South Carolina Retirement System Investment Commission
Meeting Minutes

September 23, 2021 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. Edward Giobbe
Dr. Rebecca Gunnlaugsson
Ms. Melissa Schumpert
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") to order at 9:30 a.m. Mr. Edward Giobbe moved to approve the proposed agenda as presented. Mr. William J. Condon, Jr. seconded the motion, which was approved unanimously.

Dr. Ronald Wilder made a motion to approve the minutes from the June 3, 2021 Commission meeting as presented. Dr. Rebecca Gunnlaugsson seconded the motion, which passed unanimously.

II. Chair's Report

Chair Hancock turned the meeting over to Mr. Michael Hitchcock, Chief Executive Officer, to introduce new Commissioner, Ms. Melissa "Missy" Schumpert. Mr. Hitchcock stated that Ms. Schumpert was appointed by Mr. Murrell Smith, Chairman of the House Ways and Means Committee to succeed Mr. Allen Gillespie. Ms. Schumpert is a certified public accountant and has spent a significant part of her career serving as the Director of Administration with the McNair Law Firm, which is now part of Burr & Forman. In this role, she served as a member of the Senior Management Team for McNair. She has managed all the financial, human resources, IT, knowledge management and administration personnel and functions for all the firm's numerous offices. He stated that she has also served on the Retirement Plan Committee and served a very crucial role in the successful integration of McNair with Burr & Forman to facilitate their merger. Mr. Hitchcock stated that Ms. Schumpert is now responsible for the administration of the firm's eight (8) offices across the Carolinas. Mr. Hitchcock expressed how fortunate the Commission is to have her as a new Commissioner. Ms. Schumpert thanked Mr. Hitchcock for his introduction and expressed how thankful she is to be a part of the Commission and is looking forward to serving. Chair Hancock welcomed Ms. Schumpert.

III. Committee Reports

Chair Hancock recognized Dr. Wilder, Chair of the Human Resources and Compensation Committee (“HRCC”) for his report. Dr. Wilder stated that HRCC had met twice since the last Commission Meeting. He reported that at the August 25, 2021, meeting the HRCC Committee was briefed on Staff updates and the implementation of the variable compensation plan, which was approved in June 2021 by the Commission. He also noted that at the September 20, 2021, meeting the Committee receded into executive session to discuss Mr. Hitchcock’s annual performance evaluation. The HRCC evaluation report would be reviewed in executive session with the Commission. This concluded Dr. Wilder’s report.

Chair Hancock then recognized Dr. Gunnlaugsson, Chair of the Audit and Enterprise Risk Management Committee (“AERMC”). Dr. Gunnlaugsson noted that the AERMC report had been made available for review by the Commissioners prior to the meeting. Hearing no questions, Dr. Gunnlaugsson concluded her report.

IV. CEO’s Report

Chair Hancock recognized Mr. Michael Hitchcock, Chief Executive Officer, for his report. Mr. Hitchcock began by reviewing the annual budget recommendation for fiscal year (“FY”) 2022-2023. He stated that he was requesting authorization to submit a budget as presented, with no changes in the amounts requested in the previous fiscal year. Mr. Hitchcock then presented an updated organizational chart, noting the current vacancies in the private equity asset class as well as the junior analyst program, were to be expected due to the rotation of analysts through the program. He then gave a brief history of RSIC’s recent appropriations history and noted that there would be additional expenditures anticipated in FY 2021-2022, including filling some open positions, the buildout of the CRM system, and the cost associated with the statutorily required fiduciary audit. After a brief discussion of the fiduciary audit process and the State Auditor’s role in selecting the firm, Mr. Condon requested that the CEO convey to the State Auditor that at least one Commissioner would like to see additional audit firms considered beyond Funston Advisory Services, which had conducted the two previous fiduciary audits.

Mr. Hitchcock then turned to a detailed review of the proposed budget and noted again that the budget request for FY 2022-2023 was identical to that requested for FY 2021-2022. After a brief discussion regarding the budget, Chair Hancock asked if there were any additional questions, hearing none, Mr. Reynolds Williams made a motion that the Commission authorize the CEO to submit a proposed FY 2023 detail budget substantially similar to the draft budget presented for inclusion in the Governor’s annual budget. Dr. Gunnlaugsson seconded the motion, which was unanimously approved.

Mr. Hitchcock then turned to a discussion of the Investment Authority Delegation Policy ("Delegation Policy"). He briefly reviewed the history of the Delegation Policy and past practice prior to the Pension Reform legislation passed in 2017, and the Commission's adoption of the Delegation Policy in October, 2017. He noted that during the Pension Reform process, the Commission asked the General Assembly to consider delegating, within constraints, the final authority to invest to permit Staff to close an investment with an investment manager with the approval of the CIO and oversight by the CEO. Prior practice had required that Staff present all investments to the Commission for approval, which made the investment closing process longer and made it difficult to close certain investments due to timing issues. The General Assembly passed a provision that would allow the Commission to delegate its final authority to invest, with specific limitations based on the type and liquidity profile of the investment, and other requirements, including notification to the Commission within three-business days of a closing.

The Commission implemented the Delegation Policy with stricter constraints than those required under the Pension Reform Act and Staff had operated under the Delegation Policy since 2017.

Mr. Hitchcock stated that he, Mr. Condon, and Mr. Berg had recently met to address some concerns raised by Mr. Condon. Mr. Hitchcock noted that although he was presenting suggested edits, they were being presented for discussion only and would be presented for possible approval at the next Commission meeting. Mr. Hitchcock then went through the Delegation Policy and discussed the proposed changes and the rationale behind the proposed changes. The proposed changes included (1) edits to the treatment of co-investments; (2) clarification of the exceptions to the Delegation Policy, and (3) updates to the permissible list of assets to align the Delegation Policy with the current Consolidated Annual Investment Plan / Statement of Investment Objectives and Policies ("AIP/SIOP").

He then noted that the most substantial proposed change was to Section E, regarding notification to the Commission upon an investment closing. State statute required notification within three business days of an investment closing. Mr. Hitchcock pointed out that the Delegation Policy had carried over the prior practice of the three-business day review period, which required a three-business day review period prior to closing an investment previously approved by the Commission, rather than after the closing, as set forth in the statute. He stated that the review period in the Delegation Policy may have caused confusion among the Commissioners regarding what it meant and their potential responsibilities during the review period. He noted that the review period was not intended to impart any duty on the Commissioners to either accept or reject the investment, rather it was intended for notification only as outlined in the statute. Mr. Hitchcock stated that he believed that the current wording of the Delegation Policy did create the impression that there was something to be done during the review period.

The proposed change to the Delegation Policy would be to align the notification requirement with the statutory requirement, which would mandate notification of an investment closing within three-business days of the closing. Staff would include an executive summary with the notification of closing and would continue to provide the Commissioners with access to any of the documents Staff had relied on in making the investment. Those documents would include the due diligence report, operational due diligence report, and legal contracts, but would remove the key terms sheet and the legal certification. The legal certification process had been carried over from the previous practice whereby the Commission would approve an investment, subject to contract negotiation. Once Staff had negotiated the contracts, the legal certification was used to ensure that the final contract would match up to the proposed terms that the Commission had previously approved prior to the negotiation of the contract.

Mr. Hitchcock explained that under the Delegation Policy, Staff negotiates all terms and presents a proposed final contract to Mr. Berg and Mr. Hitchcock for final approval of the investment, with no lag time between the final approval and the closing of the final documents. He stated that there can be no difference between the terms approved and the contracts signed because the approval is contemporaneous, making the carryover legal certification process no longer necessary. Mr. Hitchcock then reminded the Commission of the lengthy list of documents used by Staff in making an investment decision, including the due diligence report, the operational due diligence report by Albourne, other reports by the specialty consultant, a completeness check by Compliance, and the final legal contracts. After a brief discussion, Chair Hancock asked if there were any additional questions or comments for Mr. Hitchcock, hearing none he explained that there was no need for a vote at this time and the proposed amendments would be considered at a subsequent meeting.

V. CIO's Report

Chair Hancock recognized Mr. Geoffrey Berg, Chief Investment Officer ("CIO"), for the quarterly and fiscal year investment performance review. Mr. Berg stated that he was very pleased to share that RSIC had a very strong fourth quarter as well as a strong fiscal year.

He reported that the Portfolio earned 6.6 percent during the fourth quarter and outperformed the policy benchmark by 1.5 percent. The fiscal year return was 28.57 percent, which was not only well ahead of the benchmark, but roughly four times the long-term assumed rate of return. He noted that, as a result of this return, the Portfolio was ahead of both the actuarial rate and the benchmark over trailing one, three, five and ten-year periods. Mr. Berg stated that the Portfolio began the year with a value of just below $31 billion and noted that during the year the System had just over $4.3 billion in requisitions versus $3.6 billion in deposits and a legislative inflow of $110 million. Investment performance returns contributed $8.8 billion, and as a result, the Portfolio ended the year with a value of just over $39 billion.

Next, Mr. Berg reviewed the performance of the Plan's asset classes. He stated that each of the asset classes outperformed its benchmark during the quarter. Mr. Berg noted that every investment that had negative returns last year performed quite well this year: emerging market debt (+10 percent), mixed credit (+18 percent), private debt (+19 percent), real estate investment trusts ("REITs") (+39 percent), and listed infrastructure (+20 percent) all performed significantly above their long-term expected rates of return. For compliance purposes, he noted that RSIC remained within the allowable ranges as outlined in the Consolidated Annual Investment Plan and Statement of Investment Objectives and Policies ("AIP/SIOP").

Mr. Berg summarized the performance analysis section of his report by reviewing the Portfolio framework. He noted that the Reference Portfolio, a stock and bond portfolio, had continued to perform extraordinarily well in recent years relative to a more diversified portfolio. Mr. Berg informed the Commission that the Portfolio Structure decisions made during the year were quite positive, and, in aggregate, the Quality of Manager Selection was neutral for the year. He stated that the Portfolio's overweights to public equity and credit and underweight to core bonds aided performance during the fiscal year, as did the overweights to REITS and listed infrastructure. He pointed out that although private equity was the top performing asset class, it trailed its benchmark during the year; private debt also had strong performance but underperformed its benchmark.

Mr. Berg then pointed out that the biggest impact in the fourth quarter in terms of Portfolio Structure was the decision to employ portable alpha. Other major impacts came from the decision to hold REITS and listed infrastructure in lieu of private real estate. He noted that the negative impacts came from the bonds portfolio, where the Portfolio was overweight cash, and the overweight to private debt, which underperformed the rest of the Portfolio in the quarter. Mr. Berg also noted that the manager selection impacts were positive across the Portfolio for the quarter, with the exception of private real estate.

Mr. Berg then turned to a brief review of the Portfolio's three-year performance. He noted that (a) private equity and private debt returns have lagged while legacy issues in the above-mentioned portfolios continue to be resolved, (b) the real estate portfolio had performed very strongly over time, and (c) the hedge fund portfolio had generated nearly 5 percent excess returns during this three-year period.

Mr. Berg then reviewed the Portfolio's exposures as of June 30, 2021. It was noted that the Portfolio ended the year overweight to equity and private debt and underweight to core bonds and real assets. Mr. Berg noted for the Commissioners that while the public equity portfolio is 100 percent passive, it continued to have a small overweight to developed market equities. Mr. Berg also noted that the bond portfolio held (a) some small positions in emerging market debt and non-investment grade bonds, as well as (b) 2.4 percent cash, largely in response to elevated valuations across all asset classes.

Mr. Berg then turned to a risk update. He noted that he and Mr. James Wingo, Director, had been reviewing the difference between the Portfolio's forward and trailing risk statistics. He shared the forward risk estimates for the Portfolio as it existed on June 30, 2021, pointing out the increase in risk between the Policy and Implementation Portfolios. He then presented the volatility of the actual monthly returns, noting that the Reference Portfolio had exhibited much more volatility than the Policy Portfolio. He concluded that both approaches to risk are helpful to review. After a brief discussion with the Commissioners, he concluded his remarks.

VI. Delegated Investment Report

The Chair recognized Mr. Berg for the Delegated Investment Report. The following delegated investments were closed by Staff since the Commission's June 3, 2021, Commission meeting.

Asset Class	Investment	Investment Amount	Closing Date
Private Equity	Industry Ventures / IVPH VI	$50 M	June 9, 2021
Real Estate	CBRE U.S. Core Partners	$250 M	June 30, 2021
Private Equity	Horsely Bridge 14	$50 M	July 19, 2021
Private Equity	Horsely Bridge 14+	$40 M	July 19, 2021
Private Debt	Eagle Point Defensive Income Strategy	$55 M	July 21, 2021
Real Estate	Brookfield/BSREP IV	$100 M	July 26, 2021
Private Equity	WestCap Strategic Op. Fund II	$75 M	July 30, 2021
Private Debt	Owl Rock First Lien Fund II	$150 M	August 4, 2021

VII. Executive Session

Mr. Giobbe moved to recede into Executive Session to discuss investment matters pursuant to S.C. Code Sections 9-16-80 and 9-16-320; to discuss personnel matters pursuant to S.C. Code Ann. Section 40-4-70(a)(1) and to receive advice from legal counsel pursuant to S.C. Code Section 30-4-70(a)(2). Dr. Gunnlaugsson seconded the motion, which was unanimously approved at 10:49 a.m.

VIII. Potential Action Resulting from Executive Session

Mr. Hitchcock noted that the Commission did not take any reportable action while in Executive Session and that any action that did occur while in Executive Session pursuant to S.C. Code Ann §9-16-80 and 9-16-320 would be publicized when doing so would not jeopardize the Commission's ability to achieve its investment objectives or implement a portion of the annual investment plan.

IX. Adjournment

There being no further business, the chair adjourned the meeting by unanimous consent at 1:01 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., 10:41 p.m. on September 20, 2021]