

MINUTES

SOUTH DAKOTA INVESTMENT COUNCIL Sioux Falls, South Dakota April 18, 2019

1) Roll Call

The meeting was called to order at 8:30 a.m. on April 18, 2019 by Chair Lorin Brass. Council members in attendance were Paul Bisson, Lorin Brass, Ryan Brunner, Josh Haeder, Loren Koepsell, Jeff Nelson, and Rob Wylie. Greg Kulesa was absent.

Others attending all or part of the meeting included Matt Clark, Tammy Otten, Brett Fligge, Chris Nelson, Jeff Hallem, Sherry Nelson, Darci Haug and Laurie Riss from the Investment Council staff; Travis Almond and Jane Beer from SDRS; and Jason Williams and Penni Almond from the State Treasurer's Office.

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

2) Minutes

PAUL BISSON MOVED, SECONDED BY JEFF NELSON, TO APPROVE THE MINUTES OF THE FEBRUARY 7, 2019 INVESTMENT COUNCIL MEETING. MOTION PASSED UNANIMOUSLY.

3) Public Comment

There were no public comments.

4) Blackstone Real Estate Partners Europe VI

Brett Newman, Senior Managing Director/Global Head of Real Estate Investor Relations & Business Develop, and Karen Sprogis, Managing Director/Real Estate, joined the Council to provide an update on their current European real estate funds and discuss their upcoming BREP Europe VI fund.

RYAN BRUNNER MOVED, SECONDED BY JEFF NELSON, 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.

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

AGENDA ITEMS:

- 1) Roll Call
- 2) Minutes
- 3) Public Comment
- 4) Blackstone Real Estate Partners Europe VI
- 5) Cinven Partners Fund 7
- 6) Investment Update – FY 2019
- 7) Iran Divestiture Update
- 8) Compensation Committee Update
- 9) Audit Committee Update
- 10) 529 Higher Education Savings Plan Update
- 11) Global Equity Benchmark Research Update
- 12) Legislative Wrap-Up
- 13) Lone Star Real Estate Fund VI
- 14) Limited Partnerships Review
- 15) Potential Limited Partnership Investments
- 16) New/Old Business Agenda Items
- 17) Future Meeting Dates
- 18) Adjournment

5) Cinven Partners Fund 7

Executive session continued for the Cinven presentation by Alexandra Hess, Partner, and Jonas Nilsson, Partner, of Cinven Partners to discuss their private equity funds and present their new seventh fund.

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

General session reconvened at 11:00 a.m.

6) Investment Update – FY 2019

Tammy Otten noted that there were no incomplete investment motions outstanding and that no investment motions were made at the February 7, 2019 Council meeting. Assets and estimated returns as of 4/16/19 were reported for SDRS and the trust funds under management. Otten reviewed the last few asset allocation moves, and Clark reviewed the asset allocation model relating to equity risk.

Otten noted that the Education Enhancement Trust will receive the annual tobacco company payment in April. The Dakota Cement Trust will make the FY 2019 distribution in May or June when requested by the Bureau of Finance & Management. School and Public Lands will make the annual distribution to the Board of Regents in June, having made the K-12 distribution in February. The Education Enhancement Trust and Health Care Trust will make their annual distributions on July 1 for fiscal year 2020.

7) Iran Divestiture Update

Tammy Otten reviewed the Iran memo dated April 1, 2019 previously supplied to the Council. Staff recommends the Florida list be used for South Dakota's official list as Colorado no longer provides a public list of Iran scrutinized companies. Otten reviewed the Florida list and discussed the companies recommended to be removed from the current list.

JEFF NELSON MOVED, SECONDED BY JOSH HAEDER, TO APPROVE THE CHANGES TO THE IRAN SCRUTINIZED COMPANIES LIST AS PRESENTED. MOTION PASSED UNANIMOUSLY.

8) Compensation Committee Update

Loren Koepsell, 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 compensation for Fiscal Year 2020.

LOREN KOEPSSELL MOVED, SECONDED BY PAUL BISSON, THAT THE INVESTMENT COUNCIL RECOMMEND TO THE LRC EXECUTIVE BOARD THAT TOTAL COMPENSATION FOR THE STATE INVESTMENT OFFICER PAYABLE IN FY 2020 BE COMPRISED OF FY 2019 BASE SALARY INCREASED BY STATE SALARY POLICY PLUS 1.75% AND CONTINUATION OF THE INVESTMENT PERFORMANCE INCENTIVE PLAN, WITH ANY EARNED INCENTIVE TO BE PAID FOLLOWING COMPLETION OF THE AUDIT. MOTION PASSED UNANIMOUSLY.

9) Audit Committee Update

Jeff Nelson, Chair of the Audit Committee, reported that he signed off on completion of the Agreed Upon Procedures work for the quarter ended December 2018. He noted that the Audit Committee will be meeting with Legislative Audit in conjunction with the June Council meeting to look at the scope of the year-end audit and areas of focus for next year's Agreed Upon Procedures.

10) 529 Higher Education Savings Plan Update

Sherry Nelson reviewed the CollegeAccess 529 Plan summary of accounts and the quarterly compliance schedule. She noted she had reviewed the financial statements from the auditors, PricewaterhouseCoopers, and found no issues.

11) Global Equity Benchmark Research Update

Darci Haug and Matt Clark provided an update on further progress since the November 2018 presentation on equity benchmarks. Haug reviewed the components of the current total global equity benchmark and discussed possible changes to include small cap and reduce the home country bias.

Haug and Clark then showed an internal process for tracking how the various equity portfolios fit together in comparison to the benchmark.

Clark indicated that he intended to recommend the discussed potential changes at the June Council meeting.

12) Legislative Wrap-Up

Rob Wylie reviewed the legislative bills relating to SDRS that were signed by the Governor. Otten reviewed the legislative bills with potential impact on the Council.

13) Lone Star Real Estate Fund VI

Andre Colin, President, and Ben Sarly, Managing Director, of Lone Star Real Estate joined the Council to discuss their current real estate funds and present their new Fund VI.

ROB WYLIE MOVED, SECONDED BY PAUL BISSON, 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.

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

14) Limited Partnerships Review

Executive session continued to review and discuss details of the Council's existing limited partnerships and potential investments in Blackstone, Cinven and Lone Star that were presented at this meeting.

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

General Session reconvened at 2:45 p.m.

15) Potential Limited Partnership Investments

Following executive session, motions were made for investments in Blackstone Real Estate Partners Europe VI, Cinven Fund 7, and Lone Star Real Estate Fund VI.

RYAN BRUNNER MOVED, SECONDED BY JEFF NELSON, TO AUTHORIZE THE STATE INVESTMENT OFFICER TO INVEST UP TO \$200 MILLION FOR THE SOUTH DAKOTA RETIREMENT SYSTEM PLUS ADJUSTED PROPORTIONATE AMOUNTS FOR THE SCHOOL AND PUBLIC LANDS FUND, THE DAKOTA CEMENT TRUST, THE EDUCATION ENHANCEMENT TRUST, AND THE HEALTH CARE TRUST IN BLACKSTONE REAL ESTATE PARTNERS EUROPE VI. MOTION PASSED UNANIMOUSLY.

PAUL BISSON MOVED, SECONDED BY ROB WYLIE, TO AUTHORIZE THE STATE INVESTMENT OFFICER TO INVEST UP TO €90 MILLION FOR THE SOUTH DAKOTA RETIREMENT SYSTEM PLUS ADJUSTED PROPORTIONATE AMOUNTS FOR THE SCHOOL AND PUBLIC LANDS FUND, THE DAKOTA CEMENT TRUST, THE EDUCATION ENHANCEMENT TRUST, AND THE HEALTH CARE TRUST IN THE SEVENTH CINVEN FUND. MOTION PASSED UNANIMOUSLY.

JOSH HAEDER MOVED, SECONDED BY PAUL BISSON, TO AUTHORIZE THE STATE INVESTMENT OFFICER TO INVEST UP TO \$75 MILLION FOR THE SOUTH DAKOTA RETIREMENT SYSTEM IN LONE STAR REAL ESTATE FUND VI. MOTION PASSED UNANIMOUSLY.

16) New/Old Business Agenda Items

Jeff Nelson requested a future presentation by staff to provide background on the private equity and real estate partnership areas including information on industry participants and size of the markets.

17) Future Meeting Dates

The next Investment Council meeting will be a joint meeting with the South Dakota Retirement Board of Trustees on June 5 and 6, 2019. It was also noted that the LRC Executive Board meeting on June 10 will be held at the Investment Council office.

18) Adjournment

Chair Brass declared the meeting adjourned at 3:15 p.m.