MINUTES
Louisiana Deferred Compensation Commission Meeting
November 15, 2022

The monthly meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, November 15, 2022, in the office of the Service Provider, 9100 Bluebonnet Centre Blvd, #203, Baton Rouge, LA, 70809 at 10:00 a.m.

Members Present
Virginia Burton, Chairman, Participant Member
Stewart Guerin, Designee of the Commissioner of Insurance
Beverly Hodges, Participant Member
Andrea Hubbard, Vice Chairman, Co-Designee of the Commissioner of Administration
Scott Jolly, Co-Designee of Commissioner of Financial Institutions
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
Craig Cassagne, State of Louisiana Attorney General's Office, Baton Rouge
Brett Robinson, State of Louisiana Attorney General's Office, Baton Rouge
Marybeth Daubenspeck, Vice President, Government Markets, Empower, Denver-*via video conference*
Stephen DiGirolamo, CFA – Managing Director, Wilshire Associates-*via video conference*
William Thornton, Senior Manager, Client Portfolio Srvcs, AAG, Denver-*via video conference*
Karen Scott, Sr Client Services Manager, Empower, 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
Ms. Burton called the meeting to order at 10:01 a.m. Ms. Carrigan called roll of Commission members.

Public Comments
Ms. Burton 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 October 18, 2022
The minutes of the October 18, 2022 Commission Meeting were reviewed. Ms. Hodges motioned to accept the minutes as presented. Mr. Jolly seconded the motion. The Commission unanimously approved the motion.

Capital Markets Overview
Mr. Thornton presented the 3Q22 Capital Markets Overview report stating that it has been a rough time in the markets. In reviewing the previous two quarters of the year, the Real GDP Growth was negative. The

3Q22 GDP estimate is up 2.6% representing a nice rebound. Inflation has been the real issue for the entire year. At the end of September, the CPI was at 8.2% year-over-year. October numbers reflect CPI down to 7.7%. The core number dropped from 6.6% to 6.3% which is excellent news. All the components of CPI are up by double digits, year-over-year. Fuel oil will be expensive in the coming year and is projected to cost $5.46 per gallon compared to $3.31 per gallon in 2021 representing a 69% increase. There will be pockets where inflation will drop but there will be areas that will continue to be high. The good news is that two different federal chairs have announced that inflation is starting to flatten indicating that the next new rate increase will not be another 75 points. An additional 263,000 new jobs were added in the third quarter. There is an increase of 300,000 unemployed. The increase in rates is working its way into the housing market which is causing house prices to drop. Housing starts are down 8% month over month. Oil was $79.49 per barrel in October and $85 per barrel in November. The US Yield Curve continues to tick up, especially on the shorter end. It has been a historically bad fixed income market in 2022. Stable Value, however, has had consistent returns throughout the year which reflects the positive side of using Stable Value.

Louisiana CSVF 3Q22

Mr. Thornton reported that there were no substantial changes in allocations. There was a slight reduction in treasury exposure. The corporate side continues to be up around 50%. The market-to-book is 93.9%. The credit rate will continue to increase.

Securities Sold-September 2022

Mr. Thornton pointed out that there was only one security sold in September because of the investment team finding a better value for the portfolio in other options. There is normally not a lot of activity by the investment team in re-investing securities or trading in-and-out.

Credit Letter

Mr. Thornton presented the credit letter as of September 30, 2022 noting that only the Lehman Brothers Unsecured Notes, purchased in November of 2005, continues to be held to benefit from any future distributions. Ms. Hodges asked Mr. Thornton to research the balance of the Lehman Brothers security. Mr. Thornton stated that historically, percentages have periodically been released but not on a regular basis. Mr. Thornton will also report back on the total amount received to date.

Wilshire Report – 3Q22 Performance and Capital Market Update

Mr. DiGirolamo reviewed investment performance results noting that it was a tale of two halves for the quarter. Until August 16th, US equity markets were up 12.5% with strong consumer confidence. On August 16th, key comments by the federal government from the Jackson Hole meeting related to fear, pain going forward and plans to raise rates led to a dramatic sell off across equities. US equities were down from that point on by 17.5%. At the end of the quarter, broad US equity markets were down 4.4%. It is a challenging time for active managers and for investors. For the quarter, small cap stocks out-performed large-cap stocks. Growth stocks out-performed value stocks. There were only two sectors with positive returns for the quarter: energy and consumer discretionary. Consumer confidence remains strong. Every other sector was negative with information technology and communication services leading the way down. International equity markets underperformed US equity markets. Broad non-US equity markets were down approximately 10%. Developed markets performed slightly better than emerging markets. In international equity markets, the strength of the US dollar has served as a headwind. The US dollar has appreciated compared to foreign currency to the tune of approximately 13% for the year. Emerging markets, made up primarily of China, reflected a dramatic sell off for the quarter with continued issues related to Covid shutdown in the country of China. The yield curve showed yields rising and spreads widening. There was a dramatic sell-off of most bonds with leverage loans (floating rate bonds) being the only area with positive returns. Mr. DiGirolamo reviewed the Asset Class Performance map noting that almost all major asset classes were negative for the year. The market rallied early in the 4th quarter with US equity markets up

11.5%, international equities up 13% and the bond market up 60-70 basis points. Mr. DiGirolamo stated that the markets are moving in the right direction but there remains a lot of murkiness with not much clarity. Today, the fund fed rate is 3.75-4% with most experts anticipating the rate to land at 3.5-5%. There is a lot of volatility in terms of how fast and when the rates will change. There is an expectation that there will be a recession in the future, but it will be mild and short-lived. Europe is already in recession.

Plan Performance: Mr. DiGirolamo reviewed the Plan's asset allocation by asset class noting that US equities makes up 35.1%, Stable Value 34.6% and Target Dates at 11%. The trend in terms of overall allocations reflects equities down and Stable Value up but these are mostly the result of the market moving instead of individual participant direction. Mr. DiGirolamo reviewed performance of the funds within the Plan.

ESG Guidance

Mr. Cassagne reviewed a letter received from Attorney General, Jeff Landry, which was sent to all the State retirement boards that administer pensions. The letter was also sent to each member of the LA Deferred Comp Plan Commission (LDCC). Mr. Landry, acting as the chief legal officer for the State of LA, issued legal guidance concerning the use of environmental, social and governance factors (ESG) by certain investment firms. In the guidance, Mr. Landry advised that investment firms (such as BlackRock, Inc) utilizing ESG criteria without full disclosure to their investor-clients are likely violating their fiduciary duties imposed by Louisiana law. Mr. Landry's letter asked that the LDCC make Plan participants aware of the ongoing investigation of BlackRock and other firms that utilize ESG factors. Per Mr. Landry's letter, while Plan participants have the right to invest their personal funds in the manner they choose, the LDCC's fiduciary duties require that the LDCC invest *public money* with firms who have their client's best financial interest in mind.

Ms. Burton asked Mr. Cassagne if the Commission would be required to notify participants of the issues noted in Mr. Landry's letter. Mr. Cassagne pointed out that the Commission oversees participant money (private funds) instead of public funds and if a letter is sent, it would be for notification purposes only. Mr. DiGirolamo stated that any communication sent to participants should be straight-forward and to-the-point with no recommendation or guidance to do anything. There was discussion related to the content of the notification and how the notification would be presented. Mr. Guerin stated that BlackRock Funds are all passive investments (not actively managed) which seems to eliminate the Attorney General's concerns with regards to ESG. Ms. Hodges stated that notification related to this issue may cause participant concern. Ms. Sanders stated that an "investigation" does not necessarily mean wrong-doing, and this should be made clear. Mr. Jolly stated that he was concerned about the tax implications. Mr. Jolly stated that more information is needed before a notification is released especially as it relates to tax implications. Mr. Cassagne stated that the Attorney General is not demanding that the Commission "do" anything. Mr. Jolly stated that clarity is needed as it relates to the Commission's tax fiduciary duty noting that this letter must be harmonized with the opinion received from the Commission's tax attorney in 2017. Ms. Burton asked Mr. Cassagne to review this issue with Bob Tarcza, the Commission's tax attorney, for direction related to any Commission action needed. Ms. Burton asked Mr. Dyse if Empower has received similar requests with other Plans. Mr. Dyse stated that this issue is not a factor in any other Plans. Mr. Cassagne stated that no action is required by the Commission because this issue relates to public funds only. Mr. Jolly agreed with Mr. Cassagne but observed that the letter does not clearly state this. Ms. Burton suggested that this issue be referred to Empower's legal team for review and recommendation. Ms. Sanders asked Mr. DiGirolamo to check with BlackRock regarding the use of ESG screening/criteria for passively managed funds including the Life Path funds. Ms. Burton noted that the responses received will be reviewed at the December Commission meeting.

Service Provider's Report

Plan Update as of October 31, 2022: Mr. Dyse reviewed the Plan Update as of October 31, 2022. Assets as of October 31, 2022: $1966.82 Billion; Asset Change YTD: -$319.91 Million representing a 14% decrease since end of year, 2021. Contributions YTD: $93.01 Million; Distributions YTD: $118.31 Million. Net Investment Difference YTD: -$294.61 Million.

UPA – October 2022: Mr. Dyse reviewed the UPA report for the month of October, 2022. Additions included interest/dividends and participant recoveries for October. Deductions during the month of October included payment to Wilshire Associates, Tarzca & Associates, reimbursement of NAGDCA expenses and the LA Dept of Justice. The closing balance as of October 31, 2022, was $1,633,991.29.

UEW Report – October 2022: Mr. Dyse presented the UEW Report for the month of October, 2022. Nine requests were submitted and all nine were approved.

Evaluation Letter Committee Update

Ms. Sanders reported that all the components that make up the evaluation letter have been received and compiled. Ms. Burton asked Ms. Sanders to send a copy of Wilshire's evaluation of Empower to each Commission member to be approved at the December meeting. The evaluation letter will be available for presentation at the December retreat. Mr. Cassagne reminded the Commission not to discuss the emailed documents amongst themselves. Ms. Burton asked that a revised Investment Policy Statement be presented by Mr. DiGirolamo at the December meeting. Ms. Burton stated that Mr. Cassagne has agreed to review any other Commission obligations related to policy.

Commission Nominating Committee -2023

Ms. Carrigan reported that the 2023 Nominating Committee has been established with the first meeting to be held on January 6, 2023. The Committee members are Ben Huxen, Kent LaPlace and Afranie Adomako. Ms. Sanders' current term expires on June 30, 2023. Mr. Jolly motioned to approve the Nominating Committee as presented. Mr. Guerin seconded the motion. The motion passed with no further discussion. Ms. Burton reminded Ms. Sanders to submit a statement to the Nominating Committee that if appointed, she will serve, if she chooses to do so.

Loan Defaults

Mr. Cassagne stated that he did not have any additional input to report related to loan defaults as Mr. Tarcza's office has not been available. Mr. Cassagne was hopeful that more input would be available in December. Ms. Burton reviewed changes made in 2014 that required loan remittance payments be submitted through payroll deduction instead of participant coupon books. Technically, there should be no reason for loan defaults with this change in procedure. Ms. Burton reported that Mr. Dyse would investigate the possibility of adding an additional document to the loan application that would be forwarded directly to the respective payroll departments. Mr. Dyse presented loan statistics:

- In 2022, Empower has issued 695 loans to participants.
- Of the 695 loans issued, only three defaulted because of severing employment. In some cases, there is no termination-from-service date on file, but deferrals stopped at the same time the loan payments stopped which supports the possibility that the participant severed employment.
- With the proactive procedures implemented by Empower, contact with payroll departments is well received and 100% of the time, loans have begun.

Mr. Dyse stated that in the grand scheme of things, loan defaults are not an issue for the Plan in 2022. The loan defaults presented to the Commission this year were processed in years prior to 2022. Ms. Burton asked Mr. Cassagne if the Commission needs a policy that clearly states that the Commission can consider "credit worthiness" of a participant requesting another loan after defaulting. Mr. Cassagne would include this question in his discussion with Mr. Tarcza. The Plan Document currently states that future loans can be granted to participants who have defaulted in the past if the Commission deems the participant credit worthy. The Commission does not need to adopt something formal, but factors can be added to determine creditworthiness. Administrative error must also be considered in determining future loan eligibility. Ms. Hubbard reminded the Commission that even when there is payroll error, the participant is notified of late and defaulted loans. Mr. Dyse confirmed that operationally, a loan can be processed when there is an existing default on records. Mr. Dyse stated that the Commission should rarely see loan defaults because of payroll errors with the existing procedures in place. However, in the off chance that this does happen, the Commission must instruct Empower how to proceed in relation to reversing a loan default for the purpose of amending tax records. Ms. Burton suggested that Empower make extra effort to contact participants to prevent defaulting. Mr. Cassagne concurred that the Commission does not have the right to reverse a default as the current policy stands. Mr. Dyse stated that IRS language is strict and narrow as it applies to loan defaults but reported that loan reversals occur with Empower. Ms. Daubenspeck interjected that the Plan does have in place auto-loan offset after a participant leaves employment – if a severance of employment date is on file.

Participant Loan Default Request
The participant in question paid his loan off in full and chose to take an in-service distribution instead of a loan. Efforts to speak with the participant were unsuccessful but a second loan application was never received.

Participant Engagement: October, 2022
Mr. Massingill stated that he will be presenting participant engagement statistics at the December meeting. Some of the members of the Retirement Plan Advisor staff will be in attendance at the meeting and Mr. Massingill asked for input on the information the Commission would like presented. Ms. Burton asked that a presentation of the RPA's role be included along with a demonstration of a typical participant interaction. Ms. Hodges asked that information include the participant's objective for scheduling a meeting with an RPA in addition to the outcome of the meeting. Ms. Sanders asked that a review of the type of questions being asked by participants also be included in the review.

December Retreat Update
Mr. Dyse reported that Marilyn Collister will be attending the December meeting virtually. Ms. Collister will cover topics such as best practices, fiduciary responsibilities, and loans. Mr. DiGirolamo will attend the meeting in person and will present an Investment Policy statement, an analysis of the UPA along with a report of the reviews (Wilshire's self-evaluation and Empower's evaluation) for approval by the Commission. Mr. Thornton has been asked to attend to discuss Empower's investment team's perspective, concerns in the marketplace and expectations. Trish McGinity, head of Empower's Cyber-Security Department will also be presenting virtually. Michela Palmer, Lead Strategist Participant Marketing will attend the meeting in person and bring a communications update. The retreat is scheduled for December 13th from 8:00 a.m. – 12:00 p.m. to be held at the LASERS building. Lunch will be held at Mansurs on the Blvd. immediately following the meeting.

Other Business
Ms. Burton reminded the Commission that the Plan Document must be updated by the end of 2023 to include the Secures and CARES Act provisions in addition to any other changes necessary.

Adjournment
With there being no further items of business to come before the Commission, Vice Chairman Hubbard declared the meeting adjourned at 11:40 a.m.

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Laney Sanders, Secretary