

MINUTES

Louisiana Deferred Compensation Commission Meeting October 21, 2014

The Monthly Meeting of the Louisiana Deferred Compensation Commission was held on Tuesday, October 21, 2014 in the offices of the Plan Administrator, 2237 South Acadian Thruway, Suite 702, Baton Rouge, Louisiana 70808.

Members Present

Emery Bares, Chairman, Designee of the Commissioner of Insurance
Virginia Burton, Secretary, Participant Member
Lela Folse, Designee of the State Treasurer
Andrea Hubbard, Designee of the Commissioner of Administration
Whit Kling, Vice-Chairman, Participant Member
Susan Pappan, Participant Member
Len Riviere, Designee of Commissioner of Financial Institutions

Others Present

Felicia Bennett, Consultant, Wilshire Associates, Inc. (*by Conference Call*)
David Lindberg, Consultant, Wilshire Associates, Inc.
Lindsey Hunter, Louisiana Attorney General's Office
Connie Stevens, Director, Client Relations and Plan Counseling, Baton Rouge GWF
Jo Ann Carrigan, Lead Office Coordinator, Baton Rouge GWF

Call to Order

Chairman Bares called the meeting to order at 10:03 a.m.

Approval of Commission Meeting Minutes of August 19, 2014

The minutes of August 19, 2014 were reviewed. Ms. Folse motioned for acceptance of the minutes. Mr. Riviere seconded the motion. The Commission unanimously approved the minutes.

Acceptance of Hardship Committee Reports of September 5, 2014 and October 3, 2014

Ms. Pappan responded to Ms. Hubbard's inquiry related to an approved Hardship request involving car expenses. Ms. Hubbard motioned for acceptance of the Hardship Committee Reports of September 5, 2014 and October 3, 2014. Ms. Folse seconded the motion. The Commission unanimously approved the report.

Public Comments: No member of the public was in attendance.

Minutes
Louisiana Deferred Compensation Meeting
October 21, 2014
Page 2 of 6

Administrator's Report

Plan Summary as of September 30, 2014 was presented by Ms. Stevens. Assets as of September 30, 2014: \$1.405 Billion. Asset change YTD: \$38.40 Million. Contributions YTD: \$71.07 Million. Distributions YTD: \$76.25 Million. The Net Investment gain YTD was: \$43.58 Million.

Participation by Asset Class and Investment Option: Ms. Stevens reviewed participation by asset class by percent of assets: Stable Value (44.7%); Large Cap (20.8%); Target Date Funds (8.8%); International (8.2%) and Mid Cap (6.8%).

Unallocated Plan Asset Report-September 2014: Ms. Stevens reviewed the Unallocated Plan Asset Report for the month of September. The ending balance as of September 30, 2014 was \$3.556 Million. Deductions included NAGDCA expense reimbursements.

Louisiana Stable Value: Ms. Stevens reviewed the list of securities sold in the LA Stable Value Portfolio during July, August and September, 2014.

Ms. Stevens highlighted the key points of the letter sent from Bill Thornton, Sr. Manager, Client Portfolio Services, Advised Assets Group to Mr. Bares noting the three holdings that fall outside of the Investment Policy Statement. The three holdings are: Lehman Brothers, Western Union Senior Notes and France Telecom Senior Notes. Lehman Brothers is in bankruptcy. Western Union is considered a "hold to maturity" credit but further rating downgrades could damage this viewpoint. France Telecom has undergone a name change to "Orange" and the downgrade appears to be related to a fourth mobile operator entering the French mobile telecommunications market. Ms. Stevens will provide additional maturity information on Western Union and France Telecom at the next meeting.

Fund and Fee Structure Recommendations

Mr. Lindberg reported that the Commission has been reviewing the Plan's fee structure since 2009 to better manage and allocate Plan expenses. The challenge continues to be to bring down the balance in the UPA. There is a projected annual \$350,000 surplus coming into the UPA (revenue minus expenses) on top of the current balance of \$3.553 Million. Mr. Lindberg presented the following recommendations to the Commission:

Minutes
Louisiana Deferred Compensation Meeting
October 21, 2014
Page 3 of 6

- Reduce Plan revenues by reducing both the fund administrative fees (where possible) and the participant administrative fee.
- Replace three additional mutual fund investment options with lower expense ratio/lower administrative fee share classes that are now available for investment (Invesco Real Estate, American Century Equity Income and Touchstone). This action would result in lowering expense ratios by 15-18 bps and would reduce mutual fund fee revenue by approximately \$177,000.
- Reduce the maximum fee charged to participants from \$95 to \$90 and move to a one tier fee schedule of 18 bps on assets up to \$50,000. The new schedule would reduce participant administrative fees from \$1.564 Million to \$1.385 Million based on current assets.
- The combination of changes would result in a projected deficit of \$51,000 based on 4/15/14 participant balances and 6/30/14 market values, with the expectation to break even shortly given increased participant balances.

The recommended Administrative Fee Schedule consists of adjusting the administrative fee to 18 bps on the first \$50,000 of a participant's balance subject to a minimum annual fee of \$10 and a maximum fee of \$90. As a result, the average fee per participant would be reduced from \$44.47 to \$39.37. The number of participants subject to a minimum fee would increase from 7,766 (22% of participants) to 9,872 (28% of participants). The number of participants that would pay a maximum fee would remain the same at 7,317 (22% of participants).

The recommendations noted were presented as a way to begin to reduce the amount of money coming into the UPA. On a separate issue, suggestions were made to reduce the existing balance in the account. Ms. Stevens noted that a refund to participants can occur at any time with a refund announcement appearing in an upcoming newsletter and on the website. Mr. Kling motioned to accept the recommended change in fee structure effective January 1, 2015 and refund administrative fees paid during the first three quarters by Plan participants as of September 30, 2014. The motion was amended to include "as of today" instead of as of September 30, 2014. Ms. Burton seconded the motion. There was no objection and the motion carried. The refund will occur in November and will be announced in the 4th quarter statements and on the website. Mr. Kling motioned to accept recommended fund changes regarding moving to lower share classes effective as soon as administratively possible. Mr. Riviere seconded the motion. There was no objection and the motion carried. The earliest date to be able to change mutual funds to lower share classes would be February, 2015 after a 30-day notification to participants.

Minutes

Louisiana Deferred Compensation Meeting

October 21, 2014

Page 4 of 6

Ms. Bennett advised that Black Rock Life Path Fund 2060 must be added to the platform once it becomes available in December, 2014. A “Letter of Instruction” from Mr. Bares is required to be able to add this fund. The 2015 Fund will automatically roll into the Life Path Retirement Fund by Black Rock in mid-November. This is a normal procedure in target date funds. These changes will be combined with all other fund changes in late February. No motion is needed as the “Letter of Instruction” from Mr. Bares will suffice.

White Label Fund

Mr. Lindberg reported that in general, plans are attempting to become more simplified and consolidated. After years of increasing the number of funds in a Deferred Comp fund lineup, the philosophical approach is now reversing, with Plan Sponsors looking to provide a more streamlined lineup to enhance understanding and usage. Over time, participant fees would be reduced and the offerings would be simplified. There would be two suites consisting of a “Passive Suite” and an “Active Suite.” Ms. Bennett presented a hypothetical fund transition:

- Total number of funds on the lineup would decrease from 23 to 11 (Target Date Funds as one).
- Individual style funds would collapse into broader asset class funds.
- A bond market index fund would be added to complete the passive sleeve.
- Participants can utilize the brokerage window for specialty options/funds.

Mr. Lindberg stated that this topic was presented for discussion purposes as a possible redesign of offerings to participants in the future. This topic will be discussed further at the December Commission Retreat to include:

- Pros and Cons
- Plan of Action/How to implement?
- Changes in Commission responsibilities.
- Participant behavior regarding selection of options.

Plan Sponsor Magazine Article

Mr. Lindberg reviewed an article entitled, “How Best to Implement Participant Fee Equalization” from *Plan Sponsor Magazine*. The article pertains to efforts in the industry to balancing out fees and trying to make them equal across the participant base. LA Deferred Compensation has been conscious of this and is fairly equal at this time.

Minutes
Louisiana Deferred Compensation Meeting
October 21, 2014
Page 5 of 6

Investment Performance Update

Mr. Lindberg presented highlights from the Executive Summary of Investment Performance, September 30, 2014. US Equity markets were basically flat for the third quarter, up 0.1%. Non US Equity markets were down 5%. Bond markets were also basically flat for the quarter. Over the past three years, as the US equity market has rallied, there have been some low-quality companies whose stock prices have been rewarded. When low quality-type securities are rewarded more than those companies with better balance sheets, it is difficult for active management to manage due to the volatility of the market. There was a large difference in returns between Small and Large Cap stocks in the third quarter. There were better returns in the Global and Non-US markets with all of the funds performing ahead of benchmarks. Mr. Lindberg reviewed the PIMCO management situation related to Bill Gross' resignation that has generated significant news coverage. Wilshire's position is that PIMCO has a very strong management team with a tremendous amount of talent. Wilshire is not, across the board, advising clients to terminate their PIMCO holdings. However, in places where it's not a Deferred Comp or Defined Contribution program, Wilshire is recommending immediate exit without fees. PIMCO is "On Watch" at this time. Target Date Funds had no positive returns for the quarter. These funds are passively managed and reflect what the market has done. Invesco Real Estate has had good long-term returns and is ahead of its index this quarter.

Marketing Report

Ms. Stevens reviewed the Marketing Report for the months of August and September of 2014. For the month of August, there were 183 new applications, averaging \$3,056 per application and 166 increases and restarts, averaging of \$7,647 per application. For the month of September, there were 136 new applications, averaging \$3,279 per application and 142 increases and restarts, averaging of \$6,941 per application. There were 19 online applications in August and 24 in September. The majority of activity during these two months came from the following agencies: LSU-Baton Rouge, LSU HSC New Orleans, LSU Agriculture, DCFS, Hunt Correctional, Office of Citizens with Disabilities, Jefferson Parish Human Services and Terrebonne Parish Sheriff's Office.

The contractual goal for group meetings in 2014 is 1,300. As of September, 2014, there have been 1,083 group meetings, 111% of the goal YTD.

Minutes

Louisiana Deferred Compensation Meeting

October 21, 2014

Page 6 of 6

There are two new features being introduced on to the LA Deferred Compensation website effective November, 2014. The “Investment Research Tool” will be added to assist participants in filtering for risk and returns. The “Transfer My Investments” tool has been streamlined to eliminate some of the cumbersome steps involved when attempting to transfer investments.

Ms. Stevens reported that approximately 3 school boards have been added to the Plan to date. Two hindrances in adding school boards to the Plan include: (1) Many school boards already offer a 457 Plan; (2) There are no ramifications if the school board chooses not to offer the LA Deferred Comp Plan.

Other Business

Great-West Acquisition of JP Morgan Retirement Plan Services: Ms. Stevens reviewed a letter from Charles Nelson announcing the efforts being made to blend JP Morgan, Putnam Investments and Great-West Financial into the best retirement services provider in the industry. There will be an integration of “best practices” and a significant increase in technology enhancements. Additional beneficial enhancements include:

- Guide Payroll effective February 16, 2015: Quick/intuitive remittance procedures.
- Alternate Authentication at website log-in.
- Fee Levelization: Expanded capability to “equalize” participant fees.
- Oracle 11G Upgrade: Upgrade in core recordkeeping infrastructure.

Adjournment

With there being no further items of business to come before the Commission, Chairman Emery Bares declared the meeting adjourned at 11:42 a.m.

Virginia Burton, Secretary