

**SC PUBLIC EMPLOYEE BENEFIT AUTHORITY
BOARD OF DIRECTORS MEETING**

Friday March 27, 2015 9:00 a.m. Minutes Approved 4.15.15

Retreat Location

McNair Law Firm - 1221 Main St., Suite 1800, Columbia, SC 29201

Board Members Present:

Chairman Art Bjontegard
Vice Chairman Joe "Rocky" Pearce
Mr. Audie Penn
Mr. Frank Fusco
Mr. Steve Heisler
Mr. John Sowards
Mr. David Tigges
Mr. Steve Osborne

Board Members Absent:

Mr. Steve Matthews
Ms. Stacy Kubu
Sheriff Leon Lott

Others present for all or a portion of the meeting:

Melissa Alexander, Peggy Boykin, Sarah Corbett, Matthew Davis, Ariail Kirk, Heather Muller, John Page, Jacalin Shealy, Rob Tester, Travis Turner, Stephen Van Camp, Angie Warren, and Justin Werner from the South Carolina Public Employee Benefit Authority (PEBA); Dori Ditty, Robert Feinstein, Mitchell Goldsmith, Hershel Harper, Mike Hitchcock, and Eric Nelson from the South Carolina Retirement System Investment Commission (RSIC); Mary Beth Braitman from Ice Miller; Paul Staples from Summit Strategy's Group; Joseph Newton and Danny White from Gabriel Roeder Smith & Company; Jan Hartford from CEM Benchmarking; Wayne Pruitt and Donald Tudor with the State Retirees Association; and Brooks Goodman from Blue Cross Blue Shield of South Carolina.

1. CALL TO ORDER

Chairman Art Bjontegard called the PEBA Board of Director's (Board) retreat to order at 9:00 a.m., and stated that the public meeting notice was posted in compliance with the Freedom of Information Act.

2. ADOPTION OF PROPOSED AGENDA

Chairman Bjontegard asked for amendments to the proposed Board meeting agenda. There being none, Mr. Rocky Pearce made a motion, which was seconded by Mr. Frank Fusco, and passed unanimously, to adopt the agenda as presented.

3. APPROVAL OF MEETING MINUTES – FEBRUARY 18, 2015

Chairman Bjontegard asked for a motion to adopt the February 18, 2015, meeting minutes. Mr. Pearce made a motion, which was seconded by Mr. Audie Penn, and approved unanimously, to adopt the February 18, 2015, meeting minutes as presented.

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4. EDUCATIONAL PROGRAM SESSIONS

Fiduciary Education:

Chairman Bjontegard introduced Ms. Mary Beth Braitman from Ice Miller, who conducted a presentation on Fiduciary and Ethical Considerations. Ms. Braitman stated that good fiduciary and ethical practices should follow the applicable South Carolina Code of Laws; the State Ethics Act; the PEBA Board's Ethics Policy; and the PEBA Board's Conflict of Interest Policy.

Ms. Braitman described a fiduciary as any person who exercises any discretionary authority, control, or management of a plan, or exercises any authority, control, or disposition of its assets. A fiduciary also renders investment advice, and has any discretionary authority or discretionary responsibility in the administration of the plan. Ms. Braitman reminded the Board that every power or duty given to the Board by state law must be exercised in accordance with fiduciary principles. Ms. Braitman noted that the Board is one of multiple fiduciaries for the South Carolina Retirement Systems, and shares responsibility with the State Budget & Control Board; the South Carolina Retirement System Investment Commission (RSIC); the State Treasurer; and the state Legislature.

Ms. Braitman also discussed adherence to the trust, and prohibited transactions for fiduciary principles, and provided several hypothetical cases for the Board to review. Ms. Braitman concluded her presentation by reviewing fiduciaries Duties of Care, Duty of Loyalty, and Duty of Impartiality.

Chairman Bjontegard thanked Ms. Braitman for her presentation.

Powers Reserved:

Mr. Steven Van Camp, PEBA's General Council, reviewed the draft Resolution Reserving Certain Powers To The PEBA Board and Delegating Powers To The Executive Director. Mr. Van Camp advised that the Resolution was drafted in response to the Funston Recommendation that PEBA should develop a central framework governing delegation authority and reservation of powers to the Executive Director. Mr. Van Camp stated that the Resolution reserves certain powers to the PEBA Board, and delegates other management powers to the Executive Director of PEBA. It was noted that the Board may reassume any power or duty delegated to the Executive Director if necessary. Ms. Braitman confirmed that Ice Miller is in agreement with the Resolution in regards to the Board's fiduciary responsibilities.

Following further discussion, the Board asked for the Resolution to be revised by adding a provision to require the Executive Director to adopt an Emergency Succession Plan for the exercises of the powers delegated to the Executive Director.

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Summit Strategies Group:

Chairman Bjontegard introduced Mr. Paul Staples from Summit Strategies Group, who provided a general overview of target-date funds; what factors a plan should consider when selecting a target-date fund; and key differentiators between various target-date fund suites.

Mr. Staples explained that target-date funds were created in the 1990's to address a marketplace need for a one-stop-shop investment that did not require participants to determine their risk profile and proactively move from one risk-based portfolio to another. Mr. Staples advised that target-date funds consist of 10 year vintages offered in five year increments and participants select or are defaulted into a fund, based on the year of their retirement at age 65. Mr. Staples stated that target-date funds should address shortfall risk; longevity risk; and inflation risk. It was noted that target-date funds are appropriate for most, but not all participants.

Chairman Bjontegard thanked Mr. Staples for his presentation.

Gabriel Roeder Smith & Company:

Chairman Bjontegard introduced Mr. Joseph Newton and Mr. Danny White with Gabriel Roeder Smith & Company, to provide the 2014 valuation results for the State Health Plan; Other Post Employment Benefits (OPEB) accounting changes; and actuarial assumptions used in the valuation of the Retirement System.

Mr. Newton reported that key results of the 2014 State Health Plan valuation include:

1. Proactive cost management continues to generate savings which mitigate the expected liability growth;
2. The average increase to the overall premiums has been 3.6 percent per year over the last ten years; and
3. The funding ratio is eight percent as of June 30, 2014.

Mr. Newton stated that statute requires an experience study to be conducted every five years, so the next experience study will be for the five-year period ending June 30, 2015. Mr. Newton pointed out that actuarial assumptions do not alter the benefits paid to retirees, but rather determines the costs of the benefits and the associated funding strategy.

Mr. Newton concluded his presentation by discussing the summary of recommendations from the 2010 experience study; the historical change in the investment return assumption used by large public retirement systems; life expectancies for the general United States population from age 65; and the mortality assumption evaluation process.

Chairman Bjontegard thanked Mr. Newton and Mr. White for their presentation.

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CEM Benchmarking:

Chairman Bjontegard introduced Ms. Jan Hartford with CEM Benchmarking, who discussed the benefits of benchmarking including:

1. Measurement and management of administrative cost;
2. Measurement and management of member service;
3. Obtaining insights into current trends and best practices; and
4. Networking and sharing ideas with peers.

Ms. Hartford reported that PEBA's total pension administration cost was \$12.9 million, or \$31 per active member and annuitant, which is \$47 below the peer average of \$78. Ms. Hartford also stated that PEBA's total pension administration cost per member decreased 12.4 percent over the past fiscal year.

Ms. Hartford discussed key service metrics, and reported that PEBA's total service score was 76, which was below the peer median of 80. Ms. Hartford stated that PEBA can improve the service score by linking the on-line calculator to member data; lowering call wait time; and having fewer undesired call outcomes. Ms. Hartford added that PEBA's service score improved by three points over the last fiscal year due to improvements in the call center.

Chairman Bjontegard thanked Ms. Hartford for her presentation.

Enterprise Risk Management and RSIC Update:

Mr. Bjontegard introduced Mr. Eric Nelson from the South Carolina Retirement System Investment Commission (RSIC), to present a report on enterprise risk management (ERM). Mr. Nelson provided a definition of ERM, and stated that ERM provides an integrated and consistent framework to identify, assess, monitor, and ultimately manage risks in support of the Plan's mission to provide superior investment management services.

Mr. Nelson discussed the key benefits to ERM including:

1. Creating and fostering a risk aware culture;
2. Helping management focus on risk in an organized, structured fashion; and
3. Serving as a diagnostic tool for new initiatives, objectives, and system procurements.

Chairman Bjontegard thanked Mr. Nelson for his presentation.

Mr. Mike Hitchcock, Chief Executive Officer, RSIC, provided a brief organizational update of the Investment Commission. Mr. Hitchcock stated that RISC has a strong relationship with PEBA, and both Executive Director's strive to ensure that members and stakeholders are getting accurate, consolidated information.

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Mr. Hershel Harper, Chief Investment Officer, RSIC, provided a performance update for the period December 31, 2014. Mr. Harper reported that total Plan returns fiscal-year-to-date are negative 0.81 percent, compared to the policy benchmark of negative 0.91 percent. Mr. Harper stated that alternative assets including real estate, private equity, hedge funds, and private debt have all been significant performers this year. Mr. Harper reported that commodities were the worst performer for the year at a negative 21 percent, contributed largely to the decline in oil and gold prices. Mr. Harper advised that the long-term trend is very positive, with the five-year return coming in strong at 8.27 percent on an annualized basis, compared to the policy benchmark of 7.33 percent. Mr. Harper concluded his presentation by stating that total Plan performance fiscal-year-to-date ending February 28, 2015, is 1.77 percent, compared to the policy benchmark of 1.43 percent.

Chairman Bjontegard thanked Mr. Harper for his presentation.

5. ADJOURNMENT

Chairman Bjontegard reminded the Board that the meeting on March 28, 2015, begins at 8:30 a.m. There being no further business, the Board meeting adjourned at 4:10 p.m.

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Saturday, March 28, 2015 8:30 a.m. Minutes Approved 4.15.15

Retreat Location

McNair Law Firm - 1221 Main St., Suite 1800, Columbia, SC 29201

Board Members Present:

Chairman Art Bjontegard
Vice Chairman Joe "Rocky" Pearce
Mr. Audie Penn
Mr. Frank Fusco
Mr. Steve Heisler
Mr. John Sowards
Mr. David Tigges
Mr. Steve Osborne

Board Members Absent:

Mr. Steve Matthews
Ms. Stacy Kubu
Sheriff Leon Lott

Others present for all or a portion of the meeting:

Peggy Boykin, Sarah Corbett, Megan Lightle, Heather Muller, Lisa Phipps, Rob Tester, Travis Turner, Stephen Van Camp, and Justin Werner with the South Carolina Public Employee Benefit Authority (PEBA); Wayne Pruitt and Donald Tudor with the State Retirees Association; Rex Gale, Brooks Goodman, and Matt Shaffer from Blue Cross Blue Shield of South Carolina; and Will Kinney from Milliken Law Firm.

1. CALL TO ORDER

Chairman Art Bjontegard called the PEBA Board of Director's (Board) meeting to order at 8:30 a.m., and stated that the public meeting notice was posted in compliance with the Freedom of Information Act.

2. ADOPTION OF PROPOSED AGENDA

Chairman Bjontegard asked that the proposed Board meeting agenda be amended to include the updated Powers Reserved Resolution. Mr. Frank Fusco made a motion, which was seconded by Mr. Audie Penn, and passed unanimously, to adopt the agenda as amended.

3. POWERS RESERVED

Mr. Steven Van Camp, PEBA's General Council, stated that the Resolution Reserving Certain Powers To The PEBA Board and Delegating Powers To The Executive Director has been revised to include the following language in bold: **The Executive Director shall adopt an Emergency Succession Plan for the exercise of the powers delegated to the Executive Director in this section.**

Mr. David Tigges made a motion, which was seconded by Mr. Steve Heisler, and passed unanimously, to approve the Resolution Reserving Certain Powers To The PEBA Board and Delegating Powers To The Executive Director as amended.

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4. FUNSTON FIDUCIARY AUDIT RECOMMENDATIONS AND STRATEGIC ACTION PLANS

Ms. Peggy Boykin, PEBA's Executive Director, stated that it is important for the Board to understand the magnitude of the Board's Strategic Plan-Staff Action Plans, since each action plan is driven by the resources that are available to PEBA. Ms. Boykin reminded the Board that 90 percent of the work needed to complete the staff action plans resides with the Finance, Administration, Audit, and Compliance (FAAC) Committee. In response to a question regarding the number of vacant positions, Ms. Boykin confirmed that there are nine vacant full-time equivalent (FTE) positions, three of which are already designated to be filled.

Ms. Sarah Corbett, PEBA's Chief Operating Officer, reviewed the PEBA Board Strategic Plan-Staff Action Plans related to the following FAAC Committee areas: audit and risk assessment; Board level and governance policies; business continuity; communications; customer services; employer services; facilities; human resources and workforce development; information technology; and operational assessment.

The Board agreed that the Funston recommendation of hiring a consultant to develop an Enterprise Risk Management (ERM) framework could be delayed until 2017-2018, since PEBA already has risk assessment functions in place. It was noted that the Board would like to engage a consultant to facilitate the PEBA Board's self assessment process at the June 17, 2015, Board meeting as recommended by Funston.

Ms. Corbett also provided a copy of the Funston Recommendations Status Report; PEBA Board Strategic Plan - Completed Items through March 25, 2015; PEBA Board Strategic Plan - All Open Items through March 25, 2015; and a recently developed Board of Directors Orientation Notebook for the Board to review.

Following further discussion, Mr. Heisler made a motion, which was seconded by Mr. Steve Osborne, and passed unanimously, to directionally approve the Board's Strategic Plan-Staff Action Plans as presented, subsequent to a June 30, 2015, update on target dates, and to receive additional quarterly updates on progress towards completion.

Mr. John Sowards complimented PEBA staff on their hard work related to the development and completion of the Board's Strategic Plan-Staff Action Plans.

5. PEBA BOARD POLICY CHANGES

Mr. Justin Werner, PEBA'S Legal Counsel, reviewed the Funston recommended changes to the PEBA Board of Directors Bylaws; the PEBA Board of Directors Education Policy; and the PEBA Board of Directors Travel Policy. Mr. Werner advised the Board that the FAAC Committee has already voted to approve the modifications to the above mentioned documents.

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Chairman Bjontegard stated that the modifications are Committee recommendations and do not require a second. The Board approved unanimously to accept the Committee recommendations regarding the changes to the PEBA Board of Directors Bylaws.

The Board approved unanimously to accept the Committee recommendations regarding the changes to the PEBA Board of Directors Education Policy.

The Board approved unanimously to accept the Committee recommendations regarding the changes to the PEBA Board of Directors Travel Policy.

6. COMMITTEE REPORTS

A. HEALTH CARE POLICY COMMITTEE

Mr. Pearce reported that the Health Care Policy Committee met on March 26, 2015, and received a telemedicine update, and a presentation from the Governor's Prescription Drug Abuse Prevention Council. Mr. Pearce stated that the Health Care Committee made a motion to directionally adopt the strategies for the State Health Plan to pursue in 2016-2017, with final approval of strategies for 2016 no later than July 2015. Chairman Bjontegard stated that the motion is a Committee recommendation and does not require a second. The Board approved the aforementioned Committee motion unanimously.

B. RETIREMENT POLICY COMMITTEE

Mr. John Sowards reported that the Retirement Policy Committee met on February 4, 2015, and Segal Rogerscasey presented a status memo on the T. Rowe Price Mid Cap Value Fund. Mr. Sowards advised that further due diligence will be needed to decide whether this fund should be retained or replaced. Mr. Sowards added that as a result of the recent formal review, Segal is conducting further due diligence on the T. Rowe Price Mid Cap Value Fund, and will also continue to work with Summit Strategies and PEBA, to determine the best course of action regarding the PIMCO Total Return Fund.

Mr. Sowards reported that the Retirement Policy Committee also met on March 4, 2015, and Segal presented the fourth quarter 2014 Deferred Compensation performance update. In addition, Segal presented its annual S3 report, which is a comprehensive analysis on the core investments, and a memo detailing its recommended course of action regarding the PIMCO Total Return Fund. Mr. Sowards stated that Summit presented the fourth quarter 2014 Optional Retirement Program (ORP) performance report, and Empower presented the fourth quarter 2014 Deferred Compensation Program plan activity report.

Mr. Sowards added that the Retirement Policy Committee will be receiving a T. Rowe Price Mid Cap Value Fund due diligence report from Segal, and Empower will present an overview of the Deferred Comp "Business Transformation Project," previously known as the "Modernization Project" at the May 2015 meeting.

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C. FINANCE, ADMINISTRATION, AUDIT AND COMPLIANCE (FAAC) COMMITTEE

Ms. Boykin reported that the FAAC Committee met on February 11, 2015, and received as information the fiscal year 2013-2014 Health Financial Statements Audit. Ms. Boykin noted that in February there were discrepancies in the amount of the financial statements in regards to the securities lending losses for the Other Post Employment Benefits (OPEB) trust funds. Ms. Boykin stated that the FAAC Committee met again on March 4, 2015, and received confirmation from the Bank of New York Mellon (BONY) that the OPEB trust funds did not have any securities lending losses as originally reported. Ms. Boykin advised that next year's financial statements will include a restatement and a note disclosure explaining the restatement. Ms. Boykin also stated that PEBA has received confirmation from BONY that the securities lending portfolio assets in the OPEB trust funds have been properly segregated as of February 17, 2015, however; PEBA has not yet received the corrected Governmental Accounting Standards Board (GASB) 28 statements that were issued from the inception of OPEB in 2008, through the current date.

Ms. Boykin advised that internal audit reports were received at the March 4, 2015, meeting, and the FAAC Committee approved the 2015 PEBA Internal Audit Plan.

7. OLD BUSINESS/DIRECTOR'S REPORT

Ms. Boykin provided the Director's Report, and stated that the Senate Finance Subcommittee reviewed S.527 favorably with several amendments. Ms. Boykin advised that the amendments remove the procurement exemption and the budget approval exemption for both PEBA and the South Carolina Retirement System Investment Commission (RSIC). Thus, PEBA and RSIC will remain under the state procurement code, and will continue to submit annual budgets for approval by the General Assembly. The bill will move to the Full Senate Finance calendar.

At the conclusion of the Director's Report, Chairman Bjontegard provided an opportunity for a roundtable discussion from Board members, staff, and visitors. Chairman Bjontegard expressed his appreciation to Mr. Tigges for the use of his meeting facilities, and to his assistant Ms. Mindy Koon who helped keep the retreat running smoothly. Ms. Boykin thanked Ms. Heather Muller, and staff, for their administrative efforts and support related to the Board retreat.

8. ADJOURNMENT

There being no further business, and upon motion by Mr. Fusco, which was seconded by Mr. Heisler, and approved unanimously, the Board meeting adjourned at 11:10 a.m.