SOUTH CAROLINA RETIREMENT SYSTEM INVESTMENT COMMISSION

STATEMENT OF INVESTMENT POLICIES

As amended June 19, 2009

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MISSION

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

VISION

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

PURPOSE

The purpose of the Statement of Investment Policies (SIP) is to establish policies relating to the management of the assets of the South Carolina Retirement Systems (Retirement System) including:

> South Carolina Retirement System (SCRS),
> Retirement System for Judges and Solicitors of the State of South Carolina (JSRS),
> Retirement System for Members of the General Assembly of the State of South Carolina (GARS),
> South Carolina Police Officers Retirement System (PORS), and
> National Guard Retirement System (NGRS).

This policy statement 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 and restrictions contained within this document, be consistent with the laws of the State of South Carolina, and reflect the philosophy and intent of the South Carolina Retirement System Investment Commission (Commission).

INVESTMENT POLICY

Investment Return Guidelines

This policy defines the desired outcome of the investment program. It will be the Commission's responsibility to carry out the following duties with assistance of Staff:

1. Develop a Nominal Return Objective (NRO) that will allow the Retirement System to exceed the actuarially assumed rate of return after all operating and investment management expenses.
2. Develop a Real Return Objective (RRO)[1] that will help the State of South Carolina keep contribution rates reasonably level over long periods of time, absent changes in actuarial assumptions.
3. Establish an asset allocation policy that is expected to meet the RRO while optimizing the fund's volatility. Secondary considerations include, but are not limited to, the expected rate of return for each asset class, the expected risk of each asset class, the correlation between rates of return among the asset classes, as well as the investment objectives and risk constraints of the fund.
4. Monitor costs associated with the efficient implementation of the asset allocation through the use of internal and external resources.

Policy and Strategy Asset Allocation Mix

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 broadly defined Asset Allocation Policy Mix:

Policy Mix	Percent of Total Fund
Public Equity Investments*	0-70 %
Fixed-income Investments	0-80 %
Alternative Investments*	15-50 %
*Under no circumstances will equity investments exceed 70 percent of the Portfolio's total assets.	

Asset Classes: The Building Blocks of Portfolio Construction

Allowable Investments in all Asset Classes

As it pertains to the above referenced asset classes within the Portfolio, exposure may be gained through investments in derivative instruments including, but not limited to futures, forward contracts, swaps, and options per the terms of each manager's specific governing documents and in accordance with the limitations outlined in the Annual Investment Plan (AIP). In addition to derivative instruments, 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. Also allowed are exchange traded funds (ETFs), warrants, rights, convertible bonds, and preferred stock. Currency hedges may also be used for non-dollar exposures within each respective asset class as outlined in each manager's governing document. Long/short investment strategies may also be employed per the terms defined in the AIP; however, the majority of long/short strategies would be expected to exist within the Alternative asset classes.

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. Per the terms of the investment limitations outlined in this policy, these structures may include mutual funds, limited partnerships, limited liability companies, strategic partnership, trusts, fund-of-funds, and separately managed accounts in which assets may be held by an external custodian who is selected and monitored by the external manager or general partner.

Public Equity Investments

Domestic Equity: This asset class seeks to provide a combination of long-term capital appreciation and dividend income that is expected to substantially exceed the rate of inflation. It is expected that these investments will perform well during periods of rising economic growth and/or falling inflation. Domestic Equity will include a variety of U.S. stock investments with varying characteristics. These characteristics include large-cap, mid-cap, small to mid-cap (SMID Cap), small-cap, and micro-cap stocks, as well as value and growth stocks within each capitalization. Investments can also be made in specific sectors of the overall market such as technology, energy, and real estate investment trusts (REITs). Short selling is permitted in this asset class.

International Developed Equity: Like Domestic Equity, International Developed Equity seeks to provide long-term capital appreciation and dividend income that, in aggregate, are expected to substantially exceed the rate of inflation. Investments in this asset class will be made through strategies varying in size, investment style, and exposure to opportunities in a large number of developed countries. It is expected that investments in this asset class will perform well during periods of rising economic growth and/or falling inflation. However, because of the foreign of these investments, they will also include non-dollar currency exposures not found within the U.S. equity portfolio. Foreign currency exposures during periods of dollar weakness will improve a portfolio's performance for a U.S. investor and will reduce returns during periods of dollar strength. Components of this asset class include large-cap, mid-cap, SMID-cap, small-cap, and micro-cap stocks, as well as value and growth stocks. Investments may also be in specific sectors of the overall non-U.S. market such as technology or energy. Managers can be hired with a global focus or for specific country exposures. This asset class will be invested predominantly in equities from countries that make up the Morgan Stanley Capital International (MSCI) Europe, Australia, and Far East (EAFE) Index; however, there may be minor investments in countries outside of EAFE. Short selling is expected in this asset class from time to time to rebalance the overall fund.

Emerging Market Equity: This asset class seeks to provide long-term capital appreciation in excess of inflation primarily through non-U.S. equity investments in countries not included in the MSCI-EAFE Index. Because of the higher economic growth rates in these countries, higher long-term returns are expected, paired with higher volatility. Investments may range in size (large, mid, small, and micro-cap stocks) and style (growth and value) and may be both long and short.

Fixed Income Investments

Core Fixed Income: The core fixed income portfolio is designed to provide a source of current income and to reduce overall Portfolio volatility. In addition, it is expected that investments in this asset class would perform well in periods of falling inflation. Core Fixed Income investments may include but are not limited to U.S. Treasuries, agencies, mortgage-backed securities, asset-backed securities, investment grade corporate debt, and international investment grade debt. Shorting is permitted in this portfolio from time to time as necessary to rebalance the overall fund.

Non-Core Fixed Income: This asset class is composed of three distinct asset classes: Global Fixed Income (GFI), High Yield (HY), and Emerging Markets Debt (EMD). Managers with proven skills may be granted the discretion to invest opportunistically among these asset classes. Other managers will be directed to invest within a single mandate. Each of these asset classes are discussed below:

Global Fixed Income: Like its domestic counterpart, GFI is intended to provide a source of current income and to reduce overall fund volatility. It is expected to perform well whenever interest rates and/or inflation fall, although returns will also depend on the return of foreign currencies relative to the U.S. dollar. GFI may include sovereign debt as well as credit exposure, although investment grade credit quality is generally expected. Short selling is permitted in this asset class from time to time to rebalance the overall fund.

High Yield Bonds: This asset class seeks to provide income and capital appreciation within the portfolio through investment in below investment grade debt instruments as defined in the AIP, and debt considered to be "opportunistic" in nature. Generally, it is expected that securities in this allocation will not be in default, and will provide superior coupon cash flow because of the lower credit quality bias. Investments in this portfolio may include non-investment grade debt of both U.S. and non-U.S. issuers. Shorting is permitted.

Emerging Market Debt: This asset class seeks to provide long-term capital appreciation in excess of inflation primarily through non-U.S. debt instruments in undeveloped countries. Because of the risks associated with companies in emerging economies, higher equity-like returns are expected. Investments may include sovereign, public and private debt vehicles, and may be both long and short.

Treasury Inflation Protected Securities (TIPS): This asset class is designed to provide a source of current income to the portfolio, while providing some protection for the inflation sensitivity of the Retirement System's assets. TIPS are fully guaranteed by the full faith and credit of the U.S. government and are highly liquid. Additionally, the TIPS portfolio allows for the inclusion of a small portion of non-guaranteed securities that must also be structured to provide inflation protection but may be of agency quality or corporate obligations of high credit quality. Other instruments which are allowable holdings include international inflation protected securities, nominal treasuries, swaps, forward contracts, and inflation futures; it is expected that these types of securities will not make up a high percentage of this asset class.

Alternative Investments

The investment strategies employed in the Alternatives arena can use both equity and fixed income securities, limiting the ability to classify them within either asset class. Rather than identifying Alternatives as equity or fixed income, domestic or international, long or short, they are normally broadly categorized within strategies.

Absolute Return Strategies: This asset class provides diversification to the total portfolio and strives to reduce volatility within the total fund by targeting a very low beta relative to the equity and fixed income markets. It is expected that during periods of stock market strength, this portfolio would lag U.S. equities. Conversely, during periods of stock market weakness, this portfolio should be expected to outperform U.S. equities. Absolute Return Strategies include, but are not limited to: Relative Value, Event Driven and Directional strategies.

Global Asset Allocation (GAA): The allocation to GAA provides additional diversification to the total fund and is composed of two investment strategies: Global Tactical Asset Allocation (GTAA) and Risk Parity. GTAA managers generally have the discretion to invest world-wide in most any investment type in search of returns. Returns are expected to match a pre-defined mix of global equities and bonds. Risk Parity managers have similar flexibility to invest in various investment types, but will balance the risks equally among the strategies employed, hence the name. The strategy is expected to generate absolute returns several points greater than short-term investments.

Opportunistic Investments: This asset class provides additional diversification to the total fund and is expected to provide equity-like returns. Investments include debt instruments of U.S. and international companies which may be publicly traded or privately held that are financially distressed and are either in bankruptcy or are likely candidates for bankruptcy. Typical holdings are senior and subordinated debt instruments and bank loans. Equity exposure is acceptable as minority positions in this asset class as debt positions are often converted to equity during the bankruptcy reorganization process.

Private Equity: This asset class is expected to provide high real returns over long periods of time while providing additional diversification to the fund. The diversification benefit is largely due to the illiquid nature of these investments and the premium that is earned for taking on that risk. Added value will also come from operational improvements made possible by the private nature of the investment and the expertise of the general partners in business improvements. Investments in this category are expected to be very illiquid and long-term in nature, with the partnerships self-liquidating as the businesses are sold off, typically five to ten years after the start of the partnership. Investments in this category include corporate buyout, venture capital, mezzanine debt, diversified fund of funds, and opportunistic/special situations. These opportunities may be found on a domestic or global basis.

Real Assets: This asset class primarily serves as some protection against general price inflation and would also be expected to provide a relatively high real level of income. Real estate investments are expected to provide diversification to the overall fund. Investments in this category may be very illiquid and long-term in nature. Investments may include real estate investment trusts (REITS), opportunistic real estate funds, direct real estate holdings, and mezzanine debt investments. Investments in Infrastructure including transportation, energy and other strategies, like Commodities and Timber, may also be included within this asset class.

Commodities: This asset class is expected to provide meaningful diversification to the overall fund as it has historically exhibited a low to slightly negative correlation to stocks and bonds. This asset class is also expected to provide superior returns during periods of inflation. Investments in this category might include a variety of derivative instruments including futures, total return swaps, options, and forward contracts, as this is how most commodities exposure is obtained. This category may also include limited partnerships and/or commodity trading advisors (CTAs) who seek exposure to various types of commodities and commodity-related investments, including oil, gas, and other energy investments. Short selling is expected in this asset class.

Timber: This asset class is expected to provide diversification, current income, and some protection against inflation to the total fund. Timber investments should lower the volatility of the overall fund. Investments in this category are expected to be very illiquid and long-term in nature. Timber is expected to earn real returns equal to traditional equity investments with volatility in between stocks and bonds over long periods of time. This asset class will include timberland and related assets in the U.S. and globally.

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:

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

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 who is domiciled in a country that is a recognized sponsor of terrorism and 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.

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. All performance shall be calculated using time-weighted rate of return methodology.

- At least quarterly, the CIO will submit a report to the Commission addressing the Retirement System's success in accomplishing the investment objective based on the benchmarks described by policy at the total fund level and each asset class level. This report will also include a brief of due diligence meetings held throughout the quarter for existing managers. Certain managers may be excluded when disclosing material information could obstruct the manager's performance. 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.
- At least every five years, a formal, external asset/liability study will be prepared for the Commission; it shall include an evaluation of the Commission's investment strategy as required by S.C. Code Ann. §9-16-320(G). Annually in the interim, the CIO shall submit an opinion to the Commission that addresses the continued prudence of the current asset mix in achieving the RRO.
- Periodically, a cost effectiveness external consultant shall report to the Commission regarding the Retirement System's success in minimizing implementation cost without negatively impacting performance.

Manager Search Process

The Commission may, at its discretion, retain investment managers or advisors to manage portions of the Retirement System's assets. The Commission will not consider selection of any manager without first setting a target allocation to a particular asset class, and then determining that a manager is needed to implement that allocation strategy. Once the Commission has determined that a manager search is warranted, it will establish minimum criteria for a manager to be considered eligible to participate in the search. Investment advisors shall ordinarily be selected from financially sound organizations with proven records of managing funds with characteristics appropriate for the risk/return profile of the Portfolio. The selection process outlined below will ordinarily be used for a manager search. Whether particular circumstances call for a different process or not, the recommendation will be summarized in a memo to the Commission for managers considered for hire.

Establishment of Selection Criteria – The general criteria for each manager search will be identified by the Commission. Prior to the inception of any particular search, the specific criteria that applies for that search will be adopted by the CIO and one Commissioner will be assigned to the selection team. The specific guidelines required for a particular search will vary depending upon the preferred characteristics for that mandate and the amount of portfolio assets to be invested. While this criteria will serve as the basis for the selection process, additional comparative analysis will be conducted in order to narrow the list of candidates to a manageable number for rigorous research and due diligence.

Selection of Preliminary Candidates (Database Screening) – The Commission will use the Investment Consultant's extensive database of investment product providers as the initial universe, with additions as they deem appropriate, from which candidates will be selected. Any firm that expresses an interest is invited to complete the questionnaire for the products it wishes to present for consideration. Each search will begin with the broad universe of managers specific to the asset class. Candidates will be selected through the screening process based upon the selection criteria established for that particular search. Once the objective screening is complete, the search team may rely on additional quantitative comparative analysis and the subjective, qualitative input of the Investment Consultant to further narrow the field of candidates to a manageable number.

Preliminary Candidate Evaluation – Once the initial list of candidates is identified, each will be subjected to a detailed analysis. Each candidate meeting the criteria will be contacted to verify the manager's willingness and ability to participate in the search and to confirm the continued appropriateness of the manager relative to the selection criteria.

Semi-Finalists Selection – Based upon all of the above research, the Investment Consultant and the CIO will narrow the list of qualified candidates to those organizations which are most appropriate for consideration.

Report Preparation – After the semi-finalists are identified, the Investment Consultant will prepare a report detailing these investment management firms. Data provided in these reports will include comparative return and risk histories, organizational information and fees, information on clients and professional staffing, profiles detailing the investment philosophy, strategies, process, and decision-making approach, the logic behind the firm's tactical approach, and comments on each firm's relative strengths and weaknesses.

Selection of Finalists – The CIO will review the report on the semi-finalists with the Consultant to select a reasonable number to interview. The team typically expects to interview no more than three qualified candidates for the placement unless more than one manager is to be hired from a particular search. The number of candidates selected for interviews is at the team's discretion. After the team selects finalists for interviews, a copy of the Commission's standard manager contract will be presented to each finalist to include a term sheet with fee schedules. For Private Equity, Real Estate and Absolute Return managers, the Commission will provide standard side letter provisions for their comment. The Commission will require that any exception(s) be stated in writing and submitted as a part of the final interview. For Limited Partnerships (LP), Limited Liability Corporations (LLC) and commingled investors, the Commission or Staff will request all appropriate documents to include a term sheet. Staff will review prior to awarding business.

Interviews/Selection – The Investment Consultant will coordinate the interviews and will inform the candidates of the basic information that should be included in the presentation. The assigned Commissioner, the CIO, and the Investment Consultant will compare and contrast the strengths and weaknesses of the finalists to determine the investment manager(s) best suited for the mandate. The team will make manager recommendations to the Commission for hiring approval.

Implementation – Upon approval by the Commission and execution of a contract between the Commission and the manager, the transition will be accomplished efficiently using appropriate, well-documented brokerage arrangements designed to provide a combination of best price and execution.

Investment Manager Criteria

The screening criteria discussed above will be developed at the inception of each search with an expectation that each manager or advisor considered for placement will be gauged by certain basic requirements:

- Managers must provide a verifiable and documented performance record for the strategy under consideration for a minimum of three years. In special situations (start-ups or new products for managers), the Commission may consider performance generated by a manager at a prior firm or the compelling logic behind a fresh strategy. Longer performance records are desirable. Consistency and the ability to add value over longer time periods will be important considerations.
- Managers with experience managing portfolios of similar size and complexity to the Retirement System's placement will generally be preferred. Higher levels of assets under management will be required for certain placements, such as passively managed indexes. For placements with smaller cap managers or other distinctive asset classes or logic, the Commission may consider a broader range of values regarding assets under management. Managers may need to prove that the assets under management have not increased beyond their ability to effectively manage given the strategy under consideration.
- Candidate firms that are subsidiaries or branches of other organizations should devote their time and resources primarily to the management of tax-exempt assets. Candidate firms that display and validate a compelling logic to a relatively new strategy may vary from the size and durational minimums of the two preceding paragraphs.
- Investment staff should be of sufficient depth and breadth to perform the ongoing duties of the firm and proficiently execute its investment philosophy. Each principal should have a demonstrated history of portfolio management with experience germane to the strategy.
- Managers must express a willingness to meet at least annually with the Commission Staff in South Carolina. Strong communication skills and responsiveness to specific client needs are desired qualities.
- Management firms that present unique insight and perspective within the discipline under consideration will be preferred. Firms will be evaluated on the logic of their security selection and portfolio construction techniques, risk control methods, research processes, and the consistency with which they apply their own standards.
- The firm should be professionally managed and have a long-range business plan. The

plan should recognize a limitation to the size that the organization can achieve (assets under management and number/type of clients) and still provide the client with the service and attention required. Additionally, there should be a separate, established maximum for assets under management in many specialized strategies under consideration.

- Fees must be competitive relative to an appropriate peer group of managers for a particular strategy with similar performance expectations.

Asset Allocation Monitoring and Rebalancing

Among the decisions an investment committee can make, asset allocation has the most significant impact on Portfolio returns; therefore, maintaining the target allocations within the Portfolio is crucial to long-term success, both in terms of returns and risk profile. It is important, however, to balance the cost of deviating from the target allocations against the real costs of actively rebalancing, i.e., taking money away from one asset class and moving it to another asset class. 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 re-optimize and rebalance the Portfolio.

The asset allocation and rebalancing policy is a cascading policy that works both in conjunction with and independently of the larger equity/fixed income/alternatives allocation/rebalancing policy. Any cash flow needs that arise out of the equity/fixed income/alternatives allocation policy will be implemented through the policy outlined below to determine the source or destination of assets going into or out of the equity portfolio.

The general rebalancing policy depends on ranges around each target allocation, both for asset class targets and for the manager level targets within each asset class. When an allocation reaches its minimum or maximum allocation, as specified in the AIP, it will be rebalanced to return the allocation to the established range.

There are three hierarchical levels to the asset allocation policy and the rebalancing policy must consider the interlocking nature of these three levels (Equity/Fixed Income/Alternatives, Equity, Fixed Income or Alternatives asset class, and manager allocations within the asset class). Each level will be reviewed at least quarterly to determine whether it is within its asset allocation range as determined in the AIP. The review will be initiated at the top level (Equity/Fixed Income/Alternatives) and proceed downward to the manager level. Each of the higher levels may impact the levels below it. The impact of the higher level activity will be modeled before conducting the lower level analysis. This means that if the broad equity asset class is below its minimum range, then assets will be transferred from fixed income or alternatives to equity. Those new assets will be distributed according to the cascading policy described below. After those assets are allocated to equity sub-asset classes and then managers, some of the equity sub-asset classes/managers that may have been originally outside of their ranges before the new assets were distributed may now be inside their ranges. In that case, no further rebalancing action would be necessary.

In the event that any of the asset class allocation levels move outside of their target range, it will be up to the Commission and the CIO to determine the rebalancing action most appropriate for the Portfolio. The Commission expressly delegates to the CIO or his designee the authority to execute securities transactions to implement rebalancing, cash management or other authorized investment strategies within asset class target ranges. In some cases, no action will be the appropriate response.

Manager Terminations

Termination of a manager or advisor will 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 or advisor with or without cause and at any time.

Circumstances which suggest an immediate review and a possible termination include, but are not limited to:

- Manager changes strategy or investment style;
- Critical elements of the investment process have broken down;
- Transaction costs are unreasonable;
- Investment management fees are higher than similarly styled managers for similarly sized portfolios;
- 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;
- Material organizational or personnel changes;
- Manager is not complying with the Commission's Statement of Investment Objectives;
- Manager is not complying with the Commission's AIP.

Execution of Security Trades

- 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 will evaluate policies that provide for the most efficient and effective trading process.