

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

June 21, 2007

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

Commissioners Present:

Mr. Reynolds Williams, Chairman
Mr. James Powers, Vice Chairman
State Treasurer Ken Wingate
Mr. Blaine Ewing
Mr. Allen Gillespie
Dr. Travis Pritchett

Others present for all or a portion of the meeting: Ashli Aslin, Katie Boling, Robert Borden, Donald Brock, Tomas Jokl, Douglas Lybrand, Rick Patsy, Nancy Shealy, Nicole Waites, Hilary Wiek, and Justin Young from the South Carolina Retirement System Investment Commission; Mike Addy, Delores Dacosta, Rick Harmon, Frank Rainwater, and Shakun Tahiliani from the State Treasurer's Office; Rhett Humphreys from New England Pension Consultants; Sarah Corbett, Tammy Davis, John Page, Dianne Poston, Danielle Quattlebaum, Kelly Rainsford, Joni Redwine, Travis Turner, and Faith Wright from the South Carolina Retirement Systems; Eric Kleppe from Turner Investment Partners, Inc.; Tom Heflin, Greg Nordquist, and Danny Sobba from Russell Investment Group; Paul Podolsky and Joel Whidden from Bridgewater Associates; John Wiseman from Greenwood Capital Management; Keith Wood from Jamison, Eaton & Wood, Inc.; Grant Babyak and Francine Goldstein from TimesSquare Capital Management LLC; Tom MacLennan from GNI Capital, Inc.; Henry Addy and Sam Griswold from the State Retirees' Association; and Charley McDonald from the South Carolina Trooper's Association

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

Chairman Reynolds Williams called the meeting of the South Carolina Retirement System Investment Commission (Commission) to order at 10:00 a.m. and welcomed the Commissioners and guests. Chairman Williams introduced and welcomed newly-appointed State Treasurer Ken Wingate.

Upon request of Chairman Williams and without objection, adoption of the minutes from the April 19, 2007 and May 17, 2007 Commission meetings were carried over. Chairman Williams called for objections or amendments to the meeting's proposed agenda, as amended. There being none, the proposed agenda was adopted as amended.

Chairman Williams reported that there was no final action on the OPEB legislation (h.3789) or Sudan Divestment legislation (s.241 and s.242) this legislative session that impacted the Commission, although he understood that legislative subcommittees would continue working on the bills for consideration next year. He asked the Commission to give the legislation some consideration before November to provide suggestions to accomplish the Legislature's goals without hampering the Commission's ability to meet its fiduciary responsibilities.

Chairman Williams advised that the Statement of Investment Objectives (SIO) and Statement of Investment Policies (SIP) had been reviewed in light of constitutional, legislative, and policy

changes. Chairman Williams stated that he, Ms. Nancy Shealy, and Mr. Robert Borden vetted the amended documents, and he asked that Ms. Shealy and Mr. Borden complete a final review of the edits and distribute to the Commissioners for consideration at the July Commission meeting.

Chairman Williams reported that he authorized the reimbursement of the Fixed Income Management Expenses to the State Treasurer's Office (STO).

Chairman Williams reported that the Attorney General's Office approved the Commission's request to engage associate counsel for the investments that had been approved by the Commission through the May 2007.

II. ADMINISTRATIVE MATTERS

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

Ms. Shealy reported that during Executive Session of the May Commission meeting, as part of restructuring the total portfolio, the Commission voted to terminate contracts with Flippin, Bruce & Porter, Inc., Sands Capital Management, LLC, Wellington Management Company, LLP, AllianceBernstein, LP, in both the Large Cap Growth and Large Cap Value investment strategies, and to transition those assets to the Beta Overlay portfolio. Ms. Shealy stated that the matter was discussed and voted on in Executive Session pursuant to S.C. Code Ann. §§9-16-80 and 9-16-320 because public disclosure of the information could have jeopardized the Commission's ability to implement a portion of the Annual Investment Plan (AIP) and/or to achieve investment objectives. She reported that the managers were given notice on June 6, 2007, and Mr. Borden reported that the transition of the assets was complete.

Ms. Shealy reported that the Attorney General's Office approved the recommendations to engage several law firms as associate counsel for the thirteen investments that had been approved by the Commission through May. She noted that seven of the investments were due to close by June 30th and that she had instructed associate counsel to make every effort to close the remaining investments prior to July 31, 2007.

Ms. Shealy reported on the status of the contract between the Commission and Jamison, Eaton, and Wood. She stated that the target completion date for that contract was June 30, 2007.

Ms. Shealy provided the Commission with a budget status report for Fiscal Year (FY) 2007, which the Commission received as information. She stated that the Legislature was still in session, and the budget authorization for FY 2008 had not been officially approved.

Ms. Shealy reported on the progress of the transition into the Commission's new office facilities.

Ms. Shealy reported that the fiduciary liability insurance policy would expire on June 30, 2007. She provided a status report on renewal of the policy, noting that the policy covered the officers and personnel of the State Budget and Control Board (Board) as trustees of the South Carolina Retirement Systems (Retirement System), the Commission, the Retirement System, and the State Retirement System Investment Panel. The Commission discussed the possibility of self-insurance. Mr. Allen Gillespie made a motion to authorize Ms. Shealy to engage the fiduciary liability insurance provider upon approval of the Commission's Chairman and in consultation with the Board's Office of General Counsel. Mr. Blaine Ewing seconded the motion, which after discussion passed unanimously.

Chairman Williams thanked Ms. Shealy for her report.

III. CHIEF INVESTMENT OFFICER'S REPORT

Mr. Blaine Ewing asked to be recognized by the Chairman to distribute a copy of an article from the "Wall Street Journal" relating to hedge funds. After discussion, the article was received as information and has been retained in the Commission's files, identified as Exhibit A.

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

Mr. Borden introduced and welcomed Mr. Rick Patsy and Ms. Nicole Waites, who became employed by the Commission effective June 17, 2007, to manage the fixed income portion of the Retirement System's portfolio.

Mr. Borden stated that the Commission previously approved a 5 percent allocation to Global Asset Allocation (GAA)/Absolute Return. Mr. Borden reviewed the GAA/Absolute Return manager search. He noted that at the May meeting, the Commission approved two GAA managers of the four recommended by New England Pension Consultants (NEPC). Mr. Borden stated that representatives from Bridgewater Associates, Inc. (Bridgewater) were present to provide an overview of the Bridgewater All Weather Fund, which would act as the complementary Risk Parity product in the GAA asset sub-class.

Mr. Borden introduced Messrs. Joel Whidden and Paul Podolsky from Bridgewater. Messrs. Whidden and Podolsky provided an overview of the firm, investment strategy, and structure of the Bridgewater All Weather Fund. The Commission asked questions, to which Messrs. Whidden and Podolsky responded.

After providing additional information about the Bridgewater All Weather Fund, its relationship to the portfolio's asset allocation, and due diligence evaluations conducted by the search team, Mr. Borden and Mr. Rhett Humphreys from NEPC recommended that the Commission consider investing \$350 million in the Bridgewater All Weather Fund.

After further discussion, Mr. James Powers made a motion that the Commission authorize the Chairman or his designee to negotiate and execute agreements and any necessary documents with Bridgewater to invest \$350 million in the Bridgewater All Weather Fund. Mr. Gillespie seconded the motion, which passed unanimously.

Mr. Ewing agreed to work with Mr. Borden and staff to conduct due diligence on Mellon Investments for their GAA product.

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

Mr. Borden stated that the Commission previously approved a 15 percent allocation to Portable Alpha. He stated that the Commission had authorized the Hedge Fund Due Diligence Team, consisting of NEPC, the CIO, and Mr. Gillespie, to conduct further due diligence in this asset sub-class. For health reasons, the CIO was unable to travel, so Ms. Hilary Wiek from the Commission represented Commission staff in the meetings.

Mr. Borden stated that during June 2007, the Portable Alpha Due Diligence Team conducted on-site due diligence meetings with EnTrust Capital, Inc. (EnTrust), GAM Limited (GAM), and Sandleman Partners, LP (Sandleman). Mr. Humphreys provided an overview of each of the firms, including a firm background, investment strategy, and process. He discussed the attributes of each firm.

Messrs. Borden and Humphreys recommended that the Commission consider investing \$400 million in the EnTrust Capital Diversified Fund and \$600 million in the GAM US Institutional Diversity Fund, subject to further negotiations on points of liquidity, fees, and fund structure. A recommendation was also made to continue due diligence on Sandleman as a potential manager in this asset sub-class. After further discussion and upon recommendation of Treasurer Wingate, the Commission carried over consideration of the Portable Alpha recommendations.

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

Mr. Borden recognized Ms. Wiek for an Equity portfolio review and recommendations. Ms. Wiek welcomed and introduced Mr. Grant Babyak and Ms. Francine Goldstein from TimesSquare Capital Management, LLC (TSCM) for a presentation on their Small/Mid (SMID) Cap Growth product. Ms. Wiek explained that the Commission currently retained TSCM as a Small Cap Growth manager. She stated that the Commission previously approved a 5 percent allocation to both Small Cap and Mid Cap, which NEPC recommended that clients combine to form a 10 percent allocation to SMID Cap.

Mr. Babyak and Ms. Goldstein provided an overview of the firm, discussed process and investment strategy, and provided performance history of the TSCM SMID Cap product. Mr. Babyak and Ms. Goldstein stated that TSCM believed that they could add significant value by allowing investments to drift into the Mid Cap space as the value increased.

Ms. Wiek stated that at the conclusion of the due diligence process, the Equity Due Diligence Team, comprised of Ms. Wiek, Mr. Borden, and NEPC, was unanimous in its recommendation that the Commission consider shifting the current mandate for TSCM from Small Cap Growth to SMID Cap Growth. She stated that this would serve to complement the Commission's asset allocation by adding diversity within the domestic Small and Mid-Cap Equity asset sub-classes, while allowing the Commission to make the highest and best use of an existing manager.

Mr. Ewing made a motion that the Commission authorize the Chairman or his designee to negotiate and execute agreements and any necessary documents with TSCM to shift the investment with TSCM from the Small Cap Growth to the SMID Cap Growth product, subject to review and approval for legal sufficiency by general counsel. After thorough discussion, Mr. Gillespie seconded the motion, which passed unanimously. Ms. Shealy noted that the current contract with TSCM would expire at the end of September, and she would discuss the logistics of contract administration with the Chairman and TSCM.

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

Mr. Borden stated that based on previous authorization, both telephone and on-site meetings between staff, NEPC, Commissioners, and Trust Company of the West (TCW) were conducted. Mr. Borden provided an overview of the TCW Special Mortgage Credits Fund, and stated that

the opportunity arose from the deterioration of the U.S. mortgage market due to lax lending standards in the past and rising and resetting interest rates.

Mr. Borden stated that at the conclusion of the due diligence process, the Due Diligence Team, which consisted primarily of Messrs. Borden and Ewing, Dr. Travis Pritchett, and representatives of NEPC, was unanimous in its recommendation that the Commission consider committing \$100 million to the TCW Special Mortgage Credits Fund. He stated that the commitment would fit well into the Commission's stated objective to invest in private equity vehicles that should produce earlier return recognition, also known as shortening the J-Curve.

Mr. Ewing made a motion that the Commission authorize the Chairman or his designee to negotiate and execute agreements and any necessary documents with TCW to commit \$100 million to the Special Mortgage Credits Fund. After thorough discussion, Dr. Pritchett seconded the motion, which passed unanimously.

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

Mr. Humphreys presented a first draft of the proposed structure of the Real Assets investment plan. He stated that the Commission previously approved a 15 percent allocation to Real Assets. He reported that NEPC recommended that this allocation consist of a mix of open-end and closed-end products, which would be committed over time to achieve vintage year diversification similar to that found in Private Equity. Mr. Humphreys provided an overview and forecast of the Real Assets market.

Mr. Borden stated that the Commission should be able to develop the Real Asset investment strategy during the fourth quarter of 2007.

Chairman Williams asked that the Commission review NEPC's Real Asset report for discussion at the July meeting. Mr. Humphreys also distributed materials from Morgan Stanley relating to Global Real Estate investing, which was received as information by the Commission.

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

Mr. Borden discussed the investment performance of the Retirement System's portfolio as of May 31, 2007. Mr. Borden briefly discussed the performance of the equity, fixed income, and total portfolio and the contributing factors to that performance.

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

Mr. Borden provided an update on the progress of the transition of the portfolios of the managers whose contracts were terminated by the Commission in June. Mr. Danny Sobba from Russell Investment Group (Russell) stated that on June 15, 2007, Russell completed a \$2.4 billion transition of the Retirement System portfolio. He stated that the transition strategy focused on minimizing the overall risk of assets during the transition and minimizing shortfall. He reported that Russell was able to manage risks associated with the event by identifying and reducing specific risks, including market exposure, liquidity, communication, and security settlement. He stated that risks were further mitigated through effective implementation of both administrative and operational details related to the transition. Mr. Sobba also discussed the

transition performance and stated that the transition was successful in terms of risk control, coordination, and project management.

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

Chairman Williams called for any objections or corrections to the minutes from the April 19, 2007 and May 17, 2007 Commission meetings, which had been carried over from the beginning of the meeting. There being none, the minutes from both meetings were adopted.

Chairman Williams noted that the implementation plan for the Beta Overlay program had been discussed in executive session previously pursuant to S.C. Code Ann. §§9-16-80 and 9-16-320. He noted further that because that portion of the plan had been implemented, the risk to the portfolio from premature public disclosure was eliminated, so he asked Russell to provide a status report in open session.

Mr. Greg Nordquist from Russell provided a status update on the Beta Overlay portfolio. He reported that Russell began trading for the Beta Overlay portfolio on May 29, 2007. He provided a performance report for the latter part of May 2007 and the beginning of June 2007, as compared to the Russell "Perfect Implementation" standard.

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

IV. EXECUTIVE SESSION

Mr. Powers made a motion, which was seconded by Dr. Pritchett and passed unanimously, that the Commission meet in executive session to discuss investment matters. Chairman Williams announced that the Commission would meet in executive session pursuant to S.C. Code §§9-16-80 and 9-16-320 for the purpose of discussing investment strategy with the Beta Overlay manager, public disclosure of which could jeopardize the Commission's ability to achieve investment objectives and/or implement that portion of the investment plan.

The Commission reconvened in open session and Chairman Williams reported that the Commission did not take any reportable action while in executive session. Chairman Williams noted that any action that may have occurred while in executive session would be publicized when doing so would not jeopardize the Commission's ability to achieve its investment objectives or implement that portion of the plan.

V. ADJOURNMENT

Chairman Williams thanked everyone for attending, and the meeting adjourned at 2:45 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 2nd Floor Conference Room at 202 Arbor Lake Drive, Columbia, SC, on June 20, 2007, prior to 10:00 a.m.]