

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

**February 25, 2016**

**9:30 a.m.**

**Capitol Center**

**1201 Main Street, 15<sup>th</sup> Floor**

**Columbia, South Carolina 29201**

**Meeting Location: Presentation Center**

**Commissioners Present:**

Mr. Edward Giobbe, Chairman

Dr. Rebecca Gunnlaugsson, Vice Chair

Mr. Curtis Loftis, State Treasurer (via telephone)

Ms. Peggy Boykin, PEBA Executive Director

Dr. Ronald Wilder

Mr. Reynolds Williams

Absent: Mr. Allen Gillespie

**Others present for all or a portion of the meeting on February 25, 2016:**

Geoff Berg, Betsy Burn, Alexander Campbell, Lily Cogdill, Greg Cowell, Dori Ditty, John Farmer, Robert Feinstein, Mitchell Goldsmith, Joshua Greene, Michael Hitchcock, Adam Jordan, David King, Lynn Lesueur, James Manning, Kevin Matherly, Tricia Miller, Bryan Moore, Weiyi Ning, Christopher Radic, Eric Rovelli, Jon Rychener, and Lisa Scott from the South Carolina Retirement System Investment Commission; Clarissa Adams and Bert Cassell from the State Treasurer's Office; Suzanne Bernard and Tim McEnery from Aon Hewitt Investment Consulting (via telephone); Sam Griswold and Wayne Bell from the State Retirees Association of South Carolina; Bruce Crouch, James Holford, Jared Nobles, Tom Posey, and Marina Ziehe from SC ETV; M. Sean Carey from Creel Court Reporting; Linda Gamble from the Concerned Veterans for America South Carolina; and Madeleine Lee from Southern Strategy Group.

**I. CALL TO ORDER AND CONSENT AGENDA**

Chairman Edward Giobbe called the meeting of the South Carolina Retirement System Investment Commission ("Commission" or "RSIC") to order at 9:31 a.m. The Chairman referred to the proposed meeting agenda and asked for a motion to adopt the agenda. Mr. Curtis Loftis made a motion to adopt the agenda as presented, and Mr. Reynolds Williams seconded the motion, which was unanimously approved.

**II. CHAIRMAN'S REPORT**

The Chairman reminded the Commissioners that the deadline to submit Statements of Economic Interests to the State Ethics Commission is Wednesday, March 30, 2016 at 12:00 p.m.

**III. CEO'S REPORT**

**Executive Search Firm RFP Update and Request**

The Chairman recognized Mr. Michael Hitchcock, Chief Executive Officer ("CEO"), for his report. Mr. Hitchcock began his remarks by seeking guidance from the Commissioners about the location of the Commission's annual two-day retreat meeting. He reminded the

Commissioners that in previous years the Commission has held retreat meetings at Wampee Plantation in Pinopolis, South Carolina. However, the Commission held its 2015 retreat meeting at RSIC's office in Columbia, South Carolina. The Chairman asked that the Commissioners convey their location preference to Mr. Hitchcock before Friday, March 4, 2016.

Mr. Hitchcock then recognized Mr. Greg Cowell, IT Specialist; Ms. Lynn Lesueur, Operational Due Diligence Officer; Mr. Chris Radic, Reporting Analyst; and Ms. Kimberly Cornell, Paralegal, as new members of RSIC's Staff ("Staff"). Next, Mr. Hitchcock updated the Commission on the status of procuring an executive search firm to locate a permanent chief investment officer ("CIO"). Mr. Hitchcock stated that the finalized Request for Proposal for the search ("Search RFP") had been provided to South Carolina Procurement Services for processing. He explained that, because the Commission's next meeting would not be until Thursday, April 21, 2016, he was requesting that the Commission delegate authority to the CEO to select the winner of the Search RFP to avoid unnecessary delays in the consultant beginning work.

Dr. Ronald Wilder made a motion that the Commission delegate to the CEO the Commission's authority under Governance Policy VIII(B)(1) to approve the appointment of an executive search firm to be identified through an RFP process conducted in conjunction with MMO as part of the CIO Recruitment Plan approved by the Commission at its November 19, 2015 meeting. Mr. Hitchcock affirmed that he would keep all of the Commissioners, as well as RSIC's Human Resources and Compensation Committee, apprised of Staff's progress on the Search RFP. The Chairman called the question, and Mr. Williams seconded the motion, which passed unanimously.

Mr. Hitchcock then turned the discussion to RSIC's proposed budget for the 2016-17 Fiscal Year ("Proposed Budget"). Mr. Hitchcock stated that he had recently met with the South Carolina Senate's Budget Subcommittee to discuss the Proposed Budget. Mr. Hitchcock reminded the Commissioners that the Proposed Budget would remain the same as 2015-16 Fiscal Year minus a \$500,000 reduction in the personal services budget. He added that RSIC is not seeking any additional new full time employee positions in the 2016-17 Fiscal Year.

### **Iran/Sudan Divestment Policy Proposal**

Mr. Hitchcock introduced Mr. Mitchell Goldsmith, Legal Counsel, who provided a presentation regarding the Iran/Sudan Divestment Policy Proposal. Mr. Goldsmith began his presentation by providing an overview of the history of South Carolina's Iran and Sudan Divestment laws. He then turned the discussion to explaining the requirements of both laws. Mr. Goldsmith explained that the State's Sudan Divestment law, which was passed in 2008, applies to RSIC only and mandates that the trust funds' Portfolio ("Portfolio" or "Plan") divest securities of companies that provide military equipment to the Sudanese government as well as companies doing business in Sudan's oil, energy, and power sectors. He added that, because the Sudan Divestment Law only applies to RSIC, Staff has retained IW Financial to consult with Staff on managing the requirements of the law. IW Financial is a leading provider of environmental, social, and governance research and consulting services. Mr. Goldsmith then turned to the State's Iran Divestment law. He explained that this law applies to all state agencies and political subdivisions and prohibits

both investments in and contracts with companies doing business in Iran's energy sector. Because the Iran Divestment law is a statewide mandate, the State Fiscal Accountability Authority has developed and will regularly update a list of prohibited securities. Mr. Goldsmith noted that the recent removal of some U.S. federal sanctions against Iran would have no impact at the current time on the State's Iran Divestment law.

Mr. Goldsmith stated that both the State's Sudan and Iran Divestment laws include two key exceptions. The first exception exempts investments in vehicles that constitute indirect beneficial ownership, which both laws define as index funds, commingled funds, limited partnerships, derivative instruments, and the like. Consequently, the requirements of both laws effectively only pertain to the Plan's separately managed and internally traded accounts. The second exception is a fiduciary exception, which provides that the Commission is not required to take any action under either law unless: (1) divestment is determined in good faith to be consistent with the Commission's fiduciary responsibilities; and (2) the State has appropriated funds to absorb the expenses of divestment.

Next, Mr. Goldsmith informed the Commissioners that, in accordance with both laws, Staff had developed proposed Iran and Sudan Divestment Policies ("Proposed Policies") for the Commission's review and consideration. He explained that, with the respect to the laws' investment provisions, Staff is proposing that the Commission prohibit current and future investment managers from acquiring securities of companies that are covered under the laws. Mr. Goldsmith stated that the Proposed Policies would delegate authority to the CIO to sell impacted securities currently held in the Plan as the CIO deems prudent for the Portfolio. In addition, with respect to the Iran Divestment law's requirement that State agencies not contract with companies doing business in Iran's energy sector, Staff proposes delegating authority to the CEO to cancel impacted contracts as the CEO deems prudent. The Proposed Policies also require that the CEO and CIO report to the Commission annually about actions taken pursuant to the Proposed Policies.

Mr. Goldsmith then answered questions from the Commissioners regarding the Proposed Policies. The Chairman stated that the Proposed Policies would be presented at the Commission's April meeting for a vote.

Mr. Loftis left the meeting and dialed-in to be present by telephone.

#### **IV. CIO'S REPORT**

The Chairman recognized Mr. Geoffrey Berg, Acting Chief Investment Officer, to present his report. Mr. Berg began his report by reminding the Commissioners that the Commission had approved a long-term target asset allocation (including a multi-year glide path) at its February 4, 2016 meeting. Mr. Berg informed the commissioners that Staff is working with Aon Hewitt Investment Consulting ("Aon Hewitt") to develop recommended asset allocation ranges and appropriate benchmarks, which will be presented at the Commission's April meeting.

Mr. Berg turned to the topic of foreign currency. He reminded the Commissioners that, during the Commission's meeting in November, 2015, findings from Staff's challenging investment beliefs exercise regarding currency risk had been summarized, and it had been noted that no consensus had emerged with regard to a change in strategy for addressing

currency risk. By way of background, Mr. Berg stated that during fiscal year 2015, the U.S. dollar underwent its sharpest rally in 31 years. Mr. Berg noted some of the effects of the U.S. dollar's unusually pronounced rally, including (a) the negative impact on the Plan's non-dollar denominated investments and (b) making U.S. companies that export goods less competitive. Mr. Berg explained that going forward, Staff would be examining currency like any other asset class in the Portfolio, noting that the risk management team would spearhead this effort. In addition to developing a currency reporting framework, Mr. Berg noted that this team would identify and assess different approaches to currency risk management. The Chairman asked whether Staff had considered a mechanism to track currency declines that would allow hedges to be put into place. Mr. Berg responded that Staff had considered doing so, but was not recommending a formal hedging program at this time.

Mr. Berg discussed the draft Annual Investment Plan ("AIP") for Fiscal 2016-17 that had been provided to the Commission. He briefly reviewed the priorities set forth in the document, and explained that the AIP was being presented to the Commission for comments and questions. He requested that commissioners provide feedback by Thursday, March 24, 2016, and stated that a revised draft of the AIP would be presented to the Commission for approval at its April meeting.

#### **RSIC 4<sup>th</sup> Quarter Performance Update**

Mr. Berg introduced Mr. Joshua Greene, Senior Analyst, who presented the 2015 Fourth Quarter Performance Update. Mr. Greene stated that, as of December 31, 2015, the Plan's policy benchmark return for the fiscal year to date was -3.1 percent, while the Portfolio's return was -2.9 percent. Mr. Greene noted that fiscal year to date, real estate, private equity, and core fixed income had been the best performing asset classes, while global public equity, mixed credit, and commodities were the worst performers. Mr. Greene reviewed each asset class' performance relative to its policy benchmark, and provided a performance attribution for the fiscal year to date. He reminded the commissioners that the allocation effect measured the effectiveness of being over- or under-weight to various asset classes, and the selection effect measured the effectiveness of implementation. The allocation effect had contributed - 22 basis points fiscal year to date, while the selection effect had contributed 42 basis points for the fiscal year, resulting in a total value added of 21 basis points fiscal year to date.

Mr. Greene provided a brief description regarding Staff's implementation of the asset allocation changes approved by the Commission in November 2015 after the close of the fourth quarter. He noted that the global public equity allocation had increased from 31 to 34 percent, while the Plan's cash holdings had been decreased from five percent to two percent. Mr. Greene also noted Staff had reduced the Plan's underweight to real estate by investing in the asset class through the Russell Overlay Program. The Chairman asked about the Plan's total allocation to the real estate asset class. Mr. Greene confirmed the target allocation is presently five percent, and the current weight is 4.9 percent. Mr. Berg clarified that the target allocation for real estate in the asset allocation adopted by the Commission on February 4, 2016 will be increasing to seven percent on July 1, 2016. Mr.

Loftis thanked Staff for their report, but noted several concerns, including the plan's funded status and liquidity over the next two or three years.

The Commission briefly recessed for a break at 10:36 a.m. The Chairman reconvened the meeting at 10:47 a.m.

#### **V. INVESTMENT RECOMMENDATION**

The Chairman introduced Bryan Moore, Director, who provided a presentation on CenterSquare Investment Management Holdings, Inc.'s ("CenterSquare") U.S. Real Estate Securities Strategy. Mr. Moore discussed the search objectives and process, CenterSquare's investment strategy, the strategy's fit in the Portfolio, the investment rationale and considerations, and the fees for the strategy. It was noted that Staff was recommending that the Commission's investment with CenterSquare be structured as a separately managed account with custody at the Plan's master custodian, the Bank of New York Mellon. Mr. Moore indicated that CenterSquare is a wholly owned subsidiary of BNYMellom. Dr. Wilder then asked Mr. Moore if CenterSquare focuses on non-publicly traded or publicly traded REITs. Mr. Moore responded that CenterSquare's strategy focuses solely on publicly traded REITs.

Mr. Williams moved that the Commission (a) adopt the recommendation of the Acting CIO and the Internal Investment Committee as set forth in the Summary Terms Chart on Page 1 of the Due Diligence Report dated February 25, 2016; (b) authorize an investment of up to 2.5% of Total Plan Assets into the CenterSquare US Real Estate Securities Strategy through the use of a separately managed account agreement, with an anticipated initial investment of \$250 million; (c) authorize the Chairman or his 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 Chairman and/or the Acting CIO or their designee(s) to thereafter authorize the custodian of funds to transfer such funds as are necessary to meet the Retirement System trust funds' obligations with respect to the Investment. Dr. Wilder seconded the motion, which passed unanimously.

#### **VI. EXECUTIVE SESSION**

Dr. Wilder moved to go into Executive Session to discuss investment matters pursuant to S.C. Code Sections 9-16-80 and 9-16-320; and to receive legal advice from legal counsel pursuant to S.C. Code Section 30-4-70(a)(2). Mr. Williams' seconded the motion, which passed unanimously. The Commission reconvened in open session. Mr. Hitchcock reported that no action was taken during Executive Session.

#### **VII. ADJOURNMENT**

There being no further business, Dr. Wilder moved to adjourn. Mr. Williams seconded the motion, which passed unanimously, and the meeting adjourned at 12:21 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, SC, at 9:51 a.m. on Tuesday, February 23, 2016.]