

**Purpose:**

1<sup>st</sup> Qtr 2014 Review

**Attendees:**

Tom Scalici MW Juniata College – Robert E. Yelnosky, Carole Gracey, Brad Andrew, Tracie Patrick, Don Braxton, Val Rennell, Gail Leiby-Ulrich and Christina Miller from Juniata.

**Date:**

June 10, 2014 – 1:30-2:30 PM

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- Cornerstone began the meeting by providing a macroeconomic overview of the financial markets for the first quarter of 2014. The overall theme was holding pattern as both stocks and bonds were up about 1.8% for the quarter. We also discussed an emerging theme, which is the difference in performance between junk stocks and quality stocks with junk stocks outperforming quality by about 9% a year over the last five years. This is skewing the performance of the indices relative to active management and a phenomenon we have seen in the past. This trend tends to reverse itself when there is a significant pullback in the market, which historically happens every few years.
  - Plan assets have grown from \$91.5 million to just under \$92.5 million as of March 31, 2014. Contributions were \$918,509, withdrawals were \$1,125,432 and gains were \$1,157,012.
  - In reviewing the asset allocation only about 11% of existing assets are in asset allocation portfolios while less than 30% of new money is going into these portfolios. One of the success factors in retirement plans is the level of diversification and it appears this can be an area of improvement based on current participant behavior. This subject was addressed later in the meeting.
  - Approximately 60% of the assets continue to be invested in two funds, the CREF Stock Fund and the Stable Value Fund. This is heavily influenced by Legacy Assets belonging to terminated participants. That being said, about 43% of new money is also going into these funds.
  - Performance for the quarter was a positive 1.26% versus a blended benchmark at 1.60%. This is the first quarter in a while where the asset allocation portfolios underperformed their benchmark, primarily because the performance of indices has been so good. Over the last three-and-a-half years the annualized rate of return of the plan has been 9.01% after fund expenses versus the benchmark at 7.44%.
  - We then reviewed the performance of the individual funds. There is only one fund over the last three years that had a sharpe ratio in the bottom quartile of the peer group and that was the TIAA-CREF Large-Cap Value Retirement Fund. Cornerstone reviewed the individual fact sheet on this fund in a little greater detail. The fund has an above average risk profile, which means it should outperform in
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up markets and is likely to underperform in down markets. In reviewing the five-year history of annual performance, this has been the case. The fund had a particularly strong year in 2009, which is why its five-year performance number looks so good, but underperformed the benchmark by 6.3% in 2011 and that has dragged down the three-year number. Over the last three years the alpha of the fund is minus 2.85% indicating that stock picking and sector bets have hurt performance over the last three years. Cornerstone will continue to monitor the performance of this fund, but is not recommending a change at this time.

- The TIAA Real Estate Fund continues to show improved performance relative to its peers. In the last three years its performance is in the top decile while in the 5- and 10-year timeframe it continues to be in the bottom decile. This is largely a result of the valuation process used in this fund since they own actual properties.
- Rob Yelnosky said that the audit fee for this year was \$5,500.
- Brad Andrew then gave a high level overview of an educational presentation he had made to a committee of professors in an effort to help better educate them about investment concepts. The committee discussed the pros and cons of Brad conducting a similar, but perhaps streamlined version of this presentation for any employee at Juniata who wished to attend. The committee was very clear that this needed to be educational only and not in any way construed as investment advice. Cornerstone agreed to send some slides that they use during educational meetings so Juniata could use them as a frame of reference. The educational plan will continue to be discussed in future committee meetings.