

MINUTES

SOUTH DAKOTA INVESTMENT COUNCIL

Sioux Falls, South Dakota

November 29, 2018

1) Roll Call

The meeting was called to order at 8 a.m. on November 29, 2018 by Chair Lorin Brass. Council members in attendance were Paul Bisson, Lorin Brass, Ryan Brunner, Loren Koepsell, Greg Kulesa, 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, Sherry Nelson, Darci Haug, Matthew Carey, Makenzie Smook, Steve Schultz, and Laurie Riss from the Investment Council office; Travis Almond, Jane Beer and Michelle Mikkelsen from SDRS; State Treasurer-Elect Josh Haeder; and Jason Williams and Laura Wilson from the State Treasurer's Office.

(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) Public Comment
- 4) Rich Sattgast Acknowledgement
- 5) Investment Update – FY 2019
- 6) Iran Divestiture – Update
- 7) Rockpoint Real Estate Fund VI
- 8) Blackstone Real Estate Partners Fund IX
- 9) Limited Partnerships – Review
- 10) Rockpoint & BREP Potential Investments
- 11) SDIC FY 2018 Annual Report
- 12) 529 Higher Education Savings Plan
- 13) CD Program - Review
- 14) Audit Committee Update
- 15) Compensation Committee Update
- 16) SDIC Subcommittee Appointments
- 17) Equity Benchmarks & Portfolio Structure
- 18) Succession Planning
- 19) New/Old Business Agenda Items
- 20) Future Meeting Dates
- 21) Adjournment

Chair Brass welcomed State Treasurer-Elect Josh Haeder to the meeting. Mr. Haeder will be joining the Council after being sworn in as State Treasurer in January 2019.

2) Minutes

Laurie Riss pointed out a typo correction that will be made to the August 27, 2018 minutes.

PAUL BISSON MOVED, SECONDED BY RICH SATTGAST, TO APPROVE THE MINUTES OF THE AUGUST 27, 2018 INVESTMENT COUNCIL MEETING AS AMENDED. MOTION PASSED UNANIMOUSLY.

3) Public Comment

There were no public comments.

4) Rich Sattgast Acknowledgement

Matt Clark noted that State Treasurer Rich Sattgast's term on the Investment Council will conclude at the end of the calendar year. He reviewed some of the investment statistics and highlights since Rich has been on the Council and presented a plaque to him on behalf of the Investment Council in recognition and appreciation of his outstanding service.

5) Investment Update – FY 2019

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 28, 2018. She also reviewed the Motions & Actions Notes.

Matt Clark discussed the current asset allocation and equity-like risk.

6) Iran Divestiture – Update

Otten discussed the Iran Scrutinized Companies List memo dated November 13, 2018 that had been previously provided to the Council. Staff recommended no changes to the current South Dakota Iran scrutinized companies list.

7) Rockpoint Real Estate Fund VI

Keith Gelb, Managing Member & Co-Founder, and Tanya Oblak, Principal, from Rockpoint joined the Council to discuss their real estate activities and strategies for their current funds and to present Fund VI.

LOREN KOEPSSELL 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.

The Council went into executive session at 8:30 a.m. Staff remaining to participate in or facilitate the presentations and discussions included Matt Clark, Chris Nelson, Brett Fligge, Tammy Otten, Jeff Hallem and Laurie Riss. Also remaining was State Treasurer-Elect Josh Haeder.

8) Blackstone Real Estate Partners Fund IX

Executive session continued for the Blackstone presentation by Kenneth Caplan, Senior Managing Director & Global Head of Blackstone Real Estate, and Karen Sprogis, Managing Director, to discuss their real estate activities and strategies for current funds and to present BREP Fund IX.

9) Limited Partnerships – Review

Executive session continued to review and discuss existing real estate and private equity limited partnership investments.

10) Rockpoint & Blackstone Real Estate Potential Investments

Executive session continued to discuss potential investments in Rockpoint Real Estate Fund VI and Blackstone Real Estate Fund VI.

General session reconvened at 12:10 p.m.

GREG KULESA MOVED, SECONDED BY RICH SATTGAST, TO AUTHORIZE THE STATE INVESTMENT OFFICER TO INVEST UP TO \$100 MILLION IN AGGREGATE IN ADJUSTED PROPORTIONATE AMOUNTS FOR THE SOUTH DAKOTA RETIREMENT SYSTEM, THE SCHOOL AND PUBLIC LANDS FUND, THE DAKOTA CEMENT TRUST, THE EDUCATION ENHANCEMENT TRUST, AND THE HEALTH CARE TRUST IN ROCKPOINT REAL ESTATE FUND VI. MOTION PASSED UNANIMOUSLY.

PAUL BISSON MOVED, SECONDED BY JEFF NELSON, TO AUTHORIZE THE STATE INVESTMENT OFFICER TO INVEST UP TO \$300 MILLION IN AGGREGATE IN ADJUSTED PROPORTIONATE AMOUNTS FOR THE SOUTH DAKOTA RETIREMENT SYSTEM, THE SCHOOL AND PUBLIC LANDS FUND, THE DAKOTA CEMENT TRUST, THE EDUCATION ENHANCEMENT TRUST, AND THE HEALTH CARE TRUST IN BLACKSTONE REAL ESTATE FUND IX. MOTION PASSED UNANIMOUSLY.

11) SDIC FY 2018 Annual Report

The Council received a printed copy of the SDIC FY 2018 Annual Report. There were no major format changes from last year's report. The four Investment Accountants who are responsible for compiling, generating, and formatting the report were introduced.

Matt Clark thanked the accountants for their good work in producing the report. He noted that the annual report, as well as the audit report, are posted on the SDIC website.

12) 529 Higher Education Savings Plan

Sherry Nelson reviewed the CollegeAccess 529 Plan summary of accounts, the quarterly compliance schedule, and the minutes of the Allianz quarterly conference call.

Nelson reviewed the fund changes that Allianz Global Investors Distributors is proposing for the CollegeAccess 529 Plan. Matt Clark stated that Nelson had previously reviewed the proposed changes with him, and he believes them to be reasonable and recommends Council approval.

LOREN KOEPSSELL MOVED, SECONDED BY RYAN BRUNNER, TO APPROVE THE FUND 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.

13) CD Program - Review

Sherry Nelson reviewed her memo summarizing the results of the 2018/2019 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. Historical statistics of the CD program was also provided.

14) Audit Committee Update

Jeff Nelson, Chair of the Audit Committee, stated that the FY 2018 audit was complete, and it was a clean audit. He recommended inviting the Auditor General to meet with the Council on an annual basis. He confirmed he had received communication regarding Council staff's report on compliance with the personal investing guidelines.

Jane Beer from SDRS stated that the auditors from Eide Bailly have finalized their audit which includes the investment side. She noted that everything went well with zero issues.

15) Compensation Committee Update

Lorin Brass, Chair of the Compensation Committee, stated that the Compensation Committee would be meeting after adjournment of this meeting to discuss starting the process of updating the compensation study, which is done every three years.

16) SDIC Subcommittee Appointments

Lorin Brass reviewed the changes to the Investment Council subcommittees. Effective immediately, the Compensation Committee will include Loren Koepsell as Chair, Lorin Brass and Jeff Nelson. The Audit Committee will include Jeff Nelson as Chair, Paul Bisson and Greg Kulesa.

17) Equity Benchmarks & Portfolio Structure

Matt Clark discussed background behind some research projects including potential applications. Matt Carey and Makenzie Smook presented a simple asset allocation model with a focus on equity market valuation. Darci Haug presented a sub-equity modeling process focused on valuation of large stocks versus small, U.S. stocks versus developed international and versus emerging markets, and growth stocks versus value. She also discussed considerations in establishing a global equity benchmark.

18) Succession Planning

Matt Clark discussed succession planning relating to the state investment officer position and other senior staff. He reviewed the near-term plan as outlined in the Succession Plan, as well as the long-term planning which is being addressed through development of younger and mid-level staff. He reviewed his thoughts on near-term and long-term planning for the areas of asset allocation, global equity, high yield, real estate and private equity partnerships, investment accounting, and business manager/administration.

Clark discussed the leadership development that has taken place so far, as well as plans and considerations for development going forward.

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 by conference call on February 7, 2019.

The SDRS Board indicated an interest in joining the Investment Council again for next June's meeting. The meeting dates of June 5 and 6, 2019 were confirmed.

21) Adjournment

RICH SATTGAST MOVED FOR ADJOURNMENT. MOTION WAS SECONDED BY GREG KULESA. MOTION PASSED UNANIMOUSLY.

Chair Brass declared the meeting adjourned at 2:30 p.m.