

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

September 23, 2010

**15th Floor Conference Room
1201 Main Street
Columbia, South Carolina 29201**

Commissioners Present:

Mr. Allen Gillespie, Chairman
Mr. Blaine Ewing, III, Vice Chairman
State Treasurer Converse Chellis
Mr. James Powers
Dr. Travis Pritchett
Mr. Reynolds Williams, Chairman *Emeritus*

Others present for all or a portion of the meeting: Mike Addy, Robert Allen, Dunkin Allison, Geoff Berg, Bob Borden, Jonathan Boyd, Donald Brock, Andrea Chapman, Harris Chewing, Dori Ditty, Brenda Gadson, Hershel Harper, David King, Dave Klauka, Sarah Lohmann, Doug Lybrand, Jared O'Connor, Kathy Rast, Nancy Shealy, Nicole Waites, Brian Wheeler, Hilary Wiek, and James Wingo from the South Carolina Retirement System Investment Commission; Frank Rainwater, Mike McDermont, and Shakun Tahiliani from the State Treasurer's Office; Ashli Aslin and Rhett Humphreys from New England Pension Consultants; Chris Anderson, David Avant, Peggy Boykin, Sarah Corbett, Tammy Nichols, Robyn Leadbitter, James Manning, John Page, and Faith Wright from the South Carolina Retirement Systems; Scott English and Brandon Gaskins from the Governor's Office; Jim Holly from the Comptroller General's Office; Van Newman and Linda Rodarte from Sopher-Rodarte & Associates; Rena Grant and Beverly Smith from the South Carolina House of Representatives, Ways and Means Committee; Niko Canner and Rutger Von Post from Booz & Company; Bruce Jackson from Arnall Golden Gregory, LLP; Broadus Jameson from the South Carolina State Employees Association; Jeff Fox from JP Morgan; Will McMaster from Scott & Stringfellow, LLC; David Dunlap from Edward Jones; Tara Boone from Riley Pope & Laney, LLC; Wayne Bell, Parker Evatt, Sam Griswold, Charley McDonald, and Wayne Pruitt from the State Retirees Association of South Carolina; The Honorable Greg Ryberg and Danny Varat from the South Carolina Senate; and State Treasurer-elect Curtis Loftis.

I. CALL TO ORDER AND CONSENT AGENDA

Chairman Allen Gillespie called the meeting of the South Carolina Retirement System Investment Commission (Commission) to order at 10:02 a.m. and welcomed the Commission and guests.

Chairman Gillespie called for objections or amendments to the meeting's proposed agenda, and there being none, the agenda was adopted as proposed.

II. CHAIRMAN'S REMARKS

Chairman Gillespie stated the following:

"On behalf of the Commission, I would like to welcome everyone to today's meeting. We are aware that today's agenda is receiving more than the usual amount of attention and interest.

For my Chairman's remarks today, and as we get started, I would like to share a couple of quick stories that I think are illustrative of this Commission. For those that have followed us closely, you will have heard one of these stories, and for those just joining the conversation, hopefully it will give you some color on what and who this Commission is.

Recently I was visiting with my family some friends of ours in the Charlotte area that we knew from our days in New York. We were discussing all the usual stuff - kids, work, football, etc., but I had not seen them since the husband had had an experience of being on the plane that Captain Scully landed in the Hudson River.

As we discussed the event the wife said, "I am just thankful that Captain Scully was absolutely dedicated to trying to be the best pilot that he could be every single day". She said, "As I learn more about him, I realize how diligently he had worked every day to become a better pilot with a keen sense of purpose". She continued to say that she hoped that everyone, particularly her children, would also take Captain Scully's sense of purpose and apply it to whatever endeavor they decided to pursue.

I bring that up because the first task this Commission had was hiring a CIO. We received I think 200 plus resumes. Jim and Reynolds narrowed it down to a few candidates, and we as a full Commission interviewed in person I think three that I can recall, maybe it was five - I don't remember exactly how many came in. And those three candidates were all qualified in their own way, but had very different visions for the organization.

The first was a very passive approach, and what you'd see today would be a largely passive program in liquid products and probably one staff member. The other one was from a large bank, comprehensive; his pay scale was much higher, and it was a manager of managers, third party-type program. And the third candidate was Bob Borden, who actually reversed the question and asked what were the Commission's expectations, to which Reynolds quickly replied, "We expect excellence and to become the best public pension plan in the country".

Over the last five years, this Commission, along with the CIO we hired, have worked diligently everyday to make that vision a reality. Excellence to us, however, should be noted to include far more than investment returns and dollars, particularly in this era of accelerated debasement of the currency. You can have a wheelbarrow full of money and still have very little of value. Even King Midas had the golden touch but found it lacking. Excellence, to this Commission, has always and since day one, meant excellence in all things. We have expressed that through our values of Integrity, Accountability, Empowerment, Innovation, and Collaboration, as expressed on our website.

Today we are continuing our discussion specifically of Goal VII, but really because of the budget issues, Goals IV-VI as well. Goal VII largely relates to the less liquid or illiquid assets part of our current allocation (private market assets – debt, equity, real estate).

A few thoughts as we discuss private market assets. As most know, I am not a particularly a large fan of private market assets due to their illiquid nature, the difficulties regarding due diligence, valuations, long forward commitments, and associated expenses. However, one of the things I do in my regular job is I also make my interns read Chapter 12 of Lord's Keynes General Theory of Employment – the chapter on Long Term Expectations. He rightly points out, and he was writing this in the 1930s - a time period not too dissimilar from today when private

investments were completely illiquid, interest rates at very low levels and unemployment much higher than today's levels. And he writes:

"Of the maxims of orthodox finance none, surely, is more anti-social than the fetish of liquidity, the doctrine that it is a positive virtue on the part of investment institutions to concentrate their resources upon the holding of liquid securities. It forgets that there is no such thing as liquidity of investment for the community as a whole....Finally, it is the long-term investor, he who most promotes the public interest, who will in practice come in for the most criticism, wherever investment funds are managed by committees or boards or banks. For it is the essence of his behavior that he should seem eccentric, unconventional and rash in the eyes of average opinion. If he is successful, that will only confirm to the general public the belief in his rashness; and if in the short run he is unsuccessful, which is very likely, he will not receive much mercy. Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally."

A couple more thoughts from the Chair as we begin today's meeting are this. First, I'd like to read OFHEO's mission statement as on its website. OFHEO's mission is to provide for the "effective supervision, regulation and housing mission oversight in Fannie Mae, Freddie Mac and the Federal Home Loan Mortgage Banks to promote their safety and soundness". I'll add to that FINRA, which is responsible for regulating securities broker-dealers, mission statement. Our mission is clear: "to provide investor protections and promote market integrity by examining securities firms to insure that they adhere to those rules." One of which are capital rules. Next is the mission statement from the OTS: "to supervise savings associations and their holding companies in order to maintain their safety and soundness". Finally, the Fed's mission statement. The Federal Reserve System is the central bank of the United States. One of its listed missions is "supervising and regulating banking institutions to insure their safety and soundness". I bring these up because all these are federal institutions designed to protect the savings and investments of investors from a wide variety of risks, and they all failed miserably, and will continue to do so – so yes, I generally favor larger budget requests for our program even during this difficult economic time. There is no safe investment, and there is no institution that can completely protect the assets of this plan from all the vicissitudes that fortune may bring. You must make the effort and investments yourself. However, fully recognizing that in crucial moments your performance still may not measure up, but like Captain Scully I think that if something is worth doing, it is at least worth trying to do well. It's easy to be average, and natural for the ostrich to put his head in the sand.

The trend over the last 30 years in this country has been for DB plans to die off and be replaced by DC plans. Not because DC plans are inherently better, in fact, the concept of mortality risk-sharing in DB plans is a key feature to achieving the benefit at the lowest average costs. So why had this trend has persisted?

A municipal defined benefit plan is really just a mutual life insurance company owned by the policyholders with premiums paid by the policyholder and the employer. There is a short list of primary driving factors to its success – amount of premium written, amount of premiums paid, the premium price, investments returns which add or subtract to reserves and surplus, cost, and management efficiency.

I point that out because I recently, out of curiosity, researched the academic literature on bankruptcy predictions for life insurance companies. It's relatively limited because fortunately there aren't many cases for life insurance bankruptcies, but there are some - and some rather

large ones. And this plan does, at least on the surface as many public pension plans do, exhibit at least some of the characteristics that have in the past been shown to precede distress. What are those? Premium increases, asset allocation changes, changes in mix to more volatile sources of income (stocks v. bonds), increases in the ratio of illiquid assets to liquid assets (real estate/private equity versus liquid assets).

So the questions we're considering today are serious. Now, I bring these issues up not to scare people, because after thoughtful consideration given the long-term nature of the liabilities of this plan it may be perfectly reasonable to figure that the changes are appropriate, but the issues must be considered and recognized. A rational investor might further believe these changes are appropriate given the current pricing-frightened investors are paying for certainty, as expressed in the low yields on government bonds and on a government that is \$13 Trillion in debt.

Only a portion of the factors mentioned are within the control of this Commission. But they illustrate that this Commission conducts its research and thinks long and hard about a wide variety of issues that affect this plan before recommending or approving actions.

We recognize we have a serious discussion in front of us, and we have probably fallen short in our communication efforts. However, I can absolutely assure the plan beneficiaries, the trustees, and the general public that this Commission has never taken its responsibility lightly, acted in a hurried or rushed manner, or without thoughtful consideration of the issues before us, or in a manner contrary or inconsistent with our fiduciary duties and best fiduciary practices. We ask for the courtesy of others doing the same."

After concluding his remarks, Chairman Gillespie recognized State Treasurer Converse Chellis. Mr. Chellis introduced Senator Greg Ryberg, Scott English from the Governor's Office, and Jim Holly from the State Comptroller General's Office. Chairman Gillespie welcomed them to the meeting.

III. UPDATE ON GOAL VII OF THE STRATEGIC PLAN

Chairman Gillespie reported that the Commission's ad hoc Budget Committee had met twice, and he introduced Bob Borden, Chief Executive Officer/Chief Investment Officer (CEO/CIO), for an update. Mr. Borden stated that the purpose of the Budget Committee was to recommend a proposed budget to the Commission, examine options of how the private markets program could be managed internally and externally, and consider how the private markets program could affect the budget. He reported that the proposed budget was an output of the Commission's Strategic Plan and was needed to properly discharge fiduciary duties consistent with approved strategic planning initiatives, including due diligence, compliance/data transparency, risk management, proposed organizational structure, the South Carolina Private Equity Program, and transition of the Hedge Fund Program.

Mr. Borden stated that the need to implement robust audit and risk functions was critical for a portfolio that was growing in sophistication and detail. He opined that a staff of 10 investment professionals would not be adequate for a \$24 billion diversified portfolio. Mr. Borden stated that a budget of \$18 million with a total of 48 full time equivalent (FTE) positions was necessary to properly staff the current needs of the total portfolio (Portfolio) of the South Carolina Retirement Systems (Retirement System). He stated that the Budget Committee recommended the proposed budget as presented. Mr. Borden noted that if the private markets program, which was Goal VII of the Strategic Plan (Goal VII), was managed internally, the Commission would need 119 FTE positions and a \$50 million budget, while an external private markets program

would save \$75 million to \$100 million per year. Mr. Borden noted that \$2.5 million in custody costs, which were not included in budgets in previous years, had been added to the proposed budget.

Chairman Gillespie indicated that the proposed budget was for Fiscal Year 2012 and would not take effect until July 2011, so it would be in the best interest of the Portfolio for the Commission to request additional funding for the current fiscal year, and Mr. Borden concurred. Blaine Ewing asked how the proposed budget would rank amongst the Commission's peers. Mr. Borden replied that similar funds with internal private markets programs had operating budgets of approximately 30 basis points (bps), which would equate to approximately \$60 million for a \$25 billion portfolio. Mr. Ewing asked Mr. Borden how much the Retirement System would save in fees if the \$18 million proposed budget was approved. Mr. Borden clarified that the \$18 million proposed budget was not a cost savings budget with regard to management fees, but was the base of what the Commission needed to fulfill its fiduciary responsibility currently. Mr. Ewing asked if the Commission's current budget was vastly inadequate and if the proposed budget would bring the investment program up to more acceptable levels. Mr. Borden opined that Mr. Ewing was correct, but added that even if the budget increase occurred immediately, recruiting and training would require additional time. He also noted that the Commission should have been incrementally increasing the budget within the last few years, but he indicated that external factors, including the recent economic downturn, shifted his focus to other investment matters. After further discussion, Reynolds Williams made a motion, which was seconded by Travis Pritchett and passed unanimously, to approve the proposed budget for Fiscal Year 2012.

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

Mr. Borden referred to the Memorandum of Law relating to "Governance: South Carolina Retirement System Investment Commission Strategic Plan" and a proposal for Goal VII of the Commission's Strategic Plan. Mr. Williams stated that when the document was first received, the Commission had contemplated whether the document should be considered protected by the attorney client privilege. After viewing the document, Mr. Williams opined that the document should not be considered as protected by the attorney client privilege, so he made a motion, which was seconded by Mr. Ewing and passed unanimously, to declare the Memorandum of Law relating to Governance and the referenced proposal for the Commission's Strategic Plan as public information. Dr. Travis Pritchett indicated that certain figures in the document were incorrect and noted that achieving the 8 percent actuarial assumed rate of return would not contribute to reducing the unfunded liability; the 8 percent actuarial assumed rate of return must be exceeded to contribute to reducing the unfunded liability. Chairman Gillespie noted that the document was prepared by external counsel and was not the Commission's document to amend.

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

Mr. Borden referred to materials relating to the private markets program proposal (Goal VII). He provided a brief overview of the Commission's responsibilities, authority, and history. Mr. Borden reiterated that managers did not hold the Portfolio's assets; they issued buy or sell orders and received a fee for doing so. Mr. Borden said that custodians such as JP Morgan and Bank of New York Mellon were private, independent third-party entities that provided administrative and safekeeping services for the actual assets of the Portfolio. Mr. Borden stated that the main drivers of the Goal VII proposal were to increase transparency for the Commission, increase control, and reduce costs for the Retirement System. He added that

current private market investing was very complex, not transparent, and very costly. As an example, Mr. Borden indicated that ownership in a building may seem straightforward, but the ownership structure may have many varying layers of complexity and different legal entities. He also provided an example of the structure of one of the limited partnerships in which the Retirement System held an interest. Mr. Borden outlined varying degrees of responsibility, transparency, and expense and how those related to the partnership. He said that currently, limited partnerships were costly, complex, and provided little transparency for all public pension plans.

Mr. Borden indicated that public pension plans faced many challenges. He opined that the business, credit, and regulatory cycles were at such a low point, there existed once in a lifetime opportunities to capture talent, utilize the Portfolio's capital, and realize outsized returns. Mr. Borden referred to a chart comparing portfolio returns from a basic public plan portfolio with no private equity to a portfolio with a 24 percent allocation to private markets. He explained that expected returns could be as much as 3 percent higher in a portfolio with a 24 percent allocation to private markets. Mr. Borden also indicated that basic or simplified portfolios had concentrated risk because of limited diversity.

He said that Commission staff had been investigating implementation approaches for increasing private market allocations over the past 15 months pursuant to the Commission's Strategic Plan, which was adopted in June of 2009. Mr. Borden outlined the options under consideration: external direct (hire someone else), internal direct (manage all with internal Commission staff), or hybrid option (combine the best of both external and internal resources). He said that after thorough review and discussion, the hybrid model appeared to be the optimal option, which could be implemented through the creation of a proposed new entity generically named "NewCo". Mr. Borden indicated that the NewCo proposal was not: a blind assignment of plan assets, more complex than the current approach to private market investing, more costly than the current approach to private market investing, a one-time request with no additional controls or checkpoints by the Commission, or a delegation of investment authority by the Commission. On the contrary, he said that the proposal would be an innovative combination of approaches currently in the market today, an opportunity to improve governance and transparency (compared to the traditional approach), an opportunity to reduce investment costs paid to private third-party investment managers, a proposal that had undergone much consideration by the Commission, staff, stakeholders, and independent advisors in five public meetings, and a mechanism for additional controls for the Commission at key checkpoints.

Mr. Borden said the Goal VII proposal was in essence a consortium of asset management companies, partnerships, joint ventures, and staff that would have global expertise, depth, and breadth to be able to provide a "fit to purpose" model that would suit the Commission's needs at a far lower cost with more governance and transparency. Mr. Borden said that he had heard complaints regarding soliciting support for the Goal VII proposal. He said that from his standpoint, the challenge had been that he did not know what he would be soliciting support for until the Commission decided in which direction it would go. Mr. Borden clarified that once a direction was established by the Commission, reaching out to key stakeholders had always been part of the plan.

Mr. Ewing noted that the Commission's current strategic partnerships served as a potential model of how Goal VII could be structured. Mr. Borden replied that NewCo was not uncharted territory because the Commission had directed \$5 billion in investments in strategic partnerships, which were allocations of capital with investment teams of Commission staff and manager staff that evaluated opportunities in private equity, debt, and real estate within the

guidelines approved by the Commission. He explained that strategic partnerships were legal entities that invested portfolio assets under Commission control, and the structure allowed investments to be executed in a more efficient manner.

Dr. Pritchett opined that the Commission must approve a concept in order for a more detailed feasibility study to be conducted for the private markets program. Mr. Borden noted that it might be possible to acquire a team with a good track record at very attractive costs given the current market environment, but he could not approach potential management teams in good faith until the Commission decided whether to implement the first step in the Goal VII proposal.

Mr. Ewing expressed concerns about addressing compensation and transparency. He opined that many private investment teams would not want their compensation disclosed. Mr. Borden stated that the Commission's Chairman and CIO would have observation rights on the Personnel & Compensation Committee of the proposed entity. He said that the Commission would enjoy a level of transparency unprecedented in private equity markets, noting that the Commission was not privy to managers' staff compensation for private equity investments currently but that under the Goal VII proposal, the Commission would be able to see compensation levels.

Mr. Chellis requested additional documentation with regard to the Goal VII proposal, and Mr. Borden said that more information would be forthcoming when the Commission was able to move to the next step. He said until additional documentation was prepared that no funds would be committed, that the Commission could not pay a fee without a contract, and that a contract could not be signed until due diligence and structure were finalized.

State Senator Greg Ryberg requested to speak during the Commission meeting. Chairman Gillespie replied favorably and provided a brief history of why the Goal VII proposal was being discussed. He indicated that the first step was to see if the Commission could legally create an entity. Chairman Gillespie noted that with regard to hiring investment teams and business structure, details had yet to be determined. He also noted that a big misunderstanding had been that the Goal VII proposal was one large investment instead of a comprehensive approach with many checks and balances and decisions that would have to be made over a very long period of time. After further discussion, Mr. Williams asked if the Commission could proceed with the agenda and discuss side items later in the meeting. Chairman Gillespie replied favorably but indicated that he did want to solicit public input.

Mr. Borden introduced Niko Canner, Senior Partner, from Booz & Company (Booz). Mr. Canner provided a brief history of the company. He referred to *An Assessment of SCRSIC's Proposed Private Markets Approach*, and indicated that Booz had been tasked to codify possible cost benefits of implementing the Goal VII proposal. Mr. Canner provided an overview of Booz' focus, including the current challenge; the potential solution; the financial case; the governance, transparency and decision rights; and the potential implementation approach of the private markets program proposal.

Mr. Canner stated that the Retirement System faced significant funding challenges. He indicated that a 1 percent drop in the rate of return would have a substantial negative effect on reducing the unfunded liability and provided examples of the potential impact. He also noted that current expected returns, based on New England Pension Consultant's (NEPC) projections, were approximately 0.5 percent less than the 8 percent actuarial assumed rate of return.

Mr. Canner presented an assessment of organizational options and listed the positive and negative aspects of each option. He reported that the Goal VII proposal addressed a set of drivers critical to the success of the private markets portfolio. Mr. Canner opined that the NewCo proposal would have a competitive advantage in the marketplace by combining expertise and breadth. He said in order to build a hybrid entity, resources were required and estimated a staff of 50 may be appropriate. Mr. Canner estimated that the NewCo structure with a reduced management fee and carry structure would save the Retirement System between \$482 million and \$1.2 billion over a 10-year period when compared to total outsourcing of all private market investment management functions.

Mr. Canner provided an example of how NewCo could be governed by committees that would provide the Commission with management representation. He also suggested that the Commission could have representation on the NewCo board of directors. He indicated that committee and board membership would allow the Commission to have control and oversight over the key strategic, equity-related, and operational decisions. He outlined three possible implementation approaches to the private markets program, including standard implementation, standard implementation with pre-determined milestones, and development company vehicle implementation (generically labeled as "DevCo"). He provided positive and negative aspects for each implementation approach. In closing, Mr. Canner stated that Booz believed that there was an organizational construct better than the internal indirect model, and he indicated that implementing a development company vehicle to perform the detailed background work necessary for laying the groundwork for a possible NewCo entity would be more effective.

Mr. Borden said the Commission knew the asset allocation trade-offs, the current operational constraints, the historic opportunities in capital markets, and the risk return trade-offs that would allow the development company vehicle implementation strategy to be successful with significant cost savings. He opined that this strategy would be the best possible strategy but that it was certainly not the only way to proceed. Dr. Pritchett expressed concerns with the Retirement System's ownership percentage of a new entity as suggested in the Booz presentation. Mr. Canner replied that a very conservative number was chosen due to potential liabilities and legal constraints. He added that the Retirement System would have 100 percent ownership of DevCo, and the Commission could set the Retirement System's ownership percentage of NewCo. Chairman Gillespie added that federal securities laws and liability issues would need to be considered should third party assets be managed by NewCo at some point in the future.

Mr. Williams said that the Budget and Control Board (Board) had supported the creation of the Commission and its structure. He also stated that the Commission members were fiduciaries with obligations to the members and beneficiaries of the Retirement System and to the fund itself. He opined that one of the objectives of the formation of the Commission was to remove politics from it while placing the fiduciary responsibility with persons with training, experience, and education to have a practical sense of all that is involved in investing and managing the Portfolio. Mr. Williams said that the statutes gave the Commission the authority to decide how to invest the assets of the Retirement System, constrained principally or only by the Commission's fiduciary responsibility. He noted that the Board retained two statutory powers: to tell the Commission what the actuarial assumed rate of return for the Portfolio would be and to make the Commission meet at the Board's discretion. He said with that being the case, he believed that when a concept was presented that seemed to be conceptually brilliant, practical, technically feasible, and benefitted all participants in the Retirement System currently and in the future, it would be breach of fiduciary responsibility not to consider it. Mr. Williams said that there was significant uprooted financial talent in the world currently and that South Carolina had

an opportunity knocking at the door. He opined that he saw no other way currently to consider the opportunities available for the private markets program than by the creation of DevCo. Mr. Williams said if the Commission had the opportunity to create this level of savings, and potentially more savings in the future, then the Commission must move forward and consider the DevCo option.

Mr. Williams made a motion to invest in DevCo and to authorize implementation of phase one of the Goal VII proposal. He advised that a copy of his motion had been distributed to the Commissioners in written form, but for the benefit of guests at the meeting, he summarized the points of the motion. In summary, he said the motion was to invest up to \$15 million in a holding company, "DevCo", which would be an entity wholly owned by the Retirement System. He said that the motion provided that the Commission would make the investment in the same manner in which it made other investments, i.e., using the custodian selected and approved by the State Treasurer's Office in accordance with state law. Further, the holding company could plan to develop NewCo, and the Chairman or his designee would be authorized to make commitments as to the initial \$15 million investment by executing contracts, documents, etc., necessary to implement phase one. Further the motion provided that the implementation would not commence until after October 1, 2010. He noted that he selected that date because the Board had requested that the Commission make a presentation relating to the Goal VII proposal at its meeting on September 29, 2010. In the interim, Mr. Williams said that the Commission could continue its outreach efforts, which had begun as early as November of 2008. Mr. Williams noted that the Commission had made outreach efforts by meeting with individual legislators, groups of legislators, individual members of the Board, retirees, and staff. He added that the outreach efforts would be more meaningful if the Commission moved forward with phase one. Mr. Williams also said that the motion included the concept that if the Chairman determined that the Commission would want to revisit or change any portion of phase one at any time prior to October 1, 2010, then he would call a meeting of the full Commission. Mr. Williams explained that if the Commission moved forward with phase one, which was the creation of DevCo, then the Commission would be able to create something of substance to recruit and study the feasibility of NewCo. He said that he did not want all of the opportunity cycles to disappear while the Commission struggled to make a decision through bureaucratic processes that hurt the retirees and taxpayers of South Carolina. After Mr. Williams completed his summary of his motion and comments, Mr. Powers seconded the motion and Chairman Gillespie opened the floor for discussion.

Mr. Chellis stated that Booz' report left a lot of questions unanswered, and he said he wanted a document that showed what NewCo would look like ultimately. Mr. Williams responded that the Commission needed to allocate funds in order to get to that point. He explained that the Commission needed to allocate sufficient funding to thoroughly research the legal details of the NewCo structure and that unless the Commission understood the full scope of NewCo, the Commission could not proceed beyond DevCo. He also noted that he would not vote to invest in NewCo until the same level of due diligence and discussion occurred as in every other potential Commission investment.

After further discussion, Mr. Powers reiterated that Mr. Williams' motion was for the investment into the DevCo strategy, which would be 100 percent owned by the Retirement System. Mr. Williams said the motion was to create DevCo, which in turn, would own 100 percent of NewCo. Mr. Borden added that any subsequent equity dilution of NewCo would have to be approved by the Commission; NewCo would be 100 percent owned by the Retirement System until such time as the Commission determined it prudent to change the ownership percentage.

Chairman Gillespie noted that all initial funding would be controlled by the Commission; legal expenses, underwriting expenses, and other start-up expenses would be managed by the Commission. Mr. Chellis questioned whether the motion was in spirit of the letter from the Governor's Office requesting a delay in Commission action, and Mr. Williams replied that he felt the motion was in the spirit of the Governor's request, but he noted that if the motion passed, the Commission would not be declining to act just because the Governor asked it not to act. Mr. Ewing suggested that the Commission meet via teleconference after the Board meeting on September 29th to further discuss the Goal VII proposal even if the motion passed. After further discussion, the Commission amended the motion so as to require the Chairman to call a special meeting after the meeting with the Board.

Mr. Chellis and Mr. Ewing said they would like to see some sort of private placement memorandum (ppm) or business plan for the NewCo entity. Mr. Williams concurred, stating that he would not vote for an entity without a rational understanding of how it would operate, so the Commission would need to see a business plan for NewCo after it is developed by DevCo; it would be inappropriate for the Commission to draft and review a ppm for a private placement with itself. Mr. Borden added that any DevCo or NewCo investment would be held to the same standards and monitored as all other Retirement System investments. He also said that any investment would be governed by contractual agreements and that no documents could be confected without a strategy and a management team. Mr. Powers reiterated that no Commissioner would benefit from the proposal, and he opined that if an outside manager came to the Commission with the proposed private markets program to invest \$15 million with a chance to earn \$500 million, the Commission would certainly do that trade. Mr. Powers noted further that the process could be stopped at any point and indicated that the timeline was between 12 and 24 months. He opined that the Commission should consider the potential opportunity and that if the Commission took the proposal to the Retirement System's stakeholders and they thought it a bad idea, then the Commission would not have to proceed.

Dr. Pritchett said the Commission needed to communicate with stakeholders more, but it would be difficult because despite the existence of a Retiree Association, many retirees did not participate. He also said as a fiduciary, he was very interested in maximizing investment returns, subject to reasonable risk. Dr. Pritchett indicated that he was "cautiously optimistic" regarding the Goal VII proposal because of the risk. He opined that the largest risk would be developing a successful entity and suggested that one way to lessen the risk would be to provide the entity funding so the entity would not have to conduct a marketing campaign for initial funding. He opined that the risk was worth taking, that it was critical that the Commission move toward the 8 percent return target, and that NewCo could help the Portfolio earn the 8 percent targeted rate of return. He also indicated that NewCo, even if performance was only average, could exceed the 8 percent targeted rate of return. Dr. Pritchett added that development of the proposal had come a long way since the Commission meeting in May 2010, and Mr. Williams thanked Booz for helping develop the proposal even further.

Hershel Harper, Deputy Chief Investment Officer, opined that any time an endeavor of this size is launched, it should be implemented in phases. He noted that the original presentation outlined NewCo and that newer presentations had introduced DevCo. Mr. Harper said that the true concept of DevCo was to mitigate risk so the Commission would be slowly developing NewCo. He added that at any point in time, the Commission would maintain full control and could minimize risk.

Mr. Ewing asked Mr. Chellis how he felt about the oversight that would be provided under the Goal VII proposal, and Mr. Chellis replied that if the Commission was able to increase its

budget, it would be able to hire internal auditors to monitor the development of DevCo. He also said that having control of NewCo through Commission membership on a board of directors and committees was positive. Mr. Chellis reiterated earlier comments that he wanted to see a proforma or ppm that explained how the Retirement System would benefit from NewCo.

Chairman Gillespie stated that the proposal was, in essence, a strategic partnership of one. He said the Commission would be in an investment management role, funded at the Commission's discretion based upon investment activity the Commission determined prudent. The structure would be the same as in strategic partnerships, except the Commission would be the investment manager.

Mr. Chellis expressed concern about the Retirement System's ownership in the future. He said that if the Retirement System only owned 15 percent of the entity and the entity was extremely successful, the Retirement System would not benefit as much as it could have with a higher ownership percentage. Chairman Gillespie and Mr. Borden reiterated that the Retirement System would have 100 percent ownership until such time as the Commission voted to change the ownership percentage.

The Commission discussed transparency of NewCo. Mr. Borden noted that when the Retirement System invested as a limited partner in the Pantheon fund, which was a fund of funds, the Commission did not see all of the ppms for the 58 underlying feeder funds. He explained that limited partners committed to the Pantheon fund and then the fund invested in the underlying feeder funds. He said that the Pantheon fund reviewed all the ppms and then executed on the limited partners' behalf. Mr. Borden said the NewCo structure would be the same, although the Commission would have more insight into costs and blind pools along the way. He added that the Commission delegated authority to an entity like Pantheon and reviewed the fund's portfolio to see if performance was acceptable. Mr. Borden said that this structure was the traditional route of the Commission and most of its peers. He said that a fund like Pantheon could not negotiate with underlying feeder funds until Pantheon knew it had a commitment for funding. Mr. Borden said that this was the industry standard, not something that the Commission created. He said that the proposal would vastly improve the industry model and that underlying governing documents would be created when funds were committed. Mr. Borden said if the Commission did not like the proposed structure, there were only two possible choices: it could either outsource the same structure like other private market investments or decide not to invest in private markets.

Mr. Chellis asked, based on Mr. Borden's Pantheon example, if the structure would be the same if the name Pantheon was replaced with the name NewCo. Mr. Borden replied that it would not be the same because the Commission would have access to substantially more information about how NewCo operated internally than it does with Pantheon or any other of the managers or funds. Mr. Powers noted that the Commissioners had differing backgrounds and expertise and that from his perspective, he viewed the Goal VII proposal as an investment with the lowest risk and highest possible return of any of the investments the Commission had made. Mr. Powers stated that all Commission investments had been approved in public meetings and that the proposal was another investment that happened to have low costs and potential high returns. Mr. Williams concurred with Mr. Powers and stated that the Commission should view the Goal VII proposal as an investment.

Mr. Ewing expressed concerns with moving 24 percent of the Portfolio to illiquid private market investments. Mr. Borden said that the current opportunity set would make this allocation a smart move. He also said when the Commission thought about the liabilities of the Retirement

System, funds should always be available to pay retirees. For example, he said for someone who is 24 years old and would not retire for 30 years, the Commission could not use that money to pre-pay benefits but must invest in long-term strategies. Mr. Borden said the Commission must balance where liquidity was needed versus where liquidity could not be used for 30 years. Rhett Humphreys from NEPC concurred with Mr. Borden's comments about balancing liquidity needs versus investments and said that the Portfolio was highly liquid currently. He also stated the allocation to private market investments would increase from 20 to 24 percent because the proposal included investments which were arguably illiquid, such as opportunistic credit strategies. Chairman Gillespie noted that from his background, deciding on a concrete ratio of illiquid to liquid assets was difficult. The Commission discussed liquidity issues further, and Mr. Powers noted that the Commission reevaluated allocations on at least a yearly basis, so the changes were in due course. Mr. Powers asked the Chairman to call the question of the motion.

Senator Ryberg asked to be recognized. Senator Ryberg said that he had not heard about the Goal VII proposal until June 2, 2010. He added that he had concerns that the stakeholders were not involved in the process to evaluate the proposal and that moving forward with a vote during the current meeting would be doing so without soliciting input from the Board. He stated that he did not have a strong opinion either in favor of or against the proposal but that the Commission should slow the approval process. He stated that if returns were not as expected, the taxpayers, employees, and retirees would pay the consequences. Senator Ryberg expressed concerns that the unfunded liability could be increased if the Goal VII proposal was executed and that once DevCo was established, NewCo would be implemented. He opined that it would be a mistake if the 8 percent actuarial assumed rate of return was driving the proposal. Senator Ryberg asked if the Commission was autonomous from the Retirement System and the Board. Chairman Gillespie replied that the Commission had the exclusive authority to make investments and the Board members were trustees and fiduciaries like the Commission, which implied an obligation to keep them informed as to the issues. Chairman Gillespie stated that with regard to the actuarial assumed rate of return, the Commission provided the Board with sufficient information to make an informed decision and that 8 percent was the rate the Board set after receiving information from the Commission.

Mr. Ewing reiterated that the Commission did not advise the Board on an appropriate actuarial assumed rate of return. He opined that the Board's actuarial assumed rate of return should not be the Commission's assumed investment rate of return, and Mr. Williams noted that the Commission must use the rate of return that the Board established. Mr. Ewing stated he recalled that a percentage range was provided to the Board, but not a certain percentage. He questioned whether the Commission could disagree with the Board's actuarial assumed rate of return, and Mr. Williams replied that he read the law to be that the Commission must accept and use the Board's actuarial assumed rate of return in the Commission's decision making processes.

Mr. Borden said that the Commission set asset allocations that would have an expected rate of return based on a multitude of assumptions and that with any allocation, the Commission would ask for an assumed rate of return. Chairman Gillespie added that the only allocation which would have a set rate of return would be a 100 percent bond portfolio; every other allocation would have associated risks. Mr. Borden explained that the expected assumed rate of return for an asset allocation and the actuarial assumed rate of return were two separate assumptions.

Mr. Chellis noted that the actuarial assumed rate of return was tied to statutes that trigger reducing the unfunded liabilities. Mr. Borden reiterated that the actuarial assumed rate of return

was within the purview of the Board, and Mr. Chellis concurred. Chairman Gillespie stated the Commission's ability to influence the actuarial assumed rate of return was strictly a function of the price the Commission paid, which drove the Goal VII proposal because the Commission wanted to pay a lower price for the same benefit. Mr. Chellis asked the Chairman to call the question of the motion.

Chairman Gillespie called for a vote on the motion, as amended, recognizing that a second meeting would be held subsequent to meeting with the Board, the date and time of the Commission meeting for this purpose to be determined. The motion passed unanimously.

The following is the text of the Goal VII motion relating to the private markets program, as amended and adopted unanimously by the Commission:

"After thorough review and consideration of various proposals relating to Goal VII of the Strategic Plan, including but not limited to the Private Markets Program and Organizational Plan, I MOVE that:

On behalf of the South Carolina Retirement Systems ("Retirement System"), the South Carolina Retirement System Investment Commission ("Commission") invest as equity an amount not to exceed fifteen million dollars (\$15,000,000) in a holding company, such holding company to be formed as further described in this Motion.

The investment shall be made via an investment account to be established with the physical custodian of the Retirement System's assets, and subject to being drawn upon as capital as further described in this Motion. For purposes of this Motion, the "physical custodian" is the Bank of New York Mellon or such other bank as may hereafter be designated, pursuant to state law, for all investment accounts of the Retirement System.

The holding company, the working name of which is DevCo, shall be wholly owned by the Retirement System. Further, DevCo shall form a wholly owned subsidiary entity, the working name of which is NewCo. The purposes of both DevCo and NewCo are as described in, and said companies and their underlying purposes and business operations are set forth in more detail in, the September 23, 2010 "Assessment of SCRSIC's Proposed Private Market Approach" (the "Assessment Report").

The Chairman of the Commission or his designee is authorized to negotiate, execute documents, and complete all things necessary to implement the business formation, staffing, operations, legal compliance and other details as set forth in the Assessment Report to include but not be limited to the details as set forth in "Attachment A" to the written copy of this Motion that is provided to the Commission at the time of the making of this Motion, all as consistent with the Assessment Report. Further, this investment shall be subject to the following terms and conditions:

- a. Implementation of this Motion shall not commence until on or after October 1, 2010, in order to allow for completion of the ongoing presentation to interested parties regarding the subject matter of this Motion and, provided further, the Chairman shall call a special meeting of the Commission, whether in person or by teleconference.
- b. Equity draws to fund the foregoing shall be made by written draw requests submitted by a designated administrator of DevCo in sufficient detail to show the application of said funds and such draw requests shall be approved by the Chairman and thereafter shall be funded as equity to DevCo and shall be

documented in an appropriate manner in the books and records of DevCo and the South Carolina Retirement System.

- c. Any contracts related to the implementation of the Assessment Report, whether between the South Carolina Retirement System and DevCo, NewCo or any third party; whether between DevCo and any third party including NewCo, shall be reviewed and approved by the Chairman and/or his designee in association with legal counsel as the Chairman so determines is appropriate.

In addition to "Attachment A" to the written copy of this Motion, a copy of the Assessment Report shall be designated as "Attachment B" to this Motion and shall be maintained in the files of the Commission with a copy of this motion and the approved minutes of the meeting of the Commission at which this Motion was approved for the purpose of more complete reference to the Assessment Report."

"ATTACHMENT A"

Motion before the South Carolina Retirement System Investment Commission Related to Implementation of the September 23, 2010 "Assessment of SCRSIC's Proposed Private Market Approach" (the "Assessment Report")

The following details relate to implementation of the Assessment Report as set forth in the foregoing Motion and are set forth in this "Attachment A" by way of emphasis and not in limitation or to the exclusion of anything not listed here and as otherwise contained in the Assessment Report. In the implementation of the Assessment Report, the Chairman or his designee is authorized to:

- a. Attend to the formalities of the formation of DevCo and NewCo through counsel with such entities to be formed in the appropriate jurisdiction and in the appropriate form and with the appropriate formalities given, among other considerations, that the South Carolina Retirement System is not a taxable entity and in consideration of other interests of the South Carolina Retirement System as such matters are typically addressed in the existing private equity investment vehicles presently held by the South Carolina Retirement System, and including implementation of necessary shareholder agreements, operating agreements and other governance documentation to address necessary oversight of DevCo and NewCo by the Commission on behalf of the South Carolina Retirement System;
- b. Establish such entities to otherwise facilitate the creation of an independent private markets manager (NewCo) and including NewCo's subsidiary operational division or entities and underlying investment fund entities in the appropriate sectors ("sleeves" as described in the Assessment Report) and to establish appropriate management structures including oversight, staffing and otherwise as described in the Assessment Report;
- c. Attend to regulatory compliance including but not limited to applicable registrations, licensing, exemptions and other matters under state and federal securities laws and regulations;
- d. Subject to review by the Chairman or his designee as set forth in the Motion, execute contracts and any other documents necessary for implementation of the Assessment Report including employment contracts with appropriate executive management and investment managers;

- e. Create and activate the investment sector sleeves within the criteria for such sleeves' strategies and guidelines as stated in the Assessment Report subject and pursuant to the Commission's ultimate authority to invest;
- f. Implement a fee structure advantageous to the South Carolina Retirement System as more specifically set forth in the Assessment Report;
- g. Retain executive compensation consultants and industry compensation consultants for the entities to assist in the determination of appropriate executive compensation terms, employee benefits , and fee terms and conditions;
- h. Determine a basis for return to the South Carolina Retirement System of equity invested once DevCo and NewCo operations become self sustaining, such return of capital to be in addition to cost savings realized from advantageous fee structures and other returns on the investment in DevCo;
- i. Retain all outside service providers necessary to implement the foregoing including, in addition to the consultants mentioned above, management, accounting, legal and other services and to obtain appropriate office space, equipment and office services and to do all other things necessary to effect the administrative and other operations of DevCo and NewCo;
- j. Effect appropriate employment arrangements between the Commission and the CEO and other Commission executives assigned duties to attend to the implementation of the Assessment Report including allocation of a portion thereof to DevCo from the capital invested as set forth in the Motion; and
- k. Provide such other controls and oversight as the Chairman determines necessary including management accounting functions at the Commission to provide ongoing accountability and transparency regarding the equity invested and the operations of DevCo and NewCo.

“ATTACHMENT B”

**Motion before the South Carolina Retirement System Investment Commission
Related to Implementation of the September 23, 2010 “Assessment of SCRSIC’s
Proposed Private Market Approach” (the “Assessment Report”)**

A copy of the September 23, 2010 “Assessment of SCRSIC’s Proposed Private Market Approach” is incorporated herein by reference.”

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

IV. ADMINISTRATIVE ITEMS

Chairman Gillespie referred to materials relating to the Performance Incentive Compensation Policy (PIC) review and noted that the PIC payouts were linked to the investment results of the Portfolio, net-of-fees, versus respective benchmarks. He reported that performance results were initially computed by the Retirement System’s Custodial Bank, then aggregated by staff and submitted to NEPC for a second independent review. NEPC independently reviewed and verified in writing all investment performance calculations related to the PIC. He also noted that NEPC reviewed the Portfolio for compliance with the Annual Investment Plan (AIP) in effect during the Performance Period as an additional risk management measure. Chairman Gillespie reported that the Commission received attestation that supporting documentation relating to the performance calculations and compliance with the AIP had been received from NEPC. After discussion, Mr. Ewing made a motion, which was seconded by Mr. Powers and passed

unanimously, to accept NEPC's 2010 Investment Performance Review Report and supporting documentation as sufficient to meet the Performance Incentive Compensation Policy Requirements for incentive compensation disbursement.

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

Chairman Gillespie recognized Mr. Chellis for an update from the Audit Committee. Mr. Chellis introduced John Page, Internal Auditor for the Retirement System. Mr. Chellis indicated that Mr. Page was asked by the Audit Committee to assist with audit functions. He said that Mr. Page had been reporting his progress to Peggy Boykin, Director of the Retirement System, and that he felt that the independence from the Commission had been a positive. Chairman Gillespie, stating that the Commission did not report to Ms. Boykin, questioned Mr. Chellis about the audit process and asked him how many times the Audit Committee had met since its inception. Mr. Chellis said that the only meetings he had were with Mr. Page and suggested that until an audit staff was hired, there would be no audit procedure process. Chairman Gillespie expressed concerns that the Audit Committee had not met and that it had started to report to an independent third party without a formal engagement approved by the Commission. Mr. Chellis stated that Mr. Page was reporting to the Audit Committee through Ms. Boykin, and Chairman Gillespie reiterated his concern about the committee reporting to a third party to whom the Commission had no direct reporting line. Mr. Chellis replied that Mr. Page reported to the Audit Committee and to Ms. Boykin. He also noted that the overall audit process flowed through the Retirement System itself, and the Commission was a part of that process. Mr. Chellis indicated that a schedule had been created to outline Mr. Page's areas of focus and noted that he had not noted any findings or exceptions. Mr. Williams asked if there was a copy of the Audit Committee's report in the meeting materials, and Mr. Borden stated that no report had been provided to him for distribution to the Commission.

Chairman Gillespie opined that the reporting lines should be first to the Audit Committee and in turn, to the Commission, and then further to other interested parties. Mr. Chellis stated the problem was that the Commission did not have an auditor, and Chairman Gillespie said the Commission should appropriate funds to hire an auditor. Mr. Chellis said that hiring an auditor was associated with the Risk Assessment that the Commission had begun a solicitation for previously. Chairman Gillespie stated that the Commission had not proceeded with the Risk Assessment due to budgetary constraints. Mr. Ewing asked if the Risk Assessment was included in the current fiscal year's budget, and Chairman Gillespie replied that it was not in the budget. Mr. Borden advised that the Commission had approved the internal audit position and recruiting had begun for the position. Mr. Borden also referred to the governance policies relating to committees and the creation of charters to be approved by the Commission. Mr. Borden said the charter would spell out the audit plan and steps for its execution. Mr. Chellis advised that he had an audit plan, and Chairman Gillespie asked if it had been presented for approval.

After further discussion, Mr. Chellis asked Ms. Boykin to address the Commission. Ms. Boykin reported that one year ago, she offered the services of her auditor to assist the Commission until the Commission could hire its internal auditor. She said Mr. Page had focused on auditing investments as they relate to both the Commission and the Retirement System. Chairman Gillespie said that he felt the current process could continue on an interim basis, but he reiterated his concern that key Commission staff and Mr. Williams, who was on the Audit Committee, had not been consulted. Mr. Borden noted that Doug Lybrand, Compliance Officer, had drafted a charter.

Mr. Chellis reported that Mr. Page had done a lot of work on the audit and indicated his work was conducted at a higher level because of lack of audit staff. Mr. Ewing asked about the selection process for the Commission's internal audit position. Mr. Borden suggested that he would select the internal auditor, although the internal auditor would report to the Commission. Dr. Pritchett noted that the University of South Carolina's internal auditor reported to the Board of Trustees, not to the president of the University. He noted further that the current auditor was retiring and his or her replacement would be selected by the University's audit committee. Mr. Ewing opined that the Commission's Audit Committee should select the internal auditor, and Mr. Chellis, concurring with Mr. Ewing, stated that separation was one reason that the committee had used the Retirement System's internal auditor.

Mr. Ewing asked if the Risk Assessment could be started in the current fiscal year, and Mr. Borden replied that it was scheduled for discussion during the Commission's meeting in November 2010. Mr. Chellis opined that funds for the Risk Assessment and specialized software had been included in the budget. Mr. Borden indicated funds had not been allocated but that he would construct a supplemental budget for the current fiscal year to include the Risk Assessment.

Mr. Borden reported that the Commission needed to obtain a legal consultant. He said that the Strategic Planning Process had highlighted the need for additional resources in the legal area. Mr. Borden said the Commission should engage a firm to provide on-site resources to create contract document procedures and to reduce backlog. He also indicated that a business consultant for the information technology and reporting functions of the Commission and a business consultant for recruiting assistance would be helpful also. He opined that the legal engagement might be the easiest to obtain. Chairman Gillespie said that from the legal perspective, Nancy Shealy, General Counsel, was constantly flooded with documents and it was unreasonable to push that much work onto one individual.

V. INVESTMENT ITEMS

Chairman Gillespie referred to the Quarterly Report for periods ending June 30, 2010, and reported that one-year rolling performance was 13.78 percent. He stated that the Portfolio was performing on the high end of the spectrum amongst the Retirement System's peers. Chairman Gillespie asked for NEPC's perspective about high correlations across asset classes and strategies, and Mr. Humphreys summarized NEPC's observations and recommendations.

Mr. Borden introduced Dunkin Allison, Strategic Partnership Investment Officer, to present information regarding Ranieri Partners. Mr. Allison reported that on June 10, 2010, the Commission participated in a \$25 million senior secured convertible loan note that funded the R-SC Financing Conduit LLC (Conduit) to launch several financial service company platforms. He said that 3 companies had been created and that the Commission had a year to convert the note to an ownership interest of the Conduit, which owns a 15 percent equity interest in the underlying companies. Mr. Borden stated that the scope of possible co-investments would be of benefit to the Portfolio, and Mr. Allison briefly outlined several possible opportunities. Mr. Borden indicated that the Conduit would essentially operate like a strategic partnership with Ranieri Partners, and Mr. Allison noted that the current Conduit LLC Agreement would be amended to conform to a type of strategic partnership or co-investment vehicle structure.

The Commission discussed the approval process for investments within strategic partnerships versus co-investments. Mr. Borden explained the Commission had created investment

committees within strategic partnerships to make decisions as to which investments the partnership would participate, and the Commission had designated its CEO/CIO as its member on the investment committee. However with co-investments, the Retirement System would typically be a direct investor, so a mechanism was needed by which the investment decisions could be implemented expediently. He explained that co-investment rights were negotiated, often with no fees or carried interest costs, but there lacked a mechanism by which to implement these investments effectively. Consequently, the Commission had approved co-investment sidecars to the main funds to provide an implementation mechanism. The co-investment sidecars operate much like strategic partnerships except that there is no investment committee because the Commission has the sole discretion as to whether to invest. The absence of an investment committee or a codified approval process had created implementation issues, which would be illustrated in discussion of several subsequent items on the meeting agenda. Ms. Shealy noted that the Commission evaluated and approved the investment guidelines for each partnership or sidecar, so the investment committee decisions or the decisions relating to co-investments were essentially implementation of the Commission's investment decisions. Mr. Borden provided further explanation of issues relating to implementing co-investments.

After further discussion, Mr. Ewing made a motion, which was seconded by Mr. Williams and passed unanimously, to exercise the Retirement System's conversion rights relating to the Ranieri-SC Financing Conduit LLC Convertible Secured Note; to simultaneously amend the constituent documents of the R-SC Financing Conduit LLC (Conduit) for a strategic partnership to allow the flexibility for the Retirement System to invest through the Conduit an amount not to exceed \$500 million in co-investment opportunities in the financial services industry sponsored by or co-sponsored by Ranieri Partners or an affiliate at the discretion of the CEO/CIO in accordance with guidelines as set by the Commission from time to time; and to authorize the Chairman or his designee to negotiate and execute any necessary documents to implement the investments upon approval for legal sufficiency by General Counsel.

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

Chairman Gillespie stated that there lacked a detailed, clearly delineated, organized process for approval of co-investments, which created an issue relating to a recent co-investment. He explained that information had been provided to the Commission previously about a co-investment opportunity with Aquiline Financial Services Fund, L.P. (Aquiline), relating to a company called Credit Research and Trading (CRT), which was a broker-dealer. Chairman Gillespie recognized Mr. Allison to discuss CRT. Mr. Allison provided a summary of the due diligence that had been conducted for several months and information about the company and the investment. Chairman Gillespie said that the Commission had authorized co-investments with Aquiline, the investment in CRT had been executed, and that it was before the Commission for ratification. Mr. Powers made a motion, which was seconded by Mr. Williams and passed unanimously, to ratify the co-investment with Aquiline in CRT.

The Commission discussed issues relating to implementation of co-investments and the approval process further. Mr. Borden referred to information that had been provided to the Commission and explained the process used by Commission staff to vet investment opportunities for recommendation to the Commission. He said that the Co-Investment Committee, which was comprised of seven staff members, sourced and vetted potential co-investment opportunities. Any co-investment approved by the Co-Investment Committee was presented to the internal Investment Committee, currently comprised of ten staff members and

chaired by the CEO/CIO. Mr. Borden said that the internal Investment Committee vetted the potential co-investment opportunities and reviewed the due diligence performed by the Co-Investment Committee, and any co-investment that was approved by the internal Investment Committee would be recommended to CEO/CIO. He said the CEO/CIO had final authority to implement investments and negotiate terms of investments within the parameters previously approved by the Commission for each co-investment structure. Mr. Borden stated that external legal counsel retained by the co-investment entity was responsible for reviewing and closing approved investments, and external legal counsel consulted with the Commission's General Counsel as needed.

Mr. Williams suggested that a Commission member be consulted when a potential co-investment was over a certain amount and then that the co-investment be presented to the full Commission. Mr. Allison requested that Commissioners participate as they were available during the co-investment due diligence process. Chairman Gillespie concurred with Mr. Williams' comments and stated that risk caps should be established for potential investments. He said that he felt co-investments were too granular to require Commissioner input but that additional policies and reporting standards should be developed. After further discussion, Mr. Williams made a motion, which was seconded by Mr. Ewing and passed unanimously, to delegate authority to the CEO/CIO to approve co-investments within the parameters established by the Commission and in accordance with the internal processes outlined by Mr. Borden.

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

Mr. Borden introduced David Klauka, Senior Alternatives Officer, to provide information relating to recommendations of the search team for real estate investments. Mr. Klauka reported that in November 2009, the Commission staff recommended committing \$125 million to real estate investments. He stated that after due diligence was conducted, the search team recommended investment commitments to Och-Ziff Real Estate Fund II (OZ), Carlyle Realty Partners Fund VI (Carlyle), Lone Star Real Estate Fund II (Lone Star), and Greystar Equity Partners Fund VII (Greystar). Mr. Klauka provided an overview of each fund, including performance information. Mr. Humphries indicated that NEPC recommended investing in Carlyle and Lone Star but that NEPC's due diligence process was not complete for Greystar and OZ. Mr. Borden opined that each of the firms was held in high esteem, and the Commission discussed each potential investment.

Mr. Klauka noted that the search team recommended a higher commitment level to Greystar than provided in the Commission's allocation policy, which would require a waiver of the limitation, and he outlined some of the considerations. Mr. Borden added that the higher commitment might allow an opportunity to acquire a direct interest in the company at a fair valuation from one of the Commission's strategic partners, which might also create attractive seeding opportunities. He noted further that Greystar was one of the largest multi-family property managers in the country and that its home office is in Charleston, South Carolina. Mr. Chellis, who was the Commissioner assigned to the Real Estate search team, indicated that he had been unable to conduct due diligence relating to Greystar. Mr. Borden noted that it was an investment where due diligence had to be accelerated to take advantage of the unique opportunity with regard to the direct investment. Mr. Klauka outlined the deadlines for closing, fees, and performance, and Mr. Chellis indicated that he would be able to expedite a meeting with Greystar to complete his due diligence review.

Mr. Chellis made a motion, which was seconded by Mr. Williams and passed unanimously, to invest an amount not to exceed \$75 million in Och-Ziff Real Estate Fund II, LP, to authorize investments in an amount not to exceed \$75 million in co-investments or a co-investment sidecar, and to authorize the Chairman or his designee to negotiate and to execute any necessary documents to implement the investments upon approval for legal sufficiency by General Counsel.

Mr. Chellis made a motion, which was seconded by Mr. Williams and passed unanimously, to invest an amount not to exceed \$100 million in Carlyle Realty Partners VI, LP, to authorize investments in an amount not to exceed \$100 million in co-investments or a co-investment sidecar, and to authorize the Chairman or his designee to negotiate and to execute any necessary documents to implement the investments upon approval for legal sufficiency by General Counsel.

Mr. Chellis made a motion, which was seconded by Mr. Williams and passed unanimously, to invest an amount not to exceed \$50 million in Lone Star Real Estate Fund II, to authorize investments in an amount not to exceed \$25 million in co-investments or a co-investment sidecar, and to authorize the Chairman to negotiate and to execute any necessary documents to implement the investments upon approval for legal sufficiency by General Counsel.

Mr. Williams made a motion, which was seconded by Mr. Powers and passed unanimously, to invest in Greystar Equity Partners VII, LP, an amount not to exceed the lesser of 30 percent of total committed capital or \$150 million, to authorize investments in an amount not to exceed \$50 million in co-investments or a co-investment sidecar with Greystar, to waive the 25 percent of the total fund allocation policy restriction, and to authorize the Chairman or his designee to negotiate and to execute any necessary documents to implement the investments upon approval for legal sufficiency by General Counsel, subject to a request by Mr. Chellis that the investment be reconsidered at the next meeting if he identifies any concerns after completing due diligence meetings with Greystar.

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

Mr. Harper outlined recommended changes to the hedge fund portfolio and referred to information that had been provided to the Commission. He recommended increasing the allocation to Chilton China Opportunities, LP, and explained that the additional allocation would allow Commission staff to manage the cash flows from transitioning from hedge fund of funds to managed accounts more effectively and would also result in a reduction in management fees. Mr. Harper stated that D.E. Shaw had offered investors in the DE Shaw Composite Fund LLC a one-time option to convert existing Class A shares to newly created Class B shares which did not allow for side pocket investments. The Commission and staff discussed the impact of various factors on the investment strategies for the Portfolio.

After further discussion, Mr. Powers made a motion, which was seconded by Mr. Chellis and passed unanimously, to convert existing Class A shares to newly created Class B shares in the D.E. Shaw Composite Fund, LLC and to authorize the Chairman or his designee to negotiate and to execute any necessary documents to implement the investments upon approval for legal sufficiency by General Counsel.

Mr. Williams made a motion, which was seconded by Mr. Powers and passed unanimously, to increase the investment commitment to the Chilton China Opportunities, L.P., from \$50 million

to an amount not to exceed \$100 million and to authorize the Chairman or his designee to negotiate and to execute any necessary documents to implement the investments upon approval for legal sufficiency by General Counsel.

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

Mr. Borden requested Commission volunteers to assist in the searches for U.S. Equity and EAFE investment managers. Mr. Powers volunteered to participate in the EAFE manager search, and Dr. Pritchett volunteered to participate in the U.S. Equity manager search.

Mr. Borden explained the benefits of the CEO/CIO having the authority to transfer assets from the Strategic Partnerships to the Retirement System. After further discussion, Mr. Williams made a motion, which was seconded by Mr. Ewing and passed unanimously, to authorize the CEO/CIO to redeem, recycle, and transfer assets from Strategic Partnerships to the Retirement System, to make amendments to any affected documents to reflect this authority, and to authorize the Chairman or his designee to negotiate and execute any amendments necessary to the Strategic Partnership contractual agreements or any constituent documents for implementation upon approval for legal sufficiency by General Counsel.

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

Mr. Allison recommended amending the Mariner/Palmetto State Partners Limited Partnership Agreement (Mariner) to permit the Partnership to incur and guarantee indebtedness. Chairman Gillespie indicated concerns with the recommendation, and the Commission requested that additional information be presented at a future meeting with regards to indebtedness parameters. After the Commission discussed other recommendations relating to Mariner, Mr. Williams made a motion, which was seconded by Mr. Powers and passed unanimously, to allow the Mariner/Palmetto State Partners LP to invest in entities that engage in the origination or trading of securities and to authorize the Chairman or his designee to negotiate and execute any necessary amendments to the limited partnership agreement and constituent documents to conform upon approval for legal sufficiency by General Counsel.

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

VI. ADJOURNMENT

There being no further business, Chairman Gillespie thanked everyone for attending, and the meeting adjourned at 3:45 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 15th Floor Conference Room at 1201 Main Street, Columbia, SC on September 21, 2010.]