SACRAMENTO MUNICIPAL UTILITY DISTRICT

Interoffice Memorandum

TO:Deferred Compensation ParticipantsDATE: June 2, 2022

FROM: Deferred Compensation Committee

SUBJECT: MINUTES FROM 2nd QUARTER DEFERRED COMPENSATION COMMITTEE MEETING OF June 2, 2022.

Committee Members Present: Russell Mills, Laurie Rodriguez, Steve Lins, Lisa Limcaco, and Jennifer Davidson

Support Staff Present: Stan Ichiho and Greg Pochy

Meeting Minutes of March 3, 2022 - Approved electronically by the Committee prior to the meeting. The approval of the minutes was confirmed.

Quarterly Plan Review – Suzanne Rogers, Fidelity Investments presented the quarterly plan statistic summary for the 401(k) and 457(b) Plans.

Plan Statistics

- **Total Plan Assets** as of March 31, 2022 were \$542.1 million, compared to \$571.6 million at the end of the prior quarter.
- Total Plan Participants As of March 31, 2022 there were 2,863 Participants in the Plans.
- Retirement Readiness As of March 31, 2022 87% of active participants are contributing to one or both plans.
- Equity Allocation As of March 31, 2022 76% of participants have an Age-Appropriate Equity Allocation of funds.
- **Participant Engagement** As of March 31, 2022 85% of active participants have contacted Fidelity by phone or logged into NetBenefits.

Quarterly Fund Review – Greg Coffey, Russell Investments presented the quarterly update with the following information:

Plan Highlights:

- At quarter end, 58% of plan assets were in a Tier I fund solution (target retirement date fund).
- 35% of assets were in Tier II (actively managed funds) & Tier III (passive index funds) fund options at quarter end.
- The Tier IV (brokerage window) represented 7% of assets.
- Participant allocation percentages remained stable across the various tiers with limited movement between investment fund options despite increased market volatility.
- All actively managed investment fund options have investment fund expenses that are significantly below a universe of similar style funds.

Market Summary:

- The 1st quarter saw negative returns across almost all asset classes as high inflation, tighter monetary policy, ongoing supply chain issues and Russia's invasion of Ukraine all weighed on investor sentiment.
- U.S. large cap equities returned -5.2% as measured by the Russell 1000 Index. Value oriented stocks performed the best in the period and the Energy sector dramatically outperformed all other sectors. Small cap stocks as measured by the Russell 2000 Index returned -7.7%.
- International developed equity markets declined by -4.8% (as measured by the MSCI World ex US Index) as the war in the Ukraine led to European equities contracting. Emerging markets declined by 7.0% (as measured by the MSCI EM Index) during the quarter.
- Interest rates rose significantly over the quarter with the 10-year treasury note increasing by 80bps. Fixed income markets experienced one of their worst quarters ever as the Bloomberg Barclays Aggregate Bond Index fell by -5.9%

Investment Option Performance Summary:

- Tier I Target Date Funds experienced negative returns during the quarter given the market backdrop. From a benchmark relative perspective, the funds underperformed their benchmarks as the funds held overweight positions to equities coupled with a longer duration position within the fixed income segment of the portfolios.
- Tier II active funds' performance was mixed across the quarter with three out of six funds outperforming their respective benchmarks.
 - The Large Cap U.S. Equity Fund underperformed modestly in the quarter. The fund's value exposures were positive, but an overweight to the consumer discretionary sector detracted.
 - The Small Cap Fund experienced another strong quarter of outperformance; however absolute returns were negative. Stock selection in the materials, financials and technology sectors was additive.
 - The All-International Markets Fund outperformed the benchmark modestly during the quarter. The developed market segment of the portfolio was additive as the fund's European value exposures were additive. The emerging markets component of the fund underperformed due to underweights in South Africa and Saudi Arabia.
 - Fixed income markets struggled given the sharp increase in interest rates. The Multi-Manager Bond Fund underperformed over the quarter as the fund's longer duration position detracted from results.
 - The Investment Contract Fund performed well relative to the benchmark given the portfolio's higher yield than short-term U.S. Treasuries.
 - The Real Asset Fund was able to produce positive returns during the quarter as the Commodities segment of the portfolio provided strong returns and diversification. An underweight to Nickel did detract from results.
- Tier III passive index funds all performed as expected by tracking their respective benchmarks.

Crypto Currency Discussion – Greg Coffey of Russell Investments and Suzanne Rogers of Fidelity Investments presented the committee with the latest updates regarding Crypto Currencies within Deferred Compensation Plans. These funds tend to be extremely volatile and currently SMUD does not offer these funds within the Plans. The committee will continue to monitor these options in the future.

With no further items on the agenda, the meeting was adjourned.

Participants may submit comments or questions for the Deferred Compensation Committee through Stan Ichiho, of People Services & Strategies at MS B251. Please include your name and daytime phone number so the Committee may respond to your request.