

MINUTES

SOUTH DAKOTA INVESTMENT COUNCIL

Sioux Falls, South Dakota

April 19, 2018

1) Roll Call

The meeting was called to order at 8:30 a.m. on April 19, 2018 by Chair Steve Kirby. Council members in attendance were Paul Bisson, Lorin Brass, Ryan Brunner, Steve Kirby, Loren Koepsell, Jeff Nelson, and Rob Wylie. Rich Sattgast was absent.

Others attending all or part of the meeting included Matt Clark, Brett Fligge, Chris Nelson, Tammy Otten, Sherry Nelson, and Laurie Riss from the Investment Office; and Travis Almond and Jane Beers from the South Dakota Retirement System.

(Note: For sake of continuity, the following minutes are not necessarily in chronological order. Documents referenced are on file in the Investment Office, and public access is subject to the provisions of SDCL 1-27.)

2) Minutes

ROB WYLIE MOVED, SECONDED BY RYAN BRUNNER, TO APPROVE THE MINUTES OF THE JANUARY 29, 2018 INVESTMENT COUNCIL MEETING. MOTION PASSED UNANIMOUSLY.

3) Iran Divestiture Update

Tammy Otten reviewed the Iran memo dated March 29, 2018 and staff recommendations for updates to the South Dakota Iran scrutinized companies list.

LORIN BRASS MOVED, SECONDED BY PAUL BISSON TO APPROVE THE CHANGES TO THE IRAN SCRUTINIZED COMPANIES LIST AS PRESENTED. MOTION PASSED UNANIMOUSLY.

4) Investment Update – FY 2018

Assets and estimated returns for SDRS and the trust funds under management as of 4/17/18 were reported.

Otten noted that the Education Enhancement Trust will receive the recently negotiated prior years' arbitration settlement and the annual tobacco company payment. The net amount remaining after bond principal and interest payments is to be deposited into the EET fund.

RYAN BRUNNER MOVED, SECONDED BY LORIN BRASS, TO GO INTO EXECUTIVE SESSION PER SDCL 1-25-10 FOR THE PURPOSE OF RECEIVING AND DISCUSSING INVESTMENT INFORMATION THAT IS CONFIDENTIAL UNDER SDCL 1-27-1.6(5). MOTION PASSED UNANIMOUSLY.

AGENDA ITEMS:

- 1) Roll Call
- 2) Minutes
- 3) Iran Divestiture Update
- 4) Investment Update – FY 2018
- 5) High Yield – Internal Presentation
- 6) Private Equity Manager Presentation
 - Blackstone Energy Partners Fund III Presentation
 - Review of Existing Ltd. Partnerships and Discussion of Blackstone Energy Partners Fund III Potential Investment
- 7) Compensation Committee Update
- 8) Cash Flow Fund Presentation
- 9) Higher Education Savings Program
- 10) Audit Committee Update
- 11) Audit Committee Charter
- 12) Legislative Wrap-Up - Review
- 13) New/Old Business
- 14) Future Meeting Dates
- 15) Adjournment

Staff remaining to participate in and/or facilitate the discussion included Matt Clark, Tammy Otten, Chris Nelson, Brett Fligge and Laurie Riss.

5) High Yield – Internal Presentation

Executive session continued for the High Yield Internal Presentation by Anne Cipperley, Zach Nipp and Lesyk Voznyuk.

Staff remaining to participate in or facilitate the discussion, in addition to the presenters, included Matt Clark, Brett Fligge and Laurie Riss.

6) Private Equity Manager Presentation & Potential Investment

Blackstone Energy Partners Fund III Presentation

Executive session continued for the Blackstone Energy Partners Fund III presentation by David Foley, Senior Managing Partner and CEO of Blackstone Energy Partners, and Robert McMullan, Senior Managing Director/Private Equity Investor Relations & Business Development.

Review of Existing Limited Partnerships and Discussion of Blackstone Energy Partners Fund III Potential Investment

Executive session continued to review and discuss details of the Council's existing limited partnerships and a potential investment in Blackstone Energy Partners Fund III.

Staff remaining to participate in or facilitate the Blackstone presentation, review of existing limited partnerships, and Council discussion included Matt Clark, Chris Nelson, Tammy Otten, Brett Fligge and Laurie Riss.

General session reconvened at 11:45 a.m.

RYAN BRUNNER MOVED, SECONDED BY PAUL BISSON, TO AUTHORIZE THE STATE INVESTMENT OFFICER TO INVEST UP TO \$100 MILLION FOR THE SOUTH DAKOTA RETIREMENT SYSTEM IN BLACKSTONE ENERGY PARTNERS III. MOTION PASSED UNANIMOUSLY.

7) Compensation Committee Update

Lorin Brass, Chair of the Compensation Committee, reviewed the recommendation that was made by the Committee to the Investment Council at the last meeting regarding the State Investment Officer's FY 2019 compensation. Discussion continued.

LORIN BRASS MOVED, SECONDED BY ROB WYLIE, THAT THE INVESTMENT COUNCIL RECOMMEND TO THE LRC EXECUTIVE BOARD THAT TOTAL COMPENSATION FOR THE STATE INVESTMENT OFFICER PAYABLE IN FY 2019 BE COMPRISED OF THE FY 2018 BASE SALARY ADJUSTED FOR STATE SALARY POLICY AND CONTINUATION OF THE INVESTMENT PERFORMANCE INCENTIVE PLAN, WITH ANY EARNED INCENTIVE TO BE PAID FOLLOWING COMPLETION OF THE AUDIT. MOTION PASSED UNANIMOUSLY.

The approved motion will be presented to the Executive Board of the LRC at their May 21, 2018 meeting.

8) Cash Flow Fund Presentation

Sherry Nelson provided an overview of the Cash Flow Fund. She noted that the allowed investments are specified in SDCL 4-5-26. The fund is divided into a money market portfolio for daily needs of the state, the 1-year CD program with state financial institutions, an intermediate-term fixed income portfolio, and the larger short-term fixed income portfolio. Asset allocation benchmarks, maturity and duration ranges, and individual position and portfolio limits were reviewed for the short-term and intermediate-term portfolios.

Nelson reviewed SDCL 4-5-30 which outlines the annual payout to the general fund and participating state agencies based on receipted income to the fund. The projected payout for FY 2018 was provided.

Nelson discussed the cash flow fund monthly average balances noting that the balance varies throughout the year. Historically the monthly variation has been within a \$50 million band, but that could change in the future.

Nelson noted that the funding for the intermediate-term portfolio will be completed on June 1.

9) Higher Education Savings Plan

Sherry Nelson reviewed the Higher Education Savings Plan summary of accounts and quarterly compliance schedule.

10) Audit Committee Update

Jeff Nelson reported that the December 2017 quarter Agreed Upon Procedures engagement had been completed with no findings. The AUP for the 3/31/18 quarter is expected to be completed by the next Council meeting.

11) Audit Committee Charter

Jeff Nelson noted that changes were being proposed to the Audit Committee Charter to improve the clarity of the Charter in terms of the responsibilities relating to the annual audit and the quarterly Agreed Upon Procedures. He noted that the Audit Committee will continue to review and/or modify the changes for potential action at an upcoming meeting.

12) Legislative Wrap-Up Review

Otten reviewed the final legislative report. House Bill 1320, the fiscal year 2019 appropriations bill, included the Governor's recommended budget for the Council. House Bill 1172 requires the chair of a public body to reserve at every official meeting a period for public comment beginning July 1. Staff will work with other state agencies to develop a policy to implement the new law. The four bills sponsored by the SDRS Board of Trustees passed the Legislature and were signed by the Governor.

13) New/Old Business

No new or old business was brought before the Council.

14) Future Meeting Dates

The next Investment Council meeting will be held in Sioux Falls on June 13 & 14, 2018. This meeting will be held in conjunction with the SDRS Board of Trustees meeting.

The LRC Executive Board will be holding their May 21, 2018 meeting at the Investment Council office. At that time, the Executive Board will hold interviews and appoint a new Council member, as well as address the Council's recommendation for the State Investment Officer's FY 2019 compensation.

15) Adjournment

Chair Kirby declared the meeting adjourned at 12:25 p.m.