

MINUTES
Louisiana Deferred Compensation Commission Meeting
March 21, 2023

The monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, March 21, 2023 in the office of the Service Provider, 9100 Bluebonnet Centre Blvd, #203, Baton Rouge, LA, 70809 at 10:02 a.m.

Members Present

Virginia Burton, Chairman, Participant Member
Doug Buras, Co-Designee of Commissioner of Financial Institutions
Beverly Hodges, Participant Member
Andrea Hubbard, Vice Chairman, Co-Designee of the Commissioner of Administration
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
Stewart Guerin, Designee of the Commissioner of Insurance

Others Present

Stephen DiGirolamo, CFA – Managing Director, Wilshire Associates
Craig Cassagne, State of Louisiana Attorney General’s Office, Baton Rouge
MFS: Matt Westhoven, Relationship Director, MFS, Boston-*via video conference*
Joseph MacDougall, Equity Institutional Portfolio Manager, MFS, Boston-*via video conference*
Karen Scott, Sr Client Services Manager, Empower, Denver-*via video conference*
Michela Palmer, Communications Strategist Participant Mktg Comm Gov, 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 10:01 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 February 14, 2023

The minutes of the February 14, 2023 Commission Meeting were reviewed. Ms. Hodges motioned to accept the minutes as presented. Ms. Hubbard seconded the motion. The Commission unanimously approved the motion.

MFS Presentation

Mr. DiGirolamo introduced MFS representatives who joined the meeting to make a presentation on the actively managed MFS U.S. Core Equity Fund strategy which spans across style and size (large cap and small cap) and in value and growth. Prior to the MFS presentation, Ms. Burton reminded the Commission that, in the past, the Plan offered too many investment options (23) which studies had proven to be detrimental to

participants in selecting investment options. At that time and on the recommendation of the investment consultant, the number of options in the investment portfolio was reduced and Life Path Funds were added. For those participants wishing to choose more advanced-type options, the brokerage window was made available. Mr. Roberson thanked Mr. DiGirolamo for the time he afforded his team in detailing the history of the lineup. Mr. Roberson reported that his team would like to see a small to mid-cap option added to the lineup as this is not well-represented in the MFS Fund.

Mr. Westhoven thanked the Commission for the opportunity to present the MFS US Core Equity Fund strategy noting that it had been several years since he had met with the Commission. The MFS US Core Equity Fund has been a part of the Plan since 2016. Everything related to the fund is driven up from foundational, fundamental analysis. MFS Funds are active managers dealing only with fixed income and equities. The Fund does not include index or passive investing, nor does it include private equity or private credit. On Mr. Roberson's request, Mr. Westhoven offered to send additional information to the Commission showing the breakdown of Defined Benefit and Deferred Comp Plans under management noting that he believes that it is an even split.

Mr. MacDougall introduced himself as the portfolio manager which proves to be more of an oversight role. Mr. MacDougall reviews overall composition of the strategy, managing cache and ensuring that the mandates adhere to client guidelines. The portfolio is structured so that every member of the U.S. equity analyst team is allocated a portion of the portfolio based on their coverage of US equities. The analyst team is also supplemented with a handful of non-US analysts.

MFS benchmarking strategy is to the Russell 3000 index, which essentially covers every investment within the US equity landscape. Analyst coverage is assigned to almost every stock in the Russell 3000 index. Ultimately, the goal is to outperform the benchmark over a full market cycle and produce a strong peer relative rank over those full market cycles as well. The investment preference is in identifying higher quality companies that have more durable, sustainable business profiles which often translates into more consistent and durable earnings and cash flow. The Fund also can invest more broadly taking advantage of opportunistic ideas.

Mr. MacDougall thanked the Commission for the opportunity to present. Mr. DiGirolamo stated that these types of calls are helpful. The Wilshire Manager Research Group, who evaluates these funds on a day-to-day basis, meets with MFS, at least annually. Mr. DiGirolamo has met with MFS every year since they joined the program.

Investment Policy Statement

Mr. DiGirolamo reviewed a red line version of the Investment Policy Statement (IPS) and a clean version that included all edits. The most recent version of the IPS is from 2005. Most of the revisions reflect the changes in plan lineup since 2005. There have been some edits related to procedural changes such as any reference to a Hardship Committee to review hardship requests. The Hardship Committee is no longer responsible for approving hardship requests. The revision should also include that the Commission delegated the hardship responsibility to Empower. Mr. DiGirolamo noted that Ms. Hubbard reviewed the IPS in advance of the meeting and pointed out that the current report known as the Unallocated Plan Account is referenced as the "Commission Activity Fund" on page 3, item 9. There are some benchmark name changes required, as well. Mr. DiGirolamo noted that under "Selection Guidelines" on page 5, the current IPS stated that for a small CAP fund, assets must exceed \$200 Million, and the minimum assets allowed is \$100 Million. The Plan no longer has a small CAP fund but if it did, the minimum assets allowed of \$100 million does not quite make sense in terms of where the industry is today. This guideline must be eliminated. The IPS document will be formally reviewed with the Commission every year thus providing the opportunity to clean up the document on a regular basis. The most up-to-date Stable Value Fixed Income Fund guidelines have also been incorporated into the revised IPS. There is an existing stand-alone Stable Value Fixed Income guideline in addition to what is included in the IPS. Ms. Hubbard pointed out that in Section 5, Item A, the heading should be changed to

“Quality and Diversification” from “Credit and Diversification”. Appendix B, Fund Benchmarks has been updated to reflect the most current funds and index. There is one discrepancy in the name of an index benchmark: Bloomberg Barclays Intermediate Index is now the Bloomberg US Intermediate Aggregate Index. Mr. DiGirolamo recommends that the index name be updated in the Stable Value Guidelines and then ask Empower to do the same within their next edits. Ms. Sanders suggested that there be a footnote added to the “Principal Custom Benchmark” and “Policy Index” to direct participants where additional information can be referenced. Mr. DiGirolamo will draft the appropriate language to be reviewed and adopted. Ms. Sanders motioned to approve the revised IPS with the amendments discussed. Mr. Roberson seconded the motion. The motion passed unanimously. This document will be updated on the Commission website along with the current Performance Review document. Mr. Buras recommended that major policies be reviewed on an annual basis, possibly during the annual retreat. Ms. Burton stated that this has been one of her objectives since becoming chairperson. An annual calendar is being developed to include policy reviews including the “Records Retention Policy” to be discussed in April of 2023. Ms. Burton asked Mr. Dyse to prepare a list of policies to be reviewed. Ms. Burton noted that Commission meetings should stay within 1-1.5 hours in length.

Participant Administrative Fees Analysis: Ms. Burton moved the “Participant Administrative Fee Analysis” agenda item to immediately following the “Investment Policy Statement” portion as Mr. DiGirolamo would be making both presentations.

Mr. DiGirolamo stated that there is a significant annual increase in the Unallocated Plan Account due to the current fee structure. Administrative fees are reviewed every year or two to reduce Plan costs wherever possible and to be transparent with as much predictability as possible. The current fee structure is 20 bps on the first \$50,000 with a minimum fee of \$10 and a maximum fee of \$90. Total expenses were reviewed, including the Empower fee which has gone down because of the new fee schedule adopted in 2022. Revenue includes interest and the administrative fees resulting in a gain of approximately \$300,000 per year. Internal stress test models have been run projecting any market drop which still reflect modest gains. The fees are based on account balances. Alternative administrative fee schedules were presented noting the corresponding reduction to the UPA. Ms. Burton stated that the Commission has preferred to keep at least one year of expenses in the UPA. The next opportunity to change the Empower contract is after 12/31/2025. Opportunities to reduce fees through fund changes will continue. The specific Empower fee structure will stay at the current rate until 1/1/2026. Ms. Hodges asked if the Commission had ever considered having a Commission employee to be paid from the UPA balance. Mr. Cassagne stated that Commission statutes allow the Commission permission to hire consultants. Mr. Cassagne would review the statutes to confirm whether the Commission is permitted to hire an employee/third party administrator. Ms. Burton stated that the current Empower contract allocates duties to Empower per the RFP. Mr. Dyse stated that the Commission must direct Empower on some issues. If a third-party administrator were hired, that person would interact with Empower regarding duties. Ms. Hubbard will review the Plan Document related to the requirement of keeping UPA funds in Stable Value. Ms. Burton asked Ms. Sanders to assume the role of reviewing the Empower contract in addition to the possibility of adding a third-party administrator. Ms. Sanders will work with Mr. Cassagne and Mr. DiGirolamo in accomplishing these purposes. Mr. Buras stated that it seems that it is premature to take action on administrative fees at this time. Ms. Burton asked Mr. Dyse to review the functions that have been delegated to Empower for the purpose of including them in contract discussions. Ms. Hubbard is also reviewing existing policies and procedures for any changes necessary.

Service Provider’s Report

Plan Update as of February 28, 2023: Mr. Dyse reviewed the Plan Update as of February 28, 2023. Assets as of February 28, 2023: \$2,025.80 Billion; Asset Change YTD: \$43.23 Million representing a 2% increase over the previous month. Contributions YTD: \$17.70 Million; Distributions YTD: \$21.90 Million. Net Investment Difference YTD: \$47.43 Million.

UPA – February, 2023: Mr. Dyse reviewed the February, 2023 UPA report. The UPA balance at the end of February was approximately \$1.5 Million. Additions included gains on contribution corrections and interest for February. Deductions included the 4Q22 quarterly Empower administrative fee.

UEW Report – February, 2023: Mr. Dyse presented the UEW Report for the month of February, 2023. There were 11 requests submitted and all 11 were approved. Mr. Dyse reminded the Commission that with Secure 2.0, participants will be allowed to self-certify going forward. Forms have not yet been updated.

Fund Change in PGIM Total Return Bond R6

Mr. Dyse reminded the Commission that the existing PGIM Total Return Bond R6 Fund is being moved to the Core Plus Bond/PGIM Fund. Participants were notified by email, website, and mail (if no email address on file). The change will happen at the end of March.

Change of Self-Directed Brokerage Provider

Mr. Dyse shared that Charles Schwab bought TD Ameritrade a couple of years ago. The formal merger will occur over Labor Day weekend.

Secure Act 2.0 Update

Mr. Dyse reported that an agency has inquired about the possibility of matching contributions with after-tax dollars which was previously not an option. With Secure 2.0, this option is available. Empower can accommodate this change but Mr. Dyse asked the Commission for acknowledgement to receive after tax dollars. The Plan Document does not include this option. Mr. Cassagne will research whether statutes allow the Plan to accept after-tax dollars. Mr. Cassagne asked for clarification if this option was mandatory or provisional within Secure 2.0. If the provision is not mandatory, the Commission would have to approve the change.

Tarcza & Associates Update

Mr. Cassagne reported that he has contacted James of Tarcza & Associates to advise that the Plan Document will be undergoing revision from top to bottom. Mr. Cassagne asked that Mr. Dyse, Brett Robinson, and any Commission member wanting to participate, be involved in the discussions with Tarcza & Associates. Mr. Cassagne stated that a priority would be to define the responsibilities of the Plan Administrator more clearly to eliminate any blurred understanding of duties. Mr. Cassagne will report back at the April meeting on any discussions held with Tarcza & Associates.

Follow-up of February 2023 Commission Topic – IRS W-4P and W-4R

Mr. Dyse brought to the attention of the Commission a topic that Ms. Hodges mentioned during the February Commission meeting regarding updated IRS income tax withholding regulations. The redesigned W-4P form has been split into two forms: The W-4P is used as a withholding certificate for periodic pension and annuity payments and the W-4R is used as a withholding certificate for nonperiodic payments and eligible rollover distributions. Notification of this change was mailed to approximately 275 participants. Mr. Dyse is conducting further research related to the possibility that some participants did not receive the letter mailed. Mr. Dyse hopes to provide more information on this issue at the April meeting.

Louisiana Staff Update

Mr. Massingill reported that a second admin will be in the office. Empower has hired a second RPA for the Baton Rouge area. Mr. Massingill announced the resignation of a RPA. Mr. Massingill will bring a report in April related to meeting attendance/RPA activity. A cadence is now in place for making monthly contact with employers. Two employer training webinars per month have been placed on the calendar.

Mr. Massingill stated that he will encourage RPAs to listen in on the Commission meetings or at least, read the minutes, so that they are aware of the Commission's activity.

Other Business

Loan Default/Second Loan Request

Ms. Carrigan brought a request from a participant wishing to take out a second loan after his first loan defaulted. The first loan had been re-amortized and there was confusion related to the number of payments left to pay off the loan. A late loan letter was sent to the participant stating that the loan would default if payment was not received by June 30, 2022. No payment was received so the loan defaulted. The loan has since been paid off—one month after the default. Ms. Hodges motioned that the participant be allowed to take out a second loan. Mr. Roberson seconded the motion. The motion passed unanimously. Ms. Burton confirmed that any loan default/second loan request should continue to be brought to the attention of the Commission for approval.

Commission Election

Ms. Carrigan reported that there will be an election for the Participant Seat that expires on June 30, 2023. The candidates in the election are Mr. Lester Turner Jr. and Ms. Laney Sanders. A drawing was held on Tuesday, February 21st to determine the order that candidate names will appear on the ballot. Mr. Turner's name will appear first on the ballot. Ballots will be mailed in April along with a paper newsletter. Ms. Hodges asked if there would be any language included on the envelope to let the recipient know that ballot materials were enclosed. Ms. Palmer stated that the language on the envelope usually states that there is valuable information about the LA Deferred Comp Plan enclosed. Ms. Palmer offered to update the language to state that the envelope includes a ballot for the LA Deferred Compensation Plan election. Ms. Hodges stated that this would be a clever idea to assist participants in knowing that a ballot was included in the mailing.

Commission Member Ethics Filing

Mr. Cassagne reminded Commission members that they must have one hour of ethics training to include the topic of sexual harassment. Ms. Burton stated that if the training is not provided at work, a link can be sent to members notifying them of training opportunities. Mr. Cassagne will consult with Mr. Robinson regarding submission and timing of the training. Mr. Robinson will send an email to Commission members to include links and timing requirements. Empower is not responsible for maintaining Commission members ethics filing.

Meeting Time Change Request

Ms. Hodges asked if the Commission would have any objection to moving the start time of the monthly Commission meetings to 9:30 a.m. from 10:00 a.m. due to a conflict in Ms. Hodges' schedule on Tuesdays. Ms. Burton stated that the duration of the meetings will stay within 1-1.5 hours going forward which may resolve the conflict. Mr. Massingill stated that audio access is available that could be accessed if a member had to leave the meeting early. Commission meetings will continue to start at 10:00 a.m.

Adjournment

With there being no further items of business to come before the Commission, Chairman Burton declared the meeting adjourned at 12:01 p.m.

Laney Sanders, Secretary