

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

**April 16, 2020 9:30 a.m.  
Capitol Center  
1201 Main Street, 15<sup>th</sup> Floor  
Columbia, South Carolina 29201  
Meeting Location: Video Presentation**

**Commissioners Present:**

Dr. Ronald Wilder, Chair  
Dr. Rebecca Gunnlaugsson, Vice Chair  
Ms. Peggy Boykin, PEBA Executive Director  
Mr. Allen Gillespie  
Mr. Edward Giobbe  
Mr. Reynolds Williams  
Mr. William H. Hancock  
Mr. William J. Condon, Jr.

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

Chair Dr. Ronald Wilder called the meeting of the South Carolina Retirement System Investment Commission (“Commission”) to order at 9:35 a.m. Mr. Allen Gillespie made a motion to approve the proposed agenda as presented. Mr. Edward Giobbe seconded the motion, which was approved unanimously.

Mr. Gillespie asked whether they were incorporating the March agenda or whether there was anything linking back to the March meeting documents. Mr. Michael R. Hitchcock, Chief Executive Officer, explained that the consideration of the Consolidated Annual Investment Plan (“AIP”) and Statement of Investment Objectives and Policies (“SIOP”) was carried over from the March meeting, but no other items from the March agenda were being considered at the April meeting.

Mr. Hitchcock recognized two new members from Meketa Investment Group, Inc. (“Meketa”), Ms. Alli Wallace Stone and Mr. LaRoy Brandtly who will be working with the Commission. Mr. Hitchcock noted that Mr. Peter Woolley of Meketa would also continue assisting the Commission.

Mr. Hitchcock then commended the Staff on the successful transition to remote work during the COVID-19 pandemic. He especially thanked the IT team, Ms. Kathleen Shealy and Mr. Eric Baker, for their help. He noted that Mr. Geoffrey Berg, Chief Investment Officer, would provide additional information about how the investment team had been working to position the Portfolio during the current volatile markets.

## **II. CHAIR'S REPORT**

The Chair began his report by noting that his term as Chair would expire on June 30, 2020. He then called for nominations for the Chair and Vice Chair positions for the term to commence on July 1, 2020, noting that a vote would take place during the meeting on June 4, 2020. He also stated that the nominations would remain open until the next Commission meeting. Dr. Rebecca Gunnlaugsson nominated Mr. William H. Hancock as Chair and Dr. Ronald Wilder as Vice Chair. Mr. Gillespie moved to approve the nominations; Mr. Reynolds Williams seconded the motion.

Dr. Wilder asked for further nominations for Chair and Vice Chair. There being no further nominations, he noted that he would adopt the power of the Chair and stated that the nominating process would remain open until the next meeting.

## **III. CONSIDERATION OF CONSOLIDATED ANNUAL INVESTMENT PLAN AND STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES**

The Chair then introduced the consideration of the Consolidated Annual Investment Plan and Statement of Investment Objectives and Policies ("AIP/SIOP"). He stated that the discussions regarding revisions to the AIP/SIOP began in early 2019. A consensus was reached on key details at prior meetings on the Reference Portfolio, Plan weights, and the roles of Commissioners, the CEO and the CIO. The Chair expressed his opinion that the document under consideration was a big improvement over previous versions. The Chair then recognized Mr. Hitchcock for his presentation on the AIP/SIOP.

Mr. Hitchcock gave a brief history of the development of the current draft AIP/SIOP and reiterated to the Commission that the draft AIP/SIOP would require that Staff prove the need to add complexity to the Plan. He noted that by adopting a simple two asset class portfolio as the Reference Portfolio, while adopting a simplified five asset class Policy Portfolio and Implementation Benchmarks, the Commission demonstrated its belief that it sees value in Staff's ability to manage asset weights differently than in the Policy Portfolio. After a brief discussion regarding portable alpha, which is used as an implementation method by which Staff utilizes hedge funds and synthetic exposure, and its role in the Plan, Mr. Hitchcock noted that the draft AIP/SIOP under consideration attempted to incorporate a record for new Commissioners to understand how the Commissioners had reached decisions on asset allocation over time.

Mr. Hitchcock then noted that due to a miscommunication with the Meketa team regarding the inputs for the 2020 capital market expectations, he had included two options in the current draft AIP/SIOP for the Commissioner's consideration. He explained that Meketa's capital market expectations had been developed assuming that the Commission intended portable alpha to remain part of the Policy Portfolio. Therefore, Meketa had incorporated the expected impact of portable alpha into their projected returns. This resulted in a small difference between the return expectations with portable alpha (7.41 percent) and without

portable alpha (7.22 percent) and a small difference in expected volatility and the probability of exceeding the assumed rate of return.

Option one proposed to leave the simple five asset plan in place and recognize that, as long-term investors, the Commission should not make long term decisions on short term volatility and return expectations. The second option proposed was to maintain portable alpha as a part of the stated Policy Portfolio.

The Chair suggested that the Commission approach the draft AIP/SIOP in three steps. 1. The Commissioners would have an opportunity to ask Mr. Hitchcock questions about his summary. 2. The Commissioners would discuss and vote on option one or two. 3. After voting on option one or two, the Commissioners would then vote on the AIP/SIOP as presented, subject to any amendment.

The Commissioners then engaged in a lengthy discussion regarding the proposed AIP/SIOP and the two options presented by Mr. Hitchcock, asking various questions of Mr. Hitchcock, Mr. Berg and the Meketa team. After an extensive discussion the Chair called for any additional questions for Mr. Hitchcock and Mr. Berg. He then proceeded to step two and requested questions and comments from the Commissioners regarding Mr. Hitchcock's proposed option one and two for the AIP/SIOP. After hearing from several Commissioners, the Chair requested any concluding comments or questions on the options or a motion to adopt option one. Mr. Giobbe moved to adopt option one into the AIP/SIOP. Mr. Williams seconded the motion, which was adopted unanimously.

The Commissioners then moved to step three and commenced a discussion of the AIP/SIOP as a whole. After a lengthy discussion amongst the Commissioners regarding the draft AIP/SIOP, Mr. Hitchcock assured the Commissioners that the AIP/SIOP would be very carefully reviewed for any needed technical updates to reflect the decisions made by the Commissioners. Mr. Condon stated that the proposed SIO that we are considering today includes some great improvements from the SIOs of prior years. However, he stated that he does not support this SIO as a whole. He stated that the SIO is the foundational document of this agency, but he believes that it is not ready for adoption and that additional work must be done to make it ready for adoption. Mr. Condon stated that the proposed SIO does not clearly identify and fully document all of the decisions necessary to change our asset allocation and entire investment framework and that the matter that caused the Commission not to consider the SIO at its March 2020 meeting showed that our process in adopting a new investment framework was incomplete. After additional discussion and in response to concerns raised by Mr. Condon, Mr. Hitchcock offered to develop a compendium of presentations presented to the Commissioners as decisions were made historically and include relevant portions of the meeting minutes. This would enable someone to trace how the Commission made these decisions through time. The Chair, after receiving no further questions or comments, called the question. Mr. Giobbe made a motion to (i) adopt the recommendation of the CEO and CIO to approve the Consolidated Annual Investment Plan and Statement of Investment Objectives and Policies ("AIP/SIOP"), as set forth in the red-numbered document on pages two to 49, and incorporating option one as set forth in Section III (D) of the AIP/SIOP and discussed during the meeting, for Fiscal Year 2020-2021 effective July 1, 2020; and (ii) authorize Staff to

finalize the AIP/SIOP by making any technical revisions or formatting edits consistent with the action taken by the Commission. Mr. Hancock seconded the motion, which was approved by a vote of six to one, with Mr. Condon voting against the motion, and Dr. Gunnlaugsson, Mr. Williams, Mr. Hancock, Mr. Gillespie and Dr. Wilder voting in favor of the motion.

**The Commissioners then took a break from 11:01 a.m. to 11:11 a.m.**

#### **IV. INVESTMENT PERFORMANCE UPDATE**

The Chair recognized Mr. Berg for a market update and portfolio review. Mr. Berg began by stating that the current situation is a challenging situation facing investors. He stated that the coronavirus pandemic has created what economists are predicting could be the most severe recession in 90 years and that asset prices have reacted swiftly and severely. He noted that the outcome will be based on a host of variables that are currently unknown. He explained that the Federal Government has responded in some very meaningful ways aimed at un-thawing the credit markets, which has been very well received by the market. He noted that there is a great divergence of opinion on what the future holds, but that markets will continue to be very volatile.

Mr. Berg then stressed the importance of liquidity management and noted that Staff is very focused on maintaining a strong liquidity position from which RSIC can both fund benefit obligations and capitalize on opportunities in the market. He then summarized a three-phase action plan for the Commission. Phase one covers liquidity management. He explained that in 2018 he, Mr. Bryan Moore, Director of Public Markets, and other investment staff members conducted a liquidity "fire drill" roundtable, modeling 30 percent market declines to stress test the RSIC's liquidity management. In early March, Mr. Berg re-convened the same team and drew up a liquidity plan in response to the current market situation. The investment team's focus is on maintain appropriate market exposures. The team helped develop a playbook that has served the Plan well. He noted that the Plan has sufficient liquidity to weather an additional 50 percent decline in the equity market. Based on the results of that review, he stated that RSIC has a robust plan in place and would be in a strong liquidity position.

Phase two of the action plan looks at the impact the current situation is having on the markets and the Portfolio and where opportunities may lie. He noted it was important to have a framework through which to contemplate new investment opportunities, and briefly reviewed potential options involving low, medium and high risk. He concluded by explaining that phase three of the action plan involves executing on new opportunities as they arise. Mr. Berg noted that the Staff has executed on a limited number of opportunities to date, including restricting some existing exposure, added equity exposure, and performing certain rebalancing trades.

Mr. Berg concluded by reminding the Commissioners that there have been crises in the past and there will be more in the future. He stated that RSIC has approach all markets

with a long-term mind set. The most important thing is to be steady and have discipline in how we approach opportunities.

## **V. EXECUTIVE SESSION**

Mr. Hancock made motion to recede into Executive Session to discuss investment matters and specific investments pursuant to S.C. Code Sections 9-16-80 and 9-16-320; and receive advice as needed from legal counsel pursuant to S.C. Code Section 30-4-70(a)(2), Mr. Gillespie seconded the motion, which passed unanimously.

## **VI. POTENTIAL ACTION RESULTING FROM EXECUTIVE SESSION**

Upon return to open session Mr. Hitchcock noted that the Commission did not take any action while in Executive Session.

## **VII. ADJOURNMENT**

There being no further business, Mr. Gillespie moved to adjourn the meeting. Mr. Williams seconded the motion, which passed unanimously, and the meeting adjourned at 12:27 p.m.

[Staff Note: In compliance with S.C. Code Section 30-4-0, public notice of and the agenda for this meeting was 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 Presentation Center at 1201 Main Street, Columbia, S.C., 5:15 p.m. on April 13, 2020]