

MINUTES

SOUTH DAKOTA INVESTMENT COUNCIL

Pierre, South Dakota

August 31, 2021

1) Roll Call

The meeting was called to order at 8 a.m. on August 31, 2021 by Vice Chair Greg Kulesa. Council members in attendance were Ryan Brunner, Josh Haeder, Mary Howard, Loren Koepsell, Greg Kulesa, Steve Pietila, and Travis Almond. Paul Bisson was absent.

Others attending all or part of the meeting included Investment Council Staff members Matt Clark, Brett Fligge, Chris Nelson, Tammy Otten, Jeff Hallem, John Richter, and Christa Sites; SDRS staff members Jacque Storm, Michelle Mikkelsen, and Doug Fiddler; and SDRS board member Mark Barnett.

(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) Introduction of New Council Member
- 3) Minutes (June 3 2021)
- 4) Public Comment
- 5) Investment Performance FY 2021 & Incentive Summary
- 6) Executive Board Meeting Review
- 7) Investment Update – FY 2022
- 8) Iran Divestiture – Policy Review & Update
- 9) Shareholder Activism–Policy Review & Update
- 10) Code of Ethics & Personal Investing Guidelines – SDIC & Staff
- 11) Audit Committee Update
- 12) Compensation Committee Update
- 13) CD Program 2021/2022
- 14) 529 Higher Education Savings Program
- 15) Blackstone Real Estate Partners Asia III
- 16) Limited Partnerships–Private Equity & Real Estate
- 17) New/Old Business
- 18) Future Meeting Dates
- 19) Adjournment

2) Introduction of New Council Member – Steve Pietila

Vice Chair Kulesa welcomed Steve Pietila to the Investment Council. Mr. Pietila gave a brief summary of his background and career. He is from Yankton and is Vice President Wealth and Trust Officer at First Dakota National Bank. He was appointed by the LRC Executive Board for a five-year term on the Investment Council effective 7/1/2021.

3) Minutes

RYAN BRUNNER MOVED, SECONDED BY MARY HOWARD, TO APPROVE THE MINUTES OF THE JUNE 3, 2021 INVESTMENT COUNCIL MEETING. MOTION PASSED UNANIMOUSLY.

4) Public Comment

There were no public comments.

5) Investment Performance FY 2021 & Incentive Summary

Tammy Otten reviewed investment performance for Fiscal Year 2021. The South Dakota Retirement System (SDRS) performance analysis included an overview of the Capital Markets Benchmark (CMB)

including returns for the equity, real estate, fixed income, and cash indexes used in the benchmark. The quarterly and year-end time-weighted rates of return of the Council's CMB were provided. A comparison of the actual asset allocation as of June 30, 2021 to the CMB and permissible ranges was provided.

Otten reviewed the return attribution analysis of the SDRS net return relative to the CMB. The analysis detailed differences in performance resulting from the return within each asset category versus the market index for that category, as well as the impact of asset allocation resulting from using different allocations to asset categories than that of the CMB. The cumulative impact of the sources of added or detracted value was shown for the last 5 years and cumulatively for 5, 10, 20 and 23 years when this detailed level of analysis began to be calculated for all asset categories.

A table was provided that compared the annualized returns for selected periods for the last 10 years to public pension universes.

Otten reviewed exhibits focused on major individual asset categories comparing the returns earned from each category to the respective benchmark for FY2021 and historical periods.

Otten then presented a summary of the return and attribution analysis versus benchmarks for each of the four trust funds.

Clark reviewed the summary of the earned incentives by Investment Council staff for FY 2021 and described the support staff incentive program which is funded from the earned incentives. He reviewed details of the State Investment Officer's earned incentive and noted that the incentives would be paid following completion of the audit.

The Investment Council recessed at 9 a.m. to meet with the LRC Executive Board Subcommittee on the Investment Council, followed by the presentation to the full Executive Board at 10:04 a.m. General session reconvened at 10:49 a.m.

6) Executive Board Meeting Review

The Council discussed the LRC Executive Board meeting that took place earlier in the day. The Council's presentation included FY 2021 investment performance and the Council's FY 2023 budget request, which the Executive Board approved. It was noted that the details of the State Investment Officer's earned incentive were reviewed with the Executive Board Subcommittee and provided to all Executive Board members.

7) Investment Update – FY 2022

Tammy Otten reviewed completed actions for motions from prior Council meetings. Assets and estimated returns fiscal year to date were reported for SDRS. Clark provided an update for the Bristow investment.

8) Iran Divestiture – Policy Review & Update

Otten reviewed a memo dated July 28, 2021 on the Iran Scrutinized Companies List. Staff recommended that one subsidiary company be added to the Council's list.

MARY HOWARD MOVED, SECONDED BY TRAVIS ALMOND, TO APPROVE THE CHANGES TO THE IRAN SCRUTINIZED COMPANIES LIST AS PRESENTED. MOTION PASSED UNANIMOUSLY.

9) SDIC Shareholder Activism – Policy Review & Update

Otten confirmed the Council received a copy of the Shareholder Activism Policy report provided to the Legislative Research Council as required by law. Included was a memo outlining compliance with the policy, a copy of the policy, and an updated Sudan scrutinized companies list.

10) Code of Ethics & Personal Investing Guidelines – SDIC & Staff

Matt Clark discussed the Code of Ethics and Personal Investing Guidelines for SDIC and staff. He explained the approval process for staff's personal investment transactions. After discussion, the Council made no recommended changes.

11) Audit Committee Update

Greg Kulesa, Chair of the Audit Committee, discussed his July 15, 2021 meeting with Ashlee Keyes from the Department of Legislative Audit. He said that at this time there were no changes to the agreed upon procedures.

12) Compensation Committee Update

Greg Kulesa, member of the Compensation Committee, noted that an updated compensation study is completed approximately every three years. He recommended a new study be done in 2022 to evaluate compensation for staff members. The Compensation Committee will be meeting later in the year to discuss the upcoming study.

13) CD Program 2021/2022

Matt Clark reviewed the two memorandums previously provided to the Council that provided a history of the CD program and details for this year's CD program, including the size of the program, the time and date for setting the rate, the method of determining the interest rate, the terms, and reallocations. He recommended continuing the program.

JOSH HAEDER MOVED, SECONDED BY RYAN BRUNNER, TO APPROVE THE SOUTH DAKOTA CASH FLOW FUND CERTIFICATE OF DEPOSIT PROGRAM FOR ONE-YEAR CDS TO MATURE SEPTEMBER 30, 2022, IN ACCORDANCE WITH SOUTH DAKOTA LAW AND THE CD PROGRAM ADMINISTRATIVE RULES, AT \$35 MILLION WITH THE INTEREST RATE BASED ON THE 1-YEAR TREASURY NOTE WITH A FLOOR OF 0%, PLUS .10% FOR LIQUIDITY AND COLLATERAL RISK. MOTION PASSED UNANIMOUSLY.

14) 529 Higher Education Savings Program

Tammy Otten reviewed the report of assets in the CollegeAccess 529 Plan as of 6/30/21. The minutes of the quarterly conference call with Virtus and Allianz Global Investors Multi-Assts US and the compliance schedule were provided.

Otten reviewed investment option changes proposed by Virtus VP Distributors, LLC that were developed by Allianz Global Investors Multi-Asset U.S. These consisted of replacing three existing funds with four new funds. Matt Clark stated he reviewed the proposed changes, and believes them to be reasonable, and recommends Council approval.

RYAN BRUNNER MOVED, SECONDED BY JOSH HAEDER, TO APPROVE THE FUND CHANGES TO THE COLLEGEACCESS 529 PLAN PROPOSED BY VP DISTRIBUTORS AND ALLIANZ GLOBAL INVESTORS MULTI-ASSET US AND PRESENTED TO THE INVESTMENT COUNCIL ON THIS DAY AND TO AUTHORIZE THE STATE INVESTMENT OFFICER TO EXECUTE THE NECESSARY DOCUMENTS AND TAKE ANY OTHER ACTIONS DEEMED NECESSARY TO CARRY OUT THE CHANGES AS PRESENTED. MOTION PASSED UNANIMOUSLY.

Otten stated that the Program Management Agreement requires Council approval of the auditor for the program. The auditors must be a national auditing firm. Virtus has proposed PricewaterhouseCoopers (PWC). Clark reviewed PWC's practice of rotating partners on the audit and recommended approval.

STEVE PIETILA MOVED, SECONDED BY TRAVIS ALMOND, TO APPROVE VP DISTRIBUTORS, LLC RECOMMENDATION OF PRICEWATERHOUSECOOPERS AS THE AUDITOR FOR THE COLLEGEACCESS 529 PLAN FOR THE YEAR ENDING DECEMBER 31, 2021. MOTION PASSED UNANIMOUSLY.

15) Blackstone Real Estate Partners Asia III

LOREN KOESELL MOVED, SECONDED BY RYAN BRUNNER, 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 12:09 p.m. Staff remaining to participate in or facilitate the presentation and discussion included Matt Clark, Brett Fligge, Tammy Otten, Chris Nelson, Jeff Hallem, John Richter, and Christa Sites.

16) Limited Partnerships Review

Executive session continued to review and discuss details of the Council's potential investment in Blackstone Real Estate Partners Asia III that was 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, John Richter, and Christa Sites.

General session reconvened at 2:18 pm.

RYAN BRUNNER MOVED, SECONDED BY JOSH HAEDER, TO AUTHORIZE THE STATE INVESTMENT OFFICER TO INVEST UP TO \$100 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 BLACKSTONE REAL ESTATE PARTNERS ASIA III L.P. MOTION PASSED UNANIMOUSLY.

17) New/Old Business Agenda Items

Matt Clark indicated that the Investment Officer Performance Evaluation has been moved to the upcoming November meeting. He indicated an update on the equity valuation process and order management system will be provided at an upcoming Council meeting.

18) Future Meeting Dates

The next Investment Council meeting will be held in Sioux Falls on November 18, 2021.

19) Adjournment

Vice Chair Greg Kulesa declared the meeting adjourned at 2:20 p.m.