



Agenda Report

21-652

Agenda Date: 5/17/2021

REPORT TO DEFERRED COMPENSATION COMMITTEE

SUBJECT

Action to Terminate the MFS International Intrinsic Value Fund and Replace with the Vanguard International Value Fund.

BACKGROUND

At the conclusion of the formal Request for Proposal (RFP) for retirement plan administration services in 2018, Hyas Group worked with the Committee to develop a consolidated investment menu for plan participants. The structure was designed to offer funds in every major asset class in an economical manner. One major asset class offered is international value, which was funded by MFS International Intrinsic Value Equity. At this time, and for the reasons set forth in the Discussion section below (and the memo from Hyas, Attachment 1), Hyas is recommending to the Deferred Compensation Committee to approve the termination of the MFS International Intrinsic Value Fund and replacement with the Vanguard International Value Fund.

DISCUSSION

Hyas is the City's independent consultant to the City's 457 Deferred Compensation Plan (Plan) and conducts a quarterly review of the Plan's investment options and performance. Hyas has noted that recently, the characteristics of the MFS International Intrinsic Value Equity Fund have shifted significantly towards the growth investment style, diverging from its intended role on the investment menu. The fund's approach to the value investment style (emphasizing economically sound companies with cash-centric earnings) has led it into more growth-oriented sectors, namely information technology and healthcare, while underweighting sectors exhibiting more traditional value characteristics such as low valuations and higher dividend yields. This causes the fund to replicate the style and purpose of the international growth fund offered within the investment menu and creates doubt about the fund's ability to perform consistent with its value objective. The Committee placed this fund on watch status at the third quarter meeting in November 2020 to allow the fund time to correct this style drift. Since no such correction has occurred or appears likely to occur, Hyas Group's recommendation is to replace the MFS International Intrinsic Value Equity Fund with a more stylistically consistent international value option.

Hyas Group has prepared a search document for the international value asset class for the Committee to review (Attachment 2), which compares three alternatives along with the incumbent investment option. Hyas believes that while all three replacement candidates are suitable, the Vanguard International Value Fund is recommended. The Vanguard International Value Fund is much more reflective of the international value asset class and has been a consistent performer at a relatively low cost. If the Committee approves this fund change, Nationwide will transfer all existing balances and any future contributions to the Vanguard fund effective on or around August 17.

ENVIRONMENTAL REVIEW

The action being considered does not constitute a “project” within the meaning of the California Environmental Quality Act (“CEQA”) pursuant to CEQA Guidelines section 15378(b)(4) in that it is a fiscal activity that does not involve any commitment to any specific project which may result in a potential significant impact on the environment.

FISCAL IMPACT

There is no cost to the City with this action. All plan investment expenses are paid by the participants and there are 251 participants in this fund. However, this fund change will save those participants money because the Vanguard International Value Fund has an expense ratio of .35%, almost half of the .63% currently paid in the MFS International Intrinsic Value Equity Fund.

PUBLIC CONTACT

Public contact was made by posting the Deferred Compensation Committee agenda on the City’s official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City’s website and in the City Clerk’s Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk’s Office at (408) 615-2220, email clerk@santaclaraca.gov <<<mailto:clerk@santaclaraca.gov>>> or at the public information desk at any City of Santa Clara public library.

RECOMMENDATION

Approve the Replacement of the MFS International Intrinsic Value Fund with the Vanguard International Value Fund.

Reviewed by: Greg Bych, Risk Manager

Approved by: Aracely Azevedo, Director of Human Resources

1. Hyas Memo - Replace MFS Fund with Vanguard Fund
2. Hyas - City of Santa Clara - International Value Manager Search Report