

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

**March 28, 2007**

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

**Commissioners Present:**

Mr. Reynolds Williams, Chairman  
Mr. James Powers, Vice Chairman  
State Treasurer Thomas Ravenel  
Mr. Blaine Ewing  
Mr. Allen Gillespie  
Dr. Travis Pritchett

**Others present for all or a portion of the meeting:** Ashli Aslin, Robert Borden, Donald Brock, Douglas Lybrand, Nancy Shealy, Justin Young, and Hilary Wiek from the South Carolina Retirement System Investment Commission; Katie Boling, Paige Parsons, Rick Patsy, Frank Rainwater, Shakun Tahiliani, and Nicole Waites from the State Treasurer's Office; Rhett Humphreys from New England Pension Consultants; Peggy Boykin, Jocelyn Caldwell, Alice Copeland, Sarah Corbett, Tammy Davis, John Page, Dianne Poston, Danielle Quattlebaum, Joni Redwine, Travis Turner, and Faith Wright from the South Carolina Retirement Systems; Paul Podolsky and Joel Widden from Bridgewater Associates, Inc.; Trey Beck and Brendon McDonough from D. E. Shaw & Co., L.P.; Tom Heflin, Greg Nordquist, Brian Roberts, and Michael Thomas from Russell Investment Group; Brent Martin and Jay VanErt from Austin Capital Management; Jack Calcagno from Victory Capital Management; and Crawford Clarkson and Wayne Pruitt from the State Retirees' Association.

**I. CALL TO ORDER, CONSENT AGENDA, AND CHAIRMAN'S REPORT**

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. Due to scheduling conflicts, Mr. Blaine Ewing attended the meeting until 2:00 p.m.

Chairman Williams called for objections or amendments to the meeting's proposed agenda and to the minutes from the Commission meetings on February 22, and 28, 2007. There being none, the proposed agenda and the minutes were adopted as presented.

Chairman Williams provided the Commission with a legislative update. Chairman Williams reported that, per the request of the Senate Finance Committee, Commission staff provided a report projecting the fiscal impact of bills s.241 and s.242, which would prohibit pension fund assets from being invested in companies with ties to Sudan and in entities or countries that sponsor or support terrorist activities.

Chairman Williams informed the Commission of bill s.462/h.3789 concerning establishment of trust funds for post-employment benefits (OPEB). Chairman Williams stated that the assets of the funds would initially be invested by the State Treasurer, but after the ratification of an amendment the SC Constitution allowing OPEB funds to be invested in equity securities, the legislation would transfer investment oversight of those funds to the Commission.

Chairman Williams provided a summary of his testimony before the Senate Finance Committee concerning the Commission's budget for Fiscal Year (FY) 2008 and the Commission's activities, asset allocation, and strategic plans.

Chairman Williams presented a procedure for considering performance-based salary adjustments for the Commission's Administrative Director/General Counsel and Chief Investment Officer (CIO). The Commission concurred with the procedure, and Chairman Williams stated that a recommendation would be presented to the Commission regarding performance-based salary adjustments at next month's meeting.

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

## **II. CHIEF INVESTMENT OFFICER'S REPORT**

Chairman Williams recognized Mr. Robert Borden for the CIO's report.

Messrs. Borden and Mr. Rhett Humphreys from New England Pension Consultants (NEPC) reviewed the asset allocation plan and the decisions that lead to the current target asset allocation. Mr. Borden stated that the primary goal of the new asset allocation was to achieve significantly higher information ratios on the portfolio's active management.

Mr. Borden reported that the Commission received an educational presentation on the Beta Overlay program at the February 22, 2007, Commission meeting. He noted that subsequent to this presentation and a thorough discussion, a motion was passed to authorize a search for a Beta Overlay manager, which included the authorization to issue a Request for Information (RFI), as well as naming a Beta Overlay search team consisting of Chairman Williams, Mr. Humphreys, and Mr. Borden.

Mr. Borden reported that Commission staff, in consultation with NEPC, prepared an RFI that outlined the Beta Overlay project, received proposals from potential candidates, and selected finalists. He stated that the Beta Overlay search team conducted a thorough due diligence process of the potential candidates, and unanimously recommended that the Commission consider retaining Russell Investment Group (Russell) for Beta Overlay Management services.

Mr. Borden introduced Messrs. Tom Heflin, Regional Director; Greg Nordquist, Senior Portfolio Manager; Brian Roberts, Head of Transition Management; and Michael Thomas, Chief Investment Officer from Russell for a presentation on Beta Exposure Management.

Mr. Thomas discussed the broad philosophies and considerations involved with a Beta Overlay program and discussed Russell's implementation process. Mr. Nordquist proposed an implementation timeline and discussed Russell's trading strategy. In addition, Messrs. Thomas and Nordquist discussed Russell's ability to execute investment transactions, risk management and internal control processes, and legal structures.

Mr. Borden suggested that the Commission adopt a transition map, which would include tolerance ranges targeting the transition. He noted that as market conditions change, the transition map may be revised. Mr. Borden stated that the transition map would act as a rolling benchmark. Mr. Borden emphasized the importance of keeping the transition map confidential during the transition period to prevent predatory trading.

Mr. Nordquist explained Russell's preferential pricing agreement and stated that if Russell offered a lower fee for the same type of assignment to any client, that fee would be passed on to the Commission.

Chairman Williams thanked Messrs. Heflin, Nordquist, Roberts, and Thomas for their presentation.

Dr. Travis Pritchett made a motion that the Commission select Russell as the Beta Overlay manager and authorize the Chairman to negotiate and execute contracts and any necessary documents, subject to review and approval for legal sufficiency by general counsel. Mr. Allen Gillespie seconded the motion, which after discussion passed unanimously.

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

Mr. Borden reported on the status of the Global Fixed Income manager search, which was initiated in April 2006. He noted that the Commission approved a motion to execute an agreement with Loomis Sayles & Company, L.P. (Loomis Sayles) and Mondrian Investment Partners (Mondrian) for their Global Fixed Income commingled product in the amount of \$750 million each, and that the Commission requested that additional due diligence be conducted on Crédit Agricole Asset Management (Crédit Agricole) and Western Asset Management Company (WAMCO).

Mr. Humphreys stated that NEPC reserved recommendation for Crédit Agricole in January due to uncertainty regarding Crédit Agricole's performance audit in meeting CFA Institute standards. Subsequently, Crédit Agricole provided NEPC and Commission staff with such an audit.

Chairman Williams addressed concerns that Crédit Agricole was not a US Registered Investment Advisor and stated that Crédit Agricole should provide a legal opinion from an established US law firm indicating that Crédit Agricole could legally offer investment services to the Commission.

Mr. Humphreys stated that as part of the original Global Fixed Income manager search, the Commission considered WAMCO and conducted an on-site due diligence investigation of the firm. He explained that due to an improper product fit, the Commission passed on the initial WAMCO product profiled, but requested that NEPC and Commission staff revisit alternative global bond products offered by WAMCO. Based on this additional analysis, NEPC recommended that the Commission consider a commitment to WAMCO's Global Multi-Sector product.

Mr. Borden explained that the culmination of the four mandates at \$750 million each would result in approximately an 11 percent allocation across Global Fixed Income, US High Yield, and Emerging Markets Debt. He stated that this was lower than the 15 percent total target but was within the target ranges approved previously.

Mr. James Powers made a motion that the Commission authorize the Chairman to negotiate and execute agreements and any necessary documents with Crédit Agricole and WAMCO for their global fixed income commingled products in the amount of \$750 million each, subject to review and approval for legal sufficiency by general counsel. After thorough discussion, Treasurer Thomas Ravenel seconded the motion, which passed unanimously.

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

Mr. Humphreys provided an educational explanation of Portable Alpha and Hedge Funds and an overview of the Commission's Portable Alpha plan including structure and process. The Commission discussed various fee structures of Hedge Funds.

Mr. Humphreys recommended that, of the \$4 billion target allocation to Portable Alpha, the Commission consider placing 50 percent (\$2 billion) in hedge fund of funds, consisting of four hedge fund of funds managers, and 50 percent (\$2 billion) in direct multi-strategy funds, consisting of seven multi-strategy fund managers. Mr. Ewing made a motion to accept Mr. Humphreys' recommendation and begin the search process for managers in those mandates. After discussion, Mr. James Powers seconded the motion, which passed unanimously.

Mr. Borden reviewed the Commission's February motion to authorize the Portable Alpha search team to continue due diligence reviews on Bridgewater Associates, Inc.'s (Bridgewater) Pure Alpha Fund, and D. E. Shaw & Co., L.P.'s (D.E. Shaw) Multi Strategy Fund. Mr. Borden reported that the Portable Alpha search team conducted several additional due diligence meetings with Bridgewater and D.E. Shaw. He reported that at the conclusion of the due diligence process, the Portable Alpha search team was unanimous in its recommendation that the Commission consider retaining Bridgewater and D.E. Shaw as two Portable Alpha managers.

Chairman Williams recognized Messrs. Trey Beck and Brendon McDonough from D.E. Shaw for a question and answer session regarding the D.E. Shaw Multi Strategy Fund. Messrs. Beck and McDonough answered questions related to their fund's private equity holdings, fee schedule, and capacity issues. Chairman Williams thanked Messrs. Beck and McDonough on behalf of the Commission.

After a thorough discussion, Mr. Ewing made a motion that the Commission authorize the Chairman to negotiate and execute agreements with Bridgewater's Pure Alpha Fund and D.E. Shaw's Multi Strategy Fund in the amount of \$250 million each, subject to review and approval for legal sufficiency by general counsel. After thorough discussion, Mr. Powers seconded the motion, which passed unanimously.

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

Mr. Borden stated that the Commission previously approved a 5 percent allocation to Global Asset Allocation (GAA)/Absolute Return. He stated that to facilitate this, NEPC began the search for manager candidates. Mr. Gillespie made a motion to authorize Mr. Borden to pursue GAA/Absolute Return opportunities, conduct due diligence, and make presentations to the Commission as appropriate. Mr. Powers seconded the motion, which passed unanimously. Treasurer Ravenel agreed to work with Messrs. Borden and Humphreys on the GAA/Absolute Return search.

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

Mr. Borden requested authorization to conduct due diligence reviews of Pantheon Ventures Limited (Pantheon), a private equity fund with a closing date of May 31, 2007. Mr. Gillespie

made a motion, which was seconded by Treasurer Ravenel and unanimously passed, to direct the CIO to conduct due diligence reviews on Pantheon.

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

Mr. Borden stated that Cost Effectiveness Measurement, Inc. (CEM) was retained to conduct a benchmarking study to analyze the investment management costs of the South Carolina Retirement Systems' (Retirement System) portfolio and referred to the report, which was included in the Commission's meeting materials. He reported that CEM completed the analysis of current and future costs compared to asset class benchmarks developed from CEM's peer group data. Mr. Borden reported that actual calendar-year costs in 2005 were \$27.4 million, approximately 5.4 basis points (bps) less than peer group pension plans; most of the savings was attributed to the internally managed fixed income portfolio. Mr. Borden stated that CEM also applied peer group benchmark costs to the Commission's targeted asset allocation, which resulted in projected investment management costs of approximately \$204.8 million. He noted that the new target allocation was expected to earn 109 bps or \$286.0 million more Beta than the current policy mix, net of fees. This, combined with the increase in expected Alpha, should offset the projected increase in management fees.

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

Mr. Borden reported that pursuant to the Commission's action regarding the transition of the fixed income investments and custodian duties from the State Treasurer's Office (STO) to the Commission, the transition group met weekly to determine a plan that would ensure that all operations of each office would proceed without the disruption of crucial functions. Mr. Borden reported the key elements involved in the transition were: identifying and providing appropriate resources on a timely basis; staggering the transition in three phases, fixed income investments, cash management, and operations; and custodian functions. He said the target final completion date was July 1, 2007.

Mr. Borden reported that the transition team identified approximately 4.5-6.5 Full-Time Equivalent (FTE) employees to perform duties that would be transferred from the STO to the Commission, and he referred to a new proposed Investment Division organization chart incorporating the projected staffing requirements. Mr. Borden discussed the job functions of the new positions and noted that four of the six requested FTEs were already included in the Commission's budget and had been approved by the Legislature, while additional functions could be absorbed by the Retirement System's staff. Treasurer Ravenel made a motion to approve the investment staffing plan, as amended. Mr. Gillespie seconded the motion, which after thorough discussion passed unanimously.

Mr. Gillespie made a motion to authorize the CIO to begin the recruitment process for four of the six following positions: Director of Fixed Income, Fixed Income Officer, Director of Operations, and Operations Officer, Assistant to the CIO, and a Director of Alternative Investments. Mr. Powers seconded the motion, which passed unanimously.

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

Mr. Borden noted that, as required by statute, a draft of the Annual Investment Plan (AIP) for Fiscal Year (FY) 2008 was included in the Commission's meeting materials. Chairman Williams requested that each Commissioner carefully consider the document and submit suggestions and/or comments to Mr. Borden. Mr. Borden expressed his intent to submit the documents for approval during the Commission's April meeting.

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

### **III. ADMINISTRATIVE MATTERS**

Chairman Williams recognized Ms. Nancy Shealy for the Administrative Director/General Counsel's report. Ms. Shealy reported on the Associate Counsel Search for legal services to the Commission to review, negotiate, and draft contracts and other necessary documents relating private equity and limited partnerships.

Ms. Shealy provided the Commission with a budget status report for Fiscal Year (FY) 2007, which the Commission received as information.

Ms. Shealy referred to the STO's invoice for the third quarter of FY 2007. 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. Patsy and Ms. Tahiliani's travel reimbursements. After discussion, Mr. Powers made a motion to approve reimbursement for the STO's third quarter FY 2007 expenses as submitted, subject to normal reimbursement procedures. Mr. Gillespie seconded the motion, which carried unanimously.

Ms. Shealy referred to the proposed Administrative Division Organization Chart and Staffing Plan, which was included in the Commission's meeting materials. Ms. Shealy discussed the duties of the proposed positions. The Commission discussed the possibility of sharing human resources with the Retirement System so as to not duplicate duties and expenses between the two agencies. At Chairman Williams' request, Dr. Pritchett agreed to work with Ms. Shealy and Ms. Peggy Boykin to determine how administrative human resources could be shared and present the conclusions to the Commission. At Chairman Williams' request, Ms. Shealy agreed to provide the Commission with a report outlining administrative staffing requirements.

(Information relating to the Administrative Director/General Counsel's Report has been retained in the Commission's files and is identified as Exhibit K).

Mr. Powers suggested that Administrative Matters be placed on the agenda before the Investment Matters at the Commission's April meeting and on an alternating basis in the future.

### **IV. OTHER BUSINESS**

Mr. Powers updated the Commission on the status of the Commission's new office facilities. He stated that the project was on time and on budget and the expected completion date was June 1, 2007.

Mr. Powers and Mr. Gillespie agreed to work with the CIO and the consultant on the Portable Alpha manager search.

Ms. Shealy reported that the Commissioners' Statement of Economic Interest forms were included in their meeting materials. She requested that the Commissioners complete the forms and return them to her so that she could make the necessary copies for the Commission's files.

She also offered to file their forms with the State Ethics Commission and return a copy to each Commissioner.

Ms. Shealy updated the Commission on the significant number of Freedom of Information Act (FOIA) requests the Commission had received.

## **V. ADJOURNMENT**

Chairman Williams thanked everyone for attending, and the meeting adjourned at 3:15 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 March 26, 2007.]