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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 changes for **Taylor Gubbrud and Payton Larsen** - Fiscal Year 2023

This memo provides an overview and calculation details effective for the Fiscal Year 2023 (payable in FY 2024) incentive program for **Taylor Gubbrud and Payton Larsen**. Taylor and Payton will each be assigned individual global equity portfolios and benchmarks on July 1, 2022. The return history of prior total public equity composite and total fund will be carried forward for the 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. The plan implementation schedule is described at the end of the DETAILS section. SDRS time-weighted rates of return are used in the incentive calculations.

The incentive calculation will be based 40% on their individual global equity portfolio, 40% on the global core equity/total public equity composite 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 sector equity portfolio relative to the one-year return of the individual global sector equity benchmark with the difference applied to the public 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 public 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 that combines the individual global sector equity portfolio for FY 2023 with the total public equity composite for FY 2020-2022 relative to the four-year annualized return of the individual global equity benchmark for FY 2023 with the total public equity composite for FY 2020-2022 with the difference applied to the public equity 4&10 years regular breakpoint schedule.
- 2) Forty percent is based on the four-year annualized return of the global core equity portfolio for FY 2023 combined with the total public equity composite for FY 2020-2022 relative to the four-year annualized return of the global core equity benchmark for FY 2023 combined with the total public equity composite for FY 2020-2022 with the difference applied to the public 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 four parts:

- 1) Forty percent is based on the annualized return that combines the individual global sector equity portfolio for FY 2023 with the total public equity composite for FY 2020-2022 relative to the annualized return of the individual global equity benchmark for FY 2023 with the total public equity composite for FY 2020-2022 with the difference applied to the global equity 4&10 years regular breakpoint schedule. A new fiscal year will be added each year until 10 years has been reached.
- 2) Forty percent is based on the annualized return of the global core equity portfolio for FY 2023 combined with the total public equity composite for FY 2020-2022 relative to the annualized return of the global core equity benchmark for FY 2023 combined with the total public equity composite for FY 2020-2022 with the difference applied to the public equity 4&10 years regular breakpoint schedule. A new fiscal year will be added each year until 10 years has been reached.
- 1) Twenty percent is based on the annualized net return of the SDRS total fund relative to the annualized CMB return with the difference applied to the CMB 4&10 years regular breakpoint schedule. A new fiscal year will be added each year until 10 years has been reached.

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

- 1) Forty percent is based on the four-year annualized return that combines the individual global sector equity portfolio for FY 2023 with the total public equity composite for FY 2020-2022 relative to the four-year annualized return of the individual global equity benchmark for FY 2023 with the total public equity composite for FY 2020-2022 with the difference applied to the public equity 4&10 years stretch breakpoint schedule.
- 2) Forty percent is based on the four-year annualized return of the global core equity portfolio for FY 2023 combined with the total public equity composite for FY 2020-2022 relative to the four-year annualized return of the global core equity benchmark for FY 2023 combined with the total public equity composite for FY 2020-2022 with the difference applied to the public 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:

- 2) Forty percent is based on the annualized return that combines the individual global sector equity portfolio for FY 2023 with the total public equity composite for FY 2020-2022 relative to the annualized return of the individual global equity benchmark for FY 2023 with the total public equity composite for FY 2020-2022 with the difference applied to the global equity 4&10 years stretch breakpoint schedule. A new fiscal year will be added each year until 10 years has been reached.
- 3) Forty percent is based on the annualized return of the global core equity portfolio for FY 2023 combined with the total public equity composite for FY 2020-2022 relative to the annualized return of the global core equity benchmark for FY 2023 combined with the total public equity composite for FY 2020-2022 with the difference applied to the public equity 4&10 years stretch breakpoint schedule. A new fiscal year will be added each year until 10 years has been reached.
- 4) Twenty percent is based on the annualized net return of the SDRS total fund relative to the annualized CMB return with the difference applied to the CMB 4&10 years stretch breakpoint schedule. A new fiscal year will be added each year until 10 years has been reached.

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/public equity composite x 40%) + (4 yr core equity/public equity composite incentive x 40%) + (4 yr CMB total fund incentive x 20%)) x 66.666667%

Ten year regular: Salary x ((10 yr individual equity incentive/public equity composite incentive x 40%) + (10 yr core equity incentive/public equity composite 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/public equity composite incentive x 40%) + (4 yr core equity stretch incentive/public equity composite 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/public equity composite incentive x 40%) + (10 year core equity stretch incentive/public equity composite incentive x 40%) + (10 yr CMB total fund stretch incentive x 20%)) x 16.666667%

Plan Implementation: *

Sum of the parts x 70% for FY 23, x 90% for FY 24, x 100% for FY 25.