

MINUTES

SOUTH DAKOTA INVESTMENT COUNCIL Pierre, South Dakota August 28, 2017

1) Roll Call

The meeting was called to order at 8 a.m. on August 28, 2017 by Chair Steve Kirby. Council members in attendance were Paul Bisson, Lorin Brass, Ryan Brunner, Steve Kirby, Loren Koepsell, Jeff Nelson, Rich Sattgast, and Rob Wylie.

Others attending all or part of the meeting included Matt Clark, Brett Fligge, Jeff Hallem, Chris Nelson, Tammy Otten, and Laurie Riss from the Investment Office; and Mark Quasney from the Bureau of Finance and Management.

(Note: For sake of continuity, the following minutes are not necessarily in chronological order. Documents referenced are on file in the Investment Office, and public access is subject to the provisions of SDCL 1-27.)

2) Introduction of New Council Member-Paul Bisson

Chair Kirby welcomed Paul Bisson to the Investment Council. Mr. Bisson is from Sturgis and recently retired after a long career with Wells Fargo. He was appointed by the LRC Executive Board for a five-year term on the Investment Council effective 7/1/2017.

3) Minutes

JEFF NELSON MOVED, SECONDED BY RICH SATTGAST, TO APPROVE THE MINUTES OF THE JUNE 14 AND 15, 2017 INVESTMENT COUNCIL MEETING. MOTION PASSED UNANIMOUSLY.

4) Preview of Investment Performance & Incentive Summary

Matt Clark presented the investment performance results for the fiscal year ended June 30, 2017. He reviewed the portfolio performance attribution of the South Dakota Retirement System relative to the capital markets benchmark.

Clark reviewed the summary of the earned incentives by Investment Council staff for FY 2017 and described the support staff incentive program which is funded from the earned incentives. He provided details of the State Investment Officer's incentive which will be presented to the Executive Board of the LRC. He noted that the incentives would be paid following completion of the audit.

The Investment Council recessed at 8:15 a.m. to meet with the LRC Executive Board Subcommittee on the Investment Council, followed by the presentation to the full Executive Board at 9:35 a.m. General session reconvened at 11:15 a.m.

AGENDA ITEMS:

- 1) Roll Call
- 2) Introduction of New Council Member Paul Bisson
- 3) Minutes
- 4) Preview of Investment Performance & Incentive Summary
- 5) Executive Board Meeting Review
- 6) Introduction of New Council Member Loren Koepsell
- 7) Investment Performance – FY 2017
- 8) Brookfield Strategic Real Estate Partners III
- 9) Private Equity/Real Estate Limited Partnerships Review & Brookfield Investment
- 10) Investment Update – FY 2018
- 11) Iran Divestiture – Update
- 12) SDIC Shareholder Activism Policy (Sudan)
- 13) Audit Committee Update
- 14) Compensation Committee Update
- 15) Subcommittee Appointments
- 16) Supplemental Retirement Plan 457 Investment Options Update
- 17) CD Program 2017/2018
- 18) Higher Education Savings Program – Update
- 19) New/Old Business Agenda Items
- 20) Future Meeting Dates
- 21) Investment Officer Performance Evaluation Executive Session
- 22) Adjournment

5) Executive Board Meeting Review

The Council discussed the LRC Executive Board meeting which just concluded. The Council's presentation included FY 2017 investment performance, details on the State Investment Officer's earned incentive, and the Council's FY 2019 budget request, which the Executive Board approved. It was noted that the Executive Board appointed a new Council member to fill the vacancy due to Laura McNally's resignation.

6) Introduction of New Council Member-Loren Koepsell

Chair Kirby welcomed Loren Koepsell to the Investment Council. Mr. Koepsell was appointed by the LRC Executive Board for a term to begin immediately through 6/30/20. Mr. Koepsell is from Sioux Falls and is currently a professor at Augustana University and previously was the CFO for Lloyd Properties.

7) Investment Performance Presentation – FY 2017

Tammy Otten reviewed investment performance for Fiscal Year 2017. 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 Capital Markets Benchmark were provided.

A comparison of the actual asset allocation as of June 30, 2017 to the CMB was provided. The permissible range for each asset class was also reviewed.

The return attribution analysis of the SDRS net return relative to the CMB was reviewed. The analysis details differences in performance resulting from the return within each asset category versus the market index for that category and the impact of asset allocation which results from utilizing different allocations to asset categories than the CMB. The cumulative impact of the sources of added or detracted value was shown by year and cumulatively since fiscal year 1999 when this detailed level of analysis began to be calculated for all asset categories.

A table was provided that compared the annualized returns for the last 10 years to public pension universes.

Otten reviewed exhibits focused on major individual asset categories comparing the returns earned from each category to the respective benchmark for FY2017 and historical periods.

Otten then presented the return and attribution analysis versus benchmarks for each of the four trust funds.

8) Brookfield Strategic Real Estate Partners III

Brian Kingston, Senior Managing Partner and CEO of Brookfield Property Group, and Chris Harris, Senior Vice President, joined the Council to present their firm and discuss Brookfield Strategic Real Estate Partners III. An exhibit showing Brookfield's history was reviewed which focused on their track record of acquiring prime companies and assets and their expansion into real estate and infrastructure in the 1980s, followed by their launch into investing in real estate assets on behalf of third party investors in 2001.

Brian Kingston provided an overview of Brookfield's assets under management. He emphasized their global on-the-ground presence and operating capabilities which enable them to drive returns throughout real estate market cycles. He discussed the amount of equity they have put to work in the last decade through their five multi-sector opportunistic real estate funds. He reviewed their organizational structure, with the investment teams organized regionally and portfolio management teams organized by sector.

Kingston reviewed Brookfield's investment approach of acquiring high-quality assets, investing on a value basis, and enhancing value through operations. He described their approach to implementing their opportunistic investment strategy and their general sense of target levels for investment allocations. He noted Brookfield's competitive advantages include building businesses, leveraging operational expertise, multi-faceted transactions, and contrarian investments.

Kingston reviewed several of their real estate investments providing details on the acquisition, operational improvements, restructurings, and exit strategy for each.

LORIN BRASS MOVED, SECONDED BY JEFF NELSON, TO GO INTO EXECUTIVE SESSION PER SDCL 1-25-10 FOR THE PURPOSE OF DISCUSSING BROOKFIELD INFORMATION CONTAINING FINANCIAL AND COMMERCIAL INFORMATION THAT IS CONFIDENTIAL UNDER SDCL 1-27-1.6(5). MOTION PASSED UNANIMOUSLY.

The Council went into executive session at 1 p.m. and general session reconvened at 1:25 p.m.

Chris Harris reviewed the fund offering, investment strategy and opportunities for Brookfield Strategic Real Estate Partners III. He discussed the target size of the fund, the level of capital committed by Brookfield employees, and the number of limited partners in the fund.

Chair Kirby thanked Brookfield for their presentation. Discussion continued under the next agenda item.

9) Private Equity/Real Estate Limited Partnerships Review & Brookfield Investment

Chris Nelson reviewed the current overall exposures to private equity and real estate. He reviewed each limited partnership, their focus, and their projected investment level for the next few years. Clark added his thoughts on current and future investment levels for private equity and real estate.

Clark discussed the Brookfield investment and staff's recommendation of an investment of up to \$100 million for SDRS. Nelson discussed the current levels of private equity exposure in the trust funds and noted that the Brookfield investment would involve SDRS only for this first investment with them.

Council discussion continued on the level of Brookfield's own investment in their fund, the fee breakpoint levels, the investment period and return of investment timeframe.

LORIN BRASS MOVED, SECONDED BY RYAN BRUNNER, TO AUTHORIZE THE STATE INVESTMENT OFFICER TO INVEST UP TO \$100 MILLION FOR THE SOUTH DAKOTA RETIREMENT SYSTEM IN BROOKFIELD STRATEGIC REAL ESTATE PARTNERS III. MOTION PASSED UNANIMOUSLY.

10) Investment Update – FY 2018

Otten reviewed the Motions and Actions report that summarized the motions from the prior Council meeting and the resulting staff actions. She gave a report on the SDRS total fund performance for Fiscal Year 2018 to date.

11) Iran Divestiture – Update

Otten reviewed a memo dated August 4, 2017 on the Iran Scrutinized Companies List. Staff recommended that two companies be added to the Council's list to reflect changes in the Colorado and Florida public lists.

JEFF NELSON MOVED, SECONDED BY RICH SATTGAST, TO APPROVE THE CHANGES TO THE IRAN SCRUTINIZED COMPANIES LIST AS PRESENTED. MOTION PASSED UNANIMOUSLY.

12) SDIC Shareholder Activism Policy (Sudan) – Update

Otten confirmed the Council received a copy of the Shareholder Activism Policy report provided to the Legislative Research Council as required by law. Included was a memo outlining compliance with the policy, a copy of the policy, and an updated Sudan company list. There were no recommended changes to the policy.

13) Audit Committee Update

Lorin Brass, Chair of the Audit Committee, reported on the pre-audit conference meeting with the Audit Committee and Ashlee Keyes of the Department of Legislative Audit on June 15, 2017 and a follow-up call with the Auditor General. Audit Committee member Jeff Nelson provided additional details of the call and member Rich Sattgast added that the discussions provided a broader view of the audit process. Brass stated that the auditors were starting their on-site audit today. He noted that DLA will provide the letter confirming the calculations of the incentive program toward the end of September.

14) Compensation Committee Update

Steve Kirby, Chair of the Compensation Committee, noted that the incentive summary was reviewed under agenda item #4, and there were no other issues to bring before the Council.

15) Subcommittee Appointments

Steve Kirby reviewed the changes to the Investment Council subcommittees. Effective immediately, the Compensation Committee will include Lorin Brass as Chair, Steve Kirby and Loren Koepsell. Following the completion of the audit in the next few weeks, the members of the Audit Committee will include Jeff Nelson as Chair, Loren Koepsell and Rich Sattgast.

16) Supplemental Retirement Plan 457 – Investment Options Update

Matt Clark presented the summary of the Supplemental Retirement Plan Analysis for the period ended June 30, 2017. The report, prepared by Sherry Nelson, included a write-up of each investment option. He stated that the analysis update did not suggest a need for any changes to the fund lineup.

Clark noted that, although the Investment Officer is responsible by law for choosing the investment options, this review is provided to the Investment Council and the SDRS Retirement Board for potential input and feedback.

17) CD Program 2017/2018

Matt Clark reviewed the memorandum on the CD Program which included a history of the program and detailed information for this 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.

RICH SATTGAST MOVED, SECONDED BY JEFF NELSON, TO APPROVE THE SOUTH DAKOTA CASH FLOW FUND CERTIFICATE OF DEPOSIT PROGRAM FOR ONE-YEAR CD'S TO MATURE 9/28/18, 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 AN ADDITIONAL .25% FOR LIQUIDITY AND COLLATERAL RISK. MOTION PASSED UNANIMOUSLY.

18) Higher Education Savings Program - Update

Matt Clark reviewed the report of assets in the CollegeAccess 529 Plan as of 7/31/17. The minutes of the quarterly conference call with Allianz and the compliance schedule were provided. Clark noted that Allianz provided the scholarship money to the Dakota Corps Scholarship Program in July and that the amount will be lower next year due to Michigan no longer being part of the program.

19) New/Old Business Agenda Items

There were no new or old agenda items brought before the Council.

20) Future Meeting Dates

The next Investment Council meeting will be held in Sioux Falls on November 16, 2017. (Date was revised after Council meeting from the previously scheduled 11/14/17).

21) Investment Officer Performance Evaluation – Executive Session

RYAN BRUNNER MOVED, SECONDED BY RICH SATTGAST, TO GO INTO EXECUTIVE SESSION PER SDCL 1-25-2(1) FOR THE PURPOSE OF THE STATE INVESTMENT OFFICER'S PERFORMANCE EVALUATION. MOTION PASSED UNANIMOUSLY.

The Council went into executive session at 2:55 p.m. and general session reconvened at 3:30 p.m.

22) Adjournment

Chair Kirby declared the meeting adjourned at 3:30 p.m.