

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

January 17, 2008

**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: Dunkin Allison, Robert Borden, Donald Brock, Brenda Gadson, Douglas Lybrand, Heather Muller, Rick Patsy, Greg Putnam, Kathy Rast, Nancy Shealy, Nicole Waites, and Hilary Wiek from the South Carolina Retirement System Investment Commission; Mike Addy, Delores Dacosta, Rick Harmon, and Shakun Tahiliani from the State Treasurer's Office; Rhett Humphreys from New England Pension Consultants; Peggy Boykin, Tammy Davis, Robyn Leadbitter, John Page, Danielle Quattlebaum, Kelly Rainsford, Joni Redwine, and Faith Wright from the South Carolina Retirement Systems; Rena Grant from the House Ways and Means Committee; Crawford Clarkson, Sam Griswold, and Wayne Pruitt from the State Retirees' Association; Charley McDonald from the South Carolina Trooper's Association, and Greg Nordquist from Russell Implementation Services, Inc.

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 10:05 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. Chairman Williams advised that the minutes from the October and November meetings were unavailable due to computer problems, but they would be regenerated and presented at the next meeting.

Chairman Williams stated that there was no formal report from the Chairman for that portion of the meeting.

II. ADMINISTRATIVE MATTERS

Chairman Williams recognized Ms. Shealy for the Administrative Director/General Counsel's report.

Ms. Shealy provided the Commission with a budget status report for Fiscal Year (FY) 2008, which was received as information. She highlighted expenditures and projected expenses for the remainder of the fiscal year and FY 2009 and briefly explained the internal budget process and the various methods used to project and monitor expenses. After discussing expenditures and the remaining budget for FY 2008, the Commission asked Ms. Shealy to provide cumulative percentages for expenditures and projections for the remainder of the fiscal year.

Ms. Shealy provided an update on administrative projects and initiatives. She advised that a new administrative coordinator had been hired and would begin employment on February 4, 2008. She advised further that Ms. Kathy Rast had completed an inventory and recorded all fixed assets of the Commission in compliance with state law. The remainder of the Commission's furniture and files had been moved from the South Carolina Retirement System (Retirement System), and additional equipment and supplies had been acquired to upfit the new Commission offices, including high volume, multi-functional printers with scanning capabilities, furniture for the Commission's small meeting room, etc. Ms. Shealy advised that the Administrative Division was developing an internal procurement and process manual to provide clearer guidelines, streamline processes, and to provide additional accountability and compliance. She noted that additional internal policies and procedures would be developed in the future.

Ms. Shealy reported on miscellaneous contracts and legal projects. She noted that over 35 new contracts had been executed and an additional seven contracts had been amended within the last year. She reported that current legal projects included updating legal research resources, developing additional compliance, conflicts, ethics, and confidentiality policies for the Commission and its employees, developing processes to streamline engagement of associate counsel, securities litigation monitoring, and exploring options for providing fiduciary insurance. She noted that the Retirement System was preparing a Request for Proposals for fiduciary liability insurance, and she recommended that the Commission discuss issues prior to expiration of the current policy and the award of a new contract, if applicable.

Ms. Shealy referred to information that had been distributed to the Commission prior to the meeting regarding a legal restructuring at New England Pension Consultants, Inc. (NEPC, Inc.) that required an assignment of the Commission's contract with the firm. She explained that NEPC, Inc., had restructured as New England Pension Consultants, LLC (NEPC, LLC), and under the terms of the Commission's contract, NEPC, Inc. was required to obtain consent to assign its contract to the new entity. She noted that NEPC had emphasized that the account with the Commission would continue to be managed in the same manner under the new legal structure. Upon motion by Mr. Allen Gillespie and second by Mr. James Powers, the Commission unanimously approved the recommendation and authorized the chairman to execute consent to assign the current investment management contract with NEPC, Inc., to NEPC, 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).

Chairman Williams recognized Mr. Gillespie for a report on the Public Fund Boards Forum conference. Mr. Gillespie said that the conference was perhaps the largest such annual conference in the United States, and he encouraged each Commissioner to attend in the future. He highlighted several topics that were discussed, including issues and trends involving OPEB (Other Post Employment Benefits) and accounting standards. He discussed presentations on corporate governance and how other systems addressed compliance and best practices in this area. Chairman Williams noted that the Retirement System was involved in a fiduciary audit or study being conducted by Independent Fiduciary Services (IFS), which focused on investment operations and accounting. He asked Ms. Peggy Boykin to provide the Commission with background information on the current IFS Study. Ms. Boykin explained that while the current study was engaged by the Retirement System and was limited in scope to the Retirement System, State Treasurer's Office and the Commission to address issues of internal controls for investment accounting primarily, the Commission could engage a fiduciary audit and determine

the scope of review relating to its independent fiduciary responsibilities. Messrs. Blaine Ewing and Gillespie suggested that the Commission engage in a fiduciary audit in the future to explore its independent functions in multiple areas. Chairman Williams suggested that the Commission explore an independent fiduciary audit after completion of the IFS Study, and the Commission concurred.

III. INVESTMENT MATTERS

Chairman Williams recognized Mr. Robert Borden for the Chief Investment Officer's (CIO) report. Mr. Borden stated that after refining the agenda topics further, he recommended that the items be addressed in a different order than published on the agenda, and the Commission concurred.

Mr. Borden provided an update on investment projects and initiatives. He reviewed the major accomplishments of the Commission during 2007, noting that the Retirement System had been nominated by several national publications and was one of four finalists in the Large Public Pension Plan of the Year awards given by those publications. He discussed the major challenges and opportunities for 2008 such as economic factors, continued development of the Commission's infrastructure and staff, and the potential integration of the OPEB funds into the Commission's responsibilities. He discussed asset allocation and implementation priorities, including fixed income management, strategic partnerships, alternative investments, equity investments, operations, research and performance reporting.

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

Mr. Borden recognized Mr. Rhett Humphreys of NEPC to discuss the 2008 Asset Allocation Analysis that the Commission requested at the November 2007 meeting. Mr. Humphreys referred to materials provided to the Commission and reviewed the Retirement System's asset allocation, the differences in NEPC's various assumptions and return and risk forecasts and premiums and the analyses for 5- and 7-year periods, the impact differing asset allocation shifts could have on the total portfolio. Messrs. Ewing and Gillespie discussed control measures for liquidity, leverage, and counter-party risk. After further discussion, Chairman Williams appointed Messrs. Ewing, Gillespie, and Powers to work with NEPC and staff to develop reports on risk control for the portfolio. Mr. Humphreys referred to the South Carolina Hedge Fund Composite report as of September 30, 2007, which had been provided to the Commission and was received as information.

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

Mr. Borden asked Dr. Pritchett and Ms. Hilary Wiek to provide information relating to the search team's private equity recommendations, noting that information about the recommendations had been provided to the Commissioners prior to the meeting. The recommendations were to invest in Bridgepoint Europe IV, Apax Europe VII, and CVC V. Ms. Wiek discussed the due diligence meetings conducted in London, which included meetings with two of the Commission's current investments, Credit Agricole and Pantheon Europe, as well as five other prospective investments. She noted that the prospective investments had been recommended by either NEPC or current managers and that they had met with Bridgepoint three times prior to the meeting in London.

Ms. Wiek provided information about the diversification that these investments would provide for the portfolio and reviewed information about each of the recommended funds, including a

description of the firm, investment strategy, recommended allocations, and track record. They discussed the differences in the funds, the competitive advantages, and the resulting diversification to the portfolio.

Ms. Wiek advised that NEPC had not completed on-site due diligence meetings with the firms, but Mr. Humphreys stated that they were in the process of scheduling those visits. Ms. Wiek stated that each of the investments was scheduled for final closing in March, so they recommended that the Commission approve the investments at this meeting, contingent upon completion of satisfactory due diligence meetings with NEPC, so that legal review could be initiated. Mr. Humphreys said that NEPC would provide its final recommendations at the next Commission meeting. Given the timing of the investments and the process to engage associate counsel, Chairman Williams recommended that if the Commission approved the investments, the Commission authorize engagement of counsel to begin review of the documents pending final analysis by NEPC.

The Commission discussed investment strategies and risk management. State Treasurer Chellis also asked about risk management in terms of the internal expertise to evaluate the firms and investments. Mr. Borden stated that these investment managers had well developed accounting and investment expertise in these markets. Mr. Humphreys added that collectively, Commission and NEPC staff also had the expertise to evaluate the funds. He reiterated that the Commission was dollar cost averaging the private equity allocations and that these investments would be for approximately ten years each, so the Commission reduced risk by the staggered diversification.

State Treasurer Chellis asked about monitoring for compliance with anti-terrorism restrictions. The Commission discussed the issues with monitoring compliance, particularly with global conglomerates. Ms. Wiek reiterated that each of the firms had offices within the countries in which funds were invested, so the managers were aware of the political and economic risks within those countries. She also noted that the legal documents had provisions that would allow the Commission to opt out of an investment if it violated state or federal law, and Chairman Williams confirmed.

After further discussion, Mr. Powers made a motion, subject to completion of satisfactory due diligence review by NEPC, to invest an amount not to exceed €50 million (approximately \$75 million) in the Bridgepoint Europe IV L.P., to invest an amount not to exceed €35 million (approximately \$50 million) in the Apax Europe VII-B L.P., and to invest an amount not to exceed €50 million (approximately \$75 million) in the CVC European Equity Partners V L.P., to authorize the Chairman to engage associate counsel pending the Commission's ratification of the investments, and to authorize the Chairman or his designee to negotiate and execute any necessary documents to implement the investments upon approval for legal sufficiency by General Counsel. Upon second by Dr. Pritchett, the motion passed unanimously. The Commission noted that legal documents should contain provisions to ensure its compliance with state and federal anti-terrorism laws.

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

Mr. Gillespie asked about the Commission's participation on advisory boards of limited partnerships. Mr. Borden stated that the Commission had the right to appoint members to advisory boards on some investments and that it usually depended upon the amount of the investment commitment and the general partners' desire to allow participation. He noted that while the Commission might have the right to appoint a member, it would need to evaluate

whether to exercise that right to appoint a member. Mr. Gillespie suggested that the Commission explore policies and guidelines relating to advisory board participation, particularly in terms of expenses and State ethics laws. After further discussion, Mr. Powers asked Ms. Shealy to provide a list of investments for which the Commission could appoint a member to advisory boards or committees.

Mr. Borden referred to the draft performance reports for the Retirement System's portfolio for periods ending November 30 and December 31, 2007, which were included in the meeting materials. He noted that the investment staff was working with the Bank of New York and managers for reconciliations, so the reports were preliminary. He briefly reviewed the investment performance of the Retirement System's portfolio and managers.

Mr. Borden introduced Mr. Greg Nordquist with Russell Implementation Services, Inc., to review performance of the Beta Overlay Program. Mr. Nordquist discussed asset allocations, performance, index performance, and the Beta Overlay Program's value added to total portfolio in November and December 2007 and since inception of the program in May 2007. Mr. Borden shared his observations of value added, the economy, and various aspects of the portfolio. In response to questions by Mr. Ewing, Messrs. Nordquist and Borden explained benchmarking the Beta Overlay Program. After further discussion about the portfolio, asset allocation, and performance, the Commission received the reports as information.

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

IV. ADJOURNMENT

There being no further business, Chairman Williams thanked everyone for attending, and the meeting adjourned at 1:25 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, prior to 10:00 a.m. on January 16, 2008.]