

**South Carolina Retirement System Investment Commission
Meeting Minutes**

March 2, 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. Peggy Boykin, PEBA Executive Director

Mr. William J. Condon, Jr.

Mr. Kenneth F. Deon

Mr. Edward Giobbe

Ms. Melissa Schumpert

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. Kenneth Deon made a motion to adopt the agenda as presented. Mr. Reynolds Williams seconded the motion, which was unanimously approved.

Chair Hancock referred to the draft minutes from the December 1, 2022 and January 3, 2023 Commission meetings and asked for a motion to amend the December 1, 2022 draft minutes to add language to the Fiduciary Audit section as requested by Mr. William J. Condon, Jr. Ms. Melissa Schumpert made a motion to approve the minutes of the December 1, 2022 meeting, as amended, and the minutes of the January 3, 2023 meeting as presented. Mr. Deon seconded the motion, which was approved unanimously.

II. Chair’s Report

Chair Hancock stated that he had nothing to report.

III. Committee Reports

Chair Hancock noted that the Audit and Enterprise Risk Management Committee (“AERMC”) had met since the last Commission meeting, and the AERMC’s Report had been made available to the Commissioners for review on February 17, 2023.

IV. CEO’s Report

Chair Hancock then recognized Mr. Michael Hitchcock, Chief Executive Officer (“CEO”), for his report. Mr. Hitchcock began his report by introducing several new members of RSIC’s Staff (“Staff”). He then reminded the Commissioners that state

law requires that the Commission review or amend the Consolidated Annual Investment Plan and Statement of Investment Objectives and Policies (“AIP/SIOP”) by May 1st of each year. He noted that he would present the proposed changes to the Consolidated AIP/SIOP but that the Commission would not vote on the proposed changes until the April 2023 Commission meeting. Mr. Hitchcock then gave an overview of the proposed changes. He explained that he added language to the AIP/SIOP to clarify RSIC’s position that only pecuniary factors are considered when making investment decisions. He added that the proposed changes also include clarifications about how the named fiduciaries are required to invest and manage the Plan’s assets solely in the interests of the Plan’s beneficiaries and for the exclusive purpose of providing benefits. Mr. Hitchcock also noted that he is including an explicit statement that, when making an investment decision, only pecuniary factors are considered and also added clarifications around proxy voting. He noted that other proposed edits to the AIP/SIOP include the following: conforming changes based on the new capital market expectations received from Verus Advisory, Inc.; carrying over Fiscal Year 2022 strategic initiatives that are still in progress; changing the portable alpha benchmark to cash; and changing the asset exposure review from weekly to monthly.

After presenting the proposed changes, Mr. Hitchcock asked for any questions, and hearing none, concluded his report. A link to CEO’s report is below.

<https://www.youtube.com/watch?v=9YDwvklW5lY&list=PLWggBnJJX7ksfB95gcRpo3MfttYDIRmly&index=1&t=66s>

V. CIO’s Report

Next, Chair Hancock introduced Mr. Geoffrey Berg, Chief Investment Officer (“CIO”), for the investment performance review. Mr. Berg indicated that he would give a brief update on investment performance through December 31, 2022, as well as a review of longer-term performance focusing on the three-year performance of the Plan. Mr. Berg reported that the Portfolio earned 4.14 percent for the quarter ending December 31, 2022, which lagged the benchmark by 18 basis points for the quarter. However, he noted that performance outperformed the benchmark for the fiscal year-to-date as well as over the one-, three-, five-, and ten-year periods. Mr. Berg pointed out that the Portfolio’s three-year return of almost 6 percent was accomplished during a period that included two bear markets. He also pointed out that the Portfolio’s excess return over that period was 2.38 percent annualized, which was noteworthy given that the period began with the worst quarter of underperformance in recent history. Mr. Berg shared that the annual rate of net benefit payments is now under \$500 million per year as the Plan has continued to see the benefit of higher contribution rates, which resulted from the Pension Reform Act of 2017.

Mr. Berg then turned to a review of the performance framework and noted that the one-year performance of the Reference Portfolio was negative 16.6 percent. He stated that, by employing a diversified approach, the Policy Benchmark meaningfully outperformed the Reference Portfolio by over 5 percent for that period, and the actual Plan performance outperformed the Reference Portfolio by over 9 percent for the one-year period.

Mr. Berg shared that, during the past quarter, only half of the asset classes had outperformed their benchmarks, but over the previous six months, five of the six asset classes had outperformed. On a trailing three-year basis, every asset class in the Portfolio had outperformed its benchmark. Mr. Berg then turned to a review of the allocation effect for the past six months and discussed the impact of the Plan's underweight to bonds and overweight to private assets. He noted that due to the ongoing strong performance of private assets relative to public markets, the Plan continued to be overweight to private equity and private markets. He noted, however, that the overweight had decreased by 0.3 percent during the quarter. Mr. Berg also reported that the portfolio's Total Private Markets allocation continued to exceed the notification limit established in the SIOP/AIP, noting that it had declined by 1.5 percent from the prior quarter, due largely to the growth in the plan value.

Mr. Berg concluded his report by summarizing the report's risk estimates. A link to the CIO's report is provided below:

<https://www.youtube.com/watch?v=9YDwvkiW5lY&list=PLWggBnJJX7ksfB95gcRpo3MfftYDIRmly&index=1&t=1079s>

VI. Verus – Capital Market Expectations Review

Chair Hancock then recognized Mr. Mark Brubaker and Mr. Michael Patalsky of Verus to present Verus' Capital Market Expectations Assumptions Review for 2023. Mr. Brubaker explained that Verus formally updates its capital market assumptions annually but also makes quarterly updates to reflect changes in market conditions over the course of a year. He noted that Verus' capital market assumptions for 2023 were largely higher across the board given the equity market drawdowns experienced in 2022 combined with the higher yield environment in fixed income markets. The expected long-term return for the Portfolio has increased to 7.3 percent, which represents a 110 basis point increase from the prior year.

Mr. Brubaker then gave a brief overview of the methodology used by Verus. After a brief discussion with Mr. Condon regarding RSIC's allocation to bonds, Mr. Brubaker concluded his presentation. A link to the Verus presentation is provided below:

<https://www.youtube.com/watch?v=9YDwvkiW5lY&list=PLWggBnJJX7ksfB95gcRpo3MfftYDIRmly&index=1&t=1773s>

VII. Actuarial Update – GRS Actuarial Consultants

Chair Hancock recognized Mr. Joe Newton and Mr. Danny White of GRS Actuarial Consultants, the actuaries for the South Carolina Retirement System ("SCRS"), to provide an update on actuarial valuations as of July 1, 2022. Mr. White began the presentation with a summary of historical membership demographics for SCRS, including a breakdown of the beneficiaries by non-disabled retiree, disabled retiree, and beneficiary, as well as a breakdown of contributions versus benefit payments since 2011. Mr. White then presented a summary of the 2022 valuations for both SCRS and the Police Officers Retirement System of South Carolina. Lastly, Mr. Newton provided a brief history of SCRS' unfunded accrued actuarial liability as well

as a summary of the changes instituted by the Pension Reform Act. A link to GRS presentation is provided below:

<https://www.youtube.com/watch?v=9YDwvklW5lY&list=PLWggBnJJX7ksfB95gcRpo3MfttYDIRmly&index=1&t=3215s>

VIII. Delegated Investment Report

Chair Hancock then recognized Mr. Berg for the delegated investment report. The following delegated investments were closed by Staff following the December 1, 2022, Commission meeting.

Delegated Investments (November 30, 2022 to March 1, 2023)			
Asset Classes	Investments	Investment Amount	Closing Date
Private Credit	GoldenTree Loan Management III	\$75 M	November 30, 2022
Private Credit	Fortress Lending Fund III	\$50 M	December 1, 2022
Private Equity	Gemspring Capital Fund III	\$50 M	January 20, 2023
Private Equity	Hg Mercury 4	Up to \$30 M	February 15, 2023
Private Equity	Alpine Investors IX	Up to \$50 M	February 28, 2023

IX. Executive Session

Mr. Deon made a motion to recede into Executive Session to discuss investment matters pursuant to S.C. Code Sections 9-16-80 and 19-16-320, 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; and to discuss personnel matters and to receive advice from legal counsel pursuant to S.C. Code Section 30-4-70(a)(1)-(2). Ms. Schumpert seconded the motion, which was approved unanimously. The Commission receded into Executive Session at 11:16 a.m.

X. Potential Actions Resulting from Executive Session

Upon return to open session, Mr. Hitchcock noted that the Commission did not take any action while in Executive Session.

XI. Adjourn

There being no further business, Ms. Schumpert made a motion to adjourn. Dr. Holley Ulbrich seconded the motion, which was approved unanimously. The Commission adjourned at 3:03 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 8:51 a.m., on February 28, 2023.]