

**South Carolina Retirement System Investment Commission
Audit and Enterprise Risk Management Committee Meeting
Minutes
October 7, 2020**

**Capitol Center
1201 Main Street, Suite 1510
Columbia, South Carolina 29201**

Committee Members Present:

Ms. Peggy Boykin, Acting Chair
Mr. William J. Condon, Jr.
Dr. Rebecca Gunnlaugsson

I. CALL TO ORDER AND ADOPTION OF PROPOSED AGENDA

Acting Chair Ms. Peggy Boykin called the meeting of the Audit and Enterprise Risk Management Committee (“Committee”) of the South Carolina Retirement System Investment Commission (“RSIC”) to order at 8:30 a.m. Mr. William J. Condon, Jr. made a motion, which was seconded by Dr. Rebecca Gunnlaugsson, to adopt the agenda as presented, and it was unanimously approved.

II. APPROVAL OF MINUTES (JUNE 16, 2020)

Acting Chair Boykin referred to the draft minutes from the Committee’s June 16, 2020 meeting. Mr. Condon made a motion to adopt minutes from the June 16, 2020 Committee meeting as presented. Dr. Gunnlaugsson seconded the motion, and it was unanimously approved.

III. ELECTION OF COMMITTEE CHAIR

Acting Chair Boykin called for nominations for the position of Chair of the Committee. Acting Chair Boykin then made a motion to nominate Dr. Gunnlaugsson for the position of Chair. Mr. Condon seconded the motion, and it was unanimously approved. Chair Gunnlaugsson then assumed the role of Chair of the Committee.

IV. INTERNAL AUDIT UPDATE

Chair Gunnlaugsson then asked Mr. Mitchell Goldsmith, Senior Legal Counsel, for an update on RSIC’s internal audit (“IA”) function. Mr. Goldsmith began with a discussion of the annual Agreed-Upon Procedures (“AUP”) Review of RSIC’s Investment Valuation, Investment Due Diligence, and Staff Compliance Procedures (“AUP Review”) for Fiscal Year-End June 30, 2020. He reminded the Committee that that the AUP Review is conducted by CliftonLarsonAllen LLP (“CLA”) in line with the audit of the South Carolina Retirement Systems’ Comprehensive Annual Financial Report. Mr. Goldsmith explained that Staff is planning on expanding the current AUP Review to cover employee compliance

with RSIC's Personal Trading Policy. He stated that fieldwork would be performed in October of 2020 with the final report available before the Committee's next meeting.

Mr. Goldsmith then turned to a discussion of the Global Investment Performance Standards ("GIPS") Verification Review ("GIPS Review") for Fiscal Year-End June 30, 2020. He explained that RSIC Staff ("Staff") is planning to have ACA Compliance Group ("ACA") conduct the GIPS Review. Mr. Goldsmith explained that Staff anticipated that ACA would conduct fieldwork in October of 2020 and that the GIPS Report should be available by December of 2020.

Ms. Boykin moved to approve (i) the retention of CLA to perform an AUP Review on behalf of RSIC; and (ii) the retention of ACA to perform the GIPS Review on behalf of RSIC. Mr. Condon seconded the motion, which was unanimously approved.

Mr. Goldsmith then turned to a discussion of the Derivative Overlay ("Overlay") Implementation Review ("Overlay Review") and the Portfolio Rebalancing & Exposure Management ("Exposure") Review ("Exposure Review"). He explained that the reports for both reviews have been combined into a single report due to the overlapping subject matter involved. Mr. Goldsmith then introduced Mr. Jason Foo who serves as a Director with Deloitte & Touche, LLP ("Deloitte") to present the results of both reviews. Mr. Foo began by explaining that both reviews focused on the design and operating effectiveness of RSIC's Overlay and Exposure-related policies, processes, and procedures. He reported that Deloitte rated both areas as "needs some improvement". Mr. Foo stated that the rating resulted from Deloitte's determination that some investment portfolios should be measured in a timelier manner. Mr. Andrew Chernick, Chief Operating Officer, noted that RSIC's move to a simplified portfolio framework should alleviate the Deloitte Team's concern, and Mr. Foo concurred. Mr. Foo then concluded his presentation.

Mr. Goldsmith then turned to a discussion of the recently completed update to the 2019 risk assessment performed by the Deloitte Team. Mr. Ben Quigley, who serves as a Senior Manager with Deloitte, explained that the Deloitte Team updates the risk assessment each year to understand what risks may have changed and how evolving risks can be addressed by RSIC's audit plan. He then asked Mr. Craig Stanton, who serves as a Manager with Deloitte, to provide the results of the risk assessment update. Mr. Stanton explained the process and then overviewed the heat map identifying the key residual risks. He noted the areas where risks to RSIC have decreased. Mr. Stanton stated that risks related to RSIC's human resource function have decreased due to better Staff training, and risks related to internal investment management decreased due to those functions being outsourced. He also noted that business continuity and disaster recovery had decreased as risks due to RSIC's exceptional handling of the recent global health crisis. Mr. Stanton noted one area where residual risk had increased: market risk. He explained that the increase in risk resulted from the uncertainty in financial markets, which is outside of RSIC's control.

Mr. Quigley turned the discussion to the proposed rolling three-year audit plan noting that the audit plan had been reassessed in light of the refreshed risk assessment. He noted

that, in Fiscal Year 2020-21, the Deloitte Team will review performance measurement and reporting, business continuity, and oversight of RSIC's custodian: Bank of New York Mellon. Mr. Quigley explained that, in Fiscal Year 2021-22, the Deloitte Team will review investment management fee and expense-related areas, information technology security and cyber security, investment risk management, and third-party vendor oversight. Finally, he explained that, in Fiscal Year 2022-23, the Deloitte Team planned to review areas related to investment valuation, investment compliance, data governance, and human capital. Mr. Quigley then highlighted next steps and concluded his presentation.

Mr. Condon moved to approve the Fiscal Year 2020-21 and 2021-22 IA Plan as presented by Deloitte subject to annual reviews by the Committee. Ms. Boykin seconded the motion, which was unanimously approved.

Next, Mr. Chernick turned the discussion to Staff's implementation of a new performance reporting tool: Caissa. Caissa is a multi-asset class portfolio analytics software system that was created specifically for allocators of investment portfolios. He applauded the efforts of RSIC's Investment Reporting and Performance Team ("Reporting Team") in spearheading the implementation of Caissa. Mr. Chernick then asked Mr. Jon Rychener, Director of Reporting and Performance, to lead the Committee in an educational presentation regarding RSIC's reporting function.

Mr. Rychener began by overviewing the members of the Reporting Team as well as the Reporting Team's function. He explained one of the key challenges the Reporting Team faces is moving away from manual processes to automated processes. Mr. Rychener then provided a detailed introduction to Caissa and outlined the schedule for the implementation process.

Then, Mr. Michael Hitchcock, Chief Executive Officer, began a discussion about the investment performance reporting produced for RSIC's Commission. Mr. Hitchcock noted that investment reporting is driven by Staff's goal to produce information that provides greater insight into the decisions that impact performance. He then reviewed RSIC's new reporting framework, which will allow the Commission to judge value based on the following three investment decisions: (1) diversification; (2) portfolio structure; and (3) implementation. Mr. Hitchcock stated that, on an ongoing basis, the Commission will receive regular asset class deep dives and that Staff's goal for the immediate future is to further build-out quarterly reports. Mr. Condon applauded Mr. Chernick, Staff, and the Reporting Team's hard work on performance reporting.

Mr. Goldsmith moved on to an overview of the Scope for the Performance Reporting System Implementation Review ("Reporting Review"), which is on the Fiscal Year 2021 audit plan. The Deloitte Team considers the Reporting Review to be an embedded assurance or "ride-along" engagement whereby the Deloitte Team will embed with the project team to provide real-time feedback and assistance with recommended strategies that support a smooth implementation of Caissa. Mr. Goldsmith noted the ultimate objective of this review is to deliver RSIC a well-controlled system that produces quality information for both RSIC and the Commission. He noted that fieldwork has already begun and should be completed by the end of the first quarter of 2021.

Ms. Boykin moved to approve the proposed Scope for the Reporting Review as presented, and Mr. Condon seconded the motion, which was unanimously approved.

Next, Mr. Goldsmith reviewed the Scope for the Business Continuity and Disaster Recovery Planning (“BCP/DR”) Review (“BCP/DR Review”), which will be performed by the Deloitte Team. He stated that the objective of the scope is to assess the design and operating effectiveness of processes and controls in place at RSIC that mitigate key risks related to BCP/DR planning and related policies and procedures. Mr. Goldsmith noted that Mr. Paul Meynen, who serves as a Senior Manager with Deloitte, will be the subject matter specialist for the BCP/DR Review, and Mr. Mike Brodsky, Managing Director with Deloitte, will be the engagement leader. Lastly, Mr. Goldsmith stated that fieldwork will begin in November of 2020 and should be completed by the end of the first quarter of 2021.

Mr. Condon moved to approve the Scope for BCP/DR Review. Ms. Boykin seconded the motion, which was unanimously approved.

V. ENTERPRISE RISK MANAGEMENT AND COMPLIANCE UPDATES

The Chair recognized Ms. Michelle Kennedy, Director of Enterprise Risk Management and Compliance, for her presentation. Ms. Kennedy began by reminding the Committee that every quarter the Committee receives an update regarding compliance with policies relating to the following areas of RSIC’s operations: securities lending, personal trading, and separately managed account (“SMAs”). She explained that SMA updates are provided three times a year and noted that the Annual Investment Manager Compliance Questionnaire is relied upon for second quarter SMA certifications. She explained that, with respect to those three areas, each slide of her presentation contains the compliance mandate as set forth in the applicable policy, the monitoring and reporting methods utilized by Staff, and whether any material issues were noted for the quarter. Ms. Kennedy reported that no material issues were noted for the June 30, 2020 reviews.

Ms. Kennedy concluded her presentation by providing an Enterprise Risk Management (“ERM”) update. She stated that, at the end of October of 2020, the Deloitte Team will be leading a workshop for all risk owners to provide an overview of the RSIC ERM process. Following the October workshop, the Deloitte Team will hold subsequent workshops with each risk owner to begin identifying key performance indicators (“KPIs”) and key risk indicators (“KRIs”) for the various risk topic areas.

VI. EXECUTIVE SESSION

Mr. Condon made a motion to recede into Executive Session to discuss investment matters related to internal audit reviews pursuant to S.C. Code Section 9-16-80 and 9-16-320; to receive legal advice from legal counsel pursuant to S.C. Code Section 30-4-70(a)(2); to discuss the development of security personnel or devices pursuant to S.C. Code Section 30-4-70(a)(3); and discuss personnel matters related to annual review of the Internal Audit Coordinator pursuant to S.C. Code Section 30-4-70(a)(1). Ms. Boykin seconded motion, which was unanimously approved.

VII. POTENTIAL ACTIONS RESULTING FROM EXECUTIVE SESSION

The Chair stated that the Committee met in Executive Session to discuss investment matters related to internal audit reviews pursuant to S.C. Code Section 9-16-80 and 9-16-320; to receive legal advice from legal counsel pursuant to S.C. Code Section 30-4-70(a)(2); to discuss development of security personnel or devices pursuant to S.C. Code Section 30-4-70(a)(3); and discuss personnel matters related to annual review of the Internal Audit Coordinator pursuant to S.C. Code Section 30-4-70(a)(1). The Chair stated that no action was taken during Executive Session.

VIII. ADJOURNMENT

There being no further business, Ms. Boykin made a motion to adjourn. Mr. Condon seconded the motion, which was unanimously approved.

[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 on October 5, 2020 at 4:00 p.m. at the entrance, in the lobbies, and near the 15th Floor Presentation Center at 1201 Main Street, Columbia, S.C.]