

MINUTES

SOUTH DAKOTA INVESTMENT COUNCIL

Teleconference

April 22, 2021

1) Roll Call

The meeting was called to order at 8 a.m. on April 22, 2021 by Chair Jeff Nelson. Council members in attendance were Travis Almond, Paul Bisson, Ryan Brunner, Josh Haeder, Mary Howard, Loren Koepsell, Greg Kulesa and Jeff Nelson.

Others attending all or part of the meeting included Investment Council Staff members Matt Clark, Brett Fligge, Tammy Otten, Chris Nelson, Sherry Nelson, Jan Zeeck, Melissa Hansen-Woidyla, Makenzie Smook, Darci Haug, Taylor Gubbrud, Payton Larsen, Zach Nipp, Matthew Carey, Lesyk Voznyuk, Katie Eliason, Daniel Elmer, Randy Spinar, Arianna Rehfeldt, Jeff Hallem, Laurie Riss and Christa Sites; external legal counsel Aaron Scheibe; SDRS staff members Jacques Storm, Doug Fiddler, Jane Beer and Michelle Mikkelsen; Brian Kingston, Lowell Baron from Brookfield; and Adam Rees from Fundmap.

AGENDA ITEMS:

- 1) Roll Call
- 2) Minutes (January 21, 2021)
- 3) Public Comment
- 4) Investment Update – FY 2021
- 5) Iran Divestiture Update
- 6) Legislative Wrap-up
- 7) Compensation Committee Update
- 8) Audit Committee Update
- 9) 529 HESP Update
- 10) Cash Flow Fund
- 11) Council Policies Review
- 12) Brookfield Strategic Real Estate Partners IV
- 13) Limited Partnerships Review
- 14) Telsey Advisory Group
- 15) Equity Research Update
- 16) Order Management System Review
- 17) New/Old Business Agenda Items
- 18) Future Meeting Dates
- 19) Adjournment

(Note: For sake of continuity, the following minutes are not necessarily in chronological order. Documents referenced are on file in the Investment Council office, and public access is subject to the provisions of SDCL 1-27.)

Matt Clark noted that the Council's legal counsel Aaron Scheibe would be wrapping up his work for the Investment Council on April 30, 2021 as he will be joining the Governor's office as chief of staff. Clark thanked Scheibe for his contributions.

2) Minutes

JOSH HAEDER MOVED, SECONDED BY TRAVIS ALMOND, TO APPROVE THE MINUTES OF THE JANUARY 21, 2021 INVESTMENT COUNCIL MEETING. MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE.

3) Public Comment

There were no public comments.

4) Investment Update – FY 2021

Tammy Otten reviewed completed actions for motions from prior Council meetings. Assets and estimated returns as of 4/20/21 were reported for SDRS. Clark provided an update for the Bristow investment. The Health Care Trust received \$50 million, per HB 1273. The Education Enhancement Trust will receive the annual tobacco company payment in April. The Dakota

Cement Trust will make the FY 2021 distribution between now and the end of June when requested by the Bureau of Finance & Management. School and Public Lands will make the annual distribution to the Board of Regents in June, having made the K-12 distribution in February. The Education Enhancement Trust and Health Care Trust will make their annual distributions on July 1 for fiscal year 2022.

5) Iran Divestiture Report & Update

Tammy Otten reviewed the Iran memo dated April 1, 2021 previously provided to the Council. Otten reported that the Florida list had not been updated since the last Council meeting and staff recommended no change to the current list.

6) Legislative Wrap-Up

Tammy Otten reviewed the final report of bills of interest to the Council for the 2021 Legislative session. Travis Almond provided additional information on the four SDRS bills that passed.

7) Compensation Committee Update

Paul Bisson, Chair of the Compensation Committee, reviewed the recommendation that was made by the Committee to the Investment Council at the last meeting regarding the State Investment Officer's compensation for Fiscal Year 2022. This recommendation will be presented to the LRC Executive Board at their June meeting.

PAUL BISSON MOVED, SECONDED BY LOREN KOEPSSELL, THAT THE INVESTMENT COUNCIL RECOMMEND TO THE LRC EXECUTIVE BOARD THAT TOTAL COMPENSATION FOR THE STATE INVESTMENT OFFICER PAYABLE IN FY 2022 BE COMPRISED OF FY 2021 BASE SALARY INCREASED BY STATE SALARY POLICY PLUS 1.75% AND CONTINUATION OF THE INVESTMENT PERFORMANCE INCENTIVE PLAN, WITH ANY EARNED INCENTIVE TO BE PAID FOLLOWING COMPLETION OF THE AUDIT. MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE.

8) Audit Committee Update

Greg Kulesa, Chair of the Audit Committee, reported that March 2021 quarter Agreed Upon Procedures work was completed with no findings.

9) 529 Higher Education Savings Plan Update

Sherry Nelson reviewed the CollegeAccess 529 Plan summary of accounts, the latest quarterly conference call, and the quarterly compliance schedule. She provided an update on the transition to Virtus Distributors.

Nelson reviewed a memo previously provided to the Council which describes Virtus's request for Council approval to change service providers from SS&T and State Street to Bank of New York Mellon and to shift some customer service and account opening functions to Virtus internal customer service capability. She noted that staff was supportive of this request.

PAUL BISSON MOVED, SECONDED BY RYAN BRUNNER, TO APPROVE VIRTUS DISTRIBUTORS' REQUEST TO MOVE THE TRANSFER AGENT AND CUSTODIAN SERVICE TO THE BANK OF NEW YORK MELLON AND TO

UTILIZE SOME OF VIRTUS' INTERNAL CUSTOMER SERVICE CAPABILITIES TO BE EFFECTIVE IN THE FOURTH QUARTER OF CY 2021. MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE.

10) Cash Flow Fund

Sherry Nelson provided an overview of the Cash Flow Fund (CFF). She noted that the allowed investments are specified in SDCL 4-5-26. The fund is divided into a money market portfolio for daily needs of the state, the 1-year CD program with state financial institutions, an intermediate term fixed income portfolio, and the larger short-term fixed income portfolio. Asset allocation benchmarks, maturity and duration ranges, and individual position and portfolio limits were reviewed for the short-term and intermediate-term portfolios.

Nelson reviewed SDCL 4-5-30 which outlines the annual payout to the general fund and participating state agencies based on receipted income to the fund. The projected payout rate for FY 2021 was provided. Nelson discussed the CFF monthly average balances noting that the balance varies throughout the year, generally within a \$50 million band. The Coronavirus Relief funds received by the State from the Federal Government in April of 2020 initially increased the average balance by \$1.2 billion. This amount has been shrinking as the funds are spent. Additional relief funds are expected to be distributed in May of 2021. The relief funds are invested in the CFF money market portfolio to meet the requirements of the Federal Government regarding investment of the funds and to reflect the expected holding period.

11) Council Policies Review

Tammy Otten reviewed the Investment Policies for the Retirement System, the Trust Funds, and the Cash Flow Fund, as well as the Pre-Authorized Co-Investment Policy, External Manager Hire, Terminate and Rebalance Authorization Policy, and Shareholder Activism Policy. She noted that there is a periodic review of these policies and that no changes were being recommended.

The Council was previously provided the charters of the Council's Compensation Committee and the Audit Committee for review. They also received the Council Meeting Policies which included the SDIC Policy for Public Comment, Council Attendance Policy, and Council Voting and Proxies Policy. No changes were recommended.

12) Brookfield Strategic Real Estate Partners IV

Brian Kingston, CEO and Lowell Baron, CIO in Brookfield's Real Estate group joined the Council to provide an update on their current private equity funds and discuss their upcoming Brookfield Strategic Real Estate Partners IV fund.

GREG KULESA MOVED, SECONDED BY MARY HOWARD TO GO INTO EXECUTIVE SESSION PER SDCL 1-25-10 FOR THE PURPOSE OF RECEIVING AND DISCUSSING INVESTMENT INFORMATION THAT IS CONFIDENTIAL UNDER SDIC 1-27-1.6(5). MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE.

The Council went into executive session at 9:45 a.m. Staff remaining to participate in or facilitate the presentation and discussion included Matt Clark, Brett Fligge, Tammy Otten, Chris Nelson, Jeff Hallem, Laurie Riss and Christa Sites and external legal counsel Aaron Scheibe.

(Note: Action on a Brookfield investment took place following executive session which concluded at end of Item 16.)

13) Limited Partnership Review

Executive session continued to review and discuss details of the Council's existing limited partnerships and potential investment in Brookfield that was presented at this meeting.

Remaining to participate in or facilitate the discussion included staff members Matt Clark, Brett Fligge, Tammy Otten, Chris Nelson, Jeff Hallem, Laurie Riss and Christa Sites and external legal counsel Aaron Scheibe.

14) Telsey Advisory Group and Telsey Consumer Fund

Executive session continued to discuss a potential investment in the Telsey Consumer Fund.

SDIC staff remaining to participate or facilitate the discussion included Matt Clark, Brett Fligge, Tammy Otten, Melissa Hansen-Woidyla, Makenzie Smook, Jeff Hallem, Laurie Riss and Christa Sites and external legal counsel Aaron Scheibe.

(Note – Action regarding a Telsey investment was made following executive session which concluded at the end of Item 16.)

15) Equity Research Update

Executive session continued.

Several SDIC equity team members joined the Council to present an equity research update.

Remaining to participate in or facilitate the discussion included staff members Matt Clark, Brett Fligge, Tammy Otten, Jan Zeeck, Darci Haug, Payton Larsen, Taylor Gubbrud, Zach Nipp, Matthew Carey, Lesyk Voznyuk, Katie Eliason, Daniel Elmer, Jeff Hallem, Laurie Riss and Christa Sites and external legal counsel Aaron Scheibe.

16) Order Management System

Executive session continued.

SDIC staff members joined the Council to present an update on the Order Management System.

Remaining to participate in or facilitate the discussion included staff members Matt Clark, Brett Fligge, Tammy Otten, Darci Haug, Randy Spinar, Arianna Rehfeldt, Jeff Hallem, Laurie Riss and Christa Sites and external legal counsel Aaron Scheibe.

Open session reconvened at 1:00 p.m.

Following executive session, motions were made for investments in Brookfield Strategic Real Estate Partners IV and Telsey Consumer Fund.

LOREN KOEPELLO MOVED, SECONDED BY PAUL BISSON, 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 BROOKFIELD STRATEGIC REAL ESTATE PARTNERS IV. MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE.

GREG KULESA MOVED, SECONDED BY TRAVIS ALMOND, TO AUTHORIZE THE STATE INVESTMENT OFFICER TO INVEST UP TO \$15 MILLION FOR THE SOUTH DAKOTA RETIREMENT SYSTEM IN THE TELSEY CONSUMER FUND. MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE.

17) New/Old Business Agenda Items

No new/old business agenda items were discussed.

18) Future Meeting Dates

The next Council meeting will be held on June 3, 2021.

19) Adjournment

Chair Nelson declared the meeting adjourned at 1:15 p.m.

PROPOSED