

MINUTES

SOUTH DAKOTA INVESTMENT COUNCIL

Conference Call
April 16 & 17, 2020

1) Roll Call

The meeting was called to order at 9 a.m. on April 16, 2020 by Chair Loren Koepsell. Council members in attendance were Travis Almond, Paul Bisson, Ryan Brunner, Josh Haeder, Mary Howard, Loren Koepsell, Greg Kulesa, and Jeff Nelson.

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

(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

JOSH HAEDER MOVED, SECONDED BY PAUL BISSON, TO APPROVE THE MINUTES OF THE FEBRUARY 6, 2020 INVESTMENT COUNCIL MEETING. MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE.

3) Public Comment

There were no public comments.

4) Investment Update – FY 2020

Tammy Otten noted that there were no investment motions and actions made during the last Council meeting to report. Assets and estimated returns as of 4/15/20 were reported for SDRS. Otten reviewed the several asset allocation moves to adjust the equity-like risk during the last month for SDRS and the trust funds. Clark reviewed the asset allocation model relating to equity risk and possible future adjustments to asset allocation. Clark provided an update for the Bristow investment.

Otten noted that the State received half of the Federal Government Coronavirus Relief Fund distribution and expects to receive the balance of funds in the near future. The funds will be invested in the cash flow fund and will be placed in the money market portion. The Education Enhancement Trust will receive the annual tobacco company payment in April. The Dakota Cement Trust will make the FY 2020 distribution between now and the end of June when requested by the Bureau of Finance & Management. School and Public Lands

AGENDA ITEMS:

- 1) Roll Call
- 2) Minutes
- 3) Public Comment
- 4) Investment Update – FY 2020
- 5) Iran Divestiture Update
- 6) Legislative Wrap-Up
- 7) Compensation Committee Update
- 8) Audit Committee Update
- 9) 529 Higher Education Savings Plan Update
- 10) Silver Lake Partners VI
- 11) CVC Capital Partners VIII
- 12) Limited Partnerships Review
- 13) Potential Limited Partnership Investments
- 14) New/Old Business Agenda Items
- 15) Future Meeting Dates
- 16) Adjournment

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 2021.

5) Iran Divestiture Update

Tammy Otten reviewed the Iran memo dated April 1, 2020 previously provided to the Council. Otten reported that the Florida list had not been updated since the last Council meeting and staff recommended no change to the current list.

6) Legislation Update

Tammy Otten noted that the two Investment Council bills were passed and would become law on July 1, 2020. These involved authorization of indemnification in certain circumstances and clarification of conflict related restrictions on Council members. Travis Almond reviewed SDRS legislative bills which also all passed. These included the removal of the venture capital investment prohibition for SDRS and the combining of the Department of Labor retirement plan into SDRS on July 1, 2020.

7) Compensation Committee Update

Jeff Nelson, Chair of the Compensation Committee, reviewed the recent Council action regarding the compensation study update. The salary policy that was initially incorporated into the budgeting process is based on the long-term plan. The long-term plan adjustment component of 1.75% was removed prior to submitting to the appropriations committee because the expectation at that time was that there would be a zero general state salary policy. Historical practice has been that the 1.75% portion is removed if the general state salary policy is zero or near zero. The final budget adopted by the appropriations committee did include a general salary policy of 2%. The 1.75% was also added back to the Council budget.

Nelson stated that he has had further discussions with Matt Clark and Chair Koepsell regarding the State Investment Officer compensation for FY 2021. He commented that any motion passed by the Council could be written to recognize the possibility of changes in the state budget due to the crisis. The alternative would be to defer discussion and action until the June meeting when better information might be available.

It was the consensus of the Council to defer this issue to the June Council meeting.

8) Audit Committee Update

Paul Bisson, Chair of the Audit Committee, reported that the Agreed Upon Procedures work was completed for the quarter ended December 31, 2019, and the Audit Committee has received and reviewed Legislative Audit's report.

9) 529 Higher Education Savings Plan Update

Sherry Nelson reviewed the CollegeAccess 529 Plan summary of accounts and the quarterly compliance schedule. She commented on the impact of the current economic environment on the Plan assets.

Nelson reviewed a resolution from Allianz which would be added to the Program Management Agreement. This resolution would permit Allianz to work out arrangements with distributors whereby South Dakota participants would be charged the program management fee so long as the total fee charged is less than the previous similar offering which did not charge the fee. She provided the background behind Allianz requesting the resolution and noted that in some cases it is the only practical path to getting an overall net fee reduction. Matt Clark stated that Council staff was in favor of the resolution.

JEFF NELSON MOVED, SECONDED BY JOSH HAEDER, THAT THE INVESTMENT COUNCIL ADOPT THE RESOLUTION ENTITLED, *RESOLUTION OF THE SOUTH DAKOTA INVESTMENT COUNCIL (WAIVER AND CONSENT REGARDING NEW F SHARE CLASS)*, SUCH RESOLUTION WHICH AMENDS THE PROGRAM MANAGEMENT AGREEMENT, WHEREBY THE INVESTMENT COUNCIL CONSENTS TO AGID OFFERING F SHARE CLASS TO PARTICIPANTS IN THE PROGRAM, AND TO CHARGE AND COLLECT A .25% MANAGEMENT FEE FOR ITS SERVICES WITH RESPECT TO ACCOUNTS IN THE PROGRAM, INCLUDING ACCOUNTS OF WHICH THE OWNER OR DESIGNATED BENEFICIARY IS A SOUTH DAKOTA RESIDENT, AND THAT THE STATE INVESTMENT OFFICER IS HEREBY AUTHORIZED AND DIRECTED TO NOTIFY AGID OF THIS WAIVER AND CONSENT AND TO TAKE SUCH FURTHER STEPS AS APPROPRIATE TO EFFECTUATE THE INTENT HEREOF. MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE.

10) Silver Lake Partners VI

Ken Hao, Chairman and Managing Partner, and Dan Hoevel, Senior Vice President/ Fundraising & Investor Relations, of Silver Lake joined the Council to provide an update on their current private equity funds and discuss their upcoming Silver Lake Partners VI fund.

JEFF NELSON 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 ON A ROLL CALL VOTE.

Staff remaining to participate in and/or facilitate the presentations and discussions included Matt Clark, Chris Nelson, Brett Fligge, Tammy Otten, Jeff Hallem, and Laurie Riss, as well as legal counsel Aaron Scheibe.

The Council recessed at 11:10 a.m. and reconvened on April 17, 2020 at 9 a.m.

11) CVC Capital Partners VIII

Executive session continued for the CVC presentation by Chris Stadler, Managing Partner, and Rob Squire, Partner, to discuss their private equity funds and present their upcoming CVC Capital Partners VIII fund.

12) Limited Partnerships Review

Executive session continued to review and discuss details of the Council's existing limited partnerships and potential investments in Silver Lake and CVC that were presented at this meeting.

13) Potential Limited Partnership Investments

Open session reconvened at 10:50 a.m.

Matt Clark reviewed the recommendations for the Silver Lake and CVC investments and the expected closing dates. He discussed the current liquidity and market volatility. He noted that the recommendations are up to those amounts and can be changed before executing the documents if there are concerns with the markets and liquidity. He added that he would email Council members with final amounts a few days ahead of signing the documents which would allow time for Council members to ask questions and perhaps have a conference call if necessary.

JEFF NELSON MOVED, SECONDED BY GREG KULESA, TO AUTHORIZE THE STATE INVESTMENT OFFICER TO INVEST UP TO \$180 MILLION FOR THE SOUTH DAKOTA RETIREMENT SYSTEM, PLUS UP TO ADJUSTED PROPORTIONATE AMOUNTS FOR THE SCHOOL AND PUBLIC LANDS FUND, THE DAKOTA CEMENT TRUST, THE EDUCATION ENHANCEMENT TRUST, AND THE HEALTH CARE TRUST IN SILVER LAKE PARTNERS VI. MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE.

GREG KULESA MOVED, SECONDED BY PAUL BISSON, TO AUTHORIZE THE STATE INVESTMENT OFFICER TO INVEST UP TO \$130 MILLION FOR THE SOUTH DAKOTA RETIREMENT SYSTEM PLUS UP TO ADJUSTED PROPORTIONATE AMOUNTS FOR THE SCHOOL AND PUBLIC LANDS FUND, THE DAKOTA CEMENT TRUST, THE EDUCATION ENHANCEMENT TRUST, AND THE HEALTH CARE TRUST IN CVC CAPITAL PARTNERS VIII. MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE.

14) New/Old Business Agenda Items

Matt Clark stated that he and Travis Almond had discussed the likelihood that the June Council meeting will need to be conducted by conference call. As a result, there would not be a joint meeting with SDRS. The SDRS Board would meet separately on June 3 and the Council would be invited to listen to any areas of interest, especially those related to actuarial issues. The Council would then meet on June 4 for a condensed asset allocation presentation, with the SDRS Board being invited to listen.

15) Future Meeting Dates

The next Investment Council meeting will be held by conference call on June 4, 2020.

16) Adjournment

Chair Koepsell declared the meeting adjourned at 11:20 a.m.