South Carolina Retirement System Investment Commission
Meeting Minutes

January 26, 2010

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

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

Others present for all or a portion of the meeting: Mike Addy, Dunkin Allison, Geoff Berg, Bob Borden, Donald Brock, Jonathan Boyd, Dori Ditty, Brenda Gadson, Hershel Harper, David Klauka, Cindy Lau, Doug Lybrand, Heather Muller, Jared O'Connor, Kathy Rast, Nancy Shealy, Nicole Waites, and Hilary Wiek from the South Carolina Retirement System Investment Commission; Mike McDermott and Frank Rainwater from the State Treasurer's Office; Clint Leach from the Senate Finance Committee; Ashley Aslin, Rhett Humphreys, and John Krimmel from New England Pension Consultants; Chris Anderson, Peggy Boykin, Sarah Corbett, Tammy Nichols, John Page, Danielle Quattlebaum, Joni Redwine, Travis Turner, and Faith Wright from the South Carolina Retirement Systems; Liz Smith from AllianceBernstein L.P.; Michelle Cook from Bank of New York Mellon; Daniel Bandi and Matthew Bevin from Integrity Asset Management; Eric Kleppe and William McVail from Turner Investment Partners; Shaka Rasheed from JP Morgan Asset Management; Marquette Chester and Dianne Garnick from Invesco Institutional Investments/WL Ross; Hong Yan from the University of South Carolina; and Wayne Pruitt from the State Retirees' Association.

I. CALL TO ORDER AND CONSENT AGENDA

Chairman James Powers 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 Powers attended the meeting via telephone conference call, so he asked Vice Chairman Allen Gillespie to preside over the meeting.

Mr. Gillespie referred to the meeting's proposed agenda and requested that the item relating to the presentation to the South Carolina House of Representatives Ways and Means' Legislative, Executive, Local Government Subcommittee (HWM Subcommittee) be moved to the beginning of the meeting. State Treasurer Converse Chellis made a motion to amend the proposed agenda as requested and to approve the agenda as amended, which was seconded by Blaine Ewing and passed unanimously.

Mr. Gillespie referred to the draft minutes from the meeting on November 18-19, 2009, and asked if there were any amendments. Travis Pritchett opined that the minutes were well drafted and consistent with the actions taken by the Commission during the meeting. There being no amendments and upon motion by Dr. Pritchett and second by

Mr. Ewing, the minutes from the November 18-19, 2009, Commission meeting were approved as presented.

II. UPDATE ON HWM SUBCOMMITTEE PRESENTATION

Mr. Gillespie introduced Bob Borden, Chief Executive Officer/Chief Investment Officer (CEO/CIO), to discuss the Commission's presentation to the HWM Subcommittee. Mr. Borden briefly explained the national crisis regarding pension plans and detailed the Commission's budget for the upcoming Fiscal Year 2011. He also reported on the diversification, returns, and economic impact of the South Carolina Retirement Systems' (Retirement System) portfolio on the state of South Carolina. Mr. Borden indicated that over $500 million had been invested in the state and more was expected as part of the South Carolina Private Equity Co-Investment Program. He also stated that 67 South Carolina families had been assisted through the limited partnerships involving restructured residential mortgage loans in which the Retirement System invested. In closing, Mr. Borden outlined strategic challenges and future goals. The Commission received the reports and presentation as information.

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

III. INVESTMENT ITEMS

Mr. Gillespie recognized Mr. Hershel Harper, Deputy Chief Investment Officer, to provide information relating to the investment performance of the total portfolio (Portfolio) of the Retirement System for the periods ended September 30, 2009. Mr. Harper reported that as of September 30, 2009, the value of the Portfolio was approximately $23 billion. He also indicated that quarterly performance was up 11 percent, while the Portfolio outperformed the strategy benchmark by one percent. He stated that the current market beta, allocation changes, and manager selection were primarily responsible for increased returns. Mr. Harper referred to the RSIC Weekly Plan-Level Dashboard and reviewed asset allocation data, current exposures, and the funding schedule. Mr. Borden opined that the creation of a strategic allocation to cash during the economic crisis had resulted in an excess position that had little investment return. He reported that allocating a portion of the cash position to Treasury Bonds would increase return from 7 basis points to 80 basis points. Mr. Borden said that moving the cash into swaps and futures was not appropriate and could create additional issues and problems. Mr. Ewing asked if any thought had been given to using high quality corporate bonds. Mr. Borden replied that corporate bonds were a long-term possibility, but indicated that additional credit assessments would have to be performed in order to use them, which could delay any transition by at least 6 months.

After further discussion and upon motion by Mr. Ewing and second by Mr. Chellis, the Commission unanimously amended the cash allocation by offsetting a reduction in cash and authorizing the CEO/CIO to implement at the CEO/CIO's discretion with a one to three year benchmark. Mr. Williams made a motion, which was seconded by Mr. Ewing and passed unanimously, to authorize the Commission staff to implement the laddered treasury portfolio consistent with the discussions of the Commission.

Mr. Borden introduced Rhett Humphreys from New England Pension Consultants (NEPC) for a report on investment performance for periods ended November 30, 2009 and December 31, 2009. Mr. Humphreys reported that the Commission outperformed the policy benchmark as a result of equity portfolio performance, the Commission's decision to move into a non-core US fixed income strategy, opportunistic credit strategy, and portable alpha overlay. He also indicated that at the March Commission meeting, a dollar weighted internal rate of return private equity report would be presented.

Mr. Harper referred to the December 2009 Preliminary Performance memo distributed to the Commissioners prior to the meeting. He reported the fiscal year-to-date return to be an estimated 14.45 percent.

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

Mr. Harper introduced Hilary Wiek, Director of Public and Private Equities, to provide an overview of several equity manager presentations. Ms. Wiek reported that the current contracts with Integrity Asset Management, LLC (Integrity), and Turner Investment Partners, Inc. (Turner) would expire within the next week, so these managers had been invited to provide additional information prior to the Commission's determination as to whether to continue the relationships. She said that NEPC and staff recommended continuing the relationships, and she provided a synopsis of the history of the relationships with the Retirement System and the Commission.

Ms. Wiek introduced Mr. Matthew Bevin, Principal and Chief Executive Officer, and Mr. Daniel Bandi, Principal and Chief Executive Officer, from Integrity for a presentation to the Commission. Mr. Bevin discussed the total allocation to Integrity and noted that while short-term performance had fluctuated, the overall performance had been positive, including absolute growth. He noted that the Retirement System's initial investment with Integrity accounted for nearly 20 percent of their assets under management at the time, and he thanked the Commission for the opportunity to manage the allocation. Mr. Bevin also noted that Integrity focuses solely on the US value equity space for institutional accounts. Mr. Bandi discussed performance of Integrity's investments and reported that recent positive performance resulted in new opportunities for greater returns. He noted that moving forward, Integrity planned to return to its fundamentals and focus on stock selection in the small cap space with specific risk controls. The Commission received the presentation as information and discussed various aspects of the firm.

Ms. Nancy Shealy, General Counsel, noted that the current contracts with Turner and Integrity would expire on January 31 and February 2, 2010, respectively. Given the negotiation process, she suggested that if the Commission approved continuing the relationships, that it authorize extensions of the current contracts for a period up to 90 days so that if contracts could not be executed, the Commission would be able to meet to take further action without a break in management of the assets.

After further discussion, Chairman Powers made a motion, which was seconded by Mr. Williams and passed unanimously, to execute a new contract with Integrity Asset Management, LLC, to continue management of assets in the Small Capitalization Value Strategy, to authorize the Chairman or his designee to negotiate and execute the contract and any necessary documents to implement the investment upon approval for legal sufficiency by General Counsel, and if a new contract cannot be finalized before the expiration of the current contract on February 2, 2010, to authorize the Chairman or his designee to execute an extension to the current contract to continue management of the assets under the current terms and conditions for a period not to exceed 90 days until the earlier of (a) the execution of a new contract or (b) the Commission takes further action.

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

Ms. Wiek introduced Mr. Eric Kleppe, Director and Principal, and Mr. William McVail, Senior Portfolio Manager/Security Analyst and Principal, from Turner for a presentation relating to the firm and the portfolio. Ms. Wiek noted that the proposed investment with Turner recommended by Commission staff would change the profile from a small to small/mid cap growth portfolio, which would be benchmarked and tracked as a small/mid cap manager against the Russell 2500 Growth Index instead of the Russell 2000 Growth Index. Mr. Kleppe provided a brief overview of Turner and indicated that 30 percent of its assets under management were from public pension plans. Mr. McVail discussed Turner's sector approach to the market and reviewed how they choose small cap companies. He also reported how recent economic events had changed how Turner evaluated companies. In closing, Mr. McVail thanked the Commission for the opportunity to work with South Carolina.

Mr. Gillespie thanked Turner for its presentation. After further discussion, Mr. Ewing made a motion, which was seconded by Mr. Williams and passed unanimously, to execute a new contract with Turner Investment Partners, LLC, to manage assets in the Small/Mid Capitalization Growth Strategy, to authorize the Chairman or his designee to negotiate and execute the contract and any necessary documents to implement the investment upon approval for legal sufficiency by General Counsel, and if a new contract cannot be finalized before the expiration of the current contract on January 31, 2010, to authorize the Chairman or his designee to execute an extension to the current contract to continue management of the assets under the current terms and conditions for a period not to exceed 90 days until the earlier of (a) the execution of a new contract or (b) the Commission takes further action.

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

Mr. Borden referred to materials related to the TCW/Palmetto State Partners, LLC (TCW Partnership), that were distributed to the Commissioners for review prior to the meeting. He reported that there had been significant internal changes at TCW Asset Management Company (TAMCO) that affected eight of the investments in the TCW Partnership. Jeffery Gundlach, CIO of TAMCO and committee member of the TCW Partnership's Investment Committee, had been released from his duties, which resulted in key man provisions being triggered in several of the TCW Partnership's underlying investments, specifically the TCW Credit Opportunities Fund, TCW Special Mortgage Credits Fund I, TCW Special Mortgage Credits Fund II, and TCW Special Mortgage Credits Fund III (TCW P-PIP). Mr. Borden also stated that several of TAMCO's employees had resigned resulting in additional key man issues for the TCW Partnership. Mr. Borden reported that no additional allocations would be made within the TCW Partnership in strategies that involved Jeffrey Gundlach and noted that the Commission had the flexibility to unwind the TCW Partnership and take distributions. He stated that he was presenting this to the Commission as information and no action was necessary at this time. Mr.

Borden and the Commission discussed the impact of these changes on asset allocations and investment strategies for the Portfolio.

Mr. Borden stated that the Commission's residential mortgage-backed security strategies, TCW P-PIP, for the TCW Partnership would need to be reevaluated because of lost opportunity from the Federal government's forced liquidation of the TCW P-PIP. He reported that Marathon Asset Management (Marathon) had capacity and expertise in the P-PIP program. Mr. Borden suggested accelerating due diligence with Marathon. Messrs. Powers and Gillespie opined that Mr. Borden should not peruse additional P-PIP investments.

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

Mr. Harper referred to the hedge fund of funds transition plan that was distributed to the Commissioners prior to the meeting. He reiterated comments made at the prior Commission meeting and reported that transitioning away from a fund of funds structure would significantly reduce annual fees, reduce minor positions and redundancies, pace the transition to ensure diversification, and realign liquidity and terms. Mr. Harper proposed creating a dedicated legal structure controlled by the Commission for operational efficiency; maintaining relationships with Grosvenor Capital Management, L.P. (Grosvenor), and EnTrust Capital, Inc. and its affiliates (Entrust) as key business partners; transferring the Grosvenor and EnTrust relationships to the new legal structure; converting the Grosvenor and EnTrust relationships to separate accounts; transferring the remaining/key direct hedge fund strategies to the new legal structure; and executing systematic redemptions from other fund of hedge funds. He estimated that the transition would be complete by the end of 2011.

Mr. Gillespie questioned whether hedge funds within strategic partnerships were separate and distinct from hedge funds allocated to the same manager. Ms. Shealy noted that the Morgan Stanley Completion Fund had been transferred into the Morgan Stanley SCRSIC Strategic Partnership Fund LP. Mr. Harper stated that from a hedge fund allocation perspective, hedge funds of funds had been designed to be a source of cash to fund longer term investments, but those would now be scaled down and replaced with direct investments in hedge funds. Ms. Shealy explained specific legal requirements and observations with regards to the transition plan and the creation of a new limited partnership or other legal structure, including the possibility of hiring outside counsel.

After further discussion, Mr. Williams made a motion, which was seconded by Mr. Ewing and passed unanimously, to hire external legal counsel to assist in creating a dedicated legal structure to host the hedge fund program; to maintain relationships with Grosvenor and EnTrust as key business partners; to transfer the Retirement System's interest in Grosvenor Institutional Partners L.P. and EnTrust Capital Diversified Fund QP Ltd, to the new legal structure and convert each into a separate account; to transfer the Retirement System's interest in the DE Shaw Composite Fund LLC, Bridgewater Pure Alpha Fund II, Ltd., WL Ross' Absolute Recovery Hedge Fund L.P., and interests in funds in the Morgan Stanley SCRSIC Strategic Partnership Fund LP as recommended by its Investment Committee into the new legal structure; to systematically redeem the Retirement System's investments in the GAM U.S. Institutional Diversity Inc. and Gottex

Market Neutral Plus SC NL Fund; and to authorize the Chairman or his designee to negotiate and execute any necessary documents to implement the actions of the Commission upon approval for legal sufficiency by General Counsel in consultation with external legal counsel.

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

Mr. Borden recognized Mr. Humphreys for discussions relating to NEPC's due diligence of the Loomis Sayles Credit Long/Short Fund, L.P. (Loomis L/S Fund) managed by Loomis Sayles & Company (Loomis Sayles), which the Commission requested during its previous meeting. Mr. Humphreys opined that Loomis Sayles employed a very deep, broad investment team with superior top tier, world class credit facilities. He reported that NEPC's only concern was that the Loomis L/S Fund was a new product without a proven track record. Mr. Harper noted that Loomis Sayles was managing approximately $50 million internally in another Long/Short Credit strategy and that it had a successful 24 month track record. Mr. Harper added that the positive performance of the Retirement System's current credit investment with Loomis Sayles, along with favorable terms and seeding, would give the Retirement System an economic advantage despite the limited track record of the new product. After further discussion, Mr. Williams made a motion, which was seconded by Mr. Ewing and passed unanimously, to approve the recommendations presented previously so as to invest an amount not to exceed $500 million in the Loomis Credit Long/Short Fund, L.P. with an initial funding of $250 million sourced from the Retirement System's existing Loomis Sayles investments and a target closing date on or about February 15, 2010; to waive the 25 percent of the total fund allocation restriction for the investment in the Loomis Credit Long/short Fund, L.P.; and to authorize the Chairman or his designee to negotiate and execute contracts and any necessary documents to implement the investment upon approval for legal sufficiency by General Counsel.

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

Mr. Harper lead discussions regarding the Chilton China Opportunities, L.P. (Chilton), by stating that the proposed allocation would provide an interesting opportunity as the Commission transitioned from hedge fund of funds to more direct investments. He indicated that Chilton would complement the broader emerging market portfolio. Mr. Harper provided background on Chilton, including its three-year track record and due diligence information from NEPC, Mr. Gillespie, and Commission staff. He explained that Chilton could provide separate risk management and compliance teams, quality processes and oversight, and a centralized research platform. Mr. Humphreys opined that Chilton would be a strong choice for investors who want direct exposure to China through a hedged long/short strategy. Mr. Gillespie stated that he liked the long/short strategy and noted that he had spoken with prior Chilton investors who had positive comments and allocation histories. Mr. Williams opined that Chilton sounded like a good investment, but stated that it should not be considered a part of the emerging market portfolio. He also suggested the Commission's emerging market team conduct additional due diligence if it were to be considered an allocation to the emerging market portfolio. Mr. Borden replied that the allocation could be considered as a type of hedge fund strategy. After further discussion, Mr. Ewing made a motion, which was seconded by Dr.

Pritchett and passed unanimously, to invest an amount not to exceed $50 million in the Chilton China Opportunities, L.P. and to authorize the Chairman or his designee to negotiate and execute a contract and any necessary documents to implement the investment upon approval for legal sufficiency by General Counsel.

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

Ms. Shealy asked if the Chilton China Opportunities, L.P. fund allocation would require a change in the Commission's investment policies or Annual Investment Plan (AIP). Mr. Harper replied that no change would be necessary.

Mr. Borden referred to information regarding the Request for Proposals (RFP) for Risk Management/Assessment Consulting Services by indicating that six responses had been received. He also reported that based on Commission input, the RFP that was issued narrowed the original scope of the project. Mr. Gillespie noted that the RFP information had been distributed to the Commissioners recently and suggested that the matter be carried over to allow Commissioners additional time to thoroughly review all documents. There being no objection, the discussion was carried over.

Ms. Wiek provided the Commission with an update on the RFP for the South Carolina Private Equity Co-Investment Program, which had been issued on November 10, 2009. She noted that she expected approximately 19 firms to respond. Ms. Wiek stated that based upon responses, firms would be requested to provide a presentation to Commission staff, Mr. Chellis, and Dr. Pritchett. Ms. Shealy noted that the South Carolina Private Equity Co-Investment Program would be structured similarly to a strategic partnership most likely, although the specific structure could not be determined until the contracting process was initiated with the finalist.

Ms. Wiek provided an update on the Emerging Markets Equity Search. She stated that 14 emerging market managers had been identified by NEPC's focus list. She also reported that Commission staff and Mr. Williams had met with and conducted preliminary due diligence with each of these managers. Ms. Wiek indicated that a short list would be created based upon the preliminary due diligence, which would result in on-site due diligence meetings with each of those managers. Mr. Borden noted that as part of the ongoing Strategic Plan, staff would continue to improve and/or refine the manager due diligence process.

IV. ADMINISTRATIVE ITEMS

Mr. Borden provided the Commission with an update on the status of the Commission's governance policies and provided a summary of the policies that were pending. The Commission received the report as information.

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

Mr. Borden referred to the final draft of the Commission's Compensation Policy and asked Dori Ditty, Policy Analyst, to highlight the changes that had been made from the prior draft per the Commission's previous discussions. Mr. Borden provided background information regarding the Compensation Policy and reiterated that both Mr. Gillespie and

Dr. Pritchett had worked in conjunction with Commission staff in the development of the policy. Ms. Ditty noted that Ms. Shealy and Mr. Gillespie suggested that additional statements be included within the policy to clarify that the policy does not assign any authority to the CEO/CIO in the administration of his own compensation. Ms. Ditty also reported that additional risk factors had been added. Mr. Borden said that the compensation metrics would be computed initially by the Retirement System's Custodial Bank, then aggregated by staff and submitted to NEPC for a second independent review. Chairman Powers said that the policy had been thoroughly vetted over the past four months and indicated that he was comfortable with the policy. Upon motion by Mr. Williams and second by Mr. Ewing, the Compensation Policy was approved by the Commission unanimously.

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

Mr. Borden referred to the first draft of the CEO/CIO and Commission's Evaluation Policy. He explained that it was designed to provide the Commission a way to evaluate itself and the CEO/CIO. Ms. Ditty reported that the policy proposed that Commissioners receive a self-evaluation packet from the CEO/CIO on a yearly basis. This packet would include a report from the CEO/CIO indicating his evaluation of his performance based on the criteria and goals established by the Commission for the prior year, proposed evaluation criteria for the upcoming year, a summary of the Strategic Plan, evaluation forms for the Commission members, and any supporting or additional documentation or information the CEO/CIO wished to include. She said that the Commission would meet with the CEO/CIO to discuss its evaluation of his performance. Ms. Ditty explained the Commission's self evaluation criteria and indicated that the evaluation criteria were similar to other public pension plans. Mr. Borden noted that since a new chairman would be selected every other year, the annual Commission self evaluations could be used by the incoming chairman as a guideline for the following year. Mr. Borden suggested the Employee Performance Management System (EPMS) be used for the CEO/CIO as well as the Commission staff. The Commission received the draft as information.

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

Mr. Borden advised that the annual review of the Annual Investment Plan (AIP), the Statement of Investment Objectives (SIO), and the Statement of Investment Policies (SIP) had been started and proposed submitting the AIP draft to the Commission by March 1, 2010.

V. OTHER BUSINESS

Mr. Humphreys reported that NEPC had added staff for an office in Atlanta, Georgia. He introduced John Krimmel and provided the names of other new employees and noted that these new employees were former employees of Callan Associates.

Mr. Gillespie provided a summary of two conferences he attended recently. He attended the Public Boards Forum in San Francisco, and he provided a brief overview of the conference. He noted how some public funds were moving to a liability driven investment framework and reported that other public plans were suffering from real estate issues. He also provided an overview of another conference he and Chairman

Powers attended, the GAIM Hedge Fund Conference in Boca Raton, Florida. Mr. Gillespie noted that both he and Chairman Powers were presenters at the conference, and he noted that a significant topic of discussion during the conference focused on regulatory changes relating to hedge funds.

Mr. Borden referred to the Annual Investment Report (AIR) for Fiscal Year 2009 and stated that the AIR would be distributed in accordance with statutory requirements as soon as feasible. He noted that the report would also available to the public via the Commission's website.

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

VI. EXECUTIVE SESSION

Mr. Williams made a motion, which was seconded by Mr. Chellis and passed unanimously, for the Commission to meet in executive session to receive legal advice and to discuss pending contractual matters relating to Lehman Brothers. Mr. Gillespie announced that the Commission would meet in executive session to receive legal advice and to discuss pending contractual matters relating to Lehman Brothers, and he asked that Mr. Borden and Ms. Shealy remain in the meeting.

The Commission reconvened in open session, and Mr. Gillespie reported that the Commission received legal advice and discussed pending contractual matters relating to Lehman Brothers and that no action was taken by the Commission while meeting in executive session. He noted that Chairman Powers left the meeting at 1:55 p.m. due to a scheduling conflict. Mr. Ewing made a motion, which was seconded by Mr. Williams and passed unanimously, that the Commission authorize the Chairman and Mr. Borden to take actions consistent with the discussions in executive session.

VII. ADJOURNMENT

There being no further business, Mr. Gillespie thanked everyone for attending, and the meeting adjourned at 2:54 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 Commission's office and at the entrance, in the lobbies, and near the 2nd Floor Conference Room at 202 Arbor Lake Drive, Columbia, South Carolina, on January 22, 2010.]