RETIREMENT SYSTEM INVESTMENT COMMISSION

S.C. Senate Finance Retirement Subcommittee

March 16, 2021

Michael Hitchcock, CEO

Market Highlights

- During FY 2020, we experienced unprecedented market volatility due to the global shutdown related to COVID 19.
- The S&P 500 experienced its worst monthly decline in March 2020, which was immediately followed by one of its sharpest recoveries.
  - February 19, 2020, the S&P 500 closed at a then record high of 3,386.15
  - March 23, 2020, the S&P 500 closed at 2,237.40.
  - March 12, 2021, the S&P 500 closed at a new record of 3,943.34.
- Market rally has been fueled by stimulus and historically low interest rates.

Managing the Portfolio

- Pension reform provided much needed liquidity.
- Portfolio Simplification (effective July 1, 2020):
  - Reduced portfolio from 18 asset classes to 5.
  - Shifted from more costly active management to primarily cost-effective passive management.
  - 70 percent of the portfolio is passively managed to achieve index returns.
  - Focus energy on the parts of the portfolio that provide consistent excess return.
- Manage Investment Costs:
  - Passive management alone achieves $40 million plus in investment fee savings per year.
  - Since FY 2013, RSIC has cut investment fees by half as a percentage of assets under management.
  - Pay less in actual dollars now to manage $35.5 billion than in FY 2013 to manage $26.8 billion.

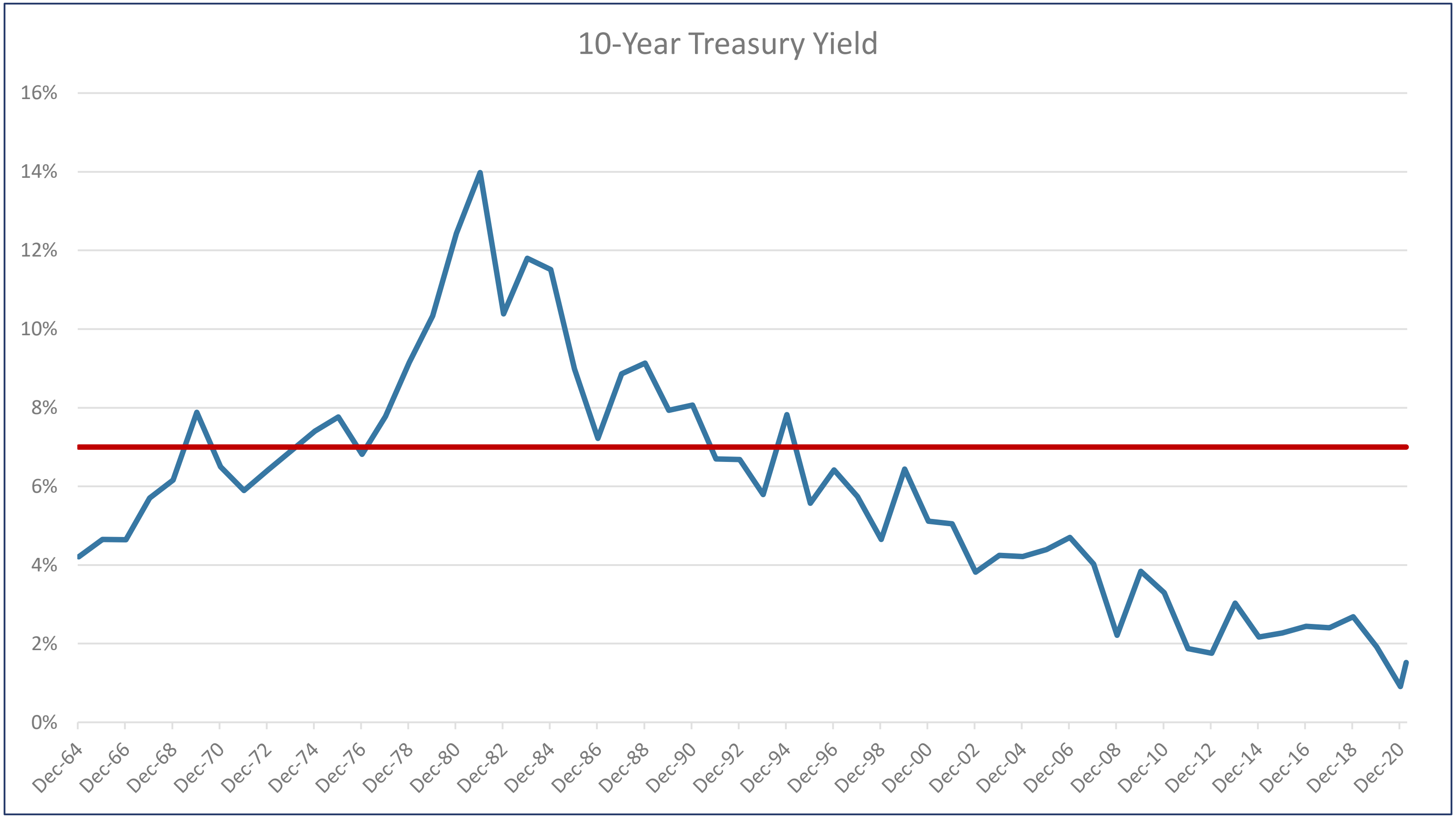
Investment Performance Highlights

- **FY 2020 Investment Return:**
  - 1 year -1.58%
  - 3 year 3.95%
  - 5 year 4.59%
  - 10 year 6.71%
  - $30.98 billion market value (net benefit payments)
- **FYTD 2021 Investment Return:**
  - FYTD 15.90%
  - 1 year 8.19%
  - 3 year 6.58%
  - 5 year 8.37%
  - 10 year 7.02%
  - $35.6 billion market value (net benefit payments)

Plan Risk

- **In response to the GFC and COVID 19, the Federal Reserve and other central banks have kept interest rates at or near zero for more than 10 years.**
- **This action stimulates the economy but punishes savers like pension funds.**
- **Requires pension funds to invest a greater percentage of their plans in more volatile asset classes to achieve their assumed rate of return.**
  - **Example: 10-year Treasury Yield of 1.6% vs. 7.25% Assumed Rate of Return**
- **The greater the volatility of the investment portfolio, the greater the variability of outcomes.**

10-Year Treasury Yield



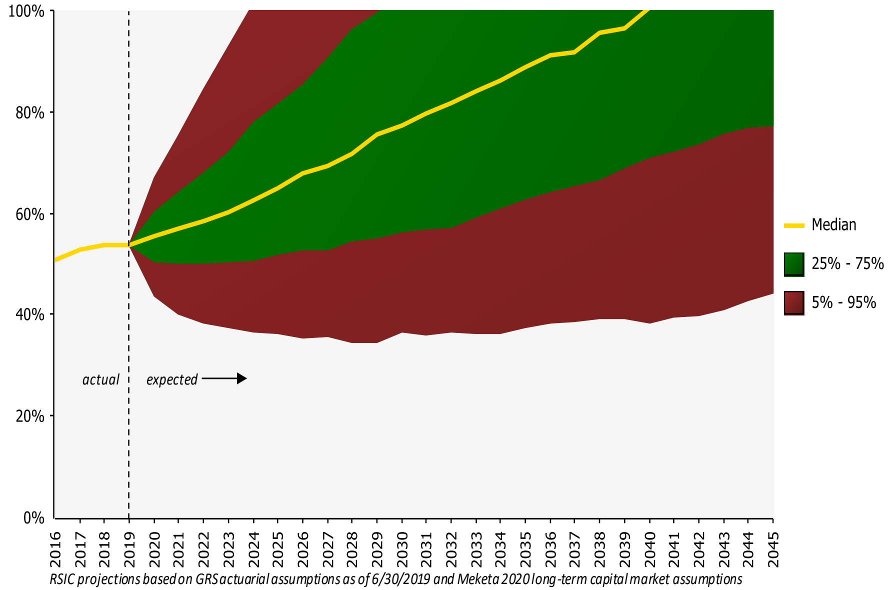
Risk/Return Impact

Visualization of Volatility

Higher volatility impacts the probability of returns and results in a longer expected path to full funding.

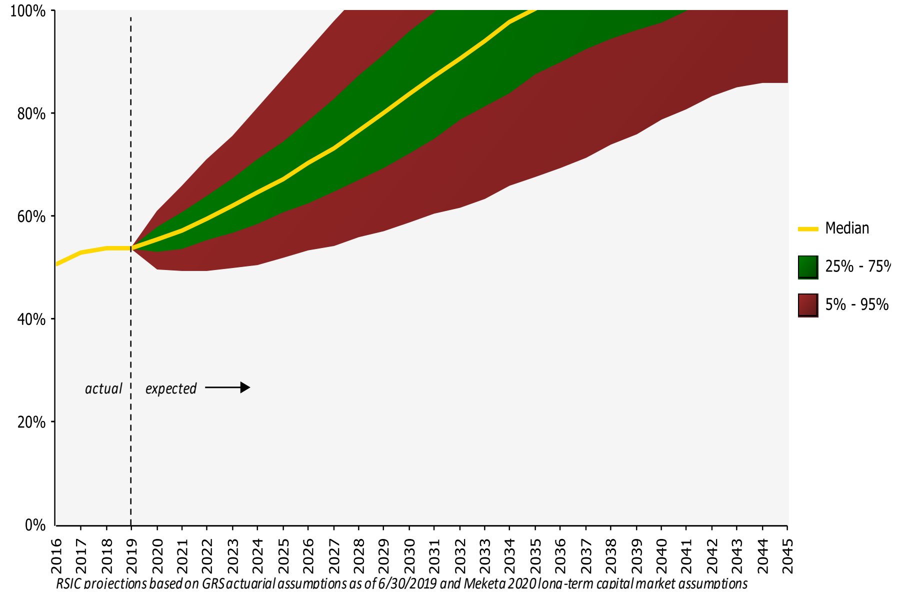
FOR EXAMPLE PURPOSES ONLY

SCRS Expected Funded Ratio as of 6/30/2019



RSIC projections based on GRS actuarial assumptions as of 6/30/2019 and Meketa 2020 long-term capital market assumptions

SCRS Expected Funded Ratio as of 6/30/2019 (6.5% Volatility Assumption)

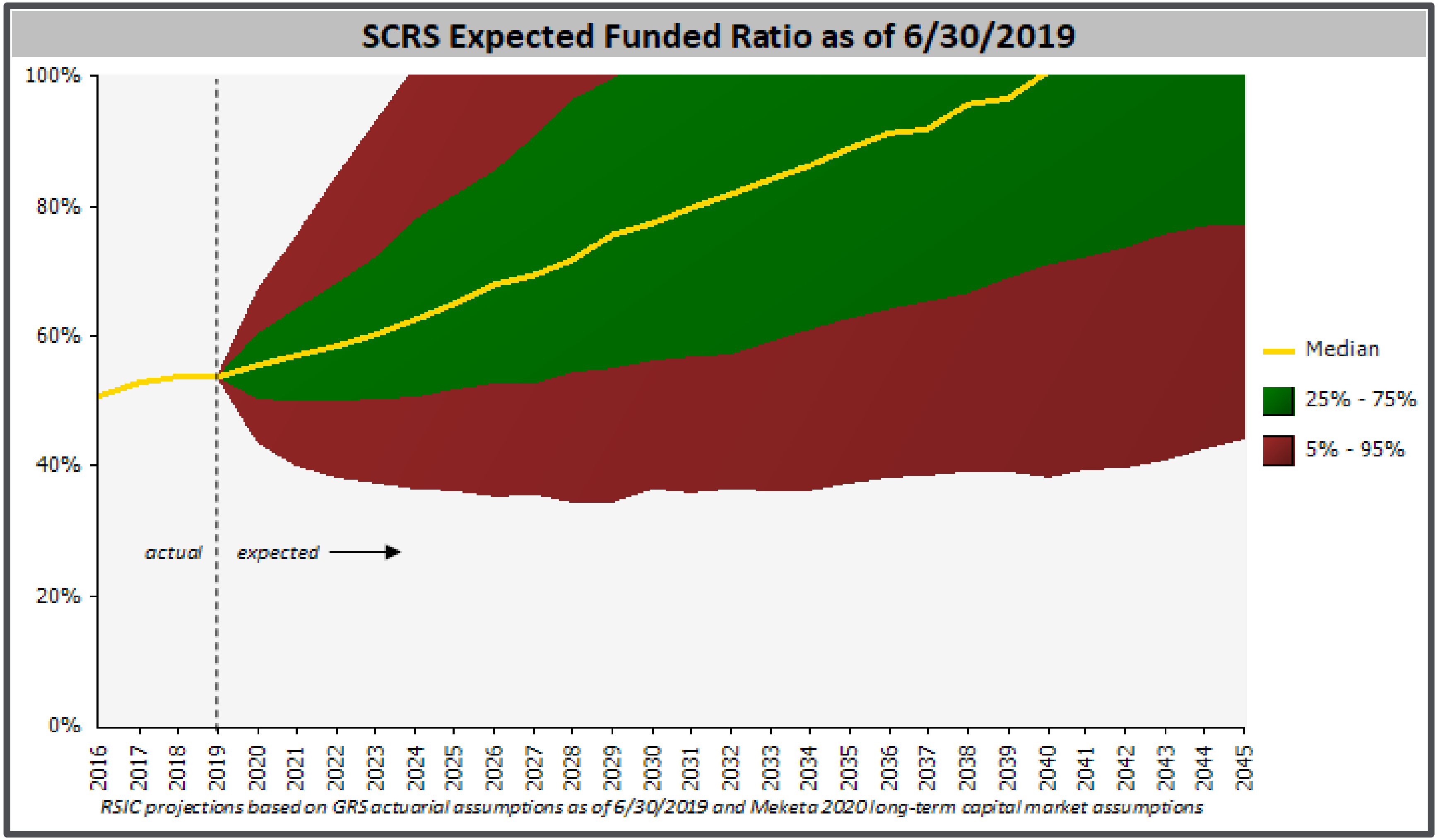


RSIC projections based on GRS actuarial assumptions as of 6/30/2019 and Meketa 2020 long-term capital market assumptions

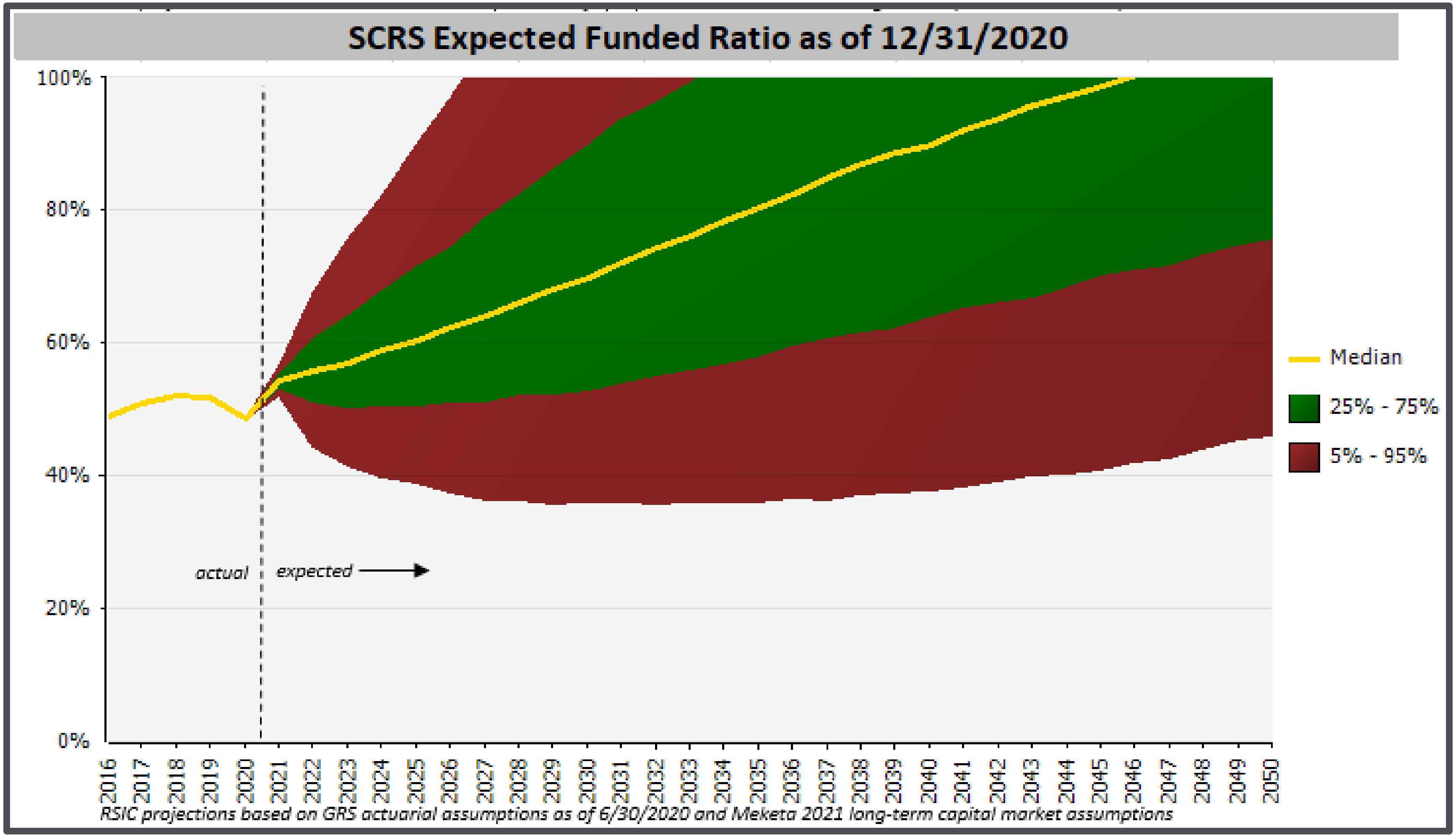
Capital Market Expectations

- RSIC's General Investment Consultant provides long-term capital market expectations.
- These expectations are forecasts of the long-term expected return and volatility of asset classes.
- These expectations provide data points that RSIC uses to determine whether we are confident that our asset allocation meets our long-term investment goal.
- Capital market expectations have declined over the past several years and volatility has increased slightly.

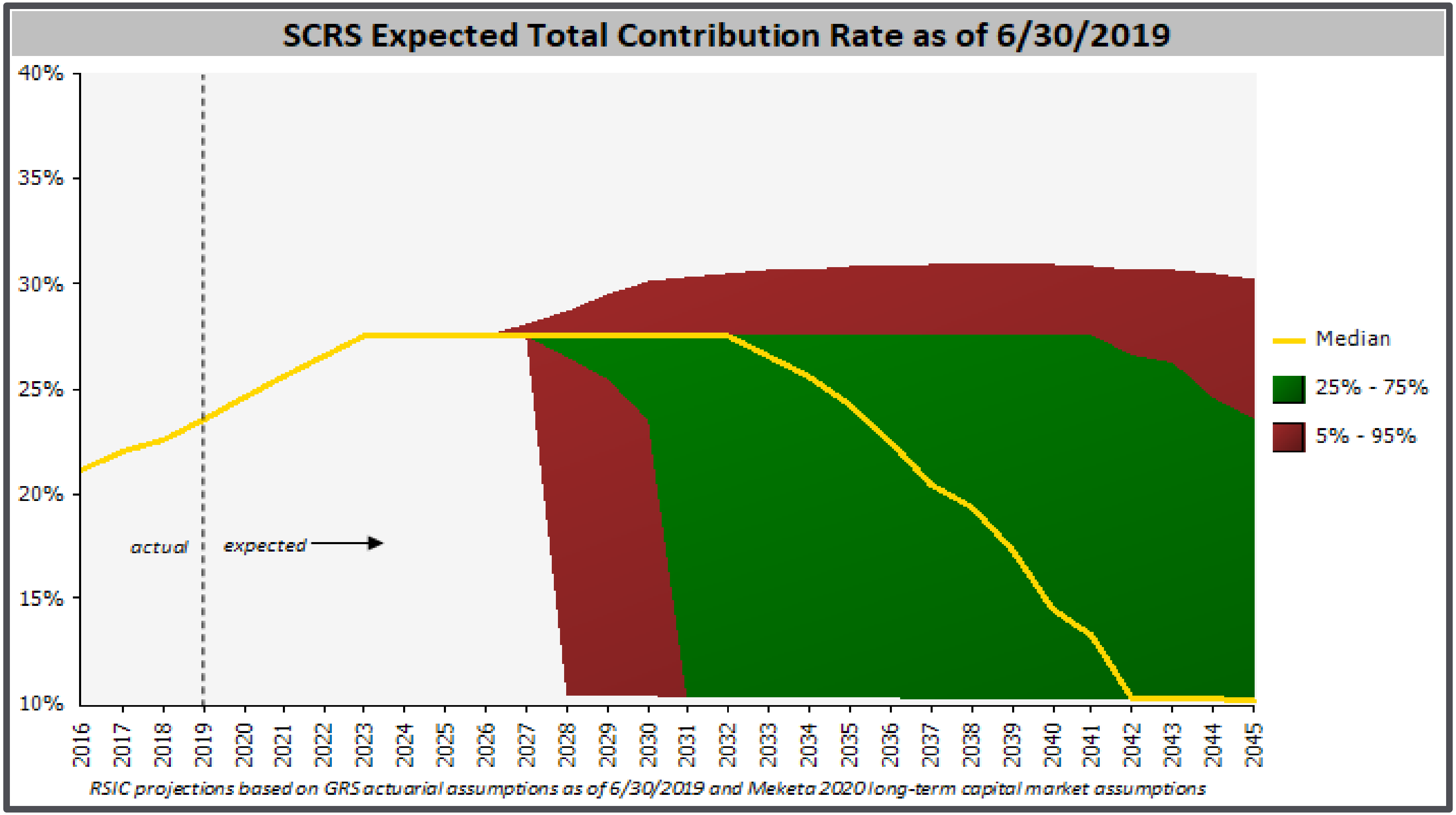
Impact on Expected Funded Ratio



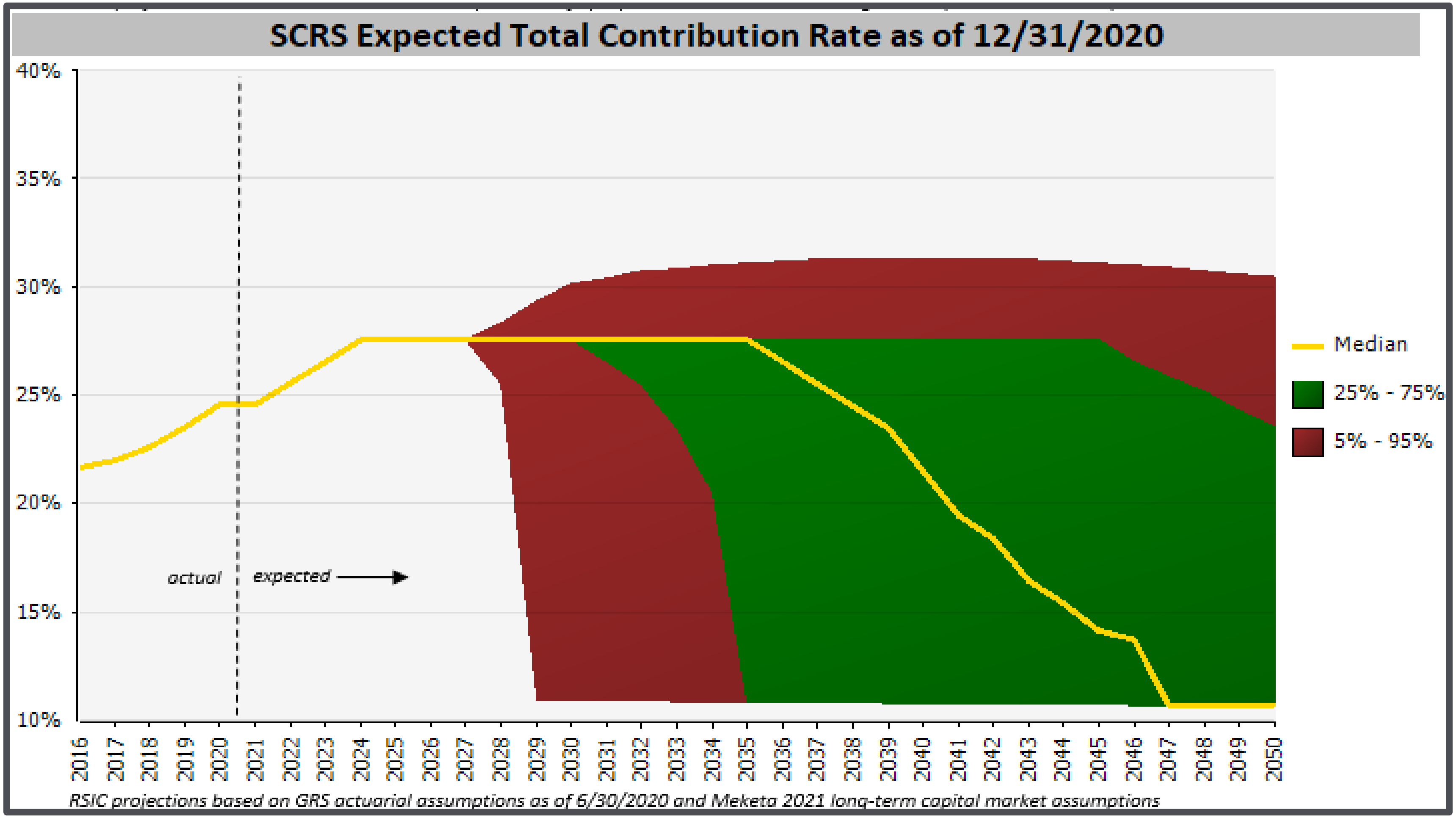
Impact on Expected Funded Ratio



Impact on Projected Contribution Rates



Impact on Projected Contribution Rates



Conclusion

- The 2017 Pension Reform Bill established a solid infrastructure to address the unfunded liability.
- Market volatility is one of the greatest risks to the Plan.
- Long-term investment returns have a greater probability of being at or near the assumed rate of return than short-term returns.
- Rising rates can improve plan outcomes, but the path to higher rates may be difficult.
- The additional employer contributions have provided much needed liquidity that helps mitigate market volatility.
- The best outcome will result from staying the course on pension funding.
- A 7% assumed rate of return is a reasonable expectation over time.