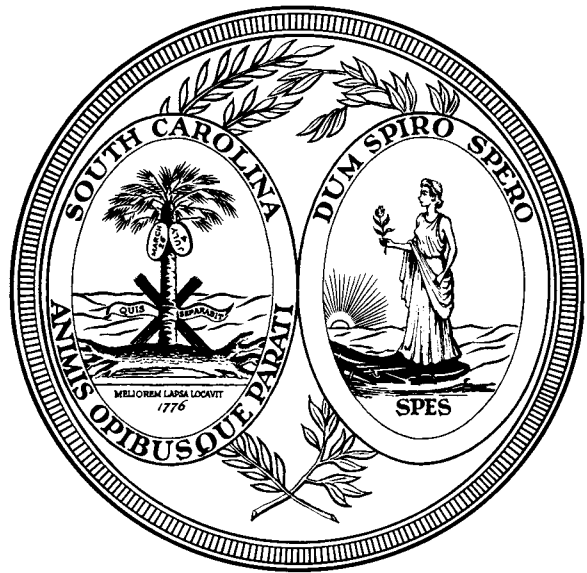


SOUTH CAROLINA RETIREMENT SYSTEM INVESTMENT COMMISSION



STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES

As first adopted by the South Carolina Retirement System Investment Commission on September 20, 2005 (effective October 1, 2005), and amended on October 13, 2005

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SECTION I

PURPOSE

The purpose of this document is to identify and present a set of investment objectives, investment guidelines, and performance standards for the assets of the South Carolina Retirement Systems (Retirement Systems). The Retirement System Investment Commission (Commission) is charged with oversight of the investment of the total portfolio of assets representing the retirement plans that comprise the Retirement Systems including:

South Carolina Retirement System,
Retirement System for Judges and Solicitors,
Retirement System for Members of the General Assembly, and
Police Officers Retirement System

This Investment Policy Statement represents the overall guidelines and objectives that apply to the entire portfolio. All decisions that affect the management of the portfolio must comply with the guidelines and restrictions contained within this document, must be consistent with the existing State statutes, and must reflect the philosophy and intent of the Commission.

At least annually, the Commission will review this Investment Policy Statement to determine its continued applicability. If, at any time, the liquidity needs of the Retirement Systems, the actuarial return expectations, or the risk/return expectations of the Commission change, or State statutes require, the guidelines and objectives will be reassessed and restated in writing.

This Statement is to be communicated to the Chief Investment Officer (CIO) as the principal source for developing an appropriate investment strategy for the Retirement Systems' portfolio allocation and must be the basis for the Annual Investment Plan proposed to the Commission by the CIO. In addition, this document will be used as the basis for future investment performance measurement and evaluation.

The consultant for the equity portfolio is Mercer Investment Consulting, Inc. (Investment Consultant). The Office of the State Treasurer manages the fixed income portfolio currently, and the consultant to the State Treasurer for the fixed income portfolio is Jamison Eaton & Wood, Inc.

SECTION II

OBJECTIVES

INVESTMENT OBJECTIVES

The primary investment objective is to ensure, over the long-term life of the Retirement Systems, an adequate pool of assets to support the benefit obligations to participants, retirees, and beneficiaries.

An important secondary objective is to be able to improve the funded status of the four retirement plans that comprise the Retirement Systems, therefore reducing the State's contributions and potentially allowing for improvements in benefit levels as needed. In meeting these objectives, the Commission seeks to achieve a higher level of investment return consistent with a prudent level of portfolio risk.

ASSET ALLOCATION STRATEGY

The assets of the Retirement Systems will be invested according to the following asset allocation guidelines, established to reflect the requirements of the statutes of the State of South Carolina and to improve the probability of achieving the long-term objectives as outlined above.

<u>Asset Class</u>	<u>Strategic Target</u>	<u>Tactical Range</u>
Equity	50.0%	45.0% - 55.0%
Core Fixed Income	50.0%	45.0% - 55.0%
Cash	0.0%	0.0% - 5.0%
Total Fund	100.0%	

The Commission, based upon analysis and recommendations from the State Budget and Control Board, the State Retirement Systems Investment Panel and the Investment Consultant, has adopted an asset allocation policy for the Retirement Systems' assets of 50% Equity / 50% Fixed Income, effective with the 2005-2006 Fiscal Year. This policy is intended to increase the long-term rate of return on the Retirement Systems' assets and is consistent with S.C. Code Ann. §9-16-340.

The target allocation shall be fully implemented by the end of the 2005-2006 Fiscal Year. In order to increase the Equity target allocation from 40% to 50%, 2.5% of the Retirement Systems' assets should be re-allocated from Fixed Income to Equity during each fiscal quarter during Fiscal Year 2005-2006. If during the Fiscal Year any scheduled quarterly allocation would result in the equity allocation exceeding 50% of the Retirement Systems' assets, the re-allocation for that quarter will be reduced to the amount necessary to attain the 50% equity target allocation. If the final re-allocation is determined to be less than 1% of the total Retirement Systems' assets, that re-allocation will not occur and the re-allocation process will be deemed complete. This process will be implemented in a manner consistent with the Rebalancing Strategy outlined in the following section.

S.C. Code Ann. §9-16-340 provides for the Annual Investment Plan to include the minimum and maximum portion of Retirement Systems assets that may be allocated to equity investments on an ongoing basis not to exceed 70%. After further analysis, it was determined that the target allocation for Fiscal Year 2005-2006 should be 50% to equities and 50% to fixed income investments. However, market appreciation may move the asset allocations away from these target allocations. Consequently, the Commission upon recommendation of the Investment Consultant, has adopted an asset allocation policy and rebalancing policy to maintain the target 50%/50% allocation while minimizing the costs of maintaining that target through active rebalancing. The asset allocation policy and rebalancing policy will

be implemented through the use of ranges around the target allocation. The asset allocation of the portfolio may fluctuate within these bands, but any movement outside of the bands will trigger a rebalancing back toward the target allocation.

The asset allocation target and bands that have been determined to provide the greatest risk control while permitting the greatest cost efficiency are listed below.

Asset Class	Target Allocation	Minimum Allocation	Maximum Allocation
Fixed Income	50%	45%	55%
Equity	50%	45%	55%
Cash	Discretionary within the Fixed Income Portfolio		

The asset allocation of the portfolio will be reviewed on a quarterly basis using the most recently available statement from the Retirement Systems' custodian. Should one of the asset classes exceed its minimum or maximum allocation, a rebalancing will occur. If the Fixed Income asset class exceeds its maximum allocation, the rebalancing will be effected by transferring assets from the Fixed Income asset class to the Equity asset class until the Fixed Income asset class is within 1% of its target allocation. If the equity asset class exceeds its maximum allocation, the rebalancing will be effected by transferring assets from the Equity asset class to the Fixed Income asset class until the Equity assets are within 1% its target allocation. The rebalancing will occur over multiple quarters until the target allocation is reached. No more than 2.5% and no less than 1% will be rebalanced in a single quarter.

Cash flows into or out of the portfolio will be managed within the fixed income portion of the portfolio.

A cash account will be established for the payment of expenses related to the Retirement Systems and such account will be managed and invested by the State Treasurer's Office in accordance with S.C. Code Ann. §11-9-660, as amended.

The Interim Annual Investment Plan for Fiscal Year 2005-2006 adopted by the Commission sets forth the asset allocation and rebalancing strategies for the equity asset class.

INVESTMENT PERFORMANCE GUIDELINES

The Retirement Systems are expected to achieve the following over rolling five-year periods:

- Provide an absolute return of 4.0%, net of inflation.
- Provide an annualized rate of return that exceeds the current actuarial return assumption of 7.25%.
- Outperform the return of a hypothetical portfolio composed of indexes weighted according to the target allocation (adjusted as assets are invested in the equity markets).

The volatility of returns, as measured by the standard deviation of quarterly returns, should be comparable to that of the composite benchmark index.

SECTION III

INVESTMENT GUIDELINES AND PERFORMANCE MEASUREMENT STANDARDS

The Retirement System Investment Commission is responsible for the investment of all assets and for establishing sound policies and practices. All investments shall be made solely in the interest of the participants, beneficiaries, and retirees of the South Carolina Retirement Systems (Retirement Systems).

The Commission may, at its discretion retain registered investment advisors to manage a portion, or all, of the assets of the Retirement Systems. Investment advisors shall be selected from established and financially sound organizations that have a proven and demonstrable record in managing funds with characteristics appropriate for the risk/return profile of the portfolio assets. The selection process will involve a disciplined approach that will be fully documented for the Commission's records.

All assets should be properly diversified within each asset class to reduce the potential of a single investment style, single security, or single sector of securities having a disproportionate or significant impact on the portfolio. The CIO will be responsible for developing recommendations regarding portfolio structure and will incorporate such recommendations in the Annual Investment Plan submitted to the Commission for adoption.

Investment guidelines and performance standards are required for determining whether the investment objectives are being met. They also provide an objective basis for evaluating how well managers and asset classes complement each other and add value collectively. The performance objectives outlined herein will be used as the benchmarks against which results will be measured and evaluated; however it is understood that there is no guarantee that such results will be attainable.

If a commingled fund or mutual fund is utilized, it is understood that such portfolio will be governed by the prospectus or similar document for the fund. In those cases, these guidelines should serve as the basis for selecting and evaluating funds initially and in monitoring them on an on-going basis for continued suitability. If the assets of the commingled or mutual fund participate in securities lending, the cash collateral should be prudently invested in accordance with the investment guidelines contained herein to minimize the risk of loss.

Specific investment guidelines and performance objectives applicable to the management of the broad asset classes follow.

**FIXED INCOME PORTFOLIO
INVESTMENT GUIDELINES AND PERFORMANCE OBJECTIVES**

Individual guidelines and objectives may be separately stated for each discipline to be developed. The guidelines below reflect Retirement System Investment Commission's intention for the evaluation of the total fixed income portfolio and are not intended to apply to each discipline individually.

INVESTMENT GUIDELINES

ACCEPTABLE INVESTMENTS	Fixed income securities shall mean those securities permitted pursuant to S.C. Code Ann. § 11-9-660.
QUALITY	Securities shall bear an investment grade rating from at least two (2) of the major rating agencies.
TURNOVER	If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the portfolio.
DIVERSIFICATION	Except for United States Treasury and Agency obligations, the fixed income portfolio shall contain no more than 5% exposure to any single issuer.
MATURITY	The weighted average maturity and the weighted average duration of the actively managed fixed income portfolio should not exceed 175% of the benchmark index averages.
CASH RESERVES	Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of A1/P1/F1 or D1 from at least two (2) nationally recognized rating services.

PROHIBITED INVESTMENTS AND ACTIVITIES

- Options writing or purchasing
- Purchasing securities on margin
- Purchasing or selling futures or commodity contracts
- Short sales
- Leveraged derivative securities

INVESTMENT MANAGER OVERSIGHT AND REVIEW

The assets of the fixed income portfolio will, on an interim basis, continue to be managed internally by the Office of the State Treasurer, subject to the guidelines, objectives, and standards established herein. Should the Commission, after receiving

such consultation as it deems proper, determine that it is in the best interest of the portfolio, registered investment managers may be selected to handle certain portions of the portfolio. To the extent that sub-portfolios are developed for the purpose of gaining exposure to managers with expertise in a particular area of specialty (e.g., mortgage investments, inflation-protected securities), the Commission will establish specific guidelines and objectives for those sub-portfolios. The Commission will evaluate the contribution of each sub-portfolio within the context of the total fixed income portfolio's ability to meet the standards and objectives established in this document.

PERFORMANCE OBJECTIVES

Provide an absolute return of at least 2.5% above the rate of inflation over rolling five-year periods.

Provide a rate of return that exceeds the Lehman Aggregate Index over rolling five-year periods. The portfolio's returns should remain competitive with the Index returns over rolling three-year periods.

Provide a rate of return that exceeds the median in a universe of fixed income managers over rolling five-year periods. The portfolio's returns should remain competitive with the universe over rolling three-year periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which is comparable to that of the Index.

**EQUITY PORTFOLIO
INVESTMENT GUIDELINES AND PERFORMANCE OBJECTIVES**

INVESTMENT GUIDELINES - Individual manager guidelines and objectives are separately stated for each discipline. The guidelines below reflect the Retirement System Investment Commission's intention for the evaluation of the total equity portfolio and are not intended to apply to each manager individually.

ACCEPTABLE INVESTMENTS	Equity securities shall mean common stocks or equivalents (American Depository Receipts [ADRs] that have a US presence as defined in the South Carolina Attorney General's opinions dated April 28, 1999 and September 14, 1999, convertible bonds, preferred stock). It is anticipated that the portfolio will maintain a broadly diversified and representative exposure to stocks of companies which are reflective of the broad economy of the United States. ADRs (as defined above) may comprise up to 20% of the total equity portfolio holdings.
QUALITY	There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc. except that prudent standards should be developed and maintained in the portfolio.
TURNOVER	If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the portfolio.
DIVERSIFICATION	No more than 5% (or the Russell 3000 Index weighting plus 200 basis points, if higher) of the total equity portfolio should be invested in any one company (valued at market); however, individual managers may hold larger allocations to single securities within their portfolios. Sector weightings for the total equity portfolio should be generally reflective of the broad US market with no more than the greater of 25% or two times the Russell 3000 Index weighting invested in any single sector.
CASH RESERVES	Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1 or the pooled cash fund of the custodian bank. Commingled funds meeting the above requirements are permitted. The portfolio may utilize Exchange Traded Funds (ETFs) representing the assigned benchmark (style-specific) in lieu of cash. The ETF holdings will be considered as part of cash and is subject to any cash allocation limitations specified.

PROHIBITED INVESTMENTS AND ACTIVITIES

Options writing or purchasing (except the use of protective put options or the writing of covered calls as a risk management technique)
Purchasing securities on margin
Short sales
Leveraged derivative securities
Foreign non-dollar denominated securities

INVESTMENT MANAGER OVERSIGHT AND REVIEW

The assets of the equity portfolio may be managed actively or passively, using commingled accounts or separately managed portfolios, subject to the guidelines, objectives, and standards established herein. Investment managers will be selected to handle sub-portfolios, providing access to a diversified array of investment styles (growth, value, income, index, etc.) and specialty allocations (small cap, mid cap, large cap, etc). The Annual Investment Plan specifies the methods that will be used to gain access to the US equity market. This document will be updated and submitted to the Retirement System Investment Commission (Commission) for approval not less frequently than annually. As specialty managers are selected, the Commission will determine specific guidelines and objectives for each sub-portfolio and incorporate such guidelines and objectives in this Statement of Investment Policy. The Commission will evaluate the contribution of each sub-portfolio within the context of the total equity portfolio's ability to meet the standards and objectives established in this document.

PERFORMANCE OBJECTIVES

Provide an absolute rate of return of at least 6.0% over the rate of inflation over rolling five-year periods.

Provide a rate of return that remains competitive with the S&P 500 Index and the Russell 3000 Index returns over rolling three-year periods. The portfolio's returns should exceed the Index returns over rolling five-year periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which does not exceed that of the Index by more than 25%.

**PASSIVE LARGE CAP EQUITY PORTFOLIO
INVESTMENT GUIDELINES AND PERFORMANCE OBJECTIVES**

Investment Guidelines

ACCEPTABLE INVESTMENTS	Common stocks represented in the S&P 500 Index. The portfolio may employ either a full replication or a sampling approach to indexing the S&P 500.
QUALITY	There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc., except that prudent standards should be developed and maintained in the portfolio.
TURNOVER	If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the portfolio. Turnover should reflect the activity required to maintain equivalent exposures to the S&P 500 Index.
DIVERSIFICATION	No more than 5% of the portfolio should be invested in any one company (valued at market) unless such company comprises more than 5% of the S&P 500 Index in which case the exposure should equal the S&P 500 Index level.
CASH RESERVES	Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1. Any cash reserve accounts will be required to meet the investment requirements previously established by the Treasurer's Office for short-term investments.

Prohibited Investments and Activities

Purchasing securities on margin
Purchasing or selling commodity contracts
Short sales
Foreign non-dollar denominated securities

Investment Manager Oversight and Review

The assets of the passive large cap equity portfolio will be passively managed in a separately managed or commingled portfolio, subject to the guidelines, objectives, and standards established herein.

Termination of the passive large cap equity portfolio manager will occur whenever the Retirement System Investment Commission (Commission) determines that the objectives of the total portfolio can more efficiently or effectively be met by the selection of another

indexed manager or under a different management mandate. The Commission maintains the right to terminate a manager with or without cause.

Circumstances which would result in immediate review and possible termination include (but are not limited to) the following:

- Manager changes strategy or investment style;
- Critical elements of the investment process have broken down;
- Manager is unable to track the index returns sufficiently and is experiencing deviation (positive or negative) from the Index return pattern;
- Transaction costs are determined to be unreasonable;
- Investment management fees are higher than similarly styled managers for similarly sized portfolios; or
- The manager is not complying with the Statement of Investment Objectives and Policies.

Performance Objectives

Provide a rate of return that equals (gross of fees) the S&P 500 Index over rolling one-, three-, and five-year periods.

Provide a rate of return that tracks the return of the index over quarterly periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which mirrors that of the S&P 500 Index.

LARGE CAP CORE EQUITY MANAGER INVESTMENT GUIDELINES AND PERFORMANCE OBJECTIVES

Investment Guidelines

ACCEPTABLE INVESTMENTS	Equity securities which shall mean common stocks or equivalents (American Depository Receipts [ADRs] that have a US presence as defined in the South Carolina Attorney General's opinions dated April 28, 1999 and September 24, 1999, convertible bonds, preferred stock). It is anticipated that the manager will invest primarily in companies considered to have large to medium capitalization levels. ADRs (as defined above) may comprise up to 20% of the equity holdings.
QUALITY	There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc., except that prudent standards should be developed and maintained by the manager.
TURNOVER	If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the portfolio.
DIVERSIFICATION	No more than 8% (or the benchmark S&P 500 Index weighting plus 200 basis points, if higher) of the portfolio should be invested in any one company (valued at market). Sector allocations should closely mirror the sector allocations of the benchmark index and should generally remain within a range of ± 5 percentage points.
CASH RESERVES	Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1. Any cash reserve accounts will be required to meet the investment requirements previously established by the Treasurer's Office for short-term investments. The portfolio may utilize Exchange Traded Funds (ETFs) representing the assigned benchmark (style-specific) in lieu of cash. The ETF holdings will be considered as part of cash and is subject to any cash allocation limitations specified.

Prohibited Investments and Activities

- Options writing or purchasing
- Purchasing securities on margin
- Purchasing or selling commodity contracts
- Short sales
- Leveraged derivative securities
- Foreign non-dollar denominated securities

Investment Manager Oversight and Review

The assets of the large capitalization core style equity portfolio will be actively managed in a separately managed or commingled portfolio, subject to the guidelines, objectives, and standards established herein.

Termination of the large cap core equity manager will occur whenever the Retirement System Investment Commission (Commission) determines that the objectives of the total portfolio can more efficiently or effectively be met by the selection of another large cap core equity manager or under a different management mandate. The Commission maintains the right to terminate a manager with or without cause.

Circumstances which would result in immediate review and possible termination include (but are not limited to) the following:

- Manager changes strategy or investment style;
- Critical elements of the investment process have broken down;
- Manager is unable to meet the performance expectations within the risk tolerance specified;
- The portfolio is exhibiting style characteristics which are not consistent with the defined mandate;
- Transaction costs are determined to be unreasonable;
- Investment management fees are higher than similarly styled managers for similarly sized portfolios;
- The manager is not complying with the Statement of Investment Objectives and Policies; or
- Significant organizational changes.

Performance Objectives

Provide a rate of return that exceeds the S&P 500 Index over rolling five-year periods.

Provide a rate of return that remains competitive with the returns of other large capitalization core style equity managers over rolling three-year periods. The manager's returns should exceed the median in a universe of large capitalization equity managers over rolling five-year periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which is less than 125% of the risk level of the S&P 500 Index.

LARGE CAP VALUE EQUITY MANAGER INVESTMENT GUIDELINES AND PERFORMANCE OBJECTIVES

Investment Guidelines

ACCEPTABLE INVESTMENTS	Equity securities which shall mean common stocks or equivalents (American Depository Receipts [ADRs] that have a US presence as defined in the South Carolina Attorney General's opinions dated April 28, 1999 and September 14, 1999, convertible bonds, preferred stock). It is anticipated that the manager will invest primarily in companies considered to have large to medium capitalization levels. ADRs (as defined above) may comprise up to 20% of the equity holdings.
QUALITY	There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc., except that prudent standards should be developed and maintained by the manager.
TURNOVER	If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the portfolio.
DIVERSIFICATION	No more than 8% (or the benchmark Russell 1000 Value Index weighting plus 200 basis points, if higher) of the portfolio should be invested in any one company (valued at market). No more than 50% of the portfolio can be invested in any one sector, and the manager must maintain a diversified exposure to at least five market sectors at all times.
CASH RESERVES	Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1. Any cash reserve accounts will be required to meet the investment requirements previously established by the Treasurer's Office for short-term investments. The portfolio may utilize Exchange Traded Funds (ETFs) representing the assigned benchmark (style-specific) in lieu of cash. The ETF holdings will be considered as part of cash and is subject to any cash allocation limitations specified.

Prohibited Investments and Activities

- Options writing or purchasing (except writing covered calls as part of a risk control strategy)
- Purchasing securities on margin
- Purchasing or selling commodity contracts
- Short sales
- Leveraged derivative securities
- Foreign non-dollar denominated securities

Investment Manager Oversight and Review

The assets of the large capitalization value style equity portfolio will be actively managed in a separately managed portfolio, subject to the guidelines, objectives, and standards established herein.

Termination of the large cap value equity manager will occur whenever the Retirement System Investment Commission (Commission) determines that the objectives of the total portfolio can more efficiently or effectively be met by the selection of another large cap value equity manager or under a different management mandate. The Commission maintains the right to terminate a manager with or without cause.

Circumstances which would result in immediate review and possible termination include (but are not limited to) the following:

- Manager changes strategy or investment style;
- Critical elements of the investment process have broken down;
- Manager is unable to meet the performance expectations within the risk tolerance specified;
- The portfolio is exhibiting style characteristics which are not consistent with the defined mandate;
- Transaction costs are determined to be unreasonable;
- Investment management fees are higher than similarly styled managers for similarly sized portfolios;
- The manager is not complying with the Statement of Investment Objectives and Policies; or
- Significant organizational changes.

Performance Objectives

Provide a rate of return that remains competitive with the returns of the Russell 1000 Value Index over rolling three-year periods. The returns provided by the manager should exceed the S&P 500 Index over rolling five-year periods.

Provide a rate of return that remains competitive with the returns of other large capitalization value style equity managers over rolling three-year periods. The manager's returns should exceed the median in a universe of large capitalization value style equity managers over rolling five-year periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which is less than 133% of the risk level of the S&P 500 Index.

LARGE CAP GROWTH EQUITY MANAGER INVESTMENT GUIDELINES AND PERFORMANCE OBJECTIVES

Investment Guidelines

ACCEPTABLE INVESTMENTS	Equity securities which shall mean common stocks or equivalents (American Depository Receipts [ADRs] that have a US presence as defined in the South Carolina Attorney General's opinions dated April 28, 1999 and September 14, 1999, convertible bonds, preferred stock). It is anticipated that the manager will invest primarily in companies considered to have large to medium capitalization levels. ADRs as defined above may comprise up to 20% of the equity holdings.
QUALITY	There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc., except that prudent standards should be developed and maintained by the manager.
TURNOVER	If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the portfolio.
DIVERSIFICATION	No more than 8% (or the benchmark Russell 1000 Growth Index weighting plus 200 basis points, if higher) of the portfolio should be invested in any one company (valued at market). No more than 50% of the portfolio can be invested in any one sector, and the portfolio must maintain a diversified exposure to at least five market sectors at all times.
CASH RESERVES	Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1. Any cash reserve accounts will be required to meet the investment requirements previously established by the Treasurer's Office for short-term investments. The portfolio may utilize Exchange Traded Funds (ETFs) representing the assigned benchmark (style-specific) in lieu of cash. The ETF holdings will be considered as part of cash and is subject to any cash allocation limitations specified.

Prohibited Investments and Activities

- Options writing or purchasing
- Purchasing securities on margin
- Purchasing or selling commodity contracts
- Short sales
- Leveraged derivative securities
- Foreign non-dollar denominated securities

Investment Manager Oversight and Review

The assets of the large capitalization growth style equity portfolio will be actively managed in a separately managed portfolio, subject to the guidelines, objectives, and standards established herein.

Termination of the large cap growth equity manager will occur whenever the Retirement System Investment Commission (Commission) determines that the objectives of the total portfolio can more efficiently or effectively be met by the selection of another large cap growth equity manager or under a different management mandate. The Commission maintains the right to terminate a manager with or without cause.

Circumstances which would result in immediate review and possible termination include (but are not limited to) the following:

- Manager changes strategy or investment style;
- Critical elements of the investment process have broken down;
- Manager is unable to meet the performance expectations within the risk tolerance specified;
- The portfolio is exhibiting style characteristics which are not consistent with the defined mandate;
- Transaction costs are determined to be unreasonable;
- Investment management fees are higher than similarly styled managers for similarly sized portfolios;
- The manager is not complying with the Statement of Investment Objectives and Policies; or
- Significant organizational changes.

Performance Objectives

Provide a rate of return that remains competitive with the returns of the Russell 1000 Growth Index over rolling three-year periods. The returns provided by the manager should exceed the S&P 500 Index over rolling five-year periods.

Provide a rate of return that remains competitive with the returns of other large capitalization growth style equity managers over rolling three-year periods. The manager's returns should remain exceed the median in a universe of large capitalization growth style equity managers over rolling five-year periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which is less than 150% of the risk level of the S&P 500 Index.

CONCENTRATED LARGE CAP GROWTH EQUITY MANAGER INVESTMENT GUIDELINES AND PERFORMANCE OBJECTIVES

Investment Guidelines

ACCEPTABLE INVESTMENTS	Equity securities which shall mean common stocks or equivalents (American Depository Receipts [ADRs] that have a US presence as defined in the South Carolina Attorney General's opinions dated April 28, 1999 and September 14, 1999, convertible bonds, preferred stock). It is anticipated that the manager will invest primarily in companies considered to have large to medium capitalization levels. ADRs as defined above may comprise up to 20% of the equity holdings.
QUALITY	There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc., except that prudent standards should be developed and maintained by the manager.
TURNOVER	If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the portfolio.
DIVERSIFICATION	No more than 12% (or the benchmark Russell 1000 Growth Index weighting plus 200 basis points, if higher) of the portfolio should be invested in any one company (valued at market). No more than 50% of the portfolio can be invested in any one sector, and the portfolio must maintain a diversified exposure to at least five market sectors at all times.
CASH RESERVES	Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1. Any cash reserve accounts will be required to meet the investment requirements previously established by the Treasurer's Office for short-term investments. The portfolio may utilize Exchange Traded Funds (ETFs) representing the assigned benchmark (style-specific) in lieu of cash. The ETF holdings will be considered as part of cash and is subject to any cash allocation limitations specified.

Prohibited Investments and Activities

- Options writing or purchasing
- Purchasing securities on margin
- Purchasing or selling commodity contracts
- Short sales
- Leveraged derivative securities
- Foreign non-dollar denominated securities

Investment Manager Oversight and Review

The assets of the concentrated large capitalization growth style equity portfolio will be actively managed in a separately managed portfolio, subject to the guidelines, objectives, and standards established herein.

Termination of the concentrated large cap growth equity manager will occur whenever the Retirement System Investment Commission (Commission) determines that the objectives of the total portfolio can more efficiently or effectively be met by the selection of another concentrated large cap growth equity manager or under a different management mandate. The Commission maintains the right to terminate a manager with or without cause.

Circumstances which would result in immediate review and possible termination include (but are not limited to) the following:

- Manager changes strategy or investment style;
- Critical elements of the investment process have broken down;
- Manager is unable to meet the performance expectations within the risk tolerance specified;
- The portfolio is exhibiting style characteristics which are not consistent with the defined mandate;
- Transaction costs are determined to be unreasonable;
- Investment management fees are higher than similarly styled managers for similarly sized portfolios;
- The manager is not complying with the Statement of Investment Objectives and Policies; or
- Significant organizational changes.

Performance Objectives

Provide a rate of return that remains competitive with the returns of the Russell 1000 Growth Index over rolling three-year periods. The returns provided by the manager should exceed the S&P 500 Index over rolling five-year periods.

Provide a rate of return that remains competitive with the returns of other large capitalization growth style equity managers over rolling three-year periods. The manager's returns should exceed the median in a universe of large capitalization growth style equity managers over rolling five-year periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which is less than 150% of the risk level of the Russell 1000 Growth Index.

**PASSIVE SMALLER CAP EQUITY PORTFOLIO
INVESTMENT GUIDELINES AND PERFORMANCE OBJECTIVES**

Investment Guidelines

ACCEPTABLE INVESTMENTS	Common stocks represented in the Russell 2000 Index. The portfolio may employ either a full replication or a sampling approach to indexing the Russell 2000.
QUALITY	There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc., except that prudent standards should be developed and maintained in the portfolio.
TURNOVER	If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the portfolio. Turnover should reflect the activity required to maintain equivalent exposures to the Russell 2000 Index.
DIVERSIFICATION	No more than 5% of the portfolio should be invested in any one company (valued at market) unless such company comprises more than 5% of the Russell 2000 Index in which case the exposure should equal the Russell 2000 Index level.
CASH RESERVES	Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1. Any cash reserve accounts will be required to meet the investment requirements previously established by the Treasurer's Office for short-term investments.

Prohibited Investments and Activities

Purchasing securities on margin
Purchasing or selling commodity contracts
Short sales
Foreign non-dollar denominated securities

Investment Manager Oversight and Review

The assets of the passive smaller cap equity portfolio will be passively managed in a separately managed or commingled portfolio, subject to the guidelines, objectives, and standards established herein.

Termination of the smaller cap passive equity portfolio manager will occur whenever the Retirement System Investment Commission (Commission) determines that the objectives of the total portfolio can more efficiently or effectively be met by the selection of another manager or under a different management mandate. The Commission maintains the right to terminate a manager with or without cause.

Circumstances which would result in immediate review and possible termination include (but are not limited to) the following:

- Manager changes strategy or investment style;
- Critical elements of the investment process have broken down;
- Manager is unable to track the index returns sufficiently and is experiencing deviation (positive or negative) from the Index return pattern;
- Transaction costs are determined to be unreasonable;
- Investment management fees are higher than similarly styled managers for similarly sized portfolios; or
- The manager is not complying with the Statement of Investment Objectives and Policies.

Performance Objectives

Provide a rate of return that equals (gross of fees) the Russell 2000 Index over rolling one-, three-, and five-year periods.

Provide a rate of return that tracks the return of the index over quarterly periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which mirrors that of the Russell 2000 Index.

**MID/SMALL CAP CORE EQUITY MANAGER
INVESTMENT GUIDELINES AND PERFORMANCE OBJECTIVES**

Investment Guidelines

ACCEPTABLE INVESTMENTS	Equity securities which shall mean common stocks or equivalents (American Depository Receipts [ADRs] that have a US presence as defined in the South Carolina Attorney General's opinions dated April 28, 1999 and September 14, 1999, convertible bonds, preferred stock). It is anticipated that the manager will invest primarily in companies considered to have mid to small capitalization levels. ADRs (as defined above) may comprise up to 10% of the equity holdings.
QUALITY	There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc., except that prudent standards should be developed and maintained by the manager.
TURNOVER	If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the portfolio.
DIVERSIFICATION	No more than 8% (or the benchmark Russell 2500 Index weighting plus 200 basis points, if higher) of the portfolio should be invested in any one company (valued at market). Sector allocations should generally mirror the sector allocations of the benchmark index and should generally remain within a range of \pm 10 percentage points. However, no more than 50% of the portfolio can be invested in any one sector, and the portfolio must maintain a diversified exposure to at least seven market sectors at all times.
CASH RESERVES	Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1. Any cash reserve accounts will be required to meet the investment requirements previously established by the Treasurer's Office for short-term investments. The portfolio may utilize Exchange Traded Funds (ETFs) representing the assigned benchmark (style-specific) in lieu of cash. The ETF holdings will be considered as part of cash and is subject to any cash allocation limitations specified.

Prohibited Investments and Activities

- Options writing or purchasing
- Purchasing securities on margin
- Purchasing or selling commodity contracts
- Short sales
- Leveraged derivative securities
- Foreign non-dollar denominated securities

Investment Manager Oversight and Review

The assets of the mid/small capitalization core style equity portfolio will be actively managed in a separately managed portfolio, subject to the guidelines, objectives, and standards established herein.

Termination of the mid/small cap core equity manager will occur whenever the Retirement System Investment Commission (Commission) determines that the objectives of the total portfolio can more efficiently or effectively be met by the selection of another mid/small cap core equity manager or under a different management mandate. The Commission maintains the right to terminate a manager with or without cause.

Circumstances which would result in immediate review and possible termination include (but are not limited to) the following:

- Manager changes strategy or investment style;
- Critical elements of the investment process have broken down;
- Manager is unable to meet the performance expectations within the risk tolerance specified;
- The portfolio is exhibiting style characteristics which are not consistent with the defined mandate;
- Transaction costs are determined to be unreasonable;
- Investment management fees are higher than similarly styled managers for similarly sized portfolios;
- The manager is not complying with the Statement of Investment Objectives and Policies; or
- Significant organizational changes.

Performance Objectives

Provide a rate of return that exceeds the Russell 2500 Index over rolling five-year periods.

Provide a rate of return that remains competitive with the returns of other mid/small capitalization core style equity managers over rolling three-year periods. The manager's returns should remain exceed the median in a universe of mid/small capitalization equity managers over rolling five-year periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which is less than 125% of the risk level of the Russell 2500 Index.

**MID/SMALL CAP VALUE EQUITY MANAGER
INVESTMENT GUIDELINES AND PERFORMANCE OBJECTIVES**

Investment Guidelines

ACCEPTABLE INVESTMENTS	Equity securities which shall mean common stocks or equivalents (American Depository Receipts [ADRs] that have a US presence as defined in the South Carolina Attorney General's opinions dated April 28, 1999 and September 14, 1999, convertible bonds, preferred stock). It is anticipated that the manager will invest primarily in companies considered to have mid to small capitalization levels. ADRs (as defined above) may comprise up to 10% of the equity holdings.
QUALITY	There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc., except that prudent standards should be developed and maintained by the manager.
TURNOVER	If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the portfolio.
DIVERSIFICATION	No more than 8% (or the benchmark Russell 2500 Value Index weighting plus 200 basis points, if higher) of the portfolio should be invested in any one company (valued at market). No more than 50% of the portfolio can be invested in any one sector, and the portfolio must maintain a diversified exposure to at least five market sectors at all times.
CASH RESERVES	Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1. Any cash reserve accounts will be required to meet the investment requirements previously established by the Treasurer's Office for short-term investments. The portfolio may utilize Exchange Traded Funds (ETFs) representing the assigned benchmark (style-specific) in lieu of cash. The ETF holdings will be considered as part of cash and is subject to any cash allocation limitations specified.

Prohibited Investments and Activities

- Options writing or purchasing
- Purchasing securities on margin
- Purchasing or selling commodity contracts
- Short sales
- Leveraged derivative securities
- Foreign non-dollar denominated securities

Investment Manager Oversight and Review

The assets of the mid/small capitalization value style equity portfolio will be actively managed in a separately managed portfolio, subject to the guidelines, objectives, and standards established herein.

Termination of the mid/small cap value equity manager will occur whenever the Retirement System Investment Commission (Commission) determines that the objectives of the total portfolio can more efficiently or effectively be met by the selection of another mid/small cap value equity manager or under a different management mandate. The Commission maintains the right to terminate a manager with or without cause.

Circumstances which would result in immediate review and possible termination include (but are not limited to) the following:

- Manager changes strategy or investment style;
- Critical elements of the investment process have broken down;
- Manager is unable to meet the performance expectations within the risk tolerance specified;
- The portfolio is exhibiting style characteristics which are not consistent with the defined mandate;
- Transaction costs are determined to be unreasonable;
- Investment management fees are higher than similarly styled managers for similarly sized portfolios;
- The manager is not complying with the Statement of Investment Objectives and Policies; or
- Significant organizational changes.

Performance Objectives

Provide a rate of return that remains competitive with the returns of the Russell 2500 Value Index over rolling three-year periods. The returns of the portfolio should exceed the Russell 2500 Index over rolling five-year periods.

Provide a rate of return that remains competitive with the returns of other mid/small capitalization value style equity managers over rolling three-year periods. The manager's returns should remain exceed the median in a universe of mid/small capitalization equity managers over rolling five-year periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which is less than 133% of the risk level of the Russell 2500 Index.

**MID/SMALL CAP GROWTH EQUITY MANAGER
INVESTMENT GUIDELINES AND PERFORMANCE OBJECTIVES**

Investment Guidelines

ACCEPTABLE INVESTMENTS	Equity securities which shall mean common stocks or equivalents (American Depository Receipts [ADRs] that have a US presence as defined in the South Carolina Attorney General's opinions dated April 28, 1999 and September 14, 1999, convertible bonds, preferred stock). It is anticipated that the manager will invest primarily in companies considered to have mid to small capitalization levels. ADRs (as defined above) may comprise up to 10% of the equity holdings.
QUALITY	There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc., except that prudent standards should be developed and maintained by the manager.
TURNOVER	If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the portfolio.
DIVERSIFICATION	No more than 8% (or the benchmark Russell 2500 Growth Index weighting plus 200 basis points, if higher) of the portfolio should be invested in any one company (valued at market). No more than 50% of the portfolio can be invested in any one sector, and the portfolio must maintain a diversified exposure to at least five market sectors at all times.
CASH RESERVES	Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1. Any cash reserve accounts will be required to meet the investment requirements previously established by the Treasurer's Office for short-term investments. The portfolio may utilize Exchange Traded Funds (ETFs) representing the assigned benchmark (style-specific) in lieu of cash. The ETF holdings will be considered as part of cash and is subject to any cash allocation limitations specified.

Prohibited Investments and Activities

- Options writing or purchasing
- Purchasing securities on margin
- Purchasing or selling commodity contracts
- Short sales
- Leveraged derivative securities
- Foreign non-dollar denominated securities

Investment Manager Oversight and Review

The assets of the mid/small capitalization growth style equity portfolio will be actively managed in a separately managed portfolio, subject to the guidelines, objectives, and standards established herein.

Termination of the mid/small cap growth equity manager will occur whenever the Retirement System Investment Commission (Commission) determines that the objectives of the total portfolio can more efficiently or effectively be met by the selection of another mid/small cap growth equity manager or under a different management mandate. The Commission maintains the right to terminate a manager with or without cause.

Circumstances which would result in immediate review and possible termination include (but are not limited to) the following:

- Manager changes strategy or investment style;
- Critical elements of the investment process have broken down;
- Manager is unable to meet the performance expectations within the risk tolerance specified;
- The portfolio is exhibiting style characteristics which are not consistent with the defined mandate;
- Transaction costs are determined to be unreasonable;
- Investment management fees are higher than similarly styled managers for similarly sized portfolios;
- The manager is not complying with the Statement of Investment Objectives and Policies; or
- Significant organizational changes.

Performance Objectives

Provide a rate of return that remains competitive with the returns of the Russell 2500 Growth Index over rolling three-year periods. The returns of the portfolio should exceed the Russell 2500 Index over rolling five-year periods.

Provide a rate of return that remains competitive with the returns of other mid/small capitalization growth style equity managers over rolling three-year periods. The manager's returns should exceed the median in a universe of mid/small capitalization equity managers over rolling five-year periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which is less than 150% of the risk level of the Russell 2500 Index.

**SMALL CAP CORE EQUITY MANAGER
INVESTMENT GUIDELINES AND PERFORMANCE OBJECTIVES**

Investment Guidelines

ACCEPTABLE INVESTMENTS	Equity securities which shall mean common stocks or equivalents (American Depository Receipts [ADRs] that have a US presence as defined in the South Carolina Attorney General's opinions dated April 28, 1999, and September 14, 1999, convertible bonds, preferred stock). It is anticipated that the manager will invest primarily in companies considered to have small capitalization levels. ADRs (as defined above) may comprise up to 10% of the equity holdings.
QUALITY	There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc., except that prudent standards should be developed and maintained by the manager.
TURNOVER	If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the portfolio.
DIVERSIFICATION	No more than 8% (or the benchmark Russell 2000 Index weighting plus 200 basis points, if higher) of the portfolio should be invested in any one company (valued at market). Sector allocations should generally mirror the sector allocations of the benchmark index and should generally remain within a range of \pm 10 percentage points. However, no more than 50% of the portfolio can be invested in any one sector, and the portfolio must maintain a diversified exposure to at least seven market sectors at all times.
CASH RESERVES	Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1. Any cash reserve accounts will be required to meet the investment requirements previously established by the Treasurer's Office for short-term investments. The portfolio may utilize Exchange Traded Funds (ETFs) representing the assigned benchmark (style-specific) in lieu of cash. The ETF holdings will be considered as part of cash and is subject to any cash allocation limitations specified.

Prohibited Investments and Activities

- Options writing or purchasing
- Purchasing securities on margin
- Purchasing or selling commodity contracts
- Short sales
- Leveraged derivative securities
- Foreign non-dollar denominated securities

Investment Manager Oversight and Review

The assets of the small capitalization core style equity portfolio will be actively managed in a separately managed portfolio, subject to the guidelines, objectives, and standards established herein.

Termination of the small cap core equity manager will occur whenever the Retirement System Investment Commission (Commission) determines that the objectives of the total portfolio can more efficiently or effectively be met by the selection of another small cap core equity manager or under a different management mandate. The Commission maintains the right to terminate a manager with or without cause.

Circumstances which would result in immediate review and possible termination include (but are not limited to) the following:

- Manager changes strategy or investment style;
- Critical elements of the investment process have broken down;
- Manager is unable to meet the performance expectations within the risk tolerance specified;
- The portfolio is exhibiting style characteristics which are not consistent with the defined mandate;
- Transaction costs are determined to be unreasonable;
- Investment management fees are higher than similarly styled managers for similarly sized portfolios;
- The manager is not complying with the Statement of Investment Objectives and Policies; or
- Significant organizational changes.

Performance Objectives

Provide a rate of return that exceeds the Russell 2000 Index over rolling five-year periods.

Provide a rate of return that remains competitive with the returns of other small capitalization core style equity managers over rolling three-year periods. The manager's returns should exceed the median in a universe of small capitalization equity managers over rolling five-year periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which is less than 125% of the risk level of the Russell 2000 Index.

SMALL CAP VALUE EQUITY MANAGER INVESTMENT GUIDELINES AND PERFORMANCE OBJECTIVES

Investment Guidelines

ACCEPTABLE INVESTMENTS	Equity securities which shall mean common stocks or equivalents (American Depository Receipts [ADRs] that have a US presence as defined in the South Carolina Attorney General's opinions dated April 28, 1999 and September 14, 1999, convertible bonds, preferred stock). It is anticipated that the manager will invest primarily in companies considered to have small capitalization levels. ADRs (as defined above) may comprise up to 10% of the equity holdings.
QUALITY	There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc., except that prudent standards should be developed and maintained by the manager.
TURNOVER	If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the portfolio.
DIVERSIFICATION	No more than 8% (or the benchmark Russell 2000 Value Index weighting plus 200 basis points, if higher) of the portfolio should be invested in any one company (valued at market). No more than 50% of the portfolio can be invested in any one sector, and the portfolio must maintain a diversified exposure to at least five market sectors at all times.
CASH RESERVES	Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1. Any cash reserve accounts will be required to meet the investment requirements previously established by the Treasurer's Office for short-term investments. The portfolio may utilize Exchange Traded Funds (ETFs) representing the assigned benchmark (style-specific) in lieu of cash. The ETF holdings will be considered as part of cash and is subject to any cash allocation limitations specified.

Prohibited Investments and Activities

- Options writing or purchasing
- Purchasing securities on margin
- Purchasing or selling commodity contracts
- Short sales
- Leveraged derivative securities
- Foreign non-dollar denominated securities

Investment Manager Oversight and Review

The assets of the small capitalization value style equity portfolio will be actively managed in a separately managed portfolio, subject to the guidelines, objectives, and standards established herein.

Termination of the small cap value equity manager will occur whenever the Retirement System Investment Commission (Commission) determines that the objectives of the total portfolio can more efficiently or effectively be met by the selection of another small cap value manager or under a different management mandate. The Commission maintains the right to terminate a manager with or without cause.

Circumstances which would result in immediate review and possible termination include (but are not limited to) the following:

- Manager changes strategy or investment style;
- Critical elements of the investment process have broken down;
- Manager is unable to meet the performance expectations within the risk tolerance specified;
- The portfolio is exhibiting style characteristics which are not consistent with the defined mandate;
- Transaction costs are determined to be unreasonable;
- Investment management fees are higher than similarly styled managers for similarly sized portfolios;
- The manager is not complying with the Statement of Investment Objectives and Policies; or
- Significant organizational changes.

Performance Objectives

Provide a rate of return that remains competitive with the returns of the Russell 2000 Value Index over rolling three-year periods. The returns of the portfolio should exceed the Russell 2000 Index over rolling five-year periods.

Provide a rate of return that remains competitive with the returns of other small capitalization value style equity managers over rolling three-year periods. The manager's returns should exceed the median in a universe of small capitalization equity managers over rolling five-year periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which is less than 133% of the risk level of the Russell 2000 Index.

SMALL CAP GROWTH EQUITY MANAGER INVESTMENT GUIDELINES AND PERFORMANCE OBJECTIVES

Investment Guidelines

ACCEPTABLE INVESTMENTS	Equity securities which shall mean common stocks or equivalents (American Depository Receipts [ADRs] that have a US presence as defined in the South Carolina Attorney General's opinions dated April 28, 1999 and September 14, 1999, convertible bonds, preferred stock). It is anticipated that the manager will invest primarily in companies considered to have small capitalization levels. ADRs (as defined above) may comprise up to 10% of the equity holdings.
QUALITY	There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc., except that prudent standards should be developed and maintained by the manager.
TURNOVER	If performance results meet objectives, the rate of turnover will not be a factor in the evaluation of the portfolio.
DIVERSIFICATION	No more than 8% (or the benchmark Russell 2000 Growth Index weighting plus 200 basis points, if higher) of the portfolio should be invested in any one company (valued at market). No more than 50% of the portfolio can be invested in any one sector, and the portfolio must maintain a diversified exposure to at least five market sectors at all times.
CASH RESERVES	Although the portfolio is expected to be fully invested, the following guidelines apply to all cash reserves. Cash reserves will be limited to cash equivalent instruments of maturities less than one year and carrying a credit rating of at least A1/P1. Any cash reserve accounts will be required to meet the investment requirements previously established by the Treasurer's Office for short-term investments. The portfolio may utilize Exchange Traded Funds (ETFs) representing the assigned benchmark (style-specific) in lieu of cash. The ETF holdings will be considered as part of cash and is subject to any cash allocation limitations specified.

Prohibited Investments and Activities

- Options writing or purchasing
- Purchasing securities on margin
- Purchasing or selling commodity contracts
- Short sales
- Leveraged derivative securities
- Foreign non-dollar denominated securities

Investment Manager Oversight and Review

The assets of the small capitalization growth style equity portfolio will be actively managed in a separately managed portfolio, subject to the guidelines, objectives, and standards established herein.

Termination of the small cap growth equity manager will occur whenever the Retirement System Investment Commission (Commission) determines that the objectives of the total portfolio can more efficiently or effectively be met by the selection of another small cap growth equity manager or under a different management mandate. The Commission maintains the right to terminate a manager with or without cause.

Circumstances which would result in immediate review and possible termination include (but are not limited to) the following:

- Manager changes strategy or investment style;
- Critical elements of the investment process have broken down;
- Manager is unable to meet the performance expectations within the risk tolerance specified;
- The portfolio is exhibiting style characteristics which are not consistent with the defined mandate;
- Transaction costs are determined to be unreasonable;
- Investment management fees are higher than similarly styled managers for similarly sized portfolios;
- The manager is not complying with the Statement of Investment Objectives and Policies; or
- Significant organizational changes.

Performance Objectives

Provide a rate of return that remains competitive with the returns of the Russell 2000 Growth Index over rolling three-year periods. The returns of the portfolio should exceed the Russell 2000 Index over rolling five-year periods.

Provide a rate of return that remains competitive with the returns of other small capitalization growth style equity managers over rolling three-year periods. The manager's returns should exceed the median in a universe of small capitalization equity managers over rolling five-year periods.

Maintain a risk level, as measured by the standard deviation of quarterly returns, which is less than 150% of the risk level of the Russell 2000 Index.

SECTION IV

ADMINISTRATION

QUARTERLY AND ANNUAL REPORTING

At least quarterly, the Retirement System Investment Commission (Commission) will provide to the Governor, the State Budget and Control Board, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and other appropriate officials and entities an investment report of the total portfolio of the South Carolina Retirement Systems (Retirement Systems). In addition, an annual report shall be provided to interested parties as required by S.C. Code Ann. §9-16-90(B).

EXECUTION OF SECURITY TRADES

The Retirement System Investment Commission (Commission) expects the purchase and sale of its securities to be conducted in a manner designed to receive the combination of best price and execution. The Commission will evaluate policies that provide for the most efficient and effective trading process. A specified portion of generated commissions may be directed to qualified firms for the purpose of brokerage commission recapture or discount brokerage programs, provided that each trade meets the following conditions:

- the total return of the Retirement Systems' portfolio is not adversely affected;
- the investment process is not affected so as to place the Retirement Systems' portfolio in a disadvantageous position relative to the investment manager's other accounts; and
- best combination of price and execution are obtained.

VOTING OF PROXIES

Voting of proxy ballots shall be for the exclusive benefit of the participants, retirees, and beneficiaries of the Retirement Systems. The investment manager shall vote the proxies in accordance with this policy on all shareholder issues. The Retirement System Investment Commission reserves the right to direct the voting of proxy ballots on specific issues at its discretion.

EMERGENCY PROCEDURES

The Retirement System Investment Commission (Commission) recognizes the possibility that events may occur affecting investments which would necessitate immediate action to safeguard the Retirement Systems' assets. Once the Chairman of the Commission, with advice of the General Counsel to the Commission, determines that emergency action should be taken, the Chairman shall notify members of the Commission that such action is necessary. After such notification, the Chairman shall direct the State Treasurer to take the necessary steps to protect the assets pending further action by the Commission.

SECURITIES CLASS ACTION PROCEDURES

Introduction

The following are intended to provide a general description of the procedures used by the Retirement System Investment Commission (Commission) in evaluating and managing securities class action claims as an asset of the South Carolina Retirement Systems' (Retirement Systems) trust funds. While the Commission acknowledges that it may have a fiduciary duty to pursue legal action to recover on a claim, it also takes into consideration that 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 focuses on identifying those cases where active involvement could add value, either in the specific case or on a longer-term portfolio-wide basis. Decisions on what claims should be actively managed and how require a balancing of the costs and benefits involved. Accordingly, these procedures are intended to be a general guide for organizing that analysis and are not a list of procedural requirements. These guidelines are not intended to create any entitlement to beneficiaries of the Retirement Systems.

Identifying Claims

Claims may generally be identified either internally by the Commission's staff, investment consultants and analysts 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 and determine whether Retirement Systems is a member of the class. The following summarizes the process used by the Commission to identify claims in which it has an interest.

- General Counsel (Counsel designated by the Retirement System Investment Commission) reviews cases listed on various websites when notices of filings are received. Cases may also be identified by other information services or called to our attention by outside counsel.
- Class periods in new cases are compared to Retirement Systems' trading history to identify those in which Retirement Systems is a class member.
- General Counsel obtains a Retirement Systems trading history and a price chart for cases in which Retirement Systems may have a claim. Where available on the Internet or elsewhere, press releases/news articles describing the case may also be obtained.
- The current size of Retirement Systems' holding in the company is determined.
- Upon request by General Counsel, a rough damage estimate is prepared by the Commission's investment consultant based on the price drop after the end of the class period and the number of shares purchased and sold during the class period. ***(In general, the number of shares purchased during the class period is multiplied by the price drop to estimate potential damages. The average trading price for the 90-day period after the end of the class period usually establishes the baseline from which damages are determined. If shares were also sold during the class period, profits from the alleged fraud should be estimated in the same way, on a first-in first-out basis, and be subtracted from estimated damages if shares purchased during the class period were sold. Note that factors other than fraud, such as a general market drop, could contribute to a loss and not be recoverable as damages. In addition, situations where there was a loss regardless of the alleged fraud are not compensated.)***
- If the potential claim has a measurable and material impact on our investment return as determined by the Commission's investment consultant, the General Counsel obtains a copy of the complaint and obtains publicly available information on other holders to help identify who might also be class members.

- Advice from the portfolio managers, the Commission's investment consultant, and other analysts is obtained when Retirement Systems has a substantial claim.

Evaluating Claims

Unless adequate internal resources are available, claims identified for further evaluation are generally sent to experienced securities/litigation outside counsel retained specifically to evaluate claims and advise the Commission on options for prudently managing claims recoveries. **In order to prevent bias, claim evaluation counsel is usually not eligible to be considered for lead outside counsel for the referred case.** A list of rotating experienced securities/litigation outside legal counsel will be maintained by the Commission for evaluating claims. The same general process and standards are used to evaluate each claim, as well as to determine and implement an appropriate management strategy, regardless of how the case is identified or through whom information on it is referred to the Commission. That process generally includes the following steps and considerations.

- Claim evaluation counsel performs additional due diligence on claims (e.g., contacts counsel for both sides; reviews complaints, SEC filings and company disclosures; determines who has the largest financial interest in the relief sought by the class; examines contents of Retirement Systems' files; interviews portfolio managers; and contacts other investors, as appropriate).
- A legal fee budget for each review is agreed upon in advance. In most instances, evaluations can be done for under \$5,000.
- In instances where Retirement Systems 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 Systems' holding), consideration may be given to whether the Commission could add value to the Retirement Systems' holding by supporting the company in seeking dismissal of the unnecessary lawsuit.
- Claim evaluation counsel examines reasonable options for protecting Retirement Systems' interests in a way that is likely to produce the greatest risk/reward benefits. Options may include doing nothing; filing to become lead plaintiff; attempting to get a larger claimant to become lead plaintiff; monitoring the case from the sidelines; writing a letter to the court and/or lead outside counsel to bring up issues being ignored; filing a motion to support or oppose a particular lead plaintiff or lead outside counsel candidate; filing a notice of appearance and more actively monitoring the case; attempting to negotiate an agreement with prospective lead outside counsel that will require them to keep the Commission informed of case developments, provide the Commission with access to discovery upon request and allow the Commission to participate in settlement negotiations or be consulted on a settlement; waiting until settlement and reviewing the settlement carefully with the option to object to a poor settlement or excessive fees; and opting out of the class to file a separate action (e.g., where Retirement Systems 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).
- Where other institutional investors appear to have similar large claims, consideration may be given to contacting them about a joint effort.
- 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.
- 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 or

- creation of an independent audit committee or nominating committee).
- Commission's staffing, resources and 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 acquired through involvement in discovery) may be considered in recommending a course of action.
- The overall Retirement Systems 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; and fostering changes in corporate culture that are likely to benefit shareholders).
- Potential conflicts with other members of the class should also be taken into consideration in determining how to best manage Retirement Systems' interests in a particular lawsuit (e.g., where Retirement Systems 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).
- Outside counsel generally provides a written analysis and a recommendation to General Counsel on what the most cost-effective options appear to be for managing the claim.
- Recommendations may be discussed with portfolio managers, outside counsel and other Commission and Retirement Systems staff as appropriate prior to a final decision on management of the claim by General Counsel.

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 that 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 generally seeks to structure lead outside counsel's compensation in a way that aligns interests of the class and its lawyers. The Commission also 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.

- When it is sole lead plaintiff, the Commission will select lead outside counsel based on proposals submitted and interviews of lead outside counsel candidates. A selection/review panel will evaluate candidates for lead outside counsel. Panel members include the Chairman of the Commission, the Director of the South Carolina Retirement Systems, the General Counsel to the State Budget and Control Board, General Counsel, and a designee of the South Carolina Attorney General. The panel will also receive the advice of the Commission's investment consultant, and other analysts. A majority of the panel will constitute a quorum. The panel will make a recommendation for lead outside counsel for a particular case to the Retirement System Investment Commission for a final decision.
- 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 the merits of experience, expertise, litigation plan and fee proposal.
- If the Commission does not prefer to serve as sole lead plaintiff, other institutions may

be invited to participate as joint lead plaintiffs. When a group is formed to function as lead plaintiff, 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 (usually by conference call) to review events or make decisions. Lead outside counsel could effectively serve as staff to the lead plaintiffs' committee.

- Only qualified lead outside counsel candidates should be invited to submit proposals.
- Consideration may be given to expanding competition between competent counsel within the class action bar, in order to encourage long-term reduction of fees.
- Fee proposals should, to the extent practical, align interests of the class and lead outside counsel.
- 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 to 10%) 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 has not used 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.
- While some lead plaintiffs might be willing to front fees for the class as a way to reduce overall fee levels, neither the Commission nor the Retirement Systems is in a position to do so currently.
- Lead outside counsel is generally expected to indemnify Retirement Systems for any sanctions.
- Lead outside counsel will be asked to provide information on its malpractice insurance coverage.
- A written proposal is usually requested from lead outside counsel candidates. The proposal should include an evaluation of the case, provide a litigation plan, explain the firm's experience in similar cases and the expertise of the lawyers that would work on the case and provide a suggested fee arrangement.
- 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.
- 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.
- 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).
- If time does not permit selection of lead outside counsel to be completed prior to the deadline for lead plaintiff applications, the Commission's claim evaluation counsel may file the lead plaintiff motion.
- Reporting and approval procedures should be established with lead outside counsel to

ensure that Commission/Retirement Systems will be able to perform effectively its responsibilities as lead plaintiff.

- Use of local or co-counsel by lead outside counsel requires approval from the Commission. While extensive use of multiple co-counsel is generally discouraged, it may be acceptable in complex or difficult litigation where it will not increase unreasonably class fees or costs.

Processing claims

General Counsel is responsible for managing and coordinating the processing of all securities class action claims of the Commission/Retirement Systems either directly to court or through lead outside counsel.

Conclusion

As the Commission gains more experience with securities class action litigation, this process is expected to evolve. Court interpretations of the Reform Act provisions may also impact procedures used by the Commission. Questions about the Commission's securities class action procedures may be addressed to General Counsel.

General Counsel
Retirement System Investment Commission
Post Office Box 11960
Columbia, South Carolina 29211-1960

Sample Request for Proposals

Date:

To: Selected Law Firms

From:

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 outside counsel (subject to approval by the court) in the above securities class action litigation. _____ invites your firm to submit a proposal. We have retained separate legal counsel to file a Motion for Appointment as Lead Plaintiff and represent us until we select the law firm that we would put forth as its candidate to become lead outside counsel.

A list of the pending class action lawsuits against the company of which we are aware is attached. I 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 me 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 other matters your firm expects to be handling while this case is pending and how staffing arrangements would be made 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 limits;
 - Confirmation that your firm would cover litigation costs, any bonds required by the court and potential Rule 11 liability;
 - 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 that 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 avoids situations where counsel could obtain a cheap settlement that provides rich 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 acceptance of a proposal pursuant to execution of a written retention agreement. 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.