Livingston/Washtenaw/Wayne Schools
Q3 2020 Summary

Markets

This year has seen extreme differences in performance between the various market sectors. Large companies have fared much better than small ones during the pandemic. Growth has also trounced value as technology companies have been the relative big winners so far this year. For instance, stocks in the online retail industry are up 60% so far this year, while hotel, resorts, and cruise line industry stocks are down 45% during the same time period.

For the market overall, U.S. large-cap equities, as represented by the S&P 500 Index, gained 8.93% for the quarter. They are now up 5.57% year-to-date. For comparison, developed international equity markets, as represented by the MSCI EAFE Index, finished the quarter up 4.80% and are now down 7.09% for the year thus far.

Emerging markets have performed better than international overall. The MSCI Emerging Markets Index finished the quarter with gains of 9.56% and are now down just 1.16% year-to-date. Alternatives, such as commodities and real estate, have not done well so far this year. The Dow Jones UBS Commodity Index is now down 12.08% year-to-date while the Wilshire REIT Index is down 16.74% during the same period.

Bond indexes continued to have a solid year so far due to declining interest rates. The Barclays U.S. Aggregate Bond Index gained 0.62% for the quarter and is now up 6.79% for the year overall. The Barclays U.S. Inflation-Linked Bond gained 3.03% for the quarter and is now up 9.22% for the year overall. The Barclays Global Aggregate Bond Index has gained 0.73% and 4.65% respectively over the two periods.

Investment Offering

Watch List

DFA US Targeted Value I (DFFVX) - performance

- The fund was added to the Watch List at the end of the first quarter of 2020 due to underperformance versus its peer group. Fund returns were below category median over the three- and five-year time periods following below-median performance in 2018, 2019 and year-to-date. The fund will remain on the Watch List through the second quarter of 2020. To be eligible for reinstatement to the Approved List, the fund's returns must be above the median over the previous one-year and above the median in either the three- or five-year time periods.
- As of September 30, 2020, the fund is technically passing the minimum performance criteria for both the 3 and 5 year periods. Given it is just above passing, it will remain on watch for another quarter.
- In 2019, the fund's overweight to energy and underweight to real estate hurt performance. Year-to-date, the fund's overweight to energy and underweight to utilities continues to drive the underperformance. The smaller average market cap and deeper value nature of the fund has also hurt performance.
- For 2018, the fund underperformed due to security selection in industrials. The fund's exclusion of utilities in its portfolio also hurt performance.

DFA US Small Cap I (DFSTX) - performance

- The fund was placed on watch as of Q4 2019
- The fund's process lends it to be very light in both the real estate and utilities sectors. Both of these sectors have been some of the better performing sectors for the 2019 year. As a result, they have been detractors to performance relative to the small blend peer group. More specifically for 2019, security selection in technology and an overweight allocation to energy contributed to the underperformance.
- Concerning 2020 year-to-date, the fund's overweight to energy and financial services are the primary detractors to performance.
- For 2018 (60th percentile), an overweight allocation to the consumer cyclical sector hurt performance.
- During 2017 (61st percentile), security selection in healthcare and technology detracted from performance.

Additional Information – DFA philosophy

Fundamental principles:

1. Financial markets are largely efficient; DFA makes no attempt to increase returns through individual security selection or market timing
2. Higher returns are the reward for bearing greater risk
3. The most important “dimensions” to consider are company size, relative price and profitability
4. The high-level DFA goal is to deliver targeted exposure to attractive areas of the market in a cost-efficient manner. The fund avoids REITs, IPOs, ADRs and highly regulated utilities and tends to have a smaller average market cap than its peers.

American Funds EuroPacific Growth R6 (RERGX) - performance

- The American Funds Europacific Growth fund was added to the Watch List at the end of the first quarter of 2020 due to underperformance versus its peer group.
- Year-to-date, the fund’s emerging markets allocation has driven the underperformance, with holdings in Brazil and India hurting the most.
- In 2019, security selection in basic materials, financial services and industrials detracted from performance.
- During 2018, the fund’s subtle cyclical tilt hurt performance as the market experienced a selloff at the end of the year. The fund’s underweight to the health care sector also hurt performance.
- The American Funds Europacific Growth fund is managed using a portfolio counselor approach, which divides the assets of the fund into sleeves that are managed by different "counselors." In general, the approach is to find attractively priced securities that represent good long-term investments. The fund’s multimanager approach increases diversification and lowers volatility; however, the fund has a substantial emerging markets allocation, which increases the fund’s risk profile.