

**DRAFT MINUTES OF THE TOWN OF GILBERT, ARIZONA DEFERRED COMPENSATION
BOARD OF TRUSTEES MEETING
VIRTUAL MEETING VIA WEBEX, GILBERT, ARIZONA
November 8, 2022**

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

MEMBERS ABSENT: N/A

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

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

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 of Administrative, Legislative and Economic Reports – Nationwide

Discussion only.

Mr. Keeler, Nationwide began by announcing that he has been promoted to Executive Relationship Manager and he will be overseeing the plans in Arizona, California, and Nevada. Matt Gayman will be the new Program Director. Mr. Keeler stated that he will be review the 3rd quarter plan results, stating that there continues to be some market volatility, even though we have seen a really good October in the market with regard to year to date returns since the beginning of the year. Mr. Keeler then stated that members are seeing some minus signs on their quarterly statements, Nancy Feilbach has received a lot of service calls mostly account reviews, but there has not been a lot of flight from variable to fixed which means that members are really sitting tight, since this is a long term retirement plan. On the positive side members are keeping their diversification and allocations where they are and not panicking and moving to conservative investments which may not outpace inflation at this point. Mr. Keeler next shared his screen, showing the Combined Town of Gilbert 457 & 401(a) Plan Sponsor Quarterly Statement for the 3rd Quarter 2022, showing that as of the end of September 30, 2022 the 457 balance of \$50,801,813.66 and the 401(a) balance of \$1,001,602.64. Stating that Innovest will review in more depth the actual investments and how they fared. Mr. Keeler then showed the Nationwide administrative fee which is .065% and reviewed the investment options shown on the statement, stating that the year to date and the 1 year returns have been dragged down the 5 year returns but 10 year returns are still good. Mr. Keeler then pointed out the change in investments from Van Guard to Fidelity index that will take place on November 16, 2022, participants have received communication about the change 30 days ahead of the change so that they are aware of what is happening with the plan. Also, the Dodge and Cox plans will be changing to their X shares from their I shares, this process was delayed because Nationwide did not have a trading agreement in place with Dodge

and Cox, but has since signed the trading agreement and so the X shares will be replacing the I Shares on January 18, 2023. Mr. Keeler then asked the Board if they had any questions, the Board did not have any questions, so he moved on in the Quarterly Statement stating that there are some funds that are showing negative returns. Mr. Keeler moved on showing the Plan Health Report as of September 30, 2022, for both the 457 and 401(a) plans, stating that he will be reviewing only the 457 plan today. Showing page 4 of the Executive Summary which shows the balance as of the end of quarter September 30, 2022 being \$51,792,221, 830 total participants with 607 actively deferring, 217 inactive participants and 6 that are taking some form of distribution. The summary also showed that the average account balance of \$59,367 which is down on the average of 20% contribution but with a good return in the market seen in October the hope that these number will improve on the next quarterly statement and report. Continuing on the summary showed the average contribution to be at \$518 and the online engagement showing that 692 participants had enrolled in an online account, 389 participants or 31% of participants had gone through and completed the Retirement Readiness calculator, showing them whether they are on track or not for retirement. Mr. Keeler then moved down to the summary page showing that 8% of participants year to date increased their contributions, 7% have set up an auto increase which takes place each year on January 2nd. Mr. Keeler stated that the IRS has released their limits for contributions and that they will be increasing significantly for 2023 indexed for inflation, the regular limit for anyone under 50 years of age is going up by \$2,000 dollars to \$22,500, the 50+ catchup amount will go up by \$1000 from its current \$6,500 to \$7,500, which combined means that those 50+ can contribute up to \$30,000 in 2023. Mr. Keeler explained that the information regarding the 2023 IRS contribution limits will be sent out to participants via a flyer, and messaging on the website and banner. Mr. Keeler then moved on in the summary showing that the average diversification for the participants is 5 asset classes, so people are well diversified, 53 participants are utilizing the pro account and 27 participants are enrolled in the Schwab self-directed brokerage account, with \$2.5 million in assets invested. Mr. Keeler then moved on to show the money sources of the 457 plan, which are made up of Salary Reduction, Rollover (pre-tax), Rollover 457, Roth contribution and Roth Rollover 457, Salary Reduction IRR, Loan balance, SDO balance and the amounts in each source. Currently there are 98 general purpose loans, 10 primary residence loans and 20 defaulted loans. Mr. Keeler went on to explain how defaulted loans are managed and when a 1099 is issued. Mr. Keeler asked if the Board had any questions, Mr. Burkhart asked if the loans were on par on what we experienced before moving to Nationwide, Mr. Keeler said that the loan usage was not terribly high, and was on par with what is normally seen. Mr. Keeler then reviewed the quarterly contributions and the transfers/rollovers-in. Mr. Keeler stated that the Board was also provided with Nationwide's Legislative and Regulatory Report, which focuses on the Secure 2.0 act which if it passes might happen around December 16, 2022, the expectation that if passed the RMD may increase to age 75 but the changes may not be implemented until 2024. Also provided to the Board is an Academic report which mostly contains information which Innovest will be covering. Mr. Keeler stopped sharing his screen and asked the Board if there were any questions, there were no questions from the Board. Mr. Keeler then asked Ms. Feilbach if she had any updates. Ms. Feilbach stated that she has been getting account review calls and she has set up a few 401(a) accounts for a employees but other than that it has been business as usual. Mr. Keeler completed his presentation. Mr. Johanson thanked Mr. Keeler, and asked if the Board had any additional questions, there were no questions.

4. Review of 3rd Quarter Investment Performance Reports of Deferred Compensation Plans - Innovest

Discussion only.

Mr. Tewell, Innovest began the discussion by turning over the discussion to Mr. Nacario who reminded the Board about the upcoming AZDC Conference in Scottsdale, AZ on Tuesday, November 15, 2022 and gave the Board information on registration if they had not already registered to attend. Mr. Tewell began his presentation by sharing his screen showing the Q3 2022 Innovest at a Glance beginning with a review of

Innovest's fiduciary history with the Town of Gilbert including the changes to the index fund changes noted for 2022. Mr. Tewell then moved on to the Fiduciary Topics and Trends on page 4 beginning the discussion with fiduciary education by reviewing the definition of a fiduciary and discussing the broad responsibilities and functions of a fiduciary as outlined in the report. Mr. Tewell reviewed the following 1) Duty of Loyalty: Act solely in the best interest of plan participants (and beneficiaries) 2) Duty of Prudence: Establish a prudent process for selecting & monitoring investments 3) Duty to Diversify 4) Duty to Follow Plan Documents: Follow plan documents, unless inconsistent with ERISA and 5) Ensure that fees paid to service providers and other expenses of the plan are reasonable and necessary in light of the level and quality of services provided. Mr. Tewell then went on to discuss the recent developments with fiduciary liability specifically with insurance carriers reacting to the litigation that has taken place against corporate plans, mostly the lawsuits are mainly about fees and then reviewing the necessary information that needs to be disclosed. Mr. Tewell asked if there were any question from the Board, no questions so he moved on.

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 lost cost version of the investments within the plan. Mr. Tewell then reviewed the Menu Coverage page and reviewed the type of funds that make up the three Tiers and the Asset Allocations for both the 457 and 401(a) accounts and the changes that have occurred in Q3, commenting that that the recent changes made with moving from Vanguard funds to Fidelity funds will be update on the report next quarter.

Mr. Tewell moved on to discuss the Asset Allocation of the 457 account stating that the assets reduced due to the recent market happenings going from 53 million to 51.7 million, stating that Innovest have not seen participants moving to fixed accounts. Moving on showing the Asset Allocation of the 401(a) plan there has been a little increase in the assets and good flows within the 401(a) plan. More participants are attracted to the Target Date funds in the 401(a) plan.

Mr. Tewell then moved on to review the Markets focusing on the economic and market date through the 3rd quarter, which show some historical numbers for the first time seeing 3 quarters of negative equity and bond markets. The US stocks did better than international stocks, due to the strength of the dollar. International stocks and emerging market stocks both down almost 10% over the course of the quarter and down about 27% over the course of the year. Mr. Tewell state that the best news is that the market had good performance during October and the beginning of November, with the US large cap stocks up 5.3% in the 4th quarter, but still down 19.8% on a year to date basis. Small cap stocks, the Russell 2000 is up 8.2% on a quarter daily basis and down 18.95%, international stocks up 6.6% still down 22.3% year to date and emerging market stocks up 1.1% no so much recovery in that particular market which is still down 26.7% year to date. The returns in the bond market continue to be negative. The rapid rise in the rates from the Federal Reserve as they try to combat inflation. Earnings were relatively good in the 3rd quarter. Currently what we know is that this has been the fourth-worst start to a calendar year for stocks and the worst start for bonds, the fastest monetary tightening cycle in over 40 years, the yield curve is currently inverted, which has historically signaled weakening economic conditions, after prior yield curve inversions, reduced fears of inflation has led to larger rallies in intermediate and long-duration bonds, as compared to short-duration bonds, and floating rate loan spreads and high yield bond spreads are currently near their long-term averages.

Mr. Tewell then reviewed a table showing the pace of the Federal Reserve rate hikes over various cycles stating that this recent increase to 3.75% has been the quickest increase they have ever seen in any tightening cycle. The bond markets are expected based on the yields to increase and this is a positive for bond returns on a go forward basis. Since interest rates have increased significantly bond yields are in a much better place than they have been in many years, and that does forecast for better bond returns in the future. Mr. Tewell continued on with discussing the conflicting signals in the Market, the positives being a strong labor market – jobless claims continue to decline, consumer remains strong– Restaurant, airline, hotel bookings and retail sales are still strong, bankruptcy filings at normal levels, and bank loan growth remains strong. The negatives, high inflation, financial conditions tightening, weakening manufacturing data and corporate earnings estimates being revised downward. Mr. Tewell stated that we should focus on is the things that we can control and that is the asset allocation and what we invest in or the way we are investing, and staying the course and thinking long term when we think about retirement plans. Mr. Tewell then showed the Equity Performance as of September 30, 2022, stating that there is still some positive numbers showing in the green, looking at the 5 year number the large growth companies are up 11.4% and large value companies just up 6.2%, the first 2 quarters of this year large grow companies are down 30% and on a year to date basis those value companies are down 16.6%. Some of those companies that were hurt in the 1st and 2nd quarter did see a little bit of a bounce back. From a sector standpoint, Consumer Discretionary sector stocks were the best place to be in the 3rd quarter, Energy continues to be strong, Communication Services in negative territory. Mr. Tewell asked if the Board had any specific questions about the market economy, there were no questions, so he turned the presentation over to Mr. Jensen.

Mr. Jensen, Innovest reviewed the Manager Scorecard stating that as we look at the quantitative and qualitative assessment of the menu, we do not have any deep concerns at this point. We have one new concern; we added a minor overall concern to the T Rowe Price Blue Chip Growth fund. There are a couple of trailing minor concerns that fell off and now some organizational, structural changes, along with the management change and the portfolio manager that retired, both which have an impact on the leadership and structure of the fund and ultimately some struggles with performance. Mr. Jensen said at this point there is no recommendation or anything that they need to dive deeper into and that they will continue to give the fund a little more scrutiny. Hartford Mid-Cap is a major concern for performance it has been down toward the bottom of the rankings in those longer term numbers and we have had some concern there for a while, but we will continue to wait and watch, no recommendation there. Overall Mr. Jensen stated that the Manager Scorecard looks pretty good. Mr. Jensen then move to the Table of Returns stating that is looks pretty ugly especially on the left side of the page where there are a lot of negative numbers, reviewing some bright spots with the 3, 5 and 7 year performance in some funds. Mr. Jensen continued to review a couple of funds but did not recommend any changes at this point, as long term most were in good shape. Mr. Jensen reviewed the American Funds Target Date series has had really good solid long term performance and has held up well in the most recent last quarter and year to date. Mr. Jensen asked if there were any questions or concerns about what has been covered. No questions from the Board.

5. Staff Update and Future Meeting

Discussion only.

Ms. Pedrera asked the Board if anyone has submitted a recommendation to Mr. Johanson for a replacement for Cindi Mattheisen who resigned as Vice Chairperson. Mr. Johanson said that he did receive a couple of recommendations and will be discussing them with Patrick Banger, Town Manager. Ms. Pedrera then asked when the 4th 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 the end of January, so Ms. Pedrera said she would send out dates for late February to the Board for consideration for the next meeting. Ms. Pedrera reminded the Board about the annual Wellness Fair being held on November 15, 2022 which will

focus on Financial Wellness. Nationwide is going to participate, so that they can talk to employees about the plans offered in an effort to increase participation.

6. Review and Approval of Minutes of from the August 23, 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 August 23, 2022 meeting. Mr. Burkhart second the motion. The motion passed 4-0.

7. Adjournment

Mr. Burkhart made a motion to adjourn the meeting. Mr. Judd seconded the motion. The motion passed 4-0. The meeting adjourned at 5:33 pm.

Hakon Johanson, Chairperson

ATTEST: _____
Michael Burkhart, Secretary