

MINUTES
Louisiana Deferred Compensation Commission Meeting
July 21, 2020

The monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, July 21, 2020 via video conference at 10:00 a.m.

Members Present *via video conference*

Whit Kling, Chairman, Participant Member
Virginia Burton, Vice 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

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*

Aaron Cooper, CPA, Independent Auditor - J. Aaron Cooper, CPA, LLC
Stephen DiGirolamo, CFA – Managing Director, Wilshire Associates
Marybeth Daubenspeck, Vice President, Government Markets, Empower Retirement, Denver
Craig Cassagne, State of Louisiana Attorney General’s Office, Baton Rouge
Shannon Dyse, Relationship Manger, Empower Retirement, Baton Rouge
Rich Massingill, Manager of Participant Engagement, Empower Retirement, Baton Rouge
Jo Ann Carrigan, Sr. Field Administrative Support, Empower Retirement, Baton Rouge

Call to Order

Chairman Kling called the meeting to order at 10:02 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 June 16, 2020

The minutes of the June 16, 2020 Commission Meeting were reviewed. Ms. Hubbard motioned for acceptance of the June 16, 2020 minutes. Mr. Guerin seconded the motion. The Commission unanimously approved the minutes of June 16, 2020.

Audit Topics

Mr. Kling asked that the agenda order be amended to allow Mr. Cooper's presentation of the audit of the Plan so that Mr. Cooper could meet other scheduling commitments on his calendar.

Mr. Cooper presented a draft of the December 31, 2019 financial statements of the LA Deferred Comp Plan for the Commission's approval. Mr. Cooper stated that the audit opinion is considered an "unqualified opinion" which is the best outcome that could be given as a result of an audit. Mr. Cooper reported that the financial statements are fairly stated in all materials. The Statement of Fiduciary Net Position (page 5) was reviewed. Mr. Dyse, Mr. Kling, Karen Scott of Empower Retirement and Andrea DiSaverio of Empower Retirement are in agreement with the balance sheet based on telephone meetings with Mr. Cooper. Mr. Cooper stated that there were no findings with the Plan. Mr. Cooper was pleased with the audit process noting an excellent rapport established with Ms. DiSaverio and Ms. Scott. Mr. Cooper stated that all public entities are required under State law to secure all of their cash accounts and the LA Deferred Comp Plan is covered under FDIC. Mr. Kling asked Mr. Mack to look into this for future reference. Mr. Guerin motioned to accept Mr. Cooper's report and to allow him to file the report with the LA Legislative Auditor's office. Ms. Hubbard seconded the motion. There was no objection and the motion unanimously passed. Mr. Kling thanked Mr. Cooper for his time and effort.

Plan Performance 2Q20

Mr. Kling asked that the agenda order be amended to allow Mr. DiGirolamo to present the 2Q20 Plan Performance report so that Mr. DiGirolamo could meet other scheduling commitments on his calendar.

Mr. DiGirolamo reported that Real GDP for the first quarter of 2020 was down 5% (compared to 2% in previous months). The expectation is that Real GDP will be down 35% in the second quarter of 2020. Within GDP growth, the big "pull back" has been in personal and business spending. The immediate impact of the Coronavirus-related shut-down has been disinflation across the system in the United States. As Americans have cut their spending, the CPI has gone down 1.5%, year-to-date. The ten-year break-even inflation is approximately 1.3% -- well below the 2% target that the Federal Government has over a long period of time. Even with the billions of dollars of relief being pumped into the system, it has not hit the system yet in terms of inflation. The virus has wreaked havoc on employment so far this year. There were 1.5 million jobs lost in March and 20 million jobs lost in April. There was gain in jobs during the month of May which could be an indication that the stimulus packages are working and people are going back to work. There is a long way to go toward recovery and these indicators are important in determining the health of the economy. US Equities were up almost 22% for the quarter representing a nice recovery for the three-month period. Large Cap stocks underperformed small cap stocks -- just the third time in the last three years that this dynamic has been true. Growth stocks outperformed value stocks. The best sectors of performance for the quarter were information technology, healthcare and consumer discretionary. The worst performing sectors were utilities and consumer staples. Non-US Equities - Emerging markets outperformed developed markets but not too significantly during the quarter. Developed countries had a similar bounce back with some positive returns. US Fixed Income shows all major indexes reflecting positive performance. There hasn't been much change in the yield curve from the first quarter to the second quarter. Year-to-date, core bonds led the way at 6.1%. US Equities are down 3.3% year-to-date with continued movement upward. Ultimately, it

is nice to see the recovery but there are many issues that are still influencing performance including the upcoming presidential election. Asset Allocation and Performance: MS Core Equity (passively managed) had positive performance (up over 20%) but this still lagged behind the benchmark due to mega-cap bias in ultra-large funds such as IT. Not holding TESLA was a major drag on performance, as well. The American Funds Euro Pacific Growth Fund had strong, positive and relative performance for the quarter. The Prudential Total Return Bond Q had strong performance on an absolute basis for the quarter and relative to the benchmark. Real Assets had strong absolute performance and value to the benchmark. All active managers (REITS, natural resources, TIPS, global infrastructures) were able to out-perform their benchmarks for the quarter. Stable Value is performing exactly as expected quarter-by-quarter and year-to-date. Stable Value is providing positive returns and protection of assets. All of the Target Date Funds were positive for the quarter. In summary, Mr. DiGirolamo stated that the second quarter bounce-back is encouraging but there will be a lot of volatility going forward. The Active Managers in the Fund are doing a good job of protecting when they can and taking opportunities when they can. The Life Path Funds are well-positioned to protect when they need to with the anticipated volatility going forward. Within Wilshire, senior management and chief investment officers meet on a weekly basis to review economic indicators as they relate to building retirement plans.

Election of Commission Officers

Mr. Kling noted that every July, the Commission members vote to elect officers. The vote is usually by written ballot. Mr. Cassagne stated that it is up to the Commission on how they wish to vote and confirmed that a verbal election is permissible. Mr. Kling reviewed the list of current officers: Mr. Kling-Chairman, Ms. Burton-Vice-Chairman, and Ms. Sanders-Secretary. Ms. Hubbard motioned to keep the officers as they are – no change in positions. Mr. Jolly seconded the motion. There were no objections. The motion passed unanimously.

Administrator's Report

Plan Update as of June 30, 2020: Mr. Dyse presented the Plan Update as of June 30, 2020. Assets as of June 30, 2020: \$1,855.49 Billion; Asset Change YTD: -\$20.85 Million; Contributions YTD: \$51.83 Million; Distributions YTD: \$53.16 Million. Net Investment Difference YTD: -\$19.52 Million.

UPA – June 2020: Mr. Dyse reviewed the UPA report for the month of June, 2020. Additions included “Additional Participant Recoveries 1Q2020” which represents the Empower Retirement correction as a result of the incorrect recovery number used (5 basis points annually instead of 20 basis points). The closing balance as of June 30, 2020 was \$1,279,599.75.

UEW Report – June 2020

Mr. Dyse presented the UEW Report for the month of June which included 10 approved requests and no denied requests.

Securities Sold-May 2020: Mr. Dyse reviewed the securities sold during the month of May, 2020.

CARES Act

Mr. Dyse reviewed the Empower Retirement “Focus on 457, Additional IRS Guidance on the CARES Act” document with the Commission. The IRS Notice 2020-50 expanded the qualifications of individuals with respect to Coronavirus distributions. Initially (March version), an individual’s spouse or member of household that had been quarantined, furloughed or had work hours reduced, was not included in Coronavirus distribution eligibility. The IRS Notice 2020-50 allows for these individuals to factor into Coronavirus distribution eligibility. Mr. Dyse stated that it will be interesting how the IRS will handle distributions in 2020 from a tax-preparer’s perspective. Box 7 of the 1099R can be coded in one of two ways: Code 1 – Denotes a premature distribution; Code 2- Denotes an exception of a premature distribution. The IRS will determine the 1099R code-type later in the year. Current distributions are being coded correctly. The ambiguity of the tax coding issue relates to distributions that occurred prior to the adoption of the CARES Act in 2020. Mr. Dyse reported that as of July 10, 2020, 213 Coronavirus-related distributions were processed. Of that total, 172 of the individuals withdrew more than half of their account balance. There have been two Coronavirus Loan requests and 8 individuals have suspended their loan remittance payments until January, 2021. Mr. Dyse also included updated numbers related to exchanges or fund changes from the end of February to current day. The total number of fund-to-fund transactions were 1,337. A little more than \$49 million was transacted or moved. Mr. Dyse stated that it was not a big surprise that the net positive inflow was into Fixed Income (\$12.4 million). The bond funds received a net positive of \$1.3 million. All other asset classes had a negative outflow.

Other Business

Proposed Contract Extension: Mr. Kling stated that there are questions related to Empower Retirement’s proposed contract extension that must be resolved. Mr. Cassagne has been in discussions with Mr, Kling regarding the contract extension and will be prepared to review any questions at the August, 2020 Commission meeting.

Virtual Commission Meetings: Mr. Kling stated that he has asked Ms. Hubbard to look into the availability of a room at the Claiborne Building that may be used by the Commission to meet in August. Mr. Kling stated that the senate and house committee meeting rooms are not available for use. Commission meetings will continue in a virtual format until such time as a meeting room becomes available.

Adjournment

With there being no further items of business to come before the Commission, Chairman Kling declared the meeting adjourned at 10:57 a.m.

Laney Sanders, Secretary