South Carolina Retirement System Investment Commission
Meeting Minutes

April 27, 2017 9:30 a.m.
Capitol Center
1201 Main Street, 15th Floor
Columbia, South Carolina 29201
Meeting Location: Presentation Center

Commissioners Present:
Dr. Rebecca Gunnlaugsson, Chair
Dr. Ronald Wilder, Vice Chair
Ms. Peggy Boykin, PEBA Executive Director
Mr. Allen Gillespie
Mr. Edward Giobbe
Mr. Curtis Loftis, State Treasurer
Mr. Reynolds Williams

Others present for all or a portion of the meeting on April 27, 2017: Christopher Alexander, Ashli Aslin, Geoff Berg, Betsy Burn, Andrew Chernick, Kim Cornell, Greg Cowell, Dori Ditty, John Farmer, Robert Feinstein, Scott Forrest, Mitchell Goldsmith, Michael Hitchcock, David King, Lynn Lesueur, Bryan Moore, Tricia Miller, Weiyi Ning, Jon Rychener, and Kathleen Shealy from the South Carolina Retirement System Investment Commission ("RSIC"); J.B. Collins, Bruce Crouch, Cain Halford, Jared Nobles, and Bradi Siebel from SC ETV; Suzanne Bernard and Tim McEnery from Aon Hewitt Investment Consulting; Wayne Bell, Sam Griswold and Wayne Pruitt from the State Retirees' Association of South Carolina; and Andi Taylor from Cola City Reporting.

I. CALL TO ORDER AND CONSENT AGENDA

Chair Rebecca Gunnlaugsson called the meeting of the South Carolina Retirement System Investment Commission ("Commission") to order at 9:30 a.m. Mr. Curtis Loftis made a motion to approve the proposed agenda as presented. Mr. Allen Gillespie seconded the motion, which was approved unanimously.

The Chair referred to the draft minutes from the February 23, 2017 Commission Meeting as presented and the Minutes from the March 13, 2017 General Investment Consulting Services RFP Committee Meeting as presented and asked whether there was a motion to approve the minutes. Mr. Edward Giobbe made a motion to approve both sets of the minutes as presented. Dr. Ronald Wilder seconded the motion, which passed unanimously.

II. CHAIR'S REPORT

The Chair reported that there was not a Chair's Report for this Meeting.

III. AUDIT AND ENTERPRISE RISK MANAGEMENT COMMITTEE REPORT

The Chair then recognized Mr. Gillespie for an Audit and Enterprise Risk Management Committee report. Mr. Gillespie stated that the Committee met two times since the last Commission Meeting. He stated that the Committee had received all compliance reports from Mr. Andrew Chernick, Managing Director of Operations and Operational Due Diligence, and that all employees have completed their compliance training. No material changes were reported since the end of the quarter. Lastly, Mr. Gillespie reported that the personnel search continues related to the open Enterprise Risk and Compliance position.

IV. CEO'S REPORT

Mr. Michael Hitchcock, Chief Executive Officer, reported on the major provisions of the pension reform bill recently signed by the Governor, including the changes in employee and employer contributions to help stabilize the system. The Commissioners discussed the changes in contribution rates as well as the mechanism to set the assumed rate of return. Mr. Hitchcock also briefly reviewed other aspects of the pension reform bill, including the change in statutory custodian and selection of the custodial bank. Mr. Hitchcock thanked the Treasurer and his staff for assisting in the custodial banking transition. A task force was created between RSIC and PEBA to oversee a smooth transition. Mr. Hitchcock briefly reviewed additional aspects of the bill and noted that it goes into effect on July 1, 2017. After additional discussion of the bill, he gave a brief update on the state budget process.

V. CIO'S REPORT

The Chair recognized Mr. Geoff Berg, Chief Investment Officer, who provided introductory remarks regarding the performance summary. Mr. Berg stated that through April 24, 2017, the Plan's estimated return was slightly above 10 percent. Mr. Berg noted that performance had benefited from improvements made in asset allocation. He noted that RSIC had increased equity exposure at the end of 2015 and that since that time equities were up 17 percent. Additionally, Mr. Berg noted that the decision to use the portable alpha structure had contributed meaningfully to the Plan's performance fiscal year to date. Mr. Berg also indicated that the recent addition of REITs and listed infrastructure to the asset allocation had been a drag on performance in the short term, due in part to challenges presented by the rising rate environment. Mr. Berg also explained that fiscal year to date, the Plan's new policy benchmark (reflecting the asset allocation changes approved by the Commission) was 85 basis points higher than the legacy asset allocation would have performed.

In response to a question from Mr. Giobbe, Mr. Berg gave a brief explanation of how portable alpha works within the portfolio. A lengthy discussion ensued regarding alpha, beta, fees and past performance among Ms. Bernard, Mr. Berg and the Commissioners.

Next, Mr. Berg introduced Mr. David King, Reporting Officer, to provide a fiscal year to date performance summary report through the end of February 2017. Mr. King explained that RSIC is within the target ranges in every asset class, with an underweight to non-portable alpha hedge funds. Fiscal year to date, the Plan is up 8.34 percent versus the policy benchmark's return of 7.32 percent. Mr. King stated that global public equity, private equity, and private debt all had performance of over 10 percent for the period. He added that the portable alpha and non-portable alpha hedge funds outperformed their benchmarks, while infrastructure and commodities underperformed. In response to a question, Mr. King indicated that the Plan's fiscal year to date return was above median in the BNYMellon peer universe, while the policy benchmark's return was below median. A lengthy discussion ensued between Mr. Berg and the Commissioners regarding the peer group comparisons.

Next, Mr. Berg introduced Mr. Tim McEnery from Aon Hewitt Investment Consulting, who shared Aon Hewitt's medium-term asset allocation views (that is, over the next one to three years). Mr. McEnery reviewed how the current political atmosphere has affected, and will affect, the markets. A brief discussion ensued with the Commissioners regarding public and private market expectations.

Mr. Berg then advised the Commission that Intech Investment Management, which manages an enhanced global strategy for the Plan, had requested that RSIC consent to an assignment of the contract with Intech due to a planned merger between Intech's parent company, Janus Capital Group, and Henderson Group. Mr. Reynolds Williams made a motion to adopt the recommendation of the CIO to (i) consent to the assignment of Intech Investment Management, LLC's Investment Management Agreement with respect to Intech's parent company, Janus Capital Group, Inc., to the newly formed Janus Henderson Global Investors plc, and (ii) authorize the Chair or her designee to execute any necessary documents to implement the decision as approve by the Commission. Mr. Gillespie seconded the motion, which passed unanimously.

The discussion then turned to asset allocation. Mr. Berg briefly reviewed the Fiscal Year ("FY") 2017-18 asset allocation proposal, noting that the proposals presented for the Commission's consideration were changes to the existing asset allocation's three year glide path. He then explained that the TERI program, which terminates on June 30, 2018, will result in additional cash outflows to beneficiaries of approximately $940 million dollars over the 2017-2018 fiscal year, with the bulk of the outflow between December 2017 and July 2018. In order to prepare for this additional cash flow out of the Plan, Mr. Berg explained that Staff was recommending a temporary increase in the cash target from 2 percent to 3 percent from the beginning of December 2017 until the end of FY 17-18. Because the increased benefit payments will be sourced primarily from public market assets, Mr. Berg noted that Staff was also recommending a temporary widening of the allowable ranges for the illiquid private equity, private debt and private market real estate asset classes to avoid exceeding allocation ranges in the event of a market downturn. A lengthy discussion ensued regarding the TERI program and the impact its closure will have on the Plan in FY 2017-2018. Mr. Berg also summarized the asset allocation changes that Aon Hewitt had presented and discussed at the February 2017 Commission meeting.

Mr. Berg then discussed the revised asset allocation changes that Staff and Aon Hewitt were recommending as shown on red-numbered pages 51-53 of the Commission's meeting materials, including (1) reducing the hedge fund allocation by 2 percent in each of the next two fiscal years (reduction of 4 percent in total); (2) changing the GAA allocation as follows: (a) 8 percent for the period July 1, 2017 to November 30, 2017; (b) 7 percent for the period December 1, 2018 to June 30, 2018, and (c) 8 percent in FY 2018-2019; (3) increasing the global equity allocation to 35 percent (a 2 percent increase) in FY 2018-2019; (4) temporarily increasing the cash target by 1 percent during the period commencing December 1, 2017 and ending June 30, 2018, and (5) temporarily expanding the ranges for private real estate, private debt, mixed credit, global equity and private equity during FY 17-18 and FY 18-19.

After discussion among the Commissioners, Mr. Berg and Ms. Bernard, Mr. Loftis made a motion that the Commission adopt the policy asset allocation and rebalancing ranges recommended by AON Hewitt Investment Consulting and Staff as set forth in the red-numbered materials at page 92-93 and as discussed at the Commission meeting (collectively, the “Asset Allocation”) and direct that the Asset Allocation be incorporated into, and made a part of, the SIOP and effective as of the dates specified in the materials; and authorize Staff to finalize the Asset Allocation data by making any technical revisions or formatting edits consistent with the actions taken by the Commission. Dr. Wilder seconded the motion, which passed unanimously.

Next, Mr. Robert Feinstein, Managing Director of Public and Private Markets, presented the proposed Annual Investment Plan (“AIP”) for fiscal year 2017-2018. He reminded the Commissioners that a draft of the AIP had been presented at the February Commission meeting for review and comment. Mr. Feinstein summarized the comments that had been received, and noted that no changes had been made to the draft presented in February. He reminded the Commissioners that, if approved, the AIP would go into effect on July 1, 2017 and would be posted to the RSIC website, and concluded by noting that state law requires that the Commissioners approve the AIP by May 1 of each year. Mr. Williams moved that the Commission adopt the recommendation of the CIO and staff to approve the proposed Annual Investment Plan for fiscal year 2017-2018, as set forth in the red-numbered documents on pages 100-110 and authorize staff to finalize the AIP by making any technical revisions or formatting edits consistent with the action of the Commission. Mr. Gillespie seconded the motion, which passed with Mr. Loftis abstaining.

VI. INVESTMENT RECOMMENDATION

Mr. Berg introduced Weiyi Ning, Director of Portfolio Strategy and Risk Management, to present two investment recommendations for alternative beta strategies. Ms. Ning provided an overview of the strategies, explaining that the strategies that Staff was recommending were similar to hedge funds in many respects, but differed from hedge funds in their fees structure and enhanced liquidity profile. She noted that the strategies typically utilize rules-based approaches, which exploit the “beta” of some hedge fund strategies at a much lower cost. She then turned to a review of the two managers Staff recommended to implement the strategies, which would be housed within the portable alpha hedge fund allocation.

The first recommendation presented by Ms. Ning was for Wellington ATLAS (“Wellington”). Ms. Ning provided background regarding the Wellington firm generally, and its multi-asset managed risk platform solutions team. Ms. Ning identified the Wellington strategy’s breadth, with over thirty strategies in four categories through one platform; capital efficiency; low correlation of sub-strategies; and conditional and drawdown filters as key differentiators. Staff recommended an allocation of up to two percent of Plan assets to Wellington, with an initial investment of $300 million.

The second recommendation was an investment with Man Solutions Limited, an affiliate of the Man Group, into Man Alternative Beta Strategies (MABS). Ms. Ning provided background regarding the Man Group, noting that it was a publicly traded company with approximately $80 billion in assets under management, whose Numeric affiliate was recently approved by the Commission for an international small cap mandate. Ms. Ning noted that the recommendation for MABS would be an allocation of up to two percent of Plan assets, with an initial investment of $200 million. Ms. Ning concluded by noting that utilizing both the MABS and Wellington strategies would provide broad coverage of alternative beta risk premia, including equity hedge, event driven, relative value and macro.

Mr. Williams made a motion to dispense with the reading of the motions, which was seconded by Mr. Giobbe, and approved by consensus. Mr. Giobbe made the motion to (a) adopt the recommendation of the CIO and the Internal Investment Committee as set for in the Summary Terms Chart on Page 1 of the Due Diligence Reported dated April 13, 2017 regarding Wellington Trust Company, NA's ATLAS Portfolio ("ATLAS Portfolio") (name subject to change); (b) authorize an investment of up to 2% of Total Plan Assets into ATLAS Portfolio with an anticipated initial investment of approximately $300 million; (c) authorize the Chair or her designee to negotiate and execute any necessary documents to implement the Investment as approved by the Commission (1) upon documented approval for legal sufficiency by RSIC Legal, and (2) upon expiration of the three business day review period as approved by the Commission on May 1, 2014 (or as the review period may be amended or superseded by the Commission); and (d) authorize the Chair and/or the CIO or their designee(s) to thereafter authorize the custodian of funds to transfer such funds as are necessary to meet the Retirement System's trust funds' obligations with respect to the ATLAS Portfolio, which was seconded by Mr. Gillespie. The motion passed, with Mr. Loftis abstaining.

Mr. Williams made the motion to (a) adopt the recommendation of the CIO and the Internal Investment Committee as set for in the Summary Terms Chart on Page of the Due Diligence Reported dated April 13, 2017 regarding Man Solutions Limited, Man Alternative Beta Strategies SP ("Investment"); (b) authorize and investment of up to 2% of Total Plan Assets into ATLAS Portfolio with an anticipated initial investment of approximately $200 million; (c) authorize the Chair or her designee to negotiate and execute any necessary documents to implement the Investment as approved by the Commission (1) upon documented approval for legal sufficiency by RSIC Legal, and (2) upon expiration of the three business day review period as approved by the Commission on May 1, 2014 (or as the review period may be amended or superseded by the Commission); and (d) authorize the Chair and/or the CIO or their designee(s) to thereafter authorize the custodian of funds to transfer such funds as are necessary to meet the Retirement System's trust funds' obligations with respect to the ATLAS Portfolio, which was seconded by Dr. Wilder. The motion passed, with Mr. Loftis abstaining.

VII. EXECUTIVE SESSION

Mr. Gillespie made a motion that the Commission recede into Executive Session to discuss negotiations incident to proposed contractual arrangements for a general investment consultant and to receive advice from legal counsel pursuant to S.C. Code Section 30-4-70(a)(2), Mr. Giobbe seconded the motion, which passed unanimously.

VIII. POTENTIAL ACTION RESULTING FROM EXECUTIVE SESSION

The Commission reconvened in open session at 3:46 p.m. Mr. Gillespie moved that the Commission authorize the retention of Meketa Consulting as the Commission's general investment consulting services consultant and authorize the Chair or her designee to negotiate and execute any necessary documents to implement the Commission's decision within the limits discussed by the Commission in executive session and upon approval for legal sufficiency by RSIC Legal. Mr. Giobbe seconded the motion. The motion passed, with Mr. Loftis abstaining.

IX. ADJOURNMENT

There being no further business, upon a motion made by Mr. Loftis and seconded by Mr. Gillespie, the Commission voted unanimously to adjourn. The meeting adjourned at 3:48 p.m.

[Staff Note: In compliance with S.C. Code Ann. 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., at 4:57p.m. on April 24, 2017.]