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MEMORANDUM

TO: South Dakota Investment Council

FROM: Matthew L. Clark, CFA, State Investment Officer
Tammy V. Otten, CPA CFA, Assistant Investment Officer

DATE: May 19, 2022

RE: Investment Performance Incentive Plan change effective Fiscal Year 2023 -
Melissa Hansen-Woidyla

This memo provides an overview and calculation details effective for the Fiscal Year 2023 (payable in FY 2024) incentive program for **Melissa Hanse-Woidyla**. Beginning in Fiscal Year 2023, Melissa will be part of the management of the global core portfolio with Jan Zeeck and Renae Randall. Melissa's individual global equity portfolio will be the global core portfolio and the individual global equity benchmark will be the global core benchmark. The return history of her prior individual portfolio (G6) will be combined with the return of the global core portfolio beginning in Fiscal Year 2023 for all four and ten-year annualized periods. The return history of her prior individual portfolio benchmark will be combined with the return of the global core benchmark beginning in Fiscal Year 2023 for all four and ten-year annualized periods. The total fund piece will be calculated the same as for other global equity portfolio managers.

All incentives sum to 200% of base pay as follows: The first 100% of base pay is one-third on the one-year regular and two-thirds on the four-year regular. The second 100% of base pay is one-third on the ten-year regular, one-half on the four-year stretch and one-sixth on the ten-year stretch. SDRS time-weighted rates of return are used in the incentive calculations.

The incentive calculation will continue to be based 40% on the individual global equity portfolio (global core beginning Fiscal Year 2023), 40% on the global core equity and 20% on the net return of the SDRS total fund.

DETAILS:

The **one-year regular** incentive consists of three parts:

- 1) Forty percent is based on the one-year return of the individual global equity portfolio relative to the one-year return of the individual global equity benchmark with the difference applied to the global equity 1-3 years regular breakpoint schedule.
- 2) Forty percent is based on the one-year return of the global core equity portfolio relative to the one-year return of the global core benchmark with the difference applied to the global equity 1-3 years regular breakpoint schedule.

- 3) Twenty percent is based on the one-year net return of the SDRS total fund relative to the one-year capital markets benchmark (CMB) return with the difference applied to the CMB 1-3 years regular breakpoint schedule.

The **four-year regular** incentive consists of three parts:

- 1) Forty percent is based on the four-year annualized return of the individual global equity portfolio relative to the four-year annualized return of the individual global equity benchmark with the difference applied to the global equity 4&10 years regular breakpoint schedule.
- 2) Forty percent is based on the four-year annualized return of the global core equity portfolio relative to the four-year annualized return of the global core equity benchmark with the difference applied to the global equity 4&10 years regular breakpoint schedule.
- 3) Twenty percent is based on the four-year annualized net return of the SDRS total fund relative to the four-year annualized CMB return with the difference applied to the CMB 4&10 years regular breakpoint schedule.

The **ten-year regular** incentive consists of three parts:

- 1) Forty percent is based on the ten-year annualized return of the individual global sector equity portfolio relative to the ten-year annualized return of the individual global equity benchmark with the difference applied to the global equity 4&10 years regular breakpoint schedule.
- 2) Forty percent is based on the ten-year annualized return of the global core equity portfolio return relative to the ten-year annualized return of the global core equity benchmark with the difference applied to the global equity 4&10 years regular breakpoint schedule.
- 3) Twenty percent is based on the ten-year annualized return of the SDRS total fund relative to the ten-year annualized CMB return with the difference applied to the CMB 4&10 years regular breakpoint schedule.

The **four-year stretch** incentive consists of three parts:

- 1) Forty percent is based on the four-year annualized return of the individual global equity portfolio relative to the four-year annualized return of the individual global equity benchmark with the difference applied to the global equity 4&10 years stretch breakpoint schedule.
- 2) Forty percent is based on the four-year annualized return of the global core equity portfolio relative to the four-year annualized return of the global core equity benchmark with the difference applied to the global equity 4&10 years stretch breakpoint schedule.
- 3) Twenty percent is based on the four-year annualized net return of the SDRS total fund relative to the four-year annualized CMB return with the difference applied to the CMB 4&10 years stretch breakpoint schedule.

The **ten-year stretch** incentive consists of three parts:

- 1) Forty percent is based on the ten-year annualized return of the individual global equity portfolio relative to the ten-year annualized return of the individual global equity

benchmark with the difference applied to the global equity 4&10 years stretch breakpoint schedule.

- 2) Forty percent is based on the ten-year annualized return of the global core equity portfolio relative to the ten-year annualized return of the global core equity benchmark with the difference applied to the global equity 4&10 years stretch breakpoint schedule.
- 3) Twenty percent is based on the ten-year annualized return of the SDRS total fund relative to the ten-year annualized CMB return with the difference applied to the CMB 4&10 years stretch incentive matrix.

Formula

One year regular: Salary x ((1 yr individual equity incentive x 40%) + (1 yr core equity incentive x 40%) + (1 yr CMB total fund incentive x 20%)) x 33.333333%

Four year regular: Salary x ((4 yr individual equity incentive x 40%) + (4 yr core equity incentive x 40%) + (4 yr CMB total fund incentive x 20%)) x 66.666667%

Ten year regular: Salary x ((10 yr individual equity incentive x 40%) + (10 yr core equity incentive x 40%) + (10 yr CMB total fund incentive x 20%)) x 33.333333%

Four year stretch: Salary x ((4 yr individual equity stretch incentive x 40%) + (4 yr core equity stretch incentive x 40%) + (4 yr CMB total fund stretch incentive x 20%)) x 50% of second 100%

Ten year stretch: Salary x ((10 yr individual equity stretch incentive x 40%) + (10 year core equity stretch incentive x 40%) + (10 yr CMB total fund stretch incentive x 20%)) x 16.666667%

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