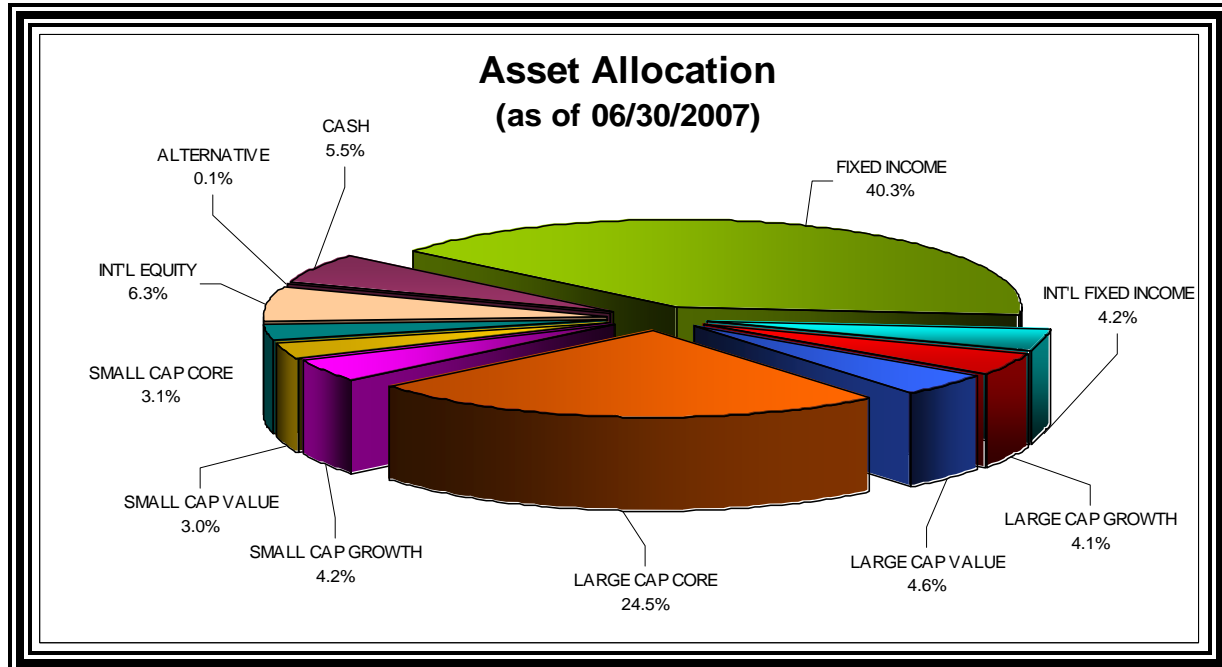


# South Carolina Retirement System Investment Commission

## June 30, 2007 Quarterly Report

Pursuant to SC Code §9-16-90



<b>Investment Performance (06/30/07)</b>				
	Quarter	1 Year	3 Years	5 Years
<b>Total Fund Return (gross)</b>	<b>3.5</b>	<b>13.6</b>	<b>8.5</b>	<b>8.6</b>
<b>Policy Benchmark Return</b>	<b>2.7</b>	<b>12.8</b>	<b>7.8</b>	<b>8.1</b>
<b>Large Fund Median Return</b>	<b>4.5</b>	<b>17.8</b>	<b>12.8</b>	<b>11.8</b>
<i>Large Fund Percentile Rank<sup>A</sup></i>	19	9	6	6
<b>Equity Return (gross)</b>	<b>6.0</b>	<b>18.6</b>	<b>12.0</b>	<b>11.1</b>
<b>Russell 3000</b>	<b>5.8</b>	<b>20.1</b>	<b>12.4</b>	<b>11.5</b>
<i>Equity Percentile Rank<sup>B</sup></i>	42	37	33	31
<b>Fixed Income Return</b>	<b>(0.2)</b>	<b>7.0</b>	<b>4.8</b>	<b>5.5</b>
<b>Lehman Aggregate</b>	<b>(0.5)</b>	<b>6.1</b>	<b>4.0</b>	<b>4.5</b>
<i>Fixed Income Percentile Rank<sup>C</sup></i>	62	78	75	74

<sup>A</sup> The Large Fund Universe was comprised of 134 unique observations where 100 is best, 1 is worst  
<sup>B</sup> The Total Equity Universe was comprised of 4,957 unique observations where 100 is best, 1 is worst  
<sup>C</sup> The Total Fixed Income Universe was comprised of 2,350 unique observations where 100 is best, 1 is worst

### Investment Analysis:

- For the Fiscal Year, the fund exceeded its actuarial assumed rate of return: 13.6% vs. 7.25%.
- The 2<sup>nd</sup> Quarter of 2007 led to further records in US markets, with the Dow and S&P hitting new highs in early June. However, the NASDAQ turned in the best performance due to its heavy technology weighting and light subprime and interest rate exposure.
- Fixed-income markets were slightly negative in response to tightening credit, continued subprime mortgage woes, and inflationary fears. Credit spreads widened as market participants began shedding risky positions and purchasing quality US Treasury issues in response to credit shocks and uncertainty about the direction and duration of the difficulties.

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- The Total Fund returned 3.5% for the quarter ending 6/30/2007, with solid performance across all equity styles and capitalization sizes.
- Combined, the fund's large and small cap equities returned 6.0% for the quarter, with large caps outperforming small caps. This latter may have reflected a flight to quality in the US Equity market in the face of uncertainties surrounding credit markets.
- For the quarter, benchmark returns on large and small cap growth stocks exceeded those of large and small cap value stocks for the first time in years.
- In adherence to the fund's asset transition plan, domestic equity positions were reduced by 11% during the quarter. This allowed for the funding of international equity and foreign fixed-income, which increased 6% and 4%, respectively.

### **Achievements During the Quarter:**

- Adopted Annual Investment Plan for FY 2008.
- Approved 3 Private Equity fund managers: \$125 million to the Pantheon USA VII fund, \$75 million to the Pantheon Euro V fund and \$100 million to the TCW Special Mortgage Credits Fund.
- Approved 3 Global Asset Allocation fund managers: \$350 million to the GMO Real Return Global Balance Asset Allocation Fund, \$350 million to the Putnam Total Return Fund and \$350 million to the Bridgewater All Weather Fund.
- Approved 3 Absolute Return fund managers: \$250 million to the Mariner Partners/Atlantic Fund, \$250 million to the FrontPoint Multi-Strategy Fund and \$500 million to the Morgan Stanley Completion Fund.
- Terminated 5 domestic equity managers: Flippin, Bruce & Porter, Sands Capital Management, Wellington Management Company, AllianceBernstein and Alliance Capital. \$2.4 billion of investments were successfully transitioned to the Beta Overlay portfolio.
- Approved shifting the mandate for TimesSquare Capital Management from Small Cap Growth to Small/Mid-Cap Growth.
- Approved engagement of several law firms as associate counsel to assist in the review of pending investment contracts.
- Completed the integration of Fixed-Income management from the State Treasurer's Office to the Investment Commission; integration culminated with the hiring of two Treasurer's Office Employees: Senior Fixed-Income Officer, Rick Patsy and Fixed-Income Officer, Nicole Waites.
- Aronson mandate shift from long only to a 130/30 long/short strategy.

### **Projects in Progress:**

- Continue to review Statement of Investment Objectives and Statement of Investment Policies.
- Beta Overlay manager coordinating transition toward new asset allocation.
- Completion of office facilities, selection of office furniture and staff occupation is expected during the 3rd quarter.
- Integration of fixed-income, cash management, and custody functions for the Retirement System assets into the Investment Commission.
- Contract negotiations continue on approved investments. Funding will be advanced as contracts are finalized.
- Continue contract negotiations with Jamison, Eaton & Wood for investment advisory services and Bank of New York Mellon for custodial services.
- Continue due diligence on Global Asset Allocation and Absolute Return strategies and propose structure of Real Estate Investment Plan.

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