

MINUTES

SOUTH DAKOTA INVESTMENT COUNCIL Teleconference July 20, 2022

1) Roll Call

The meeting was called to order at 9 a.m. on July 20, 2022, by Chair Greg Kulesa. Council members in attendance were Josh Haeder, Mary Howard, Jarrod Johnson, Greg Kulesa, Kelly Meiners, and Steve Pietila. Travis Almond and Loren Koepsell were absent.

Others attending all or part of the meeting included Investment Council staff members Matt Clark, Tammy Otten, Sherry Nelson, John Richter, Sarah Rust, and Laurie Riss; and Conor Boylan from With Intelligence.

(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) Public Comment

There were no public comments.

3) 529 Higher Education Savings Plan – Allocation Advisor

Sherry Nelson discussed the need to change allocation advisors for the higher education savings program, CollegeAccess 529. She stated that VP Distributors LLC, the program manager for the program, has requested Council approval to transfer the role of allocation advisor from Allianz Global Investors Multi-Asset U.S. to Virtus Fund Advisors, effective July 25, 2022.

Nelson reviewed the prior transition of program manager from Allianz to Virtus with a division of Allianz continuing to provide allocation manager advice. She discussed SEC sanctions levied against Allianz which disallow their continuing to serve in that role. Allianz had committed fraud in managing a specialized investment portfolio that was not used in the 529 program. The Allianz professionals who provided allocation manager advice to the 529 program were not involved in the fraud. Virtus is requesting Council approval of a plan to shift the allocation manager role to a group within Virtus. Virtus plans to hire the professionals from Allianz that have been doing this work for the 529 program for several years.

AGENDA ITEMS:

- 1) Roll Call
- 2) Public Comment
- 3) 529 Higher Education Savings Plan- Allocation Advisor
- 4) FY 2024 Budget Request
- 5) New/Old Business Agenda Items
- 6) Future Meeting Dates
- 7) Adjournment

Matt Clark stated that staff recommends approval. He said it is necessary to replace Allianz due to the SEC sanctions. He added that staff has worked well with the professionals who will be moving to Virtus, and they have significant experience and credentials.

STEVE PIETILA MOVED, SECONDED BY JOSH HAEDER, TO APPROVE TRANSFER OF THE ROLE OF ASSET ALLOCATION ADVISOR FOR THE COLLEGEACCESS 529 PLAN FROM ALLIANZ GLOBAL INVESTORS MULTI-ASSET U.S. TO VIRTUS FUND ADVISORS EFFECTIVE JULY 25, 2022, 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.

4) FY 2024 Budget Request

Greg Kulesa, Chair of the Compensation Committee, referenced the FY 2024 budget request discussion from the last Council meeting. He noted that the Council had asked Matt Clark to develop potential changes to the incentive plan to lessen the shortfall versus the Council's compensation target.

The Council discussed the compensation study results which showed compensation had fallen to 10% below the threshold. An increase in the maximum allowable incentive from 200% to 250% would eliminate the shortfall, and an increase to 225% would reduce the shortfall by half. The Council discussed the long lead times involved in the budgeting process, the importance of retaining experienced staff, and the changing workforce environment. An increase to 225% would result in a unit cost of 9.9 basis points (.0099%) for the FY2024 budget using estimated average incentives and smoothed assets. It was noted that Council practice has been to attempt to limit unit cost to not exceed 10 basis points of assets.

It was the consensus of the Council to increase the maximum incentive to 225%. It was noted that the Executive Board establishes the compensation for the State Investment Officer which was already done in June. Matt Clark recommended, and the Council agreed to not request an increase in incentive for the State Investment Officer for the current fiscal year performance. The Council requested that Matt Clark update the compensation study again after one additional year of data is available, rather than waiting the typical three years, in order to assess whether we are moving closer to or away from the target.

JOSH HAEDER MOVED, SECONDED BY MARY HOWARD, TO APPROVE THE FISCAL YEAR 2024 BUDGET REQUEST AS PRESENTED AT THE JUNE 2, 2022, MEETING WITH A REVISION TO THE INCENTIVE COMPENSATION MAXIMUMS PRESENTED AT THIS MEETING. MOTION PASSED UNANIMOUSLY.

5) New/Old Business Agenda Items

No new/old business agenda items were discussed.

6) Future Meeting Dates

The next Investment Council meeting will be held in Pierre on August 23, 2022, in conjunction with the LRC Executive Board meeting.

7) Adjournment

Chair Kulesa declared the meeting adjourned at 9:40 a.m.