



4009 West 49th Street, Suite 300
Sioux Falls, SD 57106-3784 USA
605-362-2820 – <https://sdic.sd.gov>

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 –
Sherry Nelson

This memo provides an overview and the calculation appendix detailing the fiscal year 2024 (payable in fiscal year 2025) incentive plan for **Sherry Nelson** 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.

Reassignment of portfolio management duties for Sherry Nelson during fiscal year 2024

On January 1, 2024, Sherry reduced her part-time hours and relinquished management of the Cash Flow Fund Short-Term (CFFST) portfolio. To reflect this change, part of her incentive will transition from being based on the CFFST to SDRS total fund. For fiscal year 2024, half the year will be based on the relative return of the CFFST and half the year on SDRS total fund. A blended benchmark and breakpoint schedule will be used for the calculation of the incentive.

The incentive calculation for fiscal year 2024 for the 67% regular component will be based on the CFFST portfolio relative return from July 1, 2023, to December 31, 2023, combined with the SDRS total fund relative return from January 1, 2024, to June 30, 2024. The prior history of the CFFST for this piece will be maintained and used for the four and 10-year calculations. The 33% of the regular component and 100% of the stretch component will remain on SDRS total fund.

Appendix:

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

- 1) Sixty-seven percent is based on the six-month CFFST portfolio return relative to the six-month CFFST portfolio benchmark and six-months SDRS total fund net time-weighted rate of return relative to the return of the capital markets benchmark (CMB) with the difference applied to the CFFST regular breakpoint schedule combined with the SDRS total fund 1-3 years regular breakpoint schedule.
- 2) Thirty-three percent is based on the one-year net time-weighted rate of return of the SDRS total fund relative to the return of the CMB with the difference applied to the CMB 1-3 years regular breakpoint schedule.

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

- 1) Sixty-seven percent is based on the four-year annualized return that combines the CFFST for the 3 ½ years with the SDRS total fund for ½ year with the difference applied to the custom blend 4 & 10-year regular breakpoint schedule.
- 2) Thirty-three 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 CMB with the difference applied to the CMB 4-10 years regular breakpoint schedule.

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

- 1) Sixty-seven percent is based on the ten-year annualized return that combines the CFFST for the 9 ½ years with the SDRS total fund for ½ year with the difference applied to the custom blend 4 & 10-year regular breakpoint schedule.
- 2) Thirty-three 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 CMB with the difference applied to the CMB 4-10 years regular breakpoint schedule.

The **four-year stretch** incentive consists of one part:

- 1) One hundred 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 CMB with the difference applied to the CMB 4-10 years stretch breakpoint schedule.

The **ten-year stretch** incentive consists of one part:

- 1) One hundred 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 CMB with the difference applied to the CMB 4-10 years stretch breakpoint schedule.

Formula

One-year regular: Salary x ((1 yr blended CFFST and total fund incentive x 67%) + (1 yr CMB total fund incentive x 33%)) x 33.333333%

Four-year regular: Salary x ((4 yr blended CFFST and total fund incentive x 67%) + (4 yr CMB total fund incentive x 33%)) x 66.666667%

Ten-year regular: Salary x ((10 yr blended CFFST and total fund incentive x 67%) + (10 yr CMB total fund incentive x 33%)) x 50%

Four-year stretch: Salary x (4 yr CMB total fund stretch incentive x 100%) x 50%

Ten-year stretch: Salary x (10 yr CMB total fund stretch incentive x 100%) x 25%

Sum of all parts x 50% adjustment for total earned incentive.

tvo