RSIC

Retirement System Investment Commission
1201 Main Street, Suite 1510, Columbia, SC 29201

NOTICE OF PUBLIC MEETING

This notice is given to meet the requirements of the S.C. Freedom of Information Act and the Americans with Disabilities Act. Furthermore, this facility is accessible to individuals with disabilities, and special accommodations will be provided if requested in advance.

RETIREMENT SYSTEM INVESTMENT COMMISSION
STRATEGIC PLANNING RETREAT
Date: June 16-17, 2014
Location: Wampee Training and Conference Center
1274 Chicora Drive
Pinopolis, South Carolina 29461
Meeting Location: Conference Room

AGENDA

Meeting Convenes Monday, June 16, 2014 at 10:30 a.m.

I. Call to Order
   a. Adoption of Proposed Agenda

II. Investment Beliefs – 10:30 a.m.

Lunch – 12:00-1:00 p.m.

III. SC Private Equity – 1:00 p.m.

IV. Asset Class Plans – 2:00 p.m.

V. Executive Session to discuss investment matters and receive legal advice pursuant to S.C. Code Ann. Sections 9-16-80 and 9-16-320 – 4:00 p.m.

Meeting to Reconvene Tuesday, June 17, 2014 at 8:30 a.m.

I. Call to Order

II. Chairman's Report – 8:30 a.m.
   a. Commission Evaluation

III. Strategic Plan – 8:45 a.m.

IV. Audit Committee Report – 10:30 a.m.

V. Enterprise Risk Management Update – 10:40 a.m.

VI. Compensation Committee Report – 11:05 a.m.

VII. CIO's Report – 11:10 a.m.
   a. Performance Update
   b. Risk Report
   c. Integrity Consent

VIII. HEK Service Provider Review – 12:00 p.m.

IX. Adjournment

INVESTMENT PRINCIPLES [Commission Draft 2]

SOUTH CAROLINA RETIREMENT SYSTEM INVESTMENT COMMISSION

The Commission establishes and adopts the following fundamental principles as the foundation for the management of Plan assets:

1. The mission of the Commission is to manage the assets of the Plan in a prudent manner for the sole benefit of Plan participants. The Commission is ultimately accountable to Plan beneficiaries.

2. The Plan's consolidated status, determined primarily by the amount and duration of expected benefit payments, will be the basis for management of Plan assets.

3. Organizational structure will support and influence the implementation of the Commission's mission through a strong governance body, optimal leadership, and efficient management of resources, all toward the core portfolio management components of *people, process,* and *performance*.

   a) All representatives of the Commission should be performance oriented, intellectually curious, professional, humble, respectful, and ethical.

   b) The investment decision making process is a research- and fact-based discipline intended to inspire the continuous search for opportunity and value while encouraging creativity, conviction, accountability, and responsibility.

   c) Performance will be derived from expert knowledge supporting calculated risks, in the context of a diversified portfolio, with the expectation that the portfolio will be compensated for investment risks.

4. Investment risk is acknowledged as a complex dynamic that requires multiple perspectives for measurement and management, and risk includes the absolute possibility of periodic negative returns.

5. Implementation of the Plan's investment strategy will be guided by the core goals and constraints of:
   a) sufficient liquidity for benefit payments;
   b) return expectations commensurate with the risks assumed;
   c) an investment horizon integrally linked to the duration of Plan liabilities; and,
   d) the expectation of a net positive impact on the funding status.

6. Asset allocation is considered the primary determinant of performance variance over the long term investment horizon; thus, asset allocation is also the primary mechanism for maintaining balance and diversification.

7. Portfolio decisions will incorporate optimal use of available resources and include consideration of the capabilities, costs, and benefits associated with internal vs. external management, public vs. private markets, legal structures, and active vs. passive management.

8. Investment success will always be measured in both absolute and relative terms and across multiple contexts and periods. Primary contexts are absolute plan performance, risk-adjusted performance, returns relative to policy and market segment benchmarks, and returns relative to the Plan's actuarial assumptions. At the most fundamental level, the Plan is expected to produce prudent risk-adjusted returns across market cycles.

9. Philosophically and practically, the prospects for long term investment success are greatly enhanced with the incorporation of an opportunistic approach to markets, acknowledgment of RSIC as a long term capital provider, a willingness to question and understand complexity, the requirement for honest debate, and the discipline to rigorously question assumptions, biases, and unintended risks.

10. While maintaining a core focus on the Commission's mission and strategic mandate, a policy of open engagement will guide dialogue with indirect stakeholders and external parties.

RSIC Investment Principles [Redline to "Commission Draft 2"]

The Commission establishes and adopts the following fundamental principles as the foundation for the management of Plan assets:

1. The mission of the Commission is to manage the assets of the Plan in a prudent manner for the sole benefit of Plan participants. The Commission is ultimately accountable to Plan beneficiaries.~~Organizational and portfolio structure should always be managed prudently for the benefit of all Plan participants and their survivors.~~

2. The Plan's consolidated status, determined primarily by the amount and duration of expected benefit payments, will be the basis for management of Plan assets.

3. Organizational structure will support and influence the implementation of the Commission's mission through a strong governance body, optimal leadership, and efficient management of resources all toward the core portfolio management components of *people, process,* and *performance*.
    a) All representatives of the Commission should be performance oriented, intellectually curious, professional, humble, respectful, and ethical.
    b) The investment decision making process is a research- and fact-based discipline intended to inspire the continuous search for opportunity and value while encouraging creativity, conviction, accountability, and responsibility.
    c) Performance will be derived from expert knowledge supporting calculated risks, in the context of a diversified portfolio, with the expectation that the portfolio will be compensated for investment risks.

~~2. Human, technology, and financial resources should be managed to reflect the highest and best use of both internal and external resources consistent with the constraints inherent to the Plan. Intellectual capital is a core element of the process, as it is highly valued as the most significant source of value and performance, and should be developed and retained in order to be successful.~~

4. Investment risk is acknowledged as a complex dynamic that requires multiple perspectives for measurement and management, and risk includes the absolute possibility of periodic negative returns.

5. Implementation of the Plan's investment strategy will be guided by the core goals and constraints of:

   a) sufficient liquidity for benefit payments;

   b) return expectations commensurate with the risks assumed;

   c) an investment horizon integrally linked to the duration of Plan liabilities; and,

   d) a positive impact on the funding status.

~~3. The investment strategy must incorporate the combination of the structure of the Plan's liabilities, risk profile and assets. Accordingly, preservation of capital, income generation, and capital appreciation are the three equally important but competing demands on the assets of the Plan. The provision of sufficient liquidity to pay benefits is the ultimate constraint governing risk management of the Plan.~~

~~4.~~6. Asset allocation is considered the primary determinant of performance variance over the long term investment horizon; thus, asset allocation is also the primary mechanism for maintaining balance and diversification.~~Asset allocation is the dominating determinant of performance variance over the long term investment horizon. Taking risk is required to achieve the goals of the Plan; therefore, the Plan may periodically experience negative returns. Diversification across and within asset classes can spread the volatility of economic outcomes, reducing the adverse effects of most negative market environments.~~

7. Portfolio decisions will incorporate optimal use of available resources and include consideration of the capabilities, costs, and benefits associated with internal vs. external management, public vs. private markets, legal structures, and active vs. passive management.

~~5. Markets are cyclical, creating variability of returns. A sound and flexible research-oriented investment strategy is required to potentially capture higher risk adjusted returns over time.~~

~~6. A global, opportunistic approach to dislocated markets, special situations, and/or stressed assets is consistent with the long time horizon of the Plan, so it can be prudent to allocate a portion of the Plan to illiquid investments.~~

8. Investment success will always be measured in both absolute and relative terms and across multiple contexts and periods. Primary contexts are absolute plan performance, risk-adjusted performance, returns relative to policy and market segment benchmarks, and returns relative to the Plan's actuarial assumptions. At the most fundamental level, the Plan is expected to produce prudent risk-adjusted returns across market cycles.

~~7.~~9. Philosophically and practically, the prospects for long term investment success are greatly enhanced with the incorporation of an opportunistic approach to markets, acknowledgment of RSIC as a long term capital provider, a willingness to question and understand complexity, the requirement for honest debate, and the discipline to rigorously question assumptions, biases, and unintended risks.~~An entrepreneurial mindset is necessary to support and encourage an opportunistic approach to capital markets, as is a properly aligned organizational structure, culture, and operational capacity. Cultivating partnerships with like-minded investors is critical to implementing this investment strategy.~~

~~8.~~10. While maintaining a core focus on the Commission's mission and strategic mandate, a policy of open engagement will guide dialogue with indirect stakeholders and external parties.~~A policy of open engagement is the best approach for constructive dialogue with broader stakeholders and interested parties.~~

RSIC Organizational Statements and Principles

June 16-17, 2014

Agenda

1. Review and confirm RSIC Mission, Vision, and Values

2. Review and adopt Investment Principles

Mission

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

Vision

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

Values

Integrity

The Commission will conduct itself with integrity by upholding the highest standards of fiduciary responsibility on behalf of the Retirement Systems, participants and beneficiaries.

Accountability

The Commission will be accountable to the Retirement Systems, participants and beneficiaries for its ethical conduct and for compliance with its fiduciary responsibilities through a commitment to industry best practices of credibility, stewardship and transparency.

Empowerment

The Commission will encourage constituents at all levels to make decisions consistent with the organization's policies, goals and objectives.

Innovation

The Commission will use creative and independent thinking in its analyses, engagement processes and decision making to develop evolving investment practices and strategies that integrate the values, goals and mission of the organization.

Collaboration

The Commission will pursue the goals of openness, teamwork, equality and relationship building to formulate strategies, increase performance and maximize knowledge transfer for the benefit of the plan.

Principle (def.) -

A basic truth; an idea that forms the basis of something

(Merriam-Webster, m-w.com)

- What is "something" in the context of RSIC?
- Search for a common basis of understanding.
- Incorporate *ideas* that can serve and be implemented as practical investment guidelines.
- Use care when incorporating non-investment structural inputs as measures of success. For example, investment performance is only one variable that changes the funding ratio.
- Avoid: policies, analyses, specific implementations, references to specific strategies or benchmarks, current market conditions, etc. These things naturally change over time.
- The resulting document should be a "timeless" investment doctrine.

Recommended Components

The following components can be structured with a natural order or flow:

1. Accountable to beneficiaries
2. Structural elements that influence investments (i.e. liabilities, funding ratio)
3. Horizon, constraints, expectations (compensation for risk or as capital provider)
4. People (culture), Process, Performance (Portfolio)
5. Diversification (unique asset classes); Asset allocation (optimal balance of asset classes)
6. Organization and portfolio structure (governance, resources, accountability, etc.)
7. Implementation (active/passive, internal/external, opportunistic, legal structure, etc.)
8. Organizational character (entrepreneurial, opportunistic, trust, respect, equitable/fair, quality, etc.)
9. Extrinsic inputs (external engagement with indirect stakeholders)

Revised Draft (1)

1. The mission of the Commission is to manage the assets of the Plan in a prudent manner for the sole benefit of Plan participants. The Commission is ultimately accountable to Plan beneficiaries.
2. The Plan's consolidated status, determined primarily by the amount and duration of expected benefit payments, will be the basis for management of Plan assets.
3. Organizational structure will support and influence the implementation of the Commission's mission through a strong governance body, optimal leadership, and efficient management of resources, all toward the core portfolio management components of people, process, and performance.
   a) All representatives of the Commission should be performance oriented, intellectually curious, professional, humble, respectful, and ethical.
   b) The investment decision making process is a research- and fact-based discipline intended to inspire the continuous search for opportunity and value while encouraging creativity, conviction, accountability, and responsibility.
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Revised Draft (2)

4. Investment risk is acknowledged as a complex dynamic that requires multiple perspectives for measurement and management, and risk includes the absolute possibility of periodic negative returns.

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Revised Draft (3)

7. Portfolio decisions will incorporate optimal use of available resources and include consideration of the capabilities, costs, and benefits associated with internal vs. external management, public vs. private markets, legal structures, and active vs. passive management.

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10. While maintaining a core focus on the Commission's mission and strategic mandate, a policy of open engagement will guide dialogue with indirect stakeholders and external parties.

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Memo

To: **Retirement System Investment Commission**

From: Brady O'Connell, Amy Hauke, Eric Denneny

Date: June 9, 2014

Re: In-State Private Equity Program Discussion

The staff of the South Carolina Retirement System Investment Commission (RSIC) asked Hewitt EnnisKnupp (HEK) to explore the merits and potential concerns of creating an in-state private equity program. In our discussion below we articulate these merits and considerations based on both our experience in investment selection as well as an advisor to other clients with targeted programs. If the program is ultimately created, we touch briefly upon potential avenues of implementation, which would increase the program's likelihood of success as well as reduce any potential perceptions of conflicts of interest.

We define any program with geographic or other constraints (manager size, ownership) as "in state" and these can be focused on specific states or regions. These programs are also sometimes referred to as economically targeted investments (ETIs).

Merits

- Geographically targeted private equity investments may create jobs and economic growth within a state or region.
- In addition to contributing to local economic activity, establishing a program may please beneficiaries or other stakeholders who wish to establish such a program.

Considerations

- There can be a limited availability of investment choices, which may hinder a program's ability to effectively deploy capital. We think this is the biggest challenge for most focused programs: is there a robust enough opportunity set from which to create a high-performing portfolio?
  - Our preliminary search using the Preqin database produced only several fund managers with primary or secondary office locations in South Carolina.[1] This highlights investment opportunity limitations for an in-state program.
  - Can the Commission expect to be successful if there are not many different funds from which to choose in the state or region?

[1] This list does not include Azalea Capital (currently being evaluated) or another manager which we had turned down previously for another client; we wanted to illustrate the universe of managers outside of the current portfolio but excluding managers we would not recommend based on current views. We also eliminated venture capital firms from this list.

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- It is worthy to note that investing in any in-state funds cannot guarantee RSIC's limited partner capital would be invested in companies within South Carolina or invested in companies that produce a positive externality to the South Carolina economy.
  - Even managers based in South Carolina do not exclusively focus on deals located in their home state or deals that create jobs in South Carolina.

- Casting the potential mandate as a broader, regional focus, does change the picture. If we expanded the database search to funds managed by firms located in the South Atlantic United States, the Preqin database would produce a list of 260 managers. Expanding the investment search to funds located in the South Atlantic could create more investment choices, however it is not clear that this approach would achieve the potential goals of the program, which would focus on in-state investments or investments that would foster economic growth more locally.

- Fiduciary issues are a very important consideration. Decision-makers need to assure themselves that any investments made through special ETI programs offer the same or better risk-return tradeoff than other investments that are not specifically in-state. That is, investors cannot accept a lower asset return in exchange for the broader economic benefit.

- In-state programs can create conflicts of interest for staff and board evaluating these investments or create a perception for beneficiaries that investments are chosen based on aspects beyond investment merit.

Avenues of Implementation
If an in-state program is ultimately created, we would recommend consideration of outsourcing the program, which would eliminate any perceptions of conflicts of interests for staff and Commission from a governance perspective. In addition, creating and managing an in-state program could be time intensive, thus outsourcing it would be a good approach from a resource management perspective. In our opinion, it would also be best to have an experienced general partner source, underwrite, and manage each co-investment should such investments be included in the program.

It is important to note that the absence of an in-state or regionally-focused program does not prevent or preclude the program from making investments in South Carolina-based partnerships. In fact, the Commission has made such investments, they are simply measured up against the broader opportunity set and made when they offer compelling investment merits. Continuing this current practice could result in additional investments focused on South Carolina or the broader South Atlantic region.

Peer Practices
Many of your peer public institutions have created in-state programs, including the following:

- CalPERS
- CalSTRS
- MassPRIM

- New York City
- PSERS
- Texas (Texas Growth Fund)
- Washington State Investment Board (“WSIB”)
- State of Wisconsin Investment Board (“SWIB”)

The more successful in-state programs tend to reside in the larger states. We have passed along an article that points to programs that have struggled in states like Connecticut, Pennsylvania, Alaska, Kansas, and Vermont. It is unclear whether these programs fail because they are too narrowly focused or subject to undue political pressure or conflicts of interest.

A SURVEY OF
ECONOMICALLY TARGETED INVESTMENTS:
OPPORTUNITIES FOR PUBLIC PENSION FUNDS

A report for the Vermont State Treasurer
And the State Retirement Boards

Prepared by Doug Hoffer

February 16, 2004

Introduction

This report was prepared for the State Treasurer in response to a request by the legislature. Specifically, the State Treasurer was asked to "conduct a review of how, and to what degree, other states and governmental entities invest pension fund assets in in-state venture capital funds and other investment opportunities so as to promote economic growth and job creation." [Act 66, Sec. 40(b)]

The request by the legislature recognizes that public pension fund investments can have impacts beyond the rate of return. Historically, investment policies -- and fiduciary responsibilities -- were narrowly construed so that the secondary impacts of investments were not deemed relevant. More recently, however, elected officials, trustees, and analysts have recognized that in some cases it is both socially responsible and prudent to consider such impacts (sometimes referred to as the "double bottom line").

As financial markets and economic conditions have changed, traditional sources of credit are no longer available for certain types of investments (or are not available in sufficient quantity). Some of these financing gaps have made it increasingly difficult to address important unmet needs in small business development and affordable housing.

Many officials now believe that in some instances pension funds can be a tool for economic development. Obviously, under no circumstances can pension fund trustees adopt policies or practices that violate their fiduciary responsibilities. However, to the extent trustees can accomplish other goals without sacrificing performance, it makes sense to investigate opportunities for "economically targeted investments" (ETI's).

This report is an effort to survey the field and provides information about ETI's, including their legality, their use in Vermont and other states, and their performance. In addition, the report offers ideas about how some of Vermont's public pension funds could be used to achieve the double bottom line. Hopefully, this report will provide a point of departure for further discussion.

What are economically targeted investments (ETI)?

The California Public Employees Retirement System (CalPERS) defines ETI's as risk-adjusted market rate investments that have "collateral intent to assist in the improvement of … the economic well-being of the State of California, its localities and residents. Economic stimulation includes job creation, development, and savings; business creation; increases or improvement in the stock of affordable housing; and improvement of the infrastructure."[1]

ETI's are not an asset class in and of themselves. ETI is an investment perspective that allows some opportunities to be more equal than others, because they offer side benefits in addition to financial returns.

Market rate returns: "ETI's are distinguished from 'benevolent' or 'social' investments. The former are made by foundations, government agencies, non-profits, and individuals whose primary purpose is to accomplish some social goal. There are many reasons why benefactors may choose to make social investments rather than gifts -- but all are willing to sacrifice some level of investment yield for a desired social result. In contrast, ETI's must be organized to yield a market rate of return commensurate with risk, liquidity, and transactional costs."[2]

Collateral benefits: Most investments yield a return to society. Traditional corporate stocks and bonds transform the nation's savings into business investments that create jobs, products, and economic growth. Government bonds finance infrastructure and schools that provide the environment for the economy to function and grow. ETI's are distinct from standard investments because they provide money to under-financed sectors of the economy and fill "capital gaps."

Why ETI's

The societal return from most corporate stocks and bonds is diffuse and may not provide any direct social benefit to the state from which the investment originated (and may sometimes be detrimental[3]). On the other hand, ETI's direct the investment - and the collateral social benefit - to a defined geographic area. Geographically targeted investments in venture capital, small business loans and affordable housing improve the tax base that supports both the employment and the pension security of public employee participants and beneficiaries.

Capital gaps: Although experts claim that financial markets are efficient, “not all investments are discovered by the market, and the markets do not extend their bounty equally to all investment vehicles.”[4] “To the extent that capital markets are judged to be tradition-bound, rigid or incapable of funding all ‘worthy’ investments, [using] pension funds is seen as addressing capital gaps that would otherwise impede local economic development.”[5]

An example of capital gap is the market’s failure to provide venture capital and private placement dollars to established, well-run, mid-sized companies: "[Mid-sized firms] have traditionally relied on debt financing, rather than equity financing, and on private, rather than public capital markets. Private financing sources consist of either bank loans for short term, relatively small needs, or private placement debt for long term larger needs. . . . [O]ver the past two decades, bank lending activity has declined as individuals have moved their assets out of bank deposits and into more profitable pension funds and mutual funds. At the same time, banks have moved away from industrial and commercial loans, into real estate lending, trust services and other activities. The loss of these two important sources of capital has reduced the ability of mid-sized companies to grow and expand, contributing to plant closures and layoffs."[6]

Are ETI's legal?

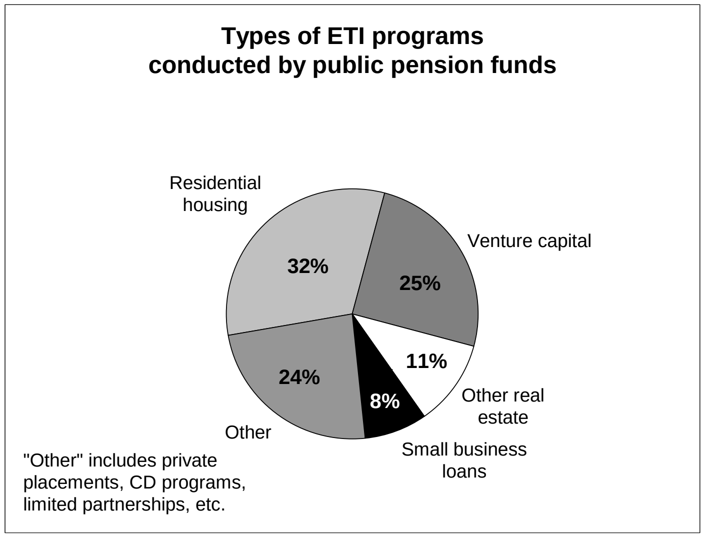
Non-federal public pension plan fiduciaries are bound by prudence rules defined in state statutes; usually a variation of the rules found in ERISA, a federal law governing private pension plans.[7] These include exclusive purpose, prudence, and diversification.

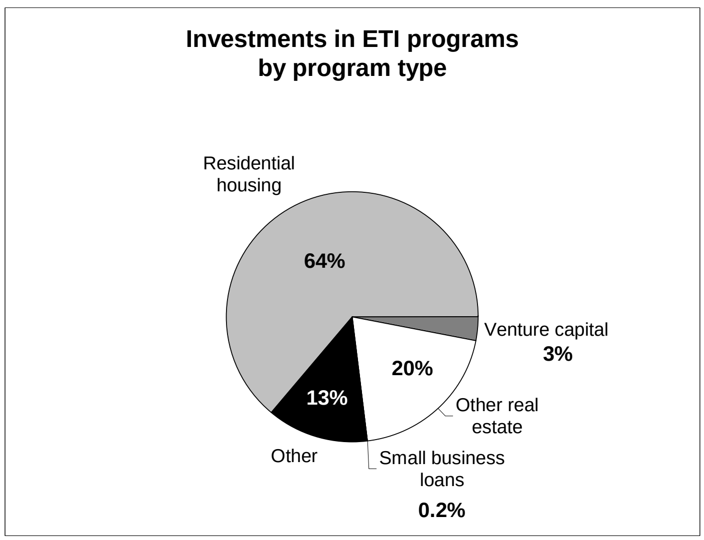
The Dept. of Labor has addressed ETI's in interpretive bulletins. The most recent bulletin (7/1/02) summarizes well known fiduciary duties and states that "the fiduciary standards applicable to ETI's are no different than the standards applicable to plan investments generally. Therefore, if the…requirements are met, the selection of an ETI…will not violate section 404(a)(1)(A) and (B) and the exclusive purpose requirements of section 403."[8] That is, pension fund administrators are free to pursue ETI's as long as the ETI's offer risk adjusted returns comparable to similar types of investments.

There is substantial case law in federal courts on these questions and virtually all have found that fiduciaries who met the procedural standards established in ERISA (regardless of the outcome) had satisfied the prudence rules.[9]

Who invests in ETI's and how much money is involved?

According to McKinsey & Co., state and local pension plans control about $2.2 trillion in assets.[10] The most recent comprehensive survey of public pension plans found that there were at least 29 states in which public pension plans had some form of ETI program.[11]





The combined assets invested in ETI programs are estimated to be 2.4% of the total -- about $55 billion. The most common ETI programs are residential housing and venture capital.[12] Eighty-four percent of all ETI funds are invested in residential housing and other real estate.

Types of ETI programs

Housing: Housing is a basic need; is often the largest component of household budgets; is the primary means by which most families accrue assets; and has immense direct and indirect economic impacts. Enormous public resources have been directed to this issue over the last 50 years but there are still significant unmet needs.

The national secondary mortgage market has created a huge vehicle for institutional investors. Mortgage backed securities are safe and are easily traded. Not surprisingly, therefore, housing has been an important part of ETI programs because they provide consistent market rate returns and help address an important social need. According to the General Accounting Office, almost one-third of all public pension fund ETI programs are focused on residential housing and these programs account for almost two-thirds of all ETI investments.[13] Housing-related ETI programs have taken many forms. For example:

- *Targeted mortgage-backed securities*: Packaged mortgages for low- and moderate-income homebuyers backed by Fannie Mae or Freddie Mac put money back into the hands of cooperating lenders who can make additional mortgage loans.
- *Housing finance agency bonds*: The proceeds from the sale of tax-exempt or taxable bonds and pension fund mortgage pools are used to support the development and preservation of affordable housing.
- *Investment trusts*: The AFL-CIO Housing Investment Trust (HIT) was created to provide a secure retirement vehicle for pensioners, finance affordable housing, and to employ union workers. AFL-CIO's HIT is the oldest of its type and has invested $4 billion to finance more than 67,000 units of single family and multifamily housing.[14] Many other unions have established similar vehicles.[15]
- *Project financing*: Some state funds (like CalPERS) partner with developers for new home construction.[16]
- *Direct financing*: Some states provide direct financing to pension plan participants.[17]

In addition, there is a new investment opportunity called "housing equity partnerships." Through intermediaries, outside investors contribute to the down payment at the time of purchase to help families buy a home. The homeowner takes responsibility for the mortgage, insurance, maintenance, and taxes. When the home is sold, the proceeds are shared by the investor and homebuyer. The homeowner is able to buy a home and build equity, in addition to receiving a share of any appreciation of the underlying asset. The investor gets a return on an investment that includes a potentially significant upside determined by the local real estate market.[18]

Note: This type of program would be especially helpful in certain areas of Chittenden County with rapidly appreciating real estate values that make it difficult for many families to buy a first home. It could also help revitalize neighborhoods that have been transformed by landlords who convert large older homes into student rentals.

Business: For obvious reasons, we need as many cost-effective job creation strategies as possible. There are a number of ways a pension fund can help stimulate local development.

- *Guaranteed SBA loans*: These are common investment vehicles used to support small business development. Like mortgage-backed securities, they are guaranteed and encourage lenders to put the money back into additional loans.
- *Linked certificates of deposit*: A number of states use this method to help finance affordable housing and small business loan pools, while gaining FDIC protection.
- *Private placement*: Some states (like Wisconsin) have loan programs for established in-state businesses. The loans are used primarily for financing fixed assets or refinancing existing debt. The fixed assets of the business are often used as collateral and in some cases a parent corporation may guarantee the loan. In other cases, a personal guarantee of the owner or major shareholders may be appropriate.[19]

  Note: To the extent this program overlaps those of VEDA, it might be suitable for the retirement fund to consider purchasing bonds issued by VEDA for certain targeted projects.

- *Targeted venture capital*: A number of states make private equity investments in small and mid-sized, late stage companies with operations in the home state. The Texas Growth Fund (TGF) is a good example of this approach. According to McKinsey & Co., the Texas pension fund has capped its investment in the TGF at 1% to limit exposure but has received an estimated 20% return on its investments.

Measuring ETI performance

According to the fiduciary standards noted above, a positive return is not necessarily sufficient to justify an ETI. Such "alternative" investments are expected to earn a market rate of return for comparable types of investments. Therefore, fund managers need benchmarks for each type of program. The tables below were developed by the U.S. General Accounting Office (GAO).[20]

Benchmarks Used to Analyze the Financial Returns of ETI Programs

ETI Program	Benchmark
Bond purchases	Similarly rated bonds with like maturity and sector characteristics
Fixed-rate SBA loan purchases	Treasury securities of like maturity
Variable-rate SBA loan purchases	3-month Treasury bills
Private placements	Similarly rated bonds with like maturity and sector characteristics
CD programs	3- and 6-month secondary market CD rates or 3-year Treasury securities
Venture capital	Vintage year analysis by Venture Economics

Obviously, these benchmarks would have to be further refined to reflect other factors such as prepayment risk, credit risk, and liquidity risk. The GAO surveyed a majority of public pension funds in the U.S. and found that most ETI programs were outperforming the benchmarks.

ETI Yields Relative to Benchmarks

ETI Program	Number of investments	Average spread to benchmark (in basis points)
Bond purchases	3	93
Loan purchases		
Fixed rate	86	27
Variable rate	62	355
Private placements	34	52
CD programs		
3- and 6-month	3	-1
3-year	12	53
Venture capital	16	Younger funds lagged industry median returns; older funds were split -- half above, half below.

Examples of existing ETI programs

California: Because of their size, as well as the leadership of the State Treasurer, CalPERS and CalSTRS have large ETI programs. For example[21]:

CalPERS has

- adopted a goal of investing 2% (approximately $2.7 billion) of its portfolio in domestic emerging markets, primarily in California
- committed $475 million to *The California Initiative* for private equity investment in businesses in underserved areas
- committed over $1 billion to urban, in-fill real estate ventures, including $150 million for affordable housing, in California communities
- purchased $90 million in CRA eligible California home mortgages
- purchased $263 million in California SBA loans
- invested $169 million in CRA housing in its *Single Family Housing Program*

CalSTRS has

- adopted a goal of investing 2% (approximately $1.85 billion) of its portfolio in domestic emerging markets, primarily in California
- allocated $350 million for private equity investment in businesses in underserved urban and rural communities
- allocated $750 million to urban, in-fill real estate ventures, including $150 million for affordable housing, focused on California communities
- purchased $93 million in CRA eligible California home mortgages

Massachusetts: "As of December 31, 2001 the Pension Reserves Investment Management Board (PRIM) invested approximately $1.5 billion in the Alternative Investments Portfolio. There are two components to PRIM's Alternative Investments Portfolio: venture capital and special equity partnerships. Unlike public markets, where the investor has the ability to "cash out" of positions at any time, these private market investments are illiquid. Therefore, an investment in this category is a long-term commitment. As of December 31, 2001, the Alternative Investments Portfolio comprised 5.4% (including cash) of the [trust's] Core. This included 3.8% to special equity partnerships (buy-outs, special situations, mezzanine funds, secondary funds) and 1.5% to venture capital partnerships (early-stage, later-stage, and diversified-stage)."[22]

New York City: As of December 31, 2002, the aggregate total of investments and commitments for all of the programs was over $920 million, including $220 million for low- and moderate-income housing. These investments, in addition to supporting the renovation, new construction or financing of affordable housing and small retail spaces, helped create childcare facilities and senior citizen centers in low- and moderate-income areas and thousands of construction jobs. Targeted investments are generally guaranteed by government agencies and earn a rate of return commensurate with their risk. The 5-year overall return on the pension funds' targeted investments was 7.25%.

In 2002, the Comptroller's Office on behalf of the pension systems made an initial investment of $67.5 million in the AFL-CIO's national Housing Investment Trust (HIT) Fund, with another 67.5 million committed for 2003. This investment will help leverage a $500 million HIT investment in NYC for affordable multifamily and single family housing over the next five years.[23]

Pennsylvania: Real estate investment guidelines - Target Markets: The target markets for this mortgage-financing program are general-purpose commercial investment properties, including multi-family, located within the Commonwealth of Pennsylvania. An objective of the Program is to fill the capital void in those Pennsylvania markets formerly served by the small insurance companies and banks, the traditional source of capital.[24]

Texas: "The Texas Growth Fund prefers to invest in established, well-managed companies with operations in Texas, structuring equity and subordinated debt investments that finance buy-and-build strategies, internal expansions, and buyouts of small- to middle market companies. In evaluating opportunities, [it] tend[s] to focus on the following criteria:"[25]

- Geography: Companies that have operations in Texas or are planning to expand their businesses into the Lone Star State (headquarters in Texas not required)
- Company Size: Annual revenues of $15 million to $250 million
- Profitability: Positive cash flow (Earnings Before Interest, Taxes, Depreciation, and Amortization) with an opportunity for meaningful growth and a demonstrated ability to generate an acceptable return on invested capital

- Industry: Manufacturing, distribution, and service companies in stable and established markets; we do not invest in start-ups, turnaround situations, oil exploration and production, or real estate
- Management: Proven management teams with experience and success in similar enterprises that will have a meaningful ownership stake in the company
- Financial Strength: We desire a capitalization that optimizes tactical operating flexibility while providing the ability to comfortably service pro forma debt and capital expenditure requirements.
- Venture Capital Investments: The Texas Growth Fund will selectively invest in early-stage technology companies that are raising a second or third round of institutional equity capital and desire a Texas-based equity partner to assist with their growth.

Washington State: Washington State Investment Board (WSIB)

- Private Equity: "Perhaps the most direct impact the WSIB investments have on Washington's economy is in private equity ownership. As of June 30, 2002, the WSIB had over $61 million invested in 69 Washington-based companies through its private equity partnerships."[26]
- Real Estate: "Several of the WSIB's real estate partners and managers have acquired or managed assets located in Washington. As of June 30, 2002, the WSIB portfolio includes whole or partial ownership of 30 office, retail or industrial properties located in Washington. The fair market value of these properties is estimated at over $667 million."

Wisconsin: Wisconsin Investment Board - Private Debt Portfolio Guidelines

"The Wisconsin Private Debt Portfolio objective is to invest funds of the Wisconsin Retirement System in business activities that contribute to Wisconsin's economy and also provide market rate returns consistent with SWIB's fiduciary responsibilities. The investments will be focused on fixed-income instruments issued by corporations that are headquartered in Wisconsin or that intend to apply the proceeds to business operations in Wisconsin. Investments will be primarily private loans negotiated by SWIB directly or as part of an investor group that includes banks or other institutional investors, but may also be securities originated in the Rule 144(a) market or public fixed income markets. Investments may be made in fixed income instruments or instruments with both fixed income and equity features."[27]

Perceived barriers

Some people have expressed opposition to ETI's over the years. Among other criticisms was the assertion that pension funds could not make such investments without running afoul of fiduciary rules. The Department of Labor's interpretive bulletins and numerous court rulings have put this concern to rest. It has also been suggested that ETI's interfere with "normal" market forces. By definition, however, most ETI's target "capital gaps" that the market has ignored. Others have complained that ETI's are so unusual that there are no appropriate benchmarks to compare them against. But the GAO recommended benchmarks in its 1995 report (see above) and they have stood the test of time and been modified when needed.

There are a few remaining issues that deserve consideration.

1. *ETI's are too time-consuming*: Direct investments - including ETI's - are always time-consuming. However, "many ETI's are easy to implement. For example, commingled real estate and mortgage accounts are the simplest forms of ETI's for the investor. They provide liquid, diversified investments with certain guaranteed returns."[28] If a pension fund chooses to consider direct investments and has no in-house expertise, there are many qualified analysts available to help.

2. *ETI's are too costly*: Direct ETI's may have high administrative costs due to their complexity. On the other hand, some ETI's are based on investments such as mortgages and mortgage-backed securities, which are “standard, insured and salable in the secondary mortgage markets, providing liquidity not often found in ETI's.”[29] These investments entail less administrative expenses and staff time than other types of ETI's. If a pension fund is relatively small (like Vermont), there are many professionals who are experienced with developing customized mortgage-backed securities programs. However, some ETI programs may suffer from high administrative costs due to the amount of staff time required to develop, implement, and monitor the program.

3. *Politics always gets in the way*: There are well-known examples of ETI failures, some the result of over-zealousness or political interference.

- In 1990, the Connecticut state employee pension fund invested $25 million in the failing Colt Manufacturing Co. in order to save 1,000 jobs (this represented a 47% stake in the company). Four years later, Colt filed for bankruptcy and the state sold its stake for less than $5 million. Apparently, the decision was made directly by state officials without adequate consideration of risk-adjusted returns.
- Alaska's public fund loaned $165 million for in-state mortgages in the early 1980's. Oil prices collapsed in 1987 and 40% of the loans became delinquent or resulted in foreclosure. The in-state mortgages represented 35% of Alaska's fund assets, an unreasonable allocation by any standard. Heavy dependence on one industry (like oil) makes it imperative to diversify in order to protect against a serious downturn.
- Kansas (KPERS) directly invested $400 million in various Kansas-based companies, savings & loans, and real estate projects in the 1980's. The fund lost $236 million of the original investment and the failure was attributed to fund manager's lack of relevant skills and experience.
- Pennsylvania's state and teacher fund invested $70 million in an in-state Volkswagen plant in the early 1980's. Poor management led to bankruptcy and the pension fund lost 57% of its original investment. Here again, the investment decision was not based on risk-adjusted return.

It is noteworthy that all but one of these examples were venture capital investments, which are characteristically risky (although they can have significant returns if successful). Since the early days of ETI's, pension funds have developed more sophisticated in-house expertise and / or have hired established professionals to help manage the programs. The number of existing programs (and the billions invested) is evidence that fiduciaries learned from early mistakes and that ETI programs can succeed if well managed.

Vermont's Experience

Although the three state pension funds do not have an explicit ETI policy, each has a 2% asset allocation for alternative investments and all have occasionally made small investments in Vermont, including corporate bonds issued by Vermont-based banks, VHFA bonds, and investments in several venture capital (VC) funds.

The VC investments began with the Vermont Venture Capital Fund (VVCF), which was created by statute[30] and which was partly capitalized with $1.5 million each from the Teacher's and State Employee's pension funds. VVCF attracted other investors in part with the promise of newly approved state tax credits.

The history of these investments is a cautionary tale. The pension funds have recouped their initial investment in the VVCF but the return has been near zero.[31] The available information about ancillary benefits (jobs and taxes) has not been verified by the author.[32] The only real winners appear to be the other limited partners who claimed over $1 million in tax credits.

The second VC fund is Green Mountain Capital (GMC), a "small business investment corporation" (SBIC) also created pursuant to state statute.[33] GMC invested in Vermont and around the region and was capitalized in part with $1.1 million from the Municipal and State Employee's pension funds ($600,000 and $500,000 respectively). The two pension funds have received a small portion of their original investment (~15%), and the residual value is dependent on the fate of one company. If the value holds and the pension funds can cash out, the annualized return would be approximately three percent (3%). If the company fails, the state has guaranteed a percentage of the investment for all of the limited partners.

The third VC fund is North Atlantic Capital (NAC). The VERS invested at total $6 million in NAC beginning in 1994. NAC has made limited investments in Vermont but focuses primarily on Northeast. To date, NAC has paid the VERS about 15% of its capital and is expected to make another substantial payment this quarter. It's possible the entire investment can be recouped with some return on investment but it's too early to tell.

In fairness, the performance of these three funds should be viewed in context. As a small state, Vermont has limited opportunities for promising VC investments. In addition, the recession and changes in the VC environment in recent years have undoubtedly contributed to the poor performance of the funds. Nevertheless, it raises questions about the merits of pursuing VC as part of an ETI strategy, especially since there are other ETI opportunities with less risk.

Summary

Economically targeted investments are legal and prudent if well conceived and managed. Numerous public pension funds have utilized small portions of their assets to fill financing gaps for affordable housing, small business development and venture capital. The available data suggests that return on investment is reasonable and comparable to similar non-ETI investments.

Unfortunately, there is limited data on the ancillary benefits of ETI's because few, if any, pension funds have attempted to quantify the impacts. Anecdotal information shows significant benefits, however, especially in affordable housing, which has received considerable support and where the outcomes are clearly visible. Obviously, these first level benefits (the housing units themselves) are not the whole story because the construction activity creates jobs and the multiplier effects of the goods and services utilized ripple through the economy. Furthermore, increased housing security tends to reduce the need for public assistance, which decreases pressure on state budgets.

Preliminary discussions with leaders in the Vermont affordable housing community have been encouraging.[34] Should Vermont's pension fund fiduciaries choose to initiate a dialogue, they would undoubtedly find willing partners. In addition, there are established firms that offer safe and standardized investment opportunities for affordable housing.

I was also encouraged to learn that the Vermont Community Foundation has already made a commitment to ETI's and is very interested in working collaboratively with the State and other institutional investors to maximize the benefits of available resources.[35]

The scope of this effort did not allow for an investigation of private placement opportunities around the country. These types of ETI's are more complicated and present significant risks, as evidenced by the venture capital experience in Vermont.

There are many examples of successful ETI programs. Should the boards choose to develop an ETI policy, we can learn from your counterparts in other states and benefit from their experience and expertise. In addition, there are several high profile and willing partners with whom you can begin this process.

The state pension boards work hard to protect the workers and retirees who depend on the fund's assets, and that's their primary responsibility. However, with ETI's, you have an opportunity to provide an additional service to Vermonters, while still meeting those obligations. To the extent a successful ETI program helps to create a more sustainable economy, it will benefit the workers and pensioners you represent because their fortunes are inextricably linked to the health of the Vermont economy.

Endnotes

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2 Ferlauto, Richard and Clabourn, Jeffrey, "Economically Targeted Investments by State-wide Public Pension Funds", The Center for Policy Alternatives, September 1993, p.4.
3 See Baker, Dean, and Fung, Archon, "Collateral Damage: Do Pension Fund Investments Hurt Workers?" prepared for the National Heartland Labor-Capital Conference, 1999.
4 Lurie, Alvin, *ETIs: A Scheme for the Rescue of City and County with Pension Funds*, Journal of Pension Planning & Compliance 1, 1996; as cited in "Overcoming Institutional Barriers on the ETI Superhighway", Jayne Elizabeth Zanglein, Texas Tech Univ. School of Law, prepared for the National Heartland Labor-Capital Conference, 1999.
5 "Economically Targeted Investments: An ERISA Policy Review", 1992, U.S. Dept. of Labor, Advisory Council on Pension Welfare and Benefit Plans; as cited in Zanglein.
6 "Economic Development: A Union Guide to the High Road" AFL-CIO Human Resource Development Institute, 1998; as cited in Zanglein.
7 Vermont's prudent investor rules are defined in 9 V.S.A. Chapter 147.
8 Code of Federal Regulations Title 29, Volume 9, Revised July 1, 2002, Cite: 29CFR2509.94-1; Page 326, Title 29--Labor; Chapter XXV--Pension and Welfare Benefits Administration, Dept. of Labor; Part 2590--Interpretive Bulletins Relating to ERISA.
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10 "Economically Targeted Investments - Key Success Factors", Sept. 2003, report prepared by McKinsey & Co. for the Massachusetts State Treasurer
11 "Public Pension Plans: Evaluation of Economically Targeted Investment Programs", U.S. General Accounting Office, March 17, 1995, GAO/PEMD-95-13.
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13 Op cit., GAO report on Public Pension Plans and ETIs.
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15 Calabrese, Michael, " Building on Past Success: Labor-Friendly Investment Vehicles and the Power of Private Equity", Center for National Policy, prepared for the National Heartland Labor-Capital Conference, 1999.
16 See http://www.calpers.ca.gov/invest/policies/pdfs/Single-Family-Housing-Prog.pdf
17 See http://www.calpers.ca.gov/homeloan/default.htm
18 See http://www.housingpartnerships.net/presentations.htm
19 See http://www.swib.state.wi.us/privateplacements.asp
20 Op cit., GAO report on Public Pension Plans and ETIs.
21 See http://www.treasurer.ca.gov/publications/doublebottomline/20030325.pdf
22 See http://www.mapension.com/CoreDescrip.html#AltInv
23 See http://www.comptroller.nyc.gov/
24 See http://www.psers.state.pa.us/invest/guide2002/r.pdf
25 See http://www.tgfmanagement.com/investment/i2.html
26 See http://www.sib.wa.gov/investing/privateequity.htm
27 See http://www.swib.state.wi.us/IG_06Mar02.pdf
28 Ibid.
29 Op cit., Zanglein.
30 10 V.S.A. 285.
31 Vermont Venture Capital Fund 2002 financial statements prepared by Ernst & Young.
32 April 30, 2000 letter from Greg Peters, VVCF Managing Gen. Partner to Gov. Howard Dean.
33 10 V.S.A. §673.
34 The author solicited input from a number of affordable housing leaders, including Sarah Carpenter of the VHFA, and found considerable interest in working with the Treasurer and the boards.
35 Conversations with Faith Brown of the Vermont Community Foundation.

South Carolina Retirement System

Private Markets Executive Summary

December 31, 2013

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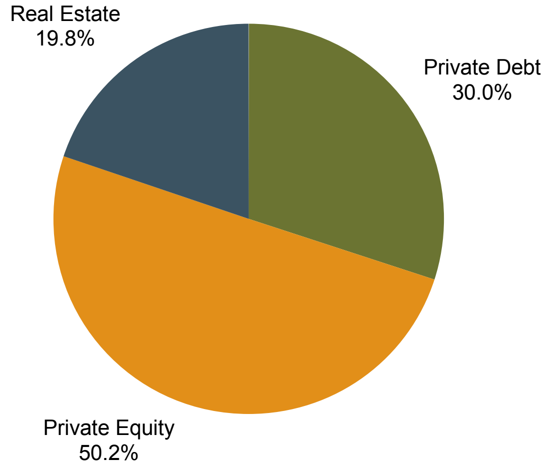
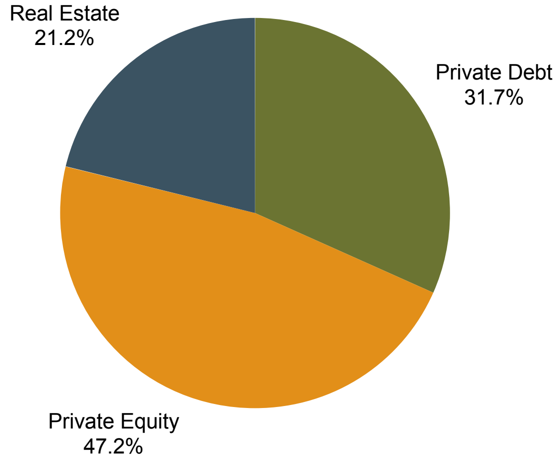
Private Markets Portfolio Performance
Inception to 12/31/2013

Portfolio	Commitments	Unfunded Commitments[1]	Total Contributions	Total Distributions	Net Asset Value	Total Value[2]	Potential Market Exposure[3]	DPI[4]	RVPI[5]	TVPI[6]	Net IRR
Private Debt	$3,943,942,606	$808,555,710	$3,553,068,037	$2,922,220,186	$1,724,625,230	$4,646,845,416	$2,533,166,969	0.82x	0.49x	1.31x	11.78%
Private Equity	3,455,965,947	889,880,995	2,732,653,481	986,242,425	2,881,158,760	3,867,401,185	3,771,039,755	0.36x	1.05x	1.42x	13.61%
Real Estate	1,847,034,978	555,857,840	1,402,678,855	546,142,758	1,136,480,944	1,682,623,702	1,692,338,784	0.39x	0.81x	1.20x	9.77%
Total Private Markets	**$9,246,943,531**	**$2,254,294,546**	**$7,688,400,373**	**$4,454,605,369**	**$5,742,264,934**	**$10,196,870,302**	**$7,996,545,509**	**0.58x**	**0.75x**	**1.33x**	**12.24%**

Diversification by Net Asset Value



Diversification by Potential Market Exposure[3]



See page 16 for notes.

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Private Markets Portfolio Performance (cont'd)

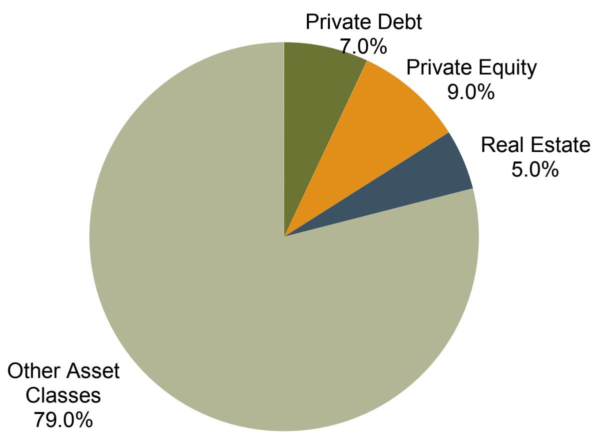
- As of December 31, 2013, the private markets portfolio had 118 commitments totaling $9.2 billion.
  - The private debt portfolio had 35 commitments totaling $3.9 billion.
  - The private equity portfolio had 58 commitments totaling $3.5 billion.
  - The real estate portfolio had 25 commitments totaling $1.8 billion.
- Since inception, the total private markets portfolio has paid-in capital of approximately $7.7 billion and received distributions totaling $4.5 billion. The current NAV of the private markets portfolio is $5.7 billion.
- The private markets portfolio's total value of $10.2 billion represents 1.33x paid in capital, which represents an increase in value as compared with 3Q 2013 where TVPI was 1.29x.
- As of December 31, 2013, the private markets portfolio has generated a net IRR from inception of 12.24% which is an increase over the prior quarter's net IRR of 11.37%.

Private Markets Asset Allocation
As of 12/31/2013

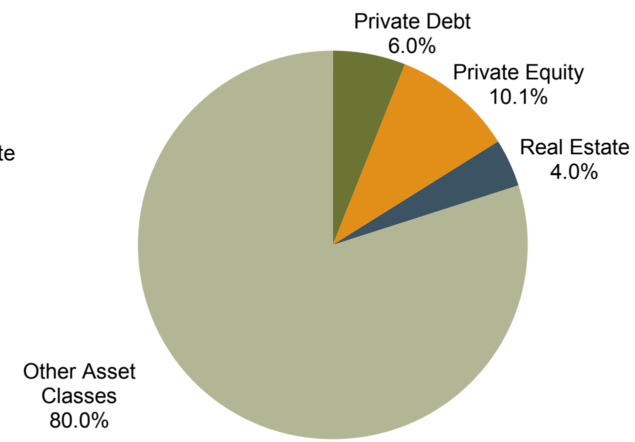
Total Program Size as of 12/31/2013: $ 28,645,786,336

Portfolio	Target Allocation	Commitments / Program Size	Unfunded Commitments[1] / Program Size	Net Asset Value / Program Size	Potential Market Exposure[3] / Program Size
Private Debt	7.0%	13.8%	2.8%	6.0%	8.8%
Private Equity	9.0%	12.1%	3.1%	10.1%	13.2%
Real Estate	5.0%	6.4%	1.9%	4.0%	5.9%
Total Private Markets	**21.0%**	**32.3%**	**7.9%**	**20.0%**	**27.9%**

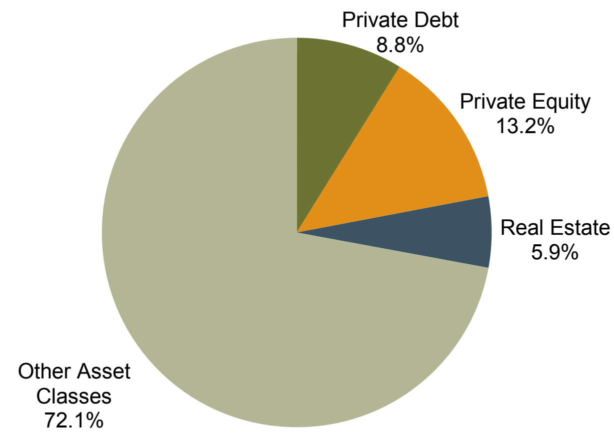
Target Allocation



Net Asset Value / Program Size



Potential Market Exposure[3] / Program Size



See page 16 for notes.

Private Markets Asset Allocation (cont'd)

- As of December 31, 2013, the net asset value of the private markets portfolio accounted for 20.0% of the total program size, trailing the target allocation of 21.0%.
  - The private debt portfolio accounts for 6.0% of the total program size versus 6.5% at 9/30/2013.
  - The private equity portfolio accounts for 10.1% of the total program size versus 9.7% at 9/30/2013.
  - The real estate portfolio accounts for 4.0% of the total program size versus 4.0% at 9/30/2013.
- Utilizing the fourth quarter 2013 private markets portfolio data, Hewitt EnnisKnupp conducted a pacing analysis to determine the appropriate commitment pace for 2014.
  - The annual commitment pace is designed to maintain vintage year diversification across the portfolios.
  - The pacing analysis assumes that exceeding the private markets target allocation of 21.0% in the short-run is acceptable.
- The recommended pace for 2014 is currently under review; however, HEK does expect an increase in the pace from 2013 to $1.6 billion across the private markets portfolio ($550.0 million to private debt, $700.0 million to private equity, and $300.0 million to real estate).
  - HEK will periodically update the pacing model and may adjust our recommendations accordingly.

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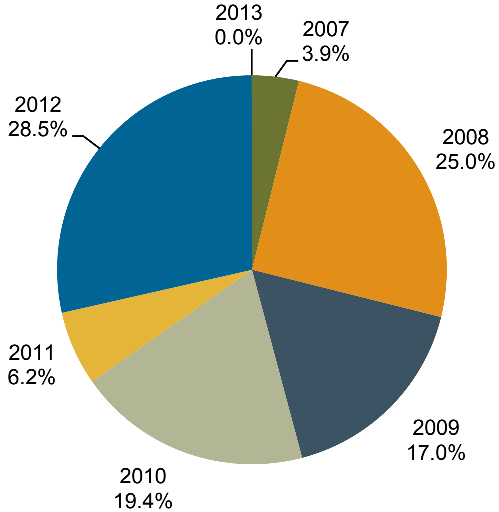
Private Debt Performance by Vintage Year

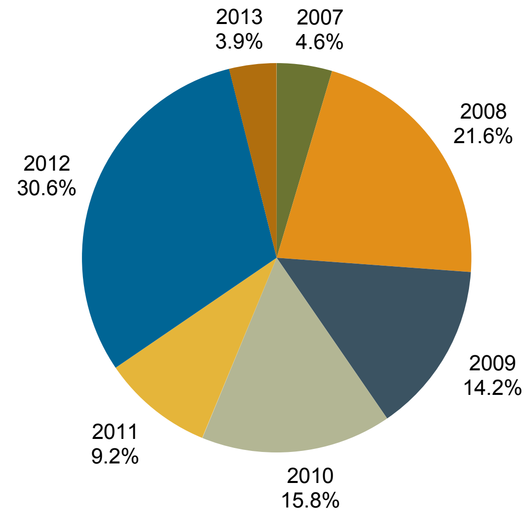
Inception to 12/31/2013

Vintage Year	Number of Commitments	Commitments	Unfunded Commitments[1]	Total Contributions	Total Distributions	Net Asset Value	Total Value[2]	Potential Market Exposure[3]	DPI[4]	RVPI[5]	TVPI[6]	Net IRR
2007	3	$280,000,000	$49,495,896	$246,105,309	$253,743,695	$66,691,870	$320,435,565	$116,187,766	1.03x	0.27x	1.30x	7.25%
2008	9	1,110,670,249	115,076,428	1,181,702,290	1,186,512,934	431,810,865	1,618,323,798	546,887,293	1.00x	0.37x	1.37x	12.77%
2009	9	1,038,671,685	68,437,989	1,008,074,749	1,099,073,223	292,413,496	1,391,486,719	360,848,700	1.09x	0.29x	1.38x	11.40%
2010	5	498,710,000	65,770,256	577,662,960	340,849,791	334,754,707	675,604,498	400,524,963	0.59x	0.58x	1.17x	10.50%
2011	3	222,230,000	127,017,793	103,571,421	15,432,615	106,649,707	122,082,323	233,656,315	0.15x	1.03x	1.18x	12.95%
2012	5	694,660,672	283,757,348	435,951,307	26,607,928	491,896,053	518,503,981	775,653,401	0.06x	1.13x	1.19x	28.02%
2013	1	99,000,000	99,000,000	0	0	408,531	408,531	99,408,531	N/A	N/A	N/A	N/A
Total Private Debt	**35**	**$3,943,942,606**	**$808,555,710**	**$3,553,068,037**	**$2,922,220,186**	**$1,724,625,230**	**$4,646,845,416**	**$2,533,166,969**	**0.82x**	**0.49x**	**1.31x**	**11.78%**

Diversification by Net Asset Value



Diversification by Potential Market Exposure[3]



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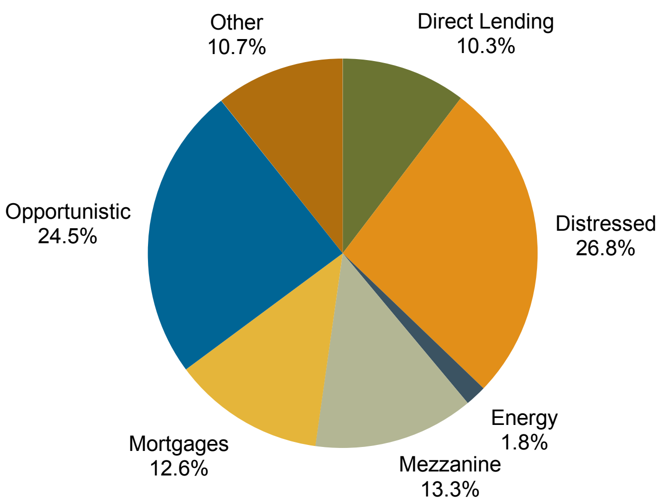
Private Debt Performance by Strategy

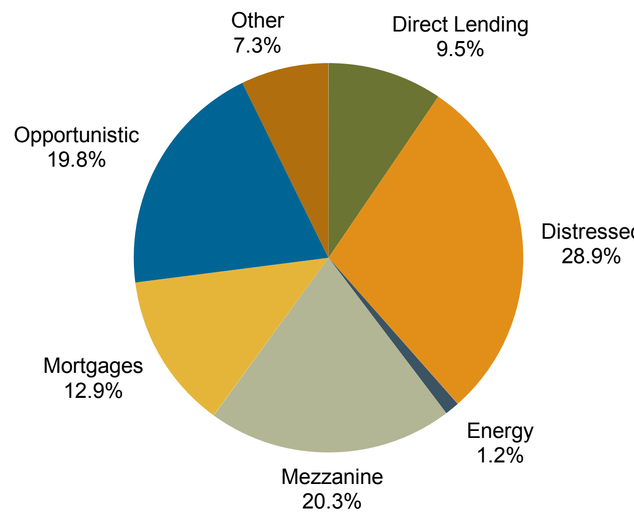
Inception to 12/31/2013

Strategy	Number of Commitments	Commitments	Unfunded Commitments[1]	Total Contributions	Total Distributions	Net Asset Value	Total Value[2]	Potential Market Exposure[3]	DPI[4]	RVPI[5]	TVPI[6]	Net IRR
Direct Lending	4	$340,525,000	$62,699,546	$292,253,229	$235,884,540	$178,493,573	$414,378,113	$241,193,119	0.81x	0.61x	1.42x	13.41%
Distressed	12	1,047,138,921	270,737,896	939,449,608	788,069,583	462,608,969	1,250,678,551	733,332,894	0.84x	0.49x	1.33x	14.35%
Energy	1	40,000,000	0	40,000,000	10,900,000	30,420,000	41,320,000	30,420,000	0.27x	0.76x	1.03x	0.71%
Mezzanine	7	553,590,000	285,871,259	341,837,829	208,871,378	229,587,589	438,458,967	515,458,847	0.61x	0.67x	1.28x	12.04%
Mortgages	9	1,166,938,685	110,652,890	1,222,371,491	1,376,939,491	217,268,350	1,594,207,841	327,921,240	1.13x	0.18x	1.30x	11.01%
Opportunistic	1	420,750,000	78,594,120	342,155,880	0	421,805,973	421,805,973	500,400,093	0.00x	1.23x	1.23x	34.56%
Other	1	375,000,000	0	375,000,000	301,555,193	184,440,777	485,995,970	184,440,777	0.80x	0.49x	1.30x	7.30%
Total Private Debt	**35**	**$3,943,942,606**	**$808,555,710**	**$3,553,068,037**	**$2,922,220,186**	**$1,724,625,230**	**$4,646,845,416**	**$2,533,166,969**	**0.82x**	**0.49x**	**1.31x**	**11.78%**

Diversification by Net Asset Value



Diversification by Potential Market Exposure[3]



See page 16 for notes.

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Private Debt Portfolio Performance

- As of December 31, 2013, the net asset value of the private debt portfolio accounted for 6.0% of the total program size, an increase from September 30, 2013 where the portfolio accounted for 6.5% of total program size.
- The private debt portfolio NAV is heavily weighted toward 2008 and 2012 vintage years, representing 25.0% and 28.5% of the total portfolio NAV, respectively.
- The NAV of vintage year 2008 corresponds to the largest commitment level of $1.1 billion. The NAV of vintage year 2009 also corresponds to a higher commitment level of $1.0 billion; however, this vintage year experienced significant distributions during the quarter that resulted in a decrease in its weighting by NAV. Concurrently, the NAV of vintage year 2012 experienced a significant increase as a result of contributions paid-in during the quarter.
  - The result is a higher potential market exposures for 2008 and 2012 of 21.6% and 30.6% of the portfolio, respectively.
- As expected, the most mature vintages of 2007, 2008 and 2009 continue to generate the highest DPI ratios of 1.03x, 1.00x and 1.09x, respectively.
- Distressed funds continue to represent the highest potential market exposure of 28.9% across all strategies.

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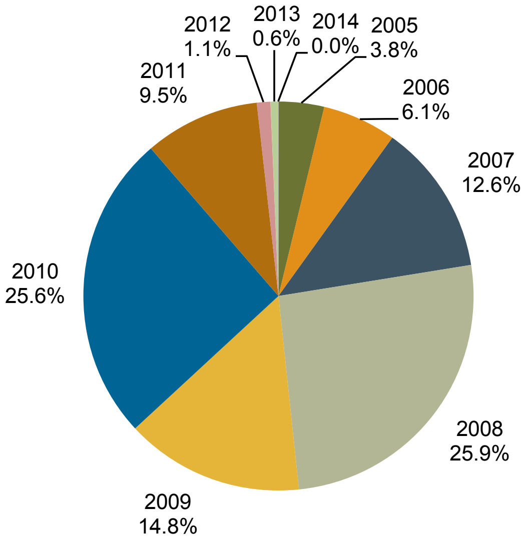
Private Equity Performance by Vintage Year

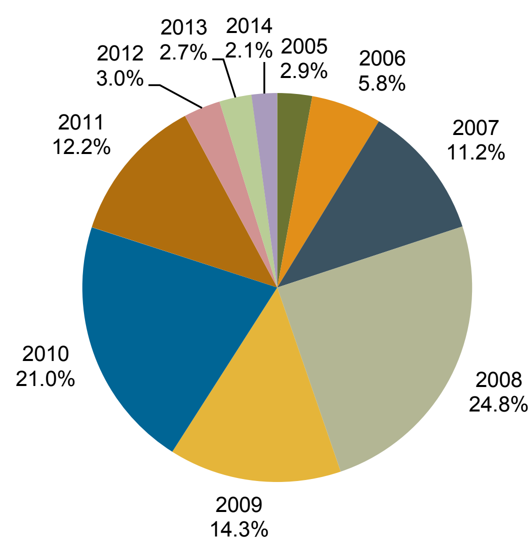
Inception to 12/31/2013

Vintage Year	Number of Commitments	Commitments	Unfunded Commitments[1]	Total Contributions	Total Distributions	Net Asset Value	Total Value[2]	Potential Market Exposure[3]	DPI[4]	RVPI[5]	TVPI[6]	Net IRR
2005	1	$100,000,000	$0	$101,553,160	$36,492,564	$108,614,245	$145,106,809	$108,614,245	0.36x	1.07x	1.43x	8.08%
2006	3	231,823,500	43,509,364	189,238,296	85,831,911	176,538,117	262,370,028	220,047,481	0.45x	0.93x	1.39x	9.59%
2007	7	425,990,000	61,161,458	384,523,992	144,570,658	361,692,287	506,262,945	422,853,745	0.38x	0.94x	1.32x	8.71%
2008	13	884,635,652	190,292,936	801,652,116	453,834,171	745,076,344	1,198,910,515	935,369,280	0.57x	0.93x	1.50x	16.33%
2009	12	548,537,272	113,384,229	462,810,121	213,627,650	426,245,523	639,873,173	539,629,753	0.46x	0.92x	1.38x	14.80%
2010	7	544,021,716	53,981,984	492,580,105	7,697,171	736,753,472	744,450,643	790,735,456	0.02x	1.50x	1.51x	17.58%
2011	9	429,855,307	183,675,012	249,452,174	40,766,443	274,713,929	315,480,372	458,388,941	0.16x	1.10x	1.26x	14.70%
2012	2	111,102,500	81,955,937	29,398,420	251,857	32,807,509	33,059,366	114,763,446	0.01x	1.12x	1.12x	23.33%
2013	3	100,000,000	83,160,860	20,204,311	3,170,000	17,867,069	21,037,069	101,027,929	0.16x	0.88x	1.04x	7.80%
2014	1	80,000,000	78,759,215	1,240,785	0	850,265	850,265	79,609,480	0.00x	0.69x	0.69x	-32.70%
Total Private Equity	**58**	**$3,455,965,947**	**$889,880,995**	**$2,732,653,481**	**$986,242,425**	**$2,881,158,760**	**$3,867,401,185**	**$3,771,039,755**	**0.36x**	**1.05x**	**1.42x**	**13.61%**

Diversification by Net Asset Value



Diversification by Potential Market Exposure[3]



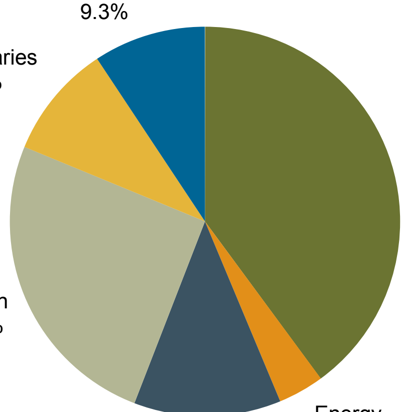
See page 16 for notes.

Private Equity Performance by Strategy

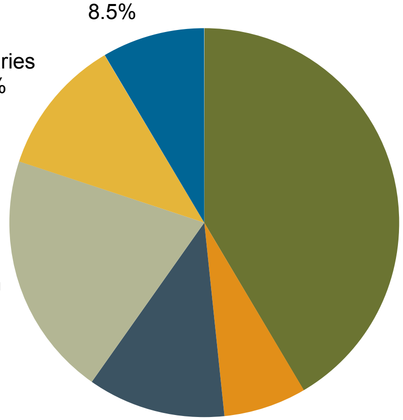
Inception to 12/31/2013

Strategy	Number of Commitments	Commitments	Unfunded Commitments[1]	Total Contributions	Total Distributions	Net Asset Value	Total Value[2]	Potential Market Exposure[3]	DPI[4]	RVPI[5]	TVPI[6]	Net IRR
Buyout	25	$1,464,702,883	$414,461,847	$1,158,636,909	$469,111,025	$1,149,749,272	$1,618,860,297	$1,564,211,119	0.40x	0.99x	1.40x	13.69%
Energy	4	258,077,458	149,842,400	110,746,854	32,939,763	109,349,744	142,289,507	259,192,144	0.30x	0.99x	1.28x	13.31%
Fund of Funds	4	401,423,500	79,966,232	341,021,642	96,886,555	350,787,216	447,673,771	430,753,448	0.28x	1.03x	1.31x	8.53%
Grow th	9	564,950,856	35,366,804	530,853,247	115,068,828	730,778,532	845,847,360	766,145,336	0.22x	1.38x	1.59x	17.24%
Secondaries	6	480,625,000	156,866,654	351,050,380	202,684,752	272,329,201	475,013,953	429,195,855	0.58x	0.78x	1.35x	13.51%
Venture	10	286,186,250	53,377,058	240,344,449	69,551,502	268,164,795	337,716,297	321,541,853	0.29x	1.12x	1.41x	13.80%
Total Private Equity	**58**	**$3,455,965,947**	**$889,880,995**	**$2,732,653,481**	**$986,242,425**	**$2,881,158,760**	**$3,867,401,185**	**$3,771,039,755**	**0.36x**	**1.05x**	**1.42x**	**13.61%**

Diversification by Net Asset Value



Diversification by Potential Market Exposure[3]



See page 16 for notes.

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Private Equity Portfolio Performance

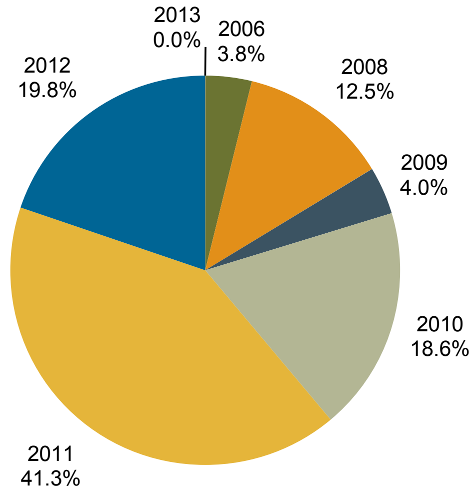
- The portfolio currently has 58 funds across the venture capital, growth equity, fund of funds, secondaries, energy, and buyout strategies.
- Buyout and Growth funds comprise over half of the portfolio both according to net asset value (a combined 65.3%) and potential market exposure (a combined 61.8%).
- As of December 31, 2013, Buyout funds are returning a 13.69% net IRR, a 1.40x TVPI, and a 0.40x DPI, an uptick in performance as compared with last quarter where buyout funds returned 12.27% net IRR, a 1.33x TVPI, and a 0.37x DPI.
- The private equity portfolio NAV is driven by the 2008 and 2010 vintage years, which account for 25.9% and 25.6% of NAV, respectively, which is similar to the 3Q 2013 exposures of 26.8% and 24.5% of NAV, respectively. These vintage years also account for the largest potential market exposures of 24.8% and 21.0%, respectively.
- In keeping with the trend of prior quarters, secondaries continue to show strong performance across net IRR, TVPI, and DPI – earning a 13.51% net IRR, 1.35x TVPI, and 0.58x DPI.
- Also, we see that 2008, 2009, 2010, 2011 and 2012 represent strong performance according to net IRR, earning 16.33%, 14.80%, 17.58%, 14.70% and 23.33%, respectively. The 2008 and 2010 vintage years have the highest TVPIs of 1.50x and 1.51x, respectively.
- Aside from the relatively recent vintage years, the 2005 vintage year exhibits the lowest DPI of 0.36x; however, this does not have an overly significant impact on overall DPI, as it represents a single $100.0 million investment.

Real Estate Performance by Vintage Year

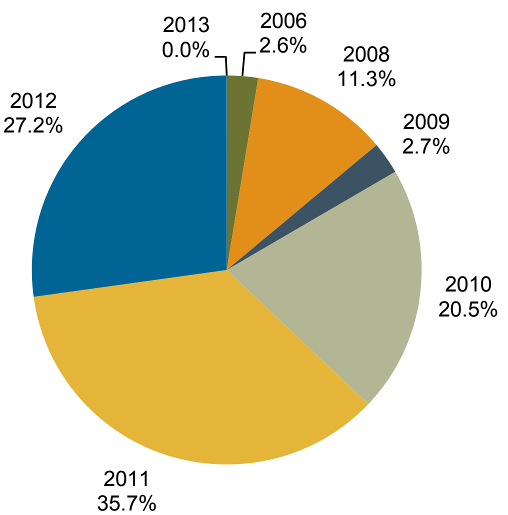
Inception to 12/31/2013

Vintage Year	Number of Commitments	Commitments	Unfunded Commitments[1]	Total Contributions	Total Distributions	Net Asset Value	Total Value[2]	Potential Market Exposure[3]	DPI[4]	RVPI[5]	TVPI[6]	Net IRR
2006	1	$149,700,000	$0	$74,662,006	$5,697,596	$43,715,986	$49,413,582	$43,715,986	0.08x	0.59x	0.66x	-7.01%
2008	6	315,606,794	50,358,007	270,277,980	225,868,720	141,531,308	367,400,028	191,889,315	0.84x	0.52x	1.36x	11.40%
2009	1	100,000,000	0	111,261,205	92,610,361	45,032,635	137,642,996	45,032,635	0.83x	0.40x	1.24x	8.80%
2010	4	318,810,000	135,190,547	250,456,690	90,875,922	211,633,566	302,509,488	346,824,113	0.36x	0.84x	1.21x	12.17%
2011	7	527,767,786	134,704,988	465,695,824	95,362,173	469,783,762	565,145,935	604,488,750	0.20x	1.01x	1.21x	15.27%
2012	5	435,000,000	235,604,298	230,174,751	35,727,986	224,633,289	260,361,275	460,237,587	0.16x	0.98x	1.13x	20.90%
2013	1	150,398	0	150,398	0	150,398	150,398	150,398	0.00x	1.00x	1.00x	0.00%
Total Real Estate	**25**	**$1,847,034,978**	**$555,857,840**	**$1,402,678,855**	**$546,142,758**	**$1,136,480,944**	**$1,682,623,702**	**$1,692,338,784**	**0.39x**	**0.81x**	**1.20x**	**9.77%**

Diversification by Net Asset Value



Diversification by Potential Market Exposure[3]



See page 16 for notes.

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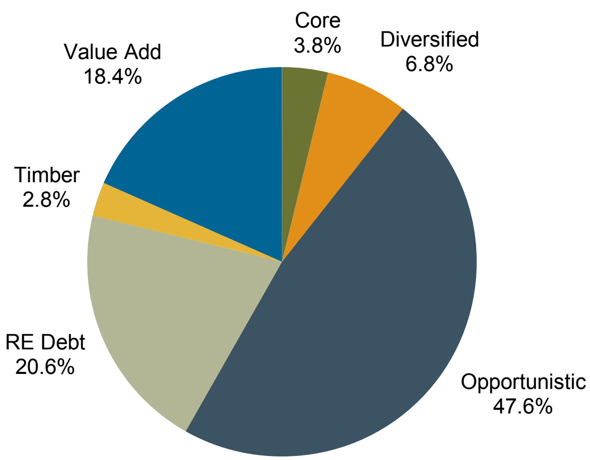
Real Estate Performance by Strategy

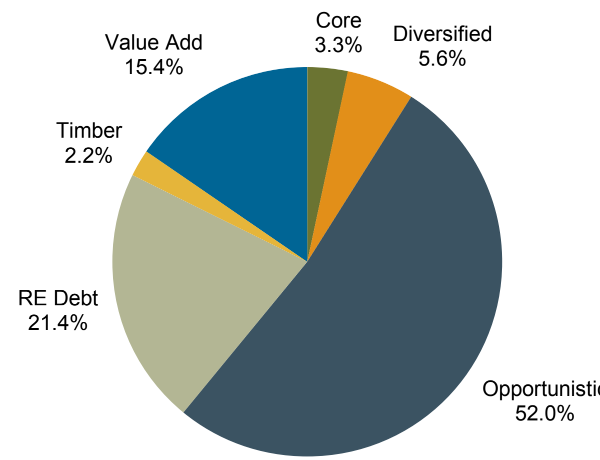
Inception to 12/31/2013

Strategy	Number of Commitments	Commitments	Unfunded Commitments[1]	Total Contributions	Total Distributions	Net Asset Value	Total Value[2]	Potential Market Exposure[3]	DPI[4]	RVPI[5]	TVPI[6]	Net IRR
Core	2	$103,685,085	$13,483,108	$90,201,977	$130,481,363	$43,095,550	$173,576,913	$56,578,658	1.45x	0.48x	1.92x	17.04%
Diversified	1	98,198,649	17,073,302	89,461,620	27,683,333	77,677,044	105,360,377	94,750,346	0.31x	0.87x	1.18x	9.39%
Opportunistic	14	947,591,244	339,038,739	618,281,182	135,851,628	540,971,520	676,823,148	880,010,259	0.22x	0.87x	1.09x	5.06%
RE Debt	5	442,560,000	128,103,399	386,886,889	218,882,098	233,985,280	452,867,378	362,088,679	0.57x	0.60x	1.17x	8.49%
Timber	1	30,000,000	5,786,022	24,213,978	0	32,066,893	32,066,893	37,852,915	0.00x	1.32x	1.32x	15.89%
Value Add	2	225,000,000	52,373,270	193,633,209	33,244,335	208,684,657	241,928,992	261,057,927	0.17x	1.08x	1.25x	20.67%
Total Real Estate	**25**	**$1,847,034,978**	**$555,857,840**	**$1,402,678,855**	**$546,142,758**	**$1,136,480,944**	**$1,682,623,702**	**$1,692,338,784**	**0.39x**	**0.81x**	**1.20x**	**9.77%**

Diversification by Net Asset Value



Diversification by Potential Market Exposure[3]



See page 16 for notes.

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Real Estate Portfolio Performance

- The real estate portfolio NAV is primarily driven by allocations to Opportunistic and Real Estate Debt, which account for 47.6% and 20.6% of NAV, respectively.
  - These styles also show the largest potential market exposures of 52.0% and 21.4%, respectively.
- As of December 31, 2013, total real estate performance improved over the previous quarter as the since inception net IRR moved from 8.85% to 9.77% and the net equity multiple moved from 1.17x to 1.20x.
- Opportunistic investments experienced the biggest increase over the previous quarter going from a 3.17% net IRR and a 1.05x net equity multiple to a 5.06% net IRR and a 1.09x net equity multiple.
  - Despite the positive movement, Opportunistic continues to be the laggard to date; however, many of the underlying investments were made recently and are impacted by the J-Curve effect.
  - Performance continues to improve as investments call more capital and mature (65% called as of December 31, 2013).
- Core investments have generated the best performance by multiple since inception, earning a 1.92x net equity multiple.
- Only the 2006 vintage year is exhibiting negative performance, generating a -7.01% net IRR and an 0.66x net equity multiple.


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Notes

Notes

1. Unfunded Commitments include recallable distributions.
2. Total Value = Total Distributions + Net Asset Value
3. Potential Market Exposure is calculated as Net Asset Value + Unfunded Commitments. This is intended to show what the exposure would be to any given investment or strategy if all unfunded commitments were called by the investment managers prior to making any distributions.
4. DPI = Total Distributions / Total Contributions
5. RVPI = Net Asset Value / Total Contributions
6. TVPI = Total Value / Total Contributions

Is a SC Private Equity & Direct Investment Program Viable?

Agenda

I. Overview of Research Conclusions
II. Investment Beliefs Necessary To Support A Program
III. Attractive Risk Adjusted Return Profile
IV. Sound Operational Model
V. Plan Requires Active Participation and Communication

Key Considerations

- Communication Plan
  - Internal
  - External
- Operating Plan
  - Partner with proven operators
- Capital Plan
  - Seek to be major, but not sole, lead, or majority investor even if check sizes or lower to avoid setting prices
- Organize around communities not just geography.

<u>Requires us to civilize our discourse, think strategically, and visualize a long term future.</u>

Overview of Research Conclusions

Attractive Market Dynamics

- Secular changes and increasing bank regulations are constraining access to capital for middle market and lower middle market companies.
- South Carolina has a well developed commercial banking culture (80+ banks) and a underdeveloped investment banking and capital markets environment despite an increasing number of opportunities
- The $160 Billion economy is highly diverse and highly internationally linked.
- Our own experience has been positive.
- Examples of recent market activity

RSIC is Well Positioned to Capitalize

- Under 9-16-50(5) RSIC may consider benefits created by an investment in addition to investment return only if the commission determines that the investment providing these collateral benefits would be prudent even without the collateral benefits
- Under 9-16-345 In hiring and procurement in the implementation and administration of this chapter, and consistent with its duties as fiduciary under this title, the commission shall strive to assure that minorities and minority-owned businesses are represented
- We have the capital, we have the knowledge, we have the professionals, we have the partners, and we have the economy to be successful
- We have the ability to positively impact South Carolina more through an organizational capacity than a capital capacity.

Attractive Risk-Adjusted Returns

- Attractive Risk Adjusted Return Profile
- Requires a Sound Operational Model
- Organizational structure can be used to create an informational and cost structure advantages

Historical Experience

SC Strategy	Investment	Vintage Year (SC)	Commitments	Unfunded Commitments	Total Contributions	Total Distributions	Net Asset Value	Total Value	Net IRR
Buyout	Carousel Capital Partners - Fund III	2006	30,000,000.00	6,940,251.00	23,674,466.00	37,766,734.00	9,450,967.00	47,217,701.00	24.63%
Buyout	Carousel Capital Partners - Fund IV	2011	30,000,000.00	21,709,664.00	8,291,070.00	104,520.00	7,489,390.01	7,593,910.01	-10.34%
Growth	The Azalea Fund III, L.P.	2009	16,500,000.00	2,717,637.77	15,051,558.12	16,402,871.60	8,695,856.05	25,098,727.65	137.24%
Venture	Square 1 Venture 1, L.P.	2007	37,950,000.00	5,692,500.00	32,257,500.00	11,235,861.02	42,785,602.00	54,021,463.02	19.36%
Venture	Square 1 Venture Management 1, L.P.	2007	10,000.00	1,500.00	8,500.00	2,882.00	273,396.00	276,278.00	130.25%
Core	Project US REIF	2008	9,935,085.37	0.00	9,935,085.37	536,810.49	11,437,998.00	11,974,808.49	5.41%
Timber	American Timberlands Fund II, LP	2011	30,000,000.00	5,786,021.51	24,213,978.49	0.00	32,066,893.00	32,066,893.00	15.89%
Value Add	Greystar Equity Partners VII	2011	150,000,000.00	14,873,269.71	156,133,208.55	32,037,667.41	170,453,254.00	202,490,921.41	21.64%
	Athene		172,900,000.00	0.00	172,900,000.00	172,900,000.00	256,700,000.00	429,600,000.00	36.30%
	Total		477,295,085	57,720,844	442,465,367	270,987,347	539,353,356	810,340,703	

RSIC
SC Retirement System Investment Commission

Other In Market Deals Examples

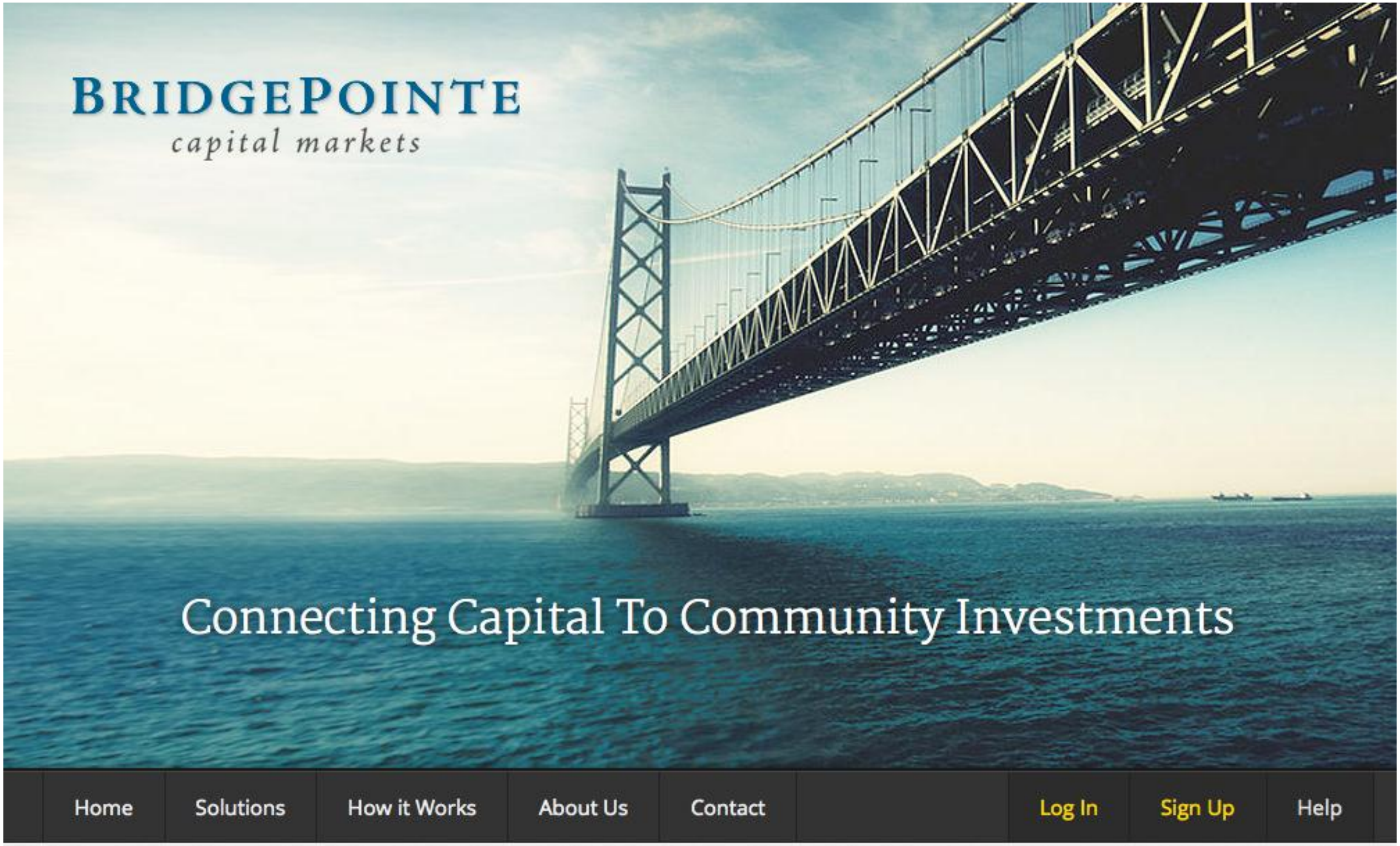
- Bi-Lo/Winn Dixie – Lone Star Funds
- PeopleMatter – Morganthaler Ventures ($14 mil)
- Proterra – Kleiner Perkins, GM Ventures, Vision Ridge Partners, 88 Green (originally bridged by UCAN)
- North American Rescue – Sentinel Capital Partners
- Benefit Focus – Lonergan Partners
- Southern Tide – Brazos Private Equity
- Selah Genomics (sold for up to $75 mil)
- Southern First Bank (SFST) – Sandler O'Neil ($10 mil)
- Palmetto Bank (PLMT) (+/- $100 mil)
- Certus Bank ($500 mil)
- Ranger Aerospace
- Perot Aerospace (+/- $200 Million)
- Edens ($1.47 Bil) – Blackstone, NY Teachers, Michigan Retirement,
- WJ Partners

Robust Internationally Linked Economy

- South Carolina, North Carolina, Georgia, and Tennessee are all top 10 exporting states, responsible for $26.1 bil, $29.3 bil, $37.6 bil, and $32.4 bil in goods annually
- South Carolina's exports to China have grown over 1000% over the last decade to reach $3.3 billion annually
- There over 5,500 firms in South Carolina exporting goods and most are small to middle market companies
- Key industries include:
  - Advance Manufacturing & Materials
  - Information Technology
  - Transportation & Logistics
  - Aerospace & Defense
  - Business Services & Educational Training
  - Industrial Services, Repair and Maintenance
  - Opportunistic National Resources & Agriculture
  - Financial Services
  - Special Situations & Rescue Finance

BridgePointe Funding Portal

BRIDGEPOINTE capital markets



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SECTION 1

Community-Based Investing

Community-Based Investing

"Invest In What You Know"

– Warren Buffett

What is Community?

- Geography (City, State, Region)
- Industry (Healthcare, Energy, Retail, Tech, etc.)
- Affinity Groups
  - Clusters, Impact Investors
  - Universities, Accelerators
  - Non-Profits, Program Related Investments

The Commercial "Funding Gap"

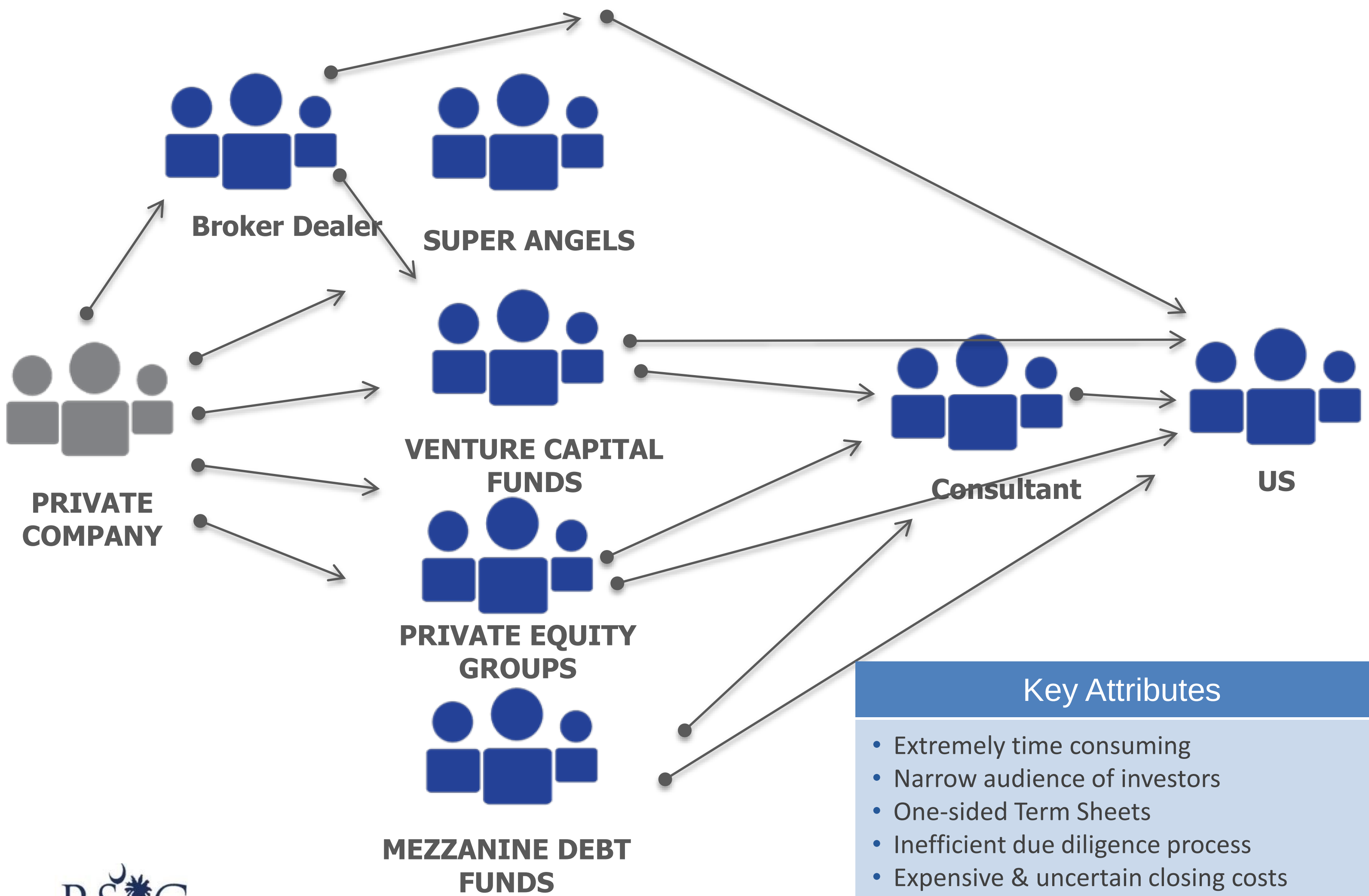
- $500k to $10.0 million
- Bank Lending Constraints
  - Dodd Frank Wall Street Reform Act
  - Loan Review: *internal & external*
- Inefficient Access to Risk-Capital

"Bridging"
The Funding Gap

Pre-Launch
Friends & Family
Local Angels

Traditional
Commercial Banks
Investment Funds

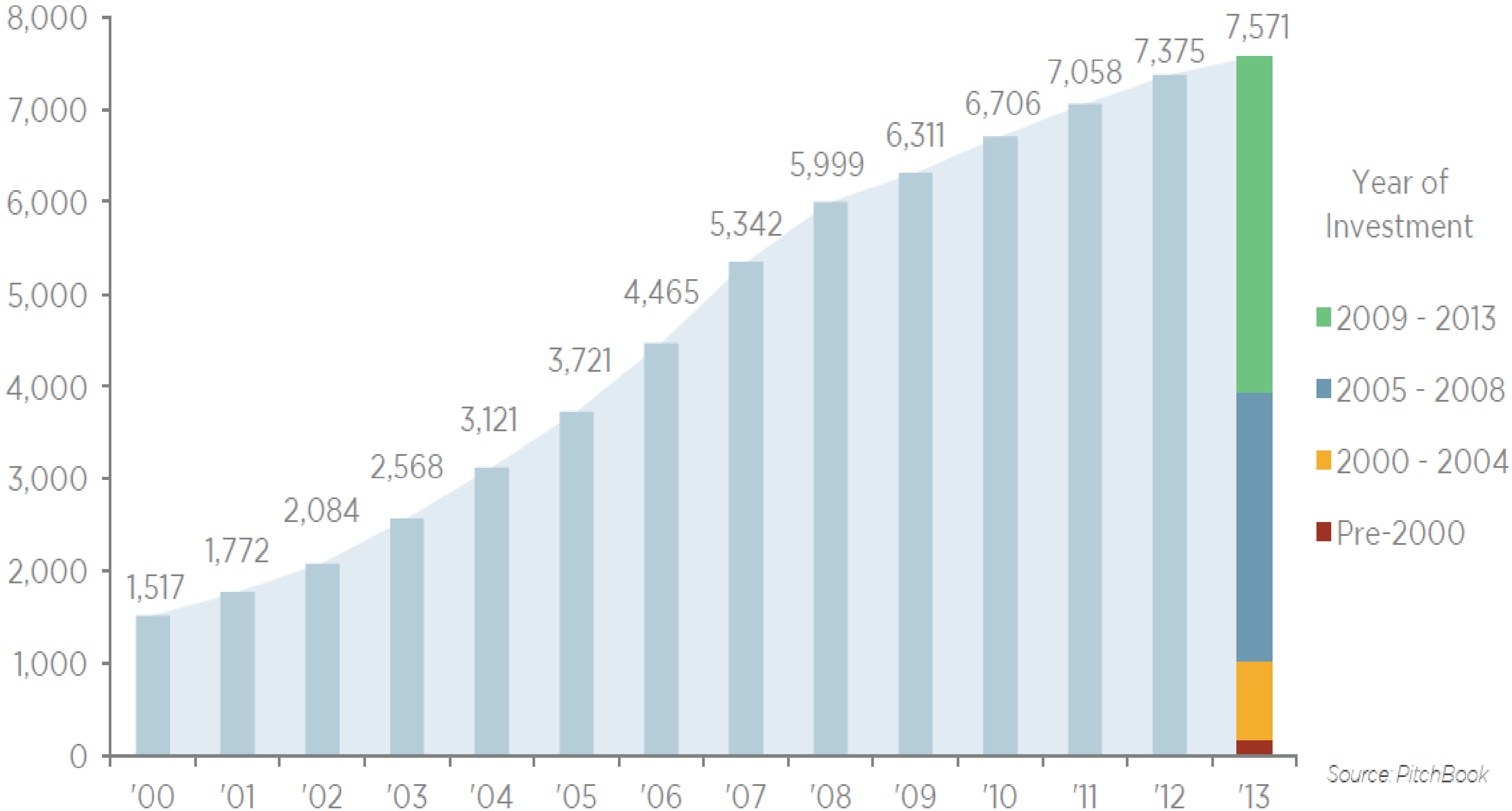
Investment Beliefs
Current Environment



Key Attributes

- Extremely time consuming
- Narrow audience of investors
- One-sided Term Sheets
- Inefficient due diligence process
- Expensive & uncertain closing costs

Number of Private Equity Owned Companies



Number of Companies Listed on U.S. Exchanges

BridgePointe Mission

BRIDGEPOINTE capital markets

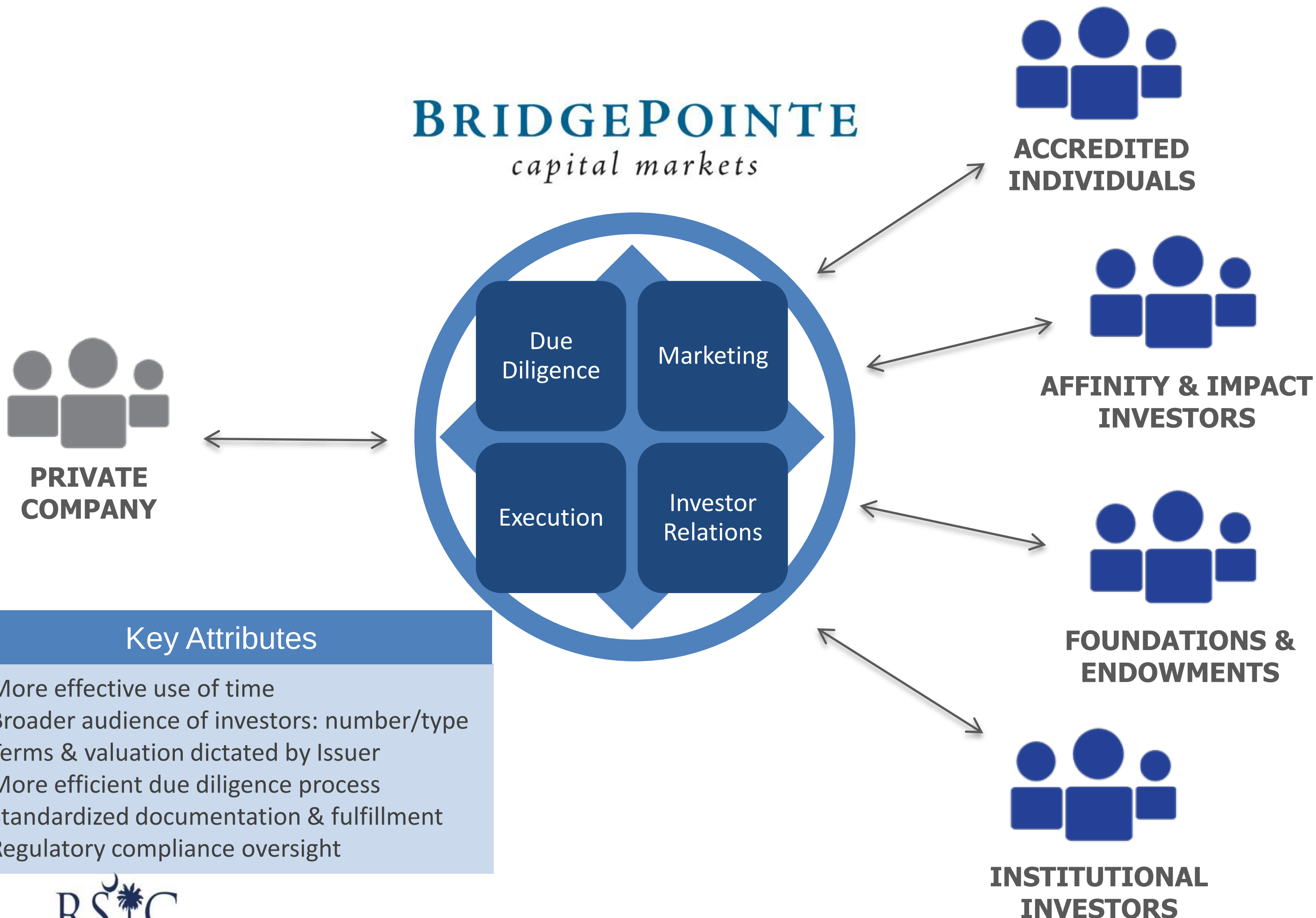
Create a
Virtual Capital Market for Private Companies, Accredited Investors and Community Partners

COMMUNITY-BASED INVESTING

RSIC
SC RETIREMENT SYSTEM INVESTMENT COMMISSION

BridgePointe Environment

BRIDGEPOINTE capital markets



Key Attributes

- More effective use of time
- Broader audience of investors: number/type
- Terms & valuation dictated by Issuer
- More efficient due diligence process
- Standardized documentation & fulfillment
- Regulatory compliance oversight

The BridgePointe Difference

BRIDGEPOINTE capital markets

Fully Integrated End-to-End Solution

PHASES OF DEVELOPMENT			
DUE DILIGENCE	MARKETING	EXECUTION	INVESTOR RELATIONS
Private Company	Accredited Investors	All Parties	Post-Closing

• Detailed Due Diligence Workflow
• Issuer Defined Timelines
• Due Diligence Resources
• Define Transaction Structure & Terms
• Pre-Offering Marketing
• Detailed Private Placement Memorandum (PPM)
	• Pre-Marketing Tear Sheets
	• Downloadable PPM
	• Controlled PPM Distribution
	• Tombstone Offering
	• Real-time Feedback via 'Investor Pipeline' Widget
	• Marketing Overview Videos
	• Recorded Investor Pitches
	• Live Webinars
		• On-line Documents
		• Electronic Signatures
		• Escrow Services
		• Investor Accounts
		• Bond Trustee Services
			• Periodic Postings:
			  ‣ *Financial Statements*
			  ‣ *Management Discussion & Analysis (MD&As)*
			  ‣ *Tax Documentation*
			• Live Webinars
			• Recorded Presentations
			• Important Alerts
			• Q&A Messaging Tools

BRIDGEPOINTE
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SECTION 2

BridgePointe Funding Portal

Investor Registration

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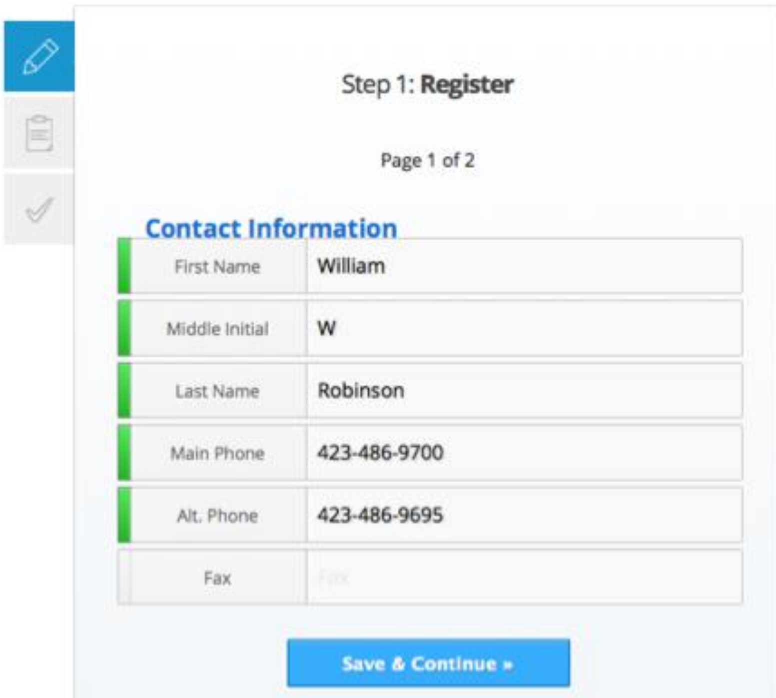

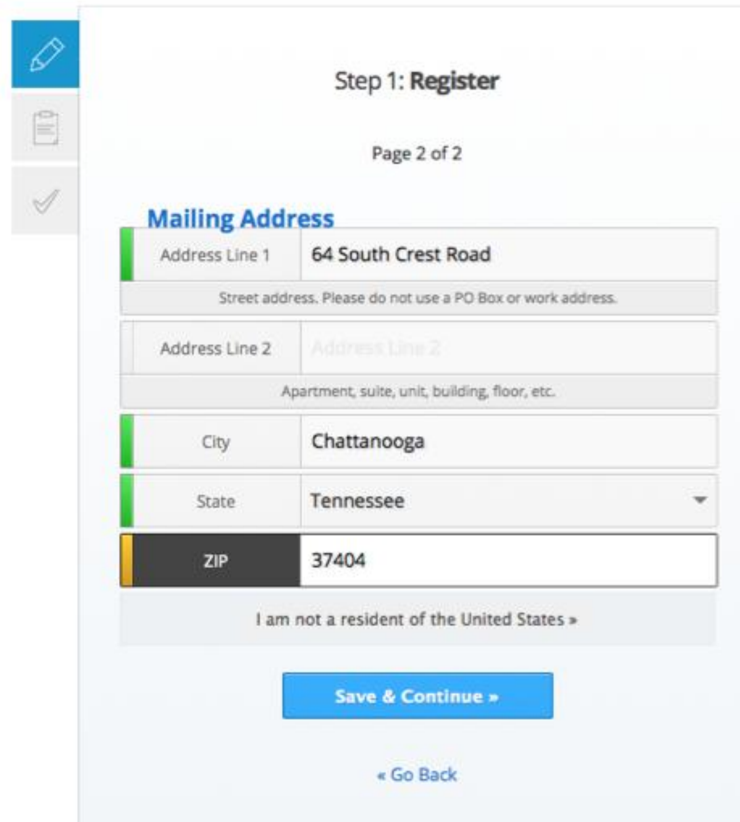

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Investor Accreditation

BRIDGEPOINTE capital markets

Step 2: **Qualify**

Investor Accreditation

Select at least one option:

- [x] I made $200,000 or more in each of the two most recent years and believe I will make at least that much this year.
- [ ] I have a joint income with my spouse that has exceeded $300,000 for each of the last 2 years and I expect it will exceed that again this year.
- [ ] I have an individual net worth, or joint net worth with my spouse, that exceeds $1,000,000 today excluding my primary residence.
- [x] I am an Authorized Representative of an **Individual Accredited Investor** , **Qualified Purchaser** or **Qualified Institutional Buyer** such as a Bank, Broker-Dealer, Business Development Corporation, Non-Financial Corporation, Employee Retirement Plan, Endowment, Family Office, Foundation, Hedge Fund, Insurance Company, Mutual Fund, Pension Fund, Small Business Investment Company or Venture Capital Fund interested in investment opportunities on this site.
- [x] I am a FINRA registered securities representative.
- [ ] None of the above.

Save & Continue »

Step 2: **Qualify**

Institutional or Authorized Representative Application

Please download the form application form below, complete, and submit via email to: wrobinson@bridgepointemarkets.com.

Qualified Institutional Buyer Application

Continue to next step »

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Investor Preferences

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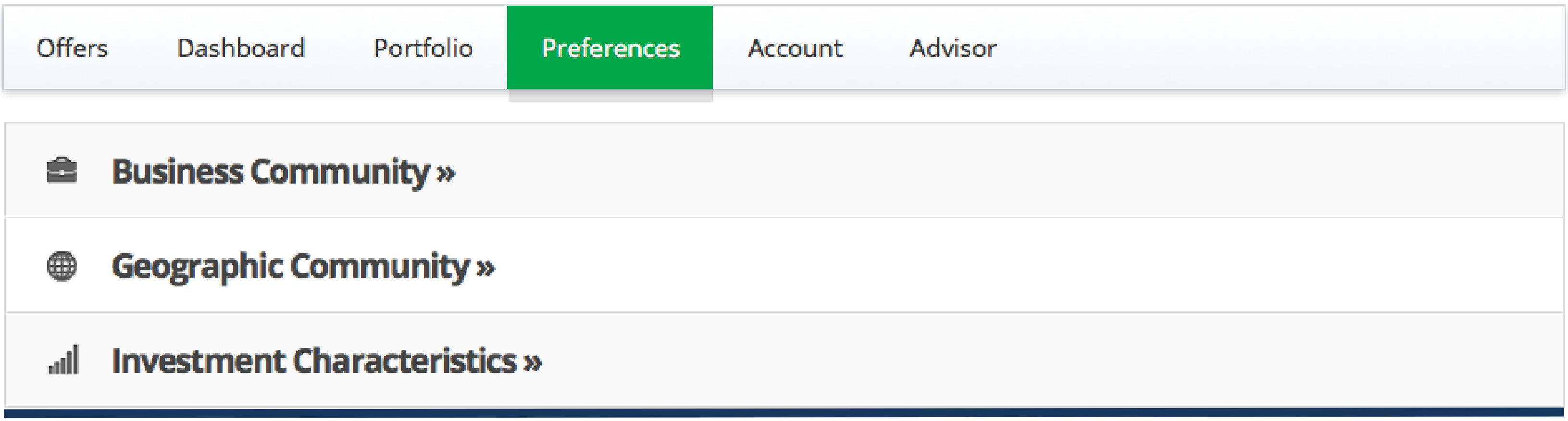

Business Community

- Business Stage
- Annual Revenue
- Use of Proceeds
- Industry
- Affinity Groups
- Community Partners

Geographic Community

- Region
- State
- City

Investment Characteristics

- Raise Type
- Funding Round
- Debt:
  - ✓ Interest Rate
  - ✓ Final Maturity
  - ✓ Pay-Back Period
- Equity:
  - ✓ Hold Period
  - ✓ Primary Exit Strategy
- Investment Funds:
  - ✓ Investment Strategy

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Placement Offerings

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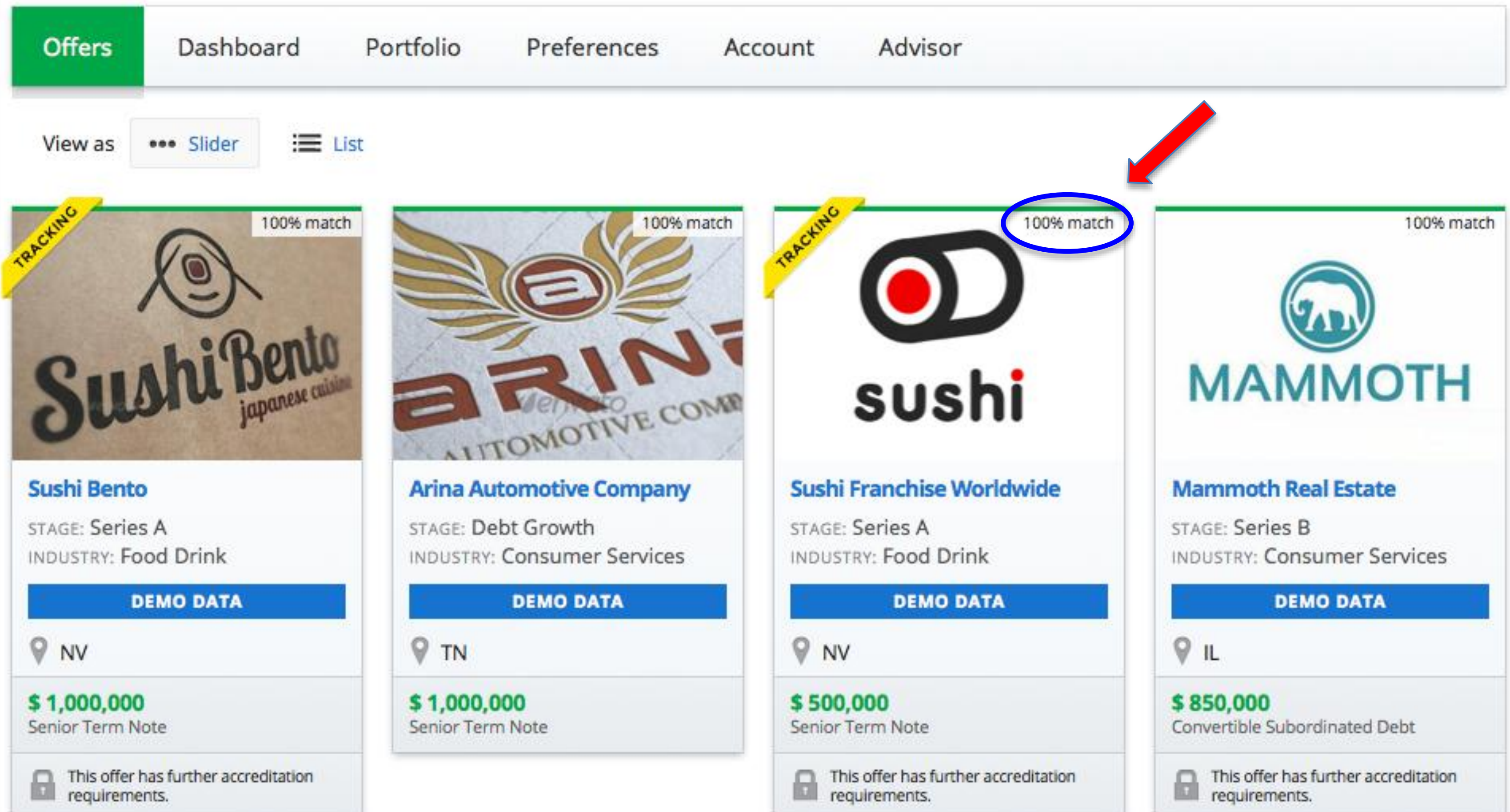
capital markets



BRIDGEPOINTE FUNDING PORTAL

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Sound Economics
Offering Details

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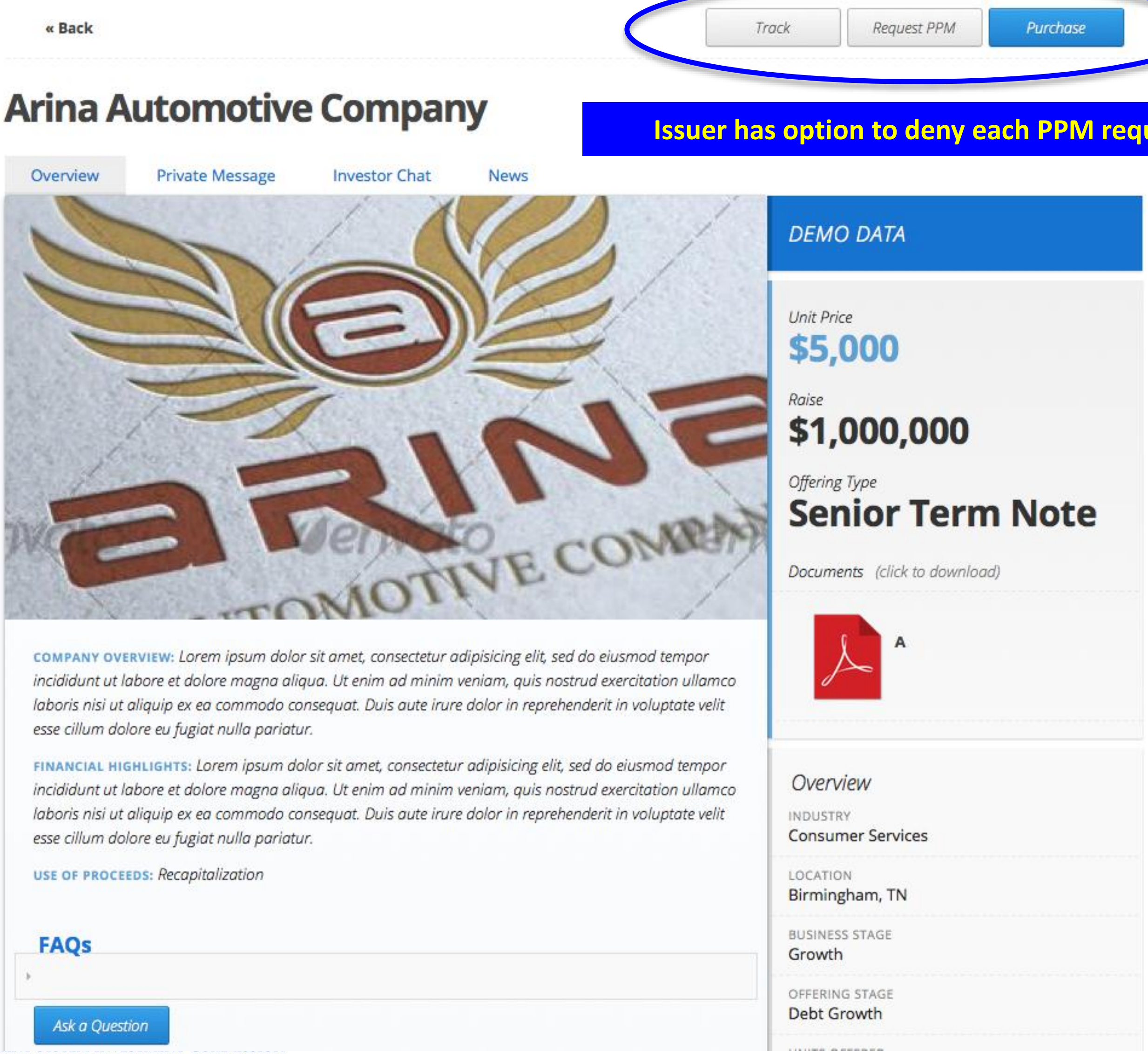
Issuer has option to deny each PPM request



SC RETIRE

Investor Funding Account

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US Citizen?	(•) Yes ( ) No
US Resident?	(•) Yes ( ) No
Date of Birth	Date of Birth
Social Security #	Social Security #
Marital Status	( ) Married ( ) Not Married

Have you previously participated in private offerings of securities?

( ) Yes (•) No

☐ I confirm that I have read, understand, and accept the Account & Platform Agreement.

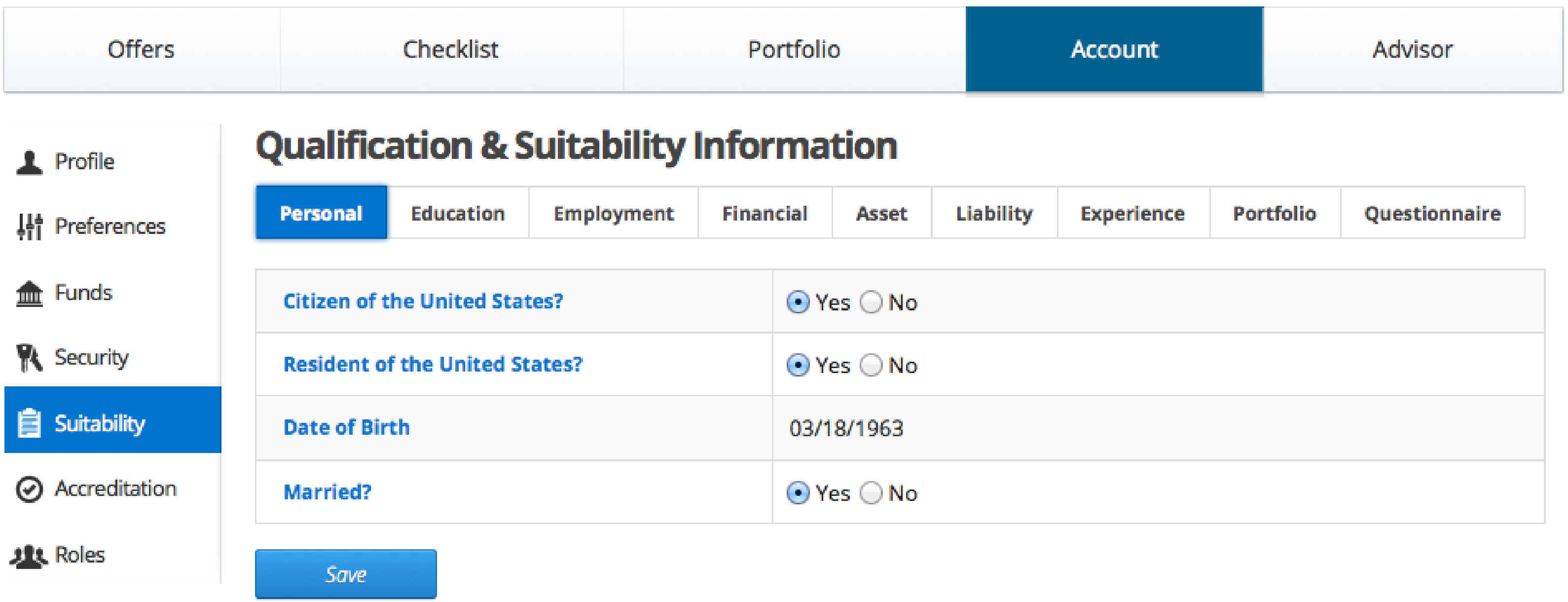
Save

- ***Bank Account:*** ***FDIC insured***
- ***Multiple Funding Options***
- ***Regulatory Compliance:***
  - ✓ *Identification Cross-check*
  - ✓ *U.S. Patriot Act*
  - ✓ *Anti-Money Laundering*
  - ✓ *Office Foreign Assets Control*

The creation of an "Individual" BancBox Investor account is required prior to initiating transactions on this platform; however, it is not required that you fund or make purchases with this account. Once you open an "Individual" account, you'll have the option to add new funding accounts or link external bank accounts.

Upon submitting this form, we will create an FDIC insured bank account on your behalf which will provide you with multiple options for funding investments on this website.

Investor Suitability Checks



BRIDGEPOINTE capital markets

Private Company Portal

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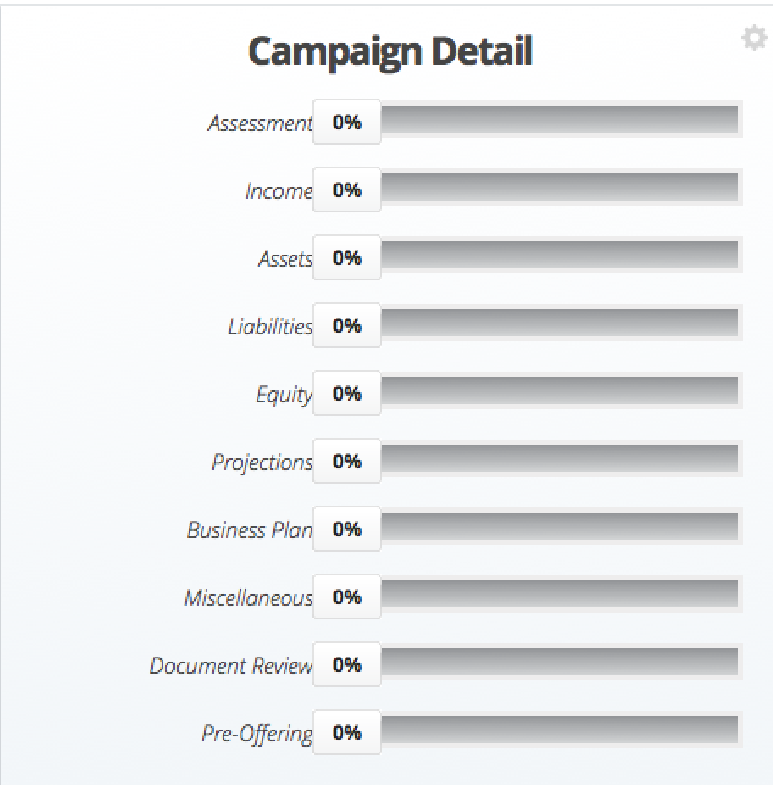
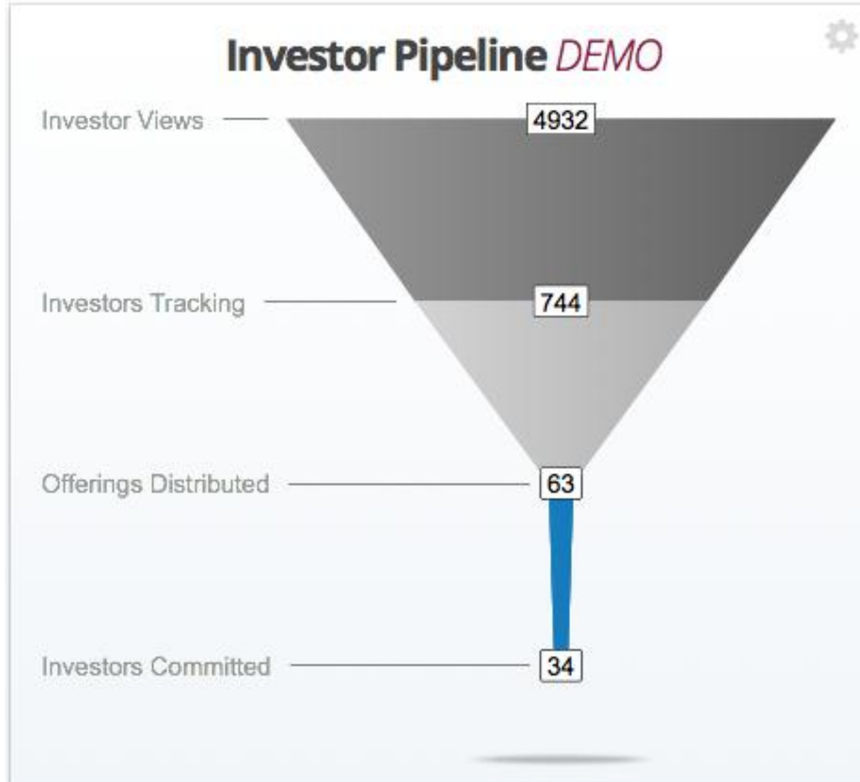
Private Company Dashboard

BRIDGEPOINTE capital markets





BRIDGEPOINTE FUNDING PORTAL

Due Diligence Projects

BRIDGEPOINTE capital markets

Due Diligence | Profile | Overview | Tombstone | Settings

- Search
- Assessment
- **Assets**
- Liabilities
- Equity
- Income
- Projections
- Business Plan
- Miscellaneous
- Document Review
- Pre-Offering

Project Status: **In Progress (open)** Submit and Lock

STATUS	ORDER ▲	NAME	PROJECT	DUE IN
	2-1	Cash & Investments	Assets	**9 days**
	2-2	Accounts Receivable	Assets	**9 days**
	2-3	Inventory	Assets	**9 days**
	2-4	Other Short-Term Assets	Assets	**9 days**
	2-5	Property, Plant & Equipment	Assets	**9 days**
	2-6	Other Long-Term Assets	Assets	**9 days**

BRIDGEPOINTE FUNDING PORTAL

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Due Diligence Tasks

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5 Largest Customers

Name	Address	Phone	E-Mail

Add Line

Provide the name, address, phone number and e-mail information for the five (5) largest customers.

Customer Detail	Upload File

Upload a schedule of the twenty (20) largest customers, including the amount sold annually, a description of discounts, promotional allowances, payment terms, rebates or referral fees for each.

Customer List	Upload File

Upload a complete customer list.

Customer Attrition	Upload File

Upload a detailed breakdown of customer attrition data for the past three (3) years.

Customers	(•) Yes ( ) No

Does the company currently have customers?

Accounts Receivable	( ) Yes (•) No

Does the Company have Accounts Receivable?

Save

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capital markets

SECTION 3

Value Proposition

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BRIDGEPOINTE capital markets

Private Companies

Filling the "Funding Gap" for Small to Mid-size Companies

Business Owners

- Saves valuable time & energy
- Increases potential to implement strategic business plans
- Ability to leverage personal and commercial relationships into capital
- Reach Investors motivated beyond price
- Obtain confidence by engaging a registered broker-dealer to guide regulatory compliance

Financial Officers

- More competitive market for capital
- Quasi "Public Offering" terms & valuation in a "Private Offering" structure
- Ability to reach wider audience of investors
- Ability to offer future funding tranches: quasi "Shelf Offering" structure
- Broker-dealer to perform investor qualification checks and suitability reviews

Administrative Staff

- Ability to push updates & documents to Investors efficiently
- Efficient due diligence process
- Ability to leverage Community Partners to assist with due diligence tasks (i.e. attorneys, accountants)
- Saves time & money
- Access to a dedicated Campaign Manager and support group

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Qualified Investors

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Efficient Investment Process with Multiple Strategic Benefits

Accredited Individuals

- Opportunity to "Invest in What You Know"… Community & People
- Ability to participate directly in a new investment class
- Obtain portfolio diversification with minimum investment units a low as $5,000
- Track investments via Investor Relations Portal

Impact Investors

- Ability to directly impact mission
- Helps stimulate local economic growth
- Ability to obtain a commercial rate of return
- Matches "Mission" with "Investment Strategy"

Institutional Investors

- Ability to invest directly in a new asset class
- Ability to lower expenses and increase yields by avoiding investment funds.
- Obtain relative value existing in lower middle market sector
- Ability to set Investor preferences to match opportunities to investment strategy

★ **v2.0** Alternative Trading Platform: *Liquidity via Rule 144 Transactions*

Sound Operational Model
Community Partners

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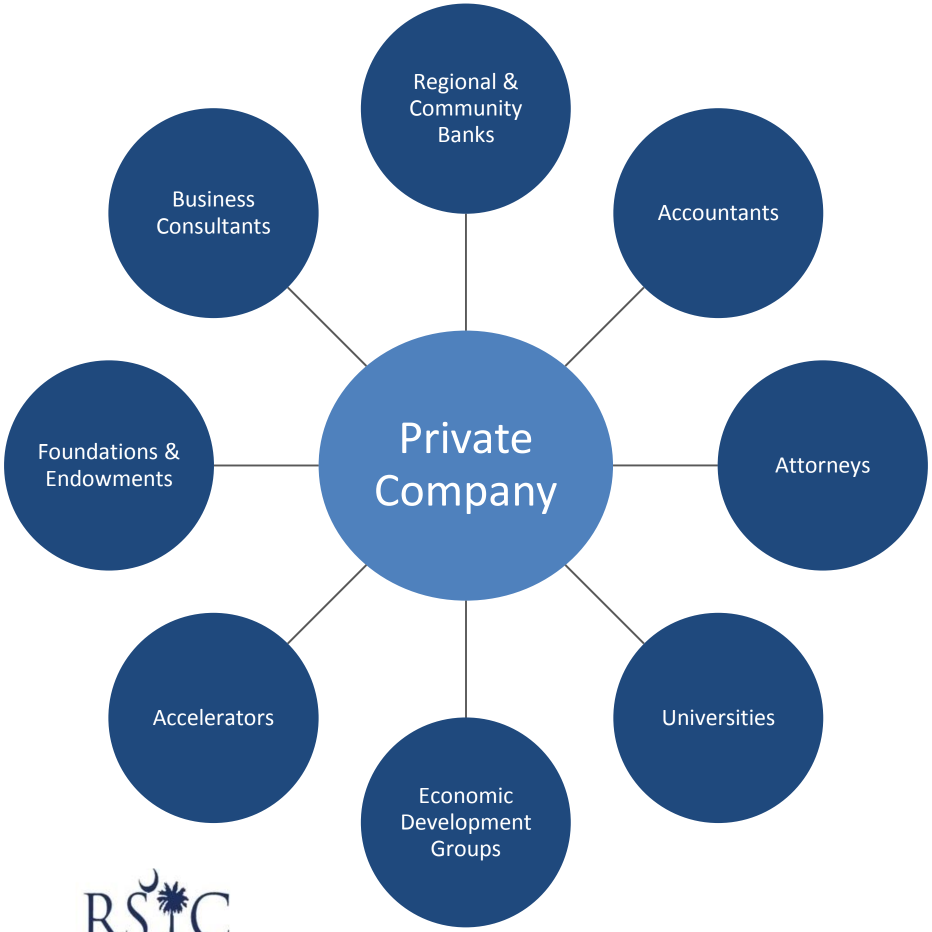
Encourages a Strong Business Ecosystem



Community Partners

- Regional market for capital
- Stimulates local economic growth
- Enhances community participation
- Cross-referral opportunities
- Ability to track community impact

VALUE PROPOSITION

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BRIDGEPOINTE capital markets

APPENDIX I

BridgePointe Capital Markets

BridgePointe Capital Group

BRIDGEPOINTE capital markets

BridgePointe Capital Markets [1]

- Private placements of debt, equity and L.P. units (investment funds)
- Regulation D exempt security offerings
- Securities-based capital raises: *www.bridgepointemarkets.com*

FundingCommunities.com [2]

- Contribution-based capital raises
  - Reward-based: *For-profit entities (concept-stage start-ups)*
  - Donor-based: *Not-for-profit entities (charities)*
- Clemson University alumni site: *www.clemsonideas.com*

BRIDGEPOINTE CAPITAL MARKETS

1. Services offered by BridgePointe Capital Markets, LLC; Securities offered through Mission Capital LLC, Member FINRA|SIPC.
2. Services offered by rewards-based network of fundingcommunities.com sites.

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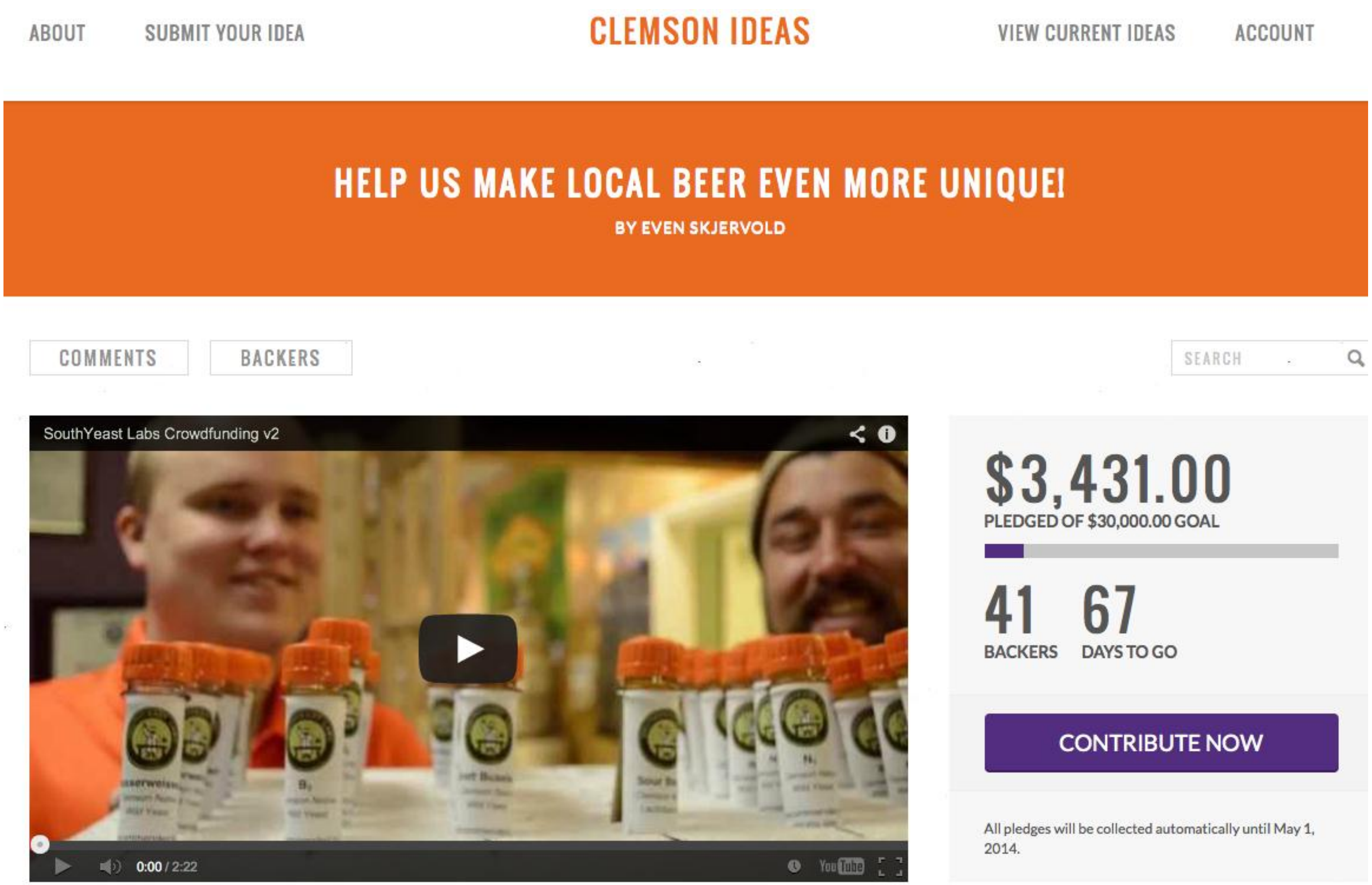
capital markets

Reward-based Portals



www.clemsonideas.com

Management Team

BRIDGEPOINTE capital markets

Walt Robinson

- 25+ years Commercial and Investment Banking experience
- **BridgePointe Capital Markets** – *Managing Partner*
- **Regions Financial** – *Commercial Banking Executive*
- **CIMA Telecom** – *CFO and EVP of Corporate Development*
- **TD Securities** – *Investment Banking Division (New York)*
- **General Motors** – *Global Treasurer's Office (New York)*
- **FINRA Registered:** *Series 7, 24, 63, 66 & 79 (Investment Banking Representative)*
- **Vanderbilt University** (BA), **Duke University** (MBA)

John Katovich

- 30+ years Securities Industry and Compliance experience
- **Mission Capital** - *Partner*
- **NASDAQ** - *CEO, Boston Options Exchange Regulatory Group*
- **Boston Stock Exchange** – *EVP and Chief Legal Officer*
- **Pacific Stock Exchange** - *General Counsel & Secretary*
- **FINRA Registered:** *Series 24 & 62 (Corporate Securities Representative)*
- **Univ. of Illinois, Urbana-Champaign** (BA), **Southern Illinois University** (JD)

Messrs. Robinson and Katovich are registered General Securities Principals of Mission Capital LLC, Member FINRA|SIPC.

Advisory Team

BRIDGEPOINTE capital markets

John Wilson

- **Paladin Capital Group** – *Venture Partner*
- **Chattanooga GIG Tank** – *Managing Director (accelerator-based competition)*
- **Renewable Energy Institute** – *Founder*
- **Southern Governor's Association** – *Executive Director*
- **Emory University** (BA)

Scott Stevenson

- **Barclays Capital** – *Managing Director, Global Insurance Markets (retired)*
- **Deutsche Bank Securities** - *Director, Alternative Risk Markets*
- **Merrill Lynch** - *Vice President, Catastrophic Bond Markets*
- **Vanderbilt University** (BA), **University of Chicago** (MBA)

Scott Soltau[1]

- **BridgePointe Capital Partners** – *Managing Director, Fixed Income Strategies*
- **Morgan Keegan** – *Senior Vice President, Institutional Fixed Income Sales*
- **SunTrust Capital Markets** – *Vice President, Fixed Income Sales & Trading*
- **Covenant College** (BA)

1. Mr. Soltau is a registered General Securities Representative of FinTrust Brokerage Services, LLC, Member FINRA|SIPC.

Asset Class Plans

June 16-17, 2014

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Investment Objectives

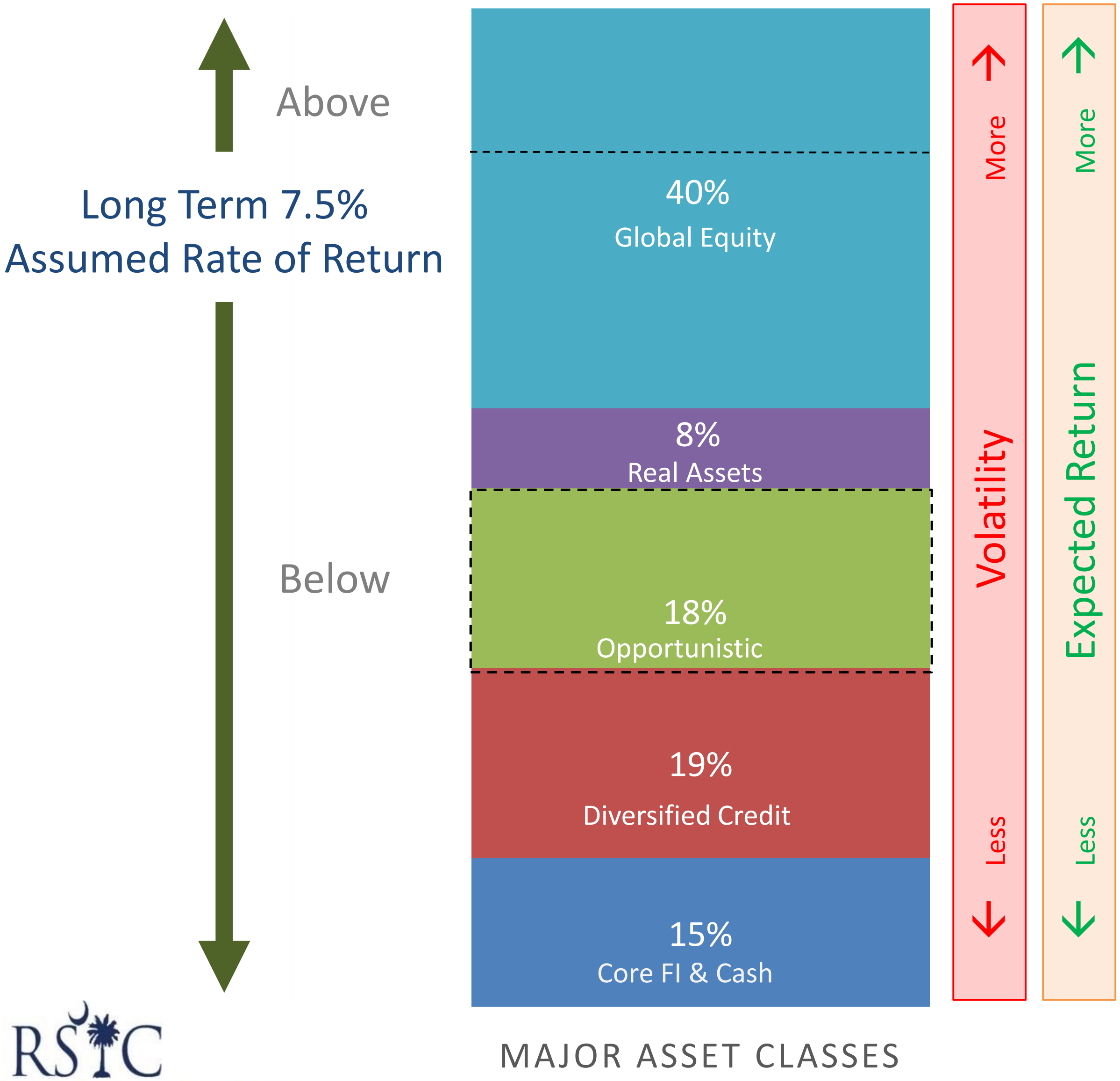
Primary Investment Objective

- Earn the most appropriate risk-adjusted return considering the goals, needs, and circumstances of the Retirement System

Mandate

- Maintain liquidity sufficient for benefit payments
- Outperform the actuarially assumed rate of return, over the long-term
- Optimize the implementation of the asset allocation
- Outperform the Policy Asset Allocation with a similar level of risk

Portfolio Overview



Four Investment Frameworks

- No single perspective is sufficient

- Incorporate short-term market conditions & long term goals

  1. Portfolio Construction
  2. Investment Attributes
  3. Economic Factors
  4. Business Cycle

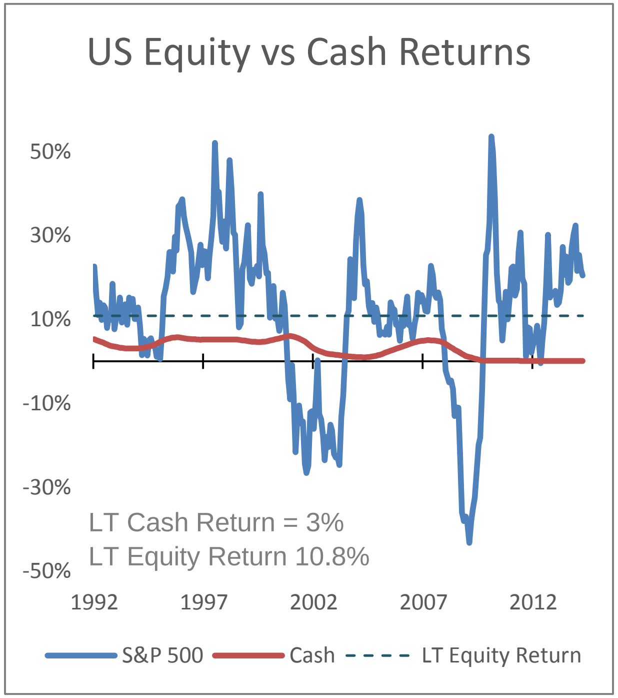
1. Portfolio Construction

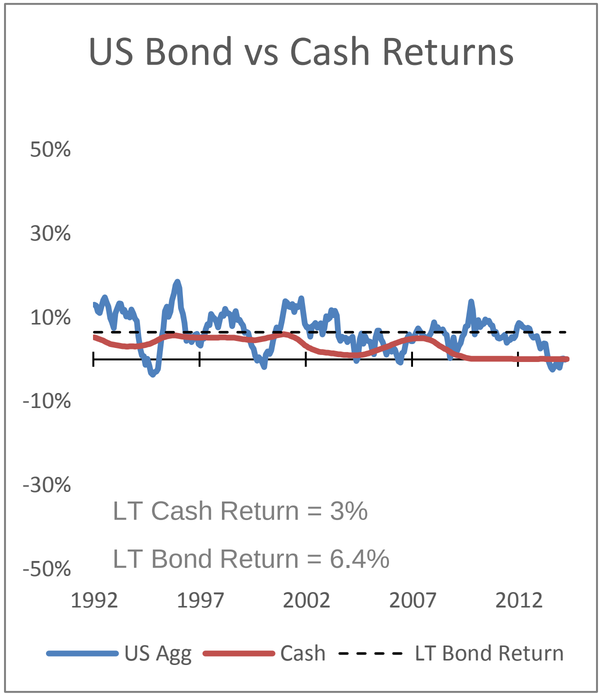
Characteristic	Description
Return	Annualized rate of capital appreciation and income
Volatility	Variability of returns as measured by annualized standard deviation
Diversification	The risk management benefit that accrues from holding an array of assets or strategies

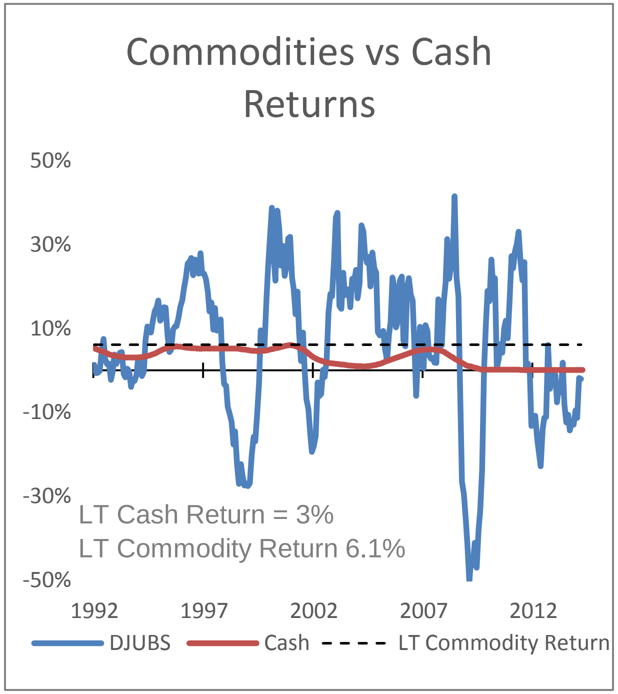
Risk and Return Profile

- Risk and return varies across asset classes

	Total Return	Excess Return	Standard Dev
Equities	10.8%	7.8%	17.6%
Bond	6.4%	3.4%	4.3%
Commodities	6.1%	3.1%	17.6%







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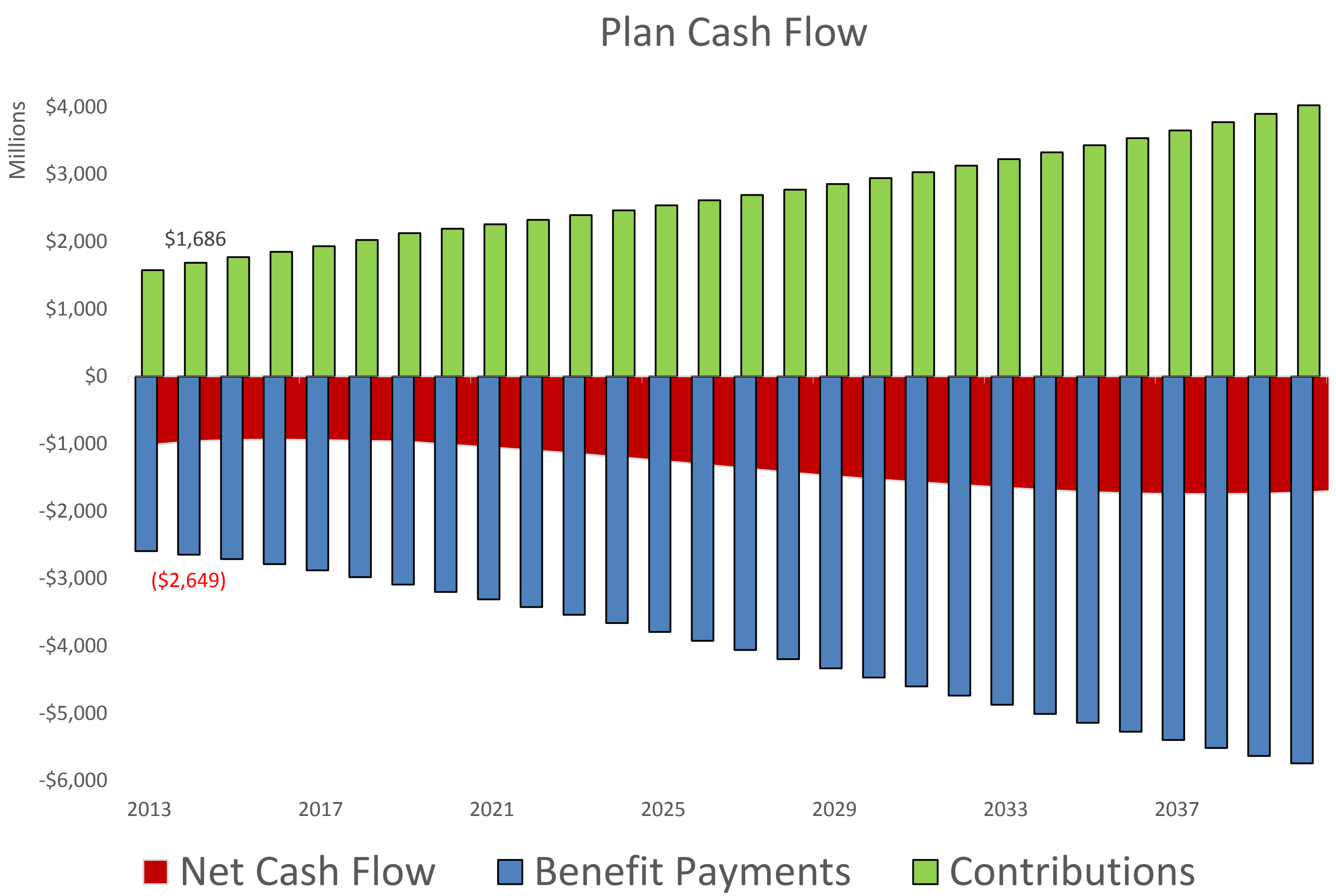
2. Investment Attributes

Attributes	Description
Liquidity	Ability to transact *quickly* and with minimal effect on price
Capital Preservation	The degree to which the asset maintains its value throughout market cycles
Income (Dividends/Coupons)	Cash flow generated from owning an asset
Growth (Capital Appreciation)	An increase in the principal value of the investment, other than that achieved through income.

Significant Need for Liquidity



Source: HEK RSIC Asset Allocation Review March 2014

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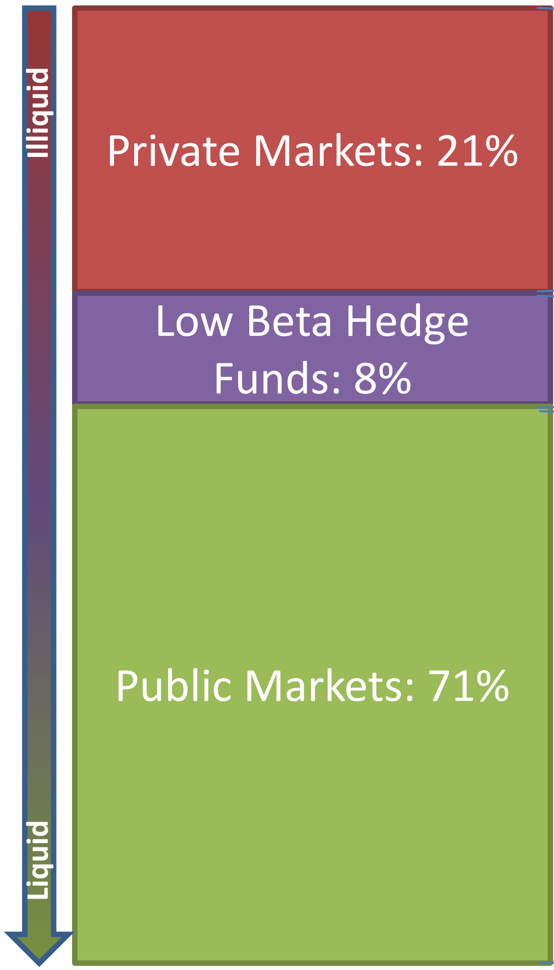
Liquidity vs. Return Trade Off



Private Equity: 9%
Real Estate: 5%
Private Debt: 7%

Hedge Funds: 8%

Emerging Marker Debt: 6%
Mixed Credit: 6%
Global Fixed Income: 3%
Core Fixed Income: 7%
Commodities: 3%
Global Public Equity: 31%
Short Duration: 3%
Cash: 2%

Private Market Considerations

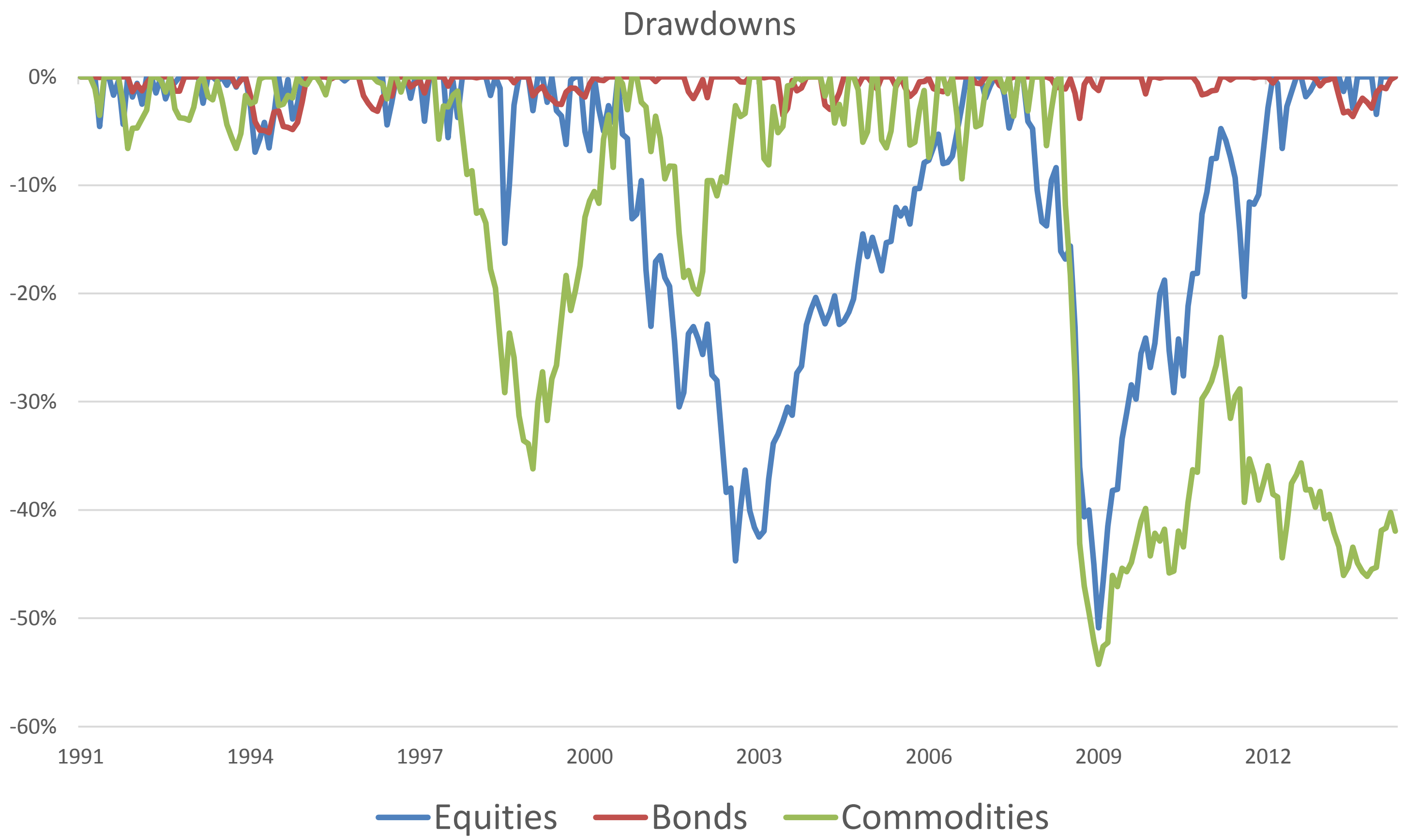
- High correlation to public markets (beta)
- Complex legal structures
- Additional return sources
  - Illiquidity (up to 15 years)
  - Manager skill (alpha)
  - Fewer investors

Hedge Fund (Low-Beta) Considerations

- Low correlation to public markets
- Complex legal structures
- Structurally illiquid
- Additional return sources
  - Illiquidity
  - Security Selection

Capital Preservation Varies by Asset

Bonds offer exceptional capital preservation relative to Equities and Commodities



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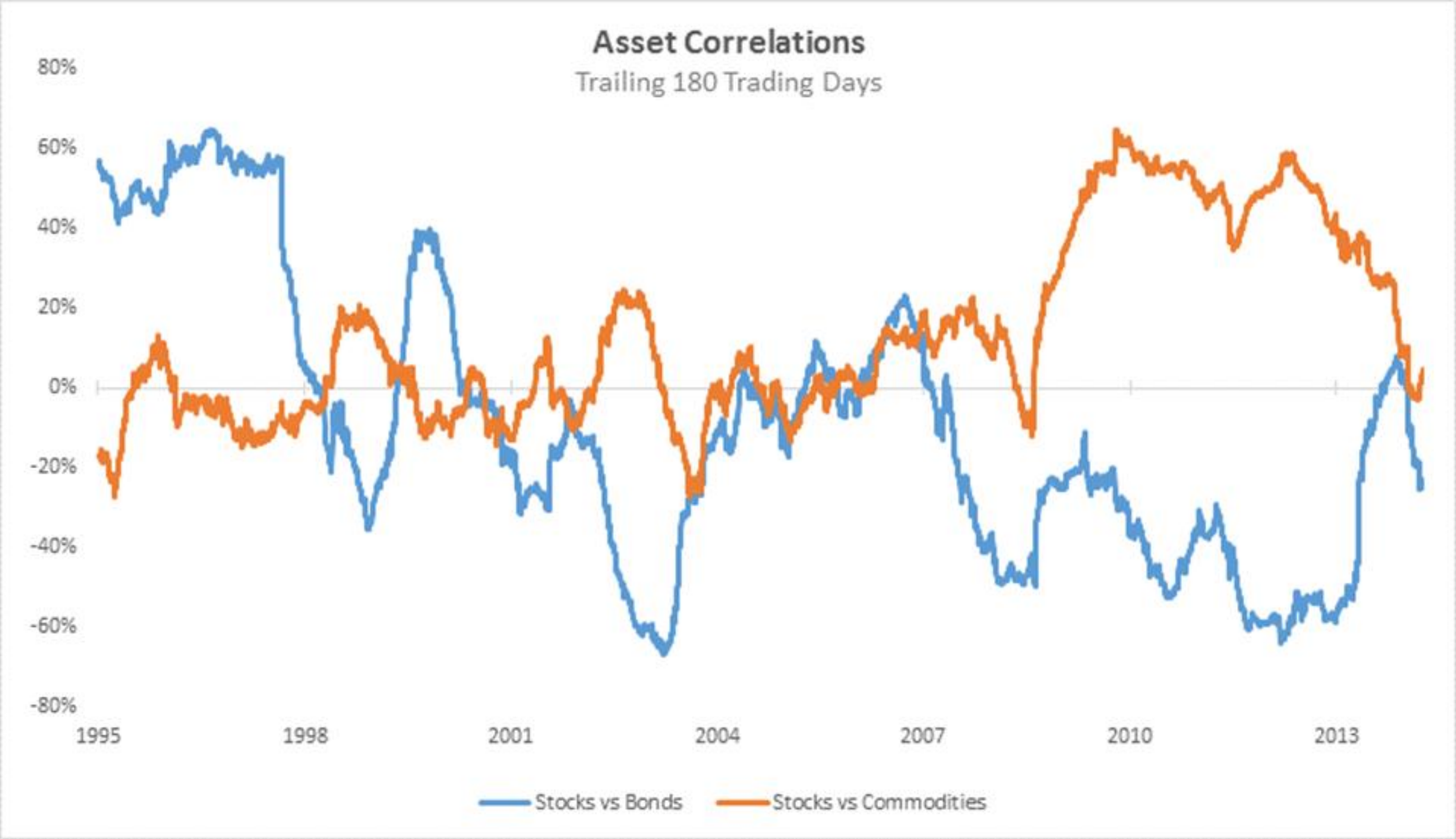
Investment Factors

- Correlations and returns are volatile
- However, assets respond to economic conditions in predictable ways

Factor	Rising	Falling
Growth	When GDP is higher than trailing 12 months	When GDP is lower than trailing 12 months
Inflation	When inflation is higher than trailing 12 months	When inflation is lower than trailing 12 months
Risk	When investments assets (as a whole) earn positive returns	When investments assets (as a whole) earn negative returns

Correlations are Unstable



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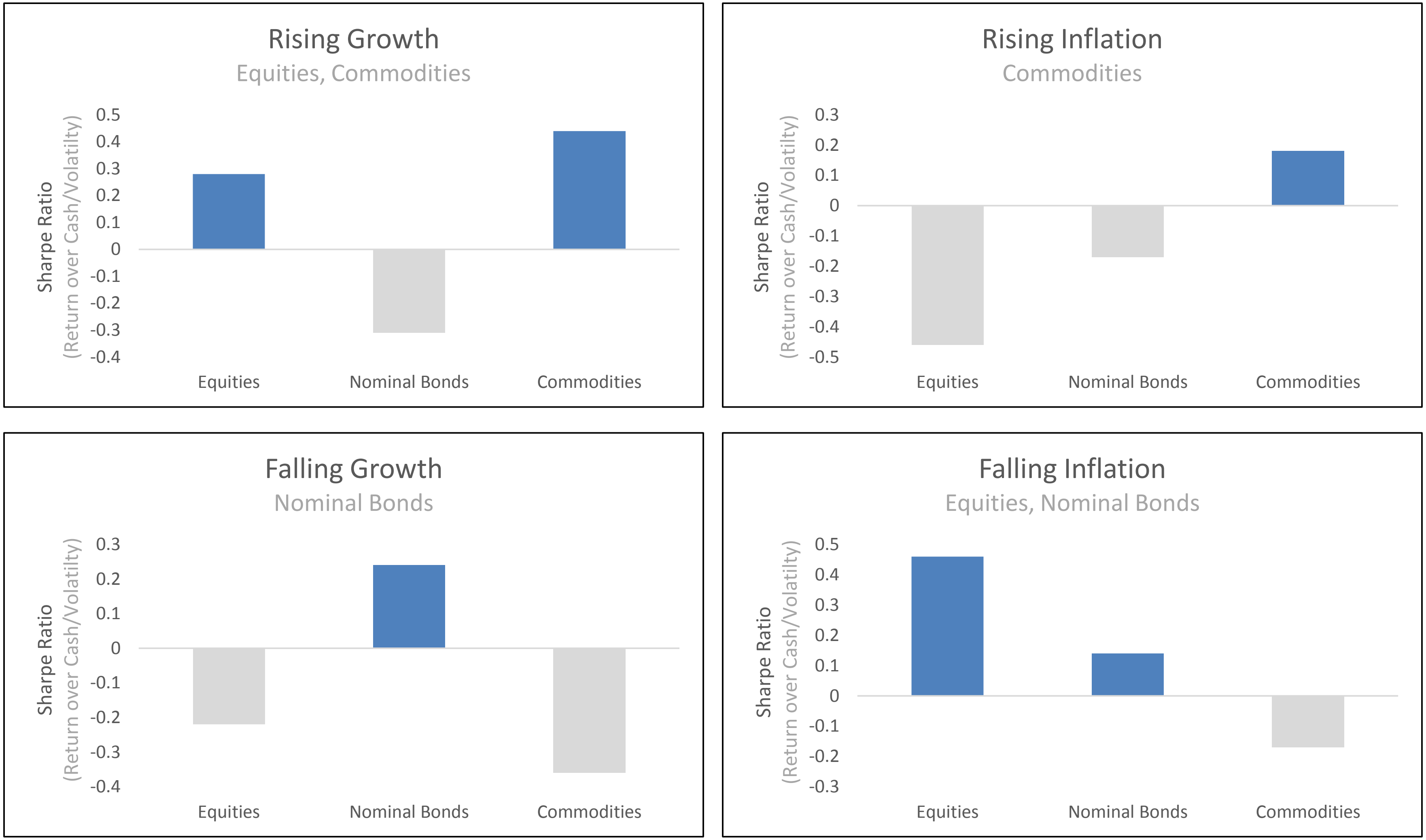
Asset Class Performance in Varying Environments



Data Source: Bridgewater Associates
Data is from 1970-present

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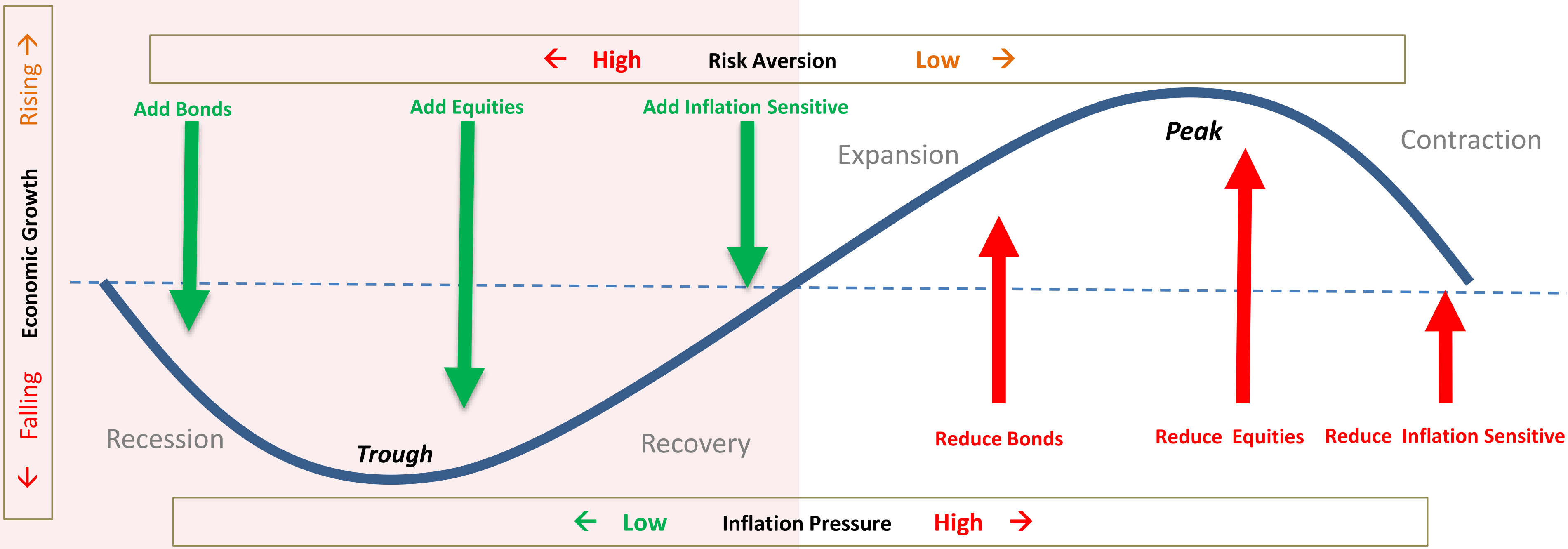
Business Cycle Overview



Economic Data	• Policy easing • Credit contracts • Activity falls • Inflation falls • Confidence falls	• Policy stimulates • Credit grows • Activity recovers • Inflation flat • Growth bottoms • High unemployment • Low capacity utilization	• Equilibrium • Policy neutral • Inflation low • Moderate growth	• Policy tightens • Credit tightens • Inflation rises • Low unemployment • High capacity utilization • Confidence high
Market Data	• Profits fall • Spreads widen • Volatility rises • Correlations rise • Inverted yield Curve	• Margins expand • Steep yield curve • PE multiple expansion	• Revenues expand • Low volatility • Strong earnings growth • Credit spreads contract	• Margins contract • Higher volatility

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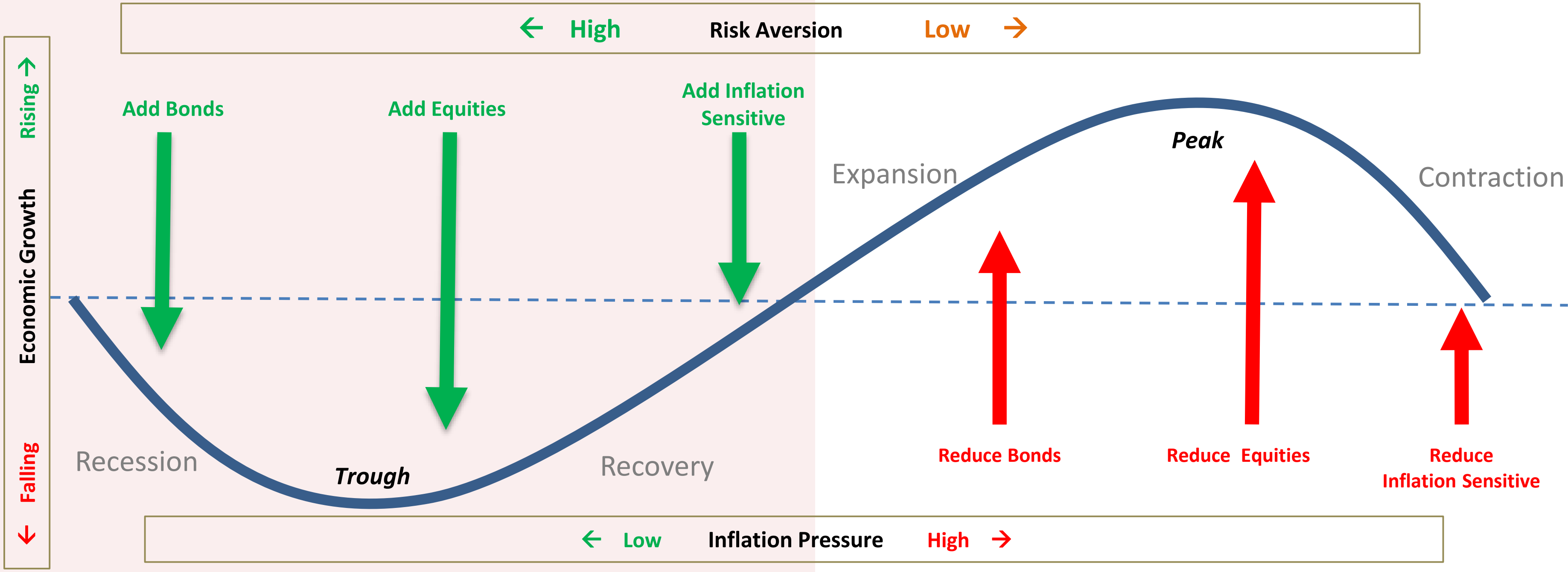
Portfolio Positioning



Portfolio Tilts

- Add sovereign exposure
- Move to higher credit quality
- Reduce commodity focused EM exposure
- Add duration
- Reduce equity exposure
- Defensive equity positioning
  - Consumer staples
  - Utilities
  - Healthcare
  - Telecom

- Increase risky asset exposure
- Add to equity, credit and commodity positions
- Early cycle equity exposure
  - Financial
  - Technology
  - Consumer Disc
  - Industrials

- Reduce duration
- Reduce exposure to rates
- Maintain exposure to risky assets
  - Growth drives profits
  - Credit expansion
- Add to TIPS
- Cyclical equity positioning
  - Tech (margin pressure)
  - Industrials (strong growth)

- Reduce exposure to risky assets
- Take profits from inflation sensitive assets
- Take profits from growth sensitive commodities
  - Energy and base metals
- Equity positioning
  - Utilities, HC, CS Telecom (stable growth)
  - Energy, Materials (late cycle)

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Four Major Asset Categories

1. **Fixed Income**
   i. **Cash and Short Duration**
   ii. **Conservative Fixed Income**
      i. **Core Fixed Income**
      ii. **Global Fixed Income**
   iii. **Mixed Credit**
   iv. **Emerging Market Debt**
   v. **Private Debt**
2. Opportunistic
3. Real Assets
4. Global Equity

Cash & Short Duration (5%)

The Cash & Short Duration portfolio:

- provides liquidity for benefit payments and funding new investments.
  - RSIC makes net benefit payments of approximately $1B annually.
- serves as a buffer to market fluctuations in risk-seeking assets.
- offers optionality during times of stress.

- Returns will be determined by prevailing central bank interest rates.

Conservative Fixed Income (10%)

The Conservative Fixed Income portfolio:

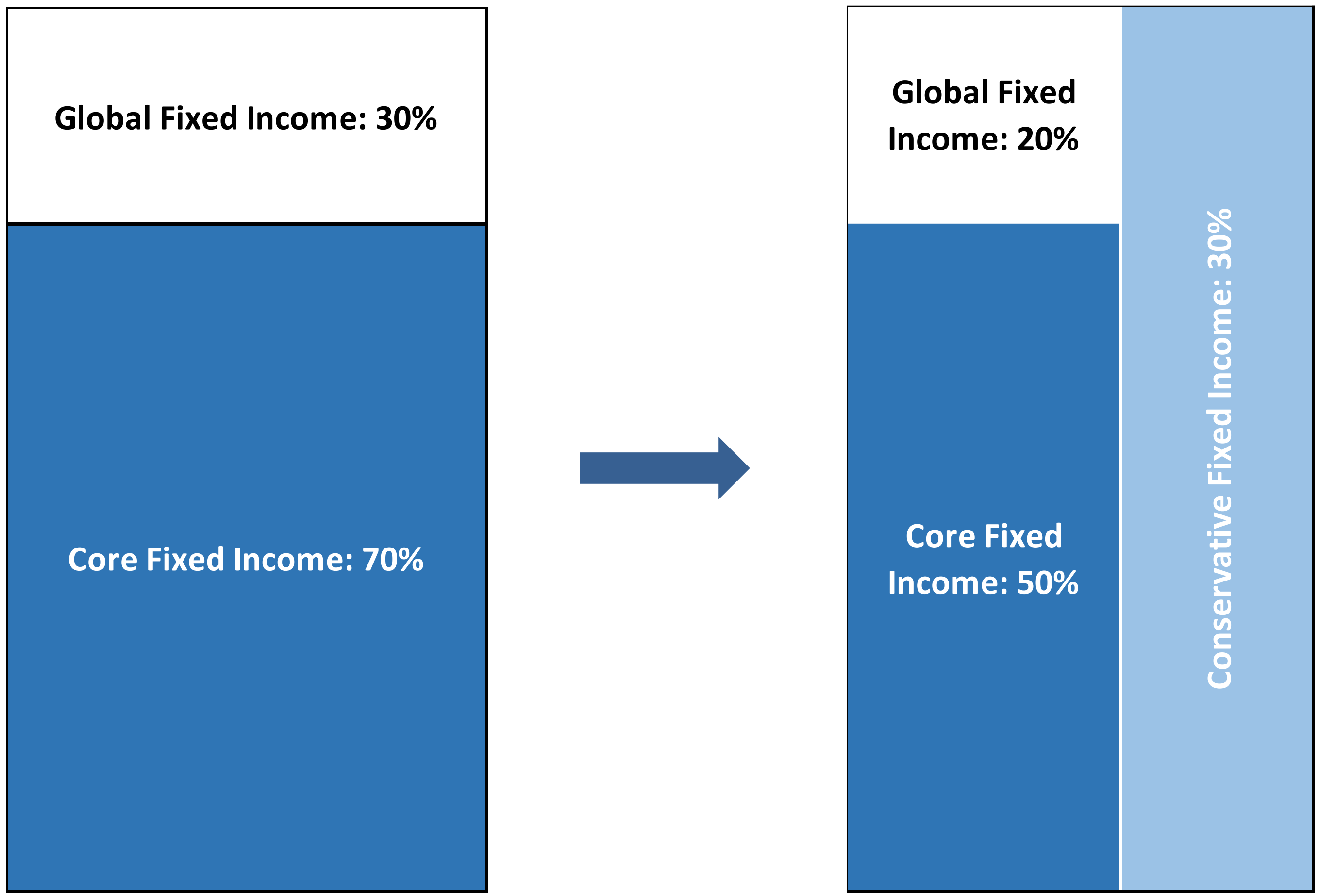
- tends to have a low/negative correlation to equity allowing them to serve as a natural hedge in periods of equity drawdown, helping to reduce overall portfolio volatility.
- serves as an additional source of liquidity, while also generating income and preserving capital.

- Long-term returns are determined by a combination of prevailing central bank interest rates as well as prevailing rates of growth & inflation.

- Short-term returns are determined by the shifts in yield curve.

CFI Implementation

Current Implementation | Proposed Implementation



CFI Implementation Plan

- Restructure current Global Fixed Income allocation (Q3-Q4)
  - Limit credit risk (and related liquidity risk)
  - Balance diversification needs with the desire for returns
- Complete Core Fixed Income contracts (Q2-Q3)
  - Amend investment guidelines as appropriate to conform with vision
- Evaluate the expected impact of focused (specialist) investment strategies
  - Examples: Sovereign, credit, or corporate-focused strategies

Mixed Credit (12%)

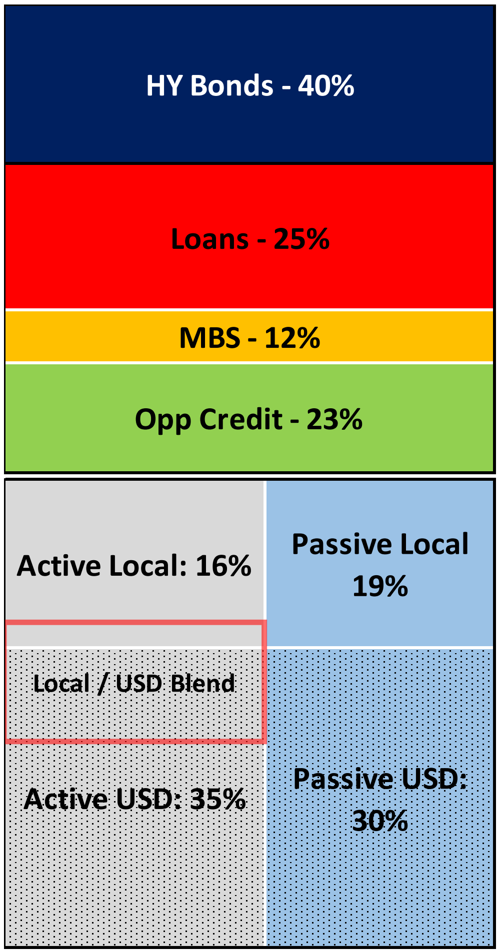
The Mixed Credit Portfolio:

- offers some of the highest yields for publicly traded fixed income securities.
- can provide liquidity, in some environments, though their primary purpose is to generate income and to a lesser degree preserve capital.

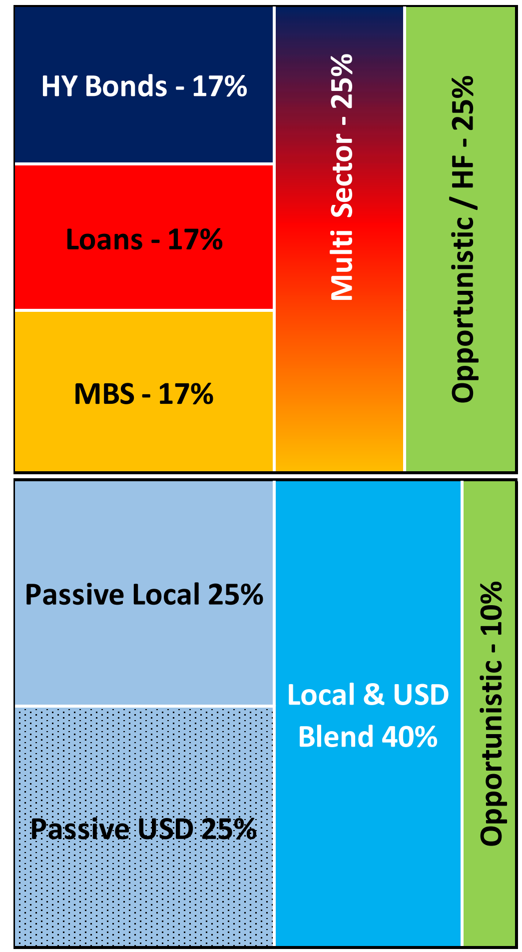
- Combination of two different sources or return:
  - Underlying risk-free rates (negatively correlated to equity)
  - Spreads (positively correlated to equity)

Mixed Credit Implementation

Current Exposure/Implementation



Proposed Implementation



Mixed Credit Implementation Plan

Path forward

- **MBS/Structured Products** - Identify and retain 1-2 specialty managers (Q3-Q4)
- **Multi-sector credit** - Identify and retain 1-2 managers to tactically allocate across high yield bonds, loans, and MBS (Q3-Q4)
- **EMD managers**
  - Evaluate current implementation (Active and Passive Exposures)
  - Identify 3-4 EMD managers: USD, Local and Blended (Q4-Q1)
- **HY Bond & Bank Loans –** Identify and retain 1 HY Bond and 1 Bank Loan Manager (Q1-Q2).
  - Allow managers flexibility to reach up to 25% of allocation into Bonds or Loans

Private Debt (7%)

The Private Debt portfolio:

- is subject to the same economic conditions as liquid diversified credit.
- offers the potential for higher returns through unique deal flow, leverage, and an illiquidity premium.

- Private debt focuses on Direct Lending, Mezzanine, Distressed, and Opportunistic investments.

- Private debt investments are generally very illiquid.

Overview

RSIC's Investment Objective:

1. Goals: - Continue to outperform the benchmark through selection of best-in-class managers and opportunistic investments.

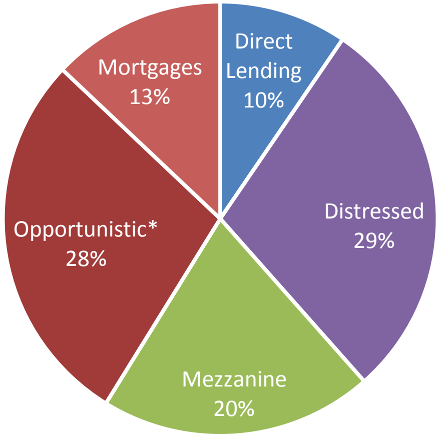
   - Increase exposure to bring portfolio closer to the policy allocation target (7%).

2. Execution: - Strengthen the Private Debt fund pipeline; balance commitments across strategies.

   - Focus on more significant allocations to highest conviction managers.

   - Emphasize tactical views through co-investments and opportunistic accounts.

Current RSIC Private Debt Exposure



*Includes Energy and Other

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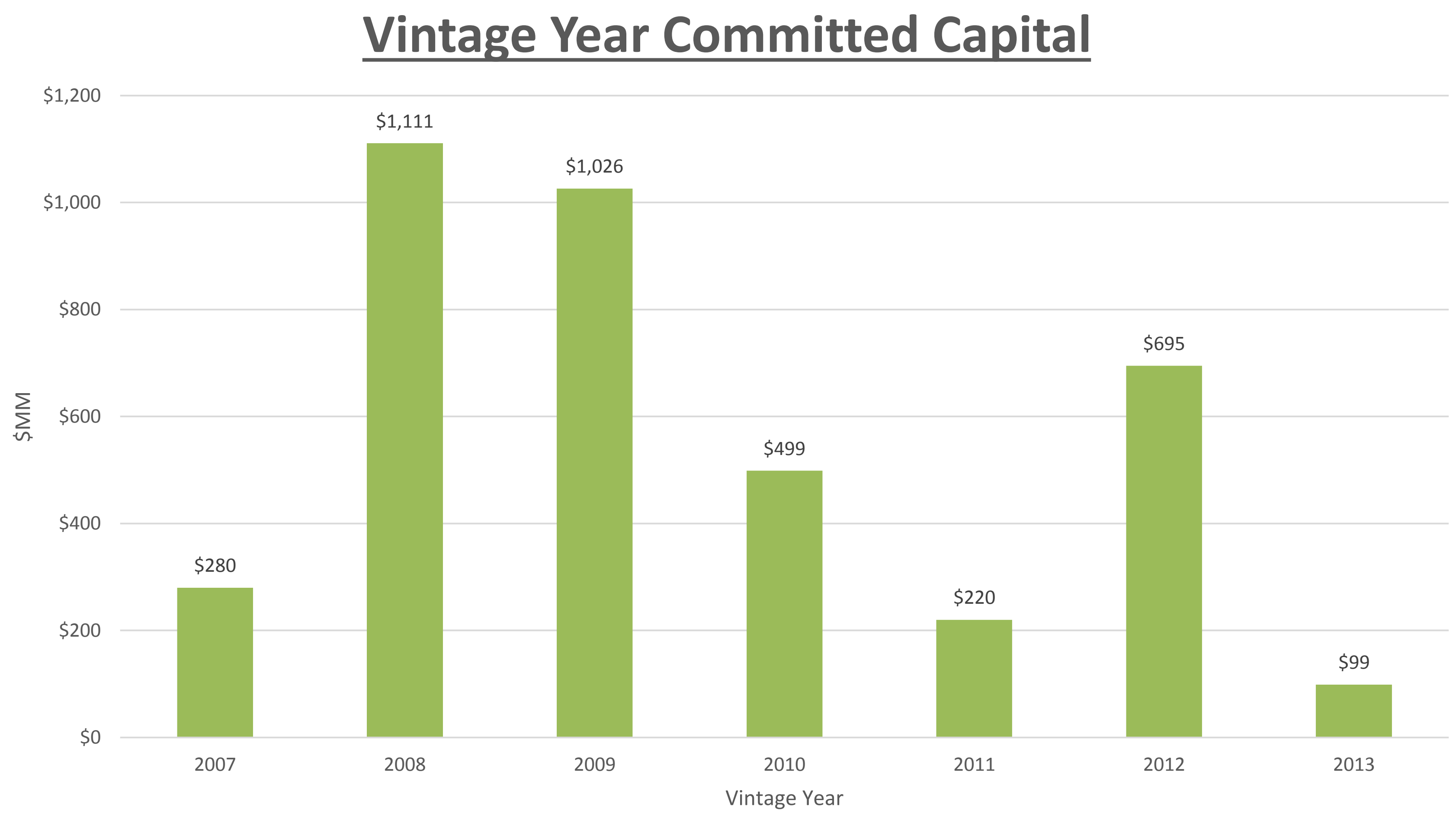
As of 12/31/2013
Includes undrawn commitments

Historical Pacing



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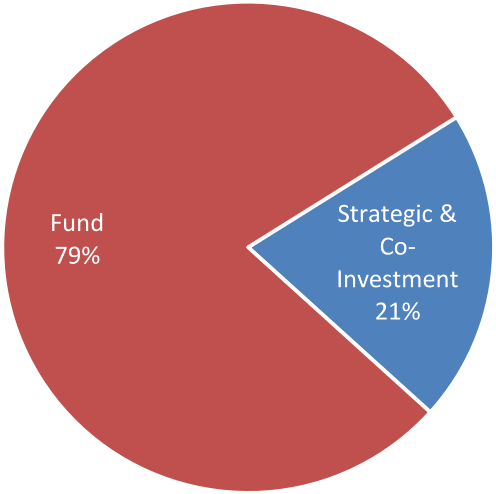
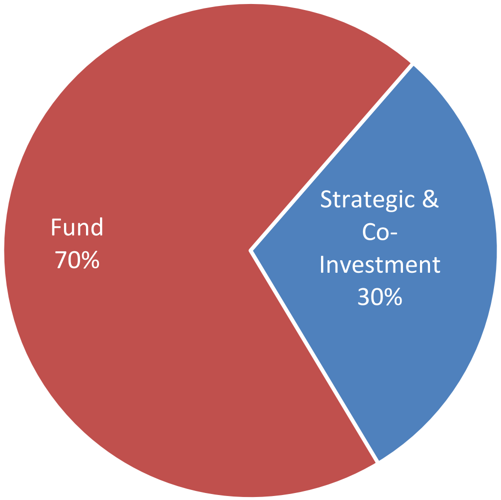
5-Year Implementation Plan

- Continue with current approach of accessing market primarily through funds (70%)
- Marginally increase allocation to strategic and co-investment strategies (30%)

Current Exposure by Structure



Target Exposure by Structure



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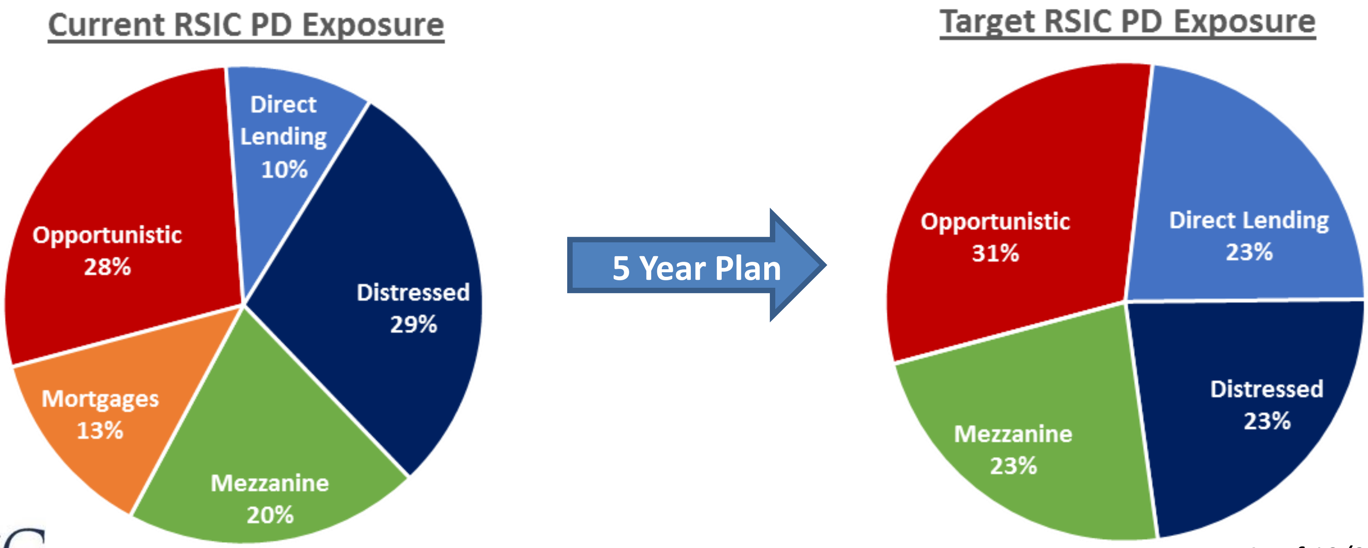
As of 12/31/2013

5-Year Implementation Plan

RSIC's Current Private Debt Portfolio Considerations:

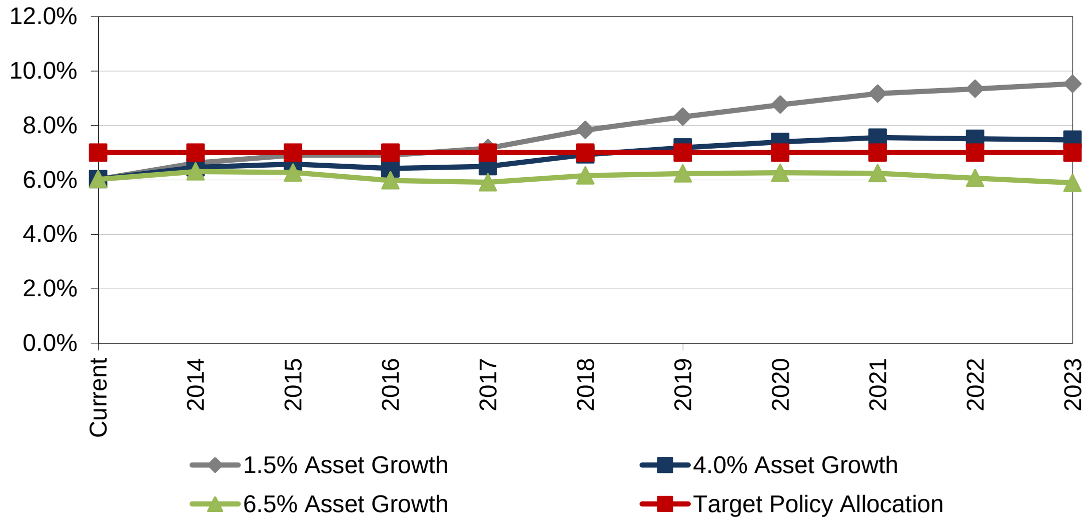
1. **Direct Lending:** Continue to harvest existing investments and plan to meaningfully grow overall exposure to this strategy. Capitalize on Direct Lending opportunities in the current low-yield market environment.
2. **Distressed:** Harvest existing Distressed investments and reduce exposure going forward.
3. **Mezzanine:** Commitments in Mezzanine funds have been relatively consistent across vintage years since the inception of the private markets program. Continue to maintain current exposure levels.
4. **Mortgages:** Continue harvesting remaining investments.
5. **Opportunistic:** Marginally increase Opportunistic investments going forward.



As of 12/31/2013

PD Long-Term Investment Pacing

Projected NAV of Private Debt as a Percent of Total Program



Annual Commitment Pace In $ Millions				
Year	FoF	Primary	Co-Invest	Total
2014	$ -	$ 495.0	$ 55.0	$ 550.0
2015	0.0	495.0	55.0	550.0
2016	0.0	495.0	55.0	550.0
2017	0.0	495.0	55.0	550.0
2018	0.0	540.0	60.0	600.0
2019	0.0	540.0	60.0	600.0
2020	0.0	540.0	60.0	600.0
2021	0.0	540.0	60.0	600.0
2022	0.0	630.0	70.0	700.0
2023	0.0	630.0	70.0	700.0
2024	0.0	630.0	70.0	700.0
Total	**$ -**	**$ 6,030.0**	**$ 670.0**	**$ 6,700.0**

Annual Commitment Pace (2014 – 2019)

- Fund Commitments: $385 - $420 M/year
- Opportunistic Accounts and Co-Investments: $165 - $180 M/year

Total $550 - $600 M/year

Four Major Asset Categories

1. Fixed Income
2. **Opportunistic**
   i. **Low Beta Hedge Funds**
   ii. **GTAA/Risk Parity**
3. Real Assets
4. Equity

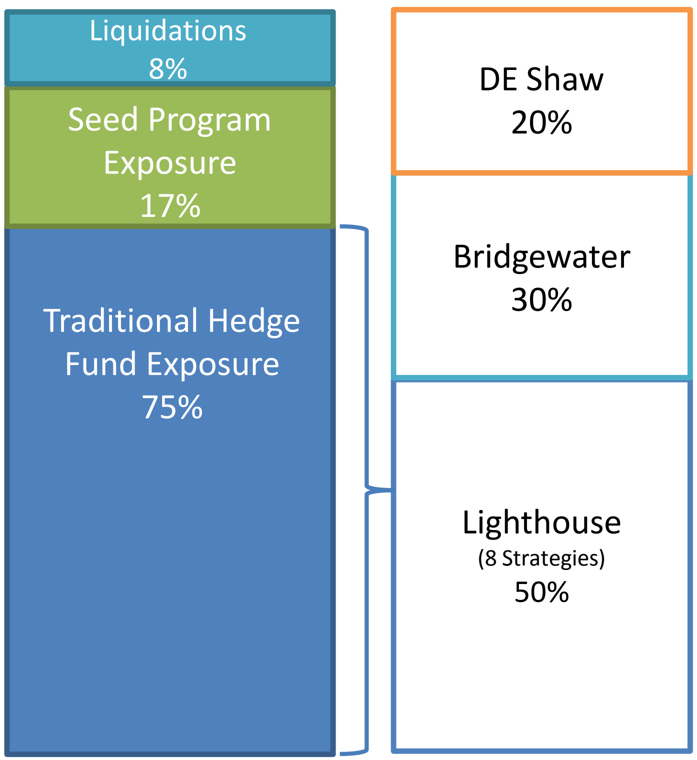
Low Beta Hedge Funds (8%)

The Low Beta Hedge Fund portfolio seeks to isolate manager skill (alpha) at lower levels of volatility and low correlation to other asset classes.

- Long-term returns will determined by Staff's ability to select superior managers.

- Hedge funds returns are similar to those of equities but with a lower level of expected volatility, over a market cycle.

Low Beta Hedge Fund Exposure Breakout



Estimated 3 Year Characteristics:

Index	Estimate	Policy Max	Meets Criteria
Equity Beta (MSCI World):	0.1	0.4	YES
Fixed Income Beta (Barclays Agg):	0.1	0.4	YES
Hedge Fund Beta (HFRI Fund Weighted Index):	0.5	1.0	YES

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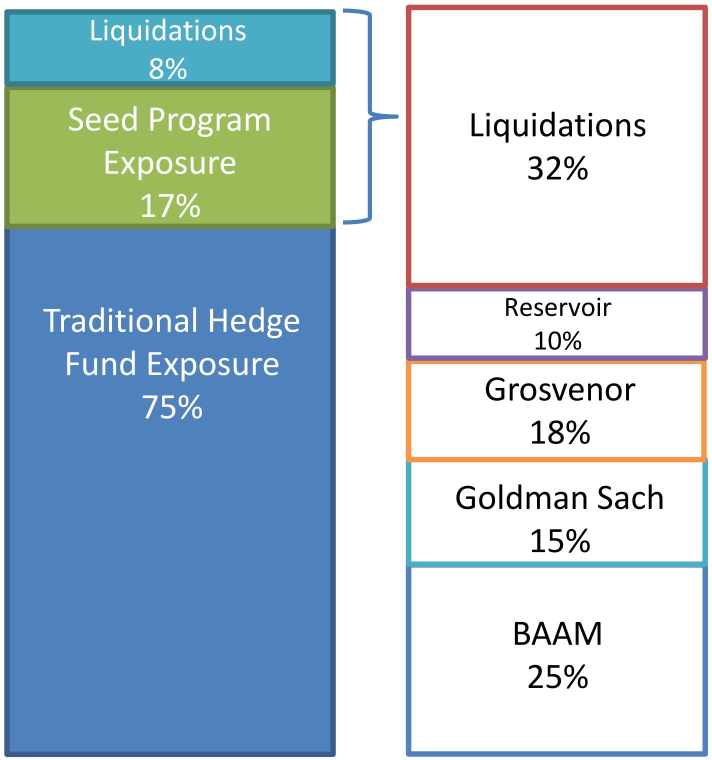
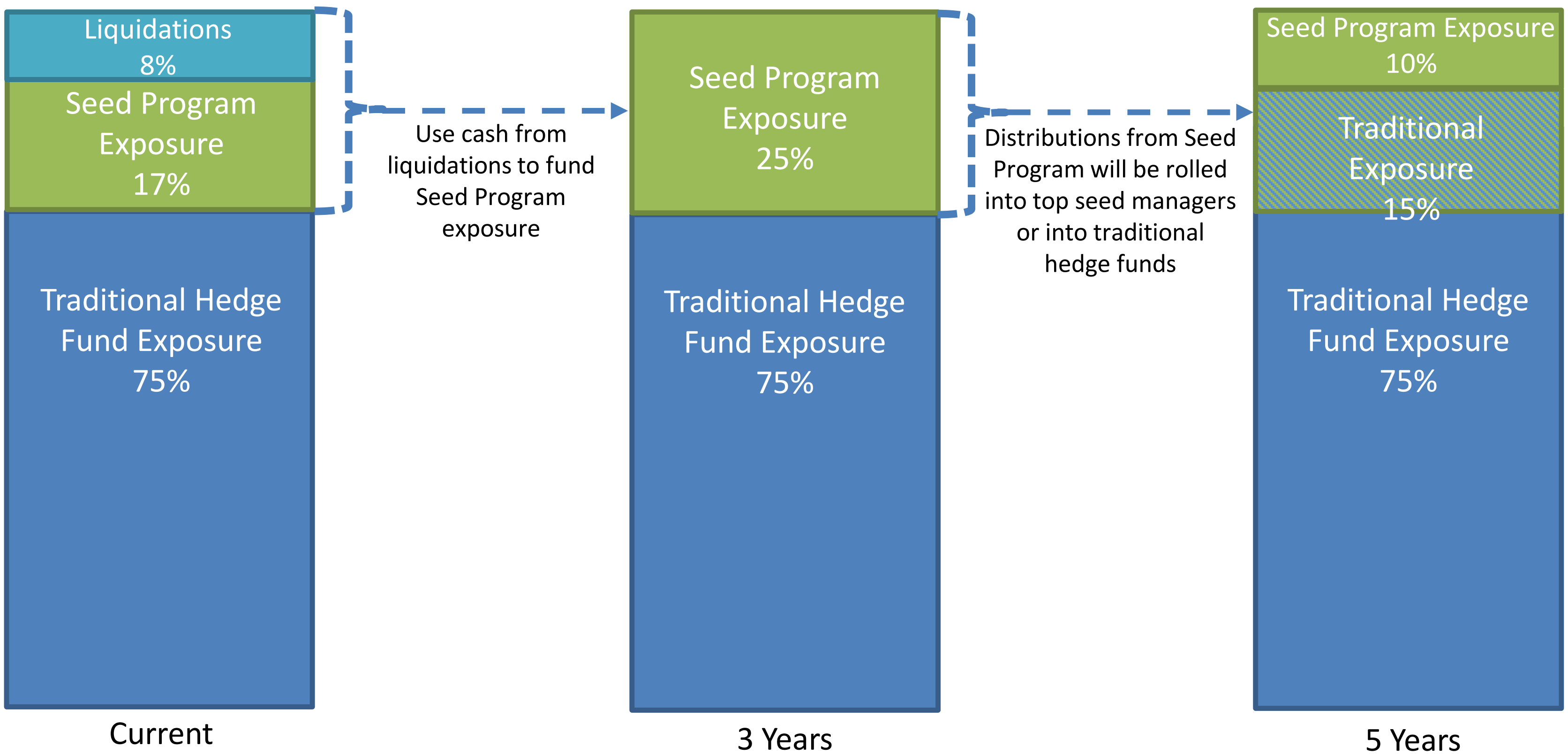
Seed and Liquidation Exposure Breakout



Estimated 3 Year Characteristics:			
Index	**Estimate**	**Policy Max**	**Meets Criteria**
Equity Beta (MSCI World):	0.35	0.40	YES
Fixed Income Beta (Barclays Agg):	-0.30	0.40	YES
Hedge Fund Beta (HFRI Fund Weighted Index):	1.00	1.00	YES

Low Beta Hedge Fund Implementation



Low Beta Hedge Fund Implementation Plan

- Near-term
  - Optimize the composition of the portfolio
  - Maintain exposure within the allowable bands
- Long-term
  - As seed program returns capital, redeploy into:
    - Attractive individual strategies within the seed program
    - Traditional hedge fund exposure

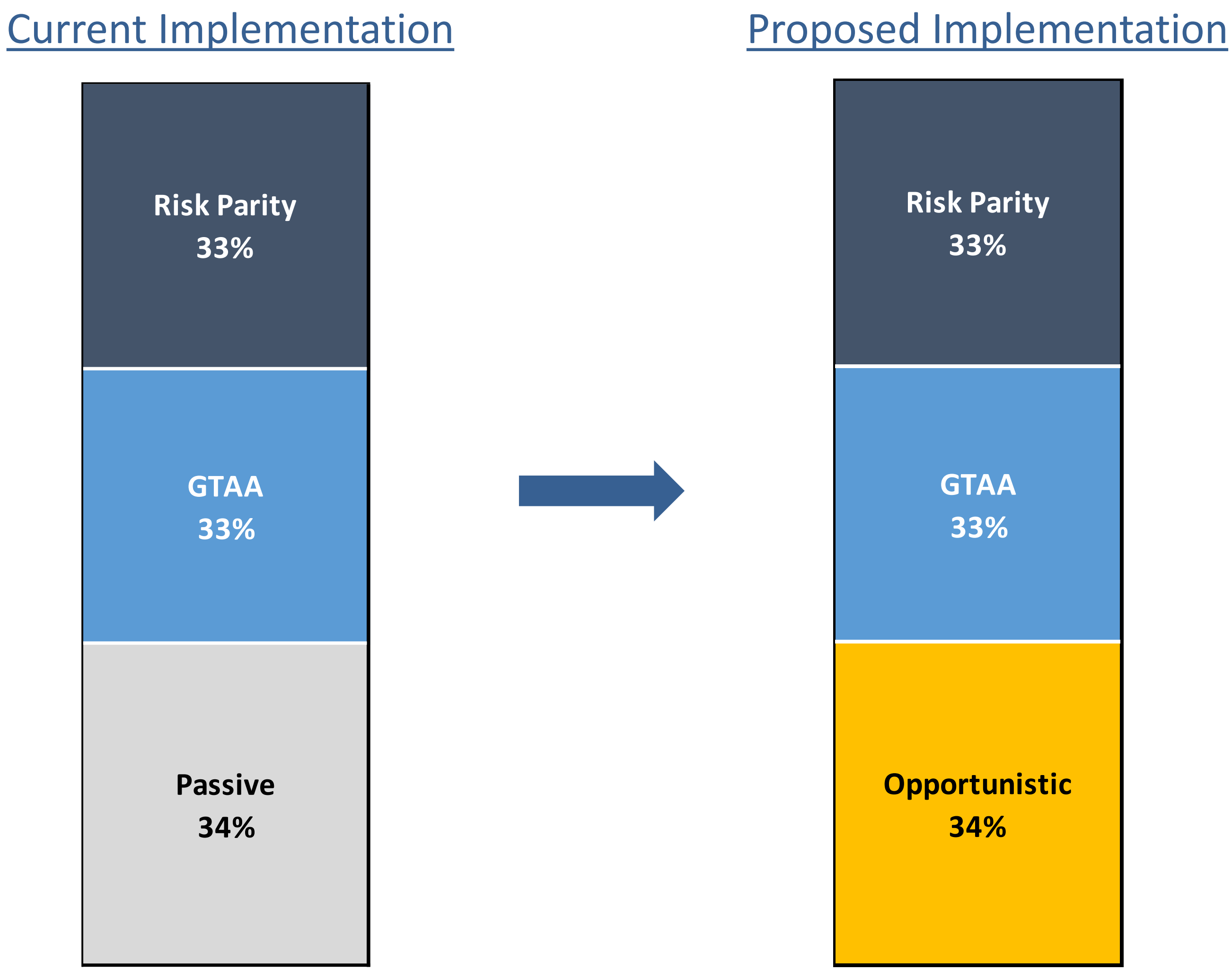
GTAA/Risk Parity (10%)

GTAA and Risk Parity offer a source of alpha through asset allocation expertise.

- With GTAA, managers choose to overweight or underweight asset classes as valuations and economic conditions evolve.
  - Longer-term returns typically fall somewhere between those of equities and bonds.
  - Diversification benefits are limited as the asset weightings will not deviate materially from the overall portfolio.

- Risk Parity managers use leverage to adjust the volatility contribution from certain asset classes in order to create a more balanced risk allocation to different assets.
  - Managers often focus on specific sources of risk (such as EMD spreads)
  - Returns can deviate significantly from the benchmark depending on the methodology of the manager.

GAA Implementation



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GAA Implementation Plan

- Selectively pursue *opportunistic* investments, reducing existing passive implementation
  - Consider adding 2-3 additional opportunistic strategies
    - Driven by expectation for limited return from traditional betas
  - Opportunistic exposure to be funded by reduction of passive exposure
- Evaluate alternative implementation
  - Consider additional active managers (both GTAA and Risk Parity)
  - New strategies (long-only, hedged, focused, etc.)

Four Major Asset Categories

1. Fixed Income
2. Opportunistic
3. **Real Assets**
   i. **Real Estate**
   ii. **Commodities**
4. Equity

Real Estate (5%)

- The Real Estate Portfolio:
  - earns consistent returns coming from both current income and capital appreciation.
  - offers some inflation protection.

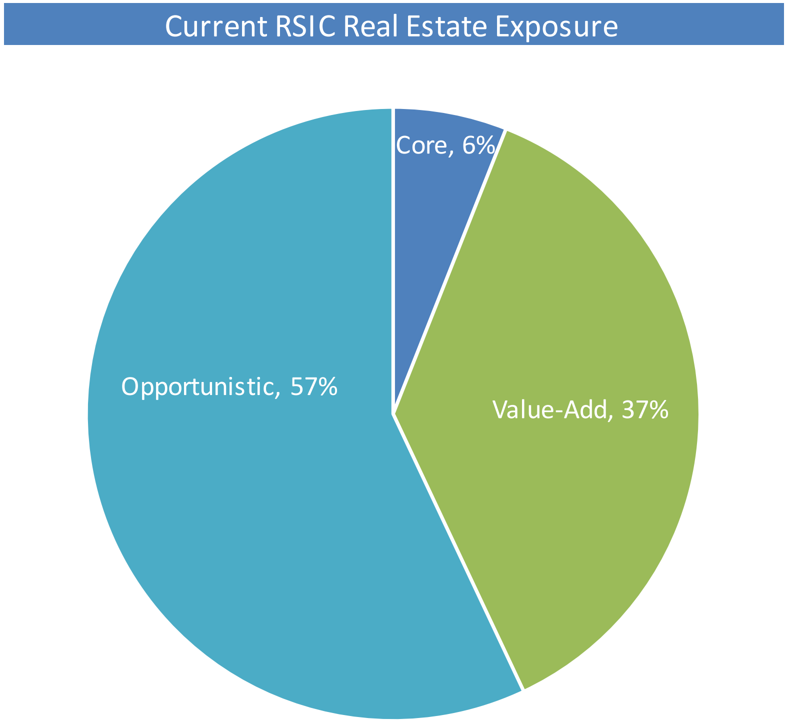
- Investments range from core, stabilized income-generating assets to assets requiring lease-up or repositioning to development and distressed assets.

- Core Real Estate is semi-liquid, non-core Real Estate is generally illiquid.

Current Exposure

RSIC's Key Gaps with Current Portfolio:

1. Core: Large underweight to stable, income generating core real estate
2. Public: No public real estate (REITs/REOCs)
3. Opportunistic: Large overweight to higher-volatility, higher leverage opportunistic funds



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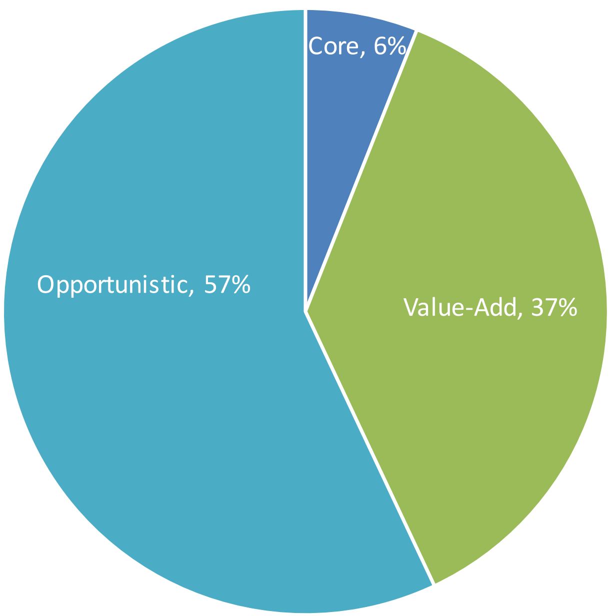
Current vs. Target Exposure

RSIC's Investment Objective:

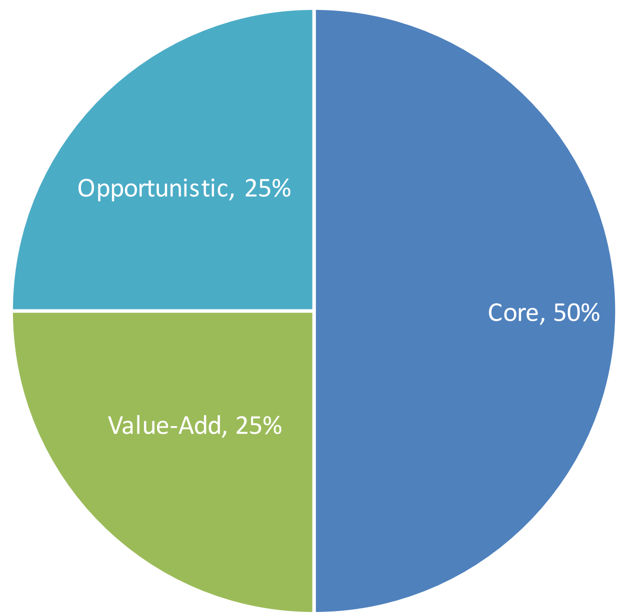
1. Goal: Transition to a more stable, balanced portfolio with higher income generation potential
2. Execution: The RSIC Real Estate Plan projects a transition to a balanced allocation over a 5-7 year time horizon

Current RSIC Real Estate Exposure



5-7 Yr Plan

Target RSIC Real Estate Exposure



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Investment Strategy– A Balanced Approach

RSIC's Balanced Portfolio Targets:

1. Return: Expected net return of 7.8%, only modestly lower than current, higher volatility approach
2. Income: Increases the expected return generated from current income
3. Stability: Reduces portfolio volatility

Illustrative Plan Real Estate Allocations

Investment Strategy	Return Driver	Return Target (Net)	Income-focused Allocation	Balanced Allocation	Appreciation-focused Allocation
Core	Income	6.5%	80%	50%	20%
Value-Add	Income + Capital Appreciation	8.0%	10%	25%	40%
Opportunistic	Capital Appreciation	10.0%	10%	25%	40%
Risk Expectation			Low	Moderate	High
Return Expectation (Net)			7.0%	7.8%	8.5%
% of Return from Current Income			70%	60%	30%
% of Return from Capital Appreciation			30%	40%	70%

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Implementation – Core Options

Core Real Estate Options:

1. Open-End Funds: Provide immediate exposure to a diversified pool of core assets at current market pricing
2. REITs: Provide similar exposure characteristics to Open-End Funds, but through fully liquid, publicly traded securities
3. Separate Accounts: Provide targeted exposure to core assets with bespoke sector/geographic allocation, property selection, leverage, and terms
4. Direct Investments: Requires a large and dedicated in-house acquisition and asset management infrastructure

Real Estate Investment Vehicles - Characteristics

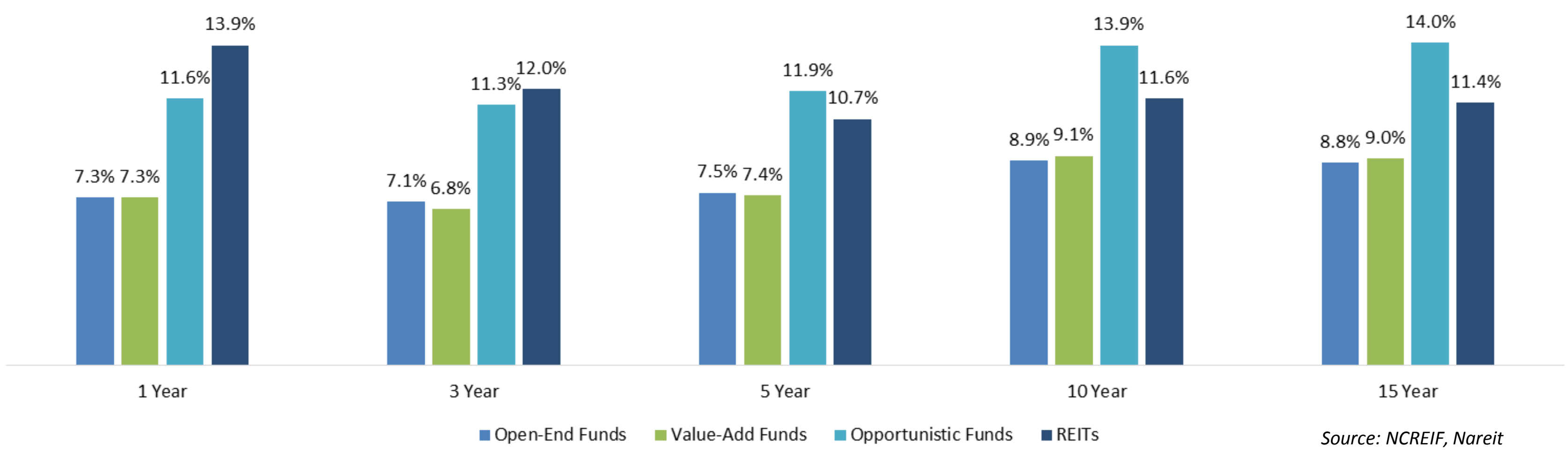
Vehicle Type	Minimum Commitment	Investor Liquidity	Investor Control	Typical Fee Structure	Typical Investment Style	Typical Leverage
Open-End Funds	Small ($1 mm +)	Semi-Liquid	Low	100 bps on NAV	Core	15%-30%
REITs	No minimum	Liquid	Low	10 bps on NAV for passive mgmt, 50 bps on NAV for active mgmt	Core	30%-50%
Separate Accounts	Large ($100 mm +)	Same as Underlying Asset	High	Varies from 60 bps - 120 bps on NAV for most core strategies	All	Varies
Direct Investments	Large ($100 mm +)	Same as Underlying Asset	High	None, but requires significant operating expertise and infrastructure	All	Varies

Performance – Structure Differences

Significant Performance Differences Across Structures:

1. Open-End Funds: Have generated the most stable returns across time
2. Value-Add Funds: Average rolling returns have closely tracked open-end core funds, despite much higher use of leverage
3. Opportunistic Funds: Have generated higher dispersion, but also the highest returns of all structures in 3 out of 5 periods studied
4. REITs: Have generated returns that are commensurate with opportunistic funds, despite modest leverage and core-like portfolios

Real Estate Investment Vehicles- Mean Rolling Returns Over Various Hold Periods



Source: NCREIF, Nareit (data from Q190-Q313)

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Execution – A Blended Approach

RSIC's Execution Exploits Unique Characteristics of Each Structure:

1. Open-End Funds: Use to diversify core portfolio, provide current income and exposure to key sectors
2. REITs: Use to capitalize on tactical opportunities and provide liquidity, diversification, and exposure to key sectors
3. Separate Accounts: Use to gradually build a stabilized core portfolio at a lower basis and improved economic terms than funds, address key gaps in portfolio, and hold assets long-term

Core Real Estate Structure Pros/Cons

Vehicle Type	Pros	Cons
Open-End Funds	Provide immediate diversification; access to all major core property types	Preclude ability to establish a basis in assets that is below current market pricing; top funds currently have entrance queues as long as 2 years
REITs	Provide fully liquid exposure and ability to tactically manage allocation; immediate diversification; access to all major core property types; have historically demonstrated strong performance relative to other structures	Can display high short-term volatily owing to daily pricing inherent with public securities; exposure to most broad REIT indexes incorporate some exposure to non-core, niche sectors such as student housing and self storage
Separate Accounts	Provide ability to establish an attractive basis in assets relative to broad core market pricing; ability to hold assets long-term; ability to control leverage; ability to address key portfolio under-weights; ability to achieve improved economics over fund structures	Preclude investment in certain property types such as CBD office and regional malls where asset sizes are too large for a separate account; takes time to build a diversified portfolio and can increase asset-specific risk until sufficient scale is achieved

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Execution- 5 Year Plan

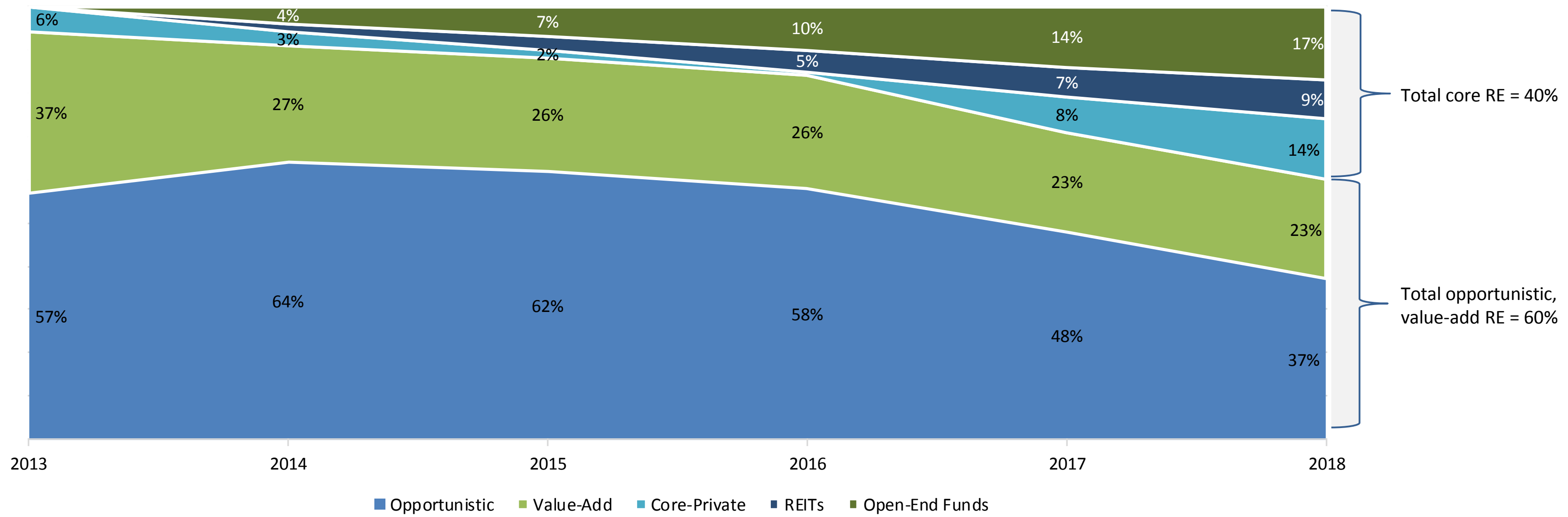
RSIC Real Estate Plan Model Results

- Pacing Schedule: RSIC's commitment strategy approaches balanced allocation over a 5 year horizon

RSIC Real Estate Plan - Projected Commitments by Investment Strategy, 2014-2018

	2014	2015	2016	2017	2018	Total
Open-End Core Funds	50	50	50	50	50	**250**
Core Separate Accounts	75	75	75	75	75	**375**
REITs	25	25	25	25	25	**125**
Opportunistic/Value-Add Funds	150	100	100	100	100	**550**
Total	**300**	**250**	**250**	**250**	**250**	**1300**

RSIC Real Estate Plan - Projected Evolution of NAV by Investment Strategy, 2014-2018



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Commodities (3%)

The Commodities Portfolio:

- seeks to earn positive returns from long-term appreciation in the spot prices of commodities and roll yields associated with futures investments.
- is a volatile asset class.
- offers potential diversification benefits.

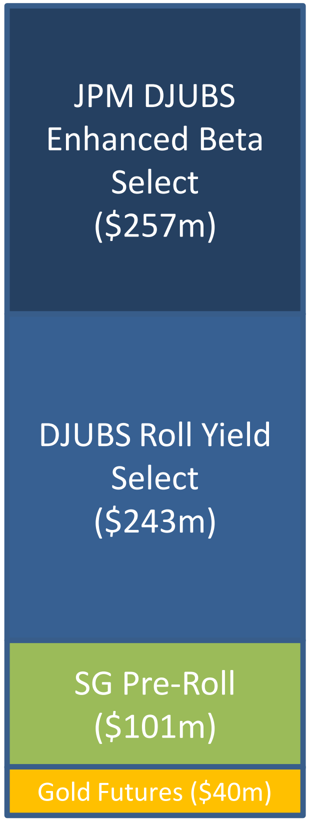
- Commodity prices are driven by a variety of idiosyncratic factors:
  - supply and demand
  - Weather
  - geopolitical events

- Commodities perform best in the latter stage of the business cycle and can offer a hedge against inflation.

- Commodities futures do not generate interest-income or dividends, however commodity infrastructure investments can generate cash-flow through rent and operating income.

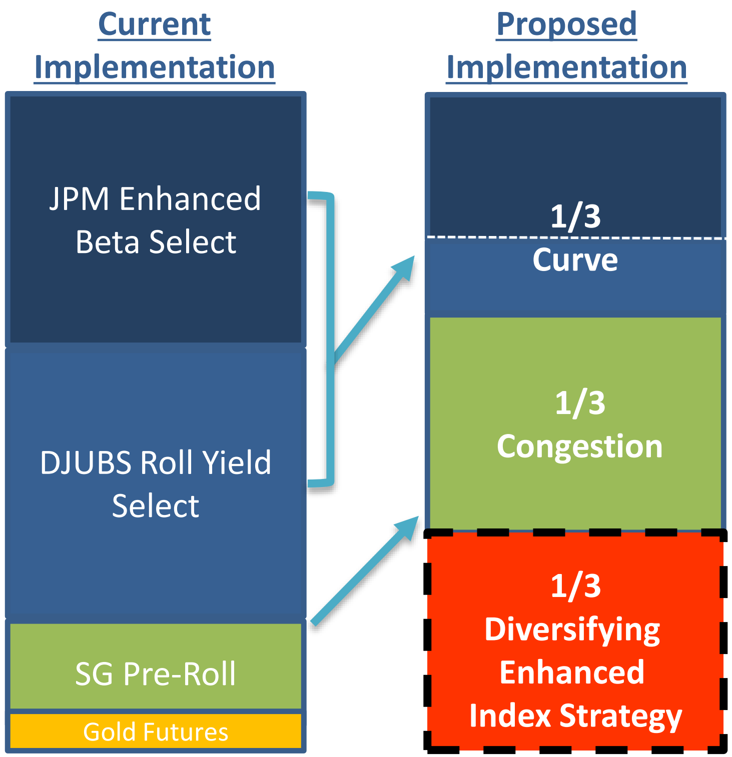
Current Commodities Implementation

- All exposures are currently via Russell Overlay
  - Enhanced Index Strategies
    - Fully synthetic exposure
      - Three swaps and one futures
      - Multiple counterparties
    - Minimal tracking error
  - Alpha Sources
    - Curve (minimizing contango)
    - Trade congestion (trading ahead of index strategies)
  - Gold Futures



Commodities Implementation Plan

- Target 50-150 bps annual benchmark outperformance
  - Resize Alpha Allocations
    - Decrease curve (1%)
    - Increase congestion (1%)
    - Identify 3rd alpha source (1%)
      - Pair Trading
      - Backwardation
      - Momentum
      - Volatility Selling



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Four Major Asset Categories

1. Fixed Income
2. Opportunistic
3. Real Assets
4. **Global Equity**
    1. **Global Public Equity**
    2. **Private Equity**

Global Public Equities (31%)

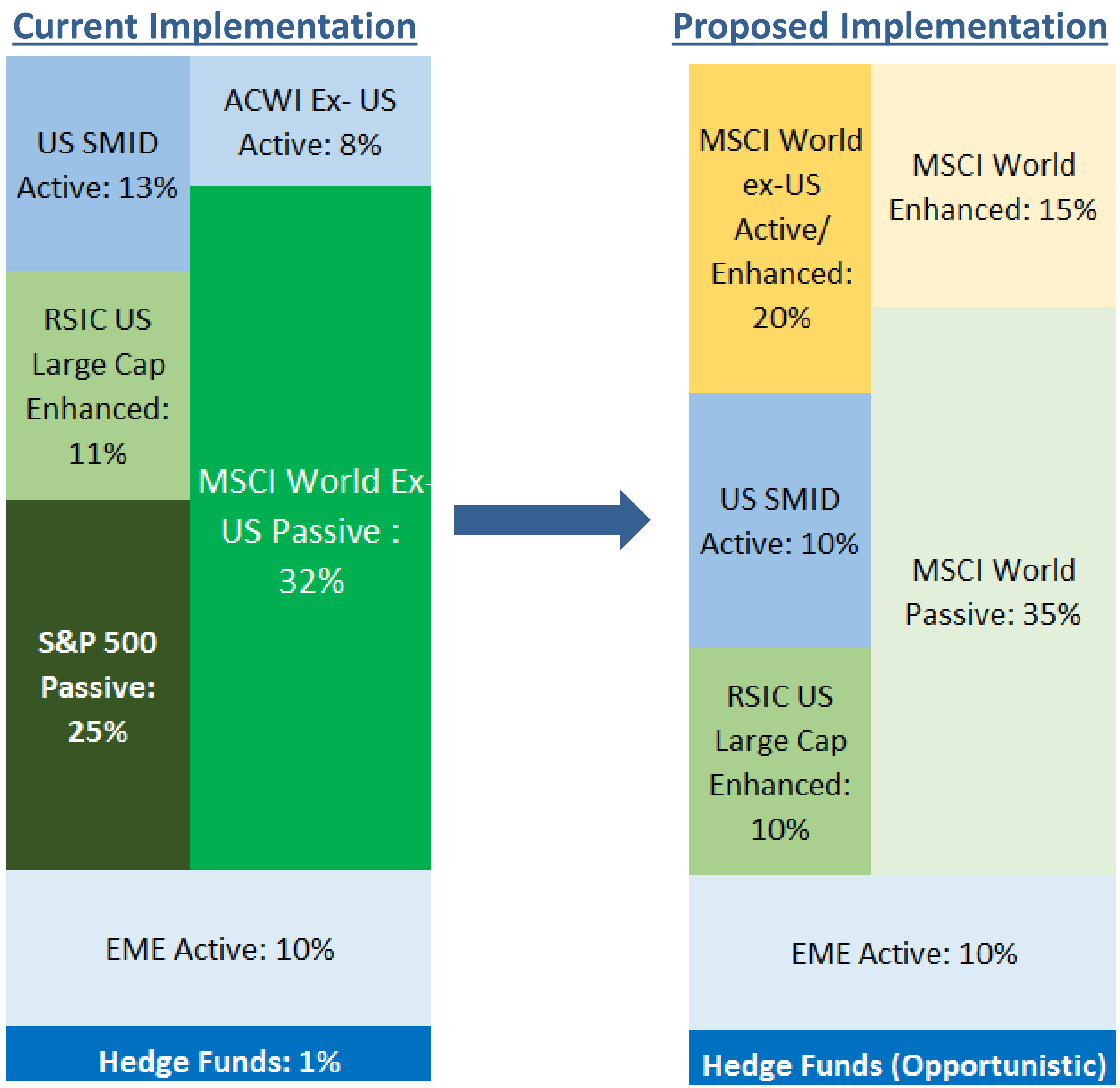
The Global Public Equity Portfolio:

- One of the largest contributors to the expected return of the Plan
- Higher volatility than most asset classes.

- Equities typically perform well during periods of strong growth and declining inflation.

- Equities represent a ownership interest in firm assets.

Global Equity Implementation



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Global Equity Implementation Plan

- Funding of BlackRock & SSgA in passive MSCI World passive mandates (on-going)
- MSCI World and MSCI World ex-US Enhanced manager recommendations
  - (2-3 mgrs for the September IC Meeting)
- Rebalance active SMID cap and International managers
- Evaluate Global Equity HF managers

Private Equity (9%)

The Private Equity portfolio:

- is subject to the same economic conditions as public equities.
- offers the potential for higher returns though early identification of emerging ideas, the use of leverage, and an illiquidity premium.

- Private equity investments range from venture capital to leveraged buyouts, and for which returns often vary rather dramatically.

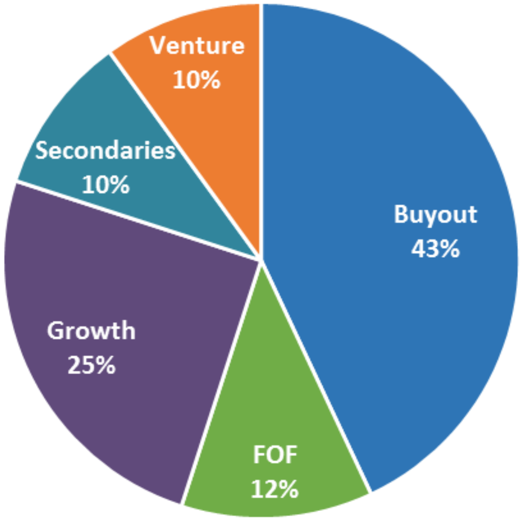
- Private equity investments are generally very illiquid.

Current Exposure

RSIC's Investment Objective:

1. **Goal:** To be overweight buyouts while maintaining other exposures, harvest Growth, and allow Funds of Funds to run off naturally.
2. **Execution:** Identify best in class investment firms and partner with them over multiple fund cycles.

Current RSIC Private Equity Exposure



As of 9/30/2013
Includes co-investments

Current vs Target Exposure

RSIC's Current Private Equity Portfolio Considerations:

1. **Fund of Funds**: Used originally for diversification benefits at the start of the Private Equity program, FOFs are no longer an active part of on-going commitments for the Plan. Allow them to run-off normally over next 5-7 years.

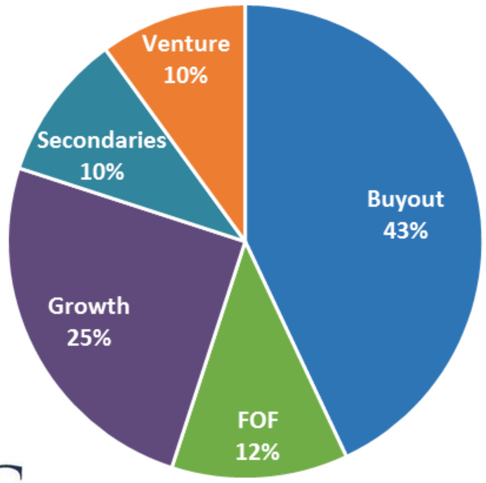
2. **Buyouts:** Buyouts represent nearly half of all Private Equity fundraising. Given the size of this sector of the market, this is the most likely source for co-investments within the Private Equity plan. A focused, opportunistic (potentially thematic) approach toward co-investments can provide a compelling reason to carry an overweight to Buyouts.

3. **Growth:** RSIC currently has meaningful exposure to Growth managers. Two co-Investments, Athene and Shellpoint account for approximately 2/3 of the Growth exposure, and these investments are expected to be exited in the near-term. The proposed plan continues allocating selectively to Growth managers, but overall exposure will decline, considering that the primary source for co-investments going forward is in the Buyout space.

4. **Secondaries:** Continue to maintain meaningful exposure, primarily for tactical benefits and J-curve mitigation.

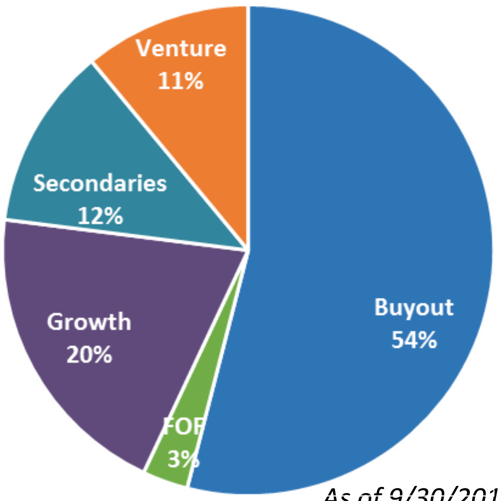
5. **Venture:** Reevaluate exposures and continue finding creative ways to prudently deploy capital. Avoid using non-primary fund of funds as a way to build or maintain exposures.

Current RSIC Private Equity Exposure



5-7 Year Plan

Target RSIC Private Equity Exposure



As of 9/30/2013
Includes co-investments

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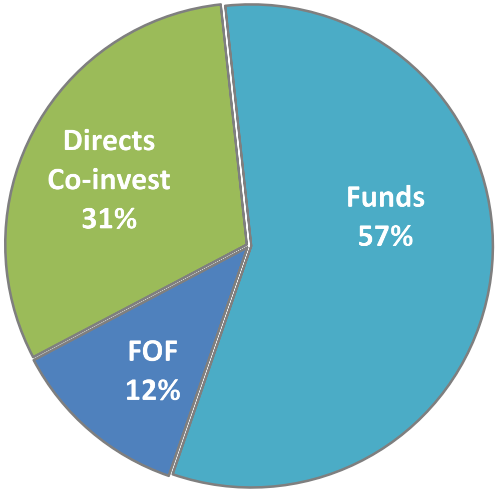
Private Equity Implementation

RSIC's Investment Objective:

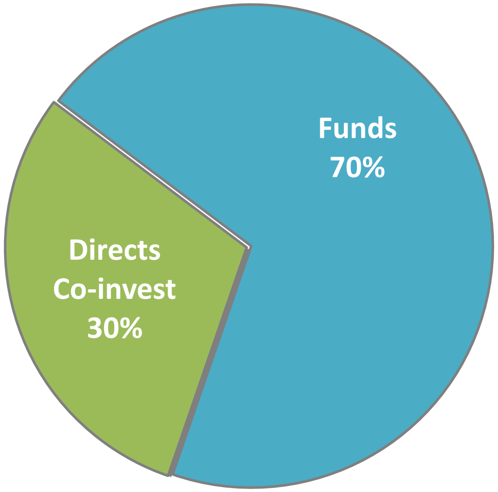
1. **Goal:** Diversification with a tactical component.
2. **Execution:** Invest in Funds for vintage year diversification. Use Directs for tactical allocations and to take advantage of opportunities as they arise.

Current Exposure by Structure



5 Year Plan

Target Exposure by Structure

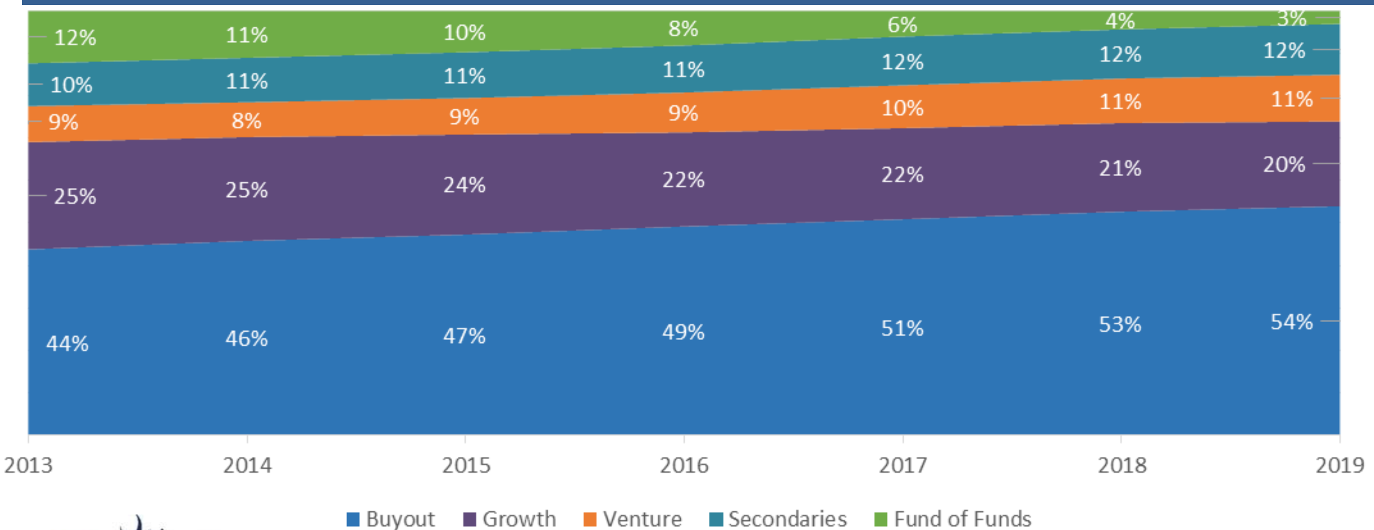


Directs include Separately Managed Accounts, Co-Investments, and Strategic Investments.

Execution- 5 Year Plan

RSIC Private Equity Plan – Projected Evolution of NAV by Investment Strategy	2014	2015	2016	2017	2018	2019	Total
Buyouts	300	300	300	375	300	420	**1,995**
Growth	100	150	100	100	100	100	**650**
Venture	50	75	75	50	75	50	**375**
Secondaries	50	0	50	0	50	0	**150**
Fund of Funds	0	0	0	0	0	0	**0**
Co-investments	200	175	175	175	175	180	**1,080**
Total	**700**	**700**	**700**	**700**	**700**	**750**	**4,250**
# of Fund commitments	7	6	6	6	7	7	39
# of Co-investments	4	3	3	3	3	3	19

RSIC Private Equity Plan – Projected Evolution of NAV by Investment Strategy



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