

**South Carolina Retirement System Investment Commission
Meeting Minutes**

November 17-18, 2011

**Wampee Training and Conference Center
1274 Wampee Plantation Road
Pinopolis, South Carolina 29469**

Commissioners Present:

Mr. Allen Gillespie, Chairman
Mr. Reynolds Williams, Vice Chairman
State Treasurer Curtis Loftis
Mr. Edward Giobbe
Mr. James Powers
Dr. Travis Pritchett

Others present for all or a portion of the meeting on Thursday, November 17, 2011: Mike Addy, Dunkin Allison, Harris Chewing, Geoff Berg, Bob Borden, Jonathan Boyd, James Manning, Sarah Corbett, Dori Ditty, Robert Feinstein, Brenda Gadson, Rebecca Gunnlaugsson, Adam Jordan, Dave Klauka, Doug Lybrand, James Manning, 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 Condon, Brian DeRoy, Rick Harmon, Bill Leidinger, and Shakun Tahiliani from the State Treasurer's Office; Tammy Nichols from the South Carolina Retirement Systems; Ashli Aslin, Rhett Humphreys, and Tim McCusker from New England Pension Consultants; John Schneider and Josh Roberts from Vermillion Asset Management; Joseph Brandt from Contour Global; Joseph Lillie and Patrick McGarvey from Grosvenor Capital Management; Jon Vaccaro from Ranieri Real Estate Partners; Chris Harris from Phibro; Barry Cohen, Joe Azrack, Simons Swanson, and Avi Katz from Apollo Global Management; Dan Heflin from Torchlight Investors; Sassan Alizadeh and Deepa Sarkar from Highbridge Capital Management; Jeff Fox from J.P. Morgan; Bill Maddux from Greystar Real Estate Partners, LLC; Alan Bowser, Jeff Gardner, and Joel Whidden from Bridgewater Associates; Neeti Bhalla and Chris Lvoff From Goldman Sachs Asset Management; Jeff Knight and Lauren Silk from Putnam Fiduciary Trust Company; and Michelle Cook from the Bank of New York Mellon.

Others present for all or a portion of the meeting on Friday, November 18, 2011: Dunkin Allison, Geoff Berg, Bob Borden, Jonathan Boyd, Harris Chewing, Sarah Corbett, Dori Ditty, Robert Feinstein, Brenda Gadson, Rebecca Gunnlaugsson, Adam Jordan, Dave Klauka, Doug Lybrand, James Manning, Jared O'Connor, David Phillips, Kathy Rast, Nancy Shealy, Nicole Waites, and Brian Wheeler from the South Carolina Retirement System Investment Commission; Bill Condon, Brian DeRoy, Shakun Tahiliani, Rick Harmon, Bill Leidinger from the State Treasurer's Office; Tammy Nichols and Faith Wright from the South Carolina Retirement Systems; Sean McGould and Kelly Perkins from Lighthouse Investment Partners; Joseph Lillie, David Richter, Pat McGarvey, and Michael Sacks from Grosvenor Capital Management; Jordan Bergmen and Gregg Hymowitz from EnTrust Capital; Mike Purvis and Trina Spear from Blackstone Alternative Asset Management; and Michelle Cook from the Bank of New York Mellon.

I. CALL TO ORDER, CONSENT AGENDA, AND CHAIRMAN'S REPORT

Chairman Allen Gillespie called the meeting of the South Carolina Retirement System Investment Commission ("Commission") to order at 9:18 a.m.

Chairman Gillespie referred to the proposed meeting agenda. Mr. Reynolds Williams made a motion to amend the proposed agenda to address the executive session matters after the Chairman's remarks and to adopt the proposed agenda as amended. State Treasurer Curtis Loftis seconded the motion, which passed unanimously. Dr. Travis Pritchett asked to make a statement prior to the beginning of the agenda, and he spoke of a matter of personal interest.

Chairman Gillespie welcomed the Commissioners and guests to the meeting and noted that there were a large number of items on the agenda. Messrs. Williams and James Powers asked for additional details regarding the items to be discussed in executive session. Chairman Gillespie asked Mr. Adam Jordan, Chief of Staff, for further detail regarding the personnel item proposed to be discussed during executive session. Mr. Jordan explained that the personnel item related to a clarification of the effective date of Mr. Robert Borden's salary. Mr. Powers said that the details regarding Mr. Borden's salary had been discussed in open meetings previously and that he preferred that any further discussions regarding Mr. Borden's salary be discussed in open session.

Chairman Gillespie stated that the second purpose of the executive session was to receive legal advice. Mr. Powers questioned the nature of the legal advice to be received in executive session. Chairman Gillespie explained that he had received information that could have potential legal ramifications, could affect the Commission's decision-making processes, and affect the investments. Mr. Robert Feinstein, Chief Legal Officer, noted that the need may arise for the Commission to request and receive legal advice relating to potential claims or other matters that would be covered by the attorney client privilege, so he asked whether the Commission wanted to proceed to receive legal advice in open session or whether it wanted to preserve its right to assert the attorney client privilege by first receiving the information in executive session. Mr. Powers reiterated that he opposed executive sessions. Discussion ensued regarding the attorney client privilege and the potential or inadvertent waiver of the privilege if legal advice was received in open session and the merits of going into executive session to discuss legal matters. Ms. Nancy Shealy, General Counsel, provided additional details regarding the proper use of executive session per state law at the request of Mr. Williams. Dr. Pritchett made a motion, which was seconded by Mr. Edward Giobbe, that the Commission recede to executive session to receive legal advice. The motion passed with Messrs. Giobbe, Loftis and Chairman Gillespie voting in favor of the motion, Mr. Powers voting against the motion, and Mr. Williams abstaining. Chairman Gillespie announced that the Commission would meet in executive session for the purpose of receiving a legal briefing and advice, and the Commission receded into executive session.

The Commission reconvened in open session. Chairman Gillespie provided a summary of the discussions in executive session. He reported that the Commission received hearsay information relating to someone purporting to be a placement agent that could taint the Commission's search processes, affect managers that may be selected, and have a negative impact on the portfolio. Chairman Gillespie said that after receiving legal advice, legal counsel was directed to refer the matter to the South Carolina Attorney General for action he deemed

appropriate. He reiterated that the Commission had an existing policy and process for manager selections, and he noted that no action was taken by the Commission in executive session.

II. ADMINISTRATIVE ITEMS

Chairman Gillespie noted that the draft minutes of the Commission's meeting on September 15, 2011 had been provided prior to the meeting and asked if there were any questions or comments. Mr. Williams raised a Point of Order and explained that the consent agenda had been adopted at the beginning of the September meeting and that an hour and eleven minute discussion was held between the adoption of the consent agenda and the investment items, which was the next item listed on the agenda, and thus improper. Mr. Williams stated that after a body adopts a consent agenda, there must be unanimous consent to adopt a change to agenda items included within the consent agenda. Mr. Williams stated that he felt the discussion regarding items not included in the adopted consent agenda violated the rules of order. Further, he noted that two commissioners were not present at the meeting during half of the discussion regarding the minutes from the July 21, 2011 Commission meeting, and that he was not present for the entire discussion. Therefore, Mr. Williams moved to strike the portion of the September 21st minutes from the top of page two's second paragraph through the top of page six. Chairman Gillespie asked for guidance regarding the Point of Order raised by Mr. Williams. Mr. Feinstein explained that according to the Commission's policies, the Commission follows Robert's Rules of Order. He clarified that Mr. Williams' Point of Order would impact the motion made during the September Commission meeting regarding Mr. Borden's salary. Mr. Feinstein explained to the Chairman that the Point of Order was properly brought by Mr. Williams and that the Chairman would need to make a ruling on the issue. Mr. Loftis asked why the Point of Order was not raised sooner and whether it was an appropriate time to raise the issue. Mr. Williams noted that he was not present during the original discussion and that the current meeting was his first opportunity to raise the Point of Order in a Commission meeting after becoming aware of the issue. Chairman Gillespie asked to carry over approval of the minutes for the September 15, 2011 Commission meeting and his ruling on the Point of Order raised by Mr. Williams until November 18th so that he could receive further guidance regarding parliamentary procedure pursuant to Robert's Rules of Order.

Chairman Gillespie asked Mr. Powers to provide a brief overview of the Commission's governance policies as the governance policy manual had been completed during Mr. Powers' tenure as Commission Chairman. Mr. Powers said that a full set of governance policies for the Commission had been developed and approved, so Commissioners should understand and follow them. He stated that instead of reviewing all of the Commission's governance policies, he wanted to highlight a few important areas. Specifically, he mentioned the Communications Policy, noting that the Commission needed to present a unified voice to the press and that the only Commissioners empowered to talk to the press on behalf of the Commission were the Chief Executive Officer and Chief Investment Officer ("CEO/CIO") and the Chairman. He also mentioned the Committees Policy and explained that the policy defined how chairmen of committees of the Commission were to be appointed. Discussion ensued regarding the Commission's Compensation Committee chairman. Chairman Gillespie acknowledged that he appointed Dr. Pritchett to the Compensation Committee and that he, himself, had functioned as the committee chairman during the Compensation Committee meeting held prior to the Commission meeting that morning; however, a formal action had not been taken to appoint the Compensation Committee chairman. Mr. Powers also reminded the Commissioners that requests for information from Commission staff ("Staff") should follow the proper channels. Mr. Powers concluded his remarks by encouraging all Commissioners to re-read the policies.

Chairman Gillespie added that the policies could be amended whenever necessary but should be followed carefully by the Commission.

Chairman Gillespie reviewed the Compensation Committee Charter as approved by the Compensation Committee during its meeting. Chairman Gillespie noted that the Compensation Committee had deleted the word “investment” from the draft charter, so the authority of the Compensation Committee would extend to all Staff, not investment Staff exclusively. Mr. Williams asked why the charter empowered the Compensation Committee to review Staff compensation levels other than that of the CEO/CIO. Dr. Pritchett responded that it was important for the Commission, through the Compensation Committee, to assess the compensation of the entire Staff and ensure that all Staff was fairly compensated to ensure retention of quality employees throughout the organization. He noted that the Compensation Committee’s oversight should extend to professional employees of the Commission, such as auditors and attorneys, not investment professionals exclusively. After further discussion, Mr. Loftis made a motion, which was seconded by Dr. Pritchett and passed unanimously, to approve the Compensation Committee charter as presented.

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

Chairman Gillespie provided a brief background of the Compensation Consultant Request for Proposals (“RFP”) and described the desired scope of work, which would become the basis for the RFP for a compensation consultant. Mr. Williams noted that the engagement would cost tens of thousands of dollars and that adding non-investment Staff to the scope of the engagement would double the cost. Mr. Giobbe asked if all Commission employees were state employees, and it was affirmed that they were, although Commission employees were “at will” and not subject to the state compensation plan or state grievance policies. Mr. Powers noted that much of the information regarding chief investment officers for public pension funds was public information and would be available without cost. After further discussion, Mr. Loftis made a motion, which was seconded by Mr. Powers and passed unanimously, to approve the scope of services for the Compensation Consultant RFP as presented; however, the Commission urged the Compensation Committee to consider whether the scope should be narrowed. Mr. Williams said the RFP should be returned to the Commissioners on the Compensation Committee. Chairman Gillespie noted that the RFP would have to go through the state procurement office and would have to follow the standard format. It was acknowledged that Mr. Jordan would be the primary Staff contact in working with the state procurement office to develop and issue the RFP.

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

Chairman Gillespie asked Mr. Feinstein to discuss items related to Commission policies. Mr. Feinstein explained the proposed amendments to the Securities Litigation policy and reminded the Commission that the proposed amendments had been presented at the September 15, 2011 meeting initially and that a motion was needed to adopt the revisions to the existing policy. Mr. Feinstein further asked that the policy be housed in the Statement of Investment Objectives and Policies (“SIOP”) and that the motion include adoption of the SIOP as amended by the addition of the Securities Litigation policy. Mr. Williams made a motion to approve the recommendations as presented by Mr. Feinstein and Staff. Mr. Loftis referred to the Attorney General’s Opinion that had been issued on November 16, 2011 (“Opinion”) regarding authority

of the State Treasurer as custodian of the funds of the South Carolina Retirement Systems (“Retirement System”) and asked that any amendments to the Securities Litigation policy not be made until the Attorney General issued an opinion regarding securities litigation. Mr. Feinstein responded that he did not think changes needed to be made based on the Opinion. Mr. Loftis noted that the state Attorney General would soon opine on issues regarding securities litigation involving the assets of the Retirement System as requested by the Commission. Mr. Loftis noted further that the South Carolina Budget and Control Board (“B&CB”) recently hired a firm to investigate this issue and that the B&CB, as trustee of the assets of the Retirement System, was the owner of the assets and that he believed that the owner of the assets should have some authority regarding securities litigation. Mr. Loftis cautioned against the Commission rushing through this issue because he felt that there was ambiguity. Mr. Giobbe asked for clarification regarding the function the Bank of New York Mellon (“BNYM”) played in the Retirement System’s securities litigation. Mr. Feinstein explained BNYM’s role, noting that BNYM provided a ministerial function and was not providing legal advice. Rather, Mr. Feinstein noted that BNYM’s role included processing paperwork and filing claims on behalf of the Retirement System. Mr. Giobbe asked how BNYM was compensated regarding securities litigation. Ms. Michelle Cook, Vice President and Senior Relationship Manager from BNYM, responded that the securities litigation services were included in BNYM’s custodial fee. Mr. Loftis said that he believed that there was an inherent conflict to have the same people who invest the assets also make litigation decisions regarding the assets and select securities litigation counsel to monitor claims. Chairman Gillespie noted that while the Attorney General and the B&CB reviewed the issue, the Commission could not ignore its fiduciary responsibilities. Mr. Williams noted that it was clear from the Attorney General’s opinion that all investment authority had been delegated to the Commission. Mr. Williams opined that the proposed revisions were minor and renewed his motion to adopt the amendments to the Securities Litigation policy as presented by Mr. Feinstein and Staff. Mr. Williams asked Mr. Loftis to explain why he felt there was a conflict of interest. Mr. Loftis said he felt the issue was slightly akin to a “Bernie Madoff” type issue. He said the ownership of the assets was a major issue and that when selecting attorneys and contemplating the commencement of litigation, he felt that those decisions should encompass other stakeholders’ interest in the decision. He reiterated that the Opinion also stated that the co-fiduciaries should work cooperatively together. Mr. Williams asked if the B&CB ever indicated that the Commission was not working closely with the trustees, and Mr. Loftis suggested that Mr. Williams review the minutes of the B&CB’s September 2010 meeting. Chairman Gillespie asked the Commissioners to return to the topic of securities litigation. Chairman Gillespie noted that there was a monetary impact to the portfolio associated with awards recovered in securities litigation proceedings. Mr. Loftis said that he would like to amend the motion to approve the Securities Litigation policy by deleting the portion of the policy clarifying that “any list of qualified securities/litigation counsel will be maintained by the Commission” but approving the other proposed changes submitted by Staff. Mr. Williams did not accept the modification of his motion. Mr. Giobbe asked Mr. Loftis to clarify what stakeholders he was referring to and whether he was suggesting that the Attorney General did not represent those stakeholders. Dr. Pritchett said that as fiduciaries, the Commission represented the stakeholders. Mr. Loftis stated that his whole point went back to the question of whether the Commission had unlimited power.

Chairman Gillespie asked that the discussion focus on the pending motion. Chairman Gillespie summarized the parliamentary process that had occurred relating to this matter, stating that there had been a motion to approve the amendments to the Securities Litigation policy as presented by Mr. Feinstein and Staff, and then there was discussion. He said that the discussion had been premature, so he asked if there was a second to the motion, and Mr.

Giobbe seconded the motion to approve the recommendations presented by Mr. Feinstein and Staff. Chairman Gillespie said that since the motion was properly before the body, a motion could be entertained to amend the original motion. Mr. Loftis stated that he would like to frame in the form of a motion his previous request to amend the motion to approve the proposed Securities Litigation policy. There was not a second to Mr. Loftis' motion to amend, so the motion died. After further discussion, Chairman Gillespie called the question of the original motion to adopt the proposed amendments to the Securities Litigation policy as presented by Mr. Feinstein. The motion passed with Messrs. Giobbe, Powers, Williams, and Chairman Gillespie voting in favor of the motion, and Mr. Loftis voting against the motion.

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

Mr. Feinstein provided a brief update on the status of the Commission's request for an Attorney General's opinion that had been requested after the Commission's meeting on September 15, 2011. He advised that the South Carolina Attorney General had provided an opinion dated November 16, 2011 ("Opinion") to the Commission regarding two of the three questions that had been posed. The opinion on the third issue, which related to securities litigation, would be provided at a later date. Mr. Feinstein noted that copies of the Commission's request and the Opinion had been provided to the Commissioners previously. Mr. Loftis asked Mr. Feinstein to summarize the Opinion, and Mr. Feinstein reviewed the summary findings as listed in the Opinion. He stated that the Opinion was clear that the Commission had been delegated the exclusive authority to invest and manage the Retirement System's assets. Mr. Feinstein stated further that the Attorney General discussed the roles and responsibilities of the B&CB and the State Treasurer, adding that the B&CB remained the trustee of the Retirement System and the State Treasurer remained the custodian of the Retirement System's assets. Mr. Loftis asked Mr. Feinstein whether anyone had alleged that the Commission did not have the authority to invest and manage the funds, and Chairman Gillespie stated that this issue arose whenever custody services were bundled with other investment related activities. Mr. Loftis added that the Attorney General stated that the Retirement System, the Investment Commission, and the B&CB must keep each other informed and work closely together to ensure the beneficiaries of the retirement trust were fully protected and well served. Mr. Williams noted that the Commission was required to provide quarterly and annual reports to the B&CB. Mr. Loftis replied that he was glad that the Commission adhered to the minimum law and that litigation was a significant event. Mr. Williams replied that even though Mr. Loftis wanted the power to play a role in the management of litigation, the law did not give him that power. Mr. Loftis explained that he was trying to fulfill his fiduciary responsibility to the best of his ability, and that he also had duties as a member of the B&CB and as State Treasurer. Chairman Gillespie directed the Commissioners to return to the order of business and added that this agenda item was simply an informational item.

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

Ms. Dori Ditty, Legal and Policy Counsel, noted that draft amendments to the Commission Operations Policy relating to the process for appointing the retiree representative to the Commission had been presented on April 21, 2011. She noted further that Dr. Pritchett had asked for changes to amendments to the policy, which were incorporated in the current draft presented for the Commission's consideration. Dr. Pritchett made a motion to adopt the

amendments to the Commission Operations Policy as presented, which was seconded by Mr. Loftis and approved unanimously.

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

Dr. Rebecca Gunnlaugsson, Systems and Economic Specialist, gave a presentation on the strategic initiative of improving the operational infrastructure. She noted that the strategic goal had been originally described as a "reporting project", but that the initiative was more comprehensive as it was to build out the Commission's entire operational infrastructure. She noted that accomplishing this long-term goal would mitigate a large number of the findings in the Deloitte & Touche's Investment Risk Assessment. She provided timeframes for achieving goals within the broader initiative, including a timeframe for the Custody RFP. Chairman Gillespie asked about costs for the systems, and Dr. Gunnlaugsson replied that a cost range had been provided in a prior Commission meeting. Mr. Borden explained that the amount of "on-budget" cost would depend on how securities lending was handled with regard to custody and whether the systems the Commission chose to use would be part of the custody arrangement.

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

Mr. Bill Leidinger, Chief of Staff from the State Treasurer's Office ("STO"), was asked to make a presentation to the Commission regarding the Custody RFP that the STO was issuing. Mr. Leidinger stated that he had intended to make a presentation to the Commission, but he said that since Dr. Gunnlaugsson gave a description of the timeframe of the process, he felt it unnecessary to provide an overview. Shakun Tahiliani, Senior Assistant State Treasurer, stated that the STO was working with its consultant to make the final changes to the RFP, including the suggestions that had been made by Mr. Jordan. Ms. Tahiliani added that the STO expected the final draft by the following week and that they would send the draft to the Commission for review. She added that the final decision regarding the Custody RFP would be made soon after the Commission reviewed the final draft.

Chairman Gillespie referred to the item relating to the Investment Consultant RFP. Mr. Borden noted that contract with New England Pension Consultants ("NEPC") had been extended for the current fiscal year. If the Commission wanted to issue an RFP and negotiate a new contract before the expiration of the current contract, then an RFP would need to be issued soon. He said that Staff had prepared a proposed scope of services for the Commission's consideration, which was materially similar to the scope of services that was included in the last RFP issued in 1996. Ms. Sarah Corbett, Deputy Chief of Staff, summarized the primary differences between the scope of services in the previous RFP and the proposal. After further discussion, Mr. Williams made a motion, which was seconded by Dr. Pritchett and passed unanimously, to issue an Investment Consultant RFP. Mr. Powers made a motion, which was seconded by Mr. Williams and passed unanimously, to approve the proposed scope of services and to authorize the Chairman to make any minor changes in his discretion during the process. Chairman Gillespie said that he and Staff would begin drafting the RFP and circulate it among the Commissioners prior to issuance.

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

Chairman Gillespie stated that the report from the Audit Committee would be carried over so that an updated report could be given to the Commission subsequent to the Audit Committee's meeting, which was scheduled to occur after recess of the Commission's meeting that evening.

Mr. Jordan provided an update related to Mr. Borden's salary adjustment. He stated that the Commission would need to adjust the date of Mr. Borden's salary adjustment to July 1st instead of June 30th to conform to the effective date of the performance incentive compensation. Mr. Borden suggested waiting until after the Point of Order raised about the September 2011 meeting minutes was resolved. Mr. Loftis asked if no one objected to the pending Point of Order if Chairman Gillespie would move forward and rule on the issue. Chairman Gillespie replied that sustaining the Point of Order would also invalidate the action that was taken previously; so therefore, he wanted to consider it carefully and receive counsel before ruling on the issue.

III. PANEL DISCUSSION, COMMODITIES: OPPORTUNITIES AND IDIOSYNCRASIES

Mr. Borden introduced Jonathan Boyd, Multi-Strategist Analyst, and Joseph Lillie, Associate from Grosvenor Capital Management, as the moderators for the panel discussion relating to commodity investments. Mr. Lillie introduced the panelists, who were Dr. Sassan Alizadeh, Managing Director and Portfolio Manager from Highbridge Capital Management; Josh Roberts, Portfolio Manager from Vermillion Asset Management; Joe Brandt, President and Chief Executive Officer of Contour Global; and Chris Harris, Executive Vice President of Phibro.

Discussion topics included the nature of the commodity asset class, how commodities differ from traditional asset classes such as fixed income and equity securities, the opportunity set for the energy sector, and the role of regulation in the commodity markets. The Commission and attendees asked questions throughout the panel discussions.

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

IV. PANEL DISCUSSION, REAL ESTATE (INVESTING OPPORTUNITES AND THE MACRO ENVIRONMENT)

David Klauka, Senior Alternatives Officer, was the moderator for the real estate panel discussion and introduced the panelists, who were Dan Heflin, Managing Director from Torchlight Investors; Bill Maddux, Chief Operating Officer from Greystar Real Estate Partners, LLC; Joe Azrack, Managing Director from Apollo Global Management; and Jon Vaccaro, Managing Director from Ranieri Real Estate Partners.

Discussion revolved around the current state of the US housing market and how the recovery of the housing market was tied to job growth and economic recovery. It was stated that a low interest rate environment had helped to boost values but that it had not contributed as much as anticipated. The panel was not optimistic about non-traditional aspects of real estate such as timber, farmland, and land development. There was also an active discussion regarding commercial mortgage-backed securities and the availability of leverage for properties. Questions from the audience included the involvement of Fannie Mae and Freddie Mac in the real estate markets.

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

V. PANEL DISCUSSION, GLOBAL MACRO (CHALLENGES AND THE OUTLOOK GOING FORWARD)

Dunkin Allison, Strategic Partnership Officer, was the moderator for the global perspectives discussion. The panelists included Jeff Gardner from Bridgewater Associates; Neeti Bhalla from Goldman Sachs Asset Management; Jeff Knight from Putnam Fiduciary Trust Company; and Avi Katz from Apollo Global Management. Discussions included European sovereign debt, financial regulatory reform regarding commercial banks and other financial institutions, and potential tail events in the economy and capital markets. The Commission and attendees commented and asked questions throughout the panel discussions.

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

Chairman Gillespie noted that the meeting was running late and that the Audit Committee needed to meet, so remaining items would be carried over. He thanked the guests in attendance and recessed the meeting at 5:15 p.m. on Thursday, November 17, 2011, to resume at 8:30 a.m. on Friday, November 18, 2011.

VI. CALL TO ORDER, REGULAR COMMISSION BUSINESS MEETING

Chairman Gillespie reconvened the meeting at 8:30 a.m. on Friday, November 18, 2011. He stated that the Commission would address the items that were carried over from the previous day after the panel discussion relating to hedge funds.

VII. PANEL DISCUSSION, DEBATING THE HEDGE FUND "PROMISE"

Mr. Borden provided a brief historical perspective relating to the Retirement System's total portfolio ("Portfolio"), reviewed some of the issues relating to asset allocation, and asked David Phillips, Senior Alternatives Officer, to moderate the panel discussion regarding hedge funds. The panelists included Michael B. Purvis from Blackstone Alternative Asset Management; Gregg S. Hymowitz from EnTrust Capital; David Richter from Grosvenor Capital Management; and Sean McGould from Lighthouse Investment Partners. The discussion points included defining the "hedge fund" and discussing the history of the hedge fund value proposition (the "promise"); how the recent financial crises changed the hedge fund industry; and how a pension fund should approach hedge fund allocation. The panelists were also asked for specific comments on risk management and to discuss personal characteristics associated with quality hedge fund managers and what strategy should be emphasized/de-emphasized for 2012.

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

After a ten minute break, Chairman Gillespie reconvened the meeting and said that the Commission would pick up the three items that were carried over from the previous day, which included the minutes from the September 2011 meeting, executive compensation, and report of the Audit Committee. He stated that there was a pending Point of Order relating to the minutes and that it was his ruling that the Point of Order would not be recognized. The rationale for the ruling was that later in the same meeting all Commissioners were present. Mr. Williams

indicated that out of respect for the Chairman, he was not going to appeal the Chairman's ruling, but he then made a motion to repeal the motion set forth in indented blocks on page 4 of the minutes. Mr. Powers seconded the motion.

Mr. Williams said that one of the reasons that he raised the Point of Order was that he and Dr. Pritchett were not given a fair and full opportunity to participate in that decision. Mr. Williams stated that during the September meeting, Mr. Loftis said that Mr. Borden gave himself a raise. Mr. Loftis raised a Point of Order saying that Williams had information that he, Mr. Loftis, did not have. Mr. Loftis said that there was nothing underhanded about what he did at the September meeting. Chairman Gillespie stated that the minutes to that meeting were not final and there was no reason that they had to bring the minutes to conclusion during this meeting. Mr. Williams stated further that Mr. Loftis said, "Somehow it got to be June 30th", and "Borden gave himself a raise." Mr. Williams reminded the Commission that he said at the June meeting that Mr. Borden had not received a raise since 2008. He further stated that by ordinary procedures, the Commission should have considered Mr. Borden's raise in December 2010, but they didn't because of other pressing matters. Furthermore, the Commission should have considered it again in April 2011, but the budget was uncertain at that time. Mr. Williams said that in June the budget was finalized, and it was the Commission's fiduciary duty to give a significant raise to Mr. Borden so it could retain its most valuable employee and minimize the risk of him being hired by someone else. He said that it was agreed to not act during the June meeting as a courtesy to Mr. Loftis, who could not vote on Mr. Borden's raise because he had to leave the meeting early. Mr. Williams said at that time it was everyone's intention for the salary increase to be effective June 30th. Mr. Williams said he commented at the time that the new Performance Incentive Compensation ("PIC") would be effective next June 30th. Mr. Williams stated further that Mr. Borden did not give himself a raise, and he did not ask for a raise. He said it was the Commission's fiduciary duty to treat employees fairly and honestly, and they could not show them that loyalty by taking away things that were promised to them. Mr. Loftis objected to Mr. Williams' comments and said that Mr. Williams was reading from notes from an executive session which was disallowed. Mr. Williams stated that he was not reading notes from an executive session, but rather from notes of his own recollection and that he had never violated the rules of an executive session. He added that there had been a quote in the Associated Press where Mr. Loftis had stated that Mr. Borden had received a raise to keep him from being hired away by the Virginia Retirement System, which was a matter that had been addressed only in executive session. Mr. Loftis asked legal counsel for representation. Chairman Gillespie stated that the issue on the floor was a proposed amendment to the previous minutes. Mr. Loftis said that there was a Point of Order that Mr. Williams had deliberately divulged information discussed in executive session. Mr. Loftis stated that Mr. Williams had called him a liar and a slanderer and could be in breach of state law. Upon question by Mr. Loftis, Ms. Shealy said that the Chairman had the responsibility to maintain the decorum of the meeting and that it was proper for her to address the Chairman before making comments during the meeting. Chairman Gillespie suspended the discussions. He said that there were assertions that legal violations had occurred and he asked if that was a matter for Mr. Williams to address or the body. Ms. Shealy said that if she was being asked for legal advice, then she would ask whether the Commission waived the attorney client privilege to receive legal advice in open session. The Commission indicated that they did not waive the attorney client privilege, and Mr. Giobbe made a motion to recede to executive session to receive legal advice. The motion was seconded by Mr. Loftis and passed with Messrs. Giobbe, Powers, Loftis and Chairman Gillespie voting in favor of the motion and Mr. Williams voting against the motion. The Chairman announced that the Commission would meet in executive session to receive legal advice.

The Commission reconvened in open session, and Chairman Gillespie reported that they received legal advice in executive session. He stated further that there was a motion pending related to amending the September 15, 2011 minutes. Mr. Williams apologized for his demeanor earlier in the meeting and stated that he would simply like to correct any impression that the Commission had acted improperly in considering Mr. Borden's salary and/or bonus, or that there was any "backdoor" effort to address the compensation or bonus issue, or that Mr. Borden acted improperly in any way. Mr. Williams stated that it was important for the Commission to go on record and note that the Commission discussed Mr. Borden's compensation and bonus publicly and intentionally, and every Commissioner's vote on July 11, 2011 and September 15, 2011 was motivated by and consistent with their fiduciary responsibility. He reiterated that he felt every Commissioner, in his voting, had always acted in a way consistent with their fiduciary duty without anything to gain for themselves and that he felt that Staff and Mr. Borden had acted in exactly the same way. Mr. Williams stated that there would be a Compensation Committee report available in March 2012, and it would be sensible to defer further consideration of this matter until that report was completed. Mr. Williams withdrew his motion to amend the September 15 2011 minutes and reiterated that he believed the Commission and Mr. Borden had acted properly, and any indication to the contrary was incorrect. Chairman Gillespie stated that the motion had been withdrawn.

Dr. Pritchett made a motion, which was seconded by Mr. Loftis, to approve minutes from the September 15, 2011 meeting. The motion passed with Messrs. Giobbe, Loftis, Powers, and Chairman Gillespie voting in favor of the motion. Mr. Williams abstained from voting, stating that he had missed about half of that meeting. Chairman Gillespie stated that there was a technical adjustment for Mr. Borden's pay due to the July 1 date. Mr. Loftis made a motion to authorize Staff to make any technical adjustments to conform the effective date of Mr. Borden's salary to the Comptroller General's regulations. Mr. Powers seconded the motion, which passed unanimously.

Chairman Gillespie provided a brief review of the Audit Committee report, stating that the Audit Committee had conducted interviews for an Internal Audit Director, were in the process of narrowing the field of candidates, and hoped to have more information to report shortly.

Mr. Williams advised that he had to leave the meeting at 11:45 a.m. to attend Federal Court in Florence, S.C., so he was going to excuse himself at that time. However, Mr. Williams said that before he left he wanted the record to reflect that with regard to an investment on the agenda later in the meeting relating to American Timberlands, he would have abstained from discussions and voting if he were present. He explained that one of his law partners writes title insurance and abstracts for companies, and American Timberlands might use the same title insurance companies in the future.

VIII. ASSET ALLOCATION REVIEW

Mr. Rhett Humphreys, Partner, introduced Tim McCusker, Partner, from NEPC for an update on Asset Allocation, which included a 2011 asset allocation update as well as a discussion about NEPC's asset allocation themes for 2012. Mr. McCusker stated that a 2012 Asset Allocation update, with proposed changes to the target asset allocation, would be provided at the February 2012 meeting. Mr. Humphreys added that the expected rate of return for 2012 would be lowered. Messrs. Humphreys, McCusker, Borden, and the Commission discussed various aspects about the current and target asset allocations, assumptions, and market environments throughout the presentation.

Mr. Humphreys reviewed the Commission's Portable Alpha program, which included a short Portable Alpha education, options for implementation, and performance. It was noted that the alpha portion of the Portable Alpha program, when embedded beta is removed, contributed alpha to the portfolio over short and long time periods. NEPC also provided materials relating to a Private Markets Program Review and the 2012 Real Estate Plan to the Commission.

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

IX. INVESTMENT ITEMS

Chairman Gillespie asked Mr. Humphreys to report on the Portfolio's performance. Mr. Humphreys said that NEPC received information from the bank on Tuesday, so they prepared a preliminary flash report for the periods ended September 30, 2011, for review. Mr. Humphreys stated that the financial composite was approximately -10.2 percent while the pension composite was approximately -7.6 percent, which ranked the Retirement System's Portfolio in the top 26th percentile of all of the public pension plans in the United States for the quarter, and in the 30th percentile for the year-to-date. He noted that the Portfolio was ranked in the 78th percentile among public pension funds for five-year annualized returns. Mr. Humphreys highlighted performance of several different asset classes within the Portfolio, and he discussed the positive impact that de-equitization had on several asset classes. Mr. Borden explained the impact of various market trends on the Portfolio and its peer rankings.

Mr. Borden referred to Portfolio performance reports prepared by Staff, which included the Monthly Flash Report for periods ended August 2011, a draft of the Monthly Flash Report for periods ended September 30, 2011, and a Weekly Portfolio Dashboard for the week of November 16, 2011. The Commission received the reports as information.

(Information relating to these matters has been retained in the Commission's files and is identified as Exhibit M.)

Mr. Phillips advised of a recommended technical change in the structure of the Bridgewater Pure Alpha and Bridgewater Pure Alpha Major Markets accounts. He said the purpose of the change was to enable Staff to revise the fee structure and target risk structure in the investment management agreement. Mr. Borden added that there would be no change in the portfolio, and the total dollar fees would remain the same; however, as a percentage of assets under management, the fee percentage would increase. Mr. Powers made a motion to approve the recommendations as presented to change the structure of the Bridgewater Pure Alpha and Bridgewater Pure Alpha Major Markets investments and to authorize the Chairman or his designee to negotiate and execute any necessary documents, upon approval for legal sufficiency by the Commission's legal counsel ("Legal Counsel"), to implement the recommendations. Mr. Loftis seconded the motion, which passed unanimously.

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

Mr. Klauka, presented background information about two Private Equity recommendations, Green Equity Investors VI, L.P. ("GEI"), and BC European Capital IX, L.P. He noted that both firms had been reviewed and recommended by NEPC. With regard to GEI, Mr. Klauka said that

the search team, which included Dr. Pritchett, recommended a \$40 million investment with an \$80 million co-investment side car. Dr. Pritchett noted that he agreed with the recommendations. Mr. Powers made a motion to approve the recommendations as presented, to investment an amount not to exceed \$40 million in the Green Equity Investors VI, L.P. and \$80 million in a co-investment sidecar, and to authorize the Chairman or his designee to negotiate and execute any necessary documents, upon approval for legal sufficiency by Legal Counsel, to implement the investments. Dr. Pritchett seconded the motion, and the motion was approved unanimously.

Mr. Klauka stated that the search team recommended an investment not to exceed €30 million (approximately \$40 million) in the BC European Capital IX, L.P. He noted that the fund focused on Western Europe and that the investment committee had reduced the potential allocation to the fund based upon expectations for Europe. Dr. Pritchett noted the he concurred with the recommendations. Mr. Borden expressed concerns about a prolonged and deep recession in Europe and the timing of the investment. He opined that while it was a top-flight firm, he had concerns about the economic cycle. Chairman Gillespie noted that the horizon of the fund was supposed to be five years, and he felt that the markets would be through the economic cycle by that time. After further discussion, Mr. Powers made a motion to approve the recommendations as presented, to invest an amount not to exceed €30 million in the BC European Capital IX, L.P., and to authorize the Chairman or his designee to negotiate and execute any necessary documents, upon approval for legal sufficiency by Legal Counsel, to implement the investment. Dr. Pritchett seconded the motion, and the motion was approved unanimously.

(Information relating to these matters has been retained in the Commission files and is identified as Exhibit O and Exhibit P, respectively.)

Mr. Borden referred to the meeting materials and stated that the next two items were sourced internally by Staff and were regional in nature. He explained that the items were unlike the traditional asset allocation and search strategies, and they were being presented for the Commission's consideration. He noted that the first item relating to American Timberlands could be described as an actively managed land portfolio that had a timber component. He said that Harris Chewning, Alternatives Officer, had lead the due diligence efforts on these potential investments, and he asked Mr. Chewning to provide information about the items.

Mr. Chewning said that an opportunity to invest with American Timberlands Company, LLC (ATC) had arisen and that ATC actively managed timber portfolios concentrated in the southeastern United States. He said the Commission had an opportunity to invest in a unique timberland investment strategy with a different approach than traditional timber investment management organizations in terms of size, geographic focus, flexibility, returns, and terms. Mr. Chewning added that timberland investing provided returns uncorrelated to more traditional stock or bond investments. He said that market analysis had indicated that there were distressed timberland sellers in the market, which provided a timely opportunity, and that Staff had spent a considerable amount of time and effort in conducting thorough due diligence regarding ATC and the proposal. He said the negotiated control provisions, economic terms, and transparency were favorable as compared to those of traditional timber management organizations or REITs. He said that given the characteristics of timber as an asset class and the current timberland market, the differentiated strategy, and the unique structure of the proposed partnership, the investment was presented for the Commission's consideration. He explained the structure and terms of the proposal. After further discussion, Mr. Loftis made a motion, which was seconded by Mr. Powers, to adopt the motion as presented in the

memorandum provided by Staff, which included approval to invest an amount not to exceed \$30 million in a limited partnership with American Timberlands Company, LLC, to suspend the restriction in the Commission's Statement of Investment and Investment Policies limiting the initial commitment to a fund to 25 percent of the committed capital of the fund, to include "Timberlands" as an asset class and benchmark the investment against the NCREIF Timberland Index, and to authorize Staff to amend the Annual Investment Plan to conform. Chairman Gillespie stated that, given the size of the firm and investment, the Commission should require a key man insurance policy with the partnership named as the beneficiary to provide greater protection for the investment. Dr. Pritchett clarified that the insurance should be on the two principals of the firm, and the motion was amended to also authorize the Chairman or his designee to negotiate and execute any necessary documents to implement the investments, upon approval for legal sufficiency by Legal Counsel and contingent upon receipt of certification that a key man insurance policy on the two principals of the firm with the partnership named as the beneficiary had been issued in an acceptable amount as determined by the Chairman. Chairman Gillespie called the question, and the motion was approved with Messrs. Loftis, Powers, and Chairman Gillespie voting in favor of the motion and Mr. Giobbe voting against the motion.

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

Mr. Chewing presented background information on a potential investment with Nexus Medical Partners ("Nexus") and stated that the Commission had been presented with a co-investment opportunity in early 2011 that seemed attractive. He noted that Nexus had participated in investments with the South Carolina Venture Capital Authority and that this opportunity represented an investment alongside Nexus. Mr. Chewing said having no vehicle through which to close this investment, the Staff had considered a forming a limited partnership with Nexus to implement this investment and other similar investments. Additionally, having conducted significant due diligence thus far, Nexus was a firm with experience and a strong track record. Mr. Chewing stated given the initial attractive opportunity and the due diligence conducted, investment in a limited partnership with Nexus was presented for the Commission's consideration. Mr. Chewing noted that fees would have to be negotiated and that additional due diligence and background checks would have to be completed prior to closing. Chairman Gillespie noted that he had met with the firm. Mr. Powers asked to carry over the decision until February 2012 so that more due diligence could be completed. Chairman Gillespie noted that there was a time constraint to make an investment in the fund, which was the reason why the fund was on this meeting agenda. Chairman Gillespie advised that two other organizations in South Carolina had invested in this firm. Mr. Giobbe said he would feel more comfortable considering the investment again after due diligence, including validation of valuations, was completed. After further discussion, the Commission directed Mr. Chewing to complete additional due diligence and agreed that, time permitting, a special telephone conference meeting could be called to address the issues.

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

Mr. Powers stated that he had a scheduling conflict and needed to leave the meeting, so he was excused from the remainder of the meeting.

Mr. Allison provided information regarding the Reservoir Palmetto Strategic Partnership, L.P. ("Reservoir"). Mr. Allison said that the Staff recommended increasing the capacity for investments of the fund in order to take advantage of three particular opportunities, which would take the total investment capacity in Reservoir to \$750 million. He noted that one tranche was a \$100 million commitment to the Reservoir Capital Partners (Cayman), L.P., a private equity investment, and the second tranche was a \$100 million commitment to Reservoir Strategic Partners, L.P., a special purpose investment vehicle. The additional capacity would be in the third tranche, taking its capacity up to an amount not to exceed \$550 million. After further discussion, Mr. Loftis made a motion, which was seconded by Mr. Giobbe and passed unanimously, to increase the authorization for investments in the Reservoir Palmetto Strategic Partnership, L.P. to an amount not to exceed \$750 million, which would include the \$300 million previously authorized by the Commission, and to authorize the Chairman or his designee to negotiate and execute any necessary documents to implement the investments upon approval for legal sufficiency by Legal Counsel.

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

Chairman Gillespie referred to the next item on the agenda, which was a review of the Commission's Statement of Investment Objectives and Policies ("SIOP"). He asked Ms. Shealy to provide an overview, and she stated that there were no changes proposed to the SIOP document that was presented to the Commission in June 2011. She said that the recommendation was to reaffirm the SIOP, incorporating the Securities Litigation policy that was adopted during the meeting the previous day. Dr. Pritchett made a motion, which was seconded by Mr. Giobbe, to amend the SIOP to incorporate the Securities Litigation policy previously adopted and to reaffirm the SIOP as amended. The motion was approved with Mr. Giobbe and Chairman Gillespie voting in favor of the motion and Mr. Loftis voting against the motion because he opposed the inclusion of the Securities Litigation policy.

(Information relating to this item has been retained in the Commission's files and is identified as Exhibit T.)

X. ADJOURNMENT

There being no further business, Chairman Gillespie thanked everyone for attending, and the meeting adjourned at 1:50 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 and in the lobby at 1201 Main Street, Suite 1510, Columbia, South Carolina, and at the Wampee Training and Conference Center at 1274 Wampee Plantation Road, Pinopolis, South Carolina prior to 9:00 a.m. on November 16, 2011.]