

S.C. Association of Counties

December 3, 2021

Michael Hitchcock, CEO

RSIC Overview

- **RSIC's Purpose - Invest and manage the assets of the State's five defined benefit plans:**
 - South Carolina Retirement System
 - Police Officer's Retirement System
 - Judge's and Solicitor's Retirement System
 - General Assembly Retirement System
 - National Guard Retirement System
- **Goal – Earn an investment return that helps secure benefits for our present and future retirees.**
- **Assets Under Management - \$40.9 billion (as of 10/31/21)**
- **Assumed Annual Rate of Return – 7%**

Market Highlights

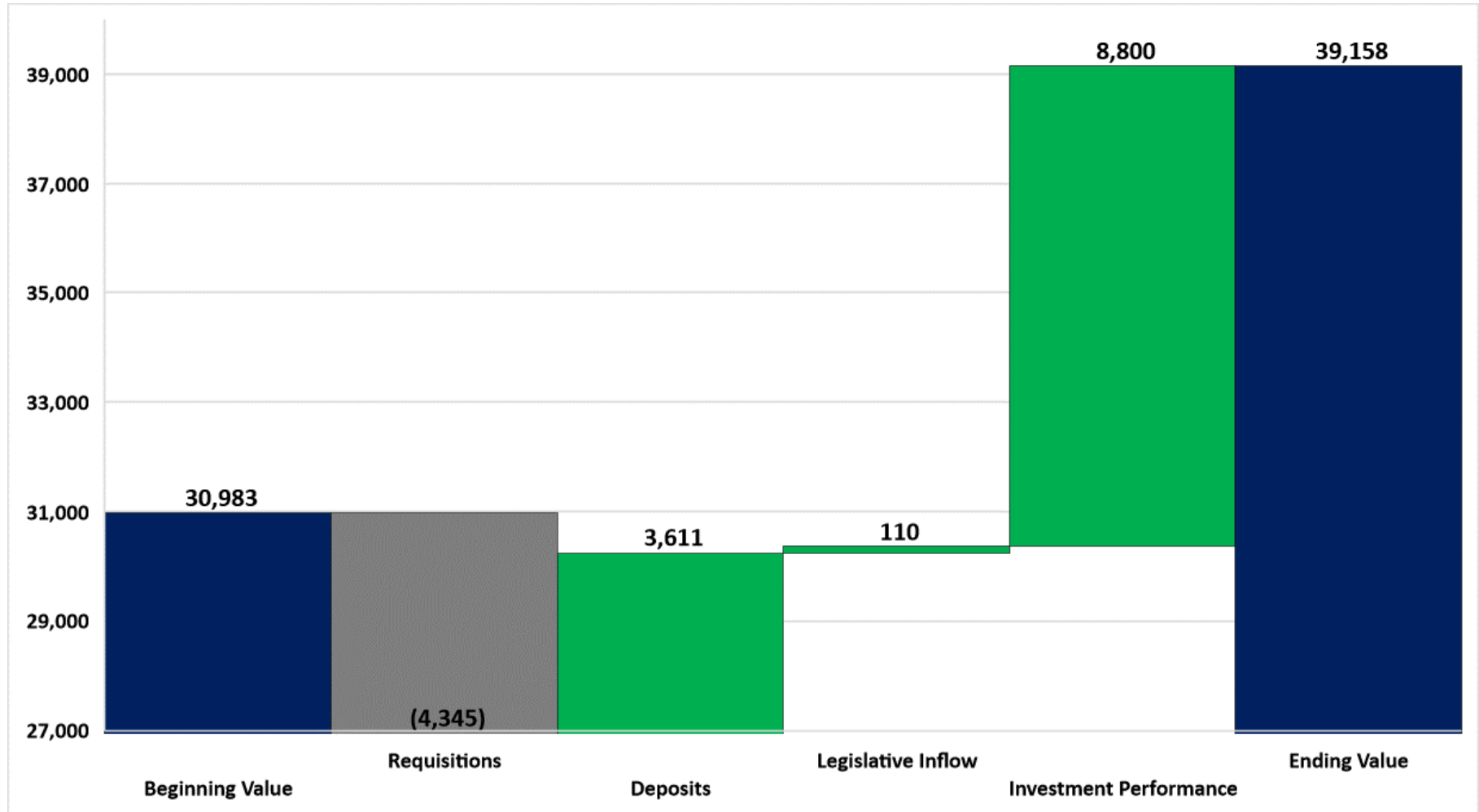
- **During FY 2020, RSIC experienced unprecedented market volatility due to the global shutdown related to COVID-19.**
- **The S&P 500 experienced its worst monthly decline in March 2020, which was immediately followed by one of its sharpest recoveries.**
 - **February 19, 2020: The S&P 500 closed at a then record high of 3,386.15.**
 - **March 23, 2020: The S&P 500 closed at 2,237.40.**
 - **March 23, 2021: The S&P 500 closed at 3,910.52.**
- **Since the bottom of the market, the Fund's value has increased by \$12.75 billion (net of benefit payments).**

Investment Performance Highlights

- **FY 2021 Investment Performance:**
 - 1 year **28.57%**
 - 3 year **10.23%**
 - 5 year **10.07%**
 - 10 year **7.60%**
 - **\$39.16 billion market value (net of benefit payments)**

Investment Performance – Dollars

FYTD June 30, 2021



*Requisitions and deposits include equal and offsetting flows for insurance benefits which cannot be disaggregated from retirement benefit flows. The net of requisitions and deposits represents the surplus or shortfall of retirement deposits in relation to retirement benefit payments.

Plan Risk

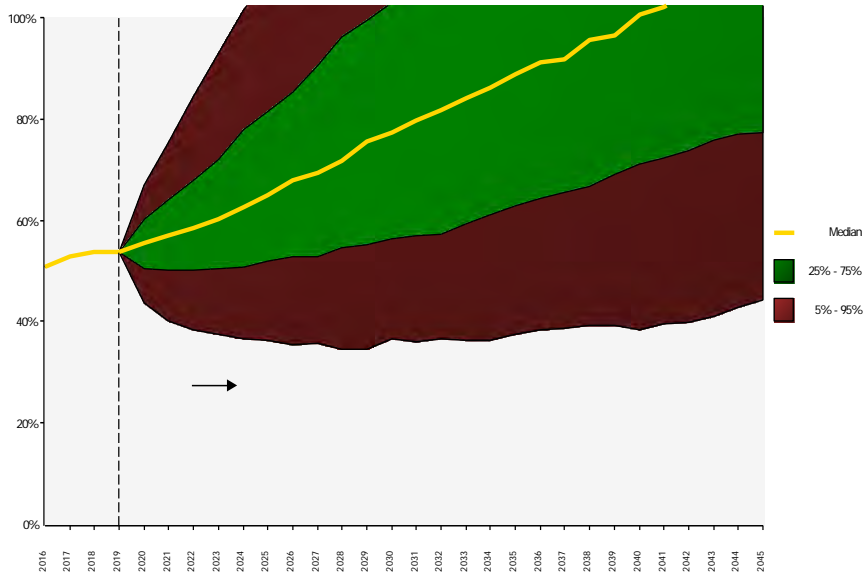
- In response to the GFC and COVID-19, the Federal Reserve and other central banks have kept interest rates at or near zero for more than 10 years.
- This action stimulates the economy but punishes savers like pension funds.
- Requires pension funds to invest a greater percentage of their plans in more volatile asset classes (e.g., stocks) to achieve their assumed rates of return.
 - Example: 10-year Treasury Yield of 1.54% vs. 7% Assumed Rate of Return
- The greater the volatility of the investment portfolio, the greater the variability of outcomes.

Visualization of Volatility

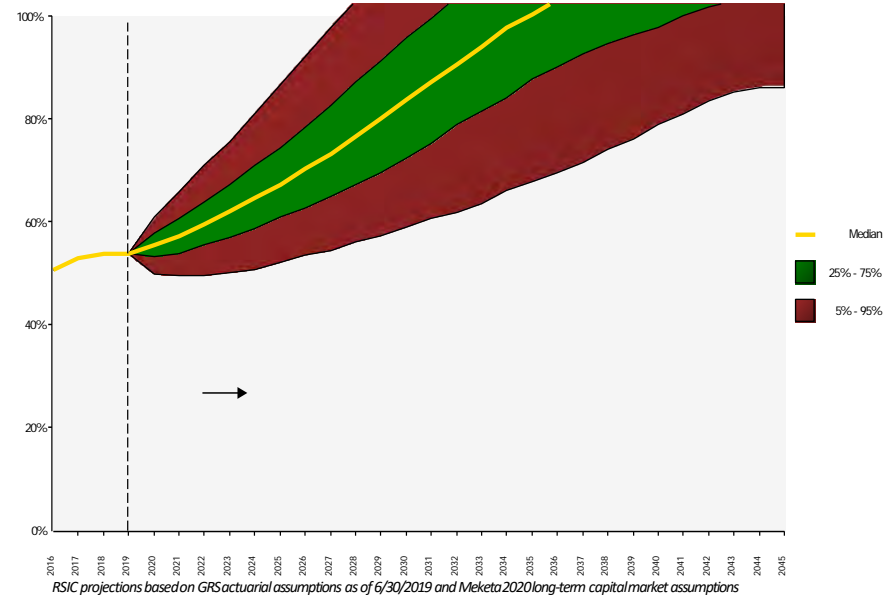
Higher volatility impacts the probability of returns and results in a longer expected path to full funding.

*****FOR EXAMPLE PURPOSES ONLY*****

SCRS Expected Funded Ratio as of 6/30/2019



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



Managing the Portfolio

- **The 2017 Pension Reform Bill 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.**
 - **Focused energy on the parts of the portfolio that provide consistent excess return.**
- **Manage Investment Costs:**
 - **Passive management alone achieves more than \$40 million in investment fee savings per year.**
 - **Since FY 2013, RSIC has cut investment fees by half as a percentage of assets under management.**

Portfolio Simplification

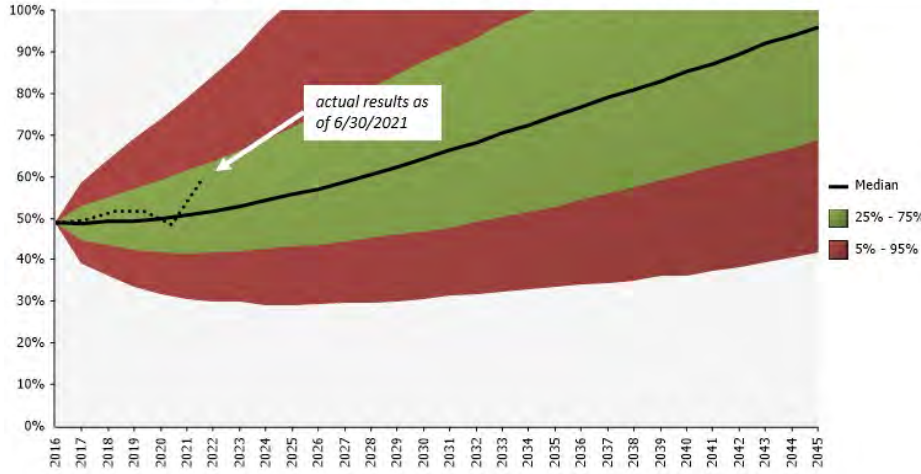
Legacy Asset Allocation	
Nominal IG Bonds	6
Treasuries	5
TIPS	2
Mixed Credit	4
EM Debt	4
Private Debt	7
US Equity	18
Developed Int'l Equity	11
EM Equity	6
Equity Options	7
Private Equity	9
Real Estate (Public)	1
Real Estate (Private)	8
Infrastructure (Public)	1
Infrastructure (Private)	2
PA Hedge Funds	10
GTAA	7
Other Opportunistic	1



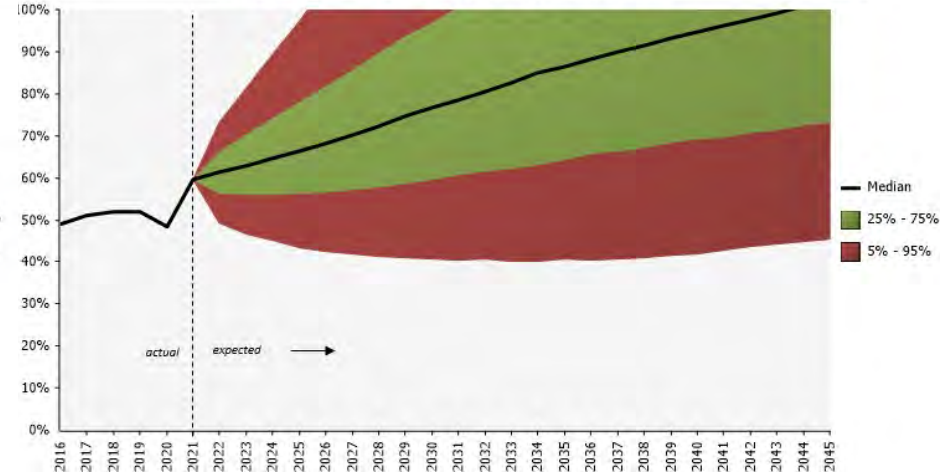
Simplified Asset Allocation	
Bonds	26
Private Debt	7
Global Equity	46
Private Equity	9
Real Assets	12

Plan Fiscal Position Projections

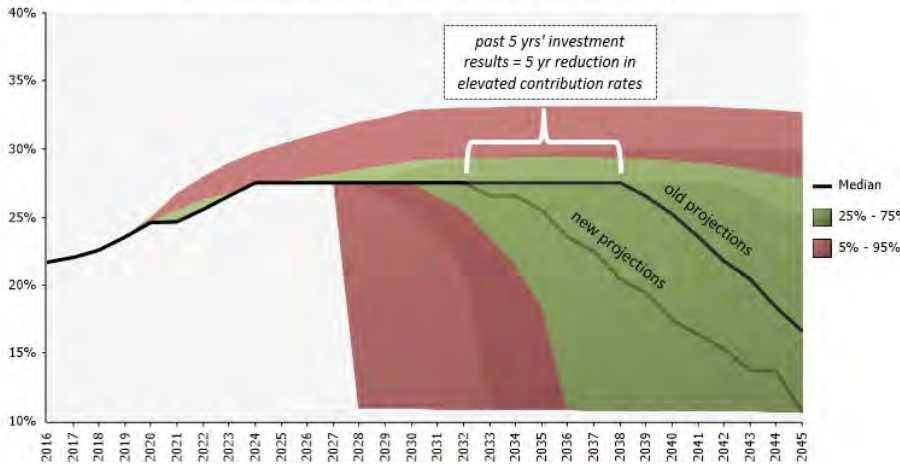
SCRS MVA Funded Ratio Projections (pro forma) as of 6/30/2016



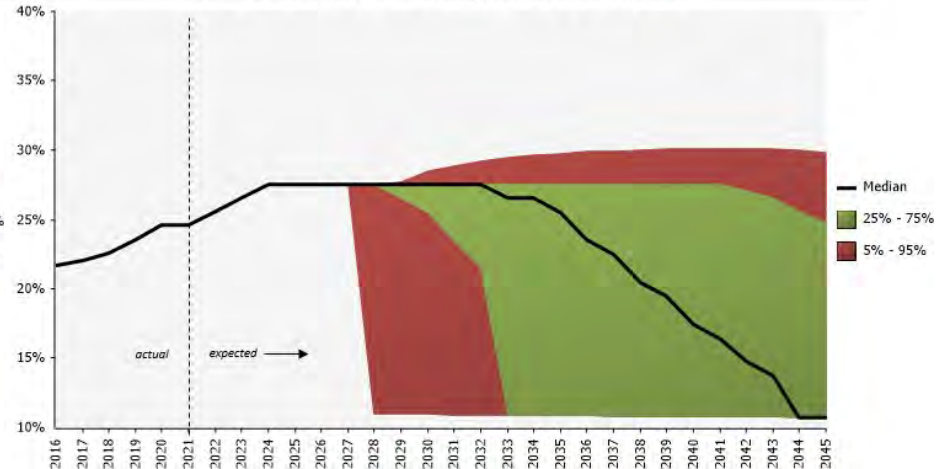
SCRS MVA Funded Ratio Projections as of 6/30/2021



SCRS Total Contribution Rate Projections: Old vs. New 6/30/2021



SCRS Total Contribution Rate Projections as of 6/30/2021



Pro-forma projections fully incorporate 2017 pension reform legislation and FYE 2021 ER contribution rate hike deferral

Projections based on Meketa 2021 capital market expectations and FYE 2020 GRS actuarial assumptions and reflect FYE 2021 investment return of 28.6%

Conclusion

- **FY 2021 was a record year for investment performance by any measure.**
- **Market volatility remains one of the greatest risks to the plan.**
- **RSIC's simplified portfolio will improve long-term returns.**
- **The 2017 Pension Reform Bill provided a sound fiscal infrastructure.**
- **The Plan's recovery is ahead of schedule.**