

**Regular Meeting
Board of Trustees
of the Employees' Retirement System
of the City of New Orleans
Purchasing Conference Room
1300 Perdido Street, Room 4W05
January 18, 2012
9:04 a.m.**

Trustees Present:

Dr. Edgar L. Chase, III, Chairman
Ms. Lisa M. Hudson, Vice Chairperson
Mr. Norman S. Foster, Treasurer/CFO
Ms. Lynne Schackai
Ms. Courtney B. Bagneris

Others Present:

Jesse Evans, Jr., Retirement Manager
Janet H. Easterling, Administrative Support Supervisor
Brenda Breaux, City Attorney's Office
Kimberly Smith, City Attorney's Office
Jane Armstrong, Phelps Dunbar
Harvey Kreeger, Morgan Stanley Smith Barney
Michael Kreeger, Morgan Stanley Smith Barney
Theo Sanders, LAMP
Darien Nunez
Mark W. Rewey

The chairman recognized a quorum and called the meeting to order 9:04 a.m.

NEW BUSINESS

The Board agreed to schedule its next regular meeting for Wednesday, February 15th at 9:00 am pending meeting place.

Board Election – Retiree Election Mr. Evans informed the Board that the retiree seat on the Board is up for election this year. He said that Ms. Schackai is the retiree representative on the Board and her term ends on June 30th. Dr. Chase inquired as to whether there are term limits for the retiree seat on the Board. Mr. Evans said no. Ms. Hudson said that she will send something out regarding this Board election for the retiree seat.

MONTHLY REPORTS

Minutes of Meetings for November 22nd and December 7th were presented to the Board. A motion was made by Ms. Schackai and seconded by Ms. Bagneris to approve the minutes for November 22nd and December 7th. The motion passed with four in favor (Ms. Bagneris, Ms. Schackai, Mr. Foster and Dr. Chase) and one abstained (Ms. Hudson).

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Retirements for the month of January 2012 were presented to the Board. A motion was made by Ms. Schackai and seconded by Ms. Hudson to approve the retirements for the month of January 2012. The motion passed unanimously.

Report of deceased retirees for the month of January 2012 was presented to the Board. The Board received the Report of deceased retirees for the month of January 2012.

Status Report on Transfers as of December 2011 was presented to the Board. The Board received the Status Report on Transfers as of December 2011.

Employer Contribution Report for the month of December 2011 was presented to the Board. The Board received the Employer Contribution Report for the month of December 2011.

OLD BUSINESS

Rewrites of Chapter 114 Ms. Armstrong handed out and discussed the purpose for the Certificate of Compliance regarding IRS determination letter which needs to be signed by Dr. Chase the Chairman. A motion was made by Ms. Schackai and seconded by Ms. Bagneris to approve the Chairman, Dr. Chase signing the Certificate of Compliance related to the IRS determination letter. The motion passed unanimously.

Mr. Foster said that in Ms. Armstrong's letter dated January 5, 2012 comment 2A talked about "Earnings are credited to the DROP account based upon a stated rate determined in the discretion of the board of trustees each year. This rate need not and does not correspond to the actual rate of return otherwise realized on trust assets for the same period". He said that if the DROP rate did correspond with the rate of return would that be a problem. Ms. Armstrong said that she is not sure, but the IRS has one private letter ruling where they talk about what are the characteristics that would make a DROP accounts more like a defined contribution or defined benefit plan and list three or four factors and do not indicate which is more important; however, the statement 2A was one of the factors.

Ms. Armstrong said that in the past JPMorgan forwarded information related to the Foreign Tax and Mr. Evans signed on behalf of the Board. She briefly discussed the process of dividend payments of the foreign tax related to investments. Ms. Armstrong said that JPMorgan is certified as the Board agent and custodian; therefore, the Retirement System is a tax exempt body. She said that this is mechanism to reclaim withholding for dividends from foreign countries. Mr. Evans asked that Ms. Armstrong prepare the Foreign Tax forms for his signature.

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Ms. Schackai inquired about any changes of the wording of Chapter 114 rewrites. Ms. Armstrong said that Ms. Breaux and Ms. Smith provided a list of suggestions regarding certain sections of the rewrites of Chapter 114 which she will incorporate and forward to Councilmember Stacy Head for review.

Ms. Bagneris left the meeting.

Mr. Evans said that as it related to Policy Option 4 the Board voted to move the actuarial assumption rate from 7.75% to 7.50. He said that since the inception of Policy Option 4, the annuity rate was tied to the actuarial assumption rate. Mr. Evans said that Board action is needed to change the Policy Option 4 annuity rate from 7.75% to 7.50% which is the current actuarial assumption rate. Ms. Schackai inquired as to the effective date of the change for the Policy Option 4 annuity rate of 7.50%. Mr. Evans said that the effective date would be January 1, 2012. He said that anyone who retires, as of January 1, 2012 and elects Policy Option 4 will receive an annuity rate of 7.50. Mr. Evans said that those members would also pay the 5% employee contribution rate for that period. He said that the Board has the authority to set the rates and perimeters for Policy Option 4. Dr. Chase said that this issue falls under old business of rewrites of Chapter 114. Mr. Evans is requesting action from the Board regarding Policy Option 4 annuity rate of 7.50% and the recouping of employee contributions at a rate of 5% for this period. A motion was made by Ms. Schackai and seconded by Ms. Hudson to approve the Policy Option 4 annuity rate of 7.50% effective January 1, 2012 and the recouping of the employee contributions at a rate of 5%. The motion passed with four in favor (Ms. Schackai, Ms. Hudson, Dr. Chase and Mr. Foster).

COMMITTEE REPORT

Budget Committee Ms. Schackai said that a budget meeting is needed to set the budget for the year. Mr. Evans said that in the Board package is a 2012 estimated cash flow and budget analysis. He briefly summarized the estimated cash flow and budget analysis for 2012 which included contributions, payrolls, refunds and death payments which reflected a monthly difference of -\$733,927 and a yearly amount of -\$9,507,128. Mr. Evans informed the Board that earnings from investments are not included in the estimated cash flow and budget analysis. He suggested that the Board divide the amounts into thirds to ensure funds are available for retiree benefits every four months. Mr. Foster suggested that the Board generate \$1 million a month for cash flow needs. He said that another part of cash flow gated funds from investments. Dr. Chase said that the funds to cover payrolls could be placed into a LAMP account quarterly or annually. Mr. Evans suggested that the Board place \$3.2 million into a LAMP account today to cover payrolls for four months. Another \$3.2 million would be deposited after the first four months, and another \$3.2 million following those four months. By the eighth month, funds needed for benefit payments including the thirteenth check will be in place for payments. The Board deferred action until the Investment Consultants arrive to determine where to take the money from. Mr. Evans talked about the Board's estimated professional services which includes,

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actuary, custody bank, investment consultant, legal, investment expense, Board insurance, Board travel, mainframe support, medical exams and death audit services and the annual cost is about \$2,329,250. Dr. Chase thanked Mr. Evans for the report on estimated cash flow and budget analysis. Mr. Foster suggested that the Board refer Mr. Evans estimated cash flow and budget analysis to the Budget Committee but adopt the Board's travel for the year based on the OIG report which indicates that the Board would adopt a travel budget annually. Mr. Evans said that the Board's travel budget is \$5,000 for each member which is an annual total of \$25,000. Ms. Schackai said that the \$5,000 covers all costs associated with conference fees for Board members. A motion was made Dr. Chase and seconded by Ms. Hudson to adopt the travel budget of \$25,000 for the Board. The motion passed with four in favor.

Ms. Bagneris returned to the meeting.

Mr. Foster suggested that the Board vote to refer the estimated budget analysis for professional services provided by Mr. Evans to the Budget Committee. A motion was made by Mr. Foster and seconded by Ms. Hudson to refer the estimated budget analysis for professional services to the Budget Committee. The motion passed unanimously. Dr. Chase requested that the Budget Committee report back to the Board on their discussion and/or decision related to this item for February meeting.

Mr. Foster said that in reviewing the State's public meeting laws all subcommittees must post meeting notices. He said that way if any other Board member decides to attend the meeting it would be in according with State law.

Investment Committee Mr. Evans talked about placing \$2.6 million in the LAMP account to cover payrolls today, \$3.2 million in the next four months and the last \$3.2 million by September 1, in addition where to take the funds from. He said that the Board and the Investment Consultants discussed where to take the \$2.6 million funds to cover payrolls. A motion was made by Ms. Hudson and seconded by Ms. Schackai to take \$1.3 million from Hancock Bank and \$1.3 million from International ETF EPP Developed Pacific Ex Japan. The motion passed unanimously. Dr. Chase asked where to place the \$2.6 million. Mr. Evans said that the \$2.6 million will be placed in the LAMP account. A motion was made by Ms. Bagneris and seconded by Ms. Schackai to place the \$2.6 million in the LAMP account. The motion passed unanimously.

Mr. Kreeger discussed the Russell US Indexes Daily Total Return, MSCI Global indices and HRFI for the period ending December 31, 2011. He talked about the Historical US Equity Returns showing the most negative years of returns versus the positive years of returns. Mr. Kreeger said that model 5 of the NOMERS Asset Allocation as of January 16, 2012 versus the MSSB Greater than 20 shows that the fund is underweight in Real Estate. Mr. Foster requested a summary of Hedge Fund Performance. Michael Kreeger discussed the options for the plan of

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action in Hedge Fund review as follows;

- 1) Consolidate to 2-4 hedge fund of funds
 - a) Pro – reduces number of managers
 - b) Con – lose fee savings of going direct to some managers.
- 2) Split the money roughly 34% Fund of Funds and 66% individual managers
 - a) Pro – give you a base diversify foundation while still take advantage of individual managers
 - b) Con – The fund cannot diversify the individual managers as much causing an increase specific manager risk
- 3) Go 100% into individual managers
 - a) Pro – fee savings and potential for performance gain
 - b) Con – increase in total number of managers would be need for diversity
- 4) Leave the hedge fund space
 - a) Con – the money would need to go somewhere and increasing risk in equity may not be the best options. Nor would increasing fixed income at current rates help in achieving the actuarial return
 - b) Pro – helps with audit

He said that the total amount in Hedge Funds is \$34 million. Mr. Foster requested a summary of Hedge Fund performance. The Board will take action on the option for the Hedge funds at the February meeting.

Mr. Foster left the meeting.

PRESENTATION

Segal Bryant Mark Rewey gave an overview of the firm. He said that Segal Bryant was founded in 1994 and is home based in Chicago. Mr. Rewey said that the firm is employee owned and manages approximately \$7.8 billion. He discussed the investment philosophy, investment results and asset growth of the firm. Mr. Rewey said that the firm's objectives are as follows; 1) to exceed the return of the Russell 3000 index and the median equity fund in the Russell equity manager universe, 2) maintain a level of volatility that is consistent with the fund investment. He said that the benchmark is the Russell 2000 index. Mr. Rewey said that the year-to-date returns for 2011 is 66% which is not including fees but since inception is 16.21%. He discussed the portfolio construction. Mr. Rewey said that the portfolio was over-weight in material and the underweight in financials.

Contract Compliance Committee RFP for Custodian Bank and Five Year Actuarial Study

Mr. Evans informed the Board that they are still in negotiations with JPMorgan Chase certain features and/or functions. He informed the Board that JPMorgan will be making a presentation at the February or March Board meeting. Dr. Chase requested that JPMorgan present at the March

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meeting. Mr. Evans said that the contract for the Five Year Actuarial Study is in routing for the Mayor's signature.

Headline Risk Committee nothing to report.

Member Relations Mr. Evans informed the Board of a retiree member who forwarded a thank you card related to the December 15th bonus check. Ms. Bagneris talked about noticing the retirees of the changes to healthcare plan. Mr. Evans said that the Healthcare Department's phone number could be placed on the quarterly benefit statements for retirees and placed on the website for the Retirement System.

Staffing Committee nothing to report.

EXECUTIVE SESSION

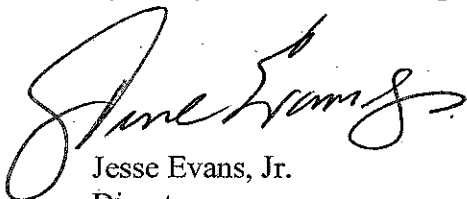
A motion was made by Ms. Hudson and seconded by Ms. Bagneris to go into executive session to discuss any on-going litigation, ordinary disabilities and Jerome Davis's attorney fees. The motion passed unanimously.

The meeting resumed.

Mr. Foster returned to the meeting.

Dr. Chase said that no Board actions were taken on any issues listed under executive session.

There being no further business, a motion was made by Ms. Schackai and Ms. Hudson seconded by to adjourn. The motion passed.



Jesse Evans, Jr.
Director
JE/jhe