South Carolina Retirement System Investment Commission
Meeting Minutes

July 21, 2011

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

Commissioners Present:
Mr. Allen Gillespie, Chairman
Mr. Reynolds Williams, Vice Chairman
State Treasurer Curtis M. Loftis, Jr.
Mr. Edward Giobbe
Mr. James Powers
Dr. Travis Pritchett

Others present for all or a portion of the meeting on Thursday, July 21, 2011: Bob Borden, Geoff Berg, Dori Ditty, Robert Feinstein, Hershel Harper, Adam Jordan, Lorrie King, Kathy Rast, and Nancy Shealy, from the South Carolina Retirement System Investment Commission; Kara Brurok from the South Carolina House of Representatives' Ways and Means Committee; Mike McDermott, Phillip Sease, and Shakun Tahiliani from the State Treasurer's Office; Ashli Aslin and John Krimmel from New England Pension Consultants; James Manning, Greg Meetze, Tammy Nichols, John Page, and Faith Wright from the South Carolina Retirement Systems; and Wayne Pruitt from the State Retirees' Association.

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 10:00 a.m. and welcomed the Commission and guests. Mr. James Powers made a motion, which was seconded by Mr. Reynolds Williams and passed unanimously, to approve the agenda as presented.

Chairman Gillespie referred to the draft minutes from the Commission's April 21, 2011 meeting and noted that he had not had an opportunity to review the draft thoroughly. Dr. Travis Pritchett questioned the language used at page 4 of the draft minutes regarding investing in municipal bonds and expressed concerns regarding same. Mr. Powers summarized reasons why certain types of municipal bonds have become attractive and appropriate investments for tax-exempt institutional investors. Mr. Edward Giobbe concurred with Mr. Powers' comments, and noted additional investment opportunities that exist with regard to municipal bonds. Mr. Bob Borden, the Commission's Chief Executive Officer/Chief Investment Officer (CEO/CIO), explained that potential municipal bond allocations would be examined on an opportunistic basis. Upon motion of State Treasurer Curtis Loftis and second by Dr. Pritchett, the minutes from the Commission's April 21, 2011 meeting were approved. Chairman Gillespie abstained from voting.

Mr. Borden presented the Commission with a listing of Commissioner asset class assignments. Mr. Borden stated that Commissioners had, since the Commission's inception, been assigned to the various asset classes, and he indicated that only current asset class / manager search assignments had been listed on the document distributed to the Commission. Mr. Borden noted that no Commissioner was presently assigned to small-mid cap (SMID) equity, real asset/commodities, or the global tactical asset allocation (GTAA) categories. After further discussion, the Commissioners agreed to the following changes: (i) Mr. Loftis would be assigned to SMID equity, (ii) Mr. Powers would be assigned to GTAA, and (iii) Chairman Gillespie would add assignments to real asset/commodities. Mr. Williams would continue to be assigned to Strategic Partnerships.

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

II. ESTIMATED FISCAL YEAR-END PERFORMANCE

Mr. Borden began discussions regarding the Retirement Systems' total portfolio (Portfolio) performance for the Fiscal Year ended June 30, 2011. He distributed commentary from Aronson Johnson + Ortiz, indicating that it offered a good snapshot of benchmark returns for the fiscal year. Mr. Borden summarized themes that emerged during the fiscal year, highlighting the equity markets' strong performance despite: unrest in the Middle East; instability in the Eurozone; natural disasters in Japan, and the disconnect between (i) the U.S. private sector's relative health (as measured by earnings) and (ii) the weakness evinced by high U.S. unemployment rates and the housing sector. He noted that, as a general matter, the more equity exposure an investor had during the fiscal year, the higher returns were. By contrast, returns for Treasuries were very low.

Mr. Borden referred to the June 2011 preliminary performance estimate and reported that the fiscal year-to-date return was estimated to be 18.4 percent. He noted that this return materially exceeded both the policy and the strategy benchmarks (estimated returns of 17.0 percent and 16.3 percent, respectively). Mr. Borden noted that the total fund performance for the prior fiscal year was 14.6 percent, which meant that returns for equity indices had been strongly positive for two consecutive years. Mr. Borden noted that other state funds had only begun to report fiscal year performance. As of the Commission's meeting, this partial set of returns ranged from 13 percent to 23 percent. Mr. Borden noted that, compared to peers, the Commission was disadvantaged by (i) cash drag (estimated performance impact of approximately 200 basis points), (ii) lower equity exposure compared to peers, and (iii) being underweight in real estate. Mr. Hershel Harper, Deputy CIO, added that with regard to real estate, the Commission was working hard to address the real estate underweight through a real estate debt manager search.

John Krimmel, Senior Consultant, New England Pension Consultants (NEPC), offered some comments regarding fiscal year performance. Mr. Krimmel stated that alpha generated in the portfolio would likely put the Commission into the top third of its peers in terms of alpha generation, as opposed to asset allocation. Mr. Borden concurred, and opined that on a risk adjusted basis, the Commission's returns would prove to be top notch among U.S. public plans.

The Commissioners and Mr. Borden had a further discussion of the potential impact on markets arising from challenges facing Europe and the U.S. As to Europe, there was discussion of fundamental flaws with the Eurozone model (centralized currency and decentralized fiscal policy), as well as the friction between Germany and France, on the one hand, and Portugal, Italy, Spain and Greece, on the other. As to the U.S., there was discussion of the potential impact on markets as a result of the federal government's debt ceiling, debt reduction, and budget challenges. Mr. Borden noted that a U.S. government ratings downgrade would likely result in downgrades of other credits, including (i) debt issued by states, counties and municipalities and (ii) certain corporate credits. Other potential market impacts were discussed. Mr. Borden noted that staff was developing implementation strategies for various scenarios so as to protect the trust funds and position the Commission to take advantage of opportunities that might arise.

(Information relating to this matter has been retained in the Commission's files and is identified as Exhibits B-1 through B-3).

III. ASSET ALLOCATION REVIEW

Mr. Harper referred to the Portfolio-Level Dashboard and highlighted portfolio changes since the Commission meeting in June 2011, noting that approximately $1 billion in fundings had taken place or were in the process of being finalized. He explained that these fundings also helped account for changes in the cash allocation, which while still significant, had been significantly decreased since the Commission's June meeting.

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

IV. EXECUTIVE SESSION

Mr. Giobbe made a motion that the Commission recede to executive session to receive legal briefings and to discuss personnel matters. Mr. Williams seconded the motion, which passed unanimously. Chairman Gillespie announced that the Commission would meet in executive session for those purposes.

---- ---- ---- ----

The Commission reconvened in open session.

Mr. Powers made a motion, which was seconded by Dr. Pritchett and passed unanimously, to create a standing Compensation Committee, consisting initially of the Chairman and Mr. Loftis, to consider and make recommendations to the Commission concerning matters relating to the compensation of the CEO/CIO and Commission staff, including the performance incentive compensation ("PIC") policy.

Mr. Powers made a motion, which was seconded by Dr. Pritchett and passed unanimously, to increase Mr. Borden's base salary effective June 30, 2011 to an amount to be determined by the Chairman after further discussions with Mr. Borden, and to adopt the PIC policy changes, including an increase in the maximum PIC payout for both the CEO/CIO and all other staff covered by the Commission's PIC policy from 50 percent to 100 percent of base salary effective for the fiscal year ending June 30, 2012.

Mr. Powers made a motion, which was seconded by Mr. Giobbe and passed unanimously, to authorize the Chairman to negotiate and to execute any necessary documents to implement the changes to the PIC policy as approved by the Commission and to initiate a contractual commitment with the Chief Investment Officer.

V. ADJOURNMENT

Mr. Powers made a motion, which was seconded by Mr. Loftis and passed unanimously, to adjourn. There being no further business, the meeting adjourned at 12:55 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 prior to 9:00 a.m. on July 20, 2011.]