SOUTH CAROLINA RETIREMENT SYSTEM INVESTMENT COMMISSION

STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES

As amended on November 19, 2015

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I. INTRODUCTION

A. OVERVIEW

The South Carolina Public Employee Benefit Authority ("PEBA") and the State Budget and Control Board are co-trustees of the South Carolina Retirement Systems ("Retirement System"), defined as the South Carolina Retirement System, Retirement System for Judges and Solicitors, Retirement System for Members of the General Assembly, National Guard Retirement System, and Police Officers Retirement System established pursuant to Chapters 1, 8, 9, 10 and 11 of Title 9. The funds and assets of the Retirement System are not funds of the State, but are instead held in trust as provided in Section 9-16-20.

The Retirement System Investment Commission ("Commission" as the governing body, "RSIC" as the agency) was created in 2005 and has the exclusive authority to invest and manage all assets of the Retirement System pursuant to Section 9-16-20.

B. MISSION

The 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.

C. 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 Retirement System.

D. PURPOSE

The purpose of the Statement of Investment Objectives and Policies ("SIOP") is to establish investment and performance objectives, policies and guidelines, roles, responsibilities, and delegation of authority for the management of assets of the Retirement System. The SIOP represents the overall guidelines that apply to the Retirement System's Total Portfolio ("Portfolio"). All decisions that affect the management of the Portfolio must comply with the guidelines contained within this document and be consistent with the laws of the State of South Carolina.

At least annually, the Commission will review the SIOP to determine its continued applicability. If the liquidity needs, actuarial return assumptions, or the market risk/return expectations change, the SIOP will be reassessed in accordance with South Carolina law and Commission objectives. The relevant portion of the SIOP may constitute parts of the Annual Investment Plan ("AIP") pursuant to Section 9-16-50(B). The Commission adopts the SIOP, in its entirety, into the AIP in accordance with Section 9-16-50(B) and 9-16-330(B).

II. GENERAL OPERATING POLICIES

A. ROLES AND RESPONSIBILITIES

The following section outlines the roles and responsibility for each party associated with administration and management of the assets for the Retirement System.

1) PEBA administers a comprehensive program of retirement benefits, performing fiduciary duties as stewards of the contributions and disbursements for the Retirement System. PEBA has the responsibility of producing GAAP basis financial statements for the Retirement Systems and maintains a general ledger to support that process. The financial statements that are produced by PEBA contain information regarding the investments made by the Investment Commission and as such contain the official accounting records for the Retirement Systems. The financial statements are presented in accordance with Generally Accepted Accounting Principles (GAAP) and comply with the Governmental Accounting Standards Board (GASB) standards. The financial statements are audited annually by an independent audit firm hired by the State Auditor's Office.

2) The State Treasurer is the custodian of the funds of the Retirement System.

3) The South Carolina General Assembly has the authority to control budget and staffing for the RSIC (S.C. Code Ann. §2-7-60) and to set the actuarial assumed rate of return for the RSIC Portfolio (S.C Code Ann. §9-16-335)

4) In 2005, the Commission was established by South Carolina law to invest and manage all assets of the Retirement System. The RSIC is under the management of the seven member Commission. The Commission's fiduciary responsibilities are addressed in its Governance Policies, include authorizing investment decisions and overseeing the management of the business affairs of the RSIC, in accordance with applicable laws, ensuring legal and ethical integrity, adhering to fiduciary standards, and maintaining accountability.

5) The Commission employs an Executive Director (ED) and a Chief Investment Officer ("CIO"). The Commission's Governance Policies set forth the roles and responsibilities of the ED and CIO. The CIO and Investment Staff manage the investment functions to implement the Commission's investment decisions, including asset allocation, risk management, investment manager oversight, and other related investment functions, such as establishing and modifying investment guidelines in keeping with the Commission's approval, the SIOP, and applicable law.

6) The Commission engages an external general investment consultant ("Consultant"), who is accountable to the Commission, to work collaboratively with RSIC staff. Services provided by the Consultant are detailed in the engagement contract and generally include, but are not limited to, recommended asset allocation, asset/liability study, investment due diligence, performance reporting, benchmarking/peer group comparisons, guidance pertaining to governance issues, and analyst resources pertaining to any manager search process or ongoing due diligence. RSIC staff may rely on the Consultant for manager searches,

operational due diligence, third party manager opinions, data resources, external analyst inputs, and access to industry conferences or educational materials.

7) The Internal Audit department reports directly to Audit Committee which was established by the Commission. The mission of the department is to provide independent, objective assurance and recommendations designed to add value and improve RSIC operations. It assists the entity in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

8) The Enterprise Risk Management and Compliance (ERM and Compliance) department reports directly to Audit Committee. ERM and Compliance is charged with coordinating the assessment and providing oversight related to the identification and evaluation of major strategic, operational, regulatory, informational, and external risks inherent in the business of the RSIC. ERM and Compliance is also responsible for overseeing the process for monitoring compliance with RSIC policies and applicable laws, as appropriate.

9) External managers[1] are engaged to implement specific strategies on the Retirement System's behalf. The investment managers have discretion to manage specific investment strategies to meet the policy objectives and guidelines.

10) Staff manages and invests certain assets directly, or internally. Staff is responsible for adhering to the investment policy objectives and guidelines for those assets.

B. PRIMARY POLICIES

The Commission, the Staff, and the Consultant work jointly to design and implement operating and investment policies. These primary policies include the set of governance policies, internal operating policies, the SIOP, and the AIP. These policies are subject to revision, and several require adoption by the Commission.

1) Governance Policies
The Commission will revise the Governance Policies as needed. The Commission anticipates an in-depth review and revisions to the Governance Policies every three years. The Governance Policies include the following components:

- Commission Roles and Responsibilities
- Chairman and Vice-Chairman Roles and Responsibilities
- CIO and ED Roles and Responsibilities
- Commission Operations
- Executive Staff and Commission Evaluations
- Committees

[1] For purposes of the SIOP, references hereafter to "manager" will include an investment manager, investment advisor, general partner, managing member, or fund, as applicable.

- Communications
- Service Provider Selection Policy

2) Internal Operational Policies
The ED is responsible for designing, implementing, and monitoring operating policies and procedures. The ED may delegate certain items to Staff. The primary operating policies include the following:

- Memorandum of Understanding with PEBA
- Personnel Policies
- Information Technology Policies
- Administrative Policies (travel, purchasing, etc.)

3) SIOP and AIP
Annually, the Commission adopts the SIOP, which provide the objectives, policies, and guidelines for investing the assets of the Retirement System. The SIOP provides the framework pursuant to which the CIO and Staff draft the AIP. The purpose of the AIP is to provide a formal plan for investing the Retirement System's assets to achieve the Commission's investment objectives and mission. South Carolina law §9-16-320 requires the CIO to submit the proposed AIP to the Commission no later than April 1st of each year, and the Commission must meet no later than May 1st of each year to adopt the proposed AIP for the following fiscal year. The Commission may amend the AIP during the fiscal year as it deems appropriate.

The Commission authorizes the CIO to implement the approved AIP, as designated herein and in the SIOP, through a standardized process that is guided by an Internal Investment Committee ("IIC"). The IIC, chaired by the Chief Investment Officer, makes investment recommendations to the Commission. The IIC directs a process whereby Staff, the Consultant, and third party subject matter experts review both current investments and new investment prospects with respect to the Portfolio's goals and constraints. Due diligence is performed on both investment strategy and operations (for external managers) according to the due diligence guidelines as developed by Staff. Ongoing due diligence for approved managers and/or strategies is conducted by Staff according to the due diligence guidelines.

The CIO has final internal authority over all Staff investment recommendations that are submitted to the Commission. In addition, the Commission authorizes the CIO to manage the Portfolio in a prudent manner given prevailing market conditions and the status of any individual investment within the established guidelines and processes. The CIO is accountable to the Commission for investment actions that deviate from the normal process.

C. GENERAL POLICIES AND PROCEDURES FOR HIRING CONSULTANTS, PROFESSIONAL SERVICES, AND INVESMENT MANAGERS

In addition to State processes and applicable law, the Commission has adopted a Service Provider Selection Policy to govern the selection, monitoring, and reporting of RSIC's service providers. The policy does not include or apply to associate legal counsel, which may be retained upon

approval by and in accordance with the procedures required by the South Carolina Attorney General. According to the Commission's policy, service providers are classified in two general categories: Named Service Providers and Other Service Providers.

Named Service Providers include investment managers/advisors, investment consultants, consultants retained for non-investment related matters (e.g. recruiting firms), financial and/or actuarial professionals for services relating to the RSIC and/or investments, and other service providers as deemed appropriate by the Commission. The ED and CIO are responsible for coordinating and/or conducting all necessary due diligence relating to the engagement of Named Service Providers and making recommendations to the Commission. The Commission reviews and approves the selection of Named Service Providers.

Other Service Providers include providers of investment analysis tools, operational service providers, technical support assistance, and other service providers as appropriate. Unless the Commission determines otherwise, the ED and CIO will be responsible for engaging and terminating service providers other than Named Service Providers. In selecting a service provider, the Commission, ED, and CIO, as applicable, will consider as broad a universe of qualified service providers as is practical and reasonable given the budgetary, staffing, time, and other relevant factors in accordance with the South Carolina Procurement Code and Commission policies.

All service providers are subject to regular and appropriate monitoring throughout the term of the engagement. Criteria for review may include performance, Staff satisfaction, competitiveness of fees/costs, quality of reporting, compliance with contractual terms and other criteria deemed appropriate for the engagement. The ED, CIO or Consultant, as applicable, are responsible for informing the Commission of any material issues or actions taken pertaining to service providers. Monitoring and reporting is conducted on an individual basis based on the nature of the provider and/or services and in accordance with the contract, Commission policies, and applicable law. Termination of a contract with a service provider may be based on factors including, but not limited to, compliance with the terms of the engagement, laws or regulatory standards.

Service providers, including consultants and investment managers, will be compensated commensurate with the services provided and industry practices. The Commission will pursue cost savings through structural efficiencies and will strive for fee reductions through negotiations.

Investment fees will be evaluated based on their cost relative to passive exposures, the manager's skill for capturing risk premium, and relative to industry/peer standards. Staff gathers actual fees and provides annual public disclosure of all fees paid to external managers. The Consultant has been tasked with a fee analysis and peer comparison report upon which future perspectives and decisions may depend.

Operating expenses applicable to internal investment operations and the general business of the RSIC are managed by the ED within the parameters of the annual budget as approved by the General Assembly.

Both service providers and managers are hired through contractual engagements, which have a terminal date or event. The Commission may terminate a service provider or manager subject to

the terms of the contractual arrangement for a variety of reasons to include, but not limited to, breach of contract, change of services required, or for performance reasons.

Termination of a manager may occur whenever the Commission determines that its objectives can more efficiently or effectively be met by the selection of another manager or under a different management mandate. The Commission retains the right to terminate a manager with or without cause and at any time. It should be noted that termination rights may not apply to certain types of investment structures (e.g. typical private markets funds). Circumstances which suggest an immediate review and a possible termination include, but are not limited to:

1) Manager changes strategy or investment style;
2) Critical elements of the investment process have deteriorated;
3) Transaction costs are unreasonable;
4) Management fees are higher than similarly styled managers for similarly sized portfolios;
5) Manager is unable to meet the performance expectations within the risk tolerance specified;
6) Material organizational or personnel changes;
7) Manager is not complying with the applicable provisions of the Commission's SIOP;
8) Manager is not complying with the applicable provisions of the Commission's AIP.

III. INVESTMENT POLICIES

The assets of the Portfolio should be invested and managed based on the specific and unique set of goals, needs and circumstances of the Plan, to include consideration of the liabilities, liquidity, funded status, actuarial required rate of return, limitations imposed by applicable law, and current and expected economic and market conditions. The RSIC incorporates and relies on acceptable investment theory and principles when developing investment policies for the Portfolio. This policy defines the goals, objectives and guidelines of the investment program.

A. INVESTMENT OBJECTIVES

The Commission's objective is to earn the most appropriate risk-adjusted return in consideration of the specific goals, needs and circumstances of the Retirement System, and to act in the exclusive interest of the members of the Retirement System. The Portfolio will be invested with a long-term horizon, and structured to seek to achieve the following objectives:

1) A diversified portfolio that achieves a rate of return greater than the actuarially assumed rate of return
2) A rate of return greater than that of the Policy Asset Allocation return while maintaining a similar risk profile
3) A rate of return for each asset class greater than its benchmark return with a prudent level of risk
4) Maintain sufficient liquidity to pay benefits in a timely manner
5) Optimize the implementation of the asset allocation in an efficient manner

B. INVESTMENT BELIEFS

Investment beliefs are the foundation of the investment policy that governs our management of the Retirement System's assets and form the basis for asset allocation and investment management decisions.

We believe that:

1. The investment strategy must be guided by the specific goals, objectives, and requirements of the Plan with consideration of all Plan participants. These considerations include the current and forecasted financial condition of the Plan, which encompasses the actuarial assumed rate of return, the funding status, the level of employee and employer contributions, cost-of-living adjustments, and liquidity.
2. Asset allocation is the primary determinant of performance variance. Diversification across various risk premia is a key risk management strategy, and is expected to enhance risk-adjusted returns, over a market cycle.
3. It is necessary to invest in certain assets that exhibit different levels of volatility and risk in order to earn the actuarial required rate of return. We expect to earn a return that is commensurate with the level of risk involved in the investment. We also understand and accept that we are

investing with a long-term focus, and that in certain economic environments we may experience investment losses.

4. Markets are efficient over the long-term, but can experience periods of dislocation. These dislocations create opportunities for investors to earn higher risk-adjusted returns for taking equity, credit, rate, inflation, illiquidity, and other risks.
5. Investment decisions will at times consider an array of different factors, including a manager's capabilities, expected costs and benefits, portfolio fit and impact, investment structure, implementation options (such as active vs. passive, public vs. private, and internal vs external), and tactical or rebalancing effect. Outcomes must be reviewed periodically as valuations change.
6. It is important to foster a culture that values eagerness to question and understand complexity and the discipline to rigorously challenge assumptions, biases, and relevant risks.

C. ASSET ALLOCATION

Among the decisions the Commission can make, asset allocation has the most significant impact on the Portfolio's return and risk profile. Diversification at both the Portfolio and manager level is a key component to managing risk. Active rebalancing generates costs such as trading commissions, market impact, and potential market timing costs. These costs are to be taken into consideration when developing a plan to rebalance the Portfolio.

In addition to performance expectations, the implementation decision is based on accessibility of markets, cost of implementation, and expected market efficiency. The Commission will use a combination of internal and external managers, as well as active, enhanced, or passive strategies to implement the asset allocation. Exposure may be obtained in derivative, cash, or physical markets.

Relative to the investment horizon, the Commission will typically invest with a long-term perspective. However, the Commission may also implement shorter-term investment strategies to mitigate the impact of expected market dislocations or to exploit market opportunities.

Based on the Commission's determination of the appropriate risk tolerance for the Portfolio and its long-term return expectations, it has authorized the following Policy Asset Allocation, including target allocations and ranges for each asset class that became effective as of January 1, 2016.

	Policy Allocation	Minimum	Maximum
Global Equity:	**43%**	**30%**	**48%**
Global Public Equities	34%[1,2]	25%	40%
Private Equity	9%[2]	6%	12%
Real Assets:	**8%**	**4%**	**15%**
Commodities	3%*	0%	5%
Real Estate	5%	3%	10%

Infrastructure	0%	0%	5%
Other Real Assets	0%	0%	5%
Opportunistic:	**20%**	**15%**	**25%**
GTAA/Risk Parity	10%*	5%	20%
Hedge Funds (low beta)	10%*	5%	20%
Diversified Credit:	**17%**	**10%**	**25%**
Mixed Credit (HY, Loans, Structured)	5%[1,2]	2%	10%
Emerging Markets Debt	5%*	2%	10%
Private Debt	7%[1,2]	3%	10%
Other Credit	0%	0%	5%
Conservative Fixed Income:	**12%**	**10%**	**25%**
Core Fixed Income	10%	5%	20%
Global Fixed Income	0%	0%	10%
Cash & Short-Duration (net of overlays)	2%	0%	10%

[1]Hedge funds within these asset classes will be included in the 20% maximum for hedge funds at the Portfolio level.

[2]The target weights to Private Equity and Private Debt will be equal to their actual weights, reported by the custodial bank, as of the prior month end. In the case of Private Equity, the use of the actual weight will affect the target allocation to Public Equity, such that the combined target weight of both asset classes shall equal 43% of the Plan. For Private Debt, the use of the actual weight will affect the target allocation to Mixed Credit, such that the combined target weight of both asset classes shall equal 12% of the Plan.

Pursuant to S.C. Code Ann. §9-16-340(B), this policy must also include the minimum and maximum allocations to equity investments on an ongoing basis, not to exceed 70 percent. The statute does not stipulate whether the limitation of 70 percent is based on cost or market value, and the Commission manages this limitation on a market value basis. Therefore, in the event that the allocation to equity investments exceeds 70 percent of the total market value of the Portfolio, the CIO is required to rebalance the Portfolio.

D. LONG-TERM EXPECTED RETURN AND RISK ASSUMPTIONS

The Commission's general investment consultant recently conducted a scenario analysis to arrive at the expected performance and expected risk of the current asset allocation based upon its 30-year capital market assumptions. According to the consultant's scenario analysis, the Plan's expected return is 6.96% and its expected risk is 11.63%.

The Consultant's 10-year capital market assumptions for each asset class provided by the Consultant to the Commission in 2015 are presented below:

		10-yr	10-yr	10-yr
	Equity	**Expected Real Return[1]**	**Expected Nominal Return[1]**	**Expected Volatility**
1	Large Cap U.S. Equity	4.3%	6.5%	17.0%
2	Small Cap U.S. Equity	4.5%	6.7%	23.0%
3	Global Equity	4.7%	6.9%	18.0%
4	International Developed Equity	4.6%	6.8%	20.0%
5	Emerging Markets Equity	5.7%	7.9%	30.0%
	Fixed Income			
6	Cash (Gov't)	-0.5%	1.6%	1.0%
7	Cash (LIBOR)	-0.3%	1.8%	1.0%
8	TIPS	0.3%	2.4%	4.5%
9	Core Fixed Income (Market Duration)	0.3%	2.4%	3.5%
10	Long Duration Bonds – Gov't / Credit	1.2%	3.3%	9.0%
11	Long Duration Bonds – Credit	1.7%	3.8%	11.0%
12	Long Duration Bonds – Gov't	0.7%	2.8%	8.5%
13	High Yield Bonds	2.0%	4.1%	12.0%
14	Bank Loans	1.7%	3.8%	7.0%
15	Non-US Developed Bonds (0% Hedged)	-0.7%	1.4%	10.0%
16	Non-US Developed Bonds (50% Hedged)	-0.3%	1.8%	5.5%
17	Non-US Developed Bonds (100% Hedged)	-0.2%	1.9%	2.0%
18	Emerging Market Bonds (Sovereign USD)	2.4%	4.5%	13.0%
19	Emerging Market Bonds (Corporate USD)	2.3%	4.4%	11.0%
20	Emerging Market Bonds (Sovereign Local)	3.8%	6.0%	14.0%
	Alternative Investments			
21	Hedge Fund-of-Funds[2]	2.4%	4.6%	9.0%
22	Broad Hedge Funds[3]	3.9%	6.1%	9.0%
23	Real Estate (Broad Market)	4.6%	6.8%	12.5%
24	Real Estate (Core)	3.7%	5.9%	11.5%
25	U.S. REITs	3.8%	6.0%	18.5%
26	Commodities	1.8%	3.9%	17.0%
27	Private Equity	6.5%	8.7%	24.0%
28	Infrastructure	5.1%	7.3%	14.5%
29	U.S. Inflation	0.0%	2.1%	1.0%

[1] All expected returns are geometric (long-term compounded; rounded to the nearest decimal) and net of investment fees.
[2] Represents diversified portfolio of Fund of funds investments (includes additional layer of fees at the FoF level)
[3] Represents diversified portfolio of Direct hedge fund investments

The Consultant's 10-year correlation assumptions for each asset class provided by the Consultant to the Commission in 2015 are presented below:

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29
1 Large Cap U.S. Equity	1.00	0.92	0.95	0.79	0.80	0.08	0.08	-0.06	0.04	-0.01	0.08	-0.11	0.59	0.40	-0.03	-0.03	0.01	0.41	0.39	0.45	0.60	0.59	0.40	0.39	0.66	0.30	0.70	0.38	0.04
2 Small Cap U.S. Equity		1.00	0.87	0.73	0.73	0.06	0.06	-0.06	0.04	-0.01	0.07	-0.11	0.55	0.37	-0.03	-0.02	0.00	0.38	0.36	0.40	0.55	0.54	0.38	0.36	0.61	0.26	0.65	0.36	0.03
3 Global Equity			1.00	0.93	0.90	0.07	0.07	-0.06	0.05	-0.01	0.09	-0.11	0.63	0.42	0.18	0.16	0.01	0.45	0.44	0.55	0.59	0.59	0.41	0.39	0.63	0.38	0.67	0.37	0.06
4 International Developed Equity				1.00	0.84	0.04	0.04	-0.05	0.04	0.00	0.08	-0.10	0.56	0.37	0.41	0.35	-0.01	0.41	0.42	0.58	0.51	0.51	0.37	0.35	0.53	0.42	0.57	0.32	0.07
5 Emerging Markets Equity					1.00	0.06	0.06	-0.06	0.06	0.00	0.11	-0.12	0.66	0.43	0.22	0.20	0.01	0.47	0.46	0.55	0.53	0.53	0.37	0.36	0.53	0.35	0.58	0.33	0.07
6 Cash (Gov't)						1.00	0.99	0.45	0.51	0.23	0.20	0.24	0.14	0.08	0.13	0.31	0.67	0.17	0.08	0.01	-0.05	-0.05	0.14	0.15	0.09	0.22	0.09	0.11	0.52
7 Cash (LIBOR)							1.00	0.44	0.50	0.22	0.20	0.24	0.14	0.10	0.13	0.30	0.66	0.17	0.09	0.01	-0.05	-0.05	0.13	0.15	0.08	0.21	0.09	0.11	0.50
8 TIPS								1.00	0.46	0.26	0.23	0.27	0.10	-0.07	0.08	0.14	0.25	0.13	0.05	-0.02	-0.12	-0.12	0.01	0.02	-0.03	0.18	-0.05	0.00	0.42
9 Core Fixed Income (Market Duration)									1.00	0.86	0.85	0.79	0.31	0.05	0.18	0.34	0.63	0.47	0.23	0.13	0.00	0.00	0.07	0.08	0.04	0.08	0.05	0.06	0.16
10 Long Duration Bonds – Gov't / Credit										1.00	0.97	0.96	0.15	-0.10	0.16	0.29	0.51	0.36	0.15	0.08	-0.05	-0.05	0.02	0.02	0.00	-0.02	0.00	0.01	-0.08
11 Long Duration Bonds – Credit											1.00	0.85	0.36	0.13	0.15	0.28	0.48	0.50	0.27	0.18	0.12	0.12	0.06	0.06	0.06	-0.01	0.07	0.05	-0.08
12 Long Duration Bonds – Gov't												1.00	-0.10	-0.36	0.16	0.29	0.50	0.16	-0.01	-0.04	-0.25	-0.24	-0.03	-0.03	-0.07	-0.03	-0.09	-0.04	-0.08
13 High Yield Bonds													1.00	0.75	0.16	0.18	0.11	0.73	0.63	0.57	0.63	0.62	0.27	0.26	0.39	0.35	0.45	0.26	0.18
14 Bank Loans														1.00	0.05	0.05	0.02	0.44	0.54	0.44	0.68	0.68	0.18	0.18	0.27	0.14	0.30	0.18	0.10
15 Non-US Developed Bonds (0% Hedged)															1.00	0.96	0.28	0.21	0.22	0.49	0.01	0.01	0.00	0.00	-0.02	0.42	0.00	0.02	0.15
16 Non-US Developed Bonds (50% Hedged)																1.00	0.54	0.26	0.22	0.45	0.00	0.00	0.02	0.03	-0.01	0.40	0.00	0.03	0.21
17 Non-US Developed Bonds (100% Hedged)																	1.00	0.24	0.12	0.07	-0.05	-0.05	0.07	0.08	0.03	0.11	0.02	0.06	0.25
18 Emerging Market Bonds (Sovereign USD)																		1.00	0.71	0.64	0.50	0.49	0.18	0.18	0.27	0.21	0.30	0.18	0.08
19 Emerging Market Bonds (Corporate USD)																			1.00	0.63	0.54	0.53	0.16	0.15	0.25	0.25	0.26	0.16	0.08
20 Emerging Market Bonds (Sovereign Local)																				1.00	0.45	0.45	0.11	0.11	0.27	0.42	0.19	0.12	0.02
21 Hedge Fund-of-Funds																					1.00	0.99	0.24	0.23	0.39	0.23	0.42	0.24	0.02
22 Broad Hedge Funds																						1.00	0.24	0.23	0.38	0.23	0.41	0.23	0.02
23 Real Estate (Broad Market)																							1.00	0.96	0.49	0.08	0.35	0.20	0.08
24 Real Estate (Core)																								1.00	0.47	0.08	0.33	0.19	0.09
25 U.S. REITs																									1.00	0.18	0.48	0.27	0.04
26 Commodities																										1.00	0.10	0.08	0.42
27 Private Equity																											1.00	0.33	0.05
28 Infrastructure																												1.00	0.06
29 Inflation																													1.00

E. ALLOWABLE INVESTMENTS

The assets of the Retirement System may be invested in those investments pursuant to Section 9-1-1310. These investments include, but are not limited to, futures, forward contracts, swaps, and options, equities, bonds, loans, 144(A)'s, exchange traded funds, American Depository Receipts, real property, and real estate investment trusts. These investments may be listed, exchanged traded, or over the counter, negotiated contracts or investments.

The investments must be made per the terms of each manager's specific governing documents and in accordance with the limitations outlined in the SIOP and AIP. In certain cases, leverage may be utilized in the implementation of these asset classes in accordance with each manager's specific governing documents and in keeping with the investment limitations outlined in this policy. Currency hedges may also be used for non-dollar exposures within each respective asset class as outlined in each manager's governing document. Other portfolio hedges may be used to mitigate risk or gain certain exposure within the portfolio.

In addition to the instruments outlined in the paragraph above, for every asset class, a variety of investment structures may be utilized depending on the nature of a particular investment. In accordance with the terms of the investment limitations outlined in this policy, these structures may include, but not be limited to, mutual funds, limited partnerships, limited liability companies, strategic partnership, trusts, commingled vehicles, fund-of-funds, and separately managed accounts[2] in which assets may be held by an external custodian who is selected and monitored by the external manager or general partner.

1) Restricted Investments:

   a. Terrorist Sponsors: The Commission will not invest in any security or obligation issued by a company or a corporation that is a known sponsor of terrorist organizations or of a company domiciled in a country that is a recognized sponsor of terrorism or terrorist organizations as based on reports from the Office of Terrorism and Financial Intelligence of the Department of Treasury and the Country Reports on Terrorism by the Office of the Coordinator for Counterterrorism of the U.S. Department of State.
   b. Sudan and Iran Divestment Laws: The managers of the Portfolio's accounts **other than** index funds, commingled funds, limited partnerships, derivative instruments or the like are required to assist the Commission in meeting its obligations under the following laws:
      (1) S.C. Code Ann. §9-16-55 sets forth limitations on investment in certain types of companies that are engaged in active business operations in Sudan.
      (2) S.C. Code Ann. §11-57-10 et seq. sets forth limitations on investment in certain types of companies that are engaged in business operations in Iran.

F. GENERAL PROVISIONS RELATING TO THE ALTERNATIVE INVESTMENT PROGRAM

South Carolina law, the Employee Retirement Income Security Act of 1974 ("ERISA"), and the Uniform Management of Public Employee Retirement Systems Act of 1997 ("UMPERSA") each have similar or compatible, albeit not identical, definitions and responsibilities of fiduciaries with respect to managing and investing assets of retirement systems. For clarity and consistency it is prudent for the Commission to declare standards for interpretation of certain terms used in these sources.

For purposes of investments by, and implementation of, the Alternative Investment Program, the "Plan Assets" of the Retirement System include the System's ownership interest in the following entities (e.g., a share or a unit), but do not include the underlying assets owned by the entity itself:

1) A registered investment company;
2) A registered security that is widely held and freely transferable;
3) an entity in which "benefit plan investors" hold less than 25% of the equity interest as defined and determined by ERISA §3(42);
4) An "operating company" engaged in the production or sale of a product or service other than the investment of capital;
5) A "real estate operating company" or REOC (which actively manages and develops real estate consistent with U.S. Department of Labor ERISA regulations);

[2] For purposes of the SIOP, reference hereafter to "fund" will include a limited partnership, limited liability corporation, or commingled vehicle, as applicable.

6) A "venture capital operating company" or VCOC (which actively manages "venture capital investments" consistent with U.S. Department of Labor ERISA regulations);
7) A private investment partnership or offshore investment corporation the offering memorandum of which allows for the entity to take both long and short positions, use leverage and derivatives, and invest in many markets.

Where the Commission invests in an entity that does not hold Retirement System's assets, the Commission's decision to invest in the entity will be subject, inter alia, to the South Carolina fiduciary rules set forth in S.C. Code Ann. §9-16-10 et seq., and the ethics laws set forth in S.C. Code Ann. §8-13-110 et seq., but the transactions engaged in by the entity generally will not be subject to the same rules.

On occasion, the Commission will need to interpret statutes while implementing and administering the investment program. Whenever the South Carolina statutes are substantively similar to provisions of ERISA or UMPERSA, and to the extent practicable and consistent with South Carolina law and other principles of general application relating to public pension plans, the Commission intends to use (1) pertinent provisions of ERISA; (2) interpretive rules and regulations of the U.S. Department of Labor relating to ERISA; and (3) the Reporter's official comments to UMPERSA for guidance.

G. REBALANCING AND EXPOSURE MANAGEMENT

The asset, sub-asset and manager allocations will be reviewed, at least quarterly, by Staff to determine whether the Portfolio is within its allocation ranges. The Commission delegates to the CIO or his designee the authority to execute manager and/or securities transactions to implement rebalancing, cash management, or other authorized investment strategies within target ranges.

The spirit of this Policy is to implement the investment strategy at a reasonable cost within the targets and ranges established by the Commission, recognizing that constant rebalancing to the exact target is not economically justified. Therefore, in some cases, no action will be the appropriate response. However, when an allocation reaches its minimum or maximum allocation, Staff must initiate rebalancing transactions to keep allocations within the approved ranges. Otherwise, Staff will seek Commission approval to remain outside the ranges.

1) Overlay Program: exposure from the overlay program where cash is used as collateral ("securitization of cash") is assigned to the respective sub-asset class level for measuring the asset allocation. Cash exposure and cash for paying day-to-day expenses and benefits is not securitized, and is reflected in the Cash (net of overlays) line item in the Asset Allocation Table.
2) Private Markets: While the range for the total Private Market exposure (Private Equity, Private Debt, and Real Estate) is 12% to 30%, the target invested capital exposure is 21%. Staff will rely on the pacing schedule maintained by the Consultant for the private markets commitments in order to attempt to remain near the invested target of 21%.
3) Hedge funds: Hedge funds may be used within the Opportunistic, Global Equity, Real Assets and Diversified Credit asset classes. In total, hedge fund exposures shall not exceed 20% of the Portfolio assets.

4) Manager level: Concentration risk with respect to significant reliance on any single external manager is reviewed regularly by Staff. Mitigation of the risks associated with operational, headlines/reputational, performance, or fiduciary related issues, the effects of which are more significant with larger allocations, is managed prudently by maintaining a diversified allocation policy within each asset class.
Given the size of the Portfolio, RSIC Staff must balance the risks noted above with the simplicity and economic benefits associated with fewer managers at larger allocations. Additional perspectives such as the costs/benefits of passive vs. active market exposure and the expanding capabilities to implement the strategies directly via internal asset management are becoming increasingly more important.

At the total Portfolio level, external manager limits are applied to three categories according to the nature of the investment mandate: Specialty Mandates, Broad Mandates, and Private Markets (including Strategic Partnerships). The category limits, and examples of each category's components, are:

a. Broad Mandates: 7.5% of total Portfolio assets. Examples include Global Equities, Core Fixed Income, Global Fixed Income, Global Asset Allocation, and Enhanced Strategies.
b. Specialty Mandates: 4.0% of total Portfolio assets. Examples include Specialty Equities, Credit, Emerging Markets Debt, Emerging Markets Equity, and Hedge Funds.
c. Private Markets Mandates: These mandates will be at the dollar commitment as approved by the Commission. This includes approved capacity to Strategic Partnerships.

The allocation limits are not applicable to cash, passive mandates, or other beta implementations.

H. RISK MANAGMENT

This portion of the policy focuses on investment risk management to ensure that a system is in place to monitor risk levels. While many risks are prevalent, the main risk for the Retirement System is that the assets may not support the liabilities over the long term. The following steps are taken to mitigate this and other risks within the portfolio:

1) PEBA provides an actuarial valuation each year to measure the Retirement System's funding ratio and other pertinent financial information.
2) At least every five years, a formal, external asset/liability study will be prepared for the Commission, and it may include an evaluation of the Commission's investment strategy as set forth in S.C. Code Ann. §9-16-320(G). The purpose of this study is to ensure that the current portfolio design is structured to meet the system's liabilities. Annually in the interim, the CIO and Consultant will submit an opinion to the Commission that addresses the continued prudence of the current asset mix in achieving the actuarial assumed rate of return over the long term.
3) Governance policies, internal policies and investment policies are in place to clearly outline the desired outcomes, roles and responsibilities, investment guidelines, benchmarking and portfolio evaluation, and reporting requirements.

At the Portfolio level, staff will:

1) Maintain the Portfolio's asset allocation within the limits established by this policy.
2) Maintain manager level and strategy level diversification, and adhere to the limits within this policy or as contracted with the manager.
3) Adhere to policies and procedures established by the Commission.
4) Maintain adequate liquidity for benefit payments and capital calls.
5) Track and manage the counterparty risk with respect to the Overlay program.

I. INVESTMENT MANAGER GUIDELINES

Full discretion in implementing the investment strategy, within the parameters of all applicable guidelines described herein, is granted to the Commission's investment managers regarding the selection of securities and the timing of transactions within the portion of the Portfolio allocated to each manager. Unless otherwise approved and stated in the contract with the manager, the following guidelines apply to the asset classes below where assets are invested in separately managed accounts.

For all accounts, the Commission expects the purchase and sale of its securities to be conducted in a manner designed to receive the best combination of price and execution. The Commission may evaluate policies that provide for the most efficient and effective trading process.

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

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

1) Passive Equity Manager Guidelines

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

2) Domestic Active Equity Manager Guidelines

   The guidelines listed below will apply to all actively-managed domestic equity accounts, unless otherwise specifically noted or waived by written consent:

a. Domestic equity purchases are limited to common stocks, preferred stocks, mutual funds, Exchange Traded Funds ("ETFs"), American Depository Receipts ("ADRs") and convertibles that are publicly traded. Exceptions must be approved by the Commission in advance;
b. Managers should disclose whenever a single holding accounts for more than 6% of the allowable equity portion of the account managed for the Retirement System at market value;
c. The Retirement System's domestic equity accounts are expected to be fully invested. Managers are encouraged to utilize appropriate ETFs relative to the account benchmark. In no case shall manager's cash exceed 5% after equitizing available cash in an appropriate ETF unless the manager notifies Staff and the Consultant within two business days and furnishes an explanation for the deviation from this guideline;
d. No single holding in the Retirement System's Portfolio shall account for more than 5% of the outstanding common stock of any one corporation;
e. The purchase of ADRs, stocks or convertibles in foreign companies which are publicly traded securities may be held by each domestic stock manager in proportions which each manager deems appropriate, up to 10% of the account at market value (foreign companies are defined as incorporated outside of the U.S. and performing a predominant portion of their business outside of the U.S.). Securities purchased that are part of the manager's domestic benchmark are excluded from the 10% limit;
f. Convertible bonds, convertible preferred stocks, warrants, rights, and ETFs may be purchased as equity substitutes as long as they meet the equity guidelines listed above.

3) International Active Equity Manager Guidelines

The guidelines listed below will apply to all international active equity accounts, unless otherwise specifically noted:

a. Short-term reserves may be held in U.S. dollar denominated, local currency securities, or investment vehicles available through the custodial bank;
b. Managers may purchase or sell currency on a spot basis to accommodate securities settlements;
c. Managers may enter into forward exchange contracts on currency provided that use of such contracts is designed to dampen account volatility or to facilitate the settlement of securities transactions;
d. International equity accounts are expected to be fully invested. Managers are encouraged to utilize suitable ETFs relative to the account benchmark. In no case shall manager's cash exceed 5% after equitizing available cash in appropriate ETFs unless the manager notifies Staff and the Consultant within two business days and furnishes an explanation for the deviation from this guideline;
e. Equity securities should be issued by corporations chartered outside the U.S., although the manager has latitude to hold other securities provided that such investment is consistent with attainment of the account's investment objectives and does not exceed 10% of the account's market value. American Depository Receipts ("ADRs") do not apply toward this 10% limitation;

f. The number of issues held and their geographic or industry distribution will be at the discretion of the investment manager, provided that equity holdings in any one company (including ADRs, common stock and convertible securities) do not exceed 6% of the market value of the account. Additionally, bonds of the companies in question should be included in the exposure calculation if held in the manager's account;
g. Managers with developed country international equity mandates may invest up to 10% of their account in the non-developed markets; and
h. Managers with an emerging markets equity mandate may invest up to 10% of their account(s) in markets not deemed to be emerging markets, subject to the guidelines listed above.

4) Core Fixed Income Manager Guidelines

The guidelines listed below will apply to all core fixed income accounts, unless otherwise specifically noted.

a. In all Fixed Income strategies, "Investment Grade" is defined as: a rating of BBB- or higher from S&P, BBB- or higher from Fitch, or Baa3 or higher from Moody's.
b. Core fixed income investments may include U.S. Government and Federal Agency obligations, TIPS, corporate bonds, debentures, commercial paper, certificates of deposit, Yankee bonds, mortgage-backed securities, bank loans, and other instruments deemed prudent by the investment manager;
c. No more than 6% of the market value of the domestic fixed income assets may be invested in the debt securities of any one issuer, except that no limitations on issues and issuers will apply to obligations of U.S. Government and Federal Agencies;
d. Issues below Investment Grade at the time of purchase may be purchased up to a maximum of 20% of the account;
e. Notwithstanding the above, each manager is allowed to hold a maximum of 5% of the account in bank loans;
f. Managers may invest up to 20% of their account in non-U.S. fixed income securities regardless of currency and may hold foreign currency;
g. The overall average quality of each core U.S. fixed income account must be rated Investment Grade or higher by Moody's, Fitch or Standard & Poor's. Split-rated securities will be measured using the lower ratings. Non-rated issues may be purchased up to a maximum of 10% of the Account;
h. The diversification of securities by maturity, quality, sector, coupon and geography is the responsibility of the manager. Active bond management is encouraged as deemed appropriate by the investment manager;
i. The average duration (interest rate sensitivity) of an actively managed account must not differ from the passive benchmark's duration by more than plus or minus 50% of the benchmark duration;
j. Derivative contracts as delineated in the Allowable Investments section above may be utilized for duration management and managing yield curve exposures. Additionally, credit default swaps may be utilized to increase or decrease credit exposure; and
k. Any mortgage-backed securities ("MBS") will be subject to the constraints listed below:

i. Agency fixed and floating rate pass-throughs, U.S. Treasury securities, and cash equivalents can be held without limitation;
ii. Inverse floating rate, interest only ("I/O"), principal only ("P/O"), and accrual CMOs in aggregate will be limited to 15% of the mortgage securities account, with no more than 5% of the account invested in accrual CMOs. In the event that other types of mortgage-related securities with risk characteristics similar to those in this category are developed, the manager will inform the CIO of those securities and they will be included in this 15% limitation;
iii. All other types of mortgage-related securities not explicitly cited herein will be limited to an aggregate 20% of the account; and
iv. The Commission recognizes that the calculation of the duration of a mortgage-backed security involves assumptions as to the expected future prepayment rate for the security at the time of calculation and that prepayment rates cannot be precisely determined in advance. However, the manager is expected to calculate expected duration prior to the initial purchase of a security and on a routine basis in monitoring the account's compliance with these guidelines.

5) Short Duration & Cash:
   a. Internally managed Short Duration and Cash accounts guidelines:
      i. Securities issued in a currency other than the USD may not be purchased for these accounts;
      ii. Short Duration and Cash investments may include but are not limited to, Treasuries, Agencies, Commercial Paper, Banker's acceptances, Repurchase agreements, Corporate debt securities, and other money market and fixed income securities eligible under South Carolina law; The maximum final maturity of any security purchased for these accounts must be 3 years or less from purchase date; except in the case of new issues with a final maturity limit measured as one that matures within three years of the month that it was purchased; No more than 5% of these accounts may be invested in the securities of any one issuer (at the time of purchase), with the exception of U.S. government and agency securities;
      iii. No more than 10% of these accounts may be invested in securities of any one issue;
      iv. The allocation to corporate debt securities may not exceed the greater of (a) 40% of the accounts or (b) the representative weight in the benchmark index plus five percent at the time of purchase, except in the event that the portfolio has had to sell securities to raise cash. In this event, the accounts can be repositioned over a period not to exceed 30 days;
      v. Sector weightings are limited to +/-50% of the benchmark weighting.
      vi. Securities must be rated as investment grade or better by a nationally recognized statistical rating organization at the time of purchase. In the event that an issue has a "split rating", the lower of the ratings will govern suitability.
      vii. In the event that a security is downgraded or otherwise ceases to meet the above rating criteria, it may continue to be held in these accounts, however additional purchases are not permitted until such time that it meets the aforementioned rating guidelines.

b. External managers may be used for short duration mandates with the following guidelines:
   i. Securities issued in a currency other than the USD may not be purchased for these mandates;
   ii. Short duration fixed income securities may include but are not limited to:
      a) U.S. Government Securities
      b) Sovereign and Supranational denominated in U.S. Dollars
      c) Money market instruments
      d) Repurchase agreements (fully collateralized with approved eligible investments)
      e) Municipal securities (taxable and non-taxable)
      f) MBS (Agency and non-Agency issued and collateralized) including but not limited to:
         a. Residential mortgage-backed securities (RMBS)
         b. Commercial mortgage-backed securities (CMBS)
         c. Mortgage pass-throughs
         d. Collateralized mortgage obligations (CMOs)
         e. Adjustable rate mortgages (ARMs)
         f. Mortgage dollar rolls
      g) Asset backed securities (ABS) including but not limited to:
         a. Credit cards
         b. Autos
         c. Student Loans
         d. Home Equity
      h) Corporate debt securities
   iii. High yield securities (Includes calls, tenders, take-outs, bank debt, unregistered 144As)
   iv. Opportunistic investments in investment grade securities, convertibles, Treasuries
   v. Use of Credit Default Swaps is prohibited in these mandates.
   vi. The maximum final maturity of any security purchased for these mandates must be 3 years or less from purchase date; except in the case of new issues with a final maturity limit measured as one that matures within three years of the month that it was purchased;
   vii. No more than 5% of the mandates may be invested in the securities of any one issuer (at the time of purchase), with the exception of U.S. government and agency securities;
   viii. No more than 15% of the mandate can be invested in any one industry. No more than 25% of the mandate can be invested in any one GICs sector.
   ix. The minimum average credit quality of the mandate should be B+. No securities rated below CCC at time of purchase may be included.

6) High Yield Fixed Income Manager Guidelines

The guidelines listed below will apply to high yield fixed income managers, unless otherwise

specifically noted:

a. Managers may invest up to 40% of their accounts in non-U.S. fixed income securities unless limited by their contract;
b. Managers are allowed to hold a maximum of 25% of the account in bank loans;
c. No more than 6% of the market value of the account may be invested in the debt securities of any one issuer;
d. The average credit quality for the account should be no lower than B-, average quality should be calculated using the lower of split ratings. Split-rated securities will be measured using the lower ratings. Non-rated issues may be purchased up to a maximum of 10% of the Account;
e. Managers may not purchase issues with a quality rating lower than C, and should a holding be downgraded to a rating lower than C, the manager must notify the Consultant and Investment Staff within two business days, unless otherwise specifically noted in IMA, and furnish Staff with an explanation for the deviation from this guideline within three business days;
f. The average duration (interest rate sensitivity) of an actively managed account must not differ from the passive benchmark's duration by more than plus or minus 50% of the benchmark duration;
g. Managers may invest up to 10% of their accounts in municipal securities (taxable and nontaxable); and
h. Derivative contracts as delineated in the Allowable Investments section above may be utilized for duration management and managing currency and yield curve exposures. Additionally, credit default swaps may be utilized to increase or decrease credit exposure.

7) Bank Loans

The guidelines listed below will apply to all bank loan accounts, unless otherwise specifically noted.

a. Managers may invest up to 40% of their accounts in non-U.S. fixed income securities unless limited by their investment management agreement;
b. Managers are allowed to hold a maximum of 25% in high yield securities;
c. No more than 6% of the market value of the account may be invested in the debt securities of any one issuer;
d. The average credit quality for the account should be no lower than B-, average quality should be calculated using the lower of split ratings. Split-rated securities will be measured using the lower ratings. The allocation to non-rated issues may be the higher of the index allocation or 10% of the Account;
e. Managers may not purchase issues with a quality rating lower than C, and should a holding be downgraded to a rating lower than C, the manager must notify the Consultant and Investment Staff within two business days, unless otherwise specifically noted in investment management agreement, and furnish Staff with an explanation for the deviation from this guideline within three business days;

f. Derivative contracts as delineated in the Allowable Investments section above may be utilized for duration management and managing currency and yield curve exposures. Additionally, credit default swaps may be utilized to increase or decrease credit exposure.

8) Structured Credit

The guidelines listed below will apply to all structured credit accounts, unless otherwise specifically noted.

a. Managers may invest up to 40% of their accounts in non-U.S. fixed income securities unless limited by their investment management agreement;
b. Managers may invest no more than 5% in a single traunche, no more than 20% to a single manager, and no more than 20% in a single security;
c. The average credit quality for the account should be no lower than BBB-, average quality should be calculated using the higher of the split ratings. Split-rated securities will be measured using the lower ratings. The allocation to non-rated issues may 10% of the Account;
d. Derivative contracts as delineated in the Allowable Investments section above may be utilized for duration management and managing currency and yield curve exposures. Additionally, credit default swaps may be utilized to increase or decrease credit exposure.

9) Global Fixed Income Manager Guidelines

The guidelines listed below will apply to all Global Fixed Income ("GFI") accounts, unless otherwise specifically noted:

a. Excluding government sponsored enterprises, no single non-government debt security shall constitute more than 6% of a global bond account, as determined at the time of purchase. Securities issued by AAA-rated supranational organizations (such as the World Bank) will be considered to be government equivalents;
b. No industry, as defined by the Barclays Capital Global Aggregate Index, except securities issued or guaranteed by a government, its agencies or instrumentalities, or government sponsored entities of the United States, Canada, United Kingdom, Germany, France, Australia, New Zealand and Japan, or securities issued or guaranteed by AAA-rated supranational entities will comprise more than 25% of the market value of the account, as determined at the time of purchase;
c. Short-term reserves may be held in U.S. dollar denominated or local currency securities or investment vehicles available through the Retirement System's Custodian;
d. Managers may invest in securities issued in any currency and may hold foreign currency. Managers may hedge all or a portion of their currency exposure through the use of foreign currency exchange contracts, including non-delivery forward foreign

exchange contracts and cross hedges. Managers may invest in currency-linked non-leveraged structured notes;

e. Common stock may be held if it is acquired as a result of financial restructuring, bankruptcy, or from an exchange or conversion of a permissible security held in the account;
f. The average overall quality of each GFI account must be A- or higher, as rated by S&P, Moody's or Fitch. Non-rated issues or bank loans may be purchased, provided that in the judgment of the manager, they are of a quality sufficient to maintain the average overall account quality of A- or higher. Issues below Investment Grade at the time of purchase may be purchased up to a maximum of 20% of the account. Emerging market debt may not comprise more than 40% of the account. Combined, these last two allocations should not exceed 50% of the account;
g. Managers may continue to hold securities that are downgraded in quality subsequent to their purchase if, in the opinion of the manager, it would be advantageous to do so, so long as the overall portfolio remains in compliance with the guidelines set forth.
h. The average effective duration (interest rate sensitivity) of a GFI account must not differ from the passive benchmark by more than three years; and,
i. Notwithstanding the above, each manager is allowed to hold a maximum of 5% of the account in bank loans.

10) Emerging Market Debt Manager Guidelines

The guidelines listed below will apply to all Emerging Market Debt ("EMD") accounts, unless otherwise specifically noted:

a. No single debt security shall constitute more than 6% of the EMD account, as determined at the time of purchase;
b. Each manager may hold a maximum of 5% of the account in bank loans;
c. No industry, as defined by the J.P. Morgan Emerging Markets Bond Global Index ("JPM EMBI Global") Index, will comprise more than 25% of the market value of the account, as determined at the time of purchase;
d. Short-term reserves may be held in U.S. dollar denominated or local currency securities or investment vehicles available through the Retirement System's Custodian;
e. Managers may invest in securities issued in any currency and may hold foreign currency. Managers may hedge all or a portion of their currency exposure through the use of foreign currency exchange contracts, including non-delivery forward foreign exchange contracts and cross hedges. Managers may invest in currency-linked non-leveraged structured notes;
f. Decisions as to the number of issues held and their geographic distribution will be the responsibility of the manager;
g. Common stock may only be held if it is acquired as a result of financial restructuring, bankruptcy, or from an exchange or conversion of a permissible security held in the account; and,
h. From time to time, the Commission, upon the recommendation of the Consultant and CIO, may combine the allocations to U.S. High Yield and Emerging Market Debt in a

manager allocation that includes Global Bonds. Such a manager would be expected to manage in the spirit of the guidelines set forth above.

11) Global Asset Allocation

The guidelines listed below will apply to all Global Asset Allocation (GAA) portfolios.

a. GAA portfolios will be benchmarked against a hybrid 50/50 portfolio (50% MSCI World Index, 50% Citigroup World Government Bond Index). Commission staff may elect to analyze the performance of these managers using an additional customized benchmark for internal purposes.
b. For the purpose of clarity, a GAA manager may use hedged strategies as a part of its implementation. When this is the case, if either (a) the majority of portfolio is invested in hedge funds or (b) the strategy's cost structure resembles that of a hedge fund, then the strategy will be considered a hedge fund. This distinction has relevance for the purpose of determining the Plan's entire hedge fund exposure.
c. The portfolios of GAA managers may be invested in liquid securities and instruments, including but not limited to equities, fixed income securities, bank loans, commodities, futures, swaps, forwards, options, and currencies.
d. These strategies may employ leverage.

12) Alternative Asset Manager Guidelines

The guidelines listed below will apply to all alternative investments, which include Hedge Funds, Private Equity, Private Debt, and Real Estate:

a. The Commission will only invest in alternative assets when there is sufficient transparency and policy compliance reporting. Accordingly, the Commission expects that extensive due diligence will be performed in evaluating and fully understanding all aspects of an alternative investment opportunity;
b. It is anticipated that the alternative investments will typically be structured in the form of a partnership, limited liability company, commingled vehicle, or separately managed account. The investment policies and business terms of these managers will be dictated by the documents and/or agreements governing these relationships;
c. The Commission's initial commitment to a fund will not exceed 25% of the committed capital of that fund, unless the Commission specifically waives or suspends this restriction (i) in order to take advantage of a new firm or product that has not yet built an asset base or (ii) in the case of a fund that has been created specifically for RSIC (e.g., a single LP fund).
d. All partnership investments must have a mechanism and a timetable for exit. Other Alternative Investments should have reasonable and well-defined policies for withdrawal of funds from their strategies;
e. Unless otherwise approved by the Commission, no more than 15% of the long-term targeted alternative asset investment allocation may be invested with a single manager, general partner, or single fund, with the exception of a Fund-of-funds and a Strategic Partnership;

f. Preference will be given to those funds where the general partner equivalent is contributing at least 1% of the capital of the total fund; and
g. A reference check on a general partner or equivalent must be performed prior to investing in a fund. This reference check can be completed and reported by the Consultant, or other service provider, subject to review and approval by the Investment Staff.

13) Strategic Partnerships

The Commission may elect to establish Strategic Partnerships with certain asset managers who are believed to possess specific expertise, knowledge and capabilities for a limited or broad range of investment strategies. The Strategic Partnerships are utilized to implement investment ideas with the specific investment manager of the related Strategic Partnership. Each Strategic Partnership will be reviewed by the Commission periodically. The Commission may delegate certain day-to-day responsibilities to the CIO and/or Deputy CIO with respect to the Strategic Partnerships.

The investment approval and evaluation process within the Strategic Partnership is similar to that followed by direct investments by the Commission as described under the Manager Search process. Once an investment idea is sourced, the investment evaluation or due diligence process begins. The investment must pass each of the following due diligence steps before an investment can be made:

a. Evaluate the investment in regard to the Portfolio's overall asset allocation.
b. Meet certain return and risk characteristics, and size qualifications as deemed to be appropriate by the CIO or Deputy CIO in relation to the Strategic Partnership and Portfolio.
c. The investment is evaluated by an assigned team comprised of Investment Staff appointed by the CIO.
d. The investment must be approved by both IIC and the Strategic Partnership Investment Committee before becoming an eligible investment.
e. After these approvals, the investment must be reviewed for legal sufficiency for the Portfolio.

14) Funds of One

A Fund of One is an investment structure in which there is one main investor in a specific vehicle or fund. The Commission may structure certain investments as a Fund of One where it believes that such a structure will have preferable fee arrangements, customized exposure advantages, and/or other beneficial considerations. The CIO is responsible for the day-to-day responsibilities with respect to Funds of One, including providing affirmative or negative consent for underlying investments, as required.

15) Guidelines for Use of Other Pooled/Commingled Funds[3]

Commingled investment vehicles provide, under some circumstances, lower costs and better diversification than can be obtained with a separately managed account pursuing the same investment objectives. However, commingled investment funds cannot customize investment policies and guidelines to the specific needs of individual clients. Recognizing these trade-offs, the Commission will accept the policies of such funds in order to achieve the lower costs and diversification benefits of commingled vehicles, and exempt commingled investment vehicles from the requirements and guidelines of this policy if:

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

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

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

J. MONITORING AND REPORTING

1. Periodic Reports to Commission

The Commission will monitor performance through periodic reports that will allow assessment of broad policy decisions, strategic allocation decisions, and implementation decisions. Performance, with the exception of private market investments, will be calculated using time-weighted rate of return methodology. Performance for private market investments will be calculated on a dollar-weighted basis and multiple on invested capital.

a. At least quarterly, the CIO will submit a report to the Commission addressing the Retirement System's success in accomplishing the investment objectives based on the benchmarks described by policy at the total fund level and each asset class level. This report may also include a brief of due diligence meetings held throughout the quarter for existing managers. Certain managers may be excluded when the disclosure of material information could obstruct the manager's performance or jeopardize the ability of the Commission or Investment Staff to implement a portion of the AIP or achieve investment objectives.

[3] For purposes of this section, reference to commingled "fund" or "vehicle" will include a limited partnership, limited liability company, or any commingled structure, as applicable.

b. The CIO will also provide the Commission with a brief commentary which summarizes thoughts on the market and key strategic decisions made in the quarter, along with justification for those decisions.
c. Periodically, an external consultant will be engaged to report to the Commission regarding the Retirement System's success in minimizing implementation cost without negatively impacting performance.

2. Manager Monitoring Guidelines

In accordance with RSIC Due Diligence Guidelines, adopted on November 8, 2012 and as subsequently amended, Staff will perform a regular in-depth review of each manager. In addition to this requirement, Staff will review manager-provided reporting and communication. Staff will also interact, as needed, with managers outside of these regular in-depth reviews. On an annual basis, managers will be required to complete a Compliance questionnaire that will be reviewed by Staff.

The Commission may rely on reports generated by the Consultant or other third party services to evaluate investment managers to fulfill the requirements of this guideline.

3. Proxy Voting and Reporting

Separate account managers are authorized and directed to vote all proxies, or to direct the Physical Custodian to vote proxies in keeping with the manager's duties under federal and state law to act in the best interests of its clients, and generally to exercise any of the powers of an owner with respect to the assets under the manager's control, subject at all times to the absolute right of the Commission to direct the voting of proxies upon written notification to the manager.

Those separate account managers which vote proxies must provide a written annual summary to the RSIC summarizing proxy votes cast during the previous year. The report shall also (i) detail any changes that have occurred in the manager's proxy voting practices and (ii) note any instances where proxies were not voted in accordance with the best interests of the Retirement System's plan participants.

4. Portfolio Disclosure

The Commission strives to be as transparent as possible regarding all decisions, both business and investment. However, since public disclosure of the details of transition plans or specific investments may jeopardize the Commission's ability to effectively implement the plan or achieve investment objectives, pursuant to S.C. Code Ann. §9-16-80 and §9-16-320, these items will be considered confidential and will remain within the confines of Executive Session during Commission meetings. Information relating to the Commission's actions will be made available to the public as soon as the plan is implemented but not before such time as public disclosure of the information will no longer jeopardize the RSIC's ability to achieve its investment objectives or implement the investment plan.

IV. PORTFOLIO IMPLEMENTATION AND BENCHMARK

The Portfolio has traditionally invested via a combination of passive and active strategies, with most passive strategies implemented internally through the Overlay account and active strategies outsourced to external managers. In conjunction with the strategic initiatives outlined herein and the increasing sophistication of the Portfolio, the Commission, and the Investment Staff, an additional option will be internal implementation by the Investment Staff. The internal capacity currently includes management of ETFs, Cash, Short Duration, and Core Fixed Income, as well as distribution management (that is, the management and disposition of in-kind distributions received from external investment managers or third parties, including, but not limited to, proceeds of settlement of securities class actions or other litigation). In addition, the CIO has discretion to implement passive and enhanced equity exposures with synthetic securities, derivatives, equity baskets, and exchange traded funds. Given the fees associated with external/active management implementation, the Commission recognizes that internally managed solutions (initially focused principally on enhanced index strategies and tactical allocation shifts) will become increasingly important. The Commission authorizes the CIO, ED and Staff to (i) develop such internal solutions and (ii) work with the Commission to obtain the resources necessary to effectively and prudently implement these internal solutions, subject to the requirements of applicable law, this policy and the Commission's Governance Policies.

The legacy Overlay program is expected to continue to function as a tactical means by which the CIO and Investment Staff are able to manage incremental shifts in broad market exposures and manage risk in an efficient manner using both physical and synthetic securities, including, but not limited to, exchange-traded-funds/notes, equity or fixed income baskets, options, futures, swaps and forward currency contracts. These instruments will be increasingly deployed as Staff transitions portions of the Portfolio to internally managed strategies.

1) Performance Objectives and Benchmarks

   Staff will apply industry-standard benchmarking processes in the management of each asset and sub-asset class when applicable. Benchmarks are utilized for comparative, analytical, and performance measurement purposes. They are applied on both absolute and relative bases. The CFA Institute established the following criteria for appropriate benchmarks:

   a. Specified in advance
   b. Appropriate
   c. Measurable
   d. Unambiguous
   e. Reflective of investment options
   f. Owned
   g. Investable

   The above criteria are used by Staff and the Consultant in recommending the benchmarks designated in the following table for policy purposes. The Policy benchmark will be the weighted Policy Allocation to each Index. The current Policy benchmark will change to reflect changes in asset allocation as they are approved.

Asset Class	Indices for Policy Benchmark
Global Equity:	
Global Public Equity	MSCI All-Country World Index (net of dividends)
Private Equity	80% Russell 3000/20% MSCI EAFE + 300 basis points on a 3-month lag (net of dividends)
Real Assets:	
Commodities	Bloomberg Commodity Index
Broad Real Estate	NCREIF Open-end Diversified Core (ODCE) Index + 75 basis points
Opportunistic:	
GTAA/Risk Parity	50% MSCI World / 50% S&P/Citi WGBI
Hedge Funds (Low Beta)	HFRI Fund Weighted Composite Index
Diversified Credit:	
Mixed Credit (HY, Loans, Structured)	1/3 Barclays U.S. High Yield - 2% Issuer Cap, 1/3 S&P/LSTA Leveraged Loan and 1/3 Barclays MBS Indices
Emerging Market Debt	50% JP Morgan EMBI Global Diversified (US Dollar) / 50% JP Morgan GBIEM Global Diversified (Local)
Private Debt	S&P/LSTA Leveraged Loan + 150 basis points on a 3-month lag
Conservative Fixed Income:	
Core US Fixed Income	Barclays US Aggregate Bond Index
Cash & Short Duration	Merrill Lynch 3-Month T-Bill

V. PLACEMENT AGENT POLICY

I. Purpose. It is not the intent of this Policy to proscribe the utilization of Placement Agents (as defined in this Policy) by external investment managers. Rather, in order to provide the fiduciaries and stakeholders of the Retirement System trust funds with additional information regarding the RSIC's investment decision making process, the RSIC has determined that it is in the best interest of the RSIC to require disclosure of the use of any Placement Agent.

II. Definitions. For purposes of this Policy, the following capitalized terms will have the defined meaning set forth below:

(A) "Placement Agent" means any person or entity hired, engaged, or retained by, or acting on behalf of, an external investment manager or an affiliate thereof, or on behalf of another placement agent:

(1) as a finder, solicitor, marketer, consultant, broker, or other intermediary to raise money or obtain an investment from, or to obtain access to, the RSIC, directly or indirectly, including, without limitation, through an investment vehicle; and

(2) receiving any benefit in connection therewith, including compensation in the form of a flat fee, a contingent fee or on any other basis.

(B) "Placement Agent Disclosure Letter" means that letter which will be requested from prospective external investment management firms in accordance with the terms of this Policy.

(C) "Policy" means this Placement Agent Policy.

(D) "Retirement System" means the South Carolina Retirement System, South Carolina Police Officers Retirement System, Retirement System for Judges and Solicitors of the State of South Carolina, Retirement System for Members of the General Assembly of the State of South Carolina, and the National Guard Retirement System.

(E) "RSIC" means the South Carolina Retirement System Investment Commission.

III. Procedure

(A) RSIC staff will inform prospective external investment management firms ("Investment Managers") as to the RSIC's Placement Agency Policy and its attendant disclosure requirements as soon as practicable after RSIC staff begins the due diligence review of any potential investment. The RSIC staff member leading the due diligence review for the investment is responsible for sending written notice (paper, fax or email) to the Investment Manager requesting a Placement Agent Disclosure Letter. If a copy of this Policy has not already been provided to the Investment Manager, then this Policy will be made available to the Investment Manager prior to or at the time notice is given to the Investment Manager.

(B) The Placement Agent Disclosure Letter must be included in the RSIC investment Due Diligence Report packet.

(C) Investments will not be voted on by the Commission, Internal Investment Committee, or Co-Investment Committee prior to receipt of the completed Placement Agent Disclosure Letter.

(D) Notwithstanding section III(C), in the event that the CIO determines exigent circumstances exist such that it is in the RSIC's best interest for the potential investment to be voted on prior to the receipt of the completed Placement Agent Disclosure Letter, the RSIC investment memo must contain an explanation of the circumstances and

indicate the CIO's approval of proceeding with the vote, subject to the provisions of Sections VI and VII of this Policy.

(E) The following entities must provide disclosure regarding use of Placement Agents as outlined below:

(1) Investment Managers that have a direct contractual investment management relationship with the RSIC or with an investment vehicle in which the RSIC is invested.

(2) Investment Managers that have an indirect contractual investment management relationship with the RSIC through an investment vehicle that invests in funds or other pooled investment vehicles or other assets.

IV. Placement Agent Disclosure Letter. The Investment Manager will provide disclosure in the form of a letter addressing all requirements specified below:

(A) **If the services of a Placement Agent were not used:**

(1) Representation that the Investment Manager did not use the services of a Placement Agent (as defined in this Policy) to assist the Investment Manager in obtaining investments by the RSIC, or otherwise doing business with the RSIC.

(2) Representation that no benefit has been paid, given, or promised to any of the RSIC's investment consultants or any person reasonably believed to be a Commission member, officer, director or employee of the RSIC for the purpose, or with the effect of obtaining (i) an introduction to the RSIC or any Commission member, officer or employee of the RSIC, or other assistance in obtaining business from the RSIC, or (ii) a favorable recommendation with respect to the investment.

(3) Representation that all information contained in the Placement Agent Disclosure Letter is true, correct and complete in all material respects.

(B) **If the services of a Placement Agent were used:**

(1) Representation that a benefit has been paid, given, or promised to assist the Investment Manager in obtaining investments by the RSIC, or otherwise doing business with the RSIC. The Investment Manager must also disclose (i) the complete legal name of the Placement Agent, (ii) a description of the transaction and the reason for the engagement of the Placement Agent; and (iii) the amount of the benefit and the nature or purpose of the benefit.

(2) Representation that no benefit has been paid, given, or promised to any of the RSIC's investment consultants or any person reasonably believed to be a Commission member, officer, director, or employee of the RSIC for the purpose, or with the effect of obtaining (i) an introduction to the RSIC or any trustee or Commission member, officer or employee of the RSIC, or other assistance in obtaining business from the RSIC, or (ii) a favorable recommendation with respect to the investment.

(3) Certification that any Placement Agent used in obtaining investment(s) by the RSIC is properly registered in accordance with current securities laws and all applicable state and federal regulations.

(4) Representation that all information contained in the Placement Agent Disclosure Letter is true, correct and complete in all material respects.

V. **Open Records Law**. RSIC may be required to disclose information in the Placement Agent Disclosure Letter under the South Carolina Freedom of Information Act.

VI. **Investments with Separate Account Investment Management Agreements ("IMAs").** In the event RSIC does not receive the Placement Agent Disclosure Letter prior to closing, the RSIC has the option, in its sole discretion, to not execute the IMA. If, after closing, the RSIC determines that the Placement Agent Disclosure Letter contains a material inaccuracy or omission, the RSIC will, to the fullest extent possible, seek the option, in its sole discretion and without liability to the Investment Manager or any third party, to terminate the IMA and to pursue all remedies that may otherwise be available to the RSIC without incurring any penalty under any agreement to which it is a party.

VII. **Investments in commingled investment structures (LPAs, LLCs, Trusts, etc.).** If the RSIC does not receive the Placement Agent Disclosure Letter within the time period specified above, it has the option, in its sole discretion, not to close the investment. The RSIC will endeavor to have provisions incorporated into the transaction documents for commingled investment structures which would permit the RSIC to take those actions described in the next sentence. If, after closing, the RSIC determines that the Placement Agent Disclosure Letter contains a material inaccuracy or omission, the RSIC will seek to obtain the option, in its sole discretion and without liability to the commingled investment structure, the General Partner or equivalent management entity, any other investor in the structure or third party, to cease making further capital contributions and/or direct payments to the investment and to pursue all remedies that may otherwise be available to the RSIC without being deemed to be a defaulting Limited Partner under the transaction documents and without incurring any other penalty under any agreement to which it is a party.

VIII. **Third Party Service Providers**. The party responsible for submitting the Placement Agent Disclosure Letter may omit from the Placement Agent Disclosure Letter fees and expenses paid to its legal counsel, accountants and other third party service providers in connection with the RSIC's investment, unless such entities or affiliates thereof performed a function or received a benefit of the type meeting this Policy's definition of Placement Agent. The RSIC expects the party responsible for submitting the Placement Agent Disclosure Letter to diligently undertake this analysis of third party service providers.

IX. **Review**. The Chief Investment Officer and the RSIC's audit and compliance staff will review Placement Agent Disclosure Letters and will determine whether each disclosure is sufficient. Any questions regarding the sufficiency of the disclosure will be referred to the RSIC legal department.

X. **Staff Contact.** RSIC staff will notify the CIO and the RSIC's audit and compliance staff in writing if a party acting in what appears to be the role of a Placement Agent contacts the RSIC regarding an investment.

XI. **Other**

(A) Obligation to Update**.** It is the Investment Manager's obligation to promptly inform RSIC staff of any material changes to a prior-filed Placement Agent Disclosure Letter, and to submit an updated Placement Agent Disclosure Letter where warranted prior to the RSIC's closing on an investment.

XII. Review and History

(A) The Commission will review this policy at least every three years to ensure that it remains relevant and appropriate, or when there has been an amendment to state law relevant to any section of this policy, or a Commission approved change in the responsibilities, duties, or operations of the Commission or its committees generally, or as otherwise deemed appropriate by the Commission.

(B) No provision of this policy shall apply to the extent that it is in conflict with any provision of the Code of Laws of South Carolina, 1976, as amended. In the event of such conflict, the applicable Code provision shall apply in all respects.

(C) This policy was adopted on September 20, 2012.

VI. SECURITIES LITIGATION POLICY

(A) Purpose of Policy; Objectives - The purpose of this document is to set forth the Commission's policies with respect to securities litigation. The principle objective of the Commission with regard to securities litigation is to prudently and effectively manage securities claims as assets of the Retirement System. Prudent and effective management of securities claims consists of the following functions:

(1) Timely initial identification of potential claims.
(2) The ability to conduct an in-depth assessment of certain claims, where warranted.
(3) Making determinations regarding the most appropriate method of managing claims. Most, if not all, of these claims will be prosecuted by the class action bar whether or not the Commission takes an active role. Consequently, the Commission will focus on identifying those cases where active involvement could add value, either in the specific case or on a long term and portfolio-wide basis. Decisions as to what claims should be actively managed and how to manage them requires a balancing of the costs and benefits involved.
(4) Insuring that all claims are timely filed and recoveries are collected.

Each of these functions is discussed in greater detail below.

(B) Initial Identification of Potential Claims – The identification of potential claims is a time-sensitive process, due to federal law's requirement that any party interested in seeking appointment as lead plaintiff in a federal securities class action must file a notice of its intention to seek appointment within 60 days of the filing of the initial complaint. Potential claims may be identified internally by the Commission's staff, investment consultants and analysts, or externally (by a third party "claims monitoring" service or by the class action bar). Experience has shown that the class action bar typically identifies and files actions on almost all claims first. Therefore, the most expedient way to identify claims is usually to monitor class action filings, determine whether the Retirement System is a member of the class and make other preliminary assessments regarding the potential claim.

The following summarizes the process presently used by the Commission to identify claims in which it has an interest:

(1) The Commission's legal counsel reviews cases listed on various websites when notices of filings are received. Cases may also be identified by other information services or called to the Commission's attention by outside counsel.
(2) The "class periods" (that is, the start and end dates proposed in cases, which may (i) have an effect on the Retirement System's potential losses and (ii) be modified during the course of the litigation) in new cases are compared to Retirement System's trading history to identify those in which Retirement System is a class member.
(3) The Commission's legal counsel obtains a Retirement System trading history and a price chart for cases in which Retirement System may have a claim. Where available, other information describing the case may also be obtained.
(4) The current size of Retirement System's holding in the company is determined.
(5) Upon request by the Commission's legal counsel, a rough damage estimate will be prepared by staff or otherwise, based on the price drop after the end of the class period and the number of shares purchased and sold during the class period.
(6) If the potential claim has a measurable, material impact on our investment return, the Commission's legal counsel obtains a copy of the complaint and seeks to gather other publicly available information.
(7) Advice from the CEO/CIO, the portfolio manager(s), the Commission's investment consultant, and other analysts is obtained when the Retirement System has a substantial claim.

(C) Evaluating Claims - Unless adequate internal resources are available, claims identified for further evaluation are generally sent to experienced securities/litigation counsel engaged specifically to evaluate claims and advise the Commission on options for prudently managing the claims in question. A list of qualified securities/litigation counsel will be maintained by the Commission, in consultation with the Attorney General, for evaluating and/or prosecuting claims. The same general process and standards are used to evaluate each claim, as well as to determine and implement an appropriate claim management strategy, regardless of how the case is identified or referred to the Commission. That process generally includes the following steps and considerations:

(1) Claim evaluation counsel performs due diligence on claims.
(2) In instances where the Retirement System has a large current position in a company, claims are evaluated as to whether they are nuisance suits. If such a claim is likely to cause unnecessary serious harm to the company or the industry (and the value of Retirement System's holding), consideration may be given to whether the Commission could add value to the Retirement System's holding by supporting the company in seeking dismissal of the frivolous or immaterial lawsuit.
(3) Claim evaluation counsel examines reasonable options for protecting the Retirement System's interests in a way that is likely to produce the greatest risk/reward benefits. Options may include (i) passive participation in class action, (ii) filing to become lead plaintiff, (iii) attempting to get a larger claimant to become lead plaintiff, (iv) monitoring the case from the sidelines, (v) writing a letter to the court and/or lead outside counsel to bring up issues being ignored, (vi) filing a motion to support or oppose a particular lead plaintiff or lead outside counsel candidate, (vii) filing a notice of appearance and more

actively monitoring the case, (viii) attempting to negotiate an agreement with prospective lead outside counsel that will require them to keep the Commission informed of case developments, providing the Commission with access to discovery upon request and allow the Commission to participate in settlement negotiations or be consulted on a settlement, (ix) waiting until settlement and reviewing the settlement carefully with the option to object to a poor settlement or excessive fees[4], and (x) opting out of the class to file a separate action (e.g., where the Retirement System has a substantial Section 18 claim for direct reliance on misrepresentations in a document filed with the SEC that is unlikely to be pursued by the class).

(4) Where other institutional investors appear to have similar large claims, consideration may be given to contacting them about a joint effort.

(5) Pursuit of a shareholder derivative action might be considered where the company is not pursuing claims it has against third parties if the shareholders would benefit from realizing on those claims.

(6) Non-litigation alternatives to addressing the underlying cause of the company's problem are also considered (e.g., contacting appropriate law enforcement agencies about potential prosecution of wrongdoers, filing a shareholder resolution or negotiating for remedial corporate governance changes, such as addition of independent directors).

(7) Resource and other potential impacts may be considered in recommending a course of action. Factors which will be considered include impact of the proposed litigation on the Commission's staffing and resources, as well as other issues (e.g., strength of potential witnesses, likelihood that an investment will be sold, contents of Commission's files, support of the portfolio manager for legal action, and potential compromise of Commission's trading strategy if material, non-public information were to be acquired through involvement in discovery).

(8) The Retirement System's portfolio impact of active claims management on long-term value may be taken into consideration in addition to the factors involved in a single case (e.g., the deterrence of future fraud from pursuit of claims against corporate bad actors or culpable auditors that are unlikely to be pursued without active case management by a knowledgeable lead plaintiff, introduction of competition between law firms to lower the size of legal fee awards taken out of recoveries, raising the standard for acceptable recoveries in class actions, objecting to unreasonable fees, and fostering changes in corporate culture that are likely to benefit shareholders).

(9) Potential conflicts with other members of the class should also be taken into consideration in determining how to best manage the Retirement System's interests in a particular lawsuit (e.g., where the Retirement System has an overriding interest in getting the case dismissed because of its large continuing position and negative view of the suit's merits, the Commission may not want to seek appointment as lead plaintiff).

(10) Claim evaluation counsel generally provides a written analysis and a recommendation to the Commission's Legal Division on what the most cost-effective options appear to be for managing the claim.

[4] The Commission will develop guidelines addressing arrangements which constitute "excessive fees."

(11) Recommendations may be discussed with portfolio managers, outside counsel and other Commission and Retirement System staff as appropriate prior to a final decision on management of the claim by the Commission's Legal Division.

(D) Serving as Lead Plaintiff - Where the claim evaluation process results in a decision to seek appointment as lead plaintiff, specific principles for adding value through the Commission's participation in the litigation may be identified (e.g., reduction of class legal fees and costs, pursuit of recoveries from culpable officers, directors, auditors, or other third parties, maximization of the recovery, and correction of underlying corporate governance problems). The Commission believes the most important decisions a lead plaintiff makes are usually those on selection/compensation of lead outside counsel and evaluation of potential settlement offers. In that regard, the Commission will always seek to structure lead outside counsel's compensation in a way that aligns interests of the class and its lawyers. The Commission believes that deterrence goals can be achieved in settlements through pursuit of claims against individuals and third parties that are bad actors. The following outlines the Commission's approach to serving as lead plaintiff.

(1) When the Retirement System acts as sole lead plaintiff, the Commission will select lead outside counsel based on proposals submitted by and interviews of one or more potential lead outside counsel firms. [Note: A sample form of request for proposals may be found in Appendix A hereto]. A selection/review panel will evaluate candidates for lead outside counsel. Panel members will include the Chairman of the Commission, a member of the Commission's Legal Division, and a designee of the South Carolina Attorney General. That panel will also receive the advice of the Commission's general investment consultant and other analysts. A majority of the panel will constitute a quorum. The panel will make a recommendation regarding proposed lead outside counsel for a particular case to the Commission for a final decision.

(2) The lead outside counsel selection should be done so as to establish for the court and other class members that lead outside counsel was selected on merit.

(3) If the Commission does not prefer to serve as the sole lead plaintiff, other institutions may be invited to participate as joint lead plaintiffs. When a group is formed to function as lead plaintiff, similar procedures should be agreed upon for selection of lead outside counsel and supervision of the litigation. In the absence of other arrangements, the Commission generally prefers to have each participant designate a representative to serve on a lead plaintiff committee. The committee could be authorized to function much the same way that creditors' and equity holders' committees in bankruptcies do, with the committee electing its own officers, being updated regularly by lead outside counsel and convening as needed to review events or make decisions. Lead outside counsel could effectively serve as staff to the lead plaintiffs' committee.

(4) Only qualified lead outside counsel candidates should be invited to submit proposals.

(5) Consideration may be given to expanding competition between competent counsel within the class action bar, in order to encourage long-term reduction of fees.

(6) While other innovative fee proposals may be solicited, the Commission will generally favor an arrangement that starts at a very low level (e.g., 5-10 percent) for a minimal recovery (this mitigates against counsel pursuing a frivolous case) and increases in brackets up to a maximum level for the highest recovery dollars. (The Commission does not ordinarily favor a descending fee schedule out of concern that it might operate to

impose an artificial cap on lead outside counsel's incentives at the point where the fee percentage starts to decline. The last dollars are usually the hardest to obtain and lead outside counsel should be duly motivated to get them.) To prevent a windfall for lead outside counsel, the Commission also believes the fee schedule should contain a component that lowers the fee for early recoveries and gradually increases as the case proceeds. The fee schedule could be viewed as a grid, with the size of the recovery on one axis and the stage of litigation on the other. If costs and expenses are anticipated to be a major factor, consideration could be given to determining fees after costs are deducted from the recovery so that lead outside counsel is encouraged to keep costs under control.

(7) The Commission will not advance fees or expenses for the class.

(8) Lead outside counsel is generally expected to indemnify the Retirement System and Commission for any sanctions.

(9) Lead outside counsel must provide information on its malpractice insurance coverage.

(10) A written proposal is usually requested from lead outside counsel candidates. The proposal should include an evaluation of the case, the suggested fee arrangement, and a litigation plan. Unless the Commission is otherwise familiar with the outside counsel, the proposal should also explain the firm's experience in similar cases and the expertise of the lawyers that would work on the case.

(11) The Commission believes it should retain the right to consent to an increase in a fee agreement at a later stage in the litigation if circumstances change such that the fee schedule is a disadvantage to the class.

(12) Separate fee levels for claims against different defendants may be considered, if it is likely that efforts to obtain recoveries would vary from one to another.

(13) Written proposals are generally reviewed by the selection/review panel (or the lead plaintiff committee) and the top candidates may be asked to provide an oral presentation (either in person or by conference call).

(14) If time does not permit selection of lead outside counsel to be completed prior to the deadline for lead plaintiff applications, the Commission's Legal Division may file the lead plaintiff motion.

(15) A case management agreement covering reporting, approval and other procedures should be established with lead outside counsel to ensure that Commission/Retirement System will be able to perform effectively its responsibilities as lead plaintiff.

(16) Use of local or co-counsel by lead outside counsel will require approval from the Commission, where it will not unreasonably increase class fees or costs.

(E) Filing of Claims -Upon the settlement or other resolution of class action or other securities litigation, the Commission's custodial bank shall timely file all documents and take other steps necessary to insure that (a) the interests of the Commission and Retirement System are protected and (b) all monies due the Retirement System from such litigation are collected. The Commission's Legal Division will receive information from the custodial bank regarding the filing of claims and receipt of settlement proceeds and other recoveries, and periodically report to the Commission.

II. ADMINISTRATION OF POLICY

(A) Processing Claims – The Commission's Legal Division is responsible for managing and coordinating the processing of all securities claims of the Commission/Retirement System either directly to court or through lead outside counsel.

(B) Reporting - The Legal Division will submit quarterly reports to the Commission regarding the status of (i) securities claims in which the Commission may be eligible to obtain a recovery and (ii) recoveries collected.

(C) Conclusion - As the Commission gains more experience with securities class action litigation, this process is expected to evolve. Changes in law and developments in court interpretations of the Private Securities Litigation Reform Act of 1996 and other laws may also impact procedures used by the Commission. Questions about the Commission's securities class action procedures may be addressed to the Commission's legal counsel.

III. POLICY REVIEW & HISTORY

(A) The Commission will review this policy at least every three years to ensure that it remains relevant and appropriate, or when there is an amendment to state law relevant to any section of this policy, or when there is a Commission approved change in the responsibilities, duties, or operations of the Commission generally.

(B) This policy was adopted November 17, 2011.

IV. APPENDICES

(A) Sample Request for Proposals

Appendix A – Sample Request for Proposals

The Commission may solicit proposals for lead outside counsel, though it will be more customary for the applicants to solicit the Commission. When the Commission does solicit proposals, the Sample Request below will often suffice.

Legal Division
South Carolina Retirement System Investment Commission
1201 Main Street, Suite 1510
Columbia, South Carolina 29201
Sample Request for Proposals
Date:_____

To: Candidate Law Firms

Re: _____ Class Action

_____ is soliciting proposals from selected qualified law firms to represent it in seeking appointment as lead plaintiff and in representing the class as lead counsel (subject to approval by the court) in the above securities class action litigation. _____ invites your firm to submit a proposal.

A list of the known pending class action lawsuits against the company is attached. We have also attached our trading history in the stock during the proposed class periods. Additional information can be provided upon request. I assume you will have to review the filed complaints and additional information about the company in order to evaluate the case and provide us with your legal analysis and proposal.

Proposals must be no more than ten pages in length and should be submitted to the attention of _____ by _____. Please provide at least six copies of all materials. The following items should be addressed, either in the written proposal or subsequent presentation:

- Whether you believe this case is one in which we should seek appointment as lead plaintiff;
- Your firm's experience in handling similar litigation;
- Identification of staffing arrangements you would make in order to accommodate workload;
- The results of any investigations you have performed for the case;
- Analyses of the causes of action which could be pursued by the class or us;
- Separate consideration of claims against the various defendants and potential defendants, including the company's accountants, underwriters, directors and officers;
- A damage analysis for claims of both us and the class, including likely recovery projections;
- Anticipated defenses to each claim and motions that might be brought by the parties;
- A general litigation plan outline for the case, including discovery plans and a target trial date;
- Consideration of the potential need for subclasses;
- What the appropriate class period should be;
- Evaluation of how the case might be handled to enhance deterrence of future fraud;
- Identification of firm personnel who would work on the case, including the roles each person would play and their normal hourly rates;
- Plans for use of co-counsel or other law firms and our relationship with any other plaintiffs;

- Arrangements for retaining and compensating experts and third parties on behalf of the class;
- Suggested reporting arrangements for supervision of lead outside counsel by us;
- Identification of your firm's malpractice coverage;
- Confirmation that your firm would cover litigation costs, any bonds required by the court and potential Rule 11 liability; and
- Proposed fee arrangements.

We invite alternative and thoughtful fee proposals for consideration. We seek an arrangement that aligns the interests of lead outside counsel with those of class members. We invite suggestions for a progressive fee structure which rewards lead outside counsel for success in pursuing damage recovery and other litigation goals, encourages prompt resolution of the matter, discourages unnecessary discovery and motion practice, and eliminates outcomes where counsel could obtain a cheap settlement that provides unreasonable fees. While fees will be a consideration in the selection process, our decision on lead outside counsel will also include evaluation of other factors, including those listed above.

Please note that we will not be responsible for fees or costs prior to recovery. As you know, representation of the class as lead outside counsel is subject to court approval.
If you submit a proposal, you may be contacted regarding a presentation to us by the primary firm personnel who would be responsible for the case. The presentation may be done in person or by teleconference.