

South Carolina Retirement System Investment Commission Meeting Minutes

Thursday, January 19, 2006

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

Commissioners Present:

Mr. Reynolds Williams, Chairman
Treasurer Grady Patterson
Mr. Blaine Ewing
Mr. Allen Gillespie
Mr. Travis Pritchett

Others present for all or a portion of the meeting: Nancy Shealy and Ashli Aslin from the South Carolina Retirement System Investment Commission; Anne Macon Flynn from the Budget and Control Board Office of General Counsel; The Honorable Greg Ryberg from the South Carolina State Senate; Sam Wilkins from the Budget and Control Board Office of Human Resources; Rick Patsy, Trav Robertson, Frank Rainwater, and Shakun Tahiliani from the State Treasurer's Office; Jeff Schutes from Mercer Investment Consulting; Liz Smith from Alliance Capital Management, L.P.; Ernie Cruikshank from Jamison, Eaton & Wood, Inc.; Peggy Boykin, Dianne Poston, Alice Copeland, Faith Wright, Travis Turner, Sarah Corbett, Danielle Quattlebaum, and Joni Redwine from the South Carolina Retirement Systems; Henry Addy, Crawford Clarkson, Sam Griswold, Kent Phillips, Jude Singleton, Leonard Singleton, and Wayne Pruitt from the State Retirees Association; 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. Mr. James Powers was unable to attend the meeting due to a family emergency. Due to scheduling conflicts, Treasurer Grady Patterson attended the meeting from 10:05 a.m. to 10:35 a.m.

Chairman Williams called for objections or amendments to the meeting's agenda. There being none, the agenda was adopted as presented.

Chairman Williams called for objections or amendments to the minutes from the Commission meeting on December 8, 2005. There being none, the minutes were adopted as presented.

Chairman Williams asked the Commission for the degree of detail desired for Commission meeting minutes. After discussion, the Commission decided that meeting

minutes should contain a greater level of detail until precedent was set and concepts established, but over time, the minutes may become more summary in style while maintaining compliance with the South Carolina Freedom of Information Act.

Chairman Williams advised that he had spoken with several members of the General Assembly regarding possible amendments to the State Retirement System Preservation and Investment Reform Act (Act 153). Chairman Williams said that based on conversations with the Commission and staff, there were several areas of Act 153 that needed to be addressed. He said that with regard to the quasi "legal list" of investments, exchange traded funds (ETFs), American Depositary Receipts (ADRs), and real estate should be added for clarification and transparency. He noted that ETFs were currently allowable, and ADRs were allowable if they met certain criteria according to an opinion of the Attorney General. Chairman Williams also said some technical amendments were recommended for the National Guard Retirement System (NGRS). He said that several provisions of the standards of conduct also needed to be modified or clarified, such as whether a passive investor holding less than 5% of the outstanding equity in a publicly traded security would be in violation of the statute. He also recommended a proviso that would allow the Commission, at its discretion, to contractually exempt certain fiduciaries from the standards when consistent with the Commission's fiduciary responsibility. He noted that such a proviso would give the Commission the statutory authority to carve out certain conduct as needed if there were an administrative problem with a particular fiduciary. He said that another amendment would add a section to provide indemnification and defense for the Commission consistent with the existing provisions for the Budget and Control Board (Board) and the Retirement Systems Investment Panel. Chairman Williams encouraged all the Commissioners to seek legislative support to pass the amendments as recommended.

Chairman Williams reported that the Commission Chief Investment Officer (CIO) Screening Committee (Committee) met to consider pending applications for the CIO position. He discussed qualifications on which the applicants were judged. Chairman Williams reported that the Committee selected 11 candidates for telephone interviews. The Committee interviewed four candidates as scheduled, and the remaining interviews were postponed due to Mr. Powers' family emergency. Chairman Williams stated that upon conclusion of the telephone interviews, the Committee would recommend candidates for interviews before the full Commission.

II. INVESTMENT MATTERS

Chairman Williams recognized Messrs. Allen Gillespie and Blaine Ewing for reports on due diligence meetings with Aronson+Johnson+Ortiz (AJO). Messrs. Gillespie and Ewing stated that they independently met with key professionals at AJO. Mr. Ewing discussed a hedge fund product offered by AJO and stated that he felt very comfortable with AJO as a Large Cap Value manager for the equity portfolio. Mr. Gillespie stated that he had an extremely favorable impression of AJO. He noted that he was impressed with the various facets of the AJO organization and concluded that the due diligence meeting was satisfactory.

III. ADMINISTRATIVE MATTERS

Chairman Williams referred to the Freedom of Information Act (FOIA) request policy, which was carried over from the Commission meeting on December 8, 2005. He asked Ms. Nancy Shealy to provide an overview of the proposed policy. Ms. Shealy explained the policy, noting that it was modeled after the Board's policy with changes having been made to conform to the Commission's organization. In response to a question from Mr. Gillespie, Ms. Shealy explained the guidelines for charging fees for providing responses. Upon a motion by Mr. Ewing, seconded by Mr. Gillespie, the Commission adopted the FOIA request policy as presented.

Mr. Ewing questioned the Commission's travel reimbursement allowances and stated that the allowances were often insufficient, especially when traveling out-of-state. Chairman Williams stated that the Commission was required to adhere to the statutes and the guidelines outlined by the South Carolina Comptroller General's Office. Chairman Williams added that the current travel reimbursement standards were under legislative review. Mr. Ewing asked whether the travel expenses of invited guests of the Commission could be reimbursed. Ms. Shealy said she would research the issues and provide the Commission with additional information.

Chairman Williams asked for a report on Opal Financial Group's Public Funds Summit (PFS), which Messrs. Powers, Ewing, Gillespie, and Pritchett attended January 11-13, 2006, in Scottsdale, Arizona. Messrs. Ewing, Gillespie, and Pritchett provided an overview of the conference and stated that the PFS was very relevant to issues the Commission faced. They provided an overview of current trends and issues involving public fund investments. Mr. Pritchett summarized the results of a recent survey conducted by Fidelity Investments, which included information about funded statuses, defined benefit versus defined contribution plans, investment trends, and investment strategies. Mr. Ewing noted that he and Messrs. Gillespie and Pritchett had a very informative meeting with Mr. Paul Matson, Director of the Arizona State Retirement System. Mr. Ewing suggested inviting Mr. Matson to speak before the Commission and agreed to contact Mr. Matson to determine the feasibility of such meeting. Mr. Gillespie also provided Commission staff with various documents he received while at PFS.

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

Chairman Williams recognized Mr. Ewing for an update on the agenda for the Commission's retreat at Wampee. Mr. Ewing reviewed the ideas for topics and guest speakers that he had discussed with Commissioners, Mr. Schutes, and various investment managers. Mr. Schutes agreed to provide an in-depth discussion of the equity portfolio's construction and strategic history at the Retreat. After discussion, the Commission determined that the retreat would tentatively begin at 10:00 a.m. on March 9, 2006, and end mid-day on March 10, 2006.

Chairman Williams referred to the proposed organizational chart and CIO job description, which had been drafted based on prior discussions of the Commission. The Commission discussed the organizational structure of the agency, including the roles of

the CIO, Commission, and consultant. They also discussed salary considerations for the CIO position. After the discussion, the Commission determined that a dotted line between the Commission and the consultant should be added to the organizational chart to indicate a functional reporting relationship. Upon motion by Mr. Ewing, seconded by Mr. Gillespie, the Commission adopted the organizational chart as amended.

Chairman Williams referred to the December fixed income flash report and asked Mr. Rick Patsy from the State Treasurer's Office (STO) for comments on the report. Mr. Patsy reiterated that numbers had not been audited so the fixed income flash report was preliminary. He noted that the duration of the fixed income portfolio increased significantly due to the large transfer of cash to the equity portfolio. Mr. Patsy stated that the STO's intent was to continue to strategically extend the duration of the fixed income portfolio in response to a flattening yield curve.

Chairman Williams referred to the December flash report for the equity portfolio and recognized Mr. Schutes for comments on the report. Mr. Schutes noted that the equity portfolio performed favorably in December 2005 with a return of 7.4 percent compared to 5.4 percent for the Standard and Poor's 500 Index (S&P 500), which indicated 200 basis points (bps) of alpha.

Chairman Williams recognized Ms. Liz Smith from Alliance Capital Management, L.P. (Alliance), who was visiting from New York. Ms. Smith stated that Alliance appreciated the opportunity to work with the Commission and looked forward to contributing to the Commission's retreat at Wampee in any way possible.

Chairman Williams noted in reference to an earlier discussion about the Commission's reimbursable expenses that, after reviewing the guidelines, Ms. Shealy informed him that consultants could be reimbursed travel expenses consistent with the guidelines for state employees and Commission members.

Chairman Williams stated that he was scheduled to appear before the House Ways and Means Committee and the Senate Finance Committee during the week of January 23, 2006. He noted that he would also meet with the Retirement Systems' actuary, the Chairman of the Senate Finance Committee, and the Chairman of the Ways and Means Committee to discuss the integration of the National Guard Retirement System (NGRS).

IV. ADJOURNMENT

Chairman Williams thanked everyone for attending the meeting. Mr. Ewing made a motion to adjourn. Mr. Gillespie seconded the motion, and the meeting adjourned at 11:35 a.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 January 13, 2006.]