

Meeting Minutes
South Dakota Department of Labor
Employees' Retirement Board Meeting
Kneip Building, Conference Room 3
Monday, June 15, 2015 at 10 a.m. (CDT)

The South Dakota Department of Labor Employees' Retirement Board (ERB) met on June 15, 2015 with DDN locations in Aberdeen, Rapid City, Custer, and Sioux Falls.

Members Present: Jason Dilges, Marcia Hultman, Mike O'Brien, and Jim Fansler

Members Absent: Bob Riter

Present in Pierre DDN: Emily Ward, Derek Gustafson, Sarah Petrik, Nancy Stenson, and Pamela Hericks

Phone Conference: Paula Zellmer and David Fee

Present at Sioux Falls DDN: None

Present at Aberdeen DDN: Sharon Schnabel, Elsie Schuck, Betty Wandry, Teresa Knoll, Cindy Herr, Sharmie Jensen

Present at Rapid City DDN: None

Acting Chairman Fansler called the meeting to order, and roll call was taken by Derek Gustafson.

Opening Remarks: None

Mike O'Brien MOVED to approve the minutes from August 28, 2014, ERB meeting as written and was SECONDED by Marcia Hultman. MOTION CARRIED.

Business: Principal – Paula Zellmer and David Fee

Global Multi-Strategy Portfolio Strategy

Principal Financial Group believes the Global Multi-Strategy (GMS) portfolio would be a good utility for diversifying the bond market allocation in a rising rate environment. Principle has developed the GMS portfolio to have equal risk, in terms of volatility, as the bond market and slightly higher returns. The total gross investment expense of the GMS is 2.18%. However, Principle subsidizes the cost to operate the portfolio to reduce the investment expense to 1.65%. Principle's strategy would be to allocate 6% of the funds from the bond market and bond mortgages portfolios to the GMS portfolio. The investment costs for the bond portfolios range from .41% to .55%.

In order for Principal Financial Group to use the GMS, the Board would need to approve an amendment to the contract to include the GMS. While Principle Financial Group has provided many positive points supporting the GMS, it should not be interpreted Principle is pushing us to approve the new strategy. Principle does not want to encourage us to use a strategy we are not comfortable with.

Board Discussion:

Marcia Hultman expressed her reservations about using this investment strategy. Jason Dilges expressed his concern about what would happen if a market correction occurred.

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Jason was also adverse to derivatives and swaps and was concerned with whether they were an allowable investment option. Jim Fansler did not want to take any action on amending the contract until after they received advice from South Dakota Investment Counsel and got answers to whether derivatives and swaps were an allowable investment option. Mike O'Brien expressed the Board take a more conservative approach with the mature retirement system we have and not take any action on the proposed GMS.

Jason Dilges will ask a contact in the South Dakota Investment Counsel to weigh-in on the GMS, and advise us on whether the strategy would be something they would recommend. Jason Dilges will also research whether derivatives and swaps are an allowable investment option.

The Board agreed to defer from taking any action at this time.

Board Vote: No action taken.

New Business: None

Mike O'Brien MOTIONED to adjourn, SECONDED by Jason Dilges. MOTION CARRIED.