

MINUTES
Louisiana Deferred Compensation Commission Meeting
May 17, 2022

The monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, May 17, 2022 at 9100 Bluebonnet Centre Blvd, #203, Baton Rouge, LA, 70809 at 10:00 a.m.

Members Present

Whit Kling, Chairman, Participant Member
Virginia Burton, Vice Chairman, Participant Member
Doug Buras, Co-Designee of Commissioner of Financial Institution
Stewart Guerin, Designee of the Commissioner of Insurance *via video conference*
Andrea Hubbard, Co-Designee of the Commissioner of Administration
Julius Roberson, Designee of the LA State Treasurer
Laney Sanders, Secretary, Participant Member

Members Not Present

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

Stephen DiGirolamo, CFA – Managing Director, Wilshire Associates
William Thornton, Senior Manager, Client Portfolio Services, AAG, Denver-*via video conference*
Craig Cassagne, State of Louisiana Attorney General’s Office, Baton Rouge
Brett Robinson, State of Louisiana Attorney General’s Office, Baton Rouge
Michela Palmer, Communications Strategist Participant Mktg Comm Gov, Denver-*via video conference*
Shannon Dyse, Relationship Manager, Empower, Baton Rouge
Rich Massingill, Manager, Participant Engagement, Empower, Baton Rouge
Jo Ann Carrigan, Sr. Field Administrative Support, Empower, Baton Rouge

Call to Order

Mr. Kling called the meeting to order at 10:02 a.m. Ms. Carrigan called roll of Commission members.

Public Comments

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

Approval of Commission Meeting Minutes of April 19, 2022

The minutes of the April 19, 2022 Commission Meeting were reviewed. Mr. Buras noted a correction required to the minutes on page 2 of 4 under “Securities Sold-February and March”. Mr. Buras asked that the word “my” be changed to “might” or “may” in the final sentence of the paragraph. Ms. Burton motioned for acceptance of the April 19, 2022 minutes as amended. Mr. Roberson seconded the motion. The Commission unanimously approved the motion.

Wilshire Quarterly Investment Performance

Mr. DiGirolamo presented an overview of the first quarter investment performance in addition to current performance noting that volatility in the marketplace continues. Markets, across-the-board, have been down. Volatility in the market was expected to be a factor in 2022 and will probably continue for the next couple of years. Volatility can be both positive and negative – only the negative is apparent so far in 2022. Economic growth has been strong in the United States over the past year and a half. Employment has been strong in the United States. Wage growth continues to grow past the pandemic-period to about 6% growth which is a little behind inflation. Factors influencing the growth are employees changing jobs for higher pay and organic growth of companies resulting in new job opportunities. Currently, there are 1.8 jobs available for every unemployed person in the United States. The unemployment rate is 3.6% -- record low. At the end of the first quarter, inflation was at 7%. Currently, inflation is at 8.3%. Factors influencing inflation include consumers flush with cash as a result of not spending as much during the pandemic, stimulus packages, supply chain issues, the lock-down in China and the labor market. The Federal Government has responded by raising interest rates and will probably continue to do so. The US Equity Market was at an all-time high at the end of 2021. For the quarter, the Wilshire 5000 Index was down almost 5%. Large-Cap stocks outperformed Small-Cap stocks while growth stocks underperformed value stock. Sector performance was mixed as Energy (+39.0%) and Utilities (+4.8%) were up supported by surging commodities prices. The worst performance sectors were Communication Services (-11.9%), Consumer Discretionary (-9.0%) and Technology (-8.4%). Non-US Equity Markets performed worse than US Markets. Developed Markets out-performed Emerging Markets but not significantly. Geopolitical issues contributed to the Non-US Equity under-performance. Specifically, Japan experienced inflation in the first quarter which they have not seen in many years as a result of increased costs in importing. Germany gets most of their energy from Russia resulting in significant sell-off. Within Emerging Markets, China was down 14.2% for the quarter influenced heavily by the pandemic lock-down and supply chain issues. Russia has been removed from the Emerging Market to a stand-alone market and is not investable within any indexes as of the beginning of February and for the foreseeable future. US Fixed Income reflects negative performance over all the indexes that are tracked. The yield curve has been dramatic. The ten-year rate at the end of the quarter was 2.3% which was a significant bump up in the ten-year rate. The curve within the ten-year and the two-year is flat which has not happened since 2019. In general, when the interest rate goes up the price of bond securities goes down which was evident within the quarter. Spreads widened in both investment grade and high-yield throughout the quarter. In Real Assets, the winner was commodities which was up 25.5% for the quarter. Real Estate was a mixed bag but held on better than most equities. The Asset Class Performance Map reflects commodities at the very top of the Map with every other asset class showing negative for the year. So far in the second quarter, sell off continues as was the case at the end of the first quarter as well. Mr. DiGirolamo stated that inflation is going to be here for a longer period. Inflated prices do not go away quickly. The Bond Market is not a great place to be right now. Options are limited when stocks and bonds sell off at the same time. There is a lot of money on the sidelines that will return probably because of some geopolitical event. There were no major changes in terms of where participants are putting their assets, but more money is starting to go into the Target Date Funds. When there are rapidly evolving market periods like at the end of February-March, it creates a particularly challenging environment for active managers. In general, international equity managers struggled during the quarter in specific areas: IT due in part to supply-chain issues and financials in Europe which had exposure to Russia

There was a lag in the BlackRock Total International Equity Fund versus its benchmark which comes down to the pricing of the fund at the end of every day. It is rare to see a negative in this fund and it has returned to what is expected during the second quarter. Real Assets were up 19% for one year as a result of being overweight in commodities and overweight in natural resources. Stable Value had a nice return versus its benchmark. All Target Date Funds were negative for the quarter. Most funds outperformed their peers. Mr. DiGirolamo concluded by stating that volatility should continue to be expected but that he is hopeful for upswings. Over the long run, there are still a lot of question marks. It continues to pay to be long-term investors. Mr. Kling asked if there should be changes in the lineup and Mr. DiGirolamo stated that no changes are necessary. In general, there is no asset class that we do not have coverage on.

Capital Market Overview and CSVF Reporting

Mr. Thornton stated that the US Yield Curve continued to rise but performance has been rough, year-to-date. Year-to-date performance for a 10-year treasury was the worst since 1788. As a frame of reference, President Washington took the oath of office for his first term in 1789. The yield has plateaued some and Mr. Thornton is hopeful that yields level out which would be a plus for the Stable Value Fund, but it does take time to get there. Mr. Thornton stated that the -10% in the Fixed Income Market is unheard of. The Stable Value rate continues to come down. The biggest emphasis from the investment team is on duration and trying to keep it consistent. The investment team is trying to stay as much on the corporate side as possible which is where they see the most value at this point. This has been a challenging environment where market-to-book dipped into the low nineties. The derivative option is on the table, but it has not been discussed as of this time. If rates ramp up and market-to-book values get into the 90-91%, this could be a trigger to possibly add floating-type derivatives. If the drop continues, the investment team can be invited to attend a Commission meeting next quarter to discuss derivative usage.

Credit Letter: The Lehman Brothers Unsecured Notes continues to be held to benefit from any future distribution. There are no derivative securities being used within the Stable Value portfolio as of the date of the letter (May 11, 2022).

Administrator's Report

Plan Update as of April 30, 2022: Mr. Dyse reviewed the Plan Update as of April 30, 2022. Assets as of April 30, 2022: \$2,072.22 Billion; Asset Change YTD: -\$214.51 Million representing a 9.4% decrease since end of year, 2021. Contributions YTD: \$38.58 Million; Distributions YTD: \$44.48 Million. Net Investment Difference YTD: -\$208.61 Million.

UPA – April 2022: Mr. Dyse reviewed the UPA report for the month of April 2022. Additions included participant recoveries and interest/dividends for April. The recoveries reflected represent what the Commission “charges” its members. The Empower administrative fee went down effective January 1, 2022. Mr. Dyse stated that he will present the first quarter reconciliation report at the June meeting. There were no deductions during the month of April 2022. The closing balance as of April 30, 2022, was \$1,522,909.89.

UEW Report - April 2022: Mr. Dyse presented the UEW Report for the month of April 2022. Fourteen requests were submitted and all fourteen were approved.

Participant Engagement Activity-April 2022

Mr. Massingill reported that there was a good bit of onsite activity over the past few months with open enrollment events including a large sheriff's office in the Monroe, LA area. Work continues with LASERS on the webinars including discussion on adding topics in the presentations. Many sheriff's offices are currently conducting their annual enrollment periods. Patrick Hannie, RPA in the Baton Rouge area, has established regularly scheduled monthly meetings with specific agencies such as DOTD and LSU Baton Rouge. Mr. Hannie also has office hours in our local office on Wednesday and Thursday of each week. Last week, Mr. Massingill and Mr. Hannie conducted a second meeting with the graduating police cadettes which should yield a sizable number of enrollments. Mr. Massingill will be presenting at the State Treasurer's office on May 18, 2022 and at one of the Clerk's offices on May 19th. The Florida Parish Juvenile Detention Center approved an employer match in May. A visit is being set up with the East Feliciana Parish Sheriff's office, a new agency with the Plan. As the RPAs begin going out into the field, the number of online appointments has decreased. Efforts continue to find a candidate for a RPA role in the Baton Rouge area. Mr. Dyse stated that he and Mr. Massingill will be meeting with leaders of the Retirement Association to assist with outreach to the retirees within the Plan. Mr. Massingill shared that prior to the pandemic, RESA offered regularly scheduled onsite meetings. RESA is currently offering online/on demand meetings. Outreach has been made to offer any support that can be given in these meetings. Mr. Buras asked for the status of movement of sheriff's offices from the Plan. Mr. Massingill stated that significant effort has been made in making sure that relationships with the sheriff's offices within the Plan are strong. RPA's have been very intentional in reaching out to these agencies and the ability of RPAs to attend live meetings will strengthen the relationships. Ms. Burton stated that HR representatives can be helpful in reaching out to retirees as onsite visits are scheduled. Mr. Massingill shared that Allen Berard, RPA, did this very thing with one of the Assessors offices that asked him to schedule a one day-onsite visit. Mr. Kling stated that he has had a couple of retirees contact him about taxes on their Required Minimum Distributions. Mr. Massingill stated that the second phase of the "At Risk" outreach emphasis targets retirees. Once this phase has been established, there will be a regular cadence of communication with retirees. Mr. Massingill shared that State Police often includes retirees in their scheduled meetings with Empower. Ms. Burton suggested the possibility be explored to work with Group Benefits as part of their open enrollment period.

Commission Election Update

Ms. Carrigan shared an election update with the Commission stating that 37,563 ballots were mailed on Friday, April 22, 2022. Two calls have been received from recipients who either lost or accidentally shredded the return envelope that was sent with the ballot. Replacement envelopes were mailed. One recipient changed the address on the envelope to our local office which invalidated the ballot. All ballots must be received by June 3, 2022 to be counted in the election.

Other Business

New Auditor: Mr. Kling reported that he signed and submitted the auditor litigation letter on behalf of the Commission.

Compliance Questionnaire: Mr. Kling and Ms. Sanders reviewed the compliance questionnaire and found no revisions necessary. Ms. Sanders signed the document for submission.

Audit Status: Mr. Kling spoke with new auditor, Mike. DeFalco on Friday, May 13, 2022. Mr. DeFalco was very complimentary of Empower in providing information. Mr. DeFalco anticipates completing the audit by June 30, 2022 but will not present his findings until the July Commission Meeting. Mr. DeFalco has not found any issues of note so far.

Loan Default: Removal of a loan default was presented and approved at the April Commission Meeting. Empower sent correspondence related to completing the removal of default from the participant's file that Mr. Kling and Ms. Burton were uncomfortable with. Depending on Empower's response to the concerns noted, the reversal of the default may or may not move forward.

Adjournment

With there being no further items of business to come before the Commission, Chairman Kling declared the meeting adjourned at 11:04 a.m.

Laney Sanders, Secretary