

**DRAFT MINUTES OF THE TOWN OF GILBERT, ARIZONA DEFERRED COMPENSATION  
BOARD OF TRUSTEES MEETING  
VIRTUAL MEETING VIA WEBEX, GILBERT, ARIZONA  
February 22, 2022**

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**MEMBERS PRESENT:** Hakon Johanson, Chairperson  
Cindi Mattheisen, Vice Chairperson  
Michael Burkhart, Secretary  
Ray Savoie

**MEMBERS ABSENT:** Hondo Judd

**STAFF PRESENT:** Donna Pedrera, Sr. Human Resources Analyst – Total Reward Team

**GUESTS PRESENT:** Gordon Tewell, Principal, Innovest  
Troy Jensen, Innovest  
Paul Nacario, Innovest  
Jim Keeler, Program Director, Nationwide  
Nancy Feilbach, Nationwide

**1. Call to Order**

Mr. Johanson called the meeting to order at 4:31 PM.

**2. Roll Call**

Ms. Pedrera called roll and a quorum was declared.

**3. Review and Approval of the Innovest Investment Policy Statement**

Mr. Johanson asked if there were any questions or discussion regarding the approval of the Innovest Investment Policy Statement. The Board members did not have any specific questions but Mr. Johanson asked Mr. Tewell to review the document with the Board, Mr. Tewell reviewed the document, explaining that this was a stock document which shows the fiduciary process for selecting and monitoring the investments, making sure that it can be understood by anyone outside the Board and those on the Board. Mr. Tewell further explained that document also addresses the responsibilities of the participants, delegation of authority by the Board, in this case the hiring of Nationwide, investment managers, and conflicts of interest. Section II defines the process for the asset classes and the style groups, self-directed Brokerage accounts, performance expectations, selection of fund managers, and ongoing review. Section IV outlines the monitoring of costs and give an overview of plan fees. Mr. Johanson asked if the Board had any additional questions after the review. Mr. Savoie asked about the timing of making changes to the fund, the policy statement mention quarterly but the Board previously discussed making these changes annually. Mr. Tewell said that the Statement was flexible and could allow any changes to be made whenever the Board decided, and that it is an ongoing process, Innovest looks at any concerns on a quarterly basis and reports them out to the Board. Mr. Johanson asked for a motion to adopt and approved the Innovest Investment Policy Statement. Mr. Burkhart made a motion to approve the Innovest Investment Policy Statement. Ms. Mattheisen second the motion. The motion passed 4-0.

#### **4. Review of Administrative, Legislative and Economic Reports – Nationwide**

*Discussion only.*

Mr. Keeler, Nationwide began with some administrative announcement, the first being the introduction of Nancy Feilbach who has replaced Jack Connor as the group's Retirement Specialist. Ms. Feilbach introduced herself and the Board welcomed her. Mr. Keeler continued updating the Board regarding new enhancements that Nationwide has recently rolled out, to include the online payout capability, online loan processing, online unforeseen emergency functionality, online loan payoff capability, and a new statement format which makes the statement look more like a bank statement. Mr. Keeler, next shared his screen, showing the Combined Town of Gilbert 457 & 401(a) Plan Sponsor Quarterly Statement for the 4<sup>th</sup> Quarter. Showing that as of the end of December 2021 the 457 balance of \$62,680,421.91 and the 401(a) balance of \$766,155.97. Mr. Keeler then showed the Investment Performance Report showing the annual asset fee of .065% that Nationwide is charging for the administration of the plans along with showing the returns for each plan, a very good report showing good returns year over year in the market, although we are now seeing some volatility in the market in the new year, and we anticipate that next quarter's statement could have some negative numbers, so we expect we may get some telephone calls to our customer service center. Mr. Keeler then switched over showing the 457 dashboard report, focusing on page 4 the Executive Summary, which showed that as of 12/31/2021 there are 824 enrolled participants, an average account balance of \$74,175, average contribution of \$429. We would like to increase this. Online engagement is currently at 635 participants. Mr. Keeler asked if the Board had any questions on the 457. Mr. Burkhart asked Mr. Keeler how Gilbert's plan participation compared to other municipalities. Mr. Keeler replied that public sector participation rates are in the 30 to 40% range and currently Gilbert is right in line with those participation percentages. Mr. Keeler also stated that plan members are very engaged, and the plan has seen positive enrollments and increase participation since inception. Mr. Burkhart also asked if Nationwide could provide ideas on how to increase enrollment. Mr. Keeler stated that Nationwide can do campaigns to increase participation to include education programs using emails or flyers sent to employees based on their life stages, pushing constant messages. Encouraging online enrollment and online account usage, proposing contribution increases, and discussing with participants the benefits of a Nationwide ProAccount, all of these are additional ways to increase participation and contributions. The Board discussed the how internally through new hire orientation and wellness committee presentation and activities where information can be given to employees on the benefits of participation in the 457 and 401(a) plans.

#### **5. Review of 4th Quarter Investment Performance Reports of Deferred Compensation Plans - Innovest**

*Discussion only.*

Mr. Tewell, with Innovest shared his screen showing Q4 2021 Portfolio Review beginning the discussion with talking about the year in review and the 25<sup>th</sup> Anniversary of Innovest, the growth of the firm and the addition of seven new professionals, for the 7<sup>th</sup> year out of 8 Innovest has been named the one of the best places to work in money management or a firm their size, and finally the excellent client satisfaction results that Innovest received from their 2021 Client Survey, 4.9 out of 5 and a net promoter score of 86. Mr. Tewell then moved on to Topics and Trends talking about Why Gilbert should keep Assets in the Plan, showing the difference in the accumulation of fees and the fiduciary investment oversight.

Next Mr. Tewell did a review of Town of Gilbert 457 Plan Summary which included the plan summaries, plan features, and design plan provisions of both the 457 and 401(a) Plans. Mr. Tewell also stated that the document includes a listing of Innovest's regular deliverables and a calendar of items that they look at on regular basis, including the share class review. Mr. Tewell next reviewed the Annual Fee for the Town of Gilbert's 457 Plan stating that currently the Investment, Recordkeeping and Administrative Costs are 0.59% which is good compared to the average benchmark which is 0.88%, looking at each of the components of those fees, the expense ratio retained by the fund manager is by far the biggest portion of the fees within

the plan and that is the money going to the money managers for managing the assets, and Nationwide for the record keeping costs, these are usually updated annually.

Mr. Tewell move on to show the Menu Coverage, showing the three Tiers approach, Tier 1 which has an impressive set of target date funds for those who do not want to be involved with the investing of their contributions. Tier 2, which has the core investment options for participants that want to be engage a little bit and do their own investing by creating the risk return account they desire but allows the participant to create a diversified account. Tier 3, the self-directed brokerage which is more for the expert investor account with a wide range of investments. Nothing currently concerning on the Menu, Troy Jensen will get into more specifics during his presentation. Mr. Tewell then showed the 457 Asset Allocation stating that there has little growth over the course of the quarter of 5.6% base on \$63,642,989 total assets. Over the 4<sup>th</sup> quarter 23% of the assets are in Target Date funds, allocation among stocks and bonds are currently 76% stocks and 24% bonds there was also a reduction in the amount of standing loans. Mr. Tewell move on the 401(a) Asset Allocation stating that is was a much smaller plan but that it had great growth during the 4<sup>th</sup> quarter up 35%, moving from \$555,048 to \$749,778 assets over the course of the quarter. A bigger use of the Target Date fund in the 401(a) plan members utilizing the diversified asset allocation products. Mr. Tewell asked is there where any questions from the Board there were not questions so Mr. Tewell move on to discuss the economic aspects of the Markets with the 4<sup>th</sup> quarter, the large cap U.S. stocks dominated for the year, the large companies here in the U.S. were up 28.7%, a big portion of the increase actually happening in the 4<sup>th</sup> quarter with an 11% increase in the 4<sup>th</sup> quarter alone. Small companies also had a modest increase of 2.1% in the 4<sup>th</sup> quarter, but 14.8% over the course of the year. Good performance from international developed stocks places like Europe and Japan up 11.3% for the year and 2.7% for the 4<sup>th</sup> quarter. Emerging markets stocks represented by Brazil, Russia, India, China, had negative performance for the year and negative performance coming from China. Large companies in China, based on regulatory scrutiny negative for the 4<sup>th</sup> quarter Chinese stocks down about 20%. Main core bonds were down 1.5% for the year, flat for the 4<sup>th</sup> quarter. Mr. Tewell then moved on to the Global Economics: Grown Outlook slide stating that the growth and gross domestic product was strong in 2021, with the U.S. gross domestic product about 2.2%. Global GDP growth is slowing but is expected to remain strong in 2022. Leading Economic Indicators reflect the strong recovery, although economic momentum may have peaked. Mr. Tewell next move on to Global Economics slide stating that the markets are watching what the Fed is doing in the economy to try and keep the economy on track. Global central banks have begun tapering asset purchases as they move toward a more normalized monetary policy. The markets expect central banks to begin short term interest rates to combat inflation. Headline inflation which includes energy and food was at 7.5% with core inflation at 6%. The Fed is trying to address this as they start to look at an increase in interest rates in March. Inflation is being fueled by Labor Markets. Labor shortages continue to a major concern. Job opening are at a record-high. As a result, wage growth has accelerated since the pandemic, with employment costs rising 4% to 5%. 1.5 million more retirements occurred than were expected over a typical timeframe, increase self-employment, and a decline in temporary workers and immigrant visas contributing to a significant worker shortage. Small businesses are planning to pass these higher costs on to consumers. Mr. Tewell moved on to the Equities: Valuations slide which shows that stocks look expensive here in the U.S. as we ended the year. The price to earnings ratios being 21.2 which is historically high. Stock valuations remain elevated globally, though international equities appear more reasonably priced than U.S. Equities. The Fixed Income: Interest Rates slide showed that increased inflation has led to negative real yields for high-quality fixed income and credit spreads remain tight relative to their historical averages. Looking back performance has been very strong in the equity markets particularly in the U.S. markets, with double digit returns. Large companies like Apple and Microsoft were the dominant performers within the market. The sectors that performed well for 2021 including energy, real estate, and financials. Mr. Tewell then briefly discussed with the Board whether the Fed would raise interest rates in March.

Mr. Tewell next turned it over to Troy Jensen with Innovest who reviewed the specific performance of each plan fund utilizing a Manager Score card focusing on any funds that may be of concern, explaining how they set up the Manager Score Card, generally the Score Card looks excellent with lots of green very solid, reflecting a good economic picture. Two minor concerns first the T Rowe Price BC Growth fund raised a level of concern is the change in the management team, one of the co-managers is stepping down at the end of 2021. Next minor concern is that the MetWest Total Return Plan had the Chief Investment Officer at MetWest also retire. Mr. Jensen commented that they are seeing a lot of retirements in the industry. One major concern which carries over from last quarter is Hartford Mid Cap Fund, Hartford's funds have been a concern because they missed on some the IT and Healthcare picks. The absolute number still shows that it is a decent performing fund. Mr. Jensen then moved to the Table of Returns and focused on Hartford Mid Cap stating that the relative ranking it still stacks up against its peers. Mr. Jensen continued to review the Hartford Mid Cap numbers on the Table of Returns. Mr. Jensen paused there and asked if the Board wanted to continue to monitor or to look at alternatives and replace the fund, Innovest recommends being patient and waiting to see if the fund performance increased. Mr. Savoie replied that he felt that it best to not make any changes at this time due to volatility of the market, the Board agreed with Mr. Savoie. Mr. Jensen continued on to outline the Table of Returns and how the funds are listed and how the indicators can be interpreted and concluded that there were no further recommendation and that they would continue to watch the Hartford fund. The meeting was then turned over to Mr. Johanson who asked if there were any additional questions or thoughts from the Board. The Board had no questions.

## **6. Staff Update and Future Meeting**

*Discussion only.*

The Group discussed the best time to hold the next meeting, Mr. Tewell said that the quarterly reports would be available by last part of April early May. Ms. Pedrera said that she would schedule the normal quarterly meeting for the middle of May so to not interfere with the Memorial Day holiday. Ms. Pedrera stated she would send out dates to the Board for consideration.

## **7. Review and Approval of Minutes of from the November 2, 2021 Meeting**

Mr. Johanson asked for any discussion or corrections on the minutes. No Discussion. Mr. Savoie made a motion to approve the minutes from the November 2, 2021 meeting. Ms. Mattheisen second the motion. The motion passed 4-0.

## **8. Adjournment**

Ms. Mattheisen made a motion to adjourn the meeting. Mr. Savoie seconded the motion. The motion passed 4-0. The meeting adjourned at 5:50 pm.

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Hakon Johanson, Chairperson

ATTEST: \_\_\_\_\_

Michael Burkhart, Secretary