

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

**September 21, 2006**

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

## **Commissioners Present:**

Mr. Reynolds Williams, Chairman  
Mr. James Powers, Vice Chairman  
Mr. Allen Gillespie  
Dr. Travis Pritchett

**Others present for all or a portion of the meeting:** Ashli Aslin, Robert Borden, Nancy Shealy, and Justin Young from the South Carolina Retirement System Investment Commission; Doris Hoffman, Rick Patsy, and Frank Rainwater from the State Treasurer's Office; Brad Blalock, Jeff Gabrione, Jay Love, Rich Nuzum, and Jeff Schutes from Mercer Investment Consulting; Tim Barron, Alan Dorsey, Matthew McCormick, and David Pappalardo from CRA RogersCasey; Rhett Humphreys and Mike Manning from New England Pension Consultants, Jocelyn Caldwell, Sarah Corbett, Tammy Davis, Danielle Quattlebaum, Joni Redwine, Megan Reynolds, Travis Turner, Angie Warren, and Faith Wright from the South Carolina Retirement Systems; Anne Macon Flynn from the Budget and Control Board Office of General Counsel; Crawford Clarkson from the State Retirees Association; Charley McDonald from the South Carolina Trooper's Association; Scott Howe from Alliance Capital Management, L.P.; and Lil Hayes from the House Ways and Means Committee.

## **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 10:10 a.m. and welcomed the Commissioners and guests. Due to scheduling conflicts, State Treasurer Grady Patterson was unable to attend the meeting, and Mr. Blaine Ewing attended the meeting until 1:45 p.m.

Chairman Williams called for objections or amendments to the meeting's proposed agenda and to the minutes from the Commission meeting on August 17, 2006. There being none, the proposed agenda and the minutes were adopted as presented.

## **II. CHAIRMAN'S REPORT**

Chairman Williams reported on the Commission's educational outreach efforts and discussed the various speaking engagements and meetings that Commissioners had attended to provide information pertaining to the Commission and impact of Question 3A in the November state-wide referendum, which would amend the constitution to

allow further diversification of the portfolio of the South Carolina Retirement Systems (Retirement System).

Mr. Frank Rainwater, Deputy State Treasurer, distributed a letter from Treasurer Patterson affirming his support of the November ballot initiative relating to the Retirement System's investments, provided that pension fund assets would not be invested in companies or countries who sponsor or support terrorist activities. Treasurer Patterson proposed the following policy language in his letter: "The Commission will not invest in any security or obligation issued by a company or corporation that is a known sponsor of terrorist organizations or of a company who is domiciled in a country that is a recognized sponsor of terrorism and terrorist organizations as based on reports from the Office of Terrorism and Financial Intelligence of the Department of Treasury and the Country Reports on Terrorism by the Office of the Coordinator for Counterterrorism of the US Department of State." After discussion, Mr. Allen Gillespie made a motion to incorporate the language into the Statement of Investment Objectives, Statement of Investment Policies, and/or the Annual Investment Plan, as appropriate, and to authorize staff to make any non-substantive changes in the language to conform to the current policy that restricts investments in countries committing major human rights violations. Mr. James Powers seconded the motion, which passed unanimously. *(Information relating to this matter has been retained in the Commission's permanent files and is identified as Exhibit A.)*

### **III. Q&A SESSION WITH FINALISTS FOR GENERAL CONSULTING SERVICES**

Messrs. Robert Borden and Gillespie provided an overview of the search process, due diligence meetings, and research they conducted during the general consultant search, which included the quality of the firm's manager search database, the consulting teams who would be assigned to the Retirement System's account, the firms' proposed fees, and evidence of a proactive consulting approach. *(Information relating to the overview has been retained in the Commission's permanent files and is identified as Exhibit B.)*

Chairman Williams greeted and recognized Mr. Tim Barron, President and CEO, Mr. Alan Dorsey, Managing Director, Mr. David Pappalardo, Director, and Mr. Matthew McCormick from CRA RogersCasey (CRA). Presentation materials were distributed to the Commission prior to the meeting. Messrs. Barron, Dorsey, Pappalardo, and McCormick reviewed the firm's characteristics, its research group and technological capabilities, and its proactive consulting approach. The Commission asked questions throughout the presentation, to which Messrs. Barron, Dorsey, Pappalardo, and McCormick responded. Ms. Nancy Shealy asked whether the firm had disclosed all pending litigation or complaints and potential conflicts of interest, to which Mr. McCormick responded in the affirmative. Ms. Shealy asked who the primary contact would be for the Retirement System's account, and Mr. Barron replied that he would be the primary contact and Mr. Pappalardo would be the secondary contact. Ms. Shealy asked if there were any substantive issues or objections to the Commission's contract prototype that had been included in the Request for Proposal (RFP), and Mr. Barron stated that there were none. Chairman Williams asked if there were any other questions and there being none, he thanked Messrs. Barron, Dorsey, Pappalardo, and McCormick

on behalf of the Commission, and they were excused from the meeting. *(A copy of CRA's presentation materials has been retained in the Commission's permanent files and is identified as Exhibit C.)*

Chairman Williams greeted and recognized Mr. Brad Blalock, Director of US Consulting, Mr. Jeff Gabrione, Senior Research Consultant, Mr. Jay Love, Principal and Senior Consultant, Mr. Rich Nuzum, National Business Leader, and Mr. Jeff Schutes, Worldwide Partner and Principal from Mercer Investment Consulting (Mercer). Presentation materials were distributed to the Commission prior to the meeting. Messrs. Blalock, Gabrione, Love, Nuzum, and Schutes reviewed the firm's characteristics, the history of Mercer's relationship with the Retirement System, its proactive consulting approach, and its proposed investment structure for the Retirement System's portfolio. The Commission asked questions throughout the presentation, to which Messrs. Blalock, Gabrione, Love, Nuzum, and Schutes responded. Ms. Shealy asked whether the firm had disclosed all pending litigation or complaints and potential conflicts of interest to which Mr. Nuzum responded in the affirmative. Ms. Shealy asked who the primary consultant would be for the Retirement System's account, and Mr. Schutes stated that he and Mr. Love would be the primary consultants. Ms. Shealy asked if there were any substantive issues or objections to the Commission's contract prototype that had been included in the RFP, and Mr. Schutes stated that there were none. Chairman Williams asked if there were any other questions and there being none, he thanked Messrs. Blalock, Gabrione, Love, Nuzum, and Schutes on behalf of the Commission, and they were excused from the meeting. *(A copy of Mercer's presentation materials has been retained in the Commission's permanent files and is identified as Exhibit D.)*

Chairman Williams greeted and recognized Mr. Rhett Humphreys, Partner and Senior Consultant and Mr. Mike Manning, President, from New England Pension Consultant (NEPC). Presentation materials were distributed to the Commission prior to the meeting. Messrs. Humphreys and Manning reviewed the firm's characteristics, its core competencies and manager search process, and its proactive consulting approach. The Commission asked questions throughout the presentation, to which Messrs. Humphreys and Manning responded. Ms. Shealy asked whether the firm had disclosed all pending litigation or complaints and potential conflicts of interest to which Mr. Manning responded in the affirmative. Ms. Shealy asked who the primary consultant would be for the Retirement System's account, and Mr. Humphreys stated that he would be the primary consultant. Ms. Shealy asked if there were any substantive issues or objections to the Commission's contract prototype that had been included in the RFP, and Mr. Humphreys stated that there were none. Chairman Williams asked if there were any other questions and there being none, he thanked Messrs. Humphreys and Manning on behalf of the Commission, and they were excused from the meeting. *(A copy of NEPC's presentation materials has been retained in the Commission's permanent files and is identified as Exhibit E.)*

Mr. Gillespie made a motion, which was seconded by Mr. Powers and passed unanimously, that the Commission enter into executive session to discuss negotiations incident to proposed contractual arrangements for general consulting services.

Chairman Williams announced that the Commission would meet in executive session for that purpose.

#### **IV. CONSULTANT SELECTION**

The Commission reconvened in open session, and Chairman Williams reported that the Commission discussed proposed contractual arrangements for general investment consulting services while in executive session and that no actions had been taken.

Mr. Gillespie made a motion to authorize the chairman to negotiate and execute a contract with NEPC within the limits discussed in executive session and upon approval for legal sufficiency by general counsel. Mr. Ewing seconded the motion, which passed unanimously.

#### **V. INVESTMENT MATTERS**

Chairman Williams recognized Mr. Robert Borden for the Chief Investment Officer's (CIO) report. Mr. Borden discussed the investment performance of the Retirement System's portfolio as of July 31, 2006. Mr. Borden briefly discussed the performance of the equity, fixed income, and total portfolios and explained that the relatively inferior performance as compared to other large public funds was due to the legal/structural limitations placed on the diversification of the portfolio.

Mr. Borden outlined the Commission's process for determining asset allocation strategies and identified various implementation constraints and issues the Commission could face. In response to issues raised by Mr. Powers during the August meeting, Mr. Borden provided a summary report on active management versus passive management in the Large Cap sub-asset class. The report included information about management fees, performance relative to respective indexes, and the impact of market trends. Mr. Borden concluded that maintaining a large number of active managers might not be the best long-term allocation of the Retirement System's portfolio risk budget, particularly in the U.S. Large Cap sub-asset class.

Mr. Borden reported on the rebalancing of the National Guard Retirement System (NGRS) portfolio. He provided an overview of the process and reported that the rebalancing was completed on September 1, 2006. By unanimous consent, the Commission ratified the rebalancing of the NGRS portfolio.

Mr. Borden provided an update on the global fixed income manager search. He reported that the semi-finalists were Crédit Agricole Asset Management (Crédit Agricole), Franklin Templeton Investments (Franklin Templeton), Goldman Sachs Asset Management (Goldman Sachs), Loomis Sayles & Company, L.P. (Loomis Sayles), Mondrian Investment Partners (Mondrian), and Western Asset Management Company (WAMCO). Mr. Borden reported that he and Messrs. Powers and Gillespie had conducted due diligence meetings with Franklin Templeton, WAMCO, and Loomis Sayles and that meetings with Mondrian, Crédit Agricole, Goldman Sachs, and an additional meeting with WAMCO were scheduled to begin the week of November 6, 2006. Mr. Borden reported that the target completion date was November 16, 2006.

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

## **VI. ADMINISTRATIVE MATTERS**

Chairman Williams recognized Ms. Shealy for the Administrative Director's report. Ms. Shealy referred to a report summarizing the Commission's Fiscal Year (FY) 2006 budget through June 30, 2006, and a report on the status of expenses incurred to-date in FY 2007.

Ms. Shealy referred to the FY 2007 expense reimbursement projections from the State Treasurer's Office (STO) and the STO's invoice for the first quarter ending September 30, 2006. Ms. Shealy explained that historically, the STO had been reimbursed for 85 percent of the total cost for consulting services and online services and 100 percent of Mr. Rick Patsy and Ms. Shakun Tahiliani's travel reimbursements. In response to a question, Mr. Patsy explained that the percentages represented the portion of the STO's resources that would be expended to manage the Retirement System's fixed income portfolio. Ms. Shealy noted that the STO's expenses for consulting services and online services were paid in advance each quarter rather than in arrears. After discussion, Mr. Powers made a motion to approve reimbursement for the STO's first quarter FY 2007 expenses as submitted, subject to normal reimbursement procedures. Mr. Gillespie seconded the motion, which carried unanimously.

Ms. Shealy referred to a draft of the proposed FY 2008 budget that had been included in the Commission's meeting materials and noted that the deadline to submit the detail budget for FY 2008 to the Office of State Budget (OSB) would be in early October. Ms. Shealy provided an overview of the document and noted that it was in draft form pending further research and analysis. After discussion, Mr. Powers made a motion to authorize Ms. Shealy to submit a proposed FY 2008 detail budget to the OSB substantially similar to the draft budget presented. Mr. Gillespie seconded the motion, which carried unanimously. Ms. Shealy reiterated that she would keep the Chairman advised throughout the process and would be available to answer any questions or provide additional information for the Commission.

*(Information relating to the Administrative Director's Report has been retained in the Commission's files and is identified as Exhibit G.)*

Ms. Shealy reported that she and Mr. Powers had worked with the State Budget and Control Board's Office of General Services and located property suitable for the Commission's new office facilities adjacent to the Retirement System's office building. Ms. Shealy stated that there were benefits and cost savings to a facility adjacent to the Retirement System because of resources that could be shared. Prior to Mr. Blaine Ewing's departure from the meeting, he made a motion to reaffirm Mr. Powers' full authority to execute contracts and any other necessary documents on behalf of the Commission with respect to leasing office facilities. Mr. Gillespie seconded the motion, which passed unanimously.

Chairman Williams recognized Mr. Gillespie for an update on the Investment Retreat. Mr. Gillespie stated that the retreat would focus on several relevant and timely topics and would follow the same general format and schedule as the Commission's retreat in March 2006, with time scheduled for strategic planning and asset allocation analysis.

## **VII. ADJOURNMENT**

Chairman Williams thanked everyone for attending and adjourned the meeting at 2:45 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 2<sup>nd</sup> Floor Conference Room at 202 Arbor Lake Drive, Columbia, SC, on September 19, 2006.]