



Final
Investment Performance FY 2025 (unaudited)
and
Budget Request FY 2027

PRESENTED TO
LRC EXECUTIVE BOARD
AUGUST 2025

Organizational Structure

- **LRC Executive Board**
- **South Dakota Investment Council**
- **State Investment Officer**
 - **Investment Management**
 - Senior Investment Manager (4)
 - Senior Portfolio Manager (9)
 - Portfolio Manager (5)
 - Associate Portfolio Manager II (3)
 - Associate Portfolio Manager I (1)
 - Trader/Systems Analyst (1)
 - Research Analyst (2)
 - **Investment Accounting**
 - Chief Financial Officer (1)
 - Senior Investment Accountant (2)
 - Investment Accountant (2)
 - **Legal Services**
 - General Counsel (2 part-time)
 - **Administration**
 - Business Manager (1)
 - Assistant Business Manager (1)

South Dakota Investment Council – FY 2026

Appointed by LRC Executive Board:

- Steve Pietila, Chair, Yankton
- Kelly Meiners, Vice Chair, Winner
- Taylor Thompson, Rapid City
- Cathy Clark, Sioux Falls
- Michael Anderson, Watertown

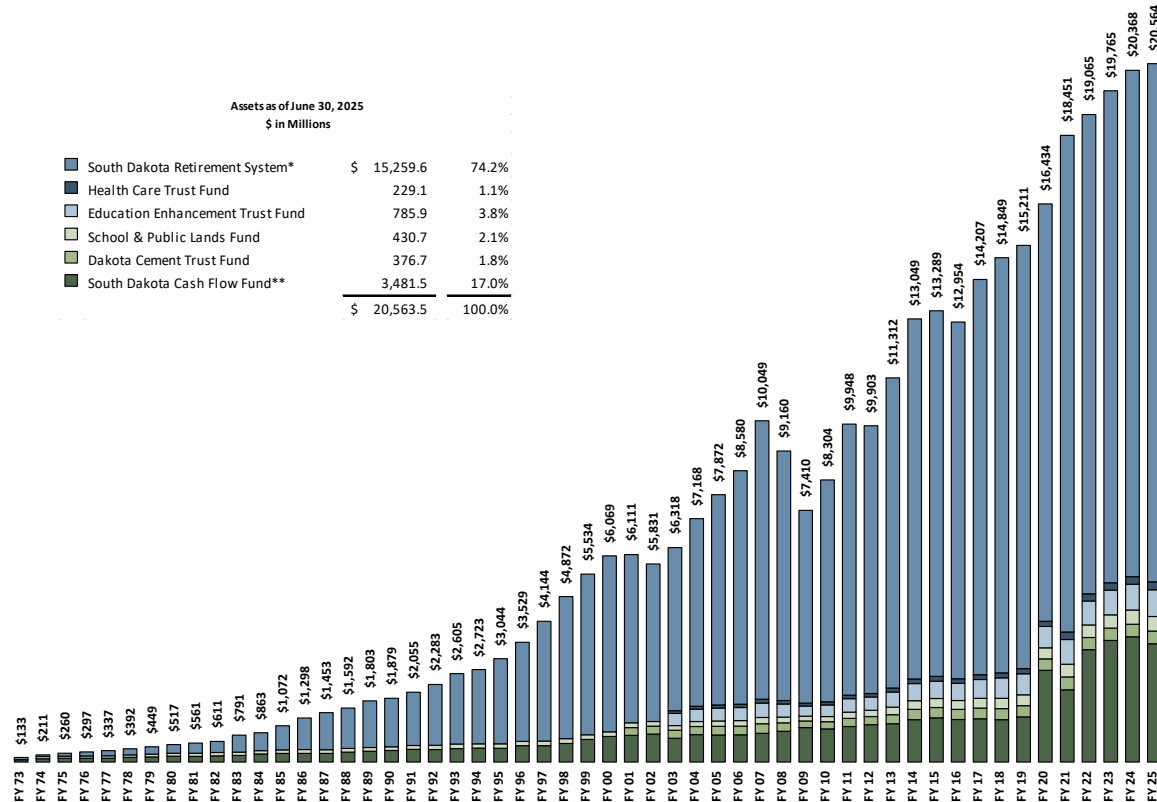
Ex-Officio Members:

- Travis Almond, SDRS Executive Director
- Brock Greenfield, S&PL Commissioner
- Josh Haeder, State Treasurer

Distribution of Investment Management Staff by Asset Category:

- Global Equity – 12
- Small/MidCap Equity – 4
- High Yield – 6
- Fixed Income/Alternatives/Derivatives - 3

Assets



*The South Dakota Cement Plant Retirement Fund (CPRF) was consolidated into the South Dakota Retirement System (SDRS) on April 1, 2014, per SDCL 3-12C-1642.

For purposes of this exhibit, CPRF Assets for Fiscal Years 1973 - 2013 are included with SDRS.

**South Dakota Cash Flow Fund assets include Coronavirus Relief Fund for Fiscal Years 2020 - 2025.

Investment Performance

Returns vs. Benchmarks (unaudited)

		<u>5 years</u> <u>Annualized</u>	<u>10 years</u> <u>Annualized</u>	<u>20 years</u> <u>Annualized</u>
	<u>FY 2025</u>	<u>FY 21-25</u>	<u>FY 16-25</u>	<u>FY 06-25</u>
SDRS Total Fund (unaudited)*	5.45%	7.47%	6.53%	7.49%
Capital Markets Benchmark	12.51%	9.54%	7.89%	7.30%
Added Value	-7.06%	-2.06%	-1.36%	0.19%
State Universe	10.58%			
Beginning FY 2025 SDRS Assets	\$14.91 billion			
Ending FY 2025 SDRS Assets (unaudited)	\$15.26 billion			

*Time-weighted rates of return are net of fees FY 14-25 and gross of fees FY 04-13

Investment Performance

Returns vs. Benchmarks (unaudited)

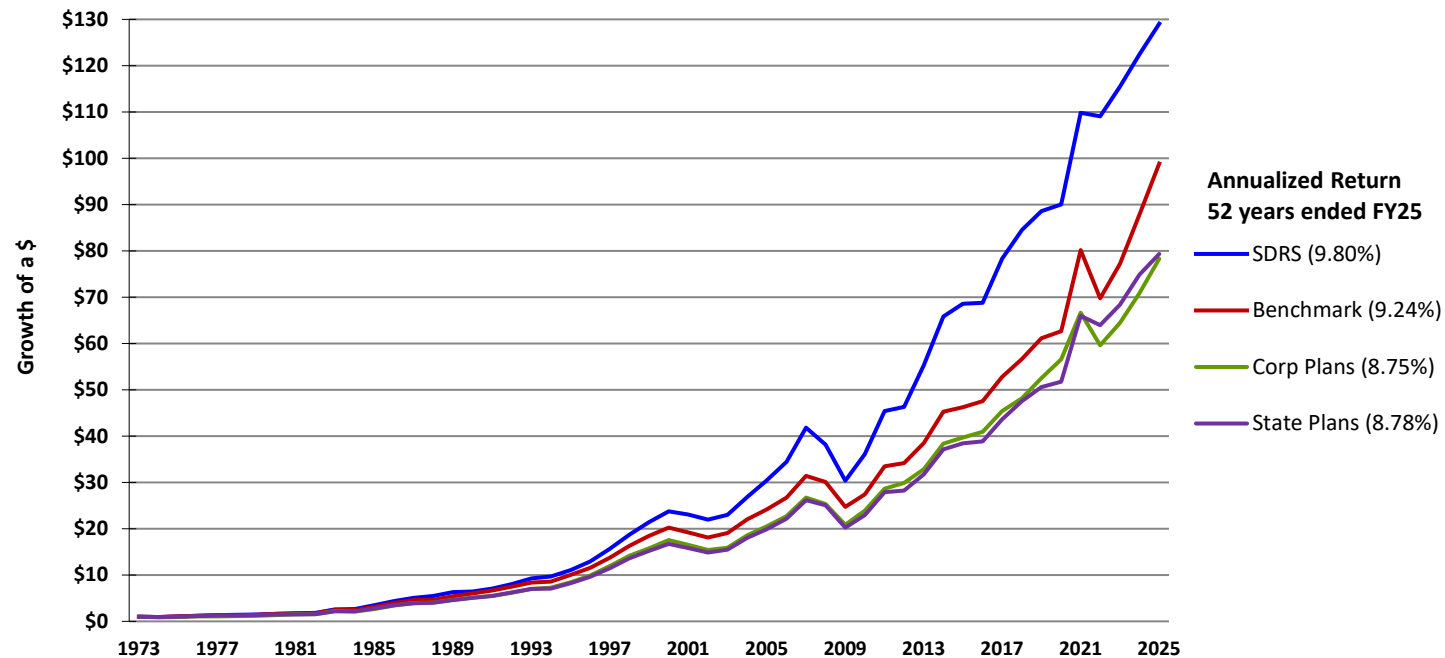
- Total SDRS dollars earned Fiscal Year 2025 \$850 million
- Total SDRS dollars earned last 5 years \$5.32 billion
- Total SDRS dollars earned last 10 years \$8.67 billion
- Total SDRS dollars earned last 20 years \$15.28 billion

- Impact in dollars from performance vs.
Capital Markets Benchmark (including compounding)

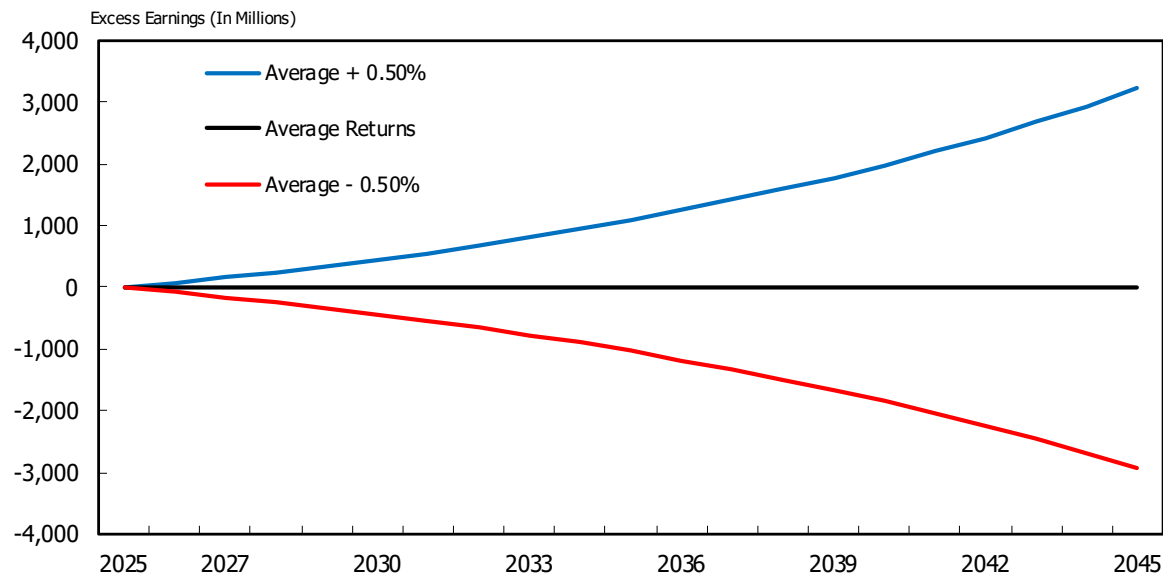
	<u>1 year</u>	<u>5 years</u>	<u>10 years</u>	<u>20 years</u>
vs. Benchmark	-\$1.08 billion	-\$1.76 billion	-\$2.75 billion	\$907 million

Superior Returns Add Up Over Time

Cumulative returns for SDRS, Benchmark, Corporate Plans, and other States

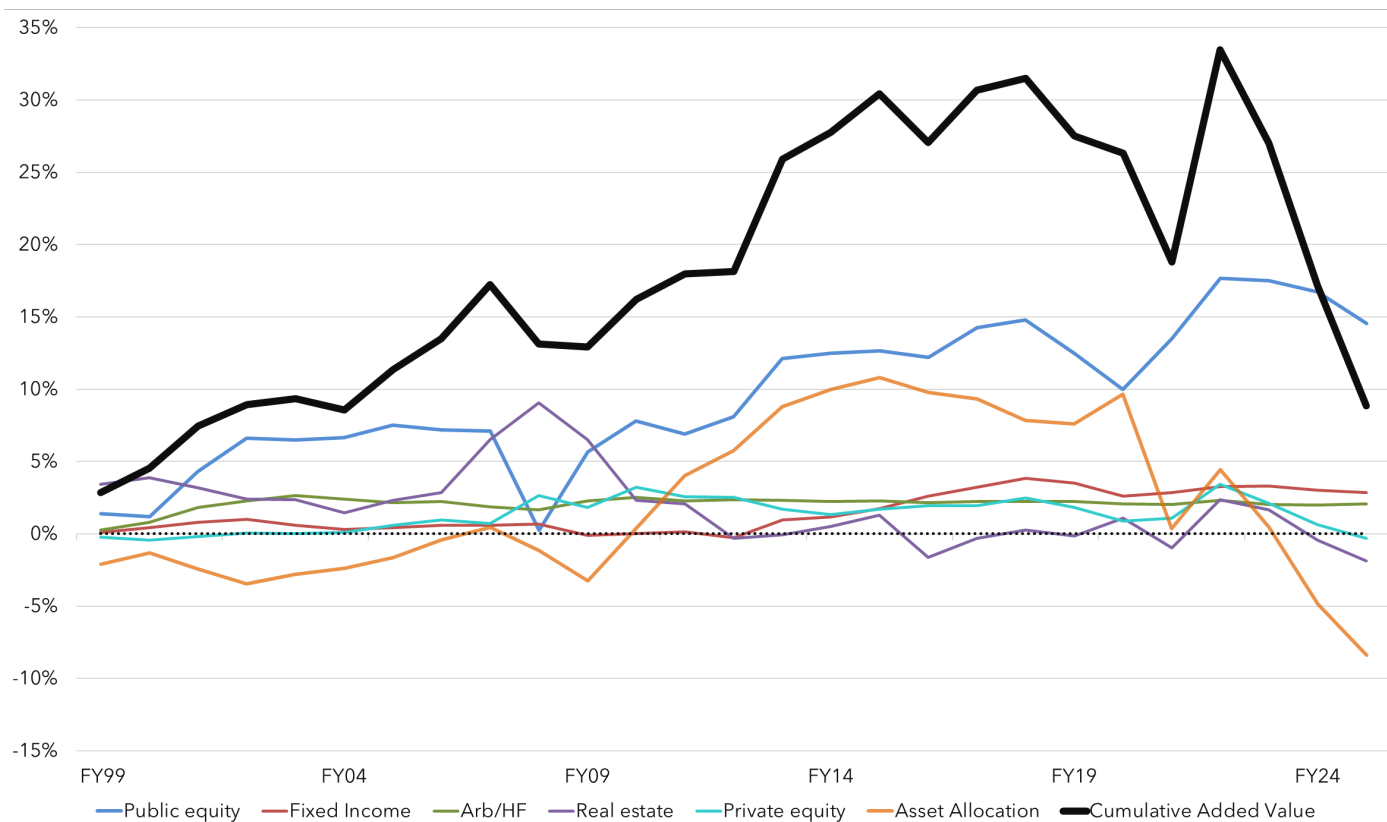


Potential Excess Earnings



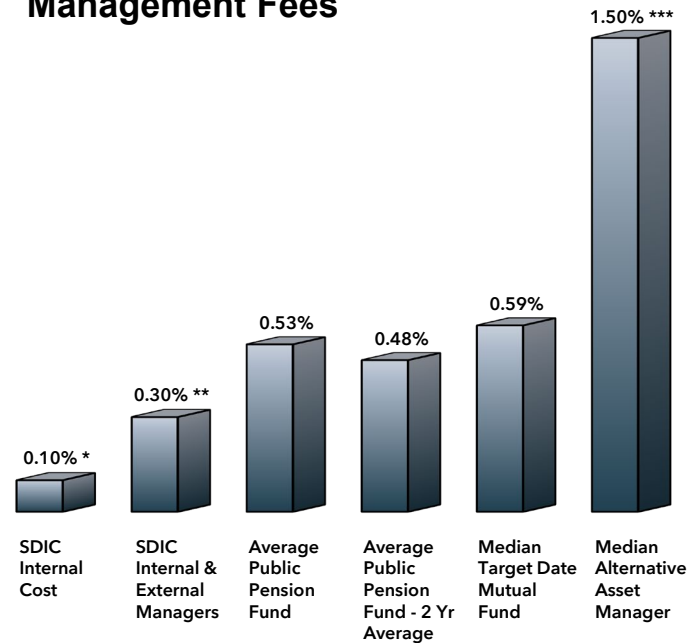
- SDRS preliminary 52-year outperformance = 0.6% annualized vs. benchmark
- Outperformance of 0.5% next 20 years = extra \$3.2 billion
- Underperformance of 0.5% = cost to retirement system of \$2.9 billion.

Many Pistons Contribute Cumulative Added Value by Source



Cost Efficiency

Management Fees



* SDIC projected expenses for FY 2027 using adjusted assets and expected average performance incentives.

** Includes estimated external management fees based on average expected investment amounts. Does not include typical 20% profit participation after preferred return for investment partnerships.

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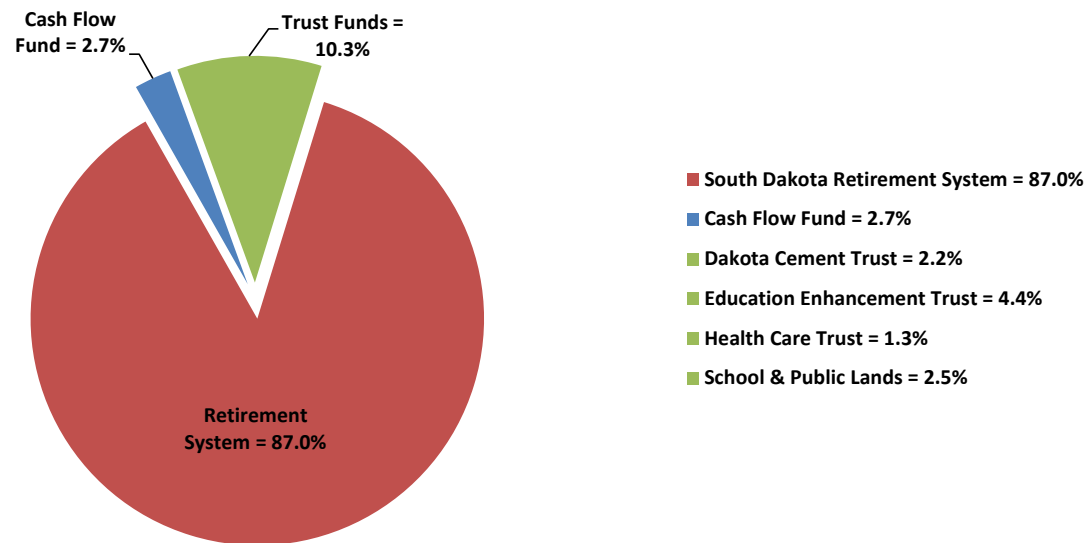
Compensation Overview

- Cost efficient due to internal management capabilities
 - Securing team to preserve internal capabilities is best chance to remain cost efficient
 - Internal cost .1% with expected average incentives
- Continued success dependent on high caliber team
 - Internally manage most assets using internally generated research
- Future team depends on retention of talent pipeline and trainers
 - Develop internally as cannot compete for top tier experienced talent
- Compensation plan aligned with goal of adding value over long term
 - Motivate superior long-term performance and retain successful staff

Compensation Overview, cont'd

- Compensation target
 - Council target is 70% of cost-of-living adjusted median industry pay to balance getting a good deal for South Dakota without losing the good deal if we cannot keep our people
 - Incorporates performance incentives
 - Compensation study updated approximately every three years
- Compensation study 2013
 - Study showed compensation had fallen to 55%
 - Expanded incentive compensation plan as opposed to adjusting base compensation
 - Incentives expanded to include longer term and stretch incentives and expected to average 80% (0% to 200%) -- This reached 95% of 70% target
 - Incentives aligned with the goal of adding value and only paid if add value
- Compensation study 2016 and 2019
 - Indicated moderate slippage, but not sufficient to request adjustment
- Compensation study 2022
 - Indicated further slippage to 10% threshold just sufficient to request adjustment
 - Increased incentive maximum to 225% focusing on 10 yr. performance including stretch component – This reduced shortfall by half

Budget Funding Sources



Budget funded by assets under management

0% General Fund appropriation

Note: S&PL share of SDIC expenses paid from earnings of Cash Flow Fund

Long-Term Plan Executive Summary

Projected LTP Budget

INVESTMENT COUNCIL BUDGET	<u>FY 2027</u>	<u>FY 2032</u>	<u>FY 2037</u>
Personal Services			
Number of Employees	35	35	35
Base Compensation - Total Staff	8,065,051	9,513,060	11,960,577
Student Interns	44,373	50,204	56,801
Investment Council	12,405	14,035	15,879
Flexibility funds-Retirements & Resignations	219,414	248,247	280,869
Investment Incentive Maximum	15,507,613	18,130,079	22,603,728
Benefits	3,208,151	3,823,730	4,839,081
Total Personal Services	27,057,007	31,779,354	39,756,935
Operating Expenses			
Contractual Services	3,136,269	3,461,883	3,823,921
Travel	88,681	100,334	113,519
Office Supplies & Postage	5,000	5,657	6,400
Capital Assets	40,520	46,045	52,618
Total Operating Expenses	3,270,470	3,613,919	3,996,459
Total Investment Council Budget ⁽¹⁾	30,327,477	35,393,274	43,753,393
ASSET SUMMARY ⁽²⁾			
Internal Assets	17,734,109,886	22,738,651,719	27,446,672,901
External Assets	4,433,527,472	4,012,703,245	4,843,530,512
Total Assets	22,167,637,358	26,751,354,964	32,290,203,413
EXPENSE SUMMARY			
Internal Expenses	30,327,477	35,393,274	43,753,393
External Manager Fees ⁽³⁾	48,768,802	44,139,736	53,278,836
Total Expenses	79,096,279	79,533,009	97,032,229
UNIT COST SUMMARY ⁽⁴⁾			
Internal Expenses as % of Total Assets	0.10%	0.10%	0.10%
Total Expenses as % of Total Assets	0.30%	0.24%	0.24%

⁽¹⁾ FY 2027 amounts differ from the actual final budget request. To reflect all costs, the LTP includes an assumed salary policy of 2.5% and an additional 1.50% increase for investment positions. The salary policy is not included in the budget request as any salary policy is added afterward.

⁽²⁾ Projections based on long-term assumed returns applied to 6/30/25 assets. Updated each June 30.

⁽³⁾ External Manager Fees based on non-haircut assets

⁽⁴⁾ Unit Cost Summary uses assumed average investment performance incentives

FY 2025 Budget and Actual

	Expended FY 2025	Received FY 2025	Unexpended FY 2025
PERSONAL SERVICES			
Total FTEs	32.00	35.00	
Base Compensation			
Base Compensation - Investment Staff	6,234,560	7,178,312	943,752 *
Base Comp - Admin, Acct, Legal, Longevity	773,189	844,120	70,931
TOTAL STAFF - FULL TIME	7,007,749	8,022,432	1,014,683
Part-Time - Legal & Interns	43,938	42,586	(1,352)
Investment Council	6,972	11,948	4,976
Retirement & resignation flexibility funds	175,987	211,420	35,433
Benefits	1,181,640	1,542,752	361,112
Total Base Compensation	8,416,287	9,831,138	1,414,851
Investment Performance Incentives			
Maximum Potential Investment Perf Incentive	5,442,703	15,063,132	9,620,429
Benefits	358,245	1,578,713	1,220,468
Total Investment Performance Incentives	5,800,948	16,641,845	10,840,897
TOTAL PERSONAL SERVICES	14,217,235	26,472,983	12,255,748
OPERATING EXPENSES			
Contractual Total	2,443,122	2,928,489	485,367
Travel	52,784	88,681	35,897
Office Supplies	3,898	5,000	1,102
Capital Assets	46,105	40,520	(5,585)
Total Operating Expenses	2,545,909	3,062,690	516,781
TOTAL BUDGET	16,763,143	29,535,673	12,772,530

*Includes \$33,116 Virtus reimbursement & unused compensation

Note: Budget is funded as needed and ended year with a cash balance of \$2,985,570.53 which is credited against FY 2026 authorized budget

FY 2027 Budget Request

Summary

	<u>Received FY 2026</u>	<u>Request FY 2027</u>	<u>% change</u>
PERSONAL SERVICES			
Total FTEs	35.00	35.00	
Base Compensation			
Base Compensation - Investment Staff	7,233,167	7,046,089	-2.59%
Base Comp - Admin, Acct, Legal, Longevity	810,385	833,743	2.88%
TOTAL STAFF - FULL TIME	8,043,548	7,879,832	-2.04%
Part-Time - Legal & Interns	43,135	43,294	0.37%
Investment Council	12,102	12,102	0.00%
Retirement & resignation flexibility funds	214,063	214,063	0.00%
Benefits	1,562,750	1,542,015	-1.33%
Total Base Compensation	9,875,598	9,691,306	-1.87%
Investment Performance Incentives			
Maximum Potential Investment Perf Incentive	15,603,604	15,507,613	-0.62%
Benefits	1,653,298	1,640,051	-0.80%
Total Investment Performance Incentives	17,256,902	17,147,664	-0.63%
TOTAL PERSONAL SERVICES	27,132,500	26,838,970	-1.08%
OPERATING EXPENSES			
Contractual Total (see next page for further details)	3,037,226	3,136,269	3.26%
Travel	88,681	88,681	0.00%
Office Supplies	5,000	5,000	0.00%
Capital Assets	40,520	40,520	0.00%
Total Operating Expenses	3,171,427	3,270,470	3.12%
TOTAL BUDGET	30,303,927	30,109,440	-0.64%
UNIT COST SUMMARY *			
Internal Expenses as % of Total Adjusted Assets	0.105%	0.101%	
Total Expenses as % of Total Adjusted Assets	0.310%	0.297%	

* Unit cost based on total assets adjusted to long-term value, expenses using assumed average investment performance incentives, long-term average of retirement & resignation flexibility funds, and an assumed 2.5% salary policy for FY27.

FY 2027 Budget Request

Contractual services detail

	<u>Received</u> <u>FY 2026</u>	<u>Request</u> <u>FY 2027</u>	<u>% chng</u>
CONTRACTUAL SERVICES			
Investment Services			
Consulting Services	180,000	180,000	0.00%
Investment Accounting, Performance Benchmarking	388,730	401,385	3.26%
Investment Databases, Newsfeeds & Quote Fees	886,133	919,319	3.75%
Investment Research Services	493,121	516,026	4.64%
Flexibility - From Brokerage to Independent Research	225,000	225,000	0.00%
Total Investment Services	<u>2,172,984</u>	<u>2,241,730</u>	<u>3.16%</u>
Administrative Expenses			
Office Rent	168,605	176,193	4.50%
Bond/Liability Insurance	8,600	8,815	2.50%
Telephone	24,336	24,336	0.00%
Office Equip Rental/Maintenance/Misc	7,800	7,800	0.00%
Bureau of Info & Telecommunications (BIT)	197,554	210,154	6.38%
State Central Services	16,023	17,393	8.55%
Legislative Audit	74,814	77,058	3.00%
Janitorial	3,730	3,730	0.00%
Custodial Fees - Global	311,280	317,560	2.02%
Seminars/Educational Programs	50,000	50,000	0.00%
Business Publications	1,500	1,500	0.00%
Total Administrative Expenses	<u>864,242</u>	<u>894,539</u>	<u>3.51%</u>
TOTAL CONTRACTUAL SERVICES	<u>3,037,226</u>	<u>3,136,269</u>	<u>3.26%</u>

Trust Funds (unaudited)

Health Care Trust (established April 2001)

Principal as of 06/30/25	\$ 135,631,024
Principal as of 06/30/25 adjusted for inflation	\$ 212,691,269
Fair Value (FV) as of 06/30/25	\$ 229,102,731
Difference - FV less principal	\$ 93,471,707
Difference - FV less infl. adj. prin.	\$ 16,411,462
Fiscal year to date return	5.99%
Longterm expected mean return	5.65%
Payout of 4% plus expected inflation of 2.5%	6.50%
Expected return cushion/shortfall	-0.85%
Distribution for FY 26 (July 1, 2025)	8,655,091
Distribution for FY 25 (July 1, 2024)	7,925,672
Distribution for FY 24 (July 3, 2023)	7,276,454

<u>Asset Allocation</u>	FY 25	
	<u>Current</u>	<u>Benchmark</u>
Global & Private Equity	29.5%	50.1%
Real Estate	11.7%	11.0%
Fixed Income-IG	12.7%	30.0%
Fixed Income-HY	4.0%	7.0%
HY RE Debt	0.2%	0.0%
Money Market	<u>41.9%</u>	<u>1.9%</u>
Total	100.0%	100.0%

Law allows up to 4% of the 16 quarter average to be distributed as long as principal is not violated as of December 31 each year.

Education Enhancement Trust (established April 2001)

Principal as of 06/30/25	\$ 465,148,664
Principal as of 06/30/25 adjusted for inflation	\$ 750,914,285
Fair Value (FV) as of 06/30/25	\$ 785,919,294
Difference - FV less principal	\$ 320,770,630
Difference - FV less infl. adj. prin.	\$ 35,005,009
Fiscal year to date return	5.79%
Longterm expected mean return	5.65%
Payout of 4% plus expected inflation of 2.5%	6.50%
Expected return cushion/shortfall	-0.85%
Distribution for FY 26 (July 1, 2025)	28,652,310
Distribution for FY 25 (July 1, 2024)	27,383,330
Distribution for FY 24 (July 3, 2023)	26,389,450

<u>Asset Allocation</u>	FY 25	
	<u>Current</u>	<u>Benchmark</u>
Global & Private Equity	30.2%	50.1%
Real Estate	10.9%	11.0%
Fixed Income-IG	12.5%	30.0%
Fixed Income-HY	3.9%	7.0%
HY RE Debt	0.2%	0.0%
Money Market	<u>42.3%</u>	<u>1.9%</u>
Total	100.0%	100.0%

Law allows up to 4% of the 16 quarter average to be distributed as long as principal is not violated as of December 31 each year.

Trust Funds (unaudited)

Dakota Cement Trust (established April 2001)

Principal as of 06/30/25	\$ 238,000,000
Principal as of 06/30/25 adjusted for inflation	\$ 432,788,462
Fair Value (FV) as of 06/30/25	\$ 376,704,719
Difference - FV less principal	\$ 138,704,719
Difference - FV less infl. adj. principal	\$ (56,083,743)
Fiscal year to date return	5.61%
Longterm expected mean return	5.65%
Payout of 4% plus expected inflation of 2.5%	6.50%
Expected return cushion/shortfall	-0.85%
Distribution for FY 25 (May 15, 2025)	15,057,004
Distribution for FY 24 (May 15, 2024)	14,668,289
Distribution for FY 23 (May 15, 2023)	14,369,135

School & Public Lands

Inflation protection mandated by Constitutional Amendment -
(payout is reduced by inflation if inflation not offset by realized net gains)

Fair Value as of 06/30/25	\$ 430,690,564
Fiscal year to date return	6.02%
Longterm expected mean return	5.65%
Distribution for FY 25 K-12 (February 6, 2025)	15,590,738
Distribution for FY 25 Board of Regents (June 23, 2025)	4,000,581

<u>Asset Allocation</u>	FY 25	
	<u>Current</u>	<u>Benchmark</u>
Global & Private Equity	28.6%	50.1%
Real Estate	12.1%	11.0%
Fixed Income-IG	12.6%	30.0%
Fixed Income-HY	4.0%	7.0%
HY RE Debt	0.3%	0.0%
Money Market	42.4%	1.9%
Total	100.0%	100.0%

Constitution allows 4% of the lesser of
1) the 16 quarter average balance or
2) the current December 31 fair value, be distributed
by June of the following year.

<u>Asset Allocation</u>	FY 25	
	<u>Current</u>	<u>Benchmark</u>
Global & Private Equity	30.6%	50.1%
Real Estate	10.7%	11.0%
Fixed Income-IG	12.8%	30.0%
Fixed Income-HY	3.9%	7.0%
HY RE Debt	0.2%	0.0%
Money Market	41.8%	1.9%
Total	100.0%	100.0%

Investment Performance Incentive – FY 2025 (unaudited)

State Investment Officer

Return-linked compensation maximum is 200% on base compensation of \$639,726 payable in FY 2026.
Performance Period is the one year, four year, and ten year annualized fiscal years.

I. 60% OF PLAN BASED ON TOTAL FUND vs CAPITAL MARKET BENCHMARK (CMB) RESULTS

<u>Period</u>	<u>Basis Points Outperformance</u>	<u>% Payout</u>	<u>\$ Payout</u>
1 year	0.00	0%	\$ 0.00
4 year	0.00	0%	\$ 0.00
10 year	0.00	0%	\$ 0.00
4 yr stretch	0.00	0%	\$ 0.00
10 yr stretch	0.00	0%	\$ 0.00

II. 40% OF PLAN BASED ON AGGREGATE PORTFOLIO MANAGERS' RESULTS

Performance measurement based on the aggregate return-linked compensation of the senior investment managers and investment staff divided by the aggregate potential return-linked compensation for the performance period, based on 1 year, 4 years, 10 years, 4 years stretch, and 10 years stretch.

	<u>Maximum Potential Compensation</u>	<u>Earned Return-linked Compensation</u>	<u>% Payout</u>	<u>\$ Payout</u>
Inv Staff	\$ 11,381,426.56	\$ 2,788,649.52	24.5018%	
SIO	\$ 511,780.80		24.5018%	\$ 125,395.29

TOTAL EARNED RETURN-LINKED COMPENSATION **\$ 125,395.29**

Percentage of Salary **19.601%***

*before reduction for support staff incentive

Appendix

- Investment Performance Incentives
- Target Discount Rationale
- FY25 Budget and Actual - Contractual Services details

Investment Performance Incentives

Align compensation with goal of adding value

- Encourage superior performance
 - Counters underperformance career risk that can discourage efforts to add value
 - Multiyear timeframes encourage investing for the long term
- Encourage retention of successful staff
 - Team is most attractive to other organizations when winning
 - Shifts compensation higher when people more sought after and down when losing
- Incentives paid only for added value
- Important to encourage adding value in good and bad markets
 - Added value in down markets more important than in up markets
 - Encourages adding value by reducing risk when markets expensive

Target Discount Rationale

- Need top caliber people long term
 - Unsuccessful people or job hopppers always available but no bargain, even if free
 - Compensation is too low to recruit veteran high-performers from elsewhere
 - Must develop team internally by training cream of crop local University graduates
 - Takes 15 to 20 years to fully develop seasoned talent
 - If lose talent pipeline or trainers, will jeopardize handoff to next generation
- Our past history and observation of others suggest 70% target
 - Only way to know for sure how large discounts can work is to risk damaging team
 - 50% discount levels in past led to difficulties
 - 30% discount believed significant relative to other high-end professionals
 - Industry subject to intense performance measurement with significant consequences for winning and losing which intensifies desire for financial security
 - Discounts for top SDIC performers may be much larger as industry pay for top quartile performers can be double the median

FY25 Budget and Actual

Contractual services detail

	Expended <u>FY 2025</u>	Received <u>FY 2025</u>	Unexpended <u>FY 2025</u>
CONTRACTUAL SERVICES			
Investment Services			
Consulting Services	17,956	180,000	162,044
Investment Accounting, Performance Benchmarking	395,235	427,906	32,671
Investment Databases, Newsfeeds & Quote Fees	801,715	827,100	25,385
Investment Research Services	444,007	496,179	52,172
Flexibility - From Brokerage to Independent Research	0	225,000	225,000
Total Investment Services	<u>1,658,912</u>	<u>2,156,185</u>	<u>497,273</u>
Administrative Expenses			
Office Rent	168,604	168,605	1
Bond/Liability Insurance	8,600	8,385	(215)
Telephone	25,056	18,000	(7,056)
Office Equip Rental/Maintenance/Misc	3,238	7,800	4,562
Bureau of Info & Telecommunications (BIT)	168,508	138,549	(29,959)
State Central Services	14,851	14,994	143
Legislative Audit	71,672	70,579	(1,093)
Janitorial	0	3,730	3,730
Custodial Fees - Global	279,688	305,162	25,474
Seminars/Educational Programs	43,992	35,000	(8,992)
Business Publications	0	1,500	1,500
Total Administrative Expenses	<u>784,210</u>	<u>772,304</u>	<u>(11,906)</u>
TOTAL CONTRACTUAL SERVICES	<u>2,443,122</u>	<u>2,928,489</u>	<u>485,367</u>