

MINUTES OF THE TOWN OF GILBERT, ARIZONA DEFERRED COMPENSATION BOARD OF TRUSTEES MEETING
VIRTUAL MEETING VIA TEAMS, GILBERT, ARIZONA
September 24, 2024

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

MEMBERS ABSENT: Hondo Judd

STAFF PRESENT: Donna Pedrera, Sr. Benefits Analyst – Health and Wellbeing Team

GUESTS PRESENT: Jim Keeler, Nationwide
Matt Gayman, Nationwide
Paul Nacario, Innovest
Jared Martin, Innovest

1. Call to Order

Mr. Johanson called the meeting to order at 3:44 pm

2. Roll Call

Ms. Pedrera called roll and a quorum was declared.

3. Review and Approval of the Secure 2.0 Higher Catch Up Limits for 2025– Nationwide

Discussion only

Mr. Gayman, Nationwide shared his screen and reviewed the upcoming higher catch up limits passed by Congress, a new provision part of the Secure 2.0, for individuals ages 60 to 63. The new provision allows only individuals ages 60 to 63 to contribute not only the \$7500 catch up limit, but also 150% of the 50 plus catch up limit, which based on the 2024 catch up limits would increase the allowable catch-up contribution amount to \$11,250. Anyone in ages of 50 to 59 their limit would be the 30,500. Those individuals ages 60 to 63 would have a limit of 34,250. However, once a member turns 64 years of age, they would no longer qualify for the 60 to 63 limit, they would revert back to the traditional \$7500. Mr. Gayman stated that these are mandatory limit changes so the Board does not have to approve the changes so a motion and a vote is not needed.

Mr. Savoie asked if members will be sent information about these new catch up limits for participants ages 60-63. Mr. Keeler, Nationwide stated that Nationwide will be putting the information on their website and that there will be banners, and information under the informational tile. Mr. Johanson asked if the Board had any additional questions, with no other questions he moved on to Item 4 on the agenda.

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

Discussion only

Mr. Gayman, Nationwide began his presentation by sharing his screen showing the Plan Health Report for the 457 Deferred Comp Plan as of June 30, 2024 beginning on page 3 with the Executive Summary and

reviewed some quick plan details. The plans ended with over \$64 million in participant core assets, with total rollover year to date at \$730,000, with \$3.1 million in total. The total participants enrolled is 907, with 669 actively deferring and 36 year to date new enrollments. The online engagement and retirement readiness shows that 803 of the 907 member accounts have online access to their accounts. Mr. Gayman stated the Nationwide is doing an overhaul of the interactive retirement planner that they currently offer. It is being converted to "My Income Retirement Planner. This tool is going to be a more robust online retirement readiness tool that Nationwide is currently in the process of roll out as we speak. Mr. Gayman went on to show that 60% of participants are on track for retirement and will be engaging with the new tool, giving them a more data, allowing those with multiple pensions the ability to draft both pensions. Moving on to page 8 in the report, Mr. Gayman showed the contribution and investments, which showed that 9% of participants have increased contributions year to date, and 8% are using the automatic auto increase feature to automatically increase contributions on the date they want. Also, the listing of participant investments shows that the plan has great diversification. 5.1 is the average number of asset classes, the members of this plan are well diversified in the plan. Currently, 66 members are using the managed account service provided by Wilshire or Pro account for 2.4 million and 67 accounts using the Schwab PCRA which is a little over \$11,000,000 in assets into the Schwab account.

Moving on to page 14 Loan Details, Mr. Gayman, stated that currently there are around 100 loans, 97 general purpose loans, 6 primary residence loans for a little over \$1,000,000 in active loans. The plan does have 22 default loans. Mr. Gayman asked if the Board had any questions, with no questions he moved on showing the Executive Summary for the 401(a) Plan Summary. As of 06/30/2024 the 401(a) has a balance of \$2.4 million in assets not including the Schwab accounts, 146 participants, and seven new enrollments for this year. Mr. Gayman concluded his presentation.

Mr. Keeler, asked if the Board had any questions, the Board did not have any questions. Mr. Keeler continued sharing his screen showing the Plan Sponsor Statement, stating that the Plan Sponsor Statement has the investment performance report in the back, which shows the crediting rate for the fixed account and then the variable investment options to the right is their gross expense ratio, because they are institutional, they are reviewed each year. During the second quarter these had positive returns, and a little volatility in August, but September was positive.

Mr. Keeler went on to show the legislative part in back of the Plan Sponsor Statement, reviewing the 2024 column, which included the hardship withdrawals for up to \$1000 as of mid-June. We are looking to have the domestic abuse distribution available by the year end. Mr. Keeler also showed what is coming in 2025, and 2026. Mr. Keeler stated that with Nationwide's new income retirement planner tool will be rolled out November 15th, and that he will be sending over a presentation of the tool for staff's review. Mr. Keeler asked if the Board had any questions for Nationwide, not hearing any he completed his presentation and thanked the Board. Mr. Johanson commented that he was looking forward to the revamping of income retirement planner tool. Mr. Johanson moved on to Agenda Item 5.

5. Review of the 2nd Quarter 2024 Investment Performance Reports of Deferred Compensation plans - Innovest

Discussion only.

Mr. Nacario, Innovest shared his screen showing the 2nd Quarter 2024 Portfolio Review, beginning with page 4, Fiduciary Topics & Trends - Assessing Investment Manager Culture. Mr. Nacario stated that currently there are ten investment companies that manage the target date funds and the core line up. The American funds, Fidelity, Dodge and Cox are examples. The investment managers culture is critical.

Delivering repeatable and sustainable returns in financial markets that change all the time is based on how a firm makes decisions and if the decisions are done as a team approach or done with just one lead manager. They are also based on a firm uses collective intelligence, how a firm retains talent, how a firm attracts new talent, and how they view succession planning are all critical fact. Innovest believes that culture is so important that we have added culture as a new qualitative metric to our Manager's Scorecard which Jared Martin will review when he covers the Manager Scorecard later in his presentation. Mr. Nacario went on to explain that Innovest sent out a questionnaire to over 150 investment firms, asking these firms questions about employee turnover, corporate philanthropy, employee engagement and satisfaction, mentoring and development programs. Innovest took these firms responses and broke them down quantitatively, and this is how we have built the metrics for culture, that will be featured as part metrics covered on the Manager's Scorecard.

Moving on to page 6, Mr. Nacario reviewed the culture at Innovest which included a brief description of Innovest's charitable events, community involvement in 2023, team initiatives, and participation on conferences. Mr. Nacario asked the Board if they had any questions on culture, not hearing any he moved on to page 8 of the Portfolio Review, which showed the Town of Gilbert 457 Plan summary showing on the left hand side the current plan structure and on the right hand side the deliverables for Innovest, which Mr. Nacario reviewed. Turning to page 9, Mr. Nacario completed the annual fee review for the combined 457 and 401(a) plans. Stating that the plan assets as of March 31, 2024 are at \$75 million. The plan expenses are at 46 basis points with a benchmark of 70 basis points, stating that they are exactly where they should be, beneath the benchmark. Mr. Nacario explained what goes into the 46 basis points, is the gross investment management fees, the \$40 per year participant fee and Nationwide's record keeping fee. Once a year these fees will be updated, and they will remain static until they are reviewed during the second quarter of next year. Mr. Nacario asked if the Board had any questions on the fee review, not hearing any questions he moved on to page 10 of the Portfolio Review. Mr. Nacario explained that it is the Board's fiduciary responsibility to know what the plan pays in fees, the Board also needs to monitor the investment consultant. Mr. Nacario reviewed page 10 showing the annual cost comparison for \$75 million plan to include the advisor cost and service benchmark, this is done on an annual basis. Moving on to page 12, Mr. Nacario showed the Asset Allocation for the 457(b), stating that at the end of the first quarter plan assets were just above \$73 million and at the end of the second quarter assets were just above \$76 million, with the largest holdings among the participants being the large cap equity just above 31%, 24% in the target date suites, and almost 15% in the Schwab brokerage account with Schwab. Moving on to the 401(a) Asset Allocation on page 13, the assets were \$2.1 million at the end of the first quarter, and at the end of the second quarter \$2.4 million. The largest percentage of the holdings are invested in the Target Date suites with almost 50%, followed by large cap equity at almost 26%. Mr. Nacario asked the Board if they had any questions. Not hearing any questions, Mr. Nacario turned the presentation over to Jared Martin with Innovest.

Mr. Martin, Innovest showing page 14, The Markets in the Portfolio Review, stating the report is for the 2nd quarter, so the data is from April 1st until June 30, 2024. The markets did have some volatility and small cap stocks for the second quarter, did have a sell off of almost 3 1/2 %, although two weeks into the third quarter, the small cap stocks jumped almost 10%. Mr. Martin explained that the volatility that we are seeing in the market is not anything different than we have discussed with the Board over that last year and a half. International stocks and Emerging market stocks both had a positive gain for the year. Mr. Martin stated that one area of concern or negative returns for the year was the bond market, this was a direct reaction to the Fed and where interest rates have been.

Moving on to page 15, showing the Economic Update, Mr. Martin, reviewed the categories. GDP continues to rise, people continue to spend, and this may be one reason that the Fed did not lower interest rates quicker than expected. Looking at Labor markets, unemployment rates have gone up in the last couple of months to 4.1%, the labor market has weakened modestly since the year prior when the unemployment rate was 3.6%. Mr. Martin moved on to Corporate Profits. Corporations are showing strong profit growth in Q42023, even with the tough 2nd quarter, profits are up 6.4% from a year ago. Consumer Sentiment hit 68.2 in June, down 1.3% from the month before. While some consumers are confident that inflation will moderate, many are apprehensive about the effects of higher prices weakening personal income. Inflation shows that in June, the Consumer Price Index (CPI) fell by 0.1%, the first monthly decline since May 2020. Over the last 12 months, total CPI increased by 3.0% as falling energy prices helped ease inflation. Risks higher for longer rate environment could continue to put pressure on consumers and businesses; elevated valuations in parts of the market could lead to enhanced volatility and downside risks, while election uncertainty could result in investor unease.

Moving on page 16, Mr. Martin reviewed US Economy CEO Perspectives, stating that CEO's views of the economy have improved over the past six months with recession fears fading considerably, with only 35% of CEO's anticipate a recession within the next 12-18 months (down from 72% in 2023). Mr. Martin reviewed the next page, Interest Rates, hiking cycle is likely complete. The market is pricing the fed funds rate to bottom around 4%, a significant shift from the low interest rate environment we experienced post the global financial crisis. This return to "normal" is driven primarily by further deglobalization, increased spending on energy transition and defense, and the current U.S. fiscal deficit, with fed to be somewhere in the 3 to 3 ½ percent over the next couple of years. On page 17, Stock Market, Mr. Martin reviewed the chart, concentration continues. Less than 25% of the S&P 500 stocks are outperforming the S&P 500 index so far in 2024, marking the lowest percentage on record. The 10 largest stocks in the S&P 500 now make up 37% of the index and contribute to 27% of the earnings.

Mr. Martin, moved on to page 21, Stock Market Performance and Political Party, which showed that historically the stock market has generally performed well under both parties going back to 1961, with a similar range of one-year returns. Mr. Martin stated that the markets do not care one way or another who is in office. Political agendas do not necessarily lead to clear outperformance or underperformance of "obvious" sectors or industries. For example, clean energy has underperformed so far during the Biden administration.

Mr. Martin, moved on to page 23 and 24, showing the Equity Performance and Domestic Equity Sector Performance as of June 30, 2024. The US markets, the International markets and even Emerging markets, are all showing in the green with technology and communication services stocks up significantly for the quarter whereas we did see sell off in many of the value oriented stocks to include materials, industrials, energy, financials, real estate, and healthcare. Mr. Martin paused and asked the Board if they had any questions or comments. Not hearing any he continued on to review the Manger Scorecard and Agenda item 6.

6. Review and Possible Approval of Share Class - Innovest

Discussion; Possible Action by Motion

Mr. Martin, Innovest, showed the Managed Scorecard and investment line up, stating the Innovest's core role is to be your retirement investment consultant and our team on an ongoing basis is doing due diligence on all of the investments that we are offering to your members, via the Scorecard. The Scorecard is a very clean scorecard, with lots of green, green being good. There are three new colors on the scorecard from last

quarter, these are changes, with white as an upgrade and blue as a downgrade to a minor concern. Mr. Martin stated there is a new minor concern for MetWest, in the People category, with one of the portfolio managers (PM) stepping down and being replaced. Innovest has been advised of who will succeed the PM and they will continue to monitor, and if after a few quarters there are no concerns we will recode it to green. Another area of concern is with T Rowe Price blue chip growth. It has had a performance issue, it has underperformed the benchmark and peer group in the 3- and 5-year time periods, the fund performance tends to be highly volatile. Innovest's due diligence team will continue to closely monitor. Mr. Martin continued, stating that there is a new minor concern, under that same MetWest fund, Asset Base. The fund has experienced steady outflows over the past couple of years, warranting a downgrade to minor concern. Innovest will continue to monitor the fund's asset base. (2Q24). Additionally, there is minor concern for Performance under the American Funds Euro Pacific and the fixed account, they are both flagged for minor concerns. Mr. Martin stated that even though there are some minor concerns across the scoreboard, Innovest does not have any concerns at this point overall with any of the funds in the portfolio and does not recommend that the Board take any action for changes to the plan funds.

Moving onto the Table of Returns, Mr. Martin reviewed some of the funds' performance. The Dodge & Cox fund, part of the Large Cap Equity is up year one 19%. Value stocks did not have quite the returns. Growth stocks were up 9.5% for the quarter. The Bond fund YTD has lost money, Mr. Martin stated that Innovest's expectation is that you will see a quick rebound with the reduction in the fed funds rate, and next quarter there will be an increase in return. The fixed account with Nationwide is down, it is Innovest's expectation that with interest rates moving down that the returns will rebound quickly. Lastly the Target Date funds, have been extremely consistent.

Mr. Martin asked if the Board had any questions and reiterated that Innovest had no recommendations for changes in any of the plan fund investments in the line. Mr. Martin showed the Share Class spreadsheet and stated that the Town of Gilbert's funds are in the lowest published and or net expense, so Innovest along with Nationwide does not have any recommendations for any share class changes at this time. Mr. Johanson asked how much of a delta is needed before there may be a recommendation for a share class change. Mr. Martin stated it would need to be a least 6 basis points. Mr. Johanson asked the Board if they had any questions, no questions from the Board, so he moved on to Agenda Item 7.

7. Staff Update and Future Meetings

Discussion only.

Ms. Pedrera asked when the 3rd quarter reports would be available. Both Innovest and Nationwide stated that they would be available in late October early November, Ms. Pedrera stated she would send out an email to the Board with the dates in early November and everyone can respond with their availability. Ms. Pedrera asked if the Board and guests were good with moving the start time of the quarterly Board meetings to 3:30 pm. Everyone was in agreement that 3:30 pm was good, so all future meeting will begin at 3:30 pm. Mr. Johanson asked if there was anything additional that the Board wanted to discuss on the next Agenda, the Board did not have any additional items for the next Agenda, so he moved to the next Agenda item.

8. Review and Approval of Minutes of from the June 4, 2024 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 4, 2024 meeting. Mr. Savoie second the motion. *The motion passed 3-0.*

9. Adjournment

Mr. Savoie made a motion to adjourn the meeting. Mr. Burkhart seconded the motion. *The motion passed 3-0.* The meeting adjourned at 4:51 pm.

Hakon Johanson, Chairperson

ATTEST: _____
Michael Burkhart, Secretary