

FIREFIGHTERS RETIREMENT SYSTEM

P.O. Box 94095, Capitol Station
Baton Rouge, Louisiana 70804-9095
Telephone (225) 925-4060 • Fax (225) 925-4062



MEETING OF THE BOARD OF TRUSTEES JANUARY 14, 2010

A meeting of the board of trustees was held on January 14, 2010, 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
Mayor Randy Roach
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. Ronny Partain
Mr. Matt Tessier

Ms. Lauren Bailey
Ms. Laura Gail Sullivan
Ms. Linda Yelverton
Mr. Eldon Ledoux
Ms. Angie Dowdy
Mr. George Bruce
Mr. Van Mayhall
Ms. Candi Wright

MINUTES

MOTION: Mr. Birdwell moved to approve the minutes of the board meeting held on December 17, 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. Each application for membership was completed and submitted in accordance with all applicable state laws.

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

MOTION: Mr. Birdwell moved to approve the new member applicants. Mr. Halphen seconded. The motion passed.

- 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 #2.) He stated that all applications were in order.

MOTION: Mr. Birdwell moved to approve the new retiree applicants. Mr. Halphen seconded. The motion passed.

- Survivor Application

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 records are reviewed by staff to determine survivor benefit eligibility and to determine that the survivor's benefit calculation is completed per all applicable state laws and any merger agreements. [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 merger, 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)

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Mr. Starns presented the application of Mrs. Bernice Frost Hasley, surviving spouse of Mr. Lonnie Ray Hasley. He stated that the application was in order.

MOTION: Mr. Birdwell moved to approve surviving spouse benefits for Mrs. Bernice Frost Hasley. Mr. Halphen seconded. The motion passed.

- Disability Conversion Applicant

PROCEDURE: Retirees who apply for conversion from regular retirement to a disability retirement are required to submit detailed medical information as part of the application in support of their claim that the disability was job-related and occurred during active employment as a firefighter, even though the actual physical disability may not have become manifest until after the effective date in DROP or after commencement of service retirement. Once received, the application is reviewed by staff and medical records are forwarded to a State Medical Disability Board doctor to determine if sufficient documentation is present to certify that the retiree's disability occurred during active employment and was a direct result of working as a firefighter. If the medical information submitted is not sufficient for the doctor to determine the date and cause of the disability, then an appointment is scheduled for the applicant to undergo a physical examination. The State Medical Disability Board doctor must furnish a medical report certifying the retiree's disability and that the disability was a direct result of employment as a firefighter. (R.S. 11:2258(B) and Administrative Rule)

Mr. Starns presented the application for disability conversion of [REDACTED] Mr. Starns stated that the applicant was seen by Dr. Garland Green, the State Medical Disability Board doctor. In his report, Dr. Green stated that [REDACTED] has limited exercise tolerance secondary to angina and also some dyspnea. In addition, the applicant suffers from coronary artery disease, which is a chronic disease. Dr. Green was of the opinion that [REDACTED] disability has been present since the time of his heart attack in August of 2002. Based upon the report by Dr. Green and R.S. 33:2581, approval of disability conversion and discontinuation of the requirement for disability recertification was recommended by staff.

[NOTE: R.S. 33:2581 is a provision of Louisiana law which, in summary, provides that any disease or infirmity of the heart or lungs which develops during a period of employment in classified fire service shall be presumed to be a disease or infirmity connected with employment, regardless of whether the fireman is on duty at the time he is stricken with the disease or infirmity. The provision further provides that the disease or infirmity of the heart or lungs must manifest after the first five years of employment in order to be presumed service connected.]

MOTION: Mr. Birdwell moved to approve the application for disability conversion of [REDACTED] and to discontinue the requirement for disability recertification. Mr. Halphen seconded. The motion passed.

Social Security

Ms. Linda Yelverton, social security program director, and Ms. Angie Dowdy, social security program analyst, office of the State Treasury, appeared before the board and gave a PowerPoint presentation relative to social security issues. A handout of the presentation was distributed to the members of the board. (see attached Exhibit #3) Ms. Yelverton and Ms. Dowdy explained the issues contained in the exhibit, which included the role of the state social security administrator, the history of Section 218, mandatory medicare and social security, terminations, Section 218 coverage, the majority and divided vote referendum, information regarding medicare, the Windfall Elimination Provision (WEP), and the Government Pension Offset (GPO).

Relative to the WEP, Ms. Dowdy and Ms. Yelverton explained that it does not affect the amount of a government employee's retirement benefit. Government employees who receive a retirement benefit from work not covered by social security, but who are eligible to receive a social security benefit, may have their social security benefit reduced. The calculation used for a standard social security benefit, which is based on a 90% factor, is modified for people who receive a government retirement. The reduction is based on the number of years of substantial earnings a person has in social security. The maximum WEP reduction for 2010 is \$380.50. However, there are exceptions to the WEP. For example, the 90 percent factor is not reduced for people receiving a government retirement if they have 30 or more years of substantial earnings in job where social security was paid. For people who have 21 to 29 years of substantial earnings, the 90% factor is reduced to 45% and 85%. People who worked in a position that contributed to both social security and a government retirement system are exempt from the WEP provision.

Ms. Yelverton and Ms. Dowdy then provided an explanation of the GPO. For a person receiving a pension from work not covered by social security but who is entitled to a spousal, widow's, or widower's benefit, the GPO reduces their social security benefit by two-thirds of their government benefit. For example, a person receiving a government pension of \$600 a month who is eligible for a social security spousal benefit of \$500, would receive a \$400 reduction in their social security benefit. In many cases, the offset completely eliminates the social security benefit. It was noted that there are also exceptions to the GPO. Generally, the social security benefit received by a spouse, widow, or widower will not be reduced if you are receiving a government pension which is not based on your earnings or you are receiving a government pension based on a job where you were paying social security taxes.

It was noted that, although there has been legislation introduced in the U. S. House and Senate to eliminate the WEP and GPO, to date, none has passed.

The discussion on this matter was concluded with no action being necessary or taken.

Election of Officers of the Frs Board of Trustees

Chairman Fredieu turned the chair over to vice chairman Stacy Birdwell for election of the board chairman.

Vice Chairman Stacy Birdwell is in the chair.

Mr. Birdwell asked for nominations for chairman of the board.

MOTION: Mr. Smith nominated Mr. Charles Fredieu as chairman of the Board of Trustees. Mr. Halphen seconded the nomination of Mr. Fredieu as chairman. There being no other nominations, Mr. Charles Fredieu was elected by acclamation as chairman of the board.

Nominations for vice chairman were taken up by the board.

MOTION: Mayor Durbin nominated Mr. Stacy Birdwell. There being no other nominations, Mr. Birdwell was elected by acclamation as vice chairman of the board.

COMMITTEE REPORT - SYSTEMS RECOMMENDATION COMMITTEE

[NOTE: The Systems Recommendation Committee met on January 13, 2010, at the FRS office in Baton Rouge at 1:00 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. Sammy Halphen, Chairman, Mayor Jimmy Durbin, Mr. Paul Smith, and Mr. Gary Curran. Also present was Mr. Charles Fredieu.]

Mr. Halphen stated that presentations were made to the committee by two computer service vendors, those being Southwest Computer Bureau, Inc. (SCBI) and eMaxim, LC, relative to converting/upgrading the FRS computer operating system. He commented that, as a committee, it was felt that they were not ready to make a decision at this time. Problems with the company that presently provides these services to the system were discussed. Mr. Halphen was of the opinion that input by FRS staff is very important. He stated that he would like to have the companies provide another presentation to him and FRS staff before the next meeting. Mayor Durbin said he, also, would like to participate.

Mr. Birdwell suggested that more modern technology is needed and perhaps staff could look at other companies, as well.

Mr. Halphen agreed, but added that more modern technology would increase the cost, and because of the financial situation of the system, it might not be the right time to hire a more expensive

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company. However, he felt that it may be a good idea to search for another company to provide services similar to eMaxim and Southwest without being more expensive.

Chairman Fredieu was of the opinion that, even though FRS had been using Southwest for many years, if there are problems with the company, the system should not continue to use them.

A discussion was had by Mr. Broussard and Mr. Halphen relative to the fact that the workload that the company will be expected to perform is increasing.

Mr. Broussard was of the opinion that if the alternative is to get a company that has a nationwide presence and costs a million dollars, it should be considered due to the size of FRS and the increasing workload.

Mr. Halphen stated that he would look at the situation further and report back to the board next month.

This discussion on this matter was concluded with no action being necessary or taken.

MONTHLY FLASH REPORT - DECEMBER 2009

Mr. Joe Meals presented the monthly flash report for December 2009. (See attached Exhibit #4.) He began by noting that the overall fund was up/down as follows: +1.3% for the month of December as compared to the blended index of +0.5%; +14.9% for the fiscal year to date as compared to the blended index of +14.9%; +19.6% for the trailing 12 months as compared to the blended index of +18.4%.

He explained that the +1.3% return depicted in the Flash Report was not accurate since he was unable to get a return percentage for the value of the Commonwealth portfolio. However, he was informed by Commonwealth the night before the meeting that there is the potential the portfolio may be down by as much as 40% for the month of December, which would affect the returns. He suggested that Mr. Morales be asked to appear at next month's meeting to provide an explanation of the decrease in the returns in the Commonwealth portfolio.

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, Mrs. Barbara Goodson, Mr. Sammy Halphen, and Mr. Paul Smith, and Mr. Charles Fredieu, ex officio.]

- **Land Baron**

Mr. Stockstill informed the members that Mr. Van Mayhall, attorney with Breazeale, Sachse & Wilson, LLP, was present to provide information relative to Land Baron and the Nothing Left To Prove (NLTP) property in Arizona. He made reference to a letter received from Land Baron with respect to the company's financial status, which he forwarded to the members of the board. (see attached Exhibit #5) He reminded the members that the board had previously decided to purchase the NLTP property and dispense with the loan. At that time, Mr. Mayhall was retained and made suggestions on how the language of the purchase should be structured in such a way as to protect FRS' interests in the event Land Baron becomes insolvent. Mr. Stockstill stated that a copy of the letter from Land Baron was forwarded to Mr. Mayhall in order for him to become familiar with the issue.

Mr. Mayhall stated that he has practiced law in the area of complex matters such as the issues facing FRS in its business association with Land Baron. He explained the circumstances which led to FRS having 100% ownership of the NLTP property in Surprise, Arizona, and the reversionary rights of the partners. Mr. Mayhall told the members of the board that Land Baron basically states in the letter that times are tough, property is not being sold, their organization has been downsized, and they want to continue to be the manager and developer of the property, but have no cash flow. Land Baron is proposing that FRS pay a management fee of 25 basis points of the book value of the asset, which would be recovered from Land Baron's profit percentage upon sale the property. Mr. Mayhall stated this proposal is a business decision to be made by the board.

Mr. Mayhall stated that if Land Baron's financial situation does not improve, it could default under the management agreement, and FRS could terminate the management agreement, which would end any reversionary rights by Land Baron. He spoke about the possibility of Land Baron filing for bankruptcy, and explained the different scenarios that could take place if bankruptcy becomes an issue. He was of the opinion that the system should look at the payment of a management fee as an expense for services as opposed to an investment that FRS will receive a return on at some point.

A discussion on this matter was had by the members of the board and Mr. Mayhall regarding the inclusion of default provisions in the agreement.

Mr. Stockstill said it was his recommendation that the system pay a management fee. He informed the members of a discussion he had with Mr. Mike Chernine of Land Baron as to what would happen if FRS chose not to pay the fee. He was told by Mr. Chernine that other clients of Land Baron had agreed to pay the fee, which would enable Land Baron to be able to continue to manage the property; however, they would have to "cut back" on the management of the NLTP property.

Mr. Meals explained the current waterfall provision contained in the agreement, which states that each dollar that comes in from a sale goes to pay back the 9.25% loan, plus the interest. Once the

loan and the interest are paid off, at that point in time, the percentage of ownership of the property reverts back to the other partners. However, a significant amount of sales would have to occur before a reversion takes place.

Mr. Mayhall commented that the terms of the management agreement could perhaps be negotiated, and an amendment to the waterfall provisions in the co-ownership agreement could be drafted in order for the system to recover the management fees.

Upon questioning by Mayor Durbin, Mr. Mayhall explained that FRS would receive the first dollars from any land sales, plus 9.25%, then the system would get its capital back, plus the 15% guaranteed return. After that occurs, FRS would recover the management fees it paid. He stated that, until all of that money is paid to the system, there is no profit and no split of any dollars, but once all of those dollars have been paid, Land Baron will receive 40% of whatever the profit may be. He added that Land Baron is third or fourth on the totem pole in getting any profits from the sale of property.

Mr. Stockstill noted that FRS has co-ownership with Land Baron in two other parcels of property, Sol Mate Too and St. George Air Parc. He asked Mr. Mayhall how a filing of bankruptcy by Land Baron would impact the system relative to those two properties.

Mr. Mayhall responded that although he had no information regarding the co-ownership documents on the other properties, essentially, the bankruptcy trustee would have several options. The trustee could seize the property and sell it, even if the party filing for bankruptcy is the minority owner. He explained that a trustee is charged with bringing as much value to assets as possible. Typically, the trustee will negotiate with the majority owner, which in this case would be FRS, to become the buyer of the property, or FRS could let the property be sold and take a pro rata distribution of the proceeds from the sale. He added that the majority owner is usually better off buying the property; however, what happens in a bankruptcy can depend on where it is filed and the experience of the trustee.

Mr. Meals clarified that Land Baron is only the manager of a partnership that owns a fractional interest in the other properties.

Mayor Durbin suggested that the management agreement specify that it would be for a one-year period and subject to termination upon a 30-day written notice from FRS.

There was further discussion on the different scenarios which could occur should Land Baron file for bankruptcy.

MOTION: Mayor Durbin moved to authorize Mr. Van Mayhall to draft an amendment to the management agreement to pay Land Baron 25 basis points annually to manage FRS-LB, with the amendment not to exceed one year, that the agreement can be cancelled by FRS with a 30-day written notice to Land Baron, which cancellation provision would also apply to the management by

Land Baron of the Sol Mate Too and St. George Air Parc properties; to amend the co-ownership agreement, if necessary, and, in addition, to authorize payment to Mr. Van Mayhall for his services. Mr. Birdwell seconded. The motion passed.

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

Mr. Meals reminded the members of the board of previous discussions wherein Mr. Stockstill would obtain information regarding the cost of hiring someone knowledgeable in the area of real estate to perform research and provide an assessment of the value of the system's investments in the NLTP, Sol Mate Too, and St. George Air Parc properties. The research would include an assessment of activities in and around the properties and the development status of the properties. He explained that an independent report on these properties was needed to augment the information the system has received from Land Baron. He stated that it was the recommendation of the Investment Committee to research the cost of hiring someone to provide such a report and bring it before the board for authorization.

Mr. Stockstill clarified that, in order for the board to perform due diligence, during the December board meeting, he was authorized to research the cost of hiring an attorney to look into the lawsuit filed against Land Baron. He stated that the board had previously hired Mr. Bruce May, who is located in Arizona, as a third-party law firm to submit an environmental impact study and to report on other related matters relative to the Arizona property. Mr. May's law firm also has an office in Las Vegas. Mr. Stockstill stated that, since the board has used the firm previously and, to the best of his knowledge, the firm is not tied to Land Baron in any way, he called the firm and was told that they charge \$375 an hour, which is a standard rate.

Mayor Roach recommended that the information Mr. Meals referred to also be included.

Mr. Broussard commented that it may be better and would cost less to use a commercial real estate firm to research and provide an assessment on the properties.

Mr. Stockstill responded that when Mr. May was hired previously, his firm hired a third party to perform the environmental impact study. The system was then billed for the cost incurred in using a third party and was only billed attorneys fees for the compilation of the report to the board. Mr. Stockstill stated that there are two issues; one is looking at the real estate and how sales in that area are going, and the other issue is the hiring of an attorney to protect the interest of FRS in the lawsuit that has been filed in Nevada against Land Baron. If the alleged allegations that have been made against Land Baron are found to be true, the system needs to know in order to perform due diligence.

MOTION: Mr. Halphen moved to authorize Mr. Stockstill to find out what the cost would be to obtain a report on the present situation of the real estate market on the three properties that FRS has invested in, what has been done as far as infrastructure that has been reported to the board by Land

Baron, as well as protecting the interest of the system in the lawsuit that has been filed against Land Baron in Nevada. Mayor Durbin seconded. The motion passed.

- **The Clinton Group**

Mr. Meals stated that The Clinton Group, the management company that manages the system's investments, gave a presentation at the Investment Committee meeting. Referring to the Monthly Flash Report, Mr. Meals stated that FRS is paid a 1% per month return on its investments by The Clinton Group CES strategy, which is the quantitative equity arbitrage strategy managed by Clinton for the system. He explained that this strategy represents 3.6% of the system's assets. The Clinton Group also manages the Magnolia Fund, which currently represents 5.3% of the system's assets. Mr. Meals stated that there is a concern in that the Magnolia Fund strategy has changed somewhat from the time the investment was made. Initially, it was a collateralized return strategy, with the return on that portfolio being 15%. Since the downturn in the market, the amount of collateral is not sufficient to protect the system's investment and return. He reminded the members of the board of its decision not to liquidate in the hopes the market would recover and a loss would not be incurred. Mr. Meals said that, as of December, the fund is showing a slightly positive result of 1.7%, which is equal to the original investment. During the Investment Committee meeting, concern was expressed with regard to having 5.3% of the system's portfolio exposed to the Magnolia Fund strategy. It was the recommendation of the Investment Committee that The Clinton Group be provided a 30-day written notice from the system that it wants to redeem \$20 million of its investment in the Magnolia strategy. He stated that once Clinton receives the notice, it may bring forth a revised strategy for the system to consider.

MOTION: Mr. Birdwell moved to provide a 30-day written notice to The Clinton Group that it will redeem \$20 million of its investment in the Magnolia Fund. Mr. Halphen seconded. The motion passed.

Postlethwaite & Netterville - Audit Results

Ms. Kelli Chandler introduced Ms. Candi Wright with the firm of Postlethwaite & Netterville, which performs the system's audit.

A copy of the Audit Report was distributed to the members of the board (see attached Exhibit #6), and Ms. Wright provided a brief overview of the report.

FRS Comprehensive Annual Financial Report (CAFR) - 2009

Ms. Chandler made reference to and briefly discussed the final version of the Consolidated Annual Financial Report (see attached Exhibit #7), which was discussed during the Investment Committee meeting.

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MOTION: Mr. Halphen moved to accept the Consolidated Annual Financial Report and the Audit Report. Mr. Birdwell seconded. The motion passed.

Mr. Stockstill briefly touched on the various miscellaneous items as set forth on the meeting agenda.

Miss Laura Gail Sullivan informed the members of the board that the Public Retirement Systems' Actuarial Committee (PRSAC) will be holding meetings regarding statewide systems who have valuations that were delayed will be officially approved. The expectation is that a representative of LMA will be attending the meeting, so that the LMA states on the record that they understand the changes that are occurring in the actuarial smoothing methods and related matters.

ADJOURNMENT

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


FUTURE MEETINGS

**FRS Investment Committee
Public Safety Building
3100 Brentwood Drive
Baton Rouge, Louisiana
Wednesday, February 10, 2010, at 3:00 p.m.**

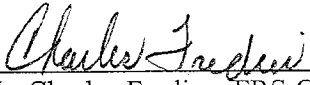
**FRS Board of Trustees
Public Safety Building
3100 Brentwood Drive
Baton Rouge, Louisiana
Thursday, February 11, 2010, at 8:30 a.m.**

SUBMITTED BY:

APPROVED BY:



Janet Picard, Transcriptionist



Mr. Charles Fredieu, FRS Chairman