

MINUTES

SOUTH DAKOTA INVESTMENT COUNCIL

Teleconference

April 7, 2022

1) Roll Call

The meeting was called to order at 8:30 a.m. on April 7, 2022 by Chair Paul Bisson. Council members in attendance were Travis Almond, Paul Bisson, Josh Haeder, Mary Howard, Jarrod Johnson, 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, Darci Haug, Danielle Mourer, John Richter, Taylor Gubbrud, Payton Larsen, Sami Rains and Christa Sites; SDRS staff members Jacque Storm, Michelle Mikkelsen, and Doug Fiddler; and Tyler Henritze and Karen Sprogis from Blackstone.

(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 (February 3, 2022)
- 3) Public Comment
- 4) Blackstone Real Estate Review
- 5) Limited Partnership Review
- 6) Investment Update
- 7) Iran Divestiture Update
- 8) Legislative Wrap-Up Review
- 9) Compensation Committee Update
- 10) Audit Committee Update
- 11) Investment Incentive Plan Changes – FY 2022
- 12) 529 HESP Update
- 13) Equity Research Update
- 14) New/Old Business Agenda Items
- 15) Future Meeting Dates
- 16) Adjournment

2) Minutes

JARROD JOHNSON MOVED, SECONDED BY GREG KULESA, TO APPROVE THE MINUTES OF THE FEBRUARY 3, 2022 INVESTMENT COUNCIL MEETING. MOTION PASSED UNANIMOUSLY.

3) Public Comment

There were no public comments.

4) Blackstone Real Estate Partners Review

LOREN KOEPSSELL MOVED, SECONDED BY TRAVIS ALMOND, 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 8:33 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, and Christa Sites.

5) Limited Partnerships Review

Executive session continued to review and discuss details of the Council's existing limited partnerships.

Staff remaining to participate in and/or facilitate the discussion included Matt Clark, Chris Nelson, Brett Fligge, Tammy Otten, Darci Haug, John Richter, and Christa Sites.

General session reconvened at 10:11 a.m.

6) Investment Update – FY 2022

Tammy Otten noted that there were no completed actions to report for motions from prior Council meetings. Assets and estimated returns as of 3/31/22 were reported for SDRS and the four trust funds. The trust funds did not receive additional contributions from legislative action during the 2022 Legislative Session. The Education Enhancement Trust will receive the annual tobacco company payment in April. The Dakota Cement Trust will make the FY 2022 distribution between now and the end of June when requested by the Bureau of Finance & Management. School and Public Lands will make the annual distribution to the Board of Regents in June.

Otten reviewed the upcoming broker changes to trade financial futures (S&P 500 and Treasury Notes). Adjustments to the total fund asset allocation in the physical cash markets and the reduction or termination of external managers were discussed.

Clark provided an update for the Bristow investment.

7) Iran Divestiture Report & Update

Sami Rains reviewed the Iran memo dated March 22, 2022, previously provided to the Council. Rains reported that the Florida list had not been updated since the last Council meeting and staff recommended no change to the current list.

8) Legislative Wrap-Up

Tammy Otten reviewed the legislation final report for the Investment Council bills regarding the Cash Flow Fund and the CollegeAccess 529. These bills were signed by the Governor and will become effective July 1, 2022. Travis Almond provided additional information on the two SDRS bills that passed during session. He also discussed bills that were not introduced by the SDRS Board of Trustees but which were not passed

9) Compensation Committee Update

Greg Kulesa, Chair of the Compensation Committee, reviewed the recommendation that was made by the Committee to the Investment Council at the last meeting regarding the State Investment Officer's compensation for Fiscal Year 2023. This recommendation will be presented to the LRC Executive Board at their May meeting.

GREG KULESA MOVED, SECONDED BY MARY HOWARD, THAT THE INVESTMENT COUNCIL RECOMMEND TO THE LRC EXECUTIVE BOARD THAT TOTAL COMPENSATION FOR THE STATE INVESTMENT OFFICER PAYABLE IN FY 2023 BE COMPRISED OF FY 2022 BASE SALARY INCREASED BY STATE SALARY POLICY PLUS 1.75% AND CONTINUATION OF THE INVESTMENT PERFORMANCE INCENTIVE PLAN, WITH ANY EARNED INCENTIVE TO BE PAID FOLLOWING COMPLETION OF THE AUDIT. MOTION PASSED UNANIMOUSLY.

10) Audit Committee Update

Mary Howard, Chair of the Audit Committee, reported that the Agreed Upon Procedures work was completed for the quarter ended December 31, 2021 and the March quarter end is expected to be completed in June.

11) Investment Incentive Plan Changes – FY 2022

Tammy Otten discussed changes to incentive plans for two investment team members. Darci Haug changed from managing a small/midcap equity portfolio to managing a US REIT portfolio. A revised REIT breakpoint schedule was provided to the Council which reflects the divergence of individual REITs versus the REIT benchmark relative to divergence within broader equity portfolios. The new REIT breakpoints will be used as of February 1, 2022 for the part of Darci's incentive that is tied to REITs.

Otten also discussed the move of Zach Nipp from managing an individual high yield fixed income portfolio to an individual small/midcap equity portfolio during fiscal year 2022.

Otten reviewed the memos dated March 21, 2022 and March 25, 2022 outlining the calculation details for the plans for FY 2022 payable in FY 2023.

STEVE PIETILA MOVED, SECONDED BY TRAVIS ALMOND, TO APPROVE THE INCENTIVE PLAN CHANGES AS DETAILED IN THE TWO INVESTMENT PERFORMANCE INCENTIVE PLAN CHANGES MEMORANDUMS DATED MARCH 21, 2022 AND MARCH 25, 2022. MOTION PASSED UNANIMOUSLY.

12) 529 Higher Education Savings Plan Update

Tammy Otten presented the 529 update. She began by informing the Council that the South Dakota CollegeAccess 529 was 20 years old having begun in April of 2002. She provided history of issues faced in starting the program. Otten then reviewed a summary of assets as of February 28, 2022, the completion of items on the compliance schedule, and the minutes from the last quarterly call with Virtus.

13) Equity Research Update

Payton Larsen and Taylor Gubbrud presented an update on Equity Research. Larsen discussed updates and the implementation process to the new model. Gubbrud discussed the upload process and database updates. She also reviewed the PP&E module and growth tool. She indicated the new version of the model would be reviewed with the high yield team for potential incorporation into their process.

14) New/Old Business Agenda Items

Greg Kulesa noted the compensation committee will be meeting prior to the June Council meeting to discuss the compensation study results.

15) Future Meeting Dates

The next Council meeting will be held on June 2, 2022. The Council may hold a joint meeting with the South Dakota Retirement Board of Trustees on June 1, 2022.

16) Adjournment

Chair Bisson declared the meeting adjourned at 12:28 p.m.