

SELECT LOUISIANA RETIREMENT SYSTEMS,
INVESTMENT PROCESSES



PERFORMANCE AUDIT
ISSUED MAY 30, 2012

**LOUISIANA LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

**FIRST ASSISTANT LEGISLATIVE AUDITOR
AND STATE AUDIT SERVICES**
PAUL E. PENDAS, CPA

DIRECTOR OF PERFORMANCE AUDIT SERVICES
NICOLE B. EDMONSON, CIA, CGAP, MPA

**FOR QUESTIONS RELATED TO THIS PERFORMANCE AUDIT, CONTACT
EMILY WILSON, PERFORMANCE AUDIT MANAGER,
AT 225-339-3800.**

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Louisiana Legislative Auditor.

This document is produced by the Louisiana Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Five copies of this public document were produced at an approximate cost of \$53.10. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.la.la.gov. When contacting the office, you may refer to Agency ID No. 9726 or Report ID No. 40110013 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Kerry Fitzgerald, Chief Administrative Officer, at 225-339-3800.



LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

May 30, 2012

The Honorable John A. Alario, Jr.,
President of the Senate
The Honorable Charles E. "Chuck" Kleckley,
Speaker of the House of Representatives

Dear Senator Alario and Representative Kleckley:

We conducted this audit in response to a legislative request from the House and Senate Committees on Retirement dated July 15, 2011. This report provides the chronology and current status of the Fletcher Income Arbitrage Leveraged Fund Investment. In addition, this report provides the results of our performance audit on the investment processes of the Firefighters' Retirement System, the Municipal Employees' Retirement System, the Firefighters' Pension and Relief Fund of the City of New Orleans, and the Registrars of Voters Employees' Retirement System.

The report contains our findings, conclusions, and recommendations. Appendices A-D contain the respective responses to this report. I hope this report will benefit you in your legislative decision-making process.

We would like to express our appreciation to the management and staff of the retirement systems for their assistance during this audit.

Sincerely,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

DGP/dl

SLRSIP 2012

TABLE OF CONTENTS

Executive Summary	1
Background	3
Objectives:	
Objective 1: What is the chronology and current status of the FIA Leveraged Fund investments from March 2008 through April 2012?	8
Objective 2: Did FRS meet all investment process and educational requirements mandated by state law and recommended by best practices?	11
Objective 3: Did MERS meet all investment process and educational requirements mandated by state law and recommended by best practices?.....	15
Objective 4: Did NOFPRF meet all investment process and educational requirements mandated by state law and recommended by best practices?.....	20
Objective 5: Did ROVERS meet all investment process and educational requirements mandated by state law and recommended by best practices?.....	25
Additional Matter for Legislative Consideration.....	30
Appendices:	
Appendix A: FRS’s Response	A.1
Appendix B: MERS’s Response.....	B.1
Appendix C: NOFPRF’s Response	C.1
Appendix D: ROVERS’s Response.....	D.1
Appendix E: Scope and Methodology	E.1
Appendix F: FRS Commitment Schedule October 31, 2011	F.1
Appendix G: MERS Commitment Schedule October 31, 2011	G.1
Appendix H: NOFPRF Commitment Schedule October 31, 2011.....	H.1
Appendix I: ROVERS Commitment Schedule October 31, 2011.....	I.1

Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Select Louisiana Retirement Systems, Investment Processes

May 2012

Audit Control # 40110013

Executive Summary

We conducted this audit in response to a legislative request from the House and Senate Committees on Retirement. This report provides the chronology and current status of the Fletcher Income Arbitrage (FIA) Leveraged Fund investments. This report also provides the results of our performance audit on the investment processes of the Firefighters' Retirement System (FRS), the Municipal Employees' Retirement System (MERS), the Firefighters' Pension and Relief Fund of the City of New Orleans (NOFPRF), and the Registrars of Voters Employees' Retirement System (ROVERS). The audit objectives and results of our work are as follows:

Objective 1: What is the chronology and current status of the FIA Leveraged Fund investments from March 2008 through April 2012?

Results: Starting in March 2008, FRS, MERS, and NOFPRF, independently of each other, invested a total of \$100 million in the FIA Leveraged Fund. This fund is managed by Fletcher Asset Management, Inc. (FAM) and was brought to the attention of the three systems' boards for consideration by their mutual investment advisor, Consulting Services Group, LLC (CSG). The amount invested by each individual system is as follows:

Retirement System	Amount Invested in the FIA Leveraged Fund
FRS	\$45 million
MERS	\$40 million
NOFPRF	\$15 million
Total	\$100 million
Source: Prepared by legislative auditor's staff using information obtained from FRS, MERS, and NOFPRF.	

In March 2011, based on CSG's advice, FRS and MERS requested a percentage of the interest earned on their initial investments with the FIA Leveraged Fund from FAM. In April 2011, FAM informed FRS and MERS that it would satisfy their requests on or before June 15, 2011. However, the fund was unable to provide a cash distribution to the retirement systems by this date. On June 15, 2011, FAM attempted to assign promissory notes over to FRS and MERS as a means to satisfy their redemption requests.

FRS and MERS did not accept the promissory notes as an in-kind¹ distribution and subsequently revised their requests to include all of their initial investments and the interest earned to date from the fund. On June 27, 2011, NOFPRF also submitted a formal redemption request in accordance with its contract with the FIA Leveraged Fund for all of its initial investment and the interest earned from the fund.

As of April 18, 2012, FRS, MERS, and NOFPRF have not received any payment from the FIA Leveraged Fund. On this date, the Grand Court of the Cayman Islands ruled in favor of FRS, MERS, and NOFPRF's Winding Up petition to wind up the FIA Leveraged Fund, granting all relief that had been requested. Exhibit 8 (pp. 9-10) shows a detailed chronology of the FIA Leveraged Fund investments from March 2008 until April 2012.

Objectives 2 through 5: Did FRS, MERS, NOFPRF, and ROVERS meet all investment process and educational requirements mandated by state law and recommended by best practices?

The criteria we used for our review, and the associated risk, were developed from state law and best practices as follows:

- Asset Allocation Study - the lack of a formal asset allocation study as part of the investment selection and analysis process could lead to potential overexposure to unnecessary risk and overinvestment in an asset class.
- Implementation Plan - the lack of a formal implementation plan could lead to investment decisions being made without important information regarding the investment such as risk, liquidity, experience of the investment manager, and expected net return.
- Educational Requirements - the lack of formal required investment education for trustees could potentially affect a board's ability to exercise reasonable care, skill, prudence, and diligence for investment decisions and lead to potential investment losses.

We determined whether each retirement system met these criteria in Objectives 2 through 5 of this report.

¹ In-kind distribution is a distribution made in form of securities rather than cash.

Background

Retirement Systems. A brief description of FRS, MERS, NOFPRF, and ROVERS is as follows:

- **FRS** provides retirement allowances and other benefits for firefighters employed by any municipality, parish, or fire protection district in the state of Louisiana, excluding the city of New Orleans.
- **MERS** provides retirement allowances and other benefits to employees of all incorporated villages, towns, and cities within the state of Louisiana which do not have their own retirement system and elected to become members of MERS.
- **NOFPRF** provides retirement allowances and other benefits for the firefighters of the city of New Orleans.
- **ROVERS** provides retirement allowances for registrars of voters, their deputies, and their permanent employees in each parish.

Exhibit 1 compares the total administrative cost, average cost per member, and the total assets for each system. The administrative costs include, but are not limited to, staff salaries and benefits, office equipment, office maintenance, insurance, and legal fees.

Exhibit 1 Retirement System Comparison As of June 30, 2011				
	FRS	MERS	NOFPRF*	ROVERS
Total Annual Administrative Cost	\$897,673	\$973,396	\$1,266,448	\$268,465
Number of Staff	6	6	4	2
Number of Members	6,135	11,180	1,919	383
Average Cost per Member	\$146	\$87	\$660	\$701
Total Assets**	\$1,154,482,040	\$851,633,930	\$174,542,327	\$64,856,734
*NOFPRF's total administration cost, number of staff, number of members and average cost per member is as of December 31, 2010. NOFPRF uses the calendar year for budget reporting. **The total assets are based on the 2011 audit reports for FRS, MERS, and ROVERS, and the 2010 audit report for NOFPRF and consist of cash, receivables, investments, inventories, etc. Source: Prepared by legislative auditor's staff using unaudited information obtained from each retirement system.				

Investment Performance. Exhibit 2 shows the total contributions, distributions, market value, and overall net gain and loss for each retirement system from the inception of each investment through October 31, 2011.

Exhibit 2 Fund Contribution and Distribution Schedule From Inception of Investments through October 31, 2011				
	FRS (Appendix F)	MERS (Appendix G)	NOFPRF (Appendix H)	ROVERS (Appendix I)
Total Contributions	\$1,220,173,531	\$1,274,718,703	\$678,709,784	\$81,804,844
Total Distributions	(\$484,193,698)	(\$666,679,337)	(\$562,206,787)	(\$25,528,459)
Market Value	\$1,066,490,084	\$731,103,829	\$155,102,393	\$57,565,256
Net Gain/Loss*	\$330,510,251	\$123,064,463	\$38,599,397	\$1,288,871
*These totals represent the combined unrealized and realized net gains/losses. Source: Prepared by legislative auditor's staff using unaudited information obtained from each retirement system.				

Exhibit 3 shows the market and actuarial rate of return² for each retirement system from 1990 to 2010. As can be seen from this exhibit, none of the systems have met their actuarial assumptions during the last 20 years. The actuarial assumption is what the system needs to earn on investments in order to ensure it can pay member benefits at current contribution rates. If retirement systems do not meet their actuarial assumptions, the systems or their members may potentially have to increase contribution rates to meet future liabilities.

Exhibit 3 FRS, MERS, NOFPRF, ROVERS Average Market and Actuarial Rate of Return 1990-2010				
Time Period	Average Market Rate of Return	Average Actuarial Rate of Return	Actuarial Assumption	Met Actuarial Assumption?
FRS				
20 Years (1990 to 2010)	6.2%	6.7%	7.5%	No
15 Years (1995 to 2010)	5.1%	6.1%	7.5%	No
10 Years (2000 to 2010)	3.0%	4.7%	7.5%	No
5 Years (2005 to 2010)	2.1%	6.2%	7.5%	No
MERS				
20 Years (1990 to 2010)	7.1%	7.7%	8%	No
15 Years (1995 to 2010)	6.2%	7.1%	8%	No
10 Years (2000 to 2010)	3.6%	5.3%	8%	No
5 Years (2005 to 2010)	4.4%	7.7%	8%	No
NOFPRF				
20 Years (1990 to 2010)	5.7%	5.6%	7.5%	No
15 Years (1995 to 2010)	3.9%	4.2%	7.5%	No
10 Years (2000 to 2010)	1.5%	1.5%	7.5%	No
5 Years (2005 to 2010)	-0.9%	0.1%	7.5%	No

² The rate of return is the gain or loss on an investment over a specified period, expressed as a percentage of the initial investment cost. The market rate of return is the rate of return based on the market value of assets. The actuarial rate of return is the rate of return based on the actuarial value of assets. The actuarial value of assets represents values smoothed over a specified number of years.

Exhibit 3 (Continued) FRS, MERS, NOFPRF, ROVERS Average Market and Actuarial Rate of Return 1990-2010				
Time Period	Average Market Rate of Return	Average Actuarial Rate of Return	Actuarial Assumption	Met Actuarial Assumption?
ROVERS				
20 Years (1990 to 2010)	5.7%	6.6%	8%	No
15 Years (1995 to 2010)	4.4%	5.6%	8%	No
10 Years (2000 to 2010)	2.6%	4.1%	8%	No
5 Years (2005 to 2010)	0.5%	4.8%	8%	No
Source: Prepared by legislative auditor's staff using information obtained from each retirement system's actuarial reports.				

Litigation Status. As of October 31, 2011, FRS, MERS, NOFPRF, and ROVERS had a total of 167 investments. Of these investments, six are in litigation. In addition, on January 31, 2012, FRS, MERS, and NOFPRF jointly filed a Winding Up petition in the Grand Court of the Cayman Islands, Financial Services Division. The petition asked the Court to wind up the FIA Leveraged Fund by appointing a liquidator recommended jointly by the systems. On April 18, 2012, the Grand Court of the Cayman Islands ruled in favor of FRS, MERS, and NOFPRF's petition, granting all relief that had been requested.

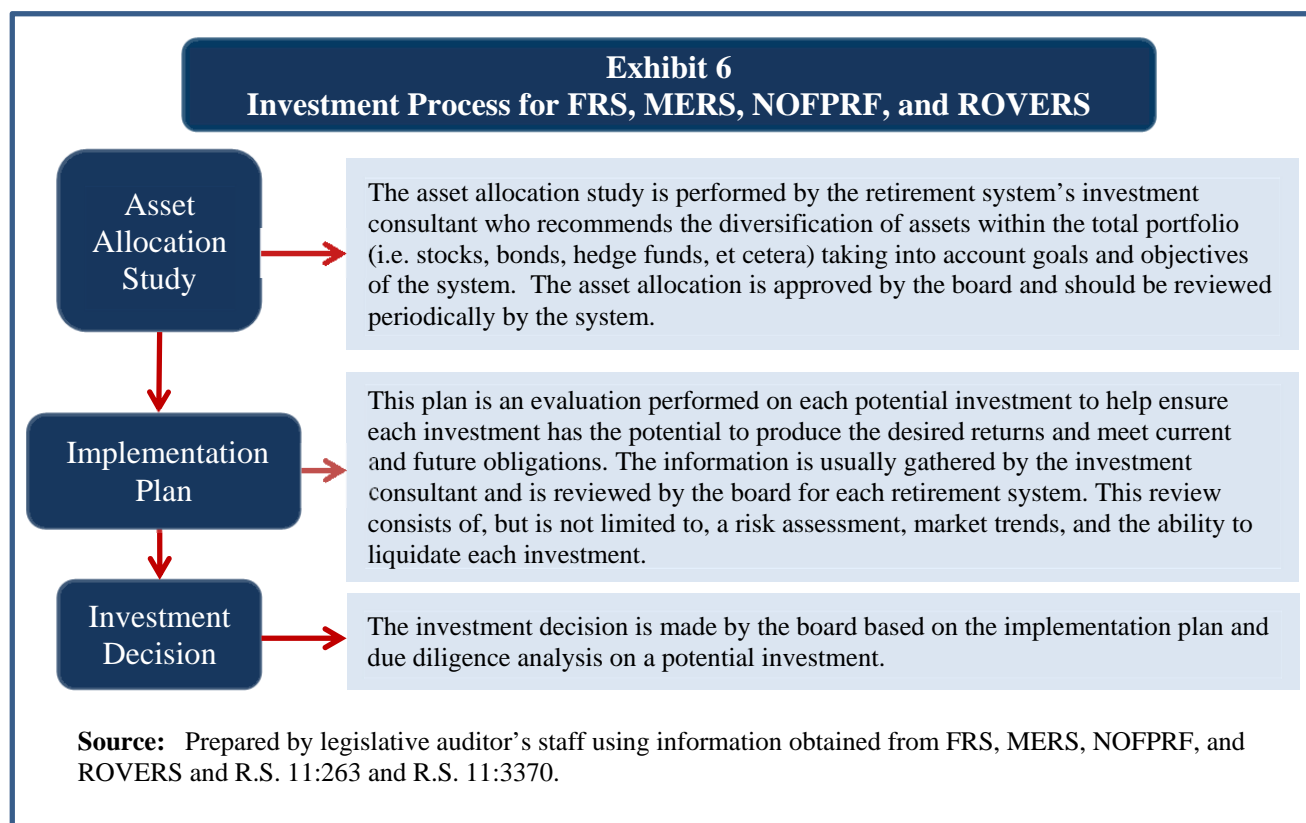
Exhibit 4 shows the number of investments in the investment portfolio, the number and percentage of investments currently in litigation, and the net gain/loss for each retirement system since the inception of each investment in litigation through October 31, 2011.

Exhibit 4 Investment Litigation Status As of October 31, 2011					
System	# of Investments	Total in Litigation	% in Litigation	Investments Currently in Litigation	Net Gain/Loss of Each Investment in Litigation since Inception of Investment through October 31, 2011*
FRS	43	3	7%	1. Commonwealth Advisors	(\$19,037,655)
				2. Sand Spring Capital	(\$9,891,650)
				3. Regions Morgan Keegan**	(\$50,000,000 to 65,000,000)
MERS	54	1	1.8%	Commonwealth Advisors	(\$12,805,714)
NOFPRF	51	1	2.0%	Fire Phoenix (Austin)	(\$4,424,069)
ROVERS	19	1	5.3%	Sand Spring Capital	(\$1,136,719)
Total	167	6	3.6%		
*Appendices F through I show, respectively, each system's total contribution, distribution, and market value for each investment. **FRS is presently involved in litigation with a former asset manager known as Regions Morgan Keegan. However, FRS does not currently reflect this former asset manager in its current investment schedule. FRS is seeking to fully recover its losses, plus punitive and treble damages. The lawsuit is in the motion stage. Source: Prepared by legislative auditor's staff using unaudited information obtained from FRS, MERS, NOFPRF, and ROVERS.					

Statutory Requirements and Best Practices. Louisiana Revised Statutes (R.S.) 11:263 (FRS, MERS, ROVERS) and 11:3370 (NOFPRF), which reflect best practices, outline the investment process requirements for each retirement system. In addition, R.S. 11:185 outlines the specific educational requirements the trustees of FRS, MERS, and ROVERS must meet. Exhibit 5 summarizes the investment process and education criteria prescribed by state law. We determined whether each system met these criteria in Objectives 2 through 5 of this report.

Exhibit 5 Summary of Statutory Investment Process and Education Criteria FRS, MERS, NOFPRF, and ROVERS	
Source	Investment Process Requirements
R.S. 11:3370*	Requires NOFPRF to have an overall investment strategy that includes an asset allocation study and plan for implementation that incorporates risk and return objectives reasonably suitable for that system.
R.S. 11:263	Requires FRS, MERS, and ROVERS to have an overall investment strategy that includes an asset allocation study and plan for implementation that incorporates risk and return objectives reasonably suitable for that system. The asset allocation study and implementation plan shall include the examination of market value risk, credit risk, interest rate risk, inflation risk, counterparty risk, and concentration risk.
	When contemplating any investment, action, or asset allocation, the following factors shall be given weight:
	<ul style="list-style-type: none"> • Ability to liquidate each investment at a fair market price within a reasonable timeframe for the size of investment that is being considered
	<ul style="list-style-type: none"> • Degree of transparency that accompanies each investment
	<ul style="list-style-type: none"> • Experience of the professionals who will manage each investment and the financial soundness of the business entity employing such professionals
	<ul style="list-style-type: none"> • Degree of diversification which exists within each investment and that such investment itself may provide relative to the other existing investments in the system's portfolio
	<ul style="list-style-type: none"> • Jurisdiction of the laws that govern each investment • Net return that is expected relative to the risk that is associated with each investment
Education Requirements	
R.S. 11:185**	Every member of the board of trustees shall complete continuing education or professional development training during each 12-month period from September 1 to August 31 and shall attend at least the following:
	<ul style="list-style-type: none"> • 8 hours of investment training
	<ul style="list-style-type: none"> • 2 hours of actuarial science information education
	<ul style="list-style-type: none"> • 1 hour of education regarding the laws, rules, and regulations applicable to this system • 1 hour of instruction on fiduciary duty and ethics
<p>*This law only applies to NOFPRF. NOFPRF is required to include an asset allocation study and implementation plan, but the law does not specify the factors to include for this implementation plan.</p> <p>**This law does not apply to NOFPRF.</p> <p>Source: Prepared by legislative auditor's staff using information obtained from R.S. 11:185, R.S. 11:263, and R.S. 11:3370.</p>	

As can be seen from Exhibit 5, the investment process prescribed by state law includes an asset allocation study and implementation plan that incorporates the risk and return objectives for that investment, and is consistent with best practices. Exhibit 6 outlines each step in this process.



Objective 1: What is the chronology and current status of the FIA Leveraged Fund investments from March 2008 through April 2012?

Starting in March 2008, FRS, MERS, and NOFPRF, independently of each other, invested a total of \$100 million in the Fletcher Income Arbitrage (FIA) Leveraged Fund.³ This fund is managed by Fletcher Asset Management, Inc. (FAM) and was brought to the attention of the three retirement systems' boards for consideration by their mutual investment advisor, Consulting Services Group, LLC (CSG). The amount invested by each individual system is as follows:

Exhibit 7	
Amount Invested in the FIA Leveraged Fund	
Retirement System	Amount Invested
FRS	\$45 million
MERS	\$40 million
NOFPRF	\$15 million
Total	\$100 million
Source: Prepared by legislative auditor's staff using information obtained from FRS, MERS, and NOFPRF.	

In March 2011, based on CSG's advice, FRS and MERS requested a percentage of the interest earned on their initial investments with the FIA Leveraged Fund from FAM. In April 2011, FAM informed FRS and MERS that it would satisfy their requests on or before June 15, 2011. However, the fund was unable to provide a cash distribution to the retirement systems by this date. On June 15, 2011, FAM attempted to assign promissory notes over to FRS and MERS as a means to satisfy their redemption requests. FRS and MERS did not accept the promissory notes as an in-kind⁴ distribution and subsequently revised their requests to include all of their initial investments and the interest earned to date from the fund. On June 27, 2011, NOFPRF also submitted a formal redemption request in accordance with its contract with the FIA Leveraged Fund for all of its initial investment and the interest earned from the fund.

As of April 18, 2012, FRS, MERS, and NOFPRF have not received any payment from the FIA Leveraged Fund. On this date, the Grand Court of the Cayman Islands ruled in favor of FRS, MERS, and NOFPRF's Winding Up petition to wind up the FIA Leveraged Fund, granting all relief that had been requested. Exhibit 8 (pp. 9-10) shows a detailed chronology of the FIA Leveraged Fund investments from March 2008 until April 2012.

³ In investing with FIA Leveraged Fund, the retirement systems agreed to a 12% annual return that cannot be collected, along with the initial investment, until after the second anniversary of the date of purchase. After this two-year period, the retirement systems have the discretion to request redemption of the investment giving a 60-day notice to the Fund.

⁴ In-kind distribution is a distribution made in form of securities rather than cash.

Exhibit 8 FIA Leveraged Fund Investments Chronology	
Date	Description
March 2008	<ul style="list-style-type: none"> FRS board votes to invest in the FIA Leveraged Fund in the amount of \$45 million. MERS board votes to invest in the FIA Leveraged Fund in the amount of \$40 million. NOFPRF board votes to invest in the FIA Leveraged Fund in the amount of \$15 million.
March 2011	<ul style="list-style-type: none"> FRS board votes to request a redemption of \$17 million from the FIA Leveraged Fund. This is a percentage of the interest earned on its initial investment. MERS board votes to request a redemption of \$15 million from the FIA Leveraged Fund. This is a percentage of the interest earned on its initial investment.
April 2011	FRS and MERS receive responses from FAM regarding the redemption requests stating that FAM anticipates it will satisfy the requests on or before June 15, 2011.
June 2011	<ul style="list-style-type: none"> The FIA Master Fund⁵ issues a two-year promissory note to the FIA Leveraged Fund for the requested redemption amounts from the three retirement systems. On June 15, 2011, as means to satisfy the redemption requests, FAM attempts to assign the promissory notes over to FRS and MERS. On June 22, 2011, in response to the promissory note, MERS does the following: <ol style="list-style-type: none"> Requests a redemption of its entire initial investment and all interest earned from the FIA Leveraged Fund Begins direct negotiations with FAM for a distribution such as a secured note, in-kind, or cash On June 24, 2011, in response to the promissory note, the FRS board votes on the following: <ol style="list-style-type: none"> Request a redemption of its entire initial investment and all interest earned from the FIA Leveraged Fund Provide FAM with a notice that the FRS board does not agree that the promissory note meets the definition of an in-kind distribution for satisfying their redemption request Inform FAM that the FRS board reserves its right to seek judicial or regulatory relief, or both On June 27, 2011, NOFPRF requests a redemption of approximately \$21.6 million from the FIA Leveraged Fund. This represents its entire initial investment plus the interest earned.
July 2011	FRS, MERS, and NOFPRF issue a joint statement for public distribution detailing their concerns with the FIA Leveraged Fund investment and decide to authorize the formation of a team to go to New York and examine the records of the FIA Leveraged Fund managed by FAM. The team is led by a principal of the investigative and dispute services unit of the Ernst & Young (E&Y) accounting firm. On July 25, 2011, this team began to review financial statements, records, and holdings of the FIA Leveraged Fund in New York.

⁵ All assets of the FIA Leveraged Fund, including funds obtained through leverage, are invested through a “master” fund structure.

Exhibit 8 (Continued) FIA Leveraged Fund Investments Chronology	
Date	Description
August 2011	FRS, MERS, and NOFPRF issue a joint statement for public distribution stating that preliminary results from E&Y indicate that the FIA Leveraged Fund has sufficient assets to cover each system's initial investment and interest earned.
October 2011	All three boards adopt an Interagency Cooperative Agreement between FRS, MERS, and NOFPRF that provides the FRS Director the authority to act in a limited capacity as special legal counsel to FRS, MERS, and NOFPRF for the purpose of understanding the FIA Leveraged Fund structure and understanding the nature of the fund's liabilities.
November 2011	All three boards vote to retain Kean-Miller law firm to write an agreement for potential investment redemption between the FIA Leveraged Fund and the three retirement systems if agreed upon.
December 2011	On December 12, 2011, FRS, MERS, and NOFPRF meet with FAM in New York to discuss a resolution regarding the terms to satisfy the redemption requests. However, parties do not agree on a resolution.
January 2012	On January 31, 2012, FRS, MERS, and NOFPRF file a Winding Up petition in the Grand Court of the Cayman Islands, Financial Services Division. The petition asks the court to wind up the FIA Leveraged Fund by appointing a liquidator recommended jointly by the systems. A hearing is scheduled for April 4, 2012, to determine whether the court will authorize the winding up process and appoint the recommended liquidator. The E&Y accountant is processing information received from FAM for inclusion in the E&Y report to the systems. This report has not been issued formally to date.
February 2012	Service of process was made on the FIA Leveraged Fund.
April 2012	As of April 18, 2012, FRS, MERS, and NOFPRF have not received any payment from the FIA Leveraged Fund. On this date, the Grand Court of the Cayman Islands ruled in favor of FRS, MERS, and NOFPRF's Winding Up petition to wind up the FIA Leveraged Fund, granting all relief that had been requested. A liquidator has been appointed and will assume management responsibilities of the FIA Leveraged Fund. The liquidator will liquidate the assets in an orderly fashion and resolve the redemption request pending with the FIA Leveraged Fund, including a reimbursement of expenses and fees incurred by the retirement systems in the process. FRS, MERS, and NOFPRF have been advised by their Cayman counsel that Cayman law allows a fourteen-day right of appeal of the Grand Court's ruling.
Source: Prepared by legislative auditor's staff using information obtained from FRS, MERS, and NOFPRF.	

The following sections of this report assess whether the investment processes of FRS, MERS, and NOFPRF are in compliance with the provisions outlined in state law and best practices and make recommendations on how to improve these processes. At the request of the legislature, we also included ROVERS in this review because it uses CSG as an investment consultant.

Objective 2: Did FRS meet all investment process and educational requirements mandated by state law and recommended by best practices?

FRS lacked documentation to support that it met certain investment process requirements mandated by state law and recommended by best practices. Specifically, FRS lacked documentation to support that it examined all statutorily required types of risk when completing its implementation plan for each investment. FRS also lacked documentation to support that it considered the ability to liquidate each investment. In addition, FRS's elected trustees did not meet all of the statutorily mandated number of education hours. These issues are discussed below.

FRS lacked documentation that it examined all statutorily required types of risk when completing its implementation plan for each investment.

While FRS had a formal documented asset allocation study and implementation plan, FRS lacked documentation to support that it had examined two (33%) of the six types of risk required by state law and best practices when completing the implementation plan. Specifically, FRS documented the examination of market value risk, credit risk, interest rate risk, and counterparty risk for each investment, but lacked documentation to support that it examined inflation risk and concentration risk. Not examining these risks could lead to trustees making investment decisions without important information regarding the investment.

According to the FRS director, the board verbally discusses all types of risk during board meetings. However, the system lacked documentation to support its examination of inflation and concentration risk. Although the law does not require that FRS document in writing its examination of risk when completing its implementation plan, such documentation would demonstrate the system's compliance with state law.

Recommendation 1: FRS should document its examination of all types of risk when completing its implementation plan for each investment to ensure and demonstrate full compliance with R.S. 11:263 and best practices.

Summary of Management's Response: FRS concurs with this recommendation. While FRS will continue its longstanding practice of documenting market value risk, credit risk, interest rate risk, and counter-party risk, FRS will now assure that inflation risk and concentration risk are also included in the overall risks examined and documented. See Appendix A for FRS's full response.

FRS lacked documentation that it considered the ability to liquidate each investment.

FRS lacked documentation to support that it considered the ability to liquidate each investment at a fair market price within a reasonable timeframe for the size of the investment. According to FRS's board meeting minutes and handouts, FRS's board reviews the cash flow in its investment portfolio performance report monthly. In addition, each investment contract outlines redemption guidelines for that investment including when the system can redeem the investment and the prior notice needed to redeem the investment. However, these documents do not show the system's current ability to liquidate its investments as each investment's ability to liquidate can change over the duration of its contract.

Although the law does not require FRS to formally document that it considers the ability to liquidate each investment, such documentation would help the system demonstrate its compliance with state law. Without such documentation, we could not verify that FRS is in compliance with all provisions of state law. In addition, had FRS periodically monitored the FIA Leveraged Fund's ability to liquidate its assets, FRS may have questioned the fund's ability to liquidate its assets in a timely manner. As discussed earlier in this report, FRS was unable to redeem its investment when requested.

Recommendation 2: FRS should document for each investment its consideration of the ability to liquidate that investment at the fair market price within a reasonable timeframe to ensure and demonstrate its compliance with R.S. 11:263.

Summary of Management's Response: FRS concurs with this recommendation. The FRS staff will present to the FRS board of trustees, a recommendation requiring the FRS investment consultant to provide the board with documented information regarding FRS's ability to liquidate all present and future FRS investments at their fair market price within a reasonable timeframe; and, if accepted by the FRS board, consideration of that information will be included in FRS's minutes. See Appendix A for FRS's full response.

FRS's elected trustees did not meet all of their statutory education requirements.

During the 2009 to 2010 education cycle, FRS's elected trustees did not meet all of their statutory education requirements, as outlined in Exhibit 5 of this report. According to the education compliance report FRS prepared, two of the seven⁶ elected trustees received 11 hours

⁶ FRS's Board of Trustees consists of six elected trustees. However, we based our analysis on seven elected trustees because during the 2009 to 2010 educational cycle, a new trustee was elected. Therefore, one trustee served for five months and the other trustee served for seven months.

of education and two trustees received 10 hours of education from the Louisiana Association of Public Employees' Retirement Systems (LAPERS) conference. According to FRS, eight⁷ of these hours were investment education, one hour was actuarial science, one was on laws, rules, and regulations, and one was on fiduciary duty and ethics. However, according to LAPERS officials, this conference accounted for only 4.25 hours of investment education. As a result, the trustees that attended the conference only received 4.25 (53%) of the required 8 hours of formal investment education. In addition, one of the board members FRS listed in attendance for this conference was not listed as receiving any hours by LAPERS officials.

The LAPERS conference accounted for only one of the two required hours of formal actuarial science information education. According to the education compliance report, all elected trustees obtained the other hour of actuarial science information education during a regular board meeting presentation by the system's actuary. However, the agenda for the board meeting did not list education and the minutes did not document specific training. Similarly, according to the education compliance report, the two elected trustees who did not attend the conference received the investment training during the monthly FRS board meetings and received a copy of the prior year's LAPERS conference DVD. Again, the board meetings did not list education on the agenda and the minutes did not document specific training. In addition, we could not verify that both members watched this DVD. A lack of formal education could potentially affect the board's ability to exercise reasonable care, skill, prudence, and diligence when making investment decisions and lead to potential investment losses.

In addition to the statutory education requirements, best practices recommend that retirement systems evaluate the educational needs of their trustees and that the evaluations focus on the trustees' knowledge, experience, and the nature of issues facing the retirement system. Best practices further recommend that retirement systems implement a formal trustee orientation initiative to help trustees gain valuable information before crucial decisions must be made and key votes must be cast. According to best practices, trustee orientation should include:

- Educating the new trustees on expected time commitments
- The roles and expectations of being a member of the board
- Fiduciary responsibilities
- Existing board policies
- Summary of asset allocation and investment and funding policies of the system
- Review of best practices for pension governments

⁷ FRS recorded seven hours of investment training for the two trustees who received 10 hours from the LAPERS conference.

Recommendation 3: FRS should ensure its trustees meet all of the educational requirements mandated by R.S. 11:185.

Summary of Management's Response: FRS did not concur and asserts that it has fully satisfied all educational requirements set forth in R.S. 11:185. However, to assure that future compliance can be verified by independent documentation, FRS will change its business model regarding providing educational opportunities to the FRS board of trustees. As soon as can be practically implemented, FRS will only provide educational opportunities that are established by an agenda prepared in advance and any such educational presentations will be made in a traditional lecturer/classroom type setting. Attendance records will be kept in conjunction with that program. See Appendix A for FRS's full response.

Recommendation 4: FRS should develop a formal trustee internal evaluation to determine the education needs of each trustee as recommended by best practices.

Summary of Management's Response: FRS concurs with this recommendation and will implement this recommendation as soon as possible. See Appendix A for FRS's full response.

Recommendation 5: FRS should implement a formal orientation initiative for new trustees as recommended by best practices.

Summary of Management's Response: FRS concurs with this recommendation and will implement this recommendation as soon as possible. See Appendix A for FRS's full response.

Objective 3: Did MERS meet all investment process and educational requirements mandated by state law and recommended by best practices?

MERS lacked documentation to support that it met certain investment process requirements mandated by state law and recommended by best practices. Specifically, MERS lacked documentation of an asset allocation study and a comprehensive implementation plan for each asset class and investment decision. MERS also lacked documentation to support that it considered the ability to liquidate each investment. In addition, MERS's elected trustees met or exceeded all but one statutorily required education hour. These issues are discussed below.

MERS lacked documentation of an asset allocation study and implementation plan for each asset class and investment decision.

MERS lacked documentation of its asset allocation study and a comprehensive implementation plan. According to best practices, the lack of a formal asset allocation study could lead to potential overexposure to unnecessary risk and to overinvestment in an asset class. The lack of a formal implementation plan could lead to trustees making investment decisions without important information regarding the potential investment such as risk, liquidity, experience of the investment manager, and expected net return.

According to MERS, trustees review asset allocations on an ongoing basis and the retirement system has an informal implementation plan for each investment. For example, according to MERS's board meeting minutes and handouts, the MERS board reviews the asset allocation in its investment portfolio report on a monthly basis and receives proposed asset allocation adjustments from the investment consultant. However, the system did not document or request a formal asset allocation study from the investment consultant as did another retirement system with the same investment consultant.

In addition, according to MERS, some elements of the investment implementation plan were verbally discussed with the investment consultant and board during telephone conversations and information meetings. However, these discussions were not documented. MERS also lacked documentation to support its examination of three (50%) of the six types of risk as required by state law and recommended by best practices when completing the implementation plan. MERS documented the review of market value risk, credit risk, and counterparty risk, but lacked documentation to support that it examined interest rate risk, inflation risk, and concentration risk.

Although the law does not require MERS to document in writing its asset allocation study or implementation plan, such documentation would help demonstrate the system's compliance with the law and help ensure the trustees have the information needed to make informed investment decisions. Without this documentation, we could not determine how the trustees made investment decisions and how this process could be improved. In addition, best practices recommend that retirement systems have policies and procedures to guide their overall selection

of investments, which is part of the implementation plan. However, MERS had not developed such policies and procedures. As a result, trustees do not have formal guidelines to follow when selecting investments.

Recommendation 6: MERS should document a formal asset allocation study for each asset class to ensure and demonstrate compliance with R.S. 11:263 and best practices.

Summary of Management's Response: The law requires MERS to implement and perform the asset allocation study, but does not require that the study be documented. However, because of the LLA's report and request for information beyond the statutory mandates, MERS will request its consultant to prepare a formal study and present it to the board. As part of the study, MERS will identify long-term targets for each asset class included in the study and, as part of its monthly review process, will note any short-term decisions that result in an over or under weighting to these targets. See Appendix B for MERS's full response.

Recommendation 7: MERS should document its implementation plan for each potential investment to ensure and demonstrate compliance with R.S. 11:263 and best practices.

Summary of Management's Response: MERS is required when contemplating any investment action or asset allocation to have an asset allocation study and implementation plan. An asset allocation study must have a plan of implementation to carry out the allocation of assets. However, formal documentation of the plan of implementation is not statutorily required. See Appendix B for MERS's full response.

Recommendation 8: MERS should document its examination of all types of risk when completing its implementation plan for each investment to ensure and demonstrate full compliance with R.S. 11:263 and best practices.

Summary of Management's Response: Documentation of this examination is not statutorily mandated. However, because of the LLA's report and request for information beyond the statutory mandates, MERS agrees to improve its documentation in this area by creating a form that depicts the various types of risk outlined in R.S. 11:263 and to have this form completed by each manager hired to manage an allocation of funds within the portfolio. See Appendix B for MERS's full response.

Recommendation 9: MERS should develop policies and procedures for selecting investments and an investment consultant to help the trustees meet their fiduciary responsibilities as recommended by best practices.

Summary of Management's Response: MERS's Investment Policy Statement provides review and control procedures that address this issue. However, MERS will review these procedures to determine if more specificity is needed or useful. See Appendix B for MERS's full response.

MERS lacked documentation that it considered the ability to liquidate each investment.

MERS lacked documentation to support that it considered the ability to liquidate each investment at a fair market price within a reasonable timeframe for the size of the investment. According to MERS's board meeting minutes and handouts, MERS's board reviews the cash flow in its investment portfolio performance report monthly. In addition, each investment contract outlines redemption guidelines for that investment, including when the system can redeem the investment and the prior notice needed to redeem the investment. However, these documents do not show the system's current ability to liquidate its investments, as each investment's ability to liquidate can change over the duration of its contract.

Although the law does not require MERS to formally document that it considers the ability to liquidate each investment, such documentation would help the system demonstrate its compliance with state law. Without such documentation, we could not verify that MERS is in compliance with all provisions of state law. In addition, had MERS periodically monitored the FIA Leveraged Fund's ability to liquidate its assets, MERS may have questioned the fund's ability to liquidate its assets in a timely manner. As discussed earlier in this report, MERS was unable to redeem its investment when requested.

Recommendation 10: MERS should document, for each investment, its consideration of the ability to liquidate the investment at the fair market price within a reasonable timeframe for the size of the investment to ensure and demonstrate its compliance with R.S. 11:263.

Summary of Management's Response: State law does not require that MERS document this consideration. In addition, there is no legislative mandate that a formal process be in place to review liquidity on an ongoing basis for each investment. However, because of the LLA's report and request for information beyond the statutory mandates, MERS agrees that liquidity may be impacted by a number of factors which are currently identified and addressed at the time of the manager's selection. MERS will now update this information annually using the form discussed under Recommendation 8. MERS will also ask its consultant to prepare a liquidity schedule to be included in a monthly report that depicts each investment's availability for liquidity. See Appendix B for MERS's full response.

MERS's elected trustees met or exceeded all but one statutory education requirement.

During the 2009-2010 education cycle, each elected MERS trustee exceeded by 13 hours the 11 hours of investment education required by state law. Trustees also met the one hour of education regarding laws, rules, and regulations applicable to their system, and the one hour of instruction on fiduciary duty and ethics. However, MERS's elected trustees only met one of the two hours of actuarial science information education.

In addition to the statutory education requirements, best practices recommend that retirement systems evaluate the educational needs of their trustees and that the evaluations focus on the trustees' knowledge, experiences, and the nature of issues facing the retirement system. Best practices further recommend that retirement systems implement a formal trustee orientation initiative to help trustees gain valuable information before crucial decisions must be made and key votes must be cast. According to best practices, trustee orientation should include:

- Educating the new trustees on expected time commitments
- The roles and expectations of being a member of the board
- Fiduciary responsibilities
- Existing board policies
- Summary of asset allocation and investment and funding policies of the system
- Review of best practices for pension governments

Recommendation 11: MERS should ensure its trustees meet the two hours of formal actuarial science information training mandated by R.S. 11:185.

Summary of Management's Response: MERS's trustees are adequately educated and do receive the required educational hours. This requirement in state law has been met. State law does not require documentation to be maintained in MERS's files. However, based on the recommendation of best practices from the LLA, MERS is implementing a policy to maintain this documentation in the future. In addition, to better document trustee training, MERS will add a one-hour session on actuarial science to its annual trustee education program. MERS will also maintain a written record of the attendance of each trustee at an approved education forum to demonstrate their educational training. See Appendix B for MERS's full response.

Recommendation 12: MERS should continue to offer annual training specific to the needs of the retirement system and tailor its training to the stated needs of the trustees.

Summary of Management's Response: MERS's trustees have indicated how much they learn from the annual training program, which is designed around the specific investments in the portfolio, and in a more intimate setting than other conferences they attend. These sessions will continue. See Appendix B for MERS's full response.

Recommendation 13: MERS should develop a formal trustee internal evaluation to determine the education needs of each trustee as recommended by best practices.

Summary of Management's Response: While this internal evaluation of education needs of each trustee is not statutorily mandated, MERS does routinely ask the trustees for suggestions as to topics they would like to see addressed at educational sessions or monthly board meetings. In addition, the last session of MERS's educational

conference is dedicated to a review of what was covered during the week as well as a discussion of issues and topics the trustees would like to know more about. Most, if not all, of these recommendations are addressed in future board meetings or during the next year's educational session. See Appendix B for MERS's full response.

Recommendation 14: MERS should implement a formal orientation initiative for new trustees as recommended by best practices.

Summary of Management's Response: MERS requires new trustees to review the Investment Policy Statement and recent board minutes as soon as they are elected to serve. Trustees must complete a mandatory four hour educational session to be eligible to vote. Also, the director meets with each new trustee to address any areas of concern. Going forward, MERS will also evaluate the possibility of a program requiring new candidates for board elections to come to the system office for an educational orientation before they qualify to run. See Appendix B for MERS's full response.

Objective 4: Did NOFPRF meet all investment process and educational requirements mandated by state law and recommended by best practices?

NOFPRF lacked documentation to support that it met certain investment process requirements mandated by state law and recommended by best practices. Specifically, NOFPRF lacked documentation of an asset allocation study and implementation plan for each asset class and investment. As noted previously, NOFPRF does not have the same statutory guidelines as MERS, FRS, and ROVERS. We found that the law governing NOFPRF (R.S. 11:3370) does not list the factors the retirement system should include in its allocation study and implementation plan. In addition, state law does not mandate annual educational requirements for NOFPRF trustees. These issues are discussed below.

NOFPRF lacked documentation of an asset allocation study and implementation plan for each asset class and investment decision.

NOFPRF lacked documentation of its asset allocation study and implementation plan. According to best practices, the lack of a formal asset allocation study could lead to potential overexposure to unnecessary risk and to overinvestment in an asset class. The lack of a formal implementation plan could lead to trustees making investment decisions without important information regarding the potential investment such as risk, liquidity, experience of the investment manager, and expected net return.

According to NOFPRF, trustees review asset allocations on an ongoing basis and the retirement system has an informal implementation plan for each investment. For example, according to handouts from NOFPRF's board meetings, the NOFPRF board reviews the asset allocation in its investment portfolio report on a monthly basis and receives proposed asset allocation adjustments from the investment consultant. However, the system did not document or request a formal asset allocation study from the investment consultant as did another retirement system with the same investment consultant. In addition, according to NOFPRF, it reviews its asset allocation on an annual basis during its annual conference, but it does not document this review.

Although the law does not require NOFPRF to document in writing its asset allocation study or implementation plan, such documentation would help the system demonstrate its compliance with state law and help ensure that trustees have the information needed to make informed investment decisions. Without this documentation, we could not determine how the trustees made investment decisions and how this process could be improved. In addition, best practices recommend that retirement systems have policies and procedures to guide their overall selection of investments, which is part of the implementation plan. However, NOFPRF had not developed such policies and procedures. As a result, trustees do not have formal guidelines to follow when selecting investments.

Recommendation 15: NOFPRF should document its formal asset allocation study for each asset class to ensure and demonstrate compliance with R.S. 11:3370 and best practices.

Summary of Management's Response: NOFPRF concurs with this recommendation. NOFPRF's board will request its consultant to prepare a formal study and present it to the board. As part of the study, NOFPRF will identify long-term targets for each asset class included in the study and, as part of its monthly review process, will note any short-term decisions that result in an over or under weighting to these targets. NOFPRF believes it is fully compliant with R.S. 11:3370, but will make every effort to provide the additional documentation requested. See Appendix C for NOFPRF's full response.

Recommendation 16: NOFPRF should document its implementation plan for each potential investment to ensure and demonstrate compliance with R.S. 11:3370 and best practices.

Summary of Management's Response: NOFPRF concurs with this recommendation. However, NOFPRF believes it adequately documents implementation of all investments in requirement of R.S. 11:3370. NOFPRF will take the necessary steps to improve its documentation for this recommendation. See Appendix C for NOFPRF's full response.

Recommendation 17: NOFPRF should develop policies and procedures for selecting investments and an investment consultant to help the trustees meet their fiduciary responsibilities as recommended by best practices.

Summary of Management's Response: NOFPRF concurs with this recommendation. However, NOFPRF believes its current policy and practices for selecting investments and investment consultants are extensive and sufficient to meet the fiduciary responsibility of all trustees. NOFPRF will make every effort to meet this recommendation for additional documentation of its selection process. See Appendix C for NOFPRF's full response.

State law does not list the factors that NOFPRF should include in its asset allocation study and implementation plan.

NOFPRF does not have statutorily required factors to guide its asset allocation study and implementation plan in its investment process as R.S. 11:263 outlines for state and statewide systems. State law only requires NOFPRF trustees to include an asset allocation study and implementation plan in their investment process. For example, there is no provision in state law requiring NOFPRF to consider the ability to liquidate each investment at a fair market price within a reasonable timeframe for the size of the investment. However, had NOFPRF

periodically monitored the FIA Leveraged Fund's ability to liquidate its assets, NOFPRF may have questioned the fund's ability to liquidate its assets in a timely manner. As discussed earlier in this report, NOFPRF was unable to redeem its initial investment and interest earned when requested in June 2011.

Recommendation 18: NOFPRF should document, for each investment, its consideration of the ability to liquidate each investment at the fair market price within a reasonable timeframe as part of its implementation plan.

Summary of Management's Response: NOFPRF concurs with this recommendation. However, NOFPRF believes that the nature of the market place forces its asset managers to redeem at the highest possible prices, as asset managers are paid and retained based on performance. Therefore, NOFPRF feels it has no exposure in this matter. NOFPRF will adopt and implement a procedure to separately outline liquidation of each investment and display in a spreadsheet format as recommended. See Appendix C for NOFPRF's full response.

Matter for Legislative Consideration: The legislature may wish to consider establishing investment practice criteria for NOFPRF as they exist in R.S. 11:263 for state and statewide retirement systems. Current law requires NOFPRF trustees to include an asset allocation study and implementation plan in their investment process; however, it does not list criteria that should be taken into consideration. For example, when contemplating any investment, NOFPRF trustees should consider the ability to liquidate each investment at a fair market price within a reasonable timeframe for the size of the investment that is being considered.

State law does not mandate annual education requirements for NOFPRF's trustees.

R.S. 11:3370 does not mandate annual education requirements for NOFPRF's trustees as R.S. 11:185 does for state and statewide systems. In addition, NOFPRF's internal policy lacks education provisions. The lack of defined education requirements in law and policy could potentially affect the board's ability to exercise reasonable care, skill, prudence, and diligence for investment decisions and lead to potential investment losses.

According to best practices, in-house training and educational conferences should be offered to trustees of retirement systems. To determine what training the trustees received during the 2009-2010 education cycle, we requested from NOFPRF supporting documentation for each trustee showing what training they attended during this time period. During the 2009-2010 education cycle, all but one of NOFPRF's trustees received at least eleven hours of formal investment education and at least two hours of fiduciary duty and ethics training. According to the system director of NOFPRF, in addition to attending the annual LAPERS and Louisiana Trustee Education Council conferences, trustees receive education during NOFPRF's annual planning conference. This conference focuses on potential and current NOFPRF investments.

In addition to in-house training and educational conferences, best practices recommend that retirement systems evaluate the educational needs of their trustees and that the evaluations focus on the trustees' knowledge, experiences, and the nature of issues facing the retirement system. Best practices further recommend that retirement systems implement a formal trustee orientation initiative to help trustees gain valuable information before crucial decisions must be made and key votes must be cast. According to best practices, trustee orientation should include:

- Educating the new trustees on expected time commitments
- The roles and expectations of being a member of the Board
- Fiduciary responsibilities
- Existing Board policies
- Summary of asset allocation and investment and funding policies of the system
- Review of best practices for pension governments.

According to the director, NOFPRF does offer an informal "Trustee in Training" program, where prospective trustees attend board meetings to educate and prepare themselves on investments.

Recommendation 19: NOFPRF should establish an education policy defining education requirements for its board and document that each trustee is meeting these requirements as recommended by best practices.

Summary of Management's Response: NOFPRF concurs with this recommendation. NOFPRF will improve the documentation of attendance to the conferences board members attend. See Appendix C for NOFPRF's full response.

Recommendation 20: NOFPRF should develop a formal trustee internal evaluation to determine the education needs of each trustee as recommended by best practices.

Summary of Management's Response: NOFPRF concurs with this recommendation. However, NOFPRF routinely asks its trustees for suggestions as to topics they would like addressed at the educational sessions or at monthly board meetings. Therefore, NOFPRF believes it has no exposure in this area. NOFPRF agrees to increase its documentation of this process where needed. See Appendix C for NOFPRF's full response.

Recommendation 21: NOFPRF should implement a formal orientation for new trustees that includes its "Trustee in Training" program and an orientation packet as recommended by best practices.

Summary of Management's Response: NOFPRF concurs with this recommendation. However, NOFPRF believes new board members joining the Firefighters Pension and Relief Fund are well qualified and trained. Therefore, NOFPRF believes it has no exposure in this area. NOFPRF will develop an orientation program for new trustees seated on the board who have not participated in the "Trustee in Training" program. See Appendix C for NOFPRF's full response.

Matter for Legislative Consideration: The legislature may wish to consider extending the education requirements listed in R.S. 11:185 to include NOFPRF to ensure the system's trustees are receiving the education necessary to make prudent investment decisions.

Objective 5: Did ROVERS meet all investment process and educational requirements mandated by state law and recommended by best practices?

ROVERS lacked documentation to support that it met certain investment process requirements mandated by state law and recommended by best practices. Specifically, ROVERS lacked documentation of an asset allocation study and a comprehensive implementation plan for each asset class and investment decision. ROVERS also lacked documentation to support that it considered the ability to liquidate each investment. In addition, ROVERS's elected trustees did not meet all of the statutorily mandated number of education hours. These issues are discussed below.

ROVERS lacked documentation of an asset allocation study and implementation plan for each asset class and investment decision.

ROVERS lacked documentation of its asset allocation study and a comprehensive implementation plan. According to best practices, the lack of a formal asset allocation study could lead to potential overexposure to unnecessary risk and to overinvestment in an asset class. The lack of a formal implementation plan could lead to trustees making investment decisions without important information regarding the potential investment such as risk, liquidity, experience of the investment manager, and expected net return.

According to ROVERS, trustees review asset allocations on a quarterly basis but they rely on their investment consultant to inform them if any adjustments are needed and to complete an informal implementation plan for each investment. However, the system did not document or request a formal asset allocation study from the investment consultant as did another retirement system with the same investment consultant. In addition, ROVERS lacked documentation to support its examination of four (66.7%) of the six types of risk as required by state law and recommended by best practices when completing an implementation plan. ROVERS documented the review of interest rate risk and credit risk, but it lacked documentation to support that it examined market value risk, inflation risk, counterparty risk, and concentration risk.

Although the law does not require ROVERS to document in writing its asset allocation study or implementation plan, such documentation would help the system demonstrate its compliance with the law and help ensure that trustees have the information needed to make informed investment decisions. Without this documentation, we could not determine how the trustees made investment decisions and how this process could be improved. In addition, best practices recommend that retirement systems have policies and procedures to guide their overall selection of investments, which is part of the implementation plan. However, ROVERS had not developed such policies and procedures. As a result, trustees do not have formal guidelines to follow when selecting investments.

Recommendation 22: ROVERS should document a formal asset allocation study for each asset class to ensure and demonstrate compliance with R.S. 11:263 and best practices.

Summary of Management's Response: ROVERS partially concurs with this recommendation. The law requires ROVERS to implement and perform the asset allocation study, but does not require that the study be documented. However, because of the LLA's report and request for information beyond the statutory mandates, ROVERS will request its consultant to prepare a formal study and present it to the board. As part of the study, ROVERS will identify long-term targets for each asset class included in the study and, as part of its monthly review process, will note any short-term decisions that result in an over or under weighting to these targets. See Appendix D for ROVERS's full response.

Recommendation 23: ROVERS should document an implementation plan for each potential investment to ensure and demonstrate compliance with R.S. 11:263 and best practices.

Summary of Management's Response: ROVERS partially concurs with this recommendation. ROVERS is required when contemplating any investment action or asset allocation to have an asset allocation study and implementation plan. An asset allocation study must have a plan of implementation to carry out the allocation of assets. However, formal documentation of the plan of implementation is not statutorily required. On a monthly basis, ROVERS's consultant provides the trustees with a report showing the transitions of assets within the portfolio from one manager to another or one asset class to another (an implementation plan). This fulfills both the statutory mandate and best practices. See Appendix D for ROVERS's full response.

LLA Additional Comments: As stated in Exhibit 6 on page 7 of this report, the implementation plan is defined as an evaluation performed on each potential investment to help ensure each investment has the potential to produce the desired returns and meet current and future obligations. The information is usually gathered by the investment consultant and is reviewed by the board for each retirement system. This review consists of, but is not limited to, a risk assessment, market trends, and the ability to liquidate each investment.

Recommendation 24: ROVERS should document its examination of all types of risk when contemplating its implementation plan for each investment to ensure and demonstrate full compliance with R.S. 11:263 and best practices.

Summary of Management's Response: ROVERS concurs with this recommendation. Documentation of this examination is not statutorily mandated. However, because of the LLA's report and request for information beyond the statutory mandates, ROVERS agrees to improve its documentation in this area by creating a form that depicts these various types of risk outlined in R.S. 11:263 and to have this form

completed by each manager hired to manage an allocation of funds within the portfolio. See Appendix D for ROVERS's full response.

Recommendation 25: ROVERS should develop policies and procedures for selecting investments and an investment consultant to help the trustees meet their fiduciary responsibilities as recommended by best practices.

Summary of Management's Response: ROVERS concurs with this recommendation. Prior to this report being issued, ROVERS's board has taken steps to begin a Request for Proposal review of the Investment Consultant position. The recommendations in this report will be addressed to each presenter, allowing them to incorporate this into their proposals. See Appendix D for ROVERS's full response.

ROVERS lacked documentation that it considered the ability to liquidate each investment.

ROVERS lacked documentation to support that it considered the ability to liquidate each investment at a fair market price within a reasonable timeframe for the size of the investment. According to ROVERS's board meeting minutes and handouts, ROVERS's board reviews the cash flow in its investment portfolio performance report quarterly. In addition, each investment contract outlines redemption guidelines for that investment, including when the system can redeem the investment and the prior notice needed to redeem the investment. However, these documents do not show the system's current ability to liquidate each investment as each investment's ability to liquidate can change over the duration of its contract.

Although the law does not require ROVERS to document in writing that it considers the ability to liquidate each investment, such documentation would help the system demonstrate its compliance with state law. Without such documentation, we could not verify that ROVERS is in compliance with all provisions of state law.

Recommendation 26: ROVERS should document, for each investment, its consideration of the ability to liquidate the investment at the fair market price within a reasonable timeframe for the size of the investment to ensure and demonstrate its compliance with R.S. 11:263.

Summary of Management's Response: ROVERS concurs with this recommendation. Documentation of investment information to liquidate will become a standard when selecting a money manager and reviewed annually. However, state law does not require that ROVERS document this consideration. In addition, there is no legislative mandate that a formal process be in place to review liquidity on an ongoing basis for each investment. However, because of the LLA's report and request for information beyond the statutory mandates, ROVERS agrees that liquidity may be impacted by a number of factors which are currently identified and addressed at the time of the manager's selection. ROVERS will ask its consultant to prepare a Liquidity

Schedule to be included in each monthly report that depicts each investment's availability for liquidity. See Appendix D for ROVERS's full response.

ROVERS's elected trustees did not meet all statutory education requirements.

During the 2009-2010 education cycle, ROVERS's elected trustees did not meet all of their statutory education requirements as outlined in Exhibit 5 of this report. For this education cycle, ROVERS could only provide documentation of an agenda for the National Conference of Retirement Systems and financial documentation of payments for the attendance of four of the elected trustees. However, these documents did not show the education subjects or how many hours each trustee received. According to ROVERS, it also held an internal education conference during this time period but could not provide evidence such as education material or attendance logs for us to review. The lack of formal investment education could potentially affect the board's ability to exercise reasonable care, skill, prudence, and diligence for investment decisions and lead to potential investment losses.

In addition to the statutory education requirements, best practices recommend that retirement systems evaluate the educational needs of their trustees and that the evaluations focus on the trustees' knowledge, experiences, and the nature of issues facing the retirement system. Best practices further recommend that retirement systems implement a formal trustee orientation initiative to help trustees gain valuable information before crucial decisions must be made and key votes must be cast. According to best practices, trustee orientation should include:

- Educating the new trustees on expected time commitments
- The roles and expectations of being a member of the board
- Fiduciary responsibilities
- Existing board policies
- Summary of asset allocation and investment and funding policies of the system
- Review of best practices for pension governments

Recommendation 27: ROVERS should document and ensure its trustees meet all of the educational requirements mandated by R.S. 11:185 to include eight hours of formal investment training, two hours of actuarial science information education, one hour of education regarding laws, rules, and regulations, and one hour of fiduciary duty and ethics training.

Summary of Management's Response: ROVERS concurs with this recommendation. ROVERS is implementing a policy to maintain education documentation from henceforward. ROVERS believes its trustees are adequately

educated and do receive the required educational hours. See Appendix D for ROVERS's full response.

Recommendation 28: ROVERS should develop a formal trustee internal evaluation to determine the education needs of each trustee as recommended by best practices.

Summary of Management's Response: ROVERS partially concurs with this recommendation. While this internal evaluation of education needs of each trustee is not statutorily mandated, ROVERS does routinely ask the trustees for suggestions as to topics they would like to see addressed at its educational session which is held for one day in the summer or at a monthly board meeting. Most, if not all, of these recommendations are addressed in future board meetings or during next year's educational session. See Appendix D for ROVERS's full response.

Recommendation 29: ROVERS should implement a formal orientation for new trustees as recommended by best practices.

Summary of Management's Response: ROVERS partially concurs with this recommendation. Since the first interview with LLA staff, ROVERS has considered the education of a new board member. New legislation for ROVERS which implements term limits for trustees was passed in 2011 and ROVERS's staff compiled a binder with information to allow a new trustee to become familiar with the system. See Appendix D for ROVERS's full response.

Additional Matter for Legislative Consideration

State law does not clearly state whether educational requirements apply to ex-officio trustees (non-elected members).

R.S. 11:185 does not clearly state whether ex-officio trustees for all retirement systems shall complete continuing education or professional development training during each 12-month education period. As a result, not all the retirement systems we reviewed tracked the education hours received by ex-officio trustees. Therefore, we could not determine if ex-officio members met the requirements during our review. Currently, the retirement systems are not consistently tracking ex-officio member education requirements.

Matter for Legislative Consideration: The legislature may wish to consider clarifying whether the education requirements apply to ex-officio trustees (non-elected members) and their designees for all retirement systems as mandated by R.S. 11:185.

APPENDIX A: FRS's RESPONSE



FIREFIGHTERS RETIREMENT SYSTEM

P.O. Box 94095, Capitol Station
Baton Rouge, Louisiana 70804-9095
Telephone (225) 925-4060 • Fax (225) 925-4062



March 30, 2012

Daryl G. Purpera
Louisiana Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

**Re: FRS Response to Performance
Audit Report**

Mr. Purpera:

Pursuant to your letter dated March 22, 2012, please find the enclosed FRS response to the recently completed Performance Audit Report. The version contained in this packaged has been authorized for "e-signature" by myself and the FRS board chairman. Our board of trustees will hold a regular meeting on April 12th and, on that date, I will obtain original signatures and promptly forward to your office. Thanks for your attention to this matter.

Respectfully,

Steven S. Stockstill,
FRS Executive Director

cc: FRS Board of Trustees

WPFILE/purpera4



FIREFIGHTERS RETIREMENT SYSTEM

P.O. Box 94095, Capitol Station
Baton Rouge, Louisiana 70804-9095
Telephone (225) 925-4060 • Fax (225) 925-4062



AUDIT RESPONSE

The Firefighters' Retirement System ("FRS") is required by state law to undergo a regular annual audit by the Legislative Auditor. The framework of the annual audit is established by law. The annual audit is usually performed by a contract auditor that has been preapproved by the Legislative Auditor's office. The firm known as Duplantier, Hrapmann, Hogan & Maher currently provides audit services to FRS on behalf of the Legislative Auditor. Duplantier's annual audit report is submitted to the Legislative Auditor. FRS received an unqualified opinion ("clean audit") from its auditors every year under current FRS management, i.e., for the past 10 years. This legislative audit report is not part of that annual audit process. This legislative audit came about at the request of the Chairmen¹ of the House and Senate Retirement Committees. Unlike the regular annual audit, the framework of this legislative audit was established solely by those two legislators, not by law.

As an auditee, the FRS board of trustees applied the "clean hands" doctrine and instructed the FRS staff to cooperate with the Legislative Auditor's office in all respects. FRS provided all documents requested of it, which constituted stacks of reams of paper. To understand the magnitude of documentation provided to the auditors, the reader is referred to Exhibit #2, which is a 17-page summary listing of such documents. After the audit was completed, FRS was informed that it would be provided a draft copy of the audit report and would be able to discuss the draft report with the audit staff, all in accordance with normal audit procedures. FRS was provided with a copy of the draft report and did discuss it with the audit staff, all prior to the release of the final audit report. Upon receiving the final legislative audit report, FRS respectfully submits this response thereto.

There are five recommendations pertaining to FRS in the final audit report. FRS concurs with all five recommendations, but partially dissents from one. However, in all five cases, FRS consents to affirmatively change its procedures to be more in line with the standards described in the audit recommendations. FRS recognizes that reasonable minds may differ on a given subject. FRS in no way criticizes the auditors for the conclusions drawn by them in this audit report. However, where FRS dissents from the auditors' conclusions, it does so respectfully, professionally, and based on what it believes to be the correct application of the law governing its operations. FRS submits this response in that respectful spirit. Section I of this response addresses the recommendations made in the audit report. Section II addresses certain statements that were contained in the report, but not necessarily included in any recommendation. Section III provides closing remarks.

-
1. The legislative report says that the report is provided "in response to a legislative request from the House and Senate Committee on Retirement." (p1) Based on a review of the letter written jointly by the chairmen of the House and Senate Committees on Retirement, to the legislative auditor, it appears to be limited to a request being made solely by the two chairmen. There is no indication in the letter of a committee vote having been taken requesting a legislative audit, nor is there reference to any legislative instrument having passed making such a request. A copy of the letter from the chairmen is attached hereto as Exhibit #1.

I. FRS Response To Audit Recommendations

Recommendation 1: FRS should document its examination of all types of risk when completing its implementation plan for each investment to ensure and demonstrate full compliance with R.S. 11:263 and best practices.

FRS Response: The audit report lists the following six types of risk that FRS should document the examination of when completing an implementation plan for each investment:

- **market value risk**
- **credit risk**
- **interest rate risk**
- **counter-party risk**
- **inflation risk**
- **concentration risk**

The audit report concedes that FRS already documents its examination of the first four risks listed above. When this recommendation refers to documenting "all types of risk", it really means only the last two types listed above, because the other four are already being documented.

The law requiring documentation of risk did not come into existence² until July 1, 2010. FRS' practice of documenting risk was in existence long before then. While FRS will continue its longstanding practice of documenting market value risk, credit risk, interest rate risk, and counter-party risk, FRS will now assure that inflation risk and concentration risk are also included in the overall risks examined and documented.

Recommendation 2: FRS should document for each investment its consideration of the ability to liquidate that investment at the fair market price within a reasonable time frame to ensure and demonstrate its compliance with R.S. 11:263.

FRS Response: The FRS staff will present to the FRS board of trustees, a recommendation requiring the FRS investment consultant to provide the board with documented information regarding FRS' ability to liquidate all present and future FRS investments at their fair market price within a reasonable time frame; and, if accepted by the FRS board, consideration of that information will be memorialized in FRS' minutes.

Added Response: The audit report says that "the law does not require FRS to formally document that it considers the ability to liquidate each investment[.]" It is important to highlight this statement so readers understand that the auditor rightly concedes that the

2. See Acts 2010, No. 1004, §§1, 2, eff. July 1, 2010

suggested documentation is not required in order for FRS to comply with the law (R.S. 11:263).

To further address Recommendation 2 in logical order, it is broken into the three component parts shown below- For each investment, FRS should document its consideration of:

- Ability to liquidate the investment;
- At the fair market price;
- Within a reasonable period of time.

First- Ability to liquidate the investment.

Liquidation of an investment is typically discussed when the FRS board of trustees analyzes a potential investment. Note the following statement made to the FRS board by an investment manager when specifically asked about liquidation-

"We're not looking to buy stock that we can't sell. We're buying convertible preferred stock. Generally our initial position is no more than 5% of the company's market cap and that very important 5% is no more than a couple of weeks of trading volume. What that means is when we make an investment, unlike a debt holder, or a real estate holder, or a private equity investor, we can liquidate in a matter of weeks. So we can get our capital back and that's how we operate. Everything we're doing, even if we're buying preferred stock or debt, we want to be able to get our money back in short order. Why that's important is, when things start to head south, and if you're a debt holder and your debt doesn't start to come up until 3 years, 5 years, or 10 years from now, there's not a whole lot you can do. In this market, people are trying to sell debt instruments over the street and there just are no buyers. In the equity markets, there's buyers and sellers that meet every day. We can convert every instrument that we have and sell it in the market."

Second- Fair market price.

As institutional investors, the FRS trustees make each investment based on the expectation of liquidating the investment at its fair market price. With rare exception, most investors go into an investment expecting a return equal to or greater than fair market price; that is conventional. It is unconventional to believe an investor would give over good value expecting less than fair value in return. It would seem more reasonable to document the unconventional practice, if it ever happened, rather than routinely documenting the conventional practice.

Third- Within a reasonable period of time.

In the first component above, the manager asserted that the investment could be liquidated in a matter of weeks. However, the FRS board did not rely solely on the manager's assertions. The timing for liquidation was also set forth in the contract governing the investment. The contract required a two-year lock-up period during which the investor could not withdraw its funds. After the two-year lock-up, the investor could withdraw any or all of the funds invested. The contract allows the manager up to 60-days to respond to the withdrawal request by either providing cash or an in-kind distribution of assets from the investment fund. After collectively deliberating about the terms of the investment, the FRS board accepted the terms of liquidity as being a reasonable period and documented the terms in the form of a contract.

FRS does consider, for each investment, the ability to liquidate that investment at the fair market price within a reasonable time frame. FRS' consideration (its public meetings and discussions) are permanently memorialized as public record on both audio tapes for listening and DVDs for visual review. However, the board's full discussion of each investment may not be documented in the system's written minutes, because the minutes are a summary of the proceedings.

To reiterate, although the type of documentation set forth in Recommendation 2 is not required by law, the FRS staff will construct and present to the FRS board a policy consistent with Recommendation 2.

Recommendation 3: FRS should ensure its trustees meet all of the educational requirements mandated by R.S. 11:185.

FRS Response: FRS asserts that it has fully satisfied all educational requirements set forth in R.S. 11:185 (see more details below). However, to assure that future compliance can be verified by independent documentation, FRS will change its business model regarding providing educational opportunities to the FRS board of trustees. As soon as can be practically implemented, FRS will only provide educational opportunities that are established by an agenda prepared in advance and any such educational presentations will be made in a traditional lecturer/classroom type setting. Attendance records will be kept in conjunction with that program.

Details of FRS compliance- The audit report says in part that "During the 2009 to 2010 education cycle, FRS' elected trustees did not meet all of their statutory requirements[.]" For the following six reasons, FRS respectfully dissents from this audit statement.

First, R.S. 11:185 is the statute covering trustee-education requirements. R.S. 11:185 was enacted by HB1325 of the 2003 regular session of the legislature and became Act No. 953 upon enrollment. HB1325 was authored solely by Rep. Schneider, with no co-authors. HB1325 was heard in the House Retirement Committee on 05/07/2003 and was reported 8-0,

with amendments. That committee meeting is memorialized in the video archives of the House of Representatives and is available through the internet. The committee discussion can be watched on video by accessing the House Video Archives at "<http://house.louisiana.gov/>" or, alternatively, the video file can be viewed through Real Player by using the following file name: <rtsp://realserver1.legis.state.la.us:554/2003/may/REmay07.rm>. The video was available to the public at all times during this audit.

FRS was involved in all phases when R.S. 11:185 was enacted into law. That involvement included, but was not limited to the following: (1) Multiple private discussions with Representative Schneider, the author of the enabling legislation, prior to its initial enactment and subsequent amendments, (2) Review of the bill in its original form and discussions with appropriate legislative staff, (3) Attendance of the House and Senate legislative committee meetings during the enactment process, and (4) Attendance of House and Senate consideration of the bill on the floor of each chamber. Therefore, FRS has firsthand knowledge of the intent of the legislation. In contrast, and by operation of law, the Legislative Auditor's office probably had relatively minimal involvement in the process other than preparing a cost analysis (actuarial note) for the bill prior to its introduction. A review of the committee video shows that Mr. John Sondergaard was the only person in attendance on behalf of the Legislative Auditor's office. Mr. Sondergaard was the legislative actuary. Mr. Sondergaard did not testify in connection with HB1325. There are no Senate Retirement Committee video archives available on-line for that period.

Second, FRS provided evidence that each elected trustee met the educational requirements. For the particular cycle mentioned in the audit report, FRS furnished a spreadsheet showing the name of each trustee and the specific dates that the trustee obtained the required educational hours. (see attached Exhibit #3) Each hour shown on the spreadsheet can be tied back to the educational sources discussed more fully below.

Third, the law (R.S. 11:185) does not require FRS to keep training records for audit purposes. The legislative auditor has an internal standard that it applies as part of its own audit process. That internal standard requires documentation, but there is no such legal requirement. Contrarily, the law only requires the following two pieces of documentation:

- (1) FRS shall "submit to the House and Senate committees on retirement a letter stating whether or not each member of that board has met the requirements[.]" (see attached Exhibit #4)
- (2) "No board member . . . shall receive per diem during any calendar year unless and until he has completed the fiduciary and ethics requirement and at least one hour each of investment, actuarial science, and legal education in the current twelve-month cycle. The system shall submit evidence of training in compliance with this Paragraph to the speaker of the House of Representatives and the president of the Senate within fourteen days after the completion thereof."

It was made clear by the author when the enabling legislation was being passed through the process, that the educational requirements were designed to upgrade the training and expertise of retirement board members. It was never portrayed as a rigorous, formal, punitive program as implied by the this audit report. In fact, when the bill was introduced in its original form, it did not require the boards to submit any evidence of training to the House and Senate. That requirement was added to the bill as a House Committee Amendment. Moreover, the standard of providing education is so relaxed that R.S. 11:185 states- "These training hours may be conducted by the staff of the respective retirement systems or by outside experts."

At the time R.S. 11:185 was enacted, the author (Rep. Schneider) made it clear that it was being modeled such that the board members could obtain most if not all of their educational requirements from their staff or from LAPERS. When Chairman Schneider introduced his bill to the committee he testified about its intent. He said that most retirement systems have an actuary, an investment consultant, and an attorney and the trustees could receive their education from those sources. That's what he said. That was the intent. There was no contradictory testimony whatsoever. This can be seen by viewing the archived video.

Chairman Schneider further stated that trustees could obtain any residual training by attending the LAPERS educational conference. LAPERS is an annual conference that was originated by the House of Representatives in 1989. The conference was initially organized by the House, it was named after the House, and the House Speaker was its annual keynote speaker. In fact, the annual conference directory contains the following entry- "One of the primary educational forums sponsored by the organization is the Louisiana Public Retirement Seminar, founded in 1989 by then Representative V.J. Bella." Then in 1991, organizing of the conference was turned over to the public retirement systems' association known as LAPERS (Louisiana Association of Public Employee Retirement Systems).

Fourth, the provisions of R.S. 11:185 do not require educational hours to be obtained in a formalized lecturer/classroom setting. Again, the author of the bill purposely relaxed the requirements by allowing the retirement system staffs to provide education to their trustees. To reiterate, R.S. 11:185 states in part that- "These training hours may be conducted by the staff of the respective retirement systems or by outside experts[.]" This is important to know because, if a trustee attends every hour of the LAPERS conference, then the trustee will still be short by one hour related to actuarial science. The law requires two hours of actuarial training and LAPERS only provides one classroom hour of actuarial training. There are a variety of ways a retirement system can assure its trustees receive the additional hour of actuarial training during the yearly educational cycle. For instance, the retirement system can incur the cost of sending a trustee(s) to another conference to obtain that one hour. That might involve paying travel, hotel, and conference registration expenses. Alternatively, the retirement system can do what the law allows by having the staff provide the one additional actuarial hour to its trustees. That is what FRS does.

Likewise, there are occasions where a trustee cannot attend the entire LAPERS conference. In that situation, a trustee might miss one or more educational hours. Again, the law allows the retirement systems' staffs to provide education to their trustees. In the foregoing situation, the FRS staff does just what the law allows. FRS staff provides the training hours needed by the trustees.

Each year, the FRS actuary appears before the FRS board and presents his annual actuarial valuation of the system. During his presentation, he typically covers the same subjects that are covered in the LAPERS educational presentation. Except, in this case, the presentation is tailored specifically to FRS, which is more meaningful in content than the generic information received at LAPERS. Moreover, the FRS actuary is retained on contract by FRS, so he is already being paid for his expertise. The board can receive the information in a board meeting setting and the system avoids incurring the travel expenses described above. The board members are free to ask questions and there is no time limit for discussions conveying educational content. This same information was explained to the audit staff. However, none of this educational material was acceptable as "training" for their audit purposes, because the FRS agenda did not specify that the actuarial presentation was also training. That observation is based entirely on the auditor's internal standards and not on law, and clearly places form over substance, but the FRS response provides a solution.

Each month, the FRS investment consultant appears before the board and provides a lengthy, comprehensive "market overview". During his presentation, he typically covers the same subjects that are covered in the LAPERS educational presentation. Except, in this case, the presentation is tailored specifically to FRS, which is more meaningful in content than the generic information received at LAPERS. Moreover, the FRS investment consultant is retained on contract by FRS, so he is already being paid for his expertise. The board can receive the information in a board meeting setting and the system avoids incurring additional expenses. The board members are free to ask questions and there is no time limit for discussions conveying educational content. This same information was explained to the audit staff. None of this educational material was acceptable as "training" for their audit purposes, again, based on the same form-over-substance reasoning.

The irony of the audit standard as applied here is this- If former Federal Reserve Chairman Greenspan was invited as a guest lecturer at LAPERS, then no doubt his market overview would be counted as an hour of investment training. However, if former Chairman Greenspan worked as a partner of the investment consulting firm that services FRS, and if he appeared before the FRS board to give the same market overview, then the audit standard applied here would not accept that as "training" for audit purposes.

The audit report goes on to say- "A lack of formal education could potentially affect the board's ability to exercise reasonable care, skill, prudence, and diligence when making investment decisions and lead to potential investment losses." And more- "Best practices further recommend that retirement systems implement a formal trustee orientation

initiative[.]" These statement are impeached based on several points. For instance, the statement references a lack of "formal training". A cursory review of R.S. 11:185 shows that the phrase "formal training" does not appear anywhere in the law. The law was intentionally relaxed so the trustees could receive education in any format approved by the administrators of the law, i.e., FRS. There is no legal requirement that the training be formalized. That is a standard manufactured for purposes of this audit. Additionally, the statement says "could potentially affect" and "potential investment losses." These statements, taken in isolation, imply that there has been an affect that caused losses. However, the audit process that is so reliant on documentation, cites no fact or documentary evidence showing that the educational process used by FRS has ever had any negative effect. The audit statements are pure speculation and that is the standard the report uses as the basis for its conclusion. FRS is being evaluated based on audit speculation. Lastly, the statement references best practices without disclosing the source of such practices. That begs certain questions like- Whose best practice? How similar to FRS is the entity that FRS' practice is being compared? How successful or meaningful have those practices worked for the practicing entity? The nondisclosure of the source used for "best practices" means FRS cannot test the validity or reliability of such practices. For these and many other reasons, the audit statements referenced above impeached in their entirety.

Fifth, the audit report says it is not clear whether the educational law applies to ex-officio trustees. However, the audit report fails to recognize another area where the law is also not clear. The law requires training in certain specific subjects, but it does not clearly define what is meant by each subject (except the actuarial subject matter is defined). There is no accreditation body that reviews and approves material for purposes of satisfying the law. Nor does the law say who determines whether or not an hour counts as training. The law was never meant to be applied that rigorously. However, there is a legal concept that provides guidance where the law is unclear. It is based on the judicial concept of contemporaneous construction, which recognizes the importance of FRS' interpretation of R.S. 11:185. Where the law is unclear, the courts place the interpretation of the law squarely within the purview of FRS. Substantial weight is given to FRS' interpretation. That concept is uniformly applied in a legion of cases that hold as follows-

"A long settled contemporaneous construction by those charged with administering the statute is given substantial and often decisive weight in its interpretation." *Traigle v. PPG Industries, Inc.*, 332 So.2d 777, 782 (La.1976).

"Where a public body has over a long period of time placed an interpretation upon a legislative grant of authority, the interpretation of that body is entitled to a great weight." *Ouachita Parish School Board v. Ouachita Parish Supervisors Association*, 362 So.2d 1138 (La.App. 2nd Cir.1978).

Nowhere in the provisions of R.S. 11:185 or in the approach taken by the courts, does the law vest legal interpretations within the purview of the legislative auditor's office. When that point was explained to the audit staff during the exit meeting, one auditor said "We make those calls all the time." That is acceptable. After all the auditors have to make judgment calls in order to do their job. However, the basic separation of government powers recognizes the following- (1) The legislative branch passes the laws, but it is not vested with authority to be the interpreter of the law. This audit is being conducted by the legislative branch, i.e., the legislative auditor, (2) The executive branch is charged with administering the law. FRS is an executive branch agency, and (3) The judicial branch is the final authority for deciding whether the executive branch is interpreting the law correctly, not the legislative branch or the legislative auditor. In fact the judicial branch holds that the interpretations made by those charged with administering the law (the executive branch - FRS) are given substantial and often decisive weight in its interpretations.

Given that the educational law was passed in 2003 and amended in 2004, and FRS has been administering the law from its inception, it seems reasonable to infer that FRS' interpretation of the law is accorded substantial and probably decisive weight in its interpretation; particularly since the law is not clear. In contrast, the audit report seeks to superimpose its own interpretation of the law as though there is some underlying authority for it to do so. The legislative auditor's interpretation is admittedly necessary for their audit standards, but based on elementary civic authority and judicially recognized concepts, the legislative auditor's interpretation is given much less weight than that of FRS.

Sixth, in response to the audit report, FRS sought the opinion of independent counsel. After reviewing the same evidence that FRS gave over to the legislative auditors, the consulting legal counsel rendered an opinion supporting FRS' observations regarding R.S. 11:185. (see attached Exhibit #5)

For the forgoing reasons, FRS respectfully but firmly dissents from the entire audit statement above regarding R.S. 11:185. However, as previously stated, FRS will change its business model in order to be more closely aligned with the audit standards described in this Recommendation 3.

Recommendation 4: FRS should develop a formal trustee internal evaluation to determine the education needs of each trustee.

FRS Response: This is a constructive recommendation that FRS will implement as soon as practical.

Recommendation 5: FRS should implement a formal orientation initiative for new trustees.

FRS Response: This is a constructive recommendation that FRS will implement as soon as practical.

II. FRS Response To Statements Contained In The Audit Report

The following narrative statements appear in the Audit Report on the pages indicated below-

Exhibit 3 of Audit Report. "As can be seen from this exhibit, none of the systems have met its actuarial assumption for the last 20 years. If retirement systems do not meet their actuarial assumptions, the systems or their members may potentially have to increase contribution rates to meet future liabilities."

FRS Response: This statement implies that the retirement systems mentioned in this report did not meet their actuarial assumptions at any time during the prior 20-year period.³ That is not the case. The auditor's exhibit references the "average" investment returns. However, that average factors in two of the worst years in the entire history of the worldwide capital markets, i.e., 2008/2009. Those two years severely skew the averages shown in the audit exhibit. It is equally important to view FRS' investment returns on a fiscal year basis over the same 20-year period. A review of that type shows that FRS' investment returns did exceed the actuarial assumption more often than not in that same period. That fact is more important than the 20-year average investment returns, because FRS pays benefits on a monthly basis. It is far more important to measure the returns of FRS in the immediately preceding year, because that period generates the cash flow needed by FRS to pay its upcoming monthly benefits. The 20-year average is admittedly important from a strategic standpoint, but the amount earned last year is just as important from a tactical and cash flow management standpoint. The audit exhibit that only portrays the average return lacks balance until the annual return is viewed in the same light.

This audit statement also implies that the retirement systems mentioned in this report are the only systems whose average returns did not meet their actuarial assumptions during the prior 20 years. That is not the case. The catastrophic condition of the capital markets during calendar years 2008 and 2009 were widely publicized in all media (see media excerpts below). During those years, one of the four ancient pillars of Wall Street ceased to exist, i.e., Lehman Brothers; along with one of the largest investment banks in the country, i.e., Bear Stearns; along with one of the largest brokerage firms in the country, i.e., Merrill Lynch; along with a federal government bail-out that was necessary to avoid the total collapse of the worldwide banking system and this country's economy. The retirement systems mentioned in this report certainly suffered during that period. When the historic losses for that 2-year period are averaged into the returns over the last 20 years, then it certainly brings the average annual return to less than 7½%. However FRS and the other systems mentioned in this report are not the only systems that had its average return suffer by factoring two historical down years into the equation.

3. Upon review by the FRS CPA, there is some question as to whether the calculations shown in the audit exhibit are correct.

It would have been informative if this audit report had provided a survey of other pension funds in Louisiana (or the country). It is probably a fact that many retirement systems suffered the same fate and consequently earned less than their actuarial assumption when averaged into a 20-year period. A survey of that type would have probably shown that the earnings of the retirement systems mentioned in this report are as good or better than its peer systems. For example, please refer to the chart immediately below showing the portfolio earnings of FRS compared to one of the largest public pension funds in Louisiana during the two historic down years.

PEER COMPARISON CHART		
	FRS	Larger System
2008	-05.0%	-05.1%
2009	-20.8%	-22.7%

In FY 2009, the larger system's assets devalued by 1.9% more than FRS. 1.9% of the larger system's assets equals approximately \$208.6 million. If the larger system had the same asset allocation as FRS in FY 2009, then the larger system's assets would have been worth \$208.6 million more than it was in that FY. The sum of that one-year devaluation in 2009 is more than the total assets of each of the three smallest Louisiana statewide public retirement systems in the same year. The information used to compile this chart was readily available through the applicable systems' internet websites at all times during the legislative audit.

Regarding contributions, it is important to note that increased contributions are likewise not a phenomenon experienced solely by the retirement systems mentioned in this report. It is acknowledged that pension contribution levels across the country have caused employers to reach the stress point. In fact, it was recently announced that the capitol city of Pennsylvania had to declare bankruptcy because its liabilities exceed its assets. It was heretofore unthinkable that a state's capitol city would default on its municipal bond obligations, but that is apparently the case with Harrisburg, Pennsylvania. Contributions increased as a chain reaction to devalued pension assets that resulted from capital market deleveraging in 2008 and 2009. But that phenomenon is not unique to the retirement systems mentioned in this report. The phenomenon also impacted the private sector. These two recent media stories are typical of many stories written on the subject and illustrate the widespread nature of the situation-

Headline- Pension Pain Mounts as Low Rates Boost Liabilities. General Electric (GE), Boeing Co. (BA) and 3M Co. (MMM) will join big U.S. employers in making a record \$100 billion in 2012 pension contributions, 67 percent more than two years ago, as low interest rates boost companies' liabilities. Payments may total \$400 billion from 2011 through 2015 to ease underfunding at the 100 largest defined benefit programs, according to consultant Milliman Inc., which estimated that assets

in January were enough to cover less than three-fourths of projected payouts. It's been called the wall of contributions. *Bloomberg*, Thomas Black - 02/28/2012

Headline- The Unintended Consequences of Freezing A Defined Benefit Plan. Without question the last decade has created a difficult situation for sponsors of public defined benefit plans, as they find themselves in the perfect storm of decreased revenues and increased pension costs. Municipal revenues, largely dependent on ad-valorem taxes, have fallen with the popping of the real estate bubble. Equities have posted their worst decade since the depression. The supermajority of DB plans have not met their assumed rates of return, resulting in increased contribution requirements by plan sponsors. *Pension Observer*, Joe Bogdan, Winter 2012

Footnote 7 of Audit Report. "FRS recorded seven hours of investment training for the two trustees who received ten hours from the LAPERS conference."

FRS Response: This statement refers to training hours recorded on an FRS spreadsheet that was provided to the auditors. The auditors' did not ask for an explanation from the FRS staffer who compiled the spreadsheet. If they had, then they would have been told that some trustees obtain education credits from sources other than LAPERS. For example, since FRS is a hazardous duty plan, some trustees attend the Annual Public Safety Retirement Systems' conference for continuing education purposes. When that occurs, the trustee is credited with those hours. If the trustee received one hour of investment credit from that source, then one less hour would be credited from LAPERS. The law requires eight hours of investment training. Showing the total number of hours received from both sources would not achieve any particular objective. So, when reporting credit from separate sources, the spreadsheet sometimes only shows whatever partial amount of credit that is needed from one or the other or both sources to fully comply with the law.


III. Closing

FRS strives to be a good citizen and a well managed agency. The board of trustees consists of the Commissioner of Administration, State Treasurer, House and Senate Retirement Chairmen, two Mayors appointed by the LMA, a Fire Chief elected by the Louisiana Fire Chiefs' Association, two active firefighters, and one retired firefighter. These trustees all recognize that taxpayers expect public agencies to be managed prudently and on a fiscally sound basis. With that point in mind, each FRS trustee embraces the constructive nature of this audit report and looks forwarding to bettering FRS' business practices in a cooperative spirit.

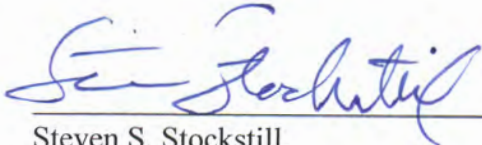
[NOTE: According to the audit process, FRS is required to submit its final, unalterable response to the legislative auditor, based on the last draft version of the auditor's report. The legislative auditor can then alter or revise its own final draft without FRS having an opportunity to respond to the auditor's changes. The response set forth herein above is FRS' final response. If the auditor makes any changes to its report hereafter, then some of the comments made herein by FRS may seem

unnecessary or out of context. If that is the case, then FRS will post a follow-up response on its internet website located at "<http://www.lafirefightersret.com/>".]

Respectfully submitted,



Charles Fredieu, Chairman
FRS Board of Trustees



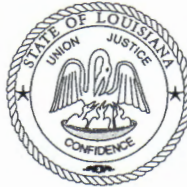
Steven S. Stockstill,
FRS Executive Director

THE LOUISIANA LEGISLATURE

House and Senate Committees on Retirement

Representative J. Kevin Pearson
Chairman
Representative Jean M. Doerge
Vice Chairman

Representative Page Cortez
Representative Hollis Downs
Representative Reed S. Henderson
Representative Frank A. Hoffmann
Representative Juan A. LaFonta
Representative Jack Montoucet
Representative J. Rogers Pope
Representative Kirk Talbot
Representative Joel C. Robideaux



Senator D.A. Butch Gautreaux
Chairman
Senator Elbert Guillory
Vice Chairman

Senator Conrad Appel
Senator A.G. Crowe
Senator Fred H. Mills, Jr.
Senator Ben Nevers
Senator Jonathan W. Perry

Senator Robert W. "Bob" Kostelka
Interim Member

Friday, July 15, 2011

Mr. Daryl Purpera
Louisiana Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804

Dear Mr. Purpera,

As chairmen of the House and Senate Committees on Retirement, we are ex officio members of all boards of trustees of the state and statewide retirement systems. We also serve as the designees on the Public Retirement Systems' Actuarial Committee for the presiding officers of our respective chambers. You are, of course, aware of these facts and share with us our duties as PRSAC members in your capacity as an ex officio member of that body.

In light of the recent national media attention focused on three Louisiana public pension systems' investments with Fletcher Asset Management through their investment consulting firm CSG, we feel we must request the services of your office to be sure we are meeting our fiduciary obligation to the members and retirees of the statewide retirement systems, to the public agencies funding part of their employees' compensation through benefits accrued in these systems, and to the citizens whose hard-earned money pays directly for the public employees' compensation and indirectly for any investment losses suffered by the retirement systems.

For these reasons, we are requesting that your office examine the investments of the three statewide retirement systems utilizing CSG. These are the Firefighters' Retirement System, the Municipal Employees' Retirement System, and the Registrars of Voters Employees' Retirement System.

Although we do not serve as trustees for the New Orleans Fire Fighters' Pension and Relief Fund and their valuations are not subject to adoption by PRSAC, they are a creation of the legislature and are funded directly and indirectly by taxpayers, and therefore are of much concern to us. We leave to your discretion a determination of whether that system should also be examined and a determination of the proper entity, whether your office or some other state or local agency, for assessing the investments of that retirement fund.

We likewise defer to you regarding the proper approach to take in making your examination and report on the above-named systems. We recognize that more than one area of expertise and a significant investment of personnel and other state resources may be needed to cover the questions outlined below; however, the issue of properly accounting for the assets and liabilities of the state and statewide retirement systems is receiving intense public scrutiny at this time, and appears poised to take on a national significance. The Louisiana legislature has an explicit voter-mandated constitutional duty to provide retirement benefits for public servants. As chairmen of the oversight committees, we are responsible for leading our colleagues in fulfilling this duty.

The questions we would like you to answer for us regarding the above-named systems fall into two categories, and are:

- (1) Investment process. By what process does each system's board (a) determine its asset allocation; (b) select the vehicles in which to invest the assets based on that allocation; and (c) choose which sector of the asset allocation into which each vehicle is properly classified?
- (2) Asset valuation. What is the "true" value of the assets held by each system as of June 30, 2010, on which the valuations PRSAC receives from your office will be based, ensuring the valuation accurately reflects the health of the system and provides for actuarially sound funding of the system's accrued liabilities?

We would also like your office's assessment of whether the provisions of House Bill 1229 of the 2010 Regular Session and limitations on investments such as those included in the Original version of Senate Bill 594 of the 2010 Regular Session, if adapted for application to the statewide retirement systems, would provide better investment processes and outcomes.

We believe that the Louisiana Legislature has been a national leader in moving toward sound public retirement system policy in the last quarter century. We ask for your help in continuing this trend.

Please let us know at your earliest convenience a tentative time line for initiating and completing this process.

Sincerely yours,

(S I G N E D)

Representative J. Kevin Pearson

(S I G N E D)

Senator D.A. "Butch" Gautreaux

/kls

cc: The Honorable Jim Tucker, Speaker of the House of Representatives
The Honorable Joel Chaisson, President of the Senate
Members of the House and Senate Committees on Retirement
Mr. Steven Stockstill, FRS Executive Director
Mr. Bob Rust, MERS Executive Director
Ms. Lorraine Dees, ROVERS Executive Director
Mr. Richard Hampton, NOFF Board President

LIST OF DOCUMENTS PROVIDED TO LLA SEPTEMBER 16, 2011

TAB

I Administrative Policies and Procedures (including Governance Manual, Code of Ethics, etc.)

FRS Policy Manual

Statutory Code of Ethics - R.S. 11:1101 et seq.

Ethics Publications Information Sheets

Abuse of Office

Donations

Gifts

Nepotism

Post Employment

Prohibited Contracts

Prohibited Sources

Travel Expenses

II Board of Trustees Educational Policy

Statutory Mandatory Continuing Education - R.S. 11:185

III Policies and Procedures for Selecting Agents (such as investment advisors, actuaries, auditors, etc.)

Written Procedures for Selecting Long-Only Investment Manager

Minutes, May 8, 2008

Minutes, June 12, 2008

CSG Report - Large Cap Value Search, June 2008

Minutes, July 17, 2008

Spreadsheet - FRS LCV Manager Comparison

Profiles - LCV Firm & Strategy Analysis

Minutes, August 21, 2008

Written Procedures for Selecting Alternative Class Investment Managers

Minutes, March 13, 2008

IV List of Board Members Since 2004

List of FRS Trustees Serving In Each Year 2004-2011

V Board Member Qualifications

Statutory Composition of FRS Board Membership and Qualifications - R.S. 11:2260

VI Evidence of Training by Board Members

FRS Spreadsheet - Dates of Board Member Education 2010-2011

LAPERS Conference Administrator's Letter dated 09/28/10, List of FRS Board Members
Attendance of Specific Classes

LAPERS Secretary's Spreadsheet, List of FRS Board Member Registrations of Attendance
of LAPERS annual conference, 2004-2010

LAPERS 2011 Seminar Brochure

VII CSG Contract (including general contract procedures and the selection process)

CSG Contract 07/08/09

Minutes, FRS Investment Committee 10/08/03

FRS Draft Prototype RFP

Memo/Stockstill-Trustees/10-02-03 re Draft RFP

MPERS Prototype RFP

Dept of Treasury Prototype RFP

Board Meeting Package, FRS Board of Trustees 10/09/03

FRS Draft Prototype RFP

Minutes, FRS Board Meeting 10/09/03

Board Meeting Package, FRS Board of Trustees 12/02/03

FRS Spreadsheet, RFP - Investment Consultant Comparisons

Memo/Stockstill-Trustees/11-25-03 re Late RFP Responses

Article, Plan Sponsor Magazine, America's Best Consultants - 2003 Consultant Survey

Minutes, FRS Board Meeting 12/02/03

Minutes, FRS Board Meeting 01/08/04

Minutes, FRS Board Meeting 01/15/04

RFP, Becker, Burke

RFP, Callan Associates

RFP, Consulting Services Group (CSG)

RFP, Ennis Knupp

RFP, Fiduciary Investment Solutions

RFP, Marquette

RFP, New England Pension Consultants (NEPC)

RFP, Segal Advisors

RFP, UBS Prime Consulting

Memo/Stockstill-Trustees/01-21-04 re Investment Consultant Interview Meeting

RFP Search Note Sheet

FRS Spreadsheet, RFP - Investment Consultant Comparisons

FRS Spreadsheet, RFP - Investment Consultant Fee Comparisons

Minutes, FRS Board Meeting 01/30/04

Minutes, FRS Board Meeting 02/05/04

Minutes, FRS Board Meeting 03/24/04

VIII Contract With FRS CPA Company

Duplantier Hrapmann Contract 06/28/11

IX Consultant Disclosure Form/Letter

CSG ADV, Part 2, March 31, 2011

CSG ADV, Part 1, August 31, 2011

CSG Holdings LLC, Financial Disclosure Statement, April 2011

X List of FRS Association Memberships

LAPERS 2010 Directory, FRS Page

XI List of Current and Retired Members As of June 30, 2011

Greenbar Paper, List of FRS Actives

Greenbar Paper, List of FRS Retirees

XII FRS Asset Valuation As of June 30, 2011

FRS Actuarial Valuation As of June 30, 2011

FRS Monthly Flash Report Showing Asset Values for FY Ending 06/30/11

XIII FRS Financial Statement As of June 30, 2011

FRS Financial Statement 2010

XIV Clarification Email

Email/Chandler-Brown/08-23-11 re Clarification

LIST OF DOCUMENTS PROVIDED TO LLA SEPTEMBER 27, 2011

TAB

I Copies of the Following Investment Manager Contracts

- A. Vanguard Large Cap Index Fund
 - Organization Resolution
 - Account Registration Form
- B. Barrow Hanley Corporate Bond Fund
 - Agreement
 - Amendment #1
- C. CA Recovery Fund LLC
 - Amended and Restated Limited Liability Company Agreement
 - Investor Committee Charter
- D. FECF III
 - FCF III, Second Amended and Restated Limited Partnership Agreement
- E. AEW VI LP
 - AEW Partners VI, LP, Limited Partnership Agreement

II A Copy of the Audio Recordings of Board Minutes for the Following Investments

- A. Process Book
 - Board-Approved Search Process Timeline
 - Board-Approved Corporate Manager Minimum Criteria
 - Board-Approved Corporate Bond Manager RFP
 - RFP Advertisements- P&I Magazine, The Advocate
 - Letter of Interest from RFP Respondents
 - CSG, Investment Grade Corporate Debt Search Results***
 - CSG, Investment Grade Corporate Debt Finals***
 - RFP Finalists Promotional Brochures
- B. Barrow Hanley Corporate Bond Fund
 - Audio Recording-
 - FRS Investment Committee Meeting (DVDs) - 12/10/08
 - FRS Board Meeting (DVDs) - 12/11/08
 - FRS Board Meeting (Written Minutes) - 12/11/08

FRS Investment Committee Meeting (DVDs) - 01/07/09
FRS Board Meeting (DVDs) - 01/08/09
FRS Board Meeting (Written Minutes) - 01/08/09

FRS Investment Committee Meeting (DVDs) - 02/11/09
FRS Board Meeting (DVDs) - 02/12/09
FRS Board Meeting (Written Minutes) - 02/12/09

C. AEW Partners VI, LP

CSG Due Diligence Package

CSG- Basis for Recommendation

CSG- Review of AEW Partners VI, LP

Summary of Terms

Overview

Company Management Team Bios

Strategy

Org Chart

Investment Guidelines

Research & Underwriting Process

CSG- Client Conference Call Brochure (07/28/09)

Audio Recording-

FRS Investment Committee Meeting (DVDs) - 03/12/08

FRS Board Meeting (DVDs) - 03/12/08

(This set of Inv Comm & Bd Mtg DVDs were already furnished to your office in the box of documents provided on September 16, 2011; additional copies will be provided upon your request.)

FRS Board Meeting (Written Minutes) - 03/12/08

III A Copy of Any Presentations and Any Qualitative Analysis Provided to the Board Members for the Following Investments

A. Barrow Hanley

Refer to Tab II(A) Above, See CSG Material Designated With Asterisks ***

Barrow Hanley Promotional Brochure - See Tab II(B) Above, FRS Investment Committee DVDs 02/11/09

B. AEW Partners VI, LP

AEW Promotional Brochure - See Tab II(C) Above, FRS Investment Committee DVDs 03/12/08

LIST OF DOCUMENTS PROVIDED TO LLA

OCTOBER 19, 2011

1. Based on the selection of AEW, a copy of:

a. Board book

- CSG Due Diligence Package
 - CSG- Basis for Recommendation
 - CSG- Review of AEW Partners VI, LP
 - Summary of Terms
 - Overview
 - Company Management Team Bios
 - Strategy
 - Org Chart
 - Investment Guidelines
 - Research & Underwriting Process

- AEW Partners VI, LP
 - Board Presentation Brochure
 - March 12, 2008

b. Asset allocation study

- 04/08/04, FRS Board Meeting Agenda; item III(1) showing "Discussion and action regarding committee recommendations, including but not limited to the portfolio analysis conducted by FRS investment consultant."
- 04/08/04, FRS Investment Committee Agenda; item III(2) showing "Discussion and action regarding the FRS written investment policy."
 - Attachment to Agenda: Chart that was distributed by CSG to committee members showing Proposed Task List, To Do Items, Started, Initiate Asset Allocation Analysis, Present Asset Allocation Analysis, On-Going Items, Education on Asset Classes & Security Types.
 - Attachment to Agenda: Report that was distributed by CSG to committee members titled "Performance Evaluation" dated 03/31/04
- 06/09/04, Report that was distributed by CSG to FRS board members titled "Louisiana Firefighters' Retirement System, First Quarter, 2004 Review, Asset Allocation"

- 07/08/04, Report that was distributed by CSG to FRS board members titled "Asset Allocation Analysis & Asset Class Return"
- 05/07/08, Report that was distributed by CSG to FRS board members titled "FRS Asset Allocation Proposed Adjustments, As of May 7, 2008" showing a \$20mn commitment to AEW and a proposed/expected first capital call equal to \$3mn
- 05/31/08, Report that was distributed by CSG to FRS board members titled "FRS Asset Allocation Proposed Adjustments, As of May 31, 2008" showing a \$20mn commitment to AEW and a proposed/expected first capital call equal to \$3mn
- 03/31/10, Report that was distributed by CSG to FRS board members titled "Asset Allocation By Security As of March 31, 2010" showing placement of AEW as a line item in the monthly asset allocation report with an initial capital call of \$991,204
- 05/31/11, Most recent report distributed by CSG to FRS board members titled "FRS Asset Allocation Proposed Adjustments, As of May 31, 2011"

c. Asset Allocation Model

- 09/30/11, Monthly FRS Flash Report. A report is provided to the FRS investment committee and FRS board of trustees each month. It covers the manager and asset performance.
 - Page 6 of the monthly flash report contains a chart titled "Asset Allocation Decision Tree As of September 30, 2011". This chart is provided to the board every month and shows the percentage of assets allocated to each sector of the capital market.
 - Page 7 of the monthly flash report contains a chart titled "Asset Allocation by Security As of September 30, 2011". This chart is provided to the board every month and shows the sum of funds allocated to each sector of the capital market.
- 06/30/11, Report prepared by CSG for FRS board members (not yet distributed because of cancellation of 10/12-13/11 monthly investment presentation) titled "Manager Review" showing Asset Allocation Tree on p4 thereof

2. A copy of LAPERS Continuing Professional Education Attendance Record (signature sheet) for each Board member for 2008 - 2010:

a. For the education cycle based on 09/01/08 through 08/31/09-

- Spreadsheet compiled throughout the year by FRS showing the date each board member attained the required number of educational hours.
- Letter dated 09/28/08 from Linda Strickland (LAPERS CPE Coordinator) to FRS executive director showing the number of hours of education obtained on each day of attendance of the LAPERS conference by each participant.
 - The following attendance sheets were attached thereto-
 - September 22, 2008-
Stacy Birdwell
James "Jimmy" Durbin
Charles Fredieu
Barbara Goodson
Clarence Hawkins
Paul Smith
 - September 23, 2008-
Clarence Hawkins
Paul Smith
 - September 24, 2008-
Stacy Birdwell
Charles Fredieu
Clarence Hawkins
Paul Smith
- Letter dated 09/30/08 from Linda Strickland (LAPERS CPE Coordinator) to FRS executive director regarding "Corrected Reporting" and showing the corrected number of hours of education obtained on each day of attendance of the LAPERS conference by each participant.
 - The following attendance sheets were attached thereto-
 - September 23, 2008-
Charles Fredieu
Stacy Birdwell
Barbara Goodson
- Letter dated 10/23/08 from Amanda Rok, Administrative Assistant of the National Conference on Public Employee Retirement Systems (NCPERS), confirming the attendance at the 2008 NCPERS Public Safety Employees Pension & Benefit Conference from 10/12-15/08 for the following participants-
 - Stacy Birdwell
 - Charles Fredieu

- Clarence Hawkins

b. For the education cycle based on 09/01/09 through 08/31/10-

- Spreadsheet compiled throughout the year by FRS showing the date each board member attained the required number of educational hours.
- Letter dated 09/28/09 from Linda Strickland (LAPERS CPE Coordinator) to FRS executive director showing the number of hours of education obtained on each day of attendance of the LAPERS conference by each participant.
 - The following attendance sheets were attached thereto-
 - September 21, 2009-
Stacy Birdwell
John Broussard
James "Jimmy" Durbin
Charles Fredieu
Sammy Halphen
 - September 22, 2009-
Stacy Birdwell
James "Jimmy" Durbin
Charles Fredieu
Sammy Halphen
 - September 23, 2009-
Stacy Birdwell
Charles Fredieu
Sammy Halphen
- Facsimile dated 10/01/09 from Trustee Sammy Halphen to FRS containing letter from Linda Strickland showing LAPERS attendance.
- Louisiana State Police Retirement System chart showing its board members (some of them also being FRS board members) education training hours received.

c. For the education cycle based on 09/01/10 through 08/31/11-

- Spreadsheet compiled throughout the year by FRS showing the date each board member attained the required number of educational hours.
- Letter dated 09/28/10 from Linda Strickland (LAPERS CPE Coordinator) to FRS executive director showing the number of hours of education obtained on each day of attendance of the LAPERS conference by each participant.

- 2010 LAPERS Seminar Brochure
- Letter dated 10/14/11 to Chairmen of House and Senate Retirement Committees confirming FRS board members receipt of required educational hours.

3. Miscellaneous Information:

- a. 05/04/04 minutes showing the FRS board's use of a "score sheet" as part of the RFP selection process and the results thereof.
- b. 08/24/04 minutes showing the FRS board's use of a "standard questions" provided to all managers participating in an RFP selection process; 08/24/04 minutes showing uniform manager presentation format; and 09/09/04 minutes showing the results thereof.

LIST OF DOCUMENTS PROVIDED TO LLA

OCTOBER 19, 2011 - 2ND BATCH

- I Quarterly reports submitted to the House and Senate Committees for the period of 2010 according to the provision in Title 11 of LA Revised Statutes, Subtitle 1, Chapter 4, Part 2, Subpart I, §263
 - A. Act 1004 Report - QE 06/30/11
 - B. Act 1004 Report - QE 03/31/11
 - C. Act 1004 Report - QE 12/31/10
 - D. Act 1004 Report - QE 09/30/10
- II AEW's annual investment profile sheet, submitted by the manager - the most recent one (according to the provision in Title 11 of LA Revised Statutes, Subtitle 1, Chapter 4, Part 2, Subpart I, §266)
 - A. AEW Quarterly Report - QE 06/30/11
 - B. AEW Annual Report - 2010
- III Investment Manager "Watch" Letter
 - A. A letter dated 02/14/11 from FRS to Advisory Research, Inc., placing the manager on watch status;
 - B. A response letter dated 03/07/11 from Advisory Research, Inc., to FRS explaining the steps that will be taken to assure that the manager's performance will begin exceeding the pertinent standards along with a timetable projecting its improved performance.
 - C. The 04/14/11 FRS Board Meeting Agenda showing Item III(1)(G) as the response letter from Advisory which now becomes an item for discussion and action by the board.
- IV Administrative actual expense total for Fiscal Year 2011 (July 1, 2010 - June 30, 2011)
 - A. FRS Unaudited Expense Report For the Twelve Months Ending June 30, 2011

MONTHLY FRS FLASH REPORT

This is the most recent monthly FRS flash report. It covers the manager performance as of September 30, 2011. A report is provided to the FRS investment committee and FRS board of trustees each month. At the beginning of each month's investment report to the board, the investment consultant explains the report in detail. Receiving the monthly report helps the board maintain a continuous watch over the portfolio. When the board hears the portfolio explanation each month, it helps educate the board members regarding asset classes and performance over various periods of time.

Asset Allocation

Page 6 of the monthly flash report contains a chart titled "Asset Allocation Decision Tree As of September 30, 2011". This chart is provided to the board every month and shows the percentage of assets allocated to each sector of the capital market.

Page 7 of the monthly flash report contains a chart titled "Asset Allocation by Security As of September 30, 2011". This chart is provided to the board every month and shows the sum of funds allocated to each sector of the capital market.

CHRONOLOGY OF INVESTMENT CONSULTANT RFP PROCESS

October 9, 2003

Exhibit #1 - RFP prototypes that were submitted to the FRS investment committee.

Exhibit #2 - RFP prototypes that were submitted to the FRS board for action.

Exhibit #3 - Minutes; Board reviewed different RFP formats, approved a prototype, and authorized the issuance of an investment consultant RFP. (p8)

December 2, 2003

Exhibit #4 - Board provided with spreadsheet comparing all RFP respondents; Memo to board regarding respondent who submitted RFP after the deadline; Plan Sponsor magazine article given to board regarding their rating of investment consultants.

Exhibit #5 - Minutes; FRS board begins discussion of narrowing RFP candidates. (p13)

January 8, 2004

Exhibit #6 - Board sets special board meeting to occur on January 15, 2004, for the purpose of reviewing RFP candidates and narrow the field of candidates to interview. (p7)

January 15, 2004

Exhibit #7 - Minutes; Board decides which RFP finalists to interview and sets the date for interviews to occur on January 30, 2004. All board members provided with copies of each RFP response in advance of meeting. (p1) The following RFP responses are attached hereto-

Becker, Burke Associates

Callan Associates, Inc.

CSG

Ennis Knupp

Fiduciary Investment Solutions

Marquette Associates, Inc.

New England Pension Consultants

Segal Advisors

UBS Prime Asset Consulting

January 21, 2004

Exhibit #8 - Memo to board regarding upcoming RFP respondent interviews.

January 30, 2004

Exhibit #9 - Minutes; Board narrowed list of finalists to four candidates for further consideration at a board meeting to be held on February 5, 2004. (p3)

February 5, 2004

Exhibit #10 - Minutes; Based on board-approved scoring method, CSG obtains best score and is eligible to become the new FRS investment consultant. Board appoints a committee to negotiate fees and execute a contract with CSG. (p1)

March 24, 2004

Exhibit #11 - Minutes; CSG makes first appearance as new FRS investment consultant. (p7)

CONTENTS

Process Book

TAB

- 1 Board-Approved Search Process Timeline
- 2 Board-Approved Corporate Manager Minimum Criteria
- 3 Board-Approved Corporate Bond Manager RFP
- 4 RFP Advertisements- P&I Magazine, The Advocate
- 5 Letter of Interest from RFP Respondents
- 6 CSG, Investment Grade Corporate Debt Search Results
- 7 CSG, Investment Grade Corporate Debt Finals
- 8 RFP Finalists Promotional Brochures

CONTENTS

TAB

1. Selection of AEW:
 - a. Board book
 - b. Asset allocation study
 - c. Asset Allocation Model
2. LAPERS Continuing Professional Education Attendance Record (signature sheet) for each Board member for 2008 - 2010:
 - a. For the education cycle based on 09/01/08 through 08/31/09-
 - b. For the education cycle based on 09/01/09 through 08/31/10-
 - c. For the education cycle based on 09/01/10 through 08/31/11-
3. Miscellaneous Information:
 - a. 05/04/04 minutes showing the FRS board's use of a "score sheet" as part of the RFP selection process and the results thereof.
 - b. 08/24/04 minutes showing the FRS board's use of a "standard questions" provided to all managers participating in an RFP selection process; 08/24/04 minutes showing uniform manager presentation format; and 09/09/04 minutes showing the results thereof.

CONTENTS

TAB

I Administrative Policies and Procedures (including Governance Manual, Code of Ethics, etc.)

COPY POLICY MANUAL

COPY LAW RE CODE OF ETHICS

II Board of Trustees Educational Policy

III Policies and Procedures for Selecting Agents (such as investment advisors, actuaries, auditors, etc.)

IV List of Board Members Since 2004

V Board Member Qualifications

VI Evidence of Training by Board Members

VII CSG Contract (including general contract procedures and the selection process)

VIII Contract With FRS CPA Company

IX Consultant Disclosure Form/Letter

COPY CONFLICT OF INTEREST LETTER

X List of FRS Association Memberships

XI List of Current and Retired Members As of June 30, 2011

XII FRS Asset Valuation As of June 30, 2011

XIII FRS Financial Statement As of June 30, 2011

XIV Clarification Email

WATCH STATUS

This set of documents provides a recent example of the watch status process as required by the FRS written investment policy previously furnished to your office. The set includes-

- (1) A letter dated 02/14/11 from FRS to Advisory Research, Inc., placing the manager on watch status;
- (2) A response letter dated 03/07/11 from Advisory Research, Inc., to FRS explaining the steps that will be taken to assure that the manager's performance will begin exceeding the pertinent standards along with a timetable projecting its improved performance.
- (3) The 04/14/11 FRS Board Meeting Agenda showing Item III(1)(G) as the response letter from Advisory which now becomes an item for discussion and action by the board.

EDUCATIONAL COMPLIANCE (ACT 207 of 2004)

	Fiduciary/Ethics 1	Actual		System Laws		Investment								Total
		1	2	1		1	2	3	4	5	6	7	8	
Fredieu	09/21/09	09/21/09	12/17/09	09/21/09		09/21/09	09/22/09	09/22/09	09/22/09	09/22/09	09/22/09	09/23/09	09/23/09	12
Birdwell	09/21/09	09/21/09	12/17/09	09/21/09		09/21/09	09/22/09	09/22/09	09/22/09	09/22/09	09/22/09	09/23/09	09/23/09	12
Durbin	09/21/09	09/21/09	12/17/09	09/21/09		09/10/09	09/21/09	09/22/09	09/22/09	09/22/09	09/22/09	09/22/09	10/08/09	12
Halphen	09/21/09	09/21/09	12/17/09	09/21/09		09/10/09	09/21/09	09/22/09	09/22/09	09/22/09	09/22/09	09/22/09	09/23/09	12
Roach1	07/20/09	07/20/09		07/20/09		07/20/09	09/10/09	10/08/09	01/14/10	On Board From 07/20/09 through 03/02/10				7
Foster2	04/08/10	04/08/10		04/08/10		04/08/10	05/19/10	06/10/10	08/12/10	On Board from 04/08/10 to present date				7
Smith	09/21/09	09/21/09	12/17/09	09/21/09		09/21/09	09/22/09	09/22/09	09/22/09	09/22/09	09/22/09	09/23/09	09/23/09	12
Comm/Ad	2009	2009	2009	2009		2009	2009	2009	2009	2009	2009	2009	2009	12
Treasurer	2009	2009	2009	2009		2009	2009	2009	2009	2009	2009	2009	2009	12
House	2009	2009	2009	2009		2009	2009	2009	2009	2009	2009	2009	2009	12
Senate	2009	2009	2009	2009		2009	2009	2009	2009	2009	2009	2009	2009	12
														122

AS OF: 08/31/10

1. Mayor Roach was on FRS board for 7 months during 09-10 educational cycle
2. Mayor Foster was on FRS board for 5 months during 09-10 educational cycle

Both Mayors were provided with the prior year's LAPERS conference DVDs to watch prior to their being sworn-in on the FRS board; the DVDs related to the educational subjects that a new trustee must have prior to being sworn-in.



FIREFIGHTERS RETIREMENT SYSTEM

P.O. Box 94095, Capitol Station
Baton Rouge, Louisiana 70804-9095
Telephone (225) 925-4060 • Fax (225) 925-4062



October 14, 2011

Honorable D.A. "Butch" Gautreaux
Chairman, Senate Retirement Committee
Post Office Box 94183
Baton Rouge, LA 70804

Honorable J. Kevin Pearson
Chairman, House Retirement Committee
Post Office Box 94062
Baton Rouge, Louisiana 70804-9062

Re: Board of Trustees; Education Compliance

Dear Retirement Committee Chairmen:

R.S. 11:185(C)(2) (Act No. 207, 2004 regular session) requires the FRS board of trustees to complete certain annual education or professional development training and to submit evidence of that training by October 15th of each year to the chairmen of the House and Senate retirement committees. Please note that all FRS trustees are in compliance with R.S. 11:185 for the year 2005-06, except Chief Halphen whose term expired during the year. The attached chart shows the names and dates that each trustee received the statutorily required training.

Thanks for your attention to this matter.

Very truly yours,

Steven S. Stockstill,
FRS Executive Director

enclosure

WPFILE/trustees-ed7

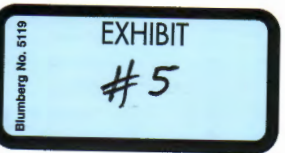
Alfred A. Olinde, Jr.
Kirk Reasonover
Wesley G. Barr*

Of Counsel:
Harry C. Stansbury

*Also licensed in FL

REASONOVER & OLINDE, P.C.

400 Poydras Street, Suite 1980
New Orleans, Louisiana 70130
TELEPHONE: (504) 587-1440
FACSIMILE: (504) 587-1577
www.reasonoverolinde.com



March 1, 2012

RECEIVED

MAR 09 2012

FIREFIGHTERS RETIREMENT SYSTEM BOARD OF TRUSTEES

Steven Stockstill, Esq.
Firefighters Retirement System of Louisiana
3100 Brentwood Drive
Baton Rouge, LA 70809

**Re: Firefighters' Retirement System Board of Trustees
Continuing Education Requirements**

Dear Mr. Stockstill:

You have asked that our firm analyze the statutory continuing education requirements applicable to the Firefighters' Retirement System Board of Trustees. Please find below our analysis of those requirements.

La. Rev. Stat. § 11:185 governs continuing education requirements applicable to the board's of public retirement systems, including the Firefighters' Retirement System Board of Trustees. The annual training must include "at least eight hours of investment training, two hours of actuarial science information education, one hour of education regarding the laws, rules, and regulations applicable to his system, and one hour of instruction on fiduciary duty and ethics." La. Rev. Stat. § 11:185(D)(3).

"These training hours may be conducted by the staff of the respective retirement systems or by outside experts." *Id.* The statute does not define who qualifies as an "outside expert." A review of other areas of Louisiana law suggest that the term is broadly construed and would not disqualify the systems' vendors from providing continuing education so long as the presentation is not for the purpose of marketing their product or services. In court cases, Louisiana law is clear that "[n]either bias nor the fact that a witness is a party or an employee of a party precludes a witness from being qualified as an expert." *Bozarth v. State LSU Med. Ctr./Chabert Med. Ctr.*, 2009-1393 La. App. 1 Cir. 2/12/10, 35 So. 3d 316, 322; *see also Pelts & Skins Exp., Ltd. v. State ex rel. Dept. of Wildlife & Fisheries*, 97-2300 La. App. 1 Cir. 4/1/99, 735 So. 2d 116, 122; *Ealy v. Bill Allen Dodge, Inc.*, 466 So.2d 52, 56 (La.App. 2 Cir.1985).

Similarly, nothing in the Louisiana Bar Association's Continuing Legal Education ("CLE") requirements, precludes a vendor from providing CLE classes to his customer so long as he is "qualified by practical or academic experience." La. Sup. Ct. R. 30, CLE

Rule 4.1. The Bar Associations rules merely provide that "credit shall not be given for those parts of programs which consist of marketing or client cultivation...[and] credit shall be given for vendor sponsored activities for the choosing of law office automation products. *Id.*

It would be erroneous to conclude that continuing education cannot be conducted onsite or in conjunction with meetings of the Board of Trustees. Title 11 does not explicitly impose any restrictions on the location where the FRS Board's continuing education must be held. An examination of continuing education statutes applicable to other pension funds suggests that on-site presentations at the fund's offices are appropriate. In fact, the statute applicable to the Sherriff's Pension and Relief Fund Board of Trustees continuing education *requires* that its board's continuing education courses be conducted at the fund offices. La. Rev. Stat. Ann. § 11:2173 ("All training sessions shall be conducted at the office of the fund or at the annual Louisiana Sheriffs' Association conference. Training sessions conducted at such conference shall additionally be offered at the office of the fund.").

The statute does not impose a record-keeping obligation on the systems with respect to continuing education. The statute merely states that each board "shall submit to the House and Senate committees on retirement a letter stating whether or not each member of that board has met the requirements...and giving the date or dates upon which the required training hours were completed by each member." La. Rev. Stat. § 11:185(D)(2).

Because there is no third-party governing body charged with oversight or administration of the funds' continuing education reporting requirements, the funds are left to develop their own reporting systems. The pension funds governed by La. Rev. Stat. § 11:185, including the Firefighter's Retirement System, are state administrative agencies governed by the Administrative Procedure Act. *See Henning v. Carrier*, 430 So. 2d 1310, 1313 (La. Ct. App. 1983); *Darbonne v. Louisiana State Police Ret. Bd.*, 408 So. 2d 452, 454 (La. Ct. App. 1981); Op. Atty. Gen. No. 93-676, Nov. 16, 1993. Louisiana law is clear that "[a] state agency is charged with interpreting its own rules and regulations and great deference must be given to the agency's interpretation." *Oakville Cmty. Action Group v. Louisiana Dept. of Envtl. Quality*, 2005-1365 La. App. 1 Cir. 5/5/06, 935 So. 2d 175, 186; *In the Matter of Recovery I, Inc.*, 93-0441 (La. App. 1st Cir. 4/8/94), 635 So. 2d 690, 696. Thus, the Firefighter's Retirement System must be given great deference when charged with developing and interpreting their own continuing education reporting procedures.

Very truly yours,
REASONOVER AND OLINDE, LLC


Kirk Reasonover

APPENDIX B: MERS's RESPONSE

MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF LOUISIANA


April 2, 2012

Daryl G. Purpera
Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

Dear Mr. Purpera:

Pursuant to your letter dated March 22, 2012, please find the enclosed MERS response to the recently completed Performance Audit Report. The version contained in this package has been authorized for "e-signature" by myself and the MERS board chairman. Our board of trustees will hold a regular meeting on April 18th and, on that date, I will obtain original signatures and promptly forward to your office.

Sincerely,



Robert L. Rust
Director

RLR/ss

MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF LOUISIANA

AUDIT RESPONSE

The Municipal Employees' Retirement System ("MERS") is required by state law to undergo a regular annual audit by the Legislative Auditor. The framework of the annual audit is established by law. The annual audit is usually performed by a contract auditor that has been preapproved by the Legislative Auditor's office. The firm known as Duplantier, Hrapmann, Hogan & Maher currently provides audit services to MERS on behalf of the Legislative Auditor. Duplantier's annual audit report is submitted to the Legislative Auditor. MERS received an unqualified opinion ("clean audit") from its auditors every year under current MERS management, i.e., for the past 9 years. This legislative audit report is not part of that annual audit process. This legislative audit came about at the request of the Chairmen of the House and Senate Retirement Committees. Unlike the regular annual audit, the framework of this legislative audit was established solely by those two legislators, not by law.

Therefore, as requested by your letter of March 22, 2012, we are providing our response to the Audit Report attached to that letter. We respect the analysis and opinions of the Louisiana Legislative audit staff as expressed in this report and intend to adopt certain procedures to improve our documentation processes per your recommendations. Nevertheless, as we discussed in our previous meetings, we are confident that our Trustees have been acting in accordance with all laws concerning the management and governance of the Retirement System and that their actions have been thoughtful, educated and consistent with their fiduciary responsibilities.

Section 1 of this report addresses certain statements that were contained in the report but not necessarily included in any recommendations. Section 2 addresses the recommendations made in the audit report.

Section 1

MERS Response to Statements contained in the Audit Report

Page 1: What was the chronology and current status of the FIA Leverage Fund investments from March 2008 through March 2012?

We agree with the chronology pertaining to the investment in the Fletcher FIA-Leveraged Fund preferred shares depicted under Objective 1. We believe the discussion surrounding Fletcher is accurate and concisely depicts the significant, thoughtful efforts undertaken by the MERS Trustees, staff and advisors to preserve and collect the funds owed to the System. These efforts continue today and will not cease until an acceptable resolution is achieved.

Page 5 of the Audit Report. "As can be seen from this exhibit, none of the systems have met its actuarial assumption for the last 20 years. If retirement systems do not meet their actuarial assumptions, the systems or their members may potentially have to increase contribution rates to meet future liabilities."

While the report's observation that the rate of return of the MERS portfolio over the last 20 years was only slightly less than the actuarial required return is factual and obvious, the report fails to compare these results to any benchmarks or relative performance which is standard and "best practice" in the investment and pension industry. Admittedly, absolute returns are important but an equally important measure of investment success is to compare portfolio returns to the returns that were possible in the financial markets over the same periods. To assist in that effort, I have provided a table below showing rates of returns for various market indexes or benchmarks over the various time periods shown in the report. What is obvious and relevant, is that over the past 20 years only two of these asset classes produced returns in excess of 8%, high yield bonds (bonds with ratings less than investment grade commonly referred to as "junk") and real estate. Furthermore, each of these time periods includes the market collapse of 2008 that was caused by the deepest economic recession since 1932. Even if we had been clairvoyant 20 years ago, prudence would have required diversification into other asset classes resulting in a rate of return lower than our actuarial required return. This lack of available returns in the capital markets was even more pronounced in shorter time periods. As a result, it would be unfair and misleading to suggest that if the recommendations in this report (while helpful and well received) had been in place originally, that the returns would have been appreciably better or different. In fact, we believe our approach to asset allocation, which focuses on flexibility and continuous review of the portfolio's asset mix is more appropriate in these dynamic and volatile markets.

Returns for periods ending June 2010

(not annualized if less than 1 year)

	5 years	10 years	15 years	20 years
S&P 500	-0.79%	-1.59%	6.24%	7.67%
MSCI EAFE (Net)	0.88%	0.16%	3.75%	3.99%
Barclays Capital U.S. Aggregate	5.54%	6.47%	6.39%	7.14%
BofA Merrill Lynch High Yield Master II	7.10%	7.12%	7.09%	8.96%
HFRI Fund of Funds Composite Index	2.33%	3.38%	6.33%	7.75%
FTSE Nareit All Equity REITs	0.20%	9.86%	9.76%	10.40%
Venture Economics Index	0.93%	-6.95%	3.91%	N/A

Page 13: Objective 3: MERS lacked documentation of an asset allocation study and implementation plan for each asset class.

We feel that **Objective 3** misstates the facts pertaining to our asset allocation process. Each month, as part of the Board's standard review process, our Investment consultant presents us with a schedule depicting our current asset allocation by asset class and strategy. Our Investment Policy Statement depicts the acceptable ranges for each of the major asset classes shown on the report and furthermore presents us with a schedule that indicates how the current allocation may be impacted by anticipated capital calls or recommended changes in the allocation to any manager or strategy. This discussion is supported by charts and tables that address various market conditions and how these conditions may impact the expected return or risk for any recommended change in the allocation. Copies of these materials were provided to you during the audit.

Our asset allocation approach focuses on expected return and risk going forward based upon current economic conditions and the opportunities that are available at that time. Changes in the mix are based upon the expected improvement in return or reduction in risk that each recommendation proposes relative to the current mix. This may not give the appearance of a "formal" asset allocation strategy but given that investing is a dynamic process and formal studies tend to be static in nature, the Trustees view their current process as more appropriate for the nature of the investments in the portfolio and the ever changing market conditions. Furthermore, each and every investment that is approved by the Board of Trustees is accompanied with a known implementation plan.

The liquidity terms of each investment are also discussed at the time of the investment and the anticipated cash flow needs of the fund is part of the monthly review process. The System has never failed to meet its fiduciary obligation in a timely manner and we are confident that our processes ensure that this will be so going forward. The portfolio is well diversified as represented by the 55 different managers and or strategies currently in the allocation with each investment representing less than 7% of the total portfolio. Each manager has individual diversification guidelines that provide further diversification. The Investment Policy Statement (IPS) states the policy limits for each major asset class. No major category of investments comprised more than 20% of the portfolio. We are confident that our current process is more than adequate to prevent any overexposure to unnecessary risk or to an overinvestment in any asset class.

Despite our conviction that our current processes entail all aspects of the review and analysis required by law and is consistent with best practices, we acknowledge that our documentation of these activities may not have been sufficient to demonstrate our actions to the auditors and as a result, we will take steps to improve the documentation of each of these activities.

Section 2

MERS Response to Audit Recommendations

Recommendation 6 suggests MERS adopt a formal asset allocation study.

The law does not require that we document the asset allocation study but simply that we implement and perform the asset allocation study. However, in light of your report and request for information beyond the statutory mandates, we will request our consultant prepare a “formal” study and present it to the Board. As part of the study, we will identify long term targets for each asset class included in the study and as part of our monthly review process will note any short term decisions that result in an over or under weighting to these targets.

Recommendation 7 suggests that MERS document its implementation plan for each potential investment to ensure compliance with R.S.11:263.

A documented plan is not required. We are required when contemplating any investment action or asset allocation to have an asset allocation study and plan for implementation thereof. The statute reads as follows: *“[the prudent man rule standard] requires the exercise of reasonable care, skill, and caution, and is to be applied to investments not in isolation, but in the context of the trust portfolio, and as part of an overall investment strategy, which shall include an asset allocation study and plan for implementation thereof, incorporating risks and return objectives reasonably suitable to that trust. The asset allocation study and implementation plan shall include the examination of market value risks, credit risks, interest rate risks, inflation risks, counterparty risks, and concentration risks. The investment policy of each system, plan, or fund shall preserve and enhanced principal over the long term and provide adequate liquidity and cash flow for the payment of benefits. The investments shall be diversified to minimize the risk of significant losses unless it is clearly prudent not to do so.”* Any asset allocation study must have a plan of implementation to carry out the allocation of assets. Formal documentation of the plan of implementation is not statutory.

On a monthly basis, our consultant provides the Trustees with a report showing the transitions of assets within the portfolio from one manager to another or one asset class to another (an implementation plan). I provided a copy of this report to you during one of our earlier meetings and have attached another copy for your further review. I have been in the investment management business for over 40 years managing numerous retirement plans for public and private organizations as well as various endowments and foundations. I currently serve as chairman of the Episcopal Diocesan of Louisiana Board of Trustees where we are responsible for the management of the Diocesan’s endowment fund. In addition, I hold the designation of Chartered Financial Analyst. However, in all my years of experience, I have never seen a “formal implementation plan” for a portfolio that was substantially different from the report I provided for you in attachment #1. If you could provide us with an example or copy of the type of implementation plan to which you are referring, we will gladly review it and try to incorporate it into our investment process.

Recommendation 8 suggests that MERS document its examination of all types of risk when completing its implementation plan.

Again, documentation of this examination is not statutorily mandated. However, in light of your report and your request for information beyond the statutory mandates, we agree to improve our documentation in this area by creating a form that depicts these various types of risk outlined in R.S. 11:263 and to have this form completed by each manager hired to manage an allocation of funds within the portfolio.

Recommendation 9 suggests that MERS develop policies and procedures for selecting investments and an investment consultant.

Our IPS does provide Review and Control Procedures that address this issue. However, we will review these procedures to determine if more specificity is needed or useful.

Recommendation 10 suggests that MERS document for each investment, its ability to liquidate the investment at a fair market price within a reasonable timeframe.

Louisiana law does not require that we document this consideration. La. R.S. 11:263 (D)(3) requires that “when contemplating any investment, action, or asset allocation, the following factors shall be given weight: ... (b) the ability to liquidate each investment at a fair market price within a reasonable timeframe for the size of investment that is being considered.” Thus, Louisiana law requires that liquidity be reviewed at the time of the initial investment. Each contract with a manager does provide for the liquidity terms. There is no legislative mandate that a formal process be in place to review liquidity on an ongoing basis in each investment. However, in light of your report and request for information beyond the statutory mandates, we agree that liquidity may be impacted by a number of factors. Currently, these factors are identified and addressed at the time of the manager’s selection. However, now, we will update this information annually using the form discussed under Recommendation 8. Furthermore, for ease of reference when discussing asset allocation decision and funding needs, we will ask our consultant to prepare a Liquidity Schedule to be included in each monthly report that depicts each investment’s availability for liquidity.

Specific to our investment in the FIA Leveraged Fund, we were informed at the time of our investment that after a 2 year minimum holding period our investment could be redeemed at any month with 60 days advance notice. Furthermore, the manager had the ability to liquidate its holdings within 2 weeks if needed. Its investments would all be associated with publicly traded companies and this should facilitate their liquidity. For confidentiality reasons the actual underlying positions were not disclosed but we were provided with monthly statements and valuations prepared by independent parties and the funds were required to be audited annually. Unfortunately, it appears the manager has not adhered fully with its stated investment objective and does not have the liquidity in the particular securities that it holds. A formal liquidation plan would not prevent a manager from misrepresenting itself. However, we do agree that the certification of risk & liquidity form mentioned in response to Recommendation 8, collected annually should make it less likely that such misrepresentations occur in the future.

Recommendation 11 addresses the need for additional actuarial training.

We certainly acknowledge and agree that our Trustees must meet the requirements of R.S. 11:185. La.R.S. 11:185 states in pertinent part the following:

For each system to which the provisions of this section apply, every member of the Board of Trustees shall complete continuing education or professional development training during each twelve month period from September 1st to August 31st as provided in this subsection. By October 15th of each year, the Board of Trustees of each state and statewide retirement system shall submit to the House and Senate committees on retirement a letter stating whether or not each member of that board has met the requirements of this section in the previous twelve month period and giving the date or dates upon which the required training hours were completed by each member.

Our Trustees are adequately educated and do receive the required educational hours. This requirement in state law has been met. MERS submitted the required letter and certified in good faith the educational hours met by each of its Board of Trustees. There is not a requirement in this statute that the documentation be maintained in MERS' files. However, based on the recommendation of best practices from the Legislative Auditor's office, MERS is implementing a policy to maintain this documentation form henceforward.

Our Trustees are adequately educated as it pertains to actuarial science and they receive continuing education on this topic at various conferences they attend. Furthermore, the system's actuary attends each of our Board meetings thus allowing him to address any specific questions pertaining to any matter that might affect our actuarial valuation and report. For example, this past year, we had several lengthy presentations by our actuary discussing the sensitivity of the contribution rate to various changes in the benefit structure. However, to better document our Trustee training in this area, we agree to add a one-hour session on actuarial science to our annual Trustee Education program. Furthermore, we will maintain a written record of the attendance of each Trustee at an approved education forum to demonstrate their educational training.

Recommendation 12 suggests MERS continue their annual training session.

Our Trustees have indicated how much they learn from this program, which is designed around the specific investments in the portfolio, and in a more intimate setting than other conferences they attend. These sessions will continue.

Recommendation 13 suggests that MERS develop an internal evaluation to determine the education needs of each trustee.

While this internal evaluation of education needs of each trustee is not statutorily mandated, we do routinely ask the Trustees for suggestions as to topics they would like to see addressed at our Educational Session or at a monthly Board meeting. In addition, the last session of our educational conference is dedicated to a review of what we have covered during the week as well as a discussion of issues and topics they would like to know more about. Most, if not all, of these recommendations are addressed in future board meetings or during the next year's educational session.

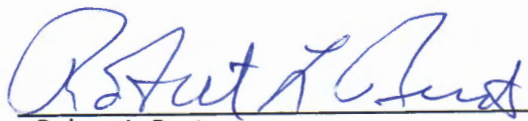
Recommendation 14 suggests that we implement a formal orientation initiative for new Trustees.

We do require new Trustees to review the IPS and recent Board minutes as soon as they are elected to serve. Also, they must complete the mandatory 4 hour educational session to be eligible to vote. The Director meets with each new Trustee, one on one to address any areas of particular concern or need early in that person's tenure as a Trustee. Going forward, we will also evaluate the possibility of a program requiring new candidates for board elections to come to the system office for an educational orientation before they qualify to run.

Closing

In conclusion, we feel that our Trustees are well educated on the subject matters that they must deal with in their role as Trustees for the System. Furthermore, they are assisted by an experienced staff and Executive Director as well as outside professionals with years of experience. The Trustees take their responsibilities seriously and serve the System in a very professional and dedicated manner. We do acknowledge that some documentation can be improved in certain areas and will undertake to make those improvements. Furthermore, we will continue to evaluate our processes on a regular basis for further opportunities to make improvements.


Dudley Dixon, Chairman
MERS Board of Trustees


Robert L. Rust
MERS Director

Manager	U.S. Equity	Int'l Eqy	Fixed Income	Hedge Funds	Real Estate	Private Equity	Cash	Total	
Current Allocation	22.7%	11.0%	17.8%	18.1%	16.4%	13.3%	0.9%	100.0%	
	\$ 161,619,216	\$ 78,271,664	\$ 126,774,066	\$ 129,083,850	\$ 116,814,985	\$ 94,530,083	\$ 6,279,647	\$ 713,373,511	
Projected Capital Calls	-	-	-	-	1,000,000	7,500,000	-	8,500,000	1.2%
CA Recovery Fund				(9,500,000)				\$ (9,500,000)	-1.3%
Ashmore EMCHY			8,000,000					\$ 8,000,000	1.1%
Baron Builder			(2,000,000)					\$ (2,000,000)	-0.3%
Thornburg	(1,680,000)	(2,320,000)						\$ (4,000,000)	-0.6%
								\$ -	0.0%
								\$ -	0.0%
Cash (\$5mm)							(1,000,000)	(1,000,000)	-0.1%
Totals	\$ 159,939,216	\$ 75,951,664	\$ 132,774,066	\$ 119,583,850	\$ 117,814,985	\$ 102,030,083	\$ 5,279,647	\$ 713,373,511	\$ -
	22.4%	10.6%	18.6%	16.8%	16.5%	14.3%	0.7%	100.0%	
		33.1%	19.4%		47.6%				

1

APPENDIX C: NOFPRF's RESPONSE

BOARD OF TRUSTEES
- OF THE -
FIRE FIGHTER'S PENSION AND RELIEF FUND
FOR THE CITY OF NEW ORLEANS
3520 General DeGaulle Suite 3001
New Orleans, La 70114
504-366-8102
504-366-8103 fax

April 3, 2012

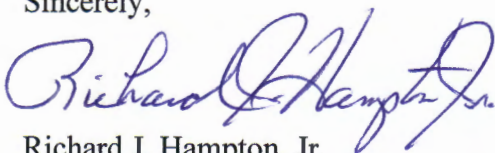
Mr. Daryl G. Purpera
Louisiana Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804

Dear Mr. Purpera:

Pursuant to your letter dated March 22, 2012, please find the enclosed Firefighter's Pension and Relief Fund response to the recently completed Performance Audit Report.

If you should have any questions or need any additional information, please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink, reading "Richard J. Hampton, Jr.", is positioned above the printed name and title.

Richard J. Hampton, Jr.
CEO/Secretary Treasurer

BOARD OF TRUSTEES
- OF THE -
FIRE FIGHTER'S PENSION AND RELIEF FUND
FOR THE CITY OF NEW ORLEANS
3520 General DeGaulle Suite 3001
New Orleans, La 70114
504-366-8102
504-366-8103 fax

AUDIT RESPONSE

The Firefighter's Pension and Relief Fund is required by state law to undergo a regular annual audit by the Legislative Auditor. The framework of the annual audit is established by law. The annual audit is usually performed by a contract auditor that has been approved by the New Orleans City Council. The firm known as Duplantier, Hrapmann, Hogan & Maher currently provides audit services to us on behalf of the New Orleans City Council. Duplantier's annual audit report is submitted to the Legislative Auditor. This legislative audit report is not part of that annual audit process. We understand that this legislative audit came about at the request of the Chairmen of the House and Senate Retirement Committees. Unlike the regular annual audit, the framework of this legislative audit was established solely by those two legislators, not by law.

In response to your letter dated March 22, 2012, we have reviewed the revised draft of your performance audit report on the City of New Orleans Firefighters' Pension and Relief Fund. We respect the analysis and opinions of the Louisiana Legislative Audit staff as expressed in this report and intend to adopt certain procedures to improve our documentation processes as suggested in this report. As we discussed in our previous meeting with your staff, we are confident that our Trustees have been acting in accordance with all laws concerning the management and governance of the Retirement System and that their actions have been thoughtful, educated, and consistent with their fiduciary responsibilities. We agree that our documentation of the efforts put forth and the processes employed can be improved so that the next time an outsider inquires about these matters, there can be a better demonstration.

Board members of The New Orleans Firefighter Pension and Relief Fund believe it has sufficient rules, regulations, and policies in place for the administration and investment of the funds and education of its members to help the trustees meet their fiduciary responsibility. Louisiana Administrative Code, title 58, part V, establishes guidelines, procedural Rules and Regulations for the Board of Trustees. Our practice is to fully vet all investment opportunities, educate our Board members, and be poised to make informed decisions in an appropriate period and consistent with adopted asset allocation policy guidelines. We will continue to adjust our practice to allow for improved documentation of this process.

There are seven recommendations pertaining to Firefighters Pension and Relief Fund in the audit report. We concur with each of the recommendations. In all seven cases, we consent to affirmatively change our procedures to be more in line with the standards described in the audit recommendations. We recognize that reasonable minds may differ on a given subject and in no way criticize the auditors for the conclusions drawn by them in this audit report. However, where we differ from the auditors' conclusions, we do so respectfully and professionally. We submit this response in that respectful spirit. Section I of this response addresses the recommendations made in the audit report. (Recommendations 15 through 21 were addressed to us.) Section II addresses certain statements that were contained in the report, but not necessarily included in any recommendation. Section III provides closing remarks.

Section I Response To Audit Recommendations

Recommendation 15: NOFPRF should document its formal asset allocation study for each asset class to ensure all requirements of RS 11:3370 are being met.

NOFPRF Response: Agree, the Board will request our consultant to prepare a formal study and present it to the Board. As part of the study we will identify long term targets for each asset class included in the study and as part of our monthly review process will note any short term decisions that result in an over or under weighting to these targets. We believe we are fully compliant with RS 11:3370 but will make every effort to provide the additional documentation requested.

We believe our asset allocation process is quite extensive. Each month, as part of the Board's standard review process, our Investment consultant presents us with a schedule depicting our current asset allocation by asset class and strategy. Our Investment Policy Statement depicts the acceptable ranges for each of the major asset classes depicted on the report and furthermore presents us with a schedule that indicates how the current allocation may be impacted by anticipated capital calls or recommended changes in the allocation to any manager or strategy. This discussion is supported by charts and tables that address various market conditions and how these conditions may impact the expected return or risk for any recommended change in the allocation. Our asset allocation approach focuses on expected return and risk going forward based upon current economic conditions and the opportunities that are available at that time. Changes in the mix are based upon the expected improvement in return or reduction in risk that each recommendation proposes relative to the current mix. This may not give the appearance of a "formal" asset allocation strategy but given that investing is a dynamic process and formal studies tend to be static in nature, the Trustees view their current process as more appropriate for the nature of the investments in the portfolio and the ever-changing market conditions.

Recommendation 16: NOFPRF should document its implementation plan for each potential investment to ensure all requirements of RS 11:3370 are being met.

NOFPRF response: Each investment approved by the Board of Trustees is accompanied with a known implementation schedule. Decisions to proceed with investment options follow analysis of market trends, discussions of cash flow needs, reviews of risk and liquidity, and performance objectives, among other things. Contracts are developed for each investment, which outline all aspects of the investment, including investment type, amount, custody, collateral, liquidity, termination, trading, reporting, and fiduciary responsibility.

Our current processes entail all aspects of the review and analysis required by law and consistent with best practices. We believe we adequately document implementation of all investments in requirement of RS 11:3370.

We will take the necessary steps to improve our documentation to meet recommendations discussed by the auditors.

Recommendation 17: NOFPRF should develop policies and procedure for selecting investments and an investment consultant to help trustees meet their fiduciary responsibilities as recommended by best practices.

NOFPRF Response: We believe our current policy and practices for selecting investments and investment consultants are quite extensive and sufficient to meet the fiduciary responsibility of all trustees. LSA-R.S.11:3370 governs our investment practices. The Board and its investment consultant work diligently to identify managers possessing measurable skills and potential. Candidate investment managers are sourced through our consultant's database, strategic partners, long-standing relationships, and referrals. Decisions to change investment managers are made following asset allocation changes, changes in market conditions, cash in-flows, manager performance issues, or better market opportunities.

Manager selection is dependent upon satisfactory review of an investment manager's capabilities. Our consultant and members of the Board perform an analysis of manager capabilities. An investment manager's ability to create value, portfolio attribution, investment edge, performance versus the benchmark, performance in up markets, performance in down markets, assets under management, and track record are a few of the attributes considered before hiring of managers. We ascertain that a manager's portfolio and performance is consistent with their process description. The performance should be commensurate with the risks taken. The managers' performance should indicate skill versus a favorable market. Our qualitative investigation focuses on the portfolio manager and his or her supporting team. We find that successful portfolio managers exhibit independent thinking, strong personal discipline, and intellectual

flexibility. The manager should have exceptional histories and be able to demonstrate deep understanding of and commitment to their business. We believe successful groups have strong leadership, a crisp, non-bureaucratic decision-making process, and a high energy level, all of which encourage creativity and top quartile performance.

Even though our current Board members' years of experience gives us a rich perspective on investing, spans numerous markets and asset classes globally, the process to hire an investment manager could take 12 months or longer to complete depending on the asset class. Board members educate themselves about specific asset classes and investments through attendance at conferences, educational seminars, and manager presentations. All managers must pass a due diligence review by our consultant before consideration for hire. Managers are hired after a decision to invest in an asset class and Board members have a sufficient comfort level about the asset class. Manager presentations are received from a group of three or more managers meeting the system's criteria. Criteria include historical returns above the benchmark, consistent application of the investment process, volatility, compatibility with the portfolio and niche product, among others. The Pension Fund's real estate holdings are typically in the form of a collateral mortgage that pays an interest rate of 8% or higher and includes equity kickers. The Fund often negotiates personal guarantees from the developer in addition to the collateral mortgage. This investment strategy has proven far less volatile than the stock and bond markets.

Our policies and procedures for selecting an Investment Management Consultant mirror our procedures for selecting money managers. Briefly, we examine:

- A) Company background including a brief history, year of inception, affiliated and subsidiary companies and relationships,
- B) Significant developments, ownership, personnel and philosophy, and,
- C) Organizational structure and lines of business.

The prospective consultant firm's standard of conduct, fiduciary classification, legal proceedings, SEC investigations, conflict of interest in providing services to our Fund are additional issues/facts gathered. We review the size of the firm, number of investment consultants, ways in which they manage growth, limits to the client/consultant ratios, compensation of staff, and turnover. We would expect to meet the consultant team, review a biography of key individuals, and review backup procedures for key personnel assigned to the account. We review the firm's philosophy and resources and experience in performance evaluation and reporting, asset allocation, investment policy, manager search and research capabilities in detail. Insurance and liability coverage and fees also play a role in consultant selection.

Our IPS does provide policies and procedures that address this issue. Discussions with your auditors indicated that they would prefer additional documentation of our selection process. We will make every effort to meet this request.

Recommendation 18: NOFPRF should document, for each investment, its consideration of the ability to liquidate each investment at the fair market price within a reasonable period as part of its implementation plan.

NOFPRF Response: The New Orleans Firefighters Pension Board evaluates the risk and liquidity of each investment monthly. Contracts with each investment manager document the method of redemption, terms of the engagement and method of liquidation. Outside third parties measure the liquidation process (trade execution) of equity managers periodically. We believe that the nature of the market place forces our asset managers to redeem at the highest possible prices, as asset managers are paid and retained based on performance. Their goal is to buy low and sell high.

While we feel we have no exposure in this matter, we will adopt and implement a procedure to separately outline liquidation of each investment and display in a spreadsheet format as recommended.

Recommendation 19: NOFPRF should establish an education policy defining education requirements for its board and document that each trustee is meeting these requirements as recommended by best practices.

NOFPRF Response: Act 953 of 2003 and Act 207 of 2004 set forth educational requirements for members Louisiana Public Retirement System Boards of Trustees. Members of the New Orleans Firefighters Pension and Relief Fund are aware of this requirement and their fiduciary responsibility to be properly educated on matters pertaining to Board issues. All of our elected Trustees attend the following conferences:

1. The annual Louisiana Public Employee Retirement Systems (LAPERS) conference in New Orleans approximately 16 hours,
2. The annual Louisiana Trustee Education Council (LATEC) conference in New Orleans, approximately 16 hours,
3. At least nine one-hour sessions hosted by LATEC in New Orleans, which bring in persons from the investment industry to talk about various topics pertinent to Fund members,
4. The New Orleans Firefighters Annual Planning and Education conference, which covers asset allocation, legislative updates, manager evaluations, market trends, educational presentations, actuarial education, and pension operations issues over a 40-hour period.

Board members also attend various other conferences independently during the year, which are designed to enhance their knowledge or address specific needs. These conferences have included an annual consultant conference, specific investment manager conferences, the National Conference of Public Employee Retirement Systems, among others.

Your auditors have suggested that we improve the documentation of attendance to these conferences to which we agree.

Recommendation 20: NOFPRF should develop a formal trustee internal evaluation to determine the education needs of each trustee as recommended by best practices.

NOFPRF Response: We believe Board members are aware of the fiduciary requirements associated with being a trustee. Appropriate education is an important part of meeting that requirement. Trustees believe they meet all educational requirements. We routinely ask the Trustees for suggestions as to topics they would like addressed at our Educational Sessions or at monthly Board meetings. There are no Plan or Board restrictions on education requirements. Besides local conferences, Board members have elected, with prior approval of the Board, to attend conferences of particular interest and educational needs of that member. Members are encouraged to attend conferences to meet all educational needs. See our response to Recommendation 19 above.

Appointed members to the Board include the Superintendent of Fire and Director of Finance. The Director of Finance serves on several Boards and is usually well suited from an educational standpoint to serve as a Plan member. The LATEC conference and summer planning session offer opportunities for appointed and new Board members to get up to speed on Board matters rather timely after being seated on the Board.

We believe we have no exposure in this area but agree to increase our documentation of this process where needed.

Recommendation 21: NOFPRF should implement a formal orientation for new trustees that includes its "Trustees in Training" program and an orientation packet as recommended by best practices.

NOFPRF Response: We believe new Board members joining the Firefighters Pension and Relief Fund are well qualified and trained for the following reasons. The Board allows any plan member interested in becoming a member of the Board to attend Board meetings, our July planning sessions, and local conferences. The program is voluntary and potential members pay their own registration fees to these events where required. Several of our veteran Board members participated in our "Trustee In Training" program for over four years. Several plan members are currently in the program. These new "Trustee In Training" members have been attending Board meetings and educational conferences for over two - three years.

Our summer planning and evaluation sessions provide each Board member and "Trustee In Training" member with a thorough understanding of all the Fund's investments, investment policy, strategy, actuarial process and legal obligations. Several outside managers also provide presentations on asset classes, which we believe offer insight and

education in that area. Some of our current managers hold a client conference annually that provides specific educational opportunities.

LAPERS and LATEC conferences offer ethics training, investment training, and exposure to the roles of various outside professionals (actuary, consultant, and legal counsel) to the Board. The LATEC conference is held during the first quarter of the year, while the LAPERS conference occurs each fall.

All Board members are provided a current copy of our Plan document, administrative procedures and investment policy. Most members are keenly aware of the benefit provisions of the Plan document long before any interest in becoming Board members through in service training, which negates the need for separate training in this area.

All members receive a copy of the Fund's Actuarial report, audited reports, and plan documents annually at the time the respective report is final. The Director meets with each Trustee, one on one to address any areas of particular concern or need early in that person's tenure as a Trustee.

While we believe we have no exposure in this area, we will develop an orientation program for new trustees seated on the Board who have not participated in the "Trustee In Training" program.

Section II

NOFPRF Response to Statements Contained In the Audit Report

The Executive Summary indicates that the performance audit was the result of a request from the House and Senate Committee on Retirement. It is our understanding that the audit was the result of a request from the Chairmen of the House and Senate Committees on Retirement. If so, your report may require adjustment.

Objective 1 of your report discusses the chronology and current status of the FIA Leveraged Fund from March 2008 through March 2012. We believe the discussion surrounding Fletcher is accurate and concisely depicts the significant, thoughtful efforts undertaken by the NOFPRF trustees, staff and advisors to preserve and collect the funds owed to the system. These efforts continue today and will not cease until an acceptable resolution is achieved. It is also important to note that the New Orleans Firefighters' Pension and Relief Fund has had a relationship with Fletcher since January 2003. The FIA Leveraged Fund is our third investment vehicle via Fletcher. We have redeemed shares in Fletcher accounts prior to 2011 without any delay or diminution in value including a redemption in 2010. Each of our prior investments in Fletcher related Funds have been profitable for the New Orleans Firefighters' Pension and Relief Fund. We believe our investment in the FIA Leverage Fund will also prove beneficial to our Fund.

We also like to draw your attention to Exhibit 3. It might be appropriate for you to footnote this exhibit to reflect the catastrophic condition of the capital markets during calendar years 2008 and 2009. During those years, Lehman Brothers and Bear Stearns ceased to exist. Merrill Lynch was acquired and a federal government bailout was necessary to avoid possible collapse of the worldwide banking system and the country's economy. Performance returns for calendar year 2008 negatively affected average rates of returns for subsequent years. For example, NOFF average rates of return for the 19, 15, 10, and 5-year periods ended December 31, 2007 are 7.8%, 7.4%, 5.7%, and 7.5% respectively. This performance is quite different from the picture the exhibit paints. Additionally, for periods ended December 31, 2008, very few funds, if any, met actuarial returns because of 2008 market performance.

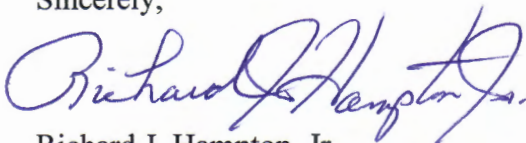
Section III Summary

We hope that our response is sufficient to present our position on your findings. Our intent was to provide complete, brief, and precise information to your findings. The New Orleans Firefighters Pension and Relief Fund Board would like all readers to appreciate the dedication and commitment the Trustees make to their fiduciary duty, the members of the Fund and the citizens of New Orleans and the State of Louisiana. With that in mind, we would appreciate inclusion of our entire response in your report.

In continuance of their fiduciary responsibility and duties, the Board agrees to adopt the recommendations made by the Louisiana Legislative Auditor. We would also like to express our appreciation to the staff assigned to this engagement for their professionalism and courtesy during this audit.

If you should have any questions or need any additional information, please do not hesitate to contact us.

Sincerely,

A handwritten signature in blue ink, reading "Richard J. Hampton, Jr.", written in a cursive style.

Richard J. Hampton, Jr.
CEO/Secretary Treasurer

APPENDIX D: ROVERS's RESPONSE

Registrars of Voters Employees' Retirement System

Lorraine C Dees, Director
PO Box 57
Jennings, Louisiana 70546

Facsimile: 337 824 9187

e-mail: admin@larovers.com

April 3, 2012

Daryl G. Purpera
Legislative Auditor
1600 North Third St
PO Box 94397
Baton Rouge, La 70804 9397

RE: LA Retirement Systems, Investment Process

Dear Mr. Purpera:

The Registrars of Voters Employees' Retirement System ("ROVERS") is required by state law to undergo a regular annual audit by the Legislative Auditor. The framework of the annual audit is established by law. The annual audit is usually performed by a contract auditor that has been preapproved by the Legislative Auditor's office. The firm known as Duplantier, Hrapmann, Hogan & Maher currently provides audit services to ROVERS on behalf of the Legislative Auditor. Duplantier's annual audit report is submitted to the Legislative Auditor. ROVERS received an unqualified opinion ("clean audit") from its auditors every year under current ROVERS management, i.e., for the past 24 years. This legislative audit report is not part of that annual audit process. This legislative audit came about at the request of the Chairmen of the House and Senate Retirement Committees, who had concerns about the investment process of Louisiana retirement systems.

OBJECTIVE 1. ROVERS was never invested in the FIA Leveraged Fund therefore will not comment on this matter.

OBJECTIVE 2-5. ROVERS has consistently followed all educational requirements set by the Legislature. In the event that our Trustees were not able to attend LAPERS, the CD's & DVD's were bought and distributed to the Board members. The Director was given verbal confirmation of their completion from each of the Trustees. The Board also provided In-House training for members who could not be certified any other way. The Legislative Auditor has listed that Trustees "must attend", but on a number of occasions, the Trustees for ROVERS have not been able to attend due to conflicts with election scheduling. We were told that LAPERS would have DVD's & CD's available for purchase by the system for the use of attaining educational requirements. These were implemented on those occasions that trustees were not able to attend. (Since this audit was started ROVERS trustees have agreed that the conference put on by LATEC/Opal Financial would also be utilized. In February of 2012, 4 of the 6 trustees were able to attend and receive credit. *In the future, the Director will receive from the trustees, written confirmation of completion of any and all attendance, in-house, or otherwise.*

ASSET ALLOCATION STUDY We feel that **Objective 5** misstates the facts pertaining to our asset allocation process. Each quarter, as part of the Board's standard review process, our Investment consultant presents us with a schedule depicting our current asset allocation by asset class and strategy. Our Investment Policy Statement depicts the acceptable ranges for each of the major asset classes shown on the report and furthermore presents us with a schedule that indicates how the current allocation may be impacted by anticipated capital calls or recommended changes in the allocation to any manager or strategy. This discussion is supported by charts and tables that address various market conditions and how these conditions may impact the expected return or risk for any recommended change in the allocation. Copies of these materials were provided to you during the audit.

Our asset allocation approach focuses on expected return and risk going forward based upon current economic conditions and the opportunities that are available at that time. Changes in the mix are based upon the expected improvement in return or reduction in risk that each recommendation proposes relative to the current mix. This may not give the appearance of a "formal" asset allocation strategy but given that investing is a dynamic process and formal studies tend to be static in nature, the Trustees view their current process as more appropriate for the nature of the investments in the portfolio and the ever changing market conditions. Furthermore, each and every investment that is approved by the Board of Trustees is accompanied with a known implementation plan.

In defense of the Trustees, the Asset Allocation Study was conducted each time the Board met with quarterly reports. The Investment Consultant as well as the Custodial Bank reports were given and Assets were weighted by category. The Board minutes may not have reflected that a "formal" asset study was done, but all Trustees were well aware of the balance of the portfolio. *In the future, the minutes will note that an asset study was reviewed by the trustees.*

IMPLEMENTATION PLAN The liquidity terms of each investment are also discussed at the time of the investment and the anticipated cash flow needs of the fund is part of the monthly review process. The System has never failed to meet its fiduciary obligation in a timely manner and we are confident that our processes ensure that this will be so going forward. The portfolio is well diversified for a system our size (which is the smallest statewide governmental retirement system in Louisiana) as represented by the 19 different managers and or strategies currently in the allocation with each investment representing less than 10% of the total portfolio. Each manager has individual diversification guidelines that provide further diversification. The Investment Policy Statement (IPS) states the policy limits for each major asset class. No major category of investments comprised more than 20% of the portfolio. We are confident that our current process is more than adequate to prevent any overexposure to unnecessary risk or to an overinvestment in any asset class.

Despite our conviction that our current processes entail all aspects of the review and analysis required by law and consistent with best practices, we acknowledge that our documentation of these activities may not have been sufficient to demonstrate our actions to the auditors and as a result, we will take steps to improve the documentation of each of these activities.

The presentation of investments for the purpose of adding to the portfolio has always included the risk of that investment, the experience of the investment manager and expected net return. The Trustees have requested the Investment Consultant provide this information in the prospectus for each investment being presented to the Board.

INVESTMENT DECISION ROVERS Trustees will conduct interviews with each money manager separately, along with reviewing the portfolio of the manager's company, investor's, length of time in management, risk of securities being held by that firm, all employees' of the firm, along with fees to be assessed and how that security fits into the Asset Allocation Study.

RECOMMENDATION 22. The law does not require that we document the asset allocation study but simply that we implement and perform the asset allocation study. However, in light of your report and request for information beyond the statutory mandates, we will request our consultant prepare a "formal" study and present it to the Board. As part of the study, we will identify long term targets for each asset class included in the study and as part of our monthly review process will note any short term decisions that result in an over or under weighting to these targets.

RECOMMENDATION 23. A documented plan is not required. We are required when contemplating any investment action or asset allocation to have an asset allocation study and plan for implementation thereof. The statute reads as follows: "[the prudent man rule standard] requires the exercise of reasonable care, skill, and caution, and is to be applied to investments not in isolation, but in the context of the trust portfolio, and as part of an overall investment strategy, which shall include an asset allocation study and plan for implementation thereof, incorporating risks and return objectives reasonably suitable to that trust. The asset allocation study and implementation plan shall include the examination of market value risks, credit risks, interest rate risks, inflation risks, counterparty risks, and concentration risks. The investment policy of each system, plan, or fund shall preserve an enhanced principal over the long term and provide adequate liquidity and cash flow for the payment of benefits. The investments shall be diversified to minimize the risk of significant losses unless it is clearly prudent not to do so." Any asset allocation

study must have a plan of implementation to carry out the allocation of assets. Formal documentation of the plan of implementation is not statutory. On a monthly basis, our consultant provides the Trustees with a report showing the transitions of assets within the portfolio from one manager to another or one asset class to another (an implementation plan). I provided a copy of this report to you during one of our earlier meetings. This fulfills both the statutory mandate and best practices. However, if you could provide us with an example of an implementation plan to which you are referring, we will gladly review it and try to incorporate it into our investment process.

RECOMMENDATION 24. Again, documentation of this examination is not statutorily mandated. However, in light of your report and request for information beyond the statutory mandates, we agree to improve our documentation in this area by creating a form that depicts these various types of risk outlined in R.S. 11:263 and to have this form completed by each manager hired to manage an allocation of funds within the portfolio.

RECOMMENDATION 25. Prior to the Legislative Auditor's report being issued the board has taken steps to begin an RFP review of the Investment Consultant position. Your recommendations will be addressed to each presenter, allowing them to incorporate this into their proposals.

RECOMMENDATION 26. Documentation of investment information to liquidate will become a standard when selecting a money manager and reviewed annually. Louisiana law does not require that we document this consideration. La. R.S. 11:263 (D)(3) requires that "when contemplating any investment, action, or asset allocation, the following factors shall be given weight: ... (b) the ability to liquidate each investment at a fair market price within a reasonable timeframe for the size of investment that is being considered"..." Thus, Louisiana law requires that liquidity be reviewed at the time of the initial investment. Each contract with a manager does provide for the liquidity terms. There is no legislative mandate that a formal process be in place to review liquidity on an ongoing basis in each investment. However, in light of your report and request for information beyond the statutory mandates, we agree that liquidity may be impacted by a number of factors. Currently, these factors are identified and addressed at the time of the manager's selection. Furthermore, for ease of reference when discussing asset allocation decision and funding needs, we will ask our consultant to prepare a Liquidity Schedule to be included in each monthly report that depicts each investment's availability for liquidity.

RECOMMENDATION 27. We certainly acknowledge and agree that our Trustees must meet the requirements of R.S. 11:185. La.R.S. 11:185 states in pertinent part the following:

For each system to which the provisions of this section apply, every member of the Board of Trustees shall complete continuing education or professional development training during each twelve month period from September 1st to August 31st as provided in this subsection. By October 15th of each year, the Board of Trustees of each state and statewide retirement system shall submit to the House and Senate committees on retirement a letter stating whether or not each member of that board has met the requirements of this section in the previous twelve month period and giving the date or dates upon which the required training hours were completed by each member.

Our Trustees are adequately educated and do receive the required educational hours. This requirement in state law has been met. There is not a requirement in this statute that the documentation be maintained in ROVERS' files. However, based on the recommendation of best practices from the Legislative Auditor's office, ROVERS is implementing a policy to maintain this documentation from henceforward.

RECOMMENDATION 28. While this internal evaluation of education needs of each trustee is not statutorily mandated, we do routinely ask the Trustees for suggestions as to topics they would like to see addressed at our Educational Session which we hold for one day in the summer or at a monthly Board meeting. Most, if not all, of these recommendations are addressed in future board meetings or during the next year's educational session.

RECOMMENDATION 29.

Since the first interview with the Legislative Auditor staff, I have considered the education of a new board member. New legislation for ROVERS implementing term limits for trustees was passed in 2011, ROVERS staff compiled a binder with information to allow a new trustee to become familiar with the system. Subjects covered are Professionals hired for the System Attorney's, Actuary, Auditor, Tax Attorney, Investment Consultant, Custodial Bank, Agenda's for previous meetings, Minutes for the previous 3 years, Budget for FY 2011, FY 2010 & FY 2011 Audit Report, FY 2010 & FY 2011 Actuary Report, Investment Policy Statement, Flash reports for the previous FY 2011, FY 2010 & FY 2011 Custodial Reports. A copy of the most recently published retirement handbook is included in the packet of information.

COMMENTS

- Please note that on Appendix I, the Aletheia Investment had \$ 2,250,000 in distributions which would have lessened the loss to Aletheia from (\$ 2,988,902) to (\$ 738,902). Allowing for this adjustment the total net gain/loss to the system through October 31, 2011 should reflect a gain of \$ 1,288,871.

If further information would be needed on any of these matters, please feel free to contact me.

Sincerely,



Lorraine C Dees
Director-R.O.V.E.R.S.

APPENDIX E: SCOPE AND METHODOLOGY

We conducted this performance audit under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended. We conducted this audit in response to a legislative request from the House and Senate Committees on Retirement dated July 15, 2011. Our audit focused on the chronology and current status of the Fletcher Income Arbitrage (FIA) Leveraged Fund investments. In addition, we determined whether the Firefighters' Retirement System (FRS), the Municipal Employees' Retirement System (MERS), the Firefighters' Pension and Relief Fund of the City of New Orleans (NOFPRF), and the Registrars of Voters Employees' Retirement System (ROVERS) met their investment process and educational requirements as mandated by state law and recommended by best practices. Our audit scope for the chronology section of our report is March 2008 through April 2012. Our audit scope for the retirement systems' investment practices and educational requirements section of our report is fiscal years 2008 through 2011.

We conducted this performance audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. To answer our objectives, we reviewed internal controls relevant to the audit objectives and performed the following audit steps:

- Obtained information on the FIA Leveraged Fund investments from FRS, MERS, and NOFPRF.
- Researched state law and the administrative code for statutes and regulations governing investment processes and investment education requirements pertaining to local, state, and statewide retirement systems.
- Obtained and analyzed the internal investment policies provided by FRS, MERS, NOFPRF, and ROVERS.
- Interviewed staff from FRS, MERS, NOFPRF, and ROVERS.
- Surveyed trustees to gain input on the education training received.
- Determined the compliance of the investment policies of FRS, MERS, NOFPRF, and ROVERS with state law and administrative code.
- Obtained and analyzed the investment selection process of FRS, MERS, NOFPRF, and ROVERS by taking a sample of investments made by each retirement system with inception dates between fiscal years 2008 and 2011.

- Determined the compliance of the investment selection practices of FRS, MERS, NOFPRF, and ROVERS with their investment policies.
- Determined the compliance of the educational training practices of FRS, MERS, and ROVERS with state law and administrative code.
- Obtained and analyzed educational training materials of FRS, MERS, NOFPRF, and ROVERS from September 1, 2009 through August 31, 2010.
- Researched best practices to determine national best practices for investment policies, investment selection, asset allocation, and investment training for public retirement systems.

APPENDIX F: FRS COMMITMENT SCHEDULE FROM INCEPTION OF INVESTMENTS THROUGH OCTOBER 31, 2011

Fund Manager	Contributions	Inception Date	Distributions	Market Value	Net Gain/Loss* Since Inception Date through October 31, 2011
BlackRock	\$100,255,122	10/1/1996	(\$91,573,689)	\$44,648,735	\$35,967,302
Tradewinds	50,165,994	10/8/2008	(721,965)	82,965,345	33,521,316
Vanguard Large Cap Index Fund	58,357,557	4/12/2010		58,943,888	586,331
Advisory Research	34,937,469	7/2/2009	(596,261)	54,902,501	20,561,293
Greensprings Associates	25,000,000	2/1/2008	(91,932)	28,829,105	3,921,037
Energy Opportunity Fund	50,000,000	9/1/2007	(1,189,410)	53,595,161	4,784,571
Total Domestic Equity Managers	318,716,142		(94,173,257)	323,884,735	99,341,850
LSV International Equity	47,500,000	10/8/2004	(19,226,214)	37,087,799	8,814,013
Fisher Investments	47,500,000	10/8/2004	(56,661,937)	25,695,624	34,857,561
Thornburg Global Equity	47,500,000	10/8/2004	(19,123,085)	64,012,371	35,635,456
KB Water	30,000,000	8/1/2007		24,861,644	(5,138,356)
Total International Equity Managers	172,500,000		(95,011,236)	151,657,438	74,168,674
Total Equity Managers	491,216,142		(189,184,493)	475,542,173	173,510,524
PIMCO	121,441,663	6/30/1999	(88,108,106)	57,086,178	23,752,621
Orleans Capital	126,099,081	9/1/1992	(91,881,706)	57,683,383	23,466,008
Commonwealth**	30,000,000	8/1/2007	(1,020,280)	9,942,065	(19,037,655)
Barrow Hanley Corporate Bond Fund	25,000,000	2/28/2009	(5,160,245)	29,930,634	10,090,879
Ashmore AEMDF	25,000,000	6/1/2006		38,471,208	13,471,208
The Clinton Group CES	30,000,000	10/20/2008	(27,633,312)	10,348,209	7,981,521
FIA Leveraged Fund ***	45,000,000	4/1/2008		67,007,385	22,007,385
NLTP Loan	21,000,775	7/31/2009	(6,001,216)	18,137,247	3,137,688
Total Fixed Income Managers	423,541,519		(219,804,865)	288,606,309	84,869,655
The Clinton Group Magnolia	25,000,000	11/1/2007	(20,000,000)	40,072,842	35,072,842
Lighthouse Diversified Fund Limited	15,000,000	7/1/2005		19,174,009	4,174,009
Bay Resource Offshore Fund	14,000,000	1/1/2006		23,298,963	9,298,963
Scoggins Fund	15,000,000	3/1/2006	(118,171)	23,590,752	8,708,923
Argonaut Aggressive Global	10,000,000	4/1/2006		13,379,515	3,379,515
Sand Spring Capital**	22,000,000	2/1/2007	(11,324,283)	784,067	(9,891,650)
CA Recovery Fund LLC	11,324,283	6/30/2009	(1,947,468)	13,852,356	4,475,541
Ironwood Liquidation Reserve	10,000,000		(10,154,326)	234,513	388,839
Total Hedge Fund Managers	122,324,283		(43,544,248)	134,387,017	55,606,982
Murphee Venture	2,058,578	7/1/2005	(548,634)	1,629,977	120,033
Louisiana Fund I (1MM)	860,000	7/1/2005	(46,015)	1,746,250	932,265
DTC Private Equity II-Q (7.5 MM)	5,101,825	3/1/2006	(301,825)	5,408,150	608,150
Greensprings Associates (9.2 MM)	7,476,300	1/1/2006	(532,964)	6,797,456	(145,880)
DCM Private Equity II (7.5 MM)	6,573,191	3/1/2006	(838,044)	5,959,804	224,657
FECP II (20 MM)	20,549,987	5/1/2008	(7,939,297)	16,464,560	3,853,870
FECP III (20 MM)	16,439,109	8/25/2009	(1,435,748)	16,989,084	1,985,723

Fund Manager	Contributions	Inception Date	Distributions	Market Value	Net Gain/Loss* Since Inception Date through October 31, 2011
Sail Venture Partners II (30 MM)	\$25,224,014	11/10/2008	(\$6,521,498)	\$28,492,452	\$9,789,936
LA Sustainability Fund	4,935,557	7/28/2011		4,829,557	(106,000)
Total Private Equity Managers	89,218,561		(18,164,025)	88,317,290	17,262,754
Americus Fund II (13.2 MM)	11,648,774	1/1/2006	(4,854,168)	12,577,883	5,783,277
Sentinel Real Estate Fund	30,000,000	4/1/2006	(5,496,828)	21,723,803	(2,779,369)
FRS - LB (25 MM)	11,736,423	6/29/2007	(46,012)	8,848,001	(2,842,410)
JP Morgan India (10 MM)	7,611,773	5/24/2007	(28,668)	6,933,971	(649,134)
FRS - GA (9 MM)	9,464,098	2/1/2008	(190,744)	6,654,768	(2,618,586)
Timbervest Crossover Fund (16 MM)	13,600,000	3/1/2008	(1,824,000)	14,257,730	2,481,730
AEW Partners VI LP (20 MM)	9,811,958	9/1/2008	(1,055,647)	8,641,139	(115,172)
Total Real Estate Managers	93,873,026		(13,496,067)	79,637,295	(739,664)
Total Alternative Managers	305,415,870		(75,204,340)	302,341,602	72,130,072
Total	\$1,220,173,531		\$(484,193,698)	\$1,066,490,084	\$ 330,510,251

*These totals represent the combined unrealized and realized net gains/losses.

** Investments in Litigation as of October 31, 2011.

***FRS refers to this investment as FIA - Leveraged. It is currently in litigation.

Source: Prepared by legislative auditor's staff using unaudited data obtained from FRS.

APPENDIX G: MERS COMMITMENT SCHEDULE FROM INCEPTION OF INVESTMENTS THROUGH OCTOBER 31, 2011

Fund Manager	Contributions	Inception Date	Distributions	Market Value	Net Gain/ Loss* Since Inception Date through October 31, 2011
Atlanta Capital LCG	\$98,246,984	3/31/2004	(\$88,200,895)	\$21,715,401	\$11,669,312
Horizon Asset Management	32,580,643	12/4/2006		30,432,264	(2,148,379)
SSGA S&P Midcap Fund	68,125,153	9/30/2003	(81,089,082)	4,143,897	17,107,826
Barrow, Hanley SCV	55,836,360	3/31/2004	(35,949,285)	29,349,653	9,462,578
Greenspring Crossover	15,000,000	1/4/2008		17,297,462	2,297,462
Whalehaven	15,000,000	8/1/2008		17,053,917	2,053,917
Total Domestic Equity Managers	284,789,140		(205,239,262)	119,992,594	40,442,716
KB Water Fund	25,000,000	9/1/2007		21,532,883	(3,467,117)
Wentworth, Hauser & Violich	26,000,000	3/31/2011	(1,000,000)	21,475,672	(3,524,328)
Thornburg Global Equity	85,002,500	8/1/2006	(53,500,000)	46,824,564	15,322,064
Tradewinds Global All Cap	85,000,000	8/1/2006	(51,000,000)	41,412,022	7,412,022
Total International Equity Managers	221,002,500		(105,500,000)	131,245,141	15,742,641
Total Equity Managers	505,791,640		(310,739,262)	251,237,735	56,185,357
Brandywine	30,332,314	5/31/2005	(24,500,000)	17,281,220	11,448,906
Loomis Sayles	41,567,419	5/31/2005	(40,500,000)	15,472,882	14,405,463
Baron Builder	6,250,000	6/30/2008	(30,000)	7,580,945	1,360,945
Baron Builder II	2,700,000	10/31/2008	(2,416,196)	899,847	616,043
FIA Leveraged Fund **	40,000,000	3/31/2008		59,565,067	19,565,067
Commonwealth Advisors***	20,000,000	6/30/2007	(841,111)	6,353,175	(12,805,714)
SMH Capital Advisors	43,002,199	8/31/2007	(25,556,235)	22,994,063	5,548,099
Ashmore EMCHY	6,000,000	8/1/2008		7,326,076	1,326,076
Fixed Income Account	158,878,714	2/28/2006	(160,298,879)	778,618	2,198,783
Total Fixed Income Managers	348,730,646		(254,142,421)	138,251,893	43,663,668
Argonaut	20,000,000	2/28/2006		23,740,500	3,740,500
Golden Tree Credit Opps	5,000,000	2/28/2006		7,004,249	2,004,249
Golden Tree High Yield	10,000,000	2/28/2006		15,039,129	5,039,129
Scoggin	17,000,000	2/28/2006		25,875,297	8,875,297
Sand Spring Capital	10,000,000	3/1/2007	(4,201,592)	290,908	(5,507,500)
CA Recovery Fund	14,201,592	7/1/2009	(10,463,581)	9,474,692	5,736,681
Paulson Advantage	20,000,000	8/31/2010		16,883,994	(3,116,006)
Bay Resource Partners	10,000,000	10/1/2008		15,111,277	5,111,277
Clinton Group Magnolia	51,527,360	11/1/2007	(37,925,890)	18,125,745	4,524,275
Total Hedge Fund Managers	157,728,952		(52,591,063)	131,545,791	26,407,902
LA Fund (1 MM)	810,000	7/1/2006	(25,317)	1,965,381	1,180,698
Franchise Equity I (5 MM)	3,997,356	2/1/2007	(1,121,889)	4,524,050	1,648,583
Franchise Equity II (15 MM)	14,391,571	5/1/2008	(6,476,916)	7,791,895	(122,760)
Franchise Equity III (9 MM)	8,190,073	6/24/2009	(571,503)	8,205,089	586,519
Franchise Equity IV (25 MM)	18,338,183	12/15/2010	(1,211,921)	18,338,183	1,211,921

Fund Manager	Contributions	Inception Date	Distributions	Market Value	Net Gain/ Loss* Since Inception Date through October 31, 2011
SAIL Venture Partners I (3 MM)	\$3,000,000	10/21/2008	(\$190,014)	\$2,984,058	\$174,072
SAIL Venture Partners II (17.3 MM)	15,344,302	11/18/2008	(2,565,813)	17,632,330	4,853,841
SAIL Holdings, LLC (7.5 MM)	10,500,000	12/13/2010	(135,421)	10,500,000	135,421
SAIL Co-Investment (2.5 MM)	2,209,240	12/22/2010		2,177,895	(31,345)
Compass Island Inv. Opp. Fund (10 MM)	5,339,755	12/4/2009		5,497,492	157,737
Entropy Ventures (15 MM)	6,140,630	10/27/2010	(7,081)	4,472,455	(1,661,094)
Republic Business Credit (15 MM)	9,500,100	12/23/2010		9,812,222	312,122
Total Private Equity Managers	97,761,210		(12,305,875)	93,901,050	8,445,715
Americus Fund II (10/3.2 MM)	11,985,354	1/1/2006	(4,902,084)	12,080,848	4,997,578
Americus Fund IV (4 MM)	3,893,702	4/1/2007	(982,944)	1,626,598	(1,284,160)
AEW Partners V (10 MM)	8,990,164	3/1/2006	(3,427,136)	3,203,103	(2,359,925)
AEW Partners VI (10 MM)	4,764,150	4/1/2010	(204,072)	4,493,127	(66,951)
Crow Holdings IV (15 MM)	13,136,564	3/1/2006	(1,562,713)	7,873,721	(3,700,130)
Sentinel (10/5 MM)	25,000,000	3/1/2006	(14,871,014)	9,152,371	(976,615)
MEREC I / Land Baron	18,884,864	8/1/2006		3,177,072	(15,707,792)
MEREC II / Cocowlak	13,529,900	8/1/2006	(129,612)	7,300,000	(6,100,288)
LEM (10 MM)	8,001,036	8/1/2006	(1,928,691)	8,306,055	2,233,710
JPM India (8.9 MM)	7,611,773	7/1/2006	(463,571)	6,953,051	(195,151)
LA Resource LLC (25 MM)	24,205,936	4/30/2007	(7,288,879)	29,602,321	12,685,264
Gainesville Vision (7.7 MM)	8,491,054	1/31/2008		5,872,478	(2,618,576)
Timbervest (10 MM)	10,000,000	3/31/2008	(1,140,000)	9,451,081	591,081
Bedico Creek Preserve (7.0 MM)	6,211,758	4/30/2010		7,075,534	863,776
Total Real Estate Managers	164,706,255		(36,900,716)	116,167,360	(11,638,179)
Total Alternative Managers	420,196,417		(101,797,654)	341,614,201	23,215,438
Total	\$1,274,718,703		(\$666,679,337)	\$731,103,829	\$123,064,463

*These totals represent the combined unrealized and realized net gains/losses.

**MERS refers to this investment as Fletcher Preferred. It is currently in litigation.

***Investment in Litigation as of October 31, 2011.

Source: Prepared by legislative auditor's staff using unaudited data obtained from MERS.

APPENDIX H: NOFPRF COMMITMENT SCHEDULE FROM INCEPTION OF INVESTMENTS THROUGH OCTOBER 31, 2011

Fund Manager	Contributions	Inception Date	Distributions	Market Value	Net Gain/Loss* Since Inception Date through October 31, 2011
Regatta Research	\$3,004,508	2/1/2007	(\$2,682,785)		(\$321,723)
Orleans Capital Energy	20,033,191	10/25/2000	(19,531,256)	\$24,223,008	23,721,073
Orleans Capital Alt. Energy	10,852,220	10/25/2000	(9,005,024)		(1,847,196)
Whalehaven Capital	5,000,000	11/1/2007		5,438,020	438,020
Greensprings Crossover	3,000,000	1/7/2008		3,459,492	459,492
Clifton Group	388,981,911	9/1/1997	(394,781,560)	5,664,175	11,463,824
FNBC Escrow Cash Account	10,753,602	4/1/2010	(10,511,888)	274,300	32,586
Total Equity Managers	441,625,432		(436,512,513)	39,058,995	33,946,076
FIA Leveraged Fund**	25,537,429	4/1/2008	(10,762,038)	22,378,113	7,602,722
Clinton Magnolia Fund	15,164,257	11/1/2007	(5,090,799)	13,225,000	3,151,542
SMH	10,011,022	7/7/2006	(5,000,000)	6,552,903	1,541,881
Securities Lending	968,654	9/1/1997	(1,175,006)	27,110	233,462
Total fixed Income	51,681,362		(22,027,843)	42,183,126	12,529,607
American Pension Consultants	5,170,347	3/20/2003	(1,873,058)	4,402,479	1,105,190
Casa Fuego II (Greentrails)	1,350,148	1/7/2005	(1,892,339)	715,908	1,258,099
Casa Fuego III (Plaquemines)	1,638,000	9/1/2007	(428,080)	1,915,928	706,008
Fire Hotel I (Metairie)	2,500,439	6/14/2005	(3,217,677)	800,000	1,517,238
Fire Hotel II (Mexico)	3,150,000	6/30/2006	(1,179,524)	3,040,000	1,069,524
Fire Hotel III (Natchez)	2,500,000	2/1/2007	(324,613)	3,450,851	1,275,464
Total Private Fixed Loans	16,308,934		(8,915,291)	14,325,166	6,931,523
Total Fixed Income Managers	67,990,296		(30,943,134)	56,508,292	19,461,130
OCM Mezzanine	1,023,501	5/15/2002	(1,536,455)	191,757	704,711
Total Hedge Fund Managers	1,023,501		(1,536,455)	191,757	704,711
End Game	3,000,000	7/3/2003	(90)	1,456,127	(1,543,783)
Fire Flix	500,000	5/6/2011	(52,000)	450,000	2,000
First NBC Bank	6,500,000	5/31/2006		7,635,875	1,135,875
Greensprings	2,700,000	11/3/2003	(883,400)	2,838,847	1,022,247
Murphree Venture	1,008,665	3/31/2006	(274,317)	860,958	126,610
Trans Europe Buyout III	1,470,868	12/1/2000	(2,999,780)	706,348	2,235,260
Trans Europe Buyout IV	2,250,000	6/2/2002	(5,168,440)	1,092,699	4,011,139
Trans Europe Buyout VII	3,000,000	7/6/2007		3,554,010	554,010
Louisiana Fund I	405,000	7/1/2006	(12,659)	872,046	479,705
SAIL Venture Partners II	4,389,937	11/19/2008	(748,078)	5,279,580	1,637,721
Louisiana Sustainability Fund, LP	321,970	8/4/2011		321,970	
Wilton Private Equity	2,602,282	9/1/2001	(4,045,188)	1,923,382	3,366,288
Total Private Equity Managers	28,148,722		(14,183,952)	26,991,842	13,027,072

Fund Manager	Contributions	Inception Date	Distributions	Market Value	Net Gain/Loss* Since Inception Date through October 31, 2011
Firehouse VII (Belair)	\$1,000,250	7/1/2005	(\$58,337)	\$1,215,138	\$273,225
Firehouse VIII (Coco Walk)	6,246,285	8/16/2006	(133,515)	3,598,609	(2,514,161)
Firehouse IX (Aurora Village)	1,000,000	12/11/2007	(60,904)	1,567,159	628,063
Saratoga Lofts (Wiznia)	1,309,688	2/1/2007	(1,710,363)	1	400,676
Fire Assist (St. Raymond)	3,012,891	6/30/2006		2,400,000	(612,891)
Fire Wiz (Maritime)	4,250,000	4/27/2007	(3,209,688)	2,060,026	1,019,714
Fire Wiz II (Stephen's Garage)	1,500,000	7/12/2007	(7,500)	2,182,171	689,671
Fire Game (TGGI)	12,025,659	11/15/2006	(900,972)	6,344,934	(4,779,753)
Fire Hotel II (Metairie)	40,000	6/14/2005			(40,000)
Fire Hotel II (Mexico)	750,000	12/1/2006		73,112	(676,888)
Fire Phoenix (Austin)***	15,888,898	11/1/2001	(17,195,321)	(5,730,492)	(4,424,069)
Fire Lake (Lakewood)	42,977,411	1/3/2003	(22,997,344)	(2,245,807)	(22,225,874)
Firewall (West Wego)	4,639,823	5/10/2006	(41,012)	4,816,842	218,031
Fire Water	6,106,600	8/17/2004	(3,455,471)	4,893,968	2,242,839
Hilton Gardens	14,140,106	6/1/1999	(17,235,390)		3,095,284
Kreate Fund	3,747,817	9/10/2003	(4,025,531)	2,402,025	2,679,739
Intercontinental III	4,000,000	1/2/2003	(522,575)	3,063,958	(413,467)
Intercontinental IV	1,025,000	9/1/2005		513,695	(511,305)
LEM Real Est. Mezzanine	3,120,000	10/2/2002	(2,605,143)	1,106,140	591,283
Land Baron	11,641,405	3/1/2005	(3,371,668)	4,160,452	(4,109,285)
HCH Land Partners	1,500,000	4/1/2010	(1,500,000)	(70,424)	(70,424)
Total Real Estate Managers	139,921,833		(79,030,734)	32,351,507	(28,539,592)
Total Alternative Managers	169,094,056		(94,751,141)	59,535,106	(14,807,809)
Total	\$678,709,784		(\$562,206,788)	\$155,102,393	\$38,599,397

*These totals represent the combined unrealized and realized net gains/losses.

**NOFPRF refers to this investment as Fletcher FIA Leveraged. It is currently in litigation.

***Investment in Litigation as of October 31, 2011.

Source: Prepared by legislative auditor's staff using unaudited data obtained from NOFPRF.

APPENDIX I: ROVERS COMMITMENT SCHEDULE FROM INCEPTION OF INVESTMENTS THROUGH OCTOBER 31, 2011

Fund Manager	Contributions	Inception Date	Distributions	Market Value	Net Gain/Loss* since Inception Date through October 31, 2011
Aletheia	\$5,737,547	3/2/2007	(\$2,250,000)	\$2,748,645	(\$738,902)
Snow Capital	5,728,419	3/6/2007	(2,000,000)	1,960,155	(1,768,264)
Horizon	3,000,000	3/31/2007		2,790,107	(209,893)
Advisory Smid Cap	5,873,405	3/6/2007	(2,000,000)	3,760,158	(113,247)
Greenspring Crossover Fund	2,000,000	6/13/2008		2,274,996	274,996
Orleans Capital Energy Fund	3,000,000	8/29/2008		3,827,598	827,598
Total Domestic Equity Managers	25,339,371		(6,250,000)	17,361,659	(1,727,712)
KBC Water Fund	2,000,000	8/29/2008		1,805,564	(194,436)
Thornburg International Equity	5,000,000	9/18/2009		5,346,438	346,438
Tradewinds Globa All Cap Strategy	4,000,000	7/31/2011		3,798,295	(201,705)
Total International Equity Managers	11,000,000			10,950,297	(49,703)
Total Equity Managers	36,339,371		(6,250,000)	28,311,956	(1,777,415)
Orleans Capital	26,019,402	6/30/2006	(17,840,383)	13,243,513	5,064,494
SMH	3,000,000	3/5/2007		3,647,864	647,864
Ashmore AEMDF	1,500,000	3/31/2007		1,984,346	484,346
Ashmore ALCF	1,500,000	3/31/2007		1,811,984	311,984
Total Fixed Income Managers	32,019,402		(17,840,383)	20,687,707	6,508,688
Sand Spring Capital **	2,000,000	3/31/2007	(807,771)	55,510	(1,136,719)
CA Recovery Fund	807,771	6/30/2009	(138,832)	991,104	322,165
Equita Evergreen Fund	4,500,000	5/1/2007		4,575,746	75,746
Total Hedge Fund Managers	7,307,771		(946,603)	5,622,360	(738,808)
Invesco Global REIT	1,500,000	3/31/2007		1,130,353	(369,647)
Americus Fund IV	1,946,851	6/10/2007	(491,473)	797,835	(657,543)
Land Baron Investments	2,691,449	5/30/2008		1,015,045	(1,676,404)
Total Real Estate and Private Equity Managers	6,138,300		(491,473)	2,943,233	(2,703,594)
Total Alternative Managers	13,446,071		(1,438,076)	8,565,593	(3,442,402)
Total	\$81,804,844		(\$25,528,459)	\$57,565,256	\$1,288,871

*These totals represent the combined unrealized and realized net gains/losses.

**Investment in Litigation as of October 31, 2011.

Source: Prepared by legislative auditor's staff using unaudited data obtained from ROVERS.