

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

*Monday - March 7, 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 9:00 a.m. The Roll was called by Mrs. Champagne.

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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 and Ms. Stacy Sharpe - Secretary of State'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's I, Ms. Judy Wright - Public Information Director's I and Mrs. Jennifer Champagne - Executive Services Assistant.

Others Present: Mr. Richard Ranallo - Segal Advisors, Inc. and Mr. Zeke Zitzmann.

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Stacy Sharpe arrived at 9:03 a.m.

Ms. Jacobs stated for the record that everyone should be aware of the current health of Fox McKeithen who has been on the board for years. He fell in his home and is currently partially paralyzed. Mr. Cospers also took the opportunity to tell Mr. Zitzmann, who was in attendance, that he has the condolences of not only the board but the staff of LSERS at the loss of his wife, Mrs. Rose Zitzmann earlier this month.

Mr. Cospers made a few announcements to the committee. He brought to the attention of the committee the "Trustee Certification" forms that will need to be filed out by the members after the educational presentation regarding the investment policy. He also mentioned that the

committee will receive evaluation forms for the unclassified employees after today's meeting. There are also items of interest that are included in the board folders such as the Senator Boasso's bill, various newspaper articles and a letter from Orleans Capital.

EDUCATIONAL PRESENTATION REGARDING INVESTMENT POLICY

Mrs. LeBlanc began the presentation by stating that the current Investment Policy has been in place for many years. Terminology has changed over the years and some amendments have been suggested since the recent asset allocation study. A copy of the new policy was provided for each committee member to review. She said that any issues that the committee members had could be addressed at the April Investment Committee Meeting. The committee chairperson could at that time entertain a motion to approve the new policy or keep the old one. The full board could then take action during the May meeting. Mrs. LeBlanc went over the reasons why the system needs an investment policy and also listed the various items that should be included in the investment policy. She said that when creating a new investment policy, it should be considered a long term governing document and should not require frequent changes, but should be reviewed annually.

Mr. Ranallo went over the differences between the new and old policies. He said that the new policy is more concise. It does not impede the managers from implementing the system's strategies. The new policy allows more asset classes for the managers to invest in. Even though some of these asset classes are more risky, when put in a group, the risk is actually reduced. Mr. Ranallo went on to say that an investment policy should have risk controls in place. There should be some guidelines in place in case of extreme situations. He suggested that the proposed policy should be sent to the investment managers to get some feedback from them. Their comments should be welcomed because they may have some great suggestions that could improve the proposed policy. Mr. Ranallo said that when a manager is given the opportunity to make a suggestion regarding an investment policy, they are more willing to sign off on it and follow it. He mentioned that on page 5, there should be a correction to bullet Roman numeral seven (VII), number three (3). He suggested that it read as, "The Managers shall promptly notify the Staff and Consultant of any change in ownership or control of its organization, change in any key personnel and any inquiries by any regulatory agency or litigation." Orleans Capital recently had some personnel changes and some litigation is involved.

Ms. Jacobs asked that the Orleans letter be discussed. Mr. Cospoer explained that there have been several changes made to their personnel in the last few years. Ms. Jacobs agreed that a complete organizational chart of key personnel that includes their job duties should be requested by staff from Orleans Capital. Mrs. Jacobs said that the discussion this committee was having regarding the organizational chart issue is only appropriate.

Mr. Ranallo finalized his educational presentation regarding the old policy and the proposed new policy by saying that the old policy has a section on securities lending and one on commission recapture. The new draft does not. It can be put back in.

Mr. Ponder went over some of the laws on the board's investment responsibilities. The basic rule is that of fiduciary duty. That means that the trustee discharges his duty with respect to the system in the exclusive interest of the members and beneficiaries. If the board members do not do that, they are personally responsible and liable for any damages. They must exercise the "prudent man" standard. If one of your fellow board members is not applying the fiduciary duty, you can be liable for failing to correct the situation. Under the 10% Louisiana and Louisiana Incorporated and Domiciled broker rule, the prudent man rule does not apply because the legislature reduced that restriction on the system. The system is supposed to support the Louisiana economy by investing in venture capital with Louisiana domicilliares. It has been studied by this system for two and a half years and the law, unless a bill is introduced to extend it, will sunset on June 30, 2005. That is also true for the 10% Louisiana and Louisiana Incorporation and Domiciled broker rule.

Mr. Cospers told the committee that they have received one hour of investment training and one-half hour of laws, rules and regulations and it should be reflected on their Educational Certification forms. He also informed the committee that the staff has acquired CD copies of the audio from the entire September 2004 LAPERS conference and the support documentation that was distributed at the various workshops. For any board member, who did not complete the necessary number of hours of required education, these various resources are available to them to be heard and reviewed. Upon the completion of hearing the cd's, a form will need to be completed and given to Mrs. Jennifer Champagne.

Mrs. LeBlanc reported to the committee about the phone call she received from Mr. Tom Govan of Hibernia National Bank regarding the recent merger of Capital One and Hibernia. He indicated that the sale of Hibernia basically was a surprise to him. The contract that we have in place with Hibernia will be honored. There will be no visible changes that will be seen at this time. He will be willing to attend the April Investment Committee Meeting to meet with the committee in person and let everyone know what he has learned about the merger.

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ON MOTION OF MRS. McKEE, SECONDED BY MR. RICHARD AND CARRIED, the committee agreed to have staff request a complete organizational chart of key personnel including their educational background and job duties from Orleans Capital Management.

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ON MOTION OF MR. FAULK, SECONDED BY MS. CRAIN AND CARRIED, the committee accepted the educational components presented by Segal and Staff.

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REVIEW OF APPROPRIATE WAYS FOR LSERS TO INVEST IN REAL ESTATE

Mr Ranallo started his presentation regarding the appropriate ways for LSERS to invest in real estate by saying that it might be a good time to consider investing in real estate. Some funds are diversifying and real estate is one of whose ways. One of the major ways to invest in real estate is to buy specific real estate, whether it is a building or a golf course. It is one of the most aggressive ways is to buy real estate. A real estate manager would be needed to go out and buy real estate for the system. Debt oriented real estate is more like mortgages or fixed income. He feels that this is not the way for this system to consider. Equity oriented real estate is where one owns a portion of a portfolio of real estate (office buildings, apartment buildings, etc.) Another way to invest in real estate is a REIT which is a real estate investment trust. This is an investment company that invests in real estate. The problem is that they trade like stocks and their returns are like stocks. If one is trying to diversify, you would want a return pattern like real estate which is different from stocks and bonds. Mr. Ranallo suggested that this system adopt an initial allocation of 3% to a large commingled fund that had real estate diversified by property type and geographic location. You cannot use real estate to pay benefits. That money would have to be taken from the other portfolios. Mr. Cosper asked Mr. Ranallo how Segal would measure the performance of the real estate portfolio. He responded by saying that there are four equity-oriented real estate benchmarks that are somewhat complicated, but are widely used. He feels that this system is about two years away from investing in real estate even if the decision was made to invest today.

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ON MOTION OF MR FAULK, SECONDED BY MS. CRAIN AND CARRIED the committee agreed to recommend to the full board to consider that a change be made to the investment policy to include an initial 3% real estate asset allocation and to reduce fixed income by 3%.

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ON MOTION OF MR. FAULK, SECONDED BY MRS. McKEE AND CARRIED, the committee agreed to recommend to the full board that a search be started to find a core diversified real estate portfolio manager.

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STAFF REPORTS

Commission Recapture Report

Mrs. Meche reported for the period January 1, 2004 through December 31, 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

December 31, 2004 were the Ark, Trinity and Walter Scott. However, Brandywine, J & W Seligman and Northern Trust Quantitative Advisors did not meet their targets. The total funds available for disbursement as of December 31, 2004 were \$545,289.00. Payments totaling \$393,345.26 were made leaving a balance of \$151,943.74 available for disbursement.

ON MOTION OF MR. FAULK, SECONDED BY MR. RICHARD 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 December 2004, the gross income on securities lending was \$514,303.98. Northern Trust has received a fee of \$154,162.72. The fund had income returned to it in the amount \$360,141.26 or an average for the year of \$30,011.77 per month. For January 2005 the gross income was \$57,430.90, Northern's fee was \$17,218.07 and the fund's income was \$40,212.83. Since the program has been in place with Northern Trust, the fund has earned \$4,733,613.56 or an average monthly income of \$35,063.80.

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

Louisiana Brokers.

Mrs. Meche reported for the period of January 1, 2004 through December 31, 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 NTQA and Walter Scott. Ark, Brandywine, J & W Seligman and Trinity did not meet their target. A total of \$369,162,633.17 par value and a total of \$108,970.48 equity commissions were directed during the time period ended December 31, 2004.

Louisiana Incorporated & Domiciled Broker Report.

Mrs. Meche reported for the period of January 1, 2004 through December 31, 2004 the equity managers who meet or exceed their 10% target were J & W Seligman, Trinity and Walter Scott. The only fixed income manager to meet their target for the period was Orleans Capital. A total of \$22,761,381.48 in par value and a total of \$133,056.64 in equity commissions was directed during the time period ended December 31, 2004.

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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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**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.

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ON MOTION OF MS. CRAIN, SECONDED BY MRS. McKEE AND CARRIED, the committee accepted the Staff Report of Receipts.

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Current Case Review.

Mr. Ponder informed the committee that there is nothing new to report regarding securities litigation. The two cases that are he is waiting for action on are Accredo Health in which there was a motion to dismiss heard in February 2005, and AT&T in which there is a deposition to be scheduled in that case. He is expected to attend this process in New York. No movement has been made to set up these depositions. He discussed the matter of overpayments and money that is owed to the system. He met with the attorney's for Newman, Mathis, Brady and Spedale, the law firm that handled the collections. They have agreed that they would advance all costs and pursue these matters. Each case will be reviewed before it is turned over to them. They will review it from a different perspective to see how it will be handled. The fee will be one-third of what they actually collect. Two lawsuits have already been filed as a result of his visit with them. Some of these debts have prescribed and will never be paid back to the system.

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ON MOTION OF MR. FAULK, SECONDED BY MRS. McKEE AND CARRIED, the committee agreed to allow Mr. Wilmer and any other committee member to discuss items under other business.

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OTHER BUSINESS.

Mr. Wilmer questioned whether the cd's can be set up in the boardroom for those who need additional hours of required education. Mr. Cospers offered to set a one-day workshop to listen to the cd's or speakers could be arranged to come in. He also said that after the investment committee meetings the cd's could be set up to be heard by those who needed additional educational hours. Ms. Jacobs asked that Mr. Cospers and Mrs. Champagne compile the hours of all the board members and have that information available for the next committee meeting. She wants them to make arrangements for a portion of the cd's to be played after each Investment Committee Meeting until everyone has completed all the hours that are required. A schedule should be provided to each board member.

Mrs. McKee took the opportunity to ask Mr. Cospers and Mrs. Dudley some questions regarding DROP and retiree's checks and their mailing schedule. Mrs. Dudley informed Mrs. McKee that the DROP checks are dated the fifth of the month and retiree checks are dated for the first of the month. They are not mailed on the same day. It always causes a problem when the first of the month falls on a holiday, because it causes a delay. Our system always recommends electronic funds transfers because there are fewer problems and the money is transferred prior to a holiday. On occasion, our mail service providers have made mistakes and the retirees received their checks late.

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ON MOTION OF A MR. FAULK, SECONDED BY MRS. McKEE AND CARRIED the committee agreed to adjourn.

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The meeting adjourned at 11:49 a.m.

Patrick Cospers, Director

Betty Jacobs, Chairperson