

MINUTES
Louisiana Deferred Compensation Commission Meeting
February 9, 2021

The monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, February 9, 2021 via video conference at 10:00 a.m.

Members Present *via video conference*

Whit Kling, Chairman, Participant Member
Stewart Guerin, Designee of the Commissioner of Insurance
Andrea Hubbard, Co-Designee of the Commissioner of Administration
James Mack, Designee of the LA State Treasurer
Scott Jolly, Co-Designee of Commissioner of Financial Institution
Laney Sanders, Secretary, Participant Member

Members Not Present

Virginia Burton, Vice Chairman, Participant Member
Representative Lance Harris, Designee of the Speaker of the LA House of Representatives
Senator Ed Price, Designee of the President of the Louisiana State Senate

Others Present *via video conference*

Stephen DiGirolamo, CFA – Managing Director, Wilshire Associates
Martell McDuffy, Wilshire Associates
Marybeth Daubenspeck, Vice President, Government Markets, Empower Retirement, Denver
William Thornton, Senior Manager, Client Portfolio Services, AAG, Denver
Jennifer Bailey, Lead Strategist Participant Mktg Comm Government – Denver
Michela Palmer, Sr. Communication Strategies Comm Government – Denver
Craig Cassagne, State of Louisiana Attorney General’s Office, Baton Rouge
Shannon Dyse, Relationship Manger, Empower Retirement, Baton Rouge
Rich Massingill, Manager, Participant Engagement, Empower Retirement, Baton Rouge
Jo Ann Carrigan, Sr. Field Administrative Support, Empower Retirement, Baton Rouge

Call to Order

Mr. Kling called the meeting to order at 10:00 a.m. Ms. Carrigan called roll of Commission members who were attending the video conference.

Public Comments

Mr. Kling stated that the meeting is accessible to the public and invited anyone who had joined the video conference to participate in the call. There were no public comments.

Approval of Commission Meeting Minutes of January 12, 2021

The minutes of the January 12, 2021 Commission Meeting were reviewed. Mr. Guerin motioned for acceptance of the January 12, 2021 minutes. Ms. Sanders seconded the motion. The Commission unanimously approved the minutes of January 12, 2021.

Mr. Kling asked that the agenda be changed to move the 4Q20 Wilshire Investment Performance report and the LA CSVF/Economic Review ahead of the other agenda items.

Wilshire-Investment Performance 4Q20

Mr. DiGirolamo presented the 2020 investment performance report. The year finished with most asset classes positive reflecting recovery in terms of the markets with economic data moving back in the right direction. Real GDP in the US recovered up approximately 30% in the third quarter. The 4th quarter returned to a somewhat “normal” world at 4%. Figures are still not where they were at the beginning 2020 but economic data is moving in a positive direction. Consumer sentiment dropped in February of 2020 but has returned to the ten-year average of 80. Industrial production reflects the same movement to normalization. Inflation is re-entering the system at 2% and will continue to inch up over the foreseeable future. Unemployment has returned to a 6-7% unemployment rate which is up from 2% from early 2020. Stimulus packages and vaccine availability are factors in the recovery. In the first quarter of 2020, US Equities were down 21%. US Equities finished the year up 21%. In the fourth quarter of 2020, US Equities were up 14.5%. Dynamics within US Equity changed throughout the quarter such as Small Cap (31%) outperforming Large Cap (13%). However, Large Cap stocks outperformed Small Cap stocks for the year. Another dynamic that has changed is the value versus growth dynamic. Value slightly outperformed growth for the quarter and this continues to be the trend in the first quarter of 2021. Year-to-date performance of information technology and consumer discretion continue to drive numbers in the marketplace. Energy had a nice recovery of energy prices for the quarter but has a long way to go in terms of year-to-date numbers. Energy and oil prices affect many of the other individual sectors. There was a nice return in the Non-US Equity Markets but not quite as strong as in the US Markets. Emerging markets out-performed developed markets for the quarter and year-to-date with China leading the way. The dollar depreciated against most other currencies which helped international equities perform well in terms of US dollars. Japan had a strong quarter with the highest GDP in the third quarter that has ever been seen. Most of Europe recovered well for the quarter. The UK trailed with issues related to Brexit and big banks that have not kept up. Emerging markets reflect China being 40% of the index with an upward trend for the quarter and year-to-date. South Korea reflects 13.5% of the sector, with semi-conductor companies driving performance. Fixed Income interest rates are close to zero and will be for the foreseeable future. The yield curve reflects low historical rates across the curve. There was a steepening in the yield curve at the end of the year. Treasuries were the worst-performing individual sector. The aggregate index for the year was up 7.5%. Real Assets had a challenging start of the year with drops in commodity prices, energy (oil and gas prices), and precious metals. There has been some recovery in commodities, precious metals, and real estate. Just about every asset class in 2021, year-to-date, is positive.

Within the Plan, there was nice growth ending with \$2 Billion in 2020 with most coming from market growth for the quarter. There were very few changes in how participants are investing their funds. Equities have out-performed bonds and Stable Value for the year. The MFS Core Equity Fund had strong absolute performance for the quarter but lagged the benchmark. The fund is heavy in Large Cap funds. Tesla was added to the benchmark but MFS does not have exposure to Tesla at this time. MFS also did not have any exposure to Disney and some health care companies. There is nothing concerning but it just didn't keep up with the benchmark for the year. The Euro-Pacific Growth Fund had strong absolute performance--up about 20% for the quarter

and 25% for the year. The Prudential Total Return Bond had positive returns that added value--up 170 basis points for the quarter and 60 basis points for the year. This team has done well in terms of security selection and spread sectors. The only negative in terms of absolute performance is the Vanguard Intermediate Term Treasury with a negative 21 basis points for the quarter. This is the only fund that lost money in terms of absolute value. Real assets had an increase of 8% performance for the quarter which outperformed the custom benchmark. The Stable Value Fund was up 2.6% for the year. The credit rate is now at 2.6%. The Book Value is still in the 105 range with little change. Not much has changed and the credit rating is expected to continue to drop. The Life Path Funds are all positive for all time periods adding value versus benchmarks. There are no major changes in terms of the glidepath. It was a challenging year for active managers but skilled active managers were able to show those skills during this reporting period across all asset classes. 2021 will be another year that will require skilled managers. Wilshire is very comfortable with the offerings within the portfolio at this time.

LA CSVF 4Q20 and Economic Review

Mr. Thornton reported that the economy is settling into a more normalized, moderate economy. There is a small increase in inflation which helps push rates up. Increase in rates is good news for the Stable Value Fund. Spreads have tightened especially on the high yield side. The Federal Government has made it clear that they are not looking to raise rates for the next couple of years. International investors continue to invest in the US which offers the safest economy and the best rates. This trend will continue and will help to keep rates down for an extended period of time. If inflation ramps up, this will be the one thing that will help to raise rates. There were no big changes for the quarter. Durations stayed close to 3-3.1 years. The market-to-book value increased slightly which is propping up the rate. From a performance standpoint, the Stable Value Fund continues to do well. Participants are much better served in the Stable Value Fund than anything on the money-market side.

Credit Letter

The Lehman Brothers Bond continues to be the only downgraded security within the portfolio. Distributions from this bond are sporadic with the last one coming a couple of quarters ago. There continues to be no need to have any derivatives within the portfolio.

Tarcza Opinion Letter

Mr. Kling reported that Mr. Tarcza has been ill which accounted for the delay in responding to the Commission's inquiries related to the ability for plan sponsors to leave the Plan and the transference of funds. Mr. Tarcza emphatically reported that plan sponsors are allowed to leave the Plan but must provide notification to the Plan of their intent to leave and the date in which they would be leaving. This notification must be in the form of a resolution of the governing authority of the plan sponsor. Once notification is received, the Plan's ability to receive and invest any future contribution terminates. No contributions may be received after that point in time. Prior contributions, investment earnings and anything that occurred prior to that date for the participant belongs to the participant, not the plan sponsor. As such, the movement of any prior contributions, investment gains, etc., cannot be moved simply on request of the plan sponsor. Funds can only be moved by the participant which will require positive affirmation that they want to move their money, where they want to move it and the date that they want to move. Mr. Tarcza will send a written confirmation of the information relayed by Mr. Kling. The Commission most probably

erred in previous determinations of allowing the plan sponsor to dictate the transfer of funds for the participants which cannot be undone. Going forward, the Commission will follow the guidance provided by Mr. Tarza.

Louisiana District Attorneys Association

Mr. Kling reported that approximately two weeks ago, the Plan was contacted by a former legislator regarding transferring of funds from a particular district attorney out of the Plan and into their new plan. The District Attorney's Association is a little different from anyone else as the DA is the governing authority and the plan sponsor. As such, the DA has the ability to:

1. Offer their own individual plan (which some of the DA's do have);
2. Participate in the LA Deferred Compensation Plan (some do);
3. Under Statute 421309 the ability for the District Attorney's Association to sponsor a 457 Plan (some already do).

To date, one District Attorney's office that is currently participating in the Plan, has verbally requested to leave the LA Deferred Comp Plan. As of yesterday, submission has been received from one other district attorney requesting to leave the LA Deferred Comp Plan and move the proceeds to the District Attorneys' Association 457 Plan. Mr. Kling's intent is to notify the district attorney that the letter will serve as his notification to leave the Plan. No contributions will be received past March 1st. Specific participant authorization will be needed to move any funds. Mr. Dyse confirmed that he also has spoken with the District Attorneys' Association representative. Empower Retirement does not have a template that can be given to the Commission for use. Mr. Dyse shared that the State of Mississippi 457 Plan experienced a similar situation in the past and decided to amend their Plan Document to add a provision that covers what it means to terminate a division's participation and the need for each individual's affirmative election to move to the new Plan. The referenced document is one page in length and will be sent to Commission members for review. Mr. Dyse recommended that the document be given to Mr. Tarza for review/revision as it relates to the State of Louisiana. Mr. Kling asked Mr. Cassagne to review the MS form that is being used but stated that it should be fairly simple and should include: name, Social Security Number, the date to move the funds and to what Plan. Mr. Kling stated that the Plan Document will have to be amended which is a significant process and assumed that the easiest way to do this is by "emergency rule". The emergency rule requirement should not preclude the Commission from moving forward on following the guidance provided by the Commission's tax counsel. Mr. Cassagne stated that "emergency rule" will be the quickest way to amend the Plan Document with a permanent change to follow. The Commission may go forward on the basis of Mr. Tarza's instruction. An emergency rule is required to quickly amend the document. Funds will not be moved until participant affirmation is received.

Administrator's Report

Plan Update as of January 31, 2021: Mr. Dyse reviewed the Plan Update as of January 31, 2021. Assets as of January 31, 2021: \$2,070.89 Billion; Asset Change YTD: -\$10.83 Million; Contributions YTD: \$8.69 Million; Distributions YTD: \$11.43 Million. Net Investment Difference YTD: -\$8.09 Million.

UPA – January 2021: Mr. Dyse reviewed the UPA report for the month of January, 2021. Additions included gains on contribution corrections, participant recoveries 4Q20 and interest for

the month of January. Deductions included the State of LA Dept of Justice and Wilshire Associates. The closing balance as of January 31, 2021 was \$1,616.948.45.

UEW Report – January, 2021: Mr. Dyse presented the UEW Report for the month of January, 2021. One request was submitted and that request was denied.

Securities Sold-December, 2020

Mr. Dyse reviewed the securities sold during the month of December, 2020.

Quarterly Fee Reconciliation

Mr. Dyse reported that there were no items on the report that were out of the ordinary.

Commission Election Update

Participants wishing to submit a petition to run for the participant member seat beginning in July, 2021 have until Friday, February 12th to do so. To date, one petition has been received. A WebEx meeting will be held on Monday, February 15, 2021 at 10:00 a.m. to determine the order that the candidates' names will appear on the ballot. Commission members are not required to attend the meeting. Mr. Kling will draw names from a hat to determine the order of names.

Other Business

Loan Default Request: Mr. Kling reported the results of the poll of Commission members regarding the participant who requested that his loan default be removed from his file. It was the consensus of the Commission members that the participant be awarded the loan default exception, as requested. Mr. Kling instructed Empower to remove the loan default from the participant's file.

CARES and Secure Act Provisions: Mr. Kling stated that provisions of the acts extend past December 31, 2020. Mr. Kling asked Mr. Cassagne if the emergency rule related to these provisions needed to be reinstated since the original emergency rule will be expiring soon. Mr. Cassagne stated that another emergency rule can be adopted to continue whatever provisions were in the previous rule. Ms. Sanders motioned to reinstate the previous existing rule. Ms. Hubbard seconded the motion. The motion unanimously passed and Mr. Cassagne was instructed to reinstate the emergency rule that expired earlier in the year.

Adjournment

With there being no further items of business to come before the Commission, Chairman Kling declared the meeting adjourned at 11:08 a.m.

Laney Sanders, Secretary