

MINUTES

SOUTH DAKOTA INVESTMENT COUNCIL
Teleconference
February 1, 2024

1) Roll Call

The meeting was called to order at 8:30 a.m. on February 1, 2024 by Chair Loren Koepsell. Council members in attendance were Travis Almond, Brock Greenfield, Josh Haeder, Mary Howard, Loren Koepsell, Kelly Meiners, Steve Pietila, and Taylor Thompson. Brock Greenfield joined the meeting at 11:00 a.m.

Others attending all or part of the meeting included Investment Council staff members Matt Clark, Tammy Otten, Sherry Nelson, John Richter, Jan Zeeck, Darci Haug, Danielle Mourer, Sami Rains, Taylor Elmer, Payton Larsen, Katie Eliason, Jake Wehde, Zach Nipp, Dan Elmer, Jarrod Edelen, Lee Mielke, Anne Cipperley, Ross Sandine, Lesyk Voznyuk, Connor Vander Werff, and Sarah Rust; and Francisco Luo from With. Intelligence.

(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 16, 2023)
- 3) Public Comment
- 4) Legislation Update
- 5) Investment Update
- 6) Iran Divestiture Update
- 7) Shareholder Activism
- 8) Appropriations Hearing Update
- 9) Personal Investing Guidelines - Restricted Securities Update
- 10) Compensation Committee Update
- 11) Audit Committee Update
- 12) 529 Higher Education Savings Plan Update
- 13) South Dakota Cash Flow Fund Update
- 14) 457 Supplemental Retirement Plan Update
- 15) Investment Presentations
- 16) New/Old Business Agenda Items
- 17) Future Meeting Dates
- 18) Adjournment

2) Minutes

MARY HOWARD MOVED, SECONDED BY KELLY MEINERS, TO APPROVE THE MINUTES OF THE NOVEMBER 16, 2023 COUNCIL MEETING. MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE. BROCK GREENFIELD WAS ABSENT FOR THE VOTE.

3) Public Comment

There were no public comments.

4) Legislation Update

John Richter discussed the weekly legislative updates regarding bills of interest that he has been emailing to the Council. He provided an update on HB 1003, 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 2023 to 2024. He also discussed other bills of interest relating to the Investment Council.

Richter noted that the House commemorated SDRS through HC 8007 for 50 years of financial stewardship of the state pension program.

5) Investment Update

Darci Haug reported there were no Motions and Actions to review. Haug also provided fiscal year-to-date information for SDRS and recent asset allocation adjustments.

Danielle Mourer reviewed the recent School and Public Lands deposit and upcoming distribution. Mourer also provided an update on the Bristow investment.

Jan Zeeck discussed fiscal year-to-date performance of the internal equity portfolios.

6) Iran Divestiture Update

Sami Rains reviewed a memo dated January 12, 2024 that included the most recent Iran scrutinized companies list from Florida compared to the South Dakota list. Florida updated their Iran scrutinized companies list on December 19, 2023 and there were no additions or deletions from the prior list. Staff recommends no changes to the South Dakota Iran scrutinized companies list.

Rains stated that the Iran divestiture annual report was provided to the Executive Board of the Legislature as required by law. The report is posted on the Legislative Research Council's website. The Council was provided the January 10, 2024 letter to the Executive Board.

7) Shareholder Activism

Sami Rains reviewed the required semi-annual 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, 2024. The report is posted on the Legislative Research Council's website and was provided to the Council.

8) Appropriations Hearing Update

Matt Clark discussed the FY 2025 budget presentation to the Appropriations Committee on January 12, 2024. He reported there were several questions and generally supportive comments from legislators. In addition to the FY 2025 budget request, the presentation also included information on investment performance, cost efficiency, the intern program, and the trust funds. Clark stated that the budget has been tentatively set. The budget will be finalized as part of the general appropriations bill at the end of the Legislative Session.

Council members Travis Almond and Brock Greenfield were also present for the Appropriations hearing.

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, which is on the list due to the significant

size of investments and the Council role in approving. Clark stated the list will be reviewed and reaffirmed by the Council on an annual basis.

KELLY MEINERS MOVED, SECONDED BY STEVE PIETILA, TO AFFIRM THE INFORMATION PROVIDED AS PART OF THE CODE OF ETHICS AND PERSONAL INVESTING GUIDELINES OF THE SOUTH DAKOTA INVESTMENT COUNCIL AS PREVIOUSLY PROVIDED TO THE COUNCIL. MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE. BROCK GREENFIELD WAS ABSENT FOR THE VOTE.

10) Compensation Committee Update

Mary Howard, Chair of the Compensation Committee, reported that the Committee met to discuss the compensation for the State Investment Officer for fiscal year 2025. 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 from 200% 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 2025 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 the subcommittee is recommending to not increase the maximum incentive to 225% at this time.

Howard 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.

In response to a Council question, Matt Clark described how incentive plans are based on performance relative to market based benchmarks and noted that it is important to encourage adding value in adverse market environments.

Clark discussed changes to incentive plans for FY 2024 payable in FY 2025 for two investment team members. He discussed a shift of responsibilities for Darci Haug. He also explained a reduction in time commitment for Sherry Nelson and reassignment of prior portfolio management duties. He noted these changes are outlined in the two memorandums, dated January 16, 2024, that were provided to the Council.

JOSH HAEDER MOVED, SECONDED BY TRAVIS ALMOND, TO APPROVE THE INCENTIVE PLAN CHANGES AS PRESENTED AND DETAILED IN THE TWO MEMORANDUMS DATED JANUARY 16, 2024, DETAILING THE FY 2024 INVESTMENT PERFORMANCE INCENTIVE PLAN CHANGES FOR DARCI HAUG AND SHERRY NELSON. MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE. BROCK GREENFIELD WAS ABSENT FOR THE VOTE.

11) Audit Committee Update

Steve Pietila, Chair of the Audit Committee, provided an update on the status of the most recent AUP. He noted that Department of Legislative Audit would be onsite March 7 and 8.

12) 529 Higher Education Savings Plan Update

Sherry Nelson reviewed the CollegeAccess 529 Plan summary of accounts, the minutes of the Virtus quarterly conference call, and the quarterly compliance schedule. She also reviewed the annual report letter on the Higher Education Savings Program that was sent to the Governor, Speaker of the House, and the President Pro Tempore of the Senate. A copy of the report letter was provided to the Council.

13) South Dakota Cash Flow Fund Update

Matt Clark discussed the change in personnel managing the Cash Flow Fund. He explained that due to Sherry Nelson's reduced time commitment, Tammy Otten and Chris Nelson took over management of the short-term cash flow fund portfolio effective January 1st, 2024.

Tammy Otten discussed the plans for managing the portfolio for the next year.

14) 457 Supplemental Retirement Plan Update

Payton Larsen, Taylor Elmer, and Katie Eliason reviewed the Executive Summary of the South Dakota Retirement System-Supplemental Retirement Plan Analysis. No changes to the investment options are being recommended. It was 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.

15) Investment Presentations

STEVE PIETILA MOVED, SECONDED BY KELLY MEINERS, 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 ON A VOICE VOTE.

The Council went into executive session at 10:25 a.m. Staff remaining to participate in or facilitate the presentations and discussion included Matt Clark, John Richter, Jan Zeeck, Sami Rains, Darci Haug, Peyton Larsen, Taylor Elmer, Jake Wehde, Zach Nipp, Dan Elmer, Jarrod Edelen, Lee Mielke, Anne Cipperley, Danielle Mourer, Ross Sandine, Lesyk Voznyuk, Katie Eliason, Connor Vander Werff, and Sarah Rust.

Equity Research Update was provided by Payton Larsen, Taylor Elmer, and Jake Wehde.

Zach Nipp, Dan Elmer, Jarrod Edelen, and Lee Mielke presented on Small/Midcap Equity.

High Yield presentation was given by Anne Cipperley, Danielle Mourer, Ross Sandine, Lesyk Voznyuk, and Katie Eliason.

General session reconvened at 12:24 p.m.

16) New/Old Business Agenda Items

Matt Clark provided an update on the hiring process for the upcoming summer internship program. He discussed plans to hire four interns with the possibility of selecting two of the four for permanent investment positions.

17) Future Meeting Dates

The next Investment Council meeting will be held in Sioux Falls on April 4, 2024.

18) Adjournment

Chair Koepsell declared the meeting adjourned at 12:28 p.m.

Proposed