South Carolina Retirement System Investment Commission
Meeting Minutes

December 7, 2023 9:30 a.m.
Capitol Center
1201 Main Street, 15th Floor
Columbia, South Carolina 29201
Meeting Location: 1201 Main Street, 15th Floor, Ste. 1510 & Streaming Online at www.rsic.sc.gov

Commissioners Present:
Mr. William Hancock, Chair
Ms. Melissa Schumpert, Vice Chair (absent)
Ms. Peggy Boykin, PEBA Executive Director (via telephone)
Mr. William J. Condon, Jr.
Mr. Kenneth F. Deon (via telephone)
Mr. Edward Giobbe
Dr. Holley H. Ulbrich
Mr. Reynolds Williams (via telephone)

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 9:35 a.m. Mr. William J. Condon, Jr., made a motion to adopt the agenda as presented. Dr. Holley Ulbrich seconded the motion, which was unanimously approved.

Dr. Ulbrich made a motion to approve the minutes of the Commission's September 14, 2023, meeting. Mr. Condon seconded the motion, which was approved unanimously. A link to the entire meeting is below:

2023.12.07 RSIC Commission Meeting (youtube.com)

II. Chair's Report

Chair Hancock stated that he had nothing to report.

III. Committee Reports

Chair Hancock noted that both the Human Resources and Compensation Committee ("HRCC") and Audit and Enterprise Risk Management Committees ("AERMC") had met since the last Commission meeting, and each Committee had made a report available to the Commissioners for review prior to the meeting. There being no questions, he concluded the reports.

IV. CEO's Report

Chair Hancock recognized Mr. Michael R. Hitchcock, Chief Executive Officer ("CEO"), for his report. Mr. Hitchcock advised the Commissioners that the Commission's meeting schedule for 2024 had been set and announced the dates as follows: March 7th, April 18th, June 13th, September 12th, and December 12th. Mr. Hitchcock also noted that the schedule would be posted to RSIC's website after the Commission meeting.

A link to the CEO's Report is below:

https://www.youtube.com/watch?v=OKIC6e7122c&list=PLWggBnJJX7ksfB95gcRpo3MfttYDIRmIy&index=1&t=115s

V. CIO's Report

Next, Chair Hancock recognized Mr. Geoffrey Berg, Chief Investment Officer ("CIO"), for the quarterly investment performance review. Mr. Berg reported that the Portfolio declined by 1.86 percent for the quarter ending September 30, 2023, outperforming the policy benchmark by 41 basis points. He noted that interest rates continued to rise during the quarter, with most rates up nearly 1 percent, which weighed on almost all asset classes. Mr. Berg noted that increased contribution rates continued to benefit the Plan and drive down liquidity risk. He noted that for the 12 months ending September 30, 2023, net benefit payments from the Plan were down to $238 million. He noted that this represents a significant reduction to the Plan's liquidity risk. Mr. Condon asked about the positive net benefit payment amount for the most recent quarter. Mr. Hitchcock and Mr. Berg explained that it was linked to a legislative inflow of around $110 million at the beginning of each fiscal year since the 2017 legislation went into effect. Following additional conversation with the Commissioners, Mr. Berg turned to discuss the performance framework. During the quarter, the Plan outperformed both the Reference and Policy Portfolios and while both diversification and portfolio structure contributed positively to the Plan return for the quarter, the quality of manager selection had a slight negative impact on Plan return.

Mr. Berg then reviewed asset class performance. He noted that stocks and bonds were both down roughly the same amount in the first quarter. He stated that there had been a much higher correlation between the two over the course of the past year and a half. He also stated that the real assets benchmark, which is a core real estate benchmark, was down again this quarter. It has had a negative return for several consecutive quarters. He noted that the real assets portfolio includes a little more than 3 percent of infrastructure, an allocation which has had a very favorable impact on returns, which explains a large share of the real assets' outperformance during the past year. Mr. Berg pointed out that the private debt portfolio was the top performer for the quarter but was underperforming its public benchmark. He noted that this is part of the challenge of using a lagged public benchmark. Lastly, he addressed the performance of the portable alpha hedge funds, reminding the Commissioners that the return stream for portable alpha shown on the slide is not the return for the hedge fund portfolio, but rather the return for the hedge fund portfolio in excess of the cash return rate. He noted that the portable alpha hedge funds outperformed cash by 1.54 percent during the quarter.

He then turned the discussion to the three- and five-year returns. Mr. Berg noted that for the first time in his memory, the returns of each alternative asset class had outperformed public equity over both three- and five-year periods. He also noted that the return over both three and five years for the bonds benchmark was negative. After a discussion regarding rising interest rates and its impact on equity and bond returns, as well as the benefits of a diversified portfolio, Mr. Berg concluded his review of asset class performance.

Next, Mr. Berg turned to a discussion of attribution and concluded with a summary of the sources of underperformance during the quarter, including listed infrastructure, longer duration Treasuries and private markets selection, as well as a summary of the sources of outperformance, which included being underweight to bonds, private infrastructure, portable alpha and real estate selection.

Mr. Berg reviewed the asset allocation and Consolidated Annual Investment Plan and Statement of Investment Objectives and Policies ("AIP/SIOP") compliance slide, noting that the private equity portfolio continued to be overweight on the strength of performance, and indicating that the portion of the portfolio in private markets remains above the 30% notification threshold. Mr. Berg then turned to a review of the Portfolio risk estimates, noting that the estimates had not changed meaningfully since the prior period. After a discussion regarding private equity performance, distributions, and private equity deal flow, Mr. Berg concluded his report. A link to the CIO's Report is below:

https://www.youtube.com/watch?v=OKIC6e7122c&list=PLWggBnJJX7ksfB95gcRpo3MfttYDIRmIy&index=1&t=170s

VI. Verus

Chair Hancock then introduced Mr. Mark Brubaker from Verus Advisory, Inc. ("Verus"), to provide an educational presentation. Mr. Brubaker began by introducing Ian Toner who serves as CIO with Verus. Mr. Brubaker stated that Verus would be presenting a high-level overview of the asset liability process and a high-level description of how Verus determines its capital market expectations. He then reviewed the education study schedule and the educational topics to be covered with the Commission during 2024. Next Mr. Brubaker gave an overview of the asset liability process. He explained the key inputs, modeling tools, and model output/decision factors that Verus uses in the asset liability review process.

After a brief discussion among with the Commissioners and Mr. Hitchcock, Mr. Brubaker then turned to discuss examples of the different modeling techniques utilized by Verus, including stochastic modeling, deterministic modeling, scenario analysis and stress tests, as well as liquidity coverage analysis. He then turned the presentation over to Mr. Toner to discuss how Verus approaches the capital markets assumption process. Mr. Toner discussed the process and continued his discussion on the required forecasting inputs on expected return, volatility, and correlation matrix. He continued to speak on the building block methodology and the key things that drive each of the asset classes. After additional discussion with the Commissioners, Mr. Toner concluded his presentation. A link to the presentation given by Verus is below:

https://www.youtube.com/watch?v=OKIC6e7122c&list=PLWggBnJJX7ksfB95gcRpo3MfttYDIRmIy&index=1&t=1585s

VII. Delegated Investment Report

Chair Hancock then recognized Mr. Berg for the delegated investment report. Mr. Berg stated that there were no delegated investments closed by Staff following the Commission's September 14, 2023, meeting.

VIII. Executive Session

Dr. Ulbrich made a motion to recede into Executive Session to discuss investment matters, including specific co-investments and private debt investments, and certain portions of the Consolidated Annual Investment Plan and Statement of Investment Objectives and Policies, 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 advice from legal counsel pursuant to S.C. Code Section 30-4-70(a)(2). Mr. Edward Giobbe seconded the motion, which was approved unanimously. The Commission receded into Executive Session at 10:36 a.m.

IX. Potential Actions Resulting from Executive Session

Upon return to open session at 2:46 p.m., Mr. Hitchcock announced that the Commission did not take any action while in executive session. Dr. Ulbrich then made a motion to adopt the recommendation of the CIO and Staff to adopt the rebalancing range for bonds as discussed in executive session, to lower the minimum bonds allocation from 15% to 10%, with the 10% allocation continuing to be comprised of investment grade bonds, and to direct that the changes be incorporated into, and made a part of, the Consolidated Annual Investment Plan and Statement of Investment Objectives and Policies, and authorizes Staff to make any technical revisions or formatting edits consistent with the action taken by the Commission. The CIO will provide the Commission with notice to the extent he takes action to reduce the bond allocation to less than 15%. Mr. Edward Giobbe seconded the motion, which was passed unanimously.

X. Adjournment

There being no further business, Mr. Giobbe made a motion to adjourn. Dr. Ulbrich seconded the motion, which was approved unanimously. The Commission adjourned at 2:47 p.m.

[Staff Note: In compliance with S.C. Code Section 30-4-80, public notice of and the agenda for this meeting were 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 10:43 a.m., on December 5, 2023.]