FINANCIAL STATEMENTS

SOUTH CAROLINA
RETIREMENT SYSTEMS
Administered Under the Retirement Services Division of the South Carolina Public Employee Benefit Authority

Columbia, South Carolina

Year Ended June 30, 2013

State of South Carolina

Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

October 16, 2013

The Honorable Nikki R. Haley, Governor
and
Members of the South Carolina Public Employee
Benefit Authority
State of South Carolina
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Retirement Systems for the fiscal year ended June 30, 2013 was issued by CliftonLarsonAllen, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/sag

South Carolina Retirement Systems

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June 30, 2013

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Independent Auditors' Report

The Honorable Nikki Haley, Governor,
Board of Directors of the South Carolina
Public Employee Benefit Authority, and
Richard H. Gilbert, Jr., Deputy State Auditor
South Carolina Retirement Systems
Columbia, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the South Carolina Retirement Systems (the Systems) as administered by the South Carolina Public Employee Benefit Authority, which comprise the statement of plan net position as of June 30, 2013 and 2012, and the related statement of changes in plan net position

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Systems as of June 30, 2013 and 2012, and the respective changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The financial statements include alternative investments valued at $11.8 billion (45% percent of net assets), as explained in Note 1, their fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedules of Funding Progress and Employer Contributions, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the Systems' financial statements. The Other Supplementary Information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements.

The Other Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2013 on our consideration of the Systems' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Systems' internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Baltimore, Maryland
October 15, 2013

Management's Discussion and Analysis

This section presents management's discussion and analysis of the South Carolina Retirement Systems' financial position and performance for the year ended June 30, 2013, and is offered as an introduction and analytical overview. This narrative is intended as a supplement and should be read in conjunction with the financial statements and other information presented in the *Comprehensive Annual Financial Report*.

The Retirement Systems' financial statements provide information about the activities of the five defined benefit pension plans administered, which are listed below, in addition to comparative summary information about the activities of the Retirement Systems as a whole:

- *South Carolina Retirement System (SCRS)* - A member contributory multiple-employer plan covering teachers, as well as state and municipal employees;
- *Police Officers Retirement System (PORS)* - A member contributory multiple-employer plan covering state and local law enforcement personnel and firefighters;
- *The Retirement System for Members of the General Assembly (GARS)* - A member contributory plan providing benefits to the members of the South Carolina General Assembly;
- *The Retirement System for Judges and Solicitors (JSRS)* - A member contributory plan covering Judges, Solicitors and Public Defenders; and
- *South Carolina National Guard Supplemental Retirement Plan (SCNG)* - A non-contributory supplemental benefit plan for members of the South Carolina National Guard.

Overview of the Financial Statements

The South Carolina Retirement Systems represents the collective retirement funds that are held in a group trust for the plans and are protected by the state's constitution. Effective July 1, 2012, the South Carolina Public Employee Benefit Authority (PEBA) was created as a separate agency and governing body. As a result, the Retirement Systems, which was formerly a division of the SC Budget and Control Board, was transferred from the Budget and Control Board to the new administrative agency. PEBA administers the various retirement systems and retirement programs managed by the Retirement Division. PEBA also has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as trustee of the systems and the trust funds. By law, the Budget and Control Board, which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the Retirement Systems and serves as a co-trustee of the Retirement Systems in conducting that review. PEBA is considered a division or component unit of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state. Financial statements prepared on behalf of the Retirement Systems (Plan), include the following information:

- Statement of Plan Net Position
- Statement of Changes in Plan Net Position
- Notes to the Financial Statements
- Required Supplementary Information
- Other Supplementary Information

The Statement of Plan Net Position presents the Plan's assets and liabilities and the resulting net position of assets held in trust for pension benefits. This statement reflects a year-end snapshot of the Plan's investments, at fair value, along with cash and short-term investments, receivables and other assets and liabilities.

The Statement of Changes in Plan Net Position presents information showing how the Plan's net position of assets held in trust for pension benefits changed during the year. This statement includes additions for contributions by members and employers and investment earnings and deductions for annuity payments, refunded contributions, death benefit payments and administrative expenses.

Notes to the Financial Statements are an integral part of the basic financial statements and provide additional information that is necessary in order to gain a comprehensive understanding of data reported in the basic financial statements.

Required Supplementary Information presents information concerning the Retirement Systems' funding progress trends and its obligations to provide pension benefits to members. A schedule of required employer contributions is also presented and is useful in evaluating the condition of the plans.

Other Supplementary Information includes Schedules of Changes in Plan Net Position by system, as well as schedules of administrative expenses, professional and consultant fees and investment expenses.

Financial Highlights

- On June 26, 2012, Governor Nikki Haley signed the Retirement Free Conference Report on House Bill 4967 and Act 278 became law. This retirement reform legislation not only addressed significant benefit changes to help preserve the long-term sustainability of the systems, but it also changed the organizational reporting structure by creating a new governing body, PEBA. Administration of both the state's Retirement Systems and the Employee Insurance Program were combined and transferred to the new entity. The members of both the Board of Directors of PEBA and the SC Budget and Control Board are trustees of the Retirement Systems. During the fiscal year, members were appointed to the 11-member PEBA Board of Directors and appointments were completed by the end of October 2012. Agency operations, service delivery and customer satisfaction levels were successfully maintained despite heavier than ever workloads resulting from agency-wide implementation of Act 278.

- The Net of Fee Performance rate of return provided by the custodial bank, BNY Mellon, for the fiscal year ended June 30, 2013, was 9.99 percent. This return level reflects performance of the S.C. Retirement Systems, at the aggregate for the pooled investments of the consolidated pension trust funds as a whole, less manager fees and expenses. This fiscal year's performance was significantly above the prior year's net return of 0.37 percent and is well above the 7.5 percent actuarial investment rate of return assumed for the plans. Gains and losses from investment performance are recognized using actuarial smoothing methods which help mitigate sharply fluctuating market returns over a long-term period. The smoothing methodology offsets both deferred investment gains and losses against each other and is intended to produce an actuarial asset value that is fairly consistent with market value during periods of ordinary investment returns. Smoothing avoids over-response to inherently volatile conditions that would otherwise overweight the effects of a single year of performance that would most likely be reversed in subsequent years. Actuarial smoothing is intended to result in more stable contribution rates and a more level funded status, and is also a valuable methodology for governmental entities because it permits budgetary planning over more than one fiscal year.

- The South Carolina Retirement System Investment Commission (RSIC), created in 2005 as a fiduciary for the Retirement Systems, has exclusive authority to invest and manage the retirement trust funds' assets. The RSIC operates pursuant to statutory provisions and under governance policies that allow for a diverse asset allocation and which afford the RSIC and its chief investment officer discretion and flexibility to quickly react to changes in market conditions. The investment portfolio is structured to focus on ensuring the long-term stability of the plans, seeking superior returns at acceptable levels of risk. During the fiscal year, the Commission conducted a competitive bid process to hire an investment consultant. A new investment consultant, Hewitt EnnisKnupp (HEK) was named. HEK reported that as of the fiscal year ended June 30, 2013, the plan's investment portfolio outperformed the policy benchmark, on a net-of-fee basis, for the trailing one- two- three- and five-year time periods.

- The RSIC is responsible for establishing and maintaining a target asset allocation that manages risk, ensures liquidity, and affords flexibility to quickly react to changes in market conditions. Variances among asset classes are the result of changes to the RSIC's asset allocation strategies as well as volatility experienced in the financial markets. During the fiscal year, several new real estate and private equity funds were added in addition to funding global equity, emerging market equity and debt ETF accounts. Also during fiscal year 2013, RSIC's consultant, HEK, conducted an asset liability modeling study (ALM) which reviewed the liabilities of the plans and compared them against projected capital market expectations in order to produce a recommended asset allocation. As a result of the ALM, in April 2013, HEK recommended a new asset allocation which the Commission adopted for fiscal year 2014. The adopted asset allocation policy for fiscal year 2014 reflects an increase in return-seeking assets.

- Certain investments held in strategic partnerships have been restated for the prior fiscal year to conform with the change in presentation for fiscal year 2013. Cash, short duration and high yield investments held in the strategic partnerships were previously classified as Alternatives on the Statement of Plan Net Position. These amounts are now presented in the respective categories of Cash and cash equivalents, Short term securities and Domestic fixed income lines respectively to accurately depict the nature of the assets. In addition, one investment previously classified as a Fixed income investment is now reflected in the Alternatives line, again, in order to more closely align with its categorization as opportunistic credit.

- A significant number of investment managers provide account valuations on a net of fee basis. In compliance with Generally Accepted Accounting Principles, these investment expenses are netted against investment income. Because some amounts were not readily separable from specific investment income as of the financial statement reporting date for fiscal year 2012, netted amounts were included within the Net appreciation (depreciation) in fair value of investments rather than in the Investment expense line item on the Statement of Changes in Plan Net Position. For the current fiscal year, both invoiced and net of fee investment expenses are classified as Investment expense. Investment expenses that were reported on a net of fee basis for fiscal year 2012 have been restated to conform with the change in presentation for fiscal year 2013. Information regarding investment fee expenses is collected, compiled and reviewed for reasonableness by the RSIC and subsequently provided to PEBA. The investment expense numbers provided at fiscal year-end represent a good faith attempt to disaggregate amounts that were not necessarily readily separable throughout the fiscal year. The collection process is not standard practice for many investment managers. The investment expense numbers reported include investment management fees, performance fees (carried interest) and other expenses such as organizational expenses in limited partnership structures. This change in presentation has no impact on the amount of total net position or the net change in net position.

- The portfolio continued to participate in a securities lending program, managed by the custodial bank, BNY Mellon. Conservative investment guidelines continue to be maintained. Securities lending revenue for the fiscal year was $2.5 million, an increase from $1.4 million in the prior year. Two notable events occurred during the fiscal year. First, BNY Mellon sold all of the remaining Lehman holdings in the collateral pool. Including one prior sale in May 2012, the total realized losses from these sales were approximately $90 million. The realized losses from the Lehman sales are currently being held in the collateral pool as an undistributed loss. Second, in May 2013, a settlement was reached between the South Carolina State Treasurer's Office as custodian and BNY Mellon which addressed, among other things, the losses in the collateral pool. As part of the settlement, approximately $20 million was credited to the portfolio's collateral reinvestment account. As a result of the settlement, the total undistributed loss in the collateral pool was reduced from approximately $90 million to approximately $70 million.

- Total net position for all five defined benefit plans of the South Carolina Retirement Systems combined, increased by $1.5 billion or 6 percent during fiscal year 2013. The net position of the plans held in trust to meet future benefit obligations and the value is impacted by contributions to the plans, investment returns and payments out of the system. Although the plans are in a net cash outflow position with benefit payments exceeding contribution receipts, it is important to note that the difference in the net position is not attributed to investment performance alone. The increase in net position from $24.98 billion to $26.5 billion was attributable to both positive investment performance and increased contribution levels.

- Increases in the amounts of both employee and employer contributions collected from the prior fiscal year were the result of higher contribution rates imposed by retirement reform legislation and an increase in covered payroll. The legislation also implemented actuarially neutral service purchase provisions that resulted in a tremendous influx of members who rushed to purchase service under the old cost provisions. This spike in service purchases caused further increases in the amount of employee contributions from those in the prior year.

- The Teacher and Employee Retention Incentive (TERI) program is a deferred retirement option program under SCRS that initially allowed retired members to accumulate annuity benefits on a deferred basis for up to 60 months while continuing employment. Retirement reform legislation will close the TERI program to all participants effective June 30, 2018, so SCRS members who enter the TERI program after July 1, 2013, will not be eligible to participate in TERI for the full 60 months. Current TERI participants are required to pay the same pre-tax member contribution rate on compensation earned, in the same manner as active members. TERI participants do not earn additional service credit or interest on their TERI account, but are eligible to receive any benefit adjustments granted. At the end of the member's TERI participation and upon termination from employment, funds are distributed from the accumulated TERI account. As a result of retirement reform legislation, there was a surge in the number of members electing to enter the program before its closure so they could take advantage of the full 60 months of participation. This caused the total amount of assets held in trust for future payment of accrued TERI benefits to increase from $386 million to $469 million during fiscal year 2013 and the number of members actively participating in TERI increased from 6,986 at fiscal year-end 2012 to 9,792 at fiscal year-end 2013.

- The JSRS also provides a deferred retirement option program. A JSRS member who has not yet reached the age of 60 years, but who is eligible to retire and receive the maximum monthly benefit may continue to serve as judge, solicitor, or circuit public defender and the member's normal monthly retirement benefit is deferred and placed in the system's trust fund on behalf of the member. Upon reaching the age of 60, the balance of the member's deferred retirement benefit is distributed to the member who is not required to terminate his position and may continue working. As of June 30, 2013, benefits held in trust totaled $707,300.

- The total number of retired members and beneficiaries receiving monthly annuity benefits from the Retirement Systems' plans increased from 141,000 to more than 149,000 annuitants during the year. Additionally, effective July 1, 2012, eligible annuitant payees received an annual benefit adjustment equal to the lesser of 1 percent or $500. The increase in the number of new annuitants added to the payroll during the year coupled with the retiree benefit adjustment resulted in an overall increase of 8.57 percent in the dollar amount of annuity benefits paid to annuitants compared to the prior year.

- In addition to the deferred retirement options available in SCRS and JSRS, all of the plans (excluding SCNG) include certain provisions that allow retired members to continue covered employment while also receiving a monthly retirement benefit. South Carolina's public employee defined benefit plans have historically provided extremely lenient return-to-work provisions for retired members of SCRS and PORS who return to work for a covered employer after retirement, or after ending their TERI participation (SCRS only). Under all plans, for members who return to work for a covered employer after retirement, the employer must pay the corresponding employer contribution for that particular plan and under SCRS, PORS and JSRS, retired members are also required to pay the same employee contribution as an active member in the same position. Prior to retirement reform legislation working retirees received the full monthly retirement benefit, with no limit on the amount of wages they earned from employment. Collectively among the plans, the most recent actuarial valuation study reported that nearly 27,000 retirees continue covered employment while receiving monthly retirement benefits, thereby making up approximately 10 percent of the total public workforce covered by the Retirement Systems. Because these return-to-work provisions coupled with demographic changes of the membership caused concern over the long-term stability of the plans, retirement reform legislation also addressed retiree return-to-work provisions. For SCRS and PORS, the receipt of benefits by a member who retires after January 1, 2013, is subject to an annual earnings limit of $10,000 on wages earned from covered employment. Notably, members' apprehension regarding the legislative change caused a boost in the number of members electing to retire before the effective date of the new earnings limit provisions.

- Qualified Excess Benefit Arrangement (QEBA) trust funds are maintained for each of the plans administered by the South Carolina Retirement Systems. A QEBA is intended to be a qualified governmental excess benefit arrangement within the meaning of Section 415(m)(3) of the Internal Revenue Code and provides the part of a participant's retirement benefit that would have been paid by the South Carolina Retirement Systems had there been no limitations under Code Section 415(b). The QEBA plans are separate and apart from the funds comprising the retirement funds and are not commingled with assets of those funds. The QEBA is not pre-funded; therefore, no assets or income are accumulated to pay future benefits. The amount of required contributions necessary to pay benefits under the plans is determined and deposited to the trust funds on an as-needed basis. Employer contributions to fund the excess benefits are not credited or commingled with contributions paid into and accumulated in the retirement funds.

- The firm of Gabriel Roeder Smith & Company (GRS) is on retainer as the Systems' consulting actuary. South Carolina state statute requires that the actuary make a valuation of the Systems annually and conduct an experience investigation at least once in each five-year period. GRS completed an actuarial experience study on the Systems as of July 1, 2010, and the most recent annual valuation reports were issued as of June 30, 2012. While Act 278 amended the law to provide for a schedule of employer and employee contributions going forward, the 2012 valuation results required additional increases to employee and employer contribution rates for PORS effective July 1, 2014, in order to maintain a 30-year funding period. Statutory provisions require any necessary increase in the scheduled contributions rates to be shared equally between employers and employees. The PEBA Board adopted the recommended changes, which were also approved by the Budget and Control Board. Retirement reform legislation also requires that the General Assembly establish the assumed annual rate of return on the investments of the Retirement Systems. The state's legislative body set the rate at 7.5 percent effective July 1, 2012.

- Act 278 closed GARS to persons first elected to the South Carolina General Assembly at or after the general election in November 2012. Members so elected to the Senate or House of Representatives have the option to join SCRS, the State Optional Retirement Program (State ORP), which is a defined contribution plan, or opt out all together.

Condensed Financial Information

The Retirement Systems' financial stability and long-term ability to sufficiently fund retirement benefits payable to members in future years is viable because funds are accumulated and invested on a regular and systematic basis. The five defined benefit funds provide lifetime annuity benefits to vested eligible members who serve as employees of state, public school, higher education institution, local and municipal government, state legislative, judicial, and South Carolina National Guard employers.

The Systems' principal sources of revenue are employee contributions, employer contributions and investment earnings. Required annual contributions for the SCNG are funded through an annual state appropriation. Expenses of the Systems consist primarily of payments of monthly annuities to retired members or their beneficiaries, and refunds of member contributions and interest that are paid subsequent to termination of employment. The defined benefit plans include an incidental death benefit for both active and retired members and an accidental death plan for members of the PORS. The Systems also administer the State ORP, which is a defined contribution plan that is available to newly hired employees of state agencies, higher education and public school districts. Retirement reform legislation also opened SCRS and State ORP to individuals first elected to the General Assembly at or after the general election in November 2012.

The following summary comparative financial statements of the pension trust funds are presented.

Plan Net Position
June 30
(Amounts expressed in thousands)

Assets	2013	2012[1]	Increase/ (Decrease)	% Increase/ (Decrease)
Cash and cash equivalents, receivables and prepaid expenses	$ 4,023,450	$ 3,416,972	$ 606,478	17.75%
Investments, at fair value	24,587,774	23,157,144	1,430,630	6.18%
Securities lending cash collateral invested	106,633	184,025	(77,392)	(42.06%)
Capital Assets, net of accumulated depreciation	3,083	2,984	99	3.32%
Total Assets	28,720,940	26,761,125	1,959,815	7.32%
Liabilities				
Deferred retirement benefits	468,781	386,302	82,479	21.35%
Obligations under securities lending	106,633	184,025	(77,392)	(42.06%)
Other accounts payable	1,645,150	1,211,693	433,457	35.77%
Total Liabilities	2,220,564	1,782,020	438,544	24.61%
Total Net Position	$ 26,500,376	$ 24,979,105	$ 1,521,271	6.09%

[1]Certain assets held in strategic partnerships have been restated for fiscal year 2012 to conform with the change in presentation for fiscal year 2013. In an effort to comply with investment reporting by the RSIC; cash, short duration and high yield investments held in the strategic partnerships that were previously classified as alternatives are now presented in the respective categories of cash and cash equivalents, short term securities and domestic fixed income.

Changes in Plan Net Position
Year Ended June 30
(Amounts expressed in thousands)

Additions	2013	2012	Increase/ (Decrease)	% Increase/ (Decrease)
Employee contributions	$ 775,634	$ 674,311	$ 101,323	15.03%
Employer contributions	1,103,044	969,897	133,147	13.73%
State-appropriated contributions	4,539	3,937	602	15.29%
Net Investment income	2,549,543	127,554	2,421,989	1,898.80%
Other income	4,083	2,951	1,132	38.36%
Total Additions	4,436,843	1,778,650	2,658,193	149.45%
Deductions				
Annuity benefits	2,766,267	2,547,907	218,360	8.57%
Refunds	102,255	98,461	3,794	3.85%
Death benefits	21,268	20,315	953	4.69%
Administrative & other expenses	25,782	24,711	1,071	4.33%
Total Deductions	2,915,572	2,691,394	224,178	8.33%
Increase in Net Position	1,521,271	(912,744)	2,434,015	266.67%
Beginning Net Position	24,979,105	25,891,849	(912,744)	(3.53%)
Ending Net Position	$ 26,500,376	$ 24,979,105	$ 1,521,271	6.09%

Analysis of the Plan's Financial Position and Results of Operations

On a combined basis, the net position of the defined benefit Plan was valued at $26.5 billion at June 30, 2013, representing a 6 percent increase in net position from the previous fiscal year-end. Positive investment earnings and increased contributions were the primary drivers of the change in Plan net position for the fiscal year.

During fiscal year 2013, total contributions added to the plans increased over 14 percent from the prior year as a result of contribution rate increases, an increase in covered payroll, and a spike in service purchases. Monthly retirement benefits paid to annuitants increased 8.57 percent compared with the previous fiscal year. As previously referenced, the increase was attributable to a benefit adjustment granted to eligible SCRS and PORS annuity recipients effective July 1, 2012, along with a significant increase in the number of new annuitants added to the payroll during the year.

Investment income had a positive impact on the trust fund. The plan's net-of-fee return for the fiscal year 2013 was 9.99 percent, exceeding the actuarial assumed rate of return of 7.50 percent by 249 basis points. The fund experienced positive returns for the fourth consecutive year led by several strategies that substantially exceeded their benchmarks. Opportunistic Credit returned 16.05 percent for the fiscal year significantly outpacing the benchmark of 5.15 percent. Real Estate also outperformed its benchmark with a 17.61 percent return versus a Real Estate Index return of 10.52 percent. Other strategies that significantly outperformed their benchmarks included: Hedge Funds with a 12.21 percent return versus a 5.50 percent benchmark return, Large Cap Equity with a 26.62 percent return versus a 20.60 percent benchmark return, and Global Fixed Income with a 2.32 percent return versus a negative 2.18 percent benchmark return.

While the aforementioned strategies provided positive returns for the fiscal year, there were several strategies that contributed negatively to the total fund return, both on an absolute and relative basis. The asset class with the largest decline on an absolute basis was Commodities with a negative 9.33 percent return versus its benchmark return of negative 8.01 percent. The greatest underperforming asset class relative to its benchmark was Investment Grade Credit, returning a negative 0.59 percent while its benchmark generated a return of 0.84 percent.

Funding Status

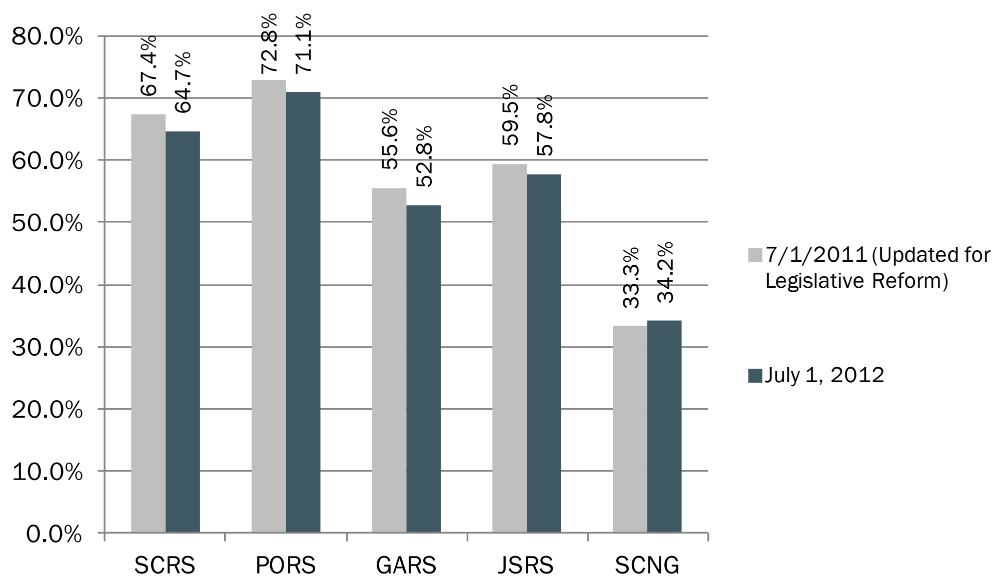
An overall objective in the funding of a defined benefit retirement plan is to accumulate sufficient funds to meet long-term benefit obligations. The primary sources of revenue to fund benefits include investment income, member contributions and employer contributions. Beginning with the July 1, 2011, actuary valuation investment performance is recognized using a five-year smoothing period. Under this method, each year the plan recognizes 20 percent of the difference between the market value of assets and the expected actuarial value of assets, based upon the assumed valuation rate of return. This asset valuation method mitigates the short-term impact of market volatility and allows changes in market conditions to be recognized (smoothed) over a longer period of time.

The ratio of actuarial assets to actuarial liabilities provides an indication as to whether sufficient assets are accumulated to pay benefits when due; the greater the level of funding, the larger the ratio of actuarial assets to actuarial accrued liabilities. The most recent actuarial valuations prepared as of July

1, 2012, included the impact of retirement reform legislation. As of July 1, 2012, funding levels of all the plans are such that annual expected contributions are sufficient for the valuations to find that the plans are actuarially sound. The changes in the levels of funding do not affect the availability of funds or resources for future use and actuarial projections indicate that unfunded liabilities should be amortized and funded within acceptable funding guidelines. The funded ratios of the five plans are presented in the following graph.

Funded Ratios

(Actuarial assets as a percentage of actuarial accrued liabilities)



Requests for Information

This financial report is designed to provide a general overview of the Retirement Systems' finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be directed as follows:

Retirement Systems Finance
South Carolina Public Employee Benefit Authority
PO Box 11960
Columbia, SC 29211-1960
(803) 737-6800
www.retirement.sc.gov

South Carolina Retirement Systems
Statement of Plan Net Position
June 30, 2013
With comparative totals for June 30, 2012
(Amounts expressed in thousands)

	SCRS	PORS	GARS	JSRS	SCNG	TOTAL	TOTAL 2012
ASSETS							
Cash and cash equivalents	$2,579,242	$408,862	$5,405	$16,807	$3,415	$3,013,731	$2,461,267
Receivables							
Due from other Systems		444		48		492	566
Employee and employer contributions	203,822	20,710	202	745	15	225,494	207,732
Accrued investment income	58,323	8,402	88	327	44	67,184	59,668
Unsettled investment sales	614,982	92,810	787	3,426	480	712,485	681,720
Other investment receivables	2,441	338	4	13	2	2,798	5,328
Total receivables	879,568	122,704	1,081	4,559	541	1,008,453	955,014
Investments, at fair value							
Short-term securities	411,422	62,090	527	2,292	321	476,652	527,910
Debt							
Domestic Fixed Income	5,877,851	887,054	7,524	32,743	4,582	6,809,754	4,027,671
Global Fixed Income	1,685,096	254,306	2,157	9,387	1,313	1,952,259	1,518,902
Public Equity							
Domestic Equity	1,532,325	231,250	1,961	8,536	1,195	1,775,267	1,864,566
Global Equity	1,491,925	225,153	1,910	8,311	1,163	1,728,462	1,738,518
Alternatives	10,224,360	1,543,005	13,088	56,957	7,970	11,845,380	13,479,577
Total investments	21,222,979	3,202,858	27,167	118,226	16,544	24,587,774	23,157,144
Securities lending cash collateral invested	92,040	13,890	118	513	72	106,633	184,025
Prepaid expenses	1,092	165	2	6	1	1,266	691
Capital assets, net of accumulated depreciation	2,770	292	8	13		3,083	2,984
Total assets	24,777,691	3,748,771	33,781	140,124	20,573	28,720,940	26,761,125
LIABILITIES							
Due to other Systems	492					492	566
Accounts payable - unsettled investment purchases	1,174,897	177,309	1,504	6,545	916	1,361,171	907,738
Investment fees payable	8,056	1,216	10	45	6	9,333	9,498
Obligations under securities lending	92,040	13,890	118	513	72	106,633	184,025
Deferred retirement benefits	468,074			707		468,781	386,302
Due to Employee Insurance Program	52,489	1,646				54,135	43,321
Benefits payable	3,404	264			11	3,679	3,193
Other liabilities	186,917	27,998	245	1,036	144	216,340	247,377
Total liabilities	1,986,369	222,323	1,877	8,846	1,149	2,220,564	1,782,020
Net position held in trust for Pension Benefits	$22,791,322	$3,526,448	$31,904	$131,278	$19,424	$26,500,376	$24,979,105

South Carolina Retirement Systems
Statement of Changes in Plan Net Position
Year Ended June 30, 2013
With comparative totals for the year ended June 30, 2012
(Amounts expressed in thousands)

	SCRS	PORS	GARS	JSRS	SCNG	TOTAL	TOTAL 2012
Additions							
Contributions							
Employee	$674,783	$97,164	$1,091	$2,596	$ -	$775,634	$674,311
Employer	948,157	143,389	2,831	8,667		1,103,044	969,897
State appropriated					4,539	4,539	3,937
Total contributions	1,622,940	240,553	3,922	11,263	4,539	1,883,217	1,648,145
Investment Income							
Net appreciation in fair value of investments	2,303,180	345,698	3,224	13,142	1,756	2,667,000	180,292
Interest and dividend income	258,632	39,015	359	1,508	198	299,712	243,583
Investment expense	(362,262)	(54,652)	(466)	(2,023)	(279)	(419,682)	(297,708)
Net income from investing activities	2,199,550	330,061	3,117	12,627	1,675	2,547,030	126,167
From securities lending activities:							
Securities lending income	234	35	1	2		272	89
Securities lending borrower rebates	1,935	292	2	11	1	2,241	1,298
Net income from securities lending activities	2,169	327	3	13	1	2,513	1,387
Total net investment income	2,201,719	330,388	3,120	12,640	1,676	2,549,543	127,554
Supplemental retirement benefits funded by the State	657	30				687	767
State Appropriations for administrative expenses							
Transfers of contributions from other Systems		3,013	199	184		3,396	2,184
Total additions	3,825,316	573,984	7,241	24,087	6,215	4,436,843	1,778,650
Deductions							
Refunds of contributions to members	87,212	14,983	3	57		102,255	98,461
Transfers of contributions to other Systems	3,396					3,396	2,184
Regular retirement benefits	2,195,625	296,044	6,720	15,745	4,193	2,518,327	2,374,301
Deferred retirement benefits	245,596			121		245,717	171,288
Supplemental retirement benefits	636	30				666	767
Death benefits	19,133	1,985	16	134		21,268	20,315
Accidental death benefits		1,557				1,557	1,551
Depreciation	186	23	1	1		211	118
Administrative expenses	19,118	2,904	28	110	15	22,175	22,409
Total deductions	2,570,902	317,526	6,768	16,168	4,208	2,915,572	2,691,394
Net increase (decrease)	1,254,414	256,458	473	7,919	2,007	1,521,271	(912,744)
Net position held in trust for Pension Benefits							
Beginning of year	21,536,908	3,269,990	31,431	123,359	17,417	24,979,105	25,891,849
End of year	$22,791,322	$3,526,448	$31,904	$131,278	$19,424	$26,500,376	$24,979,105

The accompanying notes are an integral part of these financial statements.

South Carolina Retirement Systems
Notes to Financial Statements

I. Basis of Presentation and Summary of Significant Accounting Policies

Description of the Entity

The financial statements of the South Carolina Retirement Systems (Systems) presented herein contain the following funds:

Pension Trust Funds

- South Carolina Retirement System (SCRS)
- South Carolina Police Officers Retirement System (PORS)
- Retirement System for Members of the General Assembly of the State of South Carolina (GARS)
- Retirement System for Judges and Solicitors of the State of South Carolina (JSRS)
- South Carolina National Guard Supplemental Retirement Plan (SCNG)

Each pension trust fund operates on an autonomous basis; funds may not be utilized for any purpose other than for the benefit of each plan's participants.

The Retirement Systems are part of the state of South Carolina's primary government and are included in the *Comprehensive Annual Financial Report of the State of South Carolina*. In making this determination, factors of financial accountability, governance and fiduciary responsibility of the state were considered.

Plan Descriptions

The South Carolina Retirement System (SCRS), a cost–sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for public school districts and employees of the state and political subdivisions thereof.

The South Carolina Police Officers Retirement System (PORS), a cost–sharing multiple-employer defined benefit pension plan, was established effective July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for police officers and firemen of the state and its political subdivisions.

The Retirement System for Members of the General Assembly of the State of South Carolina (GARS), a single-employer defined benefit pension plan, was created effective January 1, 1966, pursuant to the provisions of Section 9-9-20 of the South Carolina Code of Laws to provide retirement allowances and other benefits for members of the General Assembly. Retirement reform legislation closed the plan to individuals newly elected to the Senate or House of Representatives after the general election of 2012.

The Retirement System for Judges and Solicitors of the State of South Carolina (JSRS), a single-employer defined benefit pension plan, was created effective July 1, 1979, pursuant to the provisions of Section 9-8-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for judges, solicitors, and circuit public defenders of the state.

TheSouth Carolina National Guard Supplemental Retirement Plan (SCNG), a single-employer defined benefit pension plan, was created effective July 1, 1975, and is governed by the provisions of Section 9-10-30 of the South Carolina Code of Laws for the purpose of providing supplemental retirement benefits to certain members who served in the South Carolina National Guard.

A summary of information related to participating employers and members for the fiscal year ended June 30, 2013, follows (dollars amounts expressed in thousands):

	State[1]	School	Other	Total
SCRS				
Number of Employers	119	113	576	808
Annual Covered Payroll for Active Members	$ 2,209,913	$ 3,199,468	$ 1,998,395	$ 7,407,776
Average Number of:				
Active Contributing Members	49,230	82,353	53,188	184,771
Retirees and beneficiaries currently receiving benefits	46,373	59,737	21,667	127,777
Terminated members entitled to but not yet receiving benefits[3]				153,614
Total SCRS Membership				466,162
PORS				
Number of Employers	67	58	323	448
Annual Covered Payroll	$ 363,954	$ 367	$ 678,889	$ 1,043,210
Average Number of:				
Active Contributing Members	9,624		16,577	26,201
Retirees and beneficiaries currently receiving benefits	7,555	21	8,148	15,724
Terminated members entitled to but not yet receiving benefits[3]				11,375
Total PORS Membership				53,300
GARS				
Number of Employers	2			2
Annual Covered Payroll	$ 2,688			$ 2,688
Average Number of:				
Elected Positions	170			170
Retirees and beneficiaries currently receiving benefits	363			363
Terminated members entitled to but not yet receiving benefits	60			60
Total GARS Membership	593			593
JSRS				
Number of Employers	3			3
Annual Covered Payroll	$ 16,763			$ 16,763
Average Number of:				
Active Positions	144			144
Retirees and beneficiaries currently receiving benefits	201			201
Terminated members entitled to but not yet receiving benefits	2			2
Total JSRS Membership	347			347
SCNG				
Number of Employers	1			1
Annual Covered Payroll[2]	N/A			N/A
Average Number of:				
Active Members	12,000			12,000
Retirees and beneficiaries currently receiving benefits	4,542			4,542
Terminated members entitled to but not yet receiving benefits	2,317			2,317
Total SCNG Membership	18,859			18,859

[1]The State's primary government is considered a single employer; however, for reporting purposes, each state agency is reported as a separate employer. Quasi-State Agencies and Institutions of Higher Education are reported in this category.

[2]Annual covered payroll is not applicable for SCNG because it is a non-contributory plan.

[3]Employee Class not determinable from data.

Membership and benefit requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of each is presented below.

Membership

SCRS

Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

State ORP

As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State Optional Retirement Program (State ORP), which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. The Retirement Systems assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not considered part of the Systems for financial statement purposes.

Contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the investment providers for the employee contribution (7 percent) and a portion of the employer contribution (5 percent). A direct remittance is also required to the SCRS for a portion of the employer contribution (5.45 percent) and a death benefit contribution (.15 percent), which is retained by the SCRS. The activity for the State ORP is as follows:

State ORP Activity
Year Ended June 30, 2013
(Dollar amounts expressed in thousands)

Average Number of Contributing Participants	21,145
Annual Covered Payroll	$ 1,089,183
Employer Contributions Retained by SCRS	59,360
Death Benefit Contributions Retained by SCRS	1,634
Employee Contributions to Investment Providers	76,243
Employer Contributions to Investment Providers	54,459

PORS

To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; be a coroner in a full-time permanent position; or be a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least $2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

GARS

Members of the Senate and the House of Representatives who were first elected to office prior to November 2012 are required to participate in and contribute to the system upon taking office as a member of the S.C. General Assembly; however, the GARS plan is closed to individuals newly elected to the Senate or the House of Representatives after the general election of 2012.

JSRS

All solicitors, circuit public defenders, judges of a Circuit or Family Court and justices of the Court of Appeals and Supreme Court are required to participate in and contribute to the system upon taking office.

SCNG
Membership consists of individuals who serve in the South Carolina National Guard.

Pension Benefits
SCRS
A Class II member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class III member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension subject to the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class II and Class III members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. Incidental death benefits are also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

Beginning July 1, 2012, and annually thereafter, the annual retirement allowance received by retirees or their surviving annuitants must be increased by the lesser of one percent or five hundred dollars. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

PORS
A Class II member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of service regardless of age. A Class III member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension at age 55 or with 27 years of service regardless of age. Both Class II and Class III members are eligible to receive a deferred annuity at age 55 with five or eight years earned service, respectively. Incidental death benefits are also available to beneficiaries of active and retired members of employers who participate in the death benefit program. An additional accidental death benefit is also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

Beginning July 1, 2012, and annually thereafter, the retirement allowance received by retirees or their surviving annuitants must be increased by the lesser of one percent or five hundred dollars. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

GARS
A member is eligible for a monthly pension at age 60 or with 30 years credited service. A member who has attained age 70 or has 30 years of service is eligible to retire and draw an annuity while continuing to serve in the General Assembly. A member is eligible to receive a deferred annuity with eight years of service. An incidental death benefit is also provided to members. Retirees receive increases in benefits based upon increases in the current salary of their respective active positions. The Retirement Reform legislation closed GARS to new members. Persons first elected to the General Assembly in November 2012 or after must elect membership in SCRS or State ORP or may elect non-membership.

JSRS
A pension benefit is payable at age 70 with 15 years service, age 65 with 20 years service, 25 years service regardless of age for a judge or 24 years of service for a solicitor or a circuit public defender regardless of age. A judge is vested in the system after attaining 10 years of earned service in the position of judge, and a solicitor or a circuit public defender is vested in the system after attaining eight years of earned service. A member who has

reached maximum eligibility is eligible to retire and draw an annuity while continuing to serve. An incidental death benefit is also provided to members.

Retirees receive increases in benefits based upon increases in the current salary of their respective active positions.

SCNG

A monthly pension is payable at age 60 provided the member was honorably discharged from active duty with at least 20 years of total creditable military service. Of the 20 years total creditable military service, at least 15 must have been served in the South Carolina National Guard. Additionally, the last 10 years of service must have been served in the South Carolina National Guard. No cost-of-living increases are provided to SCNG retirees.

Summary of Significant Accounting Policies

Fund Structure

The Systems' accounts are maintained in accordance with the principles of fund accounting. This is the procedure whereby resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives. Separate pension trust funds (fiduciary fund type) are used to account for the activities of the five public employee retirement systems administered by PEBA.

Adoption of New Accounting Standards

The Governmental Accounting Standards Board (GASB) issued Statement No. 63, *Financial Reporting for Deferred Outflows of Resources, Deferred Inflows or Resources and Net Position*. The requirements of the Statement are effective for 2013 and have been implemented in the financial statements prepared by PEBA's Retirement Division for the fiscal year ending June 30, 2013. This statement provides accounting and financial reporting requirements to address the presentation issues associated with the new financial position elements created in GASB's Concepts Statement No. 4 *Elements of Financial Statements*. This Statement amends the net asset reporting requirements in Statement No. 34 *Basic Financial Statements* – and *Management's Discussion and Analysis – for State and Local Governments.*

Reclassifications

These financial statements include several reclassifications that have no impact on the Net position held in trust for pension benefits but were made to conform presentation only.

Certain investments held in strategic partnerships have been restated for the prior fiscal year to conform with the change in presentation for fiscal year 2013. Cash, short duration and high yield investments held in the strategic partnerships were previously classified as Alternatives on the Statement of Plan Net Position. These amounts are now presented in the respective categories of Cash and cash equivalents, Short term securities and Domestic fixed income lines respectively to more accurately depict the nature of the assets. In addition, one investment previously classified as a Fixed income investment is now reflected in the Alternatives line, again, in order to more closely align with its categorization as opportunistic credit.

In addition, all investment manger fees, whether directly invoiced or deducted from the fund on a net of fee basis, are classified and reported as Investment expense. Investment expenses that were reported on a net of fee basis for fiscal year 2012 have been restated to conform with the change in presentation for fiscal year 2013. In the prior fiscal year 2012, a significant portion of the investment expenses were not considered readily separable at the date financial statements were issued and therefore, these amounts were netted against investment income which was in compliance with Generally Accepted Accounting Principles. The netted fee amounts were included within the Net appreciation (depreciation) in fair value of investments rather than separately reported in the Investment expense line item on the Statement of Changes in

Plan Net Position. This change in presentation has no impact on the net position and is made strictly in an effort to improve transparency.

Basis of Accounting

All funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan.

Administrative Expenses

Through June 30, 2012, the State Budget and Control Board's Office of Internal Operations maintained an internal service fund to account for the administrative costs of operating the Systems. All accounting and corresponding disclosures related to administrative expenses were the responsibility of the internal service fund administered by the Board. Effective July 1, 2012, administrative expenses are the responsibility of the newly created Public Employee Benefit Authority and all accounting and corresponding disclosures relating to administrative expenses of the pension trust are included in the financial statements of the Retirement Systems.

Administrative expenses are funded by investment earnings and are allocated to each of the pension trust funds based on its respective portion of total assets in order to pay for actual expenses incurred during the year. Administrative expenses of the Systems include PEBA employee salaries and associated employee benefits, disability evaluations, fiduciary liability insurance and other professional service fees.

In addition, the Retirement Systems Investment Commission, a separate State Agency charged with investing the trust fund assets, is funded entirely from the trust fund. Expenses for the Commission include personal services for all of their Commissioners, investment and administrative staff as well as other contractual services and operating expenses.

Cash and Cash Equivalents

The Systems classifies cash on deposit in financial institutions and cash on deposit in the state's internal cash management pool as cash and cash equivalents. The Systems also classifies certain short-term highly liquid securities as cash equivalents if the date of maturity is three months or less from the date of acquisition. Forward contracts, foreign currencies, and cash held in the strategic partnership accounts are also classified as cash and cash equivalents.

Contributions

Employee, employer, and state-appropriated contributions are recognized in the period in which they are due, pursuant to formal commitments as well as statutory requirements. Substantially all contributions receivable are collected within 30 days of year-end.

Investments

The Retirement System Investment Commission, created by the General Assembly in 2005 as fiduciary for the Retirement Systems, has exclusive authority for investing and managing all assets of the plan. Funds of the Systems are invested subject to the terms, conditions, limitations, and restrictions imposed by Section 16, Article X of the South Carolina Constitution and Section 9-1-1310 (B) and Title 9 Chapter 16 of the South Carolina Code of Laws. The funds and assets of the various state retirement systems are not funds of the State, but are instead held in trust as provided in Section 9-16-20.

The Investment Commission is structured as a separate state agency reporting to a body of appointed Commissioners. The RSIC is a seven-member commission that includes the State Treasurer, the Executive Director of PEBA, and a retired member of the Systems. Effective July 1, 2012, the Executive Director of PEBA was added to the Commission, ex officio without voting privileges and the nonvoting retired member was given voting priviledges. The Commission employs a chief investment officer who, under the direction and supervision of the Commission, oversees the investment program for the fund. The Commission also retains an independent consultant to provide investment consulting services necessary to fulfill the duties for investing the Systems' portfolio.

As fiduciary on behalf of the Retirement Systems, the Commission enters into individual agreements with various investment managers to invest plan assets seeking superior long-term results at an acceptable level of risk. As of June 30, 2013, legal agreements were in place with 107 investment managers.

The Office of the State Treasurer has a contract with BNY Mellon Asset Servicing to serve as custodian of the Retirement System's assets with the exception of investments not custodied in the bank such as funds held in partnerships, commingled accounts or other unique asset classes.

As an accommodation under the global custody agreement between the South Carolina State Treasurer and BNY Mellon, the custodial bank provides consolidated recordkeeping services which are reflected on account statements for securities not held in the custodian's vault or for which the custodian or its nominee is not the registered owner (non-custody securities).

For financial statement purposes, investments of the pension trust funds are reported at fair value in the Statement of Plan Net Position. Short term securities categorized as cash or cash equivalents are reported at fair value. The Systems holds domestic and global equity securities which are traded on organized exchanges. Equity securities which are held by the custodian are valued by the custodian using the last reported price on a trade-date basis. The systems holds domestic and global fixed income securities. The custodian values those fixed income assets which are held in custody based upon prices received from external pricing sources and in accordance with the custodian's pricing policy. Commingled funds, which may contain equity and/or fixed income securities are priced based upon the manager's pricing policy and an NAV value is provided to the custodian. Private market investments typically utilize a limited partnership structure and private equity funds normally invest in companies that are not publicly traded on a stock exchange. The fair values of limited partnership investments are based on periodic valuations of the underlying companies of the limited partnerships. The fair values of alternative investments including private equity, opportunistic credit, real estate and certain other investments, for which daily market values are not readily ascertainable, are valued in good faith based on the most recent financial information available for the underlying companies and reported by the investment managers at the measurement date, adjusted for subsequent cash flow activities through June 30, 2013. The issue of valuation of investments is a joint responsibility between PEBA and the Investment Commission. Staff from both offices serve on a joint valuation committee which oversees and reviews the valuations provided by the custodian and/or the external investment managers.The estimated fair value of these investments may differ from values that would have been used had a liquid public market existed.

Investments are combined in a commingled investment pool, with each system owning a percentage of the pool and receiving proportionate investment income in accordance with their respective ownership percentage. Investment income includes realized and unrealized appreciation (depreciation) in the fair value of investments, interest income earned, dividend income earned, less investment expense, plus income from securities lending activities, less deductions for securities lending expenses. A significant number of investment managers provide account valuations on a net of fee basis. Those management fees are often netted against investment income and are not readily separable based on the valuations. The management fees reported on a net basis have historically been included within the "Net appreciation (depreciation) in fair value of investments" and were not reported as a separate investment expense in the financial statements. The Retirement System Investment Commission (RSIC) implemented an improved collection process to compile, aggregate and check for reasonableness netted investment expenses to report amounts that were previously not readily separable. The RSIC provided fee information to the Retirement Systems Division of PEBA in order for the amounts to be reclassified and reported in the financial statements on the Investment expense line of the Statement of Changes in Plan Net Position. These investment expenses represent a good faith attempt to disaggregate amounts that are not readily separable, and include management fees, performance fees (carried interest) and other expenses such as organizational expenses in limited partnership structures.

Capital Assets

Capital Assets are valued at historical cost or at estimated historical cost if actual historical cost data is not available. The costs of normal maintenance and repairs that do not significantly add to the value of an asset or materially extend the asset's useful life are not capitalized. An individual asset is capitalized and reported if it has an estimated useful life of at least two years and a historical cost as follows: more than $5 thousand for machinery and equipment; more than $100 thousand for buildings. All land and non-depreciable land improvements are capitalized and reported, regardless of cost. Depreciation is recorded using the straight line method over the useful life of 40 years for the building and a useful life of 2 to 25 years for equipment. Land is not depreciated.

II. Contributions and Reserves

Contributions to each of the Plans are prescribed in Title 9 of the South Carolina Code of Laws. The board may increase the percentage rate in SCRS and PORS employer and employee contributions on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS and 5 percent for PORS. An increase in the contribution rates adopted by the board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; this increase is not limited to one-half of one percent per year. After June 30, 2015, if the most recent annual actuarial valuation of the system shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than ninety percent, then the board, effective on the following July first, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than ninety percent. Any decrease in contribution rates must maintain the 2.9 and 5 percent differentials between the SCRS and PORS employer and employee contribution rates respectively. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than ninety percent, then effective on the following July first, and annually thereafter as necessary, the board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than 90 percent.

Plan members are required to contribute at statutorily established rates. Following are the employee contribution rates applicable for fiscal year 2013:

SCRS	**7% of earnable compensation**
PORS	**7% of earnable compensation**
GARS	**10% of earnable compensation (Jul 1-Dec 31)**
	11% of earnable compensation (Jan 1-Jun 30)
JSRS	**10% of earnable compensation**
SCNG	**Non-contributory**

Employer contributions for the SCNG are provided by state appropriations based on the annual required contribution determined by the Systems' actuary on an annual basis.

In accordance with provisions of the 2012-2013 State Appropriations Act, an additional employer contribution surcharge of 4.55 percent of covered payroll was added to the contribution rate applicable to state and local governments, and public school entities covered by the Employee Insurance Program. This assessment is for the purpose of providing retiree health and dental insurance coverage and is not a part of the actuarially established contribution rates for retirement funding purposes. Functioning as a collecting agent, SCRS and PORS collected (amounts expressed in thousands) $324,914 and $17,676 respectively in retiree insurance surcharges ($49,378 of which was applicable to the State ORP) and remitted these funds to the South Carolina Public Employee Benefit Authority-Insurance Division.

The Net Position of each plan is required to be reserved in the following accounts:

The **Employer Fund** is credited with all employer retirement contributions and investment earnings of the Employee and Employer Funds. Upon retirement, all member account balances and contributions are transferred to the Employer Fund as all annuities and administrative expenses of the Systems are paid from this fund. Annual state appropriations to the SCNG are also credited to the Employer Fund to provide funding for the payment of annuities and administrative expenses.

The **Employee Fund** is credited with all contributions made by active members of the Systems. Interest is credited to each active member's individual account at an annual rate of 4 percent by transferring funds from the Employer Fund to the Employee Fund. At termination of employment prior to retirement, employee contributions and accumulated interest may be refunded from this fund to the member. At retirement, employee contributions and interest are transferred from the Employee Fund to the Employer Fund for subsequent payment of benefits.

The **Death Benefit Fund**, an incidental death program within SCRS and PORS, is the fund to which participating employers contribute for the purpose of providing a death benefit to active and retired members of the Systems. Employer contributions and investment earnings are credited to this fund. Death benefit payments and administrative expenses are paid from this fund. The assets in the Death Benefits Fund are not held separately in a dedicated trust for the sole purpose of paying death benefits to beneficiaries of deceased members. These benefits are considered allowable within the defined benefit plans and are held within the pension trust funds.

The **Accidental Death Fund** (PORS only) is the fund to which participating employers contribute for the purpose of providing annuity benefits to beneficiaries of members of PORS killed in the actual performance of their duties. This fund and its benefits are independent of any other retirement benefit available to the beneficiary. Employer contributions and investment earnings are credited to this fund. Monthly survivor annuities and administrative expenses are paid from this fund.

The **Qualified Excess Benefit Arrangement (QEBA) Fund** is the fund from which annuity benefits are paid when a benefit recipient exceeds IRC Section 415(b) limits on the amount an individual may receive annually from a qualified defined benefit pension plan. Employer contributions are credited to this fund on an as-needed basis in an amount equivalent to the amount of funds necessary to pay benefits out of the QEBA fund due to IRC Section 415(b) limitations.

Balances in the respective reserves at June 30, 2013, were as follows (amounts expressed in thousands):

	SCRS	PORS	GARS	JSRS	SCNG	Total
Employee Fund	$ 6,491,895	$ 793,414	$ 7,164	$ 21,369	$ -	$ 7,313,842
Employer Fund	16,183,418	2,658,958	24,740	109,909	19,424	18,996,449
Death Benefit Fund	116,009	32,153				148,162
Accidental Death Fund		41,923				41,923
QEBA Fund						
	$22,791,322	$ 3,526,448	$ 31,904	$ 131,278	$ 19,424	$26,500,376

III. Deposits and Investments

Deposit and Investment Risk Disclosures

The tables presented on Pages 24-27 include disclosures of credit and interest rate risk in accordance with Governmental Accounting Standards Board Statement 40 and are designed to inform financial statement users about investment risks which could affect the Systems' ability to meet its obligations. These tables classify investments by risk type, while the financial statements disclose investments by asset class. The table amounts were provided by the custodian bank and agree to the Statement of Plan Net Position.

Custodial Credit Risk

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Systems' deposits may not be recovered. As prescribed by South Carolina state statute, the State Treasurer is the custodian of all deposits and is responsible for securing all deposits held by banks. These deposits are secured by deposit insurance, surety bonds, collateral securities, or letters of credit to protect the state against loss in the event of insolvency or liquidation of the institution or for any other cause. Deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 or collateralized with securities held by the state or its agent in the South Carolina State Treasurer's name as custodian.

The total amount of the Systems' deposits at June 30, 2013, was as follows (amounts expressed in thousands):

	Carrying Amount
SCRS	$ 39,555
PORS	5,577
GARS	57
JSRS	70
SCNG	55
Total	$ 45,314

Actual bank balances at June 30, 2013, totaled $49,357 (expressed in thousands).

Investments

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Systems will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. Investing for the Systems is governed by Section 16, Article X of the South Carolina Constitution and Section 9-1-1310(B) and Title 9 Section 16 of the South Carolina Code of Laws. Funds held in trust for the Retirement Systems may be invested and reinvested in a variety of instruments including, but not limited to, fixed income instruments of the United States, foreign fixed income obligations, swaps, forward contracts, futures and options, domestic and international equity securities, private equity, real estate, and fund of funds.

The following table presents the fair value of investments as of June 30, 2013:

Statement of Invested Assets
June 30, 2013
(Amounts expressed in thousands)

Investment Type		Fair Value
Short Term Investments		
Short Term Investment Funds (U.S. Regulated)	$	836,913
Repurchase Agreements		482,949
Commercial Paper		761,289
Certificates of Deposit		8,300
Corporate Bond		2,540
U.S. Treasury Bills		2,947
Strategic Partnership Short Duration		421,918
Total Short Term Investments		2,516,856
Equity Allocation		
Domestic Equity		
Common Stocks		1,721,163
Real Estate Investment Trusts		48,753
Preferred		3,311
Convertible Preferred		2,040
Global Equity		1,728,462
Total Equity		3,503,729
Fixed Income Allocation		
Domestic Fixed Income		
U.S. Government:		
U.S. Government Treasuries[1]		1,415,623
U.S. Government Agencies		1,037,342
Mortgage Backed:		
Government National Mortgage Association		132,676
Federal National Mortgage Association		139,089
Federal Home Loan Mortgage Association		48,851
Federal Home Loan Mortgage Association (Multiclass)		5,777
Collateralized Mortgage Obligations		12,501
Municipals		71,409
Corporate:		
Corporate Bonds		2,240,483
High Yield		835,876
Convertible Bonds		37,529
Asset Backed Securities		69,671
Private Placements		764,811
Global Fixed Income:		
International Asset Backed		3,096
International Commingled Funds		1,013,076
International Corporate Bonds		61,565
International Emerging Debt		830,760
International Government Bonds		41,878
Total Fixed Income		8,762,013
Alternatives		
Credit Default Swaps		2,766
Interest Rate Swaps		11,274
Total Return Swaps		(80,411)
Commingled Funds Balanced		1,759,777
Futures Contracts		(48,621)
Options		(1,800)
Hedge Funds		1,416,761
Opportunistic Credit		896,431
Private Equity Limited Partnerships		1,658,815
Real Estate		598,271
Strategic Partnerships[2]		5,632,117
Total Alternative Investments		11,845,380
Total Invested Assets	$	26,627,978
Invested Securities Lending Collateral	$	106,633

[1]U.S. Government Treasuries includes Notes, Bonds, and Treasury Inflation Protected Securities (TIPS).

[2]Strategic Partnership investments in Short Duration, High Yield and Emerging Debt have been moved to the Short Term, High Yield and International Emerging Debt categories respectively.

Reconciliation of Statement of Invested Assets (listed above) to the *Statement of Plan Net Position:*

Total Invested Assets	$	26,627,978
Short Term Investments classified as Cash & Cash Equivalents on Statement of Plan Net Position:		
Short Term Investment Funds (U.S. Regulated)		(836,913)
Repurchase Agreements		(482,949)
Commercial Paper		(720,342)
Total Investments on *Statement of Plan Net Position*	$	24,587,774

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. While the RSIC has no formal interest rate risk policy, interest rate risk is observed within the portfolio using effective duration, which is a measure of the price sensitivity of a bond or a portfolio of bonds to interest rate movements given a 100 basis point change in interest rates. Effective duration takes into account that expected cash flows will fluctuate as interest rates change and provides a measure of risk that changes proportionately with market rates. Investment guidelines may specify the degree of interest rate risk taken versus the benchmark within each fixed income portfolio.

Disclosures for interest rate risk at June 30, 2013, are noted below (amounts expressed in thousands):

Investment Type	Fair Value[1]	Effective Duration (option adjusted duration)
Short Term Investments		
Short Term Investment Funds (U.S. Regulated)	$ 836,913	0.08
Repurchase Agreements	589,582	
Commercial Paper	761,289	0.07
Certificates of Deposit	8,300	0.21
U.S. Treasury Bills	2,947	0.90
Total Short Term Investments	2,199,031	
Equity Allocation		
Preferred	3,311	5.86
Convertible Preferred	1,813	7.14
Total Equity Investments	5,124	
Fixed Income Allocation		
U.S. Government:		
U.S. Government Treasuries	1,415,623	6.09
U.S. Government Agencies	1,037,229	1.98
Mortgage Backed:		
Government National Mortgage Association	132,676	3.78
Federal National Mortgage Association	139,089	4.47
Federal Home Loan Mortgage Association	48,851	5.06
Federal Home Loan Mortgage Association (Multiclass)	5,509	0.50
Collateralized Mortgage Obligations	12,501	4.07
Municipals	71,409	9.13
Corporate:		
Corporate Bonds	2,107,241	3.92
Convertible Bonds	37,529	1.64
Asset Backed Securities	245,311	0.21
Private Placements	790,398	3.22
Global Fixed Income:		
International Asset Backed Securities	3,096	9.71
International Corporate Bonds	56,990	2.43
International Government Bonds	41,878	6.69
Total Fixed Income	6,145,330	
Alternatives		
Credit Default Swaps	3,417	(4.83)
Interest Rate Swaps	9,971	31.15
Eurodollar Futures	(279)	2.12
Interest Rate Futures	11	1.62
International Bond Futures	(1,663)	177.74
Foreign Currency Options	(13)	
Treasury Note Futures	(1,970)	64.36
Treasury Bond Futures	(748)	45.27
Total Alternatives	8,726	
Total Invested Assets	**$ 8,358,211**	
Total Portfolio Effective Duration (option adjusted duration)		**2.88**

[1]This schedule does not include duration or the fair value of securities not reported by the custodian.

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Systems. As a matter of practice, there are no overarching limitations for credit risk exposures within the overall fixed income portfolio. Each individual portfolio within fixed income is managed in accordance with investment guidelines that are specific as to permissible credit quality ranges, exposure levels within individual quality tiers, and average credit quality. Within high yield portfolios, a quality rating of lower than C is not permissible in any of the fixed income guidelines except in those circumstances of downgrades subsequent to purchase, in which case the investment manager is responsible for communicating the downgrade to the Commission's consultant and staff. The Systems' fixed income investments were rated by Moody's and are presented below:

South Carolina Retirement Systems
Credit Risk - Moody's Quality Ratings[1]
June 30, 2013
(Amounts expressed in thousands)

Investment Type and Fair Value	AAA	AA	A	BAA	BA	B	CAA	NR[3]
Short Term Investments								
Short Term Investment Funds (U.S. Regulated)	$ 836,913	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Repurchase Agreements								589,582
Certificates of Deposit		8,300						
Commercial Paper				731,298				29,991
U.S. Treasury Bills	2,947							
Equity Investments								
Preferred						1,907		1,404
Convertible Preferred				1,813		227		
Fixed Income Allocation[2]								
Mortgage Backed:								
Federal National Mortgage Association	139,089							
Federal Home Loan Mortgage Association (Multiclass)	5,777							
Federal Home Loan Mortgage Association	48,851							
Collateralized Mortgage Association	12,501							
Municipals	5,456	42,329	17,185					6,439
Corporate:								
Corporate Bonds	21,289	73,087	363,499	615,826	246,874	257,952	62,744	817,212
Convertible Bonds					13,653	3,626	2,705	17,545
Asset Backed Securities	50,921	49,454	98,693	8,721	5,051	4,498		33,407
Private Placements	159,564	46,704	96,008	96,670	62,067	156,587	71,563	137,101
Global Fixed Income:								
International Asset Backed	690							2,406
International Commingled Funds								1,013,076
International Corporate Bonds	10,320	2,344	101	4,175	12,753	24,580		7,292
International Emerging Debt					131,436			464,178
International Government Bonds	10,718	10,805		18,067				2,288
Alternatives								
Credit Default Swaps								2,766
Interest Rate Swaps								9,971
Total Return Swaps								(70,152)
Futures Contracts								(49,109)
	$1,305,036	$233,023	$ 575,486	$1,476,570	$471,834	$449,377	$137,012	$ 3,015,397

[1]This schedule includes only assets held by the custodian.
[2]U.S. government guaranteed securities with a fair value of $2.58 billion are not included in the above table because they are not subject to credit risk.
[3]NR represents securities that were either not rated or had a withdrawn rating.

Concentration of Credit Risk – Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Systems' policy for reducing this risk is to comply with the Statement of Investment Objectives and Policies as amended and adopted by the Commission which states that "except that no limitations on issues and issuers shall apply to obligations of the U.S. Government and Federal Agencies, the domestic fixed income portfolio shall contain no more than 6 percent exposure to any single issuer." As of June 30, 2013, there is no single issuer exposure within the portfolio that comprises 5 percent or more of the overall portfolio. Therefore, there is no concentration of credit risk.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Systems participates in foreign markets to diversify assets, reduce risk and enhance returns. Exposure to foreign investments has, to date, been achieved synthetically using financial futures, forwards and swaps. Currency forwards are used to manage currency fluctuations and are permitted by investment policy. Policy, however, forbids speculating in forwards and other derivatives.

The table below presents the Systems' exposure to foreign currency risk in U.S. dollars as of June 30, 2013, (amounts expressed in thousands):

Currency	Cash & Cash Equivalents	Forward Contracts	Futures Contracts	Private Equity	Alternative Investments	Fixed Income	Equity
Australian Dollar	$ (2,634)	$ 123,712	$ 615	$ -	$ -	$ 6,791	$ -
Brazil Real		7,230					
British Pound Sterling	(11,096)	351,552	(7,253)			9,160	16,246
Canadian Dollar	(3,716)	154,350	801			6,380	1,608
Euro Currency	(18,686)	711,793	(17,983)	178,458	5,428	45,407	27,385
Hong Kong Dollar	(5,535)	61,156	2,504				8,320
Japanese Yen	(10,112)	482,068	10,442			(62)	19,570
New Mexico Peso	562	(12,652)				14,646	
Swedish Krona	(1,116)	50,139	(1,607)				
Swedish Franc							26,697
Totals	$ (52,333)	$ 1,929,348	$ (12,481)	$ 178,458	$ 5,428	$ 82,322	$ 99,826

Derivatives

Derivatives are financial instruments whose value is derived from underlying assets or data. All of the Systems' derivatives are considered investments. Excluding futures, derivatives generally take the form of contracts in which two parties agree to make payments at a later date based on the value of specific assets or indices. Through certain collective trust funds, the Systems may invest in various derivative financial instruments such as futures and options thereon; forward foreign currency contracts; options; interest rate, currency, equity, index, and total return swaps; interest-only strips; and CMOs to enhance the performance and reduce volatility. The Systems' derivatives, consisting of futures, options, forward contracts and swaps directly managed by the Commission, are presented in the tables on Pages 28-31.

The Commission uses derivatives contracts primarily to facilitate changes to the asset allocation of the total plan and for their low cost of implementation. The Commission uses derivatives for several reasons:

- Asset Allocation: In many cases, synthetic exposures (using derivatives) are placeholders until managers are hired and funded. In time, the Commission may substitute traditional managers for much of the synthetic exposure currently in the portfolio. Efficient Market Theory dictates that in some asset classes, synthetics are the best way to achieve exposure.

- Risk Management: Derivatives allow investors the ability to swiftly and efficiently increase or decrease exposures in order to manage portfolio risk.
- Cost: A synthetic (derivative) solution is often the least expensive way to gain exposure to an asset class or to manage portfolio risk. Derivatives are more beneficial in each of the three major measures of cost: commission costs, market impact of trading, and opportunity costs.

Futures

Futures are contractual obligations that require the buyer (seller) to buy (sell) assets at a predetermined date at a predetermined price. These contracts are standardized and traded on an organized exchange with gains and losses settled daily thereby significantly reducing credit and default risk. Gains and losses are included in the net appreciation/(depreciation) in the fair value of investments total of the Statement of Changes in Plan Net Position. To comply with the requirements of multiple exchanges, cash and securities (GNMAs) in the amount of $157.450 and $57.580 million respectively were held in trust by the clearing brokers on June 30, 2013, to satisfy the required margin amount to establish the Systems' futures exposure.

The table below presents classification information on the Systems' derivatives at June 30, 2013 (amounts in thousands):

	Changes in Fair Value		Fair Value at 6/30/2013	
	Classification	**Gain/(Loss)**	**Classification**	**Amount**
Investment derivatives:				
Futures Contracts	Net appreciation/(depreciation)	$ (70,383)	Alternative Investments	$ (50,648)
Forward Contracts	Net appreciation/(depreciation)	(60,132)	Cash & Cash Equivalents	(59,226)
Swaps	Net appreciation/(depreciation)	(92,561)	Alternative Investments	(80,411)
Options	Net appreciation/(depreciation)	(62,398)	Options	-

As of June 30, 2013, the Systems had the following exposure via futures contracts (dollar amounts in thousands):

Futures Contracts	Expiration	Long/Short	Quantity	Notional Value[1]
MTF CAC40 10EU	July	Long	3,254	$ 157,958
EURX DAX INDEX	September	Long	560	144,974
EURX ER STX 50	September	Long	4,912	165,879
NEW FTSE 100	September	Long	3,508	327,828
HKFE - HSI	July	Long	455	60,800
IBEX 35 PLUS	July	Long	458	45,655
FTSE MIB INDEX	September	Long	355	35,213
TSE TOPIX	September	Long	3,109	353,982
SFE SPI 200	September	Long	1,172	127,903
AMSTERDAM INDEX	July	Long	510	45,715
S&P TSE 60 INDEX	September	Long	1,190	156,298
OMXS30 INDEX	July	Long	2,800	47,718
Total International Equity				1,669,923
EMINI S&P 500	September	Long	24,946	1,994,807
Total Large Cap Equity				1,994,807
EMINI RUSSELL 2000	September	Long	2,139	208,488
Total Small Cap Equity				208,488
US2YR NTS	September	Long	92	20,240
UST5 NTS	September	Long	254	30,746
UST10 NTS	September	Long	321	40,627
UST30 BD	September	Long	434	58,956
Total Domestic Fixed Income				150,569
EURO-SCHATZ	September	Long	245	35,144
EURO-BOBL	September	Long	268	43,615
EURO-BUND	September	Long	362	66,591
JPBND 10 YR	September	Long	90	129,290
LGILT UK	September	Long	146	24,779
Total International Fixed Income				299,419
GOLD 100 OZ FUT	August	Long	309	37,812
Total Commodities				37,812
Total				$4,361,018

[1]Notional value is the nominal or face amount that is used to calculate payments made on derivative instruments (futures, forwards, swaps, etc.). This amount generally does not change hands and is thus referred to as notional. The notional amount represents the economic equivalent to an investment in the physical securities represented by the derivative contract.

Forwards

Forwards are contractual obligations that require the delivery of assets at a fixed price on a pre-determined date. These contracts are "over-the-counter" (OTC) instruments, meaning they are not traded on an organized exchange. Currency forwards gains and losses are included in the net appreciation/(depreciation) in the fair value of investments total of the Statement of Changes in Plan Net Position.

As of June 30, 2013, the Systems had the following forward exposures, listed by counterparty (amounts expressed in thousands):

Broker	Notional Value	Base Gain/(Loss)	Base Exposure
Bank of America	$ 59,185	$ (671)	2.11%
Commonwealth Bank of Australia	454,865	(13,829)	16.21%
HSBC Securities	59,416	(673)	2.12%
JP Morgan Chase	514,697	(14,919)	18.35%
BNY Mellon	636,084	3	22.68%
Royal Bank of Canada	482,740	(14,231)	17.21%
Royal Bank of Scotland	55,934	(1)	1.99%
Standard Chartered Bank	482,740	(14,232)	17.21%
State Street Corporation	59,415	(673)	2.12%
Totals	$ 2,805,076	$ (59,226)	100.00%

Swaps

The Systems has entered into various swap agreements to manage plan exposure. Swaps are OTC agreements to exchange a series of cash flows according to specified terms. The underlying asset can be an interest rate, an exchange rate, a commodity price or any other index.

Total return swaps are primarily used to efficiently achieve a target asset allocation. Exposures to an asset class are typically gained by paying a reference rate such as LIBOR, plus or minus a spread, in exchange for the risk and returns of a desired market index. Similarly, exposures can be reduced by receiving a reference rate in exchange for the economic risks and returns of an index.

Counterparty risk, or default risk, is the risk that a party will not honor its contractual obligations. The Systems seeks to actively manage its counterparty risk by thorough analysis and evaluation of all potential counterparties by investment staff and the independent overlay manager. Risk is further minimized through diversification among counterparties with high credit ratings and collateralizing unrealized gains and losses. The Systems currently does not participate in a master netting agreement. Unrealized gains and losses are not netted across instrument types.

The table below reflects the counterparty credit ratings at June 30, 2013, for currency forwards, and swap agreements (amounts in thousands):

Quality Rating	Forwards	Swaps	Total
Aa1	$(42,980)	$ (50,037)	$ (93,017)
Aa3	(670)		(670)
A1	(14,905)		(14,905)
A2	(671)	(30,375)	(31,046)
Total subject to credit risk	$(59,226)	$ (80,412)	$ (139,638)

At June 30, 2013, the Systems held swaps as shown in the table below (amounts expressed in thousands):

Counterparty	Total Return Swaps	SCRS Pays	SCRS Receives	Maturity Date	Current Notional	Gain (Loss) Since Trade
Bank of America Merrill Lynch	DJ-UBS Commodities TR	3 month T-Bill + 10 bps	DJ-UBS Commodities TR	8/30/2013	$ 221,516	$ (21,484)
Bank of America Merrill Lynch	DJ-UBS Commodities TR	3 month T-Bill + 10 bps	DJ-UBS Commodities TR	2/28/2014	221,516	(21,484)
Credit Suisse	MSCI EM Proxy TR	3 Month US LIBOR + 25 bps	MSCI EM Proxy	10/29/2013	116,794	(4,206)
Credit Suisse	MSCI EM Proxy TR	3 Month US LIBOR + 30 bps	MSCI EM Proxy	6/28/2013		(5,502)
Deutsche Bank	EAFE Proxy TR	3 Month US LIBOR - 23 bps	EAFE Proxy	8/30/2013	228,455	28,453
JP Morgan	EM Debt Proxy	3 Month US LIBOR + 55 bps	EM Debt Proxy	10/31/2013	92,124	(7,876)
JP Morgan	EM Debt Proxy	3 Month US LIBOR + 55 bps	EM Debt Proxy	10/31/2013	91,554	(8,446)
JP Morgan	EM Debt Proxy	3 Month US LIBOR + 55 bps	EM Debt Proxy	10/31/2013	91,522	(8,478)
JP Morgan	EM Debt Proxy	3 Month US LIBOR + 60 bps	EM Debt Proxy	7/31/2013	90,582	(9,418)
	Total Return Swap Exposures				$1,154,063	$ (58,441)

Alternative Investments

The Alternatives category includes exposure to private equity, global tactical asset allocation, absolute return, opportunistic credit, real estate, derivatives and strategic partnerships. Private equity investments are normally structured as limited partnerships. In this structure, the Systems is one of several limited partners, while the investment manager serves as the general partner. Investing in such limited partnerships legally obligates the Systems to invest the committed amount until the investment is fully funded or contractual investment period has expired. All other asset classes within the Alternatives category may be housed in a variety of legal structures. The Systems established several strategic partnerships to gain access to the best ideas of the investment manager, to receive favorable economics, and to efficiently take advantage of market opportunities. Investments within the strategic partnership accounts include allocations to private equity, opportunistic credit, real estate, absolute return strategies and cash. The Systems' allocation to opportunistic credit is designed to take advantage of the dislocations that have occurred in the credit markets. The Investment Commission's intent is to access superior risk-adjusted returns through a variety of different credit strategies.

Commitments

The Investment Commission on behalf of the Systems, has entered into contractual agreements with numerous alternative investment managers and is committed for future funding of private equity, real estate and opportunistic credit limited partnerships. As of June 30, 2013, the Systems had committed to fund various limited partnerships in the total amount of $3.964 billion (U.S. dollars) and €277 million (Euros). The total unfunded commitment as of June 30, 2013, was $1.173 billion (U. S. dollars) and €67 million (Euros). The total remaining commitment adjusted for cash flows as of September 19, 2013, is $1.133 billion (U.S. dollars) and €58 million (Euros). Additional commitments exist to underlying investments within strategic partnerships. These underlying investments include hedge funds, private equity, real estate, opportunistic credit, short duration fixed income, commodities and high yield fixed income.

Securities Lending

The Systems participate in a securities lending program managed by the custodial bank whereby securities are loaned for the purpose of generating additional income. Securities are lent from the investment portfolio on a collateralized basis to third parties, primarily financial institutions. The market value of the required collateral must initially meet or exceed 102 percent of the market value of the securities loaned, providing a margin against a decline in the market value of the collateral, and requires additional collateral if the collateral value falls below 100 percent.

There are no restrictions on the amount of securities that may be loaned. The types of securities available for loan during the year ended June 30, 2013 included U.S. Government securities, U.S. Government agencies, corporate bonds and equities. The State Treasurer, as custodian, controls the custody relationship. The contractual agreement with the custodial bank provides indemnification in the event the borrower fails to return the securities lent or fails to pay the Systems income distribution by the securities' issuers while the securities are on loan. Cash and U.S. Government securities were received as collateral for these loans. Collateral securities cannot be pledged or sold without a borrower default. Cash collateral received is invested; accordingly, investments made with cash collateral appear as an asset. A corresponding liability is recorded as the Systems must return the cash collateral to the borrower upon the expiration of the loan.

At June 30, 2013, the fair value of securities on loan was $172.43 million. The fair value of the invested cash collateral was $106.63 million. Securities lending obligations at June 30, 2013, were $176.72 million with an unrealized loss in invested cash collateral of $70.09 million. This unrealized loss is due to specific Lehman bonds held by the securities lending program. This amount is reflected under "Other Liabilities" on the Statement of Plan Net Position and recorded in the Statement of Changes in Plan Net Position under "Net appreciation (depreciation) in fair value of investments." During the fiscal year, the custodial bank's Securities Lending group sold the remaining Lehman Brothers holdings resulting in an approximate realized loss of $90 million, including the initial sale during May 2012. This loss is being held in the securities lending collateral pool as an undistributed loss. In May 2013, a settlement was reached between the South Carolina State Treasurer's Office and BNY Mellon relating to losses in the securities lending program. As part of the settlement, approximately $20 million was credited to the portfolio's collateral reinvestment account. As a result of the settlement, the total undistributed loss in the collateral pool was reduced from approximately $90 million to approximately $70 million.

With regard to counterparty credit risk, the Systems' cash collateral invested is held by the counterparty and is uninsured. All securities loaned can be terminated on demand by either the Systems or the borrower. At year end the average number of days the loans were outstanding was one day. The average weighted maturity of investments made with cash collateral was one day. At June 30, 2013, there had been no losses resulting from borrower defaults and the Systems had no credit risk exposure to borrowers because the amounts the Systems owed the borrowers exceeded the amounts the borrowers owed the Systems.

The following table presents the fair value (amounts expressed in thousands) of the underlying securities and the total collateral received for securities on loan at June 30, 2013.

	June 30, 2013						June 30, 2012
	SCRS	PORS	GARS	JSRS	SCNG	TOTALS	TOTALS
Securities lent for cash collateral:							
U.S. Government securities	$ 38,088	$ 5,748	$ 49	$ 212	$ 30	$ 44,127	$ 142,720
Corporate bonds	44,189	6,669	57	246	34	51,195	49, 599
Common stock	66,555	10,044	85	371	52	77,107	78,517
Total securities lent for cash collateral:	$ 148,832	$ 22,461	$ 191	$ 829	$ 116	$ 172,429	$ 270,836
Securities lent for non-cash collateral:							
Corporate bonds	$ 41	$ 6	$	$	$	$ 47	$
Common stock	2,446	369	3	14	2	2,834	11,834
	$ 2,487	$ 375	$ 3	$ 14	$ 2	$ 2,881	$ 11,834
Cash collateral invested as follows:							
Repurchase agreements	$ 92,040	$ 13,890	$ 118	$ 513	$ 72	$ 106,633	$ 164,757
Floating rate notes							19,268
Total for cash collateral invested	$ 92,040	$ 13,890	$ 118	$ 513	$ 72	$ 106,633	$ 184,025
Securities received as collateral:							
U.S. Government securities	$ 2,711	$ 409	$ 4	$ 15	$ 2	$ 3,141	$ 12,027
	$ 2,711	$ 409	$ 4	$ 15	$ 2	$ 3,141	$ 12,027

IV. Capital Assets

Capital assets at June 30, 2013, consist of the following amounts (expressed in thousands).

Asset Class (at Cost)	Beginning Balances 7/1/2012	Additions	Deletions	Ending Balances 6/30/2013
Land	$ 582			$ 582
Building	4,749			4,749
Equipment		2,011	(307)	1,704
Total Capital Assets	5,331	2,011	(307)	7,035
Accumulated Depreciation				
Building	2,347	119		2,466
Equipment		1,793	(307)	1,486
Total Accumulated Depreciation	2,347	1,912	(307)	3,952
Capital Assets, Net	$ 2,984	$ 99	$ -	$ 3,083

V. Transfers Between Systems

Transfers between systems are statutorily authorized internal transfers of contributions and service credit from one retirement system to another retirement system that result from members voluntarily initiating the transfer when certain conditions are met.

Transfers made within the plans administered by PEBA during the fiscal year ended June 30, 2013, were as follows (amounts expressed in thousands):

Transfers from	Transfers to SCRS	PORS	GARS	JSRS	SCNG	Totals
SCRS	$ -	$ 3,013	$ 199	$184	$ -	$3,396
PORS						
GARS						
JSRS						
SCNG						
Totals	$ -	$ 3,013	$ 199	$184	$ -	$3,396

The following schedule reflects amounts due to or due from other systems as of June 30, 2013, (amounts expressed in thousands):

Due from	Due to SCRS	PORS	GARS	JSRS	SCNG	Totals
SCRS	$ -	$ 444	$ -	$ 48	$ -	$ 492
PORS						
GARS						
JSRS						
SCNG						
Totals	$ -	$ 444	$ -	$ 48	$ -	$ 492

VI. Related Party Transactions

The pension plans provide pension and other fringe benefits to employees of all state agencies. Revenues attributed to these agencies are recorded in the financial statements as employee and employer contributions and constitute approximately 33 percent of combined contribution revenues. In addition, the Systems receives custodial and related services from the Office of South Carolina State Treasurer.

At June 30, 2013, liabilities of approximately $54.1 million were due to other state departments and agencies, and contributions receivable of approximately $43 million were due from other state departments and agencies.

The South Carolina National Guard Supplemental Retirement Plan received state-appropriated contributions in the amount of $4.5 million during the fiscal year.

The Retirement System Investment Commission is a separate state agency; however, the expenses of the Commission are funded by transfers from the Systems' trust funds. Transfers in the amount of approximately $7 million were made to the Commission during the fiscal year.

VII. Deferred Retirement Option Plans

The Teacher and Employee Retention Incentive (TERI) program, implemented effective January 1, 2001, is a deferred retirement option plan available to active SCRS members eligible for service retirement on or after January 1, 2001. When a member enters TERI, the member's status changes from an active member to a retiree even though the employee continues to work at his regular job and earn his regular salary for a period of up to five years. TERI participants continue to contribute at the same rate as active members. No additional service credit is earned during this period and participants are ineligible for disability retirement benefits. During the TERI participation period, the retiree's monthly benefits are accrued and accumulate in the trust account. Upon termination of employment at the end of the TERI period the retiree may elect to roll over his funds into a qualified retirement plan or to receive a single-sum distribution (or a combination thereof). No interest is paid on the participant funds accumulated in the TERI account.

Retirement reform legislation closes the TERI program to all members effective June 30, 2018.

A total of 9,792 members were actively participating in the TERI program at June 30, 2013. The activity for this program is reflected in the following schedule:

Schedule of TERI Activity
Year Ended June 30, 2013
(Amounts expressed in thousands)

Beginning Liability Balance	$ 385,716
Additions	245,596
TERI Distributions	(163,238)
Ending Liability Balance	$ 468,074

A deferred retirement option program also exists under the Retirement System for Judges and Solicitors (JSRS). A member who has not yet reached the age of 60 years, but who is eligible to retire and receive the maximum monthly benefit, may retire and continue to serve as a judge, a solicitor, or a circuit public defender. The member's normal monthly retirement benefit is deferred and placed in the system's trust fund on behalf of the member. Upon reaching the age of 60 years, the balance of the member's deferred retirement benefit is distributed to the member. As of June 30, 2013, benefits held in trust totaled $707,300.

VIII. Funded Status and Funding Progress - Pension Trust Funds

The actuarial condition of each defined benefit pension plan summarized below was determined based on the most recent actuarial valuation which was conducted using membership and financial data as of July 1, 2012. Information included in the following schedule is based on the certification provided by our consulting actuary, Gabriel, Roeder, Smith and Company. Additionally, a schedule of funding progress is presented as required supplementary information (RSI) following the notes to the financial statements. The RSI schedule presents multiyear information regarding changes to the actuarial values of plan assets relative to the actuarial accrued liabilities for benefits.

System	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
SCRS	$ 25,540,749	$ 39,457,708	$ 13,916,959	64.7%	$ 7,356,231	189.2%
PORS	3,808,934	5,357,492	1,548,558	71.1%	1,019,241	151.9%
GARS	39,233	74,331	35,098	52.8%	3,854	910.7%
JSRS	145,604	251,729	106,125	57.8%	19,221	552.1%
SCNG	20,814	60,942	40,128	34.2%	N/A	N/A

The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2012, valuations for each of the individual plans administered by the South Carolina Retirement Systems. The methods and assumptions for SCRS and PORS have been updated to reflect pension reform legislative changes that were enacted June 2012.

Summary of Actuarial Methods and Significant Assumptions

	SCRS	PORS	GARS	JSRS	SCNG
Valuation date	07/01/12	07/01/12	07/01/12	07/01/12	07/01/12
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age
Amortization period	Level percent open	Level percent open	Level dollar closed	Level percent open	Level dollar open
Remaining amortization period	29 years	30 years	15 years	30 years	20 years
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Actuarial assumptions:					
Investment rate of return	7.5%	7.5%	7.5%	7.5%	7.5%
Projected salary increases	levels off at 3.5%	levels off at 4%	None	3%	None
Includes inflation at	2.75%	2.75%	2.75%	2.75%	2.75%
Benefit adjustments	lesser of 1% or $500	lesser of 1% or $500	None	3%	None

IX. Death Benefit Program

In addition to monthly pension benefits provided through the Retirement Systems, a Death Benefit Program is available to employers. For participating employers, incidental death benefits are provided for both active and retired members. These benefits are funded through separate death benefit programs within SCRS and PORS on a cost-sharing, multiple-employer basis. The assets in the Death Benefits Fund are not held separately in a dedicated trust for the sole purpose of paying death benefits to beneficiaries of deceased members. These benefits are considered allowable within the defined benefit plans and are held within the pension trust funds. Coverage is provided to eligible active and retired working members as well as non-working retirees under the governing statute. Funding for the plans is collected as a percent of covered payroll as determined by the Systems' actuary and approved by the governing board. The current employer contribution rates for the programs are 0.15 percent and 0.20 percent of payroll for SCRS and PORS respectively. These contributions fund both the active and retiree death benefits.

Active Death Benefits

Upon the death of an SCRS or PORS contributing member in service who had at least one full year of membership or who died as a result of an injury arising in the course of performing his duties regardless of length of membership, an incidental death benefit equal to the annual earnable compensation of the member at the time of death is payable apart and separate from the payment of pension benefits.

Retiree Death Benefits

Retired members of SCRS and PORS whose last employer prior to retirement is covered by the program, and who met applicable service credit requirements, are also protected under the state-sponsored death benefit program. Upon the death of a retired member, the beneficiary of a non-working retiree will receive a benefit payment of $2,000, $4,000 or $6,000 based on the member's total creditable service at the time of retirement.

Members who work after retirement by either participating in the TERI program or by returning to covered employment as a working retiree are eligible for an increased level of death benefits. Beneficiaries of working retirees are provided with a death benefit equal to the amount of the member's annual earnable compensation in lieu of the standard $2,000, $4,000 or $6,000 retired member benefit.

All benefits provided by the Retirement Systems are included in the actuarial valuation, including the Incidental Death Benefit program for SCRS and PORS. The July 1, 2012, actuarial valuations reflect the inclusion of the assets and liabilities of the Incidental Death Benefit program and Accidental Death Benefits for PORS.

X. Litigation

In addition to the litigation mentioned below, controversies or disputes between the South Carolina Retirement Systems and its members arising out of the provisions of Title 9 of the South Carolina Code of Laws (Retirement provisions) are resolved through the "South Carolina Retirement Systems Claims Procedures Act" established by S.C. Code Ann. §§9-21-10 et seq. Claims brought pursuant to the Claims Procedures Act generally involve matters pertinent to the individual member or beneficiary. Claims may not be brought on behalf of a class under the Claims Procedures Act.

Gail M. Hutto et al. v. The South Carolina Retirement System et al., C/A No. 4:10-cv-02018-JMC, is a putative class action suit that was filed in federal district court in August 2010. In this matter, Plaintiffs asserted that the provisions of Act No. 153 of 2005 of the South Carolina General Assembly requiring working retirees in the South Carolina Retirement System ("SCRS") and the South Carolina Police Officers' Retirement System ("PORS") to make contributions to the systems are unconstitutional and illegal. As of June 30, 2012, the Retirement Systems had collected approximately $121 million in the form of retirement contributions from members of those retirement systems who retired and returned to work on or after July 1, 2005. Defendants filed a motion to dismiss this matter on a number of grounds, including Eleventh Amendment immunity, abstention, and failure to state a claim upon which relief may be granted. By an Order and Decision dated September 27, 2012, the federal district court granted Defendants' motion and dismissed Plaintiffs' suit, finding that Defendants are immune from suit under the Eleventh Amendment. Plaintiffs filed a motion for reconsideration. The district court denied Plaintiffs' motion, and Plaintiffs have appealed to the Fourth Circuit Court of Appeals. The appeal is currently pending in the Fourth Circuit.

Anderson County v. Joey Preston and the South Carolina Retirement System, Case No. 2009-CP-04-4482, is a civil action that was filed in the Tenth Judicial Circuit Court of Common Pleas. Defendant Joey Preston ("Preston") is a retired member of the South Carolina Retirement System who was employed by Plaintiff. In its complaint, Plaintiff sought to rescind a severance agreement entered into between Plaintiff and Preston, in which, among other things, Plaintiff agreed to pay, and did pay, approximately $355,000 to the System to purchase retirement service credit on behalf of Preston. Plaintiff named the South Carolina Retirement System as a defendant in this matter as a stakeholder of a portion of the disputed severance funds and sought a return of the $355,000 paid to the System. As a result of the service purchase, Preston was able to retire and begin drawing a retirement benefit. The South Carolina Retirement System is defending this case to ensure that, regardless of the outcome of Plaintiff's claims related to the severance agreement, the System does not suffer any monetary loss as a result of the service purchase. By an Order dated May 3, 2013, the circuit court ruled against Plaintiff Anderson County on all claims, including claims for the return of monies paid to the South Carolina Retirement System. Plaintiff has filed a motion to alter or amend the decision, and that motion is currently pending before the circuit court.

South Carolina Retirement Systems
Required Supplementary Information

Information presented in the required supplementary schedule was determined as part of the actuarial valuations as of the dates indicated.

In analyzing data, it's important to note that the larger the funded ratio, which is a comparison of the valuation assets to the aggregate actuarial accrued liabilities, the stronger the system. Observation of these relative indices over a period of years will give an indication of whether the system is becoming stronger or weaker.

Schedule of Funding Progress
(Amounts expressed in thousands)

Actuarial Valuation Date[1]	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
SCRS						
7/01/07	$ 23,541,438	$ 33,766,678	$ 10,225,240	69.7%	$ 7,093,181	144.2%
7/01/08	24,699,678	35,663,419	10,963,741	69.3%	7,559,172	145.0%
7/01/09	25,183,062	37,150,315	11,967,253	67.8%	7,761,808	154.2%
7/01/10	25,400,331	38,774,029	13,373,698	65.5%	7,769,820	172.1%
7/01/11	25,604,823	38,011,610	12,406,787	67.4%	7,687,558	161.4%
7/01/12	25,540,749	39,457,708	13,916,959	64.7%	7,356,231	189.2%
PORS						
7/01/07	$ 3,160,240	$ 3,730,544	$ 570,304	84.7%	$ 992,849	57.4%
7/01/08	3,363,136	4,318,955	955,819	77.9%	1,060,747	90.1%
7/01/09	3,482,220	4,564,111	1,081,891	76.3%	1,084,154	99.8%
7/01/10	3,612,700	4,850,457	1,237,757	74.5%	1,076,467	115.0%
7/01/11	3,728,241	5,122,501	1,394,260	72.8%	1,087,587	128.2%
7/01/12	3,808,934	5,357,492	1,548,558	71.1%	1,019,241	151.9%
GARS						
7/01/07	$ 46,925	$ 71,014	$ 24,089	66.1%	$ 3,854	625.0%
7/01/08	47,189	69,122	21,933	68.3%	3,854	569.1%
7/01/09	45,891	68,491	22,600	67.0%	3,854	586.4%
7/01/10	43,712	68,671	24,959	63.7%	3,854	647.6%
7/01/11	41,484	74,604	33,120	55.6%	3,854	859.4%
7/01/12	39,233	74,331	35,098	52.8%	3,854	910.7%
JSRS						
7/01/07	$ 132,990	$ 229,388	$ 96,398	58.0%	$ 16,407	587.5%
7/01/08	138,323	213,406	75,083	64.8%	18,661	402.4%
7/01/09	141,797	214,363	72,566	66.1%	18,661	388.9%
7/01/10	142,871	215,823	72,952	66.2%	18,661	390.9%
7/01/11	144,927	243,514	98,587	59.5%	18,661	528.3%
7/01/12	145,604	251,729	106,125	57.8%	19,221	552.1%
SCNG						
7/01/07	$ 15,937	$ 55,917	$ 39,980	28.5%	N/A	N/A
7/01/08	17,426	53,534	36,108	32.5%	N/A	N/A
7/01/09	18,600	53,421	34,821	34.8%	N/A	N/A
7/01/10	19,458	54,153	34,695	35.9%	N/A	N/A
7/01/11	20,138	60,388	40,250	33.3%	N/A	N/A
7/01/12	20,814	60,942	40,128	34.2%	N/A	N/A

[1]The July 1, 2011, valuation results for SCRS and PORS were updated to recognize pension reform legislation enacted June 2012 which changed the results disclosed in the original 2011 valuation.

South Carolina Retirement Systems
Required Supplementary Information (continued)

Schedule of Employer Contributions
(Amounts expressed in thousands)

	SCRS		PORS		GARS		JSRS		SCNG	
Year Ended June 30,	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Pension Cost[1]	Percentage Contributed
2013	$ 948,157	100%	$ 143,389	100%	$ 2,831	100%	$ 8,667	100%	$ 4,539	100.0%
2012	824,652	100%	134,299	100%	2,532	100%	8,414	100%	3,937	100.0%
2011	808,343	100%	129,314	100%	2,414	100%	8,414	100%	3,905	100.0%
2010	818,523	100%	123,163	100%	2,598	100%	8,414	100%	3,945	102.7%
2009	827,502	100%	124,148	100%	2,495	100%	8,414	100%	3,979	101.8%
2008	774,269	100%	114,095	100%	2,440	100%	7,613	100%	3,823	103.3%

[1]For years prior to June 30, 2010, the Annual Pension Cost (APC) for the South Carolina National Guard Supplemental Retirement Plan includes both the Annual Required Contribution (ARC) and the discounted present value of the balance of the Net Pension Obligation (NPO). For fiscal years ended June 30, 2010, forward, the APC was calculated as part of the actuarial valuation; therefore, the amount listed for June 30, 2010, forward contains only the ARC. The NPO is carried as an "Other Liability" in the Financial Statements of the State of South Carolina.

South Carolina Retirement Systems
Schedule of Changes in Plan Net Position
SCRS Pension Trust Fund
Year Ended June 30, 2013
With comparative totals for the year ended June 30, 2012
(Amounts expressed in thousands)

	EMPLOYEE FUND	EMPLOYER FUND	DEATH BENEFIT FUND	QEBA FUND	TOTALS	TOTALS 2012
Additions						
Employee contributions						
State department employees	$ 193,049	$ 21,532	$ -	$ -	$ 214,581	$ 187,060
Public school employees	256,707	33,410			290,117	251,624
Other political subdivision employees	158,506	11,579			170,085	148,134
Employer contributions						
State department employees		305,930	4,925	416	311,271	270,327
Public school employees		402,078	5,990		408,068	353,928
Other political subdivision employees		226,044	2,774		228,818	200,397
Total contributions	608,262	1,000,573	13,689	416	1,622,940	1,411,470
Investment Income						
Net appreciation in fair value of investments		2,291,387	11,793		2,303,180	154,848
Interest and dividend income		257,312	1,320		258,632	210,710
Investment expense		(360,407)	(1,855)		(362,262)	(257,451)
Net income from investing activities		2,188,292	11,258		2,199,550	108,107
From securities lending activities:						
Securities lending income		233	1		234	77
Securities lending borrower rebates		1,925	10		1,935	1,123
Net income from securities lending activities		2,158	11		2,169	1,200
Total net investment income		2,190,450	11,269		2,201,719	109,307
Supplemental retirement benefits funded by the State		657			657	733
Transfers of contributions from other Systems						
Total additions	608,262	3,191,680	24,958	416	3,825,316	1,521,510
Deductions						
Refunds of contributions to members	87,212				87,212	83,134
Transfers of contributions to other Systems	2,321	1,075			3,396	2,184
Regular retirement benefits		2,195,209		416	2,195,625	2,084,690
Deferred retirement benefits		245,596			245,596	171,096
Supplemental retirement benefits		636			636	733
Death benefits		(2)	19,135		19,133	18,295
Depreciation		186			186	107
Administrative expenses		19,020	98		19,118	19,392
Total deductions	89,533	2,461,720	19,233	416	2,570,902	2,379,631
Interfund transfers according to statutory requirements						
Contributions by members at retirement	(706,740)	706,740				
Interest credited to members' accounts	220,714	(220,714)				
Net interfund transfers	(486,026)	486,026				
Net increase (decrease)	32,703	1,215,986	5,725		1,254,414	(858,121)
Net position held in trust for Pension Benefits						
Beginning of year	6,459,192	14,967,432	110,284		21,536,908	22,395,029
End of year	$ 6,491,895	$16,183,418	$ 116,009	$	$22,791,322	$21,536,908

South Carolina Retirement Systems
Schedule of Changes in Plan Net Position
PORS Pension Trust Fund
Year Ended June 30, 2013
With comparative totals for the year ended June 30, 2012
(Amounts expressed in thousands)

	EMPLOYEE FUND	EMPLOYER FUND	DEATH BENEFIT FUND	ACCIDENTAL DEATH FUND	QEBA FUND	TOTALS	TOTALS 2012
Additions							
Employee contributions							
State department employees	$ 29,635	$ 1,535	$ -	$ -	$ -	$ 31,170	$ 27,023
Public school employees	122	233				355	220
Other political subdivision employees	58,885	6,754				65,639	57,227
Employer contributions							
State department employees		45,949	771	771	3	47,494	43,776
Public school employees		441	7	7		455	342
Other political subdivision employees		92,507	1,509	1,424		95,440	90,181
Total contributions	88,642	147,419	2,287	2,202	3	240,553	218,769
Investment Income							
Net appreciation in fair value of investments		338,671	3,060	3,967		345,698	24,102
Interest and dividend income		38,227	343	445		39,015	31,182
Investment expense		(53,542)	(483)	(627)		(54,652)	(38,263)
Net income from investing activities		323,356	2,920	3,785		330,061	17,021
From securities lending activities:							
Securities lending income		35				35	11
Securities lending borrower rebates		286	3	3		292	166
Net income from securities lending activities		321	3	3		327	177
Total net investment income		323,677	2,923	3,788		330,388	17,198
Supplemental retirement benefits funded by the State		30				30	34
Transfers of contributions from other Systems	1,942	1,071				3,013	1,923
Total additions	90,584	472,197	5,210	5,990	3	573,984	237,924
Deductions							
Refunds of contributions to members	14,983					14,983	15,162
Transfers of contributions to other Systems							
Regular retirement benefits		296,041			3	296,044	263,997
Supplemental retirement benefits		30				30	34
Death benefits			1,985			1,985	1,851
Accidental death benefits				1,557		1,557	1,551
Depreciation		23				23	10
Administrative expenses		2,845	26	33		2,904	2,862
Total deductions	14,983	298,939	2,011	1,590	3	317,526	285,467
Interfund transfers according to statutory requirements							
Contributions by members at retirement	(84,311)	84,311					
Interest credited to members' accounts	28,414	(28,414)					
Net interfund transfers	(55,897)	55,897					
Net increase (decrease)	19,704	229,155	3,199	4,400		256,458	(47,543)
Net position held in trust for Pension Benefits							
Beginning of year	773,710	2,429,803	28,954	37,523		3,269,990	3,317,533
End of year	$ 793,414	$2,658,958	$32,153	$41,923	$	$ 3,526,448	$3,269,990

South Carolina Retirement Systems
Schedule of Changes in Plan Net Position
GARS Pension Trust Fund
Year Ended June 30, 2013
With comparative totals for the year ended June 30, 2012
(Amounts expressed in thousands)

	Employee Fund	Employer Fund	Total	TOTALS 2012
Additions				
Contributions				
Employee contributions - State departments	$ 1,091	$ -	$ 1,091	$ 724
Employer contributions - State departments		2,831	2,831	2,532
Total contributions	1,091	2,831	3,922	3,256
Investment Income				
Net appreciation in fair value of investments		3,224	3,224	218
Interest and dividend income		359	359	311
Investment expense		(466)	(466)	(359)
Net income from investing activities		3,117	3,117	170
From securities lending activities:				
Securities lending income		1	1	
Securities lending borrower rebates		2	2	2
Net income from securities lending activities		3	3	2
Total net investment income		3,120	3,120	172
Transfers of contributions from other Systems	195	4	199	
Total additions	1,286	5,955	7,241	3,428
Deductions				
Refunds of contributions to members	3		3	31
Transfers of contributions to other Systems				
Regular retirement benefits		6,720	6,720	6,570
Death benefits		16	16	35
Depreciation		1	1	
Administrative expenses		28	28	30
Total deductions	3	6,765	6,768	6,666
Interfund transfers according to statutory requirements				
Contributions by members at retirement	(1,594)	1,594		
Interest credited to members' accounts	208	(208)		
Net interfund transfers	(1,386)	1,386		
Net increase (decrease)	(103)	576	473	(3,238)
Net position held in trust for Pension Benefits				
Beginning of year	7,267	24,164	31,431	34,669
End of year	$ 7,164	$ 24,740	$ 31,904	$ 31,431

South Carolina Retirement Systems
Schedule of Changes in Plan Net Position
JSRS Pension Trust Fund
Year Ended June 30, 2013
With comparative totals for the year ended June 30, 2012
(Amounts expressed in thousands)

	EMPLOYEE FUND	EMPLOYER FUND	QEBA FUND	TOTALS	TOTALS 2012
Additions					
Contributions					
Employee contributions - State departments	$2,378	$218	$ -	$2,596	$2,299
Employer contributions - State departments		8,559	108	8,667	8,414
Total contributions	2,378	8,777	108	11,263	10,713
Investment Income					
Net appreciation in fair value of investments		13,142		13,142	995
Interest and dividend income		1,508		1,508	1,226
Investment expense		(2,023)		(2,023)	(1,445)
Net income from investing activities		12,627		12,627	776
From securities lending activities:					
Securities lending income		2		2	1
Securities lending borrower rebates		11		11	6
Net income from securities lending activities		13		13	7
Total net investment income		12,640		12,640	783
Transfers of contributions from other Systems	184			184	261
Total additions	2,562	21,417	108	24,087	11,757
Deductions					
Refunds of contributions to members	57			57	134
Regular retirement benefits		15,637	108	15,745	14,979
Deferred retirement benefits		121		121	192
Death benefits		134		134	134
Depreciation		1		1	1
Administrative expenses		110		110	110
Total deductions	57	16,003	108	16,168	15,550
Interfund transfers according to statutory requirements					
Contributions by members at retirement	(1,883)	1,883			
Interest credited to members' accounts	742	(742)			
Net interfund transfers	(1,141)	1,141			
Net increase (decrease)	1,364	6,555		7,919	(3,793)
Net position held in trust for Pension Benefits					
Beginning of year	20,005	103,354		123,359	127,152
End of year	$21,369	$109,909	$	$131,278	$123,359

South Carolina Retirement Systems
Schedule of Changes in Plan Net Position
SCNG Pension Trust Fund
Year Ended June 30, 2013
With comparative totals for the year ended June 30, 2012
(Amounts expressed in thousands)

	TOTALS 2013	TOTALS 2012
Additions		
Contributions		
State appropriated contributions	$4,539	$3,937
Total contributions	4,539	3,937
Investment Income		
Net appreciation in fair value of investments	1,756	129
Interest income	198	154
Investment expense	(279)	(190)
Income from investing activities	1,675	93
From securities lending activities:		
Securities lending income		
Securities lending borrower rebates	1	1
Net income from securities lending activities	1	1
Total net investment income	1,676	94
State Appropriation for Administrative Expenses		
Total additions	6,215	4,031
Deductions		
Regular retirement benefits	4,193	4,065
Administrative expenses	15	15
Total deductions	4,208	4,080
Net increase	2,007	(49)
Net position held in trust for Pension Benefits		
Beginning of year	17,417	17,466
End of year	$19,424	$17,417

Schedule of Administrative Expenses
For the Year Ended June 30, 2013
(Amounts expressed in thousands)

	SCRS	PORS	GARS	JSRS	SCNG	TOTALS
Personal Services						
Salaries and Wages	$ 7,243	$ 1,102	$ 11	$ 42	$ 6	$8,404
Employee Benefits	3,094	469	4	18	3	3,588
Contractual Services						
Data Processing Services	712	108	1	4	1	826
Medical & Health Services	254	39	1	1		295
Financial Audit	70	11				81
Actuarial Services	163	25		1		189
Other Professional Services	180	27		1		208
Legal Services	54	8				62
Operating Expenses						
Facilities Management	317	48	1	2		368
Intergovernmental Services						
Transfers to Investment Commission	6,071	921	9	35	5	7,041
Telephone	108	17		1		126
Insurance	259	39	1	1		300
Postage	275	42		2		319
Supplies	219	33		1		253
Other Miscellaneous Expenses	99	15		1		115
Total Administrative Expenses	$ 19,118	$ 2,904	$ 28	$ 110	$ 15	$22,175

Schedule of Professional and Consultant Fees
For the Year Ended June 30, 2013
(Amounts expressed in thousands)

Professional/Consultant	Nature of Service	Amounts Paid
Clifton Larson Allen	Audit	$ 46
Data Network	IT Maintenance & Support	160
Dell Marketing	IT Equipment & Support	174
Document Systems Inc.	IT Tape Storage & Imaging Records Storage	19
Gabriel Roeder Smith & Company	Actuary Services	189
Hewlett Packard	IT Maintenance & Support	39
Ice Miller	IRC Consulting Services	44
NewVenue Technologies	IT Maintenance & Support	38
Palmetto Microfilm	IT Maintenance & Support	59
SHI International	IT Maintenance & Support	68
Software AG Inc.	IT Enterprise License & Maintenance	165
Sowell Gray Stepp & Laffitte	Attorney Fees	18
Spartantec Inc.	IT Services Software & License	14
Specialty Underwriters LLC	IT Maintenance & Support	80
Summit Strategies Inc.	Optional Retirement Plan Consultants	130
SunGard Availability Service	IT Disaster Recovery	77
TeamIA Inc.	Imaging Maintenance/Auditing	232
		$ 1,552

South Carolina Retirement Systems
Schedule of Investment Fees and Expenses[1]
Year Ended June 30, 2013
(Amounts expressed in thousands)

	SCRS	PORS	GARS	JSRS	SCNG	TOTALS
Beta Overlay	$ 1,108	$ 167	$ 1	$ 6	$ 1	$ 1,283
Core Fixed Income	3,615	544	5	21	2	4,187
Emerging Market Debt	2,169	326	3	12	2	2,512
Domestic Equity	9,193	1,383	12	52	6	10,646
Emerging Market Equity	9,282	1,399	12	52	7	10,752
Global Asset Allocation	11,629	1,752	15	66	9	13,471
Global Fixed Income	2,673	402	4	15	2	3,096
Hedge Funds	32,401	4,890	41	181	25	37,538
High Yield	2,275	342	3	13	2	2,635
Limited Term High Yield	1,868	281	3	11	1	2,164
Opportunistic Credit	26,941	4,065	35	151	21	31,213
Private Equity	24,571	3,708	31	137	19	28,466
Real Estate	25,723	3,881	33	143	20	29,800
Strategic Partnerships	201,607	30,425	258	1,123	157	233,570
Various other managers not separately listed	5,995	905	8	33	4	6,945
Total Investment Manager Fees	361,050	54,470	464	2,016	278	418,278
Bank Fees and Investment Expenses	1,212	182	2	7	1	1,404
Total Investment Management Fees	$ 362,262	$ 54,652	$ 466	$ 2,023	$ 279	$419,682
Securities Lending Expenses:						
Borrower Rebates	$ (1,935)	$ (292)	$ (2)	$ (11)	$ (1)	$ (2,241)
Total Securities Lending Expenses	$ (1,935)	$ (292)	$ (2)	$ (11)	$ (1)	$ (2,241)

[1]A portion of investment expenses are directly invoiced by the manager; however, a significant number of investment managers provide account valuations on a net of fee basis. Since these investment expenses are netted against investment income, amounts reported represent a good faith attempt by the RSIC to disaggregate amounts that were not necessarily readily separable throughout the fiscal year. The collection process is not standard practice for many investment managers. The investment expense numbers netted out of accounts include amounts for investment management fees, performance fees (carried interest) and other expenses such as organizational expenses in limited partnership structures.

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Honorable Nikki Haley, Governor,
Board of Directors of the South Carolina
Public Employee Benefit Authority, and
Richard H. Gilbert, Jr., Deputy State Auditor
South Carolina Retirement Systems
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the South Carolina Retirement Systems (the Systems) as administered by the South Carolina Public Employee Benefit Authority, which comprise the statement of plan net position as of June 30, 2013, and the related statement of changes in plan net position , and have issued our report thereon dated October 15, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Systems' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Systems' internal control. Accordingly, we do not express an opinion on the effectiveness of the Systems' internal control.

A *deficiency in internal* control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Systems' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Carolina Retirement System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

Baltimore, Maryland
October 15, 2013