

**DRAFT MINUTES OF THE TOWN OF GILBERT, ARIZONA DEFERRED COMPENSATION
BOARD OF TRUSTEES MEETING
VIRTUAL MEETING VIA WEBEX, GILBERT, ARIZONA
June 14, 2022**

MEMBERS PRESENT: Hakon Johanson, Chairperson
Michael Burkhart, Secretary
Ray Savoie

MEMBERS ABSENT: Hondo Judd
Cindi Mattheisen, Vice Chairperson

STAFF PRESENT: Donna Pedrera, Sr. Benefits Analyst – Total Rewards Team

GUESTS PRESENT: 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 4:32 PM.

2. Roll Call

Ms. Pedrera called roll and a quorum was declared.

3. Review and Approval of the Optional Secure Act Provisions

Mr. Keeler reviewed the optional Secure Act Provisions that needed to be adopted for both the Town of Gilbert 457 & 401(a) plans to include allowing in plan withdraws at the age of 59 ½ years of age and birth of a child or adoption of a child which allows for parents to take an in service withdraw of up to \$5000 dollars to help defray cost associated with birth or adoption. Mr. Johanson asked the Board members is they had any reason why the plan should not allow the adoption of these provisions, also stating that he thought that it would help retention to allow employees to take a distribution while in service and would be a good thing. Both Mr. Burkhart and Mr. Savoie responded that could not offer any objection. Mr. Johanson asked if there was any additional questions or discussion. There were no further questions or discussion. Mr. Burkhart made a motion to approve the two optional Secure Act provisions for both the 457 and 401(a) plans. Mr. Savoie second the motion. The motion passed 3-0.

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

Discussion only.

Mr. Keeler, Nationwide stated that as the Board knows the market is going through some significant volatility right now and Nancy Feilbach will give an update later in meeting on what trends she has seen as far as the increase in calls to both Nancy and Nationwide customer service. Mr. Keeler stated that with the past 12+ weeks of downward movement in the market most of what is occurring with the members is asset allocation diversification. Mr. Keeler shared his screen, showing the Combined Town of Gilbert 457 & 401(a) Plan Sponsor Quarterly Statement for the 1st Quarter 2022, showing that as of the end of March 31, 2022 the 457 balance of \$59,706,159.22 and the 401(a) balance of \$835,528.45, stating that the information is a little dated and is a little less today because of the downturn in the market which is considered to be in bear market territory. Mr. Keeler then shared his screen showing the Plan Health Report for the Town of Gilbert 457 Comp Plan as of March 31, 2022 stating that the report just shows a snapshot of the overall

participant activity. Mr. Keeler then moved on to the demographics showing the total participant count being 816 with 5 new enrollments year to date and the total amount of deferrals year to date. The Executive Summary also showed that the balances have dropped. Mr. Keeler stated that now is the time for members to hold and continue to defer, and if they are able to do so make a small increase and take advantage of some of the buying opportunities, when the market is down the value of mutual funds is less, so many members are buying more

Mr. Keeler then reviewed the online engagement numbers and retirement readiness which is currently 38% and has dropped a little from the previous reporting period, this number makes people think about whether they are on track and also think of other ways to close any gap that they may have to their targeted retirement date. Mr. Keeler then move to the page showing that 7% of participants have increased their contributions taking advantage of a lower market and also showing that 6% of participants have signed up for the auto increased for January. The report also shows that total diversification is currently at 5 asset classes which is above our peer group of 4.4. Current loans for the 457plan is at 102 general purpose loans and 10 primary residence loans. Mr. Keeler concluded his comments with the Plan Health Report and then asked Ms. Feilbach to comment briefly on the activity that she has seen in field. Ms. Feilbach, Nationwide stated during the 1st quarter 2022 she did not see much activity but that she has seen increased activity during the last month, there has not been any panic but participants are wanting to have conversations, and after they talk through it they are calm and have a plan. Most people are staying the course and making slight adjustments. Ms. Feilbach turned it back over to Mr. Keeler who stated that this concluded his administrative portion of his report and asked if the Board had any questions. Mr. Johanson thanked Mr. Keeler and asked if the Board had any questions, the Board did not have any questions for Mr. Keeler.

5. Review of 1st Quarter Investment Performance Reports of Deferred Compensation Plans - Innovest

Discussion only.

Mr. Nacario, with Innovest shared his screen showing Q1 2022 Portfolio Review beginning the discussion on page 2 of the Q1 2022 Portfolio Review talking about the year in review and the move of Innovest's offices which is only 100 yards from the previous offices. Then Mr. Nacario moved to page 3 discussing the History with the Town of Gilbert and some of the milestones accomplished with the Town of Gilbert to include adding the 401(a) plan in January 2021 and the Fiduciary education in the 3rd quarter of 2021. Moving on to page 4 Mr. Nacario continued discussing the upcoming provisions of the Secure Act focusing on three upcoming provisions 1) Lifetime Income Disclosures effective 2022 2) Required Distribution Rules for Designated Beneficiaries, proposed regulations to be issued in 2022 3) Part Time Employee 401(k) Plan Eligibility – effective January 1, 2024. Moving on to page 5, Mr. Nacario reviewed the recently passed the Secure Act 2.0 on March 29, 2022 which includes the following provisions 1)Increasing the required minimum distribution age (RMD) to 75 by 2032 and creating an exception from individuals \$100,000 or less in aggregate retirement savings 2) Establishing a lost and found program to deal with the missing participant issue 3)Increasing the “catch-up” contribution limit to \$10,000 4) Allowing employer dollar matching programs to be apply towards student loans and finally 5) The elimination of the “first day of the month” deferral change requirement for government 457 plans.

Next Mr. Nacario moved to page 6, briefly reviewing some of the recent developments and settlements with litigation issues with different industries and corporations, stating that more plaintiff law first are entering the business with small plans being targeted, and the scope of complaints evolving with creative claims. Moving to page 9 which shows the Annual Fee Review Town of Gilbert's 457 and 401(a) Plans, Mr. Nacario stated that this data is shown every quarter, but it only changes once per year. The Annual Fee for 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. Next on the report was the gross investment management fees these are the fees being paid to all of the mutual fund providers, currently they are at \$255,703 which is equal to 47 basis points, and \$40 dollar annual fee per participant, and the Nationwide record keeping fee which is \$70,484 equal to 13 basis points. The total investment and record keeping administrative cost of \$120,183 and that is how the 0.59% is calculated. Mr. Nacario move on to page 10 showing 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. Finishing on page 10, Mr. Nacario then showed the 457 Asset Allocation which at the end of calendar year 2021 had a value of \$63,000,642 and at the end of the 1st quarter March 31, 2022 had a balance of \$60,606,478. The Large Cap Equity funds is where almost 32% of the plans assets are invested, 23% of the plans assets are in the Target Date Equity suite and the Stable Value funds which contains the Nationwide fixed account holds the 3rd largest asset allocation for the participants.

Mr. Nacario next turned the presentation over to Mr. Jensen with Innovest who reviewed page 3 showing the Markets during the 1st quarter through March 31, 2022, specifying that some of the information may be dated. The indexes have seen some negative performance with the S&P number down -4.6% currently it is down -21% year to date. US Small Cap stocks were down -7.5% during the 1st quarter are currently down -23.2% year to date. Developed International Stocks were down -5.9% at the end of the first quarter and currently year to date they are down almost -18% and Emerging Markets Stocks are down year to date -24.5%. Fixed income is also down -5.9% for the 1st quarter 2022 and Municipal fixed income down -5.1% for the 1st quarter 2022.

Mr. Jensen then move on to page 14 discussing the Geopolitical Risk from a Historical perspective, stating that over the last 60 years there have been 22 political events that have impacted markets. Currently one of these events is the Russia and Ukraine war which has caused a reaction in the markets and COVID which caused the market to react by dropping 34%. Each time there is one of these events there is an initial drop off in the markets and negative performance but historically in almost every case in the years and months that follow the events there is a positive impact in the markets, so in the 6 months following a historical event there is +5% increase in the markets and in the 12 months following there is a +9% increase.

Mr. Jensen then moved on to page 15, titled Impact of Fed Tightening, stating that the Fed may increase rates by 75 basis points, they have already done two 25 basis point increases and when the Fed is aggressive we know that the impact is that markets will be held down. The Feds are raising rates in order to combat the 8% inflation. Moving on the page 16, titled Inflation: On the Rise, Mr. Jensen commented that as of February inflation was at 7.9% and if you include March and April we have seen 8.5% inflation with a year to date number of 8.3%, so the cost of things are going up in price, highest that we have seen since the 1980s. Ultimately the inflation number needs to come downs so that the economy can recover. Mr. Jensen then present page 16, titled Labor Market: Headwinds to Economic Growth, stating that the job market is a big piece of the issue with the economy right now. Currently there are two job openings for every person looking for a job. Showing page 19, titled Equities: Stock Performance Around Recessions Mr. Jensen stated that a historical context looking back 40+ years and the impact of a draw down on the markets. For example, in 2020 there was a -34% drop in the market in response to COVID but at the end of the year markets were still up +16%, and generally this is historically true. The general sense is that even though

currently we are down -21% it expected that markets will correct and become positive within 24 months after a recessionary period. The negative performance in the markets was worst for Small Cap and Mid Cap both down -12.5% for the 1st quarter ending March 31, 2022. It is best for participants to look at their account values for 3 or 5 year average which are still positive. Energy stocks were the best performers in the 1st quarter and they have been the best performers for the past year. Every other category was negative for the 1st quarter ending March 31, 2022. Moving to the Manager Score card, which is a reference page to evaluate the investments, giving a scorecard to capture actionable items. Mr. Jensen stated that currently there is nothing showing that prompts action, there is still a major concern for Hartford Midcap, which has struggled for a while now, the quarterly number shows it in the top 20%. We will continue to watch Hartford Midcap despite the major concern and take no action at this point. A new minor concern was added for the T Rowe Price blue chip growth, it is a large cap growth stock their performance has lagged, but at this point in the market they are struggling. Mr. Jensen asked if the Board had any questions on the Scorecard, there were no questions, so he moved on to discuss the Table of Returns. Hartford Mid Cap is ranking towards the bottom of their category because they have had a rough couple of cycles but in the recent quarter they are down less. We would like to see a rise in performance but if it does not, we would look at alternatives in that space. The American funds, in the target date series, are really strong in long term performance despite the quarterly numbers. Mr. Jensen discussed the increase in crypto currency, Bitcoin through the self-directed Brokerage accounts. The Department of Labor which governs the corporate side of the retirement plan space commented and said that "We don't believe that plan fiduciaries are acting appropriately if they are putting crypto currency in and making it available to plan participants." Mr. Jensen stated that we have seen the crypto currency market collapse significantly. We agree with the Department of Labor that crypto currency is not something that should be a focus of retirement plans, because it is not regulated, and it tends to be highly volatile and unpredictable. Mr. Jensen asked if the Board had any questions or comments, there were no questions or comments from the Board. Mr. Johanson thanked Mr. Nacario and Mr. Jensen for their excellent report.

6. Staff Update and Future Meeting

Discussion only.

The Group discussed the best time to hold the next meeting, Mr. Nacario said that the quarterly reports would be available at least a month after the close of the month so he recommended that the next meeting be held the mid to later part of August. Ms. Pedrera said that she would schedule the normal quarterly meeting for the middle to late August so to not interfere with summer vacations. Ms. Pedrera stated she would send out dates to the Board for consideration.

7. Review and Approval of Minutes of from the February 20, 2022 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 February 20, 2022 meeting. Mr. Burkhart second the motion. The motion passed 3-0.

8. Adjournment

Mr. Savoie made a motion to adjourn the meeting. Mr. Burkhart seconded the motion. The motion passed 3-0. The meeting adjourned at 5:38 pm.

Hakon Johanson, Chairperson

ATTEST:

Michael Burkhart, Secretary