

**DRAFT MINUTES OF THE TOWN OF GILBERT, ARIZONA DEFERRED COMPENSATION
BOARD OF TRUSTEES MEETING
VIRTUAL MEETING VIA WEBEX, GILBERT, ARIZONA
August 23, 2022**

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

MEMBERS ABSENT: Cindi Mattheisen, Vice Chairperson

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

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

1. Call to Order

Mr. Johanson called the meeting to order at 4:30 PM.

2. Roll Call

Ms. Pedrera called roll and a quorum was declared.

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

Discussion only.

Mr. Keeler, Nationwide shared his screen, showing the Combined Town of Gilbert 457 & 401(a) Plan Sponsor Quarterly Statement for the 2nd Quarter 2022, showing that as of the end of June 30, 2022 the 457 balance of \$50,251,708.89 and the 401(a) balance of \$767,541.67, stating as of yesterday's closing date of August 22, 2022 the balance of the 457 plan was \$57,165,825 and the 401(a) balance was at \$948,220 so the total was at \$58,114,045. Stating that there has been a pretty good market overall in July with a lot of volatility in the market year to date but we will have to see what happens for the second half of the year, Innovest will be reviewing the economy in the next portion of the meeting. Mr. Keeler then moved on and reviewed the Investment Performance Report as it shows the statements that are received by participants and the investment returns in our line up. Investments have been down for the most part, we have a good line-up of investments and participants are well diversified, with the goal to be a long term retirement plan. Participants are looking for plan diversification and long term retirement planning. Mr. Keeler then stated that he is not seeing any panic by participants. Nationwide is getting some calls for service mostly questions for account reviews and other requests for services like beneficiary updates. Currently Nationwide is not seeing any calls for flights to safety people are holding the course. Mr. Keeler asked if there were any questions, the Board did not have any questions, so he moved on the Plan Health Report as of June 30, 2022, showing the executive summary which includes the number of enrolled participants to be 819, the average account balance of \$62,404, 600 participants are actively deferring and the average contribution in the amount of \$469. Mr. Keeler stated that Nationwide would like to discuss with the Board any ideas on marketing campaigns that can be kicked off in the second half of the year, focusing on asset allocation education participants on the importance of being well diversified. Mr. Keeler stated that Ms. Feilbach, Nationwide is getting more inquires about the 401(a) plan, enrollments continue to increase with new hires in the 457 plan more than the 401(a) plan. Mr. Keeler continued on in the same Plan Health Report focusing

on the page which shows Contributions and Investments. 11% of participants increased their contributions limits, 6% of the participants are enrolled in the automatic contribution increase. Mr. Savoie stated that it would be great if there could be a campaign focused on increasing the number of participants enrolled in the automatic contribution increase. Mr. Keeler stated that they are hearing that the IRS may be increasing plan limits for 2023 indexing for inflation, but nothing official has been released. Mr. Keeler expects that there will be more news about the Secure Act 2.0 if passed at the end of the year will include changes to the current catch up contribution amounts how they are tracked pre-tax versus Roth after tax for those 50+ years of age or the three year traditional catch up. Mr. Keeler then pointed out the page on the report which shows how participants are allocated, stating that participants are in a Target date fund that is automatically considered to be five asset allocation categories in the one investment, which is a very simple way for participants to invest based on their retirement date. Currently the plan is above our peer group with five recommended and the plan averaging five. Moving forward in the report Mr. Keeler stated that there are 18 members utilizing the professional management with Wilshire and those that are doing their own investing through the Schwab account. Mr. Keeler asked the Board if they had any questions, the Board did not have any questions so he moved on next showing some of the demographics of the plans, the breakdown of the different fund allocations and assets currently being managed, the different money sources in the plan, pre-tax, after tax and rollovers, the loan balances and the number of loans which currently at 99 general purpose loans and 10 primary residence loans. Mr. Keeler concluded the review of the 457 report and stated that there is the same report for the 401(a) that was sent to the Board, but it will not be reviewed during today's meeting. Mr. Keeler reviewed the opportunities to improve the plan health which include encourage enrollment, suggest online account usage, propose contribution increases, and discuss the benefits of Nationwide ProAccount. There are many new fliers that Nationwide will be rolling out that focus on these areas. The Board then discussed the merits of increasing the automatic contribution increase as recommend by Mr. Savoie. Mr. Keller stated that he had no further comments and then asked Ms. Feilbach if she had any comments. Ms. Feilbach stated that she has been getting a lot more service related topic calls. She helped a couple retiring participants with getting their vacation payouts deposited into their accounts. Ms. Feilbach stated that from an investment perspective that participants have not been showing a lot of concern. Mr. Keeler then thanked the Board and said that this concluded Nationwide's comments. Mr. Johanson thanked Mr. Keeler,

4. Review of 2nd Quarter Investment Performance Reports of Deferred Compensation Plans - Innovest

Discussion only.

Mr. Tewell with Innovest shared his screen showing Q2 2022 Innovest at a Glance reviewing latest information regarding Innovest, specifically that Troy Jensen and Paul Nacario became partners and part owners with Innovest. Mr. Tewell moved on to Topics and Trends for Q2 talking about Investment Menu Trending Topics to include Environmental, Social, Governance (ESG), Collective Investment Trusts (CITs), Cryptocurrency (Crypto), explaining on each of these investments categories work and what is involved with these types of investments and the risk factors involved with these investments. Mr. Tewell then moved on to show three investment features to include Managed Accounts, Brokerage Accounts, and Retirement Income, explaining how each type of account works and the benefits and fees of each type of Account.

Mr. Tewell moves on to plan information showing the Town of Gilbert 457(b) Plan Summary. Reviewing the listing of plan features, design, and provisions. Next Mr. Tewell moved on showing the Town of Gilbert 457 and 401(a) Combined Annual Fee Review showing that the annual fee for the Investment, Recordkeeping and Administrative Costs are 0.54% which is good compared to the average benchmark which is 0.87%, stating that the key to keeping that fee low is really breaking those into components and looking at those on a regular basis, making sure that you are in the lowest cost version of the investments within the plan. Mr. Tewell moved on to the Menu Coverage page and reviewed the type of fund make up the three Tiers and then the Asset Allocations for both the 457 and 401(a) accounts and the changes that have occurred in Q2. The Markets slide showed that there are negative numbers across the board and the worst six months ever in the bond market. Mr. Tewell commented that the cause for the market environment continues to be much of the same as the 1st Quarter to include increase in interest rates, rapid inflation to include increase prices in gas and groceries, the continuing of the Russian/Ukraine conflict, and China Covid shutdowns impact on supply chain issues.

Mr. Tewell moved on to discuss the Economy and the slowdown in money supply, stating that the Leading Economic Index has declined significantly from its 2021 highs, indicating a continued slow down in the economy. Money supply is down sharply as the Federal Reserve has shifted to a tighter fiscal policy. As a result of tighter money supply and higher interest rates, long-term inflation expectations are coming down toward historical levels. The consumer sentiment index is currently at 50+ year low. Historically Innovest has seen a strong equity market performance in the subsequent 12-months following periods of low sentiment. Mr. Tewell next showed the strength of the Consumer stating that the conclusion of government stimulus and the highest inflation we have seen in decades has forced consumers to begin drawing down on savings and taking on more debt. Household debt service ratio has risen from the COVID lows but remains well below historical levels. Consumers continue to spend; retail spending is still good up about 8% in the last month. Mr. Tewell then review the importance of staying the course and for participants to make sure that they are in the right asset allocation for the long haul.

Mr. Tewell then reviewed the Equity Performance as of June 30, 2022 which for the last year mostly negative numbers. More stable traditional companies performed better than those rapidly growing companies. Mr. Tewell ended his presentation by asking if there were any questions from the Board, there were not question so Mr. Tewell next turned the presentation over to Mr. Jensen with Innovest who reviewed the Manger Scorecard which is a reference page to evaluate the investments, giving a scorecard to capture actionable items. Mr. Jensen noted the T Rowe Price Blue Chip Growth fund is blue which indicates a minor concern in the overall category, there have had two minor concerns also on this fund that have lingered for a bit, but no recommendation on change on the fund. Hartford Mid-Cap is a major concern for performance mainly because it is struggling and has some ground to make up, its number in this quarter has been better. Met West Total Return has a minor concern in the people category because the Chief Investment officer has stepped away to retire. Overall, across the board we are in decent shape no recommendations from anything on the scorecard at this point. Mr. Jensen then move to the Table of Returns stating that Dodge and Cox stock has been much better than what we see for the growth side of T Rowe price blue chip growth when looking at the short term numbers. Across the board there are some variations in the numbers, and especially in the short term the year to date for the midcap index. Dodge & Cox on the international side has done very well. Shifting to the Target Date fund the American Funds have been a really dominant performer. Mr. Jensen concluded stating that no recommendations we are comfortable with the investment menu that we have relative to everything that is going on. All indications are that things are rising at least getting back some of the losses. Mr. Jensen asked if there were any questions. No questions from the Board.

Mr. Jensen then turned it over to Mr. Tewell who reviewed the Advisor Cost & Service Benchmark Report which showed that Innovest fees were at \$31,000 per year and in the low medium area. Mr. Tewell then presented Share Class Review in order to look at the investments within the plan and ensure that Gilbert is in the lowest cost version that they can be in of all those investments within the plan. Mr. Tewell reminded the Board that last year the Board decided to not to take action regarding switching from Vanguard funds to Fidelity funds. Mr. Tewell stated that Fidelity has gotten aggressive around the pricing of their index funds, a simple low cost approach. Fidelity currently has their S&P 500 fund priced at 0.015 versus the .04 of Vanguard. Mr. Tewell reviewed the chart presenting all of the options comparing the Fidelity expense ratios to the Vanguard expense ratios, with Fidelity offering a lower cost index. Mr. Tewell stated that Innovest is again presenting the option to the Board as part of the fiduciary responsibilities of the Board to lower the costs, asking if the Board would consider taking action to make the change from Vanguard to Fidelity along with the another possible change with adding the Dodge & Cox Stock and Dodge & Cox X funds. Mr. Tewell asked for the Boards thoughts. Mr. Johanson stated that the overview was very good and that it was a great opportunity for future change. Mr. Savoie stated he would support moving to Fidelity from Vanguard to get the lower rates. Mr. Burkhart agreed with Mr. Savoie that he also would support making the change to Fidelity. Mr. Savoie asked what the process of changing would look like time wise. Mr. Tewell stated that Innovest would work with Nationwide to manage the change and notify the participants. it usually occurs in about 60 to 90 days and the change happens on a day selected 60 to 90 days out. Mr. Keeler stated that if he received the proper notification from either the plan sponsor or the consultant with the appropriate ticker symbol by September 9th that Nationwide could make the fund changes in their system on October 18, 2022. Mr. Savoie stated that he would like to make a motion to make a fund transfer from the Vanguard funds to the Fidelity funds and also include the Dodge & Cox Stock funds to be incorporated into the funds, Mr. Burkhart second the motion the motion carried 4-0. Mr. Tewell offered to communicate the change to Nationwide. Mr. Tewell thanked to Board for their time. Mr. Johanson thanked Mr. Tewell for all the details and the data.

6. Staff Update and Future Meeting

Discussion only.

Ms. Pedrera advised the Board that Cindi Mattheisen, Vice Chairperson had resigned her retiree member position on the Board, and that according to the Ordinance and Town Code that was created the Deferred Compensation Trust Board on 4/21/2020, the member of the Board are appointed by the Town Manager. The Board members discussed that it would be best to have a replacement retiree member that represented another Department other than PD and FD. Ms. Pedrera asked that the Board send their recommendations for replace retiree Board members to Mr. Johanson who can then present them to Patrick Banger, Town Manager. Ms. Pedrera then asked when the 3rd quarter reports would be available so that the next quarterly meeting can be scheduled. Both Mr. Keeler and Mr. Tewell stated that their reports would be ready by November, so Ms. Pedrera said she would send out dates to the Board for consideration. Ms. Pedrera also advised Mr. Keeler that the annual Wellness Fair would be held on November 15, 2022 which will focus on Financial Wellness, and that it would be a great venue for Nationwide to participate in so that they can talk to employees about the plans offered in an effort to increase participation.

7. Review and Approval of Minutes of from the June 14, 2022 Meeting

Mr. Johanson asked for any discussion or corrections on the minutes. No Discussion. Mr. Burkhart made a motion to approve the minutes from the June 14, 2022 meeting. Mr. Savoie second the motion. The motion passed 4-0.

8. Adjournment

Mr. Savoie made a motion to adjourn the meeting. Mr. Judd seconded the motion. The motion passed 4-0. The meeting adjourned at 5:45 pm.

Hakon Johanson, Chairperson

ATTEST: _____
Michael Burkhart, Secretary