

MINUTES

SOUTH DAKOTA INVESTMENT COUNCIL Pierre, South Dakota February 8, 2012

1) Roll Call

The meeting was called to order at 12:50 p.m. on February 8, 2012, by Chair Joseph Anglin. Council members in attendance were Joseph Anglin, Hugh Bartels, Jon Hunter, Jarrod Johnson, Jim Means, Rich Sattgast, Wesley Tschetter and Rob Wylie.

Others attending all or part of the meeting included Matt Clark, Brett Fligge, Tammy Otten, Chris Nelson, and Laurie Riss of the Investment Office; Jane Roberts, Jacque Storm, Susan Jahraus and Michelle Mikkelsen of the South Dakota Retirement System; Eric Stroeder and Laurie Gustafson of the SDRS Board of Trustees; and Ashlee Keyes of Legislative Audit.

(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

WES TSCHETTER MOVED, SECONDED BY JARROD JOHNSON, TO APPROVE THE MINUTES OF THE NOVEMBER 15, 2011, AND DECEMBER 9, 2011, INVESTMENT COUNCIL MEETINGS. MOTION PASSED UNANIMOUSLY.

3) Appropriations Hearing Review

The Council discussed the FY 2013 budget hearing that took place with the Joint Appropriations Committee immediately preceding this meeting. It was felt the budget presentation went well, and there are no follow-up issues with the budget expected at this time.

4) Investment Update

Tammy Otten reviewed the Motions and Actions report which included the approval of PricewaterhouseCoopers as the 529 plan auditor, Allianz's implementation of the 529 portfolio changes approved by the Council and the SDIC fiscal year 2013 budget request. There were no new co-investments or external manager rebalances during the period.

AGENDA ITEMS:

- 1) Roll Call
- 2) Minutes
- 3) Appropriations Hearing Review
- 4) Investment Update
- 5) Iran Divestiture & Shareholder Activism Policy – Update
- 6) Audit Committee Update
- 7) Compensation Committee Update
- 8) Legislative Correspondence
- 9) SDRS Legislation & Legislative Update
- 10) Higher Education Savings Program
- 11) Doughty Hansen – Update
- 12) New/Old Business Agenda Items
- 13) Future Meeting Dates

Otten reviewed the Quarterly Investment Update for December 31, 2011. An estimate of assets and total return fiscal year to date for the retirement systems and trust funds were provided as of February 7, 2012.

The Council discussed the equity like risk measures for real estate and private equity and how best to display on the quarterly investment update.

Brett Fligge updated the Council on the performance of the equity portfolios and provided views on equity valuations for specific sectors as well as the overall market. Clark discussed the current currency exposure. He discussed the gradual healing of the U.S. economy and housing sector. He also discussed the potential of a real estate bubble in China and implications on the commodity sector.

5) Iran Divestiture Update & Shareholder Activism Policy

Otten reviewed the January 12, 2012 Iran divestiture annual report sent to the Executive Board of the Legislature as required by law. All requirements of the state and federal law had been completed to date. The quarterly scrutinized list from Colorado as of the end of December was reviewed by the Council, and discussion continued regarding the removal of Sinopec from the Colorado list. The Council will review the list and additional information at the April meeting.

ROB WYLIE MOVED, SECONDED BY RICH SATTGAST, THAT THE COUNCIL ADOPT THE LIST PROVIDED BY COLORADO AS OF THE END OF DECEMBER, BUT THAT THE REMOVAL OF SINOPEC WAIT UNTIL CONFIRMATION FROM A SECOND LIST OR THE NEXT MEETING. MOTION PASSED UNANIMOUSLY.

Otten also reviewed the required reporting on the SDIC Shareholder Activism Policy related to Federal Divestiture Enactments (Sudan).

6) Audit Committee Update

Hugh Bartels, Chair of the Audit Committee, stated there was no audit committee report at this time.

7) Compensation Committee Update

Wes Tschetter, Chair of the Compensation Committee, commented on the one-time payout from FY 2012 budgets that was proposed by the Governor and being considered by the Legislature.

8) Legislative Correspondence

The Council discussed the letter that Chair Joe Anglin sent to all state legislators and the Governor in November, 2011, with his thoughts on a number of issues, including SDIC's budget process and the outsourcing of fund management skills of the SDIC team. The Council also

discussed their preference of a full board review for future similar correspondence prior to being sent out.

After discussion on the potential for SDIC management of external funds, the Council asked senior staff to put together their thoughts on the issue and report back at the next Council meeting.

9) SDRS Legislation & Legislative Update

Rob Wylie commented on the three SDRS bills that are making their way through the Legislature. Otten stated that a weekly update on the status of the SDRS bills and others of interest to the Council will be provided by email throughout the legislative session.

Rich Sattgast reviewed SB 82, and the Council concurred on his request for SDIC oversight on the unclaimed properties' informational budget.

10) Higher Education Savings Program Update

Otten reviewed the Higher Education Savings Plan summary of accounts/assets and the quarterly compliance schedule. Treasurer Sattgast noted that he has been appointed Co-Chair of the National 529 Committee by the National Association of State Treasurers.

11) Doughty Hansen Update

Clark updated the Council on the implications of the sudden death of Nigel Doughty from Doughty Hansen & Co. He stated that the key man clause in the contract required two-thirds of the limited partners to give consent to Doughty Hanson to continue investing. He added that although we declined to give consent, they did receive the necessary two-thirds from other limited partners.

12) New/Old Business Agenda Items

No new or old business agenda items were presented for future Council meetings.

13) Future Meeting Dates

Anglin stated that the next scheduled Investment Council meeting is the afternoon of April 16 and morning of April 17, 2012 in Spearfish.

Chair Anglin declared the meeting adjourned at 3:45 p.m.