South Dakota
INVESTMENT
— COUNCIL —

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 MLC
Samantha Rains, CPA, Chief Financial Officer SMR

DATE: June 11, 2024

RE: Investment Performance Incentive Plan for **Connor Van Der Werff** effective Fiscal Year 2025

Overview:

This memo provides an overview and calculation details effective for the Fiscal Year 2025 (payable in FY 2026) incentive plan program for **Connor Van Der Werff**.

The incentive parts sum to 225% 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 high yield fixed income composite and 75% on the total fund net return. FY 2025 will be the first year of his incentive plan program, so the one-year return will be used for the one, four and ten-year incentive pieces.

The incentive plan will be updated for FY 2026 to reflect expected responsibilities for FY 2026.

Plan Implementation:
Sum of all parts x 30% for total earned incentive for FY 2025

Appendix:

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

1) Twenty-five percent is based on the one-year return of the high yield fixed income composite relative to the one-year return of the high yield fixed income benchmark with the difference applied to the HY regular 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 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 high yield fixed income composite relative to the four-year annualized return of the high yield fixed income benchmark with the difference applied to the HY regular breakpoint schedule.
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 breakpoint schedule.

The **ten-year regular (1/2)** incentive consists of two parts:

1) Twenty-five percent is based on the ten-year annualized return of the public equity composite relative to the ten-year annualized return of the high yield fixed income benchmark with the difference applied to the HY regular breakpoint schedule.
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 regular breakpoint schedule.

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 public equity composite relative to the four-year annualized return of the high yield fixed income benchmark with the difference applied to the HY regular stretch breakpoint schedule.
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 stretch breakpoint schedule.

The **ten-year stretch (1/4)** incentive consists of two parts:

1) Twenty-five percent is based on the ten-year annualized return of the public equity composite relative to the ten-year annualized return of the high yield fixed income benchmark with the difference applied to the HY regular stretch breakpoint schedule.
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 stretch breakpoint schedule.

<u>Formula</u>

One-year regular: Salary x ((1 yr high yield fixed income composite incentive x 25%) + (1 yr total fund incentive x 75%)) x 33 1/3%

Four-year regular: Salary x ((4 yr high yield fixed income composite incentive x 25%) + (4 yr total fund incentive x 75%)) x 66 2/3%

Ten-year regular: Salary x ((10 yr high yield fixed income composite incentive x 25%) + (10 yr total fund incentive x 75%)) x 50%

Four-year stretch: Salary x ((4 yr high yield fixed income composite stretch incentive x 25%) + (4 yr total fund stretch incentive x 75%)) x 50%

Ten-year stretch: Salary x ((10 yr high yield fixed income composite stretch incentive x 25%) + (10 yr total fund stretch incentive x 75%)) x 25%

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MEMORANDUM

TO: South Dakota Investment Council

FROM: Matthew L. Clark, CFA, State Investment Officer MLC
Samantha Rains, CPA, Chief Financial Officer SMR

DATE: June 11, 2024

RE: Investment Performance Incentive Plan change effective Fiscal Year 2025 - **Arianna Rehfeldt**

Overview:

This memo provides an overview and calculation details effective for the Fiscal Year 2025 (payable in FY 2026) incentive program for **Arianna Rehfeldt**. Beginning in Fiscal Year 2025, Arianna will be part of the management of the global core portfolio with Jan Zeeck and Renae Randall. Arianna's individual global equity portfolio will be the global core portfolio and the individual global equity benchmark will be the global core benchmark. The return history of her prior individual portfolio (G2) will be combined with the return of the global core portfolio beginning in Fiscal Year 2025 for all four and ten-year annualized periods. The return history of her prior individual portfolio benchmark will be combined with the return of the global core benchmark beginning in Fiscal Year 2025 for all 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 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. SDRS time-weighted rates of return are used in the incentive calculations.

The incentive calculation will continue to be based 40% on the individual global equity portfolio (global core beginning Fiscal Year 2025), 40% on the global core equity and 20% on the net return of the SDRS total fund.

Appendix:

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

1) Forty percent is based on the one-year return of the individual global equity portfolio relative to the one-year return of the individual global equity benchmark with the difference applied to the global 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 global 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 of the individual global equity portfolio relative to the four-year annualized return of the individual global equity benchmark with the difference applied to the global equity 4&10 years regular breakpoint schedule.
2) Forty percent is based on the four-year annualized return of the global core equity portfolio relative to the four-year annualized return of the global core equity benchmark with the difference applied to the global 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 three parts:

1) Forty percent is based on the ten-year annualized return of the individual global sector equity portfolio relative to the ten-year annualized return of the individual global equity benchmark with the difference applied to the global equity 4&10 years regular breakpoint schedule.
2) Forty percent is based on the ten-year annualized return of the global core equity portfolio return relative to the ten-year annualized return of the global core equity benchmark with the difference applied to the global equity 4&10 years regular breakpoint schedule.
3) 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 three parts:

1) Forty percent is based on the four-year annualized return of the individual global equity portfolio relative to the four-year annualized return of the individual global equity benchmark with the difference applied to the global equity 4&10 years stretch breakpoint schedule.

2) Forty percent is based on the four-year annualized return of the global core equity portfolio relative to the four-year annualized return of the global core equity benchmark with the difference applied to the global 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:

1) Forty percent is based on the ten-year annualized return of the individual global equity portfolio relative to the ten-year annualized return of the individual global equity benchmark with the difference applied to the global equity 4&10 years stretch breakpoint schedule.
2) Forty percent is based on the ten-year annualized return of the global core equity portfolio relative to the ten-year annualized return of the global core equity benchmark with the difference applied to the global equity 4&10 years stretch breakpoint schedule.
3) 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 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 x 40%) + (4 yr core equity incentive x 40%) + (4 yr CMB total fund incentive x 20%)) x 66.666667%
Ten year regular: Salary x ((10 yr individual equity incentive x 40%) + (10 yr core equity incentive x 40%) + (10 yr CMB total fund incentive x 20%)) x 50%
Four year stretch: Salary x ((4 yr individual equity stretch incentive x 40%) + (4 yr core equity stretch incentive x 40%) + (4 yr CMB total fund stretch incentive x 20%)) x 50%
Ten year stretch: Salary x ((10 yr individual equity stretch incentive x 40%) + (10 year core equity stretch incentive x 40%) + (10 yr CMB total fund stretch incentive x 20%)) x 25%

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MEMORANDUM

TO: South Dakota Investment Council

FROM: Matthew L. Clark, CFA, State Investment Officer MLC
Samantha Rains, CPA, Chief Financial Officer SMR

DATE: June 11, 2024

RE: Investment Performance Incentive Plan for **Jake Wehde** effective Fiscal Year 2025

Overview:

This memo provides an overview and calculation details effective for the Fiscal Year 2025 (payable in FY 2026) incentive plan program for **Jake Wehde**. This is an update from last year's incentive to include the two-year returns.

The incentive parts sum to 225% 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 2025 was the second year of his incentive plan program, so the one-year return will be used for the one, and the two-year return will be used for the four and ten-year incentive pieces.

The incentive plan will be updated for FY 2026 to reflect portfolio management responsibilities expected for FY 2026.

Plan Implementation:
Sum of all parts x 40% for total earned incentive for FY 2025

Appendix:

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 public global equity regular 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 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 public global equity regular breakpoint schedule.
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 regular breakpoint schedule.

The **ten-year regular (1/2)** incentive consists of two parts:

1) Twenty-five percent is based on the ten-year annualized return of the public equity composite relative to the ten-year annualized return of the total public equity benchmark with the difference applied to the public global equity regular breakpoint schedule.
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 regular breakpoint schedule.

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 public equity composite relative to the four-year annualized return of the total public equity benchmark with the difference applied to the public global equity regular stretch breakpoint schedule.
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 regular stretch breakpoint schedule.

The **ten-year stretch (1/4)** incentive consists of two parts:

1) Twenty-five percent is based on the ten-year annualized return of the public equity composite relative to the ten-year annualized return of the total public equity benchmark with the difference applied to the public global equity regular stretch breakpoint schedule.
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 regular stretch breakpoint schedule.

<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 50%
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 25%

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