LASERS

Statement of Investment Objectives

Section A – General Issues

This is a portion of LASERS Investment Policy.

I. INTRODUCTION

The Louisiana State Employees' Retirement System (LASERS) was established by the state legislature in 1946 (R.S. 11:401). LASERS is a qualified pension and retirement plan under section 401(a) of the Internal Revenue Code and was created to provide retirement allowances and other benefits for state officers and employees and their beneficiaries. Benefits are funded by three sources: employer contributions, employee contributions and earnings from trust fund investments.

The System is governed by a 12 member Board of Trustees (Board). State law designates members of the Board as follows: six elected active members, three elected retired members and three ex-officio members, which consist of the Chairman of the House & Senate Retirement Committees along with the State Treasurer.

II. STATEMENT OF PURPOSE

This document specifically outlines the investment philosophy and practices of LASERS and has been developed to serve as a framework for the management of the System's defined benefit plan. The Board has established the investment guidelines set forth herein, to formalize investment objectives, policies and procedures and to define the duties and responsibilities of the various entities involved in the investment process. All policy decisions shall include liquidity and risk considerations that are prudent and reasonable under the circumstances that exist over time. The policies will evolve as the internal conditions of the fund and the capital markets environment changes. Any resulting material changes will be communicated to all affected parties.

III. CONTROLLING STATUTES AND REGULATION

Investments of the Louisiana State Employees' Retirement System shall be made in full accordance with Louisiana Revised Statutes, applicable legislation or regulation as well as LASERS internal policies and procedures.

Principal Statutory Investment Provisions

LASERS shall operate under the "Prudent Person" rule, used herein meaning, that when investing, the governing authorities of the systems, funds, and plans shall exercise the judgment and care under the circumstances then prevailing that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds considering probable safety of capital as well as probable income. (R.S. 11:263) LASERS will also apply this standard to the entire fund portfolio, and as part of the investment strategy will include an asset allocation study which will incorporate risk and return objectives reasonably suitable to the fund. (R.S. 11:263.C)

With respect to fiduciary duty the following shall be deemed to have a fiduciary relationship: (1) person who exercises any discretionary authority or discretionary control with respect to the management of system funds or assets. (2) person who renders investment advice or services for compensation, directly or indirectly, with respect to the system funds or assets. (R.S. 11:264)

Other Statutory Provisions

LASERS is subject to a legislative limit restricting the fund so that no more than 65% of its total assets are invested in publicly traded equities. Should LASERS have more than 55% of its total assets invested in publicly traded equities, at least 10% of those equities must be invested passively. Alternative assets are not considered to be equities when calculating LASERS equity exposure. LASERS will take steps to rebalance if, at the end of its fiscal year, its exposure to publicly traded equities is above 65%. LASERS is aware that markets will fluctuate, and any rebalancing will appropriately consider market conditions and any other relevant factors. (R.S. 11:263.D & 11:267)

When requesting proposals for investment advisory services, fees are required to be quoted on a fixed, market value of assets or performance basis. (R.S. 11:265)

Investment performance reports by investment managers and advisors shall be in compliance with the current Global Investment Performance Standards as amended and published by the CFA Institute (formally known as Association for Investment Management and Research). This is not required for limited partnerships, limited liability partnerships, private placements or natural resource portfolios. (R.S. 11:266)

Consultants and money managers shall provide full disclosure of conflicts of interest, including non-pension sponsor sources of revenue. Consultants also shall provide full disclosure of any payments they receive from money managers. (R.S. 11:269) Details for this reporting requirement are listed under the Semi-Annual Reporting Requirements under the Conflicts of Interest Report in Section XII of these guidelines.

LASERS shall report to the legislature on a semiannual basis investment in any company having facilities or employees or both located in a prohibited nation. A prohibited nation is considered to be one of the following: Iran, North Korea, Sudan or Syria. (R.S. 11:312) Details for this reporting requirement are listed under the Semi-Annual Reporting Requirements under the Prohibited Nations Report in Section XII of these guidelines.

LASERS shall have a corporate governance strategy of constructive engagement with each company in which it has direct and indirect ownership that has facilities or employees or both located in a prohibited nation. This strategy shall contain a plan of action to cause any such company to remove facilities, employees or both from any prohibited nation. This excludes private equity and hedge funds. (R.S. 11:314 & 315)

LASERS is required to invest a portion of funds in an international terror-free index fund which identifies and excludes from the fund companies having facilities or employees or both in a prohibited nation. (R.S. 11:316)

LASERS is required to direct at least 10% of domestic equity trades in separately managed accounts, and also at least 10% of domestic investment grade fixed income trades selected on a best bid and offer basis that are in separately managed accounts through broker-dealers who have been incorporated and domiciled in or who have had their principal trading operations in Louisiana for at least two years. All trades are subject to best execution as defined by the SEC and the NASD. This is a pilot program ending June 30, 2010. (R.S. 11:266.1)

IV. ROLES AND RESPONSIBILITIES

The following section outlines the roles and responsibilities for each of the parties involved with executing the policy. In addition to the activities described below, each person involved with the policy serves as a fiduciary and will adhere to the “Prudent Person” rule as described in State Statute, which is outlined under the Principal Statutory Investment Provisions found in these guidelines.

Board of Trustees

The Board of Trustees is responsible for the total investment program. The Board shall approve the investment policy and provide overall direction to the administrative staff in the execution of the investment policy.

- Formal Review Schedule

  The Board will conduct formal annual evaluations of the administrative staff, investment consultant and custodian.

Investment Committee

The investment committee was established by the Board to assist in oversight of the investment program; it will consist of not less than seven members of the Board. The Committee reviews and makes recommendation to the Board on investment actions including, but not limited to the following:

1. Asset Allocation
   a. Establishing the asset allocation policy for the portfolio, including target percentages and ranges.
   b. Approving asset classes for inclusion in the portfolio.
   c. Establishing the structure of the portfolio, including the funds to be allocated to active/passive portfolios and internal/external manager.

2. Asset Management
   a. Hiring, retaining or terminating investment managers, consultants, custodians and securities lending agents based on established evaluation processes.

3. Risk Control
   a. Ensuring that appropriate investment policies are in place, along with compliance of policies and directives.

4. Monitoring
   a. Establishing performance benchmarks and expectations.
   b. Monitoring the performance of investments.

Chief Investment Officer

The Chief Investment Officer (CIO) shall assist the Board in developing and modifying policy objectives and guidelines, including the development of liability driven asset allocation strategies and recommendations on long-term asset allocation and the appropriate mix of investment manager styles and strategies. Choosing appropriate manager styles and strategies will include assisting the Board in evaluating the use of index funds as an alternative to active management. Additionally, the CIO shall provide assistance in manager searches and selection, investment performance calculation and evaluation, and any other analysis associated with the proper execution of the Board's directives.

The CIO shall also communicate the decisions of the Investment Committee to investment managers, custodian bank(s), actuary, and consultant. The CIO provides oversight of the investment consultant, investment service providers and personnel of LASERS investment division.

Investment Consultant

The Investment Consultant works under direction of the Board, offering a third party perspective and providing an additional level of oversight to the System's investment program. The Consultant's normal functions shall include assisting the Board and the CIO in developing and modifying policy objectives and guidelines, including the development of a liability-driven asset allocation strategy and recommendations on the appropriate mix of investment manager styles, strategies and funding levels.

Additionally, the Consultant shall provide education and training and assist in manager searches and selection, investment performance evaluation, and assist both the board and CIO in the use of index funds as an alternative to active management. The Consultant shall provide timely information, written and/or oral, on investment strategies, instruments, managers and other related issues, as requested by the Board, the Investment Committee, or the CIO.

Investment Managers

The duties and responsibilities of each of the investment managers retained by the Board include, but may not be limited to, the following:

- Investing the assets under its management in accordance with the policy guidelines and objectives expressed herein
- Meeting or exceeding the manager-specific benchmarks, net of all fees and expenses, expressed herein over various and appropriately measured time periods
- Exercising investment discretion within the guidelines and objectives stated herein. Such discretion includes decisions to buy, hold or sell securities in amounts and proportions reflective of the manager's current investment strategy and compatible with the investment objectives
- Complying with all provisions pertaining to the investment manager's duties and responsibilities as a fiduciary
- Complying with the CFA Institute's Code of Ethics and Performance Presentation Standards (PPS TM)
- Disclosing all conflicts and potential conflicts of interest
- Ensuring that all portfolio transactions are made on a "best execution" basis
- Exercising ownership rights, where applicable

- Meeting with the Board as needed upon request of the Board, and timely submitting all required reports outlined in Section XII of these guidelines
- Promptly informing the Board regarding all significant matters pertaining to the investment of the fund assets, for example:
    - Changes in investment strategy, portfolio structure and market value of managed assets
    - Changes in the ownership affiliations, organizational structure, financial condition, professional personnel staffing and clientele of the investment management organization
    - Any material changes in the liquidity of the securities they hold in the LASERS portfolio
- Initiating written communication with the Board when the manager believes that this Investment Policy is inhibiting performance and/or should be altered for any valid reason. No deviation from the guidelines and objectives established in the Policy is permitted until after such communication has occurred and the Board has approved such deviation in writing
- Reconciling performance, holdings and security pricing data with the Fund's custodian bank. If the Fund's custodian bank shows a significantly different price for a given security, the manager should work with the custodian bank to resolve pricing differences. Managers shall provide to LASERS staff a summary of reconciled holdings both in hard copy and the electronic format of LASERS choosing
- Any other duties included in the contract

Custodian Bank

The Custodian is responsible for the safekeeping of System assets and serves as the official book of record. It is understood that investments that are held in partnerships, commingled accounts or unique asset classes are unable to be held by the System's custodian bank.

The Custodian(s) will be responsible for performing the following functions:

- Holding System assets directly, through its agents, its sub-custodians, or designated clearing systems

- Registration of System assets in good delivery form, collection of income generated by those assets, and any corporate action notification
- Delivery and receipt of securities
- Disbursement of all income or principal cash balances as directed
- Providing daily cash sweep of idle principal and income cash balances. Dividends, interest, proceeds from sales, new contributions and all other monies are to be invested or reinvested promptly
- Providing online records and reports
- Providing monthly statements by investment managers' accounts and a consolidated statement of all assets
- Providing monthly performance reports and quarterly performance analysis reports
- Notifying appropriate entities of proxies
- Accepting daily instructions from designated investment staff
- Resolving any problems that staff may have relating to the custodial account
- Providing a dedicated account representative and back up to assist the LASERS staff in all needs relating to the custody and accountability of the Fund's assets
- Managing the securities lending program (if applicable)
- Overseeing securities class actions on behalf of the System
- Providing a compliance monitoring system
- Any other duties and services included in the contract

V. INVESTMENT OBJECTIVES

Nominal Return Requirements

The investment program shall be structured to preserve and enhance principal over the long term, in both real and nominal terms. For this purpose, short-term fluctuations in values will be considered secondary to long-term investment results. The investments of the Fund shall be diversified to minimize the risk of significant losses. Total return, which includes realized and unrealized gains, plus income less expenses, is the primary goal of LASERS.

The actuarially required total rate of return for the Fund is 8.25% annually. LASERS seeks to achieve returns greater than 8.25% to pay expenses and potentially provide cost of living adjustments for retirees.

Relative Return Requirements

LASERS seeks to have total returns rank in the top half of the appropriate public fund universe, reflecting similar circumstances to the Fund. The total fund return should, over time, exceed the Policy and Allocation Indices (see Section VI for a description of how the Policy and Allocation Indices are calculated.) Returns for LASERS managers should exceed their respective benchmarks, as well as rank in the top half of the appropriate universe of managers adhering to the same investment strategy.

The Board further recognizes that the return targets described herein may not be achieved in any single year. A longer-term horizon of 5-7 years shall be used in measuring the long-term success of the Fund. While the Board expects that returns will vary over time, LASERS has a risk tolerance consistent with that of other funds created for similar purposes, and the assets of the Fund shall be invested accordingly.

VI. PERFORMANCE BENCHMARKS

Total Fund Return

The Total Fund return shall be compared against other public pension plans. LASERS will compare its returns against other funds of similar size and circumstances. LASERS Total Fund return should meet or exceed the Allocation Index return and the Policy Index return, which are each described below.

Allocation Index

The Allocation Index return shall measure the success of the Fund's current allocation. It shall be calculated by using index rates of return for each asset class invested in by the Fund multiplied by the actual percent allocated to each asset class. The difference between the Allocation Index return and the Total Fund return measures the effect of active management. If the Total Fund return is greater than the Allocation Index return, then active management has in aggregate added value. If the Total Fund return is less than the Allocation Index return, then active management has not added value.

Policy Index

The Policy Index return shall measure the success of the Fund's target allocation. It shall be calculated by using index rates of return for each asset class invested in by the Fund multiplied by the percent targeted to each asset class. The difference between the Allocation Index return and the Policy Index return measures the effects of deviating from the target allocation. If the Allocation Index return is greater than the Policy Index return, then deviating from the target allocation has added value. If the Allocation Index return is less than the Policy Index return, then deviating has not added value.

Manager Benchmarks

LASERS Investment Managers shall be compared to a combination of passively managed index returns matching the managers' specific investment styles, as well as the median manager in their appropriate peer group universe. Specific benchmarks and peer groups are described for each manager in Section B of this document.

VII. ASSET ALLOCATION

The foundation of the System's strength and stability rests upon the diversification of plan assets. The following section outlines the current asset allocation, which was designed to achieve the required return objectives of the System, given certain risk considerations. This is to be pursued by LASERS on a long-term basis, but will be revised if significant changes occur within the economic and/or capital market environments. Changes in liability structure, funded status, or long-term investment prospects should trigger a revision of the asset allocation.

Asset Classes

The current allocation includes the following asset classes:

Traditional Assets
- U.S. Large Cap Equity
- U.S. Mid Cap Equity
- U.S. Small Cap Equity
- U.S. Fixed Income
- International Equity
- Emerging Markets Equity
- Global Fixed Income

Non-Traditional Assets
- Private Equity Fund of Funds - Domestic and International

- Private Equity Direct Funds – Domestic and International
- Absolute Return - Fund of Funds
- Absolute Return - Direct Funds
- Global Tactical Asset Allocation

Based on the Board's determination of the appropriate risk tolerance for the System and its long-term expectations, the following asset class policy target allocation and permissible ranges have been established:

Target Asset Mix

Asset Class	Market Value Target (%)	Minimum Exposure (%)	Maximum Exposure (%)
Equities	**52**	**42**	**62**
Domestic Large Cap	15	15	21
Domestic Mid Cap	4	1	7
Domestic Small Cap	8	5	11
Established Internationall (Lg Cap)	15	12	18
Established International (Sm Cap)	2	0	5
Emerging International Equity	8	2	8
Fixed Income	**23**	**13**	**33**
Core Fixed Income	4	1	7
Mortgages	4	1	7
Domestic High Yield	8	5	11
Global Bonds	5	2	8
Opportunistic Credit	2	0	5
Cash	0	0	5
Alternative Assets	**25**	**15**	**35**
Private Equity	10	7	13
Absolute Return	10	7	13
Global Tactical Asset Allocation	5	2	8

Implementation

LASERS recognizes that special expertise is required to properly invest the majority of the assets described above. However, certain highly efficient passively managed investment strategies lend themselves to internal management, resulting in lower management fees for the Fund as a whole. Where appropriate, LASERS will manage these assets internally, so long as the same level of care, prudence and oversight is maintained that an outside professional investment advisor would typically provide.

Style Allocation

LASERS shall strive to maintain a neutral bias with respect to Style Allocation (Growth versus Value) in its equity investments. LASERS recognizes that over the long run, returns from Growth and Value investing tend to approximate each other; over shorter periods, however, differences in returns can be significant. The CIO, as part of the normal rebalancing responsibilities, shall use appropriate judgment and care when rebalancing style-biased portfolios.

Active/Passive Mix

LASERS shall make use of passive strategies only where passive management, after all fees and expenses, can effectively compete with actively managed portfolios in terms of returns and variability of returns.

Rebalancing

The CIO will review LASERS asset allocation at least quarterly to determine if it is consistent with the exposure ranges established for LASERS described herein. The CIO will direct staff and investment managers to transfer funds to rebalance the asset allocation as necessary. The CIO will consider market conditions and transaction costs, as well as any other relevant factors when rebalancing.