RSIC
RETIREMENT SYSTEM INVESTMENT COMMISSION

Commission Meeting Agenda

Thursday, March 4, 2021 9:30 a.m.

MEETING PARTICIPANTS WILL APPEAR VIA TELECONFERENCE
Meeting Streaming Via www.rsic.sc.gov
RSIC Presentation Center Open for Public Access to Teleconference

I. Call to Order and Consent Agenda
   A. Adoption of Proposed Agenda
   B. Approval of December 2020 and February 2021 Minutes

II. Actuarial Valuation Update – GRS Actuarial Consultants

III. Chair's Report

IV. Committee Reports

V. Capital Market Expectations Review – Meketa Investment Group

VI. CEO's Report
   A. Consolidated Annual Investment Plan and Statement of Investment Objectives and Policies – Review; Presentation of Proposed Changes
   B. RSIC Governance Presentation

VII. CIO's Report
   A. Quarterly Investment Performance Update

VIII. Delegated Investment Report

IX. Executive Session to discuss investment matters pursuant to S.C. Code Sections 9-16-80 and 9-16-320, including a comprehensive review of the bonds portfolio performance and a discussion of various underlying holdings, a review of the Co-Investment Program's performance and a discussion of various program investments, and a review of potential investments in the due diligence process; and to receive advice as needed from legal counsel pursuant to S.C. Code Section 30-4-70(a)(2) related to potential investment matters.

1201 MAIN STREET, SUITE 1510, COLUMBIA, SC 29201 // (P) 803.737.6885 // (F) 803.737.7070 // WWW.RSIC.SC.GOV

X. Potential Action Resulting from Executive Session

XI. Adjourn

NOTICE OF PUBLIC MEETING

This notice is given to meet the requirements of the S.C. Freedom of Information Act and the Americans with Disabilities Act. Furthermore, this facility is accessible to individuals with disabilities, and special accommodations will be provided if requested in advance.

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]

DRAFT

South Carolina Retirement System Investment Commission
Meeting Minutes

February 5, 2021 1:15 p.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 William H. Hancock called the meeting of the South Carolina Retirement System Investment Commission ("Commission") to order at 1:15 p.m. Dr. Rebecca Gunnlaugsson moved to approve the proposed agenda as presented. Mr. Allen Gillespie seconded the motion, which was approved unanimously.

II. Executive Session.

Dr. Ronald Wilder moved that the Commission recede into Executive Session to discuss investment matters pursuant S.C. Code Sections 9-16-80 and 9-16-320; including receiving a briefing on propriety matters related to a specific potential private equity investment and other related potential private equity investments; and to receive advice from legal counsel pursuant to S.C. Code Section 30-4-70(a)(2) related to potential investment matters. Mr. Gillespie seconded the motion, which passed unanimously.

III. Adjournment

There being no further business, the Commission adjourned by unanimous consent after exiting from Executive Session at 2:53 p.m.

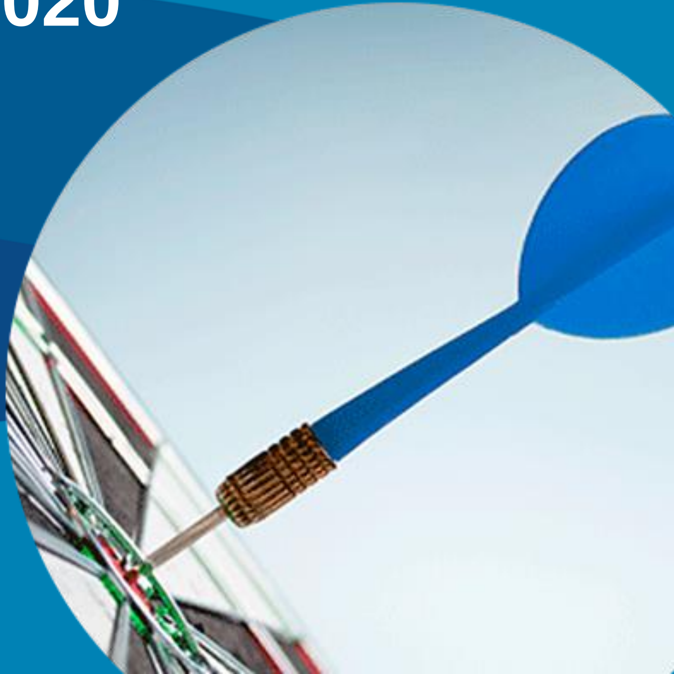
[Staff Note: In compliance with S.C. Code Section 30-4-0, public notice of and the agenda for this meeting was delivered to the press and to parties who requested notice and were posted at the entrance, in the lobbies and near the 15th Floor Presentation Center at 1201 Main Street, Columbia, S.C., 5:01 p.m. on February 2, 2021]

South Carolina Retirement System Investment Commission

Actuarial Valuations as of July 1, 2020

Joe Newton, FSA, EA, MAAA
Danny White, FSA, EA, MAAA

March 4, 2021



Summary of Changes Since the Prior Valuation

- Gains and Loss Summary for SCRS
  - $2.4B less assets than expected
  - $0.2B more liability than expected
- Statutory Scheduled Employer Contribution Rates
  - Amended by Act 135 of 2020, delaying the increases 1 year
    - SCRS: 15.56% continues for FY 20/21; 16.56% effective July 1, 2021; continued increases to 18.56%
    - PORS: 18.24% continues for FY20/21; 19.24% effective July 1, 2021; continued increases to 22.24%
- No change in assumptions or methods in the July 1, 2020 actuarial valuation

Comments Regarding Act 135 of 2020

- The originally scheduled contribution rates provided some margin for adverse experience before requiring additional increases in the contribution rate
- It is important for the sustainability of the System that the contribution rate increases in statute continue without further adjustment or delay
  - These scheduled increases in contribution rates are essential to strengthen financial condition of the System prospectively

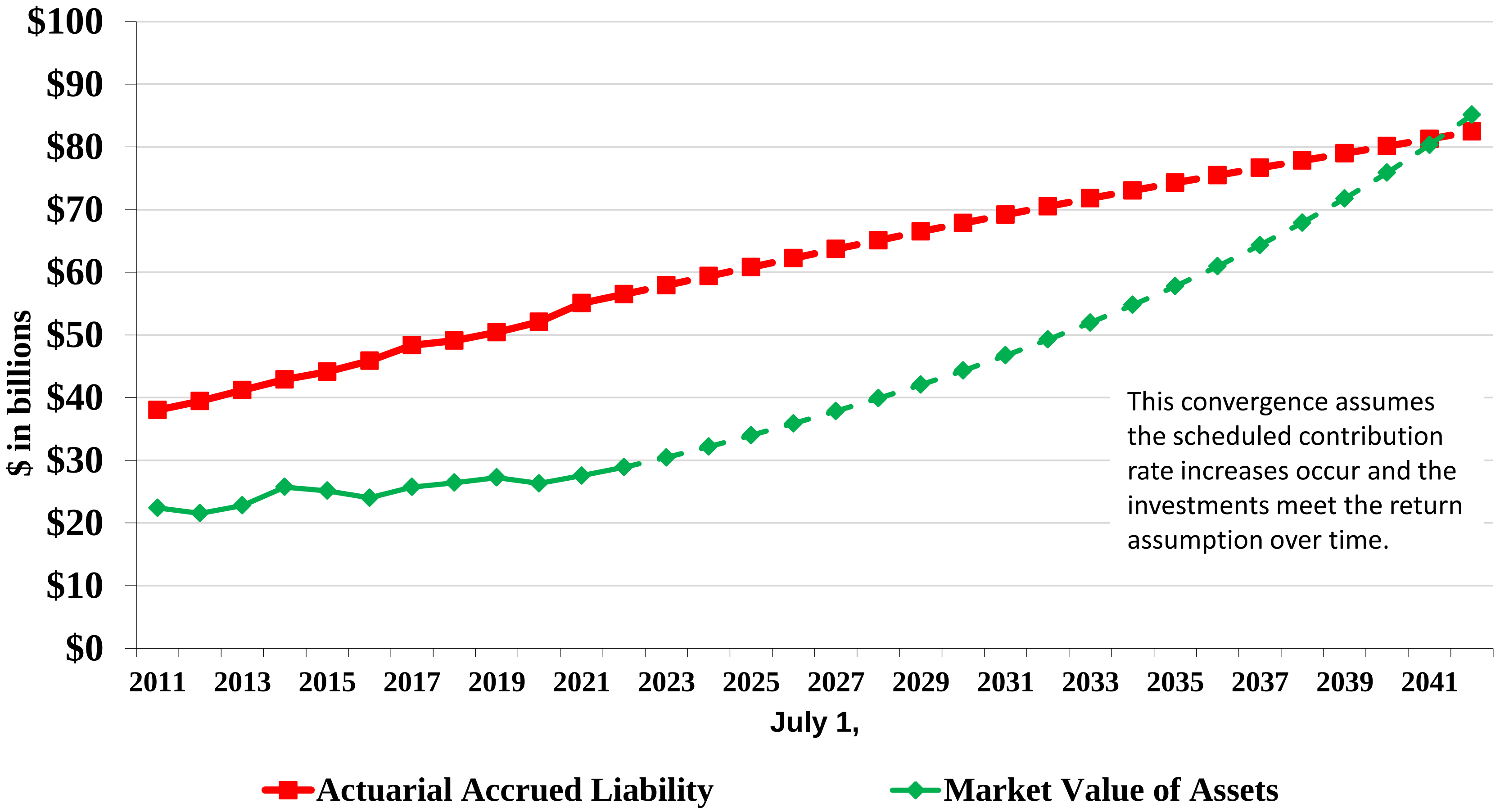
GRS

Summary of July 1, 2020 Valuation Results – SCRS and PORS ($ in millions)

	SCRS		PORS	
Item	**2020**	**2019**	**2020**	**2019**
(1)	(2)	(3)	(4)	(5)
Actuarial accrued liability	$52,061	$50,439	$8,112	$7,737
Actuarial (smoothed) value assets	28,172	27,444	5,070	4,854
Unfunded liability (UAAL)	$23,889	$22,995	$3,042	$2,885
Funded ratio	54%	54%	63%	63%
Member contribution rate	9.00%	9.00%	9.75%	9.75%
Employer contribution rate next FY	16.56%	15.56%	19.24%	18.24%
Total contribution rate	25.56%	24.56%	28.99%	27.99%
Calculated funding period (based on FY 2022 contribution rate)	20 Years	23 Years	18 Years	20 Years
Expected contributions (actual for prior year)				
Member	$924	$923	$152	$152
Employer	1,788	1,737	284	276

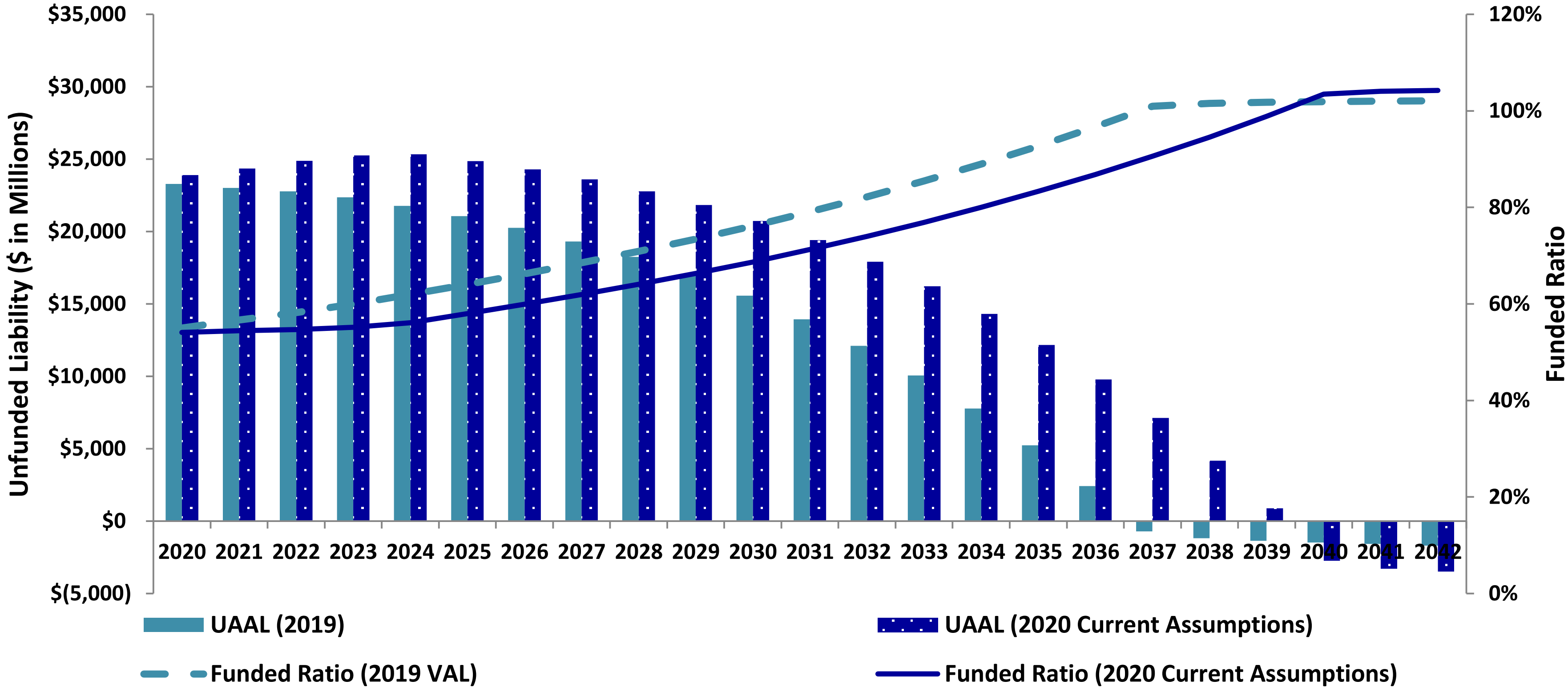
Projection Information
SCRS

Historical and Projected Liability and Assets - SCRS



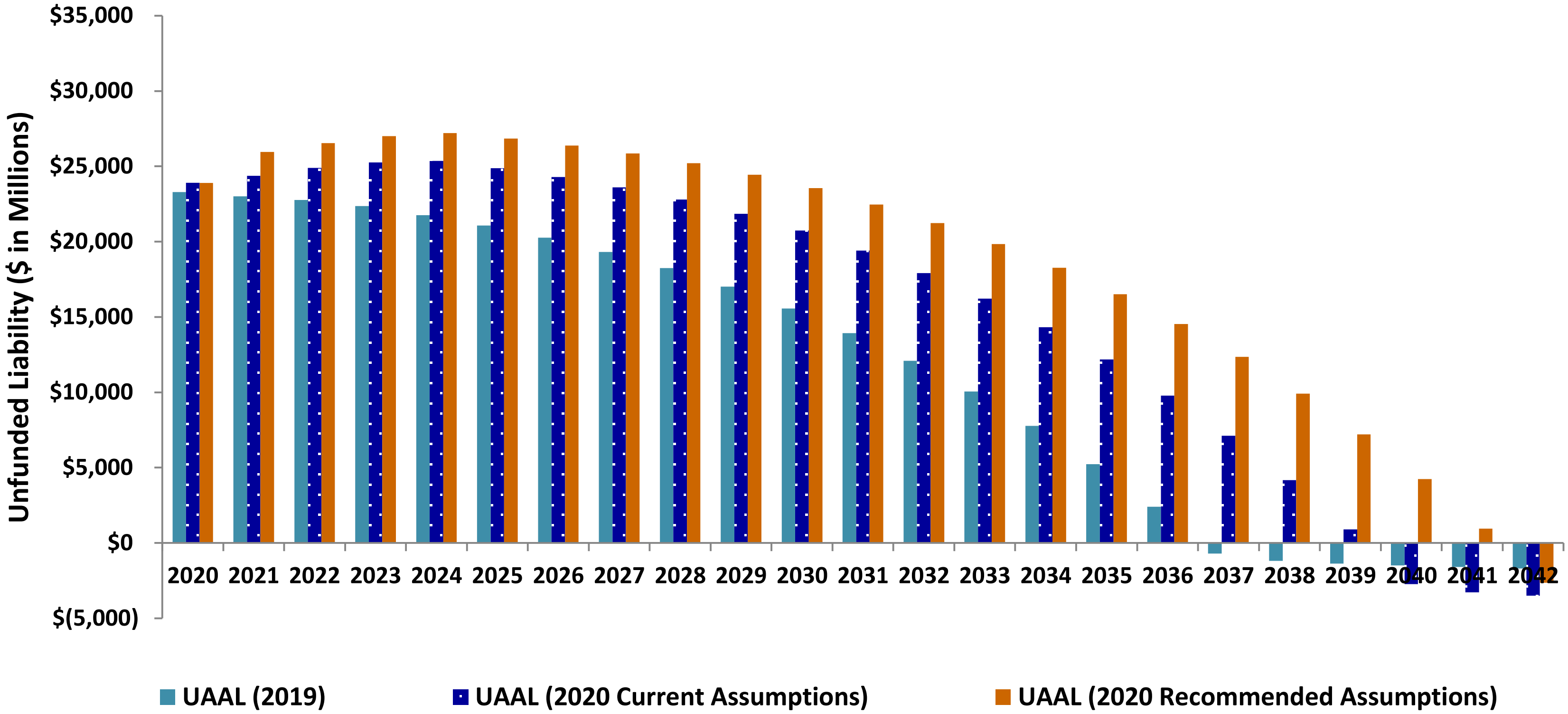
Projection information reflects all future scheduled contribution rate increases and is based on current actuarial assumptions (including a 7.25% return assumption) for 2020 and proposed assumptions starting 2021 (including a 7.00% return assumptions)

Projected Unfunded Liability – SCRS 2019 Valuation Versus 2020 Valuation



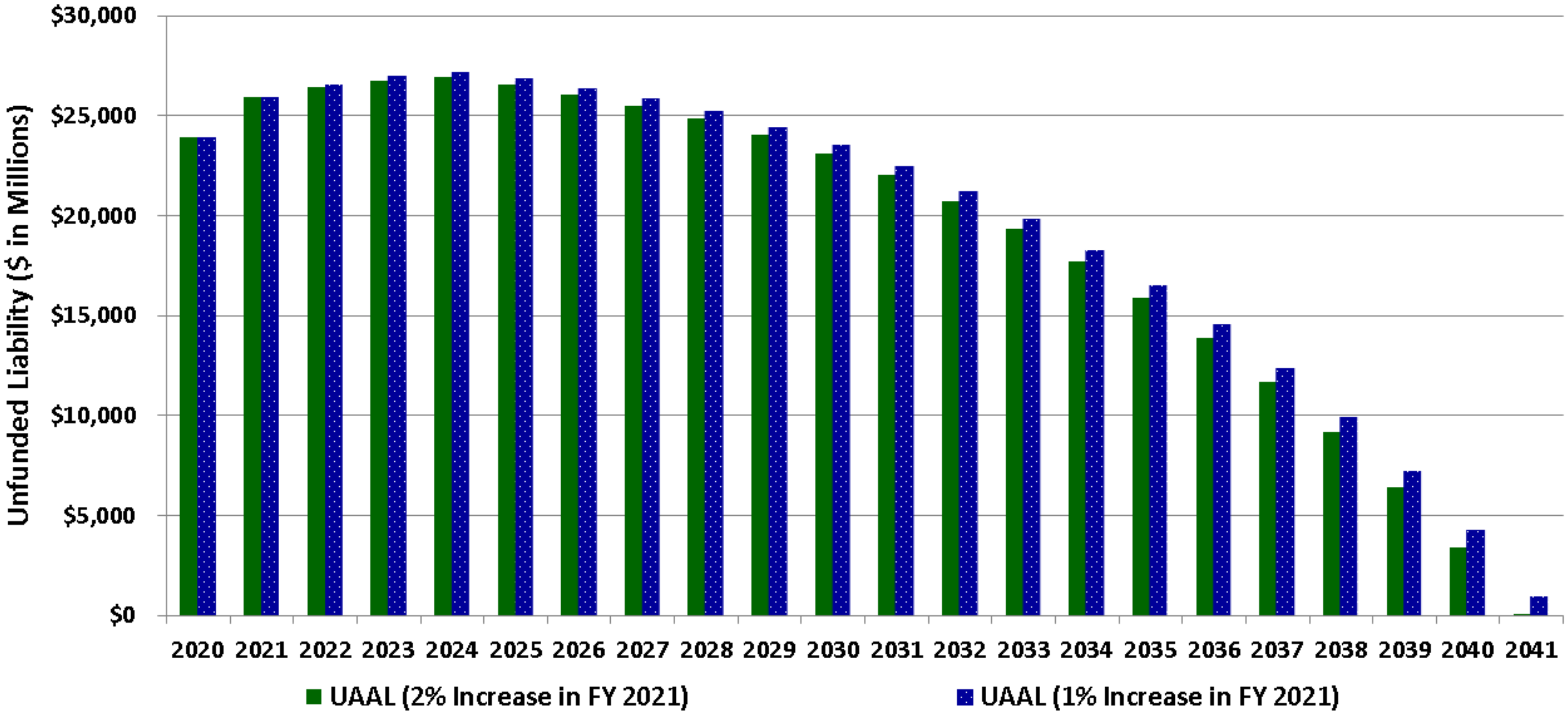
The projection for 2020 reflects all future scheduled contribution rate increases and is based on current actuarial assumptions (including a 7.25% return assumption).

Projected Unfunded Liability – SCRS
2019 Valuation Versus 2020 Valuation, including Recommended Assumptions



Projection information for 2020 reflects all future scheduled contribution rate increases and is based on current actuarial assumptions (including a 7.25% return assumption) for 2020 and recommended assumptions starting 2021 (including a 7.00% return assumption).

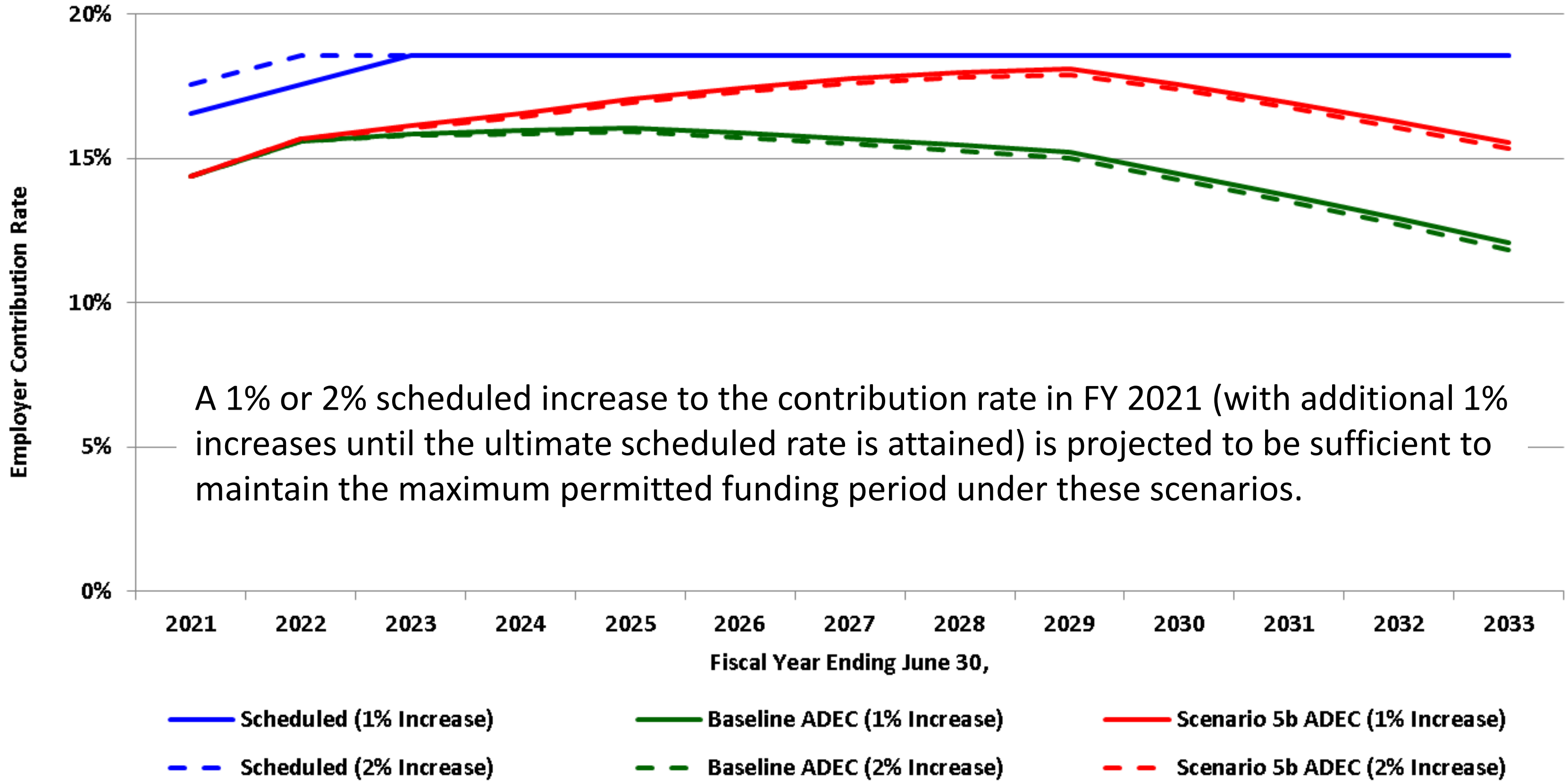
Projected Unfunded Liability – SCRS
1% Versus 2% Contribution Rate Increase in FY 2021



Projection provides the impact of a 1% versus 2% contribution rate increase in FY 2021 with additional increases until the ultimate scheduled rate is attained. The projection also reflects the recommended demographic and economic assumptions starting in 2021 (including a 7.00% return assumption).

GRS

Projected Contribution Rates – SCRS Legislative Decision Making (Scenario 5b)

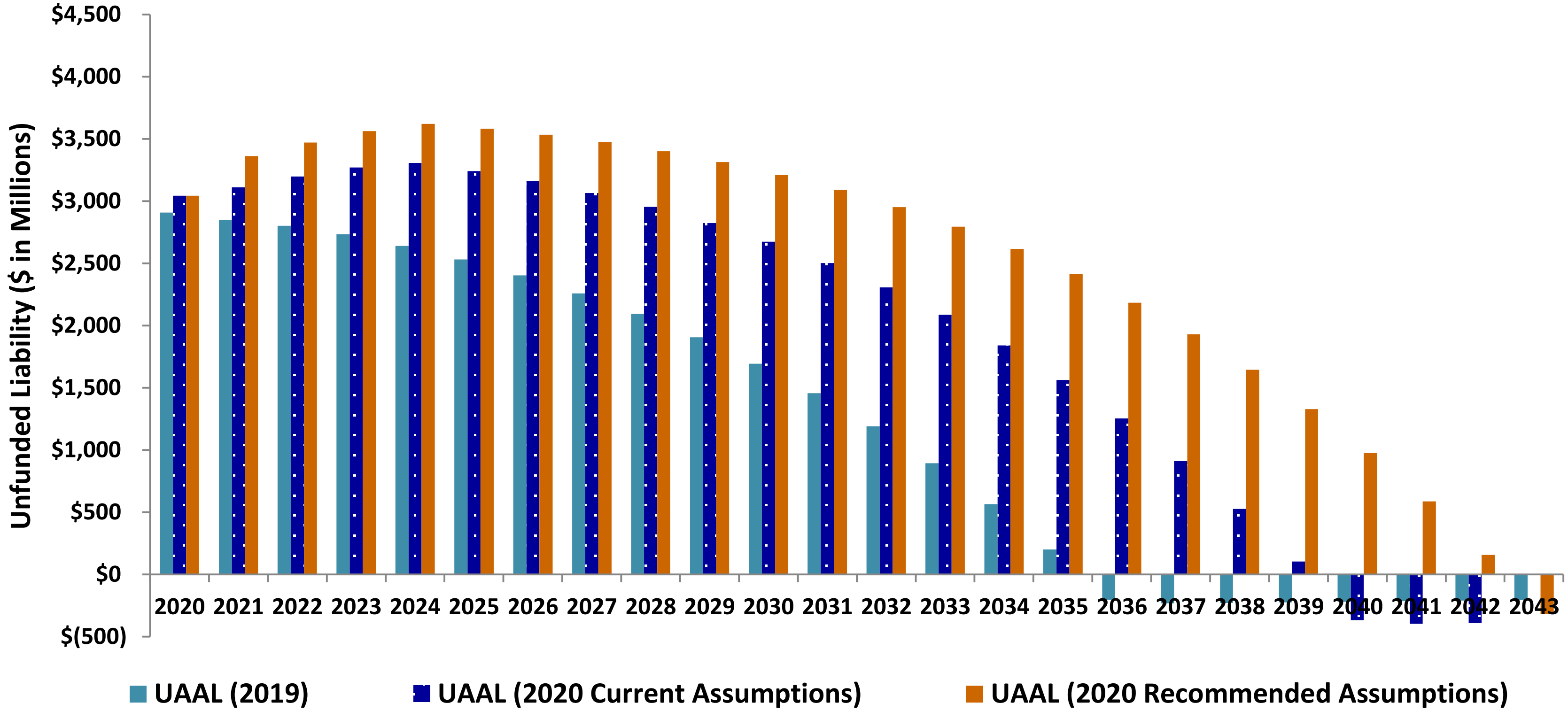


Projection provides the impact of a 1% versus 2% contribution rate increase in FY 2021 with additional increases until the ultimate scheduled rate is attained. The projection also reflects the recommended demographic and economic assumptions starting in 2021 (including a 7.00% return assumption). Scenario 5b assumes emerging investment experience is 4.00% for each of the next five years and 7.00% each year thereafter.

Projection Information
PORS

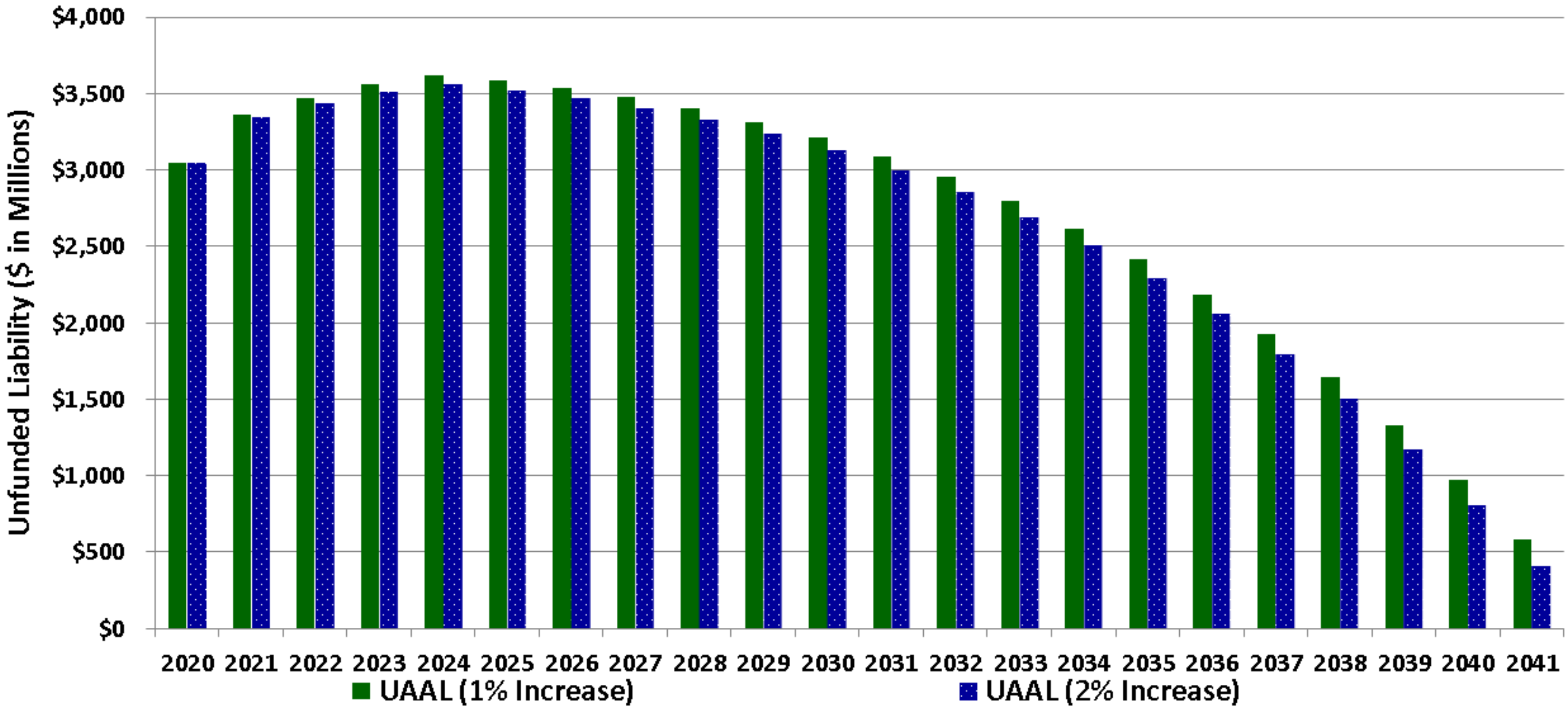
Projected Unfunded Liability – PORS

2019 Valuation Versus 2020 Valuation, including Recommended Assumptions



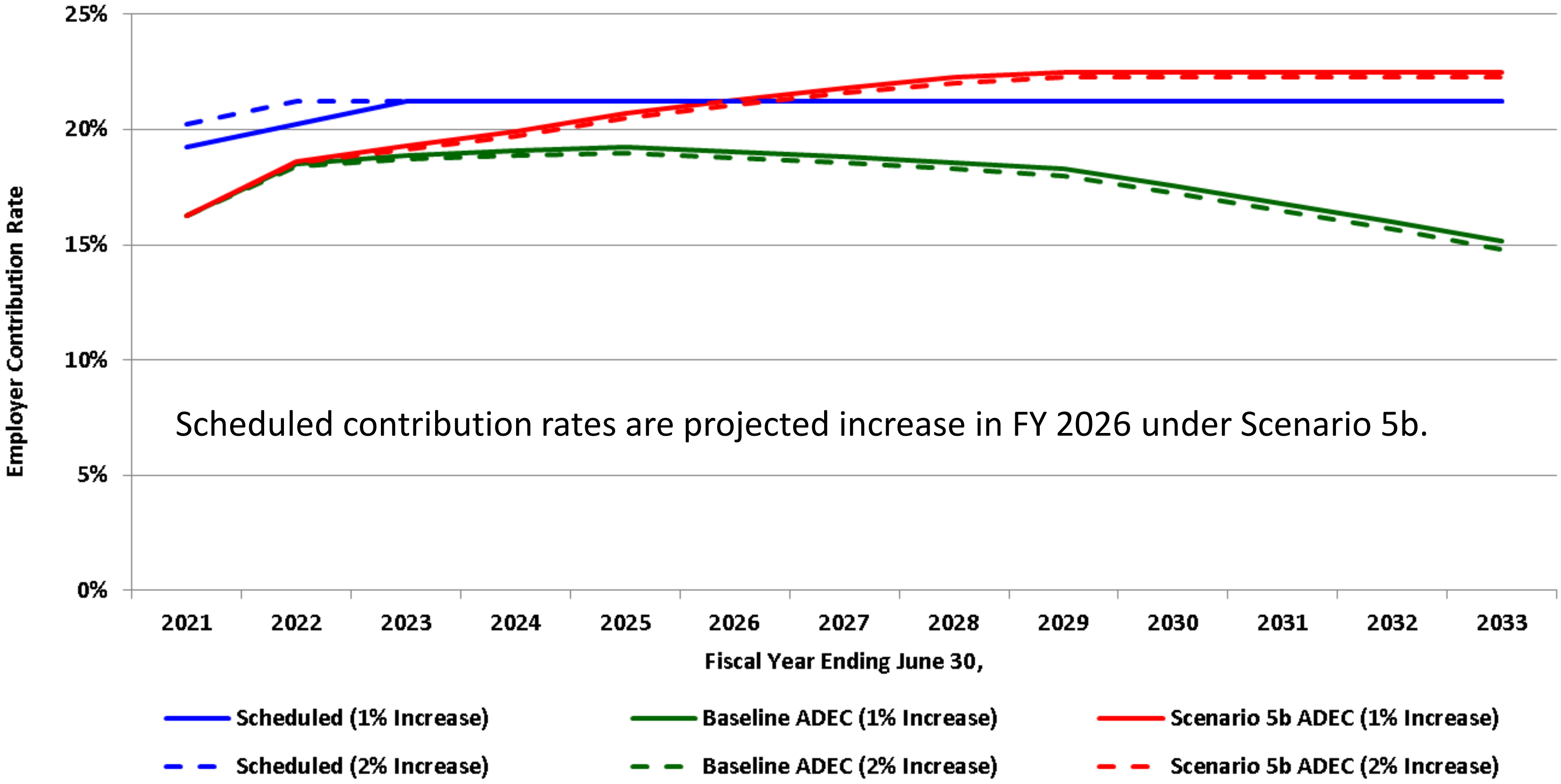
Projection information for 2020 reflects all future scheduled contribution rate increases and is based on current actuarial assumptions (including a 7.25% return assumption) for 2020 and recommended assumptions starting 2021 (including a 7.00% return assumptions).

Projected Unfunded Liability – PORS
1% Versus 2% Contribution Rate Increase in FY 2021



Projection provides the impact of a 1% versus 2% contribution rate increase in FY 2021 with additional increases until the ultimate scheduled rate is attained. The projection also reflects the recommended demographic and economic assumptions starting in 2021 (including a 7.00% return assumption).

Projected Contribution Rates – PORS Legislative Decision Making (Scenario 5b)



Projection provides the impact of a 1% versus 2% contribution rate increase in FY 2021 with additional increases until the ultimate scheduled rate is attained. The projection also reflects the recommended demographic and economic assumptions starting in 2021 (including a 7.00% return assumption). Scenario 5b assumes emerging investment experience is 4.00% for each of the next five years and 7.00% each year thereafter.

Closing Comments

- The 2017 pension reform legislation that enacted the scheduled increase in the contribution rates through FY 2023 provided margin to weather some adverse experience
  - Projections based on the 2020 valuation continue so that the scheduled increase in the contribution rates (as amended by Act 135 in 2020) continue to be sufficient to maintain a funding period below the maximum permitted in State Code for SCRS and PORS.
  - However, there is now less margin to weather future adverse experience before requiring an increase in the contribution rate

Closing Comments (cont.)

- It is imperative the scheduled increases in contribution rates continue to occur. The System has not yet experienced decreases in the UAAL or increases in the funded ratio. The projected decline in the UAAL is contingent on the increases occurring.
- Smaller employer budgets and higher contribution rates may present a financial incentive for some participating employers to explore employment strategies that reduce their covered payroll and their required contributions to the System.

Disclaimers

- This presentation is intended to be used in conjunction with the actuarial valuations as of July 1, 2020. This presentation should not be relied on for any purpose other than the purpose described in the valuation report.
- This presentation shall not be construed to provide tax advice, legal advice or investment advice.

South Carolina Retirement System Investment Commission

2021 Capital Markets Expectations

Executive Summary

- We update our capital markets expectations each year in January.
  - Changes are driven by many factors, including interest rates, credit spreads, and equity prices.
- In 2020, yields went down, credit spreads tightened, and prices went up for most risk assets.
  - Hence our expected returns have declined for almost every asset class.
- The result is that for the Commission, our long-term return[1] expectation for the portfolio declined from 7.22% to 6.56%.

[1] Twenty year projections.

Setting Capital Market Expectations

- Capital Markets Expectations (CME's) are the inputs needed to conduct mean-variance optimization (MVO).
  - MVO is the traditional starting point for determining asset allocation.
- Consultants (including Meketa) generally set CME's once a year.
  - Our results are published in January, based on December 31 data.
- This involves setting long-term expectations for a variety of asset classes for:
  - Returns
  - Standard Deviation
  - Correlations (i.e., covariance)
- Our process relies on both quantitative and qualitative methodologies.

Asset Class Definitions

- We identify asset classes and strategies that are appropriate for long-term allocation of funds, and that also are investable.
- Several considerations influence this process:
  - Unique return behavior
  - Observable historical track record
  - A robust market
  - Client requests
- We then make forecasts for each asset class.
  - We created inputs for 86 “asset classes” in 2021.

Building 10-year forecasts

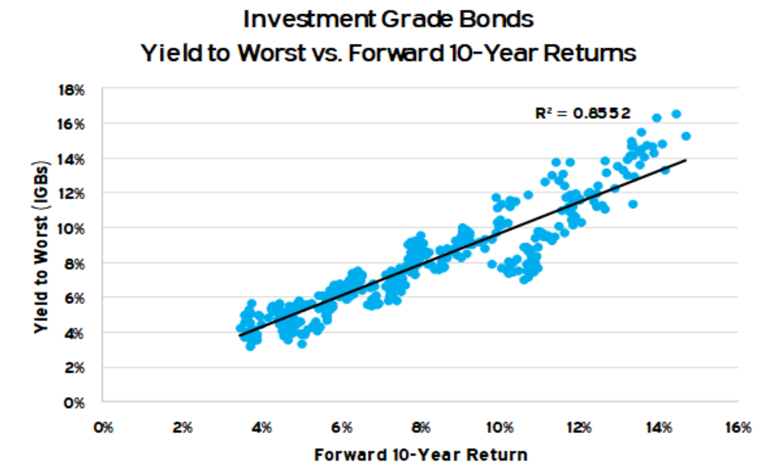
- Our first step is to develop 10-year forecasts based on fundamental models.
  - Each model is based on the most important factors that drive returns for that asset class:

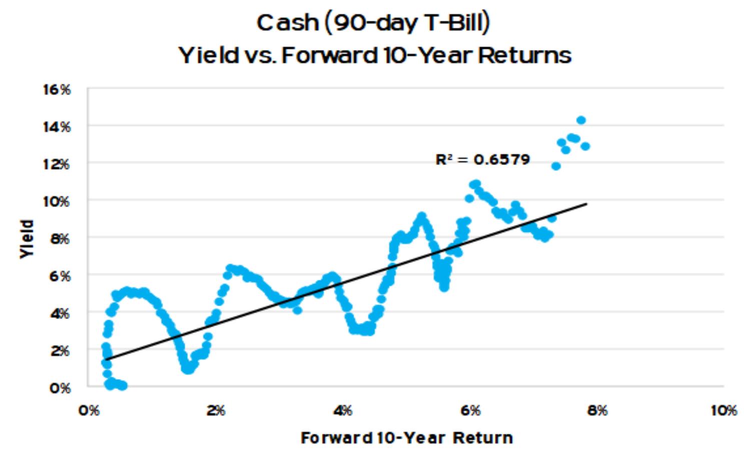
Asset Class Category	Major Factors
Equities	Dividend Yield, GDP Growth, Valuation
Bonds	Yield to Worst, Default Rate, Recovery Rate
Commodities	Collateral Yield, Roll Yield, Inflation
Infrastructure	Public IS Valuation, Income, Growth
Natural Resources	Price per Acre, Income, Public Market Valuation
Real Estate	Cap Rate, Yield, Growth
Private Equity	EBITDA Multiple, Debt Multiple, Public VC Valuation
Hedge Funds and Other	Leverage, Alternative Betas

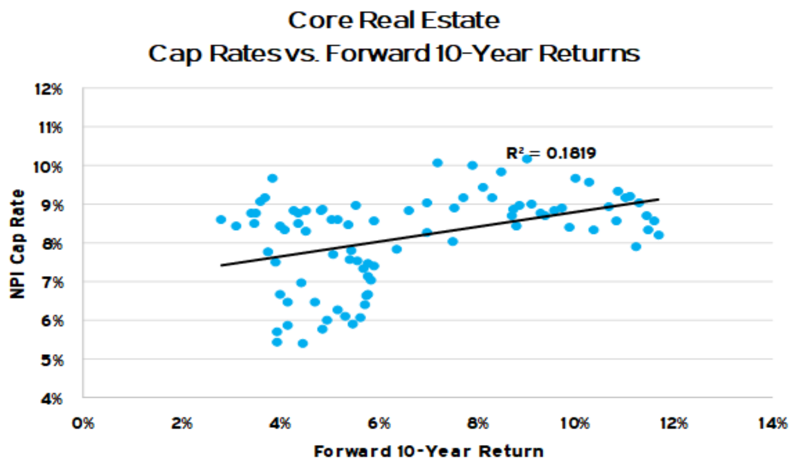
  - The common components are income, growth, and valuation.

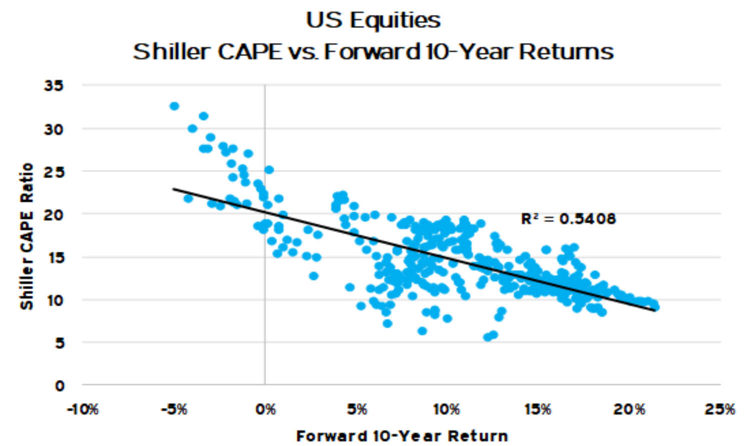
MEKETA

Some factors are naturally more predictive than others









Moving from 10-year to 20-year Forecasts

- Our next step is to combine our 10-year forecasts with projections for years 11-20 for each asset class.
- We use a risk premia approach to forecast 10-year returns in ten years (i.e., years 11-20).
  - We start with an assumption (market informed, such as the 10-year forward rate) for what the risk free rate will be in ten years,
  - We then add a risk premia for each asset class.
  - We use historical risk premia as a guide, but many asset classes will differ from this, especially if they have a shorter history.
- We seek consistency with finance theory (i.e., riskier assets will have a higher risk premia assumption).
- Essentially, we assume mean-reversion over the first ten years (where appropriate), and consistency with CAPM thereafter.
- The final step is to make any qualitative adjustments.
  - The Investment Policy Committee reviews the output and may make adjustments.

Capital Market Assumption Development Example: Equities

- We use a fundamental model for equities that combines income and capital appreciation.

E(R) = Dividend Yield + Expected Earnings Growth + Multiple Effect + Currency Effect

- Meketa Investment Group evaluates historical data statistically to develop expectations for dividend yield, earnings growth, the multiple effect and currency effect.
- Our models assume that there is a reversion to the mean pricing over long time periods.

Capital Market Assumption Development Example: Bonds

- The short version for investment grade bond models is:

$$E(R) = \textit{Current YTW (yield to worst)}$$

- Our models assume that there is a reversion to the mean for spreads (though not yields).
- For TIPS, we add the real yield of the TIPS index to the breakeven inflation rate.
- As with equities, we make currency adjustments when necessary for foreign bonds.
- For bonds with credit risk, Meketa Investment Group estimates default rates and loss rates in order to project an expected return:

$$E(R) = YTW - (\textit{Annual Default Rate} \times \textit{Loss Rate})$$

The other inputs: standard deviation and correlation

- Standard deviation:
  - We review the trailing fifteen-year standard deviation, as well as skewness.
  - Historical standard deviation serves as the base for our assumptions.
  - If there is a negative skew, we increased the volatility assumption based on the size of the historical skewness.

Asset Class	Standard Deviation	Skewness	Assumption
Bank Loans	6.6%	-2.3	9.0%

  - We also adjust for private market asset classes with "smoothed" return streams.
- Correlation:
  - We use trailing fifteen-year correlations as our guide.
  - Again, we make adjustments for "smoothed" return streams.
- Most of our adjustments are conservative in nature (i.e., they increase the standard deviation and correlation).

Fixed Income

	2021 E(R) (%)	2020 E(R) (%)	Δ from 2020 (%)	Notes
Cash Equivalents	1.1	2.4	-1.3	Lower rates
Investment Grade Bonds	1.8	3.0	-1.2	Lower yields
Long-term Government Bonds	2.5	3.2	-0.7	Lower yields
TIPS	1.8	2.9	-1.1	Lower yields
High Yield Bonds	4.2	5.2	-1.0	Lower yields and tighter spreads
Bank Loans	4.0	5.0	-1.0	Lower yields
Emerging Market Bonds (major)	3.7	4.5	-0.8	Lower yields
Emerging Market Bonds (local)	3.9	4.8	-0.9	Lower yields
Private Debt	6.8	6.9	-0.1	Lower yields

Equities

	2021 E(R) (%)	2020 E(R) (%)	Δ from 2020 (%)	Notes
Global Equity	7.1	7.8	-0.7	Higher price-to-earnings, lower dividend
US Equity	6.8	7.4	-0.6	Higher price-to-earnings, lower dividend
Developed Non-US Equity	7.1	7.9	-0.8	Higher price-to-earnings, lower dividend
Emerging Market Equity	8.1	9.1	-1.0	Higher price-to-earnings, lower dividend
Option-based Equity	4.7	6.0	-1.3	Higher equity prices
Private Equity	9.1	9.4	-0.3	Higher prices, offset by lower borrowing costs

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Real Assets

	2021 E(R) (%)	2020 E(R) (%)	Δ from 2020 (%)	Notes
Real Estate	6.9	7.5	-0.6	Lower cap rates
Core Private Real Estate	5.5	6.3	-0.8	Lower cap rate, partially offset by lower cost of borrowing
Value Added Real Estate	7.7	8.4	-0.7	Lower cap rate, partially offset by lower cost of borrowing
REITs	7.2	7.0	0.2	Higher yields
Infrastructure (Public)	7.4	7.5	-0.1	Lower price to earnings
Infrastructure (Core Private)	7.0	6.7	0.3	Lower prices and lower cost of borrowing
Infrastructure (Non-Core Private)	9.0	9.1	-0.1	Higher prices offset by lower cost of borrowing

Alternative Strategies (Other)

	2021 E(R) (%)	2020 E(R) (%)	Δ from 2020 (%)	Notes
Hedge Funds	4.3	4.9	-0.6	Higher prices, lower yields
TAA	4.1	4.4	-0.3	Higher prices; lower yields
Risk Parity	4.0	5.4	-1.4	Higher prices, lower yields
US Inflation	2.1	2.6	-0.5	

Peer Study (2020 Horizon Survey)

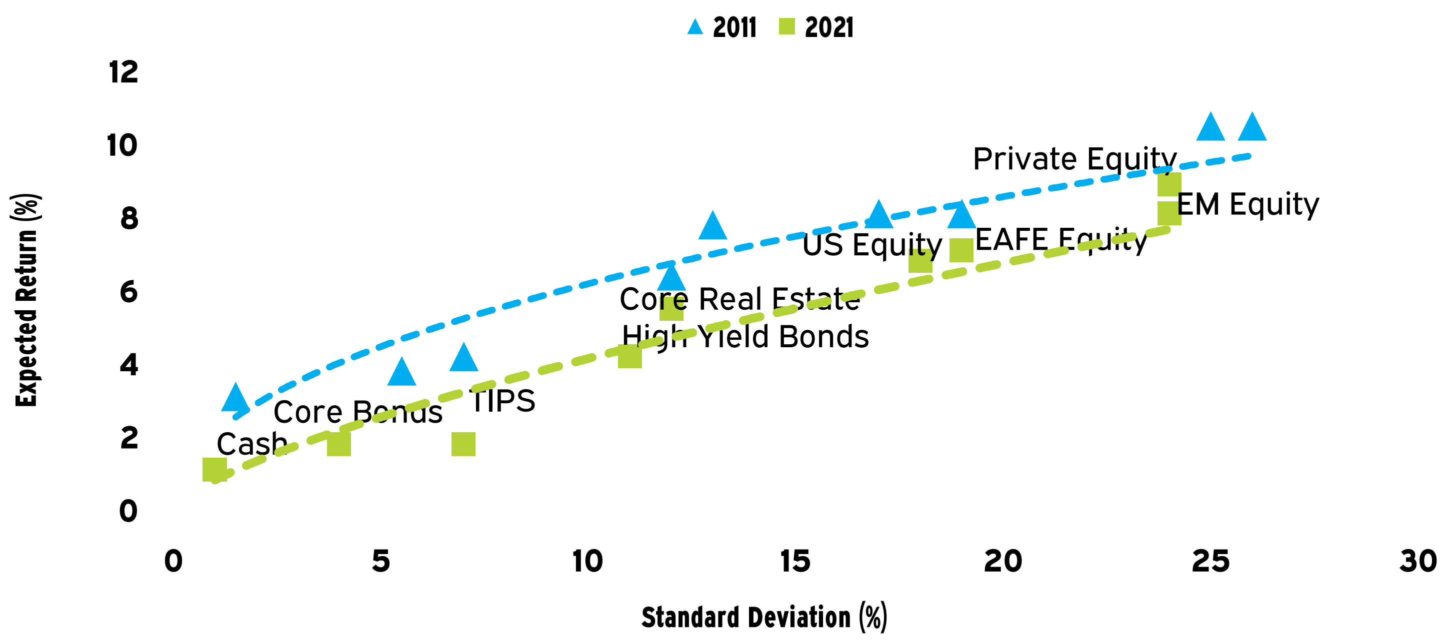
- Annually, Horizon Actuarial Services, LLC publishes a survey of capital market assumptions that they collect from various investment advisors.[1]
- The Horizon survey is a useful tool for Commissioners to determine whether their consultant's expectations for returns (and risk) are reasonable.

Asset Class	10-Year Average (%)	Meketa 10-Year (%)	20-Year Average (%)	Meketa 20-Year (%)
Cash Equivalents	1.6	0.5	2.3	1.3
TIPS	2.0	1.3	2.7	2.1
US Core Bonds	2.6	1.2	3.6	2.1
US High Yield Bonds	4.9	4.0	5.6	4.9
Emerging Market Debt	5.2	4.0	5.9	4.3
Private Debt	7.8	6.5	7.9	6.7
US Equity (large cap)	6.2	5.2	7.1	7.2
Developed Non-US Equity	6.8	7.4	7.5	7.8
Emerging Non-US Equity	7.9	8.4	8.4	8.8
Private Equity	9.1	8.1	9.9	9.1
Real Estate	5.8	6.4	6.6	7.0
Infrastructure	6.9	6.4	7.3	6.4
Commodities	3.2	4.3	4.0	3.9
Hedge Funds	4.7	3.1	5.7	4.3
Inflation	2.0	1.8	2.2	2.2

[1] The 2020 survey included 39 respondents. The 10-year horizon included all 39 respondents, and the 20-year horizon included 18 respondents. Figures based on Meketa's 2020 interim Capital market expectations.

The Big Picture: Less Return for the Same Risk[1]

- The relationship between long-term return expectations and the level of risk accepted is not static.
- Achieving the returns you have in the past will require taking on greater levels of risk than you have historically.



[1] Expected return and standard deviation are based upon Meketa Investment Group's 2011 and 2021 Capital Markets Expectations.

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South Carolina Retirement System Investment Commission

Comparing the Results from 2021 to 2020

Current Asset Allocation Policy

	5 Asset Mix Policy (%)	5 Asset Mix with Portable Alpha (%)	Reference Portfolio (%)
Global Equity	46	46	70
Bonds	26	26	30
Private Equity	9	9	0
Private Debt	7	7	0
Real Assets	12	12	0
Portable Alpha	0	10	0

	5 Asset Mix		5 Asset Mix with Portable Alpha		Reference Portfolio	
	2021 (%)	2020 (%)	2021 (%)	2020 (%)	2021 (%)	2020 (%)
Expected Return	6.56	7.22	6.83	7.43	5.95	6.78
Standard Deviation	12.52	11.69	13.12	12.25	12.75	12.02
Probability of Achieving 7.25%+ over 20 Years	39.6	49.0	43.7	52.1	31.9	42.6
Probability of Achieving 7.0%+ over 20 Years	43.1	52.8	47.1	55.8	35.1	46.3

Conclusion

- As a result of the strong market returns in calendar year 2020, the Commission is in better financial condition than it was twelve months prior.
- The "downside" of such returns is that the forward-looking returns for the portfolio declined.

SOUTH CAROLINA RETIREMENT SYSTEM INVESTMENT COMMISSION

CONSOLIDATED ANNUAL INVESTMENT PLAN AND STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES

As amended and adopted on______________________, 2020

Role of this Document

The State of South Carolina administers five defined benefit pension plans: the South Carolina Retirement System ("SCRS"), the Police Officers Retirement System ("PORS"), the Retirement System for Members of the General Assembly ("GARS"), the Retirement System for Judges and Solicitors ("JSRS"), and the South Carolina National Guard Supplemental Plan ("SCNG") (together, the "Plan").

The South Carolina General Assembly established the Retirement System Investment Commission ("RSIC") as a state agency in 2005 and provided it with the exclusive authority to invest and manage the assets of the Plan which it does in one group trust. RSIC is governed by an eight-member board (the "Commission"). The Commission is a co-fiduciary of the assets of the Plan along with the South Carolina Public Employee Benefit Authority Board ("PEBA").

State law requires the Commission to adopt a Statement of Investment Objectives and Policies ("SIOP") and to review it annually and to either amend it or reaffirm it. The SIOP establishes investment and performance objectives, policies and guidelines, roles, responsibilities, and delegation of authority for the management of plan assets. State law also requires RSIC's Chief Investment Officer ("CIO") to develop an Annual Investment Plan ("AIP") which must be presented to and adopted by the Commission prior to May 1st of each year. Pursuant to state law, relevant portions of the SIOP may constitute parts of the AIP.

In order to ensure consistency and agreement between the SIOP and AIP, the Commission has consolidated the requirements of both into one document which it will review annually prior to May 1st. As part of the annual review, the Commission will amend or reaffirm, as it deems appropriate, those portions of this document intended to meet the requirements of the SIOP and the Commission will consider the CIO's recommendation of any necessary changes to those portions of this document intended to meet the requirements of the AIP. In order to assist the Commission and the CIO in meeting their respective annual requirements, RSIC's Chief Executive Officer ("CEO") will provide a guide that designates those portions of this document that are required by the SIOP and those that are required by the AIP.

The consolidated AIP and SIOP takes effect July 1, 2020.

TABLE OF CONTENTS

I. STRATEGIC PURPOSE, INVESTMENT OBJECTIVE, AND BELIEFS

A. Purpose

The goal of the State's five defined benefit plans is to provide a lifetime of benefits in retirement to those who have dedicated a career of public service to the State and its political subdivisions. The funding to secure this promise of benefits comes from two sources - contributions made by the employee and employer and the investment return earned on the assets of the Plan. The General Assembly has provided the Retirement System Investment Commission with the sole authority to invest and manage the assets of the Plan. Thus, RSIC's purpose is to earn an investment return that aids in fulfilling the promise of benefit payments to our current and future retirees and their beneficiaries.

B. Investment Objective

RSIC's primary investment objective is to design an investment program that produces a long-term rate of return that when added to contributions, funds current and future benefit payments. In doing so, RSIC must remain mindful that the Commissioners, CEO, and CIO are named fiduciaries to the Plan's beneficiaries and must carry out their respective responsibilities to invest and manage the Plan's assets in keeping with the highest duty of care the law recognizes. As a result, the return the investment program seeks to achieve should involve taking a prudent amount of investment risk.

Further, RSIC cannot design an investment program in isolation, but must instead design a program consistent with the realities of the Plan that is guided by the Plan's particular design, structure, and risk factors. An important guiding consideration is that the Plan is mature and as a result experiences net negative cash flows, in that the amount of annual contributions into the Plan is less than the annual amount of benefit payments flowing out of the Plan. As a result, the investment program must be designed in a way to provide sufficient liquidity to fund the net benefit payments to current retirees.

The investment program also must be guided by the consideration that the respective systems comprising the Plan are underfunded, in that the discounted liabilities of each system exceed the actuarial value of each system's assets. The 2020 Actuarial Valuation report from the Plan's actuaries shows the funded status of each system as:

SCRS	PORS	GARS	JSRS	SCNG
54.1%	62.5%	51.6%	42.6%	50.0%

The underfunded nature of the Plan presents the risk that Plan's assets will be insufficient to support future benefit payments. As a result, the investment program must also be designed in a way to grow the assets of the Plan to support payments to future retirees and their beneficiaries. The General Assembly did take significant action to address the underfunded nature of the Plan in the 2017 Pension Reform Bill. The 2017 Pension Reform Bill requires that the unfunded accrued actuarial liability ("UAAL") amortization period for SCRS and PORS be reduced by one year each fiscal year until each plan reaches a twenty-year amortization period. In order to support meeting this requirement, the General Assembly significantly increased contributions into the SCRS and PORS.

Thus, RSIC is tasked with designing an investment portfolio that balances the need to provide sufficient liquidity to fund current net benefit payments while also growing the portfolio in order to aid in providing benefits to future retirees.

Another guiding factor is that the General Assembly has set 7.25 percent as the assumed annual rate of investment return on the Plan's assets. The assumed annual rate of return of is expected to decline to 7 percent at the beginning of the 2022 Fiscal Year. The assumed rate of return not only serves as the discount rate to determine the net present value of the Plan's liabilities, but also serves as the primary driver of the Plan's funding policy. Investment performance relative to the assumed rate of return determines whether contribution rates are sufficient to meet the funding goals and requirements of the Plan.

RSIC realizes that investment performance will not meet or exceed the assumed rate of return every year, but rather strives to construct an investment portfolio that will meet or exceed this rate of return over time at a prudent level of market risk, in keeping with its fiduciary duty to the Plan's beneficiaries. Given the historically low interest rate environment, RSIC recognizes that achieving a long-term rate that exceeds the assumed rate of return requires investing the portfolio in a greater percentage of assets with higher expected volatility than would otherwise be required if interest rates were at historic average levels. As a result, the investment portfolio will experience greater market volatility which not only impacts the probability of the investment return exceeding the assumed rate over time, but also correspondingly impacts the probability of reaching the funded status goals of the Plan without requiring additional contribution rate increases.

As a result, RSIC works to design an investment program that maximizes the probability that the Plan will meet the General Assembly's funded status goals, but also given the high level of contribution rates, strives to minimize the probability that the Plan will require additional contributions above those already required. RSIC believes that it can design an investment program with a significant probability of meeting or making significant progress towards both concerns as demonstrated by the stochastic analysis of our funded status expectations for SCRS set out in Table 1 below and a similar analysis of our contribution rate expectations set out in Table 2 below.

TABLE 1

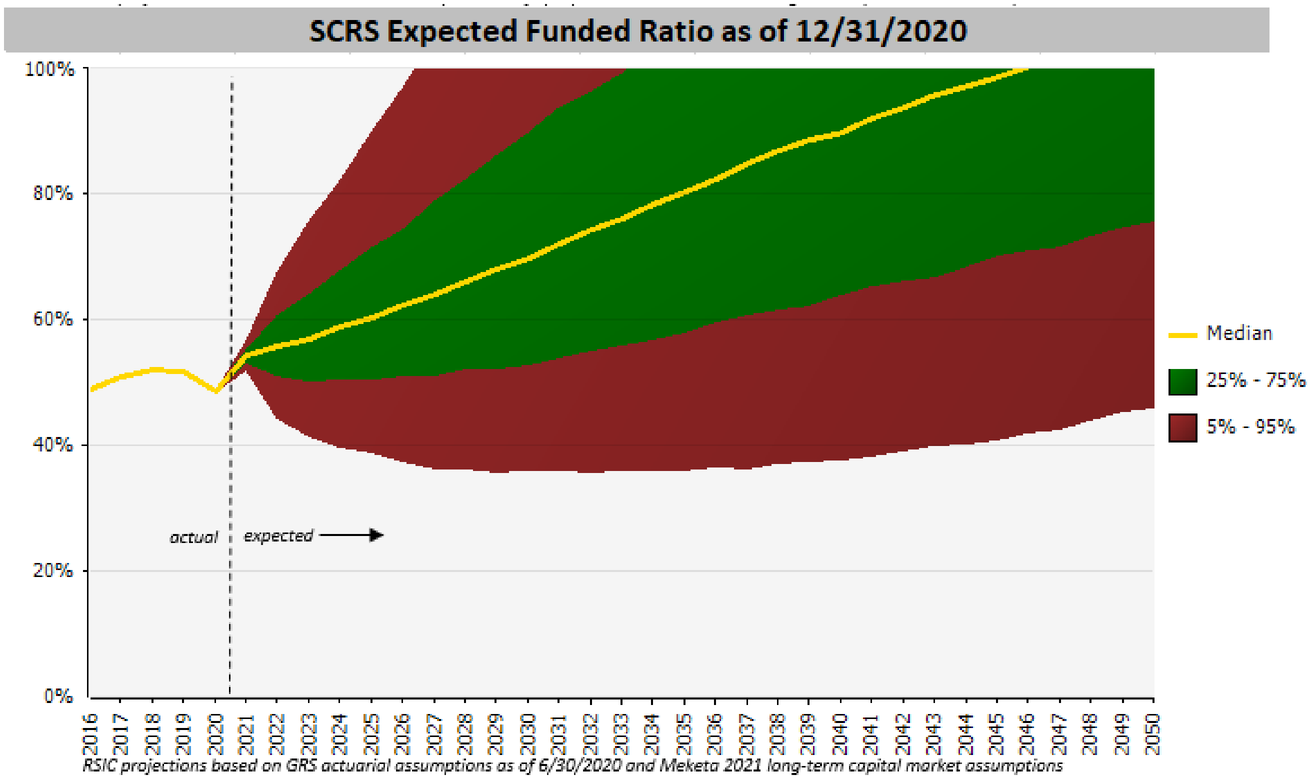


Table 1 tracks the actual, as well as, expected funded status of SCRS since 2016, the year prior to the passage of the 2017 Pension Reform Bill. SCRS is used as the example because its assets comprise the greatest percentage of the total assets of the five systems. The reason for the stochastic approach to the expected funded status is to demonstrate the impact of market volatility on the probable funded status of SCRS through time. The model upon which the simulation is based incorporates the actual structure, components, and assumptions of SCRS, including the contribution policy put into effect by the 2017 Pension reform Bill. The model uses the Commission's Policy Portfolio, described below, as the investment portfolio and includes thousands of iterations based on the 2021 long-term capital market and volatility expectations provided by the Commission's Investment Consultant. The long-term expected return and volatility for the Policy Portfolio is discussed in Section III(D) below.

As can be seen in this table, the base case scenario is that SCRS reaches fully funded status by 2046, which is within the funded status goals set by the 2017 Pension Reform bill. However, if the Plan were to experience the unfavorable 95th percentile scenario, the funded status of the Plan would not improve and would be expected to be in approximately the same funded position in thirty years that is currently. The base case scenario to reach fully funded status has increased by four years over the base case scenario in the corresponding 2020 analysis.

The table also shows the actual improvement of the funded status of SCRS since 2016. The actual improvement shown on the table is attributable to additional contributions flowing into SCRS resulting from the 2017 Pension Reform Bill and better than forecast investment returns since the bill's passage. As of the 2020 Actuarial Valuation, the amortization period for SCRS is 22.6 years which is ahead of the 2017 Pension Reform

Bill's requirement of 27 years. As for PORS, the amortization period is 20.3 years which is ahead of the Pension Reform Bill's requirement of 27 years.[1]

TABLE 2

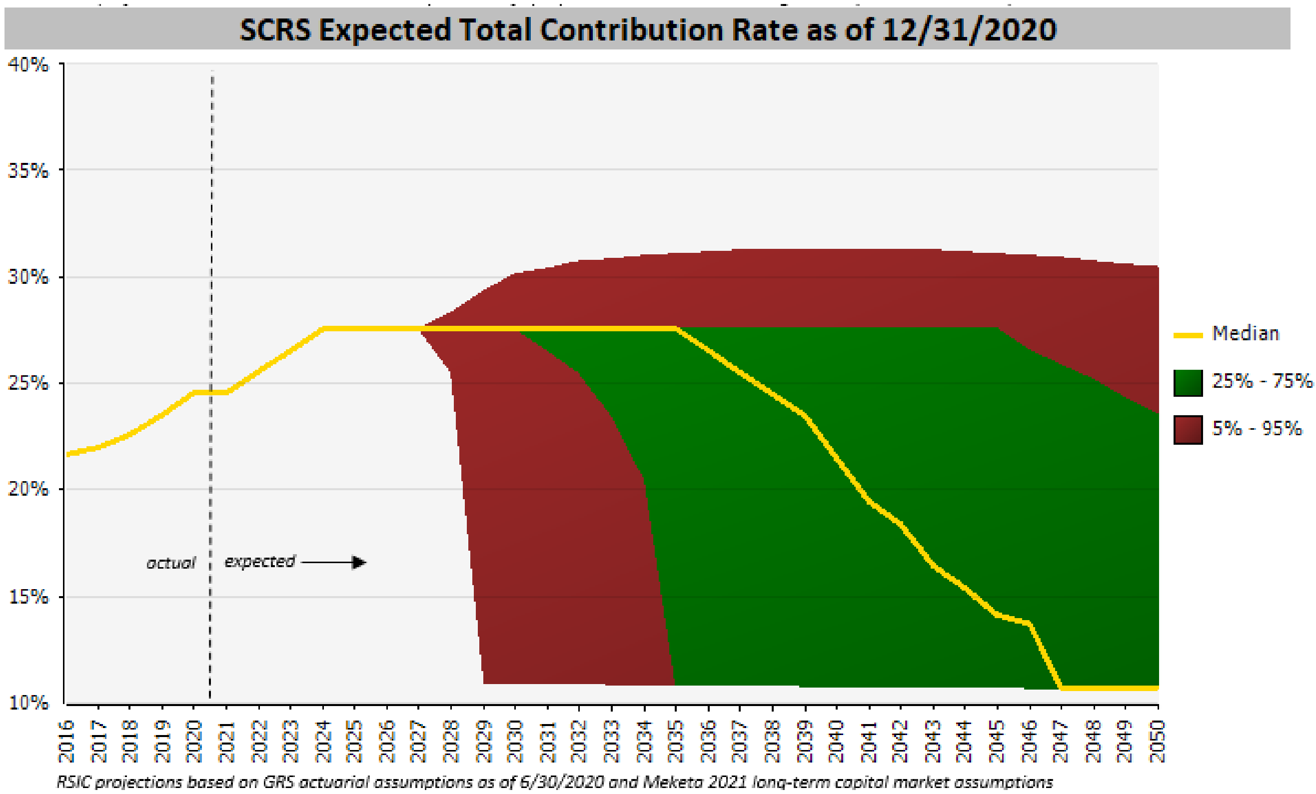


Table 2 tracks the actual, as well as, expected total employer and employee contribution rates for SCRS since 2016. This table also employs a stochastic approach to the expected combined contribution rate to more accurately demonstrate a range of probable outcomes due to market volatility. This analysis is based on the same assumptions used to produce Table 1.

As indicated in this table, the base case scenario shows combined employer and employee contribution rates for SCRS increasing to 27.56 percent pursuant to the schedule required by the 2017 Pension Reform Bill. The contribution rates are then expected to level off and begin to decline in 2035 which is an increase of three years as compared to the 2020 analysis. The contribution rates are projected to decline to the 10 percent normal cost contribution rate by 2047, which is an increase of five years compared to the 2020 analysis. The table indicates that there is some probability that

[1] The 2017 Pension Reform provides for a yearly employer contribution rate increase each year for SCRS and PORS, but the rate increase for Fiscal Year 2021 was suspended to ease some budgetary strain caused by the COVID-19 economic shutdown. As a result, the 2020 Actuarial Valuation provides two different amortization periods each for SCRS and PORS which depend upon whether the General Assembly limits the employer contribution rate increase to the rate provided for 2021 or if it allows the rate to increase to the rate provided for 2022, which would be a two rather than once percent increase. If the 2022 rate goes into effect, then the amortization period for SCRS would be 20.3 years and 18.4 years for PORS.

contribution rates may increase above the 27.56 combined contribution rate required by the 2017 Pension Reform Bill.

The Commission recognizes that the base case scenarios for reaching fully funded status and for the decline in contribution rates has increased as compared to the 2020 analysis. As discussed below, the Commission attributes the increase to a decline in 2021 long term capital market expectations as compared to 2020 expectations. However, the Commission recognizes that the current base case scenario in both instances falls within the range of expected outcomes in the 2020 analysis and that the decrease in capital market expectations is the result of strong market performance coming out of the market decline associated with the COVID-19 pandemic. RSIC's portfolio benefited from this recovery and remains on the path to improving the Plan's funded status established in the 2017 Pension Reform Bill. (Appendix X contains historical versions of Tables 1 and 2 for each year since 2020 based on the corresponding year's capital market expectations).

C. Beliefs

As fiduciaries, the Commission and staff of RSIC are charged with exercising their roles and responsibilities to the Plan's participants and beneficiaries with the highest duty of care that the law recognizes. In order to ensure consistency in approach to decision making that is commensurate with this fiduciary duty and focused on achieving the investment objective, the Commission and RSIC staff have adopted a set of core beliefs to ensure that we are collectively guided by a unifying set of principles.

Belief 1 – We believe that asset allocation is the main driver of an investment portfolio's risk, return, and cost.

Belief 2 – We believe that investors must be rewarded for incurring additional risk, cost, and complexity.

Belief 3 – We believe that we are long-term investors which requires us to instill *discipline* and *patience* into our investment decision making and assessment process.

Belief 4 – We believe that achieving our investment objective requires an organization with strong governance, that maintains core values, and employs talented professionals. In order to do this, we must:

1. establish a governance structure with clear lines of authority and means to assess the quality of decision making and resulting performance;
2. recruit and retain a talented investment and operational staff consistent with our Core Values of:
    a. Humility,
    b. Intellectual Curiosity, and
    c. Team Player
3. achieve a deep understanding of value creation through the investment process;
4. emphasize risk awareness and focus on mitigating investment and enterprise risk; and
5. provide the foundation, infrastructure, and systems necessary to meet the investment objective and mitigate risk.

II. ROLES AND RESPONSIBILITIES

1. In 2005, RSIC was established by South Carolina law to invest and manage the assets of the State's five defined benefit retirement plans. RSIC invests and manages the assets of all five plans in one group trust. RSIC is governed by an eight-member Commission. The Commission's primary purpose is to set the strategic direction for an investment program that is consistent with its fiduciary duty and strives to earns an investment return that when combined with contributions fulfills the promise of benefit payments to the Plan's current and future retirees and their beneficiaries. This includes setting a long-term asset allocation that meets the Commission's investment objective, oversight of the implementation of the investment portfolio and the business affairs of RSIC, approving certain investments, ensuring legal and ethical integrity, and maintaining accountability. The Commission also adopts a series of governance policies that define the roles and responsibilities of Commissioners and staff and provide general guidance for the operation of RSIC as an agency. (RSIC Governance Policies can be found at:
https://www.rsic.sc.gov/_documents/2017.07.14%20Governance%20Policy%20Manual.pdf).

2. The Commission employs a CEO, who serves as the primary figure of accountability for RSIC. The CEO serves as the chief administrative officer of RSIC as an agency and is charged with the affirmative duty to carry out the mission, policies, and directives of the Commission. The CEO is delegated the Commission's authority necessary, reasonable, and prudent to carry out the operations and management of RSIC as an agency and to implement the Commission's decisions and directives. The CEO also serves as the chief risk officer for the organization. The CEO is charged with employing a CIO and all other agency staff who serve at the will of the CEO. The CEO is also delegated the final authority to close all investments and must certify that investments made pursuant to the Commission's Investment Authority Delegation Policy meet the requirements of the policy (*see* SECTION VI for the Investment Authority Delegation Policy).

3. The CIO manages RSIC's investment functions subject to the oversight of the CEO. RSIC primarily invests Plan assets by allocating capital to external investment managers who implement specific investment strategies in order to provide the exposures necessary to meet the requirements of the Commission's strategic asset allocation. The Commission has implemented an Investment Authority Delegation Policy which provides the CIO with the final authority to invest with external investment managers subject to the limits of the policy. For a proposed investment that exceeds the delegation policy, the CIO determines whether the investment is presented to the Commission for final approval. The CIO is also granted certain authority to manage the implementation and exposure of the portfolio. The CIO through the management of the investment staff also oversees investment risk management, investment manager oversight, and other related activities.

4. The Executive Team is currently comprised of the CEO, CIO, Chief Operating Officer ("COO"), and Chief Legal Officer ("CLO") and serves as RSIC's primary management committee and aids the CEO in making strategic organizational and operational decisions.

5. The Internal Investment Committee ("IIC") is a committee of senior staff appointed by the CEO and is chaired by the CIO. The IIC's responsibilities are provided by the IIC Charter but the IIC is primarily responsible for serving as the committee that vets and recommends new investments to the CIO for approval and execution, or recommendation to the Commission for its approval.

6. The Commission engages a general investment consultant ("Investment Consultant"), who reports to the Commission and assists and advises the Commission on asset allocation, asset/liability study, performance reporting, benchmarking/peer group comparisons, and general investment education and advice. The CEO manages the day-to-day relationship with the Investment Consultant. RSIC Staff may rely on the Consultant for data resources, external analyst inputs, and access to educational materials. The CEO may also retain specialty consultants to serve as an extension of RSIC Staff in Private Equity, Private Debt, Real Estate, Infrastructure, and Hedge Funds.

7. The Internal Audit function is governed by the Commission's Audit and Enterprise Risk Management Committee and is primarily provided through external service providers. An internal staff member coordinates the relationship with external service providers and assists the committee with performing its duties and functions. The purpose of the Internal Audit function is to provide independent, objective assurance and recommendations designed to add value and improve RSIC operations. It assists the entity in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

8. The Enterprise Risk Management and Compliance ("ERM and Compliance") function reports to the CEO and serves as the primary staff to aid the CEO in fulfilling the role of chief risk officer. The ERM and Compliance function coordinates with the Executive Team and other staff on the assessment of, and provides oversight related to the identification and evaluation of, major strategic, operational, regulatory, informational, and external risks inherent in the business of RSIC. ERM and Compliance is also responsible for overseeing the process for monitoring compliance with RSIC policies and applicable laws.

9. The Public Employee Benefit Authority ("PEBA") is a separate agency that administers a comprehensive program of retirement benefits, performing fiduciary duties as stewards of the contributions and disbursements for the Plan. PEBA is responsible for producing GAAP basis financial statements for the Plan and maintains a general ledger to support that process. The financial statements that are produced by PEBA contain information regarding the investments made by the Commission and as such contain the official accounting records for Plan investments. The financial statements are presented in accordance with GAAP and comply with the Governmental Accounting Standards Board standards. The financial statements are audited annually by an independent audit firm hired by the State Auditor's Office.

10. The Commission and the PEBA Board serve as co-trustees of the Plan's assets. PEBA is the custodian of the Plan's assets and RSIC is responsible for the Plan's custodial banking relationship.

11. Subject to the approval of the State Fiscal Accountability Authority, PEBA designates the Plan's Actuary. The Commission is a third-party beneficiary to the contract with the Plan's Actuary, with full rights to all actuarial valuations prepared by the actuary.

12. The South Carolina General Assembly has the authority to control budget and staffing for RSIC and to set the actuarial annual assumed rate of return for the Plan. Starting in early 2021, and every four years thereafter, in consultation with the Commission and the Retirement System's Actuary, PEBA will propose an assumed annual rate of return to the General Assembly that will take effect at the beginning of the 2021-2022 fiscal year unless the General Assembly acts to amend or reject the recommendation. The General Assembly also conducts periodic legislative oversight hearings of RSIC.

III. ASSET ALLOCATION

A. Purpose

The Commission's primary responsibility is to establish an investment program that is designed to meet the Commission's investment objective. The most significant action the Commission takes in fulfilling this responsibility is by setting the long-term asset allocation. The Commission designs a portfolio that includes a mix of assets that it believes will likely generate a long-term rate of return that meets its investment objective which is conditioned by its fiduciary duty to only expose the Plan's assets to a prudent level of market risk. The target, or Policy Portfolio, is established with a long-term perspective and the Commission does not expect to change the portfolio to react to short-term market conditions or frequent fluctuations in capital market expectations.

The Commission recognizes employing a long-term perspective has certain risk management benefits. Most notably, this discourages the temptation to react to short-term market trends, which can lead an investor to chase returns in asset classes that have become expensive due to recent appreciation. The Commission believes that adherence to this long-term perspective will produce its greatest benefits during periods of adverse market conditions, during which time the Policy Portfolio will serve as a stabilizing force for the investment program.

State law also requires the Commission to diversify the assets of the investment portfolio and to consider: (i) general economic conditions; (ii) the possible effect of inflation or deflation; (iii) the role that each investment or course of action plays within the overall portfolio; (iv) the needs for liquidity, regularity of income, and preservation or appreciation of capital; and (v) the adequacy of funding for the Plan based on reasonable actuarial factors.

B. Background

The Commission undertook a review of the existing Policy Portfolio in early 2019. At the time the Commission began this process, the Policy Portfolio was comprised of eighteen separate asset classes with twenty-one different benchmarks. Many of the asset classes had small target weights – several with less than three percent. Both the CIO and the Investment Consultant expressed concern that the Policy Portfolio was over diversified and required a high level of complexity to exist in the Actual Portfolio without a clear improvement in risk or return. The Commission found this to be inconsistent with its investment belief that investors must be rewarded for incurring additional risk, cost, and complexity. The Commission also believed that the existing Policy Portfolio established the wrong balance between its role as setting the strategic direction of the investment program and investment staff's role in implementing the portfolio. As a result, the Commission determined that a more consolidated Policy Portfolio was in order which valued simplicity and required complexity in the Actual Portfolio to prove its value. The Commission determined that key to this effort was developing a series of benchmarks that would collectively form a Portfolio Framework to clearly determine the value of investment decisions.

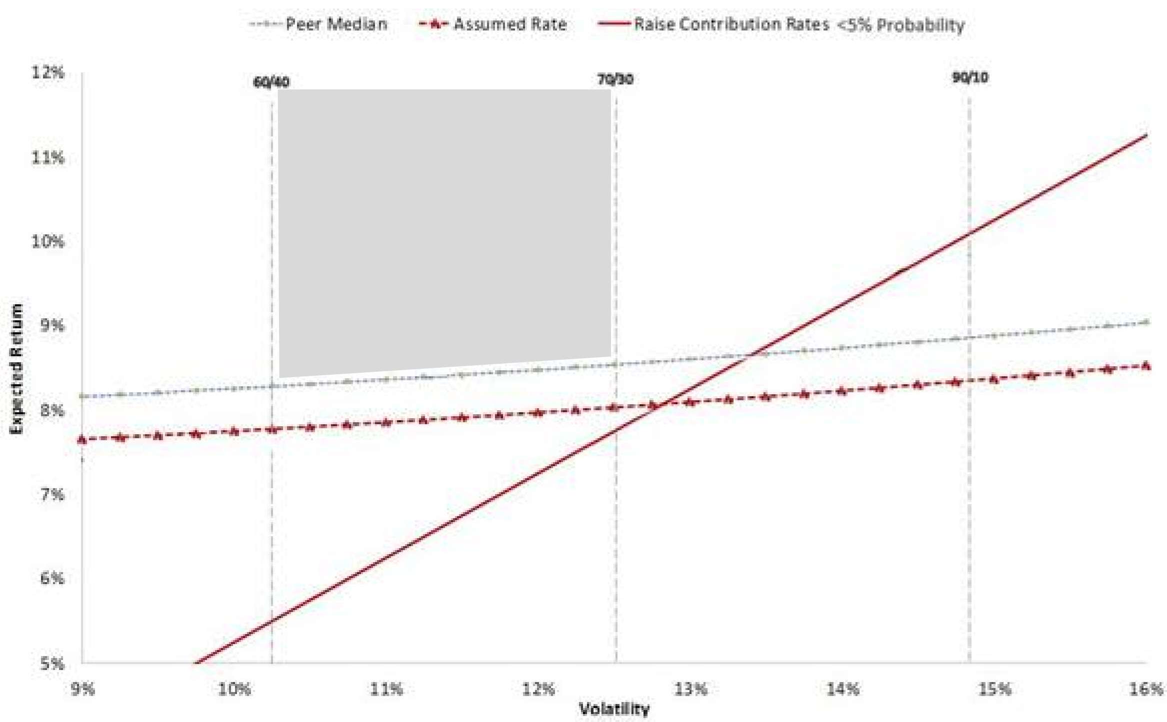
C. Reference Portfolio

The Commission decided that it would begin the development of this framework by setting a Reference Portfolio. The Reference Portfolio would be a simple two asset class benchmark portfolio comprised of stocks and bonds. The point of the Reference Portfolio was not to limit the portfolio to a simple mix of stocks and bonds, but rather to set a risk reference for establishing the Policy Portfolio. The Reference Portfolio would not serve as a risk limit for the Policy Portfolio, but rather a barometer to measure the value over time of diversifying into a multi-asset class portfolio.

The Commission attempted to set the allocation of the Reference Portfolio to one consistent with a portfolio that most closely expressed the risk required to earn a return that is expected to exceed the assumed annual rate of return while also avoiding a greater than 5 percent probability of requiring additional contributions increases in the next five years (other plan risks were also contemplated but would also be avoided because these risks would either fall along the same line or to the right of the red risk line represented on Table 3 below). In setting the Reference Portfolio the Commission was mindful that South Carolina law provides that no more than seventy percent of the portfolio may be invested in equities. The law does not limit the types of assets that could make up the other thirty percent of the portfolio, which could conceivably include assets like high yield bonds which have an imbedded equity risk factor. However, the Commission believed it was prudent to constrain the Reference Portfolio to no more than seventy percent equity risk, as expressed by a seventy percent allocation to equities, and to mitigate the equity risk with a thirty percent allocation to bonds.

The Commission considered the appropriate Reference Portfolio at its April and June 2019 meetings. The Commission determined that a 70 percent Global Public Equities (*MSCI ACWI IMI Net*) and 30 percent Bonds (*Bloomberg Barclays Aggregate*) portfolio best represented the volatility of a diversified portfolio of assets that would be expected to earn a return that exceeds the assumed annual rate of return over time while also avoiding a greater than 5 percent probability of requiring additional contributions increases in the next five years. The Commission reached consensus on this allocation as the Reference Portfolio Benchmark. In reaching this consensus, the Commission accepted that a Reference Portfolio with a risk level associated with a seventy percent allocation to equities was prudently necessary to meet its investment objective.

Table 3



D. Policy Portfolio

The Commission then began establishing a Policy Portfolio that would serve as the Commission's long-term asset allocation. The Policy Portfolio would be a multi-asset class portfolio with similar expected volatility as the Reference Portfolio. The Policy Portfolio would be expected to consolidate the existing eighteen asset class Policy Portfolio into a more simplified allocation without substantially impacting the expected return, but with a similar level of risk as the Reference Portfolio. The purpose of setting the Policy Portfolio's risk target to that of the Reference Portfolio was to reveal the performance impact gained through diversification.

However, unlike the Reference Portfolio, the Policy Portfolio would be a portfolio that could be held and, in any respect, would serve as the gravitational pull to a more simplified Actual Portfolio.

The Commission considered the transition to a more simplified Policy Portfolio at its April and June 2019 meetings and reached consensus on the transition to the simplified target allocation in Table 4 below.

Table 4

Legacy Asset Allocation	
Nominal IG Bonds	6
Treasuries	5
TIPS	2
Mixed Credit	4
EM Debt	4
Private Debt	7
US Equity	18
Developed Int'l Equity	11
EM Equity	6
Equity Options	7
Private Equity	9
Real Estate (Public)	1
Real Estate (Private)	8
Infrastructure (Public)	1
Infrastructure (Private)	2
PA Hedge Funds	10
GTAA	7
Other Opportunistic	1

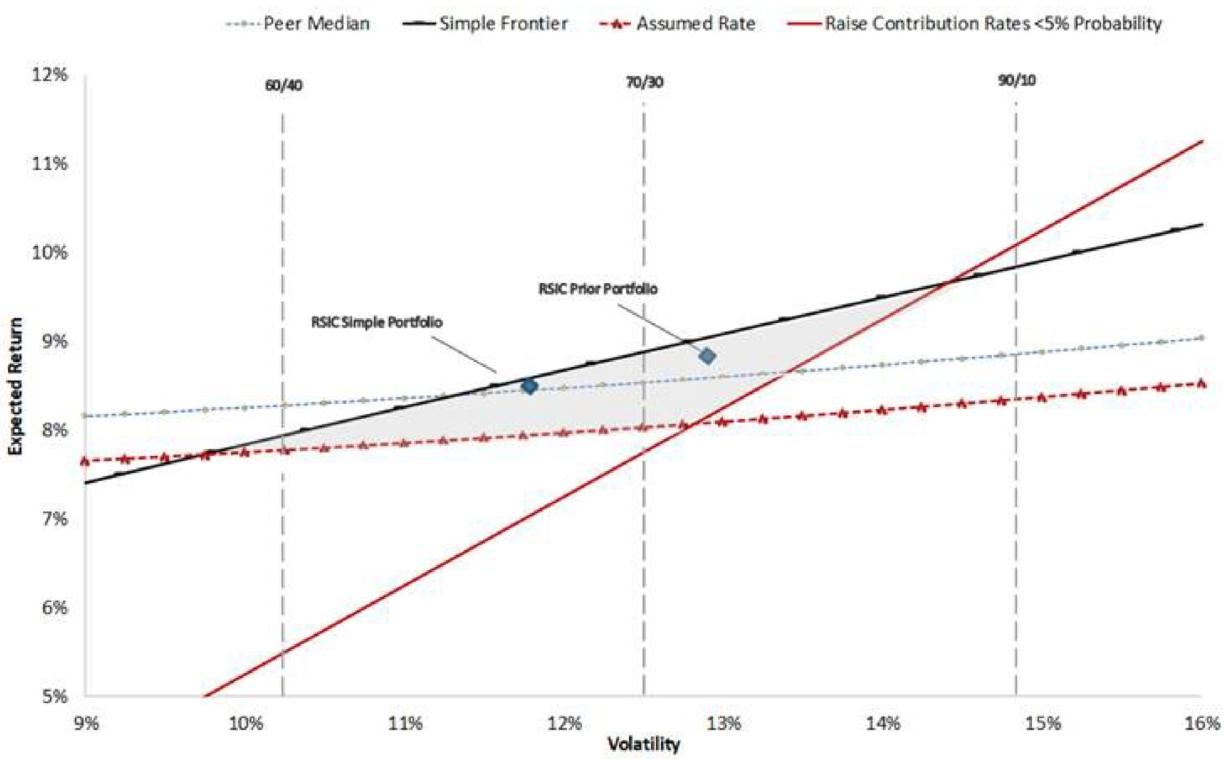
Current Asset Allocation	
Bonds	26
Private Debt	7
Global Equity	46
Private Equity	9
Real Assets	12

The Commission also analyzed whether the Policy Portfolio would meet the Commission's long-term investment objective in that it would likely exceed the assumed rate of return and avoid risks particular to the plan including not meeting the General Assembly's funded status objectives and avoiding a significant probability of requiring additional contribution increases. This analysis was based on the Investment Consultant's 2019 Capital Market Expectations.

As demonstrated in Table 5[2] the Policy Portfolio would be expected to:

1. exceed the assumed rate of return,
2. compare favorably to the simple frontier[3],
3. compare favorably to the risk of the Reference Portfolio Benchmark; and
4. experience a less than 5 percent probability of requiring additional contributions increases in the next five years (again other plan risks were also contemplated but would also be avoided because these risks would either fall along the same line or to the right of the risk line represented on the table).

Table 5



In reaching consensus on the asset allocation, the Commission also considered what role each asset class would play in the overall portfolio with each asset class performing the primary role of growth, diversification, or yield:

Public Equity: This asset class includes investments in the stock of publicly traded companies. The purpose of public equity in the portfolio is growth. The excess return expectations for this asset class are low. The asset class is highly liquid and can be accessed with minimal implementation cost.

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[2] Although the Investment Consultant's long-term capital market expectations are based on projected asset class returns over twenty years, the Reference and Policy Portfolios' risk and return were calculated using these expectations to produce thirty-year results.

[3] The simple or efficient frontier comprises investment portfolios that offer the highest expected return for a specific level of risk. In this case, the investment portfolios along the simple frontier are limited to a mix of the five asset classes from the simplified portfolio shown in Table 4.

Bonds: This asset class includes investments in debt securities issued by governments, corporations, or other issuers. The primary purpose of bonds in the portfolio is diversification and the secondary purpose is to provide yield. The excess return expectations for this asset class are low and the asset class is expected to provide a persistence source of return while remaining highly liquid. Bonds are expected to serve a stabilizing purpose in times of market stress.

Private Equity: This asset class includes equity investments in privately-held companies. Investors have historically been compensated with incremental return over comparable public equity investments in exchange for lower liquidity and increased business risk as compared to the public markets. The primary role of private equity in the overall portfolio is growth with an expected long-term return that exceeds public equity. The excess returns of this asset class are a source of magnitude of return for the portfolio the value of which is expected to exceed the higher cost of implementation as compared to public equity.

Private Debt: This asset class includes investments that provide alternative financing to businesses or assets and are in competition with traditional capital market or bank financing. Investors are compensated with incremental return over what can be achieved through traditional forms of lending in exchange for lower liquidity as compared to liquid credit markets and for serving as a solutions provider to these businesses. The primary role of this asset class in the portfolio is yield. The expectations for the consistency of return above what can be achieved through bonds or the liquid credit markets is high.

Real Assets: This asset class includes investments in physical assets like real property and infrastructure, as opposed to financial assets like stocks and bonds. The primary role of this asset class is diversification with the secondary purposes of providing inflation protection and yield. Although the expected liquidity for this asset class is low, the expectations for excess return are high.

The Commission believes that this change in approach to a five asset-class Policy Portfolio shifts the paradigm to one which values simplicity and holds a more complex portfolio accountable for improving risk-adjusted returns. A crucial component to ensure this accountability is having the appropriate benchmarks for the Policy Portfolio. The Commission was guided by the CFA Institute's recommendations that benchmarks are (i) specified in advance, (ii) appropriate, (iii) measurable, (iv) unambiguous, (v) reflective of investment options, (vi) owned, and (vii) investable. At its September 2019 meeting, the Commission reached consensus on the benchmarks in Table 6 for the Policy Portfolio.

Table 6

Asset Class	**Benchmark**[4]
Public Equity	*MSCI ACWI IMI Net*
Bonds	*Bloomberg Barclays Aggregate*
Private Equity	*Burgiss Private Equity*
Private Debt	*S&P LSTA +150 bps*
Real Assets	*NCREIF ODCE Net*

[4] *The Private Equity and Private Debt portfolios and benchmarks will be reported on a 3-month lag.*
MSCI ACWI IMI Net - Morgan Stanley Capital International All Country World Index Investable Market Index; S&P LSTA - Standard & Poor's Loan Syndication and Trading; and NCREIF ODCE – National Council of Real Estate Investment Fiduciaries Open End Diversified Core Equity.

Based on the 2019 Capital Market Expectations provided by the Commission's Investment Consultant that the Commission utilized when reaching consensus on the Policy Portfolio, the Policy Portfolio would be expected to achieve a twenty-year annualized rate of return of a 7.83 percent with an expected volatility of 11.69 percent. The portfolio would be expected to have a 58.41 percent probability of earning a twenty-year annualized rate of return that meets or exceeds the assumed rate of return of 7.25 percent.

However, strong market performance during 2019 resulted in a meaningful adjustment to long-term capital market expectations which impacted the long-term expected return of the Policy Portfolio. Based on the 2020 Capital Market Expectations provided by the Commission's Investment Consultant in January of 2020, the Policy Portfolio would be expected to achieve a twenty-year annualized rate of return of 7.22 percent with an expected volatility of 11.7 percent. Based on the revised expectations, the portfolio would be expected to have a 49 percent probability of earning a twenty-year annualized rate of return that meets or exceeds the annual assumed rate of return of 7.25 percent in effect in 2020.

As discussed above, the 2021 Capital Market expectations have declined further, and the Policy Portfolio now would be expected to achieve an annualized rate of return of 6.56 percent with an expected volatility of 12.5 percent. Based on the 2021 expectations, the portfolio would be expected to have a 43.12 percent probability of earning a return that meets or exceeds the assumed rate of return that is set to be reduced to 7 percent at the beginning of the 2022 Fiscal Year.

In considering the impact of the decline in capital market expectations, the Commission was mindful that inter-year market volatility can result in dramatic shifts in long term expectations year over year and spur investors to take action to adjust their portfolio's long-term asset allocation. In many instances, this action can lead to an investor to either add or reduce risk at a time that proves to be most disadvantageous to the portfolio. The decline in 2021 Capital Market expectations is directly attributable to the unprecedented rally in financial markets following the sell-off associated with the COVID-19 global shutdown from which RSIC's portfolio also benefited. The positive impact of this rally on achieving the Commission's investment objective would be ignored if the Commission constrained itself to forward looking expectations only. The Commission believes that adding risk after markets have enjoyed significant appreciation would involve buying assets when they have become expensive which prudent long-term investors seek to avoid.

Thus, the Commission believes that long-term investors should resist the temptation to adjust their long-term asset allocation in response to short term volatility in capital market expectations. As a result, the Commission believes that there is no interim asset allocation change to the Policy Portfolio that is absolutely critical to meeting its long-term investment objective and the Commission will not depart from the asset allocation review schedule established in Subsection H.

E. Implementation Portfolio Benchmark

The Commission recognizes that the CIO and investment staff may add value by structuring the Actual Portfolio in a manner that deviates from the Policy Portfolio target weights or may also pursue a strategy that causes the composition of an asset class to differ from the policy benchmark. As a result, the Commission provides the CIO and the investment staff with the discretion to structure the portfolio within the asset class and sub-asset class ranges in Table 7. In order to measure the risk and return impact of these portfolio structure decisions, the Commission employs an Implementation Portfolio Benchmark that aggregates the underlying benchmarks of each asset class and sub-asset class strategy according to their actual weights. Providing this discretion while establishing a structure that measures the value of these decisions also sets the right balance of accountability for Commission decisions and those of the CIO and investment staff.

Table 7

Asset Class	Target	Range	
Public Equity	46%	30%	60%
Domestic	Index	Index +/- 6%	
Developed Non-US	Index	Index +/- 6%	
Emerging Market	Index	Index +/- 4%	
Equity Options	0%	0%	7%
Bonds	26%	15%	35%
Core Bonds (IG)	26%	10%	35%
Inflation-linked (IG)	0%	0%	5%
Mixed Credit (non-IG)	0%	0%	8%
EM Debt	0%	0%	6%
Net Cash/Short Duration	0%	0%	7%
Private Equity	9%	5%	13%
Private Debt	7%	3%	11%
Real Assets	12%	6%	18%
Real Estate	9%	5%	13%
Infrastructure	3%	0%	5%

F. Manager Selection

The Commission also recognizes that the CIO and investment staff strive to add additional value through manager selection. In September 2017, the Commission through the adoption of the Investment Delegation Policy delegated investment manager selection decisions to the CIO and investment staff within clearly defined limits and exceptions. The Investment Authority Delegation Policy is set out in Section VI. The value of manager selection is discernable by comparing the Implementation Portfolio Benchmark and the Actual Portfolio.

G. Performance Reporting

Essential to the Commission's oversight function is performance reporting that makes clear the value of three major investment decisions: diversification, portfolio structure, and implementation. The Commission charges staff with developing a Portfolio Reporting Framework that easily allows the Commission to judge the value of these three investment decisions by comparing the relative performance between the Reference Portfolio, Policy Portfolio[5], Implementation Portfolio, and Actual Portfolio:

1. *<u>Diversification (Policy Portfolio Benchmark vs. Reference Portfolio Benchmark):</u>* The comparison of the Policy and Reference Portfolios Benchmarks reveals the value from

[5] For purposes of calculating the Policy Portfolio return, the target weight to Private Equity will be the same as the as the percentage weight of Private Equity in the Actual Portfolio. Any difference between the nine percent Private Equity allocation and the actual weight of Private Equity will result in an adjustment to the Public Equity target weight.

diversification beyond a simple two-asset portfolio. The benefit of designing these portfolios with the same level of expected volatility is that the performance differential is an indication of the impact of diversification, rather than being a function of an expected risk differential. The Commission should expect to see the value of diversification in this comparison over rolling five-year periods. Although these portfolios were established with the same level of expected volatility, the risk of these portfolios is expected to diverge during discrete periods of time but would generally be expected to rise and fall together over time.

2. *Portfolio Structure (Implementation Portfolio Benchmark vs. Policy Portfolio Benchmark):* This comparison supports an assessment of the quality of the portfolio structure. It reveals the performance impact of the decisions to structure the portfolio differently than the Policy Portfolio Benchmark. These impacts can be broken down into those resulting from the *weights* of asset classes and those resulting from the *composition* of asset classes. The Commission should see the positive performance impact of implementation benchmark decisions over rolling three-year periods. The reporting framework also include risk reports to highlight whether and how changes in portfolio structure alter the risk characteristics of the portfolio.

3. *Implementation (Actual Portfolio vs. Implementation Portfolio Benchmark):* This comparison aids in the evaluation of the quality of implementation, a key component of which is the impact of manager selection. The Commission should expect to see differential individual manager performance as compared to the implementation benchmark over short periods of time, but the Commission should expect in aggregate to see consistent value added through manager selection. Providing this additional comparison between the Actual Portfolio and the Implementation Benchmarks also disaggregates the performance gained through portfolio structure and that gained through manager selection. As a result, the Commission may evaluate the quality of each of these portfolio decisions when previously the actual portfolio was simply compared to an individual policy benchmark that combined both portfolio structure and manager selection decisions. This additional look through provides the Commission with an enhanced ability to effectively exercise oversight over both portfolio structure and investment manager selection decisions made by the investment staff.

H. Asset Allocation Review

The Commission will conduct an Asset-Liability Management Study and asset allocation review every five years. The Commission will continue to receive long-term capital market expectations from the Investment Consultant annually and assess the impact to the expected return and volatility of the Reference and Policy Benchmark Portfolios. However, consistent with its beliefs and long-term approach to asset allocation, the Commission intends to limit interim asset allocation changes to those the Commission determines are absolutely critical to meeting its long-term investment objective and are commensurate with its risk tolerance and fiduciary duties.

IV. STRATEGIC INITIATIVES

The Strategic Initiatives described in this Section are major ongoing staff projects contemplated to last up to three years and are likely to have a more significant impact to the portfolio, asset class, or an investment strategy than typical decisions. The CIO will include changes to these initiatives as part of the annual AIP proposal and will provide a quarterly update on progress towards these initiatives at regular Commission meetings.

1. Portfolio Reporting Framework – The performance reporting team will continue to refine the Portfolio Reporting Framework required by Section III and will work with the Quantitative Solutions Group[6] to incorporate risk reporting into the framework.

2. Comprehensive Review of Implementation Cost – Staff will continue to examine the mix of structural and variable costs throughout the Portfolio and pursue opportunities (such as the co-investment initiative outlined below) to improve the cost alignment of the investment program.

3. Secondaries Market – The Commission understands that the thoughtful use of secondaries opportunities can improve returns for a private markets portfolio. The Investment Team will design and execute a plan to incorporate the secondaries market into the investment strategy for private markets asset classes.

4. Risk Management – The Quantitative Solutions Group will continue to improve risk monitoring at the Portfolio, asset class, and manager levels. The team will place special emphasis on improving the quality of risk reporting at these levels.

[6] The Quantitative Solutions Group is a subset of the Investment Team responsible for conducting deep quantitative analysis on prospective investment managers as part of the investment due diligence process, and also for monitoring and reporting on investment risk.

V. INVESTMENT POLICIES

A. General

1. IIC and Investment Approval Process - State law provides that the AIP is to be implemented by the Commission through the CIO. The RSIC employs a team of investment professionals that support the CIO in carrying out investment management duties and responsibilities. One key component of this infrastructure is the IIC. The IIC assists the CIO by reviewing and providing recommendations to the CIO regarding proposed investments. The IIC also routinely monitors the Portfolio's investment performance and reviews relevant policies and procedures as part of its oversight function. The Commission adopted an Investment Authority Delegation Policy which grants the CIO the ability to approve those investments which fall within the parameters of this policy, subject to the oversight of the CEO. Other investments are presented to the Commission for its approval.

2. Due Diligence – The Investment Team maintains investment due diligence policies to provide consistency and oversight to the investment process. The Initial Due Diligence Policy outlines the key tenets of the RSIC's decision-making process in hiring investment managers. The Ongoing Due Diligence Policy outlines the process and criteria used to evaluate the retention/termination of external investment managers. Both due diligence policies are tested annually by either an Agreed Upon Procedures review by an independent auditor or by the Director of Enterprise Risk Management & Compliance. The results of this review are provided to the Audit and Enterprise Risk Management Committee.

3. Counterparty Risk Management – The Quantitative Solutions Group monitors two sources of potential counterparty risk: (1) the overlay program and (2) the System's master custodial bank. While the risk arising from the overlay program is actively monitored by its external manager, as an added layer of oversight, the Quantitative Solutions Group is responsible for reviewing and reporting on the external manager's prudent management of these counterparty risks.

4. Investment Strategies, Objectives, and Performance Standards:

    i. In accordance with State law, the AIP addresses the Commission's investment strategies, as well as its investment objectives and performance standards. The investment staff maintains a "Baseline" document designed to establish a clear, shared understanding of the rationale, goals, and characteristics for each asset class. In general, the annual plan for an asset class will often involve measures designed to improve its alignment with its Baseline. The following items are detailed in the Baseline document:

        a. Rationale and purpose of the asset class in the broader Portfolio;

        b. Target steady-state asset class exposures (including sub-strategies, geographies, or other relevant factors);

c. The target return, characteristics (income vs. appreciation), and expected active vs. passive implementation breakdown; and

d. An estimate of normal cost to implement the portfolio, and an estimate of the flex cost which may be incurred when market conditions present compelling opportunities.

ii. Baselines also address the following broader issues:

a. The role private investments play in the portfolio;

b. The mix of private vs. public market investments; and

c. How the portfolio is likely to change over time.

iii. The Baseline document is reviewed and updated, as necessary, at least annually, and all RSIC employees are encouraged to present suggested revisions to any Baseline. Proposed changes to the Baseline documents are presented to the IIC for review and to the CIO for approval. In addition to addressing the investment objectives and performance standards for each asset class, the Baseline also serves as a guide to workflow and portfolio management decisions. Investment decisions are reviewed against the Baseline for portfolio fit.

iv. As part of the individual asset class in-depth examination at each Commission meeting, the investment staff will also provide a review of the particular asset class Baseline, progress towards attaining the Baseline, and any material deviations from the Baseline.

v. The Commission will be informed promptly of any material change to a Baseline at the next Commission meeting following the change.

5. <u>Allowable Investments and Limitations:</u>

i. With certain limitations discussed below, State law provides that RSIC may invest "in any kind of property or type of investment consistent with" Title 9, Chapter 16 of the S.C. Code and Section 9-1-1310. These investments include, but are not limited to, futures, forward contracts, swaps, and options, equities, bonds, loans, 144(A)'s, exchange traded funds, American Depository Receipts, real property, and real estate investment trusts. These investments may be listed, exchange traded, or over the counter, negotiated contracts or investments.

ii. In addition to the instruments outlined above, for every asset class, a variety of investment structures may be utilized depending on the nature of a particular investment. In accordance with the terms of the investment limitations outlined in this policy, these structures may include, but are not limited to, mutual funds, limited partnerships, limited liability companies, strategic partnerships, trusts, commingled vehicles, fund-of-funds, and separately managed accounts in which assets may be held by either the Retirement System's master custodial bank or an external custodian who is selected and monitored by the external manager or general partner.

iii. Any investment structure and the underlying instruments must be of a type generally expected to obtain exposure to an asset or sub-asset class contained in Table 7, Section III.

iv. State law imposes certain limited restrictions on the investment of the Portfolio. The managers of the Portfolio's accounts **other than** index funds, commingled funds, limited partnerships, derivative instruments or the like are required to assist the Commission in meeting its obligations under S.C. Code Ann. §9-16-55, which sets forth limitations on investment in certain types of companies that are engaged in active business operations in Sudan. See Section IX for additional information.

v. The Commission has also established a policy prohibiting an investment in any security or obligation issued by a company or a corporation that is a known sponsor of terrorist organizations or of a company domiciled in a country that is a recognized sponsor of terrorism or terrorist organizations as based on reports from the Office of Terrorism and Financial Intelligence of the Department of Treasury and the Country Reports on Terrorism by the Office of the Coordinator for Counterterrorism of the U.S. Department of State.

6. Internal Management and Overlay Program – Currently, the investment staff actively manages certain Cash and Short Duration accounts, and performs distribution management (management and disposition of in-kind distributions received from external investment managers or third parties). In addition, the CIO has discretion to use synthetic instruments, derivatives, equity baskets, and exchange traded funds in order to implement the asset allocation or otherwise manage the portfolio in accordance with the ranges established by the Commission. The Overlay program functions as a means by which the CIO and Investment Staff manage exposures and manage risk in an efficient manner using synthetic instruments, exchange-traded-funds/notes, equity or fixed income baskets, options, futures, swaps, and forward currency contracts.

7. Portable Alpha – The Commission provides the CIO with the discretion to use Portable Alpha Strategies not to exceed 12 percent of total plan assets. The use of Portable Alpha is an implementation decision that is reflected in the Implementation Portfolio Benchmark. The benchmark for Portable Alpha Strategies is *HFRI Conservative Fund of Funds less LIBOR*[7].

8. Alternative Investments – The Commission has established guidelines applicable to its alternative investments, which include Hedge Funds and Private Markets Assets:

i. The Commission's initial commitment to a fund will not exceed 25 percent of the committed capital of that fund, unless the Commission specifically waives or suspends this restriction (a) in order to take advantage of a new firm or product that has not yet built an asset base or (b) in the case of a fund that has been created specifically for RSIC (e.g., a single LP fund);

ii. Unless otherwise approved by the Commission, no more than 15 percent of an alternative asset investment allocation may be invested with a single manager, general partner, or single fund, with the exception of Funds of One and Strategic Partnerships;

iii. Staff will notify the Commission if the collective exposure to Private Equity, Private Debt, Private Real Assets exceeds 30 percent of total plan assets; and

iv. Hedge funds may not exceed 15 percent of total planassets.

[7] HFRI – Hedge Fund Research Performance Index

9. Equity investments not to exceed 70 percent – State law provides that the AIP must also include the minimum and maximum allocations to equity investments on an ongoing basis, not to exceed 70 percent. The allowable ranges for equity investments are set forth in Table 7, Section III. While State law does not stipulate whether the limitation of 70 percent is based on cost or market value, the Commission manages this limitation on a market value basis. Therefore, if the allocation to equity investments exceeds 70 percent of the total market value of the Portfolio, the CIO is required to rebalance the Portfolio.

10. Managing Cost – In accordance with State law, the AIP addresses methods for managing the costs of RSIC's investment activities. RSIC strives to earn the highest risk-adjusted return on a net of fees basis and recognizes that cost is an important variable to consider. The Investment Team actively engages in an array of strategies to reduce the cost of the Portfolio, including the following:

i. Increasing the initial investment size;

ii. Seeking aggregation discounts from firms with which we have multiple investment strategies;

iii. Utilizing co-investments in private markets;

iv. Quantifying and monitoring the effectiveness of active implementation across public market asset classes; and

v. Requesting reductions to, or elimination of, management fees, as appropriate.

11. Risk:

i. All investments carry some degree of risk. The focus of the RSIC risk function is managing and monitoring these risks to ensure that the Portfolio's risks are appropriate and that the overall level of risk taken is consistent with meeting the Commission's investment objective. Key risk initiatives are:

a. Incorporating the Plan's liability structure into the investment decision process; and

b. Developing and refining tools to facilitate the incorporation of System liabilities into portfolio management.

ii. RSIC Staff monitors risk levels both in absolute terms, but also in relation to the Reference Policy benchmark established by the Commission's asset allocation. This is accomplished using a mix of proprietary and third-party systems and tools.

iii. At the Portfolio level, Staff will:

a. Maintain the Portfolio's asset allocation within the limits established by this policy;

b. Employ an appropriate level of diversification and adhere to the limits within this policy or as contracted with the manager;

c. Adhere to policies and procedures established by the Commission; and

d. Maintain adequate liquidity for benefit payments and capital calls.

iv. Staff provides the Commission with risk reporting as part of the Portfolio Performance Framework to ensure that risk remains within acceptable levels and to judge the value of portfolio structure and manager selection decisions on a risk adjusted basis.

12. Manager Monitoring Guidelines - RSIC Staff maintains an Ongoing Due Diligence Policy that outlines the manager monitoring requirements in detail. In summary, the Investment Team is required to perform periodic reviews of each active manager. These reviews contribute to the decision to either retain or terminate that manager. These reviews involve both quantitative and qualitative assessments in order to ensure that any decision is made fairly and consistently, and to avoid untimely or undisciplined decisions that may adversely impact returns. Additionally, the Investment Team reviews audited financial statements, compliance certifications, and investment fees on an annual basis. Compliance with the Ongoing Due Diligence Policy is reviewed annually through an Agreed Upon Procedures audit performed by an independent auditor.

13. Proxy Voting - Managers of separate accounts are authorized and directed to vote all proxies, or to direct the Physical Custodian to vote proxies, in keeping with the manager's duties under federal and state law to act in the best interest of the Plan and to maximize shareholder value, and generally to exercise any of the powers of an owner with respect to the assets under the manager's control, subject at all times to the absolute right of the Commission to direct the voting of proxies upon written notification to the manager. Those separate account managers which vote proxies must provide a written annual summary to RSIC summarizing proxy votes cast during the previous year. The report shall also detail any changes to the manager's proxy voting practices and explain any instance in which proxies were not voted in accordance with the best interests of the Plan.

B. Compliance

1. Placement Agent Policy – State law prohibits RSIC from making an investment where a placement agent receives compensation in connection with RSIC's investment. The Commission' Placement Agent Policy is set out in Section VIII.

2. Investment Manager Sourcing and Conflict Disclosure Policy – In order to enhance transparency and avoid even the appearance of impropriety, before an investment recommendation is made to the Commission or CIO, any Commissioner or RSIC staff member involved in the sourcing or due diligence of a new investment completes a Sourcing and Conflict Disclosure Form. The CEO and CIO must complete a Sourcing and Conflict Disclosure form for each investment.

3. Annual Certification and Ongoing Testing of Guideline Compliance – The Ongoing Due Diligence Policy requires each manager to annually certify its compliance with the contractually

specified guidelines. These certifications are reviewed by RSIC's Compliance function, as well as the Investment Team, and are subject to an annual audit. There is also ongoing testing of guideline compliance for those public markets mandates which are governed by an Investment Management Agreement and custodied with the master custodial bank.

C. Governance and Oversight

1. Performance Standards and Reporting - As noted above, State law requires that the AIP address the Commission's performance standards. The performance standards and benchmarks are described in Section III. In addition, the Commission receives monthly performance reports from the custody bank and quarterly performance reports prepared by RSIC's performance reporting staff and the general investment consultant. The performance reporting prepared by RSIC performance reporting staff must incorporate the Portfolio Performance Framework required in Section III.

2. Diversification – State law requires that the AIP address the topic of diversification, including sectors, issues and other allocations of assets that provide diversification in accordance with prudent investment standards. The Commission provides the CIO with parameters regarding its diversification objectives through the asset allocation, asset and sub-asset allocation ranges, and performance standards set out in Section III. The Portfolio Reporting Framework required in Section III also provides the Commission the ability to oversee the implementation of the long-term portfolio strategy, as well as the actual implementation of the Commission's diversification directives.

3. Procedures regarding consultants, managers, service providers selections and terminations

   i. Selection - State law requires that the AIP include procedures and policies for selecting, monitoring, compensating, and terminating investment consultants, equity investment managers, and other necessary professional service providers. Investment managers are primarily selected by the CIO, subject to the oversight of the CEO, pursuant to the Investment Authority Delegation Policy through an investment process that also complies with the Investment and Operational Due Diligence Polices. The CIO recommends to the Commission for its approval the selection of any manager of an investment that exceeds the limits of or falls into one of the exceptions to the investment delegation policy. Any investment recommended to the Commission for its approval must also comply with the Investment and Operational Due Diligence Policies. All other service provides are selected pursuant to the Commission's Service Provider Selection Policy which is included in the Commission's Governance Policies (RSIC Governance Policies can be found at: https://www.rsic.sc.gov/_documents/2017.07.14%20Governance%20Policy%20Manual.pdf).

   ii. Compensation, Fees and Expenses – Service providers, including consultants and investment managers, will be compensated commensurate with the services provided and industry practices. The Commission will pursue cost savings through structural efficiencies and will strive for fee reductions through negotiations. Investment management fees are evaluated utilizing several metrics or tests. First, fees are examined relative to industry/peer standards. Second, when it reviews potential new mandates or restructurings of existing allocations, the investment staff assesses fees based on the cost relative to other implementation options. For example, in global public equities, the fees charged by active managers (as well as their expected performance and risk) are compared to other methods of obtaining similar market exposure, while in the private markets, fees (as well as expected performance and risk) are compared to public market implementation alternatives. Lastly, to the extent practicable, fees will also be evaluated based on an assessment of the manager's ability to generate excess returns. Investment Staff gathers actual fees and provides annual public disclosure of all fees paid to external managers. The Commission receives an annual report on the cost of its investment program from an independent expert, and may also call upon its investment consultants for assistance in analyzing and addressing issues relating to investment fees. Operating expenses applicable to internal investment operations and the general business of the RSIC are managed by the CEO within the parameters of the annual budget approved by the General Assembly.

iii. Term and Termination -The Commission or the CIO, as applicable, may terminate an investment manager whenever the Commission or CIO determines that its objectives can more efficiently or effectively be met by the selection of another manager or under a different management mandate. The Commission and CIO retain the right to terminate a manager with or without cause and at any time. It should be noted that termination rights may not apply to certain types of investment structures (e.g., typical private markets funds). Circumstances which suggest an immediate review and a possible termination include, but are not limited to, the following:

a. Manager changes strategy or investment style;

b. Critical elements of the investment process have deteriorated;

c. Transaction costs are unreasonable;

d. Management fees are higher than similarly styled managers for similarly sized portfolios;

e. Manager is unable to meet the performance expectations within the risk tolerance specified;

f. Material organizational or personnel changes;

g. Manager is not complying with the applicable provisions of the Commission's SIOP; and

h. Manager is not complying with the applicable provisions of the Commission's AIP.

4. Delegation of Authority to CIO - State law requires that the AIP and SIOP contain a detailed description of the delegation of final authority to invest made by the Commission. The

Commission has delegated its final authority to invest to the CIO, subject to the oversight of the CEO, generally in the following amounts:

i. not to exceed 75 bps of plan value per investment for illiquid structures; and

ii. not to exceed 200 bps of plan value per investment for liquid structures.

The Commission's full Investment Authority Delegation Policy is set out in Section VI.

5. Policies and Procedures to Adapt Portfolio to Market Contingencies - State law requires that the AIP include policies and procedures providing flexibility in responding to market contingencies. The ranges included with the Commission's asset and sub-asset class allocation ranges established in Section III provide the CIO with extensive flexibility to adapt the portfolio to market conditions. Similarly, the Commission's Investment Authority Delegation Policy provides the CIO the ability to adapt the Portfolio to changes in market conditions. To the extent that the CIO deems the scope of the authority delegated to the CIO insufficient, the CIO with the approval of CEO may take action deemed necessary to protect the Portfolio in an extreme market environment. The CIO will promptly inform the Commission of any such actions.

6. Portfolio Rebalancing - The Commission delegates to the CIO or his designee the authority to execute manager and/or securities transactions to implement rebalancing, manage liquidity, or to otherwise manage exposures within the allowable ranges. As part of this delegation, the Commission expects the CIO to articulate, implement and provide reporting to the Commission regarding the Portfolio's rebalancing and exposure management activities as requested. A high-level summary of the rebalancing and exposure management guidelines include:

i. The asset allocation is reviewed on an ongoing (typically weekly) basis by Staff and the CIO to ensure that the Portfolio is within its allocation ranges and to identify appropriate actions necessary to maintain compliance and to provide for the Plan's liquidity needs.

ii. The goal of the rebalancing and exposure management activities is to implement the investment strategy at a reasonable cost within the targets and ranges established by the Commission, recognizing that constant rebalancing to the exact target may not be economically justifiable. The following guidelines are used:

a. Rebalancing is currently performed quarterly unless a case has been made ***not*** to rebalance. Potential rebalancing activity is flagged for consideration based upon exposure reporting that is updated by RSIC's performance reporting staff. Rebalancing the portfolio incurs costs (trading commissions, bid-ask spread, and market impact) which are taken into consideration when rebalancing the Portfolio;

b. When an asset class reaches its minimum or maximum allocation, Staff will initiate rebalancing transactions to keep allocations within the approved ranges. Otherwise, Staff must seek Commission approval to remain outside the range; and

c. Concentration risk with respect to significant reliance on any single external manager is reviewed regularly by Staff. Mitigation of performance, operational, headline/reputational, or other fiduciary risks is typically achieved by maintaining a diversified allocation approach both within and across asset classes.

iii. RSIC Staff must balance the risks noted above with the economic benefits associated with a streamlined approach that uses fewer, larger allocations. Additional analyses of the costs and benefits of passive vs. active market exposure are an important input in these decisions.

D. Investment Manager Guidelines

1. General - In keeping with the responsibilities assigned to the CIO by State law and the Commission's Governance Policies, the Commission authorizes the CIO and his designees to develop and revise investment management guidelines for each internally and externally managed investment manager. In making this delegation, the Commission acknowledges that discretion in implementing the investment strategy, within the parameters of all applicable guidelines, will typically be granted to the Commission's investment managers. This discretion is usually limited to the selection of securities and the timing of transactions within the portion of the Portfolio allocated to each manager.

2. Funds of One - A Fund of One is an investment structure in which there is typically a majority investor in a specific vehicle or fund. The Commission or CIO as applicable may elect to use a Fund of One structure when the structure will have lower costs, customized exposure advantages, and/or other beneficial considerations. The CIO is responsible for the day-to-day investment responsibilities with respect to Funds of One, including providing affirmative or negative consent for underlying investments, as required.

3. Pooled or Commingled Funds:

i. Commingled investment vehicles can often provide lower costs and better diversification than can be obtained with a separately managed account pursuing the same investment objectives. However, commingled investment funds cannot customize investment policies and guidelines to the specific needs of individual clients. Recognizing these trade-offs, the Commission or the CIO, as applicable, may accept the policies of such funds in order to achieve the lower costs and diversification benefits of commingled vehicles, and exempt commingled investment vehicles from the requirements and guidelines of this policy if:

a. The investment practices of the commingled vehicle are consistent with the spirit of this policy and are not significantly different in letter; and

b. The benefits of using a commingled vehicle rather than a separate account are material.

ii. The Commission or CIO, as applicable, may structure a portfolio as a separate account that allows for the advantages of commingled vehicles, but with RSIC as the only investor. With international assets, commingled vehicles save the Commission from having to provide additional resources for currency and foreign custody issues as the manager will assume responsibility for these functions.

iii. If an investment mandate is structured through a commingled vehicle, the investment policies of that vehicle will be the legal governing policies of the investment of assets allocated to that vehicle.

4. Strategic Partnerships - The Commission may elect to establish Strategic Partnerships with certain asset managers who are believed to possess specific expertise, knowledge, and capabilities for a limited or broad range of investment strategies. The performance of each Strategic Partnership will be reviewed by the Commission periodically, with a more comprehensive review occurring approximately every 3 to 5 years. The investment approval and evaluation process within the Strategic Partnership is similar to that followed for other investments, however, in addition to passing RSIC's internal process, the investment must also be approved by the investment committee of the strategic partnership.

5. Trade Execution - For all accounts, the Commission expects the purchase and sale of its securities to be conducted in a manner designed to receive the best combination of price and execution. The Commission may evaluate policies that provide for the most efficient and effective trading process. The compliance with investment guidelines must be monitored by the investment managers on an ongoing basis and be based on then-current market values. Securities that, if purchased, would constitute a compliance violation may not be purchased. In the event of a compliance violation, the manager will be expected to promptly notify investment staff. If for some reason the manager does not believe that it is prudent to immediately bring the account back into compliance, the manager will be expected to present a justification as well as a proposal for bringing the account composition back into compliance.

E. Compliance with Section 9-16-320 of South Carolina Code:

1. S.C. Code Section 9-16-320 requires the Commission to meet at least once each fiscal quarter for the purpose of reviewing the performance of investments, assessing compliance with the annual investment plan, and determining whether to amend the plan.

2. The Commission has adopted a strategic calendar that sets a meeting schedule of five meetings per year with a least one meeting every fiscal quarter. The strategic calendar also contains standing agenda items for each meeting to ensure compliance with this Section to include:

i. Quarterly Investment Performance Review – at each meeting the Commission receives a report and presentation on the quarterly, fiscal year to date, one, five, and ten-year plan investment performance. The quarterly performance reports and presentations are based on the Portfolio Performance Reporting Framework described in Section III and are designed to provide the Commission with the ability to judge the absolute value of performance as well as the relative performance between the benchmark portfolios and actual portfolio's performance. The Commission also receives risk reports to judge the absolute and relative risk of the of these portfolios.

ii. AIP Compliance Review – At each meeting the Commission receives reports detailing compliance with the Annual Investment Plan to include:

a. A review of the asset class exposures and sub-asset class components of the portfolio to ensure compliance with the allowable ranges contained in Section III, Table 7, and to ensure adequate diversification of the portfolio and that the portfolio is not concentrated in any one industry sector, market sector, or issuer;

b. A review of relevant progress towards any of the Strategic Initiatives in Section IV;

c. Any significant market contingencies and review of any responsive action that resulted in a decision not to rebalance the portfolio pursuant to Section V.C.6 or any action taken to protect the Portfolio which fell outside the allowable ranges in Section III, Table 7;

d. Action resulting in significant cost savings to the portfolio;

e. Any material deviation from the general operational and investment policies, and

f. As part of an in-depth review of one of the Policy Portfolio asset classes at each meeting, a review of the asset class baseline and progress towards meeting the baseline.

iii. The Commission retains the authority to amend any portion of the AIP requirements at any meeting and is required to consider amendments proposed by the CIO at its April meeting. However, if the Commission does not act to amend the AIP at any other meeting, it should be presumed that it determined not to amend the plan.

F. General Provisions Related to Alternative Investments

1. South Carolina law, the Employee Retirement Income Security Act of 1974 (“ERISA”), and the Uniform Management of Public Employee Retirement Systems Act of 1997 (“UMPERSA”) each have similar or compatible, but not identical, definitions and responsibilities of fiduciaries with respect to managing and investing assets of retirement systems. For clarity and consistency, it is prudent for the Commission to declare standards for interpretation of certain terms used in these sources.

2. As relating to the use of alternative investment strategies, the “Plan Assets” of the Retirement System include the System’s ownership interest in the following entities (e.g., a share or a unit), but do not include the underlying assets owned by the entity itself:

i. a registered investment company;

ii. a registered security that is widely held and freely transferable;

iii. an entity in which “benefit plan investors” hold less than 25% of the equity interest as defined and determined by ERISA §3(42);

iv. an “operating company” engaged in the production or sale of a product or service other than the investment of capital;

v. a “real estate operating company” or REOC (which actively manages and develops real estate consistent with U.S. Department of Labor ERISA regulations);

vi. a “venture capital operating company” or VCOC (which actively manages “venture capital investments” consistent with U.S. Department of Labor ERISA regulations); or

vii. a private investment partnership or offshore investment corporation the offering memorandum of which allows for the entity to take both long and short positions, use leverage and derivatives, and invest in many markets.

3. Whenever RSIC invests in an entity that does not hold Retirement System's assets, the decision to invest in the entity will be subject, *inter alia*, to the South Carolina fiduciary rules and ethics standards provided by state law, but the transactions engaged in by the entity generally will not be subject to the same rules.

4. RSIC will at times need to interpret statutes while implementing and administering the investment program. Whenever the South Carolina statutes are substantively similar to provisions of ERISA or UMPERSA, and to the extent practicable and consistent with South Carolina law and other principles of general application relating to public pension plans, RSIC intends to use (1) pertinent provisions of ERISA; (2) interpretive rules and regulations of the U.S. Department of Labor relating to ERISA; and (3) the Reporter's official comments to UMPERSA for guidance.

VI. Investment Authority Delegation Policy

A. Pursuant to Section 9-16-330(B) of the 1976 Code, the Commission delegates to the CIO the final authority to invest subject to the oversight of the CEO and the requirements and limitations of this policy. The size of any one investment made pursuant to this policy is limited to the percentage of total plan assets that applies to the particular asset class to which the investment pertains as provided in Section C of this policy and subject to any other limitation the Commission may place on this authority at any given time. The value of total plan assets to which the percentage limitations apply must be the estimated total value of plan assets included in the most recent quarterly investment performance report prepared pursuant to Section 9-16-90(A). For purposes of this policy, a co-investment is considered a separate and distinct investment from an investment in a commingled fund, fund of one structure, or an amount committed to a separately managed account and is separately subject to the limitations and requirements of this policy. Individual investments made in a separately managed account or a fund of one structure are not considered separate investments for purposes of this policy and are subject in aggregate to the limitations and requirements of this policy regardless of whether some degree of discretion is retained by staff regarding individual investments to be included in the applicable account.

B. The investment process for any investment made pursuant to this policy must be substantially similar to the investment process employed prior to the adoption of this policy, but for the requirement that the Commission approve the investment prior to closing the investment and must adhere to RSIC's Due Diligence Guidelines and Policies. Notwithstanding the authority granted by this policy, an investment must be presented to the Commission for its approval if it meets any of the following criteria:
   1. The investment is the initial investment in a new asset class;
   2. The majority of the underlying assets comprising the investment have not been previously included in the investment portfolio;
   3. The strategy to be employed by the investment manager is not substantially similar to an investment that has been previously subject to the Commission's investment due diligence process; or
   4. The investment strategy, other than in publicly traded assets, has important direct connections to South Carolina residents, state policymakers, or South Carolina focused businesses, and/or a majority of the assets of the investments would be principally located in South Carolina.

C. The amount of delegation for new investments approved pursuant to this policy shall not exceed 5% of the total value of Plan assets between regularly scheduled Commission meetings. The size of an individual investment made pursuant this policy is subject to the following limitations provided for the asset class applicable to the investment:
   1. Public Markets - 2% of the total value of plan assets, unless it is reasonable to believe that due to the particulars of the investment strategy that liquidating the investment would ordinarily require longer than ninety days and, in such case, the limit is 1% of the total value of plan assets, for:
      i. Global Public Equity,
      ii. Equity Options,
      iii. Portable Alpha,
      iv. Global Asset Allocation,

v. Mixed Credit,
vi. Emerging Market Debt,
vii. Other Opportunistic Strategies,
viii. Core Fixed Income, and
ix. Cash and Short Duration.

2. Publicly-Traded Real Estate - 1% of the total value of plan assets.
3. Private Markets - 75 bps of the total value of plan assets for:
   i. Private Equity,
   ii. Private Debt,
   iii. Private Real Estate,
   iv. Infrastructure, and
   v. Opportunistic Hedge Funds.
4. For purposes of this policy, the asset classes indicated in this section are as they are described in the Annual Investment Plan.

D. Pursuant to Section 9-16-330(B)(2), the closing documentation of any investment made pursuant to this policy must include the CEO's certification that the investment conforms to the amount and extent of delegation provided by this policy.

E. The Commission must be informed of a proposed investment to be made pursuant to this policy no less than three days before the closing of the investment and must be provided with all applicable documentation and reports produced or relied upon by staff when making the investment recommendation including, but not limited to:
   1. investment due diligence report,
   2. operational due diligence report,
   3. key terms sheet,
   4. memorandum and/or reports from the general or specialty consultant,
   5. Internal Investment Committee action summary,
   6. Completeness check certification, and
   7. Final draft versions of pertinent legal documents, including the Investment contract, limited partnership agreement, and/or other applicable closing documents.

F. An investment made pursuant to this policy must be reviewed with the Commission at the next regularly scheduled Commission meeting.

G. The CIO must provide the Commission with an updated proposed investment pipeline on a monthly basis.

H. The delegation of the final authority to invest pursuant to this section includes the authority to terminate an investment manager if the investment was made pursuant to this policy or the amount of capital committed to the manager by the Commission would fall within the applicable limits provided in Section C. The CIO must approve any termination of a manager made pursuant to this policy, subject to the oversight of the CEO. The CIO must provide a memorandum to the Commission summarizing his justification for terminating the manager within three days of terminating the manager. The CIO must provide a review of the termination to the Commission at the next Commission meeting.

I. The Commission will review this policy annually to ensure that it remains relevant and appropriate, or when there has been an amendment to state law relevant to any section of this policy, or a Commission approved change in the responsibilities, duties or operations of the Commission or its Committee generally, or as otherwise deemed appropriate by the Commission.

J. No provision of this policy shall apply to the extent that it is in conflict with any provision of the Code of Laws of South Carolina, 1976, as amended. In the event of such conflict, the applicable Code provision shall apply in all respects.

K. This policy was adopted by the Commission on September 28, 2017, subject to final approval by the Chair of the incorporation of certain amendments into the policy. The Chair issued final approval of the policy on October 23, 2017.

VII. SECURITIES LITIGATION POLICY ("POLICY")

A. Purpose and General Principles

a. The purpose of this Policy is to set forth the South Carolina Retirement System Investment Commission's[1] guidelines with respect to securities litigation. Interests in securities litigation matters will be managed as assets of the South Carolina Retirement Systems Group Trust (the "Trust") with the goal of enhancing the long-term value of the Trust.

b. The Commission acknowledges that it has a fiduciary duty to take reasonable actions to pursue and collect on legal claims held as an asset of the Trust. The Commission also recognizes that most, if not all, of the securities litigation claims in which the Trust may have an interest will be pursued by law firms from the class action bar regardless of whether RSIC takes an active role in the litigation.

c. This Policy outlines the Commission's procedures for monitoring the Trust's portfolio for potentially actionable losses, protecting the Trust's interests in litigation related to portfolio losses, and maximizing recoveries attainable by the Trust from such actionable losses.

d. This policy consists of four sections: 1) a section relating to asset recovery as passive class members in U.S.-based securities actions; 2) a section for litigation of securities listed on domestic exchanges where RSIC deems active participation is warranted; 3) a section for litigation of securities listed on foreign exchanges; and 4) a section related to the monitoring process for both foreign and domestic claims in which the Trust takes an active role.

B. Part One: Securities Litigation Policy for Filing Proofs of Claim ("Passive Participation")

a. Under U.S. federal law, securities class action lawsuits function as "opt-out" cases. This means that the Trust does not need to participate as a named party in order to recover its *pro rata* share of a class action recovery so long as the certified class claims include the losses incurred by the Trust. This type of participation is called Passive Participation. When notified of a class action settlement in which the Trust has suffered a loss, RSIC need only submit a timely and valid proof of claim in order to be included in any recovery.

b. The Trust's custodial bank, The Bank of New York Mellon ("BNY Mellon"), is responsible for completing and filing all proofs of claim, including the necessary supporting documents and information in every securities class action pending in the U.S. in which the Trust has a direct interest (i.e., for Trust assets that are custodied at BNY Mellon ("In-Bank Assets")). BNY Mellon is not responsible for filing proofs of claim for, or otherwise reporting on the management of, securities class action litigation for assets that are not custodied at BNY Mellon ("Out-of-Bank Assets").

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[1] "Commission" refers to the commission of seven members responsible for managing the South Carolina Retirement System Investment Commission, as specified in S.C. Code of Laws Ann. Section 9-16-315.

"South Carolina Retirement System Investment Commission" or "RSIC" refers to the agency established by South Carolina law for the purpose of investing and managing all assets held in trust for the participants and beneficiaries of the state's five separate defined benefit plans.

c. BNY Mellon's claims filing responsibilities are set forth in more detail in the Service Level Description, dated July 21, 2019, between the Trust by and through RSIC and BNY Mellon (the "SLD"). The SLD outlines the process for: (i) identifying and reviewing all class action recoveries (whether by settlement or trial); (ii) providing timely notice of each settlement recovery to RSIC and the Commission; (ii) filing complete and accurate proofs of claim forms in a timely fashion on behalf of the Trust; (iv) providing quarterly reports outlining all claims filed on behalf of the Trust during the quarter; and (v) providing quarterly reports identifying all securities litigation proceeds recovered by the Trust directly or on its behalf. In the event of a claim involving securities that are not identified by a specific security identifier (e.g., CUSIP, ISIN, SEDOL, etc.), BNY Mellon will use commercially reasonable efforts to identify impacted securities recorded in BNY Mellon's records relating to the security named in the documentation received. In the event that BNY Mellon is unable to file a claim on the Trust's behalf (e.g., involving anti-trust claims), BNY Mellon, or in some cases a third party, will forward the relevant claim information to RSIC, and RSIC will utilize the services of third-party claims filing services that specialize in analyzing and filing such claims.

C. Part Two: Securities Litigation Policy for Securities Listed on a Domestic Exchange

a. While the Commission has a fiduciary obligation to take reasonable action to collect on legal claims held by the Trust, the Trust, acting by RSIC, may need to engage in active participation ("Active Participation") on occasion. This type of participation involves serving as lead plaintiff in cases in the domestic exchange context. Active Participation in domestic securities class actions must be balanced with the Commission and RSIC's primary obligation to maximize the investment returns of the Trust. This determination must also be weighed against the additional costs and burden on staff that may result by becoming lead plaintiff in a securities litigation case as well as the recognition that the Trust's position as a lead plaintiff will not, in and of itself, entitle the Trust to any greater recovery.

b. **Authority to Seek Lead Plaintiff Designation:** Due to the time-sensitive nature of electing to seek a lead plaintiff designation and the Chief Executive Officer's ("CEO") statutory designation as the chief administrative officer of RSIC, the Commission, through this Policy, has delegated to the Executive Leadership Team the authority to elect to seek a lead plaintiff designation where appropriate, reasonable, and prudent to protect the interests of the Trust.

c. **Decision-Making Guidance for Active Participation:** The Executive Leadership Team will generally consider seeking lead plaintiff status ("Active Participation") in a domestic class action when: (i) the Trust's projected losses exceed $5 million U.S. Dollars (the "Loss Threshold"); or (ii) when the loss is substantial but less than the Loss Threshold and there are significant special factors justifying the Trust's involvement. The determination of special factors will be made in the discretion of the Executive Leadership Team.

d. **Monitoring Procedures:** In addition to the reporting provided by BNY Mellon for class action litigation involving In-Bank Assets, the Trust may retain three or more securities litigation monitoring law firms (the "Firms") to advise RSIC via periodic reporting of recently-filed class actions in which the Trust has sustained losses and which appear to have merit. The Firms will generally be engaged for up to five years, with the option to terminate earlier or renew for additional periods. Each of the Firms will provide reporting on at least a quarterly basis outlining all recently filed claims in which the Trust has sustained losses. Additionally, the Firms will submit written memos to RSIC on certain cases, including any cases exceeding the Loss Threshold, regarding the alleged facts of the case, the estimated losses, the Firm's view on the merits of the allegations, and a recommendation as to whether RSIC should seek a lead plaintiff position in the matter. RSIC Legal will perform an initial review of all reports and memos received from the Firms. Any reports or memos indicating a loss that exceeds the Loss Threshold will be forwarded to the CLO for further review. The CLO will review the reports and will follow up with the Firms that have provided the memorandum to get additional insight and information about potential claims exceeding the Loss Threshold ("Reviewable Claims") and will make additional inquiries or conduct additional research as needed.

e. After review by the CLO, the CLO will confer with the Executive Leadership Team regarding the merits of Reviewable Claims, including the projected losses incurred by the Trust, the specifics of the related investment(s), available staff resources, and the recommendations of the Firms regarding whether the Trust should seek a lead plaintiff position. Any decision to seek a lead plaintiff designation for a claim exceeding the Loss Threshold or based on special circumstances must be made by a unanimous vote of the Executive Leadership Team. The Executive Leadership Team will notify the Chair and Vice- Chair of the Commission about any decision to seek a lead plaintiff position and will update the Commission via reporting to the Commission's secure portal.

f. **Selection of Outside Counsel for Securities Litigation** If the Executive Leadership Team determines that it is prudent to hire one of the Firms or other legal counsel to represent the Trust in a securities litigation action to protect the assets of the Trust, all selection of counsel and retainer agreements shall be negotiated, executed, and monitored by the CEO with assistance from the CLO. The CEO may engage one of the Firms hired to monitor the Trust's portfolio, or the CEO may seek to engage other counsel after consultation with the CLO and notice and consultation with the Office of the South Carolina Attorney General, as required by S.C. Code Ann. Section 9-16-315(I). When RSIC first engages the Firms, RSIC will pre-negotiate a proposed engagement agreement for potential litigation, which must be approved by the CEO.

D. Part Three: Securities Litigation for Securities Listed on a Foreign Exchange

a. Due to the 2010 Supreme Court case, *Morrison v. National Australia Bank Ltd.*,[2] investors no longer have the protections of U.S. securities laws for securities that were purchased on a non-U.S. exchange. Unlike the U.S. class action process, foreign securities actions generally require investors to join as a named-plaintiff or "opt-in" at the commencement of the case in order to be entitled to a share of any recovery. This "opt-in" process requires affirmative decisions early in the process to join the lawsuit in order to participate in any recovery. In many cases, investors may be required to make these decisions before a foreign action is even filed.

[2] *Morrison v. National Australia Bank Ltd.,* 561 U.S. 247 (2010).

b. **Decision-Making Guidance for Active Management:** Because there is rarely an option for passive participation in foreign securities actions, the review for participation in these actions differs from those explained in Part Two of this Policy. The CLO will review notices of potential claims in foreign securities actions and will review recommendation memos received from the Firms or other sources in those cases where the loss threshold exceeds $1 million (the "Foreign Loss Threshold"). In foreign jurisdictions, various groups, including non-law firm litigation funding organizations, may act as a funding source for the litigation and work with a certain legal team to initiate litigation. In some cases, the group that first files a lawsuit may become a founding group ("Founding Group"). Founding Groups may impose differing terms and conditions in order to participate in a lawsuit. The CLO will review all available factors relating to participating in foreign actions for claims exceeding the Foreign Loss Threshold, including but not limited to: (i) the amount of the loss; (ii) the potential litigation fees; (iii) the litigation funding requirements; (iv) whether more than one litigation funding group is proposing participation; (v) the risk of adverse costs; (vi) the legal merits of the case; (vii) the contractual requirements for joining and/or bringing a claim; and (viii) the potential cost of staff's time. . After reviewing the above factors and the documentation required to elect to participate in the applicable foreign jurisdiction, the CLO will make a recommendation to the CEO on whether to participate, and if applicable, which Founding Group to elect based on the most suitable contract terms available for the Trust. The CEO, after reviewing the CLO's recommendation, will elect (A) whether or not to pursue participation in foreign litigation that exceeds the Foreign Loss Threshold; and (B) which funding group to select based on the terms and legal requirements of each. The CLO, working with the Firm(s), as applicable, will negotiate the required documentation and retain the right to change a recommendation to participate if suitable contract terms cannot be negotiated with the Founding Group.

E. Part Four: Litigation Monitoring for Active Participation in Domestic and Foreign Litigation

a. The CEO, acting via the CLO, will monitor any pending domestic or foreign cases in which RSIC is actively participating. The CLO will request quarterly written status updates from any Firms representing RSIC in Active Participation cases. The CLO will actively participate in discussions with the Firms regarding any participation by RSIC Staff or document production needs. The CEO and CLO will be actively involved in settlement discussions for any domestic litigation action. The CLO will submit periodic updates to the CEO and the Commission regarding such cases. In accordance with the CEO's statutory authority as chief administrative officer of the Commission, the CEO retains the ultimate authority related to the direction of any class action litigation and/or settlement pursuant to this Policy. The CEO may consult the Commission on any matter related to the initiation of or conduct of any lawsuit pursuant to this Policy. The CEO shall have full authority to approve a proposed settlement of any litigation. In addition, the CEO shall have full authority to execute all contracts, legal documents, settlements, certifications, and authorizations required to pursue litigation authorized by the Executive Leadership Team.

F. The Commission shall review this policy at least once every three (3) years to ensure that it remains relevant and appropriate.

VIII. Placement Agent Policy

A. Purpose. It is the intent of this Policy to comply with S.C. Code Ann. §9-16-100, which prohibits compensation being paid to a Placement Agent (as defined below) as a result of an investment by the Retirement System (as defined below).

B. Definitions. For purposes of this Policy, the following capitalized terms will have the defined meaning set forth below:

- **a.** Pursuant to §9-16-100(B), a "Placement Agent" means any individual directly or indirectly hired, engaged, or retained by, or serving for the benefit of or on behalf of an external manager or an investment fund managed by an external manager and who acts or has acted for compensation as a finder, solicitor, marketer, consultant, broker, or other intermediary in connection with making an investment with or investing in a fund managed by the external investment manager.
- **b.** "Placement Agent Policy Compliance Letter" means that letter which will be requested from prospective external investment management firms in accordance with the terms of this Policy.
- **c.** "Policy" means this Placement Agent Policy.
- **d.** "Retirement System" means the South Carolina Retirement Systems Group Trust.
- **e.** "RSIC" means the South Carolina Retirement System Investment Commission.

C. Procedure

- **a.** RSIC staff will inform prospective external investment management firms ("Investment Managers") as to the RSIC's Placement Agency Policy and statutory requirements as soon as practicable after RSIC staff begins the due diligence review of any potential investment. The RSIC staff member leading the due diligence review for the investment is responsible for sending written notice (paper, fax or email) to the Investment Manager requesting a Placement Agent Policy Compliance Letter. If a copy of this Policy has not already been provided to the Investment Manager, then this Policy will be made available to the Investment Manager prior to or at the time notice is given to the Investment Manager.
- **b.** The Placement Agent Policy Compliance Letter must be included in the RSIC investment Due Diligence Report packet.
- **c.** Investments will not be voted on by the Commission, Internal Investment Committee, or otherwise approved pursuant to RSIC policies, prior to receipt of the completed Placement Agent Policy Compliance Letter and confirmation from RSIC compliance staff that the letter is sufficient per Section G below.
- **d.** The following entities must complete the Placement Agent Policy Compliance Letter as outlined below:
    - **i.** Investment Managers that have a direct contractual investment management relationship with the RSIC or with an investment vehicle in which the RSIC is invested.
    - **ii.** Investment Managers that have an indirect contractual investment management relationship with the RSIC through an investment vehicle that invests in funds or other pooled investment vehicles or other assets.

D. Placement Agent Policy Compliance Letter. The Investment Manager will provide disclosure in the form of a letter addressing all requirements specified below:

- **a.** Certification that, in compliance with §9-16-100, no Placement Agent (as defined by State law) received, or will receive, compensation in connection with the RSIC making an investment with or investing in a fund managed by the Investment Manager.
- **b.** Representation that the Investment Manager has reviewed the applicable law and has not relied on the counsel or advice of RSIC or any employee, representative, agent or officer of RSIC regarding the interpretation and application of the applicable law.
- **c.** Representation that all information contained in the Placement Agent Policy Compliance Letter is true, correct and complete in all material respects.

E. Open Records Law. RSIC may be required to disclose information in the Placement Agent Policy Compliance Letter under the South Carolina Freedom of Information Act.

F. Investments with Separate Account Investment Management Agreements ("IMAs"). If, after closing, the RSIC determines that the Placement Agent Policy Compliance Letter contains a material inaccuracy or omission, the RSIC will, to the fullest extent possible, seek the option, in its sole discretion and without liability to the Investment Manager or any third party, to terminate the IMA and to pursue all remedies that may otherwise be available to the RSIC without incurring any penalty under any agreement to which it is a party.

G. Investments in commingled investment structures (LPAs, LLCs, Trusts, etc.). The RSIC will endeavor to have provisions incorporated into the transaction documents for commingled investment structures which would permit the RSIC to take those actions described in the next sentence. If, after closing, the RSIC determines that the Placement Agent Policy Compliance Letter contains a material inaccuracy or omission, the RSIC will seek to obtain the option, in its sole discretion and without liability to the commingled investment structure, the General Partner or equivalent management entity, any other investor in the structure or third party, to cease making further capital contributions and/or direct payments to the investment and to pursue all remedies that may otherwise be available to the RSIC without being deemed to be a defaulting Limited Partner under the transaction documents and without incurring any other penalty under any agreement to which it is a party.

H. Review. RSIC's compliance staff will review Placement Agent Policy Compliance Letters and will determine whether each letter is sufficient. Any questions regarding the sufficiency of the letter will be referred to the RSIC legal department and will be reported to the CIO and applicable RSIC Staff.

I. Staff Contact. RSIC staff will provide notice about the prohibition in the state law to any party that contacts RSIC staff regarding a potential investment and appears to be acting in the role of a Placement Agent.

J. Obligation to Update. It is the Investment Manager's obligation to promptly inform RSIC staff of any material changes to a prior-filed Placement Agent Policy Compliance Letter, and to submit an updated Placement Agent Policy Compliance Letter where warranted prior to the RSIC's closing on an investment.

K. Review and History

a. The Commission will review this policy at least every three years to ensure that it remains relevant and appropriate, or when there has been an amendment to state law relevant to any section of this policy, or a Commission approved change in the responsibilities, duties, or operations of the Commission or its committees generally, or as otherwise deemed appropriate by the Commission.

b. No provision of this policy shall apply to the extent that it is in conflict with any provision of the Code of Laws of South Carolina, 1976, as amended. In the event of such conflict, the applicable Code provision shall apply in all respects.

c. This policy was initially adopted on September 20, 2012.

d. This policy was amended on June 22, 2017 and will take effect on July 1, 2017.

IX. SUDAN DIVESTMENT POLICY

A. Background. The State of South Carolina has enacted a Sudan divestment law, codified at S.C. Code Ann. §9-16-55 ("Act"). The uncodified preamble to the Act notes that "[d]ivestment is a course of last resort that should be used sparingly and under extraordinary circumstances," but states that "the genocide occurring in the Sudan is reprehensible and abhorrent," warranting this type of legislative response. The Act, which applies solely to the South Carolina Retirement Systems Group Trust ("Group Trust") managed by the South Carolina Retirement System Investment Commission ("Commission" as the governing body, "RSIC" as the agency), sets forth various criteria that are to be considered by the Commission in making the determinations required by the Act.

B. Purpose. The purpose of this Sudan Divestment Policy ("Policy") is to document the manner in which the Act is administered. The Commission has the exclusive authority to invest and manage the assets of the Group Trust pursuant to S.C. Code Ann. §9-16-20. The Commission also has the fiduciary duty to manage the assets of the Group Trust solely in the interests of the retirement systems, participants, and beneficiaries. The Commission must discharge these responsibilities in a manner consistent with all applicable statutes, regulations, and policies, including the Act.

C. Definitions. The Act utilizes the following defined terms:

- **a.** "Active Business Operations" means a Company engaged in Business Operations that provide revenue to the Government of Sudan or a Company engaged in Oil-Related Activities.
- **b.** "Business Operations" means maintaining, selling, or leasing equipment, facilities, personnel, or any other apparatus of business or commerce in Sudan, including the ownership or possession of real or personal property located in Sudan.
- **c.** "Company" means a sole proprietorship, organization, association, corporation, partnership, venture, or other entity, its subsidiary or affiliate that exists for profit-making purposes or to otherwise secure economic advantage. "Company" also means a Company owned or controlled, either directly or indirectly, by the Government of Sudan, that is established or organized under the laws of or has its principal place of business in the Sudan.
- **d.** "Government of Sudan" means the Government of Sudan or its instrumentalities as further defined in the Darfur Peace and Accountability Act of 2006.
- **e.** "Investment" means the purchase, ownership, or control of stock of a Company, association, or corporation, the capital stock of a mutual water Company or corporation, bonds issued by the government or a political subdivision of Sudan, corporate bonds, or other debt instruments issued by a Company.
- **f.** "Military Equipment" means weapons, arms, or military defense supplies.
- **g.** "Oil-Related Activities" means, but is not limited to, the export of oil, extracting or producing oil, exploration for oil, or the construction or maintenance of a pipeline, refinery, or other oil field infrastructure.
- **h.** "Public Employee Retirement Funds" means those assets as defined in §9-16-10(1).
- **i.** "Scrutinized Companies" means any of the following:

i. The Company is engaged in Active Business Operations in Sudan; and
ii. The Company is engaged in Oil-Related Activities or energy or power-related operations, or contracts with another Company with Business Operations in the oil, energy, and power sectors of Sudan, and the Company has failed to take Substantial Action related to the Government of Sudan because of the Darfur genocide; or
iii. The Company has demonstrated complicity in the Darfur genocide.
iv. The Company is not engaged in Oil-Related Activities and lacks significant Business Operations in the eastern, southern, and western regions of Sudan; and
v. The Company is engaged in Oil-Related Activities or energy or power-related operations, or contracts with another Company with Business Operations in the oil, energy, and power sectors of Sudan, and the Company has failed to take Substantial Action related to the Government of Sudan because of the Darfur genocide; or
vi. The Company has demonstrated complicity in the Darfur genocide.
vii. The Company supplies Military Equipment within the borders of Sudan.[3]

j. "State" means the State of South Carolina.
k. "Substantial Action" means a boycott of the Government of Sudan, curtailing business in Sudan until that time described in Section I of this Policy, selling Company assets, equipment, or real and personal property located in Sudan, or undertaking significant humanitarian efforts in the eastern, southern, or western regions of Sudan.
l. "Sudan" means the Republic of the Sudan, a territory under the administration or control of the Government of Sudan, including, but not limited to, the Darfur region, or an individual, Company, or public agency located in Khartoum, northern Sudan, or the Nile River Valley that supports the Republic of the Sudan.

D. Identification of Companies

a. Identifying Scrutinized Companies. RSIC Staff ("Staff") has engaged the services of a specialized research firm ("Advisor") to (i) identify companies doing business in Sudan, as defined in the Act, and (ii) provide Staff with a list of such Scrutinized Companies ("Scrutinized Companies List").
b. Updates to Scrutinized Companies List. Staff shall ensure that the Scrutinized Companies List is updated on or about January 1 and July 1 of each year.

E. Engagement

a. Determining Scrutinized Status. For each Company identified by the Advisor pursuant to Section D of this Policy, RSIC (either via Staff or the Advisor) shall send a written notice informing the Company that it may become subject to divestment by RSIC. The notice

[3] If a Company provides equipment within the borders of Sudan that may be readily used for military purposes, including but not limited to, radar systems and military-grade transport vehicles, there is a strong presumption against investing in the Company unless that Company implements safeguards to prevent the use of that equipment for military purposes.

shall offer the Company the opportunity to clarify its Sudan-related activities within 90 days in order to avoid qualifying for potential divestment.

b. Compliance. If, following RSIC's notification (either via Staff or the Advisor) to a Company pursuant to Section E. a. of this Policy, that Company ceases the activities that caused the Company to be added to the Scrutinized Companies List, as determined by the Advisor, the Company shall be removed from the Scrutinized Companies List, and the provisions of this Section E shall cease to apply to the Company unless it resumes the activities that caused the Company to be added to the Scrutinized Companies List.

F. Determinations to be made by the Chief Investment Officer

a. Delegation to the Chief Investment Officer. The Commission has delegated authority to the Chief Investment Officer ("CIO") to, in consultation with RSIC's Chief Executive Officer, make the determinations required under the Act and to take actions necessary to implement this Policy.

b. General. If, following RSIC's engagement with a Company pursuant to Section E. a. of this Policy, the Company continues to be a Scrutinized Company, Staff will present the CIO with detailed information gathered from the Advisor, affected investment managers, and others regarding the Company, its Business Operations, the Group Trust's holdings, and any other information required by the Act and this Policy. The CIO will make determinations as to (i) whether Staff should sell, redeem, divest, or withdraw the Group Trust's interests in the Company, and (ii) the timing of any such sale, redemption, divestment, or withdrawal. The CIO will also make the determinations described in Section I of this Policy.

G. Prohibition. RSIC shall not use Public Employee Retirement Funds to acquire new Investments in Companies on the Scrutinized Companies List, except as provided in this Policy.

H. Permissible Investments under the Act

a. The Act does not apply to the following types of Investments:

i. Investments in a Company that is primarily engaged in supplying goods or services intended to relieve human suffering in Sudan;

ii. Investments in a Company that promotes health, education, journalistic, or religious activities in or welfare in the western, eastern, or southern regions of Sudan;

iii. Investments in a United States Company that is authorized by the federal government to have Business Operations in Sudan; and

iv. Investments that constitute indirect beneficial ownership through index funds, commingled funds, limited partnerships, derivative instruments, or the like.

b. In developing the Scrutinized Companies List, the Advisor shall determine, in good faith and with due professional care, whether any of the foregoing exemptions and exclusions set forth in the Act apply.

I. Determinations required to be made by the CIO pursuant to §9-16-55(D)(1). The Act states that nothing in the Act "requires the [C]ommission to take action as described in [the Act] unless the

[C]ommission determines, in good faith, that the action described in [the Act] is consistent with the fiduciary responsibilities of the [C]ommission as described in [Title 9, Chapter 16 of the Code] and there are appropriated funds of the State to absorb the expenses of the [C]ommission to implement this [Act].” §9-16-55(D)(1). Accordingly, whenever the CIO is asked to consider taking action under the terms of the Act or this Policy, Staff will assist the CIO in making the determinations required to be made as described in this Section.

J. Reporting. Staff shall, following the close of RSIC's fiscal year, prepare a formal report to the Commission regarding actions taken pursuant to the Act. RSIC shall also publish the report. The report shall include all of the following information with respect to the previous fiscal year:

- **a.** The Scrutinized Companies List;
- **b.** A list of all Companies added to or removed from the Scrutinized Companies List;
- **c.** A summary of correspondence with Companies engaged by RSIC under the Act;
- **d.** A list of all Companies that RSIC will continue to engage concerning their Business Operations in Sudan;
- **e.** A summary of all Investments sold, redeemed, divested, or withdrawn under the Act; and
- **f.** A list of all Investments that were retained by RSIC pursuant to a determination by the CIO as set forth in Section I.

K. Expiration. The restrictions in the Act shall apply only until:

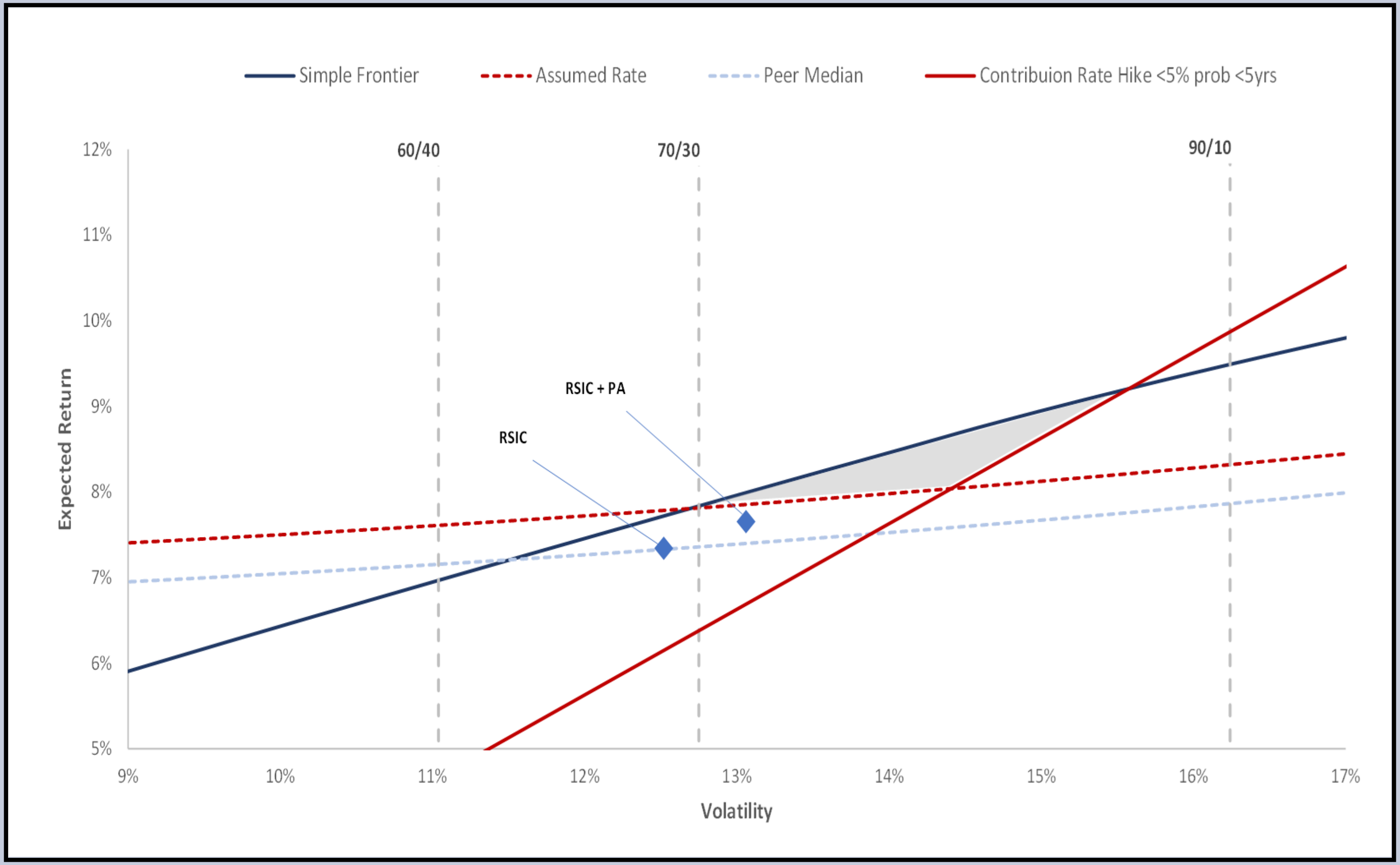
- **a.** The Government of Sudan halts the genocide in Darfur for twelve months as determined by both the Department of State and the Congress of the United States; or
- **b.** The United States revokes its current sanctions against Sudan.

L. Indemnification. The Act provides that present and former board members, officers, and employees of the State Fiscal Accountability Authority, present, future, and former directors, officers, and employees of the South Carolina Public Employee Benefit Authority, the Commission, and contract investment managers retained by the Commission must be indemnified from the general fund of the State and held harmless by the State from all claims, demands, suits, actions, damages, judgments, costs, charges, and expenses, including court costs and attorney's fees, and against all liability, losses, and damages of any nature whatsoever that these present, future, or former board members, officers, employees, or contract investment managers shall or may at any time sustain by reason of any decision to restrict, reduce, or eliminate Investments pursuant to the Act.

X. LONG-TERM ANNUALIZED RETURN AND VOLATILITY EXPECTATIONS

(NOTE: This section will be updated with 2021 Capital Market Expectations and the 2020 versions of Tables 1 and 2.)

AIP/SIOP Table 5 - Updated



SOUTH CAROLINA RETIREMENT SYSTEM INVESTMENT COMMISSION

CONSOLIDATED ANNUAL INVESTMENT PLAN AND STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES

As amended and adopted on______________________, 2020

Role of this Document

The State of South Carolina administers five defined benefit pension plans: the South Carolina Retirement System (“SCRS”), the Police Officers Retirement System (“PORS”), the Retirement System for Members of the General Assembly (“GARS”), the Retirement System for Judges and Solicitors (“JSRS”), and the South Carolina National Guard Supplemental Plan (“SCNG”) (together, the “Plan”).

The South Carolina General Assembly established the Retirement System Investment Commission (“RSIC”) as a state agency in 2005 and provided it with the exclusive authority to invest and manage the assets of the Plan which it does in one group trust. RSIC is governed by an eight-member board (the “Commission”). The Commission is a co-fiduciary of the assets of the Plan along with the South Carolina Public Employee Benefit Authority Board (“PEBA”).

State law requires the Commission to adopt a Statement of Investment Objectives and Policies (“SIOP”) and to review it annually and to either amend it or reaffirm it. The SIOP establishes investment and performance objectives, policies and guidelines, roles, responsibilities, and delegation of authority for the management of plan assets. State law also requires RSIC’s Chief Investment Officer (“CIO”) to develop an Annual Investment Plan (“AIP”) which must be presented to and adopted by the Commission prior to May 1st of each year. Pursuant to state law, relevant portions of the SIOP may constitute parts of the AIP.

In order to ensure consistency and agreement between the SIOP and AIP, the Commission has consolidated the requirements of both into one document which it will review annually prior to May 1st. As part of the annual review, the Commission will amend or reaffirm, as it deems appropriate, those portions of this document intended to meet the requirements of the SIOP and the Commission will consider the CIO’s recommendation of any necessary changes to those portions of this document intended to meet the requirements of the AIP. In order to assist the Commission and the CIO in meeting their respective annual requirements, RSIC’s Chief Executive Officer (“CEO”) will provide a guide that designates those portions of this document that are required by the SIOP and those that are required by the AIP.

The consolidated AIP and SIOP takes effect July 1, 2020.

TABLE OF CONTENTS

I. STRATEGIC PURPOSE, INVESTMENT OBJECTIVE, AND BELIEFS

A. Purpose

The goal of the State's five defined benefit plans is to provide a lifetime of benefits in retirement to those who have dedicated a career of public service to the State and its political subdivisions. The funding to secure this promise of benefits comes from two sources - contributions made by the employee and employer and the investment return earned on the assets of the Plan. The General Assembly has provided the Retirement System Investment Commission with the sole authority to invest and manage the assets of the Plan. Thus, RSIC's purpose is to earn an investment return that aids in fulfilling the promise of benefit payments to our current and future retirees and their beneficiaries.

B. Investment Objective

RSIC's primary investment objective is to design an investment program that produces a long-term rate of return that when added to contributions, funds current and future benefit payments. In doing so, RSIC must remain mindful that the Commissioners, CEO, and CIO are named fiduciaries to the Plan's beneficiaries and must carry out their respective responsibilities to invest and manage the Plan's assets in keeping with the highest duty of care the law recognizes. As a result, the return the investment program seeks to achieve should involve taking a prudent amount of investment risk.

Further, RSIC cannot design an investment program in isolation, but must instead design a program consistent with the realities of the Plan that is guided by the Plan's particular design, structure, and risk factors. An important guiding consideration is that the Plan is mature and as a result experiences net negative cash flows, in that the amount of annual contributions into the Plan is less than the annual amount of benefit payments flowing out of the Plan. As a result, the investment program must be designed in a way to provide sufficient liquidity to fund the net benefit payments to current retirees.

The investment program also must be guided by the consideration that the respective systems comprising the Plan are underfunded, in that the discounted liabilities of each system exceed the actuarial value of each system's assets. The 2020~~19~~ Actuarial Valuation report from the Plan's actuaries shows the funded status of each system as:

SCRS	PORS	GARS	JSRS	SCNG
54.1~~4~~%	62.5~~7~~%	51.6~~48.8~~%	42.6~~1.8~~%	50.0~~46.8~~%

The underfunded nature of the Plan presents the risk that Plan's assets will be insufficient to support future benefit payments. As a result, the investment program must also be designed in a way to grow the assets of the Plan to support payments to future retirees and their beneficiaries. The General Assembly did take significant action to address the underfunded nature of the Plan in the 2017 Pension Reform Bill. The 2017 Pension Reform Bill requires that the unfunded accrued actuarial liability ("UAAL") amortization period for SCRS and PORS be reduced by one year each fiscal year until each plan reaches a twenty-year amortization period. In order to support meeting this requirement, the General Assembly significantly increased contributions into the SCRS and PORS.

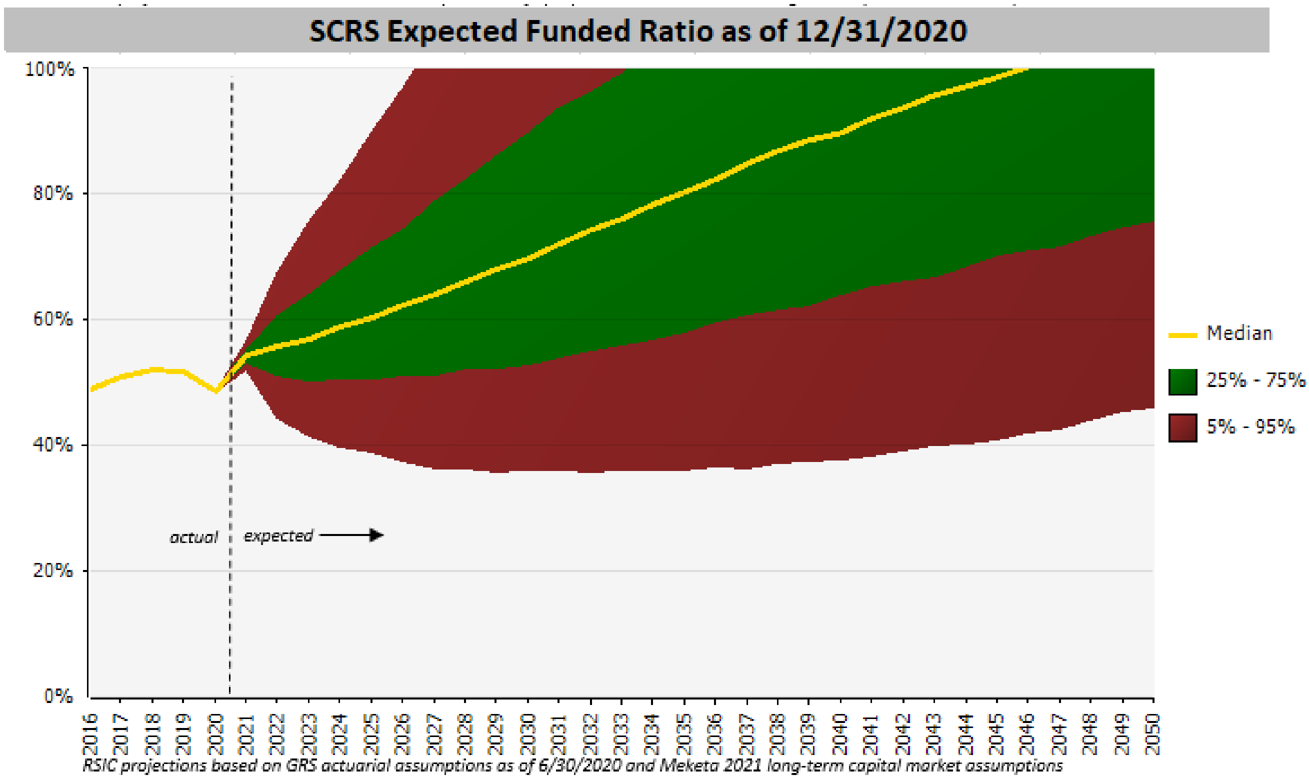
Thus, RSIC is tasked with designing an investment portfolio that balances the need to provide sufficient liquidity to fund current net benefit payments while also growing the portfolio in order to aid in providing benefits to future retirees.

Another guiding factor is that the General Assembly has set 7.25~~.25~~ percent as the assumed annual rate of investment return on the Plan's assets. The assumed annual rate of return of is expected to decline to 7 percent at the beginning of the 2022 Fiscal Year. The assumed rate of return not only serves as the discount rate to determine the net present value of the Plan's liabilities, but also serves as the primary driver of the Plan's funding policy. Investment performance relative to the assumed rate of return determines whether contribution rates are sufficient to meet the funding goals and requirements of the Plan.

RSIC realizes that investment performance will not meet or exceed the assumed rate of return every year, but rather strives to construct an investment portfolio that will meet or exceed this rate of return over time at a prudent level of market risk, in keeping with its fiduciary duty to the Plan's beneficiaries. Given the historically low interest rate environment, RSIC recognizes that achieving a long-term rate that exceeds the assumed rate of return ~~of 7.25 percent~~ requires investing the portfolio in a greater percentage of assets with higher expected volatility than would otherwise be required if interest rates were at historic average levels. As a result, the investment portfolio will experience greater market volatility which not only impacts the probability of the investment return exceeding the assumed rate over time, but also correspondingly impacts the probability of reaching the funded status goals of the Plan without requiring additional contribution rate increases.

As a result, RSIC works to design an investment program that maximizes the probability that the Plan will meet the General Assembly's funded status goals, but also given the high level of contribution rates, strives to minimize the probability that the Plan will require additional contributions above those already required. RSIC believes that it can design an investment program with a significant probability of meeting or making significant progress towards both concerns as demonstrated by the stochastic analysis of our funded status expectations for SCRS set out in Table 1 below and a similar analysis of our contribution rate expectations set out in Table 2 below.

TABLE 1



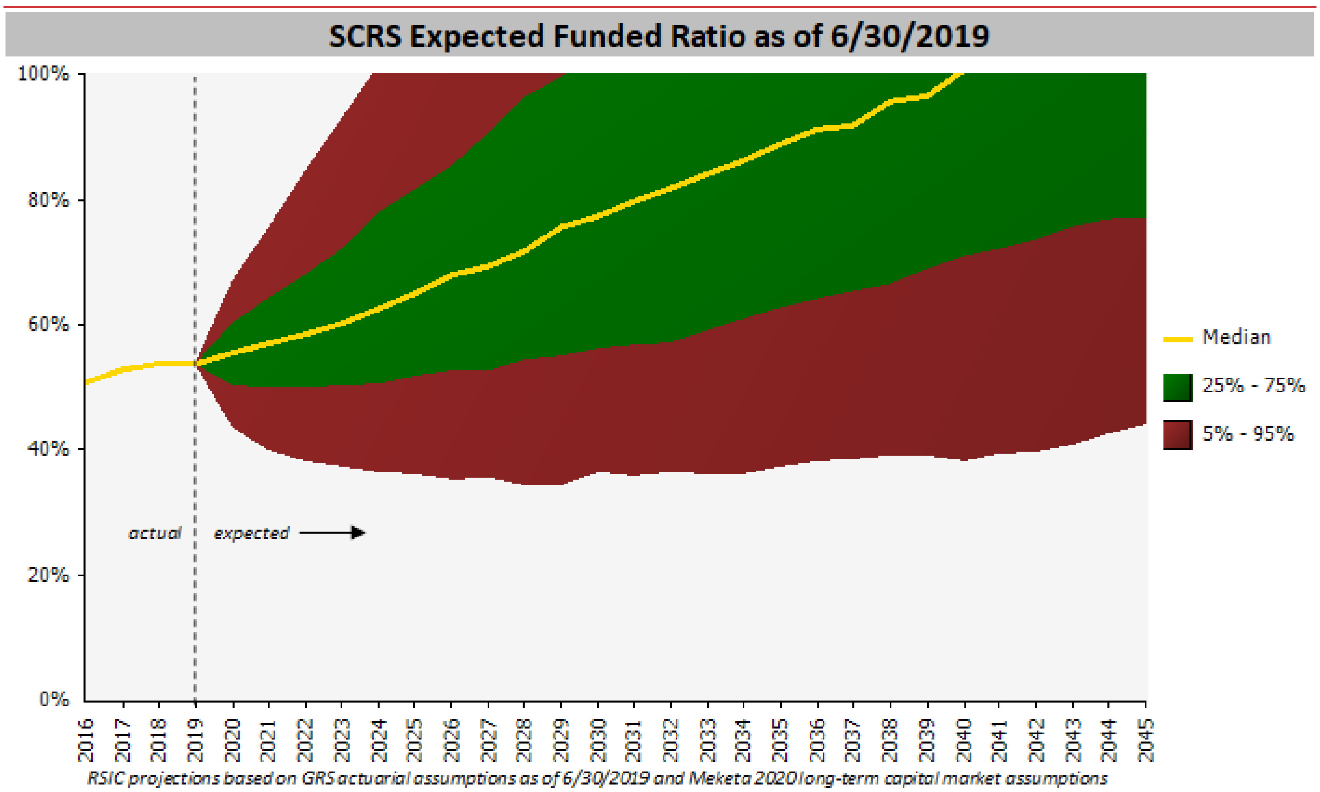


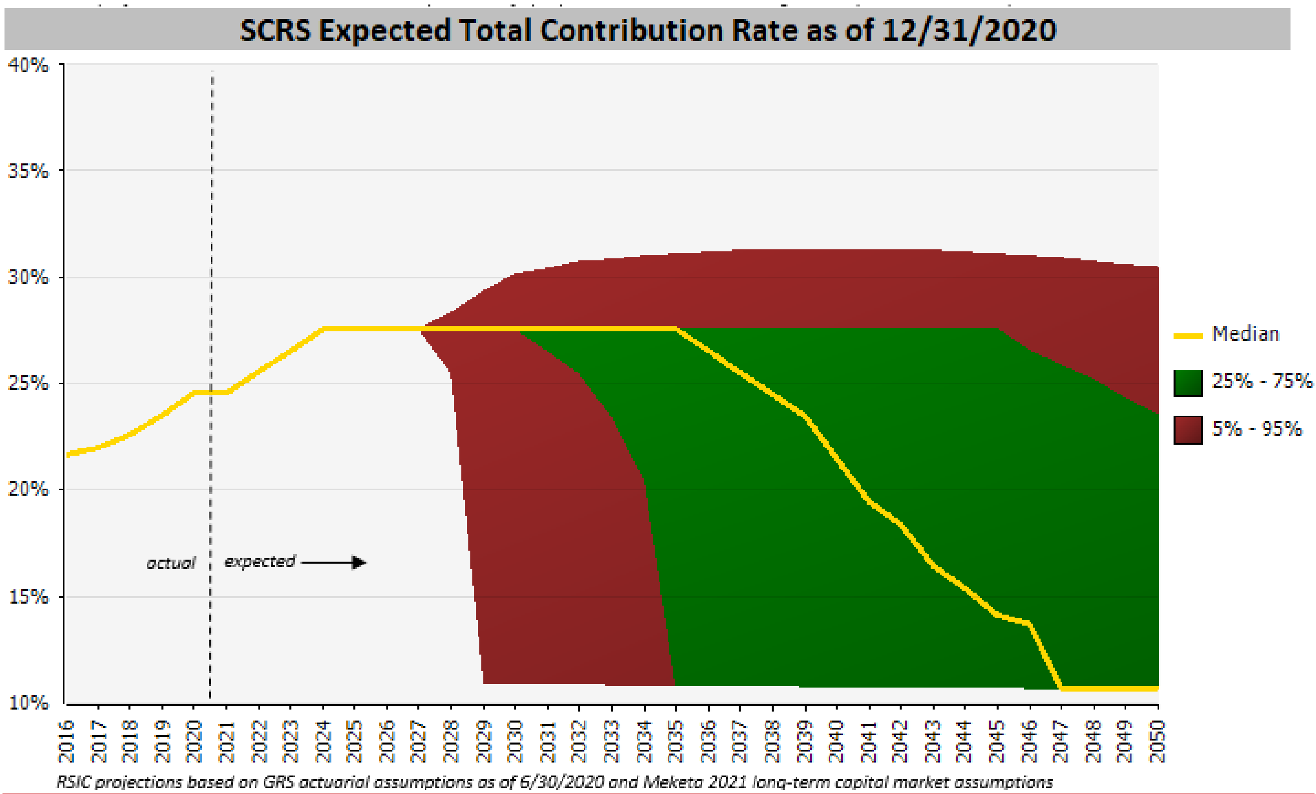
Table 1 tracks the actual, as well as, expected funded status of SCRS since 2016, the year prior to the passage of the 2017 Pension Reform Bill. SCRS is used as the example because its assets comprise the greatest percentage of the total assets of the five systems. The reason for the stochastic approach to the expected funded status is to demonstrate the impact of market volatility on the probable funded status of SCRS through time. The model upon which the simulation is based incorporates the actual structure, components, and assumptions of SCRS, including the contribution policy put into effect by the 2017 Pension reform Bill. The model uses the Commission's Policy Portfolio, described below, as the investment portfolio and includes thousands of iterations based on the ~~early~~ 2021~~0~~ long-term capital market and volatility expectations provided by the Commission's Investment Consultant. The long-term expected return and volatility for the Policy Portfolio is discussed in Section III(D) below.

As can be seen in this table, the base case scenario is that SCRS reaches fully funded status by 2046~~2~~, which is ~~ell~~within the funded status goals set by the 2017 Pension Reform bill. However, if the Plan were to experience the unfavorable 95th percentile scenario, the funded status of the Plan would not improve and would be expected to be in approximately the same funded position in thirty years that is currently. The base case scenario to reach fully funded status has increased by four years over the base case scenario in the corresponding 2020 analysis. ~~(Appendix X contains an updated version of Table 1 for each year since the AIP/SIOP was adopted in 2020).~~

The table also shows the actual improvement of the funded status of SCRS since 2016. The actual improvement shown on the table is attributable to additional contributions flowing into SCRS resulting from the 2017 Pension Reform Bill and better than forecast investment returns since the bill's passage. As of the 2020~~19~~ Actuarial Valuation, the amortization period for SCRS is 22.6~~twenty-one~~ years which is ahead of the 2017 Pension Reform Bill's requirement of 27 y~~twenty-eight y~~ears. As for PORS, the amortization period is 20.3~~eighteen~~ years which is ahead of the Pension Reform Bill's requirement of 27~~twenty-eight~~ years.[1]

TABLE 2

[1] The 2017 Pension Reform provides for a yearly employer contribution rate increase each year for SCRS and PORS, but the rate increase for Fiscal Year 2021 was suspended to ease some budgetary strain caused by the COVID-19 economic shutdown. As a result, the 2020 Actuarial Valuation provides two different amortization periods each for SCRS and PORS which depend upon whether the General Assembly limits the employer contribution rate increase to the rate provided for 2021 or if it allows the rate to increase to the rate provided for 2022, which would be a two rather than once percent increase. If the 2022 rate goes into effect, then the amortization period for SCRS would be 20.3 years and 18.4 years for PORS.



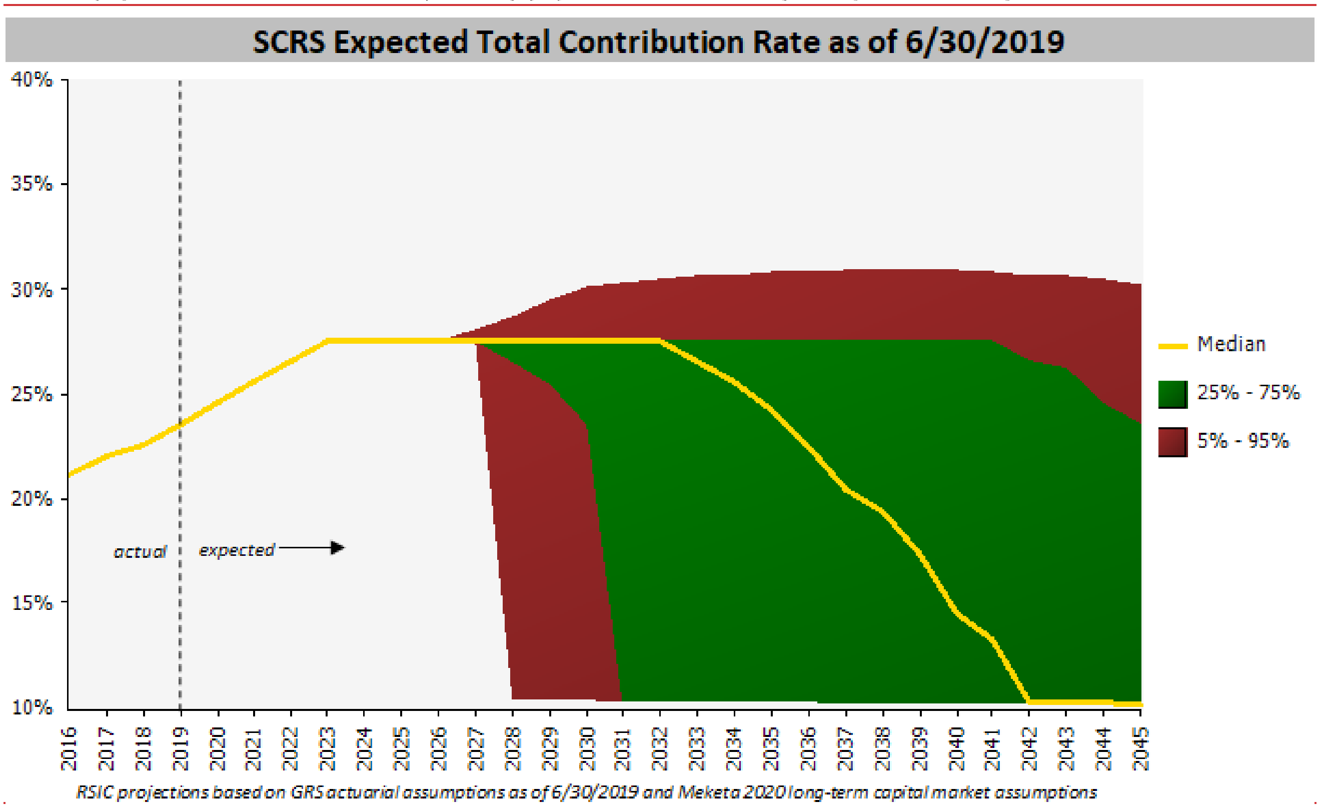


Table 2 tracks the actual, as well as, expected total employer and employee contribution rates for SCRS since 2016. This table also employs a stochastic approach to the expected combined contribution rate to more accurately demonstrate a range of probable outcomes due to market volatility. This analysis is based on the same assumptions used to produce Table 1.

As indicated in this table, the base case scenario shows combined employer and employee contribution rates for SCRS ~~-~~increasing to 27.56 percent pursuant to the schedule required by the 2017 Pension Reform Bill. The contr~~r~~ibution rates are then expected to level off and begin to decline in 2035 which is an increase of three years as compared to the 2020 analysis. The contribution rates are projected to decline to ~~2 reaching~~ the 10 percent normal cost contribution rate by 2047, which is an increase of five years compared to the 2020 analysis~~2~~. ~~However, T~~The table ~~does~~ indicates that there is some probability that contribution rates may increase above the 27.56 combined contribution rate required by the 2017 Pension Reform Bill.

The Commission recognizes that the base case scenarios for reaching fully funded status and for the decline in contribution rates has increased as compared to the 2020 analysis. As discussed below, the Commission attributes the increase to a decline in 2021 long term capital market expectations as compared to 2020 expectations. However, the Commission recognizes that the current base case scenario in both instances falls within the range of expected outcomes in the 2020 analysis and that the decrease in capital market expectations is the result of strong market performance coming out of the market decline associated with the COVID-19 pandemic. RSIC's portfolio benefited from this recovery and remains on the path to improving the Plan's funded status established in the 2017 Pension Reform Bill. (Appendix X contains historical versions of Tables 1 and 2 for each year since 2020 based on the corresponding year's capital market expectations).

C. Beliefs

As fiduciaries, the Commission and staff of RSIC are charged with exercising their roles and responsibilities to the Plan's participants and beneficiaries with the highest duty of care that the law recognizes. In order to ensure consistency in approach to decision making that is commensurate with this fiduciary duty and focused on achieving the investment objective, the Commission and RSIC staff have adopted a set of core beliefs to ensure that we are collectively guided by a unifying set of principles.

Belief 1 – We believe that asset allocation is the main driver of an investment portfolio's risk, return, and cost.

Belief 2 – We believe that investors must be rewarded for incurring additional risk, cost, and complexity.

Belief 3 – We believe that we are long-term investors which requires us to instill *discipline* and *patience* into our investment decision making and assessment process.

Belief 4 – We believe that achieving our investment objective requires an organization with strong governance, that maintains core values, and employs talented professionals. In order to do this, we must:

1. establish a governance structure with clear lines of authority and means to assess the quality of decision making and resulting performance;
2. recruit and retain a talented investment and operational staff consistent with our Core Values of:

   a. Humility,
   b. Intellectual Curiosity, and
   c. Team Player
3. achieve a deep understanding of value creation through the investment process;
4. emphasize risk awareness and focus on mitigating investment and enterprise risk; and
5. provide the foundation, infrastructure, and systems necessary to meet the investment objective and mitigate risk.

II. ROLES AND RESPONSIBILITIES

1. In 2005, RSIC was established by South Carolina law to invest and manage the assets of the State's five defined benefit retirement plans. RSIC invests and manages the assets of all five plans in one group trust. RSIC is governed by an eight-member Commission. The Commission's primary purpose is to set the strategic direction for an investment program that is consistent with its fiduciary duty and strives to earns an investment return that when combined with contributions fulfills the promise of benefit payments to the Plan's current and future retirees and their beneficiaries. This includes setting a long-term asset allocation that meets the Commission's investment objective, oversight of the implementation of the investment portfolio and the business affairs of RSIC, approving certain investments, ensuring legal and ethical integrity, and maintaining accountability. The Commission also adopts a series of governance policies that define the roles and responsibilities of Commissioners and staff and provide general guidance for the operation of RSIC as an agency. (RSIC Governance Policies can be found at:
~~1.~~ https://www.rsic.sc.gov/_documents/2017.07.14%20Governance%20Policy%20Manual.pdf).

2. The Commission employs a CEO, who serves as the primary figure of accountability for RSIC. The CEO serves as the chief administrative officer of RSIC as an agency and is charged with the affirmative duty to carry out the mission, policies, and directives of the Commission. The CEO is delegated the Commission's authority necessary, reasonable, and prudent to carry out the operations and management of RSIC as an agency and to implement the Commission's decisions and directives. The CEO also serves as the chief risk officer for the organization. The CEO is charged with employing a CIO and all other agency staff who serve at the will of the CEO. The CEO is also delegated the final authority to close all investments and must certify that investments made pursuant to the Commission's Investment Authority Delegation Policy meet the requirements of the policy (*see* SECTION VI for the Investment Authority Delegation Policy).

3. The CIO manages RSIC's investment functions subject to the oversight of the CEO. RSIC primarily invests Plan assets by allocating capital to external investment managers who implement specific investment strategies in order to provide the exposures necessary to meet the requirements of the Commission's strategic asset allocation. The Commission has implemented an Investment Authority Delegation Policy which provides the CIO with the final authority to invest with external investment managers subject to the limits of the policy. For a proposed investment that exceeds the delegation policy, the CIO determines whether the investment is presented to the Commission for final approval. The CIO is also granted certain authority to manage the implementation and exposure of the portfolio. The CIO through the management of the investment staff also oversees investment risk management, investment manager oversight, and other related activities.

4. The Executive Team is currently comprised of the CEO, CIO, Chief Operating Officer ("COO"), and Chief Legal Officer ("CLO") and serves as RSIC's primary management committee and aids the CEO in making strategic organizational and operational decisions.

5. The Internal Investment Committee ("IIC") is a committee of senior staff appointed by the CEO and is chaired by the CIO. The IIC's responsibilities are provided by the IIC Charter but the IIC is primarily responsible for serving as the committee that vets and recommends new investments to the CIO for approval and execution, or recommendation to the Commission for its approval.

6. The Commission engages a general investment consultant ("Investment Consultant"), who reports to the Commission and assists and advises the Commission on asset allocation, asset/liability study, performance reporting, benchmarking/peer group comparisons, and general investment education and advice. The CEO manages the day-to-day relationship with the Investment Consultant. RSIC Staff may rely on the Consultant for data resources, external analyst inputs, and access to educational materials. The CEO may also retain specialty consultants to serve as an extension of RSIC Staff in Private Equity, Private Debt, Real Estate, Infrastructure, and Hedge Funds.

7. The Internal Audit function is governed by the Commission's Audit and Enterprise Risk Management Committee and is primarily provided through external service providers. An internal staff member coordinates the relationship with external service providers and assists the committee with performing its duties and functions. The purpose of the Internal Audit function is to provide independent, objective assurance and recommendations designed to add value and improve RSIC operations. It assists the entity in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

8. The Enterprise Risk Management and Compliance ("ERM and Compliance") function reports to the CEO and serves as the primary staff to aid the CEO in fulfilling the role of chief risk officer. The ERM and Compliance function coordinates with the Executive Team and other staff on the assessment of, and provides oversight related to the identification and evaluation of, major strategic, operational, regulatory, informational, and external risks inherent in the business of RSIC. ERM and Compliance is also responsible for overseeing the process for monitoring compliance with RSIC policies and applicable laws.

9. The Public Employee Benefit Authority ("PEBA") is a separate agency that administers a comprehensive program of retirement benefits, performing fiduciary duties as stewards of the contributions and disbursements for the Plan. PEBA is responsible for producing GAAP basis financial statements for the Plan and maintains a general ledger to support that process. The financial statements that are produced by PEBA contain information regarding the investments made by the Commission and as such contain the official accounting records for Plan investments. The financial statements are presented in accordance with GAAP and comply with the Governmental Accounting Standards Board standards. The financial statements are audited annually by an independent audit firm hired by the State Auditor's Office.

10. The Commission and the PEBA Board serve as co-trustees of the Plan's assets. PEBA is the custodian of the Plan's assets and RSIC is responsible for the Plan's custodial banking relationship.

11. Subject to the approval of the State Fiscal Accountability Authority, PEBA designates the Plan's Actuary. The Commission is a third-party beneficiary to the contract with the Plan's Actuary, with full rights to all actuarial valuations prepared by the actuary.

12. The South Carolina General Assembly has the authority to control budget and staffing for RSIC and to set the actuarial annual assumed rate of return for the Plan. Starting in early 2021, and every four years thereafter, in consultation with the Commission and the Retirement System's Actuary, PEBA will propose an assumed annual rate of return to the General Assembly that will take effect at the beginning of the 2021-2022 fiscal year unless the General Assembly acts to amend or reject the recommendation. The General Assembly also conducts periodic legislative oversight hearings of RSIC.

III. ASSET ALLOCATION

A. Purpose

The Commission's primary responsibility is to establish an investment program that is designed to meet the Commission's investment objective. The most significant action the Commission takes in fulfilling this responsibility is by setting the long-term asset allocation. The Commission designs a portfolio that includes a mix of assets that it believes will likely generate a long-term rate <u>of </u>return that meets its investment objective which is conditioned by its fiduciary duty to only expose the Plan's assets to a prudent level of market risk. The target, or Policy Portfolio, is established with a long-term perspective and the Commission does not expect to change the portfolio to react to short-term market conditions<u> or frequent fluctuations in capital market expectations</u>.

The Commission recognizes employing a long-term perspective has certain risk management benefits. Most notably, this discourages the temptation to react to short-term market trends, which can lead an investor to chase returns in asset classes that have become expensive due to recent appreciation. The Commission believes that adherence to this long-term perspective will produce its greatest benefits during periods of adverse market conditions, during which time the Policy Portfolio will serve as a stabilizing force for the investment program.

State law also requires the Commission to diversify the assets of the investment portfolio and to consider: (i) general economic conditions; (ii) the possible effect of inflation or deflation; (iii) the role that each investment or course of action plays within the overall portfolio; (iv) the needs for liquidity, regularity of income, and preservation or appreciation of capital; and (v) the adequacy of funding for the Plan based on reasonable actuarial factors.

B. Background

The Commission undertook a review of the existing Policy Portfolio in early 2019. At the time the Commission began this process, the Policy Portfolio was comprised of eighteen separate asset classes with twenty-one different benchmarks. Many of the asset classes had small target weights – several with less than three percent. Both the CIO and the Investment Consultant expressed concern that the Policy Portfolio was over diversified and required a high level of complexity to exist in the Actual Portfolio without a clear improvement in risk or return. The Commission found this to be inconsistent with its investment belief that investors must be rewarded for incurring additional risk, cost, and complexity. The Commission also believed that the existing Policy Portfolio established the wrong balance between its role as setting the strategic direction of the investment program and investment staff's role in implementing the portfolio. As a result, the Commission determined that a more consolidated Policy Portfolio was in order which valued simplicity and required complexity in the Actual Portfolio to prove its value. The Commission determined that key to this effort was developing a series of benchmarks that would collectively form a Portfolio Framework to clearly determine the value of investment decisions.

C. Reference Portfolio

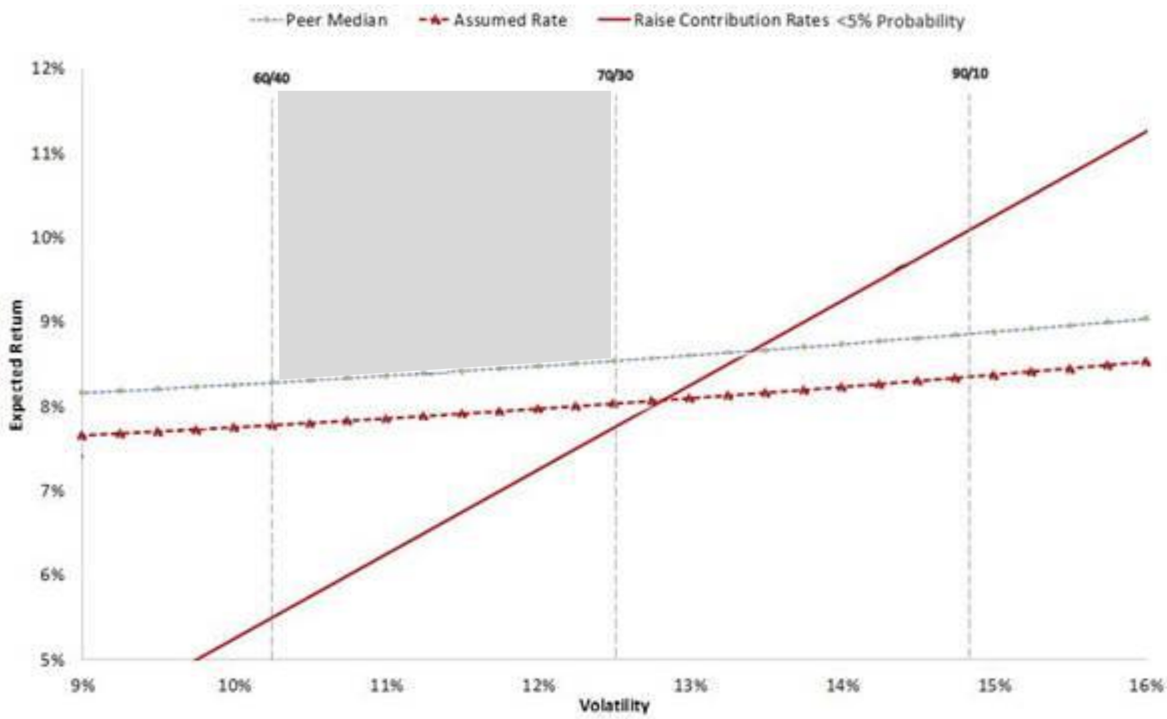
The Commission decided that it would begin the development of this framework by setting a Reference Portfolio. The Reference Portfolio would be a simple two asset class benchmark portfolio comprised of stocks and bonds. The point of the Reference Portfolio was not to limit the <u>portfolio</u>~~Actual Portfolio~~ to a simple mix of stocks and bonds, but rather to set a risk reference for <u>establishing</u> the Policy Portfolio. <u>The Reference Portfolio would not serve as a risk limit for the Policy</u>

Portfolio, but rather a barometer to measure the value over time of diversifying into a multi-asset class portfolio.

The Commission attempted to set the allocation of the Reference Portfolio to one consistent with a portfolio that most closely expressed the risk required to earn a return that is expected to exceed the assumed annual rate of return while also avoiding a greater than 5 percent probability of requiring additional contributions increases in the next five years (other plan risks were also contemplated but would also be avoided because these risks would either fall along the same line or to the right of the red risk line represented on Table 3 below). In setting the Reference Portfolio the Commission was mindful that South Carolina law provides that no more than seventy percent of the portfolio may be invested in equities. The law does not limit the types of assets that could make up the other thirty percent of the portfolio, which could conceivably include assets like high yield bonds which have an imbedded equity risk factor. However, the Commission believed it was prudent to constrain the Reference Portfolio to no more than seventy percent equity risk, as expressed by a seventy percent allocation to equities, and to mitigate the equity risk with a thirty percent allocation to bonds.

The Commission considered the appropriate Reference Portfolio at its April and June 2019 meetings. The Commission determined that~~As seen in Table 3,~~ a 70 percent Global Public Equities (*MSCI ACWI IMI Net*) and 30 percent Bonds (*Bloomberg Barclays Aggregate*) portfolio best represented the volatility of a diversified portfolio of assets that would be expected to earn a return that exceeds the assumed annual rate of return over time while also avoiding a greater than 5 percent probability of requiring additional contributions increases in the next five years~~met these criteria~~. T~~, and t~~he Commission reached consensus on this allocation as the Reference Portfolio Benchmark. In reaching this consensus, the Commission accepted that a Reference Portfolio with a risk level associated with a seventy percent allocation to equities was prudently necessary to meet its investment objective.

Table 3



D. Policy Portfolio

The Commission then began establishing a Policy Portfolio that would serve as the Commission's long-term asset allocation. The Policy Portfolio would be a multi-asset class portfolio with similar expected volatility as the Reference Portfolio. The Policy Portfolio would be expected to consolidate the existing eighteen asset class Policy Portfolio into a more simplified allocation without substantially impacting the expected return, but with a similar level of risk as the Reference Portfolio. The purpose of setting the Policy Portfolio's risk target to that of the Reference Portfolio was to reveal the performance impact gained through diversification.

However, unlike the Reference Portfolio, the Policy Portfolio would be a portfolio that could be held and, in any respect, would serve as the gravitational pull to a more simplified Actual Portfolio.

The Commission considered the transition to a more simplified Policy Portfolio at its April and June 2019 meetings and reached consensus on the transition to the simplified target allocation in Table 4 below.

Table 4

Legacy Asset Allocation	
Nominal IG Bonds	6
Treasuries	5
TIPS	2
Mixed Credit	4
EM Debt	4
Private Debt	7
US Equity	18
Developed Int'l Equity	11
EM Equity	6
Equity Options	7
Private Equity	9
Real Estate (Public)	1
Real Estate (Private)	8
Infrastructure (Public)	1
Infrastructure (Private)	2
PA Hedge Funds	10
GTAA	7
Other Opportunistic	1

Current Asset Allocation	
Bonds	26
Private Debt	7
Global Equity	46
Private Equity	9
Real Assets	12

The Commission also analyzed whether the Policy Portfolio would meet the Commission's long-term investment objective in that it would likely exceed the assumed rate of return and avoid risks particular to the plan including not meeting the General Assembly's funded status objectives and avoiding a significant probability of requiring additional contribution increases. This analysis was based on the Investment Consultant's 2019 Capital Market Expectations.

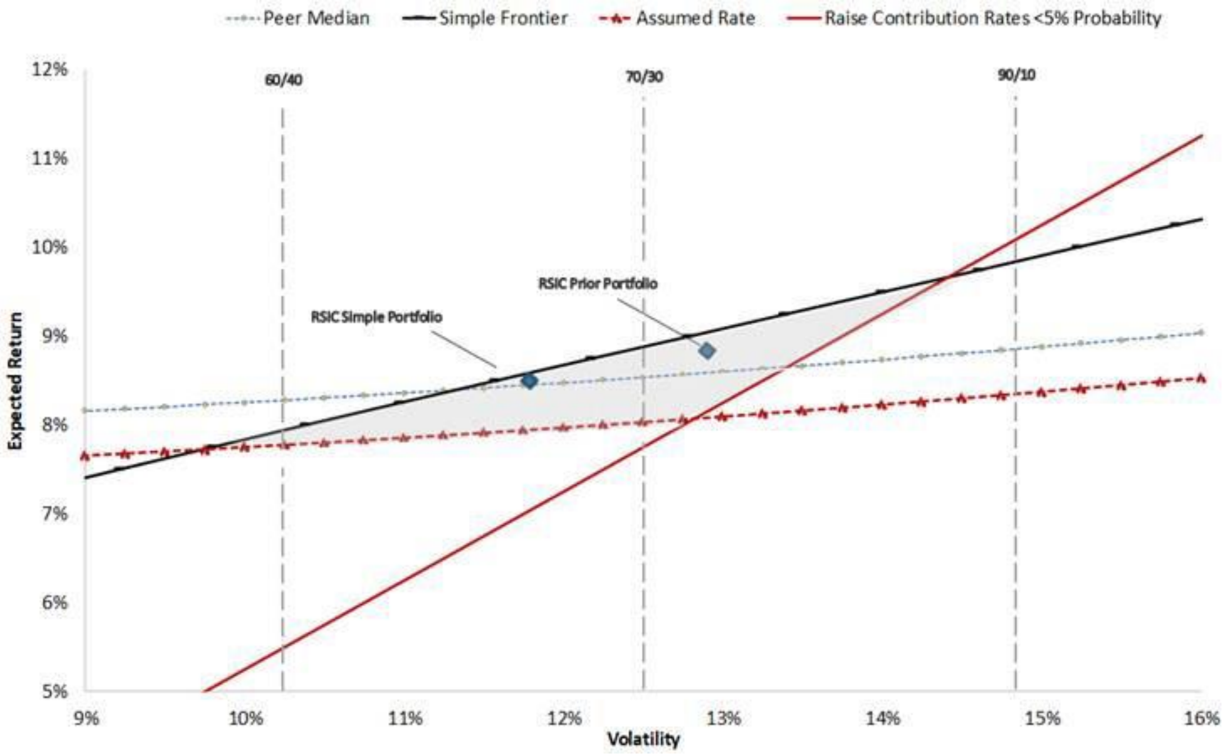
As demonstrated in Table 5[2] the Policy Portfolio would be expected to:

1. exceed the assumed rate of return,
2. compare favorably to the simple frontier[3],
3. compare favorably to the risk of the Reference Portfolio Benchmark; and
4. experience a less than 5 percent probability of requiring additional contributions increases in the next five years (again other plan risks were also contemplated but would also be avoided because these risks would either fall along the same line or to the right of the risk line represented on the table).

Table 5

[2] Although the Investment Consultant's long-term capital market expectations are based on projected asset class returns over twenty years, the Reference and Policy Portfolios' risk and return were calculated using these expectations to produce thirty-year results.

[3] The simple or efficient frontier comprises investment portfolios that offer the highest expected return for a specific level of risk. In this case, the investment portfolios along the simple frontier are limited to a mix of the five asset classes from the simplified portfolio shown in Table 4.



In reaching consensus on the asset allocation, the Commission also considered what role each asset class would play in the overall portfolio with each asset class performing the primary role of growth, diversification, or yield:~~Based on the 2019 Capital Market Expectations provided by the Commission's Investment Consultant that the Commission utilized when reaching consensus on the Policy Portfolio, the Policy Portfolio would be expected to achieve a twenty-year annualized rate of return of a 7.83 percent with an expected volatility of 11.69 percent. The portfolio would be expected to have a 58.41 percent probability of earning a twenty-year annualized rate of return that meets or exceeds the assumed rate of return of 7.25 percent.~~

Public Equity: This asset class includes investments in the stock of publicly traded companies. The purpose of public equity in the portfolio is growth. The excess return expectations for this asset class are low. The asset class is highly liquid and can be accessed with minimal implementation cost.

Bonds: This asset class includes investments in debt securities issued by governments, corporations, or other issuers. The primary purpose of bonds in the portfolio is diversification and the secondary purpose is to provide yield. The excess return expectations for this asset class are low and the asset class is expected to provide a persistence source of return while remaining highly liquid. Bonds are expected to serve a stabilizing purpose in times of market stress.

~~However, strong market performance during 2019 resulted in a meaningful adjustment to long-term capital market expectations which impacted the long-term expected return of the Policy Portfolio. Based on the 2020 Capital Market Expectations provided by the Commission's Investment Consultant in January of 2020, the Policy Portfolio would be expected to achieve a twenty-year annualized rate of~~

~~return of 7.22 percent with an expected volatility of 11.7 percent. Based on the revised expectations, the portfolio would be expected to have a 49 percent probability of earning a twenty-year annualized rate of return that meets or exceeds the annual assumed rate of return of 7.25 percent.~~

~~The Commission believes that long-term investors should resist the temptation to adjust their long-term asset allocation in response to short term volatility in capital market expectations. The Commission believes that long-term investors should resist the temptation to adjust their long-term asset allocation in response to short term volatility in capital market expectations. This position is reinforced by the fact that the significant market sell-off in March 2020 associated with the COVID-19 Crisis would likely have impacted long-term capital market expectations to a point that would cause the twenty-year expected return of the Policy Portfolio to be more in line with the 2019 Capital Market Expectations. Thus, any impetus to adjust the long-term asset allocation prompted by the change in 2020 Capital Market Expectations was likely completely erased just a few short months into the new year. Likewise, any action the Commission would have been tempted to take in response to the decline in capital market expectations would have likely resulted in adding equity risk at a time that would have proven to be disadvantageous to the portfolio.~~

~~Further, the Commission recognizes that the 2020 Experience Study prepared by the Retirement System's actuaries recommends a reduction in the assumed rate of return from 7.25 percent to 7 percent to take effect beginning July 1, 2021. If this recommendation does take effect, then the twenty-year blended assumed rate of return beginning with Fiscal Year 2020-2021 will be just above 7 percent. This provides the Commission an additional level of comfort that the long-term expected return of the Policy Portfolio will meet or exceed the assumed rate of return.~~

~~As a result, the Commission believes that the long-term expected return of Policy Portfolio meets its investment objective.~~

Private Equity: This asset class includes equity investments in privately-held companies. Investors have historically been compensated with incremental return over comparable public equity investments in exchange for lower liquidity and increased business risk as compared to the public markets. The primary role of private equity in the overall portfolio is growth with an expected long-term return that exceeds public equity. The excess returns of this asset class are a source of magnitude of return for the portfolio the value of which is expected to exceed the higher cost of implementation as compared to public equity.

Private Debt: This asset class includes investments that provide alternative financing to businesses or assets and are in competition with traditional capital market or bank financing. Investors are compensated with incremental return over what can be achieved through traditional forms of lending in exchange for lower liquidity as compared to liquid credit markets and for serving as a solutions provider to these businesses. The primary role of this asset class in the portfolio is yield. The expectations for the consistency of return above what can be achieved through bonds or the liquid credit markets is high.

Real Assets: This asset class includes investments in physical assets like real property and infrastructure, as opposed to financial assets like stocks and bonds. The primary role of this asset class is diversification with the secondary purposes of providing inflation protection and yield. Although the expected liquidity for this asset class is low, the expectations for excess return are high.

The Commission believes that this change in approach to a five asset-class Policy Portfolio shifts the paradigm to one which values simplicity and holds a more complex portfolio accountable for improving risk-adjusted returns. A crucial component to ensure this accountability is having the appropriate benchmarks for the Policy Portfolio. The Commission was guided by the CFA Institute's recommendations that benchmarks are (i) specified in advance, (ii) appropriate, (iii) measurable, (iv) unambiguous, (v) reflective of investment options, (vi) owned, and (vii) investable. At its September 2019 meeting, the Commission reached consensus on the benchmarks in Table 6 for the Policy Portfolio.

Table 6

Asset Class	**Benchmark**[4]
Public Equity	*MSCI ACWI IMI Net*
Bonds	*Bloomberg Barclays Aggregate*
Private Equity	*Burgiss Private Equity*
Private Debt	*S&P LSTA +150 bps*
Real Assets	*NCREIF ODCE Net*

Based on the 2019 Capital Market Expectations provided by the Commission's Investment Consultant that the Commission utilized when reaching consensus on the Policy Portfolio, the Policy Portfolio would be expected to achieve a twenty-year annualized rate of return of a 7.83 percent with an expected volatility of 11.69 percent. The portfolio would be expected to have a 58.41 percent probability of earning a twenty-year annualized rate of return that meets or exceeds the assumed rate of return of 7.25 percent.

However, strong market performance during 2019 resulted in a meaningful adjustment to long-term capital market expectations which impacted the long-term expected return of the Policy Portfolio. Based on the 2020 Capital Market Expectations provided by the Commission's Investment Consultant in January of 2020, the Policy Portfolio would be expected to achieve a twenty-year annualized rate of return of 7.22 percent with an expected volatility of 11.7 percent. Based on the revised expectations, the portfolio would be expected to have a 49 percent probability of earning a twenty-year annualized rate of return that meets or exceeds the annual assumed rate of return of 7.25 percent in effect in 2020.

As discussed above, the 2021 Capital Market expectations have declined further, and the Policy Portfolio now would be expected to achieve an annualized rate of return of 6.56 percent with an expected volatility of 12.5 percent. Based on the 2021 expectations, the portfolio would be expected to have a 43.12 percent probability of earning a return that meets or exceeds the assumed rate of return that is set to be reduced to 7 percent at the beginning of the 2022 Fiscal Year.

In considering the impact of the decline in capital market expectations, the Commission was mindful that inter-~~-~~year market volatility can result in dramatic shifts in long term expectations year over year and spur investors to take action to adjust their portfolio's long-term asset allocation. In many instances, this action can lead to an investor to ~~to~~ either add or reduce risk at a time that proves to be most disadvantageous to the portfolio. The decline in 2021 Capital Market expectations is directly attributable to the unprecedented

4 *The Private Equity and Private Debt portfolios and benchmarks will be reported on a 3-month lag.*

MSCI ACWI IMI Net - Morgan Stanley Capital International All Country World Index Investable Market Index; S&P LSTA - Standard & Poor's Loan Syndication and Trading; and NCREIF ODCE – National Council of Real Estate Investment Fiduciaries Open End Diversified Core Equity.

rally in financial markets following the sell-off associated with the COVID-19 global shutdown from which RSIC's portfolio also benefited. The positive impact of this rally on achieving the Commission's investment objective would be ignored if the Commission constrained itself to forward looking expectations only. The Commission believes that adding risk ~~at a time like this when~~after markets have enjoyed significant appreciation ~~would be~~would involve ~~is~~buying assets when they have become expensive which prudent long-term investors seek to avoid ~~in that any additional expected return would not be justified by the additional necessary risk~~.

Thus, the Commission believes that long-term investors should resist the temptation to adjust their long-term asset allocation in response to short term volatility in capital market expectations. As a result, the Commission believes that there is no interim asset allocation change to the Policy Portfolio that is absolutely critical to meeting its long-term investment objective and the Commission will not depart from the asset allocation review schedule established in Subsection H.

E. Implementation Portfolio Benchmark

The Commission recognizes that the CIO and investment staff may add value by structuring the Actual Portfolio in a manner that deviates from the Policy Portfolio target weights or may also pursue a strategy that causes the composition of an asset class to differ from the policy benchmark. As a result, the Commission provides the CIO and the investment staff with the discretion to structure the portfolio within the asset class and sub-asset class ranges in Table 7. In order to measure the risk and return impact of these portfolio structure decisions, the Commission employs an Implementation Portfolio Benchmark that aggregates the underlying benchmarks of each asset class and sub-asset class strategy according to their actual weights. Providing this discretion while establishing a structure that measures the value of these decisions also sets the right balance of accountability for Commission decisions and those of the CIO and investment staff.

Table 7

Asset Class	Target	Range	
Public Equity	46%	30%	60%
Domestic	Index	Index +/- 6%	
Developed Non-US	Index	Index +/- 6%	
Emerging Market	Index	Index +/- 4%	
Equity Options	0%	0%	7%
Bonds	26%	15%	35%
Core Bonds (IG)	26%	10%	35%
Inflation-linked (IG)	0%	0%	5%
Mixed Credit (non-IG)	0%	0%	8%
EM Debt	0%	0%	6%
Net Cash/Short Duration	0%	0%	7%
Private Equity	9%	5%	13%
Private Debt	7%	3%	11%
Real Assets	12%	6%	18%
Real Estate	9%	5%	13%
Infrastructure	3%	0%	5%

F. Manager Selection

The Commission also recognizes that the CIO and investment staff strive to add additional value through manager selection. In September 2017, the Commission through the adoption of the Investment Delegation Policy delegated investment manager selection decisions to the CIO and investment staff within clearly defined limits and exceptions. The Investment Authority Delegation Policy is set out in Section VI. The value of manager selection is discernable by comparing the Implementation Portfolio Benchmark and the Actual Portfolio.

G. Performance Reporting

Essential to the Commission's oversight function is performance reporting that makes clear the value of three major investment decisions: diversification, portfolio structure, and implementation. The Commission charges staff with developing a Portfolio Reporting Framework that easily allows the Commission to judge the value of these three investment decisions by comparing the relative performance between the Reference Portfolio, Policy Portfolio[5], Implementation Portfolio, and Actual Portfolio:

1. *Diversification (Policy Portfolio Benchmark vs. Reference Portfolio Benchmark):* The comparison of the Policy and Reference Portfolios Benchmarks reveals the value from diversification beyond a simple two-asset portfolio. The benefit of designing these portfolios with the same level of expected volatility is that the performance differential is an indication of the impact of diversification, rather than being a function of an expected risk differential. The Commission should expect to see the value of diversification in this comparison over rolling five-year periods. Although these portfolios were established with the same level of expected volatility, the risk of these portfolios is expected to diverge during discrete periods of time but would generally be expected to rise and fall together over time.

2. *Portfolio Structure (Implementation Portfolio Benchmark vs. Policy Portfolio Benchmark):* This comparison supports an assessment of the quality of the portfolio structure. It reveals the performance impact of the decisions to structure the portfolio differently than the Policy Portfolio Benchmark. These impacts can be broken down into those resulting from the *weights* of asset classes and those resulting from the *composition* of asset classes. The Commission should see the positive performance impact of implementation benchmark decisions over rolling three-year periods. The reporting framework also include risk reports to highlight whether and how changes in portfolio structure alter the risk characteristics of the portfolio.

3. *Implementation (Actual Portfolio vs. Implementation Portfolio Benchmark):* This comparison aids in the evaluation of the quality of implementation, a key component of which is the impact of manager selection. The Commission should expect to see differential individual manager performance as compared to the implementation benchmark over short periods of time, but the Commission should expect in aggregate to see consistent value added through manager selection. Providing this additional comparison between the Actual Portfolio and the Implementation Benchmarks also disaggregates the performance gained through portfolio structure and that

[5] For purposes of calculating the Policy Portfolio return, the target weight to Private Equity will be the same as the as the percentage weight of Private Equity in the Actual Portfolio. Any difference between the nine percent Private Equity allocation and the actual weight of Private Equity will result in an adjustment to the Public Equity target weight.

gained through manager selection. As a result, the Commission may evaluate the quality of each of these portfolio decisions when previously the actual portfolio was simply compared to an individual policy benchmark that combined both portfolio structure and manager selection decisions. This additional look through provides the Commission with an enhanced ability to effectively exercise oversight over both portfolio structure and investment manager selection decisions made by the investment staff.

H. Asset Allocation Review

The Commission will conduct an Asset-Liability Management Study and asset allocation review every five years. The Commission will continue to receive long-term capital market expectations from the Investment Consultant annually and assess the impact to the expected return and volatility of the Reference and Policy Benchmark Portfolios. However, consistent with its beliefs and long-term approach to asset allocation, the Commission intends to limit interim asset allocation changes to those the Commission determines are absolutely critical to meeting its long-term investment objective and are commensurate with its risk tolerance and fiduciary duties.

IV. STRATEGIC INITIATIVES

The Strategic Initiatives described in this Section are major ongoing staff projects contemplated to last up to three years and are likely to have a more significant impact to the portfolio, asset class, or an investment strategy than typical decisions. The CIO will include changes to these initiatives as part of the annual AIP proposal and will provide a quarterly update on progress towards these initiatives at regular Commission meetings.

~~1. Asset Allocation Implementation – The CIO and investment staff will determine the portfolio adjustments that are required in response to the Policy Portfolio changes described in Section III and will develop a transition plan to implement the necessary adjustments.~~

~~2.~~1. Portfolio Reporting Framework – The performance reporting team will continue to refine ~~prioritize the development and implementation of~~ the Portfolio Reporting Framework required by Section III and will work with the Quantitative Solutions Group[6] to incorporate risk reporting into the framework.

~~3.~~2. Comprehensive Review of Implementation Cost – Staff will continue to examine the mix of structural and variable costs throughout the Portfolio and pursue opportunities (such as the co-investment initiative outlined below) to improve the cost alignment of the investment program.

~~4.~~3. Secondaries Market – The Commission understands that the thoughtful use of secondaries opportunities can improve returns for a private markets portfolio. The Investment Team will design and execute a plan to incorporate the secondaries market into the investment strategy for private markets asset classes.

~~5.~~4. Risk Management – The Quantitative Solutions Group will continue to improve risk monitoring at the Portfolio, asset class, and manager levels. The team will place special emphasis on improving the quality of risk reporting at these levels.

~~6. Co-Investment Program – The Private Markets team will explore the expansion of the Co-Investment Program beyond Private Equity into the other private market asset classes, determine whether an additional partner or platform is needed for any proposed expansion, and implement any approved expansion plan.~~

[6] The Quantitative Solutions Group is a subset of the Investment Team responsible for conducting deep quantitative analysis on prospective investment managers as part of the investment due diligence process, and also for monitoring and reporting on investment risk.

V. INVESTMENT POLICIES

A. General

1. IIC and Investment Approval Process - State law provides that the AIP is to be implemented by the Commission through the CIO. The RSIC employs a team of investment professionals that support the CIO in carrying out investment management duties and responsibilities. One key component of this infrastructure is the IIC. The IIC assists the CIO by reviewing and providing recommendations to the CIO regarding proposed investments. The IIC also routinely monitors the Portfolio's investment performance and reviews relevant policies and procedures as part of its oversight function. The Commission adopted an Investment Authority Delegation Policy which grants the CIO the ability to approve those investments which fall within the parameters of this policy, subject to the oversight of the CEO. Other investments are presented to the Commission for its approval.

2. Due Diligence – The Investment Team maintains investment due diligence policies to provide consistency and oversight to the investment process. The Initial Due Diligence Policy outlines the key tenets of the RSIC's decision-making process in hiring investment managers. The Ongoing Due Diligence Policy outlines the process and criteria used to evaluate the retention/termination of external investment managers. Both due diligence policies are tested annually by either an Agreed Upon Procedures review by an independent auditor or by the Director of Enterprise Risk Management & Compliance. The results of this review are provided to the Audit and Enterprise Risk Management Committee.

3. Counterparty Risk Management – The Quantitative Solutions Group monitors two sources of potential counterparty risk: (1) the overlay program and (2) the System's master custodial bank. While the risk arising from the overlay program is actively monitored by its external manager, as an added layer of oversight, the Quantitative Solutions Group is responsible for reviewing and reporting on the external manager's prudent management of these counterparty risks.

4. Investment Strategies, Objectives, and Performance Standards:

   i. In accordance with State law, the AIP addresses the Commission's investment strategies, as well as its investment objectives and performance standards. The investment staff maintains a "Baseline" document designed to establish a clear, shared understanding of the rationale, goals, and characteristics for each asset class. In general, the annual plan for an asset class will often involve measures designed to improve its alignment with its Baseline. The following items are detailed in the Baseline document:

      a. Rationale and purpose of the asset class in the broader Portfolio;

      b. Target steady-state asset class exposures (including sub-strategies, geographies, or other relevant factors);

c. The target return, characteristics (income vs. appreciation), and expected active vs. passive implementation breakdown; and

d. An estimate of normal cost to implement the portfolio, and an estimate of the flex cost which may be incurred when market conditions present compelling opportunities.

ii. Baselines also address the following broader issues:

a. The role private investments play in the portfolio;

b. The mix of private vs. public market investments; and

c. How the portfolio is likely to change over time.

iii. The Baseline document is reviewed and updated, as necessary, at least annually, and all RSIC employees are encouraged to present suggested revisions to any Baseline. Proposed changes to the Baseline documents are presented to the IIC for review and to the CIO for approval. In addition to addressing the investment objectives and performance standards for each asset class, the Baseline also serves as a guide to workflow and portfolio management decisions. Investment decisions are reviewed against the Baseline for portfolio fit.

iv. As part of the individual asset class in-depth examination at each Commission meeting, the investment staff will also provide a review of the particular asset class Baseline, progress towards attaining the Baseline, and any material deviations from the Baseline.

v. The Commission will be informed promptly of any material change to a Baseline at the next Commission meeting following the change.

5. Allowable Investments and Limitations:

i. With certain limitations discussed below, State law provides that RSIC may invest "in any kind of property or type of investment consistent with" Title 9, Chapter 16 of the S.C. Code and Section 9-1-1310. These investments include, but are not limited to, futures, forward contracts, swaps, and options, equities, bonds, loans, 144(A)'s, exchange traded funds, American Depository Receipts, real property, and real estate investment trusts. These investments may be listed, exchange traded, or over the counter, negotiated contracts or investments.

ii. In addition to the instruments outlined above, for every asset class, a variety of investment structures may be utilized depending on the nature of a particular investment. In accordance with the terms of the investment limitations outlined in this policy, these structures may include, but are not limited to, mutual funds, limited partnerships, limited liability companies, strategic partnerships, trusts, commingled vehicles, fund-of-funds, and separately managed accounts in which assets may be held by either the Retirement System's master custodial bank or an external custodian who is selected and monitored by the external manager or general partner.

iii. Any investment structure and the underlying instruments must be of a type generally expected to obtain exposure to an asset or sub-asset class contained in Table 7, Section III.

iv. State law imposes certain limited restrictions on the investment of the Portfolio. The managers of the Portfolio's accounts **other than** index funds, commingled funds, limited partnerships, derivative instruments or the like are required to assist the Commission in meeting its obligations under S.C. Code Ann. §9-16-55, which sets forth limitations on investment in certain types of companies that are engaged in active business operations in Sudan. See Section IX for additional information.

v. The Commission has also established a policy prohibiting an investment in any security or obligation issued by a company or a corporation that is a known sponsor of terrorist organizations or of a company domiciled in a country that is a recognized sponsor of terrorism or terrorist organizations as based on reports from the Office of Terrorism and Financial Intelligence of the Department of Treasury and the Country Reports on Terrorism by the Office of the Coordinator for Counterterrorism of the U.S. Department of State.

6. Internal Management and Overlay Program – Currently, the investment staff actively manages certain Cash and Short Duration accounts, and performs distribution management (management and disposition of in-kind distributions received from external investment managers or third parties). In addition, the CIO has discretion to use synthetic instruments, derivatives, equity baskets, and exchange traded funds in order to implement the asset allocation or otherwise manage the portfolio in accordance with the ranges established by the Commission. The Overlay program functions as a means by which the CIO and Investment Staff manage exposures and manage risk in an efficient manner using synthetic instruments, exchange-traded-funds/notes, equity or fixed income baskets, options, futures, swaps, and forward currency contracts.

7. Portable Alpha – The Commission provides the CIO with the discretion to use Portable Alpha Strategies not to exceed 12 percent of total plan assets. The use of Portable Alpha is an implementation decision that is reflected in the Implementation ~~Policy~~ Portfolio Benchmark. The benchmark for Portable Alpha Strategies is *HFRI Conservative Fund of Funds less LIBOR*[7].

~~8. GTAA and Other Opportunistic Strategies – The Commission provides the CIO with the discretion to use Global Tactical Asset Allocation and Other Opportunistic Strategies not to exceed 11 percent of total plan assets. The benchmark for these strategies is the proportional weight of Global Public Equity and Bonds in the Policy Portfolio Benchmark.~~

~~9.~~ 8. Alternative Investments – The Commission has established guidelines applicable to its alternative investments, which include Hedge Funds and Private Markets Assets:

i. The Commission's initial commitment to a fund will not exceed 25 percent of the committed capital of that fund, unless the Commission specifically waives or suspends this restriction (a) in order to take advantage of a new firm or product that has not yet built an asset base or (b) in the case of a fund that has been created specifically for RSIC (e.g., a single LP fund);

ii. Unless otherwise approved by the Commission, no more than 15 percent of an alternative asset investment allocation may be invested with a single manager, general partner, or single fund, with the exception of Funds of One and Strategic Partnerships;

iii. Staff will notify the Commission if the collective exposure to Private Equity, Private Debt, Private Real Assets exceeds 30~~25~~ percent of total plan assets; and

iv. Hedge funds may not exceed 15~~20~~ percent of total plan assets.

[7] HFRI – Hedge Fund Research Performance Index

~~10.~~9. Equity investments not to exceed 70 percent – State law provides that the AIP must also include the minimum and maximum allocations to equity investments on an ongoing basis, not to exceed 70 percent. The allowable ranges for equity investments are set forth in Table 7, Section ~~III.~~ III. While State law does not stipulate whether the limitation of 70 percent is based on cost or market value, the Commission manages this limitation on a market value basis. Therefore, if the allocation to equity investments exceeds 70 percent of the total market value of the Portfolio, the CIO is required to rebalance the Portfolio.

~~11.~~10. Managing Cost – In accordance with State law, the AIP addresses methods for managing the costs of RSIC's investment activities. RSIC strives to earn the highest risk-adjusted return on a net of fees basis and recognizes that cost is an important variable to consider. The Investment Team actively engages in an array of strategies to reduce the cost of the Portfolio, including the following:

i. Increasing the initial investment size;

ii. Seeking aggregation discounts from firms with which we have multiple investment strategies;

iii. Utilizing co-investments in private markets;

iv. Quantifying and monitoring the effectiveness of active implementation across public market asset classes; and

v. Requesting reductions to, or elimination of, management fees, as appropriate.

~~12.~~11. Risk:

i. All investments carry some degree of risk. The focus of the RSIC risk function is managing and monitoring these risks to ensure that the Portfolio's risks are appropriate and that the overall level of risk taken is consistent with meeting the Commission's investment objective. Key risk initiatives are:

a. Incorporating the Plan's liability structure into the investment decision process; and

b. Developing and refining tools to facilitate the incorporation of System liabilities into portfolio management.

ii. RSIC Staff monitors risk levels both in absolute terms, but also in relation to the Reference Policy benchmark established by the Commission's asset allocation. This is accomplished using a mix of proprietary and third-party systems and tools.

iii. At the Portfolio level, Staff will:

a. Maintain the Portfolio's asset allocation within the limits established by this policy;

b. Employ an appropriate level of diversification and adhere to the limits within this policy or as contracted with the manager;

c. Adhere to policies and procedures established by the Commission; and

d. Maintain adequate liquidity for benefit payments and capital calls.

iv. Staff provides the Commission with risk reporting as part of the Portfolio Performance Framework to ensure that risk remains within acceptable levels and to judge the value of portfolio structure and manager selection decisions on a risk adjusted basis.

~~13.~~12. Manager Monitoring Guidelines - RSIC Staff maintains an Ongoing Due Diligence Policy that outlines the manager monitoring requirements in detail. In summary, the Investment Team is required to perform periodic reviews of each active manager. These reviews contribute to the decision to either retain or terminate that manager. These reviews involve both quantitative and qualitative assessments in order to ensure that any decision is made fairly and consistently, and to avoid untimely or undisciplined decisions that may adversely impact returns. Additionally, the Investment Team reviews audited financial statements, compliance certifications, and investment fees on an annual basis. Compliance with the Ongoing Due Diligence Policy is reviewed annually through an Agreed Upon Procedures audit performed by an independent auditor.

~~14.~~13. Proxy Voting - Managers of separate accounts are authorized and directed to vote all proxies, or to direct the Physical Custodian to vote proxies, in keeping with the manager's duties under federal and state law to act in the best interest of the Plan and to maximize shareholder value, and generally to exercise any of the powers of an owner with respect to the assets under the manager's control, subject at all times to the absolute right of the Commission to direct the voting of proxies upon written notification to the manager. Those separate account managers which vote proxies must provide a written annual summary to RSIC summarizing proxy votes cast during the previous year. The report shall also detail any changes to the manager's proxy voting practices and explain any instance in which proxies were not voted in accordance with the best interests of the Plan.

B. Compliance

1. Placement Agent Policy – State law prohibits RSIC from making an investment where a placement agent receives compensation in connection with RSIC's investment. The Commission' Placement Agent Policy is set out in Section VIII.

2. Investment Manager Sourcing and Conflict Disclosure Policy – In order to enhance transparency and avoid even the appearance of impropriety, before an investment recommendation is made to the Commission or CIO, any Commissioner or RSIC staff member involved in the sourcing or due diligence of a new investment completes a Sourcing and Conflict Disclosure Form. The CEO and CIO must complete a Sourcing and Conflict Disclosure form for each investment.

3. Annual Certification and Ongoing Testing of Guideline Compliance – The Ongoing Due Diligence Policy requires each manager to annually certify its compliance with the contractually

specified guidelines. These certifications are reviewed by RSIC's Compliance function, as well as the Investment Team, and are subject to an annual audit. There is also ongoing testing of guideline compliance for those public markets mandates which are governed by an Investment Management Agreement and custodied with the master custodial bank.

C. Governance and Oversight

1. Performance Standards and Reporting - As noted above, State law requires that the AIP address the Commission's performance standards. The performance standards and benchmarks are described in Section III. In addition, the Commission receives monthly performance reports from the custody bank and quarterly performance reports prepared by RSIC's performance reporting staff and the general investment consultant. The performance reporting prepared by RSIC performance reporting staff must incorporate the Portfolio Performance Framework required in Section III.

2. Diversification – State law requires that the AIP address the topic of diversification, including sectors, issues and other allocations of assets that provide diversification in accordance with prudent investment standards. The Commission provides the CIO with parameters regarding its diversification objectives through the asset allocation, asset and sub-asset allocation ranges, and performance standards set out in Section III. The Portfolio Reporting Framework required in Section III also provides the Commission the ability to oversee the implementation of the long-term portfolio strategy, as well as the actual implementation of the Commission's diversification directives.

3. Procedures regarding consultants, managers, service providers selections and terminations

i. Selection - State law requires that the AIP include procedures and policies for selecting, monitoring, compensating, and terminating investment consultants, equity investment managers, and other necessary professional service providers. Investment managers are primarily selected by the CIO, subject to the oversight of the CEO, pursuant to the Investment Authority Delegation Policy through an investment process that also complies with the Investment and Operational Due Diligence Polices. The CIO recommends to the Commission for its approval the selection of any manager of an investment that exceeds the limits of or falls into one of the exceptions to the investment delegation policy. Any investment recommended to the Commission for its approval must also comply with the Investment and Operational Due Diligence Policies. All other service provides are selected pursuant to the Commission's Service Provider Selection Policy which is included in the Commission's Governance Policies (RSIC Governance Policies can be found at: https://www.rsic.sc.gov/_documents/2017.07.14%20Governance%20Policy%20Manual.pdf).

ii. Compensation, Fees and Expenses – Service providers, including consultants and investment managers, will be compensated commensurate with the services provided and industry practices. The Commission will pursue cost savings through structural efficiencies and will strive for fee reductions through negotiations. Investment management fees are evaluated utilizing several metrics or tests. First, fees are examined relative to industry/peer standards. Second, when it reviews potential new mandates or restructurings of existing allocations, the investment staff assesses fees based on the cost relative to other implementation options. For example, in global public equities, the fees charged by active managers (as well as their expected performance and risk) are compared to other methods of obtaining similar market exposure, while in the private markets, fees (as well as expected performance and risk) are compared to public market implementation alternatives. Lastly, to the extent practicable, fees will also be evaluated based on an assessment of the manager's ability to generate excess returns. Investment Staff gathers actual fees and provides annual public disclosure of all fees paid to external managers. The Commission receives an annual report on the cost of its investment program from an independent expert, and may also call upon its investment consultants for assistance in analyzing and addressing issues relating to investment fees. Operating expenses applicable to internal investment operations and the general business of the RSIC are managed by the CEO within the parameters of the annual budget approved by the General Assembly.

iii. Term and Termination -The Commission or the CIO, as applicable, may terminate an investment manager whenever the Commission or CIO determines that its objectives can more efficiently or effectively be met by the selection of another manager or under a different management mandate. The Commission and CIO retain the right to terminate a manager with or without cause and at any time. It should be noted that termination rights may not apply to certain types of investment structures (e.g., typical private markets funds). Circumstances which suggest an immediate review and a possible termination include, but are not limited to, the following:

a. Manager changes strategy or investment style;

b. Critical elements of the investment process have deteriorated;

c. Transaction costs are unreasonable;

d. Management fees are higher than similarly styled managers for similarly sized portfolios;

e. Manager is unable to meet the performance expectations within the risk tolerance specified;

f. Material organizational or personnel changes;

g. Manager is not complying with the applicable provisions of the Commission's SIOP; and

h. Manager is not complying with the applicable provisions of the Commission's AIP.

4. Delegation of Authority to CIO - State law requires that the AIP and SIOP contain a detailed description of the delegation of final authority to invest made by the Commission. The

Commission has delegated its final authority to invest to the CIO, subject to the oversight of the CEO, generally in the following amounts:

i. not to exceed 75 bps of plan value per investment for illiquid structures; and

ii. not to exceed 200 bps of plan value per investment for liquid structures.

The Commission's full Investment Authority Delegation Policy is set out in Section VI.

5. Policies and Procedures to Adapt Portfolio to Market Contingencies - State law requires that the AIP include policies and procedures providing flexibility in responding to market contingencies. The ranges included with the Commission's asset and sub-asset class allocation ranges established in Section III provide the CIO with extensive flexibility to adapt the portfolio to market conditions. Similarly, the Commission's Investment Authority Delegation Policy provides the CIO the ability to adapt the Portfolio to changes in market conditions. To the extent that the CIO deems the scope of the authority delegated to the CIO insufficient, the CIO with the approval of CEO may take action deemed necessary to protect the Portfolio in an extreme market environment. The CIO will promptly inform the Commission of any such actions.

6. Portfolio Rebalancing - The Commission delegates to the CIO or his designee the authority to execute manager and/or securities transactions to implement rebalancing, manage liquidity, or to otherwise manage exposures within the allowable ranges. As part of this delegation, the Commission expects the CIO to articulate, implement and provide reporting to the Commission regarding the Portfolio's rebalancing and exposure management activities as requested. A high-level summary of the rebalancing and exposure management guidelines include:

i. The asset allocation is reviewed on an ongoing (typically weekly) basis by Staff and the CIO to ensure that the Portfolio is within its allocation ranges and to identify appropriate actions necessary to maintain compliance and to provide for the Plan's liquidity needs.

ii. The goal of the rebalancing and exposure management activities is to implement the investment strategy at a reasonable cost within the targets and ranges established by the Commission, recognizing that constant rebalancing to the exact target may not be economically justifiable. The following guidelines are used:

a. Rebalancing is currently performed quarterly~~monthly~~ unless a case has been made ***not*** to rebalance. Potential rebalancing activity is flagged for consideration based upon exposure reporting that is updated by RSIC's performance reporting staff. Rebalancing the portfolio incurs costs (trading commissions, bid-ask spread, and market impact) which are taken into consideration when rebalancing the Portfolio;

b. When an asset class reaches its minimum or maximum allocation, Staff will initiate rebalancing transactions to keep allocations within the approved ranges. Otherwise, Staff must seek Commission approval to remain outside the range; and

c. Concentration risk with respect to significant reliance on any single external manager is reviewed regularly by Staff. Mitigation of performance, operational, headline/reputational, or other fiduciary risks is typically achieved by maintaining a diversified allocation approach both within and across asset classes.

iii. RSIC Staff must balance the risks noted above with the economic benefits associated with a streamlined approach that uses fewer, larger allocations. Additional analyses of the costs and benefits of passive vs. active market exposure are an important input in these decisions.

D. Investment Manager Guidelines

1. General - In keeping with the responsibilities assigned to the CIO by State law and the Commission's Governance Policies, the Commission authorizes the CIO and his designees to develop and revise investment management guidelines for each internally and externally managed investment manager. In making this delegation, the Commission acknowledges that discretion in implementing the investment strategy, within the parameters of all applicable guidelines, will typically be granted to the Commission's investment managers. This discretion is usually limited to the selection of securities and the timing of transactions within the portion of the Portfolio allocated to each manager.

2. Funds of One - A Fund of One is an investment structure in which there is typically a majority investor in a specific vehicle or fund. The Commission or CIO as applicable may elect to use a Fund of One structure when the structure will have lower costs, customized exposure advantages, and/or other beneficial considerations. The CIO is responsible for the day-to-day investment responsibilities with respect to Funds of One, including providing affirmative or negative consent for underlying investments, as required.

3. Pooled or Commingled Funds:

i. Commingled investment vehicles can often provide lower costs and better diversification than can be obtained with a separately managed account pursuing the same investment objectives. However, commingled investment funds cannot customize investment policies and guidelines to the specific needs of individual clients. Recognizing these trade-offs, the Commission or the CIO, as applicable, may accept the policies of such funds in order to achieve the lower costs and diversification benefits of commingled vehicles, and exempt commingled investment vehicles from the requirements and guidelines of this policy if:

a. The investment practices of the commingled vehicle are consistent with the spirit of this policy and are not significantly different in letter; and

b. The benefits of using a commingled vehicle rather than a separate account are material.

ii. The Commission or CIO, as applicable, may structure a portfolio as a separate account that allows for the advantages of commingled vehicles, but with RSIC as the only investor. With international assets, commingled vehicles save the Commission from having to provide additional resources for currency and foreign custody issues as the manager will assume responsibility for these functions.

iii. If an investment mandate is structured through a commingled vehicle, the investment policies of that vehicle will be the legal governing policies of the investment of assets allocated to that vehicle.

4. Strategic Partnerships - The Commission may elect to establish Strategic Partnerships with certain asset managers who are believed to possess specific expertise, knowledge, and capabilities for a limited or broad range of investment strategies. The performance of each Strategic Partnership will be reviewed by the Commission periodically, with a more comprehensive review occurring approximately every 3 to 5 years. The investment approval and evaluation process within the Strategic Partnership is similar to that followed for other investments, however, in addition to passing RSIC's internal process, the investment must also be approved by the investment committee of the strategic partnership.

5. Trade Execution - For all accounts, the Commission expects the purchase and sale of its securities to be conducted in a manner designed to receive the best combination of price and execution. The Commission may evaluate policies that provide for the most efficient and effective trading process. The compliance with investment guidelines must be monitored by the investment managers on an ongoing basis and be based on then-current market values. Securities that, if purchased, would constitute a compliance violation may not be purchased. In the event of a compliance violation, the manager will be expected to promptly notify investment staff. If for some reason the manager does not believe that it is prudent to immediately bring the account back into compliance, the manager will be expected to present a justification as well as a proposal for bringing the account composition back into compliance.

E. Compliance with Section 9-16-320 of South Carolina Code:

1. S.C. Code Section 9-16-320 requires the Commission to meet at least once each fiscal quarter for the purpose of reviewing the performance of investments, assessing compliance with the annual investment plan, and determining whether to amend the plan.

2. The Commission has adopted a strategic calendar that sets a meeting schedule of five meetings per year with a least one meeting every fiscal quarter. The strategic calendar also contains standing agenda items for each meeting to ensure compliance with this Section to include:

i. Quarterly Investment Performance Review – at each meeting the Commission receives a report and presentation on the quarterly, fiscal year to date, one, five, and ten-year plan investment performance. The quarterly performance reports and presentations are based on the Portfolio Performance Reporting Framework described in Section III and are designed to provide the Commission with the ability to judge the absolute value of performance as well as the relative performance between the benchmark portfolios and actual portfolio's performance. The Commission also receives risk reports to judge the absolute and relative risk of the of these portfolios.

ii. AIP Compliance Review – At each meeting the Commission receives reports detailing compliance with the Annual Investment Plan to include:

a. A review of the asset class exposures and sub-asset class components of the portfolio to ensure compliance with the allowable ranges contained in Section III, Table 7, and to ensure adequate diversification of the portfolio and that the portfolio is not concentrated in any one industry sector, market sector, or issuer;

b. A review of relevant~~A review of~~ ~~the~~ progress towards any of the Strategic Initiatives in Section IV;

c. Any significant market contingencies and review of any responsive action that resulted in a decision not to rebalance the portfolio pursuant to Section V.C.6 or any action taken to protect the Portfolio which fell outside the allowable ranges in Section III, Table 7;

d. Action resulting in significant cost savings to the portfolio;

e. Any material deviation from the general operational and investment policies, and

f. As part of an in-depth review of one of the Policy Portfolio asset classes at each meeting, a review of the asset class baseline and progress towards meeting the baseline.

iii. The Commission retains the authority to amend any portion of the AIP requirements at any meeting and is required to consider amendments proposed by the CIO at its April meeting. However, if the Commission does not act to amend the AIP at any other meeting, it should be presumed that it determined not to amend the plan.

F. General Provisions Related to Alternative Investments

1. South Carolina law, the Employee Retirement Income Security Act of 1974 ("ERISA"), and the Uniform Management of Public Employee Retirement Systems Act of 1997 ("UMPERSA") each have similar or compatible, but not identical, definitions and responsibilities of fiduciaries with respect to managing and investing assets of retirement systems. For clarity and consistency, it is prudent for the Commission to declare standards for interpretation of certain terms used in these sources.

2. As relating to the use of alternative investment strategies, the "Plan Assets" of the Retirement System include the System's ownership interest in the following entities (e.g., a share or a unit), but do not include the underlying assets owned by the entity itself:

i. a registered investment company;
ii. a registered security that is widely held and freely transferable;
iii. an entity in which "benefit plan investors" hold less than 25% of the equity interest as defined and determined by ERISA §3(42);
iv. an "operating company" engaged in the production or sale of a product or service other than the investment of capital;
v. a "real estate operating company" or REOC (which actively manages and develops real estate consistent with U.S. Department of Labor ERISA regulations);
vi. a "venture capital operating company" or VCOC (which actively manages "venture capital investments" consistent with U.S. Department of Labor ERISA regulations); or

vii. a private investment partnership or offshore investment corporation the offering memorandum of which allows for the entity to take both long and short positions, use leverage and derivatives, and invest in many markets.

3. Whenever RSIC invests in an entity that does not hold Retirement System's assets, the decision to invest in the entity will be subject, *inter alia*, to the South Carolina fiduciary rules and ethics standards provided by state law, but the transactions engaged in by the entity generally will not be subject to the same rules.

4. RSIC will at times need to interpret statutes while implementing and administering the investment program. Whenever the South Carolina statutes are substantively similar to provisions of ERISA or UMPERSA, and to the extent practicable and consistent with South Carolina law and other principles of general application relating to public pension plans, RSIC intends to use (1) pertinent provisions of ERISA; (2) interpretive rules and regulations of the U.S. Department of Labor relating to ERISA; and (3) the Reporter's official comments to UMPERSA for guidance.

VI. Investment Authority Delegation Policy

A. Pursuant to Section 9-16-330(B) of the 1976 Code, the Commission delegates to the CIO the final authority to invest subject to the oversight of the CEO and the requirements and limitations of this policy. The size of any one investment made pursuant to this policy is limited to the percentage of total plan assets that applies to the particular asset class to which the investment pertains as provided in Section C of this policy and subject to any other limitation the Commission may place on this authority at any given time. The value of total plan assets to which the percentage limitations apply must be the estimated total value of plan assets included in the most recent quarterly investment performance report prepared pursuant to Section 9-16-90(A). For purposes of this policy, a co-investment is considered a separate and distinct investment from an investment in a commingled fund, fund of one structure, or an amount committed to a separately managed account and is separately subject to the limitations and requirements of this policy. Individual investments made in a separately managed account or a fund of one structure are not considered separate investments for purposes of this policy and are subject in aggregate to the limitations and requirements of this policy regardless of whether some degree of discretion is retained by staff regarding individual investments to be included in the applicable account.

B. The investment process for any investment made pursuant to this policy must be substantially similar to the investment process employed prior to the adoption of this policy, but for the requirement that the Commission approve the investment prior to closing the investment and must adhere to RSIC's Due Diligence Guidelines and Policies. Notwithstanding the authority granted by this policy, an investment must be presented to the Commission for its approval if it meets any of the following criteria:
   1. The investment is the initial investment in a new asset class;
   2. The majority of the underlying assets comprising the investment have not been previously included in the investment portfolio;
   3. The strategy to be employed by the investment manager is not substantially similar to an investment that has been previously subject to the Commission's investment due diligence process; or
   4. The investment strategy, other than in publicly traded assets, has important direct connections to South Carolina residents, state policymakers, or South Carolina focused businesses, and/or a majority of the assets of the investments would be principally located in South Carolina.

C. The amount of delegation for new investments approved pursuant to this policy shall not exceed 5% of the total value of Plan assets between regularly scheduled Commission meetings. The size of an individual investment made pursuant this policy is subject to the following limitations provided for the asset class applicable to the investment:
   1. Public Markets - 2% of the total value of plan assets, unless it is reasonable to believe that due to the particulars of the investment strategy that liquidating the investment would ordinarily require longer than ninety days and, in such case, the limit is 1% of the total value of plan assets, for:
      i. Global Public Equity,
      ii. Equity Options,
      iii. Portable Alpha,
      iv. Global Asset Allocation,

   v. Mixed Credit,
   vi. Emerging Market Debt,
   vii. Other Opportunistic Strategies,
   viii. Core Fixed Income, and
   ix. Cash and Short Duration.
2. Publicly-Traded Real Estate - 1% of the total value of plan assets.
3. Private Markets - 75 bps of the total value of plan assets for:
   i. Private Equity,
   ii. Private Debt,
   iii. Private Real Estate,
   iv. Infrastructure, and
   v. Opportunistic Hedge Funds.
4. For purposes of this policy, the asset classes indicated in this section are as they are described in the Annual Investment Plan.

D. Pursuant to Section 9-16-330(B)(2), the closing documentation of any investment made pursuant to this policy must include the CEO's certification that the investment conforms to the amount and extent of delegation provided by this policy.

E. The Commission must be informed of a proposed investment to be made pursuant to this policy no less than three days before the closing of the investment and must be provided with all applicable documentation and reports produced or relied upon by staff when making the investment recommendation including, but not limited to:
1. investment due diligence report,
2. operational due diligence report,
3. key terms sheet,
4. memorandum and/or reports from the general or specialty consultant,
5. Internal Investment Committee action summary,
6. Completeness check certification, and
7. Final draft versions of pertinent legal documents, including the Investment contract, limited partnership agreement, and/or other applicable closing documents.

F. An investment made pursuant to this policy must be reviewed with the Commission at the next regularly scheduled Commission meeting.

G. The CIO must provide the Commission with an updated proposed investment pipeline on a monthly basis.

H. The delegation of the final authority to invest pursuant to this section includes the authority to terminate an investment manager if the investment was made pursuant to this policy or the amount of capital committed to the manager by the Commission would fall within the applicable limits provided in Section C. The CIO must approve any termination of a manager made pursuant to this policy, subject to the oversight of the CEO. The CIO must provide a memorandum to the Commission summarizing his justification for terminating the manager within three days of terminating the manager. The CIO must provide a review of the termination to the Commission at the next Commission meeting.

I. The Commission will review this policy annually to ensure that it remains relevant and appropriate, or when there has been an amendment to state law relevant to any section of this policy, or a Commission approved change in the responsibilities, duties or operations of the Commission or its Committee generally, or as otherwise deemed appropriate by the Commission.

J. No provision of this policy shall apply to the extent that it is in conflict with any provision of the Code of Laws of South Carolina, 1976, as amended. In the event of such conflict, the applicable Code provision shall apply in all respects.

K. This policy was adopted by the Commission on September 28, 2017, subject to final approval by the Chair of the incorporation of certain amendments into the policy. The Chair issued final approval of the policy on October 23, 2017.

VII. SECURITIES LITIGATION POLICY ("POLICY")

A. Purpose and General Principles

a. The purpose of this Policy is to set forth the South Carolina Retirement System Investment Commission's[1] guidelines with respect to securities litigation. Interests in securities litigation matters will be managed as assets of the South Carolina Retirement Systems Group Trust (the "Trust") with the goal of enhancing the long-term value of the Trust.

b. The Commission acknowledges that it has a fiduciary duty to take reasonable actions to pursue and collect on legal claims held as an asset of the Trust. The Commission also recognizes that most, if not all, of the securities litigation claims in which the Trust may have an interest will be pursued by law firms from the class action bar regardless of whether RSIC takes an active role in the litigation.

c. This Policy outlines the Commission's procedures for monitoring the Trust's portfolio for potentially actionable losses, protecting the Trust's interests in litigation related to portfolio losses, and maximizing recoveries attainable by the Trust from such actionable losses.

d. This policy consists of four sections: 1) a section relating to asset recovery as passive class members in U.S.-based securities actions; 2) a section for litigation of securities listed on domestic exchanges where RSIC deems active participation is warranted; 3) a section for litigation of securities listed on foreign exchanges; and 4) a section related to the monitoring process for both foreign and domestic claims in which the Trust takes an active role.

B. Part One: Securities Litigation Policy for Filing Proofs of Claim ("Passive Participation")

a. Under U.S. federal law, securities class action lawsuits function as "opt-out" cases. This means that the Trust does not need to participate as a named party in order to recover its *pro rata* share of a class action recovery so long as the certified class claims include the losses incurred by the Trust. This type of participation is called Passive Participation. When notified of a class action settlement in which the Trust has suffered a loss, RSIC need only submit a timely and valid proof of claim in order to be included in any recovery.

b. The Trust's custodial bank, The Bank of New York Mellon ("BNY Mellon"), is responsible for completing and filing all proofs of claim, including the necessary supporting documents and information in every securities class action pending in the U.S. in which the Trust has a direct interest (i.e., for Trust assets that are custodied at BNY Mellon ("In-Bank Assets")). BNY Mellon is not responsible for filing proofs of claim for, or otherwise reporting on the management of, securities class action litigation for assets that are not custodied at BNY Mellon ("Out-of-Bank Assets").

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[1] "Commission" refers to the commission of seven members responsible for managing the South Carolina Retirement System Investment Commission, as specified in S.C. Code of Laws Ann. Section 9-16-315.

"South Carolina Retirement System Investment Commission" or "RSIC" refers to the agency established by South Carolina law for the purpose of investing and managing all assets held in trust for the participants and beneficiaries of the state's five separate defined benefit plans.

c. BNY Mellon's claims filing responsibilities are set forth in more detail in the Service Level Description, dated July 21, 2019, between the Trust by and through RSIC and BNY Mellon (the "SLD"). The SLD outlines the process for: (i) identifying and reviewing all class action recoveries (whether by settlement or trial); (ii) providing timely notice of each settlement recovery to RSIC and the Commission; (ii) filing complete and accurate proofs of claim forms in a timely fashion on behalf of the Trust; (iv) providing quarterly reports outlining all claims filed on behalf of the Trust during the quarter; and (v) providing quarterly reports identifying all securities litigation proceeds recovered by the Trust directly or on its behalf. In the event of a claim involving securities that are not identified by a specific security identifier (e.g., CUSIP, ISIN, SEDOL, etc.), BNY Mellon will use commercially reasonable efforts to identify impacted securities recorded in BNY Mellon's records relating to the security named in the documentation received. In the event that BNY Mellon is unable to file a claim on the Trust's behalf (e.g., involving anti-trust claims), BNY Mellon, or in some cases a third party, will forward the relevant claim information to RSIC, and RSIC will utilize the services of third-party claims filing services that specialize in analyzing and filing such claims.

C. Part Two: Securities Litigation Policy for Securities Listed on a Domestic Exchange

a. While the Commission has a fiduciary obligation to take reasonable action to collect on legal claims held by the Trust, the Trust, acting by RSIC, may need to engage in active participation ("Active Participation") on occasion. This type of participation involves serving as lead plaintiff in cases in the domestic exchange context. Active Participation in domestic securities class actions must be balanced with the Commission and RSIC's primary obligation to maximize the investment returns of the Trust. This determination must also be weighed against the additional costs and burden on staff that may result by becoming lead plaintiff in a securities litigation case as well as the recognition that the Trust's position as a lead plaintiff will not, in and of itself, entitle the Trust to any greater recovery.

b. **Authority to Seek Lead Plaintiff Designation:** Due to the time-sensitive nature of electing to seek a lead plaintiff designation and the Chief Executive Officer's ("CEO") statutory designation as the chief administrative officer of RSIC, the Commission, through this Policy, has delegated to the Executive Leadership Team the authority to elect to seek a lead plaintiff designation where appropriate, reasonable, and prudent to protect the interests of the Trust.

c. **Decision-Making Guidance for Active Participation:** The Executive Leadership Team will generally consider seeking lead plaintiff status ("Active Participation") in a domestic class action when: (i) the Trust's projected losses exceed $5 million U.S. Dollars (the "Loss Threshold"); or (ii) when the loss is substantial but less than the Loss Threshold and there are significant special factors justifying the Trust's involvement. The determination of special factors will be made in the discretion of the Executive Leadership Team.

d. **Monitoring Procedures:** In addition to the reporting provided by BNY Mellon for class action litigation involving In-Bank Assets, the Trust may retain three or more securities litigation monitoring law firms (the "Firms") to advise RSIC via periodic reporting of recently-filed class actions in which the Trust has sustained losses and which appear to have merit. The Firms will generally be engaged for up to five years, with the option to terminate earlier or renew for additional periods. Each of the Firms will provide reporting on at least a quarterly basis outlining all recently filed claims in which the Trust has sustained losses. Additionally, the Firms will submit written memos to RSIC on certain cases, including any cases exceeding the Loss Threshold, regarding the alleged facts of the case, the estimated losses, the Firm's view on the merits of the allegations, and a recommendation as to whether RSIC should seek a lead plaintiff position in the matter. RSIC Legal will perform an initial review of all reports and memos received from the Firms. Any reports or memos indicating a loss that exceeds the Loss Threshold will be forwarded to the CLO for further review. The CLO will review the reports and will follow up with the Firms that have provided the memorandum to get additional insight and information about potential claims exceeding the Loss Threshold ("Reviewable Claims") and will make additional inquiries or conduct additional research as needed.

e. After review by the CLO, the CLO will confer with the Executive Leadership Team regarding the merits of Reviewable Claims, including the projected losses incurred by the Trust, the specifics of the related investment(s), available staff resources, and the recommendations of the Firms regarding whether the Trust should seek a lead plaintiff position. Any decision to seek a lead plaintiff designation for a claim exceeding the Loss Threshold or based on special circumstances must be made by a unanimous vote of the Executive Leadership Team. The Executive Leadership Team will notify the Chair and Vice- Chair of the Commission about any decision to seek a lead plaintiff position and will update the Commission via reporting to the Commission's secure portal.

f. **Selection of Outside Counsel for Securities Litigation** If the Executive Leadership Team determines that it is prudent to hire one of the Firms or other legal counsel to represent the Trust in a securities litigation action to protect the assets of the Trust, all selection of counsel and retainer agreements shall be negotiated, executed, and monitored by the CEO with assistance from the CLO. The CEO may engage one of the Firms hired to monitor the Trust's portfolio, or the CEO may seek to engage other counsel after consultation with the CLO and notice and consultation with the Office of the South Carolina Attorney General, as required by S.C. Code Ann. Section 9-16-315(I). When RSIC first engages the Firms, RSIC will pre-negotiate a proposed engagement agreement for potential litigation, which must be approved by the CEO.

D. Part Three: Securities Litigation for Securities Listed on a Foreign Exchange

a. Due to the 2010 Supreme Court case, *Morrison v. National Australia Bank Ltd.*,[2] investors no longer have the protections of U.S. securities laws for securities that were purchased on a non-U.S. exchange. Unlike the U.S. class action process, foreign securities actions generally require investors to join as a named-plaintiff or "opt-in" at the commencement of the case in order to be entitled to a share of any recovery. This "opt-in" process requires affirmative decisions early in the process to join the lawsuit in order to participate in any recovery. In many cases, investors may be required to make these decisions before a foreign action is even filed.

[2] *Morrison v. National Australia Bank Ltd.,* 561 U.S. 247 (2010).

b. **Decision-Making Guidance for Active Management:** Because there is rarely an option for passive participation in foreign securities actions, the review for participation in these actions differs from those explained in Part Two of this Policy. The CLO will review notices of potential claims in foreign securities actions and will review recommendation memos received from the Firms or other sources in those cases where the loss threshold exceeds $1 million (the "Foreign Loss Threshold"). In foreign jurisdictions, various groups, including non-law firm litigation funding organizations, may act as a funding source for the litigation and work with a certain legal team to initiate litigation. In some cases, the group that first files a lawsuit may become a founding group ("Founding Group"). Founding Groups may impose differing terms and conditions in order to participate in a lawsuit. The CLO will review all available factors relating to participating in foreign actions for claims exceeding the Foreign Loss Threshold, including but not limited to: (i) the amount of the loss; (ii) the potential litigation fees; (iii) the litigation funding requirements; (iv) whether more than one litigation funding group is proposing participation; (v) the risk of adverse costs; (vi) the legal merits of the case; (vii) the contractual requirements for joining and/or bringing a claim; and (viii) the potential cost of staff's time. . After reviewing the above factors and the documentation required to elect to participate in the applicable foreign jurisdiction, the CLO will make a recommendation to the CEO on whether to participate, and if applicable, which Founding Group to elect based on the most suitable contract terms available for the Trust. The CEO, after reviewing the CLO's recommendation, will elect (A) whether or not to pursue participation in foreign litigation that exceeds the Foreign Loss Threshold; and (B) which funding group to select based on the terms and legal requirements of each. The CLO, working with the Firm(s), as applicable, will negotiate the required documentation and retain the right to change a recommendation to participate if suitable contract terms cannot be negotiated with the Founding Group.

E. Part Four: Litigation Monitoring for Active Participation in Domestic and Foreign Litigation

a. The CEO, acting via the CLO, will monitor any pending domestic or foreign cases in which RSIC is actively participating. The CLO will request quarterly written status updates from any Firms representing RSIC in Active Participation cases. The CLO will actively participate in discussions with the Firms regarding any participation by RSIC Staff or document production needs. The CEO and CLO will be actively involved in settlement discussions for any domestic litigation action. The CLO will submit periodic updates to the CEO and the Commission regarding such cases. In accordance with the CEO's statutory authority as chief administrative officer of the Commission, the CEO retains the ultimate authority related to the direction of any class action litigation and/or settlement pursuant to this Policy. The CEO may consult the Commission on any matter related to the initiation of or conduct of any lawsuit pursuant to this Policy. The CEO shall have full authority to approve a proposed settlement of any litigation. In addition, the CEO shall have full authority to execute all contracts, legal documents, settlements, certifications, and authorizations required to pursue litigation authorized by the Executive Leadership Team.

F. The Commission shall review this policy at least once every three (3) years to ensure that it remains relevant and appropriate.

VIII. Placement Agent Policy

A. Purpose. It is the intent of this Policy to comply with S.C. Code Ann. §9-16-100, which prohibits compensation being paid to a Placement Agent (as defined below) as a result of an investment by the Retirement System (as defined below).

B. Definitions. For purposes of this Policy, the following capitalized terms will have the defined meaning set forth below:

- **a.** Pursuant to §9-16-100(B), a "Placement Agent" means any individual directly or indirectly hired, engaged, or retained by, or serving for the benefit of or on behalf of an external manager or an investment fund managed by an external manager and who acts or has acted for compensation as a finder, solicitor, marketer, consultant, broker, or other intermediary in connection with making an investment with or investing in a fund managed by the external investment manager.
- **b.** "Placement Agent Policy Compliance Letter" means that letter which will be requested from prospective external investment management firms in accordance with the terms of this Policy.
- **c.** "Policy" means this Placement Agent Policy.
- **d.** "Retirement System" means the South Carolina Retirement Systems Group Trust.
- **e.** "RSIC" means the South Carolina Retirement System Investment Commission.

C. Procedure

- **a.** RSIC staff will inform prospective external investment management firms ("Investment Managers") as to the RSIC's Placement Agency Policy and statutory requirements as soon as practicable after RSIC staff begins the due diligence review of any potential investment. The RSIC staff member leading the due diligence review for the investment is responsible for sending written notice (paper, fax or email) to the Investment Manager requesting a Placement Agent Policy Compliance Letter. If a copy of this Policy has not already been provided to the Investment Manager, then this Policy will be made available to the Investment Manager prior to or at the time notice is given to the Investment Manager.
- **b.** The Placement Agent Policy Compliance Letter must be included in the RSIC investment Due Diligence Report packet.
- **c.** Investments will not be voted on by the Commission, Internal Investment Committee, or otherwise approved pursuant to RSIC policies, prior to receipt of the completed Placement Agent Policy Compliance Letter and confirmation from RSIC compliance staff that the letter is sufficient per Section G below.
- **d.** The following entities must complete the Placement Agent Policy Compliance Letter as outlined below:
  - **i.** Investment Managers that have a direct contractual investment management relationship with the RSIC or with an investment vehicle in which the RSIC is invested.
  - **ii.** Investment Managers that have an indirect contractual investment management relationship with the RSIC through an investment vehicle that invests in funds or other pooled investment vehicles or other assets.

D. Placement Agent Policy Compliance Letter. The Investment Manager will provide disclosure in the form of a letter addressing all requirements specified below:

a. Certification that, in compliance with §9-16-100, no Placement Agent (as defined by State law) received, or will receive, compensation in connection with the RSIC making an investment with or investing in a fund managed by the Investment Manager.

b. Representation that the Investment Manager has reviewed the applicable law and has not relied on the counsel or advice of RSIC or any employee, representative, agent or officer of RSIC regarding the interpretation and application of the applicable law.

c. Representation that all information contained in the Placement Agent Policy Compliance Letter is true, correct and complete in all material respects.

E. Open Records Law. RSIC may be required to disclose information in the Placement Agent Policy Compliance Letter under the South Carolina Freedom of Information Act.

F. Investments with Separate Account Investment Management Agreements ("IMAs"). If, after closing, the RSIC determines that the Placement Agent Policy Compliance Letter contains a material inaccuracy or omission, the RSIC will, to the fullest extent possible, seek the option, in its sole discretion and without liability to the Investment Manager or any third party, to terminate the IMA and to pursue all remedies that may otherwise be available to the RSIC without incurring any penalty under any agreement to which it is a party.

G. Investments in commingled investment structures (LPAs, LLCs, Trusts, etc.). The RSIC will endeavor to have provisions incorporated into the transaction documents for commingled investment structures which would permit the RSIC to take those actions described in the next sentence. If, after closing, the RSIC determines that the Placement Agent Policy Compliance Letter contains a material inaccuracy or omission, the RSIC will seek to obtain the option, in its sole discretion and without liability to the commingled investment structure, the General Partner or equivalent management entity, any other investor in the structure or third party, to cease making further capital contributions and/or direct payments to the investment and to pursue all remedies that may otherwise be available to the RSIC without being deemed to be a defaulting Limited Partner under the transaction documents and without incurring any other penalty under any agreement to which it is a party.

H. Review. RSIC's compliance staff will review Placement Agent Policy Compliance Letters and will determine whether each letter is sufficient. Any questions regarding the sufficiency of the letter will be referred to the RSIC legal department and will be reported to the CIO and applicable RSIC Staff.

I. Staff Contact. RSIC staff will provide notice about the prohibition in the state law to any party that contacts RSIC staff regarding a potential investment and appears to be acting in the role of a Placement Agent.

J. Obligation to Update. It is the Investment Manager's obligation to promptly inform RSIC staff of any material changes to a prior-filed Placement Agent Policy Compliance Letter, and to submit an updated Placement Agent Policy Compliance Letter where warranted prior to the RSIC's closing on an investment.

K. Review and History

- **a.** The Commission will review this policy at least every three years to ensure that it remains relevant and appropriate, or when there has been an amendment to state law relevant to any section of this policy, or a Commission approved change in the responsibilities, duties, or operations of the Commission or its committees generally, or as otherwise deemed appropriate by the Commission.
- **b.** No provision of this policy shall apply to the extent that it is in conflict with any provision of the Code of Laws of South Carolina, 1976, as amended. In the event of such conflict, the applicable Code provision shall apply in all respects.
- **c.** This policy was initially adopted on September 20, 2012.
- **d.** This policy was amended on June 22, 2017 and will take effect on July 1, 2017.

IX. SUDAN DIVESTMENT POLICY

A. Background. The State of South Carolina has enacted a Sudan divestment law, codified at S.C. Code Ann. §9-16-55 ("Act"). The uncodified preamble to the Act notes that "[d]ivestment is a course of last resort that should be used sparingly and under extraordinary circumstances," but states that "the genocide occurring in the Sudan is reprehensible and abhorrent," warranting this type of legislative response. The Act, which applies solely to the South Carolina Retirement Systems Group Trust ("Group Trust") managed by the South Carolina Retirement System Investment Commission ("Commission" as the governing body, "RSIC" as the agency), sets forth various criteria that are to be considered by the Commission in making the determinations required by the Act.

B. Purpose. The purpose of this Sudan Divestment Policy ("Policy") is to document the manner in which the Act is administered. The Commission has the exclusive authority to invest and manage the assets of the Group Trust pursuant to S.C. Code Ann. §9-16-20. The Commission also has the fiduciary duty to manage the assets of the Group Trust solely in the interests of the retirement systems, participants, and beneficiaries. The Commission must discharge these responsibilities in a manner consistent with all applicable statutes, regulations, and policies, including the Act.

C. Definitions. The Act utilizes the following defined terms:

- **a.** "Active Business Operations" means a Company engaged in Business Operations that provide revenue to the Government of Sudan or a Company engaged in Oil-Related Activities.
- **b.** "Business Operations" means maintaining, selling, or leasing equipment, facilities, personnel, or any other apparatus of business or commerce in Sudan, including the ownership or possession of real or personal property located in Sudan.
- **c.** "Company" means a sole proprietorship, organization, association, corporation, partnership, venture, or other entity, its subsidiary or affiliate that exists for profit-making purposes or to otherwise secure economic advantage. "Company" also means a Company owned or controlled, either directly or indirectly, by the Government of Sudan, that is established or organized under the laws of or has its principal place of business in the Sudan.
- **d.** "Government of Sudan" means the Government of Sudan or its instrumentalities as further defined in the Darfur Peace and Accountability Act of 2006.
- **e.** "Investment" means the purchase, ownership, or control of stock of a Company, association, or corporation, the capital stock of a mutual water Company or corporation, bonds issued by the government or a political subdivision of Sudan, corporate bonds, or other debt instruments issued by a Company.
- **f.** "Military Equipment" means weapons, arms, or military defense supplies.
- **g.** "Oil-Related Activities" means, but is not limited to, the export of oil, extracting or producing oil, exploration for oil, or the construction or maintenance of a pipeline, refinery, or other oil field infrastructure.
- **h.** "Public Employee Retirement Funds" means those assets as defined in §9-16-10(1).
- **i.** "Scrutinized Companies" means any of the following:

i. The Company is engaged in Active Business Operations in Sudan; and
ii. The Company is engaged in Oil-Related Activities or energy or power-related operations, or contracts with another Company with Business Operations in the oil, energy, and power sectors of Sudan, and the Company has failed to take Substantial Action related to the Government of Sudan because of the Darfur genocide; or
iii. The Company has demonstrated complicity in the Darfur genocide.
iv. The Company is not engaged in Oil-Related Activities and lacks significant Business Operations in the eastern, southern, and western regions of Sudan; and
v. The Company is engaged in Oil-Related Activities or energy or power-related operations, or contracts with another Company with Business Operations in the oil, energy, and power sectors of Sudan, and the Company has failed to take Substantial Action related to the Government of Sudan because of the Darfur genocide; or
vi. The Company has demonstrated complicity in the Darfur genocide.
vii. The Company supplies Military Equipment within the borders of Sudan.[3]

j. "State" means the State of South Carolina.
k. "Substantial Action" means a boycott of the Government of Sudan, curtailing business in Sudan until that time described in Section I of this Policy, selling Company assets, equipment, or real and personal property located in Sudan, or undertaking significant humanitarian efforts in the eastern, southern, or western regions of Sudan.
l. "Sudan" means the Republic of the Sudan, a territory under the administration or control of the Government of Sudan, including, but not limited to, the Darfur region, or an individual, Company, or public agency located in Khartoum, northern Sudan, or the Nile River Valley that supports the Republic of the Sudan.

D. Identification of Companies

a. Identifying Scrutinized Companies. RSIC Staff ("Staff") has engaged the services of a specialized research firm ("Advisor") to (i) identify companies doing business in Sudan, as defined in the Act, and (ii) provide Staff with a list of such Scrutinized Companies ("Scrutinized Companies List").
b. Updates to Scrutinized Companies List. Staff shall ensure that the Scrutinized Companies List is updated on or about January 1 and July 1 of each year.

E. Engagement

a. Determining Scrutinized Status. For each Company identified by the Advisor pursuant to Section D of this Policy, RSIC (either via Staff or the Advisor) shall send a written notice informing the Company that it may become subject to divestment by RSIC. The notice

[3] If a Company provides equipment within the borders of Sudan that may be readily used for military purposes, including but not limited to, radar systems and military-grade transport vehicles, there is a strong presumption against investing in the Company unless that Company implements safeguards to prevent the use of that equipment for military purposes.

shall offer the Company the opportunity to clarify its Sudan-related activities within 90 days in order to avoid qualifying for potential divestment.

b. Compliance. If, following RSIC's notification (either via Staff or the Advisor) to a Company pursuant to Section E. a. of this Policy, that Company ceases the activities that caused the Company to be added to the Scrutinized Companies List, as determined by the Advisor, the Company shall be removed from the Scrutinized Companies List, and the provisions of this Section E shall cease to apply to the Company unless it resumes the activities that caused the Company to be added to the Scrutinized Companies List.

F. Determinations to be made by the Chief Investment Officer

a. Delegation to the Chief Investment Officer. The Commission has delegated authority to the Chief Investment Officer ("CIO") to, in consultation with RSIC's Chief Executive Officer, make the determinations required under the Act and to take actions necessary to implement this Policy.

b. General. If, following RSIC's engagement with a Company pursuant to Section E. a. of this Policy, the Company continues to be a Scrutinized Company, Staff will present the CIO with detailed information gathered from the Advisor, affected investment managers, and others regarding the Company, its Business Operations, the Group Trust's holdings, and any other information required by the Act and this Policy. The CIO will make determinations as to (i) whether Staff should sell, redeem, divest, or withdraw the Group Trust's interests in the Company, and (ii) the timing of any such sale, redemption, divestment, or withdrawal. The CIO will also make the determinations described in Section I of this Policy.

G. Prohibition. RSIC shall not use Public Employee Retirement Funds to acquire new Investments in Companies on the Scrutinized Companies List, except as provided in this Policy.

H. Permissible Investments under the Act

a. The Act does not apply to the following types of Investments:

i. Investments in a Company that is primarily engaged in supplying goods or services intended to relieve human suffering in Sudan;

ii. Investments in a Company that promotes health, education, journalistic, or religious activities in or welfare in the western, eastern, or southern regions of Sudan;

iii. Investments in a United States Company that is authorized by the federal government to have Business Operations in Sudan; and

iv. Investments that constitute indirect beneficial ownership through index funds, commingled funds, limited partnerships, derivative instruments, or the like.

b. In developing the Scrutinized Companies List, the Advisor shall determine, in good faith and with due professional care, whether any of the foregoing exemptions and exclusions set forth in the Act apply.

I. Determinations required to be made by the CIO pursuant to §9-16-55(D)(1). The Act states that nothing in the Act "requires the [C]ommission to take action as described in [the Act] unless the

[C]ommission determines, in good faith, that the action described in [the Act] is consistent with the fiduciary responsibilities of the [C]ommission as described in [Title 9, Chapter 16 of the Code] and there are appropriated funds of the State to absorb the expenses of the [C]ommission to implement this [Act].” §9-16-55(D)(1). Accordingly, whenever the CIO is asked to consider taking action under the terms of the Act or this Policy, Staff will assist the CIO in making the determinations required to be made as described in this Section.

J. Reporting. Staff shall, following the close of RSIC’s fiscal year, prepare a formal report to the Commission regarding actions taken pursuant to the Act. RSIC shall also publish the report. The report shall include all of the following information with respect to the previous fiscal year:

- **a.** The Scrutinized Companies List;
- **b.** A list of all Companies added to or removed from the Scrutinized Companies List;
- **c.** A summary of correspondence with Companies engaged by RSIC under the Act;
- **d.** A list of all Companies that RSIC will continue to engage concerning their Business Operations in Sudan;
- **e.** A summary of all Investments sold, redeemed, divested, or withdrawn under the Act; and
- **f.** A list of all Investments that were retained by RSIC pursuant to a determination by the CIO as set forth in Section I.

K. Expiration. The restrictions in the Act shall apply only until:

- **a.** The Government of Sudan halts the genocide in Darfur for twelve months as determined by both the Department of State and the Congress of the United States; or
- **b.** The United States revokes its current sanctions against Sudan.

L. Indemnification. The Act provides that present and former board members, officers, and employees of the State Fiscal Accountability Authority, present, future, and former directors, officers, and employees of the South Carolina Public Employee Benefit Authority, the Commission, and contract investment managers retained by the Commission must be indemnified from the general fund of the State and held harmless by the State from all claims, demands, suits, actions, damages, judgments, costs, charges, and expenses, including court costs and attorney’s fees, and against all liability, losses, and damages of any nature whatsoever that these present, future, or former board members, officers, employees, or contract investment managers shall or may at any time sustain by reason of any decision to restrict, reduce, or eliminate Investments pursuant to the Act.

X. LONG-TERM ANNUALIZED RETURN AND VOLATILITY EXPECTATIONS

(NOTE: This section will be updated with 2021~~0~~ Capital Market Expectations and the 2020 versions of Tables 1 and 2.)~~prior to the March 2020 Commission meeting. Current 2019 Capital Market Expectations can be found in the February 2019 Combined Commission Meeting Materials at https://www.rsic.sc.gov/_documents/2019.02.21%20Combined%20Commission%20Materials.pdf).~~

RETIREMENT SYSTEM
INVESTMENT COMMISSION

RSIC Governance and Accountability

Michael Hitchcock, CEO

Commission

- Established in 2005 and provided with the exclusive authority to invest and manage the assets of the State's five defined benefit plans (the Plan).
- Governed by an eight-member Commission who are fiduciaries to the Plan.
- Primary purpose is to set the strategic direction for an investment program that strives to earn an investment return which combined with contributions provides benefit payments to current and future retirees by:
  - Setting the long-term strategic asset allocation,
  - Exercising oversight of the investment program and business affairs of RSIC,
  - Approving certain investments,
  - Ensuring legal and ethical integrity, and
  - Maintaining accountability.
- Adopts governance policies that define the roles and responsibilities of the Commissioners and staff.

Chief Executive Officer

- Employed by the Commission.
- Serves as the primary figure of accountability for RSIC.
- Carries out the Commission's mission, policies, and directives.
- Delegated all of the Commission's authority necessary to manage RSIC and implement the Commission's decisions.
- Employs the Chief Investment Officer and other staff who serve at the will of the CEO.
- Exercises oversight of the CIO and other staff.
- Delegated the final authority to close all investments.

Chief Investment Officer

- Employed by the CEO.
- Manages RSIC's investment function and staff subject to CEO oversight.
- Oversees the allocation of capital primarily to external investment managers to provide exposures to implement the Commission's strategic asset allocation.
- Delegated the final authority to invest subject to established limits.
- Manages the exposures of the portfolio within ranges set by the Commission.
- Oversees investment risk management and investment manager oversight.

Primary Staff Committees

- **Executive Leadership Team:**
  - **Includes the CEO, CIO, Chief Operating Officer, and Chief Legal Officer.**
  - **Serves as RSIC's primary management committee and aids CEO in making strategic organizational and operational decisions.**
- **Internal Investment Committee**
  - **Committee of senior staff appointed by CEO and chaired by the CIO.**
  - **Primary purpose is to vet and recommend new investments to the CIO for approval.**
  - **Advises the CIO on asset class baselines and provides the forum to challenge a baseline.**

IDD and ODD

- **Investment Due Diligence:**
  - **Based in developing a deep understanding of how a prospective manager creates value prior to committing capital.**
  - **Leverage work of Albourne in private equity, private debt, real assets, and hedge funds to align our internal process with their view on a manager.**
  - **Albourne relationship allows investment staff to make more contacts and focus on areas of interest or concern.**
  - **Proprietary in-house value creation assessment.**
- **Operational Due Diligence:**
  - **Purpose is to develop comfort that a prospective manager has the operational capability to deliver on their investment strategy.**
  - **Internal process is extensive and best in class.**
  - **Internal effort is complimentary to Albourne and focuses on areas of concern.**

Internal Audit and ERM & Compliance

- **Internal Audit Function:**
  - Governed by the Commission's Audit and Enterprise Risk Management Committee.
  - Purpose is to provide independent, objective assurance and recommendations to add value and improve operations.
  - Co-sourced model provides independence and external service provider serves as a force multiplier.
- **Enterprise Risk Management & Compliance:**
  - Stated goal is to identify and mitigate organizational risks for which we are not compensated.
  - Dedicated internal resource aids the CEO and management in risk mitigation and to manage compliance with RSIC policies and applicable laws.
  - Developed ERM dashboard and developing KRIs/KPIs in coordination with external audit resource.

Additional Improvements

- Capital Call Management and improved cash movement processes.
- Outsourcing of cash and short duration management.
- Portfolio Simplification has reduced active investment risk and shifted organizational focus to parts of the portfolio that can provide consistent sources of excess return.
- Performance Reporting Framework provides look through and the ability to judge major investment decisions – diversification, portfolio structure, and implementation.
- Long-term perspective and five-year review schedule for asset allocation will benefit performance.

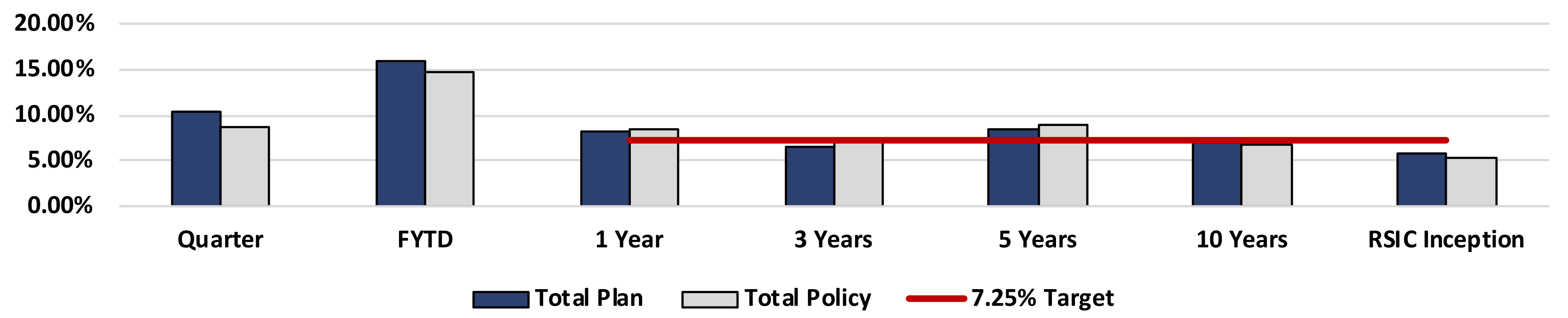
RETIREMENT SYSTEM
INVESTMENT COMMISSION

Performance Update

RSIC 03/04/2021 Investment Commission Meeting
Data as of December 31st, 2020

Performance - Plan & Policy Benchmark[2]

As of December 31, 2020



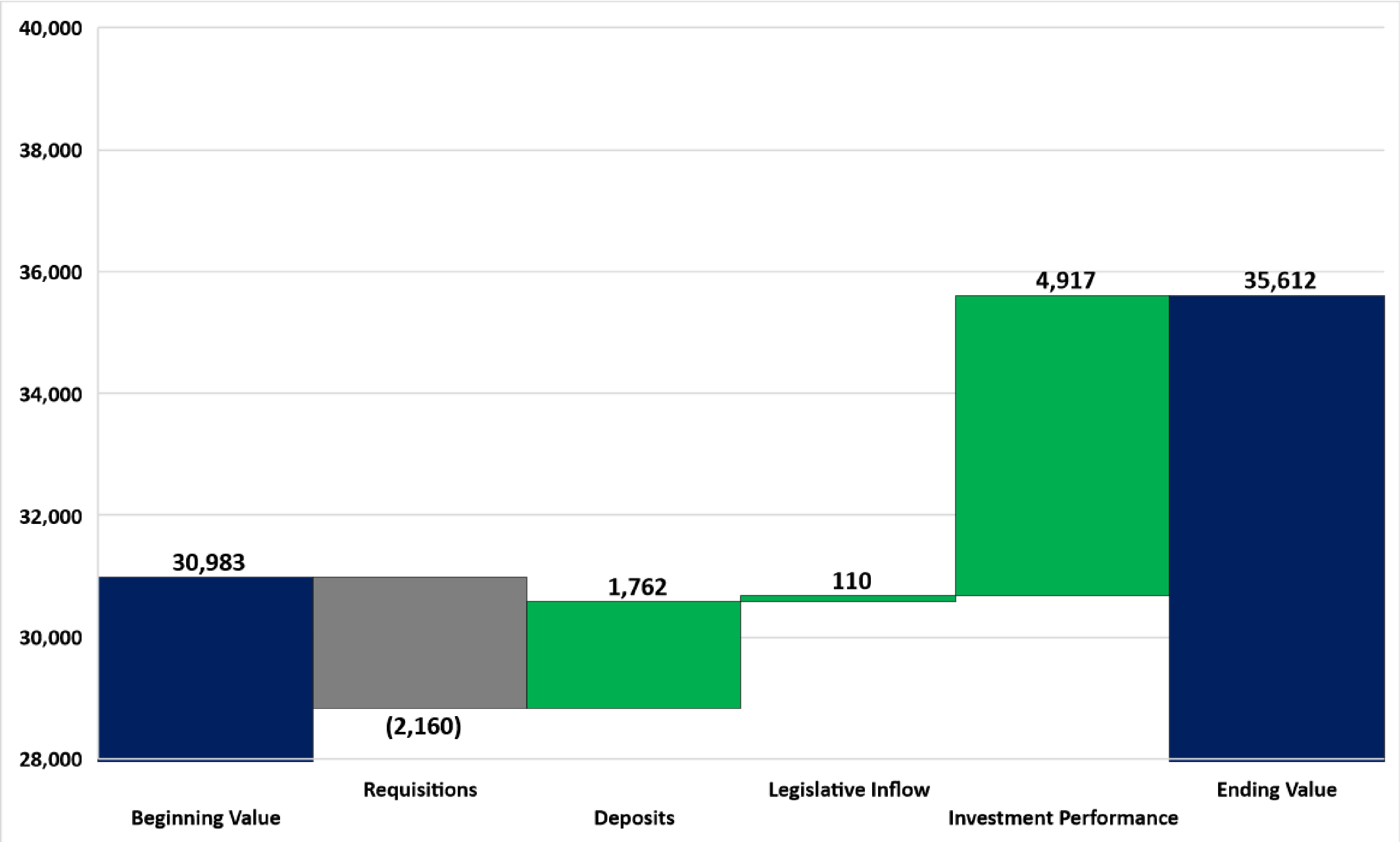
Rolling period performance as of December 31, 2020[1]

Executive Summary	Market Value (millions)	Quarter	FYTD	1 Year	3 Years (Annualized)	5 Years (Annualized)	10 Years (Annualized)	RSIC Inception (Annualized)
Total Plan	**$35,612**	**10.41%**	**15.90%**	**8.19%**	**6.58%**	**8.37%**	**7.02%**	**5.71%**
Policy Benchmark		8.75%	14.77%	8.35%	7.17%	8.85%	6.86%	5.37%
Excess Return		1.66%	1.13%	-0.16%	-0.59%	-0.48%	0.16%	0.33%
Net Benefit Payments (millions)		($251)	($289)	($562)	($2,438)	($4,650)	($9,905)	($14,607)
Current 3-month Roll off Return:		5.0%	n/a	4.8%	3.5%	1.1%	4.8%	n/a
Next 3-month Roll off Return:		10.4%	n/a	-15.5%	0.1%	0.5%	3.8%	n/a

Current Quarter Roll off Return: represents the 3-month period that has fallen off of each time frame's rolling returns. If the current quarter underperforms the roll off return, the performance would decrease for the period.
Next Quarter Roll off Return: represents the 3-month period that will fall off of each time frame's rolling returns in the next quarter. If the next quarter underperforms the roll off return, the performance would decrease for the period.

FYTD Benefits and Performance*

FYTD December 31, 2020



*Requisitions and deposits include equal and offsetting flows for insurance benefits which cannot be disaggregated from retirement benefit flows. The net of requisitions and deposits represents the surplus or shortfall of retirement deposits in relation to retirement benefit payments.

Performance – Plan & Asset Classes[1,3,4,7]

As of December 31, 2020

Performance	Portfolio Weight	Quarter	FYTD	1 Year	Annualized 3 Years	Annualized 5 Years
Public Equity	**48.7%**	**15.80%**	**25.25%**	**16.28%**	**9.08%**	**11.74%**
Benchmark		*15.70%*	*25.08%*	*15.99%*	*9.56%*	*12.02%*
Bonds*	**23.9%**	1.61%	3.11%	3.42%	3.24%	4.02%
Benchmark		*0.67%*	*1.29%*	*3.35%*	*4.01%*	*4.60%*
Private Equity	**7.6%**	**10.56%**	**15.22%**	**6.48%**	**7.57%**	**9.21%**
Benchmark		*9.01%*	*20.28%*	*4.86%*	*9.00%*	*12.90%*
Private Debt	**8.5%**	**4.12%**	**6.67%**	**-0.58%**	**2.30%**	**4.61%**
Benchmark		*4.45%*	*14.91%*	*2.56%*	*4.60%*	*5.51%*
Real Assets	**11.2%**	**3.66%**	**3.98%**	**0.89%**	**5.79%**	**7.21%**
Benchmark		*1.09%*	*1.36%*	*-3.97%*	*3.76%*	*6.08%*
Portable Alpha Hedge Funds**	11.1%	7.19%	8.87%	5.78%	2.66%	2.64%
Total Plan	**100.0%**	**10.41%**	**15.90%**	**8.19%**	**6.58%**	**8.37%**
RSIC Policy Benchmark		*8.75%*	*14.77%*	*8.35%*	*7.17%*	*8.85%*

*Bonds composite recalculated to show performance that reflects a net cash weighting in order to be comparable to benchmark.

**Portable Alpha Hedge Funds are expressed as gross exposure but, as collateral supporting the Overlay program, net to zero when calculating total Plan market value. 3 and 5 year Portable Alpha hedge fund returns are considered supplemental information provided by Staff to illustrate performance of these hedge funds even though they were classified under a different asset class during these periods. Performance is expressed net of LIBOR as an estimate for Overlay financing costs.

Asset Allocation and SIOP Compliance[5,6]

FYTD December 31, 2020

Asset Allocation	% of Total Plan	Policy Targets	Difference	Allowable Ranges
Public Equity	48.7%	47%	1.3%	30.0% - 60.0%
Bonds	23.9%	26%	-2.1%	15.0% - 35.0%
Private Equity	7.6%	8%	0.0%	5.0% - 13.0%
Private Debt	8.5%	7%	1.5%	3.0% - 11.0%
Real Assets	11.2%	12%	-0.8%	6.0% - 18.0%
Portable Alpha Hedge Funds	11.1%*	0%	0.0%	0.0% - 12.0%
Total Plan	**100%**	**0%**	**100.0%**	

*Portable Alpha Hedge Funds are expressed as gross exposure but, as collateral supporting the Overlay program, net to zero when calculating total Plan market value.

- As of 12/31/2020 All asset classes and sub-asset classes were within compliance of the SIOP ranges.

Footnotes & Disclosures

Footnotes

1. Asset class benchmarks are represented as blend of Policy benchmark as it has changed throughout time..

2. Benefit payments are the net of Plan contributions and disbursements.

3. "Cash and Short Duration (net)" market value is the aggregate cash held at the custodian, Russell Investments, and strategic partnerships, short duration within the portfolio, and hedge funds used in collateral pool for Portable Alpha program, net of the notional exposure in the overlay.

4. Asset class exposures and returns include blended physical and synthetic returns and current notional values (EM Debt, Global Public Equity, Real Estate, Core Fixed Income, Private Equity). Synthetic returns are provided by Russell Investments gross of financing costs. To accommodate for financing costs, LIBOR is added to the synthetic returns and removed from the collateral return.

5. Source: Overlay exposures represent net notional exposure provided by Russell Investments to RSIC.

6. The target weights to Private Equity will be equal to their actual weights, reported by the custodial bank, as of the prior month end. When flows have occurred in the asset classes, flow adjusted weights are used to more accurately reflect the impact of the asset class weights. In the case of Private Equity, the use of the flow adjusted weight will affect the target allocation to Public Equity, such that the combined target weight of both asset classes shall equal 55% of the Plan.

7. Collateral held to support the overlay program represents opportunity cost associated with financing the overlay program. The Overlay collateral consists of Ported Cash, Ported Short Duration, and Portable Alpha Hedge Funds. The cost of holding these assets is proxied using 3 Month LIBOR. This benchmark is not a component of the Policy benchmark.

Disclosures

- Returns are provided by BNY Mellon and are time-weighted, total return calculations. Net of fee performance is calculated and presented after the deduction of fees and expenses. Periods greater than one year are annualized. Past performance is no guarantee of future results. Policy benchmark is the blend of asset class policy benchmarks using policy weights. Asset class benchmarks and policy weights are reviewed annually by the Commission's consultant and adopted by the Commission and have changed over time. The policy benchmark return history represents a blend of these past policies.

- Overlay allocation detail is provided by Russell Investments.

- This report was compiled by the staff of the South Carolina Retirement System Investment Commission and has not been reviewed, approved or verified by the external investment managers. No information contained herein should be used to calculate returns or compare multiple funds, including private equity funds.

- Effective October 1, 2005, the State Retirement System Preservation and Investment Reform Act ("Act 153") established the Commission and devolved fiduciary responsibility for investment and management of the assets of the South Carolina Retirement Systems upon RSIC.

- Allocation / exposure percentages might not add up to totals due to rounding.

Benchmarks

- **Global Public Equity Blend**:
  7/2020 – Present: MSCI All Country World Index IMI
  7/2018 – 6/2020 : Weighted average of regional sub-asset class targets in Policy Portfolio. 51.4% MSCI US IMI Index for U.S. Equity, 31.4% MSCI World ex-US IMI Index for Developed Market Equity (non-U.S.), and 17.1% MSCI Emerging Markets IMI Index for Emerging Market Equity
  7/2016 – 6/2018: MSCI All-Country World Investable Markets Index (net of dividends)
  Prior to 7/2016: MSCI All-Country World Index (net of dividends)

- **Equity Options Strategies:**
  7/2018 – 6/2020: 50% CBOE S&P Buy Write Index (BXM) / 50% CBOE S&P 500 Put Write Index (PUT)
  Prior to 6/2018: CBOE S&P 500 Buy Write Index (BXM)

- **Private Equity Blend**:
  7/2020 – Present: Burgiss All PE Universe
  Prior to 6/20: 80% Russell 3000 Index on a 3-month lag / 20% MSCI EAFE (net of dividends) on a 3-month lag Plus 300 basis points

- **Bonds**
  7/2020 - Present: Bloomberg Barclays US Aggregate Bond Index
  Prior to 6/2020: **Blend of Core Fixed Income, Emerging Markets Debt, Mixed Credit, Bank Loans**

- **Core Fixed Income**:
  Prior to 6/2020: Bloomberg Barclays US Aggregate Bond Index
  Emerging Market Debt: 50% JP Morgan EMBI Global Diversified (US Dollar) / 50% JP Morgan GBIEM Global Diversified (Local)
  Mixed Credit Blend:
  7/2016 – 6/2020 : 1/2 Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Bond Index; 1/2 S&P/LSTA Leveraged Loan Index
  Prior to 6/2016: 1/3 Bloomberg Barclays US Corporate High Yield 2% Issuer Capped Bond Index; 1/3 S&P/LSTA Leveraged Loan Index; 1/3 Bloomberg Barclays US Mortgage Backed Securities (MBS) Index

- **Private Debt** : S&P/LSTA Leveraged Loan Index + 150 basis points on a 3-month lag

- **GTAA Blend**:
  7/2018 – 6/2020 : Total System Policy Benchmark ex-Private Markets and Portable Alpha
  7/2016 – 6/2018: 50% MSCI World Index (net of dividends); 50% Bloomberg Barclays US Aggregate Bond Index
  Prior to 7/2016: 50% MSCI World Index (net of dividends); 50% FTSE World Government Bond Index (WGBI)

- **Other Opportunistic**:
  7/2018 – 6/2020 : Total System Policy Benchmark ex-Private Markets and Portable Alpha
  7/2016 – 6/2018: 50% MSCI World Index (net of dividends); 50% Bloomberg Barclays US Aggregate Bond Index

- **Real Assets**
  7/2020 – Present: **Blend of Private Real Estate, Public Real Estate, Infrastructure**

  Private Real Estate Blend:
  7/2020 – Present: NCREIF Open-End Diversified Core (ODCE) Index *Net of Fees*
  7/2018 – 6/2020 : NCREIF Open-End Diversified Core (ODCE) Index *Net of Fees* + 100 basis points
  Prior to 6/2018: NCREIF Open-end Diversified Core (ODCE) Index *Gross of Fees* + 75 basis points

  Public Real Estate:
  Prior to 6/2020: FTSE NAREIT Equity REITs Index

  Infrastructure:
  Prior to 6/2020: Dow Jones Brookfield Global Infrastructure Index

- **Cash & Short Duration**:
  Prior to 6/2020: ICE BofA Merrill Lynch 3-Month US Treasury Bill Index
  Portable Alpha Hedge Fund Blend:
  7/2018 – 6/2020: ICE BofA Merrill Lynch 3-Month T-Bills + 250 basis points
  7/2016-6/2018: *Prior to FY 2019, there was not a benchmark for Portable Alpha Hedge Funds, so effectively* zero
  Prior to 7/2016

RETIREMENT SYSTEM
INVESTMENT COMMISSION

Performance Analysis

Data as of December 31st, 2020

Portfolio Framework – Current Policy Benchmark

As of December 31, 2020

Reference Portfolio	
Quarter	11.14%
FYTD	17.67%
1-Year	14.34%
3-Years	8.80%

Policy Benchmark	
Quarter	8.75%
FYTD	14.77%
1-Year	8.35%
3-Years	7.17%

Implementation Benchmark	
Quarter	9.95%
FYTD	16.62%
1-Year	9.30%
3-Years	7.26%

Plan Return	
Quarter	10.41%
FYTD	15.90%
1-Year	8.19%
3-Years	6.58%

Value from Diversification	
Quarter	-2.38%
FYTD	-2.90%
1-Year	-5.99%
3-Years	-1.62%

Quality of Portfolio Structure	
Quarter	1.20%
FYTD	1.85%
1-Year	0.95%
3-Years	0.09%

Quality of Manager Selection	
Quarter	0.46%
FYTD	-0.72%
1-Year	-1.11%
3-Years	-0.68%

Actual vs Reference	
Quarter	-0.73%
FYTD	-1.76%
1-Year	-6.15%
3-Years	-2.21%

Actual vs Policy	
Quarter	1.66%
FYTD	1.13%
1-Year	-0.16%
3-Years	-0.59%

Bottom Line Up Front – Q4 2020

- Outperformance vs. Benchmark
  - Underweight core bonds vs. public equity and credit
  - Portable alpha
  - Listed real assets vs. private
- Underperformance vs. Benchmark
  - Private debt
- Performance In-Line with Benchmark
  - Listed real assets

Quarterly Attribution – Portfolio Structure

As of December 31, 2020

Quality of Portfolio Structure Quarter	Impact to Plan (BPS)
Portable Alpha Hedge Funds	63
Real Assets	31
Bonds	23
Public Equity	5
Private Equity	0
Private Debt	-9
Total Plan	**113**

Portable Alpha significantly outperformed cash during quarter

Listed Real Assets outperformed Core Real Estate (private)

Overweight equity/ listed credit vs. Underweight to Core Bonds

Overweight to Private Debt

Quarterly Attribution – Manager Selection

As of December 31, 2020

Non-IG (Bonds) managers significantly outperformed

Portable Alpha HFs outperformed HFRI

Private Debt underperformed benchmark by 33 bps

Quality of Manager Selection - Quarter	Impact to Plan (BPS)
Bonds	16
Portable Alpha Hedge Funds	15
Private Equity	8
Public Equity	4
Real Assets	1
Private Debt	-3
Total Plan	**43**

Quarterly Attribution[1] – Rolling 4 Quarters

Portfolio Structure	Mar-20	Jun-20	Sep-20	Dec-20
Public Equity	-40	14	1	5
Private Equity	-19	108	0	0
Other Assets	-38	-1	0	0
Real Assets	-6	5	-5	31
Private Debt	0	0	6	-9
Bonds	-59	8	14	23
Portable Alpha Hedge Funds	-90	49	25	63

- Portfolio positioning for continued recovery
- Negative attribution from overweight to Private Debt, which was up >4% in quarter
- Portable Alpha recovery > Q1 2020 downturn
- Very strong recovery in listed real assets

Selection	Mar-20	Jun-20	Sep-20	Dec-20
Public Equity	51	28	4	4
Private Equity	-53	1	-40	8
Other Assets	-51	-8	0	0
Real Assets	42	-16	5	1
Private Debt	-44	66	-62	-3
Bonds	-6	16	6	16
Portable Alpha Hedge Funds	9	-15	-9	15

- Other assets refers to discontinued asset classes
- Hedge Fund caught up to HFRI universe
- Volatility in Private Debt outcomes related to volatility in its lagged benchmark
- Private infrastructure performing well

Total Value Added	Mar-20	Jun-20	Sep-20	Dec-20
Public Equity	12	42	5	9
Private Equity	-72	109	-40	8
Other Assets	-89	-9	0	0
Real Assets	36	-11	0	32
Private Debt	-44	66	-56	-11
Bonds	-65	25	20	40
Portable Alpha Hedge Funds	-80	34	17	78

- Portable Alpha, Listed Real Assets, and credit are adding value to plan.
- Legacy Private Debt portfolio continuing to slow turnaround
- Private equity returns improving due to strong performance from recent vintage years

[1] Asset class contributions are displayed as snapshots of RSIC's quarterly attribution (value added relative to policy benchmark) and are not necessarily additive to total Plan Excess Return over long periods of time

Quarterly Performance[2]

As of December 31, 2020

Performance	Portfolio Weight	Quarter	FYTD	1 Year	Annualized 3 Years	Annualized 5 Years
Public Equity	**48.7%**	**15.80%**	**25.25%**	**16.28%**	**9.08%**	**11.74%**
Benchmark		*15.70%*	*25.08%*	*15.99%*	*9.56%*	*12.02%*
Bonds[1]	**23.9%**	1.61%	3.11%	3.42%	3.24%	4.02%
Benchmark		*0.67%*	*1.29%*	*3.35%*	*4.01%*	*4.60%*
Private Equity	**7.6%**	**10.56%**	**15.22%**	**6.48%**	**7.57%**	**9.21%**
Benchmark		*9.01%*	*20.28%*	*4.86%*	*9.00%*	*12.90%*
Private Debt	**8.5%**	**4.12%**	**6.67%**	**-0.58%**	**2.30%**	**4.61%**
Benchmark		*4.45%*	*14.91%*	*2.56%*	*4.60%*	*5.51%*
Real Assets	**11.2%**	**3.66%**	**3.98%**	**0.89%**	**5.79%**	**7.21%**
Benchmark		*1.09%*	*1.36%*	*-3.97%*	*3.76%*	*6.08%*
Portable Alpha Hedge Funds	11.1%	7.19%	8.87%	5.78%	2.66%	2.64%
Total Plan	**100.0%**	**10.41%**	**15.90%**	**8.19%**	**6.58%**	**8.37%**
RSIC Policy Benchmark		*8.75%*	*14.77%*	*8.35%*	*7.17%*	*8.85%*

*Portable Alpha Hedge Funds are expressed as gross exposure but, as collateral supporting the Overlay program, net to zero when calculating total Plan market value. 3 and 5 year Portable Alpha hedge fund returns are considered supplemental information provided by Staff to illustrate performance of these hedge funds even though they were classified under a different asset class during these periods. Performance is expressed net of LIBOR as an estimate for Overlay financing costs.

[1]Bonds composite recalculated to show performance that reflects a net cash weighting in order to be comparable to benchmark.

[2]Asset class benchmarks are represented as blend of Policy benchmark as it has changed throughout time.

3-Year Performance[2]

As of December 31, 2020

Performance	Portfolio Weight	Quarter	FYTD	1 Year	Annualized 3 Years	Annualized 5 Years
Public Equity	**48.7%**	**15.80%**	**25.25%**	**16.28%**	**9.08%**	**11.74%**
Benchmark		*15.70%*	*25.08%*	*15.99%*	*9.56%*	*12.02%*
Bonds[1]	**23.9%**	1.61%	3.11%	3.42%	3.24%	4.02%
Benchmark		*0.67%*	*1.29%*	*3.35%*	*4.01%*	*4.60%*
Private Equity	**7.6%**	**10.56%**	**15.22%**	**6.48%**	**7.57%**	**9.21%**
Benchmark		*9.01%*	*20.28%*	*4.86%*	*9.00%*	*12.90%*
Private Debt	**8.5%**	**4.12%**	**6.67%**	**-0.58%**	**2.30%**	**4.61%**
Benchmark		*4.45%*	*14.91%*	*2.56%*	*4.60%*	*5.51%*
Real Assets	**11.2%**	**3.66%**	**3.98%**	**0.89%**	**5.79%**	**7.21%**
Benchmark		*1.09%*	*1.36%*	*-3.97%*	*3.76%*	*6.08%*
Portable Alpha Hedge Funds	11.1%	7.19%	8.87%	5.78%	2.66%	2.64%
Total Plan	**100.0%**	**10.41%**	**15.90%**	**8.19%**	**6.58%**	**8.37%**
RSIC Policy Benchmark		*8.75%*	*14.77%*	*8.35%*	*7.17%*	*8.85%*

*Portable Alpha Hedge Funds are expressed as gross exposure but, as collateral supporting the Overlay program, net to zero when calculating total Plan market value. 3 and 5 year Portable Alpha hedge fund returns are considered supplemental information provided by Staff to illustrate performance of these hedge funds even though they were classified under a different asset class during these periods. Performance is expressed net of LIBOR as an estimate for Overlay financing costs.

[1]Bonds composite recalculated to show performance that reflects a net cash weighting in order to be comparable to benchmark.

[2]Asset class benchmarks are represented as blend of Policy benchmark as it has changed throughout time.

Plan Exposures as of 12/31/2020*

Asset Class	Policy Target	Weight	Active Weight	Since Last Quarter
Public Equity	47.4%	48.7%	1.3%	-0.2%
Bonds	26.0%	23.9%	-2.1%	0.6%
Real Assets	12.0%	11.2%	-0.8%	-1.0%
Private Equity	7.6%	7.6%	0.0%	0.8%
Private Debt	7.0%	8.5%	1.5%	-0.2%
Portable Alpha	0.0%	11.1%	11.1%	0.0%
Total Plan	100.0%	111.1%	11.1%	0.1%

*Global Public Equity target weights float based on their private market counterpart as conveyed in the Statement of Investment Objectives and Policies.

- Overweight higher expected return asset classes at the expense of Bonds
- Private Debt overweight due in part to reclassification of real estate debt strategies

Plan Exposures - Equity Look Through as of 12/31/2020

Asset Class	Policy Target	Weight	Active Weight	Since Last Quarter
Public Equity	47.4%	48.7%	1.3%	-0.3%
Bonds	26.0%	23.9%	-2.1%	0.6%
Real Assets	12.0%	11.2%	-0.8%	-1.0%
Private Equity	7.6%	7.6%	0.0%	0.8%
Private Debt	7.0%	8.5%	1.5%	-0.1%
Portable Alpha	0.0%	11.1%	11.1%	0.1%
Total Plan	100.0%	111.1%	11.1%	0.1%

Public Equity Breakout	Policy Target	Weight	Active Weight	Since Last Quarter
MSCI USA	23.8%	24.3%	0.5%	-1.0%
MSCI USA Small Cap	2.9%	3.2%	0.2%	0.4%
MSCI World ex-US	12.2%	12.4%	0.1%	-0.3%
MSCI World ex-US Small Cap	2.1%	2.4%	0.2%	0.2%
MSCI EME	5.5%	5.9%	0.3%	0.4%
MSCI EME Small Cap	0.7%	0.6%	0.0%	0.1%
Total Equity	**47.4%**	**48.7%**	**1.3%**	**-0.3%**

Overall Equity Overweight

Portfolio is nearly 100% indexed

Plan Exposures - Bonds Look Through as of 12/31/2020

Asset Class	Policy Target	Weight	Active Weight	Since Last Quarter
Public Equity	47.4%	48.7%	1.3%	-0.3%
Bonds	26.0%	23.9%	-2.1%	0.6%
Real Assets	12.0%	11.2%	-0.8%	-1.0%
Private Equity	7.6%	7.6%	0.0%	0.8%
Private Debt	7.0%	8.5%	1.5%	-0.1%
Portable Alpha	0.0%	11.1%	11.1%	0.1%
Total Plan	100.0%	111.1%	11.1%	0.1%

Bonds Breakout	Policy Target	Weight	Active Weight	Since Last Quarter
Investment Grade[1]	26.0%	19.7%	-6.3%	0.0%
EMD	0.0%	1.7%	1.7%	-0.3%
Mixed Credit	0.0%	1.1%	1.1%	-0.2%
Cash and Short Duration (Net	0.0%	1.4%	1.4%	1.1%
Total Bonds	**26.0%**	**23.9%**	**-2.1%**	**0.6%**

Bonds underweight means total portfolio slightly underweight quality/duration

Within Bonds portfolio, overweight High Yield and EM Debt sectors (risk > benchmark)

[1]Includes floating and fixed rate investment grade investments

Risk Summary as of 12/31/2020

Risk Estimates [1]

Dec 31 2020 Exposures and Risk [2]

	Reference Portfolio	Policy [4]	Implementation [4]	Actual
Total Risk [3]	***14.20%***	***15.10%***	***16.09%***	***16.25%***

	Reference vs Policy	Policy vs Implementation	Implementation vs Actual
Relative Risk [5]	***2.04%***	***1.22%***	***0.60%***

Footnotes:

1 *Estimates based on an equal weighted (no-decay) model employing two years of daily data.*

2 *Total risk shown as volatility, or annualized standard deviation based on current positioning*

3 *Private benchmarks proxied with daily public alternatives.*

4 *Relative risk shown as relative volatility, or relative annualized standard deviation of one portfolio vs the other*

Appendix

3-Year Performance (Detail)[2]

as of 12/31/2020

Performance	Portfolio Weight	Quarter	FYTD	1 Year	Annualized 3 Years	Annualized 5 Years
Public Equity	**48.7%**	**15.80%**	**25.25%**	**16.28%**	**9.08%**	**11.74%**
Benchmark		*15.70%*	*25.08%*	*15.99%*	*9.56%*	*12.02%*
Bonds[1]	**23.9%**	1.61%	3.11%	3.42%	3.24%	4.02%
Benchmark		*0.67%*	*1.29%*	*3.35%*	*4.01%*	*4.60%*
Investment Grade - Fixed	16.2%	0.19%	0.72%	6.78%	5.04%	4.28%
Investment Grade - Floating	3.5%	3.88%	7.94%	4.60%	4.03%	6.33%
EMD	1.7%	7.49%	9.95%	2.01%	2.59%	6.58%
Mixed Credit	1.1%	5.86%	11.36%	7.71%	5.18%	6.49%
Cash and Short Duration (Net)	1.4%	0.08%	0.12%	0.47%	1.61%	1.22%
Private Equity	**7.6%**	**10.56%**	**15.22%**	**6.48%**	**7.57%**	**9.21%**
Benchmark		*9.01%*	*20.28%*	*4.86%*	*9.00%*	*12.90%*
Private Debt	**8.5%**	**4.12%**	**6.67%**	**-0.58%**	**2.30%**	**4.61%**
Benchmark		*4.45%*	*14.91%*	*2.56%*	*4.60%*	*5.51%*
Real Assets	**11.2%**	**3.66%**	**3.98%**	**0.89%**	**5.79%**	**7.21%**
Benchmark		*1.09%*	*1.36%*	*-3.97%*	*3.76%*	*6.08%*
Private Real Estate	6.9%	1.45%	1.08%	0.77%	5.49%	7.39%
Public Real Estate	1.5%	11.96%	14.15%	-1.62%	5.96%	n/a
Private Infrastructure	1.5%	3.05%	5.76%	5.65%	n/a	n/a
Public Infrastructure	1.3%	7.29%	6.90%	-1.20%	5.57%	n/a
Portable Alpha Hedge Funds	11.1%	7.19%	8.87%	5.78%	2.66%	2.64%
Total Plan	**100.0%**	**10.41%**	**15.90%**	**8.19%**	**6.58%**	**8.37%**
RSIC Policy Benchmark		*8.75%*	*14.77%*	*8.35%*	*7.17%*	*8.85%*

*Portable Alpha Hedge Funds are expressed as gross exposure but, as collateral supporting the Overlay program, net to zero when calculating total Plan market value. 3 and 5 year Portable Alpha hedge fund returns are considered supplemental information provided by Staff to illustrate performance of these hedge funds even though they were classified under a different asset class during these periods. Performance is expressed net of LIBOR as an estimate for Overlay financing costs.

[1]Bonds composite recalculated to show performance that reflects a net cash weighting in order to be comparable to benchmark.

[2]Asset class benchmarks are represented as blend of Policy benchmark as it has changed throughout time.

Contribution to Plan Excess Return by Asset Class[1]

as of 12/31/2020

Total Value Added	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Public Equity	1	-49	-4	-18	32	-5	-2	-1	12	42	5	9
Private Equity	-3	7	4	-48	105	-71	-25	-17	-72	109	-40	8
Other Assets	12	-12	0	-1	10	-13	-5	5	-89	-9	0	0
Real Assets	8	2	3	3	-2	1	7	0	36	-11	0	32
Private Credit	-3	3	-4	-16	34	-20	-7	-8	-44	66	-56	-11
Bonds	2	-12	-1	-13	-8	-7	-20	2	-65	25	20	40
PA HFs	13	11	-8	-13	-6	-5	0	11	-80	34	17	78

[1]Asset class contributions are displayed as snapshots of RSIC's quarterly attribution (value added relative to policy benchmark) and are not necessarily additive to total Plan Excess Return over long periods of time

as of 12/31/2020

Attribution: 12/31/2020	Weights			Returns				Excess Returns (BPS)			Attribution (BPS)		
Asset Class	Policy Target	Plan Weight (Avg)	Active Weight (BPS)	Asset Class Return	cR to Plan Return	Policy Return	Impl BM Return	Plan vs Policy (BPS)	Plan vs Impl. (BPS)	Impl vs Policy (BPS)	Portfolio Structure	Manager Selection	Total Value Add
Public Equity	47.8%	48.6%	0.8%	15.80%	7.68%	15.70%	15.71%	10	9	1	5	4	9
Bonds	26.0%	23.6%	-2.4%	1.51%	0.36%	0.67%	0.81%	85	70	14	23	16	40
Private Equity	7.2%	7.2%	0.1%	10.56%	0.76%	9.01%	9.01%	155	155	0	0	8	8
Private Debt	7.0%	8.8%	1.8%	4.12%	0.36%	4.45%	4.45%	-34	-34	0	-9	-3	-11
Real Assets	12.0%	11.8%	-0.2%	3.66%	0.43%	1.09%	3.53%	257	13	244	31	1	32
Portable Alpha Hedge Funds	0.0%	11.0%	11.0%	7.25%	0.80%	0.00%	5.79%	725	146	579	63	15	78
Total Plan	100.0%	111.0%	11.0%	10.42%	10.42%	8.75%	9.95%	167	46	120	113	43	156

Description: This report is used to explain RSIC's performance by asset class as well as attributing each asset classes' excess return to three different effects.
Allocation Effect: The decisions made to over or underweight an asset class relative to RSICs policy targets. Because Global Public Equity is Overweight its target, and the benchmark outperformed the Plan Policy benchmark, it is adding 5BPS to the Plan's excess return over the policy benchmark.
Implementation Style Bias: The performance coming from a manager (or collection of managers) that tracks a different benchmark(s) than that which is used to measure the asset class as a whole. For example, Private Equity is benchmarked to an 80/20 + 300 BPS public benchmark in the Policy BM, but RSIC tracks these assets versus a private markets benchmark.
Manager Selection: The value added by manager's ability to outperform (or underperform) the benchmarks that we hired them to beat. This is a measure of manager "alpha".

Footnotes & Disclosures

- Quality of Portfolio Structure: The combination of the Allocation Effect and Implementation Style Bias.
- Allocation Effect: The decisions made to over or underweight an asset class relative to RSICs policy targets. Because Global Public Equity is Overweight its target, and the benchmark outperformed the Plan Policy benchmark, it is adding 5BPS to the Plan's excess return over the policy benchmark. Allocation effect is calculated as: [Asset Class Weight – Policy Weight] * [Asset Class Policy Benchmark – Total Plan Policy Benchmark]
- Implementation Style Bias: The performance coming from a manager (or collection of managers) that tracks a different benchmark(s) than that which is used to measure the asset class as a whole. For example, Private Equity is benchmarked to an 80/20 + 300 BPS public benchmark in the Policy BM, but RSIC tracks these assets versus a private markets benchmark. Implementation Style Bias is calculated as: [Asset Class Implementation Benchmark Return – Asset Class Policy Benchmark Return] * [Asset Class Weight in Plan]
- Manager Selection: The value added by manager's ability to outperform (or underperform) the benchmarks that we hired them to beat. This is a measure of manager "alpha". Manager Selection is calculated as: [Asset Class Return – Asset Class Implementation Benchmark Return] * [Asset Class Weight in Plan]
- Asset class exposures and returns include blended physical and synthetic returns and current notional values (EM Debt, GTAA, Global Public Equity, Real Estate, Core Fixed Income, Private Equity, TIPS, Equity Options, and Commodities). Synthetic returns are provided by Russell Investments gross of financing costs. To accommodate for financing costs, LIBOR is added to the synthetic returns and removed from the collateral return.
- Returns are provided by BNY Mellon and are time-weighted, total return calculations. Net of fee performance is calculated and presented after the deduction of fees and expenses. Periods greater than one year are annualized. Past performance is no guarantee of future results. Policy benchmark is the blend of asset class policy benchmarks using policy weights. Asset class benchmarks and policy weights are reviewed annually by the Commission's consultant and adopted by the Commission and have changed over time. The policy benchmark return history represents a blend of these past policies.
- Overlay allocation detail is provided by Russell Investments.
- This report was compiled by the staff of the South Carolina Retirement System Investment Commission and has not been reviewed, approved or verified by the external investment managers. No information contained herein should be used to calculate returns or compare multiple funds, including private equity funds.

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South Carolina Retirement System Investment Commission

December 31, 2020

Performance Report

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South Carolina Retirement System Investment Commission

Total Retirement System | As of December 31, 2020

Allocation vs. Targets and Policy								
	MV at 12/31/2020	Overlay Exposures	Net Position	% of Total System	% of Total System (Net)	Policy Targets	Allowable Ranges	SIOP Compliance?
Total System	**35,611,787,945**	**-**	**35,611,787,945**	**100%**	**100%**	**100%**	**-**	**-**
Public Equity	**17,232,819,360**	**160,274,369**	**17,393,093,729**	**48%**	**49%**	**47%**	**30%-60%**	**Yes**
Public Equity	17,232,819,360	160,274,369	17,393,093,729	48%	49%	47%	30%-60%	Yes
Equity Options	-	-	-	0%	0%	0%	0%-7%	Yes
Bonds	**4,620,777,273**	**3,845,111,193**	**8,465,888,465**	**13%**	**24%**	**26%**	**15%-35%**	**Yes**
Investment Grade - Fixed	749,560,669	5,014,205,130	5,763,765,799	2%	16%	26%	10%-35%	Yes
Investment Grade - Floating	1,245,312,229		1,245,312,229	3%	3%	0%	0-5%	Yes
Emerging Market Debt	598,298,527	-	598,298,527	2%	2%	0%	0-8%	Yes
Mixed Credit	406,912,097	-	406,912,097	1%	1%	0%	0-6%	Yes
Cash and Short Duration	1,620,693,751	(1,169,093,937)	451,599,814	5%	1%	0%	0-7%	Yes
Private Equity	**2,716,262,725**	**-**	**2,716,262,725**	**8%**	**8%**	**8%**	**5-13%**	**Yes**
Private Debt	**3,038,853,896**	**-**	**3,038,853,896**	**9%**	**9%**	**7%**	**3-11%**	**Yes**
Real Assets	**3,997,689,129**	**-**	**3,997,689,129**	**11%**	**11%**	**12%**	**6-18%**	**Yes**
Real Estate	3,000,273,039	-	3,000,273,039	8%	8%	9%	5-13%	Yes
Infrastructure	997,416,091	-	997,416,091	3%	3%	3%	0-5%	Yes
Portable Alpha Hedge Funds	**4,005,385,562**	**(4,005,385,562)**	**-**	**11%**	**0%**	**0%**	**0-12%**	**Yes**

Includes cash in the Russell Overlay separate account.
Percentages may not sum to 100% due to rounding.

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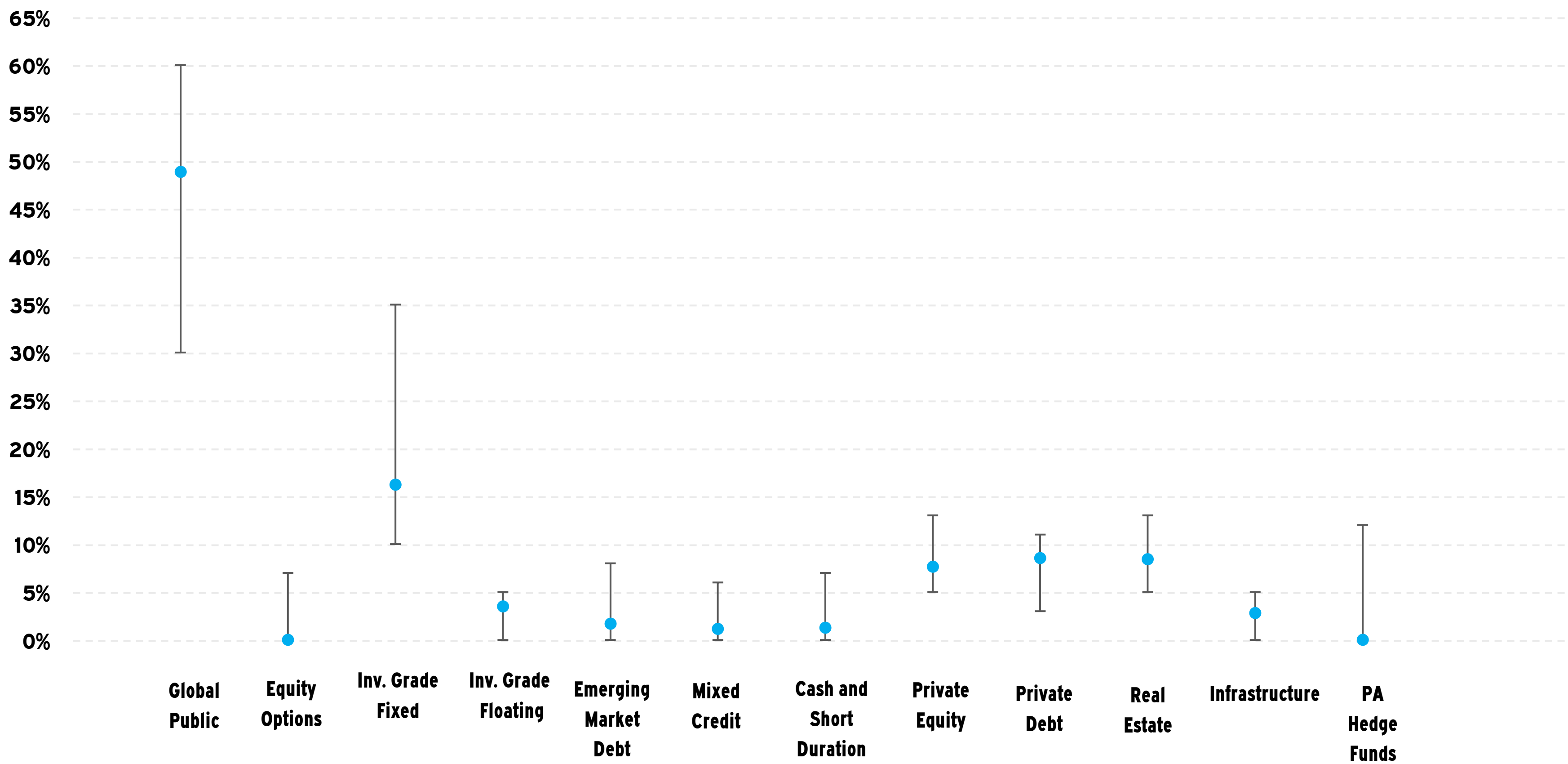
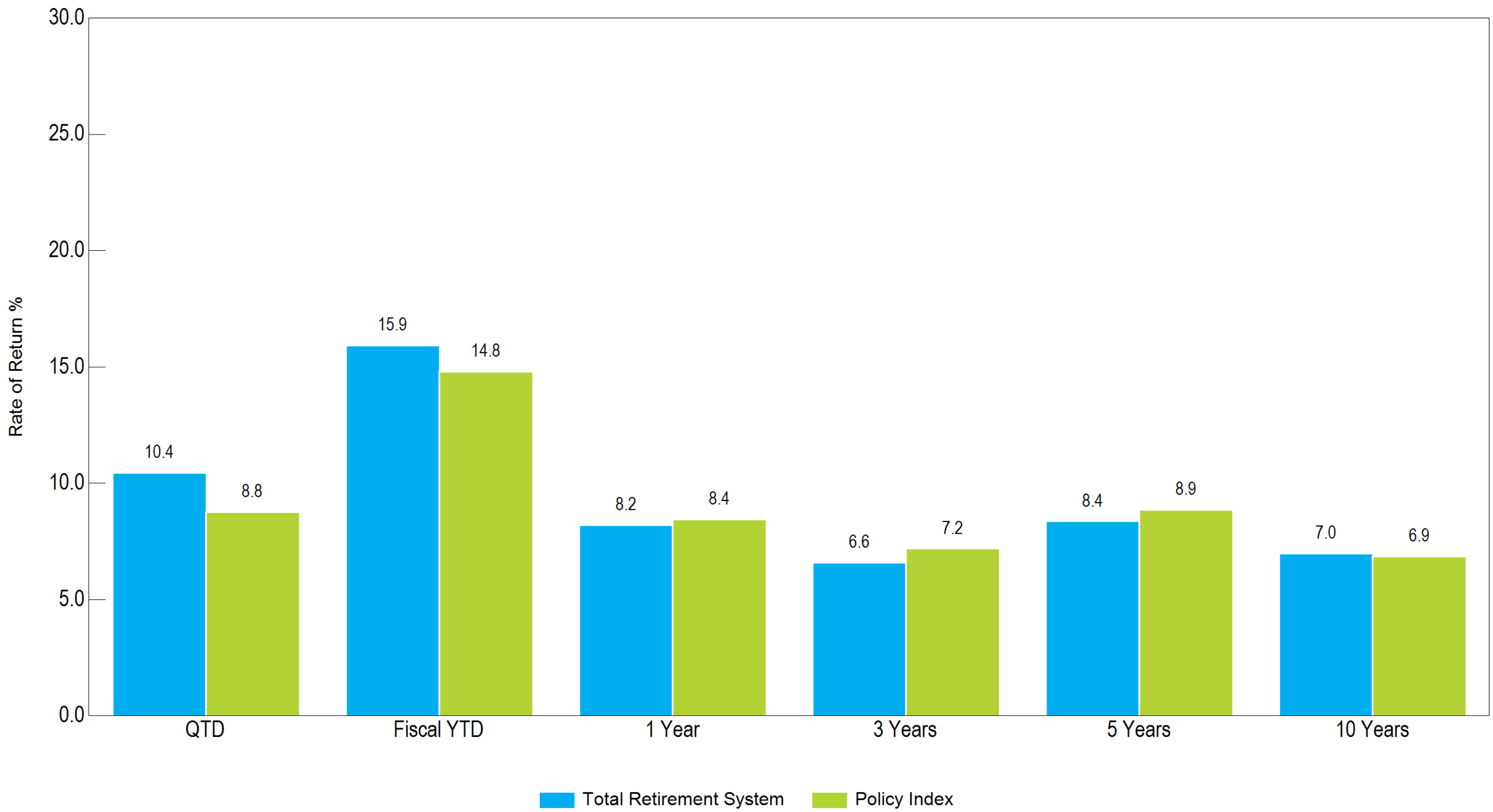
South Carolina Retirement System Investment Commission

Total Retirement System | As of December 31, 2020

Actual vs. Policy Ranges:
(Including Overlay)



Net Return Summary
Ending December 31, 2020



Returns for periods greater than one year are annualized.

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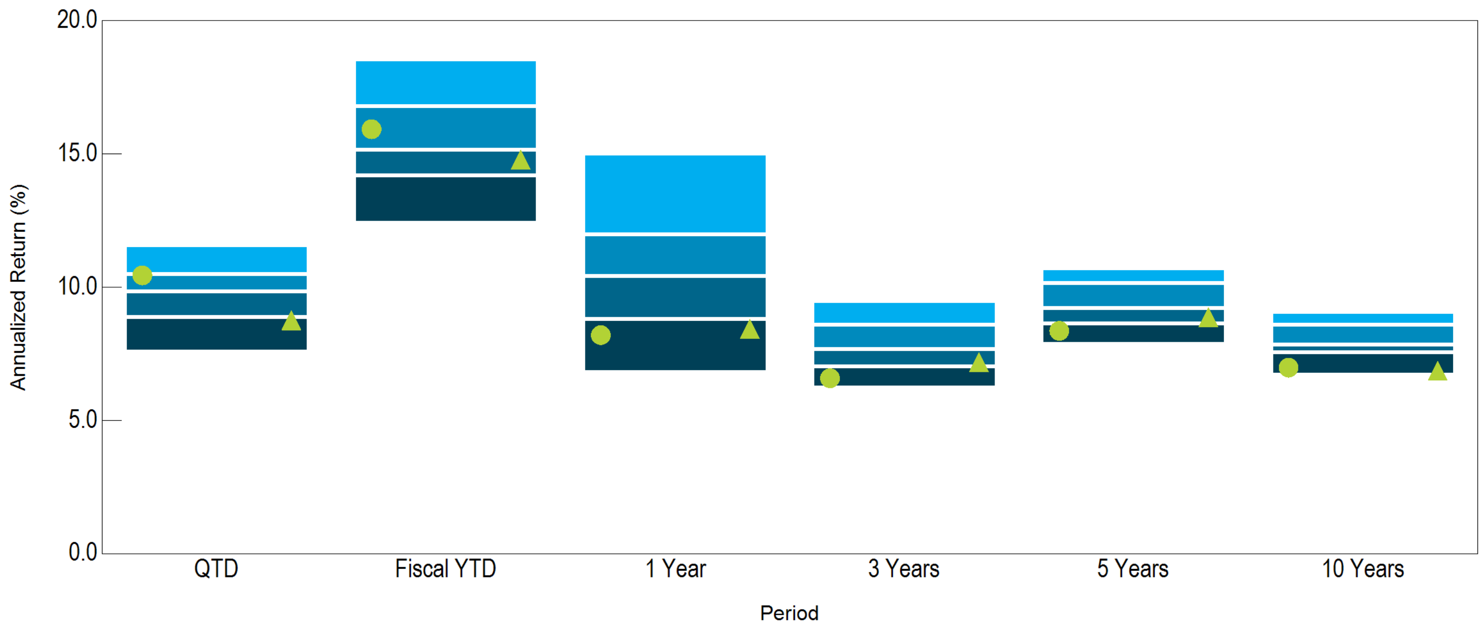
South Carolina Retirement System Investment Commission

Total Retirement System | As of December 31, 2020

InvMetrics Public DB > $5B Net Return Comparison
Ending December 31, 2020



	Return (Rank)											
5th Percentile	11.6		18.5		15.0		9.5		10.7		9.1	
25th Percentile	10.5		16.8		12.0		8.6		10.2		8.6	
Median	9.9		15.2		10.4		7.7		9.2		7.9	
75th Percentile	8.9		14.2		8.8		7.0		8.7		7.6	
95th Percentile	7.6		12.4		6.8		6.2		7.9		6.7	
# of Portfolios	26		26		26		26		26		25	
Total Retirement System	10.4	(27)	15.9	(36)	8.2	(87)	6.6	(89)	8.4	(86)	7.0	(92)
Policy Index	8.8	(85)	14.8	(62)	8.4	(86)	7.2	(60)	8.9	(64)	6.9	(94)

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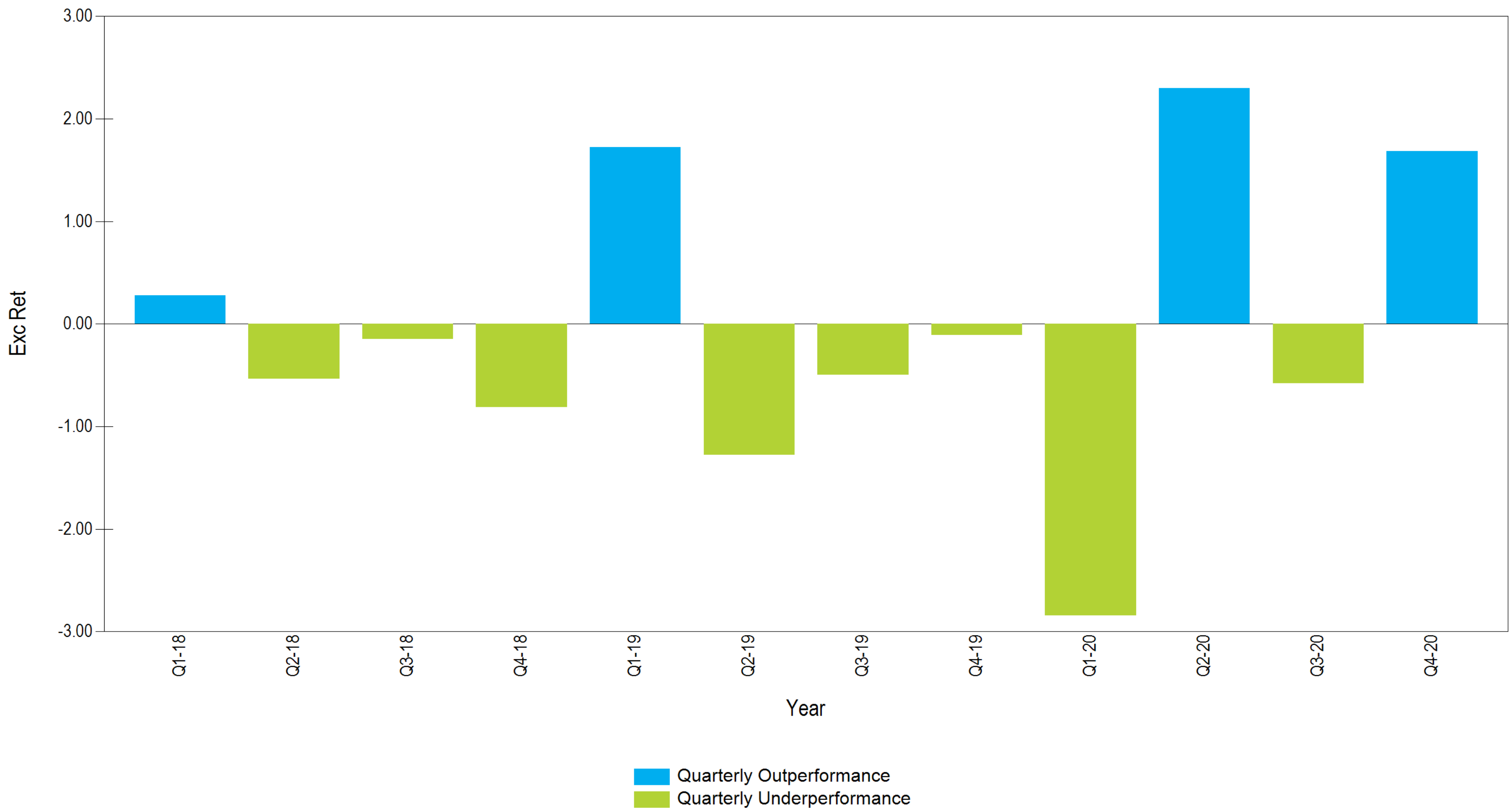
South Carolina Retirement System Investment Commission

Total Retirement System | As of December 31, 2020

Quarterly Excess Performance vs. Policy Benchmark



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South Carolina Retirement System Investment Commission

Total Retirement System | As of December 31, 2020

Net Asset Class Performance Summary										
	Market Value ($)	% of Portfolio	QTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Inception (%)	Inception Date
Total Retirement System	**35,611,787,945**	**100.0**	**10.4**	**15.9**	**8.2**	**6.6**	**8.4**	**7.0**	**6.5**	**Jul-94**
Policy Index			*8.8*	*14.8*	*8.4*	*7.2*	*8.9*	*6.9*	*6.0*	*Jul-94*
Public Equity	**17,232,819,361**	**48.4**	**15.8**	**25.6**	**13.1**	**7.5**	**11.0**	**7.9**	**5.3**	**Jun-99**
MSCI ACWI IMI Net USD			*15.7*	*25.1*	*16.3*	*9.7*	*12.1*	*9.1*	*6.3*	*Jun-99*
Bonds	**4,620,777,273**	**13.0**	**3.1**	**4.8**	**3.4**	**2.8**	**3.9**	**2.6**	**5.5**	**Jul-94**
BBgBarc US Aggregate TR			*0.7*	*1.3*	*7.5*	*5.3*	*4.4*	*3.8*	*5.6*	*Jul-94*
Investment Grade-Fixed	**749,560,669**	**2.1**	**1.4**	**3.4**	**10.2**	**6.0**	**5.3**	**--**	**4.9**	**Jul-15**
Investment Grade-Floating	**1,245,312,229**	**3.5**	**3.9**	**7.9**	**4.6**	**4.0**	**6.3**	**--**	**5.3**	**Apr-15**
Mixed Credit	**406,912,097**	**1.1**	**5.9**	**11.4**	**7.7**	**5.2**	**6.5**	**4.9**	**6.5**	**May-08**
50% S&P LSTA Leveraged Loan Index/50% Barclays High Yield Index			*5.1*	*9.7*	*5.1*	*5.1*	*6.7*	*5.2*	*6.0*	*May-08*
Emerging Market Debt	**598,298,527**	**1.7**	**7.5**	**10.0**	**2.0**	**2.6**	**6.6**	**3.4**	**5.2**	**Jul-09**
50% JP Morgan EMBI Global Diversified (USD)/50% JP Morgan EMBI Global Diversified			*7.7*	*9.3*	*4.0*	*4.1*	*7.0*	*3.9*	*5.6*	*Jul-09*
Cash and Overlay	**1,091,801,244**	**3.1**	**0.6**	**0.7**	**1.1**	**1.8**	**1.4**	**1.1**	**0.0**	**Oct-05**
ICE BofA 91 Days T-Bills TR			*0.0*	*0.1*	*0.7*	*1.6*	*1.2*	*0.6*	*1.3*	*Oct-05*
Short Duration	**528,892,507**	**1.5**	**0.9**	**1.9**	**3.2**	**2.9**	**2.5**	**2.0**	**2.1**	**Mar-10**
BBgBarc US Govt/Credit 1-3 Yr. TR			*0.2*	*0.4*	*3.3*	*3.0*	*2.2*	*1.6*	*1.6*	*Mar-10*
Private Equity	**2,716,262,725**	**7.6**	**10.6**	**15.2**	**6.5**	**7.6**	**9.1**	**11.1**	**7.5**	**Apr-07**
Burgiss Private Equity 1Q Lagged			*9.0*	*20.3*	*17.1*	*15.7*	*14.7*	*--*	*--*	*Apr-07*
Private Debt	**3,038,853,896**	**8.5**	**4.1**	**6.7**	**-0.6**	**2.3**	**4.6**	**6.0**	**6.1**	**Jun-08**
S&P LSTA Leveraged Loan Index + 150 bps on a 3-month lag			*4.5*	*14.9*	*2.6*	*4.6*	*5.5*	*5.8*	*5.0*	*Jun-08*

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South Carolina Retirement System Investment Commission

Total Retirement System | As of December 31, 2020

	Market Value ($)	% of Portfolio	QTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Inception (%)	Inception Date
Real Assets	**3,997,689,129**	**11.2**	**3.7**	**4.0**	**0.9**	**5.8**	**7.2**	**10.5**	**4.0**	**Jun-20**
NCREIF-ODCE NR USD			*1.1*	*1.4*	*0.3*	*4.0*	*5.3*	*8.9*	*1.4*	*Jun-20*
Private Real Estate	**2,454,602,049**	**6.9**	**1.5**	**1.1**	**0.8**	**5.5**	**7.4**	**10.5**	**6.6**	**Jul-08**
NCREIF ODCE Net + 100 BPS SC Custom			*1.4*	*1.9*	*1.5*	*5.1*	*6.9*	*10.7*	*5.5*	*Jul-08*
Public Real Estate	**545,670,990**	**1.5**	**12.0**	**14.1**	**-1.6**	**6.0**	--	--	**4.6**	**Jul-16**
FTSE NAREIT Equity REIT			*11.6*	*13.2*	*-8.0*	*3.4*	*4.8*	*8.3*	*2.4*	*Jul-16*
Private Infrastructure	**529,325,533**	**1.5**	**3.1**	**5.8**	**5.7**	--	--	--	**6.1**	**Jul-18**
DJ Brookfield Global Infrastructure			*7.3*	*5.5*	*-7.0*	*3.3*	*7.5*	*8.1*	*4.5*	*Jul-18*
Public Infrastructure	**468,090,558**	**1.3**	**7.3**	**6.9**	**-1.2**	**5.6**	--	--	**6.2**	**Jun-16**
DJ Brookfield Global Infrastructure			*7.3*	*5.5*	*-7.0*	*3.3*	*7.5*	*8.1*	*5.9*	*Jun-16*
Hedge Funds Portable Alpha	**4,005,385,562**	**11.2**	**7.2**	**9.0**	**6.5**	**4.5**	**4.1**	**6.9**	**7.9**	**Jul-07**
HFRI Conservative Fund of Funds less LIBOR			*5.8*	*8.5*	*5.8*	*2.1*	*2.0*	*2.0*	*0.4*	*Jul-07*

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South Carolina Retirement System Investment Commission

Total Retirement System | As of December 31, 2020

Statistics Summary 5 Years Ending December 31, 2020	Anlzd Return	Anlzd Standard Deviation	Information Ratio	Beta	Sharpe Ratio	Tracking Error
Total Retirement System	8.4%	9.1%	-0.3	1.1	0.8	1.9%
Policy Index	8.9%	8.0%	--	1.0	1.0	0.0%
Public Equity	11.0%	15.9%	-0.4	1.0	0.6	1.9%
MSCI ACWI IMI Net USD	12.1%	15.5%	--	1.0	0.7	0.0%
Bonds	3.9%	8.6%	-0.3	0.5	0.1	8.5%
BBgBarc US Aggregate TR	4.4%	3.2%	--	1.0	1.0	0.0%
Mixed Credit	6.5%	7.0%	0.3	0.9	0.9	2.7%
50% S&P LSTA Leveraged Loan Index/50% Barclays High Yield Index	6.7%	7.1%	--	1.0	0.8	0.0%
Emerging Market Debt	6.6%	11.3%	-0.2	1.1	0.5	2.1%
50% JP Morgan EMBI Global Diversified (USD)/50% JP Morgan EMBI Global Diversified	7.0%	9.9%	--	1.0	0.6	0.0%
Cash and Overlay	1.4%	8.6%	-0.4	-7.4	-0.4	8.7%
ICE BofA 91 Days T-Bills TR	1.2%	0.3%	--	1.0	0.2	0.0%
Short Duration	2.5%	1.5%	0.2	0.6	0.9	1.5%
BBgBarc US Govt/Credit 1-3 Yr. TR	2.2%	0.9%	--	1.0	1.1	0.0%
Private Equity	9.1%	5.2%	-0.5	0.0	1.5	10.5%
Burgiss Private Equity 1Q Lagged	14.7%	8.8%	--	1.0	1.5	0.0%
Private Debt	4.6%	4.2%	-0.1	-0.1	0.8	8.6%
S&P LSTA Leveraged Loan Index + 150 bps on a 3-month lag	5.5%	6.9%	--	1.0	0.6	0.0%

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South Carolina Retirement System Investment Commission

Total Retirement System | As of December 31, 2020

	Anlzd Return	Anlzd Standard Deviation	Information Ratio	Beta	Sharpe Ratio	Tracking Error
Real Assets	7.2%	--	--	--	--	--
NCREIF-ODCE NR USD	5.3%	2.7%	--	1.0	1.5	0.0%
Private Real Estate	7.4%	2.3%	0.2	0.1	2.8	3.5%
NCREIF ODCE Net + 100 BPS SC Custom	6.9%	3.1%	--	1.0	1.9	0.0%
Public Real Estate	--	--	--	--	--	--
FTSE NAREIT Equity REIT	4.8%	17.4%	--	1.0	0.2	0.0%
Private Infrastructure	--	--	--	--	--	--
DJ Brookfield Global Infrastructure	7.5%	13.6%	--	1.0	0.5	0.0%
Public Infrastructure	--	--	--	--	--	--
DJ Brookfield Global Infrastructure	7.5%	13.6%	--	1.0	0.5	0.0%
Hedge Funds Portable Alpha	4.1%	4.6%	0.8	0.8	0.7	3.2%
HFRI Conservative Fund of Funds less LIBOR	2.0%	4.4%	--	1.0	0.2	0.0%

Return calculations are rounded to the nearest tenth of percent and may differ slightly from BNYM reported returns.

Disclaimer

Disclaimer

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PERFORMANCE DATA CONTAINED HEREIN REPRESENT PAST PERFORMANCE. PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.

Delegated Investments (December 3, 2020 to March 3, 2021)

Asset Class	Investment	Investment Amount	Closing Date
Private Equity	Aberdeen US PE Fund IX	$100 M plus any additional amount not taken by other LPs to reach Fund's hard cap, but in no event to exceed 25% of the Fund	December 8, 2020
Private Equity	Mill Point II	$50 M	December 22, 2020
Private Equity	Peak Rock Capital Fund III	Up to $50 M	January 4, 2021
Private Equity	Hillhouse Focused Growth V	$30 M	January 27, 2021
Private Debt	Golden Tree Structured Products VII	$25 M	February 6, 2021
Private Equity	KKR Asia IV	$100 M	February 26, 2021