

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

*Monday - January 9, 2006
(Upon adjournment of the Special Board Meeting)*

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 11:02 a.m. The Roll was called by Mrs. Champagne.

Members Present: Ms. Betty Jacobs - Chairperson, Ms. Betty Crain, Mrs. Judith McKee, Mr. Jeffrey Faulk, Sr., Mr. Earl Richard, Jr., Ms. Lori Pierce - Treasurer's Office and Ms. Stacy Sharpe - Secretary of State's Office.

Members Absent: Mr. Larry Wilmer, Ms. Sylvia Myers, Senator D.A. "Butch" Gautreaux - Chairman - Senate Retirement Committee and Representative Pete Schneider, Chairman - House Retirement Committee.

Staff Present: Mr. Charles Bujol - 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, Mrs. Laurie Stark - Administrative Assistant 5 and Mrs. Jennifer Champagne - Administrative Assistant 5.

Others Present: Mr. Richard Ranallo - Segal Advisors, Inc., Mr. Jerry Cicalese - Abel/Noser, Inc. and Ms. Lois Pendergrass - Equitas Capital Advisors.

Mr. Bujol made several announcements to the committee as follows: regarding their required education and the necessary certification forms that must be completed and returned to Mrs. Champagne; calling their attention to the personal information that needs to be updated and returned to Mrs. Champagne; and the official board pictures that are to be taken at 8:30 a.m. on Monday, February 13, 2006. Mrs. Jacobs asked that the pictures be canceled because traditionally a board picture is only taken when a new board member has been elected. Mr. Bujol said that Mr. Ponder had provided everyone a copy of the revised election policy that includes procedures for holding emergency elections. He asked that each board member review them and told them it would be put on the agenda for adoption by the full board at the February meeting. In each member's folder there was a copy of a correction to the Actuary's Report for the year ending June 30, 2005. Mr. Bujol informed the committee of the creation of a new separate minute book in which all the minutes for the whole year will be kept. The members were given a consultant evaluation. He asked the members to complete and return it to Mrs. LeBlanc by either handing them in to her or mailing them back at a later date. Mr Bujol also updated the members regarding the imaging project in the IT department. He said that he would ask the board's approval at the next board meeting for an additional position to be hired

in that department. He said he feels that it would help shorten the time it would take to complete the job of imaging the members' files for the agency by half. Mr. Bujol told the committee that staff would be going through the process with Civil Service to get the position approved. He assured the committee that they would have all the necessary paperwork available to them at the next board meeting in February.

REVIEW OF THIRD QUARTER TRADE REPORT.

Mr. Jerry Cicalese with Abel/Noser, Inc. was in attendance to give the committee information regarding the third quarter trade reports generated by his firm. These reports measure the system's portfolio, manager's trading costs, including commissions, and execution costs. Trading costs are broken down into two categories, which are commission costs and execution costs. The commission costs for the third quarter were 12 basis points. Commission costs for the previous two years have steadily been decreasing from 15 to 12. The first two quarters of 2005 were 13 basis points. Third quarter executions costs were not as good, but he assured the committee that there was nothing for them to be concerned about. The average execution costs for the system's trade universe were 16 basis points. Third quarter numbers were 24 basis points, but the two previous quarters they were at 16 basis points. Mr. Cicalese felt that the system would be close to the median by the end of the fourth quarter. Mrs. LeBlanc wanted the committee members to know that since Abel/Noser was brought in, the trading costs have gone down. She commended the board members for exercising their fiduciary responsibility to this agency.

ON MOTION OF MR. FAULK, SECONDED BY MS. CRAIN AND CARRIED, the committee accepted the review of third quarter trade reports presented by Mr. Cicalese of Abel/Noser, Inc.

INVESTMENT EDUCATION.

The Importance of Asset Allocation and the Expected Results of Different Asset Mixes.

Discussion and Recommendations on Any Changes to LSERS Target Allocations.

Mr. Ranallo presented to the committee an asset allocation analysis report that showed the importance of having one's assets spread in different asset classes. He began by saying that emerging markets are more mature than they were five years ago, but it is a very volatile asset class. It has become a much bigger part of the global economy today. One must have a fiscally responsible policy in order to invest in emerging markets. The private equity market is still developing. One should be committed to this type of investment for at least five to ten years. He said there is more liquidity in private equity now than it ever has been in the past. He said he feels that even at 12% LSERS would be somewhat conservative on private equity and real estate. The risk factor is nearly double than that of domestic equity. He gave the committee some alternative investment approaches to consider. One of those included reducing fixed income from 39% to 30% and domestic equity from 51% to just 50%. Mr. Ranallo mentioned LSERS could consider doubling its current 3% in real estate to 6%. He also suggested increasing the system's exposure to international equity from 7% to 10% and investing 4% in private equity. He indicated that if the system increases the

international equity exposure it should think about hiring another international portfolio manager that would utilize the emerging markets and be more aggressive than Walter Scott. Mr. Ranallo said this change would be merely a modest change and not a major change and would involve only 8% to 10% of the total portfolio. He said that when you spread out your risk across the many different asset classes, you can keep your risk at a similar level or even reduce it. Mr. Ranallo felt that this report and the suggestions he has made would assist the members in making a decision towards fine tuning the current asset allocation and possibly allowing this agency to get higher returns on its investments. His overall point to the members was that diversification is key to the overall performance of the system's portfolio.

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ON MOTION OF MR. FAULK, SECONDED BY MS. CRAIN AND CARRIED, the committee agreed to accept the Importance of Asset Allocation and the Expected Results of different Asset Mixes report and the Recommended Changes to LSERS Target Allocations presented by Mr. Ranallo.

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ON MOTION OF MR. FAULK, SECONDED BY MS. CRAIN AND CARRIED, the committee agreed that they would recommend to the full board during the meeting in February that they should consider approving Segal's suggested changes to the current asset allocation targets.

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LSERS SEPTEMBER 30, 2005 MANAGER RETURNS VS. PEER GROUP COMPARISONS.

Mr. Ranallo gave the committee members a list showing the quartile ranking analysis report prepared by his office for the portfolio managers. He said that Ark ranked pretty well in their latest quarter at 27th in their trading universe. This ranking means they performed better than 83 other managers and worse than 27 of them in that universe. The lower the rank numbers the better the performance. Trinity's since inception numbers were at 83 because they got off to a slow start. Their previous quarter numbers were not very good either. J & W Seligman has not performed very well over the three-year time frame. They told him that external events have caused their numbers to be low. A letter was sent to J & W Seligman from staff to warn them about improving their numbers for 2006. Brandywine had favorable performance numbers for periods of one year or more. Walter Scott's three year numbers were low. Orleans had good numbers for this quarter and are ahead of their benchmark. Their three year numbers have outperformed their benchmark. Schroder did well this quarter and are ranked in the top quartile of their universe for other time periods. Evergreen's numbers are very good and they are ranked in the top third of their universe for periods calendar year to date or more. Only two managers' performances are of concern, but they are already being watched.

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ON MOTION OF MR. FAULK, SECONDED BY MS. CRAIN AND CARRIED, the committee accepted the Manager Returns vs. Peer Group Comparison report given by Segal Advisors.

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STAFF REPORTS.

Commission Recapture Report

Mrs. Meche reported for the period January 1, 2005 through September 30, 2005 that none of the fixed income managers met their targeted commitment to Lynch Jones & Ryan. The only equity manager that met or exceeded their 25% target for the period was Trinity. The total funds available for disbursement as of September 30, 2005 were \$298,379.74. Payments totaling \$158,900.00 were made leaving a balance of \$139,479.74 available for disbursement.

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

Northern Trust Securities Lending Report.

Mrs. LeBlanc reported that for the calendar year-to-date period ended November 2005, the gross income on securities lending was \$621,346.63. Northern Trust has received a fee of \$186,264.82. The fund had income returned to it in the amount \$435,081.81 or an average for the year of \$39,552.89 per month. For November 2005 the gross income was \$60,687.22, Northern's fee was \$18,193.97 and the fund's income was \$42,493.25. Since the program has been in place with Northern Trust, the fund has earned \$7,749,752.54 or an average net monthly income of \$35,368.85.

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

Louisiana Brokers.

Mrs. Meche reported for the period of January 1, 2005 through September 30, 2005 that the fixed income managers who met or exceeded their 10% target for the period were Evergreen and Orleans Capital. The only equity manager to meet or exceed their 10% minimum target was Walter Scott. A total of \$125,894,915.68 par value and a total of \$101,538.39 equity commissions was directed during the time period ending September 30, 2005.

Louisiana Incorporated & Domiciled Broker Report.

Mrs. Meche reported for the period of January 1, 2005 through September 30, 2005 that the equity managers who met or exceeded their 10% target were Ark, Brandywine, J & W Seligman, Trinity and Walter Scott. None of the fixed income managers met their target for the period. A total of \$133,938.91 in equity commissions and \$3,081,250.00 in par value was directed during the time period ending September 30, 2005.

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

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

Mrs LeBlanc reported to the committee that LSERS has received a total of \$836,674.75 in cash, \$578 in par value and 7,652 shares of stock/warrants as of November 21, 2005 for settlements from securities litigations.

Current Case Review.

Mr. Ponder informed the committee that the election policy rule changes that they had received earlier were actually combined from two similar sets of rules. He asked the members to review them because they are up for approval during the February meeting. Mr. Ponder said that he received information from the federal court and they have approved funds for the reimbursement of legal expenses for the agency. Mr. Grant Eisenhoffer, one of the attorneys that represents this agency, contacted him regarding a derivative action that he felt LSERS should be lead plaintiffs in. Mr. Bujol asked the board what they think about LSERS being the lead plaintiff in so many lawsuits. He feels that the system should not overextend itself by being involved in every case. Mr. Ponder said there is no direct advantage to being a lead plaintiff in a securities litigation case. He believes that LSERS should only get involved when there is a significant amount of loss to the system and there is no larger pension system included. Mr. Ponder said that currently there are only two individuals involved in the derivative case and no pension fund has joined in the case. He said that studies have shown that when pension funds are involved, financial awards have gone up and legal fees have gone down.

ON MOTION OF MRS. McKEE, SECONDED BY MS. PIERCE AND CARRIED, the committee agreed to recommend to the full board that LSERS should consider allowing another pension system to be lead plaintiff in regards to the derivative action that has been brought before them.

ON MOTION OF MR. RICHARD, SECONDED BY MS. CRAIN AND CARRIED, the committee accepted the Report of Receipts and the Current Case Review Report.

Report on Funding for 1st Quarter 2006 Benefits and Expenditures.

Mrs. LeBlanc reported to the committee that staff determined that \$15 million was needed in order to pay first quarter benefits. She and Mr. Ranallo reviewed the asset allocation and determined that the amount of \$5 million would be taken from Orleans Capital and \$10 million would be taken from Schroder. The transaction was put into place by Northern Trust on January 3, 2006. She told the committee members that benefits and expenditures have gone up since Hurricane Katrina. Refunds of contributions for just November and December were more than \$1.2 million. That is at least \$800 or \$900 thousand more than what they would have normally been.

ON MOTION OF MR. FAULK, SECONDED BY MS. CRAIN AND CARRIED, the committee accepted the Report regarding Funding for 1st Quarter 2006 Benefits.

Review of Large Cap Value Search.

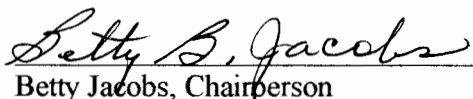
Mrs. LeBlanc reported to the committee that the schedule for the Large Cap Value Manager Search was approved by Mr. Bujol. The advertisement was placed in the newspapers as of January 9, 2006. The search is underway and a new manager will be on board for April 2006. Each of the members will receive a copy of the proposals that are received on February 1, 2006. On February 14, 2006, Mr. Ranallo will review the proposals and the members will select the finalists. Finalists will be interviewed and selected on March 13, 2006. The manager that is selected will start on April 1, 2006.

ON MOTION OF MR. FAULK, SECONDED BY MS. CRAIN AND CARRIED, the committee agreed to accept the Review of Large Cap Value Manager Search report given by Mrs. LeBlanc.

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

The meeting adjourned at 2:03 p.m.


Charles P. Bujol, Director


Betty Jacobs, Chairperson