# SACRAMENTO MUNICIPAL UTILITY DISTRICT

Interoffice Memorandum

- TO: Deferred Compensation Participants DATE: March 15, 2023
- FROM: Deferred Compensation Committee
- SUBJECT: MINUTES FROM 1<sup>st</sup> QUARTER DEFERRED COMPENSATION COMMITTEE MEETING OF March 13, 2023.

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

#### Support Staff Present: Greg Pochy

**Meeting Minutes of December 8, 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.

**Overview of the SECURE Act 2.0 provisions** - Fidelity is assessing the new provisions and will update the committee on the impact of the changes to the SMUD Plans. Amendments are not required until the end of 2027 with some provisions taking effect in 2024.

#### **Plan Statistics**

- **Total Plan Assets** as of December 31, 2022 were \$484.0 million, compared to \$454.9 million at the end of the prior quarter.
- Total Plan Participants As of December 31, 2022 there were 2,905 Participants in the Plans.
- Retirement Readiness As of December 31, 2022 81% of active participants are contributing to one or both plans.
- **Equity Allocation** As of December 31, 2022 77% of participants have an Age-Appropriate Equity Allocation of funds.

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

### Plan Highlights:

- At quarter end, 57% of plan assets were in a Tier I fund solution (target retirement date fund).
- 36% 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. There has been a modest increase in money moving to the Investment Contract Fund, likely due to 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:**

- After three quarters in a row of negative returns, the fourth quarter was positive across asset classes as the rate of inflation increases slowed and investors hoped for a pivot in the Fed's aggressive monetary policy tightening campaign.
- US large cap equities returned 7.2% as measured by the Russell 1000 Index; however, the Index declined by -19.1% over the year.
- International developed equity markets rose by 16.2% (as measured by the MSCI World ex US Index) a falling US dollar boosted returns for US based investors during the quarter. Emerging markets rose by 9.7% (as measured by the MSCI EM Index) during the quarter. During 2022 International Developed markets declined by -14.3% and Emerging Markets by -20.1%.
- The ten-year US Treasury increased by only 4 bps during the quarter and ended the year at 3.87%. The Bloomberg Aggregate Bond Index rose by 1.9% in the quarter.

## **Investment Option Performance Summary:**

- Tier I Target Date Funds experienced positive returns during the quarter. From a benchmark relative perspective, the funds outperformed. Exposure to value-oriented stocks via small cap and global equities was rewarded. In addition, an overweight to high yield bonds was additive.
- Six out of six of the Tier II active funds' outperformed their respective benchmarks in the quarter.
  - The Large Cap US Equity Fund outperformed due to stock selection in consumer discretionary and healthcare.
  - The Small Cap Fund outperformed given its tilt towards value with strong stock selection in energy, healthcare, and industrials.
  - The All-International Markets Fund outperformed the benchmark during the quarter. Exposures to stocks with cheaper valuations than the index was the primary source of excess returns. Holding in energy, industrials and financials were additive.
  - The Multi-Manager Bond Fund outperformed as an overweight to credit relative to treasuries was rewarded due to falling credit spreads.
  - The Investment Contract Fund continued to perform well relative to the benchmark given the portfolio's stable interest crediting rate. The Investment Contract Fund was the only fund to deliver positive absolute returns during all of 2022.
  - The Real Asset Fund outperformed in the quarter, commodities exposure via an underweight to natural gas was a key contributor to the fund's outperformance. An underweight to office in the REITs portfolio was also rewarded.
- Tier III passive index funds all performed as expected by tracking their respective benchmarks.

**ESG Fund Discussion** – Greg Coffey, Russell Investments presented a brief discussion on ESG investing, recent DOL rulings, and pending litigation. After discussion, the committee and Russell Investments agreed that additional monitoring of pending litigation would be appropriate, as participants can currently access ESG funds through the Brokerage Link at their own discretion.

**457b Plan Amendment** – James C. Paul, Employee Benefits Law Group presented the committee with an amendment to the 457b Plan for In-Service Distributions. An in-service distribution is a distribution or payment a plan participant takes from their retirement plan while still employed. Previously, to take such a distribution from our 457b plan a participant had to be 70 years old. There was a change in the law that permitted in-service distributions in 457b plans to occur at an earlier age—59½. This amendment would bring both the 457b plan and the 401k plan into alignment on the age requirement for in-service distributions. The Committee discussed the amendment, it was motioned, seconded and voted all in favor of adopting the amendment.

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.