

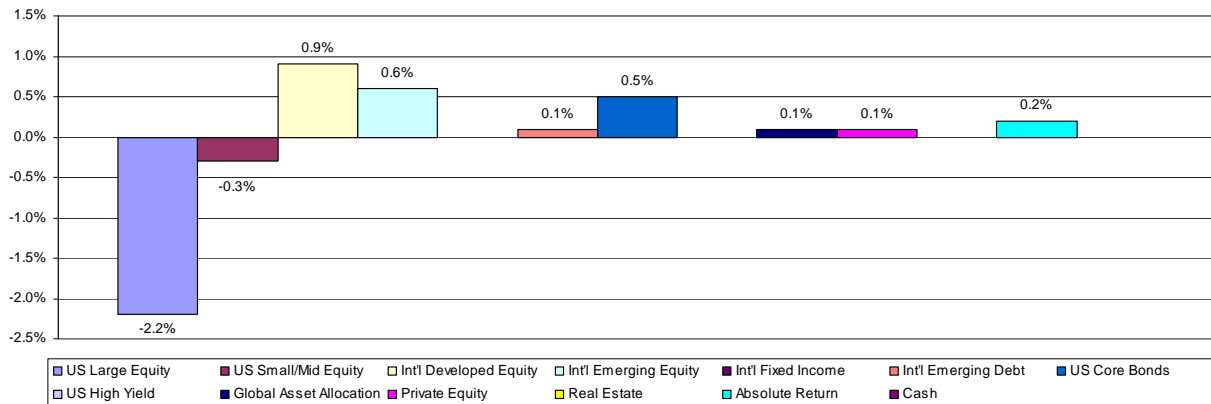
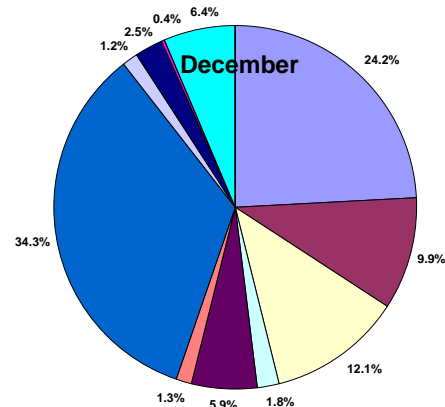
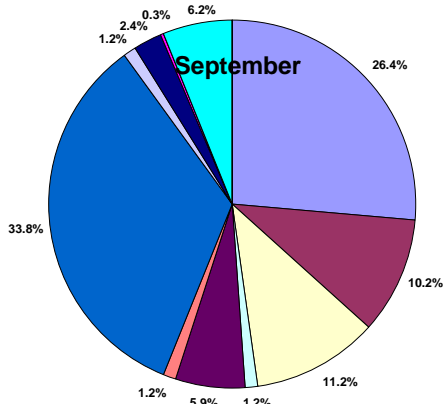
South Carolina Retirement System Investment Commission

December 31, 2007 Quarterly Report

Pursuant to S.C. Code, Ann. §9-16-90 (A)

Asset Allocation

September 30, 2007 versus December 31, 2007



Investment Performance (12/31/07)

	Quarter	1 Year	3 Years	5 Years
Total Fund Return (gross)	0.4	7.2	7.5	8.9
Policy Benchmark Return	0.0	6.0	6.5	8.2
Large Fund Median Return	(0.6)	8.7	10.2	13.0
<i>Large Fund Percentile Rank^A</i>	84	22	8	4
Equity Return (gross)	(4.3)	3.2	8.1	13.0
Russell 3000	(3.4)	5.1	8.9	13.6
<i>Equity Percentile Rank^B</i>	24	32	17	30
Fixed Income Return	2.8	6.2	5.2	5.2
Lehman Aggregate	3.0	7.0	4.6	4.4
<i>Fixed Income Percentile Rank^C</i>	58	42	51	71

^A The Large Fund Universe was comprised of 129 unique observations where 100 is best, 1 is worst.

^B The Total Equity Universe was comprised of 6,351 unique observations where 100 is best, 1 is worst.

^C The Total Fixed Income Universe was comprised of 2,175 unique observations where 100 is best, 1 is worst.

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Investment Analysis:

- Growth in the developed world continued to weaken in the fourth quarter as did expectations for next year's growth. Developed world growth is currently below average at about 1.5 – 2.0%.
- Bond yields fell sharply in the 4th Quarter of 2007 driven by central bank easing and expectations for future easing, due to the housing downturn and tightening credit. The Lehman Brothers (LB) Aggregate Bond Index returned 3.0%, whereas the LB Global Aggregate Bond Index returned 3.9%.
- World equity markets traded modestly lower as economic prospects deteriorated and losses mounted at financial institutions. U.S. stocks declined 3.3%, evidenced by the S&P 500 index, whereas the EAFE benchmark for foreign stocks declined 1.8%. The MSCI Emerging Markets Index rose 3.66%.
- Recession fears led investors to favor larger, more stable firms: The S&P 500 Index of large cap U.S. stocks declined 3.3% during the quarter, but outperformed the Russell 2000 U.S. small cap Index, which declined 4.6%.
- Continuing a recent trend, investors preferred U.S. growth stocks over value stocks: The Russell 1000 Growth Index of large cap U.S. stocks declined 0.8%, whereas the Russell 100 Value Index of large cap U.S. stocks declined 5.8%. Similarly, the Russell 2000 Growth Index of small U.S. stocks declined 2.1%, whereas the Russell 2000 Value Index of small U.S. stocks declined 7.3%.
- In adherence to the fund's asset transition plan, domestic equity positions were reduced by 2.2% and small cap U.S. stocks declined 0.3% during the quarter. Foreign stocks of developed nations increased 0.9% and emerging stocks increased 0.6%. Domestic bond values increased 0.5% with declining yields and International Emerging Debt increased 0.1%. Alternative investments: Global Asset Allocation, Private equity and Absolute Return strategies, increased a total of 0.4%.
- The Total Fund returned 0.4% for the quarter ending 12/31/2007 including the beta overlay program. These returns exceeded the Policy Index of 0.0% and the Allocation Index of -0.1%.
- The Fund's relative performance improved dramatically during the quarter. Compared to other large pension funds, quarterly performance rose to the 84th percentile, from last quarter's 34th percentile. This top quartile ranking is due primarily to the positive return contributions from the Fund's newly acquired Alternative Asset Classes.

Achievements During the Quarter:

- Ten Private Equity fund managers were approved totaling approximately \$770 million, with commitments not to exceed \$30 million for Square 1 Venture 1, \$40 million for TrueBridge Capital Partners' CVE-Kauffman Fellows Endowment Fund I, \$50 million for Lexington Middle Market Investors II, \$100 million for Goldman Sachs Mezzanine Partners V, \$100 million for Clayton, Dubilier & Rice Fund VIII, \$100 million for Paul Capital IX Secondary Private Equity Fund, \$100 million for Crestview Partners II, \$100 million for Warburg Pincus Private Equity X, \$50 million for Northstar Mezzanine Partners V, and \$100 million for TCW/Crescent Mezzanine Partners V.
- Exchanged \$500 million futures positions for BGI EAFE Index Fund.
- Contract negotiated with Mellon that included a waiver of SC Code §9-16-360(B); employees or affiliates or subsidiaries are subject to its Code of Ethics, which is substantively consistent with §9-16-360(B).
- Conducted second Annual Strategic Planning workshop at Wampee. Real Estate Planning sessions were included.
- Kathy Rast was hired as the Administrative Manager and Heather Muller was hired as an Assistant to the CIO.

Projects in Progress:

- Continue transition toward targeted asset allocation.
- Integration of fixed-income, cash management, and daily custody functions for the Retirement System assets from the State Treasurer's Office into the Investment Commission.
- Contracting process and funding of approved investments.
- Continue due diligence on Strategic Partnerships, Private Equity, Real Estate, Opportunistic Credit and Emerging Market Debt strategies.
- Continue recruiting investment and administrative staff.