

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

December 1, 2022 9:30 a.m.

Capitol Center

1201 Main Street, 15th Floor

Columbia, South Carolina 29201

**Meeting Location: 1201 Main Street, 15th Floor, Ste. 1510 & Streaming Online at
www.rsic.sc.gov**

Commissioners Present:

Mr. William H. Hancock, Chair

Ms. Peggy Boykin, PEBA Executive Director

Mr. William J. Condon, Jr.

Mr. Kenneth F. Deon

Mr. Edward Giobbe

Ms. Melissa Schumpert

Dr. Holley H. Ulbrich

Mr. Reynolds Williams (absent)

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 9:38 a.m. Ms. Melissa Schumpert moved to approve the proposed agenda as presented. Mr. Kenneth Deon seconded the motion, which was approved unanimously.

The Commissioners then unanimously approved the minutes from the September 8, 2022 Commission meeting as presented.

II. Chair’s Report

Chair Hancock opened the floor for nominations for Commission Chair. Ms. Schumpert made a motion to elect Mr. Hancock as chair of the Commission for the term ending June 30, 2024. Mr. William J. Condon, Jr., seconded the motion, which was approved unanimously. Mr. Edward Giobbe then made a motion to elect Ms. Schumpert to serve as vice chair of the Commission for the term ending June 30, 2024. Mr. Condon seconded the motion, which was approved unanimously.

Chair Hancock then turned to a discussion of committee appointments. He presented the following slate of appointees: Ms. Peggy Boykin, Mr. Kenneth Deon, and Mr. Condon to the Audit and Enterprise Risk Management Committee (“AERMC”); and Ms. Schumpert, Chair Hancock, and Dr. Holley Ulbrich to the Human Resources and Compensation Committee (“HRCC”). Mr. Giobbe made a motion to approve Chair Hancock’s proposed slate. Ms. Schumpert seconded the motion, which was approved unanimously. A link to the discussion is below:

https://www.youtube.com/watch?v=s6lqg_N1ufl&list=PLWggBnJJX7ksfB95gcRpo3MfttYDIRmly&index=1&t=75s

III. Committee Reports

Chair Hancock recognized Mr. Michael Hitchcock, Chief Executive Officer (“CEO”), to give an update on the activities of the AERMC. Mr. Hitchcock noted that the AERMC had not met since the prior Commission meeting. An updated report would be issued prior to the next Commission meeting. Mr. Hitchcock reported that HRCC met recently to discuss staff changes since the previous Commission meeting. Additionally, the HRCC met in executive session to conduct the initial round of the CEO’s performance review and to discuss other personnel matters. A link to the Committee reports is below:

https://www.youtube.com/watch?v=s6lqg_N1ufl&list=PLWggBnJJX7ksfB95gcRpo3MfttYDIRmly&index=1&t=265s

IV. CEO’s Report

Chair Hancock recognized Mr. Hitchcock for the CEO’s report. Mr. Hitchcock stated that he had nothing to report.

V. Fiduciary Performance Audit Report

Chair Hancock recognized Mr. Randy Miller and Mr. Steve Case of Funston Advisory Services, LLC (“Funston”), which was selected by the South Carolina Office of the State Auditor to perform a statutorily required fiduciary audit of the Commission. Mr. Miller noted that the Funston Team had completed their third review of the Commission, having previously performed reviews in 2014 and 2018. He gave the Commission an overview of the review process and the purposes of the audit as well as a summary of the Commission’s implementation progress concerning Funston’s recommendations from the 2018 review. In the 2022 fiduciary report, Funston reported that the eight-member Commission needed to improve its relationship with its Investment Consultant. In this regard, the Commission needs an independent consultant to provide it with independent opinions and counsel regarding policy options and strategy. Funston stated that the Commission’s Chair must take the lead in this relationship. Also, when asked, a Funston representative stated that Funston did not identify continuing to use BlackRock as an investment manager as a fiduciary risk to the Commission. He then turned the presentation over to Mr. Case to go over the effect of investment strategy changes implemented by RSIC. They then presented their findings and recommendations, which may be viewed in detail at the link below:

https://www.youtube.com/watch?v=s6lqg_N1ufl&list=PLWggBnJJX7ksfB95gcRpo3MfttYDIRmly&index=1&t=365s

VI. CIO’s Report

Chair Hancock introduced Mr. Geoffrey Berg, Chief Investment Officer (“CIO”), for the investment performance review through September 30, 2022. Mr. Berg reported that the quarter ending September 30, 2022 was a challenging one for markets and that the Portfolio had returned negative 3.77 percent, but had outperformed the benchmark by 1.25 percent. He noted that the Plan had distributed \$483 million in net benefit payments over the past twelve months, a substantial reduction over the past five years.

Mr. Berg turned to a review of the performance framework and noted that the Plan continued to see strong outperformance against both the Reference Portfolio and the Policy Benchmark over the last three years. He then shared that each asset class outperformed its respective benchmark during the quarter, a notable achievement during a bear market. He noted that due to the ongoing strong performance of private assets relative to public markets, the Plan continued to be above the high end of the range for both private equity and for total private markets. He also shared that the risk model readings reflect elevated estimated volatility across the board for all portfolios and slightly higher relative risk figures as well.

Mr. Berg then turned to a discussion of fees for the previous fiscal year. He shared that the Plan’s aggregate investment fees and expenses were \$696 million. He explained that the alternative asset classes massively outperformed the traditional asset classes and became a much bigger allocation in the Plan as a result of that strong performance. Thus, the Plan’s cost was largely determined by how well our alternatives performed. During the last fiscal year, every alternative asset class significantly outperformed its long-term expected return. He shared that the Plan’s traditional stocks and bonds lost 13 percent during the last fiscal year but only cost the Plan about \$15 million to execute. The alternative asset classes, including private equity, private debt, real assets and hedge funds, earned more than 20 percent after all fees and expenses. Those fees and expenses totaled approximately \$682 million. In summary, he noted that the Plan’s alternative strategies generated returns that were 13.5% better than the 70/30 Reference Portfolio after fees (a difference of more than \$5 billion). This continued strong performance from the alternative asset classes is a major contributing factor to both the Plan’s outperformance during the year as well as the increase to the Plan’s total costs.

Mr. Berg then turned to a discussion regarding the Plan’s investments in passive equity index mandates, including why RISC made the decision to invest passively and the rationale for the platforms selected. He reviewed the Plan’s history with active equity management and the factors that Staff considered in choosing to move to passive exposures, including the benefits of “at the source” tax reclaims and lower management fees. He shared that the Plan was paying slightly more than 3 basis points for its passive equity exposure while consistently outperforming the benchmark by forty basis points. He then noted that it would cost the Plan roughly \$11 million to sell the Plan’s exposure on one platform and move it to another platform and could risk up to \$75 million per year if the new platform did not have a comparable tax reclaim solution. Mr. Berg then turned to a discussion of how investment managers vote proxies and informed the Commissioners that Staff had been in discussions with both BlackRock and State Street on the topic. He noted that Staff was exploring proxy

voting solutions that would not place the economic benefits of the current implementation at risk but would resolve concerns relating to proxy voting. He then concluded his report.

A link to the CIO's report is below:

https://www.youtube.com/watch?v=s6lqg_N1ufl&list=PLWggBnJJX7ksfB95gcRpo3MfttYDIRmly&index=1&t=4237s

VII. Verus Enterprise Risk Tolerance Survey

Chair Hancock introduced Mr. Mark Brubaker and Mr. Michael Patalsky of Verus Advisory, Inc., to preview the enterprise risk tolerance survey they will be conducting with the Commission over the next few months. A link to the discussion is below:

https://www.youtube.com/watch?v=s6lqg_N1ufl&list=PLWggBnJJX7ksfB95gcRpo3MfttYDIRmly&index=1&t=7506s

VIII. Delegated Investment Report

Chair Hancock recognized Mr. Berg for the delegated investment report. The following delegated investments were closed by Staff since the September 8, 2022, Commission meeting:

Asset Class	Investment	Investment Amount	Closing Date
Real Estate	Equus Investment Partnership XII	\$75 M	September 30, 2022

IX. Executive Session

Dr. Holley Ulbrich made a motion to recede into executive session to discuss investment matters, including specific co-investments and private debt investments, pursuant to S.C. Code Ann. Sections 9-16-80 and 9-16-320; to discuss personnel matters pursuant to S.C. Code Ann. Section 30-4-70(a)(1); and to receive advice from legal counsel pursuant to S.C. Code Ann. Section 30-4-70(a)(2). Ms. Schumpert seconded the motion, which was approved unanimously.

X. Potential Actions Resulting from Executive Session

Upon return to open session, Chair Hancock noted that the Commission had discussed Mr. Hitchcock's performance review during the executive session. The Commission noted that it had requested additional information from Ms. Sally Fulkert, Director of Human Resources, and any salary adjustment would be made at a later date after communication with Mr. Hitchcock and will be disclosed to the public when finalized.

Then, Mr. Giobbe made a motion to direct the CEO and CIO to engage a third-party proxy advisor to manage proxy votes in accordance with state law requirements through the BlackRock Voter Choice program and through any other similar program offered by a passive equity provider. Dr. Ulbrich seconded the motion, which was unanimously approved.

XI. Adjourn

There being no further business, Dr. Ulbrich made a motion to adjourn, which was seconded by Mr. Giobbe. The Commission adjourned at 4:37 p.m.

[Staff Note: In compliance with S.C. Code Section 30-4-80, 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. by 4:36 p.m. on Tuesday, November 29, 2022]