

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

*Monday - January 10, 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 9:01 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.

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. Richard Ranallo - Segal Advisors, Inc. and Mr. Mike Dupree with the Louisiana Board of Ethics.

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Ms. Jacobs welcomed the board's newest member, Mrs. Judith McKee. Mr. Cospers made some brief announcements regarding the additional handouts that were put in the committee members' folders.

SWEARING OF MRS. JUDITH McKEE

Mrs. Judith McKee, who was elected to the District 3 Active Member seat vacated by Mr. Joe Seymour, was sworn in by LSERS' General Counsel, Mr. Warren Ponder. Her term ends December 31, 2008.

ETHICS EDUCATIONAL PRESENTATION

Mr. Mike Dupree with the Louisiana Board of Ethics, gave an educational presentation to the committee regarding some of the main rules of ethics that would apply to the members of this committee. Mr. Dupree informed the committee that the board of ethics consists of an eleven-

member panel that meets on a monthly basis. The three main areas of law that the board regulates are governmental ethics, campaign finance and the regulation of lobbyists. The Code of Ethics affects all public employees and public servants in the state of Louisiana. Mr. Dupree discussed nepotism and how it affects the hiring and firing of employees within an agency. He outlined the rules restricting the receiving of gifts from contractors. Mr. Dupree also covered the topics of prohibited income, abuse of office and post office violations that can affect a public servant up to two years after they have left a public office.

ON MOTION OF MR. WILMER, SECONDED BY MR. FAULK AND CARRIED, the committee agreed to a “consent to consider” and decided to discuss Item D on the agenda which is the Current Case Review presented by Mr. Warren Ponder.

Current Case Review.

Mr. Ponder informed the committee that he was still in the process of reviewing all of the cases that this agency is involved in. Two years ago the legislature passed a law stating that all the members of the board of trustees will complete continuing education or professional development training. The members are required to have at least eight hours of investment training, two hours of actuarial science information education, one hour of education regarding the laws, rules and regulations applicable to the system and one hour if instruction on fiduciary duty and ethics. The board members are to report to Mrs. Jennifer Champagne should they fulfill any of the above named educational requirements outside of the regularly scheduled investment committee and regular board meetings.

ON MOTION OF MS. MYERS, SECONDED BY MR. FAULK AND CARRIED, the committee agreed that staff will devote one hour during the investment committee meetings to begin at 9:00 a.m. to present educational components which will assist those board members who need additional education in order to comply with Act 207 of 2004.

ON MOTION OF MR. FAULK, SECONDED BY MS. CRAIN AND CARRIED, the committee accepted the Securities Litigation Current Case Review Report.

DISCUSSION WITH CONSULTANT

Discussion Regarding Letter from Ark Asset Management.

The committee reviewed the letter that was received from Ark Asset Management in November 2004 regarding seeking authorization to release certain information regarding the system’s account. This letter required the signature of Mr. Cosper. The members decided to take no action regarding this item and they decided the letter would not be signed.

Recommendation Regarding Asset Allocation Study.

Mr. Ranallo explained to the committee that asset allocation is the way a plan distributes its assets across asset classes. The three major asset classes are stocks, bonds and real estate. LSERS' equity exposure is currently 58% in common stocks. Its fixed income exposure is 42% in bonds. He feels the plans current asset allocation is reasonable given plan liabilities. He proposed the following modest adjustments to further diversify the LSERS asset allocation. Increase the system's exposure in international equity by 2%, invest in real estate and increase high yield fixed income exposure by 3%. He also offered to the committee the idea to use non-dollar bonds which are foreign bonds which are not as correlated to the U.S. bond market. If the board does decide to invest in real estate, Mr. Ranallo suggested a tentative 3% investment in real estate. To begin exposure to the real estate class, he recommended the use of a large commingled fund that would have properties diversified by type and location. Ms. Jacobs noted that she felt that the committee members would benefit by having an educational component presented to them regarding the pros and cons of investing in real estate at the March Investment Committee Meeting. Mr. Ranallo will also bring some expanded fixed income guidelines language for the board to review in February.

ON MOTION OF MR FAULK, SECONDED BY MR. RICHARD AND CARRIED, the committee agreed to have an educational component presented to them regarding investing in real estate at the March Investment Committee Meeting.

ON MOTION OF MR. FAULK, SECONDED BY MR. RICHARD AND CARRIED, the committee accepted the report regarding asset allocation given by Mr. Richard Ranallo of Segal Advisors.

STAFF REPORTS

Commission Recapture Report

Mrs. Meche reported for the period January 1, 2004 through September 30, 2004 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, 2004 through September 30, 2004 were the Ark, J & W Seligman, Trinity and Walter Scott. However, Brandywine and Northern Trust Quantitative Advisors did not meet their targets. The total funds available for disbursement as of September 30, 2004 were \$481,612.00. Payments totaling \$332,845.26 were made leaving a balance of \$148,766.74 available for disbursement.

Northern Trust Securities Lending Report.

Mrs. LeBlanc reported that for the calendar year-to-date period ended October 2004, the gross income on securities lending was \$418,051.16. Northern Trust has received a fee of \$125,308.49. The fund had income returned to it in the amount \$292,742.67 or an average for the year of \$29,274.27 per month. Since the program has been in place with Northern Trust, the fund has earned \$4,626,002.14 or an average monthly income of \$35,045.47.

Louisiana Brokers.

Mrs. Meche reported for the period of January 1, 2004 through September 30, 2004 that all three fixed income managers met or exceeded their 10% target for the month. The equity managers who met or exceeded their 10% minimum target were J & W Seligman and Trinity. Ark, Brandywine, NTQA and Walter Scott did not meet their target. A total of \$343,129,681.16 par value and a total of \$74,599.07 equity commissions were directed during the time period ended September 30, 2004.

Louisiana Incorporated & Domiciled Broker Report.

Mrs. Meche reported for the period of January 1, 2004 through September 30, 2004 the only equity managers to meet or exceed their 10% target were J & W Seligman and Trinity. The only fixed income manager to meet their target for the period was Orleans Capital. A total of \$20,760,510.00 in par value and a total of \$90,766.19 in equity commissions were directed during the time period ended September 30, 2004.

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

Mrs LeBlanc reported to the committee that LSERS has received a total of \$764,447.00 in cash, \$578.00 in Par Value and 857 shares of stock/warrants as of September 17, 2004 as settlements from securities litigations.

ON MOTION OF MR. WILMER, SECONDED BY MS. CRAIN AND CARRIED,
the committee accepted the Commission Recapture, the Securities Lending, the Louisiana Broker and the Louisiana Incorporated and Domiciled and the Securities Receipts reports.

Discussion of 2005 Meetings.

Mrs. LeBlanc reported to the committee that staff surveyed several retirement systems around the United States to see how each one handles assisting in the fulfillment of the educational requirements of its board members. She received a response from eighteen

systems. Many said they had educational components within the trustees' meetings and from outside sources. For example, the systems said they hosted a retreat at a hotel and brought in professionals to present educational components at that point. They said many of their trustees attended conferences provided by other entities. Mrs. LeBlanc offered to the trustees the assistance of the staff to help them complete their fiduciary responsibilities. She said if there is a subject that they would be interested in learning about, the staff will strive to find someone who is familiar with that subject or in that field to come in and offer an educational presentation regarding the desired topic.

ON MOTION OF MR. WILMER, SECONDED BY MS. CRAIN AND CARRIED, the committee agreed to accept the information provided by Mrs. LeBlanc regarding 2005 meetings.

Funding for 1st Quarter 2005 Benefits.

Mrs. LeBlanc reported to the committee that for the 1st quarter 2005, \$15 million was needed to pay benefits for that period. She and Mr. Ranallo determined that \$7.5 should be taken from Trinity and \$7.5 million from Schroder. The transfer was made in December.

ON MOTION OF MR. WILMER, SECONDED BY MR. RICHARD AND CARRIED, the committee accepted the report regarding the funding of 1st quarter 2005 benefits.

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

The meeting adjourned at 12:38 p.m.

Patrick Cosper, Director

Betty Jacobs, Chairperson