

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

**June 22, 2017 9:30 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 (Absent)
Mr. Allen Gillespie
Mr. Edward Giobbe
Mr. Curtis Loftis, State Treasurer
Mr. Reynolds Williams (Via Telephone)

Others present for all or a portion of the meeting on June 22, 2017: Christopher Alexander, Geoff Berg, Collin Bernier, Alan Bevard, LaJoia Broughton, Betsy Burn, Alexander Campbell, Andrew Chernick, Kim Cornell, Greg Cowell, Dori Ditty, John Farmer, Robert Feinstein, Scott Forrest, Mitchell Goldsmith, Jonathan Graab, Chandler Hill, Michael Hitchcock, David King, Lynn Lesueur, Steve Marino, Tricia Miller, Bryan Moore, Eric Rovelli, Kathleen Shealy, Brittany Storey, James Wingo and Raven Woods from the South Carolina Retirement System Investment Commission (“RSIC”); Clarissa Adams, State Treasurer’s Office; Suzanne Bernard and Tim McEnery from Aon Hewitt Investment Consulting; Wayne Bell, Sam Griswold and Wayne Pruitt from the State Retirees’ Association of South Carolina.

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 9:30 a.m. Mr. Allen Gillespie made a motion to approve the proposed agenda as presented. Mr. Edward Giobbe seconded the motion, which was approved unanimously.

The Chair referred to the draft minutes from the April 27, 2017 Commission Meeting as presented and asked whether there was a motion to approve the minutes. Dr. Ronald Wilder made a motion to approve the minutes as presented. Mr. Edward Giobbe seconded the motion, which passed unanimously.

II. CHAIR’S REPORT

The Chair began her report by recognizing that due to some changes to the Commission’s structure required by the Pension Reform Act (the “Act”) which will go into effect on July 1, 2017, this would be Mr. Curtis Loftis’ last meeting as a member of the Commission. She thanked him for his work with the Commission and his service to state government. Mr.

Michael Hitchcock, CEO, also recognized Mr. Loftis and thanked him for his service to the Commission. The Chair then turned to a discussion of certain provisions of the Act, including a provision in the Act providing the Commission with the ability to delegate to the CEO the authority to execute contracts relating to the closing of investment matters. Dr. Wilder moved that the Commission, in accordance with 2017 S.C. Acts 13, Pt. III, §10, delegates to the Chief Executive Officer the full authority to act on behalf of the Commission to execute any documents necessary to implement a duly authorized final decision to invest upon documented approval for legal sufficiency by RSIC Legal and 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 otherwise superseded or rescinded by the Commission). This delegation shall take effect on July 1, 2017. Mr. Gillespie seconded the motion, the motion passed, with Mr. Loftis abstaining.

Next, the Chair and CEO noted that certain edits were needed to the Governance Policies and the Placement Agent Policy to reflect changes required by the Act. Staff had posted drafts of the proposed changes to the Governance Policies and the Placement Agent Policy in advance of the meeting for the Commissioners to review. Mr. Giobbe moved that the Commission amends, effective July 1, 2017, Governance Policies I through VIII as presented, and as amended by the proposed revisions dated June 15, 2017 from the Chair and Vice Chair, to bring the Governance Policies into conformity with 2017 S.C. Acts 13, and directs Staff to make any technical revisions or formatting edits to the Governance Policies and other RSIC policy documents consistent with the foregoing amendments. Mr. Reynolds Williams seconded the motion, with Mr. Loftis opposing, and the motion passed.

Dr. Wilder then moved that the Commission adopts, effective July 1, 2017, the proposed revisions to the Placement Agent Policy as presented; directs Staff to incorporate the revised Placement Agent Policy into the Statement of Investment Objectives and Policies (“SIOP”); reaffirms the SIOP, as amended; and directs Staff to make any technical revisions or formatting edits to the Placement Agent Policy and other RSIC policy documents consistent with the action taken by the Commission. Mr. Giobbe seconded the motion. Mr. Loftis opposed the motion, which passed. The Commissioners discussed the new statutory provision regarding placement agents and implementation issues related to the Policy.

III. INVESTMENT RECOMMENDATION

Mr. Berg began by noting that the RSIC needed to consider real estate strategies that are more defensive in nature and not as dependent on continued growth in property values because the commercial real estate market is in the latter stages of the market cycle. He then introduced Mr. Alexander Campbell, Investment Officer, who gave a presentation on a proposal to invest \$100 million in Brookfield Real Estate Finance Fund V (“BREF V”), a \$3 billion commingled real estate debt fund. Mr. Campbell reminded the Commission that the RSIC has several other investments with Brookfield, including two of their prior real estate debt funds, Brookfield manages approximately \$225 billion in assets globally, and is the second largest property manager in the world. He stated that BREF V will employ a value-add strategy, with Brookfield originating whole loans and then syndicating the senior piece of the loan to a third party, while retaining the mezzanine-level loan. Mr. Campbell noted that BREF V will focus on primary markets within the U.S., but will retain the option to invest up to 20% of assets in select markets outside the U.S. In response to a question regarding the size

of the trust funds' total relationship with Brookfield, Mr. Berg indicated that RSIC currently has approximately \$300 - \$400 million invested in a total of four Brookfield real estate and private equity funds.

After further discussion, Dr. Wilder moved for a motion (a) to 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 May 25, 2017; (b). authorize an investment of \$100 million to Brookfield Real Estate Finance Fund V; (c) authorize the Chair or her designee to negotiate and execute any necessary documents to implement the Investment as approve 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 Chair and/or the CIO or their designee(s) to thereafter authorize the custodian of funds to transfer such funds as necessary to meet the Retirement System trust funds' obligations with respect to the Investment. Mr. Williams seconded the motion, which passed, with Mr. Loftis opposed.

IV. AUDIT AND ENTERPRISE RISK MANAGEMENT COMMITTEE REPORT

Mr. Allen Gillespie stated that the Audit and Enterprise Risk Management Committee was still engaged in the search for the ERM/Compliance position. Mr. Andrew Chernick, Managing Director of Operations and Operational Due Diligence, is still serving in that role until the position is filled. Mr. Gillespie went on to discuss that the Audit Committee will begin to develop the Audit Plan in conjunction with John Page from PEBA, and the plan should be presented in the beginning of August. Mr. Hitchcock reported that Mr. Chernick was doing an excellent job and the interview process is ongoing. Mr. Gillespie stated that the next meeting is scheduled for August. This concluded Mr. Gillespie's report.

V. HUMAN RESOURCES & COMPENSATION COMMITTEE REPORT

Dr. Ronald Wilder then presented his report for the Human Resources and Compensation Committee. He gave an overview of the Performance Pro software that the Staff has implemented for employee reviews and performance planning. He noted that the CEO/CIO evaluation timeline had been changed to occur on a fiscal year basis, rather than a calendar year basis. He also noted that in the future the CEO will conduct the evaluation of the CIO, as a result of the Act, but with input and oversight by the Commission.

VI. CEO REPORT

Mr. Hitchcock updated the Commission on the progress of the implementation of the Act and stated that things were moving forward smoothly. He expressed appreciation to the Treasurer and his office for their cooperation in the transition process.

VII. CIO's REPORT

Mr. Berg began his report by reminding the Commissioners of an issue he had previously communicated regarding a compliance matter related to the planned reduction in hedge fund exposure. He explained that as Staff had redeemed out of hedge fund portfolios, they replaced that exposure by adding to the Plan's GAA allocation, in the form of low cost passive equity and fixed income exposure. Mr. Berg explained that because RSIC had been redeeming from the hedge funds at a faster pace than originally anticipated, RSIC inadvertently exceeded the upper end of the range for GAA. Mr. Berg further explained that, in hindsight, the replacement exposures should have been categorized as equity and fixed income, rather than as GAA. Mr. Berg reported that the issue has been fixed by breaking the exposure into its component parts and reclassifying the exposure to equity and core fixed income. Mr. Berg pointed out that this was done without any trading costs, solved by simply making an accounting adjustment.

Next, Mr. Berg introduced Mr. David King, Reporting Officer, who presented an update regarding the Plan's fiscal year-to-date performance as of April 30, 2017. Mr. King confirmed that, with the exception of the compliance issue addressed by Mr. Berg, every other asset class was within the approved asset allocation ranges. Mr. King reported that fiscal year-to-date, the Plan had a return of 10.47 percent versus a policy benchmark of 9.66 percent, paid out \$940 million in net benefit payments, and had earned \$2.8 billion of investment gains, which equated to approximately \$1.9 billion of asset growth in the Plan for fiscal year-to-date. Moving on to asset class performance, Mr. King detailed the individual asset class returns, reporting that public equity had a 16 percent return, private equity had a 14.2 percent return, and private debt had a 10.67 percent return fiscal year-to-date. Mr. King noted that portable alpha hedge funds had performed very strongly (accounting for 73 of the 81 basis points of the Plan's fiscal year to date excess return), as well as non-portable alpha hedge funds and emerging market debt. Mr. King said that commodities, infrastructure and public real estate exposures were struggling relative to their benchmarks for the fiscal year-to-date period.

After discussion with the Commissioners, Mr. King finished his performance summary presentation and Mr. Berg introduced Ms. Suzanne Bernard from Aon Hewitt Consulting. Ms. Bernard began her report by noting the performance of various equity markets worldwide, and noted the turnaround in emerging markets over the last few months. Ms. Bernard remarked on the incredibly low volatility in many markets, which she noted is usually not favorable for hedge funds, but noted that hedge funds had navigated these challenging conditions quite well.

Ms. Bernard then shifted to the real estate market. Ms. Bernard agreed with Staff's position that the Plan should be more defensive at this time in real estate due to the late stage of the real estate market cycle. Ms. Bernard then discussed other U.S. and worldwide market trends and some general economic indicators.

After Mr. Tim McEnery of Aon Hewitt Consulting offered additional comments regarding Plan performance, Ms. Bernard thanked the Commission for the opportunity to serve the Plan and its participants over the past five years. Ms. Bernard commended the Commission for the steps that it had taken to improve governance, and wished the Commission well.

The Chair then thanked Ms. Bernard and Mr. McEnery for their support and guidance over the past five years. Mr. Berg added his appreciation for the support that Ms. Bernard and Mr. McEnery had provided to the Commission and staff.

Mr. Berg then provided an update regarding current projects. Mr. Berg summarized the results of two of the investment team's most recent "Challenging Beliefs" exercises, relating to equity options and mixed credit. He noted that he had asked the investment team to research and compare the utility of high yield credit and equity options. Mr. Berg noted that the results of the research were extremely helpful, and indicated that he may come back to the Commission with a recommendation to reduce the amount of credit in the Plan's portfolio and increase the amount of equity options after more work is done in this area. A discussion with the Commissioners ensued relating to equity options and related risk issues.

Mr. Berg then went on to highlight upcoming Challenging Beliefs topics, including portable alpha and the case for investing with smaller and emerging private fund managers (focusing on private equity and private debt), as well as implementation options.

Mr. Berg then made some brief comments on the topic of risk and reporting. Mr. Berg reminded the Commission of their discussion at the April meeting regarding the Plan's evolving liquidity needs, and reiterated that the Plan has a seven to eight-month period of time of substantially elevated liquidity need during the concluding months of the TERI program. He noted that members of the investment team and other members of RSIC staff will be exploring ways to quantify and report on the Plan's liquidity risk.

VIII. EXECUTIVE SESSION

Mr. Gillespie made a motion that the Commission recede into Executive Session to discuss investment matters pursuant to S.C. Code Sections 9-16-80 and 9-16-320 and discuss personnel matters pursuant to S.C. Code Section 30-40-70(a)(1) and to receive advice from legal counsel pursuant to S.C. Code Section 30-4-70(a)(2), Mr. Giobbe seconded the motion, which passed unanimously.

IX. POTENTIAL ACTION RESULTING FROM EXECUTIVE SESSION

Upon a return to open session, Mr. Hitchcock noted that no action was taken by the Commission in Executive Session.

X. ADJOURNMENT

There being no further business, upon a motion made by Mr. Gillespie and seconded by Mr. Williams, the Commission voted unanimously to adjourn. The meeting adjourned at 12:12 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 5:02 p.m. on June 19, 2017.]