



FIREFIIGHTERS 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 NOVEMBER 10, 2011

A meeting of the board of trustees was held on November 10, 2011 at the Public Safety Building in Baton Rouge. Mr. Charlie Fredieu, Chairman, called the meeting to order at 8:30 a.m.

Dr. Steven Procopio gave the invocation and Mr. Birdwell led the pledge of allegiance.

Ms. Penny Gandy called the roll. A quorum was present.

MEMBERS PRESENT

Mr. Charlie Fredieu
Mr. Stacy Birdwell
Mr. Jerry Tarleton
Mr. Paul Smith
Mr. John Broussard
Dr. Steven Procopio

OTHERS PRESENT

Steven Stockstill
Kelli Rogers
Jason Starns
Penny Gandy
Greg Curran
Lauren Bailey

MINUTES

MOTION: Mr. Birdwell moved to approve the minutes of the board meeting held on October 13, 2011, with certain technical amendments. Mr. Tarleton 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.

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Mr. Jason Starns presented the list of new member applicants. (see attached Exhibit #1) He stated that two amendments needed to be made to the list. First, the Rapides Parish identification number needs to change from 76 to 86 and, second, Mr. Keith Neidlinger needs to be removed from the new member list because he is statutorily ineligible for membership in FRS.

MOTION: Mr. Birdwell moved to approve the new member applicant list, as amended. Mr. Tarleton seconded. The motion passed.

- Retirees

PROCEDURE: To retire, a member must furnish the retirement office with an application for retirement. When the application is received by the retirement office, 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. Smith 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)

Mr. Starns presented the application of Elaine Hodge Marze, surviving spouse of Luther Marze, Jr. He stated that the application was in order.

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MOTION: Mr. Birdwell moved to approve the surviving spouse application for Elaine Hodge Marze. Mr. Tarleton seconded. The motion passed.

MONTHLY FLASH REPORT - OCTOBER 2011

Mr. Joe Meals presented the monthly flash report for October 2011. (see attached Exhibit #3) He began by noting that the overall fund was up/down as follows: 5.5% for the month of October as compared to the blended index of 6.6%; -3.1% for the fiscal year to date as compared to the blended index of -0.9%; 4.6% for the trailing 12 months as compared to the blended index of 7.2%.

COMMITTEE REPORT - INVESTMENT COMMITTEE

[NOTE: The Investment Committee met on November 9, 2011, 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 Stacy Birdwell, chairman; John Broussard, Dr. Steven Procopio, Paul Smith and Charlie Fredieu, ex officio. Also present were Joe Meals, Bob Rust, Gina Brown, Irina Zheludkova, Lauren Bailey and Patrick Murphree.]

Committee chairman Birdwell recognized Mr. Joe Meals to give the investment committee report.

• Market Overview - November 2011

Mr. Meals presented a report titled "Asset Class Return Comparisons and Market Environment Commentary". (see attached Exhibit #4(A)) The report included:

- A chart showing a comparison of returns for six separate asset classes over the trailing 12 months.
- A chart showing a comparison of returns for six separate asset classes over the trailing five-year period ending 09/30/11.
- A chart showing a cyclical comparison of four sectors of the economy, including Light Vehicle Sales, Manufacturing and Trade Inventories, Housing Starts, and Real Capital Goods Orders.
- A chart showing the after-effects of the housing bubble, including Median Existing Home Prices, Monthly Rent vs. Monthly Mortgage Payment, Home Sales and Inventories, and Mortgage Payment on an Average New Home.
- A chart showing a comparison of S&P 500 earnings per share from 2000 through 2011, and Adjusted After-Tax Corporate Profits from 1964 through 2010.

- Charts addressing Stock Valuation Measures, Earnings Estimates and Valuation Drivers, S&P 500 Return and Dividend Expectations, Returns by Sector, The Impact of Global Consumers, International Currency Returns, Consumer Price Index, Treasury Yield Curves, High Yield Bond Spreads-Defaults and Recoveries, Fixed Income Yields and Returns, Fixed Income Return Projections, Emerging Market Debt, Global Economic Growth, US Dollar Index, Hedge Fund Risk vs. Return Analysis, and Real Estate Cap Rates vs. Yields.
- **FRS Manager Review QF 6/30/11**

Mr. Meals presented a report titled "Manager Review Prepared for Firefighters' Retirement System, June 30, 2011". (see attached Exhibit #4(B)) He explained that he would have made the presentation last month (October 2011), but since his presence was required in New York on behalf of FRS, the report was delayed to this month. He said the investment committee received a comprehensive presentation involving FRS managers. With regard to each manager, the presentation included information indicating the inception of the manager's account, the investment style, and an explanation regarding the investment process used by the manager. The report included:

- A chart and spreadsheet for each manager showing the cumulative average investment return earned by the manager over a 3 month, year-to-date, 1 year, 3 year, and 5-year period. The chart showed the percentile ranking of each FRS manager as compared to the universe of similar managers for the same periods of time.
- A chart and spreadsheet for each manager showing the investment return of each manager on a calendar year basis from 2006-2010, both inclusive. The chart showed the percentile ranking of each FRS manager as compared to the universe of similar managers for the same periods of time.
- A chart titled "Manager Style" showing the 12-quarter movement of the characteristics of each manager's holdings, where the movement is framed between small to large capitalization and value to growth orientation.
- A chart titled "Manager Performance" showing each manager's excess investment return as compared to the market benchmark.
- A chart titled "Manager Risk/Return" showing each manager's investment return as compared to the standard deviation of market benchmark.

After discussions involving the investment consultant and various board members, this matter was concluded with no action being needed or taken.

- **Murphree Venture Partners Fund VI**

Mr. Meals advised the board that Patrick Murphree from Murphree Venture Partners (MVP), an existing FRS manager, appeared before the FRS investment committee to explain why MVP was chronically late with respect to furnishing FRS with annual audited financial statements. Mr. Murphree noted that MVP will be starting a new company to provide administrative services and more specifically to focus on providing audited financials to clients. He told the investment committee that MVP is changing the person who provides statements to FRS. Mr. Meals said the investment committee recommended that FRS explore the following three options: (1) Seeking a buyer for FRS' position in MVP, (2) Putting monetary penalties in place for MVP's failure to submit timely reports, and (3) Replacing the general partner.

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

- **FRS Property - Vision Capital and Land Baron**

Mr. Stockstill recalled that, last month, the board was advised of a "write-down" in the property value of the real estate co-owned by FRS and Vision Capital Partners, located in Gainesville, GA. The board asked staff to provide a comprehensive review of FRS' direct real estate holdings. In response a diligence packet was provided to the board. (see attached Exhibit #5) The packet contains documents regarding the status of each piece of property. He noted that the first three pages address the property values, capital contributions, and fair market impairment/appreciation of the properties managed by Land Baron Inc. on behalf of FRS. The remainder of the packet provided information concerning descriptions of the properties co-owned by FRS, Land Baron, and Vision Capital partners.

Ms. Kelli Rogers provided a summary of the valuations applicable to each property. The board engaged in a comprehensive discussion of the valuations.

Mr. Stockstill recommended that an appraisal be obtained on all of the properties held in the direct real estate investment portfolio of FRS.

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

- **Litigation - Bank of New York Mellon (BoNY)**

Mr. Stockstill advised the board that FRS' custodian bank, Bank of New York Mellon, has been accused by the New York Attorney General of cheating the state and other pension funds nationwide

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out of foreign exchange fees. He said the lawsuit alleges that BoNY guaranteed that its customers would receive the most competitive or attractive rates available on any given trading day. However,

the lawsuit alleges the BoNY charged the opposite to their customers, the worst or nearly the worst rates available, and earned nearly \$2 billion or as much as 75% of its FX revenue by pocketing the difference. Mr. Stockstill said the lawsuit will not affect FRS because BoNY had not yet, at the time of the filing of the lawsuit, been hired by FRS and therefore had not yet handled any foreign exchange transactions for FRS. He said that, as part of FRS' fee structure with BoNY, the bank charges FRS \$30 per foreign exchange transaction if FRS' broker does not execute the trade through BoNY. He said that BoNY incents its customers to use the BoNY foreign exchange desk to avoid paying the \$30 foreign exchange transaction fee. Mr. Stockstill advised the board that he sent a letter to BoNY asking particular questions the board wanted answered. He said a response from BoNY had not yet been received at the time of this month's board meeting.

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

- **Sentinel Real Estate Fund LP**

Mr. Meals advised the board that Sentinel Real Estate Fund LP, an existing FRS manager, has an open end fund, which means investors are able to get in and out by submitting redemption notices. He noted that if a sell occurs and no investors have put in redemption notices, Sentinel reinvests the money. He noted that another investor had previously put in a redemption request in an amount which equaled $\frac{1}{3}$ of the total fund value. He noted that, according to the governing documents, Sentinel was required to pay the redeeming investor within a twenty-seven month period. Eventually Sentinel was able to pay the redemption, but not within the twenty-seven month time frame. He stated that, on the date Sentinel paid the redemption, the redemption was valued at the then current value, which was lower than the value the redemption would have been if it had been paid on the date the twenty-seven month period lapsed. He noted that the investor has now sued the Sentinel fund for the difference in the values and Sentinel has settled with the investor for \$30 million. He noted that when Sentinel settled the fund value took a hit. (see attached Exhibit #6) Mr. Meals said the investment committee recommended that Mr. Stockstill consult with attorney Robert Klausner to determine whether a cause of action exists for FRS.

MOTION: Mr. Smith moved to accept the investment committee recommendation. Mr. Tarleton seconded. The motion passed.

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

- **Budgets proposed by Americus**

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Mr. Meals advised the board that Americus Real Estate, an existing FRS manager, has submitted a budget for approval by all investors. He noted that if no investors object to the budget it will go into effect within sixty days. He noted that there were no major changes in expenditures compared to last

year's budget. Mr. Meals said the investment committee recommended approval of the budget. After discussion between board members, there appeared to be a consensus that the board would take no action, particularly regarding the automatic effectiveness of the budget if there is no opposition. No motion was made.

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

- **Orleans Capital**

Mr. Meals advised the board that Orleans Capital, an existing FRS manager, was placed on watch status based on the September flash report. He noted that was done in error.

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

- **Fletcher Asset Management**

[NOTE: By giving notice on its duly posted agenda, the FRS board of trustees reserved its right to enter executive session pursuant to R.S. 42:17(A)(2) for discussion of strategy or negotiations with respect to actual or prospective litigation where an open meeting would have a detrimental effect on the litigating position of FRS in the matter referenced in agenda item III(1)(I); and the board of trustees further reserved its right to enter executive session pursuant to R.S. 42:17(A)(1) for discussion of character or professional competence of the juridical entities identified in agenda item III(1)(I).]

MOTION: Mr. Birdwell moved to enter executive session. Mr. Smith seconded. The motion passed unanimously. The board entered executive session.

MOTION: Mr. Birdwell moved to resume public session. Mr. Tarleton seconded. The motion passed unanimously. The board resumed public session.

Mr. Stockstill said the investment committee recommended that if a promissory note is accepted by FRS in the future as an in-kind distribution from any Fletcher fund, that the terms of any such note must provide that: "In the event of a disagreement among note holders as to which option to pursue a majority of the note holders will govern with respect to any default involving a non-monetary action. Where the action involves a monetary default, then each note holder has the authority to act

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within its sole discretion as to the applicable remedy." Mr. Birdwell said the investment committee recommended approval of that provision and he moved the recommendation in the form of a motion.

MOTION: Mr. Birdwell moved to accept the investment committee recommendation. Mr. Tarleton seconded. The motion passed.

MOTION: Mr. Birdwell moved to retain the Kean-Miller law firm to draw a note and write the underlying agreement that contains the covenants of the note, if a note is agreed to between FRS and Fletcher Asset Management. Mr. Smith seconded. The motion passed.

Mr. Stockstill observed that the costs of Kean-Miller would be shared equally by FRS, MERS, and NOFF.

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

Hopper, et al v. Black, et al

[NOTE: By giving notice on its duly posted agenda, the FRS board of trustees reserved its right to enter executive session pursuant to R.S. 42:17(A)(2) for discussion of strategy or negotiations with respect to actual or prospective litigation where an open meeting would have a detrimental effect on the litigating position of FRS in the matter cited in agenda item III (2).]

Mr. Stockstill advised that no updates are available for the cited case or the companion bankruptcy case. He asked for the item to be deferred to the December board meeting.

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

In re Sand Spring Capital III

[NOTE: By giving notice on its duly posted agenda, the FRS board of trustees reserved its right to enter executive session pursuant to R.S. 42:17(A)(2) for discussion of strategy or negotiations with respect to actual or prospective litigation where an open meeting would have a detrimental effect on the litigating position of FRS in the matter cited in agenda item III (3); and the FRS board of trustees further reserved its right to enter executive session pursuant to R.S. 42:17(A)(1) for discussion of character or professional competence of the juridical entities identified in agenda item III(3).]

Mr. Meals said the investment committee recommended that FRS participate in the formation of an unofficial committee in the bankruptcy suit identified as In Re Sand Spring Capital III, and to hire the law firm of Heller, Draper, Hayden, Patrick and Horn to advise the unofficial committee in

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matters pertaining to the bankruptcy and further, to appoint the chairman of the FRS investment committee or his designee as FRS' representative to the committee.

MOTION: Mr. Birdwell moved to accept the investment committee recommendation. Mr. Broussard seconded. The motion passed.

Mr. Stockstill noted that the hiring of the law firm is subject to a comparison of other bankruptcy law firms' fees in the area.

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

2011 Audit Compliance Questionnaire

Mr. Stockstill presented the annual questionnaire that has to be completed in conjunction with the FRS annual audit.

MOTION: Mr. Broussard moved to approve the form as submitted. Mr. Tarleton seconded. The motion passed.

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

Unclassified FRS Staff Position - Investment Officer

Mr. Stockstill said a board member asked for this item to be placed on December's agenda, but information was received in time to be included in the material provided in the board members' November board book. The information included the job duties of an Investment Officer for Teachers' Retirement System and for LASERS, with personal information redacted therefrom. He said the matter will be placed on the agenda for discussion and action in December.

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

OTHER BUSINESS

Prospective Direct Real Estate Investment

Mr. Stockstill noted that representatives of Creekstone Development appeared at the FRS office and inquired regarding possible interest by FRS relative to investment in a direct real estate development in the Baton Rouge city limits.

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MOTION: Mr. Smith moved to defer this item to the December board meeting. Mr. Broussard seconded. The motion passed.

Actuarial Valuation - 06/30/11

Mr. Gary Curran presented a brief overview of the Actuarial Valuation as of June 30, 2011. (see attached Exhibit #7) Mr. Curran discussed the contribution rates for FY 2012. He advised the board

that there would be a rate increase equal to three-quarters of 1% compared to the current employer rate. He noted that for the 10% employee rate, employers will pay 24% payroll and for the 8% employee rate, employers will pay 26% of payroll. He advised these rates would be effective on July 1, 2012, if approved by PRSAC. Mr. Curran advised the board that FRS cost structure is now 44.94% of pay, which includes premium tax, employee and employer contributions. He noted that normal costs last year were 24.86%, which has barely changed to this year. He said that is because the demographics of the plan have not changed much at all from last year to this year. He noted that the unfunded liability payments last year were 18.72% of payroll, the dollars did not change, but there was a decrease because payroll is increasing. He noted an asset loss. FRS has a market rate of return of 17.4%, but the actuarial rate of return is 4.5%, which is below the 7.5% assumed rate, and which will probably continue for the next two years.

MOTION: Mr. Broussard moved to accept, approve and adopt the 2011 Valuation. Mr. Smith seconded. The motion passed.

[NOTE: The referenced Actuarial Valuation was included under other business because it was received after posting the final agenda. The valuation was discussed and adopted at this meeting for purposes of forwarding same to PRSAC. However, the valuation will be presented again at the December meeting for the benefit of board members who were not present at this meeting.]

ADJOURNMENT

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

FUTURE MEETINGS

**FRS Investment Committee
Public Safety Building
3100 Brentwood Drive
Baton Rouge, Louisiana
Tuesday, December 6, 2011 at 3:00 p.m.**

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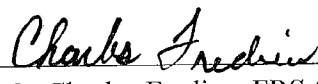
**FRS Board of Trustees
Public Safety Building
3100 Brentwood Drive
Baton Rouge, Louisiana
Wednesday, December 7, 2011 at 8:30 a.m.**

SUBMITTED BY:



Penny Gandy, FRS Board Secretary

APPROVED BY:



Mr. Charles Fredieu, FRS Chairman