South Carolina Retirement System Investment Commission
Meeting Minutes

April 21, 2011

15th Floor Conference Room
1201 Main Street
Columbia, South Carolina 29201

Commissioners Present:
Mr. Allen Gillespie, Chairman
State Treasurer Curtis M. Loftis, Jr.
Mr. Edward Giobbe
Mr. James Powers
Dr. Travis Pritchett
Mr. Reynolds Williams, Chairman *Emeritus*

Others present for all or a portion of the meeting: Mike Addy, Dunkin Allison, Geoff Berg, Bob Borden, Jonathan Boyd, Harris Chewning, Sarah Corbett, Dori Ditty, Robert Feinstein, Hershel Harper, Adam Jordan, David King, Dave Klauka, Doug Lybrand, Heather Muller, David Nelligan, Jared O'Connor, David Phillips, Kathy Rast, Nancy Shealy, Nicole Waites, Brian Wheeler, and James Wingo from the South Carolina Retirement System Investment Commission; Bill Leidinger, Mike McDermont, Frank Rainwater, and Shakun Tahiliani from the State Treasurer's Office; Ashli Aslin and Keith Stronkowski from New England Pension Consultants; Chris Anderson, William Blume, Donald Brock, Robyn Leadbitter, Greg Meetze, Tammy Nichols, John Page, Danielle Quattlebaum, Jodi Redwine, and Faith Wright from the South Carolina Retirement Systems; Sam Griswold and Wayne Pruitt from the State Retirees Association of South Carolina; Carlton Washington from the South Carolina State Employees Association; Jim Holly from the Comptroller General's Office; Craig Bardo from BroadRiver Asset Management; Torrey Rush from ED Rush Development; Chris Busby from JP Morgan Asset Management; Aaron Montano from AllianceBernstein Institutional Investors; and Bruce Jackson from Arnall Golden Gregory LLP.

I. CALL TO ORDER AND CONSENT AGENDA

Chairman Allen Gillespie called the meeting of the South Carolina Retirement System Investment Commission (Commission) to order at 10:00 a.m. and welcomed the Commission and guests.

Chairman Gillespie asked if there were any amendments to the meeting's proposed agenda. Bob Borden, Chief Executive Officer/Chief Investment Officer (CEO/CIO), requested that the agenda be amended to include discussions relating to the Performance Incentive Compensation (PIC) policy. Reynolds Williams made a motion, which was seconded by James Powers and passed unanimously, to amend the agenda to include the PIC policy and to adopt the proposed agenda as amended.

Chairman Gillespie referred to draft minutes from previous meetings. Mr. Williams made a motion, which was seconded by Mr. Powers and passed, to approve the minutes from the meeting on September 23, 2010. Messrs. Gillespie, Powers, and Williams voted in favor of the motion; Edward Giobbe and State Treasurer Curtis Loftis abstained from voting because they were not Commissioners when the meeting occurred.

Mr. Powers made a motion, which was seconded by Mr. Loftis and passed, to approve the minutes from the meeting on January 21, 2011. Messrs. Gillespie, Loftis, Powers, and Williams voted in favor of the motion; Mr. Giobbe abstained from voting because he was not a Commissioner when the meeting occurred.

Chairman Gillespie reported that the minutes from the November 17-18, 2010 meeting would be carried over.

Chairman Gillespie indicated that Blaine Ewing was no longer serving as a Commissioner and that Mr. Giobbe had been appointed by Governor Nikki Haley to serve on the Commission. He introduced Mr. Giobbe, noting that he had retired from Morgan Stanley with 37 years of equity experience, graduated from Yale, and earned his MBA from New York University. He added that Mr. Giobbe was a resident of the City of Aiken and a veteran. Chairman Gillespie welcomed Mr. Giobbe to the Commission, and Mr. Giobbe thanked the Commission for the opportunity to be of service to the State of South Carolina. Nancy Shealy, General Counsel, reported that Mr. Giobbe had been duly qualified to serve on the Commission having the requisite experience required by statute, having taken the oath of office, and having submitted a Statement of Economic Interest to the South Carolina Ethics Commission.

Mr. Borden introduced several new Commission employees: Robert Feinstein, Chief Operations Officer; Adam Jordan, Director of Policy, Planning, and Budget; and Sarah Corbett, Director of Administration and Reporting. He also introduced William Blume, Director of the South Carolina Retirement Systems.

Chairman Gillespie indicated that since Vice Chairman Blaine Ewing was no longer a Commissioner, the Commission's governance policies provided that a new Vice Chairman would be selected by the Chairman or elected by the Commission. Ms. Shealy reported that Mr. Williams, Mr. Powers, and Mr. Giobbe met the qualifications to serve as Vice Chairman. Chairman Gillespie opened the floor for nominations and after further discussion, Mr. Powers made a motion to nominate Mr. Williams for the office of Vice Chairman and to close the nominations. The motion was seconded by Mr. Loftis, passed unanimously, and Mr. Williams was elected as Vice Chairman of the Commission by acclamation.

II. INVESTMENT ITEMS

Mr. Borden recognized Hershel Harper, Deputy Chief Investment Officer, for a review of portfolio performance and asset allocation for the South Carolina Retirement Systems (Retirement System). Mr. Harper reviewed the report and noted that the total portfolio (Portfolio) was up 63 basis points (bps) and the policy benchmark was ahead 48 bps as of March 31, 2011. He said that the fiscal year-to-date performance was 16.5 percent versus the policy benchmark of 14.16 percent. The Commission received the report as information.

Mr. Harper introduced Keith Stronkowski from New England Pension Consultants, LLC (NEPC), to begin discussions regarding the Investment Performance Report for periods ending February 28, 2011. Mr. Stronkowski reported that the Portfolio outperformed its benchmarks in domestic equity, large value composite, and the SMID growth composite. He stated that turmoil in the Middle East, North Africa, and Asia had negatively impacted emerging market equity allocations; however, preliminary March figures showed significant outperformance in this sector. Mr. Stronkowski reported that fixed income allocations had positive performance. He also said that opportunistic credit and total global asset allocations performed very well.

Mr. Borden stated that during the depth of the recent financial meltdown, performance of the Portfolio was negative 19.75 percent for Fiscal Year ending June 30, 2009, but performance for the Fiscal Year ending June 30, 2010 was positive 16.5 percent. Mr. Borden estimated that current year-to-date performance was also 16.5 percent. He said there had been significant recovery since 2009 and referred to NEPC's Investment Performance Report highlighting annualized returns over the past five years.

Mr. Borden reported that during his presentation at the annual meeting of the South Carolina State Retirees Association, he had described overall Portfolio performance as being "back in the black," and was concerned that his description was taken out of context. He said that clearly the Portfolio had a long way to go to exceed the 8 percent actuarial assumed rate of return over the past five years of annualized returns. Mr. Borden estimated the ending market value to be just under $26 billion currently. He said that one might ask how he could report Portfolio performance as positive if the Portfolio started with a value of $28 billion. Mr. Borden explained that the Retirement System was a demographically aging plan with increasing allocations to benefit payments that exceeded the incoming contributions. He opined that because of the method by which the unfunded accrued liability was amortized, the current contributions for the unfunded liability were significantly lower than they would be if a regular, level amortization schedule by a factor of $400 million was used. Mr. Borden stated that for instance, if the Portfolio had a 0 percent return, it would still have $600-700 million less assets at the end of the year. He reported that since the inception of the Commission, $4.2 billion of Portfolio assets had been spent in benefit payments. He said that the challenge was how to reconcile positive returns even though the overall value of the Portfolio had been reduced. In closing, Mr. Borden indicated that the Portfolio had recovered significantly from the global financial crisis.

Mr. Harper referred to the Quarterly Report for the periods ending December 31, 2010. He reported that the Portfolio return was 4.9 percent for the quarter versus the benchmark of 3.17 percent, which was approximately $1 billion in value added to the Portfolio. He highlighted changes to the asset allocations made during the first quarter of Calendar Year 2011 and noted volatility from geo-political risks. Mr. Borden said that the way to add value to the Portfolio versus the Commission's Policy Targets was either by manager selection or tactical asset allocations. He further indicated that the Portfolio was slightly overweight to equities, although underweight to equities when compared to the Retirement System's peers. Mr. Borden also said that the Portfolio was overweight in global fixed income. He opined that the Commission might be ready to consider allocations to the municipal bond markets. Mr. Borden stated that excellent performance in the opportunistic credit silo may keep the allocation overweight for the future and added that the underweight in real estate needed to be addressed. Chairman Gillespie questioned whether draw down activity in the private equity allocation was accelerating. David Klauka, Senior Alternatives Officer, replied that capital call activity was accelerating because the investment period for many of the current private equity investments was drawing to a close.

(Information relating to this matter has been retained in the Commission's files and is identified as Exhibits A-1 through A-8).

Mr. Borden provided a brief overview of the private equity recommendations from the search team (which was comprised primarily of Dr. Travis Pritchett, Mr. Klauka, Harris Chewning, Alternatives Officer, and representatives from NEPC) relating to Carousel Capital Partners Fund IV, LP (Carousel) and Industry Ventures Fund VI, LP (Industry). He noted that both proposed investments were follow-ons to previous investments. Mr. Chewning reported that the

Commission had invested in Carousel's third fund and was now considering their fourth fund. He stated that Carousel's Fund III had outperformed its benchmark, had a proven track record, and had a superior investment strategy. Chairman Gillespie questioned whether the Commission needed to waive the policy limiting commitments to 20 percent of a total fund. Mr. Borden suggested making the commitment subject to the percentage of total fund commitments at final close or waiving the policy limit in this instance. Dr. Pritchett noted that he had seen a substantial increase in the quality of documentation of the Commission's due diligence processes within the past year. He also indicated that he supported investments in Carousel and Industry. Mr. Borden said that the materials presented at the Commission meetings were summaries and that additional due diligence materials could be provided to any Commissioner upon request. He also outlined the framework and described many of the characteristics of the Commission's due diligence process and noted further that much of the information acquired during the due diligence process was used as manager monitoring and verification tools after investments had been approved.

After further discussion, Dr. Pritchett made a motion, which was seconded by Mr. Williams and passed unanimously, to approve the recommendations presented, to invest an amount not to exceed $30 million in Carousel Capital Partners Fund IV, LP, to invest an amount not to exceed $30 million in a co-investment sidecar with Carousel Capital Partners, to waive the 25 percent of the total fund allocation restriction for the investments, and to authorize the Chairman or his designee to negotiate and to execute any necessary documents to implement the investments upon approval for legal sufficiency by General Counsel.

(Information relating to this matter has been retained in the Commission's files and is identified as Exhibit B).

Mr. Klauka began discussions relating to Industry by providing background information, noting that Industry's performance had been positive in the past. Mr. Borden indicated that venture capital tended to be the highest returning private equity strategy, although it tended to be the longest in duration, very illiquid, and had varying outcomes. He said that access to venture capital opportunities with experienced managers was limited, which contributed to the current allocation being underweight. Mr. Borden said that the investment would provide access to quality venture funds at a discounted rate and because the manager would be able to make later stage secondary purchases, the blind pool risk would be mitigated. Dr. Pritchett expressed concerns about another venture capital manager and recommended that the Commission not pursue an additional investment with that other manager. He also noted that the proposed investment with Industry was the only venture capital investment recommended by the search team currently.

Mr. Giobbe asked how long the Commission had allocated investments to venture capital, and Mr. Borden responded that with regard to private equity, there had been an allocation for approximately 4 years. Ms. Shealy stated that the first commitment was in February of 2007 with Aquiline Capital Partners. Mr. Giobbe suggested that it might be too early to estimate overall venture capital performance, and Mr. Borden noted that gauging performance could be problematic during the early stages of venture capital investment. He also explained that there was disparity between buy-out versus venture and between different vintage years. Mr. Borden indicated that in time, the allocation could reach a point of self-funding because as capital calls were received, distributions would also occur. Mr. Giobbe asked whether the allocation was diversified by various industries, and Mr. Borden responded that general venture capital funds were diversified among industries, but it would be possible for the Commission to pursue investments in specific industries.

Mr. Borden and the Commission discussed performance of the current venture capital investments, noting that performance in some of the more mature investments had been in the 20-25 percent range. Chairman Gillespie said that the original plan was to invest approximately $750 million over a 4-year period in venture capital. Mr. Borden noted that the allocation had recently been increased to continue to build the private equity program. He also reported that, for example, if the Commission allocated 5 percent of the Portfolio to venture capital, it would take several years before the total allocation was invested. He explained that by the time the last of the allocation was drawn down, distributions from the earlier draw downs were being received, which forced the Portfolio to be overcommitted at times. Mr. Giobbe questioned how the Commission reconciled commitments versus allocations. Mr. Borden explained that the CEO/CIO and staff had discretion to rebalance the Portfolio within the asset class target ranges set by the Commission and that they monitored the Portfolio closely and rebalanced as needed. He added that any shift outside of the target ranges required Commission approval. Mr. Borden noted that allocations to investments such as venture capital could not be rebalanced quickly. He said it was possible for other pension plans to get into situations where they were over-allocated, giving rise to secondary opportunities. Mr. Borden stated that because of the status of the Portfolio, the Commission was able to invest in venture capital opportunities at a significantly discounted rate currently.

Chairman Gillespie stated that the current cash allocation was designed to prevent over-commitment to illiquid strategies. Mr. Borden said that although the current cash allocation was designed to prevent the harvesting of investments to make benefit payments, cash allocations had been a drag on overall Portfolio performance. Mr. Giobbe asked if there were correlations between market conditions and diversification in “what if” scenarios. Mr. Borden responded favorably and explained how the Commission achieved diversification. He also indicated that private equity markets had a significant degree of diversification compared to public equity markets. Mr. Borden said that investment in venture capital was for the return premium, not just for diversification. Mr. Borden stated that Industry was oversubscribed, meaning that all of their current limited partnerships were vying for a chance to invest in the new funds.

After further discussion, Mr. Loftis made a motion, which was seconded by Mr. Williams and passed unanimously, to approve the recommendations presented, to invest an amount not to exceed $40 million in Industry Ventures Fund VI, LP, to invest an amount not to exceed $20 million in a co-investment sidecar with Industry Ventures, and to authorize the Chairman or his designee to negotiate and to execute any necessary documents to implement the investments upon approval for legal sufficiency by General Counsel.

(Information relating to this matter has been retained in the Commission’s files and is identified as Exhibit C).

Mr. Borden began discussions regarding changes to the cash/short duration portfolio and referred to materials that had been provided to the Commission prior to the meeting. He reported that the Commission had a target of 10 percent in cash, which was earning only 7 bps in the current environment. Mr. Borden suggested investing in short duration/fixed income securities and discussed proposed investments with PENN Capital Management (PENN), Mariner/Palmetto State Partners, L.P. (Mariner), and Apollo Strategic Partnership, L.P. (Apollo). He reported that all proposed investments had been vetted by the Commission’s internal Investment Committee and that the investments relating to the Strategic Partnerships had been vetted by their respective Investment Committees. Mr. Borden estimated that $2 billion of cash could earn 3 to 4 percent in a liquid strategy that could be accessed if necessary.

Chairman Gillespie suggested that the Annual Investment Plan (AIP) might need revision if the proposed investments relating to the Strategic Partnerships were approved. Mr. Harper replied that the limit on the total amount within the Strategic Partnerships that could be invested was the amount approved by the Commission, plus an additional 1 percent under the new AIP if it was approved.

After further discussion, Mr. Williams made a motion, which was seconded by Mr. Powers and passed unanimously, to approve the recommendations as presented, to initially invest up to $250 million with a maximum allocation of 2 percent of the Portfolio in a Short Duration High Yield Strategy with PENN Capital Management, and to authorize the Chairman or his designee to negotiate and to execute any necessary documents to implement the investments upon approval for legal sufficiency by General Counsel.

(Information relating to this matter has been retained in the Commission's files and is identified as Exhibit D).

Mr. Williams made a motion, which was seconded by Mr. Powers and passed unanimously, to approve the recommendations as presented, to increase the current investment commitment to the Mariner/Palmetto State Partners, L.P., from $750 million to an amount not to exceed $1.25 billion, with the additional $500 million to be allocated to a Short Duration Fixed Income Strategy, and to authorize the Chairman or his designee to negotiate and to execute any necessary documents to implement the investments upon approval for legal sufficiency by General Counsel.

(Information relating to this matter has been retained in the Commission's files and is identified as Exhibit E).

Mr. Williams made a motion, which was seconded by Mr. Powers and passed unanimously, to adopt the recommendations as presented; to increase the current investment commitment to the Apollo Palmetto Strategic Partnership, L.P. (Apollo), from $750 million to an amount not to exceed $1.5 billion with the additional $750 million to be allocated to a Short Duration Fixed Income Strategy and other Opportunistic Private Market investments initially; to consent to authorize Apollo to manage a Short Duration Fixed Income Strategy for the benefit of the Retirement System; to clarify and confirm that Apollo's authorization to recall and reinvest capital encompasses the re-investment of principal, interest payments and capital gains; to consent to authorize Apollo to invest idle cash in certain short-term, liquid investments; and to authorize the Chairman or his designee to negotiate and to execute any necessary amendments and documents to implement the investments and the Commission's authorizations upon approval for legal sufficiency by General Counsel.

(Information relating to this matter has been retained in the Commission's files and is identified as Exhibit F).

Mr. Borden began discussions regarding the International Equity search by indicating that while the search was still ongoing, the assigned team was prepared to recommend an investment with EARNEST Partners, LLC (EARNEST). He introduced Geoff Berg, Director of Investments and Asset Allocation, for a presentation. Mr. Berg reported that the target asset allocation changes in November 2010 had created a 2 percent target allocation to active management of international equities. He reported that EARNEST had experienced outstanding performance and explained their unique investment processes. Mr. Berg stated that the results of the due diligence meetings and information were very favorable and noted that the employee-owned firm had a deep, industry-experienced and cohesive investment team. Mr. Powers noted that he was particularly impressed by the back office functions of their business, including their rigorous internal compliance processes. He stated that both EARNEST's compliance officer and chief operating officer were exceptional. Mr. Stronkowski from NEPC stated that EARNEST was also recommended by NEPC and noted that they were considered a "best in breed" manager.

After further discussion, Mr. Powers made a motion, which was seconded by Mr. Loftis and passed unanimously, to adopt the recommendations of the search team, to initially invest an amount not to exceed 1 percent of the Portfolio (approximately $260 million), with a maximum allocation of 2 percent of Portfolio assets in an International Equity strategy with EARNEST Partners, LLC, and to authorize the Chairman or his designee to negotiate and to execute any necessary documents to implement the investment upon approval for legal sufficiency by General Counsel.

(Information relating to this matter has been retained in the Commission's files and is identified as Exhibit G).

Mr. Borden stated that D.E. Shaw had submitted proposed amendments to the D.E. Shaw Composite Fund, LLC (DESComp). He reported that amendments to DESComp would be adopted if a majority of the members of the fund consented to the changes. Mr. Borden outlined the changes, explaining that the amendments proposed reductions in management fees and an improvement in liquidity terms. He said that the amendments would also add the ability to have a separate share class that would be Euro-denominated, and he noted that there had been negative issues that occurred several years ago with another manager having a Euro-denominated separate share class. Mr. Borden stated that he had been in discussions with D.E. Shaw and had considered converting the current investments with D.E. Shaw in DESComp and the D.E. Shaw Direct Capital Fund, LLC, into a single limited partnership to house separately managed accounts in the future. After further discussion, Mr. Loftis made a motion, which was seconded by Mr. Powers and passed unanimously, that the Commission abstain from voting on the proposed amendments to the Limited Liability Company Agreement with the D.E. Shaw Composite Fund, LLC.

(Information relating to this matter has been retained in the Commission's files and is identified as Exhibit H).

Mr. Borden referred to information relating to Strategos Capital Management, LLC (Strategos). He stated that Strategos was a wholly-owned subsidiary of Cohen & Company (Cohen) currently, but that Strategos' management team was purchasing its interest from Cohen to create an independent, stand-alone company. Mr. Borden explained that pursuant to federal law, the transaction required the Commission's consent to assign its current investment management agreement to the new entity or the contract would be cancelled upon completion of the Cohen/Strategos transaction. He noted his primary concern was that Cohen had provided Strategos with analytic systems, information technology, database management, legal support, compliance, and risk management services. Mr. Borden said that Cohen would still provide these services to Strategos for a period of 18 months, and he advised that the Commission staff would continue to monitor Strategos closely to determine if the relationship should continue. After further discussion, Mr. Powers made a motion, which was seconded by Mr. Loftis and passed unanimously, to ratify consent to the assignment of the investment management agreement with Strategos.

(Information relating to this matter has been retained in the Commission's files and is identified as Exhibit I).

III. ADMINISTRATIVE ITEMS

Mr. Borden referred to the proposed AIP, which had been distributed to the Commission prior to April 1st in accordance with state law. He noted that although state law required the Commission to adopt the AIP for Fiscal Year 2012 no later than May 1, 2011, the AIP was a living document that could be updated throughout the year. Mr. Borden introduced Mr. Harper to review the substantive differences between the current AIP and the proposed AIP for Fiscal Year 2012.

Mr. Harper outlined some of the recommended changes with regard to Strategic Partnerships and within the equity allocations. He outlined information that was added about the role of the internal Investment Committee in vetting investments for recommendation to the Commission and within Strategic Partnerships. He noted that language was added also to clarify that the maximum percentage of the Portfolio that could be invested in each Strategic Partnership was the total commitment amount approved by the Commission, although there was a provision to allow for an additional 1 percent of the Portfolio to be allocated to a Strategic Partnership by the CEO/CIO upon approval from the Chairman of the Commission. Chairman Gillespie noted that the target limits for the Strategic Partnerships were not listed in the draft AIP, and he suggested that each be listed. After further discussion, Mr. Borden suggested listing the Strategic Partnership maximums as the Commission approved each and removing text relating to the additional 1 percent discretionary allocation, and the Commissioners concurred.

Mr. Giobbe asked if the term "liquidity" as listed in the AIP was defined as the ability to terminate with little or no loss of principal. Mr. Borden replied that the term "liquidity" was used in the AIP to explain the distinction between publicly traded securities and private placements generally. He stated that the "loss of principal" issue was more of a risk management metric. Chairman Gillespie noted that if approved, the AIP would take effect on July 1, 2011. He also reiterated that the AIP could be amended any time during the year.

Mr. Borden advised that the target asset allocation changes made by the Commission in November 2010 should be reflected in the current AIP document, and Mr. Loftis concurred. Mr. Williams said that the AIP was the Commission's instructions to the staff, so any action that changed something was, in effect, an amendment to the AIP. Mr. Borden explained that the target asset allocation changes were properly adopted, but due to administrative issues, they were not reflected in the current AIP on the website. Mr. Loftis reiterated that from a trustee and fiduciary standpoint, it was important for the Commission to maintain an up-to-date AIP document. Mr. Borden suggested either adding language to standard Commission motions relating to asset allocations that would automatically amend and update the affected provisions of the AIP after each meeting when applicable, or make changes to coincide with any changes with the annual review of the AIP. Chairman Gillespie recommended updating the AIP after any asset allocation change by adding standing language to the motions to authorize staff to conform the language of the AIP to the Commission's actions, and the Commissioners concurred.

After further discussion, Mr. Williams made a motion, which was seconded by Mr. Powers and passed unanimously, to amend the proposed AIP for Fiscal Year 2012 as discussed, to adopt the proposed AIP as amended, and to authorize staff to make any technical, non-substantive changes to the document prior to its effective date on July 1, 2011.

The Commission instructed Mr. Borden to make technical corrections to the AIP for Fiscal Year 2011 to reflect the target asset allocations adopted by the Commission during the November 2010 meeting. Mr. Berg noted that for purposes of complying with reporting standards, the asset allocations had been implemented as of December 1, 2010.

(Information relating to this matter has been retained in the Commission's files and is identified as Exhibit J).

Mr. Borden referred to the next item on the agenda and noted that it was primarily for discussion purposes. He explained the previous process of presenting and amending governance policies whereby the Commission reviewed proposed policies over the course of several months or meetings. He said that in reviewing the current Governance Operations Policy, it was noted that a process for appointing the Retired Representative Member of the Commission had been omitted. Mr. Borden said that per state law, the Retired Representative candidate must be appointed by a unanimous vote of the Commission. He provided a draft of proposed changes to the governance policies to address the appointment of a Retired Representative and reiterated that any policy could be amended by the Commission at any time.

Dr. Pritchett advised that he had shared the proposed changes to the Governance Operations Policy with members of the State Retirees Association of South Carolina for comment. Dr. Pritchett suggested changing the title from "Retired Representative" to "Retiree Representative" to reflect that the person serving in that capacity has substantial involvement with Commission activities. He also proposed amending the policy to require the Commission to publish notice of a pending vacancy, to notify various associations that represent covered stakeholders, and to allow those associations to submit nominations to the Commission. In addition, Dr. Pritchett suggested that the qualified nominees be invited to meet with the Commission prior to appointment. Mr. Williams noted that Dr. Pritchett's amendments were consistent with the Commission's process when it selected the first Retiree Representative in 2005. Chairman Gillespie stated that Dr. Pritchett's comments should be incorporated into the next draft of the amendments, the Commission would receive the proposed amendments to the policy as information at this meeting, and he asked that Commissioners provide any suggestions for consideration at a future meeting.

(Information relating to this matter has been retained in the Commission's files and is identified as Exhibit K).

Mr. Williams said that he thought it was appropriate to codify the process for appointing the Retiree Representative to the Commission, although he was prepared to make a motion to vote to re-appoint Dr. Pritchett to the position when his current term expired. After further discussion, Mr. Williams made a motion, which was seconded by Mr. Powers, to re-appoint Dr. Pritchett as the Commission's Retiree Representative upon expiration of his current term on June 30, 2011. Chairman Gillespie called for a vote on the motion, and Dr. Pritchett was re-appointed as the Commission's Retiree Representative unanimously, with his new term commencing July 1, 2011 and ending June 30, 2016.

Mr. Borden referred to proposed changes to Performance Incentive Compensation (PIC) Policy. He said that he had removed the projected allocations to pay non-investment personnel under the PIC from the budget requests submitted to the Legislature, and he said that the language relating to the PIC program for non-investment personnel needed to be removed from the Performance Incentive Compensation Policy. Mr. Williams made a motion, which was seconded by Mr. Loftis and passed unanimously, to remove non-investment personnel from eligibility to participate in the Performance Incentive Compensation plan.

IV. OTHER BUSINESS

Dr. Pritchett said that the Chairman had asked him to prepare a statement for the minutes in recognition of former Vice Chairman Blaine Ewing and commending him for his service on both the Investment Panel and the Investment Commission. Dr. Pritchett said that he knew staff was working on a presentation for Mr. Ewing, and he suggested that they collaborate on a formal presentation of a resolution of the Commission. In the interim, Dr. Pritchett stated:

"On behalf of all members of the South Carolina Retirement System Investment Commission, I respectfully request that the minutes of this meeting reflect this statement of sincere appreciation for the exemplary service of former Commissioner, Blaine Ewing, III. Mr. Ewing of Sullivan's Island, SC, is Senior Vice President of Investments at the Charleston offices of Morgan Stanley Smith Barney, LLC.

"Until, in 1997, a state constitutional amendment was ratified to allow investment in domestic equities, the assets of the South Carolina Retirement Systems were invested exclusively in fixed income securities and managed by the State Treasurer's Office. In 1998, an Investment Panel was created to provide advice to plan trustees (i.e., the Budget and Control Board members) on diversification of the investment portfolio by investing up to 40 percent (50 percent in latter 2005) of assets in domestic equities. Mr. Ewing was a member of the Panel that provided advice on the common stock portion of the portfolio until, in 2005, South Carolina created the Retirement System Investment Commission. At that time, Mr. Ewing transitioned to being a member of the Investment Commission, the only Panel member to do so.

"Between October 2005 and April 2001, Mr. Ewing was a valuable participant in all major Commission business decisions. In particular, he was tireless in his efforts in the areas of public equity and enterprise risk management. Indeed, over a span of approximately 13 years he witnessed the maturation of the portfolio from one with fixed income assets alone to the Large Public Pension Plan of the Year in 2009 with 16 asset classes using Modern Portfolio Theory. He was Vice Chairman of the Commission when his service ended.

"Mr. Ewing, we thank you for sharing your investment expertise and your long service as a fiduciary responsible solely to participants and beneficiaries of the South Carolina Retirement Systems."

Mr. Williams made a motion, which was seconded by Mr. Powers and passed unanimously, that the Commission adopt a resolution memorializing Dr. Pritchett's comments commending Mr. Ewing for his service to the Commission, the South Carolina Retirement Systems and the State of South Carolina, and further that a copy of the resolution be prepared for presentation to Mr. Ewing.

V. EXECUTIVE SESSION

Mr. Loftis made a motion that the Commission recede to executive session to discuss personnel matters. Mr. Powers stated that he understood under state law, the matter to be discussed must be related to an individual(s) and that any discussions relating to policy should be discussed in open session. He reiterated his opposition to holding meetings in executive session unless there was a compelling reason to do so and the subject matter was within the parameters of state law. Mr. Giobbe asked for clarification of the items that could be discussed in executive session, and Ms. Shealy referred to S.C. Code Ann. §30-4-70 that outlined the requirements relating to personnel matters. Mr. Williams seconded the motion, which passed. Messrs. Gillespie, Giobbe, Loftis and Williams voted in favor of the motion; Mr. Powers voted against the motion. Chairman Gillespie announced that the Commission would meet in executive session to discuss personnel matters.

The Commission reconvened in open session, and Chairman Gillespie reported that the Commission took no action in executive session.

VI. ADJOURNMENT

There being no further business, the meeting adjourned at 1:52 p.m.

[Staff Note: In compliance with S.C. Code Ann. §30-4-80, public notice of and the agenda for this meeting were delivered to the press and to parties who requested notice and were posted at the entrance, in the lobbies, and near the 15th Floor Conference Room at 1201 Main Street, Columbia, SC, prior to 9:00 a.m. on April 20, 2011.]