

Commonwealth of Massachusetts Employees Deferred Compensation Plan

Minutes of the Deferred Compensation Committee August 12, 2020

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 teleconference, on Wednesday, August 12, 2020. John Curran, Tom Magno and Robert Sheridan, being all voting members of the Committee, were in attendance.

Also present by invitation for all or part of the meeting were Giuseppe Caruso, Henry Clay, Nicola Favorito, David Lynch, James McDonald, Laura Rooney, and Emily Robbins, of the Commonwealth of Massachusetts Office of the Treasurer and Receiver General, Chris Behrns, Beth Halberstadt, Sue Sinclair and Diane Smola of Aon Investments USA Inc. ("Aon"), and Michael Mammes, Grady Smith, and Richard ("Chip") Tatlow of Dimensional Fund Advisors ("DFA"). John Kendall of Nationwide attended the meeting as a member of the public. Those present by invitation and Mr. Kendall attended via teleconference.

With a quorum present, Mr. Sheridan called the meeting to order at 10:05 a.m. Eastern Time.

Mr. Sheridan noted that the meeting was being conducted via conference 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 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. Ms. Rooney conducted a roll call of the meeting attendees to confirm attendance and identify those recording the meeting, if any. Attendees confirmed that no one was recording the meeting.

The Committee reviewed and approved the meeting minutes from the March 26, 2020 meeting via roll call: Mr. Magno, Mr. Curran, Mr. Sheridan.

The following documents had been distributed to the Committee in advance of the meeting:

1. Agenda for the August 12, 2020 Deferred Compensation Committee Meeting;
2. Minutes of the March 26, 2020 Deferred Compensation Committee Meeting;
3. Executive Director's Quarterly Update – 457 Defined Contribution Plan – Q2-2020, (hereinafter, "Executive Director Update");
4. Commonwealth of Massachusetts Deferred Compensation Plan, 2Q 2020, Quarterly Highlights Report, (hereinafter, "Quarterly Highlights Report");
5. Commonwealth of Massachusetts Deferred Compensation Plan, Second Quarter 2020, Quarterly Investment Review, (hereinafter, "Quarterly Investment Review");

6. Commonwealth of Massachusetts Deferred Compensation Plan, Dimensional, (hereinafter, "Dimensional Report"); and
7. Retirement Income Education, July 2020, Commonwealth of Massachusetts, Aon, (hereinafter, "Retirement Income Education Report").

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

- Key SMART Plan Statistics which include:
 - Total Plan assets of \$10.45 billion as of July 31, 2020;
 - Quarterly contributions as of June 30, 2020 of \$106.8 million;
 - 1.61% increase in full-time participants;
 - 1.9% decrease in the average full-time participant's quarterly contribution; and
 - Ongoing popularity of the Plan's Roth option.
- The adoption and/or planned adoption of several provisions either required or allowed through the Setting Every Community up for Retirement Enhancement ("SECURE") Act. At the Committee's prompting, Mr. Lynch explained the next steps for updating the Plan document, the implementation of the provisions at the Plan's recordkeeper, and communication to participants;
- Key provisions of the Coronavirus Aid, Relief and Economic Security ("CARES") Act adopted by the Plan as well as the number of participant transactions, total dollar payments and average amount related to the withdrawal options offered in the CARES Act. Mr. Lynch explained, at the Committee's request, the self-certification provisions in the CARES Act for participants who have met the statutory requirements for a coronavirus-related distribution, including having been diagnosed with the Coronavirus or COVID-19 or having had adverse financial consequences (as defined under the CARES Act) resulting from the pandemic;
- Status of the manager changes within the Small Company Stock Fund and the Large Company Blend Stock Fund;
- Job posting for a dedicated compliance/audit staff member to the Defined Contribution Plans unit is on hold;
- Bill H35 assigned to the Joint Committee on Public Service was not reported out in June. The Committee discussed the opposition to the bill and Mr. Lynch noted the bill will be revisited at the next legislative session;
- Participant engagement for the automatic escalation option added to the Active Choice Easy Enrollment form in March 2019; and
- The Plan received the 2020 NAGDCA Leadership Recognition Award for the enhanced Active Choice Enrollment form.

Ms. Smola referred the Committee to the Quarterly Highlights Report and provided the following project updates:

- The repositioning of the Large Company Growth Fund was completed in July 2020 which was supported by the Committee in March. The trading costs of the reallocation prior to July were unusually high and the trades were not executed until after the trading costs were normalized;
- Responses to the Capital Preservation Fund RFR were collected and are going through an initial review;
- The expansion of investment options to participants in the Plan under Omnibus Budget Reconciliation Act ("OBRA") of 1990 is temporarily on hold pending a review of the timing, anticipated adoption of the expanded options and recordkeeping costs to implement. The Committee and Mr. Lynch discussed the breakdown of the

population required to contribute and those voluntarily contributing. The Committee informed Mr. Lynch that, in their view, recordkeeper costs should not be the primary consideration related to the project's implementation;

- Evaluating the addition of an income fund for the Plan; and
- A summary of the manager due diligence meetings that members of Mr. Lynch's staff and Aon have conducted through August 2020. The Committee inquired if the virtual due diligence meeting format was as effective as in-person meetings. Ms. Smola and Mr. Behrns noted they were, and from one standpoint slightly improved, as Aon had wider access to manager staff as a result of the staff not traveling.

Mr. Behrns directed the Committee to the "Market Highlights" section of the Quarterly Highlights Report. He 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 June 30, 2020. Mr. Behrns, prompted by the Committee's inquiry, discussed the factors influencing the atypical response of the equity markets related to the economic downturn. Mr. Clay queried to what extent investor behavior influence the market response; Mr. Behrns discussed common investor sentiments that are likely influencing investor decisions.

Mr. Behrns reviewed the Asset Allocation and Performance report in the Quarterly Highlights Report, noting and discussing 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 Plans' Investment Policy Statement. He also referred the Committee to the Fund Monitoring Summary. During the course of his review, the following areas were discussed:

- The SMARTPath Funds, placed on "watch" status for the quarter ending March 31, 2020 and then removed from "watch" for the quarter ending June 30, 2020;
- Performance of the GMO Benchmark Free-Allocation Fund. The Committee and Mr. Behrns discussed the appropriateness of the fund's benchmark and the Committee articulated that the current benchmark is appropriate given the fund's management style; however, the Committee requested that Aon continue to monitor the fund and the appropriateness of the benchmark; and
- Seven out of the ten active managers under Tier 3, which outperformed their benchmark.

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.

Mr. Sheridan and Ms. Rooney requested that Mr. Behrns discuss the DFA Small Cap Portfolio performance and brief the Committee about DFA's presentation scheduled for this meeting. Mr. Behrns discussed the role of the manager within the Small Company Stock Fund. Mr. Magno commented that while fund managers should be evaluated over the long term and given the opportunity to realize their mandate, he has concerns that the Committee has discussed performance with the DFA investment team twice during a twelve-month period.

Mr. Smith, Mr. Mammes and Mr. Tatlow, all of DFA, joined the teleconference.

Mr. Tatlow offered the following opening remarks:

- DFA continues to be a stable, viable investment management firm;

- The pandemic has not materially impacted DFA's approach to investment research as the research is focused on an academic approach rather than requiring analysts to conduct on-site research;
- A new Chief Compliance Officer has been appointed as a result of the unexpected passing of Chris Crossan in July of this year; and
- While recent performance has been challenging, the firm reaffirms their research approach that emphasizes investing in less expensive stocks where the companies have higher profits.

Mr. Smith referred the Committee to the Dimensional Report and provided further information related to the portfolio's construction and stock screening process. As part of the discussion, he provided data supporting the long-term outperformance of the portfolio based on the fund's research approach. The Committee asked Messrs. Smith and Tatlow to address fund performance. Messrs. Smith and Tatlow offered further clarification related to the data in the Dimensional Report, illustrating that the selection of less expensive stocks of firms with higher profitability far exceeds returns over a longer time horizon. Mr. Tatlow also invited the Committee to meet with DFA's manager research and their staff dedicated to studying participant behaviors to further investigate the question.

Messrs. Smith, Tatlow and Mammes left the meeting.

Ms. Smola directed the Committee to the Retirement Income Education Report and discussed the report's premise and findings highlighting the following areas:

- Based on Aon's 2018 *DC and Financial Wellbeing Employee Survey*, 80% of employees surveyed want some form of guaranteed income in retirement;
- The SECURE Act, which addressed and solved some of the previous barriers that prevented fiduciaries from including funds that offered guaranteed income in their defined contribution plan investment menu;
- Investment policy considerations when considering retirement income;
- The Plan's current features that offer retirement income to participants; and
- Other possible approaches to assist participants with retirement income.

Ms. Smola clarified that the Retirement Income Education Report is intended educate the Committee on best practices and recent thinking related to retirement income in defined contribution plans, and that no Committee decision was required. She also reiterated that the Plan does currently offer periodic draw-down features to assist those in retirement.

Mr. Lynch discussed with the Committee the Plan's historical retirement income offerings to participants. The Committee discussed opportunities related to the addition of funds to the current investment menu, possible expansion of the services and strategies offered to participants, and considerations when educating participants about retirement income. The Committee agreed to revisit this discussion at a later time.

The Committee directed Ms. Rooney to work with Aon to determine the next meeting date. The Committee agreed that the quarterly meetings should continue via teleconference unless directed otherwise.

There being no further business to come before the Committee, the meeting was adjourned at 12:30 p.m. Eastern Time via roll call: Mr. Magno, Mr. Curran, Mr. Sheridan.