

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

**September 20, 2007  
Second Floor Conference Room  
202 Arbor Lake Drive  
Columbia, South Carolina 29223**

**Commissioners Present:**

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

**Others present for all or a portion of the meeting:** Ashli Aslin, Robert Borden, Donald Brock, Douglas Lybrand, Rick Patsy, Nancy Shealy, Nicole Waites, Hilary Wiek, Justin Young, and Greg Putnam (effective October 2, 2007) from the South Carolina Retirement System Investment Commission; Delores Dacosta, Rick Harmon, and Shakun Tahiliani from the State Treasurer's Office; Rhett Humphreys from New England Pension Consultants; Tammy Davis, Robin Leadbitter, John Page, Danielle Quattlebaum, Kelly Rainsford, Joni Redwine, Travis Turner, and Faith Wright from the South Carolina Retirement Systems; Allyn Powell from the House Ways and Means Committee; Greg Nordquist from Russell Implementation Services, Inc.; Greg Putnam; Crawford Clarkson 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 called for objections or amendments to the meeting's proposed agenda. There being none, the proposed agenda was adopted as presented. The minutes from the meeting on August 16, 2007, were carried over.

Chairman Williams stated that he had no specific agenda items or other items to report on from last meeting.

**II. CHIEF INVESTMENT OFFICER'S REPORT**

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

Mr. Borden referred to two items pending in the South Carolina Legislature that could significantly impact the Commission, bill h.3789 relating to Other Post Employment Benefits liabilities (OPEB), which are liabilities of health care benefits for retirees, and s.241 and s.242 relating to investments in certain companies doing business in the country of Sudan. He explained that these matters were on the agenda to provide the Commission with information as to the potential impact on the investment program and to distill a general sense of the Commission's position regarding the same. He said that with regard to the OPEB legislation,

Chairman Daniel Cooper of the House Ways and Means Committee had asked Mr. Allen Gillespie to provide input as to the Commission's position and to identify any issues. Mr. Borden said that Mr. Justin Young, one of the Commission's interns, had prepared a presentation on the legislation, and he introduced Mr. Young.

Mr. Young provided an overview of the OPEB legislation and explained that it was prompted by GASB 45, a requirement instituted by the Government Accounting Standards Board that relates to reporting insurance liabilities. He said that the purpose was to create additional transparency and to require states to more adequately project cash flows to transition from a "pay as you go" system to a system whereby trust funds would be created to more adequately fund the programs. He reviewed the current system and investments, which are managed by the State Treasurer's Office (STO). Mr. Borden added that GASB 45 impacted almost all states and that most, like South Carolina, funded health care benefits on a short-term basis. He said that states were creating trust funds now so that contributions could be scheduled, which would allow for a higher discount rate to be used and improve states' credit ratings. He stated that it appeared that the Legislature intended to create the same types of trust funds and to vest the Commission with the responsibility to invest and manage the assets.

Mr. Borden outlined some of the potential issues with the pending OPEB legislation. He noted that the bill did not designate who would be responsible for collecting contributions, providing actuarial valuations and custody, and performing investment accounting. He noted further that there were significant investment, constitutional, and statutory impediments that would have to be overcome before the Commission could invest and manage the assets. State Treasurer Chellis added that the Legislature had reviewed the returns and unfunded liabilities of the current health insurance portfolio and that they explored ways to diversify and manage the portfolio to improve long-term performance to reduce the unfunded liability to a more manageable level. Dr. Travis Pritchett explained several funding mechanisms for insurance programs and issues with investing those assets in the same types of investments as the Retirement System.

The Commission discussed various amendments that had been proposed, including the inclusion of municipalities' health plans, the timing of the transfer of responsibility to the Commission, some of the items that would need to be addressed prior to implementation of the legislation, the resources that would be needed, and the potential impact on management of the Retirement System's portfolio. Chairman Williams said that clearly there would be many implications for the Commission and that the legislation would dictate those implications. He said that the Commission needed a mechanism to be involved with the development of the legislation. He suggested that he explore the Commission's option and make recommendations at the next meeting. The Commissioners concurred that a legislative strategy needed to be developed to communicate issues.

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

Mr. Borden discussed issues relating to pending Sudan divestment legislation. He noted that there were two issues, terrorism and human rights violations. He said that the US Treasury Department had provided a list of known terrorist sponsoring entities, which had helped to identify potential issues. He stated that human rights policies were more difficult as there were no guideline lists and determinations of the severity of violations would be subjective. He stated that there was model legislation circulating in many states, and Senator Joel Lourie had met

with him to discuss the issues with divestment and foreign policy. He said Senator Lourie asked the Commission to provide some suggestions regarding issues and possible solutions.

Messrs. Young and Borden provided an overview of the trends in other states and a summary of the current legislation pending in South Carolina. They also discussed suggested amendments that would be consistent with prudent investment standards, including the addition of an exemption for derivatives and commingled funds, deletion of the requirement to write to offending companies, and modification of the reporting requirement so that the Commission could provide a summary of business operations of scrutinized companies in lieu of a detailed report. They discussed fiduciary responsibility to act in the sole interest of the participants and beneficiaries of the Retirement System and potential issues relating to social investing.

The Commission discussed the difficulty in implementing the legislation as drafted, and Chairman Williams suggested that the Commission write a letter stating its general opposition to legislation that could hinder its ability to prudently manage the portfolio in the sole interest of the participants of the Retirement System, but offering suggestions for improvement to the bills. Chairman Williams said that he'd circulate a draft letter to the Commission.

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

Mr. Borden introduced Mr. Greg Nordquist from Russell Implementation Services, Inc. (Russell), to provide a brief report on the progress of the Beta Overlay Program. Mr. Nordquist provided an update and reviewed performance of the Beta Overlay Program and the Total Fund and the contributing factors for each.

Mr. Nordquist also discussed a transition of assets from the S&P 500 Index Fund to an EAFE Equity Index Fund (Fund) managed by Barclays Global Advisors, N.A. (BGI). He noted that as discussed at the previous meeting, Russell had another client who was going to divest assets from the Fund, which would allow the Retirement System to transition assets into the Fund via internal crossing transactions. Chairman Williams noted that the Commission discussed the transition in detail at the August 16<sup>th</sup> meeting, and all Commissioners had approved, although there was no formal motion. Chairman Williams advised that he had executed an amendment to the BGI contract to include management of assets in the EAFE Equity Index Fund based on the Commission's approval of the plan, and upon motion by Mr. Blaine Ewing and second by Mr. Gillespie, the Commission ratified the amendment to the contract. Chairman Williams noted further that in reviewing the Annual Investment Plan (AIP), BGI felt that the language was ambiguous as to whether passive management of international securities was permissible as such management in passive domestic vehicles was clearly delineated. He explained that BGI was comfortable in accepting that passive international management was permissible, but they requested clarification. Chairman Williams said he felt that the authority was implicit, but he recommended that the Commission formally amend the AIP to conform. Mr. Borden added that he never intended to write an AIP that would not include passive management of any investment; the omission was merely an oversight. The Commissioners concurred, and Chairman Williams said that an amendment would be drafted for the Commission's review in the near future.

Messrs. Nordquist and Borden also reviewed Russell's research, investment and trading processes, the different investment vehicles that were being used, the evaluation of counterparty risks, and answered questions posed by Commissioners relating to market contingencies and governmental actions affecting credit risks. Mr. Borden also discussed various aspects of

exposure to emerging and international markets, the various vehicles being used to gain that exposure, and the costs and benefits to the Retirement System of the Beta Overlay Program.

Chairman Williams thanked Mr. Nordquist for his presentation.

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

Mr. Borden provided an update on the integration of custody and cash and fixed income investment management from the STO to the Commission. He noted that two employees from the STO, Rick Patsy and Nicole Waites, were hired by the Commission to manage the domestic fixed income portfolios. He introduced Greg Putnam, the new Director of Investment Operations and Brenda Gadson, the new Senior Investment Operations Officer. He advised that they would begin employment with the Commission on October 2, 2007. He advised further that he hoped to complete the transition of daily custody functions and cash management to the Commission by the end of October.

Mr. Borden discussed the preliminary investment performance of the Retirement System's portfolio as of August 31, 2007, and the contributing factors to that performance. The Commission discussed market trends, risk, and diversification. They also requested that additional information assessing risk factors be included in the performance reports in the future.

Mr. Rhett Humphreys stated that he had received a call from Putnam Fiduciary Trust Company regarding the status of the proposed contract with the Commission. He noted that the Commission had negotiated a most favorable fee schedule, and the delays were hindering Putnam's moving forward with funding other clients. Mr. Borden explained that Putnam was a fund with daily liquidity while other pending investments had strict funding deadlines. Consequently, completing the contract and funding with Putnam had been delayed.

Mr. Humphreys and the Commission discussed investment managers' varying disciplines and styles, the impact on asset allocation and performance of those styles, active versus passive management with regard to equity investments, and various ways to identify and evaluate managers.

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

Mr. Borden and the Commission reviewed a draft agenda for the Investment Retreat scheduled for November 19-20, 2007, at the Wampee Training and Conference Center. They discussed the objective of the Retreat and identified a general theme of strategic planning with discussions about risk management, fiduciary responsibility, due diligence, real estate, private equity, and other topics that will be facing the Commission over the next year.

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

Mr. Borden provided the Commission with an update on the status of the website. He suggested that Doug Lybrand, the Director of Investment Research, be designated as the responsible party to maintain the website. After further discussion, Mr. Gillespie made a motion, which was seconded by Mr. Ewing and passed unanimously, that the website be activated for

the general public on or before October 1, 2007, subject to legal review of content by General Counsel.

### **III. ADMINISTRATIVE MATTERS**

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

Ms. Shealy provided a brief update on administrative matters since the last meeting. She noted that she had been working with the Retirement System on its 2007 Comprehensive Annual Financial Report and had provided information to the auditor. She advised that she had completed all closing packages for the Comptroller General's Office, worked on the budget for FY 09 and would meet with the Chairman. She reported that 15 alternative investment contracts had been completed with funding July 1<sup>st</sup> and later, six of which were completed in August and affected over \$8 billion. She noted that there were ten pending contracts, seven of which would be due by Wednesday of the following week. She noted further that some of the investments generated further contract review after closing, and she worked with outside counsel on some and processed some herself. She also reported that she processed legal engagement letters and invoices.

Ms. Shealy discussed the Commission's official office hours and recommended that the Commission adopt official office hours of 8:30 a.m. - 5:00 p.m., Monday through Friday, which was consistent with state law. Upon motion by Mr. Gillespie and second by Mr. Ewing, the Commission adopted Ms. Shealy's recommendation unanimously.

### **IV. OTHER BUSINESS**

Mr. Borden advised that the private equity due diligence team had been conducting meetings with several firms. He advised that they had been considering investments with Pequot, Square I Ventures, and TrueBridge Capital Partners (TrueBridge). Mr. Ewing noted that he had a potential conflict with TrueBridge, so he would not participate in the discussions and would recuse himself from voting in the event TrueBridge matters came before the Commission.

Mr. Borden also advised that his administrative assistant, Katie Boling, resigned her position to accept a position with Girl Scouts of America, and Justin Young, intern, would probably leave the agency soon to pursue a full-time career in investments. Ms. Shealy advised that Ashli Aslin had resigned her position with the Commission also. Mr. Humphreys stated that Ms. Aslin approached him several months ago about employment opportunities. He said that she would join NEPC in the near future and that they would like to assign Ms. Aslin to the Commission's account. Chairman Williams said that it was premature to make a decision without further research and consideration.

### **V. ADJOURNMENT**

Chairman Williams thanked everyone for attending, and the meeting adjourned at 1:20 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 2<sup>nd</sup> Floor Conference Room at 202 Arbor Lake Drive, Columbia, SC, on September 18, 2007.]