

# MINUTES

## SOUTH DAKOTA INVESTMENT COUNCIL Sioux Falls, South Dakota November 16, 2017

### 1) Roll Call

The meeting was called to order at 8 a.m. on November 16, 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, Tammy Otten, Chris Nelson, Sherry Nelson, Jarrod Edelen, Darci Haug, Candi Currier, Randy Spinar, Scott Hess, Dan Elmer, Makenzie Smook, Anne Cipperley, Danielle Mourer, Ross Sandine, Zach Nipp, Lesyk Voznyuk, and Laurie Riss from the Investment Office; and Travis Almond, Jane Beers and Michelle Mikkelsen from the South Dakota Retirement System.

(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.)

#### AGENDA ITEMS:

- 1) Roll Call
- 2) Minutes
- 3) SDIC FY 2017 Annual Report
- 4) Iran Divestiture - Update
- 5) Investment Update – FY 2018
- 6) Internal Equity Modeling Process  
Small/MidCap & Global Eq presentations
- 7) Small/MidCap & HY Team Structures
- 8) Higher Education Savings Program
- 9) CD Program Review
- 10) Audit Committee Update
- 11) Compensation Committee Update
- 12) Succession Plan Review
- 13) Investment Council Policies
- 14) New/Old Business
- 15) Future Meeting Dates
- 16) Adjournment

### 2) Minutes

LORIN BRASS MOVED, SECONDED BY RYAN BRUNNER, TO APPROVE THE MINUTES OF THE AUGUST 28, 2017 INVESTMENT COUNCIL MEETING. MOTION PASSED UNANIMOUSLY.

### 3) SDIC FY 2017 Annual Report

The Council received a printed copy of the SDIC FY 2017 Annual Report. There were no major format changes from last year's report. Tammy Otten introduced the Investment Accountants responsible for compiling, generating, and formatting the report. She noted that the report is printed, bound and distributed by the Assistant Business Manager.

Matt Clark highlighted the Transmittal Letter and specific sections of the report. He noted that the annual report and audit report are posted on the SDIC website.

The Council Chair expressed appreciation for a high-quality product distributed throughout the state.

### 4) Iran Divestiture – Update

Otten discussed the Iran Scrutinized Companies List memo dated November 1, 2017 that had been previously provided to the Council. Staff recommended no changes to the current South Dakota Iran scrutinized companies list. The annual report on Iran divestiture will be distributed to the Executive Board of the Legislature in January as required by law.

5) Investment Update – FY 2018

Otten updated the Council on the estimated fair value and fiscal year to date investment return of the various funds under management as of October 31 and November 14, 2017.

JEFF NELSON MOVED, SECONDED BY RICH SATTGAST 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.

Staff remaining to participate and/or facilitate the discussion included Matt Clark, Tammy Otten, Chris Nelson and Laurie Riss.

The Council went into executive session at 8:10 a.m. and general session reconvened at 8:25 a.m.

6) Internal Equity Modeling Process

***Small/MidCap Equity – Housing Sector***

Matt Clark introduced Jarrod Edelen and Darci Haug from the Small/MidCap team and noted their presentation would include a review of the internal equity modeling process with a focus on the housing sector.

ROB WYLIE MOVED, SECONDED BY PAUL BISSON, TO GO INTO EXECUTIVE SESSION PER SDCL 1-25-10 FOR THE PURPOSE OF RECEIVING AND DISCUSSING INVESTMENT STRATEGY AND RESEARCH INFORMATION THAT IS CONFIDENTIAL UNDER SDCL 1-27-1.6(5). MOTION PASSED UNANIMOUSLY.

Staff remaining to participate and/or facilitate the presentation and discussion included Jarrod Edelen, Darci Haug, Matt Clark and Laurie Riss.

The Council went into executive session at 8:43 a.m. and general session reconvened at 9:57 a.m.

***Global Equity – Energy Sector***

Clark introduced Candi Currier and Randy Spinar from the Global Equity team and noted their presentation would include the internal equity modeling process with a focus on the energy sector.

RICH SATTGAST MOVED, SECONDED BY PAUL BISSON, TO GO INTO EXECUTIVE SESSION PER SDCL 1-25-10 FOR THE PURPOSE OF RECEIVING AND DISCUSSING INVESTMENT STRATEGY AND RESEARCH INFORMATION THAT IS CONFIDENTIAL UNDER SDCL 1-27-1.6(5). MOTION PASSED UNANIMOUSLY.

Staff remaining to participate and/or facilitate the presentation and discussion included Candi Currier, Randy Spinar, Matt Clark and Laurie Riss.

The Council went into executive session at 10:15 a.m. and general session reconvened at 11:25 a.m.

7) Small/MidCap & High Yield Team Structures

Clark noted that the team members from internal Small/MidCap and High Yield were joining the Council to discuss their team structures, areas of focus and portfolio valuations.

PAUL BISSON MOVED, SECONDED BY JEFF NELSON, TO GO INTO EXECUTIVE SESSION PER SDCL 1-25-10 FOR THE PURPOSE OF RECEIVING AND DISCUSSING INVESTMENT STRATEGY INFORMATION THAT IS CONFIDENTIAL UNDER SDCL 1-27-1.6(5). MOTION PASSED UNANIMOUSLY.

Staff remaining to participate and/or facilitate the presentations and discussions included Matt Clark, Laurie Riss, and Small/Mid Cap or High Yield team members for their respective portions.

The Council went into executive session at 11:25 a.m. and general session reconvened at 11:55 a.m.

Several Small/MidCap Equity and High Yield team members joined the Council to discuss employee training and the Chartered Financial Analyst (CFA) program. Makenzie Smook and Dan Elmer described the equity research analyst and portfolio management training processes. Anne Cipperley discussed the high yield portfolio manager training process. Zach Nipp, Dan Elmer, Lesyk Voznyuk, and Makenzie Smook discussed the structure of the several-year CFA program to earn the CFA designation. They discussed the material covered in the exams and the time commitment dedicated each year to preparing for the exams.

8) Higher Educations Savings Program

Sherry Nelson reviewed the Higher Education Savings Plan summary of accounts, the quarterly compliance schedule, and the minutes of the Allianz third quarter conference call that had previously been provided to the Council. She also reviewed a letter from Allianz which reviewed the changes implemented in February of 2016, program performance for 2017, and their proposed asset allocation changes for 2018.

The improved rating of the program by Morningstar and efforts to streamline the program and lower fees were discussed.

Nelson noted that the Program Management Agreement requires Council approval of the auditor selected by Allianz.

JEFF NELSON MOVED, SECONDED BY LOREN KOEPEL, TO APPROVE ALLIANZ GLOBAL INVESTORS' RECOMMENDATION OF PRICEWATERHOUSECOOPERS AS THE AUDITOR FOR THE COLLEGEACCESS 529 PLAN FOR THE YEAR ENDING DECEMBER 31, 2017. MOTION PASSED UNANIMOUSLY.

RICH SATTGAST MOVED, SECONDED BY LORIN BRASS, TO APPROVE THE ASSET ALLOCATION CHANGES TO THE COLLEGEACCESS 529 PLAN PROPOSED BY ALLIANZ GLOBAL INVESTORS 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.

9) CD Program Review

Sherry Nelson reviewed her memo summarizing the results of the 2017/2018 CD Program, including the CD rate calculation details and total program size. The summary also included a

listing of the participating South Dakota financial institutions along with the amounts offered and accepted for each. Statistical history of the CD program was also provided.

10) Audit Committee Update

Lorin Brass, Chair of the Audit Committee, stated the FY2017 audit was complete and no audit findings were noted. He added that with the conclusion of the FY2017 audit, Jeff Nelson would be taking over as Chair of the Audit Committee.

Jeff Nelson discussed with the Council the engagement letter with Legislative Audit for the quarterly Agreed Upon Procedures and outlined the changes made to the AUP engagement. He noted that he and Matt Clark have signed the new AUP letter.

11) Compensation Committee Update

There was no report from the Compensation Committee at this time.

12) Succession Plan Review

Matt Clark reviewed the State Investment Officer Succession Plan which would be implemented upon the normal retirement of the State Investment Officer or under an emergency situation. He reviewed the proposed updates to the plan, and the Council discussed the procedures outlined in the plan.

PAUL BISSON MOVED, SECONDED BY RYAN BRUNNER, TO APPROVE THE UPDATED STATE INVESTMENT OFFICER SUCCESSION PLAN. MOTION PASSED UNANIMOUSLY.

Clark discussed leadership development that has taken place so far, as well as his thoughts on development of younger and mid-level staff going forward. He discussed the near-term and long-term succession planning for other senior staff in different areas, including primarily asset allocation and limited partnerships. The transition for legal counsel was also discussed.

13) Investment Council Policies

***Mission Statement***

Matt Clark discussed a modest change to the mission statement.

LOREN KOEPEL MOVED, SECONDED BY PAUL BISSON, TO APPROVE THE UPDATED MISSION STATEMENT. MOTION PASSED UNANIMOUSLY.

***Council Member/Meeting Policies***

Matt Clark noted that the Council previously received several updated Council member/meeting policies, including the Audit Committee Charter, Compensation Committee Charter, Council Attendance Policy, Council Voting & Proxies Policy, and Council Member Compensation.

LORIN BRASS MOVED, SECONDED BY RICH SATTGAST, TO APPROVE THE UPDATED AUDIT COMMITTEE CHARTER, COMPENSATION CHARTER, COUNCIL ATTENDANCE POLICY, COUNCIL VOTING & PROXIES POLICY AND COUNCIL MEMBER COMPENSATION. MOTION PASSED UNANIMOUSLY.

### ***Investment Policies***

Matt Clark & Tammy Otten highlighted the proposed changes to the investment policies for the South Dakota Retirement System, Trust Funds and Cash Flow Fund. Council discussion followed.

RICH SATTGAST MOVED, SECONDED BY RYAN BRUNNER, TO APPROVE THE UPDATED INVESTMENT POLICIES FOR THE INVESTMENT ASSETS OF THE SOUTH DAKOTA RETIREMENT SYSTEM, THE DAKOTA CEMENT TRUST FUND, THE EDUCATION ENHANCEMENT TRUST FUND, THE HEALTH CARE TRUST FUND, THE SCHOOL & PUBLIC LANDS FUND, AND THE CASH FLOW FUND. MOTION PASSED UNANIMOUSLY.

### ***Pre-Authorized Co-Investment Policy, and External Manager Hire/Terminate/Rebalance Authorization Policy***

RYAN BRUNNER MOVED, SECONDED BY ROB WYLIE, TO GO INTO EXECUTIVE SESSION PER SDCL 1-25-10 FOR THE PURPOSE OF RECEIVING AND DISCUSSING INVESTMENT STRATEGIES AND POLICIES THAT ARE CONFIDENTIAL UNDER SDCL 1-27-1.6(5). MOTION PASSED UNANIMOUSLY.

Staff remaining to participate in and/or facilitate the discussion included Matt Clark, Tammy Otten, Chris Nelson and Laurie Riss.

The Council went into executive session at 1:35 p.m. and general session reconvened at 1:50 p.m.

RYAN BRUNNER MOVED, SECONDED BY PAUL BISSON, TO APPROVE THE UPDATED PRE-AUTHORIZED CO-INVESTMENT POLICY AND THE EXTERNAL MANAGER HIRE/TERMINATE/REBALANCE AUTHORIZATION POLICY. MOTION PASSED UNANIMOUSLY.

#### 14) New/Old Business

Matt Clark discussed open meeting and executive session laws and how they relate to public disclosure laws for the Council and implications for the structure of Council meetings. Clark indicated staff would be putting together a summary of these issues for the Council to have available for their reference.

#### 15) Future Meeting Dates

The next meeting of the Investment Council will be held by conference call on February 1, 2017 (subsequently changed to January 29, 2018).

#### 16) Adjournment

Chair Kirby declared the meeting adjourned at 2 p.m.