

**South Carolina Retirement System Investment Commission
Audit and Enterprise Risk Management Committee Meeting
Minutes
August 28, 2017**

**Capitol Center
1201 Main Street, Suite 1510
Columbia, South Carolina 29201**

Committee Members Present:
Ms. Peggy Boykin
Mr. Allen Gillespie (via teleconference)
Mr. Edward Giobbe

Others present for all or a portion of the meeting on Monday, August 28, 2017: LaJoya Broughton, Kara Brurok, Andrew Chernick, Dori Ditty, Michael Hitchcock, Tricia Miller, and Jon Rychener from the South Carolina Retirement System Investment Commission, and John Page from the Public Employee Benefit Authority.

I. Call to Order; Adoption of Proposed Agenda

Chair Allen Gillespie was in attendance via teleconference and relinquished the role of chair to Ms. Peggy Boykin for the meeting. Ms. Boykin called the meeting of the Audit and Enterprise Risk Management Committee (“Committee”) of the South Carolina Retirement System Investment Commission (“RSIC”) to order at 2:05 p.m. Mr. Allen Gillespie made a motion, which was seconded by Mr. Edward Giobbe and passed unanimously, to approve the agenda as presented.

II. Approval of Minutes (April 13, 2017 and April 26, 2017)

Mr. Giobbe made a motion to approve the Minutes as drafted from the April 13, 2017 and April 26, 2017 meetings, which was seconded by Mr. Gillespie and passed unanimously.

III. Compliance Update

Mr. Andrew Chernick began by stating that there had been no material exceptions for the review period of the quarter ending March 31, 2017. Next, he stated that the Annual Investment Compliance Questionnaires had been provided to all investment managers and 100% of the managers had provided responses to the questionnaires. Mr. Chernick stated that he has reviewed about half of the responses. Upon completion of his review, the questionnaires will be reviewed by assigned investment staff and shortly thereafter by Scott Forrest in Operations, and Dori Ditty in Legal. Mr. Chernick stated that he plans to provide a presentation following final review, of the responses to the questionnaires, during a future Committee meeting. Mr. Gillespie asked if questionnaires include a question about SEC reviews, to which Mr. Chernick confirmed that there is a question and that RSIC keeps a database of all registrations with key regulatory agencies.

IV. Internal Audit

Mr. Chernick discussed the status of the prior fiscal year Internal Audit Plan. He explained that the State Auditor will be conducting an RFP procurement process to select a firm to complete a fiduciary audit of the RSIC, which is required by law to be completed by January 15, 2019. He stated that Staff has already met with the State Auditor and discussed the

timing for commencing the audit in the beginning of 2018 with the Director of Enterprise Risk Management and Compliance serving as the point person. Ms. Boykin stated that currently with the Pension Reform, PEBA is scheduled to have its fiduciary Audit at the same time. She stated that she plans to ask the State Auditor to postpone PEBA's audit until 2020.

Mr. Giobbe asked about the purpose of the Fiduciary Audit. Mr. Chernick explained that the Audit could be broad in coverage, as in RSIC's case, or it could be specific to distinct areas of an organization's operations. He stated that since the audit will be performed every four years it is likely to remain broad in nature. In response to a question from Mr. Giobbe, Mr. Chernick explained that upon completion, the report is submitted to the Governor, President *Pro Tem* of the Senate, Speaker of the House of Representatives, Chairman of the Senate Finance Committee and Chairman of the House Ways and Means Committee.

Next Mr. Chernick provided an update on the February 9, 2017 Experis Report on Internal Fixed Income and Trading. Experis provided 18 recommendations and with the help of Staff including: Ms. Nicole Waites, Mr. Mike Addy, Ms. Brenda Gadson and Mr. Bryan Moore, 14 of the recommendations had already been implemented.

Mr. Chernick then stated the Agreed Upon Procedures have been drafted and sent to CliftonLarsonAllen for their review; as in prior years the main focus is on the areas of valuation and due diligence guidelines. Mr. Chernick noted that Mr. Moore has redrafted the ongoing due diligence guidelines which went into effect January 1, 2017, to ensure the guidelines are up-to-date with current industry best practice and continue to best address risk. Some new components of the guidelines are: Investment Staff reviewing the Annual Investment Compliance Questionnaires and the fee validations and quarterly compliance certifications for separately managed accounts. The new ongoing due diligence guidelines, including these components, is what the Agreed Upon Procedures will test. He stated that the goal is to continue to expand the CliftonLarsonAllen Agreed Upon Procedures. Mr. Gillespie made a motion to authorize Mr. Chernick to engage CliftonLarsonAllen, through the State Auditor's Office, for the Agreed Upon Procedures review as drafted. Mr. Giobbe seconded the motion and it was unanimously approved.

Last, Mr. Chernick informed the Committee about recent participation of other public pension funds submitting to a Global Investment Performance Standards ("GIPS") review. Mr. Chernick asked for the Committee to share opinions about the value of exploring this as part of the Audit Plan. Mr. Chernick explained the process and answered questions from the Committee members. He suggested that if the Committee agreed with further exploring the option, he believed a GIPS review could be completed for the fiscal year ending June 30, 2018. Mr. Giobbe asked if it was duplicative of the Fiduciary Audit. Mr. Gillespie explained that a GIPS review would be narrow, focusing on the integrity of returns and the disclosures associated with those returns. Ms. Boykin stated that it sounds beneficial and would like to know more about the pre-verification costs. Mr. Gillespie stated that he would like to learn more about a GIPS review as it would be completed for a pension plan. Mr. Chernick stated that he would research the topic and give a more detailed presentation at the next meeting.

V. Executive Session

Mr. Giobbe made a motion to enter into Executive Session to discuss personnel matters pursuant to S.C. Code Ann. § 30-4-70(a)(1). Mr. Gillespie seconded the motion, and it was unanimously approved.

VI. Potential Action Resulting from Executive Session

The Committee reconvened in open session, and Ms. Boykin reported that the Committee met in Executive Session to discuss personnel matters. She also reported that no action was taken during Executive Session.

VII. Adjournment

There being no further business, Mr. Giobbe made a motion to adjourn. Mr. Gillespie seconded the motion, which passed unanimously. The meeting adjourned at 3:59 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 on August 25, 2017 at 1:44 p.m. at the entrance, in the lobbies, and near the 15th Floor Presentation Center at 1201 Main Street, Columbia, S.C.]