

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

February 26, 2015

**Capitol Center
1201 Main Street, 15th Floor
Columbia, South Carolina 29201
Meeting Location: Presentation Center**

Commissioners Present:
Mr. Edward Giobbe, Chairman
Dr. Rebecca Gunnlaugsson, Vice Chair
Mr. Curtis Loftis, State Treasurer
Ms. Peggy Boykin, PEBA Executive Director
Mr. Allen Gillespie
Dr. Ronald Wilder
Mr. Reynolds Williams (via telephone)

Others present for all or a portion of the meeting on Thursday, February 26, 2015:

Ashli Aslin, Geoff Berg, Betsy Burn, Gail Cassar, Andrew Chernick, Dori Ditty, John Farmer, Robert Feinstein, Scott Forrest, Mitchell Goldsmith, David Haas, Hershel Harper, Michael Hitchcock, Monica Houston, Adam Jordan, James Manning, Steve Marino, Bryan Moore, Eric Nelson, Eric Rovelli, Jon Rychener, Lorrie Smith, and Brian Wheeler from the South Carolina Retirement System Investment Commission; Faith Wright from the Public Employee Benefit Authority; Clarissa Adams and Robin Johnson from the State Treasurer's Office; Suzanne Bernard from Hewitt EnnisKnupp, Inc.; Wayne Pruitt from the State Retirees Association of South Carolina; Tom Posey and Steve Yontz from SC ETV; Bruce Crouch from Thoughtful Productions; Andrea Taylor from Creel Court Reporting; and Travis Pritchett.

I. CALL TO ORDER AND CONSENT AGENDA

Chairman Edward Giobbe called the meeting of the South Carolina Retirement System Investment Commission ("Commission") to order at 10:01 a.m. Chairman Giobbe referred to the proposed meeting agenda and asked for a motion to adopt the agenda. Mr. Allen Gillespie made a motion to adopt the agenda as presented, and Dr. Ronald Wilder seconded the motion, which was unanimously approved.

Chairman Giobbe referred to the draft minutes from the October 2, 2014 Commission meeting and asked if there were any objections or corrections. Hearing none, Chairman Giobbe asked for a motion to adopt the minutes. Mr. Gillespie made a motion to adopt the minutes of the October 2, 2014 Commission meeting as presented, which was seconded by Dr. Wilder. The motion was approved unanimously.

Chairman Giobbe referred to the draft minutes from the October 23, 2014 Commission meeting and asked if there were any objections or corrections. No objections or corrections were registered. Chairman Giobbe asked for a motion to adopt the minutes. Dr. Rebecca Gunnlaugsson made a motion to adopt the minutes of the October 23, 2014 meeting as presented, which was seconded by Mr. Reynolds Williams. The motion was approved unanimously.

Chairman Giobbe referred to the draft minutes from the November 20, 2014 Commission meeting and asked if there were any objections or corrections. Mr. Curtis Loftis asked that relevant portions of the transcript of the November 20, 2014 meeting and page 51 of the “Discussion of Asset Allocation and Economic Outlook – November 2014” presentation by Hewitt EnnisKnupp, Inc. (“HEK”) be included with the minutes. Ms. Dori Ditty, Legal and Policy Counsel, also asked that the draft minutes be amended to correct a scrivener’s error on page 6 of the minutes. There being no objection to the requested amendments, Chairman Giobbe asked for a motion to adopt the minutes as amended. Dr. Wilder made a motion to adopt the meeting minutes of the November 20, 2014 meeting as amended, which was seconded by Dr. Gunnlaugsson. The motion was approved unanimously.

II. CHAIRMAN’S REPORT

Chairman Giobbe opened a discussion regarding committee composition. Chairman Giobbe explained that, in response to observations made by Mr. Gillespie, Staff had prepared an amendment to the Commission’s Governance Policies to require the Commission’s Chairman to present an initial slate of proposed committee appointments for ratification no later than the second regular Commission meeting of the Chairman’s term. Mr. Gillespie made a motion to amend Governance Policy VI(B)(1) accordingly. Dr. Gunnlaugsson seconded the motion, which passed unanimously.

III. EXECUTIVE DIRECTOR’S REPORT

Mr. Michael Hitchcock, Executive Director, began by informing the Commission that RSIC had adopted a new organizational slogan: “Beneficiaries First: Their Future, Our Mission”. Mr. Hitchcock explained that the purpose of the slogan is to develop a clear mission and cultural identity for RSIC’s staff (“Staff”). He also informed the Commission that on February 1, 2015, MSCI Barra had been selected to serve as RSIC’s risk system vendor and that the implementation process would likely conclude in the next six months. Next, Mr. Hitchcock explained to the Commission that technical updates had been made to the Commission’s Sourcing Conflict and Disclosure Form, and that in the future, the Chief Investment Officer (“CIO”) would complete the form for every new investment considered by the Commission. He also explained that, in fulfillment of one of the recommendations of Funston Advisory Services’ (“Funston”) fiduciary audit, Staff had created an Exempt Service Provider Sourcing and Conflict Disclosure form, which will be completed by Staff for each procurement that is exempt from the South Carolina Consolidated Procurement Code. Mr. Hitchcock updated the Commission on the status of RSIC’s budget request and informed the Commission that Staff would continue to track its progress. In compliance with the requirements of the South Carolina Freedom of Information Act, Mr. Hitchcock announced the Commission’s meeting dates for the remainder of 2015.

Mr. Hitchcock asked Mr. Gillespie, as Chairman of the Audit Committee, and Mr. Hershel Harper, CIO, to introduce new members of the Commission’s staff. Mr. Gillespie introduced the new Director of Enterprise Risk Management and Compliance, Mr. Eric Nelson. Mr. Harper introduced Mr. David Haas, the new Director of Private Equity.

Mr. Hitchcock then reminded all members of the Commission that, due to a change in law, the new deadline for submission of Statements of Economic Interests is March 30, 2015 at noon. He also recommended that the Commission amend its Governance Policies to reflect the new deadline. Mr. Gillespie made a motion to amend Governance Policy I(B)(4)(a)(ii) to

change the deadline for submission of Statements of Economic Interests from April 15 of each year to March 30. Dr. Gunnlauggson seconded the motion, which passed unanimously.

Chairman Giobbe asked if there were any questions for Mr. Hitchcock. Dr. Wilder asked Mr. Hitchcock if there were any recent departures of Staff, and Mr. Hitchcock responded that Mr. Louis Darmstadter had left the organization at the beginning of January.

IV. AUDIT COMMITTEE REPORT

Mr. Gillespie presented the Audit Committee's report. He noted that since the Commission's November meeting, the Audit Committee had conducted a series of interviews for the Director of Enterprise Risk Management and Compliance ("ERM") position, which resulted in Mr. Nelson being hired. Mr. Gillespie also noted that the Audit Committee had conducted a review of the Audit Committee Charter that related mostly to the ERM position. Mr. Gillespie also reported that the procedures relating to RSIC's annual submission of a management representation letter to the Public Employee Benefit Authority ("PEBA") had been reviewed. He also noted that the Audit Committee had received an internal audit report on investment fees and expenses for 2013 and 2014.

Mr. Loftis asked if the Audit Committee received any findings from the external auditor about changes in the Consolidated Annual Financial Report ("CAFR") from one year to the next. Mr. Gillespie replied that the external auditor had not provided any such information. Ms. Peggy Boykin added that the CAFR is a statement in time, and there is no document comparing annual versions of the CAFR. Mr. Loftis expressed concern that no written version of the CAFR shows key changes from year to year given the length of the CAFR. Mr. Gillespie noted that the Audit Committee had not asked for any such review because the CAFR is not an RSIC-generated document. Ms. Boykin indicated that PEBA welcomed the chance to work with Mr. Loftis and the State Treasurer's Office to provide any information they might require.

V. CIO'S REPORT

Mr. Harper began by announcing that Ms. Julia Lee had been selected for the position of Private Equity Officer and would begin work at RSIC shortly. He informed the Commission that RSIC is interviewing for the positions of Real Estate Investment Officer and Private Markets Senior Investment Officer. Mr. Harper explained RSIC's new training program, which should be fully implemented by June of 2015. Mr. Kevin Matherly and Mr. Corby Selvey will be the first participants in this program. Mr. Gillespie asked about the status of efforts to retain a compensation consultant. Mr. John Farmer, Human Resources Director, explained that Staff was in the process of reviewing the responses to the Request for Proposals.

Mr. Harper then turned to the subject of the Commission's strategic partnerships. He announced that later in the meeting one of the Commission's strategic partners, WL Ross & Co. LLC ("WL Ross"), would make a presentation. Mr. Harper then provided an overview of the history of the Commission's strategic partnership program and an update on how the strategic partnerships are managed by Staff, including Staff's continued efforts to improve strategic partnership reporting transparency. Mr. Harper asked if there were any questions.

Ms. Boykin inquired as to the reporting that is available to the Commission as to investment and other decisions made regarding the Commission's strategic partnerships. Mr. Harper explained that while there has not been a routine reporting mechanism, this type of reporting

is being developed along with the implementation of the new administrator system. Ms. Boykin further inquired whether strategic partnership decisions made by the CIO are made known to Mr. Nelson and Ms. Monica Houston, Chief Audit Officer, for purposes of risk assessment and audit review. Ms. Houston replied that a strategic partnership compliance review is planned. Mr. Andrew Chernick, Managing Director of Operations and Operational Due Diligence, added that strategic partnership investments undergo the same due diligence report, completeness check, and completeness certification as investments that go before the Commission. Ms. Boykin asked about the reporting for co-investment decisions, and Mr. Harper and Mr. Gillespie explained that the process is the same.

Mr. Harper gave a brief market update and noted that the investing environment continues to be challenging, with estimated fiscal year to date returns (as of February 20, 2015) of 1.3 percent, as compared to the policy benchmark return of 1.4 percent. He then announced that Mr. Geoff Berg, Managing Director, would provide a presentation on capital markets and the Portfolio's performance through December 31, 2014. Mr. Harper also remarked on the economic framework through which Staff view markets in order to frame Mr. Berg's presentation. Mr. Gillespie asked about the continued inclusion of foreign bonds in the fixed income asset class, given the current low returns of these bonds. Mr. Harper explained Staff's continuing efforts to restructure the fixed income program and also stated that the topic would be discussed in Executive Session.

Mr. Berg provided an in-depth review of current market conditions. He provided an overview of the performance of each asset class compared to the Commission's benchmarks, noting that commodities had underperformed dramatically. Mr. Berg also commented on currency risks and its material, negative impact on the Portfolio's performance during the first half of the current fiscal year due to increased volatility. In the ensuing discussion, Mr. Harper, Mr. Berg, and the commissioners discussed currency risk, and currency management options (including potential methods of hedging currency risk), as well as the Portfolio's currency holdings. Staff noted that over the long term, shorter-term currency moves tend to wash out. Ms. Suzanne Bernard from HEK clarified that decisions to hedge currencies are, as a general matter, being left to individual managers.

Mr. Berg began his presentation of the Portfolio's 2014 performance with a discussion of underperforming asset classes. He noted that both the global fixed income and mixed credit portfolios underperformed, while the low beta hedge fund and real estate portfolios performed well. Mr. Berg noted that the Portfolio is experiencing abnormally low volatility, which is likely not sustainable. In summary, Mr. Berg stated that, given the current asset allocation of the Portfolio, the returns of the Plan are driven by the performance of global equities. Ms. Bernard emphasized that a balance between public and private market exposure continues to be warranted.

Next, Ms. Bernard began a discussion of performance highlights of the trust funds' private market investments. Mr. Loftis asked about the level of return necessary for the Plan to enjoy higher peer group rankings. Ms. Bernard responded that the Plan is designed to do well on a risk-adjusted basis over time. She explained that the Portfolio may forego higher returns during good market conditions in exchange for better downside protection during poor market conditions and good comparative performance in 'sideways' markets. Ms. Bernard emphasized that this is a long-term strategy, but could result in lower shorter-term peer group rankings depending on the state of market. Ms. Bernard explained that HEK is very pleased

with the total value of the Portfolio's private market investments versus the amount paid into the various funds as well as with overall net return. Ms. Bernard went on to explain the returns of each sector of the private markets portfolio and their pacing plans.

Mr. Harper presented an initial draft of the Annual Investment Plan ("AIP") for Fiscal Year 2015-2016 and asked for comments by April 1, 2015 for incorporation into the draft AIP, which will be presented for approval at the Commission's April 23, 2015 meeting. He then gave an overview of the changes to the AIP and Staff's recommendations. Mr. Harper noted that Staff is considering new investments in infrastructure. Dr. Gunnlaugsson asked for examples of such investments. Mr. Harper offered a few illustrative examples, including wind farms, hydroelectric plants, other power generation facilities, toll roads and airports. He also offered a high-level overview of the asset class plans contained in the AIP.

Dr. Wilder asked when Staff begins discussing the Portfolio's asset allocation. Mr. Harper replied that it is an ongoing conversation. Dr. Wilder noted that one of the recommendations of the Funston fiduciary audit was that Commissioners engage in more strategic decision-making and focus less on RSIC's operations. He asked if Staff anticipated evolving economic conditions leading to more discussions about changing the Portfolio's asset allocation. Mr. Harper responded that conversations about what has worked in the Portfolio, what has not, where to go from a strategic standpoint, and what is happening in the broader economy would be ongoing.

Mr. Loftis noted that the Commission had adopted Funston's recommendation of delegating more decision-making within asset classes to Staff. Mr. Harper stated that the transition is taking place. Mr. Gillespie concurred with Mr. Harper but emphasized that the general implementation of strategies for asset classes should continue to receive Commission input. Mr. Loftis reiterated a desire to have meaningful discussion about asset class activities. Mr. Hitchcock addressed these concerns, and suggested to Chairman Giobbe that such a discussion would be appropriate for the Commission's annual retreat in June.

VI. EXECUTIVE SESSION

Mr. Gillespie made a motion, which was seconded by Dr. Gunnlaugsson and passed unanimously, to recede into Executive Session to receive legal advice and briefings and discuss investment matters pursuant to S.C. Code Ann. §§ 30-4-70(a)(2), 9-16-80, and 9-16-320. The Commission receded into Executive Session at 12:28 p.m. and reconvened in open session at 3:17 p.m.

VII. INVESTMENT RECOMMENDATIONS

Mr. Harper recognized Mr. Bryan Moore, Director, for a presentation regarding the scope of the Commission's strategic partnership with WL Ross. Mr. Moore explained that the Commission initially engaged Ranieri Partners Conduit Manager, LLC ("Ranieri") to manage the R-SC Financing Conduit, LLC strategic partnership. In late 2012, the Commission engaged WL Ross to replace Ranieri as the manager and convert the strategic partnership into the WLR-SC Financial Conduit LLC. While the discussion and materials provided to the Commission at that time specifically contemplated new investments across a broad universe, the motion to hire WL Ross failed to broaden the scope of WL Ross' mandate beyond financial services and real estate investments. Mr. Moore explained that the purpose of the motion before the Commission was to rectify this oversight.

Mr. Gillespie made a motion, which was seconded by Dr. Wilder and passed unanimously, to (i) adopt the recommendation of the CIO and the Internal Investment Committee with regard to the WLR-SC Financing Conduit, LLC to ratify and confirm the Commission's intention that the WLR-SC Financing Conduit, LLC (the "WLR SP") be available as a potential vehicle for investments, including, but not limited to, limited partnership interests, limited liability companies, operating companies, co-investments, fund of one accounts, and separately managed accounts, in a variety of industries and strategies across WL Ross & Co., LLC and its affiliated companies, including but not limited to Invesco, Ltd., as capacity within the existing WLR SP permits and utilizing the current approval process for investments within strategic partnerships; and (ii) authorize the Chairman or his designee to negotiate and execute any amendments to the WLR SP documents that may be necessary to reflect this ratification and to make any other necessary technical updates or amendments to the constituent WLR SP documents, upon approval for legal sufficiency by RSIC Legal.

Next, Mr. Harper recognized Mr. Steve Marino, Investment Officer, who provided a presentation regarding renewal of the Investment Management Agreement ("IMA") with Pyramis Asset Management ("Pyramis"), a small cap core manager that has served the Portfolio since 2000. Mr. Marino noted that Pyramis' current IMA expires in May of 2015. He provided an overview of Pyramis' investment team, process, the strategy's fit in the Portfolio, performance, and fees. Mr. Loftis asked if Pyarmis' management fees were in line with their industry peers, and Mr. Marino replied that they were.

Mr. Gillespie made a motion that the Commission (i) adopt the recommendation of the CIO and the Internal Investment Committee as set forth in the memo dated February 26, 2015 regarding Pyramis Asset Management; (ii) authorize the renewal of the Commission's existing contract with Pyramis Asset Management for another term of up to five years; and (iii) authorize the Chairman or his designee to negotiate and execute any necessary documents to implement the renewal of the Investment as approved by the Commission (1) upon documented approval for legal sufficiency by RSIC Legal, and (2) upon expiration of the three business day review period as approved by the Commission on May 1, 2014 (or as the review period may be amended or superseded by the Commission). Dr. Gunnlauggson seconded the motion, which passed unanimously.

Mr. Marino also provided a presentation on PineBridge Investments' US Senior Secured Loan strategy. He discussed the search objectives and process, the PineBridge team, the firm's investment strategy and process, the strategy's fit in the Portfolio, the investment rationale and considerations, and the fees for the strategy.

Mr. Gillespie moved that the Commission (i) adopt the recommendation of the CIO and the Internal Investment Committee as set forth in the Summary Terms Chart on Page 1 of the Due Diligence Report dated February 26, 2015 regarding PineBridge Investments LLC; (ii) authorize an investment of up to 4% of Plan Assets into the PineBridge US Senior Secured Loans strategy through the use of a separately managed account; (iii) 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, and (2) upon expiration of the three business day review period as approved by the Commission on May 1, 2014 (or as the review period may be amended or superseded by the Commission); and (iv) 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 Systems Trust Funds' obligations with respect to the Investment. Dr. Gunnlaugsson seconded the motion, which passed unanimously.

Mr. Harper stated that Mr. Eric Rovelli, Senior Real Estate Officer, would make a presentation on Morgan Stanley's Prime Property Fund. Chairman Giobbe announced that he would make a statement and read the following: "In accordance with South Carolina Code Section 8-13-700(B), I will not be participating in the deliberations, voting, or other actions on the matter before the South Carolina Retirement System Investment Commission regarding the Morgan Stanley Prime Property Fund. I retired from and receive a pension from Morgan Stanley, thus to avoid a potential conflict or even the appearance of impropriety, I will recuse myself from the vote. I understand that this statement will be attached to the minutes of the February 26, 2015 Commission meeting" (a copy of this statement is attached).

Mr. Eric Rovelli provided an overview of the Morgan Stanley's Prime Property Fund ("Prime Fund"). He discussed the search objectives and process, the strategy's fit in the real estate portfolio and with the pacing schedule, the firm's capabilities and process, and the investment rationale and considerations. Mr. Loftis asked if, in 2008 and 2009, there were any barriers to withdrawal from the Prime Fund other than quarterly withdrawal limitations set by the Prime Fund. Mr. Rovelli replied that there was a \$350 million cash outflow limit in 2008. Mr. Rovelli added that during a market downturn a limited partner in the Prime Fund will wait in an exit queue until there is available cash for redemption. Mr. Rovelli then answered questions from Mr. Gillespie about the costs associated with the Prime Fund. Mr. Gillespie asked about the differences between investing in the Prime Fund and a real estate investment trust ("REIT"). Ms. Bernard replied that REIT income may be higher over time, but there are other qualities to the Prime Fund that HEK believes to be attractive, including stability of returns and diversification of the real estate program at a higher rate of return than other stabilizing assets.

Mr. Williams made a motion that the Commission (i) adopt the recommendation of the CIO and the Internal Investment Committee as set forth in the Summary Terms Chart on Page 1 of the Due Diligence Report dated February 26, 2015 regarding Morgan Stanley Prime Property Fund, LLC; (ii) authorize an investment of up to \$400 million to the Morgan Stanley Prime Property Fund, LLC, with an initial subscription of up to \$200 million; (iii) authorize the CIO to allocate the remaining capacity into the Morgan Stanley Prime Property Fund, LLC, with the timing and the amounts to be allocated within the discretion of the CIO, so long as the total subscribed does not exceed the initial \$400 million allocation; (iv) 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, and (2) upon expiration of the three business day review period as approved by the Commission on May 1, 2014 (or as the review period may be amended or superseded by the Commission); and (v) 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 Systems Trust Funds' obligations with respect to the Investment. Dr. Wilder seconded the motion, which passed unanimously.

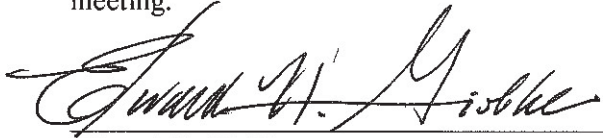
VIII. ADJOURNMENT

There being no further business and upon motion by Mr. Gillespie to adjourn, which was seconded by Dr. Gunnlaugsson and passed unanimously, the meeting adjourned at 4:10 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 Presentation Center at 1201 Main Street, Columbia, SC, at 9:13 a.m. on Wednesday, February 25, 2015.]

In accordance with S.C. Code Section 8-13-700(B), I will not be participating in the deliberations, voting, or other actions on the matter before the South Carolina Retirement System Investment Commission regarding the Morgan Stanley Prime Property Fund. I retired from and receive a pension from Morgan Stanley. Thus, to avoid a potential conflict or even the appearance of impropriety, I will recuse myself from the vote.

I understand that this statement will be attached to the minutes for the February 26, 2015 Commission meeting.



Edward N. Giobbe

26 Feb 15
Date