M I N U T E S

SOUTH DAKOTA INVESTMENT COUNCIL
Teleconference
February 2, 2023

1) Roll Call

The meeting was called to order at 9:00 a.m. on February 2, 2023 by Chair Greg Kulesa. Council members in attendance were Travis Almond, Brock Greenfield, Josh Haeder, Mary Howard, Loren Koepsell, Greg Kulesa, Kelly Meiners, and Steve Pietila.

Others attending all or part of the meeting included Investment Council staff members Matt Clark, Tammy Otten, Chris Nelson, Sherry Nelson, John Richter, Jan Zeeck, Darci Haug, Danielle Mourer, Sami Rains, Taylor Elmer, Payton Larsen, Katie Eliason, Laurie Riss, and Sarah Rust; SDRS staff member Michelle Mikkelsen; Connor Boylan from With. Intelligence and Justin Flores from Private Equity Stakeholder Project.

(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.)

AGENDA ITEMS:

1) Roll Call
2) Minutes (November 17, 2022)
3) Public Comment
4) Legislation/Executive Order Updates
5) Investment Update
6) Iran Divestiture Update
7) Shareholder Activism
8) Appropriations and Retirement Laws Meeting Updates
9) Personal Investing Guidelines - Restricted Securities Update
10) Compensation Committee Update
11) Audit Committee Update
12) 529 Higher Education Savings Plan Update
13) 457 Supplemental Plan Update
14) New/Old Business Agenda Items
15) Future Meeting Dates
16) Adjournment

Proposed

2) Minutes

LOREN KOEPSELL MOVED, SECONDED BY JOSH HAEDER, TO APPROVE THE MINUTES OF THE NOVEMBER 17, 2022 INVESTMENT COUNCIL MEETING. MOTION PASSED UNANIMOUSLY.

3) Public Comment

Justin Flores from Private Equity Stakeholder Project spoke on their opposition to the labor practices of a sanitation company owned by a fund managed by Blackstone. The Investment Council is an investor in other funds managed by Blackstone, but not that fund. Matt Clark stated Council staff had already discussed with Blackstone their steps to address the issue.

4) Legislation/Executive Order Updates

John Richter provided an update on HB 1004, which is an Act to update a reference to the Internal Revenue Code for purposes of higher education savings plans. This bill updates the effective date of the Internal Revenue Code referenced in SDCL 13-63-1(11) from 2022 to 2023.

Richter noted that the weekly update on the status of bills of interest to the Council will continue to be provided by email throughout the legislative session.

Richter also updated the Council on Executive Order 2023-02, which impacts State contracts, bid-lettings, requests for proposals, purchase orders, and purchases of supplies.

Travis Almond provided an update on bills impacting SDRS.

5) Investment Update

Tammy Otten provided fiscal year-to-date information for SDRS. There was no Motions and Actions note to review. Otten also reviewed the upcoming distributions from the trust funds.

Jan Zeeck discussed fiscal year-to-date performance of the equity portfolios, particularly the effect of energy and healthcare industry overweights and the lean toward value-oriented stocks.

Matt Clark provided an update on the Bristow investment and stated there was no significant change. He also discussed a project to update risk assessment of emerging markets. The project was accelerated to take advantage of the work done to provide information on Chinese investments requested by Governor Noem. Clark commented whenever state leaders have questions or seek information about investment related matters, we are appreciative when they reach out to us such as occurred in this case.

6) Iran Divestiture Update

Sami Rains stated that the Iran divestiture annual report was provided to the Executive Board of the Legislature as required by law on January 15, 2023. The report is posted on the LRC website. The Council was provided the January 13, 2023 letter to the Executive Board. The Council also received a memo dated January 13, 2023 that included the most recent Iran scrutinized companies list from Florida compared to the South Dakota list. Staff recommended no changes to the South Dakota list as there were no changes to the Florida list as of their August 23, 2022 report.

7) Shareholder Activism

Sami Rains 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 13, 2023. The report is posted on the LRC website.

8) Appropriations and Retirement Laws Meeting Updates

Greg Kulesa discussed the FY 2024 budget presentation that he and Matt Clark presented to the Appropriations Committee on January 12, 2023. He stated he thought it was well received. In addition to the FY 2024 budget request, the presentation also included information on investment performance, cost efficiency, and the trust funds. Kulesa stated that the budget has been approved but not final until the Legislative Session is over.

Proposed

9) Personal Investing Guidelines - Restricted Securities Update

Matt Clark discussed the restricted securities that Council members cannot invest in as designated by the State Investment Officer and affirmed by the Investment Council. He reviewed the current list of restricted securities which includes one company, Blackstone. Blackstone is on the list due to the significant size of historical and current investments with Blackstone combined with Council role in approving. Clark stated the list will be reviewed and reaffirmed by the Council on an annual basis.

STEVE PIETILA MOVED, SECONDED BY TRAVIS ALMOND, TO AFFIRM THE INFORMATION PROVIDED AS PART OF THE CODE OF ETHICS AND PERSONAL GUIDELINES OF THE SOUTH DAKOTA INVESTMENT COUNCIL AS PREVIOUSLY PROVIDED TO THE COUNCIL. MOTION PASSED UNANIMOUSLY.

10) Compensation Committee Update

Mary Howard, Chair of the Compensation Committee, reported that the Committee met on January 31, 2023 to discuss the compensation for the State Investment Officer for fiscal year 2024. The Compensation Committee discussed recently received updated study information which indicated industry compensation had increased further as expected and the increased incentives were just sufficient to keep us inside the 10% threshold. The committee discussed whether the State Investment Officer base salary should increase by state salary policy plus an additional 1.75% per the long-term plan and whether the State Investment Officer incentive should be increased to the 225% maximum. She 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 2024 increase by salary policy plus 1.75% per the long-term plan for investment positions. Total compensation would continue to be comprised of base salary and any earned investment performance incentive. She stated that although well deserved, the subcommittee thought it was best to not increase the maximum to 225% at this time due to potential market conditions and political sensitivities.

Greg Kulesa, Compensation Committee member, noted that by law, a state board cannot act on a subcommittee recommendation until a subsequent meeting. Therefore, the Compensation Committee recommendation will be discussed at the April Council meeting for the Council to establish a formal recommendation to be presented to the LRC Executive Board at their May/June meeting.

11) Audit Committee Update

Loren Koepsell, Chair of the Audit Committee, provided an update on the status of the most recent AUP. He stated there was nothing significant to report and there were no findings of all agreed upon procedures.

12) 529 Higher Education Savings Plan Update

Sherry Nelson reviewed the CollegeAccess 529 Plan summary of accounts and the quarterly compliance schedule. She stated that the annual report letter on the Higher Education Savings Program was sent to the Governor, Speaker of the House, and the President Pro Tempore of the Senate and that a copy has been provided to the Council.

Proposed

13) 457 Supplemental Plan Update

Payton Larsen, Taylor Elmer, and Katie Eliason introduced themselves to the Council as the team who evaluates mutual fund type choices for the 457 Supplemental Retirement Plan. They were present to respond to Council questions regarding the plan.

Matt Clark noted that, although the State Investment Officer is responsible by law for selecting the investment options, this review is provided to the Investment Council in relation to their broad oversight responsibility and is provided to the SDRS Retirement Board for input as well.

Clark stated that the funds are reviewed periodically with Vanguard and Nationwide. He also mentioned that Nationwide provides information about investment options to participating members.

Council questions focused on whether there were any identified gaps among the investment choices and our process to determine when a fund should be removed for performance or other reasons.

14) New/Old Business Agenda Items

No new/old business agenda items were discussed.

15) Future Meeting Dates

Greg Kulesa suggested, and the Council agreed, that the next Council meeting be held via teleconference.

The next Council meeting will be held by teleconference on April 6, 2023.

16) Adjournment

Chair Kulesa declared the meeting adjourned at 10:29 a.m.

Proposed