



FIREFIGHTERS RETIREMENT SYSTEM

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MEETING OF THE BOARD OF TRUSTEES February 12, 2009

A meeting of the board of trustees was held on February 12, 2009, at the Public Safety Building in Baton Rouge. Mr. Charlie Fredieu, Chairman, called the meeting to order at 8:30 a.m.

Mayor Hawkins gave the invocation and Mr. Birdwell led the pledge of allegiance.

Miss Donna Winchester called the roll.

MEMBERS PRESENT

Charlie Fredieu, Chairman
Mayor Clarence Hawkins
Stacy Birdwell
Sammy Halphen
Paul Smith
Mayor Jimmy Durbin
Sammy Halphen
Barbara Goodson
John Broussard

OTHERS PRESENT

Steven Stockstill
Kelli Chandler
Donna Winchester
Jason Starns
Lauren Bailey
Matt Ross
Joe Meals
Matt Tessier
Greg Curran
Laura Gail Sullivan
Glenn Ellis
Troy Seigne
Mike Gallagher
Eldon Ledoux
Jason Turner

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Mr. Charlie Fredieu introduced Ms. Donna Winchester, the new employee of the system. She was warmly welcomed aboard.

MINUTES

Mr. Birdwell moved to adopt the minutes of the board meeting held on January 8, 2009. Mr. Halphen seconded. The motion passed.

APPLICANTS

- New Members

PROCEDURE: Each enrollment application is reviewed by staff to determine eligible job classification, date of hire, employer certification, and medical waiver information.

Mr. Jason Starns presented a list of 42 applicants for membership. (see attached Exhibit #1) He stated that an enrollment application was received for each individual and that each application for membership was completed in accordance with all applicable state laws.

Mr. Birdwell moved to approve the new members. Mayor Durbin seconded. The motion passed.

- New Retirees

PROCEDURE: Written notification of retirement is received and the member's file is reviewed for proper documentation and to determine that the applicant meets the legal criteria necessary to receive payment in the form of a monthly retirement benefit. Calculations for retirement are performed by the benefit analyst and verified by the administrator.

Mr. Starns presented a list of 20 new retirees. (see attached Exhibit #2) He stated that each individual had met the criteria necessary to retire as outlined in state law.

Mr. Birdwell moved to approve the new retirees. Mr. Halphen seconded. The motion passed.

- Survivor Applications

PROCEDURE: Survivors applying for benefits must furnish the retirement office with a notarized application for survivor benefits, a copy of the member's death certificate, a marriage license (if beneficiary is a spouse), and the beneficiary's birth certificate. Once received, the deceased member's retirement application is reviewed and the designated beneficiary's information is verified to match the documents submitted. [NOTE: Individuals who retired under another retirement system where FRS is a third party administering payments as a result of a merger, and where the individual

becomes deceased after the member, the beneficiary or survivor is still required to submit all necessary documents; however, payment is made as set forth in the merger agreement (contract) affecting beneficiaries and survivors.] (R.S. 11:2256 and R.S. 11:2259)

Mr. Starns presented a list of five applicants for survivor benefits. He stated that the notarized applications for survivor benefits had been received and reviewed by the retirement office, as well as all supporting documentation. The members' records were reviewed by the staff to determine survivor benefit eligibility and to determine that the survivor benefit calculation is completed per applicable state laws and any merger agreements. Mr. Starns stated that the members of the board had been provided with a copy of the applications for survivor benefits, along with copies of all supporting documentation.

Mr. Starns addressed the application of Mrs. Sandra Kirkley Clinton, surviving spouse of Mr. Luther Lee Clinton. He said that Mr. Clinton's date of death was February 10, 2006, and, although Mrs. Clinton's application had just been received, that the application was in order.

Mr. Birdwell questioned Mr. Starns about Mrs. Clinton's application. Mr. Starns replied that when he contacted Mrs. Clinton for an explanation as to why she had just applied for survivor benefits, she told him that she was under the assumption that she had to be retired in order to receive a benefit.

Relative to Mrs. Clinton's application for survivor benefits, Mr. Smith noted that the Certificate of Death indicates that Mr. Clinton was divorced at the time of his death.

Mr. Greg Curran, the system's actuary, stated that if Mr. Clinton selected Mrs. Clinton as his beneficiary when he retired, then Mrs. Clinton is entitled to receive a benefit even if they were divorced.

Mr. Starns read into the record the names of the remaining four applicants for survivor benefit as follows: Mrs. Vickie Ann Dugas, surviving spouse of Mr. Eddie Dugas, Jr.; Mr. Francisco Romaldo Gonzales, surviving brother of Mr. James Joseph Gonzales; Mrs. Elizabeth Cure Richards, surviving spouse of Mr. Raleigh Paul Richards, Jr.; Mrs. Betty Roberts Sullivan, surviving spouse of Mr. Jimmy Lane Roberts. He stated that their applications were in order.

Mr. Birdwell moved to approve survivor benefits for Mrs. Dugas, Mr. Gonzales, Mrs. Richards, and Mrs. Sullivan, and to defer action on the application by Mrs. Sandra Kirkley Clinton pending further information being obtained for verification of the facts. Mayor Durbin seconded. The motion passed.

Upon further questioning by a board member, Mr. Starns explained that Mr. Clinton retired under the City of Alexandria Firemen's Pension and Relief Fund, which merged into FRS, and the City of Alexandria had paid 100% of the liabilities for the merger. Mr. Starns stated that the Clintons were

married in 1965; however, in order for Mrs. Clinton to be entitled to survivor benefits, she and Mr. Clinton would have had to have been married at his time of his death.

Upon inquiry by a board member regarding the details of Mr. James Gonzales, Mr. Starns stated that, at the time of his death, Mr. Gonzales was divorced. At retirement, Mr. Gonzales selected Option 1, which provides a lump sum payment to a named beneficiary of any unused contributions. Further, when Mr. Clinton passed away, a restraining order was in place prohibiting the release of any retirement funds until the community property settlement was completed, even though he had already passed away.

- Disability Recertification Applications

PROCEDURE: Once each year during the first five years following the initial board of trustees approval for disability retirement, and once every three year period thereafter, all disability retirement members must undergo a medical examination by a state medical disability board doctor who must recertify that the disability retiree continues to be disabled from performing his duties. This recertification is required for the continuation of a disability member's benefits. The state medical disability board doctor's report has been provided to the board trustees.

Mr. Starns presented the application of [REDACTED] for disability recertification. Mr. Starns referred to a report written by the State Medical Disability Board doctor (Thad Broussard), which provided as follows: "There has been no improvement in this patient's condition since he was here in March 2006. My report at that time indicated that the patient would be restricted in motions regarding climbing and overhead use of the upper extremity, as well as lifting heavy objects. I believe that all would be the same for today's exam which in taking together would preclude him from returning to work as a firefighter, although would enable him to do some type of alternative employment which he is currently doing. In short, my evaluations indicate that he remains disabled from his job as a working firefighter."

Mr. Starns stated that based upon the recommendation by the State Medical Disability Board doctor, Dr. Thad Broussard, he recommended the approval and continuation of disability retirement and approval of discontinuing disability recertification.

Mr. Birdwell moved to re-certify disability benefits to [REDACTED] based upon the medical report from the State Medical Disability Board doctor, Thad Broussard and to exempt [REDACTED] from the recertification process. Mr. Halphen seconded. The motion passed.

DISABILITY CONVERSION REPORT

[NOTE: during the board meeting held in December 2008, Mr. Birdwell asked for the FRS staff to conduct a study relative to the members who had been approved for disability conversions.] Mr. Starns directed the board's attention to a list of members that had been approved for disability conversion.

ACCRUAL TRANSFER STUDY

Mr. Starns directed the board's attention to a list of members that had transferred service credit into the Firefighters' Retirement System from another public system. He said notices were sent to the employers asking them to respond if they were willing to pay a portion of the cost related to a study regarding increasing the accrual rate of those members that transferred service credit into FRS. There was not a tremendous response. There were five employers who responded and one more was received after mailing the board package. Six out of 115 employers responded that they would be willing to pay the pro rata portion of the cost of the actuarial study.

MOTION: Mr. Birdwell said he thought the problem was that no one knew how much the study was going to cost. He said a lot of fire chiefs probably got the notice and thought it might cost \$100,000.00. He moved for FRS to pay for the study and to re-send the notice to the employers letting them know there will not be a cost associated with the study. He surmised that this new information might generate more responses than the last notice.

During discussion of the motion, Mr. Stockstill was asked to clarify what was being asked in Mr. Birdwell's motion. Mr. Stockstill said a study is being proposed to identify all the people who are already in FRS who transferred credit into the system from some other Louisiana public retirement system. He said that it could be city time, parish time, police time, or any type of public service that the employee has credited to his account that was transferred into FRS. He said the FRS administration does not have a way to determine the type of credit that was transferred into FRS, nor does the system from which the member transferred. He said the only person that really knows is the person who transferred the credit. According to present law, when someone becomes a member of FRS, they can transfer into FRS any services credited to their account in another public retirement system. That typically generates an actuarial cost. The member is responsible for paying that cost if he wants to transfer the credit. It is not buying the service, it is transferring the credit. The distinction there is, if you are buying service, you take into account certain factors for accessing the cost. When you are transferring service, you take into account different factors. If the person cannot afford to pay the cost, then the law gives the option of reducing the amount of credit that is actually transferred.

For example, if someone had been in another retirement system and had five years of firefighter service and four years of military service, that is nine years altogether. When he becomes a member

of FRS and he wants to transfer that time into FRS, he tells us he wants us to transfer nine years of service. The FRS staff does not know what kind of service it is. If there is an actuarial cost to it, the FRS actuary develops an invoice showing the cost for that person to move the credit into FRS. If the person cannot afford to pay the cost, then instead of transferring nine years over, he can take a hit against his credit and maybe move seven years over. The other two years, they go away. They are not left in the other system, they disappear into cyberspace. They are no longer available. He permanently forfeits two years to pay for the move of seven years into the system. When that credit gets moved into FRS, that credit is still at the benefit accrual rate of the old system.

Mr. Stockstill said he believes the study proposes to identify all the people in the FRS membership who have transferred service credit into FRS, and it will show how much time they transferred into FRS and the accrual rate applied to that credit.

Chairman Fredieu asked if the study only covers people who have already paid for their credit?

Mr. Stockstill said his understanding of the study is that it covers everybody who transferred credit into FRS, irrespective of whether they paid for it or took a hit to their credit, either one.

Ms. Sullivan asked if the board is proposing to do the study on behalf of the system members, not on behalf of the PFFA or on behalf of St. George and, if the board is asking for it, then the board is paying for it?

Mr. Birdwell said, right now, this is just a study to see how many transferring members are out there and what it would cost to increase their accrual rate.

Mr. Smith asked the purpose of the study.

Mr. Birdwell said that we are just trying to see how many of those members are out there and what the cost would be.

Mr. Curran said that anyone who transfers service credit into FRS has a calculation done by our office. The calculation shows how much money is needed to make a full transfer. When there is not enough money being transferred from the prior system to complete a full transfer, the invoice shows how much the member would have to pay in order to complete it. But the accrual rate of the prior system applies to the credit when it is transferred into FRS. He expressed his belief that, for example, where a member transfers 10 years into FRS at a 3% accrual rate, their accrual rate would be increased to 3 $\frac{1}{3}$ %.

Mr. Birdwell said that, with regard to the members who merged into FRS, their credit was automatically increased to the 3 $\frac{1}{3}$ % rate and the cost was paid through the insurance premium tax

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fund. The proposed study would show how much it costs to treat the transferring members the same as the merged members.

Following further discussions, Mr. Broussard asked if the cost is deminimus, \$4,800, not \$48,000?

Greg Curran said that is the cost for the members that have already been identified. If the number doubles, then there is going to be an increase in the cost of the study.

Chairman Fredieu remarked that, in two or three years, because of additional mergers and transfers, this same issue will need to be revisited. He said this same situation occurred four or five years ago, but there were only a few people affected. Now, at this time, many more people are affected. He said that a study can be done regarding those members who have already paid out of their own pockets in order to get the higher accrual rate.

Chairman Fredieu said, what we have right now is that, we previously mailed a questionnaire. That questionnaire stated that we wanted to find out how many people transferred credit and asked if the cities were willing to pay for a study to see how much it would cost to upgrade the accrual rate for the transferred service. We did not get a good response because some of them felt like they did not know what the study was going to cost and so they did not know whether to say yes or no. So, we are now coming back with a motion to send out another questionnaire and tell them that FRS is considering paying for the study. Is that correct?

Mr. Birdwell said that is correct.

Chairman Fredieu said, right now, we are just voting on asking for the names of people who transferred because we might pay for the study. Because the other letter asked if the employers would be willing to pay for it.

[NOTE: At this point it is discovered that the electric cord of the microphone inadvertently became unplugged and a portion of the discussion was not taped. During this period, Mr. Birdwell withdrew his prior motion and resubmitted it in the form shown below. Upon discovery of the disconnection, the Chairman was alerted, discussion was immediately stopped until the microphone connection could be reestablished. Connection was accomplished. All entries after this point are memorialized on the tape recording of the meeting.]

Mr. Broussard said that everybody is getting confused because we keep talking about a bill that has not been drafted, heard, or passed yet. He said the motion only involves a study, and we need to decide if we are going to spend up to "\$10,000" to do the study or not. It's a simple thing. We are making it more confusing than it needs to be.

MOTION: Mr. Birdwell moved to have FRS staff send a letter to all employers asking whether or not they have employees who have transferred service credit into FRS and explaining that FRS is considering paying the cost of a study regarding accrual rates. Mr. Smith seconded. The motion passed.

COST-OF-LIVING ADJUSTMENT

Mr. Stockstill referred the board members to a letter received from the legislative auditor regarding the payment of a COLA. The letter confirmed that the system's target ratio had been met in accordance with applicable state laws allowing for the payment of COLAs. Mr. Stockstill recalled that the board previously approved a 3% COLA to all retirees and a portion of the 2% COLA to retirees over age 65, based on testimony by Mr. Curran. Since that time, however, he realized that he had misinterpreted the law relative to granting only a portion of the 2% COLA. He said the law allows the board to grant a full 2% COLA to retirees age 65 and over, but if there is not enough money to grant 2%, then it cannot be granted at all. However, according to law, the board does have authority to grant a portion of the 3% COLA to all retirees.

Ms. Laura Gail Sullivan confirmed that same interpretation of the law.

Mr. Curran provided an update to the members relative to the cost of the COLAs. He testified that the system had \$15.8 million with which to grant COLAs; therefore, a 2.87% COLA could be granted to all retirees and a 2% COLA to retirees over the age of 65.

The board then revisited the motion granting the COLAs, which was passed in the December, 2008, board meeting.

MOTION: Mr. Birdwell moved to reconsider the vote relative to the granting of COLAs, which was passed in the December 11, 2008, board meeting. Mr. Smith seconded. The motion passed.

MOTION: Mr. Birdwell moved to grant a 2.87% COLA to all system retirees and an additional 2% COLA to retirees age 65 and over. Mr. Halphen seconded. The motion passed.

ROBERT KLAUSNER

Application for Determination Letter from IRS. Mr. Stockstill stated that, in 2004, the FRS board of trustees voted to submit an application to the Internal Revenue Service (IRS) to become a qualified plan and to begin acting as a qualified plan as of January 1, 2005. To attain qualified status, an application has to be submitted to the IRS, who later provides a determination letter; however, a letter of determination from the IRS is not necessary in order to act as a qualified plan. He stated that, for all intents and purposes, FRS is a qualified plan, but felt that seeking a letter of determination from the IRS would prevent any questions from arising in the future. Mr. Stockstill

informed the board members that FRS retained the services of Mr. Bob Klausner, the system's tax consultant and attorney, to undertake the task of submitting to the IRS an application for determination. When the system's application was reviewed, the IRS postponed approval of the plan as a qualified plan. Mr. Stockstill then asked Mr. Klausner to explain the action taken by the IRS and the status of the system's application for determination.

Mr. Klausner stated that the IRS was provided the pertinent constitutional provisions and Louisiana Revised Statutes. The IRS reviewer said, "Where's the plan document?" The reviewer had never dealt with a public plan. So the IRS reviewer said, "We want all the individual Acts of the Louisiana legislature since the creation of the plan that have impacted on the plan, but the final schedule for reviewing governmental plans is ending, so refile before January 31, 2009." At their request, we sent every single piece of legislation that ever affected the plan – it was a large box full. Mr. Klausner said the refiling is now filed and it was filed by the January 31, 2009, deadline. In the spirit of full disclosure, he also advised the board that he has had a relationship with a law firm in New Orleans. He said he lives part-time in New Orleans, so he has an office in New Orleans. He delegated some of the IRS work to the staff in that office. He said that "everything with the IRS has my direct review, my signature, and my responsibility. And when you assign a task for me, I am directly responsible."

Mr. Klausner said that, in September of 2008, he was invited to represent the public pension plan community in a meeting of the US House of Representatives, Ways and Means Committee. The Chairman and vice chairman invited folks from US Treasury and the IRS to be there. One of the issues that was discussed is the question of why we had to provide the IRS with all of these reams of old legislation that had no reference to anything. In turn, the IRS said, "Yeah, that's probably right. We're thinking of not making people do that anymore." The IRS is also in the process of preparing a survey to send to all 2,677 state and local government plans in the US, and it wants to know more about how they operate.

Mr. Stockstill asked when Mr. Klausner anticipated the IRS acting on the FRS application?

Mr. Klausner said he is hopeful that they will act within the next 6 months.

Chairman Fredieu asked Mr. Klausner whether he thought there is a possibility that the IRS will deny us qualified status?

Mr. Klausner said no, he did not think they would.

HR 710. On January 27, 2009, US Representative Gary Ackerman (D.NY) introduced HR 710. The purpose of the bill is to encourage state and local retirement plan investment in TARP approved financial institutions. In return for investment in a class of preferred stock, the retirement plans will receive an 8.5% guaranteed rate of return as well as a guarantee of principal. The idea is to provide

an infusion of non U.S. government capital into the banking system, which can be leveraged by a multiple to create capital for consumer loans. The investments will be a direct guarantee of the Treasury, rather than a deposit guarantee through FDIC.

The other goal is to provide a guaranteed investment opportunity for state and local plans which have been hard hit by the capital markets. This will in turn serve to relieve funding pressures on state and local plan sponsors. Plans are encouraged to contact Congressman Ackerman's office for more information and to encourage their own members of Congress to support the concept.

The Bill intends to support from \$50B - \$250B of pension plan monies which will be injected into banks through preferred shares eligible for inclusion in the Tier I capital of participating banks — subject to a guarantee by the Federal Government of the dividends and principal of the preferred. While the banks which receive funds under this bill will be mutually agreed to by US Treasury and the pension fund investment fund boards, it is anticipated that preference will be given to stable, regionally and locally based institutions which intend to use the funds to support credit extension through: expansion of their own loan book; the purchase of asset backed securities, including those secured by home mortgages, consumer credit card receivables, or student loans, which will facilitate additional lending in those areas; and even acquisition, at the request of the Federal Government, of failing financial institutions which can be stabilized and then grown, supported by the capital provided in this Bill. The Bill provides clear benefits to the economy: For the first time in this crisis, substantial private funds will be brought to bear on our problems.

The returns on the preferred stock issued subject to this bill will help to offset the losses suffered by public pension funds whose portfolios have been decimated by plunging equity prices and which otherwise must look to local governments and taxpayers, already severely strained by the current economic crisis, to cover their obligations to millions of public employees.

Bowers v. FRS. Mr. Klausner then gave a report on the Supreme Court case known as Bowers v. FRS. Bowers is a disability case where a firefighter had a disability that arguably was related to her gender. You granted her a nonservice connected disability. She was disabled, but the medical evidence said it may or may not have been related to her job. You denied a service-related disability and granted a nonservice disability. You were sustained by the trial court and the First Circuit Court of Appeal. The Supreme Court of Louisiana granted a writ, and that means they are going to review it for correctness. The FRS brief was submitted in record time and we have already had oral arguments.

Mr. Klausner said the court was interested in two issues. Whether the disability statutes discriminated on the basis of gender and why there are special provisions of the Louisiana Constitution which forbid discrimination on the basis of race, etc. He said he believes the court was convinced that it was not gender discriminatory, because after the oral arguments, something very unusual and rare happened. The court asked for additional briefs. The court was very divided. We

expected an opinion to be issued on the court's first day in February, but it has passed, and, so, there is no way to tell when an opinion will be issued.

Chairman Fredieu thanked Mr. Klausner for attending the meeting and providing updates on important issues to the board.

MONTHLY FLASH REPORT - JANUARY 2009

Mr. Joe Meals presented the monthly flash report for January 2009. (see attached Exhibit #3) He began by noting that the overall fund was up/down as follows: -02.5% for the month of January as compared to the blended index of -05.4%; and -26.0% for the fiscal year to date as compared to the blended index of -21.0%; and -25.0% for the trailing 12-months as compared to the blended index of -24.1%.

COMMITTEE REPORT - INVESTMENT COMMITTEE

[NOTE: The investment committee met on February 11, 2009, at the FRS office in Baton Rouge at 2:00 p.m. to discuss the business set forth in its posted agenda. Committee members present included committee Chairman Birdwell, Barbara Goodson, Sammy Halphen, Mayor Hawkins, Paul Smith, John Broussard - Alternate, and Charlie Fredieu - Ex Officio]

Chairman Fredieu recognized Mr. Stacy Birdwell, chairman FRS investment committee, for the purpose of giving the investment committee report. Mr. Birdwell gave a brief overview and then recognized Mr. Joe Meals, FRS investment consultant, for the purpose of providing further details.

- **Securities Lending Update**

Mr. Meals then turned his discussion to the FRS securities lending program. He said the FRS securities lending program is managed by JP Morgan. The collateral that JP Morgan had when they loaned securities out was invested in some assets that were impaired, particularly Lehman Brothers bonds and also a company called "SIGMA Command." Those securities become very illiquid and became questionable as to whether or not they would be able to pay off at their stated value. As a result, JP Morgan had to make a change in the liquidity of the assets of the program so that you could not get out at your stated NAV or stated performance on a cost basis. In that portfolio, if you decided to get out, you would have a pretty substantial loss in the assets already lost. We talked about reducing our participation in that program, which we have done, but we have maintained participation in the program, and we continue to monitor events. As a result of some of the activity that has taken place, I helped Steven draft a letter to JP Morgan in which we requested certain information from them in order to compile a summary report relative to securities lending program of FRS on a month by month basis for calendar year 2008. He then made reference to handout of e-mail between he and Beth Andrews, the FRS securities lending representative with JP Morgan.

(see attached Exhibit #4) The information we asked for was not in the format requested. In fact, what was sent was a number of files for different months. Although the information was made available, I was unable to pull the information from those files to piece together what we had asked for. I responded to Ms. Anderson that I was unable to perform my intended task and asked if they could, but her response indicated that it would require "customized reporting." We asked for information because the losses are on the collateral investment, not on the underlying securities.

Mr. Meals referred to page 2 of the handout and said that the gross fees earned in total on the securities lending activities for 2008 were \$508,938. There are three systems holding the assets: JP Morgan, Bank One, and International. FRS paid JP Morgan \$240,481 for their services relative to securities lending in the year 2008, roughly 47.3% of the gross fees that were earned. FRS earned a benefit of \$268,457 through securities lending. What's important to understand is that is based on their accounting where they look at the collateral against equity on an amortized cost basis, which is consistent with industry standards. If you look at what your liquidation value is, if you would decide to exit the program, you would actually incur a \$694,117 loss. So, in essence, instead of making \$268,000, you would have lost \$425,660. Basically, JP Morgan has charged \$240,481, which was supposed to be part of a profit participation program, when on a mark to market basis, you have actually experienced a loss of \$425,660. The \$694,000 loss is made up – the amortized cost basis of the investment to collateral in Lehman paper is \$231,000 and the JP Morgan market valuation for that paper today is \$20,812, resulting in a \$210,436 loss; SIGMA, a \$370,954 investment, with a market value today of \$7,420, resulting in a loss of \$363,534. In CASHCO, a more liquid security, \$23,378,840 of collateral investment, with a market value today of \$23,341,000, resulting in a \$37,000 loss; Floating rate securities in the portfolio that totaled \$3.3 million, that are valued at \$3.2, resulting in an \$83,000 loss. The main losses are in Lehman and SIGMA. If we were to totally exit the securities lending program, they would distribute those securities in-kind and that is what you would have in your portfolio to get out.

Mayor Hawkins asked if the contract contained a termination or expiration date, to which Mr. Meals responded that the contract itself is terminable at will.

The discussion of this matter was concluded with no action being needed or taken.

- **Litigation Update**

AFTRA Retirement Fund v. JP Morgan Chase Bank

Mr. Stockstill asked Mr. Meals to discuss the litigation relative to securities lending.

Mr. Meals stated that the American Federation of Television and Radio Artists Retirement Fund (AFTRA) has sued JP Morgan alleging that JP Morgan breached its fiduciary duties in investing the funds in the SIGMA Finance Inc. paper. He told the board members that he wanted to make them

aware of the lawsuit in the event that the board and Mr. Stockstill, the board's legal counsel, decided to take any action and/or participate in the lawsuit.

Mr. Stockstill explained that the case was filed because AFTRA feels that their assets were misapplied by JP Morgan, who has an inherent fiduciary duty to protect AFTRA's assets or recover those assets. He told the members of the board that they, too, have a fiduciary duty; however, he was unsure at this time whether or not there needed to be a cause of action by FRS against JP Morgan. If it is decided that a cause of action exists against JP Morgan relative to securities lending, it would create an awkward situation because FRS has a relationship with JP Morgan, its custodial bank.

Mr. Meals pointed out that, at this point, litigation against JP Morgan by FRS would be addressing a loss of approximately \$600,000 and suggested that the board keep the cost of litigation and the relationship with JP Morgan in perspective to what is potentially recovered with a lawsuit. He also informed the board that he had discussed the issue with Mr. Mike Gallagher.

- **Market Update**

Mr. Meals turned the board's attention to the chart entitled "Historical Yield Curve". (see attached Exhibit #5) He stated that, from the month of January through February 10, there was a rise in interest rates in all maturity levels, with a more significant rise with respect to the 10 and 30 year maturity levels. Mr. Meals referred to the second page of the exhibit, which contains information regarding the corporate market as of January 30, 2009. Because the FRS investment committee was conducting a search for a corporate bond manager, he focused attention on the bottom table relative to the investment grade corporate market. He explained that it was important to make sure that the opportunity for spreads tightening still exists at the time investments are made. He pointed out that, because interest rates actually rose in the month of January, the spread did contract somewhat, particularly in the lower quality investments. As an example, he referred to the "A - Int," which is "A" rated securities with an intermediate maturity, the spread contracted by 85 basis points. The first table on the page shows that, with regard to the below investment grade market, or junk bond market, even with the rise of interest rates in the month of January, high yield securities actually improved by 6%. Turning to the third page, the S&P 500 equity market, Mr. Meals said the market appears to be trading between the 800 and 925 range. Next page is a comparison of how the market reacted between July 2002 and July 2004. The price action occurring currently in the market is similar to what happened from 2002 to 2004. The chart on the next page shows the change in the market from February of 1989 and January of 2009. If the market drops below the 800 level, the concern is that people will start dumping securities. The last page, with a date range of February 2004 to February 2009, is an update with regard to the dollar. It shows that the dollar made a fairly substantial recovery in January through February. When we are talking about taking money out of equities, we are saying take a little more out of international portfolio because we are not getting the benefits from having the dollar appreciate.

Mr. Meals then concluded his market update with no action being needed or taken.

- **FRS Corporate Bond Manager Search**

Mr. Matt Ross, an analyst with CSG, was called upon to provide a brief summary relative to the review of the corporate bond managers discussed during the FRS investment committee meeting on February 11, 2009. The investment committee recommended placing \$25 million with Barrow-Hanley and \$25 million with Orleans Capital Management. Mr. Ross stated he was also instructed by the committee to negotiate lower fees with Barrow-Hanley, although a contract with Barrow-Hanley is not contingent upon an agreement to lower their fees.

Mr. Stockstill asked if the discussion during the investment committee meeting identified a source from which the \$50 million would be taken and reallocated, to which Mr. Ross answered in the negative. However, in response to the question, Mr. Meals referred to a handout entitled "FRS Asset Allocation Proposed Adjustments," (see attached Exhibit #6), depicting CSG's recommendations relative to the funding source. The recommendation is to take \$15 million from the LSV international portfolio, \$10 million from the international portfolio with Thornburg, and \$5 million from Blackrock. The additional \$20 million would be taken from the cash account.

MOTION: Mr. Birdwell said that the investment committee agreed with the recommendations of Mr. Meals. He then moved to place \$25 million with Barrow-Hanley and \$25 million with Orleans Capital Management. Messrs. Halphen and Smith jointly seconded. The motion passed.

Referring to Exhibit #6, Mr. Meals pointed out that he was recommending a redemption of \$3 million from the Northern Trust 500 Index and \$3 million from the Northern Trust 400 Index. He explained that the reason for his recommendation is that Northern Trust's index fund was participating in securities lending and have gotten caught on the reinvestment side of the collateral. This resulted in Northern Trust placing restrictions on the amount of money that can be withdrawn from its index funds without having to recognize a loss. However, it is allowing two redemption opportunities, restricted to one redemption a month, but the maximum of the redemptions can be no more than 15% of the account value. Mr. Meals recommended the board submit redemption requests to Northern Trust and that the proceeds from those redemptions be placed into the cash account of the system.

MOTION: Mr. Halphen moved to accept the recommendations as stated by Mr. Meals. Mr. Birdwell seconded. The motion passed.

- **Small/Mid Cap Manager Search**

Mr. Meals informed the board that AXA Rosenberg is the only active mid cap manager for FRS. He distributed a handout entitled "Preliminary Small to Mid Equity Search" (see attached Exhibit

#7) and referred to the last two pages of the handout, which reflect the performance of AXA. He was of the opinion that AXA's performance had begun to deteriorate, and in discussions with the company, it was revealed that their earnings model had not been working effectively for approximately 18 months. Mr. Meals recommended that a search begin for a small to mid cap manager and at the conclusion of interviewing managers, the board could decide whether to add a second small to mid cap manager in addition to AXA or as a replacement for AXA. He made it clear, however, that he was not recommending that AXA be replaced at this time. Mr. Meals requested that Mr. Ross explain the screening guidelines that they would recommend be used.

Referring to Exhibit #7, Mr. Ross began by stating that he used CSG's database to gather the information contained in the exhibit relative to screening guidelines and the list of 22 initial candidates. He then briefly discussed their recommendations for the screening guidelines to be used by FRS with respect to the minimum qualifications of prospective managers.

Mr. Stockstill requested clarification with regard to the database Mr. Ross used to determine the screening guidelines. He asked if it was a "Rolodex" database or a "nationally available" database. Mr. Ross replied that he used a standard database. Mr. Meals added that the information was from the same database used for previous screenings.

Mr. Meals restated the recommendation. He said CSG recommends that FRS begin the process of conducting a search for a small to mid cap manager and approval of the minimum criteria to be used.

MOTION: Mr. Bridwell moved to accept the recommendation for CSG to begin the search process for a small to mid cap manager and to approve the minimum criteria to be used as explained by Mr. Ross. Mr. Smith seconded. The motion passed.

(The board meeting recessed for lunch and then resumed its discussion of items on the agenda.)

- **Land Baron, L.L.C. and First NBC Bank**

Mr. Meals stated that he would be discussing the renegotiation of the lending agreement between Land Baron and First NBC Bank relative to the Nothing Left To Prove transaction. He reminded the members of the board that FRS is a co-owner of the property, which currently has a \$21 million first mortgage loan on the property at a current interest rate of 13.5%. Mr. Meals explained that FRS owns the property through a special purchase LLC called FRS-LB#1.

Mr. Meals explained that Land Baron has obtained a commitment letter from First NBC Bank for a substantially better loan for three years at 7.5%, with special conditions. One of the conditions of the loan is that an escrow account must be established in an amount equal to three year's of interest-only debt service. Another condition of the loan would be that First NBC would be an underlying beneficiary to the ownership of the property. MERS and the Firefighters' Pension and Relief Fund

for the City of New Orleans, who are co-owners with FRS must also agree that First NBC would be an underlying beneficiary to the ownership of the property. In addition, at the end of the initial three-year period, FRS must agree that the escrow account will be replenished with one year's worth of debt service if the loan is not paid off. Mr. Meals said that, after the initial three-year period, the loan matures, therefore, there is no longer any debt service, unless the loan is in default. He felt that this may be an indication that, if the loan is not paid off in three years, First NBC Bank may be interested in renewing the loan or extending for a further period of time, but they just want the escrow account to be replenished. This, he said, would require a commitment letter agreeing that if the loan is not paid off after the initial three-year period, the system would agree to continue to fund the debt service necessary on the loan.

Another issue, is that First NBC Bank, in its commitment letter, identified FRS-LB#1 as a borrower on this loan. Since FRS-LB#1 is not the borrower under the existing loan, the board should only agree to the debt service conditions outlined by First NBC Bank under the same terms and conditions to which the system is obligated under the existing loan. The issue behind this is that the existing loan on the property is 13.5%, and now there is an opportunity to refinance at a 7.5% rate, which saves money and increases the profit on the property.

When you start looking at "Are you a borrower?" We discussed this issue with First NBC Bank and said that we did not think we are a "borrower", we are just agreeing that we will pay our share of the debt service on the loan since the collateral that has been pledged is an undivided interest in the entire property and we are the equity holders in the property.

Chairman Fredieu asked if FRS is being considered a borrower as far as the original loan is concerned?

Mr. Meals said he did not think so, but he would check the original deed to make sure. He said he did not think FRS should take on any condition that is contrary or different than the conditions that the system already has under the existing loan.

Mr. Stockstill recalled that the FRS board very clearly instructed Taylor-Porter-Brooks to make sure that FRS was not obligated as a borrower. In fact, FRS is a direct-purchase owner, not a borrower. FRS did have to pledge its interest in the property as part of the collateral for the loan that Land Baron was taking out.

Mr. Meals said that too was his understanding.

Mr. Stockstill noted that, in this instance, the system is being transformed into a borrower, and that is not consistent with the position taken by the board when it originally agreed to purchase an interest in the NLTP property. If that is correct, then FRS is being asked to change the dynamic. He said he was not assigning a good or a bad value to that, he was just noting the facts.

Mr. Meals said that, if you are deemed to be a "borrower", that puts you in a different transaction.

Mayor Hawkins noted that it will increase the system's exposure and asked who borrowed the money in the first place?

Mr. Meals said Nothing Left to Prove, LLC, which is the other co-owner in the property, borrowed money on behalf of the property, but with the understanding that the entire parcel of property is being pledged against that loan.

Meals said he thinks the status of FRS as a borrower is a misunderstanding by First NBC Bank. The loan terms are being presented as they came back from First NBC. He said FRS should go back to First NBC and say that we are not going to be a borrower, but we agree to the assignment of collateral and agree to replenish the debt service at the pro-rated amount of 39% as co-owner in the property, because that saves approximately one million dollars a year.

Mr. Stockstill said he agrees that, if FRS is not a borrower and is only obligated to terms that are similar to the original loan, then the system would pay its pro rata share of 39%. But then he referred to the third page of the letter from First NBC, which contains wording saying "they agree jointly, severally and in solido". (see attached Exhibit #8) In the state of Louisiana, that means -- particularly the word "in solido" means, if any of the other people do not pay their share, then FRS is legally obligated to pay the other party's share. So, in the best case scenario, FRS' obligation would be 39%, but in the worst case scenario, it could be 100% if the board accepts the terms as they are written.

Upon inquiry, Mr. Meals said that Land Baron and the other principals in the NLTP LLC did not put up any equity.

Mrs. Goodson observed that NLTP LLC signed the loan as a borrower and pledged the land as collateral.

Chairman Fredieu asked how much additional money FRS had invested after the initial investment?

Mr. Meals said FRS put an additional \$2 million in the investment to replace the second mortgage. When the investment was initially done, there was a \$21 million first mortgage and a \$4 million second mortgage. When the second mortgage came due, the financing rates on that were up in the 20% range, and rather than paying 20%, we put up the equity capital to make it an equity investment and retired the second mortgage altogether. And that's when you went from a \$7 million investment to a \$9 million investment.

Mr. Meals further noted that, if everybody wanted to retire this debt and make it a pure equity investment, they could, but that's not something that CSG would recommend for FRS to do. He said

that, even at 7.5%, the economics are such that FRS' return on equity is better than borrowing the money at 7.5%.

Mrs. Goodson asked if there is an appraisal?

Mr. Meals said the bank is getting an appraisal, but not until the parties commit. This is a commitment letter from them, not a loan document. Land Baron needs to know whether or not this is something that FRS is willing to agree to. The commitment letter was sent to Land Baron, and Land Burn, in turn, sent it to FRS.

Chairman Fredieu asked if the transaction must be done by March 31?

Mr. Meals said the bank wants a commitment by February 28 and the loan closing no later than March 31.

Mr. Stockstill said the board is just talking about the loan. He said there has not yet been any discussion of what happens if the board does not act. He said if FRS does not act, and NLTP LLC cannot come through with their portion of the debt, then there are repercussions. He asked what happens if there is no closing?

Mr. Meals said if the proposed loan is not made, then when the loan does actually mature, if the owners do not have \$21 million to pay it off, then the bank forecloses on the property.

Mr. Meals said that, in foreclosure, the property would be sold for whatever value it got sold for. That would go toward paying off the \$21 million loan and, if anything would be left over, it would be available to the equity holders.

Mrs. Goodson asked if there had been any development on the property?

Mr. Meals said Land Baron thought there would be some development beginning by now, but actually, no development has started, but there is to be development starting soon. It would be delayed a little bit by economic conditions, but not by much.

Upon inquiry, Mr. Meals said when FRS initially entered this transaction, 15% was a minimum return. He said FRS was expecting to get 25% to 30%, but he does not think FRS is going to get anything better than the 15% at this point and there is a possibility that FRS will not get 15%.

Upon inquiry of whether Mr. Meals had any recent discussions with Land Baron, Mr. Meals said that the principals of Land Baron still feel very positive, although they think it's going to take a little longer than originally planned.

Chairman Fredieu asked if FRS could just pay for the whole – pay for what is left over and get the property developed?

Mr. Meals said FRS could pay \$21 million in the loan and own the whole thing.

Mr. Halphen said he is nervous about putting anything else into it. It feels like it is becoming a money pit.

Mr. Meals said he thought the board was at a point where it needs to hear from Land Baron about the condition of the property before deciding any course of action.

Chairman Fredieu suggested inviting them to appear.

Mr. Meals said Land Baron would be invited to appear at the March meeting to address these issues as well as having them provide updated financial statements.

MOTION: Mr. Halphen moved to invite Land Baron to appear before the board and to provide documents supporting the development projects that were supposed to come into the NLTP property that would make it valuable and sellable and to provide their current financial statements. He said there is an uneasiness in the present economic time in our country and we think that their appearance should not be postponed. Mr. Smith seconded. The motion passed.

- **Land Baron - Baron Boulder Ranch**

Mr. Meals stated that the investment committee determined in its meeting that there was insufficient information available on the subject and that it would be discussed in a future meeting. (see attached Exhibit #9) This matter was concluded with no action being needed or taken.

- **Change in Structure of Montagu Newhall Crossover Ventures**

Mr. Meals stated that the investment committee discussed in its meeting a change in the relationship between Montagu Newhall and Crown Securities. He explained that, in the initial investment, Montagu Newhall, as the general partner of the fund, had subcontracted with a micro cap public equity firm called Crown Advisors. However, one of the principals of that company proved to be of no benefit in the process. As a result, Montagu Newhall terminated the contract with Crown Advisors and instead hired the other partner to be employed. Mr. Meals was of the opinion that, at this point, no action is required by the board.

Chairman Fredieu asked if the change would have any effect on the performance of the fund and suggested that the situation be monitored. Mr. Meals responded that he did not anticipate any

negative effects and agreed that the fund would be monitored. This matter was concluded with no action being needed or taken.

- **Hyatt Regency Direct Investment**

Mr. Meals discussed an investment opportunity presented to FRS and passed on to Consulting Services Group for a project in New Orleans. He stated that "they" were seeking debt financing on the Hyatt Regency next to the Superdome. After reviewing the information provided, it was decided that no recommendation could be made because the information was insufficient. Mr. Meals added that, after further review, he was of the opinion that the board should request one of its fixed income managers to provide a review of the project to CGS. In the event the manager would require payment of a fee, CSG would request approval for funds to pay the fee. This matter was concluded with no action being needed or taken.

- **Request for Accelerated Distribution of Refund**

Mr. Stockstill informed the members of the board that the request for an accelerated distribution of refund had been rescinded by the requestor. This matter was concluded with no action being needed or taken.

- **Proposed Legislation - 2009 Regular Session**

Mr. Stockstill discussed the possibility of three legislative items for the upcoming 2009 regular legislative session. He first discussed the feasibility of introducing a bill or concurrent resolution regarding exemption from a portion of the law requiring constructive engagement with companies that have employees or facilities in countries identified as being state sponsors of terrorism.

Miss Sullivan spoke about constructive engagement as set forth in present law.

MOTION: Mr. Broussard moved to allow Mr. Stockstill to advertise the legislation and to move forward on discussions with legislators relative to introduction of a concurrent resolution. Mayor Hawkins seconded. The motion passed.

Mr. Stockstill next discussed the feasibility of legislation that would treat the ex-officio members of the FRS board of trustees as being exempt from counting toward a quorum for the holding of board meetings. This matter was concluded with no further action being needed or taken.

He next discussed the feasibility of legislation that would allow residual IPTF funds to be used exclusively for the purpose of amortizing the UAL of the firefighters, sheriffs, and municipal police retirement systems, in lieu of reverting to the state general fund. [NOTE: The following action occurred later in the meeting but the entry is recorded in this location for purposes of context.] Mr.

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Stockstill asked for approval to advertise for possible legislation relative to the Insurance Premium Tax Fund (IPTF).

MOTION: Mayor Hawkins moved to allow Mr. Stockstill to advertise legislation relative to the IPTF. Mr. Birdwell seconded. Mr. Broussard was in opposition. The motion passed.

OTHER BUSINESS

• **Administrative Assistant's Conference**

MOTION: Mr. Broussard moved to approve Mrs. Charleville's attendance at the administrative assistant's conference and payment of the registration fee. Mayor Hawkins seconded. The motion passed.

ADJOURNMENT

There being no further business, the board meeting was adjourned.

FUTURE MEETINGS

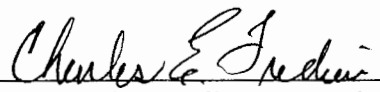
**FRS Committee Meeting
at the Public Safety Building
3100 Brentwood Drive,
Baton Rouge, Louisiana
on Wednesday, March 11, 2009, at 3:00 p.m.**

**FRS Board Meeting
at the Public Safety Building
3100 Brentwood Drive,
Baton Rouge, Louisiana
on Thursday, March 12, 2008 at 8:30 a.m.**

SUBMITTED BY:

APPROVED BY:

Janet Picard, Transcriptionist



Mr. Charles Fredieu, FRS Chairman