

Louisiana School Employees
Retirement System (LSERS)

Statement of Investment Policy

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| 1. Purpose

The Louisiana School Employees' Retirement System (Plan) is administered by a Board of Trustees (Board) and maintained to provide benefits for participants and beneficiaries in accordance with the Plan provisions. Plan Staff (Staff) will generally coordinate the day to day investment related activities through the Chief Investment Officer on behalf of the Board.

Because the Plan is a defined benefit pension plan, a long-term investment horizon is warranted, given the Plan's liability characteristics and the actuarial valuation process that mitigates annual fluctuations in investment performance via asset smoothing. Moderate short-term fluctuations in the market value of Plan assets should not influence the investment structure under normal circumstances.

The Board will engage the services of Investment Managers who possess the necessary specialized resources and expertise to ensure that the Plan has the highest probability of achieving competitive results at appropriate levels of risk. It is the intention of the Board to allow the Investment Managers full discretion within the scope of these mutually agreed upon investment guidelines and each investment strategy's respective governing documents.

Each Investment Manager (Manager) shall discharge its responsibilities as a fiduciary with respect to assets under its management in accordance with this Statement of Investment Policy (Policy) and all applicable laws, including federal and state securities laws.

The purchase and sale of all investments are the sole and direct responsibility of each Manager pursuant to the discretion granted herein and as granted pursuant to the Manager Agreement.

This Policy allows for pooled investment vehicles (mutual funds, limited partnerships and/or commingled funds) that are deemed to be suitable investments regarding Plan assets. Any pooled investments will generally follow this Policy, although the Board recognizes that pooled vehicles are formally governed by their respective guidelines, prospectuses and investment contracts.

This Investment Policy Statement represents the formal document for the investment of assets and is to be communicated to the investment managers for their use in developing an appropriate investment program. This document will also be used as the basis for future investment performance measurement and evaluation.

This Policy may be changed from time to time by the Board after consideration of the advice and recommendations of Plan staff and advisors. All modifications to this Policy shall be in writing and approved by the Board.

The Board may grant Manager(s) a waiver of any of the terms of this Policy when it is the Board's discretion that such a waiver is believed to be in the best interest of the Plan. Waivers may be specific as to Manager(s), time and/or criteria, or of unlimited duration and/or general in nature. All waivers shall be in writing and approved by the Board.

| 2. Responsibilities

The primary investment responsibilities of the Board are:

- As a primary objective, to ensure that sufficient assets are available to meet the System's liabilities, most importantly benefit payments for LSERS members or beneficiaries.
- As a secondary objective, to achieve an optimal level of investment return relative to risk subject to the Board's risk tolerance.
- To do so effectively and prudently, in full compliance with any applicable laws and regulations as presently stated or as they may be amended in the future.

Specific oversight responsibilities of the Board in the investment process, which are to be performed with the advice and assistance of professional advisors and staff include:

- Developing a sound and consistent investment policy including asset allocation, diversification and quality guidelines.
- Communicating clearly the major duties and responsibilities of those accountable for achieving investment results and to whom specific responsibilities have been delegated
- Selecting and maintaining qualified investment managers and consultants.
- Monitoring and evaluating results to ensure that policy guidelines are being adhered to and that policy objectives are being met.
- Acting under appropriate circumstances to terminate an investment manager or advisor for failing to perform in terms of stated expectations or to abide by this *Investment Policy Statement*.
- Undertaking such work and studies as may be necessary to keep the Board adequately informed as to the status of Plan assets.

Delegation of Responsibilities

The Board of Trustees serves as primary fiduciary to the Retirement System. The Board is authorized to delegate certain responsibilities to qualified agents and staff to assist them in properly meeting the overall Board responsibilities as outlined above. Specifically, the Board has selected a Chief Investment Officer ("CIO") and appointed a custodian, investment managers, an investment consultant, legal counsel, and actuary to perform various functions. The CIO, investment consultant, custodian, and investment managers also serve as fiduciaries to the Retirement System.

CIO

The CIO is charged with the following responsibilities:

- Implement the investment decisions and policies as approved by the Board;
- Brief the Board as appropriate at Board and Investment Committee meetings on relevant investment activities;
- Ensure that there is sufficient cash available to meet cash flow requirements;
- Serve as advisor to the Investment Committee;
- Serve as liaison between the Board and outside stakeholders;

- In consultation with the investment consultant, maintain the target asset allocation in accordance with this *Investment Policy Statement*;
- Assist in the selection of investment managers in accordance with the direction of the Board;
- Maintain with the help from the Investment Consultant that investment guidelines are up to date
- Provide other services as reasonably requested by the Investment Committee or the Board.

Custodian

The custodian has been delegated the following responsibilities:

- Perform, participate in and exercise such rights, privileges, duties and responsibilities possessed by any other owner or holder of bonds or other evidence of indebtedness and common and preferred stock, except for the voting of proxies, which shall be delegated to investment managers;
- Safe keep all assets including securities, cash and cash equivalents;
- Receive instructions from investment managers to purchase and sell various securities and ensure that transactions are settled according to established settlement procedures;
- Provide monthly transaction accounting and reconciliation on security holdings with reports provided to the Investment Consultant, CIO, and Board in a timely manner;
- Forward proxy materials to investment managers promptly after receiving them;
- Ensure the timely filing of documents in conjunction with recovery of losses pursuant to class action litigation;
- Daily sweep of idle cash to a competitive yielding, high quality money market investment.

Investment Managers

The designated investment managers are charged with the following roles and responsibilities:

- As applicable, maintain registration as an investment advisor under the Investment Advisor Act of 1940 as amended from time to time.
- Adhere to the policy guidelines contained in this *Investment Policy Statement*, unless granted an exception in writing.
- Invest only in those asset classes, and adhere to the ranges for allocation among those classes, that the Board has stated to be appropriate for that manager's portfolio.
- Exercise complete investment discretion within the boundaries of the restrictions outlined in this *Investment Policy Statement* and investment strategy governing documents, or in any written exceptions to this Statement.
- Report performance of the respective portfolio(s) to the Plan and its Investment Consultant. Public market investment managers will additionally provide performance attribution statistics explaining the causes of performance relative to benchmark.
- Comply with all of the provisions of appropriate law as they pertain to the firm's dealings, functions and responsibilities as fiduciaries.
- Prudently liquidate assets in the portfolio which cease to be in compliance with this *Investment Policy Statement* or any written exceptions to this Statement. If in the manager's

judgment, it is in the Plan's best interest to not liquidate such an asset promptly, the manager will advise the Board of the circumstances and make a recommendation on the best course of action.

- Diversify the portfolio so as to appropriately minimize the risk of large losses, unless under the circumstances, it is clearly prudent to not so diversify.
- Ensure that brokers will be selected only on a competitive, best execution basis.
- Ensure that all foreign exchange transactions will be executed on a best price and best execution basis.
- Accept fiduciary responsibility and invest the assets of the Plan with care, skill, prudence and diligence under circumstances then prevailing that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of a like character and with such aims.
- If applicable, vote the proxies for securities held in the accounts over which they have accepted responsibility, at all times in such a manner as they deem to be solely in the best interest of plan participants and beneficiaries and avoid consideration of any factors that would subordinate the interests of participants and beneficiaries in their retirement income to any unrelated or non-pecuniary objectives.
- As applicable, comply with/adhere to the CFA Institute's (CFAI) Code of Ethics and Global Investment Performance Standards (GIPS), or a similar set of standards approved by LSERS.
- Promptly notify the Executive Director, CIO and Investment Consultant of any material ownership/organizational events (for example, key staff departures, mergers, and litigation).
- Promptly notify the Executive Director, CIO and Investment Consultant of 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.
- Initiate written communication with the Board when the manager believes that this *Investment Policy Statement* is inhibiting performance and/or should be altered for any valid reason. No deviation from the guidelines and objectives established in the *Investment Policy Statement* is permitted until after such communication has occurred and the Board has approved such deviation in writing.
- During a manager search period or an RFP for a manager(s), no manager(s) or their employees, consultants or agents are allowed to contact members of the Staff or the Board to provide information regarding products that may fall within the search category. This will be known as a quiet period.

It is recognized that commingled investment funds and limited partnerships cannot customize investment policies and guidelines to the specific needs of individual clients and therefore the investment objectives and strategies, trading policies, and restrictions of commingled funds will govern the investments. The Board is willing to accept the policies of such funds in order to achieve the lower costs and diversification benefits of commingled funds/limited partnerships, or when a separately managed account is neither available nor appropriate.

Investment Consultant

The Board shall engage an investment consultant who shall be responsible for advising the Board as to asset allocation strategy, performance monitoring, evaluating, hiring, retaining, and terminating managers, rebalancing, investment provider procurements, asset liability modeling, risk assessment, capital markets projections and such other functions as agreed upon with the Board or as may be delegated from time to time to the CIO by the Board.

It shall be the responsibility of the designated investment consultant to assist the Board with the following functions:

- Provide comprehensive evaluation of the investment results achieved by the designated investment managers in light of the investment guidelines and performance standards contained in this *Investment Policy Statement*;
- Acting jointly with the CIO, make recommendations to the Board of appropriate actions to be considered which will enhance the probability of achieving overall Plan objectives. Such recommendations may include, but are not limited to:
 - Use of alternate asset strategies or asset classes;
 - Changes in overall investment policy;
 - Changes in investment managers:
 - Recommend managers to be placed on “watch-list”
 - Assist the Board in screening and selecting investment managers, as appropriate.
 - Report on investment manager compliance with this IPS
 - Any significant personnel changes at the manager’s business

Legal Counsel

The Board’s designated legal counsel will advise and represent the Board in all matters requiring legal insight and advice. The legal counsel will review all contracts.

Fund Actuary

The Board’s designated plan actuary shall have the following responsibilities:

- Prepare, on a frequency determined by the Board, a comprehensive evaluation of the Plan’s funded status and required contribution levels and attest to the appropriateness of the Plan’s assumptions and funding policy; and,
- Conduct special experience and actuarial studies as required by the Board.

3. Asset Allocation Strategy

Assets included in the portfolio should be invested according to the following asset allocation guidelines, established to reflect the growth expectations and risk tolerance of the Board.

Asset Class	Strategic Target	Tactical Range
Public Equity	25%	15% - 35%
Core Fixed Income	10%	5% - 15%
Opportunistic Credit	15%	5% - 25%
Private Equity	25%	15% - 35%
Real Estate	8%	5% - 15%
Real Assets	7%	5% - 15%
Risk Mitigating Strategies	10%	5% - 15%
Total	100%	

The Board is charged with the responsibility of monitoring the overall allocation within the parameters described above. Any permanent changes to these guidelines must be approved by the Board.

Rebalancing Policy

Periodic rebalancing is necessary to prevent the actual asset allocation from deviating too far from the strategic targets. An asset allocation that is permitted to drift with market returns over extended periods of time could cause the portfolio to be over-weighted in an asset class at market peaks and under-weighted at market lows. When market activity has been significant enough to extend beyond tactical ranges, a rebalancing policy generally results in the sale of those investments that have outperformed and the purchase of those assets that have underperformed.

Ongoing rebalancing of the portfolio and adherence to the above asset allocation ranges will be coordinated by Staff and the Investment Consultant.

Liquidity Policy

The following procedures are hereby adopted and will remain in effect until such time as monthly cash flows of the Plan and/or contributions to the Plan support the ongoing benefit and expense payments required by the Plan.

- Cash required for monthly benefit payments and operating expenses shall be distributed from a cash account. The balance in that account will be monitored on a frequent basis by LSERS Staff and replenished as necessary, but not less often than quarterly.
- When it is determined that there is insufficient cash in the designated cash account to fund upcoming cash withdrawals, transfers will be made from one or more of the investment accounts into the cash account. The determination of which accounts will provide funds to the cash account will be made by the LSERS Staff in consultation with the Investment Consultant, with the following objectives:
 - Rebalance toward the target asset allocation of each account
 - Minimize the transaction costs of providing cash.

4. Investment Guidelines

General

The Board is responsible for the investment of all assets and for establishing policies and practices.

The Board may, at its discretion, retain registered investment advisors to manage all or a portion of the assets. These advisors shall be selected from established and financially sound organizations which have a proven and demonstrable record in managing funds with characteristics appropriate for the risk/return profile of the assets. The selection process will involve a disciplined approach that will be fully documented for the Board's records.

All assets should be properly diversified to reduce the potential of a single security or single sector of securities having a disproportionate impact on the portfolio.

Given the expense, difficulty of obtaining adequate diversification and ultimate size of the commitments to various asset classes, commingled funds and limited partnerships may be used as the vehicle for the investments in such asset classes. In such cases, the investment guidelines will be governed by the corresponding investment fund's prospectus.

The following guidelines apply to separately managed account portfolios:

1. In placing portfolio transaction orders on behalf of the Plan, the Managers will use their best efforts to obtain the best execution of orders. Managers shall provide detailed trade data to the CIO and Consultant, upon request.
2. The majority of Core Fixed Income investments, other than short-term paper, shall be limited at purchase to investment grade as established by one or more of the nationally recognized bond rating services. Investment Grade managers' fixed income portfolios may invest in fixed income asset sectors or classes that are outside of their Benchmark Index, up to a maximum of 10%, at market value.

It will be expected that debt securities of any single credit will not exceed 5% at market value, of each core public fixed income portfolio. Modest, short-term deviations from all of the percentage limits defined herein due to cash flow or downgrades will not be considered violations of this policy. However, investment managers should promptly report such deviations to the system's investment staff.

3. Common stock investments (both domestic and international) in any single company shall be limited to 5%, at market, of equity assets under management, and 2% of the company's total outstanding equity. In the event that any company weight exceeds five percent (5%) of the investment manager's specific benchmark index, investments in that company are allowable up to one hundred twenty percent (120%) of the Index weight. Common stock is defined to include securities convertible into common stock. Global equity or international strategies should maintain reasonable diversification across countries. All public equity strategies should maintain reasonable diversification across sector and companies.
4. The Managers, except those specifically managing Long/Short portfolios, will not engage in investment transactions involving short sales, purchases on margin, derivative securities which provide leveraged exposure of the underlying index, precious metals or commodities. However, use of currency futures, options or forward contracts to hedge international portfolio currencies is allowable.

5. A Manager may not act or receive commissions or other fees as a broker, dealer, underwriter, or principal, whether directly or through a related or affiliated entity, with respect to any Plan assets.
6. A Manager may not assign or delegate any of its duties to another party without providing written notification to the Staff.

Alternative Investments

The Board recognizes that virtually all alternative investment strategies will be in a commingled format, and it is recognized that commingled investment funds cannot customize investment policies and guidelines to the specific needs of individual clients. To the extent that the Board selects an Alternative Investment manager offering a separately managed account, the Board shall use its discretion in terms of granting exceptions to these guidelines to that manager.

Private Equity

Private Equity Managers may invest in a number of private equity strategies. These strategies may include, but are not limited to, the following: mezzanine debt, growth/expansion, distressed, buyout and venture capital, and secondaries.

- *Venture Capital & Growth Equity*: Seed, early stage, expansion and later stage financing of growing companies and innovative business ideas and technologies.
- *Buyouts (Management or Third Party)*: Leveraged capital and corporate finance assistance is provided to management teams or third-party buyers to enable the acquisition or restructuring of relatively mature businesses from either a private or public company. Strategies include: buy-and-build, growth buyout, and industry focused.
- *Secondary Funds*: Involves the purchase of private equity interests from owners desiring to exit their position. Interests are purchased at a price and time within a fund's term, which enhances early distributions and thus helps to mitigate the typical early negative returns experienced in a private equity fund life.
- *Co-Investments*: Opportunity to invest directly into portfolio companies alongside qualified general partners.

The nature of such investing calls for a longer-term investment horizon than other investments. It is expected that these investments will be illiquid and that any future return of capital and profits will depend on the success of the Manager's execution and will generally occur between five to ten years after the initial investment.

The Manager must agree to provide reporting on the Private Equity Funds vehicle to LSERS and the Investment Consultant, including but not limited to, fund and client performance on a quarterly basis, fees, capital account status and aggregate strategy exposures on a quarterly basis. The Manager must provide a minimum level of transparency regarding the underlying private equity fund managers, investment vehicles, and strategies in the Private Equity portfolio. In most cases, this will include a list of underlying manager names and/or portfolio companies, investment vehicle names, and strategies. The guidelines contained in the partnership agreement, Manager contract, trust agreement or prospectus of the Private Equity Manager will apply.

Private Debt

Managers serve in a specialized role underwriting and issuing debt/loans to private corporations. Private debt managers may invest across the capital structure consistent with stated objectives and risk parameters. Given the nature of private debt, it is expected that these investments will be less liquid than other debt related investments. For private debt partnerships, commingled trusts and mutual funds, the partnership documents, trust guidelines or other guidelines outlined in the prospectus will apply.

- *Direct Lending*: Typically senior secured debt (loans) to private companies. Investments can be made on a sponsored (alongside a private equity partner) or non-sponsored basis.
- *Mezzanine*: Unsecured and subordinated debt (senior to equity but below senior secured debt on a balance sheet) is used to facilitate changes in ownership through leveraged buyouts or recapitalization, financing acquisitions or enabling growth, by leveraging equity capital to a level not possible within the constraints of senior lenders.
- *Special Situations*: Opportunistic and select investments that may include: Structured Finance (senior or subordinated debt or preferred equity) or Stressed/Distressed Equity and Debt-Oriented Opportunities (taking advantage of security mispricing and company valuation changes through a variety of strategies such as buying and selling of distressed company securities; debt for control through reorganization or the bankruptcy process; or turnaround of a troubled business through control of the equity).

Private Real Estate

Core real estate strategies will invest in high quality real estate and will be diversified by both property type as well as geographically. Core strategies typically have leverage below 30% and are often already well leased and cash flow (income) generating.

Value Add and Opportunistic real estate managers employ a variety of different investment activities to add value to a property including releasing, re-tenanting, re-positioning or re-development. As such, price appreciation comprises a significant portion of an investment's total return. Leverage is typically capped at 70%.

Risk Mitigating Strategies

The Board and Investment Committee recognize that certain strategies may be employed to reduce portfolio volatility and preserve capital during periods of market stress. These strategies may include allocations to defensive hedge fund approaches such as long volatility, global macro, and trend-following strategies. The Committee will seek to evaluate these strategies collectively (i.e. the outcome of all Risk Mitigating Strategies together) given each strategy (in isolation) is intended to play a specific role in the total risk mitigating program. In general Risk Mitigating Strategies will fall in one of the following classifications/roles:

1. *First Responders*: primary role is first line of protection in a sharp equity drawdown. Examples include: long volatility hedge funds, long duration US Treasuries, Tail Risk strategies.
2. *Second Responders*: primary role is second line of protection in an extended equity drawdown. Examples include: Trend Following hedge funds, CTAs, and Managed Futures.

3. *Diversifiers*: primary role is to provide lowly correlated returns to stabilize first responders and second responders. Examples include: Global Macro hedge funds, Multi-Strategy hedge funds, Equity hedge funds, Relative Value hedge funds, Event-Driven hedge funds, Insurance Linked strategies, and Alternative Risk Premia strategies.

5. Performance Measurement Standards

Performance standards are required for determining whether or not investment objectives are being met. They also provide an objective basis for evaluating how well managers complement each other and add value collectively, however it is understood that there is no guarantee that such results will be attainable.

The following are long-term investment return objectives established by the Board. While the Board believes it has a fiduciary responsibility to frequently review the results achieved by its investment managers, judgments regarding a manager's suitability will not be based solely on results in any relatively short time period. Generally three to five years of performance history is needed before results alone can play a substantial role in judging a manager. In the short run, other factors can and will be given significant consideration. These factors include, but are not limited to:

- Consistency of investment style;
- Organization and personnel stability; and
- Fundamental and statistical account risk.

The Board intends to evaluate investment manager's overall performance by taking into account all relevant objective and subjective criteria.

Standards used to measure investment performance will be set forth in context with the established objectives. Each standard shall apply independently to the portfolio of each investment manager and is expected to be achieved net of investment management fees and expenses.

Total Plan Standards

The total fund returns net of fees should meet or exceed the Policy Index return.

Policy Index

The Policy Index return shall measure the success of the Fund's *target* allocation. It shall be calculated by using benchmark index rates of return for each asset class invested by the Plan multiplied by the percent targeted to each asset class.

Asset Class	Benchmark
Public Equity	MSCI ACWI
Core Fixed Income	Bloomberg US Aggregate
Opportunistic Credit	50% US Leveraged Loans 50% US High Yield
Private Equity	MSCI World Index
Real Estate	NCREIF Fund Index-ODCE (Equal Weighted)
Real Assets	Consumer Price Index + 3%
Risk Mitigating Strategies	Custom Risk Mitigating Benchmark ¹

¹ Weighted average blended benchmark of sub-strategy benchmarks for each corresponding strategy

During the transitional period while the Risk Mitigating Strategies asset category is being developed and funded (from an inception of zero exposure) the policy benchmark will be prorated based on the other components.

Passive Manager Standards

Over rolling one-year periods, the net of fee performance of each portfolio should be in line with its appropriate benchmark index.

Active Manager Standards

Over rolling market cycles (usually 3-7 year periods), the performance of the portfolio should exceed the median of a universe of other comparable funds, as defined by the Board. Over rolling market cycles (usually 3-7 year periods), the net of fee performance of the portfolio should exceed the return of an appropriate benchmark. In the case of private market strategies, net return should exceed appropriate benchmark by several hundred basis points to account for the illiquidity of these investments.

Watch List

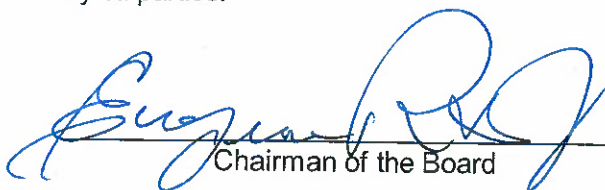
Periodically, a situation may emerge where it is necessary to place an investment manager on a "Watch List", which is defined as a list of managers that the Board should review in greater depth. Conditions that may trigger placement on the Watch List include, without limitation:

- The manager significantly deviates from its stated investment style in a manner that is inconsistent with the Board's expectations for the manager;
- The manager experiences turnover of key members of the investment professional staff;
- The manager experiences a significant event such as, but not limited to, change of control, a large quarterly loss, or the disclosure of SEC or other federal investigations or inquiries into the manager's operations;
- Any other event that could affect the manager's ability to perform its investment management responsibilities;
- A rating downgrade by the investment consultant; or

Once a manager is placed on the Watch List, the Board will instruct the investment advisor to conduct a due diligence review and provide a recommendation to the Board. Nothing herein shall eliminate the Board's right to terminate a manager at any time if it is determined to be in the best interest of fulfillment of their fiduciary responsibilities.

Review of the Investment Policy

Annually, the Board will review this Investment Policy Statement to determine its continued applicability. If, at any time, the liquidity needs or the risk/return expectations of the Board change, the guidelines and objectives will be reassessed and restated in writing for agreement by all parties.


Chairman of the Board


Date