

Commonwealth of Massachusetts
CORE Investment Committee
for the Massachusetts Defined Contribution CORE Plan

Meeting Minutes

Inaugural Meeting – September 21, 2018 10:30 a.m.
Office of the State Treasurer and Receiver General
One Ashburton Place, 12th Floor East Conference Room
Boston, MA 02108

Committee Members Present:

- Nicola Favorito, Committee Chair
- David Lynch, Committee Member
- Henry Clay, Committee Member

Also present for all or part of the meeting were: Laura Rooney, Director of Operations, Defined Contribution Plans; Giuseppe Caruso, Operations Associate, Defined Contribution Plans; and Emily Robbins, Defined Contribution Plans Counsel.

I. Opening:

With Mr. Clay present to establish quorum, Committee Chair Mr. Favorito called the meeting to order at 10:30 a.m.

II. Fiduciary Insurance Policy Summary Review:

At this time, Ms. Robbins began on the Fiduciary Insurance Policy Summary Review.

- Ms. Robbins stated that the CORE Plan (the Plan) was covered by two separate insurance policies, which included ERISA Bond coverage and Fiduciary Liability Insurance coverage.

10:39 a.m. David Lynch arrives.

- Mr. Lynch indicated that he was pulled into an unexpected meeting just before this meeting was to start.
- Ms. Robbins noted that the Fiduciary Liability Insurance coverage began in August, prior to the appointment of the Committee Members, and that it would protect against claims of wrongful acts. Ms. Robbins cited the commencement of civil proceedings, criminal proceedings, and administrative or regulatory proceedings as well as written demands for both monetary and non-monetary relief as the types of claims for which the CORE Plan and its committee members is insured.
 - ❖ Mr. Favorito asked which firm provided the coverage. Ms. Robbins responded that it was Travelers Insurance.

- ❖ Mr. Favorito asked about the coverage limits. Ms. Robbins responded that it was \$1 million annually, and that an additional \$1 million in additional defense coverage was added to the policy as well. Ms. Robbins cited situations where litigation costs can often outweigh damages as the reasoning behind this decision, and noted that the topic was also discussed with Treasury General Counsel Sarah Kim.
- ❖ Mr. Lynch asked what the coverage premium was. Ms. Robbins responded that it was approximately \$6,000. Mr. Lynch asked who was covered under this policy. Ms. Robbins responded that the coverage extended to any Plan staff, Statutory Committee Members, Investment Committee Members, and anyone working in a fiduciary capacity on behalf of the Plan.
- ❖ Mr. Lynch asked if coverage could be reviewed annually. Ms. Robbins responded that coverage was usually obtained annually via Risk Placement Services and that they would send notice prior to the expiration of the policy, at which time it could be reviewed for potential changes or additional coverage.
- ❖ Mr. Favorito asked if there were any other bids. Ms. Robbins responded that it was obtained through the Treasury's contract with Risk Placement Services.

With no further questions, Mr. Favorito thanked Ms. Robbins.

Mr. Favorito then asked if it would be possible to bring plan statistics, such as total assets, participants, and participating nonprofits, amongst other data, to future meetings for review. In response, Mr. Lynch provided a copy of this information in the form of an organizational enrollment summary Mr. Lynch had created using the Plan's organizational enrollment checklist spreadsheet.

- Mr. Favorito also asked if it would be possible to have Empower Retirement, recordkeeper of the Plan, provide quarterly operational updates with either a presentation before the Committee or, if unable to attend, a summary report. Mr. Lynch responded that he would refer back to Empower Retirement on their future availability.

III. Fund Performance Review:

At this time, Mr. Lynch distributed the Aon Hewitt Quarterly Investment Review, Second Quarter 2018, and Aon Hewitt Governance Overview to the Committee Members. Mr. Lynch noted that while Aon Hewitt was unable to attend the Committee Meeting today, they would attend future Committee Meetings to present the Fund Performance Review.

Before the Fund Performance Review, Mr. Lynch directed the Committee to the CORE Plan organization enrollment summary. Mr. Lynch stated that the chart provided a brief synopsis of the organizations who have elected to join CORE.

- Mr. Lynch stated that 34 nonprofit employers have adopted the CORE Plan. Mr. Lynch noted that of these 34 nonprofit employers, 31 had no prior retirement plan and were enrolled as a start-up plan. Of the 3 remaining employers to join the CORE Plan, Mr. Lynch stated that one employer transitioned to the CORE Plan from a prior 401(k) plan, with over \$1 million in total assets. Mr. Lynch also noted that the remaining two employers were previously enrolled in 403(b) plans, and that those accounts were being transferred over via individual participant account rollovers.
- Mr. Lynch voiced his appreciation that the majority of employers, 18, had chosen the Safe Harbor Matching Contribution election, while an additional 7 employers chose the Safe Harbor Non-Elective Contribution option.
 - ❖ Mr. Favorito asked if Mr. Lynch knew of the previous recordkeepers for the employers transitioning to the Plan. Mr. Lynch responded Lincoln Financial was the previous provider for one organization's prior 401(k) plan. Mr. Lynch stated that he would confirm who the providers were for the 403(b) plans.
 - ❖ Mr. Favorito asked what the current statistics were as pertains to employees covered by the Plan. Mr. Lynch responded that, as of September 20, 2018, the 34 employers covered just over 220 eligible employees. Mr. Caruso noted that over 110 participants had assets in the Plan, with several still in the auto-enrollment opt-out period.

At this time, Mr. Lynch directed the Committee to the Quarterly Investment Review.

- Mr. Lynch stated that total plan assets were over \$1.3 million at the end of second quarter, and that assets had risen to over \$1.7 million as of September 20, 2018. Mr. Lynch also noted that nearly all assets were currently allocated to the CORE Target Date Funds, which serve as the qualified default investment alternative for the Plan.
- Mr. Lynch continued with investment performance. Mr. Lynch noted that the historical fund performances through end of second quarter were limited to only five months thus far, and that most assets were held within the CORE 2020, 2025, and 2030 vintages.
 - ❖ Mr. Favorito asked how the CORE Target Date Funds were being compared beyond their custom CORE Retirement Benchmark, such as comparison to other products in the market. Mr. Lynch responded that peer universe comparisons would be provided by Aon Hewitt at future meetings, and that this would provide a comparison against target date fund products from State Street, T. Rowe Price, Vanguard, and BlackRock, amongst others.
- On the topic of fund fees, Mr. Lynch stated that the listed expense ratios were inclusive of the investment manager fee, a 10 bp accrual for the 3(38) investment consultant services, and a 1 bp accrual for directed trustee services.

- ❖ Mr. Clay asked how the fees compared to the peer universe. Mr. Lynch responded that the fund expense ratios were either in line or below the median expense ratio of their peer equivalent funds.
- Mr. Lynch continued that, in addition to 3(38) investment consultant services, Aon Hewitt would be providing support to the Committee in matters of compliance and fiduciary training. Mr. Lynch noted that these services were offered during the procurement process. Ms. Robbins continued and stated that this was a great opportunity to take advantage of these services, and that a future fiduciary training session with Aon Hewitt can be scheduled.
 - ❖ Mr. Favorito asked if the Committee, in addition to an initial training, should consider future trainings on an annual basis. Mr. Clay agreed that this would be appropriate. Ms. Rooney responded that Aon Hewitt had recommended trainings every two years. Mr. Lynch continued and noted that Aon Hewitt could also provide an update of relevant matters on an annual basis.
 - ❖ Mr. Favorito asked if the fiduciary training could be held at a Committee Meeting. Ms. Robbins responded that, per the recommendation of Aon Hewitt, the initial training session would take at least two hours. Mr. Favorito asked if the training session could be scheduled around the time of the next Committee Meeting. Ms. Rooney responded that they would work with Aon Hewitt to see if this could be possible.

With no further questions, Mr. Favorito thanked Mr. Lynch for the presentation.

IV. Investment Policy Statement Review:

At this time, Mr. Lynch directed the Committee members to the Investment Policy Statement for review.

- Mr. Lynch asked if the Committee members had any questions or comments on the Investment Policy Statement. Mr. Favorito asked if there had been any changes on the Investment Policy Statement since the initial review. Mr. Lynch responded that the current version, dated October 31, 2017, was the initial Investment Policy Statement for the Plan.
 - ❖ Mr. Favorito asked if the Investment Policy Statement was available publicly. Mr. Lynch responded that while it was not posted publicly, it is a public document and available upon request.
- Ms. Robbins continued and noted that the Investment Policy Statement states that Committee members would review and monitor the performance of the OCIO, Aon Hewitt, and based on the recommendations of the OCIO, would periodically review the provisions of the Investment Policy Statement. Ms. Robbins stated that Aon Hewitt recommended an annual review.

- ❖ Mr. Favorito asked if a schedule could be created to ensure regular reviews of different topics, such as fund performance, fiduciary insurance policy, and the Investment Policy Statement, at each future quarterly Committee Meeting. Ms. Robbins responded that this could be organized.
- ❖ Mr. Favorito asked if any action was required on the Investment Policy Statement. Ms. Robbins responded that if the Committee members were comfortable with the current version, they could proceed with a vote to approve.
- Mr. Lynch, in reference to the Custom Target Date Funds section, stated his concern regarding Aon Hewitt and its current position as both OCIO and glidepath services provider. Mr. Lynch questioned if this could be perceived as a potential conflict of interest, and stated his concern given recent lawsuits against Aon Hewitt regarding the Lowe's Companies 401(k) plan. However, Mr. Lynch noted that unlike the situation with Lowe's, Aon Hewitt was not advising on the use of Aon Hewitt's proprietary target date funds for the Plan and are applying their glidepath design for the custom suite of target date funds.
 - ❖ Mr. Lynch asked the Committee members if it would make sense to consider unbundling glidepath services from the OCIO contract and have Aon contract with a third-party. Mr. Clay agreed.
 - ❖ Mr. Lynch noted that, in the OCIO contract negotiations, the glidepath services were provided by Aon Hewitt as part of their overall fee structure, and that contracting with a third-party for glidepath services would likely add an additional fee to each target date fund.
 - ❖ Mr. Favorito asked if there was any separation between the OCIO services and the glidepath services within the internal structure of Aon Hewitt. Mr. Lynch could not confirm but responded that they would communicate the Committee's concerns and ask Aon Hewitt to elaborate on this structure at the next Committee Meeting. Mr. Clay agreed.

11:36 a.m. Henry Clay departs.

- ❖ Mr. Favorito noted his concerns as well but stated that the Committee members should wait to hear from Aon Hewitt at the next Committee Meeting prior to any decisions. Mr. Lynch agreed.

V. Miscellaneous

- On the topic of litigation against Aon Hewitt, Mr. Favorito asked that Plan staff stay informed and monitor any new developments regarding the lawsuits, as well as any potential impact it may have on the Plan. Mr. Lynch agreed.

- Mr. Favorito asked about the current budget and funding of the Plan. Mr. Lynch responded that the Plan currently did not have a budget beyond the \$200 plan administrative fee charged annually to participating nonprofits, beginning in their second year of participation.
- Mr. Favorito asked if the Plan had a responsibility to show its budget for tax filing purposes. Ms. Robbins noted that, given the Plan was in its inaugural year, these assets were unavailable thus far. Mr. Lynch continued and stated that the Plan had posted an RFR for ERISA 3(16) fiduciary services.
- Mr. Lynch asked Mr. Favorito if it would be worth considering an amendment to the current H.29 legislation to allow for fundraising for Plan expenses. Mr. Favorito agreed with Mr. Lynch and asked that it be reviewed and suggested to the Treasury Legislative team as a potential amendment.
- Lastly, Ms. Robbins reviewed key considerations for the Committee with respect to allowing remote participation as governed by existing regulation that is designed to allow for participation while still encouraging committee members to attend in person, where possible. Specifically, Ms. Robbins listed the following as key standards for allowing remote participation:
 - ❖ Members must all be clearly audible to one another;
 - ❖ The meeting must have a physical (in-person) quorum;
 - ❖ If participating remotely, your vote does count;
 - ❖ Votes must be via role call when there is a remote participant; and
 - ❖ Should the Committee vote to allow remote participation, a Committee member may only participate remotely if physical attendance would be unreasonably difficult. According to Ms. Robbins, the Attorney General’s office has not specifically defined what encompasses “unreasonably difficult,” but that in the past remote participation would have been permitted for reasons of illness or geographic location.

Mr. Favorito asked for a motion to allow for remote participation, in accordance with the Attorney General’s regulations, at all future Investment Committee meetings. Mr. Lynch made the motion to allow for remote participation in accordance with the Attorney General’s regulations at all future Investment Committee meetings. Mr. Favorito seconded the motion.

VI. Future Meeting Dates

Mr. Favorito asked for future meeting dates to be determined based on what would be most convenient for the attendees. Ms. Rooney noted that representatives from Aon Hewitt would be available for December 4, 2018, as they would be in attendance for the SMART Plan Deferred Compensation Committee Meeting that day. Mr. Favorito thanked Ms. Rooney and suggested the Committee Meeting be tentatively scheduled for December 4, 2018 as well.

VII. Close of Meeting

11:45 a.m. Close of Meeting.

Motion to adjourn by Mr. Favorito seconded by Mr. Lynch.

Documents Used at the CORE Investment Committee Meeting of September 21, 2018

- Agenda for the September 21, 2018 CORE Investment Committee Meeting;
- CORE Plan – Organization Enrollment Checklist;
- Quarterly Investment Review, Second Quarter 2018;
- Aon Hewitt Governance Overview; and
- Investment Policy Statement for the Massachusetts Defined Contribution CORE Plan, October 31, 2017.