



FIREFIIGHTERS RETIREMENT SYSTEM

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MEETING OF THE BOARD OF TRUSTEES March 9, 2017

A meeting of the Board of Trustees was held on March 9, 2017 at the Firefighters' Retirement System building in Baton Rouge, Louisiana. Mr. Stacy Birdwell, Chairman, called the meeting to order at 8:30 a.m.

Mr. Jeselink gave the invocation and Mr. Broussard led the pledge of allegiance.

Ms. Poche called the roll. A quorum was present.

MEMBERS PRESENT

Mr. Stacy Birdwell

Mr. Perry Jeselink

Mr. Afranie Adomako (designee of Commissioner Jay Dardenne)

Mr. John Broussard (designee of Treasurer Ron Henson)

Mr. Charlie Fredieu

Representative Barry Ivey (designee of House Speaker) (arrived after roll call)

Mr. Jerry Tarleton

OTHERS PRESENT

Steven Stockstill

Layne McKinney

Denise Poche

Jason Starns

Michael Becker

Jamie Grady

Brandi Brown

David Barnes

Greg Curran

Phil Preis

Paul Schmidt

MINUTES

MOTION: Mr. Jeselink moved to approve the minutes of the board meeting held on February 9, 2017. Mr. Tarleton seconded. The motion passed.

APPLICANTS

- New Members

PROCEDURE: The FRS enrollment process, including the completion of the applicant forms, the physical examination, and the completion of any waivers of preexisting conditions, must be completed and all documents received by FRS within six months of the date of employment. If the FRS enrollment process is not completed within six months from the date of employment, the applicant will be a member eligible to begin vesting for regular benefits from the date of employment, but not eligible to begin vesting for disability benefits until the completion of the enrollment process. It is the statutory responsibility of the employer to insure that the enrollment process is timely completed or to provide FRS with notice of noncompliance by the applicant. If a member who has not completed the enrollment process becomes injured in the line of duty and applies for disability benefits, then the member must prove that the disabling condition was not preexisting. 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. Starns presented the list of new member applicants. (see attached Exhibit #1) He stated that all applications were in order.

MOTION: Mr. Tarleton moved to approve the new member applicants. Mr. Jeselink seconded. The motion passed.

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

- 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. Tarleton moved to approve the retiree applicants. Mr. Adomako seconded. The motion passed.

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

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- 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 licence (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)

Arlene Sandlin Blanchard- Mr. Starns presented the application of Arlene Sandlin Blanchard, surviving spouse of Burl Joseph Blanchard. He stated that the application was in order.

MOTION: Mr. Tarleton moved to approve the application of Arlene Sandlin Blanchard. Mr. Adomako seconded. The motion passed.

Jean Jernigan Greer- Mr. Starns presented the application of Jean Jernigan Greer, surviving spouse of Edward Earl Greer. He stated that the application was in order.

MOTION: Mr. Tarleton moved to approve the application of Jean Jernigan Greer. Mr. Adomako seconded. The motion passed.

Connie Kifer - Mr. Starns presented the application of Connie Kifer, Judy Freeman, Ray Furr, and Paula Smith, surviving children of Mary Ryals. He stated that the application was in order.

MOTION: Mr. Jeselink moved to approve the application of Connie Kifer, Judy Freeman, Ray Furr, and Paula Smith. Mr. Tarleton seconded. The motion passed.

Lindy Lee Temple - Mr. Starns presented the application of Lindy Lee Temple, surviving spouse of Terry Lane Temple. He stated that the application was in order.

MOTION: Mr. Jeselink moved to approve the application of Lindy Lee Temple. Mr. Tarleton seconded. The motion passed.

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

FRS AUDIT FIRM ROTATION POLICY

Mr. Stockstill recalled that the board had deferred last month's discussion regarding the existing board policy of rotating audit firms and to give the board the opportunity to review the system's minutes regarding application of the auditor-rotation policy in past years. The board also authorized the existing auditor, Duplantier, Hrapmann, Hogan & Maher, LLP to submit a sealed bid to be available in the event that the board voted in the next month's board meeting to change the auditor-rotation policy to allow the incumbent auditor to participate in the bid process. Current FRS policy requires the system to rotate its auditor every 5 years. Mr. Layne McKinney directed the board's attention to the FY 2017 Audit Services handout that contained the names of each firm that responded to the system's Invitation to Bid (ITB) along with their proposed fees for services. (see attached Exhibit #3)

MOTION: Representative Ivey moved to follow the audit practice applicable to companies that are under the U.S. Securities Exchange Commission's (SEC) jurisdiction regarding the rotation of audit firm partners every five years and thereby allow Duplantier-Hrapmann to submit a bid. Mr. Tarleton seconded. A roll call vote was taken and the motion failed by the following tally-

Birdwell	Yes	
Jeselink	No	
Adomako	No	
Amrhein		Absent
Broussard	No	
Fredieu	No	
Ivey	Yes	
Peacock		Absent
Roberts		Absent
Tarleton	Yes	

(3-4)

After further discussion, Representative Ivey suggested using the Legislative Auditor instead of the other firms that responded to the system's ITB.

[NOTE: During a brief recess, Representative Ivey contacted the Legislative Auditor's office to obtain information regarding the cost of the Legislative Auditor's office performing the audit service on behalf of FRS.]

MOTION: Mr. Broussard moved to defer the discussion of selecting the Legislative Auditor as the FRS audit firm until next month's (April/2017) board meeting at which time additional information will be available from the Legislative Auditor. Mr. Tarleton seconded. The motion passed.

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

FRS, ET AL v CITGO GROUP LIMITED, ET AL

FRS, et al. v. Citgo Group Limited, et al., Suit No. 3:13-cv-00373-SDD-EWD, U.S. District Court, Middle District, Louisiana

[NOTE: By giving notice on its duly posted agenda, the 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, and where an open meeting would have a detrimental effect on the litigation position of FRS in the judicial matter cited in Agenda Item III(1); all pertinent notifications had been provided.]

MOTION: Mr. Tarleton moved to enter executive session to discuss the agenda item shown above. Mr. Fredieu seconded. The motion passed unanimously.

MOTION: Mr. Tarleton moved to resume public session. Mr. Jeselink seconded. The motion passed unanimously.

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

MONTHLY FLASH REPORT - FEBRUARY 2017

Due to the date of the board meeting and the timing of the investment data availability, or lack thereof, there was no flash report for the month of February 2017. In lieu thereof, Mr. Barnes presented and explained a chart containing the composite returns for each major asset class. (see attached Exhibit #4)

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

COMMITTEE REPORT - INVESTMENT COMMITTEE

[NOTE: The Investment Committee met on March 8, 2017, at the FRS office in Baton Rouge at 3:00 p.m. to discuss the following business set forth in its posted agenda- (i) The FRS monthly investment performance results for February 2017, (ii) 2017 FRS Active Risk Budgeting study, (iii) Cash Flow Rebalancing proposal, (iv) FRS investment manager monitoring procedure; and all matters related to the foregoing items. The minutes of that meeting are embedded herein. Committee members present were Mr. Jeselink, chairman; Mr. Adomako, Mr. Broussard, and Mr. Tarleton. Also present were Mr. Fredieu, Steven Stockstill, Layne McKinney, Denise Poche, Michael Becker, and David Barnes.]

Mr. Jeselink gave the investment committee report. In doing so he recognized Mr. Barnes who recalled his presentation of the investment performance results to the Investment Committee for the

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month of February 2017. (see minute entry captioned above as "Monthly Flash Report - February 2017")

- NEPC 2017 Active Risk Budgeting Study

Mr. Barnes recalled that the 2017 Active Risk Budgeting and Rebalancing Study published by NEPC was presented to the Investment Committee. (see attached Exhibit #5) He advised the board that the Investment Committee voted to recommend to the full board to move \$15 million from Thornburg Global Opportunities to Boston Partners Global as part of the Active Risk Budget Proposal. (p97, Exhibit #5)

MOTION: Mr. Jeselink moved the foregoing Investment Committee recommendation in the form of a motion. Mr. Tarleton seconded. The motion passed.

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

- Cash Flow Rebalancing Proposal (Advisory/Acadian)

Mr. Barnes further recalled two additional Investment Committee recommendations regarding the Cash Flow Rebalancing Proposal. He advised the board that the Investment Committee voted to recommend to the full board to- (i) Reallocate \$10 million from the SMID Cap Composite as follows, \$5 million from Advisory Research and \$5 million from Energy Opportunities Fund, and, (ii) Allocate that \$10 million to Acadian Emerging Markets Equity. (p105, Exhibit #5)

MOTION: Mr. Broussard moved the two foregoing Investment Committee recommendations in the form of a motion. Mr. Fredieu seconded. The motion passed.

- Insurance Premium Tax Allocation (Standish Melon/Stone Harbor/BlackRock)

Mr. Jeselink recalled that the Investment Committee also voted to recommend to the full board to accept NEPC's Alternate Rebalancing Proposal regarding allocating the incoming 2017 Insurance Premium Tax distribution as follows- Invest \$8.5 million in Standish Opportunistic Fixed Income, \$7 million in Stone Harbor and \$10 million (or the remaining balance) in BlackRock US Debt. (see attached Exhibit #6)

MOTION: Mr. Jeselink moved the foregoing Investment Committee recommendations in the form of a motion. Mr. Broussard seconded. The motion passed.

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

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- FRS Investment Manager Monitoring Procedure

Michael Becker, FRS CIO, drew the board's attention to Internal Policy No. 03092017 (see attached Exhibit #7) He explained that, if adopted, this new policy would be used to monitor all current and future investment managers.

MOTION: After discussion by the board members, Mr. Jeselink moved to adopt Internal Policy No. 03092017. Mr. Tarleton seconded. The motion passed.

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

MOTION: Representative Ivey voted to accept the Investment Committee's report. Mr. Tarleton seconded. The motion passed.

That concluded the Investment Committee report.

FRS LEGISLATION - 2017 REGULAR SESSION

Mr. Stockstill explained the following 2017 legislative bill draft to the board and addressed questions that arose relative thereto-

SB8 Peacock RETIREMENT SYSTEMS: Provides for correction of membership and enrollment errors in the state and statewide retirement systems. (see attached Exhibit #8)

MOTION: Representative Ivey moved to defer discussion of SB8. Mr. Tarleton seconded. The motion passed.

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

PUBLIC RETIREMENT SYSTEMS' ACTUARIAL COMMITTEE (PRSAC)

- FRS Investment Returns

Mr. Stockstill explained that he was acting on the instruction of the Chairman of the Senate Retirement Committee, who is also the Chairman of PRSAC Committee. He said the Chairman instructed him to inform the FRS board about the truth regarding the system's investment returns and funded status. To do so, he drew the board's attention to a chart that was referred to by the PRSAC chairman. (see attached Exhibit #9)

Mr. Stockstill said the chart shows the investment returns of all the state and statewide public retirement systems for the quarter ending December 31, 2016. One of the things that was pointed out

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during the PRSAC meeting was the three, five, and ten year investment performance returns of FRS, which are far below the returns of the other systems. The PRSAC chairman said the FRS returns are unacceptable. Mr. Stockstill then asked the FRS investment consultant to explain to the board why the FRS investment returns are so disproportionately low compared to the other systems in the three, five and ten year periods.

David Barnes of New England Pension Consultants, NEPC (FRS' investment consultant) explained that when the three year period is examined, it includes calendar years 2014, 2015, and 2016. The first of those years was 2014, where FRS had write downs in the bond portfolio, e.g., the loss that was taken from Commonwealth was a loss of 91.2%.

Representative Ivey asked Mr. Barnes to clarify whether that was 91.2% of the system's total bond portfolio? Mr. Barnes clarified that the loss was 91.2% of the Commonwealth portfolio alone.

Mr. Barnes said, also in 2014, there were two private equity write downs to Sail Venture Partners. He said the value of the Sail Venture Fund was written down 82.2% and the Sail Sustainable Fund in 2014 was written down 92% of the value in that same year.

Representative Ivey said it would be helpful to know, for each one of the write downs, its individual impact as a percent of the reduction of the overall return. Because instead of thinking the losses are attributable to your entire portfolio, it may show that a few very bad situations are the leading cause. If it can be shown in an equally weighted percentage of the loss, it may be informative.

Mr. Broussard pointed out that, if you look at those returns for those particular periods, the three entities that are glaringly obvious are Firefighters, Municipal Employees and Registrars, and all three were CSG clients.

Mr. Barnes said those losses are going to take time to wash out of the system's average returns. He further said that, the last of those significant write downs, that were at that level, were in 2014. There were no significant write downs in the value of investments like that in 2015 or 2016. So, as 2014 rolls off of the three year number over the next year, it should improve the three year numbers, and bring you back to a much more apples to apples comparison.

Representative Ivey asked what was rolled into the five year number?

Mr. Barnes said the five year number includes the Fletcher write down, which he believed was \$45 million dollars. It was a \$45 million dollar write down. All in, between those three investments, my guess is probably 10% of the portfolio; somewhere in the range of \$145 million.

Mr. Stockstill asked if it is safe to conclude that the one year period of investment returns does not include any of the write downs.

Mr. Barnes confirmed that to be correct.

Representative Ivey observed that the FRS portfolio is doing pretty good in the one year period.

Mr. Barnes stated that the current return is positive at 7.2%.

Mr. Stockstill said, when the PRSAC chairman pointed out the three, five and ten year returns and said they're unacceptable, he later reviewed the same chart to discover the weakest performing sector of the systems's asset allocation. He further said the bottom chart is divided into the equity, fixed income and alternative asset classes. He said the three year period, for FRS in the fixed income class, shows a return of 40 basis points. He asked if that caused a tremendous drag on the FRS portfolio?

Mr. Barnes said the Commonwealth write down is acting as a drag on the three year number in fixed income, but will not impact the one year number for fixed income.

Mr. Stockstill asked if it is safe to conclude that, as long as the performance returns include the write downs, if things are improving, then the one year numbers will look similar to the other systems; but, when the one-year numbers wash back in to the years where they're averaged along with the write downs, then the numbers are going to drop? If so, is it fair to conclude that, as long as the one year number looks good continuously that the recent corrective measures being put into the portfolio are working?

Mr. Barnes responded in the affirmative.

Mr. Broussard also said yes, absolutely. That's math.

Representative Ivey said, if you draw a line between the one and three year periods, then you can acknowledge that the three, five and ten year periods are disappointing, and there's real reasons why, but the recent portfolio returns prove that it has really turned the corner and a lot of the write downs were the direct result of manager fraud. Not bad investment decisions, but fraud. The system has changed its policies, including the recently adopted policy creating a framework to continuously hold the portfolio managers accountable.

Mr. Broussard pointed out that there is a common denominator between the three lowest performing systems in those periods. It's a fact that CSG was the investment consultant for Firefighters, Municipal Employees and Registrars.

Chairman Birdwell mentioned the possibility of recovering some of the write downs through litigation.

Mr. Broussard said any such recovery won't improve the current year returns and the system won't restate the past. It's going to be the math of time letting those performance numbers roll off that will improve the three, five and ten year periods.

Representative Ivey recognized that any recovery through litigation would reduce the system's unfunded liability and would be invested going forward.

In order to assure that the board is being fully informed, Mr. Stockstill acknowledged that the FRS portfolio is not completely finished with its write downs. The system has been dollar-cost-averaging its write downs over a long period of time and I'm told that FRS is ahead of the other former CSG systems, but FRS isn't finished. Mr. Stockstill then directed the board's attention to FRS-GA, a direct real estate holding which is another CSG recommended investment, and asked the FRS CIO what value the system is carrying FRS-GA on the books?

Mr. Becker, FRS CIO, said \$4.7 million.

Mr. Stockstill acknowledged the carrying value of \$4.7 million and said that MERS had a recent appraisal report for the same property that shows the value at \$1.4 million less than the FRS carrying value. Mr. Stockstill said that, if FRS goes by the MERS appraisal, then FRS will soon be writing down another \$1.4 million.

Representative Ivey asked if that investment had been written down and, if so, how much?

Mr. Broussard said the FRS monthly flash report shows that the contributions to FRS Georgia were \$9.6 and the property is now at \$4.7 ending market value.

Mr. Stockstill indicated that the property was purchased prior to the last real estate crash.

Representative Ivey observed that FRS bought high and asked if it is now holding with the intent to hold until markets recover? Because there's no point in selling now after FRS has written it down for so long.

He then asked if the system has a plan in case the property value recovers, i.e., to get out or we plan on keeping it long term. What's the plan?

Mr. Stockstill indicated that the board has almost totally turned over since the original purchase but, during the course of board meetings where different board members had spoken, the consensus was that there was no comfort for selling at the current value but it didn't seem like there was an expectation of getting 100% plus. The consensus seem to be on the sell side when most of the loss could be recovered.

Representative Ivey asked for a detailed list of the three FRS direct real estate investments, and the particulars of those investments.

Mr. Stockstill asked the FRS staff to discuss any other write downs that FRS would anticipate on the horizon? In other words, I want the PRSAC chairman to be comfortable that the FRS board is being made fully aware of the shape of the portfolio.

Mr. Becker, FRS CIO, said his two main concerns are Murphree Venture Partners, which is something that FRS is carrying at a little less than a million dollars. And then also the Louisiana Fund, which FRS is carrying as a gain. They're in liquidation mode where they're trying to get eighty or ninety cents on the dollar, which we would still have a gain in that investment. The dollar value that FRS is carrying those two investments at are certainly small in magnitude compared with others.

To summarize, Mr. Becker informed the board that, in regard to the write offs- Commonwealth, which was in the fixed income allocation, was an \$11.2 million dollar write down. Sail Venture, \$20.3 million investment. Sail Sustainability was \$18.2 million; and the one direct real estate holding was a little bit less than \$1 million at \$0.8 million. So, over that time period, from 01/01/14 until 12/31/16, it's \$50.5 million worth of write downs that are impacting the system's three year return.

- FRS Funded Status

Mr. Stockstill drew the board's attention to the portion of the chart that the PRSAC chairman expressed concern regarding the FRS funded status. He said the chart shows the funded status of all state and state-wide retirement systems, as reported by the actuary in the annual valuations. (see attached Exhibit #10)

The right hand column represents FY 2015. If you shift to the left column, you are moving from FY 2015 to FY 2016. If your funded status is going up, then the number should increase when going from the right to the left. If your funded status is going down in value, then the number should decrease. Every system's funded status is going up except FRS and MERS. The Senator was profoundly concerned that FRS' funded status is going down.

Mr. Stockstill asked FRS' actuary, Greg Curran, to explain why the FRS funded status is going down and is FRS financially unhealthy? Is there reason for alarm? Is there something the board needs to know that they're not being made aware of? Please let the sun shine in.

Mr. Curran explained that, every year when a valuation is done, we (the actuary) give you (the board) the gains and losses within the plan. The funded status is a pretty simple number. In our funding report, it's the actuarial value of assets divided by the entry-age accrued liability. The one good thing that's come out of GASB is that these funded statuses are all based on the entry-age accrued liability. The 2016 FRS valuation saw its funded ratio declined slightly. The items impacting FRS were- FRS had a rate of return on an actuarial value of assets basis of 3.1%, well below our assumption. That's

mostly impacted by the write down affect on your market value of assets. You have a change in your market value of assets. We have a five-year smoothing on the actuarial rate of return and so even though we've worked through a lot of those losses, they're gonna take a while to get through the system, which means that although other systems saw decreases post 2008 in their investment return, because they certainly had bad experiences, the five-year average, we're already past five years for many of them. FRS write offs have a delayed impact. FRS started doing the write offs 2013, 2014, and that's still within FRS' five-year time frame; it's still affecting our results. So certainly, the asset loss in that one year was \$7.1 million dollars. The contributions in the plan, we had gains and we had some other offsetting gains. So that particular year was really just an asset story.

The board has already talked about the change in the valuation interest rate. Certainly, we're going to go through that. That's not going to help the system's funded status. I think we're moving towards a better more realistic funded ratio when we do it, but you have to understand that the entry-age normal accrued liability is going to react to a lower valuation interest rate. We're going to phase it in, but that's gonna mean the advantage of doing it quickly is you get a lot of pain but you get it once and you put it behind you. Phasing it over a five-year period means the system's going to have pain, but hopefully we'll have a 9% background of returns in some of those years and it might not be as terrible feeling as we could've expected.

Other systems have also gone through the phased reductions and, in that period, your funded status will react. So if our assets return well and we have a good return then maybe they'll keep up with the change in the entry-age normal liability but they, if you just sort of have normal returns, you're unlikely to keep up with it and you'll see the ratio go down. So I do expect that FRS is going to see some pressure on its funded ratio until the system gets down to that level of a more normalized return. The good news is, once you're there, it's not as hard to reach your return expectations. Hopefully we'll have a more likelihood of gains. We're not really shooting for conservatism in that rate. Getting us down to 7% will certainly be more conservative than the 7½%. It won't be a super conservative assumption, but more likely a better place to be.

If we're talking about full disclosure, and comparing systems, you need to think about what has helped other systems look better. One of the things has been the funding deposit account in a number of systems. A number of these systems, state and statewide comparative systems have held the employer contribution rates above the actuarial rate, the actuarial minimum. Meaning they've asked employers to pay more than the minimum and that's going to improve your funded ratio. You're pumping money into the plan that you didn't have to put in the plan. And that will help your funded ratio. That's not the reason it was done but it's sort of a natural effect the way it was done. So you could say Assessors has improved their funded ratio significantly and part of that is the funded deposit account. The Clerks have done the same. Parochial's done the same. MERS has had a slight use of that in the past but have not been able to use that recently. Sheriff's has done that. The Registrars have done that. So those, you can see, they've taken the role of using this funded deposit account which FRS has sort of in our law but we can't trigger it until certain things occur. But the idea of asking employers to pay more to help shore up the fund, it has an impact. And so again, I

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don't think we're at a place today maybe to be asking our employers for that but that is something we could think about in the future.

Representative Ivey noted that he is on the Clerks board and they came down from 8% percent to 7%, over time. He said it creates pain no doubt. But once you get past the pain, it takes a whole lot of pressure off the investment performance and things like that where you can consistently hit your return assumptions.

Mr. Curran explained that, before FRS can ask employers to pay more than the minimum, the employer contribution rate has to first hit a down-side target of something around 15% or 18%. There's some employer rate we have to get down to before we can use it. That was put in as a protection for the cities so they knew FRS wasn't going to immediately ask for, I mean they're already feeling pressed. The structure is out there for long term planning purposes. Hopefully we get this unfunded liability worked through or the past issues worked through. We'll be in a much different position in terms of employer rates and I think the goal was to make sure we had that structure there. But it's not. As the law stands today, this board couldn't ask employers for an extra one or two percent like we have done with Clerks and other systems.

Mr. Curran further explained that the unfunded accrued liability (UAL) payments are not going to go away quickly. That's just a natural part of it. FRS has unfunded liability payment pieces that will go away in two years, three, four, but the bulk of pieces are at thirteen, fourteen years to go.

Representative Ivey asked how those pieces of the UAL are amortized?

Mr. Curran said that FRS uses level amortization schedules over a specific time. When you want to compare systems, LASERS and Teachers, which are the two big groups in the law, you will see their UAL payments are stretched over a much larger period of time. That means that gains and losses don't hit the bottom line as quickly. What that means is, it's going to last longer and that's been a problem they've had. We have recommended, and this board has agreed, to go the legislative route of using a fifteen year amortization on our UAL payments. When you compare the impact of gains and losses here, especially losses which we have had more of than gains in the past decade, they affect our employer rate more. The good news is that FRS is not going to carry them for the next thirty years. FRS will actually get through this, and when it does, the total cost on the employer will be very different. A large portion of FRS' 25% employer rate is really baked in history. And you hear this downtown all the time about LASERS and Teachers. The question is how long will it take to work through that and not every system is the same. But fifteen year amortization periods means it's not going to take an entire generation for FRS to get rid of it.

Representative Ivey asked what the amortization period for FRS is now?

Mr. Curran said that any new piece goes on at 15 years. And many of FRS' UAL pieces are now downhill. Down, the system has some pieces that are as low as two years. Because they've worked

through that 15 year period. We have a schedule in our annual actuarial report that shows every year what was added or subtracted, if you have gains and losses, and then how long they were set at when they were created and how long they have left to go. As they fall off that changes that employer rate.

Representative Ivey asked the actuary to provide him with a report showing the timing of the pieces that fall off the amortization schedule and the approximate impact of that on the employer rate. It will be my recommendation to keep the pedal where it is and maybe that's where we can really make up ground without having to ask for more contributions. The pain's already there. They're already feeling it. Instead of lowering the rate, FRS can take that money and actually help get out of the debt much sooner. And then the pain really goes away.

Chairman Birdwell noted that the board has already given the municipalities notice that the employer rate is going to increase on July 1st.

Mr. Curran confirmed that the rate was set to increase from 25.2% to 26.5%, an increase of 1.25%.

Chairman Birdwell asked when the cost is going to be included in the employer rate based on the motion that was passed at last month's board meeting lowering the assumed investment earnings rate by ten basis points each year over the next five years? When will the first increase hit?

Mr. Curran said that one-year from July 1st FRS will have a new rate that includes the first piece of that, along with the gains or losses from investments and, right now, it looks like gains. So that will help. He reminded the board that there's a five year smoothing and that this year's gain will not just flow straight though; but it will hopefully offset some of the issues we've had. FRS has had actual rates of return of 3.1, 6.7, 8.8 in the last three years, so only one of the last three years did we have a net gain to our employers from the investment returns after smoothing.

Mr. Curran said he expects that FRS will still come in below the assumption this year because it's still dragging some of the past losses after the write downs. Again, that's mostly the write downs in the last two years. But FRS had -2.3 for 2016 and -0.2 for 2015. In both those years that followed 10.5 and 11.4, so FRS has had great returns, and some heavy write downs and market conditions causing losses. This year's return will be put together with those four years so two really good, two really bad. But if we have a third one, a really good year this year, we could see a neutral year but I would think we are still likely to see a loss versus our 7.5 or 7.4 for the return assumption. So, given that we have to work through these, this phasing in, FRS is likely to see the employer rate go up in the next five years.

Mr. Stockstill recalled that the Senator's concern was about FRS' funded status going down while everybody else's is going up and it sounded like Mr. Curran is saying that FRS' funded status will continue going down. He asked Mr. Curran to identify the point where FRS will blow up?

Mr. Curran responded that a retirement system's funded status is used incorrectly all the time. It is not really determinative of blowing up the system. He further said that a lot of times doing the right thing will lower that rate. Now, was there anything negative to FRS by making a decision to lower that assumed rate of return? I would say that we have strengthened the future of the plan if we do it, not hurt it. But we're going to lower our funded ratio. That's why I testify every year. Funded ratio is something we should look at. It has some value but it's used incorrectly all the time. I think we can show evidence to the fact that the systems that do the most work to really prepare for the future will probably take a hit to that rate in the short run.

Mr. Curran said last year his office did a full study of all the assumptions. We made changes to mortality and retirement and some of that was positive. We had a year of reprieve. It wasn't because we set out to do that. We did a real review of assumptions. We recommended what seemed, in our best professional efforts, the right assumption for each thing. Some of them were helpful to us. In other words, we were too conservative in our past assumptions based on the evidence we had looked into. And so that can help, or hurt. I think that we are structurally getting the FRS plan in order and I don't have any concerns of long term solvency of the plan. So I think it will work itself through. Hopefully that is understandable. It's not that the board can go back and fix the past, but you're doing what you can. And that involves the system's assumptions and funding method and everything. We've looked at all those issues to try to prepare for the future. And some of that has made our funded ratio look lower.

Mr. Stockstill said he thought the Senator wanted some assurance that the board is being given factual information about the system's funded status; and about FRS' funded ratio going down.

Mr. Curran confirmed that, in the short run, as we work through this change in assumption it's more likely to go down.

Mr. Broussard observed that it's likely to go down, but it's more likely to make the long term health of the system significantly better.

Representative Ivey concurred.

Mr. Curran said the important thing is that the assumption decision and every decision that has been made about the length of amortizations and watching the portfolio construction, those decisions have been helpful, long-term for this plan.

- FRS Expert Panel

At this point, Mr. Stockstill asked the following persons to form a panel before the board- Paul Schmidt-FRS Custodial Bank representative, Layne McKinney-FRS CPA, Greg Curran-FRS Actuary, David Barnes-FRS Investment Consultant, Michael Becker-FRS Chief Investment Officer.

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In light of the foregoing discussion with the board, Mr. Stockstill asked Mr. Schmidt if there was anything from the Custodial Bank (BoNY) perspective that he felt needed to be disclosed to the FRS board regarding the FRS investment portfolio and returns or the FRS funded status. Mr. Schmidt responded in the negative.

In light of the foregoing discussion with the board, Mr. Stockstill asked Mr. McKinney if there was anything from the FRS CPA perspective that he felt needed to be disclosed to the FRS board regarding the FRS investment portfolio and returns or the FRS funded status. Mr. McKinney responded in the negative.

Mr. Broussard asked Mr. McKinney if there was anything he felt needed to be disclosed concerning write downs, write offs, etc.? Mr. McKinney responded in the negative.

In light of the foregoing discussion with the board, Mr. Stockstill asked Mr. Curran if there was anything else from the FRS Actuary perspective that he felt needed to be disclosed to the FRS board regarding the FRS investment portfolio and returns or the FRS funded status. Mr. Curran responded in the negative.

In light of the foregoing discussion with the board, Mr. Stockstill asked Mr. Barnes if there was anything else from the FRS Investment Consultant perspective that he felt needed to be disclosed to the FRS board regarding the FRS investment portfolio and returns or the FRS funded status.

Mr. Barnes, in following-up a question asked earlier, said the system's write downs in 2014 had a negative impact of -3.8%. Meaning, it reduced the return by 3.8%.

Mr. Stockstill clarified that he was asking whether there is anything improper that the system is doing, that needs to be disclosed. Mr. Barnes responded in the negative.

In light of the foregoing discussion with the board, Mr. Stockstill asked Mr. Becker if there was anything from the FRS CIO perspective that he felt needed to be disclosed to the FRS board regarding the FRS investment portfolio and returns or the FRS funded status. Mr. Becker responded in the negative.

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

ADJOURNMENT

Mr. Jeselink moved to adjourn the meeting. Mr. Tarleton seconded. The motion passed.

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FUTURE MEETINGS

**FRS Investment Committee
3100 Brentwood Drive
Baton Rouge, Louisiana
Wednesday, April 12, 2017 at 3:00 p.m.**

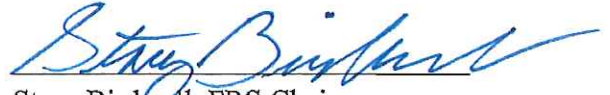
**FRS Board of Trustees
3100 Brentwood Drive
Baton Rouge, Louisiana
Thursday, April 13, 2017 at 8:30 a.m.**

SUBMITTED BY:



Denise Poche, FRS Board Secretary

APPROVED BY:



Stacy Birdwell, FRS Chairman