SOUTH DAKOTA INVESTMENT COUNCIL

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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, 2020

RE: Investment Performance Incentive Plan changes effective Fiscal Year 2021

This memo provides an overview and calculation details effective for the Fiscal Year 2021 (payable in FY 2022) incentive plan program for **Taylor Gubbrud and Payton Larsen,** who will be continuing training for equity portfolio management responsibilities.

The incentive parts sum to 200% of base pay phased in per the plan implementation schedule. Incentives are earned on 1 year, 4-year annualized, and 10-year annualized returns. SDRS time-weighted rates of returns are used in the incentive calculations.

The incentive calculation is based 25% on the total public equity composite and 75% on the total fund net return. FY 2021 will be the second year of their incentive plan program, so the one-year return will be used for the one-year and the two-year return will be used for the four and ten-year incentive pieces.

The **one-year regular (1/3)** incentive consists of two parts:

1) Twenty-five percent is based on the one-year return of the total public equity composite relative to the one-year return of the total public equity benchmark with the difference applied to the global equity 1-3 years breakpoint schedule.
2) Seventy-five percent is based on the one-year net return of the total fund relative to the one-year capital markets benchmark (CMB) return with the difference applied to the CMB total fund 1-3 years breakpoint schedule.

The **four-year regular (2/3)** incentive consists of two parts:

1) Twenty-five 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 equity 1-3 years breakpoint schedule. For FY 2021 the two-year number will be used.
2) Seventy-five percent is based on the four-year annualized net return of the total fund relative to the four-year annualized CMB return with the difference applied to the CMB 1-3 years breakpoint schedule. For FY 2021 the two-year number will be used.

The **ten-year regular (1/3)** incentive consists of two parts:

1) Twenty-five 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 global equity 1-3 years breakpoint schedule. For FY 2021 the two-year number will be used.
2) Seventy-five percent is based on the ten-year annualized net return of the total fund relative to the ten-year annualized CMB return with the difference applied to the CMB total fund 1-3 years breakpoint schedule. For FY 2021 the two-year number will be used.

The **four-year stretch (1/2)** incentive consists of two parts:

1) Twenty-five 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 global equity 1-3 years stretch breakpoint schedule. For FY 2021 the two-year number will be used.
2) Seventy-five percent is based on the four-year annualized net return of the total fund relative to the four-year annualized CMB return with the difference applied to the CMB total fund 1-3 years stretch breakpoint schedule. For FY 2021 the two-year number will be used.

The **ten-year stretch (1/6)** incentive consists of two parts:

1) Twenty-five 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 global equity 1-3 years stretch breakpoint schedule. For FY 2021 the two-year number will be used.
2) Seventy-five percent is based on the ten-year annualized net return of the total fund relative to the ten-year annualized CMB return with the difference applied to the CMB 1-3 years stretch breakpoint schedule. For FY 2021 the two-year number will be used.

<u>Formula</u>

One-year regular: Salary x ((1 yr total public equity composite incentive x 25%) + (1 yr total fund incentive x 75%)) x 33 1/3%
Four-year regular: Salary x ((4 yr total public equity composite incentive x 25%) + (4 yr total fund incentive x 75%)) x 66 2/3%
Ten-year regular: Salary x ((10 yr total public equity composite incentive x 25%) + (10 yr total fund incentive x 75%)) x 33 1/3%
Four-year stretch: Salary x ((4 yr total public equity composite stretch incentive x 25%) + (4 yr total fund stretch incentive x 75%)) x 50%
Ten-year stretch: Salary x ((10 yr total public equity composite stretch incentive x 25%) + (10 yr total fund stretch incentive x 75%)) x 16 2/3%

Plan Implementation: *
Taylor: Sum of all parts x 40% for total earned incentive for FY 2021
Payton: Sum of all parts x 40% for total earned incentive for FY 2021

*FY 2022 incentive programs for Taylor and Payton, including the use of any prior year periods, will be determined, with calculation and plan implementation details finalized and approved, prior to the beginning of FY 2022.

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