South Carolina Retirement System Investment Commission
Meeting Minutes

June 3, 2021 9:30 a.m.
Capitol Center
1201 Main Street, 15th Floor
Columbia, South Carolina 29201
Meeting Location: Video Presentation

Commissioners Present:
Mr. William Hancock, Chair
Dr. Ronald Wilder, Vice-Chair
Ms. Peggy Boykin, PEBA Executive Director
Mr. William J. Condon, Jr.
Mr. Allen Gillespie
Mr. Edward Giobbe
Dr. Rebecca Gunnlaugsson
Mr. Reynolds Williams

I. Call to Order and Consent Agenda

Chair Mr. William H. Hancock called the meeting of the South Carolina Retirement System Investment Commission ("Commission") to order at 9:30 a.m. Mr. Allen Gillespie moved to approve the proposed agenda as presented. Dr. Rebecca Gunnlaugsson seconded the motion, which was approved unanimously.

Dr. Gunnlaugsson made a motion to approve the minutes from the April 15, 2021 Commission meeting as presented. Mr. Gillespie seconded the motion, which passed unanimously.

II. Chair's Report

The Chair stated that he had nothing to report.

III. CEO's Report

The Chair recognized Mr. Michael Hitchcock, Chief Executive Officer ("CEO"), for his report. Mr. Hitchcock began by providing a brief legislative update and noted that RSIC's budget request was approved in both the House and Senate of the South Carolina General Assembly. He then moved on to a discussion of a proposed amendment to the Consolidated Annual Investment Plan and Statement of Investment Objectives and Policies ("AIP/SIOP") that would establish a fixed target weight for the Portfolio's ("Portfolio") private equity allocation. He reminded the Commissioners that previous target weight to private equity had been the actual weight of private equity in the Portfolio, and any difference between the 9 percent private equity allocation and the actual private equity weight had resulted in an adjustment to the public equity target weight.

Mr. Hitchcock then asked the Commission to approve the motion to adopt the recommendation of the CEO and amend the AIP/SOP for fiscal year 2021-2022 to establish a fixed target weight of 9 percent for the private equity allocation, effective July 1, 2021; and authorize Staff ("Staff") to make any technical revisions or formatting edits consistent with the action taken by the Commission. The motion was approved by unanimous acclimation.

Mr. Hitchcock then stated that, as a member of the South Carolina National Guard, he had received orders to participate in a joint exercise that would conflict with the Commission's September of 2021 meeting date. He requested that the Commission move the meeting date from September 9, 2021 to September 23, 2021, so that he would be able to attend. Mr. William J. Condon, Jr. moved to amend the Commission meeting schedule to move the September 2021 meeting to September 23, 2021, Mr. Gillespie seconded the motion, which was unanimously approved.

IV. CIO's Report

The Chair recognized Mr. Geoffrey Berg, Chief Investment Officer ("CIO"), for his quarterly performance update through March 31, 2021. He began by reflecting on the market turbulence of the past year during the COVID-19 Pandemic. However, he noted that, after a strong market recovery, the Portfolio earned more than $9 billion during the preceding 12 months. He explained that, in recent months, RSIC has trimmed back some of its pro-cyclical exposures. Mr. Berg noted that the last 12 months afforded RSIC a unique opportunity to generate a great magnitude of excess return, but RSIC has remained focused on improving the consistency of excess returns.

The Portfolio earned over four percent in the quarter ending March 31, 2021 and outperformed the policy benchmark by 81 basis points. The return fiscal-year-to-date through March of 2021 was 20.59%, which is 191 basis points better than the policy benchmark. He noted that during the fiscal year, the Plan paid out $461 million dollars in net benefit payments, which was $124 million more than at the same point in time last year. He stated that there were over $3.2 billion of requisitions, offset by $2.7 billion in deposits and a $110 million legislative inflow. Mr. Berg surmised that investment returns added over $6 billion to the Portfolio in the nine months since June 2020.

Mr. Berg reviewed the returns of the asset classes. He stated that four of the five main asset classes (representing 91 percent of the Portfolio's total assets) outperformed in the quarter ending March 31, 2021. For the fiscal year, three of the five main asset classes were outperforming, representing roughly 83 percent of the Portfolio. He noted that portable alpha strategies had rebounded very well during the past year and that all Portfolio exposures remained fully compliant with the required ranges specified in the AIP/SIOP.

Next, Mr. Berg summarized the performance analysis section of his report. He reiterated that returns during the quarter were ahead of both the policy benchmark and the reference portfolio. Mr. Berg explained that the Portfolio gained value both from the diversification and portfolio structure during the quarter, with a small negative impact from the overall manager selection.

He then turned to a discussion of the quarterly attribution. He said that the Portfolio remained overweight in equities, overweight in credit, and underweight in bonds during the quarter. An index of conservative hedge funds outperformed the LIBOR rate, which indicates that the decision to use portable alpha was a productive one. Within the real assets portfolio, RSIC continued to hold REITS and listed infrastructure, which outperformed private real estate.

Mr. Berg discussed the attribution data for manager selection. He stated that most of the managers outperformed their benchmarks except for private equity. He reminded the Commission that Staff is executing a multi-year plan to improve the private equity portfolio.

Lastly, he updated the Commission on the Portfolio's exposures and how they had changed recently. He concluded his presentation with a discussion of risk metrics and noted that there were few changes compared to the prior quarter. He then paused for questions and concluded his report.

V. Delegated Investment Report

The Chair recognized Mr. Berg for the delegated investment report. The following delegated investments were closed by Staff since the Commission's April 15, 2021, meeting.

Asset Class	Investment	Investment Amount	Closing Date
Bonds	Barings/Thompson Rivers, LLC	$150M	April 30, 2021
Private Equity	TA XIV	Up to $75M	May 6, 2021
Private Equity	PSG V	$50M	May 14, 2021

VI. Committee Reports

The Chair recognized Dr. Gunnlaugsson to provide a report on the activities of the Audit and Enterprise Risk Management ("AERM") Committee. Dr. Gunnlaugsson noted that the AERM Committee Report had been made available to the Commissioners for review prior to the meeting. Hearing no questions, Dr. Gunnlaugsson concluded her report. The Chair then recognized Dr. Ronald Wilder, for the Human Resources and Compensation ("HRC") Committee presentation. Dr. Wilder stated that the HRC Committee met on May 7, 2021. He stated that, during the meeting, Mr. Hitchcock presented a proposed plan for a Variable Compensation Program. Dr. Wilder stated that the Committee recommends the proposed Variable Compensation Program and asked for motion to adopt the recommendation of the HRC Committee to amend Section V of the Commission's Compensation Policy in accordance with the proposed changes presented to and approved by the HRC Committee with the proposed policy amendment being set out in Attachment No. 1. The Chair noted that the vote on the recommendation from the HRC Committee would occur following further discussion in open session and any discussion appropriate for closed session.

Mr. Hitchcock stated that the specifics of the Variable Compensation Program and how it would impact specific employees would be discussed in Executive Session, and the corresponding Compensation Policy language would be amended. He explained that the program was designed to encourage long-term, superior investment performance by members of Staff who manage investments. The program was aimed at ensuring consistency in long term performance and encouraging retention, while being mindful of past practices. The program was tailored to incentivize employee retention by paying out early salary adjustments over a three-year period and requiring continued performance by investment staff. He noted that the Program also included the potential for downward salary adjustments in the event a staff member failed to meet required goals on an annual basis. The annual measurement period would be three years trailing returns versus appropriate benchmarks, plus behavioral elements that they believe would improve the probability of future success. Mr. Hitchcock stated that the policy would be reviewed annually with HRC Committee and would employ a modified structure for investment support personnel. Voting members of the Internal Investment Committee("IIC") would also be evaluated based on the total plan return versus the policy benchmark. Mr. Condon asked if the CEO would be a part of this plan. Mr. Hitchcock stated that the CEO appoints the members of the IIC, which is chaired by Mr. Berg, and noted that the subject would be discussed in Executive Session.

VII. Executive Session

Mr. Condon moved to recede into Executive Session to discuss investment matters and specific private equity and portable alpha investments pursuant to S.C. Code Sections 9-16-80 and 9-16-320; to discuss personnel matters and compensation pursuant to S.C. Code Ann. Section 40-4-70 (a) (1) and to receive advice from legal counsel pursuant to S.C. Code Section 30-4-70(a)(2). Dr. Gunnlaugsson seconded the motion, which was unanimously approved at 10:36 a.m.

VIII. Potential Action Resulting from Executive Session

Upon return to open session, Mr. Hitchcock noted that the Commission did not take any action while in Executive Session.

The Commission then unanimously voted to approve the HRC Committee's recommendation to amend Section V of the Commission's Compensation Policy by adding the following subsection to Section V of the Policy:

(F) **Variable Compensation Program:** The CEO may implement a variable compensation plan for investment team members that is intended to align an employee's compensation with the member's investment performance. The CEO will design the variable compensation plan for the

CIO and will collaborate with the CIO to tailor a plan for each investment team member. When fully phased-in, each plan will adhere to the following parameters:

1. Through the variable compensation program, an employee's base salary can be increased by as much as 25% or decreased by as much as 10%, according to whether the employee meets a mix of investment return and behavioral goals.
2. Salary adjustments pursuant to this program will be based on two components, an investment performance component and a behavioral goals component. The investment performance component of the program will constitute 80% of the individual's variable salary amount while the behavioral goals component will constitute 20% of the individual's variable salary amount.
3. The investment performance component will measure the investment return of the investment team member's individual portfolio on a trailing three-year basis at the end of each fiscal year based on performance data provided by BNYM. The trailing three-year performance of the investment team member's individual portfolio must exceed the applicable asset class benchmark in order to receive the salary increase from the investment performance component. For private markets, the performance of the investment team member's individual portfolio will be assessed against an appropriate vintage year composite of the asset class benchmark. An individual's investment performance component may include a persistence of return requirement that must be met in order to receive the full benefit of the component for asset classes that value persistence of return.
4. The behavioral goals must be objective and measurable and intended to influence behavior that results in the team member consistently building and maintaining a portfolio that is likely to exceed the asset class benchmark.
5. In a year when all goals are met, the individual will earn the full 25%. This amount will be paid as salary over the next three years (i.e., 8.33% of the applicable base salary each year for three years). An investment team member that separates from the organization during the three-year pay-out period for any variable compensation awarded is not entitled to receive any unpaid amount upon separation.
6. In a year when all goals are not met, the individual will receive a 10% reduction to his or her salary. This impact will also be spread over the next three years (i.e., 3.33% reduction in salary for each of the subsequent three years).
7. The positive and negative impacts of annual salary adjustments will be netted against each other over the applicable time periods. (*see Implementation Example below*)
8. An increase in salary due to a promotion or any other event does not increase any previously awarded variable compensation.
9. The CEO may also design individual plans for investment team members who do not have a primary role in making investment recommendations and base any award on total plan

performance relative to the Policy Portfolio Benchmark. The CEO may determine that these investment team members should not be subject to a negative impact from investment performance, and in this case, the maximum amount of variable compensation will not exceed 8% paid in equal parts over three years.

10. The CEO may determine that the personal financial situation of any investment team member is not suited to the potential adverse impacts to base salary of this plan and may exempt the member from participation until the member's financial situation improves.
11. The CEO will meet with each investment team member prior to implementing the program and, annually during the planning stage period, to review each member's individual variable compensation plan and any prospective changes to the member's plan, as applicable. The CEO will review the variable compensation plan of each investment team member with the HRCC prior to implementing the program. The CEO will meet annually with the HRCC to review the impact of the plan on each participating member and any prospective changes to the member's plan.
12. Upon implementation, an investment team member will participate in this program and will not be eligible for a performance increase governed by the provisions of subsection (C).

Modifications relating to phase-in periods:

1. New employees will have a phase-in period during which behavioral goals are weighted more heavily than investment performance, but with a reduced level of overall participation that will gradually increase until the employee achieves a trailing three-year track record. (*see Phase-in Example below*)
2. An investment team member that transitions from one asset class to another will also have a phase-in period during which behavioral goals will be more highly weighted but will retain the benefit of any previously awarded compensation from the previous asset class and will be allowed to fully participate while building the portfolio of the new asset class.

IX. Adjournment

There being no further business, Dr. Gunnlaugsson moved that the Commission meeting adjourn, Dr. Wilder seconded the motion, which was unanimously approved. The meeting adjourned at 2:01 p.m.

[Staff Note: In compliance with S.C. Code Section 30-4-0, public notice of and the agenda for this meeting was 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., 2:42 p.m. on June 1, 2021]