MINUTES
Louisiana Deferred Compensation Commission Meeting
August 16, 2022

The monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, August 16, 2022, in the office of the Plan Administrator, 9100 Bluebonnet Centre Blvd, #203, Baton Rouge, LA, 70809 at 10:00 a.m.

Members Present
Virginia Burton, Chairman, Participant Member
Stewart Guerin, Designee of the Commissioner of Insurance
Beverly Hodges, Participant Member
Andrea Hubbard, Vice Chairman, Co-Designee of the Commissioner of Administration
Scott Jolly, Co-Designee of Commissioner of Financial Institutions
Julius Roberson, Designee of the LA State Treasurer
Laney Sanders, Secretary, Participant Member

Members Not Present
Representative Lance Harris, Designee of the Speaker of the LA House of Representatives
Senator Ed Price, Designee of the President of the Louisiana State Senate

Others Present
Mike DeFalco, CPA, Broussard & Company, CPA's, LLC, Lake Charles
Stephen DiGirolamo, CFA – Managing Director, Wilshire Associates
Craig Cassagne, State of Louisiana Attorney General's Office, Baton Rouge
Brett Robinson, State of Louisiana Attorney General's Office, Baton Rouge
Maria Mendelsberg, AVP Portfolio Management, Denver- *via video conference*
Darrin Clough, AVP Portfolio Management, Denver- *via video conference*
Karen Scott, Sr Client Services Manager, Empower, Denver-*via video conference*
Shannon Dyse, Relationship Manager, Empower, Baton Rouge
Rich Massingill, Manager, Participant Engagement, Empower, Baton Rouge
Jo Ann Carrigan, Sr. Field Administrative Support, Empower, Baton Rouge

Call to Order
Ms. Burton called the meeting to order at 10:00 a.m. Ms. Carrigan called roll of Commission members.

Public Comments
Ms. Burton stated that the meeting is accessible to the public and invited anyone who had joined the meeting to participate in the call. There were no public comments.

Approval of Commission Meeting Minutes of July 19, 2022
The minutes of the July 19, 2022 Commission Meeting were reviewed. Ms. Hodges motioned to accept the minutes as presented. Ms. Hubbard seconded the motion. The Commission unanimously approved the motion.

Audit Presentation

Mr. DeFalco summarized the LA Deferred Comp audit report for year ended December 31, 2021. Mr. DeFalco reported:

- There were no material weaknesses identified.
- There were no significant deficiencies identified that are not material weaknesses.
- There was no noncompliance material to financial statements noted.
- There were no statement findings noted.

Mr. DeFalco stated that he received this audit request late after the previous auditor resigned. Mr. DeFalco noted that Empower representatives were very responsive in the process singling out Lisa Reed and Karen Scott for their outstanding assistance which allowed him to complete the audit in the specified time of June 30, 2022. Mr. DeFalco has been contracted by the Legislative Auditor to conduct the 2022 audit as well but does not have a multi-year contract.

Ms. Hodges asked for information related to the increase in administrative expenses as it appeared on the financial statement. Mr. Dyse shared that he would research this matter.

Mr. DeFalco thanked the Commission for the business and confirmed that he filed the audit report with the LA Auditor. Commission members were invited to contact Mr. DeFalco directly with any questions they may have.

Wilshire Quarterly Investments Performance

According to Mr. DiGirolamo, the underlying pressure in the economy is inflation and has been since the end of 2021 and into 2022. As of the end of the quarter, the CPI was up over 9% on an annualized basis…a percentage that has not been seen in four decades. Every sector of measurement has increased such as energy which is up 35% in the first half of the year. The other factors influencing this pressure includes (1) what the Federal Government will do with interest rates and (2) global-macro economic issues. Within US Equity Markets, broad-based markets were down 16.8% on a quarterly basis which was the worst drop seen since early 2020. Growth stocks significantly underperformed value stocks with every sector negative for the quarter except energy. The worst performing sectors for the quarter were Information Technology, Consumer Discretionary, and Consumer Staples. Non-US Equities reflected broad markets down 13.5% for the quarter. Developed Markets were down 14.3% and Emerging Markets did a little better at negative 11.3% for the quarter. Inflationary pressures are being experienced across the globe particularly in Europe. The dollar appreciated by about 7% which is at 14% for the year. A quarter of China's economy remains in Covid lockdown. Russia is not listed within the index and will not be for the near future. All bond indexes are negative for the quarter. Year-to-date, this is the worst six-month period for all bond indexes. The ten-year yield curve increased (from 2.35% to 3%) with a 1.5% increase over a one-year period. Rates went up and spreads widened resulting in a dramatic pull back in fixed income. It has been a challenging time of year where equities sold off due to high valuations in addition to bonds selling off because of interest rates. The Federal Government has raised rates twice during the period and will possibly do so again. TIPS bounced back some for the quarter but remain a little behind. Real Assets is the only asset class with gains with a large sell-off in real estate. Markets have rallied strongly in the third quarter to date. It has been a challenging environment for active managers. Mr. DiGirolamo believes that we are in a shallow recession that will be short-lived. Employment in the US is strong and there is still a lot of uninvested cash on the sidelines.

There was minor change in asset allocation by asset class with no noteworthy trends. MFS Core Equity was down almost 14% but protected well against the benchmark for the quarter. The Prudential Total Return Bond Q fund had a negative performance for the quarter and underperformed the benchmark by 2% primarily due to fund selection. A significant recovery is expected in the third quarter for this fund. Vanguard Intermediate Fund had value added against its benchmark because of a shorter duration. Real Assets was still down but has been a good place to "hide" during this period. Real Assets outperformed its benchmark for the quarter because of securities selection. Real Assets is a fund invested in a basket of public real assets such as commodities, TIPS, natural resources, and real estate. Stable Value had a positive return for the quarter. Life Path Funds have met their benchmarks. Over the long-run, Wilshire remains pleased with how the Life Path Funds have performed. There are some class action lawsuits submitted by people suing BlackRock for underperformance versus peers. BlackRock and Wilshire believe that the minimal risk being taken in these funds is just as important as returns. Wilshire feels that the BlackRock glidepath continues to be one of the best available especially the low-cost, passive funds. Wilshire does not believe that the lawsuits have merit. Mr. DiGirolamo concluded by saying that even with the downturn, the funds are all performing in line with Wilshire's expectations.

Mr. DiGirolamo announced Empower has been working with fund managers and consultants on cost reductions for their Plans. The result is the creation of separate accounts within Empower's lineup which will allow a lower fee schedule for similar funds. One such fund is the Prudential Core Plus Bond Fund which the Plan is currently investing in as a mutual fund. The current fee for the mutual fund is 39 basis points which is particularly good for a core plus fund. Empower is now offering the same strategy, managed by the same team and same securities as a separate account within Empower. The separate account structure lessens the fees to under 22 basis points. The only change is in structure and reduced fees. Based on June 30, 2022 market values, a switch from the mutual funds to a separate account vehicle would provide an annual savings of roughly $149,000 for Plan participants. Mr. DiGirolamo stated that this is a nice plus for the Plan and noted that Empower would continue to work with Wilshire for other opportunities. Mr. Dyse stated that this would require notification to all participants within the Plan as it would be considered a fund change. An explanation as to why the change was made would be included in the correspondence (preferably within a newsletter) to participants. Mr. DiGirolamo stated that the effective date can be worked around scheduled communications with participants. Mr. Dyse will investigate when the best time would be but indicated that Empower's preference would be at the beginning of a quarter. It would take approximately 60 days to prepare correspondence so the anticipated effective date would probably be in January, 2023. Ms. Sanders motioned to replace the PGIM Total Return Bond Fund mutual fund with the PGIM Core Plus Bond Fund separate account. Mr. Roberson seconded the motion. There was no objection, and the motion was unanimously approved.

Ms. Burton reminded the members that there will be a review of the fund lineup at the December 13th Retreat. The review will also include the investment fund policy. Wilshire may have additional proposed changes at that time.

Capital Markets Overview and CSVF Reporting as of June 30, 2022

Ms. Mendelsberg, and Darrin Clough, portfolio managers on the Stable Value Fund, presented the Capital Markets Overview. Ms. Mendelsberg reiterated what had previously been shared that 2Q2022 was challenging in terms of capital markets. Regarding the Fixed Income Market, it has been one of the worst years on record – down 9% for the quarter. Interest rates climbed substantially, and spreads widened. Both interest rate and equity market volatility have been issues this year. Inflation is at a 40 year high and there is a great deal of uncertainty. The yield curve has flattened which is an indication that there is a recession looming within the next 18 months. Ms. Mendelsberg stated that Empower's view is that we are not yet in recession basically due to the strength of the labor market (there are currently two job openings per job seeker). If inflation remains high and the labor market is as tight as it is, the Federal Government is going to be forced to raise rates. A mild recession is anticipated. Recent decreases in oil and food prices have given some relief to the consumer. The consensus is that the Federal Government is not finished doing what they need to do to bring inflation down.

In terms of the CSVF portfolio, the market value ended the quarter at $621 Million with 3.7 years duration. The credited rate was 2% but it is ticking higher to 2.2%. The only security within the portfolio not meeting the minimum requirements is still the Lehman Brothers Unsecured Notes, purchased in 2005, that had its rating withdrawn after Lehman filed for bankruptcy in September 2008. The recommendation is to hold the position to be able to benefit from any future distributions.

Evaluation Committee Update

Ms. Burton stated that data from Wilshire and Empower is being assembled to be provided to the Evaluation Committee. Wilshire will present their evaluation of Empower at the November meeting so that it can be included in the Evaluation Committee report to be shared in December. Mr. DiGirolamo stated that Wilshire has sent a questionnaire to Empower for completion as part of Wilshire's evaluation.

Loans and Tax Counsel

Mr. Cassagne reported that he spoke with Mr. Tarcza last week who indicated that he would have an opinion on loan default reversals available for the Commission meeting in October, 2022.

Mr. Cassagne stated that the emergency rules that the Commission is currently operating under are due to be renewed. The emergency rules under review are those covered under the CARES and Secure Acts: the Qualified Birth and Adoption distribution option and the RMD age requirement changing to 72. The participant loan provision can be dropped as it is now outdated. There are additional changes needed to be made to the Plan Document and these will be completed with the assistance of Mr. Tarcza, tax counsel. Mr. Tarcza's rate is $385 which is the rate that he charges all the retirement plans that he works with. Mr. Tarcza's contract expires at the end of the year. Mr. Cassagne will begin discussions with Mr. Tarcza regarding a three-year contract renewal later this year. Mr. Tarcza is paid as the Commission uses his services. Mr. Jolly motioned to update the emergency rules as it relates to the provisions of the CARES and Secure Acts. Mr. Guerin seconded the motion. The motion passed unanimously.

Service Provider's Report

Plan Update as of July 31, 2022: Mr. Dyse reviewed the Plan Update as of July 31, 2022. Assets as of July 31, 2022: $2070.05 Billion; Asset Change YTD: -$216.68 Million representing a 9.5% decrease since end of year, 2021. Contributions YTD: $66.41 Million; Distributions continue to outpace contributions. YTD: $77.94 Million. Net Investment Difference YTD: -$205.15 Million.

UPA – July 2022: Mr. Dyse reviewed the UPA report for the month of July, 2022. Additions included interest/dividends and participant recoveries for July. Deductions during the month of July included payment to Duplantier Hrapmann Hogan and Maher, the CPA firm that assisted with the Commission election. The closing balance as of July 31, 2022, was $1,609,821.00. There was discussion related to changing the terminology on the report from "participant recoveries" to "participant fees."

Ms. Burton reported that she has asked Wilshire to review the fee structure and be ready to make a presentation to the Commission in December.

UEW Report – July 2022: Mr. Dyse presented the UEW Report for the month of July, 2022. Seventeen requests were submitted and all seventeen were approved.

Securities Sold – June 2022: Mr. Dyse reviewed the list of securities sold in June, 2022. Mr. Dyse stated that if the Commission was interested in more detailed information related to securities sold, Bill Thornton would be available to provide this information at the Commission's request.

Quarterly Fee Reconciliation-2Q22

Mr. Dyse reviewed the 2Q22 Quarterly Fee Reconciliation noting that there was nothing noteworthy to mention. The Participant Administrative fee dropped to $33/annually effective 1/1/2022. The Stable Value Management Fee also changed effective 1/1/2022 which is reflected on the report as a slight increase.

Participant Engagement Activity-July 2022

Mr. Massingill apologized for not being in attendance at the June meeting. Mr. Massingill shared that enrollment information is provided quarterly and, as a result, this report will be presented on a quarterly basis instead of monthly going forward. The employer highlights information will also be provided on a quarterly basis. Mr. Massingill provided an update on the request made by Ms. Sanders in a previous meeting for participant data as it relates to the "at risk" category stating that he can provide this information on a Plan level right now but that he will research for a more detailed report. Ms. Sanders is interested in knowing if the "at risk" campaign is working. Mr. Massingill shared a bar chart showing meeting activity one month into the third quarter that reflected more Retirement Readiness meetings being held than service-related meetings. Group meetings continue to be a challenge, but it is anticipated that there will be more group meetings in October and November as enrollment and benefit fair season roll around. Mr. Massingill reported that RPAs are getting out into the field on a more regular basis. There are five RPAs on staff with the objective of hiring one or two more. A report was also presented showing the number of participants scheduling appointments through Empower's online booking site. Ms. Burton stated that she has asked Mr. Massingill to provide an overview of RPA activity and processes at the December retreat. Ms. Burton also requested that all RPA's be invited to the meeting. Ms. Burton shared that the length of the December meeting is usually four hours and with the number of items added to the agenda, there may not be time to include investment advisor presentations.

Other Business

Ms. Burton shared that because of the NAGDCA Conference schedule, the Commission does not normally meet in September. The Commission agreed to meet again in October.

Adjournment

With there being no further items of business to come before the Commission, Chairman Burton declared the meeting adjourned at 11:25 a.m.

Laney Sanders, Secretary