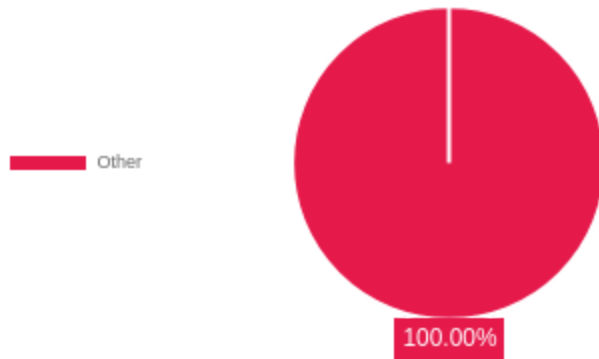


State Investment Council

Fiscal Year 2026 Budget Brief Summary

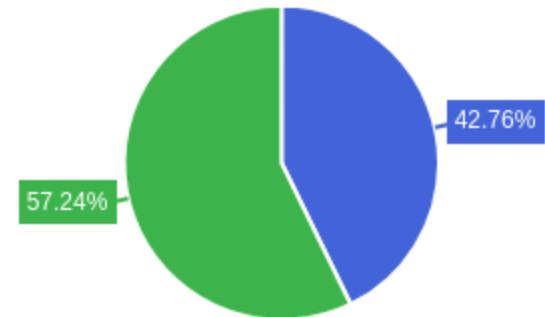
Information contained in this document is based on the Governor's FY2026 Budget and may not correspond with the final budget adopted by the Legislature.

Source of Funds



Investment of State Funds
Performance Based Compensation

Distribution of Total Funds



Key Personnel

Matthew L. Clark, State Investment Officer
Sarah Rust, Business Manager

Jan Zeeck, Senior Investment Manager
Samantha M. Rains, Chief Financial Officer

Mission of the State Investment Council

To manage the South Dakota Retirement System assets in order to obtain maximum long-term total returns consistent with prudent risk; to manage the state's cash flow fund in order to obtain maximum long-term total returns consistent with the liquidity needs of the fund, the legal list and prudent risk; to manage the investment portfolios of the School and Public Lands Fund, the Dakota Cement Trust, the Health Care Trust and the Education Enhancement Trust to obtain the highest risk adjusted return over the long term and to provide income payouts; to determine investment options for the 457 deferred compensation savings plan; and to establish and oversee the Higher Education Savings Plan.

State Investment Council Budget Units

- Investment of State Funds (3210)
- Performance Based Compensation (3211)

Major Items Summary - State Investment Council

Agency Request

Governor's Recommendation

| | General | Federal | Other | Total | FTE | General | Federal | Other | Total | FTE |
|------------------------------------------------------|------------|------------|---------------------|---------------------|-------------|------------|------------|---------------------|---------------------|-------------|
| FY 2026 Base Budget | \$0 | \$0 | \$29,511,227 | \$29,511,227 | 35.0 | \$0 | \$0 | \$29,511,227 | \$29,511,227 | 35.0 |
| 1. Dues and Membership Fees | \$0 | \$0 | \$11,500 | \$11,500 | 0.0 | \$0 | \$0 | \$11,500 | \$11,500 | 0.0 |
| 2. Employee Training Books and Computer Hardware | \$0 | \$0 | \$0 | \$0 | 0.0 | \$0 | \$0 | \$0 | \$0 | 0.0 |
| 3. Investment Council Performance Based Compensation | \$0 | \$0 | \$615,057 | \$615,057 | 0.0 | \$0 | \$0 | \$615,057 | \$615,057 | 0.0 |
| 4. Retiring Employees | \$0 | \$0 | (\$92,752) | (\$92,752) | 0.0 | \$0 | \$0 | (\$92,752) | (\$92,752) | 0.0 |
| 5. Services and Research Subscriptions | \$0 | \$0 | \$99,442 | \$99,442 | 0.0 | \$0 | \$0 | \$99,442 | \$99,442 | 0.0 |
| 6. Workshop Registration Fees | \$0 | \$0 | \$3,500 | \$3,500 | 0.0 | \$0 | \$0 | \$3,500 | \$3,500 | 0.0 |
| FY 2026 Total Budget | \$0 | \$0 | \$30,147,974 | \$30,147,974 | 35.0 | \$0 | \$0 | \$30,147,974 | \$30,147,974 | 35.0 |
| Change from Base Budget | \$0 | \$0 | \$636,747 | \$636,747 | 0.0 | \$0 | \$0 | \$636,747 | \$636,747 | 0.0 |
| % Change from Base Budget | 0.0% | 0.0% | 2.2% | 2.2% | 0.0% | 0.0% | 0.0% | 2.2% | 2.2% | 0.0% |

1. Dues and Membership Fees

| | General | Federal | Other | Total | FTE |
|----------------------------------|------------|------------|-----------------|-----------------|-------------|
| Agency Request | \$0 | \$0 | \$11,500 | \$11,500 | 0.00 |
| <i>Governor's Recommendation</i> | <i>\$0</i> | <i>\$0</i> | <i>\$11,500</i> | <i>\$11,500</i> | <i>0.00</i> |

The agency requests an increase of **\$11,500** in **other fund** expenditure authority for inflationary increases in dues and membership fees. A large chunk of dues is paid to Institutional Limited Partners Association (ILPA), with the remainder being Pacific Pension & Investment Institute (PPI) dues, and reimbursements for employees' Chartered Financial Analyst, Certified Public Accountant, and State Bar Association fees and license renewals.

The governor recommends this request.

2. Employee Training Books and Computer Hardware

| | General | Federal | Other | Total | FTE |
|----------------------------------|------------|------------|------------|------------|-------------|
| Agency Request | \$0 | \$0 | \$0 | \$0 | 0.00 |
| <i>Governor's Recommendation</i> | <i>\$0</i> | <i>\$0</i> | <i>\$0</i> | <i>\$0</i> | <i>0.00</i> |

The agency requests an increase of **\$0** in **other fund** expenditure authority to shift unused capital outlay authority to inflationary increases in employee training books and computer hardware. There is a decrease in office furniture authority due to planned furniture upgrade in a smaller section of the office. There is a decrease in computer software authority due to receiving license renewals through BIT. There are expected inflationary increases in books for two staff involved in the Chartered Financial Analyst program and computer hardware.

3. Investment Council Performance Based Compensation

| | General | Federal | Other | Total | FTE |
|---------------------------|---------|---------|-----------|-----------|------|
| Agency Request | \$0 | \$0 | \$615,057 | \$615,057 | 0.00 |
| Governor's Recommendation | \$0 | \$0 | \$615,057 | \$615,057 | 0.00 |

The agency requests an increase of **\$615,057** in **other fund** expenditure authority for investment staff performance-based compensation. The agency targets 70% of the cost-of-living adjusted private sector median for investment positions’ total compensation, including average expected incentives. The incentive plan includes funding for potential maximum incentives of 225% of FY 2025 base salaries of most investment positions, with the State Investment Officer at 200% and new investment professionals phased in over first five years. The incentive plans are annually reviewed by the Investment Council, and the Investment Officer's plan is approved by the LRC Executive Board each year in setting the Investment Officer's compensation. The incentive compensation is based on a formula that pays only for outperformance versus capital markets benchmarks tied to one-year and multi-year returns. These incentives will reward outperformance and range from 0% to a maximum of 225% and are expected to average 90% over time. Unearned incentive funds remain unexpended. Benefits applied to the total maximum incentive funding including Social Security/Medicare, Retirement, Unemployment Insurance, and Worker’s Compensation.

The governor recommends this request.

4. Retiring Employees

| | General | Federal | Other | Total | FTE |
|---------------------------|---------|---------|------------|------------|------|
| Agency Request | \$0 | \$0 | (\$92,752) | (\$92,752) | 0.00 |
| Governor's Recommendation | \$0 | \$0 | (\$92,752) | (\$92,752) | 0.00 |

The agency requests a decrease of **(\$92,752)** in **other fund** expenditure authority for staff salaries and benefits. This FY 2026 budget request was approved by the Investment Council on June 13, 2024, and by the LRC Executive Board on August 15, 2024.

For investment position salaries, total compensation consists of base pay and investment performance incentive pay. The Investment Council targets 70% of the cost-of-living adjusted private sector median for investment positions’ total compensation including average expected incentives. Base pay increases for FY 2026 are in line with the agency’s long-term plan.

The base salaries budget for full-time staff (not including state salary policy) decreases by 1.01%. The lower pay for new hires compared to experienced retiring staff offset promotion related increases for staff transitioning from entry level to senior team members and an additional 1.5% for all investment staff based on the long-term plan to keep pace with industry compensation. The budget includes promotional increases of between 3.19% and 16.5% for newer level and intermediate level investment team members as they transition through the steep learning curve to senior investment team members. There is a 5% promotional increase for one accountant due to experience and moving towards a senior level accountant. There is a 7% promotional increase for one accountant due to experience and moving towards an Accountant II. No additional increase is being requested for remaining staff including 1 CFO, 2 investment accountants, 1 business manager, 1 assistant business manager, and student intern positions.

Longevity: It is anticipated that 28 employees will be eligible for longevity pay in FY 2026.

Board & Commission Members: Five of the eight Investment Council members receive the daily rate (\$166) for all Investment Council related activities including Council meetings, subcommittee meetings, meetings with Investment Office staff, and appearances at legislative committee meetings. The budget allows up to 14 of these meetings each year.

Benefits: Benefit adjustments were made to current staff according to the calculations provided by the Bureau of Finance and Management.

The governor recommends this request.

5. Services and Research Subscriptions

| | General | Federal | Other | Total | FTE |
|---------------------------|---------|---------|----------|----------|------|
| Agency Request | \$0 | \$0 | \$99,442 | \$99,442 | 0.00 |
| Governor's Recommendation | \$0 | \$0 | \$99,442 | \$99,442 | 0.00 |

The agency requests an increase of **\$99,442** in **other fund** expenditure authority for state, bank, and research services.

- State Computer Services and Telecommunications Services increased by \$63,910 and \$6336 respectively, due to BIT billing rate increases. Computer Software Maintenance added \$800 due to receiving license renewals through BIT.
- 3% increase from FY25 for Central Services.
- 6% increase from FY25 for Department of Legislative Audit services.
- There is an increase for Quote/Pricing Fees of \$49,440 due to adding daily stock/bond pricing and an increase of \$15,000 for FTSE due to adding an index.
- The bank custodian contract includes an increase of 2% annually for custody of state financial assets resulting in increase of \$6,118.
- A necessary adjustment was made under Revenue Bond Lease Payments due to Government Accounting Standards Board changes to Subscription Based Information Technology Arrangement reporting requirements.
- All investment research services net to a decrease of \$3,058. A portion of a service was not renewed with Credit Sights resulting in a decrease of \$36,630. Boyars Intrinsic Value and Steel Market Update were not renewed.
- There is a 30% \$90,000 decrease for SS&C Technologies per contract due to completion of implementation costs. There is an increase for Reorg Research of \$50,000 negotiated upon renewal as well as adding a service.
- There is a \$35,791 increase for FactSet due to a fee schedule contract amendment.
- BNY Mellon Performance & Risk increased by \$9,700 due to a change in fee structure.
- Expected inflationary increases of 3% for Insider Score, Value Line, and Morningstar as well as 5% for S&P US, S&P 1200, Refinitiv, Greenstreet, and Dow Jones News Service.

The agency makes changes in research providers according to the needs and circumstances at the time. Research services are continually evaluated, and an investment service may be replaced by another provider if a higher quality product is found. Whenever research services are newly acquired or renewed, the agency negotiates to get the best price possible.

The governor recommends this request.

6. Workshop Registration Fees

| | General | Federal | Other | Total | FTE |
|---------------------------|---------|---------|---------|---------|------|
| Agency Request | \$0 | \$0 | \$3,500 | \$3,500 | 0.00 |
| Governor's Recommendation | \$0 | \$0 | \$3,500 | \$3,500 | 0.00 |

The agency requests an increase of **\$3,500** in **other fund** expenditure authority for workshop registration fees due to increased attendance by staff and registration fee inflation. This includes conference registration fees for NASIO (National Association of State Investment Officers), NASIP (National Association of State Investment Professionals), PPI (Pacific Pension Institute), ILPA (Institutional Limited Partnerships Association), and NAPPA (National Association of Public Pension Attorneys). It also includes registration fees for CFA (Chartered Financial Analyst Institute).

The governor recommends this request.

| State Investment Council Budget Request | | | | | | | |
|-----------------------------------------|----------------|----------------|------------------------|----------------|------------------------|-------------------------------|--------------------|
| By Fund Category | FY 2023 Actual | FY 2024 Actual | FY 2024 Budget Revised | FY 2025 Budget | FY 2026 Agency Request | FY 2026 Governors Recommended | Change From FY2025 |
| General | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Federal | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Other | \$16,412,227 | \$16,446,103 | \$28,530,177 | \$29,511,227 | \$30,147,974 | \$30,147,974 | \$636,747 |
| Total | \$16,412,227 | \$16,446,103 | \$28,530,177 | \$29,511,227 | \$30,147,974 | \$30,147,974 | \$636,747 |
| By Program | FY 2023 Actual | FY 2024 Actual | FY 2024 Budget Revised | FY 2025 Budget | FY 2026 Agency Request | FY 2026 Governors Recommended | Change From FY2025 |
| Investment of State Funds | \$9,245,490 | \$10,238,642 | \$12,100,783 | \$12,869,382 | \$12,891,072 | \$12,891,072 | \$21,690 |
| Performance Based Compensation | \$7,166,737 | \$6,207,462 | \$16,429,394 | \$16,641,845 | \$17,256,902 | \$17,256,902 | \$615,057 |
| Total | \$16,412,227 | \$16,446,103 | \$28,530,177 | \$29,511,227 | \$30,147,974 | \$30,147,974 | \$636,747 |
| By Object Expenditure | FY 2023 Actual | FY 2024 Actual | FY 2024 Budget Revised | FY 2025 Budget | FY 2026 Agency Request | FY 2026 Governors Recommended | Change From FY2025 |
| Personnel Costs | \$14,303,380 | \$14,010,012 | \$25,689,278 | \$26,472,983 | \$26,995,288 | \$26,995,288 | \$522,305 |
| Salaries | \$12,904,229 | \$12,508,599 | \$22,410,481 | \$23,351,518 | \$23,810,598 | \$23,810,598 | \$459,080 |
| Benefits | \$1,399,151 | \$1,501,413 | \$3,278,797 | \$3,121,465 | \$3,184,690 | \$3,184,690 | \$63,225 |
| Operating Expenditures | FY 2023 Actual | FY 2024 Actual | FY 2024 Budget Revised | FY 2025 Budget | FY 2026 Agency Request | FY 2026 Governors Recommended | Change From FY2025 |
| | \$2,108,847 | \$2,436,092 | \$2,840,899 | \$3,038,244 | \$3,152,686 | \$3,152,686 | \$114,442 |
| Travel | \$31,753 | \$41,262 | \$86,431 | \$88,681 | \$88,681 | \$88,681 | \$0 |
| Contractual Services | \$2,017,825 | \$2,319,534 | \$2,706,948 | \$2,904,043 | \$3,018,485 | \$3,018,485 | \$114,442 |

| Operating Expenditures | FY 2023 Actual | FY 2024 Actual | FY 2024 Budget Revised | FY 2025 Budget | FY 2026 Agency Request | FY 2026 Governors Recommended | Change From FY2025 |
|----------------------------|----------------|----------------|------------------------|----------------|------------------------|-------------------------------|--------------------|
| Supplies | \$2,969 | \$3,386 | \$7,000 | \$5,000 | \$5,000 | \$5,000 | \$0 |
| Capital Outlay | \$56,299 | \$71,909 | \$40,520 | \$40,520 | \$40,520 | \$40,520 | \$0 |
| Total | \$16,412,227 | \$16,446,103 | \$28,530,177 | \$29,511,227 | \$30,147,974 | \$30,147,974 | \$636,747 |
| Full-Time Equivalent (FTE) | 32.63 | 32.28 | 35.0 | 35.0 | 35.0 | 35.0 | 0.00 |

Funding Sources (Governor's Recommended)

| | General | Federal | Other | General% | Federal% | Other% |
|------------------------------|---------|---------|--------------|----------|----------|--------|
| INVESTMENT COUNCIL OPERATING | \$0 | \$0 | \$30,147,974 | 0.0% | 0.0% | 100.0% |