MINUTES

Louisiana Deferred Compensation Commission Meeting

November 17, 2015

The Monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, November 17, 2015 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
Lela Folse, Designee of the State Treasurer
Andrea Hubbard, Designee of the Commissioner of Administration
Whit Kling, Vice-Chairman, Participant Member
Len Riviere, Designee of Commissioner of Financial Institutions
Laney Sanders, Participant Member

Others Present
David Lindberg, Consultant, Wilshire Associates
Steve DiGirolamo, Consultant, Wilshire Associates
Rick McGimsey, Louisiana Attorney General's Office
Danette Rausch, Sr. Director of Partner Strategy, Denver, CO, Empower Retirement
Bill Thornton, Sr. Mgr. Client Portfolio Svcs AAG – Denver, CO, Empower Retirement *– By Conference Call*
Connie Stevens, Client Relationship Director, Baton Rouge, Empower Retirement
Jo Ann Carrigan, Lead Office Coordinator, Baton Rouge, Empower Retirement

Call to Order
Chairman Bares called the meeting to order at 10:00 a.m.

Approval of Commission Meeting Minutes of October 20, 2015
The minutes of October 20, 2015 were reviewed. Ms. Burton motioned for acceptance of the minutes. Mr. Kling seconded the motion. The Commission unanimously approved the minutes.

Acceptance of Hardship Committee Reports of November 13, 2015
Mr. Kling motioned for acceptance of the Hardship Committee Reports of November 13, 2015. Ms. Hubbard seconded the motion. The Commission unanimously approved the reports.

Public Comments: There was no one from the public in attendance.

Administrator's Report

Plan Update as of October 31, 2015 was presented by Ms. Stevens. Assets as of October 31, 2015: $1,469.09 Billion. Asset change YTD: $31.36 Million; Contributions YTD: $85.97 Million. Distributions YTD: $82.04 Million. The Net Investment gain YTD was: $27.43 Million.

Asset Summary of August and September, 2015: Ms. Stevens ranked holdings in terms of assets as: 1. Custom Stable Value; 2. Target Dates; 3. Black Rock Russell 1000 and 4. T. Rowe Price Growth.

3Q15 Plan Review for the Period Ending October 1, 2014 to September 30, 2015: Assets at September 30, 2015: $1,413.26 Billion. Plan assets grew by $11.76 million (0.8%) from October 1, 2014 to September 30, 2015. Contributions were $101.97 Million from October 1, 2014 to September 30, 2015. From October 1, 2014 to September 30, 2015 there were 37,839 participants. There was slight asset growth of approximately $12 Million during the last twelve months. The average account balance was $37,808.88 which has grown substantially over the years but in comparison with other 457(b) Plans, this figure is less due in part to lower income of participants. Ms. Stevens pointed out that the number of participants and the average number of participants in the Self-Directed Brokerage Account was very low (less than 1%) which is common to other governmental plans. The average number of investment options per participants has risen from 3.7 (9/30/11) to 4.8 (9/30/15) which reflects more diversification. Most of the assets in the Life Path Funds are in the 2025, 2020 and 2015 Funds which represent participants who are closer to retirement. The current Fixed Fund Rate is 2.6%. Plan Contributions to date is $77,352,378 with an average contribution per participant of $3,687.84. Total Plan participants as of 9/30/2015: 37,839 which reflects a decline from previous months. The number of participants with loans is up slightly to 3,504 participants.

Advised Assets Group along with Ibbotson Associates has expanded on the Total Wealth (Human Capital + Financial Capital) methodology to address the changing risks of investors for the Advisory Service program. Previously, Ibbotson assigned a participant to one of seven optimized risk-based portfolios generally focused on the accumulation of assets. The enhancement introduces the Dynamic Model Portfolio (DMP) investment allocation methodology for portfolio construction. At the plan level, DMP begins with six different portfolios – three that are focused on accumulation and three on decumulation, each with different sub-asset class weightings. Then for each participant, an appropriate level of equity exposure is selected and a proper blend between the accumulation and decumulation portfolios is determined based upon how many years until retirement and how the participant responded to a risk tolerance questionnaire. This will take place at the time of participant quarterly rebalancing. Anyone in Managed Accounts now and going forward will be in the Dynamic Model Portfolio.

Upon request, Ms. Stevens will research the history of fund changes that have occurred throughout the life of the Plan.

Unallocated Plan Asset Account Report – October, 2015: Ms. Stevens reviewed the UPA Accounts for October, 2015. Cash balance on hand as of September 30, 2015: $2,602,323. Additions included participant recoveries, mutual fund fees and interest for the month of October. Distributions included NAGDCA Expense Reimbursement. Cash balance on hand as of October 31, 2015 was $3,053,250. There is one additional recordkeeping fee remaining in 2015 that will be processed on November 18, 2015.

3Q15 Case Reconciliation Report: Ms. Stevens reviewed the 3Q15 Case Reconciliation Report pointing out that the report reflects the changes made in administrative and mutual fund fees. Every quarter, participants are charged a minimum of $2.50 and 18 basis points up to the $50,000 mark. Effective 12/31/2014, total fees collected from participants per contract was $396,422 as opposed to fees collected as of 9/30/2015 of $351,682. The current fee structure has proven to be much easier to communicate to participants per Ms. Stevens. The fees received from mutual fund companies effective 12/31/2014 was $127,524. Mutual fund fees received as of 9/30/2015 was $95,054. The reduction in the amount received in mutual fund fees is the result of a change in share classes made as recommend by Wilshire. Total revenue between participants and mutual fund fees effective September 30, 2015 was $446,737.18 leaving $10,177.18 net in-quarter amount due to the Plan.

<u>Custom Stable Value Review</u>

Mr. Thornton reviewed the Economic Review and Portfolio Performance as of October 26, 2015. Mr. Thornton highlighted specific issues related to global economy: Ongoing uncertainty surrounding global growth potential and prolonged accommodative US monetary policy and responses to adverse growth schocks. China has cut rates, devalued the Yuan and is doing everything they can to spur growth, similar to Japan. The US economy has been okay but not great. It is anticipated that there will be a rate increase by US Central Banks in December barring any negative data that becomes available. Inflation continues to be very low (.2%). Energy over the past twelve months is down 17%. Gasoline is down 27%. The labor participation rate is 62.4% with an unemployment rate of 5.1% and an underemployment rate of 10.0%. Rates are expected to stay low with a potential for growth. The yield curve is expected to flatten.

3Q15 Stable Value Review: Mr. Thornton reported that there were no big changes in the Stable Value Fixed Income Fund. The returns continue to be very good (2.5-2.6%) as compared to money markets or other cash equivalent type of options.

3Q15 Exception Letter: The Investment Manager continues to recommend that the following securities be held: Lehman Brothers Unsecured Notes, Western Union Senior Notes and Becton Dickinson & Co. Senior Notes.

Securities Sold in CSV Portfolio: The France Telecom unsecured global notes was sold.

Options for Streamlining Investment Lineup

Mr. Lindberg reviewed the three paths that have been discussed throughout the course of the year related to streamlining fund options: 1.) Least Impact: Stay with the mutual fund structure that is currently in place but reduce US equity funds. 2.) Broad Asset Class of Funds: All US equity funds be wrapped into one actively managed fund in addition to one passive fund (Stable Value). 3.) White Label exclusively. Mr. Lindberg recommended that option two (Broad Asset Class of Funds) be the direction that should be taken based on efficiencies and underlying expense ratios. Mr. DiGirolamo presented a report from 2011 that indicated that larger plans are moving from mutual funds to co-mingled funds or separate accounts. The reasons noted for this trend included: 1) Fee savings and 2) Better performance (potential higher return expectations). According to a 2014 report by Vanguard, Plan Sponsors are now looking to provide a more streamlined lineup to enhance understanding and usage. Currently, the Plan is set up as follows: Tier One (one-stop shopping) format which includes ten Target Retirement Funds and Managed Accounts. Tier Two requires that participants select funds and build their own portfolios. Tier Three is the Self-Directed Brokerage Window. Mr. Lindberg reviewed details on the changes that would be made in relation to streamlining of fund options presented. Path number one would reduce the line up from 22 options to six funds plus the Stable Value fund and four passive funds. Path number two would reduce the line up from 22 options to four actively managed asset class funds plus the Stable Value Fund and three passive funds. Mr. Lindberg recommended Path number two as a good beginning to streamlining and to possibly selecting a White Label option in the future.

Ms. Rausch pointed out and that the number of investment options must meet the required number as defined by the Advised Asset Group and Ibbotson for Managed Account services. The minimum number must include: five basic asset class targets (Large Cap, Mid/Small Cap, International Stocks) including at least 2 bond funds, either both core or 1 core and 1 supporting. Path three (White Label) requires a selection of managers, moving away from mutual funds, a recommendation of structure by Wilshire, and unitization with the record-keeper. Path three is as efficient as possible but there is more effort required by the Commission.

If Path Two is selected, Wilshire would make recommendations of funds to be selected by the Commission members (as is the current practice). If chosen, the earliest the fund change could take effect would be May, 2016 to be announced in the first quarter. Mr. Lindberg will present a clarification of recommended fund names and the fee structures of the funds at the December meeting. Ms. Stevens noted that Advised Assets Group must review any recommendations. A review of the internal alliance list of mutual fund company agreements must also be completed. All necessary reviews must be completed by February, 2016 to be able to meet the May, 2016 effective date.

Marketing Report

Ms. Stevens reviewed the Marketing Report for the month of October, 2015. There were 210 new applications, averaging $2,264 per application and 113 increases/restarts averaging of $6,445 per application. The majority of activity in October came from the following agencies: LSU-Baton Rouge, Office of Citizens with Developmental Disorders, South LA Flood Protection Agency and Workforce Support and Training.

Other Business

Relocation of Deferred Compensaton Office

The Office of Louisiana Deferred Compensation will be relocating to 9100 Bluebonnet Centre Blvd., Suite 203, Baton Rouge, LA 70809 sometime in January, 2016. The move will be communicated to participants through statement narratives, web banner, and the newsletter. Postcards will be left with the building security to be given participants who arrive at the current location after the office has moved.

Adjournment

With there being no further items of business to come before the Commission, Chairman Emery Bares declared the meeting adjourned at 11:42 a.m.

____

Virginia Burton, Secretary