

Massachusetts Defined Contribution CORE Plan

Minutes of the Commonwealth of Massachusetts CORE Investment Committee June 4, 2019

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, at the offices of the Massachusetts State Retirement Board in Boston, Massachusetts, on June 4, 2019. Henry Clay and David Lynch, being all voting members of the Committee, were in attendance. Voting member Nicola Favorito was absent.

Also present by invitation were Sarah Kim and Emily Robbins of the Commonwealth of Massachusetts, and Beth Halberstadt, Chris Behrns, and Sue Sinclair of Aon Hewitt Investment Consulting, Inc. (AHIC). Ms. Kim attended via teleconference.

With a quorum present, Mr. Clay called the meeting to order at 10:00 a.m. Eastern Time.

The Committee reviewed and approved the meeting minutes from the March 5, 2019 meeting.

The following materials, used throughout the meeting, were distributed in advance of the meeting and provided in hard copy at the meeting:

1. "Commonwealth of Massachusetts, First Quarter 2019, Quarterly Investment Review," (hereinafter, Document 1);
2. "Commonwealth of Massachusetts CORE Plan Investment Structure Review," (hereinafter "Document 2"); and
3. "Aon Quarterly Update, Retirement Legal Consulting and Compliance, Second Quarter 2019," (hereinafter "Document 3").

Mr. Clay 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.

Mr. Clay and Mr. Lynch commented on the divergence in investment performance of the CORE Plan target date fund glidepath vs peer performance rankings and in relation to the Massachusetts Deferred Compensation SMARTPath target date fund glidepath peer performance. They discussed the importance of strong performance for this Plan's participants and its participating employers and also addressed the Treasury's intention to continue increasing the adoption rate of not-for-profit employers. Mr. Behrns noted the contributing factors to the performance differences and reiterated AHIC's oversight process of the funds offered by the Plan.

Mr. Behrns directed the Committee to Document 1. He reviewed the state of the overall economy, the domestic and international equity markets, the bond markets and other capital markets as of March 31, 2019. Mr. Behrns reported on the Plan's asset allocation

and performance of the investments held in the Plan as compared to benchmarks, and other relevant aspects of the funds offered, considering the Plan's Investment Policy Statement. Mr. Clay commented on his expectations for the investment performance of the CORE Plan.

Mr. Behrns and Mr. Lynch noted the participant adoption rate of managed accounts. Mr. Clay and Mr. Lynch requested that AHIC include an annual review of the managed account product for future meetings. Mr. Behrns agreed to add this topic to the annual work plan for the Committee. Mr. Lynch noted AHIC's BUY rating for the CORE Plan managed account service through Advised Asset Group and Morningstar. Mr. Lynch asked Mr. Behrns if AHIC provides a rating for AHIC's glidepath services. Mr. Behrns responded that it would be a conflict for AHIC to rank their own glidepath service.

Ms. Kim joined the meeting via teleconference. Mr. Clay advised Ms. Kim of the recording parameters under the Open Meeting Law regulations and Ms. Kim confirmed that she was not recording the session. He advised Ms. Kim to inform the Committee in the event she was unable to clearly hear the conversation.

Mr. Behrns continued his review of Document 1 with a summary of the investment management fees for all funds offered in the Plan. Mr. Behrns confirmed that the investment management fees were included in the expense ratio of the funds, as well as AHIC's management fees. In response to an inquiry from Mr. Lynch, Mr. Behrns confirmed these fees as competitive given services and AUM. He then affirmed the quarterly activities that occurred as a part of AHIC's due diligence in oversight of the Plan's assets and reviewed a progress report of the annual oversight activities of the Committee.

Mr. Lynch inquired as to the investment performance impact of the delay in the Plan's trustee, Global Trust Company, carrying out AHIC's target date fund reallocation, which was discussed in the March 5, 2019 meeting. Mr. Behrns noted that market circumstances and the timing of the trade led to positive investment performance. Ms. Halberstadt and Mr. Behrns affirmed that AHIC's portfolio management team monitors the Plan's target date fund activity daily and Mr. Behrns reviews the activity each week.

In the course of his review, Mr. Behrns directed the Committee to the report titled "Structure Review" in Document 2. He led the Committee in a discussion of the asset classes, types, and number of funds currently offered in the Plan. In his discussion, he noted survey trend data following in the number of investment options offered in 401(k) plans, considerations when streamlining the number of investment options, and AHIC's manager ratings for the underlying investment managers of the Plan. He recommended that no changes be made to the Plan's investment structure at this time.

Referencing the report titled "QDIA Review" in Document 2, Mr. Behrns summarized the U.S. Department of Labor's definition of a Qualified Default Investment Alternative (QDIA), and shared trend data illustrating the types of QDIAs adopted by other 401(k) plan sponsors and AHIC's best thinking about QDIAs. Mr. Behrns ended his comments on this subject by stating that AHIC still recommends that the Target Date Funds remain the QDIA.

Mr. Clay, Mr. Lynch and Ms. Kim inquired as to AHIC's observations and opinions related to the role of Socially Responsible Investments and/or incorporating Environmental, Social


or Governance (ESG) criteria in the Plan's fund oversight. Ms. Halberstadt, Mr. Behrns, and Ms. Sinclair provided initial commentary and Mr. Behrns confirmed that AHIC would not recommend an ESG investment option to the CORE Plan at this time. Ms. Sinclair noted the DOL's directive to tread carefully on this matter. Ms. Halberstadt stated that AHIC is monitoring this and is conducting a survey; a copy of any results would be made available. The Committee agreed to revisit the topic next year; AHIC agreed to prepare a formal report at that time.

The Committee thoroughly discussed the reports reviewed by Mr. Behrns. Based on the information contained in the reports and considering the best interests of the participants and beneficiaries in the Plan, AHIC made no recommendations to change the investments in the Plan at this time.

Ms. Halberstadt commented on recent trends regarding plan sponsor adoption of delegated investment services. She then addressed litigation matters, providing an update to the Committee as to the status of the lawsuits against AHIC by Safeway, Inc. and Lowes. She indicated that concerning Safeway, AHIC has a settlement in principle with a class of plaintiffs. She advised the Committee that AHIC has steadfastly maintained that these allegations were without merit and that this settlement in no way is an admission of any wrongdoing on its part. She noted that AHIC would pay the settlement amount solely to avoid the cost of defending the case at trial. Ms. Halberstadt then confirmed that once finalized, information on the details of the settlement would be provided. Ms. Robbins requested that similar updates on all litigation matters be included in each quarterly meeting.

Ms. Sinclair presented the information reflected in Document 3 and led a discussion of the matters noted and the effect they may have on the Plan and the Committee.

There being no further business to come before the Committee, the meeting was adjourned at 11:35 a.m.



Committee Member
9/4/19

Date signed