South Carolina Retirement System Investment Commission
Meeting Minutes

June 18-19, 2015

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

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

Others present for all or a portion of the meeting on June 18-19, 2015:
Mike Addy, Ashli Aslin, Geoff Berg, Jeff Blethen, J.P. Boyd, Corleon Brown, Betsy Burn, Alexander Campbell, Gail Cassar, Andrew Chernick, Dori Ditty, Matt Dorchuck, John Farmer, Robert Feinstein, Scott Forrest, Mitchell Goldsmith, Lorelei Gray, David Haas, Hershel Harper, Michael Hitchcock, Monica Houston, Matt Hudson, Adam Jordan, Douglas Lybrand, James Manning, Steve Marino, Bryan Moore, Justin Moore, Eric Nelson, Weiyi Ning, Eric Rovelli, Kathleen Shealy, Lorrie Smith, Danny Varat, Nicole Waites, Brian Wheeler, James Wingo, and Justin Young from the South Carolina Retirement System Investment Commission; Clarissa Adams and West Summers from the State Treasurer's Office; Suzanne Bernard and Tim McEnery from Aon Hewitt Investment Consulting; Sam Griswold, Wayne Pruitt, and Donald Tudor from the State Retirees Association of South Carolina; Alan Bowser and Jeff Gardner from Bridgewater Associates; J.B. Kiley from KKR; General (Ret.) David Petraeus, and Vance Serchuck from the KKR Global Institute; Adjutant General Bob Livingston from the South Carolina National Guard; Attorney General Alan Wilson from the Office of the Attorney General; Victoria Broughton, Jay Collins, Kim Justice, and Jared Nobles from SC ETV; M. Sean Cary from Creel Court Reporting; and Barbara Livingston.

I. CALL TO ORDER AND CONSENT AGENDA

Chairman Edward Giobbe called the meeting of the South Carolina Retirement System Investment Commission ("Commission" or "RSIC") to order at 9:10 a.m. Chairman Giobbe referred to the proposed meeting agenda and asked for a motion to adopt the agenda. Mr. Allen Gillespie made a motion to adopt the agenda as presented, and Dr. Ronald Wilder seconded the motion, which was unanimously approved.

Chairman Giobbe referred to the draft minutes from the April 23, 2015 Commission meeting and asked for a motion to adopt the minutes. Dr. Wilder made a motion to adopt the minutes of the April 23, 2015 Commission meeting as presented, which was seconded by Mr. Gillespie. The motion was approved unanimously.

II. CHAIRMAN'S REPORT

Chairman Giobbe opened by requesting a moment of silence for the victims of the recent Emanuel AME Church shooting in Charleston, South Carolina. Chairman Giobbe also acknowledged the passing of State Senator Clementa Pickney in the shooting. The Commission observed a moment of silence. Chairman Giobbe then notified the Commission that the results of the Commission Evaluation Discussion Guide had been compiled and a summary had been posted to WatchDox for the Commissioners to review during the meeting.

III. EXECUTIVE DIRECTOR'S REPORT

Mr. Michael Hitchcock, Executive Director, began by thanking Chairman Giobbe for observing a moment of silence and honored Senator Pinckney's memory, calling him a true statesman. Mr. Hitchcock then recognized Ms. Lorrie Smith, Assistant to the Executive Director, and explained that Ms. Smith would be leaving the Commission to move to Washington, D.C. The Commissioners joined Mr. Hitchcock in thanking Ms. Smith for her years of service to the Commission and the State of South Carolina. Next, Mr. Hitchcock updated the Commission on RSIC's budget request for Fiscal Year 2015-16. He explained that the General Appropriations Bill was being negotiated by both houses of the General Assembly in a conference committee and that RSIC would continue operating under the previous fiscal year's budget if no agreement could be reached. Mr. Hitchcock stated that he would keep the Commission updated as matters developed.

Next, Mr. Hitchcock informed the Commissioners that the Commission's compensation consultant, Towers Watson, had not completed its review of RSIC's Compensation Policy. Mr. Hitchcock stated that based on this delay the Human Resources Committee ("HRC") had recommended that performance incentive compensation ("PIC") payments for the Fiscal Year 2014-15 be determined in accordance with the existing Maximum PIC Opportunity and Performance-Award Scale. Mr. Hitchcock then requested that the Commission adopt a motion to approve the recommendation.

Dr. Wilder moved that the Commission confirm that the existing "Maximum PIC Opportunity" and "Performance-Award Scale" set forth in Appendix B to the Compensation Policy be applied in Fiscal Year 2014-15. Mr. Gillespie seconded the motion, and asked how RSIC Staff ("Staff") and the HRC are tracking new hires and internal position changes for PIC purposes. Mr. Hitchcock replied that maximum PIC amounts correspond to position titles, and if an employee changes positions during a year, the employee's PIC payment would be determined by applying a percentage to their total compensation for the year.

Mr. Curtis Loftis requested a list of Staff eligible for PIC, and Mr. Hitchcock responded that Staff would provide Mr. Loftis with a list. Mr. Loftis went on to express concerns about new members of Staff receiving PIC during their first year of employment, noting the portfolio's ("Portfolio") performance ranking relative to its peers. Mr. Hitchcock responded that this would be the last year Staff would request authorization to determine PIC payments under the existing Compensation Policy and that Towers Watson's study would assist RSIC with creating a new compensation system. He explained that the compensation study will determine the appropriate compensation for each position and a proper alignment between the Portfolio's performance and compensation. Mr. Hitchcock encouraged the Commissioners to provide input on Staff compensation.

Mr. Gillespie stated that the relevant policy benchmark from which PIC is calculated flows from the asset allocation plan, which is a Commission-level decision and not a Staff-level decision. Mr. Loftis continued to express concerns about the performance of the Portfolio relative to its peers. Mr. Hitchcock acknowledged Mr. Loftis' comments, stating that Staff is working towards a more collaborative effort for selecting investment managers and making tactical decisions. Mr. Hitchcock added that Staff is increasing its focus on the asset allocation in order to position the Portfolio to achieve its benchmark. Ms. Peggy Boykin opined that the Commission should reevaluate its PIC plan by comparing its plan to those of RSIC's U.S. peers and ensure that PIC payments are being evaluated against the Portfolio's benchmark in an appropriate manner. Mr. Hitchcock stated that the compensation consultant would assist Staff in determining what each staff position is worth and aligning any incentive compensation with the performance of the Portfolio.

Chairman Giobbe called the question. The motion was approved by a vote of 5-1, with Mr. Loftis opposed.

IV. AUDIT COMMITTEE REPORT

Mr. Gillespie presented the Audit Committee's report. He noted that the Audit Committee had met on May 15, 2015 and received updates on the internal audit plan, enterprise risk management developments, matters associated with the recent legislative audit, and presentations from Operational Due Diligence. Mr. Gillespie noted that the Audit Committee expects to receive a proposed Fiscal Year 2015-16 Audit Plan.

Next, Mr. Gillespie reminded the Commissioners that State law presently prohibits more than 70 percent of the Portfolio from being invested in equities. He explained that, in accordance with the Statement of Investment Objectives and Policies ("SIOP"), Staff currently refers to the cost of the equities in the Portfolio in order to determine whether the Commission is in compliance with the statute. He stated that the Audit Committee had recommended that the Commission cease valuing equities by their cost at time of purchase and begin valuing them by their current market value.

Mr. Gillespie then moved that the Commission adopt the Audit Committee's recommendations that: (i) Testing of the 70 percent equity limit imposed by State law be done on a market value basis; (ii) Staff be authorized to develop and implement appropriate testing methods, and (iii) Staff be authorized to amend the SIOP and other documents, as appropriate, to reflect the foregoing decisions. Mr. Reynolds Williams seconded the motion.

In the ensuing discussion, Dr. Wilder asked about the meaning of testing in this context. Ms. Monica Houston, Chief Audit Officer, explained that calculating the limit on a cost basis did not take into account the fluctuating value of the Portfolio's equity holdings. She stated that using market value to test the limit would provide a more accurate result. Dr. Wilder asked how often the calculation would be done, and Ms. Houston responded that it would be performed annually. Mr. Hershel Harper, CIO, clarified that the limit is regularly reviewed by Staff on an informal basis, and noted that Staff had instituted a formal meeting to review the limit quarterly. Chairman Giobbe asked how often Staff would rebalance the Portfolio's equity holdings in order to stay in compliance with the limit. Mr. Harper responded that such determinations would be made throughout the year, but it was noted that the Portfolio had never approached the statutory limit.

Following additional discussion, Mr. Giobbe called the question, and the motion passed unanimously.

V. CIO'S REPORT

Mr. Harper began his remarks by updating the Commission about several staffing changes. He reminded the Commission that Mr. David Phillips, former Deputy CIO, had left RSIC to pursue another employment opportunity. Mr. Harper stated that Ms. Weiyi Ning, Director of Asset Allocation and Risk Management, has assumed Mr. Phillips' previous responsibilities of leading the asset allocation and risk management team and that Staff would be recruiting a senior investment officer for the team overseen by Ms. Ning. Mr. Harper went on to explain a number of other investment team staffing changes. He stated that Mr. Geoff Berg, Managing Director, would now be overseeing the manager research team, Mr. David Haas, Director of Private Equity, would be leading private equity strategies, and Mr. Adam Jordan, Director of Private Debt, would be leading private debt strategies. Mr. Harper also noted that Mr. Eric Rovelli, Senior Real Estate Officer, would continue to lead real estate efforts, Mr. Brian Moore, Director of Public Markets, would continue to lead public markets and global core strategies, and Mr. Mike Addy, Senior Investment Officer, would continue to lead the internal fixed income, short duration, and cash strategies.

Mr. Gillespie noted that a larger number of Staff are devoted to the Portfolio's public market strategies as compared to private market strategies. Mr. Hitchcock responded that if the General Assembly authorizes the new full-time employee ("FTE") positions RSIC requested in its proposed budget, some of those FTEs would be allocated to the private markets team. He explained that in the meantime the private markets team will continue to be supplemented with members of the public markets team. Mr. Hitchcock then provided an overview of the duties of each segment of RSIC's organizational chart and offered his vision for how branches of RSIC would function in the future. Chairman Giobbe asked about the overlap in responsibilities of overseeing strategic partnerships and co-investments. Mr. Harper stated that between 85 and 90 percent of co-investments will be made within the Commission's strategic partnerships and that the management of the two are highly related.

Mr. Berg began the performance update by stating that the Portfolio's fiscal year-to-date estimated return is 2.06 percent versus the benchmark of 1.03 percent. He provided an overview of the performance of the Portfolio's asset classes as compared to their benchmarks, noting that commodities continued to be poorest performing asset class. Mr. Berg also explained that only two asset classes, real estate and private equity, were currently on target to meet the benchmark of 7.5 percent.

Mr. Loftis expressed concern over the accuracy of the valuations of the real estate and private equity investments because both are privately valued in illiquid markets by investment managers. Mr. Berg responded that real estate investments are valued on an appraisal basis, and the benchmark for private equity is a public benchmark plus a spread, and noted that he would provide more detail concerning valuation of investments later in his presentation.

Mr. Berg continued discussing the performance of the Portfolio's asset classes. He explained that Staff is pleased with the execution of the Portfolio's real estate and hedge fund investments, which have been quite effective. Mr. Berg also stated that while global fixed income assets have performed poorly against their benchmark, Staff is completing a restructuring of the global fixed income portfolio. Chairman Giobbe noted that hedge funds had performed well despite publicity to the contrary, and asked how Staff had achieved such performance. Mr. Berg identified good manager selection as a key factor.

Mr. Berg continued the performance review. Mr. Gillespie asked what was driving outperformance in private equity. Mr. Berg responded that, along with good manager selection, private equity returns tended to see their best performance late in their lifecycles. Mr. Berg stated that Staff anticipated that private equity returns would continue to be strong as the Commission builds its private equity program. Ms. Boykin noted that any short-term private equity numbers can be misleading. Mr. Harper stated that the Portfolio's private equity program is much more opportunistic than a traditional model because the program was started during the economic downturn of 2008-09. Mr. Harper also stated that Staff has been backfilling the asset class with some vintage year diversification as well as strategy diversification.

Next, Mr. Berg provided a long-term performance analysis of the Portfolio. Mr. Loftis asked if the performance measurements could be skewed by the Portfolio's strategic partnerships and private equity investments. Mr. Berg replied that the analysis only showed the total Portfolio and did not show performance by asset class. Mr. Loftis responded that the analysis could be misleading if it was not broken down by individual investments. Mr. Berg reiterated that the analysis did not show performance of underlying investments, but stated that more in-depth analysis would be available in the future.

Mr. Berg turned to a discussion of the Portfolio's tracking error relative to the benchmark. Chairman Giobbe asked Mr. Berg to explain the concept of tracking error. Mr. Berg responded that tracking error is the measure of the degree of difference between a portfolio and the index against which it will be judged. Mr. Berg also stated that Staff had been pleased with its ability to use tracking error over the longer-term to achieve higher returns. Ms. Suzanne Bernard of Aon Hewitt Investment Consulting ("Aon Hewitt") stated that non-traditional asset classes, such as hedge funds, private equity, real estate, and forms of global tactical asset allocation, tend to have a higher tracking error. She added that these types of investments are in the Portfolio because traditional long-only stocks and bonds do not generate the level of excess return sufficient to materially impact performance.

Dr. Wilder asked if a very low return could raise potential issues with the requirement of a 30-year amortization. Ms. Boykin replied that a return less than 7.5 percent would require contribution increases. Dr. Wilder inquired about the timing of such an increase. Ms. Boykin replied that the valuation is calculated on a two-year delay, which has the effect of delaying contribution increases. Ms. Boykin further explained that because the returns for the Fiscal Year 2014-15 are less than 7.5 percent, a contribution increase will likely be required beginning on July 1, 2017. She explained that she would provide various scenarios to the Commission about rates of return and contribution levels.

Next, Ms. Bernard began her remarks by reminding the Commission that as of January 1, 2015, Hewitt EnnisKnupp, Inc. was renamed Aon Hewitt Investment Consulting. Ms. Bernard introduced Mr. Tim McEnery of Aon Hewitt who is a senior consultant with the firm and will be responsible for working with Ms. Bernard on RSIC's account. Ms. Bernard then began her presentation with highlights from the Portfolio's performance by asset class. She stated that the biggest sources of value add were "alpha" that had been generated, as well as the

Portfolio's low-beta hedge funds, global tactical, and global public equities. She added that an underweighting to emerging markets debt and private debt detracted from overall performance.

Ms. Bernard then turned to a discussion of the Plan's asset allocation. She explained that Aon Hewitt conducted its first asset allocation study of the Portfolio over two years ago. Ms. Bernard noted that the Plan's allocation to alternatives was high at that time, which Aon Hewitt deemed to be prudent. During that process, the question arose about orienting the Portfolio's asset allocation more towards equity markets. Aon Hewitt originally recommended not moving more towards equity markets because it appeared that those markets were not optimal for the Portfolio, and Aon Hewitt continues to believe this to be the case. She also noted that over the previous 3-5 years, U.S. markets performed well for the Portfolio but that the Portfolio's peers benefitted more from the markets' performance.

Ms. Bernard updated the Commission with noteworthy events relating to the external investment managers. She noted leadership changes at Grosvenor Capital Management, L.P. and William Blair & Company, L.L.C., but indicated that neither required any action. Ms. Bernard also stated that Aon Hewitt's rating of Pacific Investment Management Company LLC's ("PIMCO") Total Return strategy had improved.

Ms. Bernard stated that the following day, there would be a discussion of the Portfolio's allocation targets, ranges, latitudes, and strategies. Ms. Bernard summarized recent returns and stated that the current Fiscal Year returns will likely fall short of 7.5 percent benchmark. She summarized the Portfolio's performance in relation to its peers. She stated that the returns achieved by the Portfolio were less than the average, but the Plan's risk profile was much less than the average. Ms. Bernard moved on by discussing specific asset class weightings and their respective impacts on performance. She summarized that almost all of the value added to the Portfolio during the previous fiscal year resulted from manager selection, with only a slight amount coming from asset allocation.

Ms. Bernard then explained why the Portfolio's allocation to private equity appeared to be falling short of its benchmark. She explained that private equity investments were measured against a benchmark composed of public markets, which also adds 300 basis points to account for the illiquidity and risk associated with such investments. Ms. Bernard stated that, while the Portfolio's private equity returns appear to be falling short, the benchmark's reliance on public markets is not a true reflection of private equity performance. She explained that when the stock market has outperformed, private equity funds have historically not met their benchmark. Chairman Giobbe asked which public market is used as the basis for the private equity benchmark, and Ms. Bernard replied that it is a mix of U.S. and non-U.S. indices. Mr. Loftis noted that a high benchmark is appropriate for private equity given the risks involved with such investments. Ms. Bernard responded that a high benchmark is appropriate, but if a benchmark is too high, it will not accurately measure performance. She stated that in the coming year, Aon Hewitt will perform a peer-to-peer analysis of the Portfolio's asset class performance, which will shed more light on this issue.

Ms. Bernard began a discussion on using internal rates of return ("IRR") to determine the level of value added by investment managers. She noted that IRR is a better way to understand the value added by investment managers because it takes into account how much was invested, when capital was put to work by the investment manager, and how much impact an investment had on the total return stream. Chairman Giobbe asked if the IRR might at any time be inaccurate. Ms. Bernard replied that inaccuracies usually reflect an underestimation of value resulting from conservative valuation approaches utilized by investment managers. Mr. Loftis registered concerns about utilizing IRR to review investment performance because such a review relies upon aggregate data. Ms. Bernard responded that every fund is reviewed individually to reach a calculation.

Ms. Bernard then turned to the private markets portfolio summary. Mr. Loftis asked if the summary included information for all strategic partnerships. Ms. Bernard responded that it did and stated that Aon Hewitt would provide a more comprehensive report on the Portfolio's strategic partnerships at the Commission's November meeting. She highlighted the private debt asset class and explained each of the line items associated with its performance. Ms. Bernard also noted that Aon Hewitt provides a full private markets report to the Commission each quarter. She then answered additional questions from Chairman Giobbe about valuing alternative investments.

VI. EXECUTIVE SESSION

Mr. Gillespie made a motion, which was seconded by Dr. Wilder and passed unanimously, to recede into Executive Session to discuss investment matters pursuant to S.C. Code Ann. §§ 9-16-80 and 9-16-320, discuss personnel matters pursuant to S.C. Code Ann. § 30-4-70(a)(1), and receive legal advice from legal counsel pursuant to S.C. Code § 30-4-70(a)(2). The Commission receded into Executive Session at 10:52 a.m. and reconvened in open session at 2:45 p.m.

VII. INVESTMENT ITEMS

Mr. Harper recognized Mr. Haas, who provided a presentation regarding Pacific Equity Partners Fund V, L.P. ("Pacific Equity") and recommended a $100 million Australian commitment (approximately $80 million U.S.), with a separate $50 million Australian commitment (approximately $40 million U.S.) for an additional allocation to co-investments. He discussed the search objectives and process, the Pacific Equity team, the firm's investment strategy and process, the strategy's fit in the Portfolio, the investment rationale and considerations, and the fees for the strategy. Mr. Gillespie asked about logistics, given that the firm is based in Australia. Mr. Haas replied that he had experience working with Pacific Equity, and their management team provided access to personnel and information in a timely manner. Mr. Harper added that RSIC could leverage Aon Hewitt's resources in Australia if necessary.

Mr. Williams made a motion that the Commission (i) 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 June 18, 2015 regarding Pacific Equity Partners Fund V, L.P.; (ii) authorize a commitment not to exceed $100 million Australian into Pacific Equity Partners Fund V, L.P.; (iii) authorize a commitment not to exceed $50 million Australian in a co-investment vehicle (the "Co-Investment Vehicle") to invest alongside Pacific Equity Partners Fund V, L.P., and with discretion as to (1) closing on the Co-Investment Vehicle, and (2) approval of co-investment opportunities, the amounts to be invested in, and timing of, any given co-investment opportunity, to be determined at the discretion of the CIO, and delegate authority to the CIO to make the foregoing decisions and take those actions reasonably necessary to implement this directive as it relates to the Co-Investment Vehicle; (iv) authorize the Chairman or his designee to negotiate and execute any necessary documents to implement the Investment as approved by the Commission (1) upon documented approval for legal sufficiency by RSIC Legal, and (2) 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); (v) authorize the Chairman or his designee to negotiate and execute any necessary documents to implement the creation of the Co-Investment Vehicle as approved by the Commission (1) upon documented approval for legal sufficiency by RSIC Legal and (2) 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 (vi) 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. Mr. Gillespie seconded the motion, which was approved 5-1, with Mr. Loftis opposed.

Mr. Jordan provided a presentation regarding the Highbridge Sandlapper Credit Fund ("Highbridge"). He discussed the search objectives and process, the Highbridge team, the firm's investment strategy and process, the strategy's fit in the Portfolio, the investment rationale and considerations, and the fees for the strategy. Mr. Jordan explained that the investment would be implemented through a fund-of-one structure. Chairman Giobbe asked about the target return and the length of the investment. Mr. Jordan replied that Staff is targeting a ten percent net return and that the investment period is three years with opportunities to recycle. Dr. Wilder asked if Highbridge would have equity in the investment. Mr. Jordan replied that Highbridge will commit 0.2 percent for legal purposes, and Highbridge's five founders will invest $129 million of their personal funds in the same assets RSIC will hold.

Dr. Wilder moved that the Commission (i) authorize 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 June 18, 2015 regarding Highbridge Principal Strategies, LLC; (ii) authorize a commitment not to exceed $400 million through the use of a "fund-of-one" structure; (iii) authorize the Chairman or his designee to negotiate and execute any necessary documents to implement the creation of the fund-of-one structure as approved by the Commission (1) upon documented approval for legal sufficiency by RSIC Legal, and (2) 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 (iv) 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. Mr. Gillespie seconded the motion, which passed unanimously.

Mr. Steve Marino, Senior Investment Officer, provided an overview of GoldenTree Asset Management ("GoldenTree") for the structured credit mandate. He discussed the search objectives and process, the strategy's fit in the Portfolio and with the pacing schedule, the firm's capabilities and process, and the investment rationale and considerations. Chairman Giobbe asked for clarification about the target return, and Mr. Marino stated that that the target return was 400-600 bps over the London Interbank Offered Rate ("LIBOR") or a return of five to seven percent. Mr. Loftis asked what would be the benchmark for this allocation, and Mr. Marino replied that it was the mixed-credit benchmark, composed of a third to high-yield loans, a third to bank loans, and a third to Barclays Mortgage Backed Securities Index.

Chairman Giobbe asked about the strategy's portfolio duration, and Mr. Marino responded that the duration is about one year.

Mr. Gillespie registered concerns about the commitment level of the investment, given that this was a new investment space for RSIC, and recommended moving the commitment level from four percent of plan assets to two percent. Mr. Harper clarified that the four percent commitment amount links back to the language of the SIOP. Mr. Berg stated that he would prefer the commitment amount be a percentage as opposed to a dollar amount because a two percent commitment keeps the allocation within target levels.

Reference was made to the proposed motion for this investment. Mr. Gillespie made a motion to amend the motion concerning the GoldenTree investment to change the commitment level from four percent of plan assets to two percent. Dr. Wilder seconded the motion, which passed unanimously.

Mr. Williams then moved that the Commission (i) 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 June 18, 2015 regarding GoldenTree Asset Management, LP; (ii) authorize an investment of up to 2% of Total Plan Assets into the GoldenTree Structured Credit strategy through the use of a separately managed account agreement, with an anticipated initial investment of $250 million; (iii) Authorize the Chairman or his designee to negotiate and execute any necessary documents to implement the Investment as approved by the Commission (1) upon documented approval for legal sufficiency by RSIC Legal, and (2) 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 (iv) 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. Mr. Gillespie seconded the motion, and the motion passed unanimously, as amended.

Mr. James Wingo, Investment Officer, provided an overview of Ashmore Investment Management Limited's ("Ashmore") emerging market debt strategy. He discussed the search objectives and process, the strategy's fit in the portfolio, the firm's capabilities and process, and the investment rationale and considerations. Mr. Loftis asked Mr. Wingo how much leverage would be in the strategy, and Mr. Wingo responded that Staff did not contemplate using leverage with this strategy. Chairman Giobbe asked if rising U.S. interest rates would correspond with emerging market rates increasing as well. Mr. Wingo replied that U.S. rising interest rates would strengthen the dollar, and noted that, in accordance with the asset class plan, this investment would help shift the Plan's emerging market debt portfolio to a heavier reliance upon active management. Chairman Giobbe then inquired about the cap of four percent of plan assets and asked if it could be modified. Mr. Wingo explained that the initial allocation would be $300 million. Mr. Harper clarified that higher allocations are consistent with Staff's strategy of reducing the number of investment managers the Commission employs by hiring higher conviction managers. Ms. Boykin stated that Aon Hewitt's report noted that the fees for this strategy are higher both in absolute terms and compared to its peers. Mr. Wingo concurred that Ashmore's standard fees are expensive relative to its peers, but noted that the fees Staff negotiated with Ashmore were very competitive.

Mr. Wingo then provided an overview of Grantham, Mayo, Van Otterloo & Co.'s ("GMO") Emerging Country Debt Fund. He discussed the strategy's fit in the portfolio, GMO's team, the firm's capabilities and process, and the investment rationale and considerations. Mr. Loftis expressed concern over the fees charged to investors for entering and exiting the fund. He asked if those fees could be blended into the management fee. Mr. Wingo responded that the fees were consistent with other managers of similar strategies. Mr. Harper added that these fees are charged to individual investors instead of spreading these costs to the entire fund. The Commissioners then discussed default cycles associated with emerging market debt.

Chairman Giobbe asked for a motion to approve the investments in Ashmore and GMO. Dr. Wilder moved to:

> (i) 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 June 18, 2015 regarding Ashmore Investment Management Limited; (ii) authorize an investment of up to four percent of Total Plan Assets into the Ashmore External Debt (Broad) strategy through the use of a separately managed account agreement, with an anticipated initial investment of $300 million; (iii) authorize the Chairman or his designee to negotiate and execute any necessary documents to implement the Investment as approved by the Commission (1) upon documented approval for legal sufficiency by RSIC Legal, and (2) 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 (iv) 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.
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> (i) 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 June 18, 2015 regarding Grantham, Mayo, Van Otterloo & Co. LLC ("GMO"); (ii) authorize an investment of up to four percent of Total Plan Assets into the GMO Emerging Country Debt Fund with an anticipated initial investment of $300 million; (iii) authorize the Chairman or his designee to negotiate and execute any necessary documents to implement the Investment as approved by the Commission (1) upon documented approval for legal sufficiency by RSIC Legal, and (2) 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 (iv) 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.

Mr. Williams seconded the motion. The Commission approved the motion by a vote of 5-1, with Mr. Loftis opposed.

VIII. RECESS

The meeting recessed at 3:58 p.m. to reconvene at 9:00 a.m. on Friday, June 19, 2015.

I. CALL TO ORDER

Chairman Edward Giobbe reconvened the meeting of the South Carolina Retirement System Investment Commission ("Commission") at 9:09 a.m. on Friday, June 19, 2015. It was noted that Mr. Reynolds Williams was participating via telephone. Chairman Giobbe greeted the guests and public and announced that the next item on the agenda was a Global Macro Update from Bridgewater Associates, LP ("Bridgewater").

II. BRIDGEWATER GLOBAL MACRO UPDATE

Mr. Alan Bowser of Bridgewater provided some historical information about the RSIC's relationship with Bridgewater dating back to 2007. He thanked the RSIC for providing time for Bridgewater to share their perspective of the global markets. Mr. Bowser introduced Mr. Jeff Gardner, a senior portfolio strategist for Bridgewater, to make a presentation on the global markets outlook. Mr. Gardner provided information about global events which have caused substantial impacts on the global economy and how different countries' economies have or have not recovered. Mr. Gardner answered questions from staff and Commissioners before concluding his presentation. Chairman Giobbe called for a short recess which lasted from 10:27 a.m. to 10:39 a.m.

III. KKR GEOPOLITICAL UPDATE

Chairman Giobbe welcomed General David Petraeus, chairman of KKR Global Institute ("KKR") to provide a geopolitical update. Mr. Michael Hitchcock, Executive Director, thanked General Petraeus for his attendance and willingness to provide insight into geo-political, macro-economic, environmental, social, and governance trends. General Petraeus provided information about geopolitical current events and the impacts resulting from government and market activities in politically unstable regions and explained KKR's methodical expansion into several new markets including Mexico and Africa. General Petraeus provided additional information on KKR's economic outlook and answered questions from Commissioners and staff. Following the presentation, Chairman Giobbe called for a recess which lasted from 11:47 a.m. to 12:38 p.m.

IV. UPDATE ON CONSERVATIVE FIXED INCOME RESTRUCTURING

Mr. Robert Feinstein, Chief Legal Officer, and Ms. Ashli Ashlin, Investment Officer, provided an update on contract negotiations with Loomis Sayles to restructure one of the manager's existing fixed income mandates. Mr. Hershel Harper, Chief Investment Officer, added a historical review of the Portfolio's allocation to fixed income. Dr. Ronald Wilder asked about allocation changes over time between active and passive management. Mr. Harper said that, historically, bonds in the Portfolio had been actively managed but a mix of actively and passively managed fixed income exposures had emerged in recent years. He added that within the global equity component, a little over half is comprised of passive or enhanced indexing type strategies, but noted that there continues to be heavy reliance upon active management within the small cap and emerging markets equity components.

Mr. Allen Gillespie noted that the equity component of the Portfolio is not far from its historical position and that the equity allocation is, and historically has been, lower than equity allocations of other plans. Mr. Gillespie noted that over the last several years there has been a reduction in fixed income within the Portfolio and an increase in credit risk. Mr. Harper agreed.

V. ASSET ALLOCATION HISTORY

Mr. Harper began a review of the Portfolio's asset allocation history. Mr. Gillespie noted that the biggest part of the asset allocation change in 2006 was the addition of an allocation of approximately $3 billion to global fixed income. Mr. Harper continued the historical review and discussed components of achieving higher returns, along with accompanying changes to the allocation mix.

VI. AON HEWITT ASSET ALLOCATION REVIEW & STRATEGIC DISCUSSION

Ms. Bernard made a presentation which included information on the importance of asset-liability studies, historical changes to the Portfolio, peer comparisons and trends among public pension funds, and what changes might be appropriate for the Portfolio to navigate future market changes. She noted that based on its liquidity profile, the Portfolio might be in a position to take additional risk. She noted that Aon Hewitt's recommended changes to the asset allocation would be relatively modest. Ms. Bernard discussed the various asset classes, including the key characteristics of each and the role played by each asset class within the Portfolio in different market conditions.

Mr. Gillespie asked whether the benchmark for the mixed credit allocation should be updated because of the addition of structured credit investments. Ms. Bernard replied that although she agreed that the benchmark might need to be revisited, she recommended focusing on the review and approval of the asset allocation plan. She indicated that, as any benchmark recommendations would be based on the asset allocation, after an asset allocation plan was approved, Aon Hewitt would review the benchmarks and determine whether to propose any changes.

Ms. Bernard continued her discussion of asset allocation. She discussed forecasts for inflation and performance projections for various asset classes. She reminded the Commission that an asset-liability study should be performed every two to three years. Ms. Bernard explained that Aon Hewitt uses a lower inflation assumption (2.1 percent) than PEBA's actuary, Gabriel, Roeder Smith (2.75 percent). Mr. Curtis Loftis asked when GRS had last updated its inflation figure. Ms. Boykin said that an update would occur in the fall of 2015, when GRS conducted a new experience study, which is completed every five years. Mr. Loftis said that he expected GRS's inflation assumption to get closer to the inflation assumption of Aon Hewitt. Ms. Boykin noted that the rate of return on investments and the capital market assumptions from the investment consultant considers inflation only on the asset side. She explained that the actuary looks at both the assets and the liability side. She added that a lower inflation rate actually makes the liabilities look better because it projects lower salary expectations in the future which produce lower benefits. Ms. Boykin explained that GRS, as the actuary, seeks to ensure that when they set an inflation assumption rate, that both the assets and the liabilities are considered within one inflation assumption. She noted that all information concerning the experience study will be shared with Commissioners.

Mr. Loftis noted the difficult task that actuaries face in trying to estimate the liabilities of clients in the future. He opined that taking into account what inflation may do to a plan's assets distorts that. Mr. Loftis stated that he is more comfortable with Aon Hewitt's inflation rate, and appreciated that Aon Hewitt puts its name behind what the firm believes is the appropriate inflation assumption.

Ms. Boykin responded by again noting that GRS' inflation rate does not just include investments in the Plan assets; the actuary's inflation rate assumption also includes wage inflation. She reiterated that there is one inflation assumption for the Plan, which takes into account more than just asset inflation.

Ms. Bernard said that regardless of the inflation rate that is used, applying the rate consistently to a plan's assets and liabilities minimizes the impact on the plan.

Chairman Giobbe asked if there are any cost of living allowance ("COLA") adjustments in any of the benefits in any of the Trust's plans. Ms. Boykin said that there are statutory COLAs that are built into the state and police officers plan but not the other three plans. Chairman Giobbe asked if there are caps on the COLAs, and Ms. Boykin said that there is a one percent cap. Ms. Bernard added that this cap mitigates the COLAs' impact on the Trust's liabilities.

Dr. Wilder noted that the Bridgewater speaker had said that without alpha and with a 60-40 allocation mix the return expectation was about three percent, which was lower than Aon Hewitt's forecast. Ms. Bernard agreed that Aon Hewitt was somewhat more optimistic than Bridgewater, and that while they agree with many of Bridgewater's macroeconomic elements, Aon Hewitt thinks there is some growth potential and recovery left in the U.S. market. Mr. Harper noted that the projections cannot be precise, but reviewing the projections and thinking about market and economic cycles assists the Commission in having a discussion about what can be done to improve the efficiency of the Portfolio and to improve performance over time.

Mr. Gillespie explained that to truncate or shape your returns to more narrow ranges comes at an increased cost, along with the increased relative certainty. Ms. Bernard said that to get to a 7.5 percent expected rate of return would involve both a great deal of overlay cost and a great deal of leverage, which under the current structure was likely not feasible.

Ms. Bernard stated that Aon Hewitt's capital market assumptions have continuously declined since 2010. She discussed the potential for increased volatility and decreased complexity of a 60-40 asset allocation and noted that the efficiency of the portfolio is actually more attractive when the allocation includes alternatives. She continued to review Aon Hewitt's forecasts and discussed comparisons of asset allocation among plans of $10 billion or more. She noted a growing allocation to alternatives among those plans.

Mr. Loftis asked about the footnote on expectations for low-beta hedge funds which referred to a broad hedge fund model. Ms. Bernard explained that the report uses Aon Hewitt's most conservative hedge fund allocation assumption, which includes a small amount of equity beta.

Ms. Bernard continued with a discussion of allocation alternatives. She discussed risk as a component of the allocation. She presented two allocation options for consideration. The first option ("Option One"), had a risk level similar to that of the Commission's current asset allocation plan. Chairman Giobbe asked about the rationale for Option One's elimination of the distinction between the short duration fixed income and cash allocations, creating one merged allocation. Ms. Bernard said that most of those assets had been historically held in cash, but Aon Hewitt's recommendation provided the latitude to choose the appropriate position for these assets within the duration spectrum.

Ms. Bernard said that the second option ("Option Two") included a slight risk increase with the basic difference being a reduction in the allocation to fixed income. Chairman Giobbe asked if Aon Hewitt would recommend an increase to the policy target to real estate. Ms. Bernard said yes, but noted that the current target of 5% had not yet been met and the new proposal would allow the flexibility to go to a 10% allocation to real estate. Mr. Harper added that actually putting capital to work in the real estate asset class takes extra time, in part based on the call-down capital structures frequently utilized in this asset class.

Chairman Giobbe asked for clarification of the policy targets and allowable ranges in Option One and Option Two, and Ms. Bernard explained the application of targets and ranges, as well as the flexibility these options would provide with regard to rebalancing. Mr. Harper also clarified that the recommendation called for an increase in the range of flexibility for the real estate asset class, which Ms. Bernard described as narrow. Mr. Loftis said he did not agree that the range was too narrow because the target allocation is 5%, but the range was almost twice that (8%).

Mr. Loftis asked if the real estate allocation is the amount of commitments made to real estate investments. Ms. Bernard explained that the allocations for real estate and private equity are based on market values, not commitment amounts. She added that staff performs modeling to make sure that the Portfolio avoids over-commitment to an asset class such that it would be in violation of approved policy targets. Mr. Loftis asked how commitments that have been made to real estate investments that have not been funded are tracked. Mr. Harper explained that the staff uses a pacing schedule to track the unfunded commitments. He added that, generally, investments are made to align with the target allocation to each asset class, but noted that it is important to be cognizant of future capital calls from investments with call down structures, as well as distributions from current investments.

Ms. Bernard provided additional information about the liquidity of the Portfolio in response to a question from Mr. Gillespie related to cash flows. Mr. Harper added additional comments about the recommended 15% allocation to fixed income, including the benefit of having short term liquidity to quickly respond to market activity. There was also discussion of the managers who invest a substantial portion of the liquid assets. Mr. Loftis opined that as distributions are received from investments, they are included as part of the Portfolio's liquidity, even though he did not believe this cash could be accessed as easily by the RSIC as other cash in the Portfolio.

Mr. Harper said that if the cash is in one of the strategic partnerships, RSIC does not include it within the overall cash allocations from an exposure perspective, but noted that RSIC can access that cash fairly quickly. He added that the cash in the strategic partnerships is intended to be used for future investments with that partner and during the time the cash is not invested, the overlay is used in order to get market exposure.

Ms. Bernard said that Option Two reduces the 15 percent allocation to fixed income to 12 percent, with the decrease predominantly being used to increase low-beta hedge funds. Mr. Loftis asked if that meant the Portfolio's cash besides cash in strategic partnerships, would be put more into the hedge funds and the cash in the strategic partnerships would provide backup liquidity. Mr. Harper said yes, but noted that RSIC may pull some cash out of strategic partnerships. Mr. Loftis asked if there is concern about pulling cash from strategic partnerships and then having the partners call the cash back into the partnership. Mr. Harper explained that this was not a concern because the RSIC has veto rights on the investments within the strategic partnerships.

Mr. Loftis asked if the principal risk in Option Two is related to liquidity, cash in strategic partnerships and the cash strategy that RSIC has faced. Ms. Bernard responded that this would be the principal change but noted that whether it is a risk or not is uncertain.

Chairman Giobbe asked whether, if staff were to exceed the maximums or minimums of the allowable ranges, in violation of the new asset allocation policy, the exception to the ranges would have to be approved by the Commission. Ms. Bernard said that the investments are approved by the Commission, in addition to the asset allocation targets and allowable ranges.

Mr. Loftis said that the Portfolio was not supposed to exceed 8 percent in real assets, according to the SIOP. Mr. Harper responded that 8% is the target allocation but not the cap. Mr. Gillespie said that his concern with cash was that cash is not a good equity hedge. Ms. Bernard agreed.

Mr. Gillespie noted that the average liability is 19 years out and that with the current yield curve being very steep, the Portfolio may be giving up a lot of roll yield. Mr. Harper said that if we did get into a rising rate environment and then there was a risk of asset prices resetting and repricing, it would be important to have available cash.

Dr. Wilder asked if Staff and Aon Hewitt had solid evidence that a portfolio like the Commission's current one would have dealt with the '08 - '09 crash better than a portfolio with a 60-40 allocation. Ms. Bernard said that she believed so, but that it could be modeled. She reviewed the scenario and added that, in aggregate, there was no question that the current portfolio would decline in value in the same set of environments, but compared to 60-40 portfolio, it would decline substantially less.

Dr. Wilder asked the Staff what radical ideas about asset allocation had been brought up compared to the relatively minor changes being discussed. Mr. Harper said that he did not think there were any overly radical ideas but that there has been discussion of various approaches. Mr. Berg added that other topics such as using currency to produce alpha had been considered.

Chairman Giobbe noted historical return trends and questioned the assumption of five percent returns over the next five to ten years. Mr. Harper and Ms. Bernard discussed potential returns in various scenarios and time periods. Mr. Gillespie noted that in an asset allocation plan, the way the plan is set up will be within the approved asset allocation framework, but should be driven by implementation choices.

Ms. Bernard noted that in a sideways market, the asset allocation plan will not necessarily provide an exceptional return but should provide a lot of different return streams creating beta and alpha that should be somewhat more attractive in a sideways market as opposed to a stock and bond portfolio which would be anemic in that market. Mr. Gillespie stated that the re-balancing strategy in that environment becomes very important and can create as much as 200-300 basis points difference.

Mr. Loftis said that the cash included within the allocation to strategic partnerships could have a broad range. He noted that Grosvenor had $235 million in cash, Lighthouse had $381 million, and Goldman Sachs had $145 million, totaling $761 million. He stated that if RSIC took back some of this $761 million, the funds could be invested in low-beta hedge funds. He added that he believed that this was a significant opportunity.

Mr. Gillespie asked whether the Commission was receiving this information related to asset allocation planning only for information or whether the Commission would be voting on an asset allocation plan. Mr. Hitchcock noted that whether the asset allocation plan was submitted for a vote was for the Commission to decide, but he noted that there were two options currently presented. Chairman Giobbe said that the Commission could continue discussion or adopt either Option One or Option Two. Mr. Loftis suggested that Option One would cause less friction in implementation and that Option One seemed reasonable in his opinion. Chairman Giobbe asked Mr. Hitchcock for his thoughts on the options presented. Mr. Hitchcock said that Option One was supported by the belief that interest rates would soon rise and that he believed Option One created more optionality for implementation in the current environment. Mr. Hitchcock added that more flexibility within the asset allocation bands themselves seemed to be the right way to position the Portfolio in a challenging investment environment which may benefit from re-balancing.

Mr. Gillespie noted that the current asset allocation and Option One were not substantially different because both fit within the current approved bands as approved by the Commission. Ms. Bernard agreed. Chairman Giobbe suggested approving Option One. Mr. Gillespie made a motion to adopt the asset allocation recommended by Aon Hewitt as Portfolio Option One, as set forth in the Asset Allocation Review presented by Aon Hewitt and discussed during the Commission meeting (“Asset Allocation Plan”); direct that the approved Asset Allocation Plan be incorporated into, and made a part of, the Statement of Investment Objectives and Policies; and authorize Staff to finalize the Asset Allocation Plan data by making any technical revisions, or formatting edits, consistent with the action taken by the Commission. Dr. Wilder seconded the motion. Mr. Feinstein clarified that the effective date of the Asset Allocation Plan would be July 1, 2015. Mr. Gillespie requested that if asset class benchmarks are revisited that the benchmarks also be linked back to July 1, 2015. The motion passed by a vote of 4-0. It was noted that Mr. Williams was not present at the time of the vote.

VIII. ADJOURNMENT

There being no further business, Mr. Gillespie made a motion to adjourn. Dr. Wilder seconded the motion, which passed unanimously, and the meeting adjourned at 2:34 p.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 Presentation Center at 1201 Main Street, Columbia, SC, at 5:06 p.m. on Tuesday, June 16, 2015.]