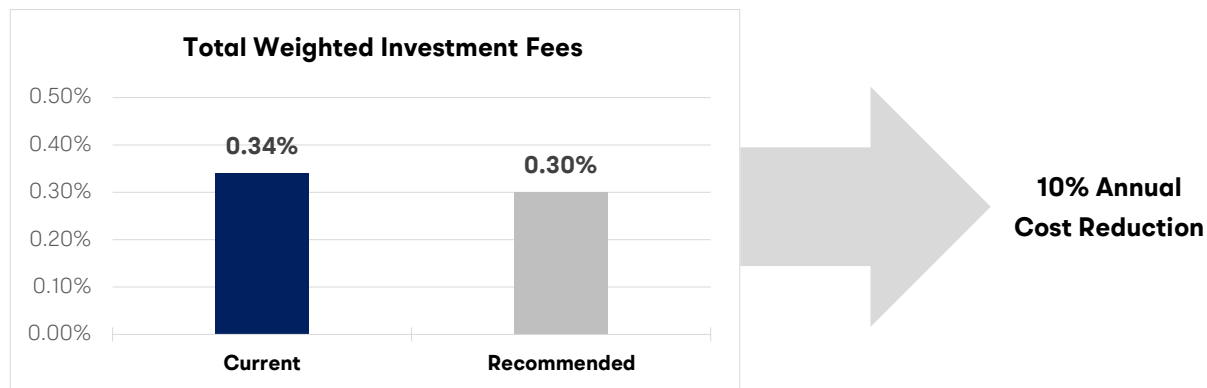
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Introduction: The City of San Jose VEBA Advisory Committee tasked the Hyas Group to review the investment menu structure of the VEBA Plans (Plans) and recommend improvements for consideration.

Recommendations: The Hyas Group reviewed the investment menu structure and recommends the Committee consider the following:

- Remove revenue share funds from the Plans. This can be accomplished by moving to lower cost share classes or replacing funds.
- Add new core bond index and international value asset classes.
- Consolidate large value, large index and large growth to one fund in each asset class. The Plans currently have two funds in each asset class.
- Remove money market, inflation protected bonds, global bonds, international small cap, emerging markets, and real estate. Map assets to like fund option.
- Replace funds in mid cap value, small cap growth, and social.
- Consolidated asset allocation strategies to Vanguard target date funds.

Recommended changes would reduce total investment expense by over 30%.



The following two pages illustrate the asset class structure and course of action:

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CURRENT INVESTMENT MENU STRUCTURE

% of assets in each box as of June 30, 2020

MONEY MARKET 0.3%	FIXED ACCT 72.2%	CORE BOND 0.4%	TIPS 0.1%	GLOBAL BOND 0.1%		
US LARGE VALUE 0.5%	US LARGE VALUE 0.5%	US LARGE INDEX 0.3%	US LARGE INDEX 2.7%	US LARGE GROWTH 1.6%	US LARGE GROWTH 0.4%	
US MID VALUE 0.1%	US MID INDEX 0.3%	US MID GROWTH 0.6%				
US SMALL VALUE 0.2%	US SMALL INDEX 0.2%	US SMALL GROWTH 0.2%				
INTL INDEX 0.4%	INTL GROWTH 0.1%	INTL SM CAP 0.0%	EMER. MKTS 0.2%			
CUSTOM RISK BASED 8.2%			TARGET DATE 9.7%			
SOCIAL 0.3%	REAL ESTATE 0.1%					

Remove
Add

RECOMMENDED INVESTMENT MENU STRUCTURE

FIXED ACCT 72.7%	CORE BOND INDEX 0%	CORE BOND 0.5%
US LARGE VALUE 1.0%	US LARGE INDEX 3.0%	US LARGE GROWTH 2.0%
US MID VALUE 0.1%	US MID INDEX 0.4%	US MID GROWTH 0.6%
US SMALL VALUE 0.2%	US SMALL INDEX 0.2%	US SMALL GROWTH 0.2%
INTL VALUE 0%	INTL INDEX 0.4%	INTL GROWTH 0.1%
TARGET DATE 17.9%		
SOCIAL 0.3%		

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ASSET CLASS	CURRENT FUND	REVENUE SHARE	EXPENSE RATIO		REVENUE SHARE	RECOMMENDED ACTION
Stable Value	Voya Fixed Account	-	0.36%	-	-	No change
Money Market	Vanguard Federal Money Mkt Inv	-	0.17%	0.30%	-	Move: Voya Fixed Account
TIPS	BlackRock Inflation Protected Bond I	0.15%	0.65%	0.36%	-	Move: Voya Fixed Account
Core Bond Active	Loomis Sayles Core Plus Bond N	-	0.39%	-	-	No change
Core Bond Index	-	-	-	0.025%	-	Add: Fidelity US Bond Index
Global Bonds	Templeton Global Bond R6	-	0.56%	0.39%	-	Move: Loomis Sayles Core Plus Bond N
Large Value	Vanguard Equity-Income Adm	-	0.18%	0.18%	-	Consolidate: Vanguard Equity-Income Adm
	AMG Yacktman I	0.08%	0.75%		-	
Large Index	Vanguard Inst Index I	-	0.035%	0.035%	-	Consolidate: 75% to Vanguard Instl Index (ticker VINIX), 18% to Vanguard Mid Cap Index (ticker VMCIX) and 7% to Vanguard Small Cap Index (ticker VSCIX).
	Vanguard Total Stock Mkt Index I	-	0.03%		-	
Large Growth	Growth Fund of America R5	0.05%	0.36%	0.56%	-	Consolidate and Replace: T. Rowe Price Large Cap Gr I
	Fidelity Advisor New Insights I	0.25%	0.84%		-	
Mid Value	JPMorgan Mid Cap Value L	0.10%	0.75%	0.68%	-	Replace: MFS Mid Cap Value R6
Mid Index	Vanguard Mid Cap Index Instl	-	0.04%	-	-	No change
Mid Growth	Janus Henderson Enterprise N	-	0.66%	-	-	No change
Small Value	Janus Henderson Small Cap Value I	0.10%	0.79%	0.68%	-	Share Class: Janus Henderson Small Cap Value N
Small Blend	Vanguard Small Cap Index Instl	-	0.04%	-	-	No change
Small Growth	Emerald Growth Institutional	0.05%	0.71%	0.99%	-	Replace: Hood River Small Cap Growth Ret
Intl Value	-	-	-	0.37%	-	Add: Vanguard International Value Inv
Intl Index	Vanguard Total Intl Stock Index Adm	-	0.11%	0.08%	-	Share Class: Vanguard Total Intl Stock Index I
Intl Growth	EuroPacific Growth R5	0.05%	0.53%	0.47%	-	Share Class: EuroPacific Growth R6
Emerging Markets	Invesco Oppenheimer Dev Mkts Y	0.25%	1.00%	0.47%	-	Move: EuroPacific Growth R6
Intl Small Cap	DFA International Small Company I	-	0.52%	0.08%	-	Move: Vanguard Total Intl Stock Index I
Target Date Funds	Vanguard Target Retirement Inv	-	0.14%	0.09%	-	Replace: Vanguard Target Retirement I
Risk-Based Funds	Custom Asset Allocation	0.02%	0.40%		-	
Real Estate	VY Clarion Real Estate I	0.28%	0.68%	0.04%	-	Move: Vanguard Mid Cap Index I
Social	Parnassus Core Equity Instl	0.10%	0.63%	0.12%	-	Replace: Vanguard Social Index I

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Move to Lowest Cost Share Class (current fund shaded)

Small Cap Value	Expense Ratio	Annualized Performance			Peer Group Rank			Recommendation
		3 YR	5 YR	10 YR	3 YR Rank	5 YR Rank	10 YR Rank	
Janus Henderson Sm. Cap Value I	0.79%	-3.3	2.4	7.3	23	12	48	Move to N share class. It is the lowest cost, no-revenue share version (ticker JDSNX).
Janus Henderson Sm. Cap Value N	0.68%	-3.2	2.6	7.4	21	11	47	

International Growth	Expense Ratio	3 YR	5 YR	10 YR	3 YR Rank	5 YR Rank	10 YR Rank	Recommendation
EuroPacific Growth R6	0.47%	4.8	4.9	7.5	58	52	51	

International Index	Expense Ratio	3 YR	5 YR	10 YR	3 YR Rank	5 YR Rank	10 YR Rank	Recommendation
Vanguard Total Intl Stock Index I	0.08%	1.1	2.5	5.3	35	29	54	

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Add New Asset Classes

Core Bond Index	Expense Ratio	Annualized Performance			Peer Group Rank			Recommendation
		3 YR	5 YR	10 YR	3 YR Rank	5 YR Rank	10 YR Rank	
Fidelity US Bond Index	0.025%	5.4	4.3	3.8	19	22	47	Plans currently do not have a bond index fund. All other major asset classes include a passive index option. Add Fidelity US Bond Index (ticker FXNAX).
BBgBarc Cap US Agg Bond Index	-	5.3	4.3	3.8	-	-	-	
International Value	Expense Ratio	3 YR	5 YR	10 YR	3 YR Rank	5 YR Rank	10 YR Rank	Recommendation
Vanguard International Value Inv	0.37%	-0.8	0.7	4.9	11	13	20	Plans offer an active International Growth fund and a passive International Index. International Value is a major asset class and is excluded from the Plans. Add Vanguard International Value Inv (ticker VTRIX).
MSCI ACWI Ex USA Value Index	-	-4.0	-1.2	2.8	-	-	-	

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Consolidate Asset Classes (Current funds shaded)

Large Cap Value	Expense Ratio	Annualized Performance			Peer Group Rank			Recommendation
		3 YR	5 YR	10 YR	3 YR Rank	5 YR Rank	10 YR Rank	
Vanguard Equity-Income Admiral	0.18%	4.4	7.1	12.0	24	11	4	Vanguard Equity Income has outperformed Yacktman 9 of the last 10 calendar years. Yacktman does not remain fully invested at times. The current cash position is about 20%. Vanguard's expense ratio is significantly lower at 0.18%.
AMG Yacktman I	0.75%	6.3	7.5	10.6	11	9	30	
Russell 1000 Value Index	-	1.8	4.6	10.4	-	-	-	

Consolidate to Vanguard Equity Income Admiral (ticker VEIRX).

Large Cap Index	Expense Ratio	3 YR	5 YR	10 YR	3 YR Rank	5 YR Rank	10 YR Rank	Recommendation
Vanguard Total Stock Mkt Index I	0.03%	10.0	10.0	13.7	34	30	18	Both large cap indexes are capitalization weighted resulting in greater weights in stocks of the largest companies. The Vanguard Total Stock Market Index has a broader weighting of 76% large cap, 18% mid cap and 7% small cap while the Vanguard Instl Index is 88% large cap, 12% mid cap and 0% small cap. Given the Plans currently have small and mid cap index options, we recommend consolidating to one index fund in large cap.
S&P 500 Index	-	10.7	10.7	14.0	-	-	-	

Consolidate assets to Vanguard Instl Index I. Map Vanguard Total Stock Market Index 75% to Vanguard Instl Index (ticker VINIX), 18% to Vanguard Mid Cap Index (ticker VMCIX) and 7% to Vanguard Small Cap Index (ticker VSCIX).

Large Cap Growth	Expense Ratio	3 YR	5 YR	10 YR	3 YR Rank	5 YR Rank	10 YR Rank	Recommendation
Fidelity Advisor New Insights I	0.84%	12.6	11.3	13.8	74	67	73	Both large cap growth funds have underperformed the Russell 1000 Growth Index and most peers over 3, 5 and 10 year periods. T. Rowe Price Large Cap Growth has provided strong relative performance over all time periods listed.
T. Rowe Price Large Cap Growth I	0.56%	19.6	16.9	18.4	22	10	7	
Russell 1000 Growth Index	-	19.0	15.9	17.2	-	-	-	

T. Rowe Price Large Cap Growth I (ticker TRLGX).

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Remove Asset Classes (Current funds shaded)

Cash to Fixed Account	Expense Ratio	Annualized Performance			Peer Group Rank			Recommendation
		3 YR	5 YR	10 YR	3 YR Rank	5 YR Rank	10 YR Rank	
Vanguard Federal Money Mkt Inv	0.11%	1.6	1.1	0.6	2	1	2	Given the current and prospective interest rate environment, consolidating assets to the Fixed Account would add annual interest to participants relative to money market.
Voya Fixed Account	0.36%	1.5	1.6	1.9	-	-	-	

Consolidate Vanguard Federal Money Market to Voya Fixed Account.

Global Bonds to Core Bonds	Expense Ratio	Annualized Performance			Peer Group Rank			Recommendation
		3 YR	5 YR	10 YR	3 YR Rank	5 YR Rank	10 YR Rank	
Templeton Global Bond VIP 1	0.56%	-0.8	-0.1	2.6	95	98	55	The Global Bond option has performed poorly due to credit defaults and large currency movements.
Loomis Sayles Core Plus Bond N	0.39%	5.8	4.9	5.3	6	6	7	

Consolidate Templeton Global Bond VIP 1 to Loomis Sayles Core Plus Bond N (ticker NERNX).

TIPS to Fixed Account	Expense Ratio	Annualized Performance			Peer Group Rank			Recommendation
		3 YR	5 YR	10 YR	3 YR Rank	5 YR Rank	10 YR Rank	
BlackRock Inflation Prot. Bond Instl	0.65%	4.8	3.4	3.1	32	37	41	The TIPS fund has a low utilization rate (0.12% of total plan assets). Consolidate BlackRock Inflation Protected Bond to Voya Fixed Account.
Voya Fixed Account	0.36%	1.5	1.6	1.9	-	-	-	

Real Estate to Mid Cap Index	Expense Ratio	Annualized Performance			Peer Group Rank			Recommendation
		3 YR	5 YR	10 YR	3 YR Rank	5 YR Rank	10 YR Rank	
VY Clarion Real Estate I	0.68%	0.6	3.8	8.8	58	61	58	The Real Estate asset class is held in many of the current equity options resulting in participants potentially over allocating to the sector.
Vanguard Mid Cap Index I	0.04%	6.5	7.0	12.5	8	10	4	

Consolidate VY Clarion Real Estate I to Vanguard Mid Cap Index (ticker VMCI). The index is the best fit to real estate.

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Emerging Markets to Intl Growth	Expense Ratio	Annualized Performance			Peer Group Rank			Recommendation
		3 YR	5 YR	10 YR	3 YR Rank	5 YR Rank	10 YR Rank	
Invesco Oppenheimer Dev Mkt Y	1.00%	4.3	4.6	5.4	19	20	12	Emerging markets exposure is available in the new and current international options with an exposure range between 10%-20%. Allow the investment managers to decide on the regional exposure and reduce the overlap participants may experience by holding emerging markets directly and within any of the international funds.
EuroPacific Growth R6	0.47%	4.8	4.9	7.5	58	52	51	

Consolidate Invesco Oppenheimer Developing Markets Y to EuroPacific Growth R6 (ticker RERGX).

Intl Small Cap to Intl Index	Expense Ratio	Annualized Performance			Peer Group Rank			Recommendation
		3 YR	5 YR	10 YR	3 YR Rank	5 YR Rank	10 YR Rank	
DFA International Small Co I	0.52%	-1.8	2.4	6.9	51	36	31	International small cap is a tactical position in the international funds in the Plans. Allow the investment managers to decide on the regional exposure and reduce the overlap participants may experience by holding international small cap directly and any of the international funds.
Vanguard Total Intl Stock Index I	0.08%	1.1	2.5	5.3	41	35	29	

Consolidate DFA International Small Company I to Vanguard Total International Stock Index I (ticker VTSNX).

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Replace Funds (Current funds shaded)

Mid Cap Value	Expense Ratio	3 YR	5 YR	10 YR	3 YR Rank	5 YR Rank	10 YR Rank	Recommendation
JPMorgan Mid Cap Value L	0.75%	-1.2	2.4	10.3	47	46	14	MFS has performed better than JPMorgan with a similar cost structure. The MFS R6 share class does not revenue share and is the lowest cost option. Replace JPMorgan Mid Cap Value L with MFS Mid Cap Value R6 (ticker MVCKX)
MFS Mid Cap Value R6	0.78%	1.1	3.8	10.8	11	21	5	
Russell Mid Cap Value Index	-	-0.5	3.3	10.3	-	-	-	
Small Cap Growth	Expense Ratio	3 YR	5 YR	10 YR	3 YR Rank	5 YR Rank	10 YR Rank	Recommendation
Emerald Growth Institutional	0.71%	9.4	7.3	15.0	48	61	20	Emerald Growth does not offer a non-revenue share version of their mutual fund. Hood River Small Cap Growth has similar characteristics and similar if not better performance. The Hood River option does not have revenue share and is higher in costs. Replace Emerald Growth Institutional with Hood River Small Cap Growth Ret (ticker HRSIX).
Hood River Small Cap Growth Ret	0.99%	9.5	9.7	14.9	47	33	23	
Russell 2000 Growth Index	-	7.9	6.9	12.9	-	-	-	
Social	Expense Ratio	3 YR	5 YR	10 YR	3 YR Rank	5 YR Rank	10 YR Rank	Recommendation
Parnassus Core Equity I	0.63%	11.9	10.8	13.6	5	8	23	Parnassus does not offer a non-revenue share version of their mutual fund strategy. Vanguard's offering is a passive option that has performed better with lower costs. Replace Parnassus Core Equity I with Vanguard FTSE Social Index I (ticker VFTNX)
Vanguard FTSE Social Index I	0.12%	12.7	11.6	14.9	3	3	1	
S&P 500 Index	-	10.7	10.7	14.0	-	-	-	

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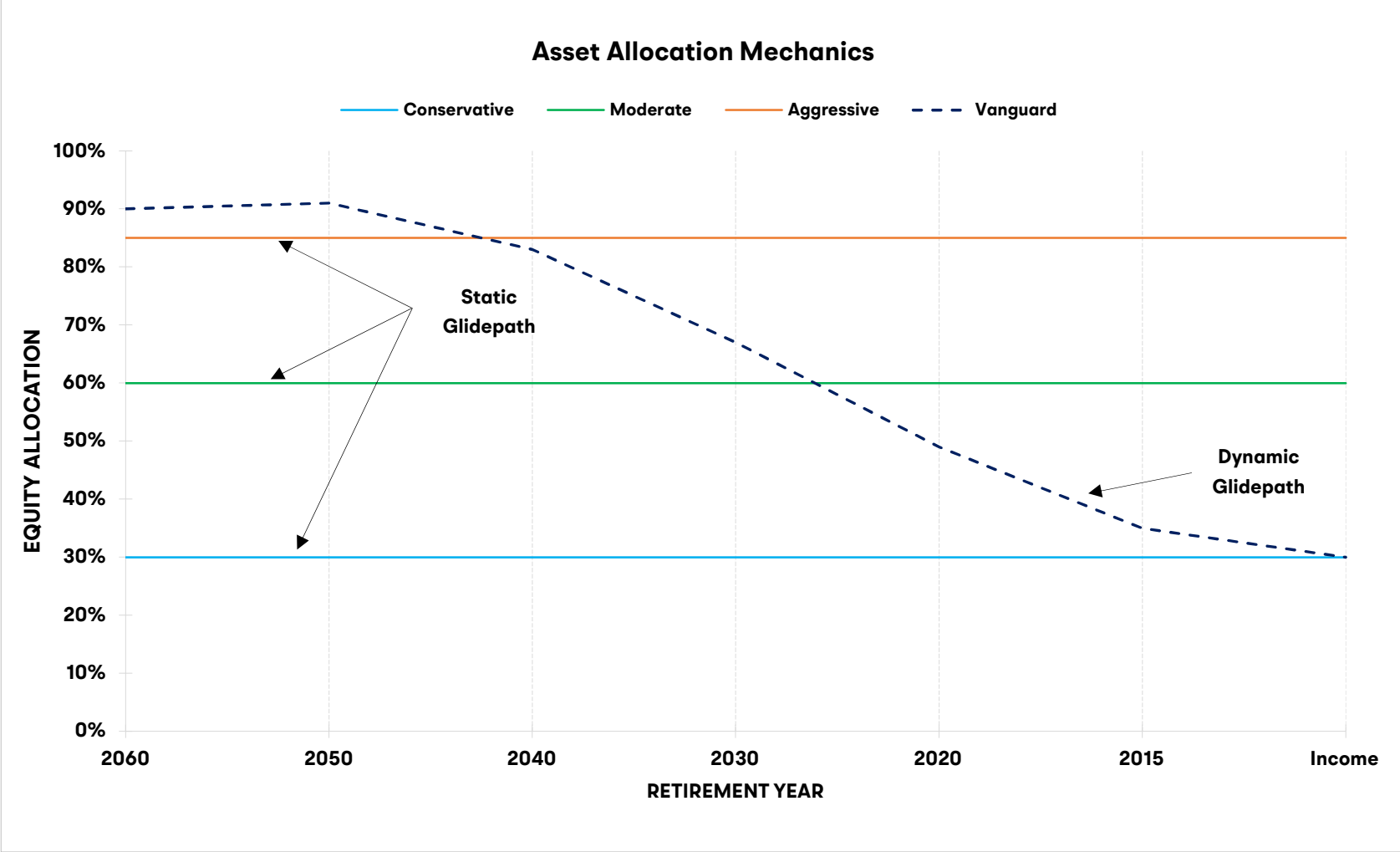
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Consolidate Asset Allocation to Target Date and Move to Institutional Share Class (Current funds shaded)

Asset Allocation	Expense Ratio	Annualized Performance			Peer Group Rank			Asset Allocation			
		3 YR	5 YR	10 YR	3 YR Rank	5 YR Rank	10 YR Rank	US Bonds	Intl Bonds	US Equities	Intl Equities
San Jose Conservative Portfolio	0.32%	5.5	5.2	6.0	14	13	41	70%	-	25%	5%
Vanguard Target Retire Inc Inv	0.12%	5.4	4.9	5.8	20	20	23	54%	16%	18%	12%
Vanguard Target Retire Inc I	0.09%	5.5	5.0	5.9	11	10	19	54%	16%	18%	12%
Vanguard Target Retire 2015 Inv	0.13%	5.8	5.5	7.6	26	29	35	50%	15%	21%	14%
Vanguard Target Retire 2015 I	0.09%	5.6	5.9	7.6	14	24	29	50%	15%	21%	14%
Vanguard Target Retire 2020 Inv	0.13%	6.1	6.0	8.3	18	12	14	38%	13%	30%	20%
Vanguard Target Retire 2020 I	0.09%	6.2	6.0	8.4	9	8	9	38%	13%	30%	20%
San Jose Moderate Portfolio	0.40%	7.0	6.7	8.4	12	13	25	40%	-	45%	15%
Vanguard Target Retire 2025 Inv	0.13%	6.3	6.3	8.9	22	14	17	28%	12%	36%	24%
Vanguard Target Retire 2025 I	0.09%	6.4	6.3	8.9	14	10	14	28%	12%	36%	24%
Vanguard Target Retire 2030 Inv	0.14%	6.4	6.5	9.4	26	22	21	23%	10%	41%	27%
Vanguard Target Retire 2030 I	0.09%	6.5	6.5	9.4	18	17	18	23%	10%	41%	27%
Vanguard Target Retire 2035 Inv	0.14%	6.4	6.6	9.8	27	24	19	17%	8%	45%	30%
Vanguard Target Retire 2035 I	0.09%	6.5	6.7	10.0	19	21	16	17%	8%	45%	30%
San Jose Aggressive Portfolio	0.43%	8.5	8.2	10.7	3	2	4	15%	-	65%	20%
Vanguard Target Retire 2040 Inv	0.14%	6.5	6.8	10.1	20	22	20	12%	5%	50%	33%
Vanguard Target Retire 2040 I	0.09%	6.5	6.8	10.1	17	20	16	12%	5%	50%	33%
Vanguard Target Retire 2045 Inv	0.15%	6.4	6.8	10.1	25	23	19	6%	3%	55%	36%
Vanguard Target Retire 2045 I	0.09%	6.5	6.8	10.2	20	19	16	6%	3%	55%	36%
Vanguard Target Retire 2050 Inv	0.15%	6.4	6.8	10.1	24	22	24	6%	3%	55%	36%
Vanguard Target Retire 2050 I	0.09%	6.4	6.8	10.2	19	18	19	6%	3%	55%	36%
Vanguard Target Retire 2055 Inv	0.15%	6.4	6.8	-	26	24	-	7%	3%	55%	36%
Vanguard Target Retire 2055 I	0.09%	6.5	6.8	-	21	19	-	7%	3%	55%	36%
Vanguard Target Retire 2060 Inv	0.15%	6.4	6.8	-	30	44	-	7%	3%	55%	36%
Vanguard Target Retire 2060 I	0.09%	6.5	6.8	-	23	37	-	7%	3%	55%	36%
Vanguard Target Retire 2065 Inv	0.15%	-	-	-				7%	3%	55%	35%
Vanguard Target Retire 2065 I	0.09%	-	-	-				7%	3%	55%	35%

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Recommendation: The Plans use two different asset allocation strategies today. The customized risk-based options have a set asset allocation that remains static throughout a participant's working career. Any adjustment to risk (lower equity allocation) would require an active change by a participant. Conversely, the target date funds used today in the Plans are managed by Vanguard. Target date funds have a dynamic asset allocation strategy that systematically reduces the equity allocation over time without any action by participants. These funds have been widely adopted in most other retirement plans for their ease of use.

We recommend the Plans consolidate the custom risk-based options to the Vanguard Target Date funds. Vanguard has an Institutional mutual fund with an expense ratio of 0.09%. The minimum investment for this series is \$100 million. Vanguard will waive this minimum if the 457 and 401(a) Plans move to the CIT class. The fees compare favorably to the risk-based and target date funds used today.