

Massachusetts Defined Contribution CORE Plan

Minutes of the Commonwealth of Massachusetts CORE Investment Committee December 18, 2020

The Commonwealth of Massachusetts CORE Investment Committee (the “Committee”), the fiduciary committee for the Massachusetts Defined Contribution CORE Plan (the “Plan”), met, pursuant to notice, via videoconference on December 18, 2020. Henry Clay, David Lynch, and the Chair Nicola Favorito, being all voting members of the Committee, were in attendance.

Also attending via videoconference by invitation were Emily Robbins and Sarah Kim of the Commonwealth of Massachusetts Office of the Treasurer and Receiver General, Beth Halberstadt, Chris Behrns, Sue Sinclair and Diane Smola of Aon Investments USA Inc. (“Aon”), Lisa Cardinal and Karl Kroner of Empower, and Brian Cosmano and Mike Forster of Advised Assets Group (“AAG”), a subsidiary of Empower.

With a quorum present, Mr. Favorito called the meeting to order at 9:00 a.m. Eastern Time. Roll call: Mr. Clay, Mr. Lynch, Mr. Favorito.

The following materials, used throughout the meeting, were distributed in advance of the meeting, and displayed during the meeting as noted:

1. Agenda for the December 18, 2020 CORE Investment Committee Meeting (“Agenda”);
2. Minutes of the November 6, 2020 CORE Investment Committee Meeting (“Minutes”);
3. Commonwealth of Massachusetts, Third Quarter 2020, Quarterly Investment Review, (hereinafter, “Document 1”);
4. Custom Glide Path Review, Commonwealth of Massachusetts, December 2020 (hereinafter, “Document 2”);
5. Securing a Strong Retirement Act (“SECURE 2.0”), (hereinafter “Document 3”); and
6. Methodology Discussion (hereinafter “Document 4”).

Mr. Favorito advised attendees of the recording parameters under Open Meeting regulations M.G.L. c. 30A, §§ 18-25. He inquired if anyone present was recording the session and no one identified themselves as making a recording. He advised all parties that should they be unable to hear, they should bring that to his attention. Further, he informed the Committee that the meeting was being conducted via videoconference in accordance with the Order Suspending Certain Provisions of the Open Meeting Law, M.G.L. c. 30A § 20 issued by Governor Baker on March 12, 2020.

On a motion by Mr. Clay and seconded by Mr. Lynch, the Committee reviewed and approved the minutes from the November 6, 2020 meeting. Roll call in favor of approval: Mr. Clay, Mr. Lynch, Mr. Favorito.

Mr. Behrns presented Document 1 to the Committee via videoconference. He reviewed the report titled “Market Highlights” and provided details of the state of the overall economy, the domestic and international equity markets, the bond markets and other capital markets as of September 30, 2020 and November 30, 2020, respectively. Mr. Behrns reported on the Plan’s asset allocation and performance of the investments as compared to benchmarks, and other relevant aspects of the funds offered, considering the Plan’s Investment Policy Statement. He next reviewed the investment fees, articulating that the expense ratio for funds in the Plan are considered reasonable compared to institutional peers. During the discussion, the Committee and Mr. Behrns discussed the composition of the benchmark indices for the objective-based funds in the Plan’s core menu.

Addressing Document 2, Mr. Behrns informed the Committee that Aon has completed its annual review of the portfolio construction and glide path evaluation of the Plan’s custom target date funds. During the course of the presentation, he discussed:

- Aon’s core beliefs around the development of target date funds;
- Changes made to Aon’s glide path methodology and analysis;
- Demographic factors influencing the risk allocation; and
- Aon’s analysis measuring risk capacity and overall evaluation of the glide path.

Mr. Behrns then informed the Committee of the modifications Aon will be making to the custom target date portfolios as a result of the annual review. He noted that over two phases, with the first being in 2021 and the second planned for 2022, Aon will be working with the Plan’s investment managers, trustee and recordkeeper to:

- Increase the allocation to return-seeking assets along the glide path;
- Remove commodities from the portfolios; and
- Replace global Real Estate Investment Trusts (“REITS”) with U.S. based REITS.

In the course of the conversation, the Committee and Mr. Behrns discussed to what extent Aon’s modifications align with the Plan’s participant base, Aon’s forward-looking projections when modeling future portfolio allocations, the portfolio’s ability to allow participants to protect against inflation, and to what extent actively managed investment funds may be introduced into the portfolio. The Committee confirmed that participant communication related to the underlying portfolio changes are not necessary since the objectives of the funds haven’t changed.

Further, Mr. Behrns informed the Committee that Aon will adjust the custom target date fund vintage structure as follows:

- Merge the 2010 vintage into the Income Fund; and
- Add a 2065 vintage to the target date series.

Based on the information contained in the reports and considering the best interests of the participants and beneficiaries in the Plan, Aon made no additional recommendations nor articulated any other planned changes, other than those noted above, to change the investments in the Plan at this time. At the Committee’s request, Mr. Behrns agreed to update the Committee at each scheduled meeting as to the progress of the implementation.

Ms. Halberstadt informed the Committee that Aon was named in litigation brought by current and former participants of the Astellas U.S. Retirement Savings Plan and by

current and former participants of the Centerra Group LLC 401(k) Plan claiming a breach of fiduciary duties related to collective investment trusts managed by Aon. Noting that Aon denies the claims, she agreed to update the Committee as at each quarterly meeting as new information becomes available. In addition, Ms. Halberstadt noted there has been no further changes with respect to the ongoing litigation matters with Schneider Electric, Lowes and FGA.

Ms. Sinclair directed the Committee to Document 3 and discussed the proposed legislation referred to as "SECURE 2.0" under the Securing a Strong Retirement Act of 2020. She provided a brief overview of the proposals and the impact they may have on the Plan, its participants and the Committee.

During the discussion of Document 3, the participants from Empower and AAG joined the meeting.

Referring to Document 4, Mr. Forster introduced the AAG team and explained the dynamics of the relationship between Empower, AAG, Morningstar, the Plan and its participants. In his discussion, he outlined the scope of services provided, the types of fiduciary protection offered to participants, and AAG's framework for oversight of Morningstar. Mr. Cosmano continued the discussion by explaining Morningstar's five steps of their portfolio construction process, as well as the philosophies, methodologies and models used in each step.

Mr. Cosmano, Mr. Forster, Mr. Kroner, Mr. Behrns and the Committee discussed several aspects of AAG's services to the Plan, including to what extent the portfolio construction used relates to the Plan's participant base, the use of active investment management in the underlying portfolios created by AAG on behalf of participants, and participant engagement. The Committee asked Mr. Kroner to report back with information related to participant behavior regarding the managed portfolio option.

There being no further business to come before the Committee, and with a comment that future meeting dates would be circulated, the meeting was adjourned by unanimous vote of the Committee at 11:00 a.m. Eastern Time on a motion by Mr. Clay and seconded by Mr. Lynch. Roll Call: Mr. Lynch, Mr. Clay, Mr. Favorito.

Nicola Favorito
Committee Member

3-23-2021
Date signed