

Commonwealth of Massachusetts Employees Deferred Compensation Plan

Minutes of the Deferred Compensation Committee December 13, 2022

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 Tuesday, December 13, 2022. John Curran, Tom Magno, and Robert Sheridan, being all the voting members of the Committee, were in attendance.

Also present by invitation were Nicola Favorito, Sarah Kim, David Lynch, Sandra DeSantis Lynch, Caitlin Marksteiner, Joel Massa, and Laura Rooney of the Commonwealth of Massachusetts Office of the Treasurer and Receiver General (“Treasurer’s Office”); Chris Behrns, Aaron Fillipp, John Flagel, Beth Halberstadt, and Sue Sinclair of Aon Investments USA Inc. (“Aon”); and Joseph Butler and Tommy Garvey of GMO. All attendees participated via video- and teleconference.

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

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 December 13, 2022 Deferred Compensation Committee;
2. Minutes of the September 21, 2022 Deferred Compensation Committee Meeting;
3. Executive Director’s Quarterly Update – 457 Defined Contribution Plan – Q3 2022, (hereinafter, “Executive Director Update”);
4. Commonwealth of Massachusetts Deferred Compensation Plan, 3Q 2022, Quarterly Highlights Report, (hereinafter, “Quarterly Highlights Report”); and
5. GMO, Commonwealth of Massachusetts, Asset Allocation Update, December 13, 2022 (hereinafter, “GMO Report”).

In addition, the following document was distributed in advance of the meeting but not reviewed during the discussion:

6. Commonwealth of Massachusetts Deferred Compensation Plan, Third Quarter 2022, Quarterly Investment Review.

Mr. Sheridan noted that the meeting was being conducted via video- and teleconference call in accordance with An Act Relative to Extending Certain State of Emergency Accommodations signed into law by Governor Baker on July 16, 2022. 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 instructed the Committee and guests to notify the meeting members if any part of the meeting was not audible via teleconference. Attendees confirmed that no one was recording the meeting.

The Committee reviewed and on a motion by Mr. Curran and seconded by Mr. Magno, approved the meeting minutes from the September 21, 2022 meeting. The approval was unanimously confirmed via roll call: Mr. Curran, Mr. Magno, Mr. Sheridan.

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

- ✦ Plan assets as of September 30, 2022 decreased 17.40% to \$10.39 billion;
- ✦ Implementation of the SMART Income Fund continues and is expected to be available to participants on or before the end of the third quarter of 2023;
- ✦ Participants are electing to convert pre-tax assets to Roth because of the recent Plan amendment allowing In-Plan Roth Conversions;
- ✦ The expansion of the Mandatory OBRA investments was made available to participants as scheduled on October 1, 2022;
- ✦ MFS, Harding Loevner, and Arrowstreet Capital have been recommended to provide investment management services for the Plan's International Equity Fund. The manager changes are expected to be completed during the first quarter of 2023. The expense ratio for the fund will increase from 55 bps to 64 bps when the change goes into effect.
- ✦ A Request for Response has been issued for the Plan's audit services; and ✦ The bill allowing the Plan to adopt automatic enrollment will be refiled.

Mr. Lynch updated the Committee as to the potential of the Securing a Strong Retirement Act, also referred to as "SECURE 2.0," passing into Federal law. The Committee and Mr. Lynch discussed the similarities of SECURE 2.0's proposal to require automatic enrollment in new 401(k) plans to the bill the Treasurer's Office intends to refile for the Plan and revisited public opposition that was raised during previous attempts to amend the Plan for automatic enrollment. Mr. Lynch informed the Committee that his team will continue to pursue all legislative options available to add automatic enrollment provisions to the Plan.

Mr. Flagel directed the Committee to the Quarterly Highlights Report and reported on the current state of the capital markets and economy, considering the Plan's Investment Policy Statement (IPS). Mr. Flagel commented on the impact that inflation, interest rates, and economic recession have on the markets and the Plan's performance. The Committee and Mr. Flagel discussed the potential impact that the ongoing war in Ukraine may have on the markets and the Plan's performance.

Mr. Behrns reviewed the asset allocation in the Plan and, considering the Plan's IPS, the performance of the funds over various periods as compared to benchmarks. He also commented on the impact of economic and market activity, among other developments, on the fund managers' strategies of the current investments in the Plan. He commented on the impact each of the investment managers for the SMARTPath Target Date Funds and the Large Company Blend Fund had on their respective performance through September 30, 2022 and year-to-date. Mr. Behrns and Mr. Lynch referred the Committee to the "Bench Managers" report and noted these managers have been pre-qualified in the event the Committee elects to change any of the investment managers under the Plan. The Committee, Mr. Behrns, and Mr. Flagel discussed several considerations when terminating an investment manager during periods of market volatility.

Following discussion, based on the contents of the Quarterly Highlights Report, the best interest of the participants and beneficiaries in the Plan, Aon, in its role as the discretionary investment manager, addressed no changes to be made to the investments in the Plan at this time.

The Committee, Ms. Rooney and Mr. Lynch discussed call center response times at the Plan's recordkeeper, Empower Retirement Services (Empower). Ms. Rooney informed the Committee that Empower has instituted a process whereby participants with an expected call center wait time of 3 minutes or longer have the option of leaving their contact information for a return call instead of waiting on hold. She noted that she will continue to monitor call center reporting metrics monthly. The Committee asked Ms. Rooney to keep them informed of the call center's performance in future meetings.

Mr. Garvey and Mr. Butler joined the meeting.

Ms. Rooney introduced Mr. Garvey and Mr. Butler to the Committee and guests. Mr. Butler referred the Committee to the GMO Report. Mr. Garvey led a discussion of the report, including the objectives, research strategies, and asset allocation used in the Benchmark-Free Allocation Strategy held in the Plan. The Committee, Mr. Behrns, and Mr. Garvey discussed the potential impacts the findings of the report may have on the Plan and its participants.

Mr. Butler and Mr. Garvey left the meeting.

The Committee and Mr. Behrns commented on Mr. Garvey's presentation of the GMO Report and the differences in market views between Aon and GMO.

Mr. Sheridan requested Mr. Lynch's team coordinate the next Committee meeting date.

There being no further business to come before the Committee, on a motion by Mr. Magno and seconded by Mr. Curran, the motion to adjourn was unanimously confirmed via roll call: Mr. Curran, Mr. Magno, Mr. Sheridan at 11:40 a.m.. Eastern Time.