

Louisiana School Employees' Retirement System Board Investment Committee Meeting

*Monday, January 8, 2007
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 called the meeting to order at 9:00 a.m. Mrs. Stark called the Roll.

Members Present: Mr. Jeffrey Faulk, Sr.- Chairman, Mrs. Kathy Landry, Ms. Betty Crain, Mrs. Judith McKee, Mr. Larry Wilmer, Mr. Eugene Rester, Jr., and Mr. Earl Richard, Jr.

Members Absent: Mr. John Kennedy – State Treasurer, Mr. Jay Dardenne - Secretary of State, Senator D.A. “Butch” Gautreaux - Chairman - Senate Retirement Committee and Representative Pete Schneider, Chairman - House Retirement Committee.

Staff Present: Mr. Charles Bujol – Executive Director, Mrs. Debra Dudley - Assistant Director, Mr. Warren Ponder - Executive Counsel, Mr. Brendan Brosnan - Chief Investment Officer, Mrs. Josie Meche - Investment Manager I, Ms. Judy Wright - Public Information Director I, Mrs. Jennifer Champagne – Administrative Assistant 5 and Mrs. Laurie Stark - Administrative Assistant 5.

Others Present: Mr. Richard Ranallo – Segal Advisors, Inc., Mr. Brett Hazen – Segal Advisors, Inc., and Mr. Kim Johnson – IRSS, Inc.

Ms. Betty Crain and Mr. Eugene Rester, Jr. were sworn in as members of LSERS' Board of Trustees for the term January 1, 2007 through December 31, 2010.

EDUCATIONAL PRESENTATION: SECURITIES LITIGATION

Mr. Kim Johnson presented a one-hour overview of the prudent approach to handling securities litigation. This included a review of the positive and negative impact of litigation on pension funds.

ON MOTION OF MR. WILMER, SECONDED BY MS. CRAIN AND CARRIED, the committee accepted the Educational Presentation on Securities Litigation.

DISCUSSION OF BRANDYWINE PERFORMANCE FEE

Mr. Brosnan presented a brief overview of a proposed performance-based fee for Brandywine Global Investment Management. Mr. Ranallo was consulted and discussion was held on the pros and cons of the proposed fee.

It was recommended that the standard fee for Brandywine Global Investment Management be replaced with a performance-based fee as outlined by the Chief Investment Officer and Consultant. The fee would be in effect for a trial period of four (4) quarters effective January 1, 2007 and payable on December 31, 2007, based on the prior twelve (12) quarters performance, unless Brandywine is terminated before the conclusion of the trial period.

ON MOTION OF MRS. McKEE, SECONDED BY MR. RICHARD AND CARRIED, the committee recommended replacing the standard fees for Brandywine Global Investment Management with performance-based fees on a trial basis as proposed by LSERS' Chief Investment Officer and Consultant.

APPROVAL OF MANAGER REVIEW SCHEDULE FOR 2007

Mr. Brosnan presented the revised Investment Manager Review Schedule for 2007 for review. He recommended approval of the schedule for presentation to the full board.

ON MOTION OF MR. WILMER, SECONDED BY MR. RICHARD AND CARRIED, the committee recommended approval of the Investment Manager Review Schedule for 2007.

DISCUSSION WITH CONSULTANT

Mr. Ranallo presented a report on Fixed Income Comparisons that indicated Orleans Capital was underperforming and had not met LSERS' Investment policy target. It was recommended that Orleans Capital be sent a letter notifying them of the dissatisfaction with their performance.

ON MOTION OF MRS. McKEE, SECONDED BY MRS. LANDRY AND CARRIED, the committee recommended that staff put Orleans Capital on “firm” notice stating that performance was to improve or they would be terminated.

ON MOTION OF MS. CRAIN, SECONDED BY MRS. LANDRY AND CARRIED, the committee accepted the discussion with the Investment Consultant.

DISCUSSION REGARDING APPROVAL OF REVISION TO INVESTMENT POLICY AND GRANTING THORNBURG A WAIVER.

Mr. Brosnan reviewed a proposal to add new wording under the function of the Investment Policy regarding waivers. Wording to read: “The Board may grant Manager(s) a waiver of any of the terms of this Policy when it is the Board’s discretion that such a waiver is believed to be in the best interest of the Plan. Waivers may be specific as to Manager(s), time and/or criteria, or of unlimited duration and/or general in nature. All waivers shall be in writing and approved by the Board.”

Mr. Brosnan recommended that the new wording be approved by the Investment Committee for recommendation to the full board.

Mr. Brosnan also recommended that Thornburg be granted an exemption to the emerging markets limitations and read a resolution granting this exception.

ON MOTION OF MR. RICHARD, SECONDED BY MS. CRAIN AND CARRIED, the committee recommended approval of revisions to the Investment Policy as read.

ON MOTION OF MR. RICHARD, SECONDED BY MRS. LANDRY AND CARRIED, the committee recommended granting Thornburg an exemption to the emerging markets limitation as outlined in the resolution read by the Chief Investment Officer.

STAFF REPORTS
Commission Recapture

Mrs. Meche reported that for the period January 1, 2006 through September 30, 2006 none of the fixed income managers met their targeted commitment to Lynch Jones & Ryan. The equity managers that met or exceeded their 25% target were C.S. McKee and Walter Scott. The total

funds available for disbursement as of September 30, 2006 were \$209,714.00. Payments totaling \$172,472.27 were made, leaving a balance of \$37,241.73 available for disbursement.

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

Northern Trust Securities Lending Report

Mr. Brosnan reported that for the calendar year-to-date period ending October 2006, the gross income on securities lending was \$564,812.08. Northern Trust received a fee of \$169,298.00. The fund earned \$395,514.08 or an average of \$39,551.41 per month. To date the fund earned \$5,562,120.87 or an average net monthly income of \$35,654.62.

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

Louisiana Brokers

Mrs. Meche reported that for the period January 1, 2006 through September 30, 2006 all of the fixed income managers met or exceeded their 10% target. The equity managers that met or exceeded their 10% minimum target were Ark and Walter Scott. A total of \$311,221,129.31 par value and \$65,814.64 in equity commissions was directed during the period ending September 30, 2006.

ON MOTION OF MR. RICHARD, SECONDED BY MR. WILMER AND CARRIED, the committee accepted the Louisiana Brokers Report.

Louisiana Incorporated & Domiciled Broker Report

Mrs. Meche reported that for the period January 1, 2006 through September 30, 2006 the only equity manager that did not meet or exceed its 10% target was Ark. Orleans Capital was the only fixed income manager to meet its target for the period. A total of \$54,878.69 in equity commissions and \$12,395,381.26 par value was directed during the period ending September 30, 2006.

ON MOTION OF MS. CRAIN, SECONDED BY MRS. LANDRY AND CARRIED, the committee accepted the Louisiana Incorporated and Domiciled Broker Report.

**Securities Litigation
Investment Staff Report of Receipts**

Mr. Brosnan reported that as of November 24, 2006, LSERS received a total of \$1,070,724.42 in cash, \$578 in par value and 8,506 shares of stock/warrants for settlements from securities litigations. An additional \$310,000.00 was received in December 2006 from the WorldCom Securities Litigation settlement.

ON MOTION OF MR. WILMER, SECONDED BY MS. CRAIN AND CARRIED, the committee accepted the Securities Litigation Report on Receipts.

Current Case Review

Mr. Ponder reported that a mediation hearing is scheduled for the end of February in the Accredo Health case. The CMS case has been settled for \$200 million, but no funds have been disbursed. The Solomon Brothers/ATT settlement has been appealed and an answer will not be forthcoming from the Federal courts until around July 2007.

ON MOTION OF MR. WILMER, SECONDED BY MS. CRAIN AND CARRIED, the committee accepted the Current Case Review report.

OTHER BUSINESS

Mr. Brosnan presented a Strategic Plan outlining ideas he has for the Investment Department and future investments for the System.

Mr. Ranallo introduced Mr. Brett Hazen as his colleague from Segal Advisors.

ON MOTION OF MS. McKEE, SECONDED BY MS. CRAIN AND CARRIED, the committee agreed to review the proposed "Strategic Plan" for the Investment Department and the System for 2007.

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

The meeting adjourned at 11:10 a.m.



Charles P. Bujol, Director



Jeffrey Faulk, Sr., Chairman

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