

Commonwealth of Massachusetts Employees Deferred Compensation Plan

Minutes of the Deferred Compensation Committee December 2, 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, December 2, 2021. John Curran, Tom Magno and Robert Sheridan, being all the voting members of the Committee, were in attendance.

Also present by invitation were Henry Clay, Nicola Favorito, David Lynch, Caitlin Marksteiner, and Joel Massa of the Commonwealth of Massachusetts Office of the Treasurer and Receiver General ("Treasurer's Office"), John Flagel, Beth Halberstadt, and Sue Sinclair of Aon Investments USA Inc. ("Aon") and Jeff Edwards and Hugh Watters of Vanguard, who joined later in the meeting. Invited guests attended via video- and teleconference.

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

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 2, 2021 Deferred Compensation Committee;
2. Minutes of the September 17, 2021 Deferred Compensation Committee Meeting;
3. Executive Director's Quarterly Update – 457 Defined Contribution Plan – Q2 2021, (hereinafter, "Executive Director Update");
4. Commonwealth of Massachusetts Deferred Compensation Plan, 3Q 2021, Quarterly Highlights Report, (hereinafter, "Quarterly Highlights Report"); and
5. Vanguard, Prepared for Commonwealth of Massachusetts, (hereinafter, "Vanguard Report").

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

6. Commonwealth of Massachusetts Deferred Compensation Plan, Third Quarter 2021, Quarterly Investment Review.

Mr. Sheridan noted that the meeting was being conducted via video- and teleconference call in accordance with An Act Extending Certain COVID-19 Measures Adopted During the State of Emergency signed into law by Governor Baker on June 16, 2021. Mr. Sheridan then 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 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 17, 2021 meeting. The approval was unanimously confirmed via roll call: Mr. Magno, Mr. Curran, Mr. Sheridan.

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

- Plan assets as of September 30, 2021 were \$12.58 billion dollars;
- Joint Committee on Public Service heard H.33 on July 28, 2021 proposing to implement auto enrollment programs for all new state and participating municipalities at their discretion and to allow the Plan to cover the cost of employee salaries for their work on the Plan; Bill is currently pending referral from aforementioned committee;
- Joint Committee on State Administration and Regulatory Oversight heard H. 34 proposing budgetary relief for the Treasury by allowing the Plan to cover the cost of employee salaries for their work on the Plan; Bill is pending referral from aforementioned committee;
- PIMCO Income Fund and Fidelity Tactical Bond Strategy have been recommended for the SMART Income Fund, pending contracting;
- Final recommendations for the OBRA Mandatory Investment Expansion fees and implementation are expected on or before March 31, 2022; and
- Addition of in-plan Roth Conversions to the Plan have been put on hold pending further research on participant education and engagement strategies, considering the income tax implications for participants.

Mr. Flagel referred the Committee to the Quarterly Highlights Report. He provided the Committee status updates to several outstanding projects including:

- Capital Preservation Fund Request for Response;
- Completion of the Real Estate Fund reallocation; and
- Manager due diligence meetings completed since the September 17, 2021 Committee meeting.

Mr. Flagel reviewed the “Fund Monitoring Summary” and “Recordkeeping Vendor Monitoring Summary” sections of the Quarterly Highlights Report, noting no exceptions to either summary. He reviewed the “Market Highlights” section and 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 September 30, 2021. Reviewing the “Asset Allocation and Performance” section, Mr. Flagel 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 (IPS) for the third quarter of 2021. He reviewed the management fees for the investments in the Plan, noting that the fees for all investments are below the median of the applicable peer group. The Committee and Mr. Flagel discussed Aon’s approach for determining appropriate benchmarks for fund performance and fees given the use of collective investment trusts in the Plan.

Mr. Flagel informed the Committee that, based on their feedback from the September 17, 2021 meeting, Aon has redrafted the language changes to Section 7 of the IPS, as outlined in the draft IPS included in the Quarterly Highlights Report. He reviewed the recommendations and the Committee thoroughly discussed the proposed updates. On a motion by Mr. Curran and seconded by Mr. Magno, the Committee agreed to adopt the changes. Roll Call: Mr. Curran, Mr. Magno, Mr. Sheridan.

Mr. Flagel agreed to provide a copy of the updated IPS to the Committee following the meeting.

Based on the information contained in the reports and considering the best interests of the participants and beneficiaries in the Plan, Aon, in its role of discretionary investment manager, addressed no changes to be made to the investments of the Plan at this time.

The Committee asked Ms. Sinclair to work with Mr. Lynch and his team to schedule the next Committee meeting.

Messrs. Edwards and Watters joined the meeting.

Mr. Edwards provided the Committee an update about Vanguard as a company and briefly discussed new services and funds that had been launched since 2020. Mr. Watters directed the Committee to the Vanguard Report and discussed Vanguard's management and research approach to the Vanguard Dividend Growth Fund, the fund's performance, and reasons why the fund's portfolio deviates from standard performance benchmarks. At the Committee's prompting, Mr. Watters explained the role Environmental, Social and Governance factors plays in the fund's research and management.

Messrs. Edwards and Watters left the meeting.

The Committee and Aon discussed the Vanguard Report and asked Aon to prepare recommendations as to the most appropriate benchmark for the Vanguard Dividend Growth Fund for future performance reports.

There being no further business to come before the Committee, on a motion by Mr. Sheridan and seconded by Mr. Curran, the meeting was adjourned at 11:40 a.m. Eastern Time. Roll call: Mr. Magno, Mr. Curran, Mr. Sheridan.