

MINUTES

SOUTH DAKOTA INVESTMENT COUNCIL Teleconference November 18, 2021

1) Roll Call

The meeting was called to order at 8 a.m. on November 21, 2021 by Chair Paul Bisson. Council members in attendance were Travis Almond, Paul Bisson, Ryan Brunner, Josh Haeder, Mary Howard, Loren Koepsell, Greg Kulesa, and Steve Pietila.

Others attending all or part of the meeting included Investment Council Staff members Matt Clark, Brett Fligge, Chris Nelson, Tammy Otten, Sherry Nelson, John Richter, Darci Haug, Arianna Rehfeldt, Randy Spinar, Mackenzie Smook, Laurie Riss and Christa Sites; SDRS staff members Jacque Storm, Michelle Mikkelsen, and Doug Fiddler; and Joe Osnoss and Dan Hoevel from Silver Lake.

(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

GREG KULESA MOVED, SECONDED BY LOREN KOEPSSELL, TO APPROVE THE MINUTES OF THE AUGUST 31, 2021 INVESTMENT COUNCIL MEETING. MOTION PASSED UNANIMOUSLY.

3) Public Comment

There were no public comments.

4) CD Program 2021/2022

Sherry Nelson reviewed her memo summarizing the results of the 2021/2022 CD Program, including the CD rate calculation details and total program size. The summary also included a listing of the participating South Dakota financial institutions along with the amounts offered and accepted for each. Historical statistics of the CD program were also provided.

5) 529 Higher Education Savings Plan

Sherry Nelson reviewed the CollegeAccess 529 Plan summary of accounts, the quarterly compliance schedule, and the minutes of the Virtus quarterly conference call.

AGENDA ITEMS:

- 1) Roll Call
- 2) Minutes (August 31, 2021)
- 3) Public Comment
- 4) CD Program Review
- 5) 529 Higher Education Savings Plan
- 6) Legislation
- 7) SDIC FY 2021 Annual Report
- 8) Investment Update – FY 2022
- 9) Iran Divestiture Update
- 10) Silver Lake Partners VII
- 11) Compensation Committee Update
- 12) Audit Committee Update
- 13) Council Subcommittee Appointments
- 14) Incentive Plan Changes
- 15) Order Management System Update
- 16) Succession Planning
- 17) Investment Officer Performance Evaluation
- 18) New/Old Business Agenda Items
- 19) Future Meeting Dates
- 20) Adjournment

Nelson discussed the recent rating CollegeAccess 529 received from Morningstar. Council discussion continued about the rating, cost to participants of the 529 program and the funds provided for scholarships.

6) Legislation for 2022 Legislative Session

Sherry Nelson discussed a statutory clean-up bill to update IRS code references for the 529 plan.

Matt Clark discussed proposed legislation to add investment options to the Cash Flow Fund legal list in SDCL 4-5-26. The proposed legislation was drafted and approved by the Investment Council in November of 2019 but was set aside. He said we hope to go forward with the bill this session.

7) SDIC FY 2021 Annual Report

Matt Clark confirmed that the SDIC FY 2021 Annual Report was emailed to the Council. He noted the report is on the SDIC website and will be provided to the legislators, the executive branch, and other interested parties. Printed copies will be available upon request. Clark thanked the investment accountants for their work in producing the report.

8) Investment Update – FY 2022

Tammy Otten reviewed the Council's recent motions and subsequent actions. She provided an update on the estimated fair value and fiscal year to date investment returns of SDRS.

Clark updated the Council on the Bristow investment.

9) Iran Divestiture Update

Otten reviewed a memo dated November 3, 2021 on the Iran Scrutinized Companies List. Staff recommended no change to the current list.

10) Silver Lake Partners VII

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

STEVE PIETILA MOVED, SECONDED BY MARY HOWARD, 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.

The Council went into executive session at 9:03 a.m. Staff remaining to participate in or facilitate the presentation and discussion included Matt Clark, Brett Fligge, Tammy Otten, Chris Nelson, Dari Haug, John Richter, Laurie Riss and Christa Sites.

General session reconvened at 10:25 a.m.

Matt Clark reviewed staff's recommendation to invest up to \$250 million in total for the SDRS and the trust funds in Silver Lake Partners VII.

LOREN KOEPESELL MOVED, SECONDED BY TRAVIS ALMOND, TO AUTHORIZE THE STATE INVESTMENT OFFICER TO INVEST UP TO \$250 MILLION IN AGGREGATE IN ADJUSTED PROPORTIONATE AMOUNTS FOR THE SOUTH DAKOTA RETIREMENT SYSTEM, THE SCHOOL AND PUBLIC LANDS FUND, THE DAKOTA CEMENT TRUST, THE EDUCATION ENHANCEMENT TRUST, AND THE HEALTH CARE TRUST IN SILVER LAKE PARTNERS FUND VII. MOTION PASSED UNANIMOUSLY.

11) Compensation Committee Update

Paul Bisson, Chair of the Compensation Committee, reported the compensation study underlying data will be obtained from McLagan by spring of 2022. Clark stated the study is updated every three years and he will compile the information and forward to the compensation committee.

12) Audit Committee Update

Greg Kulesa, Chair of the Audit Committee, reported that the FY 2021 audit was completed and received. Matt Clark discussed the uncorrected items which were noted to be not material but greater than trivial. These involve a few external partnership final valuation results received after the Council finalized its results in the third week of August. He said the difference is incorporated in the subsequent year's results. He said it is not practical to hold the books open for several months to wait for all results to come in. He said it is common for peer funds to simply utilize March quarter valuations for partnership type investments which allows them to close their books earlier.

Kulesa discussed with the Council the engagement letter with Legislative Audit for the Agreed Upon Procedures which identified the areas of focus for FY 2022.

13) Council Subcommittee Appointments

Paul Bisson reviewed the changes to the Investment Council subcommittees. Effective immediately, the Compensation Committee will include Greg Kulesa as Chair, Paul Bisson and Mary Howard. The Audit Committee will include Mary Howard as Chair, Loren Koepsell, Josh Haeder, and Steve Pietila.

14) Incentive Plan Changes

Tammy Otten discussed changes to incentive plans for three investment team members. Darci Haug will move from managing an individual small/midcap equity portfolio to a US REIT portfolio during fiscal year 2022. Lee Mielke will move from managing an individual global equity sector portfolio to an individual small/midcap equity portfolio during fiscal year 2022. Makenzie Smook moved from managing a small/midcap equity portfolio to Equity Trader/Systems Analyst in August of 2021.

Otten reviewed the memos dated November 9, 2021 outlining the calculation details for the plans for FY 2022 payable in FY 2023.

GREG KULESA MOVED, SECONDED BY JOSH HAEDER, TO APPROVE THE INCENTIVE PLAN CHANGES AS DETAILED IN THE THREE INVESTMENT PERFORMANCE INCENTIVE PLAN CHANGES MEMORANDUMS DATED NOVEMBER 9, 2021 FOR DARCI HAUG, LEE MIELKE, AND MAKENZIE SMOOK. MOTION PASSED UNANIMOUSLY.

15) Order Management System Update

Darci Haug, Arianna Rehfeldt, Makenzie Smook, and Randy Spinar provided an update on the Order Management System. They reviewed the Order Management System background, rules overview and examples, implementation, and status of the system.

16) Succession Planning

GREG KULESA MOVED, SECONDED BY MARY HOWARD, TO GO INTO EXECUTIVE SESSION PER SDCL 1-25-2(1) TO DISCUSS ITEMS RELATED TO PERSONNEL. MOTION PASSED UNANIMOUSLY.

The Council went into executive session at 11:25 a.m. Remaining to participate in or facilitate the presentation and discussion included staff members Matt Clark, Brett Fligge, Tammy Otten, Laurie Riss, and Christa Sites.

17) Investment Officer Performance

Executive session continued to discuss items relating to personnel. No staff members participated.

Open session reconvened at 1:07 p.m.

18) New/Old Business Agenda Items

No new or old business agenda items were introduced.

19) Future Meeting Dates

The next Council meeting will be held by teleconference on February 4, 2022.

20) Adjournment

Chair Bisson declared the meeting adjourned at 1:10 p.m.