

**South Carolina Retirement System Investment Commission**  
**Meeting Minutes**  
**April 23, 2015**  
**Capitol Center**  
**1201 Main Street, 15<sup>th</sup> Floor**  
**Columbia, South Carolina 29201**  
**Meeting Location: Presentation Center**

**Commissioners Present:**  
Mr. Edward Giobbe, Chairman  
Dr. Rebecca Gunnlaugsson, Vice Chair  
Mr. Curtis Loftis, State Treasurer  
Ms. Peggy Boykin, PEBA Executive Director  
Mr. Allen Gillespie  
Dr. Ronald Wilder  
Mr. Reynolds Williams

**Others present for all or a portion of the meeting on Thursday, April 23, 2015:**

Ashli Aslin, Geoff Berg, Betsy Burn, Alexander Campbell, Andrew Chernick, Dori Ditty, John Farmer, Robert Feinstein, Brenda Gadson, Mitchell Goldsmith, Lorelei Graye, David Haas, Hershel Harper, Michael Hitchcock, Monica Houston, Adam Jordan, Julia Lee, James Manning, Steve Marino, Kevin Matherly, Bryan Moore, Eric Nelson, Weiyi Ning, David Phillips, Eric Rovelli, Jon Rychener, Kathleen Shealy, Lorrie Smith, and Brian Wheeler from the South Carolina Retirement System Investment Commission; Clarissa Adams and Robin Johnson from the State Treasurer's Office; Suzanne Bernard and Brady O'Connell from Aon Hewitt Investment Consulting; Faith Wright from the Public Employee Benefit Authority; Sean McGould and Kelly Perkins from Lighthouse Partners; Donald Tudor, Sam Griswold, Wayne Pruitt, Linda Gamble, Kathryn Schwartz, George Seignious, Richard Chapman, Tom Damron, Karen Herman, Kim Justice, Tom Posey, Steve Yontz and M. Sean Cary.

**I. CALL TO ORDER AND CONSENT AGENDA**

Chairman Edward Giobbe called the meeting of the South Carolina Retirement System Investment Commission ("Commission") to order at 9:00 a.m. Chairman Giobbe referred to the proposed meeting agenda and asked for a motion to adopt the agenda. Dr. Ronald Wilder made a motion to adopt the agenda as presented, and Mr. Reynolds Williams seconded the motion, which was unanimously approved. Chairman Giobbe referred to the draft minutes from the February 26, 2015 Commission meeting and asked if there were any objections or corrections. Hearing none, Chairman Giobbe asked for a motion to adopt the minutes. Dr. Rebecca Gunnlaugsson made a motion to adopt the minutes of the February 26, 2015 Commission meeting as presented, which was seconded by Dr. Wilder. The motion was approved unanimously.

**II. CHAIRMAN'S REPORT**

Chairman Giobbe reminded the Commissioners that the Commission self-evaluation had been distributed at his request by Mr. John Farmer. He asked that all evaluations be submitted by April 30.

### **III. EXECUTIVE DIRECTOR'S REPORT**

Mr. Michael Hitchcock, Executive Director, began by introducing Ms. Julia Lee as a new Investment Officer on the private equity team. He then introduced Mr. Kevin Matherly and Mr. Corby Selvey as members of the inaugural Analyst Trainee program. Mr. Hitchcock noted that Mr. Steve Marino had been promoted from Investment Officer to Senior Investment Officer.

Mr. Hitchcock described the new analyst trainee program, which will be structured as a three-year program for promising graduates from South Carolina colleges and universities. Mr. Hitchcock explained that the trainee program is a part of management's plan to recruit and retain more talent by growing from within.

Mr. Hitchcock noted that the state budget had passed the Senate Finance Committee containing RSIC's full request in terms of dollars and FTEs. After approval by the full Senate, the budget bill will go back to the House, which had approved a similarly significant, but slightly lower, increase over RSIC's current appropriation. Mr. Hitchcock advised that the Commission's next meeting will take place in Columbia on June 18-19<sup>th</sup>. Mr. Hitchcock provided an update regarding stakeholder communications efforts. He informed the Commissioners that he had attended two stakeholder meetings thus far in 2015 in conjunction with PEBA and two retirees association meetings (a quarterly meeting on March 25<sup>th</sup> and the annual meeting on April 29<sup>th</sup>). He also informed the Commission that he hosted the S.C. House's freshmen caucus for a lunch-and-learn at RSIC offices on February 19<sup>th</sup> and had a very good turnout. Mr. Hitchcock also reported that he had started to reach out to various South Carolina college and university foundations, and so far had met with the College of Charleston foundation and the MUSC foundation. He also noted his attendance at a state employees' association meeting on February 13<sup>th</sup>.

### **IV. HUMAN RESOURCES AND COMPENSATION COMMITTEE REPORT**

Dr. Gunnlaugsson reported that the Human Resources and Compensation Committee met on April 14<sup>th</sup> and that the members of the Committee had elected her as chair. She noted that Mr. Farmer made a report regarding progress in implementing and integrating the HR function into the Commission, and his work on implementing other Funston recommendations. Dr. Gunnlaugsson noted that other items addressed by the committee would be discussed during executive session.

### **V. AUDIT COMMITTEE REPORT**

Mr. Gillespie noted that the next scheduled Audit Committee meeting was May 14, 2015. He asked Ms. Monica Houston, RSIC's Chief Audit Officer, to present the results of a limited scope consulting assignment reviewing the Annual Investment Plan (AIP) document. Ms. Houston reported that the AIP to be presented to the Commission for approval later in the day met the statutory requirements and was technically sound, aside from some minor technical revisions that management will address. Mr. Gillespie then concluded his report.

### **VI. CONIFER ADMINISTRATOR SYSTEM UPDATE**

Mr. Chernick provided a report on the status of the implementation of the Conifer Administration System. Mr. Chernick commenced by noting that, in his opinion, implementation of this system will take RSIC beyond current best practices in the public pension field. Mr. Chernick summarized the role and purpose of an administrator: it is an independent third party which provides a suite of accounting and reporting services to RSIC. He noted that use of administrators is becoming more prevalent in the alternative asset management industry, but is not yet common for public pension funds. Mr. Curtis Loftis said that while an administrator system might be the best practice for the

alternative investment manager, it might not necessarily be for RSIC. Mr. Chernick responded that RSIC is trying to raise the bar and provide more readily available information to Staff and Commissioners. In response to a question from Mr. Gillespie, Mr. Chernick indicated that the administrator will be getting net asset values and other information independently from the managers -- an additional control. Mr. Chernick noted the use of an administrator will allow RSIC to upgrade its existing technology and resources, address recommendations from the Deloitte and Funston reports, and allow for enhanced reporting capabilities with an additional layer of controls.

Mr. Chernick reviewed the history of RSIC's selection of Conifer. An RFP for administration services had been issued in December 2013, Conifer was selected in March 2014, and implementation began in the second quarter of 2014. Mr. Chernick thanked the STO, PEBA, Aon Hewitt, and BNY Mellon for their assistance throughout the implementation process. He noted that implementation was ongoing and some delays had occurred due to the voluminous amounts of data which have to be converted.

Mr. Chernick reiterated that PEBA remained the official books and records of the trust funds' assets, BNY Mellon remained master custodial bank and STO remained the statutory custodian. He summarized the array of services which Conifer will provide. Conifer will: serve as a second books and record; perform valuation on in-bank assets; perform reconciliations between separately managed account (SMA) managers and the custodian; provide the ability to look through data for private equity holdings, including strategic partnerships; and provide performance and analytics, including multiple performance calculations and risk statistics.

Extensive discussion ensued. Mr. Loftis asked if all of the services were currently being performed. Mr. Chernick replied that some services are now being performed, while others will commence once data is fully uploaded to Conifer's system.

Mr. Chernick enumerated benefits that the administrator should provide to RSIC, including an ability to reallocate Staff resources to other work due to the outsourcing to Conifer of some labor-intensive processes, especially relating to fee aggregation. Additional benefits noted by Mr. Chernick included better tracking of, and performance reporting on, the overlay, an increased ability to perform detailed analyses on private market holdings, and risk mitigation (in the form of reduced reliance on spreadsheets and manual processes).

Mr. Chernick said that future projects will include the addition of liquidity reporting, qualitative fund data, and compliance and fee reporting.

Additional background information was also provided about Conifer and its client base, as well as Carlyle Group's March 2015 acquisition of a majority stake in Conifer, with Mr. Chernick noting that Staff viewed the acquisition as a validation of Conifer's business model.

Ms. Peggy Boykin expressed appreciation for the information that she had received, and indicated her desire to see all of the historical information. Mr. Gillespie recommended that Staff not attempt to upload the entirety of historical data if that jeopardizes the output of current material. Mr. Chernick noted that the approach suggested by Mr. Gillespie had been taken by RSIC. Ms. Bernard noted the ability of Aon Hewitt to provide historical data.

## **VII. CIO'S REPORT**

Mr. Hershel Harper updated the Commission on the 2014-2015 strategic initiatives in the current AIP, noting that the Statement of Investment Beliefs had been adopted, and that the administrator system, risk systems, and enterprise risk management ("ERM") function were all being implemented. He noted that the trade order management system initiative would move into the next fiscal year. He indicated that the realization of a dedicated human resources function had been completed with the hiring of Mr. Farmer, as was the rationalization of external manager allocations and the efficiency of portfolio implementation strategy, although it was noted that the latter two initiatives will never truly end. The same is true, he noted, of efforts to negotiate lower fees and better terms. Mr. Harper said that growth of the internal investment research function and restructuring of the strategic partnership model will continue into the 2015-16 fiscal year.

Mr. Harper moved to discussion of the proposed Annual Investment Plan for FY 2015-16. He noted that the biggest area of change from the last draft to this draft was the section on upcoming strategic initiatives, which he discussed in detail. He said that the listing of initiatives had been reordered to align with operations, ERM, and investments, with oversight of the entire process by Mr. Hitchcock.

Mr. Harper mentioned that Aon Hewitt soon would begin a review of the strategic partnerships. Ms. Bernard stated that Aon Hewitt would do a very thorough review that would be provided to the Commission for the fall meeting. Mr. Harper summarized the various asset class plans set forth in the proposed AIP, and concluded his presentation.

Mr. Williams moved to adopt the recommendation of the CIO, approve the proposed AIP dated April 23, 2015, and authorize Staff to finalize the AIP by making any technical revisions or formatting edits consistent with the action taken by the Commission. Dr. Gunnlaugsson seconded, and the motion was approved by a vote of 5-1, with Mr. Loftis opposed.

## **VIII. PERFORMANCE UPDATE**

Mr. Geoff Berg began the performance update by addressing questions concerning foreign currency exposure from the previous meeting. He provided data showing that, over the long term, investing in the dollar versus foreign currency has not produced a meaningful contribution to total return, but there has been a fair degree of volatility. Mr. Berg discussed actions that had been taken since late 2013 to remove some exposure to the Euro, and then a discussion with the Commissioners and Mr. Brady O'Connell of Aon Hewitt Investment Consulting ensued.

Mr. Harper connected the currency exposure discussion to strategic asset allocation and portfolio construction. As to asset allocation, he noted that the Commission's current policy benchmark entails about 30 percent non-US currency exposure. Mr. Harper noted the different ways in which the currency decision can be managed, including (1) delegating the decision to managers, (2) putting in place some type of currency hedging or overlay program, or (3) hiring a manager to actively manage currency exposure. Additional discussion ensued with the Commissioners and Ms. Bernard, who noted that managers often gauge currency exposure as part of their risk analysis.

Mr. Berg provided a further review of the capital markets and the Portfolio's performance for periods ending February 28, 2015. He noted that the policy benchmark had a slightly positive return, compared to the negative return for the period ending December 31, 2014, and that the

Portfolio return of 1.53 percent was 27 basis points ahead of the policy benchmark for the fiscal year to date period. He discussed Portfolio positioning, attribution, and overlay exposure.

Mr. Harper recognized Mr. O'Connell for additional Portfolio commentary. Mr. O'Connell provided several manager updates. He reported on Portfolio asset allocation and noted that the Portfolio was in compliance with the target ranges set in the SIOP. Mr. O'Connell also compared Portfolio performance compared to the 7.5 percent actuarial assumed rate of return, noting that over the three- and five-year periods, performance was in-line with that expectation and had been achieved at an acceptable level of risk.

There was discussion of where the sources of active risk had been coming from in the Portfolio. In response to comments by Mr. Gillespie, Ms. Bernard noted that this is something that Aon Hewitt monitors or reviews at least annually. She noted that historically, the Commission's active risk level had been somewhat higher than peers because of the use of more alternatives, but that there had been very little active manager risk coming from the global equity component compared to peers. Ms. Bernard approvingly noted that the Commission had chosen to take its active risk in areas where historically it had added quite a lot of value. Mr. Gillespie suggested that while specific limits might not be necessary, it might be useful to have a reporting framework and a discussion framework.

## **IX. INVESTMENT RECOMMENDATIONS**

Mr. Harper introduced Mr. Eric Rovelli, Senior Real Estate Officer, and provided a brief introduction of Blackstone, noting that they are an existing manager in several parts of the Portfolio, including hedge funds, credit (GSO), private equity, and real estate. He also noted that Blackstone Property Partners had received a "qualified" rating from Aon Hewitt, and that the concerns noted by the consultant would be directly addressed in Mr. Rovelli's presentation.

Mr. Rovelli provided an overview of the Blackstone Property Partners Fund, an open-end core plus real estate fund. He discussed the search objectives and process, the strategy's fit in the Real Estate Portfolio and with the pacing schedule, the firm's capabilities and process, the investment rationale, and certain considerations.

Ms. Boykin asked that Aon Hewitt be recognized to discuss its concerns with the Blackstone Property Partners Fund. Ms. Bernard stated that Aon Hewitt was comfortable recommending that RSIC move forward with this investment. She noted that Aon Hewitt did consider this a new strategy for the Blackstone real estate team, and explained that her firm generally prefers to see at least one year of track record for a new strategy before giving that strategy a "buy" rating. In addition, Ms. Bernard stated that while Aon Hewitt had conviction in the team, the Blackstone team did not have experience running an open end fund. However, Ms. Bernard indicated, Aon Hewitt had a high degree of confidence in Blackstone's real estate team and several of their value add and opportunistic real estate funds had received "buy" ratings from Aon Hewitt. Ms. Bernard also stated that Aon Hewitt deemed the fees for this strategy somewhat high compared to peers, but she noted mitigating factors, including the manager's return expectations and success in real estate. In sum, Ms. Bernard reiterated that she felt that the investment was a good fit for the Portfolio. She indicated that she suspected the fund would be "buy" rated at some time in the next year or so, and promised to provide updates to the Commission regarding the fund.

Mr. Giobbe asked if the maximum of 50% leverage was typical for core plus real estate strategies, and Mr. Rovelli responded that it was. Mr. Gillespie questioned whether the maximum amount authorized for this type of investment should be based on a percentage of Portfolio assets, rather than a fixed dollar amount. Mr. Harper agreed that a percentage authorization would make sense for future open-ended investments.

Mr. Williams made a motion to:

- i. 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 April 23, 2015 regarding Blackstone Property Partners L.P.;
- ii. Authorize a capacity of up to \$300 million to the Blackstone Property Partners, with an initial subscription of up to \$150 million;
- iii. Authorize the CIO to allocate the remaining capacity into the Blackstone Property Partners, with the timing and the amounts to be allocated within the discretion of the CIO, so long as the total subscribed does not exceed the initial \$300 million allocation;
- iv. Authorize the Chairman 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
- v. Authorize the Chairman 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 Systems Trust Funds' obligations with respect to the Investment.

Mr. Gillespie seconded the motion, which was approved 5-1, with Mr. Loftis opposed.

Mr. Rovelli then presented an overview of Brookfield Strategic Real Estate Partners Fund II. He discussed the search objectives and process, the strategy's fit in the Real Estate Portfolio and with the pacing schedule, the firm's capabilities and process, and the investment rationale and considerations.

Mr. Giobbe recognized Ms. Bernard for her comments regarding Brookfield Strategic Real Estate Partners Fund II. Ms. Bernard noted that this strategy is a high conviction strategy for Aon Hewitt and that the firm had a great deal of faith in the Brookfield organization. She noted that Aon Hewitt took the size of the fund and its international exposure into consideration as it underwrote the strategy, but concluded that Aon Hewitt was comfortable on all counts.

Mr. Williams moved to:

- i. 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 April 23, 2015;
- ii. Authorize a commitment not to exceed \$75 million into Brookfield Strategic Real Estate Partners II-B, L.P.;
- iii. Authorize the Chairman 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

iv. Authorize the Chairman 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 obligations of the South Carolina Retirement Systems Trust Funds with respect to the Investment.

Mr. Gillespie seconded the motion which was approved 5-1, with Mr. Loftis opposed.

#### **X. EXECUTIVE SESSION**

Dr. Gunnlauggson made a motion, which was seconded by Mr. Gillespie, and passed unanimously, to recede into Executive Session to receive legal advice and briefings, discuss negotiations incident to contractual arrangements, and discuss investment matters pursuant to S.C. Code Ann. §§ 30-4-70(a)(1)-(2), 9-16-80, and 9-16-320. The Commission receded into Executive Session at 12:00 p.m. and reconvened in open session at 3:09 p.m.

#### **XI. ADJOURNMENT**

There being no further business and upon motion by Mr. Loftis to adjourn, which was seconded by Mr. Gillespie and passed unanimously, the meeting adjourned at 3:10 p.m.

[Staff Note: In compliance with S.C. Code Ann. § 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 at the entrance, in the lobbies, and near the 15<sup>th</sup> Floor Presentation Center at 1201 Main Street, Columbia, SC, at 5:07 p.m. on Tuesday, April 21, 2015.]