2005 **COMPREHENSIVE** ANNUAL **FINANCIAL** REPORT

Fiscal Year Ended June 30, 2005

LOUISIANA **STATE** EMPLOYEES' **RETIREMENT** SYSTEM **(LASERS)**

A COMPONENT UNIT OF THE STATE OF LOUISIANA

LASERS

LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

CAFR 2005

Louisiana State Employees' Retirement System

A Component Unit of the State of Louisiana

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2005

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Prepared by LASERS staff

TABLE OF CONTENTS

INTRODUCTORY SECTION

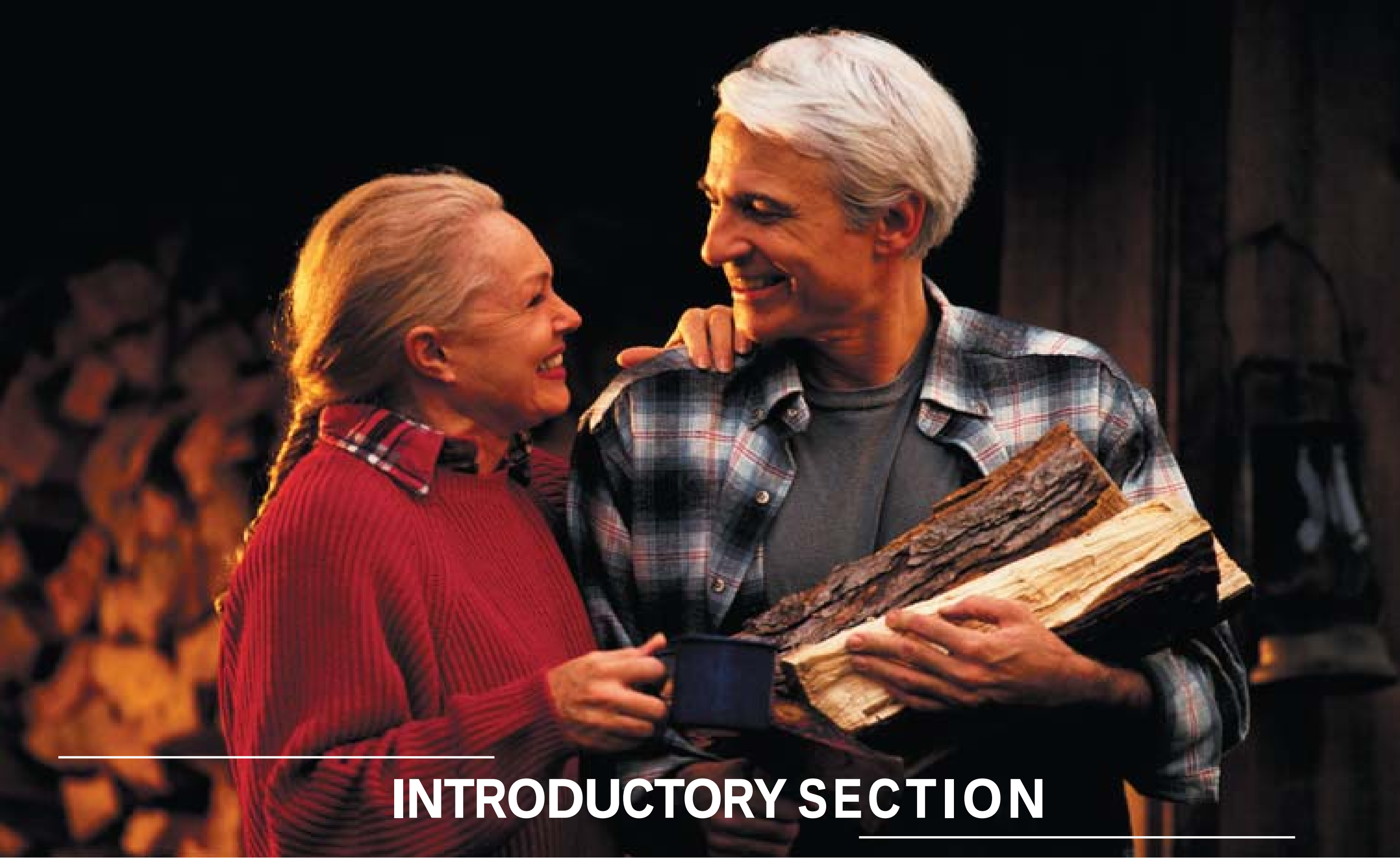
FINANCIAL SECTION

INVESTMENT SECTION

TABLE OF CONTENTS

ACTUARIAL SECTION

STATISTICAL SECTION



INTRODUCTORY SECTION


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, 2004
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

Public Pension Coordinating Council

Public Pension Standards

2004 Award

Presented to

Louisiana State Employees' Retirement System

In recognition of meeting professional standards for
plan design and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

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Robert L. Borden, CFA
Executive Director

December 31, 2005

Dear Board of Trustees and System Members:

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Louisiana State Employees' Retirement System (LASERS) for the fiscal year ended June 30, 2005. The report is a complete review of the financial, investment, and actuarial conditions of the system and is designed to comply with the generally accepted accounting principles established by the Government Accounting Standards Board (GASB), Financial Accounting Standards Board (FASB), and reporting standards of the Government Finance Officers Association (GFOA).

Responsibility for both the accuracy of the data, as well as the completeness and fairness of the presentation, rests with the management of LASERS. LASERS has established and maintains a system of internal controls, policies, and procedures designed to provide reasonable assurance that assets are properly safeguarded, transactions are properly executed, and reliable financial statements are produced. In addition, internal audit personnel and an independent external audit provide a review of internal controls and operations to ensure the integrity of our reporting.

The CAFR is divided into five sections:

- Introductory Section – contains general information regarding the operations of LASERS;

- Financial Section – contains a management discussion and analysis report, the independent auditors' opinion, the financial statements and notes thereto, and required supplementary information regarding the funds administered by LASERS;

- Investment Section – contains information pertaining to the management of the investments of the pension trust funds, including reports from the system's chief investment officer and investment consultant;

- Actuarial Section – contains information regarding the financial condition and financial position of the retirement plan administered by the system, including the retained actuary's opinion; and

- Statistical Section – contains general statistical information regarding system participants and finances.

Pension System History and Structure

The Louisiana State Employees' Retirement System was established by an act of the Louisiana Legislature in 1946 with the first members joining the System on July 1, 1947. Substantial revisions were made to the governing legislation of the plan in 1972. LASERS is the administrator of a single employer defined benefit pension plan under Section 401(a) of the Internal Revenue Code. The System is a public trust fund created to provide retirement allowances and other benefits for state officers and employees and their beneficiaries. Funding for LASERS comes from three sources - employer contributions, employee contributions, and earnings from investments. As of June 30, 2005, LASERS had a total membership of 137,048 members and net plan assets totaling over $7.2 billion.

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

In addition to the defined benefit plan, LASERS also offers an Optional Retirement Plan (ORP) to eligible employees. The ORP was created by legislation in 1999 for certain unclassified state employees. The ORP is a defined contribution plan and an alternative retirement plan for eligible employees that provides retirement and death benefits while affording the maximum portability of these benefits to participants. The plan allows participants to place their contributions with a provider approved by the LASERS Board of Trustees and direct investment decision making through their provider.

Major Initiatives

LASERS continues to maintain a well-diversified investment program to seek superior returns over its comprehensive long-term strategic plan. The System achieved double-digit investment returns for the fiscal year ended June 30, 2005. This was the third year LASERS posted a positive annual return demonstrating a strong system that has overcome the market downturns caused by 9/11 and the technology market crash. During the period, investment assets increased to $7.1 billion, an increase of $583.4 million over the prior fiscal year. This performance places LASERS in the top tier among its peers nationwide. The UAL balance, which reflects the difference between projected future liabilities and projected future assets, is amortized and repaid over time. The Louisiana Constitution provides for this balance to be repaid by 2029, with changes in the UAL for 1999 and thereafter amortized over a thirty-year period. Investment returns exceeding the LASERS assumed rate of return of 8.25% will ease the burden on taxpayers to fund the System and will provide funding for future Cost of Living Adjustments (COLAs) for retirees.

Another major initiative for LASERS is the focus on improved customer service through enhanced communications and educational services for members, employers, and other interested groups. The Retirement Education Department of LASERS offers pre-retirement seminars to agencies and individual members across the state through on-site visits and video conferencing. These seminars allow LASERS the opportunity to help improve members' understanding of laws that impact LASERS and increase members' opportunity for retirement counseling.

Utilization of technology to improve overall agency performance, communication, and education also continues to be a major initiative of LASERS. LASERS Internet website offers agency and member users access to current System information, educational programs, forms, publications, and legislation. Technological advances in imaging, bar coding, and online fillable forms have enabled LASERS to adopt new online forms to further enhance customer service to its member agencies by making agency forms available on the website. LASERS has also made a new e-mail subscription service available to its agencies and members. This service allows agencies and members to receive automatic updates to LASERS publications.

In addition, LASERS continues the development of a re-engineering project entitled the State of Louisiana Retirement Information System, or SOLARIS. SOLARIS is the new pension administration software system that will upgrade LASERS current computer database system and improve and streamline business processes between LASERS agencies and members. Expectations for SOLARIS include:

- Generation and maintenance of comprehensive information for agencies and members to allow for more informed decision making;
- Enhanced member annual statements;
- Reallocation of LASERS staff resources to provide more timely and accurate responses to member applications, requests, and inquiries;
- Improved customer service by automatically generating requests for required documents as changes occur throughout a member’s lifetime;
- Faster information updates to enable more accurate and timely benefit estimates for members and agencies; and
- A new interactive customer-focused website to provide more informative communication for LASERS staff, members, and agencies.

SOLARIS is scheduled to begin generating all benefit payments in 2006, and will begin handling all member functions in 2007.

Other highlights of the fiscal year ended June 30, 2005, include:

- Special purchases of service totaling $28.7 million for 2,561.4 years of service credit by 724 LASERS members in response to legislation enacted by the Louisiana Legislature effective July 1, 2004;
- Growth of LASERS Self-Directed Plan for members coming out of the Deferred Retirement Option Plan (DROP) or electing the Initial Benefit Option (IBO) to 618 participants with total investments of $40.3 million; and
- LASERS deposit of 5.56% interest totaling $15.4 million on eligible DROP and IBO accounts.

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 the assistance of 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 approximately 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 used to reduce LASERS UAL, fund COLAs, and pay administrative and operating expenses. The target asset allocation as of June 30, 2005, was 61% equities, 29% fixed income, and 10% alternative assets. The allocation is expected to achieve the required 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, 2005, LASERS had a total market value return of 10.2%, and a three year return of 10.7%, ranking LASERS in the top 15% of public pension systems for 3 year returns.

Financial Condition

From an actuarial perspective, the continued increase in investment values during the fiscal year ended June 30, 2005, that was also reflected in the prior two fiscal years, resulted in a 1.9% increase in the overall funded percentage of the fund. In addition, the Employee Experience Account, the reserve account established to fund COLAs, had a balance of $105,289,193.

Normal operating cash flows remained relatively stable throughout the year. The three main sources of operational income are employee and employer contributions and realized investment earnings from dividend and interest income. For the fiscal year ended June 30, 2005, these realized operating revenues totaled $785.4 million and disbursements, including investment manager fees, totaled $665.9 million. Thus, the net positive operating cash flow was $119.5 million dollars for the year ended June 30, 2005.

For the year ended June 30, 2005, LASERS reduced administrative expenses, spending only $16.0 million of a budgeted $18.6 million. A more detailed presentation of the budget versus actual activity for the year is shown in the Schedule of Administrative and Investment Expenses – Budget and Actual in the Financial Section of the CAFR.

The State of Louisiana has been adversely affected by Hurricanes Katrina and Rita which occurred on August 29, 2005, and October 02, 2005, respectively. LASERS currently anticipates an adverse impact on employer and employee contribution rates to the Plan for the fiscal year ending June 30, 2006, based on potential reductions in the number of State employees.

Certification of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Louisiana State Employees' Retirement System for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2004. This was the eighth consecutive year that the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principals and applicable legal requirements.

A Certificate of Achievement is valid for a period of only one year. 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 2004. This was the sixth 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.

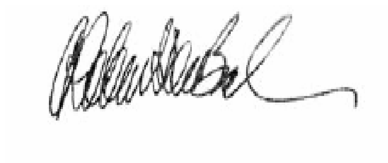
In addition, LASERS received the Public Pension Standards 2004 Award. The Public Pension Coordinating Council presents this award to public employee retirement systems in recognition of their achievement of high professional standards in the areas of plan design and administration, benefits, actuarial valuations, financial reporting, investments and membership communications. This is first time LASERS has received this prestigious award.

Acknowledgements

The preparation of the Comprehensive Annual Financial Report required the combined efforts of various divisions under the leadership of the Executive Director. The report is intended to provide extensive and reliable information to facilitate informed decisions, determine compliance with legal requirements, and determine responsible stewardship of assets contributed by LASERS members and their employers.

I would like to take this opportunity to express my gratitude to the Board of Trustees, the Staff, and to the many people who work so diligently to help our members.

Respectfully submitted,



Robert L Borden, CFA
Executive Director

BOARD OF TRUSTEES

Standing, left to right: Connie Carlton; Cheryl Turner; Kathy Singleton; John Broussard (designee for Ex Officio member Honorable John Kennedy, State Treasurer); Barbara McCann; Judge Trudy M. White; and Cynthia Bridges, 2005 Vice Chair.

Seated, left to right: Sheryl M. Ranatza; Louis S. Quinn; and Virginia Burton, 2005 Chair.

Not pictured: Honorable John Kennedy (State Treasurer); Representative Pete Schneider (Chairman, House Retirement Committee); and Senator D.A. "Butch" Gautreaux (Chairman, Senate Retirement Committee)

PROVIDERS OF PROFESSIONAL SERVICES

As of June 30, 2005

Actuary

Hall Actuarial Associates

Auditor

Postlethwaite & Netterville APAC

Custodian Bank

State Street Bank & Trust Company

Investment Consultant

New England Pension Consultants

Investment Managers

Domestic Equity

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

International Equity

- Mondrian International Advisers, Ltd.
- Nicholas Applegate Capital Management
- Schroder Investment Management North America Inc.
- SSGA Salomon PMI Fund
- Templeton Investment Counsel, LLC
- Rexiter Capital Management
- SSGA World Growth Index

International Emerging Market

- Schroder Investment Management North America Inc.
- Boston Company Asset Management

Domestic Fixed Income

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

Global Fixed Income

- Mondrian International Advisers, Ltd.

Real Estate

- Heitman/JMB Advisory Corporation
- L & B Real Estate Counsel

Private Equity

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

Absolute Return Strategies

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

A listing of investment managers with return rates are shown on pages 107 through 109 in the Investment Section.

ADMINISTRATIVE ORGANIZATION

Robert L. Borden, CFA
Executive Director

Vacant
Assistant Director for Administration

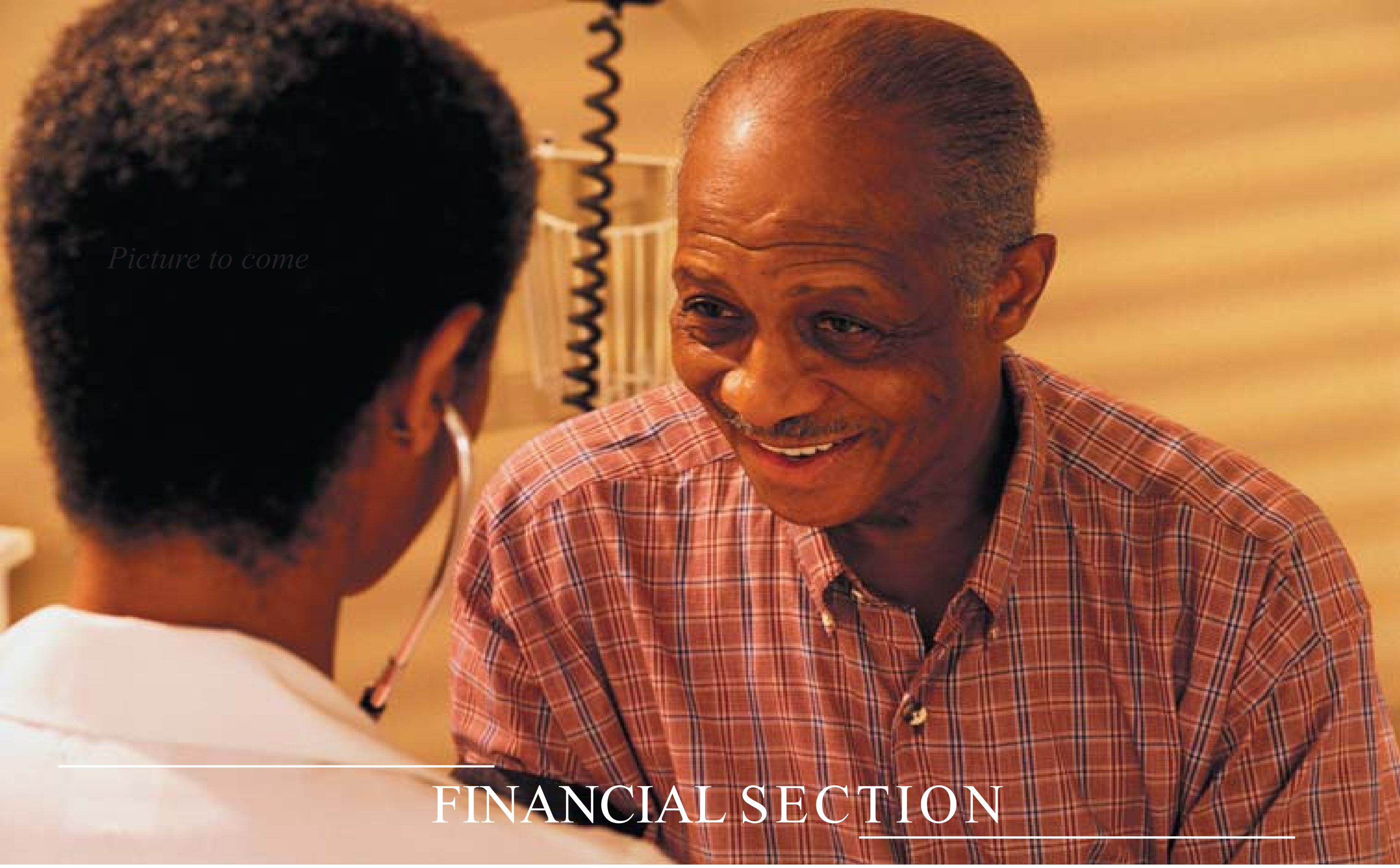
Cynthia Rougeou
Assistant Director for Operations

Jennifer N. Templet
Policy & Research Director

Robert Beale, CFA
Chief Investment Officer

Jeanette Eckert, CPA, CIA
Audit Services Director

Sonia Mallett
Executive Counsel



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, 2005 and 2004, 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, 2005 and 2004, and the changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note B to the financial statements, LASERS restated June 30, 2004 Statement of Plan Net Assets to include securities lending assets and related liabilities.

In accordance with *Government Auditing Standards,* we have also issued our report dated September 7, 2005, on our consideration of LASERS internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conj unction with this report in considering the results of our audit.

The Management Discussion and Analysis and the other required supplemental information on pages 27 through 31 and 58 through 59, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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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 61 through 65 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such infoiniation 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 7, 2005

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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 the Louisiana State Employees' Retirement System (LASERS), a component unit of the State of Louisiana, as of and for the year ended June 30, 2005, and have issued our report thereon dated September 7, 2005. We conducted our audit 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.

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 an opinion 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 that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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 perfonniing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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 ofnoncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use 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 7, 2005

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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, 2005. We encourage readers to consider the information presented here in conjunction with additional information furnished in the Transmittal Letter of LASERS Comprehensive Annual Financial Report (CAFR).

Financial Highlights

- As of June 30, 2005, LASERS Plan Net Assets held in Trust for the payment of benefits is $7,226,054,722, an increase of $618,066,393, or about 9.4%, from the fiscal year ended June 30, 2004. At June 30, 2004, Plan Net Assets were $6,607,988,329, an increase of $889,324,536, or about 15.6%, from the prior year. The primary causes of the increases in Plan Net Assets for both fiscal years are the rises in the financial markets that impacted LASERS investment performance and increases in employer contributions. All of the Plan Net Assets are available to meet LASERS ongoing obligations to its members, retirees and beneficiaries.

- In 2005, LASERS total revenue (Additions to Plan Assets) for the fiscal year was $1,248,723,401 compared to total revenue of $1,504,661,664 in 2004. The revenue consisted of employer and employee contributions totaling $561,013,894, investment income of $650,345,827 (net of manager fees), and miscellaneous income of $37,363,680. While 2005 investment results again exceeded our portfolio target of 8.25%, investment earnings were below the rate of earnings for 2004 when financial markets made significant recovery. This resulted in a $345,721,654 decrease in net investment earnings in 2005, which was partially offset by an $89,783,391 increase in employer and employee contributions and miscellaneous income.

  For the fiscal year ended in 2004, total revenue was $1,504,661,664 compared to $679,668,393 in 2003. The net positive revenue consisted of employer and employee contributions totaling $499,268,795, investment income of $996,067,481 (net of manager fees), and miscellaneous income of $9,325,388. The largest increase in revenue was from investment income as a result of a $630,822,217 gain in unrealized income.

- Expenses (Deductions in Plan Assets) for fiscal year 2005 were $630,657,008, an increase of $15,319,880, or approximately 2.5%, from the fiscal year ended June 30, 2004. In 2004, expenses were $615,337,128, an increase of $34,454,294, or approximately 5.9%, over the prior year. These increases were primarily due to an increase in benefit payments of $8,512,417 and $29,143,165 in 2005 and 2004, respectively, as a result of the increases in the number of retirees and average retirement benefits. Administrative expenses increased $3,370,315 for the fiscal year ended June 30, 2005, of which $2,700,516 resulted from increased administrative expenses for the State of Louisiana Retirement Information System (SOLARIS). See *Expenses – Deductions from Plan Assets* section on page 33 for further details.

- The SOLARIS project is a three-year capital outlay project begun in 2004 for the design, development, and implementation of computer software for a new pension administration system. The project has a total budget of $28,839,672, with life-to-date expenditures of $7,998,799.

- LASERS funding objective is to fund its long-term benefit obligations through contributions and investment income. As of June 30, 2005, the actuarial funded ratio of assets to liabilities is 61.5%. The unfunded liability is targeted to be substantially funded by 2029, with unfunded accrued liability changes for 1999 and thereafter amortized over a thirty-year period, in accordance with Act 588 of the 2004 Louisiana Legislative Regular Session.

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 comparative Statements of Plan Net Assets, comparative Statements 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 Statements 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 Statements 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 use the full accrual method of accounting and to provide certain disclosures in the footnotes. LASERS complies with all material requirements of these pronouncements.

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

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. (See *Notes to the Financial Statements* beginning on page 34 of this report.)

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 on page 58 of this report.)

The ***Supporting Schedules*** section includes the schedules of administrative expenses, investment manager fees and other investment expenses, and payments to consultants. (See *Supporting Schedules* beginning on page 61 of this report.)

Financial Analysis

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

LASERS Plan Net Assets as of June 30, 2005 and 2004, totaled $7,226,054,722 and $6,607,988,329, respectively. All of the Plan Net Assets are available to meet LASERS ongoing obligations to members, retirees, and beneficiaries.

Condensed Statements of Plan Net Assets *(Dollar Amounts Shown in Thousands)*

	2005	**2004**	**2003**	**2004 to 2005 Increase/ (Decrease)**	**2004 to 2005 % Change**	**2003 to 2004 Increase/ (Decrease)**	**2003 to 2004 % Change**
Cash	$73,610	$48,822	$91,562	$24,788	50.8%	($42,740)	(46.7%)
Receivables	83,142	70,604	89,632	12,538	17.8%	(19,028)	(21.2%)
Investments, at Fair Value	7,117,798	6,534,373	5,630,344	583,425	8.9%	904,029	16.1%
Securities Lending Collateral	3,254	565,175	529,242	(561,921)	(99.4%)	35,933	6.8%
Capital Assets	7,147	5,317	5,658	1,830	34.4%	(341)	(6.0%)
Total Assets	**$7,284,951**	**$7,224,291**	**$6,346,438**	**$ 60,660**	**0.8%**	**$877,853**	**13.8%**
Accounts Payable & Other Liabilities	55,643	51,128	98,532	4,515	8.8%	(47,404)	(48.1%)
Securities Lending Collateral	3,254	565,175	529,242	(561,921)	(99.4%)	35,933	6.8%
Total Liabilities	**58,897**	**616,303**	**627,774**	**(557,406)**	(90.4%)	**(11,471)**	(1.8%)
Net Assets Held in Trust	**$7,226,054**	**$6,607,988**	**$5,718,664**	**$618,066**	**9.4%**	**$889,324**	**15.6%**

In the year ending June 30, 2005, Plan Net Assets increased by $618,066,393, or about 9.4%. For the year ended June 30, 2004, Plan Net Assets increased by $889,324,536, or approximately 15.6%. The increases in the net assets are due primarily to a rises in the financial markets and increases in contributions received. Despite past 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 $119.5 million during fiscal year 2005 and $9.3 million during fiscal year 2004 (excludes both realized and unrealized investment gains and losses). LASERS continuously 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.

Changes in Plan Net Assets

Condensed Statements of Changes in Plan Net Assets ***(Dollar Amounts Shown in Thousands)***

	2005	2004	2003	2004 to 2005 Increase/ (Decrease)	2004 to 2005 % Change	2003 to 2004 Increase/ (Decrease)	2003 to 2004 % Change
Employer Contributions	$391,870	$335,992	$292,290	$55,878	16.6%	$43,702	15.0%
Employee Contributions	169,144	163,277	159,470	5,867	3.7%	3,807	2.4%
Investment Gain/(Loss) *	650,345	996,067	212,771	(345,722)	(34.7%)	783,296	368.1%
Miscellaneous	37,364	9,325	15,137	28,039	300.7%	(5,812)	(38.4%)
Total Additions	**$1,248,723**	**$1,504,661**	**$679,668**	**($255,938)**	**(17.0%)**	**$824,993**	**121.4%**
Benefit Payments	$581,665	$573,153	$544,010	$8,512	1.5%	$29,143	5.4%
Refund of Contributions	30,358	28,760	25,044	1,598	5.6%	3,716	14.8%
Administrative Expense	15,999	12,629	10,196	3,370	26.7%	2,433	23.9%
Other Expenses	2,635	795	1,633	1,840	231.4%	(838)	(51.3%)
Total Deductions	**$630,657**	**$615,337**	**$580,883**	**$15,320**	**2.5%**	**$34,454**	**5.9%**
Net Increase (Decrease)	**$618,066**	**$889,324**	**$98,785**	**($271,258)**	**(30.5%)**	**$790,539**	**800.3%**

***Net of investment manager fees of $24,114, $20,267, and $16,901 (in thousands) for June 30, 2005, June 30, 2004, and June 30, 2003, respectively.**

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, 2005, totaled $1,248,723,401, compared to the $1,504,661,664 revenue gain in 2004.

Contributions increased as a result of higher annual payroll and an increase in the employer contribution rate from 15.8% to 17.8%. Increases in the employer contribution rates are required to meet the constitutional mandate of the system being fully funded by 2029. Miscellaneous income increased by $28,038,292, or 300.7%, over the fiscal year ended June 30, 2004. In 2004, miscellaneous income decreased by $5,811,648, or (38.4%). The increase in the 2005 miscellaneous income is due to “airtime” purchases of service of $28,727,213 permitted by Act 340 of the 2004 Legislative Regular Session effective July 1, 2004. At June 30, 2005, the net effect of these increases and a lower investment gain was a $255,938,263 decrease in revenues, or a 17.0% decrease, compared to the prior year increase in revenues of $824,993,271 or 121.4% increase. The Investment Section of LASERS CAFR provides more detail concerning the investment activity for the fiscal year ended June 30, 2005.

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 ending June 30, 2005, totaled $630,657,008, an increase of approximately 2.5% over June 30, 2004. For the fiscal year ending June 30, 2004, deductions were $615,337,128, an increase of about 5.9% over June 30, 2003. The increases in benefits paid for both fiscal years resulted from increases in the number of retirees and the average benefit resulting from the higher average salary history of the newer retirees.

Total additions of $1,248,723,401 and $1,504,661,664 less total deductions of $630,657,008 and $615,337,128 resulted in net increases in Plan Net Assets of $618,066,393 and $889,324,536 for the fiscal years ended June 30, 2005 and 2004, respectively.

Administrative expenses increased by $3,370,315, or 26.7% at June 30, 2005. In 2004, administrative expenses increased $2,432,551, or 23.9% over 2003. The increase for the 2005 fiscal year was primarily due to the increase in salaries and related benefits of $1,197,108, professional services of $1,164,883, and acquisitions of $763,121. These increases are primarily a result of the SOLARIS project for backfilling of staff positions transferred to the project, hiring of professional consultants, and purchases of furniture, equipment, and computer hardware and software. Detail of Administrative expense activity can be found in the Schedule of Administrative and Investment Expenses – Budget and Actual on page 61.

Request for Information

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

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

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

STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2005 AND 2004

	2005	2004 (As Restated)
ASSETS		
Cash and Cash Equivalents (at fair value)	$ 73,610,366	$ 48,821,649
Receivables:		
Employer Contributions	27,816,733	23,542,144
Member Contributions	12,006,606	11,440,448
Interest and Dividends	26,320,386	26,327,175
Investment Proceeds	15,899,504	6,813,288
Open Investment Contracts	424,165	1,796,303
Other	674,914	684,254
Total Receivables	83,142,308	70,603,612
Investments (at fair value):		
Short-term Investments - Domestic	254,840,991	406,659,192
U. S. Government Obligations	528,943,080	453,183,609
Bonds/Fixed Income - Domestic	716,111,659	653,811,272
Bonds/Fixed Income - International	486,363,472	425,666,540
Equity Securities - Domestic	3,170,620,990	2,997,721,043
Equity Securities - International	1,242,685,966	1,094,007,887
Real Estate Investments	39,812,367	36,559,190
Alternative Investments	678,419,191	466,764,746
Total Investments	7,117,797,716	6,534,373,479
Securities Lending Collateral:		
Cash Collateral Held - Securities Lending Program	3,253,787	565,175,100
Total Securities Lending Collateral	3,253,787	565,175,100
Property and Equipment (at cost):		
Land	858,390	858,390
Building and Improvements	5,149,223	5,149,223
Equipment	7,622,118	8,976,375
Total Property and Equipment	13,629,731	14,983,988
Accumulated Depreciation	(6,482,650)	(9,666,559)
Property and Equipment - Net	7,147,081	5,317,429
TOTAL ASSETS	7,284,951,258	7,224,291,269
LIABILITIES		
Investment Commitments Payable	46,711,353	41,407,685
Accounts Payable - Open Investment Contracts	424,165	1,796,302
Accounts Payable and Other Accrued Liabilities	8,507,231	7,923,853
Total Accounts Payable and Other Liabilities	55,642,749	51,127,840
Securities Lending Obligations:		
Obligations Held Under Securities Lending Program	3,253,787	565,175,100
Total Securities Lending Obligations	3,253,787	565,175,100
TOTAL LIABILITIES	58,896,536	616,302,940
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (The Schedule of Funding Progress for the Plan is presented on page 61.)	$ 7,226,054,722	$ 6,607,988,329

The accompanying notes are an integral part of these statements.

STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004 (As Restated)
ADDITIONS		
Contributions:		
Employer Contributions	$ 391,870,045	$ 335,991,617
Member Contributions	169,143,849	163,277,178
Total Contributions	561,013,894	499,268,795
Investment Income:		
Net Appreciation in Fair Value of Investments	498,572,871	879,933,623
Interest and Dividends	167,880,858	131,744,630
Other Investment Income	6,229,958	3,156,407
	672,683,687	1,014,834,660
Less Investment Fee Expense	24,114,417	20,266,725
Net Investment Income Before Securities Lending	648,569,270	994,567,935
Securities Lending Income:		
Income from Securities Lending Activities	12,915,043	5,943,448
Less Borrower Rebates/Fees and Related Expenses	11,138,486	4,443,902
Net Securities Lending Income	1,776,557	1,499,546
Net Investment Income	650,345,827	996,067,481
Other Income	37,363,680	9,325,388
Total Additions	1,248,723,401	1,504,661,664
DEDUCTIONS		
Retirement Benefits	581,665,163	573,152,746
Refunds of Member Contributions	30,357,532	28,760,064
Administrative Expenses	15,999,373	12,629,058
Other	2,634,940	795,260
Total Deductions	630,657,008	615,337,128
NET INCREASE	618,066,393	889,324,536
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of Year	6,607,988,329	5,718,663,793
End of Year	$ 7,226,054,722	$ 6,607,988,329

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

A. PLAN DESCRIPTION

General Organization

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

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

Plan Membership

The System is one of several public retirement systems in Louisiana. Each system has specific membership requirements established by legislation with LASERS established for state officers and employees and their beneficiaries. Other public employers report members who retained membership in LASERS upon transfer to other public systems or as provided by specific legislation. A summary of government employers and members participating in LASERS at June 30, 2005 and 2004, follows:

	2005		2004	
Type of Employer	Number of Employers	Number of Members	Number of Employers	Number of Members
State Agencies	220	63,885	216	63,874
Other Public Employers	132	283	131	275
	352	64,168	347	64,149
Type of Active Members				
Regular State Employees		58,331		58,226
Corrections Employees		5,245		5,328
Judges		325		324
Wildlife Agents		218		217
Legislators		49		54
Total Active Members		64,168		64,149

At June 30, 2005 and 2004, membership consisted of:

	2005	2004
Retirees and beneficiaries currently receiving benefits	34,205	33,456
Terminated vested employees not yet receiving benefits	1,486	1,324
Deferred retirement option plan participants	2,810	2,835
Terminated non-vested employees who have not withdrawn employee contributions	34,379	35,955
Current active members	64,168	64,149
	137,048	137,719

DEFINED BENEFIT PLAN

Eligibility Requirements

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

Retirement

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

The basic annual retirement benefit for substantially all members is equal to 2.5% of average compensation multiplied by the number of years of creditable service.

Average compensation is defined as the member's average annual earned compensation for the highest 36 consecutive months of employment. The maximum annual retirement benefit cannot exceed the lesser of 100% of average compensation or certain specified dollar amount 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 benefit under any one of six different options providing for a reduced retirement benefit payable throughout his life with certain benefits being paid to his designated beneficiary after his death.

Act 75 of the 2005 Louisiana Regular Legislative Session changes retirement eligibility and final average compensation for members who are eligible to begin participation in the DBP beginning July 1, 2006. Retirement eligibility for these members is limited to age 60, or thereafter, upon attainment of ten years of creditable service. Final average compensation will be based on the member's average annual earned compensation for the highest 60 consecutive months of employment.

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 ten years of service.

Deferred Benefits

The state legislature authorized LASERS to establish a Deferred Retirement Option Plan (DROP). When a member enters DROP, his status changes from active member to retiree even though he continues to work at his regular job and draw his regular salary for a period of up to three years. The election is irrevocable once participation begins. During DROP participation, accumulated retirement benefits that would have been paid to each retiree are separately tracked. Interest at a rate of one-half percent less than the system's realized return on its portfolio (not to be less than zero) will be credited to the retiree after participation ends. At that time, the member must choose among available alternatives for the distribution of benefits that have accumulated in the DROP account.

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

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

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

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

Disability Benefits

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

Act 75 revised the disability retirement benefit for members of the DBP hired subsequent to June 30, 2006. The disability benefit for members who have not attained age 60 will be equivalent to 1.8% of average compensation for each year of creditable service.

Upon reaching age 60, the disability retiree may receive a regular retirement benefit by making application to the Board of Trustees.

Survivor's Benefits

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

Supplemental Benefit Adjustments

Previous statutes allowed the Board of Trustees to make annual supplemental cost-of-living adjustments (COLAs) each year when the System's Actuary and the State Legislative Actuary certified that LASERS was systematically approaching actuarial soundness, if such COLAs had not already been enacted by the legislature. The COLAs could not be greater than 3% in any year. These adjustments were computed on the base retirement or survivors' benefit. Benefit increases have occurred under the statutes in various years since 1970 and have been limited to the 3% amount. In addition, several other COLAs or supplemental benefit payments have occurred in the past as a result of legislation, some being paid from investment income, and others being paid from funds appropriated by the state legislature. COLAs were granted in 1980, 1981, 1984, 1986 and 1991.

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

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

In 2001, Act 1016 provided for an additional 1% COLA when the actuarial return exceeds 8.25%. Beginning with the 2002 fiscal year, Act 1016 limited the COLA to the first $70,000 of a member's benefit and provided for the $70,000 to be increased each year in an amount equal to any increase in the consumer price index (U.S. city average for all urban consumers (CPI-U)) for the preceding year. In addition, the legislation provided that any COLA increase shall begin on July 1st following legislative approval.

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

Act 588 of the 2004 Regular Session made significant changes to prospective funding for COLAs. The outstanding balance of changes in liabilities from 1993 – 1998 were re-amortized as a level dollar amount through 2029. The amortization period for changes in liabilities beginning with 1999 were extended to a thirty-year period from the date of occurrence, in accordance with GASB. A minimum employer contribution rate of 15.5% and an Employer Credit Account were established for excess contributions.

Act 588 also reset the Employee Experience Account to zero and thereafter limited the account balance to no more than the reserve for two COLAs. The Employee Experience Account had a balance of $105,289,193 at June 30, 2005.

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

Optional Retirement Plan

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

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

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

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

Eligible employees may make a voluntary irrevocable election to participate in the ORP rather than the DBP. If an eligible employee fails to make an election for the ORP within the election period established by the legislature, the employee automatically becomes a member of the DBP. Members who elect to join the ORP shall not be considered eligible for any benefits provided from the DBP, forfeiting all service credit. As of June 30, 2005, the number of participants in the ORP is 84. Employee contributions in the ORP plan equal 7.5% of earned income. From this contribution, LASERS receives 1% of earned income for administrative fees.

Employer contributions shall be the same amount as would have been contributed in the DBP. For ORP participants, the employer rate for normal employer cost is transferred to the employees' ORP account and the Unfunded Liability portion of the employers' contributions are used to reduce the Plan's Unfunded Liability. For the year ended June 30, 2005, the employer rate was 17.8%, which included the normal employer cost of 6.6877% and the Unfunded Liability rate of 11.1123%. The total amount retained by the System during the fiscal year for the Unfunded Liability was $539,213.

B. <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u>

<u>Basis of Accounting</u>

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.

<u>Use of Estimates</u>

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

Method Used to Value Investments

As required by GASB No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, investments are reported at fair value. Short-term investments are reported at market value when published prices are available, or at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds are valued based on yields currently available on comparable securities from issuers of similar credit ratings. Mortgage securities are valued on the basis of estimated future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

Pension plan investments and financial statements are subject to market fluctuations that can rapidly change the fair value on a day-to-day basis. Such market swings can create material changes in unrealized appreciation (depreciation) of investments.

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. The capitalization thresholds of property and equipment for the year ended June 2005 were:

- Computer Software Developed or Modified Internally - $1,000,000
- Other Computer Software Purchases - $5,000
- Movable Property and Equipment - $1,000

For the years ended June 2005 and 2004, the change in accumulated depreciation on building and improvements was $131,467 and $130,848, respectively. The changes in accumulated depreciation on equipment for the same periods were ($3,876,438) and $550,831, respectively. During the 2005 fiscal year, LASERS reduced equipment by $3,950,358 due to the abandonment of certain assets.

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

Compensated Absences

The System’s financial statements include accruals of its employees’ accumulated earned personal leave including benefits. Upon termination of employment, an employee is paid a lump sum amount for a maximum of 300 hours of accrued personal leave.

Restatement of Financial Statements

The financial statements for the fiscal year ended June 30, 2004, have been restated to reflect LASERS reporting of its Securities Lending Program. LASERS clarified that our third party custodian was managing this program as our agent, receiving cash, and reinvesting those proceeds in a commingled investment pool under our direction. Therefore, in compliance with GASB No. 28, *Accounting and Financial Reporting for Securities Lending Transaction* the restatement resulted in an increase in total assets of $565,175,100 related to the reporting of the market value of the Securities Lending Program’s Cash Collateral Held, and a corresponding increase in total liabilities of $565,175,100 related to the offsetting Obligations Under the Securities Lending Program.

C. CONTRIBUTIONS

Reclassifications

Certain amounts in the 2004 financial statements have been reclassified to conform to current year presentation.

Member Contributions

Member contribution rates for the System are established by La. R.S. 11:62. Member contributions are deducted from the member's salary and remitted to the System by participating employers. The rates in effect during the years ended June 30, 2005 and 2004, for the various types of members are as follows:

Type	% of Earned Compensation	
	2005	2004
Judges, court officers and legislators, the Governor and Lt. Governor	11.5%	11.5%
Clerk of the House of Representatives and Secretary of the Senate	9.5%	9.5%
Certain Department of Corrections employees	9.0%	9.0%
Certain Department of Wildlife and Fisheries employees	9.5%	9.5%
Certain Bridge Police employees	8.5%	8.5%
All others*	7.5%	7.5%

*Act 75 of the 2005 Regular Session increased the member contribution rate for members hired effective July 1, 2006, from 7.5% to 8.0%

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

Employer Contributions

Each employer is required to contribute a percentage of each employee's earned compensation to finance participation of its employees in LASERS. The employer's contribution rate is established annually under La. R.S. 11:101-11:104 by the Public Retirement Systems' Actuarial Committee (PRSAC), considering the recommendation of the System's Actuary. In February 2005, PRSAC reset the rate officially for the 2005-2006 plan year to 19.1%. This rate of employer contribution is 0.2 % more than the 18.9% required employer contribution rate recommended in the 2004-2005 System Actuary's Valuation.

Shown below are the rates for the years ended June 30, 2005 and 2004:

	2005	2004
Percent of members' earned compensation	17.8%	15.8%

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

THREE-YEAR TREND INFORMATION

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/03	$328,772,738	94.1%	$21,225,164
6/30/04	$364,930,168	96.1%	$35,367,487
6/30/05	$404,460,067	100.9%	$31,552,169

Purchase of Service Credit

Act 340 of the 2004 Louisiana Legislative Regular Session amended the purchase of service credit provisions enacted by Act 289 of the 1992 Regular Session. Effective July 1, 2004, Act 340 established that any LASERS member with at least one year of service credit in the System would be eligible to obtain up to five years of service credit in one-year increments (referred to as "Airtime" service credit purchases) provided that application for the purchase of service was made on or before June 30, 2005. The amount of the service credit calculation is the greater of the actuarial cost provisions of La. R.S. 11:158, or the member and employer contributions plus interest based on the member's current salary. Member payments will offset the increase in the accrued liability of the System and must be made in one lump sum and received by June 30, 2006. No service credit will be granted to a member until paid in full. During the fiscal year ended June 30, 2005, LASERS received $28,727,213 for purchases of service credit allowed by Act 340.

Service credit purchased under the provisions of Act 340 could be used to increase a member's eligibility for retirement. Act 75 of the 2005 Regular Session amended Act 340 and provided that purchases of service credit made on or after July 1, 2005, will be used solely for the calculation of retirement benefits, and may not be used for the attainment of additional years of retirement eligibility.

Transfer of Service

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

Deposit and Investment Risk Disclosures

Statement No. 40 of the Governmental Accounting Standards Board (GASB), *Deposit and Investment Risk Disclosures* established and modified disclosure requirements related to investment risks. This section describes various types of investment risk and LASERS exposure to each type. The tables presented include disclosures regarding credit risk, interest rate risk, and foreign currency risk in accordance with GASB 40 and are designed to inform statement of net assets users about investment risks that could affect LASERS ability to meet its obligations. These tables classify investments by risk type, while the statement of net assets presents investments by asset class; therefore, totals shown on the tables may not be comparable to the amounts shown for each individual asset class on the statement of net assets. For issues/issuers of investment-grade quality bonds, Standard and Poors (S&P) assigns credit ratings of AAA, AA, A, and BBB, while Moody's assigns Aaa, Aa, A, and Baa. (Both agencies introduced rating modifiers in the early 1980's. S&P added plus and minus signs while Moody's added 1, 2 and 3). For issues/issuers of non-investment-grade quality bonds, S&P assigns ratings of BB, B, CCC, CC, C, and D, while Moody's assigns Ba, B, Caa, Ca, and C (again with modifiers). The higher the rating, the less likely chance of default (defined as an issuer not making a payment of principal or interest on time). According to S&P's definition, a triple-A rating means that the issuer has an "extremely strong capacity to pay interest and repay principal on time", whereas, a C rating means a "high risk of default or reliance on third parties to prevent default."

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of bank failure, the system and plans' deposits may not be returned to them. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the pension trust fund will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either: a) the counterparty or b) the counterparty's trust department or agent but not in the government's name. Assets held by financial institutions in their capacity as trustee or custodian are not considered to be assets of that institution as a corporate entity for insolvency purposes. These assets are segregated from the corporate assets of the financial institution and are accounted for separately on the institution's general ledger. As a result of this segregation, assets held in a custodial capacity should not be affected if the custodial institution were placed into receivership by its regulators. Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risks because their existence is not evidenced by securities that exist in physical or book entry form. LASERS had no custodial credit risk as of June 30, 2005.

Counterparty Credit Risk

The risk that in the event of the failure of the counterparty (the party that pledges collateral or repurchase agreement securities to the system or that sells investments to or buys them for the system) the pension system will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Therefore, LASERS requires managers to measure and monitor exposure to counterparty credit risk. All counterparties must have commercial paper credit ratings of at least AA by S&P or an equivalent rating by another rating service.

Concentration of Credit Risk

Concentration of credit risk is the "risk of loss attributed to the magnitude of investments in a single issuer." The risk occurs "when investments are concentrated in any one issuer that represents 5 percent or more of plan net assets." Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. 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.

Credit Risk

Credit risk is the risk that a borrower will be unable to meet its obligation. The average quality of each fixed income portfolio shall be rated AA by S&P or higher. Non-rated issues or issues below investment grade (below BBB) may be purchased up to a maximum of 15% of the portfolio. These quality restrictions will not apply to a manager that is hired by LASERS to manage dedicated high-yield fixed income portfolios. The average duration (interest rate sensitivity) shall not differ from the passive benchmark's duration by more than two years.

The System's exposure to credit risk, both domestic and foreign, as of June 30, 2005 and 2004, is as follows:

Moody or S&P Rating	**Fair Value 6/30/2005**	**Fair Value 6/30/2004**
AAA	$ 831,695,245	$ 680,888,821
AA3	12,291,629	14,163,864
AA2	6,073,548	19,518,534
AA1	6,668,109	6,434,451
AA	253,947,361	-
A3	22,555,311	27,226,804
A2	135,631,869	65,502,546
A1	24,145,387	26,559,962
A	-	2,816,856
B	839,246	3,275,200
B-	2,590,526	-
B+	790,745	-
B1	66,131,553	53,873,764
B2	102,081,172	99,277,409
B3	92,358,809	68,756,795
BA1	23,220,875	53,458,567
BA2	45,560,152	62,196,598
BA3	115,868,380	101,462,106
BAA1	27,340,856	29,826,912
BAA2	55,802,530	51,751,134
BAA3	39,502,219	46,017,742
BB-	1,488,831	-
BB+	1,623,712	-
BBB-	445,000	-
C	1,863,225	-
CA	12,894,750	16,860,590
CAA1	25,594,642	12,575,375
CAA2	12,750,876	15,526,393
CAA3*	15,282,880	10,918,768
CCC+	608,250	-
D	143,951	-
N/A	14,309,367	31,365,715
TOTAL	**$1,952,101,006**	**$1,500,254,906**

*Includes commingled global investment fund rated CAA3 by Moody

Interest Rate Risk

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

Securities held by the system with interest rate sensitivity (floaters/inverse floaters) equaled 0.014 percent of the portfolio's fair value at June 30, 2005.

At fiscal year end June 30, 2005, LASERS had $98,524,631 in securities with interest rate risk exposure due to the following floaters and inverse floaters:

		Coupon Multipliers		Embedded Options	Interest Rate Sensitivity	
Asset Type	**Benchmark Indices**	**Coupon (range)**	**Imputed Multiplier (range)**	**Weighted Average Life**	**Duration (average)**	**Fair Value 6/30/2005**
Non-callable Securities with Annual Reset Dates	Federal Reserve US Treasury Note 1.5%	3.999 - 5.363	0.049 - 1.414	1.137	0.794	$10,341,162
	BBA Libor USD 12 Month	3.351 - 5.280	- 0.069 - 0.994	2.681	2.391	52,028,670
Non-callable Securities with Monthly Reset Dates	Federal Reserve US 12 Month Cumulative Avg 1 Year CMT	4.033	1.168	0.083	0.670	1,174,731
	BBA Libor USD 1 Month	4.980	1.470	5.560	23.680	2,692,438
Callable Securities with Monthly Reset Dates	Federal Reserve US 12 Month Cumulative Avg 1 Year CMT	4.137	1.272	0.083	-	10,081,250
	BBA Libor USD 1 Month	3.735 - 23.477	0.0225 - 20.089	5.733	16.892	17,305,630
Callable Floating Security with Quarterly Reset Dates	US Libor Quarterly	L+425	1.000	5.125	4.122	2,274,250
Callable Floating Security with Semi-Annual Reset Dates	US Libor S/A	L+550	1.000	7.833	5.457	2,626,500
TOTAL						**$98,524,631**

<u>Foreign Currency Risk</u>

Foreign currency risk is the potential risk for loss due to changes in exchange rates. 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.

Currency contracts may be utilized to either hedge the portfolios currency risk exposure or in the settlement of securities transactions.

The fair value of securities held in a foreign currency at June 30, 2005, and June 30, 2004, was as follows:

CURRENCY	Total Fair Value 6/30/2005	Foreign Bonds 6/30/2005	Foreign Stock 6/30/2005	%* 6/30/2005	Total Fair Value 6/30/2004
Australian Dollar	$ 32,867,641	$ -	$ 32,867,641	3.20%	$ 48,879,141
Canadian Dollar	24,668,559	3,193,248	21,475,311	2.40%	7,343,273
Danish Krone	1,993,183	-	1,993,181	0.19%	-
Euro	371,472,722	158,165,388	213,307,334	36.16%	219,162,468
Hong Kong Dollar	11,499,100	-	11,499,100	1.12%	6,560,545
Japanese Yen	243,395,185	140,976,892	102,418,293	23.69%	131,017,082
Mexican Peso	4,385,378	4,385,378	-	0.43%	-
New Zealand Dollar	740,812	-	740,812	0.07%	2,947,612
Norwegian Krone	7,705,979	-	7,705,979	0.75%	3,580,067
Polish Zloty	21,828,716	21,828,716	-	2.12%	30,675,502
Pound Sterling	198,837,324	36,828,764	162,008,560	19.36%	86,343,221
Singapore Dollar	12,415,028	1,486,164	10,928,864	1.21%	6,150,016
South African Rand	-	-	-	0.00%	5,124,272
South Korean Won	5,410,818	-	5,410,818	0.53%	9,981,985
Swedish Krona	59,443,833	41,056,732	18,387,101	5.79%	47,322,454
Swiss Franc	27,692,135	-	27,692,135	2.70%	15,510,872
US Dollar	2,881,085	2,556,650	324,435	0.28%	-
TOTAL	**$1,027,237,498**	**$410,477,932**	**$616,759,564**	**100.00%**	**$ 620,598,510**

*Percentage of total foreign currency holdings.

LASERS Investment guidelines, some of which are noted in *Note E. Cash and Investments,* are designed to mitigate the risks discussed above.

E. CASH AND INVESTMENTS

Cash and Cash Equivalents

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

Short-Term Investments

Short–term funds may be invested in direct U.S. Government obligations such as U.S. Treasury Bills or repurchase agreements, which are fully collateralized by U.S. Treasury issues. Excess cash may also be invested in the Short Term Investment Fund (STIF) and Yield Plus Fund of the Custodian Bank or negotiable certificates of deposit, or other short-term investment vehicles designated by the Board.

At June 30, 2005, LASERS had the following balances in short-term funds held at State Street Bank (SSB):

ISSUER	Fair Value 6/30/2005	S&P Rating	Comment
US Treasury	$893,630	AAA	
SSB STIF (State Street Bank Short Term Investment Fund)	253,947,361	Unrated	Average rating of AA on underlying issues
TOTAL	**$254,840,991**		

Investments

Investments of the pension trust funds are reported at fair value. Fair value of the equity real estate investments are based on appraisals. Fair values of the limited partnership investments are based on valuations reported by the general partner. The remaining assets are primarily valued by the investment custodian bank. Certain immaterial adjustments have been made to reflect the true fair value of some portfolio per investment manager reconciliation.

La. R.S.11:261-269 provide for the governing of fiduciary responsibilities and investments by LASERS. La. R.S.11:263 states that the prudent man rule shall apply to all investments of LASERS. This law specifically requires management of LASERS to exercise the judgment and care under the circumstances then prevailing that an institutional investor of ordinary prudence exercises in the management of large investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds considering probable safety of capital as well as probable income.

La. R.S.11:267C provides that the system may invest up to 65% of its total assets in common stock provided that "the system invests an amount equal to at least 10% of the system's total equity portfolio in one or more index funds" in accordance to La. R.S.11:267B(1)(a). In addition, LASERS Board of Trustees has adopted certain investment policies, objectives, rules, and guidelines that are intended to protect and preserve LASERS assets while targeting a 9.35% nominal rate of return and also, a real return target of 4% over the inflation rate as determined by the consumer price indexes (CPI).

During fiscal year 2005, the System's investments (including those bought, sold, and held during the year) appreciated in value by $498,572,871 compared to the appreciation of investments by $879,933,623 in 2004.

	2005	2004
Unrealized gains/(losses) on investments during the year:	$ 96,066,547	$ 630,822,217
Realized gains/(losses) on investments including currency sold during the year:	402,506,324	249,111,406
	$ 498,572,871	**$ 879,933,623**

The following table presents the fair value of investments permissible under such objectives, rules and guidelines as of June 30, 2005, and June 30, 2004:

INVESTMENT TYPE	Fair Value 6/30/2005	Fair Value 6/30/2004
American Depository Receipts	$ 86,678,016	$ 26,936,413
Collateralized Mortgage Obligations	65,135,754	27,759,195
Commingled Stock Fixed Income	14,120,380	10,918,768
Commingled Stock Funds	48,870,369	82,490,411
Corporate Bonds	641,801,123	607,461,573
Domestic Common Stock	3,121,750,620	2,915,230,632
Federal Agency Sponsored	24,431,612	28,986,408
Federal Sponsored	391,044,351	354,237,546
Fixed Income Commingled	34,158,197	21,487,748
Foreign Corporate Bonds	23,485,832	49,465,159
Foreign Corporate Yankee Bonds	61,765,160	91,452,725
Foreign Govt Bonds	381,534,703	269,913,005
Foreign Govt Yankee Bonds	5,457,398	3,916,883
Foreign Preferred Stock	4,306,766	2,607,755
Foreign Stock Rights	482,914	1,871,700
International Commingled Stock Fund	539,248,385	708,065,896
International Common Stock	611,969,884	354,526,122
Other Bonds	40,152,338	24,861,952
Alternative Investments	678,419,191	466,764,746
Real Estate Investment Pools	39,812,367	36,559,190
Short Term Investment Funds	254,840,991	406,659,192
Us Treasury Bonds	11,842,824	-
Us Treasuries Bill & Notes	36,488,541	42,200,460
TOTAL	**$7,117,797,716**	**$6,534,373,479**

Domestic Equity

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 that 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.

International Equity

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

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 (CMOs) 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 may invest up to 20% of their portfolios in non-U.S. fixed income securities.

Global Fixed Income

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 leverage portfolio risk exposure. Currency contracts may be utilized to either hedge the portfolio's 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.

As of June 30, 2005, the System had the following domestic and foreign debt investments and maturities:

		Investment Maturities (in years)			
INVESTMENT TYPE	**Fair Value**	**Less than 1**	**1 - 5**	**5 - 10**	**More than 10**
U.S. Treasuries	$ 48,331,365	$ 21,932,676	$ 6,349,874	$ 8,205,991	$ 11,842,824
Federal Sponsored	391,044,351	34,138,728	2,528,010	11,312,966	343,064,647
Federal Agency Sponsored	24,431,612	-	-	1,469,473	22,962,139
Collateralized Mortgage Obligations	65,135,754	-	-	-	65,135,754
Corporate Bonds	641,801,123	10,820,861	224,923,196	369,862,192	36,194,874
Foreign Corporate Bonds	23,485,832	-	23,485,832	-	-
Foreign Government Bonds	381,534,703	1,515,072	193,212,397	153,287,509	33,519,725
Corporate Yankee Bonds	61,765,160	-	16,792,588	35,588,674	9,383,898
Government Yankee Bonds	5,457,398	-	2,900,748	1,315,650	1,241,000
Other Bonds	40,152,338	-	25,063,318	3,549,559	11,539,461
TOTAL	**$ 1,683,139,636**	**$ 68,407,337**	**$495,255,963**	**$584,592,014**	**$534,884,322**

Derivatives

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

Derivative Securities

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

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

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.

Derivative Contracts

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

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

Options are contracts that allow the holder to purchase or sell financial instruments for cash at a specified price at or within a specified period of time. Options bear the risk of an unfavorable change in the price of the financial instruments underlying the option and the risk that a counterparty is unable to perform in accordance with the terms of the option. LASERS held no options as of June 30, 2005.

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

The following table represents the fair value of all open currency forwards at June 30, 2005:

Currency Forward	US Dollar Value at Trade Date	Current US Dollar Value	Unrealized Gain(Loss)
Sold GBP/ Bought USD	$ 653,535	$ 629,624	($ 23,910)
Bought JPY/ Sold USD	$ 424,165	$ 424,395	$ 230
Sold GBP/ Bought USD	$ 52,874,557	$ 49,904,729	$ 2,969,828

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.

Alternative Investments

Investments in alternative investments, including limited partnership agreements, private capital markets, venture capital, mezzanine debt, and hedge funds shall have a target market value of 10% of total fund assets. The total commitments for alternative investments (private placements) were approximately $763,101,621 and $713,241,151 as of June 30, 2005 and 2004, respectively. The total amount invested in alternative assets as of June 30, 2005 and 2004, on a cost basis was $673,391,019 and $494,366,940, respectively.

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 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.

F. SECURITIES LENDING PROGRAM

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

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

Also, during the fiscal year, the System and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool managed by the custodian. As of June 30, 2005, such investment pool had an average duration of 40 days and an average weighted maturity of 410 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, 2005, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System.

The market values of securities on loan and the collateral held for the System as of June 30, 2005, were $3,208,983 and $3,281,507, respectively.

Fair value of securities types lent as of June 30, 2005 and 2004:

SECURITY TYPE	Fair Value of Securities on Loan 6/30/2005	Fair Value of Collateral Held 6/30/2005	Fair Value of Securities on Loan 6/30/2004	Fair Value of Collateral Held 6/30/2004
U.S. Government and Agency	$ 2,701,237	$ -	$ 66,567,890	$ 67,813,409
U. S. Corporate*	-	2,756,705	416,540,852	424,727,071
International Equity	507,746	524,802	62,000,267	65,118,170
International Fixed	-	-	10,730,052	10,857,600
TOTAL	**$ 3,208,983**	**$ 3,281,507**	**$ 555,839,061**	**$ 568,516,250**

*This security type includes securities collateral.

G. OPEN INVESTMENT CONTRACTS

Open investment contracts include forwards and future contracts for the delayed delivery of currencies at a future date. The amounts that clear within the same broker/banks and consist of the same currency are offset. The receivables and payables include the same currencies clearing through different brokers/banks and LASERS has no right of offset. The System expects no significant loss or gain from these transactions. Any type of investment other than detailed previously shall be made only after specific guidelines are established by the Board of Trustees.

H. SELF-DIRECTED PLAN (SDP)

Investments in the Self-Directed Plan consist of different mutual funds, such as, domestic equity, foreign equity, and domestic fixed income. SDP includes $6,970,716 invested in equity type funds and $33,347,694 in domestic fixed income:

ISSUER	Fair Value 6/30/2005	Fair Value 6/30/2004	Rating	Comment
Hancock Horizon Strategic Inc., Bond Trust	$ 41,898	$ 15,014	Unrated	Average rating of A on underlying issues.
Stable Value Fund	$ 32,351,584	$ 20,968,048	Unrated	Average rating of AAA on underlying issues.
Loomis Sayles Bond Fund-Retail	$ 650,444	$ 342,750	Unrated	Average rating of A+ on underlying issues.
Pimco Total Return Fund-Admin (60% allocated to bonds)	$ 270,941	$ 112,050	Unrated	Up to 10% can be invested in high yield.
Strong Government Securities Fund (replaced by Wells Fargo)	$ 32,827	$ 49,848	Unrated	Average rating of AAA on underlying issues.

I. OPTIONAL RETIREMENT PLAN (ORP)

Investments in the Optional Retirement Plan are mutual funds that consist of domestic equity, foreign equity and domestic fixed income. ORP includes $2,466,635 invested in equity type funds and $810,504 in domestic fixed income:

ISSUER	Fair Value 6/30/2005	Fair Value 6/30/2004	Rating	Comment
Great West Guaranteed Fund	$ 680,359	$ 368,380	Unrated	Average rating of AAA on underlying issues.
Janus Flexible Fund	$ 9,048	$ 7,800	Unrated	Average rating of AA on underlying issues.
Maxim Loomis Bond Fund	$ 121,097	$ 22,908	Unrated	Average rating of A+ on underlying issues.

J. CAPITAL OUTLAY PROJECT

In 2004, LASERS began an approximately three-year capital project for the design, development and implementation of computer software for a new pension administration system. The new system is named the State of Louisiana Retirement Information System, or SOLARIS. SOLARIS will replace the current pension administration system with applications that will offer enhanced core pension administration functions. The objectives of the SOLARIS project are to improve service and reporting levels for member agencies, members, and retirees while improving internal system work flows and increasing the efficiency of the LASERS staff.

In May 2004, LASERS adopted an internal policy for the capitalization of certain costs related to the project. The policy separates the activity of the project into three stages:

- Preliminary project stage
- Application development stage
- Post-implementation/operation stage

Expenditures related to the preliminary project and the post-implementation/operation stages are expensed as incurred. Certain costs of the application development stage may be capitalized. Activities expensed as incurred follow guidelines of AICPA SOP 98-1 and include reengineering efforts, data conversion and cleanup, and training. The project cost summary is as follows:

Project Summary

	Capitalized	Non-Capitalized	Total
Approved Budget			$28,839,672
Fiscal Year June 30, 2004 Expenditures	$ -	$1,696,589	1,696,589
Fiscal Year June 30, 2005 Expenditures	1,416,516	4,885,694	6,302,210
Expenditures through June 30, 2005	$1,416,516	$6,582,283	$7,998,799
Remaining Project Budget			$20,840,873

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS
FOR THE SIX YEARS ENDED JUNE 30, 2005
(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)
6/30/00	$ 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%
6/30/03	6,487,538	9,796,306	3,308,768	66.2%	1,924,680	171.9%
6/30/04	6,097,815	10,237,574	4,139,759*	59.6%*	2,017,726	205.2%
6/30/05	6,673,500	10,847,062	4,173,562	61.5%	2,100,043	198.7%

The total actuarial accrued liability determined using the Projected Unit Credit cost method increased by $609,488 from June 30, 2004, to June 30, 2005. There was a net experience gain of $60,625 after allocating $105,289 of investment income to the Experience Account in accordance with current legislation. (All dollar amounts reported in thousands.)

SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE SIX YEARS ENDED JUNE 30, 2005

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2000	$ 250,678,505	99.8%
2001	258,281,738	100.7%
2002	279,119,335	97.2%
2003	326,335,197	94.8%
2004	367,881,226	95.4%
2005	411,727,561	99.2%

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

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

ACTUARIAL METHODS AND ASSUMPTIONS
JUNE 30, 2005

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, 2005
Actuarial cost method	Projected unit credit
Amortization method	For unfunded accrued liability prior to 1993 - Level percentage of payroll, increasing annuity to 2029
	For unfunded accrued liability changes occurring between 1993-1998 – Level dollar payment to 2029
	For unfunded accrued liability changes occurring 1999 or later – Level dollar payment over 30 years, from date of occurrence
Remaining amortization period	24 – 30 years, dependent upon the amortization method as described above
Asset valuation method	Utilizes a four year weighted average of the unrealized gain or loss in the value of all assets at market.
Actuarial assumptions:	
Investment rate of return	8.25% per annum
Inflation Rate	3.0% per annum
Mortality	Mortality rates were projected based on the 1983 Sex Distinct Graduated Group Annuity Mortality Table with females set at attained age plus one.
Termination, disability and retirement	Termination, disability, and retirement assumptions were projected based on a five-year (1997-2001) experience study of the System's members.
Salary increases	Salary increases were projected based on a 1997-2001 experience study of the System's members. The salary increase range for regular employees is 4.25% - 14.0%. The salary increase range for specific types of members is Judges 2.5% - 4.7%, Corrections 4.0% - 14.0%, and Wildlife 6.5% - 18.0%.
Cost-of-living adjustments	Liability for raises already granted is included in the retiree reserve.

SUPPORTING SCHEDULES

SCHEDULE OF ADMINISTRATIVE AND INVESTMENT EXPENSES - BUDGET AND ACTUAL

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005			2004		
	Actual	Budget	Variance Favorable (Unfavorable)	Actual	Budget	Variance Favorable (Unfavorable)
Administrative Expenses:						
Salaries and Related Benefits	$ 8,945,698	$ 9,663,632	$ 717,934	$ 7,622,340	$ 7,823,695	$ 201,355
Travel	176,524	267,766	91,242	179,880	351,229	171,349
Operating Services	2,733,912	3,075,781	341,869	2,452,549	2,980,141	527,592
Supplies	239,693	265,032	25,339	272,497	299,765	27,268
Professional Services	4,407,287	5,862,498	1,455,211	1,952,139	2,149,403	197,264
Acquisitions[1]	2,092,359	2,264,640	172,281	594,009	688,774	94,765
Total Budget and Actual Expenditures	$ 18,595,473	$ 21,399,349	$ 2,803,876	$ 13,073,414	$ 14,293,007	$ 1,219,593
Capitalized Expenditures:						
Solaris Software Project - Personnel Costs[2]	(126,251)	(126,251)	-	-	-	-
Solaris Software Project - Professional Services[2]	(1,290,265)	(1,290,265)	-	-	-	-
Other Acquisitions[1]	(1,179,585)	(1,403,862)	(224,277)	(444,356)	(688,774)	(244,418)
Total Capitalized Expenditures	(2,596,101)	(2,820,378)	(224,277)	(444,356)	(688,774)	(244,418)
Total Administrative Expenses	$ 15,999,372	$ 18,578,971	$ 2,579,599	$ 12,629,058	$ 13,604,233	$ 975,175
Investment Fee Expenses	$ 24,114,417	$ 24,115,780	$ 1,363	$ 20,266,725	$ 20,292,290	$ 25,565
Depreciation Expense[3]	$ 760,927	$ -	N/A	$ 800,103	$ -	N/A

[1]In 2005, the capitalization policy was changed to expense purchased computer software of less than $5,000 and movable property of less than $1,000. In 2004, all items less than $1,000 were expensed.

[2]The capitalization policy for internally developed software expenses costs for preliminary project phases, reengineering efforts, data conversion and cleanup, and training as the costs are incurred. Internal and external costs incurred to develop internal-use computer software is capitalized by module and will be depreciated over 3 years once operational, following AICPA SOP 98-1 guidelines.

[3]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 FISCALYEARS ENDED JUNE 30, 2005 AND 2004

	2005			2004		
	Board Meetings Attended	Other Meeting Days	Amount	Board Meetings Attended	Other Meeting Days	Amount
Cynthia Bridges	10	9	$ 1,425	10	10	$ 1,500
Virginia Burton	12	12	1,800	11	11	1,650
Connie Carlton	11	11	1,650	6	6	900
Pamela Davenport	-	-	-	5	5	750
Ray Funderburg	-	-	-	3	4	525
Benny Harris	-	-	-	6	6	900
Barbara McManus McCann	9	10	1,425	5	5	750
Louis Quinn	11	11	1,650	12	11	1,725
Sheryl Ranatza	10	11	1,575	6	6	900
Kathy Singleton	10	10	1,500	12	12	1,800
Cheryl Turner	9	8	1,275	10	12	1,650
Sona Young	-	-	-	5	5	750
Trudy White	12	11	1,725	5	5	750
Total	**94**	**93**	**$ 14,025**	**96**	**98**	**$ 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. During the fiscal years ended June 30, 2005, and June 30, 2004, there were 24 and 24 days, respectively, for which board members could be compensated.

The above schedule does not included 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, 2005 AND 2004

	2005	2004
Short-term Investments - Domestic	$ 254,840,991	$ 406,659,192
U.S. Government Obligations	523,152,304	454,363,092
Bonds/Fixed Income - Domestic	705,221,468	635,222,571
Bonds/Fixed Income - International	443,036,189	394,867,982
Equity Securities - Domestic	2,780,325,678	2,743,185,332
Equity Securities - International	1,071372,393	840,125,940
Real Estate Pools	34,808,494	29,999,798
Alternative Investments	673,391,019	494,366,940
Total	**$ 6,486,148,536**	**$ 5,998,790,847**

SCHEDULE OF PROFESSIONAL SERVICE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2005

ACCOUNTING AND AUDITING		
Postlethwaite and Netterville, APAC - System Auditors	$ 41,435	
Government Finance Officers Association	1,270	
		$ 42,705
ACTUARIAL FEES		
Hall Actuarial Associates - System Actuary	99,628	
		99,628
LEGAL FEES		
Tarcza & Associates, LLC	17,963	
Roedel, Parsons, Kock, Balhoff & McCollister	1,795	
Other Legal Fees	525	
		20,283
DISABILITY PROGRAM		
Physician and Other Reviews	67,881	
		67,881
INVESTMENT PERFORMANCE MANAGEMENT AND ANALYTICAL SERVICES		
Plexus Group	29,000	
Cost Effectiveness Management	18,500	
IRRC	14,000	
		61,500
INVESTMENT CONSULTATION		
New England Pension Consultants	225,000	
		225,000
OTHER PROFESSIONAL SERVICES		
Bearing Point	1,044,114	
Maximus	947,455	
SSA Consultants	345,470	
Peoplesoft USA	79,440	
PMO Link Government Solutions	46,662	
Sparkhound	42,860	
Systime	37,816	
Westaff Temporary Staffing	15,283	
Syscom, Inc.	10,710	
Louisiana Public Broadcasting	7,908	
Other Non-Consultant Professionals	22,307	
		2,600,025
PROFESSIONAL SERVICE EXPENSES		**$ 3,117,022**

SCHEDULE OF INVESTMENT EXPENSES
FOR THE YEAR ENDED JUNE 30, 2005

MONEY MANAGER FEES

U.S. Equity Managers - External	$	4,134,423
U.S. Equity Managers - Internal		-
Global Equity Managers		3,195,167
U.S. Fixed Income Managers		3,218,793
Global Fixed Income Managers		633,313
Other (includes Real Estate and Alternative Investments)		12,932,721
TOTAL	**$**	**24,114,417**

INVESTMENT SECTION

LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM
P.O. BOX 44213 • BATON ROUGE, LOUISIANA 70804-4213
8401 UNITED PLAZA BLVD.
BATON ROUGE, LA 70809
VOICE: 225-922-0600
TOLL-FREE: 1-800-256-3000
www.lasersonline.org

Robert W. Beale, CFA
Chief Investment Officer

October 5, 2005

Dear Members,

LASERS ended the June 30, 2005, fiscal year with a strong positive return for the second consecutive year. The plan benefited from strong equity returns especially in international markets. The Global Fixed Income and Private Equity asset classes also contributed to the favorable return.

LASERS' investment portfolio completed the fiscal year with a 10.2% market value return while LASERS' actuarial return was 11.73% due to the last three year's positive returns. In addition, LASERS ranked in the top 44 percent of public pension plans with assets greater than 1 billion dollars in the Trust Universe Comparison Service (TUCS) for the 2005 fiscal year, and ranked in the top 15 and 35 percent for the three and five year periods respectively. TUCS compares the market returns of the larger public pension plans in the United States.

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

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

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

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

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

Sincerely,

Robert W. Beale, CFA
Chief Investment Officer

"Advancing Your Investments"

NEW ENGLAND PENSION CONSULTANTS

October 20, 2005

Louisiana State Employees' Retirement System
Baton Rouge, LA 70804

RE: Fiscal Year 2005 Comprehensive Annual Financial Report

Dear Members:

This letter summarizes the structure and performance of the Louisiana State Employees' Retirement System (LASERS) Fund through Fiscal Year Ending June 30, 2005.

As of the June 30th fiscal year-end, the Fund was in compliance with policy and Louisiana state law, and had 46.1% of its asset base invested in U.S. equities, 16.6% invested in non-U.S. equities, 19.3% in U.S. fixed income, 5.9% in global fixed income, 9.7% in alternative assets (real estate, absolute return funds, and private equity), and 2.4% in cash. The public equity portion of the Fund represented 62.7% of the total assets, below the applicable statutory limit of 65% and slightly above that of the median public pension fund. Over the past year, the Fund has maintained equity levels modestly higher than the median equity allocation when measured against the Independent Consultants Cooperative (ICC) Universe.

LASERS earned 10.2%[1] in the year ending June 30, 2005, which ranked in the top 25% of public funds within the ICC Universe. Over the last 12 months ending June 30, 2005, LASERS outperformed its nominal total return target of 9.35% by 0.85%. The Fund also outperformed its real return target of 4% by 6.2 percentage points over the same 12 months.

The US economy for fiscal year 2005 continued to be very positive in spite of large increases in "administered" short-term interest rates and in spite of burgeoning US federal government deficits and US economic trade deficits. The period ended with strong market returns across the board for almost every

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

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market. LASERS benefited from their equity allocations and fully participated in the equity rally. In particular, LASERS enjoyed the large run-up in international holdings, both stocks and bonds, in part due to US Dollar depreciation. In fact, over the past 3 years, LASERS' very broad portfolio diversification program helped place the plan in the top 29% of all public funds within the ICC Universe on a risk-adjusted return basis.

Fiscal Year 2005 performance continued to be above target and above average. We persist in our belief that LASERS is well positioned to continue to take advantage of a wide variety of investment opportunities and is sufficiently diversified to both enhance return and mitigate overall portfolio risk.

Best regards,

Rhett Humphreys

Rhett Humphreys, CFA
Senior Consultant

STATEMENT OF INVESTMENT OBJECTIVES

I. INTRODUCTION

The Louisiana State Employees' Retirement System ("LASERS") was created to provide retirement benefits for employees of the State of Louisiana. A Pension Trust Fund was created to help finance the costs associated with funding retirement benefits.

Because of LASERS obligation to the plan participants and their beneficiaries, the disposition of LASERS assets shall be made solely in the interest of providing benefits to the participants. Investments shall be made in a cost efficient manner, and reflect industry best practices.

This Statement of Investment Policy and Objectives is designed to clearly communicate the directives of the Trustees of LASERS to all interested parties. It shall be revised from time to time, as deemed necessary. Any resulting material changes will be communicated to all affected parties.

II. RELEVANT LEGISLATION AND REGULATION

LASERS shall operate under the "Prudent Person" rule, (R.S. 11:263.B) used herein meaning that in investing the governing authorities of the systems, funds, and plans shall exercise the judgment and care under the circumstances then prevailing that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds considering probable safety of capital as well as probable income.

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

LASERS is subject to a legislative limit restricting the fund so that no more than 65% of its total assets are invested in publicly traded equities. Alternative assets are not considered to be equities when calculating LASERS equity exposure. LASERS will take steps to rebalance if, at the end of its fiscal year, its exposure to publicly traded equities is above 65%. LASERS is aware that markets will fluctuate, and any rebalancing will appropriately consider market conditions and any other relevant factors.

Should LASERS have more than 55% of its total assets invested in publicly traded equities, at least 10% of those equities must be invested passively.

III. ROLES AND RESPONSIBILITIES

The Board of Trustees

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

The Investment Committee

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

Chief Investment Officer

The Chief Investment Officer shall assist the Board in developing and modifying policy objectives and guidelines, including the development of liability driven asset allocation strategies and recommendations on long term asset allocation and the appropriate mix of investment manager styles and strategies. Additionally, the Chief Investment Officer shall provide assistance in manager searches and selection, and investment performance calculation, evaluation, and any other analysis associated with the proper execution of the Board's directives.

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

Investment Consultant

The Investment Consultant shall assist the Board and the Chief Investment Officer in developing and modifying policy objectives and guidelines, including the development of a liability-driven asset allocation strategy and recommendations on the appropriate mix of investment manager styles and strategies. The Consultant shall act as a fiduciary to the Fund.

Additionally, the Consultant shall provide assistance in manager searches and selection, investment performance evaluation, and any other relevant analysis. The Consultant shall provide timely information, written and/or oral, on investment strategies, instruments, managers and other related issues, as requested by the Board, the Investment Committee, or the CIO.

Investment Managers

The duties and responsibilities of each of the investment managers retained by the Board include:

- Investing the assets under its management in accordance with the policy guidelines and objectives expressed herein.

- Meeting or exceeding the manager-specific benchmarks, net of all fees and expenses, expressed herein over various and appropriately measured time periods.

- Exercising investment discretion within the guidelines and objectives stated herein. Such discretion includes decisions to buy, hold or sell securities in amounts and proportions reflective of the manager's current investment strategy and compatible with the investment objectives.

- Complying with all provisions pertaining to the investment manager's duties and responsibilities as a fiduciary. Fund assets should be invested with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent professional investment manager, acting in a like capacity and familiar with such matters, would use in the investment of Fund assets.

- Complying with the Association for Investment Management and Research (AIMR) Code of Ethics and Performance Presentation Standards (PPS).

- Disclosing all conflicts and potential conflicts of interest

- Ensuring that all portfolio transactions are made on a "best execution" basis.

- Exercising ownership rights, where applicable.

- Meeting with the Board as needed upon request of the Board. Quarterly reports are to be submitted in writing within 45 days after the end of each quarter.

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

- Promptly informing the Board regarding all significant matters pertaining to the investment of the fund assets.

- Initiating written communication with the Board when the manager believes that this Investment Policy is inhibiting performance and/or should be altered for any valid reason. No deviation from the guidelines and objectives established in the Policy is permitted until after such communication has occurred and the Board has approved such deviation in writing.

- Reconciling performance, holdings and security pricing data with the Fund's custodian bank. If the Fund's custodian bank shows a different price for a given security, the manager shall submit to the custodian bank's price reconciliation process. Managers shall provide to LASERS staff a summary of reconciled holdings both in hard copy and the electronic format of LASERS choosing.

Custodian Bank

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

- Accept daily instructions from designated investment staff

- Advise designated investment staff daily of changes in cash equivalent balances

- Immediately advise designated investment staff of additions or withdrawals from account

- Notify investment managers of tenders, rights, fractional shares or other dispositions of holdings

- Notify appropriate entities of proxies.

- Resolve any problems that Staff may have relating to the custodial account

- Safekeeping of securities

- Interest and dividend collections

- Daily cash sweep of idle principal and income cash balances

- Processing of all investment manager transactions

- Collection of proceeds from maturing securities

- Disbursement of all income or principal cash balances as directed
- Providing monthly statements by investment managers' accounts and a consolidated statement of all assets
- Providing monthly performance reports and quarterly performance analysis reports.
- Providing a dedicated account representative and back up to assist the LASERS staff in all needs relating to the custody and accountability of the Fund's assets.
- Managing the securities lending program (if applicable).

IV: INVESTMENT OBJECTIVES

Nominal Return Requirements

The investment program shall be structured to preserve and enhance principal over the long term, in both real and nominal terms. For this purpose, short-term fluctuations in values will be considered secondary to long-term investment results. Moreover, the investments of the Fund shall be diversified to minimize the risk of significant losses unless it is clearly prudent not to do so. Total return, which includes realized and unrealized gains, plus income less expenses, is the primary goal of LASERS.

The actuarially required total rate of return for the Fund is 8.25% annually, net of all fees and operating expenses. The Board desires a net total return in excess of 9.35%, in order to help the Board grant additional retirement benefits, and the ability to improve the funded ratio of the Fund through investment earnings. Therefore, the Board has adopted the following target nominal rate of return:

Actuarially required rate of return:	8.25%
Excess Return:	1.10%
Target Total Nominal Rate of Return:	9.35%

Real Return Requirements

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

Relative Return Requirements

Total returns for LASERS shall rank in the top half of the appropriate public fund universe, reflecting similar circumstances to LASERS. Risk-adjusted returns should also rank in the top half of the same universe. The total fund return should, 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 Absolute Return Funds with appropriate transparency and liquidity (e.g. Merger/Convertible Arbitrage, Fund of Funds) may be selected for investment.

Target Asset Mix

Asset Class	Market Value Target (%)	Minimum Exposure (%)	Maximum Exposure (%)
Equities	**61**	**55**	**65**
Domestic Large Cap	27	24	30
Domestic Small Cap	13	11	15
Domestic Mid Cap	5	3	7
Established Internationall (Lg Cap)	9	7	11
Established International (Sm Cap)	4	3	5
Emerging International Equity	3	2	4
Fixed Income	**29**	**24**	**34**
Core Fixed Income	7	4	10
Mortgages	5	3	7
Domestic High Yield	8	6	10
Global Bonds	6	4	8
Cash	3	0	7
Alternative Assets	**10**	**0**	**15**
Private Equity	5	0	9
Absolute Return	5	3	7

Implementation

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

Style Allocation

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

Active Passive Mix

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

Rebalancing

LASERS CIO will review LASERS asset allocation at least quarterly to determine if the asset allocation is consistent with the exposure ranges established for LASERS described herein. The CIO will direct staff and investment managers to transfer funds to rebalance the asset allocation as necessary with subsequent Board notification. The transfers should be on a pro-rata basis. The CIO will consider market conditions and transaction costs, as well as any other relevant factors when rebalancing.

VI. MANAGER SELECTION

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

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

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

Private Equity Addendum:

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

VII. INVESTMENT MANAGER GUIDELINES

Introduction

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

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

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

Monitoring and Verification

Certain guidelines lend themselves to straightforward manager compliance monitoring. Where monitoring is possible using quarterly holdings and transaction information provided by the Fund's Custodian Bank, the Consultant shall be responsible for alerting the Investment Committee and the Fund's Chief Investment Officer if a manager is out of compliance. In addition, the Custodian Bank will provide LASERS with the ability to monitor manager compliance with these guidelines by way of their Investment Policy Reporting software.

Guidelines which do not lend themselves to straightforward manager compliance monitoring shall rely on manager supplied attestations of compliance. A guideline compliance checklistshall be reviewed every quarter to ensure that all managers have reported guideline compliance, and note instances where managers claim to be out of compliance.

Guidelines for Use of Pooled/Commingled Funds

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

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

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

Derivatives Guidelines

This derivatives policy statement identifies and allows common derivative investments and strategies which are consistent with applicable law and the Investment Policy Statement and requires investment managers to petition for the inclusion of additional derivative instruments and strategies. The following guidelines apply to those managers not participating in LASERS

Alternative Investment Program. These guidelines also require investment managers to follow certain controls, documentation and risk management procedures.

Definition and Classification of Derivatives

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

1) **Derivative Contracts**

- Forward-based derivatives, including forward contracts, futures contracts, swaps, and similar instruments.

- Option-based derivatives, including put options, call options, interest rate caps and floors, and similar instruments.

2) **Derivative Securities**

- Collateralized Mortgage Obligations (CMOs)

- Other Structured Notes

Allowed Uses of Derivatives

1) **Derivative Contracts**

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

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

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

2) Derivative Securities

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

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

Prohibited Uses of Derivatives

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

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

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

Transaction Risk Control Procedures and Documentation Requirements

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

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

> **"Plain Vanilla" CMOs:** Document that the CMO is in fact "plain vanilla".
>
> **Other CMOs:** These CMOs must be stress tested to estimate how their value and duration will change with extreme changes in interest rates. An extreme change is one of at least 300 basis points.
>
> **Structured Notes:** Document that the note does not create exposures that would not be allowed if created without derivatives.

Portfolio-Level Risk Control Procedures and Documentation Requirements

> **Counterparty Credit Risk:** Managers are required to measure and monitor exposure to counterparty credit risk. All counterparties must have commercial paper credit ratings of at least A1 by Standard and Poors, or equivalent rating.
>
> **Ongoing Monitoring of Risk Exposures:** The duration and other risk exposure limits specified in the managers' guidelines are expected to be satisfied on an ongoing basis. Thus, managers must monitor changing risk exposures. Fixed income managers investing in CMOs should pay particular attention to the changing duration of their CMOs, and should anticipate potential changes in duration at the time CMOs are purchased. This is to ensure that interest rate and prepayment rate changes do not inadvertently move the portfolio out of compliance.
>
> **Valuation of Holdings:** The investment managers and custodian shall provide the Board with their pricing policies including a list of sources used. The Board should be notified of any exceptions to these policies. For derivative securities, the custodian is required to obtain two independent prices, or to notify the Board that two independent prices are not available. Investment managers are required to reconcile the valuations of all derivatives positions with the custodian as governed by the Investment Policy Statement and not less than quarterly.

Domestic Active Equity Manager Guidelines

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

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

Passive Equity Manager Guidelines

The guidelines listed below shall apply to all passively managed equity portfolios (internal and external), unless otherwise specifically noted:

- 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.

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

- Tracking error (deviation from the underlying benchmark) is limited to 15 basis points annually for passive large cap equity strategies, 25 basis points for mid cap equity strategies and 35 basis points for small cap equity strategies.

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 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.

IX. MANAGER REPORTING REQUIREMENTS

Policy Compliance

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

Managers must promptly inform the Board of all significant matters pertaining to the investment of the fund assets, for example:

- Changes in investment strategy, portfolio structure and market value of managed assets.
- Changes in the ownership affiliations, organizational structure, financial condition, professional personnel staffing and clientele of the investment management organization.
- Any material changes in the liquidity of the securities they hold in the LASERS portfolio.

Managers shall supply a quarterly summary of the following:

- Guideline compliance.
- Brief review of investment process.
- Discussion of any changes to the investment process.
- Investment strategy used over the past year and underlying rationale.
- Evaluation of strategy's success/disappointments.

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

Performance Review

The following quarterly reporting requirements shall apply to all managers:

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

- 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 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 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, as well as any soft dollar credit given to manager due to principal transactions that do not have an overt commission per share cost. This report should provide, at a minimum, the cost and description of the goods and services purchased.

- Verification that LASERS percentage of commissions paid to soft dollar brokers is less than or equal to LASERS percentage of the total of similarly managed assets of the investment manager.

- LASERS and its investment managers shall use the definition of soft dollars and research from the AIMR Soft Dollar Standards, which state:

    (1) Definition of Soft Dollar Arrangements

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

    Traditionally, soft dollar arrangements are understood to address those products or services provided to the investment manager by someone other than the executing broker, commonly 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 standing policies with respect to ethics and professional practice, within forty five (45) days of the end of each calendar year [December 31].

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

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

X. OTHER REPORTING REQUIREMENTS

Proxy Voting Report

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

Annual Trading Study

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

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

Commission Recapture Report

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

- A review of the commission activity over the previous calendar year
- The recapture ratio for each commission trade
- The dollars rebated back to LASERS by trade and by manager for the previous calendar year
- Any historical or anticipated change to the Commission Recapture Program or the key professionals/organization that manage it.

Securities Lending Report

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

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

- A review of the loan spreads and volume available in the market segments in which the System lends.

Internally Managed Portfolios Review

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

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

SECURITY HOLDINGS SUMMARY REPORT

June 30, 2005

SECURITIES	COST ($)	MARKET VALUE ($)	% OF MARKET
FIXED INCOME			
Corporate Bonds	$ 630,961,019	$ 641,801,123	9.0%
Other Bonds	40,124,746	40,152,338	0.6%
Common Stock - Commingled Funds Fixed Income	34,135,704	34,158,197	0.5%
Total Corporate Bonds	705,221,468	716,111,659	10.1%
Federal Agency Sponsored	23,886,452	24,431,612	0.3%
CMO'S	64,922,497	65,135,754	0.9%
Federal Sponsored	386,959,833	391,044,351	5.5%
U. S. Treasury Notes	36,367,348	36,488,541	0.5%
U. S. Treasury Bonds	11,016,173	11,842,824	0.2%
Total U.S. Government/Agency Bonds	523,152,304	528,943,081	7.4%
Foreign Corp Bonds	21,939,343	23,485,832	0.3%
Foreign Corp Yankee Bonds	59,524,308	61,765,160	0.9%
Foreign Govt Bonds	348,522,650	381,534,703	5.4%
Foreign Govt Yankee Bonds	5,174,156	5,457,398	0.1%
Common Stock - Commingled Funds Fixed Income	7,875,731	14,120,380	0.2%
Total International Bonds	443,036,189	486,363,472	6.9%
TOTAL FIXED INCOME	**1,671,409,961**	**1,731,418,212**	**24.4%**
EQUITY			
Common Stock-Domestic	2,737,290,758	3,121,750,620	44.1%
Common Stock - Commingled Funds Equity	43,034,919	48,870,369	0.7%
Common Stock - Preferred	-	-	0.0%
Total Domestic Stock	2,780,325,678	3,170,620,989	44.8%
Common Stock-ADR	79,048,203	86,678,016	1.2%
Common Stock - Commingled Funds Equity	460,437,788	539,248,385	7.6%
Common Stock -Foreign	528,081,278	611,969,885	8.6%
Preferred Stock -Foreign	3,695,114	4,306,766	0.1%
Stock Warrants & Rights	110,011	482,914	0.0%
Total International Stock	1,071,372,393	1,242,685,966	17.5%
TOTAL EQUITY	**3,851,698,071**	**4,413,306,955**	**62.3%**
ALTERNATIVE INVESTMENTS			
Real Estate Investment Pools	34,808,494	39,812,367	0.6%
Private Placements	673,391,019	678,419,191	9.5%
TOTAL ALTERNATIVE INVESTMENTS	**708,199,513**	**718,231,558**	**10.1%**
SHORT TERM INVESTMENTS			
Domestic Short Term	254,840,991	254,840,991	3.6%
TOTAL SHORT-TERM INVESTMENTS	**254,840,991**	**254,840,991**	**3.6%**
GRAND TOTAL INVESTMENTS	**$ 6,486,148,536**	**$ 7,117,797,716**	**100%**

SECURITY HOLDINGS SUMMARY REPORT

June 30, 2004

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

LARGEST EQUITY HOLDINGS

June 30, 2005

(Excludes Commingled Funds)

	SHARES	STOCK DESCRIPTION	MARKET VALUE
1)	975,200	EXXON MOBIL CORP	$ 56,044,744
2)	1,612,900	GENERAL ELEC CO	$ 55,886,985
3)	1,892,320	MICROSOFT CORP	$ 47,005,229
4)	999,000	CITIGROUP INC	$ 46,183,770
5)	1,352,842	PFIZER INC	$ 37,311,382
6)	514,693	JOHNSON + JOHNSON	$ 33,455,045
7)	695,600	BANK AMER CORP	$ 31,726,316
8)	1,130,900	INTEL CORP	$ 29,471,254
9)	580,880	WAL MART STORES INC	$ 27,998,416
10)	1,375,085	CISCO SYS INC	$ 26,277,874
11)	355,600	WELLS FARGO	$ 21,897,848
12)	547,500	DELL	$ 21,631,725
13)	333,850	ALTRIA GROUP INC	$ 21,586,741
14)	355,621	AMERICAN INTL GROUP INC	$ 20,661,580
15)	380,670	PEPSICO	$ 20,529,533
16)	580,300	VERIZON COMMUNICATION	$ 20,049,365
17)	822,027	GLAXOSMITHKLINE	$ 19,906,192
18)	353,100	CHEVRON	$ 19,745,352
19)	344,400	PROCTER AND GAMBLE CO	$ 18,167,100
20)	511,224	J P MORGAN CHASE + CO	$ 18,056,432
21)	222,900	INTERNATIONAL BUSINESS MACHS	$ 16,539,180
22)	270,900	CONOCOPHILLIPS	$ 15,574,041
22)	930,920	TIME WARNER INC NEW	$ 15,555,673
23)	471,780	VIACOM	$ 15,106,396
24)	643,728	TELEWEST GLOBAL	$ 14,664,124
25)	241,300	AMGEN INC	$ 14,588,998

LASERS internally manages portfolios that are replications of the S&P 500, 400, 100, and 600 Indices. Balances of the funds at June 30, 2005 are $1,261,659,348, $377,017,942, $135,323,731, and $444,671,158, respectively. Individual securities held in these funds are included in above listed holdings.

LARGEST COMMINGLED EQUITY FUNDS

	SHARES	FUND DESCRIPTION	MARKET VALUE
1)	22,796,565	TBCAM	$ 305,964,096
2)	14,572,071	SSGA ACTIVE EMG MKTS	$ 233,284,289
3)	393,840	ISHARES TR	$ 32,841,130
4)	310,769	RUSSELL 2000 INDEX SL	$ 11,633,624

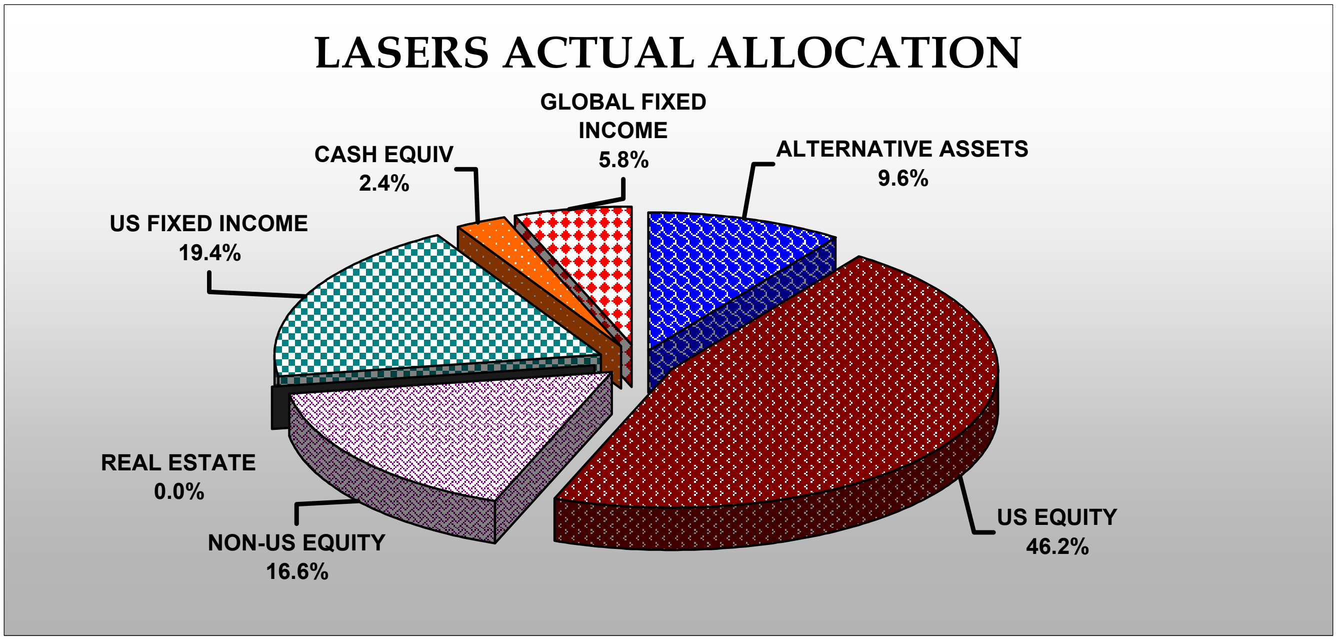
LARGEST DEBT HOLDINGS
JUNE 30, 2005
(Includes Commingled Funds)

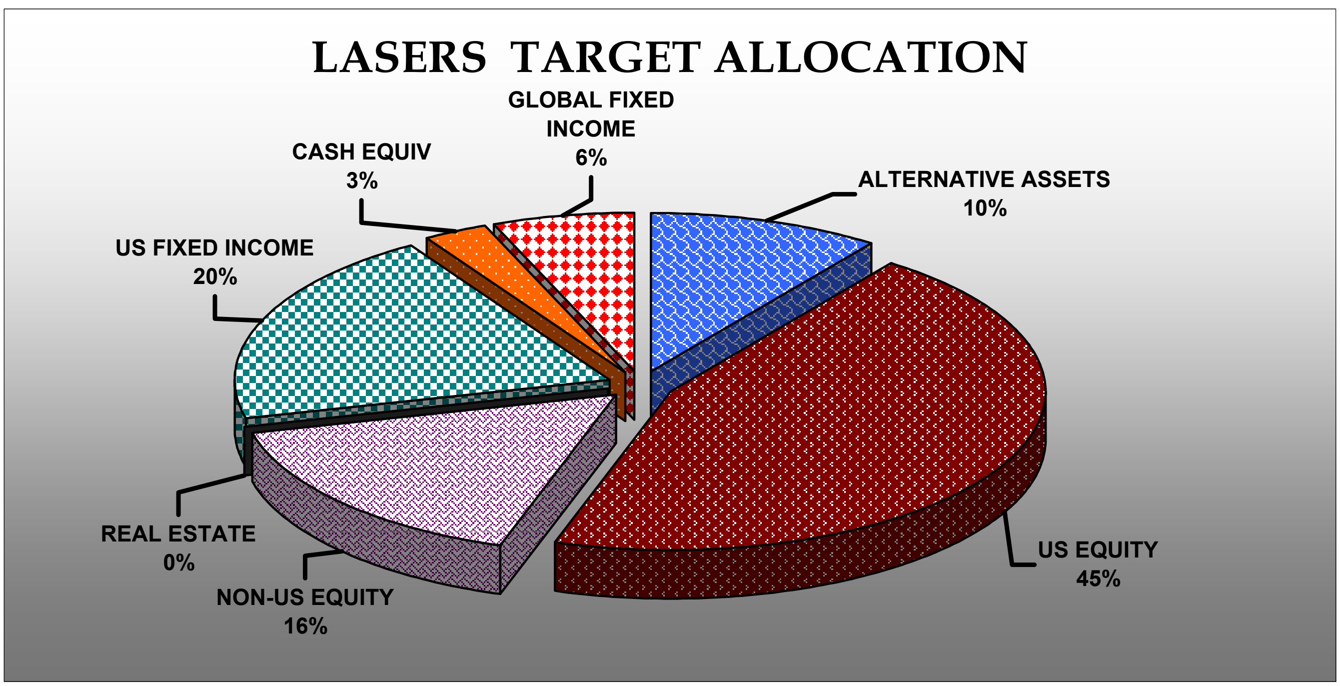
	PAR VALUE	BOND DESCRIPTION	MARKET VALUE
1)	$2,700,000,000	JAPAN (GOVT) 0.3% 20 Dec 2007	$24,485,426
2)	$ 16,500,000	SPAIN(KINGDOM OF) 5.15% 30 Jul 2009	$22,094,738
3)	$ 16,000,000	BUNDESREPUBLIK DEUTSCHLAND 5% 04 Jul 2011	$21,823,650
4)	$ 103,000,000	SWEDEN(KINGDOM OF) 6.75% 05 May 2014	$17,103,597
5)	$ 55,500,000	POLAND (GOVT OF) 5% 24 Oct 2013	$17,062,099
6)	$ 11,000,000	FRANCE (REPUBLIC OF) 5% 25 Oct 2016	$15,554,018
7)	$ 15,215,469	FED HM LN PC POOL B14719 4.5% 01 May 2019	$15,161,382
8)	$ 100,000,000	SWEDEN(KINGDOM OF) 5.5% 08 Oct 2012	$15,139,039
9)	$1,600,000,000	JAPAN(GOVT OF) 1.4% 20 Jun 2012	$15,126,707
10)	$1,700,000,000	JAPAN (GOVERNMENT OF) 0.5% 20 Jun 2013	$14,902,346
11)	$ 14,200,000	FEDERAL NATL MTG ASSN 2% 15 Jan 2006	$14,074,208
12)	$1,450,000,000	INTER AMERICAN DEVELOP BANK 1.9% 08 Jul 2009	$13,984,433
13)	$ 10,000,000	REP OF AUSTRIA 5.25% 04 Jan 2011	$13,716,657
14)	$1,500,000,000	JAPAN(GOVT) 0.2% 20 Jun 2008	$13,562,539
15)	$ 13,120,282	BEAR STEARNS ARM TR 4.26181% 25 Feb 2035	$13,242,864
16)	$ 6,700,000	U K TREASURY 5.75% 07 Dec 2009	$12,830,850
17)	$ 12,750,000	UNITED STATES TREAS BILLS 0.01% 14 Jul 2005	$12,725,353
18)	$ 5,200,000	TREASURY 8% 07 Dec 2015	$12,333,195
19)*	$ 11,974,663	FNMA POOL 254764 5.5% 01 Jun 2023	$12,202,461
20)	$ 12,000,000	FEDERAL NATL MTG ASSN 2.375% 15 Dec 2005	$11,932,670
21)	$ 11,819,315	FNMA POOL 708498 5% 01 Apr 2033	$11,809,505
22)	$1,200,000,000	EKSPORTFINANS (A/S) 1.8% 21 Jun 2010	$11,572,241
23)	$1,220,000,000	JAPAN (GOVT OF) 0.5% 20 Jun 2008	$11,128,192
24)	$ 11,000,000	FEDERAL HOME LN MTG CORP 4.5% 15 Oct 2030	$10,698,952
25)	$ 10,448,852	FNMA POOL 254634 5.5% 01 Feb 2023	$10,647,625

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

TOTAL PLAN ASSET ALLOCATION

by Major Components
June 30, 2005
$7.1 BILLION

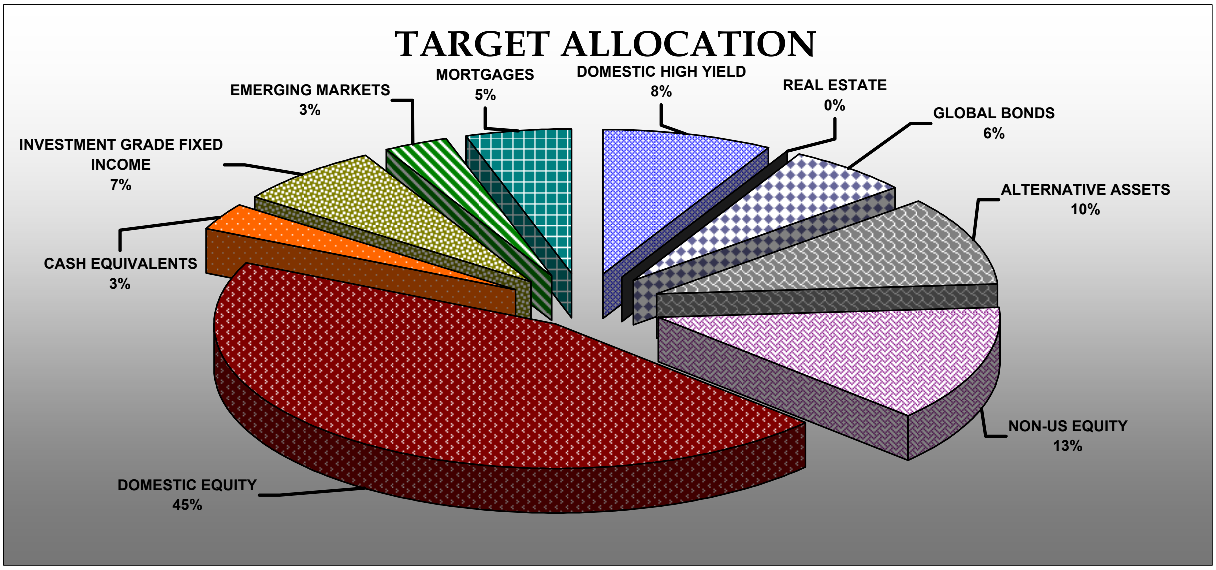




INDIVIDUAL MANAGER ALLOCATIONS

June 30, 2005

$7.1 BILLION



LASERS ACTUAL ALLOCATION BY MANAGER

MANAGER	WEIGHT	$MM
NON-US EQUITY		
INTERNATIONAL EQUITY		
MONDRIAN INV PTNRS*	2.3%	164.4
TEMPLETON INT'L*	2.3%	162.1
BOSTON COMPANY	4.3%	305.9
TOTAL CORE INTL	8.9%	$632.4
EMERGING MARKETS		
REXITER	3.3%	233.3
TOTAL EMERGING MARKETS	3.3%	$233.3
INDEX FUNDS		
SSGA MSCI INDEX FUND	4.4%	309.3
TOTAL INDEX FUNDS	4.4%	$309.3
TOTAL NON-US EQUITY	**16.6%**	**$1,175.1**
DOMESTIC EQUITY		
SMALL CAP VALUE		
THB	1.3%	90.3
BRANDYWINE	1.3%	89.4
LSV	1.3%	95.0
SMALL CAP GROWTH		
TCW	1.7%	121.0
WESTFIELD	1.8%	126.4
TOTAL SMALL CAP	7.4%	$522.1
LARGE CAP VALUE		
ARONSON & PARTNERS	3.7%	261.1
LARGE CAP GROWTH		
GOLDMAN SACHS	1.8%	127.2
CHICAGO EQUITY PARTNERS	1.8%	125.3
TOTAL LARGE CAP	7.3%	$513.6
INDEX FUNDS		
LASERS S&P 100 INDEX FUND	1.9%	135.3
LASERS S&P 500 INDEX FUND	17.8%	1261.7
LASERS S&P 400 INDEX FUND	5.3%	377.0
LASERS S&P 600 INDEX FUND	6.3%	444.7
SSGA RUSSELL 2000 INDEX FUND	0.2%	11.6
TOTAL INDEX FUNDS	31.5%	$2,230.3
TOTAL DOMESTIC EQUITY	**46.2%**	**$3,266.1**
TOTAL EQUITY	**62.8%**	**$4,441.2**

MANAGER	WEIGHT	$MM
INVESTMENT GRADE BONDS		
LOOMIS SAYLES & CO	4.7%	334.0
ORLEANS CAPITAL MGT	2.3%	159.9
TOTAL INVESTMENT GRADE	7.0%	$493.9
MORTGAGES		
TCW - F.I.	4.7%	331.2
TOTAL MORTGAGES	4.7%	$331.2
DOMESTIC HIGH YIELD		
W.R. HUFF ASSET MGT	4.0%	280.0
WELLS CAPITAL	3.8%	267.1
TOTAL DOMESTIC HIGH YLD	7.7%	$547.1
GLOBAL BONDS		
MONDRIAN INV PTNRS	5.8%	408.2
TOTAL GLOBAL BONDS	5.8%	$408.2
TOTAL FIXED INCOME	**25.2%**	**$1,780.5**
ALTERNATIVE ASSETS		
PRIVATE EQUITY		
ADAMS STREET	1.8%	129.4
HARBOURVEST	2.3%	164.0
HUFF ALTERNATIVE FUND	0.3%	20.0
JOHN HANCOCK	0.1%	4.2
PATHWAY CAPITAL MGT	0.1%	9.2
ERASMUS	0.1%	8.5
WILLIAMS CAPITAL	0.0%	0.0
TOTAL PRIVATE EQUITY	4.7%	$335.3
ABSOLUTE RETURN STRATEGIES		
KELLNER DILEO & CO	0.5%	35.5
K2 ADVISORS LLC	2.2%	156.9
PAAMCO	2.1%	150.7
TOTAL ABSOLUTE RETURN	4.9%	$343.1
TOTAL ALTERNATIVE ASSETS	**9.6%**	**$678.3**
TOTAL REAL ESTATE	**0.0%**	**$2.5**
TOTAL CASH EQUIVALENTS	**2.4%**	**$171.7**
TOTAL FUNDS ALLOCATED	**100.0%**	**$7,074.2**
Self-Directed Plan Funds		**$40.3**
Optional Retirement Plan Funds		**$3.3**
TOTAL PLAN ASSETS		**$7,117.8**

* Restructured to concentrated portfolio October 2000

SUMMARY OF MANAGER PERFORMANCE
RATE OF RETURNS GROSS OF FEES[1]
For Period Ending June 30, 2005

	Contract Exp. Date	MKT VAL $ (Million)	Month	3 mos	YTD	Fiscal YTD	1 Year	2 Years	3 Years	4 Years	5 Years
U.S. EQUITY											
LARGE CAP GROWTH											
GOLDMAN SACHS	01/31/08	$ 127.2	1.0	3.8	-2.7	3.4	3.4	7.5			
CHICAGO EQUITY PARTNERS	01/31/08	$ 125.3	-0.4	0.3	0.1	3.0	3.0	9.5			
S&P 500 / BARRA GROWTH			-1.2	0.1	-1.7	1.6	1.6	8.6	6.4	-0.4	-7.9
S&P 500			0.1	1.4	-0.8	6.3	6.3	12.5	8.3	1.0	-2.4
TOTAL LARGE GROWTH		$ 252.5	0.3	2.0	-1.3	3.2	3.2	8.5	6.2	0.1	-7.5
LARGE CAP VALUE											
ARONSON & PARTNERS	05/14/07	$ 261.1	2.3	3.3	3.3	15.4	15.4	19.8	12.0		
S&P 500 / BARRA VALUE			1.5	2.6	0.1	11.2	11.2	16.6	10.1	2.2	3.4
S&P 500			0.1	1.4	-0.8	6.3	6.3	12.5	8.3	1.0	-2.4
TOTAL LARGE VALUE		$ 261.1	2.3	3.3	3.3	15.4	15.4	19.8	12.0	6.4	11.5
TOTAL DOMESTIC LARGE CAP		$ 513.6	1.4	2.7	1.0	9.1	9.1	13.9	8.9	3.1	1.7
SMALL CAP GROWTH											
TCW	10/31/05	$ 121.0	3.9	4.7	-2.0	2.2	2.2	13.5	10.8	-1.9	-8.6
WESTFIELD	10/31/05	$ 126.4	2.3	5.2	0.2	3.8	3.8	19.0	11.6	4.8	
S&P 600 / BARRA GROWTH			2.6	3.8	2.0	12.7	12.7	23.1	15.3	9.5	5.7
S&P 600			3.3	3.9	1.8	13.5	13.5	23.9	14.0	10.4	10.5
TOTAL SMALL GROWTH		$ 247.4	**3.1**	**5.0**	**-0.9**	**2.9**	**2.9**	**16.2**	**10.6**	**0.8**	**-6.1**
SMALL CAP VALUE											
BRANDYWINE	02/28/06	$ 89.4	4.3	4.4	1.7	16.2	16.2	24.8	14.8	15.0	20.4
THB	03/30/06	$ 90.3	4.5	4.6	1.1	13.4	13.4	22.5	14.8	11.8	11.6
LSV	02/28/06	$ 95.0	3.7	5.8	4.6	18.5	18.5	29.5	18.9	18.6	
S&P 600 / BARRA VALUE			3.9	4.1	1.6	14.2	14.2	24.6	12.5	11.0	14.4
S&P 600			3.3	3.9	1.8	13.5	13.5	23.9	14.0	10.4	10.5
TOTAL SMALL VALUE		$ 274.7	4.2	5.0	2.5	16.0	16.0	25.6	16.4	15.4	17.6
TOTAL DOMESTIC SMALL CAP		$ 522.1	**3.6**	**5.0**	**0.9**	**9.5**	**9.5**	**21.0**	**13.4**	**8.0**	**5.7**
INDEX FUNDS											
SSGA RUSSELL 2000 INDEX FUND		$ 11.6	3.9	4.3	-1.2	9.4	9.4	20.8	12.6	6.8	5.1
RUSSELL 2000			3.9	4.3	-1.3	9.5	9.5	20.8	12.8	7.0	5.7
TOTAL SMALL CAP INDEX FUND		$ 11.6	3.9	4.3	-1.2	9.4	9.4	20.8	12.6	6.8	5.1
LASERS S&P 100 INDEX FUND		$ 135.3	-1.0	-0.2	-2.0	2.8	2.8	8.7	6.4	-1.4	
S&P 100			-1.0	-0.2	-2.0	2.8	2.8	8.8	6.5	-1.3	-5.2
LASERS S&P 400 INDEX FUND		$ 377.0	2.4	4.4	4.0	14.1	14.1	20.8	13.2	8.4	
S&P 400			2.3	4.3	3.9	14.0	14.0	20.8	13.2	8.4	8.5
LASERS S&P 500 INDEX FUND		$ 1,261.7	0.1	1.4	-0.8	6.3	6.3	12.6	8.4	1.2	-1.9
S&P 500			0.1	1.4	-0.8	6.3	6.3	12.5	8.3	1.0	-2.4
LASERS S&P 600 INDEX FUND		$ 444.7	3.3	4.0	1.8	13.4	13.4	23.6			
S&P 600			3.3	3.9	1.8	13.5	13.5	23.9	14.0	10.4	10.5
TOTAL US INDEX EQUITY		$ 2,230.3	1.1	2.3	0.4	8.8	8.8	15.6	10.3	3.2	0.1
TOTAL U.S. EQUITY		$ 3,266.1	1.5	2.8	0.6	9.0	9.0	16.1	10.2	3.9	1.4

[1]LASERS calculates performance using the "time-weighted" rate of return methodology in accordance with CFA Institute GIPS performance presentation standards.

SUMMARY OF MANAGER PERFORMANCE
RATE OF RETURNS GROSS OF FEES[1]
For Period Ending June 30, 2005

	Contract Exp. Date	MKT VAL $ (Million)	Month	3 mos	YTD	Fiscal YTD	1 Year	2 Years	3 Years	4 Years	5 Years
NON-U.S. EQUITY											
LARGE CAP VALUE											
MONDRIAN INV PTNRS*	03/31/06	$ 164.4	1.5	-0.4	1.5	19.6	19.6	23.7	15.5	11.9	9.0
TEMPLETON INT'L*	03/31/06	$ 162.1	0.9	-2.5	-0.7	14.0	14.0	22.4	10.1	5.0	2.9
MSCI WORLD EX-US VALUE			2.1	-0.6	0.1	17.4	17.4	27.5	16.1	9.1	4.7
MSCI WORLD EX-US			1.7	-0.5	-0.4	15.0	15.0	23.4	13.1	7.0	0.1
TOTAL INT'L LARGE VALUE		$ 326.5	1.2	-1.4	0.4	18.1	18.1	23.8	12.5	8.3	5.9
LARGE CAP GROWTH											
SSGA MSCI INDEX FUND		$ 309.3	1.2	-0.5	-0.9						
MSCI WORLD EX-US GROWTH			1.2	-0.4	-0.9	12.7	12.7	19.4	10.0	4.9	-4.6
MSCI WORLD EX-US			1.7	-0.5	-0.4	15.0	15.0	23.4	13.1	7.0	0.1
TOTAL INT'L LARGE GROWTH		$ 309.3	1.2	-0.5	-0.9	16.5	16.5	19.3	9.5	2.0	
TOTAL INT'L LARGE CAP		$ 635.8	1.2	-1.0	-0.2	15.0	15.0	21.4	10.8	5.0	-0.3
INT'L SMALL CAP											
BOSTON COMPANY	09/30/09	$ 305.9	3.0	1.4	7.1						
MSCI WORLD EX-US SMALL CAP			2.7	0.2	4.4	20.9	20.9	34.4	22.9	16.7	
TOTAL INT'L SMALL CAP		$ 305.9	3.0	1.4	7.1	24.0	24.0	35.1	20.9	14.3	6.4
EMERGING MARKETS											
REXITER	09/21/09	$ 233.3	2.9	4.3	4.9						
MSCI EMERGING MARKETS FREE			3.5	4.2	6.3	34.9	34.9	34.2	24.4	18.2	7.7
TOTAL EMERGING MARKETS		$ 233.3	2.9	4.3	4.9	31.7	31.7	30.5	21.1	14.4	3.9
TOTAL NON-U.S. EQUITY		$ 1,175.1	2.0	0.6	2.6	20.1	20.1	25.9	14.8	8.7	1.6
TOTAL EQUITY		$ 4,441.2	1.7	2.2	1.1	11.9	11.9	18.7	11.5	5.2	1.4
US FIXED INCOME											
INVESTMENT GRADE											
LOOMIS SAYLES & CO	12/31/09	$ 334.0	0.6	2.5	1.9	6.8	6.8	3.9	7.0	7.0	8.4
ORLEANS CAPITAL MGT	12/31/09	$ 159.9	0.7	2.9	2.6	7.6	7.6	4.2	6.8	6.6	7.5
LB AGGREGATE			0.6	3.0	2.5	6.8	6.8	3.5	5.8	6.5	7.4
TOTAL INVESTMENT GRADE		$ 493.9	0.7	2.7	2.1	7.0	7.0	4.0	6.9	6.9	8.1
HIGH YIELD											
W.R. HUFF ASSET MGT	06/30/06	$ 280.0	1.8	3.7	0.6	9.4	9.4	9.7	14.8	7.0	5.3
WELLS CAPITAL	11/30/09	$ 267.1	1.6	2.2							
FIRST BOSTON HIGH YIELD			1.7	1.9	0.8	10.1	10.1	10.9	14.1	10.9	8.5
TOTAL ACTIVE HIGH YIELD		$ 547.1	1.7	3.0	0.4	9.2	9.2	9.6	14.0	8.7	7.3
MORTGAGE											
TCW - F.I.	12/31/09	$ 331.2	1.0	2.8	2.6	6.6	6.6	4.5	5.0	6.3	7.2
LB MORTGAGE INDEX			0.4	2.3	2.2	6.1	6.1	4.2	4.7	5.7	6.8
TOTAL MORTGAGE		$ 331.2	1.0	2.8	2.6	6.6	6.6	4.5	5.0	6.3	7.2
TOTAL U.S. FIXED INCOME		$ 1,372.3	1.2	2.8	1.6	8.0	8.0	6.2	8.8	7.6	8.0
GLOBAL FIXED INCOME											
MONDRIAN INV PTNRS	09/30/09	$ 408.2	-1.1	-2.2	-5.2	10.2	10.2	8.5	13.7	15.8	11.9
CITIGROUP WORLD GOVT BOND			-0.9	-1.4	-4.0	7.6	7.6	6.6	9.8	10.8	7.9
TOTAL GLOBAL FIXED INCOME		$ 408.2	-1.1	-2.2	-5.2	10.1	10.1	8.5	13.7	15.8	11.9
TOTAL FIXED INCOME		$ 1,780.5	0.6	1.6	-0.1	8.5	8.5	6.7	9.6	8.8	8.6

[1] LASERS calculates performance using the "time-weighted" rate of return methodology in accordance with CFA Institute GIPS performance presentation standards.

SUMMARY OF MANAGER PERFORMANCE
RATE OF RETURNS GROSS OF FEES[1]
For Period Ending June 30, 2005

	Contract Exp. Date	MKT VAL $ (Million)	Month	3 mos	YTD	Fiscal YTD	1 Year	2 Years	3 Years	4 Years	5 Years
ALTERNATIVE ASSETS											
PRIVATE EQUITY											
ADAMS STREET SECONDARY	12/31/13	$ 0.9	-14.0	-38.9	-38.9	-38.8	-38.8	-23.1	-21.6	-15.3	-14.3
ADAMS STREET PRIMARY (ϕ)	12/31/12	$ 123.5	-0.2	8.4	13.5	13.3	13.3	13.0	2.8	-3.9	-3.3
ADAMS STREET V - LP DIRECT	07/14/12	$ 5.0	0.0	-8.1	-8.0	-9.5	-9.5				
JOHN HANCOCK		$ 4.2	0.0	-0.9	4.7	54.7	54.7	35.0	15.2	3.6	-6.2
HIPEP DIRECT III	12/31/07	$ 3.9	0.0	-7.5	-10.9	-19.9	-19.9	0.1	2.5	-6.4	-10.6
HIPEP PARTNERSHIP III	10/08/10	$ 40.0	8.8	8.8	19.5	20.7	20.7	20.0	14.5	8.2	2.5
HARBOURVEST VI - BUYOUT	06/30/13	$ 14.5	21.2	21.2	27.4	27.0	27.0	26.3	11.6	7.0	-1.35
HARBOURVEST VI - DIRECT	06/30/09	$ 13.3	0.0	-3.8	-12.7	-18.5	-18.5	4.6	-6.1	-10.8	-10.4
HARBOURVEST VI - PTNR	06/30/13	$ 67.3	7.2	7.2	10.2	7.7	7.7	5.8	-5.3	-11.3	-8.75
HIPEP DIRECT IV	12/31/10	$ 8.4	0.0	-0.9	20.8	25.5	25.5	12.0	3.39		
HIPEP PARTNERSHIP IV	12/31/14	$ 16.6	7.0	7.0	9.7	13.4	13.4	13.4	2.54		
PATHWAY CAPITAL MGT		$ 9.2	0.0	4.4	4.3	6.2	6.2	24.1	12.2	7.5	-2.2
HUFF ALTERNATIVE FUND	01/11/01	$ 20.0	0.0	-5.7	3.3	3.0	3.0	36.9	14.1	10.4	
ERASMUS	11/13/13	$ 8.5	0.0	0.0	-2.8	-2.8	-2.8				
WILLIAMS CAPITAL	01/19/14	$ -	0.0	0.0	0.0	0.0	0.0				
NOMINAL BENCHMARK			1.3	4.0	8.2	17.0	17.0	17.0	17.0	17.0	17.0
TOTAL PRIVATE EQUITY		$ 335.3	3.4	5.7	10.2	10.0	10.0	13.4	3.2	-3.5	-5.1
ABSOLUTE RETURN STRATEGIES											
KELLNER, DILEO & CO	01/31/11	$ 30.7	0.8	0.7	2.8	5.4	5.4	4.8	3.6	3.0	
KELLNER, DILEO & CO CONV ARB	01/31/11	$ 4.8	0.9	-10.3	-14.9	-15.0	-15.0	-9.8	-2.7		
PAAMCO		$ 150.7	0.7	-1.1	-0.9	2.9	2.9				
K2 ADVISORS LLC		$ 156.9	1.2	1.0	2.3	7.5	7.5				
NOMINAL BENCHMARK			1.0	3.1	6.3	13.0	13.0	13.0	13.0	13.0	13.0
ABSOLUTE RETURN STRATEGIES		$ 343.1	0.9	-0.1	0.7	4.7	4.7	5.0	4.0	3.3	
TOTAL ALTERNATIVE ASSETS		$ 678.3	2.2	2.7	5.2	7.0	7.0	9.6	2.2	-3.0	-4.2

(ϕ) Adams Street Primary includes ASP 2002 US Fund

	Contract Exp. Date	MKT VAL $ (Million)	Month	3 mos	YTD	Fiscal YTD	1 Year	2 Years	3 Years	4 Years	5 Years
REAL ESTATE											
EQUITY REAL ESTATE											
HEITMAN REAL ESTATE FUND FIVE*		$ 0.2	0.0	0.1	-1.6	11.5	11.5	5.7	8.1	6.2	5.2
JMB GROUP TRUST FIVE		$ 1.3	6.2	5.2	8.7	44.3	44.3	44.0	28.0	18.1	18.3
L&B PROPERTY FOUR		$ 1.0	0.0	-16.9	-16.9	-16.7	-16.7	-7.2	-2.9	-3.7	-1.8
NCREIF CUSTOM PROPERTY			3.5	3.5	7.4	14.2	14.2	11.5	9.4	8.5	9.3
TOTAL REAL ESTATE		$ 2.5	4.5	-0.2	1.9	22.1	22.1	25.0	22.0	14.5	13.1
CASH EQUIVALENTS											
HOLDING ACCOUNT		$ 171.7	0.2	0.5	1.1	2.0	2.0	2.1	3.0	2.9	3.5
91 DAY T-BILL			0.2	0.7	1.3	2.2	2.2	1.6	1.6	1.8	2.6
TOTAL CASH EQUIVALENTS		$ 171.7	0.2	0.5	1.1	2.0	2.0	2.1	3.0	2.9	3.5
TOTAL PLAN											
FINANCIAL COMPOSITE		$ 6,393.4	1.3	2.0	0.8	10.5	10.5	14.5	11.3	7.0	4.3
FINANCIAL ALLOCATION INDEX			1.2	1.7	0.7	10.5	10.5	14.6	11.1	7.1	4.6
FINANCIAL POLICY INDEX			1.2	1.8	0.8	10.4	10.4	14.4	11.2	7.3	4.5
TOTAL PLAN [2]		$ 7,074.2	**1.4**	**2.1**	**1.2**	**10.2**	**10.2**	**14.1**	**10.7**	**6.3**	**3.7**
TOTAL PLAN ALLOCATION INDEX			1.2	1.9	1.3	10.8	10.8	14.7	11.3	7.7	5.2
TOTAL PLAN POLICY INDEX			1.1	1.8	1.2	10.5	10.5	14.4	11.3	7.2	4.5

	6 Years	7 Years	8 Years	9 Years	10 Years
LONG TERM RETURNS FOR TOTAL PLAN	5.0	5.5	6.3	7.5	8.3

* Restructured to concentrated portfolio October 2000

(τ) denotes a manager on the watch list

[1] LASERS calculates performance using the "time-weighted" rate of return methodology in accordance with CFA Institute GIPS performance presentation standards.

[2] This amount does not include Self-Direct Plan and Optional Retirement Plan Funds of $40.3 million and $3.3 million, respectively.

Schedule of Brokerage Commission Paid

Year Ended June 30, 2005

Brokerage Firm	Commission Dollar Amount
CITIGROUPGLOBAL MARKETS INC	$ 198,901
MERRILL LYNCH	167,796
PERSHING	165,877
INSTINET	118,956
JOHNSON RICE + CO	76,652
LEHMAN BROTHERS INC	68,078
CREDIT AGRICOLE INDOSUEZ SECURITIES	66,770
MORGAN STANLEY CO INCORPORATED	64,955
UBS AG	49,332
GOLDMAN SACHS + CO	48,534
HIBERNIA SOUTHCOAST CAPITAL INC	46,711
THE WILLIAMS CAPITAL GROUP	44,725
CAPITAL INSTITUTIONAL SERVICES INC	41,392
CREDIT SUISSE FIRST BOSTON	40,074
B-TRADE SERVICES LLC	39,502
LIQUIDNET INC	39,461
INVESTMENT TECHNOLOGY GROUP INC	38,245
DEUTSCHE BANK SECURITIES INC	38,000
STATE STREET BANK + TRUST	37,110
KNIGHT SECURITIES	29,730
CANTOR FITZGERALD + CO.	29,375
BEAR STEARNS + CO INC	28,004
J P MORGAN SECURITIES INC	24,064
PRITCHARDCAPITAL PARTNERS LLC	23,300
MACQUARIE SECURITIES LIMITED	22,734
THOMAS WEISEL PARTNERS	22,332
LEERINK SWANN AND COMPANY	18,377
JONES & ASSOCIATES INC	17,679
HOWARD WEIL DIVISION LEGG MASON	16,743
U.S. BANCORP PIPER JAFFRAY INC	16,508
BANC OF AMERICA SECURITIES	16,365
WACHOVIA CAPITAL MARKETS, LLC	15,934
JEFFERIES+ COMPANY INC	15,424
BNY BROKERAGE INC	14,874
ADAMS HARKNESS + HILL,INC	13,775
ABN AMRO SECURITIES LLC	12,847
WEEDEN + CO.	11,191
FBT INVESTMENTS INC	10,968
ALL OTHERS	388,000
TOTAL COMMISSIONS	**$ 2,139,295**

SCHEDULE OF FEES

(by Investment Manager Classification[1])

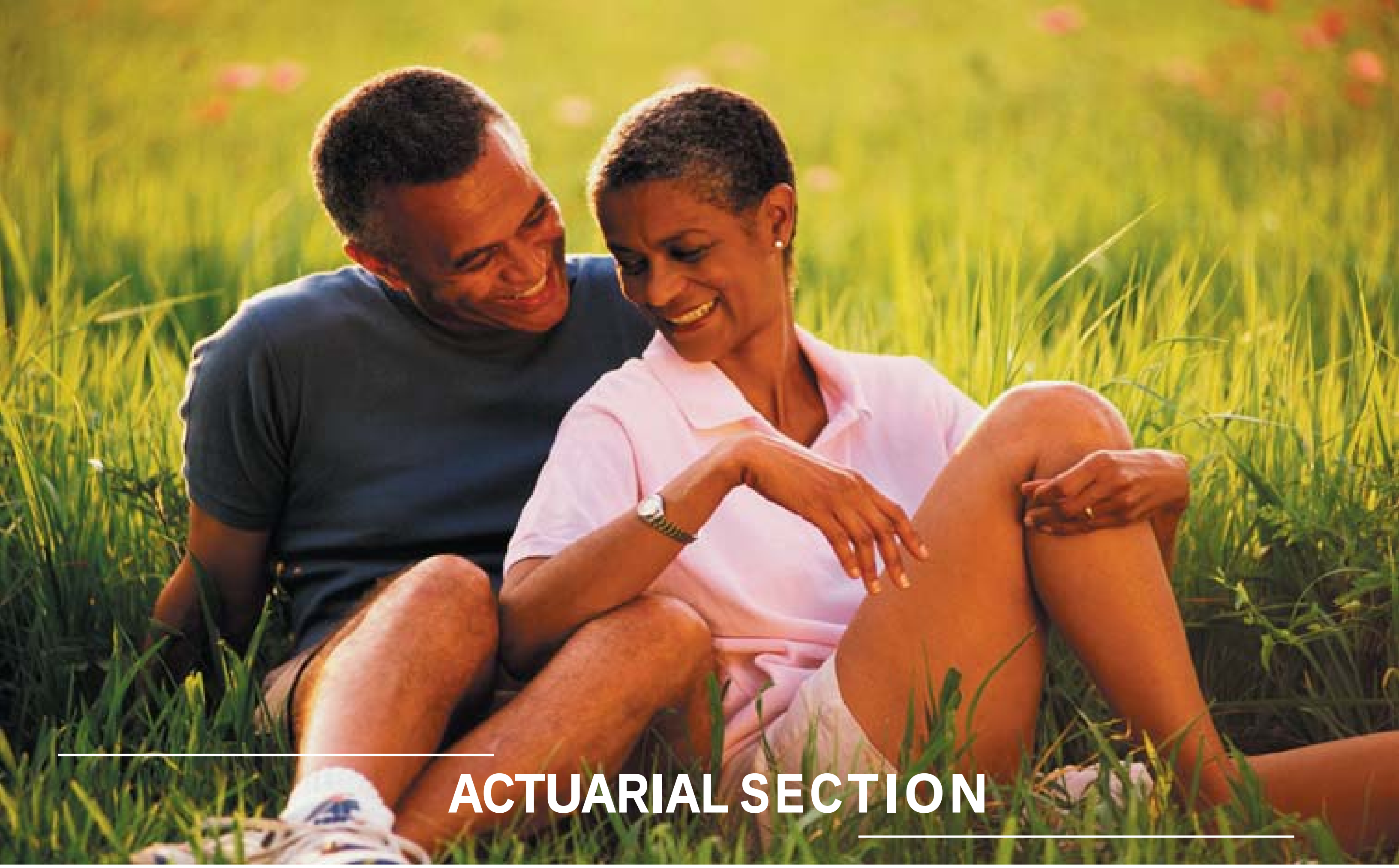
For Year Ended June 30, 2005

Investment Manager Type	Assets under Management (in millions)	Annual Fees (in dollars)
Fixed Income Managers		
U.S. Fixed Income	$ 1,328,206,818.88	$ 3,218,793
Global Fixed Income	486,363,472	633,313
Total Fixed Income	**1,814,570,291**	**3,852,106**
Equity		
U.S. Equity - External Managers	951,948,811	4,134,423
U.S. Equity - Internal Managers	2,218,672,179 [2]	-
Global Equity	1,242,685,966	3,195,167
Total Equity	**4,413,306,956**	**7,329,590**
Real Estate	**39,812,367**	**98,123**
Alternative Investments	**678,419,191**	**12,834,598**
Cash	**171,688,911**	**-**
Consulting Fees	**-**	**-**
Total	**$ 7,117,797,716**	**$ 24,114,417**

NOTES:

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

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



ACTUARIAL SECTION

Hall Actuarial Associates

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

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

September 22, 2005

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

Ladies and Gentlemen:

Pursuant to your request, I have completed the annual actuarial valuation for the Louisiana State Employees' Retirement System as of June 30, 2005. The valuation was prepared relying on the data submitted by the Retirement System, the actuarial assumptions adopted by the Board of Trustees, and reflects the current benefit structure on the valuation date.

Notable changes in recent prior legislative sessions include the following Acts: Act 75 of 2005 changes retirement eligibility to 10 years at age 60, Final Average Compensation to 60 months and increases employee contributions .5% for new hires in the regular plan after June 30, 2006. Act 588 of 2004 made significant changes to prospective funding. The outstanding balances of changes in liabilities from 1993 – 1998 were re-amortized as a level dollar amount to 2029. The amortization periods for changes in liabilities beginning with 1999 were extended to a thirty-year period from the date of occurrence. A minimum Employer rate of 15.5% and employer credit account were established for excess contributions. The negative Experience Account Balance was removed from the valuation assets. Act 572 of 1992 established the Experience Account which provides for the pre-funding of retiree COLA's by accumulating 50% of the excess investment income. The Texaco Settlement Fund was established July 1, 1995 to dedicate allocated assets to reduce the initial unfunded actuarial liability established by Act 81.

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

a) fully fund all current normal costs determined in accordance with the prescribed statutory funding method; and

b) liquidate the unfunded liability as of June 30, 1988 over a forty year period with subsequent changes in unfunded liabilities amortized over period(s) specified by statute.

The results of the current valuation indicate that the employer contribution rate for the fiscal year commencing July 1, 2005 should be set equal to 18.9% of payroll.

When compared to the prior year employer rate of 18.6%, the current rate of 18.9% reflects a slight increase resulting from an increasing, back-loaded amortization schedule for the initial unfunded liability. The current employer contribution rate, together with the contributions payable by the members, is sufficient to achieve the funding objective set forth above.

Board of Trustees
LASERS
September 22, 2005

The methodology for determining the actuarial value of assets was adopted by the Board of Trustees effective July 1, 1999. The method values all assets at market value, adjusted for a four-year weighted average of the incremental change 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, 2005 is $6,778,789,404. The Actuarial Value of Assets, when adjusted for the Experience Account Fund in the amount of $105,289,193 and the Texaco Settlement Fund of $29,255,081 yields assets for funding purposes of $6,644,245,130.

In performing the June 30, 2005 valuation, I have relied upon the employee data and financial information provided by the administrative staff of the Louisiana State Employees' Retirement System. Participant data was edited for reasonableness, and consistency to prior plan year data. However, the validity of the information submitted was not compared to actual source documents. Plan assets were reviewed for consistency and balance tested with information furnished from the prior year's valuation.

The present values shown in the June 30, 2005 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. These schedules were prepared by this firm for presentation in the Financial Section of this report, in addition to all supporting schedules presented in the Actuarial Section. The System is required to conduct an experience study every five years. The most recent study covers the five-year observation period of 1997-2001.

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

Respectfully submitted,

Charles G. Hall

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

PRINCIPLE PROVISIONS OF THE PLAN

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

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

ADMINISTRATION

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

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

MEMBER CONTRIBUTIONS

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

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

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

EMPLOYER CONTRIBUTIONS

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

TERMINATION

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

RETIREMENT BENEFITS

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

Normal Retirement

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

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

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

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

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

Benefit Formula

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

Payment Options

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

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

DEFERRED RETIREMENT OPTION PROGRAM (DROP)

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

Upon termination of DROP, the member may continue employment and earn additional accruals to be added to the fixed pre-DROP benefit.

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

DISABILITY RETIREMENT BENEFITS

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

Regular Plan - A pension equal to 2.5% of average compensation.
Judges - A service retirement benefit, but not less than 50% of current salary.
Wildlife Agents - A service retirement benefit of the Regular Plan.
Total disability in-line-of-duty service not less than 60% average compensation.

SURVIVOR BENEFITS

A surviving spouse, with minor children, of an active member with 5 years of creditable service (2 years immediately prior to death) or 20 years of creditable service is entitled to a benefit equal to the greater of (a) $300 per month, or (b) 75% of the member's benefit calculated at the 2.5% accrual rate for all creditable service.

A 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 2.5% accrual rate for all creditable service.

POST-RETIREMENT INCREASES

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

SUMMARY OF ASSUMPTIONS

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

I. General Actuarial Method

Actuarial Funding Method (Projected Unit Credit): The unfunded accrued liability on June 30, 1988, is amortized over a forty-year period commencing in 1989. The amortization payment reflects a 4% increase for the first five years, reducing by 0.5% 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 of 1988 Effective 6/30/88	As Amended Act 257 of 1992 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.

Act 588 of 2004 re-amortized changes in liabilities occurring from 1993 thru 1998 as a level dollar payment to 2029. Amortization periods for changes in liabilities beginning with 1999 were extended to a thirty-year period from the date of occurrence. Amortization periods for changes in liabilities beginning with 2004 are extended to a thirty-year period from the date of occurrence, paid as a level dollar amount.

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

Asset Valuation Method: Assets are valued between market value and cost value using a four-year moving weighted average value basis. Prior to July 1, 1999, fixed income securities were valued at amortized cost.

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

II. Economic Assumptions

Investment Return: 8.25% per annum, compounded annually.

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

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

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

The active member population is assumed to remain constant.

III. Decrement Assumptions

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

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

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

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

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

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

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

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

ACTUARIAL VALUATION BALANCE SHEET

ASSETS

	June 30, 2005	June 30, 2004
Present Assets Creditable To:		
Members' Savings Account	$ 1,318,810,724	$ 1,217,047,145
Annuity Reserve Account	6,322,647,534	5,961,616,080
TOTAL PRESENT ASSETS	7,641,458,258	7,178,663,225
Present Value Of Prospective Contributions Payable To:		
Members' Savings Account	1,265,050,880	1,249,241,897
Annuity Reserve Account		
Normal	1,343,589,106	1,252,280,419
Accrued Liability	3,194,609,743	3,396,245,762
TOTAL PROSPECTIVE CONTRIBUTIONS	5,803,249,729	5,897,768,078
TOTAL ASSETS	$13,444,707,987	$13,076,431,303

LIABILITIES

	June 30, 2005	June 30, 2004
Present Value Of Prospective Benefits Payable On Account Of:		
Current Retiree Members	$ 6,196,357,044	$ 5,849,192,784
Current Active Members	7,122,060,453	7,114,815,223
Deferred Vested & Reciprocal Members	126,290,490	112,423,296
TOTAL LIABILITIES	$13,444,707,987	$13,076,431,303

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)
1996	903.6	2,746.8	2,604.0	4,114.5	100%	94%	0%
1997	938.2	2,862.4	2,688.8	4,537.9	100%	97%	0%
1998	1,008.5	3,678.4	2,261.1	5,067.8	100%	100%	8%
1999	1,067.5	4,020.1	2,495.0	5,574.9	100%	100%	19%
2000	1,079.2	4,567.2	2,610.9	6,171.0	100%	100%	20%
2001	1,088.5	4,887.8	2,676.3	6,418.3	100%	100%	17%
2002	1,116.7	5,306.0	2,784.1	6,460.6	100%	100%	1%
2003	1,156.3	5,257.8	3,007.8	6,487.5	100%	100%	2%
2004	1,217.0	5,961.6	2,959.0	6,097.8	100%	82%	0%
2005	1,318.8	6,322.6	3,205.6	6,673.5	100%	85%	0%

SUMMARY OF ACTUARIAL AND UNFUNDED ACTUARIAL LIABILITIES
(Dollar Amounts in Millions)

VALUATION DATE	ACTUARIAL ACCRUED LIABILITIES	ACTUARIAL VALUATION ASSETS	RATIO OF ASSETS TO AAL	UNFUNDED AAL	ACTIVE MEMBER PAYROLL	UNFUNDED AAL AS A % OF ACTIVE PAYROLL
1996	6,254.4	4,114.5	65.8	2,139.9	1,584.4	135.1
1997	6,489.3	4,537.9	69.9	1,951.4	1,607.4	121.5
1998	6,953.0	5,067.8	72.9	1,885.3	1,653.8	114.0
1999	7,582.8	5,574.9	73.5	2,007.8	1,736.9	115.6
2000	8,257.3	6,170.9	74.7	2,086.3	1,820.1	114.6
2001	8,652.6	6,418.3	74.2	2,234.3	1,782.8	125.3
2002	9,206.7	6,460.6	70.2	2,746.1	1,861.9	147.5
2003	9,796.3	6,487.5	66.2	3,308.8	1,924.6	172.0
2004	10,237.6	6,097.8	59.6	4,139.8	2,017.7	205.2
2005	10,847.1	6,673.5	61.5	4,173.6	2,100.0	198.7

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITIES
(Dollar Amounts in Thousands)

	FISCAL YEAR ENDING			
	2005	**2004**	**2003**	**2002**
Unfunded Actuarial Liability at beginning of Fiscal Year (7/1)	$ 4,165,942	$ 3,333,456	$ 2,864,319	$ 2,357,917
Interest on Unfunded Liability	343,690	275,010	236,306	194,528
Investment Experience (gains) decreases UAL	(210,578)	126,485	746,839	788,718
Plan Experience (gains) decreases UAL	44,664	(52,973)	90,852	55,389
Employer Amortization Payments (payments) decreases UAL	(249,643)	(219,989)	(180,522)	(145,654)
Employer Contribution Variance (excess contributions) decreases UAL	3,452	17,093	16,740	7,780
Experience Account Allocation (allocations) decreases UAL	105,289	0	(373,419)	(394,359)
OTHER - Miscellaneous gains and losses from transfers or Acts of the Legislature	0	686,860	(67,659)	0
Unfunded Actuarial Liability at end of Fiscal Year (6/30)	$ 4,202,816	$ 4,165,942	$ 3,333,456	$ 2,864,319

EXHIBIT A
AMORTIZATION OF UNFUNDED
ACTUARIAL ACCRUED LIABILITY
JUNE 30, 2005

DATE 6/30	DESCRIPTION	AMTZ. METHOD	AMTZ. PERIOD	INITIAL LIABILITY	YEARS REMAIN	REMAINING BALANCE	MID-YEAR PAYMENT
1993	Initial Liability	I	36	$ 2,086,424,058	24	$ 2,809,873,436	$ 177,384,645
1993	Change in Liability	L	25	(176,172,713)	24	(173,849,466)	(16,202,391)
1994	Change in Liability	L	25	(62,475,258)	24	(61,651,376)	(5,745,774)
1995	Change in Liability	L	25	(72,078,533)	24	(71,128,010)	(6,628,975)
1996	Change in Liability	L	25	85,912,731	24	84,779,772	7,901,290
1997	Change in Liability	L	25	(281,911,688)	24	(278,194,026)	(25,927,077)
1998	Change in Liability	L	25	(105,825,000)	24	(104,429,451)	(9,732,597)
1999	Change in Liability	I	25	103,608,120	24	105,523,319	6,661,587
2000	Change in Liability	I	26	46,867,925	25	47,806,011	2,941,373
2001	Change in Liability	I	27	109,177,843	26	111,516,996	6,697,291
2002	Change in Liability	I	28	468,578,945	27	479,228,295	28,131,367
2003	Change in Liability	I	29	1,142,857,936	28	1,170,208,789	67,228,764
2004	Change in Liability	L	30	113,159,407	29	112,205,370	9,889,817
2005	Change in Liability	L	30	(60,625,273)	30	(60,625,273)	(5,298,480)
	TOTAL OUTSTANDING BALANCE					$ 4,171,264,386	$ 237,300,840

EMPLOYERS' CREDIT BALANCE

2001	Contribution Variance	L	5	$ (1,748,006)	1	$ (407,102)	$ (423,562)
2002	Contribution Variance	L	5	7,779,882	2	3,485,703	1,885,156
2003	Contribution Variance	L	5	16,739,921	3	10,827,204	4,056,278
2004	Contribution Variance	L	5	17,093,381	4	14,194,191	4,141,925
2005	Contribution Variance	L	5	3,452,173	5	3,452,173	836,502
	TOTAL CREDIT BALANCE					$ 31,552,169	$ 10,496,299

TOTAL UNFUNDED ACTUARIAL ACCRUED LIABILITY $ 4,202,816,555

MEMBERSHIP DATA

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

	--- 2005 ---		--- 2004 ---	
Active Members	**Census***	**Avg. Sal.**	**Census***	**Avg. Sal.**
Regular Members	56,479	$ 32,121	56,651	$ 31,209
Legislators	49	41,772	54	42,660
Judges	325	99,497	324	100,764
Wildlife Agents	218	44,786	217	42,425
Corrections	5,245	27,358	5,328	26,662
Active after DROP	1,852	45,938	1,575	40,214
TOTAL	64,168	$ 32,522	64,149	$ 31,451

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

Valuations Salaries	$ 2,100,043,094	$ 2,017,726,616

Inactive Members	**2005 Census**	**2004 Census**
Due Refunds	34,379	35,955
Vested & Reciprocals	1,486	1,324

	--- 2005 ---		--- 2004 ---	
Annuitants and Survivors	**Census**	**Avg. Annual Annuities**	**Census**	**Avg. Annual Annuities**
Retirees	27,646	$ 16,857	26,945	$ 16,440
Disabilities	1,199	11,658	1,203	11,166
Survivors	5,360	11,278	5,308	11,072
DROP	2,810	24,668	2,835	23,611
TOTAL	37,015	$ 16,474	36,291	$ 16,040

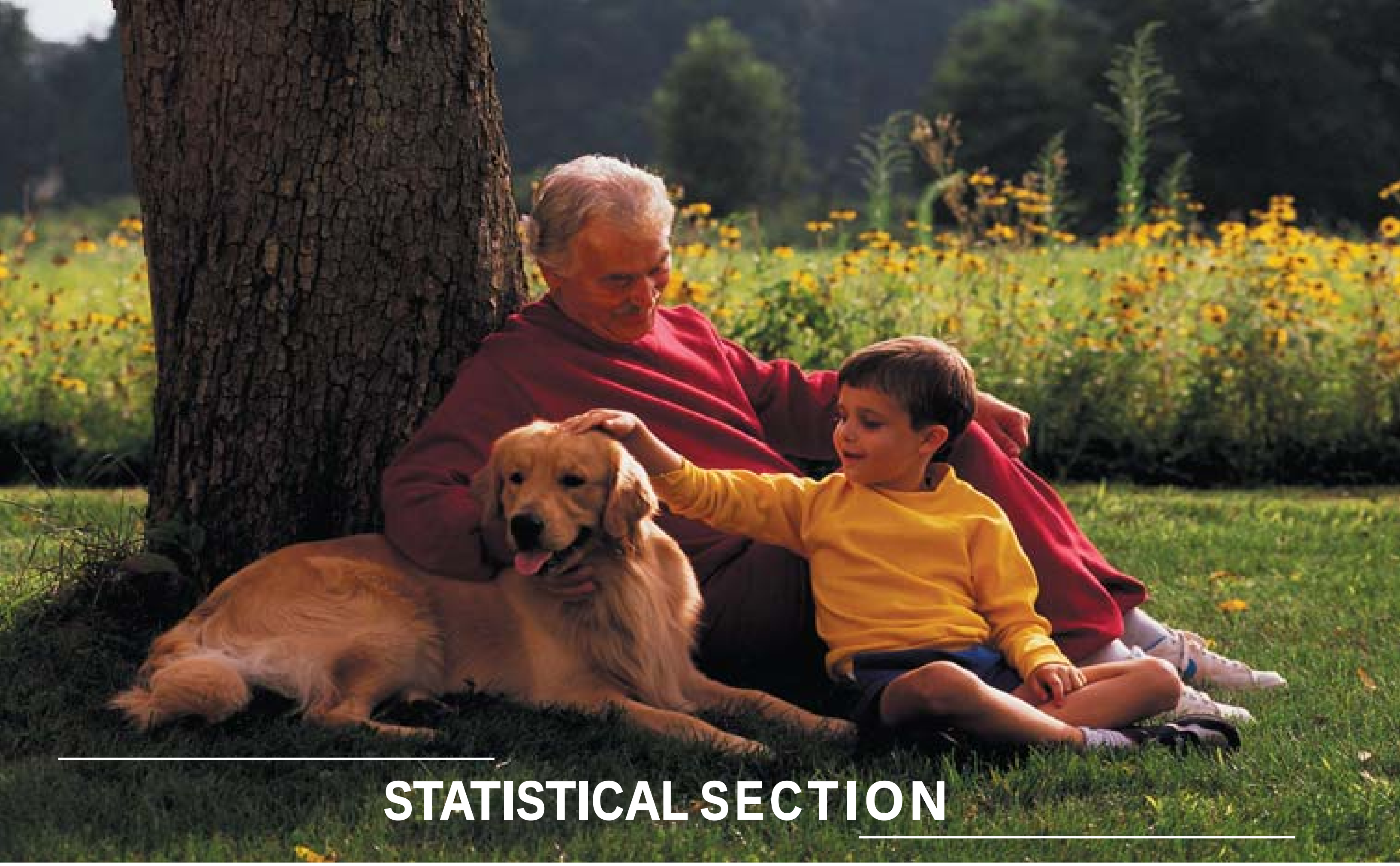
HISTORICAL MEMBERSHIP DATA
(Dollar Amounts in Thousands)

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
1996	69,680	4.58%	$ 1,584,537	2.4%
1997	69,444	-.34%	1,607,371	1.4%
1998	69,949	.73%	1,653,863	2.9%
1999	67,680	-3.24%	1,736,963	5.0%
2000	66,642	-1.53%	1,820,132	4.8%
2001	64,519	-3.19%	1,782,884	-2.0%
2002	64,692	.27%	1,861,887	4.4%
2003	65,441	1.01%	1,924,680	3.4%
2004	64,149	-1.97%	2,017,726	4.8%
2005	64,168	.03%	2,100,043	4.1%

History of Annuitants and Survivor Annuitant Membership For Last 10 Years

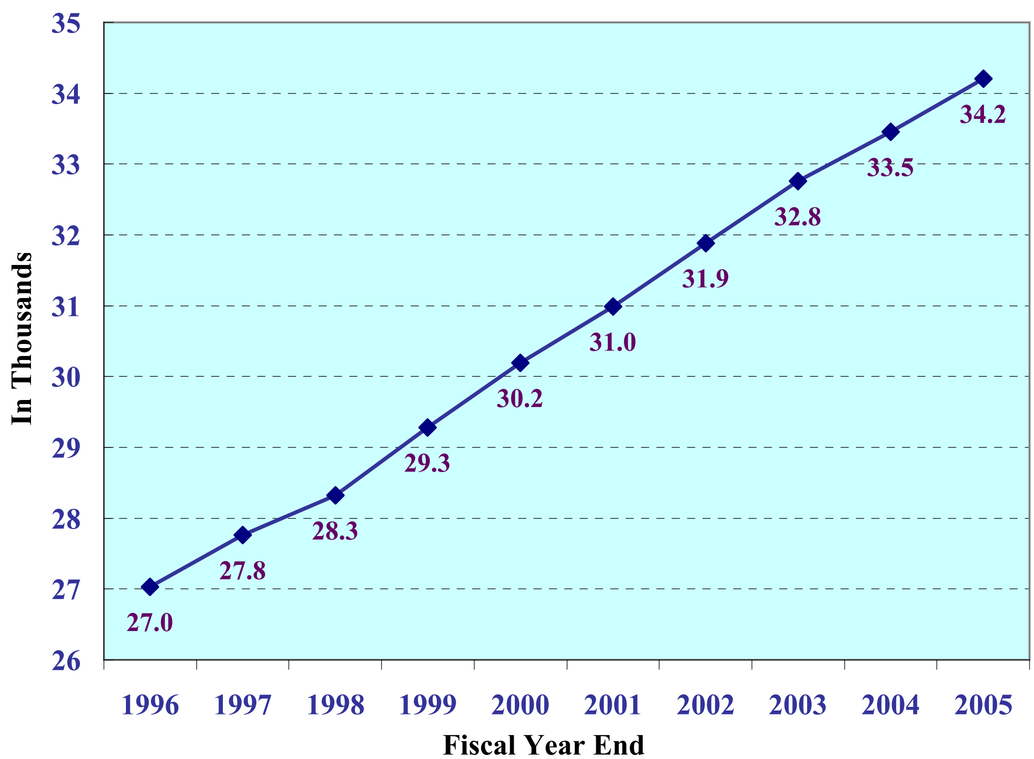
YEAR ENDING 6/30	---- TOTAL ---- MEMBERS		--- MEMBERS --- ADDED		--- MEMBERS --- REMOVED		AVERAGE ANNUITY	PERCENT CHANGE IN ANNUITY
	No.	AMOUNT	No.	AMOUNT	No.	AMOUNT		
1996	30,350	$ 352,869	2,699	$ 42,696	1,563	$ 9,011	$ 11,626	6.9%
1997	31,358	378,125	2,153	34,951	1,145	9,695	12,058	3.7%
1998	31,092	399,889	2,040	30,192	1,212	8,428	12,861	6.7%
1999	31,599	423,046	1,515	32,512	1,008	9,355	13,388	4.1%
2000	32,618	454,356	2,629	42,466	1,608	11,156	13,930	4.0%
2001	33,357	486,712	2,582	47,162	1,843	14,806	14,591	4.7%
2002	34,522	524,748	2,959	56,237	1,794	18,201	15,200	4.2%
2003	35,525	555,503	2,789	56,647	1,786	25,892	15,637	2.9%
2004	36,291	582,121	2,613	55,655	1,847	29,037	16,040	2.6%
2005	37,015	609,764	2,775	61,985	2,051	34,342	16,473	2.7%



STATISTICAL SECTION

NUMBER OF BENEFIT RECIPIENTS

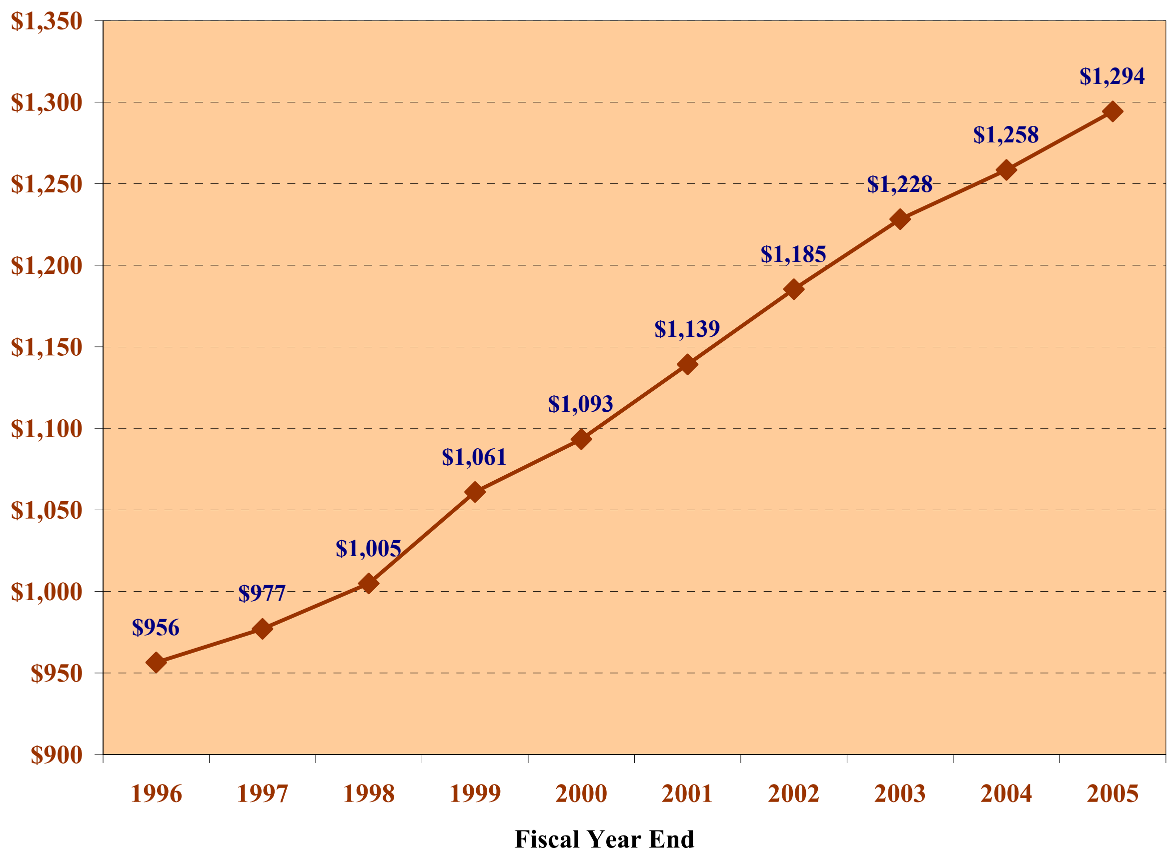
Fiscal Year End	Recipients	Net Change
1996	27,028	3.1%
1997	27,766	2.7%
1998	28,326	2.0%
1999	29,283	3.4%
2000	30,197	6.6%
2001	30,992	2.6%
2002	31,887	2.9%
2003	32,757	2.7%
2004	33,456	2.1%
2005	34,205	2.2%



AVERAGE MONTHLY RETIREMENT BENEFIT

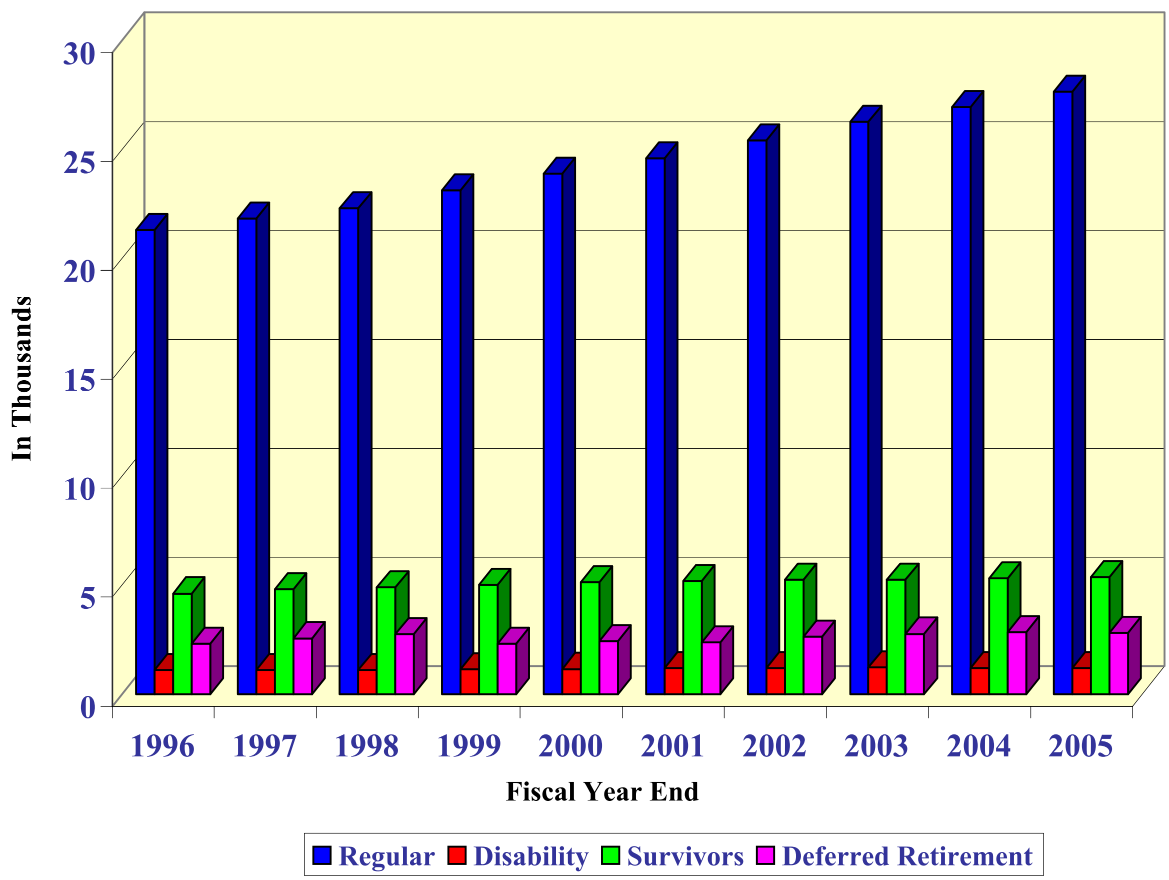
(DOES NOT INCLUDE DROP OR IBO)

Fiscal Year End	Average Monthly Benefit	Net Change
1996	$ 956	5.9%
1997	$ 977	2.2%
1998	$ 1,005	2.9%
1999	$ 1,061	5.6%
2000	$ 1,093	8.8%
2001	$ 1,139	4.2%
2002	$ 1,185	4.0%
2003	$ 1,228	3.6%
2004	$ 1,258	2.5%
2005	$ 1,294	2.9%



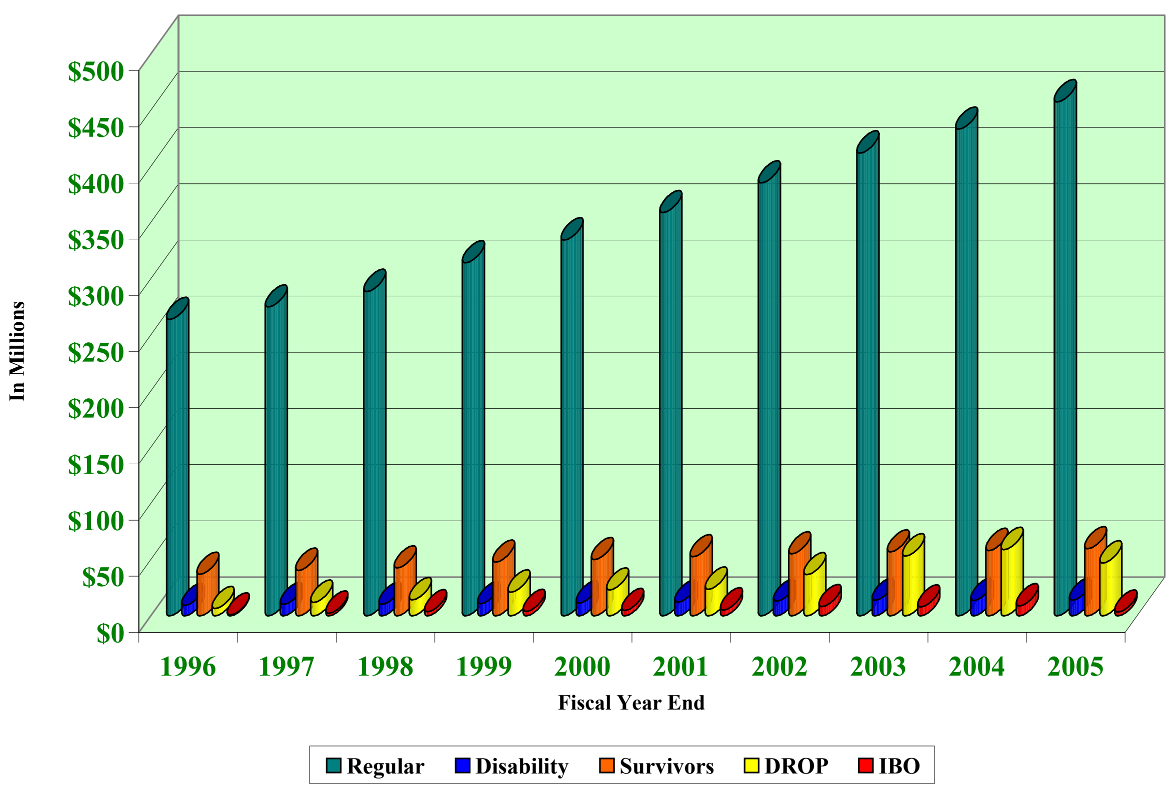
RETIRED MEMBERS BY BENEFIT TYPE

Fiscal Year End	Regular	Disability	Survivors	Deferred Retirement	Total
1996	21,297	1,111	4,620	2,320	29,348
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
2003	26,275	1,220	5,262	2,768	35,525
2004	26,945	1,203	5,308	2,835	36,291
2005	27,646	1,199	5,360	2,810	37,015



BENEFIT EXPENSES BY TYPE

Fiscal Year End	Regular	Disability	Survivors	Deferred Retirement Option	Initial Benefit Option	Total
1996	$ 263,839,079	9,337,216	37,011,290	6,416,194	736,336	$ 317,340,115
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
2003	$ 411,933,100	13,859,977	56,972,676	53,322,395	7,921,433	$ 544,009,581
2004	$ 433,175,565	13,818,110	58,207,404	59,048,130	8,903,537	$ 573,152,747
2005	$ 457,521,300	14,051,770	59,662,090	47,091,359	3,338,644	$ 581,665,163



SCHEDULES OF ADDITIONS BY SOURCE AND DEDUCTIONS BY TYPE
FOR THE TEN YEARS ENDED JUNE 30, 2005

ADDITIONS BY SOURCE

Fiscal Year	Member Contributions	(1) Employer Contributions	Net Investment Income (3)	Other Income	Total	(2) Annual Covered Payroll	Percentage (1)/(2)
1996	$ 126,073,816	197,456,874	543,499,808	39,518,719	$ 906,549,217	$ 1,645,266,843	12.0%
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	(342,821,109)	14,658,709	$ 79,267,801	$ 1,969,622,814	13.0%
2003	$ 159,469,854	292,290,126	212,771,376	15,137,037	$ 679,668,393	$ 2,072,945,958	14.1%
2004	$ 163,277,178	335,991,617	996,067,481	9,325,388	$ 1,504,661,664	$ 2,125,561,464	15.8%
2005	$ 169,143,849	391,870,045	650,345,827	37,363,680	$ 1,248,723,401	$ 2,201,578,577	17.8%

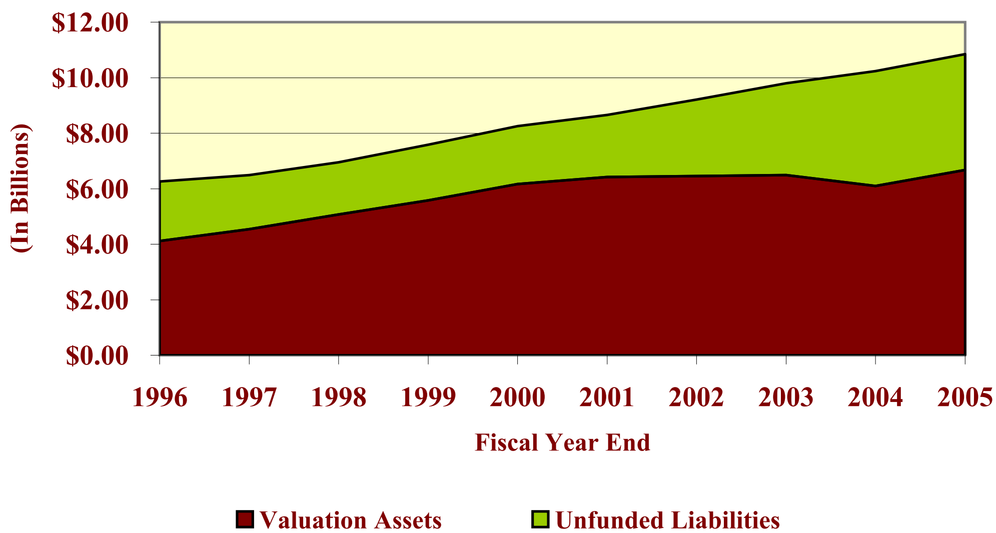
DEDUCTIONS BY TYPE

Fiscal Year	Benefits	Refunds	Administrative	Other	Total	Investment Expenses (3)
1996	$ 317,340,115	27,222,153	4,390,986	2,067,946	$ 351,021,200	$ 13,318,452
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	6,228,406	$ 502,657,414	$ 18,916,270
2002	$ 498,392,717	31,391,355	8,315,745	4,943,827	$ 543,043,644	$ 17,213,862
2003	$ 544,009,581	25,043,817	10,196,507	1,632,930	$ 580,882,835	$ 16,901,210
2004	$ 573,152,747	28,760,064	12,629,058	795,260	$ 615,337,129	$ 20,266,725
2005	$ 581,665,163	30,357,532	15,999,373	2,634,940	$ 630,657,008	$ 24,114,417

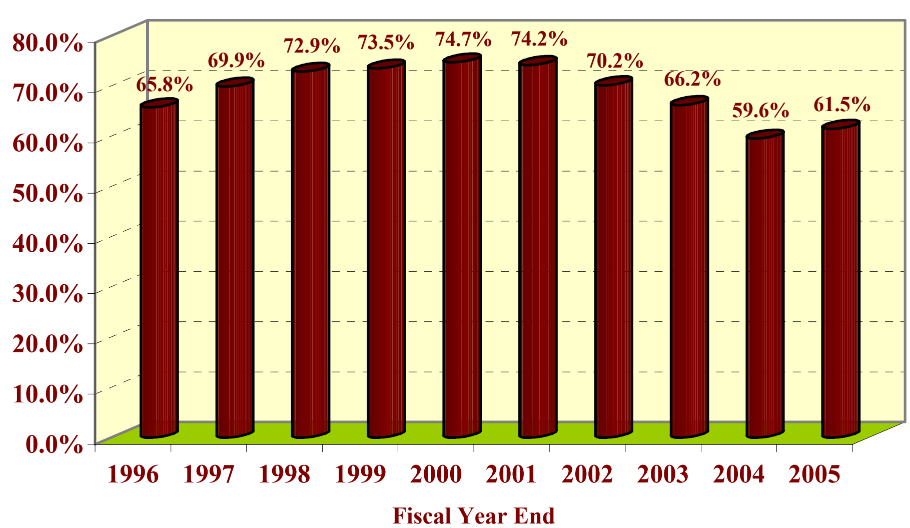
(3) Investment income less investment fees includes net appreciation (depreciation) in fair value of investments, which can create significant fluctuations from year to year. These fluctuations could also affect Investment Expenses.

NET ASSETS vs. PENSION LIABILITIES
Ten Years Ended June 30, 2005

ACTUARIAL ACCRUED LIABILITIES



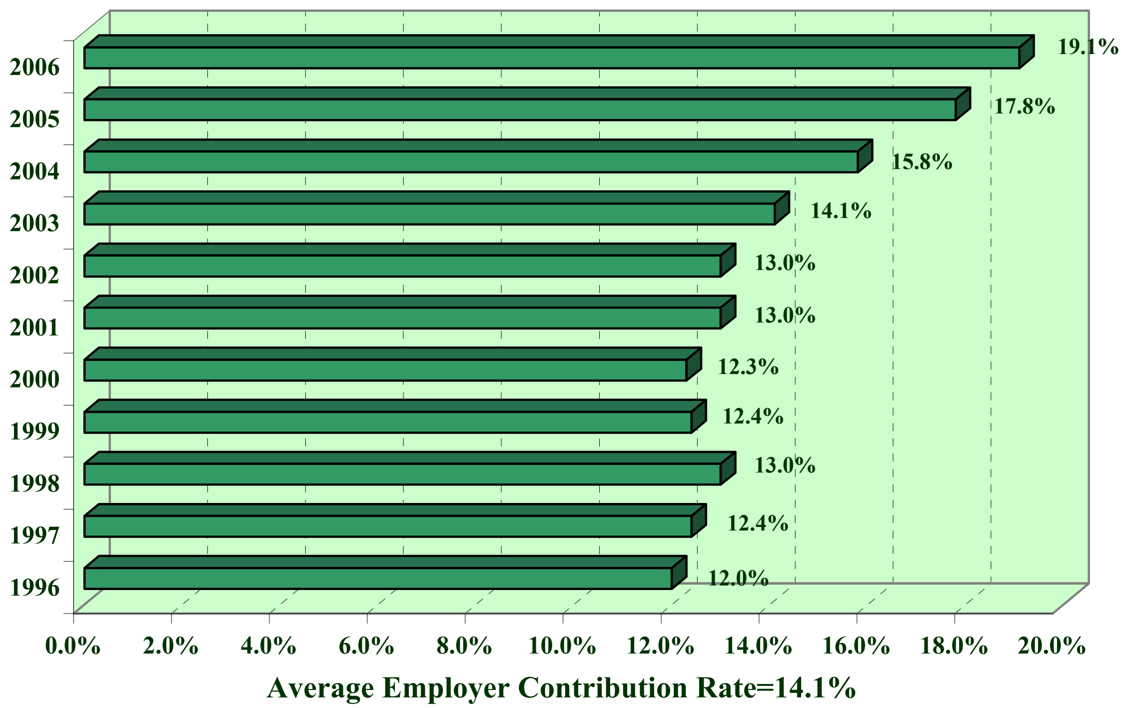
VALUATION ASSETS AS % OF PENSION LIABILITIES



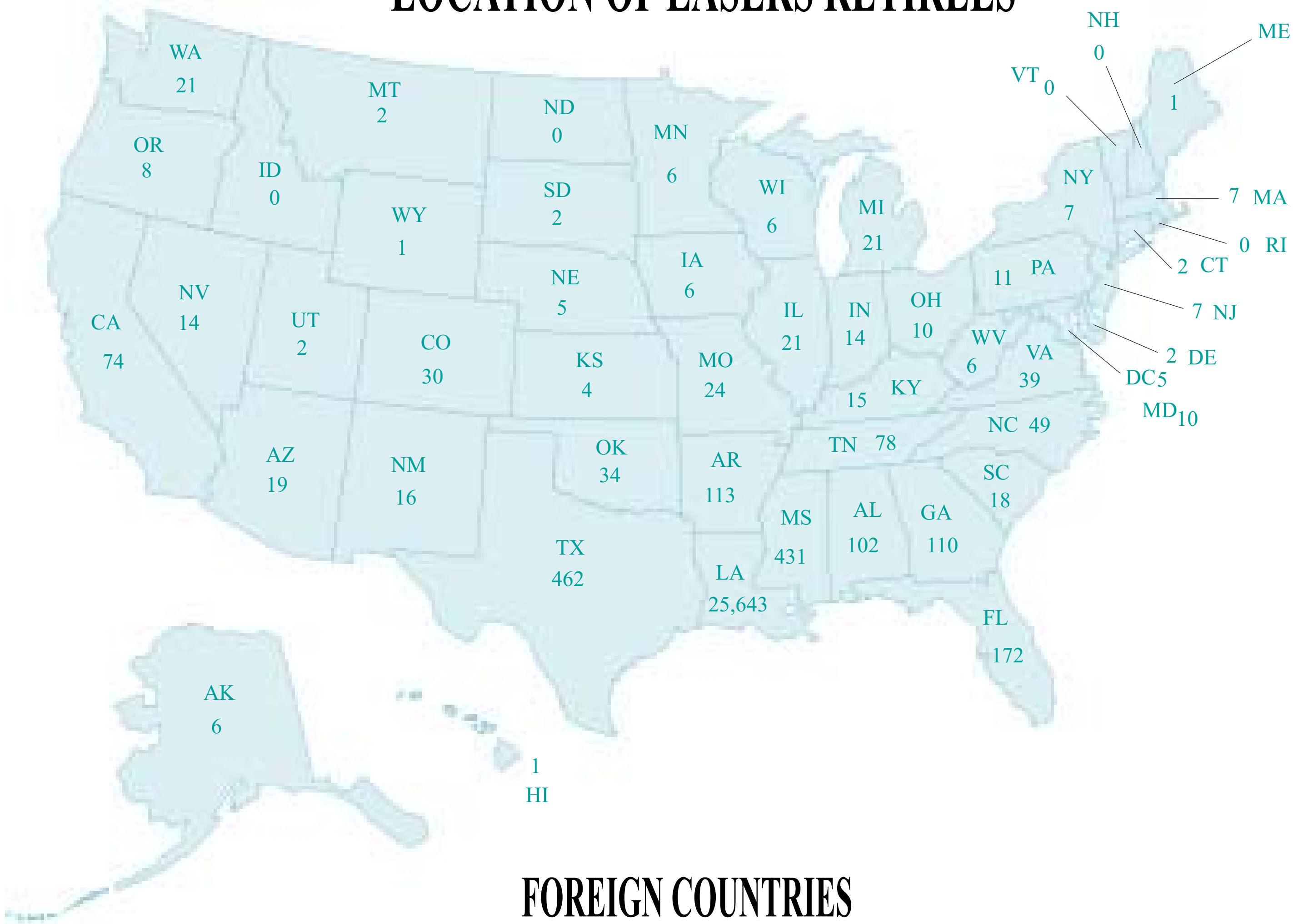
EMPLOYER CONTRIBUTION RATES

Last Ten Fiscal Years

Fiscal Year End	Employer Contribution Rates
1996	12.0%
1997	12.4%
1998	13.0%
1999	12.4%
2000	12.3%
2001	13.0%
2002	13.0%
2003	14.1%
2004	15.8%
2005	17.8%
2006 - Projected	19.1%



LOCATION OF LASERS RETIREES



FOREIGN COUNTRIES

AUSTRALIA	1
CANADA	1
COLUMBIA	1
ENGLAND	1
FRANCE	1
GERMANY	1
MEXICO	2
VIRGIN ISLANDS	1

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