

MINUTES

SOUTH DAKOTA INVESTMENT COUNCIL

Pierre, South Dakota

August 15, 2024

1) Roll Call

The meeting was called to order at 8 a.m. on August 15, 2024, by Chair Loren Koepsell. Council members in attendance were Travis Almond, Cathy Clark, Brock Greenfield, Josh Haeder, Loren Koepsell, Kelly Meiners, Taylor Thompson, and Steve Pietila.

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 Doug Fiddler, Jacque Storm, and Michelle Mikkelsen.

(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) Introduction of New Council Member

Chair Loren Koepsell welcomed Cathy Clark to the Investment Council. Ms. Clark was appointed by the LRC Executive Board for a five-year term on the Investment Council effective 7/1/2024.

3) Minutes

TAYLOR THOMPSON MOVED, SECONDED BY KELLY MEINERS, TO APPROVE THE MINUTES OF THE JUNE 13, 2024, INVESTMENT COUNCIL MEETING. MOTION PASSED UNANIMOUSLY.

4) Public Comment

There were no public comments.

5) CD Program 2024/2025

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. Clark recommended continuation of the program.

AGENDA ITEMS:

- 1) Roll Call
- 2) Introduction of New Council Member
- 3) Minutes
- 4) Public Comment
- 5) CD Program 2024/2025
- 6) 529 Higher Education Savings Program - Update
- 7) SDIC Shareholder Activism Report
- 8) Executive Board Meeting Review
- 9) BIT Cybersecurity Presentation (*deferred*)
- 10) Preliminary Estimated Investment Perf FY24 & Incentive Summary
- 11) Investment Update – FY 2025
- 12) Audit Committee Update
- 13) Compensation Committee Update
- 14) Council Subcommittee Appointments
- 15) Iran Divestiture Update
- 16) Internal Controls Review
- 17) Limited Partnerships Review
- 18) Quarterly Investment Update Discussion
- 19) Cash Flow Fund Guidelines Update
- 20) New/Old Business Agenda Items
- 21) Future Meeting Dates
- 22) Adjournment

STEVE PIETILA MOVED, SECONDED BY TRAVIS ALMOND, TO APPROVE THE SOUTH DAKOTA CASH FLOW FUND CERTIFICATE OF DEPOSIT PROGRAM FOR ONE-YEAR CDS TO MATURE SEPTEMBER 30, 2025, 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.

The Investment Council recessed at 8:12 a.m. to meet with the LRC Executive Board Subcommittee on the Investment Council and full LRC Executive Board. General session reconvened at 10:07 a.m.

6) 529 Higher Education Savings Program - Update

Matt Clark reviewed the CollegeAccess 529 Plan Summary of Shareholder Positions and Accounts as of 6/30/24 as well as the HESP Compliance Schedule. Clark stated that under the Program Management Agreement, each year Virtus is required to seek Council approval of their recommendation of auditor for the CollegeAccess 529 Plan. The auditor must be a nationally recognized firm. VP Distributors, LLC has proposed PricewaterhouseCoopers as the auditor for the 529 plan for the year ending December 31, 2024. Clark recommended approval.

KELLY MEINERS MOVED, SECONDED BY JOSH HAEDER, TO APPROVE VP DISTRIBUTORS, LLC RECOMMENDATION OF PRICEWATERHOUSECOOPERS AS THE AUDITOR FOR COLLEGEACCESS 529 PLAN FOR THE YEAR ENDING DECEMBER 31, 2024. MOTION PASSED UNANIMOUSLY.

Clark reviewed investment option changes proposed by VP Distributors, LLC and Virtus Fund Advisers, LLC. These changes included the addition of six funds and the removal of seven funds. Clark stated he reviewed the proposed changes and believes them to be reasonable. He recommended Council approval. There was Council discussion regarding any differences in fees between added and removed funds.

TAYLOR THOMPSON MOVED, SECONDED BY CATHY CLARK, TO APPROVE THE ASSET ALLOCATION AND FUND CHANGES TO THE COLLEGEACCESS 529 PLAN PROPOSED BY VP DISTRIBUTORS, LLC AND VIRTUS FUND ADVISORS, 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.

7) 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 11, 2024. The report will be posted on the Legislative Research Council's website and was provided to the Council.

8) Executive Board Meeting Review

The Council discussed the LRC Executive Board meeting that took place that morning. The Council's presentation included FY 2024 preliminary estimated investment performance and the Council's FY 2026 budget request, which the Executive Board approved.

9) BIT Cybersecurity Presentation

The BIT Cybersecurity Presentation was deferred to the November meeting.

10) Preliminary Estimated Investment Performance FY24 & Incentive Summary

Darci Haug and Danielle Mourer reviewed preliminary estimated investment performance for Fiscal Year 2024. 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, 2024, 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 FY2024 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.

Matt Clark reviewed the estimated summary of the earned incentives by Investment Council staff for FY 2024. 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.

11) Investment Update – FY 2025

Danielle Mourer noted there were no actions on prior motions to report. Mourer gave a report on the SDRS total fund performance for Fiscal Year 2025 to date. Darci Haug reported on distributions for the trust funds. Haug also provided an update for the Bristow investment.

12) Audit Committee Update

Steve Pietila, Chair of the Audit Committee, stated that the Department of Legislative Audit will be onsite the week of August 26 with Eide Bailly onsite the week of September 9. Pietila commended the accounting staff's response to the auditor's requests.

13) Compensation Committee Update

Loren Koepsell, Compensation Committee member, had nothing additional to report.

14) Council Subcommittee Appointments

Loren Koepsell reviewed the changes to the Investment Council subcommittees. Effective immediately, the Compensation Committee will include Steve Pietila as Chair, Loren Koepsell, and Kelly Meiners. The Audit Committee will include Kelly Meiners as Chair, Taylor Thompson, and Josh Haeder.

15) Iran Divestiture Update

Matt Clark reviewed a memo dated July 10, 2024, on the Iran Scrutinized Companies List. Staff recommended no changes.

16) Internal Controls Review

KELLY MEINERS MOVED, SECONDED BY STEVE PIETILA, 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) AND PER SDCL 1-25-2(6) TO DISCUSS ITEMS RELATING TO INTERNAL CONTROLS. 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.

17) Limited Partnerships Review

Executive Session continued for the Limited Partnerships Review by Chris Nelson.

18) Quarterly Investment Update Discussion

Executive Session continued for the Quarterly Investment Update Discussion by Darci Haug.

General session reconvened at 12:56 p.m.

19) Cash Flow Fund Guidelines Update

Matt Clark reviewed a memo dated August 1, 2024, regarding Cash Flow Fund Short Term Portfolio Guidelines. Clark discussed a change to the internal guidelines for the Cash Flow Fund which will permit a higher percentage to be invested in US Treasury securities.

20) New/Old Business Agenda Items

Matt Clark indicated he planned to review and seek approval, after meeting with the compensation committee, of stretch breakpoint schedules for newer investment staff at the November meeting.

21) Future Meeting Dates

The next Investment Council meeting will be held in Sioux Falls on November 14, 2024.

22) Adjournment

Chair Loren Koepsell declared the meeting adjourned at 1:01 p.m.