



## **FIREFIIGHTERS RETIREMENT SYSTEM**

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### **MEETING OF THE BOARD OF TRUSTEES November 14, 2013**

A meeting of the Board of Trustees was held on November 14, 2013 at the Public Safety Building in Baton Rouge. Mr. Charlie Fredieu, Chairman, called the meeting to order at 8:30 a.m.

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. Afranie Adomako  
Mr. John Broussard  
Mayor Mayson Foster  
Mr. Perry Jeselink  
Mr. Jerry Tarleton

#### **OTHERS PRESENT**

Steven Stockstill  
Kelli Rogers  
Layne McKinney  
Jason Starns  
Susan Waite  
Margaret Corley  
Stephanie Little  
Greg Curran  
David Barnes  
Paul Schmidt  
Tommy Meagher  
Ralph Juneau  
Robert Lingerfelt  
Edward Rapier  
Thomas Anzelmo  
Robert Lawrence  
Craig Burkett  
Bob Burkett

**MINUTES**

MOTION: Mr. Birdwell moved to approve the minutes of the board meeting held on October 9 & 10, 2013. Mr. Tarleton seconded. The motion passed.

**APPLICANTS**

- 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 Mary Sue Fontenot, surviving spouse of John C. Fontenot. He stated that the application was in order.

MOTION: Mr. Birdwell moved to approve the application of Mary Sue Fontenot. Mr. Tarleton seconded. The motion passed.

Mr. Starns presented the application of Jane Nora Daigle Gilbert, surviving spouse of Johnnie Raeford Gilbert. He stated that the application was in order.

MOTION: Mr. Birdwell moved to approve the application of Jane Nora Daigle Gilbert. Mr. Tarleton seconded. The motion passed.

Mr. Starns presented the application of Arthur Richard Reynolds, survivor of Arthur Ray Reynolds. He stated that the application was in order.

MOTION: Mr. Birdwell moved to approve the application of Arthur Richard Reynolds. Mr. Tarleton seconded. The motion passed.

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

- 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 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 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.]

Mr. Starns presented the disability application of [REDACTED]. He advised the board that based upon the report by State Medical Disability Doctor, Dr. Brandon Romano, the staff recommendation was for the approval of disability retirement and continuation of disability recertification.

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

[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.]

#### **DONELON V. GRAY INSURANCE COMPANY ET. AL**

[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)(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(1); 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. Tarleton moved to resume public session. Mr. Birdwell seconded. The motion passed unanimously. The board resumed public session.

MOTION: Mr. Birdwell moved to retain Mr. Robert Klausner as attorney for FRS in the matter entitled *Donelon v. Gray Insurance Company, et. al (including the board of trustees of FRS)* Suit No. 625,124, 19<sup>th</sup> Judicial District Court, East Baton Rouge Parish, Louisiana, and the splitting of fees between FRS and the other defendants to be represented by Mr. Klausner. Mr. Broussard seconded. The motion passed.

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

### **ACTUARIAL VALUATION - FOR YEAR 2012 - 2013**

Mr. Greg Curran presented an overview of the Actuarial Valuation as of June 30, 2013. (see attached Exhibit #1) Mr. Curran advised the board that as of June 30, 2013 there were 4,284 active contributing members, of whom 1,971 have vested retirement benefits; 221 participants in DROP; 1,958 former system members or their beneficiaries are receiving retirement benefits. An additional 521 members have contributions remaining on deposit with the system; of this number 71 have vested rights for future retirement benefits. All individuals submitted were included in the valuation.

Mr. Curran discussed the fact that the fiscal year audit by Duplantier, Hrapmann, Hogan & Maher, LLP contained no exclusions, caveats or other qualifications. There has been no change in the methods and assumptions between those used in this report and those used in last year's report. He said that significant changes in the accounting standards affecting retirement systems have been approved by the Governmental Accounting Standards Board. The changes, which are included in GASB Statement 67 will not be effective until the June 30, 2014 valuation. This report was prepared in accordance with the currently effective GASB Statement 25.

Mr. Curran advised that the valuation is based on the Entry Age Normal actuarial cost valuation, meaning the unfunded actuarial accrued liabilities are measured under the Entry Age Normal method and are spread over a specific period of time. The long term UAL strategy for the system is that unfunded accrued liability (UAL), whether it is a positive or negative of funding excess, is spread long term over 15 years. After 2008, legislation was passed to allowed the system to stretch the UAL payments to twenty (20) years. Every year that time period has been brought back down by one year until it is permanently reset at fifteen (15) years. A short term strategy was used to handle 2008, however the system agreed to not make the change permanent, but one which would allow the system to revert back to where the system was prior to 2008. This valuation uses a sixteen year amortization, next year the system will be back to the fifteen year level.

Mr. Curran noted that there was one technical change in the their programming which had a small affect on the valuation, and that was for members in DROP, changing the way those are valued based on option chosen. In the past, there was a more simplified way of preparing that valuation, however the technical change is a better way to perform this valuation for those members who have "pop-up" options. The old method did not capture the full impact of that pop-up if the spouse passed away and the member would get the bigger benefit. There was a slight increase in cost of .07%.

Two changes in plan provisions were enacted during the 2013 Regular Session of the Louisiana Legislature, being Act 170 and Act 365, and these acts had no real impact on the funding of the system. Mr. Curran indicated that since the board was going to discuss in detail Act 170 (regarding Cost of Living Adjustments), he would not go in to detail regarding this item. Act 365 gives members of statewide retirement systems the option to purchase the accrual rate of the receiving system at time of transfer if the accrual rate is greater than the accrual rate of the transferring system. It also allows the members to execute a reverse transfer only one time, at the time of retirement or during active service if submitted to the receiving system on or before December 31, 2013. In addition, this act authorizes the purchase of an accrual rate upgrade for members of the Firefighters' Retirement System who are employees of the St. George Fire Department who applied to transfer service credit from the New Orleans Firefighters' Pension and Relief Fund on or after August 26, 1999 and on or before December 31, 2007. In the next valuation the system will see this as a merger or new liability.

The market value of investment earnings for the year is 10.5%. With the five year smoothing term the actuarial value was 2.5%, which includes the year 2009 negative return, which falls off next year. The fund earned \$27,781,060.00 in dividends, interest and other recurring income. The fund had net realized and unrealized capital losses on investments of \$101,876,640.00. Investment expenses amounted to \$9,865,033.00. Over the past ten years the market rate of return has been 5.4% and 5.6% over the past 20 years.

Mr. Curran indicated that not only is the valuation based on the assets of the plan, but also the plan demographics and liability experience. The changes in the makeup of the population and changes in members' salaries increased the interest adjusted normal cost over the last year slightly; the normal cost has decreased slightly as a percentage of payroll. The plan liability experience for fiscal 2013 (all non-asset experience) was favorable due to salary increases being below projected levels, and disabilities were below projected levels. Retiree deaths and withdrawals were above projections, all of which decrease costs. Net plan liability experience gains totaled \$30,226,604.00 which corresponds to 1.54% of fiscal 2014 payroll.

Mr. Curran advised the board that the system does not meet the requirements to pay a cost of living increase because the system does not meet the target ratio and there are no excess interest earnings, for fiscal year 2014.

Mr. Curran continued that after the rounding adjustment required by law, the percentage of total required contributions is 39.25% with employers contributing 29.25% on behalf of employees whose pay is above the poverty level, and will collect and remit 10% from its employees. Those employers contributing on behalf of employees whose pay is below the poverty level will contribute 31.25% and will collect and remit 8% from its employees.

Mr. Curran said that the estimated insurance premium tax funds to be paid to FRS in fiscal 2014 equals \$22,849,383.00. Further, after reducing the total required contributions by the amount of the

insurance premium tax funds received, FRS still needs \$81.1 million, which comes from employee and employer contributions. The total contributions from employees and employers has been calculated based on a percentage of 39.23%, giving consideration to the new employee rate changes that were implemented along with the poverty guidelines. That amount is needed from employees and employers. Mr. Curran continued with the report by saying that the present value of future benefits exceed \$2.3 billion. The market value of FRS' assets is \$1.2 billion. Mr. Curran noted that FRS has to collect the difference over the future lives of employees.

Upon conclusion of Mr. Curran's presentation of the Actuarial Valuation, the board had discussions and questions with and for Mr. Curran regarding the presented materials. Mr. Stockstill requested that Mr. Curran provide an explanation of the graphs shown on Page 13 of the Actuarial Valuation which show that FRS is a cash flow positive plan, that FRS does not have to cannibalize its assets. Mr. Curran indicated to the board that the top graph entitled "Net Non-Investment Income" has a blue line which is the non-investment income, which is essentially the contributions from the employee, employer and the insurance premium taxes. There is also a yellow line which is the benefits and expenses, this is what is spent on benefits, retiree benefits, DROP disbursements, IBO disbursements, and administrative costs. The graph indicates there has been growth in both the contributions when the employer rate has gone up, and in benefits and expenses. Mr. Curran continued that what Mr. Stockstill is pointing out is the red line which is the difference between the income and benefits and expenses. Anytime it is above zero, it is a positive cash flow year. This graph shows that the system got to a neutral point in 2009 and 2010 and the main reason it has become more positive is that the employer rate has gone up. When things get really good, the system is more likely to be negative cash flow. Mr. Stockstill then confirmed with Mr. Curran that cash flow means everything that the system has to pay out in a particular year in benefits, operating expenses, etc., the system has enough money to cover those expenses and does not have to sell assets to raise money to pay the system expenses. Mr. Curran answered that Mr. Stockstill was correct. Mr. Curran further indicated that he believed the only thing that would cause the system to have to sell an asset would be timing, as far as when the system receives its insurance premium tax money, but over a course of a year, there has been enough funds to cover expenses.

Mr. Curran went on to explain the bottom graph on Page 13 of the Actuarial Valuation entitled "Total Income vs. Expenses (Based on Market Value of Assets)" which includes the investments, and it fluctuates more. With fluctuations in the market this graph is different, there was a very negative total cash flow in 2009 because of the amount of investment money lost, but that did not mean that assets had to be sold to pay benefits, it only meant that the systems assets went down in value in total. Mr. Stockstill addressing the board stated that what this means to the board is that when people ask you how is the fund doing, if you tell someone the system is 70% funded, they can't put that into any type of context. When you tell them the system is cash flow positive, it operates on the money that comes in, it doesn't have to sell anything to pay its benefits, it is easier to relate to the fact that the system is cash flow positive.

MOTION: Mr. Broussard moved to accept the June 30, 2013 Actuarial Valuation. Mr. Birdwell seconded. The motion passed.

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

### **MONTHLY FLASH REPORT - OCTOBER 2013**

Mr. Barnes presented the monthly flash report for October 2013. (see attached Exhibit #2) The overall fund was up/down as follows: 1.8 % for the month of October as compared to the allocation index of 2.3%; 6.4% for the fiscal year to date as compared to the allocation index of 6.6%; 11.8% for the trailing 12 months as compared to the allocation index of 15.6%; and 6.3% for the trailing 3 years as compared to the allocation index of N/A%.

### **COMMITTEE REPORT - INVESTMENT COMMITTEE**

[NOTE: The Investment Committee met on November 13, 2013, at the FRS office in Baton Rouge at 3:00 p.m. to discuss the following business set forth in its posted agenda - (i) The FRS monthly investment performance results for October 2013, (ii) Diligence site-visits of selected Risk Parity managers and related recommendations of NEPC and FRS staff, (iii) Update regarding FRS-GA action terminating Vision Capital Partners LLC and related diligence site-visit by FRS staff, (iv) Advisory Research, Inc. Trading policy, and (v) Update regarding investment management contracts with OFI, Acadian Asset Management, Mellon Asset Management and Stone Harbor, and all matters related to the foregoing items. The minutes of that meeting are embedded herein. Committee members present were Stacy Birdwell, chairman; Afranie Adomako, Amy Matthews (for State Treasurer Kennedy), Mayor Mayson Foster, and Jerry Tarleton. Also present were, Charlie Fredieu, Mayor James Durbin, Steven Stockstill, Kelli Rogers, Layne McKinney, Susan Waite, David Barnes, and Rhett Humphreys.]

Committee chairman Birdwell gave the committee report and, in doing so, he recognized Mr. Barnes who provided information to the board as follows:

Mr. Barnes indicated the next item to discuss was information provided to the investment committee regarding due diligence visits and the recommendations which came out of those visits.

- Risk Parity - Diligence Site Visits and Recommendations

Ms. Rogers advised the board that she, along with NEPC staff visited the four managers which were recommended to visit, being AQR, BlackRock, PIMCO, and Putnam. Ms. Rogers indicated that the staff recommendation was to interview AQR and Putnam because they offer two very different approaches to Risk Parity, AQR being quantitative driven and very much more of a pure risk parity manager. They are considered one of the pioneers in the industry along with Bridgewater. Putnam comes from a more practical approach, they do not maintain quite the quantitative approach but has

performed very well. In the memo provided, Blackrock was also recommended in the event the board wanted to interview three risk parity managers, however as discussed with the investment committee, NEPC, which Mr. Barnes will discuss further, also recommended interviewing AQR and Putnam with PIMCO a distant third. Ms. Rogers advised that she did not recommend PIMCO for interview for several reasons. One is that PIMCO's approach is that although it is a risk parity strategy, it is the most tactical of all of the risk parity strategies and PIMCO has a heavy reliance on valuation forecasting by coming at it from more of a GTAA angle. Since this will be paired with a GTAA manager, and this manager will be the only risk parity manager, Ms. Rogers did not believe it would be a good fit for FRS' portfolio, although PIMCO is a good manager.

MOTION: Mr. Birdwell indicated that the investment committee heard the presentations yesterday and moved to recommend to the full board that it interview two candidates, Putnam and AQR for interviews as recommended jointly by NEPC and Ms. Rogers. Mr. Broussard seconded. The motion passed.

Mr. Stockstill noted that for calendaring purposes, the interviews will take place Monday, December 16, 2013 at 2:00.

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

- Vision Capital Partners, LLC - Site Visit

Ms. Rogers advised that she, along with Bob Rust at MERS, and a representative from the City of Austin Police Retirement System traveled to Atlanta and met with Vision Capital Partners, LLC. Ms. Rogers indicated that on the trip, they reviewed the books and records of the current manager and did not find anything of note as far as missing funds. It was observed that the current manager maintains the LLC's business records at his personal residence instead of an office, which is extremely concerning. There is several million dollars being held in a bank account which is partly FRS' money left over from the closing. Additionally they met with two potential replacement managers, both of whom were very familiar with the property. Ms. Rogers said they also went to the site of the property and did a visual assessment. Additional documentation has been requested by Ms. Rogers and Mr. Rust from the current manager. Once that is received and reviewed a letter will be provided to the current manager indicating the items considered to be a breach of the manager's duty.

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

- Advisory Research

Mr. Barnes reminded the board of the request by Advisory Research for an exception to the FRS Investment Policy Statement prohibiting investment management employees from investing in the



same securities held in the FRS portfolio. Advisory Research was informed of the board's denial of that request and the request for Advisory Research to change its employee trading policy.

Mr. Birdwell indicated that the investment committee voted to recommend the approval of Advisory Research's exception request based on the revised and updated employee trading policy as provided by Advisory Research, based on a form provided to Advisory from NEPC, and the following stipulations: (1) FRS must be notified of any changes to Advisory's updated employee trading policy; (2) Advisory must maintain their current policy, as this exception is being given in good faith on FRS' part, and violation of same would lead FRS to withdraw all of FRS' funds from Advisory's portfolio; and (3) Advisory must notify FRS in the event any employee violates their employee trading policy.

MOTION: Mr. Birdwell moved the recommendation of the FRS investment committee in the form of a motion. Mayor Foster seconded. After further discussion between board members, the motion passed.

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

- Sail Venture Management

Ms. Rogers stated that the system received a normal capital call for management fees from Sail Capital and from the Louisiana Sustainability Fund, and the capital call had some information that raised concerns about the cash situation at Sail which has been quite tight in the last several years. Mr. Barnes and Ms. Rogers held discussions with the Sail team in California. The need for operating cash by several of the portfolio companies and the management company continues to be a huge concern. Two of the portfolio companies are cash-depleted and are accruing payroll instead of paying their employees. They supposedly have bridge financing for one of the portfolio company's that is projected to close at the end of this quarter, but the company first must "get by" between now and the end of the quarter. The other portfolio company is in an extreme cash burn situation, they are at a cash burn rate of \$1,000,000.00 a month and, although they already received some bridge financing, it was a small amount, and the portfolio company needs additional capital to continue. Sail is looking for more capital to inject into the portfolio company to enable the company to get further down the road and to try to increase the exit value for the company.

Ms. Rogers continued that Sail sent a letter to investor's that made an offer to participate in a joint venture that they were going to set up and the proposal for the structure is that equity interest from five portfolio companies would be transferred from the existing funds in which they are held to the newly created joint venture entity. The fund that FRS is invested in, Sail II, would no longer have direct ownership of the portfolio companies. Sail II would only own an interest in the joint venture entity. The joint venture entity would actually own the portfolio companies. Ms. Rogers continued that she and Mr. Barnes had further conversations with Sail yesterday (November 13, 2013) to talk

about their proposal and some of the concerns about the proposal. We are going back and reviewing some of the agreements to look at them and will contact Sail in the next several days.

Mr. Stockstill stated that their whole proposal looks at first like a shell game, it is extremely alarming to him and also Austin Police is in this same investment fund, Sail II, and their attorney who happens to be Bob Klausner is equally concerned. It appears to be a situation where we have to acquiesce otherwise the alternative is bankruptcy of one of the major portfolio companies. This is a very recent developing event and it is of extreme concern, however we do not have enough information yet to be able to advise as to what the conclusion is, whether we can or should do anything. But it needed to be brought to the board's attention for you to keep it on your radar screen that something is going on with Sail that is a significant.

Mr. Broussard asked how many people are invested in Sail Venture, the fund that FRS is invested in. Ms. Rogers indicated that it was FRS, MERS, City of Austin Police and several other smaller investors. She further indicated that she had a list in her office.

Mr. Stockstill added that, what the Sail GP says, is that instead of making a direct loan to Sail II, the reason they are creating this other vehicle is because it would take too long to get permission from all of the investors. Mr. Stockstill indicated he thought there were only five or six major investors, but the way Sail makes it sound, there must be a number of smaller ones. Mr. Broussard indicated that his concern in just hearing this is that Sail's solution doesn't sound like an elegant solution. If some of the smaller investors chose not to go along with the joint venture and their equity stays out of the investment, then whoever jumps into that joint venture is going to get sued by the smaller investors and the minority holder is going to be the one holding the sledge hammer.

Ms. Rogers indicated there are a lot of concerns and questions FRS has which haven't been answered yet. Mr. Broussard stated he doesn't believe this is the solution. When something sounds wrong, it is wrong. This is not an elegant solution by any stretch of the imagination. It is simpler to just raise the money and dilute, that is the simplest route and if that is not what Sail is choosing to do, something is wrong. Ms. Rogers indicated to Mr. Broussard two items along that line, one is that when FRS got the email, Sail didn't ask for permission from the investors, Sail basically indicated you either join or not but this is going to happen. The first question, assuming they have an attorney who read the documents and acknowledged it was alright for Sail to do this, we are not sure we agree with that, so the first question is do we even agree that Sail can do this. Then questions come up regarding valuations and other items, so if Sail does this, FRS would have to do something to intervene as it is not like Sail is coming to us where we can make a decision and say we don't agree with this solution. Further research is needed, but Sail's version is this is their only choice.

Chairman Fredieu asked if this had anything to do with the additional investment fund request from November/December of last year. Ms. Rogers answered in the affirmative and stated that Sail now needs more money. Mr. Stockstill stated that Sail can articulate very good reasons for doing this, but so have others in FRS' past. Mr. Broussard commented that there is a structure in place to raise

money that has worked in the past. Ms. Rogers indicated that structure doesn't work anymore, there is no more capital, and one of the goals of the joint venture is the investors in the joint venture get preferred distribution rights.

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

- Investment Management Contracts

Mr. Stockstill updated the board on the progress of the investment manager contracts by saying that the contracts for Mellon and Stone Harbor are complete. On Acadian Asset Management, a tentative agreement on the side letter has been reached and language is being finalized. As soon as Acadian's attorney approves it, then Acadian will be funded. OFI initially wanted to put FRS into a trust vehicle. One of the provisions of the trust requires FRS to adopt the OFI trust document as part of FRS's plan because that is required by the Internal Revenue Service. FRS cannot do that because only the legislature can adopt items in to the plan. As an alternative, OFI has suggested shifting FRS into a different type of investment vehicle. Upon researching the private placement memorandum, the statement of additional information and the prospectus, information surfaced from the original RFP OFI submitted where the vehicle they originally proposed showed it had no litigation. However, the statement of additional information for the vehicle that OFI substituted, shows under the pending litigation, a number of lawsuits against these Oppenheimer entities, which is not surprising considering the size of Oppenheimer that they would have lawsuits. In the information reviewed, are a number of pending lawsuits shown which were brought to the attention of the Chairman and the vice-chairman of the FRS board. There was a conference call with OFI to discover what the facts and circumstances of the cases were. We heard from OFI's perspective. The Chairman and vice-chairman of the FRS board were asked if they were comfortable to go forward and they indicated they would first like to receive information from the other side (plaintiffs) in the lawsuits. Mr. Stockstill continued by stating he called the attorney for the AAARDvark funds, which is a number of Oppenheimer funds that had been sued. Mr. Stockstill stated he also called the attorney for the investors actually suing Oppenheimer to find out what their story was, and the basis of the lawsuits related to the way the funds' returns were accounted for and reported to the investors. They actually lost their lawsuits in the district court, but have appealed to the court of appeals. However, information disclosed to FRS by OFI also showed seven class action lawsuits filed in California, six had settled, one was holding out. Mr. Stockstill indicated he tried to contact the attorney representing the hold-out plaintiffs to obtain information from their perspective, but did not yet get a return call from that attorney. Mr. Stockstill said, assuming the litigation is not an impediment to the FRS investment, then one thing the FRS board needs to decide is if it is alright with two entirely different Oppenheimer funds, neither of which is the fund that FRS is considering investing, that entered into a settlement order with the SEC instituting an administrative cease and desist order. The two funds were also censured and ordered to pay disgorgement, prejudgment interest and a civil money penalty, totaling approximately \$35.5 million. Mr. Stockstill informed the board that he is obligated to bring this to the board's attention that Oppenheimer has disclosed this SEC action against them as part of their disclosure process. If the board does not have any

problem with any of this information, or the California or AAardvark lawsuits, then the OFI agreement will be signed.

Mr. Broussard asked if, as part of FRS' due diligence, was Oppenheimer asked who ultimately paid the fine, did they recoup any of the money from the funds? It is one thing for the management company to get a fine, but is it their practice and some funds do allow them to do this, to recoup those fines from the funds which then indirectly impact the investors. Mr. Broussard indicated he would have a problem with that. Mr. Stockstill stated that Oppenheimer did indicate that it was an OFI entity that paid all of the money, it did not pass through to the investors, but whether it was the management company or whether OFI actually hit the fund itself for those amounts they had to pay out, was not made clear by OFI. Mr. Broussard indicated he would like to receive some follow-up information to clarify that point.

Mr. Birdwell indicated he didn't have as much concern about the lawsuit issues as with the silo type structure of the investments where shareholders are all underneath several layers of funds. He asked if it is possible that one of the other shareholders who is a "friend" of the fund manager could find out information before other shareholders and liquidate before FRS even knew anyone was liquidating. Mr. Stockstill stated that the possibility of that type of scenario unfolding here is remote. Could it happen, yes, but the probability would be remote. Mr. Barnes stated that the other shareholders are invested in the other mutual fund share classes. FRS is investing in the I-Share class, that is the institutional share class, in the OFI Markets Trust Fund. Ms. Rogers said that the I-Shares are publically held as a mutual funds. Mr. Birdwell then said everything should be the same for all investors, meaning if one shareholder liquidated, he couldn't take the most valuable securities out of the fund and leave lesser valued securities in the fund, but instead everybody is treated the same. The only allowable difference would be the timing of your liquidation and where the market is priced when you choose to liquidate.

Mr. Stockstill also advised the board that in reference to the Oppenheimer lawsuits, when it was stated that the lawsuits did not involve the funds that FRS is invested in, that is one of the points that OFI made was that if there is a lawsuit against one of the other funds, then the losses are contained to that fund, it doesn't come out of the fund that FRS is invested in. The other point is that the lawsuit named a sub-advisor to OFI as a defendant, and FRS has the same sub-advisor. The ill-practices complained of for the sub-advisor, FRS has that same sub-advisor, which is information the board needs to know. The sub-advisor has many employees, so that doesn't necessarily mean that the employee who was accused is also sub-advising FRS' fund, but you need to be aware of the nomenclature of the OFI structure. Mr. Stockstill indicated to the board that he will be following up with Oppenheimer regarding these matters and if any of the board has further questions or concerns to please advise.

Chairman Fredieu asked if this amount of litigation was normal. Mr. Broussard answered by stating the short answer is yes, and continued by saying that when FRS does due diligence on the broker-dealers the system does business with, they are the Who's Who of Wall Street, Goldman Sachs,

Morgan Stanley, Barclays. If you pull those companies regulatory reports, everyone of them is involved in litigation every year without exception. It is the nature of the beast. If someone loses money, if they are wealthy, they hire a lawyer and they sue.

Ms. Rogers stated that the litigation had to do with municipal bond funds, which is totally different than what FRS is looking at. Mr. Broussard added that the silo approach, given the nature of the evolving regulation of investment management, everybody is going to a silo approach because you try to limit any kind of liability into a certain fund and protect the other investors in other funds from that liability spilling over into theirs, just as if FRS is invested in Fund A, and Fund A is investing in large cap equity, Fund D is investing in emerging markets and something goes wrong in Fund D, FRS doesn't want them coming to Fund A and taking money to pay the fines for Fund D. Some of it is just good common business sense, it is a way to limit liability from spilling over and having a domino affect.

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

- Timbervest, LLC

Mr. Barnes advised the board that the SEC (Securities Exchange Commission) filed administrative cease-and-desist proceedings against one of FRS' real estate managers, Timbervest. The charges brought against Timbervest and four of its principals are based on two essential allegations, that an unauthorized sale of assets was engaged in by the fund to an affiliated fund, and unauthorized and undisclosed commissions were received by the principals associated with the sale of the assets.

Mr. Barnes stated that the allegations of the sale of the assets are no way related to the funds that FRS is invested in. It is related to a single, separate account that was owned by a single ERISA client. The investigation started in December 2009 when the SEC came in to investigate Timbervest's valuation policy. Three years later, the SEC cleared Timbervest, issued a Wells Notice which cleared Timbervest of any valuation issues, but it did bring charges related to this transaction the SEC claims to have uncovered during that three year investigation.

Mr. Barnes continued by saying the next step is that Timbervest will have their day in court, they will have an opportunity to defend themselves at the hearing. The action hasn't tripped any clauses that would allow them to be removed as a GP at this point, because at this point it is an allegation and a charge by the SEC but there has been no conclusion. The investments that FRS is in are closed-end funds with no opportunity to immediately withdraw the funds, even if the board did conclude that it wanted to withdraw. Again NEPC is required to and are providing this notice. There is no clear time line, no court date set for the hearing. NEPC will continue to monitor the situation and will continue to produce memorandums, and if necessary, recommendations.

Mr. Broussard asked if NEPC has other Timber managers in its approved management firms. Mr. Barnes indicated he was not sure how many Timber managers NEPC has as it typically has not been

proponents of timber allocations. Mr. Barnes indicated NEPC does have other clients invested in Timbervest, but not the fund that was impacted.

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

This concluded the committee report of the Investment Committee.

### **CORRECTION OF DISABILITY BENEFITS**

Mr. Stockstill reminded the board regarding the correction of disability benefits for Mr. Randall Matthews which was approved by the board at the October, 2013 board meeting. He said there is an additional administrative correction to benefits that needs to be made to account for benefits paid in calendar year 1995-2005.

Mayor Foster asked Mr. Starns for the amount of back payment from 1995 to 2005 (excluding interest) that is due to Mr. Matthews. Mr. Starns indicated the amount as of November, 2013, the underpayment owed to Mr. Matthews was \$30,641.13.

MOTION: Mayor Foster moved to authorize payment to Mr. Randall Matthews in the amount of \$30,641.13. Mr. Tarleton seconded. The motion passed.

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

### **JEFFERSON PARISH CIVIL SERVICE/RETIREMENT ENROLLMENT MATTER**

Mr. Stockstill introduced this business item as a matter concerning claims of possible impropriety which is being asserted by certain employees of the Jefferson Parish government, relative to the parish's alleged failure to enroll certain employees in FRS and benefits being allegedly improperly received by certain employees. He asked the FRS chairman to recognize the parish employees and then the attorney for Jefferson Parish, all of whom were in attendance. He said the subject matter would become clearer after the board hears the allegations and defenses.

Mr. Bob Burkett addressed the board. He said the subject matter he wished to discuss concerned, first, people being improperly classified and not participating in FRS; and, second, he said there may be spiking of earnings by improper reporting of unscheduled, irregular overtime, for some employees that results in them having an average final compensation that is artificially inflated. Mr. Burkett provided a lengthy explanation of the facts that he alleged to substantiate his allegations.

Next, Mr. Edward Rapier, Deputy Parish Attorney for Jefferson Parish addressed the board. He was accompanied by Mr. Thomas P. Anzelmo, an attorney retained by the parish in an indirectly related lawsuit. Messrs. Rapier and Anzelmo discussed the facts from their perspective and which the used to contradict the allegations of Mr. Burkett.

**FIREFIGHTERS' RETIREMENT SYSTEM  
BOARD MEETING**

**NOVEMBER 14, 2013  
PAGE 15**

Mr. Stockstill asked Mr. Rapier the following question- If any interested party chose to bring the issue to court for a declaratory judgment, would the court rule that the lawsuit is premature, that the issue is not yet justiciable?

Mr. Rapier said he believed that the Jefferson Parish Fire Civil Service Board would have to make certain decisions before the issue would be ripe for judicial action. He said the administrative body that has the duty to make the determination as to whether the appointing authority is putting people in the right classification or not is the fire civil service board. They have to make the first decision and if there is disagreement about their decision, then a party could take it to court. All the information, the final determination or the initial determination with the body that has the right and the duty to make that determination hasn't been made and may not be made, at the earliest, until the end of the year.

Mr. Robert S. Lawrence, deputy state examiner of the Office of State Examiner, addressed the board and explained the position of his office. He said that the issue is at a juncture now where we will probably see some movement from the Jefferson Parish civil service board after their December 2013 meeting.

After a lengthy and thorough discussion, including questions asked by all board members, the subject matter was concluded without any action being needed or taken.

**ADJOURNMENT**


Chairman Fredieu adjourned the board meeting due to a lack of quorum.

**FUTURE MEETINGS**

**FRS Board of Trustees  
3100 Brentwood Drive  
Baton Rouge, Louisiana  
Monday, December 16, 2013 at 2:00 p.m.  
Tuesday, December 17, 2013 at 8:30 a.m.**

SUBMITTED BY:

APPROVED BY:

  
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Susan L. Waite, FRS Board Secretary  
(Steven S. Stockstill, FRS Exec. Dir.)

  
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Mr. Charles Fredieu, FRS Chairman