

**Louisiana School Employees' Retirement System
Regular Board Meeting**

**Monday, May 16, 2005
9:00 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, Louisiana. Mr. Larry Wilmer, Chairman of the Board, opened the meeting at 9:00 a.m. The Lord's Prayer and Pledge of Allegiance were recited. Roll was called.

Members Present: Mr. Larry Wilmer – Chairman, Ms. Betty Crain, Ms. Betty Jacobs, Ms. Sylvia Myers, Mr. Earl Richard, Mr. Jeffrey Faulk, Ms. Lori Pierce – State Treasurer's Office, Ms. Stacy Sharpe – Secretary of State's Office

Members Absent: Ms. Judith McKee, Mr. John Kennedy, Senator D.A. "Butch" Gautreaux, Representative Pete Schneider, Mr. Fox McKeithen

Staff Present: Mr. Patrick Cosper – Director, Ms. Debra Dudley – Assistant Director, Ms. Julia LeBlanc - Chief Investment Officer, Mr. Warren Ponder – General Counsel, Ms. Judy Wright – Public Informations Director 1, Ms. Jennifer Champagne – Administrative Assistant

Also Present: Mr. Richard Ranallo – Segal Advisors, Inc., Mr. Charles Hall – Hall Actuarial Associates, Ms. Ruby Jolissaint, Mr. Zeke Zitzmann, Ms. Janice Richard, Ms. Kathy Landry, Ms. Jessie Kling

ANNOUNCEMENTS

Mr. Wilmer expressed the condolences of the Board over the death of Ms. McKee's nephew.

ON MOTION BY MR. RICHARD, SECONDED BY MR. FAULK AND CARRIED, the Board approved sending a card from all of the Board members to Ms. McKee, expressing their condolences and letting her know that they were thinking about her and that she was in their prayers.

BOARD MINUTES

ON MOTION BY MS. JACOBS, SECONDED BY MR. RICHARD AND CARRIED, the Board approved the minutes of the February 14, 2005 Regular Board Meeting.

ON MOTION BY MS. JACOBS, SECONDED BY MR. FAULK AND CARRIED, the Board approved the minutes of the February 15, 2005 Regular Board Meeting.

RETIREMENT REPORTS – JANUARY 1, 2005 THROUGH MARCH 31, 2005

ON MOTION BY MS. JACOBS, SECONDED BY MR. RICHARD AND CARRIED, the Board approved the Service Retirement Reports from January 1, 2005 through March 31, 2005.

ON MOTION BY MS. JACOBS, SECONDED BY MS. CRAIN AND CARRIED, the Board approved the Disability Retirement Reports from January 1, 2005 through March 31, 2005.

ON MOTION BY MR. FAULK, SECONDED BY MS. CRAIN AND CARRIED, the Board approved the Survivor Benefits Reports from January 1, 2005 through March 31, 2005.

ON MOTION BY MR. FAULK, SECONDED BY MR. RICHARD AND CARRIED, the Board approved the DROP Deposits Reports from January 1, 2005 through March 31, 2005.

PERSONNEL

PERSONNEL ACTIONS: FIRST QUARTER 2005 (JANUARY - MARCH 2005)

Ms. Dudley presented the Personnel Actions Report for the First Quarter 2005 (January 1, 2005 through March 31, 2005) to the Board.

ON MOTION BY MR. RICHARD, SECONDED BY MS. JACOBS AND CARRIED, the Board accepted the Personnel Actions Report for the first quarter 2005.

PERSONNEL (CONT'D)

APPOINTMENT OF PERSONNEL COMMITTEE CHAIRMAN

Mr. Wilmer asked Mr. Richard if he would accept the position as Chairman of the Personnel Committee. Mr. Richard accepted the position as Chairman and then proceeded with Personnel Committee matters.

APPROVAL OF MINUTES OF APRIL 11, 2005 PERSONNEL COMMITTEE MEETING

ON MOTION BY MR. RICHARD, SECONDED BY MR. FAULK AND CARRIED, the Board approved the minutes of the April 11, 2005 Personnel Committee Meeting.

REPORT/RECOMMENDATIONS OF THE PERSONNEL COMMITTEE

Mr. Richard provided a report of the Personnel Committee Meeting, which was held on April 11, 2005, and the committee members' recommendations to the Board. Recommendations were to have raises for unclassified employees presented to the full Board for discussion and a vote taken on whether merit increases would be granted. The Personnel Committee also recommended that the current policy, which was put in place in 1999, be changed to remove the automatic 4% merit increases granted to unclassified employees who receive satisfactory evaluations. In recommended changes the Personnel Committee would review evaluations, report to the full board in May of each year, and merit increases would be granted only with approval of the full board.

Ms. Crain brought up the subject of General Counsel's salary, which included a discussion on Mr. Ponder's classification as a contract worker under a memorandum of understanding with the Attorney General's Office, current salary, and whether any agreement had been made regarding increasing his salary. No action was taken on this matter.

Ms. Myers asked whether the personnel issue regarding the unclassified employees would be placed on the agenda for a vote, as all employees involved had been evaluated and this should be voted on per recommendation of the Personnel Committee.

ON MOTION BY MR. FAULK, SECONDED BY MS. MYERS AND CARRIED, the Board approved Mr. Richard's Report and Recommendations from the Personnel Committee.

Roll Call Vote #1

ON MOTION BY MR. FAULK, SECONDED BY MS. JACOBS, the Board voted to change the 1999 policy as recommended by the Personnel Committee. Betty Crain – yes; Betty Jacobs – yes; Sylvia Myers – yes; Earl Richard – yes; Jeffrey Faulk – yes; Lori Pierce – no; Larry Wilmer – yes; Stacy Sharpe – yes. **YES – 7; NO – 1; ABSTAIN – 0. MOTION PASSED.**

PERSONNEL (CONT'D)

REPORT/RECOMMENDATIONS OF THE PERSONNEL COMMITTEE (CONT'D)

Ms. Jacobs made a motion, seconded by Ms. Myers, to grant 4% merit increases to unclassified employees. Mr. Faulk made a substitute motion, seconded by Mr. Richard, to table discussion and action on merit increases until the August 2005 Regular Board Meeting. A roll call vote was taken on Mr. Faulk's substitute motion, then on Ms. Jacobs' original motion.

Roll Call Vote #2

ON MOTION BY MR. FAULK, SECONDED BY MR. RICHARD, the Board voted to table discussion and action on merit increases until the August 2005 Regular Board Meeting. Betty Crain – no; Betty Jacobs – no; Sylvia Myers – no; Earl Richard – yes; Jeffrey Faulk – yes; Lori Pierce – no; Stacy Sharpe – no; Larry Wilmer – no. **YES – 2; NO – 6; ABSTAIN – 0. MOTION FAILED.**

Roll Call Vote #3

ON MOTION BY MS. JACOBS, SECONDED BY MS. MYERS, the Board voted to grant 4% merit increases to unclassified employees. Betty Crain – no; Betty Jacobs – yes; Sylvia Myers – yes; Earl Richard – no; Jeffrey Faulk – no; Lori Pierce – yes; Stacy Sharpe – yes; Larry Wilmer – yes. **YES – 5; NO – 3; ABSTAIN – 0. MOTION PASSED.**

Mr. Faulk requested publication in the Crossroads newsletter on actions taken today in reference to merit increases for unclassified employees, along with the roll call vote on each motion.

Ms. Jacobs requested that an explanation appear in the Crossroads newsletter in reference to the Board having no control over whether COLA's can be granted, as the legislature sets guidelines on granting COLA's. Civil service employees are automatically granted 4% merit increases if they receive an acceptable evaluation, however; it is the Board members' responsibility and decision as to whether merit increases are granted to unclassified employees.

ADMINISTRATION

STAFF DEVELOPMENT TRAVEL EXPENSES: FIRST QUARTER 2005 (JANUARY – MARCH 2005)

Ms. Dudley presented the Staff Development Travel Expenses Report for the first quarter, which is a report of all travel expenses incurred by staff, including retirement seminars presented by Ms. Geri Galloway. A discussion was held on retirement seminars, including overall attendance, benefits of providing seminars, additional information that could be provided to members, and plans for future seminars. Mr. Faulk requested that Ms. Dudley provide a report at the next regular board meeting on attendance, the different parishes and locations seminars are conducted, and whether providing these seminars is compatible to money being spent.

ADMINISTRATION (CONT'D)

STAFF DEVELOPMENT TRAVEL EXPENSES: FIRST QUARTER 2005 (JANUARY – MARCH 2005) (CONT'D)

Ms. Dudley noted that staff was reviewing the possibility of combining two or three parishes into one seminar. The overall consensus of the Board was that the seminars are informative, well attended, and a benefit to members.

ON MOTION BY MS. JACOBS, SECONDED BY MR. RICHARD AND CARRIED, the Board accepted the Staff Development Travel Expenses Report for the First Quarter 2005.

STAFF OVERTIME REPORT: FIRST QUARTER 2005 (JANUARY - MARCH 2005)

Ms. Dudley presented the Staff Overtime Report for the First Quarter 2005, which includes the amount of overtime worked and a breakdown of overtime that is paid or compensated through leave.

ON MOTION BY MR. FAULK, SECONDED BY MR. RICHARD AND CARRIED, the Board accepted the Staff Overtime Report for the First Quarter 2005.

STATUS REPORT ON CURRENT ELECTIONS

Ms. Wright provided a status report on the current elections. She noted that there was currently one candidate, Mr. Jeffrey Faulk, who had requested a nominating petition for the retiree election. For the District 4 election there was one candidate, Mr. Ryness LeBlanc from Rayne, who had qualified for the election. Another candidate, Ms. Kathy Landry from Lake Charles, had turned in her nominating petition and was awaiting qualification for the election.

Ms. Wright informed the Board that she would be signing the contract with Hester Diaz of SCBI. SCBI is the company that will be conducting the elections. Both elections will be running simultaneously.

ON MOTION BY MS. JACOBS, SECONDED BY MS. CRAIN AND CARRIED, the Board accepted the Status Report on Current Elections.

**INVESTMENTS
INVESTMENT MANAGER REPORTS**

ARK ASSESSMENT MANAGEMENT COMPANY, INC.

*M. Elizabeth Fugler -- New Business and Client Services
James G. Pontone -- Managing Director*

Ms. Fugler provided a brief update on the firm and reported that Ark Assessment Management Company is a 100% employee owned, private organization with over 30 years of experience managing pension assets. The firm has over \$15 billion dollars in assets firm wide, close to \$8 billion dollars in large cap growth, and their diverse client base was over \$2.5 billion dollars in public funds. She noted that the firm has several clients within large cap growth in the Southeast, such as the Georgia Firefighters, LSERS, Louisiana Sheriff's, etc. and their public fund client list firm wide reflects 24 relationships with \$2.6 billion dollars in assets, which includes several throughout the Southeast.

Ms. Fugler reviewed the performance of the portfolio and noted that the firm was in compliance with LSERS' current guidelines. She also noted that since the date of inception was December 2003 they did not have a full market cycle, but due to their consistency they have outperformed every year since inception. In December of 2003 the net invested capital was \$119 million dollars and is now just over \$123 million dollars, which is a gain of \$4.4 million dollars in investment performance.

Mr. Pontone continued the presentation by providing a brief synopsis of what the company does. He noted that they invest in companies they anticipate are going to change and through that changing process those companies exceed expectations and do better in the market than the Russell 1000 growth. He noted that 2004 was a good year in that they beat the index for the seventh consecutive time, which was their primary goal. This was achieved through strong stock selection in consumer discretionary, which was an area that did very well.

Mr. Pontone reviewed the companies they had invested in and noted which companies did well, such as technology, and which companies did not do so well, such as healthcare. He went on to explain in detail why each investment performed as it did.

ON MOTION BY MS. JACOBS, SECONDED BY MS. CRAIN AND CARRIED, the Board accepted the Investment Manager Report provided by Ark Asset Management Co., Inc.

INVESTMENTS (CONT'D)
INVESTMENT MANGER REPORTS (CONT'D)

NORTHERN TRUST GLOBAL INVESTMENTS

Pamela J. Newton - Vice President, Public and Taft-Hartley Funds
J. Scott Musick – Investment Relationship Manager
James Francis – Sr. Vice President
Chris Jaeger – 2nd Vice President

Ms. Newton began her presentation by informing the Board that Northern Trust Global Investments had a great first quarter with very strong earnings and finalized their largest sale as a corporation. Northern Trust bought the financial services group of Bering Asset Management, which was finalized at the end of March. She noted that everything was going well and the company added a lot of capabilities on their global side with that purchase. She also invited all of the Board to their client conference, which will be held in Chicago on September 7 – 9, 2005.

Ms. Newton then turned over the presentation to Mr. Scott Musick, who introduced the other members of the team and their respective role in managing the portfolio. Mr. Musick then provided an overview of Northern Trust and the comprehensive capabilities of the company.

Mr. Cosper noted that recent legislation prohibited all Louisiana public retirement systems from investing in companies that have interest in terrorists or terrorist activities. When asked whether there would be any problems implementing this within the portfolio, Mr. Francis indicated that there would be no problem with the implementation, but that they would need guidelines and a list of restricted companies to apply this to the portfolio. A discussion was held on this legislation, how this would affect the portfolio, the restricted list and how it would be compiled and handled, who would monitor the trades, and what reporting mechanisms would be used.

Mr. Francis continued the presentation with a review of the organizational structure of Northern Trust Global Investments, the characteristics of the portfolio, and the processes used in trading.

Mr. Jaeger then reviewed the performance of the portfolio, current events in the S&P 500, and tradings within the portfolio.

In summary it was noted that the portfolio was doing well and that Northern Trust has had a very consistent history of managing trades well, which in turn has added to the portfolio.

ON MOTION BY MS. JACOBS, SECONDED BY MS. MYERS AND CARRIED, the Board accepted the Investment Manager Report from Northern Trust Global Investments.

INVESTMENTS (CONT'D)
MANAGER PERFORMANCE SUMMARY

Mr. Ranallo presented the Manager Performance Review to the Board. He noted that the first quarter was not particularly good for both the stock market and the bond market. The S&P was down 2.2%, the Small Cap was down 5%, and the Lehman Aggregate was down .5%.

Mr. Ranallo noted that the total market value was \$1.49 billion dollars on December 31, 2004 and \$1.45 billion dollars on March 31, 2005, which was a decrease of about \$36 million dollars for the quarter. He also noted that there was \$15 million dollars in withdrawals to pay benefits, which was more than the contributions, and an investment loss of \$21 million dollars, but in the fourth quarter there was an investment gain of \$100 million dollars.

Mr. Ranallo reviewed the rest of the report in detail, which included a quarter-by-quarter report that reflected how well the portfolio did relative to the benchmark. He also reviewed the portfolio on each of the managers, provided information on their performance, and answered questions from the Board. Discussions were held on each manager's performance.

ON MOTION BY MR. FAULK, SECONDED BY MR. RICHARD AND CARRIED, the Board accepted the Manager Performance Summary.

MANAGER COMPLIANCE WITH LSERS' TRADING REQUIREMENTS

Ms. LeBlanc presented the Trading Compliance Report for the last 12-month period ending March 31, 2005 on the two investment managers who presented their report to the Board, Ark Asset Management and Northern Trust Quantitative Advisors.

Ark Asset Management exceeded their 25% target with Lynch Jones and Ryan. On review of the Louisiana Broker Report it was noted that Ark Asset Management was asked to trade 10%, but that they were short of that amount by \$4,100. In the trading with Louisiana Incorporated Brokers they had a target of \$23,000, but were short of that amount by \$14,582.64.

For the most recent quarter ending March 31, 2005, in their trading with Lynch, Jones, and Ryan, Ark Asset Management was over by \$10,000 and their commissions to Louisiana Brokers were under by only \$997. Ms. LeBlanc noted that in a corrected copy they were under by \$6,097.05 for the first quarter.

Northern Trust Quantitative Advisors, during the last 12-month period ending March 31, 2005, was under by \$776 in their trading with Lynch, Jones, and Ryan. During that same period their trading with Louisiana Brokers was over by \$737.10 and for Louisiana Incorporated and Domicile Brokers under by \$310.40.

For the first quarter of 2005, in their trading with Lynch, Jones, and Ryan, Northern Trust Quantitative Advisors was under by \$20.55 and with Louisiana Brokers they were under by \$8.22. During that same period their trading with Louisiana Incorporated and Domicile Brokers was under by \$8.22.

INVESTMENTS (CONT'D)

MANAGER COMPLIANCE WITH LSERS' TRADING REQUIREMENTS (CONT'D)

Ms. LeBlanc then briefly reviewed a draft of legislation regarding the Louisiana Broker program and how it may affect future investment management.

ON MOTION BY MR. FAULK, SECONDED BY MS. CRAIN AND CARRIED, the Board approved the Manager Compliance With LSERS' Trading Requirements Report.

INVESTMENT REPORT BY STAFF – FIRST QUARTER 2005 - BOOK II

Ms. LeBlanc presented the Investment Reports, which included all transactions placed for the First Quarter of 2005, as well as payments on mortgage backed securities received.

ON MOTION BY MR. FAULK, SECONDED BY MR. RICHARD AND CARRIED, the Board accepted the Investment Report by Staff.

INVESTMENT COMMITTEE

Ms. Jacobs presided over the report of the Investment Committee and presented the minutes of the March 7, 2005 and April 11, 2005 Investment Committee Meetings to the Board. She also presented the recommendations of the Investment Committee, which included adding real estate, issuing and making a request for proposals (RFP) in order to invest real estate, and completing an evaluation of the investment consultant for each calendar year.

ON MOTION BY MS. JACOBS, SECONDED BY MS. MYERS and CARRIED, the Board approved the Minutes of the March 7, 2005 and April 11, 2005 Investment Committee Meetings and the recommendations of the Investment Committee.

A discussion was held on a time line for issuing an RFP and moving forward into real estate investment. It was noted that staff could begin a search to find a core-diversified real estate portfolio manager as of today, May 16, 2005.

LEGISLATION

STATUS REPORT ON 2005 LOUISIANA LEGISLATIVE SESSION

Since there have been a lot of retirement issues and bills that had been filed in the 2005 Legislative Session, Mr. Ponder had prepared a booklet that listed bills that may affect LSERS either directly or indirectly. Mr. Ponder provided a brief summary of each bill, including the author of the bill, it's status to date, and whether that bill directly or indirectly affected the Board, the System, and/or its members. A discussion was held on each bill, at which time Mr. Ponder answered questions from the Board.

ON MOTION BY MR. FAULK, SECONDED BY MR. RICHARD AND CARRIED, the Board accepted the Status Report on the 2005 Louisiana Legislative Session.

LEGAL

STATUS REPORT ON ATTORNEY GENERAL'S OPINION ON DETERMINATION OF FINAL COMPENSATION

Mr. Ponder informed the Board that he had received the Attorney General's opinion on determination of final average compensation. Mr. Ponder noted that the Attorney General's opinion was in reference to a member working after DROP and what affect that had on the final average compensation. The Attorney General's opinion was that the retirement amount was based on when the employee enters DROP. If they continue to work after DROP it would be an additional benefit based on the number of years and their average compensation after DROP would be added to the base amount.

A discussion was held on this and it was noted that according to the Attorney General's opinion the lower average salary would be used in determining final average compensation if an employee continues to work after DROP. It was also noted that in order to get clarification on this bill legislation would need to be drafted and presented to the legislature at next year's session. Until then the Board would comply with the Attorney General's opinion.

ON MOTION BY MR. RICHARD, SECONDED BY MR. FAULK AND CARRIED, the Board accepted the Report on the Attorney General's Opinion on Determination of Final Compensation.

STATUS REPORT ON LITIGATION

Before beginning his report Mr. Ponder informed the Board that on occasion decisions on whether to enter into securities litigation had to be made in a very short time and since Board approval was required to enter into securities litigation there was a need to provide for such occasions.

ON MOTION BY MS. JACOBS, SECONDED BY MS. MYERS AND CARRIED, the Board approved a resolution that legal section be directed to aggressively and actively pursue any and all fraud claims that directly affect this system, and further, that it is directed to make all reasonable efforts to maximize recovery, obtain "third party funds" and correct any corporate governance problems that may be encountered.

Mr. Ponder informed the Board that the Legal Department was going forward with security claims and that he was requesting each attorney provide a written memorandum of LSERS' involvement in a case so that he could review the case and make a decision as to whether or not to pursue the case. Mr. Ponder also noted that he was requesting a quarterly report on all cases so that he could provide a status report on securities litigation to the Board at their regular board meetings.

OTHER BUSINESS

Before bringing up items for discussion under other business Mr. Richard asked a question regarding a member who had completed DROP and was still employed full time. When asked what happens to money the member contributes into the system after completing 30 years of employment and completing DROP, Ms. Dudley noted that only the employee portion of the contributions, no interest, would be given back to the member upon retirement.

Mr. Wilmer reminded the Board that anyone who had not completed their educational requirements was to see Ms. Champagne on obtaining audio tapes on the components they were lacking. It was noted that there would be investment and actuarial education scheduled before the August 31, 2005 deadline to assure completion of educational components.

Roll Call Vote # 4

ON MOTION BY MS. JACOBS, SECONDED BY MS. MYERS, the Board voted to add two items to the agenda for discussion. Betty Crain – yes; Betty Jacobs – yes; Sylvia Myers – yes, Earl Richard – yes, Jeffrey Faulk – no, Lori Pierce – yes, Stacy Sharpe – yes, Larry Wilmer – yes. **YES – 7; NO – 1; ABSTAIN – 0. MOTION PASSED.**

The first item added to the agenda for discussion was to address Legal Counsel's salary, which was brought up earlier in the meeting today. A discussion was held on this matter.

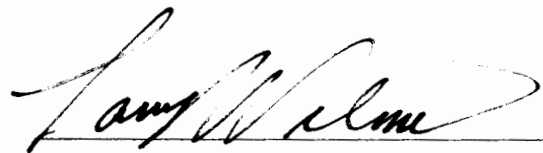
ON MOTION BY MR. RICHARD, SECONDED BY MS. JACOBS AND CARRIED, the Board agreed to table discussion of Legal Counsel's salary until the next board meeting.

The second item added to the agenda for discussion was whether travel expenditures by the Board for conferences, seminars, meetings, etc., should be placed in the quarterly board books. A discussion was held on this and the consensus of the Board was that the information was public record. No action was taken on this matter.

ON MOTION BY MR. FAULK, SECONDED BY MR. RICHARD AND CARRIED, the Board agreed to adjourn at 1:43 p.m.



Patrick Cosper – Director



Larry Wilmer - Chairman