

Commonwealth of Massachusetts Employees Deferred Compensation Plan

Minutes of the Deferred Compensation Committee July 13, 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, July 13, 2021. John Curran, Tom Magno and Robert Sheridan, being all voting members of the Committee, were in attendance.

Also present by invitation were Henry Clay, Nicola Favorito, David Lynch, Laura Rooney, and Emily Robbins of the Commonwealth of Massachusetts Office of the Treasurer and Receiver General ("Treasurer's Office"); Chris Behrns, John Flagel, Beth Halberstadt, and Sue Sinclair of Aon Investments USA Inc. ("Aon"), Marybeth Daubenspeck, John Fellin, John Mohan and Kenneth Verzella of Empower Retirement ("Empower"); and Daniel Bruns of Morningstar Investment LLC ("Morningstar"). 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.

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. Sheridan and seconded by Mr. Curran, approved the meeting minutes from the March 25, 2021 meeting. The approval was unanimously confirmed via roll call: Mr. Magno, Mr. Curran, and 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 July 13, 2021 Deferred Compensation Committee;
2. Minutes of the March 25, 2021 Deferred Compensation Committee Meeting;
3. Executive Director's Quarterly Update – 457 Defined Contribution Plan – Q1 2021, (hereinafter, "Executive Director Update");
4. Commonwealth of Massachusetts Deferred Compensation Plan, 1Q 2021, Quarterly Highlights Report, (hereinafter, "Quarterly Highlights Report");
5. Massachusetts Deferred Compensation SMART Plan, (hereinafter, "Empower Report"); and

6. Internal Rate of Return Report – 1st Quarter 2021, Empower Retirement, (hereinafter, “IROR Report”).

In addition, the following documents were distributed in advance of the meeting but were not reviewed during the discussion;

7. Commonwealth of Massachusetts Deferred Compensation Plan, First Quarter 2021, Quarterly Investment Review, (hereinafter, “Quarterly Investment Report”);
8. SMART Plan- Questions for Advised Assets Group, LLC (AAG) Related to Managed Accounts, (hereinafter, “Managed Account Questions”); and
9. Two Paths to Investing for Retirement, Which One is Right for You (hereinafter, “Path Education Newsletter.”)

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

- Mr. Lynch provided the following staff updates:
 - Giuseppe Caruso, Operations Associate at the Treasurer’s Office and valued member of the Plan’s administration team, departed in June 2021 and expressed that Mr. Caruso’s meticulous attention to detail for the Plan will be greatly missed. The search for Mr. Caruso’s replacement is currently underway and the Committee will be informed once a new Operations Associate is hired.
 - Ms. Robbins, Defined Contribution Plan’s Legal Counsel, will be leaving the Treasurer’s Office for another opportunity. Mr. Lynch and the Committee thanked her for her work to the Plan and noted that the impact of her expertise, diligence and dedication to the Plan will endure.
 - Mr. Lynch and the Committee discussed potential obstacles in attracting and retaining staff for the Plan’s administration.
- Plan assets as of March 31, 2021 were \$12.03 billion dollars.
- Investment manager fee changes:
 - A fee reduction from Dimensional Fund Advisors for the Small Company Stock Fund was negotiated retroactive to March 1, 2021;
 - A fee reduction from Nomura Asset Management for the High Yield Bond Fund retroactive to January 1, 2021; and
 - Fidelity Growth Company Collective Investment Trust will become eligible for a lower fee once the fund reaches \$1 billion in assets.
- Implementation progress report:
 - Real Estate REIT fund transition is anticipated to be completed early August 2021;
 - Large Company Blend Stock Fund and the Large Company Value Stock Fund optimizations were completed during the June 30, 2021 rebalance process;
 - Following a thorough procurement process, the following managers manager contracts were awarded for the SMART Capital Preservation Fund: Goldman Sachs, Income Research & Management, Loomis Sayles and Wellington Management; and
 - Request for Response process for manager(s) for the SMART Income Fund continues to progress.

During the Executive Director’s update, Mr. Lynch and the Committee discussed the number of investment options available to participants with account balances required by the Omnibus Reconciliation Act of 1990 (“OBRA participants”). Mr. Lynch noted that

negotiations continue with the Plan's recordkeeper, Empower, related to the administration of investment options for OBRA participants. He also explained the evaluation and negotiation of administrative fees, including equitable allocation of those fees across OBRA participant balances, continues. At the Committee's prompting, Mr. Lynch informed the Committee that a hearing for Bill H.35, proposing to add automatic enrollment to the SMART Plan, has not yet had a hearing in the Massachusetts Legislature. Mr. Sheridan requested that he and Mr. Lynch discuss feedback received related to the Bill at a later date before the next scheduled Committee meeting.

Ms. Halberstadt relayed to the Committee that Diane Smola has left Aon to pursue other opportunities and introduced John Flagel as a new member of Aon's consulting team. The Committee and Ms. Halberstadt discussed Aon's team transitions over the past several years. At the Committee's prompting, Mr. Lynch informed the Committee that Aon's contract is through August of 2022.

Mr. Behrns referred the Committee to the Quarterly Highlights Report. During the review of the report, he updated the Committee as to the status of completed and scheduled manager due diligence meetings conducted by Aon and the Treasurer's Office staff. Mr. Flagel reviewed the "Market Highlights" section of the Quarterly Highlights Report 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 March 31, 2021, and also noting more recent events impacting the markets month to date up to June 30, 2021. At the Committee's prompting, Mr. Flagel and the Committee discussed the potential impact that inflation may have on the Plan and its participants.

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 for the first quarter of 2021 and the month of April 2021.

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.

Ms. Daubenspeck and Messrs. Fellin, Mohan, Verzella and Bruns joined the meeting.

Mr. Fellin and Ms. Daubenspeck referred the Committee to the Empower Report and provided an overview of Empower, its service framework supporting the Plan's managed account offering. Messrs. Mohan and Verzella discussed participant behavior and utilization statistics related to the Plan's managed account service and target date funds and explained Morningstar's relationship to Empower's managed account service, the Advised Assets Group ("AAG"). Further, they discussed AAG's approach to participant advice, the impact that participant engagement or personalization has on certain participant behaviors for those using managed accounts and illustrative examples of the impact managed account personalization may have on different financial and investment profiles across the Plan's participant base. Mr. Bruns discussed the potential realm of impact for participants nearing or at the spending phase of their retirement.

Throughout the course of the discussion, the Committee, Mr. Lynch, Mr. Behrns, Ms. Halberstadt, Mr. Bruns and the Empower team discussed the options available and potential drawbacks for the Plan to automate certain aspects of the managed account personalization process. Further, they discussed the level of engagement from participant spouses and beneficiaries, the ease of use for participants to enroll, personalize, and monitor managed accounts, AAG's considerations when integrating the tax impact of pre-tax and Roth contributions into its advice, and the free 90-day subscription model and managed account fees currently charged to participants. Referring periodically to the IROR Report, the Committee commented on the participant population's rate of return based on the type of investment allocation tools available and Empower's explanation of the differences between the type of tool used. The Committee asked Mr. Lynch to explore the operational and data privacy feasibility of providing Plan participants' pension accrual information to the managed account service on an ongoing basis.

Ms. Daubenspeck and Messrs. Fellin, Mohan, Verzella and Bruns left the meeting.

The Committee, Mr. Behrns and Ms. Halberstadt continued to comment on the managed account services, the educational support that Empower and AAG offer to Plan participants to learn how to use the tool most effectively and the differences to the rate of return for participant using managed accounts as compared to target date funds, online advice, and for participants that do not use investment allocation tools at Empower.

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 12:15 p.m. Eastern Time. Roll call: Mr. Magno, Mr. Curran, Mr. Sheridan.