

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

## **Minutes of the Deferred Compensation Committee September 12, 2019**

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, at the offices of the Commonwealth of Massachusetts Office of the Treasurer and Receiver General on the 12<sup>th</sup> Floor of the John W. McCormack State Office Building in Boston, Massachusetts, on Thursday, September 12, 2019. John Curran, Tom Magno and Robert Sheridan, all being voting members of the Committee, were in attendance.

Also present by invitation were David Lynch, Henry Clay, Laura Rooney, Emily Robbins, and Giuseppe Caruso of the Commonwealth of Massachusetts Office of the Treasurer and Receiver General, Grady Smith and Richard “Chip” Tatlow of Dimensional Fund Advisors LP (Dimensional) and Beth Halberstadt, Chris Behrns, Sue Sinclair and Diane Smola of Aon Hewitt Investment Consulting, Inc. (AHIC). Mr. Behrns and Ms. Sinclair participated via teleconference.

With a quorum present, Mr. Sheridan called the meeting to order at 10:00 a.m. Eastern Time.

Mr. Sheridan advised attendees of the recording parameters under Open Meeting regulations M.G.L. c. 30A, §§ 18-25. He inquired if anyone present was recording the session, and no one identified themselves as making a recording. Mr. Sheridan then instructed Mr. Behrns and Ms. Sinclair 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 June 14, 2019 meeting.

Ms. Halberstadt noted that Ms. Smola has joined as a senior member of AHIC’s team for the Commonwealth of Massachusetts’s retirement plans.

The following documents had been distributed to the Committee in advance of the meeting and hard copies were again provided at the meeting:

1. Agenda for the September 12, 2019 Deferred Compensation Committee Meeting,
2. Minutes of the June 14, 2019 Deferred Compensation Committee Meeting,
3. Executive Director’s Quarterly Update – 457 Defined Contribution Plan – Q2 2019,
4. Commonwealth of Massachusetts, Second Quarter 2019, Quarterly Investment Review, (hereinafter “Quarterly Investment Review”),
5. “Commonwealth of Massachusetts Deferred Compensation Plan, 2Q 2019, Quarterly Highlights Report,” (hereinafter, “Quarterly Highlights Report”), and

6. Dimensional Fund Advisors (DFA), US Small Cap and US Large Cap Value Strategy, Commonwealth of Massachusetts Deferred Compensation Plan, September 12, 2019 (“Dimensional Handout”).

Mr. Lynch summarized the “Executive Director’s Quarterly Update.”. He informed the Committee of changes to various Plan metrics including total Plan assets, the number of full-time participants, the average account balance for full-time participants, the average quarterly contribution for full-time participant and number of Roth accounts. Mr. Lynch apprised the Committee of several oversight activities including:

- A transition of assets within the Small Company Stock Fund; assets held in the NWQ Small Cap Value strategy were transferred to the Northern Trust Russell 2000 Index fund during the third quarter of 2019;
- KPMG reported no material findings for the 2017 Plan financial statements at the September 9, 2019 Audit Committee meeting;
- CliftonLarsonAllen continues their progress with the Plan’s audit of the 2018 plan year;
- The Retirement Solutions Group assisting with participant distributions resulted in the retention of approximately \$50 million in assets for the second quarter of 2019;
- HB 35 regarding automatic enrollment awaits review by the Committee on Public Service; and
- Enhancements to the “Active Choice” option offered to participants have initially been positive.

Ms. Smola directed the Committee to 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 June 30, 2019.

Ms. Smola next reviewed process and funds listed on the “Fund Monitoring Summary” noting any changes to the ratings or status from the previous quarter. She then provided updates on the following projects:

- The Requests for Responses (RFR) for Active Large Cap Value, Active Large Cap Blend and Active Small Cap Equity investment management services, and
- An RFR for the Emerging Market Debt mandate, which resulted in the selection of Ashmore, that was funded in June 2019.

The Committee and AHIC discussed the Plan’s investment structure and the prevalence of private equity funds within a defined contribution plan investment menu. The discussion included the role of private equity funds in a fund menu, operational considerations in administering the fund, and potential impact to participant education and behavior. Mr. Behrns noted that historically there has not been options for this in a participant-directed plan but that some new products are becoming available and AHIC is researching.

Ms. Smola reported on the Plan’s 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. Mr. Behrns referenced the Plan’s recent performance update in set forth in the Quarterly Highlights Report and discussed the asset allocation and fund performance for the one-month period ending July 31, 2019.

Mr. Smith and Mr. Tatlow joined the meeting. They introduced themselves to the Committee, explained their roles at Dimensional and, directing the Committee to Dimensional Handout, provided an organizational update about the firm as of June 30, 2019. Mr. Clay and Mr. Lynch asked that they discuss the recent investment performance of the Plan's strategies managed by Dimensional and their expectations as to investment performance. Mr. Smith discussed the academic and portfolio management experience of the Dimensional research teams, the firm's investment philosophy, and summarized the strategies in place for the Plan's US Small Cap and US Large Cap allocation. During his discussion, he explained the firm's views as to the drivers of long-term asset allocation, dimensions of expected returns and offered observations of historical investment performance of various asset categories to explain the more recent investment performance of the Plan's US Small Cap and US Large Cap Value strategies

Mr. Tatlow and Mr. Grady left the meeting.

Mr. Behrns directed the Committee to the paper titled "Flash Report: Dimensional Fund Advisors LP (DFA) Equity Platform Ratings Change," found in the Quarterly Highlights Report. He discussed the findings of the report and compared its findings to Dimensional presentation. The Committee thoroughly discussed the reports reviewed by AHIC and Dimensional. 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 to the investment menu at this time.

There being no further business to come before the Committee, the meeting was adjourned at 11:45 a.m. Eastern Time.

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Committee Member

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Date signed