



2014 Annual Investment Report

LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

*There is a time for some things, and a time for all things; a time for small things
and a time for great things, and a time for small things*





Louisiana State Employees' Retirement System (LASERS)

was created by Act 126 of the 1946 Louisiana Legislature. LASERS administers a single employer defined benefit plan under section 401(a) of the Internal Revenue Code. The public trust was created to provide retirement allowances and other benefits for state officers, employees, and their beneficiaries.

The System is governed by a 13 member Board of Trustees. State law designates members of the Board as follows: six elected active members, three elected retired members and four ex-officio members.

The LASERS trust fund is the source of all benefits paid to LASERS members, and their beneficiaries. Funding comes from three sources:

- Employee contributions
- Employer contributions
- Earnings from investments

LASERS manages one-third of its investments portfolio internally, saving millions of dollars per year in professional management fees.

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Photo: Bubble glass pocket watches

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Introduction

There are countless definitions for the word *time*. The modern four letter word originated from Old English in the 14th century, but time, as a concept, has been around since the beginning of life.

To define time concisely, it is “a measured or measurable period; or, more broadly, a continuum that lacks spatial dimensions.” Events throughout time are generally perceived in terms of past, present, and future. Furthering this perception, if we visualize time in terms of the human life cycle, images of children, adults, and the elderly fill our minds.

Each human life is unique and defined by the things to which a person devotes their time to. As our lives develop and we see the hands of the clock spin by, we are ever reminded that we must spend our time wisely. Whether we are enjoying the innocence of childhood, exploring our individual freedom, studying hard through college, contributing to society, or enjoying our later years, we realize one absolute certainty – that time cannot be relived.

Like our individual devotions in life, an investment can be thought of as the time, energy, or matter spent in the hope of future benefits actualized within a specified date or time frame. The length of time over which an investment is made or held before it is liquidated is known as a *time horizon*. Time horizons, like lifetimes, can range from seconds all the way up to decades. There is no “right” time frame – it simply depends on the individual’s objectives. Therefore, knowing your time horizon is essential when choosing types of investments and asset allocations. In investing, like in life, lost time cannot be replaced.



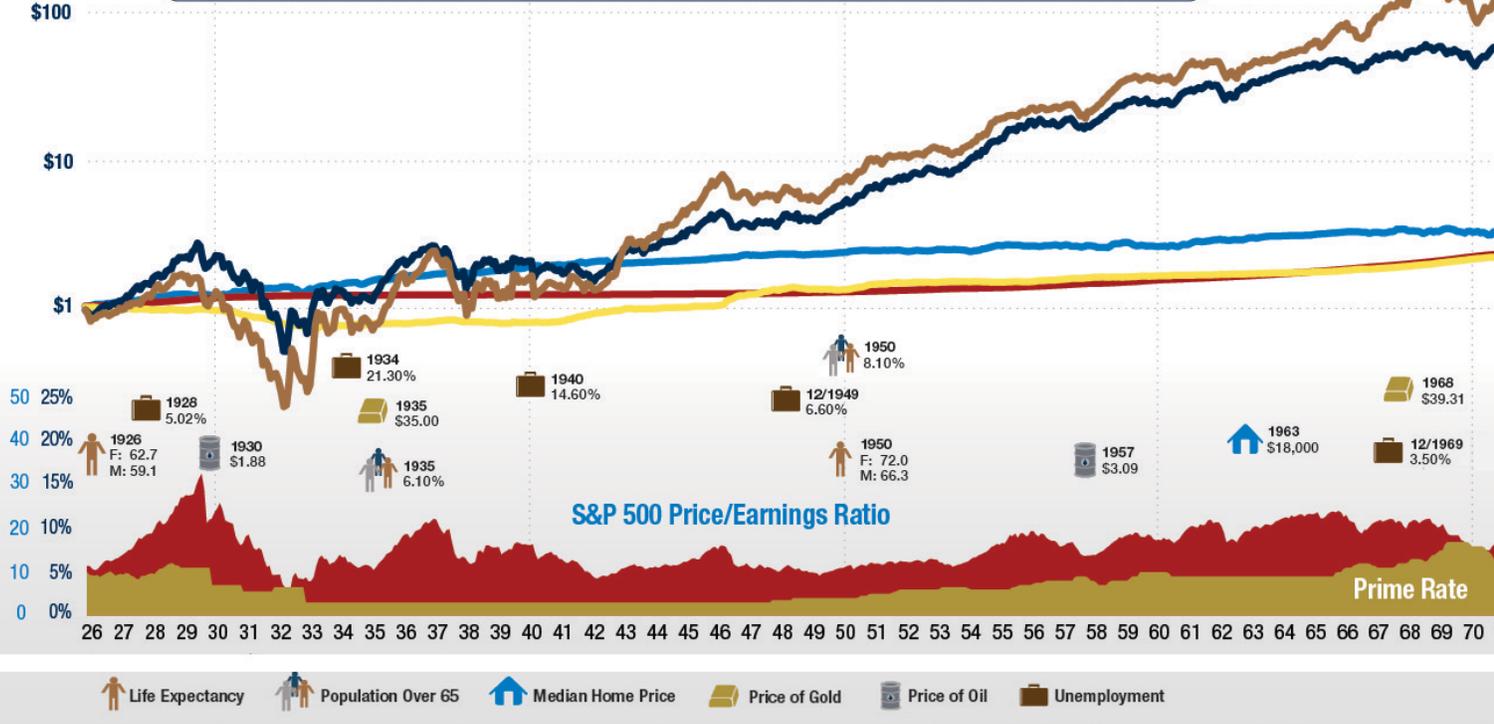
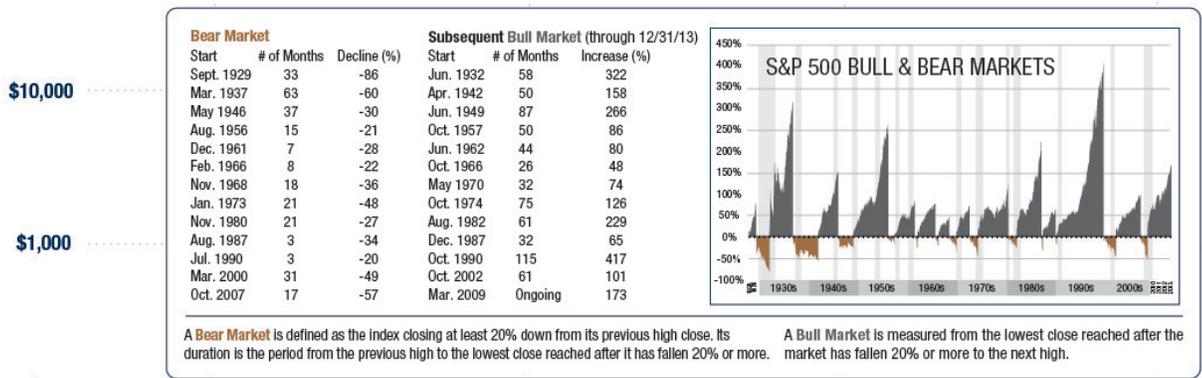
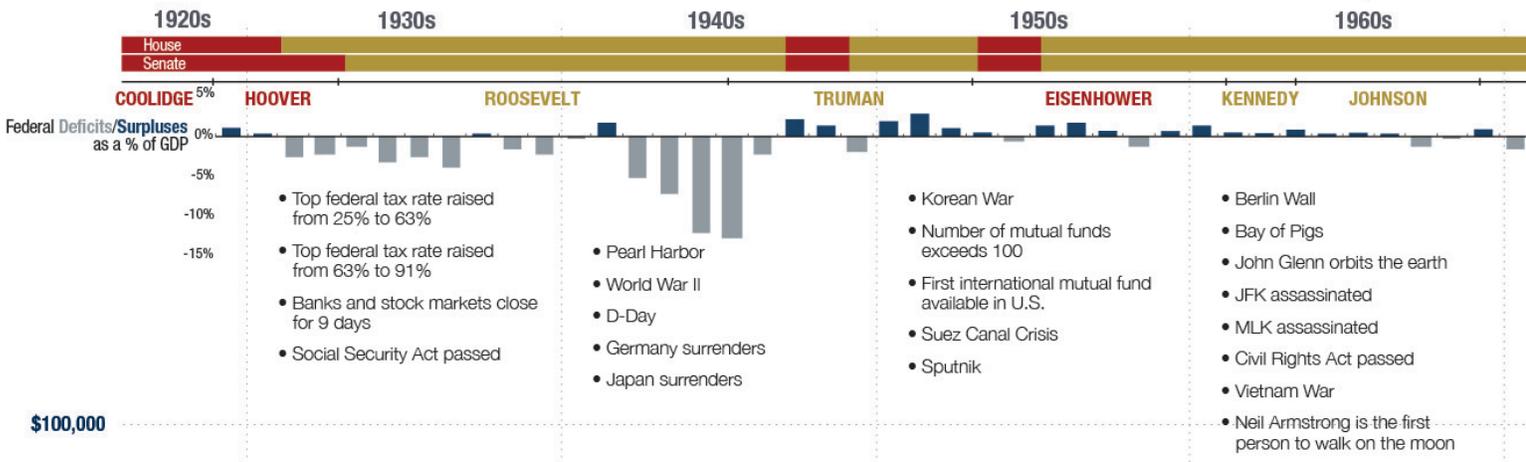
When evaluating our devotions, we, as humans, determine our objectives, evaluate our time horizon and allocate days, weeks, months and years to furthering those devotions, whatever they may be – work, family, health, spirituality. The same process must be undertaken when planning for retirement. The same questions should be considered – what is your expected return (on life)? What is the value (of living)?

As this process is navigated, it is essential to remember that everything in life takes time. Do not take life for granted, but live each moment to its fullest, and remember that each small life forms part of a greater whole.

In both our lives and our investments the desired end result is the same – growth. Since LASERS inception in the mid-1940s, the Plan has changed and grown tremendously. We invite you to take a look at the *History of the Financial Markets* chart and *LASERS by the Numbers* on the following pages.

A LOOK BACK IN TIME:

History of the Financial Markets

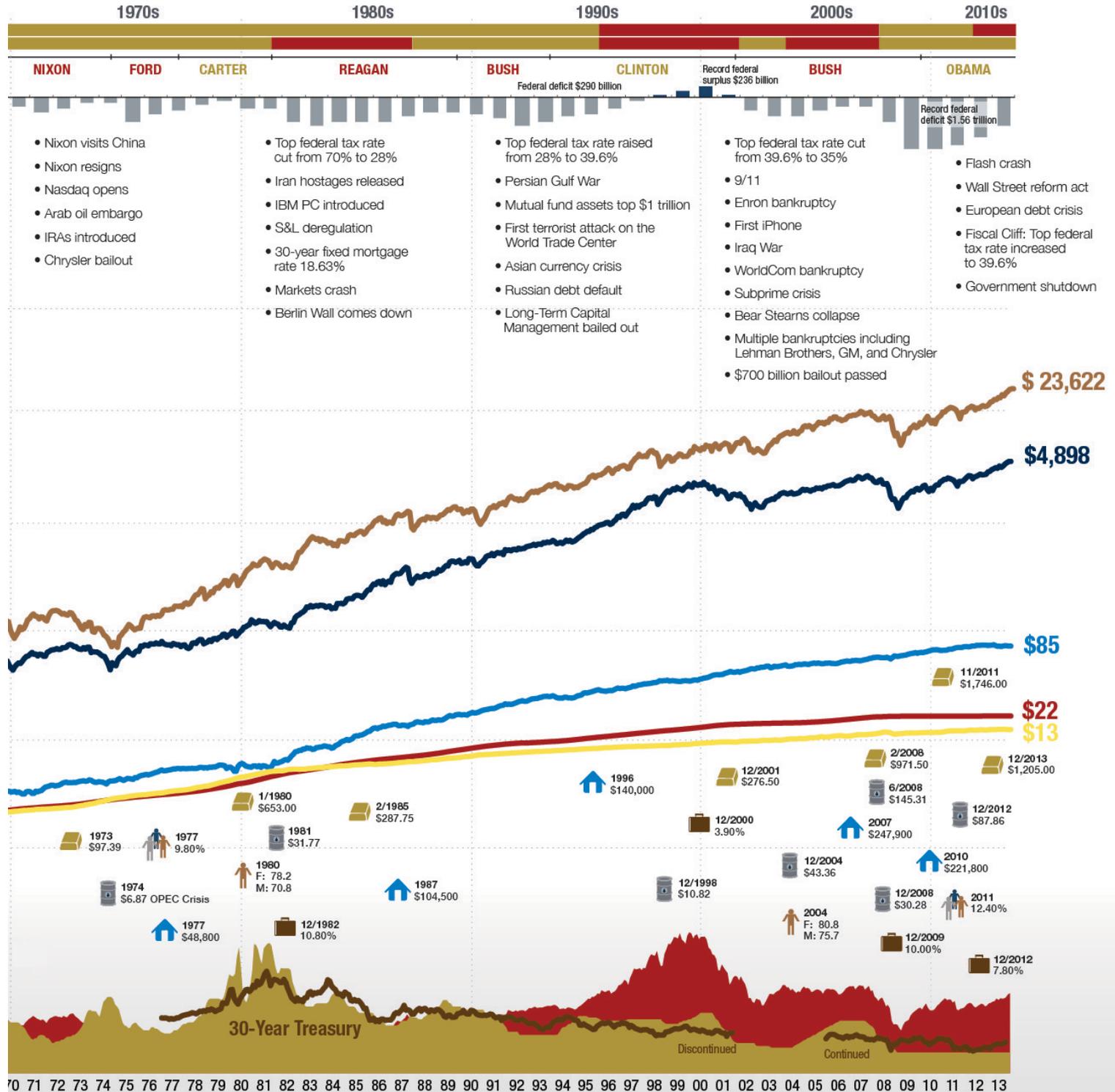


ANNUALIZED RETURNS THROUGH 12/31/13

	1-Year	5-Year	10-Year	30-Year	Since 1926
Inflation	1.50%	2.08%	2.37%	2.82%	2.96%
Large-Cap U.S. Stocks	32.39%	17.94%	7.40%	11.09%	10.14%
Small-Cap U.S. Stocks	41.31%	21.37%	10.65%	11.64%	12.12%
Investment-Grade Bonds	-2.02%	4.45%	4.55%	7.74%	5.18%
Cash	0.08%	0.14%	1.71%	4.20%	3.59%

ANNUALIZED RETURNS THROUGH 12/31/13

	1-Year	5-Year	10-Year	30-Year	Since 1926
Broad U.S. Stocks	33.47%	18.86%	8.10%	10.93%	—
Foreign Developed	23.29%	12.95%	7.39%	9.87%	—
Emerging Markets	-2.27%	15.15%	11.53%	12.80%	—
Commodities	-1.22%	3.86%	0.70%	6.35%	—



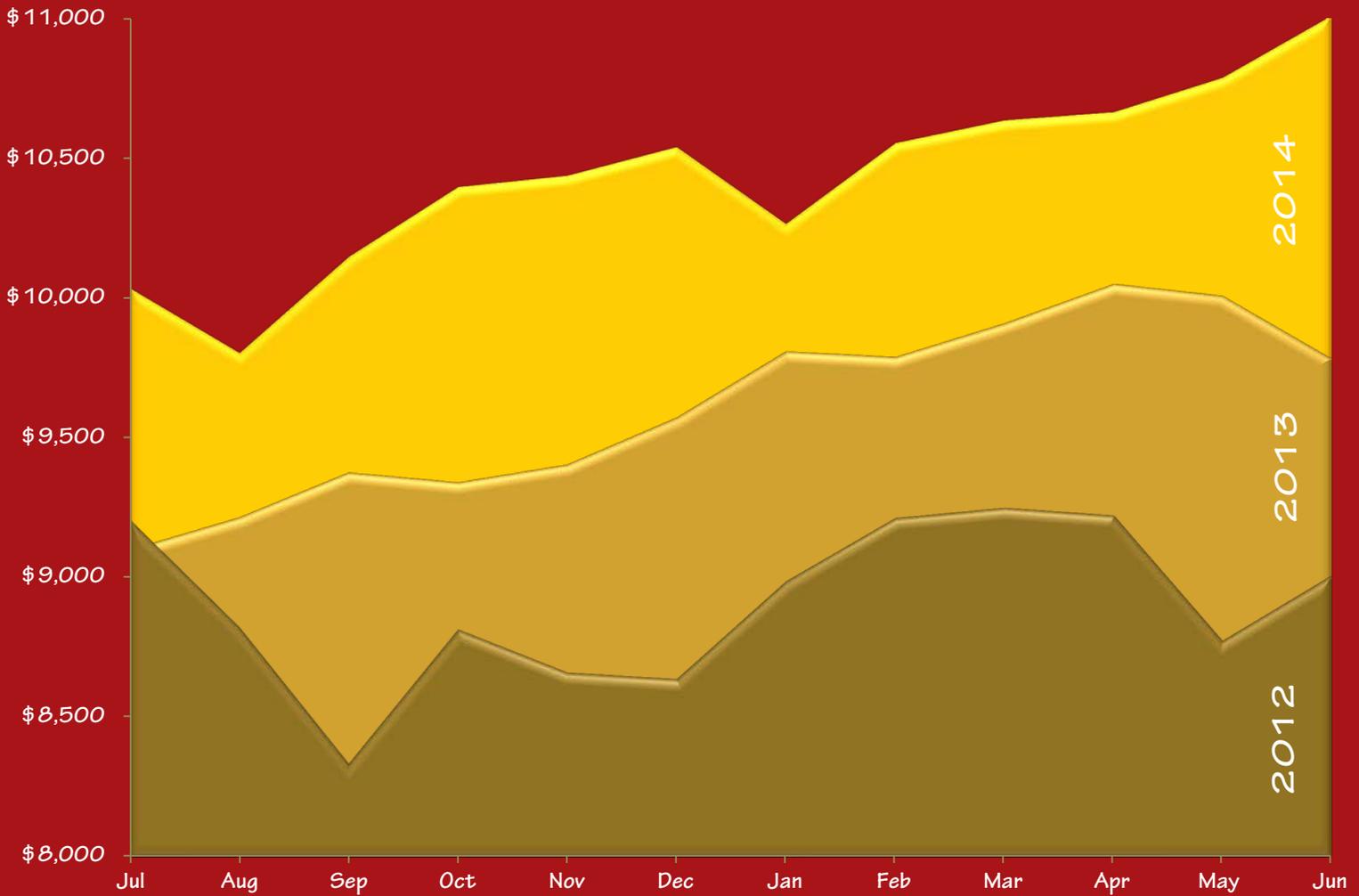
Source: Wealth Management Systems Inc.

LASERS BY THE NUMBERS

22	Number of retirement plans administered by the System
10th	TUCS percentile ranking for the fiscal year as compared to all public pension plans with market values greater than \$ 1 billion
18.8%	Total Plan Return for Fiscal Year 2014
93,657	Number of members in the plan
\$ 9,900,000	Annual savings from internally-managed program
\$ 115,617,000	Dollar amount invested in Louisiana companies
\$ 1.074 billion	Benefits paid during the fiscal year
\$ 3.590 billion	Dollar amount of the assets managed internally
\$ 4.500 billion	Growth of the total market value of the plan over the last decade
\$ 11.012 billion	Total market value of the plan at June 30, 2014



Growth of the Portfolio 2012-2014 (in millions)





BOARD OF TRUSTEES

Seated (left to right)

Janice Lansing

Active Member
Coastal Protection &
Restoration Authority

Shannon Templet

Board Chair
Active Member
Department of State Civil
Service

Connie Carlton

Retired Member
Retired from LASERS

Beverly Hodges

Active Member
Department of
Natural Resources

Standing (left to right)

Ben Huxen

Designee of Commissioner
Of Administration

Lori Pierce

Active Member
Department of the Treasury

Barbara McManus

Board Vice Chair
Retired Member
Retired from Department
of Social Services

Thomas Bickham

Active Member
Department of Public Safety
& Corrections

Not pictured

Kathy Singleton

Retired Member
Retired from Department
of Social Services

Judge William Kleinpeter

Active Member
City Court of Port Allen

Senator Elbert Guillory

Ex Officio Member
Chairman of the Senate
Retirement Committee

**Representative Kevin
Pearson**

Ex Officio Member
Chairman of the House
Retirement Committee

**State Treasurer John
Kennedy**

Ex Officio Member
Department of the Treasury

**Commissioner Kristy
Nichols**

Ex Officio Member
Division of Administration

MESSAGE FROM THE CIO

I am pleased to report that, for the second year in a row, LASERS has earned a double digit market return. For the fiscal year ending June 30, 2014, LASERS investment portfolio realized a market rate of return on investment assets of 18.8%, preceded by 12.6% last year. This year's actuarial rate of return was 13.5%.

Based on the fiscal year market return, LASERS ranked in the top ten of 90 public pension plans with market values greater than \$1 billion in the Trust Universe Comparison Service (TUCS)¹. For all extended time periods², LASERS ranked in the twenty-fifth percentile or better. The ten-year annualized return of 8.3% maintains LASERS spot as one of the nation's top state pension plans.

As always, LASERS maintains its commitment to a broadly diversified portfolio and achieving its actuarial target rate of return of 7.75% with the least possible amount of risk. Carefully underwritten and conservative assumptions for future expected returns have been adopted, and the investment portfolio is structured to optimize the risk/return trade-off.

During the fiscal year, LASERS continued to work toward its ongoing goal of comprehensively monitoring the plan's investments in relation to current market environments. No significant changes were made to the plan's asset allocation. LASERS continues to be a global investor across multiple asset classes, always searching for opportunities to improve the plan.

The 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. This includes continuously looking to lower overall investment costs while maintaining a high degree of expertise.

Going forward, we are committed to improving upon what we have already achieved and diligently working toward the future. We continue to believe that LASERS is well positioned to meet its long-term goals and objectives.

Sincerely,



Robert W. Beale, CFA, CAIA
Chief Investment Officer

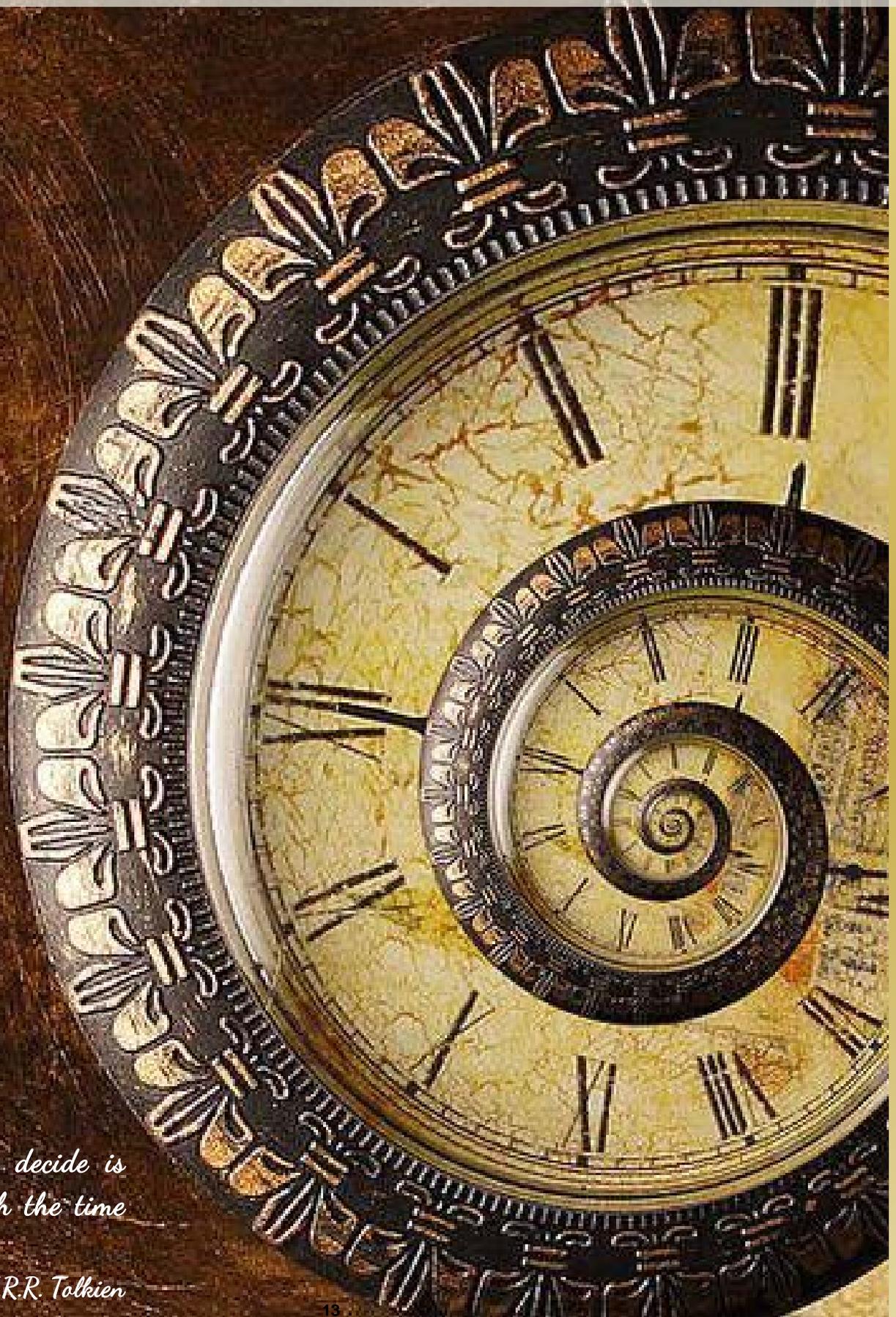
¹ Trust Universe Comparison Services (TUCS) provides a universe comparison of market values for the larger public pension plans in the United States. At June 30, 2013, there were 93 constituents included in the one-year time period rankings of public funds with market values greater than \$1 billion universe.

² Investment performance calculated for periods over two years use monthly returns geometrically linked to calculate annualized "time-weighted" rates of return.



Photo: Spiral clock

Total Fund Review



*All we have to decide is
what to do with the time
that is given us.*

J.R.R. Tolkien

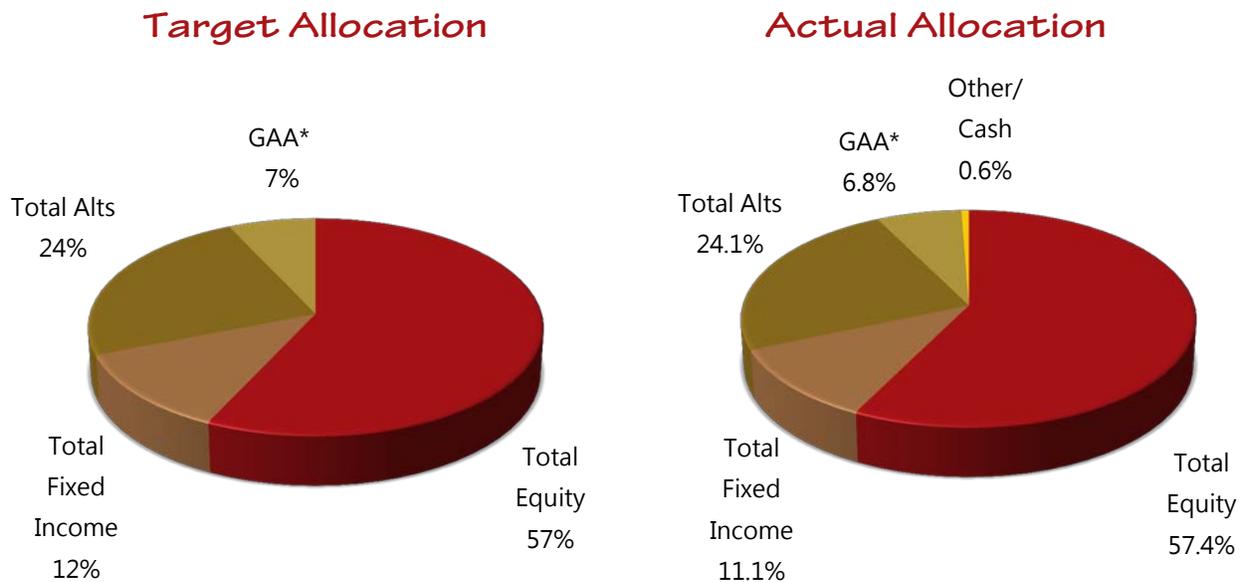
Total Fund Review

As of June 30, 2014, the Total Plan had a market value of assets of \$11,011.7 million. This is the highest market value for the Plan to date. The gross of fee return for fiscal year end was 18.8%. The three- and five-year annualized returns were 10.2% and 14.1% respectively. The total portfolio has grown nearly \$4 billion over the last decade.

Asset Allocation

During the spring of 2014, LASERS adopted a new asset allocation. The changes were very slight, decreasing the domestic fixed income allocation and increasing the absolute return allocation.

The target allocation is determined after a comprehensive annual study that is conducted by internal staff in conjunction with LASERS external investment consultant, NEPC. Key inputs into the study include historical returns, relative value, and the likelihood of mean reversion. Risk budgeting and scenario analysis are tools used in the study. The primary focus of the asset allocation is to maintain a broadly diversified portfolio while achieving the target rate of return with the least possible amount of risk.



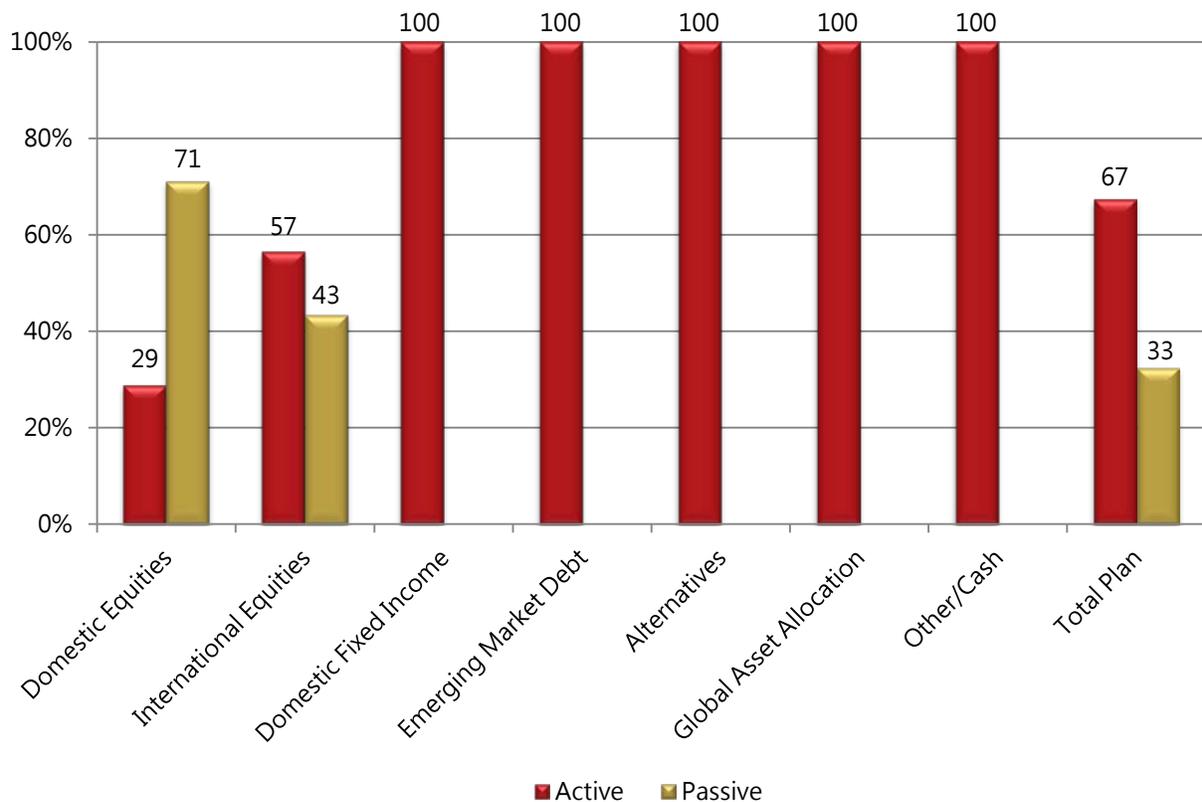
*GAA = Global Asset Allocation

LASERS has embarked on a long term strategic planning process with the main goal focused on increasing returns and reducing costs. To this end, LASERS has continued to utilize passive (index) management in both the domestic and international equity asset classes.

At fiscal year end 2014, LASERS staff managed nearly one-third of the total plan assets within five funds – three domestic equity (S&P 500, S&P 400, and S&P 600) and two international equity (MSCI World Ex-USA and Terror-Free) portfolios. These index funds are representative of the U.S. domestic equity market and the core international equity market. The Terror-Free fund was created in response to R.S. 11:316 and is representative of the international large cap market but refrains from holding companies that have facilities or employees in a prohibited nation (Iran, North Korea, Sudan, or Syria as defined by R.S. 11:312).

The benefits of internally managing these index funds are two-fold: LASERS can efficiently gain exposure to the asset class while saving millions of dollars in investment management fees. During the fiscal year, LASERS was able to save over \$9 million through this cost-saving method.

Active vs. Passive Management



Total Fund Review

Asset Allocation by Asset Class

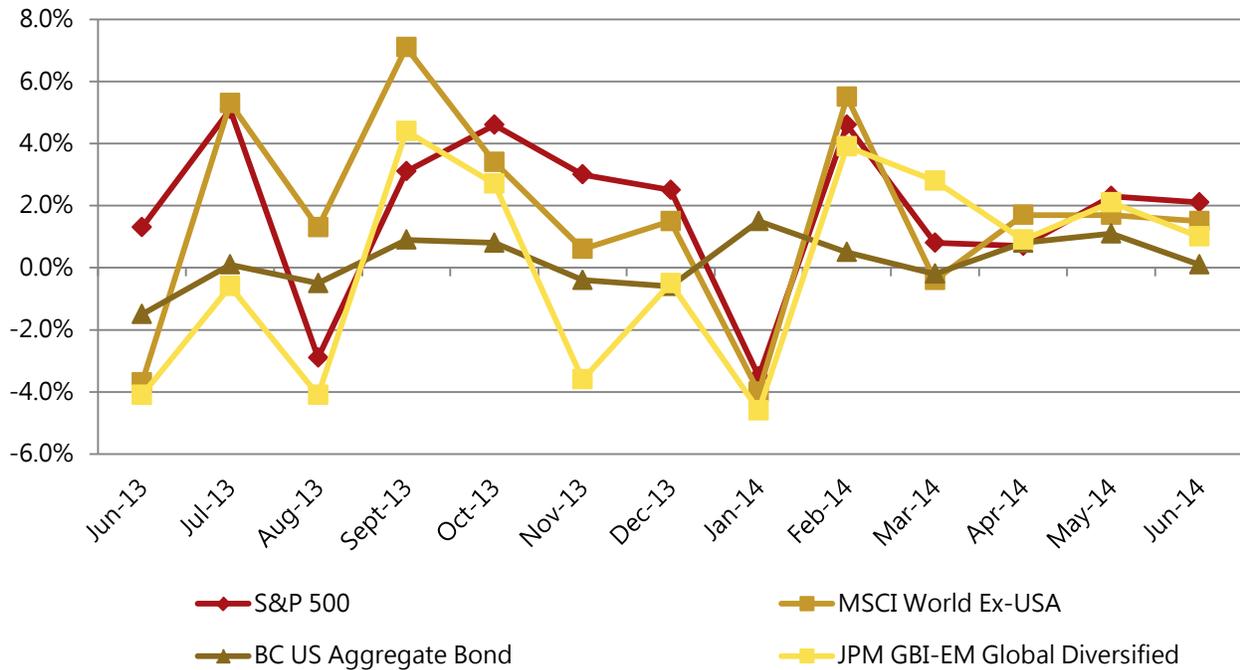
	Market Value (\$MM)	Percent of Total Plan
Equity		
Domestic Equity	\$3,054.2	27.7%
International Equity	3,268.1	29.7%
Total Equity	\$6,322.3	57.4%
Fixed Income		
Domestic Fixed	1,048.1	9.5%
Emerging Market Debt	178.0	1.6%
Total Fixed Income	\$1,226.1	11.1%
Alternatives		
Private Equity	1,471.4	13.4%
Absolute Return Strategies	912.7	8.3%
Real Assets	272.6	2.5%
Total Alternatives	\$2,656.7	24.1%
Total Global Asset Allocation	\$744.1	6.8%
Total Other/Cash	\$63.7	0.6%
Total Funds Allocated	\$11,011.7	100.0%

Market Overview

The up-tick in economic activity that began in early 2013 continued nicely throughout this current fiscal year. The twelve-month period ending June 30, 2014 was very rewarding to domestic equity investors as all indices, regardless of size or style, recorded returns in excess of 20%. International equities followed suit, and even emerging markets, which was the worst performing equity region across the world, ended the year with double-digit returns.

Financial conditions remained highly stimulative throughout the twelve-month period. The Federal Reserve Bank, along with other central banks around the globe, kept short-term interest rates low to foster stronger economic growth and raise asset prices. This created an environment in which the U.S. is experiencing negative real interest rates (nominal rates minus the inflation rate). As such, investors and corporate decision-makers responded positively and investors moved out along the risk curve. At June 30, 2014, job growth was positive, inflation remained subdued and the yield curve was positively sloped.

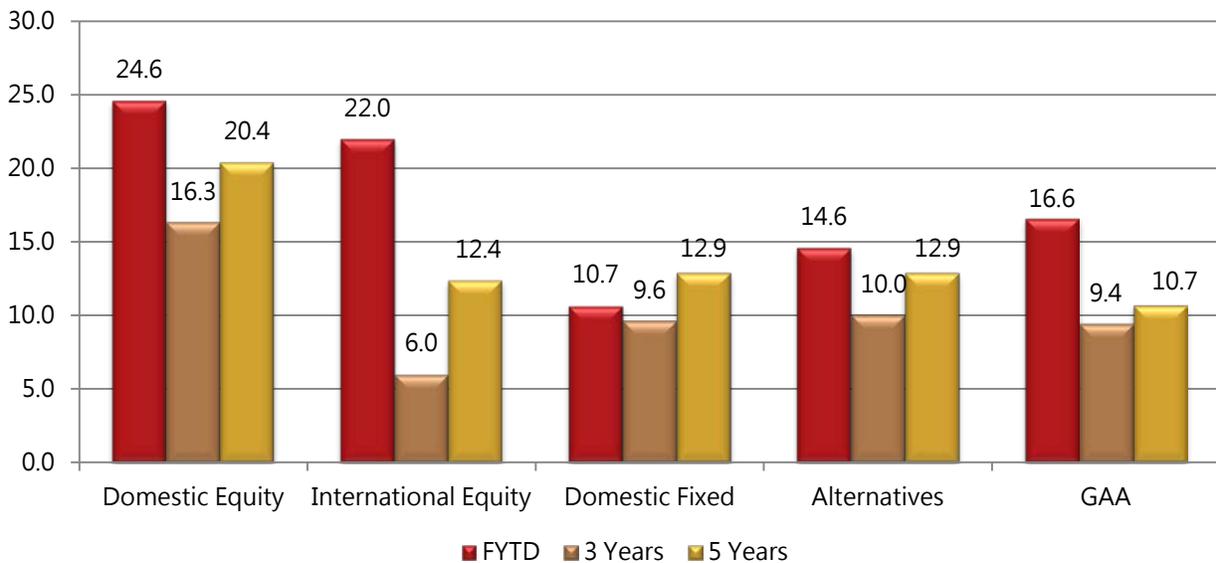
Performance of Major Indices During Fiscal Year



Performance

For the fiscal year ending June 30, 2014, the total plan returned 18.8%. All asset classes produced positive double-digit returns. For the second year in a row, domestic equities had the strongest performance followed by international equities, global asset allocation, alternatives, and fixed income.

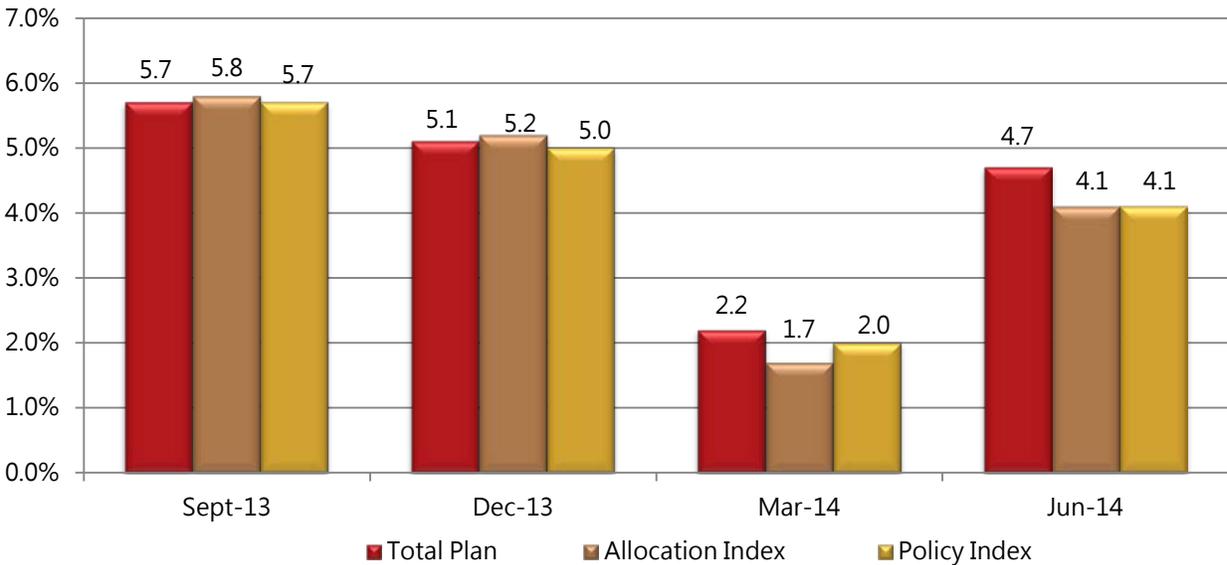
Fiscal Year End Asset Class Performance



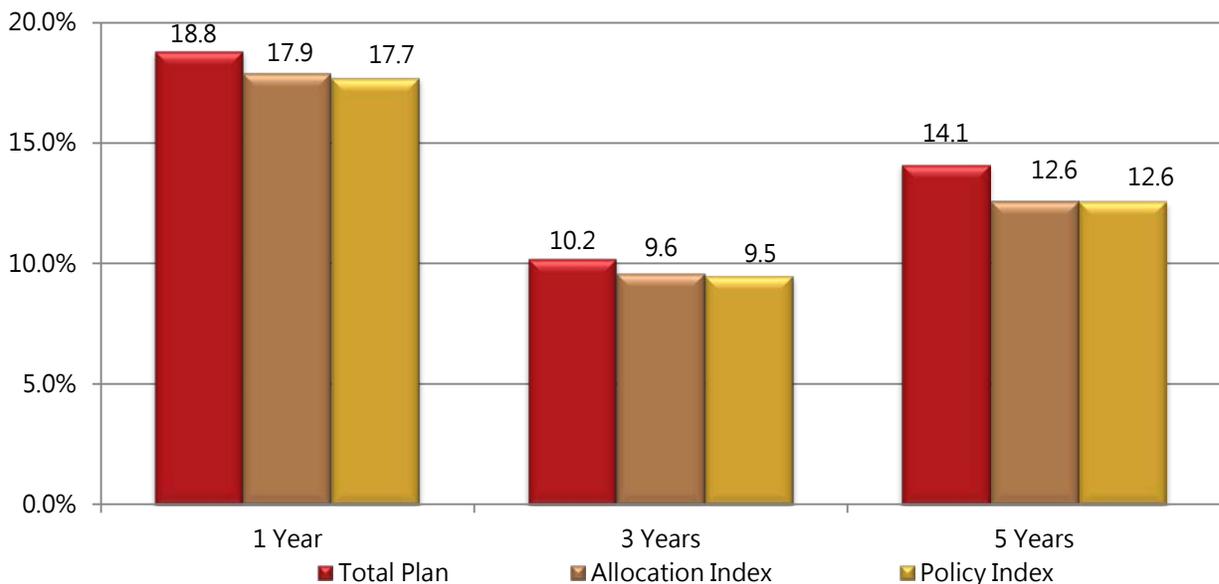
Total Fund Review

LASERS aims to have the Total Plan return meet or exceed the Allocation Index returns and the Policy Index return. The Allocation Index return measures the success of the Plan's current allocation/active management whereas the Policy Index return measure the success of the Plan's target allocation. LASERS accomplished this goal during the last two quarters of the current fiscal year as well as during the one-, three- and five-year time periods.

Quarterly Returns During Fiscal Year



Annual Returns as of Fiscal Year End



Volatility

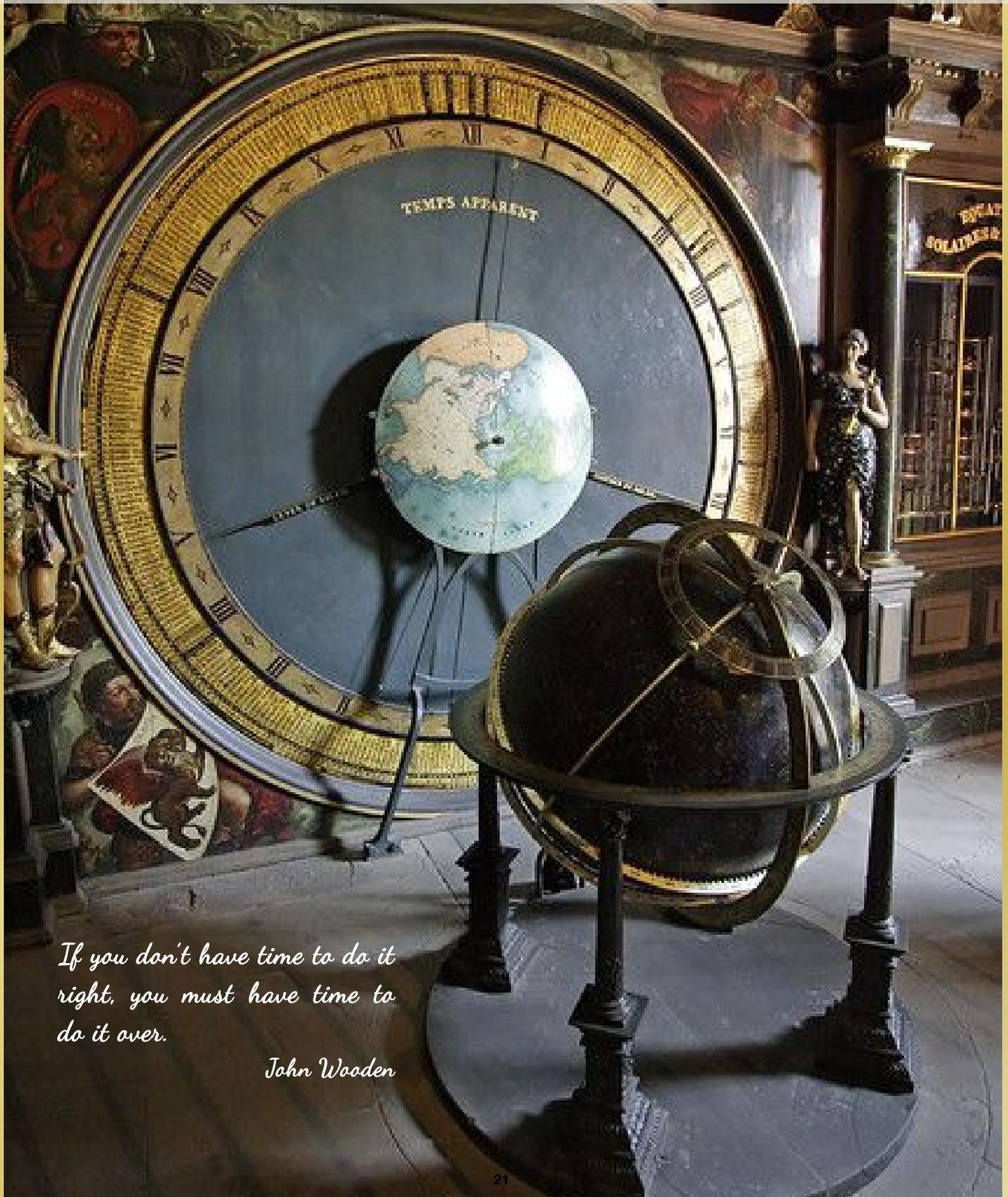
The Sortino ratio is used to analyze the volatility in LASERS portfolio. The Sortino ratio measures the risk-adjusted return of an individual portfolio by calculating the excess return per unit of risk, with downside volatility as the measure of risk. As of fiscal year end 2014, LASERS ranked above median in all extended time periods, with the longer-term seven and ten year periods ranking in the top quartile.

Ranking Against Peers

LASERS uses TUCS (Trust Universe Comparison Services) rankings to compare itself to a universe of large pension plans to help gauge performance. TUCS provides a universe comparison of market returns for the larger public pension plans in the United States. The 18.8% return for the 2013-2014 fiscal year placed LASERS ranking in the top ten of 90 other pension plans with assets exceeding \$1 billion. For all extended time periods, LASERS ranked in the twenty-fifth percentile or better.

Photo: Strasbourg astronomical clock, which is located in Cathédrale Notre-Dame of Strasbourg, Alsace, France. It is the third clock to be placed in the cathedral and dates from 1843.

Public Equity



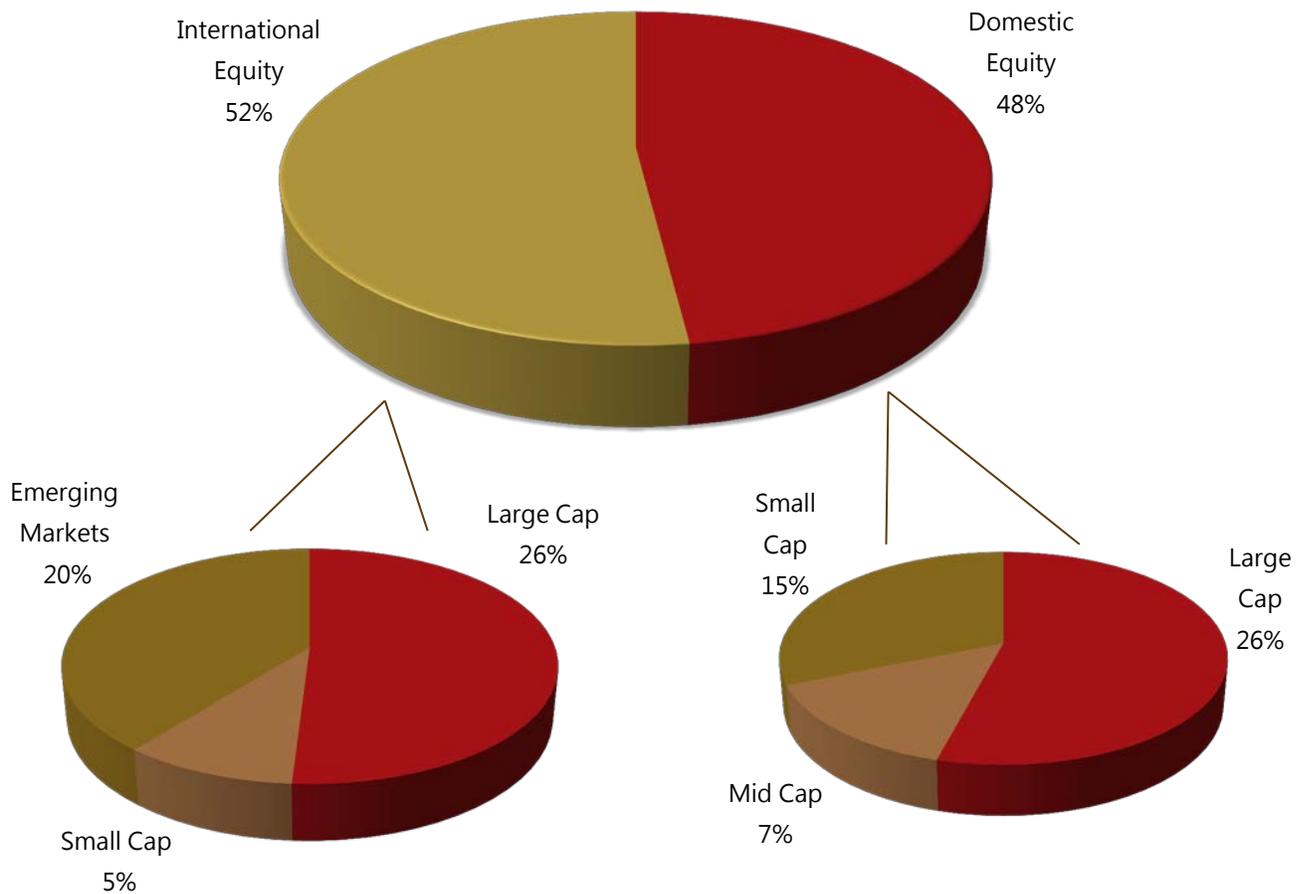
If you don't have time to do it right, you must have time to do it over.

John Wooden

Public Equity

As of June 30, 2014, the Public Equity portfolio had a market value of assets of \$6,322.3 million, representing 57.4% of the Total Plan. Within the Public Equity Program, \$3,054.2 million, or 27.7% of the Total Plan, was allocated to domestic Equity and \$3,268.1 million, or 29.7%, was allocated to international equity.

Equity Allocation



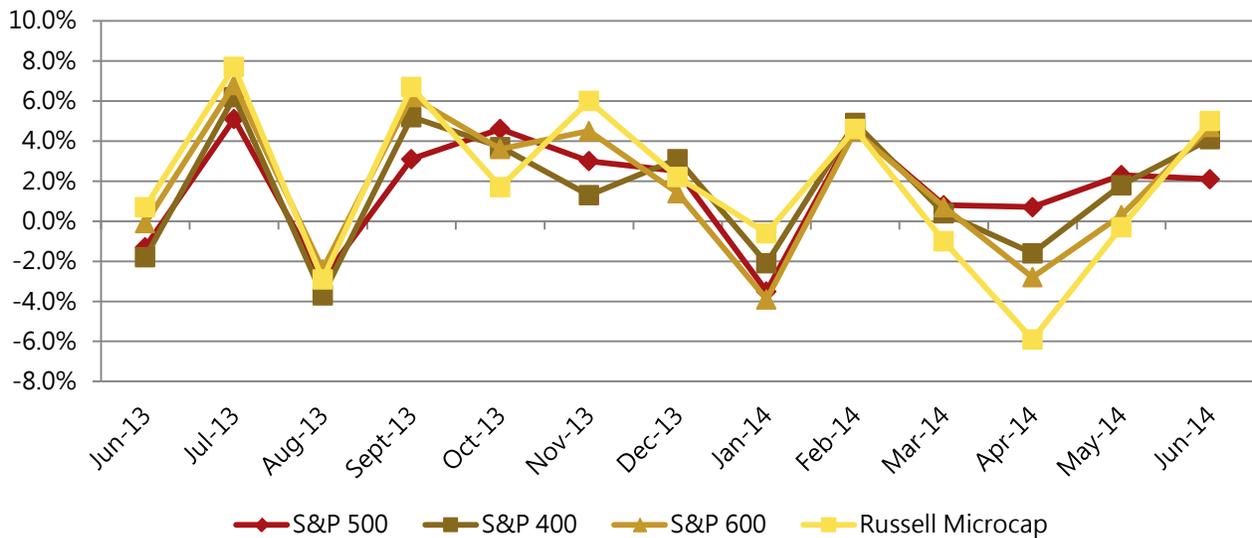
LASERS managed nearly one-third of those assets internally. There were three internally managed domestic portfolios: the S&P 500, S&P 400, and S&P 600, and two internally managed international equity portfolios: the MSCI World Ex-USA and Terror-Free International Funds.

Domestic Equity Market Overview

The U.S. equity market continued to post impressive gains in the fiscal year ended June 30, 2014. The S&P 500 Index rose 24.6%, boosting it to record highs. Small cap stocks slightly outperformed as the S&P 600 Index advanced 25.5% during the period. Steady, albeit unspectacular, growth supported by still-low interest rates allowed companies to shore-up balance sheets and focus on profitability. In summary, U.S. stocks have sustained an impressive run that is now in its sixth year.

Despite some hiccups, such as the dip precipitated in 3Q 2013 by the partial government shutdown and the harsh winter's chilling effect on GDP, U.S. equities across the capitalization spectrum rose on a raft of welcomed economic data. Janet Yellen's well-received confirmation as Fed Chairwoman and the Congressional budget resolution in late 2013 mitigated, for the time being, policy-related drivers of volatility, which trended low throughout the year. In 2014, investors seem to have digested and are untroubled by the possibility of a sooner-than-expected rate rise.

Domestic Equity Indices Fiscal Year Performance



Public Equity

Domestic Equity - Results

The domestic equity allocation remained unchanged at 27% during the 2013-2014 fiscal year. The allocation consists of 15% to Large Cap and 12% to Small/Mid cap. The internally-managed (passive) domestic equity program totaled \$2,169.8 million, and represented 71% of the domestic equity portfolio at the end of the fiscal year. Four domestic equity managers actively managed five portfolios.

Allocation and Returns

	Target Allocation	Actual Allocation	FYTD Return
Domestic Large Cap	15%	15.2%	24.8%
Domestic Mid Cap	4%	4.1%	25.3%
Domestic Small Cap	8%	8.4%	24.0%
Total Domestic Equity	27%	27.7%	24.6%

Domestic Equity Managers

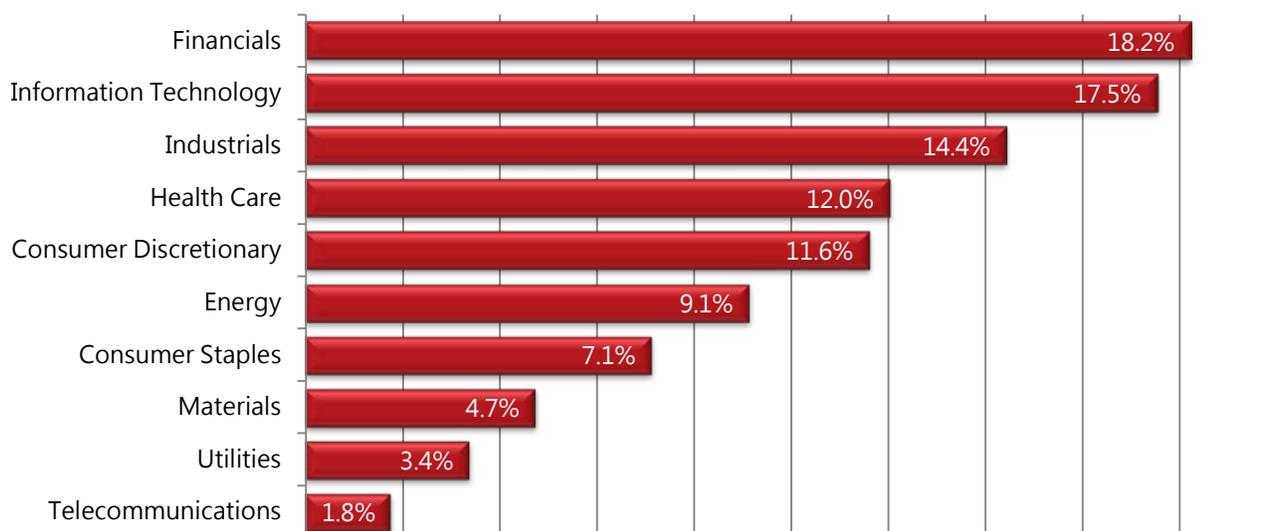
	Market Value (\$Millions)	Benchmark
Aronson Johnson & Ortiz	288.9	<i>S&P 500 Value</i>
Large Cap Value	\$288.9	
Rice Hall James	274.0	<i>S&P 600 Growth</i>
Small Cap Growth	\$274.0	
Thompson Horstman Byrant	120.2	<i>S&P 600 Value</i>
LSV Asset Management	162.9	
Small Cap Value	\$283.1	
Thompson Horstman Bryant	38.4	<i>Russell Microcap</i>
Small Cap Value – Microcap	\$38.4	
LASERS S&P 400	454.7	<i>S&P 400</i>
LASERS S&P 500	1,380.5	<i>S&P 500</i>
LASERS S&P 600	334.6	<i>S&P 600</i>
Index Funds	\$2,169.8	
Total Domestic Equity	\$3,054.2	

The total domestic equity allocation earned 24.6% for the fiscal year, with each sub-class contributing strong double-digit returns. The top three sectors in the domestic equity portfolio were Financials, Information Technology, and Industrials.

Top Holdings

Security Name	Market Value
Apple Inc	\$47,552,281
Exxon Mobil Corp	34,895,688
Chevron Corp	25,561,690
Microsoft Corp	24,598,830
Johnson & Johnson	23,225,640
Wells Fargo & Co	21,528,576
General Electric & Co	20,682,360
Intel Corp	16,670,940
AT&T Inc	19,479,824
Verizon Communications Inc	18,935,910
Total Top 10	\$256,131,739

Sector Diversification



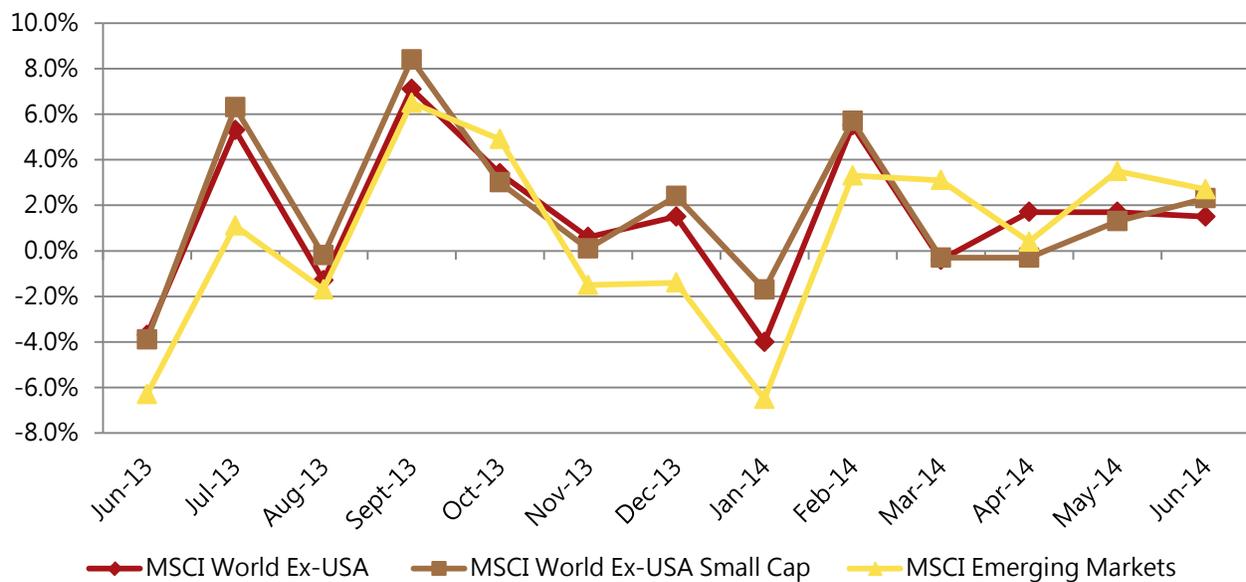
Public Equity

International Equity Market Overview

Despite political turmoil and market volatility in certain regions, markets continued to be very strong amid speculation, and subsequent announcements, of central bank actions through the year. For the year ending June 30, 2014, the MSCI World Ex-USA Index returned 27.6%. With the exception of the Japanese Yen and the Norwegian Krone, all currencies in the index appreciated against the U.S. Dollar. Traditionally defensive sectors such as telecommunications and utilities performed well. Energy produced the highest return, up 36.2% over the period, buoyed by an increasing oil price and announcements of greater capital discipline within the industry. Cyclically sensitive sectors, though positive, underperformed. The consumer staples sector, up 17.8%, lagged as weaker growth in emerging markets weighed on certain companies.

In emerging markets, there were several issues with which to contend, including the easing of monetary stimulus, slowing growth prospects and increasing geopolitical risks. Despite these headwinds, global markets advanced overall and the asset class posted strong gains for the period. The MSCI Emerging Markets Index rose 14.7%, although it was not until the second quarter of 2014 that emerging markets outperformed developed markets.

International Equity Indices Fiscal Year Performance



International Equity - Results

The international equity allocation remained unchanged at 30% during the 2013-2014 fiscal year. The allocation consists of 15% to Large Cap, 3% to Small Cap, and 12% to Emerging Markets. The internally managed (passive) international equity program totaled \$1,420.2 million and represented 43.5% of the international equity portfolio at the end of the fiscal year. There were four international equity managers actively managing six portfolios.

Allocation and Returns

	Target Allocation	Actual Allocation	FYTD Return
International Large Cap	15%	15.1%	24.1%
International Small Cap	3%	2.8%	22.0%
Emerging Markets	12%	11.8%	19.3%
Total International Equity	30%	29.7%	22.0%

The top three countries in LASERS international developed markets portfolio were the United Kingdom, Japan, and France. Within the emerging markets portfolio, Korea, Hong Kong, and Taiwan were the top three countries. For the fiscal year, all areas of the international equity space posted positive returns which resulted in the total international equity allocation earning 22.0%.

International Equity Managers

Manager	Market Value (\$Millions)	Benchmark
Mondrian Investment Partners	247.1	<i>MSCI World Ex-USA Value</i>
Large Cap Value	\$247.1	
LASERS MSCI World Ex-USA Index Fund	1,384.0	<i>MSCI World Ex-USA</i>
Large Cap Growth	\$1,384.0	
LASERS Terror-Free International Fund	36.2	<i>MSCI World Ex-USA</i>
Terror-Free	\$36.2	
Mondrian Investment Partners	305.3	<i>MSCI World Ex-USA Small Cap</i>
Small Cap	\$305.3	
City of London	365.1	
LSV Asset Management*	735.8	<i>MSCI Emerging Markets Free</i>
Westwood Global	194.6	
Total Emerging Markets	\$1,295.5	
Total International Equity	\$3,268.1	

*LSV Asset Management manages both a traditional emerging markets portfolio as well as a custom portfolio.

Public Equity

Top 10 Developed Holdings

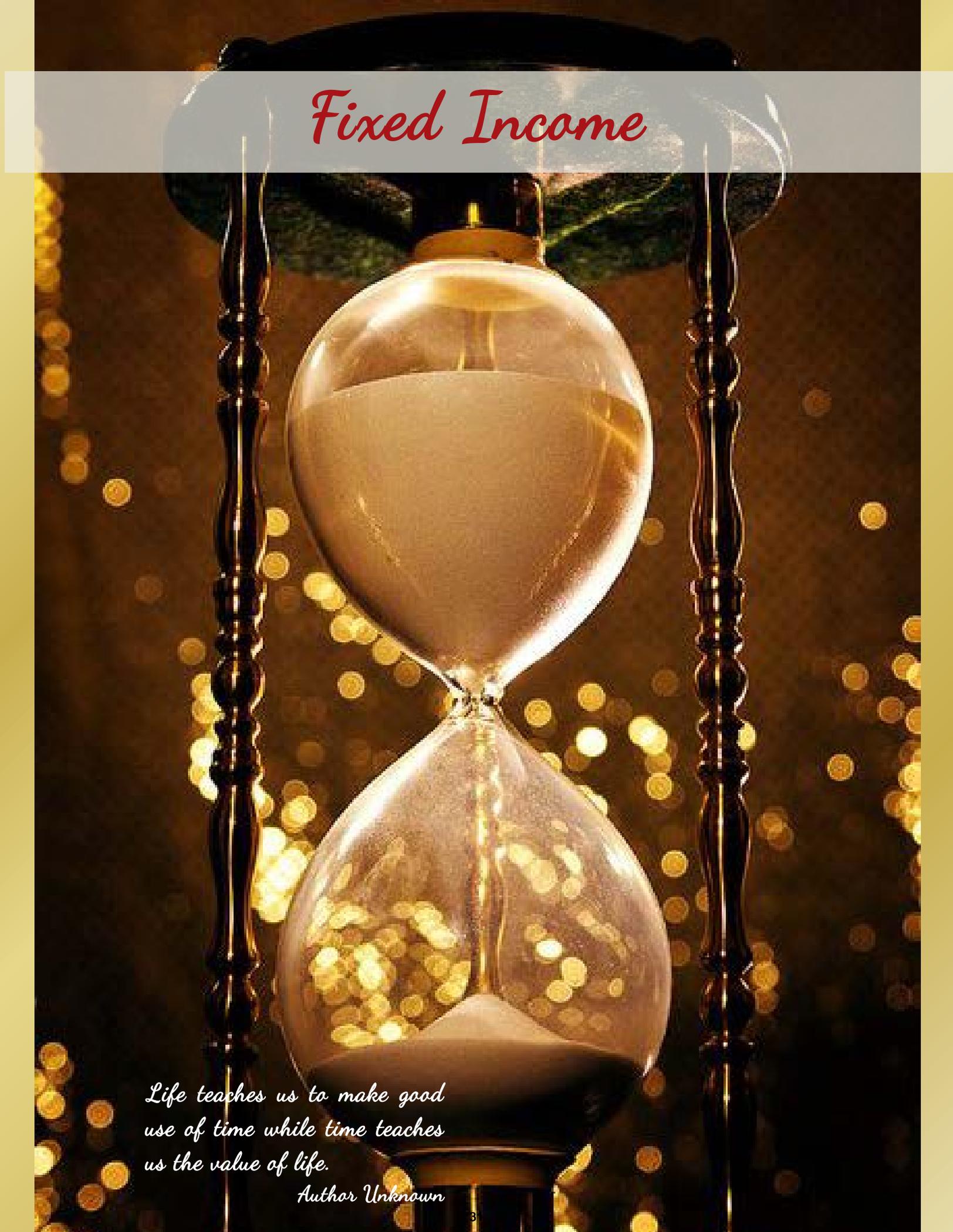
Security Name	Market Value
Nestle SA	\$29,622,420.50
Novartis AG	28,581,203.98
BP Plc	23,947,781.99
Total SA EUR	23,575,755.14
Sanofi	20,541,094.98
Roche Holdings	20,073,128.09
Glaxosmithkline	18,734,600.54
HSBC Holdings	18,205,282.83
Banco Santander	17,604,237.78
Royal Dutch Shell	16,661,011.80
Total	\$217,546,517.63

Top Countries

Developed Markets	Emerging Markets
United Kingdom	Korea
Japan	Hong Kong
Switzerland	Taiwan
France	Brazil
Germany	India
Spain	South Africa
Netherlands	Mexico
Singapore	Thailand
Australia	Malaysia
Israel	China

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Photo: Antique hourglass

An hourglass with a dark, ornate frame. The top bulb is mostly empty, while the bottom bulb is filled with numerous gold coins. The background is dark with many out-of-focus, warm-toned bokeh lights. A semi-transparent grey banner is at the top, and a quote is at the bottom.

Fixed Income

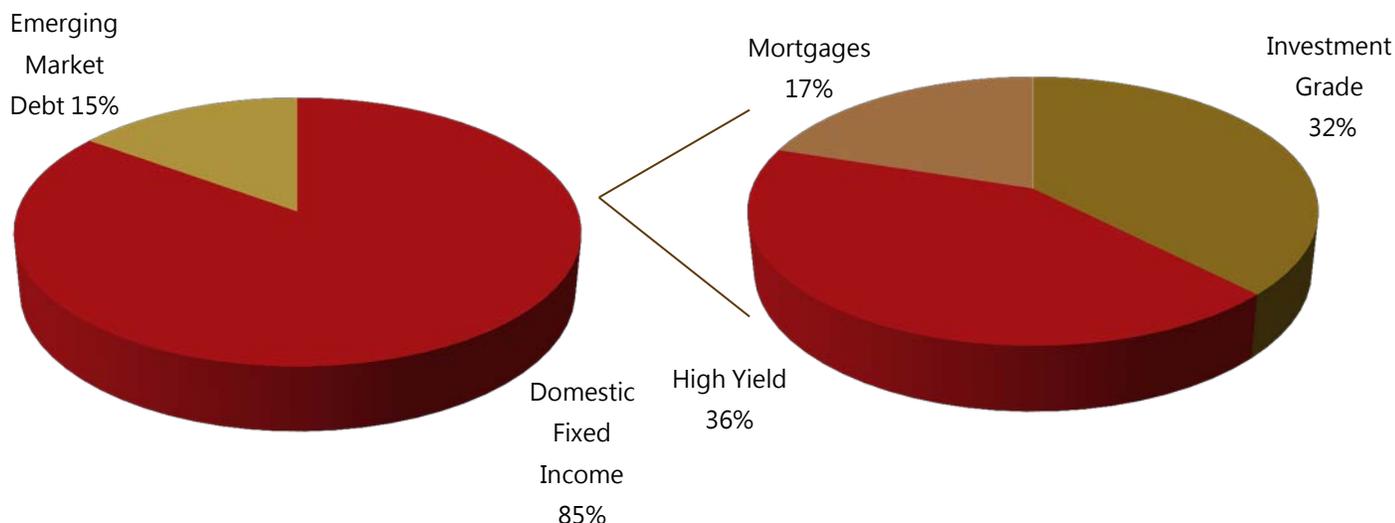
*Life teaches us to make good
use of time while time teaches
us the value of life.*

Author Unknown

Fixed Income

As of June 30, 2014, the Fixed Income portfolio had a market value of assets of \$1,226.1 million, representing 11.1% of the total plan. Within the Fixed Income Program, \$1,048.1 million, or 9.5% of the total plan, was allocated to domestic fixed income and \$178.0 million, was allocated to emerging market debt.

Fixed Income Allocation



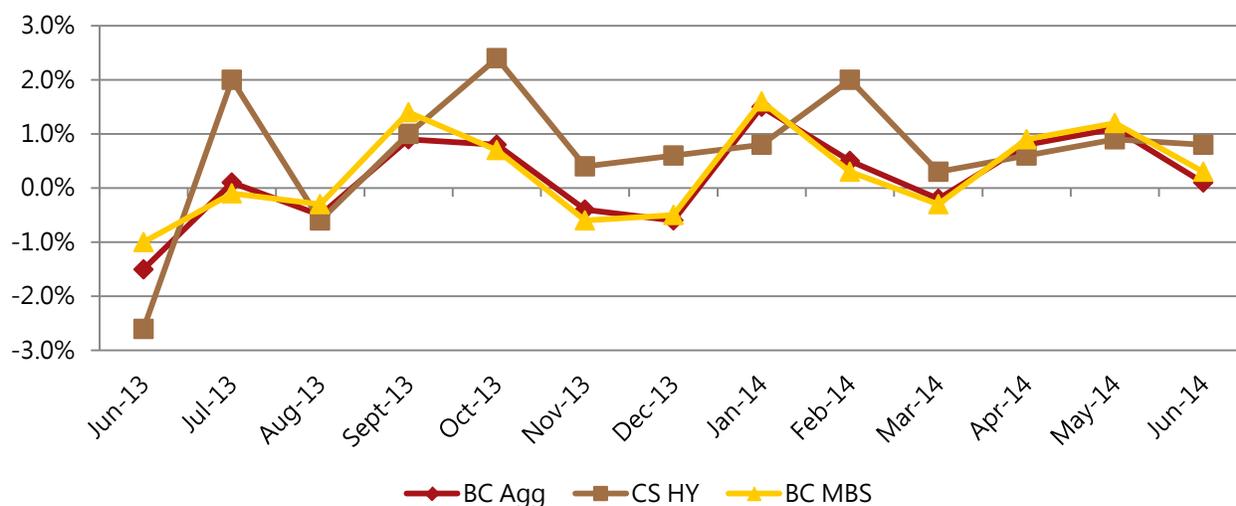
Domestic Fixed Income - Market Overview

The start of the fiscal year (third and fourth quarter for 2013) was primarily characterized by an upwards movement in interest rates as both the domestic and global economies showed modest improvements in growth. As a result all three sectors of the fixed income market produced negative total returns as the yield curve steepened, and the market priced in the anticipated tapering of quantitative easing in 2014. Corporate bonds fared significantly better than government securities as corporate bonds continued tightening in light of stable and often growing earnings. Year to date as of June 30, 2014, corporate bonds again led the way, outperforming both treasuries and MBS. The corporate sector showed solid earnings growth, doubling profits over the past five years. Spreads tightened an average of nine basis points over the first quarter of 2014 as company fundamentals remained solid and investor demand for yield stayed strong.

Still, the first quarter of 2014 was peppered with volatility, triggered by uncertainty of the Federal Reserve's proposed timing of bond purchase tapering. Due to this, the yield curve

flattened, particularly in the belly of the curve, offsetting to some degree the positive return on corporates. Moving into second quarter 2014 and contrary to consensus, intermediate and long-end yields continued to move lower. Weak data on labor, manufacturing and housing reversed earlier confidence on growth and inflation. In the meantime, and at odds with this data, equity markets have been hitting all-time highs.

Domestic Fixed Income Indices Fiscal Year Performance



Domestic Fixed Income - Results

At the beginning of the fiscal year, the domestic fixed income target allocation was 11% consisting of 4% to investment grade, 5% to high yield, and 2% to opportunistic credit. In the spring of 2014, the allocation to high yield was lowered to 4%, making the total allocation to domestic fixed income 10% at fiscal year end. There were five domestic fixed income managers actively managing five portfolios.

Allocation and Returns

	Target Allocation	Actual Allocation	FYTD Return
Investment Grade	4%	3.6%	8.2%
High Yield	4%	4.0%	13.4%
Opportunistic Credit	2%	1.9%	9.4%
Total Domestic Fixed Income	10%	9.5	10.7%

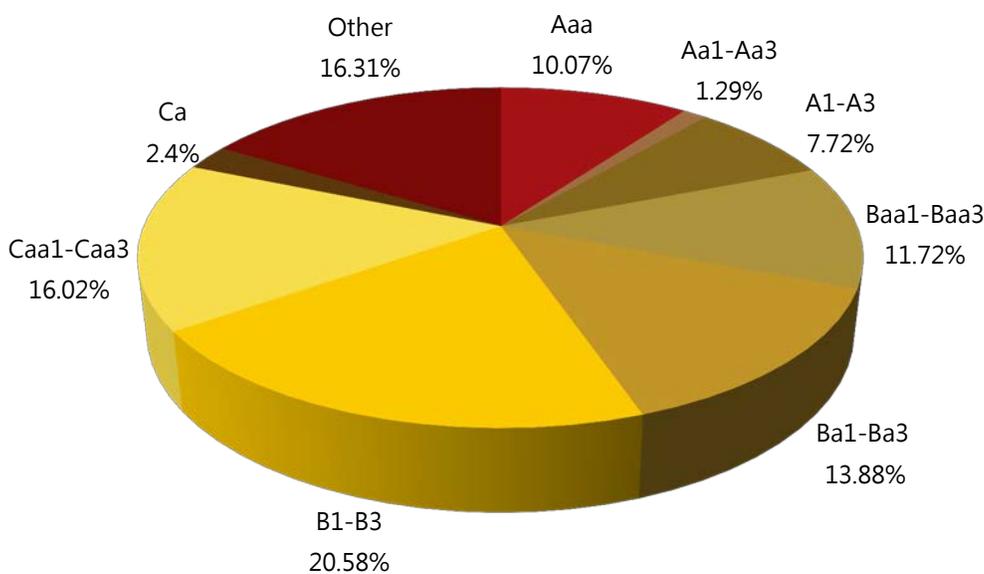
Fixed Income

Domestic Fixed Income Managers

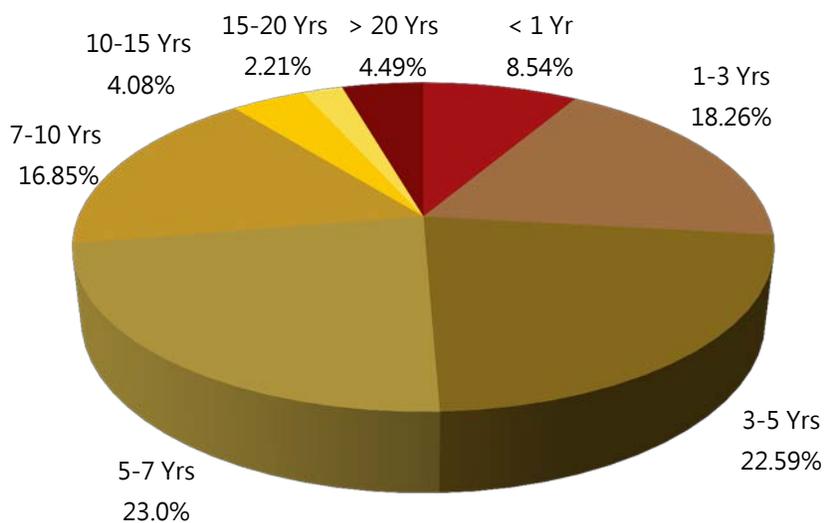
Manager	Market Value (\$Millions)	Benchmark
Loomis Sayles & Company	230.4	<i>BC Aggregate</i>
Orleans Capital Management	162.8	
Investment Grade	\$393.2	
J.P. Morgan	222.2	<i>Credit Suisse High Yield</i>
Nomura Asset Management	218.8	
High Yield	\$441.0	
Marathon Opportunistic Credit	214.0	<i>BC Mortgage-Backed Securities</i>
Opportunistic Credit	\$214.0	
Total Domestic Fixed Income	\$1,048.2	

The following charts show LASERS quality and maturity allocation as of June 20, 3014.

Quality Allocation



Maturity Allocation



The top ten holdings are as follows:

Top Holdings

Security Name	Market Value
U.S. Treasury Note	\$18,038,379.86
Mexican Bonos	7,349,164.91
Commit to Pur FNMA SF Mtg	5,049,150.00
WAMU Mortgages Pass Through	4,861,734.08
BCAP LLC Trust	4,755,983.02
Citimortgage	4,720,911.49
J.P. Morgan Chase Commercial	4,228,773.14
GSR Mortgage Loan Trust	4,212,779.87
GE Capital Commercial	4,137,352.44
Alternative Loan Trust	4,045,244.73
Total Top 10	\$61,399,473.54

Emerging Market Debt - Market Overview

In late 2013, all emerging market debt sectors experienced a significant decline. While the thematic drivers of the market downturn – uncertainty around the Fed’s asset purchase program and continuing global growth concerns – persisted, developments in these areas had a generally positive impact on market sentiment and were ultimately catalytic for a market recovery that gained traction after January 2014.

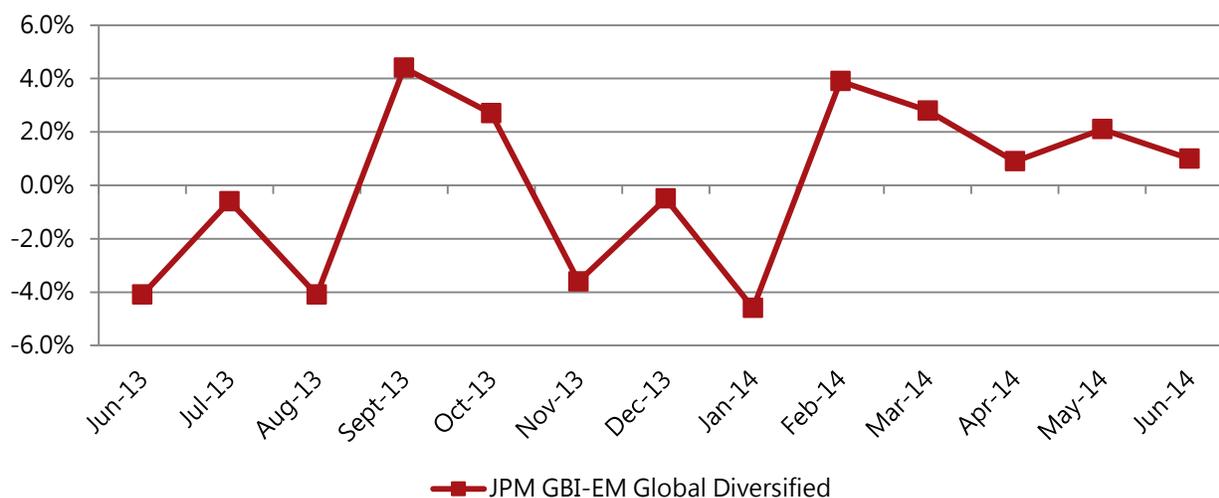
Several factors, both fundamental and technical, contributed to the market volatility of emerging market assets in the second half of 2013. From a macroeconomic perspective, rising concerns over the timing of the U.S. Federal Reserve’s reduction in the pace of its bond purchase program led to a rapid increase in U.S. Treasury yields and a broad-based sell off in fixed income asset prices. Fears of less accommodative U.S. monetary policy contributed to growing concerns about the attractiveness of emerging market assets that had benefited from large investor inflows since the end of the global financial crisis. Fundamental factors also played a role in the emerging market debt decline as growth in many large emerging markets, including China, remained lower-than-expected and growth expectations fell. At the same time, popular uprisings in Argentina, Brazil, Thailand, Turkey and Ukraine produced headlines about political risks in emerging markets. These

Fixed Income

factors imposed a significant influence over investor sentiment across all emerging market sectors.

Despite these challenges, emerging markets managed to regain footing in February 2014 as the U.S. growth outlook for 2014 modestly improved. Market technical improved as well as investor flows turned positive and emerging market credit spreads tightened. Subsequently, a rally ensued in select emerging market currencies. Nevertheless, U.S. growth proved to be weaker than expected, the emerging market economic recovery was uneven, and geopolitical risks increased in the latter part of the review period.

Emerging Market Debt Index Fiscal Year Performance



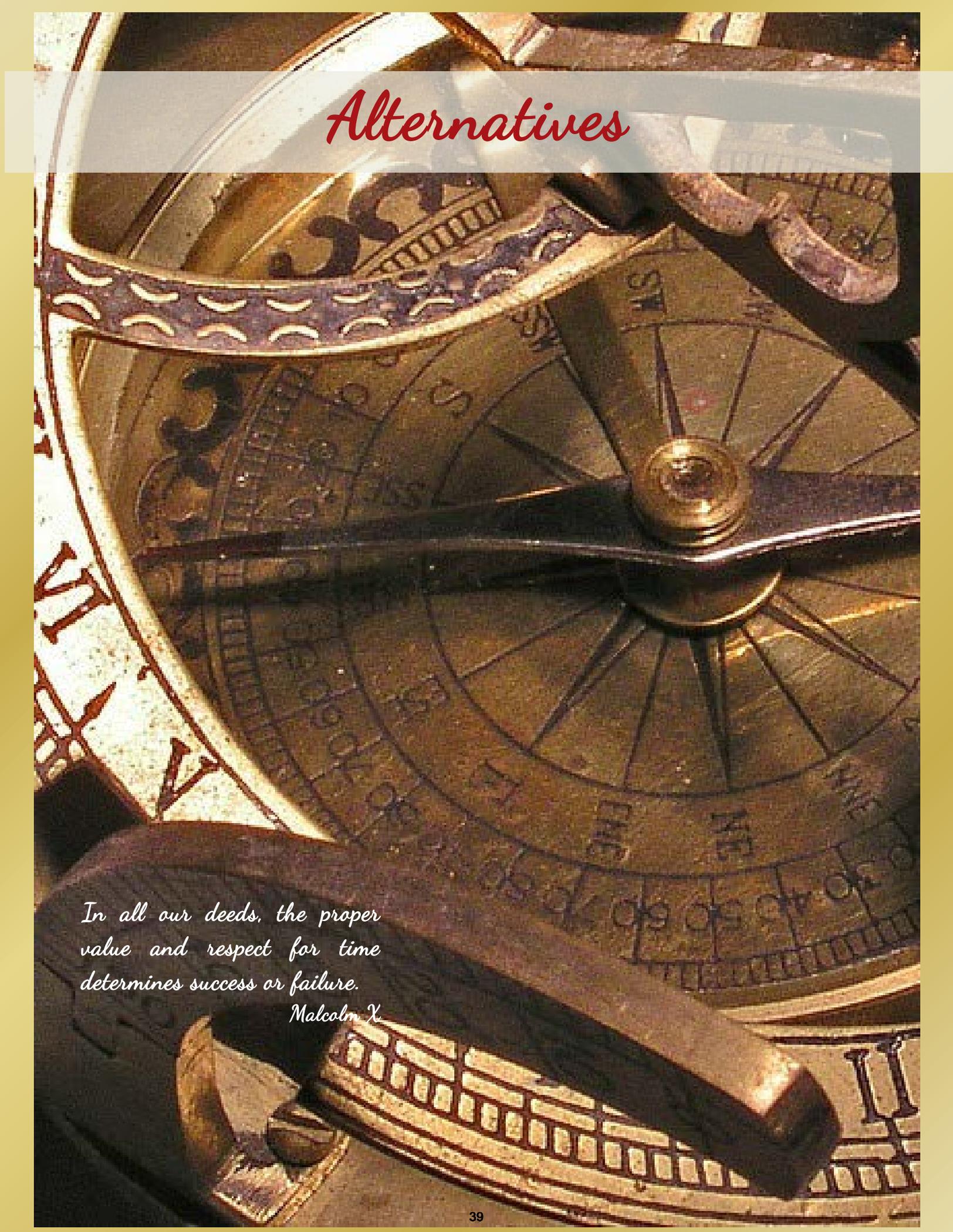
Emerging Market Debt - Results

The emerging market debt allocation remained unchanged at 2% during the 2013-2014 fiscal year. The allocation is managed by Stone Harbor and is benchmarked to the J.P. Morgan GBI-EM Global Diversified Index. As of June 30, 2014, it had a market value of \$178.0 million. The portfolio had an actual allocation of 1.6% and returned 2.7% for the fiscal year.

Top Holdings

Security Name	Market Value
J. P. Morgan Chase Bank	\$7,183,902.16
Poland Government Bond, 0.0% 1/25/2016	6,291,345.20
Russian Federal Bond	6,020,354.57
Letra Tesouro Nacional	5,626,664.56
Mexican Bonos, 8.0% 6/9/2022	5,194,396.76
South Africa Government Bonds	4,908,420.77
Mexican Bonos, 8.0% 6/11/2020	4,103,304.35
Poland Government Bond, 4.0% 10/25/2023	4,076,928.90
Malaysia Government Bond	4,013,002.87
Brazil Notas Do Tesouro Nacion	3,930,844.75
Total Top 10	\$51,349,164.89

Photo: Nautical navigation sundial compass



Alternatives

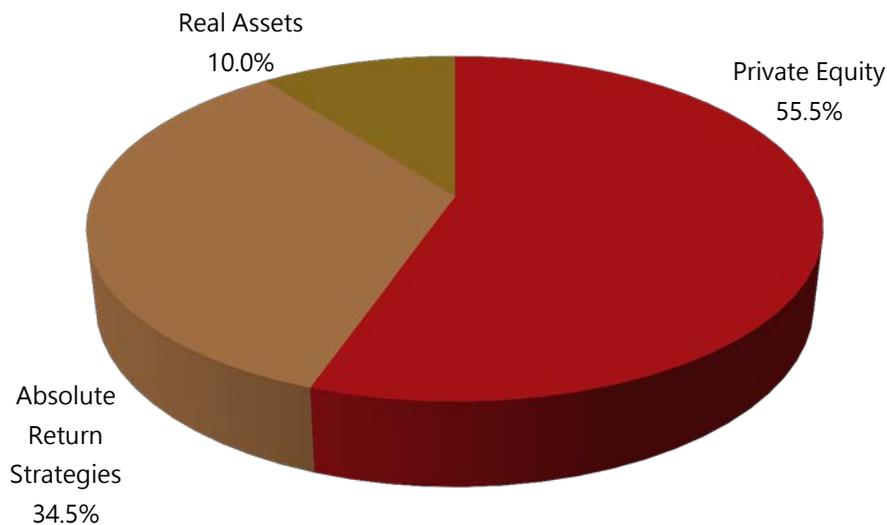
*In all our deeds, the proper
value and respect for time
determines success or failure.*

Malcolm X

Alternatives

As of June 30, 2014, the Alternatives portfolio had a market value of assets of \$2,656.7 million, representing 24.1% of the Total Plan. Within the Alternatives Program, \$1,471.4 million, of 13.4% of the total plan, was allocated to private equity, \$912.7 million, of 8.3% of the total plan, was allocated to absolute return strategies, and \$272.6 million, or 2.5% of the total plan, was allocated to real assets.

Alternatives Allocation



Private Equity

The private equity allocation remained unchanged at 13% during the 2013-2014 fiscal year. The program returned 19% for the fiscal year, and there were fifty-six portfolios being managed by twenty-four managers.

The private equity portfolio consists of a variety of strategies, each being utilized for their distinctive benefits to improve and diversify the portfolio as a whole. Private equity investments ideally increase diversification at the total fund level and capture higher returns associated with the illiquidity premium.

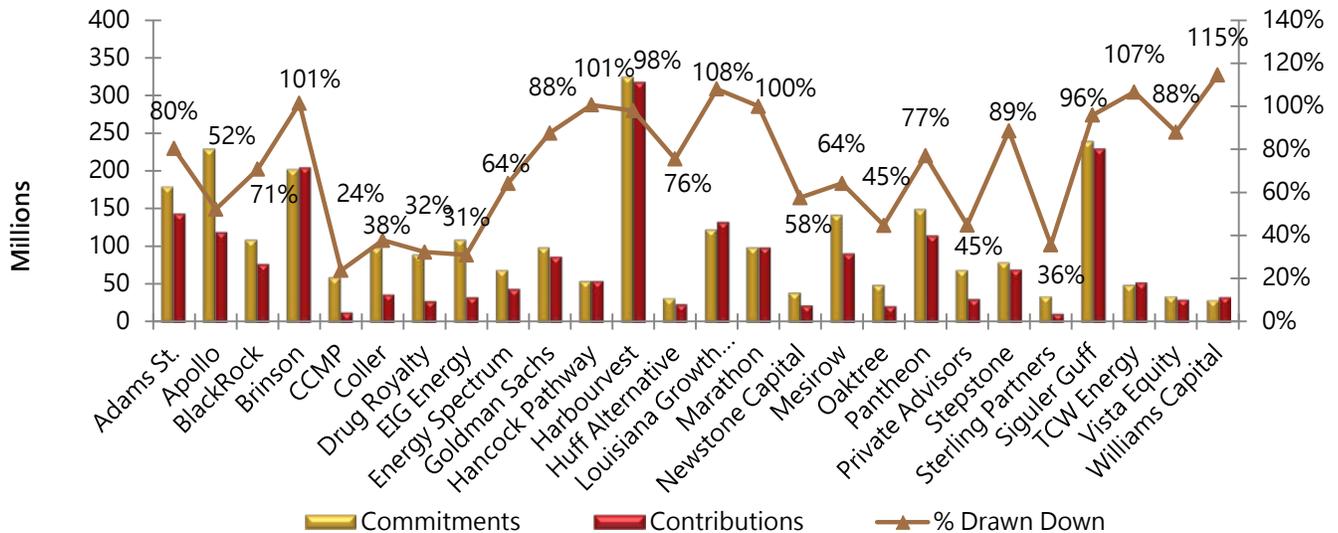
Private Equity Managers

Manager	Market Value (\$Millions)	% of Portfolio
Adams Street	125.7	8.5%
Apollo	103.3	7.0%
BlackRock Advisors	104.2	7.1%
Brinson	24.1	1.6%
CCMP Capital	13.4	0.9%
Coller International Partners	46.9	3.2%
Drug Royalty	24.4	1.7%
Energy Spectrum	20.6	1.4%
Goldman Sachs	80.3	5.5%
Hancock Pathway	0.4	0.0%
Harborvest	65.6	4.5%
Huff Alternative Fund	13.9	0.9%
Louisiana Growth Funds	55.7	3.8%
Marathon	115.8	7.9%
Mesirow	110.0	7.5%
Newstone Capital	19.6	1.3%
Oaktree	27.2	1.8%
Pantheon Ventures	111.5	7.6%
Private Advisors	26.9	1.8%
Siguler Guff	174.6	11.9%
Stepstone	69.5	4.7%
Sterling Partners	10.5	0.7%
TCW Energy	66.4	4.5%
Vista Equity	33.9	2.3%
Williams	24.2	1.6%
Total Private Equity	\$1,471.4	100.0%

During the 2013-2014 fiscal year, LASERS committed to four new private equity funds: CCMP VI, GTCR XI, Private Advisors VI, and Vista V. Since LASERS began investing in private equity, commitments totaling over \$2.8 billion have been made. Cumulatively, over \$2.1 billion, or 76% of total commitments, have been invested and over \$1.6 billion has been distributed back to LASERS.

Alternatives

Private Equity Commitments and Contributions



Absolute Return Strategies

At the beginning of the fiscal year, the allocation to absolute return strategies was 7%. The target allocation was increased 1% in the spring of 2014. The actual allocation on June 30, 2014 was 8.3% and the program returned 7.1% for the fiscal year. There were eight portfolios, three of which were in liquidation, being managed by seven managers.

These strategies provide LASERS with diversification and potential for increased long-term returns due to the lower correlation with the major market indices. LASERS fund of funds and multi-strategy investments allow access to top tier funds, a reduction in individual fund and manager risk, and provide industry, style, and geographic diversification.

During the fiscal year, the transition to a more concentrated/best ideas portfolio, which began two years earlier, continued. Restructuring the portfolio consisted of full redemption requests to three managers near the end of the 2011-2012 fiscal year. As of June 30, 2014, those redemptions were well underway, with the market value of assets in redemption status accounting for only 2.7% of the absolute return portfolio.

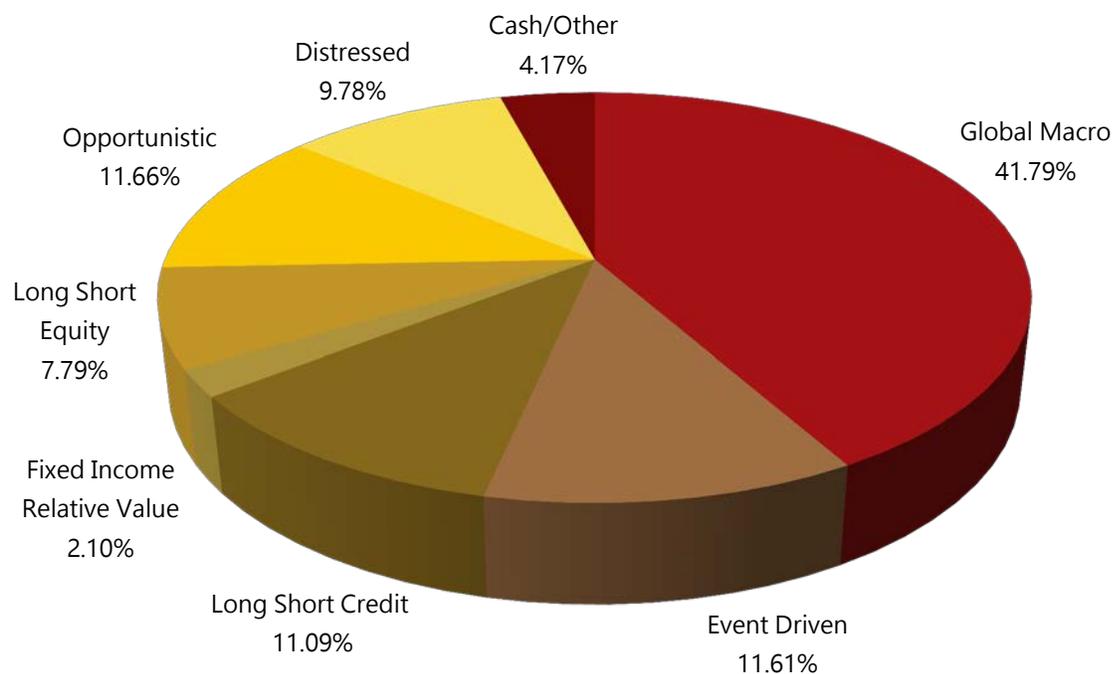
Absolute Return Managers

Manager	Market Value (\$Millions)	% of Portfolio
Bridgewater Associates	357.0	39.1%
Entrust Capital Partners	103.6	11.4%
GAM*	0.2	0.0%
K2 Advisors*	11.5	1.3%
PAAMCO	193.2	21.2%
Prisma Capital Partners	234.3	25.7%
Stark Investments*	12.9	1.4%
Total Absolute Return	\$912.7	100.0%

*Full redemption requests were in place as of June 30, 2014.

The following chart displays the allocation of LASERS absolute return portfolio by strategy.

Absolute Return Allocation



Alternatives

Real Assets

The allocation to real assets remained unchanged at 3% during the 2013-2014 fiscal year. As of June 30, 2014, the actual allocation was 2.5% and the program returned 2.4% for the fiscal year. There were two portfolios being managed by two managers.

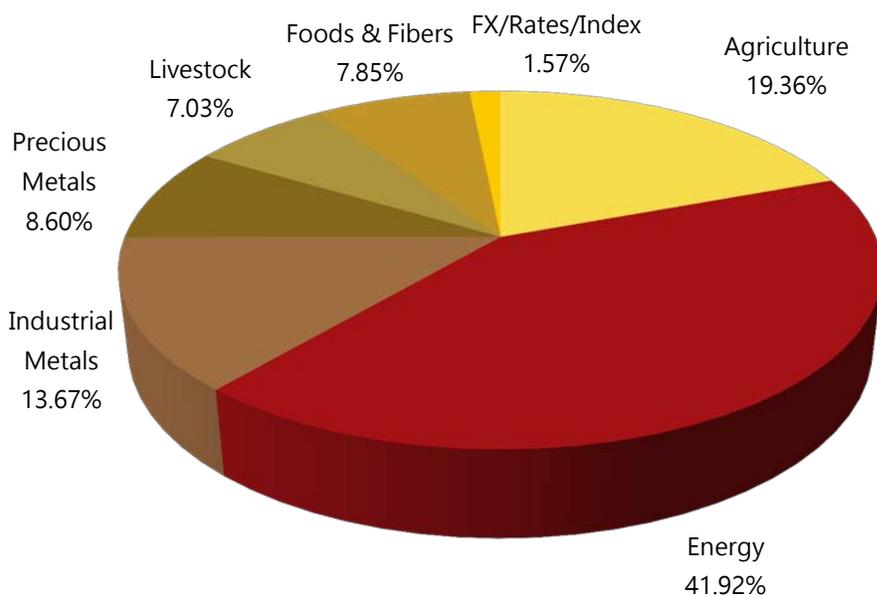
Real assets typically exhibit low correlation to equities and fixed income markets and provide diversification benefits to the overall investment portfolio. Real assets also provide inflation-adjusted or positive “real” returns. The inflation protection provided by real asset investments can help the overall investment portfolio meet liabilities during periods of rising inflation.

Real Asset Managers

Manager	Market Value (\$Millions)	% of Portfolio
Gresham Investment Management	130.1	47.7%
Pinnacle Asset Management	142.5	52.3%
Total Real Assets	\$272.6	100.0%

The following chart displays the allocation of LASERS Real Assets portfolio.

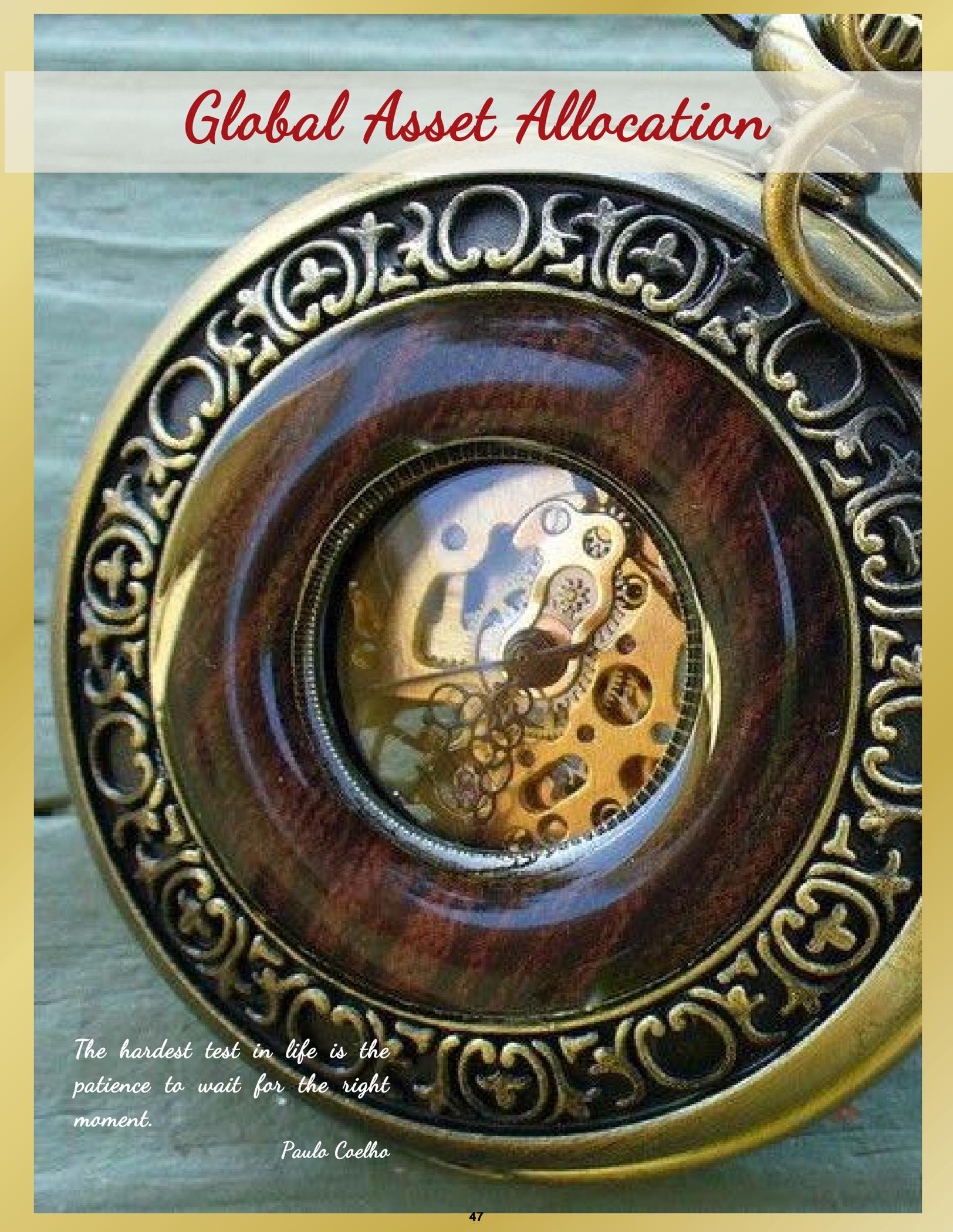
Real Asset Allocation



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Photo: Steampunk pocket watch

Global Asset Allocation



*The hardest test in life is the
patience to wait for the right
moment.*

Paulo Coelho

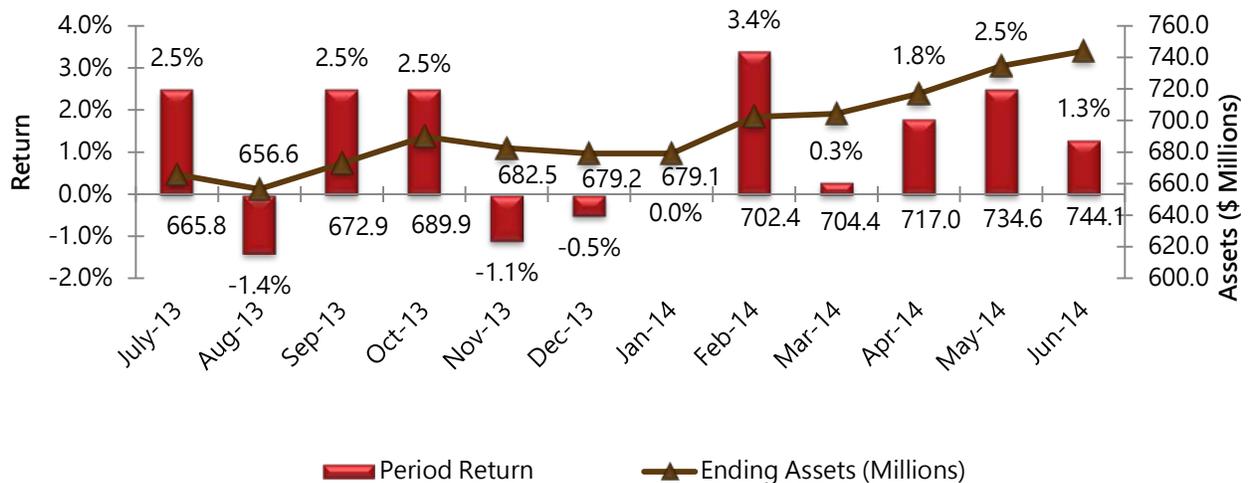
Global Asset Allocation

As of June 30, 2014, the Global Asset Allocation portfolio had a market value of assets of \$744.1 million, representing 6.8% of the Total Plan.

The allocation remained unchanged at 7% during the fiscal year. Bridgewater Associates manages the entire allocation in their All Weather product, and the program returned 14.6% for the year ending June 30, 2014.

The global asset allocation strategy utilizes an optimal strategic asset allocation mix that aims to provide favorable risk-adjusted returns. The strategy's goal is to avoid being biased to any one market environment, thus producing a more balanced return stream. Below is a monthly breakdown of returns and assets in the All Weather portfolio for the fiscal year.

Monthly Returns and Assets



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Photo: Fifth Avenue Building clock, which is located on Fifth Avenue at 23rd Street in NYC. The clock is constructed of cast-iron and was installed in 1909.

Supplemental Information

*Time is at once the most
valuable and the most perishable
of all our possessions.*

John Randolph

Trading

Below is a schedule of commissions for the fiscal year ending June 30, 2014. The table includes the brokerage firms utilized by LASERS managers and total commissions paid to each.

Commission Summary

Brokerage Firm	Commission	Brokerage Firm	Commission
Keybank Capital Markets	\$107,994.53	Craig Hallum	\$13,218.86
Merril Lynch	96,833.14	Janney Montgomery Scott	13,092.88
Stephens	88,967.73	BB&T Securities	12,658.75
Deutsche Bank	87,022.36	Instinet	12,364.26
Robert W. Baird & Co.	74,042.46	Compass Point Research	12,251.14
SG Securities	61,045.60	Merrill Lynch Pierce Fenner	11,294.61
Morgan Stanley	51,050.38	Openheimer & Co.	10,743.45
Weeden & Co.	40,512.05	BTIG	10,703.21
Stifel Nicolaus	37,429.17	Needham & Co.	9,929.49
Guzman & Company	33,937.30	CJS Securities	9,830.69
Investment Technology Grp.	23,612.17	Cantor Fitzgerald	9,701.36
Sandler O'neill & Partners	22,646.42	Exane	9,333.68
Keefe Bruyette and Woods	22,241.33	Suntrust Cap Markets	9,297.50
Sidoti & Co.	21,168.69	Davidson & Co.	9,267.08
Johnson Rice & Co.	20,740.90	Avondale	8,516.52
Pulse Trading	18,680.57	Raymond James	8,459.82
Barclay's Capital	18,642.95	Capital One Southcoast	8,106.48
King (CL) & Associates	18,154.35	Pershing Securities	8,040.78
Jefferies & Co Inc.	17,995.60	William Blair & Co.	7,886.99
Jonestrading	16,325.70	Barclays Capital Le	7,798.90
JP Morgan	16,081.36	Cowen and Company	7,653.07
Knight Equity Markets	15,508.44	JNK Securities Inc.	7,279.80
Fig Partners	15,234.19	Credit Suisse	7,185.89
Rosenblatt Securities	15,082.86	B. Riley & Co.	7,062.17
Wells Fargo	14,945.75	Sanford C. Bernstein & Co.	7,024.74
Dougherty Company	14,812.00	Other (82)	184,479.50
		Total	\$1,407,889.72

LASERS is committed to monitoring and analyzing execution costs, with the ultimate goal of ensuring best execution. We conduct a thorough annual review of total execution costs that our managers incur, which includes commissions, market impact, and timing costs. Trading activity and costs are also monitored on an ongoing basis, including a quarterly review of each manager. To oversee our trading activity, LASERS staff compiles and analyzes trade data internally, in addition to using the services of an outside consultant, Zeno Consulting Group.

Zeno Consulting Group

The Zeno Consulting Group analysis involves capturing and analyzing the entire trading process, from security selection through completed execution. Benchmarks and peer group universes are then used as a tool to evaluate the relative execution quality of both investment managers and brokers.

Soft Dollar Commissions

Soft dollars refer to the direction of client brokerage or commissions by investment managers to brokers in return for products and services. Eliminating the use of soft dollars by our investment managers has been a focus of LASERS in recent years. We have successfully worked with our investment managers to eliminate the generation of soft dollars on behalf of LASERS.

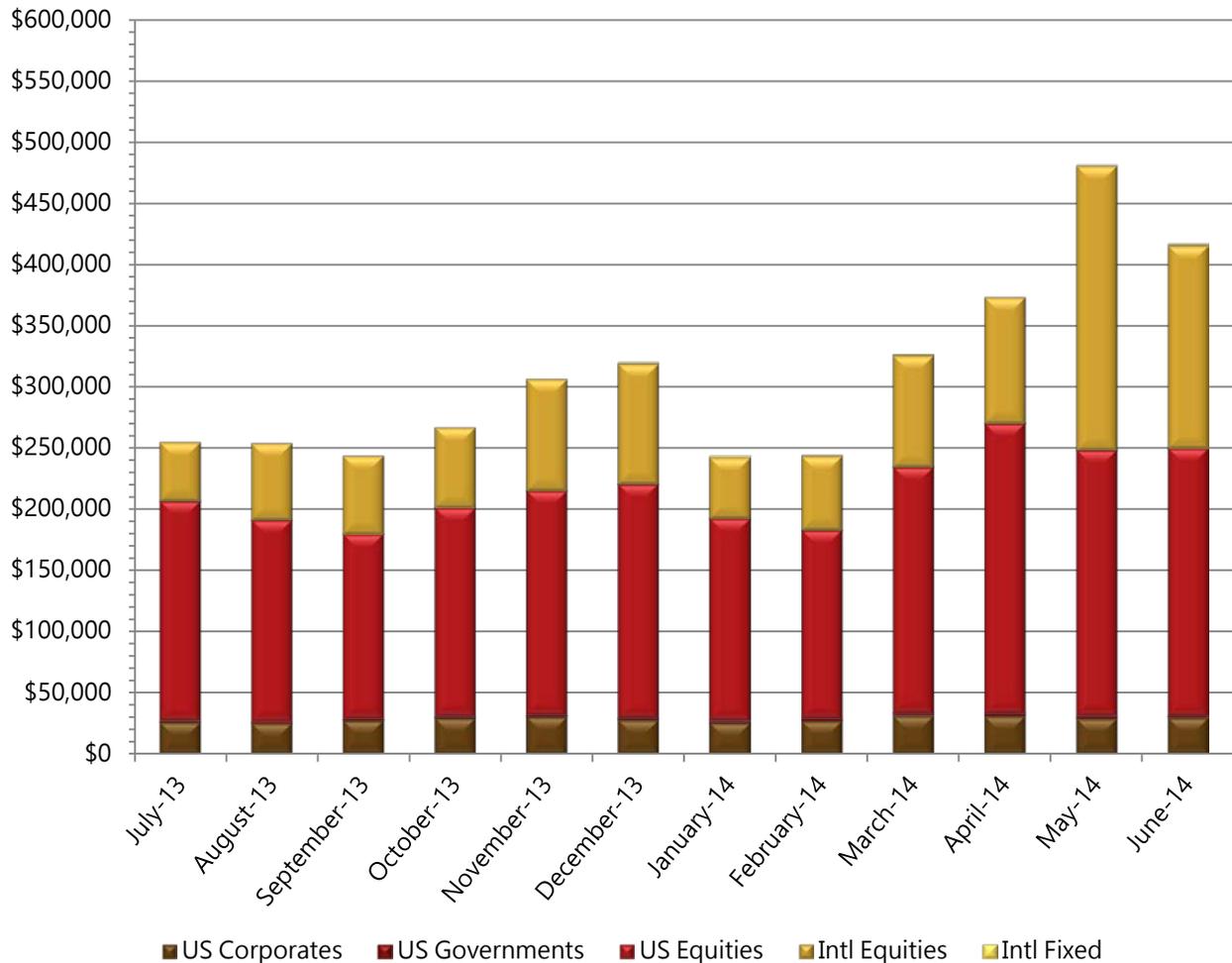
Foreign Exchange

Just as in the trading of securities, LASERS is focused on obtaining best execution when trading foreign currencies. LASERS uses a process to receive and trade based on live, competitive quotes. By trading based on quotes from multiple institutions, internal staff is able to ensure LASERS is receiving fair quotes and best execution at any given time for any given trade.

Securities Lending

During the fiscal year 2013-2014, LASERS generated \$3,737,913 million in revenue through its securities lending program. The lending agreement between LASERS and BNY Mellon incorporates an 80/20 split on the first \$2,500,000 and 85/15 split thereafter, which LASERS reached in April of 2014.

Lending Revenue



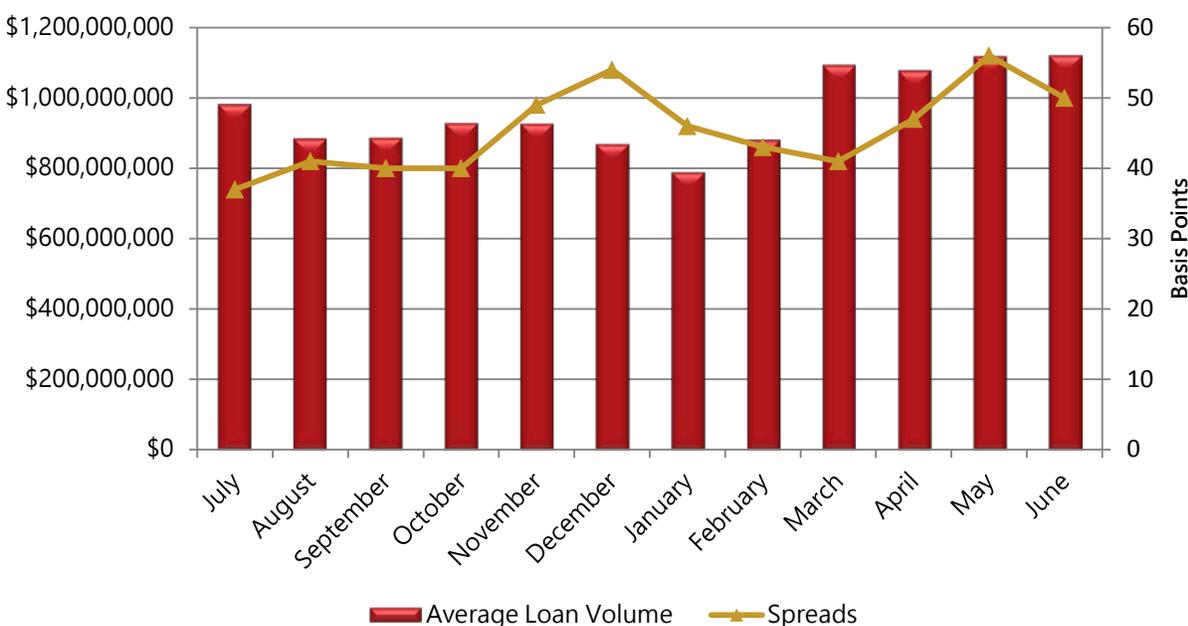
Although the lendable volume and on-loan volumes remained fairly consistent year-over-year, revenue from securities lending decreased approximately \$600,000. The decrease was in part due to a decline in revenue from the cash collateral reinvestment portfolio, which saw its average yield decline by 8 basis points from 0.28% to 0.20%, as interest rates contracted during the fiscal year. The decrease was also caused by the long bias in the market, which dampened short interest and thus put contraction pressure on spreads, reducing securities lending activity.

Lending Statistics

Program	Average Lendable Assets (Millions)	Return from Lending Income (Basis Points)	Securities Lending Income (Thousands)
Treasuries	\$19	10	\$16
Agencies	\$5	15	\$7
MBS	\$61	0	\$0
US Corporates	\$725	6	\$337
US Equities	\$2,954	9	\$2,234
Non-US Equities	\$1,861	7	\$1,138
Non-US Fixed Income	\$114	1	\$5

During the fiscal year 2013-2014, the average market value of lendable securities was \$5.7 billion, which is an increase of approximately \$600 million over the previous year; the volume on loan also increased from an average of \$893.4 million in 2013 to \$962.6 million in 2014. The average return on available assets for lending was 6.51 basis points and the return on loaned assets was 38.81 basis points. The weighted average total spread was 47 basis points as compared to the Fed Funds Target Rate of 25 basis points.

Volumes/Spreads



Corporate Governance

The Board of Trustees of LASERS exercises its right to vote as a shareholder in companies held within investment portfolios as an important method to participate in the corporate governance process. As a fiduciary, LASERS is compelled to exercise this right in the best interest of the System's participants and beneficiaries. This is accomplished by voting for shareholders' resolutions that are likely to enhance shareholder value and by opposing resolutions that are likely to dilute or diminish the value.

Guidelines have been developed to describe how LASERS intends to vote on commonly raised and potentially contentious issues. These guidelines have been developed to encourage companies to take actions that are in the long-term best economic interest of shareholders. They are applied to help determine whether to support or oppose a proposal by a corporation (or shareholder), and are used by LASERS proxy voting agent to vote in accordance with the best interest of LASERS plan participants.

LASERS recognizes that certain proposals, if approved, may have a substantial impact on the market valuation of portfolio securities; therefore, the right to vote is viewed as an asset to be accorded the same fiduciary care and responsibility as our investments.

LASERS generally votes against proposals that may have a negative effect on the stock price and/or reduce shareholder rights. Conditions are imposed on voting for elections of directors, and LASERS may withhold votes from directors based on board and committee independence, performance of the board, failure to respond to high shareholder withhold/against votes and poor long-term corporate performance relative to peers. Several factors are also considered before approving executive and director compensation. LASERS questions the role of compensation in incentivizing inappropriate or excessive risk-taking behavior and has little patience for "pay for failure." LASERS believes that pay programs should be fair, competitive, reasonable, and that pay for performance should be a central tenet in compensation philosophy.

During the fiscal year July 1, 2013, to June 30, 2014, LASERS voted 26,984 proposals on a variety of issues including capitalization, compensation, and corporate governance issues. Votes were cast on proxy issues at over 2,400 meetings during the 12-month period; there were 1,293 meetings related to U.S. companies and 1,147 related to international companies.

Proxy Activity

Category	Proposals	For	Against	Other
Management Proposals				
Routine/Business	4,496	3,242	1,243	11
Director Related	16,252	8,536	7681	35
Capitalization	1,480	1,192	288	0
Reorganizations & Mergers	547	530	16	1
Non-Salary Compensation	3,086	1,982	1,055	49*
Antitakeover Related	272	239	32	1
Other/Miscellaneous	13	1	2	10
Shareholder Proposals				
	*35 votes - frequency of Say When on Pay			
Routine/Business	141	74	66	1
Director Related	283	136	115	32
Corporate Governance	80	68	12	0
Compensation	89	58	31	0
Health/Environmental	90	53	37	0
Social/Human Rights	18	13	5	0
Other/Miscellaneous	137	86	51	0
Total	26,984	16,210	10,634	140

Risk Management

To assess risk, investment division staff assembles the holdings of all managed portfolios to create an aggregate view of LASERS assets and utilizes multiple software systems. Supported by powerful multi-factor models and extensive databases, these software systems assist in quantifying various metrics at the asset level up to the aggregated portfolio level. These tools allow the investment staff to decompose the risk by source and monitor the overall risk in the portfolio based on the manager or asset class that is contributing that risk. Decomposing risks at an aggregated level and at the individual manager level allows the investment staff to better understand and manage the sources of risk in LASERS portfolio.

Risk characteristics of the portfolio, including manager tracking error and value-at-risk (VaR) data, are gathered by the investment staff to quantify the risks inherent in the LASERS portfolio. Value-at-risk reports identify the minimum amount a fund might lose at a given confidence level over a given time period. Tracking error gives an indication of how similar a portfolio is to its respective benchmark.

The scenario analysis can be extended to “stress” the portfolio under different scenarios, historically based and ad hoc, to view how the portfolio would perform under extreme economic and market conditions. For example, staff is able to test the performance of fixed income assets based on a change in interest rates.

VaR and Tracking Error Report

	Assets	Market Value	Weight (%)	Total Risk	Tracking Error	Value-At Risk (%)
Fixed Income Managers						
Total Summary	2,154	\$1,172,507,894	100.00%			
Marathon OMBS	126	\$213,975,337	25.14%	NA	NA	NA
Nomura High Yield	731	\$205,910,794	23.00%	4.23%	1.02%	4.27%
JPMorgan High Yield	773	\$216,595,007	21.25%	4.36%	0.43%	4.41%
Loomis Inv Grade	273	\$214,764,561	17.09%	3.92%	2.18%	5.28%
Orleans Inv Grade	123	\$140,092,271	13.51%	3.02%	1.45%	4.61%
Equity Managers						
Total Summary	3,720	\$6,011,476,293	100.00%			
Lasers S&P 500	502	\$1,379,083,658	22.94%	12.46%	0.04%	20.61%
Lasers S&P 400	402	\$449,751,365	7.48%	12.64%	0.16%	20.92%
Lasers S&P 600	603	\$334,444,810	5.56%	13.04%	0.15%	21.31%
MSCI World Ex Us	790	\$1,374,542,711	22.87%	12.87%	0.19%	18.78%
MSCI Terror Free	324	\$36,057,340	0.60%	12.73%	0.79%	15.58%
Mondrian Large Cap	48	\$245,840,909	4.09%	12.28%	3.37%	18.27%
Mondrian Small Cap	94	\$305,022,187	5.07%	12.16%	4.14%	16.89%
AJO	90	\$290,150,479	4.83%	12.66%	2.36%	20.91%
City of London	66	\$316,881,865	5.27%	13.74%	3.41%	18.86%
LSV Emerging Market	315	\$495,029,725	8.23%	14.01%	2.20%	19.26%
LSV Small Cap	201	\$162,805,314	2.71%	13.15%	2.36%	21.91%
Rice Hall James	56	\$274,889,857	4.57%	12.70%	3.72%	20.59%
THB Microcap	119	\$38,280,892	0.64%	14.30%	3.57%	22.54%
THB Small Cap	81	\$120,152,900	2.00%	13.32%	3.00%	21.78%
Westwood Global	29	\$188,542,281	3.14%	14.03%	4.19%	20.30%

-Value-At-Risk – 1 year Monte Carlo simulation; 95% confidence level

-Some holdings may be excluded for risk metric calculations

Risk Management

Scenario Analysis by Fixed Income Manager

	+ 200 BPS	+ 100 BPS	- 100 BPS	- 200 BPS	Lehman Default 2008	Debt Ceiling Crisis 2011
Marathon OMBS	NA	NA	NA	NA	NA	NA
Nomura High Yield	-7.3%	-3.7%	3.4%	4.7%	-6.7%	-0.1%
JPMorgan High Yield	-8.3%	-4.2%	3.8%	5.9%	-12.4%	-1.9%
Loomis Inv Grade	-10.5%	-5.5%	6.1%	12.8%	-8.4%	1.3%
Stone Harbor	-8.1%	-4.2%	4.6%	9.5%	-9.2%	-2.0%
Orleans Inv Grade	-10.3%	-5.5%	5.4%	10.3%	-7.6%	1.7%

Scenario Analysis by Equity Manager

	Lehman Default 2008	Greece Financial Crisis 2010	Japan Earthquake March 2011	Debt Ceiling Crisis & Downgrade 2011	Bear Market SPX Down 20%, Oil Down 20% & VIX up 150%
Lasers S&P 500	-15.9%	-12.5%	-0.3%	-20.6%	-19.9%
Lasers S&P 400	-20.2%	-13.4%	-0.7%	-21.6%	-19.8%
Lasers S&P 600	-21.1%	-14.2%	-1.2%	-22.0%	-19.9%
MSCI World Ex Us	-18.6%	-15.8%	-5.5%	-15.1%	-16.3%
MSCI Terror Free	-18.3%	-15.6%	-5.5%	-14.8%	-16.0%
Mondrian Large Cap	-14.8%	-15.2%	-5.0%	-13.5%	-14.2%
Mondrian Small Cap	-22.6%	-15.1%	-4.4%	-14.8%	-14.7%
AJO	-17.3%	-13.1%	-0.3%	-21.4%	-20.2%
City of London	-20.1%	-12.7%	-2.6%	-12.8%	-13.6%
LSV Emerging Market	-18.1%	-13.3%	-2.8%	-13.7%	-14.5%
LSV Small Cap	-20.2%	-14.7%	-1.4%	-22.4%	-19.9%
Rice Hall James	-20.2%	-13.6%	-1.2%	-21.1%	-18.8%
THB Microcap	-22.7%	-16.5%	-2.2%	-23.5%	-20.5%
THB Small Cap	-21.1%	-14.0%	-0.7%	-21.9%	-20.4%
Westwood Global	-29.4%	-13.5%	-2.2%	-14.0%	-14.9%

In evaluating portfolio managers, it is also important to understand the sector weightings of the manager versus the benchmark. An equity Global Investment Classification Standards (GICS) sector report allows for a quick and easy comparison of a fund's weighting in each GICS sector versus the benchmark weightings. Portfolios can also be aggregated to show how the LASERS total equity allocation is positioned.

Sector Analysis

GICS Sector	Assets	Holdings	Market Value	Weight (%)	Bmk Weight (%)	Active Weight (%)
Total Summary	3594	651,932,330	\$5,679,684,054	100.00%	100.00%	0.00%
Cash			52,447,299	0.92%	0.00%	0.92%
Consumer Discretionary	496	65,722,609	638,568,490	11.24%	11.89%	-0.64%
Consumer Staples	226	34,776,126	428,521,898	7.54%	7.90%	-0.36%
Energy	241	40,933,844	524,595,535	9.24%	9.36%	-0.12%
Financials	777	243,374,376	1,143,231,042	20.13%	21.46%	-1.33%
Funds	4	289,322	40,521,006	0.71%	0.00%	0.71%
Health Care	298	12,297,703	560,946,579	9.88%	9.77%	0.10%
Industrials	554	72,788,063	765,259,930	13.47%	12.44%	1.04%
Information Technology	471	76,123,576	747,777,432	13.17%	12.96%	0.21%
Materials	286	48,857,903	336,860,839	5.93%	6.89%	-0.96%
Other	10	2,360,495	6,151,058	0.11%	0.24%	-0.13%
Telecom Services	87	32,719,856	229,190,256	4.04%	3.35%	0.69%
Utilities	144	21,688,457	205,612,690	3.62%	3.74%	-0.12%

Compliance

State laws and regulations define and impose fiduciary responsibilities upon the Board of Trustees, staff and agents of the retirement system. Investment manager compliance, internal controls, and risk management are key to maintaining proper checks and balances.

Every portfolio that is part of LASERS overall investment portfolio operates under written guidelines approved by the Board of Trustees, which are designed to ensure the portfolio meets its objective and operates within acceptable risk parameters. In an effort to ensure guideline compliance by external investment money managers, LASERS investment staff monitors and evaluates each manager using the following resources: Daily Exception Reports, Monthly Performance Reports, Quarterly Investment Performance and Portfolio Analysis, Investment Policy Reporting, and Comprehensive Manager Reviews at the end of a manager's five-year contract with LASERS. Cost monitoring tools, such as Zeno Consulting, are used to analyze whether trading costs are in line with trading cost benchmarks.

BNY Mellon Financial Corporation, LASERS custodian bank, provides the investment staff with Daily Exception Reports which are used to measure external manager guideline compliance on a daily basis. The Daily Exception Reports are saved internally and are readily available to LASERS investment staff. Restrictions and limitations can be applied to a single fund or multiple funds, and to a composite of funds.

LASERS maintains a highly diversified portfolio to minimize the impact of the loss from individual investments. In addition to achieving diversification by asset class, careful attention is paid to diversification within each asset category and sub-category.

It is required of the investment staff and those associated with the Investments Division function to maintain high ethical standards when transacting business of behalf of LASERS. These standards are conveyed through the following vehicles: (i) Investments Division Operational Guidelines, (ii) Statement of Investment Policies and Objectives, (iii) CFA Institute's Code of Ethics and Standards of Professional Conduct, and (iv) Louisiana Code of Governmental Ethics.

The interests of LASERS have, at all times, precedence over the personal interest of any and all employees of LASERS. It is the policy of LASERS that its employees and direct members

of their families are prohibited from garnering personal gain based upon securities transactions executed on behalf of LASERS. It is the intent of the Investments Division that no employee of LASERS or direct members of their families be able to exploit the investment decisions of LASERS external or internal investment managers.

In order for employees of LASERS and direct members of their families to avoid such improprieties, in appearance or in fact, certain standards are to be followed as well as having the investments staff understand and sign an ethics statement. All members of the Investment Division are subject to the Louisiana Code of Governmental Ethics, La. R.S. 42:1101 et seq., CFA Institute's Code of Ethics and Standards of Professional Conduct, as well as all other applicable laws and regulations. It is the policy of the Investments Division that any and all investment based data or information, whether originating from the Investments Division, external managers, or from custodial bank records, remains confidential.

Similarly, individuals who, by happenstance or by necessity of their employment, obtain data concerning Investment Division activities are bound to retain that information in confidence. Since trades will be executed for the sole benefit of the beneficiaries of LASERS, it is imperative that the highest degree of confidentiality be maintained.

All portfolio managers are cross-trained in portfolio management, trading procedures, and operation procedures for all internally managed portfolios. This ensures continuous monitoring and management of internally managed portfolios when a person is absent.

Compliance

In order to clarify the duties of the individuals involved in the management of the fund, the following table should be referenced:

Position	Primary Function
Executive Director	Oversee all control functions
Chief Investment Officer	Oversee control functions of the Investments Division
Portfolio Manager	Analyze fund daily and initiate any trades
Operations	Affirm the trades with Depository Trust & Clearing Corporation and/or Custodian
Investment Accounting	Review and reconcile on monthly basis
Financial Reporting	Review reconciliations
Internal Audit Division	Ensure all participants are in compliance with the guidelines and necessary rules and regulations

As part of LASERS Strategic Plan, the following activities are important to providing a high level of risk management.

- Continue to utilize the risk management system
- Peer Analysis
- Expanding awareness of the legislature and other outside governing bodies by quantifying the volatility of employer contributions

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Investment Policy Statement

I. Introduction

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

The System is governed by a 13 member Board of Trustees (Board). State law designates members of the Board as follows: six elected active members, three elected retired members and four ex-officio members, which consist of the Chairman of the House & Senate Retirement Committees, State Treasurer and Commissioner of Administration, or their designees, in accordance with applicable law.

II. Statement of Purpose

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

III. Controlling Statutes and Regulation

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

Principal Statutory Investment Provisions

LASERS shall operate under the "Prudent Man" rule, used herein meaning, that when investing, the Board shall exercise the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent institutional investor acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character

and with like aims. (R.S. 11:263) LASERS will apply this standard to the entire fund portfolio, and as part of an overall investment strategy. This will include an asset allocation study and a plan for implementation which will incorporate risk and return objectives reasonably suitable to the fund. The following types of risk are to be examined: market value, credit, interest rate, inflation, counterparty and concentration. The study and implementation of such plan will be designed to preserve and enhance principal over the long term, provide adequate liquidity and cash flow for the system, and minimize the risk of loss unless it is clearly prudent not to do so. (R.S. 11:263.C)

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

Other Statutory Provisions

When contemplating any investment, action or asset allocation the Board shall consider the following factors:

- The availability of public pricing to value each investment
- The ability to liquidate each investment at a fair market price within a reasonable time frame for the size of investment that is being considered
- The degree of transparency that accompanies each investment
- The risk of fluctuations in currency that may accompany each investment
- The experience of the professionals who will manage each investment and the financial soundness of the business entity employing such professionals
- The degree of diversification which exists within each investment and that such investment itself may provide relative to the other existing investments in the portfolio
- Whether leverage is involved
- The potential for unrelated business taxable income as defined in Section 512 of the Internal Revenue Code
- The jurisdiction of the laws that govern each investment
- The net return that is expected relative to the risk that is associated with each investment (R.S. 11:263.D)

Investment Policy Statement

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

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

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

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

LASERS shall report to the legislature and other Louisiana state and statewide retirement systems on a quarterly basis investment returns and expenses on a total fund and asset class basis for the quarter, fiscal year-to-date, one year, three year, five year, and ten year periods. This will include at a minimum, the following:

- Investment returns net of fees and expenses expressed as a percentage return and dollar amount
- Administrative expenses
- Board-approved target/current asset allocation (R.S. 11:263.G)

LASERS shall report to the legislature on a semiannual basis investment in any company having facilities or employees or both located in a prohibited nation. A prohibited nation is considered to be one of the following: Iran, North Korea, Sudan or Syria. (R.S. 11:312)

Details for this reporting requirement are listed under the Semi-Annual Reporting Requirements under the Prohibited Nations Report in Section XII of these guidelines.

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

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

LASERS shall report to the legislature on a quarterly and annual basis its use of Louisiana broker dealers on specified transactions. (R.S. 11:266.1) Details for this reporting requirement are listed under the Quarterly Reporting Requirements under the Broker-Dealer Information in Section XII of these guidelines.

IV. Roles and Responsibilities

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

Board of Trustees

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

- **Formal Review Schedule**

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

Investment Policy Statement

Investment Committee

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

1. Asset Allocation
 - a. Establishing the asset allocation policy for the portfolio, including target percentages and ranges.
 - b. Approving asset classes for inclusion in the portfolio.
 - c. Establishing the structure of the portfolio, including the funds to be allocated to active/passive portfolios and internal/external managers.
2. Asset Management
 - a. Hiring, retaining or terminating investment managers, consultants, custodians and securities lending agents based on established evaluation processes.
3. Risk Control
 - a. Ensuring that appropriate investment policies are in place, along with compliance of policies and directives.
 - b. Continue to be aware of information on compliance with Securities and Exchange Commission (SEC) rules on pay to play practices.
4. Monitoring
 - a. Establishing performance benchmarks and expectations.
 - b. Monitoring the performance of investments.

Chief Investment Officer

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

evaluation, and any other analysis associated with the proper execution of the Board's directives.

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

Investment Consultant

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

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

Investment Managers

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

- Investing the assets under its management in accordance with the policy guidelines and objectives expressed herein
- Meeting or exceeding the manager-specific benchmarks, net of all fees and expenses, expressed herein over various and appropriately measured time periods
- Exercising investment discretion within the guidelines and objectives stated herein. Such discretion includes decisions to buy, hold or sell securities in amounts and

Investment Policy Statement

proportions reflective of the manager's current investment strategy and compatible with the investment objectives

- Complying with all provisions pertaining to the investment manager's duties and responsibilities as a fiduciary
- Complying with the CFA Institute's Code of Ethics & Standards of Professional Conduct and Global Investment Performance Standards (GIPS)
- Disclosing all conflicts and potential conflicts of interest
- Ensuring that all portfolio transactions are made on a "best execution" basis
- Exercising ownership rights, where applicable
- Meeting with the Board as needed upon request of the Board, and timely submitting all required reports outlined in Section XII of these guidelines
- Promptly informing the Board regarding all significant matters pertaining to the investment of the fund assets, for example:
 - Changes in investment strategy, portfolio structure and market value of managed assets
 - Changes in the ownership affiliations, organizational structure, financial condition, professional personnel staffing and clientele of the investment management organization
 - Any material changes in the liquidity of the securities they hold in the LASERS portfolio
 - Campaign contributions made by executives or employees to elected officials who can influence selection decisions
- Initiating written communication with the Board when the manager believes that this Investment Policy is inhibiting performance and/or should be altered for any valid reason. No deviation from the guidelines and objectives established in the

Policy is permitted until after such communication has occurred and the Board has approved such deviation in writing

- Reconciling performance, holdings and security pricing data with the Fund's custodian bank. If the Fund's custodian bank shows a significantly different price for a given security, the manager should work with the custodian bank to resolve pricing differences. Managers shall provide to LASERS staff a summary of reconciled holdings both in hard copy and the electronic format of LASERS choosing
- Any other duties included in the contract

Custodian Bank

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

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

- Holding System assets directly, through its agents, its sub-custodians, or designated clearing systems
- Registration of System assets in good delivery form, collection of income generated by those assets, and any corporate action notification
- Delivery and receipt of securities
- Disbursement of all income or principal cash balances as directed
- Providing daily cash sweep of idle principal and income cash balances. Dividends, interest, proceeds from sales, new contributions and all other monies are to be invested or reinvested promptly
- Providing online records and reports
- Providing monthly statements by investment managers' accounts and a consolidated statement of all assets

Investment Policy Statement

- Providing monthly performance reports and quarterly performance analysis reports
- Notifying appropriate entities of proxies
- Accepting daily instructions from designated investment staff
- Resolving any problems that staff may have relating to the custodial account
- Providing a dedicated account representative and back up to assist the LASERS staff in all needs relating to the custody and accountability of the Fund's assets
- Managing the securities lending program (if applicable)
- Overseeing securities class actions on behalf of the System
- Providing a compliance monitoring system
- Any other duties and services included in the contract

V. Investment Objectives

Nominal Return Requirements

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

The actuarially expected total rate of return for the Fund is 7.75% annually. However, LASERS seeks to achieve returns greater than 8.0%.

Relative Return Requirements

LASERS seeks to have total returns rank in the top half of the appropriate public fund universe, reflecting similar circumstances to the Fund. The total fund return should, over time, exceed the Policy and Allocation Indices (see Section VI for a description of how the

Policy and Allocation Indices are calculated.) Returns for LASERS managers should exceed their respective benchmarks, as well as rank in the top half of the appropriate universe of managers adhering to the same investment strategy.

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

VI. Performance Benchmarks

Total Fund Return

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

Allocation Index

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

Policy Index

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

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Manager Benchmarks

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

VII. Asset Allocation

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

Asset Classes

The current allocation includes the following asset classes:

Traditional Assets

- Domestic Equity
- Domestic Fixed Income
- International Equity
- Emerging Market Equity
- Emerging Market Debt
- Global Fixed Income

Non-Traditional Assets

- Private Equity Fund of Funds - Domestic and International
- Private Equity Direct Funds - Domestic and International
- Absolute Return - Fund of Funds
- Absolute Return - Direct Funds
- Global Asset Allocation
- Real Assets/Inflation Protection Investments

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

Target Asset Mix

Asset Class	Market Value Target (%)	Minimum Exposure (%)	Maximum Exposure (%)
Equities	57	47	67
Domestic Large Cap	15	10	20
Domestic Mid Cap	4	0	10
Domestic Small Cap	8	3	13
Established International Large Cap	15	5	20
Established International Small Cap	3	0	7
Emerging International Equity	12	7	17
Fixed Income	12	3	22
Core Fixed Income	4	0	10
Domestic High Yield	4	0	10
Opportunistic Credit	2	0	7
Emerging Market Debt	2	0	7
Cash	0	0	5
Alternative Assets	24	14	34
Private Equity	13	5	20
Absolute Return	8	3	13
Real Assets/Inflation Protection Inv.	3	0	7
Other	7	2	12
Global Asset Allocation	7	2	12

Implementation

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

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Style Allocation

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

Active/Passive Mix

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

Rebalancing

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

VIII. Risk Management

It is recognized that risk issues permeate the entire investment process, and risk is considered throughout the investment process from asset allocation to performance evaluation. Ongoing monitoring will be accomplished through a "mosaic" approach, in which various forms of analysis and reporting contribute to the total picture. Inspection of levels of diversification, nominal risk exposures, risk/return plots, sortino ratio, Value at Risk, tracking error, and worst case scenarios modeling form the core of the monitoring process.

Management Team

Cynthia Rougeou - Executive Director

Maris LeBlanc - Deputy Director & Chief Operating Officer

Bernard “Trey” Boudreaux, III – Assistant Director & Chief Administrative Officer

Robert Beale, CFA, CAIA – Chief Investment Officer

Tina Vicari Grant – Executive Council

Investment Team

Robert Beale, CFA, CAIA - Chief Investment Officer

Darren Fournerrat, CFA, CAIA – Assistant Chief Investment Officer

Laney Sanders, CFA, CTP – Assistant Chief Investment Officer

Celeste Funderburk, CCM – Director of Public Markets

Jacques Brousseau, CFA – Director of Private Markets

Alisa Lacombe – Manager of Operations

Reeves Pearce – Manager of Alternative Assets

Caye Weaver – Administrative Assistant

Investment Consultant

NEPC, LLC.

Rhett Humphreys, CFA - Lead Consultant

Custodian Bank

Bank of New York Mellon

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LASERS

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