

MINUTES
Louisiana Deferred Compensation Commission Meeting

July 16, 2019

The monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, July 16, 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
J. Douglas Buras, 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

Marybeth Daubenspeck, Vice President, Government Markets, Empower Retirement, Denver
Stephen DiGirolamo, CFA – Managing Director, Wilshire Associates
Andrea DiSaverio, AVP Recordkeeping Account Design and Ops, Empower Retirement, *via telephone from Denver*
Danette Rausch, AVP Partner Strategy, Empower Retirement, *via telephone from Denver*
Judd Thompson, Assistant General Counsel, Empower Retirement, *via telephone from Denver*
John Morris, State of Louisiana Attorney General's Office
Jo Ann Carrigan, Sr. Field Administrative Support, Baton Rouge, Empower Retirement

Call to Order

Chairman Kling called the meeting to order at 10:00 a.m. Ms. Carrigan called roll of members in attendance.

Public Comments: There were no public comments.

Commission Member Election of Officers

Written ballots were distributed to each Commission member to cast their vote in the annual election of officers. All Commission member names were included on the ballot and each of the officers currently holding positions were seeking re-election. Election results were:

Whit Kling – Chairperson
Virginia Burton – Vice Chairperson
Laney Sanders - Secretary

Minutes
Louisiana Deferred Compensation Meeting
July 16, 2019
Page 2 of 7

Approval of Commission Meeting Minutes of June 18, 2019

The minutes of the June 18, 2019 Commission Meeting were reviewed. Ms. Burton motioned for the acceptance of the June 18, 2019 minutes. Ms. Hubbard requested a correction be made on page 3 of 7, line 4, whereby Ms. Hubbard's name be replaced with Ms. DiSaverio's name in relation to the Wells Fargo Custodian discussion. Ms. Burton changed her motion to accept the minutes of June 18, 2019 with the adjustment noted. Ms. Hubbard seconded the motion. The Commission unanimously approved the minutes with the adjustment noted.

Acceptance of the Hardship Committee Report of July 11, 2019

The Hardship Committee Report of July 11, 2019 was reviewed. Ms. Hubbard motioned for acceptance of the Hardship Committee Report of July 11, 2019. Ms. Sanders seconded the motion. The Commission unanimously approved the report.

Administrator's Report

Wells Fargo Custodian: Great-West Trust Company and Banking Changes

Mr. Kling noted that he asked Mr. Morris to review the Wells Fargo Custodian Agreement. Mr. Morris made the following statements in relation to the Wells Fargo Custodian Agreement:

- Insurance contract provisions are not applicable.
- The agreement is not subject to the procurement code. None of the requirements or provisions of the procurement code apply.
- There is no provision in the statutory scheme requiring an RFP to select a new custodian.
- If the Commission chooses to select a new custodian, the Commission can dictate:
 - Terms of the contract.
 - The previous contract must be cancelled pursuant to the agreement which can be done on a 30 day notice.
 - There is a 90 day holdover period after the 30 day notice. Wells Fargo would have to maintain its position as custodian until the transfer is made to the new company.
- There is no legal issue (conflict of interest) related to Great West Trust serving in the capacity of custodian for the Plan in the state of Louisiana. Mr. Morris stated that he was not certain of the standard practices in the industry and suggested Wilshire would be able to assist in this area.
 - Mr. DiGirolamo stated that from Wilshire's point of view, on the investment side, there is no conflict of interest in Great West Trust serving as the custodian.
 - Mr. DiGirolamo stated that in terms of common practice, it is rare as these are very long term contracts. There are not a lot of providers available at this time that would perform this function or would be willing to sign an agreement like is

Minutes
Louisiana Deferred Compensation Meeting
July 16, 2019
Page 3 of 7

- currently in place with Wells Fargo. Wilshire sees no issue in, at least, investigating the relationship with Great West.
- Mr. DiGirolamo stated that it is unknown what services Principal Financial will be offering in the future. Principal is in the beginning phases of a very large movement that includes services and assets from Wells Fargo. It would potentially be a long time before Principal could estimate what their services would be and if they would be interested in this contract.

Mr. Kling agreed with Mr. DiGirolamo that it may be difficult to find another entity to sign a contract like the one that is currently in place with Wells Fargo. The reason for this is that the custodian is considered legal “in name only” and would be accepting 100% of what another entity has done with no review. Mr. Kling noted that no other proposals have been received from potential providers. No decision was made on this topic today but discussion will continue. Mr. Kling stated that he was not comfortable with the current relationship as it exists because he feels that the Commission is paying for something that they are not getting anything for other than a legal sign off. There is currently no interface between the two entities resulting in the necessity for two sub-entities under Wells Fargo. The current custodian service is not operationally efficient. Further, Mr. Kling stated that he did not foresee Principal sinking money into building interfaces with potential clients. Mr. Kling made it clear that he was not advancing Great West Trust as the sole provider but encouraged the Commission to look into the services that Great West Trust offers related to legal protection, interface and the ability to streamline other contracts (JP Morgan and US Bank). Mr. Thompson added that should the Commission choose to move from Wells Fargo Custodian Services to Great West Trust, efforts would be made to put in place what is needed with the intention of making a transition from Wells Fargo to Great West Trust Company as streamlined as possible. It could be as easy as Great West Trust Company assuming the current agreement, if the Commission is comfortable with this. It is Mr. Thompson’s understanding from Principal and Wells Fargo that the transition time will occur over the next 18 months. Mr. Thompson provided a list of the capabilities of Great West Trust Company that included:

- Legal: The same as any trustee or custodian that takes on the legal responsibility.
- The Great West Trust Company relies on an integrated trust and recordkeeping system so that the system that is used for recordkeeping under the Empower platform is the same that all trust reporting would be pulled from.
- Reporting can be provided as necessary.

Ms. DiSaverio discussed the reporting available through Great West Trust Company:

- Instead of receiving a report that just includes a market-value balance with complex terminology on each page, Great West Trust Company’s Plan Summary (from which the market value is pulled) would be the statement for the trust as well as for the recordkeeping system – it is integrated.
- The current bank accounts would have to be re-registered under the Great West Trust Company name (from Wells Fargo) along with the investment accounts.

Minutes
Louisiana Deferred Compensation Meeting
July 16, 2019
Page 4 of 7

- Great West Trust Company relies on the record keeper to provide the information for the reports.

Ms. Rausch stated that Great West Trust Company has been supporting the government block of business for quite some time and provided the following statistics as of March, 2019 for review:

- The support of 22,000 employer-sponsored retirement plans.
- The support of 324 government plans totaling approximately \$11 Billion.

Ms. Burton stated that Wells Fargo was originally set up as the Plan's custodian so that there would be a separation of duties/internal control. It serves no function if someone is only taking information from the source with no validation. Ms. Burton asked for a clarification of the objective of the custodian service as it relates to the Plan and what firewalls are in place. Mr. Kling added that federal law requires that the Plan have a custodian. Mr. Kling asked Great West Trust Company to submit a proposal to include:

- Services to be provided.
- Contract changes (services) that are not currently included in the contract with Wells Fargo.
- Cost for services.
- The number of entities currently supported by Great West Trust Company.
- Any legal documents/format that can be reviewed by Mr. Morris or Mr. Cassagne.

Mr. Buras asked for a copy of an audit of the Great West Trust Company from an outside auditor. Mr. Thompson explained that Great West Trust Company goes through a regulatory oversight process every 18 months. Controls are also tested as part of the organization's SSAE18. The regulatory exam process is confidential in Colorado so this cannot be provided to the Commission. The Great West Trust Company is included in the SSAE18 and this can be provided to the Commission. Ms. Daubenspeck stated that a proposal will be available to the Commission prior to the August Commission meeting.

Mr. Kling asked that the meeting agenda allow for the discussion of Enhanced Plan Services prior to the Administrator's report to better accommodate Mr. Morris' time and schedule.

Enhanced Plan Services Amendment Update: Mr. Morris reviewed the proposed amendment and made two minor changes to the wording on page 3 regarding the changes in law. The wording was changed from: "In the event of any changes to law" to "In the event of any changes to applicable law" and from "Empower may contact Plan Sponsor" to "Empower shall contact Plan Sponsor". Mr. Morris reviewed the law related to amendment updates and noted that it is a requirement to publish notice of any amendments to administrator contracts. The Attorney General's office published the notice on July 3, 2019 in *The Advocate* newspaper. Mr. Guerin

Minutes

Louisiana Deferred Compensation Meeting

July 16, 2019

Page 5 of 7

motioned to approve Amendment No. 3 to the record keeping contract. Ms. Burton seconded the motion. The motion was approved with no objection or comments.

Plan Update as of June 30, 2019: Ms. Daubenspeck presented the Plan Update as of June 30, 2019. Assets as of June 30, 2019: \$1,784.23 Billion; Asset Change YTD: \$168.48 Million; Contributions YTD: \$51.31 Million; Distributions YTD: \$58.91 Million. Net Investment Difference YTD: \$176.08 Million.

UPA-June, 2019: Ms. Daubenspeck reviewed the UPA for the month of June, 2019 reflecting an ending balance \$1,591,149.20. Additions included interest for the month June. Deductions included payment to the LA Legislative Auditor.

Custom Stable Value Securities Sold: At the June Commission Meeting, a request was submitted to add a column to the report that reflected gains/losses. The column has been added to the “CSV Securities Sold” report and was available on the June, 2019 report.

Wilshire Associates

Investment Performance: Mr. DiGirolamo reviewed the performance report through June 30, 2019 noting strong performances across asset classes for the year. No matter what participants are investing in and for what timeframe, they are making money (gaining assets). An Economic Review as of June 30, 2019 was presented. Mr. DiGirolamo stated that the federal government will be a “big player” within the US and globally for the rest of the year. A cut is anticipated this month or next and this is priced into most markets at this time. There is a possibility that additional cuts will occur by the end of the year. GDP for the first quarter was 3% which is higher than anticipated. Mr. DiGirolamo reviewed performance of individual asset classes with the Commission. Inflation is considered tame at this time, unemployment is down and wages are starting to rise which may be signs that inflation will hit the system faster than expected. Mr. DiGirolamo pointed out that the Intermediate Term Treasury Fund, a recently added fund, reflects a drag against the chosen benchmark. Wilshire is looking closely at this fund and may suggest the Bloomberg 3-10 Year Treasury as a more appropriate benchmark which ties more closely to the duration of the actual fund. If the benchmark was changed, it would be more closely in-line during all markets (up and down markets). Vanguard has recently changed to the 3-10 year Treasury and will probably stay with this duration. Mr. DiGirolamo stated that it would make more sense to change the benchmark to match that which Vanguard has done. Mr. DiGirolamo offered to submit a formal recommendation to change the posted benchmark for that treasury. Mr. Mack requested a report that would show a correlation over the past several years to the 5-10 year duration as compared to the 3-10 year duration in addition to peer performance. Mr. DiGirolamo stated that, the absolute performance of the strategies over all periods and all funds reflects only one negative

Minutes
Louisiana Deferred Compensation Meeting
July 16, 2019
Page 6 of 7

and that is the Principal Diversified Real Asset Fund (active fund) over a five year period. There was discussion related to specific asset classes and the under-performance from managers that has contributed to the drag on performance of the fund. The fund manager has made changes in the past six months that Mr. DiGirolamo feels will have a positive effect on the performance of the fund. While it is disappointing to see a negative performance of the fund, Wilshire continues to be comfortable with the program and with the managers involved. The fund currently has a six year track record. There were no major changes to asset allocation and the glide-path of the Black Rock Life Path Funds. Wilshire remains comfortable with the program.

Site Visit: Three members of the Commission will be participating in the Wilshire site visit scheduled for August 5-6, 2019 in Pittsburgh, PA. Mr. DiGirolamo invited members to offer suggestions on topics and agenda of the visit.

Investment Consultant Contract Discussion: Mr. Kling reviewed the existing Investment Consultant Contract with Mr. Morris. Mr. Morris stated that the three page document on file is in fact, a contract. The contract dates back to September of 2000 and was signed by Emery Bares. The original contract specifies that Wilshire will be paid a flat fee of \$45,000 with the ability to increase fees based on notices. According to Wilshire's legal department, there have been no notices filed. (Mr. Morris stated that there probably should have been notices filed according to the contract.) Mr. Morris recommended that the Commission review the contract and determine whether or not it should be amended. The contract does not include a standard term but can be canceled anytime on 30 days notice. Mr. Kling stated that the contract does not include the following:

- Performance indicators
- Review factors
- An enumeration of the services provided

Contract discussions will be a part of the Wilshire site visit in August. Mr. Kling pointed out that the review of the contract has no reflection on Wilshire's history/performance with the Plan. The contract and its payment provisions have not been changed in 19 years. Mr. Morris stated that the procurement code is not applicable to the contract because public funds are not involved. Mr. Morris clarified that even in the situation where an agency is matching deferrals, once the money is placed in the LA Deferred Comp Plan, it is no longer considered public funds. An executive order is no longer applicable because it has been placed into statute.

Other Business

Empower Service Agreement: Mr. Morris reviewed the contract in place in relation to bifurcated duties discussed at the June, 2019 Commission Meeting. The contract states the Empower is

Minutes
Louisiana Deferred Compensation Meeting
July 16, 2019
Page 7 of 7

required to keep a local office with three employees. Mr. Morris pointed out that it is the Commission's contract and if Empower was not abiding by it, the Commission could choose not to enforce that portion of the contract. Mr. Morris stated that Empower would be abiding by the contract with the suggested bifurcation of duties consisting of Executive Director and Marketing Director. The understanding is that Empower will maintain a local office with three employees but it is not a requirement that a full-time plan administrator be located in the Baton Rouge office. Ms. Daubenspeck provided an update of the progress being made in finding a replacement for the State Director who recently retired. In the interim, Ms. Daubenspeck and Ms. Rausch are servicing the Plan. Mr. Kling ask that if the move is made to adopt a bifurcation of duties, Empower provide in writing:

- A clear delineation of roles.
- Who each person will report to.
- How each person will interact with the Commission.
- How to address any problems that the bifurcation of duties could present as it relates to interfacing with local political subdivisions.
- Where each person will be located.

These items will be addressed with the Commission prior to a selection being made. Ms. Daubenspeck stated that whatever approach is taken, the needs and the desires of the Commission be addressed. Ms. Burton stated that since the Commission has no staff, it relies on the local staff to perform duties and respond to grievances. Ms. Daubenspeck stated that the goal is not to take anything away from the service that is being provided.

Commission Contact Information: Ms. Daubenspeck provided a list of Commission member contact information to confirm that the most current addresses, email addresses, telephone numbers are in place and available to each member.

Mr. Kling thanked Mr. Morris for his time and effort in addressing the needs of the Commission.

Adjournment

With there being no further items of business to come before the Commission, Chairman Kling declared the meeting adjourned at 11:19 a.m.

Laney Sanders, Secretary