Registrars of Voters Employees' Retirement System
Minutes of the Meeting of the Board of Trustees
July 30, 2013

The meeting of the Board of Trustees for the Registrars of Voters Employees' Retirement System was held at the Renaissance Hotel at 7000 Bluebonnet Boulevard in Baton Rouge, Louisiana.

I. Call to Order

The Chairman of the Board, Mr. John Moreau, called the meeting to order at 11:15 a.m.

II. Invocation and Pledge of Allegiance

Ms. Linda Rodrigue offered an invocation and Mr. Dennis DiMarco led the Pledge of Allegiance.

III. Roll Call

Ms. Lorraine Dees called the roll. Board members present were: Mr. John Moreau, Ms. Sandra Thomas, Ms. Linda Rodrigue, Mr. Dwayne Wall, Mr. Dennis DiMarco, and Ms. Charlene Menard. Representative J. Kevin Pearson and Senator Elbert Guillory were absent. A quorum was present.

Others present included Ms. Stephanie Little (representing Representative J. Kevin Pearson), Ms. Margaret Corley (representing Senator Elbert Guillory), Mr. Brian Shoup (representing Actuary and Administrator, G. S. Curran & Company, Ltd.), Ms. Lorraine Dees (System Director), Mr. Jon Breth (representing Investment Consultant, The Bogdahn Group), and Ms. Shelley Bouvier (Assistant to Mr. DiMarco). Mr. Gerry Colleary and Mr. Kevin McKane (representing Wells Capital Management), Mr. Michael Quinn and Mr. Jason Widener (representing OFI Global Asset Management), Mr. Mark Freeman and Ms. Kim Calhoun (representing Westwood Holding Group), and Mr. Matthew Clark (representing PIMCO Investments, LLC.)

IV. Public Comments

Mr. Moreau asked if there were any public comments. Hearing none, the meeting continued.

V. Discussion Related to the Evaluation Process for Money Managers' Presentations

Mr. Breth said that in the morning we will look at Wells Capital and Oppenheimer Emerging Markets Funds and after lunch we will explore the Real Return space with Westwood and PIMCO. Real Return tries to outpace inflation plus 5%, trying to meet the 7-7.5% rate of return.

Mr. Moreau said that board members were concerned about the meeting notice for today's meeting not being timely, so we will not make a decision today, but tomorrow afternoon we will formally decide on these investment managers.

Mr. Breth said that after the presentations he would like to talk about investing the excess cash on hand at Capital One and The Bank in Jennings, LA.

VI. (a) Wells Capital Management

Mr. Breth introduced the first presenters, Mr. Gerry Colleary and Mr. Kevin McKane with Wells Capital Management based in San Francisco, California. They are the institutional investment management arm of Wells Fargo Bank, N.A. with $334 billion in assets under management (AUM). The Emerging Markets Equity Composite Fund has $6.2 billion in AUM. Clients include the City of New Orleans and ROVERS has investments with Wells Capital through our Member Supplemental Savings Fund managed by Capital One, N.A.

Mr. McKane stated that employee compensation is a combination of revenue growth and performance. He also stated that it has been a down market for Emerging Markets.

Mr. Colleary directed the board to page 7 of the presentation saying that the only thing they do is manage money, which allows them to focus on their philosophy of "Quality at Compelling Price." Their investment process begins with a quality pool of 300 companies that best satisfy our criteria, then pick the best 90-120 stocks with the best value. Portfolio Construction will limit stock weight, country and sector weights, and have a low turnover in their pool of stocks.

Mr. Colleary gave an example of their decision to sell Tata Motors after their acquisition of Jaguar and Land Rover. He referenced their risk management and business continuity plans.

Mr. Colleary directed the board to pages 28-32 of the presentation saying that they don't lead the market, but they don't fall as much either. The summary 5-year statistic rankings showed their Risk/Return Ratio.

Mr. Breth asked how they would see emerging markets complimenting a Vanguard International Equity Fund.

Mr. Colleary said that you get a very precise focus on high quality stocks, totally exposed to emerging markets, where Thornburg and Vanguard will adjust their exposure to emerging market stocks and not give you the allocation the board desires to emerging markets.

Mr. Breth asked about the effect of changing currency values in emerging markets.

Mr. Colleary said that currency values will influence the trade of goods bought and sold in emerging markets, which in the current market, favors the emerging markets growth prospects.

Mr. McKane said that their fees would be either 63 Basis Points for Direct Investment or 110 Basis Points for the Mutual Fund Investment.

With no further business, the Board thanked Mr. Coleary and Mr. McKane for their time, and he left the meeting at approximately 12:15 p.m.

VI. (b) OFI Global / Oppenheimer Funds

Mr. Breth introduced the next presenters, Mr. Michael Quinn and Mr. Jason Widener with OFI Global Asset Management.

Mr. Widener introduced Mr. Quinn and Mr. Devin Denton, a sales trainee. He then brought attention to the presentation booklet on page 4. OFI Global is an advisory subsidiary of OppenheimerFunds, Inc. which was founded in 1960 with more than $207 billion in AUM. The Emerging Markets Equity Strategy holds $37 billion in AUM. Clients include the City of New Orleans, LASERS, and next week they will be presenting to Louisiana Firefighters' Retirement System. They are 75% owned by Mass Mutual Insurance and 25% management owned. Employee compensation is salary plus bonus which is tied to their 5 year, 3 year, and 1 year performance versus their peers. Based in Denver and New York, they launched their Emerging Market Strategy in 1996, the same year the MCSI Emerging Market Index was introduced. They are the largest fund in the Emerging Market space and believe their size helps give them inside access to important people in emerging companies.

Mr. Quinn talked about what they believe differentiates them from other emerging market strategies, like a 3-5 year time horizon and using a theme-based approach to investing focusing on the "Big Ideas." He brought the boards attention to page 13 of the presentation talking about Justin Leverenz who leads an investment team of very diverse individuals.

Mr. DiMarco asked if the strategy invests in Chinese banks?

Mr. Quinn said that Mr. Leverenz often advises people to stay away from an active emerging manager that invests in Chinese banks. Mr. Quinn said they are looking for stocks with little competition, strong financials, and a high return on capital. They have identified approximately 400 companies that meet those criteria. Out of that pool of 400, they select 100-125 stocks with the most compelling valuations. Page 19 shows their portfolio construction will limit stock weight, country and sector weights, and have a low turnover of 25-35%.

Mr. Breth asked how their management has changed as the fund has grown in AUM?

Mr. Quinn said that their fund has grown as the emerging market companies have grown within it, which is now a very large cap space.

Mr. Widener noted that OFI closed their emerging market strategy to mutual fund investors back in April 2013 and feel that they can control the institutional money better.

Mr. Quinn talked about risk management, which includes a corporate structure that actively monitors risk to reduce downside capture which is 81% over 5 years, on page 39 of the report. Upside capture ratio is 106%, but more importantly, their investments win 70% of the time capturing 2.64% outperformance of the market index.

Mr. DiMarco asked about their fee structure.

Mr. Widener said the fee would be 85 basis points and they would waive their minimum investment for ROVERS.

Mr. Breth asked how they would see emerging markets complimenting a broader international equity strategy.

Mr. Quinn responded by saying that you need to have the specialization in emerging markets like a Justin Leverenz who speaks Mandarin and spends half the year visiting companies in Southeast Asia.

Ms Dees commented on the diversity of the investment team.

Mr. Quinn stated that they see having a diverse team is a strength.

Mr. Moreau thanked Mr. Quinn and Mr. Widener and said we will break for lunch at 12:45 pm.

VI. (c) Westwood Income Opportunity

The meeting reconvened at 1:50 pm.

Mr. Breth introduced the next presenters, Mr. Mark Freeman and Ms. Kim Calhoun with Westwood Holding Group.

Ms. Calhoun brought the Board's attention to page 4 of the handout saying that Westwood is based in Dallas, Texas and just celebrated 30 years in business. Westwood manages approximately $16 billion in AUM and is publicly traded on the NYSE, with 29% employee ownership. Clients include Teachers' Retirement Systems of Louisiana and Texas.

Ms. Dees asked if they have been able to double a client's portfolio?

Ms. Calhoun pointed out that the Income Opportunity Strategy is just over 10 years old and has an average annualized return of over 10%.

Mr. Freeman directed the Board to page 7 of the handout that outlined their Investment Philosophy. Westwood identifies high quality companies with undervalued earnings. There is a dual mandate of income producing securities to have lower volatility and preserve capital. Their goal is to produce a total return of 10%, which includes 4-6% yields plus capital appreciation. He directed the board to page 9 which highlighted the Income Opportunity strategy's characteristics which include $2 billion in AUM with a portfolio of 40-70 securities. They only own U.S. securities and will not employ leveraging or derivatives in this strategy.

Mr. DiMarco asked how Westwood employees are compensated.

Mr. Freeman said that employees are paid a small salary, with most of their income coming from bonuses and restricted company stock. They use a Quantitative Base Performance tied to the benchmark and peer group of their prospective strategy.

Mr. Freeman talked about the changes they have made in asset allocation over the years in the Income Opportunity Strategy on page 12 of the handout. Page 14 shows the portfolio holdings.

Ms. Thomas asked if their holdings have to produce a dividend.

Mr. Freeman referenced back to the dual mandate that securities have to have an income component to be in this strategy.

Mr. Breth asked about their 14% allocation to cash and how they see it being deployed.

Mr. Freeman said they see cash as an important asset class that helps reduce risk and manage volatility. He also mentioned that when a stock hits a price target they sell.

Ms. Dees asked if they have sold off any companies recently.
Mr. Freeman responded by saying yes, they have had to sell off some excess returns to maintain their weight limits and buy the underweight stocks.

Mr. Breth noted that on page 16 Westwood had a good Quarter in the second quarter of 2013 as fixed income securities have fallen.

Mr. Freeman said they have reallocated their portfolio away from fixed income securities that are sensitive to interest rate increases and increased their common stock allocation which have a growth component fixed income were lacking.

Mr. Breth asked about expense fees for the fund.

Ms. Calhoun directed the board to the loose page at the back of the handout which shows a summary of their mutual fund prospectus with an expense ratio of 88 basis points.

With no further business, the Board thanked Mr. Freeman and Ms. Calhoun for their time, and they left the meeting at approximately 2:30 p.m.

<u>VI. (d) PIMCO All Asset Fund</u>

Mr. Breth introduced the last presenter, Mr. Matt Clark with PIMCO Investments, LLC.

Mr. Clark introduced himself and thanked the Board for extending the invitation. PIMCO is the largest Bond Fund manager in the world with $1.6 trillion in AUM. Today we are focusing on the All Asset Fund which was started in July of 2002 and has $32.9 billion in AUM today. Being an inflation hedge and equity diversifier are at the heart of this strategy. Research Affiliates manages the asset allocation of the fund, utilizing all PIMCO Funds. The return goal of the fund is Consumer Price Index (CPI) plus 5% which is 7-8% right now, assuming inflation of 2-3%.

Mr. Breth asked Mr. Clark to take a step back and explain how the fund of funds strategy works.

Mr. Clark directed the Board to page 6 which listed all of the PIMCO Funds that Research Affiliates has available to them, categorized by strategy with the Inflation Related Strategies being at the center. Research Affiliates uses quantitative computer modeling to analyze current returns, economic growth data, and inflation expectations over the long-term. Then they identify value added by PIMCO managers to construct a portfolio that incorporates the appropriate correlations and volatilities that will maximize real returns. Research Affiliates sits down with PIMCO investment professionals on a monthly basis to identify what the computer models are missing to come up with a target allocation for the fund.

Ms. Thomas said that it doesn’t seem to be that complicated.

Mr. Breth commented about how their allocation has changed over the years, from being more a TIPS Fund, to now there are no TIPS in the allocation.

Ms. Thomas asked how often rebalancing happens.

Mr. Clark said that as markets change on a daily basis, the allocation is changing. Typically their strategic allocations rebalancing are done on a quarterly basis.
Mr. Breth asked Mr. Clark to go through performance on page 10 from 2008 to the present.

Mr. Clark started off by saying 2008s loss of 15% was good considering the broad market sell off and then to bounce back with 23% in 2009. 2013 has been an unusual year in which the only asset class that has done well is Developed Equity Markets. The All Asset Fund being an equity diversifier has not done well by staying away from those markets, knowing that developed equities are the core of most portfolios.

Mr. Breth asked about the fee structure for the fund.

Mr. Clark said the All Asset Fund fee is 86.5 basis points.

Mr. DiMarco asked what the minimum investment would be.

Mr. Clark said the minimum investment is $1 million, which ROVERS has satisfied through a previous investment in the Diversified Income Fund.

Ms. Dees asked Mr. Breth how we would execute this investment.

Mr. Breth said directly through Capital One Bank, custodian.

Ms. Thomas said that she sees this fund as a steady investment.

With no further business, the Board thanked Mr. Clark for his time, and they left the meeting at approximately 3:35 p.m.

VII. Discussion on Presentations

Mr. Breth said he liked PIMCO All Asset because they use a good model for diversification. He likes Westwood and PIMCO All Asset's focus on income. He thinks they complement each other well, as this year Westwood is outperforming PIMCO and last year it was the reverse. Mr. Breth recommends a 5% allocation to both, which is approximately $3.25 million per allocation.

Ms. Thomas asked about liquidations to fund these new allocations.

Mr. Breth said we have already requested redemption of Equitas which is $4.7 million and he recommended redemption of the Invesco Global Reit Fund which has $1.4 million, leaving $400K needed from cash to fully fund these two new strategies.

Ms. Thomas asked if we are expecting these strategies to return 7-8% long-term.

Mr. Breth said that we should expect those returns, given there isn't a very good benchmark for these two strategies yet.

Ms. Thomas asked if we shouldn't put more money into the strategies that are doing well right now instead.

Mr. Breth said that we shouldn't redeploy into existing strategies, but fund these two as diversifiers that can reduce our risk while maintain our return target. This doesn't mean we can't look at adding a Hedge Fund of Funds down the road, but at this point we aren't ready for that.

Ms. Thomas asked Mr. Breth to spend a few minutes to give the Board his feedback on Emerging Market Strategies.

Mr. Breth handed out a comparison review of the two Emerging Market Strategies presented this morning. After discussing the handout, Mr. Breth gives the upper hand to Oppenheimer's Developing Markets Strategy.

Ms. Thomas asked how much cash we will have when the dust settles tomorrow.

Mr. Breth said that right now we have been under invested, but now we are ready to deploy the cash we have been holding. Mr. Breth handed out another comparison of Total Market Index Funds. He recommends deploying 10% in the Vanguard Total Stock Index, along with the 5% allocation to Oppenheimer Emerging Market Strategy will leave us with just $2 million in the Jennings Cash Account for expenses.

Mr. Shoup asked why not the S&P 500 Index.

Mr. Breth said that he doesn't see why we would exclude small and mid-cap companies that would give us a better return without adding much additional risk.

Ms. Thomas commented that the indexes have averaged 8% over the past 10 years at a much lower expense and would have met our target return.

Mr. Breth talked about the volatility of these indexes over the last ten years and the need to try to meet our target returns without so much volatility and risk and that is why he is recommending investment in the Westwood Fund and the PIMCO Fund today.

Ms. Dees and Mr. Shoup discussed giving COLAs to retirees and Target Ratio changes coming.

Ms. Thomas thanked Mr. Breth for his work.

VIII. Adjourn

Upon motion by Ms. Thomas and second by Ms. Menard, the Board voted unanimously to adjourn the meeting at 4:00 pm.