

**South Carolina Retirement System Investment Commission
Human Resources and Compensation Committee Meeting
Minutes
March 8, 2018**

**Capitol Center
1201 Main Street, Suite 1510
Columbia, South Carolina 29201**

Committee Members Present:
Dr. Ronald Wilder, Chair
Dr. Rebecca Gunnlaugsson
Mr. Reynolds Williams (via teleconference)

Others present for all or a portion of the meeting on Thursday, March 8, 2018: Geoff Berg, Betsy Burn, Andrew Chernick, Mitchell Goldsmith, Michael Hitchcock, Tricia Miller, and Brittany Storey from the South Carolina Retirement System Investment Commission (“RSIC”); and Mike Heale from CEM Benchmarking Inc. (via teleconference).

I. Call to Order and Adoption of Proposed Agenda

Chair Dr. Ronald Wilder called the meeting of the Human Resources (“HR”) and Compensation Committee (“Committee”) of the South Carolina Retirement System Investment Commission (“Commission”) to order at 10:00 a.m. Dr. Rebecca Gunnlaugsson made a motion, which was seconded by Mr. Reynolds Williams and passed unanimously, to adopt the agenda as presented.

II. Approval of Minutes (September 15, 2017)

Chair Wilder referred to the draft minutes from the September 15, 2017 Committee meeting and asked if there were any objections or corrections. Mr. Williams made a motion to adopt the minutes from the September 15, 2017 Committee meeting as presented. Dr. Gunnlaugsson seconded the motion, and it was unanimously approved.

III. Human Resources Department Update

Mr. Andrew Chernick, Chief Operating Officer (“COO”), introduced Mr. Mike Heale of CEM Benchmarking Inc. (“CEM”) and explained that CEM is known worldwide for their investment management fee studies. Recently, CEM has begun providing clients with reporting that benchmarks their full-time employees (“FTEs”) against a custom peer group. Mr. Chernick noted that Mr. Heale would give an overview of the recently released 2016 calendar year RSIC FTE Report (“FTE Report”). Mr. Heale explained that the custom peer group used for analysis in the FTE Report is selected based on complexity, which is defined as complexity of asset mix and investment implementation approach as well as asset size. He noted that RSIC’s peer group matches with plans that have medium complexity in general. More specifically, RSIC’s peer group plans have high complexity regarding asset mix but lower complexity regarding implementation approach. Mr. Heale noted that, at a high level, the FTE Report indicates that RSIC’s staffing of front-office, investment FTEs was as expected

versus RSIC's peer group. However, it appears that RSIC is running a bit lean on governance, operations, and support FTEs.

Mr. Heale noted that this FTE Report is best utilized as a planning tool particularly around what FTE changes could be needed in the event of an expected change in asset class, change to implementation style, and/or growth in assets. Mr. Chernick noted that Staff will continue receiving the FTE Report on an annual basis and will share it with the Commission.

Next, Chair Wilder referenced the Charter of the Committee ("Charter") and asked if there were any comments regarding the proposed updates. Mr. Hitchcock explained that the purpose of the updates was to roll the Committee's responsibility to conduct an annual evaluation of the Committee and its members into the broader Commission evaluation process required under the Commission's Governance Policies ("Governance Policies"). He added that Staff will be proposing the same change to the Audit and Enterprise Risk Committee's Charter in the near future. Then, Chair Wilder made a suggestion that the Committee make an addition to the Charter. He suggested that, as part of the CEO's evaluation, the Committee discuss the CEO's evaluation with the Commission Chair and make recommendations to the Commission regarding adjustments to the CEO's salary. Dr. Gunnlaugsson agreed with Chair Wilder's proposed change. The Committee then had a discussion regarding the CEO evaluation process. Chair Wilder noted that the Committee would need to meet in September of each year to make suggestions regarding the CEO's salary.

After much discussion, Dr. Gunnlaugsson made a motion that the Committee accepts the recommendation of the Chair and Staff to amend the Charter of the Human Resources and Compensation Committee ("Charter") and recommends that the Commission (i) adopt the proposed revisions to the Charter as presented; and (ii) authorize Staff to make any technical revisions to the Charter and other RSIC policy documents to reflect this Commission decision. Mr. Williams seconded the motion, and it was unanimously approved.

Next, Mr. Hitchcock turned to the topic of the Commission's Compensation Policy. He reminded the Committee that the Pension Reform Act of 2017 made a number of changes to the CEO's responsibilities as chief administrative officer of RSIC and the CEO's role in employing, overseeing, and setting compensation for the Chief Investment Officer ("CIO") as well as other members of Staff. Mr. Hitchcock noted that the updated Compensation Policy adds the Bank of New York Mellon investment performance universe to the pool of sources that will be referenced when determining employee merit increase budgets. He added that the appendices were updated to reflect the latest compensation data received from the Commission's compensation consultant, Towers Watson & Co. ("Towers Watson").

Dr. Gunnlaugsson then made a motion that the Committee accepts the recommendation of Staff to amend the Commission's Compensation Policy ("Compensation Policy") and recommends that the Commission (i) adopt the proposed revisions to the Compensation Policy as presented; and (ii) authorize Staff to make technical revisions to the Compensation Policy and other RSIC policy documents to reflect this Commission decision. Mr. Williams seconded the motion, and it was unanimously approved.

Next, the Committee turned the discussion to the CEO and Staff evaluation processes. Mr. Hitchcock first discussed the Staff evaluation process, which he stated is designed to streamline performance evaluations. He explained that Staff begin their evaluation planning

discussions with their supervisors at the beginning of the fiscal year, including establishing goals. He stated that supervisors are now encouraged to have quarterly feedback discussions with their employees. Subsequently, at the mid-point of the fiscal year, supervisors have informal sit-down discussions about performance with their direct reports. Then, in June of each year, formal evaluations take place. Mr. Hitchcock also overviewed the new form that will be used to evaluate Staff.

Mr. Hitchcock stated that the employee performance evaluation process needs to be completed by August of each year. Around that time, RSIC will receive final investment performance numbers, which will dictate the size of the merit increase pool. Mr. Hitchcock further explained that, once final Portfolio ("Portfolio") performance numbers are received, the CEO, COO, CIO, and Chief Legal Officer meet to review Staff's performance scores. The CEO then determines the order of merits for which scores correspond to merit increases.

Dr. Gunnlaugsson inquired about the effectiveness of the benchmarking process in determining the merit increase pool. Mr. Hitchcock explained that the current process for determining merit increases has only been conducted once and that the determination is made based on the factors as set forth in the Compensation Policy, including Portfolio performance. Dr. Gunnlaugsson expressed concern about whether Staff could be adequately rewarded for good investment performance under the Compensation Policy. Mr. Hitchcock opined that the Compensation Policy may need to be reevaluated in order to ensure conservative investment behavior is encouraged.

Next, Mr. Hitchcock referenced the CEO evaluation process and stated that the process has been discussed previously. He asked if there were questions. Hearing none, he suggested the Committee move on to other matters.

Mr. Hitchcock then turned the conversation to the proposed Request for Proposal for a compensation consultant. He explained that RSIC's contract with Towers Watson would be expiring soon and that the Governance Policies require that a compensation study be conducted once every three years. Mr. Hitchcock expressed concern about conducting another study at the current time given the expense and the short time period the current Compensation Policy has been in place. Mr. Hitchcock stated that he recommends waiting at least one year before conducting another compensation study and utilizing a new vendor to obtain compensation ranges for position slotting purposes. Dr. Gunnlaugsson expressed her agreement with Mr. Hitchcock's suggestion.

Dr. Gunnlaugsson made a motion that the Committee accepts the recommendation of the CEO to delay the compensation study as required by the Governance Policies and recommends that the Commission (i) adopt the proposed delay to the Governance Policy; and (ii) authorize Staff to take steps accordingly. Mr. Williams seconded the motion, and it was approved unanimously.

IV. Executive Session

Dr. Gunnlaugsson made a motion to recede into Executive Session to discuss personnel matters, including an update regarding compensation matters, pursuant to S.C. Code Ann. § 30-4-70(a)(1). Mr. Williams seconded the motion, which was unanimously approved.

V. Potential Actions Resulting from Executive Session

Upon return to open session, Dr. Gunnlaugsson made a motion that the Committee accepts the recommendation of Staff, as discussed in Executive Session, relating to the slotting of two Managing Director positions in accordance with the Commission's Compensation Policy. Mr. Williams seconded the motion, which passed unanimously.

VI. Adjournment

There being no further business, Dr. Gunnlaugsson made a motion to adjourn. Mr. Williams seconded the motion, and it was approved unanimously.

[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 on March 6, 2018 at 4:52 p.m. at the entrance, in the lobbies, and near the 15th Floor Presentation Center at 1201 Main Street, Columbia, S.C.]