



# Louisiana State Police Retirement System

## Investment Committee Meeting Minutes

<b>Meeting Title</b>	LSPRS Investment Committee Meeting
<b>Date of Meeting</b>	September 23, 2015
<b>Where</b>	9224 Jefferson Highway, Baton Rouge, LA 70809
<b>Start Time</b>	9:00 a.m.

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- 1) Chairperson, Amy Mathews called the meeting to order.
- 2) Kimberly Gann, Assistant Director, called roll as follows:

Frank Besson Jr., Designee for Superintendent – NOT PRESENT (Arrived during Aberdeen presentation)  
John Kennedy, State Treasurer, Appearing Thru  
Amy Mathews, Committee Chairperson, Designee – PRESENT  
Kevin Marcel, Active Representative – PRESENT  
Kristy Nichols, Commissioner of Administration, Appearing Thru  
Andrea Hubbard, Designee – PRESENT  
Bobby E. Smith, Retiree Representative – NOT PRESENT

The records reflect that the following persons were also present:

Robert Bickham, UBS/PaineWebber                      Kimberly Gann, Assistant Director

- 3) Rob Bickham advised the committee they will be hearing presentations from the three money managers on the "watch list". He stated that he would like to review the asset allocation and market summary prior to the presentations. As of August 31, 2015 the system's breakdown of assets indicated total equities are at \$386M or 60.8% of the portfolio, total fixed income is at \$122M or 19.1% of the portfolio and total alternatives are at \$97M or 15.3% of the portfolio. The Market Value and Returns Summary as of August 31, 2015 indicates that domestic equities are down -5.83% for the month and -4.17% for the fiscal year to date, but up 9.38% since inception, International equities are down -7.59% for the month and -8.93% fiscal year to date, but up 5.94% since inception. Fixed income is down -1.18% for the month and -1.44% fiscal year to date but up 6.44% since inception. (See Exhibit A on file at the LSPRS Office)
- 4) Watch List Presentations:
  - Brandes - Presentation by Joseph Ferrara, Regional Director and Chris Garrett, Chief Executive Officer of Brandes Asia. (See Exhibit B on file at the LSPRS office)

Chris Garrett - Emerging markets is not just plain vanilla, there are a lot of different things happening in a lot of different places in the world that have a lot of impact from an economic prospective. There have been a lot of political issues that have unintended consequences. Emerging markets is ripe with opportunity with a patient investor. The key is patience. The rewards can be significant if you stick with the style and strategy. This has been a painful period but we are not trying to do anything differently. Brandes will never change the formula to make it look better short term.

Brandes is pretty simplistic. Brandes does not hedge currencies; our strength is understanding businesses and trying to buy those businesses when trading is at a discount, not forecasting currencies.

Rob Bickham asked Mr. Garrett to address their underperformance and what is causing the emerging markets to collapse right now.

Chris Garrett – A lot of negative economic macro issues are affecting the emerging markets today. In my personal view, China is at the epicenter of it all and certainly there are very easy connections you can make between the slowdown in China and the rebalancing they need to do for their economy. Resource rich nations that have selling into them, Brazil and Australia, are the type places that are impacted directly because their commodity is not being purchased at the same rate as the boom in 2007. A rebalance is necessary for the Chinese economy, but the problem is, you cannot change an economy of that size in a year or two. It will take a decade or more to shift their economy from resource consumption infrastructure development investment to consumer oriented, like the United States. Then you also have political issues in places like Russia and Brazil.

The underperformance of our portfolio and the way we have been positioned, Brazil has been the most painful aspect of our portfolio in the last 18 months and that is driven by poor stock selection and a significant overweight to the benchmark. Basically, overweight to Brazil and underweight to China.

- Aberdeen - Presentation by Michael Kaufmann, CFA, Senior Relationship Manager and Stewart Methven, Senior Investment Manager (See Exhibit C on file at the LSPRS office)

Michael Kaufmann – We cannot promise performance but we can promise that our process is the same as it was when you hired us and believe in the long term our process will deliver. We are working hard to right the ship and position the portfolio to a point where we can recover some of the lost performance for the last few years. We are sticking to the process and hopefully it will work out.

Rob Bickham asked Mr. Kaufmann about the frequent acquisitions. Mr. Kaufmann stated the most recent acquisition has been centered on non-traditional business, not fixed income and not equities but more of the solutions and alternative side of the business. Seventy percent of the firm's assets were equities and of that 70%, there were 3 primary strategies; Asia specific, emerging market and global. It felt a little risky to be so over weighted in one particular area of the business. The firm decided to embark on more of a diversification strategy and did that in the solutions or alternative side of the business.

Nothing has changed from the equity side of the business. The firm is trying to diversify itself on that part of the platform and globalize some of the strategies we already had in-house. There is no impact to what the equity team does. The equity team is still as important to Aberdeen as it ever was. It may appear as lack of focus from the management prospective but Aberdeen is still as committed to the equity side of the business as it ever was. The fundamental approach and process has not changed in 30 years and will not change.

- Campbell Timber - Presentation by Rob Clebnirow and Matt, Campbell Timber (See Exhibit D on file at the LSPRS office)

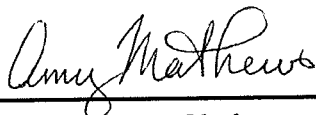
Rob Clebnirow - Crown Pine – For the last year, we have been working with 2 advisors, UBS on the asset sale and Houlihan Lokey on liability management strategy. The intent is to improve the capital structure and get the portfolio in a position to have a good outcome in 2019. We formed a steering committee and have weekly calls to keep everyone informed as we go through the process and make sure everyone is together on the path taken. There is an asset sale underway in Louisiana, we entered into a purchase and sale agreement effective August 25 and the closing is anticipated October 26, 2015. There will be a 45 day inspection period and then a 15 day waiting period to close.

We are still working with the buyer on the access since Campbell will still have acreage. The proceeds will be placed into the Existing Strategic blocked account. Houlihan Lokey is working the note holder to get alignment around what can be done with the proceeds. The expectation is, put all proceeds into the Strategic Blocked account, transfer out all but \$195M into the Restricted Reserve account. Then use the \$195M to pay the principal as notes come due. There will be a \$20M principal note due in December 2015, another \$20M due in December 2016, \$80M in December 2017 and \$75M due December 2018. The remaining proceeds which will be around \$115M in the restricted reserve account will be used for interest payments. The net proceeds should be around \$276 or \$277M. Once they have received the proceeds from the Louisiana sale, the Liability Management piece can be implemented. The final liquidation could be in 2018.

Rob Clebnikow - Southern Diversified – This is a well-diversified portfolio in a number of different markets across the south. There is no leverage on this portfolio. Southern Diversified is a joint venture with Plum Creek. Plum Creek has a 9% equity ownership and at the end of 7 years there is a redemption option.

Matt – From an operational standpoint, it is nice to have flexibility across a lot of the different markets. For example, if you have a market that is doing well in one state, you can always ramp up production in another to meet the demands.

- 5) The committee reviewed the presentations given by the managers. At this time, Brandes will remain on the "watch list"; Campbell Timber will also remain on the list. Rob Bickham will begin a search to replace Aberdeen. Mr. Bickham will get the information together to narrow down to 3 to 5 interviews. A **MOTION** was made by Kevin Marcel for Rob Bickham to begin the search for a manager to replace Aberdeen. The **MOTION** was seconded by Andrea Hubbard. No opposition. The motion passed.
- 6) The committee reviewed the additions and changes to the Investment Policy Statement (IPS). Most of the changes were previously voted on and are being made to the statement now. The statement also reflects the change from 7.5% to 7.0%. Kimberly Gann noted that on page 9 the date should be changed to October 2015. A **MOTION** was made by Andrea Hubbard to accept the changes and present the statement to the board at the October meeting. The **MOTION** was seconded by Kevin Marcel. No opposition. The motion passed. (See Exhibit E on file at the LSPRS office)
- 7) The committee discussed changing the November meeting date due to a scheduling conflict. It was agreed to move the meeting to December 2, 2015 at 9:30 a.m. Kimberly Gann will confirm this date with Irwin Felps.
- 8) A **MOTION** was made by Andrea Hubbard to adjourn. The **MOTION** was seconded by Kevin Marcel. No opposition. The motion passed.



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Amy Mathews, Chairperson  
Louisiana State Police Retirement System  
Investment Committee