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Louisiana Deferred Compensation Commission Meeting

August 18, 2015

The Monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, August 18, 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
Whit Kling, Vice-Chairman, Participant Member
Len Riviere, Designee of Commissioner of Financial Institutions
Laney Sanders, Participant Member

Members Absent

Lela Folsie, Designee of the State Treasurer
Andrea Hubbard, Designee of the Commissioner of Administration

Others Present

Rick McGimsey, Louisiana Attorney General's Office
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 July 21, 2015

The minutes of July 21, 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 Report of August 14, 2015

Mr. Kling motioned for acceptance of the Hardship Committee Report of August 14, 2015. Ms. Burton seconded the motion. The Commission unanimously approved the report.

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

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Participant Member Swearing In

Laney Sanders was sworn in by Rick McGimsey as Participant Member on the Louisiana Deferred Compensation Commission. Ms. Sanders was elected for a two-year term beginning July, 2015.

Election of Commission Officers

The election of LA Deferred Compensation officers (Chairperson, Vice Chairperson and Secretary) was completed through paper ballots. Election results:

Mr. Bares, Chairman

Mr. Kling, Vice Chairman

Ms. Burton, Secretary

Evaluation Committee Report

Ms. Burton reviewed the history of the Bi-Annual Evaluation Report with the Commission. The report summarizes action taken over the past two years including the Plan audit, the Evaluation by Investment Consultant report (Wilshire) and Plan demographics. Once approved and signed by members of the Plan Evaluation Committee, the report and support documents will be posted to the LA Deferred Compensation website so that it is available to all members. Ms. Sanders motioned to accept the report as presented. Mr. Bares seconded the motion. The Commission unanimously approved the report.

Ms. Burton reported that the fiduciary training performed by Marilyn Collister at the December, 2014 LA Deferred Compensation Annual Meeting satisfied compliance requirements. Ms. Collister will present additional training at the December, 2015 Annual Meeting.

Administrator's Report

Plan Update as of July 31, 2015 was presented by Ms. Stevens. Assets as of July 31, 2015: \$1,479.32 Billion. Asset change YTD: \$41.59 Million, Contributions YTD: \$60.43 Million. Distributions YTD: \$58.30 Million. Ms. Stevens pointed out the good news that contributions are \$2.13 Million over distributions for the year. The Net Investment gain YTD was: \$39.46 Million.

2Q15 Plan Review for the Period Ending July 1, 2014 to June 30, 2015 was presented by Ms. Stevens. Assets as of June 30, 2015: \$1,464.86 Billion. Asset Change for the trailing twelve months: \$55.67 Million. Contributions surpassed distributions in the trailing twelve months by \$5 Million. Asset History: In 2004, there were \$603 Million

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in assets. In 2015, assets total \$1,464 Billion. There were 37,187 participants in 2014 and there are 36,403 participants in 2015. The average account balance continues to grow to a healthy level (\$40,240). These figures include DeMinimis distributions which are monitored/processed on a regular basis. There were no significant changes between asset classes during the period of July 1, 2014 and June 30, 2015. There are 9,286 participants in the Life Path Funds which is the default for the Plan in the event a participant enrolls without choosing an investment allocation, but it is rare that this occurs.

The Fixed Fund rate as of June 30, 2015 is 2.55%. Ms. Stevens was asked to contact Wilshire to provide an update on PIMCO's recent legal issues. Ms. Stevens is researching White Label Funds from an operational standpoint so that "operational minimums" are in place should White Label Funds become part of the Plan offerings. White Label Funds must trade on a platform which means they must be a collective trust or a mutual fund. If they are a private money manager, there must be a custodian that will report electronically. Wilshire's intent in suggesting a White Label Fund was to minimize processes involved in fund changes which can take as long as 5-6 months to process because of notification and statement deadlines. Ms. Stevens has contacted Empower Retirement Legal Department to review the process related to notification requirements. Ms. Stevens will also be in dialog with Wilshire to confirm findings/procedures.

Contribution history over the past few years has stabilized at \$100 Million. Approximately 39% of every dollar goes to the Stable Value fund and about 15% of every dollar is invested in the Life Path Funds. There are approximately 3,000 less participants over the past five years. There were 997 participants with loans in June of 2014 as compared to 916 in June of 2015. The number of loans has leveled out as a result of requiring all loan remittance payments be processed through payroll deduction. There were 52 loan offsets processed in 2015 as a result of participants leaving employment with outstanding loan balances. Key Talk statistics reflect a reduction in total number of phone calls by approximately 4,000. Participants appear to be using the website for more resources instead of calling Key Talk.

Reality Investing reflects a number of new participants taking advantage of the Managed Account feature. The most frequent user of the "Advice" feature is the participant in the 60-64 age range. Empower Retirement has surpassed two million governmental markets participants in April of this year. The total number of participants in all of the plans is seven million (as a result the merger with JP Morgan and Putnam).

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Unallocated Plan Account Review – July, 2015: Ms. Stevens reviewed the UPA Account for July, 2015. Cash balance on hand as of June 30, 2015 was \$2.616 Million. Additions for the month of July included participant recoveries, mutual fund fees and interest. Deductions included election expenses, Duplantier, Hrapmann Hogan & Maher LLP for ballot counting, The Dept of Justice and the LA Legislative Auditor for payment of Heinz & Macaluso fees. The balance as of July 31, 2015 was \$3.043 Million.

Case Reconciliation for 2Q15: Ms. Stevens reminded Commission members that Wilshire revised participant recoveries to 18 basis points per person at a minimum of \$2.50 per quarter per participant. At the same time, Wilshire reduced revenue sharing through fund changes. Over the last four quarters the total fees collected from participants per contract went from \$390,000 to \$350,000 per quarter. Total revenues received by the Plan went from \$523,000 (year-end 2014) to \$449,000 (June 30, 2015). The amount going into UPA dropped from \$95,000 (year-end 2014) to \$19,000 (June 30, 2015). Progress is being made in keeping the UPA from continually growing.

Custom Stable Value

Economic and Capital Markets Review: Mr. Thornton presented the Economic and Capital Markets Review for 2Q2015. Per Mr. Thornton, the Consumer Price Index continues to be low. There was a slight inflation on the wage-side but it is not flowing to the consumer in the form of increased prices. Employment continues to steadily improve. Mr. Thornton pointed out that the building blocks of the economy remain positive: GDP is expansive, inflation remains tame, employment continues to improve and housing starts and home value continues to increase. Rates have come down slightly. Strategy: Rates should gradually increase based on domestic economic data. Fed policy decisions are very dependent on actual and projected growth trajectory with an expectation of a rate hike to 25 basis points in September or December. No major changes in strategy are expected.

2Q2015 Quarterly Report: Mr. Thornton reviewed the Stable Value Fixed Income Fund Quarterly Report for the second quarter of 2015. There were no significant changes as far as sector allocations. Treasury securities in the first and second quarters came down with most of it going to Non-Agency CMBS. This is the second consecutive quarter that the credit rating has increased. Performance remains solid. There were no changes to the Exception Letter. Western Union, France Telecom Senior Notes, Becton Dickinson & Co Senior Notes and Lehman Brothers continue to be monitored by the portfolio manager they continue to recommend that these positions continue to be held.

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Marketing Report

Ms. Stevens reviewed the Marketing Report for the month of July, 2015. There were 465 new applications, averaging \$3,057 per application and 144 increases/restarts, averaging of \$5,983 per application. The majority of activity in July came from the following agencies due in part to annual house officers (residents) meetings at LSU HSC-New Orleans and LSU HSC-Shreveport. Other major activity took place at LSU-Baton Rouge, St Charles Parish Council on Aging and Inspire NOLA Charter Schools.

Other Business

Commission Record Retention Update: Ms. Stevens reported that record retention of Commission documents is ongoing based on the guidelines found in the record retention document.

December, 2015 Annual Meeting: Ms. Stevens announced that the previous location of the annual meeting (Ione Burden Center) is not available on December 15th. An alternate location is being researched. Representatives from American Funds have requested an opportunity to speak at the Annual Meeting as they have done in the past which was approved.

NAGDCA-2015: The NAGDCA Conference is scheduled for September 27-30, 2015 and will be held in Indianapolis, IN. There will be no Commission meeting during the month of September.

White Label Funds: Ms. Stevens advised the Commission that the topic of White Label Funds will be discussed during the October, 2015 meeting.

Update re letter sent to agencies not in compliance with electronic processing of deferrals: Ms. Stevens reported that 24 letters were mailed to non-compliant agencies and there have been three responses received to date.

Public Record Request: The Empower Retirement Legal Department is reviewing a request for Stable Value reports received from a law firm from Washington DC that is involved in a class-action lawsuit on another matter. The same request was sent to the Louisiana and Colorado offices of Empower Retirement.

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Blogger: A blog has been posted to the Internet by a member of the public who attended a public meeting about a Great-West Fund that is performing poorly and with higher costs. Participant Mitchell Garlington emailed Ms. Stevens asking how the Commission can allow Great-West/Empower to manage all of the money. Ms. Stevens responded to Mr. Garlington advising that the Plan has an investment consultant that recommends the investments to the Commission and has progressively over the period of five years reduced the cost of the operating expenses on the Plan. There has been no response from Mr. Garlington to Ms. Stevens' email.

Adjournment

With there being no further items of business to come before the Commission, Chairman Emery Bares declared the meeting adjourned at 11:09 a.m.

Virginia Burton, Secretary