

Approved Board Minutes

LOUISIANA CLERKS OF COURT RETIREMENT AND RELIEF FUND
BOARD OF TRUSTEES MEETING
WEDNESDAY, DECEMBER 9, 2009
NATCHITOCHES, LOUISIANA
9:00 AM

A meeting of the Retirement Board of Trustees was held on Wednesday, December 9, 2009, at 9:00 AM in Natchitoches, Louisiana.

The meeting was called to order by President Robby Barousse, who then called on Michael Thibodeaux to give the invocation. Cliff Dressel led the Pledge of Allegiance.

Members Present: President Robby Barousse, Louie Bernard, Mark Graffeo, Bill Hodge, Michael Thibodeaux, Hart Bourque, Gary Loftin, and Cliff Dressel were all present. Also in attendance: Executive Director, Debbie Hudnall; Actuary, Greg Curran; and Attorney, Randy Zinna, Members absent: Andy Barousse, Rep. Joel Robideaux and Sen. Butch Gautreaux. Guests present: Dot Lundin, Darlene Landry, Felicia Ann Hendl, Bert LeBlanc, Jerry Smith, Carl Broussard, Sammy Couvillon, Connie Couvillon, Malise Prieto and Auditor Michelle Cunningham.

APPROVAL OF MINUTES: Hart Bourque moved that the minutes of the previous Board meeting be approved as written. Motion seconded by Michael Thibodeaux. **Motion carried.**

COMMENTS BY PRESIDENT: President Barousse welcomed everyone and thanked Louie Bernard for hosting the meetings in Natchitoches. He said that he was happy that the stock market was showing improvement. He also reported that everything seemed to be going well at the Association office and he looked forward to the convention in New Orleans.

INVESTMENT CONSULTANT: Kari Creighton, Investment Consultant with Summit Strategies, was then contacted and placed on speaker phone to participate in the meeting. She reported there would be presentations by three money managers.

QMA: (report on file in office) Aileen Pinto, Vice President, thanked the Board for the confidence in their company by placing additional assets with them during the past year. She reported there had been no changes in management and they currently have about sixty-seven billion under management. They have the Clerks' Retirement funds invested in Large Cap funds. Stacie Mintz then explained the quantitative investment strategy of QMA and the performance of the funds. She reported that the performance had been strongly negative, year to date, based on what they had expected for the fund and that had affected the long term track record since its inception. There was a 21.40% rate of return; however it was 2.67% below the benchmark for year to date. The good news is that the absolute return was positive after having a very difficult year in the market in 2008.

There was a nice rebound in the second half of the year. She reported that another positive is that the trend had been picking up. Kari asked what had hurt their performance. Stacie said their process doesn't tend to do well at sharp turning points in the markets and the economy. She said they tend to do well if the market is trending up or down, but what happened is the market corrected about 50% from the beginning of the year to March 9th and then rebounded very strongly after that. Stacie pointed out that since the inception of the fund in 1997, there had only been three years where there were negative returns. They feel sticking to their investment process makes sense and that the stocks they own are poised to do well going forward. Stacie reported that the growth rate will be much slower in the future and that they are expecting single digit returns in 2010 and projecting eight to nine percent for the next 5 years.

Kari said that they feel the growth will be outside the United States and she would be pushing for more funds in the International markets. The QMA allocation will be brought down so more funds can be placed in International markets. She is recommending that the International be increased to 27%.

MONDRIAN (report on file in office) Todd Rittenhouse, Senior Vice President, made a presentation on behalf of Mondrian, who manages the International Small Cap Equity Fund. Todd reported that they manage over \$70 billion, primarily for institutional investors. Their client services office is based in Philadelphia and all of their investment professionals are based in London. The employees own 67% of the firm and can increase that to 73%. No one employee owns more than 10% of the equity in the firm. Todd explained their investment policy which is a value-oriented defensive manager. Dividend yield and future real growth play a central role in their decision making process. Todd reported that they visit every company they invest in every year. He reported that their portfolio performance has been less volatile than the International Small Cap Benchmarks. The clerks have only had funds with them for two months. Their return for October was .59% in comparison to the benchmark of a negative return of 2.41%. Their return for the month of November was 3.19% in comparison to the benchmark of .78%. Todd also presented the Board with a comparison of rate returns from different countries. Mondrian feels that it will be a slow long build back to profitability and they are proceeding cautiously with the companies they invest in.

CLARION (report on file in office) Doug Wolski, Assistant Performing Manager, made a presentation on behalf of Clarion, who manages the Real Estate portfolio. Steven Hansen the Portfolio Manager is located in Los Angeles and Doug is located in New Jersey. He reported that the CFO had left the company but had been replaced with a very strong individual, Amy Boyle. He reported the fund remains very strong at \$4.6 billion in assets with a net asset value of \$2.1 billion. He reported there are 155 investments in the fund across the country and that occupancy has slipped from about 94% to 89%.

There were also a lot of vacancies in the small retail businesses in the first quarter, but no meaningful vacancies in the retail business in the last six months. He reported that two large industrial properties in Dallas and Phoenix that remain vacant have also hurt the occupancy. He said he feels the occupancy rate is at the bottom and will begin to move upward. Doug said they have paid down approximately \$270 million of the debt. Their leverage ratio is 52.4% and their goal is to get it back to the 30% to 35% range. He said they continue to focus on the top performing markets where they have 38.9% invested in the west coast and the 34.7% invested in the east coast. They have 21% invested in D.C. He reported that office space is very poor performer in downturns and they started selling offices in 2006 and continued to sell in 2007 and 2008. He said offices tend to take a long time to recover because offices are tied to employment. Hotels are a different story; they then tend to recover first after a downturn because people will begin to travel whether it is for business or pleasure. He said they have not been in the acquisition mode for at least one year. They purchased one property (the Pioneer 360 near the new Cowboys stadium) in Arlington, Texas. They feel very strongly that this property will perform well in the future. Doug reported they had property sales of about \$750 million in 2008, but they did not sell property in 2009 because they were trying to avoid the bulk of the downturn.

Doug reported they had underperformed the index significantly the past year which they feel is due to two things: the leverage ratio going into the downturn was toward the higher end of the index and secondly, they appraise their properties every quarter so they feel they have marked their properties down more than their competitors have. He said they expect the end of write downs in the next year, but they do expect more write downs for the fourth quarter of 2009. As of September 30, 2009, he reported a negative rate of return of 45.81% however 3.71% rate of return since inception. Kari asked if there were any expectations of Clarion beginning to meet the redemption request. He said the investment queue is about \$379 million, but they know that the real queue is significantly less than that. Their intention is to raise cash and if they raise a decent amount of cash in the first six months of 2010 they would like to pay some of those redemptions. Kari asked if they had considered lowering their fees for investors. He said they had discussed it, but he didn't have an answer at this time. He said they feel the new organization of Clarion will be very positive.

Kari informed the Board that Clarion continues to be the biggest concern. She said they don't have a concern with the firm but with the market. They feel it will be 2011 before there is recovery in the real estate market and it will continue to be a drag on the performance of the portfolio. The real estate market has made up a large portion of the underperformance of the portfolio. The median public fund has about 2% allocated in real estate and we are at about 7% in our fund. Summit thinks real estate is still important in the portfolio going forward, but the past couple of years have been a dreadful environment for real estate. They think the recovery will be good, unfortunately it will be lagging. Kari said her concern right now with Clarion is their high leverage of over 50%. It sounds like they are managing it well, but it will take some time. She said it looks like their debt will be hitting the third year. She said we will stay in the redemption queue, but they are not looking to pay any of those until mid 2010. The clerks have been in the redemption queue for over a year.

PERFORMANCE: (report on file in office) Kari reported on the performance of the fund, stating that October had a negative return of 1.26% for the month with 8.14% rate of return for year to date. November was a good month, the equity markets were up between 3% and 6%. Domestic outperformed International in November. The markets are positive in December so far things are looking up. When you look at the performance of active managers in comparison to the bench mark, the Clerks' money managers underperformed. The Clerks' managers are holding more fundamental stocks while some of their peers are buying stocks that are lower quality and more momentum driven stocks.

The third quarter absolute returns of 9.52% were good, but relative returns were a little disappointing. Kari said she was more comfortable with the returns being below the benchmark at this time knowing that the Clerks' money managers are holding the more fundamental stocks. She said if she saw a manager outperforming in the third quarter, it would almost be a sign for her to look deeper at their process to ask how they outperformed. Kari informed the board that the policy index for the fixed income bench mark is probably not the most comparable, because the clerks' funds includes 5% Hedge funds and 7% real estate, but it is a broad based benchmark that allows the Board to see if the strategy is working over the long run. Obviously over the short term, it hasn't worked. The core fixed income side did quite well, but Kari reported that we are slowly getting out of the Northern Trust fixed income fund because they still have issues with the securities lending. The collateral pool they had been investing those funds in have been in just as much trouble as the rest of the fixed income markets being invested in mortgage back securities. The liquidity is improving, but it has been very slow in getting out of this fund. We have been pulling the funds out twice per month as it is allowed and then re-investing that in other areas of the portfolio. The more recent investments have been going to State Street TIPS which was up quite good. TIPS was up 2.8% in November where the other fixed income market was only up 1.3%. We have also been investing the Northern Trust funds in Pyramis (core plus).

Pyramis was up 7.1% for the quarter compared to the bench mark of 3.74%. Since inception, Pyramis had returns of 9.14%. Kari pointed out the negative \$123,522 under Securities Lending. She said that Northern Trust was lending the securities and investing that collateral to an investment pool. That investment pool had some difficulty with the securities they held. One was Lehman Brothers and the other was CIT and both of those have been written off. So the fund had losses related to Lehman and CIT. That represents \$19,398 and the clerks will have to pay that amount into the securities lending collateral pool to cover those losses. Debbie reported that she had already given a direction letter to Northern Trust authorizing them to pay the \$19,398. The \$123,522 was the total deficiency amount they expect to be in the pool. The collateral deficiency has now come down to about \$24,570 because the evaluation of those securities has come up. Kari said she expects the \$24,570 to be written off. Kari's recommendation is that the Clerks get out of the securities lending program when they can. Kari hopes that will happen early in 2010.

Mark Graffeo moved that the Clerks no longer participate in Securities Lending as soon as allowable. Motion seconded by Louie Bernard. **Motion carried.**

In November, Kari reported there was strong absolute and relative returns from all of International managers. Global Current, large cap managers, were up 4.2%. William Blair, small cap manager, was up 4% and Mondrian, small cap manager, was up 3.2%. DFA, emerging markets, was up 6.4%. The domestic money managers did well. QMA matched their benchmark and Iron Bridge was the only drag relative to the benchmark. Kari reported we are still working on getting out of the UBP (hedge funds), but it will probably still take some time to completely redeem from UBP. We have received about 50% of the UBP fund. We are currently holding what they call C shares and the performance is a little deceiving because there is a two month lag in the performance reporting. Kari said UBP was reporting a 3.1% return for November.

INVESTMENT POLICY STATEMENT: (proposal on file in office) Kari suggested that the Investment Committee should meet prior to the next Board meeting to review the new investment policy and then make recommendations to the Board.

Kari said that the Board might want to look at the possibility of a local bank as Custodian rather than Northern Trust. She said they would be working on that for the next meeting. Debbie suggested that the Investment Committee might also want to look at this to make a recommendation to the Board.

INVESTMENT COMMITTEE REPORT: Mark stated that the Investment Committee did not meet during the last quarter, but they will be meeting in the next quarter and giving a report at the next Board meeting.

AUDIT REPORT: (report on file in office) Michelle Cunningham with Duplantier, Hrapmann, Hogan & Maher, L.L.P. presented the Audit Report for the Louisiana Clerks of Court Retirement and Relief Fund for the period ending June 30, 2009. The fund received the highest and cleanest opinion you can receive in an audit. She reported that the assets exceeded liabilities by \$261,624,094 which was a decrease of \$60 million or 18.15%. The contributions by members and employers totaled \$16,972,147 an increase of \$347,880 or 2.09%. Total ad valorem taxes collected from all parishes except Orleans, totaled \$6,897,810 an increase of 13.33%. Funds collected from state revenue sharing funds totaled \$327,127 a decrease of 29.12%. The net depreciation in the fair value of investments was \$67,230,657 as compared to net depreciation of June 2008 of \$24,547,228. This was a result of the negative market returns. The total return on the Fund's investments for the year was a negative 19.3%. Pension benefits paid to retirees and beneficiaries increased by \$1,605,434 or 10.37%. The DROP benefits paid to participants increased by \$1.5 million an increase of 130.57%. Administrative expenses totaled \$366,394, an increase of 21.38% with a cost of \$99.00 per member. Michelle reported that the total assets for 2009 were \$298,053,828 compared to assets of \$346,380,762 in 2008. Michelle reported total investments without securities lending for 2009 was \$256,315,695 as compared to \$329,853,761 in 2008. She discussed the Funding Deposit Account which is the excess contribution collected by the Fund. She said that these funds need to be segregated out at least once a year and those numbers actually come from Gary Curran's office. The Funding Deposit Account had \$517,540 in it as of June 30, 2009. The only finding was that year end accruals should be recorded to properly state financial statements and they recommended that the required journal entries are recorded when needed. Hart Bourque moved that the audit report be approved. Motion seconded by Cliff Dressel. **Motion Carried**

FINANCIAL REPORTS (On file in office) Treasurer Bill Hodge reported total Revenue for July 2009 of \$13,941,173 and total Expenses of \$1,857,252 for a net profit of \$12,083,921. He reported for the month of August that total Revenue was \$7,551,029 and total Expenses of \$2,037,696 for a net profit of \$5,513,333. The month of September had revenue of \$6,434,590 and total Expenses of \$1,776,252 for a net profit of \$4,658,338. Bill reported a net loss of \$3,256,635 for the month of October, but a net profit of \$18,998,957 for year to date. The total Assets of the fund as of October 2009 was \$297,973,285.

The Treasurer also reported on the Retirement Administrative Fund for the months of July through October. He reported that for year to date revenue of \$350,183 and expenses of \$367,058. Debbie pointed out to the Board that the Retirement Fund is budgeted to transfer \$168,000 per month to the Administrative fund; however since the fund had a balance of \$825,000, monies were not transferred in September and October. Motion was made by Hart Bourque to receive the financial reports. Motion was seconded by Gary Loftin. **Motion carried.**

COMMENTS BY ACTUARY: (report on file in office) Greg Curran presented the Actuarial Valuation as of June 30, 2009. The minimum recommended rate for 2011 is 17.25% as compared to the 14.75% currently being paid. He cautioned the Board that this would continue to go higher because only a part of the bad markets had been included. Greg explained to the Board in detail how they determine that number. He reminded the Board that the plan paid approximately \$5.6 million toward the unfunded liability and that amount increases at 4.75% per year. Greg explained how they smooth the assets over a 5 year period with a corridor of 15% in either direction. He reported that although the market value was down 19.3% using the smoothing method it was only down 6.1%. He informed the Board that the \$517,540 in the Funding Deposit Account can be used when the Board so chooses to offset employer contributions. If it were used in one year to off set the contributions, it would be about .58%. They recommended that it not be used for a while because it will earn interest at 8% (the actuarial required amount). Greg informed the Board that they had determined that a decrease in the long-term assumed rate of return of 1% would lead to an increase in the required employer contribution rate of 9.63% of payroll. He reminded the Board that they are allowed to increase the 17.25% up to 3% which would give them additional funds in the Funding Deposit Account. Motion was made by Cliff Dressel to accept the Actuarial Valuation as of June 30, 2009, including the recommendation of employer contribution of 17.25%. Motion seconded by Michael Thibodeaux. **MOTION CARRIED.**

LEGISLATIVE PROPOSALS: (Exhibit 1, 2, & 3) Greg said they had been asked to present legislative proposals that would save money for the fund. There were several Options presented affecting new hires and active members. He said changes to new hires plan would take a long time to affect the fund because there is not a lot of turnover. Debbie reported that she presented the Options at several district seminars so that the Board was familiar with the Options and their savings; however at the meetings they had asked for a proposal for new hires that would have a 12 year vested rather than 10 year vested. Greg explained that would be a savings of .81% rather than .71% at 10 year vested for new hires. Debbie presented a copy of the survey of all of the clerks as to what Options they preferred. **(Exhibit 4)** Greg reminded the Board that they don't have to make any changes, but if they don't the employer contribution rates would probably be in the high 20% in five years. After much discussion, the Board asked that the actuary present further Options for reducing new hire benefits for the next Board meeting.

Mark Graffeo moved that Randy Zinna be authorized to advertise for proposed legislation and ask that the Actuary propose three or four options for Option 1 and to present it at a Board meeting to be held in conjunction with the Clerks' Institute in February. Motion seconded by Gary Loftin. **MOTION CARRIED.**

COMMENTS BY ATTORNEY: Randy Zinna reported that he had spoken to Alan Breithaupt about the New Orleans litigation and they were going to see what part of the settlement proposal is still on the table and to ask for a declaratory judgment.

Randy also reported that he had spoken to Art Smith, the attorney for Mrs. Blackledge, earlier in the week. He told her attorney he thought her best avenue was to purchase the small block of time that had been refunded, but he still gets the impression they still want to contest it. Randy said Art had submitted the protected order proposal which Randy said was fine, but no names had been produced.

EXECUTIVE DIRECTOR'S REPORT:

APPLICATION FOR RETIRMENT BENEFITS: (Exhibit 4) Debbie presented the Board with 23 DROP applications, 10 regular retirement applications and 3 disability retirement applications. Gary Loftin moved that the applications be approved. Motion seconded by Hart Bourque. **Motion carried.**

REFUNDS: Debbie reported there were 50 refunds made from July through November in the amount of \$318,883.69.

Debbie reported that she had submitted the Educational hours of the Retirement Board of Trustees to the House and Senate Retirement Committees as required by law.
(Report on file in office)

Debbie further reported that the Controller, Renee Graff, had given her two weeks notice and terminated employment on December 4th to become Controller at a new bank in Baton Rouge. She sent a card thanking all of the Board members for the opportunity she had been given to work for the Clerks. Debbie said that after speaking to Michelle Cunningham and others, she felt the best thing to do would be to hire a CPA that could come in and learn as much as possible about the Retirement accounting system in a very short time period. She received several resumes, but only interviewed one gentleman, Chris Kershaw, that Mark highly recommended because of the time constraints. After speaking with President Robby Barousse, Louie Bernard and Mark Graffeo, she offered to hire him on an interim basis on an hourly wage of \$30 an hour with the understanding that he would learn the system and then train the permanent

Louisiana Clerks of Court Retirement and Relief Fund
Board of Trustees Meeting, December 9, 2009
Page 9

employee that would be hired. She informed the Board that he had expressed that he may be interested on staying on full time. He had previously made a much higher salary at his former employment, but she told him that salary would not be available to him at the Clerks' Association; however she had explained to him the great benefits that the Clerks' Association provided. Debbie said Chris had been working for only one week, but had jumped into the work without any hesitation. She reported that she was continuing to review resumes and would continue the interview process.

Debbie informed the Board that she still had not moved forward with the computer system they had previously approved because of reports from other systems that were still having issues with the new system. She said she had been meeting with the State Police and the Assessors and discussing the issues that they were all having with the current vendor.

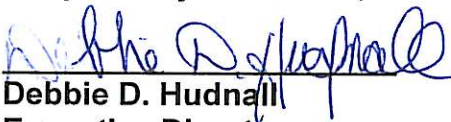
Cliff Dressel moved that the meeting be adjourned. Motion seconded by Michael Thibodeaux.

Meeting adjourned.

APPROVED:

S/Robby Barousse
Robby Barousse
President

Respectfully submitted,


Debbie D. Hudnall
Executive Director