

South Carolina Retirement System Investment Commission Meeting Minutes

October 19, 2006

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

Commissioners Present:

Mr. Reynolds Williams, Chairman
Mr. James Powers, Vice Chairman
Treasurer Grady Patterson
Mr. Allen Gillespie
Dr. Travis Pritchett

Others present for all or a portion of the meeting: Ashli Aslin, Robert Borden, Nancy Shealy, and Justin Young from the South Carolina Retirement System Investment Commission; Kevin Kibler from the South Carolina Governor's Office; Rick Patsy, Frank Rainwater, and Shakun Tahiliani from the State Treasurer's Office; Rhett Humphreys from New England Pension Consultants; Peggy Boykin, Jocelyn Caldwell, Alice Copeland, Sarah Corbett, Tammy Davis, Dianne Poston, Danielle Quattlebaum, Travis Turner, and Faith Wright from the South Carolina Retirement Systems; Ernie Cruikshank from Jamison, Eaton & Wood, Inc.; Anne Macon Flynn from the Budget and Control Board Office of General Counsel; Jesse Smarr from the South Carolina State Employees Association; Henry Addy, Crawford Clarkson, and Wayne Pruitt from the State Retirees Association; and Robert Kittle from WSPA-TV.

I. CALL TO ORDER AND CONSENT AGENDA

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 and to the minutes from the Commission meeting on September 21, 2006. There being none, the proposed agenda and the minutes were adopted as presented.

II. CHAIRMAN'S REPORT

Chairman Williams reported on the Commission's educational outreach efforts and discussed the various speaking engagements and meetings that Commissioners had attended to provide information pertaining to the Commission and impact of Question 3A in the November state-wide referendum, which would amend the constitution to allow further diversification of the portfolio of the South Carolina Retirement Systems (Retirement System). He stated that the state's major newspapers had indicated that they would endorse the referendum and planned to publish Opinion/Editorial pieces in conjunction with those endorsements.

Mr. Robert Borden reported that on October 22, 2006, South Carolina Educational Television (SCETV) would air a segment on the investment referendum. He noted that after airing, SCETV would stream the video on its Web site.

III. INVESTMENT MATTERS

Chairman Williams recognized Mr. Borden for the Chief Investment Officer's (CIO) report. Mr. Borden discussed the investment performance of the Retirement System's portfolio as of September 30, 2006. Mr. Borden briefly discussed the performance of the equity, fixed income, and total portfolios and explained that a detailed report for the third quarter of 2006 would be available at the Commission's next meeting.

Mr. Borden recognized Mr. Rhett Humphreys from New England Pension Consultants (NEPC) for comment on several concerns with individual investment managers.

Mr. Humphreys reported that three analysts from the Wells Capital Management (Wells) Benson Small Cap Value product had resigned to form a separate firm. He stated that this was a significant loss for Wells and would require further examination in the coming months.

Mr. Humphreys reported that the portfolio manager with State Street Global Advisors (SSgA) for the Russell 2000 Index Fund resigned his position but stated that his resignation was not cause for concern since the funds were passively managed.

Mr. Humphreys reported that Ms. Lisa A. Sebesta, CFA, resigned from her position as Portfolio Manager at Batterymarch Financial Management, Inc. (Batterymarch). Mr. Humphreys explained NEPC did not feel that Ms. Sebesta's departure would impact the day-to-day investment process at Batterymarch given the quantitative nature of the Batterymarch investment process and the depth of the team.

Mr. Borden stated that on August 17, 2006, Mercer Investment Consulting (Mercer) presented a draft report of Phase I of an Asset Liability Modeling Study (ALM) to the Commission. He explained that the draft report projected a 40-year Unfunded Liability Amortization Period, which appeared to cause some confusion. Mr. Borden advised that after further review and for clarification, Mercer issued a final ALM report that projected a 30-year Unfunded Liability Amortization Period. Mr. Borden noted that the revised page was included in the Commission's meeting materials, and the remaining pages were identical to the draft report submitted previously. He agreed to distribute the final report, in its entirety, to the Commission via email.

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

Chairman Williams stated that the Commission was required to provide an annual report of the investment status of the Retirement System to the State Budget and Control Board (Board), the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and other appropriate officials and entities, and to members of

the House of Representatives or Senate upon their request. Ms. Nancy Shealy discussed the statutory requirements, and the Commission discussed format and content of the annual investment report. Mr. Borden agreed to create a draft of the annual report, consistent with the Commission's discussion, for distribution to the Commission for comments and modifications. Chairman Williams stated that the annual report would be submitted as soon as possible in December of 2006, and on or about December 1st of each year thereafter. *(Information relating to this matter has been retained in the Commission's permanent files and is identified as Exhibit B.)*

IV. ADMINISTRATIVE MATTERS

Chairman Williams recognized Ms. Shealy for the Administrative Director's report. Ms. Shealy presented a budget status report on the Commission's budget for Fiscal Year (FY) 2007 and FY 2008. She also reported that a preliminary FY 2008 budget had been submitted to the Office of State Budget (OSB). Ms. Shealy provided an overview of the document and noted that it was in draft form as additional information and revisions were required.

Ms. Shealy reported on the status of the contract renewal with SSgA. She stated that, per the Commission's authority, a contract had been negotiated and executed for continued management of assets invested in SSgA's Russell 2000 Index Fund. She noted that several provisions of the contract differed from the standard contract prototype because the funds would be invested in a commingled investment product. She noted further that SSgA had reduced its management fees for the Retirement System's assets invested in that product.

Ms. Shealy reported that contract negotiations with NEPC were progressing, and she said she would inform the Commission when the contract was executed.

Chairman Williams recognized Mr. James Powers for an update on office facilities. Mr. Powers reported that he and Ms. Shealy had worked with the State Budget and Control Board's Office of General Services and located property suitable for the Commission's new office facilities adjacent to the Retirement System's office building. Mr. Powers stated that he and Ms. Shealy met with leasing agents to begin lease negotiations for that property in accordance with State regulations. In addition, he reported that full floor plans for Phases I, II, and III of expansion would be finalized on October 23, 2006, and encouraged the Commission to review the plans, which were located in Ms. Shealy's office.

Chairman Williams recognized Mr. Gillespie for an update on the Investment Retreat. Mr. Gillespie stated that the retreat would focus on several relevant and timely topics and would follow the same general format and schedule as the Commission's retreat in March 2006, with time scheduled for strategic planning and asset allocation analysis.

(Information relating to the Administrative Director's Report and Mr. Gillespie's report has been retained in the Commission's files and is identified as Exhibits C and D.)

V. OTHER BUSINESS

The Commission discussed the agenda for the next regular meeting, which was scheduled for November 16, 2006. Given that the retreat would be a public meeting and had been scheduled for November 30-December 1, 2006, the Commission determined that items for the November 16th meeting agenda could be addressed at the retreat, so the Commission cancelled the meeting for November 16, 2006.

VI. ADJOURNMENT

Chairman Williams thanked everyone for attending and adjourned the meeting at 11:00 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 October 17, 2006.]