South Carolina Retirement System Investment Commission
Meeting Minutes

September 20, 2012

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

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

Others present for all or a portion of the meeting on Thursday, September 20, 2012:
Mike Addy, Geoff Berg, Jonathan Boyd, Betsy Burn, Andrew Chernick, Harris Chewning, Sarah Corbett, Louis Darmstadter, Dori Ditty, Robert Feinstein, Brenda Gadson, Hershel Harper, Monica Houston, Adam Jordan, Lorrie King, David Klauka, Doug Lybrand, James Manning, Bryan Moore, Heather Muller, Jared O'Connor, David Phillips, Kathy Rast, Eric Rovelli, Nancy Shealy, Tim Stevenson, Sondra Vitols, Nicole Waites, Brian Wheeler, and James Wingo from the South Carolina Retirement System Investment Commission; Bill Leidinger, Bill Condon, Clarissa Adams, Brian DeRoy, Mike McDermott, and Shakun Tahiliani from the State Treasurer's Office; David Barnes, Richard Charlton, Rhett Humphreys, and John Krimmel, from NEPC, LLC; Suzanne Bernard, Brady O'Connell, Karen Rode, and Stephen Cummings from Hewitt EnnisKnupp, Inc.; Derek Legette from The Nerve, Stephen Largen from The Post and Courier; Wayne Pruitt from the State Retirees Association; Jane LaPorte from Huseby.com; Craig Bardo from Broad River Asset Management; and Matt Iovanina.

I. CALL TO ORDER

Chairman Reynolds Williams called the meeting of the South Carolina Retirement System Investment Commission ("Commission" or "RSIC") to order at 9:15 a.m. Chairman Williams referred to the proposed meeting agenda and asked for a motion to approve. Mr. Allen Gillespie made a motion, which was seconded by Mr. William Blume and passed unanimously, to approve the agenda as presented. Mr. Curtis Loftis was not present for the vote.

Chairman Williams referred to the draft minutes from the April 18, 2012 Commission meeting and asked for a motion to approve. Dr. Travis Pritchett made a motion, which was seconded by Mr. James Powers and passed unanimously, to approve the minutes from the meeting on April 18, 2012. Mr. Loftis was not present for the vote.

Chairman Williams referred to the draft minutes from the May 17-18, 2012 Commission meeting and asked for a motion to approve. Mr. Powers made a motion, which was seconded by Dr.

Pritchett and passed unanimously, to approve the minutes from the meeting on May 17-18, 2012. Mr. Loftis was not present for the vote.

Mr. Loftis arrived at the meeting. Discussion ensued regarding the proposed regular meeting dates of the Commission for 2013. In response to a question by Chairman Reynolds Williams, Mr. Adam Jordan, Acting Chief Executive Officer, advised that the meeting originally scheduled for November 15, 2012 had been rescheduled to November 8, 2012. Mr. Jordan added that additional ad hoc meetings could be scheduled as deemed necessary by the Commission.

After further discussion, Mr. Edward Giobbe made a motion, which was seconded by Mr. Powers and passed unanimously, for the Commission to adopt the proposed regular meeting dates for the remainder of 2012 and for Calendar year 2013 as set forth in the Staff Memorandum to the Commission dated September 11, 2012.

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

Mr. Hershel Harper, Chief Investment Officer ("CIO"), began the introductions of newly hired Commission staff ("Staff"). Mr. Harper introduced Mr. Eric Rovelli, Senior Real Estate Officer, who had worked most recently at the Arizona State Retirement System; Mr. Bryan Moore, Senior Private Markets Officer, who had worked most recently at the Pennsylvania State Employees Retirement System; Mr. Louis Darmstadter, Senior Private Markets Officer, who joined Staff from the Ohio Public Employees Retirement System; Dr. Sondra Vitols, Director of Fixed Income Strategies, who had worked most recently at Clark University and The D.E. Shaw Group; and Mr. Tim Stevenson, Director of Risk Management, formally with Wells Capital Management. Mr. Harper advised the Commission that Mr. Stevenson replaced the position formally held by Dr. Gary Li.

Mr. Jordan introduced Mr. Jon Rychener, Director of Investment Reporting and Performance, who worked most recently with Neuberger Berman, a large asset management firm in New York where he was the Director of Reporting and Analytics. Mr. Jordan added that Mr. Rychener had earned an MBA from Notre Dame University.

Mr. Gillespie introduced Ms. Monica Houston, Internal Audit and Compliance Officer, who had experience as a senior-level professional both in external and internal audit, most recently with Delta Airlines where she was responsible for financial controls, both related to its pension plan and their fuel hedging program. Mr. Gillespie added that Ms. Houston is a certified public accountant.

Mr. Gillespie also introduced Mr. Andrew Chernick, Director of Internal Audit and Compliance, and stated that Mr. Chernick's previous experience was most recently in operational risk management and compliance at Stanford Management Company, which is Stanford University's endowment fund. Mr. Gillespie advised that Mr. Chernick is a graduate of the University of California in Santa Barbara, where he majored in economics with an emphasis in accounting.

Chairman Williams welcomed the new Staff and stated that the Commission could feel proud of the talent of all Staff members.

Chairman Williams stated that each Commissioner should have received the annual required Disclosure of Material Interest Form to review for accuracy, sign, and return to Ms. Nancy Shealy, General Counsel.

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

II. CHAIRMAN'S REPORT

After introductory remarks, Chairman Williams advised that the Commission had the responsibility per its Governance Policies to select the chairmen of the Audit and Budget Committees. Mr. Loftis made a motion, which was seconded by Mr. Powers and passed unanimously, that Mr. Gillespie be appointed as the Chairman of the Commission's Audit Committee.

After discussion, Mr. Powers made a motion, which was seconded by Mr. Gillespie and passed unanimously, that Mr. Loftis be appointed as the Chairman of the Commission's Budget Committee.

Mr. Jordan presented the budget update for Fiscal Year 2013-2014 and stated that the preliminary budget request reflected a baseline approach to mitigating some of the operational risks identified in the September 2011 Risk Assessment that had been conducted by Deloitte & Touche, LLP ("Deloitte"). Mr. Jordan reminded the Commission that the preliminary budget request was due at the State Budget Division the following day; however, the Commission could provide additional recommendations or modifications at a later date. Mr. Jordan provided a history of the RSIC budget and additional background on how the current budget projections had been calculated. Mr. Jordan turned the Commission's attention to the incremental needs that had been identified for fiscal year 2014, including ancillary services available through the custody bank and the creation of an in-house hosted server system, which would become critical as the reporting and analytic systems were created. Mr. Jordan added that the 2014 budget request reflected the addition of 12 full-time employees ("FTEs"), including seven additional FTEs in investments and five additional FTEs in operations. Mr. Jordan stated that the investment staff additions would include three officers, three analysts, and one director, and the operations staff additions would include three officers in reporting and investment analytics, one position in information technology, and one budget analyst position. Mr. Jordan advised that these additions would bring the total to 47 FTE positions, which were necessary to mitigate operational and investment function risk factors as noted by Deloitte in their Risk Assessment. Mr. Jordan concluded his discussion by addressing additional budget considerations, which included internal asset management, fund administrator services, a more robust risk platform, and third party valuation services.

After further discussion, Mr. Loftis made a motion, which was seconded by Mr. Powers, for the Commission to adopt the Commission's preliminary budget request for the fiscal year commencing July 1, 2013 and ending June 30, 2014 (the "preliminary FY 2013-14 budget") as presented, and direct that the following actions be taken:

- Staff shall submit the preliminary FY 2013-14 budget to the State Budget Division on September 21, 2012, in accordance with the Governor's Office's requirements relating to submission of the Governor's Executive Budget; and

- The Budget Committee is hereby authorized and delegated to approve the submission of a revised budget proposal for FY 2013-14 consistent with the information that Staff presented to the Commission on September, 20, 2012. The revised budget proposal for FY 2013-14 shall not exceed the maximum dollar amount and number of Full Time Equivalent positions noted in Staff's presentation to the Commission on September 20, 2012, without approval by the full Commission.

Further discussions ensued. Mr. Powers voiced his concerns regarding the recommendation of adding 12 FTE positions for the new fiscal year. Mr. Powers stated that he would like the Commission to administer the budget process similar to a corporation instead of a public entity. Following additional discussions, the motion before the Commission relating to the budget request for Fiscal Year 2013-2014 passed unanimously.

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

III. INVESTMENT ITEMS

Mr. Harper provided an update on performance of the total portfolio ("Portfolio") and reviewed the net of fee returns as of June 30, 2012. Mr. Harper stated that the Portfolio outperformed the policy benchmark calendar year-to-date for the three- and five-year periods. Mr. Harper added that overall plan returns for Fiscal Year 2012 were 37 basis points ("bps"), versus a policy benchmark of 57 bps. Mr. Harper explained the differences between the returns provided by Bank of New York Mellon and New England Pension Consultants, LLC ("NEPC"), and stated that NEPC collected data for an additional 30 days after the month end. Mr. Harper reported that during the first half of the fiscal year, the markets were volatile due to issues surrounding the downgrading of the government and credit ratings from AAA to AA-plus and sovereign debt issues throughout Europe. Mr. Harper advised the Commission that the second half of the fiscal year brought slight improvements to economic conditions on a global basis, noting that lowered interest rates also typically led to higher asset prices. Mr. Harper stated that diversification of the Portfolio with long-term returns in mind was important to protect the Portfolio of the South Carolina Retirement Systems ("Retirement System") in a volatile market, and he discussed the Portfolio's average exposure for different asset classes relative to the policy benchmark.

Mr. Harper reported that current initiatives Staff had been focusing on for the past six months included: (1) the Investment Consultant Request for Proposal ("RFP"), (2) the Contact Management System ("CMS") RFP, (3) the custody RFP, (4) mitigating the operational risk as identified by the Deloitte Risk Assessment, (5) completing the items recommended by the Internal Audit Committee, (6) finalizing the strategic partnerships review with NEPC, and (7) filling vacant employment positions.

Mr. Harper advised the Commission of additional initiatives that Staff would address in the future related to Portfolio structure and implementation including: (1) conducting an asset allocation study, (2) implementing higher conviction ideas, (3) increasing transparency and control, (4) reviewing and evaluating the strategic partnerships, and (5) exploring internal management possibilities.

Mr. Harper also advised the Commission of additional initiatives that Staff would address in the future related to process and oversight enhancements, which would include: (1) monitoring more closely adherence to the Commission's Governance Policies and responding to requests for information in a timely manner, (2) assessing the Portfolio with the investment consultant as if the Portfolio was being allocated starting from cash, (3) continuing to improve the investment and operational due diligence processes, (4) continuing to create or enhance operational systems for reporting and information delivery, (5) further development of confidentiality parameters and document security processes, (6) increasing the risk management staff, (7) further integration of the Lighthouse Palmetto Strategic Partnership risk platform, and (8) development of private market and data management tools.

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

Mr. Harper stated that at the July 19, 2012 meeting, a motion was passed that prohibited contracts from being finalized until each Commissioner had a minimum of 30 days to look at all final documents. Mr. Harper added that the Johnston International Growth Equity contract was near finalization, and Advent International GPE VII, LP ("Advent"), the TA Realty Fund X, LP ("TA Realty"), and the SJC Onshore Direct Lending Fund II, LP ("SJC II") were investment recommendations for approval at today's meeting.

Mr. Geoff Berg, Director of Opportunistic Strategies, reviewed the Portfolio performance report for June 30, 2012, including performance, policy benchmark returns, total value added, net cash outflows at the plan level, and active managers' performance. Mr. Berg reported that all stock indices were down during the second quarter, while domestic equities were down 3.5 percent, and international stocks were down 8.1 percent for the quarter. Mr. Berg added that real estate was the best performing asset class for the full year and was up 2.7 percent for the quarter. Mr. Berg stated that while hedge funds were down 50 bps for the quarter, they were up almost two percent for the fiscal year. Mr. Berg reported that the GTA risk parity portfolio had outperformed during the quarter by 250 bps and over nine percent for the full fiscal year. Mr. Berg added that the fixed income portfolio saw positive returns from core fixed and global fixed managers, but emerging market debt and high-yield managers struggled for the quarter. Mr. Berg reported that small/mid cap equity managers once again outperformed the benchmarks, as did emerging market managers, which had outperformed the benchmark by slightly more than four bps for the quarter. Mr. Berg stated that private equity had a positive return for the quarter, up 2.7 percent, and opportunistic credit was up 1.67 percent, which was about 44 bps ahead of its benchmark. Mr. Berg noted that the real estate portfolio was just beginning to come through the J-curve, yet it was the best performing asset class during the quarter, up 2.68 percent.

Mr. Berg also reviewed the estimated exposure summary as of September 11, 2012, and provided the private markets exposure and performance for the fiscal year. He explained that the summary provided the vintage year for each fund, the type of strategy, the dollar amount that had been committed, called, was available to be called, and had been distributed.

Mr. Harper recognized Mr. Rhett Humphreys, Partner with NEPC, for the Quarterly Investment Performance Analysis as of June 30, 2012. Mr. Humphreys reviewed the one-, three-, and five-- year returns, noting that in every year, the actual policy index return had been greater than the strategy index return. Mr. Humphreys reported on the Portfolio risk return for three years ending June 30, 2012, noting that the annualized return per year over the three-year period was 10.9 percent, and the annualized standard deviation had been 8.22 percent. He reviewed the Portfolio performance detail, noting that during the three-year period, the domestic equity portfolio return was 19.5 percent, and the global asset allocation portfolio averaged 13.7 percent versus the benchmark of 5.1 percent.

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

Mr. Harper recognized Mr. Dave Klauka, Director of Private Markets, who recommended that the Commission adopt the motion to authorize a commitment of $50 million to an investment with Advent International ("Advent"), pursuant to an exemption requested by Dr. Pritchett regarding the 30-day review period prior to closing. Mr. Klauka stated that this commitment would tie into the overall strategy to continue to pursue top quality managers in the buyout space for private equity and to maintain the diversification across the U.S. and Europe. Mr. Klauka referred to the meeting materials and discussed various aspects of Advent and the proposed investment. He advised the Commission that Advent was founded in 1984 and was a global private equity firm with three separate fund strategies. The first strategy focused on the U.S. and Western Europe, the second focused on Eastern Europe, and the third focused on Latin America. Mr. Klauka added that Advent recently completed a major overhaul in its limited partnership reporting and accounting systems, which offered investors greater transparency, as well as compliance with the Institutional Limited Partners Association ("ILPA") reporting standards. Mr. Klauka stated that Advent specialized in five key industries with deep-sector expertise, and they pursued differentiated companies in each of these sectors that were more likely to be overlooked or ignored by other private equity firms. Mr. Klauka reported that Advent had consistent performance, solid organizational growth, proper conduct, a proven investment process, and appropriate risk-mitigating policies and procedures in place. Dr. Pritchett echoed Mr. Klauka's remarks, provided additional information about Advent's operations and investment strategy, and spoke in favor of the investment with Advent.

After further discussions, Dr. Pritchett made a motion, which was seconded by Mr. Loftis and passed unanimously, for the Commission to adopt the recommendations of Staff as presented, to authorize the commitment of an amount not to exceed $50 million to Advent International GPE VII, LP, to approve the exception requested by Commissioner Pritchett in his email and letter dated September 8, 2012 regarding the minimum 30-day review period prior to closing, and to authorize the Chairman or his designee to negotiate and execute any necessary documents to implement the investment as approved by the Commission upon approval for legal sufficiency by the Commission's legal counsel ("Legal Counsel").

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

Mr. Harper recognized Mr. Rovelli, who stated that the RSIC's Internal Investment Committee recommended that the Commission commit to an investment of $75 million with TA Associates Realty ("TA Realty"), specifically in The Realty Associates Fund X, and he noted that the Fund's final closing date was anticipated in March 2013. Mr. Rovelli reported that the Fund's strategy was to invest in assets which may include global market occupancy with good fundamentals, and below-market rents in supply constrained markets with potential repositioning or distressed ownership. Mr. Rovelli added that TA Realty was an experienced investment manager that had invested $6.8 billion in nine funds since 1982 including 579 assets. He stated that TA Realty was a long-term investor and that their average hold period of seven years was longer than most typical value-add managers. Mr. Giobbe spoke in favor of and recommended the investment with TA Realty.

Following additional discussions, Mr. Giobbe made a motion, which was seconded by Mr. Powers and passed unanimously, for the Commission to adopt the recommendation of the Internal Investment Committee as presented, to authorize the commitment of an amount not to exceed $75 million to The Realty Associates Fund X, LP, and to authorize the Chairman or his designee to negotiate and execute any necessary documents to implement the investment as approved by the Commission (1) upon approval for legal sufficiency by Legal Counsel, and (2) upon expiration of the minimum 30-day review period by the Commissioners as adopted by the Commission on July 19, 2012.

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

Mr. Harper recognized Mr. Jared O'Connor, Private Markets Officer, who recommended that the Commission commit to an investment of $50 million with Czech Asset Management ("CAM") in its SJC Onshore Direct Lending Fund II, L.P. ("SJC II"). Mr. O'Connor stated that the purpose of this recommendation was to maintain the direct lending exposure as current investments wind down and to potentially increase exposure to the direct lending strategy. Mr. O'Connor added that as of June 30, 2012, the Portfolio's private debt exposure was approximately $2.2 billion, representing about 8.6 percent of the Portfolio versus the 8.5 percent target set by the Annual Investment Plan ("AIP"). Mr. O'Connor stated that approximately $215 million of the total $2.2 billion was from three direct lending funds, all of which were at or near the end of their investment periods and would begin returning significant distributions. Mr. O'Connor stated that SJC II's strategy was focused on senior secured direct lending to companies with approximately $75 million to $500 million of annual revenues, and $7.5 million to $50 million of Annual Earnings before Interest, Taxes, Depreciation, and Amortization ("EBITDA"). Mr. O'Connor added that SJC II was not levered, and returns were generated from commitment fees and floating rate cash coupons. Mr. Giobbe spoke in favor of the investment with CAM and provided a synopsis of the key aspects of the firm and the proposed investment.

Following additional discussion, Mr. Giobbe made a motion, which was seconded by Mr. Powers and passed unanimously, for the Commission to adopt the recommendations of the Internal Investment Committee as presented, to authorize the commitment of an amount not to exceed $50 million to the SJC Onshore Direct Lending Fund II, L.P., and to authorize the Chairman or his designee to negotiate and execute any necessary documents to implement the investment as approved by the Commission (1) upon approval for legal sufficiency by Legal Counsel, and (2) upon expiration of the minimum 30-day review period by the Commissioners as adopted by the Commission on July 19, 2012.

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

Mr. Harper recognized Mr. David Phillips, Director of Equity Strategies, to present information regarding the Lighthouse Commodity Series Fund ("Lighthouse Fund"), a prospective investment for the Lighthouse Partner's Platform. Mr. Harper stated that the presentation was for informational purposes only. Mr. Phillips provided a review of the activities in the Portfolio's commodity space over the last year and the current versus prospective Portfolio. Mr. Phillips stated that the Lighthouse Fund would optimize the return opportunity from commodities by enhancing Beta and Alpha strategies, with a Beta policy range of 0.25 to 0.75 relative to the Dow Jones UBS Commodity Index. Mr. Phillips added that the Lighthouse Fund would have an active allocation across 10-20 managers and would provide full transparency to the Commission. Mr. Phillips stated that there were two initial exceptions in the Lighthouse Fund due to complexity of the strategy and capacity restrictions. Mr. Phillips advised that there would be a dynamic management approach with the Lighthouse Fund implementation, including collaborative monitoring, reporting, and allocation decisions, Lighthouse Partners performance and risk reporting, a dedicated Lighthouse Partners commodity team, and monthly portfolio reviews with Staff. Mr. Phillips stated that the fee structure for the Lighthouse Fund would be a blended rate of a management fee of 45 bps, which would be a blend of the 35 and 65 bps for the relative or respective beta and alpha managers. Mr. Phillips advised that in conjunction with Staff, Lighthouse Partners would be fully responsible for the highest level of advisory services for due diligence and active management of the sub-advisor allocations.

Further discussions ensued. Mr. Loftis made a motion, which was seconded by Mr. Powers and passed unanimously, that the implementation of the Lighthouse Fund commodity strategy through the Lighthouse Partner's Platform be delayed until after the Commission's November 2012 meeting.

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

Mr. Harper provided a brief presentation on converting current commingled investment structures into separately managed accounts and discussed some of the benefits, including: (1) custody of underlying assets, (2) transparency for the Commission, (3) avoiding issues with poor limited partner behavior, and (4) better risk controls. Mr. Harper stated that some of the considerations included: (1) direct transaction costs, (2) custody and administration expenses, (3) management fees and a minimum account size, and (4) closed strategies.

After additional discussions, Mr. Loftis made a motion, which was seconded by Mr. Powers and passed unanimously, for Staff to recommend a course of action for converting current commingled investment structures into separately managed accounts and to report back to the Commission.

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

Mr. Harper introduced the agenda item relating to the Internal Investment Management Proposal to the Commission and deferred to Mr. Powers for remarks. Mr. Powers stated that he had been a proponent of internal investment management since the Commission's inception, but that he also understood the resource constraints and costs associated with implementation. He explained his rationale for internal investment management, noting that it would take several years to implement, and said that if the consensus of the Commission was to move forward, the Budget Committee would need direction so they could determine the level of additional resources needed in the budget.

Mr. Harper provided a matrix of transitioning from passive investment management with less complexity and cost, to active management with higher complexity, compliance, and oversight.

Mr. Harper reviewed the estimated annual fees for external management, focusing on equity allocations and core fixed income investments, noting that fees were approximately $21 million for 14 external equity and fixed income managers currently. Mr. Harper also reviewed a preliminary estimate of expenses to convert to internal equity management, stating that the infrastructure expenses and hiring of additional personnel would total approximately $5 million, so it was estimated that Staff could manage passive equity investments internally for approximately 25 percent of current costs of external management fees. Mr. Harper provided a hypothetical comparison of fee savings versus impact on returns between passive and enhanced management and between active and enhanced management, and he advised the Commission that a conversion from external to internal management would be a phased-in approach and would be dependent upon budget approvals and additions to Staff. In summary, Mr. Harper stated that a conversion to internal management would require a commitment and upfront cost, but if executed properly, the savings could be greater each year.

The Commission discussed various aspects of implementing an internal investment management program, including staffing, compliance, and budget issues, and Mr. Powers renewed his request for direction so that the Budget Committee could begin its analysis. Chairman Williams asked if there were any objections, and there being none, Mr. Harper said that Staff would move forward with its analysis but not implementation of the Internal Investment Implementation program.

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

IV. INVESTMENT CONSULTANT FINALIST PRESENTATIONS

Dr. Pritchett recognized representatives from Hewitt EnnisKnupp, Inc. ("HEK"), a finalist in the general investment consultant search. He introduced Ms. Suzanne Bernard, Partner, and Ms. Bernard introduced her team: Mr. Stephen Cummings, President and Chief Executive Officer; Mr. Brady O'Connell, Partner; and Ms. Karen Rode, Partner and Head of Global Private Equity. Ms. Bernard stated that if HEK was selected by the Commission, she and Mr. O'Connell would be the lead consultants for the engagement. Ms. Bernard advised that HEK had over 65 professionals dedicated to investment manager research and 65 professionals globally that focused on asset liability studies, risk management, and investment policies. Ms. Bernard also stated that HEK had a global asset allocation team that focused on market forecasting.

Ms. Bernard discussed HEK's interpretation of the Commission's investment consultant needs, which included a seasoned consultant team, manager expertise across all asset classes, innovative research capabilities, proven experience with large public pension plans, and the ability to serve as an "extension" of Staff.

Mr. Cummings stated that there were four characteristics that distinguished HEK from other investment consultants: (1) transparency, (2) education, (3) efficiency, and (4) iconoclastic innovation.

Following a question and answer period with HEK's representatives, Chairman Williams thanked HEK for their presentation.

Chairman Gillespie introduced Mr. Rhett Humphreys, Managing Partner with NEPC, for their investment consultant presentation. Mr. Humphreys introduced Mr. Richard Charlton, Chairman and founder of NEPC, who listed the strengths of NEPC including: (1) demonstrated performance results through effective implementation of active, passive, and alternative asset mandates, (2) a research-driven process focused on alternative and innovative strategies, and (3) informed innovation.

Mr. Charlton introduced Mr. John Krimmel, Partner with NEPC, who provided a brief history of his credentials, noting that he had served as the lead alternative consultant for the Commission's account per their request.

Mr. David Barnes, Senior Consultant with NEPC, introduced himself and provided his background information. Mr. Barnes stated that he was part of the team that conducted the strategic partnership reviews, and he was well positioned to assist the Commission in reviewing any recommended changes to the Portfolio.

Following a question and answer period with NEPC's representatives, Chairman Williams thanked NEPC for their presentation.

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

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

Mr. Blume made a motion, which was seconded by Mr. Gillespie and passed unanimously, to recede to executive session to discuss investment matters pursuant to S.C. Code Ann. §9-16-80 and §9-16-320 relating to strategic partnerships, and to discuss negotiations and matters incident to a proposed contractual arrangement for general investment consulting services.

Chairman Williams announced that the Commission would meet in executive session for the purpose of discussing investment matters and matters incident to a proposed contractual arrangement for general investment consulting services. The Commission receded into executive session.

The Commission reconvened in open session, and Chairman Williams announced that no action was taken by the Commission during executive session.

Mr. Powers made a motion, which was seconded by Mr. Gillespie and passed unanimously, for the Commission to retain Hewitt EnnisKnupp, Inc., as the Commission's general investment consultant for an initial term beginning October 1, 2012 and to authorize the Chairman or his designee to negotiate and execute any necessary documents to implement the Commission's decision within the limits discussed by the Commission and upon approval for legal sufficiency by Legal Counsel.

Chairman Williams stated that the Commission had enjoyed a very successful relationship with NEPC and that the decision to retain HEK as the Commission's investment consultant was not a reflection on NEPC's resources, skills, capabilities, or integrity. Chairman Williams thanked NEPC for their assistance and guidance with the Commission's diversification of assets, asset allocation, and strategic planning.

Chairman Williams welcomed HEK and stated that the Commission was excited to receive new viewpoints, skills, and different ideas.

VI. AUDIT COMMITTEE REPORT

Mr. Gillespie announced that the Audit Committee and Commission had received the audit report from Deloitte, and he asked Mr. Chernick to provide further details. Mr. Chernick provided a history of the Deloitte engagement and advised the Commission that the audit report included three main scopes: (1) valuation, (2) due diligence, and (3) cross trades. Mr. Chernick stated that Deloitte reviewed the policies and procedures that had been in place regarding these topics, conducted interviews with the investment and legal Staff to gather additional information, and conducted a walk-through of the Commission's internal controls that were in place at the time of Deloitte's engagement.

Mr. Chernick outlined the findings from the Deloitte report relating to external manager due diligence and stated that Deloitte found that procedures outlined in the due diligence guidelines had not been consistently followed, documentation of compliance had not been consistently maintained, and the ongoing due diligence procedures had not been formalized. Mr. Chernick stated that Deloitte recommended that the Commission and/or Staff revise, adopt, and implement formal initial due diligence guidelines and develop, adopt, and implement formal ongoing due diligence guidelines, including operational due diligence. Deloitte also suggested that adherence to due diligence guidelines should be confirmed by a party independent of those conducting the due diligence prior to presentation of an investment recommendation to the Commission. Mr. Chernick stated that initial due diligence guidelines had been revised, and a template had been issued and reviewed by the CIO. Mr. Chernick added that the investment Staff would follow the revised due diligence guideline template, which captured the Deloitte recommendations and "best practices" in the area of due diligence, and the template would be reviewed by an independent party. Mr. Chernick stated that Staff was also working on implementing the CMS system, which when implemented, would help the investment and compliance Staff by ensuring appropriate document retention, allowing for an audit trail, and maintaining institutional knowledge if there was turnover within the Commission's Staff.

Mr. Chernick stated that recommendations from Deloitte included developing, adopting, and implementing procedures that would allow management to better understand and monitor investment managers' pricing methodology. Mr. Chernick advised the Commission that the investment Staff would embed this ongoing monitoring of valuation procedures into the due diligence process and would require investment managers to supply Staff with their valuation policies and procedures.

Mr. Chernick stated that the Deloitte audit report suggested that procedures and controls to mitigate the risk inherent in cross-trades did not currently exist, and Deloitte recommended developing, adopting, and implementing formal procedures that would identify cross-trades and allow for appropriate valuation of the transactions. Mr. Chernick reported that Staff had embedded a cross-trade section within the trade allocation and trade flow review into the due diligence process.

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

VII. POLICIES

Mr. Robert Feinstein, Chief Legal Officer, presented a revised draft of the Placement Agency Policy that was first presented at the Commission's May 2012 meeting. Mr. Feinstein highlighted the policy changes that were suggested by the Commission and Staff following the first presentation of the policy.

Mr. Gillespie made a motion, which was seconded by Mr. Powers and passed unanimously, for the Commission to:

- Adopt the Placement Agent Policy;
- Add the Placement Agent Policy to the RSIC's Statement of Investment Objectives and Policies ("SIOP"); and
- Reaffirm the SIOP, as amended.

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

Ms. Dori Ditty, Legal and Policy Counsel, explained that draft amendments to the Commission's Governance Policies had been distributed for review and stated that there was no action requested at this time. She advised that the majority of the proposed changes were due to new legislation, the bifurcation of the former CEO/CIO position's duties into the CIO and Director of Operations structure, and technical amendments. She provided examples of suggested modifications, including additional information about the rules of order and procedures in the Commission Operations Policy and additional information from the State Ethics Act in the Commissioner Roles and Responsibilities Policy.

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

VIII. COMMISSION INFORMATION REQUESTS OF COMMISSIONERS

Chairman Williams stated that he had made an information request of another state agency and had not received the information. Chairman Williams asked the will of the Commission if he should submit a Freedom of Information Act ("FOIA") request for this information on behalf of himself, or on behalf of the Commission. It was the consensus of the Commission for Chairman Williams to submit a FOIA request on behalf of the Commission if it was information relevant to the duties and responsibilities of the Commission.

IX. DIRECTOR OF OPERATIONS SEARCH

Chairman Williams reported on the Director of Operations search process and stated that at the last meeting, the Commission voted to restart the search using the Office of Human Resources ("OHR"). Chairman Williams reported that after the last Commission meeting, OHR advised that they would post the Director of Operations position through the e-recruitment process, separate the applications into three categories, and provide written documentation of the qualified applicant pool. Chairman Williams stated that the review would be limited to, and based solely on, the information contained in the applications, and OHR would not conduct reference checks or verify application content. Chairman Williams added that OHR recognized the Commission's unique ability to determine qualified applicants for the position and expected the Commission to conduct an independent evaluation and form conclusions based on the evaluations. Chairman Williams stated that he was seeking the will of the Commission if it was agreeable for Staff to identify finalists, complete the applicant reference checks, and perform other administrative functions relating to the search.

Following further discussions, Mr. Powers made a motion, which was seconded by Mr. Blume and passed, for the Commission to:

- Engage OHR to post the Director of Operations position, and complete the processes stated in OHR's letter dated August 24, 2012;
- Engage the search committee to determine a list of qualified applicants for telephone or personal interviews; and
- Engage the Audit Committee staff to complete the necessary administrative functions.

It was noted that Mr. Loftis abstained from voting.

X. CONFIDENTALITY AGREEMENTS

Mr. Feinstein stated that Chairman Williams asked Staff to illustrate the types of confidentiality provisions found in the Commission's investment contracts so that the Commissioners could gain a better understanding of these provisions and related issues. Mr. Feinstein referred to a chart which summarized 14 of the Commission's existing direct investment contracts and introduced Ms. Betsy Burn, Senior Legal Counsel, to provide additional details. Ms. Burn stated that the chart included: (1) the asset class, (2) the definition of "confidential" from each contract, (3) whether or not the information had to be labeled as confidential to qualify as such, (4) permitted users of information, (5) whether or not the Commission had discretion to define or designate who would have access to confidential information based on the language of the Limited Partnership Agreement ("LPA"), the side letter, and the subscription agreement, and (6) side letter provisions as applicable when the Commission modified the definition of what would be confidential to comply with FOIA requests and reporting requirements. Ms. Burn provided the Commission with a synopsis of the efforts that had been made to date and the future review plans. Mr. Feinstein stated that reviewing each contract would be a time and resource-intensive project.

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

XI. PROPOSED CHANGES TO FUNDING PROCEDURES

Mr. Harper provided a summary of the proposed changes to funding procedures and stated that the reason for the procedural changes was to have multiple signatures when funds were being moved, specifically for out-of-bank assets. Mr. Harper reviewed several areas of concern with the funding procedural changes and stated that there were some very technical issues that needed to be addressed. Mr. Harper reported that these issues had already impacted the Commission's and Staff's investment ability. The Commission directed Staff to work with the State Treasurer's Office ("STO") to resolve any remaining issues. Mr. Harper stated that Staff would also work with Bank of New York Mellon to provide a clear definition of the STO's requirements with respect to the movement of funds and any technical corrections with the previous letter of authorization.

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

XII. PERFORMANCE INCENTIVE COMPENSATION APPROVAL

Chairman Williams recognized Mr. Jordan for discussion of the agenda item relating to Performance Incentive Compensation. Mr. Jordan stated that the compliance report for the fiscal year ended 2012 had been completed by NEPC and that the Portfolio had been invested within the approved ranges as defined in the Annual Investment Plan ("AIP"). Mr. Jordan provided background information related to the redesigned Performance Incentive Compensation Plan ("PIC"), which was approved at the March 23, 2012 Commission meeting. He reviewed key points of the PIC, which included a revised higher degree of performance to qualify for the maximum payout, a sliding scale from 0 to 50 bps, and a formulated quantitative approach that would weigh the payout in favor of long-term investment results. Mr. Jordan reiterated that the PIC was only available to the investment Staff, not to the operations or administrative Staff, and the strategy and policy benchmark component had been replaced with the policy benchmark exclusively. He added that the maximum performance incentive opportunity for investment Staff was expressed as a percentage of base salary, varying by position. Mr. Jordan explained that analysts were eligible to receive up to 60 percent of base salary, officers up to 80 percent, and directors, the CIO, and deputy CIO up to one hundred percent. He stated that the relative outperformance of the policy benchmark for the one-, three-, and five-year periods were used to calculate the total maximum allowable amount, and the actual payout amount was scaled down accordingly on a linear scale.

Mr. Jordan reported that the total PIC payout for Fiscal Year 2012 would be $621,000, which was before the Commission for approval.

After further discussion, Dr. Pritchett made a motion, which was seconded by Mr. Gillespie and passed, for the Commission to:

- Approve and deem NEPC's Fiscal Year 2012 Compliance Report and the supporting documentation as acceptable for purposes of the Commission's Compensation Policy;

- Authorize both (i) the aggregated Performance Incentive Compensation amount and (ii) the CIO's Performance Incentive Compensation payment as presented in the supporting documentation provided in the meeting materials; and

- Direct Staff to take all steps necessary to effectuate disbursement of the Performance Incentive Compensation payments, consistent with the Compensation Policy.

It was noted that Mr. Loftis abstained from voting.

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

XIII. ADJOURNMENT

There being no further business, the meeting adjourned at 5:28 p.m.

[Staff Note: In compliance with S.C. Code Ann. §30-4-80, public notice of and the agenda for this meeting were delivered to the press and to parties who requested notice and were posted at the entrance, in the lobbies, and near the 15th Floor Conference Room at 1201 Main Street, Columbia, SC, on September 18, 2012.