South Carolina Retirement System Investment Commission
Meeting Minutes

December 3, 2020 9:30 a.m.
Capitol Center
1201 Main Street, 15th Floor
Columbia, South Carolina 29201
Meeting Location: Video Presentation

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

I. Call to Order and Consent Agenda

Chair Mr. William H. Hancock called the meeting of the South Carolina Retirement System Investment Commission ("Commission" or "RSIC") to order at 9:31 a.m. Dr. Ronald Wilder moved to approve the proposed agenda as presented. Dr. Rebecca Gunnlaugsson seconded the motion, which was approved unanimously.

Mr. Reynolds Williams made a motion to approve the minutes from the September 10, 2020 Commission meeting as presented. Mr. William Condon seconded the motion, which was approved unanimously.

II. Chair's Report

Chair Hancock stated that he had nothing to report.

III. Committee Reports

Chair Hancock then recognized Dr. Gunnlaugsson to provide a report on the activities of the Audit and Enterprise Risk Management ("AERM") Committee. She stated that the Committee met on October 7, 2020 and noted that the AERM Committee's report had been made available to the Commissioners for review prior to the meeting. Hearing no questions, Dr. Gunnlaugsson concluded her report.

IV. CEO's Report

Next, Chair Hancock recognized Mr. Michael Hitchcock, Chief Executive Officer ("CEO"), for the CEO's report. Mr. Hitchcock began by introducing a new member of RSIC Staff ("Staff"): Mr. Daniel Davis. He explained that Mr. Davis recently joined RSIC's Junior Analyst Development Program.

Mr. Hitchcock then reviewed the Commission's 2021 meeting dates, which will be March 4, 2021; April 15, 2021; June 3, 2021; September 9, 2021; and December 2, 2021 and noted that they would be posted to the website. He reminded the Commissioners that the dates are set according to the Commission's Strategic Calendar and that the dates had already been approved by the Commission.

V. CIO's Report

Chair Hancock recognized Mr. Geoffrey Berg, Chief Investment Officer ("CIO"), for the CIO's report. Mr. Berg began with the quarterly investment performance update through September 30, 2020. He stated that during the quarter ending September 30, 2020, markets continued to recover. He stated that the Portfolio was up approximately 5 percent, while the policy benchmark was up 5.4 percent. He noted that the net benefit impact was very small during the quarter. While the Retirement System issued over $1 billion in total requisitions, it received $921 million in deposits, including a $110 million legislative inflow in July 2020. Mr. Berg noted that investment returns represented growth of over $1.5 billion during the quarter.

In terms of plan performance, Mr. Berg informed the Commissioners that all six of the asset classes in the portfolio, with the exception of real assets, had a strong quarter when compared with long-term return expectations. The public market asset classes all performed well versus their benchmarks, while the private equity and private debt portfolios lagged. He noted that the Portable Alpha hedge funds also added value over the cash rate.

He then noted that the Portfolio remained within the allowable ranges in all asset classes and in compliance with all constraints outlined in the Consolidated Annual Investment Plan and Statement of Investment Objectives and Policies ("AIP/SIOP").

Mr. Berg next turned to an in-depth analysis of the quarterly performance and noted three high-level questions that would be addressed for the Commissioners: (1) what outperformed; (2) what underperformed; and (3) what was in-line with expected returns?

He identified three factors which positively contributed to performance during the quarter: (1) the Portfolio was underweight core bonds in the quarter and overweight both public equity and credit; (2) the Portable Alpha program's performance; and (3) strong excess returns in the liquid real assets portfolio.

Mr. Berg noted two factors which detracted from returns in the quarter: (1) the private equity portfolio underperformed its new benchmark and (2) the private debt portfolio return was fair, but underperformed its three month lagged benchmark (which reflected the exceptional recovery in credit markets in April-June 2020), and identified three things that had performed as expected: (1) the public equity portfolio, which is now passive, did exactly what an index fund does; (2) the bonds portfolio; and (3) the Portfolio's holdings of REITs and listed infrastructure in the real assets portfolio, the combination of which performed similarly to the benchmark during the quarter.

Mr. Berg gave an overview of the Portfolio framework. The 70/30 Reference Portfolio selected by the Commission had a very strong quarter, as did each of the portfolios. Mr. Berg noted that portfolio structure was positive for the quarter, but manager selection was negative, and provided the Commissioners with further attribution information regarding portfolio structure and manager selection.

Mr. Berg then turned to a discussion of portfolio allocation. He indicated that private equity exposure was below the target of 9 percent due to the under-commitment to private equity between 2012 and 2017, noted that Staff had accelerated commitments in recent years, but reminded the Commissioners that it will take some time before they should expect to see the impact of these newer investments. He also noted that the Portfolio remains overweight to asset classes with higher expected returns such as equity, private debt, real assets, and underweight core bonds.

Next, Mr. Berg discussed the Bonds portfolio and stated the Plan is underweight bonds largely due to being overweight other asset classes, specifically public equity and private debt.

He concluded the asset class review with a review of the public equity portfolio.

At 10:11 a.m. Mr. Allen Gillespie joined the meeting.

Next, Mr. Berg reviewed the current portfolio's risk estimates and noted that the Plan is employing more risk in the implementation benchmark than in the policy benchmark. He explained that the additional risk derived from the use of portable alpha, the greater credit exposure in the bonds portfolio discussed earlier, the overweight to both public equity and private debt, and the underweight to core bonds.

Mr. Condon inquired about the reference portfolio and its selection of the highest allocation to public equity permitted by State law, asking if the acceptance of 70 percent public equity would maximize risk. He also inquired about the effect if risk levels for the implementation portfolio and the actual portfolio should increase further. A lengthy discussion regarding risk, base assumptions, and other investment related topics ensued among Mr. Hitchcock, Mr. Berg, and the Commissioners.

Mr. Berg concluded his discussion by noting that he, Mr. Hitchcock, and Mr. Condon had had a discussion the day prior to the meeting concerning some questions Mr. Condon had raised, and noted that he and Mr. Hitchcock thought it would be helpful to share a summary of the discussion with the Commission.

Mr. Berg reported that Mr. Condon (a) observed that the policy benchmark was showing a greater level of volatility than the reference portfolio, but that the discussions during the asset allocation review last year suggested the Commission should expect to see these as roughly equal and (b) asked if this was something that the Commission should be concerned about.

Mr. Berg suggested that the following points should be considered: (1) Meketa's forecasts for risk and return are 20-year forecasts (forward-looking), while the data included in today's performance report is backward-looking, drawing upon data from the last two years; (2) based upon some preliminary work performed by Staff looking at how these risk levels change over time relative to each other, the conclusion one would draw at a single point in time would wind up simply being a function of which point in time was used; and (3) in order to provide some additional detail, rather than showing a snapshot at a point in time, RSIC was going to work to provide the Commission with information how these risk levels change over time.

After additional discussion, Mr. Berg concluded his report.

VI. Strategic Investment Topic Presentation – Rebalancing

Chair Hancock then recognized Meketa Investment Group ("Meketa") to provide their presentation on portfolio rebalancing. Ms. Alexandra Wallace Stone, Principal/Consultant, began by reviewing RSIC's current portfolio rebalancing policy, which requires monthly rebalancing. She stated that Staff and Meketa have reviewed various rebalancing techniques, and based on their analysis, Meketa recommends that RSIC consider revising the frequency from monthly to quarterly. By making this change, RSIC will significantly reduce the transaction costs for the Portfolio and improve timing relative to private markets assets, which are valued quarterly.

Next, Ms. Stone began an overview presentation regarding rebalancing. She defined rebalancing as an investment discipline by which investors maintain pre-defined asset allocation targets and ranges in response to portfolio drift and market volatility. Ms. Stone stated that "buy-and-hold" strategies work best when the markets move in a single direction with little volatility. She explained that the discipline of rebalancing asset classes/strategies performs best when the markets experience repeated reversals.

Ms. Stone reviewed the rebalancing strategy options, which include systematic rebalancing strategies and active/tactical rebalancing. Systematic rebalancing is a rules-based approach in which rebalancing is predicated on specific times throughout the year, deviation from target allocation ranges, or specific risk measures. By contrast, in the active/tactical rebalancing strategy, the portfolio is adjusted through periodic adjustments favoring desirable asset classes or in an opportunistic manner.

Ms. Stone then turned the presentation over to Mr. C. LaRoy Brantley, Principal/Consultant, who stated that there are many approaches to rebalancing and that the most important factor is that the Portfolio is periodically rebalanced to ensure that the it maintains the same risk and return expectations chosen in the asset allocation. He reiterated that the RSIC's current policy necessitates monthly rebalancing, but he noted that the transaction costs associated with this approach may outweigh the benefits. Echoing Ms. Stone's previous comments, Mr. Brantley stated that Meketa recommends that the Commission consider modifying its policy and rebalance on a quarterly basis.

Following Mr. Brantley's remarks, there was a discussion of possible rebalancing options. Mr. Condon stated that switching to quarterly rebalancing sounded like a good idea but noted he had questions about how it would impact RSIC's private equity and private debt portfolios. Mr. Hitchcock stated that Staff could provide an offline educational session on rebalancing for Commissioners.

Mr. Gillespie made a motion to amend the SIOP to provide for quarterly rebalancing rather than monthly rebalancing and authorize Staff to make any technical revisions or formatting edits consistent with the action taken by the Commission. Dr. Gunnlaugsson seconded the motion. The motion passed with Mr. Condon voting against the motion.

A break was taken from 1:21 p.m. until 1:31 p.m.

VII. Chinese Public Company Investment Discussion

The Chair recognized Mr. Hitchcock to lead a discussion on the risks associated with publicly traded Chines companies listed on U.S. stock exchanges. He noted that this topic had been raised at prior Commission meetings and indicated that Staff had been monitoring actions by the Trump Administration, SEC, the Public Company Accounting Oversight Board (the "PCAOB") and Congress. He reminded the Commission that a central cause of concern has been the lower level of transparency regarding accounting and audit oversight as well as related issues. Mr. Hitchcock gave a brief overview of an executive order recently issued by President Trump banning U.S. persons and entities from investing in 33 publicly traded Chinese companies with significant ties to the Chinese military. He also summarized recent potential regulatory actions by the SEC and the "Holding Foreign Companies Accountable Act" legislation recently passed by Congress regarding this topic which, Mr. Hitchcock noted, the President was expected to sign. The legislation will require the SEC to promulgate regulations to effectuate its implementation. Mr. Hitchcock noted that, after discussions with BlackRock, State Street and others, Staff feels confident that if the prohibitions stand, the index providers will provide a solution to avoid investing in these companies, while maintaining the simplicity and low cost of the current implementation. He noted that RSIC would not want to make the Portfolio more complex and/or costly if the index providers are ultimately expected to offer a much simpler, lower-cost solution. Mr. Hitchcock recommended that Staff continue to monitor the rules promulgated by the SEC, as well as the solutions developed by the index providers. After extensive discussion, the Commission expressed an interest in obtaining further education regarding these matters, and Mr. Hitchcock stated that Staff would arrange for some in the near future.

VIII. Delegated Investment Report

Chair Hancock recognized Mr. Berg for the delegated investment report. The following delegated investments were closed by Staff since the Commission's September 10, 2020 meeting.

Asset Class	Investment	Investment Amount	Closing Date
Infrastructure	Grain Spectrum Holdings III	$100 M	September 15, 2020
Real Estate	Stockbridge Value Fund IV	$100 M	October 13, 2020
Private Equity	WestCap Strategic Operator Fund	$50 M firm/Up to $50 M discretionary	October 16, 2020
Private Credit	Fortress Lending Fund II	$75 M	October 29, 2020
Private Credit	Fortress COF V (Multi-strategy Opportunistic Credit Fund)	$75 M	October 29, 2020

IX. Executive Session

Mr. Gillespie moved 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; to discuss personnel matters pursuant to S.C. Code Ann. Section 30-4-70(a)(1) and to receive legal advice as needed from legal counsel pursuant to S.C. Section 30-4-70(a)(2). Mr. Condon seconded the motion, which was unanimously approved.

A break was taken from 12:03 p.m. until 12:08 p.m.

X. 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.

XI. Adjournment

There being no further business, the Commission adjourned by unanimous consent after exiting from Executive Session.

[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 15th Floor Presentation Center at 1201 Main Street, Columbia, S.C., 4:26 p.m. on November 30, 2020]