

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

**June 3, 2014**

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

**Commissioners Present:**

Mr. Reynolds Williams, Chairman  
Mr. Edward Giobbe, Vice Chairman  
State Treasurer Curtis M. Loftis, Jr.  
Dr. Rebecca Gunnlaugsson  
Mr. Allen Gillespie  
Dr. Ronald Wilder

**Others present for all or a portion of the meeting on Tuesday, June 3, 2014:**

Mike Addy, Ashli Aslin, Geoff Berg, JP Boyd, Corleon Brown, Betsy Burn, Sarah Corbett, Louis Darmstadter, Dori Ditty, Erlinda Doherty, Robert Feinstein, Scott Forrest, Brenda Gadson, Joshua Greene, Hershel Harper, Monica Houston, Adam Jordan, Eliot Loncar, Doug Lybrand, James Manning, David Phillips, Landry Phillips, Greg Ryberg, Lorrie Smith, Nicole Waites, and Brian Wheeler from the South Carolina Retirement System Investment Commission; Faith Wright and Tammy Nichols from the Public Employee Benefit Authority; Marcus Finney and Robin Johnson from the State Treasurer's Office; M. Sean Cary from Creel Court Reporting; Wayne Pruitt and Donald Tudor from the State Retirees Association of South Carolina.

**I. CALL TO ORDER AND CONSENT AGENDA**

Chairman Reynolds Williams called the meeting of the South Carolina Retirement System Investment Commission ("Commission") to order at 9:58 a.m. Chairman Williams asked for a motion to adopt the proposed agenda. Dr. Ronald Wilder made a motion, which was seconded by Dr. Rebecca Gunnlaugsson, and passed unanimously, to approve the agenda as presented.

**II. REPORT OF THE AD HOC PLANNING COMMITTEE**

Dr. Gunnlaugsson began by briefly reviewing the Ad Hoc Planning Committee's efforts to date. Dr. Gunnlaugsson stated that the Planning Committee was established by the Commission at its March 2014 meeting to review the results of the Funston fiduciary audit and determine how to address issues noted in the Funston audit. The Committee also is charged with developing a strategic plan for the RSIC to divide the issues that need to be addressed into goals, prioritize the goals, and ensure that RSIC Staff maps out the steps to be taken to accomplish each initiative. Dr. Gunnlaugsson stated that prior to the May 1, 2014 Commission meeting, the Planning Committee met several times and discussed the need for RSIC to develop an organizational structure led by an Executive Director. She noted that the Planning Committee had submitted to the Commission at its May 1, 2014 meeting a draft of amendments to Governance Policy III reflecting changes in the senior management structure that had been recommended by Funston, the Commission had established a May 15<sup>th</sup> deadline for review of those amendments, and on May 16, 2014, the Planning Committee had reconvened, reviewed the comments and feedback, and developed a revised draft policy. Dr. Gunnlaugsson concluded her introductory remarks by

noting that a revised draft of Governance Policy III was now being presented for review and approval.

Dr. Gunnlaugsson provided an overview of the proposed changes to Governance Policy (“GP”) III. She noted that the existing Governance Policy established both the Chief Investment Officer (“CIO”) and Chief Operating Officer (“COO”) as executive management roles within the organization. Dr. Gunnlaugsson then noted that the first draft revision to the policy had added the Executive Director (“ED”) to the existing structure as a third role. However, taking into consideration comments made during the Commission’s May 1 meeting, she explained that the Ad Hoc Planning Committee had removed the COO position and created the ED role. Dr. Gunnlaugsson clarified that while the proposed revisions to GP III would not prohibit the existence of a COO position -- or, for that matter, other executive positions -- the proposed revisions more clearly provided a single point of accountability as the Funston report recommended. Dr. Gunnlaugsson stated that while, under the proposed revisions to GP III, (i) the ED would function as other executive directors, overseeing the entire agency and providing accountability to the Commission, and (ii) the CIO would administratively report to the ED, she stressed that the CIO would continue to have responsibility for managing the trust funds’ investments.

Both Dr. Gunnlaugsson and Chairman Williams noted the tremendous amount of feedback that had been received from commissioners, RSIC Staff, HEK, and stakeholders. Chairman Williams commended Dr. Gunnlaugsson on her coordination of the feedback, and thanked RSIC Staff for its assistance.

In response to a question from the Chairman, Mr. Robert Feinstein stated that the proposed revisions to Governance Policy III complied with existing law. Chairman Williams then read the following motion from the Ad Hoc Planning Committee which the Commission was being asked to adopt:

That the Commission adopt the recommendation of the Planning Committee to amend *Commission Governance Policy III* as presented; and direct RSIC Staff to make (i) the necessary conforming changes for immediate implementation of Governance Policy III, as amended, to other Commission documents, including, but not limited to, the Compensation Policy, Committee Charters; Personnel Policies, Operating Policies, Compliance Policies, the AIP and SIOF; and (ii) technical and formatting revisions to the Governance Policies.

Dr. Wilder commented that while he strongly supports the motion, it was not the Committee’s intent to reduce the power of the CIO. The CIO would retain sole authority over investment decisions and continue to have a direct reporting relationship with the Commission.

Mr. Curtis M. Loftis, Jr. expressed his misgivings regarding the immediate implementation of the policy and the lack of a national search to fill the ED position. Chairman Williams clarified that the Commissioners would have an opportunity to discuss personnel matters in executive session, should the Commission approve the motion to amend GP III.

Mr. Allen Gillespie stated that, in his opinion, current law did not allow for the Commission to amend the governance structure as proposed. Mr. Gillespie then read aloud a letter dated May 14, 2014 that he had sent to all commissioners, which he asked to be submitted in its entirety with these minutes, detailing his views. Mr. Gillespie argued in favor of re-establishing the combined Chief Executive Officer (“CEO”)/CIO position as the sole direct report to the Commission, with a

directive to hire a permanent COO or Managing Director reporting to that CEO/CIO. Mr. Gillespie also stated that he was not aware of any legislative action taken that had amended the law to enable the hiring of an ED.

Mr. Gillespie made a motion to call the question. The motion to call the question failed and discussion continued regarding the recommendations of the Ad Hoc Planning Committee to adopt the proposed changes to GP III.

(A copy of Mr. Gillespie's May 14, 2014 letter has been attached and identified as Exhibit A.)

Vice Chairman Edward N. Giobbe stated that the Funston firm had advised the Commission that it was able to create the new ED position within the current legal framework. Mr. Giobbe then asked Mr. Feinstein to summarize the memorandum he had prepared in response to a request for advice from the Planning Committee regarding the senior management structure. Mr. Feinstein explained in detail the existing legal framework and the substantial amount of discretion it accorded the Commission to manage these types of issues. He noted that since its creation in 2005, the Commission had utilized three different senior management structures, all of which had been found to be compliant with state law. Mr. Feinstein reiterated that the proposed new structure comported with state law and noted that the Funston report concurred with this conclusion.

Mr. Gillespie stated that he did not doubt the proposed changes comported with state law, but maintained that the proposed changes do not address the lack of a single, direct report as recommended by Funston. Dr. Gunnlaugsson noted that Funston did, in fact, find the structure being proposed by the Committee to be a viable solution. Dr. Gunnlaugsson also referred to two points Funston made in its report: (i) that a single direct operating report is leading practice; and (ii) that it would be difficult to find an individual with the skills and qualifications required to fulfill both the ED and CIO roles. Reviewing the proposed duties of the ED, Dr. Gunnlaugsson explained that the ED would oversee the operations and administration of the entire agency, as opposed to the current structure in which the COO and CIO are heads of two different components of the same agency.

Mr. Loftis again expressed his concern that the Commission was going to hire an individual to fill the ED position immediately without a national search. Chairman Williams responded that any matters related to personnel could be raised during the Executive Session, and that implementation of the changes could be delayed if deemed necessary. The Chairman also noted that as the Commission fulfills its fiduciary obligation, it has to be particularly sensitive to having a CIO that has the authority to implement the investment policies selected by the Commission.

Revisiting the discussion about legislative intent, Mr. Greg Ryberg, RSIC's COO, provided historical background concerning the General Assembly's intentions regarding the CIO role when the legislation was proposed and enacted in 2005. Mr. Ryberg stated that it was never the legislature's intent to combine the CIO and CEO roles, but that the Commission was to have the power to hire necessary administrative personnel.

Discussion ensued regarding the Funston report's recommendation of the Commission's role in future due diligence activities. It was noted that the Commission plans on implementing most, if not all, of the Funston recommendations.

Chairman Williams re-read the original motion and a vote was taken. The motion passed by a vote of 4-2, with Chairman Williams, Dr. Gunnlaugsson, Mr. Giobbe and Dr. Wilder voting in favor of the motion, and Mr. Loftis and Mr. Gillespie voting against the motion.

Dr. Gunnlaugsson discussed the Planning Committee's proposed revisions to Governance Policy IV to clarify the agenda setting process, and the Planning Committee's motion to amend *Commission Governance Policy IV* as presented and direct the RSIC staff to make (i) the necessary conforming changes to other Commission Policies and Procedures, and (ii) technical and formatting revisions to the Governance Policies was duly placed before the Commission for consideration. The motion passed by a vote of 5-1, with Mr. Loftis voting against the motion.

### **III. EXECUTIVE SESSION**

Mr. Giobbe made a motion which was seconded by Dr. Gunnlaugsson and passed unanimously, to recede to executive session to discuss personnel matters and receive legal advice and briefings pursuant to S.C. Code Ann., Sections 30-4-70(a)(1)-(2). Chairman Williams announced that the Commission would meet in executive session for the purpose to discuss personnel matters and receive legal advice and briefings. The Commission thereupon receded into executive session.

The Commission reconvened in open session. Chairman Williams made a motion that (i) the Executive Director position, with the roles and responsibilities in accordance with the Commission's Governance Policy III as amended, be filled immediately by Ms. Sarah Corbett; and (ii) based on previously demonstrated skills and talents of Ms. Corbett, approve the selection as Executive Director without additional search and without adjustment to her current salary of \$175,000, and without eligibility for performance incentive compensation. The motion was seconded by Dr. Wilder. Chairman Williams remarked on Ms. Corbett's skills, education, and years of experience with the Retirement System and Investment Commission. Chairman Williams stated that Ms. Corbett had outstanding qualifications to assume her new role as Executive Director, and together with the CIO, would function as an effective team to fulfill the mission of the Commission. The motion passed by a vote of 4-2, with Chairman Williams, Dr. Gunnlaugsson, Mr. Giobbe, and Dr. Wilder voting in favor of the motion, and Mr. Loftis and Mr. Gillespie voting against.

Ms. Corbett thanked the Commission for the opportunity to serve in her new capacity, expressed her desire to execute the mission of the organization, and build trust in the organization.

Chairman Williams announced that the next Commission meeting was to be held June 16 and 17, 2014 at the Wampee Conference Center. He noted that the primary function of the meeting was to make progress on the development of the Commission's statement of investment beliefs and the strategic plan. Chairman Williams thanked the Commissioners for their input during the Executive Session.

### **IV. ADJOURNMENT**

There being no further business and upon motion from Chairman Williams, which was seconded by Dr. Gunnlaugsson and passed unanimously, the meeting adjourned at 4:08 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 15<sup>th</sup> Floor Conference Room at 1201 Main Street, Columbia, SC, at 1:10 p.m. on May 27, 2014.]

EXHIBIT A to June 3, 2014 RSIC Minutes

EDWARD N. GIOBBE  
VICE CHAIRMAN

ALLEN R. GILLESPIE, CFA  
COMMISSIONER

REBECCA M. GUNNLAUGSSON, PH.D.  
COMMISSIONER

CURTIS M. LOFTIS, JR.  
COMMISSIONER



RETIREMENT SYSTEM INVESTMENT COMMISSION  
1201 MAIN STREET, SUITE 1510, COLUMBIA, SC 29201

REYNOLDS WILLIAMS, J.D., CFP  
CHAIRMAN

TRAVIS J. TURNER, CPA  
COMMISSIONER

RONALD P. WILDER, PH.D.  
COMMISSIONER

HERSHEL HARPER, JR., CFA  
CHIEF INVESTMENT OFFICER

W. GREG RYBERG  
CHIEF OPERATING OFFICER

May 14, 2014

Reynolds Williams, Chairman  
Willcox, Buyck & Williams, PA  
P.O. Box 1909  
Florence, SC 29503

Edward N. Giobbe, Vice-Chairman  
(home) Magnolia Cottage  
541 Grace Avenue SE  
Aiken, SC 29801

Rebecca M. Gunnlaugsson, Ph.D.  
508 Upland Trail Road  
Elgin, SC 29045

The Honorable Curtis M. Loftis, Jr.  
State Treasurer  
118 Wade Hampton Office Building  
Columbia, SC 29201

Ronald P. Wilder, Ph.D.  
707 Trafalgar Drive  
Columbia, SC 29210

Travis J. Turner  
South Carolina Public Benefit Authority  
202 Arbor Lake Drive  
Columbia SC 29223

Dear Fellow Commissioners,

At our last meeting, it was requested that we submit our thoughts and comments related to governance structure, particularly as it relates to the creation of a position of Executive Director. The Planning Committee submitted to us a fully drafted Governance Policy. After considering the issue, while I am in general agreement that the Commission, as recommend by Funston, should have a single direct report, I do not believe what is proposed is workable based on my understanding of current law, the Funston report, consistent with our own previous decisions, nor consistent with industry practices whereby the head of an organization have substantial industry experience. I believe the creation of an executive director position, as outlined, with the necessary, as confirmed by legal, direct and indirect reporting requirements, risks creating a three headed dog

with an Executive Director, a COO, and CIO. The wisdom of the ancients taught that the gates of hell are guarded by a three headed dog.

I do believe current law allows and intended for us to make the CIO that sole direct report, and provided that we as a board provide the appropriate oversight. Obviously, an important component of a board being able to perform its duty are robust operations, including, legal, compliance, finance, human resources, and audit. Previously, we had granted the CIO the CEO title as well, at the time, however, we lacked any operations, and independent functions like compliance and audit. We later split the title during the interim period after the departure of the previous CEO/CIO and latter formally created the COO position. We chose to make this position reportable to the board rather the CEO/CIO, as we did not have a permanent CEO/CIO, then we then conducted a national search and hired a COO and new CIO. We later hired an interim COO without a search.

**The course of action with which I am comfortable is to re-establish the CEO/CIO position as a direct report of the Commission with a directive to hire a permanent COO/Managing Director reporting to that CEO/CIO.**

### **Legal Framework & Observations**

The Funston report, item G4, clearly states “The **Legislature** should revise legislation **to allow** the Commission to designate a single direct operating report with the title of either Chief Executive Officer (CEO) or Executive Director, and not require that the Chief Investment Officer (CIO) report directly to the Commission.”

Furthermore, the law in Section 9-16-315 requires us to hire and over see one and only one named fiduciary – the CIO. Furthermore, language like that found in 9-16-340 like “the commission, **acting through the chief investment officer**, shall invest and reinvest the assets of the retirements systems as provided in Section 9-1-1310. **The commission may employ or retain administrators, agents, consultants and other advisors.**”

Furthermore, in Section 9-16-30 Delegation of functions by commission, we are instructed to “exercise reasonable care, skill and **caution** in:

- 1) Selecting and agent.
- 2) Establishing the scope and terms of the delegation.

Therefore, I think it is not just what we decide relating to our organizational structure and personnel but how we go about making these decisions related to what is indicate to be our sole direct report that is important. Unless the current law changes, I am not supportive of the current recommendation from the planning committee. Furthermore, even if the proposed executive director position is created and adopted, I think the process by which that position is filled is also an important consideration.

Sincerely,



Allen R Gillespie