TEACHERS' RETIREMENT SYSTEM OF LOUISIANA

INVESTMENT POLICY

September 6, 2002

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INTRODUCTION

This document establishes the investment policy for Teachers' Retirement System of Louisiana (System) for the management of the assets held for the benefit of participants and beneficiaries of the System.

The objective of this document is to establish and communicate the long-term goals and objectives of the System to investment managers and other interested parties. In addition, this document formalizes the responsibilities and guidelines for investment managers and defines the performance measurement and evaluation process.

The Board of Trustees (Board) is charged with the responsibility of investing the assets of the System in a prudent manner such that the safety of the principal is preserved while providing reasonable returns and, in general, avoiding speculative investments.

The Board, in carrying out these duties, shall adhere to the Prudent-Man Rule, which means that a fiduciary shall exercise the judgment and care under the circumstances, then prevailing, which 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.

The Board's policies provide for the use of all suitable and prudent avenues of investment authorized under the Louisiana statutes to maintain a high quality, diversified portfolio of investments, the prospects of which are continually reviewed and assessed in various economic climates. To assure this, the Board shall retain investment managers who possess skill and specialized research expertise with respect to investing the assets of the System. This policy serves, in part, as investment instructions to the managers.

The Board has arrived at the following investment policy through careful study of the returns and risks associated with various investment strategies in relation to the current and projected liabilities of the System.

LOUISIANA CODE OF GOVERNMENTAL ETHICS (Rev. 9/6/02)

The Teachers' Retirement System of Louisiana (TRSL) requires all investment managers, brokers, limited partnerships, and service vendors to adhere to the Louisiana Code of Governmental Ethics (Code). This Code will be included in all Solicitation for Proposals (SFP) and will be referenced in all contracts executed by TRSL. Detailed information on the Code, including other provisions may be obtained by contacting the Louisiana Ethics Commission at 1-800-842-6630 or by going to their web site: www.ethics.state.la.us/pub/gifts.htm

STATEMENT OF SYSTEM OBJECTIVES

Financial objectives of the Teachers' Retirement System of Louisiana have been established in conjunction with a comprehensive review of the current and projected financial requirements of the System.

The Board's investment objectives are to:

(1) Protect the System's assets in real terms such that assets are preserved to provide benefits to participants and their beneficiaries. Real terms shall be a measurement in current dollars that discounts inflationary increases in value as measured by the Consumer Price Index (CPI-U) seasonally adjusted.

(2) Achieve investment returns sufficient to meet the actuarial assumption necessary to improve the future soundness of the System. This is defined as an investment return (current income plus realized and nonrealized gains and losses) that is greater than the actuarial assumption.

(3) Maximize the total rate of return on investments within prudent parameters of risk for a retirement system of similar size and type.

While there can be no complete assurance that these objectives will be realized, this investment policy is believed to provide a sound basis to successfully achieve System objectives.

The desired investment objective is a long-term compound rate of return on the System's assets of 3.9% above the CPI-U seasonally adjusted or the actuarial rate (currently 8.25%), which ever is higher. The Board realizes that market performance varies and that this return objective may not be meaningful during some periods. Accordingly, relative performance benchmarks for investment managers are set forth in the Control Procedures section of this document.

(Rev. 9/6/02)

ASSET ALLOCATION GUIDELINES

It shall be the policy of the System to invest the assets in accordance with the minimum and maximum range for each asset category as stated below:

Asset Category	Minimum	Target	Maximum
Domestic Stock**	40%	47%	55%
International Stock	10	13	15
Total Stock	50	60*	65
Domestic Bonds	9	10	20
Global Bonds	3	5	6
High Yield	3	5	7
Total Fixed Income	15	20	30
Mezzanine	3	5	7
Real Estate	3	5	6
Private Equity	4	8	10
Total Alternative (Illiquid)***	10	18	20
Cash and Equivalents	1	2	5
Total	n/a	100%	n/a

* Includes a 10% allocation to indexed equities as mandated by the Legislature (La.R.S. 11:267).

** *The allocation objective of the U.S. Stock composite is the Russell 3000, which can be segregated into the following style targets and ranges:*

*** To determine the asset allocation for this asset category, only the actual amount invested, is applicable. However, in no case shall total investments exceed the maximum without Board approval.

Equity Style	*Minimum*	*Target*	*Maximum*
Large Cap Growth	*26%*	*30%*	*34%*
Large Cap Value	*26*	*30*	*34*
Mid Cap Growth	*7*	*10*	*13*
Mid Cap Value	*7*	*10*	*13*
Small Cap Growth	*7*	*10*	*13*
Small Cap Value	*7*	*10*	*13*

The asset allocation ranges established by this investment policy represent a long-term perspective. As such, rapid unanticipated market shifts may cause the asset mix to fall outside the policy range. Any divergence from this allocation should be of a short-term nature. The director is responsible for ensuring that any such divergence is as brief as possible.

Divergence in the portfolio cash reserves is of particular concern. It is the Board's policy that equity manager portfolios be fully invested and that cash reserves, over time, should not exceed their 5% target. Managers have the discretion to deviate from the cash reserve target but will be accountable to the Board for justifying such action. Managers will be evaluated on the performance of the total portfolio, including cash.

It is expected that all assets of the System will be managed in accordance with the Louisiana Revised Statutes. It is the policy of the Board, provided all investment factors are equal and within the limits of prudence, that investments in Louisiana securities are encouraged.

In accordance with the Louisiana Revised Statutes, the System will invest at least 10% of total stock in equity indexing, not to exceed 65%. The index portfolio(s) shall be invested in indices that seek either to replicate or to enhance a particular index. The index portfolio(s) may be invested in a variety of equity capitalization ranges and could be invested in either domestic or international equity.

In addition to direct investment in individual securities, mutual funds and pooled asset portfolios are acceptable investment vehicles.

PORTFOLIO GUIDELINES

Fixed Income Guidelines for Domestic Managers (Rev. 9/6/02)

Investments in fixed income securities shall be high quality marketable securities meeting one or more of the following criteria:

(1) All U.S. Treasury, federal agencies, and U.S. Government guaranteed obligations.

(2) Corporate bonds, debentures, notes, asset-backed securities, and equipment trust certificates rated Baa3 or BBB- or higher (investment grade) by Moody's or Standard & Poor's (includes split-rated bonds).

(3) Mortgage securities will be limited to: pass-throughs, collateralized mortgage obligations, adjustable rate mortgages, commercial mortgage-backed securities, and other mortgage securities deemed prudent by the investment manager. The use of interest-only strips and principal-only strips may not exceed 10% of the portfolio.

(4) Municipal bonds rated Baa3 or BBB- or higher may not exceed 20% of the market value of the bond portfolio.

(5) Positions in any one issuer of corporate or municipal securities are not to exceed 5% of the market value of the bond portfolio, measured at the time of purchase.

(6) Holdings of individual issues are to be of sufficient size to accommodate easy liquidation.

(7) Private placements (including Rule 144As) may be held, provided that holdings do not exceed 25% of the market value of the bond portfolio. High-yield portfolios and Mezzanine Limited Partnerships are excluded from this restriction.

(8) Debt obligations of foreign governments, corporations, and supranationals issued outside of the U.S. (Eurobonds and non-U.S. dollar bonds) may be held by investment managers.

(9) High yield portfolios are to be invested in debt securities (including convertibles) rated from Ba1 to Caa (Moody's rating) or BB+ to CCC (Standard & Poor's rating) and in unrated securities determined to be of comparable quality by the manager. Unrated securities and securities rated Caa, CCC, or below shall not exceed 20% of the market value of the portfolio.

(10) High yield portfolios are subject to the criteria in paragraphs (5) and (6) with bond rating modified according to paragraph (9).

(11) Investment grade fixed income portfolios are to be invested in fixed income securities pursuant to paragraphs (1), (2), (3), (4), (5) and (6) above, except that all securities, at the time of purchase, shall be investment grade. If a security is downgraded below investment grade, the investment manager will work to seek the best resolution over time to such downgrade.

(12) Investment grade fixed income portfolios shall not invest in mortgage–backed inverse floaters, interest-only, principal-only strips or highly volatile less liquid tranches.

(13) Investment grade fixed income portfolios may invest in debt obligations of foreign governments, corporations and supranationals issued in the United States and are dollar denominated (Yankee) securities. Aggregate weighting of these securities shall be limited to 10% of the market value of the portfolio.

<u>Fixed Income Guidelines for Approved Global Fixed Income Manager(s)</u> (Rev. 8/7/01)

Items (1) through (7) of the Fixed Income Guidelines for Domestic Managers will apply with the following additional guidelines.

(1) The debt of countries, foreign and domestic agencies, foreign and domestic corporations, and supranational entities are acceptable for investment. The manager should consider the creditworthiness and the liquidity of a potential security before making an investment. The manager should also review whether the custodian has a subcustodian within a particular country before considering an investment.

(2) Portfolio weightings in countries represented in the Salomon Brothers Non-US World Government Bond Index, including cash, may range from 0% to 100% of the portfolio.

(3) Portfolio weightings in countries not represented in the Salomon Brothers Non-US World Government Bond Index, including cash, may not, in aggregate, exceed 40% of the portfolio market value without Board approval. However, practical consideration should be given to liquidity and marketability of issues, particularly within nonmajor and emerging markets.

(4) Quality ratings for corporate debt shall be consistent with those stated in item (2) of the Fixed Income Guidelines for Domestic Managers.

(5) Permitted hedge vehicles for currency exposure management are as follows:

(a) Forward Foreign Exchange Contracts
(b) Currency Futures Contracts
(c) Options on Currency Futures Contracts
(d) Options on Spot Currencies

(6) Net short foreign currency positions may not be taken in this portfolio.

<u>Stock Guidelines for Domestic Managers</u> Rev. 2/6/01

Common stock securities, including ADRs, shall be high quality, readily marketable securities offering potential for above-average growth. Common stock investments are limited to those meeting all of the following criteria:

(1) Stocks must be listed or traded on a national securities exchange, including the NASDAQ. ADR securities may be traded over the counter. U.S. stocks must be registered with the Securities and Exchange Commission.

(2) No more than 5% of the total outstanding shares of common stock for any one corporation may be held in the System's equity portfolio.

(3) No more than 5% of the cost or market value of the System's equity portfolio (whichever is more) or 15% of the market value of each manager's portfolio may be invested in the common stock of any one corporation.

(4) No more than 20% of stock valued at market of the System's equity portfolio may be held in any one industry category as defined by the custodian.

(5) Convertible securities and covered-option writing, if any, shall be considered as part of the equity portfolio.

(6) Equity managers (growth or value) hired for the small cap investment category are expected to maintain a weighted average market capitalization of the portfolio within minus 50% and plus 100% of the weighted average market capitalization of the Russell 2000 Index (growth or value, respectively).

(7) Equity managers (growth or value) hired for the mid cap investment category are expected to maintain a weighted average market capitalization of the portfolio within plus or minus 50% of the weighted average market capitalization of the Russell Mid Cap Index (growth or value, respectively).

Stock Guidelines for Approved International Equity Manager(s) (Rev. 2/5/02)

Common stock securities of Developed Markets (EAFE Countries and Canada), shall be high quality, readily marketable securities offering potential for above-average growth. Items (2), (4), and (5) of the Stock Guidelines for Domestic Managers will apply with the following additional guidelines.

(1) Investment managers may invest up to 20% of the market value of the portfolio in the emerging market countries contained in the IFC Investable Index, including up to 5% (of the 20% limit) in emerging market countries not contained in the IFC Investable index. Managers should consider liquidity and marketability of issues, particularly within non-major and emerging markets, and should also be sensitive to the weight of individual economic sectors of the market within the portfolio. The manager should also review whether the custodian has a subcustodian within a particular country before considering an investment.

(2) Investment managers may invest up to 10% of the portfolio's market value in domestic equity securities. This flexibility should be viewed by the manager as an opportunistic or defensive mechanism rather than a normal position.

(3) No single industry group shall constitute more than 25% of the portfolio's market value or its equivalent representation in the EAFE Index; whichever is more, without prior Board approval.

(4) No individual security shall constitute more than 10% of the portfolio's market value.

(5) Cash held by the manager may be in U.S. dollars or foreign currencies of the manager's choice.

(6) Residual currency exposures of the underlying international equity portfolio may be actively managed by the investment manager. If actively managed, the objectives of the foreign exchange exposure management, within the international equity portfolio, are to:

(a) Add value by increasing total returns and reducing volatility of returns through hedging and cross-hedging activities.

(b) Avoid currency losses in periods of an appreciating U.S. dollar.

(7) Permitted Equity Investments

(a) Equity managers are to confine investments to common stocks and securities that are directly convertible or exercisable into common stocks, including ADR's and GDR's.

(b) Use of derivatives such as options, warrants, and futures to establish unleveraged long positions in equity markets is permissible.

(c) Currency options contracts may be exchange traded or over-the-counter (OTC) traded in the interbank market. Additional instruments, such as swaps, or other derivatives, may be used if the risk/return trade-off is perceived by the manager to be suitable and competitive with the above-stated hedge vehicles.

(d) International equity managers may invest up to 10% of the portfolio in Rule 144A securities.

(8) Permitted hedge vehicles for currency exposure management are as follows:

(a) Forward Foreign Exchange Contracts
(b) Currency Futures Contracts
(c) Options on Currency Futures Contracts
(d) Options on Spot Currencies

(9) Net short foreign currency positions may not be taken in this portfolio

Manager Cash Guidelines (Rev. 2/6/01)

The System expects the manager's cash position to be kept to a minimum and adhere to the following:

(1) Equity manager's cash shall not constitute more than 5% of the market value of the manager's portfolio without prior Board approval.

(2) The manager's cash will be swept daily into a STIF account by the custodian.

(3) STIF deposit accounts at foreign subcustodian banks are allowed only for the global and international managers.

Restricted Investments (Rev. 2/6/01)

Categories of investments that are not eligible include:

(1) Use of margin or leverage (except limited partnerships)

(2) Short sales of securities

(3) Investments in commodities or commodity contracts

(4) Direct loans or extending lines of credit to any interested party

(5) Letter stock

(6) Unregistered securities (except 144A securities and limited partnerships).

With Board approval, global managers may use financial-futures contracts and options thereon, currency-forward contracts and options thereon, and options on physical securities and currencies. Also for these managers, initial and variation margin on financial futures and related options are allowed.

Diversification

Investments shall be diversified with the intent to minimize the risk of large losses to the System. The total portfolio will be constructed and maintained to provide prudent diversification through equity, fixed income, real estate, and alternative investments.

Volatility (Rev. 2/5/02)

Consistent with the desire for adequate diversification, it is expected that the volatility of the System's total portfolio will be similar to that of the market. It is expected that the volatility of the total portfolio, in aggregate, will be reasonably close to the volatility of a commitment-weighted composite of market indices (e.g., Russell 3000 Index for stocks and Lehman Brothers Aggregate Bond Index for bonds, etc.).

Liquidity Needs (Rev. 2/5/02)

It is expected that contributions will exceed benefit payments for the foreseeable future. Therefore, staff will maintain an allocation to cash to meet benefit payments. External managers should maintain cash levels that are within their investment guidelines. (See Manager Cash Guidelines)

Proxy Voting (Rev. 11/2/99)

It shall be the policy of the System to allow the investment manager to vote all proxies. Nevertheless, each investment manager is required to advise the Board on any issues that should require special consideration.

Execution of Securities Trades (Rev. 3/6/98)

The System expects the purchase and sale of securities to be directed through brokerage firms offering the best price and execution. Orders shall be placed through Louisiana brokerage firms whenever they can provide total transaction costs equivalent to or below the lowest non-Louisiana brokerage firm.

Alternative Investment Guidelines (Rev. 8/7/01)

In recognition of the increasing opportunities in today's and tomorrow's investment universe, the Board may consider the following representative investment vehicles:

(a) Real Estate
(b) Private Equity
(c) Options
(d) Derivatives (Futures, Swaps, etc.)

The System shall diversify its interests in alternative investments by investing in various classes, geographic regions, and vintage years.

The System will whenever possible, obtain a seat on the advisory board of each investment. Staff and/or Board members review investments at limited partnership annual meetings. Staff and/or Board members attend Advisory Committee meetings and/or annual meetings.

The Board, when appropriate, will adopt objectives, rules, and guidelines necessary to adequately monitor the performance of the assets committed to the above investment vehicles. Upon Board approval, these objectives, rules, and guidelines will be added to the investment policy.

Securities Lending Guidelines (Rev. 8/6/96)

The System may engage in the lending of securities subject to the following guidelines:

(1) Collateral on loans is set at a minimum 102% of the market value of the security plus accrued interest.

(2) Collateral on loans of international securities is set at a minimum 105% of the market value of the security plus accrued interest.

(3) Securities of the System are not released until the custodian bank receives payment for the book-entry withdrawal of the loaned security.

(4) Funds from the lending of securities accrue to the System's account and not to investment manager's since they would not be involved in the process.

(5) The System's Investment Department may engage in the lending of all applicable securities.

Internal Cash and Cash Equivalents Guidelines (Rev. 3/6/98)

Cash and cash equivalents include daily cash balances above day-to-day needs and funds set aside for portfolio strategy reasons. Short-term securities managed by the System's Investment Department are subject to the approval of the director in accordance with the guidelines and restrictions set forth by the Board.

Short-term investments may be invested in:

(1) U.S. Treasury bills, other issues of the U.S. government, issues of federal agencies, and government-sponsored enterprises with a maturity of one year or less.

(2) Repurchase agreements collateralized by U.S. Treasury or agency securities subject to the market value of collateral, including accrued interest, meeting at least 100% of the amount of their purchase agreement.

(3) Commercial paper rated P-1 by Moody's or A-1 by Standard & Poor's and having a senior bond rating of A/A or better. No single issue may exceed 10% of outstanding short-term obligations. The maximum maturity will be 90 days.

(4) Certificates of deposit limited to Louisiana banks, savings and loans, and credit unions provided that:

(a) Maximum amount in any one bank will be limited to $1 million

(b) All deposits in excess of federal insurance limits shall be collateralized subject to the same rules and regulations in effect for certificates of deposit placed by the Louisiana Department of the Treasury

(c) Maximum amount limited to 5% of capitalization

(d) Maximum maturity is 366 days

(5) Money market funds adhering to restrictions (1) through (4) above.

(6) Issues of commercial debt market with maturities of one year or less and having a rating of A or better. The obligations of any single issuer may not exceed 10% of the total outstanding short-term obligations of the System.

CONTROL PROCEDURES

Review of Liabilities

All major liability assumptions regarding number of plan participants, payroll, benefit levels, and actuarial assumptions will be subject to an annual review. This review will focus on an analysis of the major differences between the System's assumptions and actual experience.

Review of Investment Objectives

The achievement of investment objectives will be reviewed on an annual basis. This review will focus on the continued feasibility of achieving the investment objectives and the appropriateness of the investment policy for achieving these objectives. It is not expected that the investment policy will change frequently. In particular, short-term changes in the financial markets should not require an adjustment to the investment policy.

Review of Investment Managers

(Rev. 2/6/01)

The Board will require each investment manager to report monthly in a manner agreed upon by the Board, staff, consultant, and manager.

The Board will meet at least annually, and preferably more frequently, with its investment managers and consultants. Additionally, with or without the investment managers, the Board will review investment results at least quarterly.

These reviews will focus on:

(1) Manager adherence to the policy guidelines.

(2) A comparison of manager results versus appropriate financial indices.

(3) A comparison of manager results using similar policies (in terms of commitment to equity, style, diversification, volatility, etc.).

(4) The opportunities available in both equity and debt markets.

(5) Material changes in the manager organizations, such as investment philosophy, personnel changes, acquisitions, or losses of major accounts, etc.

The managers will be responsible for advising the Board of any material change in personnel, investment strategy, or other pertinent information potentially affecting performance.

Performance Expectations (Rev. 2/5/02)

The most important performance expectation is the achievement of investment results that are consistent with the System's investment policy. A long-term average annual return of 3.9% above inflation as measured by the CPI-U seasonally adjusted or the actuarial rate (currently 8.25%), which ever is higher is reasonable in light of the policy. Implementation of the policy will be directed toward achieving this return and not toward maximizing return without regard to risk.

The Board recognizes that this real-return objective may not be meaningful during some periods. To ensure that investment opportunities available over a specific period are fairly evaluated, the Board will use comparative performance statistics to evaluate investment results. The Board expects the total fund to perform in the top third of a universe of total funds having similar size and investment policies. To stay abreast of what other state and local plans are achieving, the System's performance will also be compared to the results of other public plans. Each manager is expected to perform in the top half of his or her respective equity manager or fixed income manager universe and in the top quartile of his or her investment manager style universe. Additionally, each manager will be compared/evaluated versus their specific style benchmarks. This performance should be achieved over rolling three-year periods or over the length of each manager's contract, whichever comes first. Short-term results will also be monitored. For purposes of this evaluation, the universes maintained by the System’s consultant, will be used.