

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

**Tuesday, February 17, 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. Chairman of the Board, Mr. Joe Seymour, opened the meeting at 8:30 a.m. The Board recited the Lord's Prayer and the Pledge of Allegiance. Roll was called.

* * * * *

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. Susan Pappan - State Treasurer's Office, Mr. Warren Ponder - Secretary of State's Office, Mr. Cooper Harrell - 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 Cospers - Director, Ms. Julia LeBlanc - Chief Investment Officer, Mr. Randall Roche - General Counsel, Ms. Judy Wright - Communications Director I, Ms. Jennifer Champagne - Executive Services Assistant

Staff Absent: Ms. Debra Dudley - Assistant Director

Also Present: Mr. Richard Ranallo - Segal Advisors, Inc., Mr. John Broussard

* * * * *

MANAGER PERFORMANCE REVIEW

Mr. Ranallo gave Board members an overall performance report on investments for the quarter. He indicated that it has been a pretty good year in the stock market and that of all the investors, most have done pretty well, but a couple of them had off years. Through December 31, 2003 the S&P 500 was up 28.7%, almost 30 %.

Mr. Ranallo summarized each page of the report and held open discussion on any portions of the report that the Board had questions or comments on.

After completion of Mr. Ranallo's report a discussion was held on possibly taking a different approach in the management of the systems' investments, of possibly having an increase in the equity formula. As this discussion was going to go over into the time allotted for the Investment Manager Reports, Mr. Ranallo was asked to postpone further discussion of this topic until after the Investment Managers have given their reports.

INTRODUCTION OF NEW DESIGNEE FOR STATE TREASURER'S OFFICE

Prior to the investment manager report by Orleans Capital Management, Mr. Cooper Harrell was asked to introduce a new representative for the State Treasurer's Office. Mr. John Broussard will be joining the State Treasurer's Office officially on March 1, 2004. He is from Houma and has worked in Lake Charles, Baton Rouge and New Orleans. He came out of the brokerage business into the banking business and management on the outside and is now at the State Treasury. All of the Board members were introduced and welcomed Mr. Broussard.

Mr. Coper, on behalf of the Chairman of the Board, expressed to Mr. Cooper Harrell the Board of Trustees' appreciation for a job well done, for all of his efforts, and for all of his hard work.

INVESTMENT MANAGER REPORTS ORLEANS CAPITAL MANAGEMENT

Mr. Coper introduced Mr. Louis Crane, of Orleans Capital, who would be providing their investment manager report. Mr. Crane introduced his son, Farrell, and opened the report with a summary of the discussion points they would cover, which included recent fixed income environment, where the interest rates have been very stable and have been very low, what they perceive going forward, significant corporate bond outperformance and putting that into perspective, fixed income performance, the company's performance versus the benchmark, their performance versus peer group, fixed income outlook, portfolio structure dynamic and characteristics, yield curve dynamics, and what they consider to be a continued positive environment for corporate bonds going forward. There will also provide a review of their firm, give an update, and report on how they did in the past year.

**INVESTMENT MANAGER REPORTS
ORLEANS CAPITAL MANAGEMENT (CONT'D)**

Mr. Louis Crane informed the Board that Mr. Bob Rust left the firm this year, but he did announce that they have a new staff who joined their firm about two weeks ago. She is out of New York, has worked for one of the major brokers there and is from Louisiana.

Mr. Louis Crane started the report by informing the Board that their assets under management were virtually unchanged, despite rebalancing, and that they have added nine new accounts during 2003 totaling over \$240 million in new assets. Mr. Farrell Crane then gave a detailed presentation on the performance of the company. After completion of their report Mr. Louis Crane and Mr. Farrell Crane answered questions from Board members.

**INVESTMENT MANAGER REPORTS
J&W SELIGMAN AND COMPANY**

Mr. Rick Ruvkun, Managing Director, Portfolio Manager and Ms. Dorothy Buckley, Senior Vice President, Institutional Client Service gave the Board a report on the performance of J&W Seligman and Company. Mr. Ruvkun started the report by informing the Board that their long term performance has been very strong and that the team was doing extremely well. However, last year was a difficult period in terms of relative performance versus the index and he explained this in detail to the Board. Mr. Ruvkin and Ms. Buckley reviewed each page of the report with the Board and entertained any questions or comments they had about the performance of the company.

Ms. Buckley brought up an item she wanted to address to the Board. This was in reference to a letter sent by the President of the company. Ms. Buckley informed the Board that J&W Seligman and Company had completed an extensive internal review in response to what had been going on in the mutual fund industry. And although they found no violations with regard to employee trading, no late trading, no proper disclosure of portfolio holdings, they did find four isolated cases of market timing. She did inform the Board that this didn't involve the system's portfolio. Three of these market timing situations were put to a stop in 2002 and the most recent one was stopped in September of this year. Although this had been put to a stop, J&W Seligman and Company thought that all of their clients needed to know, through their own internal review, of what they found. When asked if these were employees of J&W Seligman and Company, Ms. Buckley informed the Board that they were not employees of the corporation, there was no agreement with the company that allowed this to occur, and nor were these in the system's portfolios. She also informed the Board that J&W Seligman and Company has procedures in place to monitor this and that there was an employee let go as a result of this. He was encouraged to stop these arrangements and he kind of dragged his feet, so he was fired.

ON MOTION OF MR. WILMER, SECONDED BY MS. JACOBS AND CARRIED, the Board approved the Investment Manager Reports by Orleans Capital Management and J&W Seligman and Company.

REVIEW OF JANUARY 6, 2004 LETTER FROM J&W SELIGMAN AND COMPANY (SEGAL)

As this was presented and addressed during the presentation by J&W Seligman and Company, no discussion was held on this letter.

ON MOTION OF MS. JACOBS, SECONDED BY MR. FAULK AND CARRIED, the Board approved the January 6, 2004 letter from J&W Seligman and Company.

MANAGER PERFORMANCE REVIEW (SEGAL) (CONT'D)

Mr. Ranallo continued with the Manager Performance Review. He briefly went over what was discussed earlier. One was the appropriateness of maybe coming off of a little bit of conservatism over to making it a little bit more middle of the road. If the Board wanted to bump their equity exposure up a little bit, since you tend to do things in increments, it could be bumped up a little bit. The other thing that they were talking about was the introduction of some below investment grade bonds into the portfolio.

After much discussion on this, a motion was made by Ms. Jacobs and seconded by Mr. Richard to change the equity exposure target allocations to 55%. Before the motion could be voted on further discussion was requested and held, at which time Ms. Jacobs withdrew her original motion and Mr. Richard withdrew his second on the motion.

After extensive discussion with Mr. Ranallo and Staff, the Board was able to come up with a new target asset allocation.

Roll Call Vote #1:

ON MOTION OF MS. CRAIN, SECONDED BY MR. WILMER, the Board voted to set the new target asset allocations at 58% equities and 42% fixed income effective immediately. Betty Crain - yes; Betty Jacobs - yes; Sylvia Myers - yes; Earl Richard - yes; Larry Wilmer - yes; Susan Pappan - yes; Warren Ponder - yes; Joe Seymour - yes. **YES - 8; NO - 0; ABSTAIN - 0. MOTION PASSED.**

At the request of Mr. Seymour, Mr. Ranallo was directed to conduct an asset allocation study to be presented at the September Investment Committee meeting.

OTHER BUSINESS

Mr. Seymour asked the Board member for consent to consider personnel action, as this was brought up yesterday regarding Mr. Roche's departure and bringing in someone as a double incumbent until Mr. Roche retires.

OTHER BUSINESS (CONT'D)

Roll Call Vote #2:

ON MOTION OF MS. MYERS, SECONDED BY MR. WILMER, the Board voted for consent to consider personnel action for legal counsel. Betty Crain - yes; Betty Jacobs - yes; Earl Richard - yes; Sylvia Myers - yes; Larry Wilmer - yes; Susan Pappan - yes; Warren Ponder - yes; Joe Seymour - yes. **YES - 8; NO - 0; ABSTAIN - 0. MOTION PASSED**

Mr. Cospers addressed the Board and informed them that this was relative to discussion at the board meeting yesterday regarding notification by legal counsel that he will be retiring as of December 31, 2004. It is legal counsel's recommendation and consenting agreement with the Director that the board should consider hiring a second attorney as a double incumbent.

Mr. Cospers explained to the Board that another attorney would come on board and work beside Mr. Roche through the legislative session and with retirement, investment, and securities litigation issues so that person will have that experience and learning curve in working with the system. Mr. Cospers indicated that he spoke with Ms. Anita Green, LSERS' Human Resources Director. Ms. Green informed Mr. Cospers that because this double incumbency would exceed six months approval would need to be obtained from civil service, as this was a classified position.

Staff is attempting to bring this attorney on board, if board agrees, April 1, 2004, which would allow this individual time to work with Mr. Roche in April, May, and June of the legislative session. The question arises that if we bring this individual on board as another legal counsel we would have to be able to cover it by the budget for salary, health benefits, etc. So numbers were drawn up by staff in the personnel and accounting department so determine how much it would cost if we pay this person at the same level as Mr. Roche is receiving as a classified employee.

Mr. Cospers also informed the Board that in addition to paying this individual at the same level of pay Mr. Roche is receiving, the system would also have to pay the related benefits that is always paid by the system for classified employees, which is the employer portion of the retirement contributions and health benefits that is paid for the employees. Staff is recommending that the Board approve and grant administration the authority to hire this individual. Secondly, that the Board amend the budget to include expenditure of the funds in the amount of \$75,000 between now and the end of the fiscal year to accommodate paying this individual coming on board.

Roll Call Vote #3:

ON MOTION OF MS. MYERS, SECONDED BY MR. WILMER, the Board voted to approve and grant administration the authority to hire another attorney and to amend the budget to include this expenditure of funds in the amount of \$75,000 between now and the end of the fiscal year to accommodate paying this individual. Betty Crain - yes, Betty Jacobs - I want to qualify my vote because of the time frame. The request made is by a certain period and it was predicated on legislation. I just had a different time frame in mind and it has nothing to do with the motion. I'm going to abstain. Sylvia Myers - yes, Earl Richard - yes; Larry Wilmer - yes, Susan Pappan - yes, Warren Ponder - Abstain; Joe Seymour - yes. **YES - 6; NO - 0; ABSTAIN - 2. MOTION PASSED.**

OTHER BUSINESS (CONT'D)

Mr. Seymour informed the Board that an item needs to be considered under other business. It was brought up previously and no action was taken on the item. Therefore, no consent to consider is needed. Ms. LeBlanc was given the floor to make a presentation on the item.

Ms. LeBlanc addressed the Board and informed them that this had been discussed with the Board and it was the wishes of the Board to allow our fixed income managers to invest up to 5% of their portfolios in junk bonds and also limiting that investment so that no more than ½ of 1% is invested in any one company's bonds.

ON MOTION BY MS. JACOBS, SECONDED BY MS. PAPPAN AND CARRIED, the Board allowed fixed income managers to invest up to 5% of current portfolio in below investment grade bonds and no more than ½ of 1% of these investments shall be invested in any one company's bonds.

ON MOTION OF MR. WILMER, SECONDED BY MR. RICHARD AND CARRIED, the Board agreed to adjourn at 11:33 a.m.

Patrick Cospers - Director

Joe Seymour - Chairman