

MINUTES

Louisiana Deferred Compensation Commission Meeting

May 15, 2018

The monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, May 15, 2018 in the offices of the Plan Administrator, 9100 Bluebonnet Centre Blvd., Suite 203, Baton Rouge, Louisiana, 70809.

Members Present

Emery Bares, Chairman, Designee of the Commissioner of Insurance
Whit Kling, Vice-Chairman, Participant Member
Virginia Burton, Secretary, Participant Member
Thomas Enright, Designee of the State Treasurer
Andrea Hubbard, Co-Designee of the Commissioner of Administrator
Len Riviere, Co-Designee of Commissioner of Financial Institution
Laney Sanders, Participant Member

Others Present

Jack Brown, Senior Vice President of Separate Accounts–Portfolio Manager *via Conference Call*
Craig Cassagne, State of Louisiana Attorney General’s Office
Perry Christie, Director, Government Markets, Empower Retirement
Connie Stevens, State Director, Baton Rouge, Empower Retirement
Jo Ann Carrigan, Sr. Field Administrative Support, Baton Rouge, Empower Retirement

Call to Order

Chairman Bares called the meeting to order at 10:00 a.m. Roll call was taken by Jo Ann Carrigan.

Approval of Commission Meeting Minutes of April 17, 2018

The minutes of the April 17, 2018 Commission Meeting were reviewed. Mr. Kling motioned for the acceptance of the April 17, 2018 minutes. Ms. Sanders seconded the motion. The Commission unanimously approved the minutes.

Acceptance of the Hardship Committee Report of May 3, 2018

The Hardship Committee Report of May 3, 2018 was reviewed. Mr. Kling motioned for acceptance of the Hardship Committee Report of May 3, 2018. Mr. Riviere seconded the motion. The Commission unanimously approved the report.

Public Comments: There were no public comments.

Administrator’s Report

Plan Update as of April 30, 2018: Ms. Stevens presented the Plan Update as of April 30, 2018. Assets as of April 30, 2018: \$1,678.54 Billion; Asset Change YTD: -\$3.65 Million;

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Contributions YTD: \$32.50 Million; Distributions YTD: \$41.14 Million. Net Investment Difference YTD: \$4.99 Million.

Marketing Update as of March 31, 2018: Ms. Stevens presented the Marketing Update as of March 31, 2018. New participants 1Q18: 545; Group Meetings YTD: 463 (142% of YTD goal of 325). Most active agencies: DOTD, LSU-Baton Rouge, Calcasieu Parish Sheriff, Lafourche Parish Sheriff and DCFS.

Plan Review as of March 31, 2018: Ms. Stevens presented the Plan Review for the period of April 1, 2017 to March 31, 2018. Plan assets as of March 31, 2018: \$1,670.29 Billion; Plan assets grew by \$112.66 Million (7.2%) from April 1, 2017 – March 31, 2018; Contributions for the same time period were \$93.67 Million. Ms. Stevens pointed out that the average account balance is steadily climbing. Asset Distribution by Funds reflects growth in Managed Accounts and Target Date funds. Upon Wilshire's request, Empower Retirement has "re-labeled" the asset classes (balanced, small, mid-cap, etc) on the Asset Class reports so that they more closely match the fund lineup in the Plan itself. The Stable Value rate remains steady at 2.35%. Ms. Stevens anticipates that the proposed email from Jay Dardenne to all state employees regarding the benefits of the Plan will have a positive effect on participation. There was a significant increase in "Age 70 ½-In Service" distributions during the period of April 1, 2017-March 31, 2018. Outstanding loan balances: \$21.72 Million. Mr. Kling asked Connie to provide a report at the next meeting that reflects the total number of participants by age group.

UPA-April, 2018: Ms. Stevens reviewed the UPA for the month April, 2018. UPA balance as of April 30, 2018: \$2,379,988.30. Additions included: Participant recoveries and interest for April. Deductions included expenses associated with the participant postcard mailing for e-Delivery of statements and the State of LA Dept of Justice.

Case Reconciliation 1Q18: Ms. Stevens reviewed the Quarterly Fee Reconciliation for the first quarter of 2018 with the Commission. The contractual fee of \$48 per participant has been reduced to \$47 effective April 1, 2018.

Investment Policy Statement: Ms. Stevens reported that the revisions requested by the Commission to be made to the Investment Policy statement have been completed as approved by the Financial Risk Group. Bill Thornton, Senior Manager, Client Portfolio Services, reported that there is no index for the derivatives. The derivatives are over-the-counter based on prevailing swap rates. Mr. Kling stated that there are a number of derivative indexes. Ms. Stevens stated that she would forward the email from Mr. Thornton to the Commission members so that they may review the response received for clarification.

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Exception Letter, 1Q18: Ms. Stevens reported that the only holding outside of the Investment Policy Statement is the Lehman Brothers Unsecured Notes, purchased November, 2005 which continues from 2008. Ms. Stevens stated that she will confirm the status of this holding and report back to the Commission.

Securities Sold: Ms. Stevens reviewed the printed list of securities sold during the months of February and March, 2018.

Custom Stable Value

Economic Review: Mr. Brown presented the 1Q18 Economic Review and Outlook. 2017 was a phenomenal year, setting a post-crisis record for both equities, fixed income, US and abroad. In 2018, the issue will be more about volatility and the markets will not be as accepting in absorbing new economic, political or geo-political information. In 2018, the equity markets started the year strong but fell quickly in early February (concerns about inflation, trade and tariff issues) resulting in volatility returning in a dramatic way. Global growth became more synchronized in 2017 and is expected to continue in 2018. The US economy has outperformed expectations. Economy-wide domestic indicators (employment, housing starts, consumer borrowing and consumption) are solid. If businesses are not contributing to growth, the prospect for recession is greater. Mr. Brown reported that business confidence is high and that he is seeing companies actually taking a portion of their new-found wealth and investing it into their businesses which is what is going to support the US economy over the next couple of years. Mr. Brown reported that inflation is growing. These factors prove to be a great backdrop for investing in corporate bonds. The US Housing Market remains heavily undersupplied with Millennials representing the largest percentage (34%) of home buyers. The current economic cycle will go down as the longest cycle in US history. Mr. Brown stated that based on these economic indicators, he feels good about the US economy through 2020.

Custom Stable Value 1Q18: Mr. Brown reviewed the Stable Value report for 1Q18. Fund allocation: corporate bonds are preferred over Mortgages (MBS). Specific components of MBS will continue to be targeted with the emphasis on actively taking out extension/duration risk from the portfolio. As the MBS' are sold, there is a great opportunity to purchase corporate bonds that are more tied to the US Economy where confidence is high. The goal is to add higher yields to the portfolio for the purpose of moving the credited rate higher. Performance of the fund continues to do very well largely due to decisions made to shorten duration and to focus more on corporate bonds over MBS'. The portfolio is performing exactly in line with expectations. Over the next few quarters, the emphasis will be on slowly moving the portfolio into a more negative view of interest rates and a more positive view of the US economy and corporate bonds.

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Ms. Stevens asked Mr. Brown to review the credit letter received related the Lehman Brothers holding. The concern is that Lehman Brothers declared bankruptcy in 2008 with a three year “work out” and it is now 2018. Mr. Brown stated that the workout/restructuring has become extremely complicated as it involves many different areas of Lehman (businesses, local, global, lines of business) that is continuing to work through the bankruptcy. It does feel like it is coming to a close and ways are being explored on how to move the investment out of the portfolio. There continues to be possibilities to get value out of the holding but the opportunity has not yet presented itself. Mr. Kling asked that the exception letter be reviewed by Mr. Brown as the wording of the letter has a sense of finality to it. Mr. Brown will review the letter and, if necessary, will make changes so that it accurately reflects the spirit of the situation.

Other Business

Ms. Burton suggested that Commission members register for the NAGDCA Conference to be held in Philadelphia beginning on September 23rd. Ms. Stevens will forward the details to Commission members for review.

Ms. Stevens advised the Commission that the financial audit being performed by Aaron Cooper CPA is ongoing.

Mr. Bares thanked Mr. Christie for his attendance at the meeting.

Adjournment

With there being no further items of business to come before the Commission, Chairman Bares declared the meeting adjourned at 11:04 a.m.

Virginia Burton, Secretary