MINUTES

Louisiana Deferred Compensation Commission Meeting

October 17, 2017

The monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, October 17, 2017 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
Virginia Burton, Secretary, Participant Member
Thomas Enright, Designee of the State Treasurer
Andrea Hubbard, Co-Designee of the Commissioner of Administrator
Whit Kling, Vice-Chairman, Participant Member
Len Riviere, Co-Designee of Commissioner of Financial Institution
Laney Sanders, Participant Member

Others Present
Stephen DiGirolamo, Vice President, Wilshire Consulting
Craig Cassagne, State of Louisiana Attorney General's Office
Connie Stevens, State Director, Baton Rouge, Empower Retirement
Jo Ann Carrigan, Sr. Field Administrative Support

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 July 18, 2017
The minutes of August 15, 2017 and September 22, 2017 were reviewed. Mr. Enright asked that the minutes of September 22, 2017 be amended by moving "Public Comments" to the first page right after "Call to Order". Ms. Burton noted that the August 15, 2017 minutes listed Ms. Burton twice on the list of members serving on the Evaluation Committee on page 6. Revisions will be made to the minutes after reviewing the notes/recording from the August 15, 2017 meeting. Ms. Burton motioned for the acceptance of the August 15, 2017 minutes as amended. Mr. Enright seconded the motion. The Commission unanimously approved the minutes as amended. Mr. Enright asked that page two of the September 22, 2017 minutes reflect the action of taking a vote to come out of Executive Session. Mr. Enright motioned for the acceptance of the September 22, 2017 minutes as amended. Mr. Kling seconded the motion. The Commission unanimously approved the minutes as amended.

Acceptance of the Hardship Committee Reports of September 7, 2017 and October 5, 2017
The Hardship Committee Reports of September 7, 2017 and October 5, 2017 were reviewed.

Mr. Kling motioned for acceptance of the Hardship Committee Reports of September 7, 2017 and October 5, 2017. Ms. Burton seconded the motion. The Commission unanimously approved the reports.

Public Comments: There were no public comments.

Wilshire Associates – Preliminary Investment Performance Flash Report

Mr. DiGirolamo presented the Economic Review stating that overall, the news is good for the United States for the quarter and for the year. Inflation (CPI) is up 50 BP for the quarter but still remains relatively low in terms of long-term inflation numbers. There are strong earnings results for the US. The unemployment rate has dipped down to 4.2%. “Negative” job growth is the result of hurricane/weather related situations. Wage growth continues to be below normal which is one of the main factors in keeping inflation in check at this time. The GDP is up 3.1% for the second quarter – this was last seen in the 2nd quarter of 2015. Mr. DiGirolamo noted two trends:

- Small Cap outperformed Large Cap during the quarter.
- Growth stocks outperformed value stocks during the quarter.

The non-US Equity market has had a strong rally, as well, with the best performing group being Emerging Market Equities. The Federal Government announced their Balance Sheet Normalization Program regarding the US Fixed Income Rate on September 20, 2017. This move was fully anticipated by the market and therefore, there were no changes in interest rate. Rates remain low and the yield curve is flat but positive. Overall, the economy is going well at this time.

It has been a very strong year for Active Management. Mr. DiGirolamo reviewed the positive performance of the funds within the Plan. Real Assets (Active Manager) is made up of a “hodgepodge” of different categories. It consists of everything that Principal believes has “inflation hedging” such as commodities, REITS, tips, global infrastructure, MLP’s, timber, metals and mining. Ms. Burton revisited a discussion from previous meetings regarding whether or not this fund meets the needs of the Plan members. Mr. DiGirolamo stated that the approach is for investors to have three different “buckets” to choose from:

- Growth (all equities)
- Inflation Hedging
- Risk Mitigation (bonds)

There is a healthy selection option in each of the buckets so that a participant can have a strong asset allocation no matter what is going on in the market. The approach used is to determine what risks the participant is facing within their portfolios and then how to give them the tools to choose the right portfolio to hedge against risks over the long run. Mr. DiGirolamo stated that Principal Diversified Real Assets fund has grown so that a waiver of fees is no longer necessary. The assets within the fund have risen enough so that it is now on a lower fee structure resulting in fees going down to 0.79%. Wilshire looked at a universe of other like funds and determined that this one was on the lower side of fees for a diversified/real asset type of fund. Mr. DiGirolamo offered to complete a fee analysis of all of the funds within the portfolio to see how they compare with like funds in a universe of all Cap equity. The Target Date Funds are made up of Black Rock Passive funds and performance is good. There was discussion related to the pros and cons of passive and active funds.

Ms. Burton announced that the Evaluation Committee would be meeting after the December retreat. A Wilshire audit must be included in the evaluation and Ms. Burton asked that Mr. DiGirolamo speak with David Lindberg of Wilshire regarding the audit.

Custom Stable Value Investment Objectives and Guidelines: Mr. DiGirolamo stated that Wilshire and Empower Retirement representatives (Mr. Bill Thornton and Mr. Jack Brown) have been in discussion regarding changes investment objectives to better match how most Stable Value funds are run today as opposed to how they were run when the objectives were drafted 15 years ago. Two specific changes that Mr. Thornton and Mr. Brown would like are:

- Change the minimum average credit quality from AA to A-.
- Change the duration range from 3-6 years to below 4 years.

Within Stable Value there are two risks to consider:

- Interest rate risks
- Credit risks

Within the current structure and the constraints in what can be invested in, there is a lot more interest rate risk within the portfolio. By lowering the quality rating and adding a couple of new investment choices, more of the interest rate risk can be shifted to the credit risk thus creating a balance.

Mr. Kling expressed concern related to derivatives. Mr. DiGirolamo stated that Mr. Thornton addressed this question by sharing that 99% of the time there would be no derivatives within the portfolio. Derivatives would be exclusively used when switching in and out of different credits to hedge the investment risk while making the buys and sells. In his discussions with Mr. DiGirolamo, Mr. Thornton stated that there are vehicles that can be used within the space to help hedge the risk. Derivatives would be effective when things are harder to buy and sell within the portfolio. During these times, a shift can be made by taking on more credit risk and taking the interest rate risk off of the table to be offset with credit. Mr. Kling stated that he is unaware of derivatives under four years. Ms. Sanders stated that it is a common practice to use derivatives for very short periods of time when moving funds in and out but she did not know the specific instrument that is used. Ms. Burton requested that, if derivatives are used, notification be made to the Commission after-the-fact. Mr. Riviere requested that verbiage be included to state when the notification be sent, i.e., 15 days after the derivative was used. It was determined that this issue would be addressed again at the December Commission retreat once wording has been amended to its final revision. Mr. Thornton will be in attendance at the December meeting. Mr. DiGirolamo stated that in the event that the Commission chooses not to change the objectives, the recommendation would be to change the benchmark. Currently, investments are of a higher quality than the Barclays Intermediate benchmark. There is a Barclay's Intermediate AA benchmark that would be more appropriate for the current investments. It is Wilshire and Great-West's recommendation that the benchmark remain the same but that changes be made to the objectives.

New Empower Retirement Experience Update

Ms. Stevens reported that the Plan went through a participant website conversion on September 27-29, 2017. This was a large project that has taken a year to complete. There are a few glitches that are being addressed related to the large number of payrolls (450) and getting them all on board. Prior to the conversion, 26 payrolls were not using the Plan Service Center to process contributions. That number has been reduced to 5 payrolls. Comments received from individual payrolls regarding the new website have been positive. Participant multi-factor authentication (an extra code to access the account) is causing some inconvenience based on phone calls received. This step has been added to enhance security and is quite common in the financial industry. An email message was sent to participants the week of October 21st regarding this change in website.

e-Delivery of Statements

Ms. Stevens reported that a committee was formed after the August, 2017 Commission Meeting whose purpose was to review communications regarding e-delivery of statements. Members of the committee were: Ms. Burton, Ms. Sanders and Mr. Riviere. The committee has met a couple of times resulting in a more robust communications plan. The 3Q17 newsletter included a front page article entitled, "Your Last Paper Statement Will be Delivered in January 2018". A 4Q17 statement narrative will address this topic, as well. The last paper statement to be mailed will be the 4Q17 to be sent in January, 2018. The 1Q18 statement will be sent electronically in April, 2018. Ms. Stevens reviewed the plans for future communication of e-delivery of statements including:

- A postcard will be mailed to 29,000 participants during the first week of April, 2018. NOTE: There are approximately 36,000 participants in the Plan and 7,000 have already chosen to receive electronic versions of statements.

- There are 24,000 email addresses on record. Prior to this point, it was not acceptable to use the email addresses that have been collected over the years to notify participants of the online statement availability. Ms. Burton voiced her displeasure of this practice to Empower Retirement resulting in a change so that all email addresses on file will be used to notify participants of online statement availability. This means that 24,000 participants (17,000 with email addresses on file plus the 7,000 participants who have already requested electronic delivery of statements) will be notified electronically once statements are available online on a quarterly basis.

- There are 12,000 participants without email addresses on file. These participants will receive a postcard in early April, 2018 in addition to two annual delivery notifications:

    - April Ballot Mailing (whether or not an election is required) to every participant (36,000).
    - The Fall - 2018.

  The postcard to be mailed in April, 2018 will include instructions on how to opt out of e-delivery of statements. April is the earliest date that participants may take action to request a paper statement.

There was discussion regarding sending an email now inviting participants to opt in to e-delivery of statements for the possibility reducing the number of postcards that would have to be sent. The approximate cost of sending a postcard to 29,000 participants is $10,000.00. Ms. Burton suggested further emphasis be made on downloading the Empower Retirement App for phones as an easier and more secure method of accessing accounts.

<u>Plan Document Amendment for Hurricane Harvey</u>
Mr. Cassagne reviewed an IRS announcement that stated that those affected by Hurricane Harvey may receive a distribution from the Plan as an unforeseeable emergency under what is referred to as an "emergency rule". To be able to take this action, the Commission must amend the Plan Document related to the language used in defining an "unforeseen emergency". The "emergency"-Unforeseen Financial Emergency language that was voted on by the Commission in 2016 to be able to respond to victims of the LA flooding, expired on January 17, 2017. Ms. Burton suggested that language be adopted to state that whenever the IRS provides additional allowances for hardship distributions, the Plan will follow it. Only participants and lineal ascendants and descendants in the named Texas counties are able to request "emergency" distributions under this particular IRS special allowance. Mr. Kling motioned that Mr. Cassagne's recommendation for a change in language due to IRS allowances for victims of Hurricane Harvey be adopted and to ask the Attorney General's office to modify the language so that the Commission doesn't have to amend the document every time the IRS makes a special allowance. Ms. Sanders seconded the motion. The Commission unanimously approved the motion.

<u>Gaynelle Faler Docket No. 661844 Sec 24 19th</u>
Mr. Cassagne reported that a concursus was filed with the 19th JDC and that the money has been deposited with the registry of the court. To date, Donna Faler has been served but Brenda Faler has not. If the sheriff isn't able to serve Brenda Faler, the Commission may have to hire a private processor to do so. A tax form was not issued as the concursus was processed with no tax withholding. The court will issue the tax documents once the money is distributed to the appropriate party.

<u>Administrator's Report</u>

Plan Update-September 30, 2017: Ms. Stevens presented the Plan Update as of September 30, 2017. Assets as of September 30, 2017: $1,644.42 Billion; Asset Change YTD: $133.68 Million; Contributions YTD: $72.14 Million; Distributions YTD: $75.42 Million. Net Investment Difference YTD: $136.96 Million. Letters have been received from three sheriff's offices that are leaving the Plan and going to AXA: Cameron, St Mary and Jackson.

UPA-September 2017: Ms. Stevens reviewed the UPA for the months of August and September, 2017. Cash balance on hand as of July 31, 2017: $2,641,870.03. Ending balance as of August 31, 2017: $2,212,087.30. Deductions included: NAGDCA registration and Great-West Financial. Additions included gains on contribution correction and interest for August, 2017. Cash balance on hand as of August 31, 2017: $2,212,087.30. Ending balance as of September 30, 2017: $2,196,365.89. Deductions included: The LA Legislative Auditor.

Additions included interest for September, 2017. LLA is conducting an RFP for an auditor for the Plan as the current contract was in its sixth year and expired with the final audit conducted earlier this year.

CSV Portfolio Securities Sold: The report was reviewed**.** If the use of derivatives were approved by the Commission, the acknowledgement of their use would be reported along with the securities sold report. Mr. Riviere stated that the derivative report be separate from the securities sold report and should include "none" if not used and listed when used. The acknowledgement should appear on the report for whatever period it exists.

Other Business

Fraud Reporting Requirements: Ms. Stevens presented the Great-West Financial state and/or federal fraud reporting obligations at the request of the Commission in August. Great-West is not required to report fraud to the FDIC as the company is not a bank. Depending on the type of fraud, the report would be submitted to FTC, FACTA, FinCEN (Dept of Treasury - Financial Crimes Enforcement Network) and/or the FBI. Great-West Financial fraud reports are not available to the Commission due to the sensitivity of the detailed information contained within the reports. Ms. Stevens stated that she will invite Great-West Financial attorneys to address the issue of fraud reporting to the December Commission retreat.

Mr. Enright introduced a program called, "Save your Raise" to the Commission which is designed to encourage public employees who receive somewhat regular raises over the years to dedicate a percentage of their future raises to the Plan so that their contributions increase over time as their salary increases. Ms. Stevens stated that it has long been her preference to encourage percentage contributions instead of dollar amounts for the very reason stated by Mr. Enright. Ms. Stevens also reported that there is a feature on the website that allows participants to schedule increases by percentage each year. Plan representatives have done a very good job in educating participants to increase on a regular basis—not to stay at the same deferral amount as when they started in the program. Mr. Enright asked that Ms. Stevens provide figures of the number of participants who contribute a percentage amount and the number of participants who contribute a dollar amount. Mr. Enright stated that this would be a good time to encourage participants to increase contributions as most public employees are receiving a civil service pay scale increase effective January, 2018. The new website includes a toggle switch that allows participant increases. Ms. Stevens stated that she would review a previously used flyer that may be used again to encourage participants who recently received raises to increase their contributions. Ms. Hubbard stated that a standard web bulletin could be added on the state website to encourage increases.

Adjournment

With there being no further items of business to come before the Commission, Chairman Bares declared the meeting adjourned at 11:39 a.m.

Virginia Burton, Secretary