South Carolina Retirement System Investment Commission
Meeting Minutes

February 16, 2012

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 (via telephone)

Others present for all or a portion of the meeting on Thursday, February 16, 2012:

Mike Addy, Geoff Berg, Jonathan Boyd, Brie Bramlett, Betsy Burn, Harris Chewning, Dori Ditty, Robert Feinstein, Brenda Gadson, Rebecca Gunnlaugsson, Hershel Harper, Adam Jordan, David King, Lorrie King, David Klauka, Gary Li, Douglas Lybrand, James Manning, Lorelei McKay, Heather Muller, Jared O'Connor, David Phillips, Kathy Rast, Nancy Shealy, Nicole Waites, Billy Wallace, Brian Wheeler, and James Wingo from the South Carolina Retirement System Investment Commission; Bill Leidinger, Bill Condon, Clarissa Adams, Dinah Raven, Brian DeRoy, Mike McDermott, and Shakun Tahiliani from the State Treasurer's Office; Ashli Aslin, Chris Levell, and Rhett Humphreys from New England Pension Consultants; Jim Holly from the Comptroller General's Office; Faith Wright, and Tammy Nichols from the South Carolina Retirement Systems; Joye Lang and Kevin Paul from the Office of Human Resources; Joe Lillie from Grosvenor Capital Management; Joe Glatt from Apollo Global Asset Management; Aaron Montano from Alliance Bernstein; Tim Smith from the Greenville News; Gina Smith from The State Newspaper; Michelle Cook from the Bank of New York Mellon; FritzRoy McLean from AARP; Wayne Pruitt, Wayne Bell, and Sam Griswold from the State Retirees Association; and Crawford Clarkson.

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

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. Chairman Gillespie announced that Dr. Travis Pritchett would participate in the meeting via telephone.

Mr. Edward Giobbe made a motion, which was seconded by Mr. Reynolds Williams and passed unanimously, to approve the agenda as presented.

Chairman Gillespie congratulated Mr. James Manning, Director of Information Technology, as being one of the 20 individuals from the Midlands area to be named to The State newspaper's "20 under 40" list for 2012. Mr. Manning was recognized for his contributions and involvement in the local business community.

Chairman Gillespie discussed three documents that he had previously distributed to the Commission, Acting CEO, Acting CIO, and legal staff. The first document summarized was a report from The Conference Board regarding "Reputation Risk." Chairman Gillespie stated that in light of recent events, it is important that the Commission recognize that reputational risks have real-world consequences that can affect the Commission's ability to negotiate investments and hire staff. Chairman Gillespie added that when negative publicity (whether accurate or not) is triggered by certain business events, it can compromise an organization's reputational capital. The Chairman urged the Commissioners to consider how they might address and mitigate this risk so as to serve the best interests of the trust funds and the people of South Carolina. Chairman Gillespie also stated that it is important to recognize that reputational risk most often results from operational risk, and in order to restore stakeholder confidence, operational risks must be fully addressed. He pointed out several important issues for the Commission to consider, including compensation structures, how information is handled, and being cognizant of best fiduciary practices.

The second document Chairman Gillespie discussed was the Prudent Investment Practices Handbook published by fi360 (the "handbook"). Chairman Gillespie summarized some of the key points made in the handbook. The Chairman noted that the handbook is designed to help fiduciaries successfully address both investment issues and best fiduciary practices, but added that it is important to recognize that there are distinct differences between investment issues and best fiduciary practice issues. He indicated that the handbook stresses the importance of having a sound fiduciary process or framework, noting that a fiduciary demonstrates prudence by the process through which investment decisions are managed, rather than by showing that the investment products or techniques were chosen because they are labeled as prudent. Mr. Gillespie noted that the handbook states that even the most aggressive or unconventional investment can meet exacting fiduciary standards if arrived at through a sound process, while the most conservative or traditional investment may not measure up if a sound process is absent.

Mr. Gillespie summarized other portions of the handbook detailing recommended practices, including: diversification of investments; proper reliance upon, and monitoring of, experts; the importance of having strong reporting mechanisms; developing, following and modifying appropriate due diligence procedures; and avoiding conflicts of interest and prohibited transactions. He noted that the Commission would be taking up the Commission's Annual Investment Plan and asset allocation later in the meeting, and that these topics address many of the issues covered in the handbook.

Chairman Gillespie turned to a brief discussion of risk issues. He pointed out that Mr. Curtis Loftis had recently testified before the South Carolina Senate Finance Retirement Subcommittee and expressed a difference of opinion as to the asset allocation currently utilized by the Commission. Chairman Gillespie elaborated that it is healthy and appropriate for the Commission to have differences in opinion on key risk issues.

Chairman Gillespie noted that both the handbook and the third handout, a copy of a legal presentation given by Steven Stone of Morgan, Lewis & Bockius LLP titled "Advisory Referral Programs and Other Business Arrangements", addressed the topic of finder's fees and third party marketers. The Chairman noted that referral fees for third-party marketing placement agents are a legal and highly regulated activity. Chairman Gillespie stated that the Commission has unanimously and appropriately handled all the information in its possession. The Chairman noted that Mr. Stone's presentation contains some useful suggestions for the researching and evaluation of inquiries.

Chairman Gillespie concluded his remarks regarding the materials he had distributed by noting that service on the Commission is a serious obligation which, in some circumstances, may require Commissioners to agree to disagree in a professional manner. Each Commissioner has an obligation to ask questions, share information, and reduce informational asymmetries. The Commission should have motions, which are duly seconded, discussed and voted upon. Chairman Gillespie also reminded the Commission that the Commission's Communications Policy encourages Commissioners to clearly distinguish their personal positions from those of the Commission as a whole.

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

Chairman Gillespie reported on the New England Pension Consultants, LLC ("NEPC") Public Funds Summit that he attended in February, and said that it was informative to know what other pension plans are doing. Mr. Gillespie noted that a major portion of the conference addressed the topic of asset allocation. Chairman Gillespie also reported that he attended an Entrust conference, and discussed some of the highlights of the conference.

Mr. Edward Giobbe commented that the Commission should be aware of geopolitical risk, which should be factored into investment decisions.

Dr. Travis Pritchett made a motion, which was seconded by Mr. Reynolds Williams and passed unanimously, to approve the minutes from the November 17-18, 2011 meeting.

Mr. Williams made a motion, which was seconded by Mr. Jim Powers and passed unanimously, to approve the minutes from the December 22, 2011 meeting.

II. PORTFOLIO UPDATE

Mr. Hershel Harper, Acting CIO, presented the Portfolio update to the Commission and stated that during the fourth quarter of 2011, the plan was up 3.77 percent versus the policy benchmark of 3.69 percent. Fiscal year-to-date, the Portfolio was down 4.12 percent, compared to the policy benchmark's return of negative 3.64 percent. The primary contributing factor to the decrease was due to a constant 'risk on, risk off' trade, which was particularly prevalent in the third quarter as the equity markets retreated and came back, resulting in a significant sell off. A portion of the decrease, however, was made up in the fourth quarter. Mr. Harper reported that the U.S. Equity markets were up during the quarter from 11 to 15 percent, with international markets lagging behind, but still showing positive returns. Mr. Harper added that the most significant sell offs have been in emerging market equities, and the Portfolio is continuing to favor U.S. equities over non-U.S. equities, and large versus small. Mr. Harper also reported that the fixed income markets have been somewhat flat, with fiscal year-to-date returns of 32 basis points, and fourth quarter returns of 1.86 percent. For the fiscal year-to-date, the fixed income managers have been lagging their benchmarks, but relative performance improved during this past quarter. Fiscal year-to-date on a time-weighted basis, private equity was down 1.67 percent; for the trailing three months, private equity was down 0.66 percent.

Mr. Harper turned the discussion to hedge funds, and reported that returns for the previous three months were 1.20 percent. Fiscal year-to-date, returns were down 1.31 percent, outperforming the benchmark's return of -6.9 percent. Over the longer term, the hedge fund program has added significant value.

Mr. Harper commented that the GTA and risk parity managers continue to perform very well. Notably, Bridgewater is outperforming its benchmark by over 13 percent year-to-date.

Mr. Harper advised the Commission that opportunistic credit is down 4.12 percent fiscal year-to-date, due to the sell-off in credit markets.

Mr. Harper presented a report that Chairman Gillespie had requested relating to the Commission's private market investments. Mr. Harper reviewed the data elements in the reports. Mr. Loftis commented that the report was excellent, and thanked staff for their hard work.

Mr. Harper reviewed the real estate program. He advised that this program is still very early in the life cycle with respect to getting capital in the ground. Currently, the program has a target allocation of 6 percent, but is significantly underweight in terms of the actual allocation.

Mr. Harper discussed an internal document that Staff uses for exposures and asset allocation. He reiterated that, at present, the Portfolio continues to have an overweight in equities, specifically U.S. equities and large cap equities, and added that Staff is cautiously optimistic with respect to the U.S., as the recovery appears to be taking hold and housing prices appear to be starting to stabilize. Staff continues to have concerns regarding Europe, and has growing concerns regarding China.

Mr. Harper stated that there is shift from fixed rate debt to bank loans within the fixed income portfolio. The bank loans allow for floating rates, so when the recovery takes effect, a significant portion of the portfolio is not locked into fixed rate securities, but rather can adjust and will be a diversifier as rates continue to increase. Mr. Harper added that the Portfolio is focused more on bank loans and high yield, rather than the core fixed income component.

Mr. Harper reported that the Portfolio is underweighted in commodities, which consists of a passive allocation to the Dow Jones UBS Commodity Index. He also said the Portfolio reflects an approximately10 percent allocation to global asset allocation investments.

Mr. Harper advised the Commission that the Portfolio is slightly overweight with respect to hedge funds, and that the Staff may make some recommendations at the April meeting to make some reductions.

Mr. Harper commented on cash amounts, stating that there is a high position in cash, because the Retirement System has a similarly high need for liquidity, as it pays out 3.5 to 4 percent annually in net benefits. Mr. Loftis asked if there is a statutory requirement for cash. He was informed that there was no requirement with regard to the Commission's investments. Mr. Powers asked Mr. Harper how much the System was down in income versus distributions to retirees. Mr. Harper replied that the Portfolio is down $800million to $1 billion which, according to actuarial reviews, is expected to increase over the next few years. Mr. Giobbe asked Mr. Harper if the amount would be mitigated if contributions to the System are increased, along with other possible measures that are being considered. Mr. Harper replied that such measures would help, but will not completely solve the issue. Even with the increased employer contributions, there will likely continue to be a net difference that has to be paid out of the trust funds.

Mr. Harper introduced the topic of asset allocation. He stated that, in thinking about asset allocation, it is critical to focus on the structure and unique needs of the plan, including: its demographic profile; the 7.5% actuarial rate of return; the fact that the plan is in a net liquidating position, paying out $800 million to $1 billion dollars every year in benefits; and the fact that the Plan is not fully funded at this time. Given these factors, Mr. Harper opined that it is imperative to balance liquidity with trying to achieve higher returns. Mr. Harper added that the trust fund has paid out nearly five billion dollars of net benefits since the Commission's creation.

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

III. ASSET ALLOCATION REVIEW AND UPDATE

Mr. Rhett Humphreys, Managing Partner of NEPC, introduced Mr. Chris Levell from NEPC's Cambridge, Massachusetts office, who is a certified actuary as well as a CFA. Mr. Humphreys stated that Mr. Levell would be available to discuss the methodology behind NEPC's capital market assumptions.

Mr. Humphreys summarized NEPC's 2012 capital market assumptions, and discussed the Commission's current and proposed asset allocations. He advised that an asset allocation study involves looking at current assets and integrating them with future liabilities. Mr. Humphreys stated that RSIC's current assets should be invested appropriately, given the actuarially assumed rate of return of7.5 percent, and the need to maintain a certain liquidity profile to pay benefits in the short term. Mr. Humphreys noted NEPC's definitions of traditional assets and alternative assets, explained that NEPC defines alternative investments as including private equity, private debt, private equity real estate, and hedge funds. Mr. Humphreys stated that at the end of December, the NEPC strategy team arrives at three quantitative numbers (return expectations, risk and correlations) for more than a dozen asset classes. NEPC's strategy team will then put these numbers into a mathematical optimizer to come up with a forecasted five to seven year return, and a five to seven year expected risk metric. Then, NEPC takes all of the numbers and recasts them for actuarial purposes into a 30-year normalized return, and then applies the data again to the RSIC's asset allocation.

Mr. Humphreys discussed the return forecast for U.S. large cap equity, and added that most equities have four basic components; inflation, earnings growth, global gross domestic product ("GDP") growth, and multiple expansion or contraction. Mr. Humphreys stated that a subdued, lower return environment as well as global deleveraging will persist for some time, because both Europe and the United States have borrowed a lot of money at the private and government level which has to be repaid. The deleveraging, which could take a decade, is going to have material impacts on the global capital markets, resulting in slower economic growth. Mr. Humphreys added that the aggregate demand curve is going to shift, and there is not going to be as much government stimulus available to increase demand over the next 10 years, as many government begin to pay down debt as opposed to lending it out. Mr. Humphreys stated that there are areas where current valuations are good, so NEPC is recommending marginally increasing total Portfolio risk in areas where the risk-adjusted returns are attractive. Two examples suggested by Mr. Humphreys were (i) increasing exposure to certain areas of the credit markets and (ii) continuing to increase emerging markets exposure.

Mr. Humphreys summarized NEPC's 2012 general actions for clients, turning the capital markets observations into potential asset allocation and investment ideas, and then introduced NEPC's asset allocation recommendations for the Commission. Prior to reviewing the recommendations, Mr. Humphreys first identified three central goals of the plan: (1) protecting the liquidity of the Fund (insure the plan's ability to pay benefits in full and on time), (2) designing a plan that has the potential to earn a 7.5 percent rate of return over the long term, and (3) being cognizant of the funding ratio so that progress can be made over time.

Mr. Humphreys then summarized the asset allocation recommendations. In addition to the Commission's existing asset allocation and NEPC's recommended allocation, three alternative scenarios (conservative/no alts; aggressive/ no alts; and a low alts allocation) were also discussed.

Extensive discussion ensued regarding he asset allocation scenarios, return forecasts, and the proposed changes to each asset class. In response to a request by Mr. Loftis, action on NEPC's asset allocation recommendations was deferred to the Commission's next meeting, which the Commission tentatively scheduled for March 5, 2012.

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

IV. AIP UPDATE

Mr. Harper presented a draft of the Annual Investment Plan ("AIP") for the fiscal year commencing July 1, 2012. He noted that the AIP is designed to incorporate guidance received from both the Commission's adoption of the SIOP and changes made to the Commission's asset allocation. It was noted that, under State law, the AIP must be delivered to the Commission annually by April 1st and approved by the Commission annually by May 1st.

Mr. Harper summarized the proposed changes to the AIP including: (i) identifying the duties and responsibilities of the CIO and Director of Operations, (ii) establishing the roles of the Internal Investment Committee and the subcommittees which will be reporting into the Internal Investment Committee; and (iii) detailing proposed changes to the process for staff review of investments before being presented to the Commission. Mr. Harper pointed out that it is the Commission's responsibility to make all final investment decisions as to new investments. If there are investments that the Commission believes warrant consideration, but RSIC staff has not yet conducted extensive due diligence, then the Commission should ask staff to conduct due diligence meetings to help the Commission make a decision whether or not to execute the particular investment. Mr. Harper also pointed out that the AIP notes that NEPC has not historically been involved in underwriting specific co-investments, but going forward NEPC will be conducting a complete review of the underlying fund investments within the strategic partnerships, and report their findings back to the Commission. Mr. Harper stated that he would also like NEPC to participate in reviewing any new investments within Strategic Partnerships, before the investments are made.

Mr. Harper continued to present additional proposed changes to the AIP, based on the Commission's Strategic Plan, as well as the Investment Risk Assessment performed by Deloitte and Touche ("Deloitte"). He also stated that the proposed changes will give the Acting CIO and Acting CEO the ability to move existing staff members on the organizational chart to best support the goals of the RSIC. Mr. Harper added that there is no additional allowance for increasing the number of approved FTE's or going beyond the budget that has been approved.

Mr. Harper presented additional proposed changes to the AIP, including continuing with the hedge fund transition, continuing to expand the private markets program, continuing to manage significant portions of short duration cash internally, determining if the Commission should reconsider managing more of a core bond portfolio internally, changes to the Russell Overlay Program and building out the systems and operational infrastructure needed to better support the investment program. Mr. Harper also stated that the staff is focusing on developing and implementing process changes, including increasing due diligence training.

Mr. Harper advised the Commission that the amended AIP would clarify that the decision to terminate a manager resides with the Commission, not Staff. Mr. Harper also outlined clarifications to the rebalancing ranges and limitations, and discussed proposed changes to the opportunistic credit investment strategies, private debt, and the proposed benchmarks by asset class. In response to a request, the AIP will be revised to include a side-by-side comparison of asset allocation targets, both current and recommended.

Mr. Harper reiterated that the proposed changes are presented for discussion, not for approval at today's meeting, and he would be happy to discuss further at the next Commission meeting. After further discussion, Mr. Harper stated that he would be the Commission's point of contact for additional changes or suggestions to the AIP.

It was also noted that in the future, Staff should communicate personnel changes to the Commission.

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

V. INVESTMENT CONSULTANT RFP

After a ten minute break, Chairman Gillespie called the meeting back to order to discuss the Investment Consultant Request For Proposal ("RFP"), and reported that the RFP responses have been received, but the Commission must decide on the review process. Mr. Humphreys left the room for the remainder of the Investment Consultant RFP discussion. Ms. Shealy advised the Commission that previously, after the Commission reviewed the RFP responses, the Staff compiled the information and presented it to the entire Commission. Mr. Williams asked how many responses had been received. Mr. Adam Jordan, Acting CEO, replied that five responses remain under consideration. After discussion, Mr. Loftis made a motion instructing the staff to open the RFP responses, prepare summaries, and provide confidential copies to individual Commissioners. Mr. Powers seconded the motion, which passed unanimously. Chairman Gillespie stated that after the summaries are provided, Commissioners will have a chance to review and complete a due diligence visit if necessary. There was discussion regarding how the concluding steps of the evaluation and selection process could be handled. Mr. Harper disclosed that, as he and Mr. Humphreys were in graduate school together and previously worked for the same parent company in Boston, he would excuse himself from reviewing the RFP responses if the Commission deems appropriate. Mr. Williams stated that he would like Mr. Harper to help with the vetting process. Chairman Gillespie agreed to defer a decision until the finalists are identified.

VI. CEO/CIO RESPONSIBILITES

Chairman Gillespie introduced Ms. Joye Lang from the Office of Human Resources (OHR) to the Commission and announced that Ms. Lang will post the two positions which will replace the CEO/CIO position once job descriptions have been fully developed. There was extensive discussion regarding (i) the respective duties of the CIO and the new chief operations officer position, (ii) responsibilities of an “agency head” under State law, and (iii) the title for the new operations position. After discussions, it was the consensus of the body that (i) the new chief operations officer position be referred to as the Director of Operations and (ii) the Director of Operations would serve as the RSIC’s “agency head”, solely for the purpose of discharging those functions required by State law. Mr. Williams noted in that giving the Director of Operations the “agency head” designation, the Commission was in no way ceding its power to set the compensation and other terms and conditions of employment of this, or any other, RSIC employee.

The Commissioners reviewed the draft job descriptions, commencing with the CIO job description and preferred qualifications. In response to a request from the Chairman, Ms. Nancy Shealy, General Counsel, provided a copy of the previous CIO job posting to the Commission. After discussion, it was the consensus of the body that the preferred qualifications for the CIO position would include a four-year degree in finance or economics or a related field, with an advanced degree preferred, the Certified Financial Analyst (“CFA”) or Certified Financial Planner (“CFP”) designation preferred, and ten years of investment management experience preferred, five of which includes the management of multiple asset class portfolios.

Discussions continued regarding next steps in the recruitment process and the salary for the CIO position. After further discussion, it was the consensus of the body that the salary for the CIO position should be posted as commensurate with experience. As to timeframe, Chairman Gillespie stated that he would like the final decision to be made by July 1st. Ms. Lang suggested posting the position for six weeks. Ms. Lang explained how the applications would be monitored, and stressed the importance of posting the job in appropriate places so as to reach the target applicants. Ms. Lang stated that the CIO position would be posted in the Wall Street Journal, Bloomberg, Pension & Investments, and on other relevant posting sites.

A motion was made by Mr. Williams, which was seconded by Mr. Powers and passed unanimously, for Chairman Gillespie to work with OHR to finalize the posting requirements for the CIO position, present the posting to the Commission for approval, and have the posting ready for the Commission’s March 5, 2012meeting.

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

The Commissioners reviewed the Director of Operations job description. The range of responsibilities, as well as desired skill sets and experience, were discussed. It was also suggested that the Director of Operations job description should include some language about interacting with the Retirement Systems.

A motion was made by Mr. Williams, which was seconded by Mr. Powers and passed unanimously, for Chairman Gillespie to work with OHR to finalize the posting requirements for the Director of Operations position, present the posting to the Commission for approval, and have the posting ready for the Commission’s March 5, 2012 meeting.

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

The Commissioners discussed the process that will be followed in reviewing applications for the CIO and Director of Operations positions. Ms. Lang stated that she could prepare and distribute a grid with a brief description of each applicant so the Commissioners would not have to review each application individually. After further discussion, the Commission decided to create a sub-committee consisting of Mr. Williams, Mr. Giobbe, and Dr. Pritchett to assist in the review process.

A motion was made by Mr. Powers, which was seconded by Mr. Loftis and passed unanimously, for Ms. Lang to review all of the applications for the CIO position, eliminate applicants that do not meet the minimum qualifications, and then forward a summary of the remaining applicants to the full Commission for review. The Commissioners will have access to all applications received. Each Commissioner will suggest the applicants that he would like the sub-committee to interview by conference call. The sub-committee will conduct telephone interviews using standardized questions and decide which applicants should come in for interviews with the full Commission. The full Commission will make the final selection.

A motion was made by Mr. Powers, which was seconded by Mr. Loftis and passed unanimously, for Ms. Lang to review all of the applications for the Director of Operations position, eliminate the applicants that do not meet the minimum qualifications, and then forward a summary of the remaining applicants to the full Commission for review. The Commissioners will have access to all applications received. Each Commissioner will suggest the applicants that they would like the sub-committee to interview by conference call. The sub-committee will conduct telephone interviews using standardized questions and decide which applicants should come in for interviews with the full Commission. The full Commission will make the final selection.

VII. COMPENSATION COMMITTEE REPORT

Chairman Gillespie stated that the Commission has engaged McLagan as its Compensation Consultant. The Chairman discussed the status of McLagan's work, noted that McLagan's representatives could not attend this Commission meeting, but indicated that the consultant will be available at the Commission's March 5, 2012 meeting.

VIII. AUDIT COMMITTEE REPORT

Chairman Gillespie stated that working with OHR, the Commission has re-posted the position for the Director of Internal Audit. Chairman Gillespie also reported that Ms. Sarah Corbett has been working with the State Auditor's Office on getting the Deloitte audit engagement finalized, and noted that Ms. Corbett will be working with Deloitte on implementation of the audit plan. Mr. Powers asked if the audit is going to be a full scope audit. Chairman Gillespie replied that the proposed audit plan is a result of the Deloitte Investment Risk Assessment, and will include investment and portfolio evaluation issues, external manager due diligence activities, investment compliance, investment manager fees and payments.

Mr. Powers made several suggestions regarding Strategic Partnerships that he would like the Audit Committee to consider. Mr. Powers would like the Audit Committee to look at the original NEPC documents and Staff due diligence documents; review the Commission meeting minutes where the Strategic Partnerships were approved along with the dollar amount; review the contracts and all ensuing agreements relating to the Strategic Partnerships that come out of the Internal Investment Committee, and have an assessment of fees paid and performance. Mr. Powers would then like the Audit Committee to combine everything together so that a new RSIC staff member or Commissioner could easily assess how each Strategic Partnership was designed and developed, the amounts committed to each partnership, and other relevant information. Chairman Gillespie replied that he was in agreement, and asked Mr. Powers to provide a copy of his list to Ms. Corbett, who will be coordinating with Deloitte. Mr. Harper also clarified that many of the items noted on Mr. Powers' list are being addressed by NEPC in its ongoing review of the Strategic Partnerships.

IX. CUSTODY RFP REPORT

Mr. Bill Leidinger, Chief of Staff from the State Treasurer's Office ("STO") was asked to provide an update regarding the Custody RFP that the STO issued. Mr. Leidinger noted that he would need to limit his comments because the procurement is ongoing and a representative from one of the organizations that submitted an RFP response was in attendance. Mr. Leidinger stated that seven proposals had been received, and are currently being reviewed by representatives of the STO, RSIC and the Retirement System serving on the RFP evaluation committee. These individuals will be meeting with Callan & Associates to review the consultant's analysis and recommendations. Ms. Michelle Cook, Vice President and Senior Relationship Manager from the Bank of New York Mellon ("BNYM"), left the room for the remainder of the Custody RFP discussion.

Discussions began concerning budgeting and payment of core custody and ancillary services. Mr. Harper noted that some of the ancillary services could be obtained by utilizing offerings provided by the master custodian. Mr. Leidinger stated that the representatives from the STO, RSIC, and Retirement System serving on the evaluation committee have not yet decided on what services they would like to obtain. Mr. Williams stated that the trust funds must get the entire benefit of any revenue arising from lending of trust fund securities. It was clarified that there is – and will continue to be – segregation of trust fund assets from other funds in the securities lending program. Mr. Harper added that the ability to lend securities is limited because the current investment guidelines applicable to the securities lending collateral pool are very conservative, so the securities lending revenue has diminished drastically.

Discussions continued regarding the structure of the custody and securities lending contracts, with Mr. Harper pointing out that historically, the STO has maintained (i) one master contract covering the provision of custody services to both the trust funds and state funds overseen by the STO and (ii) one master securities lending agreement covering both the trust funds and state funds. Mr. Leidinger advised deferring further discussion until the Commission has an opportunity to review the core custody, ancillary service and securities lending proposals and recommendations, and to see what options are available, since the arrangements which have been in place in the past are expected to change. It was noted that the effective date of the new contracts would likely not be until July 2012, so the Commission will have ample time for discussions. Mr. Robert Feinstein, Chief Legal Officer, commented that it would be helpful if the Commissioners could provide additional guidance to the RSIC's representatives on the evaluation committee, Dr. Rebecca Gunnlaugsson, Systems and Economic Specialist, and Mr. Douglas Lybrand, Senior Risk Management Officer. In particular, Mr. Feinstein noted that it would benefit Dr. Gunnlaugsson and Mr. Lybrand to know whether the Commission desires the trust funds to continue participating in the securities lending program, and if so, whether the Commission is interested in altering the investment guidelines currently in place. Mr. Feinstein stated that it would also help the Commission's representatives to know if the Commission desired to continue to have a single securities lending agent, or whether the Commission would consider opening up the program and making it a multi-agent program. In the ensuing discussion, Mr. Harper noted several other elements of a securities lending program which need to be considered, including indemnities which will be provided by the securities lending agent to the trust funds as lender.

After further discussion, it was decided that Mr. Harper will work with Dr. Gunnlaugsson and Mr. Lybrand to provide them with guidance concerning the Commission's needs and likely positions with regard to the topics that had been discussed. Chairman Gillespie again noted the need to obtain greater clarity regarding budgeting issues for these services, and recommended that the securities lending agent evaluation include an assessment of the same type of information that would be gathered from other fixed income managers, as this will assist the Commission in making decisions regarding the securities lending program, including appropriate guidelines.

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

X. ADJOURNMENT

There being no further business, the meeting adjourned at 2:20p.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,at 2:00 p.m. on February 14, 2012.]