

MINUTES

SOUTH DAKOTA INVESTMENT COUNCIL Pierre, South Dakota August 27, 2018

1) Roll Call

The meeting was called to order at 8 a.m. on August 27, 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, and Laurie Riss from the Investment Office; Travis Almond, Michelle Mikkelsen and Jacquee Storm from SDRS; Marty Guindon, Amy Macy and Tim Flannery from Legislative Audit; and Lara Williams 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-Greg Kulesa

Chair Brass welcomed Greg Kulesa to the Investment Council. Mr. Kulesa is from Watertown and is President of ANZA Inc. He was appointed by the LRC Executive Board for a five-year term on the Investment Council effective 7/1/2018.

3) Minutes

JEFF NELSON MOVED, SECONDED BY PAUL BISSON, TO APPROVE THE MINUTES OF THE JUNE 13 AND 14, 2018 INVESTMENT COUNCIL MEETING. MOTION PASSED UNANIMOUSLY.

4) PUBLIC COMMENT – POLICY

Matt Clark discussed the recently enacted state law which requires that all public boards include an opportunity for public comment at their meetings. He reviewed a proposed SDIC Policy for Public Comment. Discussion continued.

PAUL BISSON MOVED, SECONDED BY RICH SATTGAST, TO APPROVE THE POLICY FOR PUBLIC COMMENT AS PRESENTED. MOTION PASSED UNANIMOUSLY.

5) PUBLIC COMMENT

There were no public comments.

AGENDA ITEMS:

- 1) Roll Call
- 2) Introduction of New Council Member
- 3) Minutes
- 4) Public Comment Policy
- 5) Public Comment
- 6) Investment Performance FY 2018 & Incentive Summary
- 7) Department of Legislative Audit
- 8) Executive Board Meeting Review
- 9) Investment Update – FY 2019
- 10) Code of Ethics & Personal Investment Guidelines – SDIC
- 11) Code of Ethics & Personal Investing Guidelines – SDIC Staff
- 12) Audit Committee Update
- 13) Audit Committee Charter
- 14) Compensation Committee Update
- 15) Supplemental Retirement Plan 457 Investment Options Update
- 16) CD Program 2018/2019
- 17) 529 Higher Education Savings Program
- 18) Iran Divestiture – Update
- 19) SDIC Shareholder Activism Policy – Update
- 20) Open Meeting Laws Review
- 21) New/Old Business Agenda Items
- 22) Future Meeting Dates
- 23) Investment Officer Performance Evaluation Executive Session
- 24) Adjournment

6) Investment Performance FY 2018 & Incentive Summary

Tammy Otten reviewed investment performance for Fiscal Year 2018. 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 CMB were provided.

A comparison of the actual asset allocation as of June 30, 2018 to the CMB and permissible ranges was provided.

Otten 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, as well as the impact of asset allocation resulting from using different allocations to asset categories than that of 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 selected periods 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 FY2018 and historical periods.

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

Clark reviewed the summary of the earned incentives by Investment Council staff for FY 2018 and described the support staff incentive program which is funded from the earned incentives. He reviewed details of the State Investment Officer's earned incentive and noted that the incentives would be paid following completion of the audit.

The Investment Council recessed at 9 a.m. to meet with the LRC Executive Board Subcommittee on the Investment Council, followed by the presentation to the full Executive Board at 10:05 a.m. General session reconvened at 11:20 a.m.

7) Department of Legislative Audit

Marty Guindon, Auditor General, joined the Council to give an overview of the services provided and responsibilities of the Department of Legislative Audit (DLA). He discussed the history and structure of the agency, as well as their mission and responsibilities under state law.

Guindon discussed DLA's adherence to professional standards. He noted that DLA organizationally meets independence requirements, follows all applicable professional auditing standards, and is peer reviewed every three years as required by professional standards.

Guindon discussed DLA's commitment to the Investment Council. He reviewed the additional training and certification process that auditors on the Council's audit go through. He reviewed the cross-training and the rotation of responsibilities that take place as part of quality controls.

The Council thanked Guindon for his presentation and expressed their thoughts and appreciation for the good work done by DLA.

8) Executive Board Meeting Review

The Council discussed the LRC Executive Board meeting that took place earlier in the day. The Council's presentation included FY 2018 investment performance and the Council's FY 2020 budget request, which the Executive Board approved. It was noted that the details of the State Investment Officer's earned incentive were provided to the Executive Board Subcommittee on the Investment Council.

9) Investment Update – FY 2019

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 2019 to date.

10) Code of Ethics & Personal Investing Guidelines – SDIC

Jeff Hallem reviewed the Code of Ethics & Personal Investing Guidelines for SDIC members. He reviewed the proposed changes to the policy which incorporated the recently adopted statewide Code of Conduct and Conflict of Interest Policy for all state boards, as well as the applicable referenced laws. It was noted that Council members will continue to be requested annually to certify their understanding and compliance with the Code of Ethics & Personal Investing Guidelines.

RICH SATTGAST MOVED, SECONDED BY PAUL BISSON, TO APPROVE THE UPDATED CODE OF ETHICS & PERSONAL INVESTING GUIDELINES FOR THE INVESTMENT COUNCIL AS PRESENTED. MOTION PASSED UNANIMOUSLY.

11) Code of Ethics & Personal Investing Guidelines – SDIC Staff

Jeff Hallem reviewed the Code of Ethics & Personal Investing Guidelines for the SDIC Staff and discussed the proposed changes. He noted the primary changes involved adding language to address merger situations and a requirement to disclose any family members employed in the investment industry.

RYAN BRUNNER MOVED, SECONDED BY GREG KULESA, TO APPROVE THE CODE OF ETHICS & PERSONAL INVESTING GUIDELINES FOR THE INVESTMENT COUNCIL STAFF. MOTION PASSED UNANIMOUSLY.

12) Audit Committee Update

Jeff Nelson, Chair of the Audit Committee, reported on the pre-audit meeting with the Audit Committee and the Department of Legislative Audit. He stated that they settled on the AUP topics for FY 2019 and concluded the new engagement letter for the annual audit. He noted that a new engagement letter will have to be issued if a new Audit Committee chair is appointed during the fiscal year.

13) Audit Committee Charter

Jeff Nelson stated that at the last Council meeting, the Audit Committee recommended the approval of the proposed changes to the Audit Committee Charter. He noted the proposed

changes were made to better clarify the responsibilities of the Audit Committee as they relate to the annual audit and separately to the quarterly Agreed Upon Procedures, as well as the steps to be taken in the event of any findings.

The Council discussed the composition of the Audit Committee. The Charter gives the Investment Council Chair the responsibility to appoint the members of the Audit Committee. Nelson discussed the historical composition of the Committee. He suggested as guidance to the Chair in selecting members of the audit committee to continue the practice of including second and third year members. He discussed the benefits of also including the newest appointed member of the Council.

JEFF NELSON MOVED, SECONDED BY RICH SATTGAST, TO APPROVE THE UPDATED AUDIT COMMITTEE CHARTER. MOTION PASSED UNANIMOUSLY.

14) Compensation Committee Update

Lorin Brass, Chair of the Compensation Committee, noted that the incentive summary was reviewed under agenda item #6, and there were no other issues to bring before the Council.

15) Supplemental Retirement Plan 457 – Investment Options Update

Brett Fligge presented the summary of the Supplemental Retirement Plan Analysis for the period ended June 30, 2018. The report, prepared by Sherry Nelson and new Council staff members, included a write-up of each investment option. He stated that the analysis update suggested the removal of one actively managed equity fund and the addition of two equity style index funds.

Fligge 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.

16) CD Program 2018/2019

Otten 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.

LOREN KOEPEL MOVED, SECONDED BY PAUL BISSON, TO APPROVE THE SOUTH DAKOTA CASH FLOW FUND CERTIFICATE OF DEPOSIT PROGRAM FOR ONE-YEAR CD'S TO MATURE 9/30/19, 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.

17) 529 Higher Education Savings Program - Update

Otten reviewed the report of assets in the CollegeAccess 529 Plan as of 7/31/18. The minutes of the quarterly conference call with Allianz and the compliance schedule were provided. Allianz provided the scholarship money to the Dakota Corps Scholarship Program in July.

Otten stated that the Program Management Agreement requires Council approval of the auditor selected by Allianz, which is PricewaterhouseCoopers (PWC). She discussed the requirement in the Program Management Agreement for the use of a national auditing firm and reviewed PWC's practice of rotating partners on the audit every five years.

RYAN BRUNNER MOVED, SECONDED BY ROB WYLIE, TO APPROVE ALLIANZ GLOBAL INVESTORS' RECOMMENDATION OF PRICEWATERHOUSECOOPERS AS THE AUDITOR FOR COLLEGEACCESS 529 PLAN FOR THE YEAR ENDING DECEMBER 31, 2018. MOTION PASSED UNANIMOUSLY.

18) Iran Divestiture – Update

Otten reviewed a memo dated August 6, 2018 on the Iran Scrutinized Companies List. Staff recommended that four companies be added to the Council's list that are subsidiaries of companies on the current list.

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

19) 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. Otten stated that Colorado's Sudan law had sunset, and they would not be providing a Sudan list in the future. After reviewing several other state lists, staff will continue to use the Florida list of Sudan Companies. There were no recommended changes to the policy.

20) Open Meeting Laws – Review

Jeff Hallem reviewed the state laws governing the meetings of public agencies and public records, as well as the guidelines for use of executive session.

21) New/Old Business Agenda Items

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

22) Future Meeting Dates

The next Investment Council meeting will be held in Sioux Falls on November 29, 2018.

23) Investment Officer Performance Evaluation – Executive Session

PAUL BISSON 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 1:50 p.m. and general session reconvened at 2:10 p.m.

24) Adjournment

RICH SATTGAST MOVED FOR ADJOURNMENT. MOTION WAS SECONDED BY PAUL BISSON. MOTION PASSED UNANIMOUSLY.

Chair Brass declared the meeting adjourned at 2:10 p.m.