

BOARD MEETING

SOUTH DAKOTA RETIREMENT SYSTEM

June 4, 2025

The Board of Trustees of the South Dakota Retirement System held its regular Board meeting on June 4, 2025. The meeting began at 9:00 a.m. in the Board Conference Room at the South Dakota Retirement System office.

BOARD MEMBERS IN ATTENDANCE:

Eric Stroeder, Chair
James Appl, Vice Chair
Penny Brunken
Liza Clark
Myron Johnson
Jill Lenards
Jake Oakland
Hank Prim
Shane Roth
Justice Mark Salter
Darin Seeley
Dave Smith
Wes Tschetter
Matt Clark, Ex Officio

Table of Contents	
Board Member Conflicts Disclosure	2
Public Comment	2
Minutes	2
Election Results	2
Appointment of Municipal Employee Representative.....	3
Recognition of Retiring Board Member.....	4
FY 2027 Budget Request.....	4
Appointment of Executive Director Evaluation and Compensation Committees.....	5
Appointment of Audit Committee.....	5
Appointment of Class B Public Safety Committee	5
Rules Hearing	6
Update of FY2025 Investment Performance	6
Review of SDRS Projected Funded Status.....	6
Asset Allocation.....	7
Old/New Business	9
Personnel Matters.....	9

Board members LaJena Gruis, Victoria Hinek, and Jim Terwilliger were absent.

OTHERS IN ATTENDANCE:

Matthew Carey, SDIO
Anne Cipperley, SDIO
Jarred Edelen, SDIO
Darci Haug, SDIO
Duncan Koch, BFM
Bob Mercer, Keloland News
Danielle Mourer, SDIO
Brittnie Adamson, SDRS
Travis Almond, SDRS
Alan Freng, SDRS
Doug Fiddler, SDRS
Michelle Humann, SDRS

Sam Koldenhoven, SDRS
Michelle Mikkelsen, SDRS
Jaime Rutschke, SDRS
Dawn Smith, SDRS
Jacque Storm, SDRS

For continuity, these minutes are not necessarily in chronological order.

AGENDA ITEM 1
BOARD MEMBER CONFLICTS DISCLOSURE

Summary of Presentation

No board member had any conflict to disclose.

Board Action

No action was necessary.

AGENDA ITEM 2
PUBLIC COMMENT

Summary of Discussion

There was no public comment.

Board Action

No action was necessary.

AGENDA ITEM 3
APPROVAL OF APRIL 9, 2025, MEETING MINUTES

Board Action

IT WAS MOVED BY MR. APPL, SECONDED BY MR. ROTH, TO APPROVE THE MINUTES OF THE APRIL 9, 2025, BOARD OF TRUSTEES MEETING. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 4
ELECTION RESULTS

Summary of Presentation

Ms. Dawn Smith, SDRS Executive Assistant, stated that three positions were up for election this year. Jim Appl (Teachers) and Jill Lenards (State Employees) ran unopposed and will begin their four-year terms on July 1, 2025. She noted that, as no petitions were received for the Municipal Employee representative, the Board would have to appoint a replacement representative from the resumes received.

Board Action

IT WAS MOVED BY MR. PRIM, SECONDED BY MR. TSCHETTER, TO APPROVE AND CERTIFY THE RESULTS OF THE 2025 BOARD OF TRUSTEES ELECTION AS PRESENTED, CONFIRMING THE ELECTION OF THE FOLLOWING INDIVIDUALS TO THEIR RESPECTIVE POSITIONS: JAMES APPL, TEACHER REPRESENTATIVE, AND JILL LENARDS, STATE EMPLOYEE REPRESENTATIVE. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 5 **APPOINTMENT OF MUNICIPAL EMPLOYEE REPRESENTATIVE**

Summary of Presentation

Ms. Smith stated that the Board had received resumes from members interested in the municipal employee representative position. She noted that the Board would select the municipal employee representative by secret ballot.

Chair Stroeder explained the process he was proposing to use for the secret ballot voting.

Board Action

IT WAS MOVED BY MR. PRIM, SECONDED BY MS. BRUNKEN, THAT FOR TODAY'S VOTE, THE BOARD OF TRUSTEES ADOPT THE PLURALITY WITH A RUNOFF METHOD, AS DESCRIBED TODAY. THE PROCESS WOULD BE AS FOLLOWS:

- EACH BOARD MEMBER VOTES FOR ONE CANDIDATE IN THE FIRST ROUND.
- VOTES WOULD BE COUNTED.
- IF A CANDIDATE RECEIVES A MAJORITY (8 OR MORE VOTES), THEY WIN.
- IF THERE IS NO MAJORITY, WE WILL HOLD A RUNOFF ELECTION BETWEEN THE TOP TWO CANDIDATES UNLESS THE SECOND AND THIRD CANDIDATES ARE SEPARATED BY TWO VOTES OR LESS. IN SUCH SITUATIONS, WE WILL HOLD A RUNOFF ELECTION BETWEEN THE TOP THREE CANDIDATES.
- IN THE RUNOFF, MEMBERS WOULD VOTE AGAIN. THE CANDIDATE WITH A MAJORITY (8 OR MORE VOTES) WINS.

THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

IT WAS MOVED BY MR. OAKLAND, SECONDED BY MR. ROTH, TO GO INTO EXECUTIVE SESSION PURSUANT TO SDCL 1-25-2(1) TO CONSIDER THE QUALIFICATIONS OF THE SEVEN APPLICANTS FOR THE BOARD'S MUNICIPAL EMPLOYEE REPRESENTATIVE POSITION. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

THE CHAIR DECLARED THE BOARD WAS OUT OF EXECUTIVE SESSION.

Each board member voted by secret ballot to choose a candidate for the municipal employee representative position. Laurie Gronlund, with eight votes in the first round, obtained the requisite majority.

IT WAS MOVED BY MR. PRIM, SECONDED BY MR. SMITH, THAT THE BOARD APPOINT LAURIE GRONLUND TO SERVE AS THE BOARD'S MUNICIPAL EMPLOYEE REPRESENTATIVE, EFFECTIVE JULY 1, 2025. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 6
RECOGNITION OF RETIRING BOARD MEMBER

Board Action

IT WAS MOVED BY MR. APPL, SECONDED BY MR. JOHNSON, FOR A VOTE OF APPRECIATION TO DAVE SMITH FOR HIS SERVICE ON THE BOARD OF TRUSTEES BY ADOPTING THE FOLLOWING RESOLUTION:

WHEREAS, Dave Smith has faithfully served as a member of the South Dakota Retirement System Board of Trustees from 2023 to 2025; and

WHEREAS, Dave Smith has been dedicated to the position of trustee and diligently exercised his fiduciary responsibilities, consistently acting in the best interest of all stakeholders; and

WHEREAS, Dave Smith's service has had a lasting and positive impact on the sustainability and strength of the South Dakota Retirement System:

NOW THEREFORE, BE IT RESOLVED, by the Board of Trustees of the South Dakota Retirement System, that this resolution be adopted in grateful recognition and appreciation of Dave Smith's outstanding service and contributions.

THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 7
FY 2027 BUDGET REQUEST

Summary of Presentation

Ms. Michelle Mikkelsen, SDRS Chief Financial Officer, stated that SDRS is requesting no additional expenditure authority in the Fiscal Year 2027 budget.

Board Action:

IT WAS MOVED BY MR. SMITH, SECONDED BY MS. BRUNKEN, TO APPROVE THE FY 2027 BUDGET REQUEST AS PRESENTED. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 8
APPOINTMENT OF EXECUTIVE DIRECTOR EVALUATION AND
COMPENSATION COMMITTEES

Summary of Presentation

Chair Stroeder stated that he has appointed an executive director compensation committee to consist of himself, Jim Appl, Matt Clark, and Darin Seeley, with himself serving as chair.

He also stated that he has appointed an Executive Director Evaluation Committee to consist of Jim Appl, Penny Brunken, Justice Mark Salter, and Darin Seeley, with Jim Appl serving as chair.

Board Action

No action was necessary.

AGENDA ITEM 9
APPOINTMENT OF AUDIT COMMITTEE

Summary of Presentation

Chair Stroeder stated that he has appointed an audit committee to consist of Jill Lenards, LaJena Gruis, and Victoria Hinek, with Jill Lenards serving as chair.

Board Action

No action was necessary.

AGENDA ITEM 10
APPOINTMENT OF CLASS B PUBLIC SAFETY COMMITTEE

Summary of Presentation

Chair Stroeder stated that pursuant to the Board of Trustees' motion at its June 2022 meeting, the Class B Public Safety representative and another member appointed by the Chair shall serve on the Class B Public Safety Committee with certain staff members. He advised that he has appointed Justice Salter to serve on the Class B Public Safety Committee.

Board Action

No action was necessary.

ADMINISTRATIVE RULES HEARING

Summary of Presentation

A copy of the minutes from the administrative rules hearing is in the office of the Executive Director.

Board Action

IT WAS MOVED BY MR. OAKLAND, SECONDED BY MR. SMITH, TO ADOPT THE PROPOSED CHANGES TO THE SOUTH DAKOTA RETIREMENT SYSTEM'S ADMINISTRATIVE RULES, AS PRESENTED TODAY. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 11 **UPDATE OF FY 2025 INVESTMENT PERFORMANCE**

Summary of Presentation

Ms. Darci Haug, Senior Portfolio Manager, SDIO, and Ms. Danielle Mourer, Portfolio Manager, SDIO, informed the Board that as of May 31, the SDRS trust fund had a fiscal year-to-date return rate of between 3.2 and 3.7 percent.

Board Action

No action was necessary.

AGENDA ITEM 12 **PROJECTED FUNDED STATUS OF THE** **SOUTH DAKOTA RETIREMENT SYSTEM**

Summary of Presentation:

Mr. Doug Fiddler, SDRS Senior Actuary, noted that the SDRS contribution rates are fixed in statute and that the statutes require a recommendation for corrective actions if SDRS falls below 100 percent funded. The SDRS COLA will vary with both inflation and long-term affordability and is critical to managing the system on fixed contributions.

Employer contribution rates of 6 percent for Class A members are 40 percent of the national median of 15.2 percent. At the same time, advised Mr. Fiddler, SDRS' fair value funded ratio of 100 percent exceeds the estimated median FVFR of 80 percent. In addition, as a percent of government spending, South Dakota spends the least in the nation on pensions at 1.78 percent compared to the median of 4.12 percent and 5.11 percent aggregate.

SDRS' competing objective of delivering adequate benefits and remaining fully funded through all economic conditions is a very high standard, especially when funded with fixed contributions that are less than half of the national median. These objectives become even more challenging as retirees live longer and the consensus view of future investment returns is lower. The efforts of SDRS management to meet these objectives

have included enacting the variable COLA process, transitioning foundation members to a 5-year final average compensation and including pay increase caps, the generational design, retire-rehire reform, and various other initiatives to avoid or lessen subsidies.

Mr. Fiddler noted that the most significant immediate risk to SDRS is investment risk. The investment returns will first impact the variable SDRS COLA. Less than assumed returns will reduce the restricted maximum COLA, while greater than assumed returns will increase the maximum or enable the full COLA range. However, the variable COLA will not be sufficient to maintain 100 percent FVFR in all conditions, and additional corrective actions may be required.

Mr. Fiddler stated that based on a FY25 net investment return of 3.5 percent, the baseline FVFR is expected to be 92.2 percent at June 30, 2025. As a result, the preliminary estimated 2026 COLA would be equal to inflation within the restricted COLA range of zero to 1.42 percent. The July 2025 SDRS COLA will be the restricted maximum COLA of 1.71%.

In conclusion, Mr. Fiddler advised that FY 2025 returns below approximately negative 9 percent would require a corrective action recommendation, while returns greater than approximately 12 percent would result in the full 0 to 3.5 percent COLA range applying for the July 2026 COLA.

Board Action

No action was necessary.

AGENDA ITEM 13 **ASSET ALLOCATION**

Summary of Presentation

Ms. Haug; Anne Cipperley, Portfolio Manager; Jarrod Edelen, Senior Portfolio Manager; Matt Carey, Associate Portfolio Manager II; and Ms. Mourer from the South Dakota Investment Office discussed the asset allocation process and application to SDRS. They discussed the recommended benchmark allocation and ranges, expected return and standard deviations, asset category valuation, and the movement of category allocations within ranges based on valuation.

Ms. Cipperley discussed the return and risk assessment of equities and bonds. She showed charts of historic returns, noting the dominance of equity returns over the very long term and the diversification benefit of mixing in some bonds during market downturns.

Ms. Haug discussed the recommended benchmark level of equity-like and bond-like risk to balance long-term potential returns with drawdown risk in difficult markets. She indicated this was for the benchmark, which should represent what could be adhered to through thick and thin. She discussed the recommended range for equity-like risk and

bond-like risk and said the goal is to enter market downturns with below benchmark risk and increase toward maximum during the downturn to benefit from an eventual rebound. She added that after getting to minimums and maximums, markets will typically move further, which can be very painful, and that it is essential to be patient for at least another three to five years. Ms. Haug discussed equity-like and bond-like risk mapping for all asset categories. She discussed specific asset categories to be included in the benchmark, which are those that are significant and passively implementable. She discussed other niche or skill-based categories that are not in the benchmark but that have a permitted range. She presented the SDRS proposed FY2026 capital market benchmark allocations and minimum/maximum ranges for each asset category, which are unchanged from the prior year.

Ms. Haug reviewed the asset allocation risk/return analysis. The first portion focused on long-term mean expected returns, expected standard deviations, and asset correlations provided by a Wall Street firm as a proxy for conventional expectations. The analysis was shown again using internal asset category expected returns and internal adjusted risk measures.

Ms. Cipperley discussed additional risk measures and risk control. She reiterated that the focus is on equity-like risk and bond-like risk, which includes embedded equity and bond risk for all categories. She said statistical measures of risk, such as standard deviation and correlation, are adjusted to reflect higher real-world frequency and magnitude of adverse outlier events, and that the behavior of some assets in a crisis can vary depending on whether the crisis is rooted in inflation or deflation concerns. She discussed how risk is managed by broad diversification and by reducing amounts invested in expensive assets and that adequate liquidity is maintained to avoid liquidations of depressed assets in a crisis and to allow rebalancing. She stated that participation in the economic system is necessary to get the highest long-term rewards and that short-term ebbs and flows must be endured. She added that strength and determination are important to be able to handle tough markets, which is helped by strong funding built up in good markets and a flexible benefit design.

Mr. Edelen discussed asset category valuation. He stated that the Equity category valuation is based on estimated future cash flows based on normal earnings and growth rates, and a risk-impacted discount rate. He also discussed adjustments to fair value based on monetary conditions and corporate earnings strength.

Mr. Carey discussed how equilibrium real rates can vary depending on the rate of economic growth. He also discussed the interest rate term premium and its impact on the equity discount rate.

Ms. Mourer discussed asset allocation implementation.

Board Action

No action was necessary.

AGENDA ITEM 14
OLD/NEW BUSINESS

Summary of Presentation

Conference Report

Mr. Prim gave the board a synopsis of the topics discussed at the NCPERS conference he attended.

Upcoming Board Meeting Dates

Mr. Almond discussed the upcoming SDRS Board meeting dates.

Board Action

No action was necessary.

AGENDA ITEM 15
PERSONNEL MATTERS

Summary of Presentation

The Board went into executive session to discuss personnel matters.

Board Action

IT WAS MOVED BY MS. BRUNKEN, SECONDED BY MR. APPL, TO GO INTO EXECUTIVE SESSION PURSUANT TO SDCL 1-23-2(1) TO DISCUSS ITEMS RELATING TO PERSONNEL MATTERS.

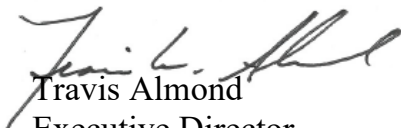
THE CHAIR DECLARED THE BOARD WAS OUT OF EXECUTIVE SESSION.

ADJOURNMENT

Board Action

IT WAS MOVED BY MR. SMITH, SECONDED BY MR. JOHNSON, THAT THERE BEING NO FURTHER BUSINESS, THE MEETING BE DECLARED ADJOURNED. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

Respectfully Submitted,


Travis Almond
Executive Director