

MEETING

SOUTH DAKOTA RETIREMENT SYSTEM

June 1, 2016

The Board of Trustees of the South Dakota Retirement System held its regular meeting on June 1, 2016. The meeting, which began at 3:30 p.m., was held by teleconference. The SDRS Conference Room, 222 E. Capitol Ave, Pierre, South Dakota and the South Dakota Investment Council conference Room, 4009 W. 49th Street, Sioux Falls, South Dakota, were available to members of the public as well as Board members.

BOARD MEMBERS IN ATTENDANCE:

Elmer Brinkman, Chair
Karl Alberts
Steve Caron
Jason Dilges
Jilena Faith
Laurie Gustafson
James Hansen
Louise Loban
Bonnie Mehlbrech
David Merrill
Matt Michels
KJ Peterson
Eric Stroeder
Steve Zinter
Matt Clark, Ex Officio

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Board members Laurie Gill and James Johns were absent.

OTHERS IN ATTENDANCE:

Deene Dayton
Bob Mercer, Newspapers
Eric Ollila, SDSEO
Stephanie Gruba, LRC
Rob Wylie
Doug Fiddler
Susan Jahraus
Michelle Mikkelsen

Jessica Reitzel
Dawn Smith
Jacque Storm

For continuity, these minutes are not necessarily in chronological order.

AGENDA ITEM 1
APPROVAL OF APRIL 6, 2016, MEETING MINUTES

Board Action

IT WAS MOVED BY MS. GUSTAFSON, SECONDED BY MS. LOBAN, TO APPROVE THE MINUTES OF THE APRIL 6, 2016, BOARD OF TRUSTEES MEETING. THE MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE WITH 13 AYES, 0 NAYS, AND 3 ABSENT AND NOT VOTING.

THOSE VOTING AYE: ALBERTS, BRINKMAN, CARON, DILGES, FAITH, GUSTAFSON, HANSEN, LOBAN, MERRILL, MICHELS, PETERSON, STROEDER, ZINTER.

THOSE ABSENT AND NOT VOTING: GILL, JOHNS, AND MEHLBRECH

AGENDA ITEM 2
ELECTION RESULTS

Summary of Presentation

Ms. Dawn Smith, SDRS Executive Assistant, stated that there were three positions up for election this year. Louise Loban (Board of Regents) and Kathy Greenway (School Boards) were unopposed and will begin their new four-year term July 1, 2016. Eric Stroeder (State Employees) won his election and will begin his new four-year term July 1, 2016, also.

Board Action

IT WAS MOVED BY DR. HANSEN, SECONDED BY MR. ALBERTS, TO ACCEPT THE CANVASSERS' REPORT AND DECLARE LOUISE LOBAN (BOARD OF REGENTS), KATHY GREENEWAY (SCHOOL BOARDS), AND ERIC STROEDER (STATE EMPLOYEES) AS THE WINNERS OF THE 2016 SDRS BOARD OF TRUSTEES ELECTION. THE MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE WITH 13 AYES, 0 NAYS, AND 3 ABSENT AND NOT VOTING.

THOSE VOTING AYE: ALBERTS, BRINKMAN, CARON, DILGES, FAITH, GUSTAFSON, HANSEN, LOBAN, MERRILL, MICHELS, PETERSON, STROEDER, ZINTER.

THOSE ABSENT AND NOT VOTING: GILL, JOHNS, AND MEHLBRECH

AGENDA ITEM 3
APPOINTMENT OF TEACHER REPRESENTATIVE

Summary of Presentation

Ms. Bonnie Mehlbrech, one of the teacher representatives, resigned her position effective June 30, 2016. The Board therefore, needs to appoint a replacement teacher representative for the remainder of the term.

Board Action

BY SECRET BALLOT, PENNY BRUNKEN WAS APPOINTED AS THE TEACHER REPRESENTATIVE TO REPLACE BONNIE MEHLBRECH.

AGENDA ITEM 4
RECOGNITION OF RETIRING BOARD MEMBERS

Board Action

IT WAS MOVED BY DR. HANSEN, SECONDED BY MS. LOBAN FOR A VOTE OF APPRECIATION TO DAVE MERRILL FOR HIS SERVICE ON THE BOARD OF TRUSTEES BY ADOPTING THE FOLLOWING RESOLUTION:

WHEREAS, Dave Merrill has served the Board of Trustees of the South Dakota Retirement System for twenty-six years;

WHEREAS, Dave Merrill has worked and been very concerned for a financially sound and progressive retirement system;

NOW THEREFORE, BE IT RESOLVED, that the Board of Trustees of the South Dakota Retirement System wishes to thank Dave Merrill for his positive efforts toward meeting the objectives of the plan and to wish him success in all future endeavors.

THE MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE WITH 14 AYES, 0 NAYS, AND 2 ABSENT AND NOT VOTING.

THOSE VOTING AYE: ALBERTS, BRINKMAN, CARON, DILGES, FAITH, GUSTAFSON, HANSEN, LOBAN, MEHLBRECH, MERRILL, MICHELS, PETERSON, STROEDER, ZINTER.

THOSE ABSENT AND NOT VOTING: GILL AND JOHNS

IT WAS MOVED BY MR. CARON, SECONDED BY MS. GUSTAFSON, FOR A VOTE OF APPRECIATION TO BONNIE MEHLBRECH FOR HER SERVICE ON THE BOARD OF TRUSTEES BY ADOPTING THE FOLLOWING RESOLUTION:

WHEREAS, Bonnie Mehlbrech has served the Board of Trustees of the South Dakota Retirement System for six years;

WHEREAS, Bonnie Mehlbrech has worked and been very concerned for a financially sound and progressive retirement system;

NOW THEREFORE, BE IT RESOLVED, that the Board of Trustees of the South Dakota Retirement System wishes to thank Bonnie Mehlbrech for her positive efforts toward meeting the objectives of the plan and to wish her success in all future endeavors.

THE MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE WITH 14 AYES, 0 NAYS, AND 2 ABSENT AND NOT VOTING.

THOSE VOTING AYE: ALBERTS, BRINKMAN, CARON, DILGES, FAITH, GUSTAFSON, HANSEN, LOBAN, MEHLBRECH, MERRILL, MICHELS, PETERSON, STROEDER, ZINTER.

THOSE ABSENT AND NOT VOTING: GILL AND JOHNS

AGENDA ITEM 5
UPDATE OF SDRS FY2016 INVESTMENT PERFORMANCE

Summary of Presentation

Mr. Matt Clark, State Investment Officer, informed the Board that as of May 31, the SDRS trust fund was flat with the fiscal year-to-date return at approximately 0 percent.

Board Action

No action was required.

AGENDA ITEM 8
REVIEW OF SDRS PROJECTED FUNDED STATUS

Summary of Presentation:

Mr. Doug Fiddler, SDRS Senior Internal Actuary, presented estimated funding status results for June 30, 2016. Mr. Fiddler stated that if the investment return for SDRS for the fiscal year ending June 30, 2016, is at zero percent, the fair value funded ratio would be approximately 97 percent and the actuarial value funded ratio will be 100 percent . The cushion (the difference between fair value and actuarial value of assets) will have a deficit of \$310 million and the risk management contribution would be \$32 million. The fair value funded ratio goal of 100 percent will not be met unless investment returns are approximately 2.9 percent or better.

Based on current estimates, no unfunded liabilities will be reported for funding purposes but the fair value funded ratio will indicate underfunding. A deficit will exists that must be eliminated to get back to a 100 percent fair value funded ratio. With additional losses,

SDCL 3-12-122 condition (3) may be reached requiring additional reporting on possible corrective actions.

Moving to the projected GASB results, Mr. Fiddler stated that with the current 0 percent estimate, the net pension liability at June 30, 2016 will be approximately \$310 million. The net deferred outflows will be about negative \$673 million, resulting in an estimated net balance sheet asset of \$363 million. The plan expense for the year will be roughly \$117 million.

SDRS and participating employers will face some GASB communication issues because for FY 2014 and FY 2015, the SDRS funded status has resulted in balance sheet assets and revenues, not liabilities and expenses like most other public systems. Based on a 0 percent return for the current fiscal year, SDRS will have a Net Pension Liability as of June 30, 2016, instead of a Net Pension Asset. Also, GASB requires a five-year recognition of investment gains and losses so the net impact to employers' balance sheets will remain an asset as of June 30, 2016 but the net impact will equal the Net Pension Liability after another four years without subsequent investment gains. Pension plan expenses, not revenue, will be recognized on employers' income statements.

The estimated minimum annual net investment return required to avoid corrective actions over the next 5, 10, 20 and 30 year time period with a 0 percent investment return would be 3.4, 5.5, 6.5, and 6.9 percent respectively.

Board Action

No action was necessary.

AGENDA ITEM 9
FY2018 BUDGET REQUEST

Summary of Presentation

Ms. Jane Beer, SDRS Chief Financial Officer stated that SDRS was not requesting any additional expenditure authority for the FY 2018 budget.

Board Action

IT WAS MOVED BY MS. GUSTAFSON, SECONDED BY MR. STROEDER, TO APPROVE THE FY2018 BUDGET REQUEST AS PRESENTED BY STAFF AND SUBMIT IT TO THE GOVERNOR'S OFFICE. THE MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE WITH 14 AYES, 0 NAYS, AND 2 ABSENT AND NOT VOTING.

THOSE VOTING AYE: ALBERTS, BRINKMAN, CARON, DILGES, FAITH, GUSTAFSON, HANSEN, LOBAN, MEHLBRECH, MERRILL, MICHELS, PETERSON, STROEDER, ZINTER.

THOSE ABSENT AND NOT VOTING: GILL AND JOHNS

AGENDA ITEM 8
BOARD OF INTERNAL CONTROL OVERVIEW

Summary of Presentation

Ms. Jacque Storm, SDRS General Counsel, stated that Legislation enacted by the Legislature and signed by the Governor in 2016 established the State Board of Internal Control. The state Board of Internal Control encompasses Codes of Conduct and Conflicts of Interest.

Ms. Beer stated that Internal Control helps an organization meet its objectives, helps management stay focused on achievement of goals, enables an organization to effectively and efficiently achieve goals and objectives, increases efficiencies, minimizes inefficiencies, and is just overall good government. Internal control helps the organization meet the operational, reporting, and compliance objectives.

Internal control is the first line of defense in achieving the entity's objectives. It is management's tool to achieve desired results through effective stewardship of public resources. Internal control is everything an entity does to help achieve its objectives. It is not just an accounting thing.

Ms. Beer stated that it's not wrong or unethical to have a conflict of interest. What is important, is that it is identified and appropriately managed. All functions performed can potentially lead to conflicts of interest. Common risk areas include the procurement processes, bids, contracts, board and committees with representative members, gifts, benefits, hospitalities, filling a public sector vacancy, and secondary or moonlighting employment.

A draft conflict of interest policy for agencies was used as a starting point, and it was introduced at the state Board of Internal Control meeting in May. Ms. Beer noted that the Board of Trustees has already adopted a conflict of interest policy for officers and employees of SDRS last September and a conflict of interest policy for Board members will be provided at a future meeting.

A code of conduct is a written set of principles that typically works in conjunction with the agency's Mission Statement. There are differences between a code of ethics and a code of conduct. With a code of ethics, employees make independent judgments about the most appropriate course of action. A code of conduct has little or no judgment and is a clear set of expectations on your actions. A draft of the code of conduct was distributed at the state Board of Internal Control meeting. In conjunction with the SDRS conflict of interest policy, SDRS will have a code of conduct policy as well.

Board Action

No action was necessary.

AGENDA ITEM 9
OLD/NEW BUSINESS

Summary of Presentation

2016 Legislative Enactments and 2017 Potential Legislation

Mr. Wylie stated that the programming for the changes that the 2016 Legislature enacted are progressing well. SDRS is working with BIT who has contracted with Smart Business Solutions to get all of the programming changes done.

For potential legislation, Mr. Wylie stated that there are some federal limitations on compensation and benefits that are being studied. There are only a few members around the state that this affects but SDRS sees this as an area that should be examined.

GASB Pension Issues – Standard 82

Mr. Wylie informed the Board that GASB 82 was passed and fixed the problems that SDRS was having with the original GASB 67 and 68.

Upcoming Meeting Dates

Mr. Wylie noted the upcoming meeting dates. It was recommended that the December Board meeting date be changed to December 8th.

Board Action

No action was necessary.

ADJOURNMENT

Board Action

IT WAS MOVED BY MR. ALBERTS, SECONDED BY MR. MERRILL, THAT THERE BEING NO FURTHER BUSINESS, THE MEETING BE DECLARED ADJOURNED. THE MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE WITH 14 AYES, 0 NAYS, AND 2 ABSENT AND NOT VOTING.

THOSE VOTING AYE: ALBERTS, BRINKMAN, CARON, DILGES, FAITH, GUSTAFSON, HANSEN, LOBAN, MEHLBRECH, MERRILL, MICHELS, PETERSON, STROEDER, ZINTER.

THOSE ABSENT AND NOT VOTING: GILL AND JOHNS

Respectfully Submitted,



Robert A. Wylie
Executive Director