

Commonwealth of Massachusetts Employees Deferred Compensation Plan

Minutes of the Deferred Compensation Committee September 17, 2021

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 Friday, September 17, 2021. John Curran, Tom Magno and Robert Sheridan, being all the voting members of the Committee, were in attendance.

Also present by invitation were Henry Clay, Nicola Favorito, Sarah Kim, David Lynch, Caitlin Marksteiner, and Laura Rooney, of the Commonwealth of Massachusetts Office of the Treasurer and Receiver General (“Treasurer’s Office”) and Chris Behrns, John Flagel, Beth Halberstadt, and Sue Sinclair of Aon Investments USA Inc. (“Aon”). Invited guests attended via video- and teleconference.

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

The following materials, used throughout the meeting, were distributed in advance of the meeting, and displayed during the meeting as noted:

1. Meeting Agenda for the September 17, 2021 Deferred Compensation Committee;
2. Minutes of the July 13, 2021 Deferred Compensation Committee Meeting;
3. Executive Director’s Quarterly Update – 457 Defined Contribution Plan – Q2 2021, (hereinafter, “Executive Director Update”);
4. Commonwealth of Massachusetts Deferred Compensation Plan, 2Q 2021, Quarterly Highlights Report, (hereinafter, “Quarterly Highlights Report”);
5. Commonwealth of Massachusetts, Responsible Investing, (hereinafter, “ESG Report”); and
6. Draft, The Commonwealth of Massachusetts Employees Deferred Compensation Investment Policy Statement Revised as of September 17, 2021, (hereinafter, “Draft IPS”).

In addition, the following document was distributed in advance of the meeting but was not reviewed during the discussion:

7. Commonwealth of Massachusetts Deferred Compensation Plan, Second Quarter 2021, Quarterly Investment Review.

Mr. Sheridan noted that the meeting was being conducted via video- and teleconference call in accordance with An Act Extending Certain COVID-19 Measures Adopted During the State of Emergency signed into law by Governor Baker on June 16, 2021. 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. Sheridan and seconded by Mr. Curran, approved the meeting minutes from the July 13, 2021 meeting. The approval was unanimously confirmed via roll call: Mr. Magno, Mr. Curran, and Mr. Sheridan.

Mr. Sheridan informed the Committee that Caitlin Marksteiner has joined the Treasurer's Office as an Operations Associate for the Plan.

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

- Plan assets as of June 30, 2021 were \$12.66 billion dollars.
- The average account balance for a full time participant increased 25.86% since June 30, 2020.
- No new legislative updates regarding H.33 (related to cost sharing and automatic enrollment) and H.34 (related to cost sharing).
- Managed account information requested by the Committee at the July 13, 2021 meeting including personalization rates, prevalence of other Empower clients integrating pension benefits into the managed account tool and review of the managed account call scripts used by Empower call center representatives.
- Fidelity Growth Company Collective Investment Trust is now eligible for a lower cost share class which is scheduled to be implemented on November 1, 2021.
- Implementation progress report:
 - Real Estate REIT fund transition is complete; and
 - The Request for Response (RFR) process for manager(s) for the SMART Income Fund is pending final recommendation.

Throughout the Executive Director Update, the Committee, Mr. Behrns and Mr. Lynch discussed prevalence of funds similarly designed to the SMART Income Fund across defined contribution plans ("DC Plans"). Mr. Lynch noted that fee negotiations continue with the Plan's recordkeeper, Empower, related to the administration of investment options for participants eligible to participate in the Plan under the Omnibus Budget Reconciliation Act of 1990.

Mr. Behrns referred the Committee to the Quarterly Highlights Report. He provided the Committee status updates to several outstanding projects including:

- Capital Preservation Fund RFR;
- Real Estate Fund reallocation; and
- Manager due diligence meetings either completed or scheduled since the July 13, 2021 Committee meeting.

Mr. Flagel reviewed the "Market Highlights" section of the Quarterly Highlights Report and 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, 2021. The Committee, Mr. Flagel and Mr. Behrns discussed the possible impacts that the proposed Infrastructure Investment and Jobs Act may have on the Plan and its investment menu structure.

Directing the Committee to the "Asset Allocation and Performance" section of the Quarterly Highlights Report, Mr. Behrns noted and discussed 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 Plan's Investment Policy Statement for the second quarter of 2021 and through July 31, 2021. Mr. Behrns informed the Committee that Vanguard would be presenting at the next scheduled meeting to discuss the Vanguard Dividend Growth Fund's recent performance.

Mr. Behrns presented the ESG Report to the Committee. During the review, Mr. Behrns, Mr. Flagel and Ms. Halberstadt shared with the Committee different approaches to responsible investing for DC Plans. They reviewed the Department of Labor guidance for fiduciaries related to Environmental, Social and Governance ("ESG") factors when developing and monitoring fund menus for DC Plans, the prevalence of ESG across fund menus offered. Throughout the discussion, the Committee, Mr. Clay, Mr. Lynch, Mr. Behrns, Ms. Halberstadt and Mr. Flagel discussed Aon's approach and reporting related to integrating ESG into its manager research process and the benefits and drawbacks of offering an ESG fund as compared to incorporating an ESG evaluation into general manager research. The Committee agreed this topic should be revisited at a future meeting as Department of Labor guidance evolves.

Based on the information contained in the reports and considering the best interests of the participants and beneficiaries in the Plan, Aon, in its role of discretionary investment manager, addressed no changes to be made to the investments of the Plan at this time.

At the Committee's prompting, Ms. Halberstadt informed the Committee that Aon and Willis Towers Watson mutually agreed to terminate the proposed combination because of litigation with the Department of Justice. She noted that Aon's executive leadership team was announced shortly after the combination terminated and anticipates the change will have limited impact on Aon's clients.

Mr. Behrns directed the Committee to the Draft IPS. Noting that Aon is recommending several changes, he reviewed the recommendations and after discussion, the Committee approved all changes discussed except for Section 7. Mr. Behrns agreed to work with Mr. Lynch and Ms. Kim to redraft language for Section 7 based on the Committee's feedback.

Mr. Sheridan informed the Committee that the next meeting is scheduled on December 2, 2021 at 10:00 a.m. Eastern Time.

There being no further business to come before the Committee, on a motion by Mr. Sheridan and seconded by Mr. Curran, the meeting was adjourned at 11:50 p.m. Eastern Time. Roll call: Mr. Magno, Mr. Curran, Mr. Sheridan.