

LASERS

Statement of Investment Objectives

Section A – General Issues

<i>I. INTRODUCTION</i>	3
<i>II. RELEVANT LEGISLATION AND REGULATION</i>	4
<i>III. ROLES AND RESPONSIBILITIES</i>	5
The Board of Trustees	5
The Investment Committee.....	5
Chief Investment Officer.....	5
Investment Consultant	5
Investment Managers	6
Custodian Bank.....	7
<i>IV: INVESTMENT OBJECTIVES</i>	9
Nominal Return Requirements.....	9
Real Return Requirements	9
Relative Return Requirements	9
<i>V. ASSET ALLOCATION</i>	10
Permitted Asset Classes.....	10
Target Asset Mix.....	11
Implementation.....	11
Style Allocation	11
Active Passive Mix	12
Rebalancing.....	12
<i>VI. MANAGER SELECTION</i>	12
<i>VII. INVESTMENT MANAGER GUIDELINES</i>	14
Introduction	14
Monitoring and Verification.....	14
Derivatives Guidelines.....	15
Domestic Active Equity Manager Guidelines.....	18
Passive Equity Manager Guidelines.....	19
International Equity Manager Guidelines.....	19
Domestic Fixed Income Managers	20
High Yield Fixed Income Managers.....	22
Global Fixed Income Managers.....	22
Alternative Asset Managers.....	23
Economically Targeted Investments (ETIs)	24

LASERS
Statement of Investment Objectives
Section A – General Issues

<i>VIII. INVESTMENT MANAGER MONITORING</i>	24
General Guidelines	24
Manager Evaluation	25
Manager Probation	25
Performance Benchmarks	26
<i>IX. MANAGER REPORTING REQUIREMENTS</i>	27
Policy Compliance	27
Performance Review	27
Derivatives Review	28
Portfolio Holdings	28
Commissions/Trading Report	28
Soft Dollar Report	29
Ethics Report	31
<i>X. OTHER REPORTING REQUIREMENTS</i>	32
Proxy Voting Report	32
Annual Trading Study	32
Commission Recapture Report	32
Securities Lending Report	33
Internally Managed Portfolios Review	34

LASERS

Statement of Investment Objectives

Section A – General Issues

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.

LASERS

Statement of Investment Objectives

Section A – General Issues

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.

LASERS

Statement of Investment Objectives

Section A – General Issues

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. Additionally, the Board of Trustees will conduct formal annual evaluations of both the investment consultant and custodian.

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. Choosing appropriate manager styles and strategies will include assisting the board in formally and regularly evaluating the use of index funds as an alternative to active management. 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.

LASERS

Statement of Investment Objectives

Section A – General Issues

Additionally, the Consultant shall provide assistance in manager searches, selection, investment performance evaluation, and assist both the Board and CIO in ensuring that the use of index funds as an alternative to active management is formally and regularly evaluated. 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.

LASERS

Statement of Investment Objectives

Section A – General Issues

- 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

LASERS

Statement of Investment Objectives

Section A – General Issues

- 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).

LASERS

Statement of Investment Objectives

Section A – General Issues

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

LASERS

Statement of Investment Objectives

Section A – General Issues

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.

LASERS

Statement of Investment Objectives

Section A – General Issues

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 International (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.

LASERS

Statement of Investment Objectives

Section A – General Issues

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

LASERS

Statement of Investment Objectives

Section A – General Issues

- 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.

LASERS

Statement of Investment Objectives

Section A – General Issues

VII. INVESTMENT MANAGER GUIDELINES

Introduction

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

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

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

Monitoring and Verification

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

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

LASERS

Statement of Investment Objectives

Section A – General Issues

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

LASERS

Statement of Investment Objectives

Section A – General Issues

- 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

LASERS

Statement of Investment Objectives

Section A – General Issues

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

LASERS

Statement of Investment Objectives

Section A – General Issues

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.

LASERS

Statement of Investment Objectives

Section A – General Issues

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

Statement of Investment Objectives

Section A – General Issues

- 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

LASERS

Statement of Investment Objectives

Section A – General Issues

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

Statement of Investment Objectives

Section A – General Issues

- 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.

LASERS

Statement of Investment Objectives

Section A – General Issues

- 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.

LASERS

Statement of Investment Objectives

Section A – General Issues

- 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

LASERS

Statement of Investment Objectives

Section A – General Issues

- Other analyses as needed

Manager Evaluation

- LASERS' portfolios shall be measured over various and appropriate time periods.
- A horizon of 3-7 years shall be used in measuring the long-term success of the Fund.
- Shorter time periods shall be evaluated as appropriate and necessary. LASERS shall make every effort to look at all factors influencing manager performance, and attempt to discern market cyclicity from manager over/underperformance.
- On a timely basis, at least quarterly, the Board will review actual investment results achieved by each manager (with a perspective toward a three to five-year time horizon or a peak-to-peak or trough-to-trough market cycle) to determine whether the investment managers performed satisfactorily when compared with the objectives set and in relation to other similarly managed funds.
- The Board will re-evaluate, from time to time, its progress in achieving the total fund, equity, fixed income, and international equity segments objectives previously outlined.
- The periodic re-evaluation will also involve an assessment of the continued appropriateness of: (1) the manager structure; (2) the allocation of assets among the managers; and (3) the investment objectives for LASERS' assets.
- The Board may appoint investment consultants to assist in the ongoing evaluation process. The consultant(s) selected by the Board are expected to be familiar with the investment practices of similar retirement plans and will be responsible for suggesting appropriate changes in LASERS' investment program over time.

Manager Probation

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

LASERS

Statement of Investment Objectives

Section A – General Issues

which the Investment Committee deems appropriate. An advisor may be placed on probationary status if:

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

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

Performance Benchmarks

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

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

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

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

LASERS

Statement of Investment Objectives

Section A – General Issues

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

LASERS

Statement of Investment Objectives

Section A – General Issues

AIMR Performance Presentation Standards (PPSTM) or AIMR Global Investment Performance Standards (GIPSTM).

- Discuss performance relative to benchmarks.
- Provide portfolio characteristics relative to benchmark.

Derivatives Review

The following quarterly reporting requirements shall apply to all managers:

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

Portfolio Holdings

The following quarterly reporting requirements shall apply to all managers:

- Present book value and current market value for all securities held
- List individual securities by:
 - 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

LASERS

Statement of Investment Objectives

Section A – General Issues

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 than 100% of the research and/or services are used in the investment decision-making process, the Investment Manager should only pay for the portion attributed to assisting in the investment decision-making process.

LASERS

Statement of Investment Objectives

Section A – General Issues

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

(1) Definition of Soft Dollar Arrangements

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

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

For purposes of these Standards, "soft dollar arrangements" include proprietary, as well as third-party, research arrangements and seek to treat both categories the same. While the Standards do not suggest an "unbundling" of proprietary research, they do require the investment manager to provide certain basic information regarding the types of research obtained with client brokerage through proprietary

LASERS

Statement of Investment Objectives

Section A – General Issues

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.

LASERS

Statement of Investment Objectives

Section A – General Issues

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.

LASERS

Statement of Investment Objectives

Section A – General Issues

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.

LASERS

Statement of Investment Objectives

Section A – General Issues

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)