

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

**April 18, 2012**

**15<sup>th</sup> Floor Conference Room  
1201 Main Street  
Columbia, South Carolina 29201**

**Commissioners Present:**

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

**Others present for all or a portion of the meeting on Wednesday, April 18, 2012:**

Mike Addy, Geoff Berg, Betsy Burn, Harris Chewing, Sarah Corbett, Dori Ditty, Robert Feinstein, Hershel Harper, Adam Jordan, Lorrie King, David Klauka, Gary Li, Doug Lybrand, Lorelei McKay, Jared O'Connor, David Phillips, Kathy Rast, Nancy Shealy, Nicole Waites, and Brian Wheeler from the South Carolina Retirement System Investment Commission; Bill Leidinger, Bill Condon, Clarissa Adams, Dinah Raven, Brian DeRoy, Mike McDermott, and Shakun Tahiliani from the State Treasurer's Office; David Barnes from New England Pension Consultants; Tammy Nichols, John Page, and Faith Wright from the South Carolina Retirement Systems; Joye Lang and Kevin Paul from the Office of Human Resources; Wayne Pruitt from the State Retirees Association; Joe Lillie from Grosvenor Capital Management, and Andrea Taylor from Creel Court Reporting.

**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 10:00 a.m. Chairman Gillespie noted that Mr. Reynolds Williams was attending a legislative hearing regarding the Commission's budget and asked the commissioners whether they would be amenable to amending the agenda by moving the confidentiality agreement discussion (Item V) until after the investment items (Item VII). The consensus of the body was to defer a decision regarding this request. Chairman Gillespie referred to the proposed meeting agenda and asked for a motion to approve. Mr. James Powers made a motion, which was seconded by Chairman Gillespie, and passed unanimously, to approve the agenda as presented.

Chairman Gillespie distributed the Commission self-evaluation forms to each Commissioner, and asked for them to be returned within two weeks to Ms. Dori Ditty, Legal and Policy Counsel, who will compile the information for Chairman Gillespie prior to the May Commission meeting.

Chairman Gillespie invited Ms. Joye Lang to give an update regarding applications received for the Chief Investment Officer ("CIO") and the Director of Operations. Ms. Lang reported that the postings for both positions had closed, and that the Office of Human Resources ("OHR") had

received approximately 117 applications for the CIO position, and slightly over 100 applications for the Director of Operations position. Ms. Lang reported that some very good candidates had applied for both positions, and OHR was in the process of providing the qualified applications to the members of the search committee for review.

Chairman Gillespie stated that all of the applications would be available to each commissioner if the commissioners would like to review them.

Ms. Lang also reported that the posting for the Director of Internal Audit and Compliance position has closed and interviews have been conducted.

Chairman Gillespie referred the commissioners to the draft minutes from three previous Commission meetings. Dr. Travis Pritchett made a motion to approve the minutes from the January 19, 2012 meeting, which was seconded by Mr. Powers. In response to a question, Mr. Robert Feinstein, Chief Legal Officer, stated that the January minutes had been posted a few days prior to the current meeting and that he was not aware of any changes to the draft that had been posted. The question was called by Chairman Gillespie and the motion passed unanimously.

Mr. Powers made a motion, which was seconded by Mr. Curtis Loftis, to approve the minutes from the February 16, 2012 meeting. The motion passed unanimously.

Chairman Gillespie noted that the Commission's legal counsel had requested the opportunity to discuss matters relating to the March 5, 2012 minutes with the Commission. For purposes of discussion, a motion was made by Mr. Powers and seconded by Dr. Pritchett to approve the March 5, 2012 minutes. Mr. Feinstein proceeded to present two proposed amendments to the March 5, 2012 minutes for the Commission's consideration.

The first proposed amendment (agenda packet, page 23, last paragraph, second sentence) entailed adding the following four italicized words to the minutes: "McLagan analyzed the positions of an executive director, a chief investment officer, and a senior-most investment officer, and found that the RSIC salaries were below *the high quartile for* both the peer group and larger public funds group in both base salary and total compensation." Mr. Feinstein indicated that the proposed amendment more precisely summarized McLagan's findings.

The second proposed amendment (agenda packet, page 23, last paragraph, concluding sentence) was to remove the concluding sentence of the paragraph, which Mr. Feinstein opined was neither sufficiently clear. Mr. Loftis questioned the need to make the second proposed revision. Mr. Powers moved to amend his original motion by adopting the first proposed amendment and rejecting the second proposed amendment. His amendment was seconded by Mr. Loftis, and passed unanimously. Mr. Loftis thereafter made a motion, which was seconded by Dr. Pritchett, to approve the minutes from the March 5, 2012 meeting, as amended. The motion passed unanimously.

Chairman Gillespie reported that the current term for Mr. Williams as Commission vice-chair will conclude on June 30<sup>th</sup>, and in accordance with Commission policies, Mr. Giobbe was nominated as successor vice chairman during the Commission's March 5 meeting. Chairman Gillespie stated that he had not received additional nominations, and made a motion to elect Mr. Edward Giobbe as vice chairman of the Commission for the term commencing July 1, 2012 and ending June 30, 2014. Mr. Powers seconded the motion, which passed unanimously.

## **II. DISTRIBUTION OF REVISED COMPENSATION POLICY**

Chairman Gillespie reported that the revised Compensation Policy had been distributed to the members of the Commission for review, and noted that action on the policy would be sought at the Commission's May 2012 meeting. Mr. Feinstein noted that each Commissioner had received a clean copy and a black line copy of the proposed revisions. Mr. Feinstein advised that the black line compared the Commission's prior Compensation Policy, including revisions that were made at the Commission's April and July 2011 meetings, to the changes approved by the full Commission on March 23, 2012.

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

## **III. UPDATE ON INTERNAL INVESTMENT COMMITTEE**

Chairman Gillespie asked Mr. Hershel Harper, Acting Chief Investment Officer, to provide an update on the Internal Investment Committee. Mr. Harper advised the Commission that the Internal Investment Committee ("IIC") had been reconstituted. Mr. Harper noted that he will continue to chair the IIC, and identified the other members of the IIC and their duties. Mr. David Phillips, Senior Multi Strategy Officer will serve as the IIC's vice-chair. Dr. Gary Li, Director of Risk and Asset Allocation, will lead a risk and asset allocation sub-committee. Mr. Geoff Berg, Senior Equity Officer, will lead a strategy subcommittee. Mr. David Klauka, Director of Private Markets, will be responsible for the co-investment sub-committee, and Mr. Mike Addy, Senior Liquidity Officer, will be responsible for the policy sub-committee. Two coordinators --Mr. Jared O'Connor, Alternatives Officer and Mr. Jonathan Boyd, Multi Strategy Analyst -- will assist the IIC. Mr. Feinstein and Ms. Nancy Shealy, General Counsel, will provide legal assistance. The IIC's standing agenda items and topics were identified, with Mr. Harper noting that key focus points will include portfolio position and rebalancing, reviewing investment plans and prioritizing research, as well as reviewing plan performance.

Mr. Harper outlined the ongoing responsibilities of the investment team, and summarized the team's strategic initiatives and projects. He then reviewed changes that had been made to staffing of the Commission's strategic partnerships. A 'primary' staff contact will be responsible for coordinating with the strategic partner, and one or more other members of the investment team will also be fully engaged in the relationship and will serve as a back-up when necessary.

Mr. Powers suggested that it would be beneficial to have a Commissioner available to attend the IIC meetings each week. Mr. Giobbe agreed, and suggested further discussion at the May Commission meeting.

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

## **IV. AUDIT COMMITTEE REPORT**

Chairman Gillespie stated that the Audit Committee met last week, and received an update on the progress of the items identified by Deloitte & Touche, LLC ("Deloitte") in the Investment Risk Assessment. Chairman Gillespie advised that Deloitte had commenced its audit work.

Chairman Gillespie advised that the Audit Committee interviewed four additional candidates for the Director of Internal Audit position. Mr. Gillespie indicated that the candidates were very strong, and indicated that he hoped to have an update for the Commission shortly.

In response to a question from Mr. Loftis regarding the work that Deloitte will be performing, Ms. Corbett noted that the Audit Committee had asked Deloitte to prepare first year audit plans. The Commission and State Auditor's Office approved retaining Deloitte to conduct a due diligence audit, a valuation audit and a cross trade audit. Ms. Corbett advised the Commission that Deloitte would attempt to complete these audits by the end of the current fiscal year.

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

Mr. Williams joined the meeting.

## **V. INVESTMENT CONSULTANT RFP**

Chairman Gillespie began discussions concerning the Investment Consultant Request for Proposal ("RFP"). Mr. David Barnes, Senior Consultant with New England Pension Consultants ("NEPC"), excused himself for the remainder of the discussion. Chairman Gillespie reported that responses to the RFP had been received and staff had completed an initial analysis. Mr. Adam Jordan, Acting Chief Executive Officer, asked the commissioners if they wished to consider postponing the date for selection of an Investment Consultant a few months so the permanent CIO and Director of Operations could have some input, and the new fiscal year budget would be determined. Chairman Gillespie noted that all of the responses came in at a substantially higher amount than what the Commission is paying the current investment consultant. Chairman Gillespie asked the commissioners how they would like to proceed in light of these circumstances.

In response to a question by Mr. Loftis, Mr. Jordan clarified that the new RFP included some additional services related to operational due diligence, and had a more expansive scope than the Commission's current contract. Chairman Gillespie pointed out that some pension funds have specialized consultants for particular areas. Mr. Loftis indicated that he was pleased that the RFP was broader in scope than the current contract. He also stated that it would be a good idea to have further discussions about a generalist versus a specialist.

In response to a question by Mr. Powers, Mr. Jordan confirmed that the current investment consultant contract with NEPC expires on June 30, 2012, and the Commission could renegotiate an extension if needed. Mr. Loftis pointed out that the Commission had entered into an extension of NEPC's contract in 2011.

Mr. Harper noted that NEPC is conducting a review of the strategic partnerships, which should be largely completed by May 15, with certain additional information coming in throughout the summer.

The need for a contract extension having been identified, the commissioners discussed the duration of a contract extension and related issues. In response to a request for advice, Ms. Shealy began to identify options. She first suggested that the Commission could extend the current contract for six months, which would also provide a transition period, if a different Investment Consultant is selected through the RFP. Ms. Shealy also noted that the current contract with NEPC has a 30-day termination clause.

Mr. Powers agreed that the current contract should be extended for a certain period, but indicated that he would not be comfortable with a six-month extension. Mr. Powers made a

motion, which was seconded by Mr. Williams, to extend the current investment consultant contract with NEPC for a period of 90 days (September 30, 2012), with additional extensions at the discretion of the Commission. After further discussion, the motion passed unanimously.

Mr. Jordan informed the Commission that, earlier in the morning, the Senate Finance Subcommittee had unanimously approved the Commission's budget request and the Performance Incentive Compensation ("PIC") Plan.

## **VI. CONFIDENTIALITY AGREEMENT –STATE TREASURER'S OFFICE**

Chairman Gillespie provided background information concerning the confidentiality agreement between the RSIC and the State Treasurer's Office ("STO"). Chairman Gillespie advised the Commission that at various times over the last few months, the STO has requested that certain staff members, specifically Mr. Bill Leidinger, Mr. Bill Condon, and Ms. Shakun Tahiliani, be permitted to review all Commission records related to certain existing private market investments. This included both internal and external due diligence notes, proprietary information provided by managers on prospective investments, and all legal documents. Chairman Gillespie noted that RSIC staff and counsel have been providing, and will continue to provide, the Treasurer, as a member of the Commission, with access to all of the materials he requests, just as RSIC staff and counsel would do for any Commissioner. Chairman Gillespie indicated that issues had arisen because confidential information has been requested to be provided to staff members of the STO. Chairman Gillespie stated that he had requested that this item be placed on the agenda because RSIC staff was unclear whether they were authorized to sign any documents permitting non-Commissioners and non-fiduciaries to obtain access to confidential records of the Commission, and had requested guidance as to how to proceed. Chairman Gillespie noted that this request raises questions both as to state law and the Commission's agreements with business partners regarding contractual terms, especially confidentiality provisions.

Chairman Gillespie asked Mr. Feinstein to address this topic. Mr. Feinstein stated the issue concerning which RSIC staff is seeking Commission guidance as follows: whether under state law and the terms of the Commission's agreements with its business partners, the STO staff, or other commissioners' employees, maybe given full access to records relating to the Commission's private market investments. With regard to the state law concerns, Mr. Feinstein stated that the initial question is what individuals and entities, besides the Commissioners and Commission staff, are identified as fiduciaries of the South Carolina Retirement System ("SCRS") SCRS trust funds? He noted that there is a definition of the term "fiduciary" in state law. All six Commissioners are clearly defined as fiduciaries of the SCRS trust funds in Title 9 of the Code. Mr. Feinstein indicated that there are no additional statutes or regulations that extend the definition of fiduciary, or any of its attendant responsibilities, to cover employees of any Commissioner, including the Treasurer. Mr. Feinstein explained that under State law, fiduciaries are subject to a variety of restrictions on what they can do with information, and can be sanctioned for breaching their duties. RSIC staff and counsel believe that the request that has been made for access extends to individuals who are third party non-fiduciaries.

Other potential legal bases for sharing information were reviewed. Mr. Feinstein reminded the Commission that the State Treasurer is the statutory custodian of the SCRS trust funds, and the Commission has been and continues to share certain investment information with both the statutory custodian (the Treasurer), and the master global custodian that provides core custody services to the trust funds, and noted that there is a statutory mechanism for sharing basic

information with the STO so that STO can discharge its responsibilities as custodian. Mr. Feinstein added that recently, representatives of the Commission, the South Carolina Retirement Systems (“SCRS”), and STO have begun discussions regarding the types of information that the statutory custodian requires in order to perform his duties, and expressed the hope that these discussions would continue. He noted, however, that (i) there is no statute or regulation that addresses the types of information which the Commission must provide to the statutory custodian or to the custodian bank, and (ii) historically, the custodial bank has neither required, nor been given, full access to due diligence files or the Commission’s contracts. In terms of historic custom and practice, it was noted that the custodial bank had required, and the Commission had successfully provided, very basic information regarding the Commission’s investments.

Mr. Feinstein also noted that while there is a provision in Title 9 of the Code for sharing information with certain duly designated agents, but it is difficult to argue that the Commission has decided to delegate any type of post-investment review functions to the STO other than that which relates to matters required in order for the STO to discharge its responsibilities as statutory custodian of the trust funds, including such matters as approving initial funding of a new investment manager.

Mr. Feinstein then turned to the contractual issues. He stated that the key contractual issue concerns the confidentiality provisions found in the Commission’s alternative investment agreements. Mr. Feinstein advised that the confidentiality provisions are often the most heavily negotiated provisions in the investment agreements, and offered some background information as why this is the case. Mr. Feinstein indicated that the Commission’s legal counsel takes great care in balancing the requirements of the South Carolina Freedom of Information Act (“FOIA”) and other state laws providing for transparency with the need, recognized by other state laws, to maintain confidentiality of certain types of information, the disclosure of which could jeopardize the Commission’s ability to achieve investment objectives or implement portions of its investment plan.

Mr. Feinstein reviewed the typical structure of the agreements that the Commission has entered into with its business partners in alternative investments. A typical Limited Partnership Agreement (“LPA”) for an alternative investment will provide that everything is confidential except for certain enumerated types of information, referred to as ‘top line information’, which can be disclosed. It was noted, however, the records that the STO is seeking to review would extend far beyond top line information, which could create potential liability for the trust funds if information is disclosed and either the Portfolio is harmed, or the Commission and the trust funds are found to be in breach of their contracts. Mr. Feinstein advised that counsel cannot unilaterally change existing contractual commitments, and noted that has been and will be challenging to come up with an arrangement that would resolve these contractual liability concerns. He stated that it may not be possible to get all business partners, both current and new, to agree to grant third-party non-fiduciaries the type of access that the STO is requesting.

Mr. Feinstein then identified other factors which the Commission might wish to consider in determining how to proceed. Besides breach of contract, he cautioned that the RSIC might open itself to claims that the Commission breached its fiduciary obligations by releasing confidential information to third-party non-fiduciaries, and indicated that there may be potential opportunity costs associated with granting access to confidential information (potential new investments could be lost, because managers decide not to present opportunities, or because managers balk at modifying confidentiality provisions as outlined). Mr. Feinstein also noted that

there are administrative burdens and resource considerations that the Commission should be aware of. Any decision to move forward with the STO's request would require an extensive commitment of time and resources.

Mr. Feinstein outlined two options for the Commission to consider, and stated that the first option had three components: (i) ensure that the Treasurer and all Commissioners continue to obtain access to all the information they require; (ii) RSIC Staff should be directed to continue discussions with the STO and SCRS regarding the sharing of information necessary for the three organizations to properly discharge their respective duties with regard to the trust funds, and report back to the Commission regarding same, and (iii) maintain the Commission's longstanding practice with regard to access to the Commission's confidential information by employees of Commissioners (third-party non-fiduciaries). Mr. Feinstein stated that the second option would be to direct RSIC staff and counsel to continue to attempt to negotiate investment-specific confidentiality agreements between the Commission and the STO, and assist in negotiations when business partners require separate, supplemental confidentiality agreements. Mr. Feinstein cautioned that this second approach may not resolve the state law and contractual concerns that have been identified.

In response to a question by Mr. Giobbe, discussion ensued regarding the precedent that might be set for other individuals to request access to confidential information if third-party non-fiduciaries are allowed access to confidential information. Mr. Loftis focused the discussion on senior members of STO staff, and the trustees of the trust funds, the members of the Budget and Control Board ("Board"). Mr. Feinstein and Ms. Shealy clarified that members of the Board would be treated similarly to the Commissioners.

Mr. Loftis said that he was asking specifically for his legal counsel and another person in state government to have access to this information, and indicated that his interests as custodian are not always aligned with the Commission. Mr. Loftis stated that as the statutory custodian of the trust funds, he was being asked to fund investments that would send money away from the state's custody, and he continues to have questions and concerns regarding these investments, including what happens to the investments after funding, and whether the funds are being reported properly. Mr. Loftis stated that Section 9-16-30 of the Code provides that the Commission has a right to delegate additional fiduciaries.

Mr. Loftis offered his experience in reviewing the due diligence files for, and making requests for information relating to, American Timberlands as an example of his need to have his staff's assistance in fulfilling his responsibilities as a trustee and custodian. Mr. Loftis stated that the STO is not interested in impinging on anybody's rights to invest or manage, but his office has responsibilities as a trustee and a custodian, and he cannot fulfill these obligations by himself.

Mr. Loftis offered, as another example, his discussions with RSIC staff concerning Mariner's fees. He maintained that, after seven or eight weeks, he had not yet seen documents relating to this request. Mr. Feinstein responded that the RSIC staff had tried to reach out to the STO and other stakeholders to respond to the questions that had been presented. He stated that there had been several conference calls involving representatives of STO, RSIC and other organizations followed by very extensive written summaries of matters discussed, including analyses of how RSIC staff had handled the issue in the past, what the Staff is doing at present, and how they are trying to move forward. Mr. Feinstein stated that Mr. Bill Leidinger, Chief of Staff for the STO, was involved in the conversations, and received the written information. Mr. Loftis replied that there was an \$18 million discrepancy in what he called an unaudited account,

and he stated that he had not been able to see the source documents from Mariner, but instead had received compilations. Mr. Loftis advised that the STO has not exercised all of its legal authority with funds, and stated they are going to do so, because they cannot continue to operate without requested information and the Treasurer will not abrogate his fiduciary responsibilities.

Chairman Gillespie offered comments about the issues that had been raised. He opined that the Commission does not have a privacy policy that states how it will handle information, and stated that one of the reasons he asked that this item be placed on the agenda had to do with the issue of going back to current vendors. Chairman Gillespie stated that he did not think that the Commission could make a unilateral decision, as it could potentially cause contractual violations. In response to a question, Chairman Gillespie clarified that there were two issues. Going forward, the Chairman stated his belief that the Commission could request multi, tri-party agreements to address the information access issue, but he cautioned against unilaterally changing what is already in place, and identified the need for a clear legal framework.

Dr. Pritchett noted his concern with creating a precedent that would allow any Commissioner to permit his or her staff access to confidential matters relating to the Commission.

Mr. Giobbe asked if it was possible to isolate what the Treasurer's obligations are under the law, and what he considers to be his duties separate from other Commissioners, so that a solution be found to resolve the issues raised. Ms. Shealy advised that while it is possible for the Commission to construct something to allow very specific exemptions, staff would need specific guidance on what type of information, exactly who would have access, and what role and purpose, if any, those individuals would have in the process going forward.

Mr. Williams opined that there are two important factors to the issue. One is related to information and who has access to it. Each Commissioner has equal access to all of the information. Mr. Williams stated that the question concerns under what circumstances third parties have access to the Commission's information. Mr. Williams added that state law dictates third parties have access to the RSIC's information by way of the State FOIA law. This gives Commission staff a chance to review the information to see if it is considered confidential or not, disclosable or not, and within a certain number of days, that information either goes out or does not. If there is a dispute about what to release, the dispute can be brought to the Commission, and resolved by people with fiduciary responsibility.

In response to a question from Chairman Gillespie, Ms. Shealy confirmed that Deloitte is bound contractually by confidentiality provisions and breach of those provisions would subject them to potential liability. Ms. Shealy added that from a contractual standpoint, the RSIC, and ultimately the trust funds, would bear the potential liability for breach of any confidentiality provision in any of the RSIC's agreements.

Mr. Williams continued with his assessment of the issues. He stated that the Treasurer's duties are identical to the duties of the other Commissioner's, except the Treasurer cannot, under State law, be elected Chairman. Mr. Williams added that the Treasurer, as custodian, has ministerial duties which are to disburse and retrieve the trust's funds as instructed. Mr. Loftis took exception to this description. Mr. Williams suggested that the focus should be on what information the custodian needs to be satisfied that he has been properly instructed what to do, given (i) the Commission's approval of an investment and (ii) evidence from the Chairman or CIO that all formalities post-Commission approval have been complied with. Accordingly, Mr.



Williams suggested that the Commission should not expand third party access to the information, except to the extent necessary for the Treasurer to perform his custodial duties. Mr. Williams further suggested letting staff determine what level of information is needed, and then report back to the Commission for a decision on what should or should not be provided to third parties in order for the custodial duties to be performed.

Additional discussion ensued. After expressing concern about the recently concluded closing of a Commission investment via the Lighthouse platform, Mr. Loftis stated that unless he is provided with the custody arrangements and third party service agreements for new fundings, he will not authorize any new fundings. Mr. Williams stated that Mr. Loftis would be in breach of his fiduciary duty if he arbitrarily stops the funding process. Mr. Loftis took issue with this assertion.

In response to a question from Mr. Giobbe, Ms. Shealy summarized for the Commission the processes followed after closing on an investment to complete initial funding, and insure the honoring of subsequent funding requests (capital calls). Chairman Gillespie also described additional funding processes relating to strategic partnerships.

In response to a question from Chairman Gillespie, Ms. Shealy provided further information regarding Deloitte's contractual obligations to maintain the confidentiality of information provided by the RSIC. Ms. Shealy also provided additional information regarding confidentiality provisions with NEPC. Ms. Shealy advised that the primary concern for the Commission as fiduciaries and as the entity that has exclusive authority over, and responsibility for, the trust funds' investments should be to maintain confidentiality of information that could potentially, if disclosed intentionally or inadvertently, jeopardize the portfolio, achievement of investment objectives, and implementation of the annual investment plan.

Mr. Williams made a motion to direct the RSIC staff to continue discussions with the STO to determine what the STO's requirements are regarding the sharing of information necessary to properly discharge its duties with regard to the trust funds, present it to the Chairman, who shall either approve it or report back to the Commission for further impressions. Mr. Giobbe seconded the motion for discussion. Mr. Powers opined that he would like a date to be set for purposes of coming to closure on this issue, and suggested the next Commission meeting in May as the deadline. Mr. Williams accepted the amendment to his original motion. The amended motion carried unanimously.

Mr. Jordan reported that all of the Commissioners' requests for Staff and projects are logged on the extranet for review, and are updated weekly.

## **VII. INVESTMENT ITEMS**

Mr. Harper began discussions on the AIP approval, reminding the Commissioners that the first draft of the AIP had been presented at the Commission's February 2012 meeting, but a vote on the document was tabled until the asset allocation had been discussed and approved. Mr. Harper noted that the asset allocation had recently been approved and the Commission needed to adopt an approved AIP by May 1, 2012. Mr. Harper reviewed additional proposed changes to the first draft of the AIP, including globally changing "CEO" to "Director of Operations", and restoring a reference to the South Carolina Private Equity program, as instructed by the Commission. Mr. Harper stated that a plan for managing equities internally had been added to the current draft of the AIP, and clarified that Staff will develop a plan for managing equities

internally, and propose the plan to the Commission for review. In response to a question from Mr. Giobbe, Mr. Harper agreed that managing equities internally would most likely require the hiring of additional staff, but the staffing amount would depend on several factors, including (i) the extent to which the Commission desired to utilize internal management and (ii) the number of external managers that would need to be covered. Mr. Harper observed that if the Commission keeps the current number of external managers, then additional staff will definitely be needed to manage an internal equity program.

Mr. Harper noted that for clarification purposes and as requested by Mr. Williams, the revised AIP contains a table that compares the prior AIP to what is included in the new AIP. Mr. Harper clarified that for American Timberlands, there will not be a separate timber allocation created. Rather, this investment will be taken up within the real estate allocation. Mr. Harper added that this manager's benchmark would remain the NCREIF timber index.

Mr. Harper discussed a change in the AIP as it relates to the South Carolina private equity program. He stated this change allows partners such as Azalea, Carousel, Greystar, and other regionally focused managers to have South Carolina co-investments if approved and in accordance with investment guidelines and policies approved by the Commission. Both Mr. Harper and Mr. Giobbe stated that any investment dedicated to South Carolina or the Southeast must be as good, if not better, than any other investment we make. Mr. Powers opined that having the AIP specifically reference investment opportunities in the Southeast or the State of South Carolina is not in the best interest of the retirees, emphasizing that the Commission's responsibility is to make the best investments regardless of location. Mr. Williams voiced his agreement with Mr. Powers. Mr. Harper clarified for the record that the Commission does not currently have an active program specifically dedicated to South Carolina investments.

Mr. Harper summarized additional proposed changes to the current AIP, and reminded the Commission that the AIP must be approved by May 1, 2012 and would become effective July 1, 2012. Mr. Powers made a motion to approve the AIP as presented, which was seconded by Mr. Williams. 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 D).

Mr. Harper presented the Performance and Asset Allocation Review. He first reviewed the Asset Allocation Summary document, noting that it compared existing allocations to the policy targets, both in percentage terms and dollar amounts. Mr. Harper reported that Staff continues to be cautiously optimistic with respect to the US recovery. He added that the equity markets in the US have performed well fiscal year-to-date compared to the non-US equity markets.

Mr. Harper reported that Staff has moved \$250 million from global fixed income and about \$50 million from emerging market debt. He stated that total liquidity (cash and short duration fixed income) is close to 11 percent, or \$2.7 billion, and assets were estimated to be \$25.4 billion as of April 6, 2012.

Mr. Harper reviewed the flash reports with the Commission. For the three month period, the equity market returns were very strong, with most developed market indices up 10 to 11 percent, while emerging markets were up 16 percent. The credit markets registered weaker, but positive, returns. Mr. Harper added that hedge funds are up two percent fiscal year-to-date,

versus the benchmark which was down four percent. Multi-asset class strategies have returned 838 basis points fiscal year-to-date versus the benchmark return of 114 basis points. Opportunistic credit underperformed with respect to the blended benchmark fiscal year-to-date.

Mr. Powers requested that the RSIC private markets team conduct an analysis of the Avenue Strategic Partnership and report their findings at the Commission's May meeting.

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

After a 10 minute break, discussion recommenced with an update from NEPC regarding its strategic partnership review. Mr. Harper reminded the Commissioners that NEPC had been asked to review all of the strategic partnerships, with a focus on the private market funds component. Mr. Harper asked Mr. David Barnes of NEPC to provide the update. Mr. Barnes reported that NEPC is providing a summary report on the 25 private equity/private debt funds and six private real estate funds within the strategic partnerships. The summary report will include a review of each organization, the general partner or the strategic partnership organization, as well as the investment management firms; a summary review of the fund terms associated with the investments; identification of risks; and performance expectations as well as performance related to peer groups. Mr. Barnes advised that NEPC will also provide summary reports relating to each of the strategic partnership limited partnership agreements.

Mr. Barnes reviewed the timetable for completion of the review, and stated that NEPC is on target to meet all of the delivery dates. Several of the reports should be available at the Commission's May meeting. Responding to a question from Mr. Loftis, Mr. Barnes explained that the delivery date for the Morgan Stanley strategic partnership was at the end of August because the partnership encompasses a very large number of underlying investments, and because many of the underlying funds were in liquidation.

Responding to a request from Mr. Powers, Mr. Harper agreed to show the strategic partnership returns gross of fees and net of fees.

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

The Commission then took up staff's investment recommendations. Mr. Dave Klauka presented staff's recommendation regarding Blackstone Real Estate Partners Fund VII, and stated that the fund is a continuation of the investment team's efforts to build out the real estate portfolio. Blackstone is considered an opportunistic manager, and is able to invest capital into properties that need to be either refurbished or improved, build those properties up to the point where they would be considered core properties, and then sell them either to a strategic buyer, pension fund, or another investor who is looking to invest in core property. Mr. Klauka stated that this investment is considered higher risk, with potentially higher rewards.

After Mr. Klauka summarized the key points relating to the investment, a motion was made by Mr. Giobbe to approve an investment not to exceed \$150 million in Blackstone Real Estate Partners Fund VII, 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 staff, to implement the investment. Mr. Williams seconded the motion. 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 G).

Mr. Klauka presented staff's recommendation regarding Torchlight Capital, which is currently in the process of raising Debt Opportunity Fund IV. Mr. Klauka advised that the Commission was an investor in Opportunity Fund III. Mr. Klauka added that Torchlight invests in a broad range of real estate, including Commercial Mortgage Backed Securities ("CMBS"), and stated that this strategy complements the other investments that have been made as part of the real estate debt manager search.

Mr. Klauka summarized the key points relating to the investment, and explained the fee structure in detail, in response to questions from Messrs. Powers and Williams. After further discussion, a motion was made by Mr. Giobbe, and seconded by Mr. Williams, to approve the investment of \$75 million in the Torchlight Capital Debt Opportunity Fund IV. After additional discussions, Mr. Giobbe amended his original motion. The amended motion was to approve an investment in Torchlight Capital Debt Opportunity Fund IV not to exceed \$75 million, or 20 percent of the total committed capital of the fund, 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 staff, to implement the investment. Mr. Williams seconded the motion, which 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 H).

Mr. Klauka presented staff's recommendation regarding Sankaty Credit Opportunities Fund V. Mr. Klauka stated Sankaty is a corporate distressed debt fund, and advised that the Commission previously committed \$200 million to Sankaty Credit Opportunities Fund IV. Mr. Klauka noted that staff recommended reducing the commitment to \$50 million for Fund V. Mr. Klauka added that Sankaty is the credit arm of Bain Capital, which focuses on distressed debt, with \$15 billion of assets under management.

Mr. Klauka summarized the key points relating to the investment in Sankaty, and after further discussions, Mr. Powers made a motion to approve an investment not to exceed \$50 million in Sankaty Credit Opportunities Fund V, 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 staff, to implement the investment. Mr. Williams seconded the motion, which 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 I).

Mr. Harper recognized Mr. Phillips to present two hedge fund recommendations. Mr. Phillips first presented staff's recommendation regarding Kildonan Castle Partners. Mr. Phillips stated that Kildonan is an emerging manager with a promising global credit opportunity fund, and indicated that the Commission would be one of the initial Founding Class investors in this fund. Mr.

Phillips specified that Kildonan' score focus is fundamental corporate credits. Mr. Phillips noted that staff is recommending a total commitment of \$100 million, to be invested in quarterly allocations of \$25 million each over the next year, assuming that the manager continues to attract capital and perform well. Mr. Phillips reviewed how the fund would fit into the current hedge fund portfolio, and provided extensive background information on the fund manager and the due diligence process conducted by staff and NEPC.

Following an in-depth discussion, Mr. Williams made a motion to approve an investment not to exceed \$100 million in Kildonan Castle Partners, to be invested in quarterly allocations of \$25 million each over the next year, contingent upon the growth of the fund and the manager's performance 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 staff, to implement the investment. Mr. Giobbe seconded the motion. After further discussions, 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 J).

Mr. Phillips presented staff's recommendation regarding Highbridge Quantitative Commodities Fund ("HBQC"). He noted that the firm has \$27 billion in assets under management. HBQC would be an active, core manager in the portfolio's Commodities/Real Assets allocation. Mr. Phillips stated that there were four components to the HBQC strategy, and provided information on each component. Key points include: well-established, institutional-quality manager and fund with a long track record; successful risk management; unique implementation of both fundamental and qualitative perspectives; a respected portfolio manager and a strong team. Mr. Phillips also summarized the risks associated with the Highbridge investment, and discussed pros and cons associated with the fact that the firm is owned by JP Morgan.

Mr. Powers made a motion to approve an investment not to exceed \$105 million in the Highbridge Quantitative Commodities Fund, 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 staff to implement the decision. Mr. Williams seconded the motion. Further discussions ensued. Chairman Gillespie called the question. 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 K).

Mr. Harper provided the Commission with an update regarding Tradewinds. He reminded the Commissioners that Tradewinds was an EAFE manager which had been approved for investment by the Commission along with Johnston and Earnest. Mr. Harper noted that during the contracting phase with Tradewinds, a significant portion of the firm's senior investment staff departed to join a hedge fund. Therefore, Mr. Harper noted that staff recommended that the Commission not proceed with an investment with Tradewinds, and terminate immediately. It was also noted that NEPC concurred with this recommendation.

Mr. Powers made a motion, which was seconded by Mr. Williams, and passed unanimously, to not fund Tradewinds.

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

Mr. Klauka presented an informational item regarding Nexus Partners, a private equity manager. Mr. Klauka reminded the Commissioners that at its November 2011 meeting, the Commission requested that staff complete due diligence on Nexus and report back to the Commission. Mr. Klauka stated that Staff and NEPC conducted an onsite due diligence meeting with Nexus Partners at their office in Quincy, Massachusetts. Mr. Klauka advised that after engaging in the meeting and reviewing the information that was provided, it was concluded that there were some concerns regarding Nexus, and it would not be in the Commission's best interest to move forward. Chairman Gillespie provided additional background information on Nexus Partners and a South Carolina-based firm which Nexus had invested in. Chairman Gillespie also noted that he and Dr. Pritchett met with Nexus Partners about two years ago. Chairman Gillespie also noted that staff and the Commission have, for a number of years, grappled with questions as to whether the Commission should make direct investments into companies. Following further discussions, Dr. Pritchett made a motion, which was seconded by Mr. Williams, and passed unanimously, to take no further action regarding a potential investment with Nexus Partners.

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

#### **VIII. EXECUTIVE SESSION TO DISCUSS INVESTMENT MATTERS PURSUANT TO SC CODE §9-16-80 AND §9-16-320**

Mr. Loftis made a motion to recede to executive session to discuss investment matters. The motion passed with Messrs. Giobbe, Loftis, Williams, and Chairman Gillespie voting in favor of the motion, and Mr. Powers voting against the motion. Chairman Gillespie announced that the Commission would meet in executive session for the purpose of discussing investment matters that could affect the Portfolio, and the Commission receded into executive session.

#### **IX. ADJOURNMENT**

There being no further business, the meeting adjourned at 3:00 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 15<sup>th</sup> Floor Conference Room at 1201 Main Street, Columbia, SC, at 2:25p.m. on April 16, 2012.]