LOUISIANA CLERKS OF COURT RETIREMENT AND RELIEF FUND
BOARD OF TRUSTEES MEETING
THURSDAY, DECEMBER 12, 2013
NATCHITOCHES, LOUISIANA
9:00 AM

A meeting of the Louisiana Clerks of Court Retirement and Relief Fund Board of Trustees was held on Thursday, December 12, 2013, at 9:00 AM in Natchitoches, Louisiana.

The meeting was called to order by President Tammy Foster. Steve Andrews gave the invocation and Cliff Dressel led the Pledge of Allegiance.

MEMBERS PRESENT:
President Tammy Foster
Diane Meaux Broussard
Carl Broussard
Mark Graffeo
Gary Loftin
Hart Bourque
Cliff Dressel
Bill Hodge

OTHERS PRESENT:
Debbie Hudnall, Executive Director
Jessica Portis, Summit Strategies
Gary Curran, Actuary
Denise Akers, Attorney

GUEST PRESENT:
Jon Gegenheimer, Jim Marvin, Brian Lestage, Steve Andrews, Louie Bernard, Chris Crow, Darlene Landry, David Dart, Greg Brown, and Louis Perret

APPROVAL OF MINUTES:
Cliff Dressel moved that the minutes of October 24, 2013 be approved as presented. Motion seconded by Gary Loftin. **Motion carried.**

COMMENTS BY PRESIDENT:
President Foster thanked everyone for their attendance and thanked Louie Bernard for the previous night's activities.

FINANCIAL REPORTS: (ON FILE IN OFFICE)
Treasurer Mark Graffeo presented the financial reports for October 2013.

OCTOBER 2013 -	Monthly Revenue	$ 1,966,818
	Other Additions	$ (21,891)
	Investment Gain (Loss)	$ 11,192,694
	Investment Expenses	$ (173,277)
	Deductions	$ (2,628,710)
	Net Income (Decrease)	$ 10,335,635
	Total Investments	**$ 447,728,013**
	Total Assets	**$ 471,652,182**

Motion was made by Gary Loftin to receive the financial reports. Motion seconded by Cliff Dressel. **Motion carried.**

INVESTMENT COMMITTEE REPORT:
Gary Loftin reported that the Investment Committee continues to hold monthly conference calls. He said at the last meeting the Committee discussed recommending to the Board the termination of IronBridge, and to replace them with two other money managers. He said the Committee also discussed Summit's fees. He said their current fees were $100,000 annually and had not been changed in 8 or 9 years. He said the Committee would like to recommend to the Board that their fees be increased to $125,000 annually. He then asked Jessica to further discuss each of the issues.

Jessica Portis related to the Board that IronBridge was retained in 2008 and since inception had returned 11.6%, trailing the index by 155 basis points on an annualized basis through October 2013. She said the performance of the strategy had been negatively influenced by quantitative easing induced factors. The increased liquidity afforded by the easing strategy had disproportionately benefited lower credit quality companies and those with less liquidity; not securities favored by the IronBridge process. She said that Summit recommends the Board terminate IronBridge and split the allocation into value and growth components. She said Summit has higher conviction names that are expected to benefit the portfolio allowing it to perform better in more economic environments.

On the growth side, Summit recommends hiring Elk Creek Capital Management which is a fundamental stock picking growth manager which is an employee owned shop. Jessica said that on the value side, they would recommend William Blair, who is already an existing manager for the fund. She said they have a dedicated value team that implements a stock picking strategy and focuses on downsize risk. They believe that the combination of these 2 managers will outperform and be more consistent than IronBridge.

Hart Bourque moved that as recommended by Summit that IronBridge be terminated and that the funds be divided between new managers Elk Creek Capital Management and William Blair. Motion seconded by Mark Graffeo. **MOTION CARRIED.**

Jessica said that with respect to Summit's fees, that the current fees had been in place since 2005, and they requested that the full Board approve the Investment Committee's recommendation. Mark Graffeo moved that Summit's fees be increased from $100,000 to $125,000. Motion seconded by Cliff Dressel. **MOTION CARRIED.**

Jessica stated that the Investment Committee also discussed changing the International Equity composite benchmark from MSCI EAFE (Net) Index to MSCI ACWI ex-US(Net) Index because the current index does not include emerging markets. The MSCI ACWI ex-US (Net) Index is representative of non-US equities across the globe including emerging markets which is much more reflective of the portfolio. She said there was no action required the Board, but was merely an informational item.

SUMMIT STRATEGIES: (Report on file in office)
Jessica briefly reviewed the preliminary November report in order to provide time for the managers that were present today. She stated the stock markets continued to advance in November while bonds have struggled. She said you would probably see the first negative year for the fixed income market since 1994. She also pointed out that Vontobel and Mondrian had under performed in the international markets and that the Investment Committee would be monitoring them over the coming months. However, for the calendar year, Jessica reported a 16% return which is 2% ahead of the bench mark.

PORTFOLIO PERFORMANCE

	SEPT 2013	3 MOS	FYTD
Total Funds	$436,795,058	4.56%	4.56%
US Equity			
QMA	$ 44,958,755	5.21%	5.21%
Rothschild	$ 25,603,431	5.43%	5.43%
Westfield	$ 34,951,970	10.33%	10.33%
IronBridge	$ 35,286,558	7.92%	7.92%
Intl. Equity			
Vontobel	$ 62,804,990	5.55%	5.55%
Mondrian	$ 11,860,901	11.17%	11.17%
William Blair	$ 11,772,496	12.11,%	12.11%
DFA	$ 21,262,181	7.14%	7.14%
Fixed Income			
Pyramis	$ 62,195,615	1.06%	1.06%
SSgA Tips	$ 12,288,684	0.69%	0.69%
Hedge Funds			
Blackstone	$ 20,023,807	1.97%	1.97%
Magnitude	$ 19,965,713	0.30%	0.30%
UBP	$ 2,176,638	-0.58%	-0.58%
Real Estate			
Clarion	$ 42,030,426	2.65%	2.65%
MLP'S			
Harvest	$ 14,781,211	0.91%	0.91%
Tortoise	$ 14,341,507	1.01%	1.01%
Whitney -Cash	$ 490,179		
DROP FUNDS	$ 18,743,128		
Cash Funds	$ 3,709,077		

Jessica reported that Janet Yellen will become the new chairman of the Federal Reserve and she too believes that quantitative easing is beneficial. She said the markets are anticipating rising interest rates. She said that the Fund was well diversified, but in the near future she would anticipate some changes in the fixed income portfolio and the international portfolio.

ACTUARY REPORT:
Debbie asked Gary to make comments on the Back DROP letter he had written and if he would also comment on the request that had been presented to the Association the day before about increasing the 60 days retirees can work to 180 days.

Gary said he didn't have as long as he needed to do a full analysis on the Back Drop, but he determined that if you eliminated the existing DROP plan going forward and only had Back DROP; he estimated the cost to be about .9%.
He said they did not have time to estimate the cost if you added the re-calculation feature in which people would be allowed to rescind their previous DROP; however, they had calculated that in 2008 and the cost was about .7% for only 174 members that would be affected. He said there are now 215 members and on that basis, he would estimate the cost to be about .9% to 1% in addition to the .7%. He said because of rounding you probably would have to add an additional .25% that you could incur, so the total cost could run about 2%. He reminded the Board that this would require a two-thirds vote of the legislature of both the House and Senate. He said that his structural position on Back DROP is that it is much better than DROP, but the issue is the cost barrier. Gary said that the environment we are in both politically and financially is not conducive to changing to Back DROP. He said Back DROP is better for the deputies, but not better for the system.

Debbie asked Gary if DROP were to be rescinded and there was only Back DROP, would employees have to pay back the employee's portion that was not paid during the time they were participating in DROP. Gary said the employee portion would have to be paid back to the system.

Cliff reminded the Board that it was the recommendation of those present in the Association meeting the day before to not go forward with Back DROP.

Brian Lestage asked if Gary could comment on amending the law to allow retirees to work 180 days rather than 60 days. Gary stated that is difficult to put a hard cost to the issue, but there is indirect cost to the system. He said it presents two issues:

> It would entice some employees to retire earlier than normal because they could have dual incomes, and
> Secondly, you would have fewer active employees contributing to the fund in which to spread the cost.

Debbie pointed out that the number of active employees is already declining and total payroll has also been declining. Gary Curran stated the unfunded liability payments are increasing. He reported that in the last 5 years the number of active employees decreased by 160 and the retirees increased by 215 in the same period. He also said that in 5 years the amount of retirement paid out had gone up 8 million dollars.

Gary Loftin stated that by leaving it at 60 days, we are telling the Clerks you need to hire people that will continue to pay into the system.

There was no action taken.

MONEY MANAGER PRESENTATIONS: (Reports on file in office)

Westfield – Justin Moscardelli, thanked the Board for their business and said they he always enjoyed visiting with the Clerks because they were such a warm, personal and inclusive group which is incredibly unique and special. He reminded the Board that Westfield is located in Boston and they have $16.8 billion in assets under management and have 60 employees. They specialize in growth equities and their team approach allows analysts to have an impact on portfolios and creates a differentiated culture. They are 100% employee owned which aligns their interest with those of their clients.

Justin stated that they had been retained by the Clerks in August 2010 with an initial investment of $24 million and had withdrawn $5 million over the last four years, but the current market value is now $37.5 million. He shared with the Board that for year to date there was a 32.86% rate of return compared to the bench mark of 29.78%. The rate of return since inception is 20.72% compared to the bench mark of 21.72%. He said that since inception there had been 8 quarters and they had been able to outperform the benchmark 7 out of the 8 quarters. He said they had invested in 9 sectors for the Clerks and that for the past year 8 out of the 9 sectors are adding relative to the benchmark. He said that technology was the one detractor, but they expect technology to improve next year. He said they were very optimistic for U.S. stocks next year.

CLARION PARTNERS – Doug Wolski stated that it had been another great year for Clarion who handles the real estate portion of the Funds' portfolio. He said they had expected to have a 9% to 11% return, but it appears it would be more between 11% and 12% return for the year; so another healthy year for real estate returns. The added value to the portfolio came from income and good value appreciation with the dividend yield remaining strong at 4%. He said they had a larger year on sales than expected because they saw a lot of opportunity to continue to rebalance the portfolio. Doug reported they lowered their leverage ratio to 28.6% this year. He said the 3 year recovery was very good coming out of the down turn with a 15.36%. He said Clarion's 5-year return lags the index, but that was due to the 08-09 performance because of their high leverage. He said with the leverage problem corrected, they expect to be well above the 5-year index next year. He discussed the portfolio's diversification in the real estate market and said they had started concentrating more on the metropolitan areas rather than the regions. He detailed activities in each of the markets. He said they expect 2014 to be another good year for the fund. He said with the economy continuing to slowly recover there is not a lot of new building which make it a really good market for real estate. He said if it is a healthy recovery developers go out and build space that is not needed, but since it is slow recovery it helps the portfolio's income growth. He also discussed some of Clarion's new acquisitions. He said it had been a very active year for Clarion with both buying and selling in re-structuring the portfolio.

BLACKSTONE – Ryan Thackston gave a snapshot of Blackstone stating they have 1,750 employees in 25 offices globally. They are managing about $250 billion in assets strictly across the alternative segments. The Hedge Fund in which the Clerks' Fund is housed consists of $53 billion. He stated that it is a broadly diversified fund and had strong flows to the business this past year netting about $5 billion in net flows. He informed the Board that on the average, over 50% of the inflows in recent years have come from existing investors. He discussed the new hires for the past year and said there were about 230 professionals that work in the Hedge Fund section today with 94 of those in the investment side of the business. He discussed the composition of the portfolio. Ryan reminded the Board that the Hedge Funds were not a homerun type strategy, but more of a "steady Eddy" type strategy with low volatility. He stated that the net return of this strategy since inception in 1996 is 8%. He said this fund aims to capture significant market upside and provide downside protection. Ryan informed the Board that the return for 1 year was 9.9%; 3 years 5.5%; and 5 years 6.6%. Jessica asked if we could expect to see any major shifts in the fund allocations. He said they didn't expect any major shifts in allocations.

PYRAMIS GLOBAL ADVISORS – Gerard Branka, Senior Vice President, Relationship Manager, thanked the Board for their hospitality, their business and their trust. Earl McKennon, Fixed Income Investment Director, gave a brief overview of the Core Plus process. He showed the annualized returns of each of the major sectors of the Core Plus portfolio for the past 10 years. He informed the Board that as of October 31, 2013, the net assets of the Clerks' portfolio in Pyramis was $62,849,159 with a year to date return of .12%, or 1 year was .58%; for 3 years it was 4.75% and since inception in 2009 the return is 8.28% compared to the bench mark of 4.95%. He said the low interest rate environment over the last few years has had a real impact on the return rates of fixed income. He said fixed income performance has been negative year to date mainly because of interest rate volatility and the impact that the rate environment has had on fixed income this year is something they haven't seen since 1994. Earl said the good news is that they are ahead of the bench mark without taking on a significant amount of risk. He discussed the industry track record of predicting interest rates over time and showed that the industry overall really does a poor job in predicting interest rates over a time.

That is the reason they spend the bulk of their focus on security selections and sector allocations in order to add value for their clients. Jessica asked what the duration time that Pyramis was looking at and Earl said it was plus or minus 3 years. Earl said that their outlook for future inflation is that their expectation is that interest rates will stay relatively low. He said one of the things they did in the portfolio was to sell out of TIPS even though they had held them in the portfolio for 10 years and year to date TIPS market has been the worst sector in fixed income. Gerard said they do plan to expand their tactical approach in searching for yield.

APPLICATIONS AND REFUNDS: (On file in office)
Debbie reported there were 9 applications for DROP; 4 applications for regular retirement; 8 for post drop retirement; and 2 for disability retirement. Gary Loftin moved that the applications be approved. Motion was seconded by Cliff Dressel. **MOTION CARRIED.**

Debbie further reported there had been 35 refunds for the fiscal year in the amount of $297,503.

EXECUTIVE DIRECTOR REPORT:
Act 170 – Debbie asked if Gary Curran would explain Act 170 to the Board. Gary Curran informed the Board that the existing law requires that any statewide retirement system have a funded ratio in excess of the target ratio in order to grant a COLA. He said that currently the target ratio for the Clerks is 95% and the current ratio of the Clerks' fund is 71.76%. Gary said that under those laws that as far as you can reasonably see into the future, you would not be able grant a COLA. He further explained that Act 170 allows the ability to use a different standard in order to grant a COLA if so elected into. Under Act 170, a COLA could be granted if:

1. The funded ratio is 90% or more and a COLA hasn't been granted in most recent fiscal year
2. The funded ratio is 80% or more and a COLA hasn't been granted in most recent two fiscal years
3. The funded ratio is 70% or more and a COLA hasn't been granted in most recent three fiscal years

Gary informed the Board that if they elected into Act 170, then by virtue of this statute they would be able to grant a COLA. He reminded them there are other restrictions in granting COLAs. He said they would have more flexibility in granting a COLA under Act 170 than under the old statute. Gary said for practical reasons, it makes sense for the Board to elect into the new Act. Cliff Dressel moved that the Board make an irrevocable election to have future benefit increases for retirees, survivors, and beneficiaries governed by Act 170 R.S. 11:243. Motion seconded by Gary Loftin. **MOTION CARRIED.**

Debbie then reminded the Board that 2007 was the last time that a COLA had been granted to all retirees and that in 2008 a COLA had been granted to those 65 and older.

The COLA granted in 2007 was 2.5% but could not exceed $40.00 per month. Debbie further reminded the Board that according to Gary's Actuarial report there are two scenarios in which they could possible grant a COLA and she again asked Gary to explain those two options. He explained the two different options:

1. 2.5% of each retiree's current benefit subject to a limit of $40 per month
2. A+B times $1.00 (A represents the number of years of credited service and B represents the number of years since retirement)

He said they estimated the impact on the system of either of these two COLA to increase the normal cost by about one-half of one percent. He said in the past, the Board had picked up the increase at the next evaluation, but because the Board has the ability to set the rate above the minimum he would recommend that it be done now which would change the rate from 18.5% to 19%.

Attorney, Denise Akers, informed the Board that some Legislative staff had opined that Boards could not approve COLAs without a two-thirds vote of the legislature. Denise said she had reviewed the law and that she disagrees and she said both she and Gary interpret it the same way. She said the basis of Legislative staff's opinion is that a constitutional change in 2010 was made that says all benefit provisions must be approved by two-thirds vote. She said that there is already a provision in the statute that gives the Board the authority to grant a COLA so that the exercise of that statutory authority would not be imposing a benefit provision. It would only be granting a benefit as authorized by prior provisions of the law. Thus, she did not see it as a problem.

Gary Loftin moved that a COLA be granted effective January 1, 2014, which is A (number of years of service) plus B (number of years since retirement) times $1.00 be granted and further that the employer rate be increased to one-half percent above the minimum required rate as approved by PRSAC. Motion seconded by Bill Hodge. **MOTION CARRIED.**

City of New Orleans (Attachment) – Debbie reminded the Board that each year since the City of New Orleans entered into the Consent Judgment related to the ad valorem taxes paid to the Retirement Fund, the Board had adopted a resolution requiring the State Treasurer to pay from the Revenue Sharing monies of the City of New Orleans the required amount of ad valorem taxes to the Retirement Fund. Cliff Dressel moved that the attached motion be adopted. Motion seconded by Carl Broussard. **MOTION CARRIED.**

Computer System Upgrade – Debbie reported that although the new software for the Retirement system had been a painful process it was getting closer to completion. She stated that it had been dual work for the staff for a year now, but they were continuing to work through it.

Fee Increase for Transfers - Debbie reported that when someone request to transfer from another retirement system to the Clerks' retirement system, it has to be sent to the actuary to calculate the costs. She said the System had been charging the members $40.00 for many years. She asked the Board to consider increase that fee because the actuary's cost had increased several times since the instating the $40.00 fee. Gary Curran said it is an indirect cost to the Clerks' Fund of $100 or more. Motion was made by Hart Bourque and seconded by Mark Graffeo to increase the fee to $100. **MOTION CARRIED.**

Gary Loftin asked how the actuary cost of GASB 67 & 68 will be funded. Gary Curran stated that it isn't quite clear at this time. He said it would affect both auditors and actuaries. He said he thinks they will issue separate reports for GASB 67 & 68 from the regular actuarial report and that a part of the GASB 67 & 68 will include an allocation table allocating the liabilities which will be given to the auditors to be passed on to each of the clerks' offices. The System will then have to decide if they will try to recapture the cost from the clerks or if the System will fund it. He said everyone is waiting to see what the magnitude of the cost will be. He said he is estimating a 20% to 30% increase in actuarial fees.

LATEC – Debbie reminded the Board again of the LATEC seminar that would be taking place in New Orleans in February.

Legislation – Debbie said that she wasn't aware of any retirement bills affecting the Clerks' Fund at this time.

There being no other business; motion made by Hart Bourque to adjourn. Motion seconded by Mark Graffeo. **MOTION CARRIED.**

MEETING ADJOURNED.

Approved:

Tammy Foster

Tammy Foster, President

Respectfully submitted,

Debbie D. Hudnall

Debbie D. Hudnall, Executive Director