

**LOUISIANA SCHOOL EMPLOYEES' RETIREMENT SYSTEM  
BOARD INVESTMENT COMMITTEE MEETING**

*Monday - April 11, 2005  
9:00 a.m.*

The Louisiana School Employees' Retirement System's Board Investment Committee convened in the board room (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.

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**Members Present:** Ms. Betty Jacobs, Chairman, Mr. Larry Wilmer, Ms. Betty Crain, Mrs. Judith McKee, Ms. Sylvia Myers, Mr. Jeffrey Faulk, and Mr. Earl Richard, Jr., Ms. Lori Pierce - Treasurer's Office and Ms. Stacy Sharpe - Secretary of State'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. Warren Ponder - General Counsel, Mrs. Julia LeBlanc - Chief Investment Officer, Mrs. Josie Meche - Investment Manager I, Ms. Judy Wright - Public Information Director I and Mrs. Laurie Stark - Executive Services Assistant.

**Others Present:** Mr. Tom Govan and Ms. Angela Avant - Hibernia National Bank, Ms. Ruby Jolissaint, Mr. Ronald Babinneaux, Ms. Kathy Gerald, Ms. Sharon Glass and Mrs. Kay Cummings.

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Ms. Jacobs expressed the board's sympathy at the loss of Ms. Thelma Bushnell who was a friend and sister-in-law to Ms. Sylvia Myers. Ms. Myers thanked everyone for their prayers, cards and flowers.

Ms. Stacy Sharpe arrived at 9:04 a.m.

**HIBERNIA AND CAPITAL ONE MERGER.**

Mr. Tom Govan and Ms. Angela Avant with Hibernia National Bank were in attendance to give the committee information regarding the merger of Hibernia Bank and Capital One. Mr. Govan informed the committee that Capital One is not a bank. They are in fact a credit card company. Because of the merger, Hibernia now has more capital available to them. Capital One has been looking to buy a bank for about a year and a half. Hibernia's senior managers will remain on staff. He said that he does not expect Hibernia's current relationship with LSERS to change. Ms. Avant said their name

will change to Capital One in about a year. It will be business as usual. They will be offering the same services as always and the system will not incur any additional cost.

**EDUCATIONAL PRESENTATION REGARDING LSERS RULES AND REGULATIONS.**

Mrs. Kay Cummings, who is the retirement department manager, went over the steps that a retiree needs to go through when signing up for retirement. First the member needs to set up a counseling session with one of the system's retirement analysts to get an estimate of what their retirement benefits will be and have any questions they may have answered. She suggested that members should request a benefit estimate around two (2) years prior to retirement. In order for a member to apply for regular retirement, they must have the following qualifications: ten (10) years of service at age sixty (60), twenty-five (25) years of service at age fifty-five (55), and thirty (30) years of service at any age. These qualifications also apply to the IBRP (Initial Benefit Retirement Option Plan) and DROP (Deferred Retirement Option Plan) plans. There is an early retirement plan that requires twenty (20) years of service at any age, but it provides a reduced benefit for life. Every year a statement is sent to the members of the system that shows their approximate years of service. Applications for retirement are completed by the member and the member's school board. Important documents that are needed to apply for retirement are: birth certificates for both the member and their beneficiary, social security cards for each, divorce documents (if applicable), and anything else that is requested by an analyst. If a spouse is deceased at the time of retirement, the member needs to provide a certified copy of the death certificate. Employers must certify the member's years of service credit, current year salary and any unused annual and/or sick leave balances. Once the application is received in our office, the analyst will review it and verify that it has been properly completed and that all required documentation is attached. They will also determine whether the member is eligible as of the retirement date noted on the application. The member and employer will receive notice that the application has been received from our office. The analyst will then calculate the benefit and furnish the member with an affidavit which will show all the options available to them. The member will need to select an option, have the affidavit notarized and return it to the system in order for them to be set up on payroll.

Mr. Earl Richard asked about a member in his district that asked about his wife's birth certificate being in Polish because she is from Poland. He wanted to know if the system would accept the birth certificate or would he have to pay to have it translated. Mrs. Cummings said that there are other documents that can be provided other than the wife's birth certificate that can verify her date of birth two of those are her driver's license or her social security card. He also asked what happens if a member dies before he receives his first retirement check. Mrs. Cummings responded by saying that she and Mr. Ponder would have to get back with him regarding the answer to his question.

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**ON MOTION OF MS. McKEE, SECONDED BY MR. FAULK AND CARRIED**, the committee agreed to allow a question to be asked by Mr. Babinneaux who was in attendance.

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Upon receiving permission to ask a question, Mr. Ronald Babinneaux, who was a guest in the audience, wanted to know if a member is officially considered retired after going into DROP or after coming out of DROP. Mr. Ponder responded by saying that once a member has entered into DROP

they are considered retired. All benefits are set at that point, unless a member works after the three years of DROP then their benefits would change.

Mr. Ponder gave the committee members an overview of several Louisiana statutes that affect this system. Revised statute 11:62 mentions that LSERS employees contribute 7.5% of their salary toward their retirement in this system. Revised statute 11:163 asserts that this system should be receiving a death report from the Department of Health and Hospitals every month in order to try to limit overpayments to retirees that have passed away. Revised statute 11:176 talks about the operating budgets. Even though this system's money is received through employee contributions, employer contributions and the investment income, its budget has to be submitted to the Joint Legislative Committee on the Budget for review. Revised statute 11:183 states that the board members shall abide by all the rules and regulations of the Code of Ethics. Revised statute 11:185 covers the educational requirements for all board members which is why he is reviewing this information to ensure the members receive their one hour of rules and regulations education. Revised statute 11:263 addresses the "prudent man" rule. Under this rule the board members shall always invest under the "prudent man" theory and will invest on behalf of the system and not on behalf of themselves. Revised statute 11:266.1 says that in spite of the "prudent man" theory, we shall place 10% of the equity trades and 10% of the fixed income trades with Louisiana brokers/dealers who have an office in Louisiana and are domiciled in Louisiana. Revised statute 11:267 conveys that the system can invest up to 65% in equity, if we have at least 10% of the funds indexed. Revised statute 11:268 makes mention that LSERS should invest in Louisiana venture capital firms. Public Affairs Research Council of Louisiana, Inc. has essentially said that this comes very close to the legislature micro managing the retirement systems. This statute will hopefully sunset on June 30, 2005 without being renewed. Revised statute 11:269 tells the money managers that they have to disclose all of their sources of income. This is to ensure that they are not receiving income from the retirement systems by taking our brokers and using our trades as a source of income. Revised statute 11:1165 communicates that rules and regulations shall be made to help run the system. Revised statute 11:251 says that the system can hire its director, assistant director, chief investment officer and legal officer. The following statutes deal with how meetings are to be conducted. Mr. Ponder wanted the committee to pay close attention to revised statute 42:7 which says it is required that this system must publish notices of its meetings and their agendas ahead of time. Also, a two-thirds vote is required to add anything to the agenda that was not previously published. This could be taken care of with a general consent from the board with no "nays" and reflected in the minutes. Nothing should ever be conducted by secret ballot, because everything has to be "out in the open." The board can go into "executive session" to discuss character, professional competence, physical or mental health of a person. They can also discuss litigation, security issues and strategy, but no final vote can be taken.

#### **CONSIDERATION AND RECOMMENDATION CONCERNING ANNUAL CONSULTANT EVALUATIONS.**

Mr. Cosper said that the legislature has been made aware of some concerns regarding consultant firms having strong connections to brokerage houses and investment management firms. The legislative auditors made mention in the audit they performed on our system the fact that this system did not have an evaluation process in place for its consultant. Mrs. LeBlanc told the committee that there was a consultant evaluation form included in the board packet they received and that it is very thorough. She said it was up to the committee to decide whether they wanted to comply with the legislature's

recommendation to conduct a consultant evaluation or not. If the committee does decide to comply, they would also need to decide on when they wanted the evaluation to be performed whether on an annual, monthly or quarterly basis.

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**ON MOTION OF MR FAULK, SECONDED BY MR. WILMER AND CARRIED,** the committee agreed that they would go along with the staff's recommendation to have a consultant evaluation and it will be scheduled on a calendar year basis.

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**FUNDING OF SECOND QUARTER EXPENDITURES.**

Mrs. LeBlanc said that she and Mr. Ranallo conferred at the end of last month and decided that \$12 million was needed to pay benefits for the second quarter. It was decided that \$6 million was to be taken from Orleans Capital Management and \$6 million would be taken from Walter Scott & Partners. The transfer was taken care of by staff.

**STAFF REPORTS**

**Commission Recapture Report**

Mrs. Meche reported for the period January 1, 2005 through January 31, 2005 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, 2005 through January 31, 2005 were the Ark, J & W Seligman and Trinity. However, Brandywine, Northern Trust Quantitative Advisors and Walter Scott did not meet their targets. The total funds available for disbursement as of January 31, 2005 were \$184,882.74. Payments totaling \$5,100.00 were made leaving a balance of \$179,782.74 available for disbursement.

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**ON MOTION OF MR. FAULK, SECONDED BY MR. RICHARD AND CARRIED,** the committee accepted the Commission Recapture Report.

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**Northern Trust Securities Lending Report.**

Mrs. LeBlanc reported that for the calendar year-to-date period ended February 2005, the gross income on securities lending was \$90,607.52. Northern Trust has received a fee of \$27,160.08. The fund had income returned to it in the amount \$63,447.44 or an average for the year of \$31,723.72 per month. For February 2005 the gross income was \$33,176.62, Northern's fee was \$9,942.01 and the fund's income was \$23,234.61. Since the program has been in place with Northern Trust, the fund has earned \$4,756,848.17 or an average monthly income of \$34,976.82.

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

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**Louisiana Brokers.**

Mrs. Meche reported for the period of January 1, 2005 through January 31, 2005 that the only fixed income managers to meet or exceeded their 10% target for the month was Evergreen. The only equity managers to meet or exceeded their 10% minimum target was Trinity. Ark, Brandywine, J & W Seligman, NTQA and Walter Scott did not meet their target. A total of \$13,776,329.84 par value and a total of \$13,541.65 equity commissions were directed during the time period ended January 31, 2005.

**Louisiana Incorporated & Domiciled Broker Report.**

Mrs. Meche reported for the period of January 1, 2005 through January 31, 2005 the equity managers who met or exceed their 10% target were Brandywine and Trinity. None of the fixed income managers met their target for the period. A total of \$12,767.56 in equity commissions and no par value was directed during the time period ended January 31, 2005.

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**ON MOTION OF A MR. FAULK, SECONDED BY MR. WILMER AND CARRIED,** the committee accepted the Louisiana and Louisiana Incorporated and Domiciled Broker Reports.

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**2004 Legislative Report.**

Mrs. LeBlanc said that several reports have been requested, prepared and sent to the legislature for this year's session. One of the reports that was sent was the Louisiana and Louisiana Incorporated Broker Reports that cover the period of January 1, 2004 through December 31, 2004. These reports are in compliance with Act 851. The act requires that our investment managers must direct 10% of its trades through Louisiana brokers and 10% through Louisiana domiciled and incorporated brokers. In the letter that was sent to one of the representatives it said that our investment managers do not necessarily have the ability to negotiate commission rates nor do they have the ability to obtain volume discounts when they participate in this program. These reports should show the legislators that it is not always beneficial to the system to be required to place trades through Louisiana and Louisiana domiciled and incorporated brokers.

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**ON MOTION OF A MS. CRAIN, SECONDED BY MR. WILMER AND CARRIED,** the committee accepted the 2004 Legislative Report.

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**Securities Litigation.  
Investment Staff Report of Receipts.**

Mrs LeBlanc reported to the committee that LSERS has received a total of \$9,189.33 in cash, no par value and 7,352 shares of stock/warrants as of February 14, 2005 for settlements from securities litigations.

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**ON MOTION OF MR. FAULK, SECONDED BY MS. CRAIN AND CARRIED,** the committee accepted the Staff Report of Receipts.

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**Current Case Review.**

Mr. Ponder informed the committee that he had nothing new to update the committee on. He is going to write to each and every attorney that Mr. Randy Roche had dealings with over the past five years to find out what the status was of any existing cases and then he would forward it to the board. He said he was also going to institute a policy with these firms to send him a quarterly report that will be received before each regular board meeting. Mr. Ponder was pleased to announce to the committee that the system has received its first judgement rendered in an overpayment case.

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**ON MOTION OF MR. RICHARD, SECONDED BY MRS. McKEE AND CARRIED,** the committee accepted the Current Case Review Report presented by Mr. Ponder.

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**ON MOTION OF MR. WILMER, SECONDED BY MR. RICHARD AND CARRIED,** the committee agreed to discuss items under Other Business.

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**OTHER BUSINESS.**

Mr. Cospers brought the committee up to date on what is currently going on in the legislature. The House Retirement Committee had a guest speaker specializing in identifying those companies which offer up investment securities in the form of stocks or bonds that are doing business directly or indirectly through the use of subsidiary companies with terrorist-sponsored states. Some of these

countries are North Korea, Iran, Syria, Sudan, etc. He said that Pete Schneider, Chairman of the House Retirement Committee, feels very strongly that Louisiana should be ahead of the pack by trying to put some legislation in place to restrict public funds from doing business with these companies who do business in foreign countries that are known to have sponsored terrorists groups. Some of the companies that were mentioned as doing business in these countries were Conoco Phillips, Exxon Mobile, Halliburton, McDonald's and Wal-Mart. Mr. Cospers asked that LSERS be allowed to begin a study to find out how many of our investment managers do business with these terrorist sponsoring countries and what impact it will have on this system before any legislation is drawn up. Rep. Schneider gave the system one week to conduct this study.

Mrs. LeBlanc mentioned that Walter Scott's response to the terrorism letter was not included in the initial information that was forwarded to Rep. Schneider. In it Dr. Kenneth Lyall with Walter Scott said that the company is taking several steps toward handling trading with companies that deal directly or indirectly with companies who sponsor terrorism.

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**ON MOTION OF A MR. WILMER, SECONDED BY MR. RICHARD AND CARRIED**, the committee agreed that staff should be allowed to go before the House and Senate Committees with the board's position as to protect themselves and minimize any losses to the system when implementing such legislation regarding terrorism.

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The second item that Mr. Cospers brought up was a letter Representative Arnold gave to each of the four state directors relative to a state law which has governance over this system and not the statewide systems. It requires that systems must meet the required mandates of doing 10% brokering with Louisiana brokers and Louisiana incorporated and domiciled brokers. We were required to submit a report showing the amount collected for the year 2004. He understood that this law requiring the 10% investments would probably be renewed. Mr. Cospers mentioned another item to the committee regarding another guest speaker who was present at a House Retirement Committee meeting who was against all consultants. He said that all consultants had their hand in the cookie jar and it's all pay to play with the broker/consultant relationships. There are those consultants who attempt to be independent. A letter was sent to all our investment managers asking them if they pay for any kind of research or attend any workshops, conferences or seminars put on by the consultant's firm. Essentially asking them if they pay anything in any form to our consultant. The responses were submitted in a report to the committee. All their answers to the questions were "no" and the committee seemed happy with their answers. The final item that Mr. Cospers reported to the committee was that the Public Affairs Research Council makes recommendations indicating ways that they think is the better way to do business and government and to minimize cost to the taxpayers and to business. The council is coming back with an identical report to the one that was originally presented back in 1995 or 1996 that indicates that because of 12 billion dollars that is unfunded the overall public retirement in Louisiana needs to be reformed. They recommend that the best way to do that and save money for the taxpayers is to consolidate all four retirement systems and eliminate several administrative personnel positions. They feel that there is a redundancy and duplication of services. Overall they feel the state could save approximately \$2 million a year collectively. What

they do not say in the report is that it each retirement system has different benefits structures, different funding options and different software programs. It could cost the state approximately \$60 to \$120 million to acquire a system that could handle the entire retirement system, the software and the programing that would have to be changed plus the time to do it all. It could take up to 30 years change everything over to one system. The loss to the state could be between \$120 and \$160 to implement the consolidation, but \$2 million would be saved every year administratively. Mr. Cospers stated that ideal time to have consolidated the systems was when they were being created in 1947. There is only one active bill to consolidate the systems that has been filed by Senator Boasso. He wants to combine Teachers Retirement System and State Employees' Retirement System, but it could easily be amended to include this system. Mr. Cospers said that the general mood in the legislature is that reform is on the horizon and some changes will be made.

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**ON MOTION OF MR. FAULK, SECONDED BY MR. RICHARD AND CARRIED,** the committee asked that a copy of the salaries that the employees of this system receive is to be sent to all the board members on an annual basis.

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**ON MOTION OF MR. FAULK, SECONDED BY MR. RICHARD AND CARRIED,** the committee agreed to adjourn.

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The meeting adjourned at 11:49 a.m.

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Patrick Cospers, Director

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Betty Jacobs, Chairperson