BOARD MEETING

SOUTH DAKOTA RETIREMENT SYSTEM

April 9, 2025

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

BOARD MEMBERS IN ATTENDANCE:

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

OTHERS IN ATTENDANCE:

Charles Arsenault, SDEA
Johnathan Hampe, BIT
Duncan Koch, BFM
June Larson, Nationwide Retirement Solutions
Kevin Lawrence, BIT
Danielle Mourer, SDIO
Representative Mike Weisgram, District 24
Travis Almond, SDRS

Brittnie Adamson, SDRS
Doug Fiddler, SDRS
Alan Freng, SDRS
Michelle Humann, SDRS
Sam Koldenhoven, SDRS
Michelle Mikkelsen, SDRS
Nick Rea, SDRS
John Richter, SDRS
Dawn Smith, SDRS
Jacque Storm, SDRS

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 conflicts 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. TSCHETTER, SECONDED BY MR. SMITH, TO APPROVE THE MINUTES OF THE DECEMBER 11, 2024, 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: Teacher and State Employee.

She continued stating that no petitions were submitted for the Municipal Employee position. Therefore, staff will ask interested parties to submit resumes, 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
INVESTMENT PERFORMANCE UPDATE

Summary of Discussion
Ms. Danielle Mourer, SDIO Portfolio Manager, stated that through April 8, 2025, the estimated return for SDRS was approximately negative 3 to 3½ percent.

Board Action
No action was necessary.

AGENDA ITEM 6
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 percentage of government spending, South Dakota spends the least on pensions, at 1.78 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, transition to a 5-year FAC for foundation members, 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.

Based on a FY25 net investment return of negative 3 percent, the baseline FVFR is expected to be approximately 87 percent at June 30, 2025. As a result, the preliminary estimated 2026 restricted maximum COLA would be approximately 0.70 percent. This excludes the impact of any demographic gains and losses, with losses expected due to slightly higher-than-expected salary increases in FY 2025, which could decrease the restricted maximum COLA.

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 11 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 2024 investment return caused a restricted maximum COLA for the July 2025 COLA of 1.71 percent. If FY 2025 net investment returns are below approximately negative 9 percent, a corrective action recommendation would be required. If the return exceeds roughly 12 percent, the full COLA range would be affordable for the July 2026 COLA.

Board Action
No action was necessary.

AGENDA ITEM 7
RECENT PUBLIC PENSION STUDIES

Summary of Discussion
Mr. Fiddler reviewed highlights from recent public pension studies published by the Wisconsin Legislative Council, the Society of Actuaries Retirement Plan Experience Committee, the National Institute on Retirement Security, the National Association of State Retirement Administrators, and the National Conference on Public Employee Retirement Systems. Where applicable, SDRS plan features, metrics, and statistics were compared with the national data summarized in the studies.

Board Action
No action was necessary.

AGENDA ITEM 8
2025 LEGISLATIVE AND BUDGET REPORT

Summary of Discussion
Mr. John Richter, SDRS General Counsel, and Ms. Samantha Koldenhoven, SDRS Assistant General Counsel, discussed the 2024 Legislative Session. Mr. Richter stated that four bills were brought on behalf of SDRS. The bills unanimously passed both houses of the Legislature and were signed into law by the Governor.

Mr. Richter noted that there were several other bills that SDRS was watching during the legislative session as well. The most notable being bills that sought to clarify the meaning of teleconference for purposes of open meeting requirements, require the publication and review of an explanation of open meetings laws of this state, and prohibit natural asset companies. The first two passed and will become law on July 1, 2025, while the third one failed.

Ms. Michelle Mikkelsen, SDRS Chief Financial Officer, stated that the Board requested, and the Governor approved, the budget for SDRS, which passed through the Legislature without any changes.

Board Action
No action was necessary.

AGENDA ITEM 9
BIT CYBERSECURITY UPDATE

Summary of Discussion
This agenda item was discussed during an executive session.

Board Action
IT WAS MOVED BY MR. PRIM, SECONDED BY MS. GRUIS, TO GO INTO EXECUTIVE SESSION PURSUANT TO SDCL 1-25-2(6) TO DISCUSS AN ITEM RELATING TO CYBERSECURITY PLANS. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

Bureau of Information and Technology (BIT) and SDRS staff who are to remain include: Johnathan Hampe, Kevin Lawrence, Travis Almond, Jacque Storm, Brittnie Adamson, Doug Fiddler, Alan Freng, Michelle Humann, Sam Koldenhoven, Michelle Mikkelsen, Nick Rea, John Richter, and Dawn Smith.

The Chair declared the Board out of executive session.

AGENDA ITEM 10
UPDATE ON CUSTOMER SERVICE ENHANCEMENTS

Summary of Discussion
Ms. Michelle Humann, Member Services Director, Mr. Nick Rea, IT Director, and Mr. Alan Freng, Communications Director, explained the enhancements to the business-to-business portal, the MySDRS portal, and the member services center, which have all been enacted this past year.

Board Action
No action was necessary.

AGENDA ITEM 11
EFFECTIVE RATE OF INTEREST FOR FY26

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 4.97 percent for 2024, Ms. Mikkelsen stated that 90 percent of the rate is 4.473 percent. She noted that this interest rate would be credited on July 1, 2026, for the period of July 1, 2025, through June 30, 2026.

Board Action

IT WAS MOVED BY MR. APPL, SECONDED BY MR. PRIM TO ESTABLISH THE EFFECTIVE RATE OF INTEREST TO BE CREDITED FROM JULY 1, 2025, TO JUNE 30, 2026, AT 4.473 PERCENT. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 12
SET FY26 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 or less than the SDRS effective rate of interest.

He advised that the interest rate assumption is established based on the recommendations of 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 5.25 percent, and the State Investment Officer recommended between 3.00 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 4.473 percent, effective July 1, 2025.

Board Action

IT WAS MOVED BY MS. BRUNKEN, SECONDED BY MR. OAKLAND, TO ESTABLISH THE INTEREST RATE FOR THE SUPPLEMENTAL PENSION

BENEFIT AT 4.473 PERCENT, EFFECTIVE JULY 1, 2025. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 14
BOARD MEMBER CONFERENCE APPROVAL

Summary of Discussion

Mr. Almond reminded the Board that conferences were available for them to attend. He stated that Mr. Jim Appl has asked to attend the NCTR Trustee Workshop July 13-16, in Williamsburg, VA; Mr. Shane Roth has asked to attend the NASRA Annual Conference August 9-13 in Seattle, WA; Mr. Hank Prim has asked to attend the NCPERS TEDS workshop May 17-18 in Denver, CO; and Mr. Eric Stroeder has asked to attend the NCTR Annual Conference October 4-7 in Salt Lake City, UT.

Board Action

IT WAS MOVED BY MR. SMITH, SECONDED BY MS. CLARK, TO APPROVE THE REQUEST FOR JIM APPL'S ATTENDANCE AT THE NCTR TRUSTEE WORKSHOP; SHANE ROTH'S ATTENDANCE AT THE NASRA ANNUAL CONFERENCE; HANK PRIM'S ATTENDANCE AT THE NCPERS TEDS; AND ERIC STROEDER'S ATTENDANCE AT THE NCTR ANNUAL CONFERENCE. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 15
OLD/NEW BUSINESS

Summary of Discussion

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, prior meeting materials, and policies.

Internal Controls

Mr. Almond stated that SDRS was implementing the state's internal control framework. SDRS will conduct a comprehensive risk assessment for each division. This process will take seven and eight weeks, and a report will be provided to the Board when it's complete.

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 for his performance as the Executive Director of SDRS.

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

Staff who may be called in include Travis Almond.

The Chair declared the Board out of executive session.

ADJOURNMENT

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