

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

August 25, 2014

**Capitol Center
1201 Main Street, 15th Floor
Columbia, South Carolina 29201
Meeting Location: Presentation Center**

Commissioners Present:

Mr. Edward Giobbe, Chairman
Dr. Rebecca Gunnlaugsson, Vice Chairman
Mr. Curtis Loftis, State Treasurer
Ms. Peggy Boykin, PEBA Executive Director
Mr. Allen Gillespie
Dr. Ronald Wilder
Mr. Reynolds Williams, by telephone

Others present for all or a portion of the meeting on Monday, August 25, 2014:

Ashli Aslin, Geoff Berg, Betsy Burn, Gail Cassar, Andrew Chernick, Louis Darmstadter, Dori Ditty, John Farmer, Robert Feinstein, Mitchell Goldsmith, Lorelei Graye, Hershel Harper, Monica Houston, James Manning, Bryan Moore, David Phillips, Jon Rychener, Lorrie Smith, Danny Varat, and Brian Wheeler from the South Carolina Retirement System Investment Commission; Tammy Nichols from the Public Employee Benefit Authority; Clarissa Adams, Melinda Al-Hasan, Robin Johnson, and David Padgett from the State Treasurer's Office; Sam Griswold, Wayne Pruitt, and Donald Tudor from the State Retirees Association of South Carolina; M. Sean Cary from Creel Court Reporting; and Thomas Parkman.

I. CALL TO ORDER AND CONSENT AGENDA

Chairman Edward Giobbe called the special meeting of the South Carolina Retirement System Investment Commission ("Commission") to order at 11:02 a.m. The Chairman proposed a motion to adopt the proposed agenda which was seconded by Mr. Allen Gillespie. Mr. Curtis Loftis posed questions regarding the agenda items that were to be discussed during the Executive Session. Mr. Loftis made a motion to amend the agenda so as to dispense with the proposed Executive Session or, alternatively, to amend the agenda by addressing agenda Item IV (Executive Director Expectations and Hiring Process) prior to Executive Session. The motion was seconded by Mr. Gillespie, and a vote was taken. The motion failed, with Messrs. Loftis and Gillespie voting for the motion, and Mr. Giobbe, Dr. Gunnlaugsson, Dr. Wilder and Mr. Williams opposed. The motion to adopt the proposed agenda as presented was then approved by a vote of 5-1, with Mr. Loftis opposed.

II. FUNDING OF STATE STREET GLOBAL ADVISORS

It was noted that a motion had been prepared pertaining to the funding of the State Street Global Advisors ("SSGA") investment. Mr. Gillespie requested that the full text of the motion be read verbatim. The full text of the SSgA motion (copy attached hereto as Exhibit A) was read aloud by Mr. Robert Feinstein, Acting Executive Director. Ms. Betsy Burn, Acting Chief Legal Officer, began to provide the commissioners with additional background information regarding this matter. Mr. Loftis made a motion to call the question and bring the motion that had been presented to a

vote without further discussion. After the motion was seconded by Mr. Gillespie, a vote was taken. The motion failed, with Mr. Loftis voting for the motion, and Mr. Giobbe, Dr. Gunnlaugsson, Dr. Wilder and Mr. Williams opposed. [Mr. Gillespie abstained.] At the request of the Chairman, Ms. Burn provided the commissioners with additional background information regarding this matter, noting the documentation regarding the SSgA investment which had been available to all commissioners and senior STO staff since September 2013, and discussions that had taken place between RSIC Staff and STO regarding the investment during the past several weeks. Ms. Burn and Mr. Feinstein discussed the STO's August 22, 2014 letter to the Commission regarding the investment, and identified issues raised by the three requests made in that letter.

Discussion ensued. Mr. Gillespie expressed frustration that an issue of this type could not be resolved by the staffs of both organizations, utilizing agreed-upon policies and procedures. Chairman Giobbe noted that the Commission put in place a procedure – the three business day review period – which permits commissioners to review, and raise questions concerning, a new investment. Mr. Loftis took issue with several aspects of the SSgA motion and Staff's review. He also expressed the view that the three business day review period does not apply to the statutory custodian, and that STO needed a longer review period.

Mr. Williams made a motion to call the question and bring the motion that had been presented to a vote without further discussion. After the motion was seconded by Dr. Gunnlaugsson, a vote was taken. The motion failed by a vote of 3-3, with Mr. Williams, Dr. Gunnlaugsson and Mr. Giobbe voting for the motion, and Mr. Loftis, Dr. Wilder and Mr. Gillespie opposed. A wide-ranging discussion ensued covering a number of topics, including the SSgA motion, the PIMCO contract renewal, the adequacy of the Commission-mandated three business day review period, the role of the statutory custodian with regard to the funding of investments, the 2013 Warburg mandamus proceeding before the State Supreme Court, the significant progress that had been made over the last two years to provide senior members of the STO with access to confidential investment-related information, and the important work which is performed on an ongoing basis for the SCRS trust funds by the staffs of the STO and the Commission. It was agreed that STO and Commission representatives should meet to discuss these matters further. The SSgA funding motion set forth in Exhibit A was approved by a vote of 4-2, with Mr. Giobbe, Dr. Gunnlaugsson, Dr. Wilder and Mr. Williams voting to approve, and Mr. Gillespie and Mr. Loftis opposed.

III. EXECUTIVE SESSION

A motion was proposed by Dr. Wilder and seconded by Dr. Gunnlaugsson to recede into Executive Session to discuss personnel matters pursuant to S.C. Code Ann. 30-4-70(a)(1) and receive advice from legal counsel pursuant to S.C. Code Ann. 30-4-70(a)(2). The motion was approved by a vote of 4-2, with Mr. Giobbe, Dr. Gunnlaugsson, Dr. Wilder and Mr. Williams voting to approve, and Mr. Gillespie and Mr. Loftis opposed. The Commission thereupon receded into executive session.

The Commission reconvened in open session, and at the request of Chairman Giobbe, Mr. Feinstein read a motion concerning the employment of Mr. Michael R. Hitchcock as the Commission's new Executive Director. A copy of this motion (as finally adopted and blacklined to show the amendment noted below) is attached hereto as Exhibit B. Mr. Feinstein then read a second motion regarding adoption of proposed revisions to the Commission's Governance Policies: "the Commission adopts the amendments as drafted to the Commission's Governance Policies as discussed, and directs Staff to make: (i) the necessary conforming changes to other Commission policies and procedures; (ii) the necessary conforming changes to incorporate the role of the Commission's Human Resources and Compensation Committee; and (iii) technical

and formatting revisions to the Governance Policies.” Dr. Gunnlaugsson moved that the motion concerning the employment of Mr. Hitchcock as the Commission’s Executive Director be adopted. The motion was seconded by Dr. Wilder, and then discussion ensued. Mr. Gillespie registered certain objections as to the process that the Commission had followed, and noted that he was not in favor of waiving the search provisions of the Governance Policies. In response to questions regarding the component of the motion noting that, in accordance with the terms of the Commission’s Compensation Policy, the Executive Director will not be eligible to participate in the Performance Incentive Compensation program, a consensus decision was made to strike this component of the motion as unnecessary. Mr. Williams asked that the record reflect that he neither knew Mr. Hitchcock nor had met with him prior to the Commission’s meeting, and expressed confidence in the process that had been followed. The motion, as amended, was approved by a vote of 4-2, with Mr. Giobbe, Dr. Gunnlaugsson, Dr. Wilder and Mr. Williams voting to approve, and Mr. Gillespie and Mr. Loftis opposed.

The motion relating to adoption of the amendments as drafted to the Commission’s Governance Policies was re-read, moved by Dr. Wilder and seconded by Dr. Gunnlaugsson. Mr. Gillespie asked that the record reflect his objections to the process that the Commission had followed with regard to these amendments to the Governance Policies, noting that it was not consistent with prior practice. Mr. Loftis concurred. The motion was approved by a vote of 4-2, with Mr. Giobbe, Dr. Gunnlaugsson, Dr. Wilder and Mr. Williams voting to approve, and Mr. Gillespie and Mr. Loftis opposed.

ADJOURNMENT

Mr. Gillespie moved that the remaining agenda items [Items IV (Executive Director Expectations and Hiring Process), V (Review Organizational Chart), VI (Committee Composition) and VII (Vendor Agreement Discussion)] be carried over to a later meeting date given the late hour. The motion was seconded by Mr. Loftis, and passed unanimously. Mr. Gillespie then moved that the meeting be adjourned. The motion was seconded by Dr. Gunnlaugsson, and passed unanimously. The meeting adjourned at 3:22 p.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 Presentation Center at 1201 Main Street, Columbia, SC, at 10:49 a.m. on August 22, 2014.]

EXHIBIT A

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South Carolina Retirement System Investment Commission

August 25, 2014 Meeting

Motion

WHEREAS, the Commission unanimously approved an investment into SSgA's passively managed global equity index fund (the "Investment") on September 26, 2013; and

WHEREAS, RSIC Legal executed a Certification of Legal Sufficiency on July 25, 2014 and the Commission-mandated three business day review period for the Investment commenced on July 28, 2014 and ended at 5:00 pm on July 30, 2014; and

WHEREAS, the Chairman granted the Treasurer an extension on the review period until 5:00 pm on August 1, 2014 to raise specific questions or concerns; and

WHEREAS, the Treasurer, at 4:59 pm on August 1, 2014 emailed the Chairman to state that "the State Treasurer is unable to make determinations needed to fund the State Street investment. Until such time as the information is available and in a format accessible to the State Treasurer, fundings will not be possible" without raising any specific question; and

WHEREAS, the three business day review period, as extended, expired after due notice to the Commissioners; and

WHEREAS, on August 1, 2014, after receipt of the Closing Certification and upon consultation with RSIC Legal, the Chairman authorized the execution of the required documents and the Investment was fully closed on August 4, 2014; and

WHEREAS, RSIC staff has attempted since August 1, 2014 to ascertain the exact nature of any concerns or specific information needed by the Treasurer that his Office had not been previously provided, including following up by email several times, an in-person meeting with the Treasurer's staff, offering edits to the Certification of Legal Sufficiency requested by the Treasurer's staff, offering to draft a designation letter to State Street to assure the Treasurer that Bank of New York Mellon ("BNYM") would receive certain information, and providing information requested by the Treasurer's Office regarding contacts by Conifer Financial Services with the Trust Funds' investment managers (arguably, at least unrelated to the State Street investment), and

WHEREAS, RSIC staff, in order to begin the in-kind funding process, liquidated securities to raise cash in the amount of \$1 billion in anticipation of funding the Investment as of August 12, 2014; and

EXHIBIT A

RSIC Minutes of August 25, 2014

WHEREAS, as of August 21, 2014, the Treasurer has refused to authorize the directive to transfer the \$1 billion in cash to the Russell Global Equity Transition Account so that the cash can be converted into securities; and

WHEREAS, as a result of the Treasurer's refusal to execute this directive, and as a result of the extremely low interest rates available for cash, the Trust Funds are missing out on approximately 0.50% of income compared to the income that the Trust Funds had been receiving on the liquidated securities on an annualized basis (which averages \$13,700 per day); and

WHEREAS, because the cash is now being blocked from an internal transfer between the Trust Funds' BNYM accounts to fund the purchase of physical securities, the Trust Funds are missing out on favorable tax benefits on the non-U.S. holdings in the approximate amount of 0.175% of annual reclaimable dividend withholding taxes (which averages \$4,800 per day); and

WHEREAS, the sum of these two sources of opportunity costs is approximately \$18,500 per day; and

WHEREAS, the Treasurer's Office has failed to respond to RSIC staff to articulate any remaining questions or concerns regarding the Investment that relate to the Treasurer's custodial function,

NOW, THEREFORE, THE SOUTH CAROLINA RETIREMENT SYSTEM INVESTMENT COMMISSION directs the State Treasurer of South Carolina, as the statutory custodian of the funds of the South Carolina Retirement System trust funds (the "Trust Funds"), to (i) execute the Trust Funds' duly authorized and completed directive to BNYM to permit the movement of \$1 billion of the Trust Funds' cash to the Russell Global Equity Transition Account to fund the purchase of physical securities as outlined in the Trust Funds' directive; and (ii) upon Russell's purchase of the necessary securities, authorize and execute the Trust Funds' directive to BNYM to transfer the securities from the Russell Global Equity Transition Account to the SSgA MSCI World Index NL Fund.

EXHIBIT B

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South Carolina Retirement System Investment Commission

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Motion

Motion to Employ Executive Director

WHEREAS, after considering the exigencies of the situation, the needs of the organization, the length of time required to conduct a national search, including the benefits of having an Executive Director in place prior to the start of the next legislative session, the Commission believes it is now in the best interests of the Commission to implement a solution that will quickly provide stable administrative and operational leadership for the RSIC; and

WHEREAS, the Commission believes that the most optimal solution now is to appoint an Executive Director without conducting a lengthy search; and

WHEREAS, the Commission believes that Mr. Michael Hitchcock is highly qualified to serve as Executive Director; and

WHEREAS, the Commission wishes to offer, and Michael Hitchcock has expressed his desire to accept, the position of the Commission's Executive Director.

NOW, THEREFORE, the Commission agrees as follows:

1. Any provisions to the Governance Policies to the contrary notwithstanding (including, but not limited to, Policy I(E)(2)), the Commission agrees to waive application of its Governance Policies and hire Mr. Michael Hitchcock as the Executive Director at a salary of \$230,000 per year, subject to satisfactory completion of RSIC's new employee onboarding process.
2. Mr. Hitchcock shall assume his duties as Executive Director no later than September 8, 2014.
3. The Executive Director is an at-will employee of the Commission.
- ~~4. In accordance with the terms of the Commission's Compensation Policy, the Executive Director will not be eligible to participate in the Performance Incentive Compensation Program.~~
- 5.4. The Chairman or his designee is hereby authorized to execute any documents and take any actions necessary to implement this directive.