

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

April 22, 2014

**South Carolina Retirement System Investment Commission
1201 Main Street, 15th Floor
Columbia, SC 29201
Meeting Location: Presentation Center and Teleconference**

Committee Members via Telephone:

Mr. Allen Gillespie, Chairman
Mr. Edward Giobbe
Mr. Travis Turner

Others present for all or a portion of the meeting on Tuesday, April 22, 2014:

Gail Cassar, Andrew Chernick, Sarah Corbett, Dori Ditty, Robert Feinstein, Hershel Harper, Monica Houston, and Katie Walker from the South Carolina Retirement System Investment Commission (“RSIC”); Melinda Al-Hasan and David Padgett from the State Treasurer’s Office; Donald Tudor from The State Retirees Association of South Carolina.

- I. **Call to Order:** Chairman Allen Gillespie called the meeting of the RSIC Audit Committee (“Committee”) to order at 10:06 a.m. Chairman Gillespie requested a motion to approve the proposed agenda. Mr. Edward Giobbe made a motion to approve the April 22, 2014 proposed agenda, which was seconded by Mr. Travis Turner and passed unanimously.
- II. **Review of Annual Investment Plan (“AIP”) and Statement of Investment Objectives (“SIOP”)**
Audit Results: Ms. Monica Houston, Chief Audit Officer, noted that the Internal Audit Team reviewed the AIP and SIOP for period ending December 31, 2013. Ms. Houston referenced the Audit Report results handout given to the Audit Committee members, noting there were no significant deficiencies found. Ms. Houston listed the summary of control strengths, which included:
- The Commission reviews and approves the AIP by May 1, 2013 in accordance with the statute prior to the start of the new fiscal year;
 - The CIO delivers the proposed AIP by April 1 deadline in accordance with the statute;
 - Commission meetings are held at least every quarter during which portfolio performance is discussed based on presentations from the CIO and the external consultant, HEK;
 - Potential new investments are vetted by the Internal Investment Committee (“IIC”) prior to being presented to the Commission for their approval;
 - Due Diligence is performed on all potential new investments by the internal investment team and external consultant, HEK;
 - The desired rate of return is set by statute and serves as a benchmark for performance used by the Commission; and

- The Consultant reviews the portfolio for compliance with the AIP in effect during the performance period as an additional risk management measure.

The summary of control opportunities from the Report included:

- A procedure which outlines the preparation process for the AIP was not documented with sufficient clarity to aid the CIO in developing an AIP that clearly meets the parameters outlined in the statute;
- The Commission manages and monitors the 70% allocation to equities on a cost basis which may not accurately reflect RSIC's equity position in the current market; and
- The CIO currently grants conditional approval for new investments and resolutions of such conditions are not formally documented or monitored.

Ms. Houston briefly explained the framework utilized to risk rate audit observations. The Report found no high risk observations, only three medium risk observations, which included:

1. There is currently no document that outlines the procedures for preparing the annual AIP and SIOP which could serve as a blueprint for proper preparation in future years;
2. The CIO provides conditional approvals for new investments and resolutions of the conditions do not appear to be appropriately documented and monitored; and
3. The Commission manages the statutory requirement of 70% allocations to equities on a cost basis instead of on a market basis.

Discussion ensued regarding observation three. It was determined follow up would occur once the new administrator was implemented regarding cost versus market basis, as well as the addition of more timely, standard reporting. For each of the three risk observations, Ms. Houston detailed the target date and action plan for completion. According to the Audit observations framework, management should attempt to begin implementing its corrective action plans within 60 days from report issue date for risk observations rated "medium". Ms. Houston reiterated that medium risk observations are not likely to have a critical, immediate, or significantly adverse impact on the organization.

Ms. Houston noted one process enhancement from the Report that read:

- "Although quarterly investment reports are provided in accordance with the statutory guidelines, additional monthly reporting could be included as a part of the standard periodic reporting package distributed to the Commission. This additional and improved reporting would enhance the Commission's oversight ability and aid in proactive investment management."

It was determined that no action needed to be taken to the language within the AIP and SIOP at this time. The Internal Audit Report regarding the AIP and SIOP would be presented to the full Commission at the May 1, 2014 meeting.

III. Revised Audit Committee Charter: Ms. Houston detailed the revisions to the Audit Committee Charter, which incorporated the new entity of Enterprise Risk Management ("ERM") and reflected

the recent segmentation of Internal Audit and Compliance. Discussion ensued regarding job responsibilities, compensation, and reporting duties for Ms. Houston and Mr. Chernick, including clarification on how the Audit Committee would ensure continued independence. Chairman Gillespie requested a phone call with Funston Advisory Services to gain feedback on ERM and best practice guidelines.

Mr. Turner made a motion to approve the revisions to the Audit Committee Charter and that such be presented to the full Commission for approval on May 1, 2014. Mr. Giobbe seconded the motion and it passed unanimously.

- IV. Executive Session to discuss personnel matters pursuant to S.C. Code Ann. Section 30-4-70(a)(1) and receive advice from legal counsel pursuant to S.C. Code Ann. Section 30-4-70(a)(2):** The Audit Committee adjourned into Executive Session to discuss personnel matters pursuant to S.C. Code Ann. Section 30-4-70(a)(1) and receive advice from legal counsel pursuant to S.C. Code Ann. Section 30-4-70(a)(2) at 11:18 a.m.

The Committee reconvened into open session at 12:00 p.m. It was noted that within Executive Session the Committee approved the compensation adjustment for Ms. Houston with an effective date of April 23, 2014. Chairman Gillespie would work with appropriate staff to implement the adjustment.

- V. Adjournment:** Being no further business discussed following Executive Session, Mr. Turner made a motion to adjourn the meeting, which passed unanimously. The meeting was adjourned at 12:01 pm.

[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 15th Floor Conference Room at 1201 Main Street, Columbia, SC, at 4:00 p.m. on April 18, 2014.]