South Carolina Retirement System Investment Commission
Meeting Minutes

September 26, 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.
Dr. Rebecca Gunnlaugsson
Mr. Allen Gillespie
Dr. Travis Pritchett
Mr. David Avant

Others present for all or a portion of the meeting on Thursday, September 26, 2013:
Geoff Berg, JP Boyd, Josh Brade, Betsy Burn, Alexander Campbell, Andrew Chernick, Sarah Corbett, Louis Darmstadter, Dori Ditty, Robert Feinstein, Brenda Gadson, Lorelei Graye, Joshua Greene, Hershel Harper, Adam Jordan, David Klauka, James Manning, Steve Marino, Bryan Moore, Weiyi Ning, Darry Oliver, David Phillips, Landry Phillips, Kathy Rast, Jon Rychener, Nancy Shealy, Lorrie Smith, Danny Varat, and Brian Wheeler from the South Carolina Retirement System Investment Commission; Clarissa Adams, Mark Boone, Daniel Brennan, Bill Condon, Wesley Hill, Bill Leidinger, David Padgett, Dinah Raven, and Shakun Tahiliani from the State Treasurer's Office; Suzanne Bernard and Brady O'Connell from Hewitt EnnisKnupp; Andrea Taylor from Creel Court Reporting; Tammy Nichols, John Page, and Faith Wright from the Public Employee Benefit Authority; Wayne Bell, Sam Griswold, Wayne Pruitt, and Donald Tudor from the State Retirees Association of South Carolina; Jack Kelchear from the Department of Employment and Workforce; Jennifer Hyler from the Senate Finance Committee; Seanna Adcox from the Associated Press; Dudley Blair, Retiree; and Ronald Wilder, Retiree.

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 9:00 a.m. Chairman Williams referred to the proposed meeting agenda and asked for a motion to approve. Mr. Edward Giobbe made a motion, which was seconded by Mr. Allen Gillespie and passed unanimously, to approve the agenda as presented.

Chairman Williams referred to the draft minutes from the May 23, 2013 Commission meeting and asked for a motion to approve. Dr. Travis Pritchett made a motion, which was seconded by Mr. Giobbe and passed unanimously, to approve the Commission meeting minutes from the May 23, 2013 Commission meeting.

II. CHAIRMAN'S REPORT

Chairman Williams welcomed Dr. Rebecca Gunnlaugsson as the Commission's newest member.

Mr. Curtis Loftis made a motion to ratify the appointment of Mr. Allen Gillespie as the Commission's representative to replace former Commissioner James Powers on the Board of Directors of CRT, and to authorize the Chairman, or his designee, to execute any documents on behalf of the Commission as may be required by CRT in connection therewith. Mr. Giobbe seconded the motion, which passed unanimously. Mr. Gillespie abstained from voting. RSIC staff ("Staff") was asked to provide the Commission with a list of all current board seats.

Chairman Williams stated that the Commission meeting schedule for 2014 had been posted on the Commissioner's secure website for review and advised that the schedule was subject to change.

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

Chairman Williams announced that the Commission had completed its annual self-evaluation, and summarized the results. The primary comments noted by the Chairman related to the need for attention to long-term and strategic planning, intra-commission relationships, and investment returns. Other comments made concerned reporting, asset allocation modeling, building out systems and infrastructure and monitoring risk. The Chairman noted that, in light of the feedback received, revised agenda and motion protocols had been developed and distributed to all commissioners. Other topics discussed included frequency and structure of Commission meetings.

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

Mr. Gillespie made a motion to ratify the assignment of Dr. Gunnlaugsson to the global equity manager search effective as of July 1, 2013. The motion was seconded by Mr. Giobbe and passed unanimously, with Dr. Gunnlaugsson abstaining from the vote.

III. AUDIT COMMITTEE REPORT

Mr. Gillespie reported that the Audit Committee recently reviewed and discussed the new federal swaps rules, and received several updates on the Deloitte Risk Assessment Dashboard. Mr. Gillespie summarized items which had been fully completed, as well as tasks which are still in process, including assessment of private market system needs and risk management functions. Mr. Gillespie reported that a risk management Request for Qualifications had been issued, and noted that a manager compliance questionnaire and certification had been completed and returned by all managers to whom the document was sent; and Annual Compliance Certification Reports had been received from all managers. Mr. Gillespie also noted that the Committee had discussed documentation of policies and procedures, rebalancing policy, and would be discussing a report on investment fees at its next meeting. In response to a question, Ms. Corbett noted that the plan was to audit 100 percent of the fees that are to be included in PEBA's financial statements this year.

IV. CIO'S REPORT

Mr. Hershel Harper, Chief Investment Officer ("CIO"), introduced Steve Marino, Investment Officer, and Justin Young, Investment Analyst, who were recently hired as full-time employees; Weiyi Ning, Senior Risk Management Officer; and Alexander Campbell, finance intern who is working with Mr. Adam Jordan on strategic partnerships. Mr. Harper noted that there were currently six open investment positions, consisting of three existing positions and three new positions.

Mr. Harper provided the Commission with an update regarding current asset class initiatives, including the following:

A. The restructuring of the global equity asset class, including portfolio construction for the US/developed EAFE portion, where a mostly passive implementation is planned, and emerging markets where active management will continue to be employed.
B. Global fixed income and core fixed income – Staff intends to recommend changes to certain of the manager guidelines.
C. Diversified credit - changes are planned to address existing overweight in several areas. Mr. Harper also noted slight existing, intentional underweight in emerging market debt.
D. Hedge funds – In keeping with the objectives of the Commission's current asset allocation, Staff continues to work on reducing hedge fund exposure and unwinding the portable alpha strategy.

Mr. Harper also noted the status of other initiatives, including internal management and research functions, including policy development with respect to derivatives policies, desktop procedures, soft-dollar management, broker selection policies, risk management, and operational risk. There was also discussion of the Russell overlay. Mr. Harper suggested that Russell be invited to the Commission's November 2013 meeting to review the history and purpose of the overlay.

Mr. David Phillips, Deputy Chief Investment Officer, provided a performance update for the quarter and fiscal year ending June 30, 2013. Mr. Phillips reported that for the fiscal year, the portfolio returned 9.99 percent, which was 186 basis points above the policy benchmark of 8.13 percent. Mr. Phillips noted that domestic and international public equity, private equity and real estate produced double digit returns, while opportunistic credit and emerging markets equity and debt produced strong single digit returns. Mr. Phillips noted that the lowest returns were from commodities and investment grade credit, including short duration fixed income. The trust funds paid net obligations of $985 million during the fiscal year, and earned approximately $2.2 billion in investment returns.

Mr. Phillips discussed a number of risk-related metrics relating to the portfolio's performance. He noted the decreasing plan volatility measured on a trailing three-year basis, resulting from both the market environment and lower risk profile over that period, as well as diversification efforts at the plan level, and indicated that equities accounted for 70.3 percent of the risk attribution at the plan level.

The performance update concluded with Mr. Brady O'Connell, consultant from Hewitt EnnisKnupp ("HEK"), adding additional comments regarding HEK's quarterly performance reports. Mr. O'Connell noted that U.S. equity exposure was a particularly important driver of returns and rankings in the very recent time periods, and discussed differences between the Commission's asset allocation and those of its peers. The total plan's three-year period rate of return ranked in the 88th percentile of the BNYMellon peer universe for U.S. public funds greater than $1 billion. However, when the rate of return is combined with the standard deviation or risk of the portfolio, the plan's returns were significantly higher, with the plan's Sharpe Ratio ranking 34th in the peer universe during the same three-year period. Performance during other time periods was also discussed, as were reporting-related matters.

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

Mr. Phillips provided a summary of the results of the hedge fund classification project that Staff and HEK had completed. In parts of the portfolio other than the dedicated hedge fund allocation, Mr. Phillips explained that three funds in the global equity category, nine funds in the mixed credit category, and one fund in the commodity category had been classified as hedge funds using the criteria collaboratively developed by Staff and HEK. Mr. Phillips then summarized the 'beta' classification of the funds that had been identified as hedge funds.

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

Mr. Harper turned to a discussion regarding amendments to the Statement of Investment Objectives and Policies ("SIOP"). Mr. Gillespie made a motion, which was seconded by Mr. Giobbe and approved unanimously, to adopt the recommendation of Hewitt EnnisKnupp and the CIO to amend the SIOP to clarify that the approved MSCI ACWI policy benchmark is measured on a total return net of dividends basis.

Following further discussion, Mr. Gillespie made a motion, which was seconded by Dr. Gunnlaugsson and approved unanimously, to adopt the recommendation of the CIO to amend the SIOP, Section IV Portfolio Implementation and Benchmark, by (1) inserting language to clarify that Staff's internal investment management authority currently included distribution management (that is, the management and/or disposition of in-kind distributions received from external investment managers or third parties, including but not limited to, proceeds of settlement of securities class actions or other litigation); and (2) authorizing Staff to make any technical revisions or formatting edits consistent with the action taken by the Commission.

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

Ms. Bernard of HEK summarized a memo which HEK had prepared clarifying the consultant's role in assessing potential new strategic partnership investments. Ms. Bernard stated that although HEK is a resource for evaluating the strategic partnerships' potential new investments, HEK does not serve in a formal approval role in evaluating these investments. In the unlikely event that HEK believed that Staff is going to move forward with an investment that HEK had material concerns about, HEK will contact the Commission's Chair and Audit Committee to discuss.

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

Staff presented two passive index global equity manager recommendations. Mr. Bryan Moore, Senior Investment Officer, presented recommendations that the Commission approve investments in both the BlackRock MSCI World Index Fund and State Street Global Advisors ("SSgA") MSCI World Index Fund of up to twelve percent of Total Plan Assets for each fund. In the ensuing discussion, a number of topics were covered, including the following:

(a) securities lending - it was noted that at this time, Staff was recommending that no securities lending be conducted by these managers, but discretion was being sought to permit the CIO to utilize these managers' securities lending options in the future;

(b) liquidity; valuation – Staff noted that these managers will be investing in very liquid securities in developed markets which are valued on a daily basis, so that there should be few impediments to exiting these investments; and

(c) waiver of manager-level concentration limits – Mr. Harper summarized the business case for waiving the 7.5 percent of assets, manager-level concentration limit for so-called "broad mandates" set forth in the SIOP.

It was also noted that Dr. Gunnlaugsson had participated in the due diligence review of the proposed investments and she supported Staff's recommendations.

Following further discussion, Mr. Giobbe made a motion, which was seconded by Dr. Gunnlaugsson and passed unanimously, to:

I. As to the BlackRock MSCI World Index Fund:

a. adopt the recommendation of the CIO and the Internal Investment Committee as set forth in the summary key terms chart on Page 1 of the Due Diligence Report dated September 26, 2013;
b. authorize an investment for the global equity mandate of up to twelve percent (12%) of Total Plan Assets into the BlackRock MSCI World Index Fund;
c. authorize the CIO, in his discretion, to utilize the manager's securities lending option for the MSCI World Index Fund;
d. authorize the Chairman or his designee to negotiate and execute any necessary documents to implement the Investment as approved by the Commission (1) upon documented approval for legal sufficiency by RSIC Legal Counsel, and (2) upon expiration of the review period, as adopted by the Commission on July 19, 2012 (or as the review period may be amended or superseded by the Commission);
e. authorize the Chairman and/or the CIO or their designee(s) to thereafter authorize the custodian of funds to transfer such funds as are necessary to meet the Retirement System trust funds' obligations with respect to the Investment; and
f. waive the manager level concentration limit for broad mandates of 7.5% as to BlackRock as currently set forth in the Statement of Investment Policies and Objectives, as amended and adopted on April 23, 2013; and

II. As to the SSgA MSCI World Index Fund:

a. adopt the recommendation of the CIO and the Internal Investment Committee as set forth in the summary key terms chart on Page 1 of the Due Diligence Report dated September 26, 2013;
b. authorize an investment for the global equity mandate of up to twelve percent (12%) of Total Plan Assets into the SSgA MSCI World Index Fund;
c. authorize the CIO, in his discretion, to utilize the manager's securities lending option for the SSgA MSCI World Index Fund;
d. authorize the Chairman or his designee to negotiate and execute any necessary documents to implement the Investment as approved by the Commission (1) upon documented approval for legal sufficiency by RSIC Legal Counsel, and (2) upon

expiration of the review period, as adopted by the Commission on July 19, 2012 (or as the review period may be amended or superseded by the Commission);

e. authorize the Chairman and/or the CIO or their designee(s) to thereafter authorize the custodian of funds to transfer such funds as are necessary to meet the Retirement System trust funds' obligations with respect to the Investment; and
f. waive the manager level concentration limit for broad mandates of 7.5% as to SSgA as currently set forth in the Statement of Investment Policies and Objectives, as amended and adopted on April 23, 2013.

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

Mr. Dave Klauka, Manager Research Managing Director, presented a recommendation for the Commission to approve an investment of up to $40 million in Industry Ventures Secondary VII, L.P. fund ("Main Fund") and an investment of up to $40 million in Industry Ventures Special Opportunities Fund II-A, LP ("Co-Invest Fund"), which invest in private equity by opportunistically buying fund interests from other investors on the so-called 'secondary' market. Messrs. Harper and Klauka noted that the day prior to the Commission's meeting, the manager of these funds had informed Staff that the Co-Invest Fund no longer had capacity due to investor demand (both the Main Fund and Co-Invest Fund had been oversubscribed), and the probability of the trust funds receiving any access to the Co-Invest Fund was very remote. The CIO and Mr. Klauka recommended proceeding with the recommendation to invest in the Main Fund, but giving the CIO discretion to decide whether to proceed with any commitment to the Co-Invest Fund, should any capacity become available in the latter. Mr. Klauka noted that the trust funds had invested in Industry Ventures' two prior funds.

It was also noted that Mr. Giobbe had participated in the due diligence review of the proposed investment, and he supported Staff's recommendation. Dr. Pritchett also offered a positive assessment of the manager.

Following further discussion, Mr. Giobbe made a motion, which was seconded by Dr. Pritchett regarding the investment. An amendment to the motion was proposed to address the aforementioned situation regarding the Co-Invest Fund. After the amendment was duly accepted, the Commission unanimously approved a motion to:

a. adopt the recommendation of the CIO and the Internal Investment Committee as set forth in the two summary key terms charts on Page 1 of the Due Diligence Report dated September 26, 2013;
b. authorize a commitment not to exceed $40 million to Industry Ventures Secondary VII, L.P.;
c. authorize a commitment not to exceed $40 million to Industry Ventures Special Opportunities Fund II-A, LP (collectively with Industry Ventures Secondary VII, LP "Investments"), with discretion delegated to the CIO as to the amount of the commitment, if any;
d. authorize the Chairman or his designee to make the election to be a Priority Return Electing Partner in Industry Ventures Secondary VII, LP to select a 6% preferred return and 17.5% carry arrangement, as set forth in the LPA and Priority Return Election Form.
e. authorize the Chairman or his designee to negotiate and execute any necessary documents to implement the Investments as approved by the Commission (a) upon documented approval for legal sufficiency by RSIC Legal Counsel and (b) upon expiration of the review

period, as adopted by the Commission on July 19, 2012 (or as the review period may be amended or superseded by the Commission); and

f. authorize the Chairman and/or the CIO or their designee(s) to thereafter authorize the custodian of funds to transfer such funds as are necessary to meet the Retirement System trust funds' obligations with respect to the Investments.

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

The meeting recessed at 11:31 a.m. and recommenced at 12:04 p.m.

V. COO'S REPORT

Mr. Darry Oliver, Chief Operating Officer ("COO"), briefed the Commission on personnel updates for the operations Staff. Mr. Oliver introduced Ms. Kathleen Shealy, Reporting Analyst, who was recently hired as a full-time employee, Mr. Joshua Greene, recently hired as a Reporting Analyst, and Mr. Landry Phillips, Investment Operations Intern.

Mr. Oliver provided an update regarding systems procurement for the current Fiscal Year 2014 approved budget and stated that Staff was diligently working on procuring reporting and back office systems and services. Mr. Oliver noted that the procurement process was lengthy and that RSIC had no procurement exemption for systems fundamental to its mission, unlike the procurement exemption granted for selecting external investment managers. Mr. Oliver gave an overview of staff efforts to obtain a Risk Management System, beginning with a Request for Qualifications ("RFQ") process that led to the selection of five qualified vendors who would now receive a Request for Proposal ("RFP") once the procurement office approved the RFP. Barring delays, Mr. Oliver said he expected an award for the Risk Management System by mid-December. Further, an RFP for a Private Markets Reporting System had been prepared and was waiting on approval by ITMO to be published. Mr. Oliver also noted that the staff had sent requests for information to a number of vendors for a possible administrator services search. Mr. Oliver also briefed the Commission on updates to the agency's public website and facility changes.

Mr. Oliver turned to a discussion regarding legal sufficiency certification and reported that three new documents had been put in place to address legal sufficiency. Mr. Oliver informed the Commissioners that one document will be signed at the beginning of the 30-day review period by RSIC Legal Counsel identifying the key terms approved by the Commission and addressing whether these terms had changed during contract negotiation. The second document will be signed at the end of the review period by RSIC Legal Counsel noting that all conditions for closing had been satisfied, and the third document will be a voucher and funding directive that would be signed by the Chairman and CIO and sent to the State Treasurer's Office ("STO"). Mr. Oliver noted that this revised process had been successfully used on two investments leading to smooth closings and fundings.

Mr. Oliver then presented Staff's recommendation regarding the Confidentiality and Nondisclosure Agreement ("NDA") that had been provided to the Commissioners. Mr. Oliver stated that the NDA would allow a principal to designate staff to review documents on his behalf under confidentiality terms. Mr. Oliver referred to the extensive list of due diligence and other related documents that would be provided under the NDA, and the intent of Staff to provide these earlier in the process. Finally, Mr. Oliver noted that printing of documents was now available and that STO had approved the NDA.

Chairman Williams made a motion, which was seconded by Mr. Giobbe and passed unanimously, that the Commission ratify and adopt the recommendation of the COO with regard to the Confidentiality and Nondisclosure Agreement and authorize the Chairman or his designee to execute copies of the NDA on behalf of the Commission, as required, retroactive to September 9, 2013 and going forward.

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

Mr. Oliver presented staff's recommended Commissioner Review Period Procedures which would modify the Commission's existing 30-day review period for new investments. Mr. Oliver provided detailed information regarding the changes proposed to be made to the 30-day review period. Mr. Oliver noted that the proposed process was more detailed than the Commission's current process, and should provide greater guidance to Staff and the Commission. Also, the time for document review was in fact being extended from current procedures due to the posting of due diligence materials prior to Commission meetings, such that the proposal was to have a 14-day period primarily to review the side letter. Following further discussion, Chairman Williams made a motion, which was seconded by Dr. Gunnlaugsson, for the Commission to adopt the recommendations of the COO with regard to revising the existing 30-day review period and thereby superseding its July 19, 2012 motion, and substituting in lieu thereof the Commissioner Review Period Procedures as presented. Mr. Loftis, while agreeing with the improvements in the procedures, requested a delay in further Commission action until the November 2013 commission meeting. Following further discussion, Chairman Williams withdrew his motion and announced that the discussion would be carried over to the November Commission meeting.

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

Mr. Oliver turned to a discussion regarding the Sourcing and Conflicts Disclosure Form. Ms. Dori Ditty, Legal and Policy Counsel, stated that the purpose of the Sourcing and Conflicts Disclosure Form was to show how the investment opportunity was brought to the Commission and to put in place a mechanism by which potential conflicts could be disclosed and reviewed by appropriate parties.

Mr. Gillespie stated that the Audit Committee recommended that the Commission (1) adopt the recommendation of Staff, and approve the Sourcing and Conflicts Disclosure Form and the instruction sheet (the "Sourcing and Conflicts Disclosure Materials"), in the form presented, including the mechanisms for disclosure and review of conflicts or potential conflicts; and (2) authorize RSIC Staff to make any necessary technical revisions or formatting edits to the Sourcing and Conflict Disclosure Materials consistent with the action taken by the Commission. Chairman Williams noted that because the Audit Committee had made the recommendation, a second was not required for the motion. The motion passed unanimously.

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

Mr. Oliver presented an overview of the Fiscal Year 2014-2015 budget proposal. Mr. Oliver provided historical background regarding budget requests for previous years. Mr. Oliver stated that the Fiscal Year 2014-2015 budget proposal requested funding for 11 full-time positions, including five outstanding requests from prior years and six new positions for growth, broken down by seven investment staff and four operations staff positions. Other requests included continuing to acquire desired reporting and back office systems; plans to engage a consultant to update the compensation study; modest rent increase for the space that RSIC is taking over from the South Carolina Department of Commerce; and a systems request including ancillary systems and services for risk, private markets, and performance analytics. Mr. Oliver advised the Commission that the proposed budget request reflected a 25 percent increase over the prior fiscal year (32 percent, excluding the proviso added by the General Assembly relating to the fiduciary audit expenses for FY 2014). Mr. Oliver noted that the budget request did not include fiduciary audit or custody expenditures.

Mr. David Avant made a motion, which was seconded by Dr. Pritchett, to authorize the COO to submit a proposed Fiscal Year 2014-2015 detail budget substantially similar to the draft budget presented for inclusion in the Governor's annual budget proposal. Following a lengthy discussion regarding custody costs and possible mechanisms for payment of the trust funds' custody costs once STO finalized the new custody contract, the motion was approved by a vote of 5-1, with Chairman Williams, Dr. Gunnlaugsson, 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 L).

Ms. Betsy Burn, Senior Legal Counsel, provided an update on the Tribune bankruptcy litigation, in which the South Carolina Retirement Systems Group Trust ("SCRS") was one of thousands of defendants named. Ms. Burn stated that the litigation had been stayed since it was initially filed, but it appeared that the stay may be lifted within the next few months, and it would be prudent to seek the Attorney General's approval to retain as associate counsel one of the firms which was already actively involved in representing other state pension plan defendants. Ms. Burn advised the Commission that the maximum amount of the claim the litigation trustee could pursue against SCRS was approximately $1-2 million.

Dr. Gunnlaugsson made a motion, which was seconded by Mr. Giobbe, for the Commission to adopt the recommendations of RSIC Legal Counsel and authorize the COO and RSIC Legal Counsel, at their discretion, to pursue retaining associate counsel as needed for representation in the Tribune bankruptcy litigation and authorize engagement of said counsel upon approval by the Attorney General. The motion was approved by a vote of 5-0. Mr. Gillespie abstained from voting.

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

Mr. Robert Feinstein, Chief Legal Officer, provided an update regarding securities class action litigation. He noted that the Commission's Securities Litigation Policy required quarterly reports to the Commission regarding the status of securities class action litigation related claims in which the Commission may be eligible to obtain a recovery, and actual recoveries collected. Messrs. Oliver and Feinstein advised the Commission that reports for the fiscal year ended June 30, 2013 had been posted to the Commissioner's secured website and that quarterly reports would be presented timely in the future. Mr. Feinstein summarized the reports that had been distributed relating to (a) all securities litigation related claims as of June 30, 2013 and (b) all recoveries that were collected for the portfolio during the fiscal year. He also reviewed the claims submission role played by BNYMellon. After a lengthy discussion, Mr. Feinstein concluded his report.

VI. PERFORMANCE INCENTIVE COMPENSATION APPROVAL

Mr. Oliver presented the proposed Performance Incentive Compensation ("PIC") payments for the fiscal year ended June 30, 2013. Mr. Oliver noted that the PIC plan applied to investment staff only and was spelled out in the Commission's Compensation Policy. Mr. Oliver reported that HEK had validated the returns and verified compliance with the Annual Investment Plan, as is required by the Compensation Policy. Further, the PIC calculation had been reviewed and verified by Internal Audit & Compliance Staff. Mr. Oliver stated that the proposed PIC payments totaled $1.4 million, payable to 14 investment Staff members.

Following additional discussion, Chairman Williams made a motion, which was seconded by Dr. Pritchett, for the Commission to: approve and deem HEK's Fiscal Year 2013 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. The motion passed by a vote of 5-1, with Chairman Williams, Dr. Gunnlaugsson, Dr. Pritchett, Mr. Gillespie, and Mr. Giobbe 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 N).

VII. RETIREE REPRESENTATIVE CANDIDATE INTERVIEWS

Chairman Williams announced that there were two retiree representative candidates who would be interviewed for the Commission's retiree representative member position, currently held by Dr. Pritchett. Chairman Williams reminded the Commission that appointment of the retiree representative required a unanimous approval of all voting commissioners. The Chairman noted that the Commission would deliberate in closed session, and take action on the nominees in the concluding open session.

Chairman Williams introduced Mr. Ronald Wilder as the first retiree representative candidate. Mr. Wilder provided his background and credentials to the Commission, and each Commissioner had an opportunity to ask Mr. Wilder specific questions related to his experience. Chairman Williams thanked Mr. Wilder for his interest in serving on the Commission.

Chairman Williams introduced Mr. Dudley Blair as the second retiree representative candidate. Mr. Blair provided his background and credentials to the Commission, and each Commissioner had an opportunity to ask Mr. Blair specific questions related to his experience. Chairman Williams thanked Mr. Blair for his interest in serving on the Commission.

VIII. QUESTION PERIOD RE: BNYM SETTLEMENT STATUS

Each Commissioner was given an opportunity to ask Mr. Loftis questions regarding the settlement of the Bank of New York Mellon ("BNYM") litigation (State of South Carolina vs. The Bank of New York Mellon (South Carolina Fifth Judicial Circuit, CA No. 2011-CP-40-00533)). Questions were asked regarding full accounting of legal fees; valuation for the settlement; and how much money would be returned to the SCRS. Mr. Giobbe asked Mr. Loftis to provide more information about the legal fees, and Mr. Loftis replied that they were in the settlement agreement. The Chairman said that he recalled that $9 million went to the lawyers, of which roughly $1 million went for costs and about $8 million to legal fees. The Chairman asked Mr. Loftis to explain how the legal fees were calculated, and Mr. Loftis replied that the legal fees were paid in accordance with the attorneys' retention agreement and were applied to the approximate $72 million valuation of the settlement. The Chairman asked Mr. Loftis to explain how the $72 million valuation was derived. Mr. Loftis stated that the valuation was comprised of $20 million to SCRS, $5.2 million to the State General Deposit Portfolio, $9 million in attorneys' fees and costs, and the remaining $38 million in estimated service credits and potential future savings on BNYM services. Per Treasurer Loftis, the $38 million in estimated service credits would be comprised of approximately $35 million apportioned to Hedgemark, approximately $2.5 million from the increased split in securities lending revenue, and $1.5 million in cash for training. He reiterated that the estimates were based on ranges of projected costs and that he was pleased with the settlement. The Chairman thanked Mr. Loftis for the explanation and for providing some figures that the Commission had not received before, and he requested that Staff review the valuation estimates provided by Mr. Loftis. Mr. Loftis asked if the Chairman thought that the attorneys should not have been paid, and the Chairman replied that he thought the lawyers did a good job, but if Mr. Loftis claimed the settlement had a $72 million value, then he should be able to explain in writing how it was calculated and that the retirees were entitled to that information. Further discussion ensued about the communication of the terms of the settlement. Mr. Loftis referenced the May 23, 2013 Commission meeting and stated that the Chairman had frustrated the communications, tried to force him to discuss the settlement in public, and overruled the Commission when it voted to discuss the settlement in executive session where all of the information could have been disclosed. The Chairman said that was not true; the minutes from the May 2013 Commission meeting did not reflect that there was a vote to go into executive session (to discuss the settlement) and that he could not and did not overrule a vote to go into executive session.

IX. EXECUTIVE SESSION

Dr. Gunnlaugsson made a motion, which was seconded by Chairman Williams and passed unanimously, to recede to executive session to receive legal advice, discuss personnel matters, and to discuss investment matters pursuant to S.C. Code Ann. §§9-16-80 and 9-16-320.

Chairman Williams announced that the Commission would meet in executive session for the purpose of receiving legal advice and discussion of personnel and investment matters. The Commission thereupon receded into executive session.

The Commission reconvened in open session, and Chairman Williams reported that the Commission did not take any reportable action while in executive session. Chairman Williams noted that three votes were taken on investment matters which would be publicized when doing so would not jeopardize the Commission's ability to achieve its investment objective or implement a portion of the annual investment plan. Chairman Williams also noted the Commission had discussed the election of a retiree representative, but no vote had been taken in executive session.

X. RETIREE REPRESENTATIVE VOTE

The Members of the Commission unanimously approved Mr. Ronald Wider as the retiree member representative. It was noted that although Mr. David Avant was a non-voting member of the Commission, he gave his ‘silent endorsement’ to the unanimous vote for Mr. Wilder as the Commission’s retiree member representative.

XI. ADJOURNMENT

There being no further business and upon motion by Mr. Gillespie, which was seconded by Mr. Giobbe and passed unanimously, the meeting adjourned at 5:13 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, at 8:30 a.m. on September 25, 2013.]