



FIREFIGHTERS RETIREMENT SYSTEM

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MEETING OF THE BOARD OF TRUSTEES December 17, 2009

A meeting of the board of trustees was held on December 17, 2009, at the Public Safety Building in Baton Rouge. Mr. Charles Fredieu, Chairman, called the meeting to order at 8:30 a.m.

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

Ms. Kelli Chandler called the roll.

MEMBERS PRESENT

Mr. Charles Fredieu, Chairman
Mr. Stacy Birdwell, Vice Chairman
Mr. John Broussard
Mayor Jimmy Durbin
Ms. Barbara Goodson
Mr. Sammy Halphen
Mr. Paul Smith

OTHERS PRESENT

Mr. Steven Stockstill
Ms. Kelli Chandler
Mr. Jason Starns
Ms. Penny Gandy
Mr. Gary Curran
Mr. Joe Meals
Mr. Mike Gallagher
Ms. Lauren Bailey
Mr. Earl Bush
Mr. Doyle Boudreaux
Ms. Jackie Boudreaux

MINUTES

MOTION: Mr. Halphen moved to adopt the minutes of the board meeting held on November 12, 2009. Ms. Goodson seconded. The motion passed. [NOTE: Due to the lack of a quorum at this time, the vote on this matter occurred later in the meeting upon establishment of a quorum.]

APPLICANTS

- 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 system's administrator. All retirement applications were submitted and benefits calculated in accordance with all applicable state laws.

Mr. Starns presented the list of new retirees. (see attached Exhibit #1) He stated that all applications were in order.

MOTION: Mr. Birdwell moved to approve the new retiree applicants. Mr. Halphen seconded. The motion passed. [NOTE: Due to the lack of a quorum at this time, the vote on this matter occurred later in the meeting upon establishment of a quorum.]

- Disability Retirement Applications

PROCEDURE: Application for disability retirement, current job duties, and all medical records pertaining to the injury or illness were received and reviewed by the retirement office staff. An appointment was scheduled with a State Medical Disability Board doctor specializing in the area of the claimed disability. The doctor submitted a detailed report written in laymen's terms explaining his findings based on the examination performed and the medical records reviewed. The board of trustees has been provided with the disability application, job description, the State Medical Disability Board doctor's report and all medical records for review. (R.S. 11:215, 216, 218, & 2258)

Mr. Starns presented to the board, for its consideration, the application for disability retirement of [REDACTED]. He referred to a follow-up letter dated December 11, 2009, which was sent to Dr. Stephen Wilson asking whether or not, in his opinion, [REDACTED] condition was solely as a result of injuries sustained in the performance of her normal duties as a firefighter. The letter was returned by Dr. Wilson and received by the system on December 16, 2009, in which he indicated "yes" to the question posed to him. The letter was distributed to the members of the board. Mr. Starns then briefly explained the report received from Dr. Wilson on November 30, 2009. In

his report, Dr. Wilson stated his opinion that the applicant developed degenerative arthritis and tendinitis of the left thumb during her employment as a firefighter in the years 2007 and 2008.

Chairman Fredieu asked [REDACTED] if she would prefer for the board to enter into executive session to discuss her medical records, to which [REDACTED] declined.

In summary, Dr. Wilson stated in his report that he felt [REDACTED] condition was secondary to her job performance as a firefighter and, although she could return to gainful employment, she could not return to work as a regular firefighter even though she had surgery, and the surgery had been a success. Based upon the report by Dr. Stephen Wilson, Mr. Starns stated that approval of a job-related disability was recommended for [REDACTED] with continuation of disability recertification.

A brief discussion ensued indicating that the disability benefit amount would be the same whether considered job-related or non-job-related. It was noted that [REDACTED] had said that she did not consider her disability to be job-related.

MOTION: Mr. Birdwell moved to approve non-job-related disability benefits for [REDACTED] and the continuation of disability recertification. Mr. Halphen seconded. The motion passed.

[NOTE: With a quorum now established, the following motions previously made were approved: Motion and second to approve the minutes of the board meeting held on November 12, 2009; motion and second to approve the new retiree applicants.]

Continuing Legal Education (CLE)

Mr. Stockstill requested that he be reimbursed for his out-of-pocket expenses for attending CLE. He explained that, because he had been unable to attend CLE at the State Capital in Baton Rouge, it was necessary for him to travel to New Orleans to obtain the mandatory CLE hours.

MOTION: Mr. Birdwell moved to reimburse Mr. Steven Stockstill for his expenses to attend CLE in New Orleans. Mr. Halphen seconded. The motion passed.

FRS Actuarial Valuation As Of June 30, 2009

Mr. Curran presented the Firefighters' Retirement System Actuarial Valuation as of June 30, 2009. (see attached Exhibit #2) Referring to the exhibit, Mr. Curran stated that FRS had 3,882 active members, with 1,735 being vested and 147 members participating in DROP. In addition, there are 1,688 members receiving a benefit; 407 terminated members due a refund, and 55 terminated members who will receive a benefit upon reaching the age requirement for retirement. He noted that the actuarial methods and assumptions did not change, with the exception of a change in the

smoothing of the market value of assets from 90% to 110% to 85% to 115%. Mr. Curran was of the opinion that these changes relative to FRS would be accepted by the Public Retirement Systems Actuarial Committee (PRSAC). He then briefly explained Act 270 and Act 422, relative to changes in plan provisions enacted during the 2009 Regular Session of the Louisiana Legislature. Relative to asset experience, he stated the market rate of return for 2009 was calculated at -20.8%. In addition, over the last ten years, four years have produced negative rates of return. According to Mr. Curran, the average geometric rate of return over the last ten years has been 2.2%, which is the reason for the increased cost to the system.

Chairman Fredieu commented that 2008 and 2009 was by far the worse negative returns he has ever witnessed, and it will take a long time for the system to overcome such losses. He was of the opinion that it would be many years before COLAs would be able to be granted.

Mr. Curran stated that, although the increases in the employer contribution rates would be phased in over the years, they would be front-loaded, so that in the later years, the increases will not be as high.

Upon questioning by Mr. Broussard regarding the rates of return of other systems over the last ten years, Mr. Curran responded that of the five valuations he has performed so far this year, those systems are at approximately 2%, plus or minus .5%.

Mr. Curran went on to say that the market rates of return for FRS for 2009 have ranged from approximately -13% or -14% to -20% or -21%.

Chairman Fredieu asked Mr. Curran what figure he used in his calculation for projecting the rate of return for next year. Mr. Curran replied that he used 7.5% going forward; however, it does not mean that the employer contribution rate will stay even.

Mr. Curran remarked that for Fiscal Year 2009, the system's actuarial investment earnings were \$216 million below the assumed earnings rate of 7.5%, resulting in an increase of amortization payments of \$24 million, or 13% of payroll. He then briefly went over the plan demographics and liability experience and the funding analysis and recommendations. He made reference to the unfunded accrued liability, which may be increased or diminished by plan experience, changes in assumptions, changes in benefits, retirement of members, and new entrants into the system. He did state, however, that he did not expect to see increases in payroll such as had occurred in the past. Mr. Curran commented that the system's liability experience for Fiscal Year 2009 was somewhat favorable, with salary increases near projections. DROP entries were slightly above projections and withdrawals slightly below projections, both of which increased costs, as well as the COLAs granted in 2009. He then briefly explained the reconciliation of the change in costs and the various charts and graphs contained in Exhibit #2.

Mayor Durbin noted that the recommended employer contribution rate for Fiscal Year 2011 was 21.5%. A brief discussion followed indicating that it is slightly below what was expected.

Mr. Curran then addressed the exhibits contained within the valuation report. In particular, the target ratio for the current fiscal year is 94.12%, and 78.4% is the funded ratio.

Chairman Fredieu asked about the losses incurred by DROP participants. Mr. Curran stated that DROP is paid on an actuarial market basis, with the market rate of return being -20.8%.

Mr. Smith suggested that Mayor Roach be provided a copy of the actuarial valuation performed by Mr. Curran.

MOTION: Mr. Birdwell moved to approve (or accept) the FRS Actuarial Valuation as of June 30, 2009, as prepared by Mr. Curran. Mr. Smith seconded. The motion passed.

FRS Comprehensive Annual Financial Report - 2009 CAFR

Ms. Kelli Chandler presented the Comprehensive Annual Financial Report (CAFR) for 2009. (see attached Exhibit #3)

Upon questioning by Mr. Birdwell regarding the system's funding as of June 30, 2008, Ms. Chandler responded that the funded ratio was 85.78% for 2008 and 76.13% as of June 30, 2009.

Ms. Chandler suggested that the CAFR be approved by the board, but explained that due to the auditors not being in attendance, she would explain it in more detail in the January board meeting.

MOTION: Mr. Birdwell moved to approve the FRS Comprehensive Annual Financial Report for 2009. Mr. Smith seconded. The motion passed.

Litigation Update - Hopper V. Robert Black, Jr., et al

Mr. Stockstill recommended that the board enter into executive session to discuss the lawsuit as indicated on the posted agenda.

MOTION: Mr. Halphen moved to enter into executive session for the board to discuss the Hopper vs. Robert Black, et al, lawsuit. Mr. Birdwell seconded. The motion passed.

The board entered into executive session.

MOTION: Mr. Halphen moved to return to regular session. Mayor Durbin seconded. The motion passed.

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MOTION: Mr. Halphen moved to authorize Mr. Stockstill, absent Land Baron filing for bankruptcy, to explore the cost of hiring legal counsel in the State of Nevada and the hours involved in order to conduct due diligence in the lawsuit currently pending against Land Baron; and, in the event Land Baron files for bankruptcy, to immediately obtain legal counsel in the state of Nevada to preserve the rights of the system. Mr. Birdwell seconded. The motion passed.

MONTHLY FLASH REPORT - NOVEMBER 2009

Mr. Joe Meals presented the monthly flash report for November 2009. (see attached Exhibit #4) He began by noting that the overall fund was up/down as follows: +2.3% for the month of November as compared to the blended index of +4.1%; +13.6% for the fiscal year to date as compared to the blended index of +14.3%; +18.3% calendar year-to-date, as compared to the blended index of +17.8%; and +19.9% for the trailing 12 months as compared to the blended index of +20.3%.

COMMITTEE REPORT - INVESTMENT COMMITTEE

[NOTE: The Investment Committee met on December 16, 2009, at the FRS office in Baton Rouge at 3:00 p.m. to discuss the business set forth in its posted agenda. The minutes of that meeting are imbedded herein. Committee members present were Mr. Stacy Birdwell, Chairman, Mr. John Broussard, Ms. Barbara Goodson, Mr. Sammy Halphen, and Mr. Paul Smith, and Mr. Charles Fredieu, ex officio.]

Chairman Birdwell recognized Mr. Joe Meals for the purpose of assisting in presenting a committee report and to make any other pertinent comments. Mr. Meals stated that, for the month of November, the system's portfolio grew by \$19.6 million despite having had a net withdrawal from the fund of \$1.5 million for operating expenses. He remarked that the system has been in a net break-even situation, with an approximate one million to \$1.5 million net withdrawal for the fund for the fiscal year. The lump sum Insurance Premium Tax Fund created a fairly significant positive inflow and 11 months of a net outflow. The net outflows have been running in the \$1.5 million to \$1.7 million a month range. According to Mr. Meals, a minimum cash position in the portfolio of approximately \$9 million has been established providing several months worth of coverage for operating expenses. He stated that, based upon his understanding of Mr. Curran's actuarial valuation, it appears that with the increase in the employer contribution rate, the net cash flow should be pretty close to break-even going forward for the next fiscal year.

• **Emory Partners, L.P.**

Mr. Meals referred to a handout, which had been distributed to the members, depicting the rate of return of Emory Partners, L.P., from November 2007 to November 2009 and the monthly VAMI for the same time period. (see attached Exhibit #5) He stated that the Investment Committee discussed Emory Partners at length, which is not meeting the expected 7.5% return. It was the recommendation

of the Investment Committee to terminate Emory Partners and to invest the approximate \$10 million from Emory in Tradewinds. Although the liquidation of Emory Partners will not occur until the end of January 2010, the recommendation was to take \$10 million from the cash fund to invest in Tradewinds at the end of December, and once the assets in Emory are liquidated, the \$10 million be replaced in the cash fund.

MOTION: Mr. Birdwell moved the investment committee recommendation in the form of a motion. Mr. Halphen seconded. The motion passed.

- **Sail Venture Partners II**

Although not discussed in the Investment Committee meeting, Mr. Meals provided an update to the members of the board relative to Sail Venture Partners II. He explained that improvements are only seen when a transaction takes place. Mr. Meals stated that he has been informed by the principals of Sail that a number of positive activities have taken place and a fairly material improvement in the value of those assets is expected.

- **KBC Benchmark**

Mr. Birdwell stated that there was a recommendation from the Investment Committee to change the KBC benchmark from the ACWI x US to the ACWI Global.

MOTION: Mr. Birdwell moved the investment committee recommendation in the form of a motion. Mr. Halphen seconded. The motion passed.

Chairman Fredieu questioned Mr. Meals relative to whether it can be determined if the system is making any progress in the private equity market. Mr. Meals replied that some of the funds send out monthly statements, while others are sent quarterly. He added that, unless there is a transaction that causes a step-up, a change in value from one month to the other is not seen. He stated that the only thing that is recorded on an ongoing basis would be any fees being accrued or collected from management.

Mr. Halphen asked if an average fee could be placed underneath the basis points for the private equity managers to show a comparison of their market values.

Mr. Meals responded that it is already included under the management fee column, which is 250 basis points, plus 20% of profits.

Mr. Stockstill explained that it would be to show a weighted average, to which Mr. Meals replied in the affirmative, adding that it would be the average fee of the \$45 million in private equity.

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Chairman Fredieu recalled that the board had voted to have a policy developed relative to management fees in the November 12, 2009 meeting.

Mr. Stockstill commented that staff was to develop a policy relative to standardized terms to be used for FRS managers; however, the task is a work in progress.

A brief discussion was had regarding the rate applied to DROP accounts. Mr. Stockstill stated that the information was included as part of the actuarial valuation.

Upon questioning by Mr. Smith, Mr. Stockstill responded that the negative returns will affect the DROP accounts December 31, 2009. In addition, the way in which DROP accounts would be paid in the future changed from a calendar year to a fiscal year.

Relative to disability retirement, Chairman Fredieu asked if the way in which disability benefits are calculated differed from that of a regular retirement.

Mr. Curran explained that any member of the retirement system under the age of 50 who becomes totally disabled receives a disability benefit equal to 60% of final average compensation for an injury in the line of duty, but 75% of the accrued benefit even though not in the line of duty. If the member is 50 or older, the disability benefit is equal to the greater of 60% to 75% of final average compensation or the accrued retirement benefit.

A discussion ensued with regard to DROP account funds being classified as a second pension by the Social Security Administration for purposes of calculating the offsets of the Windfall Elimination Provision (WEP), which would reduce, by an even greater amount, the social security benefit received by a member.

Mr. Stockstill explained that retirement benefits are subject to the WEP, unless the retiree falls under the exemption provisions.

Mr. Birdwell commented that the courts have, in the past, ruled that DROP accounts are not a separate benefit due to the fact that a member must work a number of years to be able to participate in DROP.

Mr. Stockstill informed the members of the board that an opinion on this issue could be sought from the US Attorney General or a lawsuit for a declaratory judgment could be filed in district court.

Chairman Fredieu noted that Louisiana is the only state to have passed a statute exempting certain retirees from the offset provisions.

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Mr. Starns explained that R.S. 11:272 was enacted by the Louisiana legislature and provides that members who were eligible to retire as of September 15, 1985, are exempt from the WEP.

Mr. Stockstill suggested that perhaps a letter be sent to the director of the Social Security Administration noting that the courts have held that DROP funds are part of a member's continuous benefit and not a "new" benefit and include copies of those decisions with the correspondence.

Mr. Birdwell commented that it would be helpful to have NCPERS involved and said that he would contact someone to discuss the issue.

It was suggested that Ms. Linda Yelverton, social security division director, State Treasurer's office, be contacted and requested to appear at the board meeting in January to explain the offset provisions relative to DROP accounts.

ADJOURNMENT

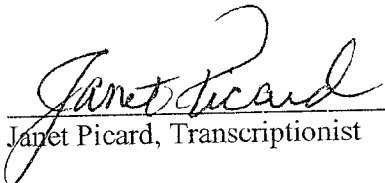
MOTION: There being no further business, Mr. Smith moved to adjourn the board meeting. Mr. Broussard seconded. The motion passed.

FUTURE MEETINGS

**FRS Investment Committee
Public Safety Building
3100 Brentwood Drive
Baton Rouge, Louisiana
Wednesday, January 13, 2010, at 3:00 p.m.**

**FRS Board of Trustees
Public Safety Building
3100 Brentwood Drive
Baton Rouge, Louisiana
Thursday, January 14, 2010, at 8:30 a.m.**

SUBMITTED BY:



Janet Picard, Transcriptionist

APPROVED BY:



Mr. Charles Fredieu, FRS Chairman