

APPROVED MINUTES

**LOUISIANA CLERKS OF COURT RETIREMENT AND RELIEF FUND
BOARD OF TRUSTEES MEETING
WEDNESDAY, SEPTEMBER 27, 2017
BATON ROUGE, LOUISIANA
9:00 a.m.**

A meeting of the Louisiana Clerks of Court Retirement and Relief Fund Board of Trustees was held on Wednesday, September 27, 2017 at 9:00 a.m. in Baton Rouge, Louisiana.

The meeting was called to order by President Rick Arceneaux. Steve Andrews gave the invocation and Brian Lestage led the Pledge of Allegiance.

MEMBERS PRESENT:

President Rick Arceneaux
Steve Andrews
Brian Lestage
Randy Deshotel
Mark Graffeo
Cliff Dressel
Lynn Jones
Louie Bernard
David Dart
Senator Barrow Peacock
Representative Barry Ivey

OTHERS PRESENT:

Debbie Hudnall, Executive Director
Phineas Troy, Summit Strategies
Claire Briddle, Summit Strategies
Denise Akers, Attorney
Greg Curran, Actuary

GUESTS PRESENT:

Kim Turlich-Vaughan, Frank Borne, Annie Smith, Margaret Corely, Dagmar Hebert, and Chris Kershaw.

PUBLIC COMMENTS: None

OATH OF OFFICE: Rick Arceneaux administered the Oath of Office to Retired Clerk Member, Louie Bernard.

Debbie Hudnall reported that the new Board Members have completed all the necessary education hours required in order to vote.

APPROVAL OF MINUTES:

Cliff Dressel moved that the minutes of June 28, 2017 be approved. Motion seconded by Steve Andrews. **MOTION CARRIED.**

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FINANCIAL REPORT: (ON FILE IN OFFICE)

Treasurer Randy Deshotel reviewed the financial report for June 30, 2017 as presented to the Auditors and July 31, 2017:

June 2017 -	Monthly Contributions	\$ 1,963,950
	Other Additions	\$ 75
	Investment Gain (Loss)	\$ 4,562,928
	Investment Expenses	\$ 790,832
	Deductions	\$ (3,386,145)
	Net Income (Decrease)	\$ 2,349,976
	Total Investments	\$ 561,237,808
	Total Assets	\$ 595,312,214

July 2017 -	Monthly Contributions	\$ 1,988,218
	Other Additions	\$ 61,953
	Investment Gain (Loss)	\$ 9,980,049
	Investment Expenses	\$ 53,978
	Deductions	\$ (3,530,552)
	Net Income (Decrease)	\$ 8,445,690
	Total Investments	\$ 571,026,359
	Total Assets	\$ 602,586,399

Mark Graffeo questioned about the cash flow from contributions and ad valorem/revenue sharing. Debbie reported on the amount received in contributions and the amount paid out in benefits. Cash flow projections may need to be re-evaluated in December.

A motion was made by David Dart to receive the financial reports. Motion seconded by Lynn Jones. **MOTION CARRIED.**

Debbie commented that this is the first time as Executive Director, a meeting has had 100% attendance of all members including the Senator and Representative.

Investment Committee

Mark Graffeo reported that the investment committee had met several times including earlier that morning and asked Phineas Troy to provide the report. Phinney reported on the review of the investment policy including updates to the language regarding Hedge Funds and updated target return on investments. He also commented on a recommendation to rebalance the portfolio to bring the asset allocation closer to the targeted allocation.

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Summit Strategies Group: (Report on file in office)

Phinney stated that the total fund composite was up 21 basis points for August and 2% for the FYTD. The Portfolio is up 12.2% from last August and had a positive performance outperforming the benchmark. Equities played a strong role with returns up 16% and International Equities are rebounding up 20% for the calendar year. Fixed income remains the defensive rock of the portfolio. Hedge funds trailed the benchmark but still had a positive return. Real Estate continues to do well, up 8% over the past year. MLP's did not perform as well, but since inception have a return of 7.5%. International stocks have done well with above average return; however, bonds have not had a strong return as expected. The portfolio as a whole is up 7.85% since inception. Representative Barry Ivey questioned if the returns were net of fees. Phinney stated that some are and some aren't; Fees for the whole portfolio range between 60-70 basis points.

Monthly Investment Performance Review: Phinney commented on the performance of several managers including Pyramis and Clarion. He stated that with the portfolio's diversification among managers, Summit has no concerns at this time with any of the individual managers.

PORTFOLIO PERFORMANCE – August 31, 2017

	2017	1 Mo	FYTD
Total Funds	\$ 599,878,315	0.21%	1.99%
US Equity			
QMA	\$ 57,343,729	0.35%	2.61%
Rothschild	\$ 32,092,521	0.04%	1.74%
Westfield	\$ 39,791,101	2.00%	4.94%
William Blair	\$ 21,955,167	-1.33%	-0.48%
Elk Creek	\$ 21,171,022	-3.01%	-2.41%
Intl. Equity			
TS&W	\$ 48,520,121	-0.74%	1.35%
LSV	\$ 49,381,818	0.38%	3.82%
William Blair	\$ 30,931,325	1.47%	5.81%
AJO	\$ 36,625,975	2.86%	6.96%
Fixed Income			
Pyramis	\$ 52,797,323	0.89%	1.55%
Pyramis (Tact)	\$ 26,646,099	0.57%	1.49%
SSgA Ag Bond	\$ 22,625,559	0.90%	1.33%
Hedge Funds			
Blackstone	\$ 24,330,691	0.88%	1.45%
Magnitude	\$ 23,904,385	0.85%	1.53%
Real Estate			
Clarion	\$ 50,433,592	0.00%	0.00%
MLP'S			
Harvest	\$ 14,857,502	-3.97%	-2.61%
Tortoise	\$ 14,941,118	-4.30%	-2.78%
Whitney – Cash	\$ 1,206		
DROP FUNDS	\$ 25,018,613		
Cash Funds	\$ 6,509,448		

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ECONOMIC UPDATE AND REBALANCING RECOMMENDATION: Claire Briddle with Summit Strategies reported on the expansionary period in GDP growth and that the current cycle is much longer than the average cycle in growth after periods of recession. Historically in bear markets, she commented on the typical combination of four conditions that have been in place: Recession, Commodity or Inflation spike, Fed Tightening and Elevated Valuations in comparison to today's market.

Phinney commented on the rebalance recommendation to bring the current asset allocation closer in line to the target allocations realizing gains in certain asset classes. He stated that the total equity level in the portfolio is overweight by 3.8% versus the target and Fixed Income is underweight by 2.2%. The rebalance recommendation is to liquidate from US Equities: Elk Creek \$1.5 million, Westfield \$6.0 million, William Blair \$1.5 million and liquidate from International Equities: LSV \$3.0 million and TS&W \$3.0 million. Summit further recommends funding Fixed Income and MLPs as follows: Pyramis \$4.0 million, Pyramis Tactical \$4.0 million, SSgA \$4.0 million, Harvest \$1.5 million and Tortoise \$1.5 million. Phinney stated that SSgA is a good holding place for possible cash flow needs in the future.

A motion was made by Mark Graffeo to accept the rebalance recommendation as presented by Summit Strategies. Motion was seconded by David Dart. **MOTION CARRIED.** Senator Peacock abstained.

INVESTMENT POLICY: Phinney presented to the Board the following recommendations to amend the investment policy:

(1) Additional Language regarding hedge funds (*Investment Policy pages 3 and 11*):

III. Responsibilities of the Investment Consultant (*page 3*)

3. Be independent and free from conflicts of interest. To ensure this, there shall be a separation of duties so that the investment consultant shall not: manage Fund assets, provide brokerage services or execute trades, or custody Fund assets. An exception to this provision is the Board may delegate selection of investment managers to manage Fund assets to the Investment Consultant through the use of its commingled fund structure(s) in an effort to reduce fees and improve overall portfolio efficiency. The Board acknowledges the potential perception of conflict of interest, however the Board is satisfied this perception is addressed through the Board's retention of full discretion over any investment in and all redemptions or withdrawals out of these funds, combined with independent, third party valuation and custody.

D. Hedge Fund Strategies: (*page 11*)

3. The hedge fund composite will target an allocation of 50% growth hedge funds, 25% income hedge funds, and 25% diversification hedge funds. Growth hedge funds aim to provide equity like returns with less volatility over a full market cycle. Income hedge funds target a return volatility profile similar to bonds with less reliance on interest rates and

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credit. Diversification hedge funds aim to provide low correlation to most growth and income assets as well as overall diversification during a market dislocation.

(2) Updated Target Return in Investment Goals (*Investment Policy page 9*):

- VII. Investment Goals A. Total Fund (*page 9*)
 - 1. Meets or exceeds the annual actuarial interest rate assumption (currently 87%);

(3) The elimination of the TIPS as a designated style within fixed income (*Investment Policy pages 10 and 16*):

VII. Investment Goals C. Fixed Income Investment Management (3)(*page 10*):

<u>Style</u>	<u>Peer Sample</u>	<u>Benchmark</u>
Core/Core Plus	Core/Core Plus	Barclays Aggregate
US TIPS	TIPS	Barclays US TIPS

VIII. Investment Guidelines (D) (3) (*page 16*):
Core Fixed Income TIPS

A motion was made by Brian Lestage to adopt the amendments to the investment policy as recommended by Summit Strategies. Motion was seconded by Mark Graffeo.
MOTION CARRIED.

ACTUARY:

Policy Amendment – Calculating Final Average Compensation and Creditable Service: Greg Curran commented on the ongoing discussion and development of a policy amendment to implement a set of rules that are followed regarding benefit calculations including application of the statutes and rules consistently. He asked for additional time to develop the amendment, have the attorney review interpretation issues, and scenario testing of the methodologies. Greg stated that he will provide a recommendation at the next meeting to present to the Board for approval.

Proposed Legislation – Retirees Return to Work: Greg stated that the plan does have limitations but has not eliminated the incentive to Clerks using retirees as a cost savings and not adding members to the plan. There has been a decline in the number of participating active members even though payroll has been level; however there has been an increased utilization of retired members. Greg stated that one possible way to address this issue is with legislation, adding a provision for employers to remit the employer contribution on all members whether active or retired. Lynn Jones questioned if this would affect the current 60 day limitation a retiree can work per year. His office utilizes retirees for their expertise. Debbie stated that a proposal to increase the number of days worked was being not considered at this point in time. Representative Barry Ivey questioned the current salary information on retirees returned to work.

Debbie provided the figures from January 2017 through August 2017 and the associated hours and total salaries. Louie Bernard questioned if the utilization was more from larger parishes or smaller parishes. Debbie reported that the major utilization was in larger parishes.

Greg further stated that the idea is reduce incentives. He would suggest a time delay if the idea was to expand the 60 day limitation and reduce the incentive for members to retire early. He reminded the Board on the need to be consistent and ways to avoid future cost pressures to the Plan and funding. There was further discussion on the reasons why Clerks' offices hire retirees and how other systems handle this same issue. David Dart asked if the Actuary could provide numbers on the effect of the employer contribution being remitted on the retirees. Representative Ivey asked if the Board had the authority to extend the 60 day limitation. Greg commented that extension of the day limitation would require legislation. Debbie stated that she has brought this issue to the Board in previous meetings and that the deadline to prefile bills is January 3rd. President Arceneaux commented on the need to implement a change and that requiring the remittance of the employer contribution on retirees returning to work would be a start. There was further discussion regarding cost shifting, age of retirees returning to work and the difficulty providing projections as the information is not included in the valuations and depends heavily on assumptions and possible behavioral changes.

After further discussion, a motion was made by Cliff Dressel to propose legislation to provide that Clerks be required to remit employer contributions on any rehired retiree. Motion was seconded by Representative Barry Ivey. **MOTION CARRIED.** Representative Ivey further agreed to author the bill. There was further discussion regarding the effective date and notification to the members as well as software and form changes.

Proposed Legislation – R.S. 11:723: Debbie stated that at the previous Board meeting she had brought to the Board the possibility of legislation regarding an exemption for the Clerks on R.S. 11:723(c), in regards to member employed in other statewide systems specifically Teachers Retirement. Greg commented on the area of risk this presents if a person was in Teachers and then became employed by the Clerk. There was discussion regarding transfers and reciprocals. A motion was made by Louie Bernard to propose legislation to amend R.S. 11:723(c) to include an exception for the Clerks Retirement Fund. Motion was seconded by Brian Lestage. **MOTION CARRIED.**

Greg concluded that work on the Clerks' valuation is in progress and that it will be presented at the next meeting.

APPLICATIONS AND REFUNDS: (On file in office)

Debbie reported that since the June Board meeting there were 24 applications for DROP; 7 applications for regular retirement; and 12 Post DROP retirement applications. Cliff Dressel moved that the applications be approved. Motion was seconded by David Dart. **MOTION CARRIED.**

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Debbie further reported there had been 21 refunds in the amount of \$157,904 for the fiscal year.

EXECUTIVE DIRECTOR REPORT:

Agreed upon Procedures Report: Chris Kershaw presented his final report on the findings at St. John the Baptist Parish during last year's GASB 68 audit. He reported on an error with the Clerk's Salary. He has been in communications with the deputy Clerk handling payroll and a list of corrective actions has been sent. The parish now utilizes an outside payroll service and payroll procedures have been updated.

Cyber Liability Insurance: Debbie commented on the seminar at LAPERS regarding Cyber Security and informed the Board that she had met with the IT provider and is working to develop a policy. She also reported she had received quotes on cyber liability insurance with rates based on revenues ranging from \$6,700 to \$13,000. She is waiting on quotes from two other providers. There was discussion regarding how the premium is determined. Representative Ivey commented on the need to have a policy in place and developing an action plan including notification to members and immediate damage control including offering free credit monitoring. Louie commented on this being an on-going issue with Board will need to monitor. Representative Ivey offered to provide more information and assistance to Debbie regarding cyber security. Debbie will continue to gather information and provide an update to the Board at the next meeting.

Education Hours: Debbie reported that all the Board Members had completed the required education hours for 2016-2017 and that a report acknowledging the same would be submitted to the Legislature as required by law.

LAPERS: Debbie commented on the recent LAPERS seminar and those who attended.

She further reported that the auditors had conducted their field work at the Association.

ATTORNEY

Approval of Legislative Change in regards to IRS Regulations: Denise Akers reported that she had been working with the tax attorney on the qualified plan status. One of the changes required by the IRS could either be done by administrative rule or statutory. Denise suggested a statutory change as required by the IRS to R.S. 11:1532 adding the following clause: "Any roll over to a non-spouse beneficiary shall only be made to an inherited individual retirement account (IRA) established for the non-spouse beneficiary in accordance with Internal Revenue Code 402 C 11." Denise explained that an inherited IRA requires a minimum distribution immediately, but if a spouse is the beneficiary that a distribution is not immediately required. This change is required for a qualified plan. Mark questioned in what type of situation this would occur. Denise commented it could occur with a DROP rollover or Refund of Contributions.

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A motion was made by David Dart to introduce legislation to amend R.S. 11:1532 to add "Any roll over to a non-spouse beneficiary shall only be made to an inherited individual account (IRA) established for the non-spouse beneficiary in accordance with Internal Revenue Code 402 C 11." as mandated by the IRS. Motion was seconded by Brian Lestage. **MOTION CARRIED.** Senator Barrow Peacock agreed to author the bill.

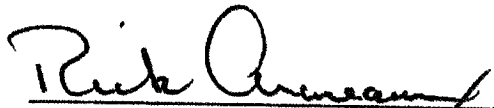
OTHER BUSINESS: No other business.

COMMENTS BY BOARD TRUSTEES: None


There being no other business, David Dart moved that the meeting be adjourned. Motion seconded by Cliff Dressel. **MOTION CARRIED.**

MEETING ADJOURNED.

Approved:


Rick Arceneaux, President

Respectfully submitted,


Debbie D. Hudnall, Executive Director