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

**December 2, 2021**
**Capitol Center**
**1201 Main Street, 15th Floor**
**Columbia, South Carolina 29201**
**Meeting Location: 1201 Main Street, Ste. 1501 and**
**Video Presentation**

**Commissioners Present:**
Mr. William Hancock, Chair
Dr. Ronald Wilder, Vice Chair
Ms. Peggy Boykin, PEBA Executive Director
Mr. William J. Condon, Jr.
Mr. Edward Giobbe
Dr. Rebecca Gunnlaugsson
Ms. Melissa Schumpert
Mr. Reynolds Williams

## I. Call to Order and Consent Agenda

Chair Mr. 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. William J. Condon, Jr. seconded the motion, which was approved unanimously.

Dr. Wilder made a motion to approve the minutes from the September 23, 2021 Commission meeting as presented. Mr. Condon seconded the motion, which was approved unanimously.

## II. Chair's Report

The Chair stated that he had nothing to report.

## III. Committee Reports

The Chair recognized Dr. Rebecca Gunnlaugsson to provide a report on the activities of the Audit and Enterprise Risk Management Committee ("AERM"). Dr. Gunnlaugsson noted that the AERM Committee Report had been made available to the Commissioners for review prior to the meeting. Hearing no questions, Dr. Gunnlaugsson concluded her report.

## IV. CEO's Report

The Chair recognized Mr. Michael Hitchcock, Chief Executive Officer ("CEO") for his report. Mr. Hitchcock reminded the Commissioners that they had discussed some potential edits to the Investment Authority Delegation Policy ("Delegation Policy") during the last Commission meeting. He said that he had not received any additional questions or comments on the proposed edits to the Delegation Policy since the last meeting. Mr. Condon moved to adopt the recommendation of the CEO to amend the Delegation Policy as presented and authorize staff to make the technical and formatting revisions to the Delegation Policy consistent with the action taken by the Commission. Dr. Wilder seconded the motion, which passed unanimously. Mr. Hitchcock thanked the Commission, and thanked Mr. Condon for his assistance in drafting the revisions to the Delegation Policy.

Mr. Hitchcock then turned to a brief discussion of the upcoming fiduciary audit, which is required by state statute. He gave a brief background on the prior fiduciary audits, which were performed by Funston Advisory Services ("Funston"). Mr. Hitchcock reminded the Commission that the Office of the State Auditor oversees the fiduciary audit process and selects the audit firm. However, he noted that the State Auditor's office has sought RSIC's input into developing the scope of the proposed audit. Mr. Hitchcock asked for comments or suggestions on the audit scope. After additional discussion with the Commissioners regarding the audit firm selection process, Mr. Hitchcock concluded his report.

## V. CIO's Report

Chair Hancock recognized Mr. Geoffrey Berg, Chief Investment Officer ("CIO"), for the quarterly investment performance report through September 30, 2021. Before Mr. Berg began his review, he pointed out to the Commissioners that this report would look slightly different because Staff was now using an external service provider for the performance attribution calculations.

He reported that the Portfolio earned 1.56 percent and outperformed the policy benchmark by 28 basis points during the quarter. He noted that the assumed rate of return declined from 7.25 percent to 7 percent effective July 1, 2021.

Mr. Berg then reviewed asset class performance. He stated that public equities were the only negative performing asset class for the quarter, while private equity performed well. He noted that the real assets benchmark was up 6.4 percent, which was the largest quarterly return for core real estate since the 1970s. Mr. Berg shared that the strong return came from significant strength in apartments and industrial real estate. Next, Mr. Berg discussed the portable alpha hedge funds, which have continued to perform well. He noted that during the past five years, the Portfolio has earned a $1 billion excess return from the Commission's decision to employ portable alpha.

Next, Mr. Berg discussed performance attribution, noting that the new Caissa system provides enhanced information about Staff's investment decisions. He explained that the first one of these decisions was the Allocation Effect, which shows the impact of being overweight or underweight to any of the five asset classes and noted that the bonds portfolio was an example of a current underweight in the Portfolio. Mr. Berg noted that private equity had the only significant allocation impact during the quarter. The Portfolio was overweight private equity, and because the private equity benchmark significantly outperformed the policy benchmark, that created a significant positive impact on performance.

Mr. Berg then reviewed the Implementation Effect, which captures the impact of Staff's decision to construct an asset class differently than its asset class benchmark. He explained that the Implementation Effect revealed three important impacts during the quarter. First, the decision to employ portable alpha added value. The other two impacts were negative and shared a common cause. Mr. Berg explained that both infrastructure and listed real estate underperformed the core real estate benchmark, which had a very strong quarter.

He then turned to the Selection Effect, which shows the impact of hiring specific managers and whether these decisions have added value or not. He noted that the hedge fund and private debt managers had very strong returns. In summary, he noted that all of these effects cumulatively resulted in a 1.56 percent return for the quarter.

After responding to questions regarding the portable alpha portfolio, Mr. Berg reported that all asset classes were within allowable ranges as outlined in the Consolidated Annual Investment Plan and Statement of Investment Objectives and Policies ("AIP/SIOP").

Next, Mr. Berg turned to a discussion of risk. He noted that Staff had made a recent change in its methodology to utilize a three-year model rather than a two-year model to estimate risk on a forward-looking basis. This change was made to conform with the way Staff analyzes trailing returns. He stated that there were no significant impacts from this change. After responding to additional questions from the Commissioners, Mr. Berg concluded his report.

## VI. Strategic Investment Presentation - Public Equity Benchmarking: S&P 500 versus ACWI IMI

Mr. Hitchcock recognized Ms. Alli Wallace Stone, Managing Principal/Consultant and Mr. C. LaRoy Brantley, Managing Principal/Consultant, with Meketa Investment Group ("Meketa") for their presentation on public equity benchmarking. Staff had requested that Meketa review RSIC's current public equity benchmark and evaluate it versus investing exclusively in the United States through the S&P 500 Index ("S&P 500"). Ms. Stone began by noting that the public equity benchmark used by RSIC is the MSCI All Country World Index ("MSCI ACWI") and approximately 87.3 percent of RSIC's equity portfolio is invested passively in the MSCI ACWI. Ms. Stone pointed out that this benchmark provides RSIC with broad diversification across stocks, market capitalization sectors, and geography. She recommended that RSIC maintain the global benchmark, MSCI ACWI, for the RSIC's public equity portfolio for the reasons outlined below.

Next, Ms. Stone reviewed the benefits of investing in international stocks, including geographical diversification, higher long-term return potential, dampening of overall Fund volatility, and current valuations indicating that international stocks appear cheaper than domestic equities.

Then Ms. Stone reviewed the historical performance of both the MSCI ACWI and the S&P 500, and discussed the importance of considering endpoint bias when reviewing historical returns. She pointed out that although the S&P 500 has had strong performance over the last ten years, much of the recent outperformance of the S&P 500 has been caused by the FAANG+M stocks (Facebook/Meta, Amazon, Netflix, Google, and Microsoft). Ms. Stone explained that within the S&P 500 index, 28 percent of the portfolio is concentrated in ten stock names, creating significantly more idiosyncratic risk. She stated Meketa anticipates international equities will outperform U.S. equities over the next 10 years, due in part to the greater diversification of the MSCI ACWI. Ms. Stone stated that MSCI ACWI gives the Fund exposure to nearly six times more stocks than the S&P 500 and has broader geographic, sector, and market capitalization diversification for the Fund.

Ms. Stone turned the presentation over to Mr. Brantley to review Meketa's GDP growth expectations. Mr. Brantley pointed out that Meketa, and the consulting industry in general, anticipate that over both shorter-term and longer-term periods, international developed equities and emerging market equities will outperform their domestic equity counterparts.

He then discussed the impact of diversification in global markets, noting that by diversifying globally, long-term investors can increase portfolio expected returns, while maintaining similar risk levels, resulting in more efficient portfolios.

Mr. Brantley explained that on average, large public plans invest 19 percent of their overall fund, or approximately 42 percent of their public equity allocation in international equities, which is similar to RSIC's exposure.

He stated that Meketa believes by diversifying its public equities globally, RSIC enhances the efficiency of the overall Fund. Mr. Brantley also explained that projections for the next 10 years favor investments in international equities. He concluded his remarks by recommending that RSIC maintain the MSCI ACWI as its public equity benchmark. After a brief discussion with the Commissioners, Mr. Brantley concluded the presentation.

## VII. Delegated Investment Report

The Chair recognized Mr. Berg for the delegated investment report. The following delegated investments were closed by Staff since the September 23, 2021, Commission meeting.

| Asset Class | Investment | Investment Amount | Closing Date |
|---|---|---|---|
| Private Equity | Great Hill Equity Partners VIII | $75 M | October 29, 2021 |
| Private Credit | KKR Asset-Based Finance Partners, L.P. | $100 M | November 4, 2021 |

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| Private Equity | Blackstone Strategic Partners IX | Up to $100 M | November 18, 2021 |
| Infrastructure | Stonepeak Infrastructure Fund IV | Up to $75 M | November 26, 2021 |

## VIII. Executive Session

Dr. Wilder 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; to discuss negotiations incident to contractual arrangements for the scope of service of a general investment consultant contract, and to receive advice from legal counsel pursuant to S.C. Code Section 30-4-70(a)(2). Ms. Melissa Schumpert seconded the motion, which passed unanimously.

## IX. Potential Action Resulting from Executive Session

Dr. Wilder made a motion to approve the scope of service for the general investment consultant search as discussed, to authorize Staff to finalize the preparation of the general investment consultant RFP, and to authorize staff to make any technical revisions or formatting edits consistent with the action taken by the Commission. Ms. Schumpert seconded the motion, which was unanimously approved.

## X. Adjournment

There being no further business, Ms. Schumpert moved that the Commission meeting adjourn, Mr. Condon seconded the motion, which was unanimously approved. The meeting adjourned at 12:44 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. 4:02 P.M. on December 1, 2021]

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