Commonwealth of Massachusetts
Deferred Compensation Committee
Meeting Minutes

December 4, 2018

One Ashburton Place, 12th Floor
Boston, MA 02108

Committee Members Present:

- Robert Sheridan, Committee Chair
- John Curran, Committee Member
- Tom Magno, Committee Member

Also present for all or part of the meeting were: David Lynch, Executive Director, Defined Contribution Plans; Nicola Favorito, Deputy Treasurer / Executive Director, State Retirement Board; Henry Clay, Treasury Director of Investments; Laura Rooney, Director of Operations, Defined Contribution Plans; Emily Robbins, Counsel, Defined Contribution Plans; Giuseppe Caruso, Operations Associate, Defined Contribution Plans; Kevin Vandolder, Principal, Aon Hewitt Investment Consulting, Inc.; Chris Behrns, Senior Consultant, Aon Hewitt Investment Consulting, Inc.; Aaron Montano, Global Client Group, Alliance Bernstein; Raymond Decker, Managing Director Defined Contribution, Alliance Bernstein; and Chris Nikolich, Head of Glidepath Strategies (U.S.), Alliance Bernstein.

I. Opening:

With all committee members present, Committee Chair Mr. Sheridan called the meeting to order at 10:00 a.m.

II. Approve Minutes:

Mr. Sheridan cited no errors on the minutes of the September 20, 2018 meeting.

Mr. Sheridan asked for a motion to approve the minutes of the September 20, 2018 meeting. Mr. Curran made a motion to approve the minutes. Mr. Magno seconded the motion. Mr. Sheridan rounded out unanimous approval of the minutes.

III. Executive Director's Quarterly Update:

- SMART Plan Key Statistical Data: Mr. Lynch directed the Committee's attention to the Key SMART Plan Statistics chart that was included in his memorandum. Mr. Lynch then reported updated numbers as of November 30, 2018: just over $9 billion in total plan assets under management, and a loss of about $400 million from third quarter end following market volatility in October. Mr. Lynch stated that total contributions over the third quarter were also down slightly, by approximately $4 million from the third quarter the previous year but added that there was one fewer payroll cycle compared to the third quarter 2017. Mr. Lynch next informed the Committee that the average full-time participant account balance had increased by 9.9% compared to third quarter of 2017. Lastly, Mr. Lynch noted that the number of participants with Roth accounts had increased over 11% when compared to the same quarter the year prior. Mr. Lynch, referring back to the previous Committee Meeting discussion, provided additional statistics related to demographics of Roth account contributors. Mr. Sheridan thanked Mr. Lynch.

- Target Date Fund Rebalance: Mr. Lynch informed the Committee of an overweight to the REIT asset class underlying some of the SMARTPath Target Date Fund vintages. Mr. Lynch noted that this was identified by Plan staff and Alliance Bernstein (AB) when AB assumed rebalance responsibilities from Empower Retirement in February 2018. Mr. Lynch attributed the cause to a trading error that had occurred following the addition of a private real estate asset class to several target date vintages in March 2016. Mr. Lynch noted that the Plan had worked with Empower and Aon Hewitt to calculate the error, which resulted in both a Plan level and participant level correction. Mr. Lynch stated that the Plan level correction would result in a $2.3 million correction borne by Empower Retirement, as well as a participant level correction to 276 participant accounts which experienced a realized loss of greater than $10 as a result of the error.

  - Mr. Sheridan asked if the Plan anticipated questions from participants receiving a check. Mr. Lynch responded in the affirmative and stated that Plan staff are currently reviewing correspondence to be sent to affected participants. Mr. Lynch also noted that participants that experienced a realized gain would not receive correspondence and would retain the gain. Lastly, Mr. Lynch thanked Plan staff for their work on the correction and assisting in the calculation methodology. Mr. Sheridan thanked Plan staff as well.

- RFR Emerging Markets Debt – TDFs: Mr. Lynch provided an update on an RFR to procure a blended Emerging Market Debt (EMD) strategy, currently provided through the PIMCO Emerging Local Currency Fund, which was issued on July 24, 2018, with final bids due by September 11, 2018. Mr. Lynch stated that the PMT recommended that the Plan move forward with Ashmore Investment Management Limited ("Ashmore") for their Active

Emerging Market Debt Investment Services. Mr. Lynch next reported that the PMT had also recommended adding Goldman Sachs and Prudential Financial as pre-qualified bench managers for the EMD strategy.

- ❖ Mr. Behrns noted that Ashmore would be a slight change in strategy. Mr. Behrns stated while the current PIMCO strategy invested in local currency emerging market government bonds, the Ashmore strategy would utilize a blended approach, investing in bonds denominated in U.S. dollars as well as local currency.

- Statement of Work (SOW) for Audit Services: Mr. Lynch noted that on September 17, 2018 the Treasury posted a SOW to procure audit services for the Plan. Mr. Lynch stated that requests for responses to the SOW was sent to seven pre-qualified audit firms approved on a statewide contract, and that the process was currently ongoing. Mr. Lynch noted that current audit services are provided by KPMG.

  - ❖ Mr. Sheridan asked about the current satisfaction with KPMG's services, referring to prior discussions of some difficulties. Mr. Lynch confirmed that some aspects of the audit process have been a challenge, citing additional and continued work on the audit for Plan Year 2016 as a result of Governmental Accounting Standards Board (GASB) 72 requirements.

  - ❖ Mr. Sheridan asked who would make the selection of the audit services. Mr. Lynch stated that the procurement management team (PMT) would make a recommendation to the Treasurer.

- Automatic Enrollment for SMART Plan: Mr. Lynch informed the Committee that legislation has been filed for the new legislative cycle in support of automatic enrollment for state employees as well as an optional adoption for participating municipalities. Mr. Lynch stated that Plan staff are working with the National Association of Government Defined Contribution Administrators (NAGDCA) to develop an interactive map to shed light on automatic enrollment efforts across the country. Mr. Lynch voiced optimism that the information gathering would assist in the expansion efforts for Massachusetts.

  - ❖ Mr. Curran asked if there was anything the Committee could do to assist this effort, such as a letter of support. Mr. Lynch responded that a letter of support would be appreciated and helpful. Mr. Sheridan agreed and thanked Plan staff for their work.

- 3(16) Fiduciary Services: Mr. Lynch stated that an RFR was issued in August for ERISA 3(16) Fiduciary Services for the Massachusetts Defined Contribution CORE Plan (CORE Plan). Mr. Lynch remarked that during this process, it was recognized that a number of the administrative services outlined in the RFR would be beneficial to this Plan as well, in particular, contribution limits testing and payroll processing responsibilities. Mr. Lynch noted that these responsibilities were currently provided internally by Plan staff and a staff member in the Treasury's Cash Management Department. Mr. Lynch stated that extending these responsibilities to a third-party administrator could help within this limited scope, given the complexity of all payrolls at the state level.

- ❖ Mr. Magno asked if the state payroll was overseen by the Treasury. Mr. Lynch responded that state payroll is overseen by the Comptroller, however Treasury assists in payroll corrections.

- ❖ Mr. Curran asked how many municipal payrolls process contributions to the Plan. Mr. Lynch responded that it is about 600 municipalities. To streamline and consolidate payroll remittance methods, Mr. Lynch stated that Plan staff, working with Empower Retirement, have identified about 150 municipal payrolls that utilize either Harpers Payroll Service or Munis and have developed a Brainshark video to assist these payrolls in converting to a uniform electronic payroll remittance file format.

- ❖ Returning to the topic of the administrative services provider, Mr. Lynch stated that several state payroll correction processes were currently handled by a member of the Cash Management Department. Mr. Clay reiterated the importance of this individual’s work and institutional knowledge. Mr. Clay added that contracting with an administrative services provider would be helpful in transitioning these duties back to the Plan.

- ❖ Mr. Curran asked if there are situations where funds are erroneously placed in escrow rather than invested appropriately. Ms. Rooney responded that typically participant assets are invested in accordance with their current allocation strategy, however they would later be returned to the participant if the contributions were deemed to be in error. Ms. Rooney noted that the timeline for the return of such assets would depend the type of error, such as an overcontributions, and how the return would be processed.

10:22 a.m. Mr. Favorito arrives.

- ▪ <u>Account Retention / Retirement Solutions Group (RSG)</u>: Mr. Lynch stated that the Retirement Solutions Group (RSG) service, offered through Empower Retirement, was designed to engage participants from enrollment through retirement. Mr. Lynch noted the process to add these services, spanning roughly seven years, and thanked Ms. Robbins for her work on the contract. Mr. Lynch emphasized the importance of this service and reminded the Committee there was no additional cost. Mr. Lynch stated that RSG would engage participants when they enter the Plan and when they have a qualifying event, like retirement or other separation of service, communicate the benefits of remaining in the Plan.

    - ❖ Mr. Lynch provided some initial statistics since the launch of the RSG program on August 17, 2018 through October 31, 2018. Of note, regarding participants that have submitted a distribution form, Mr. Lynch cited a 75% retention rate for those folks directly engage by RSG.

- ❖ Ms. Rooney added that the roll-in statistics have also been promising, with over 339 participants and $23 million in assets coming into the Plan.

- ❖ Mr. Sheridan asked if participants were contacted by a person, rather than an automated message. Mr. Lynch responded that participants would receive a call directly from an RSG representative and would also receive an email. Mr. Lynch also noted the RSG representative could assist participants throughout the roll-in process as well.

- Third-Party Recordkeeper extension: Mr. Lynch stated that the Plan is in the process of negotiating a four-year extension of our relationship with Empower Retirement for third-party administration and communication services through October 2023.

  - ❖ Mr. Curran complimented Empower Retirement and noted that they have demonstrated a great willingness to listen to Plan staff and Committee concerns.

- E-Delivery: As part of the third-party recordkeeper contract extension, Mr. Lynch informed the Committee members that the Plan would be moving to e-delivery for participant statements, notices and other plan related communications in 2019. Mr. Lynch stated that once e-delivery was in place, participants would be notified via email when their quarterly statements are available on the SMART Plan website post-login. According to Mr. Lynch, currently the Plan had e-mails on file for about 70% of participants. Mr. Lynch added that participants could elect to continue to receive quarterly statements by mail instead, but they would need to opt-in. Mr. Lynch voiced his belief that this would not be a major shift for participants. Mr. Lynch stated that e-mail correspondence would be beneficial and provide more efficient targeted communications to participants.

  - ❖ Mr. Curran asked if the quarterly newsletters would be electronic as well. Ms. Rooney confirmed they would be. Ms. Rooney stated that the newsletters would be available post-login, along with the quarterly statements, and clarified that the availability of participants statements post-login, as opposed to directly via email, was for security purposes.

- New Fee Structure: Mr. Lynch informed the Committee members that the Plan would be moving to a new hybrid fee structure in 2019 for all full-time Plan participants. Mr. Lynch stated that this would include a base fee of $10 with an asset-based fee of 7.75 basis points, up to a total fee cap of $350. Mr. Lynch also noted that participants with account balances less than $1,000 would not be assessed the $10 base fee. Mr. Lynch stated that the OBRA fee would remain the same. Mr. Lynch reiterated that the current Empower Retirement recordkeeping fee was 7 bps, while the Plan administrative fee was ¾ bps. Ms. Rooney noted that the fee cap would only relate to the 7 bps due Empower Retirement, while the ¾ bps administrative fee would still accrue beyond that.

- ❖ Mr. Sheridan asked how often the Plan reassesses its fees. Mr. Lynch responded that while pricing is typically reviewed during the procurement process, Plan staff is always inquiring about opportunities for better pricing. Mr. Vandolder noted the importance of the fee cap. Mr. Vandolder cited other recordkeepers already utilizing fee caps but noted it as a rarer instance for Empower Retirement, and complimented Plan staff for their negotiations with Empower Retirement.

- ❖ Mr. Magno asked when the contract with Empower Retirement began. Mr. Lynch responded that it began effective March 2008. Mr. Magno asked what the thought process was behind an extension of four years rather than five. Mr. Lynch responded that the Plan wanted to provide some flexibility.

- ❖ Mr. Magno asked about the decision to add a base fee for participants. Mr. Lynch responded that this would be a way to balance out costs. Mr. Lynch reiterated that participants with balances less than $1,000 would not be assessed the $10 base fee. Those lower accounts would still be assessed the 7-bps recordkeeping fee and the ¾ bps administrative fee.

  Mr. Behrns commented that the Plan did not want to punish those with low balances, but that the new hybrid approach would make fees more equitable for high balance accounts. Ms. Robbins noted that there was a slew of recent litigation of retirement plans subject to ERISA regarding the reasonableness of fees as a consideration and that, while the Plan is not subject to ERISA, the new hybrid approach would be helpful to large and small balance accounts. Ms. Robbins added that all participants receive the same level of service regardless of account balance, thus the hybrid fee structure would be a fairer approach overall.

- ❖ Mr. Sheridan asked how Plan fees compared to fees of similarly sized plans. Mr. Vandolder responded that the Plan's fees were very competitive relative to others. Ms. Rooney noted the most favored nation clause within the services agreement, allowing the Plan to receive the same fee rate as any other Empower Retirement plan of similar size. Mr. Sheridan complimented the Plan staff for their work. Mr. Lynch also noted that Empower Retirement has provided great service given the size and complexity of the Plan.

Mr. Sheridan asked the Committee for any additional questions on the Executive Summary. With no further questions, Mr. Sheridan suggested moving on to the market review.

IV. Market Review, Recommendations, Highlights and Performance Update: Aon Hewitt

- Directing the Committee to Tab 6, page 64 of the Plan Quarterly Highlights Report, Mr. Vandolder began with a review of capital markets. Mr. Vandolder referenced the strength of domestic stock through the third quarter, citing high earnings and low inflation as the contributing factors. Mr. Vandolder then spoke to more recent market volatility since end of third quarter, with volatile markets through October and early November.

- Returning to third quarter market performance, Mr. Vandolder noted the MSCI EAFE growth of 1.35% for developed markets outside the U.S. and Canada, while large cap domestic stocks (S&P 500 Index) experienced growth of 7.7% over the time period.

- Looking at bond markets, Mr. Vandolder noted that bonds have had a sustained negative earnings rate for a period of nine months for the first time since 1994.

- Directing the Committee to page 70, Mr. Vandolder noted the flattening of the yield curve over the third quarter and cited the yield curve inversion the day prior, December 3, 2018. Mr. Vandolder commented that the majority of recessions were preceded by an inversion in the yield curve. Mr. Vandolder stated that Aon Hewitt and investors in general are watching these developments closely.

- Continuing on the topic, Mr. Vandolder differentiated between markets prior to The Great Recession and current markets, citing differences in real estate markets. Mr. Vandolder noted that there was currently less leverage and less supply.

- Moving on to performance, Mr. Behrns referred to page 4 of the Plan Quarterly Highlights Report and identified the funds on watch. Mr. Behrns commented on the relative performance of the SMART Path Funds, noting the vintages either matched their respective benchmarks or underperformed by approximately 10 basis points over the quarter. He noted that the main factor for the slight underperformance was from the active management within the underlying REIT and emerging market debt strategies. He also noted that the Funds compared well to peers given the strategy's more aggressive posture. In addition to the Real Estate "REIT" Fund underperformance, Mr. Behrns noted the Large Company Blend Stock Fund also remained on watch.

- Mr. Behrns noted that the assets under management in the SMARTPath funds comprise 17% of the total assets under management for the Plan and that while third quarter performance was favorable, there was an underperformance of 40 bps across vintages relative to benchmark over the past year. Mr. Behrns noted that this was not significant deviation and that Aon Hewitt remained comfortable with the AB strategy implementation.

    - Mr. Lynch asked about the size of the peer comparison group and what could be attributed to the strong performance of the SMARTPath Funds. Mr. Behrns stated that the peer group encompassed roughly 20 to 40 comparable funds, and attributed performance of the SMARTPath Funds to a more aggressive portfolio with a higher level of U.S. equity, given that participants are government employees with the safety of a defined benefit pension. Mr. Behrns noted that this would be a discussion topic for the AB presentation.

    - On the topic of the Real Estate "REIT" Fund, Mr. Lynch wanted to confirm the "Buy" rating of the Brookfield US Real Estate Securities Value Income Strategy. Mr. Behrns confirmed the rating and noted that the underperformance of the fund unfortunately began when the fund was introduced into the Plan. Mr. Behrns stated that Aon Hewitt prefers to wait for a full market cycle to be completed for review prior to shifting to another manager and so would recommend patience.

- Mr. Lynch asked about the investment strategy of some of the older vintages in the SMARTPath Funds, noting underperformance relative to peers. Mr. Behrns responded that this related to the "to versus through" division of target date fund strategies, where some have their equity drawdown "to" the retirement date while others, such as the SMARTPath Funds, continue "through" the retirement date. Mr. Behrns cited the significant variation between the SMARTPath 2010, 2005, and Retirement Allocation Fund as evidence of this.

Mr. Sheridan thanked Mr. Vandolder and Mr. Behrns and complimented Aon Hewitt for their continued work on the quarterly market updates.

V. Annual Multi-Manager Review – Recommendation: Aon Hewitt

- Directing the Committee to Tab 1, page 2 of the Plan Quarterly Highlights Report, Mr. Behrns commented that this annual review of the Plan's multi-manager framework was a good governance practice to provide a qualitative and quantitative review of the managers within the funds. From a qualitative perspective, Mr. Behrns stated that the typical strategy paired a primary, solid fund with a smaller, higher risk fund. Mr. Behrns stated that the quantitative review compared fees and tracking error in three different potential combinations. Mr. Behrns noted that this was a lengthy process involving a review team of between five to six individuals at Aon Hewitt.

  Per Mr. Behrns, following their analysis, the Aon Hewitt review team would make a recommendation.

- Mr. Behrns then stated with respect to the High Yield Bond Fund, Aon Hewitt recommended an allocation change, increasing the allocation of the Nomura High Yield Total Return Strategy from 50% to 60%, and reducing the allocation of the Eaton Vance High Yield Bond Strategy from 50% to 40%.

  Directing the Committee to page 38, Mr. Behrns noted the increased rating of Nomura, from "Qualified" to "Buy" rated, as a factor in the recommendation from a qualitative perspective. From a quantitative perspective, Mr. Behrns noted that of three allocation types reviewed for the strategy, including that of the current 50/50 allocation, Allocation #2 (60% Nomura / 40% Eaton Vance) proved to be the most favorable option across the three market scenarios tested when looking at bond duration, yields, and the investment fees. Mr. Behrns added that the increased favorability of Nomura led to the decision to recommend that the Plan allocate increased resources to that investment strategy. When looking at a five-year historical risk/return analysis, Allocation #2 also had the highest information ratio of the allocations tested.

  - Mr. Sheridan asked if there had been any personnel changes at Nomura to increase Aon Hewitt's rating of the firm. Mr. Behrns responded that the Plan's selection of

Nomura several years ago had been one of the factors that sparked Aon Hewitt's further research into Nomura, and that Aon Hewitt's researchers had been tracking the firm. Mr. Vandolder noted that Aon Hewitt has continued to have an increasingly high view of Nomura. Mr. Behrns noted that becoming "Buy" rated by Aon Hewitt requires time.

- ❖ Mr. Favorito asked if Nomura came into the Plan at the same time as Eaton Vance. Mr. Lynch responded that Eaton Vance was the incumbent before the procurement process a few years ago and that following the procurement process the Plan selected both Eaton Vance and Nomura. Mr. Lynch explained that Nomura was brought on for diversification in the High Yield strategy. Mr. Favorito asked about the assets under management in the High Yield Bond Fund currently. Mr. Vandolder responded that it was about $120 million. Mr. Behrns added that there was another $30 million invested in the High Yield Bond Fund spread across the SMARTPath Fund allocations.

Mr. Sheridan asked for a motion to support the recommendation by Aon Hewitt regarding the 60% Nomura / 40% Eaton Vance allocation to the High Yield Bond Fund. Mr. Curran made a motion in support. Mr. Magno second the motion. With Mr. Sheridan, the motion passed by unanimous vote.

- ▪ Mr. Behrns began a brief review of the Small Company Stock Fund allocations. Mr. Behrns recalled the downgrade of the NWQ Small Company Value Fund from "Buy" to "Qualified" rated earlier this year, and the subsequent decision to have NWQ present for the Committee at the Committee Meeting held on March 6, 2018.

- ▪ Mr. Behrns noted that prior to the meeting both Mr. Lynch and Ms. Rooney had questioned why there was no recommendation for a reallocation of assets on the Small Company Stock Fund despite analysis showing a better alternate, lowering the allocation to NWQ while increasing the allocation to the Dimensional Fund Advisors (DFA) US Small Cap Strategy. Mr. Behrns stated that while there was no current recommendation from Aon Hewitt to move away from NWQ because Aon Hewitt is still positive about Phyllis Thomas and NWQ from an investment perspective. However, Mr. Behrns stated that a strategy to shift allocations away from NWQ had been created should Ms. Thomas decide to retire. Mr. Behrns provided that breakdown. Mr. Behrns then explained that Aon Hewitt recommended retaining the current allocations in the Small Company Stock Fund as the NWQ allocation provided a small amount of high active risk.

  - ❖ Mr. Lynch noted that the Plan would post an RFR to identify a bench manager(s) for the Small Company Stock Fund as well to provide additional options.

  - ❖ Mr. Behrns noted that Aon does not recommend any additional allocation changes to the Plan's other multi-manager funds at this time.

Mr. Sheridan thanked Mr. Vandolder and Mr. Behrns once again for their presentation.

VI. SMARTPath Funds Glidepath Review: Alliance Bernstein

At the invitation of the Plan, representatives from Alliance Bernstein (AB), which oversees the SMARTPath Target Date Fund Glidepath, were invited to present before the Committee. Present on behalf of AB were Aaron Montano, Global Client Group; Raymond Decker, Managing Director Defined Contribution; and Chris Nikolich, Head of Glidepath Strategies (U.S.).

Mr. Sheridan welcomed the representatives from AB.

- After brief introductions, Mr. Montano thanked the Committee for the invitation to present and noted that the Plan was one of AB's longest tenured clients. On the topic of news within the firm, Mr. Montano noted that AB was in the process of moving its headquarters from New York to Nashville, but that there would be no effect on the investment team. Per Mr. Montano this would primarily impact legal, compliance and marketing.

- Mr. Nikolich began with a brief recap of new personnel additions to the AB team. Before delving into the SMARTPath Fund review, Mr. Nikolich asked if there were any opening questions that AB could speak to.

    - Mr. Behrns noted that there is currently a 70/30 allocation split between U.S. to non-U.S. equities in some of the newer SMARTPath vintages. Mr. Behrns asked if AB was re-thinking that. Mr. Nikolich responded that AB has considered moving towards increased non-U.S. equities for participants on longer time horizons, with a potential rise to a 40% allocation. Mr. Nikolich recognized the significant run of performance with U.S. equities within the portfolio, but then acknowledged that the future outlook for non-U.S. equities appeared more positive.

    - Ms. Rooney asked for additional information on when AB would recommend implementing such a shift. Referring to page 26 of the AB handout, Mr. Nikolich replied that AB might recommend making this change at the same time as adding a defensive equities allocation to the glidepath if Plan Committee and staff found value in that approach and noted more broadly he consider this to be a "medium-term" recommendation.

- Mr. Nikolich began with a 10-year outlook on market expectation in the global stock market. Mr. Nikolich cited 9% annualized growth as the normal expectation, while more recent quarterly data has only shown just under 7% annualized growth. Mr. Nikolich stated that these figures represented a depressed return environment. Mr. Nikolich stated that while the simple solution would be to switch towards bonds and away from stocks, opportunity cost would be lost. Rather, Mr. Nikolich suggested the addition of a defensive equities fund to the glidepath.

- Mr. Nikolich continued and noted that while the SMARTPath glidepath was well diversified across the vintages, the addition of a defensive equities fund would provide a low volatility, dividend-oriented strategy which would have better downside protection while maintaining potential upside. Based on analysis, Mr. Nikolich stated that defensive equities have historically captured approximately 80% of upside in a market environment over the long run, and approximately 60% of the downside.

- Mr. Nikolich next referred to page 29 of the materials, which demonstrated recent performance of defensive equities in high volatility markets and times of stock sell-offs. Mr. Nikolich pointed to late 2015 and early 2016 as similar times of market stress, at that time due to a slowdown of the Chinese markets, as an example of defensive equities performing well during market downturns. At this time, Mr. Nikolich asked if there were any questions on the potential for defensive equities.

  - Mr. Behrns asked Mr. Nikolich if there was a belief that defensive equities would add further diversification, despite current glidepath portfolio equity alternatives such as REIT, Private Real Estate, as well as other diversifiers. Mr. Nikolich answered that there was belief that defensive equities could add additional diversification. However, Mr. Nikolich continued with the caveat that this would not affect younger participants with longer time horizons, but rather the portfolios of participants closer to retirement.

  - Mr. Behrns asked which current investment would be reduced and reallocated to a potential defensive equities fund. Mr. Nikolich responded that it would depend on the strategy type that was being added but cited that with other clients it made sense to reduce allocations to their non-U.S. equities funds. Mr. Nikolich then added that this would be something AB would research to find what would be most beneficial, but AB wanted to present the idea today for feedback prior to moving forward.

  - Mr. Vandolder asked what would be needed from a governance perspective. Mr. Nikolich responded that while the Plan does not fall under ERISA, AB is a 3(38) fiduciary and also has the discretion to change the glidepath in most scenarios. Mr. Nikolich added however, that except for extreme circumstances, AB brings all material changes to the plan sponsors to get buy-in and feedback about a proposed change. Mr. Nikolich noted that the only technical limitation in this instance is that a defensive equities fund would need to be sourced by the Plan. Mr. Nikolich reiterated again that AB was presenting defensive equities as an option, but it would be the Plan's decision whether to move forward to procure that investment option.

  - Mr. Sheridan asked Mr. Lynch and Ms. Rooney their thoughts on a defensive equities fund option. Mr. Lynch responded that additional details and further discussions with AB and Aon would be needed prior to procurement. Mr. Montano commented that this did not need to be decided today, and that the discussion was simply to present this as a potential option which could provide incremental benefit to participants. Mr. Sheridan agreed with Mr. Lynch to allow for further discussions between Plan staff, Aon Hewitt, and AB. Ms. Rooney then noted that given the procurement process timeline of between six and nine months the Plan might look to decouple the two proposed changes, if the shift in percent allocation between US equities and non-US equities in some of the newer target date vintages should occur sooner.

- ❖ Mr. Clay asked whether reversion to the mean holds true for equities currently experiencing a downturn, negating the need for a defensive equities fund. Mr. Nikolich agreed, but noted that this would be a reason to not include defensive equities in portfolios for younger participants with longer time horizons, limiting this fund to portfolios of participants nearing retirement. Mr. Nikolich stated this would provide some equity exposure while seeking to minimize downside.

- ❖ Mr. Vandolder asked if AB models for the SMARTPath Funds factored in the defined benefit pension that Plan participants have. Mr. Nikolich responded in the affirmative, stating that AB utilizes a holistic approach in their research. Mr. Nikolich added that, given the steady income that would come from a pension, the SMARTPath Fund portfolio is far more diversified than off-the-shelf products and includes a higher growth exposure.

- ▪ Turning to performance beginning with page 13 of the materials, Mr. Nikolich provided a brief summary, highlighting that 11 of the 13 SMARTPath Fund vintages were outperforming the S&P Target Date Index and all 13 were outperforming the Morningstar category average. Mr. Nikolich pointed to an overweight to U.S. large cap equities as a significant contributor to the overperformance, while an underweight to U.S. small/mid cap and overweights in TIPS and unconstrained bonds as key detractors. Mr. Nikolich also noted manager selection as a detractor, with the GMO Benchmark-Free Allocation, Brookfield U.S. Real Estate, and Reams Unconstrained Bond Fund all underperforming their respective benchmarks.

- ▪ Mr. Nikolich continued with a further look into the performance versus the weighted average benchmark of the S&P Target Date Index and the Morningstar category average and noted significant outperformance of the SMARTPath Funds compared to the Morningstar category average over a three and five-year period.

- ❖ Mr. Sheridan asked if AB had any overall worries or concerns as relates to the markets or the SMARTPath Funds. Mr. Nikolich responded that the primary concern was how to best deliver participant returns over a long-time horizon, and how to meet those expectations for participants investing for up to 30 years. Mr. Nikolich stressed the importance of diversifying assets appropriately and continuing to deliver performance, even in times of market downturns.

- ❖ Mr. Behrns asked Mr. Nikolich to identify AB's current primary research topics. Mr. Nikolich responded that those topics included balancing U.S. and non-U.S. equities for younger savers, and the potential addition of a defensive equities fund. Mr. Behrns asked whether those were the only things that AB was focused on going forward. Mr. Nikolich replied that while AB was constantly looking at new ways of thinking, these were the only current well-formed opinions.

- Mr. Decker next discussed the expansion of AB services for the Plan to include trigger point rebalancing. Mr. Decker noted that this new service began in February 2018, following AB responded to an RFR issued in June 2017 and was again selected to provide glidepath services. Mr. Decker stated that the trigger point rebalance service would send rebalance instructions to Empower for execution. In addition to these services, Mr. Decker noted that AB would create customized quarterly fact sheets as well as a dedicated participant microsite for the SMARTPath Funds. Mr. Decker thanked Ms. Robbins for her work on the contract.

- Mr. Decker continued and stated that while AB could accommodate daily trigger point rebalancing it became apparent that Empower would be unable to accommodate the complexities of daily trigger point rebalancing. Mr. Decker stated that a compromise was struck between AB and Empower to move forward with monthly rebalancing. Mr. Decker referred to the graph on page 33 to illustrate the process. Thus far, Mr. Decker noted that five of the ten months from February through November have required a rebalance. Mr. Decker continued with a discussion of the monthly rebalances that had occurred thus far, the first of which triggered in February for an amount of $28 million.

  - ❖ Mr. Sheridan asked Mr. Lynch about the satisfaction with AB's additional services thus far. Mr. Lynch responded that he has been very satisfied with the services.

  - ❖ Mr. Behrns asked if the quarterly fact sheets were a new addition. Mr. Montano responded that these began with the fact sheets for third quarter 2017, and that AB believed them to be an enhancement over the previous Empower generated fact sheets.

- Mr. Decker concluded with a brief review of the participant SMARTPath Fund microsite. Mr. Decker stated that the SMARTPath Fund microsite, launched in January 2018, provided a detailed look at the structure of each target date vintage. However, Mr. Decker cited low usage statistics thus far, with just over 400 site visits since inception. Mr. Decker inferred that participants may not yet be aware of the site's availability.

  - ❖ Mr. Sheridan asked Plan staff to work with the Empower Communications Team to publicize the site to participants.

Mr. Sheridan asked the Committee members if there were any further questions. With no further questions, Mr. Sheridan thanked the representatives from AB for their presentation.

12:00 p.m. AB departed.

VII. Miscellaneous

Mr. Sheridan asked Mr. Lynch if dates had been finalized for the upcoming Audit Committee Meeting. Mr. Lynch responded that the Audit Committee Meeting for Audit Year 2016 would likely take place in January or early February, and that he would circulate the dates to Committee members once confirmed. Mr. Sheridan voiced his appreciation, noting he would like to attend.

Mr. Magno asked Mr. Vandolder about AB's discussion on defensive equities. Mr. Vandolder stated that Aon Hewitt would research potential managers for a defensive equity strategy and review with the Committee at the following Meeting. Mr. Sheridan thanked Mr. Vandolder.

VIII. Future Meeting Dates

Mr. Sheridan asked for future meeting dates to be determined based on what would be most convenient for attendees. Mr. Sheridan asked if early March would be agreeable to all attendees. Ms. Rooney stated that she would gather all available dates in early March and forward them to the Committee members via email.

IX. Close of Meeting

12:03 p.m. Close of Meeting.

- Motion to adjourn by Mr. Sheridan and seconded by Mr. Magno.

At 12:03 p.m. there was a motion by Mr. Magno, seconded to Mr. Curran to reconvene the meeting to continue discussing the general state of the market.

12:08 p.m. Close of Meeting.

- Motion to adjourn by Mr. Magno and seconded by Mr. Curran. Mr. Sheridan confirmed.

Documents Used at the Deferred Compensation Committee Meeting of December 4, 2018

- Agenda for the December 4, 2018 Deferred Compensation Committee Meeting;
- Executive Director's Quarterly Update dated December 4, 2018;
- Minutes of the September 20, 2018 Deferred Compensation Committee Meeting;
- Annual Multi-Manager Custom Fund Investment Manager Structure Policy Review, December 4, 2018, Aon Hewitt;
- Plan Quarterly Highlights Report, Third Quarter 2018;
- Quarterly Investment Report, Third Quarter 2018; and
- Alliance Bernstein Handout, December 4, 2018.