

MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF LOUISIANA

MINUTES OF THE MEETING OF THE BOARD OF TRUSTEES

OCTOBER 26, 2016

The Board of Trustees of the Municipal Employees' Retirement System of Louisiana met in regular session on Wednesday, October 16, 2016 at 10:30 A.M. at the Municipal Employees' Retirement System, 7937 Office Park Boulevard, Baton Rouge, Louisiana.

PRESENT:

Mr. Mike Sands, Chairman
Ms. Andrea Mahfouz, Vice-Chairman
Mayor Donald Villere, Trustee
Ms. Mary O. Vice, Trustee
Ms. Amy Mathews, State Treasurer's Office
Ms. Marsha Guedry, Commissioner of Administration's Office

UNABLE TO ATTEND:

Senator Barrow Peacock, Chairman,
Senate Retirement Committee
Mayor Clarence Fields, Trustee
Mayor Greg Jones, Trustee

IN ATTENDANCE:

Warren Ponder, Executive Director
Susita Suire, Retirement Benefits Administrator
Nancy LaGarde, Chief Financial Officer
Aaron Lally, Investment Consultant
Gustavo Bikkesbakker, Investment Consultant
Greg Curran, G.S. Curran Actuary
Representative J. Kevin Pearson, House Retirement Committee
Margaret Corley, Senate Retirement Committee
Annie Smith, House Retirement Committee

The Chairman called the meeting to order.

The Chairman asked Ms. Vice to open the meeting with a prayer and the Chairman led everyone in the pledge of allegiance.

The Chairman asked Ms. Suire to call roll. A quorum was present.

The Chairman asked for approval of the minutes of the meeting held on September 18, 2016.

Ms. Vice moved that the minutes of the meeting held on September 18, 2016 be approved; the motion was seconded by Ms. Mahfouz. The motion carried without objection or opposition. A copy of these minutes are attached and made a part of these minutes.

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The Chairman asked for approval of the Plan A and Plan B retirements (a list was provided to the Board Members).

Ms. Mahfouz moved that the Plan A and Plan B retirements be approved; the motion was seconded by Mayor Villere. The motion carried without objection or opposition.

Ms. Mahfouz moved to take item 8 and continue forward until the Meketa Consultants arrive; the motion was seconded by Ms. Vice. The motion carried without objection or opposition.

Ms. LaGarde presented a budget report through September 30, 2016 detailing the amount budgeted.

Ms. Vice moved to approve the amended budget as presented; the motion was seconded by Ms. Mahfouz. The motion carried without objection or opposition. A copy of this amended budget is attached and made part of these minutes.

Ms. Mahfouz moved to approve writing down the value of Land Baron and Entropy to \$1.00 from \$400K and \$590K; the motion was seconded by Ms. Mathews. The motion carried without objection or opposition.

Ms. Vice moved to approve the non-budgeted report through September 30, 2016 as amended; the motion was seconded by Ms. Guedry. The motion carried without objection or opposition. A copy of this report is attached and made part of these minutes.

Ms. Vice moved to approve to maintain the minimum cash balance at \$3.5MM; the motion was seconded by Ms. Guedry. The motion carried without objection or opposition. A copy of this cash report is attached and made part of these minutes.

After a brief discussion on the amended Personnel Policy, it was decided that the policy needs additional changes. The staff will make all changes and submit a final policy for Board approval at the December Board meeting.

Ms. Vice moved to approve the 2017 Board meeting dates as amended; the motion was seconded by Ms. Mathews. The motion carried without objection or opposition. A copy of these Board meeting dates with amendments is attached and made part of these minutes.

Ms. Mathews moved to enter into executive session to discuss potential litigation with a member from Westwego; the motion was seconded by Ms. Mahfouz. The motion carried without objection or opposition.

Ms. Vice moved to return to regular session; the motion was seconded by Ms. Mahfouz. The motion carried without objection or opposition.

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Upon Mr. Ponder's recommendation, Mayor Villere moved to enter into negotiations with Municipal Police Employees' Retirement System (MPERS), City of Westwego, City of Gretna, and Ronald Still with transferring 100% of the employee and employer contributions made by Ronald Still or on his behalf to MPERS in exchange for a release of any and all claims that Ronald Still may have against MERS, and for an agreement by Mr. Still to indemnify MERS for any and all costs incurred by MERS for any claim made against MERS by any entity or person for any matter arising out of his association with MERS during or after his employment with the City of Westwego; the motion was seconded by Ms. Mahfouz. The motion carried without objection or opposition.

Gustavo Bikkesbakker and Aaron Lally presented the Board with a copy of the Preliminary Performance Report for the month of September 2016. The performance of the portfolio as of September 30, 2016 was up 0.4%. Domestic equities were up 0.2%, developed equities were up 0.8%, emerging market equity was up 1.4%, and the global equities were up 2.0%. U.S. core bonds were down -0.1%, TIPS were up 0.6%, and foreign bonds were up 0.8%, and high yield bonds were up 0.4%. Core real estate was up 1.7%, natural resources remained flat, and private debt was up 0.4%. Private Equity was down -0.5% and hedge funds were up 0.1%.

Ms. Vice moved to approve the recapitalization of Capital Spring Financial; the motion was seconded by Mayor Villere. The motion carried without objection or opposition.

Ms. Mathews moved to enter into executive session to conduct interviews for the Chief Investment Officer's position; the motion was seconded by Mayor Villere. The motion carried without objection or opposition.

Ms. Vice moved to return to regular session; the motion was seconded by Ms. Mahfouz. The motion carried without objection or opposition.

Ms. Mahfouz moved to hire Chris Saik at the salary of \$120,000 with the requirement to achieve his CFA certification.

Ms. Guedry made a substitute motion to authorize the Executive Director to offer Chris Saik the Chief Investment Officer's position at the salary of \$115,000 subject to the passing of a background check and drug test; the motion was seconded by Mayor Villere. The motion carried without objection or opposition.

After a brief discussion concerning members not eligible to become members of MPERS or FRS entering MERS, it was decided to table the discussion until the December Board meeting.

Mayor Villere moved to accept the bid proposal from Ernst Construction to complete the office renovations at \$67,000; the motion was seconded by Ms. Mahfouz. The motion carried without objection or opposition.

Mr. Ponder updated the Board that the landscaping has been completed.

Mr. Ponder updated the Board that the Commonwealth trial has been continued.

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Ms. Mahfouz moved to change the December Board meeting to December 14th and 15th; the motion was seconded by Ms. Vice. The motion carried without objection.

Mr. Ponder updated the Board that he will sign off on a new development with the Bedico Creek investment.

Mr. Ponder updated the Board that Ronnie Harris has resigned from his seat on the Board of Trustees effective October 25, 2016. He asked the Board to consider passing legislation to fill Mr. Harris' seat with a retired MERS member.

Mr. Ponder has been invited by the City of Natchitoches to make a presentation on the retirement system. He and Susita Suire will both be presenting on November 15th.

Ms. Mahfouz updated the Board that Susita Suire did a fantastic job at the Clerks' Institute last week with putting together her packet and her presentation.

Ms. Vice moved to adjourn; the motion was seconded by Ms. Mahfouz. The motion carried without objection or opposition.



APPROVED



ATTEST

MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF LA

EXPENSES	BUDGET 7/01/16 - 6/30/17	Amended Budget 6 9/01/16 - 6/30/17	Month Sep-16	Fiscal YTD 7/01/16-08/31/16	Fiscal Budgeted As of 08/31/16	YTD DIFF \$	YTD DIFF
							%
BLDG AND GROUND MAINTENANCE	\$20,600	\$20,600	\$1,931	\$6,181	\$5,150.00	\$1,031	30.00%
OFFICE EQUIP. & MAINTENANCE	\$66,000	\$66,000	\$5,613	\$18,163	\$16,500.00	\$1,663	27.52% 1
HOSPITALIZATION INSURANCE	\$69,500	\$69,500	\$6,733	\$17,241	\$17,375.00	(\$134)	24.81%
INSURANCE	\$76,026	\$76,026	\$0	\$0	\$19,006.49	(\$19,006)	0.00%
OFFICE EXPENSE	\$81,953	\$81,953	\$6,799	\$14,128	\$20,488.18	(\$6,360)	17.24% 2
AUDIT SERVICES	\$100,000	\$100,000	\$0	\$0	\$25,000.00	(\$25,000)	0.00%
PROFESSIONAL SERVICES	\$10,000	\$31,650	\$564	\$3,034	\$2,500.00	\$534	30.34%
ACTUARIAL	\$91,620	\$91,620	\$7,635	\$22,905	\$22,905.00	\$0	25.00%
LEGAL - ADMINISTRATIVE	\$10,000	\$10,000	\$410	\$843	\$2,500.00	(\$1,658)	8.43%
EMPLOYER RETIREMENT	\$218,193	\$218,193	\$12,543	\$39,050	\$54,548.24	(\$15,498)	17.90%
TRAVEL-BOARD MEETINGS- CONVENTIONS	\$35,000	\$35,000	\$6,040	\$16,293	\$8,750.00	\$7,543	46.55% 3
SALARIES	\$969,090	\$969,090	\$56,585	\$173,664	\$242,272.49	(\$68,609)	17.92%
UTILITIES/TELECOMMUNICATIONS	\$31,320	\$31,320	\$3,501	\$9,750	\$7,830.00	\$1,920	31.13% 4
TOTAL OPERATING EXPENSES	\$1,779,302	\$1,800,952	\$108,353	\$321,251	\$444,825	(\$123,574)	18.05%
CAPITAL EQUIPMENT & SERVICES	\$24,429	\$24,429	\$2,281	\$11,890	\$6,107.25	\$5,783	48.67% 5
TOTAL EXPENSES	\$1,803,731	\$1,825,381	\$110,634	\$333,141	\$300,622	\$32,519	18.47%
Office landscaping	\$9,916	\$9,916	0	\$3,966	\$9,916	(\$5,950)	40.00%
Office renovation plans	\$3,500	\$3,500	\$4,348	\$6,986	\$3,500	\$3,486	199.60%

- 1** Maintenance changes to AS400 programming
- 2** Postage, envelopes, paper for annual member statements
- 3** LAPERS
- 4** New Board Room - Electric Bill \$1,641.79
- 5** Pre-Approved AS400 programming changes
- 6** Budget Amended for (affects budget line item Professional Services under column "Amended Budget"):

MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF LA

NON-BUDGETED EXPENSES

EXPENSES	Month September-16	FISCAL YTD 7/1/16 - 06/30/17
LEGAL EXPENSES - Fletcher (2/12)	\$0	\$41,277
LEGAL EXPENSES - Gainseville (9/13)	\$0	\$0
LEGAL EXPENSES - SAIL (12/13)	\$4,987	\$4,987 ¹
LEGAL EXPENSES - Tremont (12/13)	\$0	\$113
LEGAL EXPENSES - Landmark (7/16)	\$8,554	\$8,554 ²
TOTAL OTHER EXPENSES	\$13,541	\$46,377

¹ Related to August 2016 \$ 1,766.00

² Related to July 2016 \$ 1,745.00

MERS INVESTMENT CASH FLOWS

SEPTEMBER 1, 2016 TO SEPTEMBER 30, 2016

CASH ACTIVITY

DATE	DESCRIPTION	AMOUNT
9/1/2016	Northern Trust Beginning Balance	\$14,634,542.36
INVESTMENT TRANSFERS IN		
9/1/016	AEW V	\$43,356.00
9/7/2016	Interest Income (Private Equity, Hedge Funds, Real Estate)	\$582.93
9//2016	Bedico Creek Cash Disbursement	\$1,000,000.00
9/8/2016	Timbervest	\$240,000.00
9/13/2016	Compass Island (\$4,836,296.46)	\$2,171,883.03
9/14/2016	Blue Bay Direct Lending Fund	\$2,664,413.43
9/18/2016	MERS Fixed Income	\$5,206.26
9/19/2016	AEW VII Return of Capital Call	\$849,558.00
9/27/2016	Thornburg	\$15,000,000.00
9/29/2016	Real Estate	\$58,272.00
SUBTOTAL TRANSFERS IN		\$22,033,271.63
INVESTMENT TRANSFERS OUT		
9/2/2016	Lousiana Fund II Capital Call	(\$200,000.00)
9/7/2016	AEW VII Capital Call	(\$849,558.00)
9/13/2016	Blue Bay Direct Lending Fund Capital Call	(\$2,664,413.43)
9/15/2016	AEW VII Capital Call	(\$849,558.00)
9/29/2016	NTAM Agg Fund Contribution	(\$25,000,000.00)
SUBTOTAL TRANSFERS OUT		(\$29,563,529.43)
OTHER INCOME		
9/30/2016	Other Income Received	\$6,717.16
SUBTOTAL OTHER INCOME		\$6,717.16
OTHER EXPENSES		
9/2/2016	Meketa Consulting Fees	(\$16,667.66)
9/7/2016	Kean Miller Landmark Sale	(\$6,809.42)
9/29/2016	Northern Trust Custodial Fee	(\$18,125.00)
SUBTOTAL OTHER EXPENSES		(\$41,602.08)
9/30/2016	Northern Trust Ending Balance	\$7,069,399.64

MERS INVESTMENT CASH FLOWS

OCTOBER HIGHLIGHTS

CASH ACTIVITY

DATE	DESCRIPTION	AMOUNT
PENDING CASH ACTIVITY		
Landmark Sale of Real Estate		
9/30/2016	AEW V	\$170,304.00
9/30/2016	AEW VI	\$6,233,732.00
9/30/2016	AEW VII	\$6,879,120.00
9/30/2016	LEM	\$341,480.00
9/30/2016	Crow Holdings	\$965,801.00
9/30/2016	JP Morgan	\$2,994,251.00
TOTAL FROM SALE		<u>\$17,584,688.00</u>
MINIMUM CASH BALANCE TRANSFER		
10/6/2016	Cash Transfer to Purchase TIPS	(\$14,141,059.80)
TOTAL CASH TRANSFER		<u>(\$14,141,059.80)</u>
MISCELLANEOUS INCOME		
	Miscellaneous Income	\$56,371.80
10/6/2016 MINIMUM CASH BALANCE		<u>\$3,500,000.00</u>

MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
2017 BOARD MEETINGS

The following are the dates for Board Meetings for the year 2017. All Board Meetings will begin at 9:00 A.M., unless otherwise stated.

January 26, 2017	Thursday
February 23, 2017	Thursday
March 30, 2017	Thursday
April 19, 2017 – Education	Wednesday
April 20, 2017	Thursday
May 25, 2017	Thursday
June 29, 2017	Thursday
July 19, 2017 – Education	Wednesday
July 20, 2017	Thursday
August 31, 2017	Thursday
September 17, 2017	Sunday
October 25, 2017 – Education	Wednesday
October 26, 2017	Thursday
November	No Meeting
December 13, 2017 - Education	Wednesday
December 14, 2017	Thursday

LAPERS – September 17th – 19th



MEMORANDUM

To: Trustees, Municipal Employees' Retirement System
of Louisiana

From: Aaron Lally, Gustavo Bikkesbakker, Brian Dana, Henry Jaung,
Meketa Investment Group

Date: October 11, 2016

Re: CapitalSpring Investment Exposure Review

Summary

This memo summarizes the four investments the Municipal Employees' Retirement System of Louisiana ("MERS" or "Retirement System") has with CapitalSpring entities and the potential liquidity time-frame on each investment.

CapitalSpring, LLC

Cost Basis	Fair Market Value ¹	Unrealized G/L	Performance
\$1.9 million	\$1.0 million	-\$0.9 million	-5.5%

In 2007 MERS initiated a direct investment in the management company of CapitalSpring, LLC. The primary driver of return potential in CapitalSpring, LLC is (was) the participation in management fees and carried interest from Franchise Equity Partners II and Franchise Equity Capital Partners III (two private debt funds which MERS is also an investor in - see next two sections). In addition CapitalSpring, LLC also owns a portion (12.2% common equity interest) of CapitalSpring Finance Company (see final section of this memo) and one small direct loan investment.

Liquidity and estimated remaining investment life: There is no natural liquidity or definitive "life" to this investment because it is an investment in the management company of a private debt manager. However, once the one small remaining loan matures (or is sold) and Funds II and III reach the end of their term, the only remaining investment in CapitalSpring, LLC will be its ownership stake in CapitalSpring Finance Company ("CSFC").

¹ Unaudited value reported by CapitalSpring as of June 30, 2016.

Franchise Equity Capital Partners II

Cost Basis	Fair Market Value ²	Unrealized G/L	Performance
\$0.0	\$0.8 million	\$0.9 million	2.0%

In 2008 MERS made a \$15.0 million commitment to the private debt fund Franchise Equity Capital Partners II. The Fund is managed by the CapitalSpring team. The Fund's investment strategy is to make loans to restaurant franchises in the fast food industry. Over the course of the nine year investment, the Fund has called a total of \$14.4 million from MERS and returned a total of \$14.6 million, with a remaining market value of approximately \$0.8 million.

Liquidity and estimated remaining investment life: There are currently five remaining investments in the Fund. According to the Fund's Limited Partnership Agreement the Fund's operating life will cease in January 2018 (subject to potential extensions). It appears management is motivated to liquidate the remaining investments and wind-down the Fund prior to that date.

Franchise Equity Capital Partners III

Cost Basis	Fair Market Value ³	Unrealized G/L	Performance
\$0.0	\$1.4 million	\$2.5 million	8.1%

In 2009 MERS made a \$9.0 million commitment to a private debt fund named Franchise Equity Capital Partners III ("Fund III"). Fund III was a continuation of the strategy applied in Fund II. Over the course of the eight year investment, Fund III has called a total of \$8.7 million from MERS and returned a total of \$9.8 million, with a remaining market value of approximately \$1.4 million.

Liquidity and estimated remaining investment life: There are currently five remaining investments in the Fund. One investment (a senior promissory note to Lund Brown Enterprises, LLC) represents over 75% of the remaining fair market value in Fund III. According to the Fund's Limited Partnership Agreement the Fund's operating life will cease in June 2019 (subject to potential extensions). It appears management is motivated to liquidate the remaining investments and wind down the Fund prior to that date.

² Unaudited value reported by CapitalSpring as of June 30, 2016.

³ Unaudited value reported by CapitalSpring as of June 30, 2016.

CapitalSpring Finance Company

Cost Basis	Fair Market Value ⁴	Unrealized G/L	Performance
\$8.7 million	\$13.3 million	\$4.5 million	4.5%

In late 2010 MERS invested \$25 million in preferred equity shares of CapitalSpring Finance Company (“CSFC”). CSFC has called \$24.0 million from MERS and returned \$15.3 million. CSFC is a privately held finance company that uses leverage, through a Small Business Investment Company (SBIC) license⁵, to invest alongside some of the CapitalSpring closed-end private debt funds. In early 2014 the CSFC Board sought to remove the largest preferred equity holder and went through its first recapitalization. To facilitate buying out the sovereign wealth fund, CSFC took on a large debt investment from Partners Group, a large global private markets investment manager.

For the last eighteen months CapitalSpring management has been seeking to renegotiate a second recapitalization to reduce the debt they owe Partners Group and simplify the capital structure of CSFC. (Please see Meketa Investment Group memo from October 27, 2015 for additional details.) Final terms have been agreed between Partners Group and the Limited Partner Investor Committee (the peer Preferred Equity shareholders representing MERS’ interest). The Small Business Administration needs to provide final formal consent because of the Small Business Investment Company leverage license that CSFC uses. According to CapitalSpring, the initial feedback from SBA was very positive, but the timeline for their approval process is unpredictable.

Valuation: The terms of the recapitalization and its impact on MERS’ ownership are summarized below, based on the valuation approach being used by CapitalSpring management⁶:

- Partners Group will be converting approximately \$75 million in debt for a 47.5% common equity ownership interest.
- \$75 million/47.5% implies a total value of \$157.9 million for 100% of the common equity in CSFC.
- After the recapitalization the total Preferred Share class base will own 30% of the common equity in CSFC. All previous Preferred Shares will be eliminated.
- MERS represents 42.3% of the Preferred Share class base.

⁴ Fair market value reported by MERS former auditor, Duplantier, Hrapmann, Hogan & Maher, LLP as of fiscal year end June 30, 2015.

⁵ CapitalSpring Finance Company received a license, effective August 5, 2011, from the United States Small Business Administration (SBA) to operate as a Small Business Investment Company (SBIC) under the Section 301 (c) of the Small Business Investment Act of 1958. SBIC’s are designed to facilitate the flow of capital to eligible small businesses. CSFC has a line of credit with the SBA and can borrow money at low rates to leverage the investment portfolio.

⁶ The exact details of the transaction are subject to change until final documents are approved by the Small Business Administration and executed by all parties

- Post recapitalization MERS will own 42.3% of the 30% common equity which means MERS will own 12.7% of the new common equity ($42.3\% \times 0.30 = 12.7\%$)
- Based on the transaction value and this recommended approach provided by CapitalSpring, the dollar value can be calculated by multiply the 12.7% common equity interest by the total value of the common equity (\$157.9 million). This would imply a fair market value of \$20.1 million ($12.7\% \times \$157.9 \text{ million} = \20.1 million).
- These terms are more favorable to MERS than originally proposed in October 2015 (estimated between \$8 million and \$15 million) because the common equity interest Partners Group requested/was willing to take was reduced. Partners Group originally requested between 60%-75% common equity interest (in exchange for cashing in some of its debt) but Partners Group's attorneys decided to scale back its ownership request in order to stay below the 50% majority ownership threshold.

Liquidity and remaining life: On the surface, the recapitalization does not lead to an exit opportunity for MERS. The investment in CSFC has no natural end or exit. To exit the investment MERS will need to find a buyer to purchase its equity interest. According to conversations with CapitalSpring's staff, the recapitalization will make MERS ownership interest more appealing to potential buyers because it will simplify the ownership structure of CSFC and it will reduce the debt level (liabilities) on CSFC balance sheet.

As of June 30, 2016 the investment portfolio managed by CSFC was healthy with over 85 active investments. The majority of the investments were performing in line or better than CapitalSpring's expectations.

If you have any questions, do not hesitate to contact our office at 305-341-2900.

AL/GB/BD/HJ/nd