

South Carolina Retirement System Investment Commission Meeting Minutes

April 13, 2006

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

Commissioners Present:

Mr. Reynolds Williams, Chairman
Mr. James Powers, Vice Chairman
Treasurer Grady Patterson
Mr. Blaine Ewing
Mr. Allen Gillespie
Dr. Travis Pritchett

Others present for all or a portion of the meeting: CH Maguire from the Office of the Governor; Robert Borden, Nancy Shealy and Ashli Aslin from the South Carolina Retirement System Investment Commission; Rick Patsy, Trav Robertson, Frank Rainwater, and Shakun Tahiliani from the State Treasurer's Office; Jay Love from Mercer Investment Consulting; Keith Wood from Jamison, Eaton & Wood, Inc.; Peggy Boykin, Faith Wright, Travis Turner, Sarah Corbett, Tammy Davis, Diane Poston, Joni Redwine, Danielle Quattlebaum, and Alice Copeland from the South Carolina Retirement Systems; John Wiseman from Greenwood Capital Associates, LLC; John Huffman, a retired state employee; Crawford Clarkson from the State Retirees Association; and Charley McDonald from the South Carolina Trooper's Association.

I. CALL TO ORDER AND CONSENT AGENDA

Chairman Reynolds Williams called the meeting of the South Carolina Retirement System Investment Commission (Commission) to order at 10:00 a.m. and welcomed the Commissioners and guests.

Chairman Williams called for objections or amendments to the meeting's proposed agenda. Mr. Allen Gillespie noted that a revised agenda had been published the prior afternoon, and he suggested that meeting agendas and supporting materials be distributed to the Commissioners more in advance of meetings. After discussion, Mr. Gillespie moved that proposed meeting agendas be distributed to the Commissioners Fridays before scheduled meetings and that supporting documentation be distributed Mondays before scheduled meetings. Treasurer Grady Patterson seconded the motion, which passed unanimously. Chairman Williams noted that a vote would be held on an ad hoc basis to determine whether last minute items should be added to the agenda.

Chairman Williams called for objections or amendments to the minutes from the Commission meeting on March 9-10, 2006. Mr. Gillespie requested that a more detailed synopsis of the Tactical Asset Allocation presentation be added to the minutes to

include the six components of a Beta portfolio. Chairman Williams asked staff to draft a revision for the Commission's consideration at the next meeting. Mr. Gillespie made a motion to adopt the minutes from the meeting on March 9-10, 2006, with the understanding that they would be further supplemented. The motion was seconded by Mr. Blaine Ewing and passed unanimously.

Chairman Williams reported that he testified before the Senate Finance Subcommittee regarding Senate Bill 1094 (s.1094). He advised that the bill subsequently passed the Senate Finance Committee and the full SC Senate and would be introduced in the SC House of Representatives on Tuesday, April 18, 2006. He said that he and staff would keep the Commission updated on the progress of the bill.

Chairman Williams reported that he spoke before the State Retirees' Association at its annual meeting. He said he provided an update on the Commission's activities and explained the impact of proposed constitutional amendment that would allow for investments in additional asset classes. Dr. Travis Pritchett stated that the State Retirees Association was pleased with the Commission's progress.

Chairman Williams reported that he attended the Institutional Investor Institute's Public Funds Roundtable on April 5-7, 2006, in Santa Barbara, California. He stated that the presentations were very relevant to issues facing the Commission. He agreed to provide the Commissioners with electronic access to the presentation documents from the conference when available.

Chairman Williams noted that a document outlining the Commission's preliminary strategic plan was included in the Commissioners' meeting materials. He requested that each Commissioner carefully consider the document for discussion in the strategic planning sessions intended for subsequent Commission meetings.

Chairman Williams stated that a copy of the letter sent to the State Budget and Control Board (Board) regarding the expected actuarial rate of return was also included in the Commissioner's meeting materials.

Ms. Nancy Shealy reported that the administrative processes for the Commission were progressing. She also provided a brief summary of the Commission's budget for the fiscal year ending June 30, 2006. She stated that the budget authorization for Fiscal Year 2007 passed the SC House of Representatives, which included the requested budget authorization of approximately \$2.1 million and an additional full-time equivalent (FTE) employee position for an investment analyst. Ms. Shealy explained the budget process and advised that, if necessary, there were mechanisms to request authorization for additional funds and/or FTE positions during the fiscal year as the Commission develops. Chairman Williams asked whether legislative approval was required for the Commission's budget. Mrs. Peggy Boykin from the South Carolina Retirement Systems (Retirement Systems) stated that every agency, regardless of funding source, must go through the legislative budget process.

Ms. Shealy stated that an error occurred when Senate Bill 618 (Act 153) was codified. She said Act 153 deleted S.C. Code §9-16-340(C) that related to the 40 percent limit on equities and the local broker preference requirement under the old law. However, those provisions were inadvertently retained in the codified law. She stated that she informed legislative counsel, and they were working to correct the error.

Mr. Blaine Ewing suggested that the Commission begin to establish and implement a comprehensive public relations strategy to educate citizens regarding the constitutional amendment allowing for the investment in additional asset classes. Chairman Williams agreed and outlined steps he intended to take in that regard. He stated that an item related to the Commission's public relations campaign would be on the May meeting agenda.

Chairman Williams and the Commission welcomed Mr. Robert Borden, Chief Investment Officer (CIO) for the Commission. Mr. Borden discussed the performance of the Retirement Systems' portfolio compared with similar funds. He explained that the relatively inferior performance was due to the structural limitations placed on the portfolio. He said that the most important thing the Commission could do during the next six months would be to implement a concise, well-written educational campaign to explain the importance of the proposed constitutional amendment to allow investments in additional asset classes.

Mr. Borden noted that during the retreat at Wampee, the Commission expressed the desire to review the consultant relationship. Mr. Borden stated that while Mercer had done a fine job, they were hired by the Budget and Control Board (Board) to provide consulting services for the equity portfolio only. Given that the Commission was responsible for the investment of the Retirement Systems' total portfolio, Mr. Borden suggested that the Commission issue a Request for Proposal (RFP) for general consulting services, noting that Mercer would be considered a top candidate if they submitted a proposal. Chairman Williams called for objections, and there being none, Mr. Borden was directed to begin drafting an RFP. Mr. Gillespie agreed to work with Mr. Borden throughout the RFP process.

Mr. Borden suggested that the Commission consider adding global debt securities and emerging market debt to the Retirement Systems' portfolio. He stated that this would allow for global exposure while staying within the current limitations of the statutes. Mr. Borden described changes he would recommend to implement to the current manager search process and stated that a more detailed outline of this process would be included in the draft Annual Investment Plan (AIP). After thorough discussion, Mr. Ewing made a motion to conduct searches for managers for global and emerging market fixed income debt securities. Mr. Gillespie seconded the motion, which passed unanimously. Mr. James Powers agreed to act as Mr. Borden's liaison for the global fixed income manager search, and Mr. Ewing agreed to act as Mr. Borden's liaison for the emerging market fixed income manager search. In conjunction with the searches, Messrs. Powers and Ewing also agreed to work with Mr. Borden to create standardized criteria for these additional asset subclasses.

Mr. Borden discussed his staffing recommendations, which included initiating an intern program and hiring a senior analyst. After discussion about the proposed intern program and upon motion by Mr. Powers and second by Mr. Ewing, the intern program was approved, and Mr. Borden was authorized to hire an investment intern. Mr. Pritchett agreed to work with Mr. Borden on the intern program.

Mr. Borden discussed various technology needs for the investment program, including a Bloomberg terminal and an Ibbotson System. After discussing the estimated costs involved, Mr. Ewing made a motion to approve the software plan outlined by Mr. Borden. Mr. Powers seconded the motion, which passed unanimously.

Mr. Borden updated the Commission on the status of the portfolio managed by Nicholas-Applegate Asset Management (NACM). He said that after conferring with the new portfolio management team at NACM and Mercer, he had instructed NACM to rebalance the portfolio so as to minimize risk pending completion of the small cap growth manager search that was previously authorized by the Commission. After further discussion and upon motion by Mr. Ewing and second by Mr. Powers, Mr. Borden's actions were ratified.

II. INVESTMENT MATTERS

Chairman Williams stated that per statute, the Commission was required to adopt an AIP no later than May 1st of each year. He recommended that the Commission adopt the current AIP, with the understanding that Mr. Borden would redraft the AIP for discussion and/or adoption at the meeting scheduled for May 11, 2006. Chairman Williams stated that the AIP must be consistent with the Statement of Investment Objectives and Policies (SIP), and he agreed to work in tandem with Mr. Borden to redraft the SIP to ensure correlation of the documents. Treasurer Patterson made a motion to adopt the current AIP until further revision. Mr. Ewing seconded the motion, which passed unanimously.

III. ADMINISTRATIVE MATTERS

Ms. Shealy explained the complexities involved in drafting the Commission's Human Resources and Personnel Policies given the Commission's unique status as a new agency with at-will employees. She stated that she reviewed applicable statutes and regulations and compared those to policies of various agencies. She noted that the Board's policies that would be applicable to Commission employees were generally consistent with the state regulations and the Board's State Personnel Division's model policies for agencies. Ms. Shealy stated that given the complexities, she thought it was important to ensure maintenance of the current employment processes and legal compliance pending presentation and adoption of comprehensive policies and procedures by the Commission. In the interim, Ms. Shealy recommended that the Commission adopt those personnel policies of the Board that were required by state and federal law and that would be applicable to the Commission's employees. Ms. Shealy noted further that in addition to those areas required by law, there would be a few areas within the policies where the Commission would have discretionary authority.

She said she would prepare a presentation to clearly identify those areas. Mr. Ewing made a motion to conform to Ms. Shealy's recommendation, which was seconded by Mr. Powers and carried unanimously. Mr. Pritchett agreed to act as the Commission liaison as the Commission's policies were drafted.

Chairman Williams recognized Messrs. Gillespie and Pritchett for a discussion concerning the Commission's mission statement. The Commission discussed various drafts of the mission statement and proposed changes to those drafts. After a short break, a draft incorporating all discussed changes was distributed to the Commissioners. Treasurer Patterson made a motion to adopt the mission statement as revised. After further discussion, Mr. Powers seconded the motion, which passed unanimously.

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

IV. OTHER BUSINESS

Mr. Powers suggested that the Commission consider developing a website as one mechanism by which to accomplish the Commission's educational mission. Chairman Williams stated that he was exploring the process. Mrs. Boykin noted that the Retirement Systems could assist in developing the Commission's website internally at minimal cost. Chairman Williams stated that if any significant cost became apparent as the website was developed, he would bring the issue before the Commission for approval.

V. ADJOURNMENT

Chairman Williams thanked everyone for attending the meeting. Mr. Ewing made a motion to adjourn. Treasurer Patterson seconded the motion, and the meeting adjourned at 12:30 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, on April 11, 2006.]