

Commonwealth of Massachusetts Employees Deferred Compensation Plan

Minutes of the Deferred Compensation Committee March 26, 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 Thursday, March 26, 2020. John Curran, Tom Magno and Robert Sheridan, being all voting members of the Committee, were in attendance.

Also present by invitation were David Lynch, Laura Rooney, Emily Robbins, and Giuseppe Caruso 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 Jason Bove, Lauren Bienemann, Jackie Beck and Jim Connors of J.P. Morgan. All present by invitation attended via 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, 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. He inquired if anyone present was recording the session, and no one identified themselves as making a recording. Mr. Sheridan then instructed the Committee and guests to notify the meeting members if any part of the meeting was not audible via teleconference.

The Committee reviewed and approved the meeting minutes from the September 12, 2019 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 March 26, 2020 Deferred Compensation Committee Meeting;
2. Minutes of the September 12, 2019 Deferred Compensation Committee Meeting;
3. Executive Director's Quarterly Update – 457 Defined Contribution Plan – Q4 2019, (hereinafter, "Executive Director Update");
4. Commonwealth of Massachusetts Deferred Compensation Plan, 4Q 2019, Quarterly Highlights Report, (hereinafter, "Quarterly Highlights Report");
5. Commonwealth of Massachusetts Deferred Compensation Plan, Fourth Quarter 2019, Quarterly Investment Review, (hereinafter, "Quarterly Investment Review");
6. Annual Multi Manager Custom Fund Investment Manager Structure Policy Review, March 26, 2020, (hereinafter, "Multi Manager Review"); and
7. J.P. Morgan Asset Management Prepared for the Commonwealth of Massachusetts, (hereinafter, "JP Morgan Report").

Mr. Lynch informed the Committee that he and his team are closely monitoring the needs of participants resulting from the market volatility and the disruption in day-to-day activities due to the national, state, and local executive orders issued as a result of the COVID-19 outbreak. To that end, he noted that:

- Empower has shifted 90 call center representatives to working remotely and has done so without interruption to participant call service standards;
- The number of calls and the call time for February and month-to-date March 2020 are similar to February and March of 2019;
- The high participant adoption rate in the Plan's target-date funds and managed account services may account for the stable call volumes; and
- The call center's Retirement Solutions Group (RSG) call routing processes have not changed; participants requesting distributions of \$10,000 or more are routed to an RSG representative to discuss the impact large withdrawals may have on future retirement income.

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

- Total Plan assets at December 31, 2019 and March 18, 2020;
- Plan provisions that are either being implemented or evaluated as a result of the Setting Every Community up for Retirement Enhancement ("SECURE") Act;
- Manager changes to the Small Company Stock Fund, Large Company Blend Stock Fund, and Large Company Value Stock Fund;
- Completion of the financial audits for the 2018 plan year noting no material deficiencies;
- Bill H35 assigned to the Joint Committee on Public Service will report out in April 2020;
- RSG statistics related to asset retention and distribution activity; and
- Total enrollment statistics via the Active Choice Enrollment Form.

Beth Halberstadt informed the Committee that Aon and Willis Towers Watson will merge, and the transaction is expected to close in 2021. The Committee inquired as to potential changes in both in executive leadership and in research teams for equity and fixed income strategies. Ms. Halberstadt noted that Aon's current CEO, Greg Case, will be CEO of the merged company, and as information related to the merger integration, including any changes to the research teams is available, she will inform the Committee. In addition, she disclosed that Aon's investment business has changed its name from Aon Hewitt Investment Consulting, Inc. to Aon Investments USA Inc. Ms. Robbins requested copies of any name-change documentation.

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

- The potential expansion of investment options to participants in the Plan under Omnibus Budget Reconciliation Act ("OBRA") of 1990;
- Evaluating the addition of an Income Fund for all Plan participants; and
- Fund manager due diligence meetings.

Mr. Magno queried why additional options for OBRA participants were being considered at this time. Mr. Lynch noted that ongoing discussions with external legal counsel have resulted in finding opportunities to expand investment options that historically hadn't been

available. Mr. Lynch noted, however, that more due diligence was being done to determine if this is viable.

Ms. Smola directed the Committee to the “Market Environment” section of the Quarterly Highlights Report. She 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 as of December 31, 2019. She then led a discussion related to the current market environment and state of the economy as a result of the COVID-19 outbreak, noting that Aon will continue to monitor the markets and provide timely updates as they become available.

Mr. Behrns reviewed the Fund Monitoring Summary of the Quarterly Highlights Report noting the performance of the Small Company Stock Fund. He discussed the Flash Report in the presentation, referring to a change in the management team of Hood River Capital Management (“Hood River”) and Aon’s ongoing monitoring of the fund and discussions with the Hood River team. The Committee discussed Hood River’s co-portfolio manager approach as compared to other fund managers as well as the potential impact the change may have on the Plan and its participants.

Ms. Halberstadt exited the conference call at 10:30 a.m.

Mr. Behrns, at the prompting of Mr. Magno, discussed the governance process that fund managers have in place to allow or prevent them from drastically pivoting their mandates as a result of unprecedented turmoil in the markets. Mr. Behrns noted the investment managers contracted with the Plan are not permitted to dramatically change their mandates. The funds operations are configured to trigger notifications to clients in the event the portfolio strays from the contracted guidelines.

Returning to the Quarterly Highlights Report, Mr. Behrns reported on the asset allocation and performance of the investments held in the Plan as compared to benchmarks and other relevant aspects of the funds offered, considering the Plan’s Investment Policy Statement for the period ending December 31, 2019. Mr. Behrns discussed the following Flash Reports:

- “Dodge & Cox – Changes to the U.S. and International Equity Investment Committees,” noting no further action from the Committee was required, and
- “J.P. Morgan Asset Management – Fixed Income Ratings Update” informing the Committee that Aon’s rating was changed from “Buy” to “Qualified.”

Mr. Behrns next referred the Committee to the Multi Manager Review and led a discussion of the report’s analysis and findings for the Large Company Growth Stock Fund and the impact on the Plan and its participants.

Resulting from a conference call system failure at approximately 11:10 a.m., the Committee and invited guests were forced to exit the call. At 11:15 a.m., the Committee quorum was re-established, Mr. Sheridan reminded the Committee and participants of the Open Meeting guidelines and the participation of all invited guests were confirmed. Ms. Halberstadt rejoined the call.

Referring to the Multi Manager Review, Mr. Behrns and the Committee thoroughly discussed the manager allocation options recommended by Aon for the Large Company Growth Stock Fund. The Committee agreed with the Aon recommendation to change the

current allocation of the fund to “Option #4: Optimizing the portfolio so each manger has an equal contribution to active risk.” Mr. Behrns recommended to the Committee that the change not take place immediately given the current market volatility. The Committee concurred and asked Mr. Behrns to work with Mr. Lynch to determine the appropriate time to implement the change. Mr. Behrns noted that Aon recommended no changes to the other multi-manager portfolios within the Plan at this time.

Ms. Bienemann, Ms. Beck, Mr. Bove and Mr. Connors from J.P. Morgan joined the call. Ms. Bienemann directed the Committee to the J.P. Morgan Report and Mr. Bove led a discussion about the Core Bond Fund’s recent management changes, informing the Committee that Rick Figuly has replaced Barb Miller as the Core Bond Fund’s lead portfolio manager. Mr. Bove shared that the Core Bond Fund’s research approach is a team-based approach and that the fundamental tenants of the team’s strategy remains unchanged.

Mr. Connors led a portfolio review of the growth advantage strategy including the tenure of the research team, its performance and the consistency in the strategy. Ms. Beck led a discussion of the Diversified Commercial Property Fund, noting its performance, the value that the Diversified Commercial Property Fund brings to the Plan’s target-date funds and insight into the Diversified Commercial Property Fund’s property types. Mr. Behrns and Ms. Beck discussed the Diversified Commercial Property Fund’s liquidity for purposes of rebalancing the fund when or if it is required. Ms. Beck noted no issues regarding the Diversified Commercial Property Fund liquidity.

Ms. Bienemann, Ms. Beck, Mr. Bove and Mr. Connors left the meeting.

The Committee discussed the reports reviewed during the meeting. Mr. Curran requested that Mr. Lynch continue to keep the Committee informed of any immediate actions that will be required by the Committee as he and his team manage the Plan through the COVID-19 crisis. Based on the information contained in the reports and considering the best interests of the participants and beneficiaries in the Plan, the Committee agreed to support no changes, other than those noted above, to the investment menu at this time.

The Committee asked Ms. Rooney to coordinate future meeting dates for the 2020 calendar year.

There being no further business to come before the Committee, the meeting was adjourned at 12:20 Eastern Time via roll call: Mr. Magno, Mr. Curran, Mr. Sheridan.