# Louisiana State Employees' Retirement System

*A Component Unit of the State of Louisiana*

# CAFR 2002

LASERS

# Comprehensive Annual Financial Report

***Fiscal Year Ended June 30, 2002***

LASERS

CAFR2002

# Louisiana State Employees' Retirement System

A Component Unit of the State of Louisiana

## *Comprehensive Annual Financial Report*
## Fiscal Year Ended June 30, 2002

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**Prepared by LASERS staff**

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# INTRODUCTORY SECTION

# Louisiana State Employees' Retirement System

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LASERS

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## Letter of Transmittal

December 31, 2002

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, 2002. This comprehensive report is designed to comply with GASB, FASB, and all reporting standards of the Governmental Financial Officers Association. Effective this year, GASB Statement 34 requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. We believe this CAFR, with the changes required by GASB 34, enhances the presentation of the overall performance of LASERS, (the "System"), to membership and other interested parties.

The responsibility of 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, 2002. 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 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 the independent auditors. See page 16 of this CAFR for a report by our independent auditors on compliance and our internal control structure.

The CAFR is divided into five sections:


Contains the Certificate of Achievement for Excellence in Financial Reporting, the letter of transmittal, administrative organization, and professional service providers.


Contains the report of the Independent Auditors, Management's Discussion and Analysis, the financial statements of the System and certain required supplementary information.


Includes reports on investment activity and results, investment policies, and various investment schedules.


Contains the Actuary's Certification Letter and the results of the annual actuarial valuation.


Includes significant data pertaining to the System.

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

## Pension System History and Structure

The Louisiana State Employees' Retirement System is the administrator of a single employer defined benefit pension plan under Section 401(a) of the Internal Revenue Code. It is a component unit of the State of Louisiana. LASERS' Defined Benefit Plan was established by 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 2002, LASERS had a total of 130,038 active, inactive, and retired members. Funding for LASERS comes from three primary sources: employee contributions, employer contributions, and earnings from investments.

LASERS also provides 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 LASERS' defined benefit plan. The ORP began accepting applications for membership on July 1, 2000, with eligibility redefined in 2002. 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.

A twelve member Board of Trustees (composed of six active members of the retirement system, three retired system 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.

## Major Initiatives

LASERS continues to work on a comprehensive long-term strategic plan for Investments that seeks to enhance its competitive position relative to other state retirement systems. This plan includes a review of LASERS' asset allocation and implementation strategies within each asset class. A key component of the plan is the reduction of investment management fees and brokerage transaction costs as well as the enhancement of internal controls. One step is the renegotiation of fees as contracts with external money managers expire. LASERS' efforts to reduce fees has lead the System to increase its use of low-cost passive investment strategies to reduce the volatility of actual returns with respect to LASERS' policy expected returns. LASERS is taking advantage of its existing resources to manage most of the passive strategies internally, resulting in further cost savings and efficiencies. 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 delivers investment returns superior to most state retirement systems with greater regularity.

In 2001 – 2002, LASERS participated for the first time in a comprehensive effectiveness measurement program for operational activity and costs directly associated with membership and benefit administration. The program required LASERS to provide costs, services, and statistical information at a detailed level by activity area. With the data provided, LASERS was compared to its peers in regards to services and the cost of such services. The results of these type evaluations assist LASERS management in defining goals and objectives.

LASERS' strategic plan also focuses on improved communications and education for members and other interested groups thus enhancing member benefits and services. A program is under development and is scheduled for implementation in 2003 which will increase the ability of LASERS to have personal, on-site visits to its agencies and individual members, thus improving member understanding of LASERS' laws, increasing member opportunity for counseling, expanding and enhancing training, and improving distribution of information to agencies/members.

Utilization of technology to improve overall agency performance continues to be a major initiative of LASERS. Currently an effort to ensure the safety and integrity of system data while improving the efficiency and effectiveness of operations through streamlining processes by integrating core business systems is being finalized. This effort includes the integration and upgrading of membership, financial/accounting, and investment transaction/accounting systems. Training and incremental implementation of the accounting system upgrade is scheduled to begin in Fiscal Year 2003.

LASERS has enhanced its ability to provide services to its membership through the use of the internet. LASERS provided to its members during the past year the ability to access certain member data via the LASERS' website. Additional features to the member access section are planned for Fiscal Year 2003.

A comprehensive re-design of LASERS' disaster recovery plan is in process as of June 30, 2002. The new plan is anticipated to be completed, tested, and implemented during fiscal year 2003.

## 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 LASERS' administrative and operating expenses. The target asset allocation as of June 30, 2002, was 58% equities, 36% fixed income, and 6% alternative assets. The allocation was 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. For the Fiscal Year Ended June 30, 2002, the total market rate of return was (5.63%). LASERS' investment yield on actuarial value of assets over the prior ten years is 8.85%. The investment yield on actuarial value of assets for Fiscal Year Ended June 30, 2002 was (4.40%). LASERS' underperformance for the year is a direct result of deteriorating financial markets, which were caused by terrorist attacks and corporate accounting scandals. However, the results do not reflect the ability of the System to meet current cash requirements for payment of benefits and daily operational expenses because realized income puts the System in a strong position to meet all requirements.

## Financial Condition

LASERS has shown a decrease in investment value during the past two years, a direct reflection of the market worldwide. The result as of June 30, 2002 is a reduction in the overall funded percentage of the fund. This overall funding loss will be made up through future employer contributions as the fund is scheduled, by law, to be fully funded by the year 2029.

However, 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 member contributions and investment earnings such as dividend and interest income. For the year ended June 30, 2002 Operating Revenue totaled $627.7 million with Disbursements totaling $564.0 million. Thus the net Operating Cash Flow is a positive $63.7 million dollars.

In recognition of the current financial environment, LASERS also operated below budgeted amounts for administrative expenses spending only $8.3 million of a budgeted $10.1 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 42 of the CAFR.

## Certification of Achievement

The Government Financial 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, 2001. This was the fifth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government 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 2001. This was the third 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, 2001

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.

President

Executive Director

# BOARD OF TRUSTEES AND PROVIDERS OF PROFESSIONAL SERVICES

As of June 30, 2002

## Board of Trustees



## 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

American Express Asset Management
Aronson + Partners
Brandywine Asset Management
LASERS' S & P 100 Index
LASERS' S & P 400 Index
LASERS' S & P 500 Index
LSV Asset Management
Miller, Anderson & Sherrerd
State Street Global Advisors
Thomson, Horstmann & Bryant
TCW Asset Management
Westfield Capital Management

### International Equity

Delaware International Advisers, Ltd.
Montgomery Asset Management
Nicholas-Applegate Capital Management
Schroder Investment Management North America Inc.
Templeton Investment Counsel, LLC

### International Emerging Market

Schroder Investment Management North America Inc.

### Domestic Fixed Income

Huff Asset Management
Loomis, Sayles and Company
OffitBank
Orleans Capital Management
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

### Private Markets

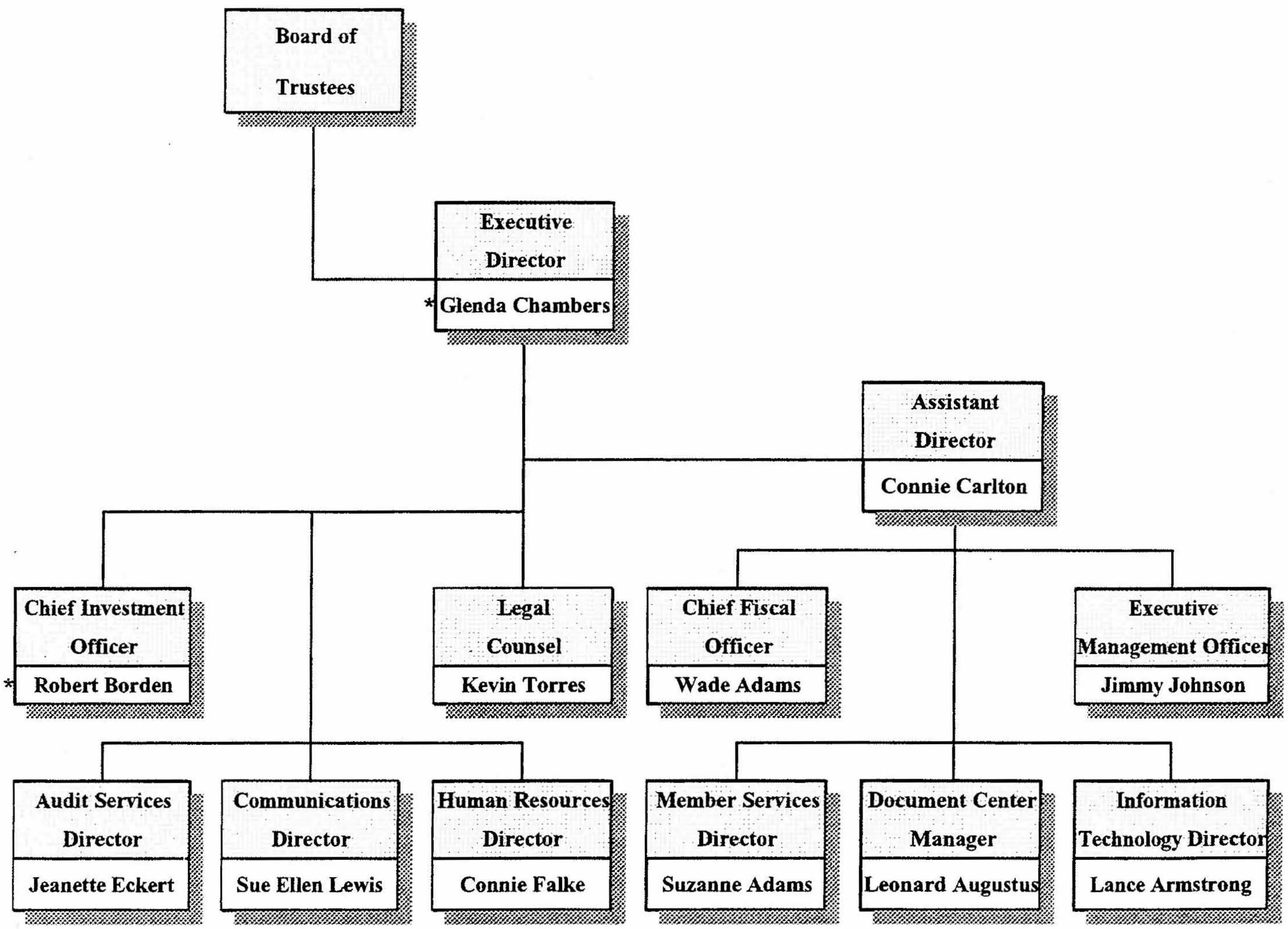
Adams Street Partners
John Hancock Mutual Life
HarbourVest Partners, LLC
Pathway Capital Management
Huff Alternative Fund, L.P.

### Merger Arbitrage

Arnhold & S. Bleichroeder, Inc.
Kellner, DiLeo & Company

A listing of investment managers with return rates are shown on pages 82 through 84 in the Investment Section.

# *LASERS*
## Organizational Chart
in effect on 6/30/02




* Glenda Chambers resigned as Executive Director of LASERS to accept the position of Director of the National Association of State Retirement Administrators. Robert Borden, formerly LASERS' CIO, succeeded her effective August 1, 2002. Robert Beale, former Assistant CIO, was appointed acting CIO.

A second Assistant Director's position was approved as of July 1, 2002.

# FINANCIAL SECTION

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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, 2002 and 2001, 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, 2002 and 2001, 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 6, 2002, 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 supplementary information on pages 17-20 and 39-40, respectively, are not a required part of the basic financial statements but is 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 42 through 45 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.

Postlethwaite & Netterville

Baton Rouge, Louisiana
September 6, 2002 (except as to information in Note G, which the date is November 15, 2002)

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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, 2002, and have issued our report thereon dated September 6, 2002. 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.

Postlethwaite & Netterville

Baton Rouge, Louisiana
September 6, 2002



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# Louisiana State Employees' Retirement System

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## 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, 2002. We encourage readers to consider the information presented here in conjunction with additional information furnished in the Transmittal Letter, which can be found on pages 5 through 8 of this Comprehensive Annual Financial Report (CAFR).

### Financial Highlights

* As of Fiscal Year Ended June 30, 2002, LASERS' Plan Net Assets held in Trust for the payment of benefits were $5,619,878,234, a decrease of $463,775,843, or about 7.6%, from the prior year. The primary causes of the decrease were the rise in benefit payments and the decline in the financial markets that impacted LASERS' investment performance. All of the Plan Net Assets are available to meet LASERS' ongoing obligations to its members, retirees and beneficiaries.

* In 2002, LASERS' total revenue (Additions to Plan Assets) for the year was $82,972,885 compared to a loss of $7,002,649 in 2001. The net positive revenue consisted of employer and employee contributions totaling $407,430,201 and miscellaneous income of $14,658,709 less net investment losses (including manager fees) of $339,116,025.

* Expenses (Deductions in Plan Assets) for Fiscal Year Ended June 30, 2002 were $546,748,728, an increase of $44,091,314, or approximately 8.8%, from the prior year. The increase was primarily due to an increase in the number of retirees, an increase in benefit payments as a result of an increase in the average retirement benefit and Cost of Living Adjustments (COLAs). 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 Fiscal Year Ended June 30, 2002, the actuarial funded ratio of assets to liabilities is 70.2%. This ratio means that LASERS currently has about 70 cents for every dollar of future benefits to be paid to State Employees.

### Overview of the Financial Statements

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

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

***The Comparative Statement of Changes in Plan Net Assets***, on the other hand, 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 report plan investment assets at their fair value and 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 Statement of Plan Net Assets and the Comparative Statement 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 24 in the Financial Section of this CAFR.)

***Required Supplementary Information*** provides additional information and detail concerning LASERS' progress in funding its obligations, the history of employers' contributions and schedules of trend data. (See *Required Supplementary Information* beginning with Note G, page 37, of CAFR.)

The ***Supporting Schedules*** section includes the schedules of administrative expenses, investment manager fees and other investment expenses, and payments to consultants. (See *Supporting Schedules* in the Financial Section 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 is one indicator of 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, 2002, totaled $5,619,878,234. All of the Plan Net Assets are available to meet LASERS' ongoing obligations to members, retirees and beneficiaries (See Table 1 below).

LASERS' Plan Net Assets held in trust for the payment of benefits has steadily increased over the past decade until the Fiscal Year Ended June 30, 2001, when there was a downturn in the investment market.

In the Fiscal Year Ended June 30, 2002, Plan Net Assets decreased by $463,775,843, or 7.6%, due primarily to increases in benefit payments and declines in investment earnings. Despite volatility in the financial markets, LASERS remains in a strong financial position to meet its obligations to LASERS' members, retirees and beneficiaries with a positive net operating cash flow of $63.7 million during the fiscal year. LASERS constantly reviews its asset allocation strategies and makes minor adjustments in order to maximize return while maintaining adequate liquidity. LASERS is a long term investor in the market and believes, based on history, that such a strategy is prudent and profitable.

**Table 1 - LASERS' Plan Net Assets**

| | 2002 | 2001 | Increase/ (Decrease) Amount | Percentage Change |
|---|---|---|---|---|
| *Cash* | $ 30,376,173 | $ 76,140,068 | $( 45,763,895) | ( 60.1%) |
| *Receivables* | 128,858,025 | 333,163,135 | ( 204,305,110) | ( 61.3%) |
| *Investments, at Fair Value* | 5,529,534,953 | 5,849,323,373 | ( 319,788,420) | ( 5.5%) |
| *Capital Assets* | 6,155,527 | 5,936,956 | 218,571 | 3.7% |
| **Total Assets** | **5,694,924,678** | **6,264,563,532** | **( 569,638,854)** | **( 9.1%)** |
| **Total Liabilities** | **75,046,444** | **180,909,455** | **( 105,863,011)** | **( 58.5%)** |
| **LASERS' Plan Net Assets** | **$5,619,878,234** | **$6,083,654,077** | **$( 463,775,843)** | **( 7.6%)** |

**LASERS' Activities**

Declines in the market value of invested assets and increases in benefit payments as a result of COLAs and more retirees decreased Plan Net Assets by $463,775,843, a 7.6% decrease in Plan Net Assets from June 30, 2001. Key elements of this decrease 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, 2002, totaled $82,972,885 (See Table 2 following.)

**Table 2 - Contributions and Investment Earnings**

| | 2002 | 2001 | Increase/ (Decrease) Amount | Percentage Change |
|---|---|---|---|---|
| Employer Contributions | $ 256,079,880 | $ 245,213,071 | $ 10,866,809 | 4.4% |
| Employee Contributions | 151,350,321 | 144,603,488 | 6,746,833 | 4.7% |
| Investment Loss * | (339,116,025) | (408,921,855) | 69,805,830 | 17.1% |
| Miscellaneous | 14,658,709 | 12,102,647 | 2,556,062 | 21.1% |
| **Total** | **$ 82,972,885** | **$( 7,002,649)** | **$ 89,975,534** | **1284.9%** |

* Net of investment manager fees of $17,213,862 and $18,916,270 for June 30, 2002, and June 30, 2001.

Although investments again had a loss this year as the result of realized and unrealized gains and losses incurred during the year, revenues had a net increase of $89,975,534 from the prior year. The Investment Section of this CAFR provides more detail concerning the investment activity for the Fiscal Year Ended June 30, 2002. Contributions increased as a result of higher annual payroll overall as contribution percentages remained constant.

**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 cost of administering LASERS.

Deductions for the Fiscal Year Ended June 30, 2002, totaled $546,748,728, an increase of approximately 8.8% over June 30, 2001 (see table 3 below). The increase in benefits paid resulted from an increase in retirees, an increase in the average benefit caused by higher average salary history of the newer retirees, and the payment of a new COLA. Deductions of $546,748,728, together with the revenue gain of $82,972,885, resulted in a net reduction of $463,775,843.

**Table 3 - Benefit Payments and Other Expenses**

| | 2002 | 2001 | Increase/ (Decrease) Amount | Percentage Change |
|---|---|---|---|---|
| Benefit Payments | $498,392,717 | $452,637,691 | $ 45,755,026 | 10.1% |
| Administrative Expense | 8,315,745 | 7,644,230 | 671,515 | 8.8% |
| Refund of Contributions | 31,391,355 | 36,147,087 | ( 4,755,732) | ( 13.2%) |
| Other Expenses | 8,648,911 | 6,228,406 | 2,420,505 | 38.9% |
| **Total** | **$546,748,728** | **$502,657,414** | **$ 44,091,314** | **8.8%** |

## Requests 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 to show accountability for the funds it receives. It is available in state libraries across the state of Louisiana with excerpts available on the Louisiana State Employees' Retirement Systems' web site at www.lasers.state.la.us.

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

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

December 31, 2002

# General Purpose Financial Statements

# June 30, 2002 and 2001

## STATEMENT OF PLAN NET ASSETS
## JUNE 30, 2002 AND 2001

| | 2002 | 2001 |
|---|---|---|
| **ASSETS** | | |
| Cash and Cash Equivalents (at fair value) | $30,376,173 | $76,140,068 |
| Receivables: | | |
| Employer Contributions | 17,522,409 | 27,747,495 |
| Member Contributions | 10,357,319 | 16,366,170 |
| Interest and Dividends | 36,203,481 | 36,006,907 |
| Investment Proceeds | 38,047,506 | 239,072,627 |
| Open Investment Contracts | 25,434,232 | 12,871,982 |
| Other | 1,293,078 | 1,097,954 |
| Total Receivables | 128,858,025 | 333,163,135 |
| Investments (at fair value): | | |
| Short-term Investments - Domestic | 72,507,610 | 110,091,497 |
| U. S. Government Obligations | 595,267,182 | 537,366,044 |
| Bonds/Fixed Income - Domestic | 957,872,777 | 929,814,504 |
| Bonds/Fixed Income - International | 397,260,619 | 372,990,517 |
| Equity Securities - Domestic | 2,355,436,089 | 2,604,007,258 |
| Equity Securities - International | 830,420,395 | 914,885,208 |
| Real Estate Investments | 30,322,010 | 37,808,564 |
| Alternative Investments | 290,448,271 | 342,359,781 |
| Total Investments | 5,529,534,953 | 5,849,323,373 |
| Property and Equipment: | | |
| Land | 889,816 | 889,816 |
| Building and Improvements | 5,054,298 | 4,892,729 |
| Equipment | 8,245,319 | 7,960,736 |
| | 14,189,433 | 13,743,281 |
| Accumulated Depreciation | (8,033,906) | (7,806,325) |
| Total Property and Equipment | 6,155,527 | 5,936,956 |
| **TOTAL ASSETS** | 5,694,924,678 | 6,264,563,532 |
| **LIABILITIES** | | |
| Investment Commitments Payable | 44,695,381 | 160,693,460 |
| Accounts Payable - Open Investment Contracts | 25,434,232 | 12,871,983 |
| Accounts Payable and Other Accrued Liabilities | 4,916,831 | 7,344,012 |
| **TOTAL LIABILITIES** | 75,046,444 | 180,909,455 |
| **NET ASSETS HELD IN TRUST FOR PENSION BENEFITS** | $5,619,878,234 | $6,083,654,077 |

(A schedule of funding progress is presented on page 39)

The accompanying notes are an integral part of these statements.

## STATEMENT OF CHANGES IN PLAN NET ASSETS
## FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

| | 2002 | 2001 |
|---|---|---|
| **ADDITIONS** | | |
| Contributions: | | |
| Employer Contributions | $256,079,880 | $245,213,071 |
| Member Contributions | 151,350,321 | 144,603,488 |
| Total Contributions | $407,430,201 | $389,816,559 |
| Investment Income: | | |
| Net Depreciation in Fair Value of Investments | (527,517,733) | (597,053,396) |
| Interest and Dividends | 200,382,468 | 204,083,221 |
| Other Investment Income | 5,233,102 | 2,964,590 |
| | (321,902,163) | (390,005,585) |
| Less Investment Expense | 17,213,862 | 18,916,270 |
| Net Investment Income | (339,116,025) | (408,921,855) |
| Other Income | 14,658,709 | 12,102,647 |
| Total Additions/(Deductions) | 82,972,885 | (7,002,649) |
| **DEDUCTIONS** | | |
| Retirement Benefits | 498,392,717 | 452,637,691 |
| Refunds of Member Contributions | 31,391,355 | 36,147,087 |
| Administrative Expenses | 8,315,745 | 7,644,230 |
| Other | 8,648,911 | 6,228,406 |
| Total Deductions | 546,748,728 | 502,657,414 |
| **NET INCREASE (DECREASE)** | (463,775,843) | (509,660,063) |
| **NET ASSETS HELD IN TRUST FOR PENSION BENEFITS** | | |
| Beginning of Year | 6,083,654,077 | 6,593,314,140 |
| End of Year | $5,619,878,234 | $6,083,654,077 |

The accompanying notes are an integral part of these 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 June 1991, the Governmental Accounting Standards Board issued 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 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, 2002 and 2001 follows:

| | 2002 | | 2001 | |
|---|---|---|---|---|
| Type of Employer | Number of Employers | Number of Members | Number of Employers | Number of Members |
| State Agencies | 217 | 64,385 | 211 | 64,256 |
| Other Public Employers | 128 | 307 | 140 | 263 |
| | 345 | 64,692 | 351 | 64,519 |
| Type of Active Members | | | | |
| Regular State Employees | | 58,474 | | 58,197 |
| Corrections Employees | | 5,620 | | 5,729 |
| Judges | | 322 | | 315 |
| Wildlife Agents | | 209 | | 209 |
| Legislators | | 67 | | 69 |
| Total Active Members | | 64,692 | | 64,519 |

**A. PLAN DESCRIPTION** (continued)

**Plan Membership** (continued)

At June 30, 2002 and 2001, membership consisted of:

| | 2002 | 2001 |
|---|---|---|
| Retirees and beneficiaries currently receiving benefits | 31,887 | 30,992 |
| Terminated vested employees not yet receiving benefits | 1,245 | 1,300 |
| Deferred retirement option plan participants | 2,635 | 2,365 |
| Terminated non-vested employees who have not withdrawn contributions | 29,579 | 28,223 |
| Current active members | 64,692 | 64,519 |
| | 130,038 | 127,399 |

**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 thirty years of creditable service, to age sixty 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 thirty-six 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 five 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. **PLAN DESCRIPTION** (continued)

**DEFINED BENEFIT PLAN - Retirement** (continued)

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 contributions. The minimum service requirement for benefits varies depending upon the member's employer and service classification but generally is 10 years of service.

**Deferred Benefits**

The state legislature authorized the Louisiana State Employees' Retirement System 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. During the DROP participation period, the retiree's retirement benefits are paid into a special account. The election is irrevocable once participation begins. 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 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.

**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 eighteen, or age twenty-three 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.

A. **PLAN DESCRIPTION** (continued)

**DEFINED BENEFIT PLAN** (continued)

**Supplemental Benefit Adjustments**

Current Statutes allow the Board of Trustees to make annual supplemental cost-of-living adjustments each year only when the actuary for the System and the State Legislative Actuary certify that LASERS is systematically approaching actuarial soundness and if such cost-of-living adjustments are not enacted by the legislature. The cost-of-living adjustments may not exceed more than 3% in any year. These adjustments are computed on the base retirement or survivors' benefit. Benefit increases have occurred under the Statutes in various years since 1970 and have been limited to the 3% amount. In addition, several other cost-of-living adjustments 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. The last cost-of-living adjustment from this source was granted on September 1, 1991.

Previously, legislation was passed which established a funding mechanism for future cost-of-living adjustments for retirees. An Employee Experience Account was created to set aside a portion of net experience gain as determined by LASERS' actuary. Funds accrue in the account until such time as there are sufficient amounts to grant a cost-of-living adjustment. The balance in this account was approximately $(270,929,581) and $184,023,157 at June 30, 2002 and 2001, respectively.

**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 the Louisiana State Employees' Retirement System. The effective date of the Plan 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. Basic eligibility and purpose of ORP remained unchanged. There was a sunset provision change 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, have 90 days from their date of appointment to make the election.

The Plan 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. 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 provisions 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.

A. **PLAN DESCRIPTION** (continued)

**DEFINED CONTRIBUTION COMPONENT - Optional Retirement Plan** (continued)

Eligible employees may make a voluntary irrevocable election to participate in the ORP rather than the Defined Benefit Plan (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, 2002, the number of participants in the ORP is 48. 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 that would have been contributed in the DBP. For the year ended June 30, 2002 the employer rate was 13%. In 2002, the employer rate included the normal employer cost for employee of 6.3126% and the Unfunded Liability percentage equaled 6.6874%. The total amount retained by the System during the fiscal year for the Unfunded Liability was $241,424.

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 contributions 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

B. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Method Used to Value Investments** (continued)

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.

LASERS is a 50% co-owner of the Louisiana Retirement Systems building and related land with Teachers' Retirement System of Louisiana. During the course of the year, leases were held with the following organizations that are included within the State of Louisiana as reporting entities:

Ethics Commission
Municipal Fire and Police Civil Service

The only lease maintained as of June 30, 2002, is with the Ethics Commission.

**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 in the financial statements when earned.

C. **CONTRIBUTIONS**

**Member Contributions**

Member contribution rates for the System are established by Louisiana Revised Statute 11:62. Member contributions are deducted from their salary and remitted to the System by participating employers. The rates in effect during the Fiscal Years ended June 30, 2002 and 2001, for the various types of members are as follows:

C. CONTRIBUTIONS (continued)

**Member Contributions** (continued)

| Type | % of Earned Compensation | |
|---|---|---|
| | 2002 | 2001 |
| 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 and Bridge Police employees | 8.5% | 8.5% |
| All others | 7.5% | 7.5% |

A savings account 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 will 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 Louisiana Revised Statutes 11:101-11:104 annually by the Actuarial Forecasting Committee as shown below for the Fiscal Years ended June 30, 2002 and 2001.

| | 2002 | 2001 |
|---|---|---|
| Percent of members' earned compensation | 13.0% | 13.0% |

The State's pension cost and net pension obligation to LASERS for the Fiscal Year ended June 30, 2002 is as follows:

| | |
|---|---|
| Actuarial required contribution | $ 279,119,335 |
| Interest on net pension obligation | ( 693,346) |
| Adjustment to annual required contribution | 3,365,326 |
| Annual pension cost-interest adjusted to end of year | 281,791,315 |
| Contributions made | (271,339,452) |
| Increase (decrease) in net pension obligation | 10,451,863 |
| Net pension obligation beginning of year | ( 8,404,193) |
| Net pension obligation end of year | $ 2,047,670 |

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.

C. **CONTRIBUTIONS** (continued)

**Three-Year Trend Information**

| Fiscal Year Ending | Annual Pension Cost (APC) (Value at Midyear) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| 6/30/00 | 254,123,833 | 98.4 | (8,500,260) |
| 6/30/01 | 260,125,807 | 100.0 | (8,404,197) |
| 6/30/02 | 281,791,315 | 96.3 | 2,047,670 |

**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 member's current system. The transferring system is required to transfer to 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 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**

**Cash and Cash Equivalents**

Cash and cash equivalents include cash deposited in banks and short term repurchase agreements. This amount is insured by the Federal Deposit Insurance Corporation up to $100,000 and is collateralized by the pledge of government securities held by the agents in the entity's name.

**Investments**

The investment powers of LASERS are authorized by State Statute. Title 11, Section 717 of the Louisiana Revised Statutes 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. The revised statutes also prohibit the system from investing more than 65% of its total portfolio in common stock. 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 providing an appropriate return for participants. LASERS' assets are divided among investment managers who were given a policy statement that established a real rate of return of at least 4% per annum in excess of the rate of inflation as measured by the consumer price index. The following summarizes the types of permissible investments under such objectives, rules and guidelines as of June 30, 2002.

D. **CASH AND INVESTMENTS** (continued)

**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), Stock Performance Index Futures Fund (SPIFF) and Yield Plus Fund of the Custodian Bank or negotiable certificates of deposit, or other short-term investment vehicles designated by the Board.

**Domestic Equity Securities**

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 Stock Performance Index Futures Fund, a Commingled Equity Trust of the custodian bank to maintain equity exposure with the liquidity of a money market fund. 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 Depositary Receipts (ADR's), which are dollar denominated foreign securities traded on the domestic U.S. stock exchanges 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 the common stocks underlying them meet the aforementioned required equity standards.

**Domestic Debt Securities**

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). 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.

**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.

**D. CASH AND INVESTMENTS** (continued)

**International Investments** (continued)

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' portfolio, or 150% of a stock's weighing 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 fair value, in the debt securities of any single foreign government or government entity. No single non-government debt security shall constitute more than 6% of the global bond portfolio at market value.

**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.

The Board specifically authorizes the purchase of real estate related debt securities as a portion of the debt securities portfolio to include securities issued by FNMA, FHLMC, and GNMA. Purchases other than those guaranteed by federal agencies cited above must be rated AAA by Standard and Poor's or Aaa by Moody's. LASERS' long-term strategic allocation plan does not include non-direct real estate. As current real estate investments are liquidated, they are being re-deployed as needed throughout the rest of LASERS asset allocation.

Real estate investments consist of separate investments in commingled funds that develop and own commercial real estate in various metropolitan areas of the U.S. Income from these investments will consist of changes in market values of the underlying properties, lease income and capital gains.

**Alternative Investments**

Investments in alternative investments, including limited partnership agreements, private capital markets, venture capital and mezzanine debt, shall be limited to an initial investment value at market value of no more than 6% 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.

**Other**

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

**D. <u>CASH AND INVESTMENTS</u>** (continued)

**<u>Derivatives</u>**

LASERS invests in various mortgage-backed securities such as interest-only strips and principal-only strips. LASERS invests in interest-only strips in part to maximize yields and in part to hedge against a rise in interest rates. These securities are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to pre-payment by mortgagees, which may result from a change in interest rates. For example, if interest rates decline and homeowners refinance mortgages, thereby pre-paying the mortgage underlying these securities, the cash flows from interest payments are reduced and the value of these securities declines.

Conversely, if homeowners pay on mortgages longer than anticipated, the cash flows are greater and the return on the investment would be higher than anticipated.

LASERS invests in principal-only strips in part to maximize yields and in part to hedge against a decline in interest rates. These securities are based on cash flows from principal payments on underlying mortgages. Therefore, they are sensitive to a rise in interest rates, which cause the collection of principal payments to be extended longer than anticipated. Conversely, if interest rates decline and homeowners refinance mortgages, thereby pre-paying the mortgages underlying these securities, the principal payments would be earlier than anticipated.

LASERS enters into contractual commitments involving financial instruments with off-balance-sheet risk. These financial instruments include forward contracts, futures contracts and options contracts and are entered into to hedge against foreign exchange rate risk.

Forward and futures contracts are for the delayed delivery of securities and/or currencies in which the seller agrees to make delivery at a specified future date at a specified price or yield for cash. Risks arise from the possible inability of counterparties to meet the terms of contracts and from movements in market values and interest rates.

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 financial instruments underlying the option and the risk that a counterparty is unable to perform in accordance with the terms of the option.

**<u>General</u>**

All investments of the System are registered in the System's name, or held by the custodial bank or its intermediaries in the System's name. The System's investments at June 30, 2002 and 2001 are categorized herein following to give an indication of the level of risk assumed by the entity. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or its trust department or agent but not in the System's name. As shown on the following schedule, the categorization for investments held at June 30, 2002, was the same as investments held at June 30, 2001:

**D. CASH AND INVESTMENTS** (continued)

**General** (continued)

| | Category 1 | Category 2 | Category 3 | Carrying Amount (Fair Value) 6/30/02 | Carrying Amount (Fair Value) 6/30/01 |
|---|---|---|---|---|---|
| U.S. Gov't Obligations - Bonds | $ 544,265,971 | - | - | $ 544,265,971 | 502,937,255 |
| U.S. Gov't Obligations - Notes | 51,001,211 | - | - | 51,001,211 | 34,428,789 |
| Bonds/Fixed Income - Domestic | 957,872,777 | - | - | 957,872,777 | 929,814,504 |
| Bonds/Fixed Income - International | 384,409,691 | - | - | 384,409,691 | 356,082,316 |
| Equity Securities - Domestic | 2,305,042,798 | - | - | 2,305,042,798 | 2,523,476,803 |
| Equity Securities - International | 504,310,871 | - | - | 504,310,871 | 577,656,526 |
| Total Categorized | $ 4,746,903,319 | - | - | 4,746,903,319 | 4,924,396,193 |
| Short-term Investment Pool - Domestic | | | | 72,507,610 | 110,091,497 |
| Bonds/Fixed Income - International Commingled Index Fund | | | | 12,850,928 | 16,908,201 |
| Equity Securities - Domestic - Commingled Trust | | | | 27,374,420 | 36,270,304 |
| Equity Securities - Domestic - Commingled Index Fund | | | | 23,018,871 | 44,260,151 |
| Equity Securities - International - Commingled | | | | 326,109,524 | 337,228,682 |
| Real Estate Investments | | | | 30,322,010 | 37,808,564 |
| Alternative Investments | | | | 290,448,271 | 342,359,781 |
| Total Investments | | | | $ 5,529,534,953 | $ 5,849,323,373 |

In addition to publicly traded equities, LASERS has entered into limited partnership agreements with different strategies that invest in real estate properties, domestic private equity, international private equity, and mezzanine debt. By making these investments, LASERS is seeking to attain investment returns of at least 13%. The total commitments were approximately $654,200,000 and $573,500,000 as of June 30, 2002 and 2001 respectively. The total amount funded as of June 30, 2002 and 2001 on a cost basis was $329,748,504 and $353,471,733, respectively.

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. (See Note E).

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.

**D. CASH AND INVESTMENTS** (continued)

**General** (continued)

During Fiscal Year 2002, the System's investments (including investments bought, sold, as well as held during the year) depreciated in value by $527,517,734 compared to a depreciation of $597,053,396 in the System's investments in 2001.

This depreciation includes the following:

| | 2002 | 2001 |
|---|---|---|
| Decrease in fair value of investments held at year end | $( 330,061,235) | $( 594,652,672) |
| Realized losses on investments including currency sold during the year | ( 197,456,499) | ( 2,400,724) |
| | $( 527,517,734) | $( 597,053,396) |

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 was included in the net appreciation (depreciation) reported in the prior year(s).

**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 Street as custodian and received cash (both United States and foreign currency), 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) 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, 102% of the market value of the loaned securities; and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

E. **SECURITIES LENDING PROGRAM** (continued)

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 by the custodian, at its sole discretion, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool managed by the custodian. Income from the cash invested is allocated among the borrower, custodian bank, and the System per contractual arrangement. No direct costs are incurred by the System. The average duration of such investment pool as of June 30, 2002 was 70 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, 2002, the System had no credit risk exposure to borrowers. The collateral held and the market values of securities on loan for the System as of June 30, 2002, were $366,061,702 and $352,330,786, respectively. Market value of securities, by type, lent as of June 30, 2002, were Government and Agency securities of $26,527,804; Domestic equities of $158,510,726; Domestic fixed income of $54,734,836; International equities of $97,984,027 and International fixed income of $14,573,393.

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, per GASB 28, Paragraph 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.

G. **REQUIRED SUPPLEMENTARY INFORMATION**

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

The System discovered an error in its actuarial information subsequent to the original issuance of the financial statements. These financial statements include the corrections. The error was an understatement of the actuarial accrued liability by $166,329,000 at June 30, 2002. The reissued financial statements have corrected this error by changing information on page 39 and Management's Discussion and Analysis on page 17.

# REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF FUNDING PROGRESS**
**FOR THE SIX YEARS ENDED JUNE 30, 2002**
**(Dollar amounts in thousands)**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| 6/30/97 | 4,537,917 | 6,489,361 | 1,951,444 | 69.9% | 1,607,371 | 121.4% |
| 6/30/98 | 5,067,795 | 6,953,096 | 1,885,301 | 72.9% | 1,653,863 | 114.0% |
| 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 | 6,460,594 | 9,206,734 | 2,746,140 | 70.2% | 1,861,887 | 147.5% |

The total actuarial accrued liability determined using the Projected Unit Credit cost method increased by $554,143,604 from June 30, 2001 to June 30, 2002. There was a net experience loss of $449,748,199 after allocating $394,359,141 of deficit investment income to the Experience Account in accordance with Act 1031. A COLA was granted to retirees on July 1, 2002, which reduced the Experience Account $52,489,938.

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**
**FOR THE SIX YEARS ENDED JUNE 30, 2002**

| Year Ended June 30 | Annual Required Contribution | Percentage Contributed |
|---|---|---|
| 1997 | 212,221,189 | 98.4% |
| 1998 | 221,933,246 | 104.9% |
| 1999 | 226,387,848 | 102.1% |
| 2000 | 250,678,505 | 99.8% |
| 2001 | 258,281,738 | 100.7% |
| 2002 | 279,119,335 | 97.2% |

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

## ACTUARIAL METHODS AND ASSUMPTIONS
## JUNE 30, 2002

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, 2002 |
| Actuarial cost method | Projected unit credit |
| Amortization method | Level percentage of payroll, increasing annuity to 2029 |
| Remaining amortization period | 27 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 |
| 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 (1981-1986) experience study of the System's members. |
| Salary increases | Salary increases which range between 4.00% and 11.75% were projected based on a five year (1981-1986) experience study of the System's members. |
| Cost-of-living adjustments | Liability for raises already granted is included in the retiree reserve. |

# SUPPORTING SCHEDULES

# SCHEDULES OF ADMINISTRATIVE AND INVESTMENT EXPENSES - BUDGET AND ACTUAL

## FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

| | 2002 | | | 2001 | | |
|---|---|---|---|---|---|---|
| | Actual | Budget | Variance Favorable (Unfavorable) | Actual | Budget | Variance Favorable (Unfavorable) |
| Administrative Expenses: | | | | | | |
| Salaries and Related Benefits | $ 5,446,433 | $ 5,775,957 | $ 329,524 | $ 4,672,273 | $ 5,673,348 | $ 1,001,075 |
| Travel | 214,524 | 322,003 | 107,479 | 160,763 | 291,612 | 130,849 |
| Operating Services | 1,811,093 | 2,955,298 | 1,144,205 | 1,746,768 | 2,522,404 | 775,636 |
| Supplies | 135,698 | 167,250 | 31,552 | 250,030 | 306,080 | 56,050 |
| Professional Services | 707,997 | 879,549 | 171,552 | 814,396 | 1,421,210 | 606,814 |
| Capital Acquisitions | 504,847 | 591,457 | 86,610 | 933,843 | 1,714,816 | 780,973 |
| Total Budget and Actual Expenditures | $ 8,820,592 | $ 10,691,514 | $ 1,870,922 | $ 8,578,073 | $ 11,929,470 | $ 3,351,397 |
| Capitalization of Capital Outlay | (504,847) | (591,457) | (86,610) | (933,843) | (1,714,816) | (780,973) |
| Total Administrative Expenses | $ 8,315,745 | $ 10,100,057 | $ 1,784,312 | $ 7,644,230 | $ 10,214,654 | $ 2,570,424 |
| Investment Expenses | $ 17,213,862 | $ 24,187,029 | $ 6,973,167 | $ 18,916,270 | $ 21,921,013 | $ 3,004,743 |
| Depreciation Expense * | $ 437,711 | $ - | N/A | $ 696,447 | $ - | N/A |

*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, 2002 AND 2001

| | 2002 | | | 2001 | | |
|---|---|---|---|---|---|---|
| | Board Meetings Attended | Other Meeting Days | Amount | Board Meetings Attended | Other Meeting Days | Amount |
| Cynthia Bridges | 7 | 12 | $ 1,425 | 11 | 4 | $ 1,125 |
| Virginia Burton | 12 | 13 | 1,875 | 12 | 12 | 1,800 |
| Pamela Davenport | 12 | 12 | 1,800 | 11 | 11 | 1,650 |
| Shirley Grand | 12 | 12 | 1,800 | 11 | 12 | 1,725 |
| Benny Harris | 12 | 12 | 1,800 | 12 | 12 | 1,800 |
| Frank Jobert, Jr. | 6 | 6 | 900 | 11 | 12 | 1,725 |
| Louis Quinn | 11 | 12 | 1,725 | 8 | 9 | 1,275 |
| Kathy Singleton | 12 | 11 | 1,725 | 11 | 11 | 1,650 |
| Cheryl Turner | 6 | 7 | 975 | 0 | 0 | - |
| Sona Young | 12 | 13 | 1,875 | 12 | 12 | 1,800 |
| Total | | | $ 15,900 | | | $ 14,550 |

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, but a special meeting was held in June 2002. During the fiscal years ended June 30, 2002, and June 30, 2001 there were 25 and 24 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, 2002 AND 2001**

| | 2002 | 2001 |
|---|---|---|
| Short-term Investments – Domestic | $ 72,507,610 | $ 110,091,497 |
| U.S. Government Obligations | 578,537,104 | 531,689,327 |
| Bonds/Fixed Income - Domestic | 1,029,154,333 | 981,759,991 |
| Bonds/Fixed Income - International | 411,088,733 | 415,544,270 |
| Equity Securities - Domestic | 2,555,519,018 | 2,505,409,685 |
| Equity Securities - International | 859,610,388 | 924,394,786 |
| Real Estate Pools | 27,826,045 | 31,357,631 |
| Alternative Investments | 329,748,504 | 353,471,733 |
| Total | $5,863,991,735 | $5,853,718,920 |

## SCHEDULE OF PROFESSIONAL SERVICE EXPENSES
## FOR THE YEAR ENDED JUNE 30, 2002

| | | |
|---|---|---|
| **ACCOUNTING AND AUDITING** | | |
| Postlethwaite and Netterville, APAC - System Auditors | $ 49,440 | |
| | | **$ 49,440** |
| **ACTUARIAL FEES** | | |
| Hall Actuarial Associates - System Actuary | 68,008 | |
| | | **68,008** |
| **LEGAL FEES** | | |
| Clerk of Court | 25 | |
| | | **25** |
| **DISABILITY PROGRAM** | | |
| Physician and Other Reviews | 134,956 | |
| | | **134,956** |
| **INVESTMENT PERFORMANCE MANAGEMENT AND ANALYTICAL SERVICES** | | |
| Cost Effectiveness Management | 25,000 | |
| IRRC | 28,000 | |
| Plexus Group | 29,000 | |
| | | **82,000** |
| **OTHER PROFESSIONAL SERVICES** | | |
| Syscom Inc. | 98,936 | |
| Turnbull Consulting Inc. | 70,150 | |
| Voice Retrieval And Information | 43,024 | |
| Winner Associates Inc. | 33,613 | |
| Westaff Temporary Staffing | 24,448 | |
| Commint Inc. | 23,800 | |
| Sparkhound | 22,230 | |
| Other Non-Consultant Professionals | 57,367 | |
| | | **373,568** |
| **PROFESSIONAL SERVICE EXPENSES** | | **$ 707,997** |

# INVESTMENT SECTION

**NEW ENGLAND PENSION CONSULTANTS**

PETER D. GERLINGS
SENIOR PARTNER

October 1, 2002

Dear Members,

This letter summarizes the structure and performance of the Louisiana State Employees' Retirement System (LASERS) Fund through June 30, 2002. As of the June 30th fiscal year-end, the Fund was in compliance with policy and Louisiana state law, and had 43.2% of its asset base invested in U.S. equities, 14.3% invested in non-U.S. equities, 30.0% in U.S. fixed income, 5.6% in global fixed income, 5.9% in real estate, hedge funds, and private equity, and 1.0% in cash. The public equity portion of the Fund represented 57.1% of the total assets, below the applicable statutory limit of 65%, and 3.5% above the median public pension fund. For the previous two years, the Fund has maintained equity levels very close to the median equity allocation when measured against the Independent Consultants Cooperative (ICC) Universe.

LASERS lost 5.7%[1] in the year ending June 30, 2002, which ranked in the 62nd percentile (1st percentile being best, 100th percentile being worst) of public funds within the ICC Universe. Over the last 12 months ending June 30, 2002, LASERS underperformed its nominal total return target of 9.35% by 15.1 percentage points. The Fund also underperformed its real return target of 4% by 9.7 percentage points over the last 12 months.

The trailing year needs to be looked in the context of longer term performance. Equity markets have been going through a very difficult period. Investors have focused on valuation concerns, weak corporate profits, geopolitical worries, corporate scandals and revelations of accounting irregularities despite some moderately encouraging news on the U.S. economy. This comes after one of the most impressive bull equity markets in U.S. history. Markets do move in cycles, and the volatility we've observed has been consistent with long-term trends. It is worth noting that LASERS has still outperformed its real return target on a trailing seven year basis with an annualized return of 7.2%.

While the last year was a very difficult one for the Fund, we feel strongly that LASERS is well positioned to take advantage of a wide variety of investment opportunities, and is sufficiently diversified to both enhance return and mitigate overall portfolio risk.

Sincerely,

Peter D. Gerlings

[1] Return data for the Fund was calculated on a time-weighted basis in accordance with the standards of the Association of Investment Management & Research (AIMR). Valuations, where available, are based on published national securities exchange prices.

NEW ENGLAND PENSION CONSULTANTS, INC.
ONE MAIN STREET, CAMBRIDGE, MA 02142-1524, 617-374-1300, FAX: 617-374-1313
www.nepc.com

# Louisiana State Employees' Retirement System

P.O. Box 44213 • Baton Rouge, LA • 70804-4213
8401 United Plaza Blvd. • Baton Rouge, LA • 70809

LASERS

VOICE: 225-922-0600 • TOLL-FREE: 1-800-256-3000
FAX: 225-922-0614 • WEBSITE: http://www.lasers.state.la.us

October 1, 2002

Dear Members,

The Fiscal Year ended June 30, 2002, was a difficult period for LASERS' investment portfolio. The terrorist attacks of September 11th, along with the seemingly endless accounting scandals and corporate corruption, contributed to the deterioration of the U.S. Financial Markets during the Fiscal Year. While the U.S. enjoyed success in accomplishing many of its military goals, consumer confidence fell, the dollar weakened against most major currencies, and the NASDAQ lost 31% in the first quarter alone. A second year of negative stock returns has not been seen in 23 years, reminding us that the business cycle is still an unavoidable truth in investing.

On June 30, 2002, LASERS' investment portfolio completed the Fiscal Year with a -4.40% actuarial rate of return. However, the five-year average annual actuarial return at Fiscal Year end stood at 6.88%. 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 the future expected returns, while structuring the investment portfolio so as to optimize the risk/return trade-off.

During the Fiscal Year, LASERS continued its internally managed index strategy for the equity portfolios. This simultaneously lowered investment management fees and reduced the volatility of actual portfolio returns relative to benchmark returns. LASERS also continued to maintain alternative asset strategies in order to better control risk.

LASERS has embarked on a long-term strategic planning process that is centered around increasing returns and reducing costs relative to other public retirement systems. LASERS' Board and staff have devoted considerable effort to this process, resulting in system resources that are better allocated to tasks having direct positive impact on achieving this plan.

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 cost controls, in order to be a more efficient provider of retirement benefits.

Sincerely,

Robert Beale, CFA
Acting 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 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. Real Estate and Private Equity 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 calculation, 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, through proxy solicitations, doing so strictly for the economic benefit of the Fund - Documentation regarding the disposition of proxy solicitations shall be provided by the investment managers upon request

- 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 proxies, tenders, rights, fractional shares or other dispositions of holdings
- 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

## 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 return for LASERS shall rank in the top half of the appropriate public fund universe. Risk-adjusted returns should also rank in the top half of the same universe. The total fund return should, over time, 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
- U.S. Small Cap Equity
- U.S. Fixed Income
- International Equity
- Emerging Markets Equity
- Global Fixed Income

### Non-Traditional Assets

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

### Target Asset Mix

| Asset Class | Market Value Target (%) | Minimum Exposure (%) | Maximum Exposure (%) |
|---|---|---|---|
| **Equities** | **58** | **51** | **65** |
| Domestic Large Cap | 28 | 23 | 33 |
| Domestic Small Cap | 10 | 7 | 13 |
| Domestic Mid Cap | 5 | 3 | 7 |
| Established International (Lg Cap) | 9 | 6 | 12 |
| Established International (Sm Cap) | 3 | 0 | 5 |
| Emerging International Equity | 3 | 0 | 5 |
| | | | |
| **Fixed Income** | **36** | **30** | **42** |
| Core Fixed Income | 19 | 14 | 24 |
| Mortgages | 5 | 3 | 7 |
| Domestic High Yield | 7 | 5 | 9 |
| Global Bonds | 5 | 0 | 7 |
| | | | |
| **Alternative Assets/Private Equity** | **6** | **0** | **9** |

**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. LASERS may index up to one-half of its U.S. Equity Allocation.

**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). 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:

- 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

## 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 monthly 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.

Guidelines that 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.

**General Guidelines**

For managers not participating in LASERS' Alternative Investments Program, the following guidelines are to be adhered to, unless prior approval from the Board has been granted:

- There shall be no use of options, commodities, or financial futures without the prior approval of the Board
- Uncovered options or futures contracts may not be purchased
- Uncovered short positions may not be purchased
- Short selling is not permitted
- There shall be no use of financial leverage

**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. 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 that are not "plain vanilla" are restricted to 20% of a manager's portfolio.

**Prohibited Uses of Derivatives**

Any use 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.

**Guidelines for Use of Pooled Funds Which Employ Derivatives**

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:

- The investment practices of the commingled fund are consistent with the spirit of this derivatives policy, and are not significantly different in letter
- The benefits of using a commingled vehicle rather than a separate account are material

**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 and 25 basis points for mid cap equity strategies - Small cap assets shall be managed actively

- 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 listed below 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 foreign 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' under-allocated 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

- ETIs 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

- ETIs 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 cyclicality 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. Specific benchmarks and peer groups are described for each manager in Section B of this document.

## 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. For managers holding mortgage-backed securities, results of current 'stress' tests on the portfolio, indicating how the manager believes it would respond to interest rate movements of plus or minus 100, 200, and 300 basis points from current levels are required.

**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 in compliance with AIMR Performance Presentation Standards (PPS™)
- 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:
  - Standard and Poors sectors for domestic equities
  - Country and by industry within country for international equities
  - Sector for domestic fixed income
  - Country for international equities and global bonds

**Commissions/Trading Report**

Each manager shall provide an annual commission report to be delivered to the committee, staff, and Investment Consultant within forty-five (45) days of the end of each calendar year [December 31]. 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 Investment Committee, Staff, and Investment Consultant within forty-five (45) days of the end of each calendar year [December 31]. 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 that 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. 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 know 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.*

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

Managers shall annually report to the Board 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 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

### 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)
- 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

# SECURITY HOLDINGS SUMMARY REPORT

**June 30, 2002**

| SECURITIES | COST ($) | MARKET VALUE ($) | % OF MARKET |
|---|---|---|---|
| **FIXED INCOME** | | | |
| Corporate Bonds | $ 986,705,864 | $ 913,906,938 | 16.5% |
| Other Bonds | 42,448,469 | 43,965,839 | 0.8% |
| Total Corporate Bonds | 1,029,154,333 | 957,872,777 | 17.3% |
| Federal Agency Sponsored | 56,820,182 | 58,360,084 | 1.1% |
| CMO'S | 121,125,999 | 126,510,963 | 2.3% |
| Federal Sponsored | 333,763,896 | 343,612,313 | 6.2% |
| U. S. Treasury Notes | 50,891,120 | 51,001,211 | 0.9% |
| U. S. Treasury Bonds | 15,935,907 | 15,782,611 | 0.3% |
| Total U.S. Government/Agency Bonds | 578,537,104 | 595,267,182 | 10.8% |
| Foreign Corp Bonds | 35,363,282 | 42,678,427 | 0.8% |
| Foreign Corp Yankee Bonds | 107,530,972 | 80,857,820 | 1.5% |
| Foreign Govt Bonds | 238,298,282 | 247,662,439 | 4.5% |
| Foreign Govt Yankee Bonds | 12,396,196 | 13,211,005 | 0.2% |
| Common Stock - Commingled Funds Fixed Income | 17,500,000 | 12,850,928 | 0.2% |
| Total International Bonds | 411,088,732 | 397,260,619 | 7.2% |
| **TOTAL FIXED INCOME** | **2,018,780,169** | **1,950,400,578** | **35.3%** |
| **EQUITY** | | | |
| Common Stock-Domestic | 2,502,574,003 | 2,303,589,794 | 41.7% |
| Common Stock - Commingled Funds Equity | 52,945,015 | 51,846,295 | 0.9% |
| Common Stock - Preferred | - | - | 0.0% |
| Total Domestic Stock | 2,555,519,018 | 2,355,436,089 | 42.6% |
| Common Stock-ADR | 40,213,465 | 35,788,763 | 0.6% |
| Common Stock - Commingled Funds Equity | 326,551,276 | 324,656,520 | 5.9% |
| Common Stock -Foreign | 485,825,786 | 461,939,055 | 8.4% |
| Preferred Stock -Foreign | 7,019,861 | 7,920,353 | 0.1% |
| Stock Warrants & Rights | - | 115,704 | 0.0% |
| Total International Stock | 859,610,388 | 830,420,395 | 15.0% |
| **TOTAL EQUITY** | **3,415,129,406** | **3,185,856,484** | **57.6%** |
| **ALTERNATIVE INVESTMENTS** | | | |
| Real Estate Investment Pools | 27,826,045 | 30,322,010 | 0.5% |
| Private Placements | 329,748,504 | 290,448,271 | 5.3% |
| **TOTAL ALTERNATIVE INVESTMENTS** | **357,574,549** | **320,770,281** | **5.8%** |
| **SHORT TERM INVESTMENTS** | | | |
| Domestic Short Term | 72,507,610 | 72,507,610 | 1.3% |
| **TOTAL SHORT-TERM INVESTMENTS** | **72,507,610** | **72,507,610** | **1.3%** |
| **GRAND TOTAL INVESTMENTS** | **$ 5,863,991,735** | **$ 5,529,534,953** | **100%** |

## SECURITY HOLDINGS SUMMARY REPORT

**June 30, 2001**

| SECURITIES | COST ($) | MARKET VALUE ($) | % OF MARKET |
|---|---|---|---|
| **FIXED INCOME** | | | |
| Corporate Bonds | $ 938,600,203 | $ 885,965,803 | 15.1% |
| Other Bonds | 43,159,788 | 43,848,701 | 0.7% |
| Total Corporate Bonds | 981,759,991 | 929,814,504 | 15.8% |
| Federal Agency Sponsored | 43,031,905 | 43,363,323 | 0.7% |
| CMO'S | 156,212,131 | 159,323,596 | 2.7% |
| Federal Sponsored | 287,620,814 | 289,204,073 | 4.9% |
| U. S. Treasury Notes | 33,744,958 | 34,428,789 | 0.6% |
| U. S. Treasury Bonds | 11,079,519 | 11,046,263 | 0.2% |
| Total U.S. Government/Agency Bonds | 531,689,327 | 537,366,044 | 9.1% |
| Foreign Corp Bonds | 29,048,987 | 26,721,403 | 0.5% |
| Foreign Corp Yankee Bonds | 100,555,698 | 92,626,803 | 1.6% |
| Foreign Govt Bonds | 244,578,642 | 212,294,125 | 3.6% |
| Foreign Govt Yankee Bonds | 23,860,943 | 24,439,985 | 0.4% |
| Common Stock - Commingled Funds Fixed Income | 17,500,000 | 16,908,201 | 0.3% |
| Total International Bonds | 415,544,270 | 372,990,517 | 6.4% |
| **TOTAL FIXED INCOME** | **1,928,993,588** | **1,840,171,065** | **31.3%** |
| **EQUITY** | | | |
| Common Stock-Domestic | 2,425,038,707 | 2,521,187,428 | 43.1% |
| Common Stock - Commingled Funds Equity | 78,052,665 | 80,530,455 | 1.4% |
| Common Stock - Preferred | 2,318,313 | 2,289,375 | 0.0% |
| Total Domestic Stock | 2,505,409,685 | 2,604,007,258 | 44.5% |
| Common Stock-ADR | 45,778,717 | 44,618,321 | 0.8% |
| Common Stock - Commingled Funds Equity | 326,423,850 | 337,228,682 | 5.8% |
| Common Stock -Foreign | 543,227,025 | 523,982,720 | 9.0% |
| Preferred Stock -Foreign | 8,965,194 | 9,029,031 | 0.2% |
| Stock Warrants & Rights | - | 26,454 | 0.0% |
| Total International Stock | 924,394,786 | 914,885,208 | 15.8% |
| **TOTAL EQUITY** | **3,429,804,471** | **3,518,892,466** | **60.3%** |
| **ALTERNATIVE INVESTMENTS** | | | |
| Real Estate Investment Pools | 31,357,631 | 37,808,564 | 0.6% |
| Private Placements | 353,471,733 | 342,359,781 | 5.9% |
| **TOTAL ALTERNATIVE INVESTMENTS** | **384,829,364** | **380,168,345** | **6.5%** |
| **SHORT TERM INVESTMENTS** | | | |
| Domestic Short Term | 110,091,497 | 110,091,497 | 1.9% |
| **TOTAL SHORT-TERM INVESTMENTS** | **110,091,497** | **110,091,497** | **1.9%** |
| **GRAND TOTAL INVESTMENTS** | **$ 5,853,718,920** | **$ 5,849,323,373** | **100%** |

## LARGEST EQUITY HOLDINGS
### JUNE 30, 2002
(Excludes Commingled Funds)

| | SHARES | STOCK DESCRIPTION | MARKET VALUE |
|---|---|---|---|
| 1) | 1152000 | EXXON MOBIL CORP | $ 47,139,840.00 |
| 2) | 838100 | MICROSOFT CORP | $ 45,844,070.00 |
| 3) | 1457680 | GENERAL ELEC CO | $ 42,345,604.00 |
| 4) | 691900 | WAL MART STORES INC | $ 38,061,419.00 |
| 5) | 974617 | PFIZER INC | $ 34,111,595.00 |
| 6) | 790400 | CITIGROUP INC | $ 30,628,000.00 |
| 7) | 489852 | JOHNSON + JOHNSON | $ 25,599,665.52 |
| 8) | 337876 | AMERICAN INTL GROUP INC | $ 23,053,279.48 |
| 9) | 277100 | BANK AMER CORP | $ 19,496,756.00 |
| 10) | 217200 | PROCTER + GAMBLE CO | $ 19,395,960.00 |
| 11) | 1033400 | INTEL CORP | $ 18,880,218.00 |
| 12) | 320500 | COCA COLA CO | $ 17,948,000.00 |
| 13) | 554500 | SBC COMMUNICATIONS INC | $ 16,912,250.00 |
| 14) | 223800 | INTERNATIONAL BUSINESS MACHS | $ 16,113,600.00 |
| 15) | 1125685 | CISCO SYS INC | $ 15,703,305.75 |
| 16) | 384400 | VERIZON COMMUNICATIONS | $ 15,433,660.00 |
| 17) | 295600 | MERCK + CO INC | $ 14,969,184.00 |
| 18) | 277590 | PEPSICO INC | $ 13,379,838.00 |
| 19) | 358600 | HOME DEPOT INC | $ 13,171,378.00 |
| 20) | 282600 | PHILIP MORRIS COS INC | $ 12,343,968.00 |
| 21) | 215700 | ROYAL DUTCH PETE CO | $ 11,921,739.00 |
| 22) | 220500 | WELLS FARGO + CO | $ 11,038,230.00 |
| 23) | 228300 | VIACOM INC | $ 10,129,671.00 |
| 24) | 107512 | CHEVRONTEXACO CORP | $ 9,514,812.00 |
| 25) | 83300 | MIDCAP SPDR TR | $ 7,459,515.00 |

LASERS internally manages portfolios that are replications of the S&P 500, 400 and 100 Indices. Balances of the funds at June 30, 2002 are $931,634,675.33, $293,147,349.30, and $150,349,317.66 respectively. Individual securities held in these funds are included in above listed holdings.

## LARGEST COMMINGLED FUNDS

| | SHARES | FUND DESCRIPTION | MARKET VALUE |
|---|---|---|---|
| 1) | 99098.685 | SCHROEDER EMERGING MKTS FUND | $ 168,871,086.24 |
| 2) | 61630.99 | SCHRODER INTL SMALL COMP FUND | $ 157,238,438.15 |
| 3) | 858148.6 | RUSSELL 2000 INDEX SL | $ 22,519,535.51 |
| 4) | 173143.67 | STATE STREET SPIF (S&P 500 Index Futures Fund) | $ 21,475,182.79 |
| 5) | 1353451.326 | WRH GLOBAL SECURITIES POOL | $ 12,850,928.31 |

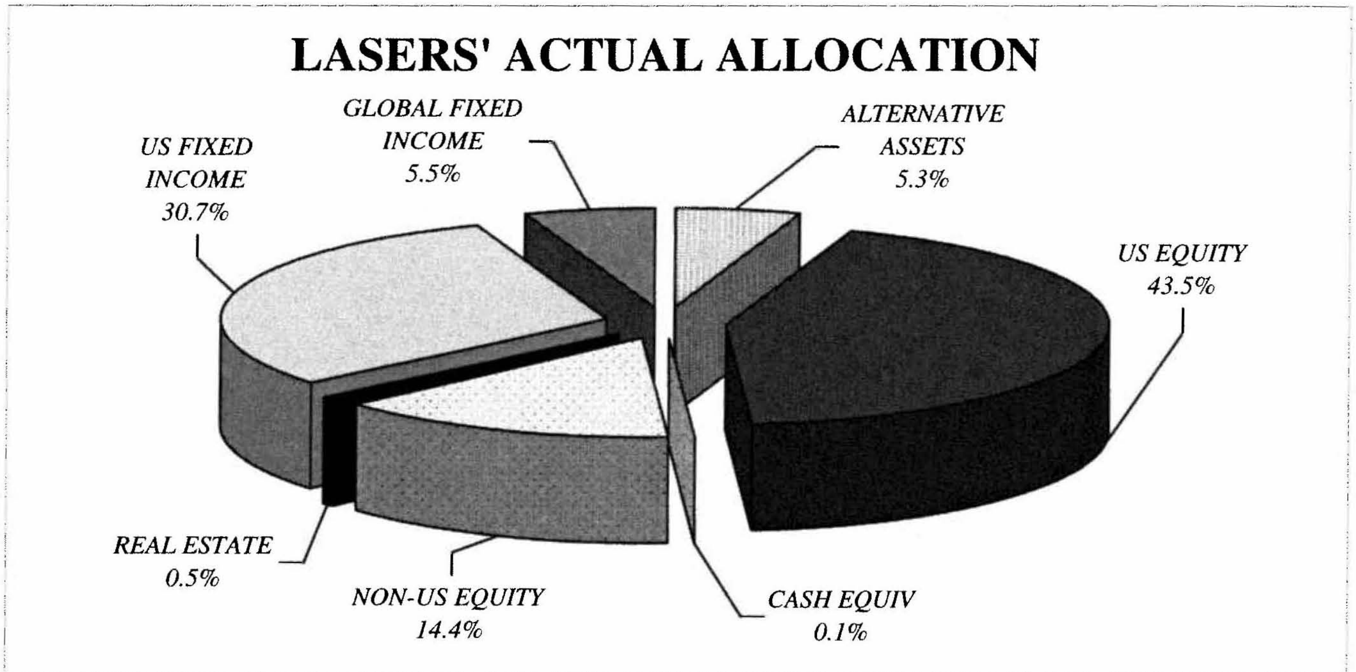
# LARGEST DEBT HOLDINGS
## JUNE 30, 2002
(Includes Commingled Funds)

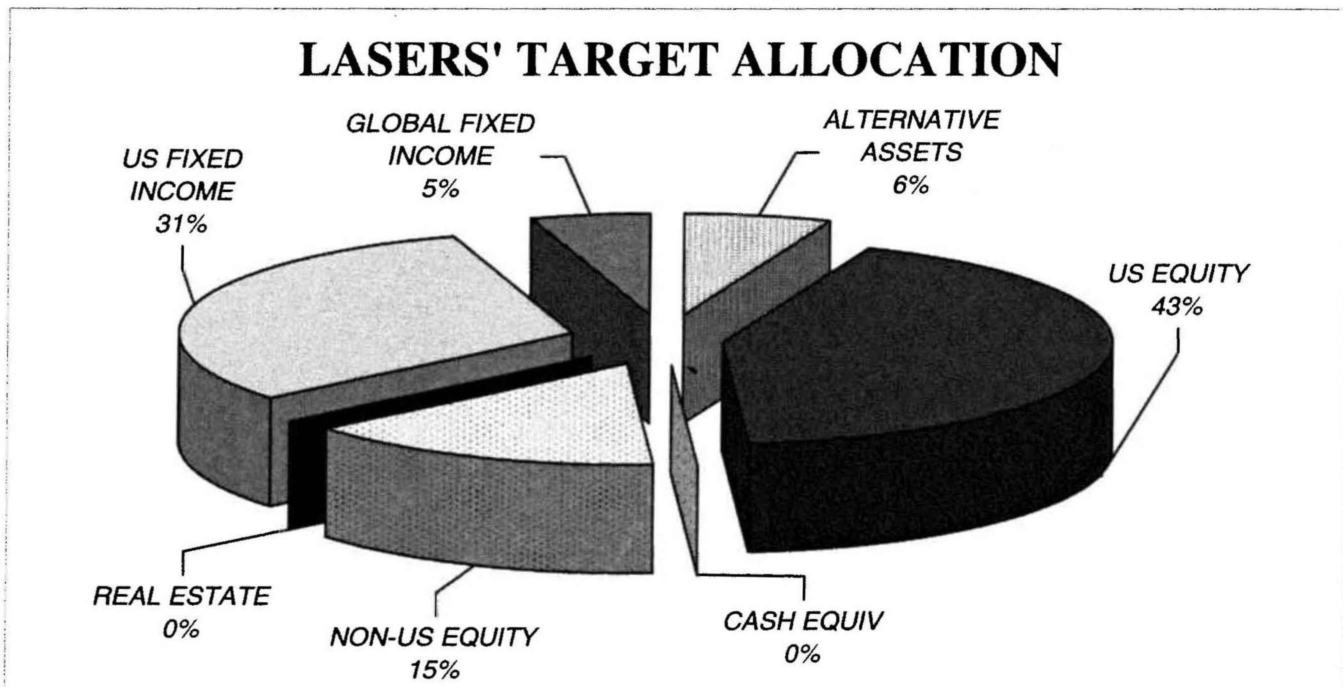
| | PAR VALUE | BOND DESCRIPTION | MARKET VALUE |
|---|---|---|---|
| 1) | $ 34,750,000.00 | UNITED STATES TREAS NTS 3.375% 30 Apr 2004 | $ 35,119,392.50 |
| 2) | $ 25,189,748.01 | FNMA POOL 254007 6.5% 01 Sep 2031 | $ 25,677,673.43 |
| 3) | $ 22,000,000.00 | SPAIN(KINGDOM OF) 5.15% 30 Jul 2009 | $ 22,064,531.42 |
| 4) | $ 23,000,000.00 | FRANCE (REPUBLIC OF) 4% 25 Oct 2009 | $ 21,504,646.78 |
| 5) | $ 18,000,000.00 | GERMANY(FED REP) 6% 04 Jan 2007 | $ 18,853,076.95 |
| 6) | $ 35,000,000.00 | NEW ZEALAND GOVT 7% 15 Jul 2009 | $ 17,375,841.92 |
| 7) | $ 16,500,000.00 | NETHERLANDS (KINGDOM OF) 5.75% 15 Feb 2007 | $ 17,081,271.67 |
| 8) | $ 17,000,000.00 | KREDITANSTALT FUR WIEDERAUFBAU 5% 04 Jul 2011 | $ 16,646,914.17 |
| 9) | $ 16,099,499.37 | FNMA POOL 490105 6.5% 01 Mar 2019 | $ 16,522,111.23 |
| 10) | $ 14,827,585.50 | FED HM LN PC 6.5% 01 Mar 2032 | $ 15,128,733.76 |
| 11) | $ 15,000,000.00 | FEDERAL HOME LN MTG CORP 5.75% 15 Jul 2026 | $ 15,028,050.00 |
| 12) | $ 14,000,000.00 | FINLAND REPUBLIC OF 5.75% 23 Feb 2011 | $ 14,482,138.80 |
| 13) | $ 14,976,292.00 | FEDERAL HOME LN MTG PC GTD 20.51865% 15 Oct 2023 | $ 14,236,762.70 |
| 14) | $ 13,928,195.40 | FED HM LN PC 6.5% 01 Apr 2032 | $ 14,211,077.05 |
| 15) | $ 14,000,000.00 | KREDITANSTALT FUR WIEDERAUFBAU 3.25% 04 Jul 2012 | $ 13,897,958.58 |
| 16) | $ 30,000,000.00 | NEW ZEALAND GOVT 6% 15 Nov 2011 | $ 13,886,413.12 |
| 17) | $ 12,584,131.74 | CREDIT SUISSE FIRST BOSTON MTG 6.75% 21 Oct 2031 | $ 12,989,089.10 |
| 18) | $ 12,532,582.68 | FNMA POOL 254008 7% 01 Oct 2031 | $ 12,978,993.28 |
| 19)* | $ 1,353,451.33 | WRH GLOBAL SECURITIES POOL | $ 12,850,928.31 |
| 20) | $ 11,500,000.00 | ENDESA CHILE OVERSEAS CO 7.2% 01 Apr 2006 | $ 11,183,520.00 |
| 21) | $ 20,000,000.00 | QUEENSLAND TSY CP 6% 14 Jul 2009 | $ 11,098,374.15 |
| 22) | $ 10,947,976.98 | CREDIT SUISSE FIRST BOSTON MTG 6.5% 25 Mar 2032 | $ 11,089,753.28 |
| 23) | $ 10,444,277.80 | FEDERAL HOME LN MTG PC 19% 15 NOV 2023 | $ 10,450,753.25 |
| 24) | $ 10,000,000.00 | GNMA POOL 587117 6.5% 15 Jun 2032 | $ 10,200,000.00 |
| 25) | $ 10,000,000.00 | BUNDESREPUBLIK DEUTSCHLAND 5% 04 Jul 2011 | $ 9,936,495.71 |

* Debt holdings include commingled funds. WRH Global Securities Pool is the only commingled fund large enough to be listed in LASERS' largest 25 holdings.

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

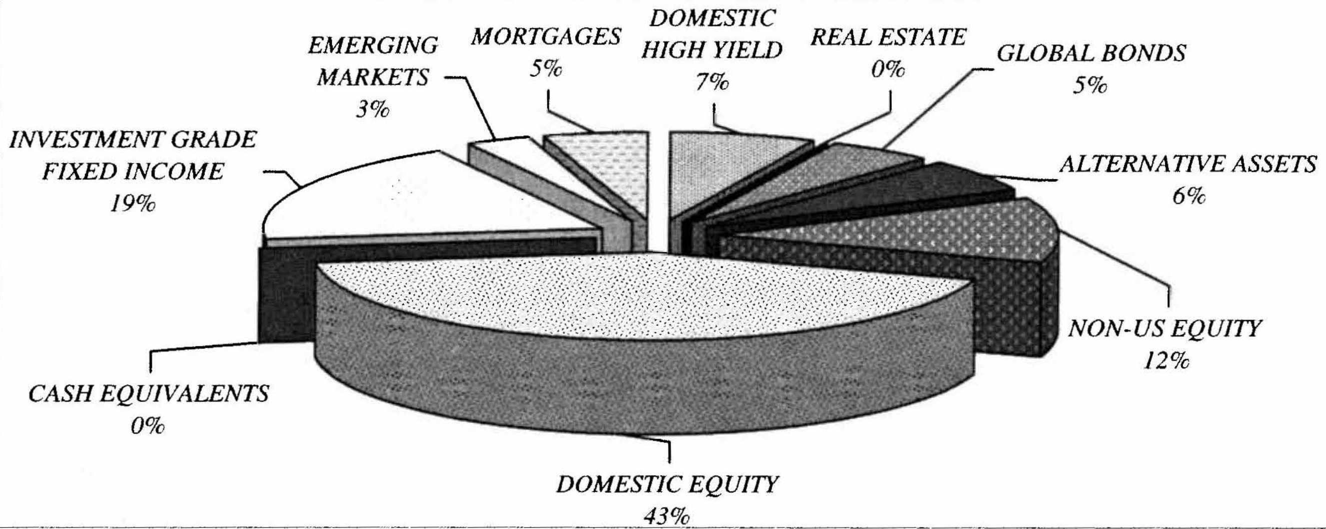
**LASERS' TOTAL PLAN ASSET ALLOCATION**
by Major Components
June 30, 2002
**$5,529.5 BILLION**



**INDIVIDUAL MANAGER ALLOCATIONS**
June 30, 2002
**$5,529.5 BILLION**

## LASERS' TARGET ALLOCATION




## LASERS' ACTUAL ALLOCATION BY MANAGER

| MANAGER | WEIGHT | $MM |
|---|---|---|
| NON-US EQUITY | | |
| INTERNATIONAL EQUITY | | |
| *Delaware Intl. Advisers* | 2.5% | 139.1 |
| *Templeton* | 2.2% | 120.8 |
| *Montgomery Asset Mgt* | 1.9% | 103.9 |
| *Nicholas-Applegate* | 2.0% | 108.0 |
| *Schroders-Small Co.* | 2.8% | 157.2 |
| TOTAL CORE INTL | 11.4% | $ 629.0 |
| EMERGING MARKETS | | |
| *Schroders-Emrg Mkts* | 3.1% | 168.9 |
| TOTAL EMERGING MARKETS | 3.1% | $ 168.9 |
| **TOTAL NON-US EQUITY** | **14.4%** | **$ 797.9** |
| DOMESTIC EQUITY | | |
| SMALL CAP VALUE | | |
| *TH&B* | 1.9% | 105.1 |
| *Brandywine* | 2.2% | 121.8 |
| *LSV* | 2.3% | 127.1 |
| SMALL CAP GROWTH | | |
| *TCW* | 2.7% | 151.8 |
| *Westfield* | 3.0% | 164.5 |
| TOTAL SMALL CAP | 12.1% | $ 670.3 |
| LARGE CAP VALUE | | |
| *MAS* | 0.0% | |
| *Aronson & Partners* | 3.1% | 173.2 |
| LARGE CAP GROWTH | | |
| *American Express* | 3.0% | 164.6 |
| TOTAL LARGE CAP | 6.1% | $ 337.8 |
| INDEX FUNDS | | |
| *LASERS S&P 100 Index* | 2.7% | 150.3 |
| *LASERS S&P 400 Index* | 5.3% | 293.2 |
| *LASERS S&P 500 Index* | 16.8% | 931.6 |
| *SSGA Russell 2000 Index* | 0.4% | 22.5 |
| TOTAL INDEX FUNDS | 25.3% | $ 1,397.6 |
| **TOTAL DOMESTIC EQUITY** | **43.5%** | **$ 2,405.7** |
| **TOTAL EQUITY** | **57.9%** | **$ 3,203.6** |

| MANAGER | WEIGHT | $MM |
|---|---|---|
| INVESTMENT GRADE BONDS | | |
| *Loomis, Sayles & Co.* | 11.8% | 654.4 |
| *Orleans Capital* | 6.2% | 342.1 |
| TOTAL INVESTMENT GRADE | 18.0% | $ 996.5 |
| MORTGAGES | | |
| *TCW* | 4.8% | 266.2 |
| TOTAL MORTGAGES | 4.8% | $ 266.2 |
| DOMESTIC HIGH YIELD | | |
| *WR Huff* | 4.0% | 219.4 |
| *Offitbank* | 3.9% | 215.6 |
| TOTAL DOMESTIC HIGH YLD | 7.9% | $ 435.0 |
| GLOBAL BONDS | | |
| *Delaware Intl. Advisers* | 5.5% | 306.3 |
| TOTAL GLOBAL BONDS | 5.5% | $ 306.3 |
| **TOTAL FIXED INCOME** | **36.2%** | **$ 2,004.0** |
| ALTERNATIVE ASSETS | | |
| PRIVATE EQUITY | | |
| *Adams Street* | 2.0% | 112.0 |
| *HIPEP III* | 0.6% | 30.8 |
| *HarbourVest VI* | 1.0% | 53.8 |
| *HarbourVest IV* | 0.1% | 3.0 |
| *Huff* | 0.0% | 1.3 |
| *John Hancock* | 0.2% | 11.3 |
| *Pathway* | 0.2% | 13.8 |
| TOTAL PRIVATE EQUITY | 4.1% | $ 226.0 |
| HEDGE FUNDS | | |
| *Arnhold & S. Bleichroeder* | 0.6% | 31.6 |
| *Kellner, DiLeo & Co.* | 0.5% | 27.6 |
| *KD Conv Arbitrage Fund LP* | 0.1% | 5.2 |
| TOTAL HEDGE FUNDS | 1.2% | $ 64.4 |
| **TOTAL ALTERNATIVE ASSETS** | **5.3%** | **$ 290.4** |
| **TOTAL REAL ESTATE** | **0.5%** | **$ 26.1** |
| **TOTAL CASH** | **0.1%** | **$ 5.4** |
| **TOTAL PLAN ASSETS** | **100.0%** | **$ 5,529.5** |

SUMMARY OF MANAGER PERFORMANCE
RATES OF RETURNS GROSS OF FEES
(For Period Ending June 30, 2002)

| | Contract Exp. Date | MKT VAL $ (Million) | Month | 2nd QTR | YTD | Fiscal YTD | 1 Year | 2 Years | 3 Years | 4 Years | 5 Years |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **U.S. EQUITY** | | | | | | | | | | | |
| **LARGE CAP GROWTH** | | | | | | | | | | | |
| AMERICAN EXPRESS (τ)* | 12/31/02 | $ 164.6 | -7.2 | -13.9 | -13.8 | -16.2 | -16.2 | -24.8 | -14.6 | -6.6 | |
| **S&P 500** | | | -7.1 | -13.4 | -13.2 | -18.0 | -18.0 | -16.4 | -9.2 | -2.1 | 3.7 |
| **S&P 500 BARRA GROWTH** | | | -8.0 | -16.3 | -16.9 | -18.5 | -18.5 | -25.8 | -13.2 | -4.4 | 2.5 |
| TOTAL LARGE GROWTH | | $ 164.6 | -7.2 | -13.9 | -13.8 | -16.2 | -16.2 | -24.8 | -15.1 | -7.7 | -2.2 |
| **LARGE CAP VALUE** | | | | | | | | | | | |
| MAS-ARONSON | 05/14/07 | $ 173.2 | | | | | | | | | |
| **S&P 500** | | | -7.1 | -13.4 | -13.2 | -18.0 | -18.0 | -16.4 | -9.2 | -2.1 | 3.7 |
| **S&P 500 BARRA VALUE** | | | -6.3 | -10.6 | -9.5 | -18.1 | -18.1 | -6.0 | -5.7 | -0.6 | 4.1 |
| TOTAL LARGE VALUE | | $ 173.2 | -8.2 | -11.5 | -7.3 | -9.0 | -9.0 | 10.7 | -1.2 | 1.6 | 4.4 |
| **SMALL CAP GROWTH** | | | | | | | | | | | |
| TCW | 10/31/05 | $ 151.8 | -7.4 | -18.6 | -23.6 | -31.9 | -31.9 | -31.5 | -6.1 | -1.2 | 3.4 |
| WESTFIELD | 10/31/05 | $ 164.5 | -5.9 | -8.3 | -6.0 | -13.3 | -13.3 | | | | |
| **S&P 600** | | | -5.2 | -6.5 | 0.0 | 0.3 | 0.3 | 5.6 | 8.4 | 5.6 | 8.3 |
| **S&P 600 BARRA GROWTH** | | | -5.9 | -8.9 | -5.7 | -6.3 | -6.3 | -7.2 | 3.3 | 2.2 | 4.6 |
| TOTAL SMALL GROWTH | | $ 316.3 | -6.6 | 13.5 | -15.5 | -23.7 | -23.7 | -26.4 | -1.5 | 0.1 | 4.0 |
| **SMALL CAP VALUE** | | | | | | | | | | | |
| BRANDYWINE | 02/28/06 | $ 121.8 | -2.6 | -0.2 | 13.7 | 15.8 | 15.8 | 29.4 | 12.1 | 7.9 | 11.3 |
| THB | 03/30/06 | $ 105.1 | -4.9 | -4.4 | 3.4 | 3.3 | 3.3 | 6.9 | 10.6 | 4.7 | 6.9 |
| LSV | 02/28/06 | $ 127.1 | -1.3 | 0.0 | 14.8 | 17.9 | 17.9 | | | | |
| **S&P 600** | | | -5.2 | -6.5 | 0.0 | 0.3 | 0.3 | 5.6 | 8.4 | 5.6 | 8.3 |
| **S&P 600 BARRA VALUE** | | | -4.5 | -4.3 | 5.5 | 6.7 | 6.7 | 17.3 | 11.1 | 7.1 | 10.4 |
| TOTAL SMALL VALUE | | $ 354.0 | -2.9 | -1.4 | 10.8 | 12.5 | 12.5 | 19.3 | 12.9 | 7.5 | 10.1 |
| **INDEX FUNDS** | | | | | | | | | | | |
| SSGA RUSSELL 2000 INDEX FUND | | $ 22.5 | -4.9 | -8.3 | -4.6 | -8.7 | -8.7 | -5.1 | 1.1 | | |
| **RUSSELL 2000** | | | -5.0 | -8.4 | -4.7 | -8.6 | -8.6 | -4.1 | 1.7 | 1.6 | 4.4 |
| TOTAL SMALL CAP INDEX FUND | | $ 22.5 | -4.9 | -8.3 | -4.6 | -8.7 | -8.7 | -5.1 | 1.1 | | |
| LASERS S&P 100 INDEX FUND | | $ 150.3 | -7.3 | -14.8 | -15.4 | -21.5 | -21.5 | | | | |
| **S&P 100** | | | -7.2 | -14.9 | -15.5 | -21.3 | -21.3 | -20.2 | -10.3 | -1.9 | 4.0 |
| LASERS S&P 400 INDEX FUND | | $ 293.2 | -7.3 | -9.3 | -3.1 | -4.6 | -4.6 | | | | |
| **S&P 400** | | | -7.3 | -9.3 | -3.2 | -4.7 | -4.7 | 1.9 | 6.7 | 9.2 | 12.6 |
| LASERS S&P 500 INDEX FUND | | $ 931.6 | -7.1 | -13.3 | -13.0 | -17.9 | -17.9 | -15.6 | -7.9 | -1.1 | |
| **S&P 500** | | | -7.1 | -13.4 | -13.2 | -18.0 | -18.0 | -16.4 | -9.2 | -2.1 | 3.7 |
| **TOTAL US INDEX EQUITY** | | $ 1,397.6 | -7.1 | -12.6 | -11.2 | -15.6 | -15.6 | -13.6 | -6.3 | | |
| **TOTAL U.S. EQUITY** | | $ 2,405.7 | -6.5 | -11.2 | -9.0 | -12.9 | -12.9 | -10.4 | -4.4 | -0.6 | 3.4 |
| **NON-US EQUITY** | | | | | | | | | | | |
| **INT'L LARGE CAP GROWTH** | | | | | | | | | | | |
| MONTGOMERY (t) | 08/31/05 | $ 103.9 | -3.0 | -7.2 | -6.2 | -19.6 | -19.6 | | | | |
| NICHOLAS APPLEGATE (t) | 08/31/05 | $ 108.0 | -4.3 | -5.7 | -4.8 | -15.7 | -15.7 | | | | |
| **SSB PMI GROWTH EX-US** | | | -4.4 | -4.6 | -5.9 | -12.0 | -12.0 | -21.7 | -8.3 | -4.1 | -1.6 |
| TOTAL INT'L LARGE GROWTH | | $ 211.9 | -3.7 | -6.4 | -5.5 | -17.7 | -17.7 | | | | |
| **INT'L LARGE CAP VALUE** | | | | | | | | | | | |
| DELAWARE INT'L ADVISORS** | 10/01/05 | $ 139.1 | -3.5 | 1.0 | 6.0 | 1.8 | 1.8 | 0.0 | 3.4 | 4.5 | 5.2 |
| TEMPLETON INT'L** | 10/01/05 | $ 120.8 | -5.1 | -2.7 | -0.3 | -9.1 | -9.1 | -7.1 | 0.1 | 0.4 | 1.3 |
| **SSB PMI VALUE EX-US** | | | -4.1 | 0.0 | 2.1 | -7.1 | -7.1 | -10.7 | -3.4 | -1.2 | 0.8 |
| TOTAL INT'L LARGE VALUE | | $ 259.9 | -4.3 | -0.7 | 3.0 | -3.6 | -3.6 | -3.4 | 2.0 | 2.5 | 3.3 |
| **INT'L SMALL CAP** | | | | | | | | | | | |
| SCHRODERS SC (GROWTH) | 09/30/03 | $ 157.2 | -3.6 | -0.8 | 4.1 | -2.9 | -2.9 | -11.2 | 2.0 | 2.6 | 2.0 |
| **SB EMI EPAC** | | | -3.5 | 2.1 | 8.1 | -1.3 | -1.3 | -10.3 | -2.7 | -1.1 | -0.8 |
| TOTAL INT'L SMALL CAP | | $ 157.2 | -3.6 | -0.8 | 4.1 | -3.5 | -3.5 | -12.2 | 4.5 | 4.4 | 3.5 |
| **EMERGING MARKETS** | | | | | | | | | | | |
| SCHRODERS EMER MKTS | 12/31/02 | $ 168.9 | -8.2 | -9.3 | 0.0 | -3.7 | -3.7 | -17.4 | -8.8 | -1.0 | -8.8 |
| **MSCI EMERGING MARKETS FREE** | | | -7.5 | -8.4 | 2.1 | 1.3 | 1.3 | -13.3 | -6.3 | 1.4 | -8.4 |
| TOTAL EMERGING MARKETS | | $ 168.9 | -8.2 | -9.3 | 0.0 | -3.7 | -3.7 | -17.4 | -8.8 | -1.0 | -8.5 |
| **TOTAL NON-U.S. EQUITY** | | $ 797.9 | -4.9 | -4.2 | 0.1 | -7.8 | -7.8 | -15.4 | -5.4 | -2.2 | -2.4 |
| **TOTAL EQUITY** | | $ 3,203.6 | -6.1 | -9.6 | -6.9 | -11.7 | -11.7 | -12.0 | -4.8 | -1.1 | 1.5 |

(τ) denotes a manager on the watch list or probation

**SUMMARY OF MANAGER PERFORMANCE**
**RATES OF RETURNS GROSS OF FEES**
**(For Period Ending June 30, 2002)**

| | Contract Exp. Date | MKT VAL $ (Million) | Month | 2nd QTR | YTD | Fiscal YTD | 1 Year | 2 Years | 3 Years | 4 Years | 5 Years |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **US FIXED INCOME** | | | | | | | | | | | |
| **INVESTMENT GRADE** | | | | | | | | | | | |
| LOOMIS SAYLES & CO | 12/31/04 | $ 654.4 | -1.1 | 1.8 | 1.7 | 7.2 | 7.2 | 10.5 | 8.0 | 6.6 | 7.6 |
| ORLEANS CAPITAL MGT | 12/31/04 | $ 342.1 | 1.2 | 4.5 | 4.5 | 6.2 | 6.2 | 8.6 | 6.6 | 5.6 | 6.6 |
| **LB AGGREGATE** | | | 0.9 | 3.7 | 3.8 | 8.6 | 8.6 | 9.9 | 8.1 | 6.8 | 7.6 |
| TOTAL INVESTMENT GRADE | | $ 996.5 | -0.4 | 2.7 | 2.6 | 6.8 | 6.8 | 9.8 | 7.6 | 6.3 | 7.3 |
| **HIGH YIELD** | | | | | | | | | | | |
| W.R. HUFF ASSET MGT | 12/31/04 | $ 219.4 | -8.9 | -11.1 | -13.1 | -13.3 | -13.3 | -7.5 | -3.7 | -1.7 | 1.2 |
| OFFITBANK | 12/31/04 | $ 215.6 | -2.6 | -0.9 | 0.8 | 3.0 | 3.0 | 4.0 | 2.2 | 2.5 | 4.2 |
| **FIRST BOSTON HIGH YIELD** | | | -3.5 | -2.3 | 0.2 | 1.6 | 1.6 | 0.6 | 0.3 | 0.0 | 2.1 |
| TOTAL HIGH YIELD | | $ 435.0 | -5.8 | -6.3 | -6.5 | -5.6 | -5.6 | -2.0 | -0.8 | 0.4 | 2.7 |
| **MORTGAGE** | | | | | | | | | | | |
| TCW | 12/31/04 | $ 266.2 | 1.1 | 3.6 | 4.6 | 10.3 | 10.3 | 10.6 | 8.7 | 8.1 | 9.0 |
| **LB MORTGAGE INDEX** | | | 0.8 | 3.5 | 4.5 | 9.0 | 9.0 | 10.1 | 8.4 | 7.3 | 7.6 |
| TOTAL MORTGAGE | | $ 266.2 | 1.1 | 3.6 | 4.6 | 10.3 | 10.3 | 10.6 | 8.7 | 8.1 | 9.0 |
| **TOTAL U.S. FIXED INCOME** | | $ 1,697.7 | -1.6 | 0.4 | 0.4 | 4.1 | 4.1 | 6.7 | 5.5 | 5.0 | 6.3 |
| **GLOBAL FIXED INCOME** | | | | | | | | | | | |
| DELAWARE INV ADVISOR | 09/30/02 | $ 306.3 | 5.2 | 13.9 | 14.5 | 22.3 | 22.3 | 9.2 | 5.3 | 5.4 | |
| **SB WORLD GOVT BOND** | | | 4.8 | 11.7 | 9.9 | 14.0 | 14.0 | 5.1 | 4.5 | 4.4 | 4.4 |
| TOTAL GLOBAL FIXED INCOME | | $ 306.3 | 5.2 | 13.9 | 14.5 | 22.3 | 22.3 | 9.2 | 6.1 | 5.7 | 5.3 |
| **TOTAL FIXED INCOME** | | $ 2,004.0 | -0.6 | 2.2 | 2.4 | 6.5 | 6.5 | 7.0 | 5.5 | 5.1 | 6.0 |
| **ALTERNATIVE ASSETS** | | | | | | | | | | | |
| **PRIVATE EQUITY** | | | | | | | | | | | |
| ADAMS STREET SECONDARY | 12/31/13 | $ 1.9 | 14.7 | 10.9 | 10.9 | 6.6 | 6.6 | -2.0 | | | |
| ADAMS STREET PRIMARY | 12/31/12 | $ 110.1 | -6.2 | -12.2 | -8.0 | -21.5 | -21.5 | -11.7 | 18.7 | 16.0 | 14.0 |
| ADAMS STREET DIRECT | 12/31/14 | | | | | | | | | | |
| JOHN HANCOCK | 03/31/02 | $ 11.3 | -1.0 | -3.5 | 11.6 | -24.6 | -24.6 | -31.1 | 67.5 | 62.3 | 56.6 |
| HIPEP DIRECT III | 10/08/10 | $ 8.5 | 3.5 | 3.5 | -20.7 | -28.8 | -28.8 | -27.2 | -14.8 | | |
| HIPEP PARTNERSHIP III | 10/08/10 | $ 22.3 | -9.3 | -9.3 | -5.4 | -8.5 | -8.5 | -13.1 | -10.9 | | |
| HARBOURVEST VI - BUYOUT | 06/30/10 | $ 5.3 | 2.2 | 2.2 | 19.6 | -5.6 | -5.6 | -18 | | | |
| HARBOURVEST VI - DIRECT | 06/30/10 | $ 11.0 | 3.6 | 3.6 | -20.1 | -23.5 | -23.5 | -16.6 | | | |
| HARBOURVEST VI - PTNR | 06/30/10 | $ 37.5 | -17.4 | -17.4 | -12.4 | -27.2 | -27.2 | -13.7 | | | |
| HIPEP DIRECT IV | 12/31/14 | $ 0.3 | -38.4 | -38.4 | | | | | | | |
| HIPEP PARTNERSHIP IV | 12/31/14 | $ 2.7 | -24.1 | -24.1 | | | | | | | |
| PATHWAY CAPITAL MGT | 03/31/02 | $ 13.8 | -2.5 | -0.5 | -8.4 | -5.5 | -5.5 | -20.5 | -7.7 | 12.5 | 17.0 |
| HUFF ALTERNATIVE FUND | 06/30/12 | $ 1.3 | | | | | | | | | |
| **NOMINAL BENCHMARK** | | | 1.3 | 4.0 | 8.2 | 17.0 | 17.0 | 17.0 | 17.0 | 17.0 | 17.0 |
| TOTAL PRIVATE EQUITY | | $ 226.0 | -7.3 | -10.3 | -8.5 | -21.0 | -21.0 | -16.2 | 24.8 | 24.6 | 25.7 |
| **HEDGE FUNDS** | | | | | | | | | | | |
| ARNHOLD & S. BLEICHROEDER | 01/31/11 | $ 31.6 | -0.6 | -0.9 | 0.0 | 0.5 | 0.5 | | | | |
| KELLNER, DILEO & CO | 01/31/11 | $ 27.6 | -0.9 | -1.9 | -0.4 | 0.9 | 0.9 | | | | |
| KELLNER, DILEO & CO CONV ARE | 01/31/11 | $ 5.2 | 1.4 | 3.4 | | | | | | | |
| **NOMINAL BENCHMARK** | | | 1.0 | 3.1 | 6.3 | 13.0 | 13.0 | 13.0 | 13.0 | 13.0 | 13.0 |
| TOTAL HEDGE FUNDS | | $ 64.4 | -0.6 | -1.0 | 0.2 | 1.2 | 1.2 | | | | |
| **TOTAL ALTERNATIVE ASSETS** | | $ 290.4 | -5.9 | -8.4 | -6.7 | -17.0 | -17.0 | -12.9 | 28.0 | 27.0 | 27.6 |
| **REAL ESTATE** | | | | | | | | | | | |
| **EQUITY REAL ESTATE** | | | | | | | | | | | |
| HEITMAN REAL ESTATE FUND FIVE (τ) | | $ 4.3 | 0.0 | 2.0 | -5.5 | 0.8 | 0.8 | 1.0 | 5.9 | 9.0 | 9.7 |
| JMB GROUP TRUST FIVE (τ) | | $ 9.4 | 0.7 | 2.0 | -7.4 | -7.2 | -7.2 | 5.1 | 0.5 | 4.0 | 5.4 |
| L&B PROPERTY FOUR | | $ 9.7 | 1.6 | 1.6 | -11.8 | -6.0 | -6.0 | -0.1 | 2.1 | 3.8 | 6.2 |
| TCW REALTY FUND SIX | | $ 2.7 | 1.4 | 2.1 | -20.0 | -11.8 | -11.8 | -5.0 | -2.7 | -0.2 | 1.2 |
| **NCREIF CUSTOM PROPERTY** | | | 1.2 | 1.2 | 1.8 | 5.9 | 5.9 | 9.2 | 10.1 | 11.5 | 12.5 |
| **TOTAL REAL ESTATE** | | $ 26.1 | 1.0 | 1.8 | -10.7 | -5.3 | -5.3 | 1.0 | 2.9 | 5.2 | 6.9 |

(τ) denotes a manager on the watch list or probation

**SUMMARY OF MANAGER PERFORMANCE**
**RATES OF RETURNS GROSS OF FEES**
**(For Period Ending June 30, 2002)**

| | Contract Exp. Date | MKT VAL $ (Million) | Month | 2nd QTR | YTD | Fiscal YTD | 1 Year | 2 Years | 3 Years | 4 Years | 5 Years |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **CASH EQUIVALENTS** | | | | | | | | | | | |
| HOLDING ACCOUNT | | $ 5.4 | 0.1 | 0.5 | 1.0 | 2.5 | 2.5 | 4.4 | 4.9 | 5.1 | 5.0 |
| 91 DAY T-BILL | | | 0.1 | 0.5 | 0.9 | 2.6 | 2.6 | 4.2 | 4.6 | 4.7 | 4.8 |
| **TOTAL CASH EQUIVALENTS** | | $ 5.4 | 0.1 | 0.5 | 1.0 | 2.5 | 2.5 | 4.4 | 4.9 | 5.1 | 5.0 |
| **TOTAL PLAN** | | | | | | | | | | | |
| FINANCIAL COMPOSITE | | $ 5,213.0 | -4.1 | -5.3 | -3.5 | -5.0 | -5.0 | -5.5 | -1.3 | 1.1 | 3.2 |
| FINANCIAL ALLOCATION INDEX | | | -3.6 | -4.9 | -3.3 | -4.9 | -4.9 | -5.6 | -1.2 | 1.6 | 3.8 |
| FINANCIAL POLICY INDEX | | | -3.6 | -4.5 | -2.6 | -3.6 | -3.6 | -4.7 | -0.4 | 2.3 | 4.5 |
| **TOTAL PLAN** | | $ 5,529.5 | -4.1 | -5.5 | -3.7 | -5.7 | -5.7 | -5.9 | -0.4 | 1.8 | 3.8 |
| TOTAL PLAN ALLOCATION INDEX | | | -3.3 | -4.4 | -2.6 | -3.7 | -3.7 | -4.3 | -0.2 | 2.4 | 4.5 |
| TOTAL PLAN POLICY INDEX | | | -3.3 | -3.9 | -1.9 | -2.3 | -2.3 | -3.3 | 0.7 | 3.2 | 5.3 |

* Restructured to aggressive growth portfolio March 00
** Restructured to concentrated portfolio October 00
(τ) denotes a manager on the watch list or probation

NOTE: Return data for the Fund was calculated on a time-weighted basis in accordance with the standards of the Association of Investment Management & Research (AIMR).

# Schedule of Brokerage Commission Paid

## Year Ended June 30, 2002

| Brokerage Firms | Shares Traded | Commission Dollar Amount | Commission Per Share |
|---|---|---|---|
| MERRILL LYNCH | 22,310,048 | $ 536,344 | $ 0.0240 |
| GOLDMAN SACHS + CO | 105,919,670 | 390,951 | 0.0037 |
| CSFB | 50,104,721 | 288,706 | 0.0058 |
| SALOMON SMITH BARNEY INC | 194,131,229 | 271,190 | 0.0014 |
| MORGAN STANLEY | 12,231,148 | 192,224 | 0.0157 |
| DEUTSCHE BANK SECURITIES, INC | 42,449,041 | 183,918 | 0.0043 |
| UBS WARBURG LLC | 8,529,335 | 181,750 | 0.0213 |
| LEHMAN BROTHERS | 113,222,717 | 158,109 | 0.0014 |
| J P MORGAN SECURITIES INC | 22,074,224 | 146,097 | 0.0066 |
| SBC WARBURG SECURITIES | 5,929,412 | 132,817 | 0.0224 |
| JEFFERIES COMPANY INC | 9,291,548 | 105,946 | 0.0114 |
| WEEDEN + CO. | 4,785,537 | 99,037 | 0.0207 |
| BEARS STEARNS | 3,051,477 | 91,107 | 0.0299 |
| INSTINET | 3,683,570 | 86,298 | 0.0234 |
| INVESTMENT TECHNOLOGY GROUP INC. | 4,073,429 | 84,231 | 0.0207 |
| HSBC SECURITIES INC | 3,565,028 | 79,731 | 0.0224 |
| CANTOR FITZGERALD + CO. | 3,705,775 | 74,521 | 0.0201 |
| CAPITAL INSTITUTIONAL SERVICES | 1,807,400 | 55,428 | 0.0307 |
| RBC DAIN RAUSCHER INC | 1,252,060 | 54,422 | 0.0435 |
| THOMAS WEISEL PARTNERS | 1,503,600 | 48,131 | 0.0320 |
| JONES + ASSOCIATES | 2,112,150 | 47,952 | 0.0227 |
| B-TRADE SERVICES LLC | 1,280,927 | 44,537 | 0.0348 |
| BANC OF AMERICA SECURITY | 1,453,800 | 36,393 | 0.0250 |
| BNY CLEARING SERVICES LLC | 928,990 | 35,759 | 0.0385 |
| PRUDENTIAL SECURITIES INCORPORATED | 1,496,688 | 35,052 | 0.0234 |
| SPEAR, LEEDS & KELLOGG CAPITAL MARKETS | 725,915 | 33,631 | 0.0463 |
| FIRST UNION CAPITAL MARKETS | 1,077,086 | 32,556 | 0.0302 |
| WESTDEUTSCHE LANDESBANK GIROZENTRALE | 1,005,100 | 30,495 | 0.0303 |
| CIBC WORLMARKETS CORP | 1,077,000 | 27,129 | 0.0252 |
| SG SECURITIES LTD | 915,290 | 25,833 | 0.0282 |
| BROCKHOUSE AND COOPER INC | 848,800 | 25,832 | 0.0304 |
| DAIWA SECURITIES AMERICA INC | 482,620 | 24,063 | 0.0499 |
| ABN AMRO SECURITIES LLC | 347,959 | 23,800 | 0.0684 |
| U S BANCORP PIPER JAFFRAY INC | 1,817,300 | 23,640 | 0.0130 |
| CITATION GROUP | 914,150 | 23,262 | 0.0254 |
| ODDO FINANCE | 519,150 | 22,329 | 0.0430 |
| BHF SECURITIES CORPORATION | 188,000 | 21,861 | 0.1163 |
| WIT SOUNDVIEW CORP | 573,858 | 21,396 | 0.0373 |
| F P MAGLIO + CO INC | 809,760 | 20,080 | 0.0248 |
| CREDIT LYONNAIS SECURITIES | 665,400 | 19,962 | 0.0300 |
| FLEETBOSTON ROBERTSON STEPHENS | 112,529,773 | 19,260 | 0.0002 |
| QUAKER SECURITIES INC | 2,054,460 | 18,829 | 0.0092 |
| JB WERE LIMITED | 453,200 | 18,128 | 0.0400 |
| COMMERZBANK CAPITAL MARKETS CORPORATION | 2,332,209 | 17,921 | 0.0077 |
| KLEINWORTBENSON SECURITIES LTD | 1,266,625 | 17,572 | 0.0139 |
| SANFORD BERNSTEIN CO LLC | 1,895,317 | 17,558 | 0.0093 |
| VERITAS SECURITIES | 283,660 | 16,813 | 0.0593 |
| OTHERS | 6,418,868 | 168,362 | 0.0262 |
| **TOTAL** | **760,095,024** | **$ 4,130,960** | **$ 0.0054** |

## SCHEDULE OF FEES

(by Investment Manager Classification[1])

**For Year Ended June 30, 2002**

| Investment Manager Type | Assets under Management (in millions) | Annual Fees (in dollars) |
|---|---|---|
| Fixed Income Managers | | |
| U.S. Fixed Income | $ 1,697.7 | $ 3,260,998 |
| Global Fixed Income | 306.3 | 541,963 |
| **Total Fixed Income** | **2,004.0** | **3,802,961** |
| Equity | | |
| U.S. Equity - External Managers | 1,030.6 | 3,809,329 |
| U.S. Equity - Internal Managers | 1,375.1 [2] | - |
| Global Equity | 797.9 | 3,064,262 |
| **Total Equity** | **3,203.6** | **6,873,592** |
| **Real Estate** | **26.1** | **(125,000)** |
| **Venture Capital** | **290.4** | **6,412,309** |
| **Cash** | **5.4** | **-** |
| **Consulting Fees** | **-** | **250,000** |
| **Total** | **$ 5,529.5** | **$ 17,213,862** |

*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. Manager Guidelines are consistent with the Statement of Investment Objectives.

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

# ACTUARIAL SECTION

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

*1433 Hideaway Court*
*Baton Rouge, La. 70806*
*(225) 924-6209*

November 4, 2002

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 fifteenth annual valuation of the Louisiana State Employees' Retirement System as of June 30, 2002. The valuation was prepared on the basis of the data submitted by the Retirement System office and the actuarial assumptions adopted by the Board of Trustees, and reflects the benefits in effect on the valuation date.

The 2002 Legislative Session introduced no legislation which affect benefits and funding. 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. Act 402 of 1999 establishes that the Board shall grant a COLA not to exceed the lesser of the CPI-U or 3%. The Board of Trustees granted a 1.6% COLA on July 1, 2002.

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, 2002 should be set equal to 15.5% of payroll, plus a required legislative appropriation of $5,126,347.

When compared to the prior year's employer's rate of 13.9%, the current employer's rate of 15.5% reflects a significant increase in the employer's rate from the prior year resulting from data improvements. The current contribution rate, plus the required legislative appropriation, when taken together with the contributions payable by the members, is sufficient to achieve the funding objective set forth above.

Board of Trustees
**LASERS**
November 4, 2002

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, 2002 were in the amount of $6,189,664,001. The Actuarial Value of Assets, when adjusted for the Experience Account Fund in the amount of $(270,929,581), and the side-fund assets from the Texaco Settlement Fund of $118,178,702 yields assets for funding purposes of $6,342,414,880.

In performing the June 30, 2002 valuation, we 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, although the validity of the information was not compared to source documents or compared with data for the same participant utilized in prior valuations. 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, 2002 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. Furthermore, we certify to the best of our 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 represents my best estimate of the funding requirement to achieve the Retirement System's Funding Objective.

The actuary trend data schedules in the Financial Section was 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

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

CGH/tt

## 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 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% |
| Department of Corrections | 9.0% |
| Wildlife Agents | 8.5% |
| 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 Employees' Retirement System's Actuarial Committee to the State Legislature.

**Principle Provisions of the Plan** (Continued)

## 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 of service, age 60 with 10 years or at any age with 30 years

*Note:* Members may retire with a 2.5% annual accrual rate at any age with 20 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 of service, 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 of service regardless of age, or age 55 with 12 years of service, or age 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 service regardless of age, or age 55 with 12 years of service.

Benefit Formula

For all plans, retirement benefits are based on a formula that multiplies the final average compensation by the applicable accrual rate, and by the years of creditable service, plus a $300 per year supplemental benefit. Final average compensation is obtained by dividing total compensation for the highest successive thirty-six months.

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 that cannot exceed 36 monthly benefit payments.

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

**Principle Provisions of the Plan** (Continued)

## 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 for a period not to exceed the 3rd anniversary of retirement eligibility. 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.

Correction and Probation Officers: Total disability in-line-of-duty service:
Primary Component : not less than 60% average compensation.
Secondary Component: not less than 40% 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 (COLA's) 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 COLA's approved by the Board of Trustees 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 1981-1986 actuarial experience study with supplemental revision in 1990 and other Board action.

### 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<br>Effective 6/30/88 | As Amended Act 257<br>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 payroll. Discrepancy between dollars generated by % of payroll versus the required dollar amount are treated as a short-fall 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 book value and market value of system assets are provided by the administrative staff of LASERS. All data is reviewed for reasonableness and consistency from year to year, but is not audited by the actuary.

SUMMARY OF ASSUMPTIONS (Continued)

## 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 or salaries, based upon years of service:

| | |
|---|---|
| Regular State Employees – range | 4.25% - 11.75% |
| Judges and Legislators – range | 4.75% |

| | | STATE EMPLOYEES | JUDGES | LEGISLATORS |
|---|---|---|---|---|
| Duration | 1 yr. | 11.75% | 4.75% | 4.75% |
| | 5 yr. | 7.75% | 4.75% | 4.75% |
| | 10 yr. | 6.35% | 4.75% | 4.75% |
| | 15 yr. | 4.85% | 4.75% | 4.75% |
| | 20 yr. | 4.25% | 4.75% | 4.75% |
| | 25 yr. | 4.25% | 4.75% | 4.75% |
| | 30 yr. | 4.25% | 4.75% | 4.75% |

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 1981-1986 disability experience of the Retirement System. Rates are uniform for State Employees, Judges and Legislators. Mortality after disability are based on the Eleventh Actuarial Valuation of the Railroad Retirement System for permanent disabilities.

| | ALL MEMBERS |
|---|---|
| Age 25 | .00% |
| 30 | .02% |
| 35 | .05% |
| 40 | .13% |
| 45 | .24% |
| 50 | .54% |
| 55 | .67% |

## SUMMARY OF ASSUMPTIONS
**(Continued)**

**Termination Assumptions:** Voluntary withdrawal rates are derived from the 1981-86 termination experience study.

**ALL MEMBERS**

| | | |
|---|---|---|
| Duration | 1 yr. | 27.5% |
| | 5 yr. | 11.8% |
| | 10 yr. | 5.8% |
| | 15 yr. | 1.7% |
| | 20 yr. | 1.3% |
| | 25 yr. | 1.1% |

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 Assumptions:** Retirement rates were projected based upon the 1981-86 experience study.

**ALL MEMBERS**

| | | | | | |
|---|---|---|---|---|---|
| Age | 50 | 43% | Age | 60 | 32% |
| | 51 | 42% | | 61 | 27% |
| | 52 | 42% | | 62 | 27% |
| | 53 | 42% | | 63 | 27% |
| | 54 | 42% | | 64 | 27% |
| | 55 | 47% | | 65 | 44% |
| | 56 | 34% | | 66 | 32% |
| | 57 | 32% | | 67 | 32% |
| | 58 | 32% | | 68 | 32% |
| | 59 | 32% | | 69 | 42% |
| | | | | 70 | 50% |

# ACTUARIAL VALUATION BALANCE SHEET

## ASSETS

| | June 30, 2002 | June 30, 2001 |
|---|---|---|
| Present Assets Creditable To: | | |
| Members' Savings Account | $ 1,116,701,234 | $ 1,088,524,636 |
| Annuity Reserve Account | 5,305,980,834 | 4,887,804,774 |
| **TOTAL PRESENT ASSETS** | **6,422,682,068** | **5,976,329,410** |
| Present Value Of Prospective Contributions Payable To: | | |
| Members' Savings Account | 1,146,269,913 | 1,099,459,666 |
| Annuity Reserve Account | | |
| Normal | 1,073,874,918 | 995,470,074 |
| Accrued Liability | 3,150,865,225 | 3,032,974,564 |
| **TOTAL PROSPECTIVE CONTRIBUTIONS** | **5,371,010,056** | **5,127,904,304** |
| **TOTAL ASSETS** | **$11,793,692,124** | **$11,104,233,714** |

## LIABILITIES

| | June 30, 2002 | June 30, 2001 |
|---|---|---|
| Present Value Of Prospective Benefits Payable On Account Of: | | |
| Current Retiree Members | $ 5,210,433,093 | $ 4,795,300,753 |
| Current Active Members | 6,487,711,290 | 6,216,428,940 |
| Deferred Vested & Reciprocal Members | 95,547,741 | 92,504,021 |
| **TOTAL LIABILITIES** | **$11,793,692,124** | **$11,104,233,714** |

## SUMMARY OF UNFUNDED ACTUARIAL LIABILITIES/SALARY TEST
(Dollar Amounts in Millions)

| Valuation Date | (1) Active Member Contribution | (2) Retirees Term. Vested Inactive | (3) Active Members Employer Fin. Portion | Actuarial Valuation Assets | Portion Of Actuarial Accrued Liabilities Covered By Assets (1) | (2) | (3) |
|---|---|---|---|---|---|---|---|
| 1993 | 790.6 | 2,370.6 | 1,962.2 | 3,044.7 | 100% | 89% | 0% |
| 1994 | 839.2 | 2,571.9 | 1,992.3 | 3,347.6 | 100% | 93% | 0% |
| 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 | 5,099.7 | 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% |

## 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 |
|---|---|---|---|---|---|---|
| 1993 | 5,123.4 | 3,044.7 | 59.4 | 2,078.7 | 1,504.1 | 138.2 |
| 1994 | 5,403.4 | 3,347.6 | 61.9 | 2,055.8 | 1,546.4 | 132.9 |
| 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 |

# STATISTICAL DATA

## Comparative Summary of Actuarial Values and Percentage Covered by Net Assets Available for Benefits (in million of dollars)

### Actuarial Present Value of Credited Projected Benefits* for

| Fiscal Year | (1) Retirees and Survivors | (2) Terminated Vested Members | (3) Current Member Contr. | (4) Actives Emplyr. Contr. | Net Assets Available for Benefits | Percentage Covered By Net Assets (1) | (2) | (3) | (4) |
|---|---|---|---|---|---|---|---|---|---|
| 1993 | 2340.3 | 30.3 | 790.6 | 1,962.2 | 3044.7 | 100.0 | 100.0 | 85.3 | 0.0 |
| 1994 | 2536.3 | 35.6 | 839.2 | 1,992.3 | 3347.6 | 100.0 | 100.0 | 92.4 | 0.0 |
| 1995 | 2651.2 | 46.1 | 886.9 | 1,785.1 | 3665.9 | 100.0 | 100.0 | 91.6 | 0.0 |
| 1996 | 2697.0 | 49.8 | 903.6 | 2,604.0 | 4114.5 | 100.0 | 100.0 | 100.0 | 17.8 |
| 1997 | 2808.5 | 53.9 | 938.2 | 2,688.8 | 4537.9 | 100.0 | 100.0 | 100.0 | 27.4 |
| 1998 | 2929.3 | 63.2 | 938.7 | 2,892.9 | 5067.8 | 100.0 | 100.0 | 100.0 | 37.7 |
| 1999 | 3191.9 | 64.8 | 1067.5 | 3,258.6 | 5574.9 | 100.0 | 100.0 | 100.0 | 38.4 |
| 2000 | 4493.4 | 73.7 | 1079.3 | 2,610.9 | 6170.9 | 100.0 | 100.0 | 100.0 | 20.0 |
| 2001 | 4795.3 | 92.5 | 1088.5 | 2,676.3 | 6418.3 | 100.0 | 100.0 | 100.0 | 16.5 |
| 2002 | 5210.4 | 95.5 | 1116.7 | 2,784.1 | 6460.6 | 100.0 | 100.0 | 100.0 | 1.4 |

*Actuarial Present Value of Credited Projected Benefits were calculated beginning with the June 30, 1987 Actuarial Valuation in accordance with The National Council on Governmental Accounting Standard No. 6.

## RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITIES
**(Dollar Amounts in Thousands)**

| | FISCAL YEAR ENDING | | | |
|---|---|---|---|---|
| | **2002** | **2001** | **2000** | **1999** |
| Unfunded Actuarial Liability at beginning of Fiscal Year (7/1) | $2,357,917 | $2,209,501 | $2,116,151 | $1,981,016 |
| Interest on Unfunded Liability | 194,528 | 182,284 | 174,582 | 163,434 |
| Investment Experience (gains) decreases UAL | 788,718 | 472,668 | (300,048) | (239,142) |
| Plan Experience (gains) decreases UAL | 55,389 | (133,872) | 192,981 | 212,212 |
| Employer Amortization Payments (payments) decreases UAL | (145,654) | (134,581) | (124,725) | (116,285) |
| Employer Contribution Variance (excess contributions) decreases UAL | 7,780 | (1,748) | 535 | (4,655) |
| Experience Account Allocation (allocations) decreases UAL | (394,359) | (236,334) | 150,024 | 119,571 |
| OTHER - Miscellaneous gains and losses from transfers or Acts of the Legislature | 0 | 0 | 0 | 0 |
| **Unfunded Actuarial Liability at end of Fiscal Year (6/30)** | **$2,864,319** | **$2,357,917** | **$2,209,501** | **$2,116,151** |

## AMORTIZATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY
## JUNE 30, 2002

| Date 6/30 | Description | Amtz. Method | Amtz. Period | Initial Liability | Years Remain | Remaining Balance | Mid-Year Payment |
|---|---|---|---|---|---|---|---|
| 1993 | Initial Liability | I | 36 | 2,155,232,774 | 27 | $2,735,334,066 | $160,567,910 |
| 1992 | Legislative COLA | L | 12 | 66,577,000 | 2 | 15,904,271 | 8,601,429 |
| 1993 | Change in Liability | I | 36 | (133,232,174) | 27 | (169,092,874) | (9,925,987) |
| 1994 | Change in Liability | I | 35 | (48,680,987) | 27 | (59,964,569) | (3,520,004) |
| 1995 | Change in Liability | I | 34 | (57,826,272) | 27 | (69,181,919) | (4,061,075) |
| 1996 | Change in Liability | I | 33 | 70,910,540 | 27 | 82,460,163 | 4,840,526 |
| 1997 | Change in Liability | I | 32 | (239,190,250) | 27 | (270,582,525) | (15,883,570) |
| 1998 | Change in Liability | I | 31 | (92,217,582) | 27 | (101,572,219) | (5,962,430) |
| 1999 | Change in Liability | I | 30 | 92,641,287 | 27 | 99,444,429 | 5,837,526 |
| 2000 | Change in Liability | I | 29 | 42,956,768 | 27 | 44,984,447 | 2,640,650 |
| 2001 | Change in Liability | I | 28 | 102,461,684 | 27 | 104,790,321 | 6,151,337 |
| 2002 | Change in Liability | I | 27 | 283,418,765 | 27 | 449,748,199 | 26,400,844 |
| | LSU Approp. Adj. | | | | | | (5,126,347) |
| | **TOTAL OUTSTANDING BALANCE** | | | | | **$2,862,271,790** | **$170,560,809** |

### EMPLOYERS' CREDIT BALANCE

| Date 6/30 | Description | Amtz. Method | Amtz. Period | Initial Liability | Years Remain | Remaining Balance | Mid-Year Payment |
|---|---|---|---|---|---|---|---|
| 1998 | Contribution Variance | L | 5 | (10,909,927) | 1 | $(2,540,868) | $(2,643,602) |
| 1999 | Contribution Variance | L | 5 | (4,655,857) | 2 | (2,086,013) | (1,128,168) |
| 2000 | Contribution Variance | L | 5 | 535,256 | 3 | 346,198 | 129,699 |
| 2001 | Contribution Variance | L | 5 | (1,748,006) | 4 | (1,451,529) | (423,562) |
| 2002 | Contribution Variance | L | 5 | 7,779,882 | 5 | 7,779,882 | 1,885,156 |
| | **TOTAL CREDIT BALANCE** | | | | | **$2,047,670** | **$(2,180,477)** |

| | |
|---|---|
| **TOTAL UNFUNDED ACTUARIAL ACCRUED LIABILITY** | **$2,864,319,460** |

*__Note:__ LSU and Unfunded Judges equals 3.192635% of the Initial Liability mid-year payment.

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 | 2002 Census* | 2002 Avg. Sal. | 2001 Census* | 2001 Avg. Sal. |
|---|---|---|---|---|
| Regular Members | 58,474 | $ 28,842 | 58,197 | $ 27,628 |
| Legislators | 67 | 37,986 | 69 | 38,322 |
| Judges | 322 | 91,794 | 315 | 86,554 |
| Wildlife Agents | 209 | 36,744 | 209 | 32,488 |
| Corrections | 5,620 | 24,122 | 5,729 | 21,509 |
| TOTAL | 64,692 | $ 28,245 | 64,519 | $ 27,382 |

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

Valuations salaries were $1,861,887,735 for 2002 and $1,782,844,536 for 2001.

| Inactive Members | 2002 Census | 2001 Census |
|---|---|---|
| Due Refunds | 29,579 | 28,223 |
| Vested & Reciprocals | 1,245 | 1,300 |

| Annuitants and Survivors | 2002 Census | 2002 Avg. Annual Annuities | 2001 Census | 2001 Avg. Annual Annuities |
|---|---|---|---|---|
| Retirees | 25,436 | $ 15,669 | 24,606 | $ 15,118 |
| Disabilities | 1,208 | 10,764 | 1,184 | 10,333 |
| Survivors | 5,243 | 10,520 | 5,202 | 10,183 |
| DROP | 2,635 | 22,022 | 2,365 | 20,940 |
| TOTAL | 34,522 | $ 15,200 | 33,357 | $ 14,591 |

## HISTORICAL MEMBERSHIP DATA

### HISTORY OF ACTIVE MEMBERSHIP DATA FOR LAST 10 YEARS

| Year Ended 6/30 | Number Of Active Members* | Percentage Change In Membership | Annual Active Member Payroll | Percentage Change In Payroll |
|---|---|---|---|---|
| 1993 | 68,463 | .98% | 1,504,147 | 3.4% |
| 1994 | 68,966 | .73% | 1,546,465 | 2.8% |
| 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% |

### HISTORY OF ANNUITANTS AND SURVIVOR ANNUITANT MEMBERSHIP FOR LAST 10 YEARS

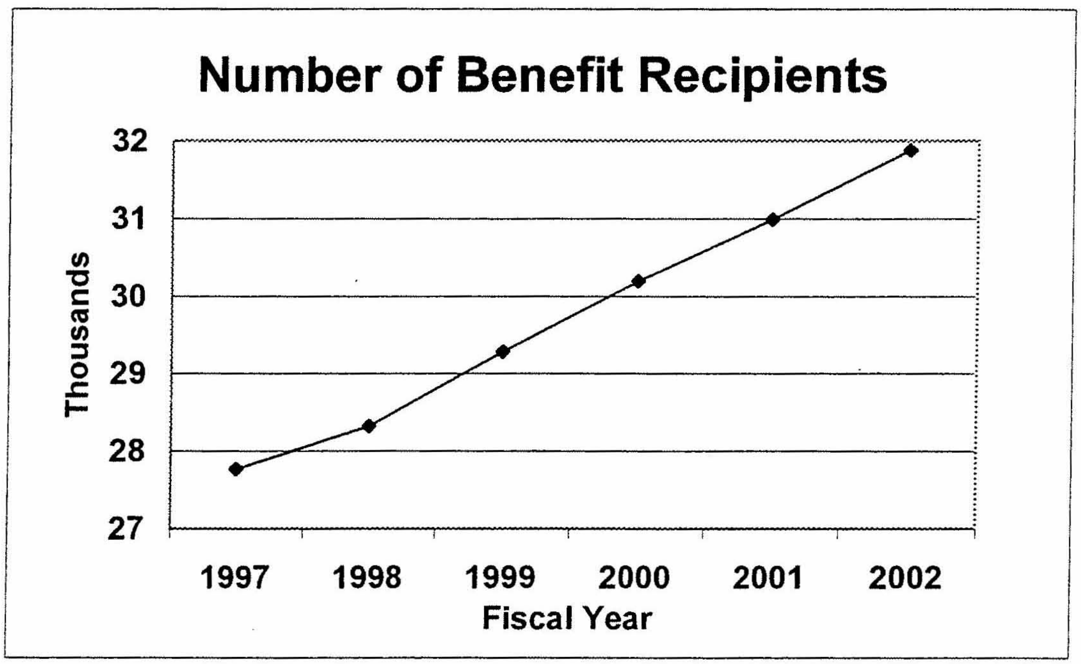
| Year Ended 6/30 | Number Of Annuitants* | Additions | Deletions | Percentage Change In Membership | Annual Annuities | Percentage Change In Annuities |
|---|---|---|---|---|---|---|
| 1993 | 26,408 | 1,396 | 1,128 | 1.03% | 261,823 | 4.6% |
| 1994 | 28,165 | 1,640 | 117 | 6.65% | 275,503 | 5.2% |
| 1995 | 29,214 | 1,701 | 652 | 3.72% | 288,642 | 4.8% |
| 1996 | 30,350 | 2,699 | 1,563 | 3.89% | 317,340 | 9.9% |
| 1997 | 31,358 | 2,153 | 1,145 | 3.32% | 340,053 | 7.2% |
| 1998 | 31,092 | 2,040 | 1,212 | ( .85%) | 359,626 | 5.8% |
| 1999 | 31,599 | 1,515 | 1,008 | 1.63% | 380,452 | 5.8% |
| 2000 | 32,618 | 2,629 | 1,608 | 3.22% | 408,610 | 7.4% |
| 2001 | 33,357 | 2,582 | 1,843 | 2.27% | 437,190 | 7.0% |
| 2002 | 34,522 | 2,959 | 1,794 | 3.49% | 453,605 | 3.8% |

*Includes DROP participants (Deferred Retirement Option Plan).

# STATISTICAL SECTION

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

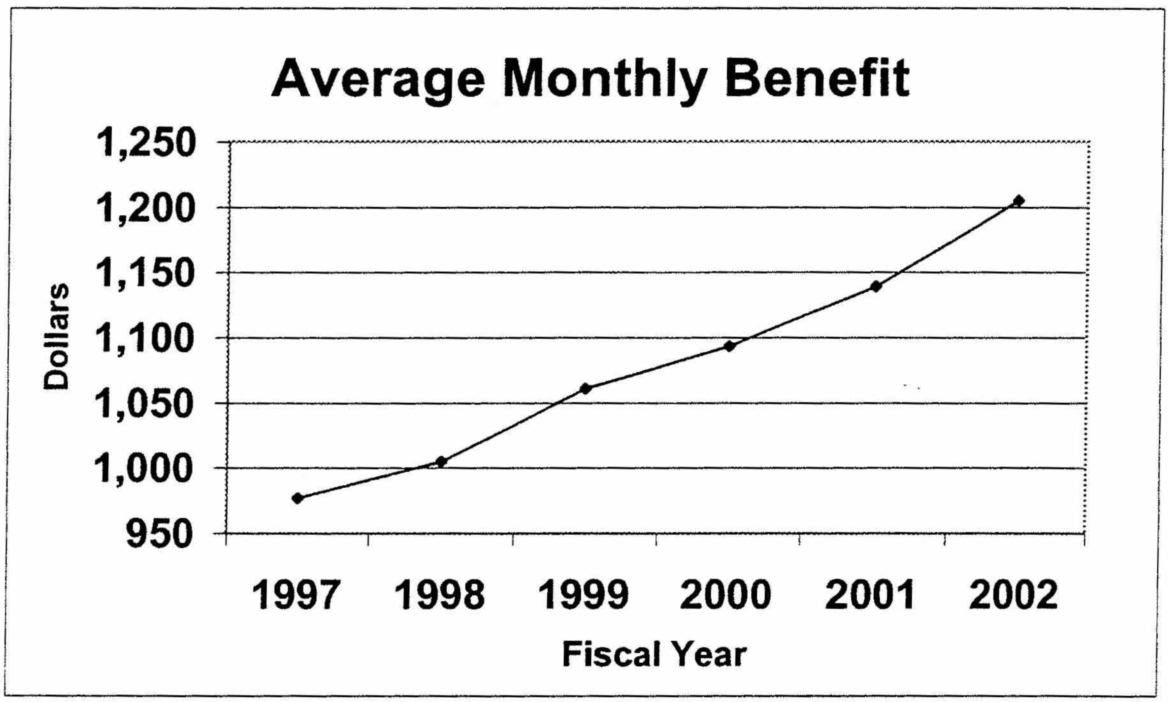
| Fiscal Year | Recipients | Percent Increase |
|---|---|---|
| 1997 | 27,766 | 2.7% |
| 1998 | 28,326 | 2.0% |
| 1999 | 29,283 | 3.4% |
| 2000 | 30,197 | 3.1% |
| 2001 | 30,992 | 2.6% |
| 2002 | 31,887 | 2.9% |



# AVERAGE MONTHLY RETIREMENT BENEFIT

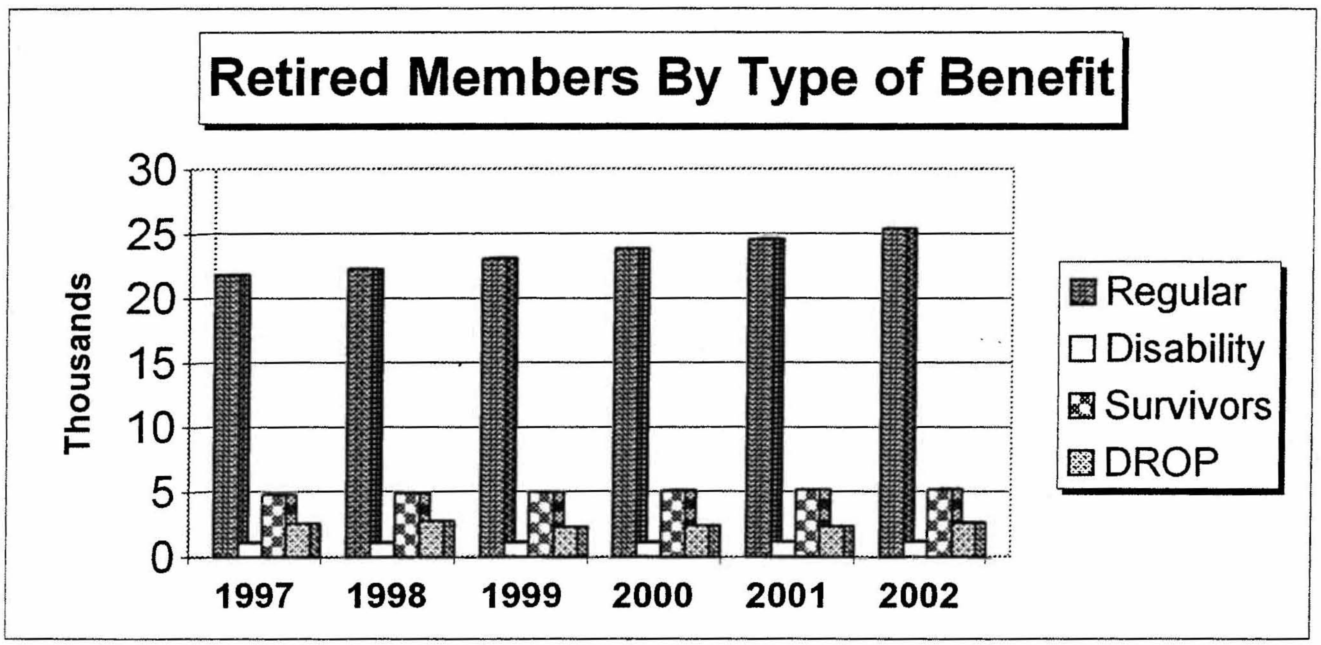
(DOES NOT INCLUDE DROP OR IBO)

| FISCAL YEAR | AVERAGE MONTHLY BENEFIT (in dollars) | PERCENT INCREASE |
|---|---|---|
| 1997 | 977 | 2.2% |
| 1998 | 1,005 | 2.9% |
| 1999 | 1,061 | 5.6% |
| 2000 | 1,093 | 3.0% |
| 2001 | 1,139 | 4.2% |
| 2002 | 1,205 | 5.8% |



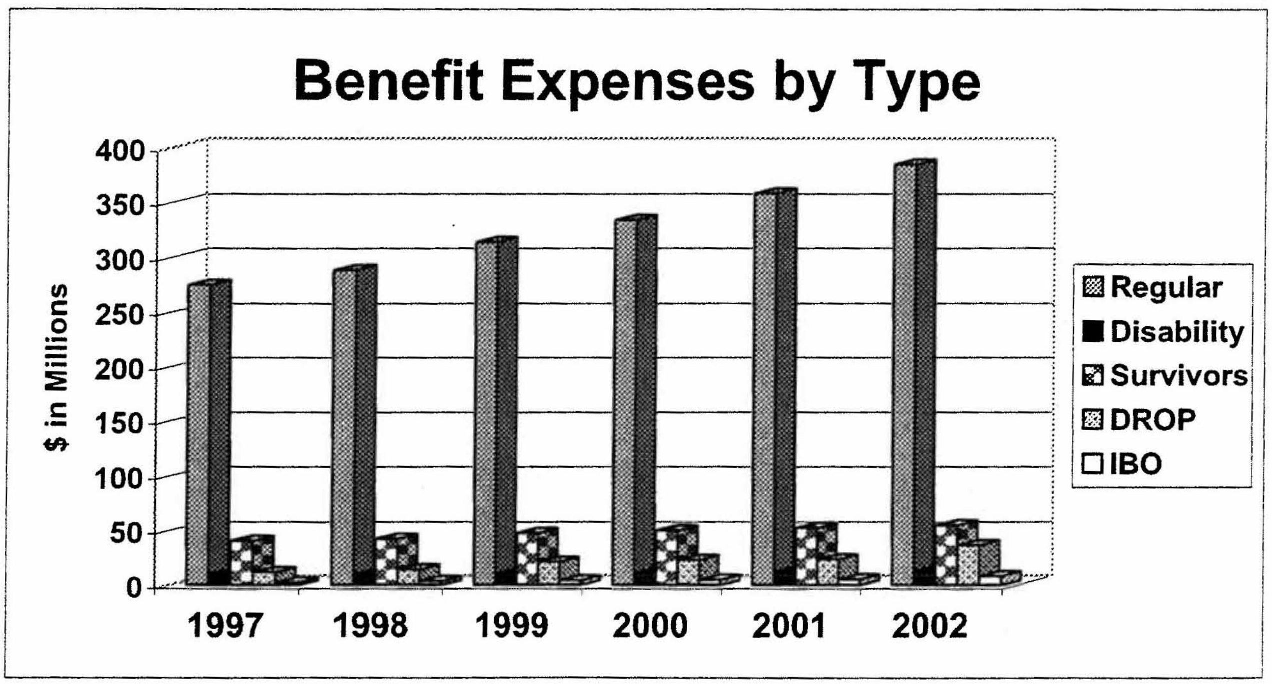
## SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT

| Fiscal Year | Regular | Disability | Survivors | Deferred Retirement | Total |
|---|---|---|---|---|---|
| 1997 | 21,839 | 1,119 | 4,808 | 2,562 | 30,328 |
| 1998 | 22,314 | 1,110 | 4,902 | 2,766 | 31,092 |
| 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 |



## SCHEDULE OF BENEFIT EXPENSES BY TYPE

| Fiscal Year | Regular | Disability | Survivors | Deferred Retirement Option | Initial Benefit Option | Total |
|---|---|---|---|---|---|---|
| 1997 | $ 274,892,988 | 10,117,627 | 40,556,909 | 12,078,910 | 2,406,144 | $ 340,052,578 |
| 1998 | $ 288,751,938 | 10,231,165 | 42,636,115 | 14,360,258 | 3,646,350 | $ 359,625,826 |
| 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 |



## SCHEDULE OF REVENUES BY SOURCE AND EXPENSES BY TYPE
## FOR THE SIX YEARS ENDED JUNE 30, 2002

### REVENUES BY SOURCE
(in dollars)

| Fiscal Year | Member Contributions | (1) Employer Contributions | Net Investment Income (3) | Other Income | Total | (2) Annual Covered Payroll | Percentage (1)(2) |
|---|---|---|---|---|---|---|---|
| 1997 | 126,793,791 | 204,985,747 | 735,749,729 | 8,903,383 | 1,076,432,650 | 1,653,141,267 | 12.4% |
| 1998 | 129,724,456 | 219,680,934 | 605,216,464 | 10,177,305 | 964,799,159 | 1,689,840,364 | 13.0% |
| 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 | (339,116,025) | 14,658,709 | 82,972,885 | 1,969,622,814 | 13.0% |

### EXPENSES BY TYPE
(in dollars)

| Fiscal Year | Benefits | Refunds | Administrative | Other | Total | Investment Expenses (3) |
|---|---|---|---|---|---|---|
| 1997 | 340,052,578 | 28,945,409 | 4,531,467 | 2,242,443 | 375,771,897 | 15,143,892 |
| 1998 | 359,625,826 | 32,156,373 | 6,703,504 | 2,501,942 | 400,987,645 | 17,162,772 |
| 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 | 6,228,405 | 502,657,413 | 18,916,270 |
| 2002 | 498,392,717 | 31,391,355 | 8,315,745 | 8,648,911 | 546,748,728 | 17,213,862 |

Investment income 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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