

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

October 23, 2014

**Capitol Center
1201 Main Street, 15th Floor
Columbia, South Carolina 29201
Meeting Location: Presentation Center**

Commissioners Present:

Mr. Edward Giobbe, Chairman
Dr. Rebecca Gunnlaugsson, Vice Chairperson
Mr. Curtis Loftis, State Treasurer
Ms. Peggy Boykin, PEBA Executive Director
Mr. Allen Gillespie
Dr. Ronald Wilder
Mr. Reynolds Williams

Others present for all or a portion of the meeting on Thursday, October 23, 2014:

Ashli Aslin, Geoff Berg, Betsy Burn, Alexander Campbell, Gail Cassar, Andrew Chernick, Dori Ditty, Matthew Dorchuck, John Farmer, Robert Feinstein, Scott Forrest, Mitchell Goldsmith, Hershel Harper, Michael Hitchcock, Monica Houston, Adam Jordan, James Manning, Steve Marino, Bryan Moore, David Phillips, Eric Rovelli, Lorrie Smith, Danny Varat, Brian Wheeler, and James Wingo from the South Carolina Retirement System Investment Commission; Faith Wright and Tammy Nichols from the Public Employee Benefit Authority; Clarissa Adams and Robin Johnson from the State Treasurer's Office; Brady O'Connell from Hewitt EnnisKnupp, Inc.; Donald Tudor from the State Retirees Association of South Carolina; Barry Cohen and Jim Zelter from Apollo Global Management, LLC; Patrick McGarvey and David Richter from Grosvenor Capital Management, L.P.; Tom Damron, Tom Posey, and Steve Yontz from SCETV; Bruce Crouch from Thoughtful Productions; and Andrea Taylor from Creel Court Reporting.

I. CALL TO ORDER AND CONSENT AGENDA

Chairman Edward Giobbe called the meeting of the South Carolina Retirement System Investment Commission ("Commission") to order at 9:03 a.m. Dr. Rebecca Gunnlaugsson referred to the proposed meeting agenda and asked to amend the agenda by moving Item VII(B)(1), Investment Recommendations: Azalea, into Executive Session. Dr. Gunnlaugsson made a motion, which was seconded by Dr. Ronald Wilder and passed unanimously, to approve the agenda as amended.

Chairman Giobbe referred to the draft minutes from the August 25, 2014 Commission meeting and asked if there were any objections or corrections. Hearing none, Chairman Giobbe asked for a motion to adopt the minutes. Dr. Wilder made a motion, which was seconded by Dr. Gunnlaugsson. The motion to adopt the meeting minutes for the August 25, 2014 meeting as presented passed unanimously.

II. CHAIRMAN'S REPORT

Chairman Giobbe presented the Commission's proposed 2015 meeting schedule. Mr. Allen Gillespie moved to adopt the schedule, which was seconded by Dr. Gunnlaugsson. The motion passed unanimously.

Chairman Giobbe opened a discussion of committee composition by noting that he was not proposing any changes at this time. In the ensuing discussion, Mr. Gillespie addressed several topics related to committee service and composition. He noted that the Commission's Governance Policies are silent as to the timing for the Commission's review and approval of committee composition, and presented a suggestion to amend the Governance Policies so as to specify the timing for this review and approval. Chairman Giobbe asked all Commissioners to provide comments concerning the composition of the Commission's committees and suggestions regarding committee service prior to the Commission's next meeting.

III. EXECUTIVE DIRECTOR'S REPORT

Mr. Michael Hitchcock, Executive Director, updated the Commission on two outstanding Requests for Proposals ("RFP"). The first RFP concerned retaining a compensation consultant. Mr. Hitchcock explained that the RFP is currently being processed by the State's Procurement Services division and a procurement officer was expected to be assigned shortly. The second RFP concerned a risk management system. Mr. Hitchcock explained that the evaluation process had been completed and that contract negotiations were in their final stages.

IV. HUMAN RESOURCES AND COMPENSATION ("HRC") COMMITTEE REPORT

Mr. Giobbe presented the HRC Committee's report. He stated that, as required by the Commission's Compensation Policy, the HRC Committee had formally confirmed the individual employee assessments made by the Chief Investment Officer ("CIO") concerning performance incentive compensation ("PIC") payments. Mr. Giobbe also stated that the HRC Committee would provide additional details on matters concerning the PIC payments during the meeting's Executive Session.

V. AUDIT COMMITTEE REPORT

Mr. Gillespie presented the Audit Committee's report. He noted that the Audit Committee had not met since the Commission's previous meeting. He also updated the Commission on the status of the recruitment for the Director of Enterprise Risk Management and Compliance position, which he confirmed had been advertised. Next, Ms. Monica Houston, Chief Audit Officer, provided a high level summary of the audit that had been conducted of the proposed PIC payments. She reported that the PIC payment calculations had been found to be accurate and factual, and indicated that the audit recommends the Commission's Compensation Policy be modified to clarify how proposed PIC payments are determined. It was noted that the compensation consultant will be asked to address the latter topic.

VI. CIO'S REPORT

Mr. Hershel Harper, CIO, announced that later in the meeting there would be presentations by two of the Commission's strategic partners, Apollo Global Management, LLC ("Apollo") and Grosvenor Capital Management, L.P. ("Grosvenor"). Mr. Harper stated that representatives from Apollo and Grosvenor would provide the Commissioners with updates concerning the marketplace and overviews of their respective performance. He also gave an overview of recent market volatility conditions and explained their impact on the portfolio's ("Portfolio") estimated performance. Mr. Harper also summarized the current asset allocation, and discussed underweights and overweights.

Mr. Brady O'Connell from Hewitt EnnisKnupp, Inc. ("HEK"), stated that given the close proximity of the October 2, 2014 meeting and the October 23, 2014 meeting, he had no update. He noted that HEK would be prepared to provide a Portfolio performance update for periods ending September 30, 2014 at the Commission's November 20, 2014 meeting.

Chairman Giobbe commented on the recent volatility in market conditions. Mr. Harper addressed questions from Dr. Wilder about potential changes to the current asset allocation plan, which Mr. Harper explained is unlikely to change.

As a follow up to the Commission's June 2014 strategic planning retreat, Mr. Harper presented the Commission with an updated draft of the Statement of Investment Beliefs ("Investment Beliefs"). Mr. Harper explained the reasoning behind the changes to the document. Mr. Gillespie suggested revisions to the Investment Beliefs. Mr. Harper asked that all Commissioners provide comments and suggestions regarding the revised draft of the Investment Beliefs, which would be integrated into the document and brought before the Commission for approval at its November 20, 2014 meeting. Mr. Harper explained that once approved, the Investment Beliefs would become part of the Statement of Investment Objectives and Policies ("SIOP").

VII. INVESTMENT RECOMMENDATIONS

Mr. Steve Marino, Investment Officer, provided a presentation on Guggenheim Partners Investment Management, LLC's Multi-Credit Strategy ("Guggenheim"). He discussed the search process, the Guggenheim team, the firm's investment strategy and process, the strategy's fit in the Portfolio, investment rationale and considerations, and fees for the strategy.

Dr. Gunnlaugsson asked questions regarding the discrepancies between Guggenheim's stated management fees as reported by HEK and the lower rate noted in RSIC Staff's presentation. Mr. Marino responded that RSIC Staff had negotiated the fee rate with Guggenheim and received a more competitive rate than was initially offered. Following comments by Mr. O'Connell on the favorable fee break negotiated by Staff, Mr. Williams made a motion, which was seconded by Dr. Gunnlaugsson and passed unanimously, for the Commission to (1) adopt the recommendation of the CIO and the Internal Investment Committee as set forth in the Summary Terms Chart on Page 1 of the Due Diligence Report dated October 23, 2014; (2) authorize an investment of up to three percent (3%) of total plan assets into the Guggenheim Multi-Credit Strategy through the use of a separately managed account agreement, with an anticipated investment of \$400 million; (3) authorize the Chairman or his designee to negotiate and execute any necessary documents to implement the Investment as approved by the Commission (i) upon documented approval for legal sufficiency by RSIC Legal, and (ii) upon expiration of the three business day review period as approved by the Commission on May 1, 2014 (or as the review period may be amended or superseded by the Commission); and (4) authorize the Chairman and/or the CIO or their designee(s) to thereafter authorize the custodian of funds to transfer such funds as are necessary to meet the obligations of the South Carolina Retirement Systems Trust Funds with respect to the investment.

Next, Mr. Harper provided an update concerning the Commission's investment in Earnest Partners Developed International Equity Strategy ("Earnest Partners"). Mr. Harper informed the Commission of his intent to direct the transition of Earnest Partners from Lighthouse Palmetto Strategic Partnership, L.P. to a separately managed account custodied at the Bank of New York Mellon.

The Commission briefly recessed for a break at 9:45 a.m.

Chairman Giobbe reconvened the meeting at 10:00 a.m.

III. STRATEGIC PARTNERSHIP PRESENTATIONS

Mr. Adam Jordan, Director of Strategic Partnerships, introduced Mr. Jim Zelter from Apollo Global Management, LLC, who made a presentation on general market conditions and private

debt investment opportunities. He also took questions from Commissioners about general market conditions.

Mr. Bryan Moore, Senior Investment Officer, introduced Mr. David Richter and Mr. Patrick McGarvey of Grosvenor Capital Management, L.P. Mr. McGarvey gave an overview of the firm and its investment strategies. He noted that Grosvenor had recently concluded the acquisition of the Customized Fund Investment Group, a global private equity, infrastructure and real estate investment management company, from Credit Suisse. Mr. Richter provided an update on the hedge fund industry and took questions from Commissioners about current market conditions for hedge funds.

IX. EXECUTIVE SESSION

Mr. Williams made a motion, which was seconded by Mr. Gillespie and passed unanimously, to recede into Executive Session to discuss personnel matters, receive legal advice and briefings, and discuss investment matters pursuant to S.C. Code Ann. §§ 30-4-70(a)(1), 30-4-70(a)(2), 9-16-80, and 9-16-320. The Commission receded into Executive Session at 11:14 a.m.

The Commission reconvened in open session at 3:33 p.m. Chairman Giobbe announced that Mr. Curtis Loftis would make a statement to the Commission concerning the proposed investment in Azalea Fund IV, L.P. ("Azalea"). Mr. Loftis then read a statement recusing himself from the vote because of a potential conflict of interest (a copy of Commissioner Loftis' statement is attached to these minutes). At the request of Chairman Giobbe, Mr. Robert Feinstein, Chief Legal Officer, read a motion concerning the investment in Azalea as follows: subject to the terms discussed in Executive Session, adopt the recommendation of the CIO regarding the investment in Azalea Fund IV and the co-investment vehicle. Mr. Gillespie moved that the motion be adopted. The motion was seconded by Dr. Wilder. Dr. Gunnlaugsson registered objections concerning shortcomings in Azalea's operations, potentially above-market management fees associated with the investment, and potential conflicts of interest on the part of individual Commissioners. Chairman Giobbe called the question, and the motion was approved by a vote of 3-2, with Mr. Gillespie, Dr. Wilder, and Mr. Williams voting to approve, Chairman Giobbe and Dr. Gunnlaugsson opposed. Mr. Loftis recused himself from the vote.

X. PERFORMANCE INCENTIVE COMPENSATION APPROVAL

Mr. Gillespie made a motion: to approve and deem HEK's Fiscal Year 2014 Compliance Report and supporting documentation as acceptable for purposes of the RSIC's Compensation Policy; to authorize both (i) the aggregated Performance Incentive Compensation amount and (ii) the CIO's Performance Incentive Compensation payment as presented in the supporting documentation provided in the meeting materials; and direct Staff to take all steps necessary to effectuate disbursement of the PIC payments, consistent with the Compensation Policy. Dr. Wilder seconded the motion. Mr. Williams then made a statement that he regretted that RSIC's current budget was insufficient to adequately compensate Staff for their exemplary work. A vote was taken, and the motion passed unanimously.

XI. ADJOURNMENT

There being no further business and upon motion by Mr. Gillespie to adjourn, which was seconded by Dr. Gunnlaugsson and passed unanimously, the meeting adjourned at 3:41pm.

[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 Presentation Center at 1201 Main Street, Columbia, SC, at 8:47 a.m. on October 22, 2014.]



THE HONORABLE CURTIS M. LOFTIS, JR.

State Treasurer

December 18, 2014

Edward Giobbe, Chairman
S.C. Retirement System Investment Commission
1201 Main Street
Columbia, S.C. 29201

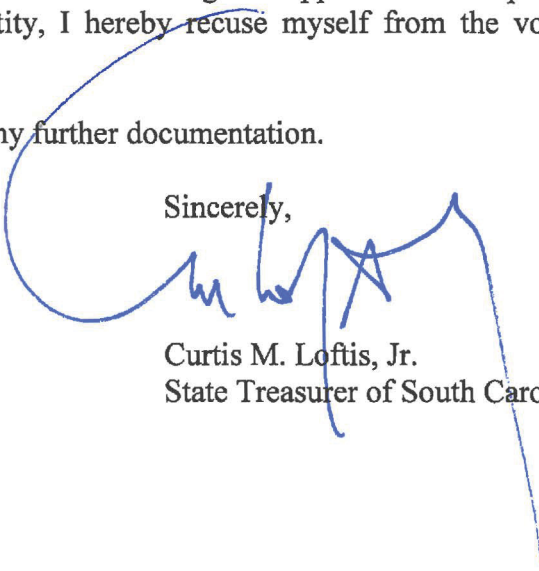
Dear Chairman Giobbe,

I hereby confirm that the following statement regarding my recusal in connection with the Azalea Capital Management funds and related entities is accurately captured in the official Minutes of the RSIC Meeting held on October 23, 2014. The statement is as follows:

Chairman Giobbe, I recently discovered a member of the unpaid advisory board for Azalea Capital contributed to my campaign fund. The contributions were properly disclosed under the applicable campaign finance laws [and were] legal in all respects, including [legality] under the allowable limits of the Securities and Exchange Commission, and did not create a conflict of interest in my informed opinion. Even though the contributions were legal and ethical and in no way influenced my judgment, objectivity, or impartiality, out of an abundance of caution and in an effort to avoid even the slightest appearance of impropriety with a South Carolina based entity, I hereby recuse myself from the vote [on] the Azalea Capital matter.

Please let me know if you require any further documentation.

Sincerely,



Curtis M. Loftis, Jr.
State Treasurer of South Carolina

cc: Robert Feinstein, Esq.
Robin M. Johnson, Esq.