

MINUTES

SOUTH DAKOTA INVESTMENT COUNCIL

Conference Call
February 6, 2020

1) Roll Call

The meeting was called to order at 9 a.m. on February 6, 2020 by Chair Loren Koepsell. Council members in attendance were Travis Almond, Paul Bisson, Ryan Brunner, Mary Howard, Loren Koepsell, Greg Kulesa, and Jeff Nelson. Josh Haeder was absent.

Others attending all or part of the meeting included Investment Council staff members Matt Clark, Tammy Otten, Jeff Hallem, Sherry Nelson, and Laurie Riss; legal counsel Aaron Scheibe; and SDRS staff member Doug Fiddler.

(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.)

AGENDA ITEMS:

- 1) Roll Call
- 2) Minutes
- 3) Public Comment
- 4) Executive Order-Procurement/Contracts
- 5) Legislation Update
- 6) Investment Update – FY 2020
- 7) Iran Divestiture Report & Update
- 8) Shareholder Activism Report
- 9) Appropriations Budget Hearing
- 10) Compensation Committee Update
- 11) Audit Committee Update
- 12) 529 Higher Education Savings Plan Update
- 13) New/Old Business Agenda Items
- 14) Future Meeting Dates
- 15) Adjournment

2) Minutes

PAUL BISSON MOVED, SECONDED BY GREG KULESA, TO APPROVE THE MINUTES OF THE NOVEMBER 21, 2019 INVESTMENT COUNCIL MEETING. MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE.

3) Public Comment

There were no public comments.

4) Executive Order – Procurement/Contracts

Matt Clark stated that the Governor's Office recently released an Executive Order prohibiting state agencies from executing a contract with a vendor engaged in a boycott of Israel. He summarized the basics of the Executive Order noting that it, (1) applies to contractors/vendors with more than five employees and where the agreement involves the expenditure of \$100,000 or more; (2) requires that contractors/vendors to whom it applies must certify and agree that, in relation to the subject matter of the contract, they have not engaged in a boycott of Israel; and (3) allows for waivers in limited circumstances.

Clark stated that Council staff intends to comply with the Executive Order.

5) Legislation Update

Matt Clark noted that the two Investment Council bills, HB 1105 regarding restrictions on Investment Council members, and HB 1106 regarding indemnity for investment-related documents, passed out of the House State Affairs committee and were placed on the House

consent calendar. He added that the potential legislation to add investment options to the Cash Flow Fund legal list will be postponed to a subsequent year.

Travis Almond reviewed the SDRS bills. He noted that SB 9 would transfer the members and funds of the Department of Labor and Regulation pension fund to SDRS as class D members. SB 31 is a statute clean-up bill that includes the change to the venture capital prohibition. SB 32 is a statute clean-up bill regarding certain family and surviving spouse benefits, and SB 34 establishes a qualified benefit preservation arrangement for eligible members. The bills have passed the Senate and are scheduled to be heard by the House Retirement Laws committee on February 12, 2020.

Clark summarized SJR 502 which would place a constitutional amendment on the November ballot to create a pooled local investment fund that the Investment Council would invest.

Tammy Otten reviewed a few other pieces of legislation being followed that would affect the trust funds. She noted that the weekly update on the status of bills which may be of interest to the Council will continue to be provided by email throughout the legislative session.

6) Investment Update – FY 2020

Otten provided fiscal year-to-date information for SDRS. The trust funds distribution amounts will be calculated when the December valuations are finalized. Estimated amounts were provided to the various state offices for inclusion in their revenue projections. Otten informed the Council of the progress made with the SEC on the ability of the cash flow and trusts funds to purchase 144A securities as is currently the case for SDRS.

Clark updated the Council on the Bristow investment in the high yield portfolio.

7) Iran Divestiture Report & Update

Tammy Otten stated that the Iran divestiture annual report was provided to the Executive Board of the Legislature as required by law on January 13, 2020. The Council was provided the January 24, 2020 memo that included a copy of the Executive Board report and the most recent scrutinized companies list from Florida compared to the South Dakota list. Staff recommended changing the South Dakota list to include the two subsidiary companies recently added to the Florida list. Otten also informed the Council that written notice was provided to all the companies on the scrutinized list as to their status on the South Dakota list. A sample letter was provided with the memo.

RYAN BRUNNER MOVED, SECONDED BY TRAVIS ALMOND, TO APPROVE THE CHANGES TO THE IRAN SCRUTINIZED COMPANIES LIST AS PRESENTED. MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE.

8) Shareholder Activism Report

Tammy Otten reviewed the required reporting on the SDIC Shareholder Activism Policy related to Federal Divestiture Enactments (Sudan) that was provided to the Executive Board of the Legislature on January 13, 2020. The policy was reviewed at the August 26, 2019 Council meeting.

9) Appropriations Budget Hearing

Matt Clark stated that the SDIC Appropriations budget hearing will be on February 18, 2020. He noted that Chair Koepsell had a conflict, so Vice Chair Nelson would be joining him in Pierre.

Clark updated the Council on a change made to the original budget approved by the Council and LRC Executive Board to correspond with the Governor's recommended budget. The change was to reflect the Governor's recommendation of a zero salary policy. When the salary policy is zero or minimal, the 1.75% long term plan salary increase for investment positions is set aside.

10) Compensation Committee Update

Jeff Nelson, Chair of the Compensation Committee, reviewed the Committee's recommendation presented to the full Council at the November 2019 Council meeting to accept the recently completed compensation study update.

JEFF NELSON MOVED, SECONDED BY GREG KULESA, TO ACCEPT THE COMPENSATION STUDY UPDATE AS RECOMMENDED BY THE COMPENSATION COMMITTEE AT THE NOVEMBER 2019 INVESTMENT COUNCIL MEETING. MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE.

Nelson reported that the Compensation Committee has discussed the compensation for the State Investment Officer's base salary for fiscal year 2021. He stated it was the consensus of the Committee to recommend to the full Council that the base salary for the State Investment Officer for FY 2021 increase by the state salary policy, if any, and that total compensation would continue to be comprised of base salary and any earned investment performance incentive.

Nelson noted that by law, a state board cannot act on a subcommittee recommendation until a subsequent meeting. Therefore, the Compensation Committee recommendation will be discussed at the April Council meeting for the full Council to establish a formal recommendation to be presented to the LRC Executive Board at their June meeting.

11) Audit Committee Update

Paul Bisson, Chair of the Audit Committee, reported that the Agreed Upon Procedures work was completed for the quarter ended September 30, 2019, and the Audit Committee has received and reviewed Legislative Audit's report.

12) 529 Higher Education Savings Plan Update

Sherry Nelson reviewed the CollegeAccess 529 Plan summary of accounts, the quarterly compliance schedule, and the minutes of the Allianz quarterly conference call. She noted that the changes that were approved by the Council at the last Council meeting will be effective February 25, 2020.

Nelson stated that the annual report letter on the Higher Education Savings Program was sent to the Governor, Speaker of the House, and President Pro Tempore of the Senate and that a copy has been provided to the Council.

13) New/Old Business Agenda Items

The Council confirmed receipt of the annual External Manager summary and thanked staff for this comprehensive document. The Council suggested that a review of the summary at a future Council meeting would be beneficial.

14) Future Meeting Dates

The next Investment Council meeting will be held in Sioux Falls on April 16, 2020.

15) Adjournment

Chair Koepsell declared the meeting adjourned at 10:10 a.m.