

LSPRS || LOUISIANA STATE POLICE RETIREMENT SYSTEM

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Board Meeting Minutes

Meeting Title	LSPRS Board Meeting
Date of Meeting	June 21, 2023 (Wednesday)
Where	9224 Jefferson Hwy, Baton Rouge, LA (Dr. Bobby E. Smith Boardroom)
Start Time	1:30 p.m.

- 1) Chairman, Frank Besson called the meeting to order.
- 2) Kevin Marcel led the Pledge of Allegiance followed by a prayer led by Alan Verhoef, LSPRS Board member.
- 3) Gretchen Marquez, Executive Staff Officer, called roll as follows:

Colonel Lamar Davis, Superintendent, Office of State Police, Appearing Through Frank Besson, Designee for Superintendent, PRESENT
Commissioner Jay Dardenne, Division of Administration, Appearing Through Andrea Hubbard, Designee for DOA Commissioner, PRESENT
Representative Vanessa LaFleur, Representing the House Committee on Retirement, NOT PRESENT
Chris LeDay, President, Central State Troopers Coalition, NOT PRESENT
Kevin Marcel, Retired/Active Representative, Vice-Chairman, PRESENT
Senator Ed Price, Chairman, Senate Retirement Committee, Appearing Through Representative Cleo Fields, Designee for Senator, NOT PRESENT
Doris Prudhomme, Surviving Spouse Representative, NOT PRESENT
Treasurer John Schroder, Appearing Through Amy Mathews, Designee for State Treasurer, PRESENT
Hackley Willis, Jr., LSTA President, PRESENT
Alan Verhoef, Active Representative, PRESENT
Bryan Zeringue, Retiree Representative, PRESENT (Abstained from all voting this meeting due to lack of training hours)

The record reflect that the following persons were also present:

Robin Landa, UBS Institutional Consulting (appeared after roll call)
Racheal Alvey, Griffin & Furman, LLC
Margaret Michel, LSPRS Executive Director
Denise Akers, General Counsel, Akers & Wisbar
Gretchen Marquez, LSPRS Executive Staff Officer
Doug Hanly, LSPRS Chief Investment Officer
Gregory Curran, Actuary, G.S Curran & Co

- 4) Frank Besson introduced Bryan Zeringue as the new retiree representative for the Board.

- 5) A **MOTION** was made by Kevin Marcel to approve the Board Minutes from the April 26, 2023, Board Meeting. The motion was seconded by Hackley Willis. No opposition. The motion passed. **(See Exhibit A - attached)**

A **MOTION** was made by Amy Mathews to approve the Investment Committee Minutes from the May 24, 2023, Investment Committee Meeting. The motion was seconded by Andrea Hubbard. No opposition. The motion passed. **(See Exhibit B - attached)**

- 6) Racheal Alvey, Griffin & Co., LLC, presented the Cash Disbursements for the month ending April 30, 2023. April's total disbursement amounted to \$156,724.89 due to a quarterly fee from Loomis and an investment consulting fee from UBS. **(See Exhibit C - attached)**

Ms. Alvey then reviewed the Statement of Fiduciary Net Position/Balance Sheet for the month ending April 30, 2023. She pointed out that the bank held \$970,297 in cash, with Total Investments standing at \$1,019,626,573. Total Liabilities were \$2,925,605, resulting in a Net Position of \$1,019,736,330. Next, she discussed the Statement of Changes in Fiduciary Net Position/Income Statement, focusing on the Fiscal Year-To-Date column through April 2023. Total Revenues were reported at \$97,809,093.6. Total Expenses were \$73,947,704.50, bringing Net Income to \$23,861,389.17. **(See Exhibit D - Attached)**

Ms. Alvey reviewed the Budget Summary for the month ending April 30, 2023, focusing on the Over/Under Budget in last column. Ms. Alvey stated that we were under in all categories except for the miscellaneous row due to one vendor switching to an annual invoice. Travel was also over budget but is now adjusted for next year to account for this change. Ms. Alvey stated that we were under budget with a Total Operating Budget of \$1,282,657. **(See Exhibit E - Attached)**

A **MOTION** was made by Alan Verhoef to accept the financial reports. The motion was seconded by Andrea Hubbard. No opposition. The motion passed.

- 7) Margaret Michel presented the Board with a 2023 legislative update. Senate Bill 18 (SB18) passed, becoming Act 184. The State police reported no change from the initial version that was supported. House Bill 47 (HB47) also passed and became Act 107. It is set to appear as a Constitutional amendment on the October ballot. If approved, it will allocate 25% of any State budget surplus to the UAL of all four State retirement systems. Senate Bill 201 (SB201) was passed, leading to a modification in the public meeting laws. Ms. Michel expressed her plans to consult with the General Counsel on APA rules to ensure alignment with other Systems regarding this bill. House Bill 635 (HB635), concerning the taxation of vape products with the aim to increase State police salaries, became Act 414. Ms. Michel communicated that LSPRS will collaborate with Greg Curran to ensure our assumptions are up-to-date as the Louisiana State Police Commission revises the pay scale. **(See Exhibit F - Attached)**

Amy Mathews asked if Act 414 will allow for an outright raise for troopers. Hackley Willis stated that it moves the starting salary to around \$56,000/year and then a one-year trooper will be \$60,000/year. Additionally, there will be a 3% merit every step. However, there will now be 20 steps as opposed to 22 steps. Mr. Willis was unsure if a final decision has been made yet regarding the new pay grid.

- 8) Robin Landa, UBS/PaineWebber, presented the Board with the Asset Allocation and Markets Value and Returns Summary as of May 31, 2023. **(See Exhibit G - Attached)** The total equities had a market value of \$593,149,501 equating to 58.8% of the portfolio, the total fixed income of \$182,086,263 being 18.1%, which is well within the min and max target allocation. The total alternative investments were \$181,614,856, being 18.0% of the portfolio, which is slightly below the

19.5% target, and total cash of 5.1% at \$51,617,677. The month ended with a total fund value of \$1,008,368,297.

Ms. Landa directed the Board to view the Market Value and Returns Summary as of May 31, 2023. **(See Exhibit H - Attached)** She noted that for the Fiscal Year-To-Date column, many investments had a positive return. Focusing on the Fiscal Year-To-Date column, total domestic equities were 8.25%, total equity managers were 7.81%, total international equities were 6.87% and total fixed income managers were 0.53%. Overall, the total fund was 3.61% for the fiscal year-to-date and 7.25% return since inception.

Robin Landa presented the committee with the UBS House View Presentation – Chief Investment Office GWM, June 2023. Ms. Landa started by focusing on the years 2022 and 2023 of the “Quilt chart” of select asset classes’ calendar year performance. **(See Exhibit I - Attached)** Ms. Landa noted the big change in US fixed income from -12.3% in 2022 to 1.8% in 2023. Additionally, she noted that the 60/40 portfolio went from -15.6% in 2022 to 5.0% in 2023.

In summary, Ms. Landa noted that investment returns are rebounding and the Federal Reserve recently paused its rate hike. She anticipates a potential reduction in rates, likely towards the year’s end. Slow economic growth is expected to persist, with a balanced 50/50 likelihood of a recession. Market volatility remains high due to uncertainties surrounding inflation. However, it’s projected that inflation will decelerate by the end of the year. **(See Exhibit J - attached)**

- 9) Doug Hanly guided the Board through a presentation regarding the diversification of the LSPRS portfolio, diligence checklists, and emerging markets. Mr. Hanly proposed a 2-stage process for diversifying the portfolio; stage 1 entails adding fixed income, while stage 2 involves the inclusion of absolute return investments.

The amendments to the portfolio are detailed on page 3 of the Investment Policy. Ms. Michel recalled for the Board that during the last meeting, they had granted the Investment Committee the authority to operate within the bounds of the Investment Policy statement, thereby allowing them more flexibility to enact changes. **(See Exhibit K - attached)**

A MOTION was made by Kevin Marcel to approve the new bands that are proposed for asset allocation. The motion was seconded by Hackley Willis. No opposition. The motion passed.

In the second stage of diversifying the portfolio, the addition of absolute return was emphasized by Mr. Hanly. He pointed out that absolute return strategies can yield attractive returns across diverse market environments, citing their positive performance in 2008 and 2022 when equity markets were negative. He underscored the high dispersion in absolute return strategies and the importance of aligning with top quartile managers. Mr. Hanly outlined his plans to build relationships with these managers to access their capacity-constrained funds.

Mr. Hanly further presented three potential methods for gaining access to absolute return: direct fund investment, investment in a fund of funds, or investment in a custom account managed by an external investment firm. He suggested that a custom account could be the best fit for LSPRS given its absence of a performance fee, which is typically the costliest aspect of any fund investment. This approach also allows for the outsourcing of research.

The importance of thorough due diligence processes was highlighted by Mr. Hanly. These processes include sourcing, quantitative and qualitative review, reference checks, and recommendations to the Board. He noted that firms might be asked to provide details such as historical returns, exposures, and a legal review.

In his final point, Mr. Hanly discussed emerging markets. He noted that Vontobel remains on the watch list, but LSPRS has successfully negotiated a reduction of 20 basis points in the management fee. LSPRS continues to analyze Vontobel while also researching other top-performing emerging market strategies, including those of GQG and Arrowstreet.

- 10) Greg Curran from Curran Actuarial Consulting LTD. presented the June 30, 2023 Experience Study. Mr. Curran explained that the system is required by statute to review the past plan experience in determining the actuarially required contributions every five years.

Mr. Curran discussed the financial assumptions, including the valuation interest rate and the rate of salary increase for troopers. He noted that average rates of return can vary significantly over different time periods. He provided detailed information on the trajectory of valuation rates for all retirement systems and suggested that LSPRS should maintain the rate of 6.95%. However, as the general trend points towards lower rates, he recommended close monitoring. He affirmed that the current assumption is suitable and advised against changes at this moment. Mr. Curran presented a thorough analysis of the history of pay increases for troopers. He recommended that LSPRS adopt a level long-term salary scale assumption of 5.50% due to anticipated higher costs from salary raises and an upcoming pay scale change. Despite the increased costs, Mr. Curran deemed a 0.25% rise from the current 5.25% to be appropriate.

In addition to the financial assumptions, Mr. Curran reviewed the liability assumptions. He explained that the assumption for withdrawal from the system is based more on service rather than age. Mr. Curran presented the net withdrawal rates through 25 years of service and draft assumption rates for Fiscal 2023. Another liability assumption is the rate of disability. He indicated that the disability assumption for LSPRS presents some special problems due to the hazardous nature of the members' job. He decided to use a de novo rate based on LSPRS' recent experiences and to shape the curve based on the disability table published by the 28th valuation of the Railroad Retirement System adjusted to fit the most recent experience. Based on the study, the proposed rates will be 70% of the rates in the standard table.

Another liability assumption is the rates of retirement, and this assumption presented some recent data that reflected that troopers may have waited longer than they might have commonly waited due to the timing of the pay scale. For the assumption concerning Back Drop, Mr. Curran discussed their analysis of the utilization of the Back-Drop program. From the 2018 calendar year through 2022, Mr. Curran found that 20% of eligible members utilized a 12 month Back-DROP period, 17% utilized a period between 13 and 24 months, and 8% utilized a period between 25 and 36 months. Mr. Curran stated the change of using Back-DROP more from the previous study is increasing our liability to move to a more data-driven approach of modeling Back-DROP.

Regarding mortality rates, Mr. Curran employed the 2010 Public Retirement Plans Mortality Table for below median safety employees, adjusted for the higher mortality in Louisiana and the credibility of the plan's mortality data. To avoid skewing from Covid-19 influenced death rates, an earlier test period (Fiscal 2016 through Fiscal 2020) was used to set the assumption.

In addition to the above-mentioned assumptions, Mr. Curran explained that they also reviewed family statistics which included percentage of members married, percentage of families with children, average number of children per family and the average age of the children per family. The average male is 4.9 years old than his spouse. Mr. Curran recommended the spousal age difference to be 4 years. Mr. Curran also recommended reducing the current percent married assumption from 70% to 65%. Also, he and his staff reviewed the rate of assumed re-marriage, and it remained unchanged.

Other assumptions that were studied included (1) accumulated leave conversion and lump sum (2) vesting election percentage (3) percentage of active members death which occur "In the Line of

Duty", and the percentage of disabilities who qualify as "Service connected" and (4) permanent benefit increases.

Mr. Curran concluded by anticipating a 2.8% cost increase to the employer rate from the study. However, he cautioned that this is just one cost component and it may not reflect what LSPRS should expect from the upcoming evaluation. This smoothing effects of investments may impact the System negatively. Mr. Curran emphasized that the Board would need to decide whether to adjust the current 6.95% assumption or maintain it.

A **MOTION** was made by Amy Mathews to accept the Experience study presented by Greg Curran. The motion was seconded by Hackley Willis. No opposition. The motion passed.

- 11) The Board congratulated Ms. Denise Akers on her upcoming retirement at the end of June. Ms. Akers gave Ms. Michel a list of potential replacements. Ms. Michel has got pricing and spoke with most candidates and would like to recommend Ms. Laura Gail Sullivan as legal counsel representative. ROVERS, Parochial, Assessors, and BR City Parish has already approved Ms. Sullivan's contract. Ms. Michel mentioned that Ms. Sullivan is willing to come to meetings and to monitor legislation and drafting. Ms. Sullivan would maintain Ms. Akers' hourly rate of \$250/hour.

A **MOTION** was made by Hackley Willis to authorize the Executive Director to negotiate a contract with Laura Gail Sullivan for the role of general counsel. The motion was seconded by Kevin Marcel. No opposition. The motion passed.

- 12) A **MOTION** was made by Kevin Marcel to approve the Benefits Change Report, in globo. The motion was seconded by Alan Verhoef. No opposition. The motion passed. **(See Exhibit L -Attached)**

- 13) A **MOTION** was made by Hackley Willis to **enter** Executive Session to conduct the executive director evaluation. The motion was seconded by Amy Mathews. No opposition. The motion passed.

A **MOTION** was made by Hackley Willis to **exit** Executive Session. The motion was seconded by Alan Verhoef. No opposition. The motion passed.

A **MOTION** was made by Hackley Willis to approve the evaluation for the executive director and to include a 10% salary adjustment. The motion was seconded by Alan Verhoef. No opposition. The motion passed.

- 14) Ms. Michel directed the Board to view the new LSPRS website that was authorized at the last Board meeting to be updated. The Board viewed the benefit calculator on the website as well as the staff directory page and FAQs.

Off-site storage has been eliminated. With the retention schedule approved, Ms. Marquez was able to get approval for record destruction of many files. There are some boxes housed at LSPRS but we will continue to work on scanning and destruction as applicable.

Ms. Michel mentioned that Exigo, the company who is upgrading the Pension Management Software, is still working on the new software. It should have been a live program as of January 1, 2023, but is delayed. It is working in the right direction and a meeting is set with Exigo to discuss progress.

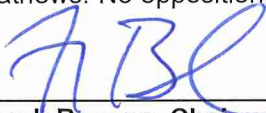
Ms. Michel added that LSPRS will include a travel report for the Board ongoing. Ms. Michel added that it is the intention that either she or Mr. Hanly will be always in the office with exceptions such as when both are attending the LAPERS conference. **(See Exhibit M - Attached)**

Ms. Michel noted that the next Board meeting in August is a joint meeting with the Investment committee. That meeting will start at 9:30 AM on August 23, 2023.

The LAPERS conference is September 10th-12th. Ms. Michel asked if the Board could let her know which members plan to attend and what nights they may need a hotel room. This year, there will not be a LSPRS meeting at LAPERS.

Ms. Michel directed the Board to view the educational training sheet that showed the current hours of each board member. She mentioned that today's actuarial discussion will count as one and a half hours for actuarial training. All training hours should be completed by August 31, 2023.

- 15) A **MOTION** was made by Kevin Marcel to adjourn the meeting. The motion was seconded by Amy Mathews. No opposition. The motion passed.



Frank Besson, Chairman
Louisiana State Police Retirement System
Board of Trustees