

# **Commonwealth of Massachusetts Employees Deferred Compensation Plan**

## **Minutes of the Deferred Compensation Committee March 25, 2021**

The Deferred Compensation Committee (the “Committee”), the oversight committee for the Commonwealth of Massachusetts Employees Deferred Compensation Plan (the “Plan” or the “SMART Plan”), met, pursuant to notice, via video- and teleconference, on Thursday, March 25, 2021. John Curran, Tom Magno and Robert Sheridan, being all voting members of the Committee, were in attendance.

Also present by invitation were Giuseppe Caruso, Henry Clay, David Lynch, Laura Rooney, and Emily Robbins of the Commonwealth of Massachusetts Office of the Treasurer and Receiver General (“Treasurer’s Office”); and Chris Behrns, Beth Halberstadt, Sue Sinclair and Diane Smola of Aon Investments USA Inc. (“Aon”). Kevin Balaod from Fundmap also attended the meeting. Invited guests and Mr. Balaod attended via video- and teleconference.

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

Mr. Sheridan noted that the meeting was being conducted via video- and teleconference call 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. Mr. Sheridan advised attendees of the recording parameters under the Open Meeting Law M.G.L. c. 30A, §§ 18-25 and applicable regulations. Mr. Sheridan then instructed the Committee and guests to notify the meeting members if any part of the meeting was not audible. Attendees confirmed that no one was recording the meeting.

The Committee reviewed and on a motion by Mr. Magno and seconded by Mr. Curran, approved the meeting minutes from the December 10, 2020 meeting. The approval was unanimously confirmed via roll call: Mr. Sheridan, Mr. Curran, and Mr. Magno.

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

1. Meeting Agenda for the March 25, 2021 Deferred Compensation Committee;
2. Minutes of the December 10, 2020 Deferred Compensation Committee Meeting;
3. Executive Director’s Quarterly Update – 457 Defined Contribution Plan – Q4 2020, (hereinafter, “Executive Director Update”);
4. Commonwealth of Massachusetts Deferred Compensation Plan, 4Q 2020, Quarterly Highlights Report, (hereinafter, “Quarterly Highlights Report”);
5. Annual Multi Manager Custom Fund Investment, Manager Structure Policy Review, (hereinafter, “Multi Manager Review”);
6. SMART Plan Managed Account Review, March 25, 2021, (hereinafter, “Managed Accounts Report”); and
7. Commonwealth of Massachusetts Deferred Compensation Plan, Fourth Quarter 2020, Quarterly Investment Review, (hereinafter, “Quarterly Investment Review”).

Directing the Committee to the Executive Director Update, Mr. Lynch provided updates on the following topics:

- Plan assets as of December 31, 2021 were \$11.7 billion dollars.
- An implementation progress report for the decisions made by the Committee at the December 10, 2020 meeting:
  - The SMART Real Return Fund will be terminated as an investment option in the Plan's core investment menu. Participant account balances invested in and investment elections including the SMART Real Return fund on at the close of business March 25, 2021 will be mapped to the SMARTPath Target Date Funds based on the participant's expected retirement age. The change will be effective in participant accounts on March 26, 2021. Mr. Lynch confirmed this SMART Real Return fund will continue to be part of the SMARTPath Target Date Funds' underlying investment portfolio;
  - A Request for Response ("RFR") was issued on March 16, 2021 in order to select one or more fund managers for a new Income Fund strategy; and
  - Planning for the Real Estate REIT Fund's away from the active allocation to the Brookfield US Real Estate Securities Value Income Strategy to the passively managed State Street REIT Index Non-Lending Fund, along with an allocation to core private real estate also to be added through the J.P. Morgan Diversified Commercial Property Fund is underway. Given the complexities of the transaction, the effective date of the restructure is still being determined.
- Fund expense ratios for the following funds were reduced:
  - SMART Capital Preservation Fund
  - High Yield Bond Fund
  - Small Company Stock Fund
- The Retirement Solutions Group activity related to participant roll-ins and account retention for terminated or retired employees.
- Bill H.33 was refiled to the Massachusetts Legislature proposing to add automatic enrollment to the SMART Plan.

Mr. Behrns referred the Committee to the Quarterly Highlights Report. During the review of the report:

- Mr. Behrns informed the Committee that the Capital Preservation Fund RFR is complete resulting in a change of two new managers and articulated his understanding that contracting has begun;
- Mr. Lynch reported the cost proposal provided by the Plan's recordkeeper, Empower, to implement the expansion of investment options to participants in the Plan under Omnibus Budget Reconciliation Act ("OBRA") of 1990 is still under review due to the complexity of the fees for the service;

Ms. Smola reviewed the "Market Highlights" section of the Quarterly Highlights Report. She led the Committee through a discussion of the state of the overall economy, the domestic and international equity markets, the bond markets and other capital markets, focusing on year-to-date returns through December 31, 2021, and also noting more recent events impacting the markets quarter-to-date up to today. At the Committee's prompting, Ms. Smola commented on the actions of the Federal Reserve and the impact those actions have had on the United States economy.

Mr. Behrns informed the Committee the lead portfolio manager for the T. Rowe Price US Large Cap Core Strategy has announced his retirement and discussed the succession plan for the management of the fund. He noted that this change does not change Aon's rating for the fund at this time. Directing the Committee to the Asset Allocation and Performance Report in the Quarterly Highlights Report, he noted and discussed situations in which there are exceptions to, or comments on, the targeted performance, company structure or other relevant aspects of the funds offered against the Plan's Investment Policy Statement of the funds through December 31, 2020.

Directing the Committee to the Multi-Manager Review, Mr. Behrns reviewed Aon's analysis for each of the multi-manager funds offered in the Plan. In the course of his discussion, he explained Aon's review of manager allocation for each of the multi-manager funds that included an analysis of the manager's historical risk and return, fund style, factor dispersion, statistics and fees, noting that the U.S. REIT Index Fund was excluded from the analysis due to the pending changes to that fund. Mr. Behrns and the Committee discussed Aon's analysis and resulting allocation adjustments for the U.S. Large Company Blend and U.S. Large Company Value Funds. The Committee reviewed and discussed Aon's recommended changes. On a motion by Mr. Curran and seconded by Mr. Magno, the Committee voted in support of approving the following Aon recommended allocation adjustments for the U.S. Large Company Blend Fund (50% Vanguard, 22% Fidelity, 23% T. Rowe Price, and 5% Liquidity) and the U.S. Large Company Value Fund (50% Dodge & Cox, 45% Aristotle, and 5% Liquidity). The approval was unanimously confirmed via roll call: Mr. Sheridan, Mr. Magno, and Mr. Curran.

Following up to the Committee's request from last meeting that Aon further discuss managed accounts as compared to target date funds, Ms. Smola referred the Committee to the Managed Account Report. In the review of the report, Ms. Smola and Mr. Behrns:

- Reviewed the services managed accounts offers to the Plan's participants;
- Discussed the current participant utilization of the service;
- Explained how managed accounts differ from target date funds in general and as related to the Plan;
- Discussed Aon's view of managed accounts;
- Provided a market overview of managed account providers; and,
- Summarized the overall benefits and considerations the Committee may consider related to the Plan's managed account offering in preparation for upcoming Committee meetings.

During the course of this discussion, Mr. Curran left the meeting.

The Committee, Mr. Lynch, Ms. Rooney, Ms. Smola, and Mr. Behrns discussed in detail the Plan's current managed account utilization as related to the Plan's participant demographics, Empower's participant engagement and support services related to managed accounts, engagement by participants using managed accounts that also are accruing a pension balance and the fee structure of the managed account service. Ms. Smola informed the Committee the next meeting would include a presentation by the Plan's managed account provider, Advised Asset Group.

Based on the information contained in the reports and considering the best interests of the participants and beneficiaries in the Plan, Aon made no recommendations to change the investments in the Plan at this time, other than those noted above.

The Committee directed Ms. Rooney to work with Aon to determine the next meeting date.

There being no further business to come before the Committee, on a motion by Mr. Sheridan and seconded by Mr. Magno, the meeting was adjourned at 12:06 p.m. Eastern Time. Roll call: Mr. Sheridan, Mr. Magno.