

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

April 30, 2013

**SC Retirement System Investment Commission
1201 Main Street, 15th Floor
Columbia, SC 29201
Meeting Location: Presentation Center**

Committee Members Present:

Mr. Allen Gillespie, Chairman
Mr. Reynolds Williams, Vice Chairman
Mr. David Avant

Others present for all of a portion of the meeting on Tuesday, April 30, 2013:

Betsy Burn, Andrew Chernick, Sarah Corbett, Dori Ditty, Robert Feinstein, Monica Houston, Adam Jordan, Darry Oliver, Nancy Shealy, Danny Varat and Brian Wheeler from the South Carolina Retirement System Investment Commission (“RSIC”); Bill Leidinger from the State Treasurer’s Office; Donald Brock, Tammy Nichols and John Page from the Public Employee Benefits Authority (“PEBA”); Wayne Bell and Wayne Pruitt from the State Retirees Association of South Carolina.

I. CALL TO ORDER

Chairman Allen Gillespie called the meeting of the RSIC Audit Committee (“Committee”) to order at 10:00am. Chairman Gillespie asked for a motion to approve the agenda. Mr. Reynolds Williams made a motion to approve the proposed agenda, which was seconded by Chairman Gillespie and passed unanimously.

II. APPROVAL OF MINUTES

Chairman Gillespie deferred to Ms. Monica Houston regarding the meeting minutes from November 2, 2012. Ms. Houston noted due to a technical error, the meeting minutes from November 2, 2012 needed to be reapproved. Mr. Williams made a motion to amend the minutes from November 2, 2012 to reflect the correction. Mr. David Avant seconded the motion and passed unanimously. Mr. Williams then made a motion to approve the minutes from November 2, 2012, as amended. Mr. Avant seconded the motion which passed unanimously.

The meeting minutes from February 12, 2013 had not yet been reviewed by the Committee. After sufficient time was allotted for review, Chairman Gillespie requested a motion to approve the minutes. Mr. Williams made a motion to approve the minutes from February 12, 2013, which was seconded by Chairman Gillespie. The motion passed with Messrs. Gillespie and Williams voting in favor of the motion, and Mr. Avant abstaining from voting since he was not present at the February 12, 2013 meeting.

III. **AUDIT AND COMPLIANCE UPDATE**

Mr. Chernick gave a brief departmental overview and noted several special projects and consulting projects that were in preliminary stages. He specifically noted that CliftonLarsonAllen had begun interim work (for the annual audit of PEBA financial statements), and that the fiduciary audit was still being planned. Obtaining funding for the fiduciary audit was still a matter in discussion.

Ms. Houston updated the Committee on the continued search and need for additional staff resources. Revisions made to the 2013 fiscal year Audit and Compliance plan were discussed, which included (based upon risk) the removal of items, the movement of items to the next fiscal year, and revision of total plan hours required for certain items. Ms. Houston stated that the Annual Investment Plan compliance project was placed on hold until the final revisions were made and Internal Audit was able to make a determination on whether the scope would be forward looking or backward. Additional discussion around the proposed revisions to the plan was held as prompted by inquiry from Chairman Gillespie and there was discussion on the review types as prompted by inquiry of Mr. Avant.

Chairman Gillespie requested a motion be made to amend the Audit and Compliance 2013 plan. Mr. Williams made a motion, which was seconded by Mr. David Avant and unanimously approved.

Ms. Houston requested a special meeting to discuss the Audit and Compliance plan for fiscal year 2014. The Committee granted the request and Ms. Houston agreed to facilitate the coordination of that meeting by email, tentatively scheduled for the end of June 2014.

Mr. Chernick explained in detail two areas within the compliance framework regarding external management compliance.

- 1) Separately managed accounts (“SMA”) compliance.
 - With daily transparency to such managers and full authority over investment guidelines, it was determined that RSIC would monitor compliance of the investment guidelines via two routes:
 - Have SMA managers periodically attest to compliance guidelines;
 - Independently monitor investment guidelines by utilizing BNYMellon’s compliance system and RSIC’s risk team for any additional oversights.
- 2) External Manager , or “noncustodial investments”
 - A compliance certification questionnaire would be distributed on an annual basis.

IV. **REVIEW OF RISK ASSESSMENT DASHBOARD**

Mr. Chernick highlighted the recent completions of tasks on the Risk Assessment Dashboard that included:

- The operational due diligence program has been developed;
- A formal succession plan has been developed, which was part of the Governance Policies approved in March 2013.

Mr. Chernick outlined some tasks on the Risk Assessment Dashboard that were still in progress:

- Development of operational infrastructure, that is heavily reliant on RSIC receiving additional funding;
- Fully developing risk management, that is also heavily reliant on RSIC receiving additional funding;
- Documentation of all policies and procedures
 - Although this task as a whole is still a work in progress, there were two tasks recently completed within this initiative including:
 - A finalized Valuation Policy and Procedure by working jointly with PEBA;
 - Revised Governance Policies, which were approved by the Commission in March 2013.

V. PRESENTATION ON OPERATIONAL DUE DILIGENCE

Ms. Corbett reminded the Audit Committee of the presentation regarding operational risk that was presented by the Audit and Compliance team in February, as well as the Deloitte investment risk assessment report that indicated that best practice would be to have an operational due diligence resource. Ms. Corbett proceeded with a history of the development of operational due diligence within RSIC, noting that the new investment consultant hired in October 2012, was charged with conducting operational due diligence. Ms. Corbett also noted the due diligence guidelines that were adopted, including initial and ongoing due diligence guidelines, that are currently in place with the Investment Team which include operational items.

Ms. Corbett presented the operational due diligence plan for fiscal year 2013-2014. Ms. Corbett stated the goals of operational due diligence are to identify and independently assess operational risk within the investment program, and have those risks factored into the investment decisions. Ms. Corbett outlined in detail how RSIC will accomplish the goals, as well as providing detail about coverage of the following four areas:

- 1) New Investments
- 2) Strategic Partnerships
- 3) Existing Investments
- 4) Service Providers

Ms. Corbett noted the specific responsibilities of her position as Director of Operational Due Diligence, and how her position would affect the due diligence going forward. Ms. Corbett concluded her presentation by stating more resources would be needed to expand the scope of operational due diligence conducted by RSIC staff and beyond what was outlined in the presentation.

VI. EXECUTIVE SESSION TO DISCUSS INVESTMENT MATTERS PURSUANT TO S.C. CODE ANN. SECTIONS 9-16-80 AND 9-16-320 AND PERSONNEL MATTERS PURSUANT TO S.C. CODE ANN. SECTION 30-4-70(a)(6)

Chairman Gillespie requested a motion to recede to executive session to discuss investment and personnel matters. Mr. Williams made the motion which was seconded by Chairman Gillespie, and passed unanimously. Chairman Gillespie announced the Committee would meet in executive session and the Committee receded into executive session at 11:07 a.m.

VII. ADJOURNMENT

The Committee reconvened in open session at 12:15 p.m., and Chairman Gillespie stated that while in executive session, the Committee took action on the salary motion placed before it. There being no further business, on motion duly made and seconded, the meeting was adjourned at 12:18 p.m.

[Staff Note: In compliance with S.C. Code Ann. §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 Conference Room at 1201 Main Street, Columbia, SC, at 8:21 a.m. on April 26, 2013.]