

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

August 16, 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 Converse Chellis
Mr. Blaine Ewing
Mr. Allen Gillespie
Mr. Travis Pritchett

Others present for all or a portion of the meeting: Ashli Aslin, Robert Borden, Donald Brock, Douglas Lybrand, Rick Patsy, Nancy Shealy, Nicole Waites, Hilary Wiek, and Justin Young from the South Carolina Retirement System Investment Commission; Mike Addy, Delores Dacosta, Rick Harmon, and Shakun Tahiliani from the State Treasurer's Office; Rhett Humphreys from New England Pension Consultants; Sarah Corbett, Tammy Davis, Robyn Leadbitter, Joyce McDonald, Danielle Quattlebaum, Kelly Rainsford, Joni Redwine, Travis Turner and Faith Wright from the South Carolina Retirement Systems; Ernie Cruikshank and Keith Wood from Jamison, Eaton & Wood, Inc.; Lil Hayes from the House Ways and Means Committee; Tom Heflin and Greg Nordquist from Russell Investment Group; Charles Grigg and Brian Bayley from Carousel Capital Company, LLC; Larry Gibson and Frank Reichel from Thompson, Siegel & Walmsley, LLC; Crawford Clarkson and Wayne Pruitt from the State Retirees' Association; Charley McDonald from the South Carolina Trooper's 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 a wreck holding up traffic on I-20, Chairman Reynolds Williams was unable to attend the meeting until 10:20 a.m.

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

Upon request of Vice Chairman Powers and without objection, the minutes from the meeting on July 19, 2007, were carried over until later in the meeting.

Upon request of Vice Chairman Powers and without objection, the Chairman's report was carried over until later in the meeting.

II. ADMINISTRATIVE MATTERS

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

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

Ms. Shealy reported that she had completed several closing packages for the South Carolina Comptroller General's (CG) Office for FY 2007 and was preparing several other reports required by state law, including one on employee annual leave. In addition, Ms. Shealy reported that she was working on an activities-based budget for FY 2009 for the State Budget Office and explained that the governor would use the report to compile his state budget.

Ms. Shealy provided an update on miscellaneous contracts including contracts between the Commission and Jamison, Eaton & Wood, Inc., TimesSquare Capital Management LLC., and Aronson+Johnson+Ortiz, LP, among others.

Ms. Shealy reported that the Wells Capital Management (Benson Value Team) contract would expire on September 25, 2007. Mr. Allen Gillespie made motion that the Commission authorize the Chairman or his designee to negotiate and execute agreements and any necessary documents with Wells Capital Management under the same terms and conditions previously approved. Mr. Blaine Ewing seconded the motion, which passed unanimously.

Ms. Shealy reported that Commission staff moved into the new office facilities on August 6, 2007. Ms. Shealy welcomed all Commissioners and guests to tour the office facilities after the meeting.

Vice Chairman Powers thanked Ms. Shealy for her report.

III. CHIEF INVESTMENT OFFICER'S REPORT

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

Messrs. Borden and Mr. Rhett Humphreys from New England Pension Consultants (NEPC) provided a summary of the Quarterly Investment Performance for Periods Ending June 30, 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 of the South Carolina Retirement Systems (Retirement System), including the Beta Overlay, increased 3.5 percent, compared to a median large fund return of 4.5 percent for large public funds. Mr. Borden stated for the one-year period ended June 30, 2007, the total portfolio, including the Beta Overlay, increased 13.6 percent, exceeding the Policy Benchmark Return by 80 basis points (bps). He discussed contributing factors to that performance.

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

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

Chairman Williams presided hereafter.

Mr. Borden referred to the draft performance report for the Retirement System's portfolio dated July 31, 2007, which was included in the meeting materials. Mr. Borden discussed the investment performance of the Retirement System's portfolio as of July 31, 2007. Mr. Borden briefly discussed the performance of the equity, fixed income, and total portfolio 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 B).

Mr. Borden reported that the Commission currently retained Thompson, Siegel & Walmsley LLC (TSW) as a Small Cap Value manager within the equity portfolio. He stated that as part of the asset allocation shift approved in December 2006, each of the current managers had been interviewed to determine their role in the target portfolio and to determine if the Commission was utilizing good firms' skills in an optimal manner. Mr. Borden stated that during discussions with TSW, it was suggested that the Commission consider broadening the TSW mandate to a Small/Mid Capitalization (SMIDcap) strategy.

Ms. Hilary Wiek from the Commission recognized Messrs. Larry Gibson and Frank Reichel from TSW for a presentation. Messrs. Gibson and Reichel provided an overview of the firm, performance history, and the investment objectives, process, and performance of the SMIDcap product.

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

Mr. Ewing made a motion that the Commission authorize the Chairman or his designee to negotiate and execute agreements and any necessary documents with TSW to shift the TSW mandate from a Small Cap Value product to the SMIDcap strategy, subject to review and approval for legal sufficiency by General Counsel. Mr. Gillespie seconded the motion, which, after discussion, carried unanimously.

Messrs. Borden and Humphreys reported that the Portable Alpha due diligence team, upon prior authorization from the Commission, conducted additional due diligence on Gottex Fund Management (Gottex) as an opportunity to invest assets earmarked for hedge fund strategies. Mr. Borden reported that due diligence meetings with key investment and management staff and the due diligence team were held both in South Carolina, New York, and Massachusetts.

After providing information to the Commission and further discussion, Mr. Borden recommended that the Commission invest \$750 million in the Gottex Market Neutral Plus Fund as one of the five Hedge Fund of Funds in the Portable Alpha allocation for a fee of 100 basis points (bps). He noted that this differed from NEPC's recommendation of a \$400 million allocation to Gottex. Mr. Borden explained that the difference in the recommended funding levels for this investment was based on frictional changes of the asset allocation. Mr. Borden stated further that the recommendation was contingent upon a continuing review of the Gottex Market Neutral Plus Fund's performance and the decision would be subject to a motion to reconsider at the September Commission meeting.

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

After thorough discussion, Vice Chairman Powers made a motion that the Commission authorize the Chairman to negotiate and execute agreements and any necessary documents with Gottex to invest \$750 million in their Market Neutral Plus Fund at a fee of 100 bps, subject to review and approval for legal sufficiency by General Counsel. Mr. Ewing seconded the motion, which passed unanimously.

Mr. Borden referred to a due diligence process document, which was included in the meeting materials. He stated his intent to produce a similar document for the Commission to use as a framework to streamline the due diligence process.

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

Messrs. Borden and Humphreys referred to the NEPC Private Equity Plan, which was included in the meeting materials. Mr. Borden reported that when the Commission approved a Private Equity plan in March 2007, a list of potential Private Equity investment opportunities was included. He noted that since that time, many of those opportunities had expired, and he presented an updated list of potential Private Equity investment opportunities. Mr. Gillespie made a motion that the Commission adopt the updated Private Equity implementation plan and to authorize Commission staff, NEPC, and the Private Equity due diligence team to begin the due diligence process for Private Equity firms included in the implementation plan. 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 F).

Chairman Williams welcomed Converse Chellis, the new State Treasurer, to the Commission.

Mr. Borden introduced Messrs. Charles Grigg and Brian Bayley from Carousel Capital Company, LLC, (Carousel), a Private Equity firm located in Charlotte, NC, that focuses on southeastern investment opportunities. Mr. Borden stated that Carousel had been referred to Commission staff by Governor Jim Hodges in May of 2007. He noted that due to the lateness of the referral (their final closing had been scheduled for July 25, 2007), an extension was requested of and granted by the current investors in Carousel Capital Partners III, LP (Carousel Fund III), allowing the Commission to invest in the fund at original cost for existing investments, on September 17, 2007, should it choose to do so.

Messrs. Grigg and Bayley discussed the investment team, investment process and strategy, and performance results for current and past Carousel funds. Mr. Bayley stated that Carousel strived to buy controlling positions in small firms in the underserved, Southeastern US, where having a local presence could facilitate private transactions. Mr. Bayley stated that Carousel focused on three sectors: business services, consumer products and services, and healthcare services. The Commission asked questions, to which Messrs. Grigg and Bayley responded.

Mr. Humphreys stated that NEPC conducted due diligence on Carousel Fund III and concluded that Carousel was a competent Private Equity investment firm. He stated that though the April 2007 Private Equity plan called for \$100 million to be committed to buyout funds, and the Commission committed \$100 million to Aquiline Financial Services Fund L.P., Carousel focused on a different part of the market and represented an opportunity in the lower-middle market.

Mr. Borden recommended that the Commission consider committing \$30 million to Carousel Fund III.

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

Dr. Travis Pritchett made a motion that the Commission authorize the Chairman to negotiate and execute agreements and any necessary documents with Carousel for their Carousel Fund III in the amount of \$30 million, subject to review and approval for legal sufficiency by General Counsel. Mr. Ewing seconded the motion, which passed unanimously.

Mr. Borden reported that the Commission previously approved a 5 percent allocation to Global Tactical Asset Allocation (GTAA)/Absolute Return as part of its asset allocation plan. He reported that the Commission later approved three managers as part of the GTAA/Absolute Return strategy. Mr. Borden reported that Commission staff, NEPC, and the GTAA/Absolute Return due diligence team conducted due diligence on Mellon Capital Management (Mellon) for investment in the EB Daily Valued Global Alpha I Fund (Global Alpha Fund).

Messrs. Borden and Humphreys provided an overview of Mellon and the Global Alpha Fund, investment process, and historical performance returns. They also discussed the structure of the Global Alpha Fund and noted that Mellon would create a commingled trust vehicle for the Retirement System.

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

Mr. Ewing made a motion that the Commission authorize the Chairman to negotiate and execute agreements and any necessary documents with Mellon to invest \$350 million in their Global Alpha Fund or its equivalent, subject to review and approval for legal sufficiency by General Counsel. Mr. Gillespie seconded the motion, which passed unanimously.

IV. CHAIRMAN'S REPORT

Chairman Williams called for objections or amendments to the minutes from the meeting on July 19, 2007. There being none, the minutes were adopted as presented.

Chairman Williams referred to a document concerning the term of Commission Officers, which was included in the meeting materials. He suggested that the Officers of the Commission should be a Chairman and Vice-Chairman, each of whom should serve a two-year term and should be ineligible for re-election to the term immediately following that in which they served. He stated that the Vice-Chairman should act as Chairman during the Chairman's absence or other inability to serve and should become Chairman at the conclusion of his term. Chairman Williams also recommended that the Chairman and the Vice-Chairman should serve as the nominating committee for the successor Vice-Chairman.

Vice Chairman Powers recommended that the current term for Chairman be extended to June 30, 2008, so that the terms of future Officers coincide with the fiscal year. This amendment to Chairman Williams' recommendation was accepted by the Commission. State Treasurer Chellis made a motion to adopt and incorporate the amended language as part of the Statement of Investment Policies. Mr. Ewing seconded the motion, which passed unanimously.

Chairman Williams referred to the draft amendments to the Statement of Investment Policies (SIP), which were included in the Commissioner's meeting materials. The Commission and staff thoroughly reviewed and discussed various aspects of the document and offered comments, suggestions, and modifications. Mr. Powers made a motion to adopt the SIP, as amended, and authorize staff to make any technical changes and typographical corrections to the document to conform style and syntax. The motion was seconded by Mr. Gillespie and passed unanimously.

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

V. OTHER BUSINESS

Mr. Borden recognized Mr. Greg Nordquist from Russell Investment Group (Russell) for an update on the Beta Overlay program. Mr. Nordquist discussed the physical exposure of the Retirement System's portfolio as compared to the Beta Overlay exposure. He also discussed the performance of the Beta Overlay program as compared to the appropriate benchmark and in real-dollar terms. Mr. Nordquist stated that the Beta Overlay program would continue to evolve as the Retirement System's portfolio shifts to new managers and asset classes with seamless implementation from Russell.

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

Mr. Borden introduced Mr. Dunkin Allison and welcomed him to the Commission staff. He noted that Mr. Allison was hired to fill the position of Operations Officer. Chairman Williams welcomed Mr. Allison on behalf of the Commission.

VI. ADJOURNMENT

Chairman Williams thanked everyone for attending, and the meeting adjourned at 1:15 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 2nd Floor Conference Room at 202 Arbor Lake Drive, Columbia, SC, on August 14, 2007.]