

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

May 17, 2007

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

Commissioners Present:

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, Katie Boling, Robert Borden, Donald Brock, Douglas Lybrand, Nancy Shealy, and Hilary Wiek from the South Carolina Retirement System Investment Commission; Ed Evans, Brenda Gadson, Rick Harmon, Rick Patsy, and Shakun Tahiliani from the State Treasurer's Office; Rhett Humphreys from New England Pension Consultants; Peggy Boykin, Tammy Davis, Danielle Quattlebaum, Joni Redwine, Travis Turner, and Faith Wright from the South Carolina Retirement Systems; Chris Smajidor from Alliance Capital Management, L.P.; Tom MacLennan from GNI Capital, Inc.; and Henry Addy and Wayne Pruitt from the State Retirees' Association.

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

Vice Chairman James Powers 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, Chairman Reynolds Williams was unable to attend the meeting.

Vice Chairman Powers called for objections or amendments to the meeting's proposed agenda. There being none, the proposed agenda was adopted as presented.

Vice Chairman Powers reported that the minutes were not ready for approval and would be carried over until the next meeting.

Vice Chairman Powers recognized Mr. Robert Borden and Ms. Nancy Shealy, who reported on the status of bill h.3789/s.462 concerning the establishment of trust funds for post-employment benefits (OPEB). They discussed the Commission's official position on and the fiscal impact of such legislation on the Commission.

II. CHIEF INVESTMENT OFFICER'S REPORT

Vice Chairman Powers recognized Mr. Borden for the Chief Investment Officer's (CIO) report.

Mr. Borden stated that the Commission previously approved a 5 percent allocation to Global Asset Allocation (GAA)/Absolute Return. Mr. Borden reviewed the GAA/Absolute Return manager search and stated that the GAA/Absolute Return sub-committee, comprised of Mr. Rhett Humphreys from New England Pension Consultants (NEPC), Commission staff, and Treasurer Thomas Ravenel, conducted due diligence meetings for Grantham, Mayo, and

Otterloo LLC's GMO Real Return Global Balance Asset Allocation Fund, Putnam Investments' (Putnam) Total Return Fund, and Wellington Management Company, LLP's (Wellington) Opportunistic Investment Strategy. Mr. Borden provided an overview and discussed the attributes of each of these firms and stated that the GAA/Absolute Return sub-committee recommended that the Commission invest in GMO's Real Return Global Balance Asset Allocation Fund and Putnam's Total Return Fund in the amount of \$350 million each.

Mr. Borden explained that when the Commission's Annual Investment Plan (AIP) was drafted, it included a provision stating that the Commission's initial commitment to a partnership/fund would not exceed 25 percent of the committed capital of that partnership/fund. Mr. Borden explained that the restriction would not only prevent the Commission from investing South Carolina Retirement Systems' (Retirement System) funds in the Putnam Total Return Fund, but also in a myriad of new firms or products. He noted that this would also prevent the Commission from taking advantage of lower fees that are often offered to early investors. At the Commission's request, Mr. Borden agreed to present language amending such provision at the Commission's June meeting.

After thorough discussion, Mr. Blaine Ewing made a motion that the Commission authorize the Chairman to negotiate and execute agreements and any necessary documents to invest in the GMO Real Return Global Balance Asset Allocation Fund in the amount of \$350 million, subject to review and approval for legal sufficiency by General Counsel. Treasurer Ravenel seconded the motion, which passed unanimously.

After thorough discussion, Dr. Travis Pritchett made a motion that the Commission authorize the Chairman to negotiate and execute agreements and any necessary documents to invest in Putnam's Total Return Fund in the amount of \$350 million, to waive the 25 percent restriction stated in the AIP due to the reputation and history of the firm, the favorable fee schedule offered, and the Commission's familiarity with current management, subject to review and approval for legal sufficiency by general counsel. Mr. Ewing seconded the motion, which passed unanimously.

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

Mr. Borden stated that per the Commission's direction, the Portable Alpha sub-committee, comprised of the CIO, Mr. Humphreys, and Vice Chairman Powers and/or Mr. Allen Gillespie, conducted due diligence meetings on Oppenheimer Capital LLC's (Oppenheimer) OpCap Structured Alpha fund, Mariner Investment Group Inc.'s (Mariner) Mariner Partners/Atlantic Fund and Mariner Select Fund, and Morgan Stanley's FrontPoint Multi-Strategy. Messrs. Borden and Humphreys provided an overview and discussed attributes of each of these firms and stated that the Portable Alpha sub-committee recommended that the Commission consider funding \$250 million to Mariner Partners/Atlantic, \$250 million to FrontPoint Multi-Strategy Fund, and \$500 million to a custom strategy fund through Morgan Stanley as a hedge fund of funds completion portfolio designed exclusively for the Retirement System. Mr. Gillespie noted for the record that he may have a potential conflict of interest with Morgan Stanley and recused himself from discussions of products offered by the company.

Mr. Ewing made a motion that the Commission authorize the Chairman to negotiate and execute agreements and any necessary documents with Mariner for the Mariner Partners/Atlantic Fund in the amount of \$250 million, subject to review and approval for legal

sufficiency by general counsel. After thorough discussion, Treasurer Ravenel seconded the motion, which passed unanimously.

Mr. Ewing made a motion that the Commission authorize the Chairman to negotiate and execute agreements and any necessary documents with Morgan Stanley for the FrontPoint Multi-Strategy Fund in the amount of \$250 million, subject to review and approval for legal sufficiency by General Counsel. After thorough discussion, Dr. Pritchett seconded the motion, which passed unanimously.

Treasurer Ravenel made a motion that the Commission authorize the Chairman to negotiate and execute agreements and any necessary documents with Morgan Stanley for a custom hedge fund of funds completion portfolio in the amount of \$500 million, subject to review and approval for legal sufficiency by General Counsel. After thorough discussion, Mr. Ewing seconded the motion, which passed unanimously. Mr. Gillespie did not participate in the vote due to a potential conflict of interest previously disclosed and documented.

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

Mr. Borden provided an overview and discussed the attributes of The TCW Group, Inc., (TCW). Dr. Pritchett a motion to authorize Mr. Borden to conduct due diligence on TCW and the TCW Special Mortgage Credits Fund, L.P. and to make presentations to the Commission as appropriate. Mr. Ewing seconded the motion, which passed unanimously. Mr. Ewing and Dr. Pritchett agreed to work with Commission staff and NEPC on due diligence for this opportunity.

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

Mr. Borden reminded the Commission that an investment of \$75 million in Pantheon Ventures Limited's (Pantheon) Pantheon Euro V, LP, a fund of funds focusing on venture, buyouts, and secondaries in the European market had been approved at the April Commission meeting. He noted that Pantheon Euro V, LP maintained two separate funds, Euro Fund A and Euro Fund B. Mr. Gillespie made a motion to authorize the Chairman or his designee to determine the most appropriate fund, either Euro Fund A or Euro Fund B, whichever appeared to be the most appropriate and invest in the selected fund as previously approved by the Commission. After discussion, Mr. Ewing seconded the motion, which passed unanimously.

Messrs. Borden and Humphreys provided a summary of the Quarterly Investment Performance for Periods Ending March 31, 2007. Mr. Humphreys reviewed key capital market observations, market returns, and broad market performance on both industry and sector bases. Mr. Humphreys also reviewed the performance of the asset classes relative to the applicable indices.

Mr. Borden reported that during the first quarter of 2007 the total portfolio increased 1.2 percent, compared to a median large fund return of 2.3 percent for large public funds. Mr. Borden stated for the one year period ending March 31, 2007, the total portfolio increased 8.1 percent, underperforming the Policy Benchmark Return by 60 basis points (bps). He noted that this was primarily attributed to the underperformance of the US Large Cap Equity managers.

The Commission received the Quarterly Investment Performance for Periods Ended March 31, 2007, as information.

Mr. Borden referred to the Commission's draft quarterly report dated March 31, 2007, which was included in the meeting materials. Mr. Borden provided an overview of the document. Mr. Gillespie made a motion to approve both the format and content of the quarterly report. Mr. Ewing seconded the motion, which passed unanimously.

Mr. Borden discussed the investment performance of the Retirement System's portfolio as of April 30, 2007. Mr. Borden briefly discussed the performance of the equity, fixed income, and total portfolios and the contributing factors to that performance.

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

III. ADMINISTRATIVE MATTERS

Vice Chairman Power recognized Ms. Shealy for the Administrative Director/General Counsel's report.

Ms. Shealy reported that the upfit of the new office facilities was progressing, although there had been some delays in ordering equipment and security system installation.

Ms. Shealy reported that Mr. Borden had been deposed in a legal matter pending between a former investment manager for the Retirement System and several of its former employees.

Ms. Shealy reported that she and the Chairman were in the process of evaluating associate counsel to complete the closings related to the funding the new investment products in an efficient and timely manner and that the Chairman would seek approval from the Attorney General to engage counsel as previously authorized by the Commission.

Vice Chairman Powers thanked Ms. Shealy for her report.

IV. EXECUTIVE SESSION

Mr. Gillespie made a motion that the Commission meet in executive session to receive legal advice, discuss pending contractual matters, and to discuss investment matters pursuant to S.C. Code Ann. §§9-16-80 and 9-16-320. Mr. Ewing seconded the motion, which passed unanimously. Vice Chairman Powers announced that the Commission would meet in executive session for those purposes.

The Commission reconvened in open session and Vice Chairman Powers reported that the Commission did not take any reportable action while in executive session. Vice Chairman Powers noted that any action that did occur while in executive session would be publicized when doing so would not jeopardize the Commission's ability to achieve its investment objectives.

V. ADJOURNMENT

Vice Chairman thanked everyone for attending, and the meeting adjourned at 12:05 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 May 15, 2007.]