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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 for Fiscal Year 2023 –
Darci Haug

This memo provides an overview and the calculation details effective for the fiscal year 2023 (payable in fiscal year 2024) incentive plan for **Darci Haug**.

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. All returns are time weighted.

The incentive calculation for fiscal year 2023 for the one-year return component will be based 40% on the individual US REIT portfolio, 20% on the US REIT composite (currently composite of one), and 40% on the SDRS total fund net rate of return. The history for her prior portfolio responsibilities in small/midcap equity will be maintained and carried forward for the four and 10-years calculations.

DETAILS:

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

- 1) Forty percent is based on the individual US REIT equity portfolio relative to the US REIT benchmark with the difference applied to the REIT 1-3 years regular breakpoint schedule.
- 2) Twenty percent is based on the US REIT composite relative to the US REIT benchmark with the difference applied to the REIT 1-3 years regular breakpoint schedule.
- 3) Twenty percent is based on the net return of the SDRS total fund relative to the return of the capital markets benchmark (CMB) with the difference applied to the CMB 1-3 years regular breakpoint schedule.
- 4) Twenty percent is based on the net return of the SDRS total fund relative to the return of the capital markets benchmark (CMB) with the difference applied to the CMB 1-3 years regular breakpoint schedule.

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

- 1) Forty percent is based on the four-year annualized return that combines the returns of the individual small/midcap equity portfolio for fiscal years 2020 and 2021, the blended US REIT/small/midcap one-year return for fiscal year 2022 and the fiscal year 2023 individual US REIT return relative to the four-year annualized return of the small/midcap equity individual benchmark for fiscal years 2020 and 2021, the blended US REIT/small/midcap individual one-year benchmark return for fiscal year 2022 and the fiscal year 2023 US REIT benchmark return with the difference applied to the US REIT and small/midcap equity blended 4 & 10-years regular breakpoint schedule for fiscal year 2023. In future fiscal years, the oldest year will drop off the annualized return as a new fiscal year is added with the breakpoint schedule adjusted to that fiscal year's relevant blend.
- 2) Twenty percent is based on the four-year annualized return that combines the small/midcap equity composite for fiscal years 2020 and 2021, the blended US REIT/small/midcap one-year return for fiscal year 2022 and the fiscal year 2023 US REIT composite return relative to the four-year annualized return of the small/midcap equity composite benchmark for fiscal years 2020 and 2021, the blended US REIT/small/midcap benchmark return for fiscal year 2022 and the fiscal year 2023 US REIT benchmark with the difference applied to the US REIT and small/midcap equity blended 4 & 10-years regular breakpoint schedule for fiscal year 2023. For future fiscal years, the oldest year will drop off the annualized return as a new fiscal year is added with the breakpoint schedule adjusted to that fiscal year's relevant blend.
- 3) Twenty percent is based on the four-year annualized return that combines the total public equity composite for fiscal year 2020 and 2021, the blended total public equity composite/total fund one-year return for fiscal year 2022, and the fiscal year 2023 SDRS total fund return relative to the four-year annualized return of the total public equity benchmark for fiscal 2020 and 2021, the blended total public equity composite/total fund one-year benchmark return for fiscal year 2022 and the fiscal year 2023 SDRS total fund benchmark return with the difference applied to the blended total public equity and total fund 4 & 10-years regular breakpoint schedule. In future fiscal years, the oldest year will drop off the annualized return with the newest fiscal year added and the breakpoint schedule will adjust to that fiscal year's relevant blend.
- 4) Twenty percent is based on the four-year annualized net return of the SDRS total fund relative to the four-year annualized total fund benchmark return with the difference applied to the CMB 4 & 10-years regular breakpoint schedule.

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

- 1) Forty percent is based on the ten-year annualized return that combines the individual small/midcap equity portfolio for fiscal years 2014-2021, the blended US REIT/small/midcap one-year return for fiscal year 2022 and the fiscal year 2023 US REIT return relative to the ten-year annualized return of the small/midcap equity benchmark for fiscal 2014-2021, the blended US REIT/small/midcap one-year benchmark for fiscal year 2022 and the fiscal year 2023 US REIT benchmark with the difference applied to the US REIT and small/midcap equity blended 4 & 10-years regular breakpoint schedule for fiscal year 2023. In future fiscal years, the oldest year will drop

off the annualized return with the newest fiscal year added and the breakpoint schedule will adjust to that fiscal year's relevant blend.

- 2) Twenty percent is based on the ten-year annualized return that combines the small/midcap equity composite for FY 2014-FY2021, the blended US REIT/small/midcap composite one-year return for fiscal year 2022, and the fiscal year 2023 US REIT composite relative to the ten-year annualized return of the small/midcap equity benchmark for fiscal 2014-2021, the blended US REIT/small/midcap one-year benchmark for fiscal year 2022 and the fiscal year 2023 US REIT benchmark with the difference applied to the US REIT and small/midcap equity blended 4 & 10-years regular breakpoint schedule for fiscal year 2023. In future fiscal years, the oldest year will drop off the annualized return with the newest fiscal year added and the breakpoint schedule will adjust to that fiscal year's relevant blend.
- 3) Twenty percent is based on the ten-year annualized return that combines the total public equity composite for fiscal years 2014-2021, the blended total public equity/total fund one-year return for fiscal year 2022, and the fiscal year 2023 SDRS total fund return relative to the four-year annualized return of the total public equity benchmark for fiscal years 2014-2021, the blended total public equity/total fund one-year benchmark return for fiscal year 2022 and the fiscal year 2023 SDRS total fund benchmark return with the difference applied to the weighted blended total public equity and total fund 4 & 10-years regular breakpoint schedule. In future fiscal years, the oldest year will drop off the annualized return with the newest fiscal year added and the breakpoint schedule will adjust to that fiscal year's relevant blend.
- 4) 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 four parts:

- 1) Forty percent is based on the four-year annualized return that combines the individual small/midcap equity portfolio for fiscal years 2020 and 2021, the blended US REIT/small/midcap one-year return for fiscal year 2022 and the fiscal year 2023 individual US REIT return relative to the four-year annualized return of the small/midcap equity benchmark for fiscal years 2020 and 2021, the blended US REIT/small/midcap one-year benchmark for fiscal year 2022 and the fiscal year 2023 US REIT benchmark with the difference applied to the US REIT and small/midcap equity blended 4 & 10-years stretch breakpoint schedule for fiscal year 2023. In future fiscal years, the oldest year will drop off the annualized return and the breakpoint schedule will adjust to that fiscal year's relevant blend.
- 2) Twenty percent is based on the four-year annualized return that combines the small/midcap equity composite for fiscal years 2020 and 2021, the blended US REIT/small/midcap one-year return for fiscal year 2022 and the fiscal year 2023 US REIT composite return relative to the four-year annualized return of the small/midcap equity composite benchmark for fiscal years 2020 and 2021, the blended US REIT/small/midcap benchmark return for fiscal year 2022 and the fiscal year 2023 US REIT benchmark with the difference applied to the US REIT and small/midcap equity blended 4 & 10-years stretch breakpoint schedule for fiscal year 2023. For future fiscal years, the oldest year will drop off the annualized return and the breakpoint schedule will adjust to that fiscal year's relevant blend.

- 3) Twenty percent is based on the four-year annualized return that combines the total public equity composite for fiscal year 2020 and 2021, the blended total public equity/total fund one-year return for fiscal year 2022, and the fiscal year 2023 SDRS total fund return relative to the four-year annualized return of the total public equity benchmark for fiscal 2020 and 2021, the blended total public equity/total fund one-year benchmark return for fiscal year 2022 and the fiscal year 2023 SDRS total fund benchmark return with the difference applied to the blended total public equity and total fund 4 & 10-years stretch breakpoint schedule. In future fiscal years, the oldest year will drop off the annualized return with the newest fiscal year added and the breakpoint schedule will adjust to that fiscal year's relevant blend.
- 4) 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 four parts:

- 1) Forty percent is based on the ten-year annualized return that combines the individual small/midcap equity portfolio for fiscal years 2014-2021, the blended US REIT/small/midcap one-year return for fiscal year 2022 and the fiscal year 2023 US REIT return relative to the ten-year annualized return of the small/midcap equity benchmark for fiscal 2014-2021, the blended US REIT/small/midcap one-year benchmark for fiscal year 2022 and the fiscal year 2023 US REIT benchmark with the difference applied to the US REIT and small/midcap equity blended 4 & 10-years stretch breakpoint schedule for fiscal year 2023. In future fiscal years, the oldest year will drop off the annualized return with the newest fiscal year added and the breakpoint schedule will adjust to that fiscal year's relevant blend.
- 2) Twenty percent is based on the ten-year annualized return that combines the small/midcap equity composite for FY 2014-FY2021, the blended US REIT/small/midcap composite one-year return for fiscal year 2022, and the fiscal year 2023 US REIT composite relative to the ten-year annualized return of the small/midcap equity benchmark for fiscal 2014-2021, the blended US REIT/small/midcap one-year benchmark for fiscal year 2022 and the fiscal year 2023 US REIT benchmark with the difference applied to the US REIT and small/midcap equity blended 4 & 10-years stretch breakpoint schedule for fiscal year 2023. In future fiscal years, the oldest year will drop off the annualized return with the newest fiscal year added and the breakpoint schedule will adjust to that fiscal year's relevant blend.
- 3) Twenty percent is based on the ten-year annualized return that combines the total public equity composite for fiscal years 2014-2021, the blended total public equity composite/total fund one-year return for fiscal year 2022, and the fiscal year 2023 SDRS total fund return relative to the four-year annualized return of the total public equity benchmark for fiscal years 2014-2021, the blended total public equity/total fund one-year benchmark return for fiscal year 2022 and the fiscal year 2023 SDRS total fund benchmark return with the difference applied to the blended total public equity and total fund 4 & 10-years stretch breakpoint schedule. In future fiscal years, the oldest year will drop off the annualized return with the newest fiscal year added and the breakpoint schedule will adjust to that fiscal year's relevant blend.

- 4) 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: $Salary \times ((1 \text{ yr individual US REIT incentive} \times 40\%) + (1 \text{ yr US REIT composite incentive} \times 20\%) + (1 \text{ yr total fund incentive} \times 20\%) + (1 \text{ yr CMB total fund incentive} \times 20\%)) \times 33.333333\%$

Four year regular: $Salary \times ((4 \text{ yr individual small/midcap/US REIT incentive} \times 40\%) + (4 \text{ yr smid equity/US REIT composite incentive} \times 20\%) + (4 \text{ yr total public equity composite/total fund incentive} \times 20\%) + (4 \text{ yr CMB total fund incentive} \times 20\%)) \times 66.666667\%$

Ten year regular: $Salary \times ((10 \text{ yr individual small/midcap/US REIT incentive} \times 40\%) + (10 \text{ yr smid equity/US REIT composite incentive} \times 20\%) + (10 \text{ yr total public equity composite/total fund incentive} \times 20\%) + (10 \text{ yr CMB total fund incentive} \times 20\%)) \times 33.333333\%$

Four year stretch: $Salary \times ((4 \text{ yr individual small/midcap/US REIT stretch incentive} \times 40\%) + (4 \text{ yr smid equity/US REIT composite stretch incentive} \times 20\%) + (4 \text{ yr total public equity composite/total fund stretch incentive} \times 20\%) + (4 \text{ yr CMB total fund stretch incentive} \times 20\%)) \times 50\%$

Ten year stretch: $Salary \times ((10 \text{ yr individual small/midcap/US REIT stretch incentive} \times 40\%) + (10 \text{ yr smid equity/US REIT composite stretch incentive} \times 20\%) + (10 \text{ yr total public equity composite/total fund stretch incentive} \times 20\%) + (10 \text{ yr CMB total fund stretch incentive} \times 20\%)) \times 16.666667\%$

Sum of all parts for total earned incentive
Custom Blend Breakpoint Schedule attached

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