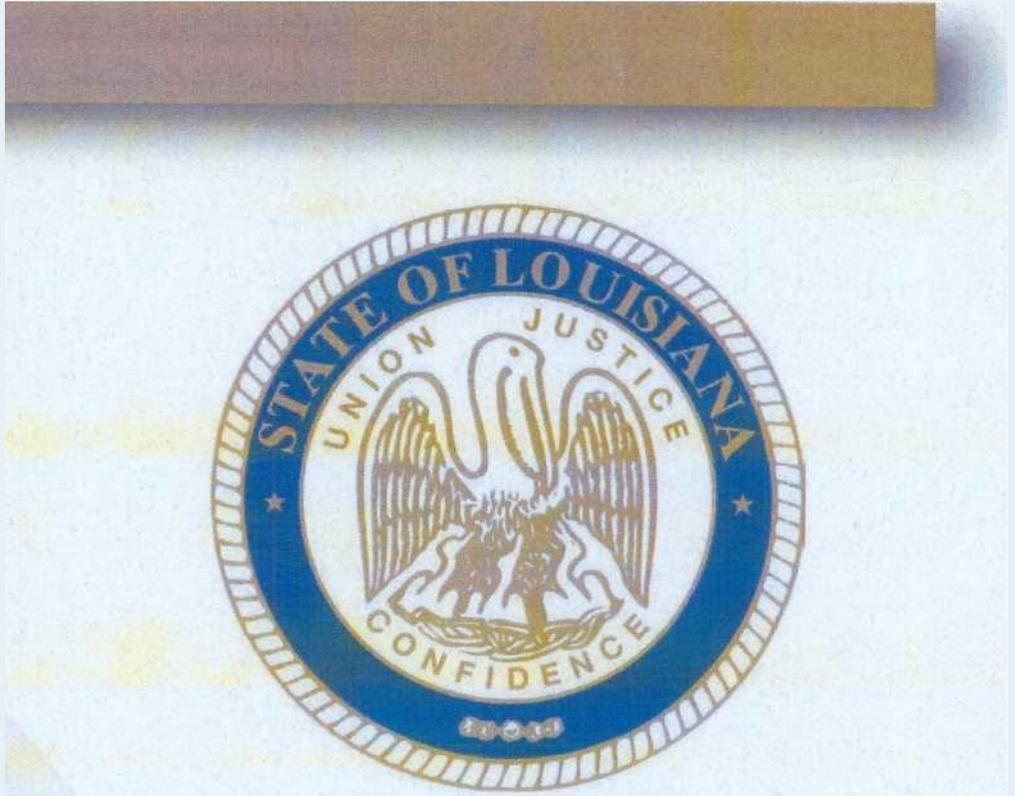


2004



Comprehensive Annual Financial Report

Fiscal Year ended June 30, 2004

Louisiana State Employees'
Retirement System
A Component Unit of the State of Louisiana



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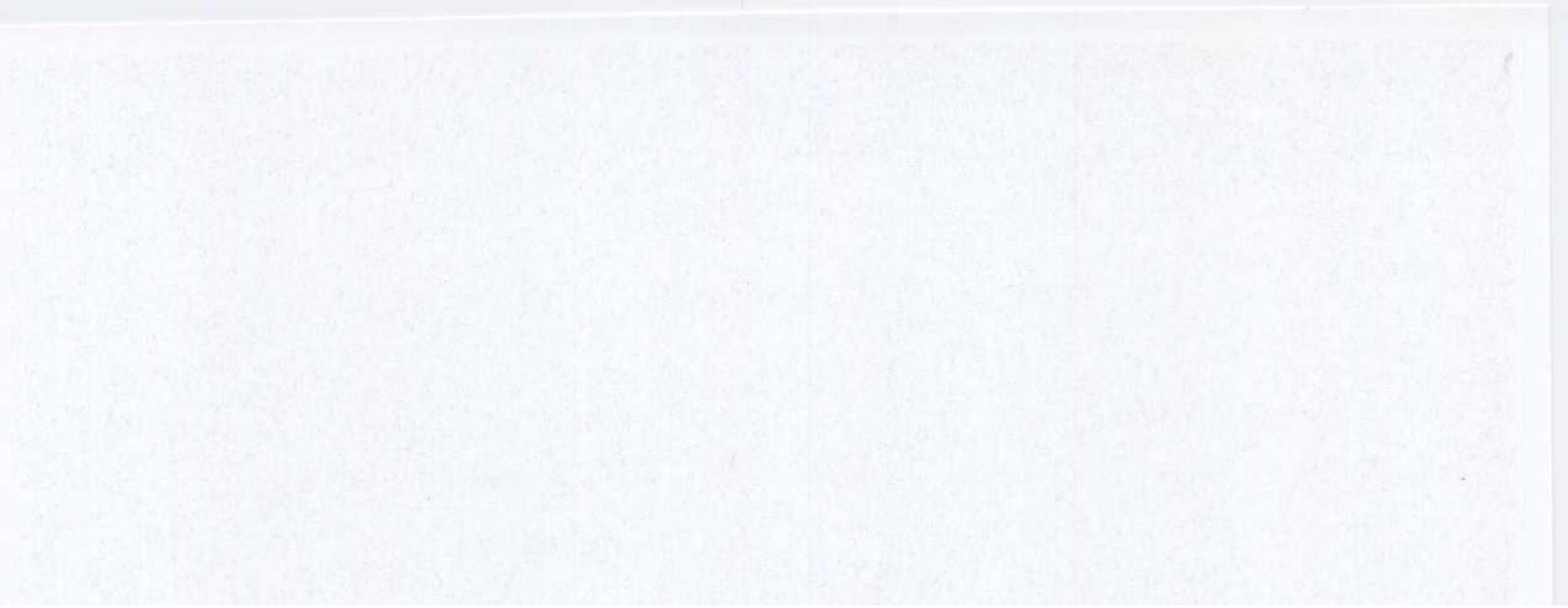
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INTRODUCTORY SECTION



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LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

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TOLL-FREE: 1-800-256-3000
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Letter of Transmittal

December 31, 2004

Dear LASERS Board of Trustees and System Members:

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the Louisiana State Employees' Retirement System (LASERS) for the fiscal year ended June 30, 2004. The comprehensive report is designed to comply with GASB, FASB, and all reporting standards of the Government Finance Officers Association. This letter of transmittal is designed to complement the MD&A report found in the Financial Section of the CAFR and should be read in conjunction with it. We believe this CAFR enhances the presentation of the overall performance of LASERS (the "System") to membership and other interested parties.

The responsibility for the accuracy of the data and the fairness of the information, as presented in this report, rests with the management of LASERS. To the best of our knowledge and belief, the data, as presented in this report, is materially accurate and fairly represents the results of operations and the financial position of LASERS for the fiscal year ended June 30, 2004. Internal controls are in place to safeguard the integrity of member and employer contributions and the System's assets, ensuring the materially accurate presentation of the financial position of LASERS. These policies and procedures are under constant review by management to ensure that they meet the needs of a changing work environment. In addition, the proper application of these controls is monitored by the agency's internal audit function as well as by the independent auditors. See page 16 of this CAFR for a report by our independent auditors on our compliance and internal control structure.

The CAFR is divided into five sections:

The Introductory Section (pages 3 — 12) contains the Letter of Transmittal, the Certificate of Achievement for Excellence in Financial Reporting, Board of Trustees and Providers of Professional Services report, and LASERS Organizational Chart.

The Financial Section (pages 13 — 54) contains the Independent Auditors' Report, Management's Discussion and Analysis (MD&A), the financial statements of the System and certain required supplementary information.

The Investment Section (pages 55 — 92) includes reports on investment activity and results, investment policies, and various investment schedules.

The Actuarial Section (pages 93 — 108) contains the Actuary's Certification Letter and the results of the annual actuarial valuation.

The Statistical Section (pages 109 — 115) includes significant data pertaining to the System.

We trust that you will find this CAFR helpful in understanding your public employees' retirement system.

page 5

BOARD
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Virginia Burton
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Judge Trudy M. White

Robert L. Borden,
Executive Director

Pension System History and Structure

The Louisiana State Employees' Retirement System is a component unit of the State of Louisiana. It is the administrator of a single employer defined benefit pension plan under Section 401(a) of the Internal Revenue Code. LASERS Defined Benefit Plan was established by an act of the Legislature in 1946, with the first members joining the System on July 1, 1947. LASERS is currently operating under the retirement laws of Louisiana as substantially rewritten in 1972.

LASERS is a public trust fund created to provide retirement allowances and other benefits for state officers, employees, and their beneficiaries. As of June 2004, LASERS had a total of 137,719 active, inactive, and retired members. Funding for LASERS comes from three primary sources: employee contributions, employer contributions, and earnings from investments.

A twelve member Board of Trustees (six active members of the retirement system and three retired members; and three ex-officio members) administers the programs and appoints key management personnel including the Executive Director, two Assistant Directors, and the Chief Investment Officer.

In addition to the defined benefit plan, LASERS also offers an Optional Retirement Plan (ORP) which functions as a defined contribution component. The ORP was created through legislation in 1999 for certain unclassified state employees as defined by state statute who would otherwise be eligible to become members of the LASERS defined benefit plan. The ORP began accepting applications for membership on July 1, 2000, with eligibility redefined in 2002 which included a sunset provision for certain employees effective December 7, 2003. Effective July 1, 2004, the ORP was again revised by the 2004 Legislature. The new legislation allows for any current participating member of the defined benefit plan, who was otherwise eligible for the ORP as of December 7, 2003, to make an irrevocable election to participate in the ORP. Eligible members had until August 31, 2004 to file a written election with LASERS or remain in the defined benefit plan, with a sunset provision of December 7, 2007. The eligible members who join the ORP are not entitled to any benefits from and do not maintain any service credit in the defined benefit plan. The ORP allows its members to place their contributions with a provider approved by the LASERS Board of Trustees and maintain direct investment decision-making through their provider.

Major Initiatives

LASERS continues to work on a comprehensive long-term strategic plan for investments that seeks to enhance its competitive performance position relative to other state retirement systems. This plan includes a review of LASERS investment asset allocation and implementation strategies within each asset class. Key components of the plan are the reduction of investment management fees and brokerage transaction costs and the enhancement of internal controls. One step is the renegotiation of fees as contracts with external money managers expire. LASERS efforts to reduce fees have led the System to increase its use of low-cost passive investment strategies to lessen the volatility of actual returns related to expected returns as stated in LASERS investment policy. LASERS has approximately \$6.5 billion in investments and utilizes internal staff and resources to manage \$2.2 billion in low-cost index funds. The internal management of investment assets has resulted in annual savings of \$6.5 million versus the external management alternative. LASERS is also evaluating various risk management systems to better manage total portfolio volatility as well as the volatility of LASERS funded ratio. The ultimate goal is to position LASERS as a low cost provider that consistently delivers investment returns superior to most state retirement systems.

LASERS strategic plan for the 2004 fiscal year also included enhancement of its Deferred Retirement Option Plan (DROP) and revision through legislation of members' purchase of service credit. Effective January 1, 2004, all plan members who become eligible and elect to join DROP, or who become eligible for retirement and elect the Initial Benefit Option (IBO), are required to participate in a Self-Directed DROP Plan (SDDP), a 401(a) retirement plan. When a member's DROP accumulation period ends, all of the member's balance is transferred to a third-party provider under contract with LASERS. Should a member choose an IBO, the funds are either paid directly to the member or sent to a

third party. Participants may diversify their investments by choosing from a menu of investment options to allocate their DROP or IBO balances. Members who entered DROP or selected the IBO prior to January 1, 2004, or were eligible for retirement prior to January 1, 2004, may choose to remain in the current LASERS DROP/IBO program or choose the SDDP. Spousal beneficiaries of a DROP/IBO account and members who were eligible to retire on or before December 31, 1995 may also elect to remain in LASERS or select the SDDP. The decision to participate in the SDDP is irrevocable.

New legislation was enacted by the Louisiana 2004 Legislative Session, effective July 1, 2004, that repealed and revised specific LASERS purchase of service credit provisions. The revised purchase of service credit provisions allow any LASERS member with at least one year of service credit in the System eligibility to purchase up to five years of service credit in one-year increments, with a one-time special provision to purchase service credit in one-month increments through December 31, 2004.

LASERS strategic plan also focuses on improved communications and educational services for members and other interested groups. A program was implemented that has increased the ability of LASERS to make personal, on-site visits to its agencies and individual members throughout the state, thus improving members' understanding of laws that impact LASERS, increasing members' opportunity for counseling, expanding and enhancing training, and improving distribution of information to agencies/members. From January 2004 through June 2004, there were 67 such sessions held throughout the state.

Utilization of technology to improve overall agency performance continues to be a major initiative of LASERS. The LASERS Internet website is continually upgraded and improved to offer agency and member users access to the most current System and fund information, educational programs, forms, publications, and legislation. In addition, internal operations are being streamlined by the development of a new pension administration system software that is currently in the design stage. The new software will provide a stable, fully integrated solution capable of supporting LASERS operations well into the future. LASERS commissioned a Business Process Reengineering study to fundamentally redesign its core business operations. This effort includes the integration and upgrading of membership, financial/accounting, and investment transaction/accounting systems. Expectations for the new system include tangible benefits, such as annual expense savings, and intangible benefits, such as enhanced customer service capabilities. It is scheduled to be completed in November 2007. In order to successfully complete integration of the pension administration system with LASERS financial accounting system, a separate project has been undertaken to further upgrade the accounting system. This project should be completed during the first six months of 2005.

Investments

LASERS investments are governed by the Statement of Investment Objectives for the Investment Assets of the Louisiana State Employees' Retirement System (the "Statement"). The Statement requires LASERS to invest the assets solely in the interest of the participants and their beneficiaries, and in accordance with Louisiana Revised Statutes. Additionally, the investment objective shall be to preserve and enhance the System's principal over the long term, in both real and nominal terms. LASERS Board of Trustees and investment staff, with its investment advisors, shall exercise judgment and care which an institutional investor of ordinary prudence, discretion, and intelligence exercises in management of large investments under prevailing circumstances.

In accordance with the Statement, LASERS has set a total return target consistent with prudent investment management. LASERS target rate of return is 9.35%, which is composed of the actuarial target funding rate of 8.25% and an excess return of 1.10%. This excess return is intended to reduce LASERS Unfunded Accrued Liability (UAL), fund cost-of-living adjustments (COLA) through the Experience Account, and cover administrative and operating expenses. The target asset allocation as of June 30, 2004, was 62% equities, 30% fixed income, and 8% alternative assets. The allocation is expected to achieve a 9.35% total rate of return with the least possible amount of risk within the constraints set by law and

the Statement. LASERS investment return on actuarial value of assets over the prior ten years is 7.18%. The return on the actuarial value is a blending of investment returns for the current fiscal year and the prior two fiscal years. For the fiscal year ended June 30, 2004, the return on the actuarial value of assets was 6.06% due to the prior two years' low market value returns of 3.83% and (5.63%), respectively. The total market value return of 18% for the fiscal year ended June 30, 2004 exceeded the annual targeted rate of return, and performance was in the top 13% of similar public pension plans per the Trust Universe Comparison Service.

Financial Condition

LASERS had an increase in plan net assets value for the fiscal year ended June 30, 2004 of 15.6%, compared to the increase of 1.8% for the fiscal year ended June 30, 2003. However, from an actuarial perspective, the gain was not sufficient to prevent a 6.6% reduction in the overall funded percentage of the fund. The primary cause of the reduction in the overall funded percentage of the fund was a ruling in February 2004 by the Louisiana Public Retirement Systems' Actuarial Committee (PRSAC) stating that inclusion of a negative Employee Experience Account Balance in funding calculations violated constitutional funding requirements. The 2004 Legislative Session adopted new legislation based on the PRSAC ruling that required the absorption of the \$687 million negative Employee Experience Account Balance into the fund's Unfunded Actuarial Accrued Liability, and made significant other changes to the prospective funding of the Plan. The overall funding loss will continue to be made up through future employer contributions because the fund is scheduled, by law, to be fully funded by the year 2029. Further discussion of the impact of the PRSAC ruling and 2004 legislation is presented in the Financial and Actuarial Sections of the CAFR.

The ability of LASERS to pay benefits and meet its obligations is not in jeopardy. Normal operating cash flows are relatively stable. The main sources of operational income are employee and employer contributions and realized investment earnings from dividend and interest income. For the fiscal year ended June 30, 2004, these realized Operating Revenues totaled \$644.9 million and Disbursements, including investment manager fees, totaled \$635.6 million. Thus, the net positive Operating Cash Flow was \$9.3 million dollars for the year ended June 30, 2004.

For the year ended June 30, 2004, LASERS held administrative expenses below budgeted amounts, spending only \$12.6 million of a budgeted \$13.6 million. A more detailed presentation of the budget versus actual activity for the year is shown in the Schedule of Administrative and Investment Expenses — Budget and Actual on page 49 of the CAFR.

Certification of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Louisiana State Employees' Retirement System for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2003. This was the seventh consecutive year that the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principals and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

LASERS also received the GFOA award for its Popular Annual Financial Report entitled LASERS Summary Annual Report, for the fiscal year ended 2003. This was the fifth consecutive year LASERS has received this award. The Popular Annual Financial Report presents, in a less technical manner, some of the major financial, actuarial, and other interesting information for the reporting year.

Acknowledgements

The compilation of this report is the combined effort of the System's staff with input from various divisions under the leadership of the Executive Director. It is intended to provide complete and reliable information as to the current status of the System, provide management information with which to make decisions, and to inform all members and interested parties.

Respectfully submitted,



Robert L Borden, CFA
Executive Director



Robert Beale, CFA
Chief Investment Officer



Wade H. Adams, CPA
Chief Fiscal Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to
Louisiana State
Employees' Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in cursive script, appearing to read "Edward Handberg".

President

A handwritten signature in cursive script, appearing to read "Jeffrey R. Emmer".

Executive Director

BOARD OF TRUSTEES AND PROVIDERS OF PROFESSIONAL SERVICES

(As of June 30, 2004)

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Senator Lambert Boissiere, Jr.
Virginia Burton
Connie Carlton
Honorable John Kennedy, State Treasurer
Barbara McManus McCann
Louis S. Quinn, Chairman
Sheryl M. Ranatza
Representative Pete Schneider
Kathy Singleton
Cheryl Turner
Judge Trudy M. White

Actuary

Hall Actuarial Associates

Auditor

Postlethwaite & Netterville APAC

Custodian Bank

State Street Bank & Trust Company

Investment Consultant

New England Pension Consultants

Investment Managers

Domestic Equity

Aronson & Partners
Brandywine Asset Management
Chicago Equity Partners
Goldman Sachs
LASERS' S & P 100 Index
LASERS' S & P 400 Index
LASERS' S & P 500 Index
LASERS' S & P 600 Index
LSV Asset Management
SSGA Russell 2000 Index Fund
Thomson, Horstmann & Bryant
TCW Asset Management
Westfield Capital Management

Domestic Fixed Income

W.R. Huff Asset Management
Loomis, Sayles & Company
Orleans Capital Management
SSGA High Yield Bond Index
TCW Asset Management

Global Fixed Income

Delaware International Advisers, Ltd.

Real Estate

Heitman/JMB Advisory Corporation
L & B Real Estate Counsel
CB Richard Ellis Investors, LLC
TCW Reality Fund Six

International Equity

Delaware International Advisers, Ltd.
Nicholas Applegate Capital Management
Schroder Investment Management North America Inc.
SSGA Salomon PMI Fund
Templeton Investment Counsel, LLC

Private Markets

Adams Street Partners
Erasmus
John Hancock Mutual Life
HarbourVest Partners, LLC
Huff Alternative Fund, L.P.
Pathway Capital Management
Williams Capital Management

International Emerging Market

Schroder Investment Management North America Inc.

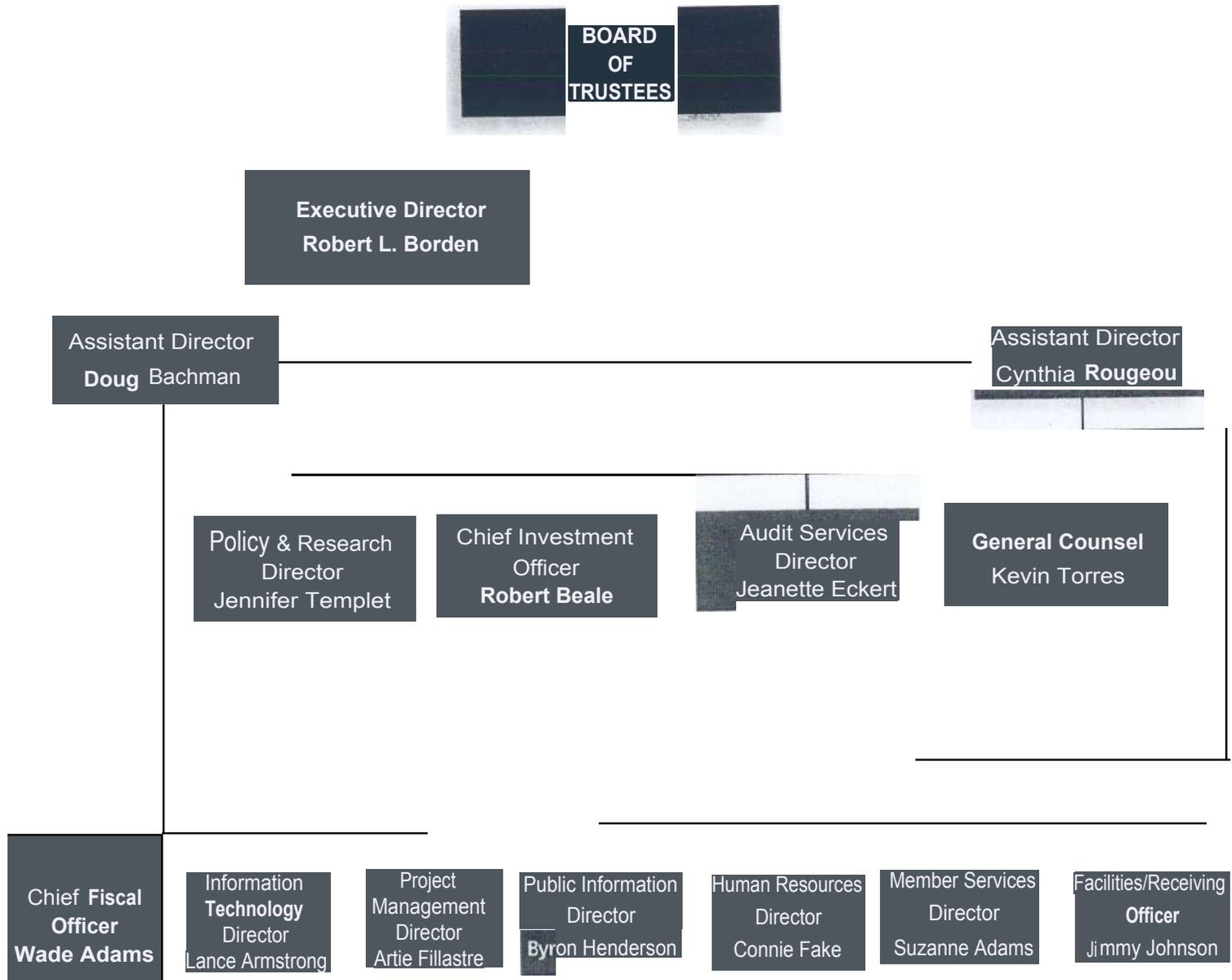
Merger Arbitrage

Arnhold & S. Bleichroeder, Inc.
Kellner, DiLeo & Company
K-2 Advisors, LLC
Pacific Alternative Asset
Management Company

**A listing of investment managers with return rates is shown on
pages 87 through 89 in the Investments Section.**

LASERS ORGANIZATIONAL CHART

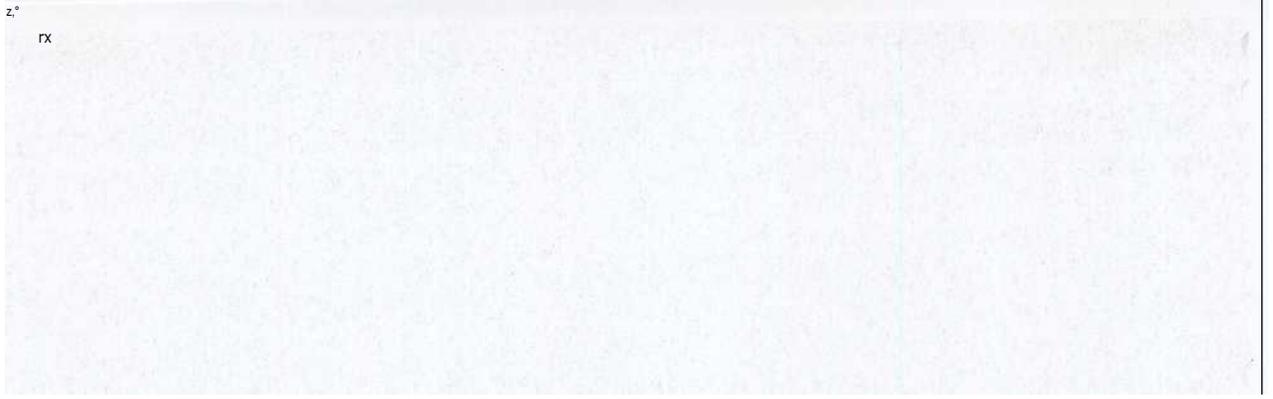
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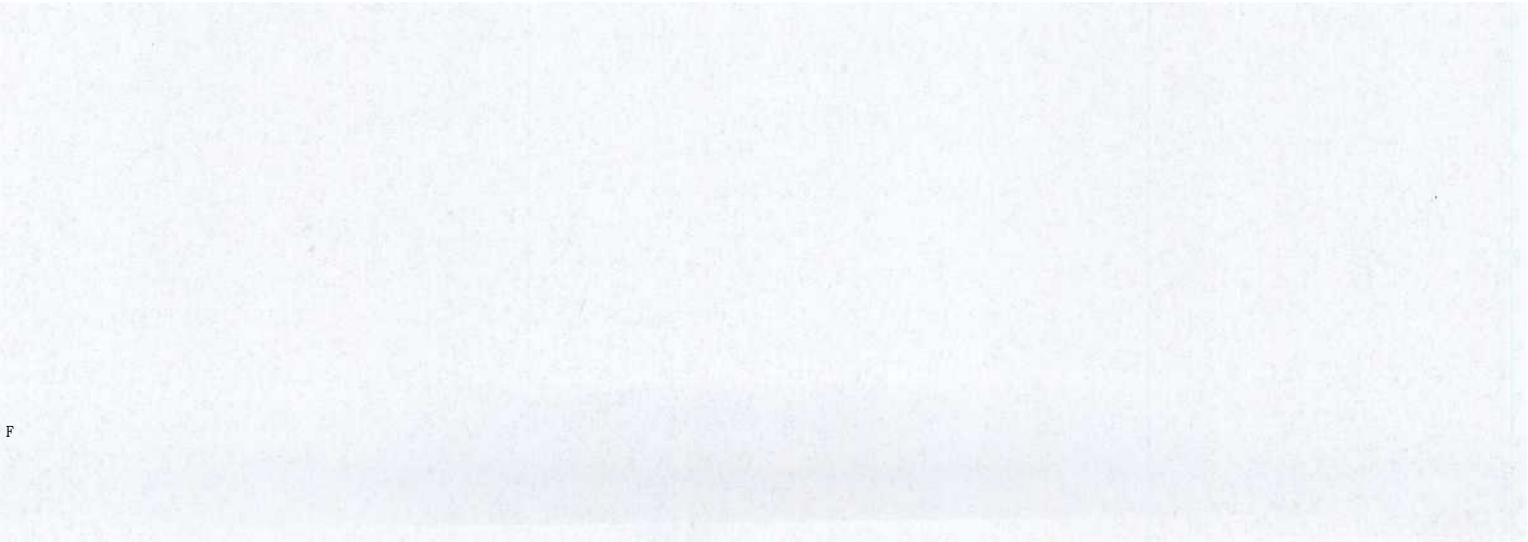
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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Louisiana State Employees' Retirement System
Baton Rouge, Louisiana

We have audited the accompanying financial statements of the Louisiana State Employees' Retirement System (LASERS), a component unit of the State of Louisiana, as of and for the years ended June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of LASERS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, information regarding the Plan's net assets as of June 30, 2004 and 2003, and the changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2004, on our consideration of LASERS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management Discussion and Analysis and the other required supplemental information on pages 17 through 20 and 45 through 46, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supporting schedules on pages 49 through 53 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Baton Rouge, Louisiana
September 3, 2004



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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Louisiana State Employees' Retirement System
Baton Rouge, Louisiana

We have audited the financial statements of Louisiana State Employees' Retirement System (LASERS), a component unit of the State of Louisiana, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 3, 2004. We conducted our audit in accordance with standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether LASERS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered LASERS' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Trustees, management and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. Under La. Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Baton Rouge, Louisiana
September 3, 2004



LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

P.O. BOX 44213 • BATON ROUGE, LOUISIANA 70804-4213

8401 UNITED PLAZA BLVD.
BATON ROUGE, LA 70809

VOICE: 225-922-0600
TOLL-FREE: 1-800-256-3000
www.lasers.state.la.us

Management's Discussion and Analysis

We are pleased to provide this overview and analysis of the financial activities of the Louisiana State Employees' Retirement System (LASERS) for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information furnished in the Transmittal Letter of LASERS Comprehensive Annual Financial Report (CAFR).

Financial Highlights

- ❖ As of June 30, 2004, LASERS Plan Net Assets held in Trust for the payment of benefits is \$6,608,025,129, an increase of \$889,281,150, or about 15.6%, from the prior year. The primary causes of the increase are the increases in the financial markets that impacted LASERS investment performance and a rise in contributions. All of the Plan Net Assets are available to meet LASERS ongoing obligations to its members, retirees and beneficiaries.
- ❖ In 2004, LASERS total revenue (Additions to Plan Assets) for the fiscal year was \$1,504,618,279 compared to \$679,748,580 in 2003. Total revenue consisted of employer and employee contributions totaling \$499,268,795, investment income of \$996,024,095 (net of manager fees), and miscellaneous income of \$9,325,389. The largest increase in revenue is from investment income as a result of a \$630,822,217 gain in unrealized income. See Table 2 for further details.
- ❖ Expenses (Deductions in Plan Assets) for fiscal year 2004 were \$615,337,129, an increase of \$34,454,294, or approximately 5.9%, from the prior year. The increase is primarily due to an increase in the number of retirees and an increase in benefit payments as a result of an increase in the average retirement benefit. See Table 3 of this analysis report for further details.
- ❖ LASERS funding objective is to fund its long-term benefit obligations through contributions and investment income by the year 2029. As of June 30, 2004, the actuarial funded ratio of assets to liabilities is 59.6%. This ratio means that LASERS currently has about 60 cents for every dollar of future benefits to be paid to state employees.
- ❖ In February 2004, the Public Retirement Systems' Actuarial Committee (PRSAC) ruled that including the negative Employee Experience Account Balance in funding calculations violated constitutional funding requirements. This ruling resulted in a \$686,860,302 increase in the Unfunded Actuarial Accrued Liability and a 6.2% decrease in the Plan's Funded Ratio.
- ❖ Act 588 of the 2004 Regular Session made significant changes to prospective funding of the Plan. The outstanding balance of changes in liabilities from 1993 — 1998 were re-amortized as a level dollar amount through 2029. The amortization period for changes in liabilities beginning with 1999 were extended to a thirty-year period from the date of occurrence. A minimum employer contribution rate of 15.5% and an Employer Credit Account were established for excess contributions.

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page 17
Robert L. Borden,
Executive Director

Overview of the Financial Statements

The following discussion and analysis are intended to serve as an introduction to LASERS financial statements, which are comprised of comparative Statements of Plan Net Assets, comparative Statements of Changes in Plan Net Assets, and Notes to the Financial Statements. This report contains other required supplementary information and supporting schedules in addition to the basic financial statements themselves.

The Comparative Statements of Plan Net Assets is a snapshot of account balances at year-end. It indicates the assets of the fund, liabilities that are owed, and funds available for future payments (assets less liabilities) at that point in time.

The Comparative Statements of Changes in Plan Net Assets provides a view of current year activity, both additions and deductions to the plan.

Both statements are in compliance with applicable Governmental Accounting Standards Board (GASB) Statements, including Nos. 25 and 34. These pronouncements require state and local governments to use the full accrual method of accounting and to provide certain disclosures in the footnotes. LASERS complies with all material requirements of these pronouncements.

The Comparative Statements of Plan Net Assets and the Comparative Statements of Changes in Plan Net Assets report information about LASERS activities. These statements include all assets and liabilities, using the accrual basis of accounting. All investment gains and losses are shown on a trade date basis, not settlement date. In addition, both realized and unrealized gains and losses on investments are shown, and all fixed assets are depreciated over their useful lives. (See LASERS financial statements following this discussion and analysis.)

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. (See *Notes to the Financial Statements* beginning on page 25 of this report.)

Required Supplementary Information provides additional information and detail concerning LASERS progress in funding its obligations, the history of employer contributions and schedules of trend data. (See *Required Supplementary Information* beginning on page 43 of this report.)

The *Supporting Schedules* section includes schedules on administrative expenses, investment manager fees and other investment expenses, and payments to consultants. (See *Supporting Schedules* beginning on page 47 of this report.)

Financial Analysis

LASERS financial position is measured in several ways. One way is to determine the Plan Net Assets (difference between total assets and total liabilities) available to pay benefits. Over time, increases and decreases in LASERS Plan Net Assets indicate whether its financial health is improving or deteriorating. Other factors, such as financial market conditions, should also be taken into consideration when measuring LASERS overall health.

LASERS Plan Net Assets as of June 30, 2004, totaled \$6,608,025,129. All of the Plan Net Assets are available to meet LASERS ongoing obligations to members, retirees and beneficiaries (See Table 1 on page 19).

LASERS Plan Net Assets held in trust for the payment of benefits steadily increased over the past decade until the fiscal year ending June 30, 2001, when there was a downturn in the investment market. In fiscal year 2003 Plan Net Assets began to rise again. Plan Net Assets increased by \$889,281,150, or 15.6%, in the year ending June 30, 2004, compared to a 1.8% increase for the year ending June 30, 2003. The increase was due primarily to a rise in the financial markets and an increase in contributions received. Despite past volatility in the financial markets, LASERS remains in a strong financial position to meet its obligations to members, retirees and beneficiaries. For the fiscal year ended June 30, 2004, LASERS had a positive net operating cash flow of \$9.3 million (excludes both realized and unrealized investment gains and losses). LASERS constantly reviews

its asset allocation strategies and makes minor adjustments to maximize investment returns and maintain adequate liquidity. LASERS is a long term investor in financial markets and believes, based on history, that such a strategy is prudent and profitable.

Table 1 - LASERS Plan Net Assets (Dollar Amounts Shown in Thousands)

	2004	2003	2002	2003 to 2004 Increase/ (Decrease)	2003 to 2004 Percentage Change	2002 to 2003 Increase/ (Decrease)	2002 to 2003 Percentage Change
Cash	\$ 48,822	\$ 91,562	\$ 30,376	(\$ 42,740)	(46.7%)	\$ 61,186	201.4%
Receivables	70,640	89,712	128,858	(19,072)	(21.2%)	(39,146)	(30.4%)
Investments, at Fair Value	6,534,374	5,630,344	5,529,535	904,030	16.1%	100,809	1.8%
Capital Assets	5,317	5,658	6,156	(341)	(6.0%)	(498)	(8.1%)
Total Assets	\$6,659,153	\$5,817,276	\$5,694,925	\$ 841,877	14.5%	\$ 122,351	2.1%
Total Liabilities	51,128	98,532	75,047	(47,404)	(48.1%)	23,485	31.3%
Plan Net Assets	\$6,608,025	\$5,718,744	\$5,619,878	\$ 889,281	15.6%	\$ 98,866	1.8%

LASERS Activities

A rise in the market value of investments and increases in contributions (as a result of higher salaries and increased employer contribution percentage) increased Plan Net Assets by \$889,281,150, a 15.6% gain at year end, compared to a 1.8% gain experienced at June 30, 2003. Key elements of these gains are described in the sections that follow.

Revenues - Additions (Losses) to Plan Assets

The revenues needed to finance retirement benefits are accumulated primarily through the collection of employer and employee contributions and earnings on investments (net of investment expenses). Revenue gains for the fiscal year ended June 30, 2004, totaled \$1,504,618,279. (See Table 2 below.)

Table 2 - Contributions and Investment Earnings (Dollar Amounts Shown in Thousands)

	2004	2003	2002	2003 to 2004 Increase/ (Decrease)	2003 to 2004 Percentage Change	2002 to 2003 Increase/ (Decrease)	2002 to 2003 Percentage Change
Employer Contributions	\$ 335,992	\$ 292,290	\$ 256,080	\$ 43,702	15.0%	\$ 36,210	14.1%
Employee Contributions	163,277	159,470	151,350	3,807	2.4%	8,120	5.4%
Investment Gain/(Loss) *	996,024	212,852	(342,821)	783,172	367.9%	555,673	(162.1%)
Miscellaneous	9,325	15,137	14,659	(5,812)	(38.4%)	478	3.3%
Total	\$ 1,504,618	\$ 679,749	\$ 79,268	\$ 824,869	121.4%	\$ 600,481	757.5%

*Net of investment manager fees of \$20,267, \$16,901, and \$17,214 (in thousands) for June 30, 2004, June 30, 2003, and June 30, 2002, respectively.

Contributions increased as a result of higher annual payroll overall and an increase in the employer contribution rate from 14.1% to 15.8%. The increased contribution rate was required to meet the

constitutional mandate of the system being fully funded by 2029. Increased contributions and net realized and unrealized investments gains were the primary reasons that total revenue increased \$824,869,699, or 121.4%, for the year ended June 30, 2004 and \$600,480,779, or 757.5%, for the prior year. The Investment Section of LASERS CAFR provides more detail concerning the investment activity for the fiscal year ended June 30, 2004.

Expenses — Deductions from Plan Assets

LASERS was created to provide lifetime retirement, survivor, and disability benefits to qualified LASERS members. The cost of such programs includes recurring benefit payments, refund of contributions to terminated employees, and the administrative costs.

Deductions for the fiscal year ending June 30, 2004, totaled \$615,337,129, an increase of approximately 5.9%, compared to a 7.0% increase for the prior year (see Table 3 below). The increase in benefits paid resulted from an increase in retirees and an increase in the average benefit resulting from the higher average salary history of more recent retirees. Total Additions of \$1,504,618,279 less total Deductions of \$615,337,129 resulted in an increase in Plan Net Assets of \$889,281,150. A detail of Administrative Expense activity can be found in the Schedule of Administrative and Investment Expenses — Budget and Actual on page 49.

Table 3 - Benefit Payments and Other Expenses (Dollar Amounts Shown in Thousands)

	2004	2003	2002	2003 to 2004 Increase/ (Decrease)	2003 to 2004 Percentage Change	2002 to 2003 Increase/ (Decrease)	2002 to 2003 Percentage Change
<i>Benefit Payments</i>	\$ 573,153	\$ 544,010	\$ 498,393	\$ 29,143	5.4%	\$ 45,617	9.2%
<i>Refund of Contributions</i>	28,760	25,044	31,391	3,716	14.8%	(6,347)	(20.2%)
<i>Administrative Expense</i>	12,629	10,196	8,316	2,433	23.9%	1,880	22.6%
<i>Other Expenses</i>	795	1,633	4,944	(838)	(51.3%)	(3,311)	(67.0%)
Total	\$ 615,337	\$ 580,883	\$ 543,044	\$ 34,454	5.9%	\$ 37,839	7.0%

Request for Information

The CAFR is designed to provide LASERS Board of Trustees, our membership, taxpayers, investment managers, and creditors with a general overview of LASERS financial position and accountability for the funds it receives. It is available in its entirety on the Louisiana State Employees' Retirement Systems web site (in Adobe Acrobat) at www.lasers.state.la.us.

Questions concerning any of the information provided in this report or the CAFR, or requests for additional financial information, should be addressed to:

LASERS
 8401 United Plaza Blvd., Baton Rouge, LA 70809
 PO Box 44213, Baton Rouge, LA 70804-4213

BASIC FINANCIAL STATEMENTS

June 30, 2004 and 2003

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**STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2004 AND 2003**

	2004	2003
ASSETS		
Cash and Cash Equivalents (at fair value)	\$48,821,649	\$91,561,494
Receivables:		
Employer Contributions	23,542,144	20,186,471
Member Contributions	11,440,448	11,013,639
Interest and Dividends	26,363,975	29,644,425
Investment Proceeds	6,813,288	27,771,546
Open Investment Contracts	1,796,303	255,914
Other	684,254	840,163
 Total Receivables	 70,640,412	 89,712,158
Investments (at fair value):		
Short-term Investments - Domestic	406,659,192	172,524,924
U. S. Government Obligations	453,183,609	675,181,505
Bonds/Fixed Income - Domestic	653,811,272	863,268,859
Bonds/Fixed Income - International	425,666,540	370,356,361
Equity Securities - Domestic	2,997,721,043	2,370,603,802
Equity Securities - International	1,094,007,887	852,278,899
Real Estate Investments	36,559,190	31,238,732
Alternative Investments	466,764,746	294,891,180
 Total Investments	 6,534,373,479	 5,630,344,262
Property and Equipment (at cost):		
Land	858,390	858,390
Building and Improvements	5,149,223	5,131,565
Equipment	8,976,375	8,652,667
 Total Property and Equipment	 14,983,988	 14,642,622
Accumulated Depreciation	(9,666,559)	(8,984,880)
 Property and Equipment - Net	 5,317,429	 5,657,742
 TOTAL ASSETS	 6,659,152,969	 5,817,275,656
 LIABILITIES		
Investment Commitments Payable	41,407,685	93,197,172
Accounts Payable - Open Investment Contracts	1,796,302	255,914
Accounts Payable and Other Accrued Liabilities	7,923,853	5,078,591
 TOTAL LIABILITIES	 51,127,840	 98,531,677
 NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	 \$6,608,025,129	 \$5,718,743,979

The accompanying notes are an integral part of these statements.

STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
ADDITIONS		
Contributions:		
Employer Contributions	\$335,991,617	\$292,290,126
Member Contributions	163,277,178	159,469,854
Total Contributions	499,268,795	451,759,980
Investment Income:		
Net Appreciation in		
Fair Value of Investments	879,933,623	45,767,189
Interest and Dividends	133,200,790	177,513,699
Other Investment Income	3,156,407	6,471,885
	1,016,290,820	229,752,773
Less Investment Fee Expense	20,266,725	16,901,210
Net Investment Income	996,024,095	212,851,563
Other Income	9,325,389	15,137,037
Total Additions	1,504,618,279	679,748,580
DEDUCTIONS		
Retirement Benefits	573,152,747	544,009,581
Refunds of Member Contributions	28,760,064	25,043,817
Administrative Expenses	12,629,058	10,196,507
Other	795,260	1,632,930
Total Deductions	615,337,129	580,882,835
NET INCREASE	889,281,150	98,865,745
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of Year	5,718,743,979	5,619,878,234
End of Year	\$6,608,025,129	\$5,718,743,979

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

A. PLAN DESCRIPTION

General Organization

The Louisiana State Employees' Retirement System ("LASERS" or the "System") is the administrator of a single-employer defined benefit pension plan and is a component unit of the State of Louisiana included in the state's CAFR as a pension trust fund. The System was established and provided for within Title 11 Chapter 401 of the Louisiana Revised Statutes (LRS).

In May 2002, the Governmental Accounting Standards Board issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units* which amended Statement No. 14, *The Financial Reporting Entity*. The definition of the reporting entity is based primarily on the notion of financial accountability. In determining financial accountability for legally separate organizations, the System considered whether its officials appoint a voting majority of an organization's governing body and whether they are able to impose their will on that organization or if there is a potential for the organization to provide specific financial burdens to or to impose specific financial burdens on the System. The System also determined whether there are organizations that are fiscally dependent on it. It was determined that there are no component units of the System.

Plan Membership

The System is one of several public retirement systems in Louisiana. Each system has specific membership requirements established by legislation with LASERS established for state officers and employees and their beneficiaries. Other public employers report members who retained membership in LASERS upon transfer to other public systems or as provided by specific legislation. A summary of government employers and members participating in LASERS at June 30, 2004 and 2003 follows:

Type of Employer:	2004		2003	
	Number of Employers	Number of Members	Number of Employers	Number of Members
State Agencies	216	63,874	214	65,122
Other Public Employers	131	275	136	319
Totals:	347	64,149	350	65,441
Type of Active Members:				
Regular State Employees		58,226		59,056
Corrections Employees		5,328		5,628
Judges		324		326
Wildlife Agents		217		370
Legislators		54		61
Total Active Members		64,149		65,441

NOTES TO FINANCIAL STATEMENTS

At June 30, 2004 and 2003, membership consisted of:

	2004	2003
Retirees and beneficiaries currently receiving benefits	33,456	32,757
Terminated vested employees not yet receiving benefits	1,324	1,317
Deferred retirement option plan participants	2,835	2,768
Terminated non-vested employees who have not withdrawn employee contributions	35,955	30,940
Current active members	64,149	65,441
	137,719	133,223

DEFINED BENEFIT PLAN

Eligibility Requirements

All state employees except certain classes of employees specifically excluded by statute become members of the System as a condition of employment unless they elect to continue as a contributing member in any other retirement system for which they remain eligible for membership. Certain elected officials and officials appointed by the governor may, at their option, become members of LASERS.

Retirement

The age and years of creditable service required in order for a member to retire with full benefits are established by statute and vary depending on the member's employer and job classification. The substantial majority of members may retire with full benefits at ages ranging from any age upon completing 30 years of creditable service, to age 60 upon completing ten years of creditable service. Additionally, members may choose to retire with 20 years of service at any age, with an actuarially reduced benefit.

The basic annual retirement benefit for substantially all members is equal to 2 1/2% of average compensation multiplied by the number of years of creditable service.

Average compensation is defined as the member's average annual earned compensation for the highest 36 consecutive months of employment. The maximum annual retirement benefit cannot exceed the lesser of 100% of average compensation or certain specified dollar amounts of actuarially determined monetary limits, which vary depending upon the member's age at retirement. Judges, court officers, and certain elected officials receive an additional annual retirement benefit equal to 1% of average compensation multiplied by the number of years of creditable service in their respective capacity. As an alternative to the basic retirement benefit, a member may elect to receive his retirement benefits under any one of six different options providing for a reduced retirement benefit payable throughout his life with certain benefits being paid to his designated beneficiary after his death.

A member leaving employment before attaining minimum retirement age but after completing certain minimum service requirements becomes eligible for a benefit provided the member lives to the minimum service retirement age and does not withdraw his accumulated contribution. The minimum service requirement for benefits varies depending upon the member's employer and service classification but generally is ten years of service.

Deferred Benefits

The state legislature authorized LASERS to establish a Deferred Retirement Option Plan (DROP). When a member enters DROP, his status changes from active member to retiree even though he continues to work at his regular job and draws his regular salary for a period of up to three years. The election is irrevocable once participation begins.

NOTES TO FINANCIAL STATEMENTS

During DROP participation, accumulated retirement benefits that would have been paid to each retiree are separately tracked. Interest at a rate of one-half percent less than the system's realized return on its portfolio (not to be less than zero) will be credited to the retiree after participation ends. At that time, the member must choose among available alternatives for the distribution of benefits that have accumulated in the DROP account.

Effective January 1, 1996, members eligible to retire and who do not choose to participate in DROP may elect to receive at the time of retirement an initial benefit option (IBO) in an amount up to 36 months of benefits, with an actuarial reduction of their future benefits. Such amount may be withdrawn or remain in the IBO account earning interest at the same rate as the DROP account.

Effective January 1, 2004, under Act 818 of the 2003 Regular Session, LASERS established a Self-Directed DROP Plan (SDDP) administered by a third-party provider under contract with LASERS. The SDDP allows DROP/IBO participants to choose from a menu of investment options for the allocation of their DROP/IBO balances. Participants may diversify their investments by choosing fixed investment options and mutual funds from asset classes with different holdings, management styles, and risk factors.

DROP/IBO participants have the option to choose the LASERS' DROP/IBO account, or the new SDDP, if the participant:

- 1) retired and selected the IBO before January 1, 2004, or
- 2) had a DROP start date before January 1, 2004, or
- 3) was eligible for regular retirement before January 1, 2004, continued to work, and later entered DROP within the three-year sixty-day window, or took the IBO, or
- 4) was the spousal beneficiary of a DROP/IBO account.

Disability Benefits

Substantially all members with ten or more years credited service who become disabled may receive a maximum disability retirement benefit equivalent to the regular retirement formula without reduction by reason of age.

Survivor's Benefits

Certain eligible surviving dependents receive benefits based on the deceased member's compensation and their relationship to the deceased. The deceased member who was in state service at the time of death must have a minimum of five years of service credit, at least two of which were earned immediately prior to death, or who had a minimum of twenty years of service credit regardless of when earned in order for a benefit to be paid to a minor or handicapped child. Benefits are payable to an unmarried child until age 18, or age 23 if the child remains a full-time student. The aforementioned minimum service credit requirement is ten years for a surviving spouse with no minor children, and benefits are to be paid for life to the spouse or qualified handicapped child.

Supplemental Benefit Adjustments

Previous statutes allowed the Board of Trustees to make annual supplemental cost-of-living adjustments (COLAs) each year when the System's Actuary and the State Legislative Actuary certified that LASERS was systematically approaching actuarial soundness, if such COLAs had not already been enacted by the legislature. The COLAs could not be greater than 3% in any year. These adjustments were computed on the base retirement or survivors' benefit. Benefit increases have occurred under the statutes in various years since

NOTES TO FINANCIAL STATEMENTS

1970 and have been limited to the 3% amount. In addition, several other COLAs or supplemental benefit payments have occurred in the past as a result of legislation, some being paid from investment income, and others being paid from funds appropriated by the state legislature. COLAs were granted in 1980, 1981, 1984, 1986 and 1991. The last COLA from appropriations of funds was granted on September 1, 1991.

In 1992, Act 1031 created an Employee Experience Account to accumulate one-half of any returns above the target return rate of 8.25%. Such accumulations are offset when returns do not meet the target rate. In 1999, additional legislation was added to provide a permanent mechanism and guidelines for COLAs.

Act 900 of 2001 provided legislation for a Minimum Retirement Benefit funded by the Employee Experience Account. The Minimum Retirement Benefit was designed to increase benefits for those members who had been retired the longest and were receiving a relatively small benefit. This additional monthly benefit provided a benefit increase for 1,485 retirees. The Employee Experience Account provided COLAs in 1996 and 1998 through 2002.

In 2001, Act 1016 provided for an additional 1% COLA when the actuarial return exceeds 8.25%. Act 1016 legislation limited the COLA to the first \$70,000 of a member's benefit and provided for the \$70,000 to be increased each year in an amount equal to any increase in the consumer price index (U.S. city average for all urban consumers (CPI-U)) for the preceding year. In addition, the legislation provided that any COLA increase shall begin on July 1st following legislative approval.

Following the events of September 11, 2001, financial market volatility (the relative ups and downs) was redefined. As a result, by June 30, 2003, the balance in the Employee Experience Account was (\$634,512,981). In February 2004, the Louisiana Public Retirement Systems' Actuarial Committee (PRSAC) ruled that the negative balance violated constitutional funding requirements and should not be included in funding calculations. This ruling resulted in a 6.2% decrease in the Plan's Funded Ratio as of June 30, 2004.

Act 588 of the 2004 Regular Session made significant changes to prospective funding for COLAs. The outstanding balance of changes in liabilities from 1993 - 1998 were re-amortized as a level dollar amount through 2029. The amortization period for changes in liabilities beginning with 1999 were extended to a thirty-year period from the date of occurrence, in accordance with GASB. A minimum employer contribution rate of 15.5% and an Employer Credit Account were established for excess contributions. Act 588 also reset the Employee Experience Account to zero and thereafter limited the account balance to no more than the reserve for two COLAs. The Employer Credit Account has an initial value of zero. Its purpose is to accumulate the excess of the minimum rate of 15.5% over the actuarially required employer contribution for the fiscal year and will accumulate interest at the actuarial rate of return earned annually by the System.

The process for granting COLAs was also changed by Act 588. Under Act 588, the Board of Trustees may not grant a COLA increase unless it has been approved by the legislature by a concurrent resolution adopted by the favorable vote of a majority of the elected members of each house. LASERS' Board of Trustees may recommend to the Legislature that a COLA increase be granted if the Employee Experience Account is sufficient to fund such a benefit fully on an actuarial basis, as determined by the System's Actuary.

DEFINED CONTRIBUTION COMPONENT**Optional Retirement Plan**

The 1999 Regular Legislative Session, in Act 1320, established the Optional Retirement Plan (ORP), which functions as a defined contribution component of LASERS for certain unclassified employees who otherwise would be eligible to become members of LASERS. The ORP was established to provide retirement and death benefits to eligible participants while affording the maximum portability of these benefits to the participants. Investment options for participants are established by the ORP provider and selected by the participant. ORP balances are held by the ORP provider in separate accounts in each participant's name. Vesting in the system is immediate in all funds submitted to the ORP provider by LASERS on behalf of the participant. The ORP does not contain special provi-

NOTES TO FINANCIAL STATEMENTS

lions for disability benefits, and death benefits are paid out by the provider in accordance with Internal Revenue Code provisions. All other benefit obligations are the sole obligation of the ORP provider.

The effective date of the Plan established by Act 1320 was July 1, 2000 with a sunset provision for June 30, 2001. Each eligible member had a window of opportunity to join the ORP. The sunset provision of Act 1320 was exercised on June 30, 2001, but ORP was re-opened effective May 1, 2002 by Act 136 of the First Extraordinary Session of the Legislature. The basic eligibility and purpose of ORP remained unchanged. A new sunset provision date was set to December 7, 2003. Those in an eligible position prior to May 1, 2002, had 90 days, or until July 31, 2002, to make this election. Those placed in an eligible position on or after May 1, 2002, and on or before December 7, 2003, had 90 days from their date of appointment to make the election.

The ORP was revised by Act 923 of the 2004 Legislative Session with an effective date of July 1, 2004 and a sunset date of December 7, 2007. Act 923 allows for any current participating member of the Defined Benefit Plan (DBP), who would otherwise be eligible for the ORP as of December 7, 2003, to make an irrevocable election to participate in the ORP. The member had until August 31, 2004 to file this election in writing with LASERS, or the member remained in the DBP. If this election was made, then only the employee contributions maintained by LASERS in the DBP for that member were transferred to the ORP provider. If the employee had refunded service credit from the DBP, that employee must have repaid the refund prior to enrollment in the ORP to transfer employee contributions, or forfeited the right to repay the refunded service credit. After enrollment in the ORP the employee is not permitted to purchase service credit from the DBP. Additionally, Act 923 provided that anyone who elected to participate in the ORP in lieu of the DBP before July 31, 2002, may regain membership in the DBP by complying with certain provisions, designed to ensure that there is no additional actuarial cost to the System as a result of such transfers. All such transfers must be completed prior to retirement or entry into DROP. No member will be allowed to retain credit in both the ORP and the DBP.

For employees hired on or after July 1, 2004, the irrevocable election to participate in the ORP must be made in writing and filed with LASERS within 60 days after the eligible employee begins work. Elections shall be effective as of the date of appointment. If an eligible employee fails to make an election to participate in the ORP within sixty days of appointment, he shall become a member of the DBP as of the date of appointment.

Eligible employees may make a voluntary irrevocable election to participate in the ORP rather than the DBP. If an eligible employee fails to make an election for the ORP within the election period established by the legislature, the employee automatically becomes a member of the DBP. Members who elect to join the ORP shall not be considered eligible for any benefits provided from the DBP, forfeiting all service credit. As of June 30, 2004, the number of participants in the ORP is 53. Employee contributions in the ORP plan equal 7.5% of earned income. From this contribution, LASERS receives 1% of earned income for administrative fees.

Employer contributions shall be the same amount as would have been contributed in the DBP. For ORP participants, the employer rate for normal employer cost is transferred to the employees' ORP accounts and the Unfunded Liability portion of the employers' contributions are used to reduce the Plan's Unfunded Liability. For the year ended June 30, 2004, the employer rate was 15.8%, which included the normal employer cost of 6.7529% and the Unfunded Liability rate of 9.047%. The total amount retained by the System during the fiscal year for the Unfunded Liability was \$398,180.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of Accounting**

LASERS' financial statements are prepared in conformity with accounting principles generally accepted in the United States of America using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. Investment purchases and sales are recorded as of their trade date. State fund appropriations for supplemental benefits are recognized when drawn from the State Treasury. Employer and member contribu-

NOTES TO FINANCIAL STATEMENTS

tions are recorded in the period the related salaries are earned. Administrative expenses are funded exclusively from investment earnings and are subject to budgetary control of the Board of Trustees. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Method Used to Value Investments

As required by GASB No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, investments are reported at fair value. Short-term investments are reported at market value when published prices are available, or at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Corporate bonds are valued based on yields currently available on comparable securities from issuers of similar credit ratings. Mortgage securities are valued on the basis of estimated future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

Pension plan investments and financial statements are subject to market fluctuations that can rapidly change the fair value on a day-to-day basis. Such market swings can create material changes in unrealized appreciation (depreciation) of investments. LASERS is a long-term investor whose overall investment decisions and policies are not based on daily market swings.

Property and Equipment

Property and equipment are carried at historical cost. Depreciation is computed using the straight-line method based upon useful lives of 40 years for building and 3 to 15 years for equipment and furniture. For the year ended June 2004, the capitalization threshold for property and equipment was \$1,000.

LASERS is a 50% co-owner of the Louisiana Retirement Systems building and related land with Teachers' Retirement System of Louisiana.

Compensated Absences

The System pays a lump sum amount for a maximum of 300 hours of accrued personal leave upon termination of employment. Accumulated personal leave (including benefits) of employees directly related to the administration of the System is accrued, when earned, in the financial statements.

Reclassifications

Certain amounts in the 2003 financial statements have been reclassified to conform with current year presentation.

Louisiana State Employees' Retirement System

NOTES TO FINANCIAL STATEMENTS

C. CONTRIBUTIONS

Member Contributions

Member contribution rates for the System are established by LRS 11:62. Member contributions are deducted from their salary and remitted to the System by participating employers. The rates in effect during the years ended June 30, 2004 and 2003, for the various types of members are as follows:

Type	% of Earned Compensation	
	2004	2003
Judges, court officers and legislators, the Governor and Lt. Governor	11.5%	11.5%
Clerk of the House of Representatives and Secretary of the Senate	9.5%	9.5%
Certain Department of Corrections employees	9.0%	9.0%
Certain Department of Wildlife and Fisheries employees	9.5%	8.5%
Certain Bridge Police employees	8.5%	8.5%
All others	7.5%	7.5%

A member's claim is established for member contributions less amounts transferred to reserves for retirement and amounts refunded to terminated members. If a member leaves covered employment or dies before any benefits become payable on his behalf, the accumulated contributions may be refunded to the member or his designated beneficiary. Similarly, accumulated contributions in excess of any benefits paid to a member or his survivors are refunded to the member's beneficiary or his estate upon cessation of any survivor's benefits.

Employer Contributions

Each employer is required to contribute a percentage of each employee's earned compensation to finance participation of its employees in LASERS. The employer's contribution rate is established under LRS 11:101-11:104 annually by PRSAC, considering the recommendation of the System's Actuary. In February 2004, PRSAC ruled that the negative Employee Experience Account balance must be removed from the funding calculations, and reset the employer contribution rate for the 2004-2005 plan year from the 17.2% recommended by the System's Actuary to 19.1%. Act 588 of the 2004 Regular Session modified the Plan's amortization schedule, reducing the contribution rate to 17.9%. On June 30, 2004, PRSAC reset the rate officially for the 2004-2005 plan year at 17.8%. This rate of employer contribution is 0.8% less than the 18.6% required employer contribution rate recommended in the 2003-2004 System Actuary's Valuation.

NOTES TO FINANCIAL STATEMENTS

Shown below are the rates for the years ended June 30, 2004 and 2003.

	2004	2003
Percent of members' earned compensation	15.8%	14.1%

The State's pension cost and net pension obligation to LASERS for the years ended June 30, 2004 and 2003 is as follows:

	2004	2003
Actuarial required contribution	\$367,881,226	\$326,335,197
Interest on net pension obligation	1,751,076	168,933
Adjustment to annual required contribution	(4,702,134)	2,268,608
Annual pension cost-interest adjusted to end of year	364,930,168	328,772,738
Contributions made	(350,787,845)	(309,595,244)
Increase (decrease) in net pension obligation	14,142,323	19,177,494
Net pension obligation beginning of year	21,225,164	2,047,670
Net pension obligation end of year	\$35,367,487	\$21,225,164

The Annual Pension Cost (APC) has been adjusted with interest at the valuation rate to the end of the fiscal year in accordance with GASB's Statement No. 27.

Three-Year Trend Information			
Fiscal Year Ending	Annual Pension Cost (APC) (Value at Midyear)	Percentage of APC Contributed	Net Pension Obligation
6/30/02	\$281,791,315	96.3%	\$2,047,670
6/30/03	\$328,772,738	94.1%	\$21,225,164
6/30/04	\$364,930,168	96.1%	\$35,367,487

Transfer of Service

Any Louisiana public retirement or pension system member who has six months of creditable service and who has membership credit in any other such system has the option of transferring all of this credit to the member's current system. The transferring system is required to transfer to the member's current system the greater of all employee and employer contributions plus interest compounded annually at the board approved actuarial valuation rate of the transferring system or the actuarial liability. In the event that the contributions transferred are less than the contributions which would have been made

NOTES TO FINANCIAL STATEMENTS

had the service been in his current system, the member has the option of either paying the difference plus interest or having his credited service decreased based upon the amount of contributions transferred.

D. CASH AND INVESTMENTS

Deposit and Investment Risk Disclosures

The tables presented below include disclosures of credit, interest rate and foreign currency risks in accordance with GASB 40 and are designed to inform financial statement users about investment risks that could affect LASERS' ability to meet its obligations. These tables classify investments by risk type, while the financial statements present investments by asset class; thus, the totals shown on the tables may not be comparable to the amounts shown for the individual asset classes on the financial statements. For issues or issuers of investment-grade quality, S&P assigns the credit ratings AAA, AA, A, and BBB, while Moody's uses Aaa, Aa, A, and Baa. (Both agencies introduced rating modifiers in the early 1980's: S&P using plus and minus signs, and Moody's using 1, 2 and 3). For issues or issuers of non-investment-grade quality, S&P assigns ratings of BB, B, CCC, CC, C, and D, while Moody's uses Ba, B, Caa, Ca, and C (again with modifiers). The higher the rating, the less likely the chance of default (defined as an issuer's not making a payment of principal or interest on time). According to S&P's definition, a triple-A rating means that the issuer has an "extremely strong capacity to pay interest and repay principal on time", whereas, a C rating means a "high risk of default or reliance on third parties to prevent default."

Cash and Cash Equivalents

Cash and cash equivalents include cash deposited in banks and short term repurchase agreements. Cash is insured by the Federal Deposit Insurance Corporation up to \$100,000, and cash equivalents are collateralized by the pledge of government securities held by the agents in the entity's name. These are category 1 funds. Category 1 funds include investments that are insured or registered, or securities that are held by the System or its agent in the System's name. Category 2 funds include uninsured and unregistered investments with securities held by the counterparty's trust department, or agent, in the System's name. Category 3 funds include uninsured and unregistered investments with securities held by the counterparty, its trust department or agent but not in the System's name.

Short-Term Investments

Short—term funds may be invested in direct U.S. Government obligations such as U.S. Treasury Bills or repurchase agreements, which are fully collateralized by U.S. Treasury issues. Excess cash may also be invested in the Short Term Investment Fund (STIF) and Yield Plus Fund of the Custodian Bank or negotiable certificates of deposit, or other short-term investment vehicles designated by the Board. At June 30, 2004 LASERS had the following balances in short-term funds held at State Street Bank (SSB):

ISSUER	Fair Value @ 6/30/2004	S&P RATING	COMMENT
AIG FUNDING INC	\$13,598,054	A-1+	
LASALLE BANK CORP	16,297,668	A-1	
PRUDENTIAL FUNDING LLC	13,598,017	A-1	
SSB STIF (State Street Bank Short Term Investment Fund)	363,165,453	UNRATED	Average rating of AA on underlying issue
TOTAL	\$406,659,192		

NOTES TO FINANCIAL STATEMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the counterparty, the pension trust fund will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the System, and are held by either the counterparty or the counterparty's trust department or agent but not in the System's name.

Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risks because their existence is not evidenced by securities that exist in physical or book entry form. LASERS had no custodial credit risk as of June 30, 2004.

Investments

LRS 11:261-269 "provides for the governing of fiduciary responsibilities and investments" by LASERS. LRS 11:263 states that the prudent man rule shall apply to all investments of LASERS. This law specifically requires management of LASERS to exercise the judgment and care under the circumstances then prevailing that an institutional investor of ordinary prudence 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. LRS 11:267C provides that the system may invest up to 65% of its total assets in common stock provided that "the system invests an amount equal to at least 10% of the system's total equity portfolio in one or more index funds" in accordance with LRS 11:267B(1)(a). In addition, LASERS' Board of Trustees has adopted certain investment policies, objectives, rules, and guidelines that are intended to protect and preserve LASERS' assets while targeting a 9.35% nominal rate of return and also, a real return target of 4% over the inflation rate as determined by the consumer price indexes (CPI).

The System has no investments of any single organization (other than those issued or guaranteed by the U. S. Government) that represents 5% or more of the System's net plan assets, nor does the System hold more than 5% of any corporation's stock. During fiscal year 2004, the System's investments (including investments bought, sold, as well as held during the year) appreciated in value by \$879,933,623 compared to appreciation of \$45,767,189 in the System's investments in 2003.

	2004	2003
Increase/(Decrease) in fair value of investments held at year end:	\$630,822,217	\$239,217,199
Realized gains/(losses) on investments including currency sold during the year:	249,111,406	(193,450,010)
	\$879,933,623	\$45,767,189

Realized gains/(losses) include all sales of investment assets during the year measured between the sales proceeds and the purchase cost or amortized cost of the investment asset sold and is independent of the calculation for investments held at year end. Unrealized gains and losses in investments sold in the current year that had been held for more than one year were included in the net appreciation (depreciation) reported in the prior year(s).

NOTES TO FINANCIAL STATEMENTS

The following table presents the fair value of investments permissible under such objectives, rules and guidelines as of June 30, 2004 and June 30, 2003:

INVESTMENT TYPE	Fair Value @ 6/30/2004	Fair Value @ 6/30/2003
AMERICAN DEPOSITORY RECEIPTS	\$26,936,413	\$20,691,027
COLLATERALIZED MORTGAGE OBLIGATIONS	27,759,195	70,157,311
COMMINGLED STOCK FIXED INCOME	10,918,768	8,405,559
COMMINGLED STOCK FUNDS	82,490,411	80,865,719
CORPORATE BONDS	607,461,573	851,632,738
DOMESTIC COMMON STOCK	2,915,230,632	2,289,738,083
FEDERAL AGENCY SPONSORED	28,986,408	79,861,093
FEDERAL SPONSORED	354,237,546	440,892,825
FIXED INCOME COMMINGLED	21,487,748	0
FOREIGN CORPORATE BONDS	49,465,159	62,549,144
FOREIGN CORPORATE YANKEE BONDS	91,452,725	84,646,012
FOREIGN GOVT BONDS	269,913,005	208,851,957
FOREIGN GOVT YANKEE BONDS	3,916,883	5,903,688
FOREIGN PREFERRED STOCK	2,607,755	3,501,906
FOREIGN STOCK RIGHTS	1,871,700	3,226,091
INTERNATIONAL COMMINGLED STOCK FUND	708,065,896	566,628,016
INTERNATIONAL COMMON STOCK	354,526,122	258,231,859
OTHER BONDS	24,861,952	11,636,121
ALTERNATIVE INVESTMENTS	466,764,746	294,891,180
REAL ESTATE INVESTMENT POOLS	36,559,190	31,238,732
SHORT TERM INVESTMENT FUNDS	406,659,192	172,524,924
US TREASURIES BILL & NOTES	42,200,460	84,270,277
TOTAL	\$6,534,373,479	\$5,630,344,262

Domestic Equity

Domestic equity purchases are limited to common stocks traded over the counter or on a domestic stock exchange. Uncommitted investment manager allocations may be invested for a short term in the Short Term Investment Fund (STIF). Exceptions shall be approved by the Board in advance.

Basically, investment managers are limited to any one holding not to exceed 6% at market value of their managed portfolio, except one manager may hold up to 8% of the portfolio, at market, in any one security, subject to having a minimum of 30 stocks in the portfolio. The purchase of stocks or convertibles in foreign companies through American Depository Receipts (ADR's), which are U.S. dollar denominated foreign securities traded on the domestic U.S. stock exchanges, may be held by each domestic stock

NOTES TO FINANCIAL STATEMENTS

manager in proportions which each manager shall deem appropriate up to 10% of the portfolio at market value. Convertible bonds, convertible preferred stocks, warrants and rights may be purchased as equity substitutes so long as the common stocks underlying them meet the aforementioned required equity standards.

Domestic and Foreign Debt

Domestic fixed income investments may include U.S. Government and Federal Agency obligations, corporate bonds, debentures, commercial paper, certificates of deposit, Yankee bonds, mortgage backed securities and other instruments deemed prudent by the investment managers. No more than 6% of the market value of LASERS' domestic fixed income assets may be invested in the debt securities of any one issuer, except one manager may hold up to 10% of the portfolio in a single security (at market) with a minimum of 30 securities. None of the above limitations on issues and issuers shall apply to obligations of U.S. Government and Federal Agencies as defined in the most current issue of Moody's Bond Record.

Collateralized Mortgage Obligations (CMOs) are bonds that are collateralized by whole loan mortgages, mortgage pass-through securities, or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes/tranches in accordance with that CMO's established payment order. Some CMO tranches have more stable cash flows relative to changes in interest rates, while others are significantly sensitive to interest rate fluctuations.

As of June 30, 2004, the System had the following domestic and foreign debt investments and maturities:

Investment Maturities (in years)					
INVESTMENT TYPE	Fair Value	Less than 1	1 - 5	5 - 10	More than 10
U.S. Treasuries	\$ 42,200,460	\$ 7,196,702	\$ 26,890,117	\$ 8,113,641	\$ 0
Federal Sponsored	354,237,546	0	33,823,784	15,248,326	305,165,436
Federal Agency Sponsored	28,986,408	0	0	1,279,416	27,706,992
Collateralized Mortgage Obligations	27,759,195	0	0	0	27,759,195
Corporate Bonds	607,461,573	11,611,955	138,858,400	385,505,508	71,485,710
Foreign Corporate Bonds	49,465,159	0	16,267,210	29,986,251	3,211,698
Foreign Government Bonds	269,913,005	13,275,077	57,691,725	175,266,135	23,680,068
Corporate Yankee Bonds	91,452,725	0	14,710,752	65,187,828	11,554,145
Government Yankee Bonds	3,916,883	0	0	1,221,938	2,694,945
Other Bonds	24,861,952	328,532	7,200,084	7,560,171	9,773,165
TOTAL	\$1,500,254,906	\$32,412,266	\$295,442,072	\$689,369,214	\$483,031,354

Derivatives

A derivative is a security or contractual agreement that derives its value from some underlying security, commodity, currency, or index.

NOTES TO FINANCIAL STATEMENTS

Derivative Securities

Derivative securities include Collateralized Mortgage Obligations (CMOs) and other Structured Notes. "Plain Vanilla" CMOs are CMOs that either satisfy the Federal Financial Institutions Examination Council test and/or it can be shown the CMO is less exposed to interest rate or prepayment risk than the underlying collateral. Non-vanilla CMOs are restricted to a maximum of 20% of a manager's portfolio. These CMOs must also be stress-tested to estimate how their value and duration will change with extreme changes in interest rates which LASERS defines as at least 300 basis points.

In a declining interest rate environment, some CMOs may be subject to a reduction in interest payments as a result of prepayments of mortgages which make up the collateral pool. Reduction in interest payments causes a decline in cash flows and, thus, a decline in the fair value of the CMO security. Rising interest rates may cause an increase in interest payments, thus, an increase in the fair value of the security.

Interest Rate Risk

Interest rate risk deals with debt investments with fair values that are highly sensitive to interest rate changes. These investments may contain terms that increase the sensitivity of their fair values. For example terms embedded in variable rate investments may include reset dates, benchmark indices, and coupon multipliers.

As of June 30, 2004, the System had the following investments in floaters/inverse floaters:

Asset	Benchmark Indices	Coupon Multipliers		Embedded Options	Interest Rate Sensitivity		Market Value Fair Value @
		Coupon (range)	Imputed Multiplier (range)		Duration (average)	Convexity (average)	
Type	Index Description			Weighted Average Life			6/30/2004
Non-callable Securities with Annual Reset Dates	Federal Reserve US Treasury Note 1.5%	3.05-6.935	.4102 -4.885	1.28	0.953	(.0214)	\$ 13,241,441
	BRA Libor USD 12 Month	3.874-4.932	1.574-2.632	3.842	3.49	(.0757)	46,349,000
Noncallable Securities with Monthly Reset Dates	Federal Reserve US 12 Month Cumulative Avg. 1 Year CMT	2.688	1.225	0.0833	0.74	(.012)	1,807,687
	BBA Libor USD 1 Month	9.016	7.524	13.48	28.63	6.16	3,026,148
Callable Securities with Monthly Reset Dates	BBA Libor USD 1 month	2.115 - 35.099	0.5 - 33.499	73.14	15.067	(.0873)	10,730,694
Fa to Float Foreign Securities with Annual Reset Date	Fixed for an average of 8 years; then 3 month Libor with an average of +246bp	5.75-6.375	.	8.48	6.43	.54	2,699,667
Total							\$ 77,854,637

NOTES TO FINANCIAL STATEMENTS

Credit Risk

Credit risk is the risk that a borrower will be unable to meet its obligation. The overall average quality of each fixed income portfolio shall be rated AA by Standard and Poors or higher. Non-rated issues or issues below investment grade (below BBB) may be purchased up to a maximum of 15% of the portfolio. These quality restrictions will not apply to a manager that is hired by LASERS to manage dedicated high-yield fixed income portfolios. The average duration shall not differ from the passive benchmark's duration by more than two years. **The System's exposure to credit risk, both domestic and foreign, as of June 30, 2004 is as follows:**

Moody or S&P Rating	Fair Value @ 6/30/2004
A-	\$ 2,816,856
A-1	26,559,962
A-2	65,502,546
A-3	27,226,804
AA 1	6,434,451
AA2	19,518,534
AA3	14,163,864
AAA	680,888,821
B	3,275,200
B1	53,873,764
B2	99,277,409
B3	68,756,795
BA1	53,458,567
BA2	62,196,598
BA3	101,462,106
BAA1	29,826,912
BAA2	51,751,134
BAA3	46,017,742
CA	16,860,590
CAA1	12,575,375
CAA2	15,526,393
CA3*	10,918,768
TOTAL	\$ 1,468,889,191

***Commingled global investment fund rated CA3 by Moody**

International Investments

As part of its normal asset allocation for equity and fixed income securities, the System may invest a portion of its equity and fixed income allocation in international securities. International investments shall only be entered into through the selection of a qualified investment management organization as consistent with fiduciary responsibilities. An international manager employing an active currency management program may, upon specific authorization of the Board, deal in futures and options within the discipline of that currency management program.

NOTES TO FINANCIAL STATEMENTS

The number of issues held and their geographic or industry distribution shall be left to the investment manager provided that the equity holdings in any one company (including common stock and convertible securities) do not exceed 6% of the market value of the manager's portion of LASERS' total portfolio, or 150% of a stock's weighting in the style benchmark against which the manager is measured, whichever is larger. However, the manager may hold up to 10% of the portfolio, at market, in any one security, subject to having a minimum of 30 stocks in the portfolio.

The global bond portfolio may hold no more than 30% of its assets at market value in the debt securities of any single government of a non-U.S. governmental entity. No single non-government debt security shall constitute more than 6% of the global bond portfolio, at market value. Securities issued by AAA rated Supranational Organizations (such as the World Bank) shall be considered to be government equivalents.

Short-term reserves may be held in U.S. dollar denominated, local currency securities, or investment vehicles available through the System's custodian.

Foreign Currency Risk

Foreign currency risk is the potential risk for loss due to changes in exchange rates. The fair value of securities held in a foreign currency at June 30, 2004 and June 30, 2003 was as follows:

CURRENCY	Total Fair Value @ 6/30/2004	Foreign Bonds @ 6/30/2004	Foreign Stock @ 6/30/2004	% @ 6/30/2004	Total Fair Value @ 6/30/2003
Australian Dollar	\$48,879,141	\$31,258,329	\$17,620,812	7.88%	\$25,965,335
Canadian Dollar	7,343,273	0	7,343,273	1.18%	4,365,274
Euro	219,162,468	116,261,498	102,900,970	35.32%	170,862,573
Hong Kong Dollar	6,560,545	0	6,560,545	1.06%	7,812,059
Japanese Yen	131,017,082	79,992,365	51,024,717	21.11%	86,695,517
New Zealand Dollar	2,947,612	0	2,947,612	0.48%	40,916,703
Norwegian Krone	3,580,067	0	3,580,067	0.58%	13,723,441
Polish Zloty	30,675,502	30,675,502	0	4.94%	14,373,370
Pound Sterling	86,343,221	16,826,812	69,516,409	13.91%	61,746,315
Singapore Dollar	6,150,016	0	6,150,016	0.99%	4,675,683
South African Rand	5,124,272	3,629,925	1,494,347	0.83%	1,133,375
South Korean Won	9,981,985	0	9,981,985	1.61%	11,443,243
Swedish Krona	47,322,454	40,733,733	6,588,721	7.61%	38,888,377
Swiss Franc	15,510,872	0	15,510,872	2.50%	9,515,019
TOTAL	\$620,598,510	\$319,378,164	\$301,220,346	100.00%	\$492,116,284

Derivative Contracts

LASERS allows the use of derivative contracts to the extent they can be used to hedge against the non-derivative component of a portfolio that is exposed to clearly defined risks. Derivatives shall not be used to magnify exposure by the use of leverage or to create speculation.

NOTES TO FINANCIAL STATEMENTS

LASERS may enter into contractual commitments involving financial instruments with off-balance-sheet risk. These financial instruments include forward contracts, futures and options.

Options are contracts that allow the holder to purchase or sell financial instruments for cash at a specified price at or within a specified period of time. Options bear the risk of an unfavorable change in the price of the financial instruments underlying the option and the risk that a counterparty is unable to perform in accordance with the terms of the option. LASERS held no options as of June 30, 2004.

Forwards are commonly used to protect against currency devaluation from the time a trade is made to the time a trade settles. Derivative contracts can also be used to reduce those risks associated with holding securities in a particular currency within the portfolio to protect against wide swings in currency fluctuation.

The following table represents the fair value of all open currency forwards at June 30, 2004:

Currency Forward	US Dollar Value at Trade Date	Current US Dollar Value	Unrealized Gain(Loss)
Sold GBP/Bought USD	\$25,715,847	\$ 26,226,813	(\$ 510,966)
Bought JPY/ Sold USD	1,796,303	1,779,759	(16,544)
Sold EUR/ Bought USD	79,730	81,093	(1,363)

Real Estate

Investments in real estate are limited to an initial investment value at market value of not more than 2% of total fund assets. Real estate investments are limited to a direct investment in the property located at the intersection of Essen Lane and United Plaza Boulevard in Baton Rouge, Louisiana, investments in commingled real estate pools (both open and closed end) or real estate investment trusts (REITS), and separately managed accounts. As current real estate investments are liquidated, they are being re-deployed as needed throughout the rest of LASERS asset allocation.

Alternative Investments

Investments in alternative investments, including limited partnership agreements, private capital markets, venture capital, mezzanine debt, and hedge funds shall be limited to an initial investment value at market value of no more than 8% of total fund assets. Reserves for future alternative investments may be held in large capitalization U. S. equities, subject to the 65% limit on all equity investments.

LASERS has entered into alternative investment types that include limited partnership agreements with different strategies that invest in real estate properties, domestic private equity, international private equity, hedge funds, and mezzanine debt. By making these investments, LASERS is seeking to attain investment returns of at least 11%. The total commitments for alternative investments (private placements) were approximately \$713,241,151 and \$649,400,000 as of June 30, 2004 and 2003, respectively. The total amount invested in alternative assets as of June 30, 2004 and 2003 on a cost basis was \$494,366,940 and \$356,729,900, respectively.

E. SECURITIES LENDING PROGRAM

The System has, pursuant to a Securities Lending Authorization Agreement, authorized State Street Bank and Trust Company ("State Street") to act as agent in lending the System's securities to broker-dealers and banks pursuant to a form of loan agreement. All investment assets are available for lending. During the fiscal year, State Street lent, on behalf of the System, certain securities held by State

NOTES TO FINANCIAL STATEMENTS

Street as custodian and received cash (both United States and foreign currency), and securities issued or guaranteed by the United States government, sovereign debt and irrevocable bank letters of credit as collateral. State Street did not have the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to deliver collateral for each loan equal to: (i) 102% of the market value of the loaned securities, in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments; and (ii) 105% of the market value of the loaned securities, in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States.

The System did not impose any restrictions during the fiscal year on the amount of the loans that State Street made on its behalf and State Street indemnified the System by agreeing to purchase replacement securities, or return cash collateral in the event a borrower failed to return a loaned security or pay distributions thereon. There were no such failures by any borrower to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal years resulting from a default of the borrowers or State Street.

During the fiscal year, the System and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool managed by the custodian. As of June 30, 2004, such investment pool had an average duration of 55 days and an average weighted maturity of 483 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2004, the System had no credit risk exposure to borrowers.

The System is also authorized by policy to contractually loan securities to investment brokers. The contract for a security loan provides that LASERS loan specific securities from its holdings to the broker in return for collateral. Securities under loan are maintained on the System's financial records and are classified in the preceding summary of investment risk. As the System does not have the ability to trade or sell the collateral received in the securities lending program, such collateral is not considered an asset of the System and a corresponding liability is not required on the Statements of Net Plan Assets.

The market values of securities on loan and the collateral held for the System as of June 30, 2004, were \$555,839,061 and \$568,516,250, respectively.

Fair value of securities types lent as of June 30, 2004:

SECURITY TYPE	Fair Value of Securities on Loan @ 6/30/2004	Fair Value of Collateral Held @ 6/30/2004
U.S. GOVERNMENT AND AGENCY	\$66,567,890	\$67,813,409
U. S. CORPORATE *	416,540,852	424,727,071
INTERNATIONAL EQUITY	62,000,267	65,118,170
INTERNATIONAL FIXED	10,730,052	10,857,600
TOTAL	\$555,839,061	\$568,516,250

*Fair value of US CORPORATE SECURITIES ON LOAN consists of Domestic Equity at \$326,123,315 and Domestic Fixed Income at \$90,417,537

The assets received as collateral on securities lending transactions are not available for the System or its agent to pledge or sell unless the borrower defaults. Therefore, in compliance with GASB 28, Paragraph

NOTES TO FINANCIAL STATEMENTS

7, neither assets nor liabilities are reported on the Statements of Plan Net Assets.

F. OPEN INVESTMENT CONTRACTS

Open investment contracts include forwards and future contracts for the delayed delivery of currencies at a future date. The amounts that clear within the same broker/banks and consist of the same currency are offset. The receivables and payables include the same currencies clearing through different brokers/banks and LASERS has no right of offset. The System expects no significant loss or gain from these transactions.

Any type of investment other than detailed previously shall be made only after specific guidelines are established by the Board of Trustees.

G. SELF-DIRECTED DEFERRED RETIREMENT OPTION PLAN

Investments in the Self-Directed DROP are mutual funds that consist of mutual funds, domestic equity, foreign equity and domestic fixed income. Self-Directed DROP includes \$4,888,525 invested in equity type funds and \$21,487,710 in domestic fixed income:

ISSUER	Fair Value @ 6/30/2004	RATING	COMMENT
Hancock Horizon Strategic Inc., Bond Trust	\$15,014	UNRATED	Average rating of A on underlying issues.
LASERS Stable Value Fund	\$20,968,048	UNRATED	Average rating of AAA on underlying issues.
Loomis Sayles Bond Fund-Retail	\$342,750	UNRATED	Average rating of A+ on underlying issues.
Pimco Total Return Fund-Admin (60% allocated to bonds)	\$112,050	UNRATED	Up to 10% can be invested in high yield.
Strong Government Securities Fund	\$49,848	UNRATED	Average rating of AAA on underlying issues.

H. REQUIRED SUPPLEMENTARY INFORMATION

In accordance with GASB No. 25, required supplementary information can be found in the attached schedules.



REQUIRED
SUPPLEMENTARY
INFORMATION

**SCHEDULE OF FUNDING PROGRESS
FOR THE SIX YEARS ENDED JUNE 30, 2004
(Dollar amounts in thousands)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	UAAL as Unfunded AAL (UAAL) (b^a)	Funded Ratio ()	Covered Payroll (c)	Percentage of Covered Payroll ((b^a)/c)
6/30/99	\$5,574,958	\$7,582,856	\$2,007,898	73.5%	\$1,736,963	115.6%
6/30/00	6,170,978	8,257,313	2,086,335	74.7%	1,820,132	114.6%
6/30/01	6,418,296	8,652,591	2,234,295	74.2%	1,782,884	125.3%
6/30/02	6,160,594	9,206,734	2,746,140	70.2%	1,861,887	147.5%
6/30/03	6,487,538	9,796,306	3,308,768	66.2%	1,924,680	171.9%
6/30/04	6,097,815	10,237,574	4,139,759*	59.6%*	2,017,726	205.2%

The total actuarial accrued liability determined using the Projected Unit Credit cost method increased by \$441,268 (in thousands) from June 30, 2003 to June 30, 2004. There was a net experience loss of \$113,159 (in thousands) after allocating \$63,243 (in thousands) of deficit investment income to the Experience Account in accordance with Act 1031.

*In February 2004, PRSAC ruled that the use of a negative Employer Experience Account balance in funding calculations violated constitutional funding requirements. That ruling reduced the funding ratio by 6.2% and increased the UAAL by \$686,860 (in thousands) for the fiscal year ended June 30, 2004. See the Notes to the Financial Statements for additional information.

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE SIX YEARS ENDED JUNE 30, 2004**

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1999	\$226,387,848	102.1%
2000	250,678,505	99.8%
2001	258,281,738	100.7%
2002	279,119,335	97.2%
2003	326,335,197	94.8%
2004	367,881,226	95.4%

Analysis of the percentage contributed over a period of years gives a relative indication of the funding progress for the liabilities of the Louisiana State Employees' Retirement System.

**ACTUARIAL METHODS AND ASSUMPTIONS
JUNE 30, 2004**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2004
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of payroll, increasing annuity to 2029
Remaining amortization period	25 years, closed by statute
Asset valuation method	Utilizes a four year weighted average of the unrealized gain or loss in the value of all assets at market.
Actuarial assumptions:	
Investment rate of return	8.25% per annum
Inflation Rate	3.0% per annum
Mortality	Mortality rates were projected based on the 1983 Sex Distinct Graduated Group Annuity Mortality Table with females set at attained age plus one.
Termination, disability and retirement	Termination, disability, and retirement assumptions were projected based on a five year (1997-2001) experience study of the System's members.
Salary increases	Salary increases were projected based on a 1997-2001 experience study of the System's members. The salary increase range for regular employees is 4.25 - 14.0 %. The salary increase range for specific members is: judges 2.5% - 4.7%, Corrections 4.0% - 18.0%, and Wildlife 6.5% - 18.0%.
Cost-of-living adjustments	Liability for raises already granted is included in the retiree reserve.

SUPPORTING SCHEDULES

**SCHEDULE OF ADMINISTRATIVE AND INVESTMENT
EXPENSES - BUDGET AND ACTUAL
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	2004			2003		
	Actual	Budget	Variance Favorable (Unfavorable)	Actual	Budget	Variance Favorable (Unfavorable)
Administrative Expenses:						
Salaries and Related Benefits	\$7,622,340	\$7,823,695	\$201,355	\$6,515,988	\$6,560,963	\$44,975
Travel	179,880	351,229	171,349	186,266	347,962	161,696
Operating Services	2,452,549	2,980,141	527,592	2,187,731	3,219,860	1,032,129
Supplies	272,497	299,765	27,268	181,422	197,475	16,053
Professional Services	1,952,139	2,149,403	197,264	1,125,100	1,414,256	289,156
Acquisitions*	594,009	688,774	94,765	542,073	751,417	209,344
Total Budget and Actual Expenditures	\$13,073,414	\$14,293,007	\$1,219,593	\$10,738,580	\$12,491,933	\$1,753,353
Capitalization of Capital Outlay	(444,356)	(688,774)	(244,418)	(542,073)	(751,417)	(209,344)
Total Administrative Expenses	\$12,629,058	\$13,604,233	\$975,175	\$10,196,507	\$11,740,516	\$1,544,009
Investment Fee Expenses	\$20,266,725	\$20,292,290	\$25,565	\$16,901,210	\$19,109,271	\$2,208,061
Depreciation Expense **	\$800,103	\$ -	N/A	\$657,638	\$ -	N/A

***A change in capitalization policy allows expensing of acquisitions of less than \$1,000.**

****Depreciation is not a budgeted Administrative expense but is included in the "Other Operating Expense" category.**

**SCHEDULE OF MEETINGS ATTENDED BY AND
PER DIEM PAID TO BOARD MEMBERS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	2004			2003		
	Board Meetings Attended	Other Meeting Days	Amount	Board Meetings Attended	Other Meeting Days	Amount
Cynthia Bridges	10	10	\$1,500	11	10	\$1,575
Virginia Burton	11	11	1,650	11	11	1,650
Connie Carlton	6	6	900	-	-	-
Pamela Davenport	5	5	750	10	10	1,500
Ray Funderburg	3	4	525	-	-	-
Shirley Grand	-	-	-	7	7	1,050
Benny Harris	6	6	900	9	11	1,500
Barbara McManus McCann	5	5	750	-	-	-
Louis Quinn	12	11	1,725	8	9	1,275
Sheryl Ranatza	6	6	900	-	-	-
Kathy Singleton	12	12	1,800	11	11	1,650
Cheryl Turner	10	12	1,650	9	10	1,425
Soria Young	5	5	750	9	8	1,275
Trudy White	5	5	750	9	8	1,275
Total	96	98	\$14,550	94	95	\$14,175

Note - Effective August 1997, board members are paid a per diem of \$75 per day for board meetings and other meetings. Generally, meetings are held for two consecutive days each month. During the fiscal years ended June 30, 2004 and June 30, 2003, there were 24 and 22 days, respectively, for which board members could be compensated.

The above schedule does not include publicly elected officials who serve on the board but are not compensated for their attendance.

**SCHEDULE OF INVESTMENTS AT AMORTIZED COST
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
Short-term Investments - Domestic	\$406,659,192	\$172,524,924
U.S. Government Obligations	454,363,092	665,762,688
Bonds/Fixed Income - Domestic	635,222,571	790,676,413
Bonds/Fixed Income - International	394,867,982	328,522,789
Equity Securities - Domestic	2,743,185,332	2,537,809,362
Equity Securities - International	840,125,940	843,413,319
Real Estate Pools	29,999,798	30,144,452
Alternative Investments (Private Investments)	494,366,940	356,729,900
Total	\$5,998,790,847	\$5,725,583,847

**SCHEDULE OF PROFESSIONAL SERVICE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2004**

ACCOUNTING AND AUDITING

Postlethwaite and Netterville, APAC - System Auditors	\$59,935	
Government Finance Officers Association	1,050	
		\$60,985

ACTUARIAL FEES

Hall Actuarial Associates - System Actuary	90,000	
		90,000

LEGAL FEES

Roedel, Parsons, Kock, Balhoff & McCollister	12,977	
Kathleen Hogan Cook	12,913	
Other Legal Fees	1,032	
		26,922

DISABILITY PROGRAM

Physician and Other Reviews	65,123	
		65,123

**INVESTMENT PERFORMANCE MANAGEMENT
AND ANALYTICAL SERVICES**

Plexus Group	29,000	
IRRC	28,000	
Cost Effectiveness Management	15,000	
		72,000

INVESTMENT CONSULTATION

New England Pension Consultants	225,000	
		225,000

OTHER PROFESSIONAL SERVICES

SSA Consultants	498,750	
J D Edwards	490,041	
L. R. Wechsler	110,168	
Syscom Inc.	100,545	
Cortex	68,866	
Maximus	49,335	
Westaff Temporary Staffing	48,214	
PMO Link Government Solutions	15,353	
Sparkhound	14,154	
Other Non-Consultant Professionals	16,683	
		1,412,109

PROFESSIONAL SERVICE EXPENSES		\$ 1,952,139
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**SCHEDULE OF INVESTMENT EXPENSES
FOR THE YEAR ENDED JUNE 30, 2004****MONEY MANAGER FEES**

U.S. EQUITY MANAGERS - EXTERNAL	\$3,739,740
U.S. EQUITY MANAGERS - INTERNAL	-
GLOBAL EQUITY MANAGERS	3,074,059
U.S. FIXED INCOME MANAGERS	2,583,614
GLOBAL FIXED INCOME MANAGERS	569,738
OTHER (includes Real Estate and Alternative Investments)	10,299,574
TOTAL INVESTMENT MONEY MANAGER FEES	\$ 20,266,725

INVESTMENTS
SECTION

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"Advancing Your Investments"
NEW ENGLAND PENSION CONSULTANTS

October 13, 2004

Louisiana State Employees' Retirement System
Baton Rouge, LA 70804

RE: Fiscal Year 2004 Comprehensive Annual Financial Report

Dear Members:

This letter summarizes the structure and performance of the Louisiana State Employees' Retirement System (LASERS) Fund through Fiscal Year Ending June 30, 2004.

As of the June 30th fiscal year-end, the Fund was in compliance with policy and Louisiana state law, and had 47.3% of its asset base invested in U.S. equities, 16.0% invested in non-U.S. equities, 19.2% in U.S. fixed income, 5.4% in global fixed income, 7.5% in alternative assets (real estate, absolute return funds, and private equity), and 4.6% in cash. The public equity portion of the Fund represented 63.3% of the total assets, below the applicable statutory limit of 65% and slightly above that of the median public pension fund. Over the past year, the Fund has maintained equity levels modestly higher than the median equity allocation when measured against the Independent Consultants Cooperative (ICC) Universe.

LASERS earned 18.0%¹ in the year ending June 30, 2004, which ranked in the top 14% of public funds within the ICC Universe. Over the last 12 months ending June 30, 2004, LASERS outperformed its nominal total return target of 9.35% by 8.65 percentage points. The Fund also outperformed its real return target of 4% by 14 percentage points over the same 12 months.

Compared to recent years, the economy for fiscal year 2004 was very positive with early fears of deflation and lingering recession turning into fears of a superficial "jobless" recovery and finally ending with strong market returns across the board for almost every market. Despite the healthy returns, the

¹ Return data for the Fund was reconciled from manager provided time-weighted returns that were calculated in accordance with the CFA Institute's Performance Presentation Standards (PPS).[®] Valuations, where available, are based on published national securities exchange prices.

Last year's performance was above average, and we feel strongly that LASERS opportunities and is sufficiently diversified to both enhance return and mitigate overall portfolio risk.

Best regards,

Peter D. Gerlings, CFA
Senior Partner



LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

P.O. BOX 44213 • BATON ROUGE, LOUISIANA 70804-4213

8401 UNITED PLAZA BLVD.
BATON ROUGE, LA 70809

VOICE: 225-922-0600
TOLL-FREE: 1-800-256-3000
www.lasers.state.la.us

October 20, 2004

Dear Members,

LASERS plan experienced a strong positive return for the Fiscal Year ended June 30, 2004. This marks a welcome change in the markets after the last few years of negative or low single digit returns. The U.S. economy rebounded nicely during the last half of the year as did the capital markets. This recovery was aided by the Federal Reserve's patient strategy on raising interest rates and companies posting higher profits after cutting costs and improving efficiencies during the lean years.

LASERS' investment portfolio completed the Fiscal Year with an 18.0% market value return while LASERS' actuarial return was 6.06% due to last year's low positive return and a negative return two years ago. LASERS ranked in the top 13 percent of public pension plans with assets greater than 1 billion dollars in the Trust Universe Comparison Service (TUCS). TUCS compares the market returns of the larger public pension plans in the United States.

As always, LASERS is committed to maintaining a broadly diversified portfolio and achieving its target rate of return of 8.25% with the least possible amount of risk. LASERS adopts carefully underwritten and conservative assumptions for future expected returns, while structuring the investment portfolio to optimize the risk/return tradeoff.

LASERS' Investment Division continuously seeks to be a premier pension plan by creating, implementing, and evaluating its strategic goals and objectives. We strive to be a plan that is forward thinking, disciplined, and efficient. Within the investment division, we continuously look to lower overall investment costs while maintaining a high degree of expertise and professionalism.

In recent years we have accomplished some important goals. LASERS has evaluated and implemented additional internally managed equity portfolios to both maintain exposure to the appropriate asset classes and dramatically lower overall investment management costs. To help improve the overall risk/return profile of the plan LASERS increased its allocation to absolute return strategies. We continue to improve our trading commission per share cost and also implemented a comprehensive trading analytics program to evaluate our investment managers' trading execution. In addition, we have enhanced our internal controls to better monitor our investment managers' and streamlined the division workload to improve efficiency.

A few of our current strategic goals are to evaluate asset allocation implementation alternatives, determine the viability of additional internally managed portfolios, and to further develop our risk management program. Going forward, we are committed to improving upon what we have already achieved and diligently working toward the accomplishment of our new strategic goals.

Looking into the future, LASERS is well positioned to meet its long-term goals and objectives. Further emphasis and effort will be placed on risk management and appropriate cost controls in order to be a more efficient provider of retirement benefits.

Sincerely,

Robert W. Beale, CFA
Chief Investment Officer

STATEMENT OF INVESTMENT OBJECTIVES

I. INTRODUCTION

The Louisiana State Employees' Retirement System ("LASERS") was created to provide retirement benefits for employees of the State of Louisiana. A Pension Trust Fund was created to help finance the costs associated with funding retirement benefits. Because of LASERS' obligation to the plan participants and their beneficiaries, the disposition of LASERS' assets shall be made solely in the interest of providing benefits to the participants. Investments shall be made in a cost efficient manner, and reflect industry best practices. This Statement of Investment Policy and Objectives is designed to clearly communicate the directives of the Trustees of LASERS to all interested parties. It shall be revised from time to time, as deemed necessary. Any resulting material changes will be communicated to all affected parties.

II. RELEVANT LEGISLATION AND REGULATION

LASERS shall operate under the "Prudent Person" rule, (R.S. 11:263.B) used herein meaning that in 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.

Investments of the Louisiana State Employees' Retirement System shall be made in full accordance with Louisiana Revised Statutes, as well as any other applicable legislation or regulation. LASERS shall adhere to the policies and procedures outlined in the Board Governance Policy, the Statement of Investment Policy for In-State Private Equity, Emerging Businesses, and Money Managers, as well as Vendor Selection Policies.

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. 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. 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.

III. ROLES AND RESPONSIBILITIES

The 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.

The Investment Committee

The Investment Committee, at the direction of the full Board, shall review and approve or disapprove investment recommendations not governed by Investment Policy prior to their execution. The Committee may also review and recommend investment policy changes, deletions, or additions. The Committee also shall make recommendations to the full Board concerning contracts of a financial nature, when performed by other than LASERS' staff, such as, although not limited to, those for investment management, custodial arrangements, and securities lending.

Chief Investment Officer

The Chief Investment Officer 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. Additionally, the Chief Investment Officer shall provide assistance in manager searches and selection, and investment performance calculation, evaluation, and any other analysis associated with the proper execution of the Board's directives.

The Chief Investment Officer 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 shall assist the Board and the Chief Investment Officer 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 and strategies. The Consultant shall act as a fiduciary to the Fund. Additionally, the Consultant shall provide assistance in manager searches and selection, investment performance evaluation, and any other relevant analysis. 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:

- 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. Fund assets should be invested with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent professional investment manager, acting in a like capacity and familiar with such matters, would use in the investment of Fund assets.
- Complying with the Association for Investment Management and Research (AIMR) Code of Ethics and Performance Presentation Standards (PPS).
- 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. Quarterly reports are to be submitted in writing within 45 days after the end of each quarter.

- Acknowledging in writing to the Board the investment manager's intention to comply with this Statement as it currently exists or as modified in the future.

- Promptly informing the Board regarding all significant matters pertaining to the investment of the fund assets.
- 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 different price for a given security, the manager shall submit to the custodian bank's price reconciliation process. Managers shall provide to LASERS' staff a summary of reconciled holdings both in hard copy and the electronic format of LASERS' choosing.

Custodian Bank

In order to maximize LASERS' investment return, no money should be allowed to remain idle. Dividends, interest, proceeds from sales, new contributions and all other monies are to be invested or reinvested promptly. The Custodian(s) will be responsible for performing the following functions:

- Accept daily instructions from designated investment staff.
- Advise designated investment staff daily of changes in cash equivalent balances.
- Immediately advise designated investment staff of additions or withdrawals from account.
- Notify investment managers of tenders, rights, fractional shares or other dispositions of holdings.
- Notify appropriate entities of proxies.
- Resolve any problems that Staff may have relating to the custodial account.
- Safekeeping of securities.
- Interest and dividend collections.
- Daily cash sweep of idle principal and income cash balances.
- Processing of all investment manager transactions.
- Collection of proceeds from maturing securities.
- Disbursement of all income or principal cash balances as directed.
- Providing monthly statements by investment managers' accounts and a consolidated statement of all assets.
- 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).

IV. 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. Moreover, the investments of the Fund shall be diversified to minimize the risk of significant losses unless it is clearly prudent not to do so. 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, net of all fees and operating expenses. The Board desires a net total return in excess of 9.35%, in order to help the Board grant additional retirement benefits, and the ability to improve the funded ratio of the Fund through investment earnings. Therefore, the Board has adopted the following target nominal rate of return:

Actuarially Required Rate of Return:	8.25%
Excess Return:	1.10%
Target Total Nominal Rate of Return:	9.35%

Real Return Requirements

The Board is aware that the preservation of purchasing power is driven by inflation, therefore a real return requirement has also been established. As the Consumer Price Index (CPI) is the most commonly accepted measure of inflation, the Board has defined its' real return target as the Nominal return less CPI. The real return target is set at 4.0%.

Relative Return Requirements

Total returns for LASERS shall rank in the top half of the appropriate public fund universe, reflecting similar circumstances to LASERS. Risk-adjusted returns should also rank in the top half of the same universe. The total fund return should, overtime, exceed the Policy and Allocation Indices (see Section VIII for a description of how the Policy and Allocation Indices are calculated.) Returns for LASERS' managers shall 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. Instead, a longer-term horizon of 3-7 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.

V. ASSET ALLOCATION

This guideline 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. A change in liability structure, funded status, or long-term investment prospects may trigger a revision of the asset allocation.

Permitted Asset Classes

Traditional Assets

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

Non-Traditional Assets

- Private Equity Fund of Funds Domestic and International
- Mezzanine Debt
- Market Neutral Equity
- Certain Hedge Funds with appropriate transparency and liquidity (e.g. Merger/Convertible Arbitrage, Fund of Funds) may be selected for investment.
- Venture Capital
- Special Situations
- Buyouts

Target Asset Mix

Asset Class	Market Value Target (%)	Minimum Exposure (%)	Maximum Exposure (%)
Equities	62	55	65
Domestic Large Cap	30	25	35
Domestic Small Cap	11	7	15
Domestic Mid Cap	5	3	7
Established International (Lg Cap)	10	8	12
Established International (Sm Cap)	3	0	5
Emerging International Equity	3	0	5
Fixed Income	30	25	35
Cored Fixed Income	7	4	10
Mortgages	5	3	7
Domestic High Yield	8	5	10
Global Bonds	5	5	7
Cash	5	0	10
Alternative Assets	8	0	12
Private Equity	5	0	10
Hedge Funds	3	0	6

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, potentially 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 Chief Investment Officer, 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

LASERS' CIO will review LASERS' asset allocation at least quarterly to determine if the asset allocation 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 with subsequent Board notification. The transfers should be on a pro-rata basis. The CIO will consider market conditions and transaction costs, as well as any other relevant factors when rebalancing.

VI. MANAGER SELECTION

LASERS will not consider the selection of any manager without first setting a target allocation to a particular asset class, and determining that a manager is needed to implement that allocation strategy. Once LASERS has determined that a manager search is warranted, it will establish certain minimum criteria for a manager to be considered eligible to participate in the search.

LASERS intends that any qualified candidate receive fair consideration. Therefore, the manager selection process will typically take place via an open Request for Proposal (RFP), except for certain private equity opportunities, which are described below. All searches shall be publicly advertised for a predetermined amount of time, and prospective candidates shall be required to submit a proposal based on a predetermined RFP. The RFP shall be designed to ensure that managers are fairly and completely evaluated using industry best practices. LASERS shall strive to hire investment managers that offer the greatest incremental benefit to the Fund, net of fees and expenses, in accordance with, but not limited to, the criteria listed below. LASERS is not required to perform a manager search due to a predetermined contract period ending if it is the desire of LASERS to retain manager. LASERS will adhere to the vendor selection criteria in LASERS Board Governance Policy.

- Length of firm history
- Length of key professionals' tenure
- Appropriateness of investment philosophy and process
- Fit between product and existing plan assets, liabilities and objectives
- Absolute and relative returns, and variability of returns
- Stability of the firm's client base and assets under management
- Ownership structure
- Compensation structure
- Fee structure
- References and professional qualifications

Private Equity Addendum:

From time to time LASERS may be approached by private equity managers raising assets for new funds. As private equity does not lend itself to traditional manager searches (most private equity products have only brief, discrete time periods during which they are raising assets) LASERS' shall seek to perform the same level of due diligence on these opportunities as it would in a typical manager search. LASERS will consider an additional investment with an existing manager only if the investment philosophy, process, people, performance and fees are materially similar to previous investments. LASERS may invest with a new manager only after the appropriate due diligence is performed.

VII. INVESTMENT MANAGER GUIDELINES**Introduction**

Full discretion, within the parameters of the guidelines described herein, is granted to the investment managers regarding the selection of securities, and the timing of transactions.

Compliance with all guidelines must be monitored by the investment managers on a regular basis (monthly or more frequently when market conditions warrant) and based on then current market values. Securities that, at purchase, would move the portfolio out of compliance with these guidelines, based on the investment manager's most recent valuation, may not be purchased.

In the event that a portfolio moves out of compliance with these guidelines (as identified in the investment manager's regular review of the portfolio), through market conditions or other changes outside the control of the manager, the manager must bring the portfolio composition back into compliance within 45 days or make a written request to LASERS Investment Committee for a compliance waiver.

Monitoring and Verification

Certain guidelines lend themselves to straightforward manager compliance monitoring. Where monitoring is possible using quarterly holdings and transaction information provided by the Fund's Custodian Bank, the Consultant shall be responsible for alerting the Investment Committee and the Fund's Chief Investment Officer if a manager is out of compliance. In addition, the Custodian Bank will provide LASERS with the ability to monitor manager compliance with these guidelines by way of their Investment Policy Reporting software. Guidelines which do not lend themselves to straightforward manager compliance monitoring shall rely on manager supplied attestations of compliance. A guideline compliance checklist shall be reviewed every quarter to ensure that all managers have reported guideline compliance, and note instances where managers claim to be out of compliance.

Guidelines for Use of Pooled/Commingled Funds

Mutual funds and other types of commingled investment vehicles provide, under some circumstances, lower costs and better diversification than can be obtained with a separately managed fund pursuing the same investment objectives. However, commingled investment funds cannot customize investment policies and guidelines to the specific needs of individual clients. The Board is willing to accept the policies of such funds in order to achieve the lower costs and diversification benefits of commingled funds. Therefore, commingled investment vehicles are exempt from the policies specified above restrictions if:

1) The investment practices of the commingled fund are consistent with the spirit of this policy, and are not significantly different in letter.

2) The benefits of using a commingled vehicle rather than a separate account are material.

Derivatives Guidelines

This derivatives policy statement identifies and allows common derivative investments and strategies which are consistent with applicable law and the Investment Policy Statement and requires investment managers to petition for the inclusion of additional derivative instruments and strategies. The following guidelines apply to those managers not participating in LASERS' Alternative Investment Program. These guidelines also require investment managers to follow certain controls, documentation and risk management procedures.

Definition and Classification of Derivatives

A derivative is a security or contractual agreement that derives its value from some underlying security, commodity, currency, or index. These guidelines address the two classes of derivative instruments: derivative contracts and derivative securities:

1) Derivative Contracts

- Forward-based derivatives, including forward contracts, futures contracts, swaps, and similar instruments.
- Option-based derivatives, including put options, call options, interest rate caps and floors, and similar instruments.

2) Derivative Securities

- Collateralized Mortgage Obligations (CMOs)
- Other Structured Notes

Allowed Uses of Derivatives

1) Derivative Contracts

Hedging. To the extent that the non-derivative component of a portfolio is exposed to clearly defined risks and derivative contracts exist that can be used to reduce those risks, investment managers are permitted to use such derivatives for hedging purposes, including cross-hedging of currency exposures, subject to the documentation requirements listed later.

Creation of Market Exposures. Investment managers are permitted to use derivatives to gain exposure to assets and asset classes if such exposure would be allowed if created with the underlying assets.

Management of Country and Asset Allocation Exposure. Managers charged with tactically changing the exposure of their portfolio to different countries and/or asset classes are permitted to use derivative contracts for this purpose.

2) Derivative Securities

"Plain Vanilla" CMOs: For the purpose of this policy, a "plain vanilla" CMO is defined as one which satisfies one or both of the following criteria: i) It passes the Federal Financial Institutions Examination Council (FFIEC) test; ii) It can be shown that the CMO is less exposed to interest rate or prepayment risk than the underlying collateral

Other CMOs: CMOs which are not plain vanilla are restricted to 20% of a manager's portfolio.

Prohibited Uses of Derivatives

Any use by managers not participating in LASERS' Alternative Investment Program of derivatives not listed above is prohibited without written approval of the Investment Committee. Investment managers are encouraged to solicit such approval if they believe the list of allowable derivative instruments is too restrictive. By way of amplification, it is noted that the following uses of derivatives are prohibited:

Leverage. Derivatives shall not be used to magnify exposure to an asset, asset class, interest rate, or any other financial variable beyond which would be allowed by a portfolio's investment guidelines if derivatives were not used.

Unrelated Speculation. Derivatives shall not be used to create exposures to securities, currencies, indices, or any other financial variable, unless such exposures would be allowed by a portfolio's investment guidelines if created with non-derivative securities.

Transaction Risk Control Procedures and Documentation Requirements

For each over-the-counter derivative transaction, except foreign exchange forward contracts, investment managers are required to obtain at least two competitive bids or offers.

For all derivatives transactions, investment managers should maintain appropriate records to support that all derivative contracts used are employed for allowed strategies. In addition, the following requirements apply to derivative securities:

"Plain Vanilla" CMOs: Document that the CMO is in fact "plain vanilla".

Other CMOs: These CMOs must be stress tested to estimate how their value and duration will change with extreme changes in interest rates. An extreme change is one of at least 300 basis points.

Structured Notes: Document that the note does not create exposures that would not be allowed if created without derivatives.

Portfolio-Level Risk Control Procedures and Documentation Requirements

Counterparty Credit Risk: Managers are required to measure and monitor exposure to counterparty credit risk. All counterparties must have commercial paper credit ratings of at least A1 by Standard and Poors, or equivalent rating.

Ongoing Monitoring of Risk Exposures: The duration and other risk exposure limits specified in the managers' guidelines are expected to be satisfied on an ongoing basis. Thus, managers must monitor changing risk exposures. Fixed income managers investing in CMOs should pay particular attention to the changing duration of their CMOs, and should anticipate potential changes in duration at the time CMOs are purchased. This is to ensure that interest rate and prepayment rate changes do not inadvertently move the portfolio out of compliance.

Valuation of Holdings: The investment managers and custodian shall provide the Board with their pricing policies including a list of sources used. The Board should be notified of any exceptions to these policies. For derivative securities, the custodian is required to obtain two independent prices, or to notify the Board that two independent prices are not available. Investment managers are required to reconcile the valuations of all derivatives positions with the custodian as governed by the Investment Policy Statement and not less than quarterly.

Domestic Active Equity Manager Guidelines

The guidelines listed below shall apply to all actively managed domestic equity portfolios, unless otherwise specifically noted:

- Domestic equity purchases are limited to publicly traded common stocks. Exceptions shall be approved by the Board in advance.
- No single holding shall account for more than 6% of the allowable equity portion of the portfolio at market value, or 150% of a stock's weighting in the style benchmark against which the manager is measured, whichever is larger.
- LASERS' domestic equity portfolios are expected to be fully invested. No more than 10% of a manager's domestic equity portfolio may consist of cash or cash equivalents.
- No single holding in LASERS' portfolio shall account for more than 5% of the outstanding common stock of any one corporation. Additionally, no single holding across all actively managed portfolios of an investment management firm shall account for more than 15% of the outstanding common stock of any one corporation.
- The purchase of stocks or convertibles in foreign companies which are publicly traded securities may be held by each domestic stock manager in proportions which each manager shall deem appropriate, up to 10% of the portfolio at market value.
- Convertible bonds, convertible preferred stocks, warrants and rights may be purchased as equity substitutes so long as they meet the equity guidelines listed above.

Passive Equity Manager Guidelines

The guidelines listed below shall apply to all passively managed equity portfolios, unless otherwise specifically noted:

- Tracking error (deviation from the underlying benchmark) is limited to 15 basis points annually for passive large cap equity strategies, 25 basis points for mid cap equity strategies and 35 basis points for small cap equity strategies.
- Passive strategies are expected to have characteristics similar to the underlying benchmark. For example, a large cap passive equity portfolio shall have similar capitalization and sector exposure to the underlying benchmark.

International Equity Manager Guidelines

The guidelines following shall apply to all international equity portfolios, unless otherwise specifically noted:

- Short-term reserves may be held in U.S. dollar denominated, local currency securities, or investment vehicles available through the System's custodian.

- Managers may purchase or sell currency on a spot basis to accommodate securities settlements.
- Managers may enter into forward exchange contracts on currency provided that use of such contracts is designed to dampen portfolio volatility or to facilitate the settlement of securities transactions.
- LASERS' international equity portfolios are expected to be fully invested. No more than 10% of a manager's international equity portfolio may consist of cash or cash equivalents.
- Equity securities should be issued by non-U.S. corporations, although the manager has latitude to hold U.S. securities provided that such investment is consistent with attainment of the portfolio's investment objectives and does not exceed 10% of the portfolio's market value. American Depository Receipts (ADRs) do not count towards this 10% limitation.
- The number of issues held and their geographic or industry distribution shall be left to the investment manager provided that equity holdings in any one company (including common stock and convertible securities) do not exceed 6% of the market value of the manager's portion of LASERS' portfolio, or 150% of a stock's weighting in the style benchmark against which the manager is measured, whichever is larger. Additionally, bonds of the companies in question would be included in LASERS' exposure calculation if held in the manager's portfolio.
- Managers with established international equity mandates may invest up to 10% of their portfolio(s) in the emerging markets.
- Managers with an emerging markets equity mandate are expected to invest in the emerging (non-established) markets, subject to the guidelines listed above.

Domestic Fixed Income Managers

The guidelines listed below shall apply to all domestic fixed income portfolios, unless otherwise specifically noted:

Domestic fixed income investments may include U.S. Government and Federal Agency obligations, corporate bonds, debentures, commercial paper, certificates of deposit, Yankee bonds, mortgage-backed securities and fixed income and other instruments deemed prudent by the investment managers.

- No more than 6% of the market value of LASERS' domestic fixed income assets may be invested in the debt securities of any one issuer. No limitations on issues and issuers shall apply to obligations of U.S. Government and Federal Agencies.
- The overall average quality of each fixed income portfolio shall be rated AA by Standard and Poors or higher. Split-rated securities will be measured using Standard and Poors ratings. Non-rated issues or issues below investment grade (below BBB) may be purchased up to a maximum of 15% of the portfolio. These quality restrictions will not apply to a manager that is hired by LASERS to manage dedicated high yield fixed income portfolios.

The diversification of securities by maturity, quality, sector, coupon and geography is the responsibility of the manager. Active bond management is encouraged, as deemed appropriate by the investment managers.

- The average duration (interest rate sensitivity) of an actively managed portfolio shall not differ from the passive benchmark's duration by more than two years.

Any mortgage-backed securities (MBS) shall be subject to the constraints listed below:

- Agency fixed and floating rate pass throughs, U.S. Treasury securities and cash equivalents can be held without limitation.
- Fixed rate PAC I, PAC II and Sequential Collateralized Mortgage Obligations can be held without limitation.
- Inverse floating rate, interest only (I/O), principal only (P/O), and accrual CMOs in aggregate will be limited to 15% of the mortgage securities portfolio, with no more than 5% of the portfolio invested in accrual CMOs. In the event that other types of mortgage-related securities that have risk characteristics similar to those in this category are developed, the manager will inform the investment committee of those securities and they will be included in this 15% limitation.
- All other types of mortgage-related securities not explicitly cited herein will be limited to an aggregate 20% of the portfolio.
- The manager must receive at least two competitive offers on the same or similar securities prior to purchasing each mortgage-backed security for the portfolio.
- LASERS recognizes that the calculation of the duration of a mortgage-backed security involves assumptions as to the expected future prepayment rate for the security at the time of calculation and that prepayment rates cannot be precisely determined in advance. The manager is expected to calculate expected duration prior to the initial purchase of a security and on a routine basis in monitoring the portfolio's compliance with these guidelines.

High Yield Fixed Income Managers

The fixed income guidelines described in the previous pages shall apply to high yield fixed income managers, unless otherwise specifically noted:

- High yield fixed income managers may invest up to 20% of their portfolios in non-U.S. fixed income securities.

Global Fixed Income Managers

The guidelines listed below shall apply to all global fixed income portfolios, unless otherwise specifically noted:

- The global bond portfolio may hold no more than 30% of its assets, at market value, in the debt securities of any single government or non-U.S. government entity. No single non-government debt security shall constitute more than 6% of the global bond portfolio, at market value. Securities issued by AAA Rated Supranational Organizations (such as the World Bank) shall be considered to be government equivalents.
- Short-term reserves may be held in U.S. dollar denominated or local currency securities or investment vehicles available through LASERS' custodian.
- Managers may enter into forward exchange contracts on currency provided that use of such contracts is designed to dampen portfolio volatility rather than lever portfolio risk exposure. Currency contracts may be utilized to either hedge the portfolios currency risk exposure or in the settlement of securities transactions.

- Managers may purchase or sell currency on a spot basis to accommodate securities settlements.
- Decisions as to the number of issues held and their geographic distribution shall be the responsibility of the investment manager. The overall average quality of each global fixed income portfolio shall be AA or higher. Non-rated issues may be purchased, provided that in the judgment of the manager, they are of a quality sufficient to maintain the average overall portfolio quality of AA or higher. Issues below investment grade (below BBB) may be purchased up to a maximum of 15% of the portfolio.
- The average duration (interest rate sensitivity) of a global fixed income portfolio shall not differ from the passive benchmark by more than two years.

Alternative Asset Managers

The guidelines listed below shall apply to all Alternative portfolios, unless otherwise noted:

- LASERS shall endeavor to systematically commit additional funds to this asset class over time as it becomes under-represented relative to LASERS' target asset allocation. LASERS shall attempt to commit up to 200% of its target weighting to private equity investments to help ensure that the funded portion of the investments approximate the target allocation.
- Alternative asset amounts that are in excess of the target amount as a result of partial or full liquidation of positions or the receipt of income from investments, shall be reallocated to LASERS' underallocated asset classes. Liquidations should be re-invested in the alternative asset program if that asset class is under-represented relative to LASERS' target asset allocation.
- LASERS shall only invest in alternative assets when there is complete transparency and policy compliance reporting. The Board of LASERS recognizes that alternative assets are potentially more risky than other investments of the Fund. As such, extra care shall be taken in evaluating and fully understanding all aspects on an alternative investment opportunity.
- LASERS shall not invest in real estate or real estate-like investments.
- LASERS' initial investment in a partnership/fund shall not exceed 25% of the committed capital of that partnership/fund.
- All investments must have a mechanism for exit.
- No more than 25% of the alternative asset investment allocation may be invested with a single manager, general partner, or single fund, with the exception of a fund-of-funds.
- Preference will be given to those funds where the general partner is contributing at least 1% of total fund.
- References on a general partner must be checked prior to investing in a fund.
- The alternative asset program will be diversified to limit the exposure of any one investment to 2% of the assets of LASERS' total assets.

Economically Targeted Investments (ETIs)

The guidelines listed below shall apply to all Economically Targeted Investments, unless otherwise

specifically noted:

- All ETI investments must comply with Louisiana or federal law, and must be in the economic best interest of LASERS' plan participants and beneficiaries.
- Ells must comply with LASERS' investment policy and asset allocation.
- ETIs must offer a potential investment return consistent with the level of risk in the proposed investment.
- Ells must earn a return equal or greater to LASERS' Total Fund target rate of return to be considered.

VIII. INVESTMENT MANAGER MONITORING

General Guidelines

LASERS shall monitor and evaluate manager performance using the following resources:

- Monthly performance reports
- Quarterly Investment Performance and Portfolio Analysis
- Comprehensive Manager Reviews at the end of a manager's 5-year contract with LASERS
- Other analyses as needed

Manager Evaluation

- LASERS' portfolios shall be measured over various and appropriate time periods.
- A horizon of 3-7 years shall be used in measuring the long-term success of the Fund.

Shorter time periods shall be evaluated as appropriate and necessary. LASERS shall make every effort to look at all factors influencing manager performance, and attempt to discern market cyclicity from manager over/underperformance.

- On a timely basis, at least quarterly, the Board will review actual investment results achieved by each manager (with a perspective toward a three to five-year time horizon or a peak-to-peak or trough-to-trough market cycle) to determine whether the investment managers performed satisfactorily when compared with the objectives set and in relation to other similarly managed funds.

The Board will re-evaluate, from time to time, its progress in achieving the total fund, equity, fixed income, and international equity segments objectives previously outlined.

- The periodic re-evaluation will also involve an assessment of the continued appropriateness of: (1) the manager structure; (2) the allocation of assets among the managers; and (3) the investment objectives for LASERS' assets.

- The Board may appoint investment consultants to assist in the ongoing evaluation process. The consultant(s) selected by the Board are expected to be familiar with the investment practices of similar retirement plans and will be responsible for suggesting appropriate changes in LASERS' investment program over time.

Manager Probation

LASERS' investment managers may be placed on a watch list in response to the Investment Committee's concerns about the manager's recent or long-term investment results, failure of the investment advisor to comply with any of LASERS' investment guidelines, significant changes in the investment advisor's firm, anticipated changes in LASERS' structure, or any other reasons which the Investment Committee deems appropriate. An advisor may be placed on probationary status if:

- Any advisor whose performance fails, over eight consecutive quarters or any eight quarters during a ten quarter period, to achieve median same style universe performance levels as defined by LASERS, and
- During this same period the return does not meet the return of the benchmark index.

This does not preclude LASERS from placing an advisor on the watch list for performance in a lesser time period or taking other actions if deemed appropriate by LASERS.

Performance Benchmarks

Total Fund Return: The Total Fund return shall be compared against other public pension plans. LASERS shall seek to compare its returns against other funds of similar size and circumstances. LASERS' Total Fund return shall 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 active management 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.

IX. MANAGER REPORTING REQUIREMENTS**Policy Compliance**

Managers must disclose to the Board any deviation from or violation of the Investment Guidelines described herein as soon as the manager is aware the policy has not been fully complied with. The timing, duration, and resolution to any policy violation must be disclosed. Managers must promptly inform the Board of 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.

Managers shall supply a quarterly summary of the following:

- Guideline compliance.
- Brief review of investment process.
- Discussion of any changes to the investment process.

Investment strategy used over the past year and underlying rationale.

Evaluation of strategy's success/disappointments.

- Comment on the manager's assessment of the current liquidity of the portfolio and the market(s) in which the portfolio is invested.

Performance Review

The following quarterly reporting requirements shall apply to all managers:

- Provide total fund and asset class returns for last quarter, year-to-date, last year, three years and five years, and since inception versus designated benchmarks. All performance data shall be presented in compliance with AIMR Performance Presentation Standards (PPSTM) or AIMR Global Investment Performance Standards (GIPSTM).
- Discuss performance relative to benchmarks.
- Provide portfolio characteristics relative to benchmark.

Derivatives Review

The following quarterly reporting requirements shall apply to all managers:

- A list of all derivative positions as of quarter-end.

- An assessment of how the derivative positions affect the risk exposures of the total portfolio.
- An explanation of any significant pricing discrepancies between the manager and custodian bank.
- An explanation of any non-compliance.
- For all managers of commingled funds, a list of derivative positions and assessment of the effect on the risk exposure of the portfolio.

Portfolio Holdings

The following quarterly reporting requirements shall apply to all managers:

- Present book value and current market value for all securities held
- List individual securities by:
 - 1) Standard and Poors sectors for domestic equities
 - 2) Country and by industry within country for international equities
 - 3) Sector for domestic fixed income
 - 4) Country for international equities and global bonds

Commissions/Trading Report

Each manager shall provide an annual commission report to be delivered to the staff, and Investment Consultant within forty-five (45) days of the end of each calendar year [December 31 J. The report shall cover all trades executed during the prior calendar year. Each annual commission report should include the following:

Broker Selection Policy: Discussion of the firm's policy for selecting brokers, reviewing brokers, and negotiating brokerage commissions. This should include identification of any situations where the investment manager has a financial interest in brokers used to execute trades in the portfolio as well as a list of all broker-dealers used by the firm.

Commission Expense: Provide a review of the portfolio's actual commission expenses over the prior year. At minimum, this should be broken down by broker and include a distinction between commissions on listed versus unlisted securities, average commission per share, total shares traded, total commission expense, and total trading volume.

Transaction Cost Analysis: If the firm has a system for monitoring total transaction costs, commissions plus market impact, a copy of this analysis should be provided. If no such system is being used, the commission report should include complete explanation of how the firm monitors selected brokers for best execution.

Soft Dollar Report

Each manager shall complete an annual soft dollar report to be delivered to the Staff and Investment Consultant within forty-five (45) days of the end of each calendar year [December 31 J. The report shall include the following:

- A discussion of the firm's soft dollar policy, including how the investment manager ensures its clients of

full disclosure, record keeping, and consistency of soft dollar information.

- A discussion on how the investment manager determines that a service can be paid with soft dollars and how the investment manager allocates mixed-use research (services that are not 100% used in the investment decision-making process). If less than 100% of the research and/or services are used in the investment decision-making process, the Investment Manager should only pay for the portion attributed to assisting in the investment decision-making process.
- A discussion of the procedures in place to assure that any research and/or services purchased by the firm with soft dollars are used for the benefit of LASERS' plan participants.
- A listing of all soft dollar brokers and their payout ratios.
- A report identifying any goods and services, including proprietary research purchased by the manager with soft dollars over the past year. This should include soft dollars generated by agency and principal transactions, as well as any soft dollar credit given to manager due to principal transactions that do not have an overt commission per share cost. This report should provide, at a minimum, the cost and description of the goods and services purchased.
- Verification that LASERS' percentage of commissions paid to soft dollar brokers is less than or equal to LASERS' percentage of the total of similarly managed assets of the investment manager.
- LASERS and its investment managers shall use the definition of soft dollars and research from the AIMR Soft Dollar Standards, which state:

1) Definition of Soft Dollar Arrangements

a) Proprietary, In Addition to Third-Party, Research

Traditionally, soft dollar arrangements are understood to address those products or services provided to the investment manager by someone other than the executing broker, commonly known as "third-party" research. Such an approach is deficient in light of the range of products and services provided by both third-party research providers and "in-house" research departments of brokerage firms. Thus, any meaningful standards must also recognize the importance of research provided by the executing broker, commonly known as "proprietary" or "in-house" research.

For purposes of these Standards, "soft dollar arrangements" include proprietary, as well as third-party, research arrangements and seek to treat both categories the same. While the Standards do not suggest an "unbundling" of proprietary research, they do require the investment manager to provide certain basic information regarding the types of research obtained with client brokerage through proprietary research arrangements. Moreover, the Standards should not be read as to require research obtained either through third-party or proprietary arrangements to be attributed on an account-by account basis, or otherwise to require a "tracing" of products or services.

b) Principal, In Addition to Agency, Trades

Traditionally, the term "soft dollars" refers to commissions generated by trades conducted on an agency basis. However, such an approach fails to recognize that research may be obtained through the use of "spreads" or "discounts" generated by trades conducted on a principal basis. For purposes of these Standards, soft dollar arrangements include transactions conducted on an agency or principal basis.

c) Definition of Research

Traditionally, "allowable" research in the soft dollar context is evaluated by whether it provides lawful and appropriate assistance to the investment manager in the investment decision-making process. This approach, however, leaves AIMR Members with inadequate guidance.

Consequently, these Standards embrace a definition of research that requires the primary use of the soft dollar product or service to directly assist the investment manager in its investment decision-making process and not in the management of the investment firm.

Ethics Report

Managers shall annually report standing policies with respect to ethics and professional practice, within forty five (45) days of the end of each calendar year [December 31].

Managers shall annually report compliance with the Association of Investment Management and Research (AIMR) Code of Ethics. Managers shall disclose if any Chartered Financial Analyst (CFA) charter holders employed by the firm that are disciplined by AIMR.

Managers shall disclose all pertinent information regarding any and all regulatory findings and/or litigation in which it is involved.

X. OTHER REPORTING REQUIREMENTS**Proxy Voting Report**

Reports shall be provided by Staff to the Board on an annual basis summarizing Proxy Voting over the previous fiscal year. The report shall detail any changes that have occurred in LASERS' Proxy Voting policies, and note any instances where proxies were not voted in accordance with the best interest of LASERS' plan participants.

Annual Trading Study

The Board will annually review a trading analysis performed by an independent third-party. The analysis shall cover:

- Brokerage Usage
- Commissions Paid
- Trading Effectiveness
- Any other relevant trading-related information

Commission Recapture Report

LASERS' commission recapture vendor shall report annually the details of LASERS' Commission Recapture Program, including:

- A review of the commission activity over the previous calendar year
- The recapture ratio for each commission trade
- The dollars rebated back to LASERS by trade and by manager for the previous calendar year

- Any historical or anticipated change to the Commission Recapture Program or the key professionals/ organization that manage it.

Securities Lending Report

LASERS' securities lending vendor shall report annually the details of LASERS' Securities Lending Program, including:

- The annual lending activity and income earned, an average volume of securities lent by broker, as set category, and
- Manager account, summarized for each month during the quarter (including year-to-date statistics).
- A list of portfolio holdings, with portfolio-level statistics, for each month-end, including market values, cost, maturity, duration, yield-to-maturity, and credit quality.
- Sell-fail statistics for each month, including number of fails, claim amounts, claims as a percent of lending income, and claims as a percent of loan balances.
- The monthly net income earned as a percentage of the average loan balances, designed to measure the return on loans by asset category.
- The net income earned as a percentage of the lending asset base (defined below) in each category.
- The average monthly gross spread in each asset category.
- The gross spread shall be calculated as the yield earned on the collateral portfolio minus the rebate paid to the broker-dealer, which represents the earnings available for dividing between the lending agent or principal borrower, or both, and the LASERS Fund.
- The average market value of the assets available for lending each month (lending asset base) by asset category.
- The average monthly loan balances as a percentage of the average monthly lending asset base in each category.
- The monthly average maturity of the collateral portfolio and the broker loan portfolio.
- A review of the loan spreads and volume available in the market segments in which the System lends.

Internally Managed Portfolios Review

The Board will annually review an analysis of any internally managed portfolios. The analysis shall cover:

- Performance versus the underlying benchmark

- Tracking error versus the underlying benchmark
- Performance versus the median active manager for the relevant asset class
- Assets under management and asset growth since inception
- Any change in process
- Any change in personnel
- Any material events since the previous report
- An independent performance review (with inputs provided by the Fund's Custodian Bank)

SECURITY HOLDINGS SUMMARY REPORT

June 30, 2004

SECURITIES	COST (\$)	MARKET VALUE (\$)	% OF MARKET
FIXED INCOME			
Corporate Bonds	\$ 589,226,285	\$ 607,461,572	9.3%
Other Bonds	24,513,221	24,861,952	0.4%
Common Stock - Commingled Funds Fixed Income	21,483,065	21,487,748	0.3%
Total Corporate Bonds	635,222,571	653,811,272	10.0%
Federal Agency Sponsored CMO'S	28,541,551	28,986,408	0.4%
	27,661,645	27,759,195	0.4%
Federal Sponsored	355,787,063	354,237,546	5.4%
U. S. Treasury Notes	42,372,833	42,200,460	0.6%
U. S. Treasury Bonds			0.0%
Total U.S. Government/Agency Bonds	454,363,092	453,183,609	6.8%
Foreign Corp Bonds	44,806,046	49,465,159	0.8%
Foreign Corp Yankee Bonds	92,685,479	91,452,725	1.4%
Foreign Govt Bonds	245,866,797	269,913,005	4.1%
Foreign Govt Yankee Bonds	3,633,929	3,916,883	0.1%
Common Stock - Commingled Funds Fixed Income	7,875,731	10,918,768	0.2%
Total International Bonds	394,867,982	425,666,540	6.6%
TOTAL FIXED INCOME	1,484,453,645	1,532,661,421	23.4%
EQUITY			
Common Stock-Domestic	2,671,817,987	2,915,230,633	44.8%
Common Stock - Commingled Funds Equity	71,367,345	82,490,410	1.3%
Common Stock - Preferred			0.0%
Total Domestic Stock	2,743,185,332	2,997,721,043	46.1%
Common Stock-ADR	22,343,057	26,936,413	0.4%
Common Stock - Commingled Funds Equity	502,660,158	708,065,897	10.8%
Common Stock -Foreign	310,482,004	354,526,122	5.4%
Preferred Stock -Foreign	2,783,987	2,607,755	0.0%
Stock Warrants & Rights	1,856,734	1,871,700	0.0%
Total International Stock	840,125,940	1,094,007,887	16.6%
TOTAL EQUITY	3,583,311,272	4,091,728,930	62.7%
ALTERNATIVE INVESTMENTS			
Real Estate Investment Pools	29,999,798	36,559,190	0.6%
Private Placements	494,366,940	466,764,746	7.1%
TOTAL ALTERNATIVE INVESTMENTS	524,366,738	503,323,936	7.7%
SHORT TERM INVESTMENTS			
Domestic Short Term	406,659,192	406,659,192	6.2%
TOTAL SHORT-TERM INVESTMENTS	406,659,192	406,659,192	6.2%
GRAND TOTAL INVESTMENTS	\$5,998,790,847	\$6,534,373,479	100%

SECURITY HOLDINGS SUMMARY REPORT

June 30, 2003

SECURITIES	COST (\$)	MARKET VALUE (\$)	% OF MARKET
FIXED INCOME			
Corporate Bonds	\$ 779,881,829	\$ 851,632,738	15.1%
Other Bonds	10,794,584	11,636,121	0.2%
Total Corporate Bonds	790,676,413	863,268,859	15.3%
Federal Agency Sponsored CMO'S	77,801,090	79,861,092	1.4%
Federal Sponsored	69,529,873	70,157,311	1.2%
U. S. Treasury Notes	435,187,100	440,892,825	7.8%
U. S. Treasury Bonds	83,244,625	84,270,277	1.5%
Total U.S. Government/Agency Bonds	665,762,688	675,181,505	11.9%
Foreign Corp Bonds	58,261,462	62,549,144	1.1%
Foreign Corp Yankee Bonds	82,263,821	84,646,012	1.5%
Foreign Govt Bonds	174,736,373	208,851,957	3.7%
Foreign Govt Yankee Bonds	5,385,402	5,903,688	0.1%
Common Stock - Commingled Funds Fixed Income	7,875,731	8,405,560	0.1%
Total International Bonds	328,522,789	370,356,361	6.5%
TOTAL FIXED INCOME	1,784,961,890	1,908,806,725	33.7%
EQUITY			
Common Stock-Domestic	2,456,307,108	2,289,738,083	40.7%
Common Stock - Commingled Funds Equity	81,502,254	80,865,719	1.4%
Common Stock - Preferred	-	-	0.0%
Total Domestic Stock	2,537,809,362	2,370,603,802	42.1%
Common Stock-ADR	20,782,865	20,691,027	0.4%
Common Stock - Commingled Funds Equity	550,207,152	566,628,016	10.1%
Common Stock -Foreign	265,934,738	258,231,859	4.6%
Preferred Stock -Foreign	3,370,612	3,501,906	0.1%
Stock Warrants & Rights	3,117,952	3,226,091	0.1%
Total International Stock	843,413,319	852,278,899	15.3%
TOTAL EQUITY	3,381,222,681	3,222,882,701	57.4%
ALTERNATIVE INVESTMENTS			
Real Estate Investment Pools	30,144,452	31,238,732	0.6%
Private Placements	356,729,900	294,891,180	5.2%
TOTAL ALTERNATIVE INVESTMENTS	386,874,352	326,129,912	5.8%
SHORT TERM INVESTMENTS			
Domestic Short Term	172,524,924	172,524,924	3.1%
TOTAL SHORT-TERM INVESTMENTS	172,524,924	172,524,924	3.1%
GRAND TOTAL INVESTMENTS	\$ 5,725,583,847	\$ 5,630,344,262	100%

LARGEST EQUITY HOLDINGS

June 30, 2004
(Excludes Commingled Funds)

	SHARES	STOCK DESCRIPTION	MARKET VALUE
1)	2,081,300	MICROSOFT CORP	\$ 59,441,928
2)	1,653,700	GENERAL ELEC CO	\$53,579,880
3)	1,500,589	PFIZER INC	\$51,440,191
4)	1,030,500	CITIGROUP INC	\$47,918,250
5)	1,062,200	EXXON MOBIL CORP	\$47,172,302
6)	743,000	WAL MART STORES INC	\$39,200,680
7)	1,258,900	INTEL CORP	\$34,745,640
8)	624,185	CISCO SYS INC	\$34,153,715
9)	375,300	BANK AMER CORP	\$31,757,886
10)	558,593	JOHNSON + JOHNSON	\$31,113,630
11)	389,621	AMERICAN INTL GROUP INC	\$27,772,185
12)	269,800	INTERNATIONAL BUSINESS MACHS	\$23,782,870
13)	493,100	COCA COLA CO	\$23,671,056
14)	480,690	MERCK + CO INC	\$23,451,043
15)	407,600	PROCTER AND GAMBLE CO	\$22,189,744
16)	381,400	PEPSICO INC	\$20,549,832
17)	541,800	VERIZON COMMUNICATIONS	\$19,607,742
18)	191,100	CHEVRONTEXACO CORP	\$17,984,421
19)	354,650	ALTRIA GROUP INC	\$17,750,233
20)	299,000	3M CO	\$16,493,246
21)	936,200	TIME WARNER INC NEW	\$16,458,396
22)	445,500	VIACOM INC	\$15,913,260
23)	451,700	HOME DEPOT INC	\$15,899,840
24)	537,600	CENDANT CORP	\$13,160,448
25)	538,800	J P MORGAN CHASE + CO	\$13,026,720

LASERS internally manages portfolios that are replications of the S & P 500, 400, 100 and 600 Indices. Balances of the funds at June 30, 2004 are \$1,304,412,177.94, \$337,944,662.41, \$176,043,473.23 and \$374,444,591.96 respectively. Individual securities held in these funds are included in above listed holdings.

LARGEST COMMINGLED EQUITY FUNDS

	Shares	Fund Description	Market Value
1)	29,848,236	SALOMON PMI	\$334,777,819
2)	55,931	SCHRODER INTL SMALL COMP FUND	\$203,625,662
3)	73,789	SCHROEDER EMERGING MKTS FUND	\$169,662,415
4)	459,640	ISHARES TR	\$43,121,906
5)	858,201	RUSSELL 2000 INDEX SL	\$29,361,645

LARGEST DEBT HOLDINGS

JUNE 30, 2004
 (Includes Commingled Funds)

PAR VALUE	BOND DESCRIPTION	MARKET VALUE
1) \$18,000,000	SPAIN(KINGDOM OF) 5.15% 30 Jul 2009	\$23,416,672
2) \$14,500,000	BUNDESREPUBLIK DEUTSCHLAND 5% 04 Jul 2011	\$18,684,035
3) \$78,000,000	POLAND (GOVT OF) 5% 24 Oct 2013	\$17,994,158
4) \$17,232,817	FED HM LN PC POOL B14719 4.5% 01 May 2019	\$16,853,157
5) \$100,000,000	SWEDEN(KINGDOM OF) 6.75% 05 May 2014	\$15,384,544
6) \$100,000,000	SWEDEN(KINGDOM OF) 5.5% 08 Oct 2012	\$14,128,595
7) \$14,200,000	FEDERAL NATL MTG ASSN 2% 15 Jan 2006	\$14,046,568
8) \$1,450,000,000	INTER AMERICAN DEVELOP BANK 1.9% 08 Jul 2009	\$13,991,706
9) \$1,450,000,000	JAPAN (GOVT OF) 0.5% 20 Dec 2006	\$13,369,368
10) \$1,400,000,000	ITALY(REPUBLIC OF) 3.75% 08 Jun 2005	\$13,275,077
11) \$13,007,720	FNMA POOL 254634 5.5% 01 Feb 2023	\$13,132,594
12) \$13,439,224	FNMA POOL 708498 5% 01 Apr 2033	\$12,995,730
13) \$12,935,444	FNMA POOL 743565 4.947% 01 Oct 2033	\$12,837,936
14) \$6,700,000	U K TREASURY 5.75% 07 Dec 2009	\$12,544,122
15) \$1,370,000,000	JAPAN (GOVT) 0.3% 20 Dec 2007	\$12,480,730
16) \$9,000,000	NETHERLANDS (KINGDOM) 5.75% 15 Feb 2007	\$11,701,011
17) \$11,610,000	UNITED STATES TREAS NTS 3.125% 15 Oct 2008	\$11,379,613
18) \$9,000,000	FRANCE (REPUBLIC) 4% 25 Oct 2009	\$11,098,769
19) \$609,110	WRH GLOBAL SECURITIES POOL	\$10,918,768
20) \$11,380,967	FNMA POOL 254919 4% 01 Sep 2018	\$10,857,443
21) \$14,000,000	AUSTRALIA(CMNWLTH) 6.5% 15 May 2013	\$10,176,630
22) \$10,000,000	FNMA ARM POOL 786627 5.3% 01 Aug 2034	\$10,080,000
23) \$10,100,000	UNITED STATES TREAS NTS 1.875% 31 Dec 2005	\$10,014,781
24) \$10,051,285	FNMA POOL 708888 4.464% 01 Jun 2033	\$9,979,921
25) \$11,000,000	FEDERAL HOME LN MTG CORP 4.5% 15 Oct 2030	\$9,974,800

*Debt holdings include commingled funds.

A complete list of LASERS' portfolio holdings is available upon request.

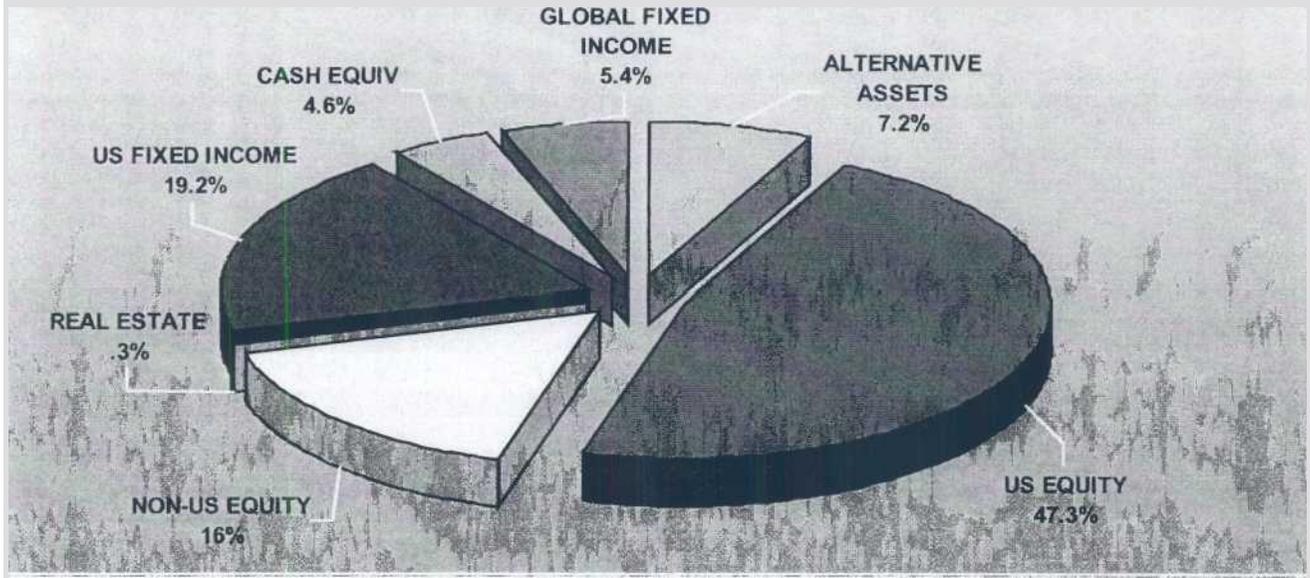
TOTAL PLAN ASSET ALLOCATION

by Major Components

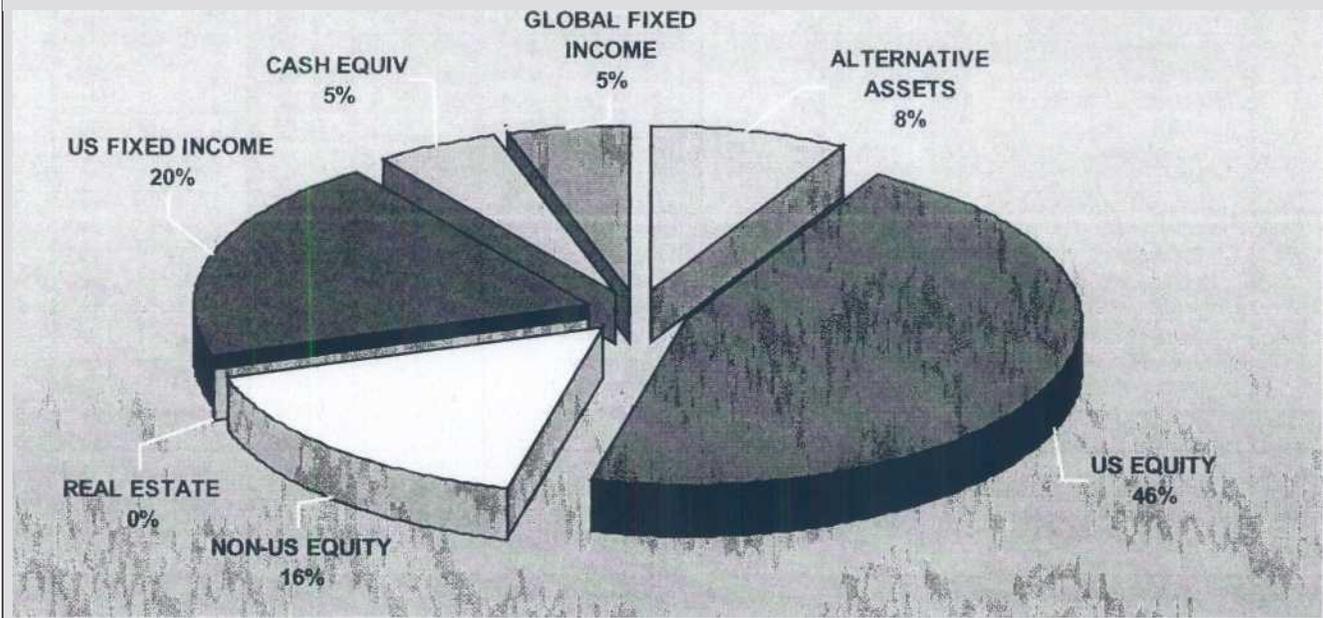
June 30, 2004

\$6.5 Billion

LASERS' ACTUAL ALLOCATION



LASERS' TARGET ALLOCATION

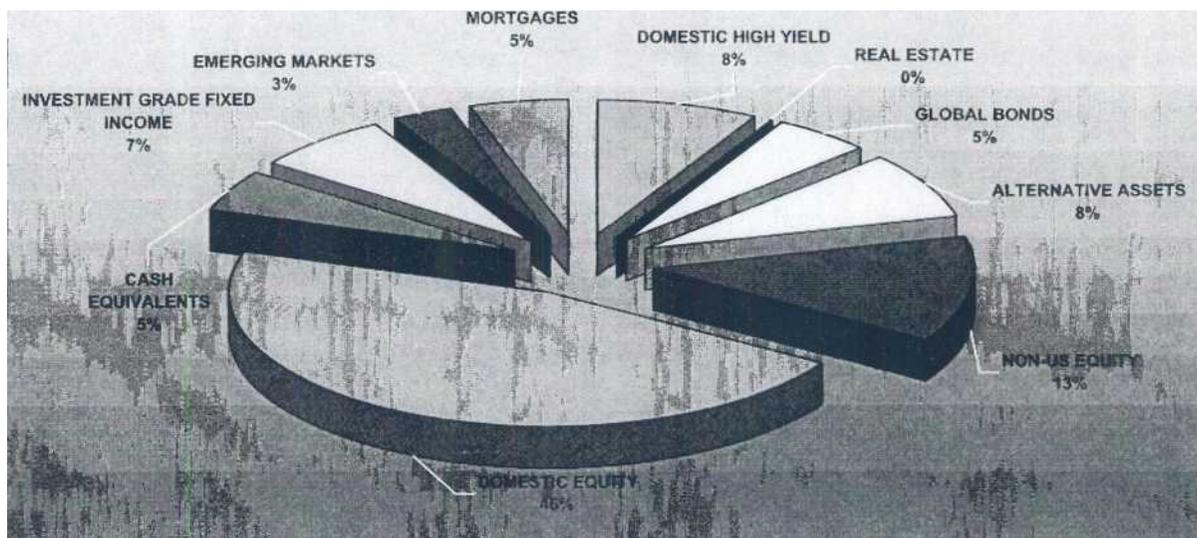


INDIVIDUAL MANAGER ALLOCATIONS

June 30, 2004

\$6.5 BILLION

TARGET ALLOCATION



LASERS' ACTUAL ALLOCATION BY MANAGER

MANAGER.	WEIGHT	\$MM	MANAGER	WEIGHT	\$MM
NON-US EQUITY			INVESTMENT GRADE BONDS		
INTERNATIONAL EQUITY			<i>Loomis, Sayles & Co.</i>	4.4%	293.8
<i>Delaware Intl. Advisers</i>	1.4%	90.4	<i>Orleans Capital</i>	2.1%	139.2
<i>Templeton</i>	1.5%	96.3	TOTAL INVESTMENT GRADE	6.5%	\$ 433.0
Nicholas-Applegate	2.2%	145.5	MORTGAGES		
<i>Schroders-Small Co.</i>	3.1%	203.6	<i>TCW</i>	4.5%	300.6
TOTAL CORE INTL	8.2%	\$ 535.8	TOTAL MORTGAGES	4.5%	\$ 300.6
EMERGING MARKETS			DOMESTIC HIGH YIELD		
<i>Schroders-Emrg Mkts</i>	2.6%	169.7	<i>WR Huff</i>	4.2%	271.8
TOTAL EMERGING MARKETS	2.6%	\$ 169.7	TOTAL DOMESTIC HIGH YLD	4.2%	\$ 271.8
INDEX FUNDS			INDEX FUNDS		
<i>SSGA Salomon PMI Fund</i>	5.1%	334.8	<i>SSGA High Yield Bond Index</i>	4.0%	258.2
TOTAL INDEX FUNDS	5.1%	\$ 334.8	TOTAL INDEX FUNDS	4.0%	\$ 258.2
TOTAL NON-US EQUITY	16.0%	\$ 1,040.3	GLOBAL BONDS		
DOMESTIC EQUITY			<i>Delaware Intl. Advisers</i>	5.4%	341.4
SMALL CAP VALUE			TOTAL GLOBAL BONDS	5.4%	\$ 341.4
<i>TH&B</i>	1.1%	69.5	TOTAL FIXED INCOME	24.6%	\$ 1,605.0
<i>Brandywine</i>	1.1%	69.5	ALTERNATIVE ASSETS		
<i>LSV</i>	1.1%	72.8	PRIVATE EQUITY		
SMALL CAP GROWTH			<i>Adams Street</i>	1.8%	118.9
<i>TCW</i>	1.5%	98.1	<i>HIPEP 111</i>	0.6%	39.7
<i>Westfield</i>	1.7%	111.2	<i>HIPEP IV</i>	0.2%	13.2
TOTAL SMALL CAP	6.5%	\$ 421.1	<i>HarbourVest VI</i>	1.2%	76.6
LARGE CAP VALUE			Huff	0.2%	14.8
<i>Aronson & Partners</i>	3.2%	211.1	<i>John Hancock</i>	0.1%	3.9
LARGE CAP GROWTH			<i>Pathway</i>	0.2%	9.8
<i>Goldman Sachs</i>	1.8%	113.9	Erasmus	0.1%	4.9
<i>Chicago Equity Partners</i>	1.7%	113.6	<i>Williams Capital</i>	0.0%	.
TOTAL LARGE CAP	6.7%	\$ 438.6	TOTAL PRIVATE EQUITY	4.4%	\$ 281.8
INDEX FUNDS			ABSOLUTE RETURN STRATEGIES		
<i>LASERS S&P 100 Index</i>	2.7%	176.0	<i>Arnhold & S. Bleichroeder</i>	0.5%	32.4
<i>LASERS S&P 400 Index</i>	5.2%	337.9	<i>Kellner, DiLeo & Co.</i>	0.4%	29.2
<i>LASERS S&P 500 Index</i>	20.0%	1,304.4	<i>KD Cony Arbitrage Fund LP</i>	0.1%	5.6
<i>LASERS S&P 600 Index</i>	5.7%	374.4	<i>K2 Advisors</i>	0.9%	58.9
<i>SSGA Russell 2000 Index</i>	0.5%	29.4	<i>PAAMCO</i>	0.9%	58.9
TOTAL INDEX FUNDS	34.1%	\$ 2,222.1	TOTAL HEDGE FUNDS	2.8%	\$ 185.0
TOTAL DOMESTIC EQUITY	47.3%	\$ 3,081.8	TOTAL ALTERNATIVE ASSETS	7.2%	\$ 466.9
TOTAL EQUITY	63.4%	\$ 4,122.1	TOTAL REAL ESTATE	0.3%	\$ 17.2
			TOTAL CASH	4.6%	\$ 296.8
			TOTAL FUNDS ALLOCATED	100.0%	\$ 6,508.0
			Self-Directed Drop Funds		\$ 26.4
			TOTAL PLAN ASSETS		\$ 6,534.4

SUMMARY OF MANAGER PERFORMANCE
RATE OF RETURNS GROSS OF FEES
(For Period Ending June 30, 2004)

	Contract Exp. Date	MKT VAL \$ (Million)	Month	3 mos	YTD	Fiscal YTD	1 Year	2 Years	3 Years	4 Years	5 Years
U.S. EQUITY											
LARGE CAP GROWTH											
GOLDMAN SACHS	01/31/08	\$ 113.9	1.2	-0.5	-1.2	11.8	11.8				
CHICAGO EQUITY PARTNERS	01/31/08	\$ 113.6	1.9	2.4	3.2	16.4	16.4				
S&P 500 / BARRA GROWTH			1.7	2.7	2.7	16.0	16.0	9.0	-1.1	-10.1	-5.0
S&P 500			1.9	1.7	3.4	19.1	19.1	9.3	-0.7	-4.4	-2.2
TOTAL LARGE GROWTH		\$ 227.5	1.5	1.0	1.0	14.1	14.1	7.7	-1.0	-10.0	-6.6
LARGE CAP VALUE											
ARONSON & PARTNERS	05/14/07	\$ 211.1	2.9	0.6	5.7	24.3	24.3	10.4			
S&P 500 / BARRA VALUE			2.2	0.7	4.1	22.2	22.2	9.5	-0.6	1.5	0.1
S&P 500			1.9	1.7	3.4	19.1	19.1	9.3	-0.7	-4.4	-2.2
TOTAL LARGE VALUE		\$ 211.1	2.9	0.6	5.7	24.3	24.3	10.4	3.5	10.5	3.2
TOTAL DOMESTIC LARGE CAP		\$ 438.6	2.2	0.8	3.2	18.8	18.8	8.8	1.1	-0.1	-1.1
SMALL CAP GROWTH											
TCW	10/31/05	\$ 98.1	1.8	-5.8	0.4	26.0	26.0	15.4	-3.2	-11.1	2.0
WESTFIELD	10/31/05	\$ 111.2	1.2	-1.2	7.6	36.4	36.4	15.7	5.1		
S&P 6001 BARRA GROWTH			5.6	4.5	10.5	34.6	34.6	16.7	8.5	4.1	8.5
S&P 600			5.5	3.6	10.1	35.3	35.3	14.2	9.4	9.8	10.7
TOTAL SMALL GROWTH		\$ 209.3	1.5	-3.4	4.1	31.3	31.3	14.7	0.1	-8.2	4.7
SMALL CAP VALUE											
BRANDYWINE	02/28/06	\$ 69.5	4.1	0.3	8.2	34.1	34.1	14.0	14.6	21.5	12.9
THB	03/30/06	\$ 69.5	4.1	0.8	4.1	32.4	32.4	15.5	11.3	11.1	12.5
LSV	02/28/06	\$ 72.8	6.1	3.1	10.8	41.4	41.4	19.1	18.7		
S&P 6001 BARRA VALUE			5.5	2.9	9.7	36.0	36.0	11.6	9.9	14.4	11.3
S&P 600			5.5	3.6	10.1	35.3	35.3	14.2	9.4	9.8	10.7
TOTAL SMALL VALUE		\$ 211.8	4.8	1.4	7.7	36.0	36.0	16.7	15.2	18.0	14.4
TOTAL DOMESTIC SMALL CAP		\$ 421.1	3.1	-1.0	5.9	33.6	33.6	15.4	7.5	4.8	9.5
INDEX FUNDS											
SSGA RUSSELL 2000 INDEX FUND		\$ 29.4	4.2	0.5	6.8	33.4	33.4	14.2	6.0	4.1	6.1
RUSSELL 2000			4.2	0.5	6.8	33.4	33.4	14.5	6.2	4.8	6.6
TOTAL SMALL CAP INDEX FUND		\$ 29.4	4.2	0.5	6.8	33.4	33.4	14.2	6.0	4.1	6.1
LASERS S&P 100 INDEX FUND		\$ 176.0	1.8	1.0	1.5	15.0	15.0	8.3	-2.7		
S&P 100			1.8	1.0	1.5	15.1	15.1	8.3	-2.6	-7.1	-3.3
LASERS S&P 400 INDEX FUND		\$ 337.9	2.3	1.0	6.0	28.0	28.0	12.8	6.6		
S&P 400			2.3	1.0	6.1	28.0	28.0	12.7	6.6	7.2	9.1
LASERS S&P 500 INDEX FUND		\$ 1,304.4	1.9	1.7	3.6	19.3	19.3	9.5	-0.5	-3.9	-1.3
S&P 500			1.9	1.7	3.4	19.1	19.1	9.3	-0.7	-4.4	-2.2
LASERS S&P 600 INDEX FUND		\$ 374.4	5.5	3.6	9.9	34.7	34.7				
S&P 600			5.5	3.6	10.1	35.3	35.3	14.2	9.4	9.8	10.7
TOTAL US INDEX EQUITY		\$ 2,222.1	2.6	1.8	4.8	22.9	22.9	11.1	1.4	-2.0	0.3
TOTAL U.S. EQUITY		\$ 3,081.8	2.6	1.3	4.7	23.7	23.7	10.8	2.3	-0.4	1.4

SUMMARY OF MANAGER PERFORMANCE
RATE OF RETURNS GROSS OF FEES
(For Period Ending June 30, 2004)

	Contract Exp. Date	MKT VAL \$ (Million)	Month	3 mos	YTD	Fiscal YTD	1 Year	2 Years	3 Years	4 Years	5 Years
NON-U.S. EQUITY											
LARGE CAP VALUE											
DELAWARE INT'L ADVISORS"	10/01/05	\$ 90.4	2.6	1.9	3.0	27.9	27.9	13.5	9.4	6.5	7.4
TEMPLETON INT'L"	10/01/05	\$ 96.3	1.3	-1.9	1.8	31.4	31.4	8.2	2.1	0.3	3.3
CITIGROUP PMI VALUE EX-US			2.5	0.0	5.4	35.7	35.7	13.4	6.1	0.7	3.0
CITIGROUP PMI EX-US INDEX			2.1	-0.3	4.1	31.3	31.3	11.8	4.2	-3.3	0.9
TOTAL INT'L LARGE VALUE		\$ 186.7	1.9	-0.1	2.4	29.7	29.7	9.8	5.2	3.0	5.1
LARGE CAP GROWTH											
NICHOLAS-APPLEGATE	08/31/05	\$ 145.5	1.8	-3.2	0.2	21.6	21.6	4.2	-2.9		
CITIGROUP PMI GROWTH EX-US			1.6	-0.6	2.6	26.7	26.7	10.2	2.2	-7.1	-1.3
CITIGROUP PMI EX-US INDEX			2.1	-0.3	4.1	31.3	31.3	11.8	4.2	-3.3	0.9
TOTAL INT'L LARGE GROWTH		\$ 145.5	1.8	-3.2	0.8	22.1	22.1	6.1	-2.5		
INT'L INDEX FUND											
SSGA SALOMON PMI FUND	10/30/05	\$ 334.8	2.2	-0.4	3.9	30.3	30.3				
CITIGROUP PMI EX-US INDEX			2.1	-0.3	4.1	31.3	31.3	11.8	4.2	-3.3	0.9
TOTAL INT'L LARGE CAP		\$ 667.0	2.0	-0.9	2.7	28.1	28.1	8.8	1.9	-3.8	-0.5
INT'L SMALL CAP											
SCHRODERS SC (GROWTH)	09/30/04	\$ 203.6	3.4	0.8	13.5	47.5	47.5	19.5	11.5	3.0	8.7
CITIGROUP EMI EPAC			3.5	0.9	10.8	44.4	44.4	20.3	12.6	3.9	5.9
TOTAL INT'L SMALL CAP		\$ 203.6	3.4	0.8	13.2	47.1	47.1	19.3	11.2	2.4	10.2
EMERGING MARKETS											
SCHRODERS EMER MKTS	09/30/04	\$ 169.7	-1.7	-13.5	-6.2	29.3	29.3	16.2	9.1	-2.1	0.5
MSCI EMERGING MARKETS FREE			0.5	-9.6	-0.8	33.5	33.5	19.5	13.1	1.8	3.3
TOTAL NON-U.S. EQUITY		\$ 1,040.3	1.7	-2.9	2.9	31.9	31.9	12.3	5.2	-2.5	1.3
TOTAL EQUITY		\$ 4,122.1	2.4	0.2	4.3	26.0	26.0	11.3	3.0	-1.0	1.4
US FIXED INCOME											
INVESTMENT GRADE											
LOOMIS SAYLES & CO	12/31/09	\$ 293.8	0.7	-2.6	0.1	1.1	1.1	7.1	7.1	8.8	7.7
ORLEANS CAPITAL MGT	12/31/04	\$ 139.2	0.7	-2.4	1.2	0.9	0.9	6.4	6.3	7.5	6.5
LB AGGREGATE			0.6	-2.4	0.2	0.3	0.3	5.2	6.4	7.6	7.0
TOTAL INVESTMENT GRADE		\$ 433.0	0.7	-2.5	0.5	1.1	1.1	6.8	6.8	8.3	7.3
HIGH YIELD											
W.R. HUFF ASSET MGT	12/31/04	\$ 271.8	0.7	-1.8	0.3	10.0	10.0	17.7	6.3	4.3	4.3
FIRST BOSTON HIGH YIELD			1.6	-0.2	2.5	11.8	11.8	16.2	11.1	8.1	6.4
TOTAL ACTIVE HIGH YIELD		\$ 271.8	0.7	-1.8	0.3	10.0	10.0	16.5	8.6	6.9	5.8
INDEX FUND											
SSGA HIGH YIELD BOND INDEX	09/30/04	\$ 258.2	1.1	-1.4	0.9	7.8	7.8				
LEHMAN HIGH YIELD VL 200M			1.3	-1.3	1.1	8.4	8.4				
TOTAL INDEXED HIGH YIELD		\$ 258.2	1.1	-1.4	0.9	7.8	7.8				
TOTAL HIGH YIELD		\$ 530.0	0.9	-1.6	0.6	9.0	9.0	15.4	7.9	6.4	5.4
MORTGAGE											
TCW	12/31/04	\$ 300.6	0.8	-1.4	0.8	2.4	2.4	4.2	6.2	7.4	6.9
LB MORTGAGE INDEX			0.9	-1.1	0.8	2.2	2.2	4.0	5.6	7.0	6.6
TOTAL MORTGAGE		\$ 300.6	0.8	-1.4	0.8	2.4	2.4	4.2	6.2	7.4	6.9
TOTAL U.S. FIXED INCOME		\$ 1,263.6	0.8	-1.9	0.6	4.5	4.5	9.2	7.4	7.9	7.0
GLOBAL FIXED INCOME											
DELAWARE INV ADVISOR	09/30/04	\$ 341.4	0.3	-2.7	-1.6	6.9	6.9	15.6	17.8	12.3	9.3
CITIGROUP WORLD GOVT BOND			0.2	-3.3	-1.5	5.7	5.7	11.0	11.9	8.0	7.0
TOTAL GLOBAL FIXED INCOME		\$ 341.4	0.3	-2.7	-1.6	6.9	6.9	15.6	17.8	12.3	9.8
TOTAL FIXED INCOME		\$ 1,605.0	0.7	-2.1	0.1	5.0	5.0	10.1	8.9	8.6	7.3

SUMMARY OF MANAGER PERFORMANCE
RATE OF RETURNS GROSS OF FEES
(For Period Ending June 30, 2004)

	Contract Exp. Date	MKT VAL \$ (Million)	Month	3 mos	YTD	Fiscal YTD	1 Year	2 Years	3 Years	4 Years	5 Years
ALTERNATIVE ASSETS											
PRIVATE EQUITY											
ADAMS STREET SECONDARY	12/31/13	\$ 1.5	-1.0	-1.0	-0.3	-3.4	-3.4	-11.2	-5.6	-6.7	
ADAMS STREET PRIMARY (-)	12/31/12	\$ 114.7	2.1	2.1	5.2	12.7	12.7	-2.1	-9.0	-7.0	9.9
ADAMS STREET V - LP DIRECT	07/14/12	\$ 2.7	0.0	-3.6	-8.9						
JOHN HANCOCK		\$ 3.9	2.7	1.0	-6.7	17.9	17.9	-0.6	-9.3	-17.3	36.0
HIPEP DIRECT III	12/31/07	\$ 5.3	6.1	9.9	-28.1	25.0	25.0	16.0	-1.4	-8.1	-3.6
HIPEP PARTNERSHIP III	10/08/10	\$ 34.4	13.0	13.0	13.3	19.2	19.2	11.5	4.4	-1.6	-2.5
HARBOURVEST VI - BUYOUT	06/30/13	\$ 10.5	22.3	22.3	22.0	25.6	25.6	4.7	1.1	-7.4	
HARBOURVEST VI - DIRECT	06/30/09	\$ 15.0	1.2	5.4	-1.3	34.1	34.1	0.8	-8.1	-8.3	
HARBOURVEST VI - PTNR	06/30/13	\$ 51.1	5.3	5.3	4.5	3.9	3.9	-11.2	-16.85	-12.5	
HIPEP DIRECT IV	12/31/10	\$ 5.7	-1.6	-1.6	-0.7	0.0	0.0	-6.2			
HIPEP PARTNERSHIP IV	12/31/14	\$ 7.5	6.2	6.2	8.7	13.3	13.3	-2.5			
PATHWAY CAPITAL MGT		\$ 9.8	1.7	4.1	4.7	45.0	45.0	15.3	7.9	-4.2	10.7
HUFF ALTERNATIVE FUND	01/11/01	\$ 14.8	0.6	46.0	46.0	81.9	81.9	20.0	13.0		
ERASMUS	11/13/13	\$ 4.9	0.0	0.0	5.0						
WILLIAMS CAPITAL	01/19/14	\$ -	0.0								
NOMINAL BENCHMARK			1.3	4.0	8.2	17.0	17.0	17.0	17.0	17.0	17.0
TOTAL PRIVATE EQUITY		\$ 281.8	4.4	6.5	5.7	16.9	16.9	-0.1	-7.6	-8.5	14.2
ABSOLUTE RETURN STRATEGIES											
ARNHOLD & S. BLEICHROEDER	01/31/11	\$ 32.4	0.3	0.1	1.4	1.9	1.9	1.4	1.1		
KELLNER, DILEO & CO	01/31/11	\$ 29.2	0.6	0.2	2.3	4.3	4.3	2.8	2.2		
KELLNER, DILEO & CO CONV ARB	01/31/11	\$ 5.6	-2.9	-7.3	-4.8	-4.3	-4.3	4.0			
PAMCO		\$ 59.0	0.7	0.2	2.7						
K2 ADVISORS LLC		\$ 58.8	0.7	-0.7	2.4						
NOMINAL BENCHMARK			1.0	3.1	6.3	13.0	13.0	13.0	13.0	13.0	
ABSOLUTE RETURN STRATEGIES		\$ 185.1	0.5	-0.3	2.1	5.3	5.3	3.6	2.8		
TOTAL ALTERNATIVE ASSETS		\$ 466.9	2.9	3.8	4.3	12.3	12.3	-0.2	-6.1	-6.8	15.9
(\$ Adams Street Primary includes ASP 2002 US Fund)											
REAL ESTATE											
EQUITY REAL ESTATE											
HEITMAN REAL ESTATE FUND FIVE (t)*		\$ 0.6	1.8	-7.4	11.4	0.3	0.3	6.5	4.5	3.7	6.1
JMB GROUP TRUST FIVE (t)		\$ 9.4	0.5	8.6	18.6	43.6	43.6	20.5	10.4	12.6	8.1
L&B PROPERTY FOUR		\$ 7.1	0.0	1.7	-0.8	3.3	3.3	4.8	1.1	2.3	3.2
TCW REALTY FUND SIX *		\$ 0.1	-0.1	9.5	10.8	1.5	1.5	0.8	-3.6	-2.2	-1.3
NCREIF CUSTOM PROPERTY			2.8	2.8	4.9	8.9	8.9	7.0	6.7	8.1	8.9
TOTAL REAL ESTATE		\$ 17.2	0.3	5.0	10.8	28.0	28.0	22.0	12.1	11.0	10.1
CASH EQUIVALENTS											
HOLDING ACCOUNT		\$ 296.8	0.1	0.3	0.5	2.2	2.2	3.5	3.1	3.9	4.3
91 DAY T-BILL			0.1	0.2	0.5	1.0	1.0	1.3	1.7	2.7	3.3
TOTAL CASH EQUIVALENTS		\$ 296.8	0.1	0.3	0.5	2.2	2.2	3.5	3.1	3.9	4.3
TOTAL PLAN											
FINANCIAL COMPOSITE		\$ 6,018.0	1.8	-0.4	3.0	18.6	18.6	11.7	5.8	2.8	3.7
FINANCIAL ALLOCATION INDEX			1.8	-0.1	3.3	18.4	18.4	10.9	5.4	2.3	3.5
FINANCIAL POLICY INDEX			2.0	0.3	3.6	19.0	19.0	11.6	6.3	3.1	4.2
TOTAL PLAN		\$ 6,508.0	1.9	-0.1	3.2	18.0	18.0	10.9	5.1	2.2	4.0
TOTAL PLAN ALLOCATION INDEX			1.7	0.2	3.6	18.1	18.1	11.1	6.0	3.1	4.2
TOTAL PLAN POLICY INDEX			1.9	0.6	3.9	18.7	18.7	11.8	6.9	4.0	5.0
LONG TERM RETURNS FOR TOTAL PLAN							6	7	8	9	10
							Years	Years	Years	Years	Years
							4.7	5.8	7.2	8.0	8.8
* Restructured to aggressive growth portfolio March 00											
** Restructured to concentrated portfolio October 00											
(t) denotes a manager on the watch list											
*** This amount does not include Self-Directed Drop Funds of \$26.4 million											

Schedule of Brokerage Commission Paid - Year Ended June 30, 2004

Brokerage Firm	Shares Traded	Dollar Amount	Commission Per Share
MERRILL LYNCH + CO INC	33,621,704	\$225,120	\$0.007
CREDIT SUISSE FIRST BOSTON CORPORATION	27,818,488	178,496	0.006
GOLDMAN SACHS + CO	7,723,267	159,225	0.021
DEUTSCHE BANK	7,848,033	158,768	0.020
CITIGROUPGLOBAL MARKETS INC	9,343,186	146,646	0.016
BEAR STEARNS + CO INC	6,442,396	137,637	0.021
LEHMAN BROTHERS INC	10,281,014	119,189	0.012
MORGAN STANLEY CO INCORPORATED	7,306,288	111,357	0.015
CANTOR FITZGERALD + CO.	3,053,498	86,993	0.028
INSTINET	3,718,733	83,542	0.022
CHARLES SCHWAB CO INC	1,670,525	62,643	0.037
KNIGHT SECURITIES	1,482,624	62,106	0.042
G TRADE SERVICES LTD	3,082,840	59,115	0.019
JP MORGANSECURITIES INC	3,743,206	57,913	0.015
ABN AMRO SECURITIES LLC	8,181,175	56,217	0.007
PERSHING	2,031,353	46,967	0.023
PRUDENTIAL EQUITY GROUP	1,160,655	41,809	0.036
RBC DAIN RAUSCHER INC	980,740	39,864	0.041
JONES & ASSOCIATES INC	1,042,428	39,632	0.038
JEFFERIESCOMPANY INC	901,145	37,626	0.042
INVESTMENT TECHNOLOGY GROUP INC.	2,593,873	35,924	0.014
NOMURA SECURITIES INTERNATIONAL INC	1,088,899	31,445	0.029
B-TRADE SERVICES LLC	1,591,559	30,816	0.019
JOHNSON RICE + CO	653,170	28,770	0.044
FIRST ALBANY CORP.	601,810	28,535	0.047
J P MORGAN SECURITIES INC	1,271,840	27,037	0.021
ADAMS HARKNESS + HILL, INC	655,585	26,479	0.040
HIBERNIA SOUTHCOAST CAPITAL INC	549,800	25,905	0.047
WESTDEUTSCHE LANDESBANK GIROZENTRALE	731,465	23,259	0.032
EUROMOBILIARE SIM S.P.A.	692,874	22,566	0.033
EXANE INC	276,640	20,862	0.075
SG COWEN SECURITIES CORP	267,800	19,537	0.073
LIQUIDNETINC	761,144	18,599	0.024
STATE STREET BANK + TR CO	364,900	18,149	0.050
PANMURE GORDON & CO LTD	740,659	18,112	0.024
COMMERZBANK AG	949,326	17,258	0.018
MACQUARIEEQUITIES LIMITED	1,020,341	16,300	0.016
BROADCORTCAPITAL	405,400	16,255	0.040
DAIWA SECURITIES AMERICA INC	543,348	15,648	0.029
FRIEDMAN BILLINGS + RAMSEY	390,200	15,227	0.039
CREDIT AGRICOLE INDOSUEZ CHEUVREUX	1,936,792	14,769	0.008
HSBC BANKPLC	3,526,293	13,977	0.004
BNP PARIBUS SECURITIES CORP	1,950,100	13,419	0.007
WEEDEN + CO.	397,000	12,025	0.030
ENSKILDA SECURITIES AB	1,151,700	11,705	0.010
BARING SECURITIES	382,336	11,340	0.030
BAIRD, ROBERT W., & COMPANY INCORPORATED	232,735	11,252	0.048
LEERINK SWANN AND COMPANY	248,097	11,178	0.045
BANQUE NATIONALE DE PARIS	700,034	11,009	0.016
NEEDHAM +COMPANY	311,200	10,980	0.035
E TRADE SECURITIES LIMITED	203,769	10,760	0.053
KLEINWORTBENSON SECURITIES LIMITED	801,756	10,190	0.013
CAP INSTITUTIONAL SERVICES INC EQUITIES	251,596	9,509	0.038
WILLIAMS CAPITAL GROUP LP	198,000	9,182	0.046
BANC OF AMERICA SECUR.LLC MONTGOMEY DIV	380,661	8,873	0.023
ODDO FINANCE	338,157	8,768	0.026
BHF SECURITIES CORPORATION	419,278	8,710	0.021
PIPER JAFFRAY & CO.	370,110	8,208	0.022
E TRADE SECURITIES LIMITED	3,561,998	7,921	0.002
BRIDGE TRADING	196,800	7,872	0.040
LEGG MASON WOOD WALKER INC	178,000	7,703	0.043
PACIFIC GROWTH EQUITIES	189,300	7,572	0.040
CAZENOVE + CO	916,478	7,334	0.008
WELLS FARGO SECURITIES LLC	146,600	7,330	0.050
RAYMOND JAMES AND ASSOCIATES INC	154,530	7,321	0.047
MORGAN KEEGAN & CO INC	171,600	7,023	0.041
WILLIAM BLAIR & COMPANY, L.L.O	142,150	6,826	0.048
SANFORD CBERNSTEIN CO LLC	139,500	6,777	0.049
BANK OF NEW YORK	133,987	6,675	0.050
IMP SECURITIES	140,830	6,629	0.047
INTERMONTE SEC SIM SPA	316,771	6,529	0.021
CABOTO SIM SPA	339,278	6,438	0.019
OTHERS	21,059,040	425,176	0.020
TOTALS	199,170,407	\$3,088,527	\$0.0155

SCHEDULE OF FEES

(by Investment Manager Classification)

For Year Ended June 30, 2004

MANAGER TYPE	ASSETS UNDER MANAGEMENT	ANNUAL FEES
INVESTMENT	(in millions)	(in dollars)
Fixed Income Managers		
U.S. Fixed Income	\$ 1285.00	\$ 2,583,614
Global Fixed Income	341.40	569,738
Total Fixed Income	1,626.40	3,153,352
Equity		
U.S. Equity - External Managers	\$ 894.00	\$ 3,885,796
U.S. Equity - Internal Managers	2,192.80	-
Global Equity	1,040.30	3,074,059
Total Equity	4,127.10	\$ 6,813,799
Real Estate	17.20	258,339
Alternative Investments	466.80	10,043,404
Cash	296.80	
Consulting Fees		250,000
Total:	\$ 6,534.30	\$ 20,518,894

Notes:

1) Financial Statements are prepared on the basis of security class. As specified in Manager Guidelines, at any given point in time, a money manager may have securities not specifically within their defined investment manager type due to market conditions.

2) Internally managed funds lower investment management fees and reduce the volatility of actual portfolio returns relative to benchmark returns.

ACTUARIAL
SECTION

Hall Actuarial Associates

Charles G. Hall
F. C.A., M.A.A.A., A.S.A.
Enrolled Actuary

1624 LaSalle Parc Drive
Baton Rouge, La. 70806
(225) 928-7866

September 10, 2004

Board of Trustees
LA STATE EMPLOYEES' RETIREMENT SYSTEM
Post Office Box 44213
Baton Rouge, Louisiana 70804-4213

Ladies and Gentlemen:

Pursuant to your request, we have completed our annual valuation of the Louisiana State Employees' Retirement System as of June 30, 2004. The valuation was prepared relying on the data submitted by the Retirement System; the actuarial assumptions adopted by the Board of Trustees and reflect the current benefit structure on the valuation date.

Act 588 of 2004 made significant changes to prospective funding. The outstanding balances of changes in liabilities from 1993 - 1998 were re-amortized as a level dollar amount to 2029. The amortization periods for changes in liabilities beginning with 1999 were extended to a thirty-year period from the date of occurrence. A minimum Employer rate of 15.5% and an employer credit account were established for excess contributions. Following the recommendation of the Public Retirement Systems' Actuarial Committee, the negative Experience Account Balance was removed from the valuation assets. The Experience Account was reset to zero.

Notable changes in recent prior legislative sessions include the following Acts: Act 572 of 1992 established the Experience Account which provides for the pre-funding of retiree COLA's by accumulating 50% of the excess investment income. The Texaco Settlement Fund was established July 1, 1995 to dedicate allocated assets to reduce the initial unfunded actuarial liability established by Act 81.

The funding objective of the Retirement System was established by Constitutional Amendment Number 3 during the 1987 Legislative Session and requires the following:

- a) fully fund all current normal costs determined in accordance with the prescribed statutory funding method; and
- b) liquidate the unfunded liability as of June 30, 1988 over a forty year period with subsequent changes in unfunded liabilities amortized over period(s) specified by statute.

On the basis of the current valuation, the total contribution rate payable by the employers for the year commencing July 1, 2004 should be set equal to 18.6% of payroll.

When compared to the prior year's employer's rate of 17.8%, the current employer's rate of 18.6% reflects a significant increase in the employer's rate from the prior year resulting from a yield to the actuarial value of assets less than 8.25%. The current contribution rate, together with the contributions payable by the members, is sufficient to achieve the funding objective set forth **above**.

Board of Trustees

LASERS

September 10, 2004

The methodology for determining the actuarial value of assets, approved by the Board of Trustees, was changed effective July 1, 1999. The method values all assets on a basis, which reflects a four-year moving weighted average of the relationship between market value and cost value. The objective of this asset valuation method is to smooth the volatility which might otherwise occur due to market conditions on the measurement date. The actuarial value of assets for the fiscal year ending on June 30, 2004 is \$6,097,815,177. The Actuarial Value of Assets, when adjusted for the Experience Account Fund in the amount of \$0, and the side-fund assets from the Texaco Settlement Fund of \$26,184,218 yields assets for funding purposes of \$6,071,630,959.

In performing the June 30, 2004 valuation, I have relied upon the employee data and financial information provided by the administrative staff of the Louisiana State Employees' Retirement System. Regarding participant data, each record was edited for reasonableness and consistency to prior plan year data, however, the validity of the information was not compared to actual source documents. Regarding plan assets, a general review for consistency and balance testing with information furnished for the prior year's valuation was performed.

The present values shown in the June 30, 2004 actuarial valuation and supporting statistical schedules of this certification, which have been reformatted and comprise all the schedules of the Actuarial Section in the annual Financial Statement, have been prepared in accordance with the actuarial methods specified in Louisiana Revised Statutes Title II Section 22(6) and assumptions which are appropriate for the purposes of this valuation.

The funding method prescribed is the Projected Unit Credit Cost Method. The actuarial assumptions and methods used for funding purposes comply and are within the parameters set forth by the Government Accounting Standards Board (GASB) Statement No. 25. The same actuarial assumptions and methods were employed in the development of the Trend Data Schedule, the Schedule of Funding Progress and the Schedule of Employer Contributions, which were prepared for the Financial Section of this report. The System is required to conduct an experience study every five years. The most recent study covers the five-year observation period of 1997-2001.

I certify to the best of my knowledge, the methods and assumptions comply with generally recognized and accepted actuarial principals and practices set forth by the American Academy of Actuaries, are reasonable in the aggregate and when applied in combination represent my best estimate of the funding requirement to achieve the Retirement System's Funding Objective.

The actuary trend data schedules in the Financial Section were obtained from information received from this firm and all supporting schedules in the Actuarial Section were prepared by this firm.

Respectfully submitted,

Charles G. Hall, FCA,MAAA,ASA
Consulting Actuary

PRINCIPLE PROVISIONS OF THE PLAN

The Louisiana State Employees' Retirement System (LASERS) was enacted in 1950. Initially, the plan covered regular State Employees (Regular Plan), but membership has expanded to participating agencies, and the merger of Louisiana State University Administration Employees and the Judges Retirement System.

The purpose of the plan is to provide benefits to members and their dependents at retirement or in the event of death, disability or termination of employment. LASERS is a defined benefit plan and is funded on an actuarial reserve basis to fund benefits as prescribed by law.

ADMINISTRATION

The plan is governed by Title 11 Sections 401-699 of the Louisiana Revised Statutes. The Board of Trustees is composed of twelve members; six elected from the active membership, three elected retired members, and three ex - officio members. Elected members serve staggered four-year terms. The Treasurer, Chairman of the House Retirement Committee, and the Chairman of the Senate Retirement Committee serve as voting, ex-officio members.

The Board of Trustees appoints an Executive Director who is responsible for the operation of the system. The Board also retains other consultants as deemed necessary. Administrative expenses are paid entirely from investment earnings.

MEMBER CONTRIBUTIONS

Members contribute a percentage of their gross compensation, depending on plan participation:

Regular Plan Members	7.5%
Dept. of Corrections	9.0%, 7.5% after DROP
Wildlife Agents	8.5%, 9.5% after 7/1/2003
Legislators and Judges	11.5%

Member contributions have been tax-deferred for federal income tax purposes since January 1, 1990. Therefore, contributions after the effective date are not considered as income for federal income tax purposes until withdrawn through refund or through payment of benefits.

EMPLOYER CONTRIBUTIONS

All participating employers, regardless of plan participation, contribute a percentage of their total gross payroll to the system. The employer percentage is actuarially determined and is sufficient to pay annual accruals plus an amortization charge which liquidates the system's unfunded liability as required by law. The rate is determined annually and recommended by the Public Retirement Systems' Actuarial Committee to the State Legislature.

TERMINATION

A member who terminates covered employment, regardless of plan membership, may request a refund of the member's contributions without interest. Upon re-employment, a member may reinstate the credit forfeited through termination of previous membership by repaying the refunded contributions plus interest. A member who terminates covered employment with 10 years of service may, in lieu of a refund of contributions, elect to receive a monthly annuity upon attainment of age 60.

RETIREMENT BENEFITS

Service retirement benefits are payable to members who have terminated covered employment and met both age and service eligibility requirements.

Normal Retirement

Regular Plan - A member may retire with a 2.5% annual accrual rate at age 55 with 25 years, age 60 with 10 years or at any age with 30 years of service

Note: Members may retire with a 2.5% annual accrual rate at any age with 20 years or age 50 with 10 years of service with benefits actuarially reduced.

Correction Officers - A member may retire with a 2.5% annual accrual rate at age 50 with 20 years or 20 years of service regardless of age if employed prior to August 15, 1986. Effective January 1, 2002, new members accrue 3.33% per year and are eligible for retirement at 25 years of service regardless of age.

Judges - A member may retire with a 3.5% annual accrual rate with 18 years, age 55 with 12 years, age 50 with 20 years (minimum 12 years judicial), age 65 with 10 years of service, or 70 without regards to creditable service.

Legislators, Governor, Lieutenant Governor and State Treasurer - may retire with a 3.5% annual accrual rate with 16 years of legislative service; age 50 with 20 years (minimum 12 years legislative service) or age 55 with 12 years of service.

Benefit Formula

For all plans, monthly retirement benefits are based on a formula, which multiplies the final average compensation, for the highest successive thirty six months, by the applicable accrual rate, and by the years of creditable service, plus a \$25 per month supplemental benefit for members hired prior to July 1, 1986.

Payment Options

A retiring member is entitled to receive the maximum benefit payable until the member's death. In lieu of the maximum benefit, the member may elect to receive a reduced benefit payable in the form of a Joint and Survivor Option, or a reduced benefit with a lump sum payment which cannot exceed 36 monthly benefit payments.

Judges receive the maximum benefit payable without reduction for a 100% Joint and Survivor Option.

DEFERRED RETIREMENT OPTION PROGRAM (DROP)

In lieu of terminating employment and accepting a service retirement, an eligible member may begin participation on the first retirement eligibility date or within 60 days thereafter, for a period not to exceed 36 months. Delayed participation reduces the three-year participation period. During participation, benefits otherwise payable are fixed, and deposited in an individual DROP account.

Upon termination of DROP, the member may continue employment and earn additional accruals to be added to the fixed pre-DROP benefit. Upon termination of employment, the member is entitled to the fixed benefit plus post-DROP accruals, plus the individual DROP account balance, which can be paid in a lump sum, or an additional annuity based upon the account balance.

DISABILITY RETIREMENT BENEFITS

Active members with ten or more years of service credit are eligible for disability retirement benefits if determined to be disabled from performing the duties of their job.

Regular Plan - A pension equal to 2 1/2% of average compensation.

Judges - A service retirement benefit, but not less than 50% of current salary.

Wildlife Agents - A service retirement benefit of the Regular Plan.

Total disability in-line-of-duty service not less than 60% average compensation.

SURVIVOR BENEFITS

A surviving spouse with minor children of an active member with 5 years of creditable service (2 years immediately prior to death) or 20 years of creditable service is entitled to a benefit equal to the greater of (a) \$300 per month, or (b) 75% of the member's benefit calculated at the 2 1/2% accrual rate for all creditable service.

Surviving minor child, with no surviving spouse shall receive an amount equal to the greater of 75% of compensation or \$300. Benefits to minors cease at attainment of age 18, marriage or age 23 if enrolled in an approved institution of higher education.

A surviving spouse without minor children of an active member with 10 years of creditable service (2 years immediately prior to death) or 20 years of creditable service is entitled to a benefit equal to the greater of (a) \$300 per month, or (b) 50% of the member's benefit calculated at the 2 1/2% accrual rate for all creditable service.

POST-RETIREMENT INCREASES

Cost-of-living adjustments (COLAs) are permitted provided there are sufficient funds in the Experience Account to fund the increase in the retiree reserves. The Experience Account is credited with 50% of the excess investment income over the actuarial valuation rate and is debited 50% of the deficit investment income and distributions for COLAs approved by concurrent resolution of both houses as provided by law.

SUMMARY OF ASSUMPTIONS

The following assumptions were adopted by the Board of Trustees of The Louisiana State Employees' Retirement System of Louisiana (LASERS) based on the most recent 1997-2001 actuarial experience study.

I. General Actuarial Method

Actuarial Funding Method (Projected Unit Credit): The unfunded accrued liability on June 30, 1988 is amortized over a forty-year period commencing in 1989. The amortization payment reflects a 4% increase for the first five years, reducing by .5% at the end of each quinquennial period. Changes in unfunded accrued liabilities occurring after June 30, 1988 are amortized as a level dollar amount as follows:

	Act 81 Effective 6/30/88	As Amended Act 257 Effective 6/30/92
Experience Gains/(Losses)	15 years	Later of 2029 or 15 years
Actuarial Assumptions	30 years	Later of 2029 or 30 years
Actuarial Methods	30 years	Later of 2029 or 30 years
Benefit Changes	determined by enabling statute	

Act 257 of 1992 further amended the amortization schedule to reflect a 4.5% payment increase over the remaining amortization period.

Employer contribution requirements for normal costs and amortization of the unfunded accrued liabilities are determined as a percentage of pay roll. A discrepancy between dollars generated by % of payroll versus the required dollar amount is treated as a shortfall credit/debit and applied to the following year's contribution requirement.

Asset Valuation Method: Assets are valued on a basis, which reflects a four-year moving weighted average value between market value and cost value. Prior to July 1, 1997, fixed income securities were valued at amortized cost.

Valuation Data: The administrative staff of LASERS furnishes the actuary with demographic data relating to the active life membership and retired life members. Retired life members included inactive members who are entitled to a deferred reciprocal or vested benefit. The administrative staff of LASERS provides the book value and market value of system assets. All data is reviewed for reasonableness and consistency from year to year, but is not audited by the actuary.

II. Economic Assumptions

Investment Return: 8.25% per annum, compounded annually.

Employee Salary Increases: Incorporated in the following salary scales is an explicit 4.25% portion attributable to the effects of salaries, based upon years of service:

Regular State Employees - range	4.25% - 14.00%
Judges and Legislators - range	2.50% - 4.70%
Department of Corrections - range	4.00% - 14.00%
Wildlife and Fisheries - range	6.50% - 18.00%

	STATE EMPLOYEES	JUDGES	CORRECTIONS	WILDLIFE
Duration 1 yr.	14.00%	4.70%	18.00%	18.00%
5 yr.	6.50%	2.50%	8.00%	8.00%
10 yr.	5.50%	2.50%	7.50%	6.50%
15 yr.	5.00%	2.50%	6.00%	6.50%
20 yr.	4.50%	2.50%	6.00%	6.50%
25 yr.	4.25%	2.50%	6.00%	6.50%
30 yr.	4.25%	2.50%	4.00%	6.50%

The active member population is assumed to remain constant.

III. Decrement Assumptions

Mortality Assumption: Pre-retirement deaths and post-retirement life expectancies are projected in accordance with the experience of the 1983 Sex Distinct Graduated Group Annuity Mortality Table, with female ages set at attained age plus one.

Disability Assumption: Rates of total and permanent disability were projected by age in accordance with the 1997-2001 disability experience of the Retirement System. Rates are illustrated by employment classification. Mortality after disability is based on the Eleventh Actuarial Valuation of the Railroad Retirement System for permanent disabilities.

	STATE EMPLOYEES	JUDGES	CORRECTIONS	WILDLIFE
Age 25	.00%	.00%	.00%	.00%
30	.01%	.02%	.02%	.01%
35	.03%	.02%	.05%	1.00%
40	.15%	.02%	.13%	1.00%
45	.27%	.02%	.17%	1.00%
50	.37%	.02%	.54%	.00%
55	.44%	.02%	.04%	.00%

Louisiana State Employees Retirement System

Termination Assumptions: Voluntary withdrawal rates are derived from the 1997-2001 termination experience study.

	STATE EMPLOYEES	JUDGES	CORRECTIONS	WILDLIFE
Age 25 yr.	16%	.00%	22%	7%
30 yr.	12%	.50%	15%	7%
35 yr.	9%	.50%	10%	2%
40 yr.	5%	.50%	6%	1%
45 yr.	3%	.50%	4%	1%
50 yr.	3%	50%	3%	1%

Furthermore, for members terminating with ten (10) or more years of service, it is assumed that 80% will not withdraw their accumulated employee contributions.

Retirement/DROP Assumptions: Retirement rates and DROP probabilities were projected based upon the 1997-2001 experience study.

	STATE EMPLOYEES RET DROP		JUDGES RET DROP		CORRECTIONS RET DROP		WILDLIFE RET DROP	
Age 50 yr.	35%	33%	50%	0%	70%	90%	50%	50%
51 yr.	37%	33%	50%	0%	70%	50%	50%	50%
52 yr.	40%	33%	50%	90%	70%	50%	50%	50%
53 yr.	45%	33%	35%	90%	70%	45%	50%	50%
54 yr.	35%	33%	35%	90%	90%	10%	50%	50%
Age 55 yr.	35%	33%	35%	90%	75%	55%	50%	50%
56 yr.	35%	25%	35%	50%	75%	40%	50%	50%
57 yr.	45%	20%	10%	50%	75%	15%	50%	50%
58 yr.	60%	20%	10%	50%	75%	15%	50%	50%
59 yr.	47%	25%	10%	15%	45%	15%	50%	50%
Age 60 yr.	26%	25%	10%	15%	25%	25%	50%	50%
61 yr.	26%	15%	10%	15%	25%	25%	50%	50%
62 yr.	33%	15%	10%	15%	25%	5%	50%	50%
63 yr.	40%	15%	10%	90%	35%	5%	50%	50%
64 yr.	36%	15%	10%	75%	35%	5%	50%	50%
Age 65 yr.	36%	15%	10%	33%	35%	5%	99%	0%
66 yr.	33%	15%	10%	15%	35%	5%	99%	0%
67 yr.	30%	25%	10%	15%	30%	15%	99%	0%
68 yr.	30%	30%	10%	15%	50%	0%	99%	0%
69 yr.	30%	10%	62%	0%	50%	0%	99%	0%
70 yr.	25%	10%	99%	0%	99%	0%	99%	0%

ACTUARIAL VALUATION BALANCE SHEET

ASSETS

	June 30, 2004	June 30, 2003
Present Assets Creditable To:		
Members' Savings Account	\$1,217,047,145	\$1,156,352,401
Annuity Reserve Account	5,961,616,080	5,632,250,596
TOTAL PRESENT ASSETS	7,178,663,225	6,788,602,997
Present Value Of Prospective Contributions Payable To:		
Members' Savings Account	1,249,241,897	1,187,898,005
Annuity Reserve Account		
Normal	1,252,280,419	1,114,204,071
Accrued Liability	3,396,245,762	3,434,267,761
TOTAL PROSPECTIVE CONTRIBUTIONS	5,897,768,078	5,736,369,837
TOTAL ASSETS	\$13,076,431,303	\$12,524,972,834

LIABILITIES

Present Value Of Prospective Benefits Payable On Account Of:		
Current Retiree Members	\$5,849,192,784	\$5,531,582,247
Current Active Members	7,114,815,223	6,892,722,238
Deferred Vested & Reciprocal Members	112,423,296	100,668,349
TOTAL LIABILITIES	\$13,076,431,303	\$12,524,972,834

SUMMARY OF UNFUNDED ACTUARIAL LIABILITIES/SALARY TEST

(Dollar Amounts in Millions)

VALUATION DATE	(1)	(2)	(3)	ACTUARIAL VALUATION ASSETS	PORTION OF ACTUARIAL ACCRUED LIABILITIES COVERED BY ASSETS		
	ACTIVE MEMBER CONTRIBUTION	RETIRES TERM.VESTED INACTIVE	ACTIVE MEMBERS EMPLOYER FIN. PORTION		(1)	(2)	(3)
1995	886.9	2,697.3	1,785.1	3,665.9	100%	93%	0%
1996	903.6	2,746.8	2,604.0	4,114.5	100%	94%	0%
1997	938.2	2,862.4	2,688.8	4,537.9	100%	97%	0%
1998	1,008.5	3,678.4	2,261.1	5,067.8	100%	100%	8%
1999	1,067.5	4,020.1	2,495.0	5,574.9	100%	100%	19%
2000	1,079.2	4,567.2	2,610.9	6,171.0	100%	100%	20%
2001	1,088.5	4,887.8	2,676.3	6,418.3	100%	100%	17%
2002	1,116.7	5,306.0	2,784.1	6,460.6	100%	100%	1%
2003	1,156.3	5,257.8	3,007.8	6,487.5	100%	100%	2%
2004	1,217.0	5,961.6	2,959.0	6,097.8	100%	82%	0%

SUMMARY OF ACTUARIAL AND UNFUNDED ACTUARIAL LIABILITIES

(Dollar Amounts in Millions)

VALUATION DATE	ACTUARIAL ACCRUED LIABILITIES	ACTUARIAL VALUATION ASSETS	RATIO OF ASSETS TO AAL	UNFUNDED AAL	ACTIVE MEMBER PAYROLL	UNFUNDED AAL AS A % OF ACTIVE PAYROLL
1995	5,696.9	3,665.9	64.3	2,031.0	1,547.9	131.2
1996	6,254.4	4,114.5	65.8	2,139.9	1,584.4	135.1
1997	6,489.3	4,537.9	69.9	1,951.4	1,607.4	121.5
1998	6,953.0	5,067.8	72.9	1,885.3	1,653.8	114.0
1999	7,582.8	5,574.9	73.5	2,007.8	1,736.9	115.6
2000	8,257.3	6,170.9	74.7	2,086.3	1,820.1	114.6
2001	8,652.6	6,418.3	74.2	2,234.3	1,782.8	125.3
2002	9,206.7	6,460.6	70.2	2,746.1	1,861.9	147.5
2003	9,796.3	6,487.5	66.2	3,308.8	1,924.6	172.0
2004	10,237.6	6,097.8	59.3	4,139.8	2,017.7	205.2

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITIES

(Dollar Amounts in Thousands)

	FISCAL YEAR ENDING			
	2004	2003	2002	2001
Unfunded Actuarial Liability at beginning of Fiscal Year (7/1)	\$3,333,456	\$2,864,319	\$2,357,917	\$2,209,501
Interest on Unfunded Liability	275,010	236,306	194,528	182,284
Investment Experience (gains) decreases UAL	126,485	746,839	788,718	472,668
Plan Experience (gains) decreases UAL	(52,973)	90,852	55,389	(133,872)
Employer Amortization Payments (payments) decreases UAL	(219,989)	(180,522)	(145,654)	(134,581)
Employer Contribution Variance (excess contributions) decreases UAL	17,093	16,740	7,780	(1,748)
Experience Account Allocation (allocations) decreases UAL 0	0	(373,419)	(394,359)	(236,334)
OTHER - Miscellaneous gains and losses from transfers or Acts of the Legislature	686,860	(67,659)	0	0
Unfunded Actuarial Liability at end of Fiscal Year (6/30)	\$4,165,942	\$3,333,456	\$2,864,319	\$2,357,917

EXHIBIT A(1)

**AMORTIZATION OF UNFUNDED
ACTUARIAL ACCRUED LIABILITY**
Prior to ACT 588 of the 2004 Legislative Session
JUNE 30, 2004

DATE 6/30	DESCRIPTION	AMTZ. METHOD	AMTZ. PERIOD	INITIAL LIABILITY	YEARS REMAIN	REMAINING BALANCE	MID YEAR PAYMENT
1993	Initial Liability		26	2,704,738,763	25	2,758,875,551	169,746,072
1993	Change in Liability		36	(133,232,174)	25	(176,172,713)	(10,839,426)
1994	Change in Liability		35	(48,680,987)	25	(62,475,258)	(3,843,932)
1995	Change in Liability		34	(57,826,272)	25	(72,078,533)	(4,434,795)
1996	Change in Liability		33	70,910,540	25	85,912,731	5,285,976
1997	Change in Liability		32	(239,190,250)	25	(281,911,688)	(17,345,256)
1998	Change in Liability		31	(92,217,582)	25	(105,825,000)	(6,511,123)
1999	Change in Liability		30	92,641,287	25	103,608,120	6,374,724
2000	Change in Liability		29	42,956,768	25	46,867,925	2,883,655
2001	Change in Liability		28	102,461,684	25	109,177,843	6,717,414
2002	Change in Liability		27	449,748,199	25	468,578,945	28,830,382
2003	Change in Assumptions		30	21,541,026	29	22,080,631	1,242,963
2003	Change in Liability		26	1,098,784,547	25	1,120,777,305	68,958,364
2004	Change in Liability		25	113,159,407	25	113,159,407	6,962,389
TOTAL OUTSTANDING BALANCE						4,130,575,266	254,027,407
EMPLOYERS' CREDIT BALANCE							
2000	Contribution Variance	L	5	535,256	1	124,658	129,699
2001	Contribution Variance	L	5	(1,748,006)	2	(783,178)	(423,562)
2002	Contribution Variance	L	5	7,779,882	3	5,031,945	1,885,156
2003	Contribution Variance	L	5	16,739,921	4	13,900,681	4,056,278
2004	Contribution Variance	L	5	17,093,381	5	17,093,381	4,141,925
TOTAL CREDIT BALANCE						35,367,487	9,789,496
TOTAL UNFUNDED ACTUARIAL ACCRUED LIABILITY						4,165,942,753	

Effective July 1, 1992, Amortization Periods changed in accordance with Act 257.

EXHIBIT A(2)

**AMORTIZATION OF UNFUNDED
ACTUARIAL ACCRUED LIABILITY**
Includes ACT 588 of the 2004 Legislative Session

JUNE 30, 2004

DATE 6/30	DESCRIPTION	AMTZ. METHOD	AMTZ. PERIOD	INITIAL LIABILITY	YEARS REMAIN	REMAINING BALANCE	MID YEAR PAYMENT
1993	Initial Liability		26	2,704,738,763	25	2,758,875,551	169,746,072
1993	Change in Liability	L	25	(176,172,713)	25	(176,172,713)	(16,202,391)
1994	Change in Liability	L	2	(62,475,258)	25	(62,475,258)	(5,745,774)
1995	Change in Liability	L	25	(72,078,533)	25	(72,078,533)	(6,628,975)
1996	Change in Liability	L	25	85,912,731	25	85,912,731	7,901,290
1997	Change in Liability	L	25	(281,911,688)	25	281,911,688)	(25,927,077)
1998	Change in Liability	L	25	(105,825,000)	25	(105,825,000)	(9,732,597)
1999	Change in Liability		25	103,608,120	25	103,608,120	6,374,724
2000	Change in Liability		26	46,867,925	25	46,867,925	2,814,711
2001	Change in Liability		27	109,177,843	25	109,177,843	6,408,891
2002	Change in Liability		28	468,578,945	25	468,578,945	26,919,968
2003	Change in Liability		29	1,142,857,936	29	1,142,857,936	64,333,745
2004	Change in Liability	L	30	113,159,407	30	113,159,407	9,889,817
TOTAL OUTSTANDING BALANCE						4,130,575,266	230,152,404
EMPLOYERS' CREDIT BALANCE							
2000	Contribution Variance	L	5	535,256	1	124,658	129,699
2001	Contribution Variance	L	5	(1,748,006)	2	(783,178)	(423,562)
2002	Contribution Variance	L	5	7,779,882	3	5,031,945	1,885,156
2003	Contribution Variance	L	5	16,739,921	4	13,900,681	4,056,278
2004	Contribution Variance	L	5	17,093,381	5	17,093,381	4,141,925
TOTAL CREDIT BALANCE						35,367,487	9,789,496
TOTAL UNFUNDED ACTUARIAL ACCRUED LIABILITY						4,165,942,753	

Effective July 1, 1992 Amortization Periods changed in accordance with Act 257.

MEMBERSHIP DATA

Data regarding the membership of the System for valuation were furnished by the System.

Active Members	-- 2004 --		- 2003 --	
	Census*	Avg. Sal.	Census*	Avg. Sal.
Regular Members	56,651	\$31,209	57,680	\$29,705
Legislators	54	42,660	61	41,657
Judges	324	100,764	326	91,905
Wildlife Agents	217	42,425	370	33,535
Corrections	5,328	26,662	5,628	25,452
Active after DROP	1,575	40,214	1,376	42,831
TOTAL	64,149	\$31,451	65,441	\$29,958

*Census total represents total membership counts excluding errors for insufficient salary data.

Valuations salaries were \$2,017,726,616 for 2004 and \$1,924,680,579 for 2003.

Inactive Members	2004		2003	
	Census		Census	
Due Refunds	35,955		30,940	
Vested & Reciprocal	1,324		1,317	

Annuitants and Survivors	2004		2003	
	Census	Avg. Annual Annuities	Census	Avg. Annual Annuities
Retirees	26,945	\$16,440	26,275	\$16,027
Disabilities	1,203	11,166	1,220	10,958
Survivors	5,308	11,072	5,262	10,823
DROP	2,835	23,611	2,768	23,152
TOTAL	36,291	\$16,451	35,525	\$15,637

HISTORICAL MEMBERSHIP DATA

History of Active Membership Data
for Last 10 years
(Dollar Amounts in Thousands)

YEAR ENDED 6/30	NUMBER OF ACTIVE MEMBERS	PERCENTAGE CHANGE IN MEMBERSHIP	ANNUAL ACTIVE MEMBER PAYROLL	PERCENTAGE CHANGE IN PAYROLL
1995	66,628	(3.39%)	1,547,977	0.1%
1996	69,680	4.58%	1,584,537	2.4%
1997	69,444	(.34%)	1,607,371	1.4%
1998	69,949	.73%	1,653,863	2.9%
1999	67,680	(3.24%)	1,736,963	5.0%
2000	66,642	(1.53%)	1,820,132	4.8%
2001	64,519	(3.19%)	1,782,884	(2.0%)
2002	64,692	.27%	1,861,887	4.4%
2003	65,441	1.01%	1,924,680	3.4%
2004	64,149	(1.97%)	2,017,726	4.8%

HISTORY OF ANNUITANTS AND SURVIVOR ANNUITANT MEMBERSHIP

For Last 10 Years
(Dollar Amounts in Thousands)

YEAR ENDING 6/30	— TOTAL — MEMBERS		— MEMBERS — ADDED		— MEMBERS — REMOVED		AVERAGE ANNUITY	PERCENT CHANGE IN ANNUITY
	No.*	AMOUNT	No.	AMOUNT	No.	AMOUNT		
1995	29,214	288,647	1,701	16,026	652	2,882	10,538	4.8%
1996	30,350	317,340	2,699	30,809	1,563	1,889	11,055	9.9%
1997	31,358	340,053	2,153	25,221	1,145	2,508	11,578	7.2%
1998	31,092	359,626	2,040	21,787	1,212	2,154	12,606	5.8%
1999	31,599	380,451	1,515	23,461	1,008	2,636	13,364	5.8%
2000	32,618	408,609	2,629	30,644	1,608	2,486	13,967	7.4%
2001	33,357	437,190	2,582	29,451	1,843	870	14,604	7.0%
2002	34,522	466,719	2,959	32,109	1,794	2,580	15,200	3.8%
2003	35,525	491,417	2,789	30,071	1,786	5,373	15,637	5.3%
2004	36,291	515,182	2,613	31,753	1,847	7,988	16,451	4.8%

*Includes DROP participants (Deferred Retirement Option Plan).

STATISTICAL SECTION



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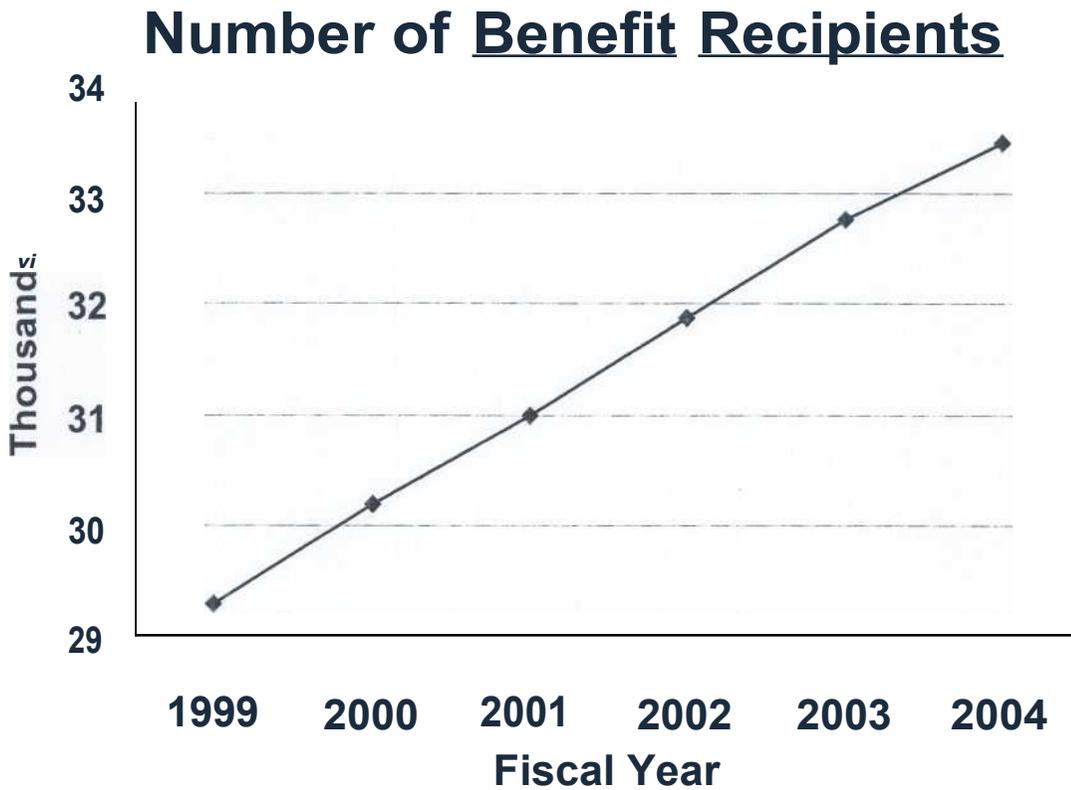
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**NUMBER OF REGULAR RETIREES, DISABILITY RETIREES,
AND SURVIVORS RECEIVING BENEFITS**

FISCAL YEAR	RECIPIENTS	PERCENT INCREASE
1999	29,283	3.4%
2000	30,197	3.1%
2001	30,992	2.6%
2002	31,887	2.9%
2003	32,757	2.7%
2004	33,456	2.1%

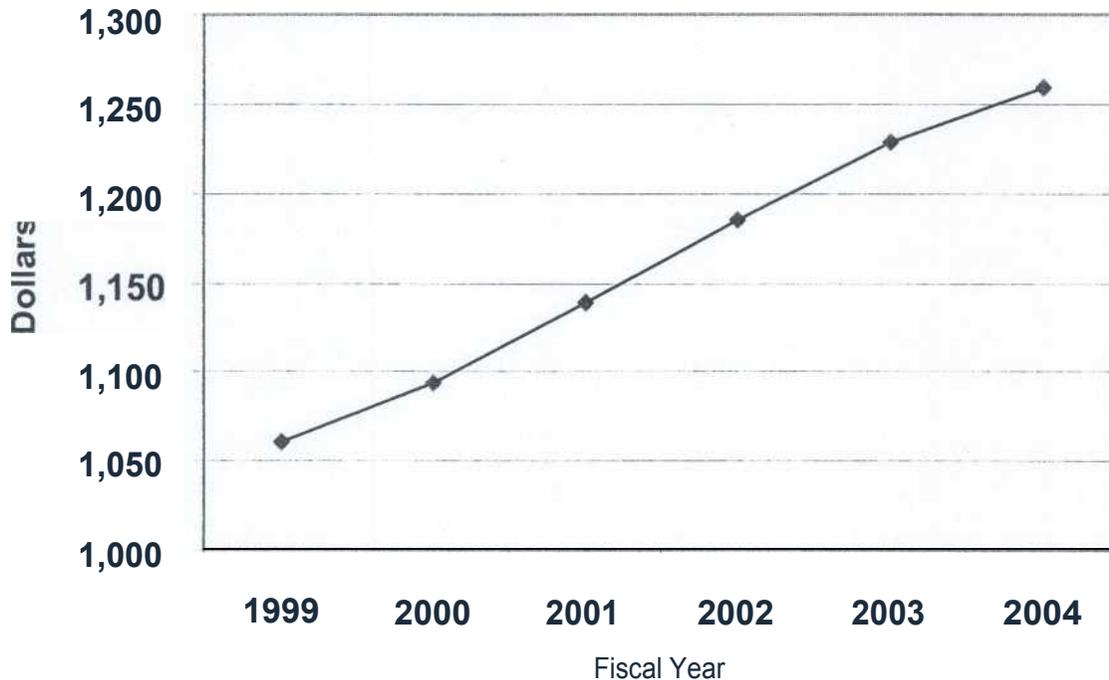


AVERAGE MONTHLY RETIREMENT BENEFIT

(DOES NOT INCLUDE DROP OR IBO)

FISCAL YEAR	AVERAGE MONTHLY BENEFIT (in dollars)	PERCENT INCREASE
1999	1,061	5.6%
2000	1,093	3.0%
2001	1,139	4.2%
2002	1,185	4.0%
2003	1,228	3.6%
2004	1,258	2.5%

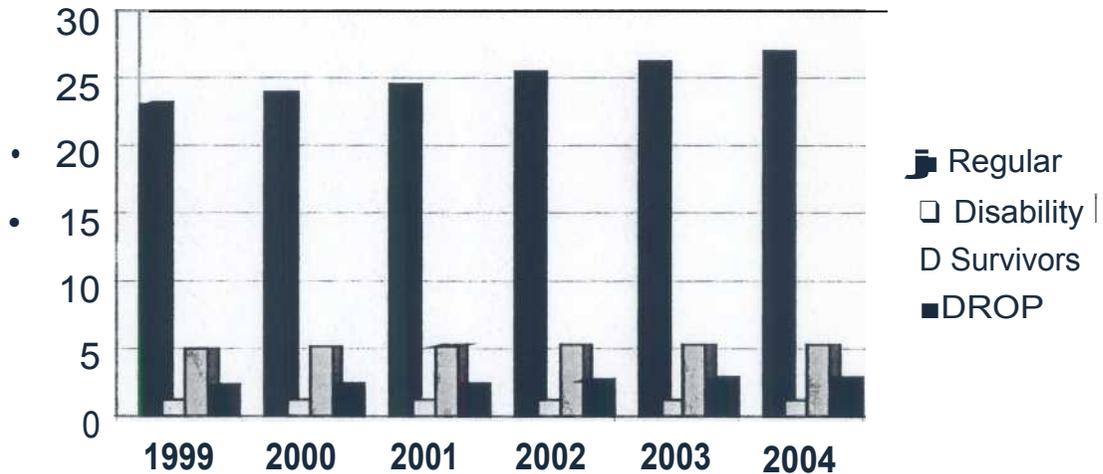
Average Monthly Benefit



SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT

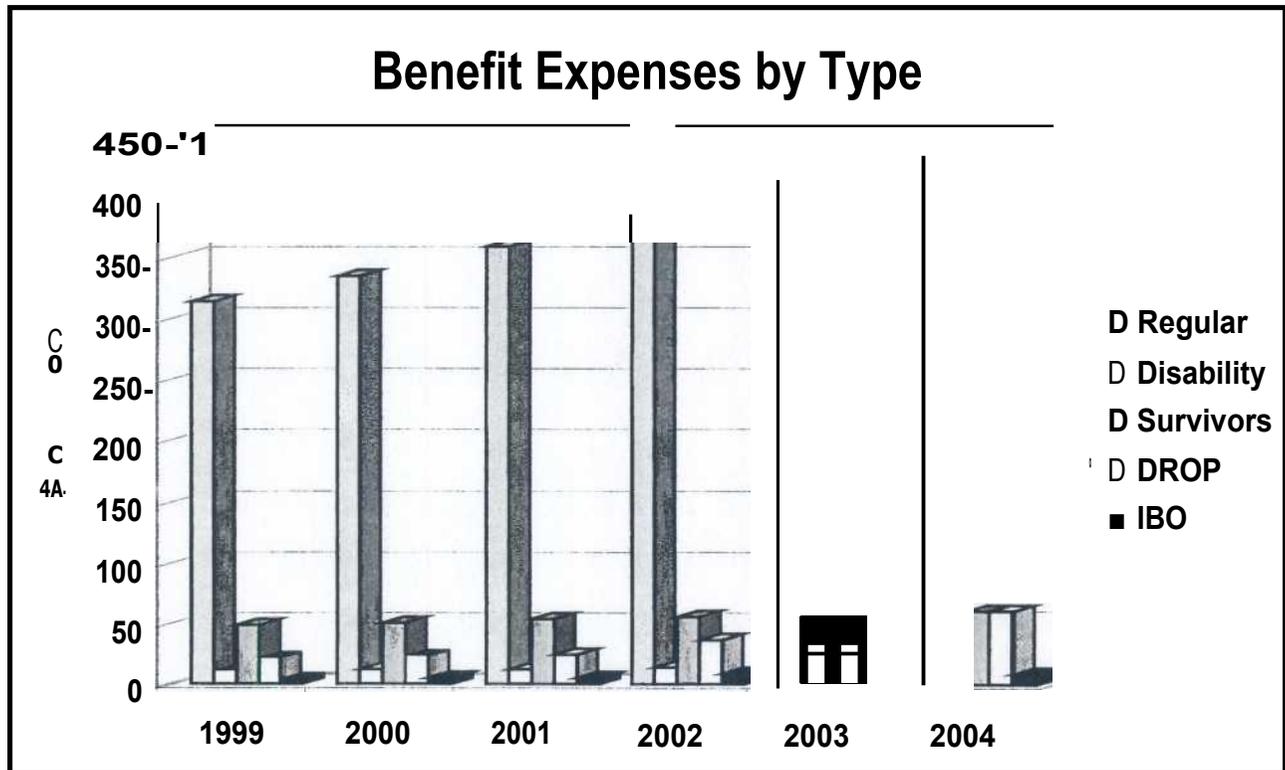
FISCAL YEAR	REGULAR	DISABILITY	SURVIVORS	DEFERRED RETIREMENT	TOTAL
1999	23,124	1,146	5,013	2,316	31,599
2000	23,900	1,150	5,147	2,421	32,618
2001	24,606	1,184	5,202	2,365	33,357
2002	25,436	1,208	5,243	2,635	34,522
2003	26,275	1,220	5,262	2,768	35,525
2004	26,945	1,203	5,308	2,835	36,291

' Retired Members By Type of Benefit



SCHEDULE OF BENEFIT EXPENSES BY TYPE

Fiscal Year	Regular	Disability	Survivors	Deferred Retirement Option	Initial Benefit Option	Total
1999	\$314,204,979	10,847,726	47,822,486	21,150,812	3,940,402	\$397,966,405
2000	\$334,551,818	11,538,277	50,137,810	23,113,392	4,801,015	\$424,142,312
2001	\$358,790,569	12,278,188	52,613,450	23,694,027	5,261,457	\$452,637,691
2002	\$385,341,420	13,026,215	55,186,446	36,609,129	8,229,507	\$498,392,717
2003	\$411,933,100	13,859,977	56,972,676	53,322,395	7,921,433	\$544,009,581
2004	\$433,175,565	13,818,110	58,207,404	59,048,130	8,903,537	\$573,152,747



LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM
SCHEDULES OF ADDITIONS BY SOURCE AND DEDUCTIONS BY TYPE
FOR THE SIX YEARS ENDED JUNE 30, 2004

ADDITIONS BY SOURCE

Fiscal Year	Member Contributions	(1)	Net		Total	(2)	Percentage (1) / (2)
		Employer Contributions	*Investment Income (3)	Other Income		Annual Covered Payroll	
1999	\$135,479,230	218,929,941	470,204,749	9,175,049	\$833,788,969	\$1,765,389,858	12.4%
2000	\$147,090,812	236,104,720	664,556,035	8,658,621	\$1,056,410,188	\$1,919,487,365	12.3%
2001	\$144,603,488	245,213,071	(408,921,855)	12,102,647	\$(7,002,649)	\$1,885,417,750	13.0%
2002	\$151,350,321	256,079,880	(342,821,109)	14,658,709	\$79,267,801	\$1,969,622,814	13.0%
2003	\$159,469,854	292,290,126	212,851,563	15,137,037	\$679,748,580	\$2,072,945,958	14.1%
2004	\$163,277,178	335,991,617	996,024,095	9,325,389	\$1,504,618,279	\$2,125,561,464	15.8%

DEDUCTIONS BY TYPE

Fiscal Year	Benefits	Refunds	Administrative	Other	*Investment	
					Total Expenses (3)	
1999	\$397,966,405	31,851,567	6,011,305	2,778,585	\$438,607,862	\$16,071,796
2000	\$424,142,312	32,300,258	7,004,880	3,237,333	\$466,684,783	\$19,295,553
2001	\$452,637,691	36,147,087	7,644,230	6,228,406	\$502,657,414	\$18,916,270
2002	\$498,392,717	31,391,355	8,315,745	4,943,827	\$543,043,644	\$17,213,862
2003	\$544,009,581	25,043,817	10,196,507	1,632,930	\$580,882,835	\$16,901,210
2004	\$573,152,747	28,760,064	12,629,058	795,260	\$615,337,129	\$20,266,725

*Investment income less investment fees includes net appreciation (depreciation) in fair value of investments, which can create significant fluctuations from year to year. These fluctuations could also affect Investment Expenses.

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