**South Carolina Retirement System Investment Commission**
**Meeting Minutes**

**March 23, 2012**

**15th Floor Conference Room**
**1201 Main Street**
**Columbia, South Carolina 29201**

**Commissioners Present:**
Mr. Allen Gillespie, Chairman (in person)
Mr. Reynolds Williams, Vice Chairman (via telephone)
Mr. Edward Giobbe (via telephone)
Mr. James Powers (via telephone)
Dr. Travis Pritchett (via telephone)
State Treasurer Curtis M. Loftis, Jr. (in person)

**Others present for all or a portion of the meeting on Monday, March 23, 2012:**

Sarah Corbett, Robert Feinstein, Hershel Harper, Adam Jordan, Lorrie King, James Manning, Heather Muller, Nancy Shealy, and Brian Wheeler from the South Carolina Retirement System Investment Commission; Shakun Tahiliani from the State Treasurer's Office ("STO"); Tammy Nichols (via telephone) from the South Carolina Retirement Systems ("SCRS"); Jim Holly (via telephone) from the Comptroller General's Office; Adam Barnett (via telephone) from McLagan; and Andrea Taylor from Creel Court Reporting.

## I. CALL TO ORDER, ADOPTION OF PROPOSED AGENDA

Chairman Allen Gillespie called the meeting of the South Carolina Retirement System Investment Commission ("Commission") to order at 10:00 a.m. Chairman Gillespie referred to the proposed meeting agenda and asked for a motion to approve. Mr. Curtis Loftis made a motion to approve the agenda as presented, which was seconded by Mr. James Powers and passed unanimously.

## II. ADOPT COMPENSATION RECOMMENDATIONS

Chairman Gillespie advised the Commission that the Compensation Committee met on March 12, 2012, to further discuss the compensation recommendations presented by McLagan at the Commission's March 5, 2012 meeting. Chairman Gillespie stated that the Compensation Committee had developed a set of recommendations which were being presented to the Commission for action. Mr. Adam Barnett of McLagan and Mr. Adam Jordan, Acting CEO, identified the materials which contained the Compensation Committee's recommendations. Mr. Jordan clarified that the Commission was being asked to act on the recommendations at this meeting, so that the Commission would be able to present the key elements of the Commission's compensation policy to the Senate Finance Committee by the end of March, 2012, in keeping with a proviso contained in the 2011 budget act. The Chairman noted that the recommendations adopted by the Commission would be integrated into the Commission's Compensation Policy, a draft of which would be presented to the Commission for initial review at its April meeting, and final action at the May meeting.

Chairman Gillespie presented the Compensation Committee's recommendations. A summary of the recommendations follows:

1. The Performance Incentive Component ("PIC") Plan should not include a qualitative component, but investment staff would have to receive at least a "meets expectations" evaluation on their annual Employee Performance Management System ("EPMS") evaluation in order to qualify for PIC payments.

2. The following four position levels should be established and utilized to set maximum PIC payments (which are expressed in terms of percentage of base salary): 1. CIO (100 percent recommended by the Committee; 120 percent recommended by McLagan); 2. Deputy CIO and Directors (100 percent recommended by McLagan); 3. Officers (80 percent recommended by McLagan); and 4. Analysts (60 percent recommended by McLagan).

3. The existing formula should be simplified by utilizing only the policy benchmark, instead of both the policy and strategy benchmark.

4. The following multi-year weighting methodology should be utilized in the PIC Plan: 20 percent for the one year return, 30 percent for the three year return, and 50 percent for the five year return.

5. The performance scale utilized in the compensation policy should go from zero to 50 basis points.

6. The Commission should have discretion to make PIC payments in years where the trust funds' returns for the immediately preceding fiscal year are between zero and negative 10 percent, but no PIC payments should be paid or deferred (i.e., permitted to accrue) in those years where the trust funds' returns for the immediately preceding fiscal year are below negative 10 percent.

7. If a PIC payment is deferred in negative years, interest should be included in future payouts, with interest computed based upon the trust funds' return. Chairman Gillespie noted that the Committee had requested McLagan's assistance in determining whether future payouts due to deferrals in negative years might give rise to any tax issues. It was noted that, as the Compensation Policy required forfeiture of PIC payouts in the event of voluntary separation, McLagan believed that there should not be any tax issue (there would be no constructive receipt of a deferred benefit which might create a taxable event for the employee). Mr. Robert Feinstein, Chief Legal Officer, clarified that the compensation policy's forfeiture provisions had two components. In the event of death, disability or normal retirement, there would not be a forfeiture, but forfeiture would result from any other separation from employment. Ms. Nancy Shealy, General Counsel, further clarified that "retirement" is defined by State law.

8. The compensation policy should include a 'high water mark', adjusted to reflect the plans' cash flows.

9. The compensation policy should include separate provisions relating to new hires and newly PIC-eligible employees. Reference was made to a handout providing McLagan's proposed phase-in formula that would apply during the first five years of eligibility.

10. The compensation policy should be revised to provide that the Compensation Committee should approve any RSIC employee's salary above $150,000/year.

11. The compensation policy should establish the 90th percentile for public funds as the total compensation target.

Extensive discussion took place both during and after the Chairman's presentation of the Compensation Committee's recommendations, including the following topics.

Public funds peer group - In response to a question from Mr. Edward Giobbe regarding the public funds peer group, Mr. Barnett noted that the recommendation of percentages reflected the Commission's decision to target compensation at the top decile of a select group of comparably sized public pension funds, but stated that the recommendations, taken together, make it more challenging for employees to achieve the maximum PIC payment opportunity. Chairman Gillespie also noted that the peer group's composition had been defined at the Commission's March 5, 2012 meeting, and that the materials were available for review if needed.

RSIC staff compensation issues - In response to a question from Mr. Loftis regarding the CIO's compensation, Chairman Gillespie initially noted that the Commission would need to go into executive session to discuss the CIO's compensation, but there was consensus that compensation would be set after the CIO applicants' resumes were reviewed.

In response to a question from Dr. Travis Pritchett, discussion turned to the maximum PIC opportunity for the CIO position. Dr. Pritchett pointed out that McLagan recommended a maximum incentive opportunity of 120 percent for the CIO position. Mr. Powers, Mr. Loftis and Mr. Reynolds Williams stated that they all agreed with the Compensation Committee's recommendation of a 100 percent maximum for the CIO position. Mr. Barnett explained the rationale behind McLagan's120 percent maximum incentive amount for the CIO position, noting that in weighing the key variables for solving for total cash compensation, McLagan assumed that base salaries might be subject to an annual increase cap of 20 percent. Chairman Gillespie clarified that the McLagan compensation study showed that RSIC base salaries tended to be lower compared to peers, and pointed out a need to reassess base compensation. It was also noted that the Director of Operations would not be eligible for the PIC Plan.

High water mark – There was extensive discussion of the high water mark recommendation. Chairman Gillespie stated that the Compensation Committee thought the high water mark made sense because it adjusted for flows, but noted that it presented certain implementation challenges. Mr. Williams questioned the need for a high water mark component in the compensation policy, particularly in light of other features of the policy, such as the discretion to award PIC compensation in zero to negative 10 percent return years. Mr. Barnett noted that McLagan recommended that the compensation policy not include a high water mark.

Mr. Williams made a motion to accept all of the recommendations of the Compensation Committee, with the exception of the high water mark. Mr. Loftis seconded the motion for further discussion. Mr. Giobbe asked for further clarification regarding the high water mark. Chairman Gillespie clarified that under the proposed high water mark provision, PIC payments would not be made until assets under management achieved a new high in assets, adjusted for cash flows. Mr. Barnett noted that McLagan was not aware of another public pension fund that had a similar high water mark provision in its compensation policy.

Discussion continued regarding the discretion of the Commission to make PIC payments in years in which the trust funds' return is below negative 10 percent. Mr. Powers opined that in his experience, when it comes to incentive compensation, it is preferable to eliminate as much discretion as possible. Mr. Barnett advised the Commission that there are three instances where the commissioners would be required to exercise discretion under the compensation policy: (i) in situations where the trust funds' fiscal year-end absolute performance is between zero and negative ten percent; (ii) defining the term "senior management"; and (iii) altering the Compensation Policy when the Commission deems necessary.

After further discussion, the question was called. The Chairman clarified that the motion to accept all of the recommendations of the Compensation Committee, with the exception of the high water mark, called for the Commission to approve the following maximum PIC payouts by position level: 1. CIO (100 percent of base salary); 2. Deputy CIO/Director level (100 percent); 3. Officer level (80 percent), and 4. Analyst level (60 percent). The motion passed unanimously.

In a response to a question by Mr. Powers, Chairman Gillespie stated that Ms. Joye Lang from the Office of Human Resources would be collecting and reviewing the applications for the CIO and Director of Operations positions, and culling the applications that do not meet the minimum requirements. Ms. Lang will then forward the qualified applications to the Commission for review.

Chairman Gillespie reviewed dates for the Commission's April and May meetings, noting that the next Commission meeting was scheduled for April 19, 2012, and the spring investment retreat would be held at the Wampee Training and Conference Center in Pinopolis, South Carolina on May 17-18, 2012.

(Information relating to this matter has been retained in the Commission's files and is identified as Exhibit A).

## III. ADJOURNMENT

There being no further business, the meeting adjourned at 10:45 a.m.

[Staff Note: In compliance with S.C. Code Ann. §30-4-80, public notice of and the agenda for this meeting were delivered to the press and to parties who requested notice and were posted at the entrance, in the lobbies, and near the 15th Floor Conference Room at 1201 Main Street, Columbia, SC, at 9:30 a.m. on March 21, 2012.]