

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

**September 13, 2018 9:30 a.m.
Capitol Center
1201 Main Street, 15th Floor
Columbia, South Carolina 29201
Meeting Location: Presentation Center**

Commissioners Present:

Dr. Ronald Wilder, Chair
Dr. Rebecca Gunnlaugsson, Vice Chair
Ms. Peggy Boykin, PEBA Executive Director, (Via Telephone)
Mr. Allen Gillespie, (Via Telephone)
Mr. Edward Giobbe (Via Telephone)
Mr. Reynolds Williams (Absent)
Mr. William H. Hancock
Mr. William J. Condon, Jr.

I. CALL TO ORDER AND CONSENT AGENDA

Chair Dr. Ronald Wilder called to order the meeting of the South Carolina Retirement System Investment Commission (“Commission”) at 9:30 a.m. Dr. Rebecca Gunnlaugsson made a motion to approve the proposed agenda as presented. Mr. William H. Hancock seconded the motion, which was approved unanimously.

As a footnote to the agenda, the Chair noted that because of the inclement weather caused by Hurricane Florence, the Commission reduced the agenda for today’s meeting and deferred a number of agenda items to the next Commission meeting in November. The following agenda items were deferred: Audit and Enterprise Risk Committee Report, Human Resources & Compensation Committee Report, Performance Update, Consultant’s Report, Delegated Investment Report, and CEO’s Performance Review. The discussion of the Commission’s June meeting minutes was also postponed to the November meeting.

II. CHAIR’S REPORT

The Chair began his Report with a personal note. The Chair communicated that he is honored to become Chair and grateful to the other Commission members for selecting him. The Chair especially thanked Mr. Michael Hitchcock, Chief Executive Officer, Mr. Geoffrey Berg, Chief Investment Officer, and the RSIC Staff (“Staff”) for their important support.

The Chair then submitted to the Commission the proposed slates of members for each Committee. The Chair proposed that the Human Resources and Compensation Committee be composed of Mr. Edward Giobbe, Dr. Gunnlaugsson, and Dr. Wilder and that the Audit and

Enterprise Risk Committee be composed of Ms. Peggy Boykin, Mr. William J. Condon, Jr., and Mr. Hancock. The Chair then asked if there were any questions or comments on the proposed slates. As there were none, the Chair called for a vote after noting that a motion was not required. The Committee assignments were approved unanimously.

III. CEO'S REPORT

The Chair recognized Mr. Hitchcock for the CEO's Report. Mr. Hitchcock presented the Fiscal Year 2019-20 South Carolina Retirement System Investment Commission ("RSIC") Budget Request ("Budget") for Commission review and approval. Mr. Hitchcock first relayed to Commission members that the presentation was a high-level overview of the Budget, and if any Commission members would like a more detailed overview, he would be willing to talk with them personally at their request.

Mr. Hitchcock then reminded the Commission that RSIC is supported solely by Trust funds and receives no budget allocation from the State's General Budget. Mr. Hitchcock further explained that any budgeted funds not spent by the Commission stays in the Trust fund and continues to earn interest. Mr. Hitchcock emphasized that the Commission strives to mitigate expenses that are not directly tied to the Commission's mission, and that the Commission is currently underbudget for this fiscal year.

Reviewing the RSIC employee organizational chart, Mr. Hitchcock noted that the Commission is budgeted to fill ten full time employee ("FTE") positions. Speaking to the open positions generally, Mr. Hitchcock expressed that the RSIC is currently looking to recruit a Director of Enterprise Risk Management and that there are four positions reserved for the Junior Analyst program.

Mr. Hitchcock then gave additional detail of certain expenditures in Fiscal Year 2017-18. He elaborated that additional costs were incurred from migrating Information Technology services away from the South Carolina Public Employee Benefit Authority ("PEBA") primarily for security purposes and control over our own domain. He also noted that RSIC entered into contracts with Albourne, RISC's specialty consultant, and Meketa, the Commission's investment consultant. Additionally, RSIC expended funds for the state mandated fiduciary audit.

Moving on to RSIC current fiscal year 2018-2019 anticipated Budget expenditures, Mr. Hitchcock articulated that additional expenditures are anticipated with the implementation of the Microsoft Dynamics System, RSIC fiduciary audit, and filling the open FTE positions. Mr. Hitchcock stressed, however, that the Commission has been performing a major evaluation of system providers and services which may result in significant cost savings and resulting overall in expenditures being below the authorized Budget amount.

Mr. Hitchcock reiterated that because of the anticipated decrease in expenditures, the Commission is requesting a \$500,000 reduction in the Budget's "Other Operating Expenses" authorization for Fiscal Year 2019-20. Mr. Hitchcock explained that the Commission is not requesting any additional FTEs for Fiscal Year 2020 because plans are in place to be able to fill open FTEs to best meet the needs of the agency with the lower amount. Mr. Hitchcock then responded to questions pertaining to employer contributions and the interplay between the budget request and the Commission's Statement of Investment Objectives and Policies. At the conclusion of the budget discussion, Mr. Hancock made a motion to authorize the CEO to submit a proposed FY 2020 detailed budget substantially similar to the draft budget presented for inclusion in the Governor's Annual Budget. Dr. Gunnlaugsson seconded the motion, which passed unanimously.

Lastly, Mr. Hitchcock noted that performance updates from Meketa Investment Group and the Staff for fiscal year end, as well as July's Performance Report had been posted to WatchDox. He noted that these reports would be discussed at the November meeting. This concluded the CEO's report. At 9:50 a.m. Mr. Giobbe joined the meeting by telephone.

IV. CIO'S REPORT

The Chair recognized Mr. Berg for the CIO's report. Mr. Berg commenced his report by presenting a recommendation to increase the allocations to three of the Commission's existing core and core plus real estate managers. It was noted that these recommendations would facilitate implementation of the asset allocation changes approved by Commission effective July 1, 2018. After Mr. Berg provided background information regarding the spectrum of real estate investments utilized in the Commission's real estate program, he summarized the changes to the real estate allocation made by the Commission in April 2018, at which time the Commission approved an increase in the real estate allocation from 8 percent to 9 percent. Mr. Berg noted that while private real estate's portion of this allocation increased from 6 percent to 8 percent, the Investment Team was working to implement a shift to a more conservative 'baseline' portfolio, with core strategies increasing from one-half to two-thirds of the private real estate allocation. Mr. Berg explained that these combined changes created a need for 2.2 percent additional core and core plus exposure.

Mr. Berg stated that the Investment Team's recommendation was to address this need by expanding capacity in three of the Commission's existing core and core plus strategies. Mr. Berg explained that the team's due diligence did not reveal any material changes in the strategies used by the firms or the personnel at the firms and noted that the three strategies' returns had been strong. Mr. Berg stressed, however, that the recommendation to increase the allocation to these strategies was centered not on performance, but rather on targeting a lower-risk real estate portfolio as the economy moves later into the business cycle.

Mr. Berg summarized the three recommendations to increase the Plan's allocations:

1. Morgan Stanley PRIME (core open-end real estate equity fund) - from 1.25 percent to up to 3 percent of plan assets;
2. Blackstone Property Partners (core plus open-end real estate equity fund) - from 1 percent to up to 2 percent of plan assets; and
3. Heitman CREDIT (core plus open end real estate debt fund) - from 0.6 percent to up to 1.25 percent of plan assets.

Mr. Berg noted that the Investment Team might not invest the entirety of the recommended amounts, but rather, was requesting the flexibility to invest these additional amounts if needed.

In the ensuing discussion, the Commissioners and Mr. Berg addressed several topics, including the baseline portfolio and the underlying types and numbers of properties within the strategies.

The Chair informed the Commission that there was a procedural matter related to the recommendations, and asked Mr. Hitchcock to address the matter. Mr. Hitchcock then read a recusal statement submitted by Mr. Giobbe (Attached as Exhibit "A"). Mr. Giobbe's recusal statement stated that in accordance with South Carolina Code Section 8-13-700(b), Mr. Giobbe would not be participating in the deliberations, voting, or any other actions on the matter before the South Carolina Retirement System Investment Commission regarding the Morgan Stanley PRIME investment. Mr. Hitchcock noted that Mr. Giobbe had retired, and receives a pension, from Morgan Stanley, and stated that in order to avoid a conflict of interest or even an appearance of impropriety, Mr. Giobbe recused himself from the vote.

The Chair asked for a motion to approve the recommendations relating to Blackstone Property Partners and Heitman CREDIT. Dr. Gunnlaugsson requested clarification regarding the additional amount sought for the Heitman CREDIT account. It was clarified that the Investment Team recommended increasing the allocation to Heitman CREDIT from 0.6 percent to up to 1.25 percent of plan assets, and not 2 percent as had been printed in the motion materials distributed to Commissioners. Mr. Gillespie made the motion the Commission adopt the recommendation of the CIO and Staff to expand mandates of the three existing core and core plus real estate managers as discussed during the meeting and as follows: (a) (i) authorize an increased investment of up to 2 percent of Plan Assets into Blackstone Property Partners LP, (ii) authorize an increased investment of up to 1.25 percent of Plan Assets into Heitman Core Real Estate Debt Income Trust, LP; (b) authorize the CEO or his designee to negotiate and execute any necessary amendments or other documents to implement the increased Investments as approved by the Commission upon documented approval for legal sufficiency by RSIC Legal; and (c) authorize the CEO and/or the CIO or their designee(s) to thereafter authorize the custodian of funds to transfer such funds as are necessary to meet the Retirement System's trust funds' obligations with respect to the Investments. Mr. Condon seconded the motion, which passed unanimously.

Mr. Hancock moved that the Commission adopt the recommendation of the CIO and Staff to expand the mandate of the existing Morgan Stanley PRIME core real estate strategy as discussed during the meeting and as follows: (i) authorize an increased investment of up to 3 percent of Plan Assets into Morgan Stanley PRIME Property Fund, LLC; (ii) authorize the CEO or his designee to negotiate and execute any necessary amendments or other documents to implement the increased Investment in Morgan Stanley as approved by the Commission upon documented approval for legal sufficiency by RSIC Legal, and (iii) authorize the CEO and/or the 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. After a brief discussion regarding the recusal process, Mr. Gillespie seconded the motion, which passed unanimously, with Mr. Giobbe's recusal.

V. EXECUTIVE SESSION

Mr. Hancock made a motion that the Commission recede into Executive Session to discuss investment matters pursuant to S.C. Code Sections 9-16-80 and 9-16-320; to discuss negotiations incident to proposed contractual arrangements, and to receive advice from legal counsel pursuant to S.C. Code Section 30-4-70(a)(1) and (2). Mr. Condon seconded the motion, which passed unanimously. The Commission recessed into Executive Session at 10:28 a.m.

VI. POTENTIAL ACTION RESULTING FROM EXECUTIVE SESSION

Upon return to open session at 11:32 a.m., Mr. Hitchcock noted that the Commission did not take reportable action while in executive session. He noted that any action that did occur while in executive session, pursuant to S.C. Code Ann. § 9-16-80 and 9-16-320, would be publicized when doing so would not jeopardize the Commission's ability to achieve its investment objectives or implement a portion of the annual investment plan.

Mr. Gillespie then moved that the Commission: (a) adopt the recommendation of the CIO and the Internal Investment Committee as set forth in the Summary Terms Chart on Page 1 of the Due Diligence Report dated August 8, 2018 discussed in Executive Session; (b) authorize an investment of up to \$100 million into Asana Fund II, LP; (c) authorize the CEO 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 CEO and/or the 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. Mr. Condon seconded the motion, which passed unanimously.

VII. ADJOURNMENT

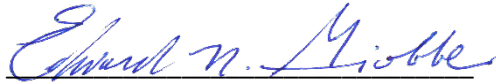
There being no further business, upon a motion made by Mr. Hancock and seconded by Dr. Gunnlaugsson, the Commission voted unanimously to adjourn. The meeting adjourned at 11:34 a.m.

[Staff Note: In compliance with S.C. Code Section 30-4-80, public notice of and the agenda for this meeting was 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., at 5:02 p.m. on September 10, 2018]

EXHIBIT "A"

In accordance with S.C. Code Section 8-13-700(B), I will not be participating in the deliberations, voting, or other actions on the matter before the South Carolina Retirement System Investment Commission regarding the Morgan Stanley Prime Property Fund. I retired from and receive a pension from Morgan Stanley. Thus, to avoid a potential conflict or even the appearance of impropriety, I will recuse myself from the vote.

I understand that this statement will be attached to the minutes for the September 13, 2018 Commission meeting.



Edward N. Giobbe

9/13/2018

Date