

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

October 18, 2007

**Second Floor Conference Room
202 Arbor Lake Drive
Columbia, South Carolina 29223**

Commissioners Present:

Mr. Reynolds Williams, Chairman
Mr. James Powers, Vice Chairman
State Treasurer Converse Chellis
Mr. Blaine Ewing
Mr. Allen Gillespie
Dr. Travis Pritchett

Others present for all or a portion of the meeting: Robert Borden, Donald Brock, Brenda Gadson, Douglas Lybrand, Rick Patsy, Greg Putnam, Kathy Rast, Nancy Shealy, Nicole Waites, and Hilary Wiek from the South Carolina Retirement System Investment Commission; Mike Addy, Rick Harmon, and Shakun Tahiliani from the State Treasurer's Office; Rhett Humphreys and Sean Gill from New England Pension Consultants; Sarah Corbett, Tammy Davis, Robyn Leadbitter, John Page, Danielle Quattlebaum, Kelly Rainsford, Joni Redwine, Travis Turner and Faith Wright from the South Carolina Retirement Systems; Keith Wood from Jamison, Eaton & Wood, Inc.; Allyn Powell from the House Ways and Means Committee; Adrian Wilson and Richard Casey from Square 1 Ventures; Augustine Olaleve from MMH Investors; Wayne Pruitt from the State Retirees' Association; Charley McDonald from the South Carolina Trooper's Association.

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

Chairman Reynolds Williams called the meeting of the South Carolina Retirement System Investment Commission (Commission) to order at 10:00 a.m. and welcomed the Commissioners and guests.

Chairman Williams called for objections or amendments to the meeting's proposed agenda. There being none, the proposed agenda was adopted as presented. The minutes from the meeting on August 16, 2007, were approved.

Chairman Williams provided an update on pending legislative matters. He reported that he had sent a letter to Senator Joel Lourie, upon the Senator's request, regarding Sudan Divestment legislation (bills s.214 and s.242). He noted that the Commissioners had reviewed the letter and that he had had a constructive conversation with the Senator after he received the letter and that the Senator may ask for suggestions for amendments.

With regard to the OPEB (Other Post Employment Benefits Liabilities) legislation, bill h.3789, Chairman Williams reported that after the presentation at the last meeting, he asked Ms. Nancy Shealy to research whether the Commission could engage a lobbyist for the purpose of monitoring the legislation on a daily basis. He said that it appeared to be lawful for the Commission to engage a lobbyist for that purpose, and noted that approximately twenty other agencies engaged lobbyists. He asked if there would be any objection to his seeking proposals to engage a lobbyist for the sole purpose of monitoring the legislation, and there being none, the

Chairman said that he would explore the options and report to the Commission at the next meeting.

II. ADMINISTRATIVE MATTERS

Chairman Williams recognized Ms. Shealy for the Administrative Director/General Counsel's report. Ms. Shealy introduced Ms. Kathy Rast as the Commission's new Administrative Manager and welcomed her to the Commission staff.

Ms. Shealy reported on various administrative projects. She advised that the website had been established and would be updated as needed and that the employees' email domain would be changed to conform.

She reported that the Director of Alternative Investments position vacancy had been posted on the state website and that an ad would be placed in the Pensions & Investments Magazine. She noted that the State Office of Human Resources had implemented a web-based employment application process and that based on the new system, the Commission would have to process the recruiting and application process independently from the Retirement System and the Budget and Control Board's Office of Human Resources. She said that she had participated in training on the new system and that as the Commission expanded, the new system should prove useful.

Ms. Shealy provided the Commission with a budget status report for Fiscal Year (FY) 2008, which the Commission received as information. State Treasurer Converse Chellis asked Ms. Shealy to provide a line-item summary of the budget and expenditures in future reports.

Ms. Shealy reported that contracts with Times Square Capital Management and Wells Capital Management had been executed and that Jamison Eaton & Wood had received a final draft of the proposed contract with the Commission. She noted that contracts with Mellon Capital, Putnam Fiduciary Trust Company, Thompson, Siegel & Walmsley, and Aronson Johnson + Ortiz were pending.

Ms. Shealy referred to the proposed contract amendments with State Street Global Advisors (SSgA) for the S&P 500 Flagship Fund (Fund). She explained that due to the Retirement System's recent redemptions from the Fund, SSgA requested amendments to its contract relating to management fees and the allocation of securities lending income. She said that Mr. Robert Borden, Chief Investment Officer (CIO) for the Commission, recommended that the Commission approve the amendments. Mr. Borden summarized his discussions with SSgA and affirmed his recommendation. Mr. Allen Gillespie asked that Ms. Shealy confirm that the proposed administrative fees would be charged to the Fund and not to the Retirement System's account. After further discussion, Mr. James Powers made a motion that the Commission approve the recommendations and authorize the Chairman to negotiate and execute any necessary documents to amend the contract with SSgA for the Fund to conform. Mr. Blaine Ewing seconded the motion, which passed unanimously. Chairman Williams noted that he and Ms. Shealy would clarify any issues relating to the administrative fees prior to executing the amendment.

Ms. Shealy referred to a memorandum that had been distributed to the Commission prior to the meeting regarding changes at Turner Investment Partners, Inc. (Turner Inc.) that required an assignment of the Commission's contract with the firm. She said that Turner Inc. notified the RSIC that they intended to sell a minority ownership interest to the public through an offering on the New York Stock Exchange, and that Turner Inc. planned to transfer all of its business assets, including all of its investment management arrangements, to a newly created operating

company, Turner Investment Partners, LLC (Turner LLC). Under the terms of the Commission's contract, Turner Inc. was required to obtain consent to assign its contract to the new operating company. Turner Inc. had emphasized that the account with the Commission would continue to be managed in the same manner. Ms. Shealy stated that Mr. Borden recommended that the Commission consent to the assignment, and Mr. Borden confirmed that it was his recommendation. Upon motion by Mr. Ewing and second by Mr. Gillespie, the Commission unanimously approved the recommendation and authorized the chairman to execute consent to assign the current investment management contract with Turner Investment Partners, Inc., to Turner Investment Partners, LLC, under the same terms and conditions as the current contract.

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

III. INVESTMENT MATTERS

Chairman Williams recognized Mr. Borden for the CIO's report. Mr. Borden noted that there were a number of recommendations relating to private equity investments on the agenda, and he referred to materials from staff and the Private Equity Strategic Investment Plan prepared by New England Pension Consultants (NEPC). He introduced guests from NEPC, Messrs. Rhett Humphreys, Senior Consultant, and Sean Gill, Alternative Assets Consultant, and recognized Dr. Travis Pritchett, the Commissioner who had been designated as a member of the search team for private equity investments.

Mr. Borden reviewed the Commission's strategic plan for the portfolio's private equity allocation, noting that the target was to allocate approximately \$1 billion to private equity placements over the next year.

Dr. Pritchett provided a general overview of private equity investments and explained how the asset class could add alpha to the portfolio. He explained that the investment in a new fund would be for seven to ten years generally, which could be extended for one to two years. Generally there would be no redemption during that period, so these would be long-term investments. He said that money would be drawn down, so the Commission would be investing during the first half of the fund. During the second half, the Commission would be divesting and receiving return on capital, which would result in a J-curve effect on the returns. He said that the Commission could mitigate the J-curve effect through the selection of different types of private equity investments such as venture capital funds, mezzanine funds, etc., which would be discussed later in the meeting. He explained how private equity firms were identified and NEPC's role in identifying and evaluating firms in general, and he provided a brief overview of the firms that would be discussed during the meeting.

Mr. Borden provided a broad overview of the different types of private equity investments and recognized Mr. Gill for a discussion of the Private Equity Strategic Investment Plan. Mr. Gill reviewed the Commission's target allocation to private equities and explained the process by which NEPC evaluated the portfolio and identified potential investments.

The search team, which was comprised of Dr. Pritchett, Messrs. Borden, Humphreys and Gill, and Ms. Hilary Wiek, recommended that the Commission approve investments with Goldman Sachs Mezzanine Partners (Goldman), Paul Capital Partners (Paul Capital), Square 1 Ventures (Square 1), Warburg Pincus LLC, Crestview Partners (Crestview), Clayton, Dubilier & Rice, Inc. (Clayton), TrueBridge Capital Partners (TrueBridge), and Lexington Partners (Lexington).

Messrs. Borden and Gill reviewed information about each of the recommended firms, which had been included in materials provided to the Commission prior to the meeting. They discussed

details about each of the recommended funds, including a description of the firm, investment strategy, and track record. They discussed the differences in the funds, the competitive advantages, and the resulting diversification to the portfolio.

Mr. Borden invited Dr. Pritchett, Mr. Gill, and Ms. Wiek to comment on the recommendations. Ms. Wiek reviewed the fees and the targeted funding dates for each, noting that some of the funds were approaching a final closing so the opportunity to invest was much more time-sensitive. She also discussed the target allocations to each and explained that the amount that would be accepted by some of the funds could not be determined until the closing.

Mr. Gillespie stated that he had met with Goldman and was impressed with the process, although he was concerned about the size of the fund and potential market impact for buyout debt and potential conflicts of interest with the companies in which they would invest. Ms. Wiek noted that this fund would be a change in strategy from other Goldman funds. Mr. Borden explained Goldman's process for monitoring potential conflicts. They discussed various issues that were raised during the due diligence meetings and the controls Goldman had implemented to address potential conflicts of interest.

Mr. Powers noted that the fees for each fund appeared reasonable and asked if they were competitive, to which Mr. Gill and Ms. Wiek replied that they were consistent with industry standards. They added that the fees associated with private equity funds were less negotiable than with hedge funds.

The Commission and the search team discussed other aspects of the funds, recommendations, and funding levels prior to a presentation by Square 1.

Mr. Borden introduced Messrs. Adrian Wilson, President of Square 1 Ventures, and Richard Casey, founder, CEO and President of Square 1 Financial and Square 1 Bank. Mr. Wilson explained the relationship between Square 1 and Square 1 Bank and stated that Square 1 was raising capital for a fund that would invest primarily in a diversified group of US venture capital funds. He discussed the investment team, investment process, strategy, and some of the venture capital funds in which they invest. Mr. Casey provided the history of the relationship between Square 1 and Square 1 Bank, discussed the financial status of the bank, and reviewed their investment philosophy. He discussed the financial status of the bank as well as its customer base.

The Commission and Messrs. Wilson and Casey discussed various aspects of the proposal, including performance, capacity, investment philosophy, and process. Mr. Powers inquired about the management of conflicts of interest, and Mr. Wilson explained their process. The Commissioners asked additional questions, to which Messrs. Wilson and Casey responded, and Chairman Williams thanked them for their presentation.

Chairman Williams referred to the materials relating to the search team's recommendations. After further discussion about the firms and the proposed investments, due diligence inquiries, proposed fee structures, and allocations, Chairman Williams entertained motions relating to each proposal. The Commission determined that the maximum amount that would be accepted by each partnership should be invested, and they reiterated that each motion included the inherent authority of the Chairman or his designee to negotiate terms for custody and other ancillary matters on behalf of the Commission to implement the investments approved by the Commission.

Mr. Ewing made a motion, which was seconded by Mr. Powers and passed unanimously, to invest an amount not to exceed \$150 million in the Goldman Sachs Mezzanine Partners V Fund, to authorize the Chairman or his designee to negotiate fees not to exceed those presented by the search team, and to authorize the Chairman to negotiate and execute any necessary documents to invest in the fund by the target closing in November 2007.

Dr. Pritchett made a motion, which was seconded by Mr. Powers and passed unanimously, to invest an amount not to exceed \$100 million in the Paul Capital IX Secondary Private Equity Fund, to authorize the Chairman or his designee to negotiate fees not to exceed those presented by the search team, and to authorize the Chairman to negotiate and execute any necessary documents to invest in the fund.

Dr. Pritchett made a motion, which was seconded by State Treasurer Chellis and passed unanimously, to engage counsel to begin the review process to invest in Square 1 Venture I, L.P., to continue due diligence review of the fund, and to present additional information at the Commission's November meeting.

Mr. Gillespie made a motion, which was seconded by Mr. Ewing and passed unanimously, to invest an amount not to exceed \$100 million in the Warburg Pincus Private Equity X, L.P., to authorize the Chairman or his designee to negotiate fees not to exceed those presented by the search team, and to authorize the Chairman to negotiate and execute any necessary documents to invest in the fund by the target closing in December 2007.

Mr. Powers made a motion, which was seconded by Mr. Ewing and passed unanimously, to invest an amount not to exceed \$100 million in the Crestview Partners II L.P., to authorize the Chairman or his designee to negotiate fees not to exceed those presented by the search team, and to authorize the Chairman to negotiate and execute any necessary documents to invest in the fund.

Mr. Gillespie made a motion, which was seconded by Mr. Ewing and passed unanimously, to invest an amount not to exceed \$100 million in the Clayton, Dubilier & Rice Fund VIII, L.P., to authorize the Chairman or his designee to negotiate fees not to exceed those presented by the search team, and to authorize the Chairman to negotiate and execute any necessary documents to invest in the fund.

Mr. Ewing recused himself from discussions and voting on matters related to TrueBridge Capital Partners. Upon inquiry by Ms. Shealy, Mr. Ewing explained that one of his clients was related to one of the general partners. Dr. Pritchett made a motion, which was seconded by Mr. Powers and passed unanimously, to invest an amount not to exceed \$40 million with TrueBridge Capital Partners in the CVE-Kauffman Fellows Endowment Fund I, to authorize the Chairman or his designee to negotiate fees not to exceed those presented by the search team, and to authorize the Chairman negotiate and execute any necessary documents to invest in the fund.

Mr. Powers made a motion, which was seconded by Mr. Gillespie and passed unanimously, to invest an amount not to exceed \$50 million in the Lexington Middle Market Investors II, L.P., to authorize the Chairman or his designee to negotiate fees not to exceed those presented by the search team, and to authorize the Chairman negotiate and execute any necessary documents to invest in the fund.

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

Mr. Borden updated the Commission on the transition of the fixed income and cash management portfolios from the State Treasurer's Office to the Commission. He advised that the fixed income portfolio management transition had been completed during September 2007 and that upon resolution of several outstanding matters with the custodian, the cash management functions should be transitioned by the end of October 2007. He commended the State Treasurer's Office on their assistance and cooperation with the transition, and State Treasurer Chellis reported that the transition appeared to be going smoothly.

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

The Commission discussed the upcoming Investment Retreat in November at the Wampee Conference and Training Center in Pinopolis, South Carolina. Mr. Borden presented an updated draft of the proposed agenda and discussed the framework for presentations. Mr. Ewing stated that he had concerns about risk management, particularly in terms of credit and liquidity with the hedge funds. Mr. Gillespie concurred and requested that additional information about the overall risk measurement for the Total Portfolio be presented at the Retreat. Mr. Powers suggested that the Commission invite an economist to the Retreat to provide a different perspective on the various factors that may affect the portfolio. Chairman Williams also asked Mr. Borden to consult with Ms. Shealy on any Administrative matters and to present the quarterly report to comply with statutory requirements.

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

IV. OTHER BUSINESS

Upon question by Ms. Shealy, Chairman Williams noted that the regularly scheduled meetings in November and December 2007 were cancelled and that any outstanding items would be addressed during the business meeting portion of the Retreat.

Mr. Borden referred to the draft performance report for the Retirement System's portfolio dated September 30, 2007, which was included in the meeting materials. He briefly reviewed the investment performance of the Retirement System's portfolio and noted that benchmarking and performance reporting formats would be discussed further at the Retreat.

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

Mr. Powers provided a brief report about the presentation by Chairman of the Federal Reserve Bank that he attended in New York the previous week.

V. ADJOURNMENT

Chairman Williams thanked everyone for attending, and the meeting adjourned at 1:20 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 2nd Floor Conference Room at 202 Arbor Lake Drive, Columbia, SC, on October 16, 2007.]