APPROVED MINUTES

LOUISIANA CLERKS OF COURT RETIREMENT AND RELIEF FUND
BOARD OF TRUSTEES MEETING
WEDNESDAY, FEBRUARY 19, 2020
BATON ROUGE, LOUISIANA
9:00 a.m.

A meeting of the Louisiana Clerks of Court Retirement and Relief Fund Board of Trustees was held on Wednesday, February 19, 2020 at 9:00 a.m. in Baton Rouge, Louisiana.

The meeting was called to order by President Brian Lestage. Steve Andrews gave the invocation. Robin Hooter led the Pledge of Allegiance.

MEMBERS PRESENT:
President Brian Lestage
Bridget Hanna
Robin Hooter
Rick Arceneaux
Mark Graffeo
Steve Andrews

OTHERS PRESENT:
Debbie Hudnall, Executive Director
Jon Breth, AndCo
Rebecca Wisbar, Attorney
Gary Curran, Actuary
Michelle Cunningham, Auditor

GUESTS PRESENT:
Jeff Skidmore, Susan Racca, David Dart, Dagmar Hebert, Chris Kershaw

PUBLIC COMMENTS: None

Debbie Hudnall then introduced Susan Allsup to the Board. Susan began working for the Association office beginning January 2, 2020.

A motion was made by Robin Hooter to amend the agenda item 10 to include Audit Proposal. The motion was seconded by Rick Arceneaux. **MOTION CARRIED.**

APPROVAL OF MINUTES:
Steve Andrews moved that the minutes of the December 4, 2019 meeting be approved. Motion seconded by Bridget Hanna. **MOTION CARRIED.**

FINANCIAL REPORT: (ON FILE IN OFFICE)
Treasurer Rick Arceneaux reviewed the financial report for December 2019:

December 2019 -	Monthly Contributions	$ 4,621,191
	Other Additions	$ 248,032
	Investment Gain (Loss)	$ 17,638,563
	Investment Expenses	$ 186,434
	Deductions	$ 3,625,910
	Net Income (Decrease)	$ 18,695,441
	Total Investments	**$ 621,696,955**
	Total Assets	**$ 670,219,858**

A motion was made by Mark Graffeo to receive the financial reports. Motion seconded by Robin Hooter. **MOTION CARRIED.**

INVESTMENT COMMITTEE REPORT: Mark Graffeo reported the investment committee has continued the education process on a new investment vehicle – private infrastructure- and two money managers from that asset class will be presenting later in the meeting.

ANDCO:
Jon Breth provided additional information noting that Board's objective in this process was to maintain income but diversify the infrastructure allocation, incorporating more of a global footprint. Due to the volatility of the MLP space, the goal is to replace the 5% MLP allocation with private infrastructure. Jon commented the two potential managers, JP Morgan Asset Management and IFM, are two of the longest tenured funds in the private infrastructure space.

Money Manager Presentations:
JP Morgan Asset Management – Kate Hurley and Dan Galinko began their presentation by illustrating an example of an asset owned locally in Harvey, LA. JP Morgan has built this asset portfolio over the last decade to include more than 500 assets with stable predictable cash income, using a platform investment strategy of buying 100% control of the business, and then deploying capital into smaller assets growing the space. Dan stated the commitment queue is an estimate of 6-12 months from the signing of contracts to the full capital commitment call. He noted the various assets including electric utility companies (recent purchase in Texas) and water companies (California); 50% of the portfolio is in contracted and regulated companies like these utilities.
Kate then reviewed the fees & terms with management fees at 95 basis points. Performance fees are simple and conservative with no catch-up and fee is capped. The management fee is lowered as the fund grows in size by 5% two more times. The fund does have a 4 year soft lock, not completely liquid. The fund is long-term as investors want protection.
Jon Breth questioned the fund's expenses and the effect of a tax-exempt status investor i.e. pension plan. The fund's expenses are shared over 10-20 years. There was also discussion regarding currency hedging which assists in lowering volatility over time. Chris Kershaw questioned the leverage of the fund. Dan stated that the fund does not have fund-level leverage as each business has a capital equity structure. Chris also asked about the other investors in the fund. Kate explained that the investors are all institutional including pension and insurance funds.
Kate then concluded the presentation by stating that the fund invests in developed countries in middle markets with long term contracted/regulated companies. The management fee is 95 basis points plus expenses with a 15% charge after a certain return.

Attorney Rebecca Wisbar questioned the ability to include a side letter agreement if the Clerks investments is under the $50 million threshold. Rebecca noted that a side letter would be extremely important because of certain provisions under Louisiana Law. Jon Breth confirmed with JP Morgan that a confirmation letter could be done per JP Morgan. While he doesn't know the distinction between a side letter and a confirmation letter, JP Morgan is open to negotiations.
There was additional discussion regarding hedging currency. Jon Breth noted that doing so make incur additional expense but reduces currency volatility and allows the focus to continue income production.

IFM Investors (IFM Global Infrastructure Fund) – Dan Kim introduced IFM Investors Fund noting that the Fund's inception began in 2004. The Fund is a superannuation fund created by a group of Australian pension funds. The Fund has approximately $115 billion assets under management with 4 asset classes both traditional and alternative. IFM has reduced the management fee twice and provided a rebate back to investors. The fund has $48 billion in global infrastructure with assets having a 20-50-year operating history. Assets are essential services including transportation and mid-stream energy/utilities. The Fund projects a goal of 10% return over the long term. Currency is hedged back to the US dollar as it is important to not have that currency volatility with exchange rate risk. IFM investment strategy is primarily focused on developed countries. The fund cannot be more than 60% leveraged across the portfolio. The target leverage is 50% and is currently at 38%. IFM takes a minority position in ownership of the investments. They do have proper representation on the Board and maintain positions to affect major change. The 17 portfolio companies are 50% in transportation, 30% mid-stream energy and 20% utilities.
The management fee is 77 basis points with a performance fee of 10% for returns over 8%. There is a 33.3% catch-up. Dan also noted the entry que for entrance into the fund for new investors. Once drawn into the fund, then fees begin. It is an open-ended fund with a valuation and redemption policy requiring a 90-day notice and then 36 month redemption period.
Dan also commented that each company has an independent valuation completed on a quarterly basis. The valuations are done in a range and IFM's policy reviews assets at the midpoint and above. However, approval from the risk committee is required for assets at the midpoint or below regarding acquisitions and divestures.
Attorney Rebecca Wisbar questioned if IFM was open to a side letter agreement. Dan noted that IFM is open to a side letter agreement and has a history of working with another Louisiana investor who needed the like and IFM was able to accommodate those requests.
Jon Breth noted that the ownership structure of IFM differs from JP Morgan. IFM has strong 9% returns and competitive fees in the marketplace. Jon also explained that he did not see any liquidity issues.

Debbie questioned the time frame of the entry que and contract negotiations. Jon Breth noted that with the last new manager, Principle, the contract documents took longer and the first capital call at January 2020 was missed so the Fund has to wait for the next quarter's call to introduce capital. There was discussion on when to redeem funds before the capital commitment to infrastructure. Jon would recommend liquidating MLPs and then hold those funds with another manager until the call to capital.

There was discussion regarding catch-up fee's and differentiating factors between JP Morgan and IFM including JP Morgan's more conservative approach but higher leverage percentage than IFM. IFM appears to control expenses and the ability to have both majority and minority owners. Brian Lestage noted that IFM does maintain MLP investments. Jon Breth reminded the Board that the idea was not to completely liquidate entirely from MLPs but to diversify with more infrastructure/transportation.

There was additional discussion regarding quarterly distributions paid by both managers. Jon would suggest those distributions be reinvested back into the fund. Debbie asked for AndCo's recommendation. Jon stated that IFM is better aligned with the Clerks fund on the fee level as with the structure of IFM's firm being a collection of pension funds. He also noted that IFM has hedged currency since inception where as it is new for JP Morgan. AndCo would recommend moving forward with IFM at the 5% target allocation.

A motion was made by Rick Arceneaux to move the 5% allocation from MLPs to IFM Private Infrastructure subject to legal review and to authorize Executive Director Debbie Hudnall and Attorney to negotiate contract and execute all necessary documents. The motion was seconded by Mark Graffeo. **MOTION CARRIED.**

Review of Q4 2019 – Jon Breth brought to the Board's attention a recent reinvestment into staff growth at AndCo with the addition of two new partners from the executive team. Jon recapped the 4th quarter citing good progress between the US and China with phase 1 of the trade deal signed in January 2020. He noted the Federal Reserve also decreased the interest rate. He also reported that global central banks cut rates 47 times increasing stimulus into the market which led to a great environment for risk assets. Emerging Markets saw a great 4th quarter and US core fixed income experienced a great return for the end of 2019 with interest rates down, bond prices rose. This environment shows how difficult it is to predict when the next recession may occur.

Jon then reviewed the Fund's performance for the 4th quarter of 2019. He noted allocation changes to a heavier weighted US stocks, and the addition of new managers – Driehaus and Orleans Capital. The fund gained 6.93% overall, with a current fiscal year return of 6.10%, showing outperformance of many managers versus the benchmark, including international equity. He reported that two managers on the growth side of the portfolio – Westfield & Elk Creek- both experienced a strong 4th quarter. Westfield has begun to narrow the gap between its' since inception performance and the benchmark. Jon also pointed out that William Blair lagged the benchmark in quarter 4. The portfolio saw good performance in the international market space with both TSW & LSV. He also highlighted Clarion's performance and the change to exposure in the retail environment, now supplemented with medical office/storage. Both MLP managers had positive returns. While Harvest is more aggressive producing higher returns, both managers are positive but MLP environment overall is negative in the asset class.

Review of December 31, 2019 Performance

	December 31, 2019	QTD	FYTD
Total Funds	$ 621,696,955	6.39%	6.10%
US Equity			
QMA	$ 76,201,562	9.64%	10.07%
Rothschild	$ 41,498,269	7.69%	9.53%
Westfield	$ 44,120,150	12.55%	11.74%
William Blair	$ 23,511,206	5.21%	4.32%
Elk Creek	$ 25,156,682	16.60%	8.17%
Int. Equity			
TS&W	$ 43,830,941	9.89%	9.77%
LSV	$ 39,512,402	11.06%	10.84%
Driehaus	$ 33,611,762	11.77%	12.13%
Segall Bryant	$ 34,233,932	10.41%	4.75%
Fixed Income			
Pyramis	$ 62,773,703	0.76%	2.97%
Pyramis (Tact)	$ 34,981,036	1.59%	4.24%
Orleans Capital	$ 29,012,193	--	--
Hedge Funds			
Summit Solut.	$ 44,872,039	3.22%	2.39%
Real Estate			
Clarion	$ 56,492,622	1.99%	3.68%
MLP'S			
Harvest	$ 16,215,493	-0.94%	-5.93%
Tortoise	$ 15,672,069	-1.60%	-7.60%
Hancock – Cash	$ 893		
DROP FUNDS	$ 31,317,896		
Cash Funds	$ 14,911,747		

Actuary Gary Curran asked Jon Breth if there were preliminary January 2020 performance figures for a fiscal year-to-date estimate. Jon explained the expectation would likely be a +/- 25 basis points, so an approximate estimate of a 6% return for the fiscal year.

There was discussion regarding moving funds from S&P type investments to Russell Index type funds.

Jon Breth would like to recommend that the system liquidate the investments in Harvest and Tortoise MLP managers with the Harvest proceeds going to Orleans Capital and Tortoise proceeds to QMA Large Cap enhanced portfolio. The system is looking at a 12 month wait for a capital call from IFM. AndCo is comfortable with moving these funds instead of maintaining the investments in MLPs. A motion was made by Mark Graffeo to accept the recommendation of AndCo to liquidate the MLPs investments with Harvest and Tortoise, and proceeds transferred to Orleans and QMA, respectively. The motion was seconded by Rick Arceneaux. **MOTION CARRIED.** Jon will contact both managers to ensure clear communication and that direction letters are sent accordingly. There was discussion about the target allocations with Orleans and QMA. Jon noted that the portfolio would still be within limits considering the +/- 5 allowable range.

GASB 68 AUDIT REPORT (On file in office) – Auditor Michelle Cunningham presented the GASB 68 Audit report for the fiscal year ended June 30, 2019. This report provides the net pension liability for each parish Clerk's office that will be included on their audit reports. Michelle explained that the Clerks received an unmodified opinion. There was an increase in the net pension liability from 2018 to 2019. She noted that the deferred outflows and inflows are amortized over 5 years. There is also a disclosure on the affect a change in the discount rate has on the net pension liability. A motion was made by Robin Hooter to accept the GASB 68 report as presented. The motion was seconded by Bridget Hanna. **MOTION CARRIED.** Michelle explained that the full report will be provided to the Louisiana Legislative Auditor and posted to the Clerks Association website.

AUDIT PROPOSALS – Michelle Cunningham informed the Board that a three year audit proposal was presented for the Retirement Fund, including 3 separate contracts for the Financial Audit, GASB 67 and GASB 68. The proposed fee for the financial audit is a range of $29,950 to $34,500. The proposed fee for the GASB 68 audit is a range of $5,500 to $6,100. The proposed fee for the GASB 67 audit is a range of $10,700 to $11,800 plus minor travel expenses. Debbie reported that the financial audit would be a 15.2% increase, GASB 68 is an increase of 10.9% and GASB 67 is an increase of 13.4% for the three-year period as compared to the previous three-year contracts. A motion was made by Mark Graffeo to accept the three audit proposals for a three-year period as presented. The motion was seconded by Steve Andrews. **MOTION CARRIED.**

ACTUARY REPORT– Gary Curran updated the Board on the recent PRSAC meeting where the Clerks' Actuarial Valuation report for June 30, 2019 was adopted as presented by G.S. Curran & Co.. Gary noted the persistent differing views with the Legislative Auditor's Actuary regarding the assumed rate of return, assumed inflation input and the short versus longer term time horizon. He reported that the minimum required employer contributed has been calculated at 19%, which happens to be exactly what the Clerks collect currently and have been for the last few years. He informed the Board that his office is in the process of conducting an experience study, which will affect the next valuation, along with investment returns. He preliminary noted that one input, mortality, will have a significant impact on cost. He explained that as life expectancy increases pensions have to be paid out for a longer period of time. Projected tables for mortality are currently used. The Currans' are transitioning clients from projected tables to a generational mortality which is set based on age and birth date. The anticipated cost of this input change would be approximately 2.2% increase in the minimum employer rate. He further explained how the return on investments affects the employer rate. He does not project the fund will reach the rate of return of 6.75% and that impact of under performance roughly adds an additional 1.3% to the minimum cost of the plan. He noted that those two factors alone will roughly add 3% to the cost of the plan. He stated that the gains from newly added members would cause a slight reduction in the rate, as well as, if payroll has a slight increase, the amortization cost may drop slightly. Gary stated that his best estimate would be roughly a 2% increase to the minimum required employer

contribution rate on the next valuation. He explained that the Board could leave the rate at the current 19% and deal with the outcome next year or it may be prudent to increase to help offset the next valuation increase. The Fund has been remarkably resilient to hold the employer rate level for the past six years and is in a healthy position.

Gary also alluded to future discussion regarding the assumed rate of return. He noted the Clerks' rate of 6.75% looks dependable but there is not guarantee that the rate can be maintained with the continued pressure from the Legislative Auditor's actuary. The LLA's recommendation is a 6.5% rate of return. Gary informed the Board that for every one percent change in the assumed rate of return the cost shift to the fund is 11.45%. He noted that the change could be buffered by drawing money out of the funding deposit account but doesn't think the Clerks' are at the point of reaching the plateau of cost increases.

Mark Graffeo commented on the increase of the employer contribution rate that was discussed at the Clerks Only meeting in December. He asked Gary to clarify if the rate was set above the minimum required rate where the difference would go. Gary noted that the difference between the set rate and the true cost would then go into the funding deposit account.

After additional discussion, a motion was made by Robin Hooter to increase the employer contribution rate for the fiscal year 2020-2021 by 2%, with the rate to be set at 21% effective July 1, 2020. The motion was seconded by Bridget Hanna. **MOTION CARRIED.** Debbie Hudnall noted that notice would be sent to all Clerks.

APPLICATIONS AND REFUNDS: (On file in office)

Debbie reported that since the December Board meeting there were 14 applications for DROP; 2 applications for regular retirement; and 14 Post DROP retirement applications.

Steve Andrews moved that the applications be approved. Motion was seconded by Rick Arceneaux. **MOTION CARRIED.**

Debbie further reported there had been 7 refunds in the amount of $71,734 for the month of January 2020. Total refund for the fiscal year end June 30, 2020 were $506,403.

EXECUTIVE DIRECTOR REPORT

Legislation – Debbie stated several bills had been filed but none with great affect on the Clerks' Fund. The Currans' have responded to several fiscal notes requested. She did highlight one bill that would prohibit public funds to pay for an elected official's retirement and insurance.

ATTORNEY: Rebecca Wisbar reported that the documents and side letter had been completed for Principle. She brought to the Board's attention a recent inquiry on the rehire of retirees, who want to return to work, filling the same position in the Clerk's office as an LLC and the statutory and ethic provisions. Rebecca explained that the legal position is to look at the position and if it is an employee position then the re-hire would fall under the statutory provision in the law. Rebecca clarified that 2 situations have been presented: A retiree receiving benefits, returning to work as an LLC for multiple clerks office – whether or not the individual is an employee or independent contractor? And whether or not the person would have to comply with the code of ethics requiring a two year waiting period before returning due to the nature of being a public servant.

A motion was made by Bridget Hanna to move into Executive Session. The motion was seconded by Robin Hooter. **MOTION CARRIED.**

A motion was made by Rick Arceneaux to return to the regular meeting. The motion was seconded by Bridget Hanna. **MOTION CARRIED.**

A motion was made by Rick Arceneaux that the position of the Retirement Board be that no one be allowed to return to work for a clerk in any capacity, whether as a retiree, member, individual, employee, independent contractor or LLC, without triggering the provisions of LA R.S. 11:1513. The motion was seconded by Robin Hooter. **MOTION CARRIED.**

A motion was made by Rick Arceneaux that if a retiree returns to work for another entity other than a clerk's office that it would not trigger that same provision. The motion was seconded by Bridget Hanna. **MOTION CARRIED.**

OTHER BUSINESS: A motion was made by Steve Andrews to amend the agenda adding the item of Summit Solutions. The motion was seconded by Bridget Hanna. **MOTION CARRIED.**

SUMMIT SOLUTIONS – Debbie Hudnall provided background information that in September 2018 Summit Strategies sold to Mercer and the Clerks were in a contract with Summit for hedge fund investments. In September 2018, an agreement was signed to transfer the agreement with Summit Solutions assigning it to Mercer. Debbie further explained that in late December/early January another document was received from John Lake with Summit Solutions that was to be signed. Debbie forwarded that document then to Jon Breth and the attorneys. There was a question as to whether this new agreement was considered a replacement for the current agreement. John Lake stated that it was a replacement of the supplement agreement to provide investment advisory services. Jon Breth commented that he reviewed the document and conveyed that the changes were minor from the investment standpoint including liquidity and notice provisions. He did state that there were substantial changes to other areas of the documents. There was discussion as to how to proceed with a review of the new agreement or divesture from the hedge fund asset class. The Board agreed that Debbie would convey to Mercer that the new agreement is under review. The investment committee would set up a call for early March to continue the discussion.

COMMENTS BY BOARD TRUSTEES: None.

There being no other business, Rick Arceneaux moved that the meeting be adjourned. Motion seconded by Bridget Hanna. **MOTION CARRIED.**

MEETING ADJOURNED.

Approved:

Brian Lestage

Brian Lestage, President

Respectfully submitted,

Debbie D. Hudnall

Debbie D. Hudnall, Executive Director