



"RE-BUILDING THE CITY'S WATER SYSTEMS FOR THE 21ST CENTURY"

Sewerage & Water Board of NEW ORLEANS

MITCHELL J. LANDRIEU, *President*
WM. RAYMOND MANNING, *President Pro-Tem*

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AMENDED

November 5, 2014

TO THE HONORABLE PRESIDENT AND MEMBERS OF THE SEWERAGE AND WATER BOARD OF NEW ORLEANS

The PENSION COMMITTEE of the Sewerage and Water Board of New Orleans ("Board") met on Wednesday, November 5, 2014 at 9:30 a.m. in the Board Room at 625 St. Joseph Street.

ATTENDANCE

PRESENT: Mr. Wm. Raymond Manning (Chairman), Mr. Alan Arnold*, Mrs. Robin Barnes, Mr. Harold Heller, Jr., Mr. Joseph Peychaud, Mr. Marvin R. Russell, Jr., Mr. Gerald Tilton and Mr. John H. Wilson III

*Mr. Arnold departed the meeting at approximately 10:05 a.m.

ABSENT: Mr. Marion Bracy

Also in attendance were Director's Office, Legal, Finance and Personnel Department staff; Stephen Daste, Marcia Culotta and Octave Francis of FFC Capital Management; Erin Benoit of Weiler & Rees.

The meeting was called to order at approximately 9:39 a.m. to discuss and act upon the following matters:

APPROVAL OF PREVIOUS REPORTS (ACTION)

The Pension Committee received the Pension Committee Report of October 1, 2014 for review and action. Mr. Wilson motioned to approve the report and Mr. Arnold seconded the motion. The motion passed.

PENSION PLAN RULE CHANGES (ACTION)

The Committee received resolutions R-248-2014 and R-251-2014. Resolution R-248-2014 states the intent of the computation of the 1% increase in the employee pension contribution rate from 5% to 6% effective January 1, 2015. The additional employee pension contributions will be used to increase the accrued unfunded liability when the retirement system is not 100% funded and not used as an offsetting reduction in the employer contribution rate.

Mr. Arnold motioned to recommend approval of R-248-2014 and Mr. Peychaud seconded. The motion passed.

PENSION PLAN RULE CHANGES (ACTION) (CONTINUED)

Resolution R-251-2014 will amend Article II and Article VIII, Section 8.2(a) of the Rules and Regulations of the Employees' Retirement System of the S&WB. The current definition of "average compensation" will be deleted and replaced with new language to reflect the new definition of "average compensation" that changes the computation period to the following: **1.)** For employees who become retirement eligible on or before December 31, 2014, average compensation will include a computation period of thirty-six (36) successive months of compensation; **2.)** For employees who become retirement eligible on or after January 1, 2015 and retire on or after January 1, 2015 but before January 1, 2017, average compensation will include a computation period of thirty-six (36) successive months of compensation; **3.)** For employees who become retirement eligible on or after January 1, 2015 and retire on or after January 1, 2017 but before January 1, 2018, average compensation will include a computation period of forty-eight (48) successive months of compensation; **4.)** For employees who become retirement eligible on or after January 1, 2015 and retire on or after January 1, 2018, average compensation will include a computation period of sixty (60) successive months of compensation.

Additionally, resolution R-251-2014 will change the language of Article VIII, Section 8.2(a) to reflect an increase the employee contribution rate from 5% to 6% effective January 1, 2015.

Mrs. Barnes motioned to recommend approval of R-251-2014 and Mr. Arnold seconded. Mr. Manning took a vote and four (4) committee members were in favor of recommending approval and four (4) committee members were opposed. Mr. Grant expressed his concern regarding the committee's inability to reach a consensus on resolution R-251-2014. This resolution and its resulting recommendation will be forwarded to the Board of Trustees.

Note: During previous meetings Mr. Miller recommended that the employee members host listening sessions to notify employees that an action plan is being developed to meet the goals of strengthening the pension plan and increasing the funded ratio. The employee members hosted six (6) listening sessions at the four (4) main S&WB facilities. The employee members provided feedback to the committee from the listening sessions. The committee received a recommendation from staff to adopt two proposed amendments (Increase the employee contribution rate from 5% to 6% effective January 1, 2015; and increase the number of months used to determine average compensation for retirement calculation purposes from 36 months to 48 months; a third proposal that would change the membership requirement of rehired DROP participants to allow them to receive a retirement allowance if they are rehired after participating in the DROP program was deferred to allow for further research). At the Pension Committee Meeting of October 1, 2014 Michael Conefry, the Board's Actuary, and Erin Benoit, representing John Weiler, the Board's Legal Counsel, presented a response to the committee's request for information regarding the proposed amendments.

PENSION CONSULTANT FEES (ACTION)

The Committee received a memo from Robert Miller reporting staff's research and recommendation of FFC Capital Management's pension consultant fee. Mr. Miller explained that, at its meeting of September 17, 2014, the Board of Trustees voted to accept the proposal of FFC Capital Management's that was submitted in response to the Pension Investment Advisory Services RFP. The accepted proposal is for an initial three (3) year period (with two (2) one (1) year renewals) for a fee to be determined by negotiation not to exceed an initial three (3) year fee of \$397,500 or a total five (5) year fee of \$687,500. Mr. Miller explained that staff evaluated the fee proposal using data from two local retirement systems of comparable size and structure. Staff concluded that more assets per dollar are managed by FFC Capital Management, than that of the two local retirement systems, thus requiring higher management fees. Staff recommends the base fee proposal be accepted without further negotiation.

PENSION CONSULTANT FEES (ACTION) (CONTINUED)

Mr. Wilson motioned to recommend approval of the fee proposal and Mrs. Barnes seconded. The motion passed with Mr. Arnold in opposition to the recommendation. Mr. Arnold expressed concern regarding the amount of the proposed fee and its comparison to the investment management fees of only two (2) local retirement systems.

Note: During a previous meeting the committee was notified that the Board of Directors directed staff to begin the proposal process for the Pension Investment Advisory Services Contract. The Request for Proposal (RFP) was advertised on three (3) separate dates, beginning in May 2014. A selection committee was formed to evaluate the proposals received and to submit a recommendation to the committee. The committee received a listing of seven (7) finalists selected for the Pension Investment Advisory Services Contract and the criteria used in the evaluation of the proposals. The selection committee recommended acceptance of the FFC Capital Management proposal for an initial 3-year period at a rate of \$397,500.00. The committee approved the recommendation. This item was deferred at the Pension Committee Meeting of October 1, 2014.

PRISMA CAPITAL PARTNERS-HEDGE FUND ABSOLUTE RETURN MANAGER (PRESENTATION)

Peter Zakowich and John Dierksen presented to the committee an update on the Board's Hedge Fund Absolute Return Investment Portfolio. The portfolio performance statement submitted prior to the meeting indicates that the portfolio increased in value from \$20,863,243.00 to \$20,877,148.00 for the period ending September 30, 2014. This resulted in a one-month return rate of 0.07% (Gross and Net) compared to the Dow Jones Credit Suisse HFI return rate of -0.01% for the same period.

FFC QUARTERLY REPORT (PRESENTATION)

Octave Francis of FFC Capital Management presented to the committee the Sewerage and Water Board of New Orleans Employees' Retirement System 3rd Quarter Performance Report for 2014.

COMMITTEE RESPONSIBILITIES

This agenda item was not discussed.

VOLUNTARY RETIREMENT(S)

There were six (6) voluntary retirement applications submitted to the Pension Committee for review:

Elzey, Gary A.

Retirement Date: 11/20/14; Group: 3227 (DROP)

Garrett, Theola S.

Retirement Date: 11/01/14; Group: 0030 (DROP)

Kaufman, Louis C.

Retirement Date: 11/01/14; Group: 3225 (DROP)

Pedesclaux, Jerrold V.

Retirement Date: 11/01/14; Group: 0811 (DROP)

Petes, Elton

Retirement Date: 11/01/14; Group: 2330 (DROP)

VOLUNTARY RETIREMENT(S) (CONTINUED)

Strong, David H., Jr.

Retirement Date: 11/30/14; Group: 0040 (DROP)

ISHARES-NAREIT

There was no portfolio performance statement submitted for the period ending September 30, 2014.

VANGUARD INDEX-DOMESTIC REIT

There was no portfolio performance statement submitted for the period ending September 30, 2014.

NEWSOUTH CAPITAL MANAGEMENT-SMALL/MID CAP EQUITY MANAGER

The portfolio performance statement submitted by the Board's Small/Mid Cap Equity Investment Manager indicates that the portfolio decreased in value from \$31,289,597.00 to \$29,908,195.00 for the period ending September 30, 2014. This resulted in a one-month return rate of -4.41% (Gross) and -4.63 (Net) compared to the Russell 2500 Index return rate of -5.14% for the same period.

PYRAMIS GLOBAL ADVISORS-US FIXED INCOME CORE PLUS MANAGER

The portfolio performance statement submitted by the Board's U.S. Fixed Core Plus Investment Manager indicates that the portfolio decreased in value from \$59,297,971.00 to \$58,858,583.00 for the period ending September 30, 2014. This resulted in a one-month return rate of -0.74% (Gross) and -0.76% (Net) compared to the BC US Aggregate return rate of -0.68% for the same period. (\$7,093.00 was credited to this account)

EARNEST PARTNERS-INTERNATIONAL MANAGER

The portfolio performance statement submitted by the Board's International Investment Manager indicates that the portfolio increased in value from \$17,158,476.00 to \$17,421,748.00 for the period ending September 30, 2014. This resulted in a one-month return rate of 1.53% (Net) compared to the MSCI ACWI ex US Index return rate of 0.55% for the same period.

EQUITAS CAPITAL ADVISORS-HEDGE FUND

The portfolio performance statement submitted by the Board's Hedge Fund Absolute Return Investment Manager indicates that the portfolio decreased in value from \$32,553.00 to \$32,493.00 for the period ending September 30, 2014. This resulted in a one-month return rate of -0.1% (Gross) and -0.2% (Net) compared to the Dollar-Weighted return rate of -0.2%; Credit Suisse Hedge Fund Index return rate of 0.0% and the Evergreen Main Account return rate of -0.5% for the same period.

WESTERN ASSET MANAGEMENT-GLOBAL FIXED INCOME TIPS

The portfolio performance statement submitted by the Board's Global Fixed Income TIPS Investment Manager indicates that the portfolio increased in value from \$17,498,145.00 to \$18,059,255.00 for the period ending September 30, 2014. This resulted in a one-month return rate of -3.11% (Gross) and -3.14% (Net) compared to the Barclay's Capital World Government IL AII Mat Index return rate of -3.42% and the Citigroup World Govt Bond Index, USD Unhedged Index return rate of -3.30% for the same period.

BARROW, HANLEY, MEWHINNEY & STRAUSS-LARGE CAP VALUE MANAGER

The portfolio statement submitted by the Board's Large Cap Value Investment Manager indicated that the portfolio decreased in value from \$26,977,063.00 to \$26,669,106.00 for the period ending September 30, 2014. This resulted in a one-month return rate of -1.14% (Gross) and -1.19% (Net) compared to the Russell 1000 Value Index return rate of -2.06% for the same period.

CHICAGO EQUITY PARTNERS -LARGE CAP ENHANCED CORE MANAGER

The portfolio performance statement submitted by the Board's Large Cap Enhanced Core Investment Manager indicates that the portfolio decreased in value from \$30,040,146.27 to \$29,475,546.98 for the period ending September 30, 2014. This resulted in a one-month return rate of -1.87% (Gross) and -1.90% (Net) compared to the Russell 1000 Index return rate of -1.75% for the same period. (\$0.31 was debited from this account; \$44,310.88 was credited to this account)

POWERSHARES DB COMMODITY INDEX-DOMESTIC COMMODITIES

There was no portfolio performance statement submitted for the period ending September 30, 2014.

ZAZOVE-RESIDUAL ASSET

There was no portfolio performance statement submitted for the period ending September 30, 2014.

FIDELITY INST PRIME MMKT CL-CASH

There was no portfolio performance statement submitted for the period ending September 30, 2014.

SECURITIES LENDING REPORT

The Securities Lending Report submitted by BMO Securities Lending indicates that the year-to-date revenue from securities lending is \$116,440.00 as of September 2014.

QUARTERLY PENSION FINANCIAL ACTIVITIES PERIOD ENDING SEPTEMBER 30, 2014

The Pension Committee received the Quarterly Pension Financial Activities and Pension Disbursements Statement for the period ending September 30, 2014.

LAMP/DROP STATEMENTS

The DROP report submitted by Louisiana Asset Management Pool (LAMP) indicates that the DROP account had an ending balance of \$12,375,997.13 for the period ending September 2014.

2014 COMMITTEE/BOARD MEETING SCHEDULE

The updated Committee and Board Meeting Schedule was submitted to the Pension Committee for review.

TOPICS FOR FUTURE DISCUSSIONS

This agenda item was not discussed.

RESPONSE TO QUESTIONS

This agenda item was not discussed.

OTHER MATTERS

There were no additional items discussed at this meeting.

ADJOURNMENT

Mr. Tilton motioned to adjourn the meeting and Mr. Wilson seconded. The meeting adjourned at approximately 10:55 a.m.

Very Truly Yours,

Wm. Raymond Manning
Chairman