

# MINUTES

## SOUTH DAKOTA INVESTMENT COUNCIL

Pierre, South Dakota

August 29, 2016

### 1) Roll Call

The meeting was called to order at 8 a.m. on August 29, 2016 by Chair David Hillard. Council members in attendance were Lorin Brass, Ryan Brunner, David Hillard, Steve Kirby, Laura McNally, Jeff Nelson, and Rob Wylie. Rich Sattgast was absent.

Others attending all or part of the meeting included Matt Clark, Brett Fligge, Tammy Otten, Chris Nelson, and Laurie Riss from the Investment Office; Jane Beers, Michelle Mikkelsen, Doug Fiddler, and Travis Almond from the South Dakota Retirement System; Actuary Paul Schrader; and Jeff Mehlhaff from the Legislative Research Council.

(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

JEFF NELSON MOVED, SECONDED BY STEVE KIRBY, TO APPROVE THE MINUTES OF THE JUNE 21 AND 22, 2016 INVESTMENT COUNCIL MEETING. MOTION PASSED UNANIMOUSLY.

### 3) Investment Performance Presentation – FY 2016

Tammy Otten reviewed investment performance for Fiscal Year 2016. The South Dakota Retirement System (SDRS) performance analysis included an overview of the Capital Markets Benchmark (CMB) including returns for the equity, real estate, fixed income, and cash indexes used in the benchmark. The quarterly and year end time-weighted rate of return of the Council's Capital Markets Benchmark was provided.

A comparison of the actual asset allocation as of June 30 to the CMB was provided. The permissible range for each asset class was also reviewed.

The return attribution analysis of the SDRS net return relative to the CMB was reviewed. The analysis details differences in performance resulting from the return within each asset category versus the market index for that category and also the impact of asset allocation which results from utilizing different allocations to asset categories than the CMB. The cumulative impact of the sources of added or detracted value was shown by year and cumulatively since fiscal year 1999 when this detailed level of analysis began to be calculated for all asset categories.

A table was provided that compared the annualized returns for the last 10 years to two public pension universes.

#### AGENDA ITEMS:

- 1) Roll Call
- 2) Minutes
- 3) Investment Performance – FY 2016
- 4) Compensation Committee Update
- 5) Investment Update – FY 2017
- 6) Iran Divestiture – Update
- 7) SDIC Shareholder Activism Policy (Sudan)
- 8) Limited Partnerships Review
- 9) Audit Committee Update
- 10) Subcommittee Appointments
- 11) Executive Board Subcommittee Meeting Review
- 12) Executive Board Meeting Review
- 13) CD Program 2016/2017
- 14) Higher Education Savings Program – Update
- 15) State Conflict Laws & SDIC Conflict Waiver Policy Review
- 16) Supplemental Retirement Plan 457 Investment Options Update
- 17) New/Old Business
- 18) Future Meeting Dates
- 19) Investment Officer Performance Evaluation Executive Session
- 20) Adjournment

Otten reviewed exhibits focused on major individual asset categories comparing the returns earned from each category to the respective benchmark for FY2016 and historical periods.

Otten then presented the return and attribution analysis versus benchmarks for each of the four trust funds.

4) Compensation Committee Update

Clark reviewed the incentive program and the earned incentives for the Investment Office investment staff. He also reviewed the support staff incentive program which is funded from the earned incentives. The percentages and total dollar amounts were provided.

David Hillard reviewed the details of the earned incentive for the State Investment Officer which will be reviewed with the LRC Executive Board. He noted that the incentives would be paid following completion of the audit.

Clark noted that the Council had approved at the last meeting the outline of the incentive plans for the five newest investment team members. The incentive plan descriptions were provided to the Council, and Clark discussed them in more detail.

5) Investment Update – FY 2017

Otten reviewed the Motions and Actions report that summarized the motions from the prior Council meeting and the resulting staff actions. She gave a report on the SDRS total fund performance for Fiscal Year 2017 to date.

6) Iran Divestiture – Update

Otten reviewed a memo dated August 9, 2016 on the Iran Scrutinized Companies List. Staff recommended that three companies be added to the Council's list to reflect changes in the Colorado and Florida public lists.

ROB WYLIE MOVED, SECONDED BY RYAN BRUNNER, TO APPROVE THE CHANGES TO THE IRAN SCRUTINIZED COMPANIES LIST AS PRESENTED. MOTION PASSED UNANIMOUSLY.

7) SDIC Shareholder Activism Policy (Sudan) – Update

Otten confirmed the Council received a copy of the Shareholder Activism Policy report provided to the Legislative Research Council as required by law. Included was a memo outlining compliance with the policy, a copy of the policy, and an updated Sudan company list. Correspondence from Volkswagen, in which the Council has a direct investment, was not received prior to the meeting. There were no recommended changes to the policy.

8) Limited Partnerships Review

Chris Nelson reviewed the real estate and private equity limited partnerships. He discussed the commitment amounts and long-term projections for capital calls and distributions for each fund. The overall exposure versus benchmarks in real estate and private equity was discussed.

9) Audit Committee Update

Steve Kirby, Chair of the Audit Committee, reported on the pre-audit conference call with the Audit Committee and Ashlee Keyes of the Department of Legislative Audit on July 18, 2016. He added that the auditors were starting their on-site audit today.

10) Subcommittee Appointments

David Hillard reviewed the changes to the Investment Council Subcommittees. Effective immediately, the Compensation Committee will include Steve Kirby as Chair, David Hillard and Lorin Brass. Following the completion of the audit in the next few weeks, the members of the Audit Committee will include Lorin Brass as Chair, Rich Sattgast, and Laura McNally.

*The Investment Council recessed at 9:45 a.m. to meet with the LRC Executive Board Subcommittee on the Investment Council. General session reconvened at 10:35 a.m.*

11) Executive Board Subcommittee Meeting Review

The Council discussed the meeting with the LRC Executive Board Subcommittee on the Investment Council. Items discussed with the Executive Board Subcommittee included FY 2016 investment performance, earned investment performance incentives, and the FY 2018 budget request.

*The Investment Council recessed at 10:55 a.m. to meet with the LRC Executive Board. General session reconvened at 1 p.m.*

12) Executive Board Meeting Review

The Council discussed the meeting with the LRC Executive Board. It was noted that the Investment Officer's earned incentive was reviewed with the Executive Board and that they approved the Council's FY 2018 budget request.

13) CD Program 2016/2017

Matt reviewed the memorandum on the CD Program which included a history of the program and detailed information for this year's CD program, including the size of the program, the time and date for setting the rate, the method of determining the interest rate, the terms, and reallocations.

STEVE KIRBY MOVED, SECONDED BY LORIN BRASS, TO APPROVE THE SOUTH DAKOTA CASH FLOW FUND CERTIFICATE OF DEPOSIT PROGRAM FOR ONE-YEAR CD'S TO MATURE 9/30/17, IN ACCORDANCE WITH SOUTH DAKOTA LAW AND THE CD PROGRAM ADMINISTRATIVE RULES, AT \$35 MILLION WITH THE INTEREST RATE BASED ON THE 1-YEAR TREASURY NOTE WITH A FLOOR OF 0% PLUS AN ADDITIONAL .25% FOR LIQUIDITY AND COLLATERAL RISK. MOTION PASSED UNANIMOUSLY.

14) Higher Education Savings Program - Update

Otten reviewed the quarterly compliance schedule, the quarterly conference call minutes and asset report as of 6/30/16 for the CollegeAccess 529 Plan. She noted that Allianz provided the scholarship money to the Dakota Corps Scholarship Program in July as has been done over the last several years.

15) State Conflict Laws & SDIC Conflict Waiver Policy Review

Jeff Hallem gave a background of the state's conflict laws that were put in place in 2015. He reviewed the SDIC Conflict Waiver Policy that was adopted by the Council in August of 2015. He recommended revisions to the policy relating to SDCL 3-16-8 which applies to Council members in addition to all state employees. He discussed the two blanket waivers that were approved by the Council, adding that no individual waivers have been requested. Hallem confirmed that all employees are requested to annually confirm they have no conflicts to report. An annual reminder of the SDIC Conflict Waiver Policy, along with state conflict laws, will be provided to the Council.

Clark indicated the policy would be addressed at an upcoming Council meeting to consider the recommended correction and clarification.

Hallem noted that additional conflict of interest legislation was enacted in 2016 for state boards, but they were not applied to the Investment Council because the Council is covered under their own conflict laws.

16) Supplemental Retirement Plan 457 – Investment Options Update

Matt Clark presented the summary of the Supplemental Retirement Plan Analysis for the period ended June 30, 2016. The report included a write-up of each investment option. He stated that the analysis update did not suggest a need for any changes to the fund lineup.

Clark noted that, although the Investment Officer is responsible by law for choosing the investment options, this review is provided to the Investment Council and the SDRS Retirement Board for potential input and feedback.

17) New/Old Business

At the June Council meeting, there was a suggestion to improve readability of the asset allocation benchmark and ranges page from the asset allocation presentation. The suggestion was to show opportunistic real estate on a separate column from regular real estate rather than combined with a footnote explanation. A revised format of the exhibit was distributed to the Council.

18) Future Meeting Dates

The next Investment Council meeting will be held in Sioux Falls on November 15, 2016. The date for the April, 2017 meeting in Rapid City was changed to April 20, 2017.

19) Investment Officer Performance Evaluation

LAURA McNALLY MOVED, SECONDED BY ROB WYLIE, TO GO INTO EXECUTIVE SESSION PER SDCL 1-25-2(1) FOR THE PURPOSE OF THE STATE INVESTMENT OFFICER'S PERFORMANCE EVALUATION. MOTION PASSED UNANIMOUSLY.

The Council went into executive session from 2 p.m. to 2:25 p.m.

20) Adjournment

RYAN BRUNNER MOVED, SECONDED BY ROB WYLIE, TO ADJOURN. MOTION PASSED UNANIMOUSLY.  
Meeting adjourned at 2:30 p.m.