

MINUTES

SOUTH DAKOTA INVESTMENT COUNCIL

Pierre, South Dakota

August 7, 2023

1) Roll Call

The meeting was called to order at 8 a.m. on August 7, 2023 by Chair Loren Koepsell. Council members in attendance were Mary Howard, Loren Koepsell, Steve Pietila, Kelly Meiners, Taylor Thompson, and Josh Haeder. Travis Almond and Brock Greenfield were absent.

Others attending all or part of the meeting included Investment Council Staff members Matt Clark, Chris Nelson, John Richter, Danielle Mourer, Darci Haug, and Sarah Rust; SDRS staff members Jacque Storm and Michelle Mikkelsen; Russ Olson from Department of Legislative Audit; Duncan Koch from BFM; and Bob Mercer.

(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
- 4) Public Comment
- 5) Investment Performance FY 2023 & Incentive Summary
- 6) Russ Olson, Auditor General, Dept of Legislative Audit
- 7) Investment Update – FY 2024
- 8) SDIC Shareholder Activism Report
- 9) Audit Committee Update
- 10) Compensation Committee Update
- 11) Council Subcommittee Appointments
- 12) CD Program 2023/2024
- 13) 529 Higher Education Savings Program - Update
- 14) Limited Partnerships Review
- 15) New/Old Business Agenda Items
- 16) Future Meeting Dates
- 17) Executive Board Meeting Review
- 18) Adjournment

2) Introduction of New Council Member

Chair Loren Koepsell welcomed Taylor Thompson to the Investment Council. Mr. Thompson provided a brief summary of his background and career. He is from Rapid City and is an LPL Financial Advisor at Pioneer Bank & Trust. He was appointed by the LRC Executive Board for a five-year term on the Investment Council effective 7/1/2023.

3) Minutes

JOSH HAEDER MOVED, SECONDED BY KELLY MEINERS, TO APPROVE THE MINUTES OF THE JUNE 20, 2023 INVESTMENT COUNCIL MEETING. MOTION PASSED UNANIMOUSLY.

4) Public Comment

There were no public comments.

5) Investment Performance FY 2023 & Incentive Summary

Darci Haug and Danielle Mourer reviewed preliminary estimated investment performance for Fiscal Year 2023. 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 preliminary estimated comparison of the actual asset allocation as of June 30, 2023, to the CMB and permissible ranges was provided.

Mourer reviewed the preliminary estimated 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 those of the CMB.

Haug reviewed an estimated chart showing return attribution across all asset categories since Fiscal Year 1999. The chart showed added value versus the benchmarks within each asset category and from asset allocation across categories. Haug reviewed exhibits focused on major individual asset categories comparing the returns earned from each category to the respective benchmark for FY2023 and historical periods.

Mourer and Haug then presented a preliminary estimated summary of the return and attribution analysis versus benchmarks for each of the four trust funds. A history of the trust funds was also provided.

Matt Clark reviewed the estimated summary of the earned incentives by Investment Council staff for FY 2023. He reviewed details of the State Investment Officer's estimated earned incentive ranges and noted that the incentives would be paid following completion of the audit.

6) Russ Olson, Auditor General, Dept of Legislative Audit

Russ Olson from the Department of Legislative Audit (DLA) presented to the Council. He reviewed the history and responsibilities of Legislative Audit, which was created in 1943. Olson discussed DLA's responsibilities and services including an annual audit and quarterly agreed-upon procedures reports. He further discussed DLA's adherence to professional standards and their recent peer review results.

7) Investment Update – FY 2024

Danielle Mourer reviewed the Motions and Actions Notes that summarized the motion from the April 2023 Council meeting and the resulting staff actions. Darci Haug reported on assets and estimated returns fiscal year- to-date. Haug also provided an update for the Bristow investment.

8) SDIC Shareholder Activism Report

Matt Clark 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 July 14, 2023. The report is posted on the LRC website.

9) Audit Committee Update

Loren Koepsell, Chair of the Audit Committee, stated that the Department of Legislative Audit will be onsite the end of the month with Eide Bailly onsite the following week. He stated Eide Bailly's report goes to DLA for review.

10) Compensation Committee Update

Mary Howard, Chair of the Audit Committee, had nothing additional to report.

11) Council Subcommittee Appointments

Loren Koepsell reviewed the changes to the Investment Council subcommittees. Effective immediately, the Compensation Committee will include Mary Howard as Chair, Loren Koepsell, and Steve Pietila. The Audit Committee will include Steve Pietila as Chair, Kelly Meiners, and Josh Haeder. The current Audit Committee members will close out the audit currently in process.

12) CD Program 2023/2024

Matt Clark reviewed the two memorandums previously provided to the Council. One memo provided a review of the CD program with information on the purpose, pros/cons, and return assumptions. The other memo provided details for the 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 for one year and then evaluating the participation rate.

MARY HOWARD MOVED, SECONDED BY STEVE PIETILA, TO APPROVE THE SOUTH DAKOTA CASH FLOW FUND CERTIFICATE OF DEPOSIT PROGRAM FOR ONE-YEAR CDs TO MATURE SEPTEMBER 30, 2024 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 .15% FOR LIQUIDITY AND COLLATERAL RISK. MOTION PASSED UNANIMOUSLY.

13) 529 Higher Education Savings Program - Update

Matt Clark reviewed the HESP Compliance Schedule and the report of assets in the CollegeAccess 529 Plan as of 6/30/23 was provided. Clark stated that the Program Management Agreement requires Council approval of the auditor for the program. The auditors must be a national auditing firm. VP Distributors, LLC has proposed PricewaterhouseCoopers as the auditor for the 529 plan for the year ending December 31, 2023. Clark noted PricewaterhouseCoopers' practice of rotating partners on the audit and recommended approval.

JOSH HAEDER MOVED, SECONDED BY KELLY MEINERS, TO APPROVE VP DISTRIBUTORS, LLC RECOMMENDATION OF PRICEWATERHOUSECOOPERS AS THE AUDITOR FOR COLLEGEACCESS 529 PLAN FOR THE YEAR ENDING DECEMBER 31, 2023. MOTION PASSED UNANIMOUSLY.

Clark reviewed investment option changes proposed by VP Distributors, LLC and Virtus Fund Advisers, LLC. He stated he reviewed the proposed changes and believes them to be reasonable. He recommends Council approval.

KELLY MEINERS MOVED, SECONDED BY STEVE PIETILA, TO APPROVE THE ASSET ALLOCATION AND FUND CHANGES TO THE COLLEGEACCESS 529 PLAN PROPOSED BY VP DISTRIBUTORS, LLC AND VIRTUS FUND ADVISOR, LLC 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.

The Investment Council recessed at 10:17 a.m. to meet with the LRC Executive Board Subcommittee on the Investment Council. General session reconvened at 11:53 a.m.

14) Limited Partnerships Review

MARY HOWARD MOVED, SECONDED BY JOSH HAEDER, 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 11:53 a.m. Staff remaining to participate in or facilitate the presentation and discussion included Matt Clark, Chris Nelson, John Richter, Darci Haug, Danielle Mourer, and Sarah Rust.

The Investment Council recessed at 12:29 p.m. for the Executive Board Meeting. General session reconvened at 2:21 p.m.

15) New/Old Business Agenda Items

No new or old business agenda items were introduced.

16) Future Meeting Dates

The next Investment Council meeting will be held in Sioux Falls on November 16, 2023.

17) Executive Board Meeting Review

The Council discussed the LRC Executive Board meeting. The Council's presentation included FY 2023 preliminary estimated investment performance and the Council's FY 2025 budget request, which the Executive Board approved.

18) Adjournment

Chair Loren Koepsell declared the meeting adjourned at 2:29 p.m.