

RONALD P. WILDER, PH. D
CHAIR

PEGGY G. BOYKIN, CPA
COMMISSIONER

WILLIAM (BILL) J. CONDON, JR. JD, MA, CPA
COMMISSIONER

EDWARD N. GIOBBE, MBA
COMMISSIONER



RETIREMENT SYSTEM INVESTMENT COMMISSION

REBECCA M. GUNNLAUGSSON, PH. D¹
VICE-CHAIR

ALLEN R. GILLESPIE, CFA
COMMISSIONER

WILLIAM (BILL) H. HANCOCK, CPA
COMMISSIONER

REYNOLDS WILLIAMS, JD, CFP
COMMISSIONER

Commission Meeting Agenda

Thursday, September 13, 2018 9:30 a.m.

RSIC Presentation Center

- I. Call to Order
- II. Chair's Report
 - A. Committee Assignments
- III. CEO's Report
 - A. Budget Review & Approval
- IV. Investment Recommendations
 - A. Core Real Estate
- V. Executive Session – To discuss investment matters pursuant to S.C. Code Sections 9-16-80 and 9-16-320; to discuss negotiations incident to proposed contractual arrangements, and to receive advice from legal advice pursuant to S.C. Code Section 30-4-70(a)(1) and (2).
- VI. Potential Action Resulting from Executive Session
- VII. Adjournment

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Proposed Slate Of Committee Assignments

Human Resources & Compensation Committee

Rebecca Gunnlaugsson
Ron Wilder
Ed Giobbe

Audit & Enterprise Risk Management Committee

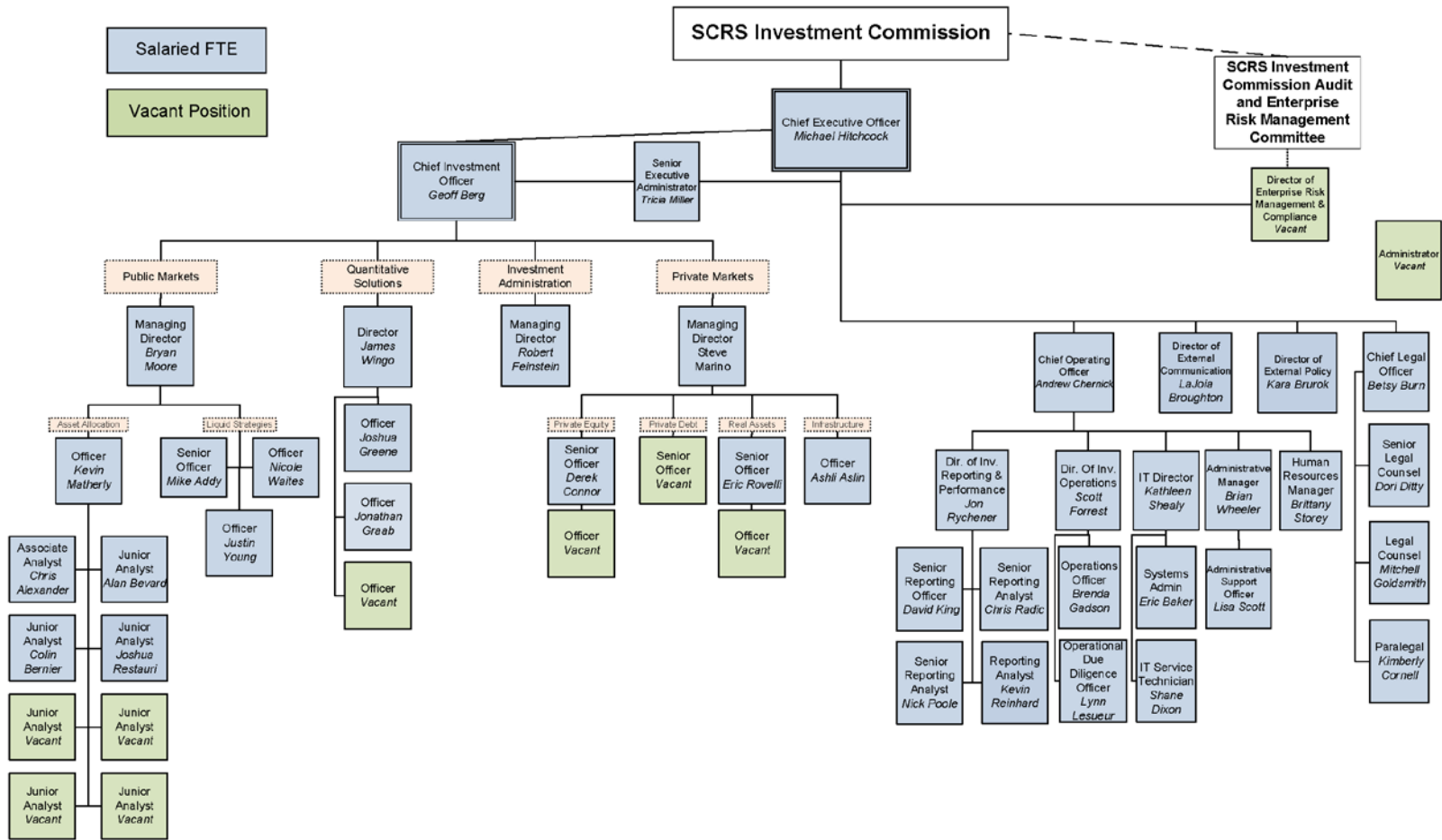
Bill Hancock
Bill Condon
Peggy Boykin

Retirement System Investment Commission

Budget Request 2019-2020

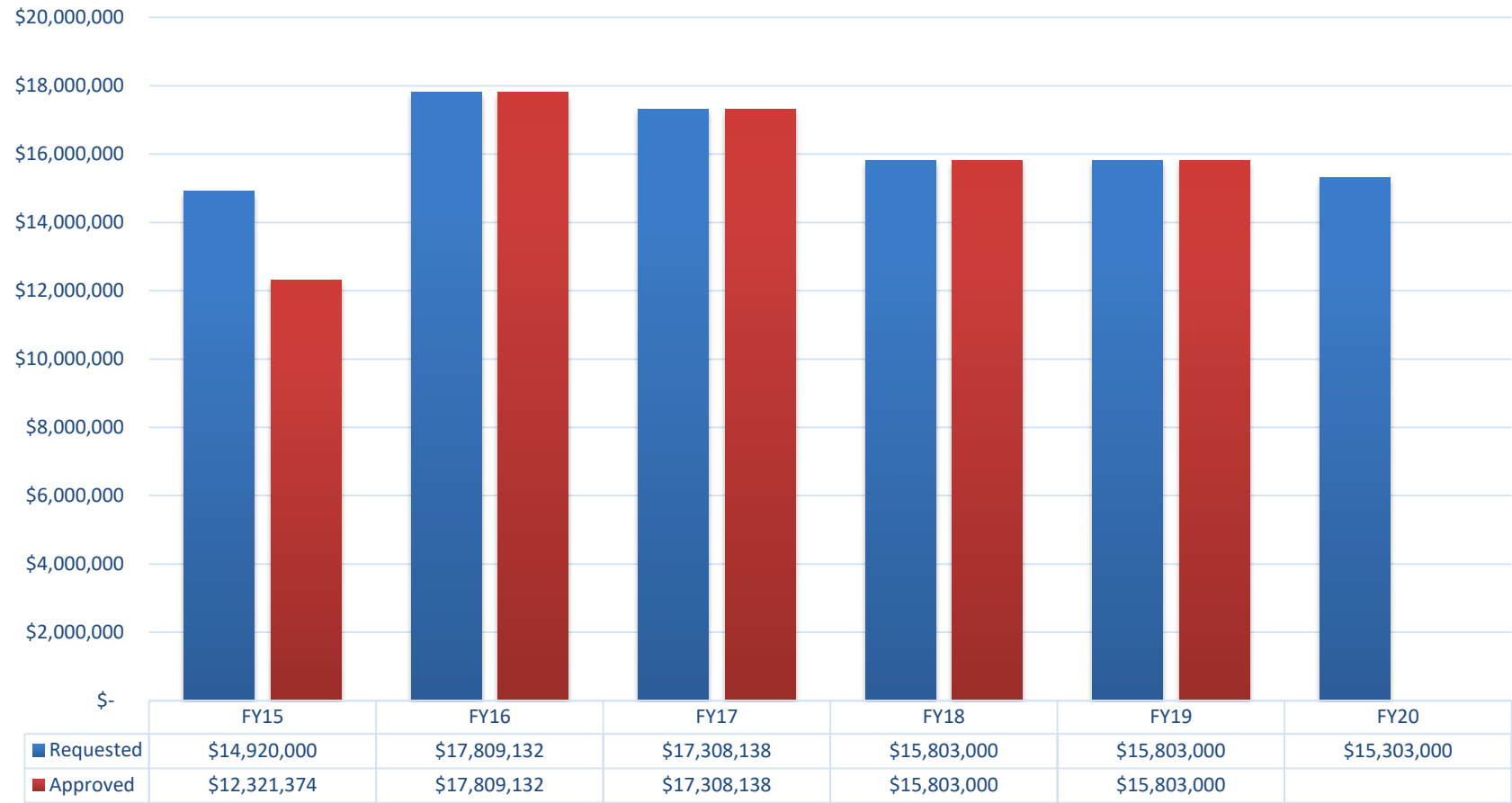


Organizational Chart



Appropriations History (since FY15)

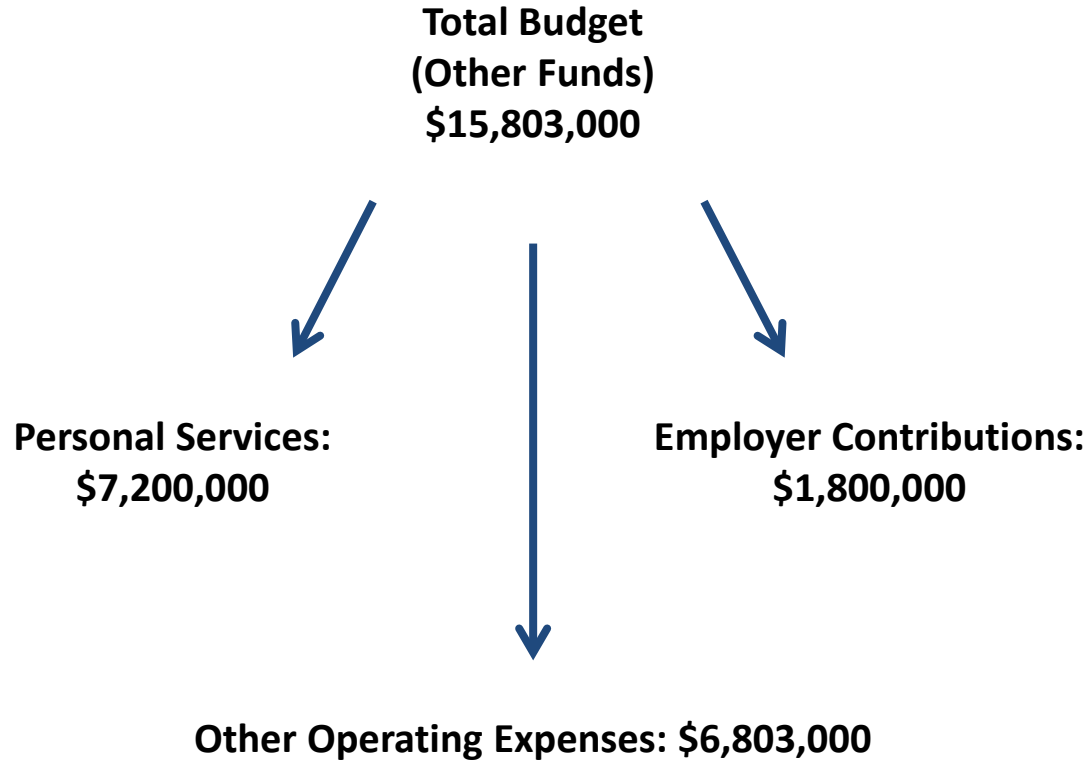
RSIC is solely Other Funds



FY 17-18 Expenditures

- Additional expenditures were processed for FY17-18 for the following initiatives:
 - Additional IT costs as a result of migration from PEBA
 - Initial payments of Fiduciary Audit
 - Initial contracts for Meketa & Albourne

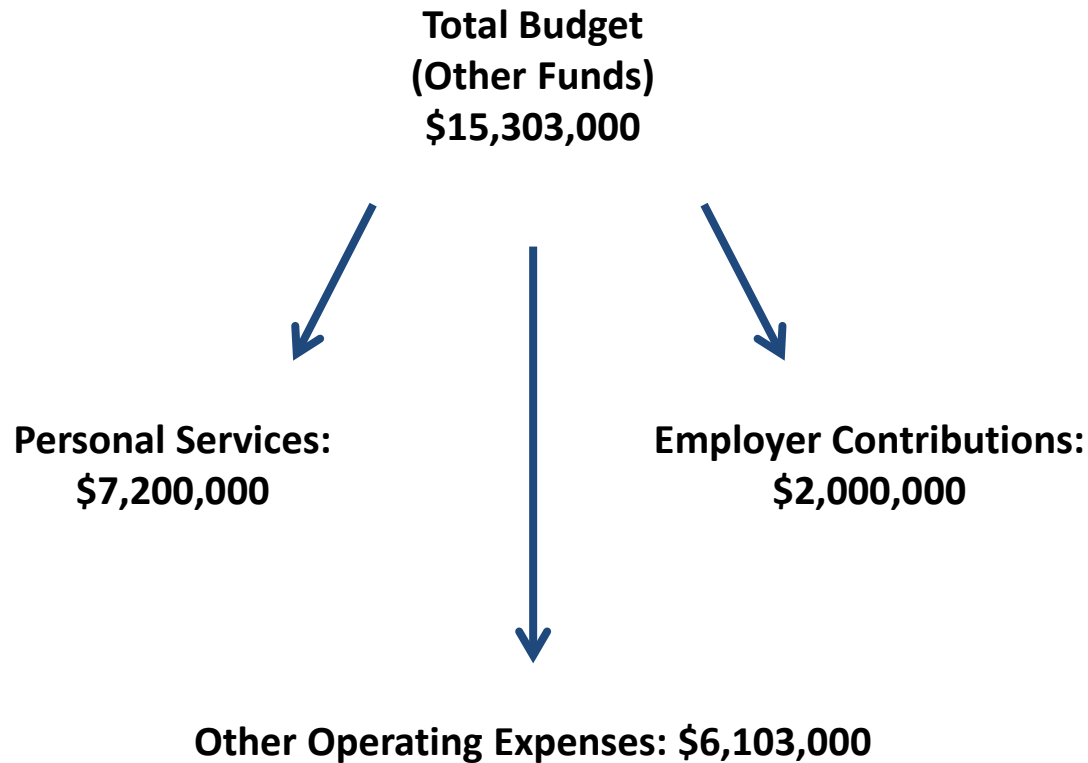
RSIC FY 18-19 Current Funding



FY 18-19 Anticipated Expenditures

- Additional expenditure developments are anticipated for the following initiatives:
 - Microsoft Dynamics System
 - Fiduciary Audit
 - Filling open FTE positions (personal services)
- Continuous evaluation of system providers and services may result in significant cost savings.

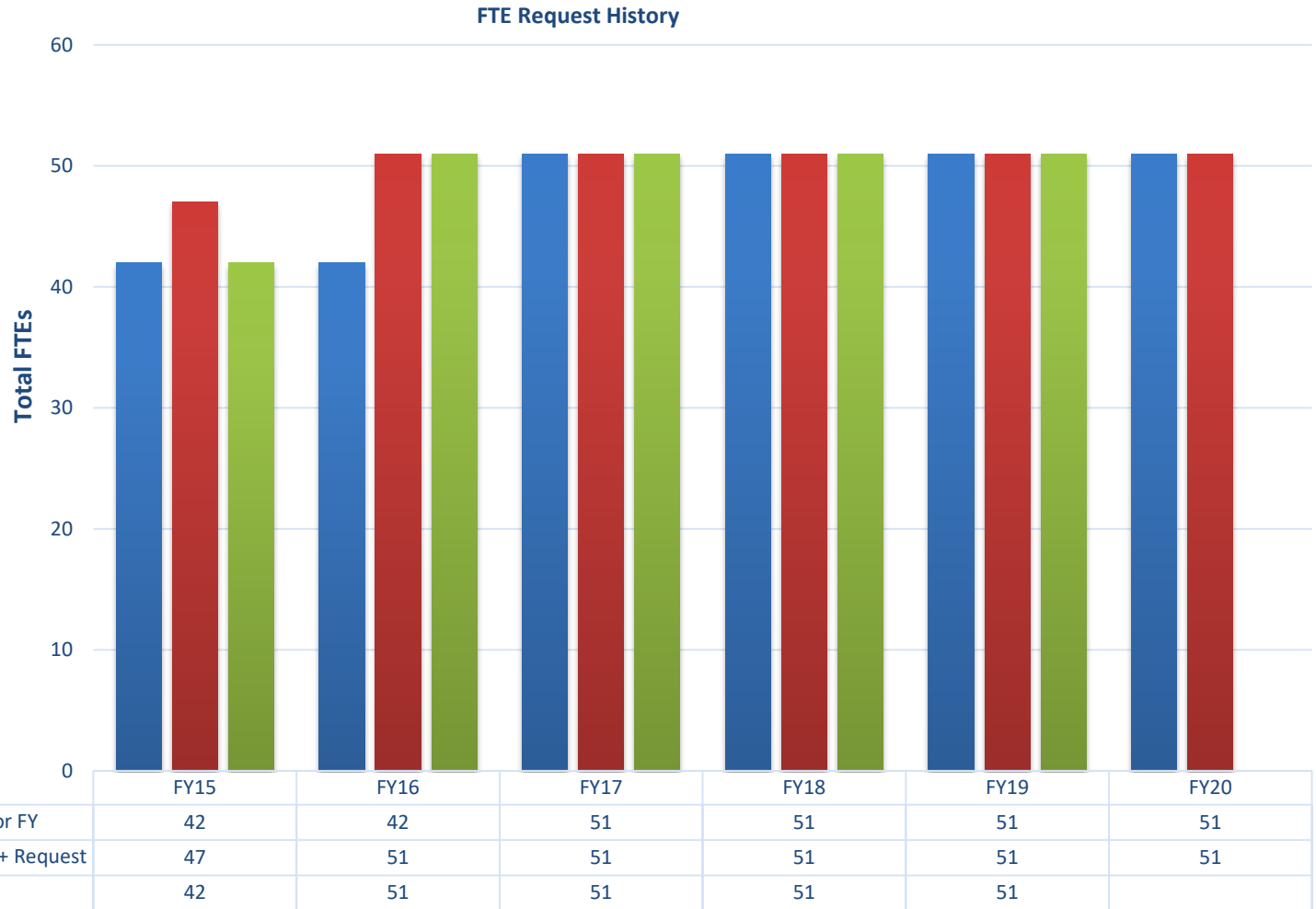
RSIC FY 19-20 Budget Request



Budget Request Summary for FY19-20

- The Commission is requesting a \$500,000 reduction in other funds authorization.
- The Commission is not requesting any additional FTEs for FY20 and has plans in place to continue to fill open FTEs to best meet the needs of the agency.

5 Year FTE Request vs. Approved



Full Time Employee (FTE) Status Update

- 10 Vacant FTEs
 - 1 Director of Enterprise Risk Management and Compliance
 - 1 Administrative Support Position
 - 3 Private Market Positions
 - 1 Quantitative Solutions Group
 - 4 Junior Analysts

Core and Core Plus Allocation Recommendation

Eric Rovelli, CFA

Chris Alexander

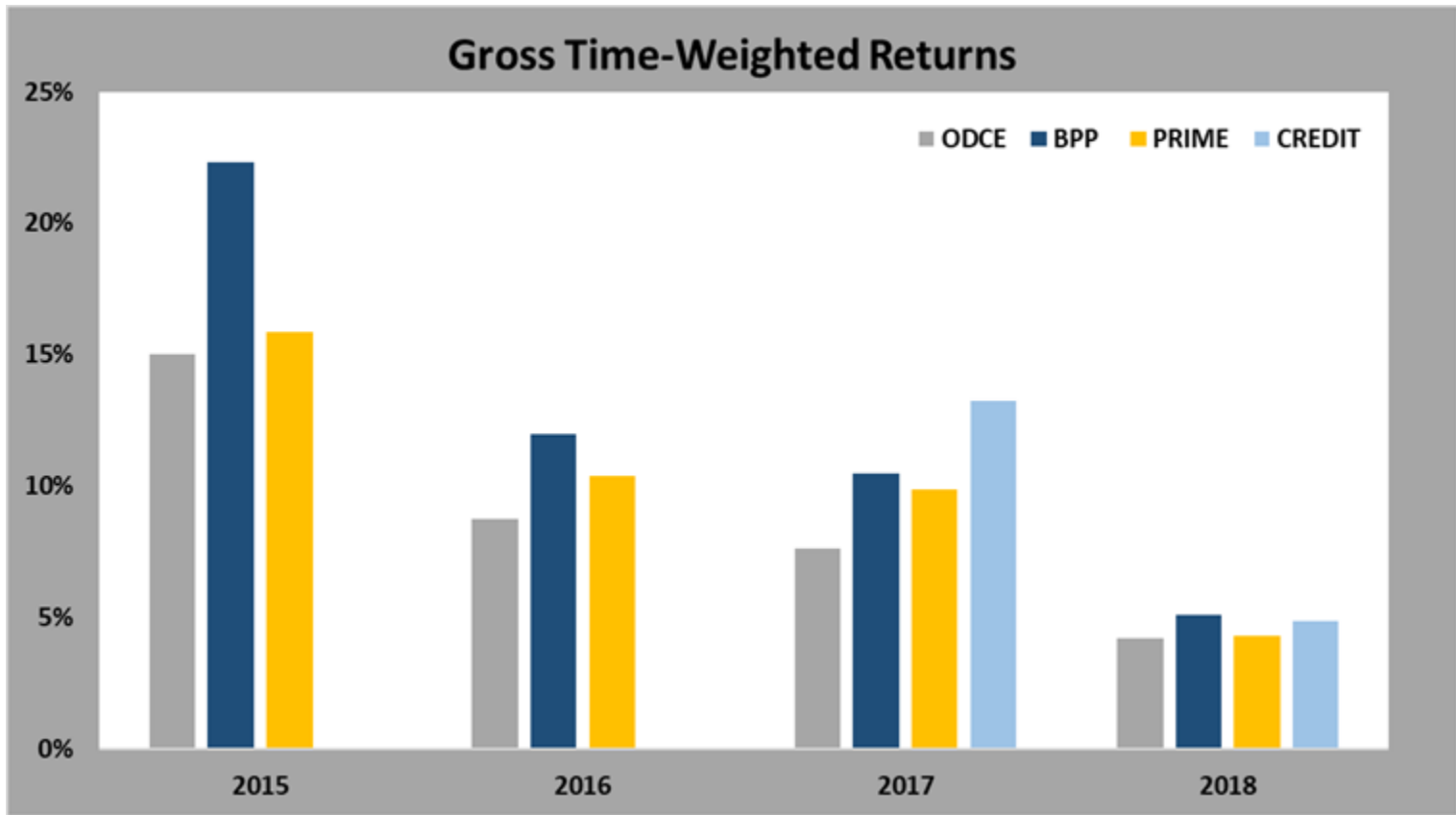
Chris Radic, CFA

Understanding Real Estate Categories

- **Core strategies:** stable, income-producing properties, low leverage
- **Core-plus strategies:** similar to core strategies, but properties may require additional investment or use slightly more leverage
- **Value added:** somewhat more risky, properties often require greater capital investment to achieve a re-positioning, re-leasing, or other improvement, elevated leverage used
- **Opportunistic:** higher risk properties with potential to achieve high returns, may involve distressed situations, may include higher leverage



- **Real Estate Allocation increased from 8% to 9% as outlined in the SIOP**
 - Private real estate increases from 6% to 8%
 - Public real estate decreases from 2% to 1%
- **Shifting to a more conservative “Baseline” portfolio**
 - Increase Core strategies from 1/2 to 2/3 of private Real Estate allocation
- **Combined changes create need for 2.2% additional Core and Core Plus exposure**
- **Looking to expand capacity in existing strategies to meet portfolio need**
 - Strong track records across Core strategies vs. NCREIF ODCE benchmark
 - No significant personnel changes
 - No evidence of significant strategy changes



	Since Inception Return	ODCE Return
BPP (Q3 '15)	11.4%	8.8%
PRIME (Q3 '16)	9.8%	8.2%
CREDIT (Q1 '18)	4.9%	4.2%

*As of 6/30/2018

Staff is recommending expansion of the existing Core and Core Plus Managers as follows:

- **Up to 3% of plan assets: Morgan Stanley PRIME – Core**
 - Current Authorization: \$400M (~1.25% of Plan)
- **Up to 2% of plan assets: Blackstone Property Partners – Core Plus**
 - Current Authorization: \$300M (~1% of Plan)
- **Up to 1.25% of plan assets: Heitman CREDIT**
 - Current Authorization: \$200M (~0.6% of Plan)

Appendix: Summary of Core Strategies

- **Overview:** Core open-end real estate equity fund
 - \$26 billion in gross real estate assets under management
 - 44 year track record
 - RSIC invested \$400 million
- **Strategy:** :
 - U.S., Class A income-producing properties
 - Up to 15% value-add (currently only 8%)
 - Typically targets 8-9% gross returns
- **Performance since PRIME Inception:**
 - Top-performing fund in recent years
 - Gross time-weighted return of 9.2% back to 1973
 - Since 1978, PRIME has outperformed ODCE by 50 bps annually (9.2% vs. 8.7%)
- **Fees:** 84 bps asset management fee on NAV and up to 35 bps incentive calculated on growth of Net Operating Income
 - 114.6 bps average fee over the last five years

Blackstone Property Partners (BPP)

- **Overview:** Core Plus open-end real estate equity fund
 - \$17 billion in gross real estate assets under management
 - Fund launched in 2014 (RSIC invested in July 2015)
 - RSIC invested \$300 million
- **Strategy:**
 - High quality properties via larger, less competitive transactions
 - Modest property repositioning can be a part of the strategy
 - Up to 15% in development (no existing ground-up developments underway)
 - Targets 12% to 14% gross IRR
- **Performance since BPP Inception (in 2015):**
 - gross time-weighted return of 13.7%
 - During short track record, BPP has outperformed ODCE by 280 bps annually
- **Fees:** 85 bps asset management fee on invested (\$300M+ committed)
 - Plus, 10% incentive fee over a 7% preferred return and 50/50 catch-up

- **Overview:** Core Plus open-end real estate debt fund
 - Fund began in 2017
 - RSIC committed \$200 million. Nearly \$50 million called thus far (beginning in January 2018).
- **Strategy:**
 - Originate floating-rate, full-stack senior loan on income producing US properties (no development)
 - Both primary and secondary markets
 - Returns derived from interest income, origination, prepayment, and extension fees
 - Leverage up to 45% LTV
 - Targets 7.5% to 9.5% net IRR
- **Performance since CREDIT inception (2017):**
 - Gross time weighted return of 11.8%
 - Since 2017, CREDIT has outperformed ODCE 11.8% to 8.46%, respectively
- **Fees:** Currently paying a blended fee of 69 bps on called capital
 - 65 bps on initial \$100 million with Founder's Fee discount
 - 73 bps on future allocations