

**South Carolina Retirement System Investment Commission
Audit and Enterprise Risk Management Committee Meeting
Minutes**

**August 17, 2021 10:30 a.m.
Capitol Center
1201 Main Street, Suite 1510
Columbia, South Carolina 29201
Meeting Location: Video Presentation**

Committee Members Present:
Dr. Rebecca Gunnlaugsson, Chair
Ms. Peggy Boykin
Mr. William J. Condon, Jr.

I. CALL TO ORDER AND ADOPTION OF PROPOSED AGENDA

Chair Dr. Rebecca Gunnlaugsson called the meeting of the Audit and Enterprise Risk Management Committee (“Committee”) of the South Carolina Retirement System Investment Commission (“RSIC”) to order. Mr. William J. Condon, Jr. made a motion, which was seconded by Ms. Peggy Boykin, to adopt the agenda as presented, and it was unanimously approved.

II. APPROVAL OF MINUTES (APRIL 27, 2021)

Chair Gunnlaugsson referred to the draft minutes from the Committee’s April 27, 2021 meeting. Ms. Boykin made a motion to adopt the minutes from the April 27, 2021 Committee meeting as presented. Mr. Condon seconded the motion, and it was unanimously approved.

III. INTERNAL AUDIT UPDATE

Chair Gunnlaugsson then recognized Mr. Mitchell Goldsmith, Senior Legal Counsel, for an update on RSIC’s Internal Audit (“IA”) function. Mr. Goldsmith began with a discussion of the annual Agreed-Upon Procedures (“AUP”) Review of RSIC’s Investment Valuation, Investment Due Diligence, and Staff Compliance Procedures (“AUP Review”) for Fiscal Year-End June 30, 2021. He reminded the Committee that the AUP Review is conducted by CliftonLarsonAllen LLP (“CLA”) and stated that RSIC Staff (“Staff”) is planning on expanding the current AUP Review. Fieldwork will begin in October of 2021 with the final report completed before the end of the calendar year. Mr. Goldsmith then turned to a discussion of the Global Investment Performance Standards (“GIPS”) Verification Review (“GIPS Review”) for Fiscal Year-End June 30, 2021. ACA Compliance Group (“ACA”) will conduct the GIPS Review. Fieldwork will be conducted in October of 2021, and the GIPS Report should be available before the end of the calendar year.

Then, Ms. Boykin moved to approve (i) the retention of CLA to perform an AUP Review on behalf of RSIC; and (ii) the retention of ACA to perform the GIPS Review on behalf of RSIC. Mr. Condon seconded the motion, and it was unanimously approved.

Mr. Goldsmith then turned to a discussion of the Custodial Services Oversight Review (“Custodial Review”). He began by explaining that, before receiving the results of the Custodial Review, the Committee would receive an educational presentation on the custodial services provided by the Bank of New York Mellon (“BNYM”). He then turned the discussion over to Mr. Andrew Chernick, Chief Operating Officer (“COO”), who introduced the BNYM Team. Mr. Chernick began his comments by noting the rapidly evolving nature of custodial services given that asset allocators are moving into more alternative investment asset classes. He also stated that, following the BNYM Team’s presentation, he would be providing his own presentation on the custodial oversight procedures performed by RSIC and the South Carolina Public Employee Benefit Authority (“PEBA”). Mr. Chernick then turned the discussion over to Mr. Matt Coburn who serves as a Director in Relationship Management at BNYM.

Mr. Coburn began the presentation by providing an overview of how BNYM supports the investment lifecycle as well as private investment support services, which include private investment support services, accounting services, capital call management, data management, and unfunded commitment reconciliation. He then turned to a discussion of BNYM’s proprietary financial services platform: NEXEN. He provided an overview of NEXEN noting that RSIC can use NEXEN to pull detailed reporting from various timeframes. NEXEN also provides real-time cash and custody reporting, accounting resources, and performance reporting. Mr. Chernick then introduced Mr. David King, Senior Reporting Officer, to provide an overview of how Staff utilizes both NEXEN and other systems to provide reporting for RSIC. Following Mr. King’s comments, Mr. Coburn began a discussion regarding compliance monitoring. He asked Ms. Amy Shanle who is the Global Head of Enterprise Resiliency Strategy, Regulatory, and Governance at BNYM to discuss Operations Embedded Controls. After answering questions, Ms. Shanle and Mr. Coburn turned the discussion back over to Mr. Chernick for his presentation on PEBA and RSIC’s custodial oversight procedures.

Mr. Chernick began his presentation by reminding the Committee that custodial oversight is a joint responsibility of RSIC and PEBA. He then overviewed RSIC and PEBA’s custodial oversight governance model. Mr. Chernick noted that crucial aspects of the model include: the creation of a Valuation Committee; quarterly meetings between RSIC, PEBA, and BNYM; and the execution of a Service Level Description with BNYM that requires monthly scorecards and an annual check-in assessment of key areas. He further highlighted RSIC’s newly established Custody and Liquidity Department as another oversight tool. Mr. Chernick then went into a discussion of how custodial oversight is embedded into many of RSIC’s policies.

Mr. Chernick went on to outline the Committee and PEBA’s roles in custodial oversight. He explained how the Committee’s oversight of RSIC’s annual risk assessment, RSIC’s Enterprise Risk Management (“ERM”) framework, the IA auditable universe, and the annual AUP testing all contribute to oversight of the custodial relationship. Turning to PEBA, he stated that PEBA reviews investment fund statements, cashflow reconciliations, and in-bank investment management accounts. He noted that reviewing investment management accounts includes position reconciliations, accrued income,

payables/receivables, and reconciling cash to the BNYM reports. In terms of private markets investment accounts, Mr. Chernick explained that PEBA reconciles unfunded commitments to investment manager quarterly statements. He added that PEBA also ensures the receipt and accuracy of yearly reporting pursuant to GASB. Mr. Chernick then concluded his remarks.

Next, Mr. Goldsmith referenced the Custodial Services Oversight Review (“Custodial Review”) that had been approved by the Committee for the Fiscal Year 2020-21 IA Plan. He then asked Mr. Mike Brodsky who is a Managing Director with Deloitte to provide the findings of the Custodial Review. Mr. Brodsky stated that the Custodial Review focused on oversight of BNYM by Staff in relation to master custodial functions and related policies and procedures, including cash management and performance reporting. He clarified that the Custodial Review did not include review of activities performed by PEBA. Mr. Brodsky then announced that the Custodial Review resulted in an overall rating of “satisfactory”, which is Deloitte’s highest rating for such a review.

Mr. Brodsky turned to a discussion of the final report for the Performance Reporting System Implementation Review. He reported that this embedded assurance engagement resulted in several enhancement opportunities of current controls, which include formalizing training objectives, assessing the need for user acceptance testing, documenting key quality checks, and documentation of manual workarounds and fallback procedures. Mr. Brodsky then concluded by reminding the Committee that Deloitte will be conducting the annual refresh of RSIC’s Risk Assessment, which will include gathering data and documentation as well as interviewing Staff.

IV. ENTERPRISE RISK MANAGEMENT AND COMPLIANCE UPDATE

Chair Gunnlaugsson then recognized Ms. Michelle Kennedy, Director of ERM & Compliance, for her report. Ms. Kennedy began by providing a presentation regarding compliance matters as of March 31, 2021. She reminded the Committee that every quarter the Committee receives an update regarding compliance with policies relating to the following areas: securities lending, personal trading, and separately managed accounts. Ms. Kennedy reported that no material issues were noted for the March 31, 2021 reviews. She also reported that all of the Annual Investment Manager Compliance Questionnaires that were sent out to RSIC’s external investment managers have been returned and are under review. In concluding her remarks, Ms. Kennedy reviewed RSIC’s ERM dashboard and noted that she continues to work on reviewing ERM-related metrics.

V. EXECUTIVE SESSION

Thereafter, Mr. Condon moved to recede into Executive Session to discuss investment matters related to internal audit reviews pursuant to S.C. Code Section 9-16-80 and 9-16-320; to receive legal advice from legal counsel pursuant to S.C. Code Section 30-4-70(a)(2); to discuss the development of security personnel or devices pursuant to S.C. Code Section 30-4-70(a)(3); and discuss personnel matters related to the annual review of the Internal Audit Coordinator pursuant to S.C. Code Section 30-4-70(a)(1). Chair Gunnlaugsson seconded the motion, which passed unanimously.

VI. POTENTIAL ACTIONS RESULTING FROM EXECUTIVE SESSION

Chair Gunnlaugsson stated that the Committee met in Executive Session to discuss investment matters related to internal audit reviews pursuant to S.C. Code Section 9-16-80 and 9-16-320; to receive legal advice from legal counsel pursuant to S.C. Code Section 30-4-70(a)(2); to discuss the development of security personnel or devices pursuant to S.C. Code Section 30-4-70(a)(3); and discuss personnel matters related to the annual review of the Internal Audit Coordinator pursuant to S.C. Code Section 30-4-70(a)(1). Chair Gunnlaugsson stated that no action was taken during Executive Session.

VII. ADJOURNMENT

There being no further business, Mr. Condon made a motion to adjourn. Chair Gunnlaugsson seconded the motion, which was unanimously approved.

[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 12, 2021 at 3:20 p.m. at the entrance, in the lobbies, and near the 15th Floor Presentation Center at 1201 Main Street, Columbia, S.C.]