Retirement System Investment Commission

Commission Meeting Agenda

Thursday, March 7, 2024 at 9:30 a.m.

RSIC Presentation Center and Streaming Online at www.rsic.sc.gov

I. Call to Order and Consent Agenda
   A. Adoption of Proposed Agenda
   B. Approval of December 2023 Minutes

II. Chair's Report

III. Committee Reports

IV. CEO's Report
   A. Consolidated Annual Investment Plan and Statement of Investment Objectives and Policies – Review, Consideration of Proposed Changes

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

VI. Actuarial Update – GRS Actuarial Consultants

VII. Verus 2024 Capital Market Expectations

VIII. 2020 Asset Allocation Process Review

IX. Delegated Investment Report

X. Executive Session to discuss investment matters 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, 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, and to receive advice from legal counsel pursuant to S.C. Code Section 30-4-70(a)(1)-(2).

XI. Potential Action Resulting from Executive Session

XII. 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 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=PLWggBnJJX7ksfB95gcRpo3MfttYDlRmIy&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=PLWggBnJJX7ksfB95gcRpo3MfttYDlRmIy&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.]

AIP/SIOP Review

March 7, 2024

Overview

- Primarily conforming changes and technical edits
- Includes a few proposed updates to the Commission's Governance Policies
- Major initiative for Fiscal Year 2024-2025 is the Strategic Asset Allocation review

AIP/SIOP Conforming and Substantive Amendments

- Specifically designate the AIP/SIOP as RSIC's strategic plan (P. 2)
- Update funded status references and Tables 1 and 2 based on latest actuarial valuations and capital market expectations (PP. 4-9)
- Update 10-year return and volatility projections based on 2024 capital market expectations (P. 19)
- Added Strategic Asset Allocation review to the Strategic Initiatives and removed Human Capital (P. 22)
- Clarify that the proxy voting reporting requirement does not apply to private equity (P. 29)

AIP/SIOP Conforming and Substantive Amendments (cont.)

- Update manager sourcing disclosure to reflect current practice (P. 29)
- Clarify electronic report monitoring of public market mandates governed by an IMA (P. 29)
- Change the investment pipeline update from monthly to quarterly (P. 38)
- Conform CIO's authority to terminate investment managers to existing Investment Policies (P. 38)

Technical Amendments

- Conform reference to the Executive Leadership Team (PP. 10 & 12)
- Include reference to current 7% assumed rate of return (P. 13)
- Verbiage change (P. 18)
- Added context reference (P. 21)
- Technical correction (P. 24)
- Reference change (P. 25)
- Verbiage changes (P. 27)

Governance Policy Amendments

- Commission Roles and Responsibilities:
  - Added code references (P. 3)
  - Add reference to investment authority delegation (P. 8)
- CEO and CIO Roles and Responsibilities:
  - Conform reporting of compensation and employee changes to the Compensation Policy (P. 2)
  - Delete conflicting provision relating to the CIO review (P. 2)
  - Update decision-making authority references (P. 4)
  - Add code reference (P. 4)
  - Provide for CEO emergency succession in case of incapacity (P. 5)
  - Add notification requirement when an Acting CIO is designated (P. 6)

Governance Policy Amendments (cont.)

- Commission Operations:
  - Provide reference to education presentations at meetings (P. 2)
  - Update new Commissioner orientation provisions (P. 3)
  - Include reference to streaming Commission meetings (P. 4)
- CEO and Commission Evaluations:
  - Conform CEO Evaluation and Process to current practice (PP. 1-2)
  - Delete requirement to publish Commission evaluation summary in the meeting minutes (P. 2)

SOUTH CAROLINA RETIREMENT SYSTEM INVESTMENT COMMISSION

CONSOLIDATED ANNUAL INVESTMENT PLAN AND STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES

As amended and adopted on April _____~~20~~, 2024~~3; as amended on December 7, 2023~~

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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. This Consolidated SIOP and AIP also serves as the RSIC's strategic plan.

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, 2024~~3~~.

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 active employees, retirees, and their beneficiaries (collectively "beneficiaries"). The Plan's fiduciaries must carry out their respective responsibilities to invest and manage the Plan's assets solely in the interest of the Plan's beneficiaries, for the exclusive purpose of providing benefits, and 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 20233~~2~~ Actuarial Valuation report from the Plan's actuaries shows the funded status of each system as:

SCRS	PORS	GARS	JSRS	SCNG
5~~6.~~7.9%	65.~~9~~4%	6~~1.3~~7.4%	46.~~2~~4%	~~58.5~~62.9%

The underfunded nature of the Plan presents the risk that the 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 SCRS and PORS. It should be noted that because of these efforts, the funding levels for both SCRS and PORS improved over the prior fiscal year and the amortization periods for both SCRS and PORS have been reduced to 16 ~~17~~ years ~~and 16 years respectively~~.

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 to aid in providing benefits to future retirees.

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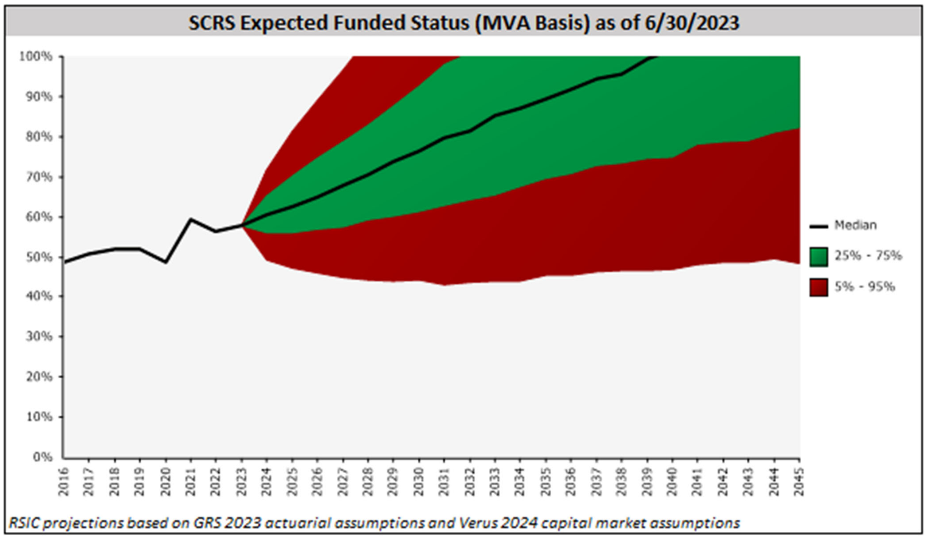
Another guiding factor is that the General Assembly has set 7 percent as the assumed annual rateof investment return on the Plan's assets. The assumed rate of return not only serves as the discount rate to determine the net present value of the Plan's liabilities, but also serves as the primary driver 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. RSIC recognizes that achieving a long-term rate of return that exceeds the assumed rate requires investing the portfolio in a greater percentage of assets with relatively high risk. 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 Planwithout 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 need 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


SCRS Expected Funded Status (MVA Basis) as of 6/30/2023
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
2016 2017 2018 2019 2020 2021 2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032 2033 2034 2035 2036 2037 2038 2039 2040 2041 2042 2043 2044 2045
Median
25% - 75%
5% - 95%
RSIC projections based on GRS 2023 actuarial assumptions and Verus 2024 capital market assumptions

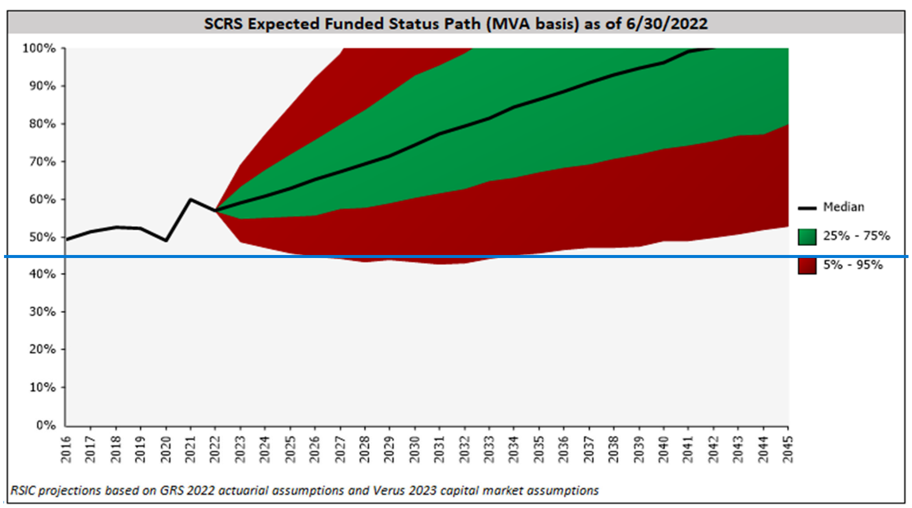

SCRS Expected Funded Status Path (MVA basis) as of 6/30/2022
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
2016 2017 2018 2019 2020 2021 2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032 2033 2034 2035 2036 2037 2038 2039 2040 2041 2042 2043 2044 2045
Median
25% - 75%
5% - 95%
RSIC projections based on GRS 2022 actuarial assumptions and Verus 2023 capital market assumptions

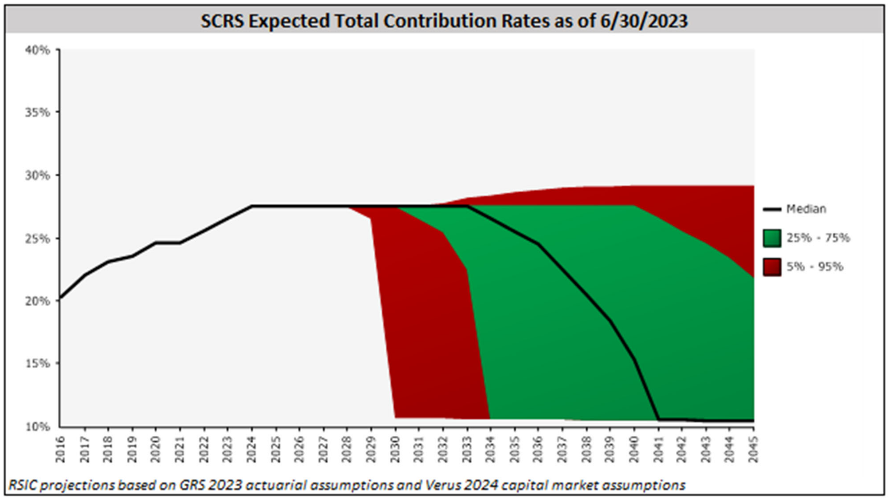
Table 1 tracks the actual, as well as expected, funded status of SCRS since 2016, the year prior to the passage of the 2017 Pension Reform Bill. SCRS is used as the example because its assets comprisethe greatest percentage of the total assets of the five systems. The reason for the stochastic approach 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 2024~~3~~ 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 2039~~42~~, 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 it is in currently.

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 forecasted investment returns since the bill's passage.

In addition to this stochastic analysis, the 2023~~2~~ Actuarial Valuation shows the amortization period for SCRS as 16~~7~~ years, which is eight years ahead of the 2017 Pension Reform Bill's requirement of 24~~5~~ years. The PORS 2022 Actuarial Valuation also shows the amortization period as 16 years, which is ~~nine~~ eight years ahead of the Pension Reform Bill's requirement of 24~~5~~ years.

TABLE 2



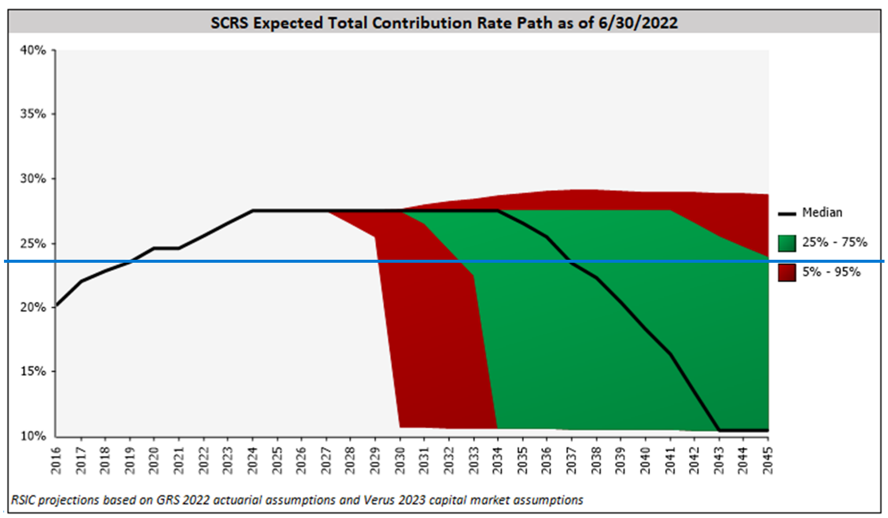


Table 2 tracks the actual, as well as expected, total employer and employee contribution rates for SCRS since 2016. This table also employs a stochastic approach to the expected combined contribution rate to more accurately demonstrate a range of probable outcomes due to market volatility. This analysis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

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As indicated in this table, the base case scenario shows combined employer and employee contribution rates for SCRS ~~increasing to~~ have increased 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 2034. The contribution rates are projected to decline to the approximately 10 percent normal cost contribution rate by 2041 ~~2043~~. The table indicates that there is some risk that contribution rates may increase above the 27.56 combined contribution rate required by the 2017 Pension Reform Bill. (Appendix XI 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 withthis fiduciary duty and focused on achieving the investment objective, the Commission and RSIC staffhave adopted a set of core beliefs to ensure that we are collectively guided by a unifying set of principles.

Belief 1 – We believe that the Policy Allocation set by the Commission is the main driver of the 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 earn~~s~~ 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 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 Leadership Team (ELT) is currently comprised of the CEO, CIO, Chief Operating Officer ("COO"), ~~and~~Chief Legal Officer ("CLO"), and Director of Human Resources, and serves as RSIC's primary management committee and aids the CEO inmaking 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 Commission Chair takes the lead in ensuring there is an effective and productive relationship between the Commission and the Investment Consultant and that the Investment Consultant has adequate clarity and direction in meeting the Commission's needs and requests. The CEO assists the Chair in managing the day-to-day relationship with the Investment Consultant and ensures effective collaboration and consultation between the Investment Consultant and RSIC staff. 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 RSICStaff 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~~ ELT and other staff on the assessmentof, 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 isalso 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 the 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 proposed a~~n~~ 7 percent assumed annual rate of return to the General Assembly that took effect at the beginning of the 2021-2022 fiscal year because the General Assembly took no action 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.

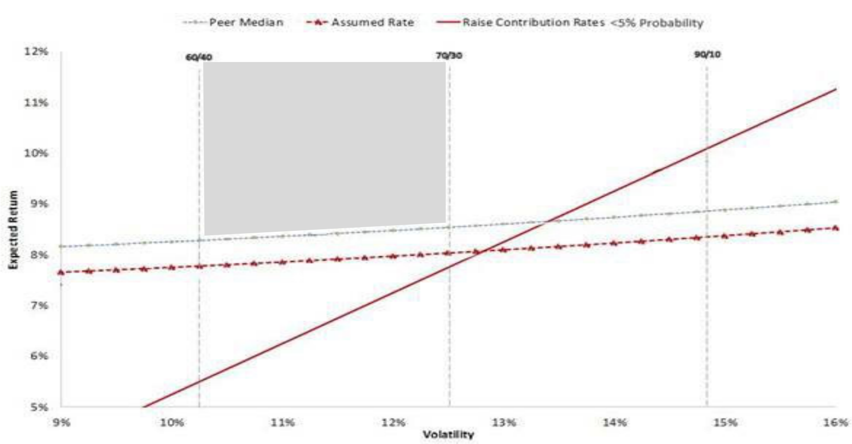
C. Reference Portfolio

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 toa simple mix of stocks and bonds, but rather to set a risk reference for establishing the Policy Portfolio. Although the intent was for the Reference Portfolio's risk to represent that of 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

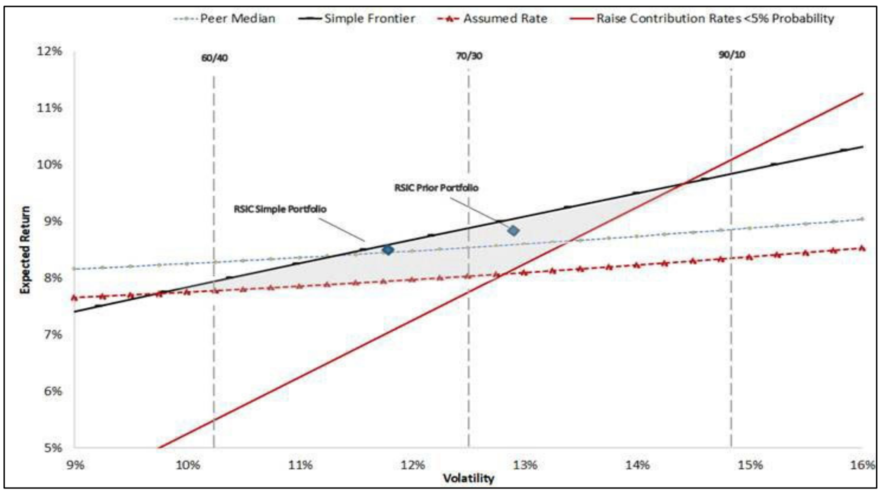
Current Asset Allocation	
Bonds	26
Private Debt	7
Global Equity	46
Private Equity	9
Real Assets	12

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 P~~p~~lan 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:

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<u>Public Equity</u>: This asset class includes investments in the stock of publicly traded companies. The purposeof 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.

[2] Although the Investment Consultant's long-term capital market expectations were 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 persistent source of return while remaining highly liquid. Bonds are expected to serve a stabilizing function ~~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 inexchange 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 diversificationwith 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.

Table 6

	Public Equity	Private Equity	Bonds	Private Debt	Real Assets
Primary role in portfolio (asset allocation)	Growth	Growth	Diversification	Yield	Diversification
Secondary role in portfolio (asset allocation)			Yield		Yield
Return expectation (20Y benchmark return)	High	> Public Equity	Low	> Bonds	Moderate
Alpha expectation where active: magnitude vs. cost	Low	High	Moderate	Moderate	Moderate
Consistency of excess return	Low	Moderate	Moderate	High	High
Expected liquidity	Very high	Very Low	Very high	Low	Low
RSIC Target Portfolio Expected Cost	Low	High	Low	Moderate	Moderate

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 7 for the Policy Portfolio.

Table 7

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 have been 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 have been expected to have a 58.41 percent probability of earning a twenty-year annualized rate of return that met or exceeded the then assumed rate of return of 7.25 percent.

In the years since the Commission adopted the Policy Portfolio, the annual capital market expectations have fluctuated primarily in response to significant market movement during the prior year. Based on the 2024 ~~2023~~ Capital Market Expectations provided by the Commission's General Investment Consultant, the Policy Portfolio is expected to achieve a 10~~-~~-year annualized rate of return of 7.32 ~~7.4~~ ~~-~~percent with an expected volatility of 11.8 ~~11.9~~ percent. The return and volatility expectations are in line with the ~~also show a notable improvement over~~ 2023~~2~~ expectations of a 10-year annualized return of 7.4 percent and an expected volatility of 11.9 percent.~~, when the Policy Portfolio was expected to earn a 10 -year annualized rate of return of 6.0 percent with an expected volatility of 12.0 percent. The difference in return expectations is attributable to the significant negative market performance in 2022~~.

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 8. In order to measure the risk and return impact of theseportfolio 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 andinvestment staff.

Table 8

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%	10%	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%

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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 requires staff to provide 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, 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. Although the effects are reported over shorter periods, 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. Although the effects are reported over shorter periods, 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 changesin 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 prior to 2020, ~~previously~~ the actual portfolio was simply compared to an individual policy benchmark that combined both portfolio structure and manager selectiondecisions. 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.

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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. Strategic Asset Allocation – The Commission, with the input and assistance of the General Investment Consultant and staff, will conduct an Asset-Liability Management study and a strategic asset allocation review as contemplated by Section III(H).

~~1.~~2. 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.[5]

~~2.~~3. End of Fund Life - Establish a discipline to evaluate private investments approaching the end of fund life to optimize asset class performance.

~~3. Human Capital – Analyze the impact of anticipated baseline changes on asset class staffing needs and align human capital resources with updated portfolio priorities to ensure optimal coverage to source and perform due diligence on potential new investments.~~

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[5] The Quantitative Solutions Group is a subset of the Investment Team responsible for quantitative analytical support 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. The Commission and staff must only consider pecuniary factors when making an investment decision or when allocating capital to an external investment manager. A "pecuniary factor" is a factor that a prudent person in a like capacity would reasonably believe has a material effect or impact on the financial risk or return on an investment, including a factor material to assessing an investment manager's operational capability, based on an appropriate investment horizon consistent with a retirement system's investment objectives and funding policy. The term excludes "non-pecuniary factors" which is any factor or consideration that is collateral to or not reasonably likely to ~~effect~~affect or impact the financial risk and return of the investment and include but are not limited to the promotion, furtherance, or achievement of environmental, social, or political goals, objectives, or outcomes. The closing documentation of every investment must include the CEO's certification that the decision to make the investment is based on pecuniary factors and is not being made to promote, further, or achieve any nonpecuniary goal, objective, or outcome.

2. IIC and Investment Approval Process - State law provides that the AIP is to be implemented by the Commission through the CIO. 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.

3. 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.

4. 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.

5. Investment Strategies, Objectives, and Performance Standards:
   i. In Section III(~~.~~D), the Commission described the characteristics and established the role each asset class plays in the Policy Portfolio. Within defined limits and constraints, the Commission provides the CIO and investment staff the ability to structure the portfolio for each asset class in a manner that fulfills the role the asset class plays in the portfolio. The investment staff maintain a “Baseline” document for each asset class that creates a shared understanding of how the portfolio will be structured to achieve the purpose of the asset class established by the Commission. In general, the annual plan for an asset class will involve measures designed to improve its alignment with its Baseline. The following items are detailed in the Baseline document:

      a. The rationale and purpose of the asset class established by the Commission;

      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~~ staff 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 foreach 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.

6. 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 8, 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.

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~~v.~~iv. 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.

7. Internal Management and Overlay Program – Currently, the staff performs distribution management which is the 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 allocationor 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.

8. Portable Alpha – The Commission provides the CIO with the discretion to use Portable Alpha Strategies not to exceed 15 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 the *Secured Overnight Financing Rate* (SOFR).

9. 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, or the CEO for a delegated investment, 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) or specifically for RSIC and a limited number of other investors (e.g., two member LP fund or LLC). The closing certification for any delegated investment for which the CEO waives this requirement must conspicuously note that this limitation is being waived and identify the basis for the waiver;

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

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

10. 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 8, Section III(~~.~~E). While State law does not stipulate whether the limitation of 70 percent is based on cost or market value, the Commission manages this limitation by the amount of exposure to equity on a market value basis. Therefore, if theexposure to equity investments exceeds 70 percent of the total market value of the Portfolio, the CIO is required to rebalance the Portfolio.

11. 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 RSIC has ~~we have~~ multiple investmentstrategies;

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. 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 the Plan's ~~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. 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. Proxy Voting – (1) Shareholder proxy votes must be cast in a manner in keeping with fiduciary duty and in a manner that is consistent with the best interest of the trust fund, based on pecuniary factors, and most likely to maximize shareholder value over an appropriate investment horizon. Any engagement with a company regarding the exercise of shareholder proxy votes or the proposal of a proxy question must be based on pecuniary factors and for the purpose of maximizing shareholder value, except that RSIC may engage with a company to express opposition to the proposal of or the merits of a proxy question that does not have a pecuniary impact.

(2) To the extent that it is economically practicable, RSIC must retain the authority to exercise shareholder proxy rights for shares that are owned directly or indirectly. RSIC may retain a proxy firm or advisory service to assist it in exercising shareholder proxy rights, but only if the proxy advisor has a practice of and commits to follow proxy guidelines that are consistent with the requirements of item (1).

(3) RSIC may only allocate capital to a public equity investment strategy if the manager of the investment strategy has a practice of and commits in writing to meet the requirements of item (1), unless it is not economically practicable to do so, or it is necessary to avoid the concentration of assets with any one or more investment managers. For any public equity investment strategy for which the manager does not have a practice of and does not commit in writing to meet the requirements of item (1), a summary of the terms, fees, and performance of the investment must be included in RSIC's annual investment report and published in a conspicuous location on the RSIC's website.

(4) The Commission must annually review compliance with this section regarding the exercise of shareholder proxy rights. The Commission must review a report that summarizes the votes

cast by or on the Commission's behalf or at the Commission's direction. The report must include a vote caption, RSIC's vote, the recommendation of company management, and the recommendation of any proxy advisor retained by RSIC. This report must be posted in a conspicuous location on the Commission's website.

(5) The Commission finds that the provisions of Section 9-16-30(G) of the South Carolina Code are intended to apply to public equity investments and are not intended to apply to private equity investments given the nature, structure, and characteristics of private equity investments.

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's 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 certifies compliance with~~etes a~~ the Sourcing and Conflict Disclosure Policy~~Form~~. Additionally, ~~T~~the CEO and CIO must certify compliance with the~~ete a~~ Sourcing and Conflict Disclosure Policy~~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~~ F~~f~~or ~~those~~ public markets mandates which are governed by an Investment Management Agreement and custodied with the master custodial bank, automated reports are generated and reviewed on those mandates that can be monitored electronically.

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, RSIC receives monthly performance reports from the custody bank and the Commission receives 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

ii. industry practices. The Commission will pursue cost savings through structural efficiencies and will strive for fee reductions through negotiations. Investment management fees are evaluatedutilizing 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 expectedperformance 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 topublic market implementation alternatives. Lastly, to the extent practicable, fees will also beevaluated 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 reports 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 managedby 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

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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:

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

b. 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 monthly) 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.

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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 8, 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 8;

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 percent of the equity interest asdefined 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 forguidance.

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) of the 1976 Code. For purposes of this policy, a co-investment made outside of a co-investment partnership (e.g., the GCM Co-Investment Partnership or a co-investment vehicle attached to a fund 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. An investment into an asset class other than (i) an asset class or sub-asset class provided in Table 8, Section III of the Consolidated AIP/SIOP or (ii) Portable Alpha Hedge Funds;
2. The majority of the types of assets contemplated to underlie 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:
      a. Domestic,
      b. Developed Non-US,
      c. Emerging Market,
      d. Equity Options;
   ii. Bonds:
      a. Core Bonds (IG),
      b. Inflation-linked (IG),
      c. Mixed Credit (non-IG),
      d. EM Debt,
      e. Net Cash and Short Duration; and
   iii. Portable Alpha Hedge Funds.

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 Assets,
      a. Real Estate, and
      b. Infrastructure.

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 an investment made pursuant to this policy no later than three days following the closing of the investment. The notification must include an executive summary of the investment and provide access to any of the following documents relied upon by staff when making the investment:

1. the investment due diligence report,
2. the operational due diligence report,
3. any memorandum and/or reports from the general or specialty consultant,
4. the Internal Investment Committee action summary,
5. the completeness check certification, and
6. the final versions of pertinent legal documents, including the Investment contract, limited partnership agreement, the investment management agreement, as applicable, and/or other 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 quarterly ~~monthly~~ basis.

H. The delegation of the final authority to invest pursuant to this section includes the authority to terminate an investment manager as described in Section ~~I~~V.C.3.iii. ~~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.

L. This policy was amended on December 2, 2021 and took effect on December 2, 2021.

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 eight 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 actionsfor 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 andexclusions 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.

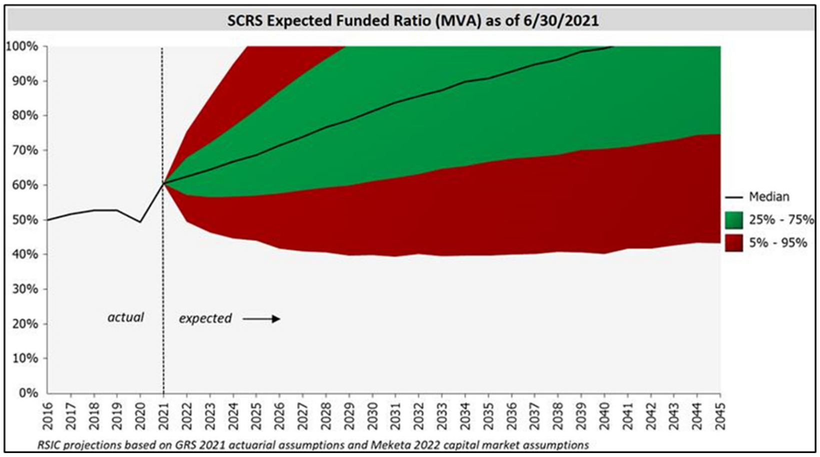
L. Indemnification. The Act provides that present and former board members, officers, and employees of the State Fiscal Accountability Authority, present, future, and former directors, officers, and employees of the South Carolina Public Employee Benefit Authority, the Commission, and contract investment 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 (VERUS MARCH 202~~3~~4)

XI.
TABLES 1 AND 2 (2022, 2021, and 2020 VERSIONS)

TABLE 1 (2022)



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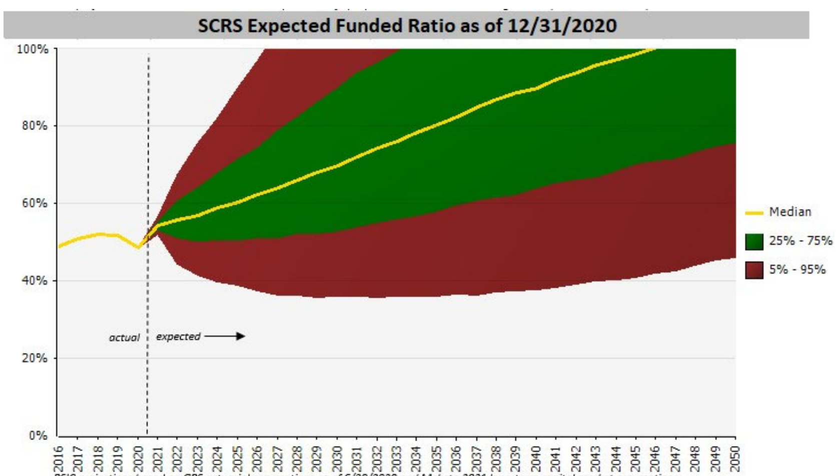

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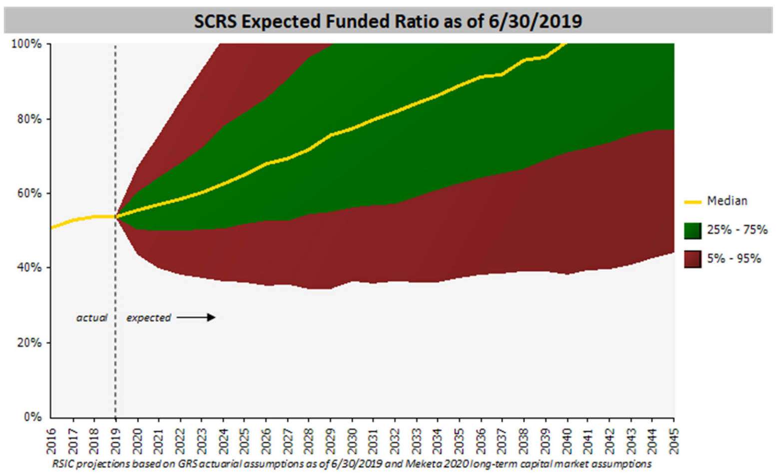


TABLE 2 (2022)

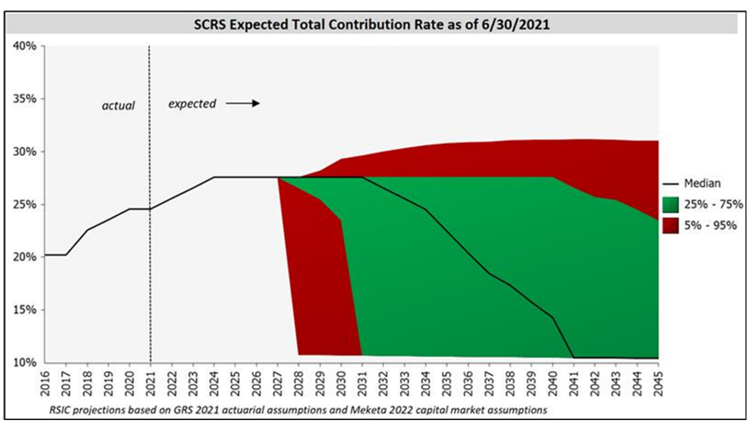


TABLE 2 (2021)

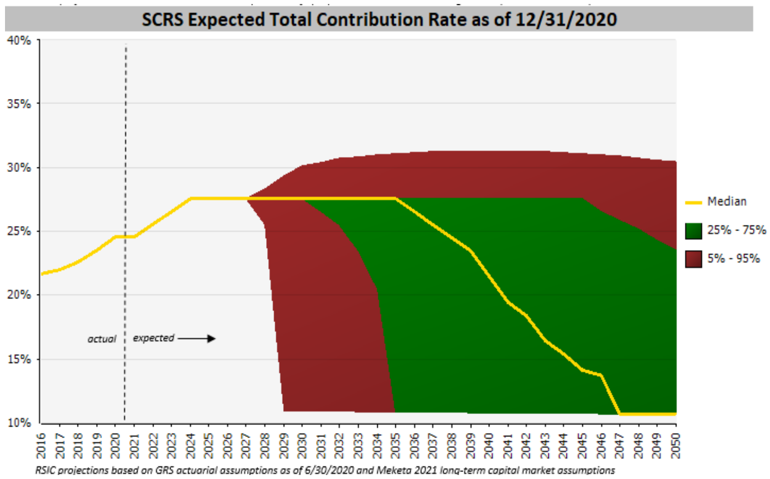
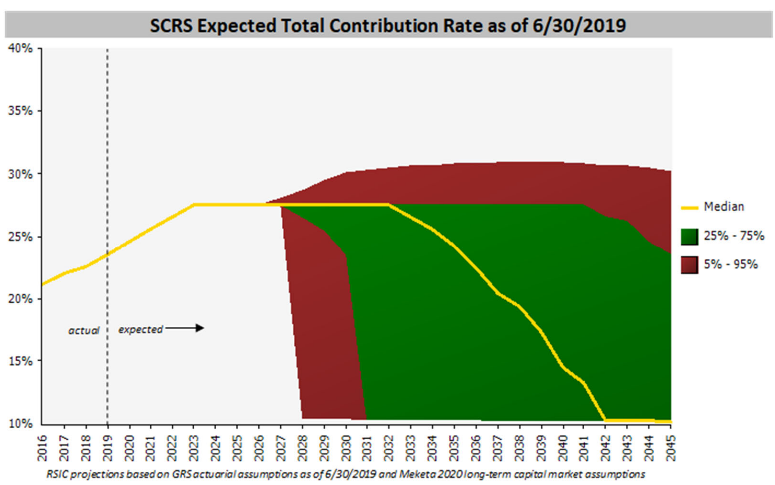


TABLE 2 (2020)



SOUTH CAROLINA RETIREMENT SYSTEM INVESTMENT COMMISSION

CONSOLIDATED ANNUAL INVESTMENT PLAN AND STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES

As amended and adopted on April _____, 2024

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. This Consolidated SIOP and AIP also serves as the RSIC's strategic plan.

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, 2024.

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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 active employees, retirees, and their beneficiaries (collectively "beneficiaries"). The Plan's fiduciaries must carry out their respective responsibilities to invest and manage the Plan's assets solely in the interest of the Plan's beneficiaries, for the exclusive purpose of providing benefits, and 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 2023 Actuarial Valuation report from the Plan's actuaries shows the funded status of each system as:

SCRS	PORS	GARS	JSRS	SCNG
57.9%	65.9%	67.4%	46.4%	62.9%

The underfunded nature of the Plan presents the risk that the 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 SCRS and PORS. It should be noted that because of these efforts, the funding levels for both SCRS and PORS improved over the prior fiscal year and the amortization periods for both SCRS and PORS have been reduced to 16 years.

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 to aid in providing benefits to future retirees.

Another guiding factor is that the General Assembly has set 7 percent as the assumed annual rateof investment return on the Plan's assets. 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. RSIC recognizes that achieving a long-term rate of return that exceeds the assumed rate requires investing the portfolio in a greater percentage of assets with relatively high risk. 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 Planwithout 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 need 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

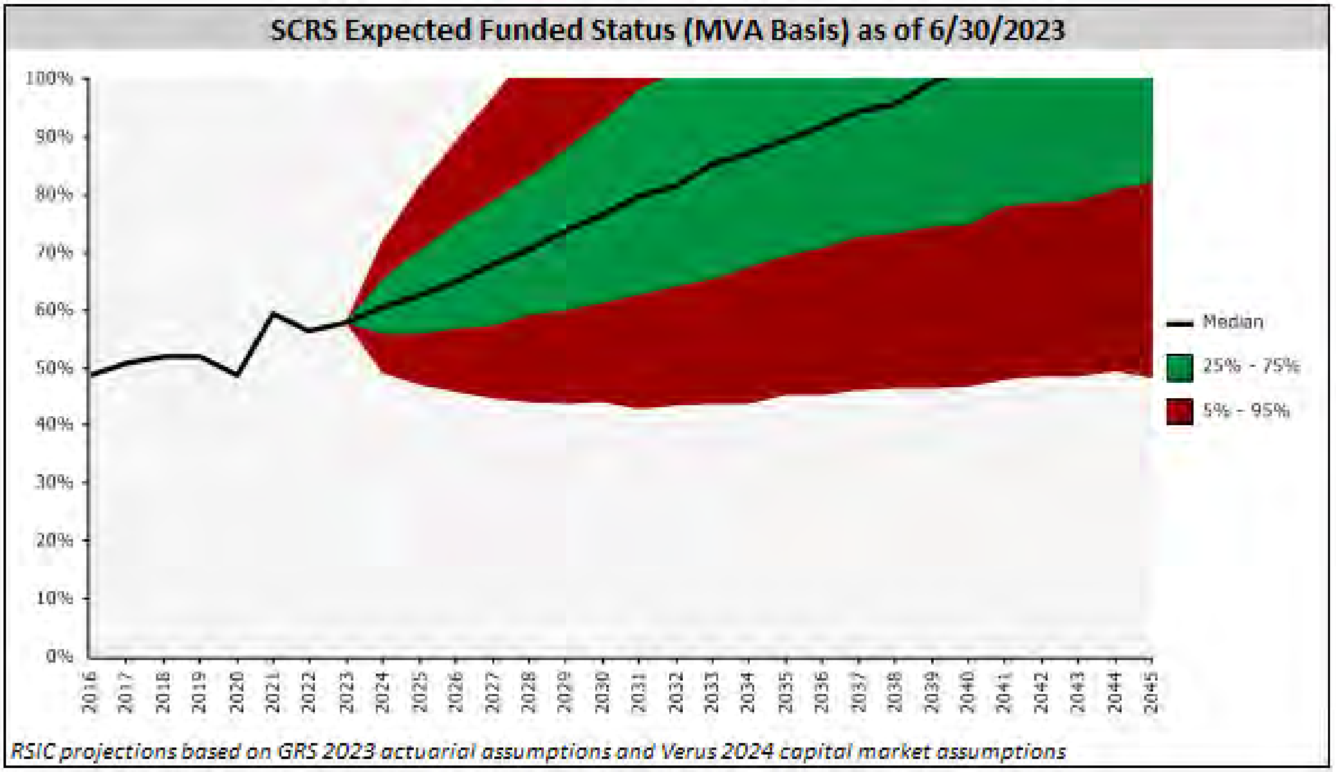


Table 1 tracks the actual, as well as expected, funded status of SCRS since 2016, the year prior to the passage of the 2017 Pension Reform Bill. SCRS is used as the example because its assets comprisethe greatest percentage of the total assets of the five systems. The reason for the stochastic approach 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 2024 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 2039, 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 it is in currently.

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 forecasted investment returns since the bill's passage.

In addition to this stochastic analysis, the 2023 Actuarial Valuation shows the amortization period for SCRS as 16 years, which is eight years ahead of the 2017 Pension Reform Bill's requirement of 24 years. The PORS 2022 Actuarial Valuation also shows the amortization period as 16 years, which is eight years ahead of the Pension Reform Bill's requirement of 24 years.

TABLE 2

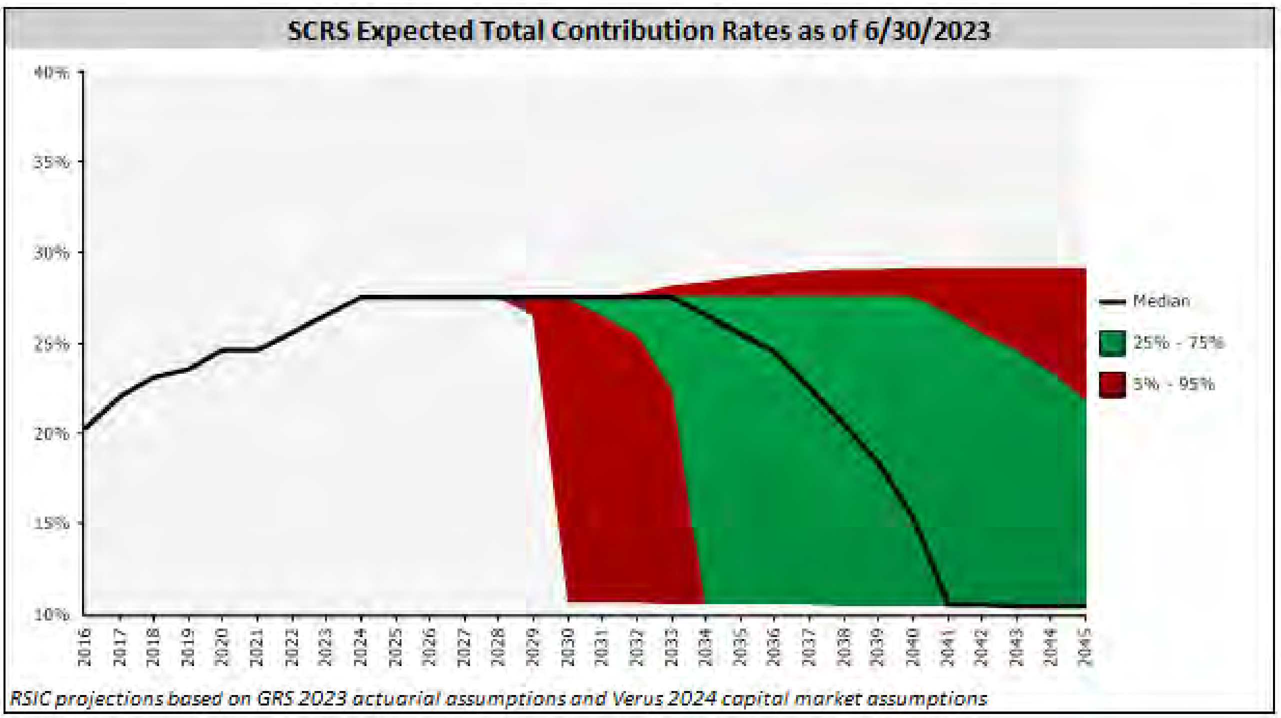


Table 2 tracks the actual, as well as expected, total employer and employee contribution rates for SCRS since 2016. This table also employs a stochastic approach to the expected combined contribution rate to more accurately demonstrate a range of probable outcomes due to market volatility. This analysis 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 have increased to 27.56 percent pursuant to the schedule required by the 2017Pension Reform Bill. The contribution rates are expected to begin to decline in 2034. The contribution rates are projected to decline to the approximately 10 percent normal cost contribution rate by 2041. The table indicates that there is some risk that contribution rates may increase above the 27.56 combined contribution rate required by the 2017 Pension Reform Bill. (Appendix XI 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 withthis fiduciary duty and focused on achieving the investment objective, the Commission and RSIC staffhave adopted a set of core beliefs to ensure that we are collectively guided by a unifying set of principles.

Belief 1 – We believe that the Policy Allocation set by the Commission is the main driver of the 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 earn 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 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 Leadership Team (ELT) is currently comprised of the CEO, CIO, Chief Operating Officer ("COO"), Chief Legal Officer ("CLO"), and Director of Human Resources, and serves as RSIC's primary management committee and aids the CEO inmaking 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 Commission Chair takes the lead in ensuring there is an effective and productive relationship between the Commission and the Investment Consultant and that the Investment Consultant has adequate clarity and direction in meeting the Commission’s needs and requests. The CEO assists the Chair in managing the day-to-day relationship with the Investment Consultant and ensures effective collaboration and consultation between the Investment Consultant and RSIC staff. 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 RSICStaff 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 ELT and other staff on the assessmentof, 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 the 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 proposed a 7 percent assumed annual rate of return to the General Assembly that took effect at the beginning of the 2021-2022 fiscal year because the General Assembly took no action 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.

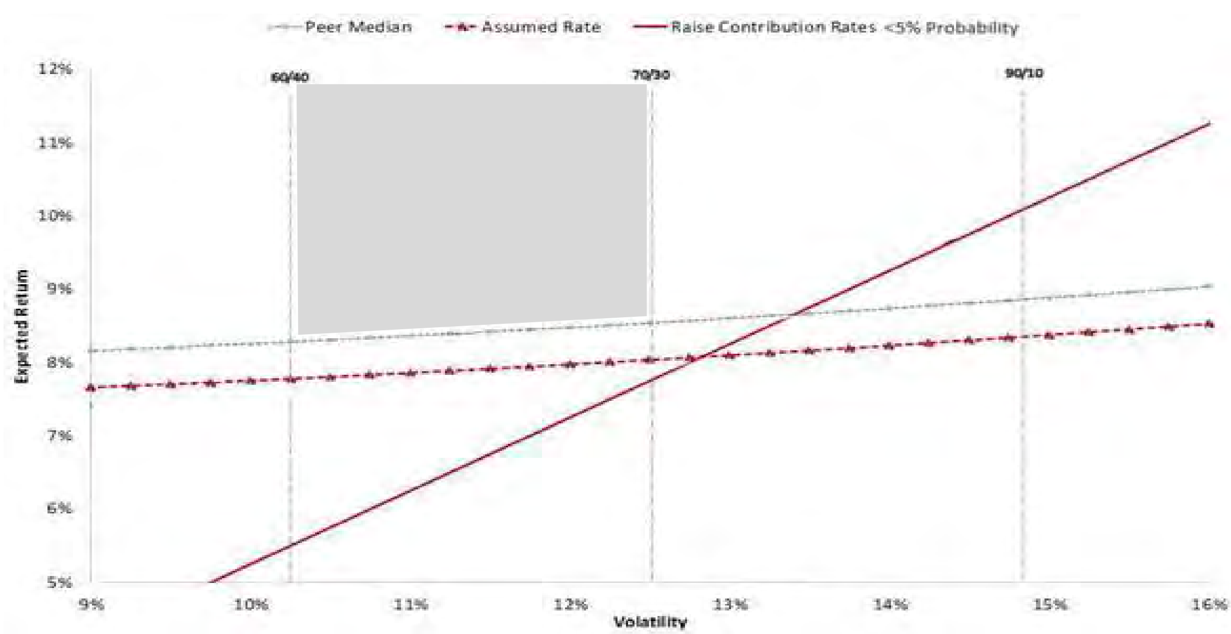
C. Reference Portfolio

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 toa simple mix of stocks and bonds, but rather to set a risk reference for establishing the Policy Portfolio. Although the intent was for the Reference Portfolio's risk to represent that of 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

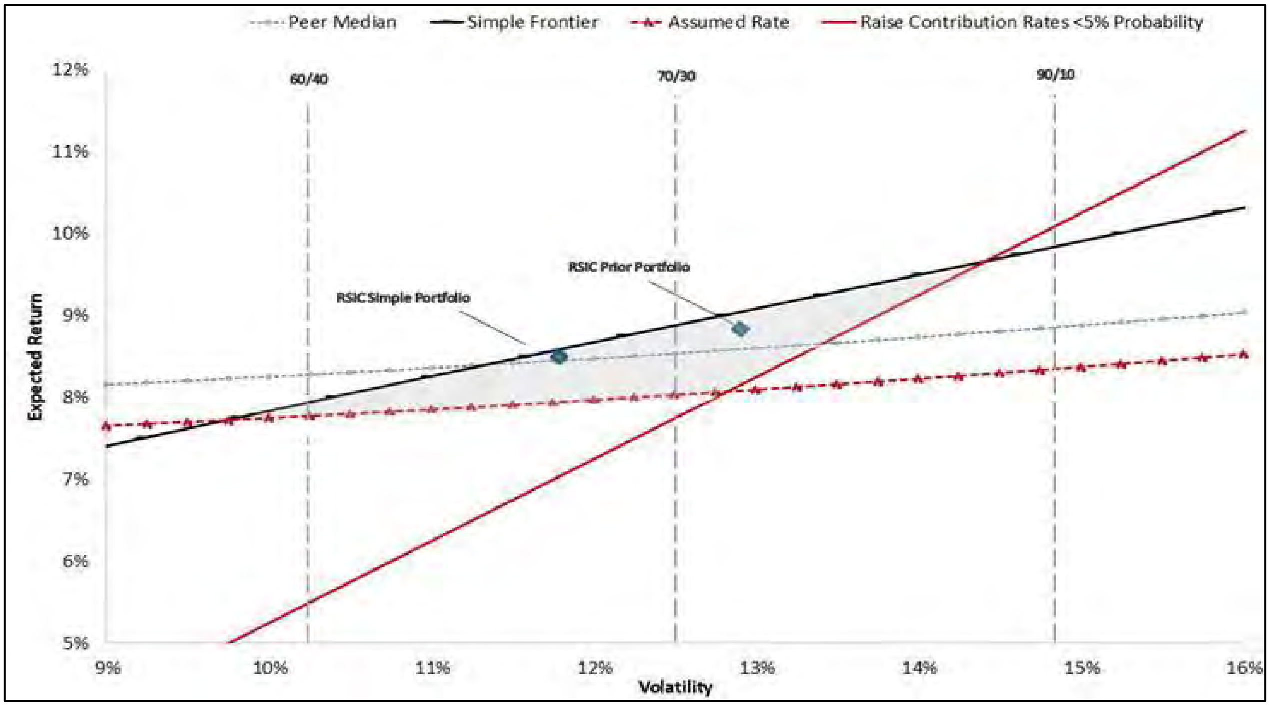
Current Asset Allocation	
Bonds	26
Private Debt	7
Global Equity	46
Private Equity	9
Real Assets	12

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 purposeof 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 were 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 persistent source of return while remaining highly liquid. Bonds are expected to serve a stabilizing function 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 inexchange 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 diversificationwith 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.

Table 6

	Public Equity	Private Equity	Bonds	Private Debt	Real Assets
Primary role in portfolio (asset allocation)	Growth	Growth	Diversification	Yield	Diversification
Secondary role in portfolio (asset allocation)			Yield		Yield
Return expectation (20Y benchmark return)	High	> Public Equity	Low	> Bonds	Moderate
Alpha expectation where active: magnitude vs. cost	Low	High	Moderate	Moderate	Moderate
Consistency of excess return	Low	Moderate	Moderate	High	High
Expected liquidity	Very high	Very Low	Very high	Low	Low
RSIC Target Portfolio Expected Cost	Low	High	Low	Moderate	Moderate

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 7 for the Policy Portfolio.

Table 7

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 have been 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 have been expected to have a 58.41 percent probability of earning a twenty-year annualized rate of return that met or exceeded the then assumed rate of return of 7.25 percent.

In the years since the Commission adopted the Policy Portfolio, the annual capital market expectations have fluctuated primarily in response to significant market movement during the prior year. Based on the 2024 Capital Market Expectations provided by the Commission's General Investment Consultant, the Policy Portfolio is expected to achieve a 10-year annualized rate of return of 7.32 percent with an expected volatility of 11.8 percent. The return and volatility expectations are in line with the 2023 expectations of a 10-year annualized return of 7.4 percent and an expected volatility of 11.9 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. 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 8. In order to measure the risk and return impact of theseportfolio 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 andinvestment staff.

Table 8

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%	10%	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 requires staff to provide 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, 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. Although the effects are reported over shorter periods, 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. Although the effects are reported over shorter periods, 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 changesin 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 prior to 2020, 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. Strategic Asset Allocation – The Commission, with the input and assistance of the General Investment Consultant and staff, will conduct an Asset-Liability Management study and a strategic asset allocation review as contemplated by Section III(H).

2. 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.[5]

3. End of Fund Life - Establish a discipline to evaluate private investments approaching the end of fund life to optimize asset class performance.

[5] The Quantitative Solutions Group is a subset of the Investment Team responsible for quantitative analytical support 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. The Commission and staff must only consider pecuniary factors when making an investment decision or when allocating capital to an external investment manager. A "pecuniary factor" is a factor that a prudent person in a like capacity would reasonably believe has a material effect or impact on the financial risk or return on an investment, including a factor material to assessing an investment manager's operational capability, based on an appropriate investment horizon consistent with a retirement system's investment objectives and funding policy. The term excludes "non-pecuniary factors" which is any factor or consideration that is collateral to or not reasonably likely to affect or impact the financial risk and return of the investment and include but are not limited to the promotion, furtherance, or achievement of environmental, social, or political goals, objectives, or outcomes. The closing documentation of every investment must include the CEO's certification that the decision to make the investment is based on pecuniary factors and is not being made to promote, further, or achieve any nonpecuniary goal, objective, or outcome.

2. IIC and Investment Approval Process - State law provides that the AIP is to be implemented by the Commission through the CIO. 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.

3. 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.

4. 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.

5. Investment Strategies, Objectives, and Performance Standards:

   i. In Section III(D), the Commission described the characteristics and established the role each asset class plays in the Policy Portfolio. Within defined limits and constraints, the Commission provides the CIO and investment staff the ability to structure the portfolio for each asset class in a manner that fulfills the role the asset class plays in the portfolio. The investment staff maintain a "Baseline" document for each asset class that creates a shared understanding of how the portfolio will be structured to achieve the purpose of the asset class established by the Commission. In general, the annual plan for an asset class will involve measures designed to improve its alignment with its Baseline. The following items are detailed in the Baseline document:

      a. The rationale and purpose of the asset class established by the Commission;

      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 staff 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 foreach 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.

6. 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 8, Section III.

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.

iv. 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.

7. Internal Management and Overlay Program – Currently, the staff performs distribution management which is the 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 allocationor 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.

8. Portable Alpha – The Commission provides the CIO with the discretion to use Portable Alpha Strategies not to exceed 15 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 the *Secured Overnight Financing Rate* (SOFR).

9. 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, or the CEO for a delegated investment, 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) or specifically for RSIC and a limited number of other investors (e.g., two member LP fund or LLC). The closing certification for any delegated investment for which the CEO waives this requirement must conspicuously note that this limitation is being waived and identify the basis for the waiver;

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 plan assets.

10. <u>Equity investments not to exceed 70 percent</u> – 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 8, Section III(E). While State law does not stipulate whether the limitation of 70 percent is based on cost or market value, the Commission manages this limitation by the amount of exposure to equity on a market value basis. Therefore, if theexposure to equity investments exceeds 70 percent of the total market value of the Portfolio, the CIO is required to rebalance the Portfolio.

11. <u>Managing Cost</u> – 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 RSIC has multiple investmentstrategies;

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. <u>Risk</u>:

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 the Plan's 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. 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. Proxy Voting – (1) Shareholder proxy votes must be cast in a manner in keeping with fiduciary duty and in a manner that is consistent with the best interest of the trust fund, based on pecuniary factors, and most likely to maximize shareholder value over an appropriate investment horizon. Any engagement with a company regarding the exercise of shareholder proxy votes or the proposal of a proxy question must be based on pecuniary factors and for the purpose of maximizing shareholder value, except that RSIC may engage with a company to express opposition to the proposal of or the merits of a proxy question that does not have a pecuniary impact.

(2) To the extent that it is economically practicable, RSIC must retain the authority to exercise shareholder proxy rights for shares that are owned directly or indirectly. RSIC may retain a proxy firm or advisory service to assist it in exercising shareholder proxy rights, but only if the proxy advisor has a practice of and commits to follow proxy guidelines that are consistent with the requirements of item (1).

(3) RSIC may only allocate capital to a public equity investment strategy if the manager of the investment strategy has a practice of and commits in writing to meet the requirements of item (1), unless it is not economically practicable to do so, or it is necessary to avoid the concentration of assets with any one or more investment managers. For any public equity investment strategy for which the manager does not have a practice of and does not commit in writing to meet the requirements of item (1), a summary of the terms, fees, and performance of the investment must be included in RSIC's annual investment report and published in a conspicuous location on the RSIC's website.

(4) The Commission must annually review compliance with this section regarding the exercise of shareholder proxy rights. The Commission must review a report that summarizes the votes cast by or on the Commission's behalf or at the Commission's direction. The report must include a vote caption, RSIC's vote, the recommendation of company management, and the

recommendation of any proxy advisor retained by RSIC. This report must be posted in a conspicuous location on the Commission's website.

(5) The Commission finds that the provisions of Section 9-16-30(G) of the South Carolina Code are intended to apply to public equity investments and are not intended to apply to private equity investments given the nature, structure, and characteristics of private equity investments.

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's 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 certifies compliance with the Sourcing and Conflict Disclosure Policy. Additionally, the CEO and CIO must certify compliance with the Sourcing and Conflict Disclosure Policy 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. For public markets mandates which are governed by an Investment Management Agreement and custodied with the master custodial bank, automated reports are generated and reviewed on those mandates that can be monitored electronically.

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, RSIC receives monthly performance reports from the custody bank and the Commission receives 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 reports 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:

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

b. 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 monthly) 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 8, 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 8;

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 percent of the equity interest asdefined 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) of the 1976 Code. For purposes of this policy, a co-investment made outside of a co-investment partnership (e.g., the GCM Co-Investment Partnership or a co-investment vehicle attached to a fund 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. An investment into an asset class other than (i) an asset class or sub-asset class provided in Table 8, Section III of the Consolidated AIP/SIOP or (ii) Portable Alpha Hedge Funds;
2. The majority of the types of assets contemplated to underlie 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:
        a. Domestic,
        b. Developed Non-US,
        c. Emerging Market,
        d. Equity Options;
    ii. Bonds:
        a. Core Bonds (IG),
        b. Inflation-linked (IG),
        c. Mixed Credit (non-IG),
        d. EM Debt,
        e. Net Cash and Short Duration; and
    iii. Portable Alpha Hedge Funds.

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 Assets,
        a. Real Estate, and
        b. Infrastructure.

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 an investment made pursuant to this policy no later than three days following the closing of the investment. The notification must include an executive summary of the investment and provide access to any of the following documents relied upon by staff when making the investment:

1. the investment due diligence report,
2. the operational due diligence report,
3. any memorandum and/or reports from the general or specialty consultant,
4. the Internal Investment Committee action summary,
5. the completeness check certification, and
6. the final versions of pertinent legal documents, including the Investment contract, limited partnership agreement, the investment management agreement, as applicable, and/or other 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 quarterly basis.

H. The delegation of the final authority to invest pursuant to this section includes the authority to terminate an investment manager as described in Section IV.C.iii.. 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.

L. This policy was amended on December 2, 2021 and took effect on December 2, 2021.

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 eight 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 actionsfor 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 andexclusions 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 (VERUS MARCH 2024)

XI.
TABLES 1 AND 2 (2022, 2021, and 2020 VERSIONS)

TABLE 1 (2022)

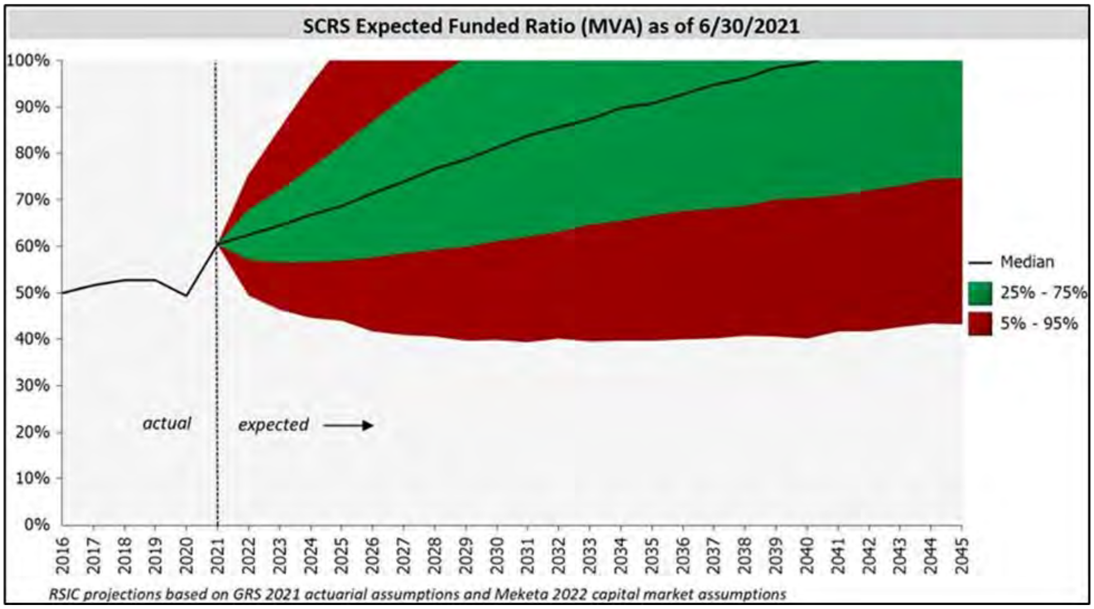


TABLE 1 (2021)

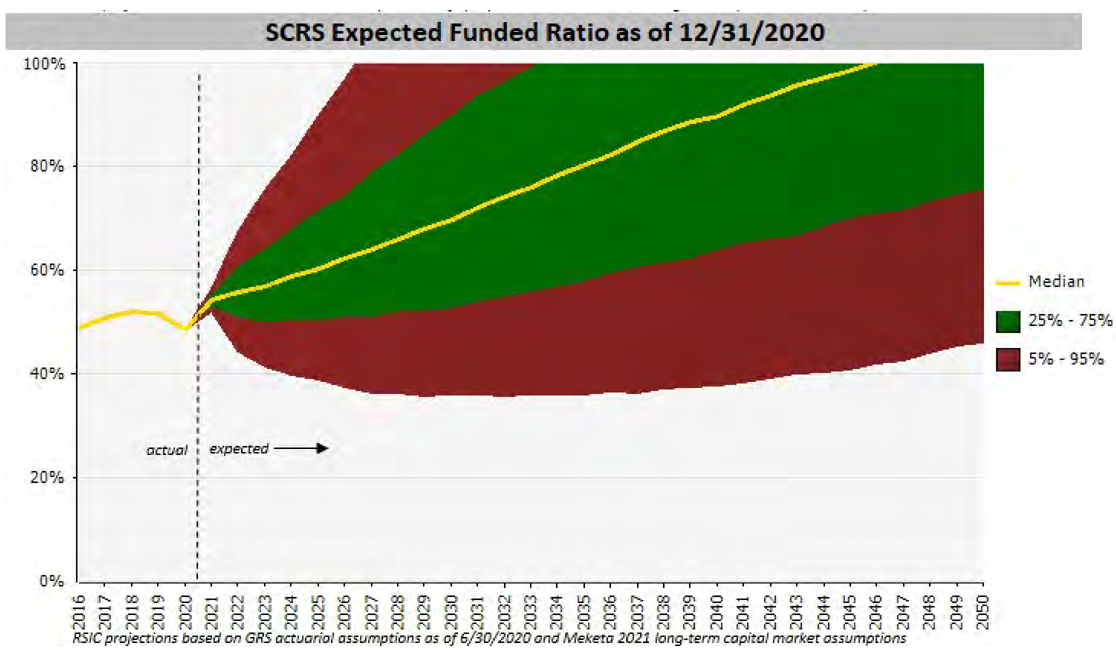


TABLE 1 (2020)

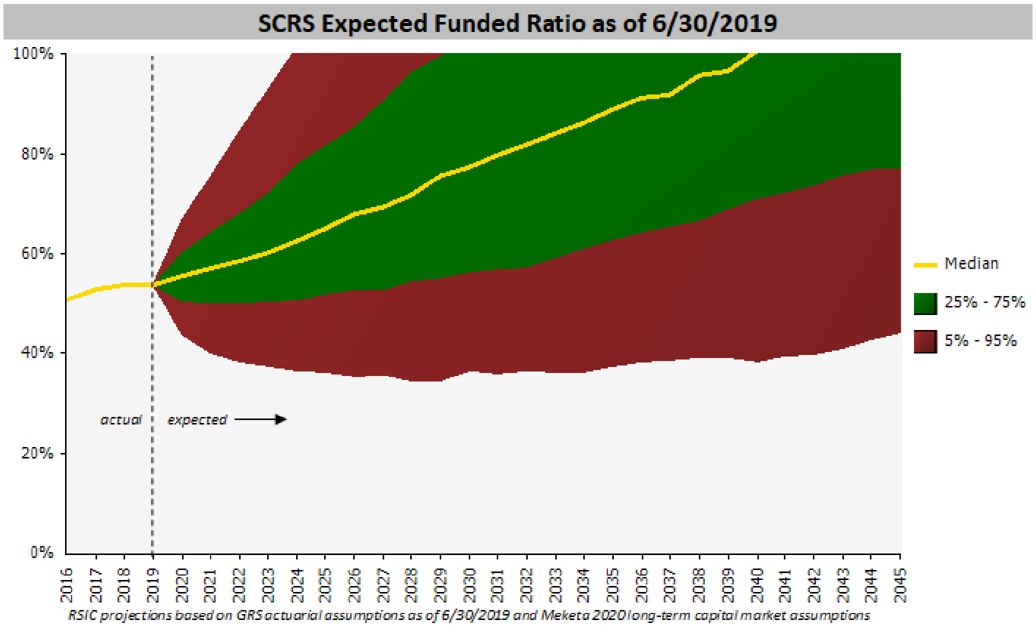


TABLE 2 (2022)

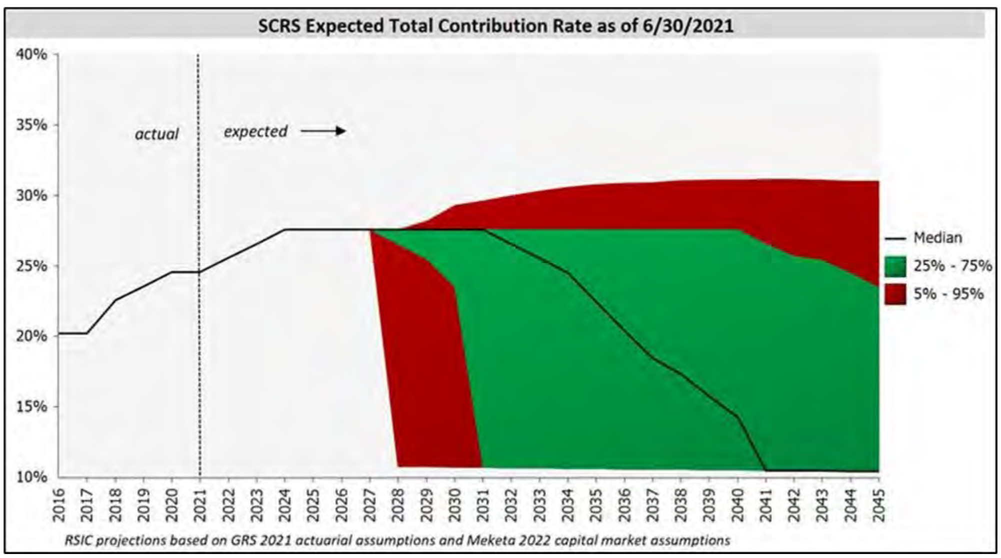


TABLE 2 (2021)

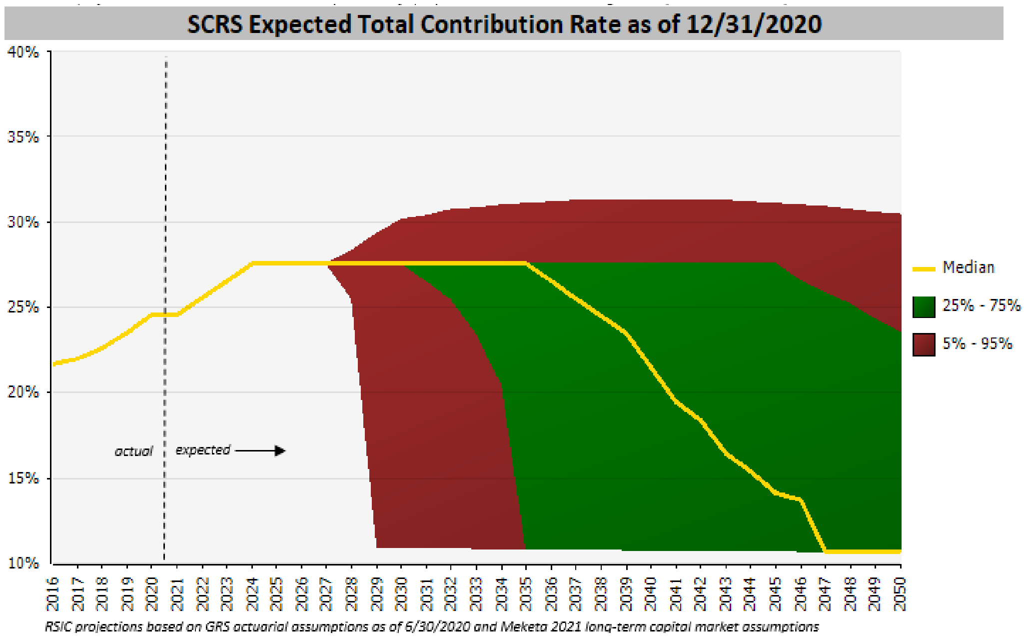
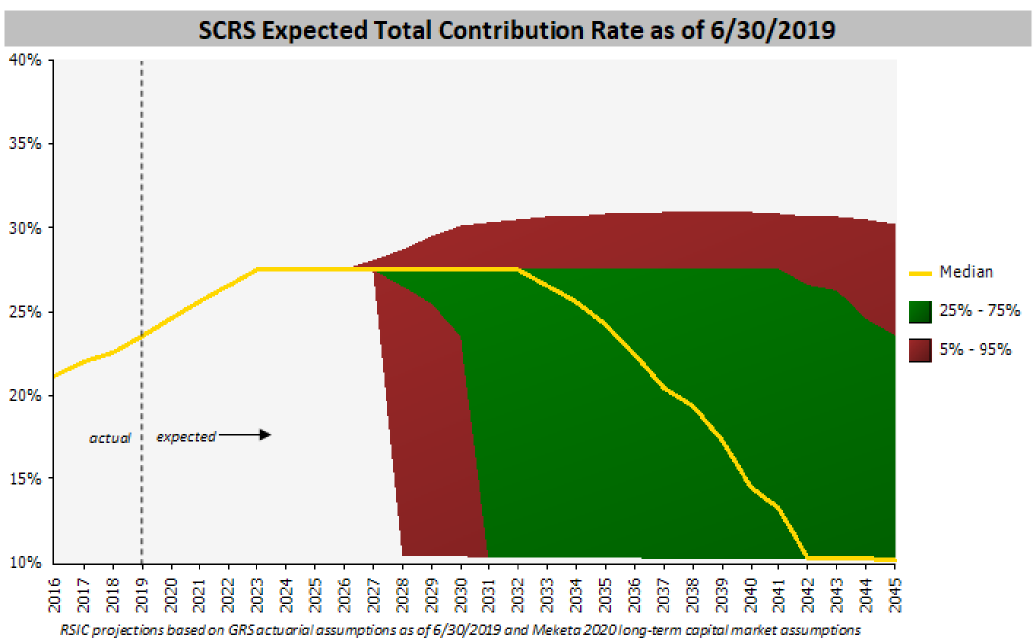


TABLE 2 (2020)



Policy I : *Commission Roles and Responsibilities*

(A) General. The South Carolina Retirement System Investment Commission ("RSIC") was established by South Carolina law for the purpose of investing and managing all assets held in trust for the participants and beneficiaries of five separate defined benefit plans (collectively referred to as the "South Carolina Retirement Systems Group Trust" or "SCRS"):

(1) South Carolina Retirement System
(2) South Carolina Police Officers Retirement System
(3) Retirement System for Judges and Solicitors of the State of South Carolina
(4) Retirement System for Members of the General Assembly of the State of South Carolina
(5) National Guard Retirement System

(B) Commission Membership

(1) **Composition.** The RSIC is under the management of a commission consisting of eight members ("Commission"), seven of which have voting privileges:

(a) Two members appointed by the Governor of South Carolina, one of which is an active member of the Retirement System, Police Officers Retirement System, Retirement System for Judges and Solicitors, or the National Guard Retirement System
(b) One member appointed by the State Treasurer (§9-16-315(A)(2))
(c) One member appointed by the Comptroller General of South Carolina
(d) One member appointed by the Chairman of the South Carolina Senate Finance Committee
(e) One member appointed by the Chairman of the Ways and Means Committee of the South Carolina House of Representatives
(f) One member who is a retired member of either the Retirement System, Police Officers Retirement System, Judges and Solicitors Retirement System, or National Guard Retirement System ("Representative Member"). This member must be appointed by unanimous vote of the voting members of the Commission. (§9-16-315(A))
(g) The Executive Director of South Carolina Public Employee Benefit Authority ("PEBA"), ex officio, who shall serve without voting privileges.

(2) **Appointment Qualifications**

(a) In making appointments, the appointing authorities shall select members who are representative of the racial, gender, and geographical diversity of the State.
(b) A person may not be appointed to the Commission unless the person possesses at least one of the following qualifications:

(i) The Chartered Financial Analyst credential of the CFA Institute;
(ii) At least twelve years of experience as a Certified Financial Planner™ credentialed by the Certified Financial Planner Board of Standards;
(iii) The Chartered Alternative Investment Analyst certification of the Chartered Alternative Investment Analyst Association;
(iv) At least twenty years professional actuarial experience, including at least ten as an Enrolled Actuary licensed by a Joint Board of the Department of Treasury and the Department of Labor, to perform a variety of actuarial tasks required by pension plans in the United States by the Employee Retirement Income Security Act of 1974;

(v) At least twenty years professional teaching experience in economics or finance, ten of which must have occurred at a doctorate-granting university, master's granting college or university, or a baccalaureate college as classified by the Carnegie Foundation;

(vi) An earned Ph.D. in economics or finance from a doctorate-granting institution as classified by the Carnegie Foundation;

(vii) The Certified Internal Auditor credential of The Institute of Internal Auditors;

(viii) At least twelve years of professional experience in the financial management of pensions or insurance plans; or

(ix) At least twelve years of professional experience as a certified public accountant with financial management, pension, or insurance audit expertise (§9-16-315(D)).

(c) Except for the member appointed pursuant to subsection B(1)(f) or (g) above, no person may be appointed or continue to serve on the Commission who is an elected or appointed officer or employee of the State or any of its political subdivisions, including school districts. (§9-16-315(E))

(d) The Commission shall select one of the voting members to serve as Chair, another as Vice Chair, and shall select those other officers it determines necessary. (§9-16-315(C)) For information regarding the election process, see the *Commission Operations Policy*.

(e) Notwithstanding Section 2(b) above, members appointed prior to and serving on the Commission as of June 30, 2012 shall continue to serve for the remainder of their current term for which they are appointed. (Section 64(C) Act 278 of 2012).

(3) **Term of Office.** Except for the PEBA Executive Director serving ex officio, members shall serve for terms of four years and until their successors are appointed and qualify. Terms are deemed to expire after June 30th of the year in which the term is due to expire. Members are appointed for a term and may be removed before the term expires only by the Governor for the reasons provided in §1-3-240(C). A member may not be appointed to serve more than two consecutive full four-year terms. A member serving a second or greater term, beginning July 1, 2016, may not serve an additional consecutive four-year term upon the expiration of his term.

(4) **Commencement of Term of Office and Annual Filing Requirements**. A person appointed may not serve until the appointing official certifies to the Secretary of State that the appointee meets or exceeds the qualifications set forth above. A person appointed may not qualify to serve unless he first certifies that he meets or exceeds the qualifications applicable for his appointment. (§9-16-315(B)

(a) **Statement of Economic Interests**

(i) Commission members must file a Statement of Economic Interests with the State Ethics Commission prior to taking the oath of office or entering upon his official responsibilities. If the Commission member has no economic interests to disclose, he shall nevertheless file a statement of inactivity to that effect with the State Ethics Commission. (§8-13-1110(A)). The statement of economic interests filed must be on forms prescribed by the State Ethics Commission. (§8-13-1120(A))

(ii) No later than noon on March thirtieth of each calendar year after assuming office, Commission members must file an updated statement of economic interests for the previous calendar year with the State Ethics Commission. The Commission member's statement must list any addition, deletion, or change in his economic status with respect to which information is required to be supplied under the Ethics Reform Act. (§8-13-1140)

(b) **Oath of Office**

(i) Commission members are public officers of the State of South Carolina. (§8-1-10)

(ii) Before assuming their duties for the RSIC, all Commission members must take and subscribe to the following oath of office:

"I do solemnly swear (or affirm) that I am duly qualified, according to the Constitution of this State, to exercise the duties of the office to which I have been elected, (or appointed), and that I will, to the best of my ability, discharge the duties thereof, and preserve, protect, and defend the Constitution of this State and the United States. So help me God." (S.C. Const. art. VI, § 5; §8-3-10)

(iii) A notarized, original oath of office executed by each Commission member must be filed with the Secretary of State of South Carolina.

(5) **Removal from Office.** Commission members may only be removed from the Commission prior to the expiration of his or her term by the Governor for the following reasons:

(a) Malfeasance
(b) Misfeasance
(c) Incompetency
(d) Absenteeism
(e) Conflicts of interest
(f) Misconduct
(g) Persistent neglect of duty in office
(h) Incapacity (§1-3-240(c))

(C) General Responsibilities and Duties

(1) Oversee the management of the business and affairs of the RSIC in accordance with applicable laws.
(2) Ensure legal and ethical integrity, adhere to fiduciary duties, and maintain accountability.
(3) Support the Chief Executive Officer ("CEO") and ensure the RSIC leadership has the moral and professional support needed to further RSIC's goals.

(D) Investment Responsibilities

(1) Exercise all powers and perform all duties prescribed by law with respect to the investment of public trust and retirement funds. This includes, but is not limited to:

(a) Exclusive authority, subject to South Carolina Code Ann. §9-1-1310~~,~~ and §9-16-330(B)(1) to invest and manage the assets of the SCRS. (§§9-16-20(A);~~§9-16-50(A)(4)~~ 9-16-30(A); 9-16-50(A)(4))

(b) Duty to make a reasonable effort to verify facts relevant to the investment and management of assets of the SCRS.(§9-16-50(A)(3))

(c) Adopt a Statement of Investment Objectives and Policies for the Retirement System, which must include:

(i) Desired rate of return on assets overall
(ii) Desired rates of return and acceptable level of risk for each asset class
(iii) Asset allocation goals
(iv) Guidelines for delegation of authority
(v) Information on the types of reports to be used to evaluate investment performance (§9-16-50(B))

(d) Duty to review the Statement of Investment Objectives and Policies for the SCRS at least annually and change or reaffirm the statements.
(e) Ensure that a sound investment philosophy and strategy exist to guide the management of the investment program and achieve RSIC investment objectives.

(E) <u>Administrative Responsibilities</u>

(1) Approve and amend policies as necessary, including:
(a) Policies clearly defining the roles and responsibilities of the Commission and its officers, Commission committees, and CEO.
(b) Policies for the establishment, maintenance, and efficient delivery of services, and any other policies the Commission deems appropriate for RSIC.
(c) Policies to ensure appropriate governance practices on the part of the RSIC, including provisions relating to standards of conduct.
(d) Policies to assist the Commission members in securing knowledge required to properly execute their duties as fiduciaries.

(2) Select the CEO after a carefully considered and executed search process. The CEO shall serve as the chief administrative officer of the commission and is charged with the affirmative duty to carry out the mission, policies, and direction of the Commission as established by the Commission. (§9-16-315(G))
(3) Annually review the performance of the CEO.

(F) <u>Monitoring and Reporting Responsibilities</u>

(1) Regularly monitor the effectiveness and performance of the investment and management of the assets of the Retirement System, consistent with the investment and other policies of the Commission. This will include at a minimum:
(a) Total funded status of Retirement System
(b) Total fund performance relative to policy benchmark(s)
(c) Asset class and investment manager/fund performance
(d) Cost effectiveness of the investment program

(2) Regularly monitor the effectiveness and efficiency of the administration of RSIC through a review of, at a minimum:
(a) Adoption and monitoring of the strategic plan.
(b) Approval and monitoring of the operating budget.
(c) Implementation of agency internal controls.

(3) Ensure effective organizational planning, actively participate in the strategic planning process, and assist in monitoring achievement of RSIC's goals.
(4) Ensure that appropriate monitoring and reporting practices are established and documented within the RSIC and made available to Commission members.
(5) Annually review the performance of the Commission itself in order to engage in self-analysis and discussion for the purpose of improving its effectiveness as a fiduciary body. *See Executive Staff and Commission Evaluation Policy*

(6) Receive reports from the Audit and Enterprise Risk Management Committee regarding the results of audits of the RSIC, including the fiduciary audit engaged by the State Auditor every four years pursuant to §9-16-380.
(7) Receive reports and request information from the CEO regarding the performance of the CIO as appropriate to fully inform the Commission of the CIO's performance and any concerns related thereto.

(G) Responsibilities of Individual Commission Members
(1) Be informed about RSIC's mission and policies.
(2) Attend Commission meetings, or if unable to attend, notify the CEO and/or the Chair as soon as possible to ensure that a quorum will be present.
(3) Review agenda and supporting materials prior to Commission and Committee meetings.
(4) Serve on Commission Committees and offer to take on special assignments.
(5) Keep up to date on developments in the pension and public fund area.
(6) Comply with ethics, fiduciary standards, conflict of interest, disclosure, and confidentiality laws and policies.
(7) Counsel and work with the CEO as appropriate.
(8) Assist the Commission in carrying out its fiduciary responsibilities. (§9-16-40)
(9) At all times meet high ethical standards to avoid even the appearance of impropriety.

(H) Standards for Discharge of Commission Duties
(1) As fiduciaries, each Commission member shall discharge his duties with respect to the Retirement System:
(a) Solely in the interest of the Retirement System and its participants and beneficiaries;
(b) For the exclusive purpose of providing benefits to participants and beneficiaries and paying reasonable expenses of administering the Retirement System;
(c) With the care, skill, and caution under the circumstances then prevailing which a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an activity of like character and purpose;
(d) Impartially, taking into account any differing interest of participants and beneficiaries;
(e) Incurring only costs that are appropriate and reasonable; and
(f) In accordance with a good faith interpretation of the Code of Laws of South Carolina, 1976, as amended. (§9-16-40)

(I) Standards of Conduct for Commission Members; Conflicts of Interest While the Commission may not invest in any asset or with any entity in which a Commissioner or his immediate family has any interest, this restriction does not apply to publicly traded securities. (§9-16-100(C)) In conjunction with this provision, the following standards of conduct and conflicts of interest rules apply to the Commission.
(1) Except as may be provided by laws relating to the Retirement System, no Commission member shall:
(a) Have any direct interest in the gains or profits of any investment made by the RSIC.
(b) Directly or indirectly, for himself or as an agent in any manner use the funds of the RSIC except to make such current and necessary payments as are authorized by the South Carolina Budget and Control Board or Commission.

(c) Become an endorser or surety or in any manner an obligor for monies loaned or borrowed from the RSIC. (§9-1-1340)

(2) It is unlawful for a Commission member to use any information concerning RSIC activities to obtain any economic interest for himself, a member of his immediate family, an individual with whom he is associated, or a business in which he is associated. (§9-16-350(A))

(3) Commission members are prohibited from:

(a) Taking any action to purchase or acquire services or property for the RSIC or Retirement System where the Commission member or any employee of the Commission member or RSIC, their family, or their business associates have a financial interest in the services or property.

(b) Taking any action to invest Retirement System funds in any share, or other security if the Commission member or any employee of the Commission member or RSIC, their family, or their business associates have an interest in, are underwriters of, or receive any fees from the investment.

(c) Having any interest in the profits or receive any benefit from a contract entered into by the RSIC.

(d) Using their positions to secure, solicit, or accept things of value, including gifts, travel, meals and lodging, and consulting fees for payment for outside employment, from parties doing or seeking to do business with or who are interested in matters before the Commission member or RSIC.

(e) Representing, while serving as a Commission member and for one year after leaving membership on the Commission, any person, in any fashion, before any public agency, with respect to any matters in which the Commission member personally participated while serving as a Commission member.

(f) Taking any official action on matters that will result in a benefit to themselves, their family members, or their business associates.

(g) Disclosing or using confidential information acquired in their official capacity as a Commission member, without proper authorization, during or after their term of service.

(h) Using assets of the Retirement System for their own interests.

(i) Acting on behalf of a party whose interests are adverse to Retirement System, the RSIC, or the Commission, even if the Commission member receives no personal gain.

(j) Having any direct or indirect interest in the gains or profits of any Retirement System investment other than the indirect interest of a passive investor holding less than five percent of the outstanding equity in a publicly-traded security.

(k) Making investments through or purchases from, or otherwise doing any business with a former fiduciary member or employee or with a business that is owned or controlled by a former fiduciary member or employee, for a period of three years after the fiduciary member or employee leaves the fiduciary. (§9-16-360)

(4) Commission members shall comply with all applicable provisions of the Ethics Reform Act, codified at §§8-13-100 *et seq*., in addition to Title 9, Chapter 16 of the Code of Laws of South Carolina, 1976, as amended, Commission policies, and other applicable laws, including those relating to campaign contributions.

(5) In accordance with §8-13-700(B), no Commission member may make, participate in making, or in any way attempt to use his membership to influence a Commission decision

in which he, a family member, an individual with whom he is associated, or a business with which he is associated has an economic interest. A Commission member who, in the discharge of his official responsibilities, is required to take action or make a decision which affects an economic interest of himself, a family member, an individual with whom he is associated, or a business with which he is associated shall:

(a) Prepare a written statement describing the matter requiring action or decisions and the nature of his potential conflict of interest with respect to the action or decision;
(b) Furnish a copy of the statement to the Commission Chair, who shall cause the statement to be printed in the minutes and require that the member be excused from any votes, deliberations, and other actions on the matter on which the potential conflict of interest exists and shall cause the disqualification and the reasons for it to be noted in the minutes. (§8-13-700(B))

(6) In the event that a Commission member believes that a business or other relationship or connection may create a conflict of interest pursuant to State law or may create the appearance of a conflict or impropriety, he may abstain from deliberations about and voting related to the relationship.
(7) In the event of abstention due to a relationship that is not governed by the above referenced State law, the Commission member should disclose that he is abstaining from related discussions and voting and the nature of the relationship which he feels may create the appearance of impropriety. This abstention and nature of the relationship must be included in the meeting minutes.
(8) If the Commission member or a member of his immediate family holds an economic interest in a blind trust, he is not considered to have violated §9-16-350(A) (Section I(2) above) even if the acquisition of the economic interest by the blind trust would otherwise violate §9-16-350(A), if the existence of the blind trust and the manner of its control is disclosed to the State Ethics Commission and the Commission. (§9-16-350(B))

(J) Breach of Duty

(1) A Commission member who breaches a duty imposed by Title 9, Chapter 16 of the Code of Laws of South Carolina, 1976, as amended, is personally liable to the Retirement System for any losses resulting from the breach and any profits resulting from the breach or made by the Commission member through the use of assets of the Retirement System by the Commission member. The Commission member is subject to other equitable remedies, including but not limited to removal.(§9-16-70(A))
(2) An agreement that purports to limit the liability of a Commission member for a breach of duty imposed by Title 9, Chapter 16 of the Code of Laws of South Carolina, 1976, as amended, is void. (§9-16-70(B))
(3) The Retirement System may insure a Commission member against liability or losses occurring because of a breach of duty under Title 9, Chapter 16 of the Code of Laws of South Carolina, 1976, as amended. (§9-16-70(C))
(4) A Commission member may insure against personal liability or losses occurring because of a breach of duty under Title 9, Chapter 16 of the Code of Laws of South Carolina, 1976, as amended, if the insurance is purchased or provided by the individual Commission member who obtains the insurance pursuant to Title 9, Chapter 16. A Commission member who obtains such insurance must disclose all terms, conditions, and other

information relating to the insurance policy to the Retirement System and RSIC. (§9-16-70(D))

(K) Defense and Indemnification of Commission Members

(1) The State of South Carolina shall defend Commission members against a claim or suit that arises of or by virtue of their performance of official duties on behalf of the RSIC and must indemnify these members for a loss or judgment incurred by them as a result of the claim or suit, without regard to whether the claim or suit is brought against them in their individual or official capacities, or both. (§9-16-370)

(2) The commitment of the State of South Carolina to defend and indemnify extends to Commission members after they have left their membership on the Commission, if the claim or suit arises out of or by virtue of their performance of official duties on behalf of RSIC. (§9-16-370)

(L) Delegation of Functions by the Commission

(1) The Commission may delegate functions that a prudent person acting in a like capacity and familiar with those matters could properly delegate under the circumstances but final authority to invest cannot be delegated. (§9-16-30(A))

(2) The Commission must exercise reasonable care, skill, and caution in:
   (a) Selecting an agent
   (b) Establishing the scope and terms of the delegation, consistent with the purposes of the retirement program
   (c) Periodically reviewing the agent's performance and compliance with the terms of the delegation. (§9-16-30(B))

(3) A Commission member who complies with the above two subsections is not liable to the Retirement System or to its participants or beneficiaries for the decisions or actions of the agent to whom the function was delegated. (§9-16-30(D))

(4) The Commission may delegate any of its functions to the CEO as it deems appropriate for efficient administration and when such delegation is consistent with South Carolina law. (§9-16-30(A)).

(5) The CEO is delegated the authority of the Commission necessary, reasonable and prudent to carry out the operation and management of the Commission as an agency and to implement the Commission's decisions and directives. (§9-16-315(G)).

(6) In accordance with §9-16-315(G), the Commission delegates to the CEO the authority to execute on behalf of the Commission any documents necessary to implement a final decision to invest.

(7) Notwithstanding Section 9-16-30(A), the Commission may include a delegation to the Chief Investment Officer of the final authority to invest subject to the limitations set forth in §9-16-330(B) and the Investment Authority Delegation Policy as approved by the Commission.

(M) Compensation of Commission Members

(1) Effective beginning July 1, 2012, each Commission member, not including the Executive Director of the South Carolina Public Employee Benefit Authority, must receive an annual salary of twenty thousand dollars plus mileage and subsistence as provided by law for members of state boards, committees, and commissions paid as provided pursuant to §9-16-315(J)(2).

(2) Notwithstanding any other provision of law, membership on the Commission does not make a member eligible to participate in a retirement system administered pursuant to Title 9 of the Code of Laws of South Carolina, 1976, as amended, and does not make a member eligible to participate in the employee insurance program administered pursuant to Article 5, Chapter 11, Title 1, if the member is not otherwise eligible.

(3) Compensation paid on account of the Commission member's service on the Commission is not considered earnable compensation for purposes of any retirement system administered pursuant to Title 9 of the Code of Laws of South Carolina, 1976, as amended.

(N) Gender References, Policy Review and History

(1) Any gender-specific language in this policy shall include the other gender.

(2) 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 applicable 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.

(3) 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.

(4) This policy was adopted on August 20, 2009.

(5) This policy was amended on November 8, 2012.

(6) This policy was amended on February 28, 2013.

(7) This policy was amended on June 3, 2014.

(8) This policy was amended on August 25, 2014.

(9) This policy was amended on February 26, 2015.

(10) This policy was ~~last~~ amended on November 19, 2015.

(11) This policy was ~~last~~ amended on June 22, 2017 and made effective as of July 1, 2017.

(12) This policy was last amended on --- and made effective as of ---.

Summary report: **Litera Compare for Word 11.6.0.100 Document comparison done on 2/20/2024 3:51:23 PM**	
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Intelligent Table Comparison: Active	
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Modified filename: 2024.02.20 GP I Commission Roles and Responsibilities updated clean.docx	
Changes:	
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~~Delete~~	5
~~Move From~~	0
Move To	0
Table Insert	0
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~~Table moves from~~	0
Embedded Graphics (Visio, ChemDraw, Images etc.)	0
Embedded Excel	0
Format changes	0
Total Changes:	14

Policy III : *Chief Executive Officer and Chief Investment Officer Roles and Responsibilities*

(A) Chief Executive Officer Role

(1) Serves as the agency head of the RSIC, reporting directly to the Commission, with functions and duties as assigned by the Commission.

(2) The Chief Executive Officer ("CEO") is a fiduciary who must discharge duties consistent with fiduciary standards at all times.(§9-16-30)

(3) The CEO is an at-will employee, selected by the Commission to serve as the chief administrative officer of the Commission and to manage and oversee the organization on behalf of the Commission and to act as the Commission on a day-to-day basis in this regard. The CEO is delegated the authority of the Commission necessary, reasonable and prudent to carry out the operation and management of the Commission as an agency and to implement the Commission's decisions and directives. (§9-16-315(G)).

(4) The CEO is the central source of authority and accountability for administrative decisions.

(5) Supports the Commission at all times in discharging its duties.

(6) The CEO shall employ a CIO. Prior to taking any action to employ a new CIO or to terminate the existing CIO, the CEO will discuss the contemplated action with the Chair and Vice-Chair. Further, the CEO will discuss with the full Commission the employment of a new CIO or the termination of the existing CIO as soon as practicable after any action is taken. In the case of a vacancy in the CIO position, the CEO will discuss a recruitment plan with the Chair and Vice-Chair and provide the plan to all of the Commissioners prior to taking action. (§9-16-315(H))

(7) The CEO serves as the primary point of contact for the Commissioners to the Staff and Commissioners shall, to the extent practicable, coordinate requests for information or assistance from Staff through the CEO to ensure that the request is assigned to the appropriate Staff member and to allow the CEO to ensure that Staff work load is managed and balanced in a manner that promotes efficiency and the most timely response possible.

(8) The CEO helps to set the "tone at the top" regarding ethics and the culture of the RSIC.

(B) Chief Executive Officer Responsibilities: General

(1) Develop and recommend to the Commission appropriate strategic direction, Strategic Plan, operating budget, internal controls, and enterprise risk parameters. Provide executive leadership in achieving the RSIC's mission, goals and objectives, and the Strategic Plan, and ensure that they are developed, monitored, implemented, and reviewed at least annually by the Commission.

(2) Represent RSIC before the South Carolina General Assembly and/or any of its committees or sub-committees and any State agencies with assistance from the CIO as necessary or appropriate.

(3) Develop and maintain communications and relationships with other state agencies, public retirement systems, stakeholder groups, legislative authorities and other organizations involved with or having an impact on public retirement issues that may affect the Retirement Systems.

(4) Develop, recommend and implement the Communication Plan approved by the Commission.

(5) Meet with the Chair to discuss organizational issues and to set the agenda for Commission meetings.
(6) Manage the RSIC in accordance with the operating policies established by the Commission and in compliance with state and federal laws and solicit advice from counsel and the Commission as necessary.
(7) In accordance with the Service Provider Selection Policy, appoint and remove service providers who are not "Named."
(8) Oversee and serve as the approval authority for the recruiting, hiring, terminating, and retaining of staff necessary to effectively and prudently address organizational priorities.
(9) Annually prepare and present to the Commission a report detailing the financial impact of all compensation paid each fiscal year to staff. The CEO will also provide regular updates to the Human Resources and Compensation Committee ~~for submission to the Commission an organizational chart of the Commission staff that clearly delineates lines of authority and position function and a summary of FTEs and the estimated salary range for each position.~~regarding changes in employee compensation, position and title, as well as hirings, terminations, or resignations.
(10) Maintain an organizational atmosphere through regular communication with the Staff that ensures that each staff member understands their role in the organizational structure in a manner that promotes a sense of value for the particular staff member's contribution to the overall success of the organization.
(11) Develop, recommend and implement an annual 360◦ review and evaluation of the CEO for use by the Commission.

~~(12) Annually conduct, in consultation with the Chair, a performance review of the CIO. The CEO shall provide the performance evaluation of the CIO to the Commissioners before it is finalized.~~

(12)~~(13)~~ Foster an atmosphere of creativity, ingenuity, initiative, teamwork, and cohesiveness within the investment division and the RSIC.

(C) Chief Executive Officer Responsibilities: Monitoring and Reporting

(1) Ensure that the Commission is provided with relevant, appropriate, and timely information to enable it to properly carry out its investment, management, monitoring and oversight responsibilities.
(2) Coordinate reporting requirements to RSIC and other stakeholders.
(3) Monitor that the RSIC operates within applicable laws, rules, regulations, and policies at all times.
(4) Monitor proposed changes in state and federal laws and, in consultation with legal counsel and Staff, analyze and evaluate proposed legislation affecting the RSIC or Retirement Systems' investments; when appropriate, develop and recommend to the Commission an official position for RSIC, consistent with RSIC's role and strategic direction.
(5) Ensure Human Resource policies and procedures are implemented and adequate to hire, monitor, mentor, develop and evaluate the performance of staff.
(6) Ensure the Commission receives recommendations for approval or dismissal of "Named" service providers in accordance with the Service Provider Selection Policy.
(7) Ensure the implementation of appropriate internal controls.

(8) Monitor and direct counsel with respect to legal actions involving RSIC, keeping the Commission apprised of such actions, and, when required, obtaining Commission approval before undertaking such actions.
(9) Ensure internal and external audits are performed as needed and findings are appropriately addressed.
(10) Execute a management representation letter from RSIC to the South Carolina Public Employee Benefit Authority ("PEBA") to be used in conjunction with the preparation of the annual financial statements and the annual external audit thereof. Appropriate representations should be made regarding the investment portfolio functions of the RSIC.
(11) Execute any management representation letters or audit engagement letters for engagements concerning the RSIC conducted by the State Auditor's Office.
(12) Coordinate implementation and compliance with audit findings and recommendations at the direction of the Audit and Enterprise Risk Management Committee.

(D) <u>Chief Investment Officer Role</u>

(1) Serves as chief investment officer, reporting to the CEO, for functions and duties provided by Title 9, Chapter 16 of the Code of Laws of South Carolina, 1976, as amended, and as appropriately delegated by the Commission.
(2) Reports to the CEO for day-to-day oversight and strategic planning objectives and for all other functions and duties delegated by the CEO. Subject to the oversight of the CEO, the CIO serves as the central source of authority and accountability for all investment decisions delegated to him or her by the Commission and state law.
(3) The Chief Investment Officer is an at-will employee, selected by the CEO, who is a fiduciary pursuant to State law, and must discharge his or her duties consistent with fiduciary standards at all times. (§§, 9-16-10(4), 9-16-40)
(4) Supports the Commission and the CEO at all times in discharging their duties.
(5) The Chief Investment Officer helps the CEO set the "tone at the top" regarding ethics and the culture of the RSIC.

(E) <u>CIO Responsibilities: General</u>

(1) Assist the CEO when the CEO represents the RSIC before the South Carolina General Assembly and/or any of its committees or subcommittees and any State agencies related to investment matters.
(2) In consultation with the CEO, develop investment business plans for incorporation into the Commission's Strategic Plan.
(3) Meet with the Chair and the CEO to discuss investment issues and to set the investment agenda for Commission meetings.
(4) Partner with the CEO to ensure the success of the investment program through regular reports on strategic direction, progress towards strategic initiatives, investment performance, investment risk management, SIOP/AIP compliance, and to keep the CEO apprised of key investment activities.
(5) Coordinate activities with the Investment Consultant(s), maintaining open communication and constructive relationships.
(6) Monitor and evaluate the activities and performance of external service providers engaged by RSIC or the Commission for investment functions, including contracts,

mandates, and performance expectations and results. *See Service Provider Selection Policy.*

(7) Oversee key aspects of the investment function including internal and external asset management, portfolio rebalancing, investment risk management, performance, procedures, and compliance with the SIOP and AIP.

(8) Manage personnel under his or her direction designated on the organizational chart.

(9) Provide decision-making authority as delegated by the Commission pursuant to S.C. Code § 9-16-330(B) and the Investment Authority Delegation Policy as approved by the Commission.

(10)~~(9)~~ Provide decision-making authority as delegated by the Commission within its Strategic Partnerships.

(11)~~(10)~~ Fosters an atmosphere of creativity, ingenuity, initiative, teamwork, and cohesiveness within the investment division and the RSIC.

(F) CIO Responsibilities: Investment Policy

(1) Develop and recommend to the Commission, Committees, CEO, and Staff, sound principles, policies, and guidelines for the investment and management of the Retirement System's assets and the Commission's underlying strategic allocations to be used to achieve RSIC objectives.

(2) Advise the Commission on investment matters and make recommendations for Commission action.

(3) Coordinate, direct, and conduct all necessary initial and ongoing due diligence relating to the engagement of investment managers, consultants, and providers of investment services to the RSIC.

(4) Invest, manage, and direct the investment strategies and plans approved by the Commission, including reviewing the performance of the investments and execute the Commission's portfolio rebalancing policy.

(5) Review all investment policies of the Commission and recommend appropriate policies and/or procedures to ensure efficient investment operations of the RSIC.

(6) Subject to the oversight of the CEO, develop a proposed annual investment plan ("AIP") and submit the proposed AIP to the Commission no later than April first of each year. (§9-16-320(A), §9-16-315(H)(1)). In developing the AIP, the CIO shall diversify the investments of the Retirement System (unless the CIO reasonably believes the Commission should determine that, because of special circumstances, it is clearly not prudent to do so) and make a reasonable effort to verify the facts relevant to the investment of the assets of the Retirement System. (§9-16-330(C)) The AIP must be consistent with the Commission's statement of general investment objectives and with that statement of actuarial assumptions developed by the Retirement System's actuary and approved by PEBA (§9-16-330(A)), and must include, but is not limited to, the following components:

(a) General operational and investment policies;

(b) Investment objectives and performance standards;

(c) Investment strategies, which may include indexed or enhanced indexed strategies as the preferred or exclusive strategies for equity investing, and an explanation of the reasons for the selection of each strategy;

(d) Industry sector, market sector, issuer, and other allocations of assets that provide diversification in accordance with prudent investment standards, including desired rates of return and acceptable levels of risks for each asset class;

(e) Policies and procedures providing flexibility in responding to market contingencies;

(f) Procedures and policies for selecting, monitoring, compensating, and terminating investment consultants, equity investment managers, and other necessary professional service providers;

(g) Methods for managing the costs of the investment activities; and

(h) A detailed description of the amount and extent of the final authority to invest made by the Commission pursuant to §9-16-330(B)(§9-16-330(C))

(G) Delegation to the Chief Executive Officer, CIO and others

(1) The Commission may delegate, or revoke the delegation of, any of its functions to the CEO, CIO and/or others as it deems necessary and appropriate for efficient administration, and when such delegation or revocation is consistent with South Carolina law.

(2) In performing a delegated function, the CEO, CIO and others owe a duty to the Retirement System and to its participants and beneficiaries to comply with the terms of the delegation and to comply with applicable law. (§9-16-30(C), §9-16-40)

(3) Pursuant to a delegation of authority by the Commission, the CEO, CIO and others shall discharge duties with respect to the Retirement System:

(a) Solely in the interest of the Retirement System, participants, and beneficiaries;

(b) For the exclusive purpose of providing benefits to participants and beneficiaries and paying reasonable expenses of administering the Retirement System;

(c) With the care, skill, and caution under the circumstances then prevailing which a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an activity of a like character and purpose;

(d) Impartially, taking into account differing interests of participants and beneficiaries;

(e) Incurring only costs that are appropriate and reasonable; and

(f) In accordance with a good faith interpretation of Title 9, Chapter 16 of the Code of Laws of South Carolina, 1976, as amended. (§9-16-40)

(H) Selection and Emergency Succession

(1) According to South Carolina law, the Commission employs a chief executive officer to serve as the chief administrative officer of the Commission as an agency and is charged with the affirmative duty to carry out the mission, policies and direction of the Commission as established by the Commission. (§9-16-315(G))

(2) The CEO has explicit statutory authority to employ a Chief Investment Officer and other professional, administrative, and clerical personnel it determines necessary. (§9-16-315(H))

(3) **CEO**. In the event ~~of a sudden loss of services of the CEO, his or her senior deputy will~~that the CEO is unable to fulfill his or her duty, the Chair may declare an incapacity and designate a senior officer of the RSIC to serve as ~~the~~ Acting Chief Executive Officer, responsible for carrying out the CEO's duties until such time as the Commission selects ~~an~~another acting or new CEO and that person assumes the position on a full time basis.

(4) **CIO.** In the event of a sudden loss of services of the CIO, the CEO will designate a senior member of the investment team to serve as the Acting CIO, responsible for carrying out the CIO's duties until such time as the CEO selects a new CIO and that person assumes the position on a full-time basis. The CEO will promptly notify the Commission of any action under this section.

(I) Defense and Indemnification

(1) The state of South Carolina shall defend the CEO, CIO and management employees of the RSIC against a claim or suit that arises out of or by virtue of performance of official duties, unless he or she was acting in bad faith, and must indemnify the CEO, CIO and management employees for a loss or judgment incurred by him or her as a result of such claim or suit, without regard to whether the claim or suit is brought against him or her in his individual or official capacities, or both. (§9-16-370).

(2) The commitment of the state of South Carolina to defend and indemnify extends to the CEO, CIO and management employees of the RSIC after he or she has left employment with the RSIC, if the claim or suit arises out of or by virtue of his or her performance of official duties on behalf of the RSIC. (§9-16-370)

(J) Gender References, Policy Review and History

(1) Any gender-specific language in this policy shall include the other gender.

(2) 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 applicable 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.

(3) 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.

(4) This policy was adopted on August 20, 2009.

(5) This policy was amended on September 17, 2011.

(6) This policy was amended on February 28, 2013.

(7) This policy was amended on June 3, 2014.

(8) This policy was amended on August 25, 2014.

(9) This policy was amended on November 20, 2014.

(10)This policy was ~~last~~ amended on November 19, 2015.

(11)This policy was ~~last~~ amended on February 23, 2017.

(12)This policy was ~~last~~ amended on June 22, 2017 and made effective as of July 1, 2017.

(13)This policy was last amended on ---, 2024.

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Policy IV : *Commission Operations*

(A) General Operations

(1) The Commission will take the following under consideration for approval:
   (a) The basic organizational structure of the RSIC.
   (b) The Commission will approve the general processes to be used to establish the strategic and/or business plans, and operational budgets of the RSIC.
   (c) Based on the recommendations from of the Chief Executive Officer ("CEO") the Commission will approve:
      (i) Business and strategic plans
      (ii) Annual operating budget request
(2) The Commission will ensure that an effective process of enterprise risk management is in place.

(B) Officer Elections Process

(1) **Chair; Vice Chair**
   (a) The Officers of the Commission shall be a Chair and a Vice Chair, each of whom shall serve a two-year term ending June 30 of even numbered years. The Vice Chair shall act as Chair during the Chair's temporary absence or other inability to serve. In the event of the Chair's permanent absence, the Vice Chair will serve for the remainder of the Chair's term.
   (b) The Commission shall select a successor Vice Chair in the event of removal, resignation, or other reason for which the Vice Chair is unable to complete his or her term. The elected successor will serve the remaining portion of the previous Vice Chair's term in accordance with section (a) above.
   (c) The Executive Director of South Carolina Public Employee Benefit Authority may not serve as Chair or Vice Chair of the Commission.
   (d) The Chair and Vice Chair will serve until his or her successor is duly elected or until he or she resigns, is unable to serve, or is removed from office, whichever comes first.
   (e) Nominations. The Chair shall accept all nominations from voting members for the election of the successor Chair and Vice Chair.
   (f) The Commission may select other officers it determines necessary.
(2) **Retiree Representative Member**
   (a) The voting members of the Commission will appoint the Retiree Representative Member by unanimous vote. (§9-16-315(A)(6))
   (b) The Retiree Representative Member will serve for a term of four years and until a successor is appointed and qualified. The Retiree Representative Member's term will be deemed to expire after June 30th of the year in which the term expires. (§9-16-315(B))
   (c) By law, the Retiree Representative Member must be a retired member of the Retirement System, Police Officers Retirement System, Judges and Solicitors Retirement System, or National Guard Retirement System, and possess the qualifications required by §9-16-315. For qualifications, see *Commission Roles and Responsibilities Policy.*

(d) **Nominations.** During the year in which the incumbent Retiree Representative Member's term expires or in the event of a vacancy for any reason:
   (i) Commission members and associations that represent stakeholders may present nominations for Retiree Representative Member;
   (ii) The Commission will provide notice of the pending vacancy of the Retiree Representative Member at least one meeting prior to the expiration of the term in its regularly scheduled meeting agenda. If a Retiree Representative Member does not complete his or her term for any reason, the Commission will ensure the vacancy is announced at least one meeting prior to appointing a new Retiree Representative Member;
   (iii) If nominations are received which meet the statutory requirements, nominees may be invited to meet with the Commission; and
   (iv) The voting Commission members will endeavor to conclude the nomination process and appoint a Retiree Representative Member prior to June 30 of the year in which the incumbent's term is to expire. In the event of a vacancy for some other reason, the voting Commission members will endeavor to conclude the nomination process and appoint a Retiree Representative Member as soon as practicable.

(e) The Retiree Representative Member will serve until (i) his or her successor is duly elected and qualified or (ii) he or she resigns, is removed from office, or is otherwise unable to complete his or her term, whichever comes first.

(C) Special Elections and Removal of a Commission Officer

(1) If appropriate, the Commission may commence a special election to fill any vacancies of officers or the Retiree Representative Member occurring outside the scope of other policies.
(2) In the event a Commission member finds removal of a Commission Officer, including but not limited to, Chair, Vice Chair, or a Committee Chair, from his office is appropriate, he must communicate reasons supporting removal from office to the Commission.
(3) After receiving information regarding the potential removal of a Commission Officer, the voting Commission members will vote on whether removal from office is appropriate.
(4) In compliance with the governing law, only the Governor may remove a Commission member from the Commission and only for reasons stated in S.C. Code Ann. §1-3-240(C). *See Commission Roles and Responsibilities Policy*

(D) Education

(1) **Overview and Continuing Education**
   (a) In order to help fulfill their fiduciary duties, Commissioners should continually develop and maintain their knowledge of pension investment and administration matters by attending educational presentations and events.
   (b) Commissioners should report all continuing education related to the Commission to the Chair or CEO.
   (c) Commissioners are encouraged to participate in at least 16 hours of continuing education annually, including ~~in-house seminars~~educational presentations at Commission meetings, pertinent national conferences, select investment and

pension plan administration courses, and continuing educational courses offered through local colleges and universities.

(2) **Commissioner Orientation**

(a) New Commissioners must attend an investment and administration orientation provided by RSIC management and staff within sixty days of becoming a Commissioner.

(b) The orientation will include, but is not limited to:

(i) CEO and CIO briefing on the history and background of RSIC ~~and instructions regarding accessing the RSIC's secure website~~, its governance framework, and investment program;

(ii) A briefing by the Commission Chair on current issues before the Commission and backgrounds of other Commissioners;

(iii) Introduction to staff members;

(iv) A tour of RSIC's offices;

(v) A briefing by RSIC legal counsel on Commissioner fiduciary duty, conflicts of interest guidelines, state ethics, and other pertinent laws affecting RSIC; and

(vi) Distribution and review of copies of the RSIC policies, including governance policies, the Consolidated Statement of Investment Policies and Annual Investment Plan, Personnel Handbook, a copy of the CFA ~~Institute's Code of Conduct for Members of a Pension Scheme Governing Body~~Institute'sPrimer for Investment Trustees, and any other relevant information deemed appropriate by the Chair, CEO, or CIO.

(c) New Commissioners are encouraged to attend at least one conference or seminar relating to pension fund investments within his or her first year as a Commissioner.

(E) Travel

(1) Commissioners must exercise the same care in incurring expenses that a prudent person would exercise if traveling on personal business and spending personal funds.

(2) All Commissioners' travel must comply with RSIC's *Travel Policy* and the *Comptroller General's Policy on Reimbursement for Travel and Subsistence Expenses*.

(3) Travel must pertain to RSIC business and enhance the knowledge and capabilities of the Commissioner relevant to his or her duties relating to the RSIC.

(4) Commissioners may provide copies of conference material to the CEO which may be distributed to other Commissioners and/or RSIC staff.

(F) Meeting Policies

(1) Regular meetings will be held at least once during each fiscal quarter and at other times as set by the Commission or Chair or requested by the Board of Directors of the South Carolina Public Employee Benefit Authority. (§9-16-320(B))

(2) The annual schedule may be modified by the Commission as necessary, and timely notice of such changes must be provided as appropriate in accordance with the South Carolina Freedom of Information Act ("FOIA").

(3) The Chair or a majority of the Commission may call a special meeting or cancel regular meetings, so long as notice is provided as appropriate in accordance with the FOIA.

(4) In providing timely notice of a meeting to the public, the Commission will post notice within a reasonable time not less than 24 hours prior to the meeting on the RSIC's website and at RSIC's office. (§30-4-80)

(5) As defined by South Carolina law, a "meeting" for purposes of the FOIA means the convening of a quorum of the constituent membership of a public body, whether corporal or by means of electronic equipment, to discuss or act upon a matter over which the public body has supervision, control, jurisdiction or advisory power. (§30-4-20(d)). Every meeting of ~~all~~ the Commission shall be open to the public unless closed pursuant to S.C. Code Ann. §30-4-70.

(6) Conference telephones or similar equipment may be used whenever the Commission meets, including executive session meetings as authorized by law. Commissioners may use conference telephones or similar communications equipment by means of which all members and other persons duly participating in the meeting can hear each other. Participation in a meeting pursuant to this policy will constitute presence for purposes of convening a quorum of the Commission. In the event of a telephone conference call or streaming via the internet, members of the public will be permitted to observe.(§30-4-20(d))

(7) No chance meeting, social meeting, or electronic communication may be used in circumvention of the spirit of FOIA requirements related to matters of the Commission. (§30-4-70(c))

(G) Rules of Order

(1) **General**

(a) The Commission and its Committees will follow as closely as practicable the rules of order prescribed for small assemblies or similar small bodies in the most recently published revision of Robert's Rules of Order in conducting its meetings, to the extent not suspended or modified by the Commission's policies or agreed upon practices.

(b) The Chair will be counted to establish quorum at meetings.

(c) Such rules of order will be construed to promote the orderly and efficient conduct of business and to avoid procedural complexity which may delay or hinder the taking of action required by law or advisable in the prudent exercise of the Commission's fiduciary responsibilities.

(2) **Order of Business-Meeting Agenda Format**

(a) The order of business is the established sequence in which business will be taken up at a Commission meeting.

(b) The order of business will be at the discretion of the Chair in consultation with the Commission, but will normally be as follows:

(i) Call to Order
(ii) Approval of Meeting Agenda
(iii) Approval of previous Commission meeting minutes
(iv) Reports from Officers and/or Committees
(v) Investment Items
(vi) Administrative Items
(vii) Other Business
(viii) Adjournment

(c) The Commission may rearrange the normal Order of Business outlined above by majority vote of the voting members of the Commission; however, no item which binds the Commission to action may be added to the agenda which has been posted pursuant to FOIA.

(3) **Agenda Items and Procedure**

(a) Draft proposed meeting agendas will be set by the Chair, in consultation with the CEO and Commissioners.

(b) Once set as described above, the draft proposed agenda will be distributed to the Commissioners.

(c) Commissioners may request to have items introduced for the Commission's consideration by submitting the request orally, or a proposed motion ("Main Motion") in writing, to the Commissioners and the CEO, as applicable at least three days prior to the meeting.

(d) Amendments to draft proposed agenda items, requested by a Commissioner more than three days prior to meeting, will be made at the Chair's discretion but must be made upon the request of any two Commissioners. The updated proposed agenda will be distributed not less than 24 hours prior to the meeting's scheduled commencement.

(e) Amendments to a draft proposed Main Motion, sought by a Commissioner less than three days prior to a meeting, should be submitted in writing at the meeting.

(f) Motions which change or affect how a Main Motion is addressed by the Commission ("Subsidiary Motions") may be made as information is presented and discussions ensue and are not required to be submitted in writing in the same manner as Main Motions.

(g) In accordance with state law, the Commission will not address business that has not been included in the meeting notice that binds the Commission of expenditure of funds except as provided by law.

(H) <u>Meeting Minutes</u>

(1) Minutes of Commission meetings will be taken in accordance with state law and such records are open to public inspection.

(a) The CEO will cause the minutes of all Commission meetings to be prepared, recording therein the time and place of each meeting, the names of the members present, and a summary of the actions of the Commission including: abstentions from voting and the reason for the abstention, the affirmative and dissenting votes, except where the action is unanimous, and when requested, a Commissioner's dissent or approval with reasons.

(b) The CEO will cause the minutes to be presented for approval at the next regular Commission meeting.

(2) Meetings during executive session are not subject to the above requirements. (§9-16-320(D))

(3) Commission minutes will focus on describing any actions that occurred, and will provide sufficient detail to evidence the Commission's due diligence in the matter.

(4) The minutes of a meeting during which an executive session is held will reflect the topic of the discussion at the executive session.

(5) If the Commission votes during executive session, RSIC will publish actions in a subsequent meeting when appropriate or otherwise make such information available to the public as applicable.
(6) The minutes as approved by the Commission, will be preserved as a part of the official public record of the Commission, and will be kept open to public inspection in accordance with law.
(7) A record of the Commission or its fiduciary agents that discloses deliberations about, or a tentative or final decision on, investments or other financial matters is exempt from the disclosure requirements of Chapter 4 of Title 30, the Freedom of Information Act, to the extent and so long as its disclosure would jeopardize the ability to implement an investment decision or program or to achieve investment objectives. (§9-16-80(B))

(I) Executive Session

(1) The Commission may conduct business in executive session, which will be closed to the public, under the following conditions:
  (a) The executive session is held during a regular or special meeting of the Commission;
  (b) The Commission announces to the public present at the meeting the topic of the discussion;
  (c) The executive session is held for the purpose of considering any matter enumerated in S.C. Code of Law Ann. §§9-16-80(A), 9-16-320(C), 30-4-70, or in accordance with any applicable law, including but not limited to:
    (i) Meetings of the Commission, or by its fiduciary agents, to deliberate about, or make tentative or final decisions on, investments or other financial matters if the disclosure of such deliberations or decisions would jeopardize the ability to implement a decision or to achieve investment objectives.
    (ii) Discussion of employment, appointment, compensation, promotion, demotion, discipline, or release of an employee, or a person regulated by a public body or the appointment of a person to a public body.
    (iii) The receipt of legal advice where the legal advice relates to a pending, threatened, or potential claim or other matters covered by the attorney-client privilege, settlement of legal claims, or the position of the public agency in other adversary situations involving the assertion against the agency of a claim.
(2) When executive session has commenced, only the following persons may be present:
  (a) Members of the Commission;
  (b) Staff members of the RSIC requested by the Commission, who may provide information or advice relating to the purpose(s) for which the body has convened in executive session; and
  (c) Others requested and approved by a majority of the voting members of the Commission, for the purposes of providing information or advice relating to the matter(s) for which the body has convened in executive session.
(3) Notwithstanding section I(2) above, the Commission must unanimously approve the attendance of any person other than RSIC legal counsel during an executive session or portion of an executive session relating to items described in I(1)(c)(iii) above.

(4) Fiduciaries and employees of fiduciaries are prohibited from, during or after their term of service, disclosing or using confidential information acquired in their official capacity as fiduciary or employee of the fiduciary, without proper authorization. §9-16-360(7)

(J) Quorum

(1) A quorum of at least five voting members must be present for the Commission to convene a meeting or to conduct business.
(2) The act of the majority of voting members present and voting at a meeting at which a quorum is present will constitute official action of the Commission.
(3) Any member of the Commission who would be required to vote on a matter that would result in a conflict of interest must abstain from voting, refrain from participating in any discussions pertaining to the matter, and prior to the vote being taken, explain the conflict and disclose the nature of his or her interest for Commission records. The CEO shall cause this information to be placed into the meeting minutes. For more information on standards of conduct for Commissioners, see *Commission Roles and Responsibilities Policy*.

(K) Gender References, Policy Review & History

(1) Any gender-specific language in this policy shall include the other gender.
(2) The Commission will review this policy at least every three years to ensure that it remains relevant and appropriate, or when there is an amendment to applicable law relevant to any section of this policy, or when there is a Commission approved change in the responsibilities, duties, or operations of the Commission or its Committees generally.
(3) 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.
(4) This policy was adopted on November 19, 2009.
(5) This policy was amended on November 17, 2011.
(6) This policy was amended on November 8, 2012.
(7) This policy was amended on February 28, 2013.
(8) This policy was amended on May 1, 2014.
(9) This policy was amended on June 3, 2014.
(10) This policy was amended on August 25, 2014.
(11) This policy was ~~last~~ amended on November 19, 2015.
(12) This policy was ~~last~~ amended on June 22, 2017 and made effective as of July 1, 2017.
(13) This policy was amended on [insert date].

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Policy V : *CEO and Commission Evaluations*

(A) CEO Evaluation

(1) The Commission is responsible for setting the evaluation criteria in advance of the performance period and evaluating the Chief Executive Officer's ("CEO") performance.

(2) Evaluation criteria include, but are not limited to:

(a) Achievement of appropriate performance targets for the RSIC;

(b) Implementation of the Strategic Plan and other business initiatives;

(c) Implementation of Commission policies and associated reporting to the Commission;

(d) Leadership, management, and related qualities and skills;

(e) Compliance with other criteria set by the Commission.

(3) The Commission will strive to ensure that each evaluation's criteria are objective in nature, measurable to the extent feasible, and pertain only to outcomes over which the CEO has a reasonable degree of control.

(4) Pursuant to the RSIC's Compensation Policy, the Commission will determine the CEO's salary. *See Compensation Policy.*

(5) **CEO Evaluation Process and Timeline**

(a) Annually, during the first or second quarter of the fiscal year, CEO will distribute a self-evaluation packet to the Commission members. The self-evaluation is designed to assist the Commission members in the evaluation process. It should describe the extent to which the CEO believes his or her evaluation criteria was met during the evaluation period, supported by relevant data.

(b) The self-evaluation packet will include:

(i) A report including the CEO's self-evaluation of his or her performance based on the individual's criteria and goals established by the Commission members for the evaluation year;

(ii) The CEO's proposed evaluation criteria and goals for the upcoming year;

(iii) A summary of the RSIC's Strategic Plan most recently adopted by the Commission, including the goals for which he or she has been responsible for completing;

(iv) Evaluation forms for the Commission members;

(v) Any supporting or additional documentation or information the CEO wishes to include.

(c) The documents provided by the CEO and the Commission members' evaluation forms will be treated as working papers and internal draft documents, as they are preliminary and will be used to compile the final evaluation summary. The Commission members' completed evaluation forms will be returned to the Chair or his designee within two weeks of receipt.

(d) The Commission members may meet as necessary to review the performance of the CEO.

(e) The Chair or his designee will summarize the completed evaluation forms and provide copies to the Commission members and to the CEO. The ~~completed evaluation forms summary should include~~Commission should provide specific guidance for the CEO concerning improvement opportunities~~.~~, which the HR Director will summarize and provide to the CEO

(f) The Commission members will meet with the CEO no later than the end of the ~~first~~second quarter of the fiscal year to discuss and establish
  (i) the evaluation summary, including the self-evaluation, and the extent to which the set criteria and goals were met for the fiscal year; and
  (ii) the proposed evaluation criteria and goals for the following year's evaluation

~~(g) After the discussion, the Chair must sign and retain a finalized evaluation summary in the CEO's personnel file.~~

(g) ~~(h)~~ The Commission members' discussions regarding the CEO's performance may be held in executive session in accordance with state law.

(B) <u>Commission Evaluation</u>

(1) The purpose of the evaluation is to provide the Commission members with a framework for evaluating the performance of the Commission and for identifying any concerns or suggestions the Commission members may have.
(2) The Commission is responsible for completing a self-evaluation at least once annually.
(3) The Chair will initiate the evaluation process.
(4) The Commission may retain a third party to provide support to the evaluation process.
(5) **Commission Evaluation Process and Timeline**
  (a) Annually, during the second calendar quarter of the evaluation year, the Chair or his designee will distribute a copy of the Commission Evaluation Discussion Guide ("CEDG") to each Commission member.
  (b) The Commission may review the CEDG and make modifications, as appropriate, at any time. Any changes to the CEDG should be made before Commission members receive the evaluations for a fiscal year. To ensure efficiency in the evaluation process, changes to the CEDG that are submitted after the Chair has distributed the CEDG to the Commission will not be effective until the next year's evaluation.
  (c) Commission members will complete the CEDG within two weeks and return them to the Chair or his designated third party.
  (d) The Chair or his designated third party will prepare and present a draft summary report of the completed CEDG forms by the close of the second calendar quarter of the evaluation year.
  (e) The Chair will present the draft summary report of the evaluations to the Commission members and facilitate a discussion of the results.
  (f) The Commission's discussions regarding the evaluation summary may be held in executive session to the extent permitted by state law.
  (g) The Chair will compile conclusions and recommendations based on the draft evaluation summary report and the Commission's discussion.

~~(h) The Chair will provide a summary of conclusions and recommendations, which will be recorded in the minutes of the next regular Commission meeting.~~

(C) <u>Gender References, Policy Review and History</u>

(1) Any gender-specific language in this policy shall include the other gender.
(2) 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 applicable 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.

(3) 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.
(4) This policy was adopted on March 18, 2010.
(5) This policy was amended on February 28, 2013.
(6) This policy was amended on June 3, 2014.
(7) This policy was amended on August 25, 2014.
(8) This policy was ~~last~~ amended on November 19, 2015.
(9) This policy was ~~last~~ amended on February 23, 2017.
(10) This policy was ~~last~~ amended on June 22, 2017 and made effective as of July 1, 2017.
(11) This policy was last amended on --.

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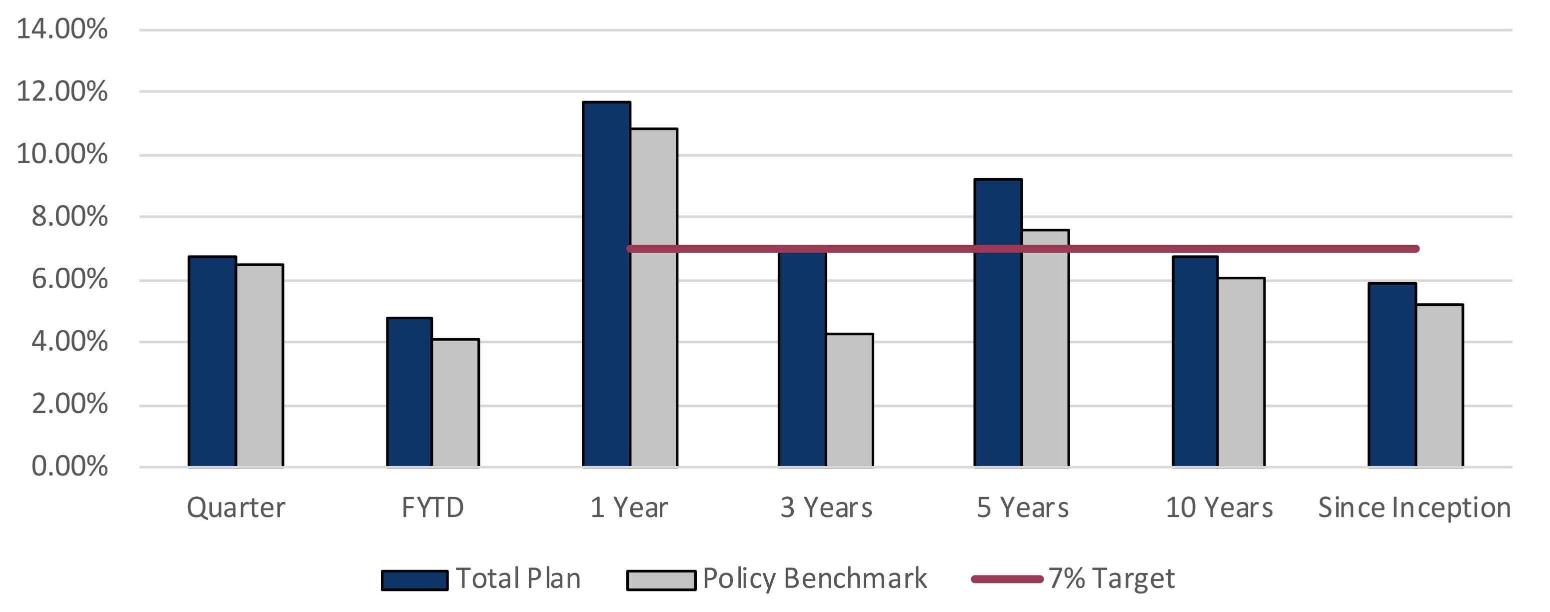
RSIC Performance Analysis

Data as of 12-31-2023

Performance - Plan & Policy Benchmark[2]

As of December 31, 2023

Net of Fee Returns by Time Period[2]



Rolling period performance as of December 31, 2023[1]

Executive Summary	Market Value (millions)	Quarter	FYTD	1 Year	3 Years (Annualized)	5 Years (Annualized)	10 Years (Annualized)	Since Inception (Annualized)
Total Plan	**$42,470**	**6.73%**	**4.75%**	**11.66%**	**7.12%**	**9.20%**	**6.71%**	**5.92%**
Policy Benchmark		6.51%	4.08%	10.82%	4.30%	7.60%	6.06%	5.22%
Excess Return		0.22%	0.67%	0.84%	2.82%	1.61%	0.65%	0.70%
Net Benefit Payments (millions)		($49)	($32)	($93)	($1,149)	($2,356)	($7,934)	($15,756)

Portfolio Performance Framework

As of December 31, 2023

Reference Portfolio	
Quarter	9.86%
FYTD	6.20%
1-Year	16.65%
3-Years	2.91%

Policy Benchmark	
Quarter	6.51%
FYTD	4.08%
1-Year	10.82%
3-Years	4.30%

Implementation Benchmark	
Quarter	6.11%
FYTD	4.30%
1-Year	11.17%
3-Years	5.14%

Plan Return	
Quarter	6.73%
FYTD	4.75%
1-Year	11.66%
3-Years	7.12%

Value from Diversification	
Quarter	-3.35%
FYTD	-2.12%
1-Year	-5.82%
3-Years	1.39%

Quality of Portfolio Structure	
Quarter	-0.40%
FYTD	0.22%
1-Year	0.35%
3-Years	0.84%

Quality of Manager Selection	
Quarter	0.62%
FYTD	0.45%
1-Year	0.49%
3-Years	1.98%

Actual vs Reference	
Quarter	-3.13%
FYTD	-1.45%
1-Year	-4.99%
3-Years	4.21%

Actual vs Policy	
Quarter	0.22%
FYTD	0.67%
1-Year	0.84%
3-Years	2.82%

Asset Class Performance[1,3,4,5]

As of December 31, 2023

Trailing Performance as of 12/31/2023	Portfolio Weight	Quarter	FYTD	1 Year	Annualized 3 Years	Annualized 5 Years
Public Equity	**44.0%**	**11.27%**	**7.55%**	**22.06%**	**5.89%**	**11.70%**
Benchmark		*11.14%*	*7.36%*	*21.58%*	*5.46%*	*11.35%*
Bonds	**22.2%**	**6.59%**	**3.14%**	**5.16%**	**-2.14%**	**0.95%**
Benchmark		*6.82%*	*3.37%*	*5.53%*	*-3.31%*	*0.54%*
Private Equity	**13.1%**	**1.46%**	**1.77%**	**3.71%**	**17.99%**	**12.93%**
Benchmark		*-0.60%*	*0.82%*	*3.34%*	*15.72%*	*11.88%*
Private Debt	**9.1%**	**2.99%**	**5.17%**	**10.02%**	**11.35%**	**7.51%**
Benchmark		*3.78%*	*7.44%*	*14.55%*	*7.59%*	*5.96%*
Real Assets	**11.6%**	**0.28%**	**-0.68%**	**-1.53%**	**10.08%**	**9.02%**
Benchmark		*-5.01%*	*-7.01%*	*-12.74%*	*4.01%*	*3.65%*
Portable Alpha Hedge Funds	11.7%	-0.09%	1.46%	0.77%	6.74%	5.57%
Total Plan	**100.0%**	**6.73%**	**4.75%**	**11.66%**	**7.12%**	**9.20%**
RSIC Policy Benchmark		*6.51%*	*4.08%*	*10.82%*	*4.30%*	*7.60%*

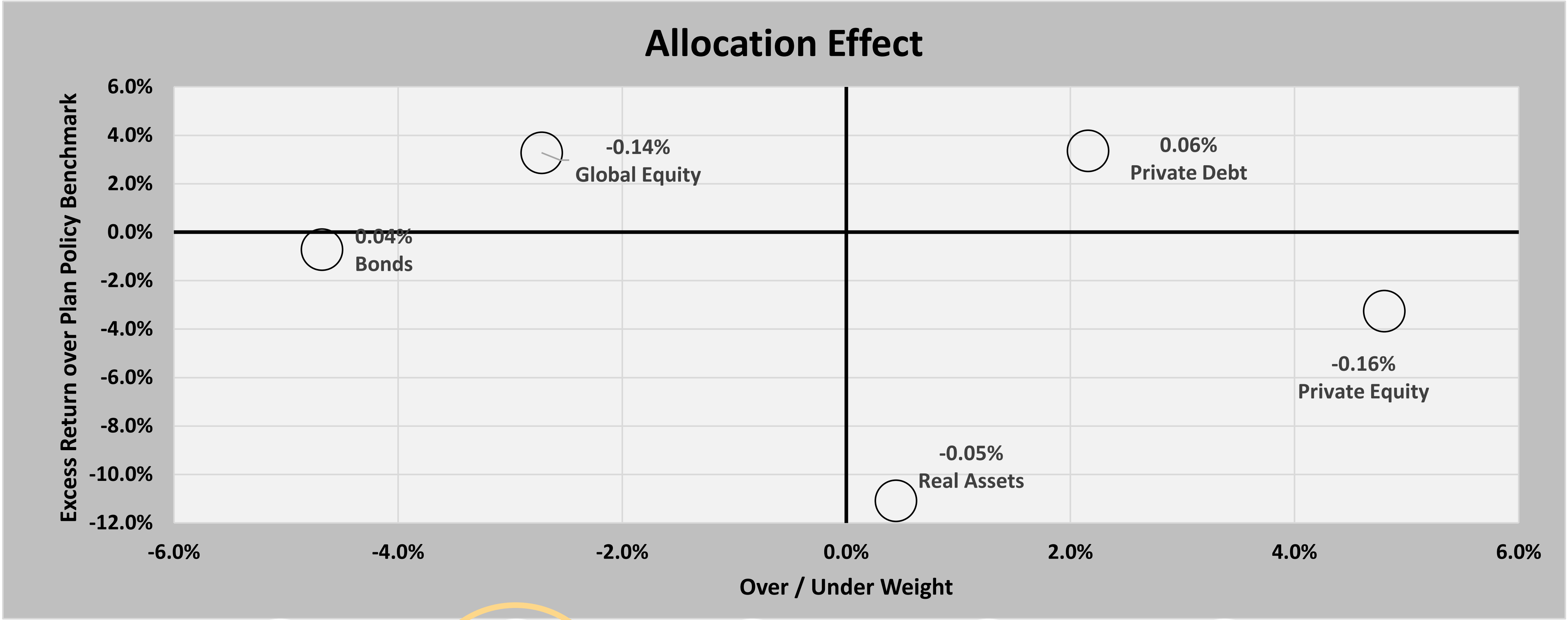
*Portable Alpha Hedge Funds are expressed as gross exposure but, as collateral supporting the Overlay program, net to zero when calculating total Plan market value. Performance is expressed net of LIBOR as an estimate for Overlay financing costs.

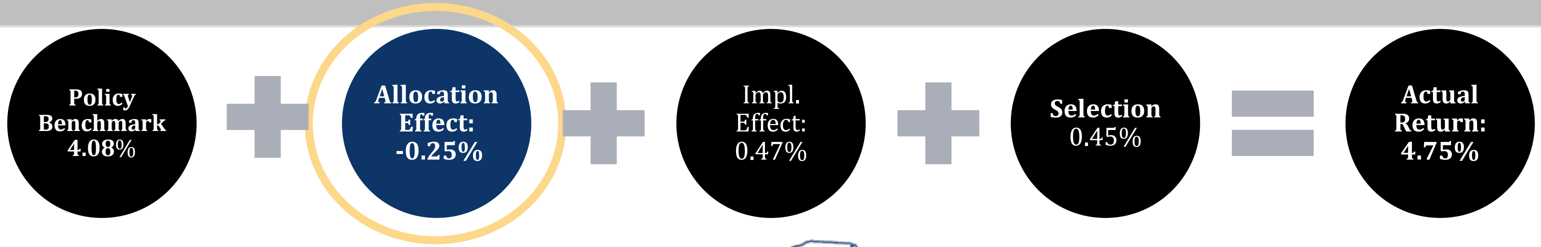
Explanation of Attribution

Policy Benchmark	• **Policy Benchmark:** The return of the five-asset class target portfolio.
Allocation	• **Allocation effect:** isolates the impact of making overweight or underweight decisions to each of the five asset classes.
Implement-ation	• **Implementation effect:** measures the impact of decisions to construct each asset class portfolio differently than the benchmark.
Selection	• **Selection effect:** evaluates the impact of manager selection decisions.
Actual Return	• The **Actual return** reflects the sum of all of these impacts.

Attribution – FYTD – Allocation:

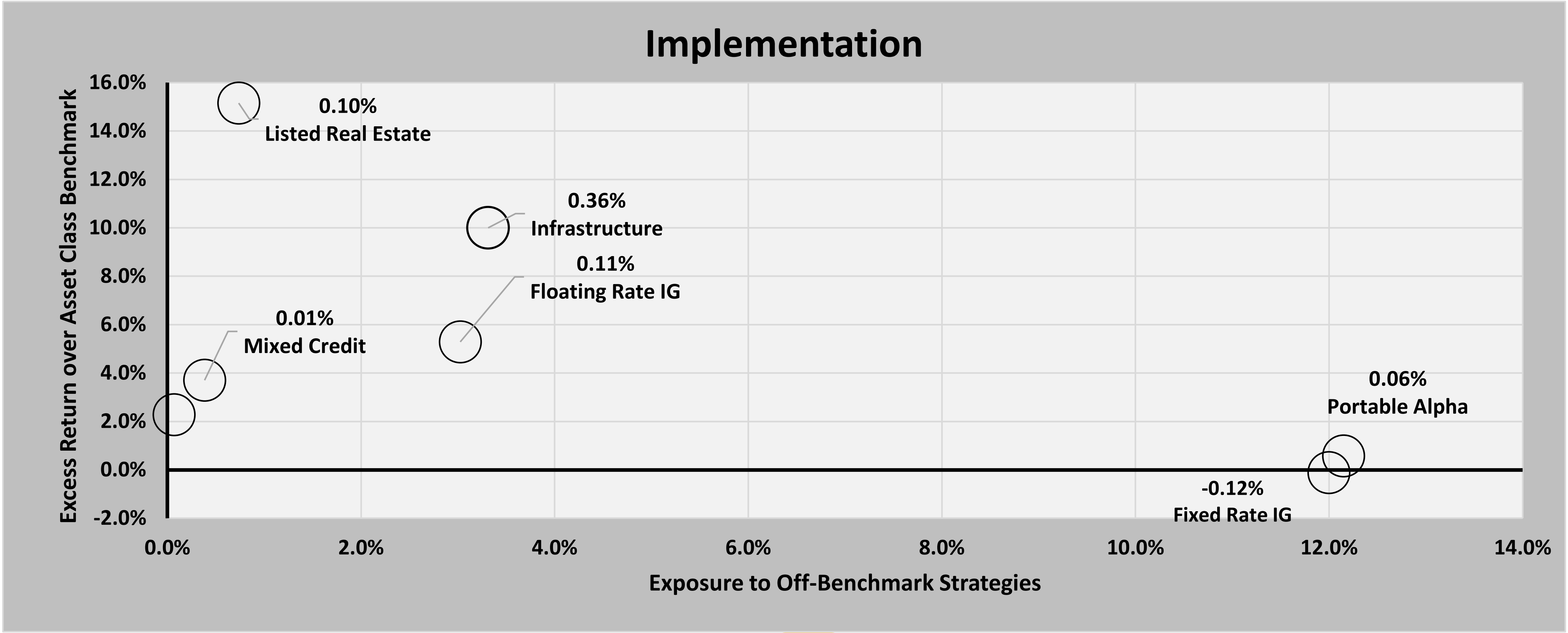
As of December 31, 2023





Attribution – FYTD – Implementation:

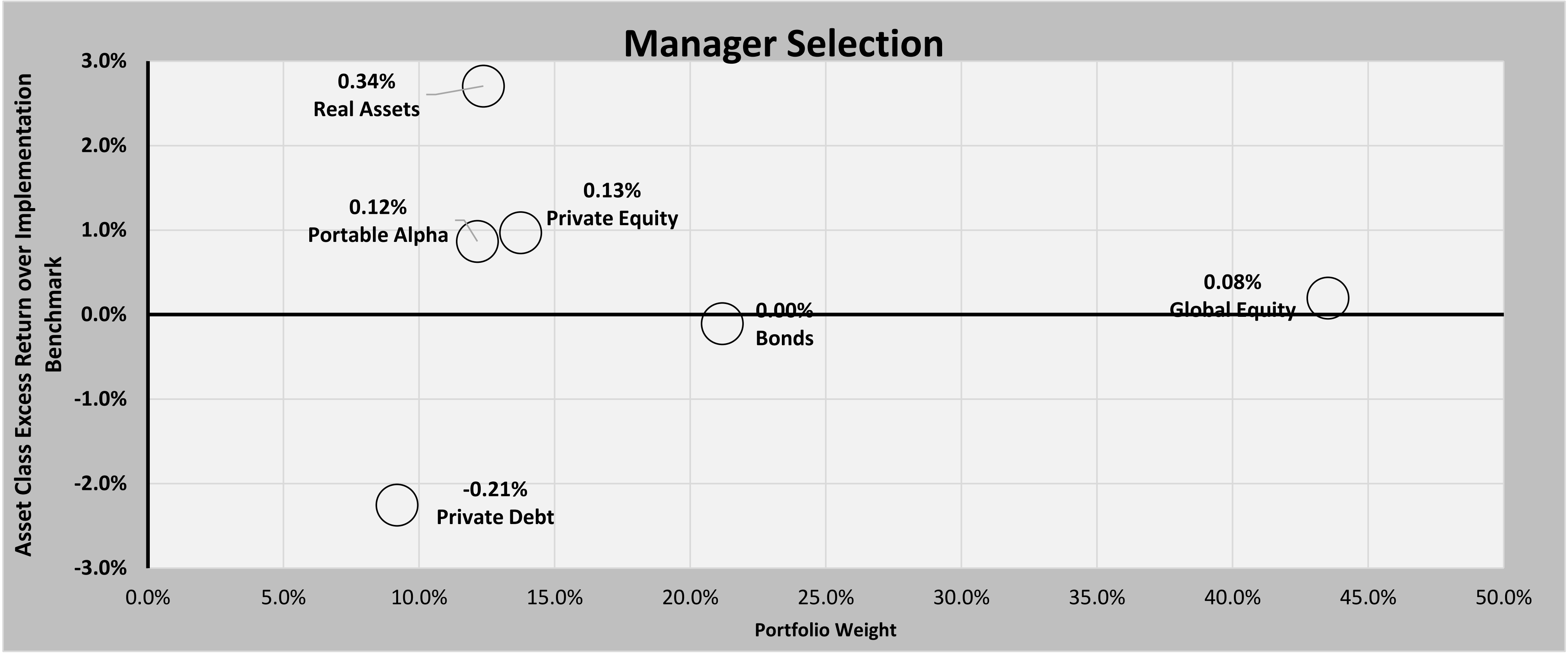
As of December 31, 2023



Policy Benchmark 4.08% + **Allocation Effect: -0.25%** + Impl. Effect: 0.47% + **Selection** 0.45% = **Actual Return: 4.75%**

Attribution – FYTD – Selection:

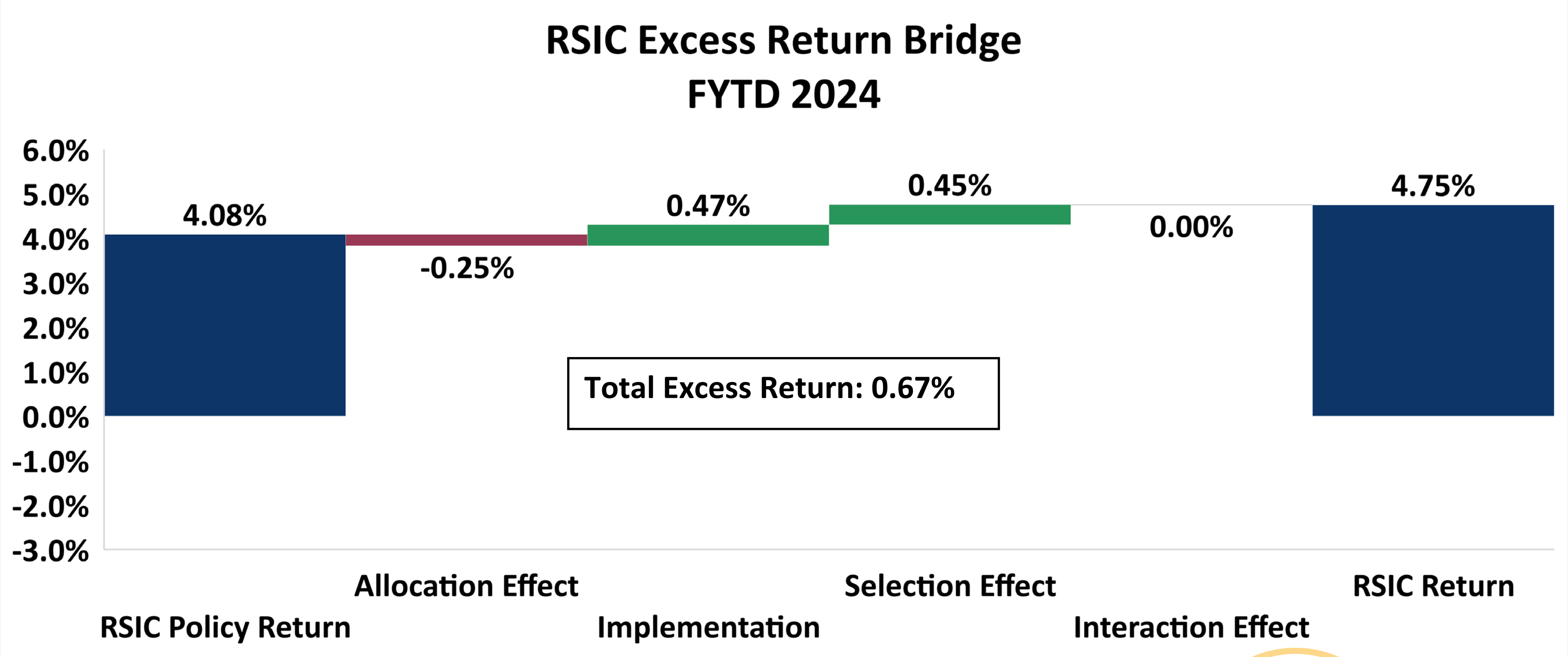
As of December 31, 2023

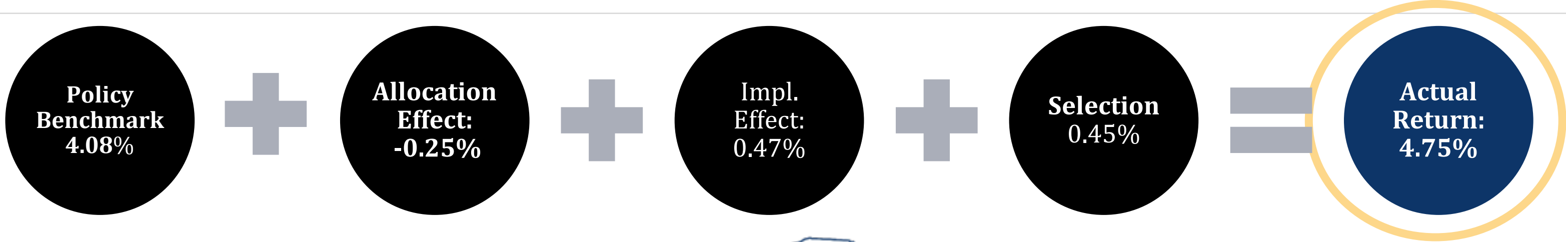


Policy Benchmark 4.08% + Allocation Effect: -0.25% + Impl. Effect: 0.47% + Selection 0.45% = Actual Return: 4.75%

Attribution – FYTD – Return Bridge:

As of December 31, 2023





Attribution – FYTD – Attribution Heatmap:

As of December 31, 2023

Attribution Table (BPS)	Allocation	Implementation	Selection	Total
Bonds	4	-4	0	-1
Private Debt	6	0	-21	**-15**
Global Equity	-14	0	8	**-6**
Private Equity	-16	0	13	**-3**
Real Assets	-5	46	34	**75**
Portable Alpha	n/a	6	12	**18**
Total	**-25**	**47**	**45**	**67**

- Sources of underperformance:
  - Underweight Public Equity to partially offset Private Equity overweight
  - Private Credit vs. listed benchmark
- Sources of outperformance:
  - Real Asset portfolio structure (infrastructure and listed exposures)
  - Real Estate manager selection
  - Portable Alpha

Asset Allocation and SIOP Compliance[5]

As of December 31, 2023

Exposure Report as of 12/31/2023	Net Exposure	Policy Targets	Over / Under	Allowable Ranges	SIOP Compliance
Public Equity	44.0%	46.0%	-2.0%	30% - 60%	Yes
Bonds	22.2%	26.0%	-3.8%	15% - 35%	Yes
Private Equity	13.1%	9.0%	4.1%	5% - 13%	No
Private Debt	9.1%	7.0%	2.1%	3% - 11%	Yes
Real Assets	11.6%	12.0%	-0.4%	6% - 18%	Yes
Portable Alpha Hedge Funds	11.7%	n/a	11.7%	0% - 15%	Yes
Total Plan	100.0%	100.0%	0.0%	n/a	Yes
Total Private Markets	33.0%	28.0%	5.0%	0% - 30%	No

Portfolio Risk Estimates (Forward)

	Reference	Policy [3]	Implementation [3]	Actual [5]
Total Risk [2]	***13.4%***	***12.7%***	***13.2%***	***13.4%***
Prior Quarter	*13.4%*	*12.6%*	*13.6%*	*13.7%*

	Reference vs Policy	Policy vs Implementation	Implementation vs Actual [5]
Relative Risk [4]	***1.5%***	***0.9%***	***0.4%***
	1.7%	*1.4%*	*0.5%*

Footnotes:

1 *Estimates based on an equal weighted (no-decay) model employing three years of monthly data.*
2 *Total risk shown as volatility, or annualized standard deviation of returns based on current positioning*
3 *Private benchmarks proxied with public alternatives*
4 *Relative risk shown as relative volatility, or annualized standard deviation of the excess returns of one portfolio vs the other*
5 *Actual risk and actual vs implementation relative risk estimated from a set of assumptions and exposures*

Historical (Realized) Volatility vs Forward Volatility

Realized (Historical) vs Forward Risk Measurements [1]

December 2023 Risk

	Reference	Policy	Implementation	Actual
Forward Risk	***13.4%***	***12.7%***	***13.2%***	***13.4%***

	Portfolio	Policy [3]	Implementation [3]	Actual
Historical Risk [2,3]	***13.4%***	***9.5%***	***9.3%***	***8.4%***

Footnotes:

1 *Historical risk reflects actual historical volatility (rather than expected volatility) for RSIC portfolio, using the past 3 years of monthly data*

2 *Historical risk reflects actual historical positioning (rather than current positioning)*

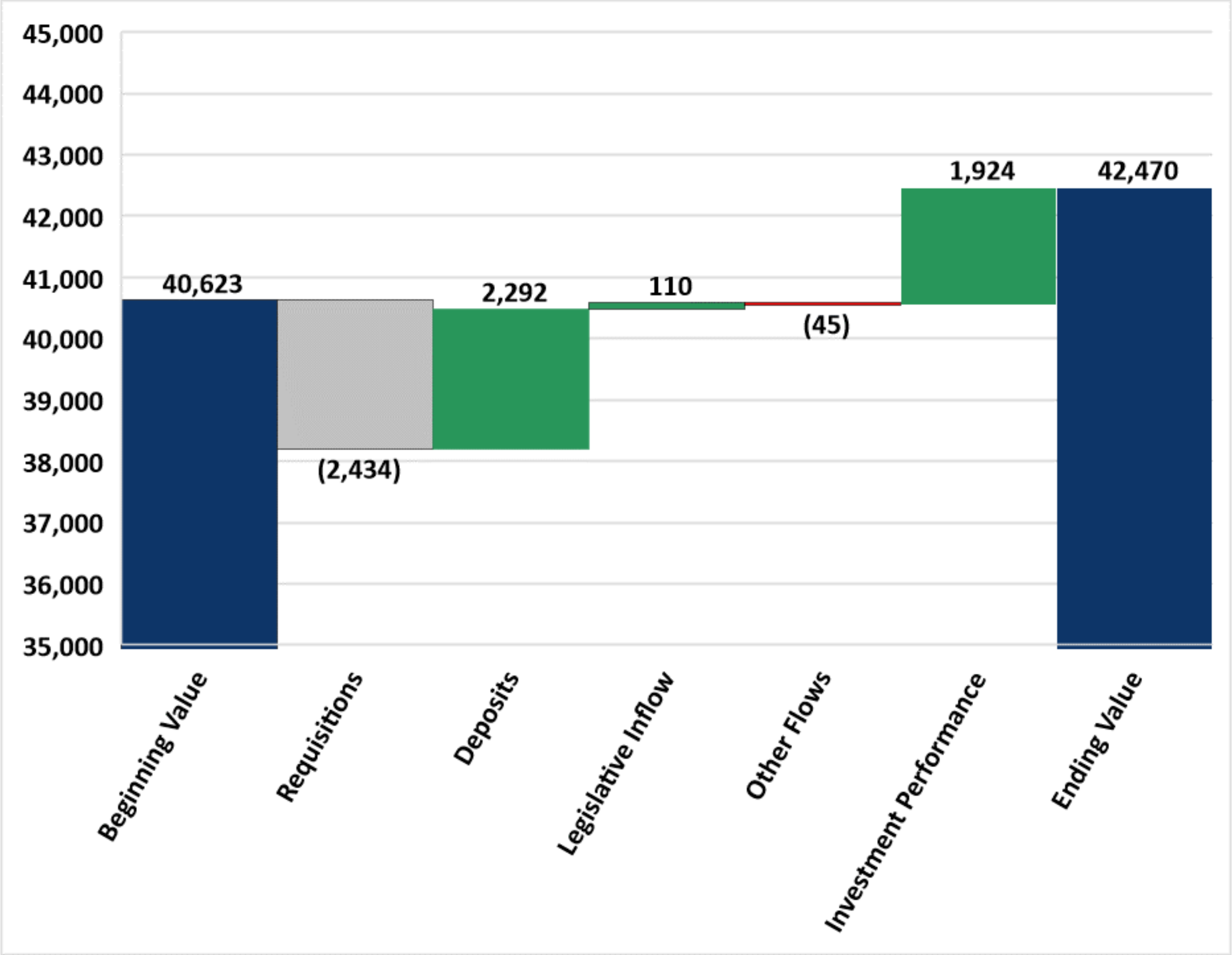
3 *Policy and Implementation portfolio risk calculated using underlying performance benchmarks (rather than public proxy-based risk benchmarks)*

Realized risk reflects actual historical volatility (rather than expected volatility) for RSIC portfolio,
Realized risk reflects actual historical positioning (rather than current positioning)
Realized risk reflects monthly reported data (instead of daily) to align with data availability
Realized risk uses actual performance benchmarks (rather than public proxies) in calculations

Appendix

FYTD Benefits and Performance

As of December 31, 2023



Other flows include a $110 million legislative inflow and a one-time $45 million outflow to fund securities lending losses incurred during the 2008-2009 financial crisis.

Asset Allocation and SIOP Compliance[5]

Exposures as of December 31, 2023

Exposure Report as of 12/31/2023	Net Exposure	Policy Targets	Over / Under	Allowable Ranges	SIOP Compliance
Public Equity	**44.0%**	**46.0%**	**-2.0%**	**30% - 60%**	**Yes**
Bonds	**22.2%**	**26.0%**	**-3.8%**	**15% - 35%**	**Yes**
Investment Grade - Fixed	14.0%	26.0%	-12.0%	10% - 35%	Yes
Investment Grade - Floating	2.7%	n/a	2.7%	0% - 5%	Yes
EMD	0.1%	n/a	0.1%	0% - 6%	Yes
Mixed Credit	0.3%	n/a	0.3%	0% - 8%	Yes
Cash and Short Duration (Net)	5.1%	n/a	5.1%	0% - 7%	Yes
Private Equity	**13.1%**	**9.0%**	**4.1%**	**5% - 13%**	**No**
Private Debt	**9.1%**	**7.0%**	**2.1%**	**3% - 11%**	**Yes**
Real Assets	**11.6%**	**12.0%**	**-0.4%**	**6% - 18%**	**Yes**
Private Real Estate	7.7%	9.0%	-1.3%	n/a	Yes
Public Real Estate	0.6%	n/a	0.6%	n/a	Yes
Private Infrastructure	3.0%	3.0%	0.0%	n/a	Yes
Public Infrastructure	0.2%	n/a	0.2%	n/a	Yes
Portable Alpha Hedge Funds	**11.7%**	**n/a**	**11.7%**	**0% - 15%**	**Yes**
Total Plan	**100.0%**	**100.0%**	**0.0%**	**n/a**	**Yes**
Total Private Markets	**33.0%**	**28.0%**	**5.0%**	**0% - 30%**	**No**

Performance – Plan & Asset Classes[1,3,4,5]

As of December 31, 2023

Trailing Performance as of 12/31/2023	Portfolio Weight	Quarter	FYTD	1 Year	Annualized 3 Years	Annualized 5 Years
Public Equity	**44.0%**	**11.27%**	**7.55%**	**22.06%**	**5.89%**	**11.70%**
Benchmark		*11.14%*	*7.36%*	*21.58%*	*5.46%*	*11.35%*
Bonds	**22.2%**	**6.59%**	**3.14%**	**5.16%**	**-2.14%**	**0.95%**
Benchmark		*6.82%*	*3.37%*	*5.53%*	*-3.31%*	*0.54%*
IG Fixed	14.0%	8.88%	2.00%	3.86%	-3.90%	0.48%
IG Floating (Hedged)	2.7%	6.34%	7.15%	10.70%	3.96%	n/a
EMD	0.1%	9.90%	9.67%	-42.07%	-20.50%	-10.29%
Mixed Credit	0.3%	1.73%	8.77%	15.16%	6.35%	6.89%
Cash and Short Duration (Ne	5.1%	1.33%	2.69%	5.09%	2.27%	1.97%
Private Equity	**13.1%**	**1.46%**	**1.77%**	**3.71%**	**17.99%**	**12.93%**
Benchmark		*-0.60%*	*0.82%*	*3.34%*	*15.72%*	*11.88%*
Private Debt	**9.1%**	**2.99%**	**5.17%**	**10.02%**	**11.35%**	**7.51%**
Benchmark		*3.78%*	*7.44%*	*14.55%*	*7.59%*	*5.96%*
Real Assets	**11.6%**	**0.28%**	**-0.68%**	**-1.53%**	**10.08%**	**9.02%**
Benchmark		*-5.01%*	*-7.01%*	*-12.74%*	*4.01%*	*4.06%*
Private Real Estate	7.7%	-2.05%	-3.09%	-7.21%	9.92%	7.26%
Public Real Estate	0.6%	16.86%	8.10%	15.91%	8.43%	9.81%
Private Infrastructure	3.0%	2.29%	4.33%	12.08%	8.60%	6.51%
Public Infrastructure	0.2%	12.05%	2.42%	3.88%	5.25%	8.33%
Portable Alpha Hedge Funds	11.7%	-0.09%	1.46%	0.77%	6.74%	5.57%
Total Plan	**100.0%**	**6.73%**	**4.75%**	**11.66%**	**7.12%**	**9.20%**
RSIC Policy Benchmark		*6.51%*	*4.08%*	*10.82%*	*4.30%*	*7.60%*

*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. Performance is expressed net of LIBOR as an estimate for Overlay financing costs.

Footnotes and Disclosures

Footnotes

1. The Policy Benchmark is calculated quarterly using a blend of asset class policy benchmarks and the policy weights for the respective asset classes. Prior to 12/31/2020 the Policy Benchmark was calculated monthly. Asset class benchmarks represent current policy benchmarks blended with past policy benchmarks which may have changed over time. Some asset class policy benchmarks revise over time and these revisions are reflected in subsequent policy benchmark calculations. See Benchmark Disclosure page for current definitions.

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

3. “Bonds” asset class includes Cash and Short Duration market value which 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 returns include Overlay returns as a blend of physical and synthetic returns. 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. Asset class returns calculated using Caissa, a third-party multi-asset class analytics system.

5. Asset class weights include Overlay exposures which are net notional exposures provided by Russell Investments. RSIC rebalances quarterly and reported exposures reflect any trades made at quarter end that have not settled yet.

Disclosures

- Plan Returns are provided by BNY Mellon. All returns 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. Asset class returns are based on values obtained from BNY Mellon and adjusted for overlay exposures provided by Russell Investments. 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. Total Plan trailing periods reflect a performance correction that affected the time period 03/31/2015 through 06/30/2022.

- 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

Benchmarks

- **Core Fixed Income**: Bloomberg US Aggregate Bond Index
- **Global Public Equity Blend**: MSCI All Country World Index IMI
- **Private Equity Blend**: Burgiss All PE Benchmark
- **Private Debt** : S&P/LSTA Leveraged Loan Index + 150 basis points on a 3-month lag
- **Private Real Estate Blend:** NCREIF-Open Ended Diversified Core (ODCE) Index *Net of Fees*

Benchmarks Displayed in this report represent current policy benchmarks as of the SIOP effective 7/1/2020. 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.

South Carolina Retirement System Investment Commission

Investment Performance Review
Period Ending: December 31, 2023

Verus®

VERUSINVESTMENTS.COM

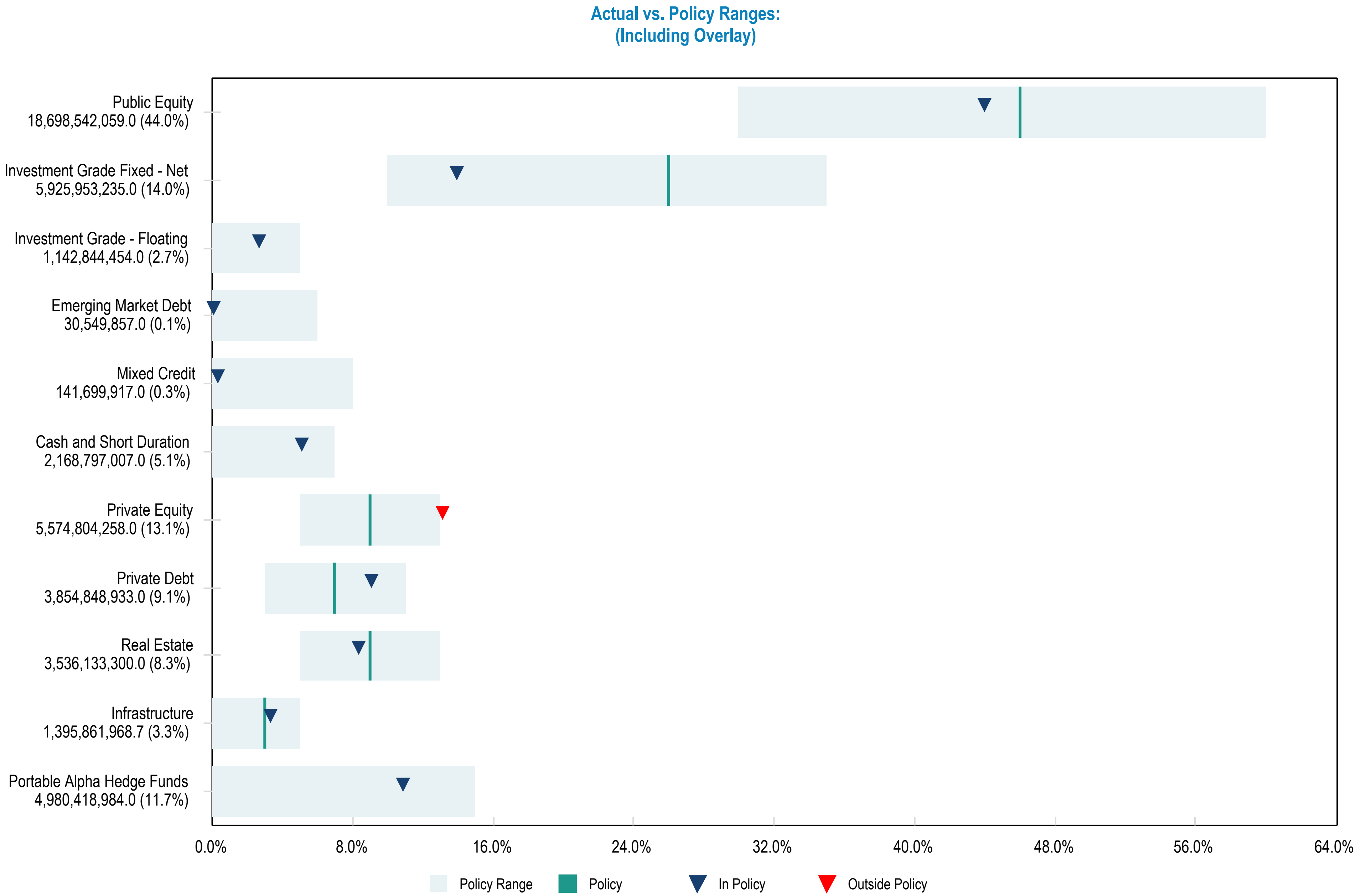
SEATTLE 206.622.3700
CHICAGO 312.815.5228
PITTSBURGH 412.784.6678
LOS ANGELES 310.297.1777
SAN FRANCISCO 415.362.3484

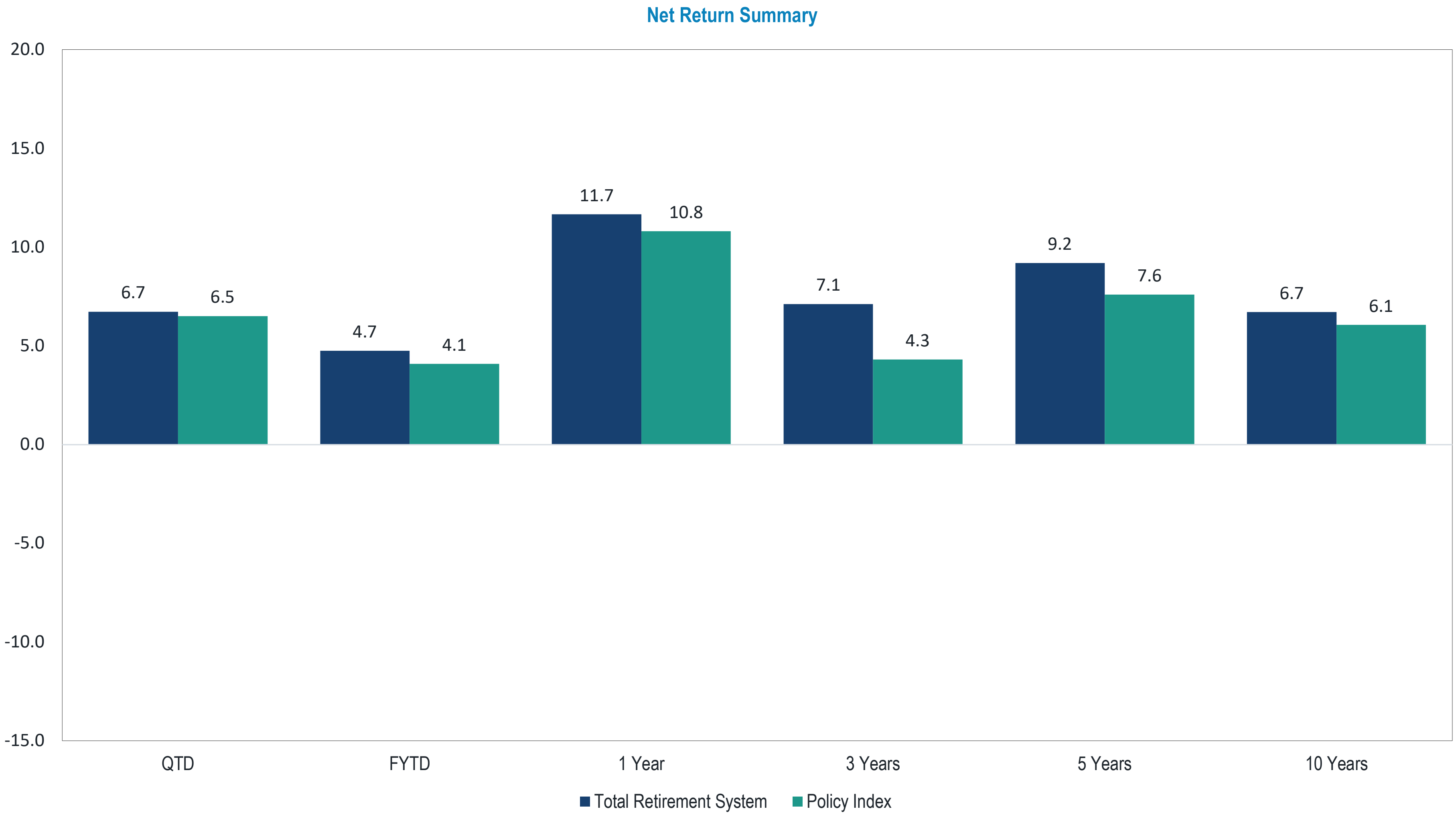
Allocation vs. Targets and Policy
Quarter Ending December 31, 2023

	MV at 12/31/2023	Overlay Exposures	Net Position	% of Total System	% of Total System (Net)	Policy Targets	Allowable Ranges	SIOP Compliance?
Total System	**42,470,034,989**	**-**	**42,470,034,989**	**100%**	**100%**	**100%**		
Public Equity	**18,698,542,059**	**-**	**18,698,542,059**	**44%**	**44%**	**46%**	**30% - 60%**	**Yes**
Public Equity	18,698,542,059	-	18,698,542,059	44%	44%	46%	30% - 60%	Yes
Bonds	**4,429,425,486**	**4,980,418,984**	**9,409,844,470**	**10%**	**22%**	**26%**	**15% - 35%**	**Yes**
Investment Grade - Fixed	126,383,499	5,799,569,736	5,925,953,235	0%	14%	0%	10% - 35%	Yes
Investment Grade - Floating	1,142,844,454	-	1,142,844,454	3%	3%	0%	0% - 5%	Yes
Emerging Market Debt	30,549,857	-	30,549,857	0%	0%	0%	0% - 6%	Yes
Mixed Credit	141,699,917	-	141,699,917	0%	0%	0%	0% - 8%	Yes
Cash and Short Duration	2,987,947,759	(819,150,752)	2,168,797,007	7%	5%	0%	0% - 7%	Yes
Private Equity	**5,574,804,258**	**-**	**5,574,804,258**	**13%**	**13%**	**9%**	**5% - 13%**	**No**
Private Debt	**3,854,848,933**	**-**	**3,854,848,933**	**9%**	**9%**	**7%**	**3% - 11%**	**Yes**
Real Assets	**4,931,995,269**	**-**	**4,931,995,269**	**12%**	**12%**	**12%**	**6% - 18%**	**Yes**
Real Estate	3,536,133,300	-	3,536,133,300	8%	8%	9%	5% - 13%	Yes
Infrastructure	1,395,861,969	-	1,395,861,969	3%	3%	3%	0% - 5%	Yes
Portable Alpha Hedge Funds	**4,980,418,984**	**(4,980,418,984)**	**-**	**12%**	**0%**	**0%**	**0% - 15%**	**Yes**

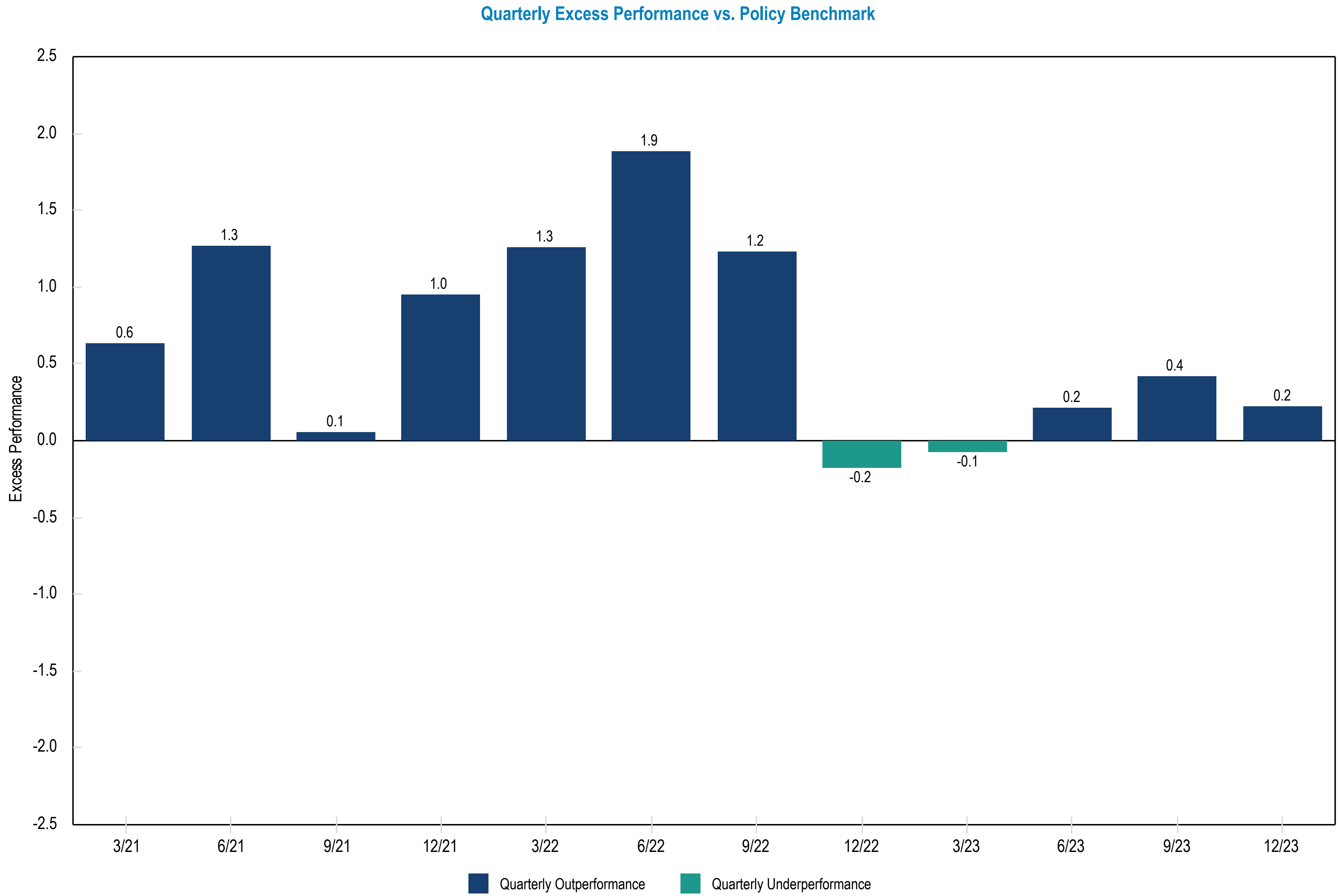
Includes cash in the Russell Overlay separate account

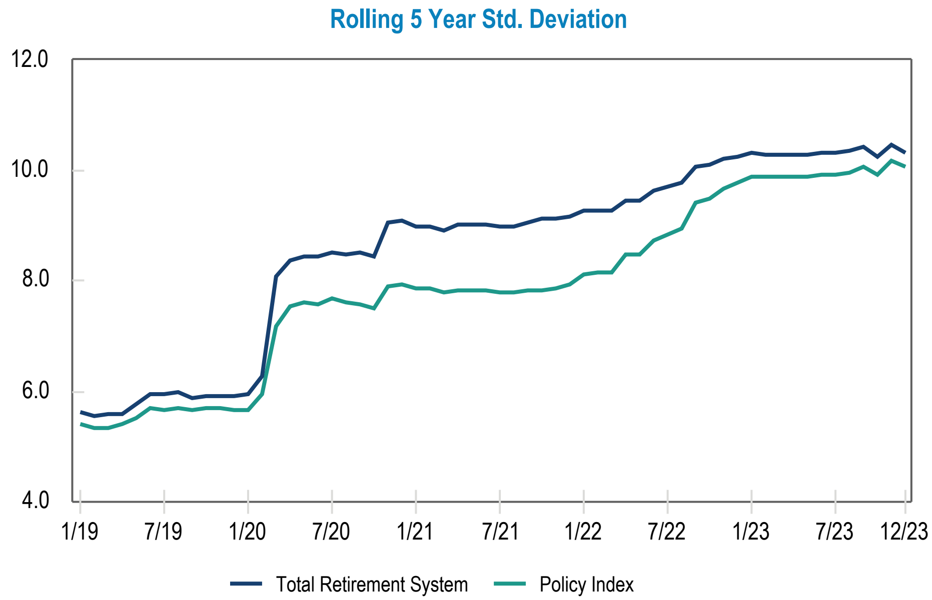
Percentages may not sum to 100% due to rounding

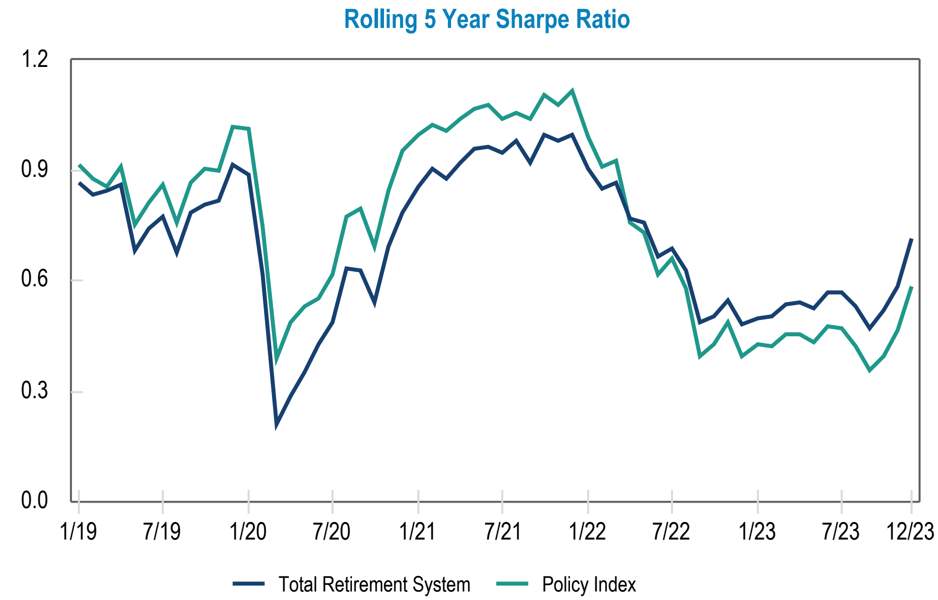

Actual vs. Policy Ranges:
(Including Overlay)
Public Equity
18,698,542,059.0 (44.0%)
Investment Grade Fixed - Net
5,925,953,235.0 (14.0%)
Investment Grade - Floating
1,142,844,454.0 (2.7%)
Emerging Market Debt
30,549,857.0 (0.1%)
Mixed Credit
141,699,917.0 (0.3%)
Cash and Short Duration
2,168,797,007.0 (5.1%)
Private Equity
5,574,804,258.0 (13.1%)
Private Debt
3,854,848,933.0 (9.1%)
Real Estate
3,536,133,300.0 (8.3%)
Infrastructure
1,395,861,968.7 (3.3%)
Portable Alpha Hedge Funds
4,980,418,984.0 (11.7%)
0.0%
8.0%
16.0%
24.0%
32.0%
40.0%
48.0%
56.0%
64.0%
Policy Range
Policy
In Policy
Outside Policy

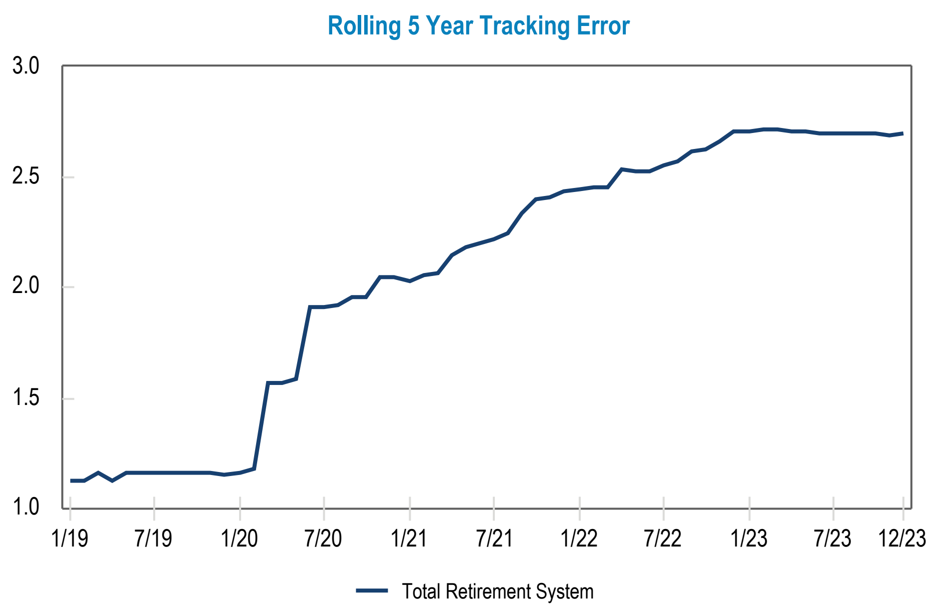


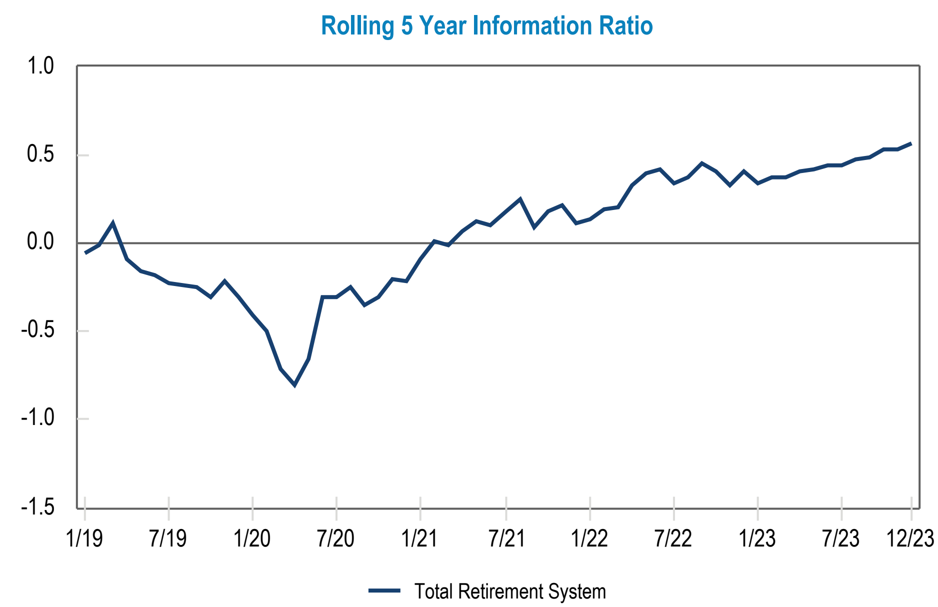
Returns for periods greater than one year are annualized.

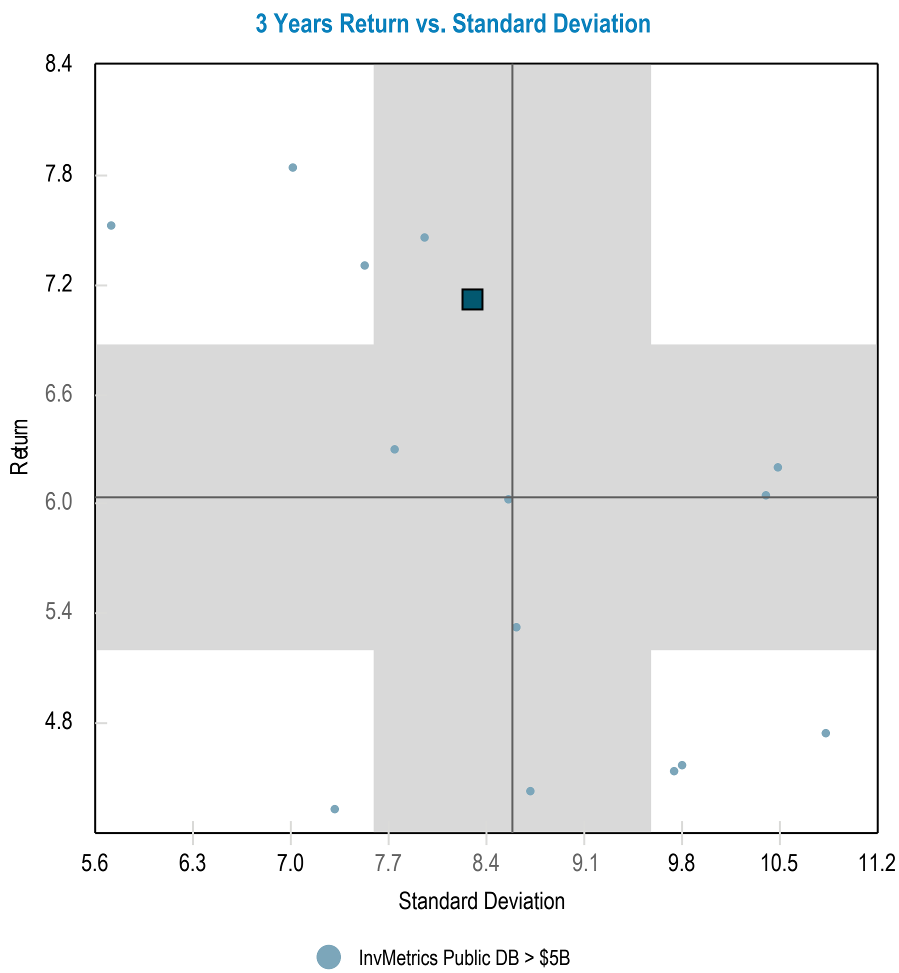

Quarterly Excess Performance vs. Policy Benchmark
Excess Performance
2.5
2.0
1.5
1.0
0.5
0.0
-0.5
-1.0
-1.5
-2.0
-2.5
0.6
1.3
0.1
1.0
1.3
1.9
1.2
-0.2
-0.1
0.2
0.4
0.2
3/21
6/21
9/21
12/21
3/22
6/22
9/22
12/22
3/23
6/23
9/23
12/23
Quarterly Outperformance
Quarterly Underperformance


Rolling 5 Year Std. Deviation
12.0
10.0
8.0
6.0
4.0
1/19
7/19
1/20
7/20
1/21
7/21
1/22
7/22
1/23
7/23
12/23
Total Retirement System
Policy Index

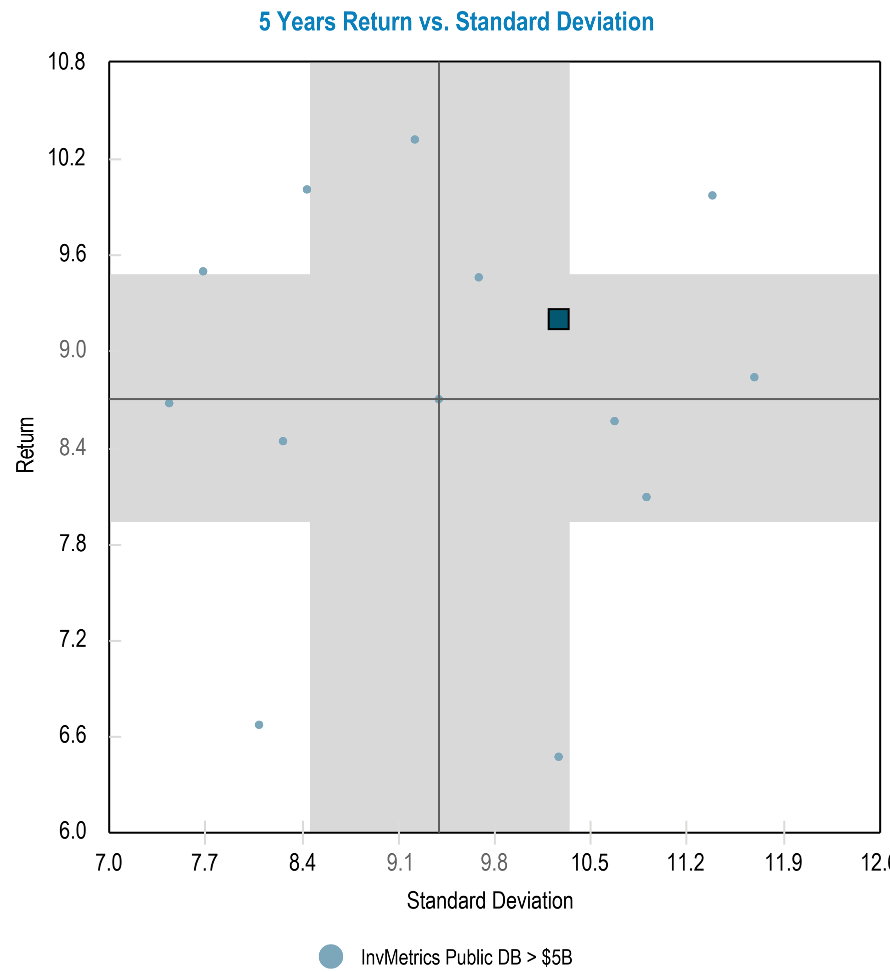

Rolling 5 Year Sharpe Ratio
1.2
0.9
0.6
0.3
0.0
1/19
7/19
1/20
7/20
1/21
7/21
1/22
7/22
1/23
7/23
12/23
Total Retirement System
Policy Index


Rolling 5 Year Tracking Error
3.0
2.5
2.0
1.5
1.0
1/19
7/19
1/20
7/20
1/21
7/21
1/22
7/22
1/23
7/23
12/23
Total Retirement System


Rolling 5 Year Information Ratio
1.0
0.5
0.0
-0.5
-1.0
-1.5
1/19
7/19
1/20
7/20
1/21
7/21
1/22
7/22
1/23
7/23
12/23
Total Retirement System

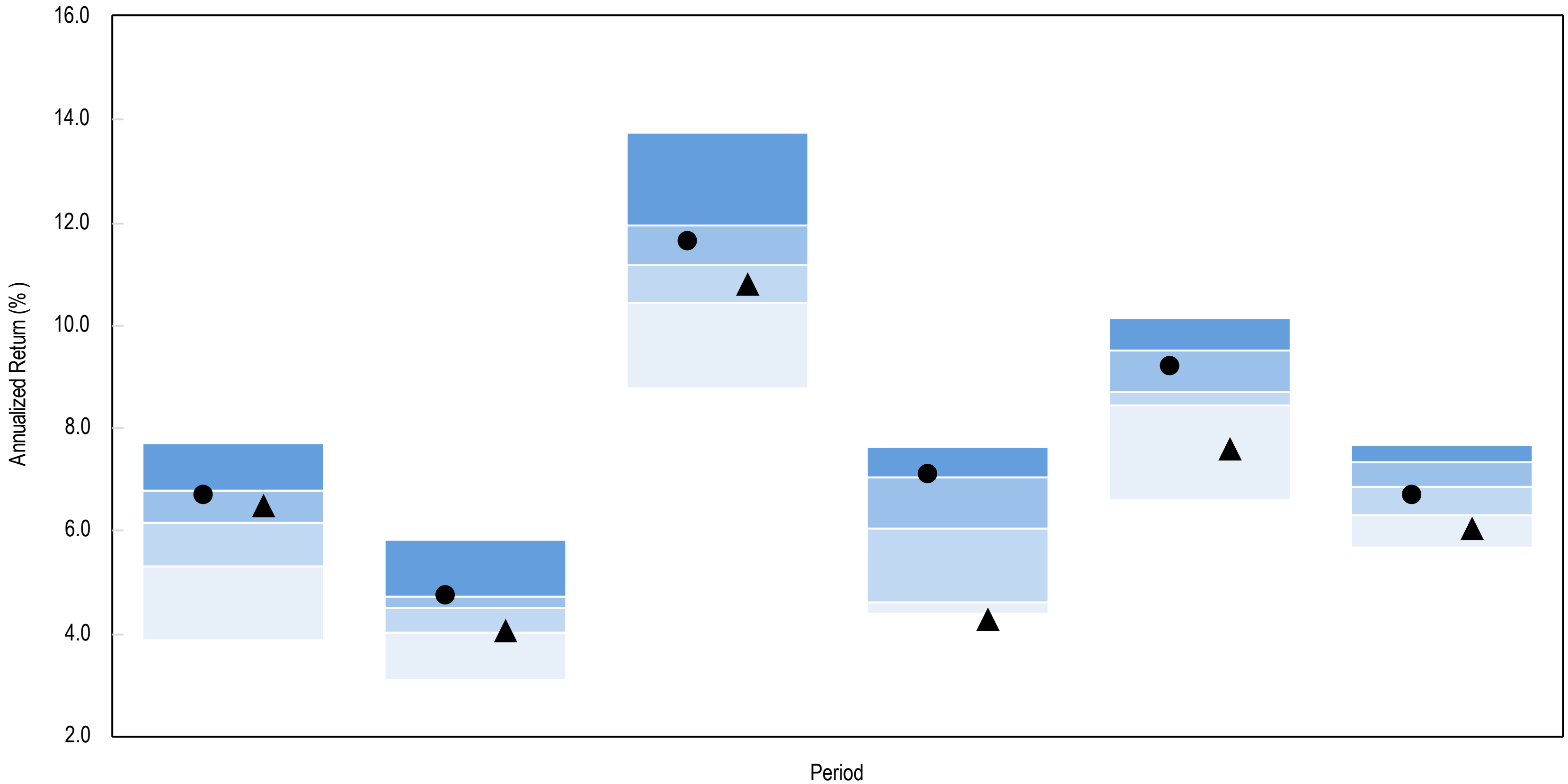


	Return	Standard Deviation
Total Retirement System	7.12	8.30
Median	6.04	8.59
Population	14	14



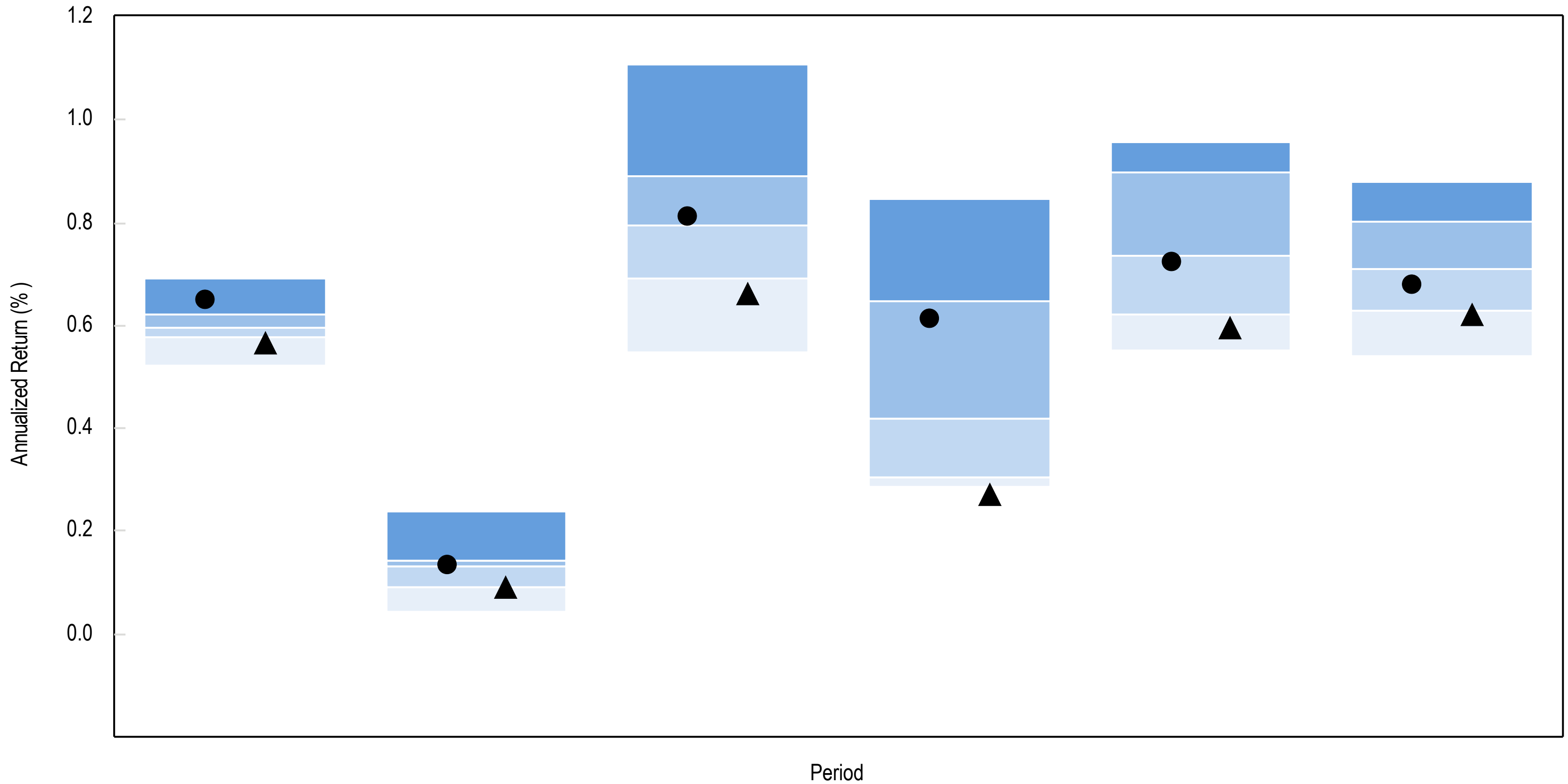
	Return	Standard Deviation
Total Retirement System	9.20	10.26
Median	8.71	9.40
Population	13	13

Total Fund Cumulative Performance vs. InvMetrics Public DB > $5B



	QTD	Fiscal YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs
● Total Retirement System	6.73 (27)	4.75 (24)	11.66 (36)	7.12 (25)	9.20 (37)	6.71 (66)
▲ Policy Index	6.51 (39)	4.08 (72)	10.80 (62)	4.30 (100)	7.59 (87)	6.06 (82)
5th Percentile	7.69	5.84	13.75	7.64	10.15	7.66
1st Quartile	6.79	4.74	11.95	7.05	9.50	7.33
Median	6.16	4.52	11.17	6.04	8.71	6.87
3rd Quartile	5.31	4.02	10.42	4.62	8.45	6.29
95th Percentile	3.89	3.10	8.77	4.39	6.59	5.67
Population	28	26	24	14	13	12

Total Fund Sharpe Ratio vs. InvMetrics Public DB > $5B



	QTD	Fiscal YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs
● Total Retirement System	0.65 (16)	0.14 (38)	0.81 (46)	0.61 (28)	0.72 (59)	0.68 (65)
▲ Policy Index	0.57 (86)	0.09 (72)	0.66 (83)	0.27 (100)	0.59 (92)	0.62 (76)
5th Percentile	0.69	0.24	1.11	0.85	0.96	0.88
1st Quartile	0.62	0.14	0.89	0.65	0.90	0.80
Median	0.60	0.13	0.80	0.42	0.74	0.71
3rd Quartile	0.58	0.09	0.69	0.30	0.62	0.63
95th Percentile	0.52	0.04	0.55	0.29	0.55	0.54
Population	28	26	24	14	13	12

Total Retirement System

Asset Class Performance Summary (Net of Fees)

South Carolina Retirement System Investment Commission

Period Ending: December 31, 2023

	Market Value	% of Portfolio	QTD	Fiscal YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception	Inception Date
Total Retirement System	42,470,034,989	100.0	6.7	4.7	11.7	7.1	9.2	6.7	5.9	Oct-05
Policy Index			6.5	4.1	10.8	4.3	7.6	6.1	5.2	
Public Equity	18,698,542,059	44.0	11.3	7.6	22.0	5.8	10.8	7.2	6.2	Oct-05
Public Equity Blended Benchmark			11.1	7.4	21.6	5.5	11.5	7.8	7.0	
Total Bonds	3,413,749,647	8.0	2.1	3.6	6.2	1.3	2.9	2.4	3.3	Oct-05
Bonds Blended Benchmark			6.8	3.4	5.5	-3.3	1.1	1.8	3.1	
Investment Grade - Fixed	126,383,499	0.3	1.0	-0.8	2.3	-3.2	1.7	-	2.0	Jul-15
Investment Grade - Floating	1,142,844,454	2.7	4.2	6.4	11.0	4.0	-	-	5.7	Jul-20
Mixed Credit	141,699,917	0.3	1.7	8.8	15.2	6.3	6.9	4.8	6.2	May-08
50% S&P LSTA Leveraged Loan Index/50% Blmbg. High Yield Index			5.0	7.1	13.4	3.9	5.6	4.7	5.6	
Emerging Market Debt	30,549,857	0.1	9.9	9.7	-42.1	-20.5	-10.3	-4.2	-0.7	Jul-09
50% JPM EMBI Global Div (USD)/50% JPM GBI EM Global Div			8.6	5.6	11.9	-3.3	1.4	1.7	3.7	
Cash - Short Duration	1,972,271,920	4.6	1.2	2.5	4.9	1.8	2.1	1.4	1.8	Oct-05
90 Day U.S. Treasury Bill			1.4	2.7	5.0	2.2	1.9	1.2	1.4	
Short Duration	176,967,267	0.4	1.8	3.2	5.7	2.2	2.8	2.1	2.1	Mar-10
Blmbg. 1-3 Year Gov/Credit Index			2.7	3.4	4.6	0.1	1.5	1.3	1.3	
Private Equity	5,574,804,258	13.1	1.5	1.8	3.7	18.0	12.9	12.3	9.3	Apr-07
Private Equity Blended Benchmark			-0.6	0.8	3.3	15.7	15.7	15.2	12.4	
Private Debt	3,854,848,933	9.1	3.0	5.2	10.1	11.4	7.5	6.5	7.1	Jun-08
S&P LSTA Leveraged Loan Index + 150 bps 3-mo lag			3.8	7.5	14.8	7.6	6.0	5.8	5.5	
Real Assets	4,931,995,269	11.6	0.3	-0.7	-1.5	10.1	9.0	10.1	7.4	Jul-08
Real Assets Blended Benchmark			-5.0	-7.0	-12.7	4.1	4.4	4.2	3.0	
Private Real Estate	3,282,297,814	7.7	-2.0	-3.1	-7.2	9.9	7.3	10.1	7.2	Jul-08
Private Real Estate Blended Benchmark			-5.0	-7.0	-12.7	4.0	3.7	6.9	4.7	
Public Real Estate	253,835,486	0.6	16.9	8.1	15.1	8.2	9.7	-	6.0	Jul-16
FTSE NAREIT Equity REIT			16.2	7.9	13.7	7.2	7.4	7.6	4.3	
Private Infrastructure	1,294,731,399	3.0	2.6	4.4	12.3	8.5	6.5	-	7.4	Jul-18
Dow Jones Brookfield Global Infrastructure			12.1	3.1	4.5	5.4	7.0	5.3	5.0	
Public Infrastructure	101,130,570	0.2	12.1	2.4	3.9	5.3	8.3	-	5.7	Jun-16
Dow Jones Brookfield Global Infrastructure			12.1	3.1	4.5	5.4	7.0	5.3	5.7	
Hedge Funds Portable Alpha	4,980,418,984	11.7	1.2	4.1	5.9	9.4	7.8	6.8	8.1	Jul-07
HFRI Conservative Fund of Funds Less LIBOR			0.4	0.4	-0.1	1.5	2.8	1.8	0.6	
Russell Overlay	1,015,675,839	2.4								

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

	Anlzd Return	Anlzd Standard Deviation	Information Ratio	Beta	Sharpe Ratio	Tracking Error
Total Retirement System	**9.2**	**10.3**	**0.6**	**1.0**	**0.7**	**2.7**
Policy Index	*7.6*	*10.0*	*-*	*1.0*	*0.6*	*0.0*
Public Equity	**10.8**	**18.6**	**-0.4**	**1.0**	**0.5**	**1.3**
Public Equity Blended Benchmark	*11.5*	*18.1*	*-*	*1.0*	*0.6*	*0.0*
Total Bonds	**2.9**	**4.3**	**0.3**	**0.3**	**0.2**	**5.8**
Bonds Blended Benchmark	*1.1*	*6.1*	*-*	*1.0*	*-0.1*	*0.0*
Mixed Credit	**6.9**	**7.7**	**0.2**	**0.7**	**0.7**	**6.2**
50% S&P LSTA Leveraged Loan Index/50% Blmbg. U.S. Corporate High Yield Index	*5.6*	*7.9*	*-*	*1.0*	*0.5*	*0.0*
Emerging Market Debt	**-10.3**	**23.5**	**-0.4**	**0.6**	**-0.4**	**22.8**
50% JP Morgan EMBI Global Diversified (USD)/50% JP Morgan EMBI Global Diversified	*1.4*	*11.3*	*-*	*1.0*	*0.0*	*0.0*
Cash - Short Duration	**2.1**	**0.9**	**0.3**	**0.7**	**0.3**	**0.8**
90 Day U.S. Treasury Bill	*1.9*	*0.5*	*-*	*1.0*	*-*	*0.0*
Short Duration	2.8	1.7	0.5	0.4	0.5	1.7
90 Day U.S. Treasury Bill	*1.9*	*0.5*	*-*	*1.0*	*-*	*0.0*
Private Equity	**12.9**	**7.3**	**-0.2**	**0.1**	**1.4**	**15.2**
Private Equity Blended Benchmark	*15.7*	*14.0*	*-*	*1.0*	*1.0*	*0.0*
Private Debt	**7.5**	**4.3**	**0.1**	**-0.1**	**1.2**	**8.8**
S&P LSTA Leveraged Loan Index + 150 bps 3-mo lag	*6.0*	*7.2*	*-*	*1.0*	*0.6*	*0.0*
Real Assets	**9.0**	**4.9**	**0.7**	**0.4**	**1.3**	**6.4**
Real Assets Blended Benchmark	*4.4*	*8.2*	*-*	*1.0*	*0.3*	*0.0*
Private Real Estate	**7.3**	**4.7**	**0.5**	**0.4**	**1.0**	**6.0**
Private Real Estate Blended Benchmark	*3.7*	*7.3*	*-*	*1.0*	*0.3*	*0.0*
Public Real Estate	**9.7**	**20.5**	**0.7**	**1.0**	**0.5**	**2.7**
FTSE NAREIT All Equity REITs	*7.6*	*20.5*	*-*	*1.0*	*0.4*	*0.0*
Private Infrastructure	**6.5**	**4.1**	**-0.1**	**0.0**	**1.1**	**17.3**
Dow Jones Brookfield Global Infrastructure	*7.0*	*17.4*	*-*	*1.0*	*0.4*	*0.0*
Public Infrastructure	**8.3**	**16.5**	**0.5**	**0.9**	**0.5**	**2.2**
Dow Jones Brookfield Global Infrastructure	*7.0*	*17.4*	*-*	*1.0*	*0.4*	*0.0*
Hedge Funds Portable Alpha	**7.8**	**4.3**	**1.5**	**0.7**	**1.3**	**3.2**
HFRI Conservative Fund of Funds Less LIBOR	*2.8*	*4.4*	*-*	*1.0*	*0.2*	*0.0*

Page excludes managers with less than 5 years of history.

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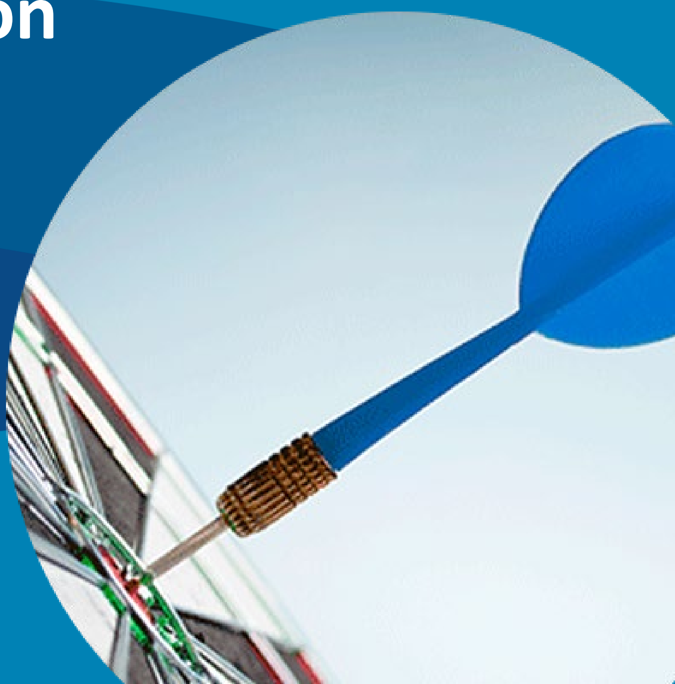
South Carolina
Retirement System Investment Commission

Summary of 2023 Actuarial Valuation

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

March 7, 2024

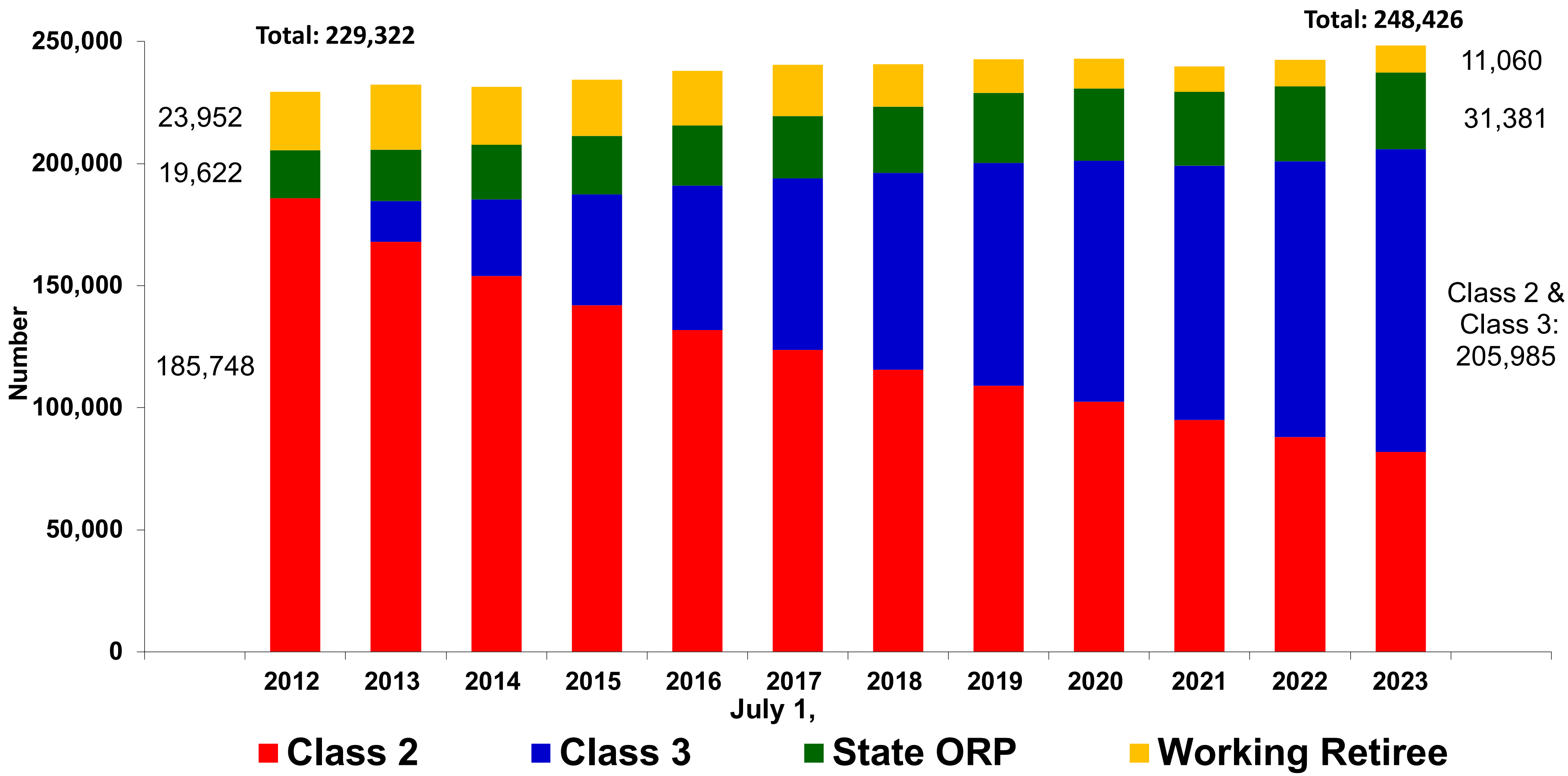


Agenda

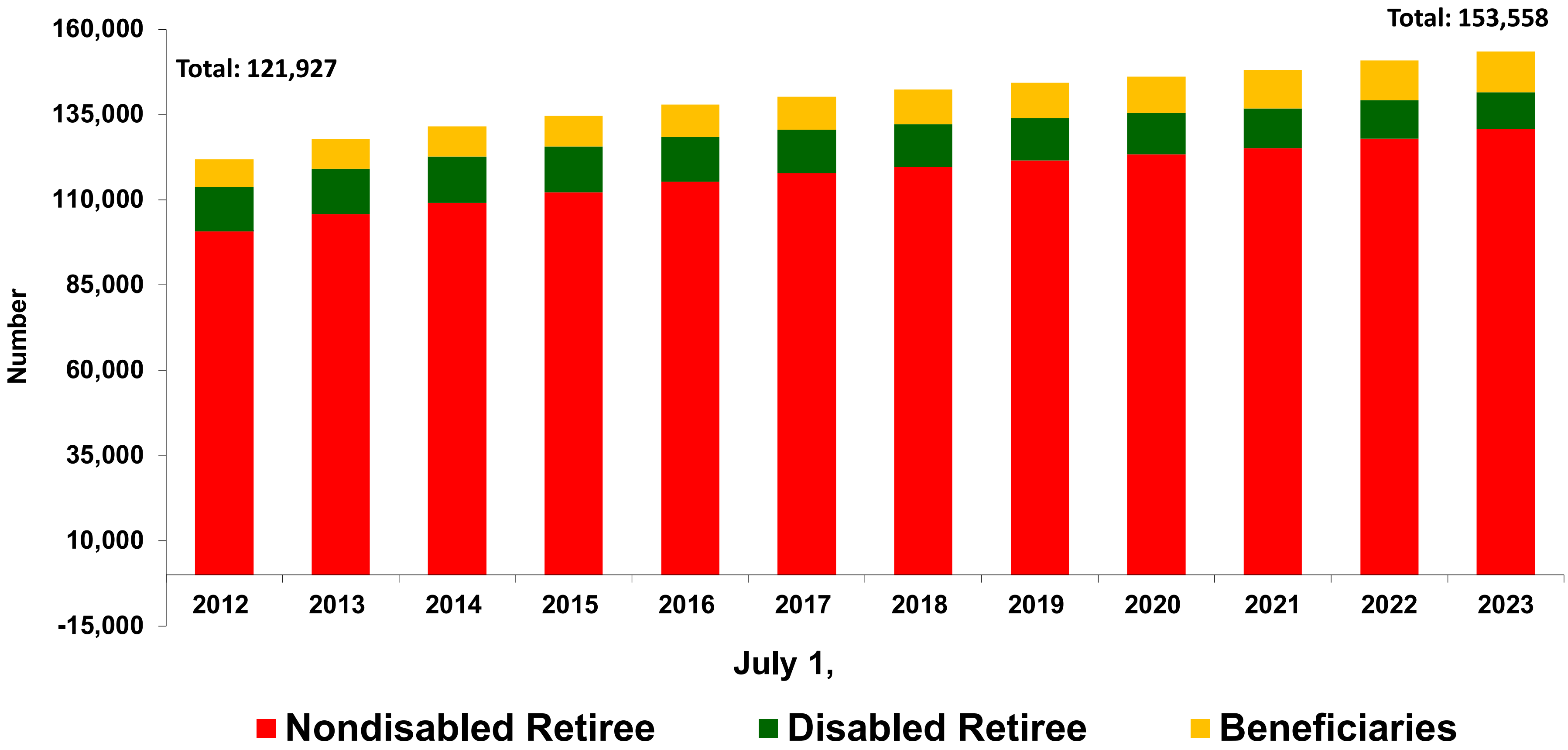
- Summary of Historical Demographics
- 2023 Valuation Results
  - SCRS
  - PORS
- Projection Information for SCRS and PORS

Contributing Membership - SCRS

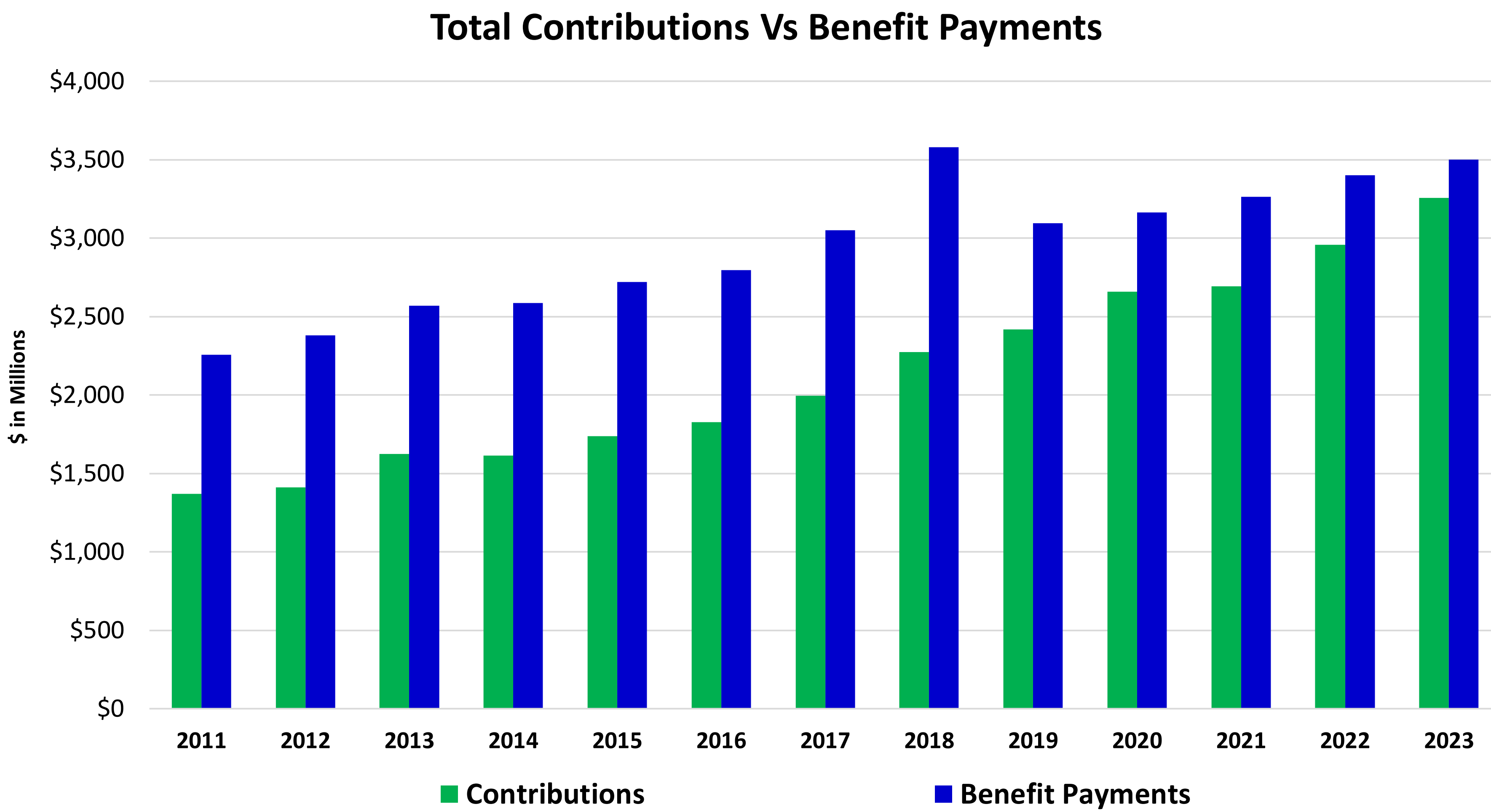
Currently 60% of Active Members in SCRS are Class 3



Members Collecting a Benefit- SCRS



Contributions and Benefit Payments - SCRS



2023 Valuation Results

Summary of Changes Since the Prior Valuation

- 7.2% market investment return for FY 2023
  - $71 million more than expected for SCRS
  - The valuation uses a 5-year smoothing process for investment returns and the valuation assets are approximately equal to the market value of assets at July 1, 2023
- Notable experience
  - Active membership in SCRS increased 2.5% and their annualized pay increased 7.3% from FY 2022 to FY 2023
  - Active membership in PORS increased 4.5% and their annualized pay increased 14.4% from FY 2022 to FY 2023

GRS

Summary of July 1, 2023 Valuation Results – SCRS and PORS ($ in millions)

Item	SCRS 2023	SCRS 2022	PORS 2023	PORS 2022
(1)	(2)	(3)	(4)	(5)
Actuarial accrued liability	$59,164	$56,924	$9,707	$9,093
Actuarial (smoothed) value assets	34,254	32,250	6,401	5,948
Unfunded liability (UAAL)	$24,910	$24,674	$3,306	$3,145
Funded ratio	58%	57%	66%	65%
Member contribution rate	9.00%	9.00%	9.75%	9.75%
Employer contribution rate next FY	18.56%	18.56%	21.24%	21.24%
Total contribution rate	27.56%	27.56%	30.99%	30.99%
Calculated funding period (based on FY 2024 contribution rate)	16 Years	17 Years	16 Years	16 Years
Expected contributions (actual for prior year)				
Member	$1,064	$1,036	$182	$179
Employer	2,282	2,222	362	354

Impact of Salary Increases for SCRS and PORS

SCRS

- Liability Increase
  - $464M in 2022
  - $638M in 2023
- More than Expected Contributions
  - $43M in 2022
  - $95M in 2023
- Impact on Projected Funding Period
  - (0.3) years in 2022
  - (0.3) years in 2023

PORS

- Liability Increase
  - $246M in 2022
  - $106M in 2023
- More than Expected Contributions
  - $20M in 2022
  - $37M in 2023
- Impact on Projected Funding Period
  - (0.1) years in 2022
  - 0.6 years in 2023

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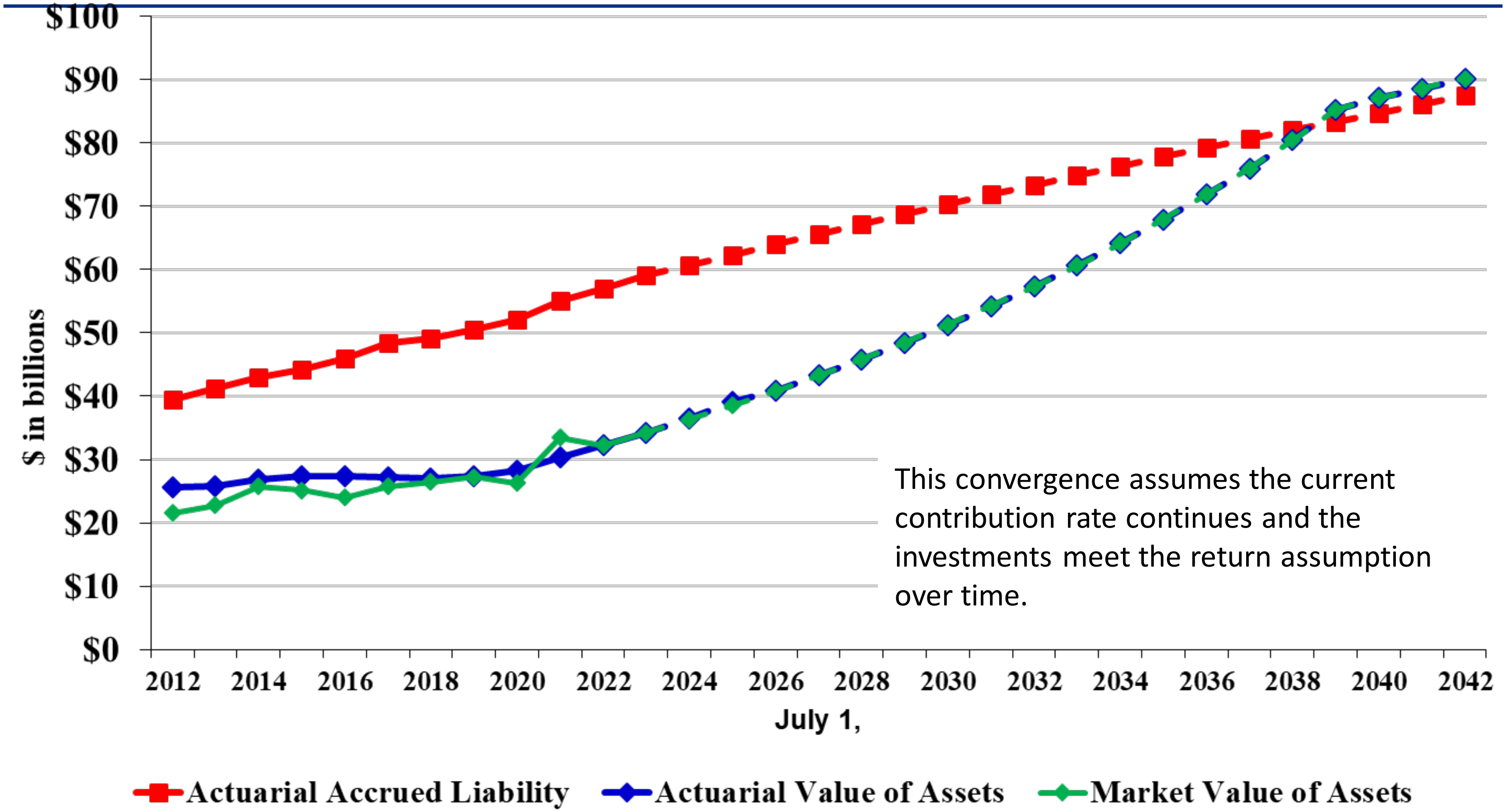
Projection Information
SCRS

GRS

Historical and Projected Liability and Assets - SCRS



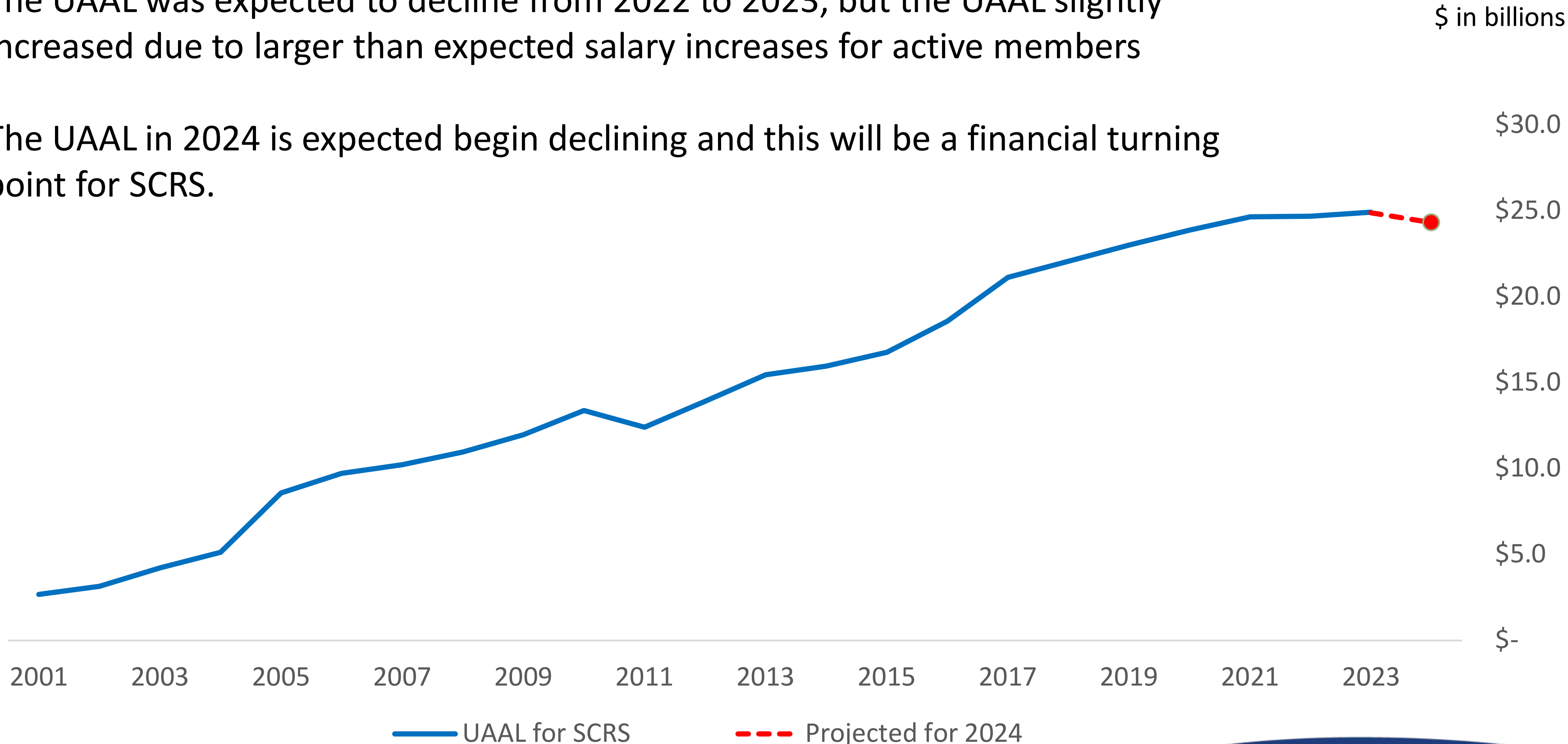
Projected information reflects all future scheduled contribution rate increases and is based on the actuarial assumptions used in the 2022 actuarial valuation.

History of UAAL for SCRS

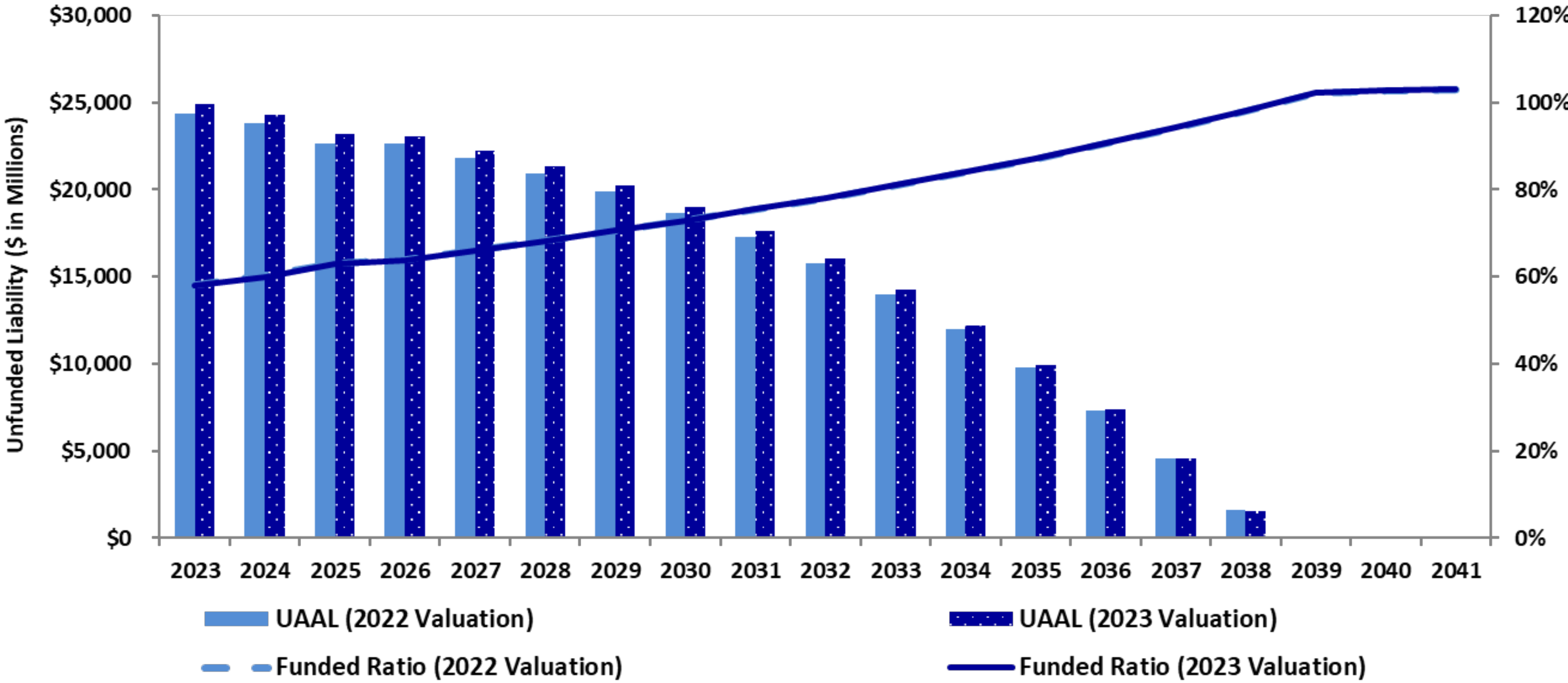
The UAAL has had an increasing trend since 2001.

The UAAL was expected to decline from 2022 to 2023, but the UAAL slightly increased due to larger than expected salary increases for active members

The UAAL in 2024 is expected begin declining and this will be a financial turning point for SCRS.

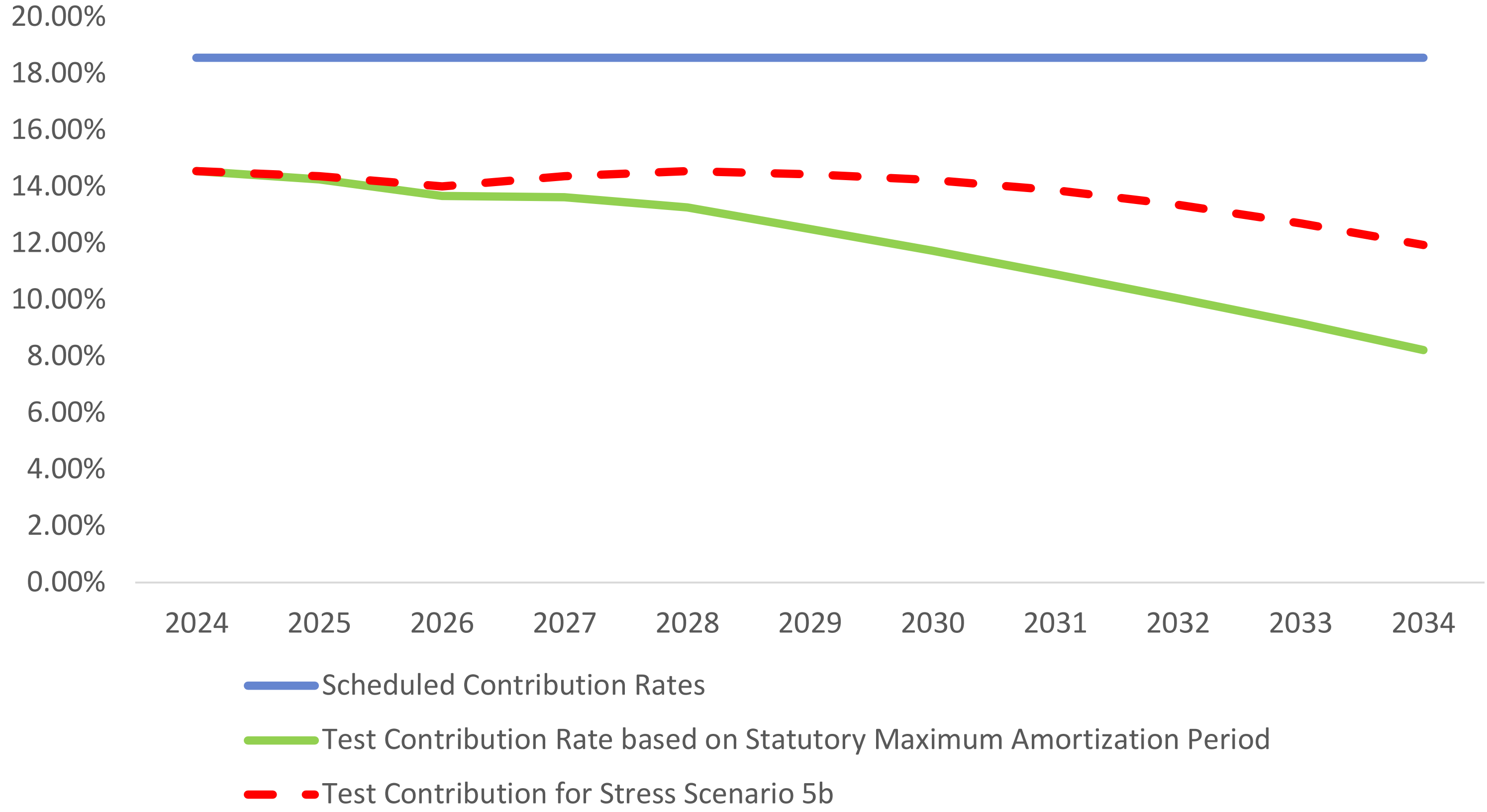


Projected Unfunded Liability – SCRS 2023 Valuation Versus 2022 Valuation



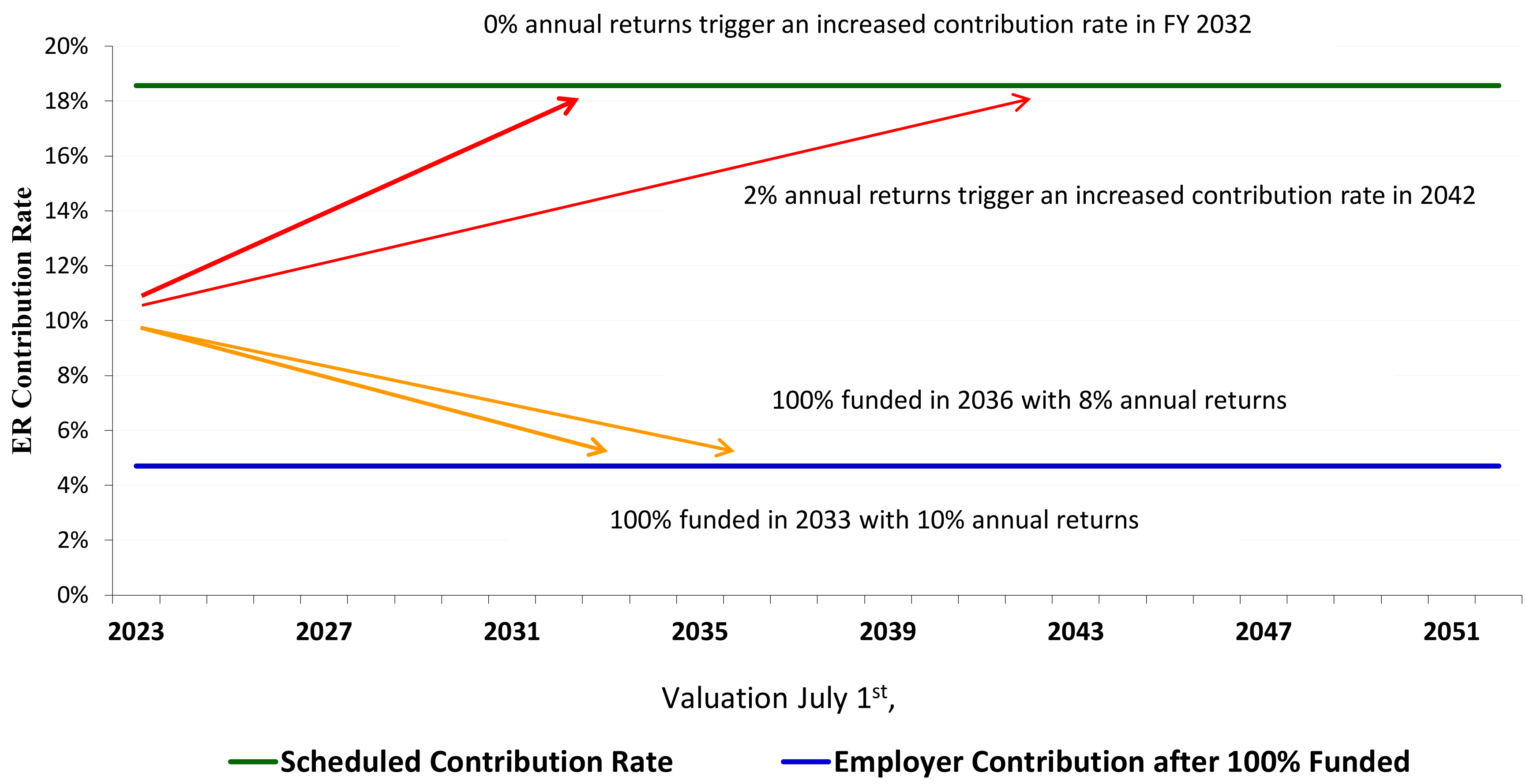
The projection for 2022 and 2023 assumes the current contribution rate remains in effect future years and the current actuarial assumptions are met (including a 7.00% return on market assets from the valuation date).

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



Scenario 5b: Emerging investment experience is 4.00% for each of the next five years and 7.00% each year thereafter.

Test comparing multiple outcomes over different time horizons



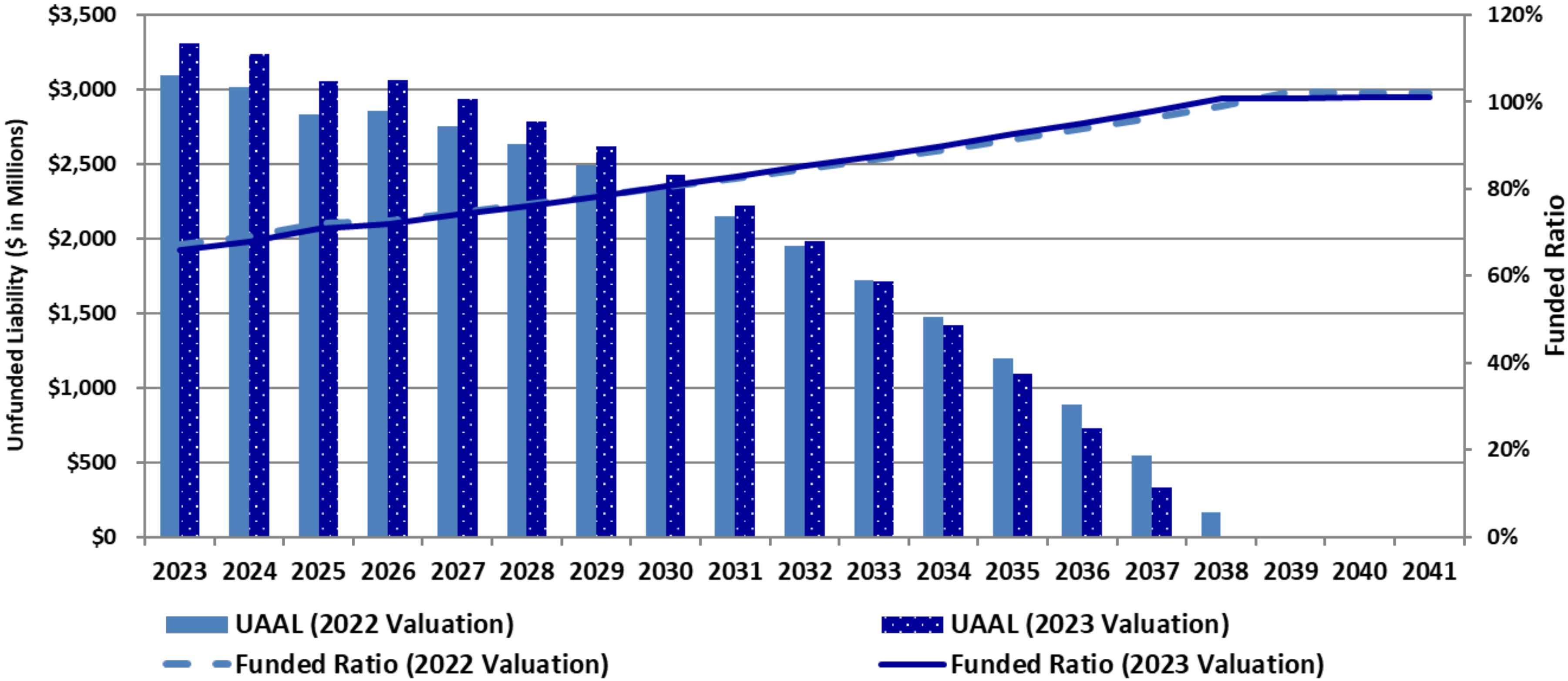
Projected Probabilities of Outcomes

	2023 Valuation	2022 Valuation	2021 Valuation
Probability greater than 80% funded ratio in 2030	**34%**	**42%**	**52%**
Probability greater than 90% funded ratio in 2040	**59%**	**54%**	**56%**
Probability UAAL smaller than current in 5 Years	**70%**	**63%**	**78%**
Probability UAAL smaller than current in 10 Years	**74%**	**68%**	**76%**
Probability contributions required to exceed 18.56% at some point (funding period exceeds 20 years)	**8%**	**22%**	**18%**

Current Funded Ratio is 58%
Simulations from both years use 7% expected geometric return with a 14.8% annual standard deviation

Projection Information
PORS

Projected Unfunded Liability – PORS 2023 Valuation



The projection for 2022 and 2022 assumes the current contribution rate is remains effect future years and the current actuarial assumptions are met (including a 7.00% return on market assets from the valuation date).

Valuation Comment Summary

- The funded ratios are beginning to increase and the UAAL is expected to begin decreasing for both Systems
- It is highly likely the current employer contribution rates for SCRS and PORS will satisfy the 20-year maximum amortization period in Statute
- Recommendation is to stay the course and give the strategy time to achieve its objectives

Disclaimers

- This presentation is intended to be used in conjunction with the actuarial valuations as of July 1, 2023. 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.

GRS

PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS

MARCH 2024

2024 Capital Market Assumptions Review

South Carolina RSIC

Executive Summary

- This presentation provides Verus' forward looking long-term Capital Market Assumptions for 2024 and the expected long-term expected return of the RSIC portfolio using these assumptions.
- Verus formally updates our capital market assumptions annually, with updates to the assumptions monthly to reflect changes in market conditions over the course of the year.
- The South Carolina RSIC portfolio expected long-term return slightly decreased from our 2023 CMAs.
  - The portfolio is expected to return 7.3% using our 2024 CMAs compared to 7.4% using our 2023 CMAs. The expected risk decreased from 12.7% to 12.5%.

Methodology

- We use a fundamental building block approach based on several inputs, including historical data and academic research, to create asset class return forecasts.
- For most asset classes, we use long-term historical volatility after adjusting for autocorrelation.
- Correlations between asset classes are calculated based on the last 10 years. For illiquid assets, such as private equity and private real estate, we use BarraOne correlation estimates.

Asset	Methodology
Equity	Current yield + real earnings growth (historical average) + inflation on earnings (inflation forecast) + expected P/E change
Intl Developed Equity	Current yield + real earnings growth (historical average) + inflation on earnings (intl. inflation forecast) + expected P/E change
Private Equity	US large cap domestic equity forecast * 1.85 beta adjustment
Bonds	Nominal bonds: current yield; Real bonds: real yield + inflation forecast
Credit	Current option-adjusted spread + U.S. 10-year Treasury – effective default rate
Private Credit	Levered gross return (LIBOR + spread + original issuance discounts) – management fees – carried interest
Hedge Funds	Return coming from traditional betas + 15-year historical idiosyncratic return
Core Real Estate	Cap rate + real income growth – capex + inflation forecast
Value-Add Real Estate	Core real estate + 2%
Opportunistic Real Estate	Core real estate + 3%
Infrastructure	Current yield + real income growth + inflation on earnings (inflation forecast)
Inflation	25% weight to the University of Michigan Survey 5-10 year ahead inflation expectation and the Survey of Professional Forecasters (Fed Survey), and the remaining 50% to the market's expectation for inflation as observed through the 10-year TIPS breakeven rate
Cash	1/3 * current federal funds rate + 1/3 * U.S. 10-year Treasury yield + 1/3 * Federal Reserve long-term interest rate target

**Long-term historical volatility data is adjusted for autocorrelation (see Appendix)*

10-year return & risk assumptions

Asset Class	Index Proxy	10 Year Geometric Return	Standard Deviation Forecast
Equities			
Global Equity	MSCI ACWI	6.9%	16.7%
Global Equity Ex-China	MSCI ACWI Ex-China	6.9%	16.7%
U.S. Large	S&P 500	5.9%	15.5%
U.S. Small	Russell 2000	6.2%	21.4%
International Developed	MSCI EAFE	8.1%	17.6%
International Small	MSCI EAFE Small Cap	8.8%	21.7%
Emerging Markets	MSCI EM	8.8%	24.6%
Emerging Markets Ex-China	MSCI EM Ex-China	9.1%	24.8%
Private Equity Direct	CA U.S. Private Equity	9.0%	25.6%
Public Fixed Income			
Cash	30 Day T-Bills	4.1%	1.1%
U.S. TIPS	Bloomberg U.S. TIPS 5-10	4.7%	5.5%
Non-U.S. Inflation Linked Bonds	Bbg World Govt. ILB ex U.S.	3.9%	7.4%
U.S. Treasury	Bloomberg Treasury 7-10 Year	4.6%	7.1%
Long U.S. Treasury	Bloomberg Treasury 20+ Year	4.7%	13.2%
Global Sovereign ex U.S.	Bloomberg Global Treasury ex U.S.	2.7%	9.9%
Global Aggregate	Bloomberg Global Aggregate	4.1%	6.6%
Core Fixed Income	Bloomberg U.S. Aggregate Bond	4.9%	4.8%
Core Plus Fixed Income	Bloomberg U.S. Universal	5.2%	4.5%
Investment Grade Corp. Credit	Bloomberg U.S. Corporate Inv. Grade	5.7%	8.4%
Short-Term Gov't/Credit	Bloomberg U.S. Gov't/Credit 1-3 Year	4.7%	3.6%
Short-Term Credit	Bloomberg Credit 1-3 Year	5.1%	3.6%
Long-Term Credit	Bloomberg Long U.S. Credit	5.7%	10.9%
High Yield Corp. Credit	Bloomberg U.S. Corporate High Yield	6.6%	11.0%
Bank Loans	S&P/LSTA Leveraged Loan	8.0%	9.0%
Global Credit	Bloomberg Global Credit	5.1%	7.7%
Emerging Markets Debt (Hard)	JPM EMBI Global Diversified	8.7%	10.6%
Emerging Markets Debt (Local)	JPM GBI-EM Global Diversified	6.5%	12.2%

Investors wishing to produce expected geometric return forecasts for their portfolios should use the arithmetic return forecasts provided here as inputs into that calculation, rather than the single-asset-class geometric return forecasts. This is the industry standard approach, but requires a complex explanation only a heavy quant could love, so we have chosen not to provide further details in this document – we will happily provide those details to any readers of this who are interested.

10-year return & risk assumptions

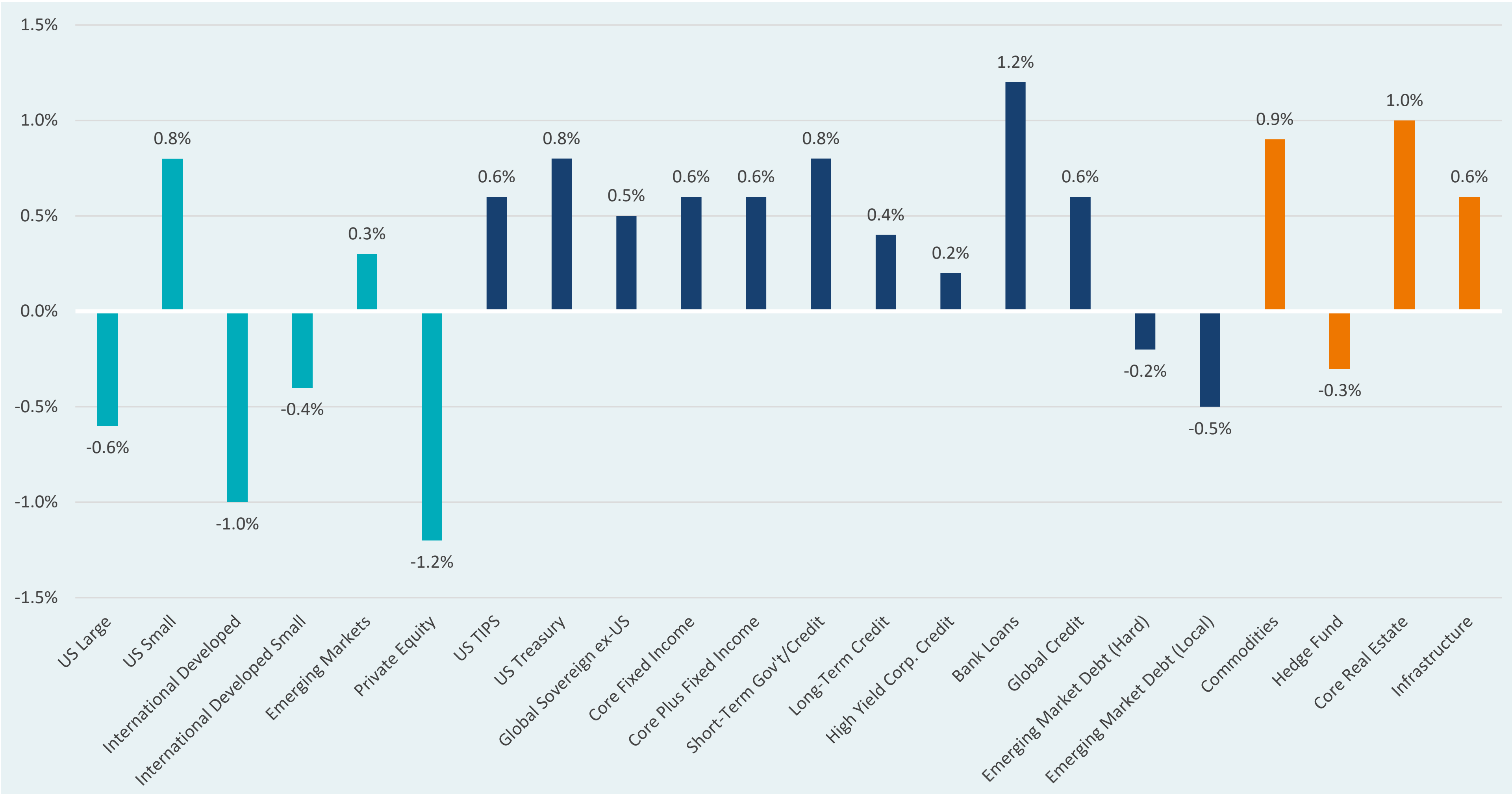
Asset Class	Index Proxy	10 Year Geometric Return	Standard Deviation Forecast
Private Fixed Income			
Private Credit	S&P LSTA Leveraged Loan Index	9.2%	11.9%
Private Credit (Direct Lending - Unlevered)	S&P LSTA Leveraged Loan Index	8.0%	9.0%
Private Credit (Direct Lending - Levered)	S&P LSTA Leveraged Loan Index	9.5%	12.6%
Private Credit (Credit Opportunities)	S&P LSTA Leveraged Loan Index	9.6%	12.8%
Private Credit (Junior Capital / Mezzanine)	S&P LSTA Leveraged Loan Index	9.0%	11.4%
Private Credit (Distressed)	S&P LSTA Leveraged Loan Index	9.1%	29.1%
Other			
Commodities	Bloomberg Commodity	6.6%	16.1%
Hedge Funds	HFRI Fund Weighted Composite	4.3%	7.5%
Hedge Fund of Funds	HFRI Fund of Funds Composite	3.3%	7.5%
Hedge Funds (Equity Style)	Custom HFRI Benchmark Mix*	7.2%	14.1%
Hedge Funds (Credit Style)	Custom HFRI Benchmark Mix*	7.3%	9.4%
Hedge Funds (Asymmetric Style)	Custom HFRI Benchmark Mix*	5.4%	6.4%
Real Estate Debt	Bloomberg CMBS IG	7.4%	7.5%
Core Real Estate	NCREIF Property	6.8%	12.5%
Value-Add Real Estate	NCREIF Property + 200bps	8.8%	15.4%
Opportunistic Real Estate	NCREIF Property + 300bps	9.8%	21.1%
REITs	Wilshire REIT	6.8%	19.2%
Global Infrastructure	S&P Global Infrastructure	8.4%	16.9%
Inflation		2.5%	-

Investors wishing to produce expected geometric return forecasts for their portfolios should use the arithmetic return forecasts provided here as inputs into that calculation, rather than the single-asset-class geometric return forecasts. This is the industry standard approach, but requires a complex explanation only a heavy quant could love, so we have chosen not to provide further details in this document – we will happily provide those details to any readers of this who are interested.

**To represent hedge fund styles, we use a combination of HFRI benchmarks: Equity Style = 33% HFRI Fundamental Growth, 33% HFRI Fundamental Value, 33% HFRI Activist. Credit Style = 20% HFRI Distressed/Restructuring, 20% HFRI Credit Arbitrage, 20% HFRI Fixed Income-Corporate, 20% HFRI Fixed Income-Convertible Arbitrage, 20% HFRI Fixed Income-Asset Backed. Asymmetric Style = 50% HFRI Relative Value, 50% HFRI Macro*

***The Risk Parity forecast shown here assumes a 10% target volatility strategy. We recommend customizing this forecast to the target volatility specifications of the risk parity strategy that an investor wishes to model. Please speak with your Verus consultant for customization needs.*

2024 vs. 2023 return forecast



Source: Verus, as of 9/30/23. Note: the year-over-year change is based on the 2024 methodology.

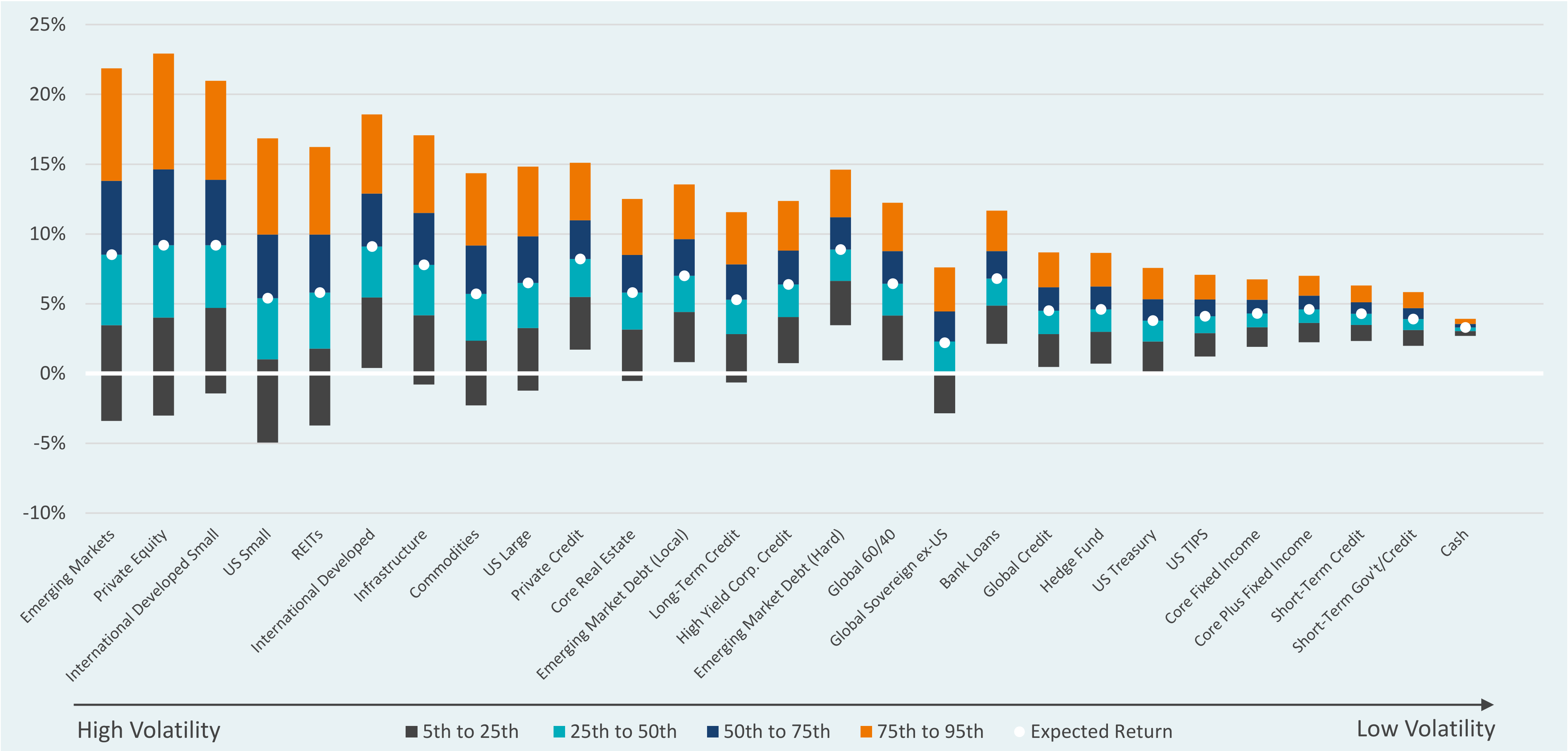
RSIC Portfolio Long Term Expected Returns

	5 Asset Mix with Portable Alpha as of December 31, 2023 (%)		5 Asset Policy Mix with Portable Alpha (%)		Policy mix without Portable Alpha (%)		Reference Portfolio (%)	
Global Equity	44		46		46		70	
Bonds	12		26		26		30	
Private Equity	13		9		9			
Private Debt	9		7		7			
Real Assets	8		12		12			
Portable Alpha	11.7		10		0			
	2024	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**
Forecast 10 Year Return	7.52	7.72	7.29	7.43	7.32	7.35	6.53	6.71
Standard Deviation	13.1	13.4	12.5	12.7	11.8	11.9	12.3	12.4
Return/Std. Deviation	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5
25th percentile ret. - 1 year	-0.9	-0.8	-0.7	-0.7	-0.3	-0.4	-1.4	-1.3
5th percentile ret. - 1 year	-11.9	-11.9	-11.2	-11.3	-10.3	-10.5	-11.7	-11.7

Appendix

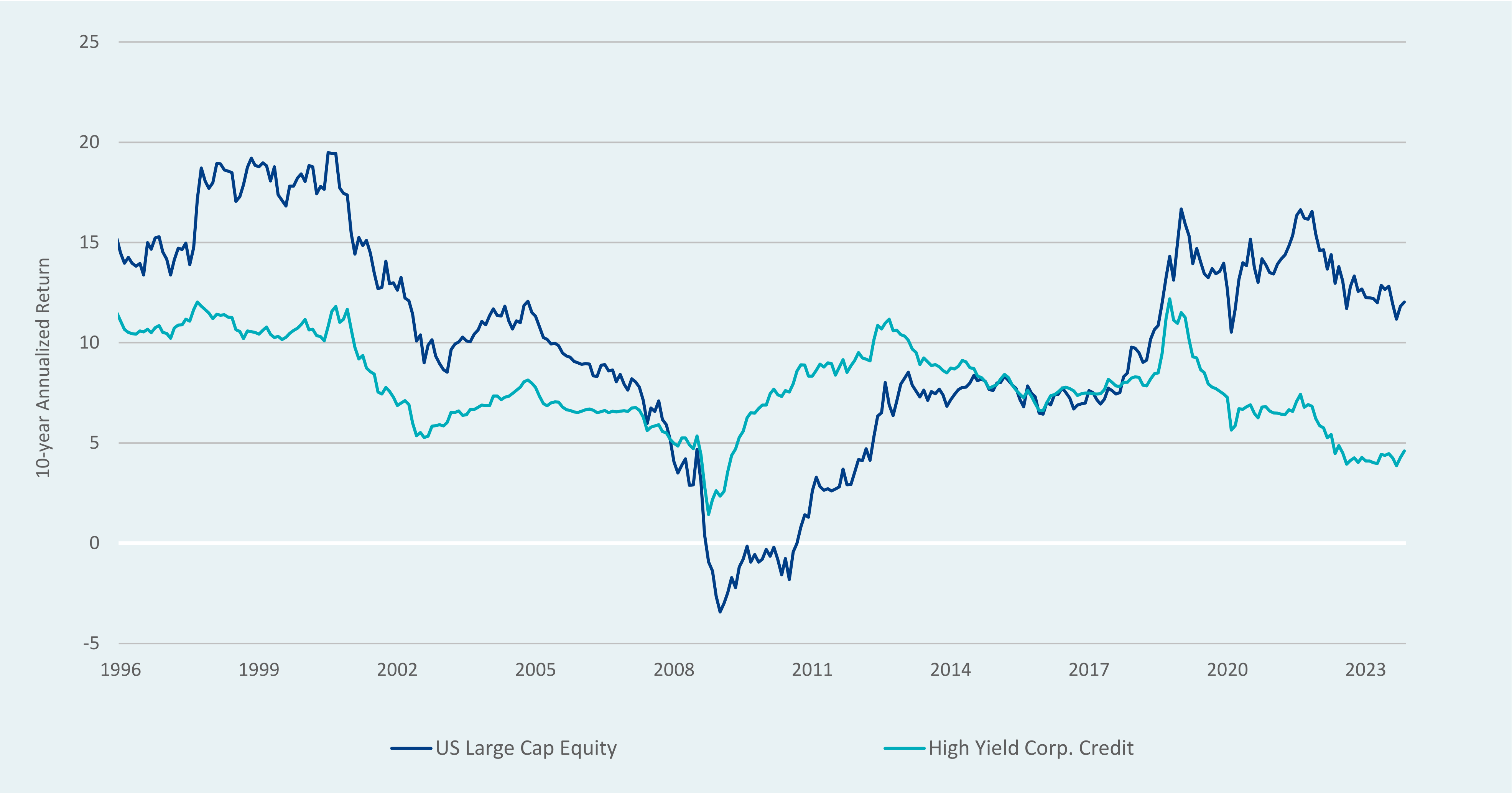
Range of likely 10-year outcomes

10-YEAR RETURN 90% CONFIDENCE INTERVAL



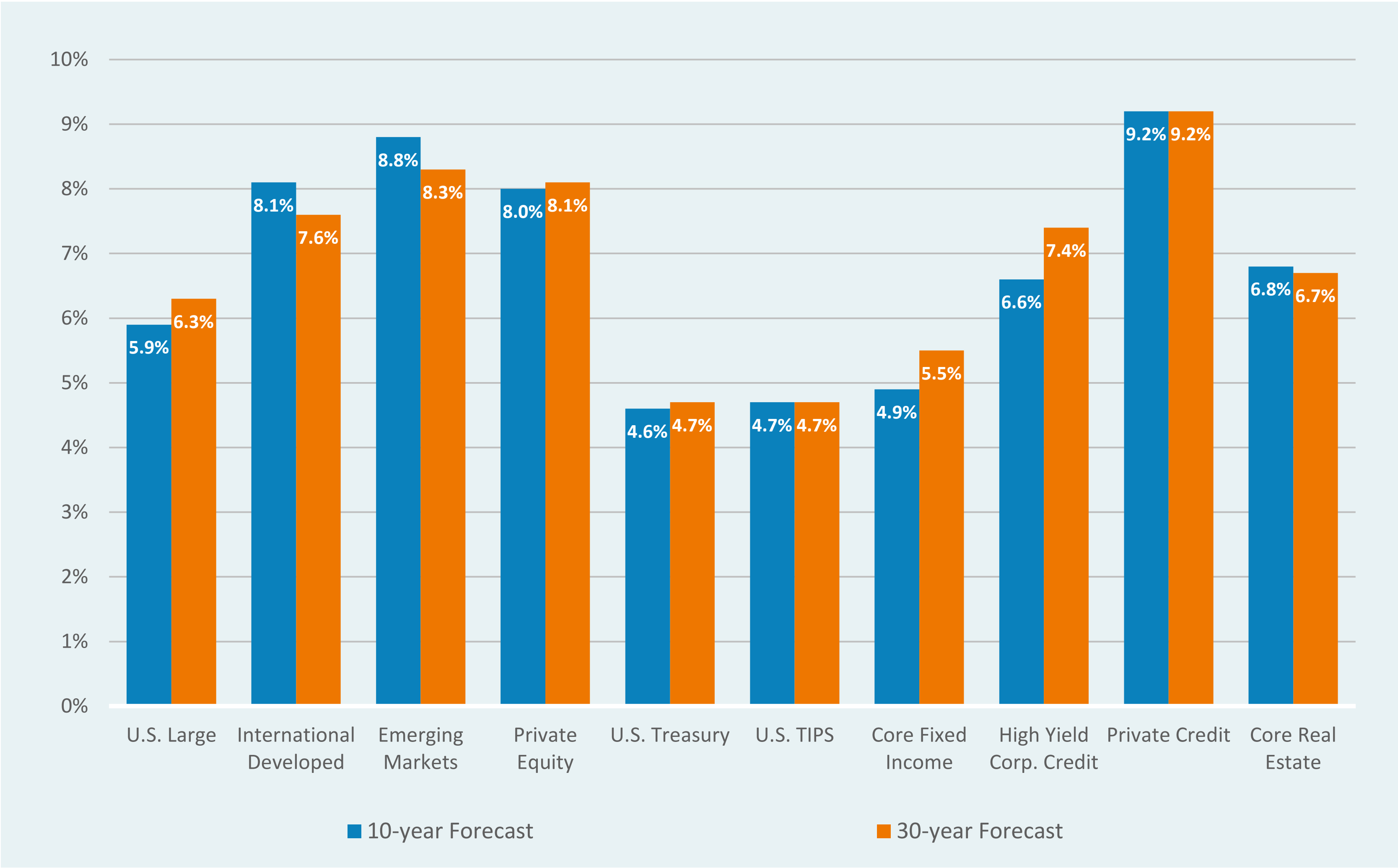
Source: Verus 2024 CMAs, MPI

Long-term returns are variable



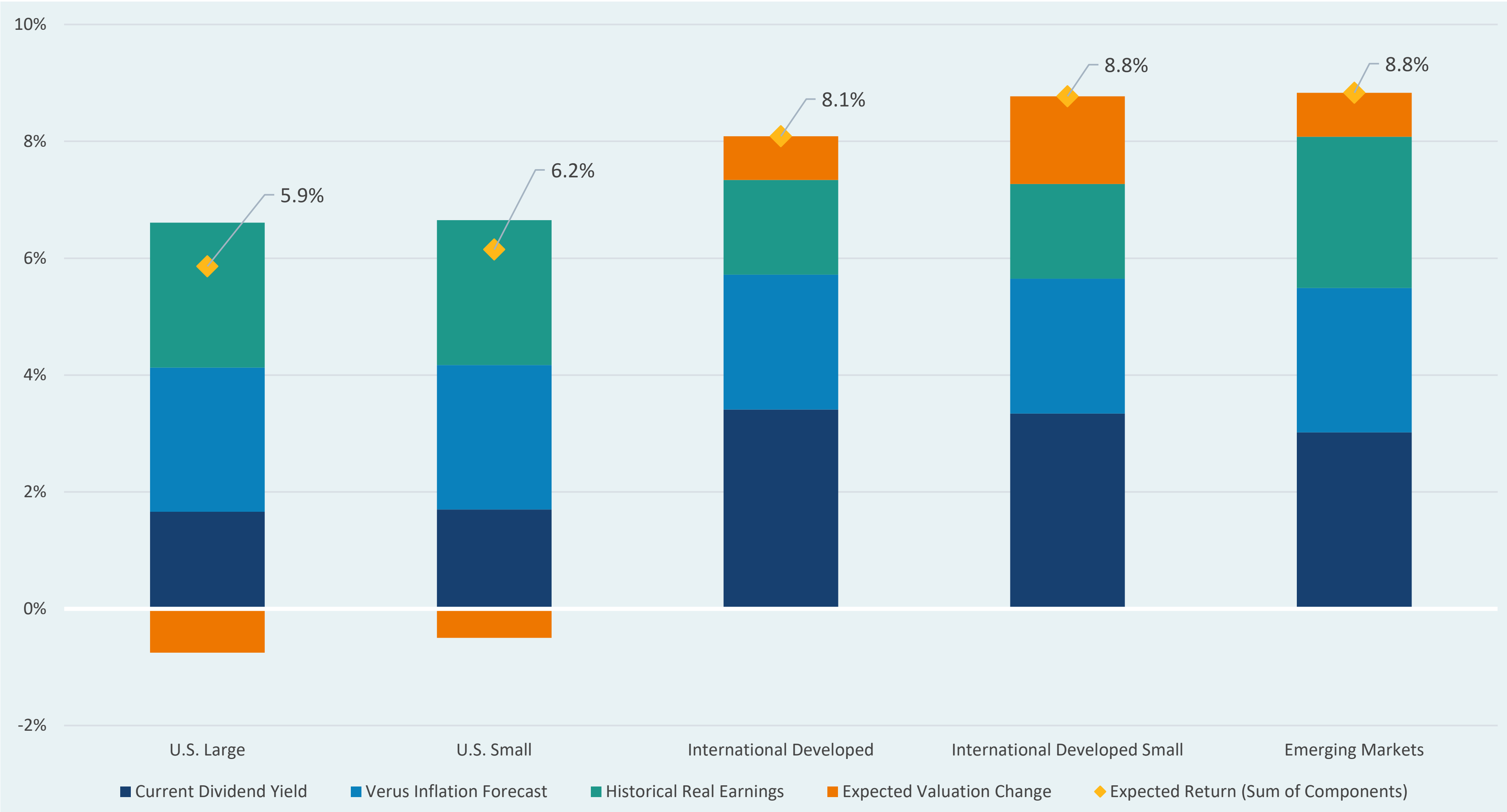
Source: Verus, as of 12/31/23

10-year & 30-year forecasts



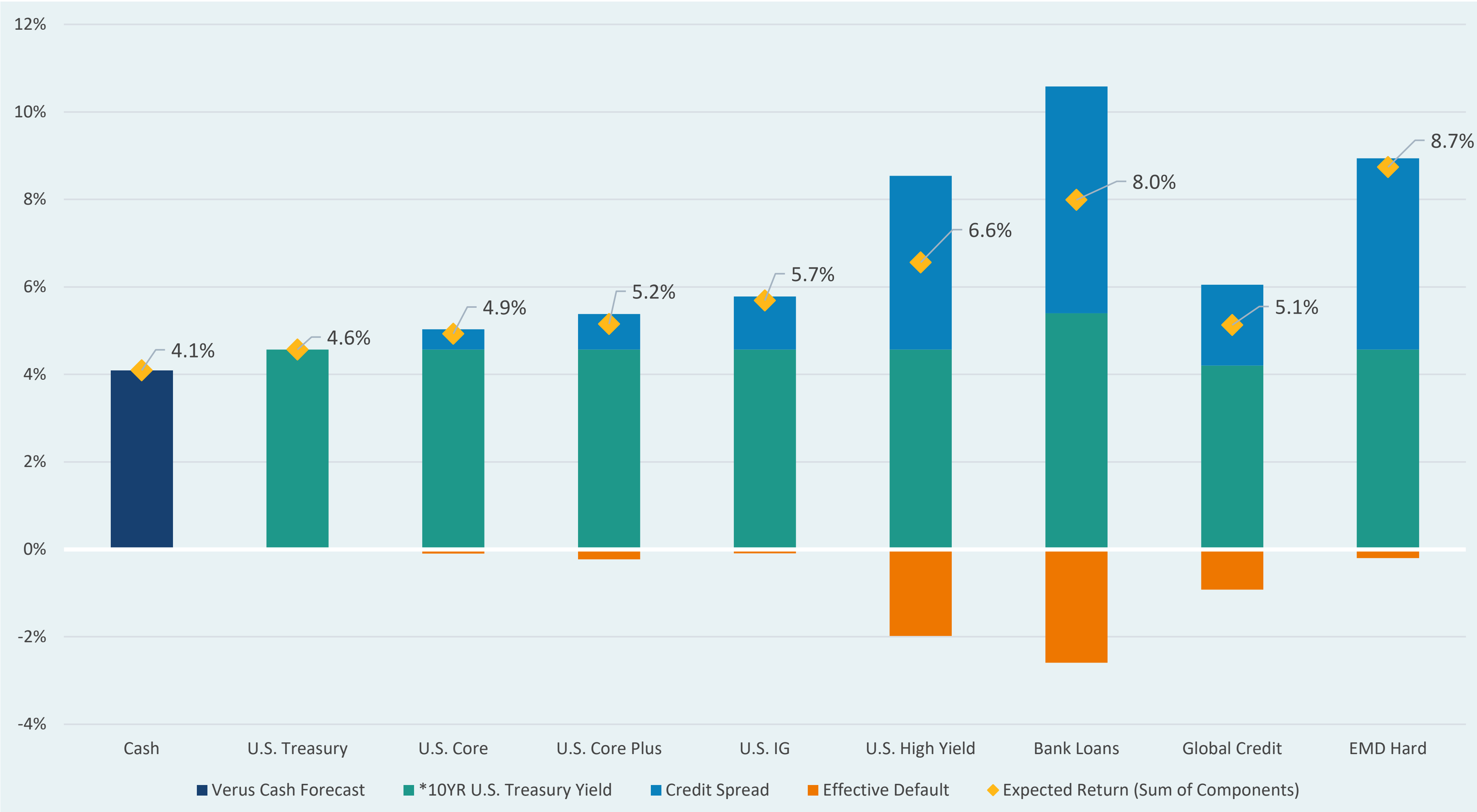
Source: Verus, 2024 Capital Market Assumptions

Equity return forecasts



Source: Verus, 2024 CMAs

Fixed income return forecasts



Source: Verus, 2024 CMAs

**Bank loans uses 3-month Term SOFR instead of the Treasury yield. Global Credit uses a weighted average global yield.*

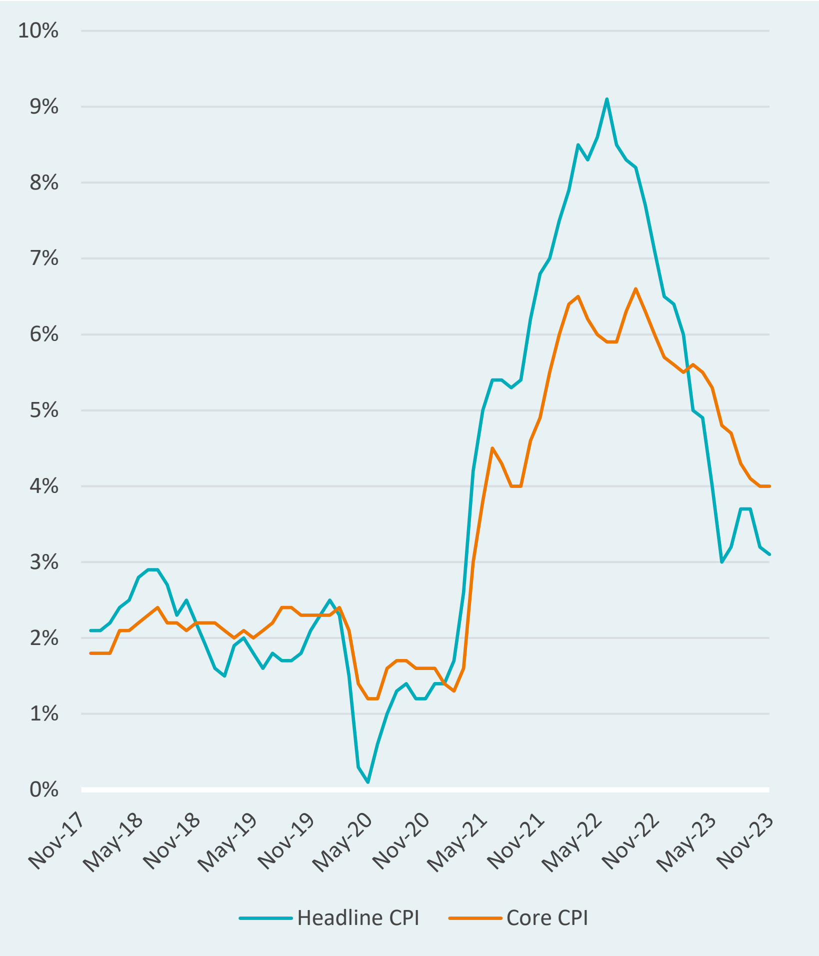
Correlation assumptions

	Cash	US Large	US Small	Intl Large	Intl Small	EM	Global Equity	PE	US TIPS	US Treasury	Global Sovereign ex-US	US Core	Core Plus	Short-Term Gov't/Credit	Short-Term Credit	Long-Term Credit	US HY	Bank Loans	Global Credit	EMD USD	EMD Local	Commodities	Hedge Funds	Real Estate	REITs	Infrastructure	Currency Beta	Risk Parity
Cash	1.0																											
US Large	-0.1	1.0																										
US Small	-0.2	0.9	1.0																									
Intl Large	-0.1	0.9	0.8	1.0																								
Intl Small	-0.1	0.9	0.8	1.0	1.0																							
EM	-0.1	0.7	0.6	0.8	0.8	1.0																						
Global Equity	-0.1	1.0	0.9	0.9	0.9	0.8	1.0																					
PE	-0.2	0.7	0.7	0.6	0.6	0.6	0.7	1.0																				
US TIPS	-0.1	0.4	0.3	0.4	0.4	0.4	0.5	0.2	1.0																			
US Treasury	0.0	0.1	-0.1	0.0	0.0	0.1	0.1	-0.1	0.7	1.0																		
Global Sovereign ex-US	0.1	0.3	0.2	0.4	0.4	0.5	0.4	0.1	0.7	0.6	1.0																	
US Core	0.0	0.3	0.2	0.3	0.3	0.4	0.3	0.0	0.8	0.9	0.7	1.0																
Core Plus	0.0	0.4	0.3	0.4	0.4	0.5	0.4	0.1	0.8	0.8	0.8	1.0	1.0															
Short-Term Gov't/Credit	0.2	0.2	0.0	0.2	0.2	0.3	0.2	0.0	0.7	0.8	0.6	0.8	0.8	1.0														
Short-Term Credit	0.2	0.4	0.3	0.4	0.4	0.4	0.4	0.2	0.6	0.5	0.7	0.7	0.8	0.7	1.0													
Long-Term Credit	0.0	0.5	0.4	0.5	0.5	0.5	0.6	0.2	0.8	0.7	0.7	0.9	0.9	0.6	0.8	1.0												
US HY	-0.1	0.8	0.8	0.8	0.8	0.7	0.8	0.5	0.6	0.1	0.5	0.4	0.6	0.3	0.6	0.7	1.0											
Bank Loans	-0.1	0.6	0.6	0.6	0.7	0.6	0.6	0.5	0.3	-0.2	0.2	0.1	0.3	0.0	0.5	0.4	0.8	1.0										
Global Credit	0.0	0.7	0.5	0.7	0.7	0.7	0.7	0.3	0.7	0.5	0.8	0.8	0.9	0.6	0.8	0.9	0.8	0.6	1.0									
EMD USD	-0.1	0.7	0.6	0.7	0.7	0.7	0.7	0.4	0.6	0.3	0.6	0.6	0.7	0.4	0.6	0.8	0.8	0.7	0.9	1.0								
EMD Local	0.0	0.5	0.4	0.7	0.6	0.8	0.7	0.4	0.4	0.2	0.6	0.4	0.5	0.4	0.5	0.6	0.7	0.5	0.8	0.8	1.0							
Commodities	-0.1	0.4	0.4	0.5	0.5	0.5	0.5	0.3	0.2	-0.2	0.2	0.0	0.1	0.0	0.2	0.1	0.5	0.5	0.3	0.4	0.4	1.0						
Hedge Funds	-0.1	0.8	0.9	0.8	0.9	0.8	0.9	0.6	0.3	-0.2	0.3	0.2	0.3	0.0	0.4	0.5	0.8	0.8	0.6	0.7	0.6	0.6	1.0					
Real Estate	-0.3	0.6	0.6	0.5	0.5	0.5	0.6	0.4	0.2	0.0	-0.1	0.1	0.2	0.0	-0.2	0.2	0.4	0.4	0.3	0.4	0.4	0.2	0.5	1.0				
REITs	-0.2	0.7	0.7	0.6	0.6	0.5	0.7	0.5	0.6	0.3	0.3	0.5	0.5	0.2	0.3	0.6	0.7	0.5	0.6	0.6	0.5	0.3	0.6	0.7	1.0			
Infrastructure	-0.2	0.8	0.7	0.8	0.8	0.7	0.8	0.6	0.5	0.1	0.5	0.4	0.5	0.2	0.5	0.6	0.8	0.7	0.7	0.8	0.7	0.6	0.8	0.6	0.7	1.0		
Currency Beta	-0.1	0.0	0.0	-0.2	-0.2	-0.2	-0.1	0.1	-0.2	-0.1	-0.3	-0.2	-0.2	-0.1	-0.3	-0.2	-0.1	-0.1	-0.3	-0.2	-0.2	-0.2	-0.1	0.1	0.0	-0.1	1.0	
Risk Parity	0.0	0.7	0.6	0.7	0.7	0.6	0.7	0.7	0.4	0.4	0.0	0.5	0.5	0.7	0.3	0.7	0.7	0.7	0.5	0.7	0.6	0.5	0.5	0.4	0.0	0.7	-0.2	1.0

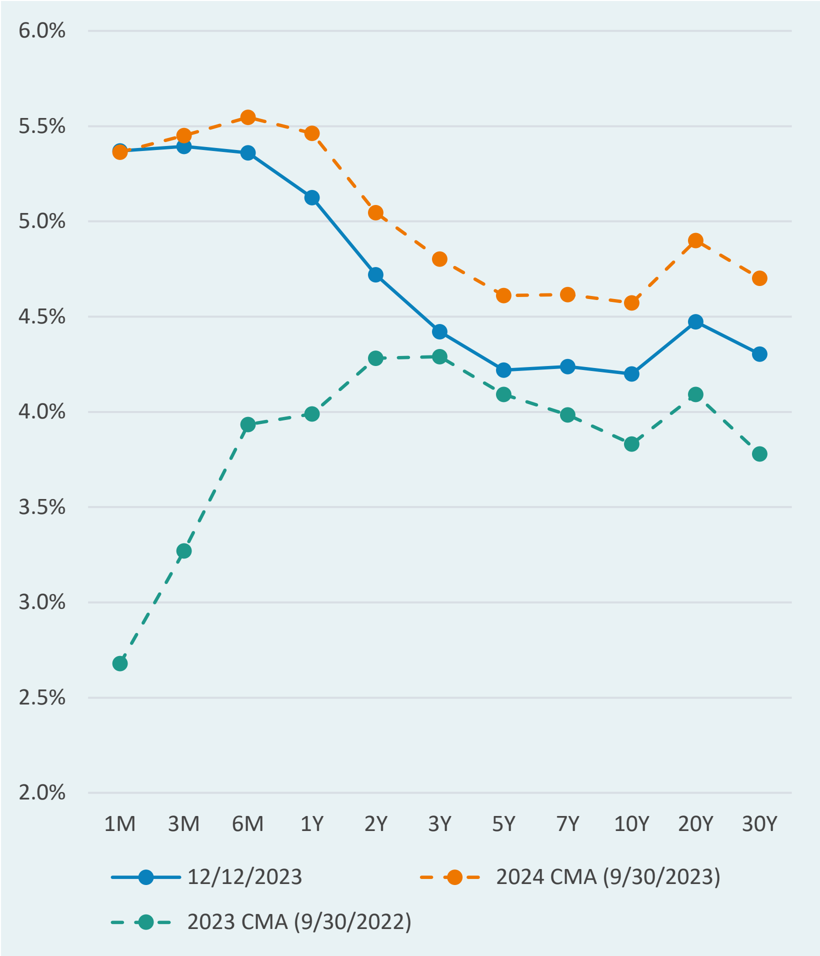
Note: as of 9/30/23 - Correlation assumptions are based on the last ten years. Private Equity and Real Estate correlations are especially difficult to model – we have therefore used BarraOne correlation data to strengthen these correlation estimates.

Rates higher, inflation lower

U.S. HEADLINE VS. CORE CPI



U.S. TREASURY CURVE



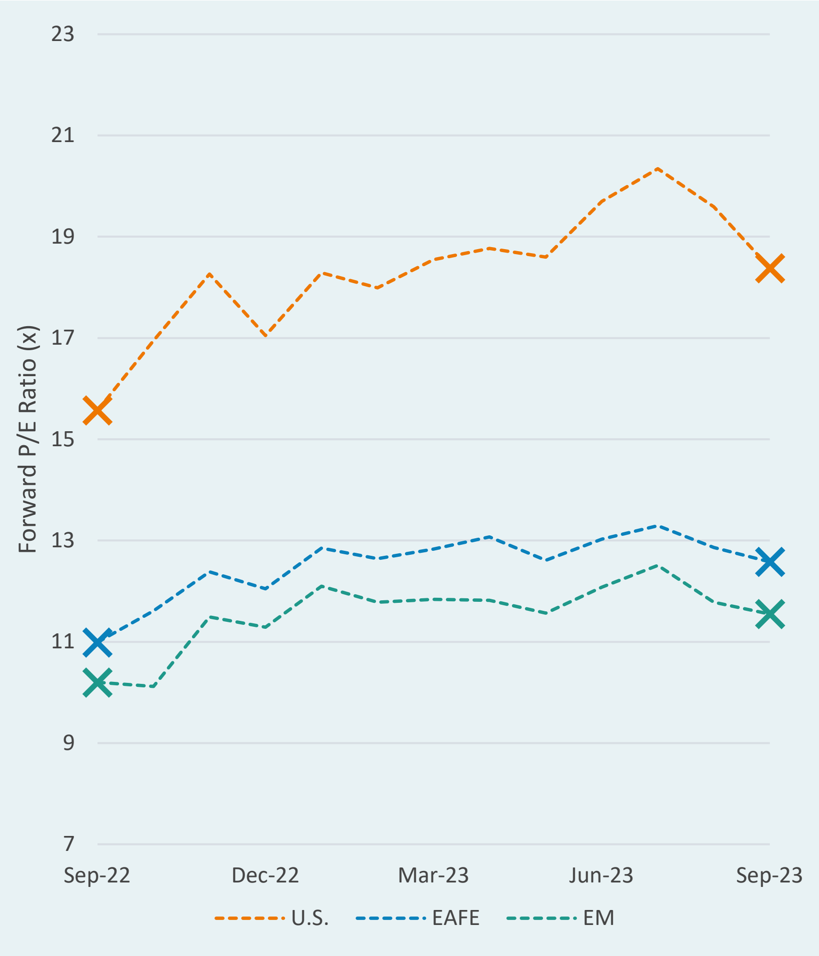
While inflation has come down materially, stickiness within services has held prices above the Fed's 2% target

This has translated into a higher rate environment – short-rates have significantly increased from our 2023 CMA

Source: BLS, as of 11/30/23. Bloomberg, as of 12/12/23

Equity fundamentals

FORWARD P/E RATIO

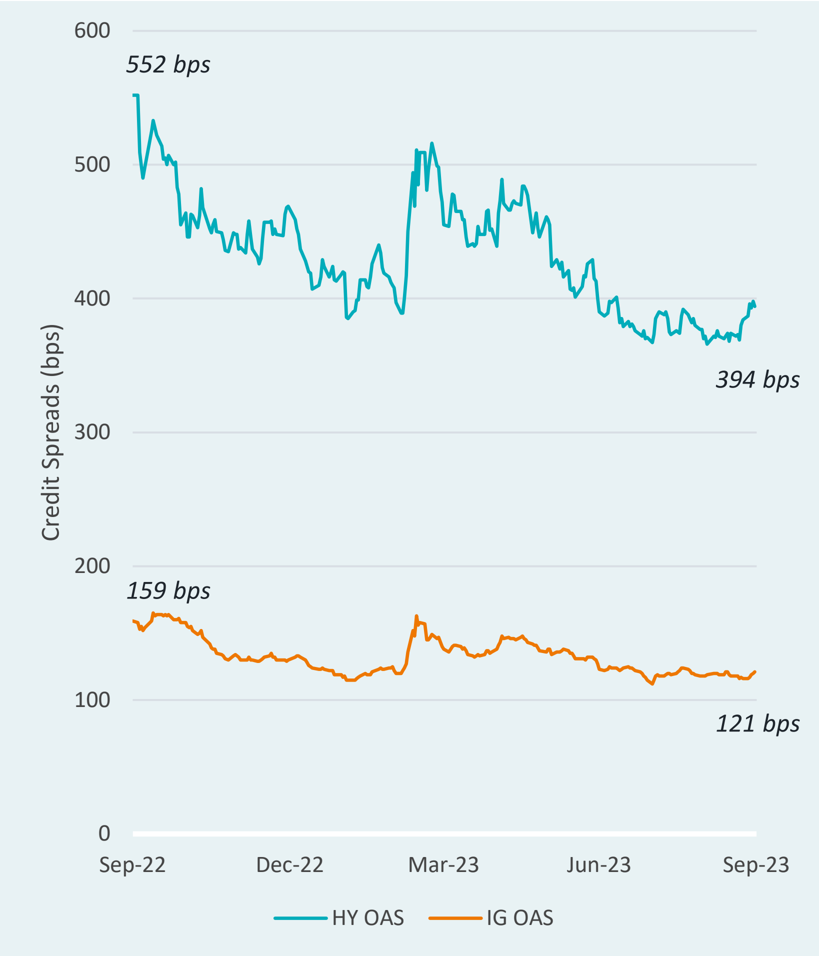


SS&P 500 EARNINGS GROWTH (YEAR-OVER-YEAR)

Source: MSCI, as of 10/31/23. FactSet Earnings Insight as of 12/8/23.

Spreads in, but credit stress ticking higher

U.S. CREDIT SPREADS

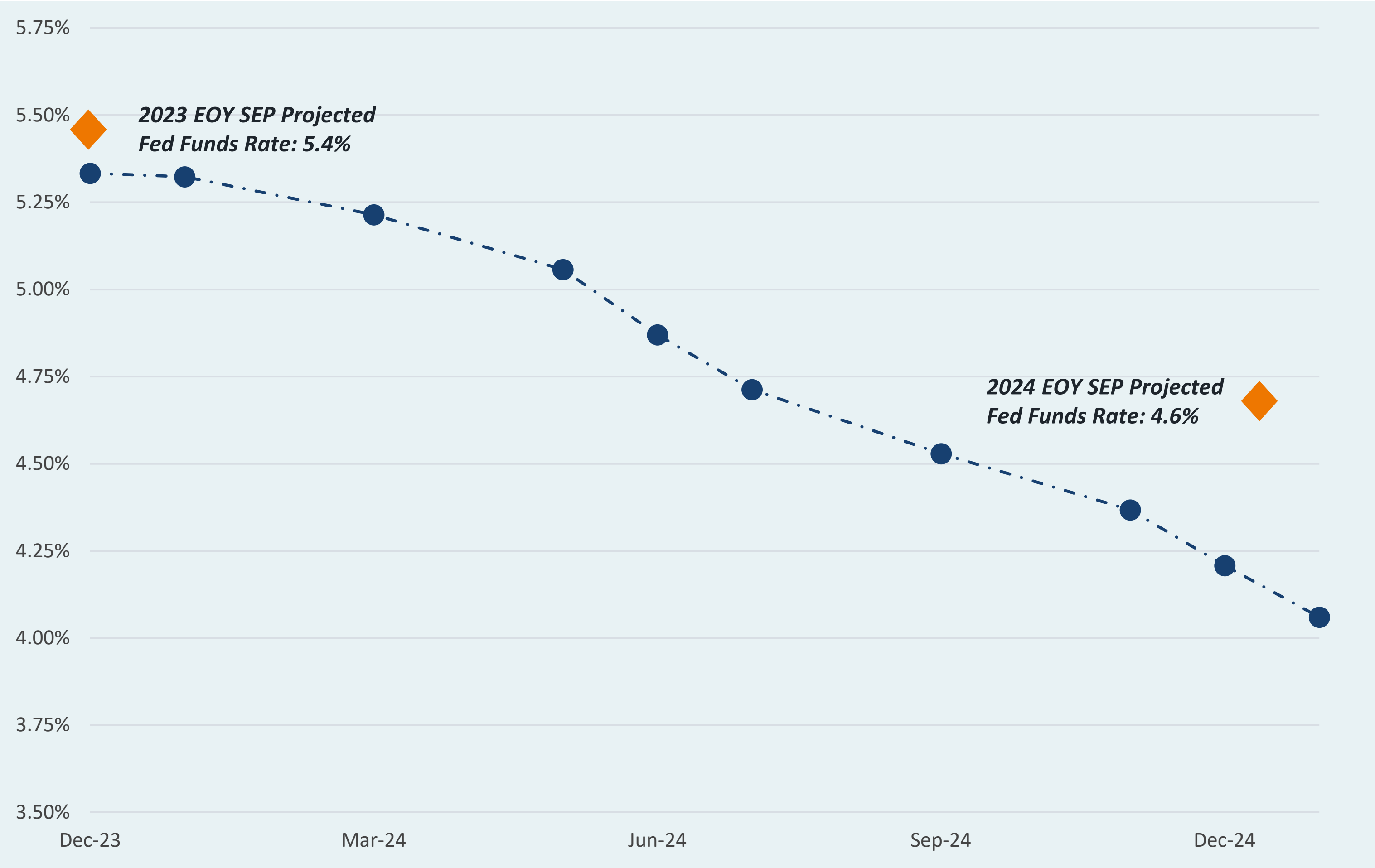


DEFAULT VOLUMES INC. DISTRESSED EXCHANGES

Source: Bloomberg, as of 9/30/23. J.P. Morgan Default Monitor, as of 11/30/23.

"Higher for longer"

MARKET IMPLIED FEDERAL RESERVE RATE PATH VS. FOMC SUMMARY OF ECONOMIC PROJECTIONS (DEC 23)



Source: Market implied rates derived from Fed Funds Futures, as of 12/12/23.

Changing sentiment around inflation, economic growth, and the health of the labor market has brought rate expectations lower than the Fed's December projections

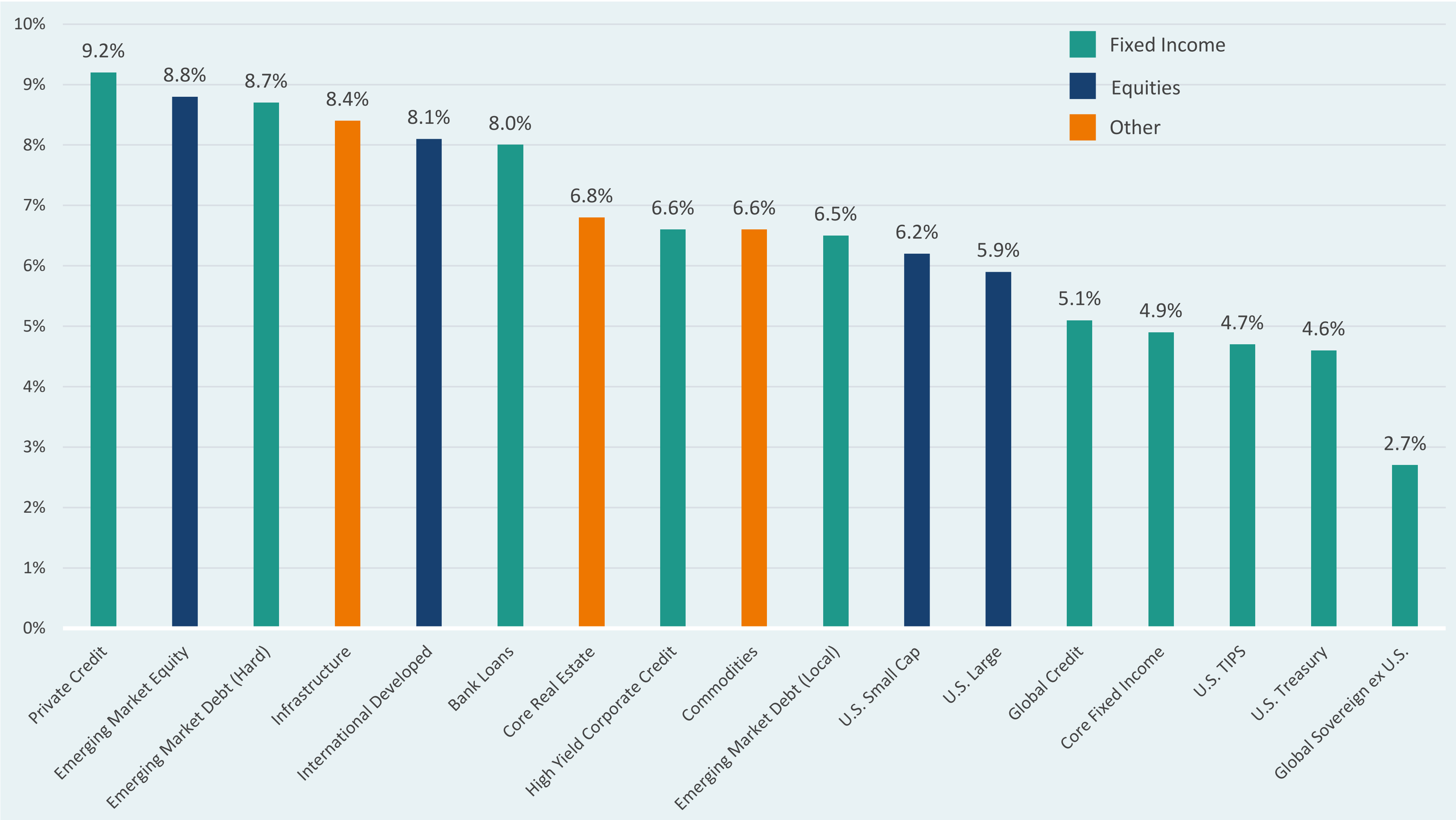
Despite the movements lower, rates are still expected to sit around 4% at the start of 2025, which marks a significantly different rate environment relative to the last decade

Competitive fixed income

S&P 500 EARNINGS YIELD VS. U.S. AGG YTW

Source: Bloomberg, as of 12/11/23. MPI Returns as of 9/30/23.

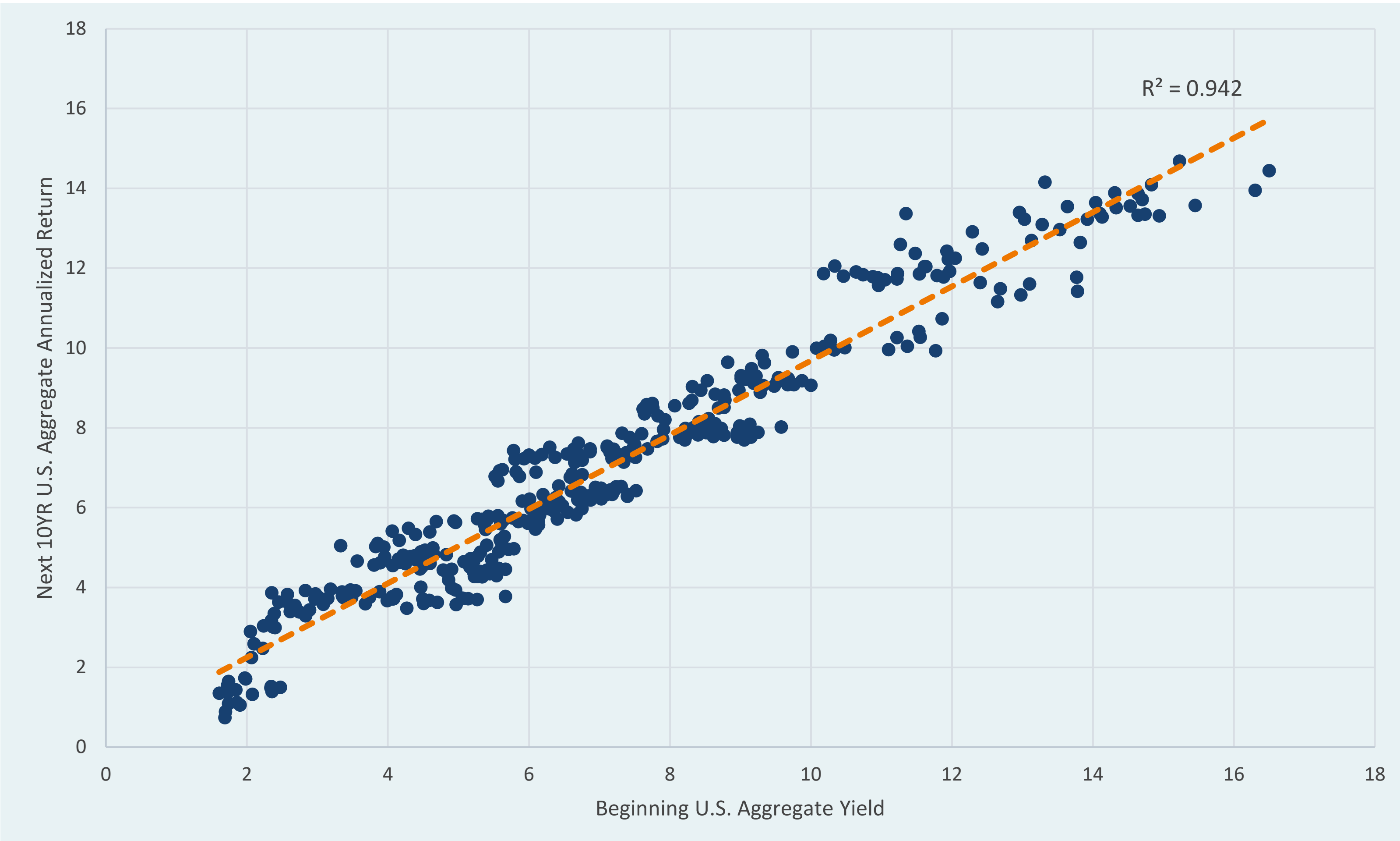
10-year expected returns



Source: Verus

Fixed income

CORE FIXED INCOME



Bond yields have been a very accurate predictor of future returns

Source: Bloomberg U.S. Aggregate Index, Verus – performance since 1980 through 9/30/23

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Strategic Asset Allocation Framework

March 7, 2024

James Wingo, CFA, CAIA

Jonathan Graab, CFA, CAIA

Ronnie Hord, CAIA

Review of 2019 SAA Process

1. **Set appropriate total Plan risk (ie "Reference Portfolio")**
   Review key inputs: assumed rate, funding ratio, contribution rates, tail risk

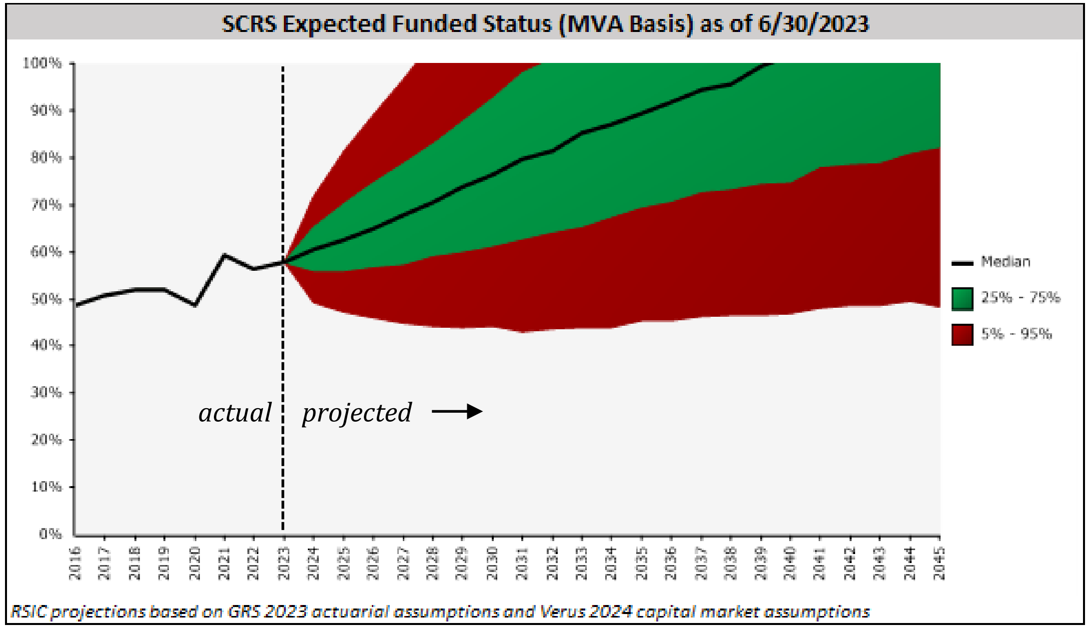
2. **Select the most appropriate direction of portfolio migration**
   Review how the key inputs identified affect the acceptable asset allocation choices that RSIC should consider

3. **Review several portfolio themes consistent with the Plan's directional goals**
   Identify specific asset allocation changes for further review

The future is uncertain… but degrees matter

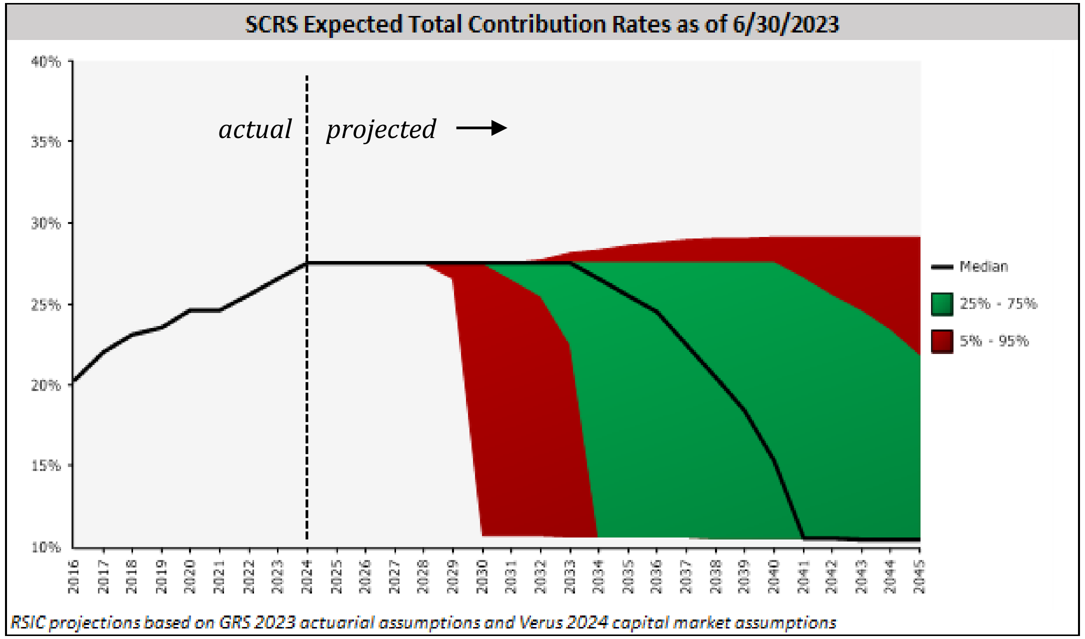
Funded status projection

Looking forward, our funded status is best viewed as a range of possible outcomes, rather than a point estimate



Contribution rate projection

Forward contribution rates also exhibit a degree of uncertainty, or risk, that we may seek to manage



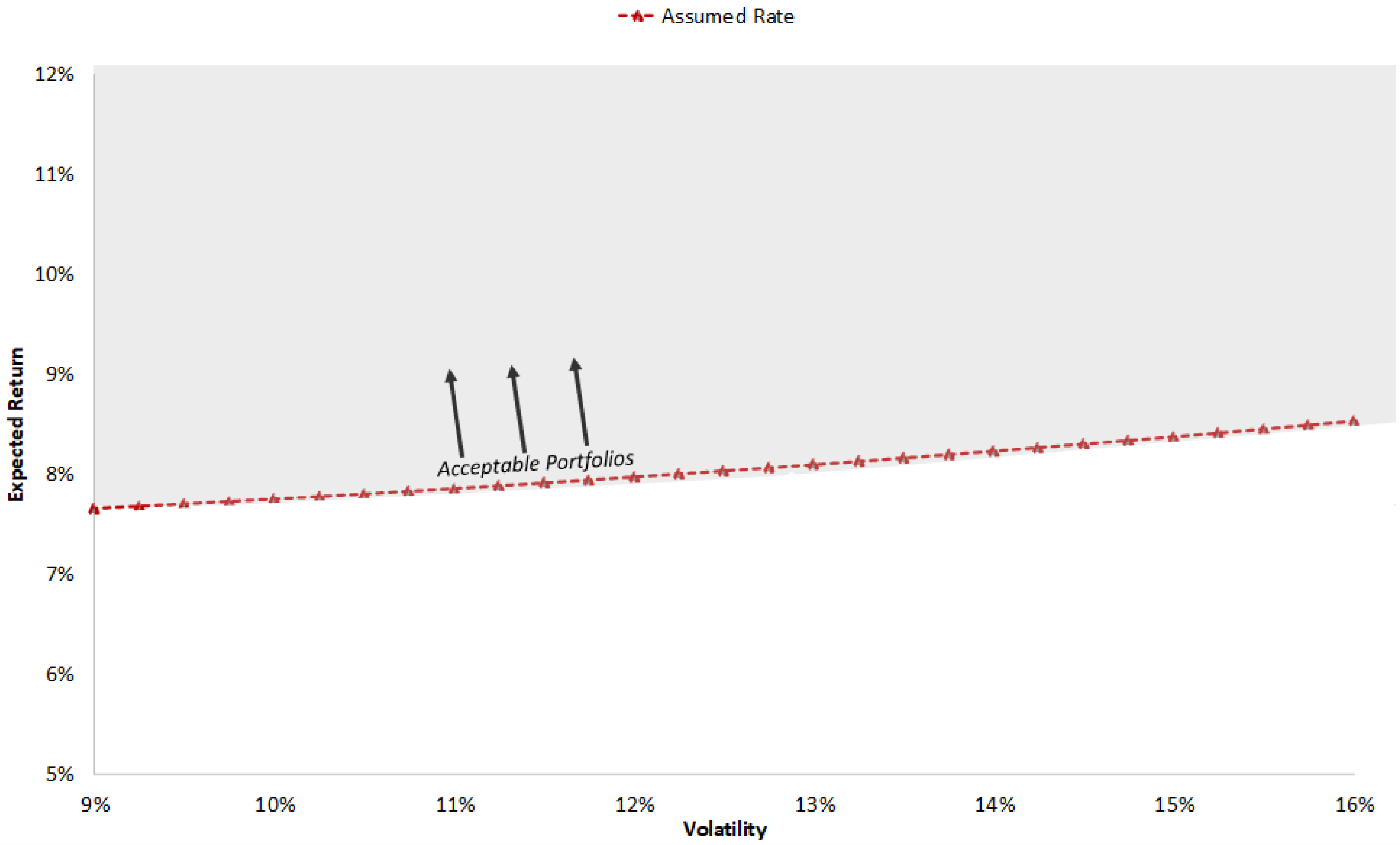
Step 1: Set the Appropriate Total Plan Risk

What key factors influence the appropriate level of risk for the Plan?

- ***Plan assumed rate:*** maximize probability of meeting or exceeding Plan's assumed rate
- ***Plan funding ratio:*** maximize probability of achieving full funding levels within a given time period
- ***Plan contribution rates:*** minimize probability of additional rate increases
- ***Plan tail risk:*** minimize probability of catastrophic Plan outcomes

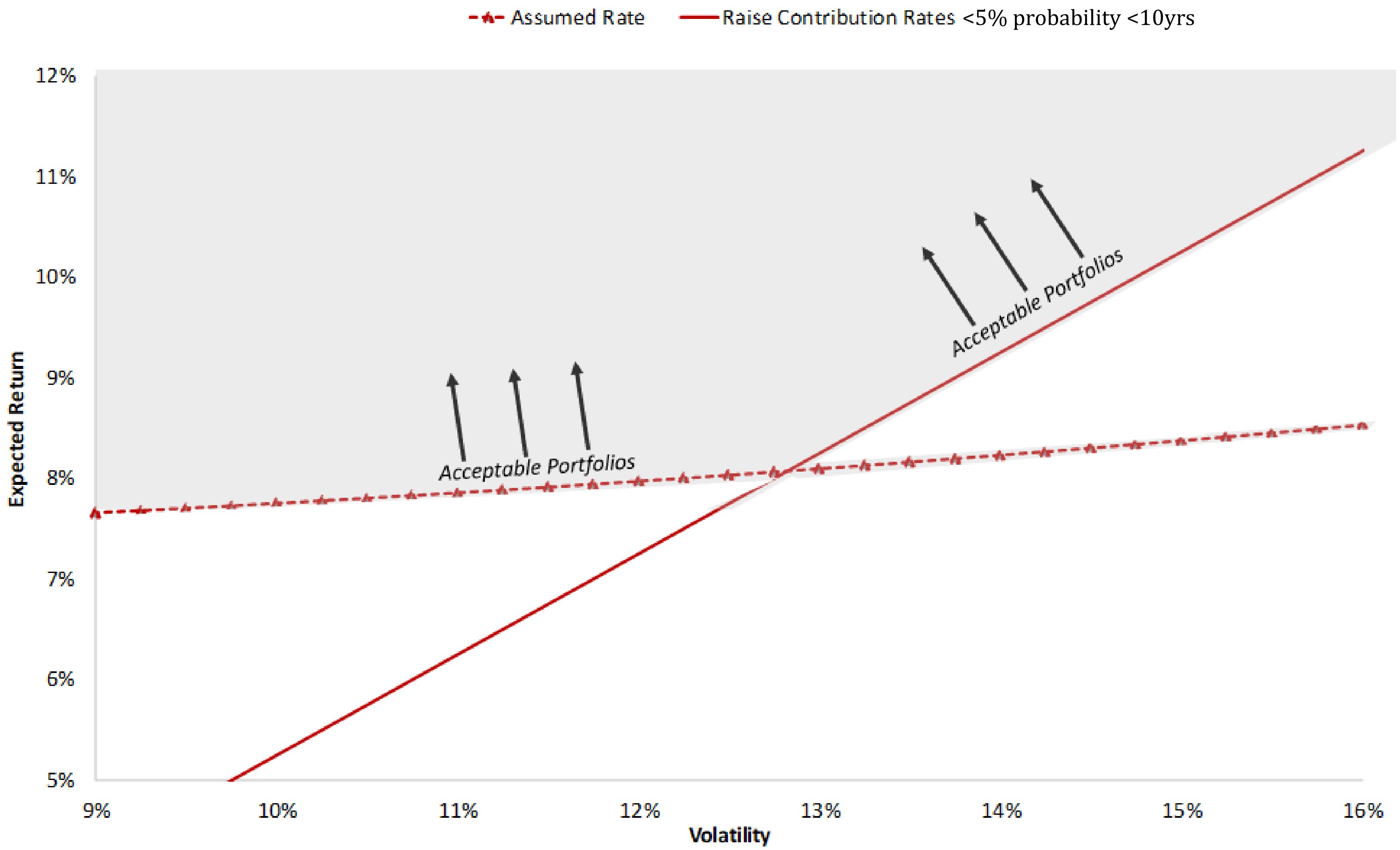
Step 1: set the appropriate total Plan risk

Risk Factor #1: exceed the Plan's assumed rate



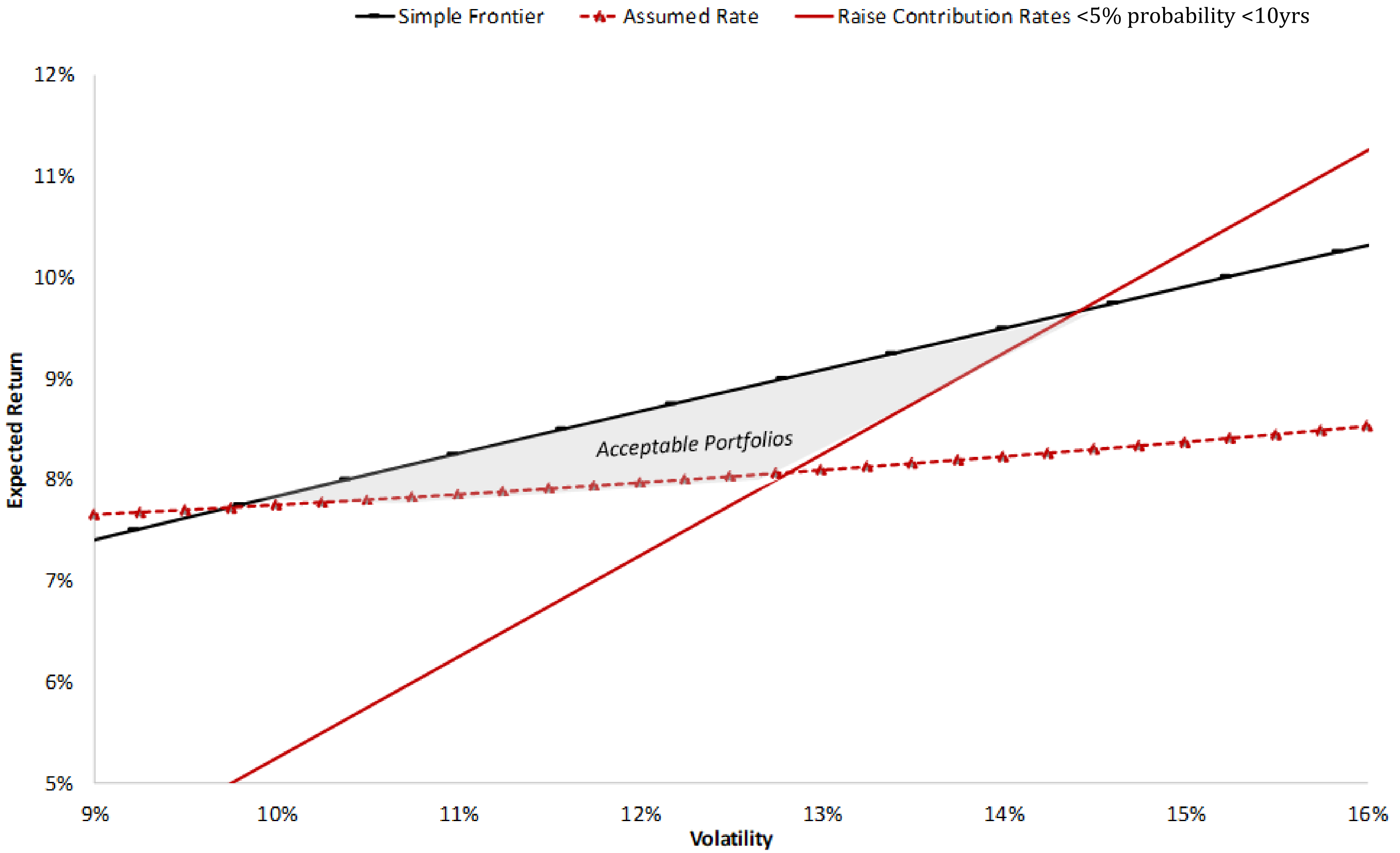
Step 1: set the appropriate total Plan risk

Risk Factor #2: avoid further contribution rate increases



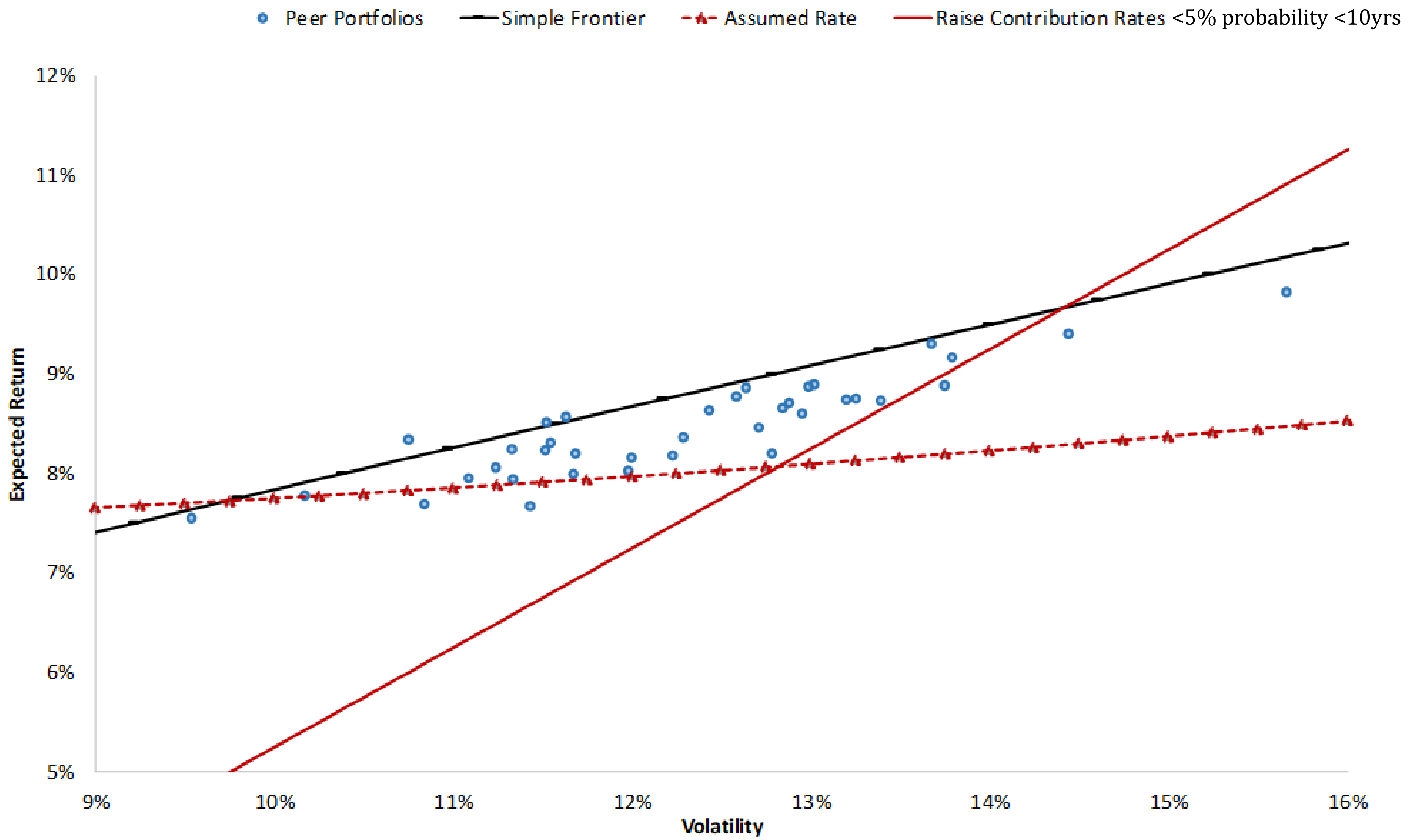
Step 1: set the appropriate total Plan risk

Consideration: efficient frontier



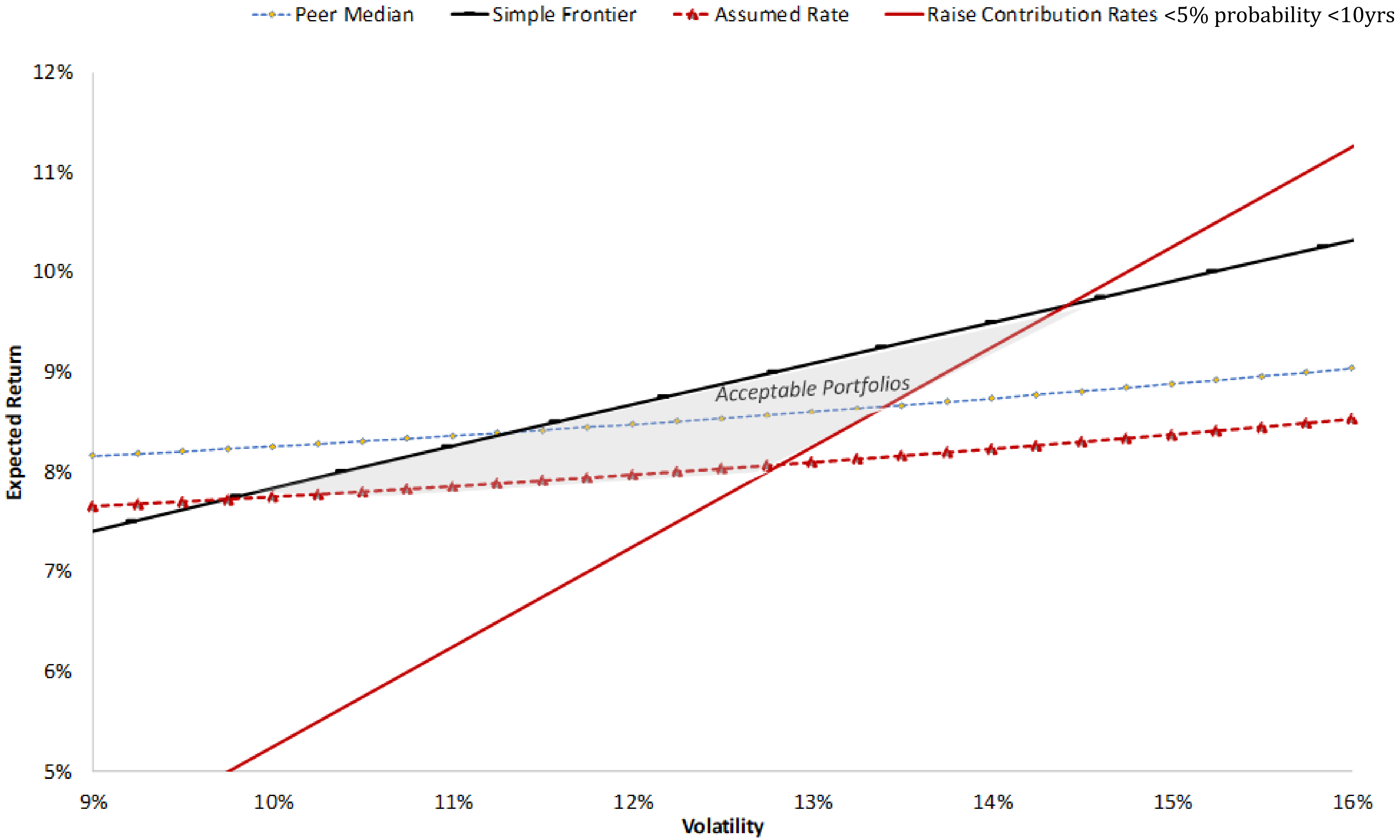
Step 1: set the appropriate total Plan risk

Consideration: exceed peer median performance



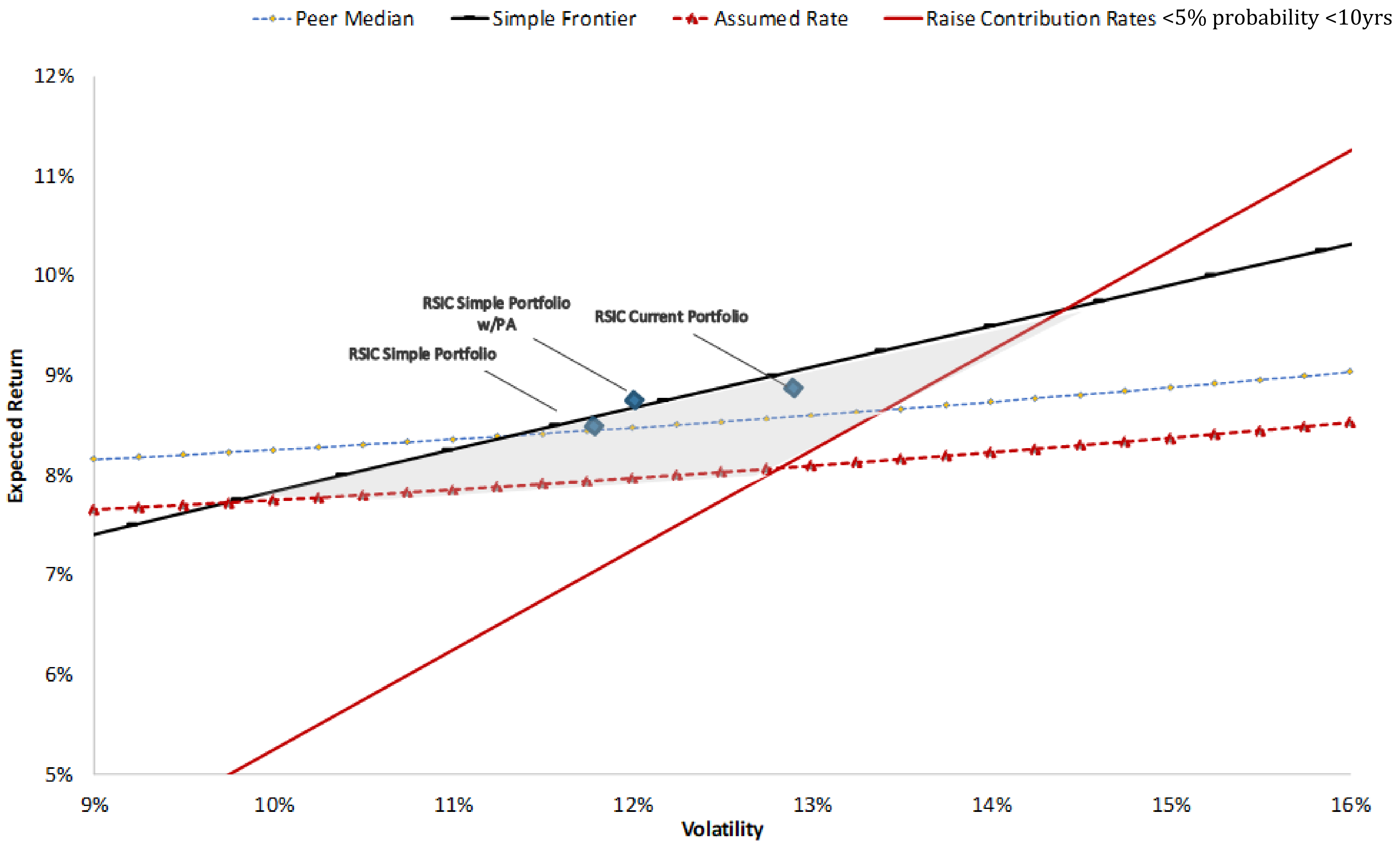
Step 1: set the appropriate total Plan risk

Consideration: exceed peer median performance



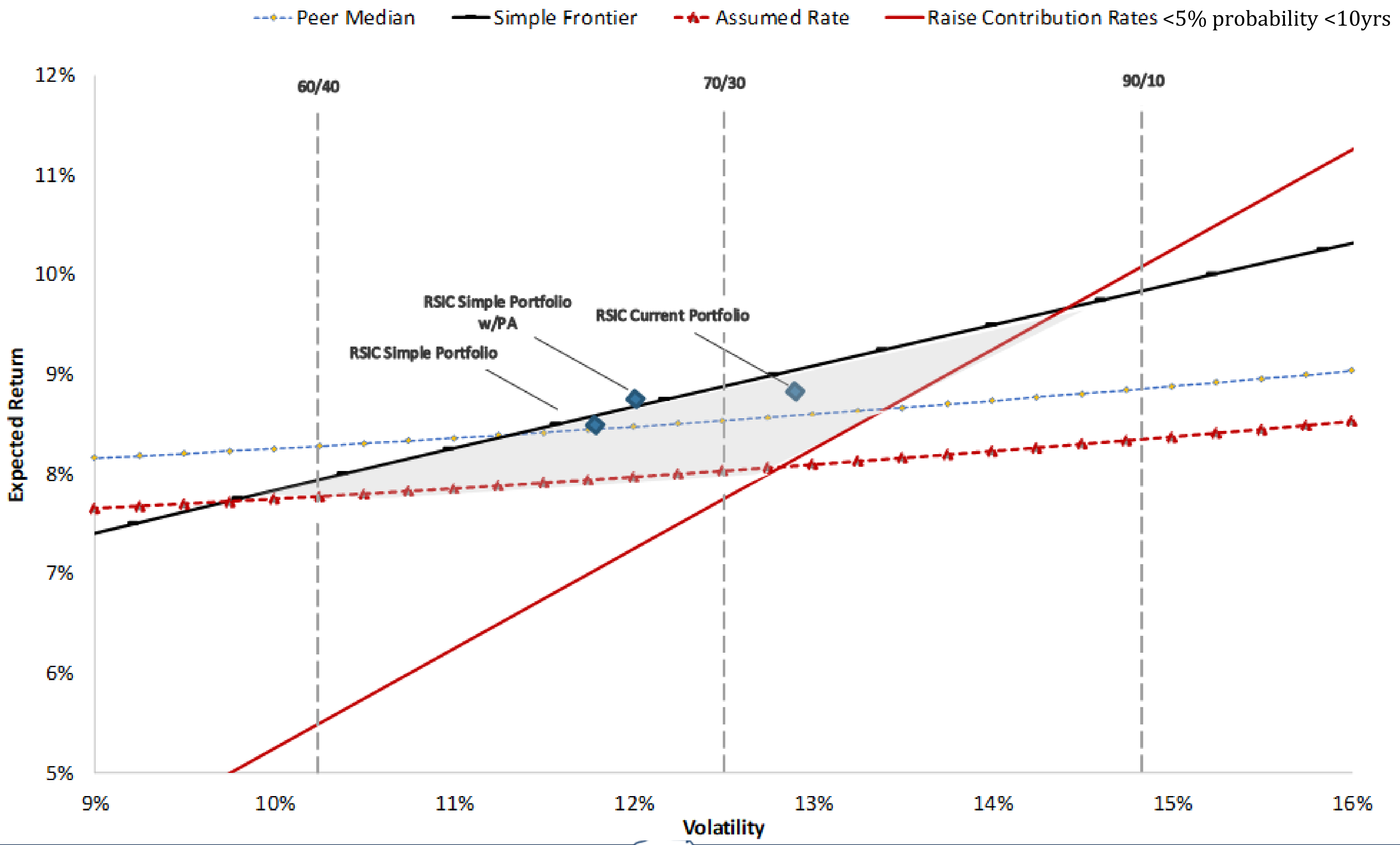
Step 1: set the appropriate total Plan risk

Consideration: exceed peer median

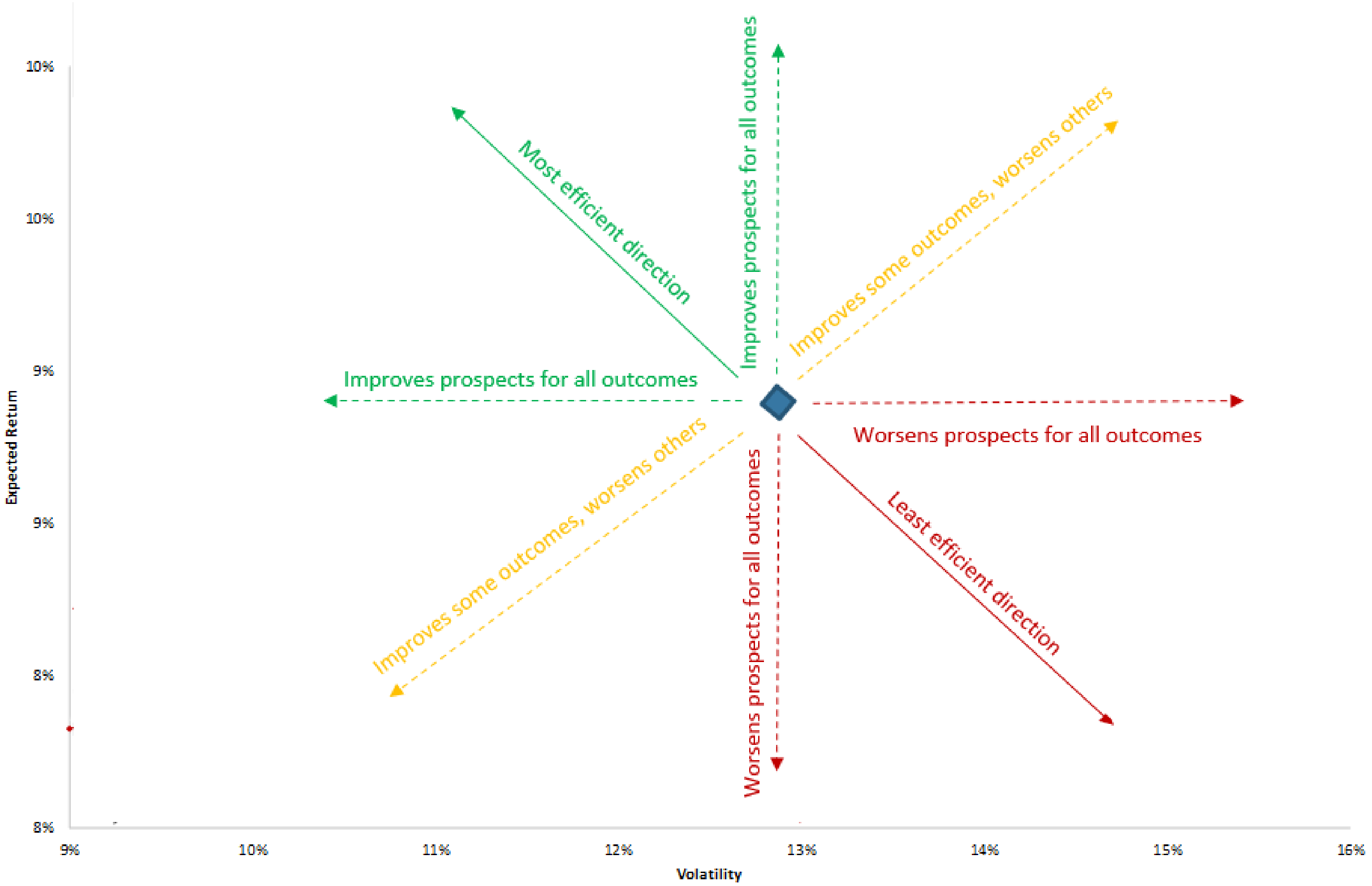


Step 1: set the appropriate total Plan risk

What stock/bond mix best approximates Plan risk target?

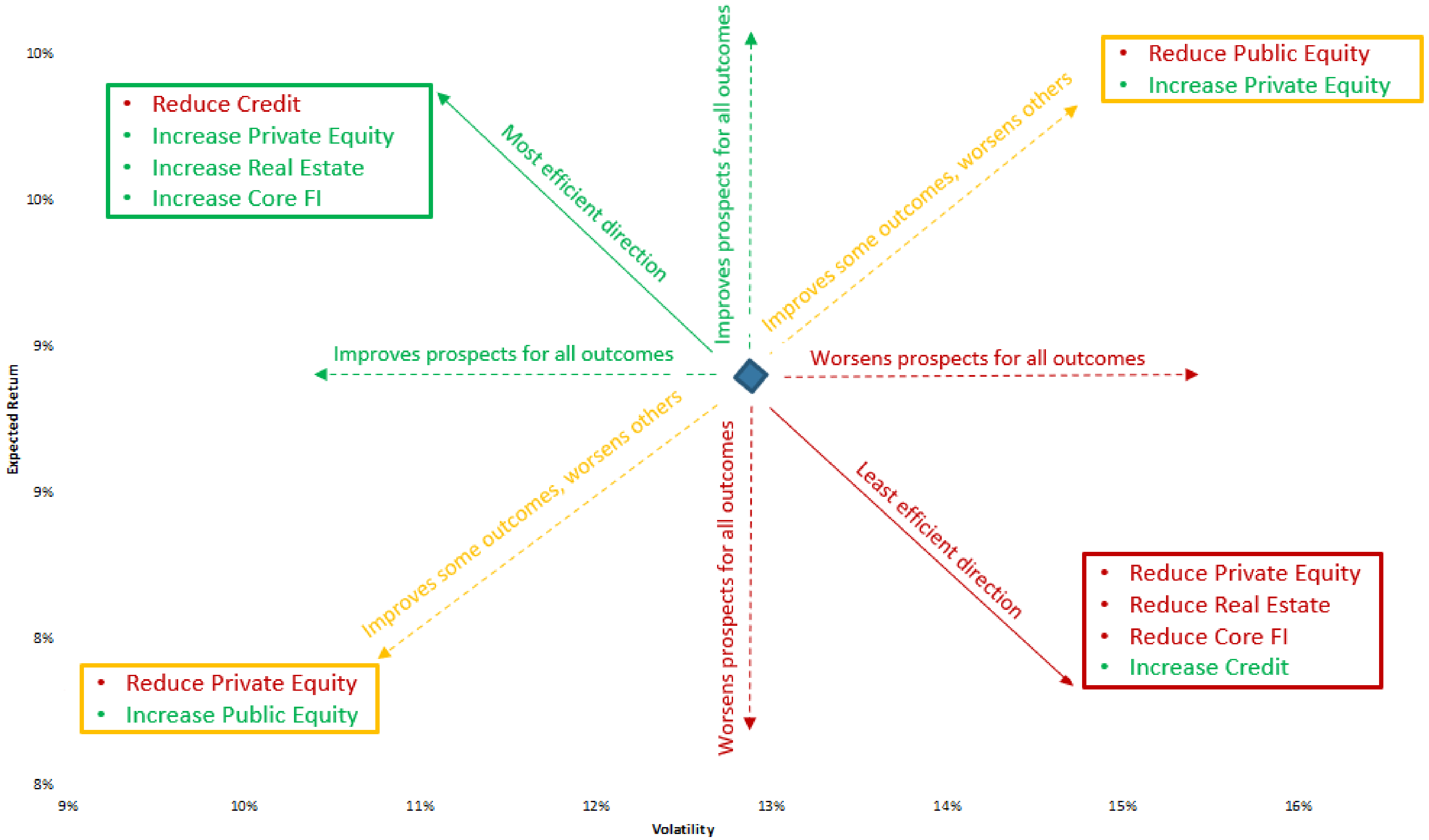


How do different portfolios affect outcomes?



Step 3: Review consistent themes

What changes move our portfolio in the desired direction?

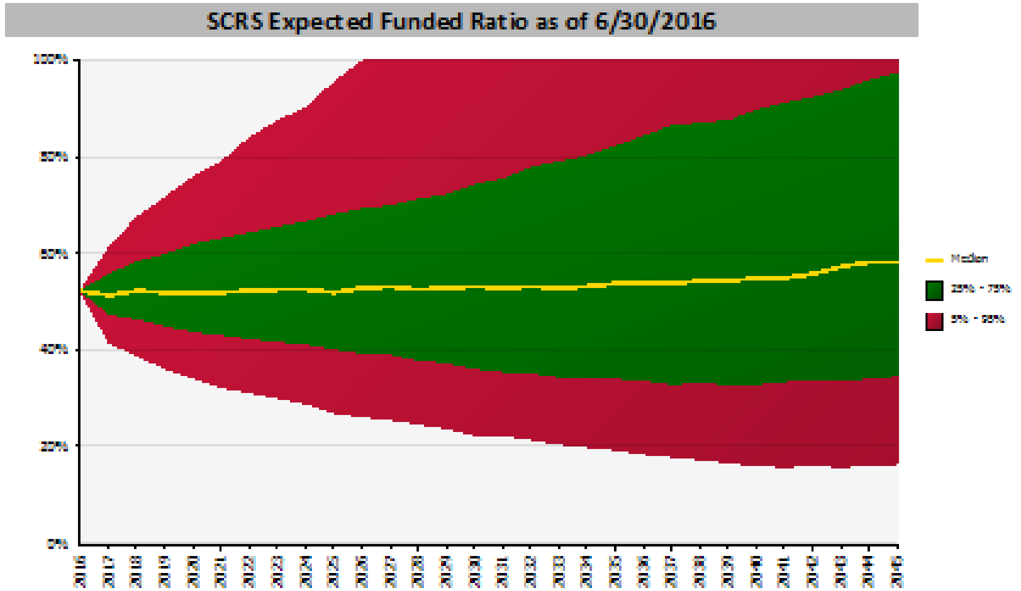


Appendix

Historical Plan projections

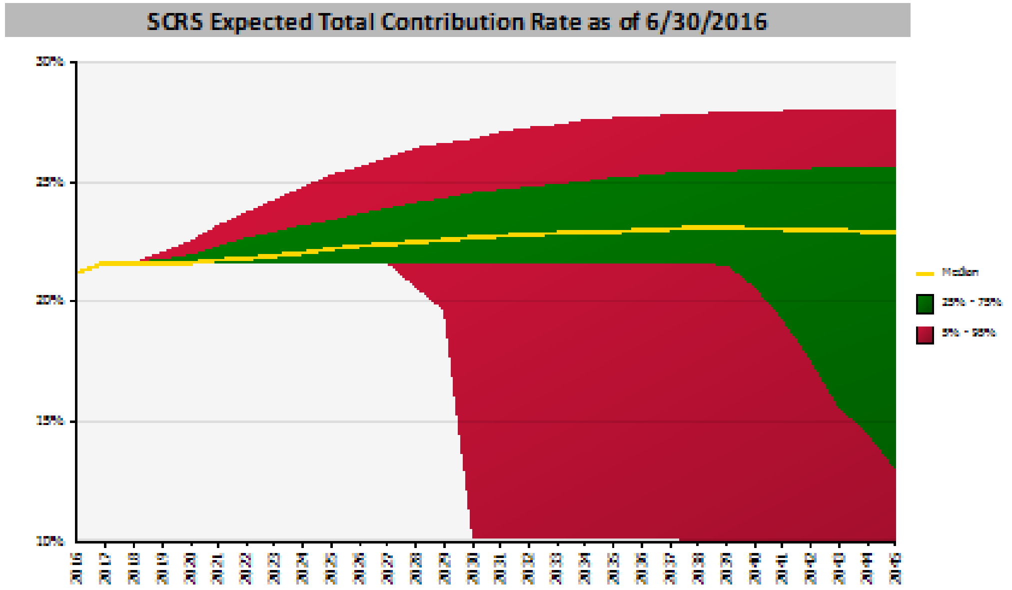
Funded status projection

Prior to 2017 pension reforms, Plan funding ratio projections were materially different vs today



Contribution rate projection

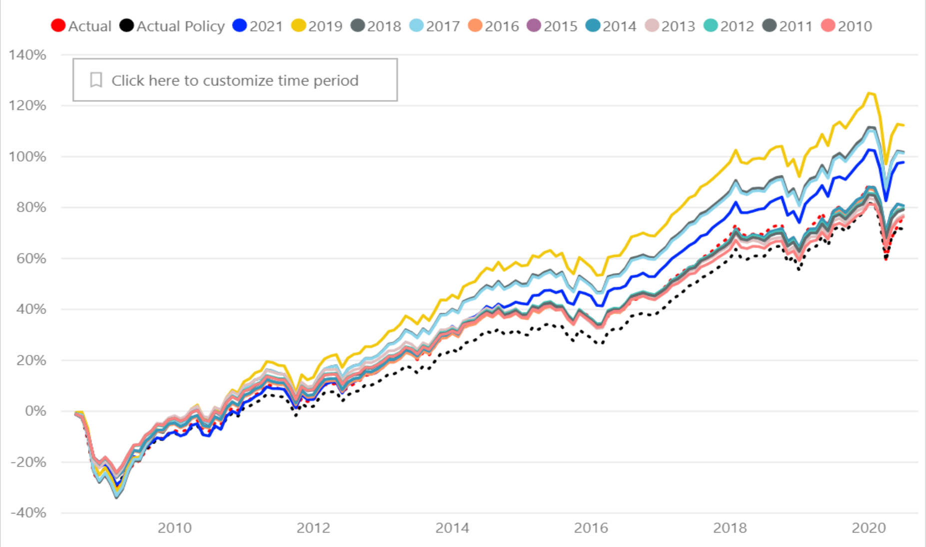
Plan funding policy is more conservative today vs pre-reform



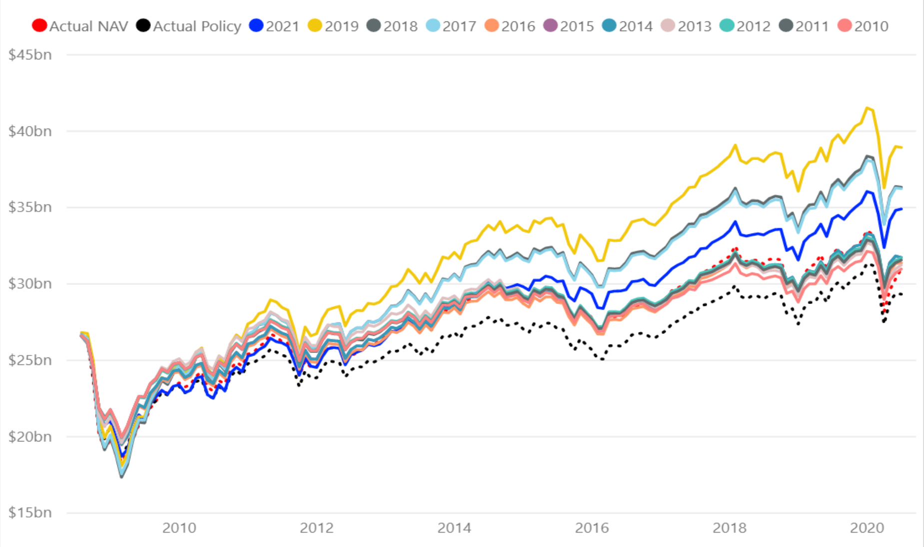
RSIC Strategic Asset Allocation – A Review

7/31/2008 - 6/30/2020

	Actual	Actual Policy	2021	2019-2020	2018	2017	2016	2015	2014	2013	2012	2011	2010
Cumulative $Billions	30.98	29.33	34.90	38.93	36.33	36.24	31.38	31.73	31.73	31.24	31.71	31.56	30.98
Cumulative Return	76.3%	71.5%	97.7%	112.3%	101.8%	101.4%	79.3%	80.7%	80.7%	77.0%	79.8%	79.1%	76.3%



Total Cumulative Return is calculated by Simply multiplying each month's return by the cumulative return of the month before that starting in July 2008.



Total Assets Under Management is calculated by taking $26.6 Billion as the starting value in July 2008. That value is then multiplied by the month's performance and summed with that month's net benefit payments.

Delegated Investments (December 7, 2023 to March 6, 2024)

Asset Class	Investment	Investment Amount	RSIC Commitment Date
Private Equity	**Rubicon Fund II, LP**	$40 M	**February 9, 2024**
Private Equity	**Horsley Bridge Venture 15, L.P.**	$50 M	**February 12, 2024**
Private Credit	**KKR Asset Based Finance Partners II**	Up to $100 M	**February 27, 2024**
Private Equity	**Spark Capital VIII**	$20 M	**February 29, 2024**
Private Equity	**Spark Capital Growth Fund V**	$40 M	**February 29, 2024**