

MINUTES

SOUTH DAKOTA INVESTMENT COUNCIL Fort Pierre, South Dakota February 6, 2013

1) Roll Call

The meeting was called to order at 1 p.m. on February 6, 2013 by Chair Wesley Tschetter. Council members in attendance were Hugh Bartels, David Hillard, 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, Susan Jahraus and Michelle Mikkelsen of the South Dakota Retirement System; and Ashlee Keyes and Amy Macy 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

HUGH BARTELS MOVED, SECONDED BY DAVID HILLARD, TO APPROVE THE MINUTES OF THE NOVEMBER 15, 2012, AND DECEMBER 20, 2012, INVESTMENT COUNCIL MEETINGS. MOTION PASSED UNANIMOUSLY.

3) Appropriations Hearing Review

The Council discussed the FY 2014 budget hearing that took place with the Joint Appropriations Committee immediately preceding this meeting. It was the feeling of the Council that there was good support for the budget which includes additional staff. In discussing the process to fill these positions after the official approval of the budget is received, Brett Fligge described the student intern selection process. The Council encouraged filling the current vacancy as soon as is practical. 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 staff actions regarding the Council motions made at the November 15, 2012 meeting and the December 20, 2012 conference call. These included authorization of the procedures audit by DLA, approval of

AGENDA ITEMS:

- 1) Roll Call
- 2) Minutes
- 3) Appropriations Hearing Review
- 4) Investment Update
- 5) Investment Management Services for SD Conservancy District
- 6) Iran Divestiture & Shareholder Activism Policy – Update
- 7) Silver Lake Partners IV Investment
- 8) Higher Education Savings Program
- 9) Audit Committee Update
- 10) Compensation Committee Update
- 11) SDIC Legislative Update
- 12) Retirement Systems' Legislation & Actuarial Update
- 13) Future Meeting Dates
- 14) New/Old Business Agenda Items

the Iran scrutinized company list, approval of investments in Rockpoint Real Estate Fund IV and Starwood Distressed Opportunity Fund IX, approval of PricewaterhouseCoopers as the 529 plan auditor, and approval of increased investment in the TCW distress mortgage fund. There were no new co-investments or external manager rebalances during the period.

Otten reviewed the estimated fiscal year to date performance for the various funds as of December 31, 2012 and through February 5, 2013.

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 equity market.

5) Investment Management Services for SD Conservancy District

Matt Clark reviewed discussions that took place with the South Dakota Conservancy District regarding their search for an investment manager to manage a short-term treasuries portfolio. He stated it would be looked into further and an RFP response may be submitted.

6) Iran Divestiture Update & Shareholder Activism Policy

Otten reviewed the January 11, 2013 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 Council reviewed the most recent quarterly scrutinized lists from Colorado and Florida compared to the South Dakota list. Otten indicated that we have become aware of a public list from the State of Maryland and would monitor that list in the future. Staff recommended adding MTN Group and ZTE Corp and removing Kingdream PLC from the South Dakota list. The rest of the South Dakota list remained unchanged.

JIM MEANS MOVED, SECONDED BY RICH SATTGAST, TO ADOPT THE UPDATED IRAN SCRUTINIZED COMPANIES LIST AS PRESENTED. MOTION PASSED UNANIMOUSLY.

Otten also reviewed the required reporting on the SDIC Shareholder Activism Policy related to Federal Divestiture Enactments (Sudan). Staff recommended the continued use of the Colorado scrutinized company list and that no changes were needed at this time.

7) Silver Lake Partners IV Investment

Chris Nelson discussed key aspects of Silver Lake's April 2012 presentation to the Council. He reviewed the current exposure in private equity and the projected exposure over the next couple years.

Clark said that staff recommends an investment of between \$100 and \$150 million in Silver Lake Partners IV. Council discussion continued on the amount to invest with Silver Lake, internal global equity's weighting in technology, Silver Lake's involvement in a bid to acquire Dell, and the SDIC's relationship with Silver Lake.

JARROD JOHNSON MOVED, SECONDED BY JIM MEANS, TO AUTHORIZE THE STATE INVESTMENT OFFICER TO INVEST UP TO \$150 MILLION FOR THE SOUTH DAKOTA RETIREMENT SYSTEM; PLUS UP TO A PROPORTIONATE AMOUNT FOR THE SCHOOL AND PUBLIC LANDS FUND, THE DAKOTA CEMENT TRUST, THE EDUCATION ENHANCEMENT TRUST, AND THE HEALTH CARE TRUST; AND UP TO A HALF PROPORTIONATE AMOUNT FOR THE CEMENT PLANT RETIREMENT FUND IN SILVER LAKE PARTNERS IV PRIVATE EQUITY FUND. MOTION PASSED UNANIMOUSLY.

8) Higher Education Savings Program

Otten reviewed the Higher Education Savings Plan summary of accounts/assets and the quarterly compliance schedule. Clark said that he reviewed Allianz's requested fund changes and found them to be reasonable.

HUGH BARTELS MOVED, SECONDED BY RICH SATTGAST, TO APPROVE THE ASSET ALLOCATION AND PORTFOLIO CHANGES TO THE COLLEGEACCESS 529 PLAN PROPOSED BY ALLIANZ GLOBAL DISTRIBUTORS AND PRESENTED TO THE INVESTMENT COUNCIL ON THIS DAY AND TO AUTHORIZE THE STATE INVESTMENT OFFICER TO EXECUTE THE NECESSARY DOCUMENTS AND TAKE ANY OTHER ACTIONS DEEMED NECESSARY TO CARRY OUT THE CHANGES AS PRESENTED. MOTION PASSED UNANIMOUSLY.

Treasurer Sattgast noted that there was nothing new to report from the National 529 Committee of the National Association of State Treasurers that he co-chairs.

9) Audit Committee Update

Hugh Bartels, Chair of the Audit Committee, stated that the engagement letter for the quarterly procedure audits had been signed and that Legislative Audit would begin their work in the next week.

10) Compensation Committee Update

Wes Tschetter, Chair of the Compensation Committee, stated that the compensation study is in the final stages. The Compensation Committee will be meeting by conference call in about a month to review the draft study before the consultant presentation to the full Council in April.

11) SDIC Legislative Update

Otten updated the Council on various legislative bills that were of interest to the Council. Several had already been tabled or moved to the 41st Legislative day. Of specific interest to the Council were HB 1060 which would provide one-time money to the Cement Plant Retirement Fund, SB 233 which would establish a sub-fund in the Education Enhancement Trust and HB 1185 which included the FY 2014 funding for the Council. Otten stated that a weekly update on the status of bills of interest to the Council will continue to be provided by email throughout the legislative session.

12) Retirement Systems' Legislation & Actuarial Update

Rob Wylie commented on the four SDRS bills making their way through the Legislature including a bill to allow new employees of the City of Sioux Falls to join the State Retirement System and a bill to clarify language for benefit actions that the Retirement Board and Legislature can take. The other two bills were technical updates. All four bills have received unanimous support to date.

Wylie also provided the Council with an update to the SDRS actuarial valuation results.

13) Future Meeting Dates

Tschetter stated that the next scheduled Investment Council meeting is April 10, 2013 in Brookings.

14) New/Old Business Agenda Items

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

Chair Tschetter declared the meeting adjourned at 3:20 p.m.