

# MINUTES

## SOUTH DAKOTA INVESTMENT COUNCIL

Teleconference

January 21, 2021

### 1) Roll Call

The meeting was called to order at 9 a.m. on January 21, 2021 by Chair Jeff Nelson. Council members in attendance were Travis Almond, Ryan Brunner, Josh Haeder, Mary Howard, Loren Koepsell, and Jeff Nelson. Paul Bisson and Greg Kulesa were absent.

Others attending all or part of the meeting included Investment Council Staff members Matt Clark, Brett Fligge, Tammy Otten, Sherry Nelson, Darci Haug, Taylor Gubbrud, Payton Larsen, Jan Zeeck, Jeff Hallem, Matt Michels, Laurie Riss and Christa Sites; legal counsel Aaron Scheibe; SDRS staff members Jacque Storm, Doug Fiddler, Jane Beer and Michelle Mikkelsen; Peter Batchlar, Kevin Carr, and Heidi Griswold from Virtus; Doug Hajek and Kalen Biord from Davenport Evans Hurwitz & Smith law firm; and Adam Rees from Fundmap.

#### AGENDA ITEMS:

- 1) Roll Call
- 2) Minutes (November 19, 2020)
- 3) Public Comment
- 4) Legislation Update
- 5) Investment Update – FY 2021
- 6) Iran Divestiture Report & Update
- 7) Shareholder Activism Report
- 8) Compensation Committee Update
- 9) Audit Committee Update
- 10) 529 HESP Update
- 11) Equity Research Update
- 12) 529 HESP – Virtus Program Management Agreement
- 13) New/Old Business Agenda Items
- 14) Future Meeting Dates
- 15) Adjournment

(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

MARY HOWARD MOVED, SECONDED BY RYAN BRUNNER, TO APPROVE THE MINUTES OF THE NOVEMBER 19, 2020 INVESTMENT COUNCIL MEETING. MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE.

### 3) Public Comment

There were no public comments.

### 4) Legislation Update

Tammy Otten reviewed the limited number of bills filed to date that may impact the Council including the four retirement bills and one bill that transfers money to the Health Care Trust.

Travis Almond briefly reviewed the SDRS bills. He noted that HB 1030 was needed to comply with IRS rules regarding required minimum retirement distributions. HB 1031 is a statute clean-up bill. HB 1032 would revise the minimum cost of living adjustment. HB 1033 updates provisions relating to reemployment after retirement. The bills have unanimously passed the House Retirement Laws committee.

Otten 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.

5) Investment Update – FY 2021

Tammy Otten provided fiscal year-to-date information for SDRS. Matt Clark discussed the current asset allocation and provided information on the equity portfolios. He also updated the Council on the Bristow investment. He noted that a contract has been completed with an outside vendor to handle any required SEC filings related to Bristow.

Otten informed the Council that the SEC's December 8, 2020 new definition of a Qualified Institutional Investor now enables the cash flow and trust funds to purchase 144A securities, like has been allowed for SDRS.

Brett Fligge discussed the fiscal year to date performance of the equity portfolios, particularly the effect of energy and banking industry overweights and the lean toward value-oriented stocks. Fligge then discussed the addition of Renae Randall to the Core portfolio team.

6) 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 15, 2021. The report is posted on the LRC website. The Council was provided the January 14, 2021 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.

LOREN KOEPSSELL MOVED, SECONDED BY MARY HOWARD, TO APPROVE THE CHANGES TO THE IRAN SCRUTINIZED COMPANIES LIST AS PRESENTED. MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE.

7) 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 15, 2021. The report is posted on the LRC website.

8) Compensation Committee Update

Jeff Nelson provided the Compensation Committee update on behalf of Paul Bisson. He noted that the Committee met on January 13, 2021 to discuss the compensation for the State Investment Officer for fiscal year 2022. He stated it was the consensus of the Compensation Committee to recommend to the full Council that the base salary for the State Investment Officer for FY 2022 increase by salary policy plus 1.75% per the long-term plan for investment positions. 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 take action on a subcommittee recommendation until a subsequent meeting. Therefore, the Compensation Committee recommendation will be discussed at the April Council meeting for the Council to establish a formal recommendation to be presented to the LRC Executive Board at their June meeting.

9) Audit Committee Update

Jeff Nelson provided the Audit Committee Update on behalf of Greg Kulesa. He noted that the AUP for the quarter ended 9/30/20 has been completed.

Nelson stated that after further communications following the subcommittee appointments made at the last Council meeting, Mary Howard will join the Audit Committee effective immediately.

10) 529 Higher Education Savings Plan Update

Sherry Nelson reviewed the CollegeAccess 529 Plan summary of accounts and the quarterly compliance schedule.

11) Equity Research Update

Several SDIC equity team members joined the Council for an equity research update.

JOSH HAEDER MOVED, SECONDED BY LOREN KOEPSSELL TO GO INTO EXECUTIVE SESSION PER SDIC 1-25-2(3) FOR THE PURPOSE OF CONSULTING WITH LEGAL COUNSEL ON CONTRACTUAL MATTERS AND PER SDCL 1-25-10 FOR THE PURPOSE OF RECEIVING AND DISCUSSING CONFIDENTIAL INFORMATION EXEMPT FROM PUBLIC DISCLOSURE. MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE.

The Council went into executive session at 10:30 a.m. Staff remaining to participate in or facilitate the presentation and discussion included Matt Clark, Brett Fligge, Jeff Hallem, Jan Zeeck, Darci Haug, Payton Larsen, Taylor Gubbrud, Christa Sites and Laurie Riss.

12) 529 Plan Virtus Program Management Agreement

Executive Session continued.

Peter Batchlar, Kevin Carr, and Heidi Griswold from Virtus joined the Council meeting to discuss the Program Management Agreement between VP Distributors, LLC and the South Dakota Investment Council for the 529 higher education savings plan assets.

Remaining to participate in or facilitate the discussion included staff members Matt Clark, Tammy Otten, Sherry Nelson, Brett Fligge, Jeff Hallem, Matt Michels, Christa Sites and Laurie Riss and external legal counsels Aaron Scheibe, Doug Hajek and Kalen Biord .

Open session reconvened at 11:55 a.m.

Matt Clark noted that the SDIC staff has completed the due diligence on the transfer of the 529 plan distribution and administration responsibilities to Virtus and recommends Council approval. Discussion continued.

LOREN KOEPELLO MOVED, SECONDED BY TRAVIS ALMOND, TO CONSENT TO THE ASSIGNMENT OF THE ALLIANZ PROGRAM MANAGEMENT AGREEMENT TO VP DISTRIBUTORS, LLC; TO APPROVE THE VP DISTRIBUTORS PROGRAM MANAGEMENT AGREEMENT PRESENTED ON THIS DAY; AND TO AUTHORIZE AND DIRECT THE INVESTMENT COUNCIL'S MEMBERS, OFFICERS AND EMPLOYEES TO EXECUTE ALL RELATED NECESSARY PAPERS, INSTRUMENTS, CERTIFICATES, AFFIDAVITS AND OTHER DOCUMENTS. MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE.

13) New/Old Business Agenda Items

No new/old business agenda items were discussed.

14) Future Meeting Dates

The next Council meeting will be held by teleconference on April 22, 2021.

15) Adjournment

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