

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

**Tuesday, November 23, 2004
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. Mr. Joe Seymour, Chairman of the Board, opened the meeting at 8:30 a.m. The Lord's Prayer and Pledge of Allegiance were recited. Roll was called.

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Members Present: Mr. Joe Seymour - Chairman, Ms. Betty Crain, Ms. Betty Jacobs, Ms. Sylvia Myers, Mr. Earl Richard, Jr., Mr. Larry Wilmer, Mr. Jeffrey Faulk, Ms. Lori Pierce - State Treasurer's Office

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

Staff Present: Mr. Patrick Cosper - Director, Ms. Debra Dudley - Assistant Director, Ms. Julia LeBlanc - Chief Investment Officer, Mr. Randall Roche - General Counsel, Mr. Warren Ponder - General Counsel, Ms. Judy Wright - Public Information Director1, Ms. Jennifer Champagne - Executive Services Assistant, LSERS Staff (for presentation of plaques)

Also Present: Mr. Richard Ranallo - Segal Advisors, Inc., Ms. Janice Richard, Ms. Marsha Seymour and family (for presentation of plaques), Ms. Claire Roche (for presentation of plaques)

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PRESENTATION OF PLAQUES

Mr. Cospers presented a plaque on behalf of the Board and staff to Mr. Seymour in appreciation for his 24 years of dedicated service as Board of Trustee for Louisiana School Employees' Retirement System and 12 years as Chairman of the Board of Trustees.

ON MOTION OF MR. WILMER, SECONDED BY MS. MYERS AND CARRIED, the Board agreed that Mr. Joe Seymour be made an honorary member and lifetime Trustee Emeritus as a symbol of their appreciation for his years of dedicated service to Louisiana School Employees' Retirement System.

Mr. Cospers presented a plaque on behalf of the Board and staff to Mr. Roche in appreciation for his 15 years of dedicated service and expertise as General Counsel for Louisiana School Employees' Retirement System.

INVESTMENT COMMITTEE

APPROVAL OF MINUTES

ON MOTION OF MS. JACOBS, SECONDED BY MR. RICHARD AND CARRIED, the Board approved the minutes of the September 20, 2004 Investment Committee Minutes.

When asked how the educational seminar at the September 20, 2004 meeting was going to be recorded for credit, Mr. Cospers noted that hour for hour of education would be credited and maintained by Ms. Champagne on each component of education required. The four categories for educational requirements are instruction on fiduciary duty and ethics, investment training, actuarial science information, and education regarding laws, rules and regulations applicable to LSERS.

Mr. Cospers noted new members elected to the Board would need to obtain a minimum of one hour in each category in order to vote and receive per diems.

ON MOTION OF MS. JACOBS, SECONDED BY MS. CRAIN AND CARRIED, the Board approved the minutes of the September 20, 2004 Ad Hoc Committee Meeting.

ON MOTION OF MR. FAULK, SECONDED BY MR. WILMER AND CARRIED, the Board approved the minutes of the October 11, 2004 Investment Committee Meeting.

INVESTMENTS

REPORT ON COMPLIANCE WITH LSERS TRADING REQUIREMENTS

Ms. LeBlanc presented the report on compliance with LSERS' trading requirements for Brandywine Asset Management, Inc., Trinity Investment Management, and Schroders Investment Management, Inc.

During a 12-month trading period ending September 30, 2004 Brandywine executed trades with Lynch Jones and Ryan, but was under their target of \$37 thousand dollars. They attempted to meet the target in commission credits to Louisiana Brokers during the year, but were slightly under that target. Recent legislation requires that records be maintained on brokers domiciled in Louisiana and records indicate they have nearly met that 10% target. The report for calendar year to date through September 30, 2004 reflects the same in all three categories.

Trinity nearly met their target with Lynch Jones and Ryan at 24.87%, almost 25%. Their commission credits to Louisiana Brokers are actually over by over \$4 thousand dollars, doing 10.88 % of their trades. Commission credits to Louisiana Domiciled Brokers was 13.87%. Over a 9-month period ending September 30, 2004 they have met every one of the Board's targets.

For Schroders Capital Management, a fixed income manager, their situation is a little different from that of an equity manager. They have not placed any trades with Lynch Jones and Ryan. It was noted that fixed income managers cannot always trade with local brokers and get good execution. On their par value to Louisiana Brokers Schroders has actually exceeded their 12% target, but they have not executed any trades with Louisiana Inc. Brokers.

ON MOTION OF MR. FAULK, SECONDED BY MS. JACOBS AND CARRIED, the Board approved the Report On Compliance With LSERS Trading Requirements.

INVESTMENT REPORTS BY STAFF (BOOK II): JULY 1, 2004 - SEPTEMBER 30, 2004

Ms. LeBlanc summarized the investment reports, which included all transactions that investment managers placed for the fund during the quarter ending September 20, 2004.

ON MOTION OF MR. RICHARD, SECONDED BY MR. WILMER AND CARRIED, the Board approved the Investment Reports By Staff for July 1, 2004 through September 30, 2004.

INVESTMENT MANAGER REPORTS

BRANDYWINE ASSET MANAGEMENT, LLC.

Steve Tonkovich, Managing Director, Portfolio Manager

Nedra Hadley, Senior Vice President, Institutional Client Service

Ms. Hadley provided a brief update on the firm and noted that nothing had changed. The firm has wide assets and has grown by almost 50% since two years ago, so they are seeing some nice healthy growth. There have been no changes in the ownership and management, but one thing that continues to grow is their relationships with their clients in Louisiana. The most important item was a listing of clients they have in Louisiana. She also noted that the team has not changed in the seven years since they have been with the System.

Mr. Tonkovich provided an overview of guidelines and objectives and noted two main points. First, Brandywine was in compliance with all of the guidelines and objectives and secondly, there was nothing in the investment objectives impeding their ability to manage the System's portfolio. They keep their commissions low, their average trade is a little over 3 cents per share and they have met their targets on the Louisiana brokerage.

Mr. Tonkovich then went on to review the rest of the portfolio. He noted that overall the portfolio is fully invested, is a quality portfolio, and the outlook is very favorable for returns going forward.

TRINITY INVESTMENT MANAGEMENT CORPORATION

Shawn Hogan, Director - Client Service

Blake Gall, CFA, Vice Chairman

Mr. Hogan began the presentation by thanking the Board for allowing Trinity to be their investment manager for the past 6½ years. He noted that Trinity did get off to a rough start in terms of performance relative to their benchmark, but today's presentation would show that they have made nice improvement over the past 4 or 5 years. Trinity continues to generate returns above the benchmark and is doing this in a very controlled risk environment.

Mr. Hogan reviewed highlights of the portfolio, which included investment guidelines, portfolio performance, and market commentary. He went over performance for one year, three year, five year, and since inception. He noted that Trinity has added enhancements to their investment process that were designed for risk control. These enhancements of very controlled volatility put in place 4 years ago have provided very strong added value for the portfolio.

TRINITY INVESTMENT MANAGEMENT CORPORATION (CONT'D)

There was some discussion about the enhancements that were put in place, how they affected the portfolio and the benchmark relative to one year, three year, five year, and since inception.

Mr. Hogan continued the report, which included year to date performance, stocks and 10 largest holdings. He provided a snapshot of the portfolio at the end of the third quarter. It's market value was \$153 million dollars at the end of the quarter and is now closer to \$165 million dollars. The portfolio remains fully invested in equities at all times, is widely diversified with 94 stocks, typically holds about 90 to 100 positions in the portfolio, and is very much in line with the Russell 1000 value index. Dividend yield is close to 2 %, where the S&P has a dividend yield of about 1.8%. It is below that of the broad market but in line with that of the Russell 1000 value index.

Mr. Gall provided an overview of enhancements currently in place, research that was being done, and what is ahead for the market. A discussion was held on this, especially what was ahead for the market.

Mr. Hogan noted that all trading information requested was provided, along with the company update. The same people are running the portfolio, despite the name change from Trinity to OFI Institutional. Also noted was that when the fee structure was altered to move to a performance based fee it was capped at 27 basis points, which was what they were being paid prior to that. Trinity would like to keep it capped at 27 basis points and have that 10 basis points for their fees. The contract was coming up for renewal on December 31, 2004 and Trinity would be willing to extend it.

Further discussion was held on the portfolio. Mr. Gall and Mr. Hogan answered questions from the Board, which included concerns about the weakened dollar against the euro, companies within the portfolio, oil prices, and how all of this affects the portfolio.

ADMINISTRATION

MODIFY POLICY ON 60-DAY DROP APPLICATION TO INCLUDE DIRECTOR APPROVED EXTENSION

This item was tabled from yesterday's meeting and presented today for further discussion. Mr. Coper informed the Board that for certain circumstances arising through error by the School Board or the System there is a board approved policy, which states that if the necessary information on a DROP application is not received after 60 days of processing the DROP application can be cancelled. In view of this staff would like to propose changes to the policy.

Ms. Dudley noted that the 60-day deadline for members to submit their DROP application would still be in the original policy. To assure receipt of DROP applications within 60 days staff would like to propose revising the current policy to allow the System to send a follow-up letter as a reminder to those members who have not sent in their applications within a month. When asked whether the application was sent by regular mail, Ms. Dudley indicated that the original DROP application is sent by registered mail to the member's house, but that another application is sent

by regular mail to the member's house and a copy sent to the School Board.

MODIFY POLICY ON 60-DAY DROP APPLICATION TO INCLUDE DIRECTOR APPROVED EXTENSION (CONT'D)

Discussion was held on this matter. It was suggested that a note be included on the DROP application suggesting that the application be returned by registered mail as a record that the application has been sent. When asked what happened in the event that a member's application was delayed by the System, Mr. Cosper indicated that the current policy states that it would be the discretion of the Director to accept the affidavit without penalty.

ON MOTION OF MS. JACOBS, SECONDED BY MR. WILMER AND CARRIED, the Board approved modifying the policy on 60-Day DROP Application to include follow-up letters.

INVESTMENTS

SCHRODERS INVESTMENT MANAGEMENT, INC.

Steven S. Lear, CFA - Executive Vice President, Head of U.S. Fixed Income
Connie Moak Mazur - Senior Vice President, Client Service Officer
Steve Bowes, Sisung Securities

Ms. Mazur began the presentation by introducing herself and her associates to the Board and providing a brief description of their position within the firm. She then turned the presentation over to Mr. Lear, who asked the Board if there was anything in particular they wanted to hear about today. Mr. Ranallo noted a few items he wanted to go over that would help in their asset allocation review. He asked whether Schrodgers would be interested in 1) the portfolio being allowed investments in non-dollar bonds and 2) increasing the high yield exposure from the current exposure of 5% to possibly 10%; and if so, to what extent.

Mr. Lear indicated that Schrodgers has both high yield and non-dollar bonds and would address both separately. In reference to high yield, Schrodgers has, within the last year, added a distinct high yield capability. In reference to increasing the high yield to 10%, his response was twofold. 1) consider an explicit allocation to high yield, take a certain dollar amount and give it to a high yield manager or 2) open the guidelines a little bit more and increase the allocation percentage, with the understanding that it is then the manager's responsibility to indicate whether they can handle this allocation.

In reference to the non-dollar bonds, Schrodgers was globally integrated to the extent that there are only a couple of mandates that allow them to do non-dollar bonds, but have been able to add value in those sectors. When asked whether 20% allocation rather than 10% allocation would be more in line Mr. Lear indicated that 20% allocation would be a catch all for both high yield and non-dollar bonds.

SCHRODERS INVESTMENT MANAGEMENT, INC. (CONT'D)

A discussion followed on the investment policy and how high yield and non-dollar bonds would work in the current portfolio, given the existing structure, rather than hiring a high yield manager. It was noted that this would need to be discussed more at length and that the Board would need to recognize that by stretching for a little bit of additional yield they are probably trading off some interest rate risks.

Mr. Lear provided a report on what happened to the portfolio last year, which was a very peaceful period of time in fixed income markets. Long term interest rates and spreads were very stable, so there was not a lot of volatility. Schroders took advantage of that by expecting short rates to rise and long rates to be stable and made about a half a point of interest over the benchmark. They were very overweighted in Triple B securities, the lower end of the investment grade spectrum, because they were not seeing a lot of volatility. They traded a little bit of safety for yield, which gave them an extra half a point of yield. This put them about a percent over the benchmark.

ON MOTION OF MS. JACOBS, SECONDED BY MS. CRAIN AND CARRIED, the Board approved the Investment Managers Reports by Brandywine Asset Management, Inc., Trinity Investment Management Corp., and Schroders Investment Management, Inc.

LEGAL REPORT

CURRENT SECURITIES LITIGATION

Mr. Ponder informed the Board that the Legal Department was currently working on securities litigation involving Accredo Health for which he and Mr. Roche went to San Diego. It is now pending in the western district of Tennessee, which is Memphis. Mr. Ponder provided the Board with a brief synopsis of what the litigation entails.

In light of corporate scandals Mr. Ponder asked the Board for a resolution directed to the Legal Department to aggressively pursue securities litigation for corporate wrongdoing with an emphasis on recovery of losses, with as much third party money as possible, and an emphasis on tagging the individual wrongdoer, asking for corporate governance changes so it doesn't happen again, and looking at the board compensations.

When asked why the Legal Department needed this resolution Mr. Ponder indicated that when they go to Federal Court, one of the questions that is asked is whether this is being done with board approval or whether the legal section is pursuing this matter. If the Board approves this resolution then a physical legal document can be provided for securities litigation.

ON MOTION OF MR. RICHARD, SECONDED BY MS. CRAIN AND CARRIED, the Board approved a resolution for Legal Counsel to aggressively pursue securities litigation for corporate wrongdoing for recovery of losses due to corporate fraud, request corporate governance changes so that this does not occur again, and provide for board compensations.

DISCUSSION OF TRINITY'S PERFORMANCE

When asked to provide additional information on Trinity's performance, Mr. Ranallo indicated that there was a lot of discussion, but there was no decision made on whether the Board wanted to keep Trinity as an investment manager. He also noted that if a decision was made to keep Trinity as a manager then the Board would also need to decide whether they would like to continue with performance based fees.

Discussion was held regarding Trinity's overall performance, their performance since inception, the benchmark, their risk control approach, it's impact on the portfolio, and the pros and cons of keeping them on as managers.

When asked by the Board to make a recommendation Mr. Ranallo indicated that he would keep Trinity in place and see how they performed over the next year or two.

ON MOTION OF MR. RICHARD, SECONDED BY MS. MYERS AND CARRIED, the Board agreed to table this matter, review Trinity's performance every quarter, and that there be no change to their existing performance based fee structure, which is capped at 27 basis points.

OTHER BUSINESS

NCPERS 19TH ANNUAL LEGISLATIVE CONFERENCE

Mr. Seymour informed the Board that the 19th Annual NCPERS' Legislative Conference will be held in Washington, D.C. from February 7-9, 2005 and applications need to be turned in to Ms. Champagne as soon as possible.

ON MOTION OF MR. WILMER, SECONDED BY MS. MYERS AND CARRIED, the Board agreed to adjourn at 11:25 a.m.

Patrick Cospers - Director

Joe Seymour - Chairman