



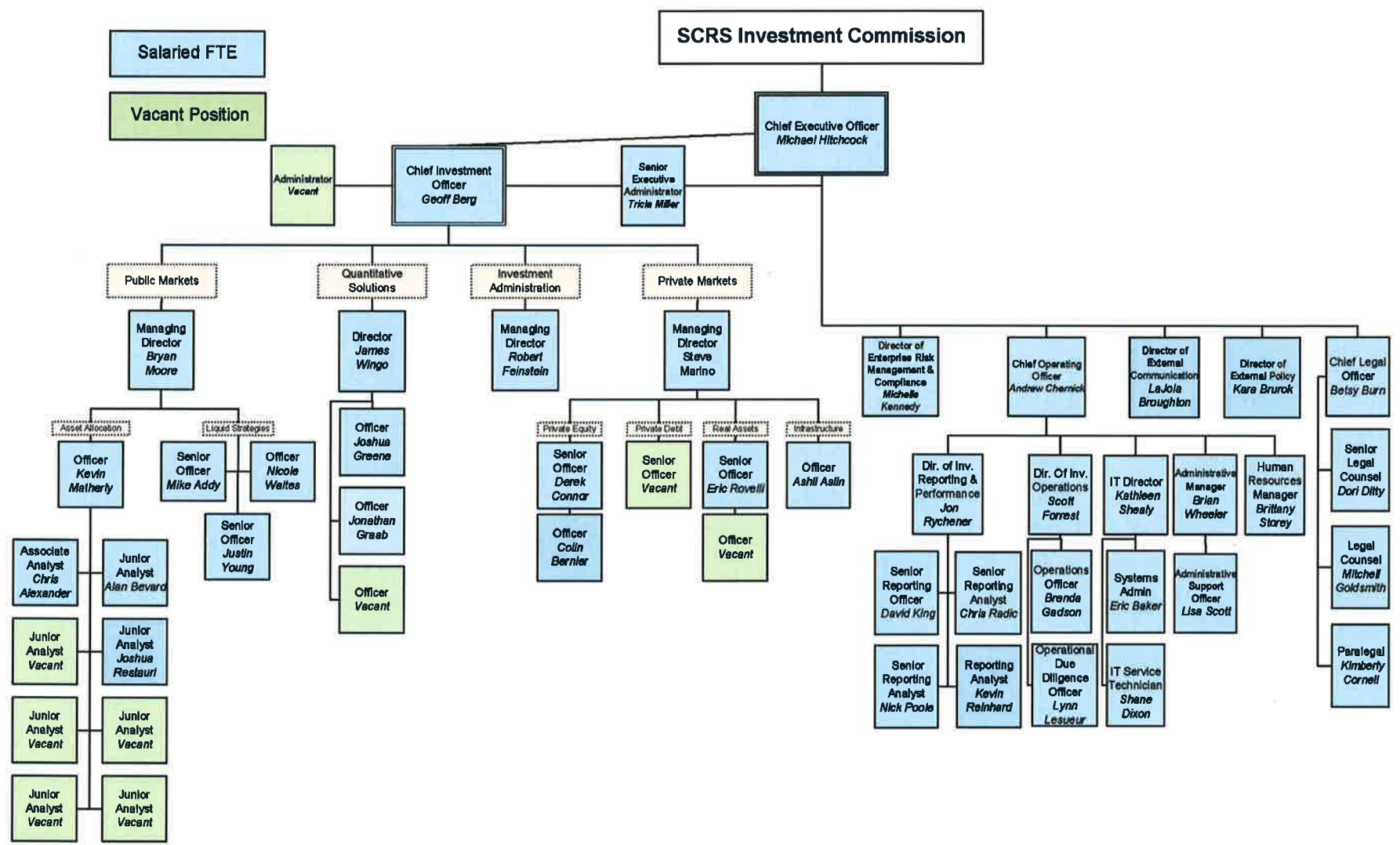
South Carolina Retirement System Investment Commission

*FY 2019-2020 Ways and Means Budget Hearing
January 15, 2019*

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Organizational Chart



South Carolina Retirement System Investment Commission

Purpose & Duties

The RSIC has exclusive authority for investing and managing \$31.6 billion in net assets (as of September 30, 2018) held in trust for the participants and beneficiaries of the five defined benefit plans for the state of South Carolina.

- South Carolina Retirement System (SCRS)
- Police Officers Retirement System (PORS)
- General Assembly Retirement System (GARS)
- Judges and Solicitors Retirement System (JSRS)
- South Carolina National Guard Supplemental Retirement Plan (SCNG Plan)

The defined benefit plans provide lifetime retirement annuities, disability benefits, and death benefits to eligible members and their beneficiaries. Each plan provides a fixed monthly benefit based on a formula that includes years of service, earnable compensation and a benefit multiplier.

Standards

The pension fund investments are managed by an experienced RSIC investment team and governed by 8 commissioners. They are supported by hired industry-leading consultants and external managers.

Staff:

Authorized Number of FTEs: 51

Filled Number of FTEs: 42

Vacant Number of FTEs: 9

Commissioners:

Elected by the Commission: Dr. Ronald Wilder, Chairman

Appointed by the Comptroller General: Dr. Rebecca Gunnlaugsson, Vice Chair

Appointed by the Governor: Edward Giobbe

Appointed by the Governor: William (Bill) Condon

Appointed by the Chairman of Senate Finance: Reynolds Williams

Appointed by the Chairman of House Ways and Means: Allen Gillespie

Appointed by the State Treasurer: William (Bill) Hancock

Ex-Officio Member: Peggy Boykin

Consultants:

Meketa Investment Group: General Consultant (Asset Allocation)

Albourne America, LLC: Specialty Consultant (Private Markets)

Investment Performance

The RSIC utilizes 3 criteria to measure investment performance:

1. The stated return objective of the portfolio - 7.25% annualized net return
2. The investment policy benchmark - calculated by applying the investment performance of each asset class benchmark to the strategic allocation for each asset class
3. Performance relative to a peer universe - allows constituents to evaluate the competitiveness of the investment staff's implementation of the portfolio relative to other pension plans

Plan Performance

FYE June 30, 2018: 7.82%

Last Quarterly Reported Returns: September 30, 2018: 2.34%

FYTD November 20, 2018: -0.99%

In an effort to remain responsible stewards of the Trust Fund, the RSIC is requesting a decrease in other fund authorization of (\$500,000).

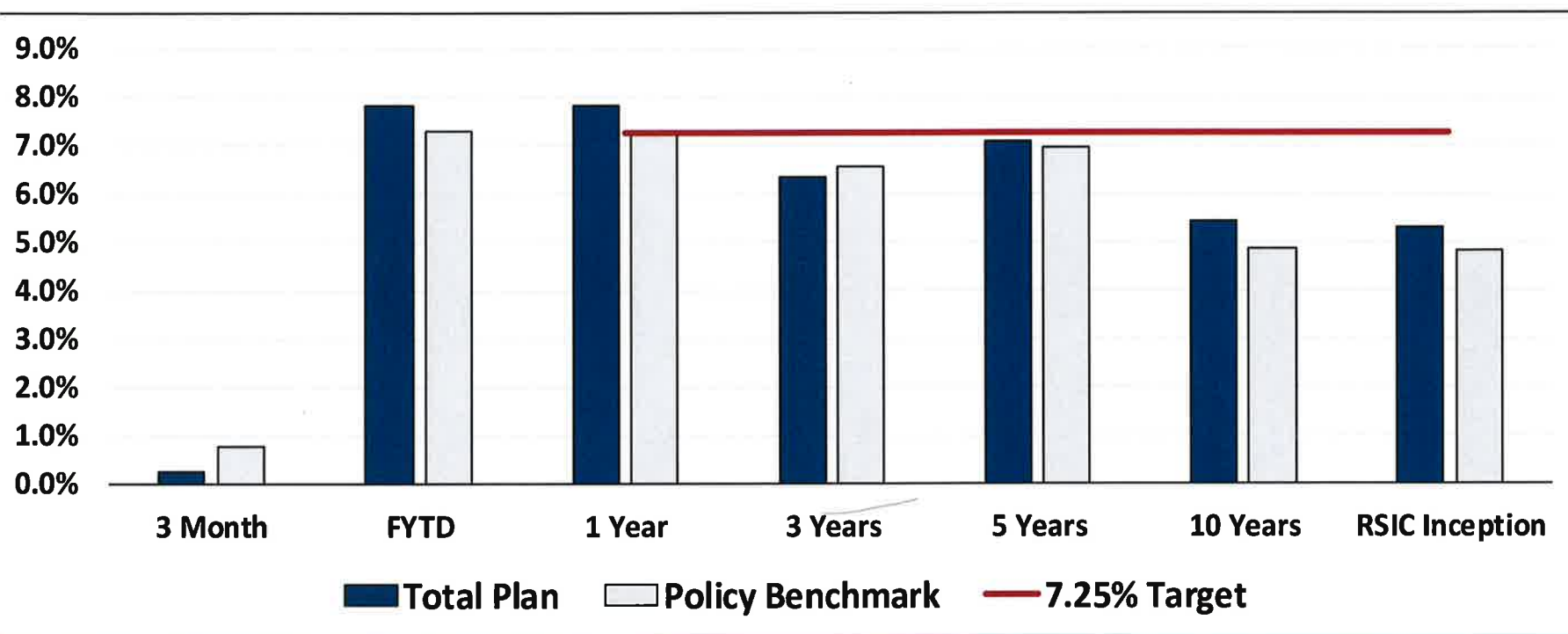
- Fiscal Year 2017-2018:
 - Earned an 7.82% rate of return on its investments which exceeded the actuarial assumed rate of return of 7.25%.
 - Began with a value of \$30.1 billion and ended with a value over \$31.3 billion.
 - Earned \$2.34 billion in investment return net of fees.
 - Contributed \$1.14 billion to net benefit payments.
 - Added \$1.2 billion net of fees and benefit payments to the value of the Retirement Systems Trust Fund.

FYE Performance – Plan & Policy Benchmark

FYE June 30, 2018



SOUTH CAROLINA RETIREMENT SYSTEM
INVESTMENT COMMISSION



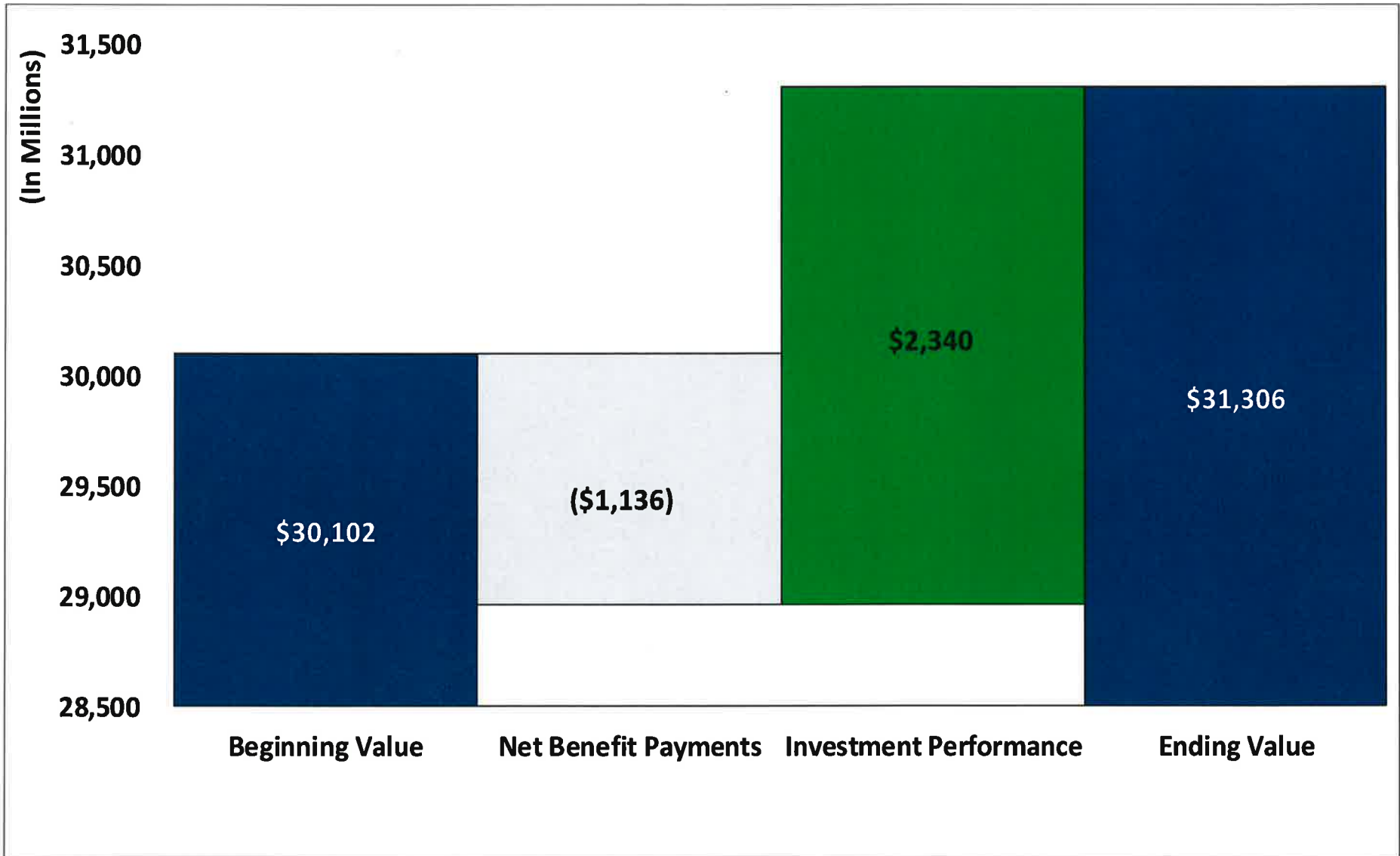
Historic Plan Performance As of 06/30/18	Market Value (In Millions)	Annualized						RSIC Inception
		3 Month	FYTD	1 Year	3 Years	5 Years	10 Years	
Total Plan	\$31,306	0.24%	7.82%	7.82%	6.31%	7.07%	5.40%	5.30%
Policy Benchmark		0.78%	7.28%	7.28%	6.54%	6.94%	4.87%	4.80%
Excess Return		-0.54%	0.54%	0.54%	-0.23%	0.14%	0.54%	0.50%
Net Benefit Payments (In Millions)		(\$232)	(\$1,136)	(\$1,136)	(\$3,327)	(\$5,438)	(\$10,070)	(\$12,385)

FYE Benefits & Performance

FYE June 30, 2018



SOUTH CAROLINA RETIREMENT SYSTEM
INVESTMENT COMMISSION

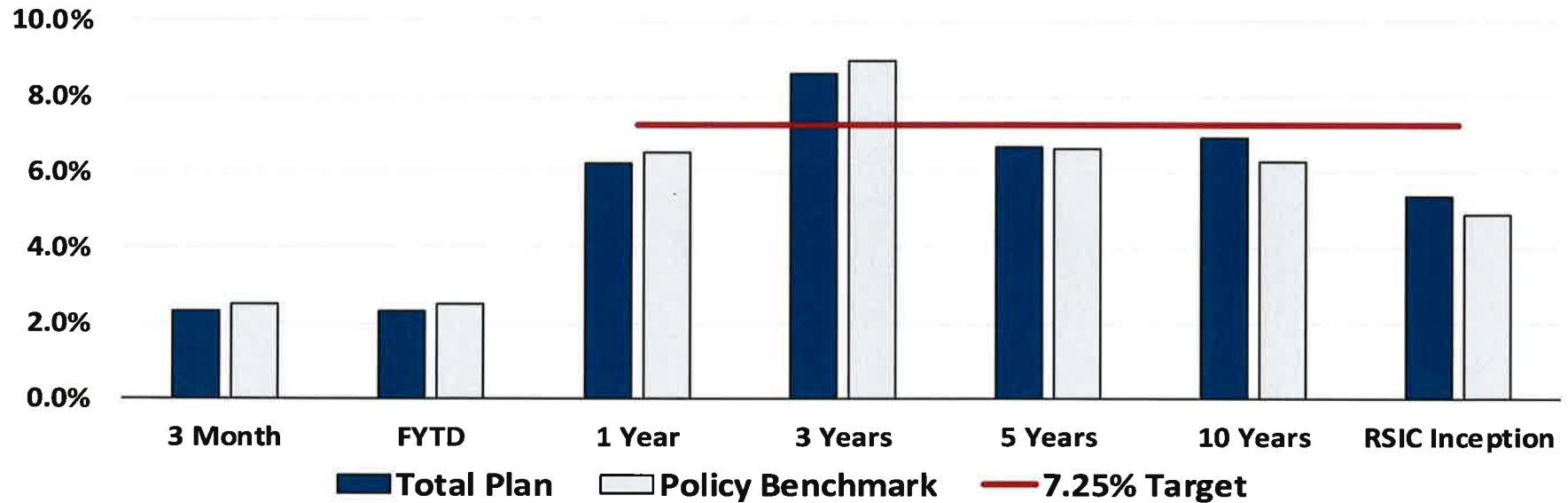


FYTD Performance – Plan & Policy Benchmark

FYTD September 30, 2018



SOUTH CAROLINA RETIREMENT SYSTEM
INVESTMENT COMMISSION



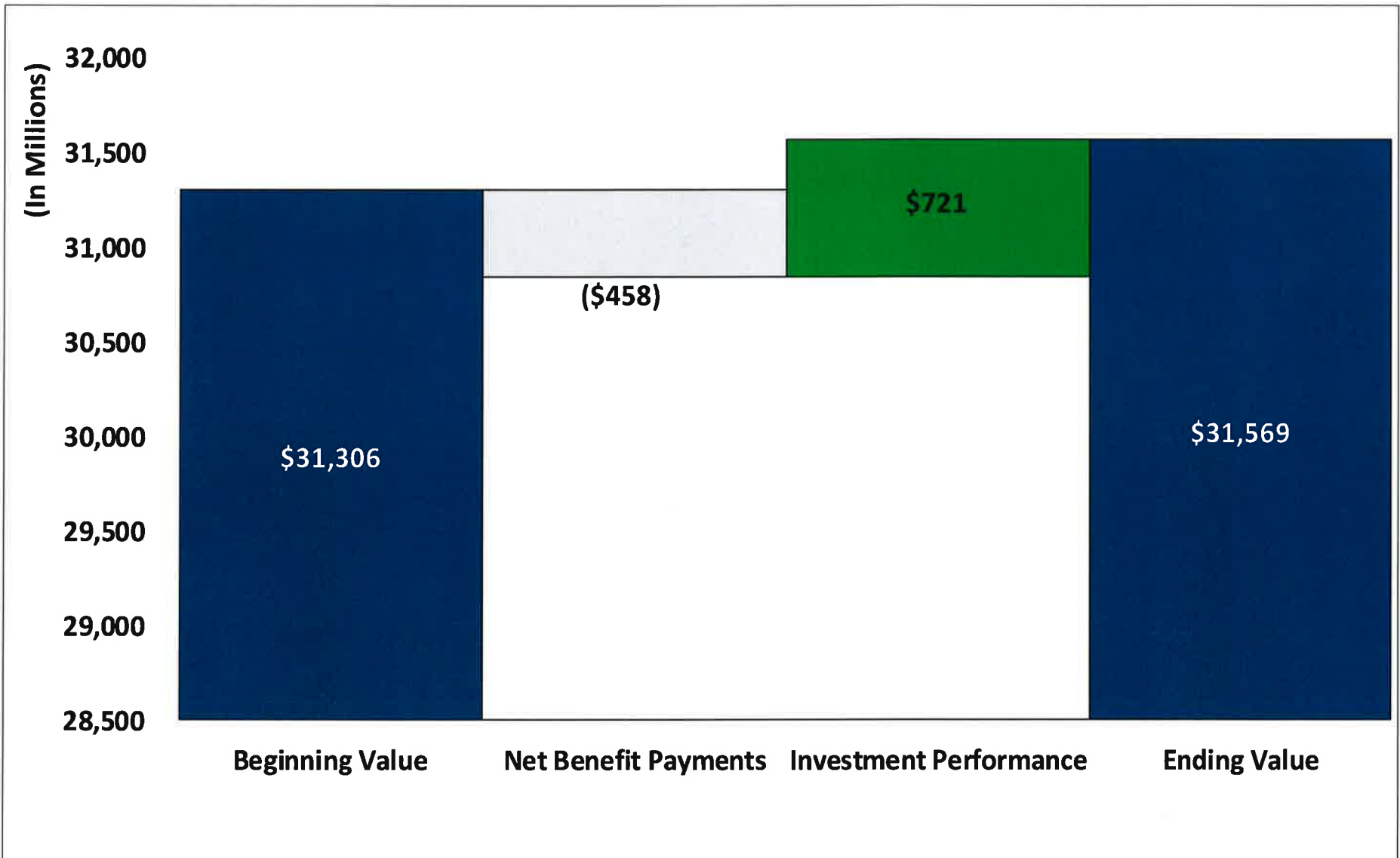
Historic Plan Performance As of 09/30/18	Market Value (In Millions)	Annualized						RSIC Inception
		3 Month	FYTD	1 Year	3 Years	5 Years	10 Years	
Total Plan	\$31,569	2.34%	2.34%	6.26%	8.60%	6.66%	6.91%	5.38%
Policy Benchmark		2.55%	2.55%	6.51%	8.93%	6.65%	6.29%	4.91%
Excess Return		-0.21%	-0.21%	-0.25%	-0.33%	0.02%	0.62%	0.47%
Net Benefit Payments (In Millions)		(\$458)	(\$458)	(\$1,391)	(\$3,464)	(\$5,609)	(\$10,294)	(\$12,843)
Current 3-month Roll off Return:		0.24%	N/A	3.84%	-3.99%	4.33%	-11.20%	N/A
Next 3-month Roll off Return:		2.34%	N/A	3.54%	1.11%	4.29%	-16.12%	N/A

FYTD Benefits & Performance

FYTD as of September 30, 2018



SOUTH CAROLINA RETIREMENT SYSTEM
INVESTMENT COMMISSION



- **Overview:**

- Funston Advisory Services LLC (FAS) was selected by the South Carolina Office of the State Auditor (OSA) to conduct the 2018 South Carolina Retirement System Investment Commission (RSIC) Fiduciary Performance Audit.
- FAS also completed the 2014 RSIC Fiduciary Performance Audit for the South Carolina Inspector General.
- FAS began the audit in May of 2018 with a team that is substantially the same as the 2014 team.

- **Primary Purpose:**

- Evaluate progress of implementation of the 2014 Fiduciary Performance Audit recommendations.
- Identify areas of weakness in current operational policies and practices.
- Prioritize recommended improvements.
 - 45 detailed recommendations made by FAS in order to build on progress and take RSIC to the next level of performance and achieve leading practice.

- **2014 Audit:**

- 126 recommendations for improvement

- Five improvement themes:

- Reset Commissioners' focus on strategy and oversight.
 - Improve assurance and independent reassurance to build trust and confidence.
 - Align fiduciary duties and responsibilities.
 - Build capabilities across the organization (including HR, IT, Accounting, etc.).
 - Improve the custodial relationships.

- **2018 Audit:**

- Significant progress has been made:

- 119 recommendations have been implemented.
 - Of the remaining 7 which have not been implemented, five are under the control of RSIC while two require action by the General Assembly.
 - RSIC has made very impressive progress, is stabilized and professional with effective leadership, and continues to improve.
 - Due to the actions of the General Assembly, the governance framework of RSIC is much improved.
 - *"...we are very impressed by the progress achieved by the RSIC over the past four years. The RSIC has emerged from a troubled and difficult situation to one of stability, with strong leadership, effective governance, and capable staff and operations."* - 2018 Fiduciary Performance Audit Executive Summary as prepared by Funston

Budget Request Summary



Budget Priorities				Funding					FTEs			
Priority No.	Priority Type (non-recurring/ recurring/ other funds adjustment/ federal funds adjustment)	Priority Title	Priority Description	Non - Recurring	Recurring	Other	Federal	Total	State	Other	Federal	Total
1	Other	Other Fund Authorization Reduction	In an effort to remain responsible stewards of the Trust Fund, the agency's total other fund authorization can be reduced \$500,000.	N/A	N/A	-500,000	N/A	N/A	N/A	N/A	N/A	N/A

The RSIC is solely supported by other funds. There was no change in authorization for FY18-19. However, in an effort to remain responsible stewards of the Trust Fund, we are requesting a decrease in other fund authorization of (\$500,000.)

Proviso # in FY 18-19 Act	Renumbered Proviso # FY 19-20	Proviso Title	Short Summary	Agency Recommended Action
117.140	117.132	Retirement System Assets and Custodial Banking Relationship Transfer	As management of custodial banking is fully transitioned to the RSIC, maintenance of these exemptions will allow for any necessary modifications to agreements, including but not limited to, the consolidation of custodial related services with BNYM as a sole provider, in order to create operational and fiscal efficiencies.	Keep

117.132 (GP: Retirement System Assets and Custodial Banking Relationship Transfer) In order to facilitate the transfer of custodianship of the assets of the Retirement System to the Public Employee Benefit Authority and governance of the custodial banking relationship to the Retirement System Investment Commission, all portions of contracts, agreements, and exemptions from the Consolidated Procurement Code providing for and relating to custodial banking, general banking, accounting, or any other ancillary services are transferred to, and devolved upon, the Public Employee Benefit Authority and the Retirement System Investment Commission in accordance with the authority transferred to the respective agency.

Carry Forward



- RSIC is solely supported by other funds. Any cash on hand at the end of the FY is used to offset future draw downs.
- FY17-18 total authorization: \$15,803,000

Approp.	\$15,803,000.00	FY17 Cash on Hand start of FY18	\$1,275,087.31	FY18 Approp	\$15,803,000.00
<i>Draw 1</i>	\$ 3,950,750.00				
<i>Draw 2</i>	\$3,950,750.00				
<i>Draw 3</i>	\$3,950,750.00				
Total Draw	\$11,852,250.00	Total Draw Revenue	\$11,852,250.00		
Undrawn	\$3,950,750.00	Interest Revenue	\$ 46,955.86		
		Sale of Surplus Property	\$ 5.00		
		Cash	\$13,174,298.17		
		Cash	\$ 13,174,298.17		
		FY18 Expenditures	\$ (11,600,026.20)	FY18 Expenditures	\$ (11,600,026.20)
		Adjusted Cash	\$1,574,271.97	FY18 Lapsed (unspent) Approp.	\$4,202,973.80
		Adjusted Cash	\$1,574,271.97		
		FY18 End of Year Cash on Hand	\$1,574,271.97		

Agency can only spend its total approved appropriation in a given year no matter what cash was on hand at the end of the Prior FY

- Authorized: 51
- Filled: 42
- Vacant: 9
- Impending retirements in next five years: 1



BENEFICIARIES FIRST:
THEIR FUTURE, OUR MISSION.