



FIREFIIGHTERS RETIREMENT SYSTEM

P.O. Box 94095, Capitol Station
Baton Rouge, Louisiana 70804-9095
Telephone (225) 925-4060 • Fax (225) 925-4062



MEETING OF THE BOARD OF TRUSTEES
September 11, 2013 and
September 12, 2013

A meeting of the Board of Trustees was held on September 11, 2013 and September 12, 2013 at the Public Safety Building in Baton Rouge. Mr. Charlie Fredieu, Chairman, called the meeting to order at 2:00 p.m. on September 11, 2013.

Mayor Durbin gave the invocation and Mr. Birdwell led the pledge of allegiance.

Mrs. Susan Waite called the roll. A quorum was present.

MEMBERS PRESENT

Mr. Charlie Fredieu
Mr. Stacy Birdwell
Mr. Alfranie Adomako
Mr. John Broussard
Mayor James Durbin
Mayor Mayson Foster
Mr. Perry Jeselink
Mr. Jerry Tarleton

OTHERS PRESENT

Steven Stockstill
Kelli Rogers
Layne McKinney
Jason Starns
Susan Waite
Jamie Bradbury
Gary Curran
David Barnes
Rhett Humphreys
Paul Schmidt
Bob Rust

September 11, 2013

Chairman Fredieu began by explaining that the meeting would be held over a two-day period, with the first day being dedicated to RFP respondent interviews and the second day reserved for the regular monthly business to come before the board.

INTERVIEWS - EMERGING MARKET DEBT MANAGER

The board of trustees interviewed three Emerging Market Debt manager RFP candidates that were selected by the board of trustees at their meeting held in August, 2013. The candidates and applicable representatives are as follows:

Mondrian Investment Partners (U.S.), Inc.

Justin A. Richards
Soloman Peters

PIMCO

Matt Clark, CFA
Christopher T. Getter

Stone Harbor Investment Partners LP

John A. Madden
Whitney Cox

Each candidate firm made a presentation to the board based on information contained in the firm's respective RFP response. Each candidate firm was allocated a total of one-hour, with the format being 45 minutes for the presentation and 15 minutes for questions by the board.

Upon conclusion of the final presentation, the board members discussed various related items with NEPC representatives, David Barnes and Rhett Humphreys. (see attached Exhibit #1)

Chairman Fredieu recognized Mr. David Barnes to provide NEPC's analysis of the RFP respondent interviews.

Mr. Barnes indicated that if the board asked NEPC to rank the three candidates, NEPC would rank them as follows - Stone Harbor (first), PIMCO (second) and Mondrian (third). Beginning with Mondrian, Mr. Barnes explained that Mondrian is a very consistent process, they are a focus placement manager. However, when compared to other managers, the depth of the strategy is not as deep as other managers. Mondrian is very focused on inflation, but such a concentration on one factor leaves other factors to where there is less of a depth of understanding. When speaking about country exposures, like Brazil, Peru - PIMCO and Stone Harbor could go into depth - this is what trading looked like, who is investing on the long end or the short end of the curve and here are the risks for investing at this end versus that end of the curve. Mondrian will not give that depth of information. Mondrian is looking at a quantitative perspective of inflation versus the rates. In

Emerging Markets, from NEPC's perspective, especially where it will be FRS' initial emerging market exposure in the portfolio, the preference would be to see more depth and diversification. Mondrian has 50 securities. So they lack the depth, but also the diversification.

PIMCO and Stone Harbor are almost like splitting hairs. They are two very good shops, both focused on a lot of the same things, like credit analysis and this is an area where credit analysis is key. Both have large teams, both have been doing this a long time. Mr. Barnes indicated that he liked that Stone Harbor is entirely focused on fixed income analysis, this is all they do, and that is what is key in this market. Stone Harbor is entirely employee owned. In terms of appropriateness and fit, Stone Harbor is also the most diversified with about 160 securities versus PIMCO with about 100 and Mondrian about 50.

Mr. Barnes went on to say that this is why NEPC ranks them highly, in terms of fit and appropriateness for FRS' situation.

Mr. Humphreys added that they are three well researched firms, with a lot of expertise in these markets. NEPC would place all three of them with NEPC's clients. All of them are attacking, or trying to beat the markets similarly by what we call a top down basis. That means they are looking at the countries as opposed to just pure bottom up securities selection. The real differential here across the three is, in Mondrian's case, as Mr. Barnes pointed out, they are a single factor model, they look at inflation and after they clear that, that is it, that is really only how they will be able to beat the markets going forward. PIMCO is value added, and mostly coming through the currency management. In addition to trying to pick countries, they are managing the currencies. Stone Harbor is going to pick countries, but they also add that credit component. They end up with more tools in the bag and at the end of the portfolio construction phase, a more diversified, better risk managed portfolio.

Ms. Rogers added that Stone Harbor was lower in fees.

Chairman Fredieu indicated that Stone Harbor had the best performance record. Mr. Barnes agreed and said that Stone Harbor was a very consistent performer.

MOTION: Mayor Durbin moved to select Stone Harbor as the manager for Emerging Market Debt fund. Mr. Tarleton seconded. After further discussion, the motion passed.

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

Mr. Stockstill then discussed with the board that at last month's meeting, the board voted on and selected an emerging market equity manager. Included in the board book is a copy of one of the contracts highlighting provisions in order to advise the board of risks which they should be aware.

These are risks which the board is not being made aware of, either through the board's consultant or through the managers themselves. Mr. Stockstill continued and indicated that all of the contracts, whether emerging market equity or emerging market debt, are all essentially the same as far as being stacked in favor of the fund manager and against FRS.

Mr. Stockstill explained that it would take a whole new board meeting to go through the contract and explain all of the risks associated with these types of contracts. He said the board will have to balance the potential for economic gain from the investment against the risks of these contracts being so stacked against FRS in the event there is fraud or mismanagement. Mr. Stockstill proceeded to give an example regarding conflicts of interest whereby during prospective manager interviews, Mr. Stockstill brought up the conflicts of interest where the investment manager, in a bad situation, can literally let their favored investors out of the fund and keep the rest of the investors in, and they tell you up front they can do that. If that situation ever arises, the board would ask Mr. Stockstill why he didn't tell them it could be like that. It is like that in most of these types of contracts.

Mr. Stockstill continued, giving another example of one item that wasn't as bad on the legal side as far as conflict of interest, this example is on the practical side. The manager that the board just voted to hire, Stone Harbor, is a trust. As a trust, it is required under IRS Rule 2011-1, that if you hire them, you are required to adopt their trust instrument as part of your plan. FRS' plan is laid out in the statutes. FRS' board did not adopt that plan, the board doesn't have the authority to adopt it. The legislature is the legislative branch, FRS is an administrative agency, FRS implements what the legislature puts into law. But the trust instrument for Stone Harbor requires FRS, according to that IRS Rule, to adopt that trust instrument as part of FRS' plan, but the board lacks that authority. If the board voted to adopt that trust instrument as part of the plan, it is ultra vires, the board does not have the authority to do that, only the legislature can do it. Not that it couldn't be done, it would have to be brought before the legislature and get them to adopt the trust instrument into the plan. Mr. Stockstill brought this issue to some of the people that FRS already has under contract or are under contract negotiations, they said they have other clients in Louisiana that don't have a problem with this. Mr. Stockstill indicated that he would like to speak with some of the other Louisiana clients to see how they handled this situation, but he expects they will tell him that they just finessed it. But it is plain and simple, FRS only has the authority granted by statute and the board cannot adopt new statutes for itself. Adopting the trust instrument to the FRS plan is beyond the board's corporate authority. This is just one problem with getting these managers on-board from a mechanical standpoint, not even taking into consideration the pages and pages where they tell you, up front, in your face, that if this thing goes bad, kiss your money goodbye.

Chairman Fredieu asked Mr. Stockstill if the board had done something illegal by selecting the new fund manager. Mr. Stockstill responded no, but the board would be faced with a choice. Mr. Stockstill went on to explain that the fund manager did not give him their trust document up-front, but all trust instruments include those provisions as required by the IRS, so this fund manager

probably does too. FRS typically goes into negotiations with the fund manager, where we want to enter into a side letter with the fund manager agreeing that we do not have to adopt the trust instrument as part of FRS' plan. But they cannot do that because of the IRS Rule saying in order for the fund manager to be qualified as a trust, it must follow the IRS Rules. The board might be confronted with a choice, where there is something that legally obstructs the board's ability to go forward with an investment.

Mr. Birdwell asked about the side letter that Mr. Stockstill wanted from the fund manager. Mr. Stockstill indicated that the emerging market equity fund manager, OFI is also a trust. OFI has this provision in its documents and has been told about entering into a side letter stating we will accept that language in its document that says FRS has to adopt OFI's trust document as part of our plan, but if it is ever challenged or found that FRS didn't have the authority to adopt that, then the provision gets stricken from the contract. If no one ever challenges it, then we go forward with that provision in the contract. Mr. Stockstill told the board that he advised OFI that he would speak with counsel at some of the other retirement systems who have trusts in their portfolios to see how they dealt with the situation.

Mr. Stockstill continued that he was only advising the board that when they hire these managers, there could be some potential problems. He is not advising the board they shouldn't go through the process, they are making an economic decision, a financial decision. Unfortunately you have to mesh the financial decision with the board's legal authority.

Mr. Barnes asked Mr. Stockstill if he had received copies of the documents for the institutional mutual fund? Because NEPC has been looking for those. Mr. Stockstill asked which fund was he referring to, Mr. Barnes indicated Stone Harbor. Mr. Stockstill indicated no, they did not send the trust document, Stone Harbor sent documents showing they are a trust, they have a series of four portfolios, the fund that we are talking about is one of the portfolios in that trust. The trust is going to be the governing document, which says no matter what the investment management agreement is, this document is the constitution and it says you have to adopt their trust document, the Declaration of Trust, as part of the FRS plan. They have to do that because the IRS requires them to do it if they are going to operate as a trust. FRS does not have the authority to adopt something into the FRS plan, all we can do is implement what the legislature adopts.

Mr. Birdwell indicated the multi-level entities that Mr. Stockstill presented to the board are worrisome to him after past experiences, and asked if there was any way the other three portfolios shown in Stone Harbor's trust structure can have advantage over FRS. Mr. Stockstill answered in the affirmative, indicating he does not know what the other portfolios are as he has not had sufficient time to review all of them. Mr. Birdwell asked if there could be language in the documents that says that FRS' portfolio could be subordinate to all other portfolios.

Mr. Stockstill indicated that Mr. Birdwell was saying "if", but Mr. Stockstill hasn't seen Stone Harbor's trust document yet, so he doesn't know what it says. So when Mr. Birdwell asks could the others have an advantage over FRS, yes. Mr. Stockstill then recalled to the board the chart shown to them earlier in the day where they had a general partner running two parallel funds. One of the documents says a general partner is allowed to compete with FRS and it can work to the disadvantage of FRS, or it would conflict with the interest of FRS, but they are allowed to do it. They are allowed to set up another fund to compete directly with FRS.

Ms. Rogers asked if Mr. Stockstill was going to explain some of the specifics of the contract at the board meeting tomorrow and discuss this subject matter. If not, then a discussion was needed about the contingency plans for the cash. Ms. Rogers indicated she didn't want to get in to it now if Mr. Stockstill was going to go through the contract now. Mr. Stockstill responded that he realized the need to talk about the ETF's, but he needed to finish getting the proper disclosures out first, and the reason it's taken this long is when the disclosures are provided, he gets the sense that the board feels like it was a futile exercise, why go through the exercise to end up at this point. Two reasons why they need to go through the process. First, he has not seen a copy of Stone Harbor's trust documents, he is going by what other standard trust documents say, and second if he explains it in a way the board understands it, they will understand what the issue is, that they may be adopting something that is beyond their control, but that there may be a solution if Stone Harbor agrees to it. Mr. Stockstill also indicated he needed to speak with his counterparts at other retirement systems and find out how they got over this hump. He wants to see how they addressed it.

Mr. Tarleton asked what if they didn't get over the issue, they just ignored it. We are aware of the issue, shouldn't we address it if we can't adopt this, should we just not do it. Mr. Stockstill asked for the chance to work-up a side letter.

Chairman Fredieu indicated he spoke with John Broussard and asked if he had read the document and Mr. Broussard told him all the documents were like that, they write them that way because they aren't worried about FRS, they are concerned with their own interest.

Mr. Birdwell then asked if, when saying they are "all" like that, are you referring to all contracts on every type of investment having this language. Mr. Stockstill answered that it was almost every type, not just the emerging markets. Anytime they set up a general partnership or some other type of entity to control the fund, the documents are so stacked against us that we end up with some of the experiences we've had in the past where we have absolutely no recourse in the event something goes wrong and we wonder how we got into that position. Mr. Stockstill indicated that he was letting the board know now what the documents say so the board can decide whether it wants to assume the risk. For instance, with Mellon Capital Management, they are an index strategy, but their structure is set up as a commingled trust instrument. When have you heard of something bad happening with

an index fund. Maybe the risk there is fine, like Mr. Broussard was saying, most of them are written that way, there isn't much you can do about it.

Mr. Stockstill further went on to give the board an example of language in a Mondrian document, that says "There is no public or other market for these securities, nor is it likely that any such market will develop. Therefore, investors must expect to be required to retain ownership of the securities and bear the financial risks of this investment for an indefinite period." When asked in their interview could we pull our money, they said yes, you can get it the next day. But their documents say you better be prepared to hold on to it for an indefinite period. The salesmen tell you one thing, but when the investment documents come to Mr. Stockstill for review and signature, they usually say something totally different.

Mr. Birdwell stated that was not Stone Harbor's document, Mr. Stockstill indicated that it was not, but most will have similar language in their documents.

Mr. Tarleton said maybe we should make it contingent upon getting a contract that is more beneficial to FRS. Mr. Birdwell asked how to write that risk factor into your overall evaluation of measuring where we are putting our investments. When we talk about the risk of an investment, it sounds like that probably will outweigh all the other risks that we typically look at.

Mr. Stockstill responded to Mr. Birdwell that the board has to find a balance, because if most contracts are written like that, you might never be able to make any investments and some companies are so big, like PIMCO, if we told them we wanted a change, meaning a side letter to change the terms to be more favorable to us, they'd say PIMCO doesn't need your money, take it somewhere else. They don't need our money. The board has to find that balance. I don't know what the balance is, I just have an obligation as the board's attorney to tell you there are risks here, and they may never come to bear. But if they do, you need to be told about them in advance, not when they happen.

Chairman Fredieu said that it seems like it is accepted practice, it's written in the contract and everybody just accepts it. Mr. Stockstill said, that's the risk you are talking about that if something goes wrong, just kiss your money good bye. The mechanical risk is about not being able to or having to adopt something in to your plan. Mr. Stockstill again stated that he wanted to talk to our counterparts to see how they get past this. In fact at the LAPERS conference next week, he will be sitting down at a round table and was planning on asking them then how they get past this issue.

Chairman Fredieu asked Mr. Humphreys if NEPC had any of these types with LASERS? Mr. Humphreys indicated LASERS does invest with Stone Harbor, but it would be wildly inappropriate for him to discuss how LASERS has legally reviewed this information. It would be much better for Mr. Stockstill to reach out to their attorney. Chairman Fredieu asked if they had these same

problems with language. Mr. Humphreys indicated that no one had raised this issue with him if there was a problem.

Ms. Chandler said that the board needed to keep in mind that when we are rebalancing the portfolio, we aren't just giving money to these managers but also taking money from certain managers to give it to other international managers, like Fisher. We are rebalancing the portfolio, you have to make the redemption requests ahead of time, not knowing when the contract will be finalized. There are ways to gain market exposure without having that cash sitting there and we can talk about this tomorrow, but there might be some difficulties in getting that market exposure for emerging market debt. You can do ETFs with equity, but you can't with debt. That's why I wasn't sure if Mr. Stockstill wanted to talk about this tomorrow or tonight. Mr. Stockstill indicated for Ms. Rogers to go ahead with the discussion of ETFs.

Ms. Rogers continued that there is no difficulty in getting ETFs (Exchange Traded Funds), they are very liquid and give you market exposure to particular sectors or asset classes until you actually hire the manager to do it. We are using a transition manager actually to purchase the ETFs. We have spoken with Bank of New York Mellon and gotten costs associated with those, and they are available for emerging market equities, but not as available for debt. We are going to look into and talk about some alternatives, if there are no alternatives to get that market exposure you are going to have a mountain of cash sitting there earning nothing.

Chairman Fredieu asked if these are high risk/high yield bond's. They shouldn't be as volatile as the equity market. Mr. Barnes responded that they are not as volatile. Ms. Rogers indicated that this isn't high yield bonds that we are investing in today, this is emerging market bonds, which is different from high yield. Mr. Barnes indicated they are investment grade. Ms. Rogers then said these have a higher credit rating.

Mr. Stockstill indicated that the board did what it was supposed to do, and for the board to now give him the chance to receive the pertinent documents from Stone Harbor. If it looks like there will be mechanical problems, he will hold it up. One of the two emerging market equity managers approved last month has been held up because we are working on the side letter with OFI. You can't rush a legal process, it has to be done right.

Chairman Fredieu asked if we have a better chance with Stone Harbor than getting a change with PIMCO. Mr. Stockstill said he is hopeful.

Mr. Tarleton asked if there was an overall solution because obviously if most are like this it will be a problem. Mr. Birdwell indicated he'd have felt more comfortable with PIMCO just because of their size and history. He would feel safer with them that we wouldn't have a problem like what has

happened in the past. They hadn't been performing well in the other strategy, but he feels like they are strong enough company.

Mr. Tarleton again said that if this will be a forever issue with all of these things, is there some legislation we can prepare for the long term. Mr. Stockstill indicated that FRS could introduce language in the legislature that says for purposes of contracting a collective investment trust, that the boards' are authorized to adopt the language of the trust into the plan. Then we could do it. Chairman Fredieu asked if we should do that. Mr. Tarleton asked if there was some legislation we could have done that gives us a little more protection in some of these contracts. Mr. Stockstill indicated that unfortunately, the institutions that FRS deals with are large enough to where they don't need FRS' money. Mr. Tarleton indicated he was thinking of more on a statewide basis, they may not need FRS' money but they may need every bodies' money collectively, something that says this is prohibited in the state of Louisiana. Mr. Stockstill said that we already have one law that says two things, one that you have to be a fiduciary to the plan. If you provide investment advisory services to any of the pension funds in Louisiana, you have to be a fiduciary to the plan. They don't accept that. What they want is either whatever laws from the state in which they are domiciled to apply, whatever their fiduciary standards are, not ours. There are a couple of other standards we have built in to the law they won't accept, they say they won't take the money.

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

Thereafter, Chairman Fredieu recessed the meeting.

September 12, 2013

Chairman Fredieu reconvened the board meeting. Roll was called. A quorum was present.

MINUTES

MOTION: Mr. Birdwell moved to approve the minutes of the board meeting held on August 7 & 8, 2013. Mr. Jeselink 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 #2) He stated that all applications were in order.

MOTION: Mr. Jeselink moved to approve the new member applicants. Mayor Durbin 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 #3) He stated that all applications were in order.

MOTION: Mr. Jeselink 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. [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 Elizabeth Jayne Cooper, surviving spouse of Taris Dean Cooper. He stated that the application was in order.

MOTION: Mr. Birdwell moved to approve the application of Elizabeth Jayne Cooper. Mr. Tarleton seconded. The motion passed.

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

[NOTE: The items posted on the Agenda were all discussed during the board meeting, and although they were not discussed in the posted order shown on the Agenda, the entries are recorded here in an order that follows the posted Agenda.]

IN THE MATTER OF JOSEPH N. BROYLES V. CANTOR FITZGERALD, ET AL

[Joseph M. Broyles v. Cantor Fitzgerald & Co., et al., Civil Action No. 3:10-854-JOB-SCR, United States District Court, Middle District of Louisiana consolidated with *Joseph N. Broyles, et al. versus Cantor Fitzgerald & Co. et al.*, Civil Action No. 3:10-857-JOB-SCR, United States District Court, Middle District of Louisiana; and *In re Sand Spring Capital III*, Case No. 11-13393, US Bankruptcy Court, District of Delaware - A consolidation of five funds managed by Commonwealth Advisors]

[NOTE: By giving notice on its posted agenda, the 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(2)(E); 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 matters referenced in agenda item III(2)(E); 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: Mayor Foster moved to authorize FRS to redeem its interest from the Commonwealth funds. Mayor Durbin seconded. The motion passed.

MOTION: Mayor Durbin moved to authorize the FRS Executive Director to serve on the litigation committee with respect to the Commonwealth bankruptcy and for the authority to accept the assignment of all other litigation that would be put into the trust. Mr. Birdwell seconded. The motion passed.

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

CORRECTION OF DISABILITY BENEFITS

Mr. Starns presented an administrative correction of disability benefits pursuant to R.S. 11:2260.1. He said that, prior to 2005, FRS implemented offsets to retirees' disability benefits based on "outside earnings", but the system did not conduct annual audits of the offset calculations. In 2005, the board decided to start annually auditing disability offsets. In 2005 an audit was conducted of all the disability files. During the audit it was discovered that in many cases there was not sufficient data to verify the validity and reliability of the prior years' calculations. For that reason, and to err in favor of the retirees, the board approved a policy where all calculations performed prior to 2005 were presumed to be correct. There would be no retroactive adjustment to any benefits prior to 2005. But after 2005, beginning in 2006, all disability benefits would be corrected based upon 2005 earnings statements and going forward. Since 2005 the system has been doing the disability offset calculations each year and modifying the benefits if required. This year, in doing the offset calculations, Mr. Starns found one member, going back to 2005 whose benefit had not been corrected back in 2005. After performing the appropriate calculations retroactive to 2005, it was determined that FRS owed the member a back-payment of \$31,287.16.

Chairman Fredieu asked if the member had discovered the error himself. Mr. Starns replied in the negative. Mr. Starns then said that the correction of administrative error statute, R.S. 11:2260.1, states "Except where otherwise prohibited in this Chapter, the director may correct any administrative error and make all adjustments relative to such correction. The director shall correct such error based solely on sufficient documentation, which shall be submitted to the board of trustees at the next board meeting, whether such administrative error was committed by the system or otherwise." Mr. Starns indicated that he prepared the disability offset calculation and Mr. McKinney checked it. The information was given to Mr. Stockstill and there will be an adjustment to the member's benefit effective October 1, 2013.

Chairman Fredieu and Mr. Birdwell both asked how the error was discovered? Mr. Starns responded that every year the staff does the annual offset calculations and a list is provided to Mr. Stockstill and Mr. McKinney letting them know what members are being offset, what their offset amount is, if they are being offset for worker's compensation and/or outside earned income, and what their net disability benefit amount is. By pure simple accident it was found that this member's current benefit was less than his original benefit, but there was no offset calculation for him, which was odd. Mr.

Starns went back to the offset calculation that was prepared in 2005-2006 and the members benefit amount should have been increased then. But for whatever reason it was not. Mr. Starns recreated an off-set calculation for the member as of today to get what his benefit should have been today and what it should have been in 2006, what was actually paid versus what should have been paid, and this is how the error was discovered.

Mr. Stockstill told the board that while Mr. Starns was explaining this matter to them, he wanted to publically give Jason an "GTTA-boy". The statute says our mission is to pay benefits to retirees, that is our mission. Sometimes we get so caught up in the other business of the retirement system, we forget as the undercurrent, we are actually supposed to be paying the right benefit to people and Mr. Starns has done a very good job of staying on top of benefits and doing what he can in catching these items, and breaking it down in ways that are easy to understand. Because you don't get to see Mr. Starns that much, more so the investment and legal side, you don't get to see the work Mr. Starns does as the undercurrent which is our mission. So this is really a chance to give him public recognition.

Mr. Birdwell asked if any type of motion was needed. Mr. Stockstill said the statute indicates that the correction must be brought to the board's attention, unless there is some opposition, there wouldn't be a need for any action.

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

MONTHLY FLASH REPORT - AUGUST 2013

Mr. Barnes presented the monthly flash report for August 2013. (see attached Exhibit #4) The overall fund was up/down as follows: -1.2 % for the month of August as compared to the allocation index of -1.4%; 1.2% for the fiscal year to date as compared to the allocation index of 1.3%; 7.3% for the trailing 12 months as compared to the allocation index of 7.0%; and 8.0% for the trailing 3 years as compared to the allocation index of N/A%.

COMMITTEE REPORT - INVESTMENT COMMITTEE

NOTE: The Investment Committee did not meet this month.

REQUEST FOR PROPOSALS

- Global Tactical Asset Allocation - Request for Proposal

Mr. Barnes began by advising the board of the RFP search process for an allocation to a new asset class, Global Tactical Asset Allocation. A public advertisement was posted in *Pensions & Investments Magazine* and in *The Advocate* from July 8 - July 24, 2013. Fourteen investment

managers responded. (see attached Exhibit #5) Five candidates did not meet the minimum criteria. Seven of the nine remaining candidates that responded to the RFP were on NEPC's focus placement list. The candidates were then evaluated and scored using NEPC's proprietary Performance Analysis Statistical software. The results were reviewed by NEPC's research team and FRS staff and the list of candidates was then narrowed. Mr. Barnes went on to advise that it was NEPC's recommendation to the board to invite the following candidates for interviews by the board: (A) Blackrock; (B) Grantham, Mayo, Van Otterloo & Co. LLC (GMO) and (C) PIMCO. Ms. Rogers recommendation was for Blackrock and PIMCO.

MOTION: Mr. Birdwell moved to accept NEPC's recommendation. Mr. Broussard seconded. The motion passed.

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

INVESTMENT MANAGEMENT CONTRACT

Mr. Stockstill gave an overview of the Private Placement Memorandum for Acadian Emerging Markets Equity II Fund, LLC, pointing out various highlighted language to the board that they need to be aware of in order to be informed as to the provisions of the Private Placement Memorandum, and what FRS would have to agree to should it invest in this fund. The Private Placement Memorandum is the controlling document regardless of what the representatives said during their initial interviews. Mr. Stockstill continued by advising the board that if they were going to make the investment, they needed to know and understand the importance of the terms, one of which is that the fund does not plan to make distributions and proceeds of the sale of investments will be reinvested in other investments.

Mr. Barnes pointed out that reinvesting goes on in every investment that FRS has in terms of traditional stocks and bonds. Bonds throw out coupons, which are reinvested and that compounding of return works the other way as well. If you make 10% this month on \$100.00, that's \$110.00. Next month if you earn 10%, then you earn that 10% not just on the \$100.00, but on \$110.00, it's called the compounding returns. It is what makes investment worthwhile. It's the time value of money, a fundamental factor in investing. If you withdraw those funds, the question for NEPC becomes, what do you do with them?

Ms. Rogers pointed out one difference in place today that was not in place in 2008 is the formal rebalancing policy within our Investment Policy Statement. We have a mechanism that when an asset class runs up and gains those profits from the compounding, once it gets out of those ranges, we take those profits and put them into another asset class. We have a formal process to do that, it is not on a monthly or quarterly basis because of transaction costs, and you do want some of the compounding. But the formal asset rebalancing policy will take profits off the table at some point

and put into another asset class. Mr. Barnes added that NEPC will monitor this and bring to you a recommendation when one of the asset classes has run up beyond that limit, that is in effect "profit taking".

Mr. Broussard stated that he didn't believe Mr. Stockstill was advocating taking out profits, I think he was just trying to point out the risks. Mr. Stockstill confirmed Mr. Broussard's assessment.

Mr. Birdwell asked about the contract with OFI. Mr. Stockstill indicated that OFI has been most cooperative. Agreement has been reached on all the terms through a side letter except one and that is the one he brought up regarding them being a trust. He forwarded compromise language to them and they have sent that on to their outside counsel. If that hurdle is cleared, OFI and FRS can go forward with its contract. Mr. Birdwell indicated that if FRS can't come to an agreement on the contract with Acadian, then instead of splitting the funds to be invested, FRS might should combine them and place them all with OFI. Mr. Stockstill indicated that if the board was so inclined, it would certainly give FRS more bargaining power regarding the contract.

Chairman Fredieu indicated that he did not like the idea that FRS can't hold a company responsible. Mr. Stockstill said the board has two things to weigh in the balance here, the economic factors and the risk of what the board's legal position will be if something goes wrong. But like Mr. Broussard told Mr. Birdwell, most of the documents are written this way. First you need to be informed of the risks so you know what they are. If no one ever informs you and something goes wrong, then you ask why you weren't told ahead of time.

Chairman Fredieu asked Mr. Stockstill if he was going to try to negotiate with Acadian using basically the same language as with OFI. Mr. Stockstill answered in the affirmative. The information being provided to the board was to show several of the provisions in a contract so the board won't get caught by surprise if, later on, one of those provisions comes back to work against FRS' interests.

Mr. Jeselink asked Mr. Stockstill how far away he was with Acadian from getting the contract where it needs to be. Mr. Stockstill said he wrote a fourteen page side-latter, we worked through that letter. Acadian has now taken it to their counsel. The ball is in Acadian's court now.

Chairman Fredieu said it wasn't appropriate to make any type of motion right now. Mr. Stockstill indicated this was just a report, unless the board wanted to use this as a segue. When the board makes a decision to make an investment, FRS is redeeming out of another FRS investment. That has already been done. The cash is sitting there now and Mr. Barnes said earlier that cash and commodities were the only place of safety in the month of August, so sitting in cash hasn't really hurt FRS for the current period of time. But over a protracted period of time FRS would suffer what is called opportunity cost by not having exposure to an investment class that would earn FRS more than

cash. When Ms. Rogers told Mr. Stockstill it was sitting in cash, he instructed her to put the idle money into ETFs which are Exchange Traded Funds. What ETFs mean is that FRS can temporarily invest its idle money in a vehicle that will earn the same returns as the index of the asset class in which the money will eventually be permanently invested, without having to purchase the underlying securities. ETFs are traded on the exchange so you have daily liquidity. In the interim, until FRS can actually get the money to the new manager, FRS is still getting the type of returns that it would in the target asset class so FRS isn't just holding it in cash. Mr. Stockstill said the problem is that it could be done with emerging market equity, but not debt. He then referred to Ms. Rogers for more details.

Ms. Rogers said that FRS currently has approximately \$53,000,000.00 in cash and as FRS has planned out the portfolio rebalancing, a schedule was done where FRS has a search each month, a manager is hired each month, and each month there has to be redemptions and rebalancing. Because we have some cash that has been generated through redemptions, FRS could invest it in ETFs for emerging market equity. Ms. Rogers spoke with representatives of the Bank of New York Mellon transition group, they provided a proposal at a very low cost and it would be easy to get the desired exposure. With the other asset classes though, for example emerging market debt or even because the Mellon Asset Management contract has not been finalized (the index fund replacing Vanguard), FRS cannot yet redeem from Vanguard and switch it to Mellon. That switch to Mellon was not a one for one. That allocation will be implemented as part of the rebalancing. Some of the money will go to Mellon, the rest will go to cash and that will be used to fund the new managers. Even if the contract with OFI gets finalized, that manager might not become funded because the cash might not yet be available, or there may be a situation where there is a build up in cash, and there is no easy ETF to go out and get exposure under emerging market debts. Talks will continue with Mellon to find out what options are available, but today the board is being requested to grant FRS staff the authority to use ETFs or some type of highly liquid securities to gain that market exposure until the contracts are finalized.

Mr. Adomako asked Mr. Broussard if these ETFs were similar to overnight purchase agreements? Mr. Broussard answered in the negative, saying they were similar to a mutual fund, a market traded mutual fund is basically what it is, open ended, they can expand the shares as needed, that type of thing. It's similar to Spiders. [EDITOR'S NOTE: Standard & Poor's Depository Receipts, SPDRs, or Spiders] S&P 500 is a common ETF. Mr. Stockstill said FRS has used SPDRs before. He recalled that whenever he and the previous investment consultant moved money between managers, authority to use SPDRs would be requested during the approval process. He said, this tactic isn't new. On-going authority is now being requested instead of requesting it piecemeal on case-by-case basis.

MOTION: Mayor Durbin moved to grant the authority to use ETFs or other funds to gain interim market exposure until contracts are finalized and the managers can be funded. Mr. Birdwell seconded. The motion passed.

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

CAPITAL SPRINGS - REQUEST FOR WAIVER

Ms. Rogers noted that Capital Springs is an investment manager that provides financing to restaurant managers who want to purchase franchises. FRS has two separate investments with Capital Springs, Fund II and Fund III. One of Fund III's franchisees owns several Popeyes restaurants in South Louisiana, specifically in the Baton Rouge market, and that franchisee has done extremely well. He turned those franchises around and it has been a very profitable investment for Fund III. The franchisee now wants to sell his interest to another franchisor. The other franchisor also has restaurants in this area and they negotiated a deal to complete the sale. It just so happens that the buyer is also asking for financing from Capital Springs. The fund that would actually be doing the financing is not a fund that FRS is invested in. However, the fund that FRS is invested in will receive the proceeds of the sale. Capital Springs notified all of its limited partners of the transaction and asked for their approval because it could be seen as a conflict of interest. (see attached Exhibit #6) One of the conflicts is the two lenders on the transaction is the management company and another fund within Capital Springs. The management company also serves as the management company for the particular fund in which FRS is invested. It is unusual for a management company to make direct investments, but they are going to start doing that to some extent. Ms. Rogers said that she spoke with Mr. Fitzgerald of Capital Springs and she reviewed the Capital Springs documents. She said there is no provision, if for some reason there is a loss on the loan, that would allow the loss to be allocated to any of the funds that FRS is invested in. So it would be a gain for the fund FRS is invested in. It has a projected return of 14% on the debt and a little over 30% on the equity returns. It is a good return for the fund in which FRS is invested, but Capital Springs was first seeking approval for the conflict of interest.

Mr. Broussard asked if that would be a cash distribution to FRS. Ms. Rogers indicated that it would. Mr. Barnes indicated that it represents a conflict of interest, so they have come to all of their investors asking for approval. Mr. Stockstill asked if FRS would get a cash distribution as soon as the transaction occurs or a prorata share will be credited to our capital account. Ms. Rogers indicated that Capital Springs private equity makes distributions differently.

MOTION: Mayor Foster moved to approve Capital Springs' request as described. Mr. Birdwell seconded. The motion passed.

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

CLINTON MAGNOLIA FUND

Mr. Barnes directed the board's attention to a memorandum issued by NEPC's research team regarding the Clinton Magnolia Fund. (see attached Exhibit #7) The Clinton Magnolia Fund was a fund in FRS' portfolio when NEPC became the system's investment consultant. He said NEPC wanted to evaluate it more closely because NEPC was not familiar with the structure. Mr. Barnes said It represents about 3½% of the portfolio, about a \$46,000,000.00 investment for FRS. In April, the board approved the asset allocation recommendation of NEPC. The next month NEPC came back to the board with an implementation proposal that was delayed for a month. NEPC also came back to the board with research information related to the implementation proposal. The proposal was then approved by the board. That proposal included information regarding the GTTA search, and moving from hedge funds to other types of structures to accomplish the same goals without quite as much unmeasurable risk. The board, in approving that transition plan, approved the redemption and the ultimate termination of the Clinton Magnolia Fund. However, during that delay time, NEPC's Hedge Fund Research group was well along the way of wrapping up their research on the Clinton Magnolia Fund, from an investment perspective. NEPC finalized the research and now comes to the board with research conclusions. Tim Bruce, NEPC's Senior Research Consultant, and his team lead the research, going into the offices of Clinton Magnolia Fund. NEPC's conclusion is that Clinton Magnolia Fund lacks a number of qualities that NEPC looks for in its preferred funds. Clinton's modest returns, organizational structure, and operational issues make this fund a less than optimal investment. Based on the board's recently approved asset allocation decisions and NEPC's investment manager due diligence on the Clinton Magnolia Fund, NEPC recommended redeeming in full the existing investment in Clinton.

Further discussion took place between Mr. Barnes, Ms. Rogers, and the board on the results of NEPC's research and the redemption of FRS' investment.

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

VISION CAPITAL PARTNERS, LLC

Mr. Stockstill informed the board of correspondence from the City of Austin Police Retirement System, sent to Mr. Bob Rust, Director of MERS, who was invited to address the board regarding the correspondence. (see attached Exhibit #8) Mr. Rust informed the board that there is real estate holding in MERS' and FRS' portfolio that is owned by three different retirement systems, Austin Police and MERS formed one LLC to buy the property, and FRS formed another LLC to buy the property. The two LLCs are co-owners of the property. FRS put in \$9,000,000.00, MERS put in \$8,000,000.00 and Austin put in \$5,000,000.00 and the idea was to purchase this property and sell it to a developer. CSG brought the investment opportunity forward, but the group that is managing it is called Gainesville Vision. The property is about 45 miles northeast of Atlanta in the town of

Gainesville GA. It is about 1,094 acres. The idea was that the property would become attractive to a developer within five years from the date of purchase but, for the past five years, essentially nothing has happened, except all of us paying management fees to Vision Capital for which they have done almost nothing. The Austin Police Retirement System approved terminating Vision Capital. Mr. Rust said he will be recommending termination of Vision Capital to the MERS board next week. In order to terminate all three owners, if they agree to do it, can terminate Vision Capital.

Mr. Birdwell asked Mr. Rust what Vision Capital is saying or producing to justify the fees. Mr. Rust responded that they are not doing much of anything.

Mayor Durbin asked who had been paying the property taxes. Mr. Rust indicated that Vision Capital was supposed to do that. Mayor Durbin then suggested that someone verify the status of ownership and the property taxes to make sure it hadn't gone for tax sale in Georgia and if there are any liens against it, to preserve the owners' rights against Vision Capital.

MOTION: Mayor Durbin moved to terminate Vision Capital in their capacity as management company for the Gainesville property on FRS' behalf and further authorize the Executive Director take all necessary actions to verify ownership, check for tax liens, judgments, and paid property tax payments. Mr. Tarleton seconded. The motion passed.

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

RISK PARITY STRATEGY - REQUEST FOR PROPOSALS

Mr. Barnes advised the board of the status of the RFPs for the Risk Parity manager search. The search has been advertised and the deadline for responses is September 13, 2013. The next step is to run NEPC's proprietary quantitative screen which looks for consistency of out-performance over a long period of time. All data will be reviewed and a manageable list will be presented to the board next month, from which the board can choose those managers they wish to interview.

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

ADJOURNMENT

MOTION: Mr. Birdwell moved to adjourn. Mayor Durbin seconded. The motion passed. There being no further business, the meeting of the FRS board of trustees was adjourned.

FUTURE MEETINGS

**FRS Board of Trustees
Public Safety Building
3100 Brentwood Drive
Baton Rouge, Louisiana
Wednesday, October 9, 2013 at 2:00 p.m.
Thursday, October 10, 2013 at 8:30 a.m.**

SUBMITTED BY:

APPROVED BY:



Susan L. Waite, FRS Board Secretary



Mr. Charles Fredieu, FRS Chairman