

**DRAFT MINUTES OF THE TOWN OF GILBERT, ARIZONA DEFERRED COMPENSATION  
BOARD OF TRUSTEES MEETING  
VIRTUAL MEETING VIA WEBEX, GILBERT, ARIZONA  
June 6, 2023**

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**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  
Paul Nacario, Innovest  
Troy Jensen, Innovest

**1. Call to Order**

Mr. Johanson called the meeting to order at 4:33 PM.

**2. Roll Call**

Ms. Pedrera called roll and a quorum was declared.

**3. Review of the updated Investment Policy Statement**

*Discussion; Possible action by Motion*

Mr. Jensen, Innovest shared his screen showing the Investment Policy statement showing that there were no changes to the policy itself, only the adoption dates and in Appendix B there were changes made removing the Vanguard plans and adding in the Fidelity plans now offered in there place. Mr. Jensen asked if the Board had any questions, there were not questions. Mr. Jensen asked if the Board could vote to approve the changes and once approved Innovest would send out a new version for signature via DocuSign. The Board had no questions. Mr. Burkhart made a motion to accept and approve the Investment Policy Statement. Mr. Savoie second the motion. *The motion passed 4-0.*

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

*Discussion only.*

Mr. Keeler, Nationwide began by sharing his screen and reviewing the 1st quarter 2023 showing the Combined Town of Gilbert 457 & 401(a) Plan Sponsor Quarterly Statement for the 1st Quarter 2023, showing the ending balance as of the last day of March 31, 2023, for 457 plan a balance of \$58,879,636.24, today the plan is up to about \$61.9 million and the 401(a) balance as of March 31, 2023 of \$1,319,448.71, which as of today is up to \$1.431 million, so the total of both has gone from \$60.2 million on March 31, 2023 to \$63.333 million as of today, stating that we have had a bounce back in the 1<sup>st</sup> quarter showing some of the increases in the plan performances year to date. Overall plan assets in the 457 plan are up about 6%, participants saw negative statements for both equities and bonds, but participants have stuck to their diversification and their overall allocations, which is very positive. Mr. Keeler asked if there were any questions from the Board regarding the Plan Sponsor Statement. The Board did not have any questions so Mr. Keeler moved on to the Plan Health Report as of March 31, 2023 showing the 457 Plan summary which showed a total of 854 enrolled participants, 625 of those accounts actively deferring, with the average

contribution at \$422 and the average account balance of \$64,313 which in 2022 had dipped but is expected to come back in 2023. Mr. Keeler also stated that there have been 14 new enrollments calendar year to date for the 1<sup>st</sup> Quarter, 12 of the 14 enrollments were done online. Of the 854 participants, 727 have their website credentials established and the retirement planner has risen to 42%. Mr. Keeler asked if there were any questions with regard to that page, the Board did not have any questions so he move on to Participant Contributions page of the statement which showed that 9% of participants of increased contributions and 7% of participants have the automatic contribution increase activated. Participants have very good overall asset class diversification; the asset totals showed the SDO at 8.2% and loans at 1.6% and the overall fixed assets at 13% which may have gone up but not significant. The new contributions going into the plan are being invested in the Large Cap and 38.5% are utilizing the asset allocation which is the Target Date portfolios.

Mr. Keeler moved on, in the statement, to show the overall contributions the majority coming from salary reduction, with an increase into the Roth fund, and then showing the Loan Detail page with the total loans being about 1.6% of overall assets.

Mr. Keeler stated he also provided the Board the Plan Health Report for the 401(a) plan which showed the assets along with 140 enrolled participants which continues to grow even though participants only have the 90 days to enroll.

Mr. Keeler moved on to review the Secure 2.0 Act of 2022 specifically those provision items that were implemented immediately in January 2023 and then also those items that are coming up for implementation in 2024, which Nationwide and Innovest will continue to focus on and ask for clarification from the IRS. Of the items the Board needs to consider implementing is the Emergency Savings Withdrawal option which the Board can decide if it is adopting prior to the end of the year or in January 2024. The Board needs to consider the Domestic Abuse distribution whether to adopt or not by January 2024, Nationwide will provide additional information. The Roth Catch-Up Contribution provision for anyone earning over \$145,000 per year and 50+ years of age, the \$7,500 additional catch up contributions if you make more than \$145,000 will have to be after tax contributions. Mr. Keeler stated that there will need to be a lot of record keeper administrative questions regarding how this is going to be tracked. NAGDA is asking for a two year extension on the implementation of this provision as the implementation and the tracking of the \$145,000 earnings.

Mr. Keeler than asked Ms. Feilbach, Nationwide if she had an update for the Board. Ms. Feilbach stated she has had a lot more contact with the employees this year, stating that she has had more employees reach out to her for a variety of items such as enrollments, questions on their accounts, or online access. Ms. Feilbach also stated that she did an onsite presentation for Police employees and is hoping to do more in the future. Mr. Keeler asked the Board for questions, the Board did not have any questions, so Mr. Johanson move on to item 5 on the Agenda.

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

*Discussion only.*

Mr. Nacario, Innovest began by showing the Q1 2023 Portfolio Review that had been provided to the Board. Mr. Nacario first reviewed some items that have been going on within Innovest such as the addition of two VP's, and three analyst, and thirteen new clients to include three new public sector plans to and the City of Tempe. Mr. Nacario went on to discuss page 3 of the Review which showed Innovest's History with the

Town of Gilbert stressing that this documentation services as a fiduciary paper trail. Mr. Nacario moved on to Fiduciary Topics and Trends discussing the current topic of Financial Wellness, focusing on what financial wellness is and telling Board that currently based on statistics that were provided from a recent Bank of America study, 53% of US employers now offer some type of financial wellness program, compared to 24% in 2015, 69% of US workers are stresses about their finances and 72% worry about those finances while at work. For employers, the issue of financial wellness directly impacts the productivity along with mental health issues. Mr. Nacario went on to site the study stating that happy engaged employees typically equates to satisfy clients, therefore it helps employers retain employees, as well in hire employees in a highly competitive market. So with regards to Financial Wellness and the responsibilities of the Deferred Compensation Trust Board, the Board should proceed with caution because of the Secure 2.0 Act there are now financial incentives that employers often can offer to employees to either participate in their employer's Deferred Comp Plan or attend a financial wellness session. Typically the incentives are between \$20 and \$25 dollars, and those incentives can be made as long as the funds are not coming out of plan assets. Mr. Nacario then reviewed a list of free Non-Profit Resources for Participants available online.

Mr. Nacario then moved on the next page showing the Town of Gilbert 457(b) Plan Summary and stated that it is called the blueprint and that it outlines all the planned design elements of the current structure and also the deliverables by Innovest broken down by quarter. Mr. Nacario stated during the 3<sup>rd</sup> Quarter review Innovest will provide fiduciary education and then during the 4<sup>th</sup> Quarter review Innovest will review and update the annual fee review.

Mr. Nacario moved on to show the Combined Annual Fee Review, which is currently 0.54% beneath the benchmark of 0.87%. Mr. Nacario continued on to review the items that make up the annual fee. Mr. Nacario moved on to the page showing the 457(b) Asset Allocation stating that this shows the Board where all of the Assets are invested, stating that at the end of the 1<sup>st</sup> Quarter assets were just under 60 million. The majority of the assets are invested in the Large Cap Equity with 29%, followed by the Target Date funds which hold almost 24% of the plan assets, and the third largest holding is in the Nationwide fixed account. Mr. Nacario stated that the 401(a) assets allocation is slightly different with a total assets as the end of year 2022 at \$1.1 million and at the end of the 1<sup>st</sup> Quarter 2023 the assets were at \$1.3 million, with the majority of the assets in 401(a) plan invested in the Target Date funds followed by an even split between the Small Cap Equity fund and Fixed Income. Mr. Nacario asked if the Board had any questions, there were no questions, so Mr. Nacario turned over the discussion to Mr. Jensen.

Mr. Jensen began by showing the Board page 13 – The Markets in the Portfolio Review which provides information about what is happening with the number in the different markets. The 1<sup>st</sup> Quarter of 2023 had a gain in the markets but we the markets are still not above zero in most categories with the exception of the Municipal Fixed Income, Large Cap Stocks are up about 12% year to date, and Emerging Market Stocks are up about 4.2% to date, Municipal Fixed Income stock up 10.1%, and Core Fixed Income up 2%.

Mr. Jensen moved on to page 14 which discusses Financial Crises: A Historical Perspective. Stating that there has been some sort of financial crisis during most Fed tightening periods throughout history. As the broader banking system has come under stress with large institutions such as Silicon Valley Bank and Credit Suisse failing, this time appears no different than in the past. Mr. Jensen expanded on what occurred with Silicon Valley Bank with the high risk that the bank took on years back, benefited and the risk that occurred due to the loss because the feds raised rates and the run on the bank that occurred causing the collapse. The regulators did step in and guaranteed all the deposits of the accounts held in the bank up to \$250,000 limit of FDIC. Mr. Jensen explained that there is very little chance that this will become a bigger issue and larger

economic impact, and the impact from an investment perspective is no different than part of a market sector being exposed in the same manner.

Mr. Jensen then moved on to discuss the Economic Slowdown specifically whether we are headed for a recession or not and when is it going to happen. The U.S. Leading Economic Index and the U.S. Treasury Yield Curve Spread both show that there is a strong likelihood of a recession. Unemployment has been low, in Texas unemployment was 2.3% which is off the charts. The labor market remains tight with the gap between job openings and unemployed persons remains wide. There are 1.6 job openings for every person that is looking for employment, it was 2.1 so it has come down. At the same time, there have been an increase in total layoffs as companies try to combat higher costs.

Mr. Jensen then discussed the Housing market. Housing affordability remains low due to stubbornly higher home prices and the spike in mortgage rates, current rates are 6.5% to 7%. Inventory for single family homes remains historically low, due to homeowners being more reluctant to sell (locked in lower rates) and record low housing starts coming out of the GFC. Mr. Jensen moved on to discuss Consumer spending. Consumer spending has remained resilient but has generally been supported by a draw down in savings and subsequent increase in credit card debt. We are beginning to see some stress on the consumer as delinquencies have started to move higher.

Mr. Jensen moved on to review the Equity Performance as of March 31, 2023. The leading performers are the U.S. Large Cap Growth Stocks such as Microsoft, Apple, Google, and Facebook. Small Value is the only negative performer. There is a disparity between growth and small value and small to large cap. IT stocks lead the way for the quarter, with communication sector and consumer discretionary becoming the leading category. Energy stocks are still positive but are down 8.2% at the end of the 1<sup>st</sup> Quarter, and oil and gas previously led the way but are cooling off. Moving to the Manager Scorecard. Mr. Jensen stated that the scorecard is a mirror image of the what was shown last quarter. There are three performance concerns, one minor people change. Hartford Midcap is showing a major concern due to performance last quarter, it has under performed for seven straight quarters and has not improved, with the 3 and 5 year returns being below the medium point. Mr. Jensen recommended that the Board look at alternatives at the next quarters meeting and evaluate whether there should be a change to another option in this category. If the Board agrees Innovest will bring that information to the next quarter's meeting, asking the Board for their thoughts or comments. Mr. Johanson replied that the Board would appreciate if Innovest did move forward with options to replacing Hartford Midcap in the portfolio, Mr. Savoie and Mr. Burkhart agreed. Mr. Jensen replied that Innovest would bring two recommended options. Mr. Jensen then moved on the discuss T Rowe Price blue chip growth which is a minor concern for performance with the one year number still not strong, which is dragging down the 3 and 5 year numbers, we will continue to watch. American Funds EuroPacific Growth is a minor concern with the 3 year number a above median another fund that we will continue to watch. The final concern is the American Funds Target Date Series is a really solid performer but the 4<sup>th</sup> quarter of 2022 was down compared to their peers, and the year to date have fallen toward the bottom end of the scale, we will continue to monitor. Mr. Jensen opened it up to questions from the Board. There were no questions, Mr. Johanson thanked Mr. Jensen and Mr. Nacario and moved to the next Agenda item.

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

*Discussion only.*

Ms. Pedrera then asked when the 2nd quarter reports for 2023 would be available so that the next quarterly meeting can be scheduled. Both Mr. Keeler and Mr. Nacario stated that their reports would be ready by the end of July, so a meeting held in mid-August would work. Ms. Pedrera stated she would send out dates for

mid-August to the Board for consideration for the next meeting. Mr. Johanson asked the Board if they wanted to have more discussion on financial wellness or on training for the Board. Mr. Burkhart stated that it was appropriate for the Board to look at opportunities for financial wellness and work with HR staff. Mr. Johanson asked Ms. Pedrera if she would collaborate with him to discuss further financial wellness options before the next quarter's meeting. Ms. Pedrera suggested that Erica Brown, Gilbert's Wellness Coordinator be brought into to discussion as Financial Wellness is one of the eight dimensions of Gilbert's Wellness program and currently is offering financial wellness programs. Mr. Johanson asked if there was anything additional that the Board wanted to discuss there was not further discuss so he moved to the next Agenda item.

**7. Review and Approval of Minutes of from the February 21, 2023 Meeting**

Mr. Johanson asked for any discussion or corrections on the minutes. No Discussion. Mr. Savoie a motion to approve the minutes from the February 21, 2023 meeting. Mr. Burkhart second the motion. *The motion passed 4-0.*

**8. Adjournment**

Mr. Judd made a motion to adjourn the meeting. Mr. Burkhart seconded the motion. *The motion passed 4-0.* The meeting adjourned at 5:27 pm.

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Hakon Johanson, Chairperson

ATTEST: \_\_\_\_\_  
Michael Burkhart, Secretary