



FIREFIGHTERS RETIREMENT SYSTEM

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MEETING OF THE BOARD OF TRUSTEES MARCH 2, 2010

A meeting of the board of trustees was held on March 2, 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
Ms. Barbara Goodson
Mr. Paul Smith

OTHERS PRESENT

Mr. Steven Stockstill
Ms. Kelli Chandler
Mr. Jason Starns
Mr. Gary Curran
Mr. Joe Meals
Mr. Mike Gallagher
Mr. Ronny Partain
Ms. Lauren Bailey
Mr. Chad Major
Mr. Robert Graham
Mr. Patrick Searcy

MINUTES

MOTION: Mr. Stacy Birdwell moved to approve the minutes of the board meeting held on February 11, 2010. Mayor Durbin seconded. The motion passed.

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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. Mayor Durbin seconded. The motion passed.

- 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 has submitted a detailed report in laymen's terms of 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, State Medical Disability Board doctor's report and all medical records for review. (R.S. 11:215, 216, 218, & 2258)

Mr. Starns presented the application for disability retirement of [REDACTED] He noted that [REDACTED] was present.

Mr. Stockstill informed [REDACTED] that he had the right to request that his application for disability retirement be discussed by the board in executive session. [REDACTED] declined.

Mr. Starns stated that [REDACTED] was seen by Dr. Thad Broussard, the State Medical Disability Board doctor. Dr. Broussard reported that he agreed with the findings of [REDACTED] treating physician in that he has reached maximum medical improvement. Dr. Broussard was of the opinion that the applicant is totally and permanently incapacitated from further performance of his normal duties as a firefighter and expects his condition to become worse over time. He further stated that, as outlined in his history, [REDACTED] illness did not occur directly in the line of duty, but as a result of engaging in exercise sporting activity, which the applicant said was mandatory. Dr. Broussard also stated in his report that it was his belief that [REDACTED] has the capacity to perform other gainful and functional employment opportunities of a less essential nature.

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Based upon the report by Dr. Thad Broussard, it was the recommendation of staff that the application for disability retirement of [REDACTED] be approved and to discontinue the requirement for disability recertification.

Mayor Durbin suggested that, if the board is so inclined to approve the disability application of [REDACTED] that it be approved pending verification that the sporting activities were mandatory.

Chairman Fredieu questioned [REDACTED] with regard to whether or not he was on duty during the sporting activities. [REDACTED] responded that, during every shift, the firefighters were required to perform one hour of physical activity at the gym, and he and others, rather than using a treadmill, would play racquetball.

MOTION: Mr. Birdwell moved to approve a job-related disability retirement for [REDACTED] pending verification that the sports activities were required by his employer, and to continue disability recertification. Mayor Durbin seconded. The motion passed. [NOTE: Independent verification was conducted by FRS staff and a copy of the department's mandatory exercise policy was obtained and placed in the applicant's case file.]

MOTION: Mr. Birdwell then moved to discuss Item #2 on the agenda. Mayor Durbin seconded. The motion passed.

INTERIM COMMITTEE POLICY

Mr. Stockstill explained that, per instructions by the board in the February meeting, he drafted a policy to establish an Interim Committee. The policy delegates authority for any five members of the board to serve on the Interim Committee and to conduct business only with regard to applications for benefits. (see attached Exhibit #2)

MOTION: Mr. Birdwell moved to adopt the policy as presented. Mr. Broussard seconded. The motion passed.

MONTHLY FLASH REPORT - FEBRUARY 2010

Mr. Joe Meals explained that, due to the meeting being held early this month, information was not available to prepare an audited monthly flash report and estimates were used to provide an update of how the system's portfolio has performed from February 1, 2010 through February 23, 2010. (see attached Exhibit #3) He began by noting that the total fund was up 80 basis points for the month, which was primarily a result of the equity markets having rebounded from their January correction. The international market was off primarily due to the dollar getting stronger during the month; the fixed income market was down slightly, but the system's portfolio was basically flat; the fiscal year to date estimate of the total fund was 12.8%.

COMMITTEE REPORT - INVESTMENT COMMITTEE

[NOTE: The Investment Committee met on March 1, 2010, 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 embedded herein. Committee members present were Mr. Stacy Birdwell, Chairman, Mr. John Broussard, Ms. Barbara Goodson, Mr. Paul Smith, Mr. Charles Fredieu, ex officio.]

Mr. Birdwell gave the Investment Committee report. He stated that the committee made three recommendations to bring before the board of trustees and he asked Mr. Joe Meals to present information relative thereto.

- **Bay Resource Partners Offshore Fund**

Referring to correspondence received (see attached Exhibit #4), Mr. Meals informed the members that Bay Resources is requesting the following: an increase in its management fee from 1% to 1.5%; a change in the liquidity provisions from current monthly redemptions with a 30-day notice to quarterly redemptions with a 45-day notice; and, as it relates to redemptions in total, to institute a "gate" and restrict it to 20% of the value of the fund for any given quarterly redemption.

Mr. Meals stated that it was decided that, since the notice was received late in the afternoon of Friday, February 26, 2010, CSG had not had the opportunity to perform a thorough analysis of the impact and whether other options are available to the board that would be more appropriate than approving the request of Bay Resources. He noted that the request was made to all shareholders and provided only for a favorable proxy vote and did not provide for objections. Mr. Meals recommended that the board take no action at this time.

Mr. Birdwell reported that the Investment Committee took no action in the matter of Bay Resources.

Mr. Stockstill stated that he had reviewed the file on Bay Resources and found that, in the past, the board had taken action required by proxy. In those cases, each proxy had a "yes" and "no" on it.

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

- **SAIL Venture Partners, LLC**

Mr. Meals stated that SAIL was reorganizing the general partner of the partnership to reflect changes in the fund's operations and that a review of their operational procedures was deemed to be necessary. He explained that a new CFO of the company began to institute streamlining policies, at which time abnormalities were identified. Mr. Meals referred to a notice and statement from SAIL indicating that they were continuing to review the policies, as well as other abnormalities that SAIL is in the process of correcting. (see attached Exhibit #5) He commented that the reorganization is

in the best interest of FRS. It was the recommendation of CSG and the Investment Committee that the reorganization be approved and, in addition, that SAIL have an independent accountant provide a letter certifying that all of the abnormalities that were identified have, in fact, been corrected.

MOTION: Mr. Birdwell moved to approve the reorganization of SAIL Venture Partners LLC and to require SAIL to provide a letter from an independent accountant to FRS certifying that all abnormalities have been corrected. Mr. Broussard seconded. The motion passed.

- **AEW Partners VI**

Mr. Meals turned the discussion to AEW Partners, VI, a real estate fund in which FRS has a commitment of \$20 million, with the fund currently having a total commitment from investors of a little more than \$300 million. He made reference to a letter from AEW requesting that FRS agree to a 90-day extension to the commitment period to allow other prospective investors more time in making a determination to invest in the fund. (see attached Exhibit #6) Mr. Meals stated that AEW expects an additional \$200 million in commitments if the 90-day extension is granted, which would allow the fund to continue to accept commitments from new investors from March 31, 2010 through June 30, 2010. He explained that the maturity date of the fund itself would also be extended by 90 days, and allowing additional investors would increase the size of the fund, which could be beneficial to FRS. In addition, AEW agreed to waive the management fee for the 90-day period of time. Approval was recommended by CSG and the Investment Committee.

MOTION: Mr. Birdwell moved to approve the 90-day extension period requested by AEW, which would be from March 31, 2010 through June 30, 2010. Mr. Smith seconded. The motion passed.

- **Commonwealth**
- **Sand Spring**

Mr. Meals stated that information had been obtained that another investor in the Commonwealth Core Fund, as well as the Sand Spring Hedge Fund Partnership, had requested that Mr. Walter Morales, general manager of the funds, sign a letter affirming certain verbal representations that had been made by Mr. Morales to them. The document was discussed in the Investment Committee meeting, and it was recommended that Mr. Stockstill be instructed to send a similar letter to Mr. Morales.

MOTION: Mr. Birdwell moved to authorize Mr. Stockstill to send a letter to Mr. Walter Morales requesting that he affirm, in writing, the verbal representations made to FRS. Mr. Smith seconded. The motion passed.

- **Scoggins Fund**
- **Montague Newhall**

Mr. Meals briefly discussed administrative items which did not require action from the board. He stated that the Scoggins Fund is changing administrators. In addition, one of the principals of Montague Newhall has elected to retire; however, this will not have any impact on FRS.

- **LSV Asset Management**

Mr. Meals stated that LSV continues to be on Watch Status. He recalled a discussion by the board in a previous meeting regarding the benchmark used by CSG in comparing the LSV portfolio to the MSCI World Equity Index x US that included emerging markets, which was the same benchmark used in comparing the other two international managers in the system's portfolio. At the time the investment with LSV was made, they only offered a product to FRS that included developed markets, but did not offer a product that included emerging markets. However, the performance of that product has been adequate and the amount of excess return that they have been able to provide was sufficient over the index even though they were using only developed countries. He explained that, subsequently, the emerging markets made the benchmark, making it more difficult for LSV to outperform. As a result, LSV began to underperform, which caused them to be on Watch Status. He stated that a letter was sent to LSV, who responded that, according to the contract, their performance was to be compared to the EAFE Index, not the MSCI World, and that they were still beating the EAFE Index and, therefore, should not have been put on the watch list. He indicated that, although LSV has had an emerging market only product for three or four years, it has only included emerging markets in the FRS portfolio for approximately four to five months. At the time LSV was made aware that they had been put on Watch Status, rather than being terminated, they agreed to include emerging markets in the system's portfolio.

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

Mr. Meals announced that Mr. Adam Patterson had elected to resign from CSG to take a position with another company.

- **Real Estate**

Mr. Smith made reference to a memo dated February 24, 2010, from Mr. Meals to Mr. Stockstill, which included a commentary from Bank of America's daily market update reflecting their analysis of the latest home price information.

Mr. Meals commented that Toll Brothers, who owns the large tract of land adjacent to the Nothing Left To Prove (NLTP) property reported better than expected earnings in the fourth quarter. He stated that the housing report indicated that Phoenix and Las Vegas were experiencing a better recovery in the housing market, and although it is encouraging for the Land Baron investments, he cautioned that better earnings in one quarter are not necessarily an indication of future earnings.

Mr. Birdwell stated that the report of the Investment Committee was concluded.

Legislative Update

Mr. Stockstill told the members of the board that four retirement bills had been filed, with three of the bills addressing the forfeiture of benefits for public retirement system members who are convicted of a crime related to their employment. In addition, another legislator has indicated that he intends to file legislation to provide for forfeiture of benefits upon being convicted of any crime, whether job-related or not, and a bill has already been filed to provide for an increase in benefits for members and retirees of LASERS, who meet certain criteria and were affected by Hurricanes Katrina and Rita and opted for early retirement.

Mr. Stockstill commented that, in conversation with a legislator, who serves on the House Committee on Retirement, concerns were expressed regarding the retirement systems, which the legislator intended to address in the upcoming session. Questions were raised relative to the longevity of firefighters, higher benefits for hazardous duty members of any retirement system, and what mortality table is used by the FRS actuary. He asked the chairman for permission to have Mr. Gary Curran address, for the record, mortality tables and/or mortality experience used in formulating the employer contribution rate for this system. Chairman Fredieu recognized Mr. Curran for that purpose.

Mr. Curran stated he has used the same table for the FRS plan for the last couple of years, but he would have to check his records to see how long. He made reference to a 1994 pension table, and that the general level of mortality for all the funds differs. He spoke about the problems in computing mortality for some of the smaller funds because you have what is referred to as a "credibility" factor, meaning there is not sufficient data to put together what would be considered statistically significant factors. Mr. Curran stated that FRS is sort of a borderline fund in terms of size. A mortality analysis is performed on an annual basis for FRS and, generally, about every three to five years, a more in-depth study on mortality is performed. He explained that it is not as simple as just collecting statistics relative to mortality rates for a fund.

Mr. Stockstill questioned Mr. Curran with regard to the impact mortality has on the actual employer contribution rate.

Mr. Curran responded that rates of death are significant, not life expectancy. He added that either the next valuation or the following valuation will include a mortality study for the FRS system. He went on to say that if there is not enough information available to build a mortality table for FRS, he would gather mortality for this group and then match it to existing other standardized tables which most resemble that of FRS and, it may be necessary to modify an existing standard table. He stressed the point that it is not so much the number of people that die as the dollars that die. In other words, first, how many dollars of benefit are extinguished in a given year due to death based on some

standard table, then compare that to the actual dollars that are extinguished due to death. Mr. Curran also brought up the fact that life expectancy is longer today, which results in lower mortality rates, so the issue of what is expected to happen in ten or 20 years is also taken into consideration.

Mr. Stockstill was of the opinion that there was a move occurring to retool the structure of the defined benefit plans, which would encompass accrual rates, final average compensation, normal retirement age, and things of that nature. He recalled that Mr. Curran had performed a forensic economic analysis the last time there was a precipitous spike in the employer contribution rate. He asked if a similar forensic economic analysis of the current spike would indicate that the majority percentage responsible for the increase would be the investment experience and not the experience related to mortality.

Mr. Curran replied in the affirmative, adding that he would need to go over the previous report to refresh his memory on the exact breakdown and maybe a couple of other factors that came into play. In the case of FRS, whenever experience deviates from the norm, it drops right through to the bottom line in terms of the unfunded liability, and what happened in the last year that caused contributions to go up was the change in the unfunded liability. Also, the next amortization expense of \$17 million increased by \$12.6 million for the year as a result of the change in the unfunded liability, resulting in an expense of \$29 million. Although the \$1.4 million COLA had some effect, if translated as a percentage of payroll, it would only be 6.89% of pay.

Mr. Stockstill felt that there were concerns regarding the UAL and, if feasible, the board may want to consider the valuation method used.

A discussion ensued regarding the fact that the stock market plunged 25 percent in the last two years, and a quick recovery is not expected. In addition, there were large pay increases for some firefighters going back approximately five years, which has had some effect.

Mr. Curran indicated that the average rate of return for the last ten years was 2.2%, which is 5% to 5.3% below assumptions, and that the market will be volatile for some time. He stated that one of the problems faced by all of the retirement systems is the fact that additional benefits were provided to members, particularly in the '90s when the market was up, and it is difficult to pay for those benefits now when the systems have a hard time earning money.

Upon inquiry by Chairman Fredieu, Mr. Curran stated that, according to his report, FRS is 76% funded.

When asked if, aside from changing the employee contribution rate, a change in the accrual rate and changing final average compensation from a three-year to five-year average would have any effect on the employer contribution rate in the near future, Mr. Curran replied that changes for new hires only would have a very small impact in the short term. Changes for current members would have

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a larger impact. He stated that the three biggest items that affect costs are the final average compensation period, the accrual rate, and the retirement ages. He also noted that the constitution prohibits changing the accrued benefit, which is what a member has earned to date, of members and retirees. However, theoretically, what a member earns tomorrow could be changed.

A brief discussion ensued regarding the effect on the plan of the DROP and retirement eligibility provisions, as well as the age of new hires. Mr. Curran stated that there were 259 new hires last year that became members of the system, with 129 under the age of 25 and 140 above age 25.

Mr. Birdwell suggested that increasing participation in DROP from three to five years may entice members to continue to work, resulting in a savings to the system. Mr. Curran was of the opinion, though, that it would be very difficult to get the legislature to change to a five-year DROP.

Mr. Stockstill commented that one of the recommendations of Streamlining Commission was to basically repeal the DROP provisions, and asked what impact it would have on the employer contribution rate.

Mr. Curran replied that, although he has never been a proponent of DROP, repealing it would not necessarily result in a savings for all systems.

Chairman Fredieu stated his opinion that increasing the years to be eligible for retirement saves the system money.

Mr. Curran was asked if the fact that women live longer and, therefore, draw a retirement benefit longer has an effect on his calculations. He replied in the affirmative, adding that when calculating mortality, there is a segregation by sex.

It was suggested by Mr. Smith that perhaps Mr. Curran could explain to some of the key legislators how the system has been impacted and provide a better understanding of how calculations are arrived at.

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

ANNOUNCEMENTS

Mr. Stockstill announced that there was a new addition to the FRS family. He informed the members that Penny Gandy gave birth to a baby boy named Troy.

ADJOURNMENT

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

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FUTURE MEETINGS

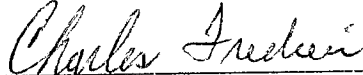
**FRS Investment Committee
Public Safety Building
3100 Brentwood Drive
Baton Rouge, Louisiana
Wednesday, April 7, 2010, at 3:00 p.m.**

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

SUBMITTED BY:

APPROVED BY:

Janet Picard, Transcriptionist



Mr. Charles Fredieu, FRS Chairman