

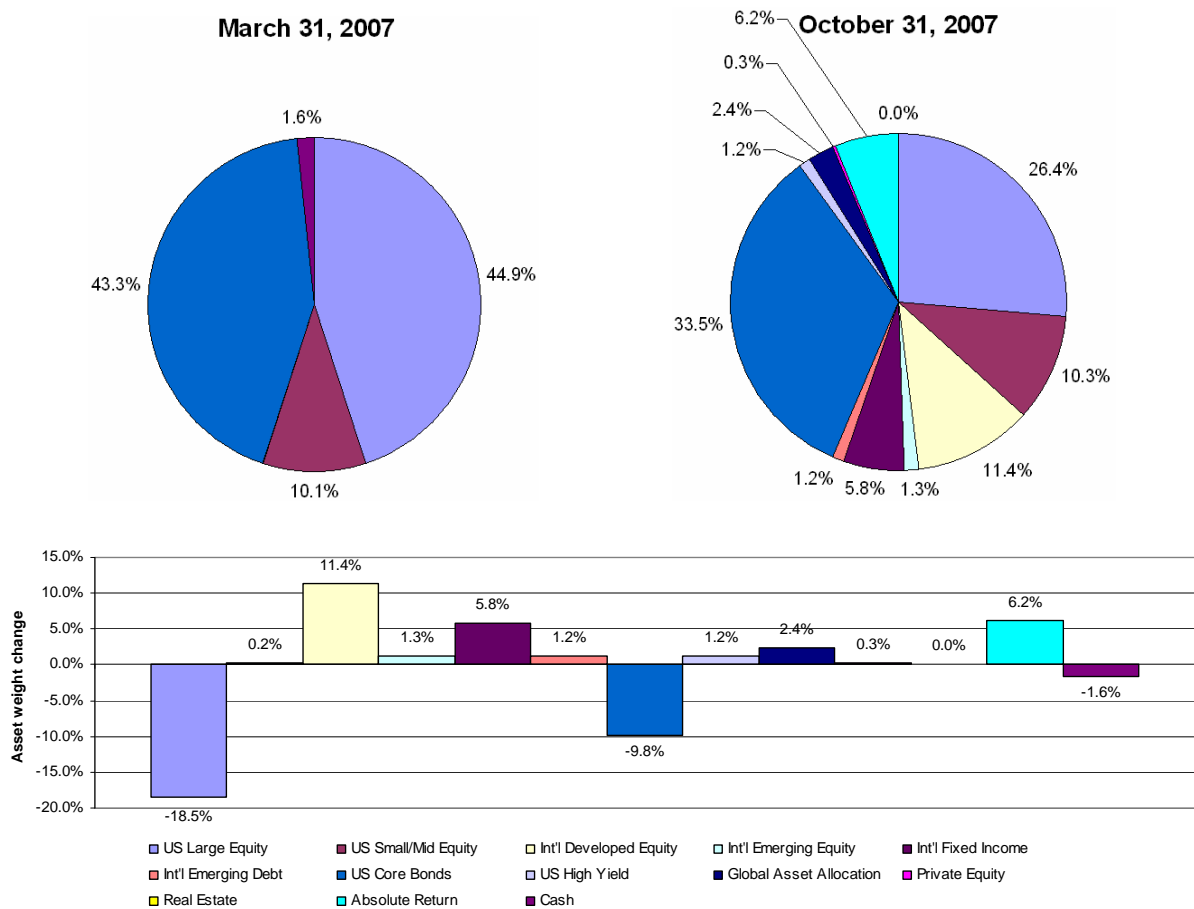
South Carolina Retirement System Investment Commission

September 30, 2007 Quarterly Report

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

Asset Allocation

March 31, 2007 versus October 31, 2007



Investment Performance (09/30/07)

	Quarter	1 Year	3 Years	5 Years
Total Fund Return (gross)	2.1	11.5	9.1	9.6
Policy Benchmark Return	2.0	10.4	8.1	9.0
Large Fund Median Return	2.3	15.8	13.3	14.3
<i>Large Fund Percentile Rank^A</i>	34	8	5	2
Equity Return (gross)	0.7	15.2	13.3	15.7
Russell 3000	1.6	16.5	13.7	16.2
<i>Equity Percentile Rank^B</i>	38	33	27	30
Fixed Income Return	2.2	4.9	4.7	5.0
Lehman Aggregate	2.8	5.1	3.9	4.1
<i>Fixed Income Percentile Rank^C</i>	21	53	80	55

^A The Large Fund Universe was comprised of 140 unique observations where 100 is best, 1 is worst

^B The Total Equity Universe was comprised of 6,180 unique observations where 100 is best, 1 is worst

^C The Total Fixed Income Universe was comprised of 2,964 unique observations where 100 is best, 1 is worst

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Investment Analysis:

- In the 3rd Quarter of 2007, world equity markets posted mixed results that were largely due to vacillating economic indicators in the U.S. and Europe. Global and domestic bonds were strong as yield curves declined. A weakening dollar buoyed returns on international investments.
- U.S. growth stocks out-performed value by a notable margin and small cap equities trailed large cap. The S&P 500 large cap index returned 2.0% during the quarter whereas the Russell 2000 small cap index returned -3.1%. The Russell 2000 small cap growth index returned 0.02% whereas the Russell small cap value index returned -6.3% in the latest quarter.
- Foreign stocks, as measured by the Morgan Stanley EAFE index returned 2.77%.
- U.S. yields fell across maturities as the FOMC cut the fed funds rate from 5.25% to 4.75%. As a result, bond prices rose boosting returns. The Lehman Brothers (LB) Aggregate Bond Index returned 2.84%.
- International bonds outperformed U.S. bonds. The LB Global Aggregate ex U.S. returned 7.38%.
- The Total Fund returned 2.1% for the quarter ending 9/30/2007 including the beta overlay program.
- In adherence to the fund's asset transition plan, domestic equity positions were reduced by 6.9% during the quarter. International equity stocks increased 6.1%. Domestic bonds were reduced by 5.9% as foreign and higher-yielding bonds increased 4.1%. Alternative investments increased 2.7%.

Achievements During the Quarter:

- Amended Statement of Investment Objectives (SIO) and the Statement of Investment Policies (SIP).
- 5 Absolute Return managers were approved: \$1 billion to the Morgan Stanley Completion Fund, \$400 million to the Entrust Capital Diversified Fund, \$750 million to the GAM U.S. Institutional Diversity Fund, \$750 million to the Grosvenor Institutional Partners, L.P. and \$750 million Gottex Market Neutral Plus Fund. All but Gottex were funded in the 3rd Quarter.
- 4 Global Fixed Income managers were approved and funded: \$780 million to the Loomis Multisector Full Discretion Trust, \$780 million to the Mondrian Global Debt Opportunities Fund, L.P., \$780 million to the Credit Agricole Global Core Fund and \$780 million to the Western Asset Management Company (WAMCO) Global High Yield Fund.
- 1 Private Equity fund manager was approved: \$30 million to the Carousel Capital Fund III.
- Approved shifting the mandate for Thompson, Siegel & Walmsley, LLC (TSW) from Small Cap Value to Small/Mid-Cap Value.
- Approved shifting the mandate for AJO from Large Cap Value long-only to a 130/30 long/short strategy.
- The financial structure of the Real Assets (Real Estate) investment plan was approved.
- Contract negotiations with the fixed income advisor, Jamison, Eaton & Wood, were ratified.
- Negotiated contracts with Grosvenor, GMO, and BGI that included a waiver of SC Code §9-16-360(B); employees or affiliates or subsidiaries are subject to their respective Codes of Business Conduct and/or Ethics, which are substantively consistent with §9-16-260(B).
- Staff moved into new office facilities on August 6, 2007.
- 3 staff members were hired: Greg Putnam as the Director of Investment Operations, Brenda Gadson as the Sr. Investment Operations Officer, and Dunkin Allison as an Investment Operations Analyst.

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 Private Equity strategies.
- Continue recruiting investment and administrative staff.

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(Amended)