

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

June 18-19, 2009

**Wampee Training and Conference Center
1274 Wampee Plantation Road
Pinopolis, South Carolina 29469**

Commissioners Present:

Mr. James Powers, Chairman
Mr. Allen Gillespie, Vice Chairman
State Treasurer Converse Chellis
Mr. Blaine Ewing
Dr. Travis Pritchett
Mr. Reynolds Williams, Chairman Emeritus

Others present for all or a portion of the meeting on Thursday, June 18, 2009: Dunkin Allison, Geoff Berg, Bob Borden, Dori Ditty, Brenda Gadson, Hershel Harper, Doug Lybrand, Jared O'Connor, Rick Patsy, Kathy Rast, Nancy Shealy, Brian Wheeler, and Hilary Wiek from the South Carolina Retirement System Investment Commission; Rick Harmon and Shakun Tahiliani from the State Treasurer's Office; Dick Charlton and Rhett Humphreys from New England Pension Consultants; Sarah Corbett and Faith Wright from the South Carolina Retirement Systems; John Helmers from Citadel Capital; Dr. David Schweiger from the University of South Carolina.

Others present for all or a portion of the meeting on Friday, June 19, 2009: Dunkin Allison, Geoff Berg, Bob Borden, Dori Ditty, Brenda Gadson, Hershel Harper, Doug Lybrand, Jared O'Connor, Rick Patsy, Kathy Rast, Nancy Shealy, Brian Wheeler, and Hilary Wiek from the South Carolina Retirement System Investment Commission; Frank Rainwater and Shakun Tahiliani from the State Treasurer's Office; Dick Charlton and Rhett Humphreys from New England Pension Consultants; Sarah Corbett and Faith Wright from the South Carolina Retirement Systems; John Helmers from Citadel Capital; Frank Edwards from Aqueduct Capital Group; and Craig Huff from Reservoir Capital Management.

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

Chairman James Powers called the meeting of the South Carolina Retirement System Investment Commission (Commission) to order at 10:05 a.m. and welcomed the Commission and guests to the Strategic Planning Workshop at Wampee.

Chairman Powers reported Allen Gillespie would be late due to a flat tire and Blaine Ewing was en route. He stated that a South Carolina State Trooper had pulled over to assist Mr. Gillespie with the tire and expressed gratitude for his assistance.

Chairman Powers congratulated Rick Patsy, Director of Fixed Income, on his new position with CSX. He stated that Mr. Patsy has done a great job for the Commission and his record speaks for itself. Chairman Powers also reported that he views someone leaving the Commission as disappointing, but likes to have employees that other employers want to hire.

II. STRATEGIC PLANNING WORKSHOP

Chairman Powers explained the importance of conducting a Strategic Planning Workshop and provided the Commission background information regarding why Dr. Travis Pritchett was selected to facilitate the workshop. He also reported that the Commission vetted several versions of the Strategic Plan draft and requested the Commission follow the agenda and stay on point.

Chairman Powers recognized Dr. Pritchett to begin the workshop. Dr. Pritchett thanked the Chairman and reported that during the past three years, the Commission has primarily focused on portfolio diversification. He explained that historically, the Commission's planning was focused on the portfolio with limited study of the agency's organizational structure.

Mr. Ewing arrived at the meeting.

Dr. Pritchett said that the Strategic Plan draft had been created from the bottom up and explained that the workshop's purpose was for debate, critique, and suggestions. He reported that he would like the Commission to approve goals and initiatives and put a stamp of approval on a mission and vision statement. Dr. Pritchett noted that the finalized Strategic Plan would be used to chart the course of the Commission over the next three years. He wanted the Commission to establish rules and best practices for both the Commission staff and the Commissioners. He also reported that the Strategic Plan would be used as an evaluation tool as time progresses.

Dr. Pritchett introduced Dr. David Schweiger, the former *Buck Mickel/Flour Daniel Professor of International Business* at the University of South Carolina and Adjunct Professor of Strategic Management at EM Lyon in France. Dr. Pritchett reported that Dr. Schweiger had worked with a long list of Fortune 500 companies as a strategic planner and was a recent state retiree.

Dr. Schweiger presented an overview of the strategic planning process. He explained that he was pleased with the engagement of Commission staff in the planning process because the staff execute and are accountable for the plan. Dr. Schweiger said that the Commission was off to a great start and that everything in the plan was critical to the organization. He explained that he has worked with businesses in various stages of their organizational life cycle and reported that the Commission was in the start-up stage.

Dr. Schweiger noted that the Commission needed internal infrastructure and clarity of roles and responsibilities. He stated that the investment portfolio is locked down and the next challenge is building the organization. In closing, Dr. Schweiger suggested that increased effort in risk mitigation would ensure and document the duty of care and that strategic planning must contain practical and obtainable goals that can be achieved in the next three years.

Dr. Pritchett explained that instead of starting with a blank sheet at Wampee, significant time and effort was devoted to the creation of a Strategic Plan draft. Mr. Borden presented the Strategic Plan draft to the Commission. He outlined the strategic planning process including Mission, Vision, Values, Environmental/SWOT Analysis, Goals, Initiatives, Action Plans, Budget, and Monitoring. Mr. Borden explained that because the South Carolina Retirement Systems' (Retirement System) portfolio is close to being completely diversified, the time has come to focus on the Commission becoming a more goal oriented organization with a common vision.

Mr. Borden referred to the Strategic Plan Overview, which detailed the thought process behind the creation of the Strategic Plan draft document. His presentation highlighted levels of sophistication versus time needed to develop or raise sophistication levels, gap analysis comparisons with industry best practices and organizations, key attributes of a best in class organization including a grading system that explains the levels of achievement and performance by the Commission, and a detailed list of agency goals and initiatives. Mr. Borden also reported that involvement within strategic partnerships has resulted in a \$23 million management fee savings in just one year.

Dr. Pritchett opened the floor to debate by stating that the discussion should be visionary but realistic and include the integration of the views of the Commissioners and Commission Staff. He also said that no subject related to the plan was out of bounds. The Commission, Dr. Schweiger, and Commission Staff discussed the Mission Statement and evaluated possible changes to the current Mission Statement's text. The Commission unanimously agreed that the Mission Statement should be:

Mission Statement: *The South Carolina Retirement System Investment Commission will fulfill its fiduciary responsibility by prudently managing all assets held in trust for the sole benefit of the participants and beneficiaries of the South Carolina Retirement Systems. It will seek superior long-term investment results at a reasonable level of risk.*

Dr. Pritchett said that the current Vision Statement was adopted by the Commission in 2006. He also reported that the Vision Statement should explain where the Commission wants to go in the future. This led the Commissioners, Commission Staff, Retirement Systems Staff, and Dr. Schweiger to a discussion of the Vision Statement, including outlining what the Commission wants to accomplish within the next three to ten years. After further discussion, the Commission unanimously agreed that the Vision Statement should be:

Vision Statement: *The vision of the Commission is to be a world class investment organization that pursues strategies that contribute positively to the financial health of the South Carolina Retirement Systems.*

The Commission recessed for lunch from 12:30 p.m. to 1:15 p.m.

Dr. Pritchett began the discussion regarding Commission values. Mr. Borden stated that although a values chart is optional, he suggests keeping it in the Strategic Plan. The Commissioners and Commission Staff debated and suggested changes to the values chart as listed in the Strategic Plan. The Commission unanimously decided to reevaluate the values chart during the next Commission meeting.

Dr. Pritchett moved the discussion to Brainstorming (possible goals). The Commissioners and Commission Staff reviewed and commented on the various ideas presented in the Brainstorming list. Dr. Pritchett explained that many of the brainstorming ideas are addressed in the Proposed Goals and Major Initiatives section of the Strategic Plan.

Dr. Pritchett and Mr. Borden presented the Strengths, Weaknesses, Opportunities, and Threats (S.W.O.T.) Analysis. Both the Commissioners and Commission Staff evaluated possible changes to the list as presented.

After further discussion, the Commission unanimously agreed that the S.W.O.T. Analysis should be:

Strengths	Weaknesses
<ul style="list-style-type: none"> • Investment savvy Commission • Large asset base • Broad statutory authority • Asset allocation structure • Strategic Partnerships • Local university base • Creative culture • Few legacy issues 	<ul style="list-style-type: none"> • Communication • Under-resourced • Lack of infrastructure--space, technology, personnel • Data management • Staff development • Location (in terms of recruiting) • Inadequate governance policies • Vendor management
Opportunities	Threats
<ul style="list-style-type: none"> • Clearer delegation of duties • Staff development • Economic crisis <ul style="list-style-type: none"> a. Become a price setter b. Available talent pool • Data management • Improve governance • Funding sources • Outsourcing • Develop Succession Plan 	<ul style="list-style-type: none"> • Exogenous budget pressures • Political processes • Further economic erosion • Media risk--comments out of context, shock factor (higher risk because of current environment and funding status) • Key person risks • Adverse regulatory actions

Mr. Borden individually presented each Goal and each Initiative necessary for completion of the Goal. The Commissioners and Commission Staff discussed and made suggestions for each Goal. After further discussion, the Commission unanimously agreed to the following Goals and Initiatives:

Goal I: Develop and Execute Major Investment Portfolio Initiatives

- Initiative I.A: Centralize and integrate Strategic Partnerships
- Initiative I.B: Improve Strategic Partnership economics
- Initiative I.C: Implement / launch asset class plans
- Initiative I.D: Develop and implement risk management processes
- Initiative I.E: Implement compliance monitoring system

Goal II: Develop and Implement Specific Governance Policies

- Initiative II.A: Draft and approve Governance policies by December 31, 2010
- Initiative II.B: Identify list of additional policies, if necessary, by December 31, 2010

Goal III: Improve and Standardize Due Diligence Processes

- Initiative III.A: Determine industry best practices
- Initiative III.B: Assessment of current due diligence process
- Initiative III.C: Develop Commission standards
- Initiative III.D: Integrate with NEPC
- Initiative III.E: Integrate with data warehousing
- Initiative III.F: Develop sourcing process

Goal IV: Improve Reporting Processes

- Initiative IV.A: Establish reporting needs and standards
- Initiative IV.B: Evaluate and critique current reporting process
- Initiative IV.C: Integrate reporting with NEPC
- Initiative IV.D: Create data library structure

- Initiative IV.E: Integration with website and other electronic delivery methods
- Initiative IV.F: Develop standardized dashboard
- Initiative IV.G: Transition to paperless Commission meetings

Goal V: Develop Efficient and Effective Workforce

- Initiative V.A: Develop and implement improved recruiting process
- Initiative V.B: Implement the Employee Performance Management System (EPMS)
- Initiative V.C: Implement training and professional development plans
- Initiative V.D: Link EPMS with compensation policy
- Initiative V.E: Partnership with higher education and research institutions in South Carolina
- Initiative V.F: Critical evaluation of organizational structure
- Initiative V.G: Improve internal communication processes
- Initiative V.H: Create cross-functional work teams

Goal VI: Create Efficient and Effective Facilities

- Initiative VI.A: Relocation to Capitol Center

Goal VII: Perform Feasibility Study and Prepare Recommendations for Long-term Organizational Structure

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

Chairman Powers thanked the guests in attendance and recessed the meeting at 5:00 p.m. on Thursday, June 18, 2009, to resume at 8:30 a.m. on Friday, June 19, 2009.

III. REGULAR COMMISSION BUSINESS MEETING

Administrative Matters

Chairman Powers reconvened the meeting of the South Carolina Retirement System Investment Commission to order at 8:30 a.m. and welcomed the Commission and guests.

Chairman Powers referred to the meeting agenda and said that there were two proposed changes. He had talked with Dr. Pritchett who suggested the Commission vote on revisions to the Strategic Plan from the previous day. Chairman Powers also stated that Mr. Borden wanted to present a proposal to hire a recruiting firm. Mr. Gillespie made a motion, which was seconded by Mr. Williams and passed unanimously, to adopt the agenda as amended.

Chairman Powers called for objections or amendments to the minutes from the meeting on April 16, 2009. Upon motion of Mr. Gillespie, and second by Mr. Chellis, the minutes were approved.

Dr. Pritchett made a motion to approve the Strategic Planning Process; the Mission; the Vision; the Strengths, Weakness, Opportunities, and Threats Analysis; and the Goals and Major Initiatives sections of the Strategic Plan with the changes as discussed at the meeting from the prior day and to reevaluate the Values and Action Plans at the August Commission meeting. Mr. Williams seconded the motion, which passed unanimously.

Chairman Powers introduced Mr. Borden for an initial review of the proposed governance policies. Mr. Borden referred to materials that were distributed to the Commission at the Thursday, June 18, 2009 meeting. He indicated that the proposed Governance Policies were

based on model governance policies from several other funds. Mr. Borden proposed completing an initial read of the Roles of the Commission, the Roles of the Chairman/Vice Chairman and the Roles of the Chief Executive Officer/Chief Investment Officer with the Commission providing input and suggesting changes at the next Commission meeting. In turn, after the next meeting, and if no changes were made, the policies could be voted on for approval at the following meeting. Mr. Borden explained that he was unsure of including Oaths of Office in the Governance Policies. Ms. Shealy stated that the Commissioners had taken an Oath of Office and copies were on file with the Secretary of State's Office. Mr. Borden suggested that he would change the Governance Policies to reflect Oaths of Office. Chairman Powers stated that the policies were presented for the Commission to review and to suggest changes or amendments at the August Commission meeting. Mr. Borden concurred with Chairman Powers, and reported that the presented policies were straightforward. Chairman Powers requested that Mr. Gillespie be the Commission liaison with Mr. Borden to review the proposed policies as thoroughly as possible. He also suggested that Mr. Chellis and the Audit Committee examine the policies as well.

In regard to the communication policy and media inquiries, Mr. Chellis expressed concerns as an elected official versus the other Commissioners not being elected officials. Chairman Powers replied that there may be certain instances that if the performance of the Retirement System's portfolio could be jeopardized, Mr. Chellis may not be able to speak with the media. Mr. Borden added that review of the model communication policy may result in exceptions being written into the policies. Ms. Shealy questioned if writing out the statutes in the policies was necessary. Mr. Borden responded that each Commissioner may not know each statute verbatim or be able to quickly locate them in the Code of Laws. Mr. Gillespie said that he liked having the citations within the Governance Policies and hoped that citations would be hyperlinked on the Commission's website.

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

Chairman Powers requested information regarding the proposal to hire a recruiting firm to assist in the filling of vacant positions. Mr. Borden stated that the industry standard was to pay a firm 33% of the hiring salary to the recruiter. He reported that the Director of Alternative Investments, the Director of Fixed Income, and a Senior Real Estate Officer are current open positions that he would like to hire a recruiter to fill. Mr. Borden reported that the recruitment cost would essentially be a wash in the personnel budget because the current budget is fully loaded as if the positions were filled, and by the time anyone is hired, one third of their salary would have been exhausted had the positions already been filled.

Mr. Chellis questioned if the State Budget and Control Board's Office of Human Resources was consulted during recruitment purposes. Mr. Borden replied that in addition to using them, the positions were posted in national publications and websites. He also reported that the specific background and requirements needed for these positions were so unique that an outside recruiting firm would be a valuable tool. Mr. Borden stated that the current applicant pool for the already posted Director of Alternative Investments and Senior Real Estate Officer was not impressive. Chairman Powers suggested that since the Director of Fixed Income position was yet to be posted, the Office of Human Resources could be consulted to aid in the recruitment process. Mr. Borden concurred with Chairman Powers' suggestions. He added that recruiting firms had the connections and necessary expertise to locate and screen any potential candidates. Mr. Chellis questioned if Mr. Borden had only one recruiter in mind to hire. Mr.

Borden replied that he had no specific firm in mind and stated that a Request for Proposals (RFP) should be executed. He reported that one third of the 33% of the base salary of the hired individual would be required upfront, with the second third to follow ninety days later, and the final third to be paid upon completion. Mr. Gillespie added that the first third usually becomes a retainer fee and may not be refundable. Mr. Borden reported that if the process of hiring a recruiter did not progress as desired, it could be stopped. He stated that once the higher level positions were filled, he hopes to begin a process of recruiting from the bottom up by hiring interns who could progress into future full-time positions. Mr. Chellis stated that the Commission may have to seek advice from the State Procurement Office. Ms. Shealy replied that the Commission may want to request a procurement exemption from the Budget and Control Board for services related specifically to the investment program. This led the Commission to a general discussion regarding procurement rules and regulations.

Mr. Gillespie made a motion, which was seconded by Mr. Williams and passed unanimously, to allow Mr. Borden for the purpose of the recruitment of the Director of Alternative Investments and the Senior Real Estate Officer, to conduct the necessary due diligence to consider hiring a corporate recruiting firm, subject to compliance with South Carolina procurement law and approval by the Budget and Control Board, if required.

Mr. Borden referred to materials relating to the engagement of a consulting firm to assist in the development of governance policies via an RFP. He reported that despite an RFP being approved during the prior Commission meeting, the Commission staff will be able to develop the policies internally.

Mr. Borden presented a scope of services and requirement document for the Risk Assessment RFP. He stated a risk assessment could be conducted internally at considerable strain on time and resources. Doug Lybrand, Compliance and Risk Management Officer, reported that in recent discussions with potential vendors, the Commission's needs are relatively standard. He estimated a basic risk assessment to cost approximately \$50,000 and a more in-depth review to cost approximately \$250,000. Chairman Powers expressed concerns with the cost of the assessment verses the detail of an assessment report which would basically report what the Commission already knows – more risk management is needed. He suggested asking Mr. Borden to meet with the Commission's strategic partners to perform a risk management review. Chairman Powers explained that the Commission's strategic partners could be contracted to amalgamate all of the different hedge funds and perform a review. He further stated that if a firm did not want to disclose information to our risk managers, then the Commission could cancel their contract.

Mr. Ewing concurred with Chairman Powers' comments, but stated that he believed that instead of a risk manager telling the Commission what is known, they would report on the risks that the Commission does not know and needs to be looking at. He also reiterated concerns with the time frame needed to conduct a review internally. Mr. Gillespie, noting that risk is currently divided amongst audit functions, compliance functions, and portfolio risk, reported that the Commission's partners can provide significant resources. He also explained that the current contract structure with strategic partners would need to be revised if they conduct risk management review because risk management functions should be separate from money management functions. Mr. Gillespie said that RFP responses would assist in the framework of internal risk review. Mr. Lybrand stated that since there are so many other types of risk besides market risk, and because of the lack of organizational infrastructure, outside consultants can provide the Commission extra insight. He also noted that they can review Commission policies,

procedures and controls, which in turn, can be reviewed by the risk committee. Mr. Borden reported that the industry best practices documents, *Public Pension Systems – Statements of Key Investment Risks and Common Practices to Address Those Risks* endorsed by APPFA, NASRA, NCTR, GFOA and NCPERS, and *Risk Standards for Institutional Investment Managers and Institutional Investors* by the Risk Standards Working Group explain the type of risk that the Commission needs to address. Mr. Chellis asked Mr. Borden for his recommendation. Mr. Borden replied that the lack of internal resources suggest that an outside review would be in the Commission's best interest.

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

Investment Matters

Chairman Powers recognized Mr. Borden for the investment performance report. Mr. Borden introduced Messrs. Richard Charlton and Rhett Humphreys from New England Pension Consultants (NEPC). Mr. Charlton discussed market volatility and the increase of research staff resulting in the highest number of alternative investment research officers in their industry. He also reported that NEPC had conducted 1,600 manager interviews and due diligence meetings, published 14 research papers, improved client correspondence and communication and received PLANSPONSOR Magazine's "ALTIES" Award as the 2008 Alternative Asset Consultant of the Year. Chairman Powers reported that he attended the 2009 NEPC Annual Meeting and was very impressed. He further stated that it was one of the best investment conferences he had ever attended.

Mr. Humphreys referred to the First Quarter 2009 Investment Performance Analysis. He reported that overall, equities were down, except for positive performance in emerging market equity. He also noted positive growth in emerging market bonds and stated that hedge funds were holding their own despite deleveraging in the fourth quarter. Mr. Humphreys reported that NEPC captures performance information from the Commission's custodial bank and loads holdings into computers to report and monitor the portfolio performance. He explained that this data is compared over various asset classes and amongst other funds.

Mr. Borden reported that the Commission pulled a lot of equity risk off of the table in December and that defensive moves put the Retirement System's portfolio in the top 5% of funds nationwide. He explained that moving forward, the Retirement System portfolio's volatility and peer group rankings will be higher due to a shift away from equity, causing the asset mix to be different than other pension plans.

Mr. Chellis questioned why the five year performance rank is low. Mr. Borden replied that the large allocation to domestic equity was negatively impacted last year and noted that five years ago, 50% of the Retirement System's portfolio was dedicated to domestic equity. Mr. Charlton added that the remnants of the legacy portfolio are reflected in the five year performance ranking. Mr. Ewing stated that the investment constraints that were in place five years ago affected performance and that comparing legacy performance to the current allocation is not a fair or accurate comparison. He also said that amongst its peers, the legacy portfolio performed in the top percentile.

Mr. Borden introduced Geoff Berg, Director of Research and Analytics, for the April Performance Report, the May Performance Estimate and the Portfolio Liquidity report. Mr. Berg,

concurring with equity comments made by Mr. Humphreys, stated that despite lower than expected performance in April, most of the equity managers have outperformed their benchmarks in calendar year 2009. He also reported that the opportunistic credit managers have performed extremely well. Mr. Berg mentioned that the opportunistic credit managers are benchmarked against the high yield benchmark. Mr. Borden stated that he plans to disaggregate the benchmarks to obtain a better picture of actual performance instead of lumping them all together.

Mr. Borden reported that the fiscal year to date performance was close to being down 30%, but quick Commission action increased the performance to negative 20.10% for the fiscal year to date. He also reported that actuaries estimated the impact to contributions, while considering gains and ten year smoothing, to be minimal. Mr. Berg reported that the cash position was very strong and more than enough to cover benefits. Mr. Borden indicated that the Commission has significant latitude to move exposures around.

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

Chairman Powers recognized Ms. Shealy for the Manager Contract Status report. Ms. Shealy reported that all new investments have been closed except for the US REIF Columbia South Carolina, LLC agreement relating to the Capitol Center. She said that outside counsel has been helpful during the closing process. Mr. Borden stated that this was the first time that local counsel could be used for Commission business. Ms. Shealy reported that the Jamison, Eaton & Wood, Inc. contract was closed on June 18, 2009 with an effective date of July 1, 2009. Chairman Powers congratulated Ms. Shealy on her hard work.

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

Chairman Powers stated that he would like to revisit the earlier discussion regarding an RFP to hire a recruiting firm. He mentioned that Frank Rainwater, Deputy State Treasurer, had spoken with the South Carolina Budget and Control Board's State Procurement Office. Mr. Rainwater reported that the Commission would have to treat the RFP as a normal state competitive procurement and follow all procurement code guidelines.

Mr. Borden referred to the Asset Allocation Ranges document, and stated that in a previous Commission meeting, the Commission requested that he reevaluate the asset class target to provide more flexibility. Mr. Borden explained that if approved, the new ranges would be aggregated into the Annual Investment Plan (AIP). Based upon the asset allocation ranges, Mr. Ewing requested information regarding how managers create the trigger points to which they have to rebalance. Mr. Borden replied that trigger points do not apply because in most cases, the manager is given an allocation of the Retirement System's portfolio and is expected to be fully invested. He further explained that the Commission decides how many allocations and to whom it gives them out and if necessary, to under or over weight each allocation based upon the asset allocation ranges.

Mr. Williams made a motion, which was seconded by Mr. Gillespie and passed unanimously, to approve the Asset Allocation Target Ranges as amended and to make the Long Term Target Ranges effective in the policy benchmark as of April 1, 2009.

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

Mr. Borden reported that Mr. Williams was tapped as the Commissioner assigned to the emerging market equity search and that Mr. Chellis was assigned to real estate. He further stated that there was not a Commissioner assigned to the real asset program or to the restructuring of the hedge fund program. Chairman Powers assigned Mr. Ewing to the real asset program and Mr. Gillespie to the restructuring of the hedge fund program.

Mr. Borden began the discussion of the South Carolina Private Equity Co-Investment Program Proposal by stating that he had been considering a similar program for several years. He further advised that he expected relatively high returns with secondary and tertiary benefits. Mr. Borden added that Hilary Wiek, Director of Public and Private Equity, Dr. Pritchett and Mr. Chellis have studied the proposed program.

Ms. Wiek said that the primary focus of the program was to provide positive investment returns at an acceptable level of risk. She also stated that the program should capitalize on an underserved and undercapitalized market, maintain fiduciary standards of the Investment Commission, support solid businesses operating in South Carolina, and promote goodwill amongst residents of the state. She suggested the creation of an external advisory board or an outsourced gatekeeper not subject to political pressures to evaluate any potential deal and to have a private equity sponsor investing alongside the Commission. Ms. Wiek reported that potential companies should be either domiciled in South Carolina or have a major presence. She also noted that the program was designed to consider southeast-focused private equity funds, be sector agnostic and not interested in bank-type loans with low returns per unit of risk. Mr. Borden stated that despite the program not focusing on real estate, when the Commission's real estate program is established, the Commission may find some regional real estate plays of interest. Ms. Wiek indicated that external and internal networks would promote deal flow. She said that the Commission could potentially attract new businesses to the state by publicizing the benefits of investing in South Carolina, acting as a matchmaker between businesses needing private capital and private equity, and providing feedback for new business ventures.

Ms. Wiek presented the Commission a cost benefit analysis of either building the program internally or externally sourcing the program. Mr. Chellis stated that the program is designed to invest in profitable South Carolina firms, not just to invest in South Carolina firms with political affiliations. Mr. Borden concurred with Mr. Chellis and added that the only reason to start this program was to have superior risk adjusted returns. He also said that high returns are expected because the South Carolina market is underserved by the venture capital community. Mr. Chellis stated that the Commission has the expertise to increase venture capital investment in South Carolina. As an example, Mr. Borden said that when research resulting in a patent or profitable enterprise is conducted at the state's institutions of higher learning, production of the product or idea moves out of state. After further discussion, Mr. Ewing stated that the program was a fabulous idea. Chairman Powers indicated that a gatekeeper is necessary to keep politics out of the program. Mr. Gillespie, concurring with Chairman Powers, said that some type of media and communication effort should be conducted throughout the state. Mr. Charlton stated that NEPC could assist the Commission in evaluating potential gatekeepers. Mr. Borden replied that he was strongly in favor of accepting NEPC's assistance in hiring a gatekeeper. Chairman Powers selected Mr. Chellis as the primary governmental issues point man for the program. Mr. Borden proposed that given Dr. Pritchett's expertise in the field, he should also remain involved in the program.

Mr. Gillespie made a motion, which was seconded by Mr. Ewing and passed unanimously, to issue a RFP for the hiring of a gatekeeper for the South Carolina Private Equity Co-Investment Program and to authorize Mr. Borden to exercise his discretion in drafting the RFP.

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

The Commission recognized and commended State Trooper Arthur Jordan for assisting Mr. Gillespie with his flat tire on June 18, 2009.

Mr. Borden referred to the materials relating to a proposed investment with Reservoir Capital Group (Reservoir) and explained that of the proposed \$300 million investment, \$100 million would be directed to the main fund, \$100 million would be directed to a side-car co-investment fund, and the remaining \$100 million would be allocated into a special purpose investment vehicle. Mr. Borden introduced Dunkin Allison, Alternative Investment Officer, for an overview of the proposed investment. Mr. Allison explained that Reservoir's areas of focus are global power, being a liquidity provider for forced sellers, and active distressed. He reported that the fund's co-founders, Daniel Stern and Craig Huff, have co-founded over two dozen funds and currently manage close to \$70 billion dollars. Mr. Allison indicated the management fees for the main fund to be 1.5% of committed capital including a 20% incentive fee and a 1-year treasury hurdle rate. Mr. Allison reported a 0% management fee on co-investments with a negotiated carry on co-investments over an 8% hurdle on the other two allocations. He also stated that the Retirement System's portfolio has very little exposure to energy and suggested further investment could be profitable. Mr. Allison introduced Craig Huff to discuss and answer any questions regarding the proposed investment.

Mr. Huff said that he was excited about the opportunity to work with the Commission on this investment and other future investments. He provided the Commission with an overview of Reservoir's operations overseas, including power plant construction, firm structure, investment philosophy and strategies, operations, and key personnel. The Commission asked questions throughout the presentation, to which Mr. Huff responded. After providing additional information about Reservoir, Mr. Borden recommended that the Commission consider investing \$300 million with Reservoir.

Chairman Powers said that he would like each Commissioner to express their opinions regarding the proposed Reservoir investment. Mr. Gillespie said that the Reservoir investment is a unique opportunity, particularly on the seeding side. Mr. Ewing, concurring with Mr. Gillespie, stated that the power generation aspect of the investment presents an excellent opportunity. Dr. Pritchett responded favorably and noted that he was attracted to the energy aspect of the investment. Mr. Williams explained that he supports the investment with Reservoir.

Mr. Chellis replied that he had reservations regarding investment in potentially unstable countries, despite potential federal government insurance against loss. Mr. Huff responded that equity and rate of return is insured against loss by the Overseas Private Investment Corporation (OPIC), which is an agency of the United States Government. He also referred to a memorandum explaining legal and regulatory risk and risk mitigation related to Contour Global projects in emerging markets.

Mr. Gillespie questioned if this investment would violate the Commission's anti-terrorism policy. Mr. Huff explained that other investors have the same requirement and a change on the United States Department of State terrorist list may trigger the investment's insurance policy. He said that he would have to conduct more research before providing the Commission a final answer. Mr. Borden stated that a similar situation would not immediately trigger divestment. Chairman Powers indicated that he was uncomfortable with the return profile of infrastructure finance investments.

After further discussion, Dr. Pritchett made a motion, which was seconded by Mr. Gillespie and passed, to commit to an investment not to exceed \$300 million with the Reservoir Capital Group, of which an amount not to exceed \$100 million to be committed to the existing Reservoir Capital Group's main fund, an amount not to exceed \$100 million to be committed to a Reservoir Capital Group side-car co-investment fund, and an amount not to exceed \$100 million to be committed to a Reservoir Capital Group special purpose investment vehicle, provided that compliance questions are answered satisfactorily; to authorize the Chairman or his designee to negotiate fees not to exceed the proposal presented; and to authorize the Chairman or his designee to negotiate and execute any necessary documents to implement the investments, subject to approval for legal sufficiency by General Counsel. Messrs. Ewing, Gillespie, and Williams voted in favor of the motion. Chairman Powers and Mr. Chellis voted against the motion.

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

Additional Information Items

Mr. Borden referred to the Preliminary Asset Class Sub-strategy Plans for Real Estate, Real Assets, and Private Markets. He reported that he wanted to re-reconcile the plans with the strategic partnerships. Mr. Humphreys recommended the Commission consider a \$250 million allocation for vintage year 2009 funds and outlined how it would be split. He explained how NEPC formulates and predicts future vintage year figures. Mr. Humphreys also presented the strategy for a 5% real asset allocation to include a mix of various real asset strategies and the proposed diversified 5% allocation to real estate.

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

Chairman Powers thanked Dr. Pritchett for facilitating the Strategic Planning Workshop on the prior day. He also reported that he would send a thank you letter to Dr. Schweiger for his assistance during the strategic planning process.

IV. ADJOURNMENT

There being no further business, Chairman Powers thanked everyone for attending, and the meeting adjourned at 11:45 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 of the South Carolina Retirement System at 202 Arbor Lake Drive, Columbia, South Carolina, at the office of the Commission on June 16, 2009 and were posted at the Wampee Training and Conference Center at 1274 Wampee Plantation Road, Pinopolis, South Carolina on June 17, 2009]