



FIREFIIGHTERS RETIREMENT SYSTEM

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MEETING OF THE BOARD OF TRUSTEES JUNE 14, 2012

A meeting of the board of trustees was held on June 14, 2012 at the Public Safety Building in Baton Rouge. Mr. Charlie Fredieu, Chairman, called the meeting to order at 8:30 a.m.

Mayor James Durbin 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
Mayor James Durbin
Mayor Mayson Foster
Mr. Perry Jeselink
Dr. Steven Procopio
Mr. Jerry Tarleton

OTHERS PRESENT

Steven Stockstill
Layne McKinney
Kelli Rogers
Jason Starns
Penny Gandy
Joe Meals
Gary Curran
Stephanie Little
Margaret Corley
Bill Robinson
Danny Laird

MINUTES

MOTION: Mr. Birdwell moved to approve the minutes of the board meetings held on May 1, 2012, and May 23, 2012. 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 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. Stockstill 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. Jeselink 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. Jeselink seconded. The motion passed.

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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 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 Vera Mae Bamberg, surviving spouse of Jerry Ray Bamberg. He stated that the application was in order.

MOTION: Mr. Birdwell moved to approve the application for Vera Mae Bamberg. Mr. Jeselink seconded. The motion passed.

Mr. Starns presented the applications of Robert Steven Speyrer and Rachel Ann Speyrer, surviving children of Karl Steven Speyrer. He stated that the applications were in order.

MOTION: Mr. Birdwell moved to approve the applications for Robert Steven Speyrer and Rachel Ann Speyrer. Mr. Jeselink seconded. The motion passed.

Mr. Starns presented the application of Mary Anna Strong, surviving spouse of Richard Strong. He stated that the application was in order.

MOTION: Mr. Birdwell moved to approve the application for Mary Anna Strong. Mr. Jeselink seconded. The motion passed.

- Disability Applications

PROCEDURE: To obtain disability benefits, a member must furnish the retirement office with an application for disability retirement. For the following applicant(s), the 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 submitted a detailed report in laymen's terms of his findings based on the examination performed and the medical records reviewed. Prior to the meeting, the board of trustees was provided with the disability

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application, job description, State Medical Disability Board doctor's report and all medical records related to each applicant, for their advance review. (R.S. 11:215, 216, 218, & 2258).

[NOTE: By giving advance notice on its duly posted agenda, the board of trustees reserved its right to enter executive session pursuant to R.S. 42:17(A)(1) for discussion of any privacy protected physical or mental health information related to the disability applicants.]

██████████ Mrs. Gandy presented the application for disability retirement of ██████████ Mrs. Gandy stated that ██████████ was seen by State Medical Disability Board doctor, Dr. Garland Green on April 5, 2012. Mrs. Gandy said, based upon the report of Dr. Garland Green, the staff had no recommendation.

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

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

MOTION: Mr. Birdwell moved to approve ██████████ application for job-related disability retirement and to discontinue the disability recertification requirements. Mr. Jeselink seconded. The motion passed.

██████████ Mrs. Gandy presented the application for disability retirement of ██████████ Mrs. Gandy stated that ██████████ was seen by State Medical Disability Board doctor, Dr. Thad Broussard on April 30, 2012. Mrs. Gandy said, based upon the report of Dr. Thad Broussard, the staff recommendation was for denial of disability retirement.

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

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

MOTION: Mayor Durbin moved to defer this matter until the July 2012 board meeting. Mr. Tarleton seconded. The motion passed.

- Disability Conversion Applicants

PROCEDURE: Retirees who apply for conversion from regular retirement to a disability retirement are required to submit detailed medical information as part of the application in support of their

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

██████████ - Mr. Starns presented the application for disability conversion of ██████████. Mr. Starns stated that ██████████ was seen by State Medical Disability Board doctor, Dr. Thad Broussard on May 18, 2012. In his report, Dr. Broussard stated, "I received your forwarded information on ██████████ who has in fact been seen in my office on two occasions; the first being July 20, 2005 and the second being October 23, 2006. At that time I rendered an opinion relative to his retirement status as a firefighter. On both occasions I felt that the patient was disabled from returning to his former occupation as a firefighter and I felt on both occasions that such opinion was permanent . . . After careful review of records and reports presented to me with no other history from the patient and no other history of an additional intervening trauma, it remains my opinion that this patient is disabled and the disabling condition was incurred during his employment as a firefighter. I believe that ██████████ is incapacitated to such an extent that he will not be able to return to his duties as a firefighter and these restrictions remain permanent..."

Based upon the report of Dr. Thad Broussard, the staff recommendation was for approval of disability conversion and to discontinue the disability recertification requirements.

MOTION: Mr. Birdwell moved to accept the staff recommendation. Mr. Jeselink seconded. The motion passed.

NCPERS LIFE PLAN

Mr. Birdwell introduced Mr. Bill Robinson, the Area Senior Vice President of Gallagher Benefit Services. Mr. Robinson observed that the FRS staff is covered by the National Conference on Public Employee Retirement Systems (NCPERS) Group Life Insurance, which is underwritten by the Prudential Insurance Company and managed by Gallagher Benefit Services. Mr. Birdwell said that Mr. Robinson is offering to extend the same NCPERS life insurance coverage to the FRS active members and retirees. Mr. Birdwell said that, with the NCPERS plan, any member of FRS will be eligible to get a decreasing term life insurance policy. The premium payment stays the same during

the term and it is initially open to everyone, regardless of pre-existing conditions. Mr. Birdwell said that many members he has spoken with have said they are unable to get life insurance.

Mr. Bill Robinson said that Gallagher Benefit Services is the insurance consultant to NCPERS. He explained the NCPERS life insurance program. He said the NCPERS life insurance program has been around since 1969. He noted that there are currently over 125,000 active, retired and dependents covered in the program around the United States. Mr. Robinson noted that the NCPERS insurance is underwritten by Prudential Insurance Company of America, and it has been from the very beginning. Mr. Robinson furnished the board with promotional material. (see attached Exhibit #3) Mr. Robinson said that this program is offered exclusively to the NCPERS membership and can not be purchased anywhere else. He noted that the program would be a new benefit available to FRS members at no cost to the system. It is a voluntary program so the members pay for it. Mr. Robinson said the program is called a Group Decreasing Term Life Insurance program. He noted that the premium payment stays constant over time, but the benefit actually reduces with age. He said the plan also includes a spouse and dependent life benefit. He noted that a key feature of the program is that initially there is no medical underwriting. He said that, during the open enrollment period, any active members can enroll with no medical history required. He noted that existing retirees are offered a one time opportunity to enroll in the program when it is first offered and after that retirees are not allowed to enroll in the plan. He said that active members who participate in the program, carry the plan coverage into retirement.

Mayor Durbin questioned how the retirees are notified of their one time option to obtain the life insurance coverage. Mr. Robinson said that, if Gallagher's access to FRS participants is allowed, then Gallagher and the FRS staff would put together a communications program. He noted that there would be a separate mailing to the FRS retirees as opposed to the actives.

Mayor Foster asked whether the mailings come from FRS or NCPERS. Mr. Robinson said that Gallagher will prepare all the communication materials at Gallagher's cost. He noted that Gallagher prepares the mailings and the FRS staff prepares labels and mails the communication to FRS members. Mayor Foster then asked if the return address would reflect FRS or NCPERS. Mr. Robinson said that decision is ultimately up to FRS.

In response to a question, Mr. Robinson said that the definition of a "dependent" is established by Prudential. He noted that a change was made to move dependent children to the age of 26 to remain consistent with healthcare reform, although healthcare reform has nothing to do with life insurance. Mr. Robinson noted that the only decision that is made on a state-by-state basis is the decision regarding domestic partners. He noted that some states mandate this and some plans include domestic partners. Mr. Robinson advised the board that NCPERS has a standard Joinder Agreement. He noted that NCPERS is willing to make it clear by use of a Hold Harmless Agreement that FRS has no legal responsibility for any mistake made in the program.

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Mayor Foster asked Mr. Stockstill the following question- If FRS allows the type of access requested by NCPERS, would it be on a non-exclusive basis and what would happen if a competitive insurance carrier requests the same type of access. Mr. Stockstill said that it would be on a non-exclusive basis unless an exclusivity clause was written into the Joinder Agreement. He noted that, other than the question of exclusivity, there are still several unanswered liability issues.

Mr. Stockstill noted that the FRS staff has the same NCPERS insurance and it should also be available to the FRS members and retirees. He said that Mr. Robinson's characterization of the program as a "supplement" is correct because firefighters already have a life insurance policy that is built into the FRS plan. He said that, if a FRS member dies while active, then the surviving spouse gets paid a predefined amount of the deceased member's salary for the remainder of the surviving spouse's life. He said that life insurance policy is already in place. Mr. Stockstill said that FRS also has a disability plan. He noted that the members already pay for both of these statutorily created policies through their contributions to FRS.

Mr. Stockstill noted certain legal considerations. He said that the NCPERS life insurance program is not part of the statutorily created FRS plan that the state has provided to FRS members. The NCPERS program would be something the board is making available as a feature to members. He said the program would be made available outside the present statutory scheme. Mr. Stockstill said, for that reason, he is not certain whether the statutory indemnification provisions would protect FRS board members with respect to the board's fiduciary responsibilities.

Mr. Stockstill drew the board's attention to the documents developed by Gallagher that are designed to assure that the FRS board is not held liable either collectively or individually for the program. He discussed the Joinder Agreement. He noted that by signing the Agreement, FRS is drawn into the insurer-insured relationship as a contractual participant in the process. He said that is a big difference compared to simply assisting Gallagher to have access to the system's membership. He noted that, if FRS signs an agreement with Gallagher, then FRS becomes part of the process. Mr. Stockstill said that, in the eyes of the FRS members, the system/board becomes part of the process with NCPERS. He expressed a concern with the board signing a contract to give Gallagher access to FRS members.

Mr. Birdwell asked if FRS members can get the life insurance if FRS does not sign a Joinder Agreement. Mr. Robinson answered yes.

Mr. Birdwell asked Mr. Stockstill to describe a scenario that could lead to a lawsuit against FRS. What would be grounds for a lawsuit. Mr. Stockstill explained that Gallagher gives envelopes to the FRS staff containing the enrollment information and application. The FRS staff is supposed to take the envelope, label it, stamp it, and send it to the members. He said that, if FRS does this and a member gets it and throws it in the garbage can and then dies, his surviving spouse or his estate might claim that an enrollment form was never sent to the member. In that situation, it could be

argued that it was FRS' responsibility and that FRS' failure caused the member to not be enrolled in the life insurance program. So, as a result, FRS is sued directly for the amount of life insurance coverage would have been provided, but for FRS' failure to enroll the member.

Mr. Stockstill said that FRS could defend itself by asserting that the life insurance program is not and was not an FRS program, it was an NCPERS program. However, if FRS is making it available to members and retirees then, in the scenario where there has been mal-processing or mis-enrollment, a member will sue FRS for making it available and for the role FRS played in the enrollment process in making sure everyone received an application. Mr. Robinson said that NCPERS would also be responsible in that scenario.

MOTION: After further discussions, Mayor Durbin moved to refer this matter to the System's Recommendation Committee to be held in the month of August 2012. Mr. Tarleton seconded. The motion passed.

FRS OPERATING BUDGET FOR FISCAL YEAR 2012 - 2013

[NOTE: An advance copy of the FRS Operating Budget for FY 12-13 had been furnished to the board members at the board meeting held in May 2012. By procedure, the proposed budget laid over to June 2012 to give board members an opportunity to review the proposed budget and discuss any related matters with FRS staff in the interim.]

System Administrator, Layne McKinney, presented the board with the FRS Operating Budget for FY 12-13. (see attached Exhibit #4) He said a few changes were made since last month. He discussed the line items designated as administrative expenses and professional services. He observed that contract services have gone down from FY 11-12. Mr. McKinney noted that there was a change in office expenses compared to the proposed budget given to the board at the May 2012 meeting. He then presented the FRS building budget along with pictures showing deteriorating conditions of the FRS building and parking lot. (see attached Exhibit #5) He discussed such items as the need to demolish the old trash enclosure and relocating the handicap ramp and constructing a rainwater drainage basin in its place. He discussed changing the outside sign to remove the "State Police" and "Public Safety Retirement Systems" designation. He discussed the need to dismantle the two exterior fire towers. It was noted that the routine maintenance to remove mold, sand blast and repaint the towers are significant costs that can be avoided if the towers are removed.

Mr. Stockstill said that for the last ten years he has been told to control system costs and reduce expenses where possible. He said that one way to control costs has been to postpone building maintenance. As an example, he explained how previously leaks in the roof have been patched so roof replacement could be postponed, but eventually the roof will have to be replaced. He pointed out that roof replacement is not included in the proposed building budget. Mr. Tarleton said that, if

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the roof has had prior leaks, then the roof should be replaced. He explained that, if left as is, then mold will grow and spread in the building. He said the cost of mold abatement in the future could result in a much greater cost compared to currently replacing the roof.

Mr. McKinney then discussed the need to remove the bottom portion of the wooden deck in the back of the building. It was noted that the deck was part of the original building construction in 1995 and that portion of the deck is never used. However, the system must periodically pay the cost of having it pressure sprayed for cleaning and mold abatement purposes and having a waterproof sealant applied to protect the wood from continued deterioration. This too is a significant cost that can be avoided if the unused portion of the deck is removed.

MOTION: Mr. Tarleton moved to add up to \$30,000 to the building budget for roof replacement and to approve all other projects shown in the building budget. Mayor Durbin seconded. The motion passed.

Mr. McKinney noted that parking lot repairs are not included in the building budget, but repairs will eventually need to be addressed. Mr. Stockstill encouraged the board to take a look at the parking lot. He said almost all of the cement pads are cracking because the heavy garbage trucks must traverse the parking lot to get access to the dumpsters.

Mr. McKinney said that the board travel expense item changed since last month after having discussions with board members regarding the mandatory continuing education required by law and the conferences available to obtain the required education. He noted that this item increased. Mr. McKinney concluded by noting that the total budget for FY 12-13 is \$1,555,339 before the \$30,000 for roof repair is added.

MOTION: Mayor Foster, chairman of the FRS budget and finance committee, moved to approve the FRS Operating Budget for FY 12-13, as amended. Mr. Tarleton seconded. The motion passed.

Mr. McKinney explained that certain capital items are scheduled for purchase during the fiscal year, including two computers needed to replace older models; and a new server including hardware and installation and an uninterruptible power supply. He said the system's current audio recording device is becoming obsolete and is scheduled for replacement. Mr. Stockstill said the server is part of FRS' disaster preparedness plan because it stores the system's accounting data and, likewise, the audio recorder is used for recording all public meetings at FRS. The recorder is becoming obsolete because it is a cassette tape based device and it will become increasingly difficult to get cassette tapes since tape providers are phasing out their tape inventories.

MOTION: Mayor Foster, chairman of the FRS budget and finance committee, moved to approve all scheduled capital items. Mr. Tarleton seconded. The motion passed.

RENEWAL OF ACTUARIAL CONTRACT

This item was deferred until the July 2012 board meeting.

MONTHLY FLASH REPORT - MAY 2012

Mr. Joe Meals forwarded the monthly flash report for May 2012. (see attached Exhibit #6) The overall fund was up/down as follows: -4.2% for the month of May as compared to the blended index of -3.2%; -2.7% for the fiscal year to date as compared to the blended index of 4.1%; -3.4% for the trailing 12 months as compared to the blended index of 2.9%; and 8.2% for the trailing 3 years as compared to the blended index of 12.1%.

COMMITTEE REPORT - INVESTMENT COMMITTEE

[NOTE: The Investment Committee met on June 13, 2012, at the FRS office in Baton Rouge at 3:00 p.m. to discuss and take action with regard to the following business that was set forth in its posted agenda: (A) The FRS monthly investment performance results for May 2012, (B) Board diligence review of existing investment manager known as Argonaut Capital, (C) Feasibility of investing in asset class known as High Yield Bonds, (D) Feasibility of redeeming funds from the Clinton CES fund and/or the Clinton Magnolia fund; and all matters related to these foregoing items. Committee members present were Stacy Birdwell, chairman; Mayor Mayson Foster, Dr. Steven Procopio, Jerry Tarleton, and Charlie Fredieu, ex officio. Also present were Perry Jeselink, Joe Meals, Stephanie Little, Margaret Corley, Jarrett Posner, and Brian Kessler.]

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

• **Board diligence review of existing investment manager known as Argonaut**

Mr. Meals advised the board that Jarrett Posner and Brian Kessler appeared before the investment committee for a diligence review of Argonaut Capital, an existing FRS manager. A pamphlet was given to the committee regarding Argonaut. (see attached Exhibit #7) Mr. Stockstill advised the board that the standardized manager form was also reviewed at the investment committee meeting. (see attached Exhibit #8) Mr. Stockstill said the matter of the loan that Argonaut made to a principle of CSG was discussed at length. Chairman Fredieu asked if Mr. Stockstill had written a letter to the ethics commission regarding the matter. Mr. Stockstill said yes, but that an opinion had not yet been received from the commission. Mr. Meals advised the board that, in summary of the Argonaut presentation, their representatives did address the types of risks that are associated with their program and risks were addressed in their written response to the FRS questionnaire. He noted that it was identified that credit risk is not a major part of their strategy. Their strategy is based on manager

skill, and the investments they have are very liquid. He noted that there is quarterly liquidity for the Argonaut Macro Partnership strategy that FRS is invested in.

Mayor Foster observed that, based on information presented to the investment committee, the Argonaut holdings are liquid and the Argonaut fund had been reviewed by the FRS investment officer. He noted that, if FRS chose to redeem funds, the Argonaut representatives indicated that it would not pose a problem.

Mr. Birdwell asked what the time frame would be if FRS decided to redeem the portfolio. Mr. Posner said 90% would be redeemed within 10 days after the end of the next quarter. He then noted that FRS would get the balance after Argonaut's annual audit is complete. Mr. Meals said the assets in the portfolio can be sold in a day, but FRS' liquidity under the terms of the agreement is based on a calendar quarter with 30 days advance notice.

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

- **Feasibility of investing in asset class known as High Yield Bonds**

This item was deferred until the July 2012 board meeting.

- **Clinton CES Fund and/or the Clinton Magnolia Fund**

Mr. Stockstill explained that the FRS investment officer (Kelli Rogers) presented a report to the investment committee regarding the Clinton Magnolia Fund, an existing FRS manager. (see attached Exhibit #9). He noted that the investment officer was asked to determine the following three things- First, whether there are assets in the Magnolia Fund; Second, whether the assets appear to be liquid; and Three, whether the assets appear to be sufficient to meet any redemption requests that might be made by FRS. Mr. Stockstill then read into the record the section of the report captioned "Conclusion", as follows-

"Based on the procedures performed, FRS noted that Clinton maintains a formal investment and valuation policy, a compliance department, and a strong internal accounting department. There were no delays in receiving any information requested. This review did not consist of verifying any other assets or liabilities on the balance sheet but focused solely on the investment holdings and the valuations assigned to those holdings. Based on this limited review, there appears to be adequate assets to cover the value of FRS' investment in the Clinton Magnolia Fund, Ltd. as shown at December 31, 2011."

Mr. Stockstill then drew the board's attention to a spreadsheet regarding the Clinton CES Fund. (see attached Exhibit #10) He said it is important to note that the Clinton CES fund structure is almost

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identical to the Fletcher FIA Leveraged fund structure. He noted that the numbers on the spreadsheet are outdated by one month. He further noted that FRS initially invested \$25 million in the CES strategy on June 30, 2006. Then, in September of 2006 FRS added \$15 million, and on June 1, 2007, FRS added \$12 million. A total of \$52 million was invested from June 30, 2006 to October of 2008. Mr. Stockstill said the investment earned a profit of \$5.192 million between July 2006 to October 2008. He noted that in October 2008 the entire balance of the investment was redeemed to FRS and FRS earned a profit equal to \$5.192 million.

Mr. Stockstill indicated that in that same month, October 2008, FRS reinvested \$30 million in the Clinton CES strategy. He noted that, since then, the following three distributions were been made to FRS- \$18 million in August 2010, \$9.1 million in February 2011, and \$242,000 in March 2011. He noted that, according to the governing fund documents, a preferred accrual was due to FRS, and that preferred accrual equaled \$8.751 million as of the last distribution which was in March 2011. That represents an additional \$8.751 million of profits taken from the Clinton CES Fund.

Mr. Stockstill observed that, when the \$8.75 million is added to the \$5.19 million, FRS has withdrawn \$13.9 million of profit from this strategy. He noted that FRS has earned almost \$14 million in profits and FRS still has \$10.8 million that remains in the fund.

Mr. Stockstill recommended that FRS redeem the balance of \$10.8 million from the fund in order to demonstrate that where there is a Fletcher-like structure, it can work. Particularly a structure with class of shareholders who receive a 12% preferred return and a subordinated class of shareholders who provide collateral to protect the preferred shareholders against losses; where, if the collateral devalues to a certain amount then it triggers a liquidation event, and FRS is redeemed before it incurs a loss; and if there is no liquidation event, then FRS receives its 12% annual accruals, which is very similar to the Fletcher FIA Leveraged Fund. If FRS closes out the Clinton CES fund, then it shows that a Fletcher-like fund can work if managed properly.

Mr. Stockstill further stated that, as of December 31, 2011, the net capital balance of the Clinton Magnolia Fund is \$40.9 million, and that has grown to \$44 million as of this date. He noted that FRS has been doing the equivalent of dividend reinvestment. FRS has been having its gains in the Magnolia Fund reinvested back into the fund. He recommended taking at least last year's profits from the Magnolia Fund. That will prove the other Fletcher-like investment strategy is also working. To clarify, he recommended taking the balance of funds from the Clinton CES fund, effectively closing that account, and also taking last year's profits from the Clinton Magnolia fund.

MOTION: Mayor Durbin moved to put in a redemption to totally liquidate FRS' investment in the Clinton CES strategy. Mr. Tarleton seconded. The motion passed.

MOTION: Mr. Tarleton moved to redeem \$5.3 million from the Clinton Magnolia fund, which is last year's profits. Mayor Durbin seconded. The motion passed.

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

REQUEST FOR PROPOSALS - INVESTMENT CONSULTING SERVICES

Chairman Fredieu introduced this agenda item. There was no discussion.

MOTION: Mayor Foster moved to authorize FRS staff to issue a Request for Proposal (RFP) for investment consulting services, with the proposal being outstanding for 90 days and with the results being brought before the board for selection of a finalist no later than November 2012. Mayor Durbin seconded.

Mr. Stockstill suggest that, with the current staff workload, it may take between four to six months to complete the RFP process. He asked the board to allow the staff to bring a proposed RFP and a time schedule to the board at the next board meeting.

MOTION: Mayor Foster amended his motion as follows- Mayor Foster moved to authorize the issuance of a RFP for investment consulting services based on a time schedule established by staff and approved by the board at the July board meeting. Mayor Durbin seconded. The motion passed.

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

IN THE MATTER OF FIA LEVERAGED FUND

[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(6); the 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(6); all pertinent notifications had been provided.]

MOTION: Mr. Jeselink 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. Tarleton seconded. The motion passed unanimously. The board resumed public session.

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MOTION: Mr. Birdwell moved to authorize the strategy of seeking liquidation of all funds in the FAM silo within the liquidation budget previously approved by the board at its meeting held on May 23, 2012. Mayor Durbin seconded. The motion passed.

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

FIREFIGHTERS' RETIREMENT SYSTEM V. REGIONS BANK, ET AL.

This item was deferred until the August 2012 board meeting.

**IN RE ROBERT BLACK & KELLY J. BLACK AND IN RE MICHAEL ALLEN
CHERNINE**

This item was deferred until the August 2012 board meeting.

ST. TAMMANY FPD #1 V. FIREFIGHTERS' RETIREMENT SYSTEM

[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(10); all pertinent notifications had been provided.]

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

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

MOTION: Mr. Jeselink moved to authorize the executive director to retain an attorney to resolve the subject lawsuit. Mr. Birdwell seconded. The motion passed.

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

**ACTUARIAL STUDY - CONVERSION OF UNUSED SICK AND ANNUAL LEAVE TO
RETIREMENT CREDIT**

Mr. Bob Burkett appeared before the board to discuss a feature that the Municipal Police Employees' Retirement System (MPERS), Teachers' Retirement System (TRS), Louisiana State Employees'

Retirement System (LASERS) all have in their plans. Mr. Burkett said the feature allows an employee to convert any unused sick and annual leave to retirement credit at the time he retires.

Mr. Stockstill said that Charles Hall was the actuary for MPERS when they implemented the conversion feature in their plan. Mr. Hall had said that, if an employee receives a pay out for his unused leave under the civil service rules, then he receives 100 cents on the dollar; but if he converts it to retirement credit instead, then he receives about 75 cents on the dollar. Mr. Stockstill said Mr. Burkett is asking the board to authorize Mr. Curran to study the conversion concept to determine what the impact of this feature would be on the FRS plan. Mr. Stockstill said that he had also been contacted by a person in the City of Lafayette administration who is also interested in having the concept studied.

Mr. Gary Curran advised the board that there are two different models to the concept. He said that the Parochial Employees' Retirement System (PERS) also has a leave conversion feature. It is structurally built into the cost of the PERS system and is shared among all employers. He noted that the other model is similar to the MPERS structure. He said, at the point of retirement or potentially DROP entry, the unused leave is converted to credit and the cost is paid for by the particular employee's city based on the fact that it would be less than paying the full cost of the leave.

Mr. Curran enthusiastically volunteered to provide an actuarial study to FRS on a pro bono basis.

MOTION: Mr. Birdwell moved to authorize Gary Curran to conduct the study regarding conversion of unused sick and annual leave. Mr. Jeselink seconded. The motion passed.

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

ACTUARIAL STUDY RELATIVE TO CERTAIN FRS SPOUSAL BENEFITS

Mr. Burkett addressed the board regarding the method of paying for a spousal benefit. He noted that he is not suggesting the creation of a new benefit because FRS already offers a spousal benefit. He is simply discussing the modification of a current practice. He said in a prior legislative session, a bill on the subject went half way through the process. He said currently a retiree takes a hit to his retirement benefit so a benefit can be left to his surviving spouse. He advised that in Jefferson Parish active employees pay throughout their career so that, when they retire, half of the benefit is already paid when they retire and if they want to leave 100%, then they only take half the hit. He noted that when this concept was before the House Retirement Committee it was well received. He advised the board that he would like to see what it cost to provide FRS with the same procedure that Jefferson Parish uses.

Chairman Fredieu noted that this has been discussed before and he is against it because an employee does not know if he will have a spouse when he retires; or an employee might have multiple wives before retirement. He questioned how the benefit would be divided in that situation.

Dr. Procopio said the concept sounds like a benefit increase not a change in methodology. Mr. Burkett noted that it is not a benefit increase because members have the right to the spousal option benefit, the question is when does it get paid.

Once again, Mr. Curran rose to the occasion and quietly but enthusiastically volunteered to provide an actuarial study to FRS on a pro bono basis.

MOTION: Mr. Birdwell moved to authorize Gary Curran to conduct a study regarding the impact of employees paying in advance for the FRS spousal benefits during the working career of the employees. Mr. Jeselink seconded. The motion passed.

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

10 YEAR ACTUARIAL FORECAST STUDY

[TRUSTEE TRAINING- Notice was provided on the duly posted FRS agenda that Agenda Item III(13) involves but is not limited to the discussion of the following subjects: The definition of (and operational impact of) Actuarial Accrued Liability for Active Employees, Actuarial Accrued Liability for Terminated Employees, Actuarial Accrued Liability for Retirees, Total FRS Accrued Actuarial Liability, Actuarial Value of Assets, and FRS Unfunded Accrued Liability. It was duly noted that this agenda item may be applied as credit for trustee training pursuant to R.S. 11:185.]

Mr. Stockstill addressed information provided to the board regarding the recently expired 10-year actuarial forecast study. (see attached Exhibit #11) He recalled that, in 2002, the capital markets devalued much like they did in 2008. He noted that, in 2002, the FRS board wanted to know if the down markets were going to be the "new normal" and, if so, what would be the impact on FRS employer contribution rates for the ensuing ten year period. He noted the board was in agreement in 2002 that they needed a 10-year forecast of employer contribution rates.

Mr. Curran discussed the attached exhibit. He provided information regarding the inputs and assumptions used in actuarial forecasting. The board discussed those actuarial forecasting techniques and asked questions regarding the validity and reliability of such forecasted results.

Mr. Stockstill recommended that the board authorize the forecast to be revised for the upcoming 10-year period for purposes of guiding future pension management decisions. This time Mr. Curran did not rise to the occasion and offer to conduct the forecast study on a pro bono basis.

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MOTION: After comprehensive discussions, Mr. Birdwell moved to authorize the FRS actuary to provide a revised 10-year forecast study at a cost not to exceed \$23,000. Mr. Tarleton seconded. The motion passed.

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

EMPLOYER FAILURE TO ENROLL EMPLOYEES IN FRS

This item was deferred until the August 2012 board meeting.

2012 LEGISLATION

This item was deferred until the August 2012 board meeting.

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, July 11, 2012 at 3:00 p.m.**

**FRS Board of Trustees
3100 Brentwood Drive
Baton Rouge, Louisiana
Thursday, July 12, 2012 at 8:30 a.m.**

SUBMITTED BY:


Penny Gandy, FRS Board Secretary

APPROVED BY:


Mr. Charles Fredieu, FRS Chairman