

Commonwealth of Massachusetts Employees Deferred Compensation Plan

Minutes of the Deferred Compensation Committee September 20, 2023

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 call, on September 20, 2023. 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, David Lynch, Sandra DeSantis Lynch, Caitlin Marksteiner, Joel Massa, and Natasha Ralph of the Commonwealth of Massachusetts Office of the Treasurer and Receiver General (“Treasurer’s Office”); Chris Behrns, Aaron Fillipp, John Flagel, and Teresa Kruse of Aon Investments USA Inc. (“Aon”); Lauren Bienemann, Brian Gilkes, and Jani Venter of J.P. Morgan (“JPM”). All attendees participated via video- and teleconference call.

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 20, 2023 Deferred Compensation Committee;
2. Minutes of the May 25, 2023 Deferred Compensation Committee Meeting (hereinafter “Minutes”);
3. Executive Director’s Quarterly Update – 457 Defined Contribution Plan – Q2 2023, (hereinafter, “Executive Director Update”);
4. Quarterly Highlights Report, Commonwealth of Massachusetts Deferred Compensation Plan, 2Q 2023, (hereinafter, “Quarterly Highlights Report”);
5. Target Date Fund Implementation, Commonwealth of Massachusetts SMARTPath Funds, (hereinafter “TDF Report”); and
6. J.P. Morgan Asset Management, Diversified Commercial Property Fund (DCPF) – Q2 2023 Review, (hereinafter, “JPM Report”).

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

7. Quarterly Investment Review, Commonwealth of Massachusetts Deferred Compensation Plan, Second Quarter 2023.

Mr. Sheridan noted that the meeting was being conducted via video- and teleconference call in accordance with the Chapter 2 of the Acts of 2023 signed into law by Governor Healy on March 29, 2023. He advised attendees of the recording parameters under the Open Meeting Law M.G.L. c. 30A, §§ 18-25 and applicable regulations. Mr. Sheridan instructed the Committee and guests to notify the meeting members if any part of the meeting was not audible via video- and teleconference call. 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 May 25, 2023 Minutes. The approval was unanimously confirmed via roll call: Mr. Curran, Mr. Magno, Mr. Sheridan.

Referencing the Executive Director Update, Mr. Lynch provided the following updates:

- Plan assets as of June 30, 2023 increased 9.75% to \$11.8 billion;
- Full time contributions decreased 4.8% during the quarter from March 31, 2023;
- Total full-time participant count increased 1.76% to 116,451 participants;
- The number of Roth accounts continues to increase, up 12.41%;
- The Prudential Emerging Markets Debt Blend Strategy (Prudential fund) will replace the Ashmore Emerging Market Blended Debt Total Return Collective Investment Fund (Ashmore fund) in the Emerging Markets Debt portfolio, which was downgraded from “Buy” to “Qualified” by Aon in 2022;
- Bill S.1698 sponsored by Senator Lovely has been introduced to the Senate to permit the Plan to offer automatic enrollment; a similar bill was introduced to the House of Representatives H.2517 sponsored by Representative Ferrante;
- Arrowstreet Capital, MFS, and Harding Loevner will provide underlying investment management services for the Plan’s International Equity Fund following the investment mandate’s Request for Response (RFR) last year, with the new allocation set to go into effect around the end of September/beginning of October; and
- SECURE 2.0 Act mandatory and optional provisions were reviewed.

The Committee asked Mr. Lynch to provide an update about the expected opposition to Bill S.1698 and H.2517. The Committee and Mr. Lynch discussed the potential impact automatic enrollment would have on the retirement income security for new and current non-participating employees. Mr. Lynch noted the legislation would allow, but would not mandate, municipalities to implement automatic enrollment.

In a discussion of the SECURE 2.0 Act, Mr. Lynch informed the Committee that on August 25, 2023, the Internal Revenue Service provided a two-year transition relief period for the implementation of the new Roth catch-up contribution provision applicable to plan participants that earn in excess of \$145,000 in FICA wages.

Ms. DeSantis Lynch joined the meeting during the above discussion.

Mr. Behrns introduced Teresa Kruse as an addition to the Aon team.

Mr. Behrns directed the Committee to the Quarterly Highlights Report. He noted the Income Fund was added to the Plan’s lineup on June 1, 2023 and reviewed the investment allocations. Mr. Behrns reported an RFR was posted for the International Equity Fund, and after evaluation and approval of the fund managers, the transition will be complete late September to early October. He also noted RFRs are expected to be posted in 2023 for the following mandates:

- Large Company Blend and Growth;
- Small Company Blend;
- High Yield; and
- Unconstrained Bond.

Mr. Behrns reviewed the Ashmore fund replacement, noting the Prudential fund was prequalified by procurement in 2018, and the Prudential fund would replace the Ashmore fund as soon as administratively practicable.

Mr. Behrns provided an overview of the investment manager due diligence meetings that have been completed and those that are scheduled for the remainder of 2023.

Mr. Flagel reviewed the current state of the overall economy, the domestic and international equity markets, and the bond markets.

Mr. Behrns continued the review of the Quarterly Highlights Report, leading a discussion of the investments offered in the Plan, noting 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.

Mr. Behrns reviewed the manager selection process, noting that managers are selected by the Procurement Management Team (PMT). He stated investment mandates are required to go out to a public RFR every 10-years, but the RFR can be released sooner if it is in the best interest of participants. He informed the Committee that Aon will assist the PMT with the review process.

Following discussion, based on the contents of the Quarterly Highlights Report and in the best interest of the participants and beneficiaries in the Plan, the Committee concluded it would support no changes to the investments in the Plan at this time.

Mr. Behrns directed the Committee to the TDF Report. He provided an overview of the SMARTPath Funds, the target date funds used in the Plan, noting Alliance Bernstein (AB) acts as a 3(38) investment manager fiduciary under ERISA with respect to the glide path and asset allocation, and the State Treasurer, the Administrator of the Plan, is responsible for selecting the underlying investment managers. Mr. Behrns and Mr. Flagel reviewed the investment managers used within target date funds, Aon's research ratings for the underlying investments, performance, and fees. Mr. Flagel reviewed active versus passive management in retirement plans, noting the combined active-passive strategy in the SMARTPath Funds remains reasonable. Mr. Behrns discussed two manager changes that Aon believes may incrementally improve the expected outcome of the target date funds:

- Replace the SSGA U.S. Bond Index Fund with the Loomis Sayles Core Plus Bond strategy, and
- Replace the Ashmore fund with the Prudential fund (which as noted earlier was already prequalified by Procurement).

Mr. Behrns reviewed the recommendations and after thorough discussion, the Committee voted to support the above noted investment changes. On a motion from Mr. Curran, seconded by Mr. Sheridan, the Committee agreed to support the replacement of the funds noted above via roll call vote: Mr. Curran, Mr. Magno, Mr. Sheridan.

Mr. Gilkes, Ms. Venter, and Ms. Bienemann joined the meeting.

Ms. Venter directed the Committee to the JPM Report. She reviewed the investment summary and performance of the JPMCB Diversified Commercial Property Fund, provided an overview of the U.S. real estate market, reviewed public versus private real estate investments and property sectors, and reported on relative performance as compared to benchmarks.

The team from J.P. Morgan left the meeting.

To add clarity to the real estate fund discussion, Mr. Behrns provided additional detail regarding how office buildings are appraised and valued, noting this is a component of real estate funds.

Mr. Sheridan noted the next meeting is scheduled for December 6, 2023 at 10:00 a.m. Eastern Time.

There being no further business to come before the Committee, on a motion by Mr. Mango and seconded by Mr. Curran, the motion to adjourn was unanimously confirmed via roll call: Mr. Sheridan Mr. Curran and Mr. Magno at 12:05 p.m. Eastern Time.