

Louisiana School Employees' Retirement System Board Investment Committee Meeting

Monday, April 6, 2009
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. Mr. Faulk, Chairman of the committee, called the meeting to order at 9:02 a.m. Roll was called by Mrs. Stark.

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Members Present: Mr. Jeffrey Faulk, Sr., Mr. Larry Wilmer, Mr. Eugene Rester, Jr., Mrs. Kathy Landry, Ms. Betty Crain, Mrs. Judith McKee, Mr. Philip B. Walther, and Ms. Lori Pierce, designee for Mr. John Kennedy – State Treasurer

Members Absent: Mr. Jay Dardenne – Secretary of State, Mr. John Kennedy – State Treasurer, Senator D.A. “Butch Gautreaux – Chairman of the Senate Committee on Retirement and Representative Joel Robideaux – Chairman of the House Committee on Retirement

Staff Present: Mr. Charles Bujol – Executive Director, Mrs. Debra Dudley - Assistant Director, Mr. Warren Ponder - Executive Counsel, Mr. Brendan Brosnan - Chief Investment Officer, Mr. Jerry Rhodus – Investment Officer I, and Mrs. Laurie Stark - Administrative Assistant 5

Also Present: Mr. Brett Hazen – Segal Advisors, Inc.

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ANNOUNCEMENTS

Mr. Bujol made the following announcements:

Jerry Rhodus was introduced as the Investment Department's new Investment Officer.

A Personnel Committee meeting will be held upon adjournment of the Investment Committee Meeting.

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APPROVAL OF AGENDA

The agenda was presented to the committee for approval.

ON MOTION OF MR. WILMER, SECONDED BY MS. CRAIN, Mrs. McKee, Ms. Crain, Mrs. Landry, Mr. Wilmer, Mr. Faulk, Mr. Rester, Ms. Pierce, and Mr. Walther **voted affirmatively** to approve the agenda.

DISCUSSION WITH CONSULTANT

Mr. Hazen reported that all managers, except Tattersall, have been performing rather well on an absolute basis, even though the numbers do not reflect this. Stocks were very volatile with large declines in January and February and a recovery in March. For the first quarter of 2009, the stocks were down approximately 11%, small caps lost 15%, bonds were flat and international equities were also down approximately 11%. Tattersall's performance numbers were down approximately 5%. A total of \$12 million was moved from Tattersall's fixed income portfolio and reallocated to the domestic equity managers to rebalance assets.

STAFF REPORTS

Commission Recapture

Mr. Brosnan reported that for the period January 1, 2009 through January 31, 2009 none of the fixed income managers met their targeted commitment to Lynch Jones & Ryan. It was also reported that Brandywine, Fisher and Walter Scott met or exceeded their 25% targets. The total funds available for disbursement as of January 31, 2009 were \$69,900.00. Disbursements totaling \$5,850.00 were made leaving a balance of \$64,050.00.

ON MOTION OF MRS. MCKEE, SECONDED BY MS. CRAIN AND CARRIED BY UNANIMOUS CONSENT, the committee accepted the Commission Recapture Report.

Northern Trust Securities Lending Report

Mr. Brosnan reported that for the period of January 1, 2009 through January 31, 2009 the gross income on securities lending was \$66,969.90. Northern Trust received a fee of \$16,195.04. The fund earned \$1,227,974.72 for 2008 or an average of \$102,331.23 per month. Since inception the fund earned \$7,826,812.68 or an average net monthly income of \$42,769.86.

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

Louisiana Broker Report

Mr. Brosnan reported that for the reporting period of January 1, 2009 through January 31, 2009 none of the equity managers met or exceeded their 10% target. Also, none of the fixed income managers met their target for the period. A total of \$2,763.52 in equity commissions and \$35,817,374.25 in par value was directed during the period ending January 31, 2009.

Louisiana Incorporated & Domiciled Broker Report

Mr. Brosnan reported that for the reporting period of January 1, 2009 through January 31, 2009 none of the fixed income managers met their 10% target. The equity managers that met or exceeded their 10% minimum target were Ark, C.S. McKee, Fisher and J & W Seligman. A total of \$104,995.60 in equity commissions and \$2,116,520.00 in par value was directed during the period ending January 31, 2009.

ON MOTION OF MR. RESTER, SECONDED BY MR. WALTHER AND CARRIED BY UNANIMOUS CONSENT, the committee accepted the Louisiana Incorporated and Domiciled Broker Report and the Louisiana Broker Report.

Review of Legislative Auditor’s Report on Compliance with La. Broker Legislation

Mr. Brosnan provided a review of the Legislative Auditor’s Report on Compliance with Louisiana Broker Legislation, which confirmed that LSERS was in full compliance with the law that requires that 10% of trades be placed with Louisiana incorporated brokers. He also noted that two firms were removed from the approved Louisiana broker’s list as they were no longer in good standing with the Secretary of State.

**Legal Update
Investment Staff Report of Receipts**

Mr. Brosnan reported that as of February 28, 2009 LSERS received a total of \$1,678,381.76 in cash, \$578 in par value and 8,963 shares of stock/warrants for settlements from securities litigations.

ON MOTION OF MRS. McKEE, SECONDED BY MS. CRAIN AND CARRIED BY UNANIMOUS CONSENT, the committee accepted the Securities Litigation Report of Receipts.

Current Case Review

Mr. Ponder reported that Accredo Health settlement funds have not been received.

Mr. Ponder distributed the Ethics Board Docket for the 2009 Legislative Session. He also noted that a list of the legislative bills that could affect LSERS will be prepared for the next board meeting.

ON MOTION OF MR. WILMER, SECONDED BY MR. RESTER AND CARRIED BY UNANIMOUS CONSENT, the committee accepted the Current Case Review.

Proposed Restructuring of the Tattersall Portfolio

Mr. Brosnan reported that Commonwealth Capital had completed their independent “second look” analysis that the Board had requested. Their report highlighted the distressed pricing

currently in the MBS and ABS sectors and the potential rewards over the next 3 to 5 year time horizon, even after adjusting for very high default rates. Mr. Brosnan presented an overview of the various scenarios for dealing with Tattersall's portfolio. He stated that Tattersall must be considered a portfolio in distress and its securities need to be segregated into liquid and illiquid/distressed securities and managed as such. Tattersall has agreed to continue to manage both portfolios for the immediate future with the long range goal of hiring a new manger for the distressed portfolio and the liquid portfolio being used as a source of cash. Many of the corporate bonds currently are priced above par and would be a very good source of cash. The portfolio current worth is approximately \$65 million after the \$15 million withdrawal for rebalancing in late March. The estimated value of the assets to be moved to the distressed portfolio is \$25 million with the possibility of adding an additional \$10 million in cash once a new manager is selected.

Mr. Hazen reported that Segal is in agreement with the plan to separate the good assets from the distressed assets. One option would be to transfer some of Tattersall's securities to Orleans Capital and/or Schroder, with the understanding that they would be transferred back at a later date. A better proposal for handling the Tattersall portfolio will be prepared for the May Regular Board Meeting.

Mr. Brosnan stated that if the Committee would like to move forward with the plan resolutions would be needed to establish a tactical asset allocation category for a high yield/distressed debt portfolio and grant Tattersall a waiver of the Investment Policy provisions regarding portfolio holdings of below investment grade securities.

ON MOTION OF MRS. McKEE, SECONDED BY MR. WILMER AND CARRIED BY UNANIMOUS CONSENT, the committee approved a resolution establishing a tactical asset allocation category for high yield/distressed debt portfolio and to move the current distressed securities into that portfolio.

At the request of the board Mr. Brosnan provided a detailed review of the resolution, which included granting Tattersall a waiver of the provision of the LSERS Investment Policy Section VI (2) limiting the investments in asset sectors or classed outside of the Barclays (Lehman) Aggregate Index. The Tattersall/Evergreen portfolio would be transitioned into an opportunistic debt portfolio as a tactical asset allocation within the fixed income asset allocation. It is expected that non-investment grade securities would be a substantial portion of the portfolio. The maximum total of the non-investment grade fixed income sector securities held by all managers shall be limited to 10% of the total fixed income assets, at market.

ON MOTION OF MRS. LANDRY, SECONDED BY MRS. McKEE AND CARRIED BY UNANIMOUS CONSENT, the committee approved the resolution as outlined by Mr. Brosnan.

EDUCATIONAL PRESENTATION

Fixed Income Markets

Mr. Tim Nabors – Portfolio Manager
Mr. Jerry Warrington – Chief Operating Officer

Mr. Nabors and Mr. Warrington with Commonwealth Advisors presented an hour long educational component regarding fixed income markets.

ON MOTION OF MRS. LANDRY, SECONDED BY MS. CRAIN AND CARRIED BY UNANIMOUS CONSENT, the committee accepted the hour long educational presentation regarding Fixed Income Markets.

PUBLIC COMMENTS

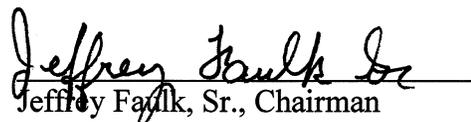
There were no public comments.

OTHER BUSINESS

There was no other business.

ON MOTION OF MR. WILMER, SECONDED BY MRS. LANDRY AND CARRIED BY UNANIMOUS CONSENT, the committee adjourned at 11:55 a.m.


Charles P. Bujol, Director


Jeffrey Faulk, Sr., Chairman