

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

**November 2, 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 (AUGUST 17, 2021)

Chair Gunnlaugsson referred to the draft minutes from the Committee’s August 17, 2021 meeting. Mr. Condon made a motion to adopt the minutes from the August 17, 2021 Committee meeting as presented. Ms. Boykin seconded the motion, and it was unanimously approved.

III. INTERNAL AUDIT UPDATE

Chair Gunnlaugsson then asked Mr. Michael Hitchcock, Chief Executive Officer, to provide an update regarding the upcoming fiduciary audit of RSIC. Mr. Hitchcock began by reminding the Committee that, pursuant to statute, the South Carolina State Auditor’s Office (“OSA”) is required to retain a vendor to perform a fiduciary audit of RSIC every four years. He explained that, while RSIC is permitted to have input regarding the scope of the request for proposal (“RFP”) that will be issued, the OSA retains the ultimate discretion regarding the RFP. Mr. Hitchcock noted that RSIC Staff (“Staff”) have had preliminary discussions with the OSA and will be seeking the input of RSIC’s Commissioners. He explained that, in initial conversations with the OSA, Staff suggested that the fiduciary audit focus on the impacts of the recent simplification of RSIC’s asset allocation as well as the corresponding changes to RSIC’s policies, procedures, and operations. In addition, Staff has suggested that the vendor also look at the implementation of recommendations from the last fiduciary audit to ensure that RSIC is operating based on best practices.

Mr. Hitchcock then solicited feedback from the Committee members. Mr. Condon stated that he agreed with the approach Staff has suggested and asked that the vendor opine on whether the Commission, as a body, is performing its roles appropriately. Mr. Hitchcock

concurred with Mr. Condon's point. He noted that the Commission has transformed from more of a management-type board to an oversight-type board given RSIC's evolution to a fully functioning investment organization. Mr. Hitchcock stated that the fiduciary audit would be a good opportunity to determine whether the Commission's current practices are in line with other fiduciaries. Chair Gunnlaugsson requested that the fiduciary audit also focus on best practices in terms of how the Commission utilizes its investment consultants given RSIC's increasing reliance on such consultants. Hearing no further comments, Chair Gunnlaugsson then asked Mr. Mitchell Goldsmith, Senior Legal Counsel, to provide his report.

Mr. Goldsmith presented slides listing the engagements completed in the current fiscal year and the engagements to be completed in the 2021-22 Fiscal Year. Next, he turned to a report regarding the annual RSIC risk assessment. Mr. Goldsmith then introduced Mr. Mike Brodsky who is a Managing Director with Deloitte for his presentation. Mr. Brodsky began by overviewing the process for updating the risk assessment and noted that the Deloitte Team focused heavily on interviewing key stakeholders within RSIC. The Deloitte Team also reviewed updates to various policies and procedures as well as the results of third-party reviews while remaining cognizant of RSIC's operating environment. Mr. Brodsky then overviewed the risk identification heatmap. He noted that key person risk has increased as talent retention has become a major issue for the entire investment industry. Mr. Brodsky noted that RSIC has taken positive steps to mitigate the risk, but the risk is likely to grow in the near term. For that reason, the Deloitte Team is proposing a human capital review for the Fiscal Year 2021-22 IA Plan to ensure that RSIC is utilizing leading practices in terms of talent retention.

Mr. Brodsky then turned to the business continuity and disaster recovery risk, which the Deloitte Team determined has decreased. He noted that RSIC's policies and procedures in the area had been tested given the remote working environment of the past year and that Staff has further refined RSIC's capabilities in the area. Next, Mr. Brodsky stated that performance reporting risk has also decreased. He explained that the Deloitte Team recently performed the Performance Reporting System Implementation Review during which members of the Deloitte Team embedded with Staff for the implementation of RSIC's new performance reporting software system: Caissa. Mr. Brodsky stated that the Caissa implementation will reduce the possibility of errors and risks associated with performance reporting risk.

Finally, Mr. Brodsky concluded his remarks by overviewing the IA Plan, which includes the following reviews: (1) information technology – security/cyber; (2) human capital; and (3) investment risk management. Mr. Brodsky then overviewed next steps, which include agreeing on the timing of the engagements, scheduling time with subject matter specialists, and drafting workplans.

Following a brief discussion, Ms. Boykin made a motion to approve the Fiscal Year 2021-22 IA Plan as presented by Deloitte. Mr. Condon seconded the motion, and it was unanimously approved.

IV. COMPLIANCE AND ENTERPRISE RISK MANAGEMENT UPDATES

Chair Gunnlaugsson then recognized Ms. Michelle Kennedy, Director of Enterprise Risk Management ("ERM") & Compliance, for her report. Ms. Kennedy presented slides on compliance matters as of June 30, 2021 and reported no material issues were noted for the June 30, 2021 reviews. Next, she reviewed RSIC's current ERM dashboard and noted

that the RSIC ERM process continues to evolve and develop, and the current focus is metric development of top tier risks. Finally, Ms. Kennedy reviewed presentation slides regarding the Compliance Questionnaire process and completed her presentation noting no material issues were cited in the RSIC review process.

V. EXECUTIVE SESSION

Chair Gunnlaugsson noted that no Executive Session was required for the meeting and moved on to the next agenda item.

VI. ADJOURNMENT

There being no further business, Mr. Condon made a motion to adjourn. Ms. Boykin 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 October 29, 2021 at 10:28 a.m. at the entrance, in the lobbies, and near the 15th Floor Presentation Center at 1201 Main Street, Columbia, S.C.]