

MINUTES
Louisiana Deferred Compensation Commission Meeting
August 18, 2020

The monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, August 18, 2020 via video conference at 10:00 a.m.

Members Present *via video conference*

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
Doug Buras, Co-Designee of Commissioner of Financial Institution
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

Marybeth Daubenspeck, Vice President, Government Markets, Empower Retirement, Denver *via video conference*
William Thornton, Senior Manager, Client Portfolio Services, AAG, Denver *via conference call*
Craig Cassagne, State of Louisiana Attorney General's Office, Baton Rouge
Shannon Dyse, Relationship Manger, Empower Retirement, Baton Rouge
Jo Ann Carrigan, Sr. Field Administrative Support, Empower Retirement, Baton Rouge

Call to Order

Mr. Kling called the meeting to order at 10:03 a.m. Ms. Carrigan called roll of Commission members who were attending the video conference. Mr. Kling noted that prior to the meeting, Commission members were polled as to whether to meet in a virtual capacity or in person on August 18, 2020. The majority of the members voted that the meeting be a virtual meeting.

Public Comments

Mr. Kling stated that the meeting is accessible to the public and invited anyone who had joined the video conference to participate in the call. There were no public comments.

Approval of Commission Meeting Minutes of July 21, 2020

The minutes of the July 21, 2020 Commission Meeting were reviewed. Ms. Burton motioned for acceptance of the July 21, 2020 minutes. Mr. Guerin seconded the motion. The Commission unanimously approved the minutes of July 21, 2020.

St Martin Parish Sheriff's Office

Mr. Dyse reported that the St. Martin Parish Sheriff's Office left the Plan effective August 15, 2020. The Sheriff's office moved to AXA-Equitable which is where the last two sheriff's offices that left the Plan moved. Mr. Dyse stated that this departure from the Plan was not expected. Mr.

Dyse is reaching out to St Martin Parish Sheriff's Office to determine as to why the decision was made to leave the Plan. St Martin Parish Sheriff's Office included 103 members and \$1.6 Million in assets.

Administrator's Report

Plan Update as of July 31, 2020: Mr. Dyse presented the Plan Update as of July 31, 2020. Assets as of July 31, 2020: \$1,913.24 Billion; Asset Change YTD: \$36.90 Million; Contributions YTD: \$61.89 Million; Distributions YTD: \$64.30 Million. Net Investment Difference YTD: \$39.31 Million.

UPA – July 2020: Mr. Dyse reviewed the UPA report for the month of July, 2020. Additions included “Additional Participant Recoveries 1Q2020” which represents the Empower Retirement correction as a result of the incorrect recovery number used (5 basis points annually instead of 20 basis points), “Gain on 1Q2020” relates to the correction gain noted above. Deductions included, State of LA Department of Justice and the Louisiana Legislative Auditor. The closing balance as of July 31, 2020 was \$1,696,433.47.

UEW Report – July 2020: Mr. Dyse presented the UEW Report for the month of July which included eleven requests. Ten requests were approved and one request is in appeal.

2Q20 Fee Reconciliation: Mr. Dyse pointed out that the significant increase between the end of first quarter and the end of second quarter on the report has everything to do with the appreciation in the total Plan during the quarter. The markets are rebounding. Mr. Dyse reminded the Commission that the \$50 loan origination fee was suspended by Empower Retirement earlier in the year in response to the pandemic. The loan origination fee will be re-instated in late September.

Securities Sold-June2020: Mr. Dyse reviewed the securities sold during the month of June, 2020.

Economic Review & Outlook

Mr. Thornton reviewed the Economic Review and Outlook for the second quarter noting that the pandemic is the predominant theme that continues to affect everything from a market standpoint as well as the economy. Mr. Thornton shared that the second quarter GDP is -30% which he never thought he would see. The word “unprecedented” is an apt description of the year so far. The number of new daily COVID cases have leveled off as of July 20, 2020—heading in the right direction. Recovery is uneven with some things like mortgage applications bouncing back as rates have come down. There is less gasoline usage as less errands are being run. Hotel occupancy is still well below what is normally seen. The V-shape recovery that was discussed in March has not happened in the economy but has in the stock market. Service activity has improved from May to June as countries restart but it is nowhere near what has been the case over the past 5-7 years. Instead of a V-shape recovery it will probably look more like the symbol for a square root. The number of COVID-19 new cases is being watched closely as schools start to open back up. Mr. Thornton stated that there will probably be another stimulus sometime in the future when Congress can agree to address the longer-term effect of the virus. All of the COVID-19 related issues that have affected the economy are not affecting the stock market. Fixed income has also seen a fantastic rally as a result of the Federal Government stepping in to take risk off of the table not

only for government bonds but for everything investment grade and above. The result is that treasury yields are now at all-time lows. Corporate yields have come down and spreads have continued to tighten. There is no evidence that the Federal Government will be raising rates in the foreseeable future – possibly in 2022.

LA CSVF 2Q20

The Stable Value Fund is back to a low-rate environment but the credit rating remains okay. Yields have come way down so the capital side has gone up. Market-to-Book Value has gone from 102.3% in March to 105.3% in June which is propping up the credit rate. Credited rates should stay fairly steady but over the course of time, the Market to Book and yields will come down resulting in the credited rates coming down as well. The transition to lower credit rates should be an elongated, smooth type of transition. The investment team is not holding many treasuries at this time as there is little to no yield.

LA Stable Value Credit Letter

Mr. Thornton stated that the Lehman Brothers Unsecured Notes bankruptcy estate made its 20th distribution to Class 3 (senior unsecured) noteholders on April 2, 2020. The recommendation is to continue to hold the position as additional funds could be forthcoming. Cumulatively, Class 3 claimants have received 46.04% of their allowed claims. As of the date of the credit letter, there are no derivative securities being used within the stable value portfolio.

Marketing Report 2Q20

Mr. Dyse shared that the transition to virtual meetings is impacting participant enrollment and group meetings. Meeting with individuals via WebEx is working out very well. Promotion efforts via the website and outgoing communication pieces have been made to highlight the availability of the Retirement Plan Advisors via video conference. There has been a concerted push to host more webinars resulting in more group meetings. The webinar link has been shared with a number of agency contacts so that they may relay the information to employees of their agencies. A member of the LA Deferred Comp RPA team retired during the month of June and efforts are underway to find a replacement. Further, Wayne Veal, RPA, received a promotion to a relationship manager position within Empower Retirement. Mr. Veal's position will also have to be filled.

Audit 3-year Contract Renewal

Mr. Kling asked that the agenda be revised to discuss the audit contract renewal and Other Business prior to the Empower Retirement Contract Renewal discussion. The three-year contract with Mr. Aaron Cooper, CPA expired on June 30, 2020. A letter received from the LA Legislative Auditor dated August 13, 2020 gives the Commission the opportunity to renew Mr. Cooper's contract or to ask for another auditor contract. Normally, the auditor's office allows for two, three-year contracts but this is at the Commission's discretion. Mr. Kling reported that there are no known problems or deficiencies with Mr. Cooper's work. The fee amount is not set by the Commission. Ms. Burton stated that Mr. Cooper has gone through a learning curve and renewing his contract may eliminate disruption that could occur with a change in auditors. Mr. Kling stated that there will be a new statement issuance next year. There was no objection to renewing Mr. Cooper's contract. Mr. Kling will request that the LA Legislative Auditor issue a quote for Mr. Cooper's

contract renewal. If the quote is not unreasonable, Mr. Kling will confirm that the Commission has chosen to renew Mr. Cooper's contract for three years.

Other Business

NAGCDA Meeting: The 2020 Annual NAGCDA Conference scheduled for October 4-7, 2020 has been cancelled due to health and safety concerns of attendees during the pandemic.

2020 End-of-Year Retreat: The December Commission Retreat is scheduled for December 15, 2020 to be held at the Burden Center. Representatives of the Burden Center have confirmed that in-person meetings will begin in September. In the event the Burden Center suspends in-person meetings later in the year, the reservation fee would be fully refunded.

September Commission Meeting: Due to conference date conflicts, the September Commission Meeting is usually not included on the annual schedule. Mr. Kling will poll Commission members to determine if the Commission will meet in September. The October Commission Meeting will be held on the third Tuesday of the month.

Term Dates of Participant Members: Mr. Kling reviewed the term expiration dates of those serving as participant members of the Commission:

- Virginia Burton Term Expires 6/30/2021
- Whit Kling Term Expires 6/30/2022
- Laney Sanders Term Expires 6/30/2023

Notice of the election will be sent with the 4th quarter statements—the first newsletter of 2021. The Commission Nominating Committee will be assembled for the purpose of nominating a member to serve beginning 7/1/2021.

Empower Retirement Contract

Mr. Kling stated that there were some misunderstandings regarding the contract terms being offered by Empower Retirement. Mr. Cassagne, Mr. Dyse and Ms. Daubenspeck and Mr. Kling have met to discuss the terms. Mr. Dyse reviewed the details of the original proposal:

- An increase in the Stable Value component from 18 basis points to 25 basis points.
- A five-year contract would include a reduction in administrative fees from \$47 to \$33 per person.
- A ten-year contract would include a reduction in administrative fees from \$47 to \$31 per person.

These options were presented without an understanding of what the laws of Louisiana would allow. The Commission can only allow for the three-year extension that is in the current contract. After reviewing the terms with Empower Retirement management, Mr. Dyse brought the following items for consideration by the Commission:

Empower Retirement would agree to the \$33 per person offer beginning 1/1/2022. The current contract does not expire until the end of 2022 but the price can be dropped to 1/1/2022 in addition to increasing the basis points to 25 basis points. Essentially, the same offer is available that Empower Retirement was proactively offering with the five-year proposal. Mr. Dyse stated that the proposal will be submitted in writing after this meeting. Mr. Kling restated that the Commission's decision is whether or not to exercise the three-year extension with the reduction in participant fees and the increase in the basis point fee for the period of 1/1/2022. Mr. Cassagne was asked to review what would be required to be done to the contract to allow for the 1/1/2022 fee change proposal as opposed to just extending the length of the contract for an additional three years. Mr. Cassagne stated that the initial confusion was that the Louisiana Deferred Comp statutes require the Plan to solicit proposals when selecting the Plan Administrator. The existing contract was for ten years with a three-year extension. To amend the contract beyond the three-year period could be construed as circumventing the statute requiring a solicitation. To go beyond the three-year extension could be problematic. Mr. Kling stated that technically, the contract could be changed if Empower Retirement agreed to make the fee changes starting in 1/1/2021 but this would require extensive contract amendments. Further, Mr. Kling stated that it was in the Commission's best interest to move forward with the contract extension including the fee change provisions. With there being no objection to moving forward, further discussions between Mr. Cassagne, Mr. Kling and Empower Retirement's management and legal teams would be scheduled.

Coronavirus-related Distribution Report: Mr. Dyse provided an update of the number of CARES Act withdrawals that have taken place since the adoption of the provision. There have been 798 Coronavirus-related distributions. Of those distributions, 30 were for more than 50% of the individual's account. A total of eight loans have been taken under the CARES Act and seventeen loan remittance payment extensions have been processed. Each distribution recipient is certifying that they know the ramifications of taking a Coronavirus-related distribution. The overwhelming majority of Coronavirus-related distributions are from account holders with a balance of less than \$25,000.

Adjournment

With there being no further items of business to come before the Commission, Chairman Kling declared the meeting adjourned at 10:54 a.m.

Laney Sanders, Secretary