South Carolina Retirement System Investment Commission
Meeting Minutes

April 23, 2013

17th 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
Dr. Travis Pritchett
Mr. David Avant

Others present for all or a portion of the meeting on Tuesday, April 23, 2013:
Geoff Berg, Betsy Burn, Andrew Chernick, Louis Darmstadter, Dori Ditty, Robert Feinstein, Hershel Harper, Monica Houston, Adam Jordan, David Klauka, Doug Lybrand, James Manning, Jared O'Connor, Darry Oliver, David Phillips, Kathy Rast, Nancy Shealy, Lorrie Smith, Danny Varat, and Brian Wheeler, from the South Carolina Retirement System Investment Commission; Bill Leidinger, Bill Condon, Clarissa Adams, Brian DeRoy, Mike McDermott, David Padgett, and Shakun Tahiliani from the State Treasurer's Office; Suzanne Bernard from Hewitt EnnisKnupp, Inc.; Nadine Garrett from Creel Court Reporting; Tammy Nichols and Faith Wright from the Public Employee Benefit Authority; Don Tudor, Wayne Bell, Wayne Pruitt, and Sam Griswold from State Retirees Association of South Carolina; and Christine Williamson from Pensions and Investments(via telephone).

I. CALL TO ORDER AND CONSENT AGENDA
Chairman Reynolds Williams called the meeting of the South Carolina Retirement System Investment Commission ("Commission") to order at 10:03a.m. Chairman Williams asked if there were any objections to the proposed meeting agenda. Hearing none, the agenda was approved as presented.

II. APPROVAL OF MINUTES
Chairman Williams referred to the draft minutes from the November 8, 2012, January 11, 2013, February 28, 2013, and March 28, 2013 Commission meetings, and asked for a motion to approve. Mr. Edward Giobbe made a motion, which was seconded by Mr. David Avant, to approve the Commission meeting minutes from the November 8, 2012, January 11, 2013, February 28, 2013, and March 28, 2013 Commission meetings. Discussion ensued. Mr. Curtis Loftis made a motion, which was seconded by Mr. Allen Gillespie, to amend the motion so as to adopt the minutes from the November 8, 2012, January 11, 2013, and February 28, 2013 Commission meetings, and carry over the minutes from the March 28, 2013 Commission meeting to be considered at the next meeting. The Commissioners concurred, and the motion as amended passed unanimously.

III. CHAIRMAN'S REPORT
Chairman Williams provided a brief update regarding the matter presented to the South Carolina Supreme Court. He noted that the Commission had filed a lawsuit to cause the funding of the

South Carolina Retirement Systems Group Trust's ("Retirement System" or "SCRS") investment in the Warburg Pincus Private Equity XI, L.P, the investment had been funded after the lawsuit was filed but before the Supreme Court heard the case, and the Supreme Court had deemed the action moot. Chairman Williams expressed the hope that this situation would not come up again.

Chairman Williams reminded the Commissioners that Dr. Travis Pritchett, the Commission's retiree representative member, had submitted a letter of resignation to be effective June 30, 2013, or until his successor is appointed by the Commission and qualifies. Chairman Williams issued a formal call for nominations to fill the vacancy in the retiree representative member position on the Commission, asked Commission staff ("Staff") to notify stakeholder groups and post notice of the vacancy on the Commission's website, and requested that all nominations be submitted by May 16, 2013. Chairman Williams also noted that a nominee must be approved by all of the voting members of the Commission.

There was discussion regarding additional methods of advertising the vacancy. In response to a question, Mr. Avant volunteered to post notice of the vacancy on the Public Employee Benefit Authority's ("PEBA") website. The Chairman then concluded his report.

IV. CIO'S REPORT

Mr. Hershel Harper, Chief Investment Officer ("CIO"), provided a performance update, noting that as of February 28, 2013, fiscal year-to-date returns were 9.6 percent versus the policy benchmark's return of 7.8 percent.

Mr. Harper provided brief introductory remarks regarding the asset allocation and benchmark proposals that had been developed by Staff and the Commission's investment consultant, Hewitt EnnisKnupp, Inc. ("HEK"). He reminded the Commissioners that, at the Commission's February 28, 2013 meeting, HEK had presented an asset liability study, which included recommended changes to the Commission's asset allocation and benchmarks, and noted that Staff and HEK had worked for a number of months in developing the analysis and recommendations that were now before the Commission for approval. Mr. Harper then asked Ms. Suzanne Bernard of HEK to provide a summary of the recommended asset allocation changes, benchmarks, and rebalancing ranges for fiscal year 2013-2014. Ms. Bernard stated that HEK's recommended asset allocation was similar to the Commission's current asset allocation. She noted that HEK recommended that global equity be viewed as a single asset class, rather than having separate allocations to US stocks, non-US stocks, and emerging market equity, to allow a broader framework for the equity portfolio. Ms. Bernard reported that additional asset allocation changes included recommendations to: (i) increase the real asset category, predominately because of an increased allocation to real estate; (ii) lower the hedge fund allocation from 17 percent to a dedicated hedge allocation of eight percent; (iii) end the portable alpha overlay; and (iv) set a maximum of 15 percent for hedge funds across all asset classes. Ms. Bernard advised that HEK suggested lowering the diversified credit allocation by 1.5 percent, expanding the mixed credit component of diversified credit to include loans, and slightly lowering the private debt component of this allocation.

Ms. Bernard advised that HEK defines alternatives as private equity, private debt, opportunistic credit strategies, real estate, commodities, and hedge funds. Ms. Bernard stated that the Commission's allocation to alternatives is sufficiently well diversified to mitigate risk. In response to questions from the commissioners, Ms. Bernard stated that HEK is working with Staff to create a definitional framework for determining what strategies would be categorized as hedge funds. Ms. Bernard suggested creating a list of five to eight criteria that would be used to define a hedge fund. HEK and Staff will provide additional information to the Commission regarding hedge funds.

Ms. Bernard confirmed that compared to the average public pension fund, the Retirement System's portfolio has a great deal of liquidity despite having a slightly higher allocation to illiquid investments.

Ms. Bernard reviewed the recommended rebalancing ranges. She noted that, while the portfolio had not tested the minimums and maximums of the existing ranges, HEK recommended tightening the rebalancing ranges across all asset classes. Ms. Bernard explained HEK's risk management rationale for these recommended changes, including setting asymmetric rebalancing ranges for global equity and conservative fixed income. The tight upper limit on global equity of 45% is intended to limit the portfolio's risk exposure, as is the floor of 10% on conservative fixed income.

Ms. Bernard reviewed the benchmarks which HEK and staff recommended using, highlighting the suggested changes. Discussion ensued regarding several of the proposed benchmarks, as well as benchmarking the plan's actual performance against both the policy benchmark and peers. Ms. Bernard stressed the importance of focusing on whether the proposed asset allocation will meet the SCRS trust fund's needs and requirements.

Throughout Ms. Bernard's report, there was discussion relating to aspects of the recommended asset allocation, benchmarks and rebalancing ranges. Topics discussed included the following:

1. The SCRS trust fund's liabilities – There was discussion regarding the importance of keeping the SCRS trust fund's funded status and benefit obligations in mind in developing asset allocation recommendations.
2. Peer comparisons - Ms. Bernard reviewed a peer universe study of 125 funds conducted by the National Association of State Retirement Administrators ("NASRA"), and reported that approximately 60 percent of the funds surveyed had a higher funded status than the SCRS trust fund, while 40 percent were comparable or lower. Ms. Bernard stated that approximately 83 percent of the funds surveyed by NASRA used a higher return assumption than the 7.5 percent assumption presently utilized for the SCRS trust fund. She also noted that approximately 20 percent of the funds surveyed had a higher allocation to return-seeking assets, while 45 percent were similar.
3. Reporting – There was discussion regarding the reporting that will be provided to the Commissioners regarding compliance with the new asset allocation targets and components, as well as rebalancing ranges. Ms. Bernard indicated that HEK's reports should provide the Commissioners with a basis for evaluating these matters.

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

Mr. Harper turned the discussion to the Annual Investment Plan ("AIP") for Fiscal Year 2013-2014. He noted that the AIP must be submitted to the Commission no later than April 1, 2013, and adopted by the Commission no later than May 1, 2013, and he described Staff and HEK's objective of focusing the AIP on goals and plans that Staff would work to achieve over the coming fiscal year, while the Statement of Investment Objectives and Policies ("SIOP") would contain the longer-term objectives and policies of the Commission. There was extensive discussion of the proposed changes to the AIP and SIOP.

As a result of the discussion, two amendments were proposed to the AIP. The first amendment was proposed to clarify the relationship between the AIP and the SIOP. It was proposed that the purpose section of the AIP proposed by Staff (p. 3) be amended to provide that "*The purpose of the AIP is to provide a formal document for investing and managing the Retirement System's assets to achieve the Commission's investment objectives and mission as stated in the SIOP,* ***which is incorporated herein."***

A second amendment was proposed to add the word "new" to Section III of the AIP entitled "Investment Strategies and Transition", so as to clarify that "*The Strategic Partnerships follow a similar approval process for each investment, which requires that each* ***new*** *investment undergo due diligence by the investment manager and RSIC Staff…"*

Mr. Gillespie made a motion, which was seconded by Mr. Avant, for the Commission to adopt the recommendation of the CIO, approve the AIP for FY 2013-14 with the two amendments noted above, and authorize Staff to finalize the AIP by making any technical revisions or formatting edits consistent with the action taken by the Commission. Mr. Harper reminded the Commission that the AIP and the SIOP can be amended at any point in time after approval. The motion passed by a vote of 4-1, with Chairman Williams, Dr. Pritchett, Mr. Gillespie and Mr. Giobbe voting for the motion, and Mr. Loftis voting against the motion. While Mr. Powers was not present for the Commission meeting, it was noted that Mr. Powers had expressed his support via email for approval of the AIP for FY 2013-14.

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

Discussion turned to the approval of the proposed revisions to the SIOP presented by Staff and HEK. One amendment was proposed to be made to the SIOP to clarify that review of the asset allocation and compliance therewith will be done by Staff at least quarterly. Mr. Gillespie made a motion, which was seconded by Mr. Avant, to adopt the recommendation of Staff and HEK, approve the proposed revisions to the SIOP, with the amendment noted above, and authorize Staff to finalize the SIOP by making any technical revisions or formatting edits consistent with the action taken by the Commission. The motion passed by a vote of 4-1, with Chairman Williams, Dr. Pritchett, Mr. Gillespie and Mr. Giobbe voting for the motion, and Mr. Loftis voting against the motion.

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

Mr. Giobbe made a motion, which was seconded by Mr. Gillespie, to adopt the asset allocation, benchmark and rebalancing ranges recommended by Staff and Hewitt EnnisKnupp, as set forth in the proposed revisions to the Commission's Statement of Investment Objectives and Policies; direct that the approved benchmarks and asset allocation be incorporated into, and made a part of, the SIOP; and authorize Staff to finalize the benchmark and asset allocation data by making any technical revisions or formatting edits consistent with the action taken by the Commission. The motion passed by a vote of 4-1, with Chairman Williams, Dr. Pritchett, Mr. Gillespie and Mr. Giobbe voting for the motion, and Mr. Loftis voting against the motion.

V. COO'S PRELIMINARY ASSESSMENT

Mr. Darry Oliver, Chief Operating Officer, provided his preliminary assessment of aspects of the organization based on his observations during the first two months of his tenure. Mr. Oliver stated that he had met with Commissioners, Staff, service providers, and stakeholders to obtain their perspective on key issues and challenges facing the Commission. He applauded the Commission's leadership for recognizing that improvements in processes and procedures were desired, and noted some of the steps taken to date, including engaging Deloitte & Touché LLP to conduct a risk assessment in 2011. Mr. Oliver acknowledged the progress made by the Commission in implementing improved processes and procedures and indicated this trend will continue. He advised that additional technology and resources are needed to ensure continued process improvement, and this will be budget-dependent. Mr. Oliver stated that he was impressed with Staff's expertise, dedication and loyalty.

Mr. Oliver commented that he had focused a large amount of his time on reacting to emergencies and crises, and stressed the importance of working together with the State Treasurer's Office to increase the level of trust and open communication.

Mr. Oliver opined that the Commission and Staff need to communicate more effectively with stakeholders, and educate the public regarding the people, processes, mission, and values of the Commission.

Chairman Williams thanked Mr. Oliver for his comments.

Mr. Giobbe advised that he is deeply concerned and alarmed by the continued adversarial relationship between the Commission and Mr. Loftis, and informed the commissioners that without a resolution of the conflict between the Commission and Mr. Loftis in the next 30 days, he will resign as a member of the Commission effective May 31, 2013.

VI. EXECUTIVE SESSION

Chairman Williams stated that an issue had arisen for which he thought the Commission should retire to executive session to receive legal advice from its counsel, and made a motion for the Commission to go into executive session to receive legal advice from its counsel. The motion was seconded by Mr. Giobbe and passed by a vote of 4-1, with Chairman Williams, Dr. Pritchett, Mr. Gillespie and Mr. Giobbe voting for the motion, and Mr. Loftis voting against the motion. Chairman Williams announced that the Commission would meet in executive session for the purpose of receiving legal advice from its counsel, and the Commission thereupon receded into executive session.

Mr. Loftis left the meeting during executive session.

The Commission reconvened in open session, and Chairman Williams reported that no action was taken by the Commission while in executive session. He said that there was a matter to be addressed in open session, whereupon Mr. Gillespie made a motion, which was seconded by Dr. Pritchett and passed unanimously, for the Commission to ratify the hiring of external legal counsel and the legal action commenced by the Commission related to the investment in Warburg Pincus Private Equity XI, L.P., and related funding and custody issues.

VII. ADJOURNMENT

Mr. Gillespie made a motion to adjourn, which was seconded by Dr. Pritchett and passed unanimously. The meeting adjourned at 5:17 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 17th Floor Conference Room at 1201 Main Street, Columbia, SC, at 9:05 a.m. on April 22, 2013.]