South Carolina Retirement System Investment Commission
Meeting Minutes

March 18, 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; Shakun Tahiliani from the State Treasurer's Office; Ashley Aslin and Rhett Humphreys from New England Pension Consultants; Chris Anderson, Peggy Boykin, Sarah Corbett, Tammy Nichols, John Page, Danielle Quattlebaum, Robin Ledbetter, Joni Redwine, and Faith Wright from the South Carolina Retirement Systems; Michelle Cook and Marcia Stempien from Bank of New York Mellon; Sue Curran and Ethan Hugo from Pyramis Global Advisors; Shaka Rasheed from JP Morgan Asset Management; Gary Forte from UBS, Torrey Rush from Ed Rush Development Firm, LLC; 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 referred to the meeting's proposed agenda and requested the Commission add an executive session to receive legal advice and to discuss pending contractual matters relating to Lehman Brothers. There being no other changes, the agenda was adopted as amended.

Chairman Powers referred to the draft minutes from the meeting on January 26, 2010, and asked if there were any amendments. There being no amendments and upon motion by State Treasurer Converse Chellis and second by Reynolds Williams, the minutes from the January 26, 2010, Commission meeting were adopted as presented.

II. INVESTMENT ITEMS

Chairman Powers recognized Bob Borden, Chief Executive Officer/Chief Investment Officer (CEO/CIO) to provide information relating to the investment performance of the total portfolio (Portfolio) of the South Carolina Retirement Systems (Retirement System) for the periods ended December 31, 2009. Mr. Borden reported that as of December 31, 2009, calendar year performance was up 24.25 percent. He also noted that since 2007, the Portfolio performance had migrated from the lowest decile to the top quartile amongst other public funds. Mr. Borden explained that $1.1 billion of added value over the policy benchmark was a result of active management and active asset allocation decisions. He reported that the significant recovery in calendar year 2009 was achieved at a much lower risk than in previous years because of 20 percent less equity exposure than the Retirement System's peers.

Mr. Borden introduced Geoff Berg, Director of Research and Analytics, for discussions regarding the asset allocation. Mr. Berg, noting that the global economic situation was not as tenuous as one year ago, opined that the Portfolio should not be maximum underweight in liquid real assets. He stated that current liquid real asset exposure was limited to commodity exposure. Mr. Berg explained that Commission staff was in the process of evaluating how to implement Treasury Inflation-Protected Securities (TIPS) exposure. He mentioned the newly approved short duration asset class and discussed two recent trades. Mr. Berg noted that the asset allocation had moved away from a cash position with approximately 7 basis points (bps) of return to a treasury position with a potential 97 basis point return. He also explained that the excess global fixed income allocation had been repurposed in the GTAA risk parity. Mr. Borden reported he planned to make emerging market allocations neutral.

Mr. Borden presented a Foreign Currency Exposures chart to the Commission. He explained that this chart was produced because currency allocation was implicit in the asset allocation benchmarks. After further discussion, Chairman Powers explained that the Commission was not investing in foreign currency. He stated that any investment in a foreign company had a certain amount of foreign currency exposure, and the Commission requested a chart to keep track of exposure. Mr. Borden explained that diversification in currency helped to stabilize returns and lowers risk.

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

The Commission received several monthly performance reports. Mr. Berg noted that the estimated February performance was up 0.85 percent, the fiscal year-to-date returns were estimated to be 14.73 percent, and the one year returns were up 32 percent.

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

Mr. Borden introduced Rhett Humphreys from New England Pension Consultants for a quarterly report on investment performance for periods ended December 31, 2009. Mr. Humphreys reported that the Commission was ranked in the top 15 percent in NEPC's public fund database. He explained that for the calendar year, the portfolio was up over 700 bps, and he highlighted performance across various asset classes. Mr. Borden noted that reducing equity exposure and increasing credit exposure in 2009 had been an excellent strategy that had resulted in significant returns. Chairman Powers opined that Portfolio performance and reporting had been remarkable when compared to five years ago. He also stated that the additional work needed to develop new reports was probably not fully appreciated.

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

Mr. Borden introduced Hilary Wiek, Director of Public and Private Equities, to provide an overview of Pyramis Global Advisors (Pyramis). Ms. Wiek said that Pyramis, formerly known as Fidelity Management Trust Company, was the Retirement System's longest serving equity manager, having managed assets within the Portfolio for approximately 10 years. She explained that the current contract with Pyramis would expire May 18, 2010, so it was appropriate for the Commission to receive additional information from the firm prior to determining whether to continue the relationship.

Ms. Wiek said that NEPC and staff recommended continuing the relationship, and she provided a synopsis of Pyramis' history with the Retirement System. Ms. Wiek introduced Ms. Sue Curran, Senior Vice President and Principal from Pyramis for a presentation to the Commission. Ms. Curran thanked the Commission for the opportunity to work with the account and introduced Mr. Ethan Hugo, Portfolio Manager. Mr. Hugo explained Pyramis' Small Cap Core strategies, including fundamental research, bottom-up portfolio construction, different analyst teams, quantitative screening, risk controls, and diversification. The Commission and Mr. Borden asked questions throughout the presentation. After further discussion, Mr. Ewing made a motion, which was seconded by Mr. Williams and passed unanimously, to execute a new contract with Pyramis Global Advisors, to continue management of assets in the Small Cap Core Strategy, and 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.

(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 Selene Residential Mortgage Opportunity Fund II L.P. that were distributed to the Commission for review prior to the meeting. He reported that the proposed investment strategy consisted of investing in distressed mortgage loans and distressed real estate at discounted prices, while adding value through special servicing and loan modifications. Mr. Borden explained the funding process, reviewed associated fees, and explained the mechanics of the fund structure. He indicated that while the residential securities strategy was coming to an end, the whole loan strategy still had potential opportunities. In closing, Mr. Borden indicated that additional opportunities with Selene and Ranieri Partners were forthcoming and noted success within the current Selene Residential Mortgage Opportunity Fund I L.P.

After further discussion, Mr. Gillespie made a motion to invest an amount not to exceed $150 million or 15% of the total fund commitments to Selene Residential Mortgage Opportunity Fund II L.P., and to authorize the Chairman or his designee, subject to completion of satisfactory due diligence review by NEPC, to negotiate and execute any necessary documents to implement the investment upon approval for legal sufficiency by General Counsel. Upon second by Mr. Ewing, the motion passed unanimously.

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

Mr. Borden introduced Hershel Harper, Deputy Chief Investment Officer, to provide an overview of Post Advisory Group's (Post) Limited Term High Yield Strategy. Mr. Harper reported that Post had proposed managing a separate portfolio with shorter duration of high yield assets customized for the Retirement System. Mr. Gillespie noted that he had never seen the short end of a high yield modeled out through times and cycles and questioned if Post had provided data. Mr. Harper indicated that Post was in the process of sending their data to the Commission. Mr. Borden explained that he was building $1 billion plus laddered treasury with one to three year duration that could possibly earn 97 bps instead of 7 bps. He said that a separate laddered credit portfolio would add even more bps of revenue to the laddered portfolio. Mr. Gillespie expressed concerns with returns, stating that when a company defaulted, most return would be expected on the recovery. He opined that if the manager turned the portfolio over because the duration was short, there would not be time to realize the return at recovery. Mr. Harper replied that Post was not only underwriting the credit fundamentals, they had a staff of a dozen attorneys reviewing documentation with respect to credit issues. Chairman Powers suggested creating an internal Limited Term High Yield Strategy with assistance from the Commission's strategic partners. Mr. Borden reported that Post was currently managing a portion of the Portfolio and indicated that this proposed investment would be a separate contract.

After further discussion, Mr. Ewing made a motion, which was seconded by Mr. Williams, to appoint the Post Advisory Group to manage assets not to exceed $250 million in a Limited Term High Yield Strategy 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. The motion passed with Messrs. Chellis, Ewing, Gillespie, and Williams voting in favor of the motion. Chairman Powers voted against the motion.

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

Mr. Borden provided the Commission with an update on changes to the Annual Investment Plan (AIP), the Statement of Investment Objectives (SIO), and the Statement of Investment Policies (SIP). He reported that revisions to the AIP, SIO, and SIP included defining terms, synchronization with new and evolving processes, adding information regarding organizational and operational development, asset class changes and additions, allocation changes, benchmarks additions, additional reporting requirements and performance objectives clarification. In reply to a question about the statutory deadlines for the AIP, Nancy Shealy, General Counsel, noted that by statute, the AIP must be presented to Commission by April 1st and must be approved by the Commission by May 1st. She noted further that the AIP could be amended at any time during the fiscal year, and quarterly review was implied by the statute. Mr. Gillespie suggested the creation of a calendar on the Commission's website that would outline specific important dates for Commission operations. Mr. Borden indicated that information would be added to the website before the Strategic Planning Retreat in May 2010. Chairman Powers suggested presenting the AIP, SIO, and SIP to the Audit Committee for review.

After further discussion, Mr. Williams made a motion, which was seconded by Mr. Ewing and passed unanimously, to approve the Annual Investment Plan (AIP). The

Commission carried over further consideration of the SIO and SIP to the Strategic Planning Retreat in May 2010.

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

III. ADMINISTRATIVE ITEMS

Mr. Borden provided the Commission with an update on the status of the Commission's Administrative Policies and noted that the vendor selection policy was currently being drafted. He referred to the draft CEO/CIO and Commission Evaluations Policy, which had been presented to the Commission for review at the previous meeting, and to the first drafts of the Committees and Communications Policies. Mr. Gillespie expressed concerns with the Committees Policy as currently drafted, and Mr. Borden noted that it was an initial draft that would be edited prior to the next Commission meeting. After further discussion, Mr. Ewing made a motion, which was seconded by Mr. Williams and passed unanimously, to approve the CEO/CIO and Commission Evaluation Policy. The Commission carried over further consideration of the Committees and Communications Policies to the Strategic Planning Retreat in May 2010.

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

Mr. Borden provided the Commission with an update regarding Facilities Relocation. He reported that space was available in the Capitol Center and an internal Facilities Relocation Workteam had been formed. Mr. Borden stated that the Commission's current lease would need to be terminated. He explained that the proposed space was underutilized currently, so the Commission would have room to expand within the next several years, if necessary. Chairman Powers stated that effectively, the Commission would be paying the Retirement System rent because the Portfolio invested in a company that owns a share of the Capitol Center. After further discussion, Mr. Williams made a motion, which was seconded by Mr. Gillespie and passed unanimously, to authorize Mr. Borden to take the necessary steps to implement the Facilities Relocation plan, including terminating the current lease when appropriate.

IV. EXECUTIVE SESSION

Mr. Williams made a motion, which was seconded by Mr. Gillespie 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. Chairman Powers 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 Chairman Powers 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.

Mr. Ewing made a motion, which was seconded by Mr. Williams and passed unanimously, that the Commission authorize the Chairman, Mr. Williams, Mr. Borden and counsel to take actions consistent with the discussions in executive session, which included retaining associate counsel to assist with issues relating to Lehman Brothers.

V. ADJOURNMENT

There being no further business, Chairman Powers thanked everyone for attending. Mr. Williams made a motion to adjourn, which was seconded by Mr. Gillespie and passed unanimously, and the meeting adjourned at 1:54 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, prior to 9:00 a.m. on March 17, 2010.]