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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: January 16, 2024

RE: Investment Performance Incentive Plan change effective for Fiscal Year 2024 – **Darci Haug**

This memo provides an overview and the calculation appendix detailing the fiscal year 2024 (payable in fiscal year 2025) incentive plan for **Darci Haug** and subsequent fiscal years.

Overview:

All incentives sum to 225% 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 125% of base pay is one-half on the ten-year regular, one-half on the four-year stretch and one-quarter on the ten-year stretch. All returns are time weighted.

The incentive calculation for fiscal year 2024 for the one-year, four-year and ten-year return component will be based 40% on the total public equity composite, and 60% on the SDRS total fund net time-weighted rate of return relative to their respective benchmarks and breakpoint schedules.

Appendix:

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

1) Forty percent is based on the one-year total public equity composite return relative to the one-year total public equity benchmark with the difference applied to the total public equity 1-3 years regular breakpoint schedule.
2) Sixty percent is based on the one-year net time-weighted rate of 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 two parts:

1) Forty percent is based on the four-year annualized return of the total public equity composite relative to the four-year annualized return of the total public equity benchmark with the difference applied to the total public equity 4-10 years regular breakpoint schedule.
2) Sixty percent is based on the four-year annualized net time-weighted rate of return of the SDRS total fund relative to the four-year annualized return of the capital markets benchmark (CMB) with the difference applied to the CMB 4-10 years regular breakpoint schedule.

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

1) Forty percent is based on the ten-year annualized return of the total public equity composite relative to the ten-year annualized return of the total public equity benchmark with the difference applied to the total public equity 4-10 years regular breakpoint schedule.
2) Sixty percent is based on the ten-year annualized net time-weighted rate of return of the SDRS total fund relative to the ten-year annualized return of the capital markets benchmark (CMB) with the difference applied to the CMB 4-10 years regular breakpoint schedule.

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

1) Forty percent is based on the four-year annualized return of the total public equity composite relative to the four-year annualized return of the total public equity benchmark with the difference applied to the total public equity 4-10 years stretch breakpoint schedule.
2) Sixty percent is based on the four-year annualized net time-weighted rate of return of the SDRS total fund relative to the four-year annualized return of the capital markets benchmark (CMB) with the difference applied to the CMB 4-10 years stretch breakpoint schedule.

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

1) Forty percent is based on the ten-year annualized return of the total public equity composite relative to the ten-year annualized return of the total public equity benchmark

with the difference applied to the total public equity 4-10 years stretch breakpoint schedule.

2) Sixty percent is based on the ten-year annualized net time-weighted rate of return of the SDRS total fund relative to the ten-year annualized return of the capital markets benchmark (CMB) with the difference applied to the CMB 4-10 years stretch breakpoint schedule.

Formula

One-year regular: Salary x ((1 yr total public equity composite incentive x 40%) + (1 yr CMB total fund incentive x 60%)) x 33.333333%

Four-year regular: Salary x ((4 yr total public equity composite incentive x 40%) + (4 yr CMB total fund incentive x 60%)) x 66.666667%

Ten-year regular: Salary x ((10 yr total public equity composite incentive x 40%) + (10 yr CMB total fund incentive x 60%)) x 50%

Four-year stretch: Salary x ((4 yr total public equity composite stretch incentive x 40%) + (4 yr CMB total fund stretch incentive x 60%)) x 50%

Ten-year stretch: Salary x ((10 yr total public equity composite stretch incentive x 40%) + (10 yr CMB total fund stretch incentive x 60%)) x 25%

Sum of all parts for total earned incentive.

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