

# MINUTES

## SOUTH DAKOTA INVESTMENT COUNCIL

Conference Call  
January 29, 2018

### 1) Roll Call

The meeting was called to order at 1:30 p.m. on January 29, 2018 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, Chris Nelson, Tammy Otten, Jeff Hallem, Sherry Nelson, 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) Appropriations Hearing Review
- 4) Compensation Committee Update
- 5) Investment Update – FY 2018
- 6) Iran Divestiture & Shareholder Activism Reports – Update
- 7) Legislation Update
- 8) Audit Committee Update
- 9) Higher Education Savings Plan Update
- 10) New/Old Business
- 11) Future Meeting Dates
- 12) Adjournment

### 2) Minutes

LORIN BRASS MOVED, SECONDED BY JEFF NELSON, TO APPROVE THE MINUTES OF THE NOVEMBER 16, 2017 INVESTMENT COUNCIL MEETING. MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE.

### 3) Appropriations Hearing Review

Matt Clark discussed the FY 2019 budget hearing which took place with the Appropriations Committee on January 12, 2018. He noted the format of the hearing was changed from recent prior years but that it seemed to go very well. He stated there were several good questions from Legislators and some supportive comments.

Clark described the current expectation for no general salary policy for state employees. He stated the Council's budget request was adjusted to remove the 1.75% portion for investment positions. The practice has been for that portion to not be utilized when salary policy is zero or near zero. Rob Wylie, Ryan Brunner and Rich Sattgast were also present for the Appropriations hearing and each agreed that support for the Council is strong.

### 4) Compensation Committee Update

Lorin Brass, Chair of the Compensation Committee, stated that the Committee recently communicated about the compensation for the State Investment Officer for fiscal year 2019. He stated it was the consensus of the Compensation Committee to recommend to the full Council that the base salary for the State Investment Officer for FY 2019 increase by the state salary policy, if any, and that total compensation continue to be comprised of base salary and any earned investment performance incentive.

Brass noted that by law, a state board cannot take action on a subcommittee recommendation until a subsequent meeting. Therefore, the Compensation Committee recommendation will be discussed at the April Council meeting for the full Council to establish a formal recommendation to be presented to the LRC Executive Board at their June meeting.

5) Investment Update – FY 2018

Tammy Otten provided SDRS estimated assets and fiscal year to date return. She reviewed the timing for completion of the asset fair valuation for the end of December. Various state offices will be provided the amount of the trust fund distributions once the December valuations are finalized.

Matt Clark discussed plans to review asset allocation ranges and thresholds for moving within permitted ranges.

In response to a question regarding the potential impact on the valuation of the equity market due to the recent tax changes, Clark discussed the process of how earnings are normalized for the equity category as a whole. Brett Fligge discussed the impact on normalized earnings and estimated value for individual companies based on analyses done by the internal equity portfolio managers/analysts.

6) Iran Divestiture & Shareholder Activism Reports – Update

Tammy Otten stated that the Iran divestiture annual report was provided to the Executive Board of the Legislature on January 10, 2018 as required by law. The Council was provided the January 18, 2018 memo that included the most recent scrutinized companies lists from Florida and Colorado compared to the South Dakota list. Staff recommended changing the South Dakota list to include the two recent additions to the Florida list.

RICH SATTGAST MOVED, SECONDED BY PAUL BISSON, TO APPROVE THE CHANGES TO THE IRAN SCRUTINIZED COMPANIES LIST AS PRESENTED. MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE.

Otten 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 January 10, 2018.

7) Legislation Update

Tammy Otten provided an update on the legislative bills which may be of interest to the Investment Council. Matt Clark, Jeff Hallem, and Rob Wylie discussed efforts to work with the sponsor of SB84 which may potentially impact the Council.

8) Audit Committee Update

Jeff Nelson, Chair of the Audit Committee, reported that the Audit Committee is continuing to work with the Department of Legislative Audit regarding the Agreed Upon Procedures (AUP) engagement for the quarter ending September 30, 2017. He noted that one issue was identified which has been addressed. He indicated he expected to be able to discuss completion of the September 30 report and possibly the December 31 report at the April Council meeting.

9) Higher Education Savings Plan

Sherry Nelson reviewed the Higher Education Savings Plan summary of accounts and quarterly compliance schedule.

Nelson stated that the HESP annual report letter was completed and will be mailed to the Governor, the Speaker of the House, and the President Pro Tempore of the Senate on January 30, 2018. A copy will be provided to the Council.

Nelson reviewed Allianz's request to change their provider of transfer agency services for the CollegeAccess529 plan. Matt Clark added that the proposal was reviewed and staff has no objections to Allianz's request. Nelson noted that the HESP Program Management Agreement requires Council approval for delegation of services to non-affiliated entities.

JEFF NELSON MOVED, SECONDED BY LOREN KOEPSSELL, TO APPROVE ALLIANZ GLOBAL INVESTORS DISTRIBUTORS' DESIGNATION OF STATE STREET BANK AND TRUST COMPANY TO PROVIDE TRANSFER AGENCY SERVICES FOR THE HIGHER EDUCATION SAVINGS PROGRAM UNDER SECTION 2.3 OF THE PROGRAM MANAGEMENT AGREEMENT AND TO AUTHORIZE THE STATE INVESTMENT OFFICER TO EXECUTE THE NECESSARY DOCUMENTS AND TAKE ANY OTHER ACTION DEEMED NECESSARY TO CARRY OUT THE CHANGE AS PRESENTED. MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE.

10) New/Old Business

No new or old business was brought before the Council.

11) Future Meeting Dates

The next Investment Council meeting will be held in Sioux Falls on April 19, 2018.

12) Adjournment

Chair Kirby declared the meeting adjourned at 2:25 p.m.