

**DRAFT MINUTES OF THE TOWN OF GILBERT, ARIZONA DEFERRED COMPENSATION
BOARD OF TRUSTEES MEETING
VIRTUAL MEETING VIA TEAMS, GILBERT, ARIZONA
November 5, 2024**

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

MEMBERS ABSENT: N/A

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

GUESTS PRESENT: Jim Keeler, Nationwide
Matt Gayman, Nationwide
Gordon Tewell, Innovest
Jared Martin, Innovest

1. Call to Order

Mr. Johanson called the meeting to order at 3:31 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. Gayman, Nationwide began his presentation by sharing his screen showing the Plan Health Report for the 457 Deferred Comp Plan as of September 30, 2024 beginning on page 3 with the Executive Summary, reviewing some quick plan details. The plans ended with over \$67 million in participant core assets, with 66 new enrollments year to date. Moving on to page 4, the total plan assets are around \$81 million at quarter ending September 30, 2024. The total participants enrolled is 929, with 669 actively deferring. The online engagement and retirement readiness shows that 829 of the 929 member accounts have online access to their accounts, and 572 of participants have engaged with the online retirement readiness Merck tool with 61% on track for retirement. Moving to page 5, which shows enrollments quarter by quarter, the 3rd quarter had strong enrollments with 30 enrolling. One participant used the new online enrollment tool which was recently enhanced. Mr. Gayman explained some of the new features and benefits of the new online enrollment tool, stating that 64% of all enrollments are being done online.

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. Mr. Gayman stated that the IRS just announced the 2025 limits. The under 50 limit will increase from \$23,000 to \$23,500, the 50+ catch up limit was not raised but with the additional \$500 allowed in 2025 the 50+ limit will increase from current \$30K to \$30,500 in 2025, and the three year catch up which is currently \$46K will increase to \$47K in 2025.

Mr. Gayman moved on to the listing of participant investments showing that the plan has great diversification. Five 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 with \$2.4 million invested and 76 accounts using the Schwab PCRA either self-managing or using an investment advisor. Currently there is around \$13,000,000 in assets in the Schwab account.

Moving on to page 14, Loan Details, Mr. Gayman, stated that currently there are 94 general purpose loans outstanding for about \$1,000,000 and 6 primary residence loans for a little over \$102,000. Also, page 14, shows the contributions and transfer/rollovers-in, year to date, \$4.5 million in contributions and \$550,000 in rollover transfers have been received. The Executive Summary on page 20 showed the assets in the 401(a) at \$2.7 million with 148 participants. Mr. Gayman, asked if the Board had any questions, the Board did not have any questions, so he turned it over to Mr. Keeler, Nationwide

Mr. Keeler, Nationwide, continued sharing his screen showing the Plan Sponsor Statement, stating that the Plan Sponsor Statement shows the returns year to date and the fees, it also shows the fixed account and the returns. Plan participants also receive this information in their statements. Mr. Keeler referenced the Secure 2.0 Act page, showing the Higher Catch-Up limits chart, stating that additional catch up limit for individuals between 60 and 63 will happen January 2025, the catch up limit will be \$11,250 but when the member turns 64, it does go back down to the 50 plus catch up limit. Mr. Keeler stated that Nationwide's system is ready to go to administer these changes. Mr. Keeler asked if the Board had any questions, not hearing any questions he moved on.

Mr. Keeler stated that the reports provided to the Board included a legislative report and an economic report, and that Innovest will review that information in more detail. Mr. Keeler shared his screen, and showed the Interactive Retirement Planner report, he stated the enhancements will be rolled out on November 21st and that it is an overhaul of the tool, which will allow participants to put in a more data, add more than one pension to the analysis, and really get into the weeds when it to debt. The new retirement planner is more interactive, including not only deferred comp assets, but additional assets including spouses earning, and can also calculate pension to include ASRS, PSPRS, and Social Security income. The retirement planner also includes coaching tips for members that allows insights, and the readiness report can be printed. Mr. Keeler encourage the Board members to try the retirement planner and if anyone had any questions to reach out. Mr. Keeler asked if the Board had any questions for Nationwide, not hearing any he completed his presentation and thanked the Board for their time. Mr. Johanson moved on to Agenda Item 4.

4. Review of the 3rd Quarter 2024 Investment Performance Reports of Deferred Compensation plans - Innovest

Discussion only.

Mr. Martin, Innovest shared his screen showing the 3rd Quarter 2024 Portfolio Review, beginning with page 4, Fiduciary Topics & Trends which this quarter will include Fiduciary Overview and Fiduciary training for the Board. Mr. Martin stated the core functions of this fiduciary Board are as follows:

- Selecting and monitoring plan investments
- Selecting and monitoring service providers
- Ensuring that plan fees are reasonable and for necessary services

- Interpreting plan provisions and applying plan terms as necessary
- Ensuring plan operation in compliance with applicable rules and regulations

Mr. Martin also explained that the Board's fiduciary duties include the duty of loyalty, the duty of prudence, the duty to diversify and the duty to follow plan documents. Mr. Martin reviewed examples of the duties, that were included in the Portfolio Review, with the Board. Mr. Martin concluded the fiduciary training and asked the Board if they had any questions, the Board did not have questions, so he move on in his presentation.

Mr. Martin, showing page 10, Town of Gilbert 457(b) Plan Summary in the Portfolio Review, stated that Innovest's team aggregation of all of that is known about the plan, what is considered provisions, cost structure is listed here on the Plan Summary. If the Board has questions, Innovest tries to capture most of the simple answers right on this page. This information is a working document and is also available for the 401(a) plan. Moving on to page 12 the 457(b) and 401(a) Combined Annual Fee Review, Mr. Martin explained that the currently the total plan expenses are 46% or 46 basis points. The 46 basis points versus a benchmark of plans of similar size, which is 70 basis points, yours are significantly below, which shows that the Board has taken their fiduciary functions seriously and that you continue to drive down costs when the opportunity arises. Mr. Martin went on to review the Menu coverage on page 13, showing the different plan options for participants to choose from, stating that the plan is well diversified. Finally showing page 14, Mr. Martin reviewed with the Board the Asset Allocation, which shows where the plan participants are invested, with the self-directed having \$11.2 million at the beginning of the quarter and \$12.9 million at the end and roughly 16% of the assets. The target date funds along with some of the other asset classes had a little movement. Mr. Martin paused there for any questions, not hearing any he turned over the presentation to Mr. Tewell with Innovest.

Mr. Tewell, Innovest continued to share his screen showing page 16, The Markets of the 3rd Quarter Portfolio Review commenting to the Board that as Innovest does the look back through the year and the quarter on this particular page and see strong performance across all the traditional asset classes shown. The quarter was highlighted by a reversal in a long term trend of large cap U.S. stocks outperforming, with best performing being the US large Cap stocks shown on the far left hand side up 22.1% year to date. Mr. Tewell stated that looking at the blue bars there has been a shift away from those large cap stocks, with the best place to be over the quarter was in US small company stocks and also there was good performance internationally, with a 7.3% increase really reflecting Europe and Japan. Also, Emerging market stocks had a nice bounce over the course of the quarter up 8.7% and large cap stocks up 6% over the quarter. Also, for the quarter bonds were up 5.2% coming out of negative territory during the first two quarters.

Moving on to page 17 showing the Economic Update, Mr. Tewell stated that the economy is humming along, during the second quarter GDP was up 3%. This increase was primarily driven by strong consumer spending and business investment. Mr. Tewell stated that disposable income is very solid, savings rates are back up, and housing market and housing wealth is strong. Looking at the Labor market, Mr. Tewell stated that U.S. economy added 254,000 jobs in September, which resulted in an unemployment rate of 4.1%. The labor market has weakened modestly since the year prior when the unemployment rate was 3.5%. The October report showed only 12,000 jobs being added to the economy, with the cost of jobs being the issue and also strikes that recent occurred. The Labor market still on solid footing. Consumer sentiment Consumer sentiment hit 70.1 in September, up slightly from August. While sentiment remains below its historical average, in part due to higher prices, the index is up 13% in the last year as consumers expectations for the economy brighten. Moving on to Interest Rates, Mr. Tewell stated that in September, the Federal Reserve (Fed) lowered the federal funds rate by .50%, to a target range of 4.75%-5.00%. The

Fed is confident that inflation is moving steadily toward 2%, and that easing monetary policy will help support growth and employment.

Moving on to page 21, Stock Market – Equity Gains Can Broaden, which shows that earnings growth in the U.S. appears to be broadening which could potentially lead to equity returns following suit and better outlooks for other sectors than large cap growth sectors that have outperformed for such a long time. Mr. Tewell stated that better earnings generally will lead to better market performance. Moving on to page 25, Election Uncertainty – Stay the Course. Mr. Tewell stated that the best approach to investing is a nonpartisan one – and making sure to stay invested over the long term, regardless of who is in office. The American funds, one of the fund families that manages some of the funds that are in Gilbert’s plan, completed a study prior to the election around the performance of the stock market for 10 years post an election year, what they saw is that over those 10 year time frames, regardless of the administration returns in the stock market are almost always 7%. It was actually .02% of the variance among the parties over those 10 year time frames. Markets care more about the fundamentals of the companies in the stock market and the overall economy.

Moving on to page 27, Domestic Equity Sector Performance as of September 30, 2024 shows utility stocks up 19.4% and real estate stocks up 7.2%. where real estate stocks, information technology sectors and communication service sectors being modest performers over the third quarter, but in turn the biggest performers for the year went to information technology stocks up almost 53% and communication services up almost 43%. Mr. Tewell moved on to the Manger Scorecard and noted one change over the course of this particular quarter was with for the MetWest Total fund. 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. Mr. Tewell stated the overall assessment of the Managers Scorecard is that there are no major concerns around all the funds in the plan and no recommendations for any kind of change to the funds at this point in time.

Mr. Tewell noted the various concerns among the funds at this point, T Rowe Price, Blue Chip Growth Fund has a minor concern for performance. This fund 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. The American Fund Euro Pacific the fund’s performance has struggled over the 3- and 5-year time periods vs its benchmark and peers. Innovest will continue to monitor the performance of this fund. Innovest is continuing to monitor the Nationwide fixed account, the fund has lagged both the index and peers during the current interest rate environment. The stable value universe returns are very tight, and benchmarking these products is complex. However, the fund is still achieving its intended goal of principal preservation. Additional conversations may be warranted if a change is to be made as capital preservation products may impact recordkeeping fees.

Mr. Tewell move on the to Table of Returns, page 31 and stated that the biggest note is just some of the big outsize returns. The big returns over that one year number and really big returns specially in the large cap large cap area. The Blue Chip growth fund not where we like to see that fund over that three and five year time frame ranking in the 70th percentile. Moving on to the next page Mr. Tewell commented that we have been watching the Dodge and Cox for a little bit of time, long term numbers are still quite solid, but they tend to be pretty contrarian. Very good performance from the Dodge and Cox fund. The American Funds Euro Pacific has modest numbers over that three and five year timeframe. MetWest had strong performance in more recent time frames, it was up 5.7% with the index up 5.2% and the median manager up 5.17%. Mr. Tewell moved on to the American Funds, many in the top 10% single digits out there. The American funds have a unique structure the Conservative funds 2010 through really 2025 use a lot of value stocks and have

great performance in the current quarter. Mr. Tewell state the plan’s funds have been performing well and have seen growth within the plan. Mr. Tewell completed his presentation and stated he was happy to take questions. Mr. Johanson asked if the board had any questions, no questioned from the Board. Mr. Johanson stated that especially today when the Board had their fiduciary training along with the heavy technical analysis at the end of the meeting, this shows why we need the partnership and some expertise around that to be able to make sure that our peers and users of these tools are getting the best that they can and that the Board is doing the best we can for the fund. Not hearing any further comments or questions from the Board, Mr. Johanson moved on to Agenda item 5.

5. Staff Update and Future Meetings

Discussion only.

Ms. Pedrera reminded the Board about the upcoming 6th annual AZDC conference on November 20, 2024 and the Gilbert Wellness Fair on November 19, 2025 from 10 am to 2 pm on the Muni I lawn. Mr. Keeler replied that he and Mr. Pantoja will be present at the Wellness Fair. Ms. Pedrera asked if the 4th quarter reports would be available in February 2025, both Innovest and Nationwide stated that they would be available February 2025, Ms. Pedrera stated she would send out an email after the new year to the Board with some dates in February and everyone can respond with their availability.

6. Review and Approval of Minutes of from the September 24, 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 September 24, 2024 meeting. Mr. Savoie second the motion. *The motion passed 4-0.*

7. Adjournment

Mr. Judd made a motion to adjourn the meeting. Mr. Savoie seconded the motion. *The motion passed 4-0.* The meeting adjourned at 4:31pm.

Hakon Johanson, Chairperson

ATTEST: _____
Michael Burkhart, Secretary