

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

## **Minutes of the Deferred Compensation Committee March 3, 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 Thursday, March 3, 2022. 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, Joel Massa, and Laura Rooney of the Commonwealth of Massachusetts Office of the Treasurer and Receiver General ("Treasurer's Office"); Chris Behrms, John Flagel, Beth Halberstadt, and Sue Sinclair of Aon Investments USA Inc. ("Aon"); and Heidi DeLauter, Ellie Nall, Kaite Ricany, and Craig Watson of T. Rowe Price ("TRP"), 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 11:00 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 March 3, 2022 Deferred Compensation Committee;
2. Minutes of the December 2, 2021 Deferred Compensation Committee Meeting;
3. Executive Director's Quarterly Update – 457 Defined Contribution Plan – Q4 2021, (hereinafter, "Executive Director Update");
4. Commonwealth of Massachusetts Deferred Compensation Plan, 4Q 2021, Quarterly Highlights Report, (hereinafter, "Quarterly Highlights Report");
5. Annual Multi Manager Custom Fund Investment Manager Structure Policy Review, March 3, 2022, (hereinafter, "Multi Manager Structure Review"); and
6. US Large-Cap Core Growth Equity Strategy, Presentation to the Commonwealth of Massachusetts Employees Deferred Compensation Plan, 3 March 2022, (hereinafter, "TRP Report").

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

7. Commonwealth of Massachusetts Deferred Compensation Plan, Fourth 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 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 December 2, 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 December 31, 2021 increased 7.63% from the prior quarter and were \$12.56 billion dollars;
- Plan metrics related to participant counts, contributions and Roth savings;
- Joint Committee on Public Service referred to study Bill H.33 is proposing to implement auto enrollment programs;
- Proactive investment manager fee reductions for:
  - Dimension Fund Advisors Small Cap Portfolio reducing from 30 basis points (“bps”) to 25 bps, effective March 1, 2022
  - Income Research and Management allowed for aggregate pricing resulting from negotiations initiated by the Plan’s stable value fund manager, Goldman Sachs; the current effective fee of 13.5 bps will reduce to an effective fee of 10.4 bps
  - JP Morgan Diversified Commercial Property Fund will move from share class 3 at 78 bps to share class A at 70 bps
- Contracting continues for the SMART Income fund with an anticipated roll out in the third or fourth quarter of 2022; and
- Implementation status of Plan amendments.

Mr. Lynch referred the Committee to the “Mandatory OBRA Investment Expansion / Updated Fees” summary of the Executive Directors Update. He presented a proposal to enhance services for part-time and seasonal employees who are required to make contributions to the Plan as mandated under the federal Omnibus Budget Reconciliation Act of 1990 (“OBRA”). Mr. Lynch proposed, after advice from legal counsel, to offer the suite of SMARTPath Target Date Funds and managed accounts to OBRA participants. In addition, he proposed to provide quarterly statements to participants with an account balance as a “call-to-action” to review their accounts. Mr. Lynch proposed an increase of the annual per OBRA participant recordkeeping fee from \$14.10 to \$14.50 for participants with an account balance above \$1,000, plus an asset-based fee of 13.825 bps (0.13825%). The asset-based fee would not exceed \$125 per OBRA participant annually, resulting in a maximum annual fee of \$139.50. This fee increase would apply only to OBRA participants with a balance of \$1,000 or more. Those with a balance less than \$1,000 would pay an annual recordkeeping fee of \$12 with no additional asset-based fee, instead of the current fee of \$14.10.

Mr. Lynch and the Committee thoroughly discussed the retirement savings and investment limitations faced by OBRA participants during their tenure with the Commonwealth of Massachusetts, Mr. Lynch’s analysis used to develop the new fee structure, and general comments about the implementation of the proposal.

On a motion from Mr. Magno and seconded by Mr. Curran, the Committee voted unanimously to adopt all proposals presented for OBRA participants. Roll Call: Mr. Magno, Mr. Curran, Mr. Sheridan.

Mr. Lynch informed the Committee that he will proceed with the implementation at the Plan’s recordkeeper.

Referencing the Quarterly Highlights Report, Mr. Fligel 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 provided commentary about year-to-date market volatility as related to current world events.

Mr. Lynch and Mr. Behrns informed the Committee that the Plan's recordkeeper, Empower, did not meet certain call center performance standards, as dictated by its service agreement with the Plan, for the period October 2021 through January 2022. Mr. Lynch and Ms. Rooney informed the Committee they had addressed these concerns with Empower prior to the meeting and shared Empower's explanation of the service lapse and its efforts to return to expected service standards. The Committee and Mr. Lynch discussed the potential impact this event may have had on participants and any recourse available to the Committee or Plan. The Committee asked Mr. Lynch to keep them informed of similar issues with Empower in the future.

Mr. Behrns 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 for the fourth quarter of 2021.

Mr. Behrns and Ms. Sinclair gave an overview of the December 2021 Supreme Court ruling of *Hughes v. Northwestern University* related to claims of fiduciary breach regarding the oversight of fees and investments in retirement plans. They summarized the claims the Supreme Court reviewed and its decision.

Directing the Committee to the Multi Manager Structure Review, Mr. Behrns explained Aon's allocation change recommendations for the Large Company Growth Stock Fund. For each of the recommendations, he discussed Aon's research and analysis behind the recommendations. After thorough discussion, the Committee agreed to change the following manager allocations of the Large Company Growth Stock Fund. On a motion from Mr. Curran and seconded by Mr. Magno, the Committee voted unanimously to:

- Increase JP Morgan Growth Advantage allocation from 37% to 43%;
- Increase Fidelity Growth Company Fund allocation from 32% to 35%; and
- Decrease Wellington Dynamic Growth from 26% to 17%.

Roll Call: Mr. Curran, Mr. Magno, Mr. Sheridan.

Mr. Behrns then directed the Committee to Aon's recommendations for the Real Estate Fund. Mr. Behrns discussed the fund's existing manager allocations and the liquidity restrictions associated with each. He compared real estate investment trusts (REITs) with core private real estate, the expected return profile of each recommendation and the impact the manager reallocation would have on the fund's fees. After thorough discussion, the Committee agreed to change the fund's manager allocations from 80% SSgA REIT Index (SSgA), 20% JP Morgan Diversified Commercial Property Fund (DCPF) to 70% SSgA, 30% DCPF.

The Committee voted on a motion from Mr. Curran and seconded by Mr. Magno. Roll Call: Mr. Curran, Mr. Magno, Mr. Sheridan.

Following discussion, based on the contents of the documents and the best interests of the participants and beneficiaries in the Plan, Aon, in its role as the discretionary investment manager, addressed no changes, other than noted above, to be made to the investments in the Plan at this time.

The Committee briefly discussed MassPRIM Investments' "PRIM Statement on Ukraine." Mr. Lynch noted the Plan's international fund managers continue to be monitored.

Ms. DeLauter, Ms. Nall, Ms. Ricany, and Mr. Watson joined the meeting.

Ms. Nall introduced the TRP team and directed the Committee to the TRP Report. Mr. Watson led a discussion of the report including the US Large Cap Core Growth Equity Fund's investment team, fundamental research approach and philosophy, and drivers of the fund's recent performance for the fourth quarter of 2021 and through February of 2022. The Committee, Mr. Lynch and Mr. Watson discussed the fund's top portfolio holdings and TRP's research findings and rationale for holding those issuers.

Ms. DeLauter, Ms. Nall, Ms. Ricany, and Mr. Watson left the meeting.

Mr. Sheridan requested Ms. Rooney coordinate the next Committee meeting date.

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 1:15 p.m. Eastern Time. Roll call: Mr. Curran, Mr. Magno, Mr. Sheridan.