



FIREFIGHTERS 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 JUNE 18, 2009

A meeting of the board of trustees was held on June 18, 2009, at the Public Safety Building in Baton Rouge. Mr. Charles Fredieu, Chairman, called the meeting to order at 8:30 a.m.

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

Ms. Kelli Chandler called the roll.

MEMBERS PRESENT

Charles Fredieu, Chairman
Mayor Clarence Hawkins
Sammy Halphen
Stacy Birdwell
Mayor Jimmy Durbin
Paul Smith
Mrs. Barbara Goodson

OTHERS PRESENT

Steven Stockstill
Kelli Chandler
Jason Starns
Gary Curran
Joe Meals
Ronny Partain
Gary Welchel
Phyllis Kyle
Cappy Johnson
Eldon Ledoux
Mike Gallagher
James Wilson

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MINUTES

MOTION: Mr. Birdwell moved to adopt the minutes of the board meeting held on May 21, 2009. Mayor Durbin seconded. The motion passed.

APPLICANTS

- New Members

PROCEDURE: Each enrollment application is reviewed by staff to determine eligible job classification, date of hire, employer certification, and medical waiver information. Each application for membership was complete and submitted in accordance with all applicable state laws.

Mr. Jason Starns presented the list of new member applicants. (see attached Exhibit #1) He stated that all applications were in order.

MOTION: Mr. Birdwell moved to approve the new member applicants. Mr. Halphen seconded. The motion passed.

- Retirees

PROCEDURE: Written notification of retirement is received and the member's file is reviewed for proper documentation and to determine that the applicant meets the legal criteria necessary to receive payment in the form of a monthly retirement benefit. Calculations for retirement are performed by the benefit analyst and verified by the system's administrator. All retirement applications were submitted and benefits calculated in accordance with all applicable state laws.

Mr. Starns presented the list of new retirees. (see attached Exhibit #2.) He stated that all applications were in order.

MOTION: Mr. Birdwell moved to approve the new retiree applicants. Mr. Halphen 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 retirement application is reviewed and the designated beneficiary's information is verified to match the documents submitted. [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

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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 Mrs. Beverly Bennett Graham, surviving spouse of Mr. Ray Graham. He stated that the application and all supporting documentation had been received, reviewed, and was in order. In addition, a review of the member's record was performed, and the survivor benefit calculation was completed per applicable state laws and any merger agreement.

MOTION: Mr. Halphen moved to approve survivor benefits for Mrs. Beverly Bennett Graham. Mr. Birdwell seconded. The motion passed.

Mr. Starns presented the application of Mrs. Helen Moses, surviving spouse of Mr. Chesley Moses. He stated that the applicant would receive the remaining balance in Mr. Moses' DROP account. At the time of his retirement, Mr. Moses had selected the maximum benefit; therefore, the applicant is not entitled to a monthly survivor's benefit.

MOTION: Mr. Birdwell moved to approve the application of Mrs. Helen Moses to receive the remaining balance of Mr. Moses' DROP account. Mr. Halphen seconded. The motion passed.

- Disability Recertification Applications

PROCEDURE: Once each year during the first five years following the initial board of trustees approval for disability retirement, and once every three-year period thereafter, all disability retirement members must undergo a medical examination by a State Medical Disability Board doctor who must recertify that the disability retiree continues to be disabled from performing his duties. This recertification is required for the continuation of a disability member's benefits. The State Medical Disability Board doctor's report has been provided to the board trustees.

Mr. Starns presented for consideration the disability recertification of [REDACTED]. According to the report by Dr. Stephen Wilson, the State Medical Disability Board doctor, [REDACTED] has disc disease in his lower back. Dr. Wilson also reported that [REDACTED] could return to work in a position that would not require him to lift more than 40 pounds or more than 20 pounds on a regular basis, and one in which he would only perform occasional bending, stooping, crawling, or climbing. In addition, Dr. Wilson was of the opinion that, within the above-referenced limitations, [REDACTED] could return to gainful employment; however, he could not return to work as a regular firefighter. Mr. Starns stated that, based upon the report by Dr. Steven Wilson, approval for continuation of disability retirement benefits and continuation of the requirement for disability recertification was recommended.

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MOTION: Mr. Birdwell moved to approve the recommendation of staff relative to [REDACTED] disability recertification. Mayor Durbin seconded.

A discussion ensued indicating that, although surgery is an option for [REDACTED], he had not had surgery. Additionally, [REDACTED] had undergone physical therapy, but Dr. Wilson did not renew the prescription for physical therapy because he was of the opinion that it would be of no benefit to [REDACTED].

MOTION: Mr. Birdwell moved to enter into executive session in order for the board to further discuss the privacy protected medical information pertaining to the applicant. Mayor Durbin seconded. The motion passed.

The board entered into executive session.

MOTION: Upon conclusion of executive session, Mr. Birdwell moved to return to regular session. Mr. Halphen seconded. The motion passed.

The board returned to regular session.

MOTION: The earlier motion by Mr. Birdwell and second by Mayor Durbin relative to [REDACTED] was taken up at this time. The motion passed.

MONTHLY FLASH REPORT - MAY 2009

Mr. Ronny Partain presented the monthly flash report for May 2009. (see attached Exhibit #3.) He began by noting that the overall fund was up/down as follows: 4.6% for the month of May as compared to the blended index of 3.7%; -19.8% for the fiscal year to date as compared to the blended index of -14.2%; -21.6% for the trailing 12 months as compared to the blended index of -18.6%.

Mr. Meals stated that the performance of Commonwealth Advisors is continuing to lag and suggested that Commonwealth appear before the board of trustees at the July meeting to provide an update on the status of its portfolio.

COMMITTEE REPORT - INVESTMENT COMMITTEE

[NOTE: The Investment Committee met on June 17, 2009, at the FRS office in Baton Rouge at 3:00 p.m. to discuss the business set forth in its posted agenda. Committee members present included committee Chairman Stacy Birdwell, Mrs. Barbara Goodson, Mr. Sammy Halphen, Mayor Clarence Hawkins, Mr. Paul Smith, Mr. John Broussard, alternate, and Mr. Charlie Fredieu, ex officio.]

- **Market Update**

Mr. Meals turned the board's attention to a document depicting key economic and market indicators prepared by Russell Investments. (see attached Exhibit #4) He discussed the leading indicators, which are credit risk, corporate debt, and market volatility, as well as the lagging indicators, including mortgage delinquencies, employment growth, consumer spending, and economic expansion. Mr. Meals then provided a brief synopsis of the graphs and charts contained in Exhibit #4.

- **Small/Mid Cap Manager Search Update**

Mr. Meals provided an update relative to the small/mid cap equity manager search. Presentations were made by Advisory Research, Inc., Artisan Mid-Cap Value Strategy, and Kennedy Capital Management in the Investment Committee meeting held on June 17, 2009. (see attached Exhibit #5) He stated that the recommendation was to terminate the Northern Trust S&P 400 Index, as well as the AXA Rosenberg portfolio, and fund a new account with Advisory Research, Inc.

MOTION: Mr. Birdwell moved the recommendation in the form of a motion. Mayor Hawkins seconded. The motion passed.

With regard to the S&P 500 Index, the recommendation was to liquidate the S&P 500 Index and to allocate those funds to Tradewinds.

MOTION: Mr. Birdwell moved the recommendation in the form of a motion. Mr. Halphen seconded. The motion passed.

- **Property Transfer Agreement - Nothing Left to Prove Property**

Mr. Meals discussed the fact that, in the May FRS board meeting, the board voted to pay off the existing \$21 million loan relative to the Nothing Left To Prove property in a secured position at a 9.25% interest rate. In addition, the board approved retaining the services of an attorney to represent FRS in this matter. Mr. Meals stated that Mr. Stockstill contacted and retained the services of Mr. Van Mayhall, who suggested that the transaction be structured and treated in much the same way as a repurchase agreement, which is common in the securities market. Mr. Mayhall had also suggested that the best way for FRS to protect its interest in the collateral, which is the property, would be to acquire the interest of the other parties for \$21 million and agree to sell that interest back to them at some date in the future for \$21 million plus 9.25%. The deed would be placed in an escrow account and if, in the future, any of the other parties decided to buy back their share, the deed would be available. He stated that Land Baron had concerns regarding the transaction, but after some discussion, they agreed that it would be the smoothest and least complicated way of structuring the transaction. Also, New Orleans Firefighters elected to pass on participating in the transaction due

to lack of available funds, and although MERS had available funds, they, too, declined to participate at this time. MERS expressed concern with committing funds for what might be a three-to-five-year period.

For clarification purposes, Chairman Fredieu asked what the procedure would be when a piece of the property is sold. Mr. Stockstill responded that the interest of the co-owners in the property would be preserved by a deed placed in escrow and, in the event of a sale, they would have the option to buy back their interest in the property before that transaction occurred.

Mr. Birdwell asked if his understanding was correct that MERS and New Orleans Firefighters would be able to buy into and share in any sale of the property, to which Mr. Meals replied in the affirmative.

Mayor Durbin asked the percentage of ownership that Land Baron and MERS would have if they exercised the option to buy back their interest in the property. Mr. Meals answered that they would be buying back the same percentage that they are selling to FRS. He explained that they would have to pay FRS the \$21 million plus the 9.25% return.

Mayor Durbin then asked if they would have the option to buy less than their original percentage at 9.25%. Mr. Meals responded that they could buy back their interest each time a parcel of land is sold.

Chairman Fredieu inquired as to whether the agreement had been finalized, to which Mr. Stockstill responded in the negative. He referred to a document entitled "Property Transfer Agreement," which had previously been distributed to the members of the board. (see attached Exhibit #6) He explained that the attorney for Land Baron drafted the Agreement, and Mr. Mayhall will review it on behalf of FRS.

Mr. Stockstill went on to say that a motion to approve the agreement at this time is not necessary; however, a motion is required to adopt the strategy proposed by Mr. Mayhall.

MOTION: Mayor Durbin moved to adopt the strategy proposed by Mr. Van Mayhall relative to structure of the Property Transfer Agreement. Mr. Halphen seconded. The motion passed.

- **Actuarial Method for Valuation of Assets - Employer Contribution Rate**

Chairman Fredieu requested that Mr. Gary Curran, FRS actuary, discuss his estimates of the employer contribution rate.

Mr. Curran began by stating that, when the expectations for the increase in costs to the cities were first discussed, he provided an initial estimate based on what he referred to as "status quo," but felt

that he did not want to maintain the status quo, rather he preferred to make changes to help alleviate the costs. He stated that it was a "balancing act," whereby it was necessary to moderate the cost increase as much as possible and, at the same time, maintain the solvency of the fund.

Mr. Curran referred to HB 540, introduced in the current legislative session, which provides for lengthening of the amortization period, which he said would have a small impact. He also discussed the change in the smoothing approach for actuarial gains or losses and that it would have a large impact. Mr. Curran went on to say that a range of possibilities were analyzed to determine estimates of the employer contribution rate. Based on the latest numbers contained in the April 30, 2009, Flash Report, if the current methodology is used, he estimated a 33.25% employer contribution rate for Fiscal Year 2011. [NOTE: Fiscal Year 2011 is July 1, 2010 through June 30, 2011.] However, he recommended the adoption of a modification of the current methodology used to determine the actuarial value of assets for the forthcoming valuation, which would result in an employer contribution rate of 23% for Fiscal Year 2011. He explained that, at this point, he did not want to place what he felt might be an unnecessary burden on the municipalities to pay too much money. He noted, though, that he expected the employer contribution rate to increase each year over the next several years, but if the market improved, the increases would not be as large.

The members of the board and Mr. Curran continued with a brief discussion on this matter. Mr. Curran assured the members that he would not recommend the adoption of the change in methodology for determining the employer contribution rate if he felt it would in any way endanger the health of the system.

[NOTE: Further explanation of the two methodologies used by Mr. Curran is contained in a letter from Mr. Curran to the FRS Board of Trustees dated June 2, 2009. (see attached Exhibit #7)]

MOTION: Mayor Durbin moved to adopt the change in the methodology used to determine the actuarial valuation of assets. Mr. Halphen seconded. The motion passed.

- **Renewal of Contract with G. S. Curran & Company, Ltd.**

The renewal of the contract with G. S. Curran & Company, Ltd., was presented for consideration.

MOTION: Mr. Birdwell moved to approve the renewal of the contract with G. S. Curran & Company, Ltd., for actuarial services to the system. Mr. Halphen seconded. The motion passed.

- **Renewal of Contract with Consulting Services Group, LLC**

The renewal of the contract with Consulting Services Group, LLC (CSG) was presented for consideration.

Mr. Birdwell stated that it was the recommendation of the Investment Committee to renew the contract with CSG, with the omission of the term of the contract, but preserving the clause allowing for termination of the contract at any time upon providing 30-days notice.

MOTION: Mr. Birdwell moved the recommendation in the form of a motion. Mayor Durbin seconded. The motion passed.

• **Orleans Capital Management - Build America Bonds**

Mr. Meals requested that Mr. Gary Welchel with Orleans Capital Management come forward to discuss the aspects of Build America Bonds (BABs).

Mr. Gary Welchel, executive vice president of Marketing, introduced Ms. Phyllis Kyle, portfolio manager and securities trader, and Ms. Cappy Johnson, research analyst. He stated that he and his colleagues would attempt to provide facts on BABs in an unbiased manner.

Mr. Welchel referred to a handout which provides information on BABs and includes a comparison of BABs to Corporate Bonds. (see attached Exhibit #8) He briefly touched on a portion of the information contained in the exhibit, then asked Ms. Kyle to continue with the presentation.

Ms. Kyle spoke about the government's role and the two types of subsidies being offered, issuer subsidy BABs and investor subsidy BABs. She noted that BABs are backed the credit of the issuer of the bonds, not the federal government, and explained the benefits and considerations of investing in BABs. In addition, she discussed the recent deals brought to the market and a comparison of the value of BABs versus corporate bonds.

Mrs. Goodson was of the opinion that BABs are good for municipalities and the state. It was her understanding that the federal government established this type of program so pension systems could have a safe quality bond at a higher yield for their investment portfolios.

Ms. Kyle stated that there is a market for BABs, and they are performing very well.

Mr. Meals informed the members that he contacted a representative of Barrow Hanley to inquire about BABs. He referred to a letter he received via e-mail from Barrow Hanley, which says, "We have not only looked at but purchased two BABs issues in the FRS account. Both were 30-year issues. One was from California and one was from the New York Metropolitan Authority. Both issues were priced at attractive new issue spreads, but have been sold as the spreads have compressed at their value, and we see more opportunities in BBB corporates. For example, the New York Metropolitan issued 30-year debt in April at a spread of 350, but today trades at a spread of 220 or 15 basis points higher in price. BABs offer good high-quality paper, but again, we see more opportunities elsewhere." Mr. Meals was of the opinion that, like with any other investment

opportunity that is looked at, price has a lot to say about whether it's the right investment decision to be made. There are other issues such as liquidity and credit, but there are different credit qualities being associated with BABs. As pointed out by Orleans Capital Management, Mr. Meals stated that BABs provide industry diversification. He told the members of the board that BABs are eligible for purchase in the system's portfolio; however, the decision on whether or not to own a BABs is best made by the system's fixed income managers.

Mrs. Goodson asked how the system could buy BABs and include them in their portfolios since they are municipal and government bonds, not corporate bonds.

Mr. Meals responded that BABs are taxable. He stated that it might be debatable as to whether it was mandated or not. He suggested that a letter be sent to Barrow Hanley asking for clarification on this issue.

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

- **AEW Partners VI, L.P.**

Mr. Meals stated that a request from AEW to extend the fund raising period was considered by the Investment Committee in its meeting held on June 17, 2009. (see attached Exhibit #9) The original investment in the AEW fund was to have its final close in August, 2009, but because of the market conditions, AEW has a number of potential investors who have requested that the final close be extended to March of 2010. Mr. Meals said he recommended to the Investment Committee that the extension be granted.

MOTION: Mr. Birdwell moved the recommendation in the form of a motion. Mr. Halphen seconded. The motion passed.

- **Correction of Certain Retiree Benefits**

Mr. Stockstill explained that board approval was necessary to address an administrative correction of an error in benefits. He referred to House Bill No. 825, relative to the District Attorneys' Retirement System, to allow a retiree to go back to work and add the new service credit to the former service credit rather than having two separate components to his benefit. Mr. Stockstill recalled that he had suggested, in the May board meeting, that FRS may want to consider introducing legislation along the same lines for its members. He stated that, at that time, Chairman Fredieu commented that FRS currently used that method for computing benefits of rehired retirees and, in fact, the board had adopted such a policy. Mr. Stockstill said that he disagreed and suggested that the board could not enact a policy in violation of the law. In addition, Mr. Curran stated that none of the retirement systems that were clients of his calculated benefits of rehired retirees in that manner. In discussions after the board meeting, Chairman Fredieu informed Mr. Stockstill that the FRS board had discussed

this issue and adopted the policy in the meeting held on August 9, 1991. After retrieving the minutes of that meeting, Mr. Stockstill then had a transcription prepared relative to the discussion on the issue at that time. According to the transcription of that discussion, the attorney for FRS at that time stated that there was nothing that prohibited such a policy and, in addition, later stated that there was no law governing the situation.

Mr. Stockstill then stated that he researched the statutes relative to the rehiring of retirees of all statewide retirement systems and how additional service credit is calculated for purposes of determining benefits for retirees who did not participate in DROP, as well as for those who did. He explained, though, that the correction of benefits is limited only to those retirees who did not participate in DROP. Mr. Stockstill told the members that, with the exception of the Firefighters' Retirement System, all other statewide retirement systems have provisions in the law addressing the issue. He turned the members' attention to a chart depicting the comparison of statewide system laws. With regard to FRS, benefits cease and contributions become payable, but a change in option is not permitted. The law says nothing relative to the calculation of benefits or service credit earned during reemployment of a retiree; therefore, based on the previously adopted board policy, his benefit is calculated using all years of service credit as though he had never retired the first time.

Mr. Stockstill stated that because there were a number of FRS retirees whose additional service credit had been treated as though they had participated in DROP, a correction of benefits for those retirees was necessary. The mistakes occurred after DROP was created.

Chairman Fredieu commented that, since the time the law was passed, many of the systems have changed their statutes relative to calculation of benefits. When DROP was instituted in the mid-'80s, language was included to address the benefit calculation of reemployed retirees who had participated in DROP. Before the merger of fire departments into FRS, he said he informed the cities of the law. Chairman Fredieu also commented that, in his opinion, the law did not necessarily increase the cost to the system, but may have resulted in savings when a retiree's benefit ceased upon reemployment.

Mr. Starns indicated that the benefits of three retirees needed correction; however, he had not yet performed the calculations and did not know what the cost would be.

MOTION: Mr. Halphen moved to approve the administrative correction of benefits, which would be retroactive, and the policy would only apply to retirees who had not participated in DROP or selected an IBO. Mr. Birdwell seconded. The motion passed. [NOTE: By limiting the action to members who had not participated in DROP or IBO, the affected members were reduced from three to one.]

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• **Legislative Update - 2009 Regular Session**

Mr. Stockstill brought to the attention of the members Senate Bill No. 261, which provides for streamlining state government.

ANNOUNCEMENTS

Chairman Fredieu announced that this was the last board meeting for Mayor Hawkins. He stated that he was proud to have served on the FRS Board of Trustees with Mayor Hawkins.

Mayor Hawkins was presented with a plaque from the members of board, with the following inscription: "Presented to Mayor Clarence Hawkins in honor of his dedicated service as a trustee of the Firefighters' Retirement System, 2002-2009."

Mayor Hawkins expressed his appreciation for having had the opportunity to serve as a member of the Board of Trustees, and that he was honored to have worked with the other trustees and staff.

ADJOURNMENT


There being no further business, the meeting was adjourned.

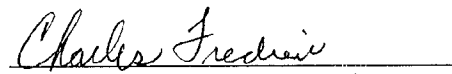
FUTURE MEETINGS

**FRS Board of Trustees
Public Safety Building
3100 Brentwood Drive
Baton Rouge, Louisiana
July 20, 2009, at 08:30 a.m.**

SUBMITTED BY:

APPROVED BY:


Janet Picard, Transcriptionist


Mr. Charles Fredieu, FRS Chairman