



THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

***“South Carolinians expect and deserve transparency and accountability. I promised to protect public money with fierce intensity and I meant it.”
State Treasurer Curtis Loftis.***

As State Treasurer, I am the Custodian of the State’s funds and responsible for their safekeeping. In today’s complex financial world it is difficult to provide oversight of public money, and almost as hard to ensure that the owners of that money have accurate, honest information. As examples of serious fiscal matters that should awaken concerns for South Carolinians, I include these little known facts about our \$25 billion Pension Trust Fund:

- The S.C. Retirement System Investment Commission (“Investment Commission”) pays 5 times the average amount of investment fees and expenses, but it regularly ranks in the bottom 50% of its peers in rate of return.
- The Investment Commission prohibits the Attorney General from viewing the files of the Investment Commission. Also in the dark are the lawyers and senior advisors to the Treasurer, Governor, Budget & Control Board and General Assembly.
- The Investment Commission – which is an unelected and appointed body, except for the State Treasurer - regularly pays tens of millions of dollars in expenses without proper explanation of those expenses, and then fails to disclose those expenses to the public, or any accountable body or elected official.
- The Investment Commission asks the State Treasurer to send millions of dollars to investment firms and prohibits the State Treasurer from seeking the informed advice of his lawyers, chief investment officer or chief banker.
- The Investment Commission sends tens of millions of dollars to private corporations, partnerships and other entities without proper custody or trust agreements.
- The Investment Commission avoids reporting most expenses to the State Comptroller and therefore to the public by allowing investment firms to pay Commission expenses and to deduct those expenses from the State’s investment. This practice ensures that the true expenses are hidden from the public and the State’s bookkeeping system.
- The Investment Commission has never had its OWN independent audit. Past, abbreviated “look-through” audits lack the scrutiny required for accountability of public dollars. In a ‘look through’ audit, the auditors do not express an opinion on the Investment Commission’s financial statements or internal controls and are therefore not legally accountable for accuracy and accountability of the Investment Commission’s financial statements or internal controls.

In addition to being the Custodian of the Pension Trust Fund’s assets, I am also a member of the Investment Commission and a member of the Budget and Control Board, the legal owner and trustee of the Pension Trust Fund’s assets. As a member of the Investment Commission, I see its inner workings first hand. I am compelled to report that the Investment Commission has fallen short in its accounting, auditing, reporting, contract management, due diligence and fee management responsibilities. These are not just my conclusions; a national consulting firm has also made similar conclusions.

Urgent request for a special meeting of the Budget and Control Board, as Trustees of the Pension Trust Fund

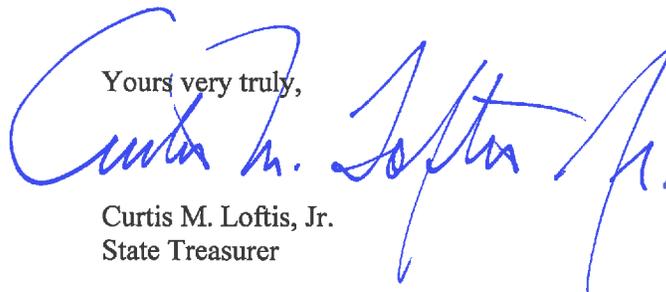
I am joined by many in the professional community who think the Investment Commission misinterprets the laws and contracts concerning confidentiality. Such misinterpretation prohibits fiduciaries of the Pension Trust Fund from performing their duties. This is especially true of the confidential information needed by the Trustees, the Custodian and their senior government staff to carry out their fiduciary, legal and ethical duties. This inaccurate interpretation allows the Investment Commission to evade oversight by lawyers, accountants, auditors, and other professionals of the fiduciaries. However, these professionals who assist the fiduciaries should have access to otherwise confidential information. In fact, State law imposes standards of conduct on employees of fiduciaries to the Pension Trust Fund. Additionally, the Investment Commission's unreasonable enforcement of these laws and contracts exceeds Wall Streets' intentions. Enforcement of these laws and confidentiality clauses in contracts is unacceptable.

I asked the Budget and Control Board to meet in special session and receive information vital to their duties as Trustees. Because of the Investment Commission's flawed reading of the law, I am warned by them that I could face civil and criminal liability if I disclose this confidential information to anyone other than the named Trustees; therefore, I am prevented from speaking to the Trustees while their lawyers and senior staff are in the room. This urgent request for a special meeting of the Trustees will allow the Trustees to understand more clearly the legal, ethical and other challenges posed by the lack of oversight of the Investment Commission, and will begin the process to ensure the proper protection of the taxpayer's dollars.

I have pushed for greater transparency in state government because I believe in that old adage, "trust, but verify." Unfortunately when it comes to our retirement fund, it has been all trust with no verifying, and I refuse to allow that practice continues.

On an important and personal note, I must emphatically state that many of the staff and Commissioners of the Investment Commission are talented, hardworking people that want to move forward and create a model agency for investing and managing the Pension Trust Fund. It is my sincere hope that with the assistance of the Budget and Control Board acting as Trustees of the Retirement System that these issues can be overcome quickly, and these public servants will be afforded the opportunity to excel, and to be rewarded for their excellence.

Yours very truly,

A handwritten signature in blue ink, reading "Curtis M. Loftis, Jr.", written in a cursive style.

Curtis M. Loftis, Jr.
State Treasurer