

Minutes of the Board of Trustees of the Louisiana District Attorneys' Retirement System held at the Sheraton Hotel New Orleans, in New Orleans, Louisiana, on Sunday, September 17, 2017, at 9:00 a.m.

Present: Anthony Falterman, Houston C. Gascon III, Scott Perrilloux, David Burton, Andy Shealy, Reed Walters, and Don Burkett

Also Present: Pete Adams, Roxanne Barrios Juneau, Kristi Spinosa, Greg Curran, Lal Echterhoff, Todd Bulot, John Vann, Ari Rastegar, Antonio DiGesualdo, Senator Barrow Peacock

Absent: Representative Mark Abraham

Roll call was conducted and there was a quorum.

Mr. Falterman polled for any conflicts; none were reported.

A motion was made, and seconded to approve the minutes of the May 18, 2017, meeting as published. The motion was unanimously approved.

A motion was made, and seconded to approve the financial statements for May, June, July, and August 2017. The motion was unanimously approved.

A motion was made, seconded, and unanimously approved to accept the following retirements:

- E. Pete Adams, effective May 1, 2017, Option II, benefit amount \$14,212.76;
- Chester R. Cedars, July 15, 2016, Option II, Maximum, benefit amount \$7,212.27;
- Brenda M. Howell, effective April 1, 2017, Maximum, benefit amount \$7,078.19;
- Lori Ann McGee, effective May 18, 2017, Maximum, benefit amount \$2,550.99;
- Madeleine M. Slaughter-Young, effective June 8, 2017, Maximum, benefit amount \$6,250.79;

Mr. Falterman advised Board of the following retiree death:

- George H. Meadors, died June 21, 2017, survivor benefit amount \$1,011.01.

Mr. Falterman introduced Dale Lee who was elected as our newest Board member. Mr. Falterman announced that Mr. Lee and any other interested Board or staff member is welcome at a visit to Mr. Vann's office for multi-day investment education.

Discussion was had on the procedure for future elections. Mr. Falterman expressed concern that large districts have an advantage in the current system. Mr. Walters would also like to ensure the ballot is always a secret ballot. Mr. Falterman will appoint a small committee before the next election to study the issue.

Ari Rastegar reviewed the DARS investment distributions with Rastegar. He stated \$1,000,000 was invested in Rastegar income Fund 487 days ago and \$93,314.95 was the first distribution. This is an approximate return of 8% net of fees.

He further reported that the Rastegar Income Fund II began just under one year ago. The amount \$10,000,000 was invested 362 days ago and distributions paid totaling \$445,619.65. Another invest-

ment was made in the Rastegar Value Fund was a \$5,000,000 Investment. It has paid \$559,883.98 in dividends.

Mr. Rastegar anticipates a 6-8% return in the foreseeable future, net of fees. Mr. Rastegar stated he thinks the Rastegar funds should be classified as a fixed income alternative, not a real estate alternative.

Next, possible renovations to the LDAA building where DARS currently leases spaces were addressed. Mr. Rastegar reported on the renovations, recapped the situation, and the options that had been previously discussed regarding purchase of a new building by DARS. In his opinion the focus on renovation in lieu of purchase by DARS is a good idea.

Mr. Adams updated the Board on the renovation options currently being considered by the LDAA. More discussion is expected by the LDAA at its upcoming October meeting. Mr. Adams will update the Board at the next meeting.

Mr. Antonio DiGesualdo of Cotton Creek gave an overview of their investment model, strategy and philosophy. Over 250 deals a year are reviewed, and they only choose one or two. Annually the fund produces net returns of approximately 27%. He reported that 80% of the DARS initial investment has already been returned from investment in Fund II. They are now raising capital for their next fund. Investors should be closed out by year end for this new fund. It will be a \$250,000,000 fund. There is an opportunity for DARS to invest in Fund III. Minimum investment is \$1,000,000.

Mr. Falterman stated that Cotton Creek has always produced good returns. Mr. Vann stated that he would have a recommendation later in the meeting. October 31, 2017 and December 31, 2017, are likely the closing dates for Fund III.

John Vann reported to the Board that Todd Bulot has been promoted and will now be department manager. Lal Echterhoff has relocated to Dallas from Shreveport. This is part of the consolidation of decision making to the Dallas office.

Mr. Bulot reviewed the fund cover letter giving an overall summary of the fund and asset allocation percentages. He reported that the DARS asset allocation consists of Equities 61.72%; Alternatives 8.85%; Fixed Income 28.95%; and Cash 48%.

Mr. Bulot further reported that the DARS portfolio return calendar year-to-date through June 30, 2017, is +5.42% vs 7.73% for the benchmark; the return fiscal year -to-date is +9.41% vs. 11.35% for the benchmark. The total value of holdings on June 30, 2017, was \$383,311,427.57. As of September 11, 2017, the portfolio total was at \$388,578,353.33.

He reported that the fund was second in the state at 98% funding rate; Parochial is at 99%.

Mr. Falterman expressed his concerns on the market going up and how much more it can to grow.

Mr. Vann reported that it will grow as long as earnings grow, but it is now approaching the red light zone. Forward operating earnings are key. As market level increase, risk increases geometrically. As a result, we have been conservative this year and pulled 15% from equities.

Mr. Echterhoff reported on the observations regarding performance. He reported that Dorsey's under-performance warrants an allocation change within the fixed income asset class. However, Dorsey is doing what it has been doing what it is supposed to do. Currently, Dorsey has \$13,000,000 invested. Dorsey is very conservative.

Mr. Vann stated the question is do we want to change our strategy. Now that we have achieved the funding goal, the ongoing goal is to stay funded since we are at 98%.

Mr. Vann reviewed three years of manager vs. benchmark performance. He noted that this comparison will never be exact because of management fees. He then reviewed several specific investments detailed in the report. MLPs are down 10% and those are not included in the benchmark.

He also reported that while investments still seem sound, the question is how we account for alternatives. So, next quarter they will have a new report showing "actual" return of alternatives. It is a question of policy as to who do we compare to system-wide? Parochial is conservative like we are.

Mr. Burton wanted to know if there was anything within the Dorsey asset class where DARS can get a higher return?

Mr. Echterhoff responded that he is comfortable with where they are now with Dorsey. They have been very conservative, using heavy MLP investment. They are cheap overall and have a good projected return, even though they are down a bit now.

Mr. Vann reported they have a research group working to define and design a new MLP reporting format to maintain cash basis but also reflect return on alternatives. Also, he will do a deep study on the benchmark allocation to see if any changes are needed. It has not changed in 30 years. He will report back to Board at the next meeting.

Mr. Vann stated that he would be talking to the actuary regarding other funds to see if they are reporting market based returns.

Greg Curran answered affirmatively under audit standards. Valuation numbers should show estimated market values. Not sure of their matrix to do so, he would need to contact the auditor at Duplantier to verify. Valuation is an attempt at a market basis. GASB has more definitions now too.

Mr. Adams wanted to know what do we do now since there is so much certainty the market will correct?

Mr. Vann reviewed the 30-year historical and 20-year historical bond allocations. It is not a linear equation. The 30/70 ratio has the lowest volatility in asset allocation. Over the last year, we have taken a step "to the right", 65/35 is our long-term asset allocation benchmark. As markets increase risk, and other economic event occur, we can move to the right, but only so far because you need flexibility to move back as market opportunities change.

Mr. Echterhoff noted that 14% is a typical market correction per year. That is why long-term allocation is the key.

Mr. Adams stated that even though correction is anticipated, a massive sale of equities is not prudent.

Mr. Vann stated that reallocation is the best course for tactical implementation of the strategic reallocation. The Equity range is 40-65%, we are currently at 61%. If you excluded MLPs, we are only in the 50s. Puts and call are also an option, and they have not done employed these this year because the market has been so positive. Historically, we have been up to \$7,000,000 on puts and calls. When volatility index increases, then we employ puts and calls, but he does not think we should do so at this time.

Mr. Vann reviewed the red, yellow, and green light chart used to illustrate the market's performance compared to forward operating earnings.

(Note: Senator Barrow Peacock entered the meeting at 10:30 a.m.)

Mr. Vann thinks overall the economy is positive and the market will be strong for the next two years. He advises we pull back profits over this time and move these profits toward investment alternatives.

He recommends strongly considering that, since Cotton Creek have returned 90% of our investments for four years, we take that money and reinvest it into their next investment. He advised more diversification in providers given that there are sufficient funds with Rastegar. He recommends that DARS reinvest with Cotton Creek.

A motion was made and seconded to reinvest profits from alternatives into Cotton Creek's next fund. The motion carried. Senator Peacock abstained.

Mr. Shealy questioned the value of holdings of June 30, 2017, to the numbers on the Asset Summary statement that is mailed with contribution interest letters. John Vann thinks it is a difference in accruals vs. cash and alternative assets at book vs. market value estimate. Mr. Vann will follow up with auditor on this to see if it can be reported more consistently.

Discussion was had on the meeting date. The next DARS meeting will be held during the LDAA Fall Seminar, Thursday, November 16, 2017, at the New Orleans Marriott Convention Center. Lunch will be served.

Mr. Shealy asked that the Board consider meeting more frequently. Since we are now qualified, more issues are being raised. Discussion was had. It was suggested possibly scheduling six meetings a year. This item is to be placed on the agenda for the next meeting.

Ms. Spinosa stated that under the rule that was finally effective in May, the Board has to set the rate to pay back repayments of refunded contributions to restore service credit. She had spoken to Gary Curran and he had recommended 7%.

A motion was made, and seconded to set the rate of interest for repayment of refunds at 7%. The motion carried.

Mr. Adams and Ms. Spinosa reviewed a memo issued to the Board regarding Exclusion of Fees from Average Final Compensation, R.S. 11:1601(5)(a). Guidance is needed from the Board on three different judicial districts with situations that may be in violation of the provision.

Discussion was had on the difference between a fee and salary for retirement purposes.

A motion was made, and seconded that the fees be excluded from the 10th Judicial District, and the amounts refunded to the member. The motion carried.

Ms. Spinosa wanted to know about the retired member from the 10th Judicial District. The Board instructed staff to discuss the impact with the Currans and report back to the Board at the next meeting.

A motion was made, and seconded that the fees be excluded from the 17th Judicial District, and the amount refunded to the members. The motion carried.

A motion was made, and seconded that the fees be excluded from the 24th Judicial District, and the amount be refunded to the member. The motion carried.

Ms. Spinosa reported to the Board regarding a letter received from Melissa Moreau, an ADA currently on worker's compensation due to an on the job injury incurred during her employment with the 1st Judicial District. She reviewed questions that Ms. Moreau had about her service credit while drawing worker's compensation. She explained that Ms. Moreau is not currently a contributing member of the system while receiving worker's compensation.

A motion was made, and seconded, that Ms. Moreau be notified that worker's compensation is not wages and therefore contributions cannot be paid on these payments. The motion carried.

Mr. Adams and Ms. Spinosa next reported on a request for a retirement benefit estimate, with a 36-month BACK-DROP, received by Mr. Ballay. Mr. Ballay resumed full time employment after retirement and his benefit was suspended. Given the complicated nature of the estimate, it was forwarded to the Actuary, prompting the question of whether the law allows members who have previously retired to elect to receive a BACK-DROP benefit upon subsequent retirement.

Mr. Adams explained that under current law, Mr. Ballay can earn a supplemental retirement benefit, for which you do not need to vest. This has been the law for a long time. Once he retires, he will receive his original benefit and a supplemental benefit. Mr. Ballay will also be independently vested "again" once he serves this term. There is no law that expressly authorizes that he can BACK-DROP on a supplemental benefit, but there is not a law that says he cannot since he has not yet participated in BACK-DROP.

Mr. Falterman stated that he agrees with Mr. Adams, but feels the Board needs to set a policy for the future.

Mr. Curran stated the law is not clear, so they could not sign off on the BACK-DROP without a Board ruling.

A motion was made, and seconded that the BACK-DROP policy for members who have not participated in BACK-DROP on their original benefit may do so on their supplemental benefit, if applicable. However, the BACK-DROP lump sum must be based only on their supplemental benefit. The motion carried.

Mr. Adams reported that the Chairman had suggested to him that DARS should have a newsletter like other retirement systems to be disseminated quarterly. A draft was shown to the Board. The Board approved the dissemination of a quarterly newsletter to all members of DARS.

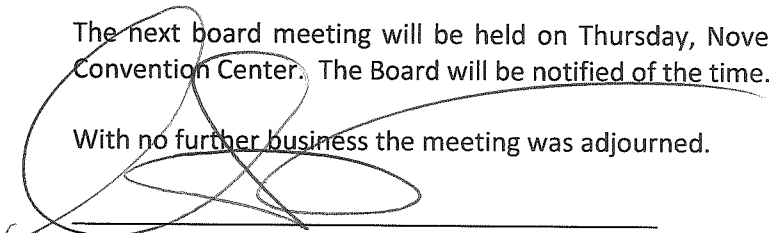
A motion was made and seconded to approve the Louisiana Compliance Questionnaire for Fiscal 2017. The motion carried.

A motion was made and seconded to approve the Asset Summary for Fiscal 2017. The motion carried.

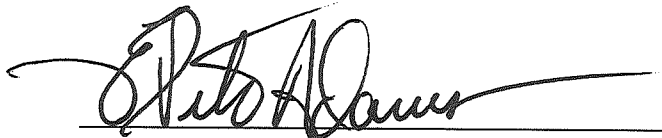
Ms. Spinosa reported that MERS and Firefighters are looking at a new retirement software program. The vendor has invited DARS staff to a meeting to view a demonstration. The staff did not want to attend without the approval of the Board. The Board approved meeting attendance only.

The next board meeting will be held on Thursday, November 16, 2017, at the New Orleans Marriott Convention Center. The Board will be notified of the time.

With no further business the meeting was adjourned.



Anthony G. Falterman, Chairman



E. Pete Adams, Director