



**Preliminary Estimated  
Investment Performance FY 2025 and  
Budget Request FY 2027**

PRESENTED TO  
LRC EXECUTIVE BOARD  
AUGUST 12, 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

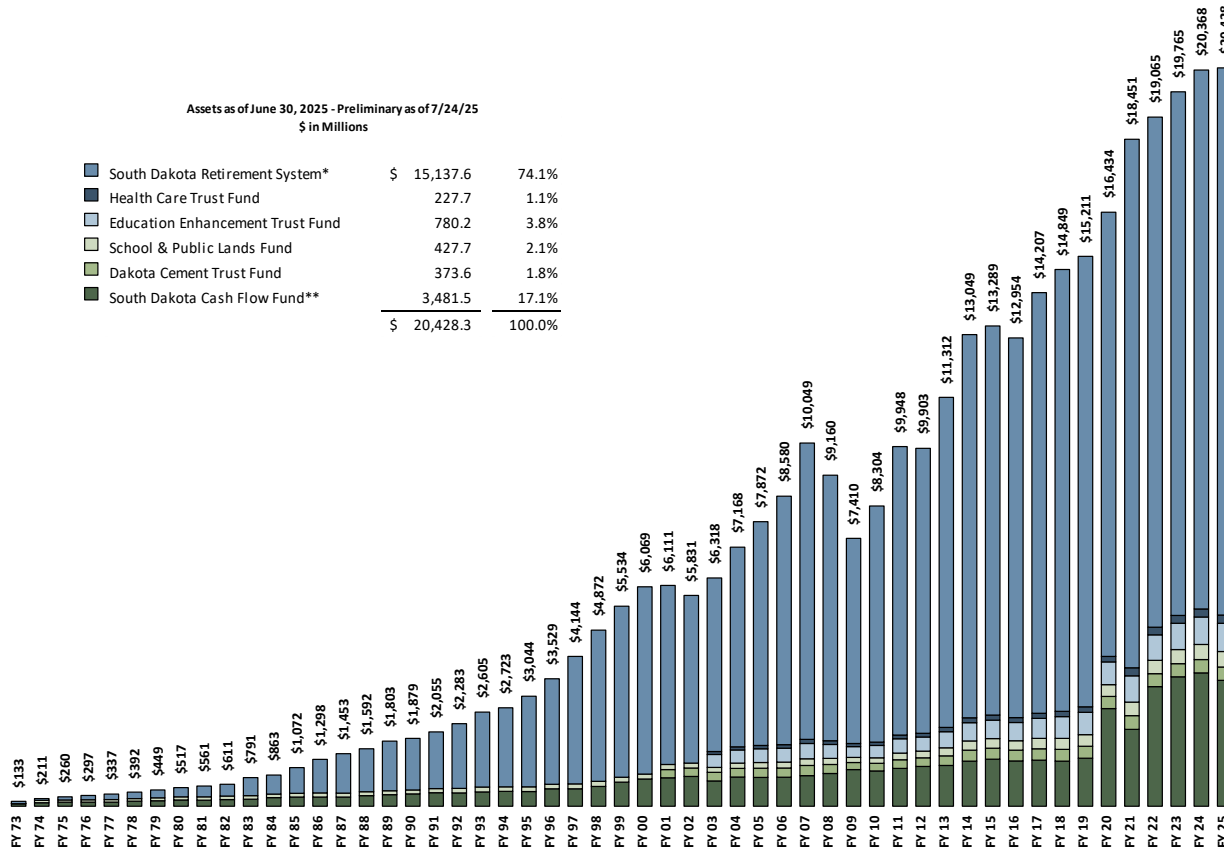
Ex-Officio Members:

- 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 (Preliminary Estimate)



\*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 (Preliminary Estimate)

	<u>FY 2025</u>	<u>5 years Annualized FY 21-25</u>	<u>10 years Annualized FY 16-25</u>	<u>20 years Annualized FY 06-25</u>
SDRS Total Fund (est)*	4.61%	7.30%	6.44%	7.45%
Capital Markets Benchmark	12.51%	9.54%	7.89%	7.30%
Added Value	-7.90%	-2.24%	-1.45%	0.15%
State Universe **	N/A			
Beginning FY 2025 SDRS Assets	\$14.91 billion			
Ending FY 2025 SDRS Assets (est.)	\$15.14 billion			

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

\*\* Not Available

# Investment Performance

Returns vs. Benchmarks (Preliminary Estimate)

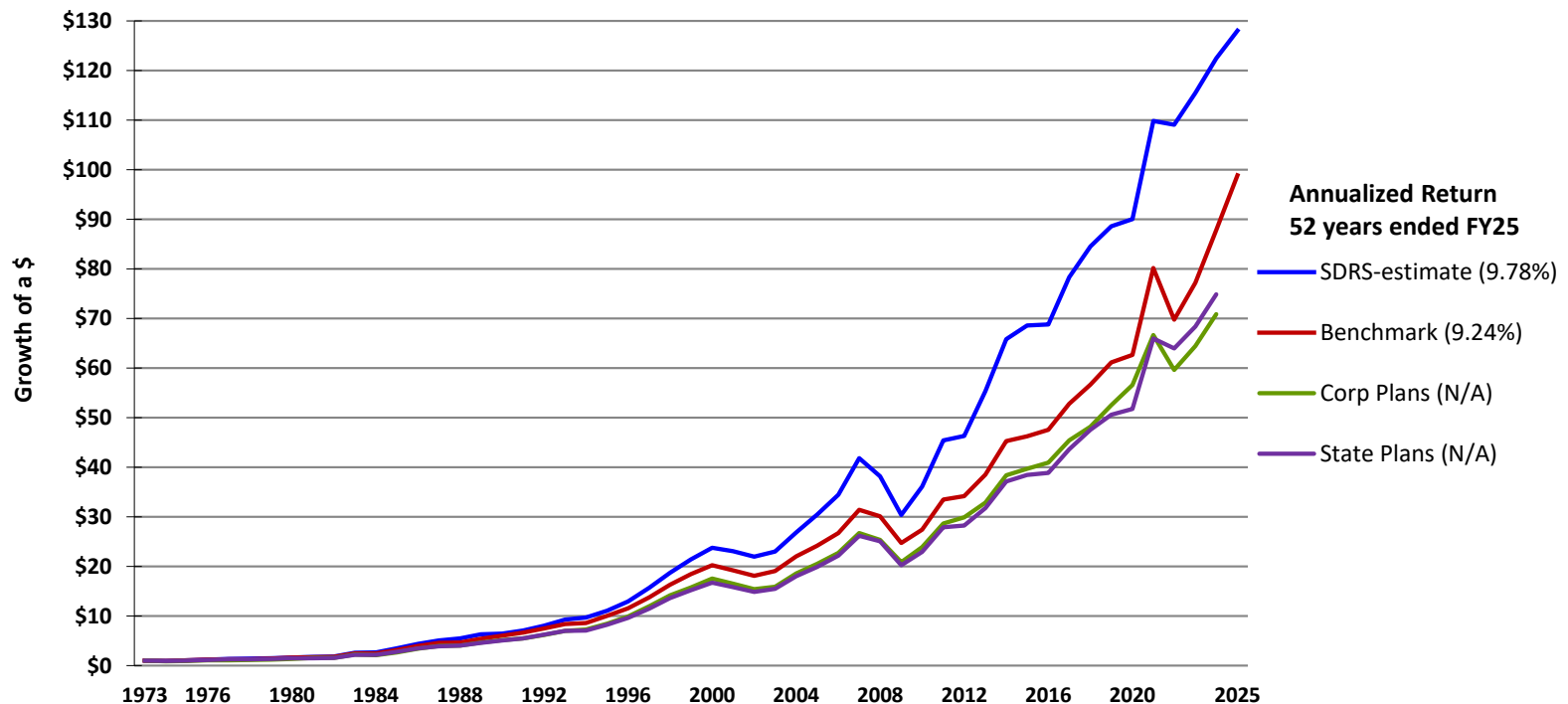
- Total SDRS dollars earned Fiscal Year 2025 \$727 million
- Total SDRS dollars earned last 5 years \$5.19 billion
- Total SDRS dollars earned last 10 years \$8.55 billion
- Total SDRS dollars earned last 20 years \$15.16 billion

- 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	-\$1.2 billion	-\$1.9 billion	-\$2.91 billion	\$699 million

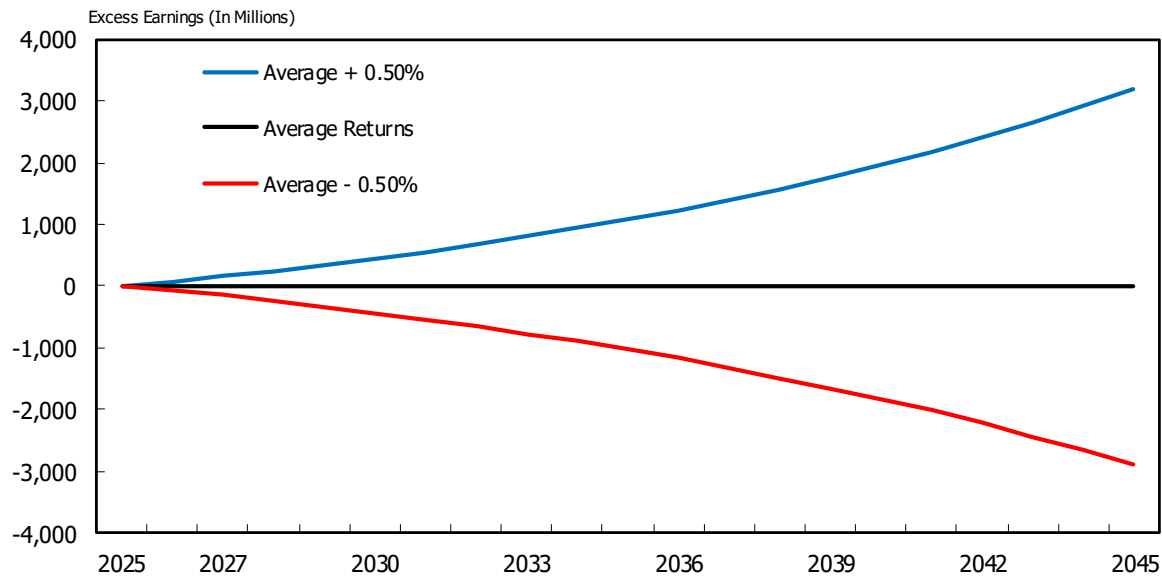
# Superior Returns Add Up Over Time

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



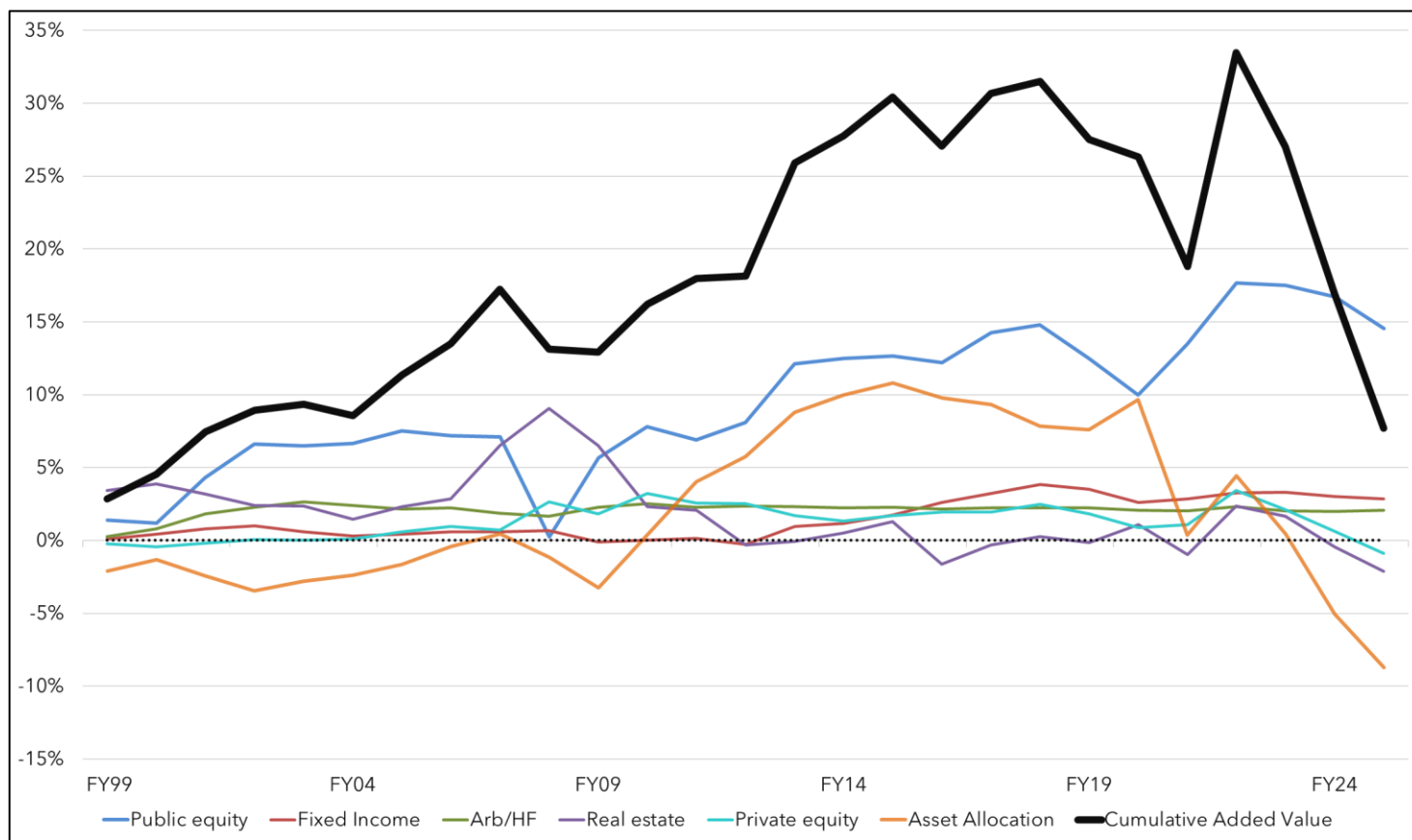
# Potential Excess Earnings

Preliminary Estimate FY25



- SDRS preliminary 52-year outperformance = 0.5% 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.

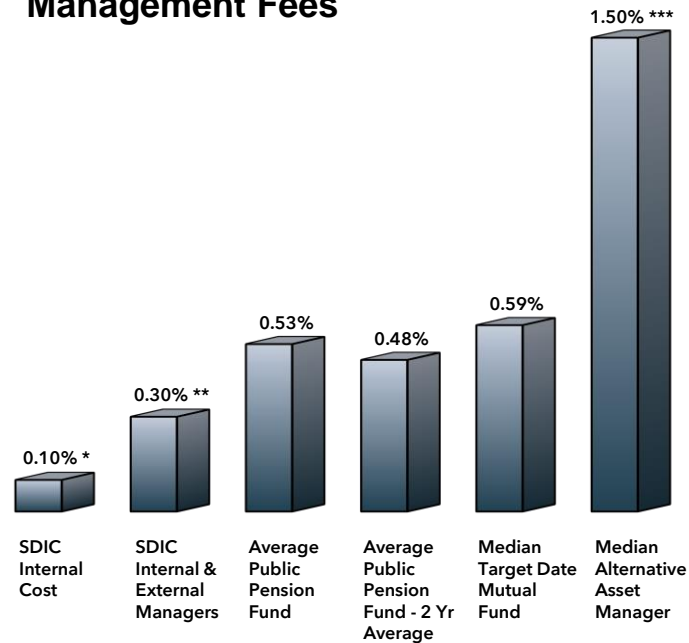
# Many Pistons Contribute Cumulative Added Value by Source (Est for FY25)





# 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.

\*\*\* Does not include typical 20% profit participation after preferred return for investment partnerships.

# Compensation Overview

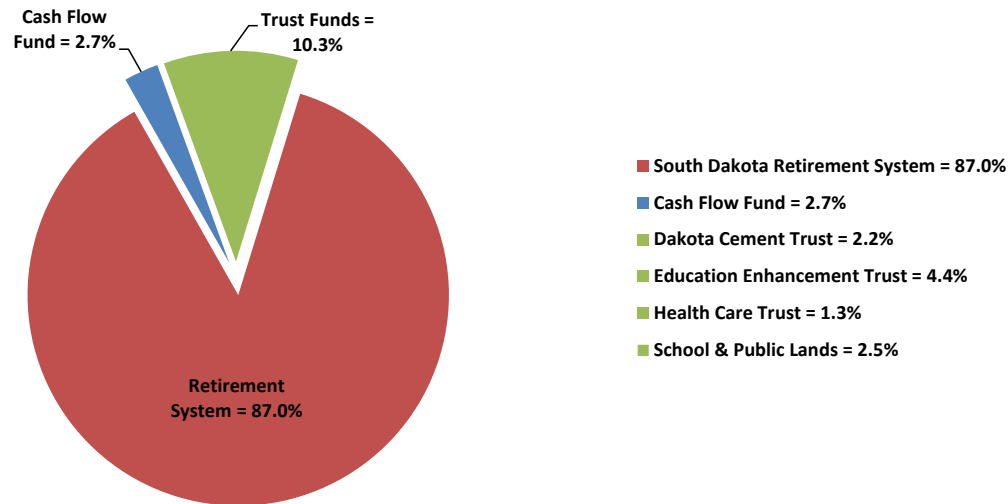
- Cost efficient due to internal management capabilities
  - Securing team to preserve internal capabilities is best chance to remain cost efficient
  - Internal cost .1% with expected average incentives
- Continued success dependent on high caliber team
  - Internally manage most assets using internally 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

Preliminary Estimate



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>
<b>Personal Services</b>			
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
<b>Operating Expenses</b>			
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
<b>Total Investment Council Budget <sup>(1)</sup></b>	<b>30,327,477</b>	<b>35,393,274</b>	<b>43,753,393</b>
<b>ASSET SUMMARY <sup>(2)</sup></b>			
Internal Assets	17,617,306,015	22,588,346,504	27,264,599,366
External Assets	4,404,326,504	3,986,178,795	4,811,399,888
Total Assets	22,021,632,519	26,574,525,299	32,075,999,254
<b>EXPENSE SUMMARY</b>			
Internal Expenses	30,327,477	35,393,274	43,753,393
External Manager Fees <sup>(3)</sup>	48,447,592	43,847,967	52,925,399
Total Expenses	78,775,068	79,241,240	96,678,792
<b>UNIT COST SUMMARY <sup>(4)</sup></b>			
Internal Expenses as % of Total Assets	0.10%	0.10%	0.10%
Total Expenses as % of Total Assets	0.30%	0.24%	0.25%

<sup>(1)</sup> 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.

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

<sup>(3)</sup> External Manager Fees based on non-haircut assets

<sup>(4)</sup> Unit Cost Summary uses assumed average investment performance incentives

# FY 2025 Budget and Actual

	<u>Expended FY 2025</u>	<u>Received FY 2025</u>	<u>Unexpended FY 2025</u>
<b>PERSONAL SERVICES</b>			
<b>Total FTEs</b>	32.00	35.00	
<b>Base Compensation</b>			
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
<b>Total Base Compensation</b>	8,416,287	9,831,138	1,414,851
<b>Investment Performance Incentives</b>			
Maximum Potential Investment Perf Incentive	5,442,703	15,063,132	9,620,429
Benefits	358,245	1,578,713	1,220,468
<b>Total Investment Performance Incentives</b>	5,800,948	16,641,845	10,840,897
<b>TOTAL PERSONAL SERVICES</b>	14,217,235	26,472,983	12,255,748
<b>OPERATING EXPENSES</b>			
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)
<b>Total Operating Expenses</b>	2,545,909	3,062,690	516,781
<b>TOTAL BUDGET</b>	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>
<b>PERSONAL SERVICES</b>			
<b>Total FTEs</b>	35.00	35.00	
<b>Base Compensation</b>			
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%
<b>Total Base Compensation</b>	9,875,598	9,691,306	-1.87%
<b>Investment Performance Incentives</b>			
Maximum Potential Investment Perf Incentive	15,603,604	15,507,613	-0.62%
Benefits	1,653,298	1,640,051	-0.80%
<b>Total Investment Performance Incentives</b>	17,256,902	17,147,664	-0.63%
<b>TOTAL PERSONAL SERVICES</b>	27,132,500	26,838,970	-1.08%
<b>OPERATING EXPENSES</b>			
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%
<b>Total Operating Expenses</b>	3,171,427	3,270,470	3.12%
<b>TOTAL BUDGET</b>	30,303,927	30,109,440	-0.64%
<b>UNIT COST SUMMARY *</b>			
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>
<b>CONTRACTUAL SERVICES</b>			
<b>Investment Services</b>			
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%
<b>Total Investment Services</b>	<u>2,172,984</u>	<u>2,241,730</u>	<u>3.16%</u>
<b>Administrative Expenses</b>			
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%
<b>Total Administrative Expenses</b>	<u>864,242</u>	<u>894,539</u>	<u>3.51%</u>
<b>TOTAL CONTRACTUAL SERVICES</b>	<u>3,037,226</u>	<u>3,136,269</u>	<u>3.26%</u>



# Trust Funds (Preliminary Estimate)

## 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	\$ 227,666,653
Difference - FV less principal	\$ 92,035,630
Difference - FV less infl. adj. prin.	\$ 14,975,385
Fiscal year to date return	5.32%
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	29.3%	50.1%
Real Estate	11.6%	11.0%
Fixed Income-IG	12.8%	30.0%
Fixed Income-HY	4.0%	7.0%
HY RE Debt	0.2%	0.0%
Money Market	<u>42.1%</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	\$ 780,218,469
Difference - FV less principal	\$ 315,069,806
Difference - FV less infl. adj. prin.	\$ 29,304,184
Fiscal year to date return	5.02%
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	29.9%	50.1%
Real Estate	10.8%	11.0%
Fixed Income-IG	12.6%	30.0%
Fixed Income-HY	3.9%	7.0%
HY RE Debt	0.2%	0.0%
Money Market	<u>42.6%</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 (Preliminary Estimate)

## 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	\$ 373,560,007
Difference - FV less principal	\$ 135,560,007
Difference - FV less infl. adj. principal	\$ (59,228,455)
Fiscal year to date return	4.73%
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

<u>Asset Allocation</u>	FY 25	
	<u>Current</u>	<u>Benchmark</u>
Global & Private Equity	28.2%	50.1%
Real Estate	12.0%	11.0%
Fixed Income-IG	12.7%	30.0%
Fixed Income-HY	4.0%	7.0%
HY RE Debt	0.3%	0.0%
Money Market	<u>42.8%</u>	<u>1.9%</u>
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.

## 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	\$ 427,688,849
Fiscal year to date return	5.29%
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	30.3%	50.1%
Real Estate	10.5%	11.0%
Fixed Income-IG	12.9%	30.0%
Fixed Income-HY	3.9%	7.0%
HY RE Debt	0.2%	0.0%
Money Market	<u>42.2%</u>	<u>1.9%</u>
Total	100.0%	100.0%

# Investment Performance Incentive – FY 2025 (Preliminary Estimate) State Investment Officer

Return-linked compensation maximum is 200% on FY 2025 base compensation of \$639,726 payable in FY 2026. Performance Period is the one year, four year, and ten year annualized fiscal years.

## **60% OF PLAN BASED ON TOTAL FUND RESULTS:**

Estimate is zero.

Performance measurement based on Total Fund results relative to the Capital Markets Benchmark for 1 year, 4 years, 10 years, 4 years stretch, and 10 years stretch.

## **40% OF PLAN BASED ON AGGREGATE PORTFOLIO MANAGERS' RESULTS:**

Range of \$120,000-\$130,000

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.

## **TOTAL EARNED RETURN-LINKED COMPENSATION:**

**Range of \$120,000-\$130,000**

**Percentage of Salary: 18%-20%\***

\*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

	<b>Expended <u>FY 2025</u></b>	<b>Received <u>FY 2025</u></b>	<b>Unexpended <u>FY 2025</u></b>
<b>CONTRACTUAL SERVICES</b>			
<b>Investment Services</b>			
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
<b>Total Investment Services</b>	<u>1,658,912</u>	<u>2,156,185</u>	<u>497,273</u>
<b>Administrative Expenses</b>			
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
<b>Total Administrative Expenses</b>	<u>784,210</u>	<u>772,304</u>	<u>(11,906)</u>
<b>TOTAL CONTRACTUAL SERVICES</b>	<u>2,443,122</u>	<u>2,928,489</u>	<u>485,367</u>