

AGENDA

SDRS BOARD OF TRUSTEES

South Dakota Retirement System
222 E. Capitol Ave
Pierre, SD 57501

DATE: Wednesday, June 5, 2024

TIME: 8:00 a.m. CST (7:00 a.m. MST)

THIS MEETING WILL BE BROADCAST LIVE AT [HTTPS://WWW.SD.NET/](https://www.sd.net/).

- 8:00 a.m. Call SDRS Meeting to Order – Determination of Quorum*
- ITEM 1 - Chair's Preliminary Remarks
- Introductions and Announcements
 - Board Conflict Disclosure
 - Policy Concerning Public Testimony and Comments
- ITEM 2 - Public Comment
- ITEM 3 - Approval of April 10, 2024, Minutes
- ITEM 4 - SDRS Board of Trustees Election Results – Dawn Smith, Executive/Board Assistant
- ITEM 5 - Appointment of Classified Employee Representative and Board of Regents Representative – Dawn Smith
- ITEM 6 - Recognition of Retiring Board Members and Consultant – Travis Almond, Executive Director
- Annette Brandt
 - Kevin Merrill
 - Kathy Greeneway
 - Doug Wermedal
 - Paul Schrader, Consultant
- ITEM 7 - State of the System – Travis Almond
- ITEM 8 - Investment Update – Darci Haug, Senior Investment Manager and Danielle Mourer, Portfolio Manager
- ITEM 9 - Projected Funded Status of the South Dakota Retirement System – Doug Fiddler, Senior Actuary

- ITEM 10 - Asset Allocation – Darci Haug; Renae Randall, Senior Investment Manager; Danielle Mourer; Anne Cipperley, Portfolio Manager; Lesyk Voznyuk, Associate Portfolio Manager II; and Dan Elmer, Associate Portfolio Manager II
- ITEM 11 - FY26 Budget Request – Michelle Mikkelsen, Chief Financial Officer and Travis Almond
- ITEM 12 - Appointment of Executive Director Evaluation and Compensation Committees – Eric Stroeder, Board Chair
- ITEM 13 - Appointment of Audit Committee – Eric Stroeder
- ITEM 14 - Old/New Business
 - Conference Attendance
 - Upcoming Board Meeting Dates
- ITEM 15 - Personnel Matters (Executive Session) – Travis Almond
- ITEM 16 - Adjourn

ADA COMPLIANCE: THE SOUTH DAKOTA RETIREMENT SYSTEM FULLY SUBSCRIBES TO THE PROVISIONS OF THE AMERICANS WITH DISABILITIES ACT. IF YOU DESIRE TO ATTEND THIS PUBLIC MEETING AND ARE IN NEED OF SPECIAL ACCOMMODATIONS, PLEASE NOTIFY THE SDRS OFFICE AT LEAST 72 HOURS PRIOR TO THE MEETING SO APPROPRIATE AUXILIARY AIDS AND SERVICES CAN BE MADE AVAILABLE.

FUTURE MEETING DATES

September 11, 2024
December 11, 2024
April 9, 2025
June 11, 2025
September 10, 2025
December 10, 2025

**In some circumstances, the Chair may choose to take agenda items out of the listed order.*

BOARD MEETING

SOUTH DAKOTA RETIREMENT SYSTEM

April 10, 2024

The Board of Trustees of the South Dakota Retirement System held its regular Board meeting on April 10, 2024. The meeting began at 9:00 a.m. in the SDRS Board Conference Room.

BOARD MEMBERS IN ATTENDANCE:

Eric Stroeder, Chair
James Appl, Vice Chair
Annette Brant
Penny Brunken
Kathy Greeneway
LaJena Grius
Myron Johnson
Jill Lenards
Kevin Merrill
Justice Mark Salter
Darin Seeley
Jim Terwilliger
Wes Tschetter
Doug Wermedal
Matt Clark, Ex Officio

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Board Members Hank Prim and Dave Smith were absent.

OTHERS IN ATTENDANCE:

Eric Bastain, Nationwide Retirement Solutions
Duncan Koch, BFM
June Larson, Nationwide Retirement Solutions
Bob Mercer, Keloland
John Richter, SDIC
Travis Almond
Brittnie Adamson
Doug Fiddler

Alan Freng
Michelle Humann
Sam Koldenhoven
Michelle Mikkelsen
Nick Rea
Dawn Smith
Jacque Storm

AGENDA ITEM 1
CHAIR’S PRELIMINARY REMARKS AND
BOARD CONFLICT DISCLOSURE

Summary of Discussion:

Mr. Eric Stroeder, SDRS Board Chair, noted that 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 MEETING MINUTES

Board Action

IT WAS MOVED BY MR. JOHNSON, SECONDED BY MR. APPL, TO APPROVE THE MINUTES OF THE DECEMBER 6, 2023, BOARD MEETING. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 4
BOARD MEMBER ELECTION UPDATE

Summary of Discussion

Ms. Dawn Smith, SDRS Executive/Board Assistant, informed the Board of the current election candidates. She stated that there are no contested elections this

year. Only one petition was received for each of the following open positions: School Boards, County Employees, and State Employees.

She continued by stating that no petitions were submitted for the Board of Regents or Classified positions. Therefore, staff will send out a request for interested parties to submit a resume and the Board will appoint a person to that position at the June meeting.

Mr. Travis Almond, SDRS Executive Director, stated that due to the low participation in our election process, other avenues of communication will be used in the next election. Currently, we rely on our authorized agents to communicate to members. Going forward, staff will engage with members by using the emails on file, newsletters, and our social media platforms.

Board Action

No action was required.

AGENDA ITEM 5
2023 LEGISLATIVE AND BUDGET REPORT

Summary of Discussion

Mr. Almond discussed the 2023 Legislative Session. There were three main parts to our legislative season this year and that was the SDRS budget, the Commemoration of SDRS' 50-year anniversary, and the SDRS Legislation. He stated that the budget hearing went very well, and the appropriations committee supported the SDRS budget request.

Moving to the Commemoration of SDRS' 50th anniversary, Mr. Almond noted that Representative Hugh Bartels and Senator Jim Bolin introduced a commemoration for SDRS. The commemoration discussed the consolidation in 1974, the growth of the system, and the recognition as being one of the top retirement systems in the country. Mr. Almond remarked that Representative Mike Weisgram made very nice comments on the House floor praising the SDRS staff.

Moving to the SDRS legislation, Mr. Almond stated that SDRS had two clean-up bills this year. Ms. Samantha Koldenhoven, SDRS Assistant General Counsel, presented the bills to the Retirement Laws Committees, and the bill hearings went smoothly. The bills were fully supported in both Committees and on the Senate and House floors and signed by the Governor.

Board Action

No action was necessary.

AGENDA ITEM 6, 7, & 8
IT SERVICES, COMMUNICATIONS, AND MEMBER SERVICES
DEPARTMENTS

Summary of Discussion

Mr. Nick Rea, SDRS IT Services Director, stated that the IT Services Department was a new SDRS department charged with optimizing the efficient use of SDRS data. The department consists of himself and Alex Korkki, SDRS Business System Analyst.

As the IT Services Director, Mr. Rea stated that it is his responsibility to enhance the data driven culture of SDRS through improving data reporting and cleansing, integrating new software and technologies, streamlining existing processes, and collaborating on IT needs across all SDRS departments. As the business systems analyst, Mr. Korkki's responsibilities are to provide technical analysis, act as the BIT liaison, improve pension administration system functionality, and solve system processing errors.

Moving forward, advised Mr. Rea, the IT Services department is looking to continually improve business processes, enhance and expand data driven culture, and adopt emerging technologies to facilitate innovation.

Mr. Alan Freng, SDRS Communications Director, introduced Ms. Jessica Reitzel, SDRS Communications Specialist, and Ms. Jaime Rutschke, SDRS Information Officer, as the communications team.

He stated that the communications team is responsible for ongoing communication to members, survivors, employers, authorized agents, staff, board, the Legislature, and other SDRS stakeholders. Those communications include social media posts, presentations, operations reports, personal benefits statements, retiree statements, safe harbor letters, the SDRS website, SDRS forms, newsletters, and many more.

Mr. Freng noted that SDRS has a presence in social media through Facebook, Instagram, and X/Twitter. There are also you tube videos that are posted to the SDRS website, with more videos in the works.

Mr. Freng stated that SDRS has recently purchased a software called iContact for our email communications. This software provides cost effective and efficient delivery of emails sent to members and authorized agents. The software can provide analytics of the sent emails, including how many people opened the email, how many clicked on the links or attachments, who deleted without opening, and various other pieces of vital information.

The future goals of the SDRS communications department, advised Mr. Freng, include targeted education, employer outreach, growing the online presence, and formatting digital publications.

Ms. Michelle Humann, SDRS Member Services Director, remarked that her staff consisted of eight retirement planners and four member service representatives. She noted that SDRS has come a long way in the past year since the rollout of the new web site. She advised the Board that members can now complete forms, register for webinars, and view tax documents, statements, and direct deposit change notices all online now.

Ms. Humann stated that member services staff handled 34,799 pieces of incoming mail, 22,323 incoming calls, encoded 37,976 forms, enrolled 6,517 new members, and had 1,752 individual consultations.

Ms. Humann explained the new online programs that were started in 2023, with approximately 4,000 members in attendance. She noted that SDRS was still offering in person events with about 500 members coming to those events.

In 2024 SDRS started a new series called the retire ready series. There are four parts to the series, SDRS 101, SRP 101, Financial Literacy, and Q & A. In the first quarter of 2024, advised Ms. Humann, there were over 750 members who took advantage of this new series.

Ms. Humann stated that the goals for 2024 for the member services team included increasing the number of TEAMS consults, reaching younger members, and using surveys to create targeted education.

Board Action

No action was necessary.

AGENDA ITEM 9
INVESTMENT PERFORMANCE UPDATE

Summary of Discussion

Mr. Matt Clark, State Investment Officer, stated that through March 31, 2024, the estimated return for SDRS was approximately 5.6 percent.

Board Action

No action was necessary.

AGENDA ITEM 10
SDRS PROJECTED FUNDED STATUS

Summary of Discussion

Mr. Doug Fiddler, SDRS Senior Actuary, noted that SDRS contribution rates are fixed in statute and the statutes require a recommendation for corrective actions if SDRS falls below 100 percent funded. In addition, the SDRS COLA will vary with both inflation and long-term affordability. As a result, under most circumstances, SDRS's fair value funded ratio (FVFR) is expected to remain at 100 percent.

Mr. Fiddler stated that employer contribution rates for Class A members are 40 percent of the national median. As a percent of government spending, South Dakota spends the least in the nation on pensions at 1.73 percent.

Delivering adequate benefits and remaining fully funded through all economic conditions while funded with contributions that are less than half of the median is a very high objective. These competing objectives become even more difficult to meet as retirees live longer and the consensus view of future investment returns is lower.

SDRS management efforts to meet these objectives have included a variable COLA process, foundation members transition to a 5-year FAC and pay increase caps, generational design, retire-rehire reform, and various other initiatives to avoid or lessen subsidies.

Mr. Fiddler stated that SDRS resources are not sufficient to provide COLAs that match inflation during periods of very high inflation, like recent periods.

Mr. Fiddler stated that proposals that impose additional objectives funded by SDRS' limited resources will detract from the ability to provide adequate benefits funded by the fixed, modest contributions. Proposed changes to SDRS must be thoroughly evaluated to ensure they do not endanger future benefits, COLAs, or system sustainability.

Mr. Fiddler noted that since 2011, the average SDRS COLA of 2.35 percent was less than the 2.42 percent average inflation for the same time period; however, due to the recent period of high inflation, 71.4 percent of SDRS benefit recipients have received cumulative COLAs since retirement that trail inflation.

Based on a FY24 net investment return of 5.6 percent, the baseline FVFR is expected to be approximately 96 percent at June 30, 2024. As a result, the preliminary estimated 2024 restricted maximum COLA would be approximately 1.85 percent. This excludes the impact of any demographic gains and losses and

losses are expected due to higher than expected salary increases in FY 2024 which could decrease the restricted maximum COLA to approximately 1.65 percent.

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 restricted 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 at June 30, 2024, the estimated one-year likelihood of required corrective action recommendations using the current asset allocation statistics was 9 percent.

In summary, advised Mr. Fiddler, the July 2022 SDRS COLA was 3.5 percent, the first time the full COLA range was affordable under the current COLA process. The FY 2023 investment return caused a restricted maximum COLA for the July 2024 COLA of 1.91 percent. If FY 2024 net investment returns are below approximately negative 10.8 percent, a corrective action recommendation would be required. If the return exceeds approximately 9.9 percent, the full COLA range would be affordable for the July 2024 COLA.

AGENDA ITEM 11 **SDRS PLANNING GUIDE REVISITED**

Summary of Discussion

Mr. Fiddler stated that the System Guide to Planning for the Unexpected was completed in late 2020. This Guide was the result of lengthy reviews and discussions and an important part of the SDRS planning process. The Guide considered both the good times and the bad times and provided a starting framework if conditions dictated that actions needed to be taken. The Board committed to reviewing the Guide periodically.

In the initial review, the Board identified two initiatives. Both initiatives were intended to minimize the risk of required future corrective action recommendations. The first initiative reduced the minimum variable cost of living adjustment (COLA) from 0.5 percent to zero percent. The rationale for this change was that providing any COLA when not affordable was illogical and could force other benefit reductions while a small COLA was paid. Legislation was enacted in 2021 to accomplish this.

The second initiative, advised Mr. Fiddler, would permit a small unfunded liability. This would be considered only after the variable COLA was reduced to zero

percent. This initiative would avoid required benefit reduction recommendations when resources exist to pay off the unfunded liability in a short period. The funded ratio could be no lower than 95 percent with a 10-to-12-year maximum pay-off period with no increase in contributions.

Several things have happened since 2020 when the Guide was completed, noted Mr. Fiddler. The COLA initiative legislation reducing the minimum COLA from 0.5 percent to zero percent was enacted. In addition, while it was a net positive for the period, the investment returns have also continued to be volatile with a 22.0 percent return in FY 2021, a negative 0.7 percent in FY 2022, and a 2023 investment return of 5.8 percent. Inflation has also been at historically high levels for the last three years at 5.9 percent, 8.7 percent and 3.2 percent respectively.

Mr. Fiddler stated that SDRS has also performed an experience analysis and adopted revised assumptions. There continues to be outside efforts to provide benefit increases for retire-rehire members which would come at a cost to all members through a reduction in the COLA.

Mr. Fiddler noted that the COLA initiative was significant in reducing the chance for required corrective action recommendations from 24 percent to 14 percent. Subsequent experience has reduced the likelihood of required corrective action recommendations to 9 percent. The second initiative would reduce those chances even more, to 5 percent in the current one-year outlook from June 30, 2023. The chances of meeting the requirements for consideration of benefit improvements is lower at 1 percent. He noted that neither are likely now, but that conditions can change quickly.

Mr. Fiddler stated that there were statutory requirements for corrective action recommendations in SDCL 3-12C-228. The Board is required to recommend corrective actions if the SDRS fair value funded ratio (FVFR) is less than 100 percent, or the minimum actuarial requirements exceed the fixed contribution rate. He noted that the Board recommendations shall include the circumstances and timing for any corrective actions. The statutory language provides flexibility to the Board to make recommendations for immediate corrective actions or recommend no changes after considering all current conditions and outlooks.

The corrective action recommendations would only be required after the COLA had been reduced to zero percent, so limited unfunded liabilities would be considered only after the COLA was reduced to zero percent. Mr. Fiddler noted that since the actuarial valuation results are only a snapshot at a certain date, what's happened since that date and the future outlook need to be considered as well. The recommendations need to be kept as simple, flexible, and equitable as possible, accrued benefits and eligibility terms should be protected, and variable benefits

should be expanded. Permanent changes should be provided only if they result in sound long-term policy and the benefit reductions should be limited to the minimum required to remain sustainable.

Some items that have been identified for possible corrective actions, advised Mr. Fiddler, include reducing benefits based on future service by 10 percent, expanding the final average compensation period to 10 years, providing generational structure for future service for active members and suspending contributions to the variable retirement account. He noted that the Board should structure the changes to revert to the current benefits when and if feasible. As a dooms day scenario, Mr. Fiddler noted that the board could freeze accrued benefits and base future benefits on the pay earned each year, eliminate early retirement subsidies for Foundation members, or reduce accrued benefits.

Mr. Fiddler stated that unlike when times are bad, there are no statutory requirements to make any changes when times are good. However, the Board has a policy for when they would consider benefit improvements. It states that the Board would consider benefit improvements if the fair value funded ratio is at least 120 percent after funding the benefit improvements and the cost of the benefit improvement is fully funded and less than the sustained net investment gains. The 120 percent threshold was evaluated as part of the review and retained considering the assumed investment return and the variable benefit structure.

When considering benefit improvements, Mr. Fiddler advised that the recommendations also should be kept as simple, flexible, and equitable as possible. The Board also should consider factors after the most recent actuarial valuation and be cautious. Any improvements should include active, inactive, and retired members and all should be treated consistently. Benefits reduced due to past corrective actions should be restored as well as consideration of shortfalls to long-term benefit objectives. Unimproved service (service after 2008) should also be considered. The improvements should avoid substantive additional fixed benefit obligations and maximize the risk-mitigation impact.

Benefit improvements that were identified for active and inactive members include restoring benefits reduced due to past corrective actions, additional funding of variable retirement account, account allocation based on pay and service (considering unimproved service) and formula increases (considering unimproved service). Ideas for retired members include restoring benefits reduced due to past corrective actions, one-time COLA if COLAs since 2010 have not matched inflation, one time or limited number of payments, formula increases for unimproved service, and additional monthly payment subject to variable COLA and contingent on continued affordability.

Board Action

IT WAS MOVED BY MS. BRANT, SECONDED BY MR. JOHNSON, TO ADOPT THE REVISED SDRS PLANNING GUIDE. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 12
EFFECTIVE RATE OF INTEREST FOR FY25

Summary of Discussion

Ms. Mikkelsen noted that SDCL 3-12C-108 states that SDRS's annual effective rate of interest shall be no greater than 90 percent of the average 91-day United States Treasury bill rate for the immediately preceding calendar year.

Advising that the 91-day United States Treasury bill rate was 5.07 percent for 2023, Ms. Mikkelsen stated that 90 percent of the rate is 4.563 percent. She noted that this interest rate would be credited on July 1, 2025, for the period of July 1, 2024, through June 30, 2025.

Board Action

IT WAS MOVED BY MS. BRUNKEN, SECONDED BY MS. GREENEWAY TO ESTABLISH THE EFFECTIVE RATE OF INTEREST TO BE CREDITED FROM JULY 1, 2024, TO JUNE 30, 2025, AT 4.563 PERCENT.

AGENDA ITEM 13
SET FY25 SUPPLEMENTAL PENSION BENEFIT
INTEREST RATE ASSUMPTION

Summary of Discussion

Mr. Almond stated that the Board needed to establish the periodic Supplemental Pension Benefit interest rate assumption. He added that the interest rate assumption could not be greater than the actuarial assumed rate of return for SDRS, nor could it be less than the SDRS effective rate of interest.

He advised that the interest rate assumption is established based on the recommendations of both the system's external actuary and the State Investment Officer with the input of the Executive Director. The external actuary recommended between 4.25 and 5.00 percent and the State Investment Officer recommended between 2.75 and 3.50 percent.

Based on all the information and the process established by the Board, Mr. Almond stated that by statute, it was his recommendation that the Board set the

Supplemental Pension Benefit interest rate assumption equal to the effective rate of interest at 4.563 percent, effective July 1, 2024.

Board Action

IT WAS MOVED BY MR. WERMEDAL, SECONDED BY MS. GREENEWAY, TO ESTABLISH THE INTEREST RATE FOR THE SUPPLEMENTAL PENSION BENEFIT AT 4.563 PERCENT, EFFECTIVE JULY 1, 2024. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 14
BOARD MEMBER CONFERENCE APPROVAL

Summary of Discussion

Mr. Almond reminded the Board that there were conferences available to them to attend. He stated that Mr. Eric Stroeder has requested to attend the NCTR Annual Conference from October 5-9, 2024, in Atlanta, GA., and Mr. Jim Appl has requested to attend the NCTR Trustee Workshop, July 21-24, 2024, in Berkley, CA.

Board Action

IT WAS MOVED BY MR. TSCHETTER, SECONDED BY MR. SEELEY, TO APPROVE THE REQUEST FOR ERIC STROEDER TO ATTEND THE NCTR ANNUAL CONFERENCE. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

IT WAS MOVED BY MR. TSCHETTER, SECONDED BY MS. BRUNKEN, TO APPROVE THE REQUEST FOR JIM APPL TO ATTEND THE NCTR TRUSTEE WORKSHOP. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 15
OLD/NEW BUSINESS

Summary of Discussion

50th Anniversary Celebration (July 2024)

Mr. Almond stated that staff have been discussing how to celebrate SDRS' 50th Anniversary. He noted that there would be an open house from 2-4 p.m. on June 5th, the same day as the June board meeting. There would also be an invitation only event for current legislators, current and former board members, current and former retirement laws committee members, and SDRS staff.

SharePoint Board Portal

Mr. Almond stated that the SharePoint Board Portal was up and running. He noted that this was a work in progress and when completed, would be a one-stop shop for board members when looking for current meeting materials as well as prior meeting materials and policies.

Upcoming Meeting Dates

The Board discussed the upcoming meeting schedule.

Board Action

No action was necessary.

AGENDA ITEM 16
EXECUTIVE DIRECTOR'S PERFORMANCE EVALUATION

Summary of Discussion

The Board praised Mr. Almond on his performance as the Executive Director of SDRS.

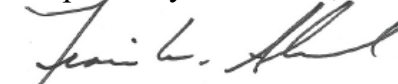
Board Action

IT WAS MOVED BY MR. WERMEDAL, SECONDED BY MS. BRANT, TO GO INTO EXECUTIVE SESSION PURSUANT TO SDCL 1-25-2(1) RELATING TO PERSONNEL MATTERS. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

ADJOURNMENT

IT WAS MOVED BY MR. JOHNSON, SECONDED BY MR. APPL, 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



South Dakota Retirement System

State of the System Executive Director Report

June 5, 2024



SDRS in the Beginning

- Formed in 1974
- Consolidation of seven separate systems
- \$50M of assets and 23,500 members
- 40% funded at time of consolidation
- Inadequate benefits with modest COLA
- Sustainability uncertain



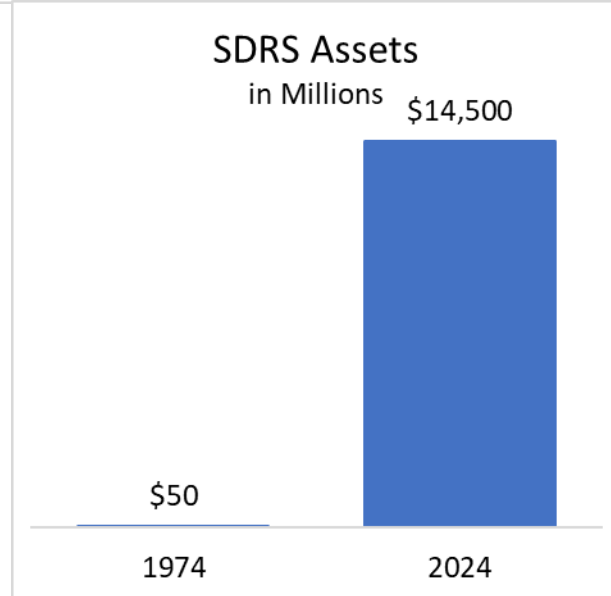
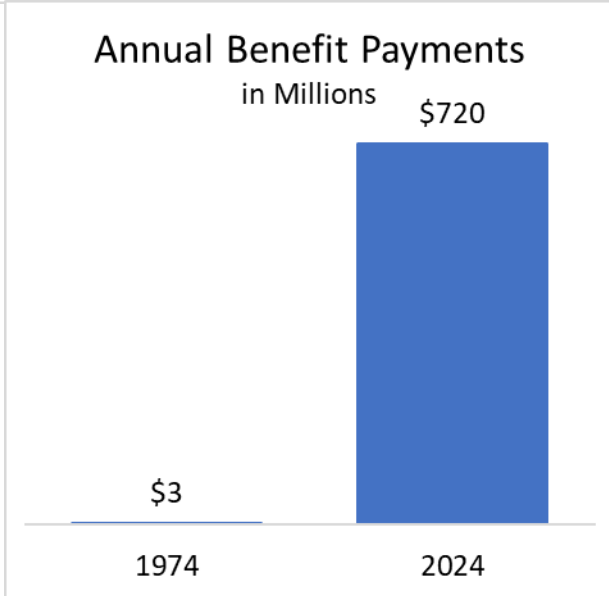
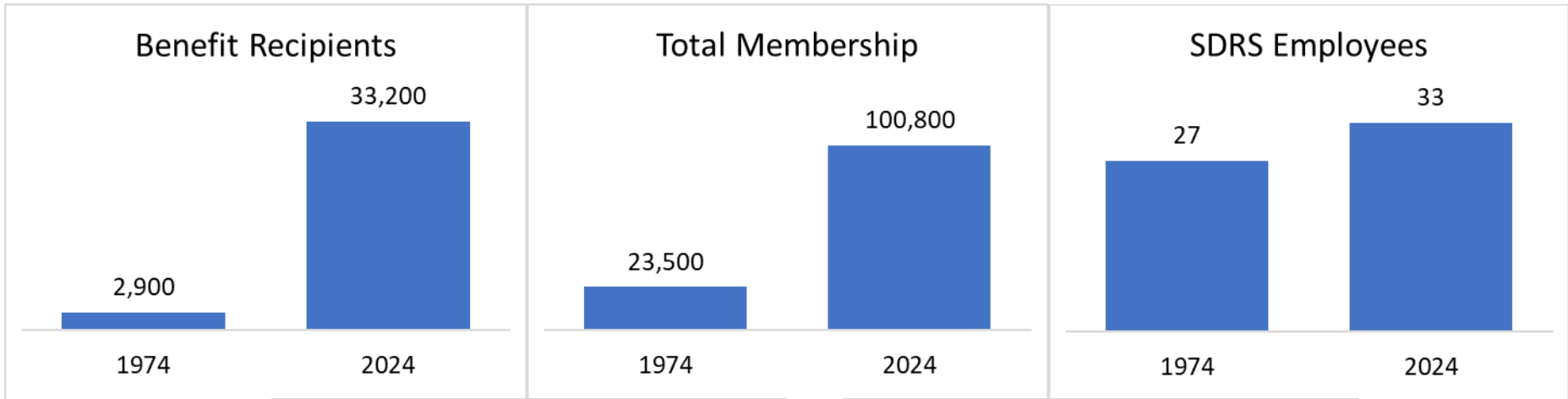
SDRS in 2024

- Over \$14.5B in assets and 100,000 members
- 100% funded (based on restricted maximum COLA) as of June 30, 2023, and in 28 of last 33 actuarial valuations
- All funding objectives met
- Except for the COLA, SDRS benefits meet Board's long-term goals for adequacy:
 - Only approximately 30% of benefit recipients have received cumulative COLAs that meet or exceed inflation since retirement
- Fixed contributions meet actuarial requirements
- 6.5% investment return assumption lower than 7% national median
- Nationally recognized model system frequently cited as example of sustainable design



SDRS 50th Anniversary

Significant Growth Since Consolidation





What Hasn't Changed Since 1974

- Defined benefits
- Fixed, equal member and employer contributions
- Family income protection including survivor and disability benefits
- Early vesting
- COLA providing inflation protection after retirement
- Responsible governance and legislative oversight
- Statutory requirements of corrective actions if funding thresholds not met
- Well-funded status achieved within a decade after consolidation and maintained since



What Has Changed Since 1974

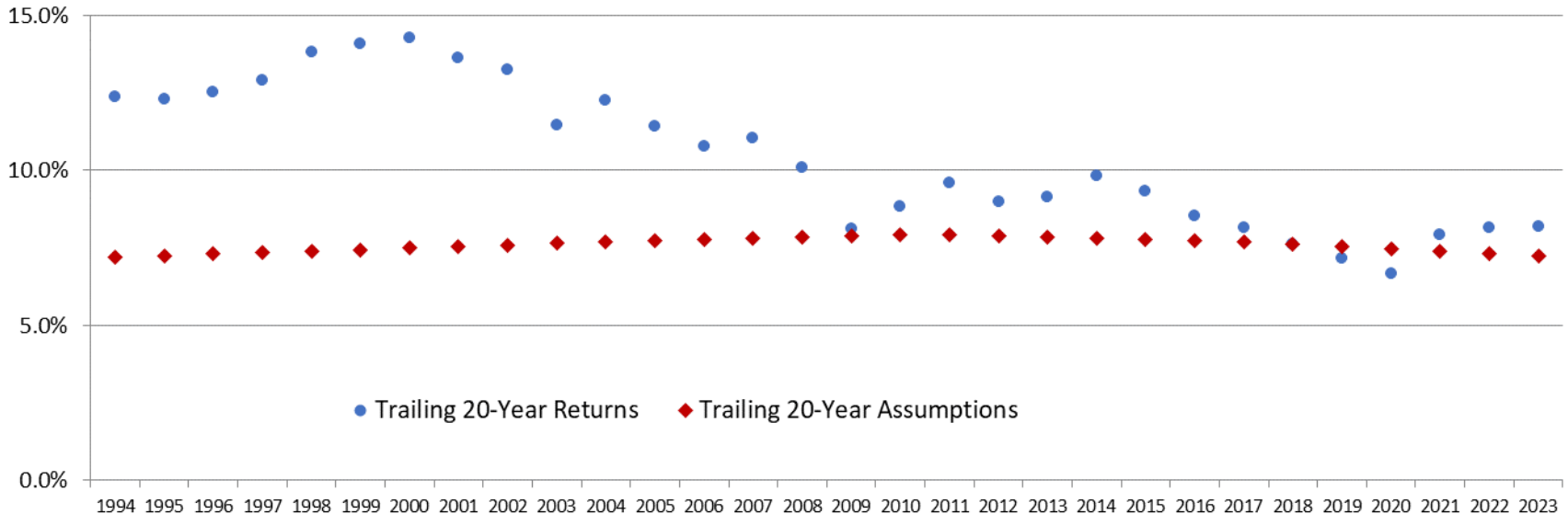
- Added features that benefit members who leave before retirement age
- Improved retirement and COLA benefits to meet income replacement needs and adequacy standards
- Variable benefits added
- Survivor and disability benefits restructured—resulting in greater efficiency and equity
- Inequities and subsidies addressed
- For Generational Members (hired after 2017):
 - Improved Class A benefit multiplier at normal retirement age
 - Higher normal retirement age reflecting improved life expectancy
 - Elimination of early retirement incentives
 - Variable individual retirement accounts added and funded with portion of employer contributions



What Has Changed: Less Investment Outperformance vs. Actuarial Assumption

- Annual investment returns are very volatile and have trended downwards
- Less outperformance relative to actuarial assumption has resulted in pressure on COLA affordability and contribution sufficiency

20-Year Trailing Nominal Returns and Return Assumptions



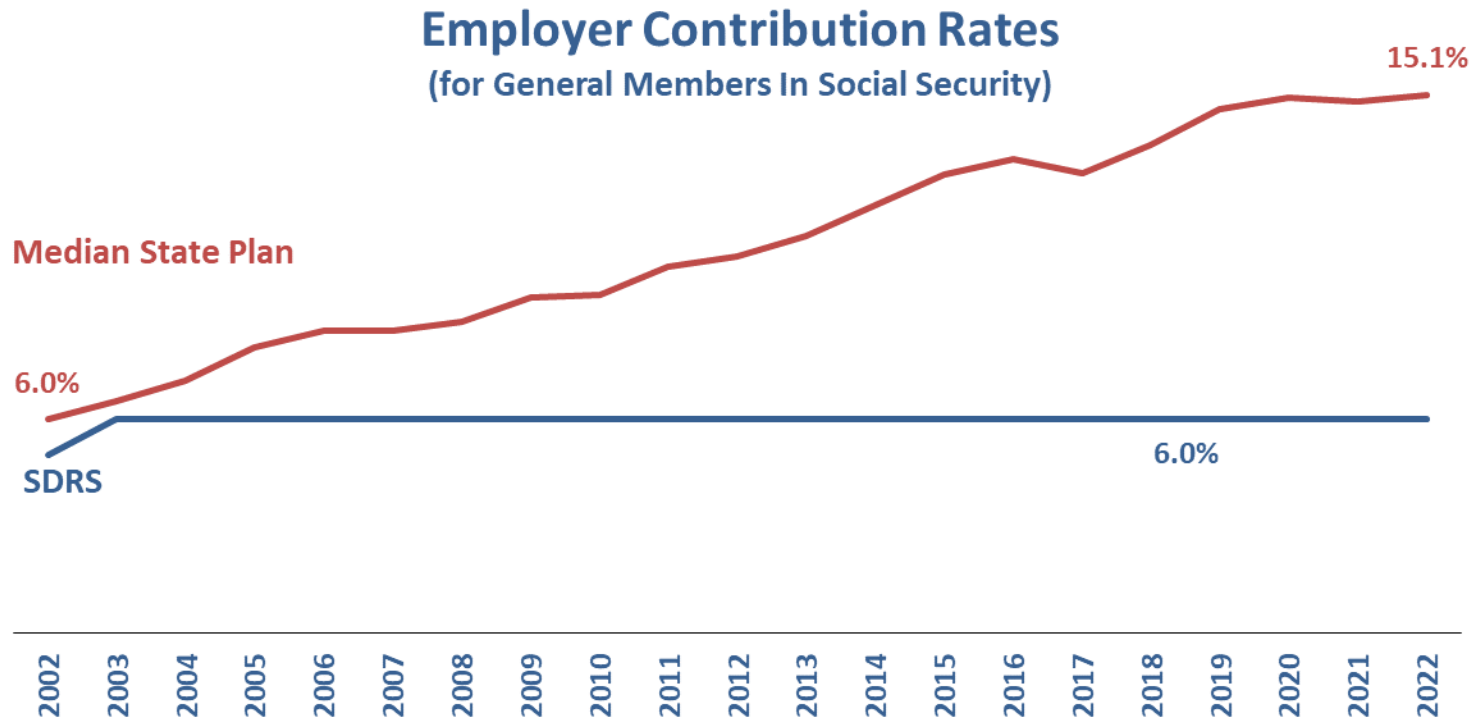


Major Initiatives Adopted

- Expanded benefits for members who leave before retirement age:
 - Minimum benefit of member contributions plus 85% of employer contributions after three years of service (50% before), plus credited interest
 - COLA provided for period before and after benefits begin for vested terminated members
- Variable COLA based on long-term affordability resulting in 100% funded status or better under most economic conditions
- Generational benefit structure adopted in 2017 for new employees, including Variable Retirement Account
 - Generational population approaching 50% of active members
- Strengthened investment return assumption aligned with SDIC outlook and early adoption of strengthened mortality assumption with future mortality improvement



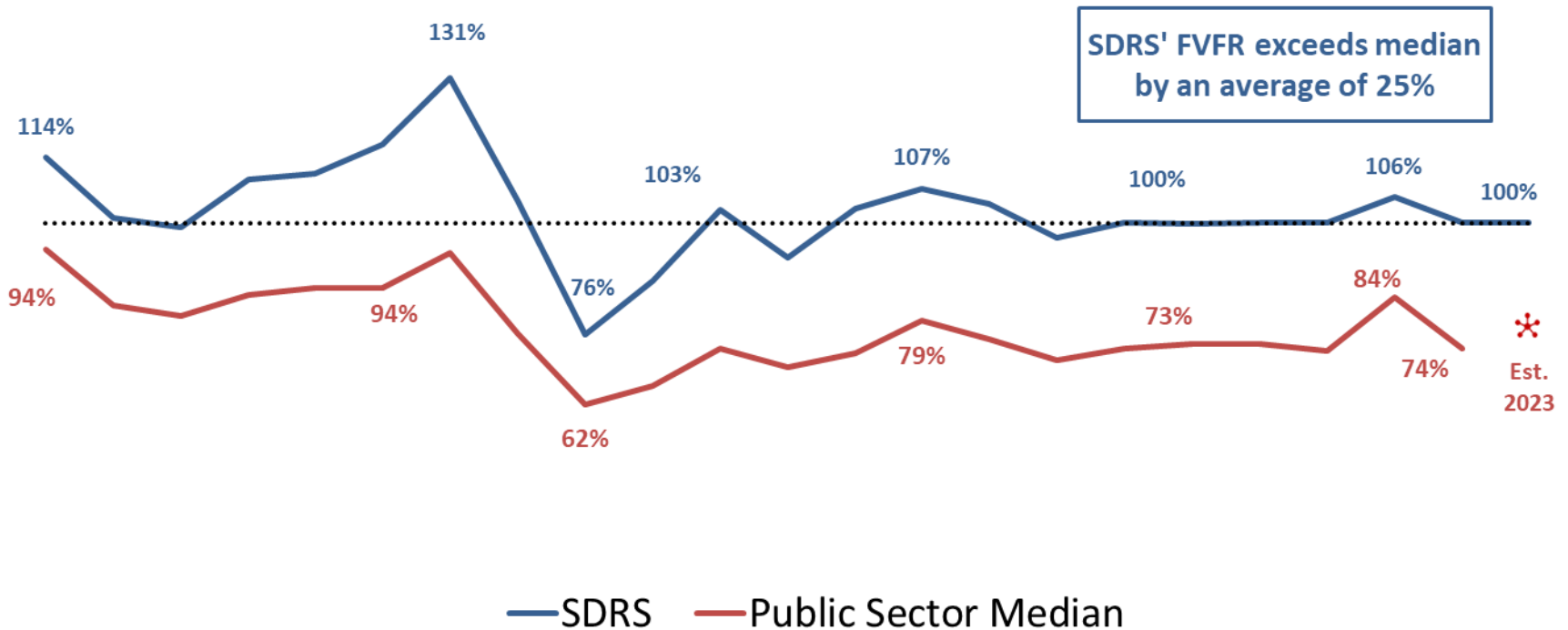
SDRS Fixed Employer Contributions are 40% of Median Rates





While SDRS Funded Status has Averaged 25% Better than Median Plan

Fair Value Funded Ratio



2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023



Management and Governance

- Goals, board policies, and position papers updated
 - Comprehensive Board Governance Manual in development
- Funding and benefit goals and board policies met
 - Except for recent COLAs lagging historically high inflation
- A System Guide to Planning for the Unexpected adopted in 2020
 - Update adopted in 2024
- Risk measures continue to be refined and expanded
- Continued support of Legislature and Executive Branch



Recent and Continuing Challenges

- Managing liabilities in low investment return environment
- Maintaining benefit adequacy, especially COLA matching high inflation
- Transition in leadership – Board and staff
- Effective education, communication, disclosure, and transparency
- Attempts to bypass the disciplined SDRS process when considering changes
- Distinguishing SDRS from struggling defined benefit plans
- Responding to critics of defined benefit plan practices and questioning of reported funded status
 - Potential for LDROM emphasis by critics



Executive Director Objectives

- Listen to and learn from all stakeholders
- Evolve and improve
- Assess what is working and continue, with improvements
- Assess what isn't working as intended and make changes
- Maintain a model retirement system



Executive Director Priorities

- Improved and focused communication with all stakeholders
- Review and augment our long-term plan
- Staff development and succession planning
- Enhance support of, and confidence in, SDRS with legislature and executive branch
- Strengthen internal controls/processes/pension administration system
- Utilize technology to better prepare members for retirement
- Maintain professional organization involvement and national presence



Current State of System

- SDRS recognized as model plan
- Fully funded system rare and exemplary
- Benefit practices meet objectives
- All funding goals met based on realistic actuarial assumptions and full COLA range
- Employers' costs fixed and 40% of national median
- System Guide to Planning for the Unexpected updated
- 2024 session was successful and supportive of SDRS



South Dakota Retirement System

Projected Funded Status as of June 30, 2024

June 5, 2024



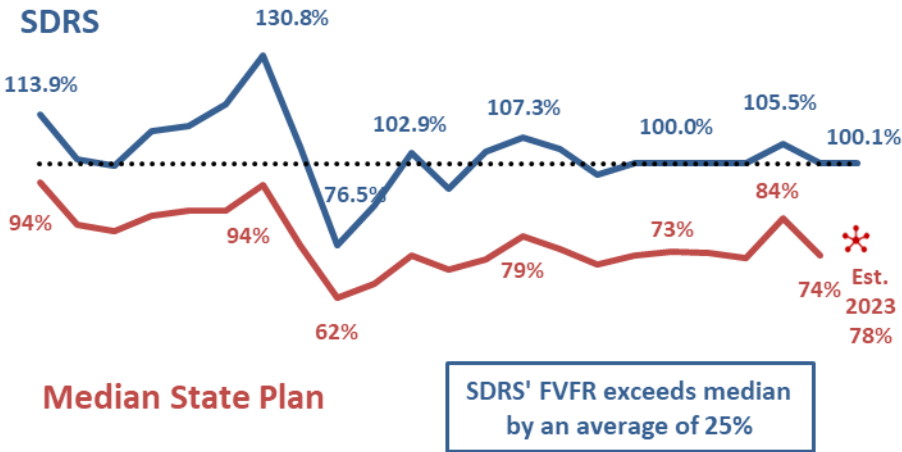
Funding Basics: $C + I = B + E$

- Member and employer **contribution rates are fixed in statute**
- **COLA automatically varies** with inflation and affordability:
 - COLA equals inflation, up to 3.5% when affordable
 - When not affordable, COLA maximum is reduced to COLA that keeps SDRS 100% funded if paid for lifetimes of all members
- SDCL 3-12C-228 requires recommendation, including circumstances and timing, to Legislature and Governor for **corrective action** if:
 - Zero COLA results in funded ratio below 100%, or
 - Fixed, statutory contributions do not meet actuarial requirement

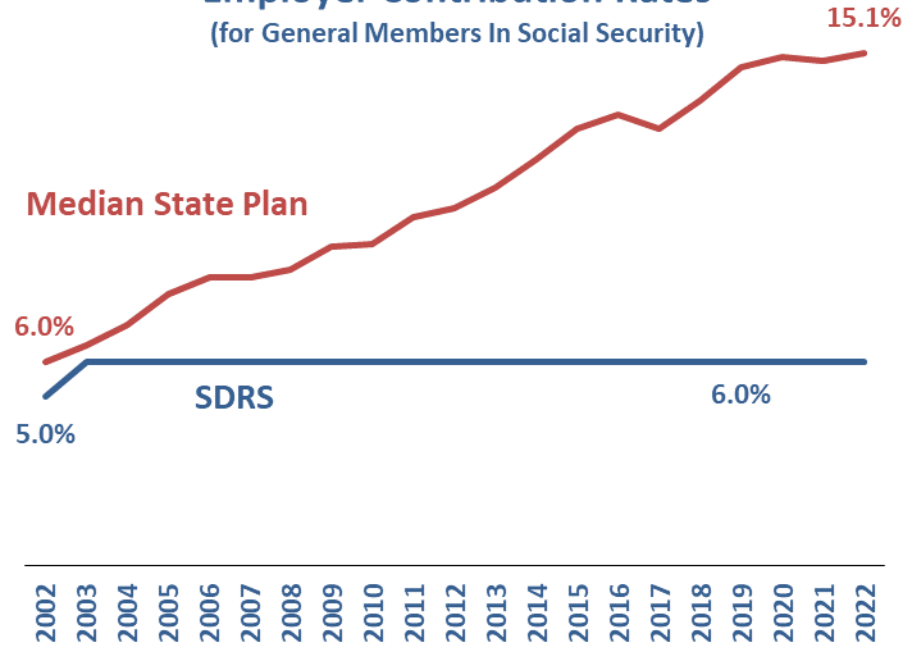


Employer Contributions and Funded Status Comparisons

Fair Value Funded Ratio



Employer Contribution Rates
(for General Members In Social Security)



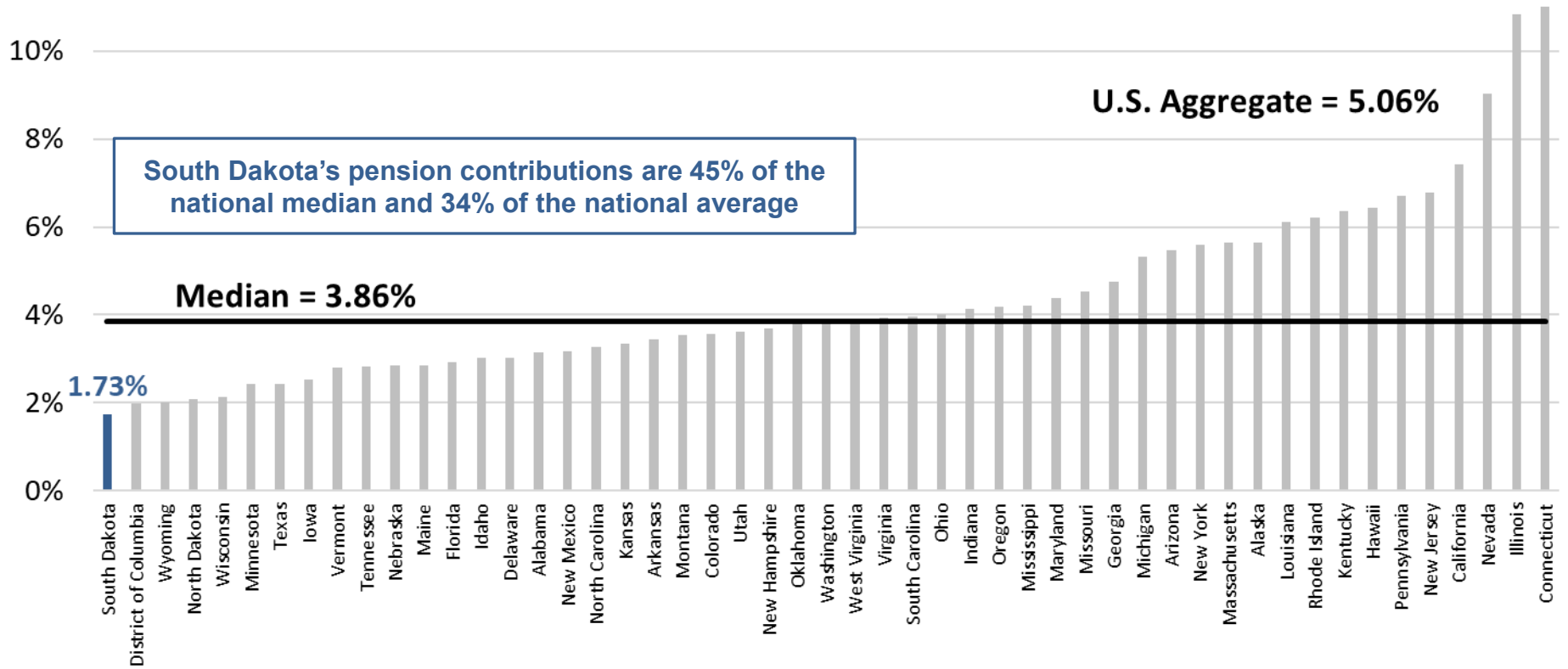
- SDRS COLA varies to maintain 100% Fair Value Funded Ratio (FVFR)
- Employer contribution rates for Class A members are 40% of the national median

Median public sector FVFR from Public Plans Database. Employer contribution rates from NASRA Public Fund Survey.



Government Spending on Pensions

Government Contributions to Pensions as a Percent of All Direct Government Spending, FY 2021 (most recently available)



Data from NASRA Issue Brief: State and Local Government Spending on Public Employee Retirement Systems, February 2024

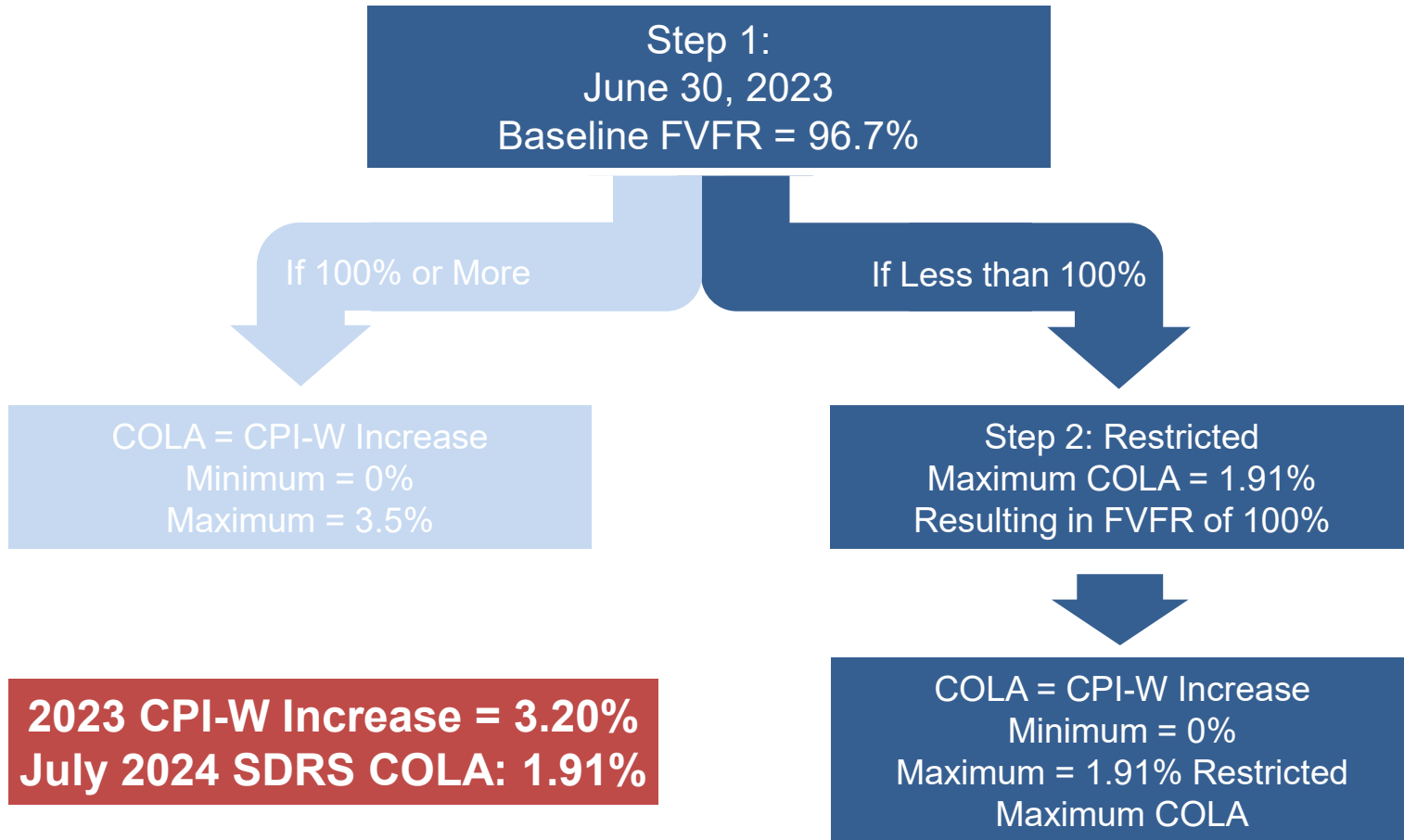


Competing Objectives

- **Delivering adequate benefits directly competes with remaining fully funded while spending a fraction of the national median on pensions**
- The challenge is becoming more difficult as retirees live longer and markets provide lower investment returns
- SDRS management efforts to meet these objectives have included:
 - Variable COLA process
 - 5-year FAC
 - Pay increase caps
 - Generational design
 - Retire-rehire reform
 - Various other initiatives
- **Expect continuing pressure on benefit affordability:**
 - Proposed changes to SDRS must be thoroughly evaluated to ensure they do not endanger future benefits, COLAs, or system sustainability
 - Actuarial assumptions must remain realistic



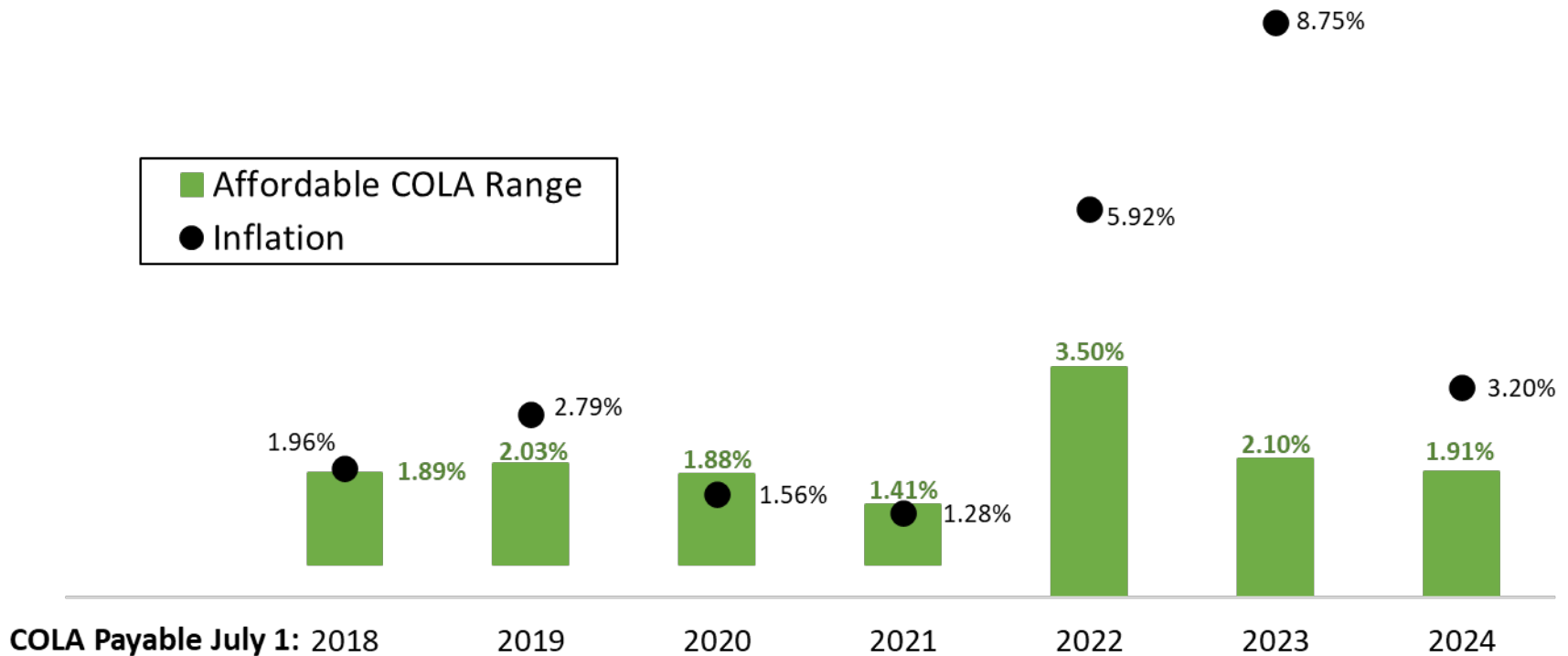
July 2024 COLA Calculation





Historical COLA Ranges

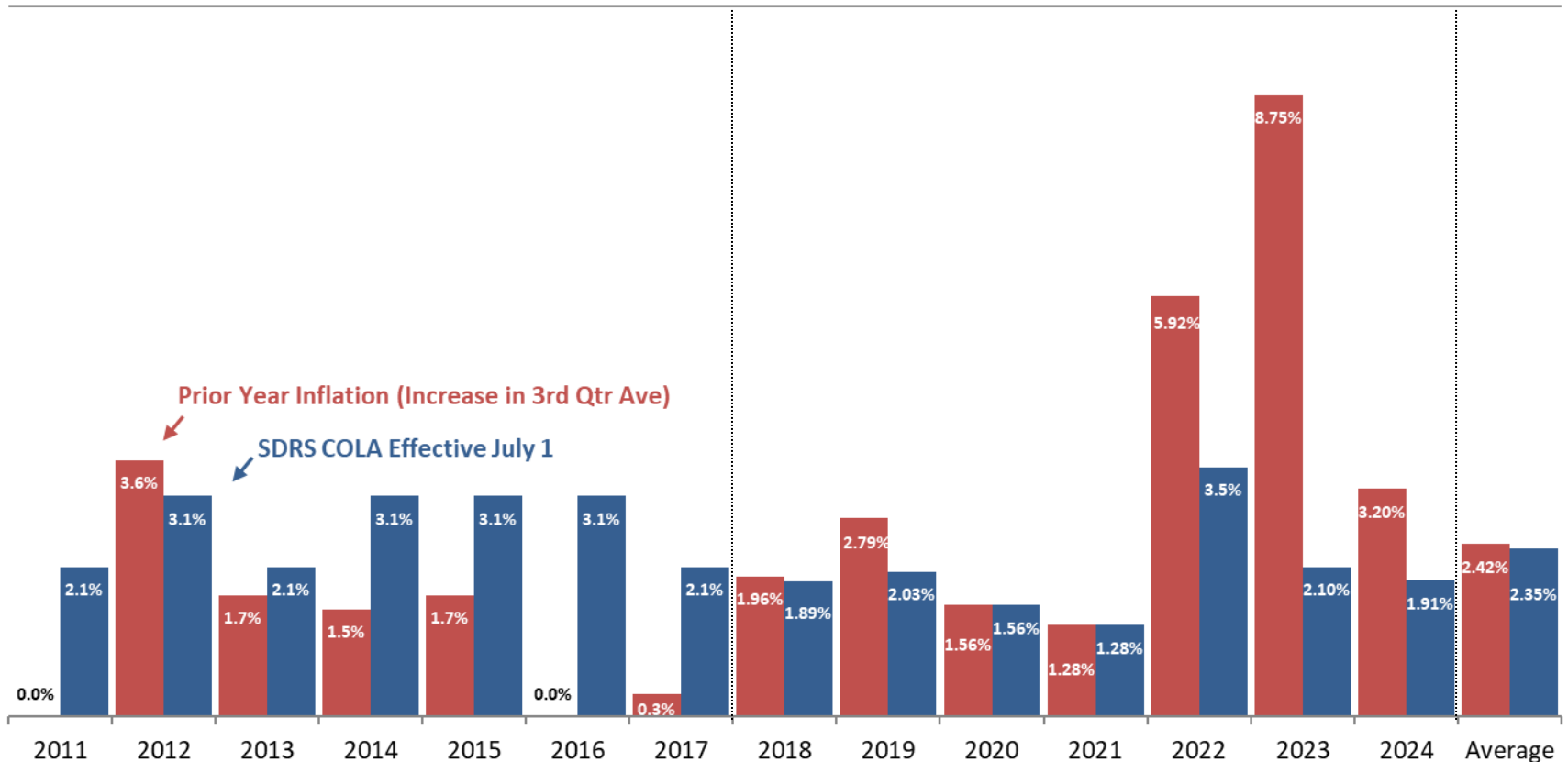
- Under the current COLA process, the full COLA range has only been affordable for the 2022 COLA
- The 2024 restricted maximum COLA is 1.91%, less than inflation





Inflation and SDRS COLAs Since 2010

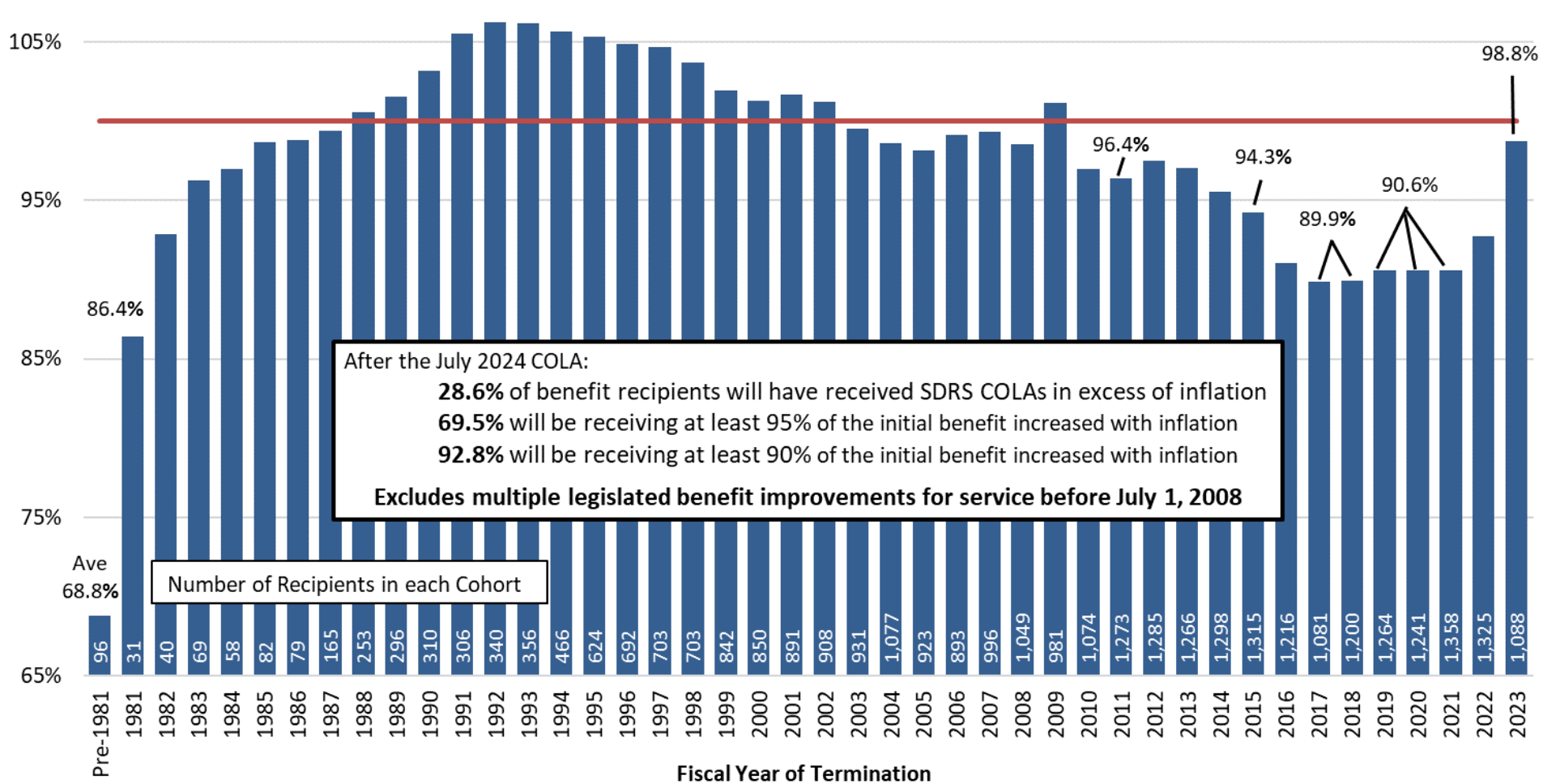
Annual Inflation and SDRS COLA Increases 2011-2024





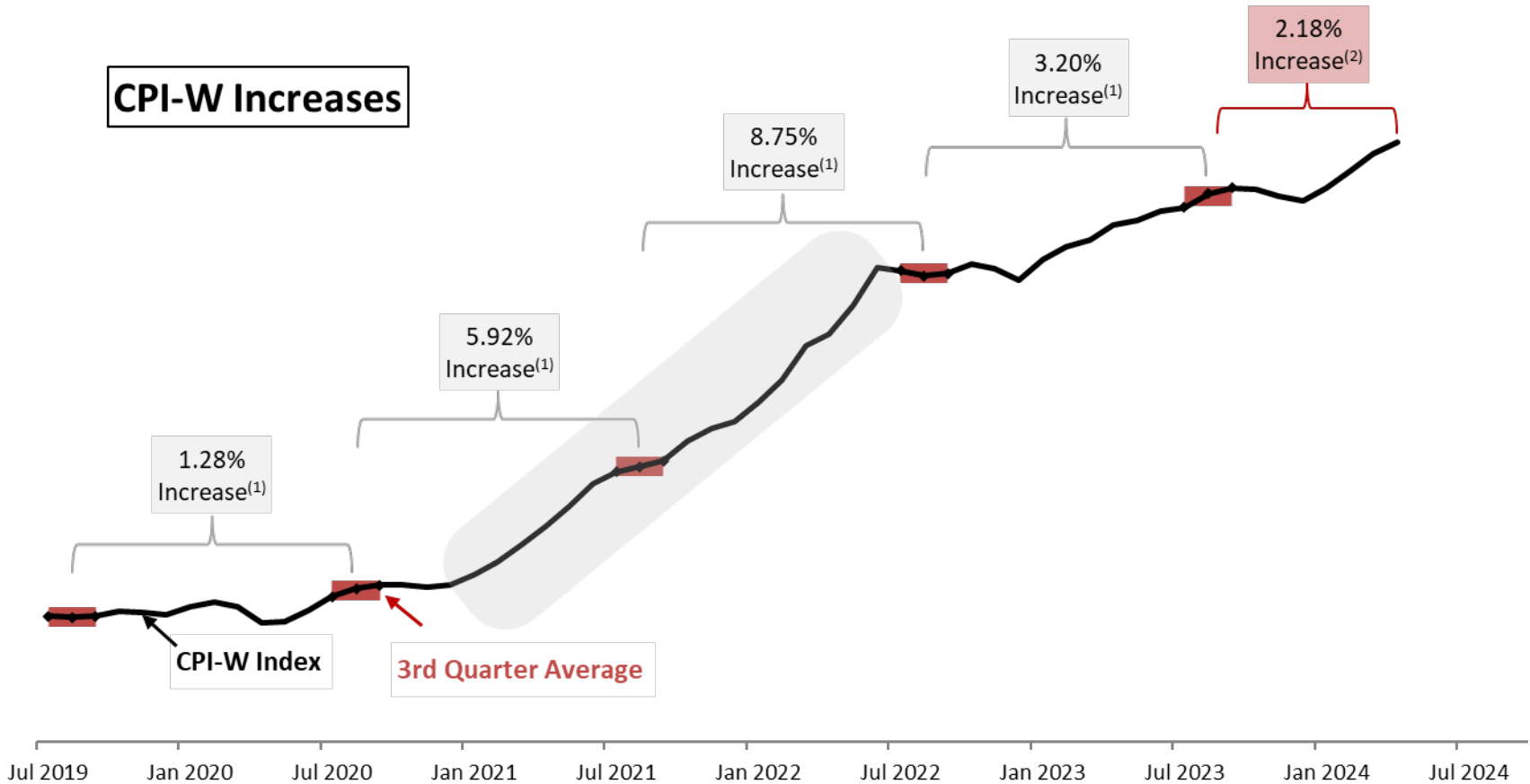
Historical Inflation and SDRS COLAs After July 2024 COLA

Ratio of Current SDRS Benefit to Initial SDRS Benefit Increased with Inflation





Inflation Measurement for Social Security and SDRS COLAs



(1) Increase in the third calendar quarter average over the prior highest third calendar quarter average – the specified inflation measurement for the Social Security COLA effective the following January and the SDRS COLA effective the following July.

(2) Increase in most recent month index (April 2024) over July to September 2023 average. Increase annualizes to 3.3%, ignoring seasonal impacts.



Projected Funded Status and COLAs

- The **most significant and immediate risk to SDRS is investment risk**
- Investment returns will **first impact** the affordable COLA range:
 - Less than assumed will reduce restricted maximum COLA; greater than assumed will increase maximum or enable full COLA range
 - The variable COLA may not be sufficient to maintain 100% FVFR in all conditions and additional corrective actions may be required
- The following exhibits project FVFRs based on ranges of investment returns, corresponding COLA ranges, and likelihoods of achieving returns at the end of FY 2024, 2025 and 2029:
 - Projections utilize an actuarial model intended to estimate short-term changes in funded ratios and resulting COLA ranges
 - Demographic experience is assumed to match assumptions
 - Likelihoods are calculated based on SDIC's investment portfolio statistics



Projected Funded Status as of June 30, 2024 and July 2025 COLA Range⁽¹⁾

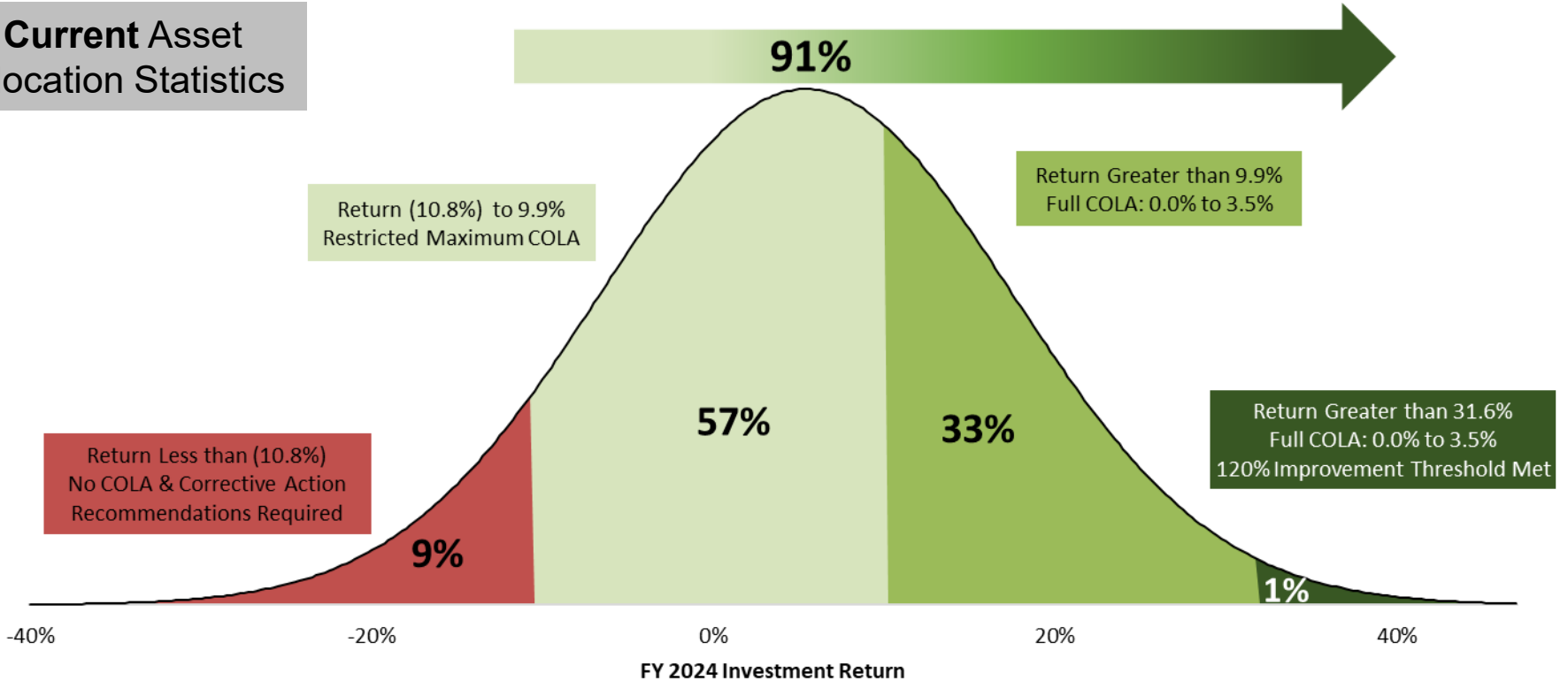
Net Investment Return FYE June 30, 2024	Baseline FVFR	COLA Range	Final FVFR	Applicable Conditions
<= (10.8%)	80.9%	NO COLA	<100%	Corrective Action Recommendation Required
(10.7%)	81.0%	0% to 0.01%	100%	Restricted Maximum COLA
(10.0%)	81.7%	0% to 0.10%	100%	
(5.0%)	86.3%	0% to 0.71%	100%	
0.0%	90.9%	0% to 1.27%	100%	
5.0%	95.5%	0% to 1.78%	100%	
6.5%	96.9%	0% to 1.92%	100%	
9.9%	99.9%	0% to 2.24%	100%	Full COLA Range
10.0%	100.1%	0% to 3.50%	100%	
12.5%	102.4%	0% to 3.50%	102%	
15.0%	104.7%	0% to 3.50%	105%	
31.6%	119.9%	0% to 3.50%	120%	
31.7%	120.0%	0% to 3.50%	120%	120% Benefit Improvement Threshold Met

(1) Before consideration of liability gains/losses for FYE June 30, 2024. June 30, 2023 Baseline FVFR: 96.7% and 2024 COLA Range: 0.0% to 1.91%.



Projected Range of 2025 COLA and Likelihoods

Current Asset Allocation Statistics



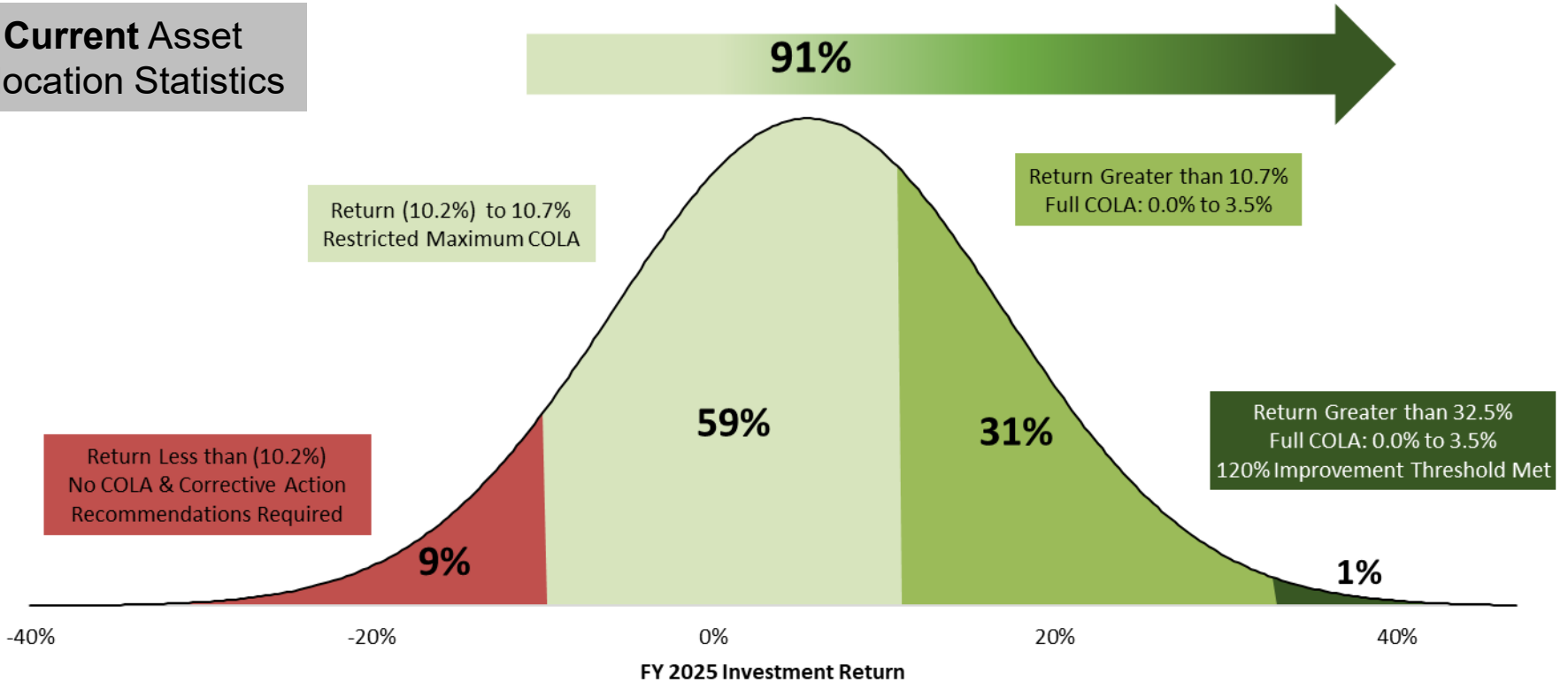
- **Ignoring FY 2024 investment returns to date**, the preliminary likelihoods for **July 2025 COLA ranges**, primarily driven by FY 2024 investment returns, are:
 - 9% likelihood: No COLA and corrective action recommendations required
 - 57% likelihood: COLA equals CPI-W increase between 0.0% and a restricted COLA maximum
 - 34% likelihood: COLA equals CPI-W increase between 0.0% and 3.5%; 2% likelihood 120% benefit improvement threshold met

Before consideration of liability gains/losses. Likelihoods based on SDIC FY 2024 current asset allocation investment portfolio statistics (mean = 5.06%, standard deviation = 12%).



Projected Range of 2026 COLA and Likelihoods Assuming 5.6% FY24 Net Investment Return

Current Asset Allocation Statistics



- **Following an assumed net investment return of 5.6% for FY 2024**, the likelihoods for **July 2026 COLA ranges**, primarily driven by FY 2025 investment returns, are:
 - 9% likelihood: No COLA and corrective action recommendations required
 - 59% likelihood: COLA equals CPI-W increase between 0.0% and a restricted COLA maximum
 - 32% likelihood: COLA equals CPI-W increase between 0.0% and 3.5%; 1% likelihood 120% benefit improvement threshold met

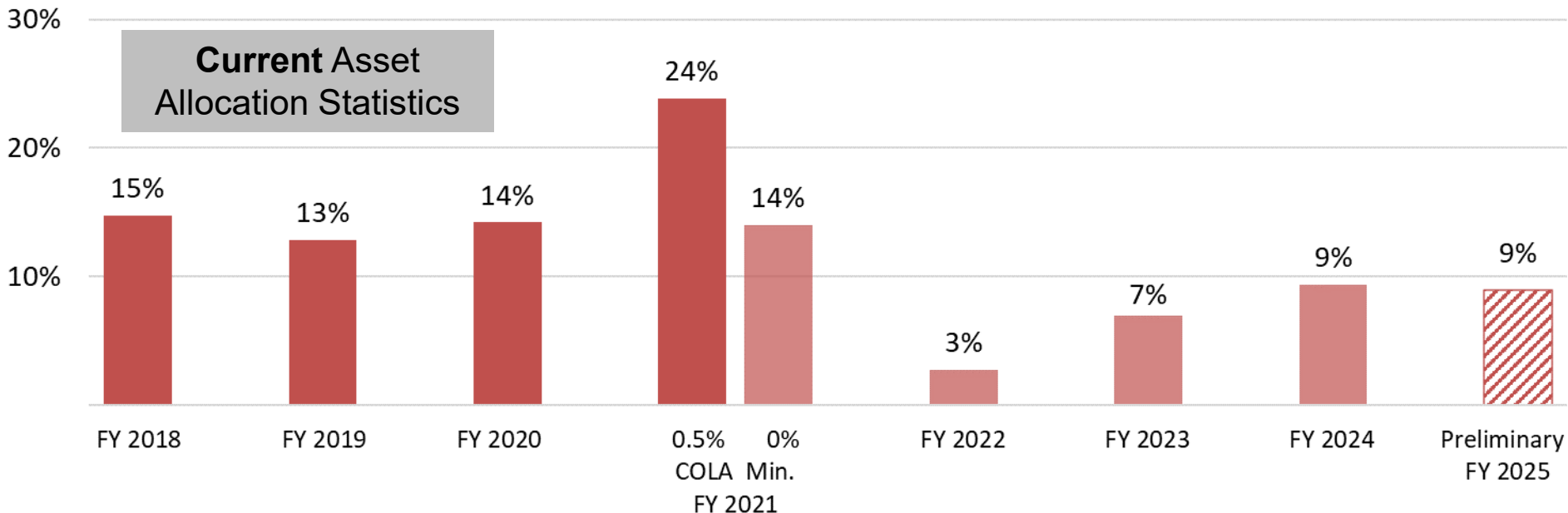
Before consideration of liability gains/losses. Likelihoods based on SDIC FY 2025 current asset allocation investment portfolio statistics (mean = 5.19%, standard deviation = 11.43).



Historical 1-Year Corrective Action Requirement Likelihoods

Investment experience is the primary driver of the likelihood of required corrective action recommendations. Changes in market conditions and expectations for future returns also impact the likelihood.

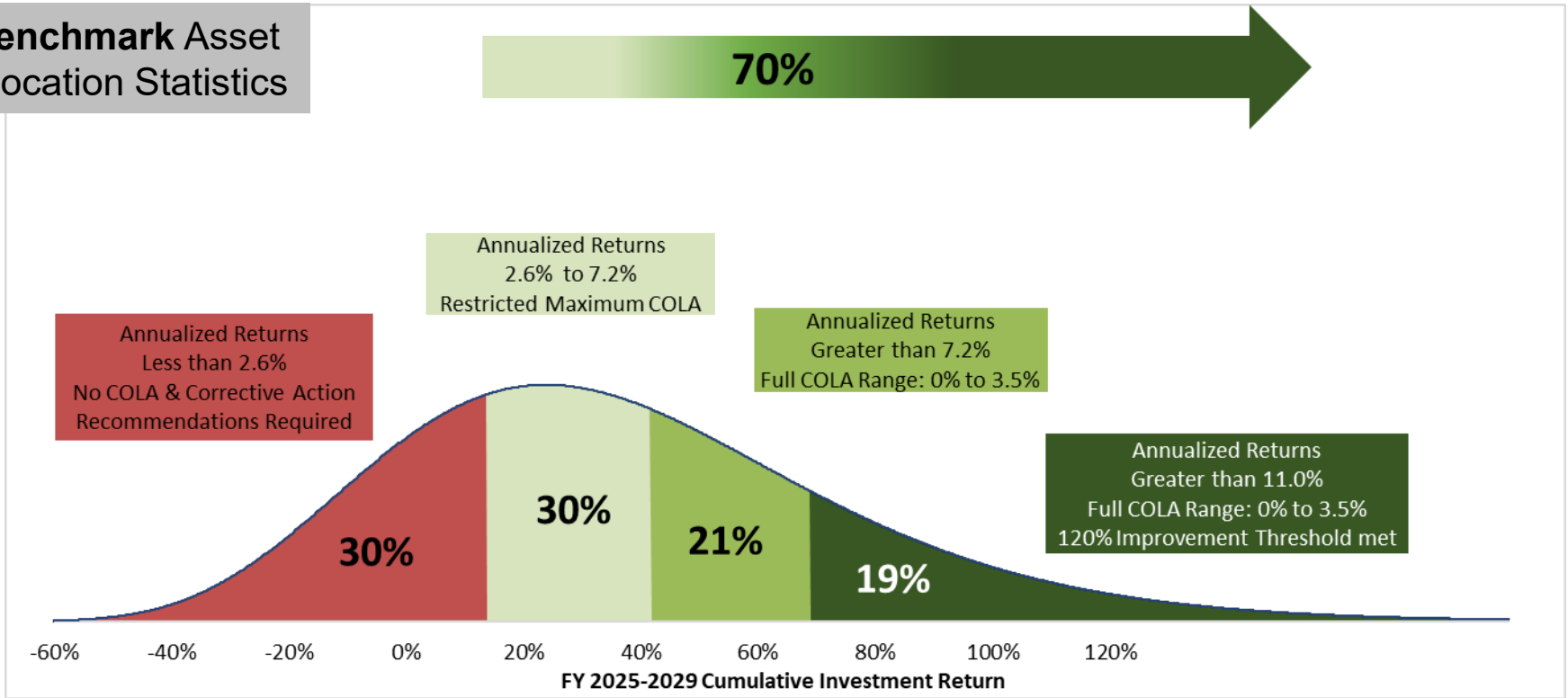
1-Year Likelihoods of Required Corrective Action Recommendations





Projected Range of 2030 COLA and Likelihoods Assuming 5.6% FY24 Net Investment Return

Benchmark Asset Allocation Statistics



- **Following an assumed net investment return of 5.6% for FY 2024**, the preliminary likelihoods for **July 2030 COLA ranges**, primarily driven by FY 2025-2029 investment returns, are:
 - 30% likelihood: No COLA and corrective action recommendations required
 - 30% likelihood: COLA equals CPI-W increase between 0.0% and a restricted COLA maximum
 - 40% likelihood: COLA equals CPI-W increase between 0.0% and 3.5%; 20% likelihood 120% benefit improvement threshold met

Before consideration of liability gains/losses. Likelihoods based on SDIC **FY 2025 benchmark** asset allocation investment portfolio statistics (mean = 5.76%, 5-year standard deviation = 6.08%).



Projected Funded Status and Risk Analysis Summary

- July 2022 SDRS COLA was 3.5%, the first time the full COLA range was affordable under the current COLA process
- The SDRS COLAs for July 2023 and 2024 were restricted to affordable COLA limits of 2.10% and 1.91%, respectively
- FY 2024 returns of approximately negative 10.8% would require a **corrective action recommendation**
- FY 2024 returns of approximately 9.9% would make the **full COLA range affordable** for the 2025 COLA
- Preliminary estimate of likelihood of required corrective action recommendation after FY 2025 is 9%:
 - Corrective action recommendation requirement likelihood increases for longer periods



Asset Allocation

SDRS Board of Trustees Presentation

JUNE 5, 2024

The Council's Role in Asset Allocation

- The primary investment objective for SDRS assets is to achieve and exceed over the long term the return of the Council's Capital Markets Benchmark
- The key investment policy decision relates to asset allocation
- The Council establishes:
 - Benchmark asset allocation which considers expected long-term returns and risk
 - Minimum and maximum for each asset category

Discussion Topics

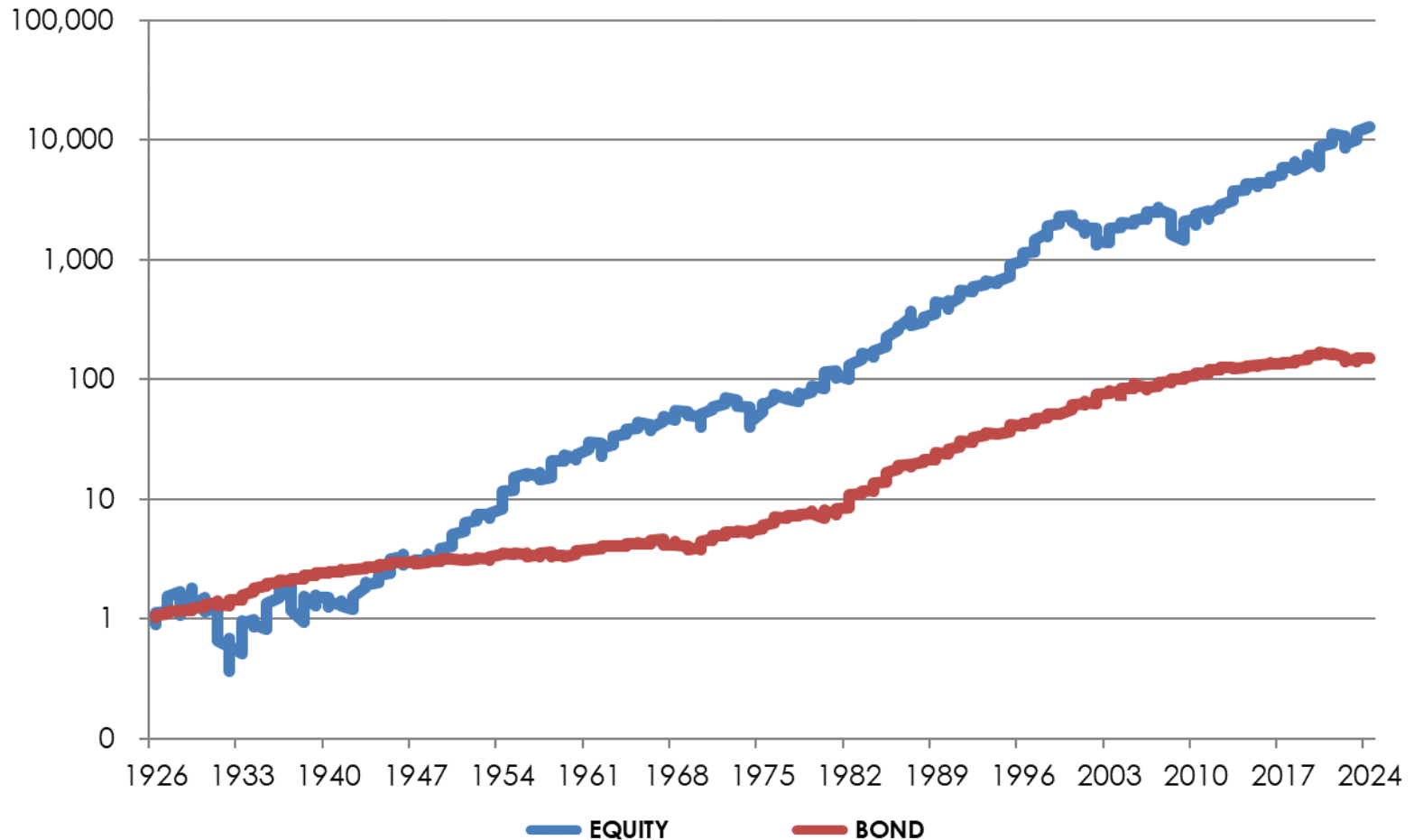
- Return and Risk Assessment
- Benchmark Recommendation
- Expected Return
- Valuation Analysis
- Asset Allocation Implementation

Return and Risk Assessment

Equity and Bonds

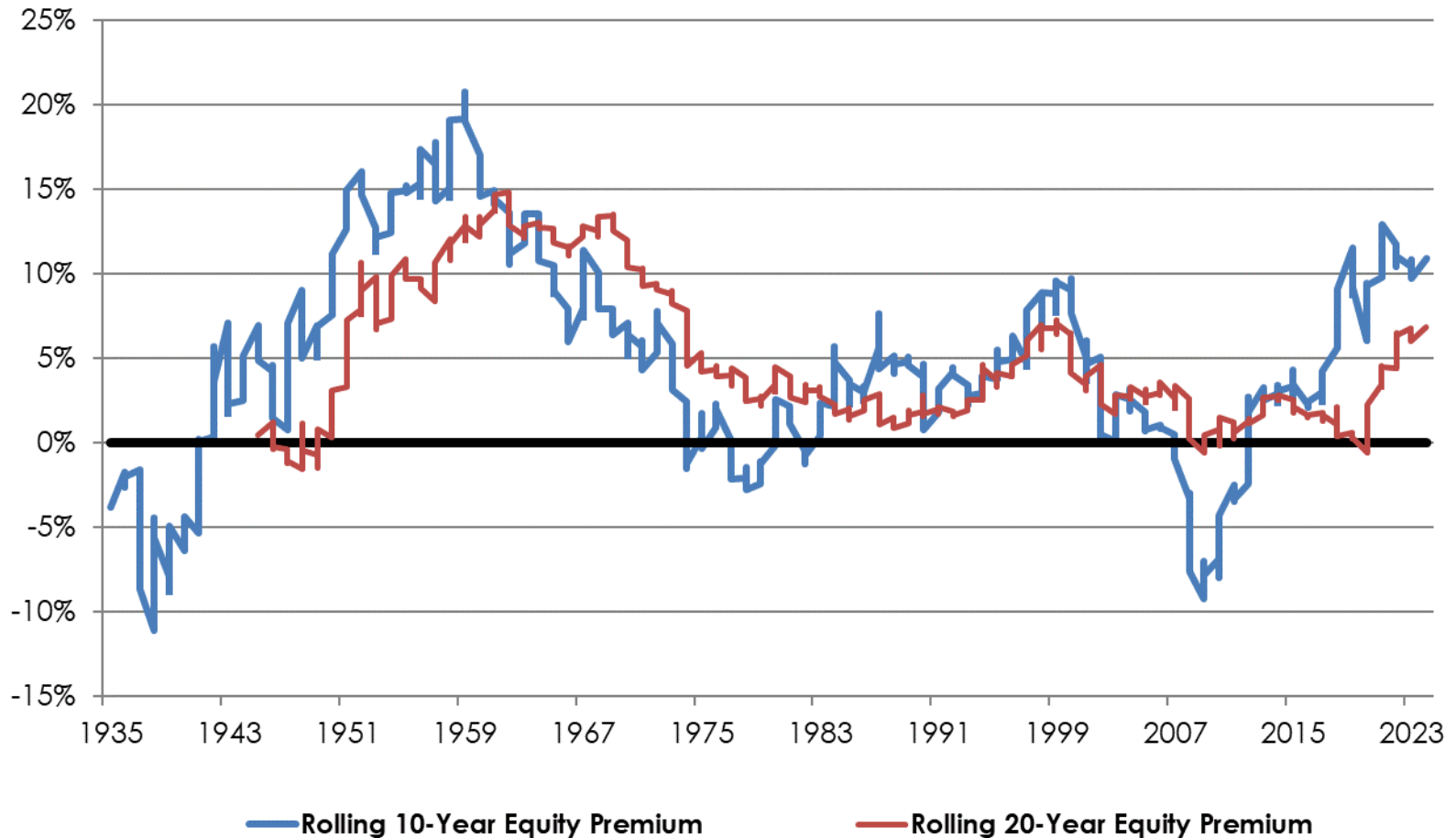
- Long-term return history is available only for equity, bonds, and cash
- Equity returns
 - Best over the very long term, but are volatile
- Bond returns
 - Lower over the long term compared to equities
 - Provides diversification
- Return/risk tradeoff depends on willingness to endure volatility

Long-Term Equity Returns Exceed Bond Returns



Equity Less Bond Return

Historical Rolling Periods

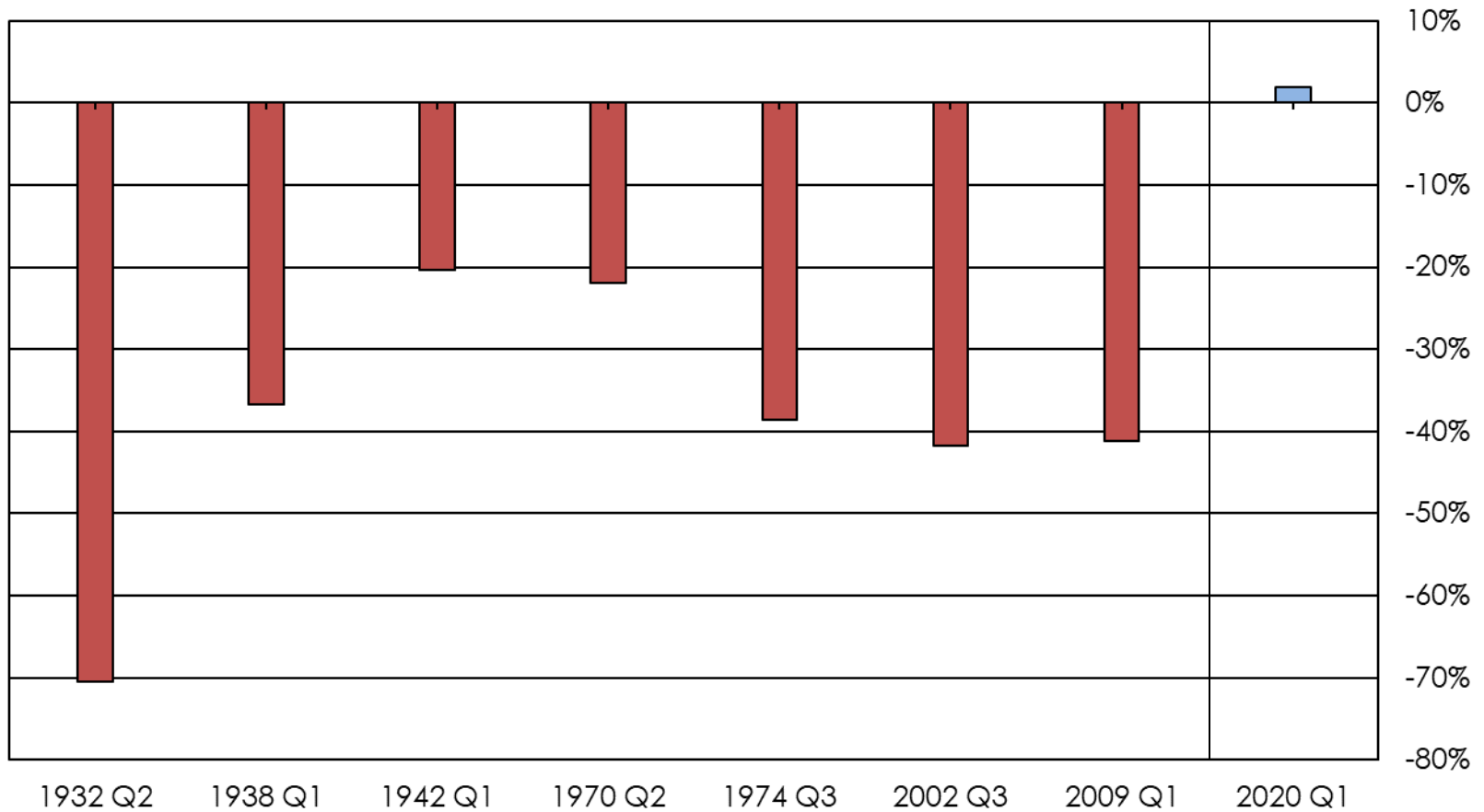


Risk Measurement

- Conventional statistical measures of risk
 - Standard deviation and correlations are calculated
- SDIC adjustment to conventional risk measures
 - SDIC volatility
 - Conventional standard deviation adjusted to reflect higher real-world frequency and magnitude of adverse outlier events
 - SDIC correlations
 - Conventional correlations adjusted to reflect the higher correlation of asset classes during adverse outlier events
- Focus on equity-like and bond-like risk
 - Withstanding a two-year adverse outlier event

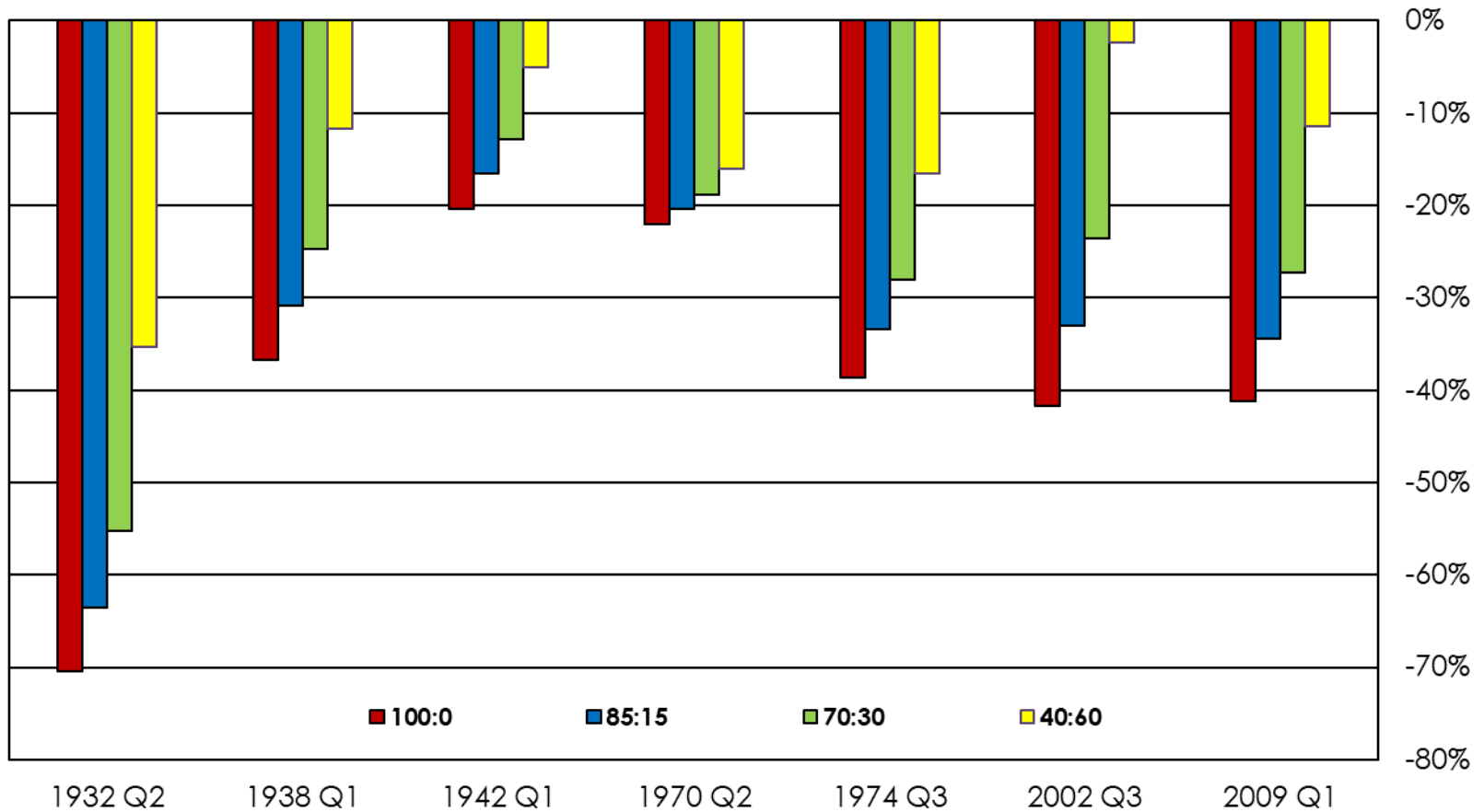
Equity Downturns Can Be Severe

Two-year periods with equity returns below negative 20%

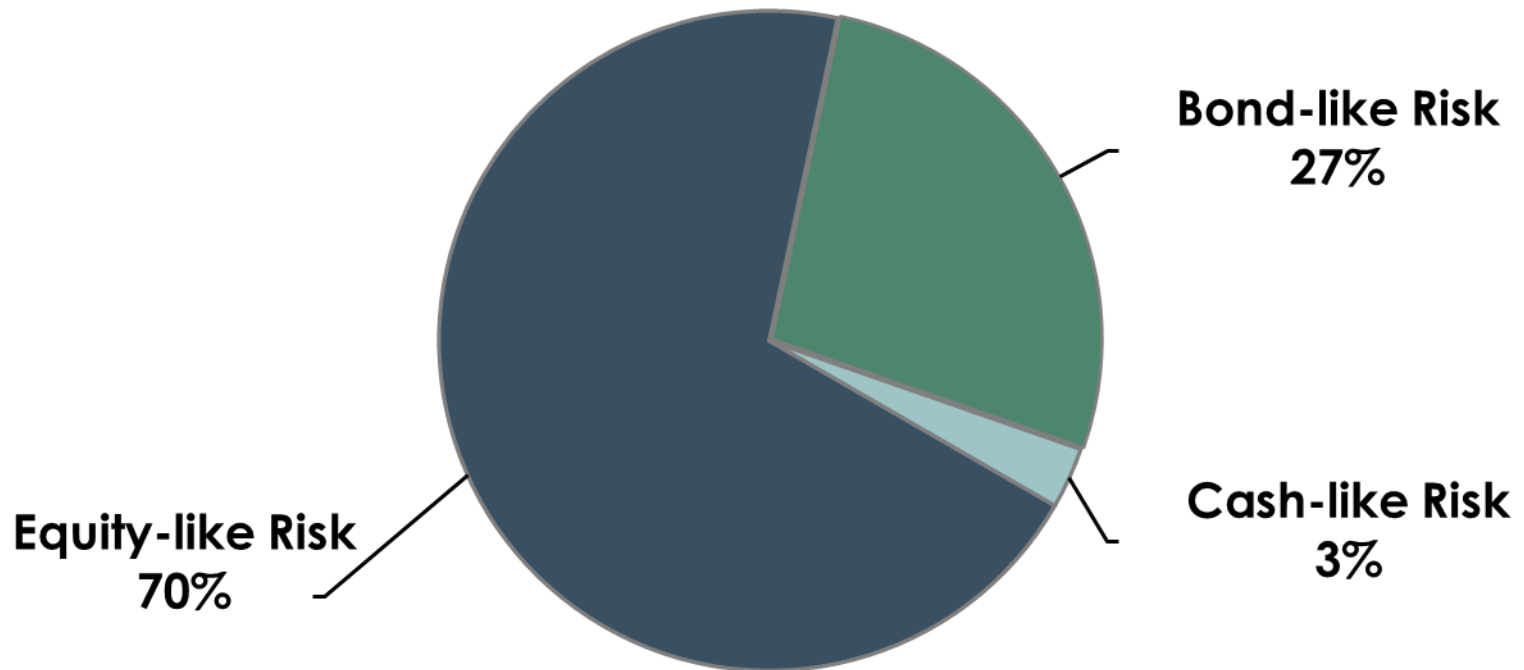


Risk of Various Equity Allocations

Two-year periods with equity returns below negative 20%

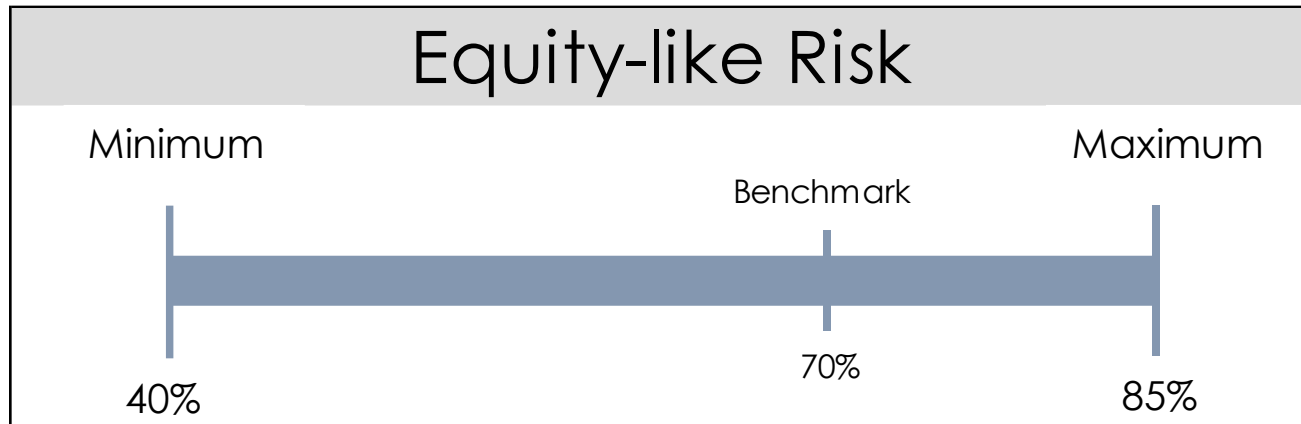


Benchmark Recommendation



- Balances long-term returns and drawdown risk

Benchmark Range Recommendation



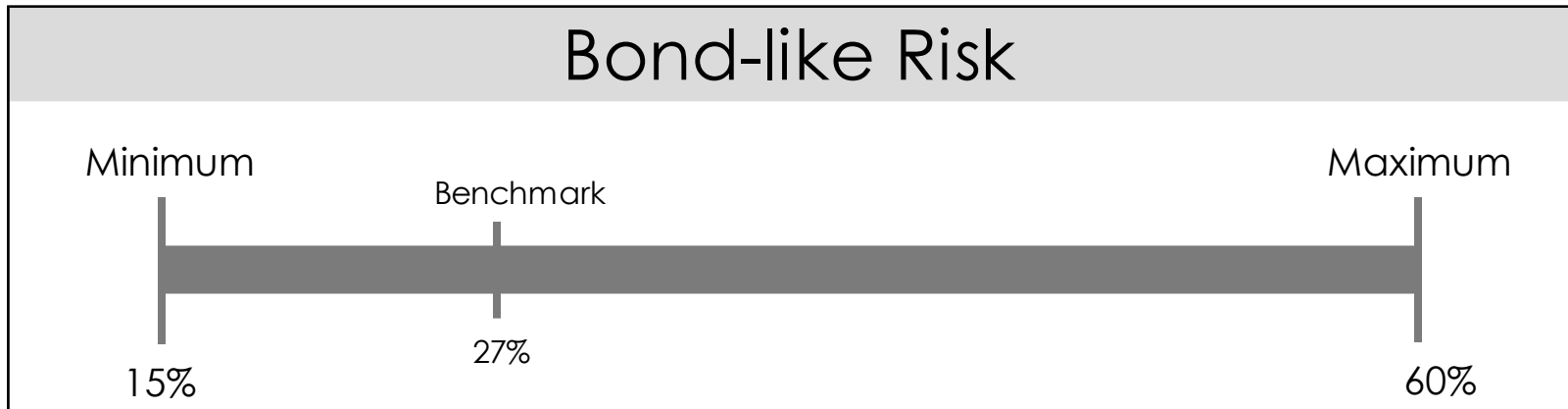
Minimum

- Increases underperformance risk but also reduces absolute risk when markets are extremely expensive
- Still provides meaningful exposure if wrong or early

Maximum

- For when markets are very cheap (on our valuation measures)
- Cheapness would suggest much of a potential decline had already occurred
- Weathered this maximum during the financial crisis

Benchmark Range Recommendation



Minimum

- Provides diversification

Maximum

- For when bonds are very cheap (on our valuation measures)

Benchmark Ranges

- Goal
 - Enter market downturns with near minimum equity-like risk
 - Increase equity-like risk toward maximum during equity downturns to benefit from an eventual rebound
- The Importance of Patience
 - Markets typically continue to rise or fall further after reaching minimum or maximum risk thresholds
 - Essential to be patient for 5 years or more

Benchmark Construction

- Categories in benchmark are significant and passively implementable
 - Public Equity, Investment Grade Debt, Cash, High Yield Debt, REITs
- Specialty categories are excluded from the benchmark, but have permitted ranges
 - Private Equity, Real Estate Opportunistic, Hedge Funds
- Equivalent stock/bond/cash risk is accounted for and offset when investing in other asset categories
- Benchmark constructed to achieve 70% equity-like, 27% bond-like, and 3% cash-like risk exposures

SDRS Return and Volatility Analysis

Using JP Morgan firm inputs

	Expected Return	Standard Deviation*	Correlation Matrix							
			Public Equity	Hedge Funds	IG Debt	Cash	HY Debt	REITs	Private Equity	RE Opp
Public Equity	7.0%	17%	100%							
Hedge Funds	5.0%	8%	18%	100%						
Investment Grade Debt	5.1%	4%	21%	-5%	100%					
Cash	2.9%	1%	-4%	-5%	10%	100%				
High Yield Debt	6.5%	8%	74%	11%	35%	-7%	100%			
REITs	8.2%	16%	77%	12%	35%	-6%	67%	100%		
Private Equity	9.7%	20%	79%	27%	-3%	0%	73%	54%	100%	
Real Estate Opportunistic	9.7%	18%	38%	0%	-8%	-17%	38%	52%	36%	100%

	Public Equity	Hedge Funds	IG Debt	Cash	HY Debt	REITs	Private Equity	RE Opp	Expected Return	Standard Deviation (1yr)*
100:0 Equity/Debt	100%								7.00%	16.91%
70:27:3 Equity/Debt/Cash	70%		27%	3%					6.36%	12.13%
add REITs						12%			6.55%	11.97%
add High Yield Debt					7%				6.60%	11.80%
Benchmark FY25 (proposed)	56.3%	0.0%	22.8%	1.9%	7.0%	12.0%	0.0%	0.0%	6.60%	11.80%
Actual 3/31/24	22.9%	0.9%	12.6%	36.0%	4.6%	0.0%	11.0%	12.1%	5.87%	7.27%

* Standard deviation is a measure of volatility. There is a 68% chance of being within +/-1 standard deviation and a 95% chance of being within +/-2 standard deviations.

SDRS Return and Volatility Analysis

Using SDIC inputs

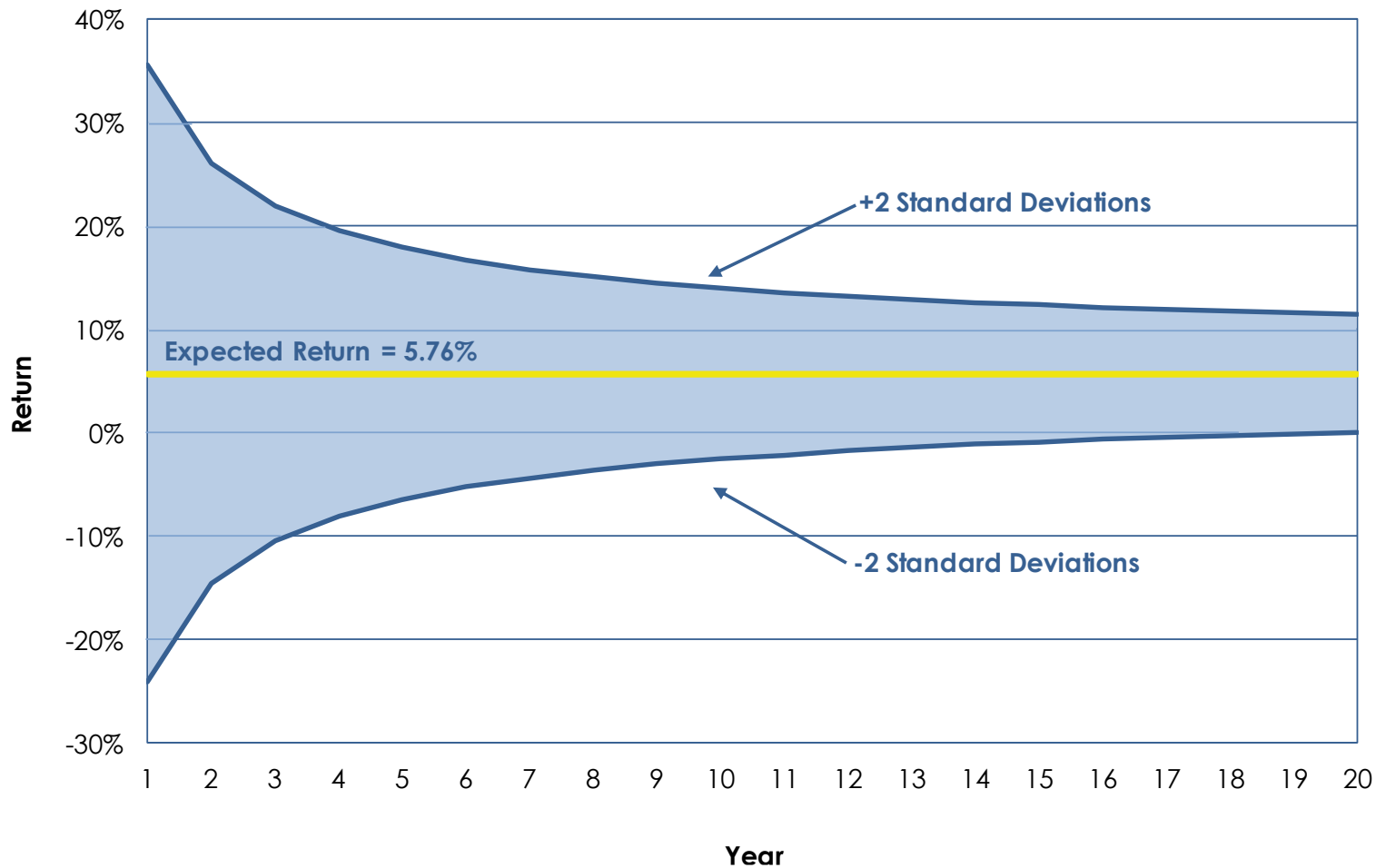
	Expected Return	Est. Volatility*
Public Equity	6.1%	21%
Hedge Funds	4.0%	11%
Investment Grade Debt	4.7%	8%
Cash	3.3%	2%
High Yield Debt	5.3%	12%
REITs	6.7%	25%
Private Equity	6.6%	30%
Real Estate Opportunistic	8.3%	33%

	Public Equity	Hedge Funds	IG Debt	Cash	HY Debt	REITs	Private Equity	RE Opp	Expected Return	Est. Volatility (1yr)*
100:0 Equity/Debt	100%								6.13%	21.00%
70:27:3 Equity/Debt/Cash	70%		27%	3%					5.66%	14.84%
add REITs						12%			5.76%	14.97%
add High Yield Debt					7%				5.76%	14.95%
Benchmark FY25 (proposed)	56.3%	0.0%	22.8%	1.9%	7.0%	12.0%	0.0%	0.0%	5.76%	14.95%
Actual 3/31/24	22.9%	0.9%	12.6%	36.0%	4.6%	0.0%	11.0%	12.1%	5.19%	11.43%

* Standard deviation is a measure of volatility. There is a 68% chance of being within +/-1 standard deviation and a 95% chance of being within +/-2 standard deviations. This measure has been adjusted to better reflect frequency and magnitude of adverse events.

SDRS Return and Volatility Analysis

Using SDIC inputs



SDRS Expected Long-Term Return Recap

- Benchmark asset allocation expected return is 5.76%
 - Uses SDRS inflation assumption which can vary from SDIC inflation assumption
 - Does not incorporate any negative dollar cost averaging effect nor added value from the long-term contrarian investment approach
- Expected returns are the midpoint of a wide distribution with a 50% chance of being higher and a 50% chance of being lower
- Standard deviation is 15.0% and is adjusted to reflect real-world frequency of severe negative returns and correlations during severe periods
 - Conventionally measured standard deviation is 11% to 12%

Additional Risk Control

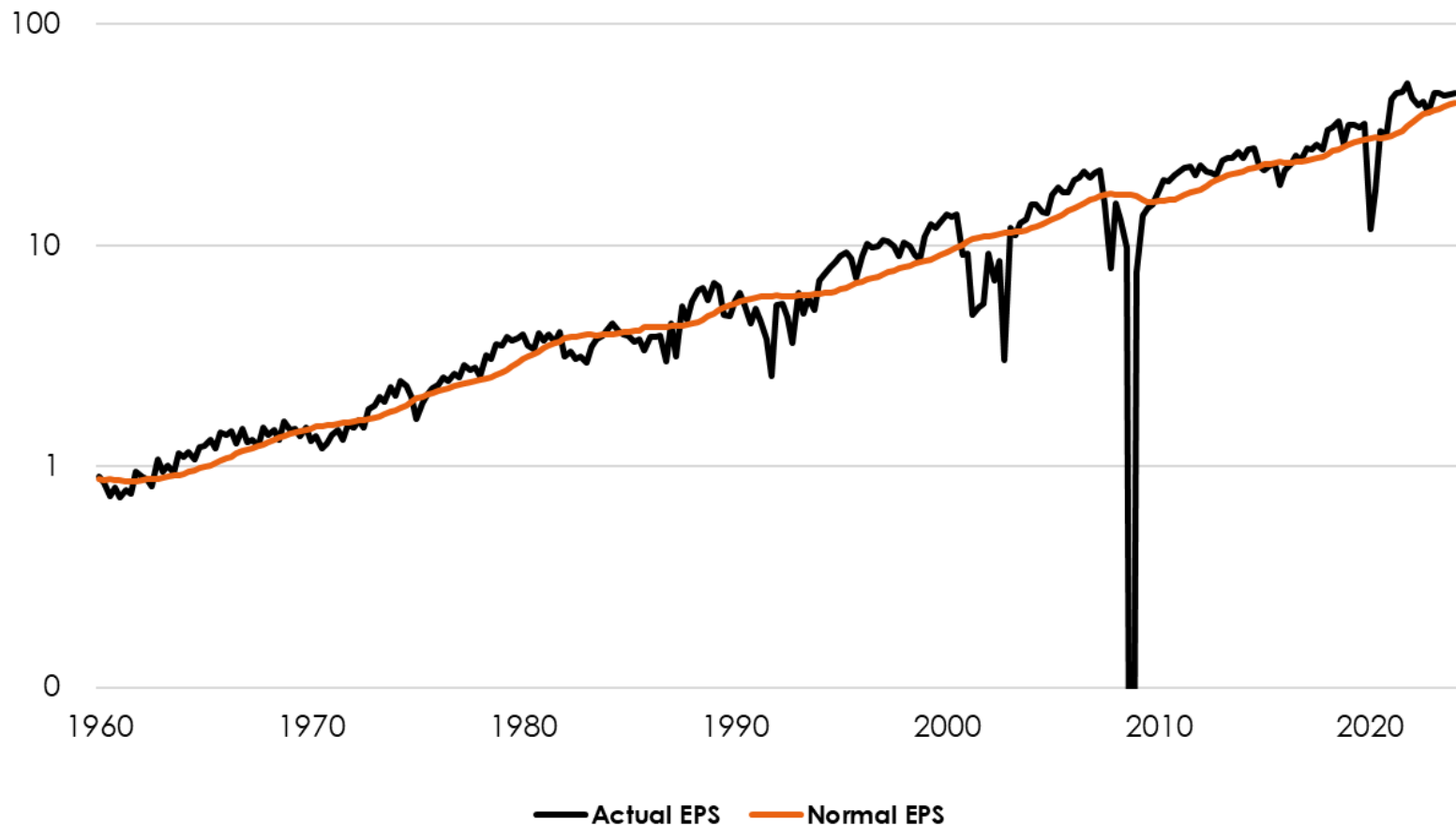
- Risk control
 - Risk managed by broad diversification and reducing amounts in expensive assets
 - Adequate liquidity maintained to avoid liquidations of depressed assets and to allow rebalancing
- Strength and determination to handle tough markets
 - Participation in the free enterprise economic system provides highest long-term rewards but must endure short-term bumps in the road
- Strong funding and benefit design help manage downside volatility
 - In very difficult circumstances, benefits may require further adjustment to maintain funding

Equity Valuation

- Estimated future cash flows
 - Normal earnings
 - Growth rate
- Discount rate comprised of
 - Inflation + real cash yield + term premium + risk premium
- Value is discounted value of future cash flows
- Adjustments to value
 - Monetary stimulus/restraint
 - Earnings strength

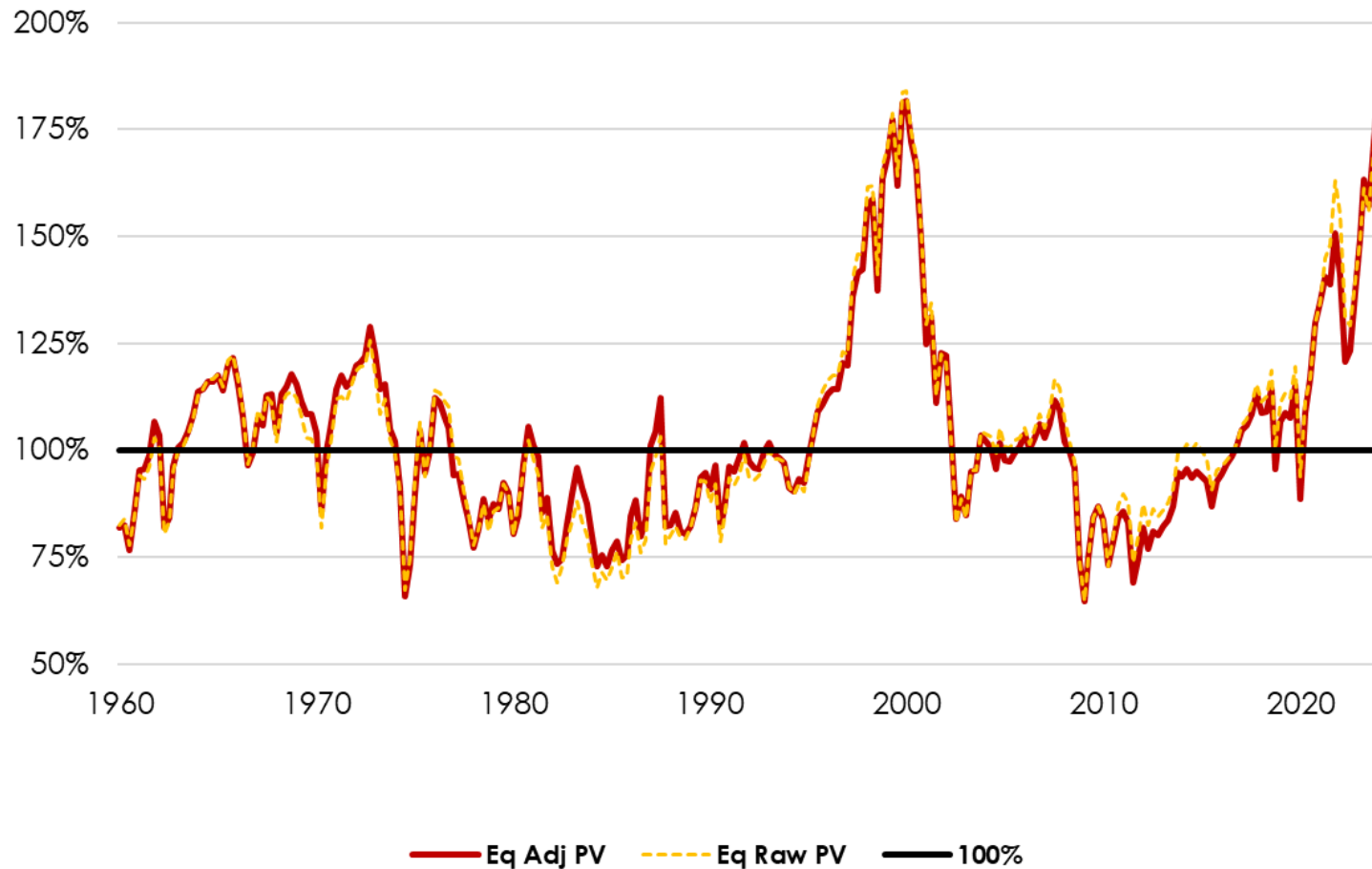
Normal EPS

Book value multiplied by adjusted ROE



Equity Price to Value

Raw and with monetary and earnings adjustments



Discount Rate Revisions

- Implemented changes to the discount rate formula last year
- Revised formula for real cash yield
 - Replaced fixed measure with variable measure related to real GDP growth
- Reviewed and updated term premium & equity risk premium
 - Adjusted the contributions of these components to the overall discount rate

Asset Allocation Implementation

- Equity-like and bond-like risk
 - Meaningfully cheap or expensive to initiate over or under-weight
 - Move back toward fair value to remove over or under-weight
 - Several steps between the benchmark and minimum and maximum levels
- Other category over and under-weights depend on valuation relative to risk mapping
 - Equity-like, bond-like, and cash-like risk is offset by adjusting weight of stocks, bonds, or cash

**SOUTH DAKOTA RETIREMENT SYSTEM
FISCAL YEAR 2026
CHANGE FROM FY 2025**

	2024 APPROVED <u>BUDGET</u>	2025 APPROVED <u>BUDGET</u>	2026 PROPOSED <u>BUDGET</u>	CHANGE FROM <u>2025</u>	% CHANGE FROM <u>2025</u>
PERSONAL SERVICES					
Salary and Per Diem	\$2,724,357	\$3,029,187	\$3,029,187	\$0	0.0%
Employee Benefits	<u>\$775,069</u>	<u>\$842,308</u>	<u>\$842,308</u>	<u>\$0</u>	<u>0.0%</u>
TOTAL PERSONAL SERVICES	\$3,499,426	\$3,871,495	\$3,871,495	\$0	0.0%
OPERATING EXPENSES					
Travel	\$101,539	\$106,633	\$106,633	\$0	0.0%
Contractual Services	\$1,729,489	\$1,960,846	\$1,960,846	\$0	0.0%
Supplies and Materials	\$355,000	\$458,000	\$458,000	\$0	0.0%
Capital Assets	<u>\$18,500</u>	<u>\$20,834</u>	<u>\$20,834</u>	<u>\$0</u>	<u>0.0%</u>
TOTAL OPERATING EXPENSE	<u>\$2,204,528</u>	<u>\$2,546,313</u>	<u>\$2,546,313</u>	<u>\$0</u>	<u>0.0%</u>
TOTAL SDRS BUDGET	<u><u>\$5,703,954</u></u>	<u><u>\$6,417,808</u></u>	<u><u>\$6,417,808</u></u>	<u><u>\$0</u></u>	<u><u>0.0%</u></u>

**SOUTH DAKOTA RETIREMENT SYSTEM
FISCAL YEAR 2026
CHANGE FROM FISCAL 2025**

	2024 APPROVED BUDGET	2025 APPROVED BUDGET	2026 PROPOSED BUDGET	CHANGE FROM 2025	% CHANGE FROM 2025
PERSONAL SERVICES					
Salary & Per Diem					
Full-time Employees	\$2,681,758	\$2,997,411	\$2,997,411	\$0	0.0%
Part-time Employees	\$24,513	\$25,493	\$25,493	\$0	0.0%
Board of Trustees	<u>\$18,086</u>	<u>\$6,283</u>	<u>\$6,283</u>	<u>\$0</u>	<u>0.0%</u>
Total Salary and Per Diem	\$2,724,357	\$3,029,187	\$3,029,187	\$0	0.0%
Employee Benefits					
Social Security	\$209,274	\$232,385	\$232,385	\$0	0.0%
Retirement	\$160,821	\$188,811	\$188,811	\$0	0.0%
Moving expenses	\$0	\$0	\$0	\$0	0.0%
Insurance, Health	\$400,703	\$418,477	\$418,477	\$0	0.0%
Worker's Comp	\$3,156	\$1,286	\$1,286	\$0	0.0%
Unemployment Insurance	<u>\$1,115</u>	<u>\$1,349</u>	<u>\$1,349</u>	<u>\$0</u>	<u>0.0%</u>
Total Employee Benefits	\$775,069	\$842,308	\$842,308	\$0	0.0%
TOTAL PERSONAL SERVICES	<u>\$3,499,426</u>	<u>\$3,871,495</u>	<u>\$3,871,495</u>	<u>\$0</u>	<u>0.0%</u>

SOUTH DAKOTA RETIREMENT SYSTEM
FISCAL YEAR 2026
CHANGE FROM FY25

	FY 2024 APPROVED BUDGET	FY 2025 APPROVED BUDGET	FY 2026 PROPOSED BUDGET	CHANGE FROM FY 2025	% CHANGE FROM FY 2025
Travel					
Auto state owned in state	\$16,960	\$16,960	\$16,960	\$0	0.0%
Auto Private in state L rt	\$1,480	\$1,480	\$1,480	\$0	0.0%
Auto Private in state H rt	\$4,400	\$5,591	\$5,591	\$0	0.0%
Air state owned in state	\$0	\$0	\$0	\$0	0.0%
Lodging in state	\$17,270	\$15,173	\$15,173	\$0	0.0%
Incidentals in state	\$50	\$50	\$50	\$0	0.0%
Non empl travel in state	\$1,278	\$1,278	\$1,278	\$0	0.0%
Meals taxable in state	\$4,528	\$4,528	\$4,528	\$0	0.0%
Non-taxable meals in state	\$6,000	\$6,000	\$6,000	\$0	0.0%
Air comm out of state	\$16,498	\$20,498	\$20,498	\$0	0.0%
Other puble out of state	\$2,480	\$3,480	\$3,480	\$0	0.0%
Lodging out of state	\$26,880	\$27,880	\$27,880	\$0	0.0%
Non taxable meals out of state	<u>\$3,715</u>	<u>\$3,715</u>	<u>\$3,715</u>	<u>\$0</u>	<u>0.0%</u>
Total Travel	\$101,539	\$106,633	\$106,633	\$0	0.0%
Contractual Services					
Services:					
Audit	\$158,375	\$164,345	\$164,345	\$0	0.0%
Banking	\$35,300	\$35,300	\$35,300	\$0	0.0%
Death Audit 5204134	\$50,000	\$50,000	\$50,000	\$0	0.0%
Valuations 5204130	\$65,000	\$75,000	\$75,000	\$0	0.0%
Consulting 5204131	\$30,000	\$30,000	\$30,000	\$0	0.0%
Studies 5204132	\$5,000	\$5,000	\$5,000	\$0	0.0%
Special Projects 5204133	\$120,000	\$120,000	\$120,000	\$0	0.0%
Legal	\$100,000	\$250,000	\$250,000	\$0	0.0%
PR and Advertising	\$10,000	\$10,000	\$10,000	\$0	0.0%
Medical	\$23,000	\$23,000	\$23,000	\$0	0.0%
Benchmarking 5204135	\$50,000	\$70,000	\$70,000	\$0	0.0%
Operations:					
Computer Services	\$514,248	\$530,595	\$530,595	\$0	0.0%
Central Services	\$122,221	\$115,595	\$115,595	\$0	0.0%
BHR/ Insurance Prem & Bonds	\$11,000	\$11,000	\$11,000	\$0	0.0%
Equip Service & Maintenance	\$21,000	\$10,195	\$10,195	\$0	0.0%
Janitorial Maintenance	\$23,169	\$30,340	\$30,340	\$0	0.0%
Equipment Rental	\$5,476	\$5,476	\$5,476	\$0	0.0%
Subscriptions	\$5,000	\$5,000	\$5,000	\$0	0.0%
Dues and Membership Fees	\$106,000	\$106,000	\$106,000	\$0	0.0%
Workshop Registration Fees	\$14,000	\$20,000	\$20,000	\$0	0.0%
Rent	\$161,340	\$162,000	\$162,000	\$0	0.0%
Rent - local meeting rooms	\$21,660	\$18,000	\$18,000	\$0	0.0%
Utilities	\$13,500	\$19,000	\$19,000	\$0	0.0%
Telephone	\$35,000	\$35,000	\$35,000	\$0	0.0%
SBITAs/Licences	\$21,000	\$51,800	\$51,800	\$0	0.0%
Miscellaneous	<u>\$8,200</u>	<u>\$8,200</u>	<u>\$8,200</u>	<u>\$0</u>	<u>0.0%</u>
Total Contractual Services	\$1,729,489	\$1,960,846	\$1,960,846	\$0	0.0%
Supplies and Materials					
Office Supplies	\$60,000	\$70,000	\$70,000	\$0	0.0%
Publishing & Printing	\$70,000	\$88,000	\$88,000	\$0	0.0%
Postage	<u>\$225,000</u>	<u>\$300,000</u>	<u>\$300,000</u>	<u>\$0</u>	<u>0.0%</u>
Total Supplies and Materials	\$355,000	\$458,000	\$458,000	\$0	0.0%
Capital Assets					
Furniture/Fixtures/Trans	\$2,500	\$2,000	\$2,000	\$0	0.0%
Hardware	\$16,000	\$18,834	\$18,834	\$0	0.0%
Software/Licenses	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>#DIV/0!</u>
Total Capital Assets	\$18,500	\$20,834	\$20,834	\$0	0.0%
TOTAL OPERATING	<u>\$2,204,528</u>	<u>\$2,546,313</u>	<u>\$2,546,313</u>	<u>\$0</u>	<u>0.0%</u>



MEMO NO. 2024-05B

TO: MEMBERS OF THE BOARD OF TRUSTEES

FROM: ERIC STROEDER, CHAIR

SUBJECT: EXECUTIVE DIRECTOR COMPENSATION COMMITTEE

DATE: MAY 28, 2024

This is to advise that I have appointed the following members of the board to serve on an Executive Director Compensation Committee:

- Eric Stroeder, Chair
- Jim Appl
- Matt Clark
- Darin Seeley

Dawn Smith, Executive Assistant/HR Manager, will be the staff point of contact for the committee.

The committee's responsibilities are as provided in the Executive Director Compensation Committee Charter.

SOUTH DAKOTA RETIREMENT SYSTEM
EXECUTIVE DIRECTOR COMPENSATION COMMITTEE CHARTER

MISSION

The mission of the SDRS Executive Director Compensation Committee (Committee) is to annually review the Executive Director's compensation in accordance with the South Dakota Retirement System Compensation Philosophy with the goal of attracting and retaining a strong, high-quality executive director to manage the operations of the South Dakota Retirement System.

COMPOSITION

The Committee shall consist of at least three of the sixteen voting members of the South Dakota Board of Trustees (Board). Membership shall include the Chair of the Board and/or Vice Chair of the Board and at least one other Board member. The Committee members and the Committee Chair shall be appointed annually by the Board Chair.

GOVERNANCE

A Committee meeting shall be held before the April meeting of the Board. In the Chair's absence, the designated Vice Chair shall run the meeting. All Committee recommendations must be approved by a majority of the Committee in order to be brought before the Board. The Committee shall make its recommendation to the Board at the April meeting in conjunction with the Annual Performance and Compensation Review of the executive director, and the Board shall take action on the recommendation.

The Committee shall report any recommended adjustment approved by the Board that is in excess of the state employee salary policy for the year to the Retirement Laws Committee before July 1. The recommendation will not be implemented unless approved by the Retirement Laws Committee.

RESPONSIBILITIES

The Committee shall establish a market-based pay rate utilizing peer group data. The primary peer groups will consist of the six surrounding state retirement systems and other state retirement systems on a national level with similar responsibilities. Additional peer groups may be considered as appropriate. Market data may be secured from the National Compensation Association of State Governments, the National Association of State Retirement Administrators, and other relevant benchmarking services.

In addition, the Committee shall establish a market-based pay range that is +/- 10% of the market rate to provide the flexibility to appropriately recognize the executive director's performance and experience within the pay range to achieve the objectives as described in the South Dakota Retirement System Compensation Philosophy.

South Dakota Retirement System

Executive Director Compensation and Annual Review Process

The Board of Trustees shall appoint an Executive Director, qualified by training and experience, to serve at the pleasure of the board.

The Board of Trustees, in conjunction with the State of South Dakota Bureau of Human Resources and/or other compensation benchmarking services, shall annually review the compensation of the SDRS Executive Director. The review shall include an examination of similar positions within a defined peer group and available market data.

The primary peer group shall consist of the six surrounding states, limited other regional statewide retirement systems and South Dakota public and private employers. However, an expanded labor market may be examined if the board determines it is reasonable and appropriate under the circumstances. Market data may be secured from the National Compensation Association of State Governments, the National Association of State Retirement Administrators, and other relevant benchmarking services. The Board of Trustees shall establish the peer group prior to any evaluation.

Utilizing peer group data, compensation shall be matched to that of like positions within a market competitive range (+/- 20% of market average) to provide flexibility to appropriately recognize performance and experience. In general, the intent is for base pay to approximate the peer group market average.

The Board of Trustees' annual evaluation of the Executive Director shall be based on performance, the availability of expenditure authority, and other factors. The Trustees may adjust the compensation of the Executive Director. The board shall report any change in the executive director's compensation above the state employee salary policy to the Retirement Laws Committee before July first for the upcoming fiscal year. The change in compensation above the state employee salary policy will be effective as of July first if approved by the majority vote of the Retirement Laws Committee.



MEMO NO. 2024-06B

TO: MEMBERS OF THE BOARD OF TRUSTEES

FROM: ERIC STROEDER, CHAIR

SUBJECT: EXECUTIVE DIRECTOR EVALUATION COMMITTEE

DATE: MAY 28, 2024

This is to advise that I have appointed the following members of the board to serve on an Executive Director Evaluation Committee:

- Darin Seeley, Chair
- Jim Appl
- Penny Brunken
- Justice Mark Salter

Jacque Storm, Deputy Director, will be the staff point of contact for the committee.

The committee's responsibilities include the following:

- Review the current evaluation document for the Executive Director, including its relevance to the job duties and responsibilities of the position and its ease of use for board members.
- Recommend alternative performance measures, as appropriate, and alternative methodologies for the evaluation, including digital formats.
- Present recommended changes for the evaluation process to the board in September, with the goal of adopting a new evaluation tool in December 2024 to be used for the April 2025 meeting of the board.



MEMO NO. 2024-04B

TO: MEMBERS OF THE BOARD OF TRUSTEES

FROM: ERIC STROEDER, CHAIR

SUBJECT: AUDIT COMMITTEE

DATE: MAY 29, 2024

This is to advise that I have appointed the following members of the board to serve on the Audit Committee:

- Jill Lenards, Chair
- LaJena Gruis
- Hank Prim

Michelle Mikkelsen, Chief Financial Officer, will be the staff point of contact for the committee.

As defined in the audit charter, the committee's responsibilities include the following:

- Meet with the contracted external auditor and SDRS staff for an opening conference to review the annual audit engagement schedule. Based on those conversations, the Audit Committee Chair will work with management to provide an engagement letter. The Audit Committee Chair and management will each also provide representation letters.
- Discuss issues identified during the audit process affecting the annual financial statements.
- Review the Audit Report and all audit findings prior to presentation to the SDRS Board of Trustees. If necessary, work with SDRS staff to respond to audit findings.
- Review the Risk Assessment.

ES:dms