South Carolina Retirement System Investment Commission
Meeting Minutes

March 3, 2022
Capitol Center
1201 Main Street, 15th Floor
Columbia, South Carolina 29201
Meeting Location: 1201 Main Street, Ste. 1501 and
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 9:31 a.m. Dr. Ronald Wilder moved to approve the proposed agenda as presented, Mr. Edward Giobbe seconded the motion, which was approved unanimously.

Dr. Rebecca Gunnlaugsson made a motion to approve the minutes from the December 2, 2021 Commission meeting as presented. Dr. Wilder seconded the motion, which was approved unanimously.

II. Chair's Report

The Chair stated that he had nothing to report

III. Committee Reports

The Chair recognized Dr. Gunnlaugsson to provide a report on the activities of the Audit and Enterprise Risk Management Committee ("AERM"). Dr. Gunnlaugsson noted that the AERM Committee Report had been made available to the Commissioners for review prior to the meeting. Hearing no questions, she concluded her report.

IV. CEO's Report

The Chair recognized Mr. Michael Hitchcock, Chief Executive Officer ("CEO") for his report. Mr. Hitchcock began his report by reminding the Commissioners that state law requires that the Commission review or amend the Statement of Investment Objectives and Policies annually, and that the Commission must adopt an Annual Investment Plan by May 1st of each year. He noted that because the Commission had combined both documents into the Consolidated Annual Investment Plan and Statement of Investment Objectives and Policies ("AIP/SIOP"), he would present the proposed edits to the AIP/SIOP at this meeting and then seek approval of the updated AIP/SIOP at the April Commission meeting to meet the May 1st deadline.

Mr. Hitchcock then reviewed the suggested edits. The majority of the suggested changes were updates and conforming in nature. The substantive changes included increasing the maximum portable alpha allocation to 15 percent of the Portfolio from 12 percent, in order to conform with the maximum allowable allocation for hedge funds. He also discussed the suggested changes to the alternative investment section regarding the process for the CEO to waive the 25 percent fund commitment maximum for delegated investments. Mr. Hitchcock then discussed the Sudan Policy with the Commission. He noted that the changes to the AIP/SIOP would be presented for approval in April. He also notified the Commission that the Business Plan had been updated, with the Plan focusing on talent management, and IT security and infrastructure. There being no questions, he concluded his report.

V. CIO's Report

The Chair introduced Mr. Geoffrey Berg, Chief Investment Officer ("CIO"), for the quarterly investment performance report through December 31, 2021. Mr. Berg began his presentation with a brief market overview. He stated that the volatility resulting from inflation fears and the situation in Ukraine would likely continue until markets see a path to clarity, and noted that the Commission had very little direct exposure to Russia.

Mr. Berg then explained that markets are presently anticipating five or six rate hikes over the next 12 months. Last June, the forecast suggested a Federal Funds Rate for January 2023 of around 0.25 percent, whereas the rate now implied by futures prices was approximately 1.70 percent. Mr. Berg noted the contributions of several factors, including actions by the Federal Reserve System ("Fed"). The Fed, which had historically been aggressive when it comes to staying ahead of inflation, was slow to react to the spike in inflation. Mr. Berg noted that the market is now worried about what it will take to regain control over inflation, given that inflationary pressures are showing up in a lot of different areas of the economy.

Mr. Berg turned to a discussion of broader market trends. He noted that the yield curve has flattened, which is mostly the result of short-term rates rising. Mr. Berg also stated that growth has underperformed value, and noted that banks and insurance companies have outperformed the broader markets by about 10 percent this year, which is due in part to the higher rate outlook. Mr. Berg stated that, given the uncertain environment, it is important that the Commission remain disciplined in its investment approach. He also stated that RSIC Staff plans for these types of challenging times so that, when they arise, the Plan will be able to capitalize on attractive opportunities. After several questions from Commissioners, Mr. Berg began to review the performance report for the quarter ending December 31, 2021. For the quarter, he stated that the Portfolio earned more than 5.3 percent and outperformed the benchmark by more than 1 percent. The net benefit payments were $193 million during the quarter, and the Plan's value rose to $41.6 billion. He stated that, when looking at the performance framework, returns outpaced both the Policy and Reference Portfolios during the quarter, and noted that the Portfolio Structure and Manager Selection impacts were both positive for the quarter.

Turning to asset class performance, Mr. Berg explained that public equities rebounded quite strongly from the prior, negative quarter. Private equity continued to build on a strong start and is now up almost 19 percent during the past two quarters. He noted real assets' second consecutive quarter of extremely strong performance. The real assets benchmark registered its largest quarterly return since the 1970s, but our portfolio outperformed due to a surge in REIT performance in the quarter. Portable alpha hedge funds continued to outperform. Mr. Berg stated that three-year returns were ahead of the benchmarks in four out of five asset classes, while on a three-year basis, the Portfolio had outperformed its benchmark by almost 1 percent annually.
Mr. Berg then turned to the performance analysis section of his report with a review of the Portfolio framework. He stated that for the fiscal year to date, the Policy Benchmark had earned 5.7 percent, and explained that the Portfolio's 6.99 percent fiscal year to date return was attributable to positive allocation impacts (adding 36 basis points) and manager selection impacts (which improved returns by 93 basis points), while implementation impacts were roughly zero.

Mr. Berg then provided additional detail regarding each of these impacts, beginning with Allocation. He explained that the positive allocation impact resulted from being overweight in private equity and underweight bonds. Next, he explained the Implementation impact had two primary drivers that roughly offset each other: (a) the decision to employ portable alpha, which added value, and (b) the impact of having infrastructure inside our real assets portfolio, which lagged the benchmark. Mr. Berg noted that the Manager Selection impact was strong during the quarter, with the bulk of the outperformance coming from private debt, portable alpha hedge funds, private equity, and bonds. Mr. Berg underscored two things the Commissioners should bear in mind when looking at performance: (1) the rebalancing of public equity back to target at quarter end; and (2) the growth in the private equity portfolio, as a result of (i) returns that have been strong over the course of the past two years and (ii) the growth of the asset base from the co-investment program, through which the Commission had made investments of almost $800 million, with most of the investments having no management fees or carried interest.

Mr. Berg then noted that all asset classes were within the allowable ranges, with private equity three percent above target and bonds 4.5 percent underweight its target. He noted that the Consolidated Annual Investment Plan and Statement of Investment Objectives and Policies ("AIP/SIOP") requires staff to notify the Commission if the collective exposure to private equity, private debt, and private real assets exceeds 30 percent of the total plan assets and that the combined exposure was 30.7 percent. Mr. Berg noted that that 30 percent threshold sits just 2 percent above the combined long-term asset allocation's target weights to private equity, private debt, and real assets. He noted that taking any one of those three asset classes to its upper limit while holding the other two at their target weight would trigger the notification requirement. He then held a brief discussion with the Commissioners regarding this topic.

Lastly, Mr. Berg reviewed risk and how the Commission is now using a three-year risk model as compared to a two-year model to estimate risk on a forward-looking basis. He stated that the impacts from this change were not significant, and the risk data was largely unchanged from the prior quarter.

After discussion with the commissioners, Mr. Berg concluded his report

VI. Strategic Investment Topic Presentation – Capital Market Expectations Review

Mr. Hitchcock recognized Ms. Alli Wallace Stone, Managing Principal/Consultant, and Mr. C. LaRoy Brantley, Managing Principal/Consultant, from Meketa Investment Group ("Meketa") for their presentation on 2022 Capital Markets Expectations. Ms. Stone began the presentation by explaining Meketa's methodology in setting capital market expectations each year. She noted that they produce expectations each year in January and that yearly changes are driven by many factors, including interest rates, credit spreads, cap rates, and equity prices. Ms. Stone stated that 2021 was a great year for investors with much of the strong performance driven by an increase in prices for most risky assets. Such an increase in prices would normally lead to an expectation of lower capital market expectations. However, the inverse occurred. Ms. Stowe explained that bond yields increased in 2021, which had an upward impact on their capital market expectations. Additionally, higher rates have been priced into future bond yields, which had a meaningfully positive impact on Meketa's long-term capital market expectations. Thus, Meketa's capital market expectations resulted in an increase to the Portfolio's expected return from 6.56 percent to 6.71 percent over the next 20 years. She did note that shorter-term expectations for riskier assets had come down due to the elevated state of current equity market valuations.

Next, Ms. Stowe gave an overview of how Meketa sets capital market expectations using both quantitative and qualitative methodologies. The capital market expectations are then used as inputs to conduct mean variance optimization ("MVO"), which is the traditional starting point for determining asset allocation. She noted the importance of asset allocation and that it is the largest determinant of the Portfolio's overall success. She then presented a summary of how Meketa identifies asset classes as well as strategies and how they use those to determine the optimal portfolio construction.

She then turned to a discussion of Meketa's process for developing ten-year forecasts and how Meketa combines the ten-year forecasts with projections for years 11-20 for each asset class to determine the 20-year forecasts. She concluded her portion of the presentation with a discussion of other inputs used in developing the capital market expectations, including standard deviation and correlation.

Mr. Brantley then reviewed year-over-year changes in some of the various asset classes that Meketa monitors, including rate sensitive asset classes, credit, equities, infrastructure and real estate, natural resources and commodities, and alternative strategies. He then presented data from a 2021 peer survey to show how Meketa's ten and 20-year return expectations compare to their peers' expectations.

Mr. Brantley then stated that, overall, Meketa anticipates that investors will have to take on greater levels of risk than they have historically to achieve returns similar to what has been achieved in the past. Lastly, he summarized RSIC's current asset allocation policy and expected return. After a brief discussion with the Commissioners, Mr. Brantley concluded his presentation.

VII. Actuarial Update – GRS Actuarial Consultants

The Chair then introduced Mr. Danny White and Mr. Joe Newton from GRS Actuarial Consultants, the actuaries for the South Carolina Retirement System ("SCRS"), to provide an update on actuarial valuations as of July 1, 2021. Mr. White began the presentation by providing a summary of high-level demographic information for the SCRS. Some of the topics discussed included historical changes in workforce by employer type—such as public school, state and other agency employees—historical active and retiree membership levels in SCRS since 2014, and an analysis of fiscal year 2021 mortality experience. He pointed out an increased number of deaths among female educator retirees across all age brackets in 2021 from what was expected due in part to COVID. He then went over historical and projected external cash flows for SCRS, detailed benefit payments made and projected, and noted employer and employee contributions (both actual and projected). He pointed out that although SCRS has a cost-of-living adjustment ("COLA") feature that is fixed, and therefore, is not impacted by high rates of inflation.

Mr. White then presented a summary of the 2021 valuations. He noted that the PEBA Board adopted updated actuarial assumptions in December of 2020 and that the investment return assumption decreased from 7.25 percent to 7 percent. Mr. White also shared that the Portfolio's strong performance in 2021, with a 28.5 percent return, resulted in $5.9 billion more assets than expected as of July 1, 2021 for SCRS and $1.1 billion more in assets than expected for the Police Officers Retirement System ("PORS"). He then presented a summary of the funded status on an accounting basis for both SCRS and PORS, which was disclosed in PEBA's annual report. He noted that, for 2021, the funded ratio for SCRS increased from 51 percent to 61 percent. The funded ratio for PORS increased from 59 percent for 2020 to 70 percent for 2021.

Mr. Newton then shared information with the Commissioners on GRS' projection information for both liabilities and assets for SCRS, discussing the impact of the deferred gain from the strong results in 2021 and how that would positively impact SCRS' path to fully funded status. After sharing a brief history of the unfunded accrued actuarial liability ("UAAL"), they shared data that projects that SCRS' UAAL would be reduced to zero by 2036 based on the 2021 valuation versus 2042 based on the 2020 valuation. Mr. White and Mr. Newton then presented similar information for PORS, sharing that the UAAL for PORS was projected to reach zero by 2035 based on the 2021 actuarial valuation rather than 2043 based on the 2020 valuation. After some final remarks, the presentation concluded.

VIII. Delegated Investment Report

The Chair recognized Mr. Berg for the delegated investment report. The following delegated investments were closed by Staff since the December 2, 2021, Commission meeting.

Asset Class	Investment	Investment Amount	Closing Date
Private Credit	Barings CMS Fund	$250 M	December 10, 2021
Private Equity	Francisco Partners VII	$100 M	February 15, 2022
Private Equity	Francisco Partners Agility III	Up to $50 M	February 15, 2022

IX. Executive Session

Dr. Gunnlaugsson made a motion to recede into 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, and a review of potential investments in the due diligence process; to discuss personnel matters, negotiations incident to proposed contractual arrangements and to receive advice from legal counsel pursuant to S.C. Code Section 30-4-70(a)(1)-(2). Ms. Melissa Schumpert seconded the motion, which passed unanimously.

X. Potential Action Resulting from Executive Session

Upon receding from executive session, Dr. Gunnlaugsson made a motion to adopt the recommendation of the CIO and the Internal Investment Committee as set forth in the Summary Terms Chart on Page 1 of the Due Diligence Report dated February 15, 2022, as discussed in executive session; authorize an investment of up to $75 million in Asana III; authorize the CEO or his designee to negotiate and execute any necessary documents to implement the Investment as approved by the Commission upon notice from RSIC Legal that all preconditions to closing have been satisfied and to execute the Investment Closing Certification; and authorize the CEO and/or the CIO or their designee(s) to thereafter authorize the custodian of funds to transfer such funds as are necessary to meet the Retirement System trust funds' obligations with respect to the Investment. Dr. Wilder seconded the motion, which was approved unanimously.

Ms. Schumpert then made a motion to adopt the recommendation of the CIO and the Internal Investment Committee as set forth in the Summary Terms Chart on Page 1 of the Due Diligence Report dated February 16, 2022, as discussed in executive session; authorize an investment of up to $150 million in Greystar XI; authorize the CEO or his designee to negotiate and execute any necessary documents to implement the Investment as approved by the Commission upon notice from RSIC Legal that all preconditions to closing have been satisfied and to execute the Investment Closing Certification; and authorize the CEO and/or the CIO or their designee(s) to thereafter authorize the custodian of funds to transfer such funds as are necessary to meet the Retirement System trust funds' obligations with respect to the Investment. Dr. Gunnlaugsson seconded the motion, which was approved unanimously.

XI. Adjournment

There being no further business, Dr. Wilder moved that the Commission meeting adjourn, Dr. Gunnlaugsson seconded the motion, which was unanimously approved. The meeting adjourned at 2:50 p.m.

[Staff Note: In compliance with S.C. Code Section 30-4-80, 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. by 4:45P.M. on February 28, 2022]

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.