

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

*Monday - June 6, 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 9:03 a.m. Mrs. Stark called the roll.

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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.

**Members Absent:** Senator D.A. "Butch" Gautreaux, Chairman - Senate Retirement Committee, Mr. John Kennedy - State Treasurer 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. Donald Saxton - Segal Advisors, Ms. Kathy Landry and Mr. Randy Roche.

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Ms. Jacobs took the opportunity to inform the committee members of her official retirement with 35 years of service to the state. She also announced that she is one of the candidates for the Fall 2005 election for a retiree board seat.

**INVESTMENT EDUCATION**

**The Selection of Real Estate Fund(s) and the Request for Proposal Process.**

Mr. Saxton began the educational portion of the meeting by explaining to the committee how entering into the real estate universe will affect this system. He said that over the last 15 years pension funds have allocated approximately 3 to 5% to real estate. Real estate is very different from the stock and bond markets. Investments range from strip malls to golf courses. Pension funds have historically been attracted to real estate as an asset class because the values seemed to be less volatile than stock and/or bond prices. Another attractive feature of investing in real estate is its low correlation with equity and fixed income which means it reduces the overall risk to the total portfolio. Last year's real estate performance exceeded that of the other major asset classes. Real estate companies put the money that is invested in a "Que" until there is a property which they feel will make a profit. This

could take several months or up to a year before a property is found that meets the company's criteria. During this waiting period no fees are charged and interest is earned on the money while it sits in the "Que." Mr. Saxton explained that NCREIF (National Council of Real Estate Investment Fiduciaries) is similar to the Lehman Aggregate. It includes the majority of properties in all of the United States which could be industrial buildings, hotels, office buildings, etc. NAREIT (National Association of Real Estate Investment Trusts) is an index made up of companies that invest in real estate. NAREIT has better liquidity, but it does not have the diversification benefits as one would have with NCREIF. Over the last ten years there have been very competitive results in the real estate markets compared to other asset classes. The advantages of the private real estate market are lower short-term volatility, lower correlation to the equity market than public real estate and a stable stream of income from leases. There is more volatility in an NAREIT portfolio than what one would have with a traditional portfolio because it is more closely tied to the equity markets. Mr. Saxton discussed the different approaches to private real estate. The three identifiable strategies are Core, Value-Added and Opportunistic. Of the three strategies, Core represents the lowest amount of risk because it depends on income-producing properties. He and Mr. Ranallo agreed that this system should start with a Core portfolio then possibly add a small Value-Added or an Opportunistic portion at a later date. He said that this would give the system a more stable return going forward. Value-Added consists of properties in need of strong management (i.e., hotels, senior housing and medical facilities) and that have higher tenant rollover. It has several risk factors such as market risk, construction cost risk, timing, liquidity risk and interest rate risk. He explained that Opportunistic is classified as purchasing a bulk of distressed properties at cheap prices, improving them and reselling them when the market recovers. Real estate will overall offer this system good diversification.

**Review and Recommendation on Documents to be Used to Select Real Estate Fund(s).**

Mrs. LeBlanc gave the committee an overview of the "request for proposal" process. Each board member will be sent a copy of each proposal received. Mrs. LeBlanc suggested that the committee members might want to consider changing the September 14, 2005 date on the schedule for Real Estate Fund Manager Search. If this date is changed to September 19, 2005 which is the next Investment Committee Meeting, the board members could pick up the proposals instead of them being mailed and that would save postage. The board members will be sent a spread sheet which is prepared by staff with a summary of the answers given by the proposers who met the minimum criteria. Those who send in a proposal but do not meet the minimum criteria will be taken out of consideration. Each board member will then decide on three semi-finalists. These choices will then be tabulated and the three who receive the most votes will then be invited to be interviewed by the board members. A selection will be made from the three semi-finalists. Fee negotiations will be conducted by a negotiation team that will be formed from members of the board and the staff.

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**ON MOTION OF MR. WILMER, SECONDED BY MS. CRAIN AND CARRIED**, the committee agreed to accept the investment educational presentation regarding real estate and the request for proposal process. The educational presentation began at 9:05 a.m. and ended at 10:35 a.m.

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**ON MOTION OF MR. RICHARD, SECONDED BY MR. WILMER AND CARRIED,** the committee agreed to change the date of the mailing of the proposals from September 14, 2005 to September 19, 2005 in order to the board members to pick up the proposals instead of them being mailed.

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**DISCUSSION WITH CONSULTANT.**

**Dispersion Explanation and Analysis.**

Trinity is the only portfolio that was 60 points below their composite. Mr. Saxton defined a composite as all the portfolios with similar allocations grouped together. When questioned about the commission recapture program, none of the system's portfolio managers said that the program was an issue for them. He said that even though there are a lot of restrictions put on international portfolio managers, Walter Scott's numbers were still good. After five years, J & W Seligman, Orleans Capital and Schroder ended up 4 basis points ahead. Brandywine was 7 basis points ahead of their composite.

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**ON MOTION OF MR. FAULK, SECONDED BY MR. WILMER AND CARRIED,** the committee accepted the Dispersion Explanation and Analysis given by Mr. Saxton.

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**Peer Group Ranking for LSERS Managers as of March 31, 2005.**

Mr. Saxton explained to the committee that every portfolio is evaluated against their benchmark. Ark and Trinity were both ahead of their benchmark. J & W Seligman, Northern Trust Quantitative Advisors and Brandywine were right on the mark. Walter Scott had some rough years, but their five year numbers were very competitive. Orleans, Schroder and Evergreen all had favorable showings against their benchmarks.

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**ON MOTION OF MR. FAULK, SECONDED BY MS. CRAIN AND CARRIED,** the committee accepted the report given by Mr. Saxton regarding the Peer Group Ranking for LSERS Managers as of March 31, 2005.

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Mr. Ponder explained Act 9 or House Bill 658 which was passed by Rep. Pete Schneider and was signed by Governor Blanco. He said the bill restricts state and statewide retirement systems from investing in certain sanctioned nations who have terrorist ties. Those nations are as Iran, Lybia, North Korea, Sudan, and Syria. Walter Scott will be the portfolio most affected by this piece of legislation.

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**ON MOTION OF MS. MYERS, SECONDED BY MS. CRAIN AND CARRIED**, the committee accepted Item C under Section II. **(This motion was made by mistake. Item C under Section II was skipped and was not discussed at this point in the meeting.)**

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**STAFF REPORTS.**

**Commission Recapture.**

Mrs. Meche reported for the period January 1, 2005 through March 31, 2005 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, 2005 through March 31, 2005 were 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 March 31, 2005 were \$217,236.74. Payments totaling \$51,200.00 were made leaving a balance of \$166,036.74 available for disbursement.

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

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**Review and Recommendation on New LSERS Investment Policy.**

Mrs. LeBlanc informed the committee that there was a correction to page 5 to the Investment Policy. At the top of that page under section VI #5 there is a limit to the exposure the emerging market that was inserted by Mr. Ranallo. Over the past several months, the board members and all investment managers were provided with a copy of the proposed investment policy along with a copy of the old policy to compare it to. After the policy has been adopted by the full board, staff will have all the investment managers sign off on the new policy and make it a permanent part of their contract with LSERS.

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**ON MOTION OF MRS. McKEE, SECONDED BY MR. FAULK AND CARRIED**, the committee agreed to the recommendation that the new investment policy should be accepted and that it is to be sent to the full board to be adopted.

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**Northern Trust Securities Lending Report.**

Mrs. LeBlanc reported that for the calendar year-to-date period ended April 2005, the gross income on securities lending was \$229,870.93. Northern Trust has received a fee of \$68,911.60. The fund had income returned to it in the amount \$160,959.33 or an average for the year of \$40,239.83 per month. For

April 2005 the gross income was \$77,673.37, Northern's fee was \$23,288.53 and the fund's income was \$54,384.84. Since the program has been in place with Northern Trust, the fund has earned \$4,854,360.06 or an average monthly income of \$35,176.52.

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

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**Louisiana Brokers.**

Mrs. Meche reported for the period of January 1, 2005 through March 31, 2005 that the only fixed income manager to meet or exceeded their 10% target for the month was Schroder. The only equity managers to meet or exceeded their 10% minimum target were Trinity and Walter Scott. Ark, Brandywine, J & W Seligman and NTQA did not meet their target. A total of \$70,206,538.44 par value and a total of \$39,849.44 equity commissions were directed during the time period ended March 31, 2005.

**Louisiana Incorporated & Domiciled Broker Report.**

Mrs. Meche reported for the period of January 1, 2005 through March 31, 2005 the equity managers who met or exceed their 10% target were Brandywine, J & W Seligman, Trinity and Walter Scott. None of the fixed income managers met their target for the period. A total of \$37,281.26 in equity commissions was directed during the time period ended March 31, 2005.

Mr. Ponder reported to the committee about a bill that Rep. Arnold had been pushing. It would have required that the portfolio managers who handle fixed income and domestic equities be required to trade with Louisiana and Louisiana Domiciled brokers. The bill was amended to exclude international managers and index funds. The bill will have to be amended to be considered "cost neutral."

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

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**Legal Update.**  
**Investment Staff Report of Receipts.**

Mrs LeBlanc reported to the committee that LSERS had received a total of \$15,049.12 in cash, \$578 in par value and 5,250 shares of stock/warrants as of April 19, 2005 for settlements from securities litigations.

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**ON MOTION OF MS. CRAIN, SECONDED BY MR. WILMER AND CARRIED**, the committee accepted the Staff Report of Receipts.

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**Current Case Review.**

Mr. Ponder provided answers to some questions from the board members concerning secret balloting. In the Solomon/AT&T case, the courts had scheduled a pre-trial settlement conference for later in June. The Silicon Storage case had put out positive reports, but were later retracted. Mr. Ponder said that LSERS had been appointed lead plaintiff in that case. He said that the Transkaryotic and Accredo Health cases were still going on.

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**ON MOTION OF MR. RICHARD, SECONDED BY MR. FAULK AND CARRIED**, the committee accepted the Current Case Review Report presented by Mr. Ponder.

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**OTHER BUSINESS.**

**Status Report on Upcoming Elections.**

Ms. Wright brought the committee up to date on the upcoming elections. She said that there are two candidates who had qualified for one of the Retiree seats. Those two candidates are Jeffrey Faulk and Betty Jacobs. Ms. Wright also reported that three candidates have qualified for the District 4 board seat that will be vacated by Ms. Myers. Those candidates are Linus LeBlanc, Kathy Landry and Ronald Babineaux. Both seats will be decided during the November meeting.

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**ON MOTION OF MR. RICHARD, SECONDED BY MRS. McKEE AND CARRIED**, the committee accepted the Status Report on Upcoming Elections by Ms. Wright.

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**Status Report on Legislation.**

Mr. Ponder brought to the attention of the committee members House Bill 311 that Rep. Pete Schneider passed, which does not directly affect LSERS but will bear watching. It would reduce the benefits for incoming LASERS employees from 2½ to 2% accrual rate. Mr. Cospers informed the committee that the Governor Blanco had requested that the four chairmen, along with their directors and attorneys, from the four largest state retirement systems meet with her on Wednesday, June 8, 2005 at 4:00 p.m. to discuss the options on Senate Bill 305 and Bill 7 which were both introduced by Senator Boasso.

Senate Bill 7 would combine Teachers and State Retirement into one "super"board. This bill would only affect Teachers and State, but could be amended to include LSERS at any time. This board would consist of elected officials and a few members from the elected membership. It fell through in committee.

Senate Bill 305 would create a new investment board which would take all of the assets away from control of the four boards and put it under the control of the "super"board for investment. The boards would remain intact, but it would keep them from having any say as to how the funds would be invested. The eleven member board would be appointed by the governor to invest the funds. The members would not be elected from the membership. All board members from all the retirement systems are opposed to this bill.

Mr. Randy Roche was given permission by the committee to speak. He told the committee members about House Bill 728 that Rep. Bo Curtis introduced. He said that Municipal Police tried to get this bill passed to give their retirees a COLA without actually calling it a COLA, but a 13<sup>th</sup> check. The funds would be taken from excess interest income received on assets. Representative Schneider amended the bill by saying the funds would not come from interest received from assets, but from excess contributions paid by the active members in that system. This amendment essentially "killed" this bill in committee.

Mr. Ponder also mentioned that the bill to prohibit any board member from accepting anything of value from anyone doing business with the system never made it out of committee.

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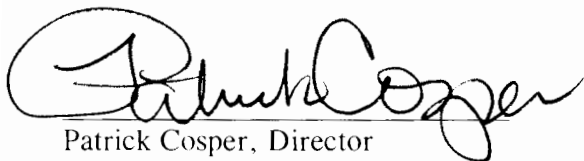
**ON MOTION OF A MR. WILMER, SECONDED BY MR. RICHARD AND CARRIED,** the committee accepted the Status Report on Legislation given by Mr. Ponder.

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

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The meeting adjourned at 12:14 p.m.

  
Patrick Cosper, Director

  
Betty Jacobs, Chairperson