South Carolina Retirement System Investment Commission
Meeting Minutes

September 28, 2017 9:00 a.m.
Capitol Center
1201 Main Street, 15th Floor
Columbia, South Carolina 29201
Meeting Location: Presentation Center

Commissioners Present:
Dr. Rebecca Gunnlaugsson, Chair
Dr. Ronald Wilder, Vice Chair
Ms. Peggy Boykin, PEBA Executive Director
Mr. Allen Gillespie (In Person & Via Telephone)
Mr. Edward Giobbe
Mr. Reynolds Williams

I. CALL TO ORDER AND CONSENT AGENDA

Chair Rebecca Gunnlaugsson called the meeting of the South Carolina Retirement System Investment Commission ("Commission") to order at 9:00 a.m. Mr. Allen Gillespie made a motion to approve the proposed agenda as presented. Dr. Ronald Wilder seconded the motion, which was approved unanimously.

The Chair referred to the draft minutes from the June 22, 2017 Commission Meeting as presented and asked whether there was a motion to approve the minutes. Mr. Gillespie made a motion to approve the minutes as presented. Dr. Wilder seconded the motion, which passed unanimously.

II. CHAIR'S REPORT

The Chair reviewed the 2018 proposed Commission meeting dates and requested feedback on any conflicts from the Commissioners. Next, the Chair introduced Meketa Investment Group ("Meketa"), the Commission's new general investment consultant. Meketa was selected by the Commission after a competitive request for proposal ("RFP") procurement process. Meketa currently serves over 160 clients representing $900 billion in aggregate assets and will assist the Commission by providing a variety of services, including asset allocation and asset liability modeling for the Plan, review and evaluation of Plan performance, policy reviews, and annual Portfolio reviews. The Chair introduced Mr. Frank Benham, Managing Director and Director of Research for Meketa, who will be one of the consultants working with the Commission. Mr. Benham has 18 years of investment consulting experience and is based out of Meketa's headquarters in Boston. The Chair also introduced Mr. Aaron Lally, Vice President of Meketa. Mr. Lally has over eight years of investment experience and is based out of Meketa's Florida office.

III. AUDIT AND ENTERPRISE RISK MANAGEMENT COMMITTEE REPORT

The Chair introduced Mr. Gillespie to provide the Audit and Enterprise Risk Management Committee Report. Mr. Gillespie noted that the Committee met on August 28, 2017 and Mr. Andrew Chernick, Chief Operations Officer, had provided a compliance update to the Committee and stated that no material exceptions were noted during the quarter ended March 31, 2017. Mr. Gillespie reported that all Annual Investment Manager Compliance Questionnaires had been completed and returned and an initial review of the responses had been completed by Staff. The Committee also discussed the planning for the fiduciary audit, which will be conducted by a firm selected by the State Auditor through an RFP procurement process. The final report will be due, by law, on or before January 15, 2019.

The Committee also discussed the Agreed Upon Procedures review by Experis of the internal and fixed income and trading functions, which resulted in 18 recommendations. Mr. Gillespie shared that 14 of the 18 recommendations had already been implemented by Staff. The Committee approved an expansion of the Agreed Upon Procedures review to be completed by CliftonLarsonAllen, focusing on valuation and due diligence guidelines. Additionally, Mr. Gillespie noted that the Committee discussed potentially seeking a review for Global Investment Performance Standards ("GIPS") compliance for pension funds and requested that Staff explore the possibility of completing GIPS review in the future.

Lastly, Mr. Gillespie announced that a new Director of Audit and Enterprise Risk Management had recently been selected, and the new Director would be introduced at the December Commission meeting.

IV. HUMAN RESOURCES & COMPENSATION COMMITTEE REPORT

Dr. Wilder gave the Human Resources and Compensation Committee ("HRC Committee") Report. He began by stating that the Committee met on September 15, 2017. He informed the Commission that, in his new position as Chief Operating Officer, Mr. Chernick will oversee the daily operations of RSIC's Human Resources Department. Dr. Wilder then announced that Ms. Brittany Storey had been promoted to the position of Human Resources Manager, and she will report to Mr. Chernick.

Dr. Wilder went on to explain that the Committee reviewed its Charter at the meeting and stated that the HRC Committee is on track to fulfill its obligations under the Charter. Dr. Wilder added that the HRC Committee discussed personnel matters and the CEO's evaluation during the executive session portion of the meeting.

V. CEO'S REPORT

The Chair introduced Mr. Michael Hitchcock, Chief Executive Officer. Mr. Hitchcock began by introducing several new employees. Ms. Kara Brurok, the new Director of External Policy who will be handling all governmental relations affairs. Mr. Hitchcock also introduced two new members of the IT team, Mr. Shane Dixon, IT Service Technician and Mr. Eric Baker, whose role will be IT Systems Administrator.

The next item for discussion was the FY 2019 annual budget request, which will need to be submitted to the Executive Budget Office. Mr. Hitchcock explained that RSIC was not asking for any changes from the FY 2018 budget. Mr. Hitchcock discussed the fact that RSIC operates solely on trust fund dollars, and does not receive any funds from the State's general fund. He noted that over the past two budget years RSIC has asked for reductions in authorization, explaining that fiscal year 2018 was a $1.5 million reduction in authorization from the previous budget year. He stated that there was no request for additional funds and no additional FTEs in the FY 2019 proposed budget request. In response to a question from Dr. Wilder, Mr. Hitchcock explained that funds are only drawn from the trust as needed for expenses. In FY 2018 RSIC did not utilize all of its authorization, therefore the full budget request was not drawn from the trust and the surplus budget funds remain in the trust and continue to earn a return. After some additional discussion regarding open FTEs and other budget matters, Mr. Gillespie made a motion for the Commission to authorize the CEO to submit a proposed Fiscal Year 2019 detail budget substantially similar to the draft budget presented for inclusion in the Governor's annual budget, Mr. Edward Giobbe seconded the motion, which passed unanimously.

Mr. Hitchcock concluded his report by reviewing the annual Material Interest Form and asking the Commissioners to sign and return the form to Mr. Chernick.

VI. CIO's REPORT

Mr. Geoff Berg, Chief Investment Officer, introduced Mr. David King, Reporting Officer, to review the Plan's fiscal year 2016-2017 investment performance. Mr. King stated that the Plan ended the year with an 11.88 percent return, exceeding the policy benchmark's 11.82 percent return by six basis points and noted that the Plan ended the fiscal year with $30.1 billion in assets. Mr. King indicated that the Plan achieved $3.3 billion in investment gains during the fiscal year, and paid out net benefits of $1.1 billion.

Mr. King offered a brief summary of the history of the Plan's value. He stated that at the Commission's inception in October 2005, the Plan had assets of $25.6 billion, indicated that the Plan had grown to $29.5 billion before the financial crisis, and indicated that the Plan's fiscal year ending value of $30.1 billion represented a new high for the Plan. Mr. King noted that since the Commission's inception, the Plan had paid out $11.2 billion in net benefits.

He noted that public equity, equity options, private equity, mixed credit and private debt all had double-digit returns for the fiscal year and the interest rate sensitive assets (most notably, core fixed income, public real estate and global infrastructure) had negative returns for the year.

After further discussion of the performance information, Ms. Peggy Boykin commended Mr. Berg and staff for improving the Plan's peer rankings, as well as the overall realignment of the portfolio.

Mr. King provided an investment performance update for the month of July 2017, noting that the Plan returned 1.93 percent for the month of July, versus the policy benchmark of 1.63 percent.

Mr. Berg introduced Mr. David Hutchings, a partner with Albourne Partners. Mr. Hutchings explained that RSIC had retained Albourne as a specialty consultant for the private markets portfolio, and provided a high-level overview of the firm and the services they would provide as an extension of the investment staff.

VII. INVESTMENT RECOMMENDATIONS

Mr. Berg then introduced Mr. Steve Marino, Director, to present a recommendation to implement a Global Tactical Asset Allocation Network for the GAA portfolio. Mr. Marino identified three goals of this recommendation: (1) develop a portfolio with a more consistent excess return profile; (2) create strong economic alignment through a low base management fee, and a performance fee that rewards managers for sustained performance, not just short term success, and (3) develop a more strategic relationship with managers for greater sharing of knowledge.

Mr. Marino explained that the proposed Global Tactical Asset Allocation Network would consist of three managers: Morgan Stanley, PineBridge and Standard Life. The recommended allocation would be up to four percent for each manager. Mr. Marino presented details on the fee structure, noting the blended fees across all three managers would be a management fee of 29 basis points, a hurdle rate of 88 basis points over the benchmark, a performance fee of 11.25 percent, with an all-in blended fee cap of 87 basis points. Mr. Marino reviewed the investment considerations, including key person risk, the potential for paying performance fees in negative return environments, and active drawdown risk, and discussed each manager individually, reviewing specific differentiating factors for Morgan Stanley, PineBridge and Standard Life.

Mr. Edward Giobbe noted that in accordance with S.C. Code Section 8-13-700(B), he would not be participating in the deliberations, voting or other actions on the matter before the South Carolina Retirement System Investment Commission regarding the Morgan Stanley GTAAN Fund. Mr. Giobbe retired, and receives a pension, from Morgan Stanley. Thus, to avoid a potential conflict of interest, or even the appearance of impropriety, Mr. Giobbe recused himself from the vote. (See Exhibit "A").

Mr. Reynolds Williams made a motion to dispense with the reading of the motion because the motion was posted in advance of meeting. Mr. Gillespie seconded the motion, which passed unanimously. Mr. Gillespie then moved that the Commission (a) adopt the recommendation of the CIO and the Internal Investment Committee as set forth in each Summary Terms Chart on Page 1 of the Due Diligence Reports dated September 28, 2017 for each of the three proposed investment managers [Morgan Stanley, Standard Life and PineBridge]; (b) authorize an investment of up to four (4) percent of Plan Assets for each proposed investment manager; (c) authorize the CEO or his designee to negotiate and execute any necessary documents to implement the Investments 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 (d)authorize the CEO 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 System trust funds' obligations with respect to each proposed Investment. Mr. Williams seconded the motion, which passed unanimously.

Mr. Berg offered introductory comments regarding a proposed private equity investment with Francisco Partners, a buy out and growth equity firm focused on the technology sector. Mr. Berg noted that although RSIC would probably not get the full amount of its requested allocation from Francisco Partners because of very high investor demand for Fund V, the Investment team considered this a compelling investment opportunity. Mr. Berg then introduced Mr. Derek Connor, Senior Officer, who presented the recommendation to commit up to $125 million to Francisco Partners V. Mr. Connor noted that Albourne had provided the Investment team with investment due diligence and operational due diligence reports on Francisco, and Francisco Partners had received a pass rating from RSIC's internal operational due diligence team. Mr. Connor then reviewed Francisco Partners' background, strategy and historical performance. He noted that Francisco Partners focuses on middle market technology companies, with typical investments between $50 to $250 million in companies with enterprise values between $100 million and $1 billion. After discussion of the investment strategy, investment considerations, and other issues, Mr. Williams moved to (a) 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 September 28, 2017; (b) authorize an investment of up to $125 million; (c) approve a waiver of the three day review period; (d) authorize the CEO or his designee to negotiate and execute any necessary documents to implement the Investment as approved by the Commission upon documented approval for legal sufficiency by RSIC Legal; and (e) authorize the CEO 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 System trust funds' obligations with respect to the Investment. Mr. Gillespie seconded the motion, which passed unanimously.

A break was taken from 10:26 a.m. until 10:48 p.m.

Mr. Gillespie left the meeting and rejoined by telephone.

VIII. INVESTMENT DELEGATION POLICY

Mr. Hitchcock introduced the proposed Investment Delegation Policy (the "Policy"), which had been posted for the Commissioners to review prior to the meeting, along with proposed edits to the Policy submitted by Dr. Wilder. He explained that the proposed policy was based on amendments made to the Commission's governing statutes in the Pension Reform Act, which was enacted on July 1, 2017. The amendments granted the Commission authority to delegate certain investment decision making to the Staff within the limits outlined in the statute. He explained that the proposed policy reflects a shift in responsibilities for the Commission, from a focus on implementation of the Portfolio and manager selection to a greater emphasis on asset allocation and oversight. This shift would allow the Commission to focus on 'big picture' issues that directly impact the performance of the Portfolio, rather than the day-to-day management of the Portfolio. The proposed Investment Delegation Policy would delegate final authority to invest to the Staff, subject to specific limits and controls, as set forth in the proposed Policy. Mr. Hitchcock also noted that state law required that the Commission's investment consultant provide an analysis of the extent of investment authority delegation in other public pension funds. He explained that Meketa had performed such an analysis and thanked Meketa for all of their work in this area and noted that the report from Meketa would be made part of the public record.

Mr. Hitchcock then walked the Commission through the proposed Policy, noting that the public market staff would be allowed to commit up to 2 percent of the total value of Plan assets in public market investments (such as global public equity, mixed credit, core fixed income and other similar liquid strategies). For a private market investment, including private equity, private real estate, and private debt, Staff would be allowed to commit up to 75 basis points (.75 percent) of the total value of Plan assets in a single investment under the Policy. Publicly traded real estate investments would be limited to 1 percent of the total value of plan assets per investment. Mr. Hitchcock further explained that certain investments would still be presented to the Commission for approval, regardless of the size of the proposed investment, including investments in a new asset classes or new strategies. Dr. Wilder discussed his proposed edits, which included providing that proposed investments, other than in publicly traded assets, with direct connections to South Carolina, would also be submitted to the Commission for approval. The Commissioners discussed the types of investments that the Commission would need to approve under this section of the Policy.

Mr. Gillespie inquired about Section III of the Policy and the size of the limits on proposed investments. Ms. Boykin voiced concerns about the delegation for private markets versus publicly traded assets. She stated that if the Commission disagreed with staff, it would be harder to get capital back that has already been committed in an illiquid private market investment. Mr. Hitchcock explained that the statute does authorize the Commission to give RSIC the ability to commit up to 1 percent for private market investments, but the proposed Policy is lower than that, at 75 basis points.

The Commissioners discussed the importance of this Policy and the substantial shift in direction the Policy represents for the Commission. A lengthy discussion ensued regarding the Policy, including a possible "phase in" period for the delegation and other options to implement the Policy.

Mr. Lally of Meketa reported that Meketa researched 45 other large public state retirement systems and sought out four questions (1) who is delegating, (1) what parameters do they put in place, (3) what reporting is required to the boards, and (4) has the decision to delegate had any impact on the performance of the retirement systems? He stated that they found that half of the surveyed systems delegated investment authority to their chief investment officer ("CIO"). This is trend in the pension industry. Their analysis indicated that governing boards want to focus more on asset allocation and other strategic decisions and less on operational aspects of approving individual asset managers. They also found that our large peers are moving to delegating authority to the CIO.

Mr. Lally continued, stating that most systems treat private and public managers differently, for private market investments plans have put limits on what size commitment the system can make, in either dollars or as a percentage of plan assets. Mr. Lally concluded that plans are increasingly moving towards investment delegation to the CIO and the boards retain control over asset allocation, rather than devoting a substantial amount of time to receiving manager recommendations. Mr. Lally noted that more boards are concentrating on long-term objectives of their plans by delegating investment authority to the CIO and staff.

The Chair noted that the Commission reviews the Statement of Investment Objectives and Policies ("SIOP yearly and the delegation policy will reside in the SIOP. Discussion continued regarding the delegation limits and whether the Commission was comfortable with the proposed limits. The Chair suggested lowering the delegation for private markets investments to 50 basis points initially, and then the Commission could re-visit the issue in the Spring during its review of the SIOP. Mr. Gillespie inquired about the ability to include a provision in proposed contacts permitting the Commission to rescind a private market investment made under the Policy at the next Commission meeting if the Commission had objections to the investment. To which Ms. Betsy Burn, Chief Legal Officer, explained that it would be highly unlikely that many investment managers would agree to such a right of rescission. Mr. Hitchcock reminded the Commissioners that they would have access to the investment pipeline, which would provide the Commissioners insight into proposed investments during the due diligence period A lengthy discussion regarding delegation issues ensued. The Commissioners requested that all contracts and due diligence materials be provided to the Commissioners for a three day review period prior to closing any investment under the Policy.

After additional discussion, Mr. Williams made a motion to (a) approve and accept the Report on Delegation by Meketa Investment Group as sufficient for purposes of compliance with S.C. Code Ann. Section 9-16-330(E); (b) adopt the Investment Delegation Policy, as amended during the meeting and as modified below; add the Investment Delegation Policy to the Statement of Investment Objectives and Policies ("SIOP") as amended and adopted on June 22, 2017; and reaffirm the SIOP, as amended; (c) approve the delegation of the final authority to invest to the Chief Investment Officer, subject to compliance with requirements of S.C. Code Ann. Section 9-16-330 and within the parameters established in the SIOP as amended; and (d) accept the amendments as discussed during the meeting and incorporate them into the final policy. The policy will go into effect after the inclusion of the agreed upon amendments and upon review and acceptance by the Chair. Mr. Giobbe seconded the motion, which passed unanimously.

IX. GENERAL INVESTMENT CONSULTANT REPORT

Mr. Benham, Managing Director and Director of Research for Meketa, presented Meketa's Initial Fund Review of the Plan. He noted that the review was extensive and Meketa had not identified any red flags or serious concerns to be brought to the Commission for immediate action. Mr. Benham provided an overview of the areas covered by the review which had been assigned priority ratings for potential improvement opportunities and areas for which Meketa requested additional input from the Commission. He emphasized the importance of asset allocation, as the single most influential determinant of how the Plan performs. He stated that Meketa would be providing a comprehensive presentation on asset allocation during the December Commission meeting. Mr. Benham also discussed fund governance, benchmarking, portfolio structure, equity options, and emerging market debt as part of his presentation. Commissioners asked questions throughout the discussion and Meketa provided additional information as requested.

12:52 p.m. Mr. Gillespie left the meeting.

X. EXECUTIVE SESSION

Dr. Wilder made a motion that the Commission recede into Executive Session to receive advice from legal counsel pursuant to S.C. Code Section 40-4-70(a)(2) related to litigation filed by American Timberlands Fund II, LP; to discuss investment matters pursuant to S.C. Code Sections 9-16-80 and 9-16-320; and to discuss personnel matters related to CEO performance and compensation pursuant to S.C. Code Section 30-4-70(a)(1). Mr. Giobbe seconded the motion, which passed unanimously.

XI. POTENTIAL ACTION RESULTING FROM EXECUTIVE SESSION

Upon a return to open session at 3:52 p.m., Mr. Williams made a motion that the Commission adopt the recommendation of the CIO and the Internal Investment Committee as set forth in the memo dated September 14, 2017 regarding TimesSquare Capital Management, LLC ("TimesSquare"); authorize the renewal of the Commission's contractual relationship with TimesSquare for another period of up to five years upon the terms outlined in the September 14, 2017 memo; and authorize the CEO or his designee to negotiate and execute any documents to implement the renewal of the investment 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 process may be amended or superseded by the Commission). Mr. Giobbe seconded the motion, which passed unanimously.

The Chair indicated that the Commission had a second motion based on the outcome of the CEO performance review that was conducted in Executive Session. Mr. Williams made a motion that the Commission authorize the compensation increase for Mr. Hitchcock as discussed in executive session and directs the human resources department and other necessary parties to take all action necessary to implement the decision as approved by the Commission and directs that the salary increase be disclosed to the public and in the official minutes of the Commission meeting after the increase has been communicated to Mr. Hitchcock. Mr. Giobbe seconded the motion. Mr. Williams noted for the record that the Commission found Mr. Hitchcock's work to be exemplary. Mr. Hitchcock's annual salary, effective as of October 2, 2017, is $284,583.00.

XII. ADJOURNMENT

There being no further business, upon a motion made by Mr. Williams and seconded by Mr. Giobbe, the Commission voted unanimously to adjourn. The meeting adjourned at 3:54 p.m.

[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 at the entrance, in the lobbies, and near the 15th Floor Presentation Center at 1201 Main Street, Columbia, S.C., at 4:54 p.m. on September 25, 2017.]

Exhibit "A"

In accordance with S.C. Code Section 8-13-700(B), I will not be participating in the deliberations, voting, or other actions on the matter before the South Carolina Retirement System Investment Commission regarding the Morgan Stanley GTAAN Fund. I retired from and receive a pension from Morgan Stanley. Thus, to avoid a potential conflict or even the appearance of impropriety, I will recuse myself from the vote.

I understand that this statement will be attached to the minutes for the September 28, 2017 Commission meeting.

Edward N. Giobbe

Edward N. Giobbe

28 Sept 17

Date