

MINUTES

SOUTH DAKOTA INVESTMENT COUNCIL

Pierre, South Dakota

February 6, 2014

1) Roll Call

The Investment Council meeting was called to order at 10:20 a.m. on February 6, 2014 by Chair Hugh Bartels. Council members in attendance were Hugh Bartels, David Hillard, Jon Hunter, Vern Larson, Jim Means, Rich Sattgast, and Rob Wylie. Council member Steve Kirby was absent.

Others attending all or part of the meeting included Matt Clark, Brett Fligge, Chris Nelson, Tammy Otten, and Laurie Riss from the Investment Office; Jane Roberts and Susan Jahraus from the South Dakota Retirement System; and Laurie Gustafson from the SDRS Board of Trustees.

(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

JIM MEANS MOVED, SECONDED BY JON HUNTER, TO APPROVE THE MINUTES OF THE NOVEMBER 14, 2013 COUNCIL MEETING. MOTION PASSED UNANIMOUSLY.

3) Appropriations Hearing Review

The Council discussed the FY 2015 budget hearing that took place with the Appropriations Committee immediately preceding this meeting. The Council felt the presentation went well and that there was good understanding of our budget and process. There were no follow-up issues with the budget expected at this time.

4) Investment Update – FY 2014

Tammy Otten reviewed the Motions and Actions report which included the staff actions regarding the Council motions made at the November 14, 2013 meeting. These included approval of the Iran divestiture list, approval of PricewaterhouseCoopers as the 529 plan auditor, and approval of the portfolio changes recommended by Allianz to the CollegeAccess 529 Plan. There were no new co-investments. One external manager rebalance was made per the policy. A secondary piece of Carval North American Real Estate Partners Fund II was purchased per the email provided to the Council on 12/20/13.

Otten reviewed the estimated fiscal year to date performance for the various funds as of December 31, 2013 and January 31, 2014.

AGENDA ITEMS:

- 1) Roll Call
- 2) Minutes
- 3) Appropriations Hearing Review
- 4) Investment Update
- 5) Iran Divestiture & Shareholder Activism Policy - Update
- 6) Sanders Capital Investment
- 7) Convertible Arbitrage Program Change
- 8) GE Capital-China - Update
- 9) Higher Education Savings Program Update
- 10) Audit Committee Update
- 11) Compensation Committee Update
- 12) Interns/Open Positions - Update
- 13) Legislation Update
- 14) SDRS/Cement Plant Retirement Fund Legislation
- 15) New/Old Business
- 16) Future Meeting Dates
- 17) Adjournment

5) Iran Divestiture & Shareholder Activism Policy–Update

Otten reviewed the January 10, 2014 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. Staff recommended adding Chennai Petroleum Corp and removing Sasol Ltd. and ZTE Corp from the South Dakota list. The rest of the South Dakota list remained unchanged.

RICH SATTGAST MOVED, SECONDED BY DAVID HILLARD, TO APPROVE THE UPDATED IRAN SCRUTINIZED COMPANIES LIST DATED FEBRUARY 6, 2014, AS PRESENTED. MOTION PASSED UNANIMOUSLY.

Otten noted that the list of companies could be impacted by changes in Washington DC and in Europe toward Iran. The office will continue to monitor.

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.

6) Sanders Capital Investment

Brett Fligge discussed Sanders Capital, one of the Council's few external equity managers. He reviewed the current investment in their U.S. value equity fund and highlighted the key benefit of gaining insights into their investment process and research methods. He stated that to expand the interaction benefits of the Sanders relationship and after due diligence, staff is recommending switching the existing funds in the U.S. equity fund to Sanders' global fund.

JIM MEANS MOVED, SECONDED BY ROB WYLIE, TO APPROVE SHIFTING THE EXISTING FUNDS IN SANDERS CAPITAL U.S. VALUE EQUITY TO THE SANDERS CAPITAL GLOBAL VALUE EQUITY. MOTION PASSED ON A ROLL CALL VOTE WITH SEVEN VOTING IN FAVOR, ZERO OPPOSED AND ONE EXCUSED.

7) Convertible Arbitrage Program Change

Fligge updated the Council on the recent suspension of the internal convertible arbitrage program. He confirmed that the Council had received prior email correspondence regarding this change.

8) GE Capital-China – Update

Fligge confirmed that the Council previously received email correspondence regarding the termination of GE Capital-China. He discussed the background of the investment, the interaction benefits, and the changes that have taken place recently with the fund's management.

9) Higher Education Savings Program – Update

Otten reviewed the Higher Education Savings Plan summary of accounts/assets and the quarterly compliance schedule. The current Program Manager contract expires December 1, 2014. Staff will prepare a recommendation as to whether to extend the relationship with the existing program manager. A conference call meeting is anticipated prior to April 1, 2014, to address the issue.

10) Audit Committee Update

Jim Means, Chair of the Audit Committee, stated there was nothing to report at this time. Otten stated that the next quarterly procedures audit would be done in March by Legislative Audit. She added that if the Legislature approves the Cement Plant Retirement Fund merging into the South Dakota Retirement System, Legislative Audit will be doing a special review as of April 1, 2014.

11) Compensation Committee Update

Jon Hunter, Chair of the Compensation Committee, stated there was nothing to report at this time.

12) Interns/Open Positions – Update

Clark updated the Council on the upcoming summer internship program and plans for attempting to fill current open positions.

13) Legislative Update

Otten updated the Council on various legislative bills that were of interest to the Council. Of specific interest to the Council were HB 1099 which increases the Council to nine members, HB 1227 which would establish a sub-fund in the Education Enhancement Trust from video lottery, SB 1 which selects the leadership and term of the Executive Board of the Legislature and SJR 2 which would change the Constitution to establish another trust fund for the energy mineral taxes that the Council would be responsible for. Rob Wylie provided an update on the four retirement bills.

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.

14) SDRS/Cement Plant Retirement Fund Legislation

Wylie provided an update on SB 152 which would fully fund the South Dakota Cement Plant Retirement Fund and then merge it into the South Dakota Retirement System.

15) New/Old Business

Otten noted that there will be an administrative rules hearing at the April 9, 2014, Council meeting to consolidate the rules for the CD program and amend the IRS date reference in the rules for the Higher Education Savings Program.

16) Future Meeting Dates

The next Investment Council meeting will be held in Watertown on April 9, 2014. Dinner will be held the evening before with local legislators being invited.

17) Adjournment

VERN LARSON MOVED, SECONDED BY JIM MEANS, FOR ADJOURNMENT. MOTION PASSED UNANIMOUSLY.

Chair Bartels declared the meeting adjourned at 12:10 p.m.