

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

**September 10, 2020 9:30 a.m.
Capitol Center
1201 Main Street, 15th Floor
Columbia, South Carolina 29201
Meeting Location: Video Presentation**

Commissioners Present:

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

I. Call To Order And Consent Agenda

Chair William H. Hancock called the meeting of the South Carolina Retirement System Investment Commission (“Commission”) to order at 9:31 a.m. Dr. Ronald Wilder moved to approve the proposed agenda as presented, Mr. Allen Gillespie seconded the motion, which was approved unanimously.

Mr. Edward Giobbe made a motion to approve the minutes from the June 4, 2020 Commission meeting as presented. Dr. Wilder seconded the motion, which passed unanimously.

II. Committee Reports

Chair 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. He noted that during its last meeting the Committee had recommended edits to the Committee’s Charter. The Chair then presented a motion to adopt the recommendation of the Audit and Enterprise Risk Management Committee to amend the Audit and Enterprise Risk Management Committee Charter as presented and authorize staff to make the technical revisions to the Charter and other RSIC policy documents to reflect this decision. The Commission voted unanimously to approve the motion.

The Chair then recognized Dr. Rebecca Gunnlaugsson to present the Human Resources and Compensation Committee report. Dr. Gunnlaugsson stated that the Committee recently met. Ms. Brittany Storey, Human Resource Manager, provided the Committee an

update of changes to positions and salaries of various staff members since the previous Committee meeting. No actions were taken coming out of the Committee meeting.

III. Chair's Report

The Chair stated that the Governance Policy requires each newly elected Chair to submit a slate of proposed Committee members to the full Commission for ratification. He then submitted the slate for the Human Resources and Compensation Committee as Dr. Wilder, Mr. Hancock, and Mr. Giobbe. The proposed slate for the Audit and Enterprise Risk Management Committee were Dr. Gunnlaugsson, Ms. Peggy Boykin, and Mr. Condon. The Chair called for a vote on the proposed Committee members, hearing no opposition, the Commission ratified the slate by unanimous consent.

IV. CEO's Report

The Chair recognized Mr. Michael Hitchcock, Chief Executive Officer, for his report. Mr. Hitchcock introduced two new staff members to the Commission. Mr. Evan Affinito joined the Private Equity team as an Investment Officer and Mr. Michael Andreasen recently joined the Junior Analyst Development Program.

Mr. Hitchcock then reviewed the Annual Budget Recommendation. He explained that the General Assembly had passed a continuing resolution for the fiscal year 2021 budget due to the COVID-19 pandemic. The continuing resolution had no impact on RSIC because RSIC did not increase its budget request from the 2020 budget request. He then explained that it was time to submit a request for the 2022 budget year. He stated that he is requesting authorization to submit a budget request as presented, with no changes in the amounts requested in 2020 and 2021.

Dr. Gunnlaugsson moved that the Commission authorize the CEO to submit a proposed Fiscal Year 2022 detail budget substantially similar to the draft budget presented for inclusion in the Governor's annual budget. Dr. Wilder seconded the motion, which passed unanimously.

V. CIO's Report

The Chair recognized Mr. Hitchcock to provide a few comments before the CIO's Report. Mr. Hitchcock pointed out to the Commissioners that there have been substantial changes made to the Portfolio since the fiscal year end and the adoption by the Commission of a simpler asset allocation. He reminded the Commission that making changes for the sake of making changing was not healthy for the Portfolio. He stated that he was confident that a simpler Portfolio would enable RSIC to consistently maintain and manage returns in the future.

Mr. Geoff Berg, Chief Investment Officer, presented a performance report covering the 2019-20 fiscal year. Mr. Berg began by commending the Commission for embracing several initiatives last year, each of which, he opined, will assist in improving returns. He stated that the last twelve months had been an important transitional period in a few areas.

First, RSIC simplified the top-down portfolio design by eliminating a number of asset classes and focusing on the major exposures that drive returns over time. Second, the Commission allowed RSIC to expand the use of passive index strategies. Mr. Berg reported that RSIC has now indexed substantially all of its Public Equity portfolio and a significant portion of the Bonds portfolio. He noted that an improvement in both the level and consistency of performance from public markets portfolios as well as the estimated reduction in fees of nearly \$50 million per year would have a substantial, positive impact on the Portfolio. Mr. Berg stated that RSIC conducted a private equity secondary sale that closed last December. He then explained that this was important because, when combined with the co-investment program, these initiatives would help to accelerate the improvements to the private equity portfolio. He stated that even though it was a challenging year, it was an important year in terms of the progress that was made in these key areas.

Next, Mr. Berg presented the performance update. He stated that the quarter ending June 30, 2020 had been good, with the Portfolio up more than 10.4 percent, which was 2.7 percent better than the policy benchmark. For the fiscal year, the Portfolio trailed the benchmark by 1.7 percent.

Mr. Berg noted that the Retirement Systems paid out over \$4.2 billion during the fiscal year, received \$3.6 billion of deposits as well as a \$110 million legislative inflow, with a net benefit payment of almost \$490 million. He explained that the Portfolio ended the fiscal year with a market value of approximately \$31 billion. He discussed asset class returns for the fiscal year, noting that core bonds and TIPS outperformed all other asset classes by a wide margin. It was also noted that the two SIOP compliance items (below-range allocations on June 30, 2020 to Equity Options and GTAA) flagged in the performance report were due to transitions undertaken in order to migrate the portfolio to the new asset allocation, which took effect on July 1.

Mr. Berg then summarized findings from Staff's performance analysis report. He stated that even though the Portfolio had a strong finish to the fiscal year, it did not fully offset what was a very difficult first quarter of 2020. During the onset of the pandemic, the Portfolio was overweight equities and credit, and was underweight lower-yielding, lower-risk investments such as core bonds. He pointed out that although it was not a good first quarter of 2020, the portfolio's strong recovery in the quarter ending June 2020 had continued into the beginning of the third quarter.

Mr. Berg then provided an update on the implementation of the simplified asset allocation adopted in April. He reported that, since April, RSIC staff had not only worked to align the Portfolio with the new policy targets but reiterated that staff had also completed the shift to passive for the public equity portfolio. Mr. Berg recognized Mr. Bryan Moore, Managing Director, and his public markets team for their very hard work on both projects. Mr. Berg expressed that he was proud of their efforts to complete these projects before the start of the new fiscal year, and noted the significant contributions of several other RSIC teams, including Operations and Reporting, at a time when they were working remotely. He stated that the results (the successful reallocation of more than \$13 billion in a little more than 60 days) were a testament to their hard work and thoughtfulness. He then pointed out that

the Reference Portfolio, which is 30 percent core bonds, significantly outperformed the Policy Benchmark due to an exceptional year for investment grade bonds, resulting in a negative value from diversification as of June 30th for three months, one year and three years. He noted that three months ago, these numbers had all been positive. He explained that the Portfolio's return fell short of the Policy Benchmark by approximately 1.7 percent for the fiscal year and noted that this one-year underperformance explained almost all the trailing three-year shortfalls shown in the portfolio reporting framework. Mr. Berg noted that private equity and hedge funds outperformed their benchmarks during the quarter, and indicated that the Portfolio remained overweight public equity and credit and underweight core bonds after the first quarter, and that positioning helped during the second quarter.

After a brief question and answer period, Mr. Berg concluded his report.

VI. Strategic Investment Topic Presentation – End Point Bias

Mr. Hitchcock recognized Meketa Investment Group (“Meketa”) for their presentation on Endpoint Bias. Mr. C. LaRoy Brantley, Principal, began by providing examples of endpoint bias. He noted that endpoint bias is likely to occur when the market has unusually high or low returns and becomes evident during market corrections. He stated that it is important to keep a long-term view and to avoid performance-chasing changes to the Portfolio. Mr. Brantley presented four recommendations regarding endpoint bias: (a) examine the longest time period available; (b) examine periods that contain a variety of market and economic conditions; (c) examine multiple sub-periods or calculate trimmed means; and (d) examine the underlying drivers of asset class returns.

Mr. Brantley noted that the key point when considering endpoint bias is that RSIC is a long-term investor and the Plan is built to be around a very long time. He stated that it is important to keep in mind when risk budgeting that the goal is to achieve optimal, risk-adjusted returns.

A lengthy discussion regarding bonds ensued between the Commissioners and Meketa representatives. This concluded Meketa's presentation.

A break was taken from 11:12 a.m. to 11:22 a.m.

VII. Fiduciary Training (K&L Gates)

Mr. Hitchcock introduced Ms. Won-Han Cheng, Ms. Margaret Niles, and Mr. Andrew Feucht, of K&L Gates, to provide an educational presentation on fiduciary responsibilities, as part of the Commission's periodic training.

Ms. Niles gave an overview of how ‘fiduciary’ is defined and noted that RSIC as well as the Commission members are fiduciaries. Ms. Niles then went into detail regarding the duty of loyalty and noted that this duty requires fiduciaries to act only in the best interest of the beneficiaries and participants and to avoid conflicts of interests.

Mr. Feucht then outlined in greater detail the duty of loyalty and the importance of avoiding conflicts of interest and the appearance of any potential or actual conflict. Ms. Niles noted that for RSIC, the separation of the benefits administration from the investment function eliminates certain issues that other state plans face. She provided examples of actual conflicts of interest situations and how to handle conflicts of interest. She cited the RSIC Governance Policy Manual as providing a comprehensive overview of relevant statutes for the Commissioners review.

Mr. Feucht then described the duty of care and what is required to meet that standard. He noted that being prepared for meetings, being informed through diligence, and exercising independent judgement are all requirements under the duty of care. Ms. Niles explained the role of delegation and reliance under the duty of care. She stated that the scope of decision-making is unique to an organization and the Commissioners should rely on experts such as investment advisors, attorneys, and accountants. Ms. Niles then stated that fiduciary duty is demonstrated through prudent process and documenting the process. She stated the Commission has created a process of making investment decisions and that it needs to follow that process in every case. She also recommended a periodic reassessment of process and procedure to ensure compliance with best practices.

Ms. Niles and Mr. Feucht then reviewed other related topics, including problem investments, ESG related topics and other matters. Mr. Hitchcock then noted how RSIC has developed processes to address the issues touched on by the presenters, including conflicts of interest. He explained the Sourcing and Conflict of Disclosure form that is completed in every investment. He also noted that RSIC has an Internal Trading Policy, Investment Due Diligence Policy, and an Operational Due Diligence Policy, as well as a robust monitoring process for all managers. Additionally, RSIC has periodic outside audits performed as well as Agreed Upon Procedures reviews by independent third parties.

Mr. Condon asked for clarification on the Commissioner's duty of loyalty and whether it extends past RSIC to PEBA, the plan, beneficiaries and participants. Mr. Hitchcock replied that the Commissioners, along with PEBA's Board are Co-Trustees of the Trust and that fiduciary duties are not just to RSIC but to the Trust. Mr. Condon then noted that the General Assembly, with some input, sets the assumed rate of return and inquired whether the Commission has a strict duty to set an asset allocation that meets the assumed rate of return or may they exercise their own judgement to approve an asset allocation with a different assumed rate of return than that set by the General Assembly if the statutory assumed rate of return would require an unacceptable level of risk to achieve. Ms. Niles noted the difficulty of that question and replied that the Commission should take a long term perspective when it comes to setting an asset allocation and look at the actual investment opportunities. She further noted that although the General Assembly establishes the assumed rate of return, the Commission should make its long term asset allocation decisions based on what it believes can be realistically achieved at a prudent level of risk. Mr. Hitchcock then discussed how the assumed rate of return is set and noted that it is RSIC's obligation to collaborate with PEBA to give input into what returns are obtainable with a reasonable level of risk. RSIC also has a duty to communicate to PEBA and the General Assembly any concerns if the Commission feels the assumed rate of return is not obtainable with a prudent level of risk, and given the statutory limits on equity

exposure in the Plan. There being no additional questions, this concluded K&L Gates' presentation.

VIII. Delegated Investment Report

The Chair recognized Mr. Berg for the delegated investment discussion. The following delegated investments were closed by Staff since the June 4, 2020 Commission meeting.

Asset Class	Investment	Investment Amount	Closing Date
Private Credit	Barings Capital Investment Corporation	Lesser of \$137.5 M or 25% of fund commitments	June 22, 2020
Real Assets (RE)	Crow Holdings Realty Partners IX, L.P.	Up to \$100 M	June 30, 2020
Private Equity	Silver Lake Partners VI	Up to \$100 M	July 10, 2020
Private Equity	Horsley Bridge Strategic Fund V	Up to \$200 M	July 17, 2020
Private Equity	Nordic Capital X	€ 100 M	August 4, 2020

IX. Executive Session to discuss investment matters pursuant S.C. Code Sections 9-16-80 and 9-16-320; and to receive advice from legal counsel pursuant to S.C. Code Section 30-4-70(a)(2).

Dr. Gunnlaugsson moved to recede into Executive Session to discuss investment matters and specific investments pursuant to S.C. Code Sections 9-16-80 and 9-16-320; to discuss personnel matters pursuant to S.C. Code Ann. Section 40-4-70(a)(1) and to receive legal advice as needed from legal counsel pursuant to S.C. Section 30-4-70(a)(2). Mr. Gillespie seconded the motion, which was unanimously approved

X. Potential Action Resulting from Executive Session

Upon return to open session, Mr. Hitchcock noted that the Commission did not take any action while in Executive Session

XI. Adjournment

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

[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., 11:48 a.m. on September 8, 2020]