

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

**March 5, 2020 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
Mr. Allen Gillespie
Mr. Edward Giobbe
Mr. Reynolds Williams (via telephone)
Mr. William H. Hancock
Mr. William J. Condon, Jr.

I. CALL TO ORDER AND CONSENT AGENDA

Chair Dr. Ronald Wilder called the meeting of the South Carolina Retirement System Investment Commission (“Commission”) to order at 9:30 a.m. Mr. William J. Condon, Jr. made a motion to adopt the proposed agenda as presented. Mr. Edward Giobbe seconded the motion, which was approved unanimously.

Mr. William H. Hancock made a motion to approve the minutes from the December 12, 2019 Commission meeting as amended. Dr. Rebecca Gunnlaugsson seconded the motion, which passed unanimously.

II. CAPITAL MARKET EXPECTATIONS REVIEW – MEKETA INVESTMENT GROUP

The Chair turned to Mr. Geoffrey Berg, Chief Investment Officer, to introduce Mr. Frank Benham, Managing Principal, Meketa Investment Group (“Meketa”), to give a presentation on capital market expectations. Mr. Benham started by stating that Meketa updates their capital market expectations each year in January, which informs the long term expected return of the portfolio. For calendar year 2019, the risky assets had particularly good performance, and the bond yields went down. Both of these experiences reduce the forward-looking return. He noted that as a result of the lower expectations for return, the portfolio’s long-term performance expectation declined from 8.04 percent to 7.41 percent over a 20year horizon. Mr. Benham provided additional details about how Meketa develops its expectations and how both quantitative and qualitative factors are assessed. There was a long discussion on various topics related to the formulation of Meketa’s assumptions and the way that the assumptions are used by the Commission in developing its policies.

Mr. Benham continued explaining how Meketa develops their capital market expectations by identifying asset classes and strategies that are appropriate for long-term allocation of funds, and that are investable. He noted several considerations that influence the process, including unique return behavior, the existence of an observable historical track record for an asset class, whether a robust market exists, and client requests. Meketa then makes forecasts for each asset class. He noted that Meketa has created inputs for 81 'asset classes' in 2020. He explained that Meketa's first step is to develop a ten-year forecast based on fundamental models, and to subsequently develop a 20-year expectation. Mr. Benham then briefly reviewed a peer study to provide the Commissioners comparison data from other consultants. After additional discussion, Mr. Benham, Mr. Berg, and the Commissioners turned to a detailed discussion of the 2020 expectations with comparison to the 2019 expectations. In response to questions from the Commissioners Mr. Benham noted that the 7.41 percent expected return for 2020 was developed using the implementation portfolio rather than the simple five asset policy portfolio. A lengthy discussion ensued regarding the implementation benchmark and the five asset class portfolio. Mr. Benham concluded by stating that as a result of strong market returns in 2019, the Commission is in a better financial condition than it was 12 months prior, but the downside of such returns is that the forward-looking returns for the portfolio declined. Mr. Berg asked Mr. Benham to remind the Commission of the results from Meketa's survey on annual or frequent plan changes to clients' asset allocation. Mr. Benham quickly summarized Meketa's research, which indicated that during a time of volatility, their clients' better course of action is to stick with the long term plan rather than make asset allocation changes.

III. EXPERIENCE STUDY PRESENTATION – GRS ACTUARIAL CONSULTANTS

Mr. Michael R. Hitchcock, Chief Executive Officer, introduced representatives from GRS Actuarial Consultants ("GRS"): Mr. Joe Newton and Mr. Danny White. Mr. Newton began by discussing the 2020 Experience Study of the Plan. He outlined GRS' actuarial process, which is based on assumptions that occasionally change to reflect new information, changing characteristics, changing patterns of retirement, terminations, mortality, and various other factors. Mr. Newton noted that the South Carolina Public Employee Benefit Authority ("PEBA") ultimately approves the assumptions used in the evaluation with the exception of the investment return assumption, which is prescribed by law. Mr. Newton outlined the experience study process that begins by comparing the actual experience to the then existing actuarial assumptions. GRS then recommends changes to assumptions, if necessary, to better align with future expectations. Then, the past experience is reviewed over a given timeframe to identify how many members retired, were terminated, became disabled, or died. Mr. Newton noted that GRS' emphasis is on forward-looking expectations for economic assumptions.

Mr. Newton went on to explain that, with respect to the investment return assumption, GRS utilized data provided by Meketa and verified that Meketa's 2019 investment return expectations were consistent with industry standards. He stated that, based on forward looking expectations and input received from the Commission, a 7.25 percent investment return assumption was a reasonable return assumption. However, GRS recommended

that the South Carolina General Assembly should adopt a 7.00 percent return assumption for 2021 and into the foreseeable future. He clarified that a 7.00 percent return assumption is the approximate mid-point between the short-term rate of 6.57 percent and the long-term rate of 7.44 percent, which are GRS' current expectations.

The next topic Mr. Newton discussed was payroll growth. He explained that payroll growth correlates to increasing revenue streams for the Plan and is determined by percentage of pay. Mr. Newton also explained how payroll growth is used to project contributions over time. He stated that 3.00 percent is the current total payroll assumption. He noted that, nationally, wage inflation has exceeded price inflation by 0.55 percent per year for the last ten years. Mr. Newton also noted that the South Carolina Retirement System ("SCRS") has experienced membership changes. Over the last ten years, the population has increased by 1.2 percent per year, and consequently, SCRS membership has increased 0.35% per year over the same period.

Mr. Newton then moved on to reviewing cost impacts to the Plan. He overviewed how different return assumptions would impact cost rates. He then explained how different assumed rates of return would affect the Plan's funded status. Thereafter, Mr. Newton reviewed the unfunded liability which led to an extensive discussion amongst the Commissioners.

A break was taken from 11:05 a.m. until 11.19 a.m.

Mr. White began his presentation by explaining the various demographic risks that the Plan may encounter. He first discussed market volatility and membership behavior, which he explained are generally predicable due to the large numbers associated with each. He further stated that the economy can have some influence on turnover behavior but that retiree morality is predictable. Mr. White discussed the employer participation risk. He stated that the risk can result from legislation, contribution rate increases, and employer budget constraints. Ms. Peggy Boykin referenced recent legislation regarding the Plan to be taken up by the South Carolina Senate, which led to a group discussion on proposed legislation and employer behavior.

Dr. Gunnlaugsson made a motion to recede into Executive Session to discuss investment matters, pursuant to S.C. Code Sections 9-16-80 and 9-16-320, that may impact the Annual Investment Plan. Mr. Hancock seconded the motion, which passed unanimously.

IV. CONSOLIDATED ANNUAL INVESTMENT PLAN AND STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES CONSIDERATION

After the Commissioners reconvened in open session, Dr. Wilder noted that the Commissioners discussed one item in executive session. He then requested a motion to approve that discussion. Mr. Condon then made a motion to carry over consideration of the Consolidated Annual Investment Plan and Statement of Investment Objectives and Policies until the next meeting. Mr. Hancock seconded the motion and it was passed unanimously.

V. EXECUTIVE SESSION

Mr. Hancock made a motion to recede back into Executive Session to discuss additional investment matters pursuant to S.C. Code Sections 9-16-80 and 9-16-320, including a comprehensive review of the private equity portfolio performance and a discussion of various underlying holdings, and a review of potential investments in the due diligence process; and receive advice as needed from legal counsel, pursuant to S.C. Code Section 30-4-70(a)(2), related to potential investment matters. Dr. Gunnlaugsson seconded the motion, which passed unanimously.

VI. POTENTIAL ACTION RESULTING FROM EXECUTIVE SESSION

Mr. Hitchcock noted that the Commission did not take any reportable action while in Executive Session and 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.

VII. MACROECONOMICS PRESENTATION – BOB PRICE, BRIDGEWATER ASSOCIATES

Mr. Berg introduced Mr. Robert Price, Co-Chief Investment Officer of Bridgewater Associates and explained that Mr. Price would be presenting his report via video conference due to travel restrictions related to the coronavirus. Mr. Price joined Bridgewater in 1986, and is responsible for managing the company's investment process alongside the other Co-CIOs, Mr. Ray Dalio and Mr. Greg Jensen.

Mr. Price started off by stating that there is a great deal of uncertainty related to the impact of the coronavirus, and what happens with the virus is going to have a big impact on the economy and the market. He outlined three points of his presentation. First, he stated that it is important to recognize that as conditions unfold, those outcomes are being substantially impacted by the longer-term secular debt deflationary forces. His second point was that the economy has transitioned from an extended but weak expansion to a new cycle that is not going to look like cycles in the past. The third point Mr. Price offered is that monetary policy as a tool for stimulation has reached the end of its useful life. He explained that the combination of fiscal stimulation accompanied by monetary accommodation would be needed to stimulate the economy and bring it out of a downturn. Mr. Price outlined the impact of the deflationary debt, deflationary overhangs, and the response by central banks. He discussed inflation in developed economy reserve currency countries such as the U.S., Europe and Japan. He explained that he expects divergences in secular growth rates that are going to have compounded economic and wealth effects over the next ten years. He also noted that he expects to see trade conflicts increase during the next decade.

Mr. Price went into a deep discussion about how an economy works, based on an outline of the three forces that drive economic growth: productivity, long-range debt cycle and short-term debt cycle. Mr. Price paused to answer questions from the Commission and Mr. Berg throughout the discussion. In response to questions from the Commission, a discussion about the coronavirus ensued followed by Mr. Price providing insight on the effects of the flattening of U.S. rates on the bond market. Following questions, Dr. Wilder thanked Mr. Price for his presentation and discussion with the Commission.

After the Bridgewater presentation, at 3:00 p.m. Dr. Gunnlaugsson moved that the Commission resume Executive Session to discuss investment matters pursuant to S.C. Code Sections 9-16-80 and 9-16-320, including a comprehensive review of the private equity portfolio performance and a discussion of various underlying holdings, and a review of potential investments in the due diligence process; and to receive advice as needed from legal counsel pursuant to S.C. Code Section 30-4-70(a)(2) related to potential investment matters. Mr. Hancock seconded the motion, which passed unanimously.

VIII. QUARTERLY INVESTMENT PERFORMANCE REVIEW

After reconvening in open session, Mr. Berg began by stating that as of December 31, 2019, the Plan had a one-year return of 16.8 percent, which was 24 basis points behind the policy benchmark. He reviewed individual asset class returns, as well as asset class compliance with allowable ranges, and noted that all asset classes were within allowable ranges.

Mr. Berg then turned to the portfolio framework analysis. He highlighted several items noted in the analysis. First, although 2019 was a very good year for the Plan, it was an even better year for a simple stock portfolio, with the Reference Portfolio significantly outperforming in both calendar and FY 2019. Secondly, top down portfolio structure decisions added value in the first half of calendar year 2019, due to large overweight to equities, but were slightly negative for the fiscal year to date. Lastly, the framework revealed poor active returns in Public Equity and Credit during calendar year 2019. He stated that the equity overweight and the underweight to options strategies both assisted Plan performance, as did the underweight to core fixed income. Mr. Berg also noted the consistent performance from portable alpha, as well as the expected short term, adverse impact of the secondary sale conducted during the last quarter.

Mr. Berg also reviewed the Plan's three-year performance versus the policy benchmark, noting the continuing challenges of active management in areas including GTAA and Global Public Equity. After additional discussion, Mr. Berg concluded his presentation.

IX. REPORTS

A. Commission Chair Report: The Chair reminded the Commissioners of the March 30, 2020 statutory deadline to file their individual Statements of Economic Interest.

B. Committee Chair Reports:

- a. Mr. Hancock presented the report of the Audit & Enterprise Risk Management Committee as written and noted that it had been made available to the Commissioners for review prior to the meeting
- b. Dr. Rebecca M. Gunnlaugsson reported that the Human Resources & Compensation Committee met on February 24, 2020. The Committee received a staff update from Mr. Hitchcock and received information on the annual CEM review of positions and salaries. The Committee also preformed its annual Charter Review.

C. CEO’s Report: Mr. Hitchcock noted that he had nothing to report to the Commission at this time.

D. CIO’s Report: Mr. Berg stated he had nothing to report to the Commission at this time.

E. AIP Progress: Mr. Berg highlighted new initiatives, including completing the launch of the co-investment program and working on a plan to integrate the use of secondary sales into the private markets portfolio.

F. Delegated Investments: The following delegated investments were closed by Staff since the December 2019 Commission meeting:

Asset Class Investment	Investment	Amount	Closing Date
Private Equity	Aberdeen U.S. Private Equity VIII	\$50 M	December 23, 2019
Infrastructure	Brookfield Infrastructure Partners IV	\$100 M	January 31, 2020
Private Equity	Valor Equity V	\$75 M	February 6, 2020

X. ADJOURNMENT

There being no further business, Mr. Gillespie moved to adjourn the meeting. Mr. Williams seconded the motion, which passed unanimously, and the meeting adjourned at 4:26 p.m.

[Staff Note: In compliance with S.C. Code Section 30-4-0, 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., 4:32 p.m. on March 2, 2020]