

Commonwealth of Massachusetts Employees Deferred Compensation Plan

Minutes of the Deferred Compensation Committee December 10, 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 video- and teleconference, on Thursday, December 10, 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, Laura Rooney, and Emily Robbins of the Commonwealth of Massachusetts Office of the Treasurer and Receiver General ("Treasurer's Office"); Chris Behrns, Beth Halberstadt, Sue Sinclair and Diane Smola of Aon Investments USA Inc. ("Aon"); and Raymond Decker, Aaron Montano, Chris Nikolic, Andrew Stumacher, and Elena Wang of AllianceBernstein ("AB"). Nina Lindholm from Fundmap also attended the meeting. Invited guests and Ms. Lindholm 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 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. 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 August 12, 2020 meeting. The approval was unanimously confirmed via roll call: Mr. Curran, Mr. Magno, Mr. Sheridan.

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

1. Meeting Agenda for the December 10, 2020 Deferred Compensation Committee;
2. Minutes of the August 12, 2020 Deferred Compensation Committee Meeting;
3. AllianceBernstein, Customized Retirement Strategies, December 10, 2020; Commonwealth of Massachusetts Deferred Compensation Plan, (hereinafter, "AB Presentation");
4. Executive Director's Quarterly Update – 457 Defined Contribution Plan – Q3 2020, (hereinafter, "Executive Director Update");
5. Commonwealth of Massachusetts Deferred Compensation Plan, 3Q 2020, Quarterly Highlights Report, (hereinafter, "Quarterly Highlights Report");

6. Commonwealth of Massachusetts Deferred Compensation Plan, Third Quarter 2020, Quarterly Investment Review, (hereinafter, "Quarterly Investment Review"); and
7. Commonwealth of Massachusetts, SMART Plan Program Review, December 10, 2020, (hereinafter, "Investment Structure Review").

Mr. Montano directed the Committee to the AB Presentation. He provided the Committee with a general update on the firm and the impact the coronavirus pandemic has had on its business operations and research teams. After describing AB's investment management expertise specific to defined contribution plans, Mr. Decker provided an overview of the Target Date Portfolio Management Team.

Mr. Nikolich next addressed the Committee beginning with an explanation of AB's overarching philosophies for developing target date funds and glide path designs. In the course of the conversation, he discussed the use of active and passive management strategies within each of the underlying asset classes of the target date portfolios. The Committee and Mr. Nikolich then discussed the benefits and complications of allowing private equity holdings within a target date portfolio in light of the Department of Labor's June 3, 2020 Information Letter on private equity investments.

Ms. Wang reviewed the construction of the Plan's SMARTPath target date funds' glidepath. She provided a performance summary of the SMARTPath funds through September 30, 2020 and since the inception of the funds.

Mr. Stumacher then provided the Committee with an overview of AB's Lifetime Income Strategy solution for defined contribution plans. He noted that the key features of the solution include a custom glidepath, participant engagement, and a secure income portfolio. At the Committee's prompting, he discussed AB's approach to research and oversight of the insurers that make up the secure income portfolio as well as AB's proprietary bidding process used with participating insurers in order to offer competitive rates for participants. The Committee and Mr. Stumacher compared the retirement payout and protection features offered in the lifetime income solution to the Massachusetts Employees State Retirement System. The Committee and Mr. Lynch discussed participant feedback that Mr. Lynch and his team may have received related to retirement income solutions, as well as considerations related to implementing the solution and educating participants.

Messrs. Decker, Montano, Nikolich and Stumacher, and Ms. Wang left the meeting at 11:00 a.m. Eastern Time.

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 \$11.4 billion as of December 1, 2020;
 - Quarterly contributions as of September 30, 2020 of \$108.2 million;
 - 1.63% increase in full-time participants;
 - 1.42% decrease in the average full-time participant's quarterly contribution; and
 - Total number of Roth accounts with a balance is \$10,579.
- A progress update related to the adoption and/or planned adoption of several provisions either required or allowed through the Setting Every Community up for Retirement Enhancement ("SECURE") Act;

- Participant activity related to transactions implemented as a result of the Coronavirus Aid, Relieve and Economic Security (“CARES”) Act; and
- A brief overview of the proposed Securing a Strong Retirement Act of 2020 (also referred to as “SECURE 2.0”).

Mr. Behrns referred the Committee to the Quarterly Highlights Report and provided the following project updates:

- The Capital Preservation Fund RFR has progressed to the final stages of evaluation;
- 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 cost and implementation considerations;
- Continued evaluation related to 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 December 2020.

Turning to the “Fund Monitoring Summary” section of the Quarterly Highlights Report, Mr. Behrns revisited Aon’s methodology for placing managers on “watch” status and discussed the Plan’s fund managers that were identified as on “watch” for the third quarter of 2020. Separately, Mr. Behrns informed the Committee that Eaton Vance was purchased by Morgan Stanley and the two firms will merge in 2021. In addition, he informed the Committee of organizational changes at T. Rowe Price that may impact the Plan. Mr. Behrns noted that these events do not yet require the funds to be placed on “watch” although Aon will continue closely monitoring the firms and will update the Committee as necessary.

Directing the Committee to the “Market Highlights” section of the Quarterly Highlights Report, Mr. Behrns 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, 2020, and also noting more recent events impacting the markets quarter-to-date up to the meeting date.. He 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 of the funds through September 30, 2020.

Ms. Smola directed the Committee to the Investment Structure Review. She led the Committee in a discussion of the following topics:

- Purpose of the Investment Structure Review;
- Aon’s investment philosophy related to defined contribution plan fund menus;
- The importance of investment structures as a way to assist participants in saving for retirement taking into consideration many aspects of behavioral finance;
- A review of the asset classes, types, and number of funds currently offered in the Plan; and
- General trends in defined contribution plan asset allocation and their approach to offering capital preservation, income and growth funds.

Ms. Smola then offered the Committee the following recommendations as a result of Aon’s analysis:

- Remove the SMART Real Return Fund from core investment line-up – retain in TDF glidepath;

- Add core private real estate to the Real Estate “REIT” Fund (pending administrative considerations) and transition to a 100% index exposure for the REIT allocation; and
- Add an Income Fund Option as a new offering to the Plan.

The Committee and Aon engaged in thorough discussion related to the recommendations. During the course of the conversation, Aon explained the difference between core real estate and real estate investment trusts (“REIT”s), Aon’s methodology behind the investment models driving the recommendations, liquidity considerations, the impact of these recommendation to the Plan’s investment fees, and considerations related to implementing the recommendations. The Committee and Mr. Lynch discussed potential impacts the recommendations may have on participants in the Plan, including changes that may be required to administration and participant engagement.

After considerable deliberation:

- Mr. Curran made a motion, seconded by Mr. Magno, to support the addition of an Income Fund to the Plan’s investment structure in a deliberate manner, deferring to the Treasurer as to the best approach for selecting fund managers. All members of the Committee concurred. Roll call: Mr. Curran, Mr. Magno, Mr. Sheridan.
- Mr. Curran made a motion, seconded by Mr. Magno, to eliminate the SMART Real Return Fund from the Plan’s core menu and map existing balances and investment elections to the Plan’s Qualified Default Investment Alternative, noting that this change does not impact that fund’s positions as underlying assets in the other portfolios in the Plan. The Committee concurred. Roll call: Mr. Curran, Mr. Sheridan, Mr. Magno
- Mr. Curran made a motion, seconded by Mr. Magno, to change the Real Estate “REIT” Fund’s portfolio composition to 80% passive management through the fund’s existing passive fund, the SSGA REIT Index, and 20% core private real estate. All members of the Committee concurred. Roll call: Mr. Sheridan, Mr. Magno, Mr. Curran.

After the Committee approved the three motions, Ms. Smola and Mr. Behrns agreed to work with the Treasurer’s office to develop the best approach for implementation.

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, other than those noted above.

The Committee requested that Aon review its recent whitepaper entitled “Are Managed Accounts More Efficient Than Target Date Funds?” at the next Committee meeting.

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. Curran and seconded by Mr. Magno, the meeting was adjourned at 12:30 p.m. Eastern Time. Roll call: Mr. Curran, Mr. Sheridan, Mr. Magno.