



LASERS INVESTMENT HISTORY

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The Creation

The Louisiana State Employees Retirement System (LASERS) was created by Act 126 of 1946 which was signed into law by Governor Jimmie Davis. The legislation was written, "To provide a Retirement Fund for aged and incapacitated officers and employees of the State of Louisiana and their beneficiaries...".

The first year following the creation of the Retirement System constituted the organization period, during which the first meeting was held on January 17, 1947. The Board, as organized in accordance with the provisions of Section 9, Sub-Section 1, of the Act, consisted of seven trustees which included the Chairman of The Appropriations Committee of the House of Representatives; the Chairman of the Finance Committee of the Senate; one member who was not a state employee and whom had at least ten years of investment banking experience appointed by the Governor; and four state employees who were to become members of the system who were also originally appointed by the Governor and were to be succeeded by four members having at least ten years of credible service to be elected by the members of the System.

At the first meeting of the Board, Mr. C.C. Smith was elected Chairman and Mr. W.E. Groves was hired as the System's first Actuary. Also during the organization period, Fidelity Bank of Baton Rouge was designated as the depository of funds and Mr. Homer R. Robinson was hired as the first Executive Secretary (which title changed to Executive Director in 1970).

Full operations began on July 1, 1947. The first members joined the System and the first payout of benefits totaling \$1,011 was made to twelve retirees in August of that year.

Investments and the Growth of Assets

The very first investment approved by the Board in 1947 was \$200,000 in U.S. Treasury Bonds, Series G and H. During the year an additional \$900,000 was invested in U.S. Treasury Bonds, so that by the end of the calendar year 1947 the System had \$1.1 million in assets. In 1966, investments expanded from solely government bonds by adding certificates of deposit and corporate bonds. The first investment in equities came two years later in 1968. Since then the System has continually studied its asset allocation and made changes as necessary to meet requirements. Alternative investments were added to the allocation in 1992 with private equity and in 2002 with absolute return strategies.

The System's asset allocation strategies proved successful. Assets exceeded \$1 billion in 1982, and then more than doubled in ten years, reaching \$3 billion by 1992. At fiscal year end June 30, 2008, assets exceeded \$8.5 billion. Most recently, at calendar-year end 2020, assets totaled just over \$12.3 billion.

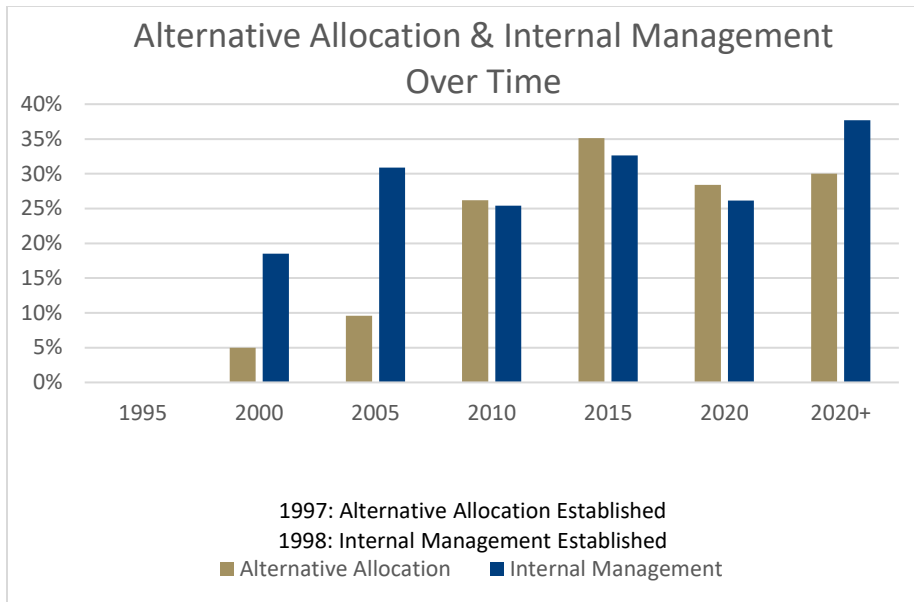
Managing Investments

Investments have certainly come a long way since LASERS beginning. Investments have expanded from the 100% allocation to Treasury Bonds initially to today's diverse allocation of equities, bonds, and alternative investments.

The very first investment managers were LASERS Board of Trustees and the Executive Secretaries until 1982 when the first two external investment managers were hired. As of June 30, 2008, there were nineteen external managers for equities and fixed income and another nineteen alternative asset managers. At calendar year-end 2020, there were sixteen external managers for equities and fixed income and another thirty-six alternative asset managers.

In addition to that, LASERS internally managed portfolio began in 1998 with the creation of a domestic S&P 500 Index Fund in response to Act 1301 of 1998. The first international equity portfolio, the MSCI World Ex-USA Growth Index Fund, began in the fall of 2003. There are now four internally managed

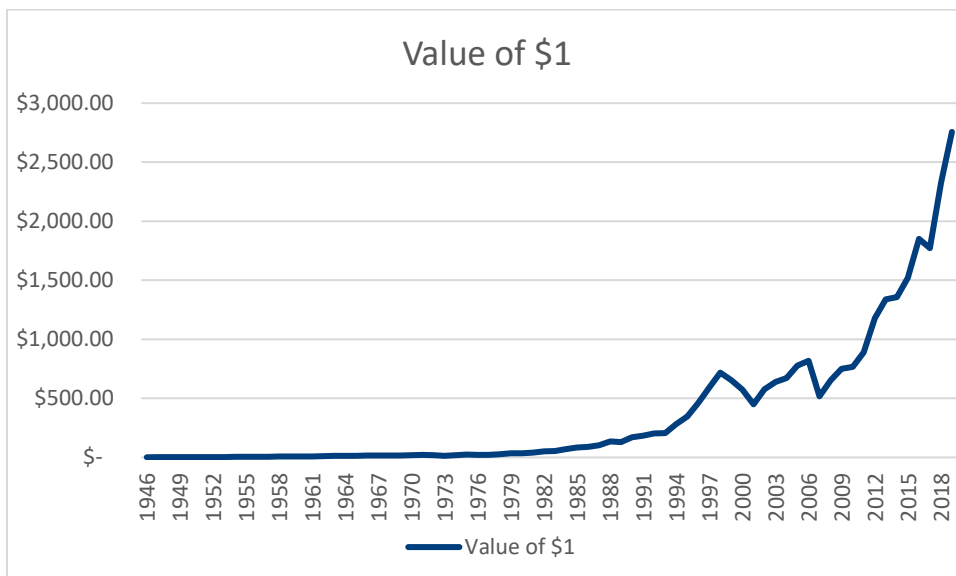
domestic equity portfolios and two international equity portfolios, which together exceed \$4.6 billion or roughly 37.8% of the total plan. Just before internal management was implemented, in 1997, the Plan began investing in Alternative Assets (which consisted of Private Equity at the time). The growth of both Alternatives and internal management is illustrated below.



Over time, as the number of LASERS members increased, the Plan’s asset allocation expanded as well. The Investment Division has always monitored the market, its peers, and industry best practices while working closely with its Investment consultant in order to develop an appropriate allocation, one that is well-diversified and balances risk and return. Allocation changes made over the years are summarized on the attached timeline and table.

Of note, is that LASERS ranked as one of the top ten pension plans in the nation for all years from 2011 through 2015. Most recently, the newest allocation approved in October 2020 seeks to maintain appropriate diversification while balancing the risk-return trade-off with a focus on opportunistic types of investments both domestic and globally.

Interestingly, if you had invested \$1 in the S&P 500 at the time of LASERS creation in 1946, you would have \$2,756 at the end of 2020.



Investment Legislation/Limitations

Act 1301 (HB 629) of 1997 This bill mandates that LASERS “shall invest an amount equal to at least ten percent of the system’s total equity portfolio in one or more index funds which seek to replicate the performance of the chosen index or indices.”

65% Equity Limit (R.S. 11:263.D) - LASERS is subject to a legislative limit restricting the fund so that no more than 65% of its total assets are invested in publicly traded equities. Should LASERS have more than 55% of its total assets invested in publicly traded equities, at least 10% of those equities must be invested in one or more index funds. Alternative assets are not considered to be equities when calculating LASERS equity exposure.

LA Broker-Dealers (R.S. 11:266.1) - This bill mandated that 10% of all commissions of trades of domestic equity and fixed income investments be directed through broker dealers incorporated, domiciled, or having their principal trading operations in Louisiana. This requirement was extended through 2010, and even though the mandate is now expired, we continue to submit quarterly and annual reports in order to be transparent.

Terror-Free Index Fund / Prohibited Nations -

LASERS is required to invest a portion of funds in an international terror-free fund, which identifies and excludes from the fund companies having facilities or employees or both in a prohibited nation. (R.S. 11:316) The Terror-Free International portfolio was funded in February 2008 in response to Act 352 of the 2007 legislative session.

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

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

For a complete listing of all legislation effecting Investments, the following is taken from LASERS Statement of Investment Objectives:

CONTROLLING STATUTES AND REGULATION

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

Principal Statutory Investment Provisions

LASERS shall operate under the “Prudent Man” rule, used herein meaning, that when investing, the Board shall exercise the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent institutional investor acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. (R.S. 11:263) LASERS will apply this standard to the entire fund portfolio, and as part of an overall investment strategy. This will include

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

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

Other Statutory Provisions

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

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

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

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

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

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

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

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

LASERS shall report to the legislature on a semiannual basis investment in any company having facilities or employees or both located in a prohibited nation. A prohibited nation is considered to be one of the following: Iran, North Korea, Sudan or Syria. (R.S. 11:312) Details for this reporting requirement are listed under the Semi-Annual Reporting Requirements under the Prohibited Nations Report in Section XII of these guidelines.

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

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

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

At A Glance:

	The Beginning: 1947	2008	Calendar Year-End 2020
Investment Assets	\$1,100,000	\$8,681,206,762	\$12,371,088,902
# Board Members	7	12	13
Executive Director	Homer R. Robinson	Cindy Y. Rougeou	Cynthia Y. Rougeou
Chief Investment Officer	None	Bobby Beale	Bobby Beale
Actuary	W.E. Groves	Shelley Johnson	Foster & Foster (Shelley)
Depository of Funds	Fidelity National Bank	BNY Mellon	BNY Mellon
# / Size of Internally-Managed Funds	0	5 funds Approx \$2.5b ~29% of Plan	6 funds Approx \$4.7b ~38% of Plan
# of External Managers	0	19 for traditional assets 19 for alternatives	16 for traditional assets 36 for alternatives
Asset Allocation	Fixed Income 100%	Equity 55% Fixed Income 21% Cash 1% GTAA 5% Alternatives 18%	Equity 54% Fixed Income 21% Cash 1% Alternatives 24%