

**South Carolina Retirement System Investment Commission
Audit and Enterprise Risk Management Committee Meeting Minutes
August 30, 2018**

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

Committee Members Present Via Teleconference:

Ms. Peggy Boykin (via telephone)
Mr. Allen Gillespie (via telephone)
Mr. Edward Giobbe (via telephone)

I. Call to Order; Adoption of Proposed Agenda

Chair Allen Gillespie called the meeting of the Audit and Enterprise Risk Management Committee (“Committee”) of the South Carolina Retirement System Investment Commission (“RSIC”) to order at 2:04 p.m.

II. Approval of Minutes (June 7, 2018)

Ms. Peggy Boykin made a motion to approve the Minutes as drafted from the June 7, 2018 meeting, which was seconded by Mr. Gillespie and passed unanimously.

III. Compliance Update

Chair Gillespie turned the meeting over to Mr. Andrew Chernick, Chief Operating Officer for the compliance update. Mr. Chernick noted the Separately Managed Accounts (“SMA”) Quarterly Certification compliance review for the period ending June 30, 2018 we will rely on the Annual Manager Compliance Questionnaire, rather than requesting individual attestations from each SMA manager. All investment managers, including SMA managers, must attest to being in compliance with legal documents and guidelines as part of the Annual Manager Compliance Questionnaire. Mr. Chernick also noted that the Securities Lending Review and Personal Trading review was completed, and no material issues had been noted for the quarter ending June 30, 2018. Mr. Chernick also provided an update on Bank of New York (“BNYM”) Compliance Reporting. BNYM has coded all Global Fixed Income SMA investment guidelines. The next step is for the Compliance department to review the codes before they go live. Equity SMA accounts will be the next group for BNYM to complete, in hopes that all SMA accounts will be checked by BNYM for investment guideline compliance by the end of the calendar year. Mr. Chernick noted all Material Interest Forms would be distributed via email to all staff and in person and via email to all Commissioners at the next Commission meeting. Next, Mr. Chernick stated that the Annual Manager Compliance Questionnaire had a 100% completion rate from all managers and both consultants. Preliminary reviews of these Questionnaires has been done by respective Investment staff and Operations Due Diligence staff. The next review step is for the Compliance department to complete their review. Mr. Chernick noted that Compliance has reviewed about 20% of the questionnaires as of that date. He reminded the Committee that the investment team review of

these questionnaires is a required part of the due diligence process and is tested as part of the Agreed Upon Procedures.

IV. Internal Audit Update

Mr. Chernick provided an update on the Fiduciary Performance Audit, being performed by Funston Advisory Services (“Funston”). Funston has interviewed staff at RSIC and PEBA, the Commissioners, some stakeholders and some investment managers who have recently completed the RSIC due diligence process. It was also noted they sorted through between 100-200 documents that RSIC had provided them. Mr. Hitchcock stated Funston plans to present its findings to the Commission at the November 2018 Commission meeting. Next, Mr. Chernick provided an update on the Global Investment Performance Standards (“GIPS”) verification and noted that ACA Compliance Group (“ACA”) had been selected to perform the verification. A GIPS Policy Manual, GIPS Compliant Presentation, along with FYE June 30th supporting performance data, were recently sent over to ACA for their review. RSIC Performance & Reporting team is now working to provide the necessary documentation for ACA test selections. The goal is to have this verification finalized and the GIPS Compliance Report issued and presented at the October 2018 Committee Meeting. Mr. Chernick reminded the Committee that this initial report will cover one fiscal year, Fiscal Year end June 30, 2018, but RSIC had signed a multi-year contract with ACA, so this is planned to be a re-occurring review.

V. FY18-19 Audit Plan Discussion

Mr. Chernick noted the Proposed FY18-19 Internal Audit Plan includes two reviews in progress, both which are quite extensive: Fiduciary Performance Review and GIPS verification. He noted both these reviews covered a wide array of areas and would take up a good amount of staff’s time into October. Mr. Hitchcock reiterated the extensive nature of the Fiduciary Performance review and that it is the RSIC’s goal to implement the recommendations that come out of this review as soon as possible.

The first proposed review in the FY18-19 Proposed Internal Audit Plan was the Agreed Upon Procedure to be performed by CliftonLarsonAllen (“CLA”). This is the same review that has been done in previous years, and it will continue to give testing coverage around RSIC’s investment due diligence and investment valuation procedures. The goal is for CLA to begin their field work in September and issue the report in October, which would line up well with CAFR issuance.

Mr. Chernick then noted the second proposed review in the Internal Audit Plan is for a Cash Management Implementation Review. Mr. Chernick noted that RSIC has recently implemented a new BNYM offering for capital call management service. Previously, RSIC transmitted wiring instructions related to capital calls via fax. This online capital call management service uses online approval and will provide a lot of additional controls in the process. Mr. Chernick noted that the Investment Operations Department did extensive due diligence on this offering before committing to it and also ensured that it had appropriate procedures in place before the service went live at RSIC. This proposed review would allow an independent third party to look at what we are doing in this area and identify any potential gaps and/or areas where we are not meeting best practices. Mr. Chernick noted he would like for this review to occur in May or June of 2019, to allow sufficient time for new processes to be put into place and to provide a sufficient history

of processes in place to be reviewed and tested by the firm hired. Ms. Boykin made a motion to approve the FY18-19 Internal Audit plan and associated resource plan. Chair Gillespie seconded and it was unanimously approved.

VI. Executive Session

Ms. Boykin made a motion to enter into Executive Session to discuss personal matters related to the vacant Enterprise Risk Management & Compliance position pursuant to S.C. Code Ann. 30-4-70(a)(1). Mr. Gillespie seconded the motion, and it was unanimously approved.

VII. Adjournment

There being no further business, the meeting was adjourned by unanimous consent.