



FIREFIGHTERS RETIREMENT SYSTEM

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MEETING OF THE BOARD OF TRUSTEES FEBRUARY 9, 2012

A meeting of the board of trustees was held on February 9, 2012 at the Public Safety Building in Baton Rouge. Mr. Charlie Fredieu, Chairman, called the meeting to order at 8:30 a.m.

Mr. Gary Curran gave the invocation and Mr. Birdwell led the pledge of allegiance.

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

MEMBERS PRESENT

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

OTHERS PRESENT

Steven Stockstill
Kelli Rogers
Jason Starns
Penny Gandy
Stephanie Little
Joe Meals
Gary Curran
Bennie Oubre
Merrick Tassin
Kirk Reasonover
Reggie Bergeron
Charlie Serigne
Brian Ruiz
Bob Rust
Richie Hampton

MINUTES

MOTION: Mr. Birdwell moved to approve the minutes of the board meeting held on January 12, 2012. 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.

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. 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 Timothy Dickerson's name needed to be corrected. He stated that all applications were in order.

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

- Survivor Applications

PROCEDURE: Survivors applying for benefits must furnish the retirement office with a notarized application for survivor benefits, a copy of the member's death certificate, a marriage license (if beneficiary is a spouse), and the beneficiary's birth certificate. Once received, the deceased member's 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.

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[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 Helen Jennings Applewhite, surviving spouse of Austin Leon Applewhite. He stated that the application was in order.

MOTION: Mr. Birdwell moved to approve the application for Helen Jennings Applewhite. Mr. Tarleton seconded. The motion passed.

Mr. Starns presented the application of Almeria Sylvester Reynolds, surviving spouse of Dudley Danny Reynolds, Jr. He stated that the application was in order.

MOTION: Mr. Birdwell moved to deny the application for Almeria Sylvester Reynolds. Mr. Tarleton seconded. The motion passed.

MONTHLY FLASH REPORT - JANUARY 2012

Mr. Joe Meals presented the monthly flash report for January 2012. (see attached Exhibit #3) He began by noting that the overall fund was up/down as follows: 3.2% for the month of January as compared to the blended index of 3.0%; -1.2% for the fiscal year to date as compared to the blended index of 2.7%; 1.6% for the trailing 12 months as compared to the blended index of 6.0%; and 12.3% for the trailing 3 years as compared to the blended index of 14.5%.

COMMITTEE REPORT - INVESTMENT COMMITTEE

[NOTE: The Investment Committee met on February 8, 2012, at the FRS office in Baton Rouge at 3:00 p.m. to discuss the following business set forth in its posted agenda- (A) The FRS monthly investment performance results for January 2012, (B) FRS Asset Allocation Study, (C) Feasibility of investing in direct real estate, multi-family development project, (D) Existing FRS asset manager known as Fletcher Asset Management, Inc., and (E) The following litigation- *Firefighters' Retirement System v. Regions Bank, et al.*; *In re Robert Black & Kelly J. Black and Michael Allen Chernine, Debtors*; *In re Sand Spring Capital III*; and all matters related to the foregoing items. Committee members present were Stacy Birdwell, chairman; John Broussard, Mayor Mayson Foster, Dr. Steven Procopio, Paul Smith, and Charlie Fredieu-ex officio. Also present was Joe Meals. The minutes of that meeting are embedded herein.]

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

- **FRS Asset Allocation Study**

Mr. Joe Meals presented the board with an Asset Allocation Study prepared by CSG. (see attached Exhibit #4) He advised the board that the a study of this type first seeks to define the system's assets that are to be included. How broad or narrow to set the parameters. He noted that, for this particular study, CSG identified 15 different asset classes that were suggested for inclusion, without being so narrowly defined as to make the study overly broad. He referenced page one and noted that the study is color coded to identify the broader asset classes, for example five equity classes were identified- US large cap, US small to mid cap, developed international, emerging market international and global equity. He noted four fixed income asset classes- US investment grade, US high yield, emerging market debt and global fixed income. He noted that three real estate asset classes- private real estate, public real estate and private placement. In the alternative category, he identified- hedge funds, global macro hedge funds and commodities. He noted that private equity was omitted as an asset class because it is difficult to obtain data and private equity is similar to small-mid cap equity. Mr. Meals then discussed the remaining pages under Tab 1 and all of the other material contained in the Asset Allocation Study book. During his educational presentation, he answered questions raised by board members. [NOTE: DVD copies of Mr. Meals' presentation were produced and mailed to board members who were not in attendance at this meeting.]

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)(1) for discussion of character or professional competence of the juridical entities identified in agenda item III(1)(C); the FRS board of trustees further 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 judicial matters cited in agenda item III(1)(C); all pertinent notifications had been provided.]

MOTION: Mr. Birdwell moved to enter executive session. Mr. Tarleton 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.

MOTION: Mr. Birdwell moved to authorize Steven Stockstill, Dr. Steven Procopio and John Broussard to meet with the legislative auditors and then draft and submit a letter to the FRS board chairman for final approval in response to the Legislative Auditor's report. Mayor Foster seconded. The motion passed.

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

[NOTE: Discussion of the next four items occurred later in the meeting, but are entered here to align the subjects with the posted agenda.]

PROSPECTIVE DIRECT REAL ESTATE INVESTMENT

MOTION: Mayor Foster moved to permanently delete this item from the agenda. Mr. Broussard seconded. The motion passed.

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

FRS V. REGIONS BANK, ET AL

This item was deferred until the March 2012 board meeting.

IN RE ROBERT BLACK & KELLY J. BLACK (LAND BARON)

This item was deferred until the March 2012 board meeting.

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 judicial matters cited in agenda item III(6); all pertinent notifications had been provided.]

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

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

MOTION: Mr. Broussard moved to ratify the previous filing of a direct claim in this matter, which was filed on behalf of FRS by the law firm of Reasonover-Olinde, and to approve a litigating budget ranging between \$300,000 to \$600,000. Mr. Birdwell seconded. The motion passed. [NOTE: The litigation expenses are not paid by FRS. The expenses are paid from the bankruptcy trust in which FRS' investment has been deposited along with all other investors of the Sand Spring Capital Fund. The expenses are shared on a prorated basis with the other investors.]

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

This concluded the investment committee report.

QUARTERLY FINANCIAL STATEMENTS - QE 12/31/11

Ms. Kelli Rogers presented the Statement of Net Assets and the Statement of Changes in Net Assets for the quarter ending December 31, 2011. (see attached Exhibit #5) She advised the board that the Statement of Net Assets is largely made up of investments. She advised the board that Fletcher Asset Management has been reclassified from fixed income and is now classified as a receivable. Ms. Rogers advised the board that Fletcher is still present on the balance sheet, but it has been moved to another section. She said that, as of December 31, 2011, FRS had \$1,098,049,685 in net assets. She then presented the Statement of Changes in Net Assets for the Six Months Ending December 31, 2011. (see attached Exhibit #6) Ms. Rogers advised the board that employer contributions were \$22,264,907, this is up \$2.5 million from the prior year or 13%. Employee contributions were \$9,365,068, this is up \$1.6 million from the prior year. The merger contributions of \$1 million is related to Fire Protection District #6. There was a net investment loss for the period of \$53.7 million. FRS paid out \$31.2 million in benefits for the six months of the year, this is up \$1.8 million from the prior year. Disability benefits were \$2.3 million. A total of \$803,361 was paid in refunds. Administrative expenses are up from the prior year to \$974,253. She noted that this number includes the total amount of services from Ernst & Young and since December the other two systems involved in paying this expense have been billed. Ms. Rogers observed that, overall, FRS had a net decrease in net assets of \$56.4 million for the six month period, which gave FRS \$1.0 billion in net assets.

MOTION: Mr. Birdwell moved to accept the Statement of Net Assets/Statement of Changes in Net Assets reports. Mr. Tarleton seconded. The motion passed.

Mr. Stockstill presented the board with a copy of the 2012 budget. He noted that the FRS budget is 64% expended to date. He presented the board with a spreadsheet showing legal fees incurred to date. (see attached Exhibit #7) He described the legal fees being paid to Breazeale, Sachse & Wilson regarding the Land Baron matter, which equal \$33,427 to date. With an additional \$8,694 paid to the law firm of Santoro-Driggs and \$1,697 paid to attorney Richard Martinez for legal services related to Land Baron. He described the legal fees being paid to the law firm of Heller-Draper regarding the Commonwealth bankruptcy cases, which equal \$27,330 to date. He described the legal fees being paid to the law firm of Kean-Miller regarding the ghost writing of a brief in the Duty case, which equal \$9,504. He said the board originally authorized the expenditure of \$25,000 in that matter and although the current billing does not show that amount as having been expended, FRS has received notice that the full amount has been incurred and will be included in the next billing cycle. Mr. Stockstill said that Kean-Miller is almost finished with the brief and he recommended an increase of the budgeted amount to from \$25,000 to \$30,000 to assure completion of the project

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without disruption. Mr. Stockstill described the legal fees being paid to the law firm of Olinde-Mercer regarding the Kandi Smith matter, which equal \$8,228. He said, based on the current filings, this matter is likely to be appealed to the Supreme Court. He said the board originally authorized the expenditure of \$10,000 in that matter and although the current billing does not show that amount as having been expended, FRS has received notice that the full amount has been incurred and will be included in the next billing cycle. Mr. Stockstill recommended an increase of the budgeted amount to from \$10,000 to \$15,000 to assure completion of the project without disruption.

MOTION: Mr. Birdwell moved to accept the foregoing staff recommendation regarding legal fees. Mayor Foster seconded.

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

DUTY V. FRS

[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 judicial matter cited in agenda item III(2)(E); all pertinent notifications had been provided.]

MOTION: Mr. Birdwell moved to accept the staff recommendation regarding the filing of a motion to clarify the Court's prior rulings on the subject of Prescription and authorizing the law firm of Olinde-Mercer to file that motion with a litigating budget of up to \$15,000 for that purpose. Mayor Foster seconded. The motion passed.

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

2012 LEGISLATIVE SESSION

Mr. Stockstill reported that Senator Guillory was appointed chairman of the Senate Retirement Committee and Representative Pearson was appointed chairman of the House Retirement Committee. He then gave a brief overview of House Bill Nos. 5, 14, and 39, and Senate Bill Nos. 2, 16, 21, 33, and 44, and made observations about each bill.

Mr. Stockstill said, with regard to HB No. 39, that it had been filed by Representative Montoucet on behalf of FRS. Mr. Stockstill recalled previous instructions by the board to take all steps necessary to obtain a determination letter from the IRS regarding FRS' status as a qualified plan. He said FRS' application is still pending with the IRS but, meanwhile, Congress passed laws that all qualified plans must adopt. He said that other statewide systems have filed this same bill. He said that, since

the board's previously granted authority was general in nature, he asked the board to approve the filing of this specific bill.

MOTION: Mr. Broussard moved to approve the filing of HB 39 and support its passage. Mr. Tarleton seconded. The motion passed.

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

FRS DROP ENROLLMENT PROCEDURES

Mr. Stockstill recalled that, at the January 2012 board meeting, the board instructed the staff to revise the system's DROP procedures to include the clarifying revisions put into place at that meeting. He referenced the revised procedure that had been included in the monthly board book. (see attached Exhibit #8) He said the revisions now require a fully completed DROP application and a notarized DROP affidavit to be submitted at least thirty days prior to the effective date of entry into DROP, otherwise the application will be rejected as incomplete.

MOTION: Mr. Birdwell moved to approve the revised procedures for enrollment in DROP. Mr. Tarleton seconded. The motion passed.

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

FUNDING REVIEW PANEL PROPOSALS

Mr. Stockstill recalled that the Funding Review Panel had forwarded to FRS three retirement cost savings proposals that had previously been presented to and discussed by the Funding Review Panel. He further recalled that, at the January 2012, the FRS board discussed one of the three proposals in detail, but did not have time to discuss the other two proposals in the same detail. As a consequence, those two proposals were being brought back before the FRS board for additional consideration. (see attached Exhibit #9)

Post-DROP Status. The first proposal was submitted by Chief Merrick Tassin, President of the Louisiana Fire Chiefs' Association (LFCA). [NOTE: This proposal was developed by Chief Tassin, but is not a proposal being sponsored by the LFCA.] He addressed the board regarding his proposal. Chief Tassin said the proposed concept states that, if an employee completes DROP and wants to continue employment, either the city or the fire district would have the option of retaining that employee. He said the proposal has some flexibility in that it applies where the employee is in DROP or upon completion thereof. If an employee wants to continue his employment, then the employer can give its approval, but the employer does not contribute to the retirement system. Instead, the employee would participate in the Louisiana Deferred Compensation Plan (LDCP), and the employer contributes up to 10% or 15% of the employee's salary into LDCP. The employee

could not receive either regular retirement benefits or withdraw anything from the DROP account. If the employee works three years, during those three years the employer would only have to contribute 10% or 15% to match the employee contribution to LDCP, as compared to the 25¼% currently being contributed by the employer to FRS. No money would be coming out of FRS during those three years. The employee would still be employed and still earn a salary and at the same time.

Chairman Fredieu noted that currently, an employee who wishes to return to work with the city can either pay into social security or LDCP. Chief Tassin said there are currently some fire departments that pay into social security, including the one he works for. He said that this proposal would give the option to continue to pay into social security while contributing to DROP.

Mayor Foster noted that there is currently nothing requiring an employee to leave the city after DROP. He noted that Chief Tassin's proposal implies that employee is gone after DROP, but that is not necessarily the case. Mayor Foster asked Chief Tassin if the proposal is voluntary. Chief Tassin responded yes, it is voluntary and would be up to the individual city.

Mr. Gary Curran advised the board that currently FRS has employees in post-DROP status. He said a significant part of the contributions being paid by the employer go toward the system's Unfunded Accrued Liability (UAL) and that is a fixed cost. He said that is an issue the system must deal with, i.e., post-DROP contributions, because if there is payroll shrinkage, if employers stop contributing during post-DROP, then that contribution-dollar is going to be shifted to someone else to make up. FRS' UAL contributions are often expressed in a percentage of payroll, but in reality it is a fixed dollar amount. If FRS has fewer people contributing, because they are in the proposed status, then all those contributions they are not making must be made by someone else. He said that is one issue with the proposal. He noted that all the employees in the return to work status, i.e., post-DROP employees, are in effect a profit center for the retirement system, they are making money for FRS.

After further discussions, Chief Tassin withdrew his proposal for further study and said he may bring it back before the Funding Review Panel and FRS before the 2013 legislative session.

Five Year DROP. Mr. Stockstill said that Mr. Gary Curran completed the analysis of a five year DROP plan that is only available to employees who have attained 27 and 30 years of service respectively. Mr. Stockstill said that the Funding Review Panel wants FRS to consider that, with a five year DROP the employer is not making contributions to FRS for a couple more years, the employer is not making contributions for a replacement employee, and any other cost saving features that could occur.

Mr. Birdwell said the concept looks for something to help the cities without changing FRS' benefits. He said the five year DROP is a concept that was recently passed at the PFFA convention. The reason the 27 year number was selected is because that would stop employees from being able to leave one day earlier than they can presently with a 25 and three. Under this proposal, an employee

would have to work 27 years to be eligible for a five year DROP. He said requiring employees to work 27 years makes employees stay (work) two more years before signing up for DROP. That helps the system by having a contributing employee for two years longer and then staying in DROP two years longer. The system would hold the employee's DROP money for two years longer. The proposal keeps the highest paid employees working for the city, meaning the city is not making contributions on its highest paid employees. He noted that currently the City of Shreveport is saving \$938,000 in pension contributions for employees in DROP. He said he believes Hammond is currently saving around \$30,000 a year.

Mr. Curran advised the board that he has done about 80% of the work on this report but it is not completed. He advised that FRS has two problems to face with this proposal. First, if FRS has more people paying zero contributions, then the other employees that are contributing will have to pay more. They will have to make up the difference in the AUL payments because those are fixed dollar amounts that have to be paid. He said that will cause the payroll base to go up in order to cover the UAL payments and, right now, that is about 40% of FRS' cost.

Mr. Curran gave the following example: If you take two people and person A at a given age and with a given service goes into a three year DROP and then compare that to person B same age, same service, but B goes into a five year DROP, and make the assumption that both retire at the end of their DROP participation, it's clear that the five year DROP has the lower cost under these circumstances. This example was validated using a sample of the whole population and running many different scenarios and the five year DROP comes in at less present value to finance it.

By contrast, Mr. Curran said that, if the two employees had equal cost to them over their entire careers and the system was only going to collect contributions on the non-DROP period, then the cost will be squeezed up in the five year case because the employees contribute over a shorter period of time. He noted that there is a certain percentage of the population that works after DROP and if FRS has a two year longer DROP period the employee will be in the contributing status for two fewer years and FRS will have pretty substantial losses from this group. The losses from this group will cancel the savings from the other group.

Mr. Curran said there will some winners and losers because of the way the cost distribution will run. He said that if you have a jurisdiction with a very high concentration of high service people, where a lot of them are in DROP, it might be true that overall the plan comes out either neutral or near neutral or a slight gain or a slight loss.

After further discussions this matter was concluded with no action being needed or taken.

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FRS INVESTMENT OFFICER

Mr. Stockstill announced that Kelli Rogers has been hired as the new (and first) FRS Investment Officer. Ms. Rogers formerly served as the FRS System Administrator and Controller. The board collectively congratulated Ms. Rogers and warmly welcomed her to the new position.

ADJOURNMENT

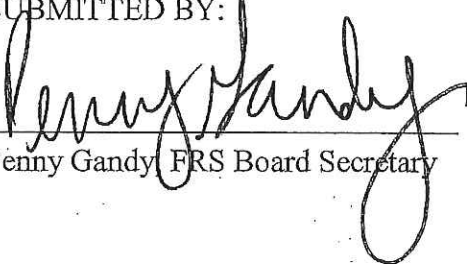
There being no further business, the meeting of the FRS board of trustees was adjourned.

FUTURE MEETINGS

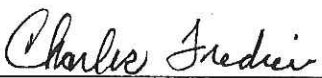
**FRS Investment Committee
3100 Brentwood Drive
Baton Rouge, Louisiana
Wednesday, March 7, 2012 at 3:00 p.m.**

**FRS Board of Trustees
3100 Brentwood Drive
Baton Rouge, Louisiana
Thursday, March 8, 2012 at 8:30 a.m.**

SUBMITTED BY:


Penny Gandy, FRS Board Secretary

APPROVED BY:


Mr. Charles Fredieu, FRS Chairman