MINUTES

SOUTH DAKOTA INVESTMENT COUNCIL
June 5, 2025

1) Roll Call

AGENDA ITEMS:

1) Roll Call
2) Minutes 4/10/25
3) Public Comment
4) Board Conflict of Interest Disclosure
5) Loren Koepsell Acknowledgement
6) Iran Divestiture Update
7) 529 Higher Education Savings Plan Update
8) Virtus Update
9) SDRS Actuarial Update
10) Asset Allocation
11) Investment Update – FY 2025
12) Audit Committee Update
13) Compensation Committee Update
14) Investment Incentive Program Changes FY26
15) FY 2027 Budget Request
16) Election of Officers – FY 2026
17) Personnel Matters
18) New/Old Business Agenda Items
19) Future Meeting Dates
20) Adjournment

The meeting was called to order at 8:30 a.m. on June 5, 2025 by Chair Loren Koepsell. Council members in attendance were Travis Almond, Cathy Clark, Loren Koepsell, Kelly Meiners, Steve Pietila, and Taylor Thompson. Brock Greenfield and Josh Haeder were absent.

Others attending all or part of the meeting included Investment Council staff members Matt Clark, Tammy Otten, Sherry Nelson, Jan Zeeck, Darci Haug, Danielle Mourer, Jarrod Edelen, Anne Cipperley, Matthew Carey, Dan Elmer, Jake Wehde, Sami Rains, Lee Mielke, Taylor Elmer, Katie Eliason, John Richter, and Sarah Rust; SDRS staff members Jacque Storm, Doug Fiddler, and Michelle Mikkelsen; Derek Johnson and Owen Seibel from BFM; Brianna Neuhauser from DLA; Michael Sebesta and Heather Bergman from Virtus; and Chett Ellsworth.

(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) Minutes

TAYLOR THOMPSON MOVED, SECONDED BY KELLY MEINERS, TO APPROVE THE MINUTES OF THE APRIL 10, 2025 INVESTMENT COUNCIL MEETING. MOTION PASSED UNANIMOUSLY.

3) Public Comment

There were no public comments.

4) Board Conflict of Interest Disclosure

There were no conflicts of interest reported.

5) Loren Koepsell Acknowledgment

Loren Koepsell will be completing his service on the Investment Council effective June 30, 2025.

Matt Clark thanked Loren for his contributions to the Council and noted he is the longest serving appointed Council member in memory, serving three terms as Chair. A plaque was presented to Loren in recognition and appreciation of his outstanding service.

6) Iran Divestiture Update

Sami Rains reported that since the last Council meeting, Florida had not updated the list used to determine the South Dakota list of Iran scrutinized companies. As a result, staff recommended no changes to the current South Dakota scrutinized companies' list.

7) 529 Higher Education Savings Plan Update

Sherry Nelson reviewed the CollegeAccess 529 Plan summary of shareholder positions and accounts, the HESP Compliance Schedule, and minutes of the quarterly Virtus conference call. Matt Clark explained the succession plan for the 529 plan for when Sherry retires and announced Katie Eliason and Taylor Elmer as her successors.

8) Virtus Update

Michael Sebesta from Virtus Investment Partners provided a firm overview and Heather Bergman from Virtus Multi-Asset, Virtus Advisers, LLC explained their vision of the CollegeAccess 529 program. Included in their presentation was information on value, growth, and marketing strategies. Council discussion and questions regarding the ability to digitally transfer funds followed the presentation.

9) SDRS Actuarial Update

Doug Fiddler presented an update on the South Dakota Retirement System (SDRS). He provided a breakdown of SDRS membership as well as member/employer contributions and SDRS disbursements. He provided a comparison of annual benefits paid to South Dakota residents by county and annual benefits paid nationally by state, noting that benefits are paid in every state.

Fiddler outlined how the COLA is calculated and reviewed historical COLA ranges. He provided an overview of the current and historical inflation rates in comparison to SDRS COLAs for the last several years.

10) Asset Allocation

South Dakota Retirement System

Anne Cipperley discussed the Council's role in Asset Allocation to help meet the primary investment objective of achieving and exceeding over the long term the return of the Council's Capital Markets Benchmark. Charts of historic returns were shown noting the dominance of equity returns over the very long term and the diversification benefit during market downturns of mixing in some bonds. Cipperley also discussed the investment council staff's research and adjustments to standard measures of risk with a focus on downside risk. Statistical measures of risk, such as standard deviation and correlation, are adjusted to reflect higher real-world frequency and magnitude of adverse outlier events.

Darci Haug presented the recommended range for equity-like risk, bond-like risk, and cash-like risk. She said these levels attempt to balance the desire for long-term returns with tolerable drawdown risk during difficult periods. She added that the objective in selecting benchmark ranges is to attempt to outperform over time by having less equity-like risk exposure going into downturns and more exposure during recoveries.

Haug discussed equity-like and bond-like risk mapping for all asset categories. She discussed specific asset categories to be included in the benchmark which are those that are significant and passively implementable. She also discussed secondary categories which are not in the benchmark but have a permitted range. Haug presented the recommended FY2026 SDRS capital market benchmark allocations and minimum/maximum ranges for each asset category and compared to the benchmark allocations for prior years. The recommended benchmark and ranges were unchanged from the prior year.

Haug showed SDRS historical levels of equity-like allocation. She reviewed the asset allocation risk/return analysis. The first portion focused on long-term mean expected returns, expected standard deviations, and asset correlations provided by a leading investment bank asset management division as a proxy for conventional expectations. The incremental return and standard deviation impact of each asset class was shown. The analysis was shown again using internal asset category expected returns and internal adjusted risk measures.

Cipperley discussed additional risk measures and risk control. She reiterated that the focus is on equity-like risk and bond-like risk which includes embedded equity and bond risk for all categories. She discussed how risk is managed by broad diversification, reducing exposure to expensive asset categories and maintaining adequate liquidity to avoid liquidation of depressed assets in a crisis and to allow rebalancing back into cheap assets. She stated that participation in the economic system is necessary to get the highest long-term returns and that short-term ebbs and flows must be endured. She added that determination, strong funding, and a flexible benefit design are important to be able to handle tough markets.

Matthew Carey gave an overview of asset category valuation. He indicated that valuation of the Equity category is based on estimated future cash flows using normal earnings and growth rates and a risk impacted discount rate. Jarrod Edelen reviewed the process for normalizing earnings and invested capital and reviewed charts showing normal earnings back through time. He discussed normal growth and showed components of the expected equity return and measure of fair value back through time.

Jake Wehde discussed valuation of the bond category and showed the resulting valuation of the bond category back through time. He also discussed valuation of the real estate category. Dan

Elmer discussed valuation of the high yield debt category. He discussed enhancements to the discount rate process and showed a chart including valuation of all the discussed asset categories back through time.

Danielle Mourer discussed the plan for adjusting allocations within permitted ranges based on valuation. She showed the asset allocation exposure monitor tool used to track allocations versus targets and limits and rebalancing thresholds. A matrix was shown indicating the process for tracking of valuations versus thresholds where allocation changes are triggered.

Haug discussed the flurry of asset allocation changes during 2020 to illustrate implementation of the process. Haug and Mourer concluded with a discussion of evolution of implementation of the asset allocation process over time.

Trust Funds

Danielle Mourer and Darci Haug discussed asset allocation for the four trust funds: Dakota Cement Trust, Healthcare Trust, Education Enhancement Trust, and School and Public Lands Trust. The presentation reviewed the establishment of each fund, the Constitution and laws that direct the investment of the assets, and the annual distribution calculation.

The asset allocation analysis was reviewed which showed the long-term mean expected return and standard deviation for each fund. The analysis used the standard deviations and correlations with fat-tail adjustments. The expected return and standard deviation compared to select prior year benchmark allocations were shown.

There were no changes to the recommended benchmark for FY26.

STEVE PIETILA MOVED, SECONDED BY CATHY CLARK, TO APPROVE THE FISCAL YEAR 2026 CAPITAL MARKETS BENCHMARK WEIGHTS, INDEXES, EQUITY-LIKE RISK, AND MAXIMUM/MINIMUM RANGES FOR THE SOUTH DAKOTA RETIREMENT SYSTEM AS PRESENTED. MOTION PASSED UNANIMOUSLY.

KELLY MEINERS MOVED, SECONDED BY TRAVIS ALMOND, TO APPROVE THE FISCAL YEAR 2026 CAPITAL MARKETS BENCHMARK WEIGHTS, INDEXES, EQUITY-LIKE RISK, AND MAXIMUM/MINIMUM RANGES FOR THE DAKOTA CEMENT TRUST, HEALTH CARE TRUST, EDUCATION ENHANCEMENT TRUST, AND SCHOOL & PUBLIC LANDS AS PRESENTED. MOTION PASSED UNANIMOUSLY.

CATHY CLARK MOVED, SECONDED BY TRAVIS ALMOND, TO APPROVE THAT ASSET ALLOCATION ADJUSTMENTS MAY BE IMPLEMENTED IN THE CASH MARKETS AND/OR FINANCIAL DERIVATIVES, INCLUDING INDEX-BASED FUTURES, EXCHANGE TRADED FUNDS, OR OPTIONS. MOTION PASSED UNANIMOUSLY.

11) <u>Investment Update – FY 2025</u>

Danielle Mourer reported the estimated fiscal year-to-date return of the SDRS portfolio. She reviewed the upcoming distributions and contributions for the trust funds. She noted there were no finalized motions and resulting actions to report. Mourer also provided an update on Bristow.

Darci Haug provided an overview of investments in partnership funds. Jan Zeeck discussed fiscal year-to-date performance of the equity portfolios. Jarrod Edelen and Anne Cipperley provided an update on Small Midcap and High Yield, respectively.

Sami Rains provided clarification on an email that was sent to the Board previously regarding the new accounting system and transactions reports.

12) Audit Committee Update

Kelly Meiners, Chair of the Audit Committee, reported that he received the audit report from the Department of Legislative Audit and there were no exceptions.

13) Compensation Committee Update

Steve Pietila, Chair of the Compensation Committee, reviewed a letter that was sent to the Executive Board via the LRC regarding the State Investment Officer's compensation. He reported that the Chair had suggested to the Executive Board that they pull the 1.5% portion of the recommended increase due to continued economic/market weakness concerns. It was reported that the Executive Board approved the adjusted recommended compensation for the State Investment Officer for FY 2026 at their May 7, 2025 meeting.

14) Investment Incentive Program Changes FY 2026

Matt Clark reviewed two memorandums dated May 13, 2025 and May 14, 2025 that were provided to the Council. These memorandums detailed incentive plan changes for FY 2026 payable in FY 2027 for two investment team members who will begin managing portfolios on July 1.

STEVE PIETILA MOVED, SECONDED BY KELLY MEINERS, TO APPROVE THE INCENTIVE PLAN CHANGES AS PRESENTED TODAY AND DETAILED IN THE MEMORANDUMS DATED MAY 13, 2025 AND MAY 14, 2025 DETAILING THE FY 2026 INVESTMENT PERFORMANCE INCENTIVE PLAN CHANGES FOR THE RESEARCH ANALYST-GLOBAL EQUITY AND THE RESEARCH ANALYST-HIGH YIELD, RESPECTIVELY. MOTION PASSED UNANIMOUSLY.

15) FY 2027 Budget Request

Matt Clark reviewed the FY 2025 budget authorization received versus actual expenditures estimated through the rest of the fiscal year. He discussed the areas that made up the unexpended budget.

Clark reviewed the budget request for FY 2027 and the unit cost summary. He noted that the budget that will be submitted to the Executive Board, Governor/BFM, and Appropriations will not include salary policy, as a general salary policy for the state will be applied at the end of the process. To reflect a total picture of expenditures, the unit cost summary does include an assumed salary policy. Clark noted that the unit cost summary also includes the long-term plan forecast for FY28.

Clark reviewed the personal services and operating portions of the FY 2027 budget request. He discussed the changes proposed in the contractual budget for investment and administrative services. He discussed the changes among investment research services and investment databases. No changes were proposed for travel, office supplies, or capital assets.

TAYLOR THOMPSON MOVED, SECONDED BY TRAVIS ALMOND, TO APPROVE THE FISCAL YEAR 2027 BUDGET REQUEST AS PRESENTED, WITH POTENTIAL MODEST ADJUSTMENTS TO BENEFITS CALCULATIONS ACCORDING TO THE BUREAU OF FINANCE AND MANAGEMENT. MOTION PASSED UNANIMOUSLY.

16) Election of Officers – FY 2026

KELLY MEINERS MOVED, SECONDED BY CATHY CLARK, TO ELECT STEVE PIETILA AS CHAIR OF THE INVESTMENT COUNCIL FOR FISCAL YEAR 2026. MOTION PASSED UNANIMOUSLY.

CATHY CLARK MOVED, SECONDED BY TRAVIS ALMOND, TO ELECT KELLY MEINERS AS VICE CHAIR OF THE INVESTMENT COUNCIL FOR FISCAL YEAR 2026. MOTION PASSED UNANIMOUSLY.

17) Personnel Matters

KELLY MEINERS MOVED, SECONDED BY CATHY CLARK, TO GO INTO EXECUTIVE SESSION PURSUANT TO SDCL 1-25-2(1) TO DISCUSS ITEMS RELATING TO PERSONNEL MATTERS. MOTION PASSED UNANIMOUSLY.

The Council went into executive session at 2:57 p.m. to discuss items relating to personnel matters. Staff remaining to participate in or facilitate the discussion included Matt Clark, John Richter, and Sarah Rust.

Open session reconvened at 4:50 p.m.

KELLY MEINERS MOVED, SECONDED BY TRAVIS ALMOND, THAT THE STATE INVESTMENT OFFICER IN CONJUNCTION WITH THE INCOMING CHAIR ENTER INTO AN MOU WITH BHRA TO ASSIST WITH PERSONNEL MATTERS AND MAKE RECOMMENDATIONS. MOTION PASSED UNANIMOUSLY.

18) New/Old Business Agenda Items

No new/old business agenda items were discussed.

19) Future Meeting Dates

The next Investment Council meeting will be held on August 12, 2025 in Pierre.

20) Adjournment

Chair Koepsell declared the meeting adjourned at 4:52 p.m.