MINUTES

Louisiana Deferred Compensation Commission Meeting

February 27, 2018

The monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, February 27, 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
Stephen DiGirolamo, Vice President, Wilshire Consulting
David Lindberg, Managing Director, Wilshire Consulting
William Thornton, Senior Manager, Client Portfolio Services, AAG *via Conference Call*
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 9:58 a.m.
Roll call was taken by Jo Ann Carrigan.

Approval of Commission Meeting Minutes of January 23, 2018
The minutes of January 23, 2018 were reviewed. Ms. Burton motioned for the acceptance of the January 23, 2018 minutes. Ms. Sanders seconded the motion. The Commission unanimously approved the minutes.

Acceptance of the Hardship Committee Report of January 31, 2018
The Hardship Committee Report of January 31, 2018 was reviewed. Mr. Kling motioned for acceptance of the Hardship Committee Report of January 31, 2018. Mr. Enright seconded the motion. The Commission unanimously approved the report.

Public Comments: There were no public comments.

Wilshire Associates

Mr. Lindberg reviewed Capital Markets noting:

- 2017 was a strong year for equities. US Equities Asset Class Returns in 2017: 21%
- US Equity has now produced 9 straight years of positive returns since 2008.
- Year to Date 2018, volatility has returned.
- As of December 31, 2017, large cap has outperformed small cap; and for the last few years, growth stocks, in general, have out-performed value stocks.
- Non US Equity Markets: Strong returns. China represents 30% of the emerging market index.
- Fixed Income: The yield curve is "flattening" and may be the result of the demand for long-dated bonds by corporate pension plans.
- The Federal Reserve is backing off of quantitative easing in an effort to reduce the balance sheet.

Mr. DiGirolamo reviewed 4Q17 investment performance noting that there were very good returns in 2017.

CSV Investment Policy Statement: Mr. Thornton reviewed the Investment Policy Statement (IPS) as it related to the use of derivative guidelines. The derivative language is being added to all Custom Stable Value IPS as a level of insurance. Derivatives have not been used in portfolios in the past and the intent is not to use them as a way to increase yield, but strictly as a defensive measure. Interest rates are beginning to creep up and derivatives would be used solely to protect the market-to-book ratio of the portfolio. "Swaptions" are used by large companies looking to protect fixed income portfolios. Mr. Thornton, Mr. Lindberg and Mr. DiGirolamo have discussed derivatives and have determined that the hedging policy is not mandatory if market-to-book goes below 97% but that they *may* be used. The LADCP is around 99% at this time. Mr. Kling noted that in previous discussions, there was mention of a "short-term period" for the swap but asked for clarification as to why the verbiage in the IPS states the "times to expiry of 1-6 years in quarterly increments". Mr. Kling stated that this appears to take away some flexibility and asked if the verbiage should instead be stated as "up to 6 years". Mr. Kling also suggested that the indexes to be used be named in the policy statement. Mr. Enright stated that the statement "…Interest rate swaptions with times to expiry of 1-6 years in quarterly increments, a 5-year tenor" seems to contradict itself. Mr. Lindberg also suggested that the text of the policy be changed to reflect "…the Investment Manager MAY begin to employ hedges" instead of "…the Investment Manager WILL begin to employ hedges". Mr. Thornton offered to review these recommendations with the investment group and report back. Ms. Burton stated that in previous discussions, it was determined that the Commission would be notified on a quarterly basis whether or not a derivative had been used. Mr. Thornton stated that this statement would be added to the IPS. Costs will vary based on the interest rate environment and Mr. Thornton indicated he would perform research on what the expected costs would be.

The "Securities Lending" section of the Investment Policy Statement was in the original statement. The Plan does not offer securities lending on the Stable Value Funds and Mr. Thornton recommended that this portion of the statement be removed.

The changes to be made to the Investment Policy Statement will be made and reviewed by Wilshire.

Custom Stable Value Review
Mr. Thornton reviewed the Interest Rate section of the Economic Review. With interest rates increasing over the past few months, the market-to-book will come down but ultimately the higher rates will benefit the portfolio in terms of the credit rate. This will take time to occur. The bonds being purchased now are at higher rates representing 8% of the portfolio each quarter. It will take a few quarters for these purchases to benefit the credited rate.

Quarterly Review: The credited rate for 1Q18 is 2.35 (no change from 4Q17). The average duration, fund allocation and expense ratio stayed the same for the 4Q17. Performance has been good and there are no big changes in allocation or outlook on the investment side.

Exception Letter 4Q17: The Lehman Brothers Bond is the only security in the portfolio that is below the IPS in quality rating.

CSV Securities Sold Dec 2017/Jan 2018: The Commission reviewed the list of securities sold in December, 2017 and January, 2018.

Evaluation Committee
Ms. Burton recommended that a short session be held with Wilshire Associates after the Commission Meeting to review and discuss Wilshire's evaluation of Empower Retirement.

Evaluation Results of Empower Retirement: Mr. DiGirolamo stated that the last evaluation of Empower Retirement was conducted in 2015. Wilshire sent an RFI to Ms. Stevens on January 10, 2018. The completed, 80-page RFI was returned to Wilshire on February 5, 2018. Overall, Wilshire has no concerns with Empower Retirement noting the following:

- There have been no major changes in the organization since 2015.
- Growth in market-share:
  - Empower Retirement is the second largest record-keeper in the country.
  - Empower Retirement is the largest record-keeper of government markets in the country.
    - Plan Sponsors (nationwide): 37,000
    - Plan Participants: 8.2 million
    - Plan Assets: $525 billion

- Empower Retirement has done a good job in keeping up with technology as it relates to the website and participant education.
    - Leads out in using new resources and new technology.

In summary, Wilshire recommends retaining Empower Retirement as no major issues were found in the evaluation. A review will be made every-other year.

Ms. Stevens concurred that Empower Retirement is committed to investing in the latest technology as evidenced by the conversion to the new website in 4Q17. The new website offers more tools for participants. Further, Ms. Stevens stated that the change in the service model with Retirement Plan Advisors using their Series 65 knowledge has presented participants with a more meaningful experience when reviewing their retirement account(s).

Evaluation Results of Wilshire Associates: Mr. Lindberg stated that an evaluation was conducted of Wilshire Associates and noted the following:

- There have been no changes to the structure of Wilshire Associates for the past 45 years.
    - Dennis A. Tito, Chief Executive Officer, started the firm in 1972 and remains in that position.
    - Mr. Lindberg has been with Wilshire for 16 years.
    - Mr. DiGirolamo has been with Wilshire for 6 years.
- Wilshire is a privately held Subchapter S corporation that is 100% owned by its active key employees.
- Wilshire Associates has 270 employees with head quarters in Santa Monica, CA.
    - The second largest office is in Pittsburgh, PA with a staff of 50 employees.
- There are four divisions overall:
    - Wilshire Consulting
    - Wilshire Private Markets
    - Wilshire Funds Management
    - Wilshire Analytics
- Wilshire serves 120 clients which is consistent with the number of clients over the past 16 years.
- Compliance policies are strictly adhered to.

In conclusion, Mr. Lindberg stated that Wilshire is happy to be working with the State of Louisiana.

<u>Administrator's Report</u>

Plan Update as of January 31, 2018: Ms. Stevens presented the Plan Update as of January 31, 2018. Assets as of January 31, 2018: $1,722.55 Billion; Asset Change YTD: $40.36 Million;

Contributions YTD: $7.34 Million; Distributions YTD: $11.25 Million. Net Investment Difference YTD: $44.27 Million. Ms. Stevens stated that January is often a month that has an increase in the number of distributions as it is a new year and retirees are interested in withdrawing funds. Ms. Stevens announced that the West Baton Rouge Sheriff's Department is leaving the Plan effective March 1, 2018. Ms. Stevens stated that the reasons given for leaving the Plan was the availability of more investment choices with the new provider and more decision-making control by the sheriff of each agency. Ms. Stevens noted that it would be a good use of time to review the advantages of the LADCP with sheriffs who have not left the Plan. Mr. Enright stated that he received a phone call from a lobbyist inquiring about statutes requiring Clerks of Court participation in the Plan. Mr. Enright anticipates this subject will be brought up during the upcoming LA Legislative session.

Ms. Stevens presented the Marketing Activity Report for 2017 to the Commission noting the following:

- There were 2,577 new participants enrolled into the Plan in 2017.
- Group Meetings held in 2017: 1,100
- Individual Meetings held in 2017: 2,300

Plan Review - 4Q17: Ms. Stevens presented the Plan Review as of December 31, 2018. Assets: $1,680.07 Billion. Total number of participants: 38,285. Average Account Balance: $43,883.35. Ms. Stevens noted that distributions surpassed contributions last year and is doing what is expected from a mature Plan designed to provide retirement income for participants. Flood Hardship and Contract Termination distributions were a factor in the number of withdrawals in 2017. Increases in deferral amounts are reflective of the meetings being held with participants and Retirement Plan Advisors. Ms. Hubbard reported that there are a couple of bills in the legislature designed to create hybrid plans that would include a deferred compensation component effective July, 2020. In the event the legislation changes to include hybrid plans, this may affect how the LADCP is marketed.

UPA-January 2018: Ms. Stevens reviewed the UPA for the month January, 2018. Balance as of January 31, 2018: $2,489,221.94. Ms. Stevens reviewed a UPA Balance History chart for the period of 2008-2017 which reflected a steady decline in revenue. By eliminating revenue sharing, fees to participants have been lowered.

4Q17 Case Reconciliation: Ms. Stevens noted that the Net In-quarter Amount due to Plan has a deficit of $70,548.42. Mr. Lindberg stated that the projected $300,000 cash-flow shortfall would reduce the UPA balance within seven years. Wilshire has done cash-flow analysis and will continue to do so.

Other Business

Recordkeeping Contract Amendment: With the transition to e-delivery of statements, Ms. Stevens reminded the Commission that a contract amendment was necessary to reduce the record-keeping fee per participant from $48 to $47. Ms. Stevens reviewed the amendment with the Commission noting that it will take effect April 1, 2018. Ms. Hubbard pointed out two corrections that must be made to the amendment. The corrected amendment will be presented to the Commission at the March, 2018 meeting. Mr. DiGirolamo noted that the per-participant fee reduction amount has already been figured into the projected cash-flow shortfall noted earlier in the meeting.

Participant Member Election Update: Ms. Stevens reported that no petitions were received by fax, mail, email or otherwise. Ms. Burton will serve another term on the Commission.

Plan Financial Audit Update: Ms. Stevens advised the Commission that the Legislative Auditor went through an RFI process and selected J. Aaron Cooper, CPA, LLC out of Jennings, LA as the Plan Auditor. There were 3-4 respondents to the RFI and on the basis of all of the firms being of equal competency, the decision was based on cost.

Adjournment

At 12:02 p.m., Ms. Burton asked Empower Retirement personnel to leave the meeting so that the Commission could review/discuss Wilshire's evaluation of Empower Retirement.

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Virginia Burton, Secretary