

MINUTES
Louisiana Deferred Compensation Commission Meeting

October 15, 2019

The monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, October 15, 2019 in the offices of the Plan Administrator, 9100 Bluebonnet Centre Blvd., Suite 203, Baton Rouge, Louisiana, 70809.

Members Present

Whit Kling, Chairman, Participant Member
Virginia Burton, Vice Chairman, Participant Member
Stewart Guerin Designee of the Commissioner of Insurance
Andrea Hubbard, Co-Designee of the Commissioner of Administration
James Mack, Designee of the LA State Treasurer
Laney Sanders, Secretary, Participant Member
P. Scott Jolly, Co-Designee of Commissioner of Financial Institution

Members Not Present

Kevin Pearson, Designee of the Speaker of the LA House of Representatives
Margaret Corley, Designee of Senator Barrow Peacock, Designee of John Alario Jr., Louisiana Senate

Others Present

Stephen DiGirolamo, CFA – Managing Director, Wilshire Associates
Craig Cassagne, State of Louisiana Attorney General’s Office
Marybeth Daubenspeck, Vice President, Government Markets, Empower Retirement, Denver
Danette Rausch, AVP Partner Strategy, Empower Retirement, *via telephone from Denver*
Judd Thompson, Assistant General Counsel, Empower Retirement, *via telephone from Denver*
Shannon Dyse, State Director – Mississippi, Empower Retirement, Jackson, MS
Wayne Veal, RPA, Empower Retirement, Baton Rouge
Jo Ann Carrigan, Sr. Field Administrative Support, Empower Retirement, Baton Rouge

Call to Order

Chairman Kling called the meeting to order at 10:02 a.m. Ms. Carrigan called roll of members in attendance.

Public Comments: There were no public comments.

Approval of Commission Meeting Minutes of August 20, 2019

The minutes of the August 20, 2019 Commission Meeting were reviewed. Ms. Burton motioned for the acceptance of the August 20, 2019 minutes. Ms. Hubbard seconded the motion. The Commission unanimously approved the minutes of August 20, 2019.

The UEW Hardship reports of August and September, 2019 were reviewed.

Proposed Empower Retirement operating model change –State of LA Plan

This topic was moved to the top of the order from item #10.

- A. Ms. Daubenspeck introduced Shannon Dyse as the new Managing Director-State of LA Plan.
1. Ms. Daubenspeck reviewed the best-practices model being utilized by Empower for each state. The State Director position is being restructured into two positions: Managing Director (relationship-emphasis) and Manager of Participant Engagement (emphasis on training and development for retirement plan advisors and field administrative staff). Ms. Daubenspeck assured the Commission that the contract has been reviewed to assure that all of the commitments of the contract are being met under this new model.
 2. Mr. Dyse gave a brief review of his background which consisted of:
 - a. 23 years in the retirement business.
 - b. Four years with Empower in the role of State Director of Mississippi.
 - c. Prior to joining Empower, Mr. Dyse was with Fidelity for 19 years where he served in several roles including relationship manager, operations manager and implementation.
 - d. Native to Mississippi.
 3. Ms. Hubbard asked for clarification on how the structure/line of command would work under the new model. Ms. Daubenspeck stated that Mr. Dyse would report to her and the Manager of Participant Engagement would report to Jon Hess, Director of Participant Engagement. Mr. Hess and Ms. Daubenspeck meet on a weekly basis. Ms. Daubenspeck meets with all of her direct reports every-other week. Full service meetings are held on a regular basis. Ms. Daubenspeck shared that as retirement readiness meetings are increasing, it is becoming very important to offer more support and training to the team. Ms. Daubenspeck stated that to the extent that both the Managing Director and the Manager of Participant Engagement Director can be at the Commission meetings, they will be. The objective is to have Mr. Dyse or Ms. Daubenspeck at every meeting along with the Manager of Participant Engagement, who will be located in Louisiana.
 4. Ms. Burton asked if the State of MS was in agreement with the new model. Ms. Daubenspeck stated that Empower met with MS personnel and reported that they were completely on board so long as Mr. Dyse was still a part of the MS Plan. The Manager of Participant Engagement will be shared between the MS and LA Plans.
 5. Ms. Daubenspeck shared that Ms. Rausch serves the role as strategist who works hand-in-hand with Ms. Daubenspeck on the individual plans. Ms. Rausch is key in optimizing the efficiencies of the local office.

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Mr. Kling announced that Ms. Susan Allsup accepted a position with the State of LA and will be leaving Empower on October 17, 2019. The Baton Rouge office is structured to have three administrative staff members. The LA Team Lead RPA will most likely be a promotion from within for an existing staff member.

Ms. Burton pointed out that this model had been tried before within the LA Plan. Mr. Daubenspeck pointed out the differences in the new model:

- A. There is a level of leadership under the new model that was not previously in place. The role of the Director of Participant Engagement (Jon Hess) is directly responsible for making sure that Empower delivers on participant engagement goals by providing coaching, training and mentoring.
- B. In addition to the Director of Participant Engagement, there is a Manager of Participant Engagement whose focus is to make sure that Empower delivers on participant engagement goals (group meetings, individual meetings and/or retirement readiness reviews).

Ms. Daubenspeck stated that a recruitment process (internal and external search) has begun for the Manager of Participant Engagement position.

Ms. Burton stated that she would like to see how performance indicators will be set up and how they will be monitored. Ms. Burton stated that she wanted to make sure that the LA Plan gets its proportional share of time and attention. Ms. Daubenspeck assured Ms. Burton that reporting would be provided to the Commission. Ms. Burton also stated that when the RFP was developed for the agreement, features were included to cover the fact that the LA Commission does not have a staff. Mr. Kling stated that there are no changes to required deliverables under the new model which will require no contractual changes per the Attorney General's office. There may need to be changes in reporting related to how performance is gauged. Ms. Sanders motioned to accept the new model presented by Empower and Shannon Dyse as the Managing Director. Mr. Mack seconded the motion. There were no objections or further discussion and the motion was unanimously approved.

Ms. Daubenspeck confirmed with Ms. Burton that there would be one participant mail-out per year. Ms. Burton further asked that those who are receiving paper copies of statements also receive a paper copy of the newsletter. Ms. Daubenspeck stated that she would look into the request. The current process involves an annual mail-out and the electronic version comes with a notation that the newsletter is available on line.

Administrator's Report

Plan Update as of August 31, 2019: Ms. Daubenspeck presented the Plan Update as of August 31, 2019. Assets as of August 31, 2019: \$1,783.57 Billion; Asset Change YTD: \$167.82 Million;

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Contributions YTD: \$68.98 Million; Distributions YTD: \$78.56 Million. Net Investment Difference YTD: \$177.40 Million.

Ms. Daubenspeck presented the Plan Update as of September 30, 2019. Assets as of September 30, 2019: \$1,794.84 Billion; Asset Change YTD: \$179.09 Million; Contributions YTD: \$76.80 Million; Distributions YTD: \$91.24 Million. Net Investment Difference YTD: \$193.53 Million.

UPA-August, 2019: Ms. Daubenspeck reviewed the UPA for the month of August, 2019 reflecting an ending balance \$1,518,217.50. Additions included interest for the month August and participant recoveries. Deductions included payment to Great West Financial and reimbursement of travel expenses of Commission members attending the Wilshire site visit in Pittsburgh, PA. Mr. Kling reminded the Commission of the fee change that was announced in the third quarter statements to participants. The fee change was made to stabilize the UPA balance.

Ms. Daubenspeck reviewed the UPA for the month of September, 2019 reflecting an ending balance \$1,513,400.68. Additions included interest for the month September. Deductions included payment to the State of LA Department of Justice, losses in contribution corrections and reimbursement travel expenses of Commission member attending the Wilshire site visit in September, 2019.

Concordia Parish Sheriff – September, 2019: Ms. Daubenspeck reported that the Concordia Parish Sheriff has terminated services and will be transferring their plan's investments to AXA Equitable effective September 20, 2019. Mr. Kling asked that information be gathered as to the type of service (products, fee structure) that AXA is offering to sheriffs throughout the state. Further information will be provided to the Commission regarding the number of Concordia Parish Sheriff participants and the value of the assets that are leaving the Plan.

Communications - Newsletter, Fall 2019: Ms. Daubenspeck reviewed the Fall issue of the "Louisiana Keynotes" with the Commission pointing out the refreshed look/art.

Securities Sold-August 2019: Ms. Daubenspeck reviewed the securities sold in August. The September list of securities sold will be presented at the November, 2019 Commission Meeting.

Section 3121 Participants and Loan – Tax Opinion

Tarcza & Associates was asked by the Commission for an opinion on whether or not 3121 participants are eligible for Plan loans under the terms and conditions set forth in the LA Deferred Comp Plan. The response received from Tarcza & Associates was that 3121 participants are eligible for Plan loans. There is no need to change the Plan document/rules. Mr. Thompson stated that 3121 loans is a Plan design choice. The same rules apply if the participant chooses

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not to repay the loan. The cost associated with securing the Tarcza and Associates opinion was \$3,100 which was covered under the existing contract.

Wilshire Consulting

Mr. DiGirolamo reviewed performance through the 3rd quarter of 2019. All major asset classes showed positive returns year-to-date, 2019 which was a nice bounce-back from 4th quarter, 2018. Mr. DiGirolamo shared that there is a lot of uncertainty in the market at this time probably moreso now since the global crisis of 2008. Trade tensions, geo-political issues (Brexit), weakening global growth (3%) are all factors in the uncertain market. There is still strong performance primarily rooted in US-based consumer spending. The unemployment rate continues to be at a historic low in the US. Wage growth is up over 4% across US-based job functions. GDP growth at the end of the 3rd quarter is 2.3%. Consumer sentiment remains strong. Over the past 18-24 months, growth has significantly outperformed value. During September and October there is a reversal of this trend. Over the long run, value has momentum behind it versus growth. Sectors that performed well during the quarter were real estate and utilities. Sectors that did not perform well were health care/pharmacies and energy. There were all positive numbers for bonds in the 3rd quarter as interest rates go down. The yield curve continues to be inverted. Globally, interest rates continue to be down. While there is uncertainty, overall the economy is not as bad as what is being heard. Regarding recession, no one would be surprised if a recession occurs by the end of next year. The issue to address is how severe the recession would be and how quick the bounce back would be from recession to expansion. In general, there is no need for a true sell-off in terms of equity vs. fixed income.

EuroPacific Growth Fund Portfolio Manager: The Euro Pacific Growth Fund is built out of a fund-to-fund approach within American Funds. There have been nine portfolio managers in the past and each of those portfolio managers built their own portfolio with fairly loose restrictions resulting in a fairly diversified approach. It is a fairly competitive relationship to get more money into the individual portfolios. A month ago, one of the portfolio managers was terminated and has left the fund. Per Mr. DiGirolamo, while this is not necessarily a positive, it is the nature of how the program was built. There is no indication, at this time, that the portfolio manager will be replaced. There are currently eight portfolio managers and therefore, eight portfolios. The terminated portfolio manager ran 7% of the overall portfolio which has been divided amongst the remaining portfolio managers. A formal evaluation is conducted every 18 months. The last evaluation was conducted in April, 2019. Mr. DiGirolamo will look into the style of the relieved portfolio manager but thinks his approach was probably a “broad” approach.

BlackRock 2020 Fund Change: Life Path Funds have five year increments. BlackRock will be terminating the 2020 Index Fund and will be rolling all of those funds into the Retirement Fund, a

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static asset allocation. At the same time, the 2065 Fund will be added to the program. This is a standard process and is done every five years. This is the one time within these funds where a participant is actually moved to a different fund. Mr. Kling pointed out that some of the communication received from BlackRock was not clear. Mr. DiGirolamo discussed this with BlackRock and is hopeful future communication on this type of activity will be improved. The Stable Value report was not available for this meeting.

Wilshire Investment Consulting Agreement/Contract

Mr. Kling stated that the current Wilshire Investment Consulting Agreement Letter has been in place since 2000. It was determined that greater clarity was needed in addition to greater, firmness in terms of deliverables and expectations. Working with the Attorney General's office and Empower, a final draft of the new agreement was developed and sent to each Commission member for review. Questions were submitted and reviewed by the Commission:

1. Item 2 – Appointment: “Consulting services do not include legal, tax or accounting advice.” Ms. Hubbard asked for clarification on whether or not “accounting advice” would include advice related to the UPA. Per Mr. Kling, this would not be considered an accounting issue but rather an analysis and recommendation.
2. Item 5(c) – Fees: “Client shall be responsible for any Taxes, other than income taxes imposed on Wilshire with respect to the Fees, arising out of this Agreement or the transactions contemplated by this Agreement.” Mr. Kling stated that this is “normal” and is addressing any future tax changes by the State.
3. Item 5-7 – Potential Conflicts of Interest: “Due to potential conflicts, Wilshire may have an incentive to provide certain investment advice or to recommend certain securities or products over others that may also be suitable for Client.” Mr. Kling stated this was discussed at the Wilshire site visit in Pittsburgh.
4. Item 16 – “Use of Wilshire Name and Deliverables and Disclosure of Relationship.” This does not preclude the Commission from making statements with regard to Wilshire. It simply means that the Commission will not use Wilshire's name for commercial purposes.
5. Schedule A Consulting Services: The list does not include in the list of services, the “evaluation of the record keeper” or the “cash flow analysis of the UPA”. Mr. Cassagne will review the previous drafts of the agreement to determine if these two items are meant to be included.
6. Schedule A Consulting Services: When processing an RFP, Wilshire has been asked to review Empower as the administrator and record keeper. Their services have also been used to evaluate Empower on a two year cycle. These functions are not included in the scope of the printed agreement.

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Mr. DiGirolamo stated that these functions will continue to be performed and can be included as part of the “Assistance with custodial and other vendor searches” portion of the agreement. Wilshire does not make recommendations on a record keeper but gathers the information so that an informed decision can be evaluated/made. Mr. DiGirolamo stated that Wilshire makes recommendations regarding investments but does not make recommendations related to operational issues. It was suggested that the word “reviews” be added to bullet-point 6 to read: “Assistance with custodial and other vendor searches and reviews.” The word “reviews” should also be added to the asterisk after the word, “searches”. *”Upon request, Wilshire will assist the Client in these searches and reviews but Wilshire does not evaluate, supervise or monitor Client’s custodian or other vendors.”

The fee structure for consulting services is \$125,000 per year with the fees increasing each year by the same percentage as did the increase in the index now known as “United States Bureau of Labor Statistics Consumer Price Index for all Urban Consumers All Items, United States City Average.” Wilshire has been paid the same amount for 19 years with no increase in fees. Wilshire now charges a minimum fee of \$175,000 for all other clients. Ms. Daubenspeck reported that NAGDCA data was reviewed to determine ranges of fees for consulting services. Unfortunately, NAGDCA does not provide information related to consulting fees as each engagement is different. Mr. DiGirolamo stated that Wilshire performs internal reviews of fee comparisons and reported that their fees are about in the middle of fees being charged within the industry. Ms. Sanders motioned that the contract be approved subject to the two changes mentioned. Mr. Guerin seconded the motion. The motion was unanimously approved.

Employment and Fee Contract Agreement Discussion for Tax Counsel Subsequent to January 1, 2020

The current Tarcza & Associates contract ends December 31, 2019. Mr. Kling asked the Commission to move forward in obtaining counsel beyond 2019. Mr. Tarcza currently has service agreements with all of the retirement systems with no individual contracts. Mr. Kling is not certain if Mr. Tarcza will ask the Commission to enter into a service agreement or if he will allow a separate contract. The existing contract charge is \$50,000 for a three year period and Mr. Kling does not anticipate a change in this rate. Mr. Kling stated that he does not want the contract to lapse or have an extended period without tax counsel. The Commission had no objection to Mr. Kling pursuing a new contract with Tarcza & Associates.

Other Business

The preliminary December agenda consists of:

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- Empower update including discussion related to GASB 32 Application for 457 Plans.
- Marilyn Collister will be in attendance to present fiduciary training.
- Mr. DiGirolamo will present a global market review after lunch.
- December Commission Meeting.

Adjournment

With there being no further items of business to come before the Commission, Chairman Kling declared the meeting adjourned at 12:06 p.m.

Laney Sanders, Secretary