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Louisiana Deferred Compensation Commission Meeting March 20, 2012

The Monthly Meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, March 20, 2012, in the offices of the Plan Administrator, 2237 South Acadian Thruway, Suite 702, Baton Rouge, Louisiana 70808.

Members Present

Emery Bares, Chairman, Designee of the Commissioner of Insurance
Virginia Burton, Secretary, Participant Member
Robert Henderson, Participant Member
Andrea Hubbard, Designee of the Commissioner of Administration
Doug Buras, Designee of Commissioner of Financial Institutions
Troy Searles, Participant Member

Members Absent

Whit Kling, Vice-Chairman, Designee of the State Treasurer
Len Riviere, Designee of Commissioner of Financial Institutions

Others Present

Al Cunningham, Senior Director Plan Advisory Services, Denver, GWRS, *By Conference Call*
David Lindberg, Consultant, Wilshire Associates, Inc.
Perry Christie, VP PNP Major Accounts, Denver GWRS
Lindsey Hunter, Louisiana Attorney General's Office
Connie Stevens, Director, Client Relations and Plan Consultants, Baton Rouge GWRS
Jo Ann Carrigan, Lead Office Coordinator, Baton Rouge GWRS

Call to Order

Chairman Bares called the meeting to order at 9:59 a.m.

Approval of Commission Meeting Minutes of February 14, 2012

The minutes of February 14, 2012 were reviewed. Ms. Burton motioned for acceptance of the minutes. Ms. Hubbard seconded the motion. The Commission unanimously approved the minutes.

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Acceptance of Hardship Committee Report of March 2, 2012

Ms. Burton motioned for acceptance of the Hardship Committee Report of March 2, 2012. Mr. Henderson seconded the motion. The Commission unanimously approved the report.

Custom Stable Value Update

Mr. Cunningham presented an overview of the State of Louisiana Stable Value Fund. The Stable Value Fund is a separate account held for the exclusive benefit of the State and its participants. The Fund receives all investment performance fees less 0.25% (.06% of which is credited back to the Plan). The Fund is audited each year by Deloitte & Touche. The objectives of the Fund are: To preserve principal and interest income (conservative), have enough liquidity for participant benefits/transfers and to provide interest rates that move in the direction of prevailing rates. The Fund is operated in partnership with the State regarding the Fund's investment policy, allocation of earnings and fund transfer policies.

The Great-West Stable Value Fund Management continues to grow and has been managing Custom Stable Value Funds since 1993. There are 37 custom Stable Value Funds each with their own investment policy. Cathie Tocher, CFA, Lead Portfolio Manager (since 1993) and Thone Gdovin, CFA, Portfolio Manager continue to manage the Plan with the assistance of 23 investment professionals/analysts depending on the specific investment policy of the Fund.

Lehman Brothers Bond: The portfolio owned a \$2.0 Million (par value) Lehman Brothers Bond (0.36% of the portfolio). Lehman Brothers filed for bankruptcy protection on September 15, 2008. The Bond was "written down" to 400K (20% of par value). The Bankruptcy Court approved a plan to pay Bondholders 21.1 cents on the dollar over a 3 year period. Updated news (from last week), the payout estimates are now expected to be closer to 29 cents on the dollar. The first payment should be in April of 2012. Other than this holding, the Portfolio is in good shape and providing a healthy return.

Summary: The Fund is being managed within policy, the investment quality is very high and historical returns have been above market rates.

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Mr. Lindberg noted that the Wilshire Associates, Inc. Management Research Group is conducting an intensive “Due Diligence” research process on the Stable Value product and strategy. Mr. Searles requested that future reports include Intermediate Bond Fund returns for comparison purposes.

Performance Report as of February 29, 2012

Mr. Lindberg reviewed “Flash Report” of year-to-year performance as of February 29, 2012. It has been a much better year-to-date period than 2011. In almost every case, funds that were performing ahead of benchmark last year are probably behind this year and vice versa. Active Management managers are very pleased that their strategies are working now.

Investment Review Process

Mr. Lindberg presented an overview of the Manager Research Process and Fund Review.

Four Wilshire recommendations were presented for Commission approval:

1. Recommend: Commission approve initiating a search to replace the American Funds Growth Fund of America Large Cap Growth Equity option. Reasons for recommendation include: The very large assets under management of the fund (\$129.9 Billion) has raised concerns that they will hinder the fund’s ability to add value over time; The recent performance of the fund has not met performance objectives over the trailing three and five year periods; Wilshire’s Manager Research opinion of the fund has deteriorated since the fund was introduced. Results of the search and replacement choices will be available to the Commission by April, 2012.
2. Recommend: Commission approve termination of the Legg Mason Value Trust option. Reasons for recommendation include: While the strategy has a suitable score and the departure of Bill Miller, PM, is viewed as a mild positive, performance has been significantly trailing the market and participants have voted “with their feet” by not allocating a significant portion of their assets to the fund. Ms. Stevens noted that Legg Mason has lost 1000 participants in over four years. The recommendation is to eliminate rather than replace this fund to streamline the core options to participants, leaving two options in each of the styles available in the Large Cap US Equity space. Options for mapping the assets, should participants not take action on their own are: Target Date Funds – recommended by Wilshire as it is the safest option from a fiduciary perspective. There is a

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- required 30-day minimum notice to participants for mapping after notification. From a timeline perspective, if the Commission makes a decision on this recommendation in April, a “Statement Narrative” could be included in participant second quarter statements to be delivered by July 20 so that the mapping could be completed in August.
3. Recommend: Commission approve switching from the retail share class of the Ariel Appreciation Fund (CAAPX) to the newly created institutional share class (CAAIX), launched at year-end 2011. This must be confirmed that it is available on the Great-West platform. Reasons for recommendation: The existing share class has an expense ratio of 1.15% versus 0.90% for the institutional share class, representing a 22% reduction in fees paid by participants invested in the fund. Adopting the new share class would reduce revenue sharing income to the CAF account by approximately \$110 thousand, based on February 29 market value of the Ariel option. If the Commission approves this recommendation, no 30-day notification to participant is necessary. The first quarter newsletter can be used to announce this change dependent upon its availability on the Great-West platform.
 4. Recommend: Commission approve adding the BlackRock LifePath 2055 Index Fund to the options available for participants. Reasons for recommendation: The 2055 Fund is the next available fund in the target date series available to participants and should be made available to participants; The 2055 Target Date Fund would become the default fund for new participants with birthdates after 1989. If the Commission approves this recommendation, no 30-day notification to participant is necessary. The first quarter newsletter can be used to announce this addition.

Mr. Searles made a motion that the Commission change the fund lineup of the Ariel Appreciation Fund from the retail share class to the newly created institutional share class with the participants being notified in the first quarter newsletter to take effect in May, 2012. Further, that the BlackRock LifePath 2055 Index Fund be added to the fund lineup once all necessary agreements are in place and as quickly as this can be done in the first half of 2012. Mr. Henderson seconded the motion. The Commission unanimously approved the motion. Ms. Hunter confirmed that these changes would have no effect on the RFP.

Ms. Stevens informed the Commission that a decision would be needed on the first two recommendations by mid-May to meet the June 30th “Statement Narrative” deadline.

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Mr. Lindberg presented the Manager Research Process used in preparing to bring recommendations to the Commission. Wilshire's focus is on researching the management teams that manage portfolios. The research is conducted by a group of people dedicated to manager research exclusively. Research is conducted on 1300-1400 products and an evaluation/score is assigned to each. The starting point in evaluating money managers is risk as it affects every part of the investment process. Evaluating the investment process consists of: Organization, Information, Forecasting, Portfolio Construction, Implementation and Manager Attribution. The qualitative scoring ranges from 1-5 in ranking with 2.5% considered average relative to peers within the asset class.

RFP Discussion: The Commission approved final RFP for recordkeeping services.

Administrator's Report

Plan Summary as of February 29, 2012 was presented by Ms. Stevens. Assets as of January 31, 2012: \$1.150 Billion. Asset change YTD: \$57.63 Million. Contributions YTD: \$17.27 Million. Distributions YTD: \$14.21 Million. The Plan continues to see a trend in increasing distributions due to the state's economic environment.

Commission Activity Fund (CAF)-February, 2012: The Great-West Retirement Services recordkeeping fee for the fourth quarter was \$610,000 which almost evenly compares with 4th Quarter fund revenue, Stable Value revenue, and participant recoveries at \$646,470. The further reduction with Ariel at \$110,000 per year (\$27,000/quarter) will bring these figures even closer and the additional step of entering a lower cost fund with American Funds Growth will have a similar effect. This is assisting the progress in the goal of reducing the CAF balance.

Marketing Report and Website Update: Meetings were held with Calcasieu Parish Sheriff (quarterly visit), Ascension Parish Sheriff (annual visit), RSEA, Registrar of Voters and the New Clerks Orientation.

Website Update: The project is moving along. The April 1st launch date may not be met but it won't be delayed too much more than that.

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Other Business

Financial Audit Update: The new auditor, Hienz and Macaluso LLC, has signed a “Letter of Engagement” and members of their staff spent two days at the Baton Rouge Great-West office. The audit is well underway and there should be no problem completing the audit by June 30, 2012. Hienz and Macaluso LLC sent letters to each member of the Commission to be completed and returned directly to the audit firm. Ms. Hunter would be emailing information that would assist the Commission members in completing their responses.

2012 Participant Election Update: Randall Dunn, CFO of Iberville Parish is on the ballot after expressing interest in running by petition and Ms. Burton is running for re-election. Ballots will be mailed to participants along with their 1st Quarter statements. A “Letter of Engagement” for the certification of ballots has been received from Duplantier, Hrapmann, Hogan & Maher, LLC. There is no change for the fee for services from last year.

Adjournment

With there being no further items of business to come before the Commission, Chairman Emery Bares declared the meeting adjourned at 12:20 p.m.

Virginia Burton, Secretary