

**LOUISIANA SCHOOL EMPLOYEES' RETIREMENT SYSTEM  
REGULAR BOARD MEETING**

*Tuesday - May 13, 2003  
8:30 a.m.*

The Board of Trustees of the Louisiana School Employees' Retirement System convened in the Board Room (Room 100) of the Louisiana School Employees' Retirement System's Building, located at 8660 United Plaza Blvd., Baton Rouge, LA. Chairman of the Board, Mr. Joe Seymour, opened the meeting at 8:27 a.m. The Board recited the Lord's Prayer and the Pledge of Allegiance.

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**Members Present:** Mr. Joe Seymour - Chairman, Ms. Betty Jacobs, Mr. Boyd "Zeke" Zitzmann, Ms. Sylvia Myers, Ms. Betty Crain, Mr. Larry Wilmer, Mr. Jeffrey Faulk, Mr. Cooper Harrell - State Treasurers Office

**Members Absent:** Senator Lambert Boissiere, Jr. - Chairman, Senate Retirement Committee  
Representative Pete Schneider - Chairman, House Retirement Committee,  
Fox McKeithen - Secretary of State

**Staff Present:** Mr. Patrick Cospers - Director, Mrs. Debra Dudley - Assistant Director,  
Ms. Michelle Reeves - Executive Services Assistant, Julia LeBlanc - Chief  
Investment Officer, Mr. Randy Roche - Legal Counsel, Ms. Judy Wright -  
Communications Director I

**Also Present:** Mr. Richard Ranallo - Segal Advisors

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Mr. Cospier informed the Board that Laurie Stark's father had passed away at 2:00a.m. from cancer; asked for a moment of silent prayer.

## **ANNOUNCEMENTS**

Mr. Ranallo informed the Board that his schedule conflicted with the June 9, 2003, investment committee meeting of which there were no major investment issues that would be covered. Mr. Cospier noted that Mr. Kim Johnson was to make a presentation regarding a securities litigation tracking service at that meeting. Mr. Ranallo and Mrs. LeBlanc would work something out.

## **INVESTMENT MANAGER REPORTS**

### **Performance Review Summary**

Mr. Ranallo began. Fixed income is doing very well. Corporate bonds have done extremely well; actually outperformed government bonds which is an event that should help Orleans Capital Management's (OCM) performance.

The total fund activity versus the investment policy was poor for the 4th quarter of 2002; however, there was a slight increase in for the 1st quarter of 2003.

Northern Trust matched the benchmark every period, which is, of course, what it's designed to do. Regarding OCM's energy portfolio, their second year data is way behind; a negative 13% return, lower than the S&P.

Harbor Capital was not reaching their benchmark; into their 9th year of data they only out performed by approximately 20 basis points; barely paid for their fees. He noted that he informed Harbor that if they started now (a period of 4/03 - 3/04) they would most likely be O.K. but if not, it could be problematic. Although they have never been sent a letter regarding their performance, he would send them one if the Board so desired. Mrs. LeBlanc commented, continuing the discussion. Ms. Jacobs felt it appropriate to address the issue in letter form. Discussion continued concerning Harbor's fees. Mrs. LeBlanc and Mr. Ranallo will get the information during the course of this meeting.

Trinity is currently on probation and have been. Since inception, they have a deficit of over 200 basis points. Ms. Jacobs commented that termination should be considered.

Mr. Ranallo took a moment to figure fees for Harbor; rough estimate was approximately 2.5M dollars.

J & W Seligman lost money, though actually did a good job. They had a positive return even though

the market was down.

## **INVESTMENT MANAGER REPORTS - continued**

### **Performance Review Summary - continued**

Brandywine started out slow but since inception had over 100 basis points in premium. Although Mr. Ranallo was a bit concerned they've done well overall.

Walter Scott had a terrific year and since inception are over 400 basis points ahead.

In the fixed income composite, Schroder's 5 year numbers had a premium of approximately 25 basis points. OCM's 10 year performance is at 7.08% versus the market at 7.23%; behind by 14 basis points.

Ms. Jacobs asked Mr. Seymour if the Board could now discuss the Harbor issue. Mr. Seymour replied - no, that Harbor was in this day to make presentation. Mr. Roche asked the Board if they intended to mention their thoughts to Harbor when they came in. The Board was in agreement that they needed to mention the concerns; Mr. Ranallo would mention it at some point during the presentation.

### **Investment Manager Presentations**

#### **HARBOR CAPITAL MANAGEMENT - William Peck & Robert Ohanesian**

Mr. Ranallo generated discussion with Mr. Peck with Ms. Jacobs joining in. Mr. Cosper then questioned Mr. Peck on why the System is paying such high fees and not getting the performance and what can the Board expect going forward; the Board will have concern if getting back only index returns. Mr. Peck explained. Mr. Ranallo agreed with Mr. Peck's answer, although indicated that the Board's concerns; the next twelve (12) months would be critical. Mr. Harrell continued the discussion.

Mr. Seymour thanked them for their presentation and their supper invitation.

#### **ORLEANS CAPITAL MANAGEMENT - ENERGY - Mr. Farrell Crane & Mr. Louis Crane**

Mr. Louis Crane began by informing the Board that Janet Rabalais-Tallerine was now managing out of Texas. He than began presentation of the portfolio.

**ON MOTION OF MS. JACOBS, SECONDED BY MR. WILMER AND CARRIED**, the Board accepted the reports from both Orleans Capital Management - Energy Fund and Harbor Capital Management.

**ON MOTION OF MR. WILMER, SECONDED BY MR. ZITZMANN AND CARRIED**, the Board accepted the Performance Review Summary as presented by Mr. Ranallo.

## **INVESTMENT MANAGER REPORTS - continued**

### **Manager Compliance with LSERS' Trading Requirements**

Mrs. LeBlanc summarized the Manager's compliance with LSERS' trading requirements.

**ON MOTION OF MR. FAULK, SECONDED BY MR. ZITZMANN AND CARRIED**, the Board accepted the report on Manager's compliance with LSERS' trading requirements as presented by Mrs. LeBlanc.

### **Investment Report by Staff (Book II)**

Mrs. LeBlanc summarized the information contained in Book II. Ms. Jacobs generated discussion.

**ON MOTION OF MS. JACOBS, SECONDED BY MR. WILMER AND CARRIED**, the Board accepted the report on Investments by Staff as presented by Mrs. LeBlanc for 1st quarter 2003.

## **INVESTMENT COMMITTEE**

### **Acceptance of Minutes: March 10, 2003**

**ON MOTION OF MS. JACOBS, SECONDED BY MS. CRAIN AND CARRIED**, the Board approved the minutes of the March 10, 2003, Investment Committee Meeting.

### **Acceptance of Minutes: April 14, 2003**

Ms. Jacobs brought forth for discussion the issue to revise the current investment policy regarding the 1M dollar minimum purchases; wishing to discuss this issue prior to the minutes being approved. Agreed. Ms. Jacobs began by noting the recommendation to revise the policy regarding minimum purchase amounts noted in the minutes of April 14, 2003, on a graduated schedule.

It was discovered, that although it was not a recommendation by Mr. Ranallo, he felt it was still a better option than what was presently in the policy. In all reality, he felt that the issue was one of operations more so than an investment issue. Mr. Seymour stated that the minutes needed to be approved before this issue was discussed further. Ms. Jacobs continued discussion.

**ON MOTION OF MR. FAULK, SECONDED BY MR. ZITZMANN AND CARRIED**, the Board approved the minutes of the April 14, 2003, Investment Committee Meeting.

## **INVESTMENT COMMITTEE - continued**

### **Recommendation of Investment Committee to Revise Investment Policy Regarding \$1M Minimum Purchases**

Mr. Ranallo explained the reason why the minimum purchase policy was an issue was so that managers could not send returns in any dollar amount at any time. His recommendation would be to set an amount of 100 thousand dollars as the smallest amount to accept; no graduated schedule was necessary, just a set amount. Discussion continued.

**ON MOTION OF MS. JACOBS, SECONDED BY MR. ZITZMANN AND CARRIED**, the Board agreed that the Investment Policy be changed to provide that the minimum bond purchase amount be set at 100 thousand dollars.

## **SECURITIES LITIGATION**

Mr. Roche informed the Board that there were currently two (2) ongoing cases at this time. No outcome to report on them as of yet. Also, Mr. Tommy Reeves, attorney with another system had invited him to speak at a securities litigation conference in New York from 6/11-13/03 and he needed approval by the Board to attend.

**ON MOTION OF MS. JACOBS, SECONDED BY MR. ZITZMANN AND CARRIED**, the Board approved the Securities Litigation report as presented by Mr. Roche.

**ON MOTION OF MS. JACOBS, SECONDED BY MR. ZITZMANN AND CARRIED**, the Board approved Mr. Roche's travel request, pending approval by Mr. Cosper, to go to New York for the Securities Litigation conference.

Mr. Roche noted that due to a previous trip that had been canceled, there will not be a airfare charge for this trip.

## **OTHER BUSINESS**

Mr. Seymour asked for consent to consider the issue to amend the 2003-04 budget to include the

increase Mr. Hall had requested.

**ON MOTION OF MS. MYERS, SECONDED BY MR. WILMER AND CARRIED**, the Board consented to consider discussion of an increase in Mr. Hall's annual contract fee.

Mr. Cosper noted that he was now in receipt of the letter from Mr. Hall requesting an increase in his annual contract fee; asking the Board to consider this request.

## **OTHER BUSINESS - continued**

### **Consideration Of Mr. Hall's Request for Increase in Contract Fee - continued**

**ON MOTION OF MS. JACOBS, SECONDED BY MS. MYERS** the Board was asked to grant Mr. Hall's request for an increase in his annual contract fee and to amend the budget to reflect said increase. **Roll Call Vote Ms. Crain - yes; Ms. Jacobs - yes; Ms. Myers - yes; Mr. Zitzmann - no; Mr. Wilmer - yes; Mr. Faulk - no\*\*; Mr. Harrell - yes; Mr. Seymour - yes; YES - 6; NO - 2; ABSTAIN - 0 MOTION PASSED**

\*\*Mr. Faulk noted he voted no for a 4% increase yesterday, can't vote for a 25% increase today.

**ON MOTION OF MR. ZITZMANN, SECONDED BY MR. FAULK** the Board was asked to place the roll call vote for Charles Hall's raise in the Crossroads. **Roll Call Vote Ms. Crain - abstain; Ms. Jacobs - no; Ms. Myers - yes; Mr. Zitzmann - yes; Mr. Wilmer - yes; Mr. Faulk - yes; Mr. Harrell - yes; Mr. Seymour - yes; YES - 6; NO - 1; ABSTAIN - 1 MOTION PASSED**

Ms. Jacobs commented that even though this information is public record she does not agree in advertising salaries.

**ON MOTION OF MR. ZITZMANN, SECONDED BY MR. FAULK AND CARRIED**, the Board agreed to readdress the Harbor Capital issue.

Mr. Ranallo stated that Harbor was not on probation at this point. He reiterated his comment to them during their presentation that they couldn't afford another bad year. He is of the opinion that the Board should forward a letter of probation to them stipulating the twelve (12) month time frame discussed earlier.

**ON MOTION OF MS. JACOBS, SECONDED BY MR. WILMER**, the Board directed Staff to forward a letter to Harbor Capital Management as formal notification to place them on probation in the manner in which Mr. Ranallo indicated. **DISCUSSION.**

Mr. Harrell interjected; Mr. Bob Ohanesian was brought into Harbor to “overhaul” the portfolio. He knows Mr. Ohanesian and feels confident that he will perform as he indicated and the Board should see the results.

Mr. Zitzmann attempted a substitute motion; suggesting that the letter sent to Harbor actually be a “warning” letter of sorts, prior to probation. Mr. Ranallo stated that, historically, the Board has never done that. Mr. Zitzmann withdrew his substitute motion.

## **MOTION PASSED**

## **OTHER BUSINESS - continued**

Mr. Ranallo continued discussion of investment manager’s performance with addressing Trinity. They’ve already received a letter of probation. In another two (2) quarters will have a complete five (5) years of data. They are scheduled to make presentation at the November 2003, regular board meeting. He would suggest taking no action at this time; checking the next two (2) quarters for improvement.

The Board had already taken action with OCM - Fixed Income portfolio. Hopefully their numbers will improve.

Ms. Jacobs asked how the money to fund the new manager will be moved. Mr. Ranallo informed the Board of several issues to be aware of when transferring the funds. It is very important not to interrupt OCM’s performance when the transfer takes place. Possible use of a transition manager. Discussion continued.

Mr. Harrell suggested contacting OCM and asking them if they would be willing to assist in the selection. The second step would be to contact Evergreen for input. Mr. Ranallo and Mr. Harrell continue discussion.

**ON MOTION OF MR. FAULK, SECONDED BY MR. ZITZMANN AND CARRIED**, the Board directed Staff to conduct the procedure to make the transition.

Ms. Myers asked to hear from Mrs. LeBlanc. Mrs. LeBlanc recommended the use of a transition manager; however, if using a manager, would need a bit more time in order to allow due diligence in selecting one.

**ON MOTION OF MR. ZITZMANN, SECONDED BY MR. WILMER AND CARRIED**, the Board agreed to adjourn - 11:30a.m.

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Mr. Patrick Cospers - Director

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Mr. Joe Seymour - Chairman