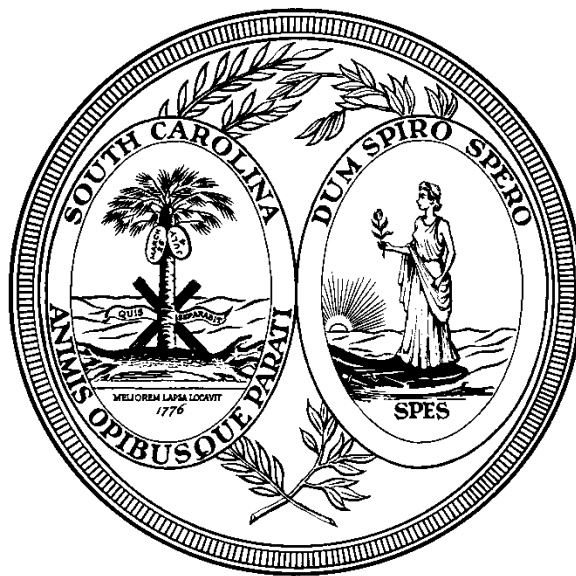


**SOUTH CAROLINA RETIREMENT SYSTEM
INVESTMENT COMMISSION**

**ANNUAL INVESTMENT PLAN
FISCAL YEAR 2010-2011**



as amended by the Retirement System Investment Commission
on November 18, 2010

TABLE OF CONTENTS

OVERVIEW	1
PURPOSE	1
GENERAL OPERATIONAL AND INVESTMENT POLICIES.....	1
GENERAL POLICIES AND PROCEDURES FOR HIRING PROFESSIONAL SERVICES	2
STRATEGIC PLAN.....	4
INVESTMENT CONSULTANT	4
ASSET ALLOCATION	4
PASSIVE VERSUS ACTIVE INVESTMENT STRATEGIES	5
IMPLEMENTATION STRATEGY.....	6
INFRASTRUCTURE DEVELOPMENT	6
STAFF RECRUITMENT	6
ORGANIZATIONAL AND OPERATIONAL DEVELOPMENT	7
SYSTEMS INFRASTRUCTURE AND DEVELOPMENT.....	7
RISK MANAGEMENT STRATEGIC PLAN.....	7
RECENT AND CONTINUING INITIATIVES	7
IMPLEMENTATION POLICY.....	9
POLICY AND STRATEGY ASSET ALLOCATION MIX	9
BETA OVERLAY	9
EQUITY PORTFOLIO ALLOCATION	9
FIXED INCOME ALLOCATION.....	9
ALTERNATIVE INVESTMENT ALLOCATION	10
INVESTMENT MANAGER SELECTION, GUIDELINES AND GOALS.....	12
INTRODUCTION.....	12
MONITORING AND VERIFICATION.....	13
GUIDELINES FOR USE OF POOLED/COMMINGLED FUNDS AND PARTNERSHIPS	13
DERIVATIVES GUIDELINES	13
PORTFOLIO-LEVEL RISK CONTROL PROCEDURES AND DOCUMENTATION REQUIREMENTS.....	15
DOMESTIC ACTIVE EQUITY MANAGER GUIDELINES	15
PASSIVE EQUITY MANAGER GUIDELINES.....	16
INTERNATIONAL EQUITY MANAGER GUIDELINES	16
CORE FIXED INCOME MANAGERS.....	16
HIGH YIELD FIXED INCOME MANAGERS	18
GLOBAL FIXED INCOME MANAGERS	18
EMERGING MARKET DEBT MANAGERS	18
ALTERNATIVE ASSET MANAGERS	19
PERFORMANCE OBJECTIVES AND MONITORING.....	21
GENERAL GUIDELINES	21
PERFORMANCE BENCHMARKS.....	21
MANAGER EVALUATION	22
PASSIVE INVESTMENT MANAGERS	22
ACTIVE INVESTMENT MANAGERS	22
NON-CORE FIXED INCOME	22
GLOBAL ASSET ALLOCATION (GAA).....	22
OPPORTUNISTIC CREDIT	23
PRIVATE EQUITY	23
REAL ESTATE	23
LIQUID REAL ASSETS	23
PORTFOLIO PERFORMANCE BENCHMARKS	23
PORTFOLIO RETURN	23
STRATEGY BENCHMARK INDEX	23

POLICY BENCHMARK INDEX.....	24
MANAGER REPORTING REQUIREMENTS	25
POLICY COMPLIANCE	25
INVESTMENT PERFORMANCE REVIEW	25
PORTFOLIO HOLDINGS/CHARACTERISTICS	25
DERIVATIVES REVIEW.....	26
RISK REVIEW.....	26
ETHICS REPORT	26
COMMISSIONS/TRADING REPORT	26
SOFT DOLLAR REPORT	27
PROXY VOTING REPORT.....	28
OTHER REPORTING REQUIREMENTS	29
PERIODIC TRADING STUDY.....	29
SECURITIES LENDING REPORT.....	29
INTERNALLY MANAGED PORTFOLIOS REVIEW.....	29

Overview

The South Carolina Retirement System (“SCRS”) administers a comprehensive program of retirement benefits, performing fiduciary duties as stewards of the contributions and disbursements for five pension trust funds—the South Carolina Retirement System, South Carolina Police Officers Retirement System, Retirement System for Judges and Solicitors of the State of South Carolina, Retirement System for Members of the General Assembly of the State of South Carolina, and the National Guard Retirement System (collectively, “Retirement System”).

South Carolina Retirement System Investment Commission’s (“Commission” or “RSIC”) primary fiduciary responsibility is investing Retirement System assets in accordance with statutory provisions of the State of South Carolina. The Commission establishes investment objectives and policies, and manages the investment, compliance and legal staffs (collectively, “Staff”) to ensure compliance with the statutory obligations, and the investment objectives and policies set forth.

The Staff, as delegated and approved by the Commission, is responsible for developing and implementing an annual investment plan consistent with statutory requirements and the investment guidelines and objectives given by the Commission. Staff executes investment decisions, performs risk management and compliance, and prepares investment reports.

Purpose

The purpose of this Annual Investment Plan (“Plan” or “AIP”) is to provide a formal plan for investing the Retirement System’s assets to achieve the investment objectives and mission statement set by the Commission and applicable statutes for Fiscal Year 2010-2011, beginning July 1, 2010. This Plan is based on strategic goals and directives given to the Chief Investment Officer (“CIO”) by the Commission and is governed by the framework set out in the Statement of Investment Objectives (SIO) and Statement of Investment Policy (SIP), which will either be restated or referenced as necessary within this document

General Operational and Investment Policies

The Commission is responsible for creating the SIO and SIP, which establish clear, measurable goals, objectives and constraints as the framework for designing the AIP. The CIO and Staff are responsible for preparing the AIP, which describes how the Staff plans to achieve the goals and objectives set forth in the SIO and SIP.

The CIO and Staff believe that the policy asset allocation will be the primary determinant of return and risk for the Plan. Secondly, additional sources of value can be achieved through strategic shifts to the policy asset allocation, manager selection, cost effective implementation, and by adhering to well defined policies and procedures with clear, measurable guidelines and constraints.

The investment process begins with a forecast of the expected risks and returns of a broad set of asset classes. This exercise is performed annually in conjunction with the Investment Consultant

("Consultant"). The resulting estimates are based on historical results, adjusted for current market conditions to develop a reasonable, intermediate-term projection for each asset class. The estimates are used to generate an efficient frontier from which the Consultant, the CIO and Staff develop an asset allocation plan designed to achieve reasonable returns at an acceptable level of risk. The recommended asset allocation as well as the expected returns and risks are then approved by the Commission.

The approved asset allocation determines the amount to be invested in each asset class. Differences between the current and targeted asset allocation normally lead the CIO and Staff to adjust the asset allocation directly through existing managers, through the Russell Overlay program (described on page 8) and/or the manager search process.

If a manager search is undertaken, the Consultant with input from the CIO and Staff develops a list of qualified managers for the specific mandate. The CIO and Staff often work with individual Commissioners to conduct on-site due diligence. Based on these visits and ensuing analysis, a formal discussion is conducted during public Commission meetings where a formal recommendation and motion to hire investment managers are either approved or disapproved by voting members of the Commission.

Once approved, the Staff and General Counsel work with the investment management firm to develop an Investment Management Agreement (IMA) which together with the SIO, SIP, and AIP will govern the relationship between the Commission and the investment manager. In the case of partnership investments, outside counsel is often hired to review the agreement that will govern all of the partners, including provisions within any side letters. Once a legal agreement has been reached, custodial accounts and other legal and operational procedures are established to facilitate daily management of the Retirement System's assets. Investment manager initial fundings are approved by the State Treasurer's Office.

Ongoing monitoring is conducted by the Consultant and Staff on a quarterly basis through meetings, conference calls and collecting analytical data and reports. Staff periodically hosts calls with the Consultant to discuss managers retained by the Retirement Systems and identify managers of concern.

The accounting department of the SCRS tracks all investment activity and investments owned. The monthly accounting records of the SCRS accounting department and the SCRS's asset custodian ("Custodian") are the basis of periodic reports provided to the Commission. Each month, the custodian and Consultant report the value and performance of the SCRS Investment Portfolio ("Portfolio") by manager and asset class. In addition to monthly reports, Staff and/or the Consultant prepare quarterly analytical reports of the Portfolio and its underlying managers in greater detail. Strategic and tactical rebalancing decisions within the asset allocation ranges approved by the Commission can be performed by the CIO together with Staff. Additional analysis and reporting will be conducted at fiscal year-end or as necessary to achieve the goals and objectives of the Commission.

General Policies and Procedures for Hiring Professional Services

Before retention of outside professional service providers such as Consultants, Attorneys and Custodians, the Commission will normally issue a Request for Information (RFI) or Request for Proposal (RFP). This general process does not apply to investment fund managers. Nor does

it apply to those who provide a unique service, though this process is subject to South Carolina statutes requiring documentation for single source providers.

An RFI may be appropriate for smaller, less complex projects, which do not have great financial or operational impact. A RFP may be more appropriate for larger, more complex projects in which the financial or operation impact could be great.

At a minimum, the RFP should identify:

- Key objectives;
- Key benefits;
- Cost;
- Specifications of critical considerations; and
- Other data such as basic corporate information and history, financial information, technical capability, stability, service availability and suitability.

The cost of the services must be disclosed but will not be the primary basis for the ultimate decision of whether to retain the service provider.

The process for selecting, compensating and monitoring investment managers is discussed in detail in the SIP. A brief summary of that process is discussed below in the section entitled **MANAGER SELECTION, GUIDELINES AND GOALS**. The process of monitoring and terminating investment managers is discussed in detail in later sections of this document.

STRATEGIC PLAN

Outlined below is a more specific description of how the CIO, Staff, the Consultant and other investment service providers plan to achieve the goals and objectives specified in the SIO and SIP.

Investment Consultant

The Plan will be implemented by the Commission's Staff, aided by the Consultant, who will assist in the following capacities:

- Continuing review of investment policy guidelines and performance standards;
- Development of Total Portfolio ("Portfolio") structural implementation plans;
- Design and review of asset allocation;
- Quarterly investment performance review and evaluation of the Portfolio;
- Conducting manager searches; and
- Ongoing reviews of investment managers.

Asset Allocation

Based on the results of a comprehensive Asset Liability Modeling study ("ALM"), an annual review of capital market assumptions, a risk budget and a mean-variance portfolio optimization, the Commission in April 2009 reaffirmed a set of long-term asset allocation targets designed to improve the level of diversification of the Portfolio, and enhance expected returns within risk parameters deemed acceptable by the Commission. The addition of a short-duration fixed-income asset class was later approved in January 2010.

The asset allocation on the following page was predicated on an optimization exercise using data from the above table. It details the projected five to seven year returns associated with the underlying asset classes and the portfolio risk that would result from the approved asset allocation weightings. Pursuant to the SIP set forth by the Commission, and consistent with South Carolina statute, the Portfolio will target weights in the asset classes listed below, which are defined in the Commission's SIP.

Pursuant to S.C. Code Ann. §9-16-340(B), this Plan must also specify the minimum and maximum allocations to equity investments on an ongoing basis, not to exceed seventy percent. While the equity asset class maximums specified below may appear to exceed seventy percent in the aggregate, the equity investments of the Portfolio shall not exceed seventy percent.

The new policy asset allocation is to be effective on December 1, 2010.

Asset Class	Expected Return	Expected Standard Deviation	Long-Term Target Allocation ²	Minimum	Maximum
Large Cap Equity	7.8%	18.0%	9%	0%	25%
Small/Mid Cap Equity	8.0%	23.0%	5%	0%	20%
International Equity	8.0%	21.0%	8%	0%	25%
Emerging Markets Equity	9.5%	29.0%	8%	0%	20%
Total Equity			30%	0%	70% ⁴
Core Fixed Income	3.8%	7.0%	10%	0%	50%
Global Fixed Income	3.3%	10.0%	3%	0%	25%
High Yield Fixed Income	8.0%	12.0%	3%	0%	20%
Emerging Markets Debt	6.5%	15.0%	3%	0%	20%
Global TIPS	3.5%	7.0%	0%	0%	50%
Short-Duration Fixed Income	2.8%	4.0%	3% ³	0%	100%
Cash	2.0%	1.5%	7% ³	0%	100%
Total Fixed Income			29%	29%	100%
GAA ¹	7.1%	10.5%	10%	0%	20%
Opportunistic Alpha	7.5%	12.0%	5%	0%	20%
Opportunistic Credit	8.0%	12.0%	8%	0%	15%
Private Equity	10.0%	30.0%	10%	0%	12%
Real Estate	7.0%	15.0%	6%	0%	10%
Commodities	4.8%	22.0%	2%	0%	10%
Total Alternatives			41%	1%	50%
Total Expected Return (Plan)	8.33%	N/A			
Total Expected Risk (Plan)	N/A	10.9%			
Total			100%		

Source: NEPC, LLC ("NEPC", formerly New England Pension Consultants) for the expected returns and standard deviation by asset class.

¹Global Asset Allocation (GAA) is a composite of Risk Parity and Global Tactical Asset Allocation mandates.

²A discussion on rebalancing can be found in the SIOP.

³The target amounts for Cash and Short Duration should equal 10%.

⁴The equity allocation at cost shall not exceed 70%.

Passive versus Active Investment Strategies

The Portfolio's asset allocation will be implemented by employing a combination of passive and active investment strategies. Passive strategies will normally be emphasized for highly efficient asset classes, like large-cap domestic stocks, which are typically characterized by a large number of highly informed investors. Passive strategies often prove effective when a majority of investors have difficulty exceeding benchmark returns after active-management fees. The Commission has invested a significant portion of the portfolio assets in passive strategies at relatively inexpensive fee structures.

The Commission will also emphasize passive investment strategies to quickly gain or reduce exposures to certain asset classes in order to achieve a desired asset allocation. Derivative securities such as futures and swaps will often be used to quickly and inexpensively achieve a desired asset allocation.

Active strategies are normally emphasized for more inefficient markets or asset classes, like emerging markets, which are typically characterized by fewer highly informed investors. These markets offer greater opportunities to profit based upon insightful deviations from the benchmarks.

The Commission has invested a large portion of the Portfolio in active strategies, paying higher fees than passive strategies, with the expectation that those fees will result in more attractive risk-adjusted returns. Some of the active managers selected operate under pay-for-performance fee structures, earning more for superior performance and less for not meeting their benchmark.

Implementation Strategy

The target asset allocation has expanded from a three-asset class portfolio in FY 2006-07 to one with vastly broader diversification. In order to transition in an efficient and cost effective manner, the Commission selected Russell Implementation Services, Inc. (Russell), in 2007, to implement a Beta Overlay Strategy ("Beta Overlay"). Through the use of futures, swaps and forwards, the Portfolio gained exposure to many of the targeted asset classes without needing to immediately liquidate existing assets, incur trading costs, or conduct manager searches. This has allowed the Commission to make thoughtful and deliberate decisions concerning long-term manager selection.

The CIO and Consultant, recognizing that each of the new asset classes has unique characteristics, will recommend an implementation strategy and plan for each asset class at the appropriate time. Upon the Commission's approval of the plan for each particular asset class, the CIO will initiate the appropriate actions necessary to implement the plan.

Infrastructure Development

Critical to the success of all of the objectives outlined in the SIP, SIO, and AIP will be the development of adequate infrastructure to support the operations of a successful investment program. This infrastructure is composed of human resources as well as the tools and facilities required to implement the goals of the organization. The following major areas of infrastructure development will be a primary focus of the Commission, CIO, and the Administrative Manager during this planning period.

Staff Recruitment

The Commission is continuing to build a professional investment management organization capable of constructing and monitoring the Portfolio. Additional staff will be added only when appropriate job descriptions and compensation levels related to this staffing have been completed and approved by the Commission. In conjunction with the Fiscal Year 2010-2011 budget, the Commission approved four new full-time positions: Chief Operating Officer, an Audit and Compliance Officer, a Staff Attorney and a Strategic Partnership Analyst.

Organizational and Operational Development

During 2009, the Commission continued to address issues related to Investment Operations, Accounting Infrastructure and Internal Control Structures. The budgeting process was greatly enhanced and integrated with a newly developed 3-year strategic planning process, which the Commission approved. Several committees and cross-functional workteams were created to coordinate and execute the ongoing organizational and operational development of the

Commission.

The Commission continues to identify sufficient facilities to house the Commission's expanding staff. The additional space is expected to accommodate new employees and provide better meeting and conference facilities.

During the fourth quarter of 2009, the Commission also authorized a search to retain a consultant to perform an operational and compliance review. The recommendations from this engagement are expected to help the Commission implement a better organizational structure, similar to an enterprise risk management (ERM) framework.

Systems Infrastructure and Development

On May 1, 2008, the Retirement System and Commission migrated to Bank of New York Mellon's (BNYM) advanced information delivery portal named Workbench. The Commission, in the fourth quarter of 2009, expanded its relationship with BNYM to more effectively leverage their state of the art technologies. Accordingly, BNYM agreed to provide human resources on-site as an extension of the Staff. The objective was to help manage risks, increase efficiency and ensure analytical and reporting success. Numerous reporting responsibilities were also shifted to the Investment Consultant to capitalize on their highly developed reporting platforms.

Risk Management Strategic Plan

The Commission has decided to search for a consultant to conduct a risk assessment or gap analysis between the Commission's current investment and operating procedures and industry standards or best practices. The scope of the project will encompass investment operations, compliance, policies, procedures and risk mitigating controls. One goal of this engagement is to help develop a management and operating framework to create a more risk-intelligent organization.

A more quantitative approach to risk management will be pursued with assistance from several investment managers including but not limited to Goldman Sachs, Mariner, PIMCO and Bridgewater. The objective is to develop a suite of risk reports which provide timely and actionable output within a dynamic risk management framework.

Recent and Continuing Initiatives

- Private Equity: Due diligence for new managers continues;
- Allocation to a short-duration fixed-income asset class to improve returns over cash, as well as improve cash flow management;
- Allocation to Opportunistic Credit Strategies continues, but has slowed;
- Developing enhanced Governance and administrative policies;
- Enhanced budgeting process that is integrated with newly created Strategic Plan;
- Strategic Planning process has lead to the creation of several internally managed committees and cross-functional workteams;
- Presented an updated Real Asset plan to the Commission; Manager due diligence has begun with an initial focus on opportunistic funds that are currently raising capital and plan to invest over the next three to five years;
- Explore separate account options with Fund of Fund Absolute Return managers, as well as a separate account platform for direct and multi-strategy Absolute Return managers;
- Presented a Hedge Fund transition plan, which was approved;

- Progress continues in development of a South Carolina co-investment program to allow the Portfolio to benefit from private market investments in South Carolina; and,
- International developed and emerging market equity manager searches continue.

IMPLEMENTATION POLICY

Policy and Strategy Asset Allocation Mix

As described in the preceding Strategic Planning section, the Commission has since 2007, largely completed the transition from a three-asset class allocation to one with vastly broader diversification. The Commission may, however, continue to gain exposures to select asset classes by using derivative securities. Synthetic exposures in other asset classes may simultaneously be reduced as active managers are hired. Since public disclosure of any transition plan details could jeopardize the Commission's ability to effectively implement the plan or achieve investment objectives, pursuant to S.C. Code Ann. §9-16-80 and §9-16-320, these items will be considered confidential and will remain in the confines of Executive Session during Commission meetings. However, information relating to the Commission's actions will be made available to the public as soon as the plan is implemented or the ability to achieve investment objectives would no longer be jeopardized.

BETA OVERLAY

Russell assists the Commission with making strategic and tactical asset allocations through a Beta Overlay. The Overlay enables the Commission to adjust Portfolio exposures in a cost effective, dynamic manner using primarily futures, swaps and currency forwards.

EQUITY PORTFOLIO ALLOCATION

U.S. Long-Only Equity: Since approval to broadly diversify the Portfolio in December 2006, the Commission has dramatically reduced the Portfolio's long-only U.S. equity exposure. This process continued in FY 2008-09 with the termination of several outside managers and the redemption of assets from others who remained with the System. Through the use of the Beta Overlay program, much of the exposure to U.S. long-only equities is obtained through futures and swaps. As the Commission believes in the prudence of low-cost asset class exposure, especially in very efficient markets like U.S. large cap equities, a large portion of the U.S. long-only equity exposure will likely be in synthetic instruments going forward.

International/Emerging Markets Equity: In November 2006, a constitutional amendment allowing for the inclusion of International Equity in the Portfolio was approved in a statewide referendum and subsequently ratified by the Legislature. Since ratification, the Commission has taken advantage of this investment opportunity, allotting ten percent of the target allocation to developed international equity and five percent to emerging markets equity. For much of FY 2010-11, a significant portion of the Portfolio's exposure to International/Emerging Markets equities may be synthetically achieved through the Beta Overlay program, although searches are planned to identify active managers.

FIXED INCOME ALLOCATION

Core Fixed Income: During FY 2009-10, most of the internally managed core fixed income portfolio transitioned to several external managers selected in searches during FY 2008-09. A portion of Core Fixed Income will, however, continue to be managed internally. The Internal fixed income allocation may own public, private, synthetic, cash, and near-cash related securities, including but not limited to futures, 144A, and repurchase agreements (see S.C. Code Ann. §9-1-1310, §9-16-20, and §9-16-50). The internally managed fixed income portfolio serves a variety of purposes such as collateral positions and management; as a transition account for other fixed income and related instruments; and as a tool for rebalancing and managing risk at both the asset

class and plan level as deemed appropriate by the CEO/CIO. In January 2010, the Commission authorized Staff to internally manage a short-duration fixed income asset class. This asset class is to be funded in order to pick up incremental yield as well as to match specifically identified short-term liabilities. The short duration asset class description and typical investments are referenced in the SIP.

Non-Core Fixed Income: The ten percent target allocation to non-core Fixed Income is comprised of a three percent target to High Yield, a three percent target to Emerging Market Debt and a four percent target to Global Fixed Income.

ALTERNATIVE INVESTMENT ALLOCATION

Global Asset Allocation (“GAA”): The target allocation for this asset class currently stands at ten percent of the Portfolio. Managers included in these searches are expected to follow strategies conforming roughly to one of the following two areas: Traditional Global Tactical Asset Allocation (“GTAA”) and Risk Parity. These can be described as follows:

- GTAA: portfolio strategies that attempt to tactically allocate assets across global markets and asset classes including stocks, bonds, and commodities in order to achieve more attractive risk-adjusted returns;
- Risk Parity: portfolio strategies that attempt to diversify market risk equally across asset classes including stocks, bonds, and commodities.

Private Equity: Funding of the Private Equity portfolio will occur over an extended time period, taking five years or longer before the total allocation to private equity is fully invested. An individual investment may begin to return capital to the Portfolio prior to the full funding of the commitment to a private equity fund, so the outstanding invested capital may at times be substantially less than the total commitment. In recognition of such private equity investment characteristics, a committed allocation to private equity may equal up to 200 percent of the private equity policy allocation target. A Core-Satellite approach will be used to implement the program. Core funds and fund of funds will provide geographical diversification and broad exposure to the various private equity strategies; direct funds with satellite strategies may be used to complement the core exposure to Private Equity.

In FY 2007-08, the Commission adopted an implementation plan that emphasized commitments to private equity fund types that historically have mitigated the “J-Curve” risks associated with commitments to traditional Buyout and Venture funds. These vehicles include mezzanine debt funds, and secondary funds. This emphasis is planned to be maintained in FY 2010-11.

In FY 2010-11, the Commission plans to continue a program within the Private Equity portion of the Portfolio whereby investment opportunities arising within South Carolina may receive allocations from a pool of funds created for this purpose. No investment will be made absent a private sponsor with risk and return objectives complying with those of the Portfolio. The Commission and Staff will work with an outside investment advisor retained for assistance in investment due diligence and will also work with agencies, organizations, and private equity sponsors within South Carolina and the Southeastern United States to identify opportunities for investment.

Absolute Return (AR): The target allocation for this asset class is 15 percent. These strategies are designed to seek absolute returns, not relative returns like most traditional managers. The AR managers are allowed a broader set of investment tools, such as shorting and the use of leverage. The return profiles for AR strategies tend to exhibit low correlation and beta to stocks and bonds.

The Absolute Return portfolio may be implemented with hedge fund of funds, multi-strategy hedge funds, and other direct hedge fund investments. The appropriate Beta exposure can be maintained by using derivative instruments within the Beta Overlay program.

Opportunistic Alpha (OA): The target allocation for this asset class is five percent. These strategies are designed to seek absolute, not relative returns like most traditional managers. The OA managers are allowed a broader set of investment tools, such as shorting and the use of leverage, which are expected to achieve better risk adjusted returns compared with traditional, long-only managers. The return profiles for OA strategies tend to exhibit low correlation and beta to stocks and bonds.

Real Estate: With a target allocation of five percent, the Staff will implement a plan following the process outlined in the SIP during 2010-11. The implementation plan was updated during the Annual Retreat in November 2009. As with Private Equity, this asset class is accessed primarily through partnerships that fund as investments are identified. Commitments and funding for the Real Estate program will be long term, focusing on the next four to seven years, and then on an ongoing basis after that. Additionally, real estate investments can be accessed through direct investments, co-investments, or Strategic Partnerships. These commitments will be diversified across sector, geography, capital structure and liquidity. As the investments are liquidated, funds are returned to the partnerships, decreasing the amount of money invested in the asset class. For these reasons, committed allocations to Real Estate may be significantly higher than the allocated target.

Liquid Real Assets (Real Assets): Similar to Real Estate, five percent of the asset allocation will be committed to Real Assets. The implementation plan was updated during the Annual Retreat in November 2009, and is viewed as an asset class to provide protection against inflation. Sub asset categories in Real Assets may include commodities and Treasury Inflation Protected Securities (TIPS). The Real Asset market will be accessed through fund partnerships, direct investments, co-investments or Strategic Partnerships. The allocation to Real Assets can provide additional diversification to the overall fund due to its low correlation to the more traditional asset classes.

Opportunistic Credit

The Opportunistic Credit asset class was created to take advantage of the dislocations across the various credit markets. This would include private debt and various credit funds that have a long only or long-short mandate. The current target strategy for this asset is eight percent, and new opportunities will be evaluated on a case by case basis depending on prevailing market conditions. This asset class is characterized at times by invested capital significantly less than the total commitment.

INVESTMENT MANAGER SELECTION, GUIDELINES AND GOALS

The information included in this section begins with a brief description of the manager selection process. Greater details are available in the Statement of Investment Policies (SIP). This section then highlights the basic expectations, requirements, and standards for specific management disciplines. As the Commission continuously analyzes alternative portfolio structures, revisions may result in the addition or deletion of certain strategies, or it may alter the guidelines that apply to a particular discipline.

Manager Selection

The Staff is currently developing new policies and procedures for the due diligence process, and plan to finalize this process by the end of Fiscal Year 2010-2011. These new due diligence policies and procedures, once approved by the Commission, will serve as the guidelines of all future due diligence conducted by the Commission. The current guidelines for the manager search process is outlined in the SIP, but is summarized here, as required by South Carolina statute.

Once the Commission has determined a manager search is warranted, it will establish minimum criteria for eligibility. General selection criteria will then be established. Once objective screening is complete, the search team may rely on additional quantitative and qualitative input to further narrow the field to a manageable number. The preliminary list of candidates will be evaluated to create a list of finalists. The Staff and Consultant will prepare a report detailing strengths and weaknesses of the investment management firms. Staff and an assigned Commissioner will review the report with the Consultant to select a reasonable number for further due diligence. The Consultant, the assigned Commissioner, and Staff will determine which managers are best suited for the mandate. The Staff and Consultant will recommend a manager or managers to the Commission for approval. Upon approval and execution of a contract between the Commission and the manager, the manager will be funded as appropriate.

Guidelines and Goals

Introduction

Full discretion in implementing the investment strategy, within the parameters of all applicable guidelines described herein, is granted to the Commission's investment managers regarding the selection of securities and the timing of transactions within the portion of the portfolio allocated to each manager.

Compliance with all applicable guidelines must be monitored by the investment managers on a regular basis (monthly or more frequently when market conditions warrant) and based on then current market values. Securities that, at purchase, would move the portfolio out of compliance with these guidelines, based on the investment manager's most recent valuation, may not be purchased.

In the event that a portfolio moves out of compliance with the applicable guidelines, through market conditions or other changes outside the control of the manager, the manager must bring the portfolio composition back into compliance within 45 days or make a written request to the Commission for a compliance waiver.

Monitoring and Verification

Certain guidelines lend themselves to straightforward manager compliance monitoring. Where monitoring is possible using quarterly holdings and transaction information provided by the Custodian, Staff and the Compliance Officer shall be responsible for alerting the Commission and the CIO which managers are out of compliance.

A checklist is being developed as a tool for the Staff to monitor and verify manager compliance with all guidelines. Once this tool is developed, Staff will use this as a guide to monitor compliance. The Compliance Officer shall rely on manager-supplied attestations of compliance. The guideline compliance checklist, once developed and distributed to the managers, shall be reviewed periodically to ensure that all managers have reported guideline compliance and note instances where managers claim to be out of compliance.

Guidelines for Use of Pooled/Commingled Funds and Partnerships

Commingled investment vehicles provide, under some circumstances, lower costs and better diversification than can be obtained with a separately managed fund pursuing the same investment objectives. However, commingled investment funds cannot customize investment policies and guidelines to the specific needs of individual clients. The Commission is willing to accept the policies of such funds in order to achieve the lower costs and diversification benefits of commingled funds. Therefore, commingled investment vehicles are exempt from the required guidelines if:

- The investment practices of the commingled fund are consistent with the spirit of this policy and are not significantly different in letter, and
- The benefits of using a commingled vehicle rather than a separate account are material.

In some cases, the Commission may structure a portfolio as a separate account that allows for the advantages of commingled accounts, but has the Retirement System as the only investor. With the introduction of international assets, in particular, separate accounts save the Commission from having to provide additional accounting for currency and foreign custody issues, as the manager will have responsibility for these functions.

In instances where an investment mandate is structured through a commingled partnership or vehicle, the investment policies of that partnership or vehicle will be the legal governing policies of the funds allocated to that manager.

Derivatives Guidelines

This derivatives policy statement identifies and allows common derivative investments and strategies which are consistent with applicable law, the SIP, the SIO, and further requires investment managers to request the inclusion of additional derivative instruments and strategies which are not specifically provided for in this document. These guidelines also require investment managers to follow certain controls, documentation and risk management procedures. The following guidelines apply to those managers not participating in the Commission's Alternative Investment strategies or Beta Overlay.

Definition and Classification of Derivatives

A derivative is a security or contractual agreement that derives its value from some underlying security, commodity, currency, or index. These guidelines address the two classes of derivative

instruments: derivative contracts and derivative securities:

- 1) Derivative Contracts
 - Forward-based derivatives, including forward contracts, futures contracts, swaps, and similar instruments, and
 - Option-based derivatives, including put options, call options, interest rate caps and floors, and similar instruments.
- 2) Derivative Securities
 - Collateralized Mortgage Obligations (“CMOs”), and
 - Other Structured Notes

Allowed Uses of Derivatives

- 1) Derivative Contracts
 - Hedging. To the extent that the non-derivative component of a portfolio is exposed to clearly defined risks and derivative contracts exist that can be used to reduce those risks, investment managers are permitted to use such derivatives for hedging purposes, including cross-hedging of currency exposures, subject to the documentation requirements listed hereinafter;
 - Creation of Market Exposures. Investment managers are permitted to use derivatives to gain exposure to assets and asset classes if such exposure would be allowed if accessed through the underlying assets; and
 - Management of Country and Asset Allocation Exposure. Managers charged with tactically changing the exposure of their portfolio to different countries and/or asset classes are permitted to use derivative contracts for this purpose.
- 2) Derivative Securities
 - “Plain Vanilla” CMOs: For the purpose of this policy, a “plain vanilla” CMO is defined as one which satisfies one or both of the following criteria: i) It passes the Federal Financial Institutions Examination Council (“FFIEC”) test, or ii) It can be shown that the CMO is less exposed to interest rate or prepayment risk than the underlying collateral, and
 - Other CMOs: CMOs which are not plain vanilla are restricted to twenty percent of a manager’s portfolio.

Prohibited Uses of Derivatives

Any use of derivatives not specifically permitted above by managers not participating in the Commission’s Alternative Investment strategies or Beta Overlay is prohibited without approval of the Commission. Investment managers are encouraged to solicit such approval if they believe the guidelines for the use of derivative instruments is too restrictive. The following uses of derivatives are generally prohibited:

- Leverage. Derivatives shall not be used to magnify exposure to an asset, asset class, interest rate, or any other financial variable beyond that which would be allowed by a portfolio’s investment guidelines if derivatives were not used, and
- Unrelated Speculation. Derivatives shall not be used to create exposures to securities, currencies, indices, or any other financial variable, unless such exposures would be allowed by a portfolio’s investment guidelines if created with non-derivative securities.

Transaction Risk Control Procedures and Documentation Requirements

For each over-the-counter derivative transaction, except foreign exchange forward contracts, investment managers are required to obtain at least two competitive bids or offers, unless in rare

circumstances, two bids are not available.

For all derivatives transactions, investment managers should maintain appropriate records to support that all derivative contracts used are employed for allowed strategies. In addition, the following requirements apply to derivative securities:

- “Plain Vanilla” CMOs: Document that the CMO is in fact “plain vanilla”;
- Other CMOs: These CMOs must be stress-tested to estimate how their value and duration will change with extreme changes in the term structure of interest rates. An extreme change is one of at least 300 basis points; and
- Structured Notes: Document that the note creates only exposures that would be allowed if created without derivatives.

Portfolio-Level Risk Control Procedures and Documentation Requirements

- Counterparty Credit Risk: Managers are required to measure, monitor and diversify exposure to counterparty credit risk. All counterparties must have senior debt credit ratings of at least A1 by Standard and Poor’s, or equivalent rating;
- Ongoing Monitoring of Risk Exposures: The duration and other risk exposure limits specified in the managers’ guidelines are expected to be satisfied on an ongoing basis. Thus, managers must monitor changing risk exposures. Fixed income managers investing in CMOs should pay particular attention to the changing duration of their CMOs, and should anticipate potential changes in duration at the time CMOs are purchased. This is to ensure that interest rate and prepayment rate changes do not inadvertently move the Portfolio out of compliance; and
- Valuation of Holdings: The Commission will seek to obtain pricing policies from its investment managers and Custodian, including a list of sources used. The Commission should be notified of any exceptions to these policies. For derivative securities, the Custodian is required to obtain two independent prices, or to notify the Commission that two independent prices are not available.
- Investment managers are required to reconcile the valuations of all derivatives positions with the Custodian as governed by this policy on a monthly basis.

Domestic Active Equity Manager Guidelines

The guidelines listed below shall apply to all actively managed domestic equity portfolios, unless otherwise specifically noted or waived by written request:

- Domestic equity purchases are limited to common stocks, preferred stocks, mutual funds, Exchange Traded Funds (ETFs) and convertibles that are publicly traded. Exceptions shall be approved by the Commission in advance;
- Managers should disclose whenever a single holding accounts for more than six percent of the allowable equity portion of the portfolio managed for the Retirement System at market value;
- The Retirement System’s domestic equity portfolios are expected to be fully invested. Managers are encouraged to utilize appropriate ETFs relative to the portfolio benchmark. In no case shall manager’s cash exceed five percent after equitizing available cash in an appropriate ETF;
- No single holding in the Retirement System’s Portfolio shall account for more than five percent of the outstanding common stock of any one corporation;
- The purchase of stocks or convertibles in foreign companies which are publicly traded securities may be held by each domestic stock manager in proportions which each manager shall deem appropriate, up to ten percent of the portfolio at market value (foreign companies

are defined as incorporated outside of the U.S. and performing a predominant portion of their business outside of the U.S.). Securities purchased that are part of the manager's domestic benchmark are excluded from the ten percent limit;

- Convertible bonds, convertible preferred stocks, warrants, rights, and ETFs may be purchased as equity substitutes as long as they meet the equity guidelines listed above; and,
- Short selling is permitted.

Passive Equity Manager Guidelines

Passive strategies are expected to have characteristics substantially similar to the underlying benchmark. For example, a large cap passive equity portfolio shall have substantially similar capitalization and sector exposure to the underlying benchmark.

International Equity Manager Guidelines

The guidelines listed below shall apply to all international equity portfolios, unless otherwise specifically noted:

- Short-term reserves may be held in U.S. dollar denominated, local currency securities, or investment vehicles available through the custodial bank;
- Managers may purchase or sell currency on a spot basis to accommodate securities settlements;
- Managers may enter into forward exchange contracts on currency provided that use of such contracts is designed to dampen portfolio volatility or to facilitate the settlement of securities transactions;
- International equity portfolios are expected to be fully invested. Managers are encouraged to utilize suitable ETFs relative to the portfolio benchmark. In no case shall manager's cash exceed five percent after equitizing available cash in appropriate ETFs;
- Equity securities should be issued by corporations chartered outside the U.S., although the manager has latitude to hold other securities provided that such investment is consistent with attainment of the portfolio's investment objectives and does not exceed ten percent of the portfolio's market value. American Depository Receipts ("ADRs") do not apply toward this ten percent limitation;
- The number of issues held and their geographic or industry distribution shall be left to the discretion of the investment manager, provided that equity holdings in any one company (including common stock and convertible securities) do not exceed six percent of the market value of the portfolio. Additionally, bonds of the companies in question should be included in the exposure calculation if held in the manager's portfolio;
- Managers with developed country international equity mandates may invest up to ten percent of their portfolio(s) in the non-developed markets; and
- Managers with an emerging markets equity mandate may invest up to ten percent of their portfolio(s) in markets not deemed to be emerging markets, subject to the guidelines listed above.

Core Fixed Income Managers

The guidelines listed below shall apply to all core fixed income portfolios, unless otherwise specifically noted. In all Fixed Income strategies, Investment Grade shall be defined as: a rating of BBB- or higher from S&P, BBB- or higher from Fitch, or Baa3 or higher from Moody's.

- Core fixed income investments may include U.S. Government and Federal Agency obligations, TIPS, corporate bonds, debentures, commercial paper, certificates of deposit,

- Yankee bonds, mortgage-backed securities, bank loans, fixed income, and other instruments deemed prudent by the investment managers;
- No more than six percent of the market value of the domestic fixed income assets may be invested in the debt securities of any one issuer, except that no limitations on issues and issuers shall apply to obligations of U.S. Government and Federal Agencies;
 - Issues below Investment Grade at the time of purchase may be purchased up to a maximum of twenty percent of the portfolio;
 - Notwithstanding the above, each manager is allowed to hold a maximum of five percent of the portfolio in bank loans;
 - Managers may invest up to twenty percent of their portfolio in non-U.S. fixed income securities regardless of currency and may hold foreign currency;
 - The overall average quality of each core U.S. fixed income portfolio shall be rated Investment Grade or higher by Moody's, Fitch or Standard & Poor's. Split-rated securities will be measured using the lower ratings. Non-rated issues, excluding bank loans, may be purchased up to a maximum of ten percent of the Portfolio. These quality restrictions will not apply to a manager that is hired by the Commission to manage dedicated high yield fixed income portfolios;
 - The diversification of securities by maturity, quality, sector, coupon and geography is the responsibility of the manager. Active bond management is encouraged as deemed appropriate by the investment managers;
 - The average duration (interest rate sensitivity) of an actively managed portfolio shall not differ from the passive benchmark's duration by more than plus or minus fifty percent of the benchmark duration;
 - Derivative contracts as delineated in the Derivative Guideline section above may be utilized for duration management and managing yield curve exposures. Additionally, credit default swaps may be utilized to increase or decrease credit exposure; and
 - Any mortgage-backed securities ("MBS") shall be subject to the constraints listed below:
 - Agency fixed and floating rate pass-throughs, U.S. Treasury securities, and cash equivalents can be held without limitation;
 - Plain vanilla CMO's, as delineated above, can be held without limitation;
 - Inverse floating rate, interest only ("I/O"), principal only ("P/O"), and accrual CMOs in aggregate will be limited to fifteen percent of the mortgage securities portfolio, with no more than five percent of the portfolio invested in accrual CMOs. In the event that other types of mortgage-related securities with risk characteristics similar to those in this category are developed, the manager will inform the CIO of those securities and they will be included in this fifteen percent limitation;
 - All other types of mortgage-related securities not explicitly cited herein will be limited to an aggregate twenty percent of the portfolio;
 - Except for pass-throughs and plain vanilla CMO's, the manager must receive at least two competitive offers on the same or similar securities prior to purchasing each mortgage-backed security for the portfolio; and
 - The Commission recognizes that the calculation of the duration of a mortgage-backed security involves assumptions as to the expected future prepayment rate for the security at the time of calculation and that prepayment rates cannot be precisely determined in advance. The manager is expected to calculate expected duration prior to the initial purchase of a security and on a routine basis in monitoring the portfolio's compliance with these guidelines.

High Yield Fixed Income Managers

The fixed income guidelines described above shall apply to high yield fixed income managers, unless otherwise specifically noted:

- Managers may invest up to forty percent of their portfolios in non-U.S. fixed income securities unless limited by their Investment Management Agreement;
- Managers are allowed to hold a maximum of ten percent of the portfolio in bank loans;
- The average credit quality for the portfolio should be no lower than B-, average quality should be calculated using the lower of split ratings; and
- Cannot purchase issues with a quality rating lower than C, and should a holding be downgraded to a rating lower than C, the manager is responsible for communicating this to the Consultant and Staff within 48 hours.

Global Fixed Income Managers

The guidelines listed below shall apply to all GFI portfolios, unless otherwise specifically noted:

- Excluding government sponsored enterprises (e.g., FNMA, FHLMC), no single non-government debt security shall constitute more than six percent of the global bond portfolio, as determined at the time of purchase. Securities issued by AAA-Rated Supranational Organizations (such as the World Bank) shall be considered to be government equivalents;
- No industry, as defined by the Barclays Capital Global Aggregate Index, except securities issued or guaranteed by the government, its agencies or instrumentalities or government sponsored entities of the United States, Canada, United Kingdom, Germany, France, Australia, New Zealand and Japan or securities issued or guaranteed by AAA-rated supranational entities will comprise more than 25 percent of the market value of the portfolio, as determined at the time of purchase;
- Short-term reserves may be held in U.S. dollar denominated or local currency securities or investment vehicles available through the Portfolio's Custodian;
- Managers may invest in securities issued in any currency and may hold foreign currency. Managers may hedge all or a portion of their currency exposure through the use of foreign currency exchange contracts, including non-delivery forward foreign exchange contracts and cross hedges. Managers may invest in currency-linked non-leveraged structured notes;
- Common stock may be held if it is acquired as a result of: financial restructuring, bankruptcy, or from an exchange or conversion of a permissible security held in the portfolio;
- The overall average quality of each GFI portfolio shall be A- or higher, as rated by S&P, Moody's or Fitch. Non-rated issues or bank loans may be purchased, provided that in the judgment of the manager, they are of a quality sufficient to maintain the average overall portfolio quality of A- or higher. Issues below Investment Grade at the time of purchase may be purchased up to a maximum of twenty percent of the portfolio. Emerging market debt may not comprise more than forty percent of the portfolio. Combined, these last two allocations should not exceed fifty percent of the portfolio;
- Managers may continue to hold securities that are downgraded in quality subsequent to their purchase if, in the opinion of the manager, it would be advantageous to do so;
- The average effective duration (interest rate sensitivity) of a GFI portfolio shall not differ from the passive benchmark by more than three years; and,
- Notwithstanding the above, each manager is allowed to hold a maximum of five percent of the portfolio in bank loans.

Emerging Market Debt Managers

The guidelines listed below shall apply to all Emerging Market Debt portfolios, unless otherwise

specifically noted:

- No single debt security shall constitute more than six percent of the global bond portfolio, as determined at the time of purchase;
- Each manager may hold a maximum of five percent of the portfolio in bank loans;
- No industry, as defined by the J.P. Morgan Emerging Markets Bond Global Index (“JPM EMBI Global”) Index, will comprise more than 25 percent of the market value of the portfolio, as determined at the time of purchase;
- Short-term reserves may be held in U.S. dollar denominated or local currency securities or investment vehicles available through the Retirement System’s Custodian;
- Managers may invest in securities issued in any currency and may hold foreign currency. Managers may hedge all or a portion of their currency exposure through the use of foreign currency exchange contracts, including non-delivery forward foreign exchange contracts and cross hedges. Managers may invest in currency-linked non-leveraged structured notes;
- Decisions as to the number of issues held and their geographic distribution shall be the responsibility of the investment manager;
- Common stock may only be held if it is acquired as a result of: financial restructuring, bankruptcy, or from an exchange or conversion of a permissible security held in the portfolio; and,
- From time to time, the Commission, upon the recommendation of the Consultant and CIO, may combine the allocations to U.S. High Yield and Emerging Market Debt to an overall portfolio that includes Global Bonds. Such a manager would be expected to manage in the spirit of the guidelines set forth above.

Alternative Asset Managers

The guidelines listed below shall apply to all Alternative portfolios, as defined in the SIP, which includes Global Asset Allocation, Absolute Return, Opportunistic Alpha, Private Equity, Opportunistic Credit, Real Assets and Real Estate:

- The Commission shall only invest in alternative assets when there is sufficient transparency and policy compliance reporting. Thus, extensive due diligence shall be taken in evaluating and fully understanding all aspects of an alternative investment opportunity;
- It is expected that the managers selected to provide the Portfolio’s Absolute Return, Opportunistic Alpha, Private Equity, Opportunistic Credit, Real Estate and some Real Assets exposures will operate in the form of a partnership, commingled vehicle, or separately managed account. The policies of these managers will be dictated by the documents governing these relationships;
- The Commission’s initial commitment to a partnership/fund shall not exceed 25 percent of the committed capital of that partnership/fund, unless the Commission specifically suspends this restriction in order to take advantage of a new firm or product that has not yet built an asset base or in the case where the partnership/fund has been created specifically for RSIC.
- All partnership investments must have a mechanism with a timetable for exit. Other Alternative Investments should have reasonable and well-defined policies for withdrawal of funds from their strategies;
- No more than 25 percent of the long-term targeted alternative asset investment allocation may be invested with a single manager, general partner, or single fund, with the exception of a Fund-of-funds and a Strategic Partnership;
- Preference will be given to those funds where the general partner equivalent is contributing at least one percent of the capital of the total fund; and

- A reference check on a general partner equivalent must be performed prior to investing in a fund. This reference check can be completed and reported by the Consultant, or other service provider, subject to review and approval by the Staff.

PERFORMANCE OBJECTIVES AND MONITORING

General Guidelines

The Commission, CIO, and Staff shall monitor and evaluate manager performance using the following resources:

- Monthly performance reports;
- Quarterly Investment Performance and Portfolio Analyses;
- Ongoing manager due diligence and quarterly updates with each manager;
- Other analyses as needed.

Performance Benchmarks

The performance objectives for the Portfolio's asset classes are specified below. Each asset category defines the Manager and Strategy Benchmarks, as well as the Policy Benchmarks. Individual manager performance within those composite asset classes will be judged against individual or blended performance benchmarks, specified in their mandate when they are hired. The Policy benchmarks for composite asset classes will be blended based upon the appropriate target weights of the underlying asset classes.

Summary of Investment Benchmarks		
Equities	Manager ¹ & Strategy Benchmark	Policy Benchmark
U.S. Large Cap Growth	Russell 1000 Growth	S&P 500
U.S. Large Cap Value	Russell 1000 Value	S&P 500
U.S. Large Cap Core	Russell 1000	S&P 500
U.S. Large Cap Core (Indexed or Enhanced)	S&P 500	S&P 500
U.S. Midcap Growth	Russell Midcap Growth	Russell 2500
U.S. Midcap Value	Russell Midcap Value	Russell 2500
U.S. Midcap	Russell Midcap	Russell 2500
U.S. Small/Mid Cap Growth	Russell 2500 Growth	Russell 2500
U.S. Small/Mid Cap Value	Russell 2500 Value	Russell 2500
U.S. Small/Mid Cap Core	Russell 2500	Russell 2500
U.S. Small Cap Growth	Russell 2000 Growth	Russell 2500
U.S. Small Cap Value	Russell 2000 Value	Russell 2500
U.S. Small Cap Core	Russell 2000	Russell 2500
International Equity	MSCI EAFE Net	MSCI EAFE Net
Emerging Markets Equity	MSCI EME Net	MSCI EME Net
Fixed Income		
Core Fixed Income	Barclays Capital (BC) U.S. Aggregate	Barclays Capital U.S. Aggregate
Global Fixed Income	Barclays Capital Global Aggregate	Barclays Capital Global Aggregate
High Yield Fixed Income	Barclays Capital High Yield	Barclays Capital High Yield
Emerging Markets Debt	J.P. Morgan EMBI Global Diversified	J.P. Morgan EMBI Global Diversified
Alternatives		
GAA		
GTAA	50% MSCI World; 50% S&P/Citi WGBI	50% MSCI World; 50% S&P/Citi WGBI
Risk Parity	50% MSCI World; 50% S&P/Citi WGBI	50% MSCI World; 50% S&P/Citi WGBI
Opportunistic Credit	Blended Benchmark ²	Blended Benchmark ²
Opportunistic Alpha	HFRX Global Hedge Fund Index	HFRX Global Hedge Fund Index
Private Equity	Venture Economics	Venture Economics
Real Assets		
Real Estate	NCREIF	NCREIF
Liquid Real Assets ³	UBS/DJ Commodity	UBS/DJ Commodity
Cash		
Short Duration Fixed Income	90 Day Treasury Bills	90 Day Treasury Bills
	Merrill Lynch U.S. Treasuries 0-3 Year Index	Merrill Lynch U.S. Treasuries 0-3 Year Index

¹ Manager benchmarks will be determined by their IMA.

² Blended benchmark is comprised of 1/3 Barclays Capital High Yield, 1/3 S&P/LSTA Leveraged Loan Index and 1/3 Barclays Capital MBS Index.

³ Effective December 1, 2010 as amended by the Retirement System Investment Commission on November 18, 2010.

Manager Evaluation

The Commission believes that the most important factors in manager evaluations are the philosophy of the particular investment management strategy, coupled with the consistency of process by which the philosophy is implemented. In reviewing these factors, the following measures will be applied to the manager evaluation process:

- Each manager's portfolio shall be measured over various and appropriate time periods;
- A horizon of 3-7 years shall be used in measuring the long-term success of the Portfolio;
- Shorter time periods shall be evaluated as appropriate and necessary. The Commission shall make every effort to look at all factors influencing manager performance, and attempt to discern market cyclicality from manager over/underperformance;
- On a timely basis, at least quarterly, the Commission will review actual investment results achieved by each manager (with a perspective toward a three to five-year time horizon or a peak-to-peak or trough-to-trough market cycle) to determine whether the investment managers performed satisfactorily when compared with the objectives set and in relation to other similarly managed funds; and
- A periodic re-evaluation will involve an assessment of the continued appropriateness of: (1) the manager structure and/or strategy; (2) the allocation of assets among the managers; and (3) the investment objectives for the Portfolio's assets.

Passive Investment Managers

Index fund managers are expected to approximate their specified benchmark returns (i.e. S&P 500) over rolling one-, three-, and five-year periods. Fund returns should closely track the index returns over quarterly periods. These passive managers are also expected to maintain a risk level, as measured by the standard deviation of quarterly returns, which closely tracks that of their underlying index.

Active Investment Managers

All active investment managers of publicly traded securities, (all styles and capitalization, domestic and foreign, fixed income, equity and alternatives, developed and emerging), are expected to achieve returns that exceed their benchmark returns over three and five-year rolling periods. The manager's returns should also exceed the median in a universe of comparable asset managers over rolling three and five-year periods. Any returns achieved in excess of a manager's benchmark should be commensurate with any additional risk assumed.

Non-Core Fixed Income

Investment managers that are included within the non-core Fixed Income category may be measured against a single or blended benchmark. That determination will be based on the level of discretion granted to a manager to significantly deviate from a single, traditional asset class. The benchmark selected for comparison will closely match the characteristics of the underlying assets. The Policy benchmarks for each component of the non-core Fixed Income asset class are outlined as follows: Global Bonds are measured against the Barclays Capital Global Aggregate; High Yield Fixed Income is measured against the Barclays Capital High Yield; and Emerging Market Debt is measured against the J.P. Morgan EMBI Global Diversified Bond Index.

Global Asset Allocation (GAA)

The GAA allocation will include accounts managed to either a GTAA or a Risk Parity mandate. Regardless of the manager's strategy, the RSIC will use a blended benchmark composed of 50% MSCI World Stocks and 50% Citigroup World Government Bond Index

(WGBI). It is understood that most Risk Parity managers do not use these benchmarks, and that the performance of these managers will not be judged solely based upon their performance relative to this benchmark.

Opportunistic Credit

The Opportunistic Credit category is not a traditional asset class with a standard benchmark. An allocation to Opportunistic Credit evolved from the market dislocations resulting from subprime and related credit and liquidity concerns. Given there is no traditional Opportunistic Credit benchmark available on a monthly basis, the Commission approved a blended benchmark of 1/3 Barclays Capital High Yield, 1/3 S&P/LSTA Leveraged Loan Index and 1/3 Barclays Capital MBS Index to judge relative performance.

Private Equity

Private Equity investment manager returns will be calculated using two separate methodologies. For purposes of calculating Portfolio Returns, a time-weighted methodology will be employed for consistency with other asset classes and to conform to industry best practices. To comply with CFA Institute Global Investment Performance Standards (GIPS™), manager returns will also be calculated using an internal rate of return (“IRR”), cash flow method. Managers should provide a rate of return that exceeds the Venture Economics Universe median return for the past five years. Any performance analysis should include performance comparisons by vintage year within each investment strategy.

Real Estate

Real Estate investment managers will be expected to provide a risk adjusted return that exceeds the NCREIF property index. The NCREIF Property Index (NPI) is a large pool of individual commercial real estate properties acquired in the private market for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors.

Liquid Real Assets

The Liquid Real Asset Managers will be expected to provide a risk adjusted return that exceeds the asset classes blended policy benchmark, which is comprised of 50% Dow Jones UBS Commodity Index (DJ/UBS) and 50% Barclay’s Capital World Government Inflation Linked Bonds Total Return Hedged USD Index (BC WGIL). The DJ/UBS is comprised of a basket of agricultural, energy, livestock, industrial and precious metal commodity futures.

Portfolio Performance Benchmarks

Portfolio Return

The Portfolio’s total return should under ideal circumstances meet or exceed the Strategy Benchmark Index return and the Policy Benchmark Index return, which are each described below. The Commission shall seek to compare its returns against other funds of similar size and circumstances.

Strategy Benchmark Index

The Strategy Benchmark Index return shall measure the success of the Portfolio’s current or tactical allocation. It shall be calculated by using index rates of return for each asset class invested in by the Portfolio multiplied by the actual percent allocated to each asset class. The difference between the Strategy Benchmark Index return and the Portfolio return measures the

effect of active management. If the Portfolio return is greater than the Strategy Benchmark Index return, then active management has in aggregate added value. If the Portfolio return is less than the Strategy Benchmark Index return, then active management has not added value.

Policy Benchmark Index

The Policy Benchmark Index return shall measure the success of the Portfolio's target allocation. It shall be calculated by using index rates of return for each asset class invested in by the Portfolio multiplied by the percent targeted to each asset class. The difference between the Strategy Benchmark Index return and the Policy Benchmark Index return measures the effects of deviating from the target allocation. If the Strategy Benchmark Index return is greater than the Policy Benchmark Index return, then deviating from the target allocation has added value. If the Strategy Benchmark Index return is less than the Policy Benchmark Index return, then active management has not added value.

MANAGER REPORTING REQUIREMENTS

Staff is engaged in a project to formalize reporting policies, procedures and tools designed to assist Staff in gathering, monitoring, and tracking each managers' compliance with investment guidelines and other reporting criteria as outlined below. Once the project is completed, the tools will be put into practice to formally test manager compliance.

Policy Compliance

Managers must disclose to the CIO and all designated Staff member(s) any deviation from or violation of the Investment Guidelines described in the Annual Investment Plan (AIP), Statement of Investment Policies (SIP) and Statement of Investment Objectives (SIO) as soon as the manager is aware their portfolio is not in compliance. Any guidelines specified within individual Investment Management Agreements (IMA) supersede the general guidelines mentioned above. The timing, duration, and resolution to any policy violation must be disclosed.

Managers must promptly inform the CIO and assigned Staff member(s) of all significant matters pertaining to the investment of the fund assets, for example:

- Changes in investment strategy, Portfolio structure, and market value of managed assets;
- Changes in the ownership affiliations, organizational structure, financial condition, professional personnel staffing, and clientele of the investment management organization; and
- Any material changes in the liquidity of the securities they hold in the Retirement System's Portfolio.

Managers shall provide a quarterly summary of the following:

- Guideline compliance;
- Brief review of investment process;
- Discussion of any changes to the investment process;
- Investment strategy used over the past year and underlying rationale;
- Evaluation of strategy's success/disappointments; and
- An assessment of the current liquidity of the portfolio and the market(s) in which the portfolio is invested.

Investment Performance Review

The following quarterly reporting requirements shall apply to all managers:

- Provide total partnership, asset class and individual fund returns as a monthly time series, for the last quarter, year-to-date, last year, three-years, five-years, and since inception versus designated benchmarks. All performance data shall be presented in compliance with CFA Institute Global Investment Performance Standards (GIPS™);
- Discuss performance relative to benchmarks including sector attribution; and
- Provide Portfolio characteristics relative to benchmark.

Portfolio Holdings/Characteristics

The following quarterly reporting requirements shall apply to all traditional asset class managers:

- Original cost (stocks) or amortized cost (bonds) and current market value for all securities held;
- List individual securities by:

- Russell's sectors for domestic equities;
- Country and industry within country for international equities;
- Sector for domestic fixed income; and
- Country for international equities and global bonds.
- Any other specific data elements or metrics requested by Commission Staff.

Derivatives Review

The following quarterly reporting requirements shall apply to all managers:

- A list of all derivative positions as of quarter-end;
- An assessment of how the derivative positions affect the risk exposures of the total portfolio;
- An explanation of any significant pricing discrepancies between the manager and Custodian;
- An explanation of any non-compliance; and
- For all managers of commingled funds, a list of derivative positions and assessment of the effect on the risk exposure of the Portfolio.

Risk Review

The following annual requirements shall apply to all managers:

- A description of the investment and operational risk management policies, procedures and controls employed by the firm/portfolio manager to mitigate identified risks;
- A description and assessment of identified risks should include market, credit, liquidity, leverage, counterparty, model, operational, and any other risks, when available.

Managers will provide quantitative risk metrics on a periodic basis, when requested. The data requested will vary depending upon the asset class and the capabilities of each manager.

Ethics Report

Managers shall annually report their standing policies with respect to ethics and professional practice within 45 days after the end of each calendar year.

Managers shall annually attest to and report compliance with our governing documents (AIP, SIP, SIO and IMA), as well as S.C. Code §9-16-360(B), as amended (Statutory Standards of Conduct), or the substantial equivalent as set forth in the Manager's contract with the Commission. Managers shall also disclose any CFA charterholders employed by the firm disciplined by the CFA Institute.

Managers shall disclose all pertinent information regarding any and all regulatory findings and/or litigation in which it is involved.

Commissions/Trading Report

Each long-only asset class manager shall provide an annual commission report to be delivered to the Staff and Consultant within forty-five days after the end of each calendar year. The report shall cover all trades executed during the prior calendar year. Each annual commission report should include the following:

Broker Selection Policy: Discussion of the firm's policy for selecting brokers, reviewing brokers, and negotiating brokerage commissions. This should include identification of any

situations where the investment manager has a financial interest in brokers used to execute trades in the Portfolio as well as a list of all broker-dealers used by the firm.

Commission Expense: Provide a review of the Portfolio's actual commission expenses over the prior year. At minimum, this should be broken down by broker and include a distinction between commissions on listed versus unlisted securities, average commission per share, total shares traded, total commission expense, and total trading volume.

Transaction Cost Analysis: If the firm has a system for monitoring total transaction costs, commissions plus market impact, a copy of this analysis should be provided. If no such system is being used, the commission report should include a complete explanation of how the firm monitors selected brokers for best execution.

Soft Dollar Report

Each manager shall complete an annual soft dollar report to be delivered to the Staff and Investment Consultant within forty-five days after the end of each calendar year. The report shall include the following:

- A discussion of the firm's soft dollar policy, including how the investment manager ensures its clients of full disclosure, record keeping, and consistency of soft dollar information;
- A discussion on how the investment manager determines that a service can be paid with soft dollars and how the investment manager allocates mixed-use research (services that are not 100 percent used in the investment decision-making process). If less than 100 percent of the research and/or services are used in the investment decision-making process, the Investment Manager should only pay for the portion attributed to assisting in the investment decision-making process;
- A discussion of the procedures in place to assure that any research and/or services purchased by the firm with soft dollars are used for the benefit of the Retirement System's plan participants;
- A listing of all soft dollar brokers and their payout ratios;
- A report identifying any goods and services, including proprietary research, purchased by the manager with soft dollars over the past year. This should include soft dollars generated by agency and principal transactions, as well as any soft dollar credit given to manager due to principal transactions that do not have an overt commission per share cost. This report should provide, at a minimum, the cost and description of the goods and services purchased;
- Verification that the percentage of commissions paid to soft dollar brokers is less than or equal to the percentage of the total of similarly managed assets of the investment manager; and
- The Commission and its investment managers shall use the definition of soft dollars and research from the CFA Institute Soft Dollar Standards:

(1) Definition of Soft Dollar Arrangements

(a) Proprietary, In Addition to Third-Party, Research

Traditionally, soft dollar arrangements are understood to address those products or services provided to the investment manager by someone other than the executing broker, commonly know as "third-party" research. Such an approach is deficient in light of the range of products and services provided by both third-party research providers and "in-house" research departments of brokerage firms. Thus, any meaningful standards must also recognize the importance

of research provided by the executing broker, commonly known as "proprietary" or "in-house" research.

For purposes of these Standards, "soft dollar arrangements" include proprietary, as well as third-party, research arrangements and seek to treat both categories the same. While the Standards do not suggest an "unbundling" of proprietary research, they do require the investment manager to provide certain basic information regarding the types of research obtained with client brokerage through proprietary research arrangements. Moreover, the Standards should not be read as to require research obtained either through third-party or proprietary arrangements to be attributed on an account-by-account basis, or otherwise to require a "tracing" of products or services.

(b) Principal, In Addition to Agency, Trades

Traditionally, the term "soft dollars" refers to commissions generated by trades conducted on an agency basis. However, such an approach fails to recognize that research may be obtained through the use of "spreads" or "discounts" generated by trades conducted on a principal basis. For purposes of these Standards, soft dollar arrangements include transactions conducted on an agency or principal basis.

(2) Definition of Research

Traditionally, "allowable" research in the soft dollar context is evaluated by whether it provides lawful and appropriate assistance to the investment manager in the investment decision-making process. This approach, however, leaves CFA Institute Members with inadequate guidance.

Consequently, these Standards embrace a definition of research that requires the primary use of the soft dollar product or service to directly assist the investment manager in its investment decision-making process and not in the management of the investment firm.

Proxy Voting Report

Reports shall be provided by the investment managers to the CIO and Staff on an annual basis summarizing Proxy Voting over the previous fiscal year. The report shall detail any changes that have occurred in the Commission's Proxy Voting practices, and note any instances where proxies were not voted in accordance with the best interest of the Retirement System's plan participants.

OTHER REPORTING REQUIREMENTS

Periodic Trading Study

The Commission will seek to obtain a trading analysis performed by an independent third-party. The analysis shall cover:

- Broker Usage;
- Commissions Paid;
- Trading Effectiveness; and
- Any other relevant trading-related information.

Securities Lending Report

The objectives of the Securities Lending program is to lend securities using the Custodian or, if applicable, other vendor's services, to generate incremental income to the respective asset classes. While securities lending programs are considered relatively low risk, there are risks including: Borrower or counterparty risks, concentration risks, collateral risks, interest rate risk, maturity risks, and operational risks. The Commission, together with the State Treasurer's Office (STO) has created a separately managed account and entered into a Securities Lending Agreement and Guarantee to address these risks. This agreement describes the indemnification provisions, investment guidelines and terms of the lending, including the maturity of loans and types of securities purchased. It also addresses the liquidity provisions and risks, frequency of marking the collateral to market, and the agreed upon split of investment proceeds.

Notwithstanding this agreement, the Custodian has been directed to modify its provisions concerning eligible borrowers and the acceptable maturity of cash collateral investments. The borrowers must be from a select list of broker/dealers and cash collateral must be invested in overnight Government/Agency repurchase agreements.

The Fixed Income Staff shall be responsible for reporting as requested the details of the Securities Lending Programs to the CIO. The reports should include:

- The annual lending activity and income earned, an average volume of securities lent by broker, asset category;
- Manager account, summarized for each month during the quarter (including year-to-date statistics);
- A list of Portfolio holdings, with Portfolio-level statistics, for each month-end, including market values, cost, maturity, duration, yield-to-maturity, and credit quality;
- The monthly net income earned as a percentage of the average loan balances, designed to measure the return on loans by asset category;
- The net income earned as a percentage of the lending asset base (defined below) in each category;
- The average monthly gross spread in each asset category;
- The average market value of the assets available for lending each month (lending asset base) by asset category;
- The average monthly loan balances as a percentage of the average monthly lending asset base in each category;
- The monthly average maturity of the collateral portfolio and the broker loan portfolio; and

Internally Managed Portfolios Review

The Commission will annually conduct an analysis of any internally managed portfolios. The

analysis shall cover:

- Performance versus the underlying benchmark;
- Tracking error versus the underlying benchmark;
- Performance versus the median active manager for the relevant asset class;
- Assets under management and asset growth since inception;
- Any change in process;
- Any change in personnel;
- Any material events since the previous report; and
- An independent performance review (with inputs provided by the Custodian)