

LOUISIANA SCHOOL EMPLOYEES' RETIREMENT SYSTEM BOARD INVESTMENT COMMITTEE MEETING

***Monday - July 12, 2004
9:00 a.m.***

The Louisiana School Employees' Retirement System's Board Investment Committee convened in the boardroom (Room 100) of the Louisiana School Employees' Retirement System Building, located at 8660 United Plaza Blvd., Baton Rouge, Louisiana. Ms. Jacobs called the meeting to order at 9:00 a.m. The roll was called by Mrs. Stark.

Members Present: Ms. Betty Jacobs, Chairman, Mr. Earl Richard, Jr., Ms. Betty Crain, Mr. Joe Seymour, Ms. Sylvia Myers, Mr. Jeffrey Faulk, and Mr. John Broussard - State Treasurer's Office.

Members Absent: Senator Lambert Boissiere, Jr. - Chairman, Senate Retirement Committee and Representative Pete Schneider - Chairman, House Retirement Committee.

Staff Present: Mr. Patrick Cospers - Director, Mrs. Debra Dudley - Assistant Director, Mr. Randy Roche - General Counsel, Mrs. Julia LeBlanc - Chief Investment Officer, Mrs. Josie Meche - Investment Manager I, Mr. Judy Wright - Public Information Director I and Mrs. Laurie Stark - Executive Services Assistant.

Others Present: Mr. Richard Ranallo - Segal Advisors, Inc., Ms. Kathy Lambert - Vice President, School Bus Operators Association, Mr. Kyle Farrar, Ms. Christa Baker-Hernandez and Mr. Jeff Comeaux - Louisiana Legislative Auditor's Office.

DISCUSSION WITH CONSULTANT

Review of Performance by Trinity

Mr. Ranallo updated the committee on Trinity's performance. Trinity's first year of performance was extremely poor. Their subsequent years have been much better. Cumulatively they are behind by 700 basis points. They have made up approximately 500 of those basis points. Mr. Ranallo said that in four to five years they could possibly make up the 200 additional basis points. Trinity is behind for the second quarter, but their year-to-date numbers are ahead by 80 basis points through the first half of the year. If they can maintain that ratio, they could be ahead by 160 basis points at the end of the year. They have been on probation for close to four years now and have had a good year every year after the first. Because the first year's performance numbers were so poor, they have never been able to make up the difference. He feels the board may need to make a decision regarding Trinity's future with this system. Mr. Ranallo said he would bring additional information regarding Trinity's performance since inception through June 30, 2004 in order to show their progression to the regular board meeting in August.

ON MOTION OF MR. SEYMOUR, SECONDED BY MR. RICHARD, AND CARRIED, the committee agreed to further discuss the future of Trinity with this system at the next regular board meeting in August.

STAFF REPORTS

Commission Recapture Report

Mrs. Meche reported for the period January 1, 2004 through April 30, 2004 that none of the fixed income managers met their targeted commitment to Lynch Jones & Ryan. The equity managers that met or exceeded their 25% target for the period of January 1, 2004 through April 30, 2004 were J & W Seligman, Trinity and Walter Scott. The managers that did not meet their targets were Ark, Brandywine and Northern Trust Quantitative Advisors. The total funds available for disbursement as of April 30, 2004 were \$406,666.00. Payments totaling \$280,965.00 have been made leaving a balance of \$125,701.00 available for disbursement.

ON MOTION OF MR. FAULK, SECONDED BY MR. SEYMOUR, AND CARRIED, the committee accepted the Commission Recapture report for the period of January 1, 2004 through April 30, 2004.

Northern Trust Securities Lending Report

Mrs. LeBlanc reported that for the calendar year-to-date period ended May 2004, the gross income on securities lending was \$224,689.96. Northern Trust has received a fee of \$67,354.56. The fund had income returned to it in the amount \$157,335.40 or an average for the year of \$31,467.08 per month. Since the program has been in place with Northern Trust, the fund has earned \$2,348,197.02 or an average monthly income of \$35,359.01.

ON MOTION OF MR. FAULK, SECONDED BY MS. CRAIN, AND CARRIED, the committee accepted the Northern Trust Securities Lending Report.

Louisiana Brokers Mrs. Meche reported for the period of January 1, 2004 through April 30, 2004 all the fixed income managers except Orleans Capital met or exceeded their 10% target for the month. The only equity managers to meet their targets were J & W Seligman, Trinity and Walter Scott. The remainder did not meet their target. A total of \$196,717,434.74 par value and a total of \$36,223.65 equity commissions were directed during the time period ended April 30, 2004.

Louisiana Incorporated & Domiciled Broker Report

Mrs. Meche reported for the period of January 1, 2004 through April 30, 2004 the equity managers who met or exceed their 10% target were J & W Seligman and Trinity. The only fixed income manager to meet their target for the period was Orleans Capital. A total of \$6,218,777.52 par value and a total of \$44,342.01 equity commissions were directed during the time period ended April 30, 2004.

ON MOTION OF MR. FAULK, SECONDED BY MS. CRAIN, AND CARRIED, the committee accepted the Louisiana Broker reports.

**Securities Litigation
Investment Staff Report of Receipts**

Mrs. LeBlanc reported to the committee that LSERS has received a total of \$553,421.56 in cash, \$578.00 in par value and 857 shares of stock/warrants as of May 2004 as settlements from securities litigations.

ON MOTION OF MR. SEYMOUR, SECONDED BY MS. CRAIN, AND CARRIED, the committee accepted the securities litigation report of receipts.

Current Case Review

Mr. Roche informed the committee that the current case that the system is involved in is DJ Orthopedics. The case was settled for \$5.5 million. This system's portion of the settlement should be approximately \$28 thousand.

ON MOTION OF MR. SEYMOUR, SECONDED BY MR. FAULK, AND CARRIED, the committee accepted the securities litigation report.

Review of Brokerage Under Act 788

Mrs. LeBlanc gave the committee an overview of the brokerage under Act 788. She began by answering Ms. Jacobs question from the previous board meeting. Ms. Jacobs asked that our portfolio managers be questioned as to how brokers are chosen for trade purposes. Mrs. LeBlanc when over the responses that were received from the system's managers. Walter Scott responded by saying that they do not necessarily have the ability to negotiate commission rates with brokers nor to obtain volume discounts. Most equity managers said that they used brokers who were the experienced and most cost-efficient while maintaining optimal and accurate executions. Mrs. LeBlanc reminded the committee that there is a service that currently monitors the brokerage being used by our managers. Abel/Noser routinely forwards their findings to this system. Someone will be attending the September investment committee meeting to present some of their trade analysis reporting to the committee.

ON MOTION OF MR. SEYMOUR, SECONDED BY MS. MYERS, AND CARRIED, the committee approved the review of brokerage under Act 788.

ON MOTION OF MR. SEYMOUR, SECONDED BY MS. MYERS, AND CARRIED, the committee agreed to a consent to consider discussion of legislation from the current legislative session under other business.

OTHER BUSINESS

Mr. Roche distributed copies of the various legislative acts that affect this system. He asked that the committee members review them at their leisure. They are to be discussed at the regular board meeting scheduled in August. Mr. Cospers felt the committee members should be aware of two senate bills that affected this system. Senate Bill 622

and 623 both dealt with trying to re-amortize the portion the unfunded accrued liability or UAL for the two larger retirement systems in the state. As an amendment that passed unanimously in the House Committee, this system was added along with State Retirement System to Senate Bill 623 which originally affected only Teacher's Retirement. The Senators and Representatives both agreed to go forward with the re-amortization of our UAL with an attempt to lower the employer contribution rates which were anticipated to be at 18.8% for the school boards for the 2004-2005 fiscal year. This created anger amongst the school board associations and superintendent associations. These associations were going to have to find a way to deal with the increased cost to their systems. The fiscal note that legislative actuary John Sondergaard gave the Public Employee Retirement Systems' Actuarial Committee (PERSAC) said that if this bill passed on this system, it would reduce the employer contribution rate mandate for the upcoming school year from 18.8% to 14.8% which would be a savings of about .4%. Charles Hall reviewed the information given by John Sondergaard and said that rate should have been 15.2%. Mr. Sondergaard said he believed his information was correct. While this bill was in the PERSAC meeting, Mr. Hall objected to the 14.8% rate. The bill passed. Therefore, the official employer rate set by PERSAC for the coming year will be 14.8%. However, the committee will short this system .4% which means it will go against the system's funding level and the system will have to absorb the cost. Mr. Cosper reiterated that the bottom line is that it will take much longer for this system to recover enough to grant COLA's to its retirees in the future.

ON MOTION OF MR. SEYMOUR, SECONDED BY MS. CRAIN, AND CARRIED, the committee agreed to adjourn.

The meeting adjourned at 10:30 a.m.

Patrick Cosper, Director

Betty Jacobs, Chairperson