

Proposed Policy Changes

MISSION STATEMENT

Current:

The mission of the South Dakota Investment Council is to prudently manage all funds and monies entrusted to it.

Proposed:

The mission of the South Dakota Investment Council is to prudently manage all investment assets entrusted to it by the State of South Dakota.

SOUTH DAKOTA INVESTMENT COUNCIL

AUDIT COMMITTEE CHARTER

MISSION

The mission of the Audit Committee is to oversee the audit engagement, review the financial statements, and assess adequacy of internal controls.

COMPOSITION

The Audit Committee shall consist of at least three of the eight voting members of the South Dakota Investment Council. Audit Committee members and Committee Chair are appointed annually by the Council Chair.

SCOPE

The audits overseen relate to the investment assets of the Cash Flow Fund, Dakota Cement Trust, Education Enhancement Trust, Healthcare Trust and School & Public Lands. The internal control assessments relate to all funds under management, which includes the investment assets of the South Dakota Retirement System (SDRS).

RESPONSIBILITIES

1. Meet with the Department of Legislative Audit for opening conference to review and approve the annual audit engagement. The Audit Committee Chair and management sign the engagement letter. The Audit Committee Chair, management, and legal counsel sign respective representation letters.
2. Discuss issues identified during audit process affecting the annual financial statements or the calculation of investment performance incentives.
3. Review Audit Report and present to the Council.
4. Establish and take responsibility for selecting the criteria for the quarterly agreed upon procedures engagement (first three quarters of the fiscal year) performed by Legislative Audit and discuss any findings. The Audit Committee Chair and management sign the engagement letter.
5. Review Fraud Risk Assessment.
6. Review investment related sections of SDRS audit prepared under the direction of and for the SDRS Board of Trustees.
7. Request additional information as needed.

RELEVANT LAWS

SDCL 4-5-35. Post-audit of investment transactions – Annual report of auditor-general. The state auditor-general shall be responsible for conducting a continuous post-audit of the investment transactions of the state, and shall submit annually a special report on his findings to the state investment council and to the appropriate legislative committee.

SDCL 4-11-2. Annual audit of state accounts—Scope. The Department of Legislative Audit shall perform an annual financial and compliance audit of the State of South Dakota in accordance with generally accepted government auditing standards. The scope of the audit shall include all state officers, departments, agencies, boards, commissions, penal, charitable, and educational institutions, and all regulatory boards and commissions receiving funds by appropriation or that expend funds pursuant to state law. In addition, the Department of Legislative Audit may perform financial and compliance audits of individual state officers, departments, agencies, boards, commissions, penal, charitable, and educational institutions, and all regulatory boards and commissions receiving funds by appropriation or that expend funds pursuant to state law, if deemed necessary and in the public interest by the auditor-general.

SOUTH DAKOTA INVESTMENT COUNCIL
COMPENSATION COMMITTEE CHARTER

MISSION

The Compensation Committee's mission is to review and recommend compensation methodologies to facilitate the South Dakota Investment Council's long-term business plan to create, build and maintain a strong, high-quality internal investment team to manage South Dakota's financial assets.

COMPOSITION

The Compensation Committee (Committee) shall consist of at least three of the eight voting members of the South Dakota Investment Council (Council). Membership shall include the Chair of the Council and/or Vice Chair of the Council and at least one other Council member. Committee members and Committee Chair are appointed annually by the Council Chair.

GOVERNANCE

Committee meetings will be held when deemed necessary by the Committee Chair and/or the State Investment Officer. The Committee Chair will approve the meeting agenda. In the Chair's absence, the designated Vice Chair shall run the meeting. All Committee recommendations must be approved by a majority of the Committee in order to be brought before the Council for ratification. The Council must approve the Committee's recommendations before they take effect.

RESPONSIBILITIES

The Compensation Committee shall:

1. Evaluate periodically internal equity and external competitiveness of compensation programs and recommend changes to the full Council as appropriate. External data and advisors may be used as deemed appropriate.
2. Recommend the State Investment Officer's base salary and the performance incentive compensation plan to the full Council to form a recommendation to present to the LRC Executive Board.
3. Review with the State Investment Officer, the application of the compensation methodology to determine compensation for other investment staff.

The term "Compensation" shall be construed comprehensively including, by way of example, but not by way of limitation, salary, any supplemental payments, incentive payments, bonuses or compensation, or benefits in other forms, which are determined to be internally equitable and externally competitive.

Adopted 11/1/2001
Amended 2/5/2002, 12/9/14
Amended 11/16/17

SOUTH DAKOTA INVESTMENT COUNCIL

ATTENDANCE POLICY

The South Dakota Investment Council (Council) has fiduciary responsibility for the prudent management of the investment assets of the South Dakota Retirement System, the state of South Dakota, and Council managed savings programs. Attendance at Council meetings is important in meeting these responsibilities.

1. There will be a minimum of one meeting each quarter with additional meetings as necessary.
2. If a Council member cannot attend a Council meeting, the State Investment Officer shall be notified at least one week in advance, if possible, for the purpose of determining a quorum.

If a Council member is absent from a Council meeting and has failed to notify the State Investment Officer, the member shall communicate the reason to the Council Chair.

If a Council member fails to notify the State Investment Officer of an absence a second time, a letter will be sent to that member from the Council Chair.

Upon the third un-notified absence, the Council Chair shall notify the LRC Executive Board.

3. If a Council member misses four meetings in a fiscal year, including notified absences with the exception of those resulting from meeting date changes, the Council Chair shall recommend to the LRC Executive Board that the member's term be reviewed and appropriate action be taken.

Adopted 3/31/81

Amended 11/16/2017

SOUTH DAKOTA INVESTMENT COUNCIL

VOTING AND PROXIES

Voting

South Dakota Investment Council (Council) members, including the Chair, shall each have one vote on any question coming before the Council at any meeting at which the member is in attendance. Concurring votes by a majority of the members present at the meeting shall be necessary for the adoption of any resolution or action by the Council. A tie vote will defeat any resolution or action. The Chair or any member of the Council may request a roll call on any motion or resolution; the vote of each member present shall then be recorded in the minutes of the meeting.

Proxies

Proxies are not permitted to substitute for a Council member unable to attend a meeting.

Adopted 10/27/72

Amended 11/16/2017

Investment Council Member Compensation Policy & Procedures

Policy:

The Executive Board appointed Investment Council members are paid the per diem compensation of \$75 for the following activities:

- Attendance/participation at regularly scheduled meetings of the Investment Council, including all telephone conference calls.
- Attendance/participation at meetings/conference calls of ad hoc committees of the Investment Council.
- Attendance at meetings of legislative committees during legislative session and during the interim on behalf of the Investment Council.
- Attendance at orientation sessions for new Investment Council members, typically one or two days or a combination of several days accumulating to one or two days.
- Attendance at Investment Council approved conferences or seminars.

Procedures:

The roll call taken at Council meetings and conference calls will be used as confirmation of a Council member's attendance, and no other request for compensation needs to be submitted by Council members.

In the case of attendance at committee meetings and legislative committee meetings, each Council member will be responsible for submitting notice to the Investment Office following the meeting to confirm their attendance. The notice should indicate the type, date and place of the meeting.

In the case of attendance at conferences or seminars, the minutes approving the Council member's attendance, as well as the conference registration and travel arrangements will be used as confirmation for the per diem compensation.

Approved 6/7/2002
Amended 11/16/2017

**SOUTH DAKOTA INVESTMENT COUNCIL
INVESTMENT POLICY FOR THE
SOUTH DAKOTA RETIREMENT SYSTEM
(South Dakota Codified Law 4-5-28)**

1. PURPOSE

The purpose is to define the objectives and policies related to the South Dakota Retirement System (SDRS) investment assets. The investment policies conform with laws governing SDRS investment assets.

2. PRUDENCE

Assets are invested according to a prudent man standard. (SDCL 4-5-27)

3. OBJECTIVES

The investment objectives are:

A. Return

The primary return objective is to achieve and exceed the rate of return of the benchmark over the long term. A secondary return objective is to achieve and exceed the median rate of return of peer funds over the long term.

B. Risk

The fund is focused on the long term and is tolerant of short term volatility. Risk is managed through diversification across and within asset categories and by adjustments within ranges approved by the Investment Council (Council).

4. DELEGATION OF AUTHORITY

The Council, through the State Investment Officer and staff, is responsible for the investment of SDRS assets. (SDCL 3-12-117) Assets are invested according to established written procedures and internal controls consistent with investment policies adopted by the Council. (SDCL 4-5-29)

5. ETHICS AND CONFLICT OF INTEREST

Council staff will adhere to *The Code of Ethics and Personal Investing Guidelines for SDIC Staff* which includes *The Code of Ethics and Standards of Professional Conduct* established by the CFA Institute.

6. AUTHORIZED FINANCIAL DEALER AND INSTITUTION

Security transactions are executed with broker/dealers approved by the State Investment Officer. Safekeeping of securities is provided by a custodial agent approved by the Council. (SDCL 4-5-31)

7. AUTHORIZED AND SUITABLE INVESTMENTS

Investment of SDRS assets is subject to a prudent person standard. Financial derivative use is permitted for hedging and asset category exposure adjustments.

8. INTERNAL CONTROLS/ANNUAL AUDIT

The Council and staff are responsible for establishing and maintaining an internal control structure designed to ensure that the assets of SDRS are protected from loss, theft or misuse. The SDRS Board of Trustees is responsible for engaging an auditor to conduct an audit of investments and make the report available to the Council.

9. PERFORMANCE STANDARDS

Benchmarks for the fund are determined each fiscal year by the Council.

10. REPORTING

State statute requires that monthly transactions be provided to the Council on a timely basis. (*SDCL 4-5-32*)

Statue requires the Council to report annually to the Legislature with respect to a review of Council activities. (*SDCL 4-5-36*)

Other reports are provided to the Council for their information.

Public Records and Files laws exempt the Council from disclosure of financial and proprietary information. (*SDCL 1-27-1.6(5) and 1-27.30*)

11. POLICY AMENDMENT

This policy shall be periodically reviewed. Any changes require Council approval.

**SOUTH DAKOTA INVESTMENT COUNCIL
INVESTMENT POLICY FOR
DAKOTA CEMENT TRUST FUND ASSETS
(South Dakota Codified Law 4-5-28)**

1. PURPOSE

The purpose is to define the objectives and policies related to the Dakota Cement Trust Fund investment assets. The investment policies conform with laws governing the investment assets of the fund.

2. PRUDENCE

Assets are invested according to a prudent man standard. (SDCL 4-5-27)

3. OBJECTIVES

The investment objectives are:

A. Return

Assets are invested with the return objective to achieve and exceed the rate of return of the benchmark over the long term to:

- 1) provide a distribution of 4% of fair value to the State's general fund (SD Const. art. XIII § 21) and
- 2) promote inflation-adjusted growth of the fund with a steadily growing distribution amount.

B. Risk

The fund is focused on the long term and is tolerant of short term volatility. Risk is managed through diversification across and within asset categories and by adjustments within ranges approved by the Investment Council (Council).

4. DELEGATION OF AUTHORITY

The Council, through the State Investment Officer and staff, is responsible for the investment of the trust fund assets. (SD Const. art. XIII §20) Assets are invested according to established written procedures and internal controls consistent with investment policies adopted by the Council. (SDCL 4-5-29)

5. ETHICS AND CONFLICT OF INTEREST

Council staff will adhere to *The Code of Ethics and Personal Investing Guidelines for SDIC Staff* which includes *The Code of Ethics and Standards of Professional Conduct* established by the CFA Institute.

6. AUTHORIZED FINANCIAL DEALER AND INSTITUTION

Security transactions are executed with broker/dealers approved by the State Investment Officer. Safekeeping of securities is provided by a custodial agent approved by the Council. (SDCL 4-5-31)

7. AUTHORIZED AND SUITABLE INVESTMENTS

Investment of trust fund assets is subject to a prudent person standard. Financial derivative use is permitted for hedging and asset category exposure adjustments.

8. INTERNAL CONTROLS/ANNUAL AUDIT

The Council and staff are responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the fund are protected from loss, theft or misuse. The Auditor General is responsible for conducting an audit of investments and will submit an annual audit report to the Council. *(SDCL 4-5-35)*

9. PERFORMANCE STANDARDS

Benchmarks for the fund are established each fiscal year by the Council.

10. REPORTING

State statute requires that monthly transactions (be provided to the Council on a timely basis. *(SDCL 4-5-32)*

Statute requires the Council to report annually to the Legislature with respect to a review of Council activities. *(SDCL 4-5-36)*

Other reports are provided to the Council for their information.

Public Records and Files laws exempt the Council from disclosure of financial and proprietary information. *(SDCL 1-27-1.6(5) and 1-27-30)*

11. POLICY AMENDMENT

This policy shall be periodically reviewed. Any changes require Council approval.

**SOUTH DAKOTA INVESTMENT COUNCIL
INVESTMENT POLICY FOR
EDUCATION ENHANCEMENT TRUST FUND ASSETS
(South Dakota Codified Law 4-5-28)**

1. PURPOSE

The purpose is to define the objectives and policies related to the Education Enhancement Trust Fund investment assets. The investment policies conform with laws governing the investment assets of the fund.

2. PRUDENCE

Assets are invested according to a prudent man standard. (SDCL 4-5-27)

3. OBJECTIVES

The investment objectives are:

A. Return

Assets are invested with the return objective to achieve and exceed the rate of return of the benchmark over the long term to:

- 1) provide a distribution of 4% of fair value for the State's education enhancement programs (SDCL 4-5-29.2) and
- 2) promote inflation-adjusted growth of the fund with a steadily growing distribution amount.

B. Risk

The fund is focused on the long term and is tolerant of short term volatility. Risk is managed through diversification across and within asset categories and by adjustments within ranges approved by the Investment Council (Council).

4. DELEGATION OF AUTHORITY

The Council, through the State Investment Officer and staff, is responsible for the investment of the trust fund assets. (SD Const. art. XII §6) Assets are invested according to established written procedures and internal controls consistent with investment policies adopted by the Council. (SDCL 4-5-29)

5. ETHICS AND CONFLICT OF INTEREST

Council staff will adhere to *The Code of Ethics and Personal Investing Guidelines for SDIC Staff* which includes *The Code of Ethics and Standards of Professional Conduct* established by the CFA Institute.

6. AUTHORIZED FINANCIAL DEALER AND INSTITUTION

Security transactions are executed with broker/dealers approved by the State Investment Officer. Safekeeping of securities is provided by a custodial agent approved by the Council. (SDCL 4-5-31)

7. AUTHORIZED AND SUITABLE INVESTMENTS

Investment of trust fund assets is subject to a prudent person standard. Financial derivatives use is permitted for hedging and asset category exposure adjustments.

8. INTERNAL CONTROLS/ANNUAL REPORT

The Council and staff are responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the fund are protected from loss, theft or misuse. The Auditor General is responsible for conducting an audit of investments and will submit an annual audit report to the Council. *(SDCL 4-5-35)*

9. PERFORMANCE STANDARDS

Benchmarks for the fund are established each fiscal year by the Council.

10. REPORTING

State statute requires that monthly transactions be provided to the Council on a timely basis. *(SDCL 4-5-32)*

Statute requires the Council to report annually to the Legislature with respect to a review of Council activities. *(SDCL 4-5-36)*

Other reports are provided to the Council for their information.

Public Records and Files laws exempt the Council from disclosure of financial and proprietary information. *(SDCL 1-27-1.6(5) and 1-27-30)*

11. POLICY AMENDMENT

This policy shall be periodically reviewed. Any changes require Council approval.

**SOUTH DAKOTA INVESTMENT COUNCIL
INVESTMENT POLICY FOR
HEALTH CARE TRUST FUND ASSETS
(South Dakota Codified Law 4-5-28)**

1. PURPOSE

The purpose is to define the objective and policies related to the Health Care Trust Fund investment assets. The investment policies conform with laws governing the investment assets of the fund.

2. PRUDENCE

Assets are invested according to a prudent man standard. (SDCL 4-5-27)

3. OBJECTIVES

The investment objectives are:

A. Return

Assets are invested with the return objective to achieve and exceed the rate of return of the benchmark over the long term to:

- 1) provide a distribution of 4% of fair value for the State's health care related programs (SDCL 4-5-29.1) and
- 2) promote inflation-adjusted growth of the fund with a steadily growing distribution amount.

B. Risk

The fund is focused on the long term and is tolerant of short term volatility. Risk is managed through diversification across and within asset categories and by adjustments within ranges approved by the Investment Council (Council).

4. DELEGATION OF AUTHORITY

The Council, through the State Investment Officer and staff, is responsible for the investment of the trust fund assets. (SD Const. art. XII, §5) Assets are invested according to established written procedures and internal controls consistent with investment policies adopted by the Council. (SDCL 4-5-29)

5. ETHICS AND CONFLICT OF INTEREST

Council staff will adhere to *The Code of Ethics and Personal Investing Guidelines for SDIC Staff* which includes *The Code of Ethics and Standards of Professional Conduct* established by the CFA Institute.

6. AUTHORIZED FINANCIAL DEALER AND INSTITUTION

Security transactions are executed with broker/dealers approved by the State Investment Officer. Safekeeping of securities will be provided by a custodial agent approved by the Council. (SDCL 4-5-31)

7. AUTHORIZED AND SUITABLE INVESTMENTS

Investment of trust fund assets is subject to a prudent person standard. Financial derivatives use is permitted for hedging and asset category exposure adjustments.

8. INTERNAL CONTROLS/ANNUAL AUDIT

The Council and staff are responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the fund are protected from loss, theft or misuse. The Auditor General is responsible for conducting an audit of investments and will submit an annual audit report to the Council. *(SDCL 4-5-35)*

9. PERFORMANCE STANDARDS

Benchmarks for the fund are established each fiscal year by the Council.

10. REPORTING

State statute requires that monthly transactions be provided to the Council on a timely basis. *(SDCL 4-5-32)*

Statute requires the Council to report annually to the Legislature with respect to a review of Council activities. *(SDCL 4-5-36)*

Other reports are provided to the Council for their information.

Public Records and Files laws exempt the Council from disclosure of financial and proprietary information. *(SDCL 1-27-1.6(5) and 1-27-30)*

11. POLICY AMENDMENT

This policy shall be periodically reviewed. Any changes require Council approval.

**SOUTH DAKOTA INVESTMENT COUNCIL
INVESTMENT POLICY FOR
SCHOOL AND PUBLIC LANDS FUND ASSETS
(South Dakota Codified Law 4-5-28)**

1. PURPOSE

The purpose is to define the objectives and policies related to the School and Public Lands Fund investment assets. The investment policies conform with laws governing the investment assets of permanent school and other educational and charitable funds.

2. PRUDENCE

Assets are invested according to a prudent man standard. (SDCL 4-5-27)

3. OBJECTIVES

The investment objectives are:

A. Return

Assets are invested with the return objective to achieve and exceed the rate of return of the benchmark over the long term to:

- 1) provide a distribution of income to the common schools (K-12) on a per student basis each year (SD Const. art. VIII §3)
- 2) provide a distribution of income to the schools of higher education (SDCL 5-10-1.2) and
- 3) promote inflation-adjusted growth of the fund through the constitutionally-mandated CPI adjustment. (SD Const. art. VIII §3)

B. Risk

The fund is focused on the long term and is tolerant of short term volatility. Risk is managed through diversification across and within asset categories and by adjustments within ranges approved by the Investment Council (Council).

4. DELEGATION OF AUTHORITY

The Council, through the State Investment Officer and staff, is responsible for the investment of the trust fund assets. (SD Const. art. VIII §11) (SDCL 5-10-18) Assets are invested according to established written procedures and internal controls consistent with investment policies adopted by the Council. (SDCL 4-5-29)

5. ETHICS AND CONFLICT OF INTEREST

Council staff will adhere to *The Code of Ethics and Personal Investing Guidelines for SDIC Staff* which includes *The Code of Ethics and Standards of Professional Conduct* established by the CFA Institute.

6. AUTHORIZED FINANCIAL DEALER AND INSTITUTION

Security transactions are executed with broker/dealers approved by the State Investment Officer. Safekeeping of securities are provided by a custodial agent approved by the Council. (SDCL 4-5-31)

7. AUTHORIZED AND SUITABLE INVESTMENTS

Investment of trust fund assets is subject to a prudent person standard. Financial derivatives use is permitted for hedging and asset category exposure adjustments.

8. INTERNAL CONTROLS/ANNUAL REPORT

The Council and staff are responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the fund are protected from loss, theft or misuse. The Auditor General is responsible for conducting an audit of investments and will submit an annual audit report to the Council. *(SDCL 4-5-35)*

9. PERFORMANCE STANDARDS

Benchmarks for the fund are established each fiscal year by the Council.

10. REPORTING

State statute requires that monthly transactions be provided to the Council on a timely basis. *(SDCL 4-5-32)*

Statute requires the Council to report annually to the Legislature with respect to a review of Council activities *(SDCL 4-5-36)*

Other reports are provided to the Council for their information.

Public Records and Files laws exempt the Council from disclosure of financial and proprietary information. *(SDCL 1-27-1.6(5) and 1-27-30)*

11. POLICY AMENDMENT

This policy shall be periodically reviewed. Any changes require Council approval.

**SOUTH DAKOTA INVESTMENT COUNCIL
INVESTMENT POLICY FOR
SOUTH DAKOTA CASH FLOW FUND ASSETS
(South Dakota Codified Law 4-5-28)**

1. PURPOSE

The purpose is to define the objectives and policies related to the State of South Dakota Cash Flow Fund investment assets. The investment policies conform with laws governing the investment assets of the fund.

2. PRUDENCE

Assets are invested according to a prudent man standard. (SDCL 4-5-27)

3. OBJECTIVES

The investment objectives are:

A. Safety of Principal

Investment purchases are limited to investment grade fixed income securities.

B. Liquidity

The fund is managed with liquidity tiers to enable the state to meet all reasonably anticipated cash requirements.

C. Return

The return objective is to achieve and exceed the rate of return of the benchmark over the short to intermediate term.

4. DELEGATION OF AUTHORITY

The State Investment Officer is responsible for investment of state public funds as defined in SDCL 4-4. (SDCL 4-5-23) Assets are invested according to established written procedures and internal controls consistent with investment policies adopted by the Council. (SDCL 4-5-29)

5. ETHICS AND CONFLICT OF INTEREST

Council staff shall adhere to *The Code of Ethics and Personal Investing Guidelines for SDIC Staff* which includes *The Code of Ethics and Standards of Professional Conduct* established by the CFA Institute.

6. AUTHORIZED FINANCIAL DEALER AND INSTITUTION

Security transactions are executed with broker/dealers approved by the State Investment Officer. Safekeeping of securities is provided by a custodial agent approved by the Council. (SDCL 4-5-31)

7. AUTHORIZED AND SUITABLE INVESTMENTS

Approved investment securities are listed in SDCL 4-5-26.

8. INTERNAL CONTROLS/ANNUAL AUDIT

The Council and staff are responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the fund are protected from loss, theft or misuse. The Auditor General is responsible for conducting an audit of investments and shall submit an annual audit report to the Council. (*SDCL 4-5-35*)

9. PERFORMANCE STANDARDS

Benchmarks for the components of the fund are established by the Council.

10. REPORTING

State statute requires that monthly transactions be provided to the Council on a timely basis. (*SDCL 4-5-32*)

State statute requires the Council to report annually to the Legislature with respect to a review of Council activities. (*SDCL 4-5-36*)

Other reports are provided to the Council for their information.

Public Records and Files laws exempt the Council from disclosure of financial and proprietary information. (*SDCL 1-27-1.6(5) and 1-27-30*)

11. POLICY AMENDMENT

This policy shall be periodically reviewed. Any changes require Council approval.