



SOUTH DAKOTA RETIREMENT SYSTEM



COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Pension Trust Fund of the State of South Dakota
for the Fiscal Year Ended June 30, 2010

SDRS MISSION STATEMENT

To plan, implement and administer income replacement programs, and to encourage additional savings for retirement, all of which offer SDRS members and their families the resources and the opportunity to achieve financial security at retirement, death or disability by providing an outstanding, appropriate and equitable level of benefits.

The Board of Trustees believes this mission is achievable with the resources available in a progressive working environment, by sound and efficient management, through superior investment performance and by exercising the fiduciary responsibility associated with the proper stewardship of member assets.

FISCAL YEAR 2010 HIGHLIGHTS

.....

Total membership	73,232
Active contributing members	39,014
Inactive non-contributing members	13,657
Benefit recipients	20,561
Net assets held in trust for pension benefits	\$6,496,634,989
Actuarial value of assets	\$7,119,874,593
Actuarial accrued liability (AAL)	\$7,393,250,948
Investment return	18.7%
<u>Benefits and refunds paid</u>	
Benefits paid	\$ 325,951,211
Refunds paid	<u>29,148,085</u>
Total	\$ 355,099,296
<u>Contributions</u>	
Member	\$ 98,347,135
Employer	<u>96,914,192</u>
Total	\$ 195,261,327
Funding period	30 years
Funded ratio (actuarial value of assets/AAL)	96.3%



SOUTH DAKOTA RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Pension Trust Fund of the State of South Dakota
for the Fiscal Year Ended June 30, 2010

Prepared by the SDRS Finance and Audit Departments

South Dakota Retirement System
222 East Capitol, Suite 8, P.O. Box 1098
Pierre, South Dakota 57501-1098

The South Dakota Retirement System fully subscribes to the provisions of the Americans with Disabilities Act of 1990.

The South Dakota Retirement System Comprehensive Annual Financial Report was published by South Dakota Bureau of Administration—Central Duplicating with funds provided through the contributions of teachers, school boards, state government, state employees, county commissions, county employees, municipal governments, and municipal employees. Fifty copies of this document were printed by SDRS at a cost of \$6.82 each.

This project was printed on recycled paper.

CONTENTS

CERTIFICATE OF ACHIEVEMENT	6
PUBLIC PENSION STANDARDS AWARD	7
INTRODUCTION	8
Member's Letter	9
Letter of Transmittal	10
Board of Trustees	16
Organizational Chart	17
FINANCIAL SUMMARY	19
Auditor's Opinion	20
Management's Discussion and Analysis	22
Basic Financial Statements*	26
Statement of Plan Net Assets	26
Statement of Changes in Plan Net Assets	27
Notes to Financial Statements	28
Required Supplementary Information	35
Schedules of Administrative Expenses and Investment Activity Expenses	36
ACTUARIAL SUMMARY	37
Actuary's Opinion	38
Actuarial Overview	39
Actuarial Valuation	44
Summary of Benefit Provision Changes	50
Plan Summary	52
INVESTMENT SUMMARY	60
Investment Analysis	61
The Investment Council	61
Investment Objectives and Policy	61
Prudent Man Standard	62
Performance	63
Real Rates of Return	63
Investment Managers	65
Schedule of Investment Management Expenses and Commissions	65
Summary of Investment Portfolios	66
Internal Equity Profile	67
Bond Profile	68
Distribution Profile	68
Asset Allocation	69
Time-Weighted Rates of Return	70
Time-Weighted Annualized Rates of Return	70
STATISTICAL SUMMARY	72
Membership profile	73
Public Entities Participating in SDRS	73
SDRS Benefits Paid	75
Membership by Age	76
Membership by County of Residence	76
Membership by Group	77
Benefit Recipients by Group	78
Average Benefits Payments	79
Historical Views	80

CERTIFICATE OF ACHIEVEMENT

Certificate of Achievement for Excellence in Financial Reporting

Presented to

South Dakota Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A stylized, handwritten signature in black ink.

President

A handwritten signature in black ink that reads "Jeffrey R. Emery".

Executive Director



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2010***

Presented to

South Dakota Retirement System

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle
Program Administrator

INTRODUCTION



**Member's Letter
Letter of Transmittal
Board of Trustees
Organizational Chart**

To Our Members:

During fiscal year 2010, the South Dakota Retirement System (SDRS) re-established its long-term actuarial soundness. The SDRS Board of Trustees followed long-standing guidelines and policies in recommending actions during the 2010 Legislative Session that, when combined with actuarial assumption and method changes, reduced the long-term liabilities of SDRS by \$429 million. In addition, SDRS's investment performance for fiscal year 2010 was very favorable, realizing an 18.73% return, significantly above the actuarially assumed annual rate of 7.75%.

With continual media reports regarding the dire financial condition of some public sector retirement plans, we think it is important to note that the financial condition of SDRS is strong and, while not back to the levels of 2007 and 2008, is approaching the long-term funding goals of the Board of Trustees.

In order to maintain long-term strength and sustainability, the Board of Trustees will be reviewing recent economic and demographic experience and analyzing overall plan risks and anticipated future experience in the coming months.

The Board of Trustees will continue to study the benefit needs of members in order to redefine the long-term benefit goals and objectives of the System. This analysis will not only consider the income provided by SDRS, but also that provided by Social Security and personal savings.

In the meantime, SDRS remains a financial engine for South Dakota. Citizens in every city and county benefit from this plan. The System paid over \$350 million in benefits during the last year. (See the Statistical Summary of this report for more details.)

SDRS also continues to focus on customer service. Our Retirement Planners assist our members every day and travel the state every week. The Regional Retirement Planning Seminars and Retirement Income Management Workshops provide SDRS members with access to outstanding programs that prepare them for the transition to retirement.

A new SDRS website will be introduced in early 2011 with expanded web-based services. The *My SDRS* section will continue to provide secure, up-to-date information to assist members in their retirement planning efforts. A new member communication service will be added to provide automatic email updates to members on SDRS and legislative activities.

The financial integrity of the System and the service provided to members will continue to be top priorities for the SDRS Board of Trustees and staff. We thank you for your support and encourage you to contact the SDRS office should you have questions or need any assistance.

Sincerely,



Elmer Brinkman
Chair, SDRS Board of Trustees



Robert A. Wylie
Executive Director/Administrator

LETTER OF TRANSMITTAL

South Dakota Retirement System
222 East Capitol Suite 8
PO Box 1098
Pierre, South Dakota 57501-1098
Toll-Free (888) 605-SDRS
Telephone (605) 773-3731
Fax (605) 773-3949
www.sdrs.sd.gov



South Dakota Retirement System

December 27, 2010

Board of Trustees
South Dakota Retirement System
Pierre, SD 57501

To the members of the SDRS Board of Trustees:

We are pleased to submit the Comprehensive Annual Financial Report of the South Dakota Retirement System (SDRS) for the fiscal year ended June 30, 2010. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with SDRS. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of SDRS' operations.

Plan History

SDRS was established July 1, 1974, as a multi-employer public employee retirement system. The plan currently provides retirement, disability, and survivor benefits to over 73,000 members. Basic to SDRS' history is the growth in the systems' benefit provisions.

Investments

The SDRS trust fund is managed by the South Dakota Investment Council. The most important overall objective of the Investment Council is to prudently manage the SDRS assets to achieve and exceed the returns that the broad capital markets provide over the long term.

The total return on the SDRS trust fund was 18.7 percent for fiscal year (FY) 2010, the investment council benchmark return of 11.1 percent. The 10-year annualized return of 4.3 percent exceeds the benchmark return of 3.1 percent.

History of Benefit Improvements

Benefit Category	Status in 1974	Benefit Improvements
Benefit Formula * Class A Standard	1.0%	1982 - 1.1% 1986 - 1.2% 1989 - 1.25% 1991 - 1.30% 1994 - 1.30%/1.40% (for applicable years) 1997 - 1.40% prior to 1997/1.30% thereafter 1998 - 1.475% prior to 1998/1.30% thereafter 1999 - 1.55% prior to 2000/1.30% thereafter 2000 - 1.625% prior to 2002/1.30% thereafter 2002 - 1.625% prior to 2002/1.55% thereafter 2008 - 1.7% prior to 2008/1.55% thereafter
Alternate	2.0%	1999 - 2.25% prior to 2000/2.0% thereafter 2000 - 2.325% prior to 2002/2.0% thereafter 2002 - 2.325% prior to 2002/2.25% thereafter 2008 - 2.4% prior to 2008/2.25% thereafter, less other public benefits
* Class B Public Safety	2.0%	1994 - 2.0%/2.10% (for applicable years) 1997 - 2.10% prior to 1997/2.0% thereafter 1998 - 2.175% prior to 1998/2.0% thereafter 1999 - 2.25% prior to 2000/2.0% thereafter 2000 - 2.325% prior to 2002/2.0% thereafter 2008 - 2.4% prior to 2008/2.0% thereafter
* Class B Judicial	3.333% / 2.0%	1994 - 3.333%/3.433% (for applicable years) 2.0%/2.10% (for applicable years) 1997 - 3.433% prior to 1997/3.333% thereafter 2.10% prior to 1997/2.0% thereafter 1998 - 3.508% prior to 1998/3.333% thereafter 2.175% prior to 1998/2.0% thereafter 1999 - 3.583% prior to 2000/3.333% thereafter 2.25% prior to 2000/2.0% thereafter 2000 - 3.658% prior to 2002/3.333% thereafter 2.325% prior to 2002/2.0% thereafter 2008 - 3.733% prior to 2008/3.333% thereafter
Class A Retiree Benefit Formula	Variable	Standard - Alternate 1982 - 1.0% - 2.0% 1987 - 1.05% - 2.0% 1988 - 1.1% - 2.0% 1989 - 1.25% - 2.0% 1991 - 1.30% - 2.0% 1994 - 1.30%/1.40% (for applicable years) - 2.0% 1997 - 1.40% prior to 1997/1.30% thereafter - 2.0% 1998 - 1.475% prior to 1998/1.30% thereafter - 2.0% 1999 - 1.55% prior to 2000/1.30% thereafter 2.25% prior to 2000/2.0% thereafter 2000 - 1.625% prior to 2002/1.30% thereafter 2.325% prior to 2002/2.0% thereafter 2002 - 1.625% prior to 2002/1.55% thereafter 2.325% prior to 2002/2.25% thereafter 2008 - 2.4% prior to 2008/2.25% thereafter, less other public benefits
Improvement Factor	2% Simple	1978 - 2.0% compound (indexed) 1982 - 3.0% compound (indexed) 1988 - 3.0% compound 1993 - 3.1% compound 1998 - 3.1% compound and prorated for partial years 2010 - 2.1% to 3.1% compound, dependant on funded status of System and CPI

LETTER OF TRANSMITTAL (CONTINUED)

History of Benefit Improvements (continued)		
Benefit Category	Status in 1974	Benefit Improvements
Early Retirement * Class A * Class B Public Safety * Class B Judicial	Early Retirement: Age 55 with 6% per year reduction Early Retirement: Age 45 with 6% per year reduction Early retirement: Age 55 with 6% per year reduction	1978 - Reduction decreased to 3% per year 1986 - Rule of 85 (age 60) 1989 - Removed "at work" limitation 1991 - Rule of 85 (age 58) 1993 - Rule of 85 (age 55) 1978 - Reduction decreased to 3% per year 1982 - Early retirement age for new members: age 50 1989 - Early retirement: age 45 for all Class B Public Safety members 1991 - Age 50/25 years of service 1998 - Rule of 75 (age 45) 1978 - Reduction decreased to 3% per year 1990 - Rule of 80 (age 55)
Optional Spouse Coverage	1.0% of compensation	1978 - 0.8% of compensation 2004 - 1.2% of compensation 2010 - 1.5% of compensation
Final Average Compensation Caps	Last quarter cap 125% of any previous quarter; four quarter average cap 115% of any previous quarter	2004 - Last quarter cap = 115% four quarter average cap = 110% 2005 - Last quarter cap = 105% four quarter average cap = 105%
Special Pay Plan	Termination pay made directly to member with SS, SDRS, and income taxes deducted	2004 - Termination pay of \$600 or more without SS, SDRS, or income tax deductions for a terminating employee of a participating unit who is 55 or older goes to SPP
Purchasing Uncredited Service * Class A * Class B Public Safety * Class B Judicial	Buy at 10% of compensation Buy at 12% of compensation Buy at 12% of compensation	1989 - Buy at 7.5% of compensation 2002 - Buy at 9% of compensation 2004 - Buy at rate dependent on age and varying from 12% to 30% of compensation 1978 - Buy at 16% of compensation 1982 - Current members maximum of 20% of compensation; new members 16% of compensation 1989 - Buy at 12% of compensation 2004 - Buy at rate dependent on age and varying from 16% to 40% of compensation 1978 - Buy at 16% of compensation 1982 - Buy at maximum 20% of compensation 1989 - Buy at 13.5% of compensation 2004 - Buy at rate dependent on age and varying from 18% to 45% of compensation
Contribution Rate * Class A * Class B Public Safety * Class B Judicial	5% 6% 6%	2002 - 6% 1978 - 8% 1982 - For current member increasing 1/8 of 1% to maximum of 10%; for new members 8% 1989 - 8% for all members 1978 - 8% 1982 - 1/8 of 1% to maximum of 10% 1989 - capped at 9%
Eligibility Requirements * Vested Retirement Benefits * Disability Benefits	- Five years of credited service that includes purchased service - Five years of credited service unless disabled in an accident at work, then no specific amount of credited service is required	1998 - Three years of credited service including purchased service 2004 - Three years of contributory service, does not include purchased service 1998 - Three years of credited service including purchased service 2004 - Three years of contributory service since reentry into SDRS unless disabled in an accident at work, then no specific amount of contributory service is required

Funding and Reserve

Since its inception, SDRS has been funded at the actuarially determined level. In the 2008 actuarial valuation, two measures were used to evaluate the actuarial soundness and funding progress of SDRS:

- funded ratio
- funding period

The most pertinent of these is the funded ratio. This ratio is equal to the actuarial value of assets divided by actuarial accrued liability (AAL). The AAL is the portion of the present value of benefits for all members assigned to prior periods. SDRS' funded ratio as of June 30, 2010, was 96.3 percent.

Major Initiatives

During FY 2010, the South Dakota Retirement System continued its strategic planning process; redefined its mission statement; established future income replacement goals; completed financial statements, an actuarial valuation, and a comprehensive audit; reviewed the actions of the 2010 legislature; analyzed benefit trends and practices for public retirement plans; and reviewed the performance of its Supplemental Retirement Plan (SRP) and Special Pay Plan (SPP).

Accounting System and Internal Control

This report has been prepared to conform with the reporting standards of the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The accrual basis of accounting is used to record assets, liabilities, revenues, and expenses. Revenues are recognized in the accounting period in which they are earned, without regard to the date of collection, and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Administrative expenditure authority is granted annually by the state Legislature.

The system's internal accounting controls, which are reviewed by external auditors on an annual basis, are designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. Constant effort is directed by SDRS at improving this level to assure the participants of a financially sound retirement system.

This letter of transmittal is designed to complement the Management's Discussion and Analysis and should be read in conjunction with it. The SDRS MD&A can be found immediately following the Auditor's Opinion.

Professional Services

The Board of Trustees retains independent consultants to perform professional services that are essential to the system's effective and efficient operation. Actuarial services are provided by Buck Consultants. The annual financial audit is conducted by the accounting firm of KPMG

LLP with the participation of the South Dakota Department of Legislative Audit. SDRS investments are managed by the South Dakota Investment Council. Communication services are provided by Koupal Communications, Pierre, South Dakota.

Certificate of Achievement/Public Pension Standards Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the South Dakota Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2009. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such financial report must satisfy both generally accepted accounting principles and applicable legal requirements.


A Certificate of Achievement is valid for a period of one year only. This is the 15th year that SDRS has received a Certificate of Achievement. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Public Pension Coordinating Council awarded the Public Pension Standards Award to the South Dakota Retirement System in recognition of meeting the professional standards for plan design and administration. This is the 7th year that SDRS received the award.

Acknowledgments and Comments

The preparation of this report reflects the combined efforts of the SDRS staff under the direction of the Board of Trustees. It is intended to provide complete and reliable information to members of SDRS, the Governor, the South Dakota State Legislature, and the citizens of South Dakota.

Respectfully submitted,



Robert A. Wylie
Executive Director/Administrator



Jane Roberts
Chief Financial Officer

BOARD OF TRUSTEES

Elmer Brinkman Chair Represents county commissioners
Board service began in June 1991
Commissioner
Codington County
Watertown

Represents judicial members
Board service began in June 1995
Justice
South Dakota Supreme Court
Pierre
Justice Steven Zinter Vice Chair

Steven Caron Represents teachers
Board service began in July 2009
Public school teacher
Aberdeen Central
Aberdeen

Represents teachers
Board service began in July 2006
Public school teacher
Sioux Falls Schools
Sioux Falls
Chuck Holmstrom

Matt Clark Represents South Dakota Investment Council
Board service began in January 2005
State Investment Officer
Non-voting ex-officio board member
Sioux Falls

Represents public safety members
Board service began in July 2006
Lieutenant
City of Rapid City
Black Hawk
James Johns

Janice Coleman Represents school boards
Board service began in July 2008
Member
Wagner School Board
Wagner

Represents classified employees
Board service began in July 1990
Benefit specialist
South Dakota State University
Brookings
Louise Loban

Jason Dilges Governor's appointee
Board service began in November 2004
Commissioner
Bureau of Finance and Management
Pierre

Represents Board of Regents employees
Board service began in July 2004
ABS fiscal officer
South Dakota State University
Brookings
Darwin Longliere

Cathy Druckrey Represents municipal employees
Board service began in July 2007
Human Resources
City of Rapid City
Rapid City

Represents county employees
Board service began in July 1997
Chief deputy auditor
Pennington County
Rapid City
Kathy "K.J." Peterson

Laurie Gustafson Represents state employees
Board service began in July 2005
Labor law compliance officer
Department of Transportation
Pierre

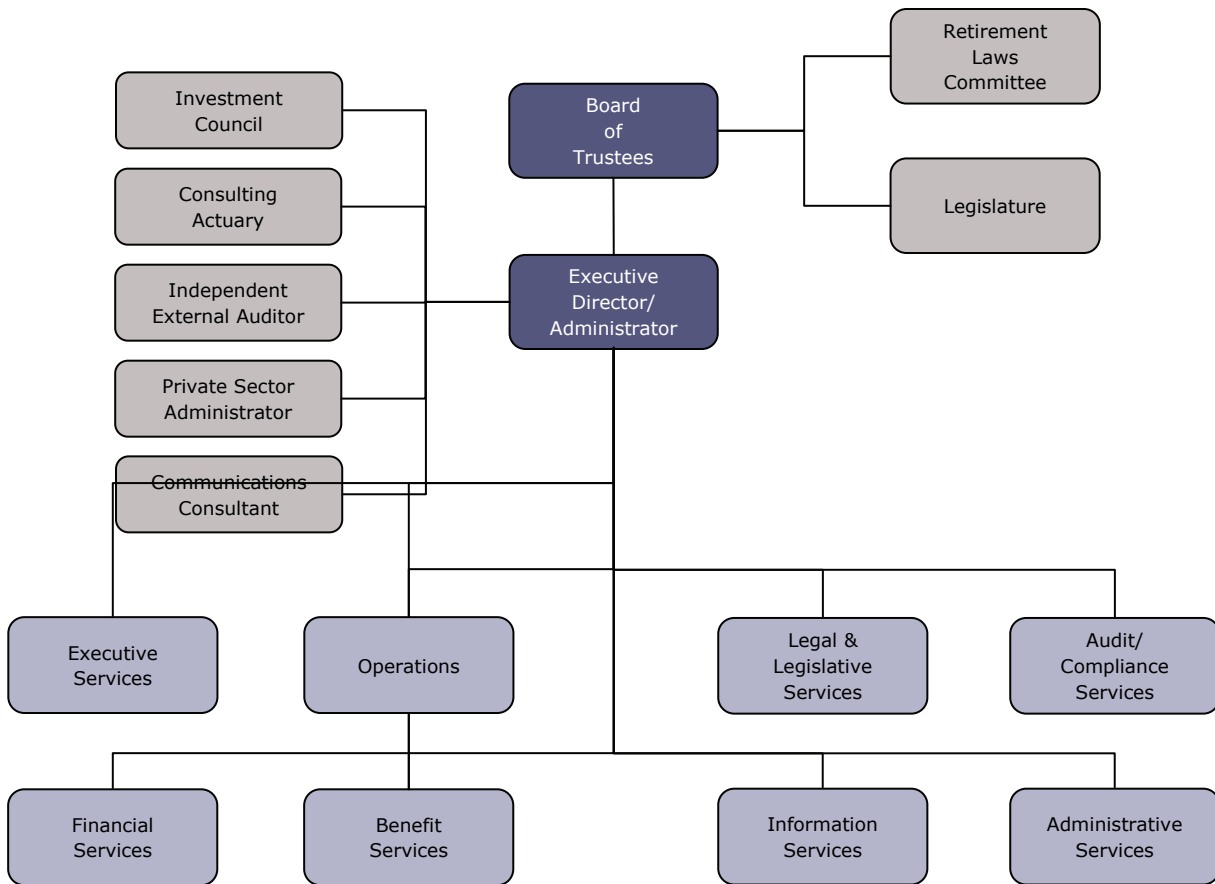
Represents state employees
Board service began in July 2004
Engineering supervisor
Department of Transportation
Glenham
Eric Stroeder

James O. Hansen Represents retirees
Board service began in July 1993
Retired administrator
Pierre

Governor's appointee
Board service began in May 1995
Commissioner
South Dakota Bureau of Personnel
Pierre
Sandra Zinter

Ray Hofman Represents elected municipal officials
Board service began in December 2005
City Council member
City of Vermillion
Vermillion

ORGANIZATIONAL CHART



Administration

EXECUTIVE DIRECTOR/
ADMINISTRATOR Robert A. Wylie
EXECUTIVE ASSISTANT Dawn Smith

Management Group

DIRECTOR OF OPERATIONS Damian Prunty
GENERAL COUNSEL Wade A. Hubbard
CHIEF FINANCIAL OFFICER Jane Roberts
BENEFITS/MEMBER SERVICES
MANAGER Travis W. Almond
INTERNAL AUDIT/
COMPLIANCE MANAGER Susan Jahraus
ADMINISTRATIVE SERVICES
MANAGER Lisa A. Vander Maten

Advisors, Auditors, and Administrators

CONSULTING ACTUARY Buck Consultants, Inc.
Denver, CO

EXTERNAL AUDITOR KPMG LLP
Omaha, NE

COMMUNICATIONS
CONSULTANTS Koupal Communications, Inc.
Pierre, SD

PRIVATE SECTOR
ADMINISTRATOR Nationwide Retirement Solutions
Columbus, OH

INFORMATION SERVICES/
COMPUTER SUPPORT S. Lee Huset (BIT)
Pierre, SD

Scott Schroeder (BIT)
Pierre, SD



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FINANCIAL SUMMARY



Auditor's Opinion
Management's Discussion and Analysis
Basic Financial Statements
Statement of Plan Net Assets
Statement of Changes in Plan Net Assets
Notes to Financial Statements
Required Supplementary Information
Supporting Schedules
Schedule of Administrative Expenses
Schedule of Investment Activity Expenses

AUDITOR'S OPINION



KPMG LLP
Suite 1501
222 South 15th Street
Omaha, NE 68102-1610

Suite 1600
233 South 13th Street
Lincoln, NE 68508-2041

Independent Auditors' Report

The Board of Trustees
South Dakota Retirement System:

We have audited the accompanying statement of plan net assets of the South Dakota Retirement System (SDRS) as of June 30, 2010, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of SDRS's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SDRS's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements present only the financial position and changes in financial position of the State of South Dakota that is attributable to SDRS. They do not purport to, and do not, present fairly the financial position of the State of South Dakota as of June 30, 2010, and the changes in its financial position and its cash flows, where applicable, for the fiscal year then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Dakota Retirement System as of June 30, 2010, and the changes in its plan net assets for the year then ended, in conformity with U.S. generally accepted accounting principles.

As explained in note 2 to the financial statements, the financial statements include investments valued at \$2,090,112,054 (32% of net assets) whose carrying values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 22, 2010 on our consideration of SDRS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP is a Delaware limited liability partnership,
the U.S. member firm of KPMG International Cooperative
("KPMG International"), a Swiss entity.

Management's discussion and analysis on pages 3 through 6, the schedule of funding progress, and schedule of employer contributions on page 26 are not a required part of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of administrative expenses and investment activity expenses on pages 27 and 28 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

Omaha, Nebraska
November 22, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis of the South Dakota Retirement System's (SDRS or the System) financial position and performance as of and for the year ended June 30, 2010. This section is intended to supplement the SDRS financial statements and should be read in conjunction with the remainder of the SDRS financial statements.

Financial Highlights

- The plan net assets of SDRS increased by \$847.9 million during fiscal year 2010. This increase was primarily due to the investment performance of 18.7 percent, which was significantly above the assumed rate of 7.75 percent.
- SDRS funded ratio increased to 96.3 percent in 2010 from 91.8 percent in 2009.
- SDRS paid \$326.0 million to benefit recipients in fiscal year 2010 compared to \$306.8 million in 2009. SDRS received \$195.3 million in member and employer contributions in fiscal year 2010 compared to \$189.7 million in 2009.

Overview of the Financial Statements and Accompanying Information

The basic financial statements consist of:

Financial Statements

The South Dakota Retirement System presents the statement of the plan net assets as of June 30, 2010, and the statement of changes in plan net assets for the year then ended. These statements reflect resources available for the payment of benefits as of the year-end and sources and uses of those funds during the year.

Notes to the Financial Statements

The notes to the financial statements are an integral part of the financial statements and provide additional detailed information and schedules. Information in the notes provides disclosures concerning SDRS' organization, contributions and reserves, investments, the use of derivatives and security lending, and other information.

Supplemental Information

In addition to this discussion and analysis, the supplemental information also consists of two schedules of trend data and related notes concerning the funded status of SDRS and employer contributions.

Other supplementary schedules include detailed information on administrative expenses incurred by SDRS and a breakout of investment manager fees.

Financial Analysis

SDRS is a cost-sharing, multiple-employer, public employee retirement system. SDRS provides retirement, disability, and survivor benefits for employees of the state of South Dakota and its political subdivisions. The benefits are funded through member and employer contributions and investment income.

SDRS benefits are based on the members' final average compensation, their years of credited service, and a benefit multiplier and are payable for life with a 60 percent survivor benefit.



A summary of the plan net assets is shown below:

Summary of Plan Net Assets June 30, 2009, and 2010

Assets	2010	2009
Cash and cash equivalents	\$ 6,180,991	\$ 5,308,826
Receivables	23,367,973	28,262,118
Investments, at fair value	6,563,362,061	5,676,926,340
Other assets	46,680	47,810
Total assets	\$6,592,957,705	\$5,710,545,094
Liabilities		
Accounts payable and accrued expenses	\$ 2,649,600	\$ 2,538,567
Securities sold, but not yet purchased	78,940,680	52,023,535
Unsettled investment purchases	13,804,034	6,991,033
Due to brokers—futures transactions	928,402	224,813
Total liabilities	\$ 96,322,716	\$ 61,777,948
Net assets held in trust for pension benefits	<u>\$6,496,634,989</u>	<u>\$5,648,767,146</u>

The funded ratio is an actuarial measure of funding progress and soundness for SDRS based on the actuarial accrued liability measurement of liabilities. The ratio is equal to the actuarial value of assets divided by the actuarial accrued liabilities. A ratio in excess of 100 percent would indicate that the actuarial accrued liability is fully funded.

Funded Ratio

The actuarial value of assets is equal to the new actuarial value of assets plus the reserve of funding of long-term benefit goals. The net actuarial value of assets is credited each year with the assumed rate of investment return and debited or credited with the SDRS liability gain or loss for the year. The resulting actuarial value of assets is constrained to a range of 80 percent to 120 percent of the market value of assets, and the reserve for funding of long-term benefit goals is adjusted if these limits apply.

The actuarial accrued liability is the present value of all benefits currently being paid and expected to be paid in the future, to all members, less the present value of future normal cost contributions.

Actuarial Accrued Liability Funded Ratio

	2010	2009	Change
Funded ratio	96.3%	91.8%	4.5%

Additions to the plan net assets include member and employer contributions and net investment income (loss). The fixed member and employer contribution rates are established by law. On an annual basis, an independent actuarial valuation of SDRS is made to determine the adequacy of the fixed contribution rates to pay the normal cost of benefits, expenses, and amortize the unfunded actuarial accrued liability. In addition to the fixed contributions, members and employers may make additional contributions to purchase uncredited prior service. These purchase or acquisition payments are also included as contributions. As the SDRS membership ages, the number and amount of purchases have grown.

Change in Plan Net Assets

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Income from investments is the other primary source of revenue for SDRS. The actuarial assumed investment rate is 7.75 percent at June 30, 2010. The investment returns were 18.70 percent for 2010 and (20.36) percent for 2009.

Deductions from plan net assets are primarily benefit payments. During 2010, SDRS paid \$326 million to benefit and refund recipients, or 6.3 percent more than 2009. The increase is due to added recipients and the annual 3.1 percent cost-of-living adjustment. Refunds of accumulated contributions during 2010 increased 20.3 percent. Administrative costs of SDRS represent less than 0.05 percent of plan net assets.

A summary of the changes in plan net assets is shown below:

	2010	2009	% Change
Additions:			
Employee contributions	\$ 98,347,135	\$ 95,457,518	3.0
Employer contributions	96,914,192	94,244,915	2.8
Investment income (loss)	<u>1,011,107,887</u>	<u>(1,518,619,609)</u>	<u>166.6</u>
Total additions	<u>1,206,369,214</u>	<u>(1,328,917,176)</u>	190.8
Deductions:			
Benefits	325,951,211	306,769,037	6.3
Refunds of contributions	29,148,085	24,225,249	20.3
Administrative expenses	<u>3,402,075</u>	<u>3,428,853</u>	<u>(0.8)</u>
Total deductions	<u>358,501,371</u>	<u>334,423,139</u>	7.2
Net increase (decrease) in plan net assets	847,867,843	(1,663,340,315)	151.0
Net assets held in trust for pension benefits:			
Beginning of year	<u>5,648,767,146</u>	<u>7,312,107,461</u>	<u>(22.7)</u>
End of year	<u>\$6,496,634,989</u>	<u>\$5,648,767,146</u>	<u>15.0%</u>

Investments

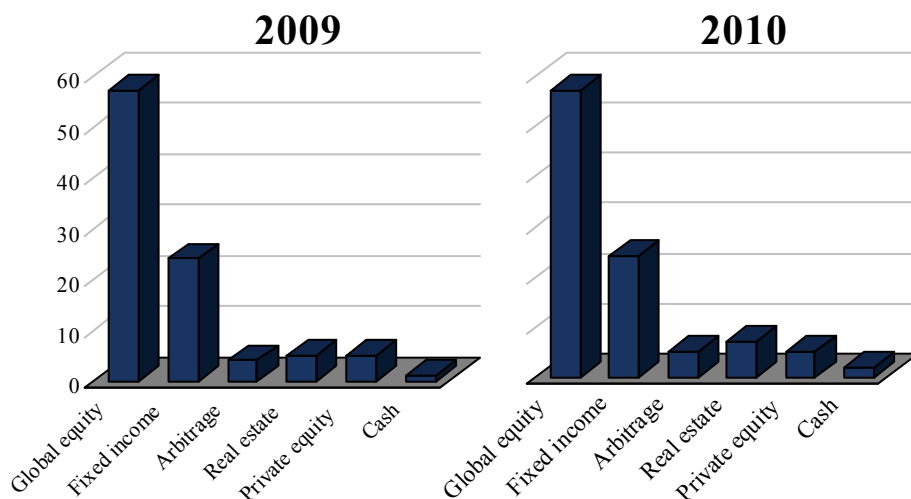
SDRS investment portfolio management is the statutory responsibility of the South Dakota Investment Council. The South Dakota Investment Office is the primary investment manager, but the Investment Council may utilize the services of external money managers.

Investment performance during 2010 and 2009 was 18.70 percent and (20.36) percent, respectively.

The Investment Council is governed by the prudent-man standard, as defined in South Dakota Codified Law 4-5-27:

4-5-27. Prudent-man standard required in investments. Any investments under the provisions of § 4-5-12 to 4-5-39, inclusive, shall be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Though monthly benefit payments exceed monthly contributions, the SDRS is not subject to sudden, substantial, and unexpected withdrawals. As a result, it is not necessary to maintain a high percentage of assets in short-term investments unless that is deemed to be the best investment strategy. This allows the SDRS trust fund to be fully invested in a diversified portfolio of securities.



Investment Summary

While the markets have not always made it possible to achieve the long-term assumptions, the System’s funding remains solid. The reserve for long-term benefit goals has provided a process for both improving benefits and protecting the System in down markets.

Plan Status

Requests for information about SDRS may be directed to the South Dakota Retirement System at P.O. Box 1098, Pierre, SD 57501. You may also contact SDRS online at www.sdrs.sd.gov.

Requests for Information

BASIC FINANCIAL STATEMENTS

Statement of Plan Net Assets As of June 30, 2010	Assets	
	Cash and cash equivalents	\$6,180,991
	Receivables:	
	Employer	2,005,112
	Employee	3,174,997
	Benefits	68,307
	Unsettled investment sales	1,457,732
	Accrued interest and dividends	16,661,825
	Total receivables	23,367,973
	Investments, at fair value:	
	Fixed income	1,890,074,714
	Equities	3,334,912,388
	Real estate	604,352,493
	Private equity	<u>734,022,466</u>
	Total investments	6,563,362,061
	Other assets	<u>46,680</u>
	Total assets	6,592,957,705
	Liabilities	
	Accounts payable and accrued expenses	2,649,600
	Securities sold, but not yet purchased, at fair value	78,940,680
	Unsettled investment purchases	13,804,034
	Due to brokers—futures transactions	928,402
	Total liabilities	<u>96,322,716</u>
	Net assets held in trust for pension benefits	<u>\$6,496,634,989</u>

The accompanying notes are an integral part of the financial statements.



Additions	
Contributions:	
Employer	\$98,347,135
Employee	<u>96,914,192</u>
Total contributions	\$195,261,327

Statement of Changes in Plan Net Assets
As of June 30, 2010

Investment income:	
<i>From investing activities</i>	
Net appreciation in fair value of investments	869,457,065
Interest	99,355,754
Dividends	77,784,893
Real estate	<u>4,148,245</u>
Investment income	1,050,745,957
Less investment activity expense	<u>(39,638,070)</u>
Total investment income	1,011,107,787
Total additions	1,206,369,214

Deductions	
Benefits	325,951,211
Refunds of contributions	29,148,085
Administrative expenses	<u>3,402,075</u>
Total deductions	358,501,371

Net increase in plan net assets 847,867,843

Net assets held in trust for pension benefits	
Beginning of year	<u>5,648,767,146</u>
End of year	<u>\$6,496,634,989</u>

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

1. General Description of the System:

The South Dakota Retirement System (SDRS) is a cost-sharing, multiple-employer, public employee retirement system (PERS) established to provide retirement benefits for employees of the State of South Dakota (the State) and its political subdivisions. Members of SDRS include full-time employees of public schools, the State, the Board of Regents, city and county governments, and other public entities. Public schools, cities, and counties may choose not to include certain full-time employees in the system.

SDRS is considered a part of the State financial reporting entity and is included in the State’s financial report as a pension trust fund. Authority for establishing, administering, and amending plan provisions are found in South Dakota Codified Law (SDCL) 3-12.

The South Dakota Retirement System Board of Trustees (the Board) is the governing authority of SDRS. The Board consists of 14 elected representatives from participating groups, two appointees of the governor, and an ex-officio non-voting representative of the South Dakota Investment Council. The elected representatives of the Board are two teacher members; two State employee members; a participating municipality member; a participating county member; a participating classified employee member; a justice, judge, or magistrate judge; a current contributing Class B member other than a justice, judge, or magistrate judge; a county commissioner of a participating county; a school district board member; an elected municipal official of a participating municipality; a retiree; and a faculty or administrative member employed by the Board of Regents. The two Governor’s appointees consist of one head of a principal department established pursuant to SDCL 1-32-2, or one head of a bureau under the office of executive management and one individual from the private or public sector.

SDRS is a hybrid defined benefit plan designed with several defined contribution plan type provisions. The system includes two classes of members: Class A—general members and Class B—public safety and judicial members. Members and their employers make matching contributions, which are defined in State statute. SDRS may expend up to 3 percent of the annual contributions for administrative expenses subject to approval by the executive and legislative branches of the State.

SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of contributory service. Class A members and Class B judicial members who retire after age 65 with three years of service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B judicial members where the sum of age and credited service is equal to or greater than 80. Class B public safety members can retire with an unreduced annual retirement benefit after age

55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B public safety members where the sum of age and credited service is equal to or greater than 75. All retirement benefits that do not meet the above criteria may be payable at a reduced level.

The annual increase in the amount of the SDRS benefits payable on each July 1st is indexed to CPI and based on the SDRS funded status:

- If the SDRS market value funded ratio is 100 percent or more—3.1 percent COLA
- If the SDRS market value funded ration is 80.0 percent to 99.9 percent, index with the CPI
 - * 90.0 to 99.9 percent funded—2.1 percent minimum and 2.8 percent maximum COLA
 - * 80.0 to 90.0 percent funded—2.1 percent minimum and 2.4 percent maximum COLA
- If the SDRS market value funded ratio is less than 80 percent—2.1 percent COLA

All benefits except those depending on the Member’s Accumulated Contributions are annually increased by the cost-of-living adjustment.

SDRS is a qualified defined benefit retirement plan under Section 401(a) of the Internal Revenue Code and is exempt from federal income taxes. SDRS has received a favorable determination letter dated August 13, 1996, in which the Internal Revenue Service stated that the System, as then designated, was in compliance with the applicable requirements of the Internal Revenue Code. SDRS has been amended since receiving the determination letter and has requested a new determination letter. SDRS believes that the System currently is designed and being operated in compliance with the applicable requirements of the Internal Revenue Code and, therefore, SDRS continues to be tax-exempt as of June 30, 2010. Therefore, no provision for income taxes has been included in SDRS’ financial statements.

SDRS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. SDRS is uninsured for property loss. SDRS participates in the various programs administered by the State of South Dakota (the State). These risk management programs include (1) coverage for risks associated with automobile liability and general tort liability (including public officials’ errors and omissions liability, medical malpractice liability, law enforcement liability, and products liability) through the State’s Public Entity Pool for Liability Fund, (2) coverage of employee medical claims through the State’s health insurance program, (3) coverage for unemployment benefits through the State’s Unemployment Insurance Fund, and, (4) coverage for workers’ compensation benefits through the State’s Workers’ Compensation Fund. Financial information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Comprehensive Annual Financial Report.

As of June 30, 2010, the number of participating governmental employers is as follows:

School districts	170
State of South Dakota	1
Board of Regents	1
Municipalities	147
Counties	64
Boards and commissions	87
Total employers	<u>470</u>

At June 30, 2010, SDRS membership consisted of:

Retirees and beneficiaries currently receiving benefits:	
Class A (general employees)	19,382
Class B Public Safety and Judicial employees	1,179
Total retirees and beneficiaries	20,561
Terminated members entitled to benefits but not yet receiving them:	
Class A (general employees)	13,174
Class B Public Safety and Judicial employees	483
Total terminated members	13,657
Current active members:	
Vested:	
Class A (general employees)	29,157
Class B Public Safety and Judicial employees	2,067
Non-vested:	
Class A (general employees)	7,174
Class B Public Safety and Judicial employees	616
Total current active members	<u>39,014</u>
Grand total	<u>73,232</u>

2. Summary of Significant Accounting Policies:

(a) Basis of Accounting and Presentation:

The accompanying financial statements are prepared using the accrual basis of accounting in accordance with U.S. generally accepted accounting principles applicable to governmental accounting for a pension trust fund. Employee and employer contributions are recognized when due pursuant to formal commitment, as well as statutory requirements. Pension benefit payments are due the first day of the month following the retirement of a member, and the first of each month thereafter. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the plan administrator to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and changes therein. Actual results could differ from those estimates. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

(b) Method Used to Value Investments:

Investments are reported at fair value. Equity securities include common stocks, preferred stocks, convertible debentures, arbitrage securities, and equity international funds. The fixed income securities include U.S. government and government-backed bonds and corporate bonds.

The fair value of investments in securities are determined based on closing market prices at June 30, 2010, for those securities traded on national and international stock exchanges and at the average of bid-and-asked quotations for those securities traded in the over-the-counter markets, as available. In general, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. The value of foreign securities in foreign currency amounts is expressed in U.S. dollars at the closing daily rate of exchange. Purchases and sales are recorded as of the trade date.

Alternative investments consist of investments in a variety of markets and industries through partnerships, corporate entities, co-investments, and other investment vehicles. For alternative investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, values these investments in good faith based upon the investment's current financial statements or other information provided by the underlying investment advisor. For all of these alternative investments, SDRS has determined that net asset value reported by the underlying fund approximates the fair value of the investment. These fair value estimates are, by their nature, subjective and based on judgment. These alternative investments were valued at \$2,090,112,054 (32% of net assets) at June 30, 2010. The estimated fair value of these investments may differ significantly from values that would have been used had a ready market existed.

Foreign exchange rate gains and losses are included with the net appreciation in fair value in investments. Futures contracts are marked to market based on quoted futures prices with changes in fair value reflected in the current period.

Interest and dividends are accrued in the period in which they are earned.

3. Contributions and Reserves:

(a) Contributions:

Covered employees are required by statute to contribute a percentage of their salary to SDRS as follows:

- Class A members—6 percent of salary
- Class B Judicial members—9 percent of salary
- Class B Public Safety members—8 percent of salary

BASIC FINANCIAL STATEMENTS (CONTINUED)

All participating employers are required to contribute an amount equal to the member's contributions. Members may make an additional contribution of 1.2 percent of compensation for optional spouse coverage.

SDRS is funded by fixed member and employer contributions at a rate established by law. On an annual basis, an independent actuarial valuation of SDRS is made to determine the adequacy of the fixed contractually required contributions to pay the normal cost, expenses, and amortize the frozen unfunded actuarial accrued liability (UAAL). The June 30, 2010, actuarial valuation of the plan determined that the contractually required employer contributions equals the requirements for the annual required contribution of the employers under Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*; the contractually required employer contributions are sufficient to pay the employer normal cost, expenses, and amortize the frozen UAAL over a period of less than 30 years (30 years as of June 30, 2010). The maximum contributions limits are not considered in the projection of pension benefit liabilities. Annual required contributions of the employer equal to the contractually required contributions have been listed below pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*.

<u>Year ending June 30</u>	<u>Employers</u>	<u>% Contributed</u>
2010	\$96,914,192	100
2009	94,244,915	100
2008	89,766,090	100

Contributions during fiscal year 2010 totaling \$195,261,327 (\$98,347,135 employee and \$96,914,192 employer) were made in accordance with statutory rates. These contributions represent 100 percent of current year covered payroll for all participating units. The employee contributions exceed the employer contributions because of optional spouse coverage contributions and employee service purchase payments.

SDRS allows participating entities to pay their deferred contributions for funding of accrued benefits over periods of up to 20 years and members to pay for the purchase of certain prior service over periods of up to 10 years. Interest is charged at rates of 5 percent to 8 percent.

Future payments will be received as follows:

<u>Year ending June 30</u>	<u>Employees</u>
2011	\$451,892
2012	333,167
2013	273,655
2014	204,812
2015	13,886
Later	<u>29,477</u>
	1,306,889
Less amount representing interest	_____
Deferred contributions receivable at June 30, 2010	<u>\$1,306,889</u>

(b) Reserves:

The reserve for funding of long-term benefit goals is designed to fund benefit improvements and provide the plan with protection against adverse experience. The reserve for funding of long-term benefits goals is equal to the cumulative amounts credited or debited annually based on the immediate recognition of actuarial investment losses, the five-year recognition of actuarial investment gains, and the five-year recognition of SDRS liability gains or losses, less reductions described below. If benefit improvements are enacted into law and funded from the reserve for funding of long-term benefit goals, the reserve for funding of long-term benefit goals is reduced by the present value of all benefits for those improvements. The reserve for funding of long-term benefit goals may also be reduced to offset unfavorable experience, if required, to meet the funding objectives of SDRS as established by the Board of Trustees. As of June 30, 2010, the balance in the revenue for funding of long-term benefit goals is \$(1.3) billion.

4. Funded Status and Funding Progress—Pension Plan:

As of June 30, 2010, the most recent actuarial valuation date, the plan was 96.3% funded. The actuarial accrued liability for benefits was \$7.40 billion, and the actuarial value of assets was \$7.1 billion, resulting in an UAAL of \$273.4 million. The covered payroll (annual payroll of active employees covered by the plan) was \$1.49 billion, and the ratio of the UAAL to the covered payroll was 18.3%.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements on page 35, present multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

In the June 30, 2010, actuarial valuation, the entry age frozen UAAL method was used. The actuarial assumptions included (a) 7.75% investment rate of return and (b) projected salary increases ranging from 4.15% to 8.13%. Both (a) and (b) include the inflation component of 2.8%. The actuarial value of assets was determined by the following method: assets credited with assumed rate of investment return, debited/credited with liability gain/loss for the year and constrained to a range of 80% to 120% of market. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2010, was 30 years.

5. Cash and Investments:

Cash and cash equivalents are held by the State Treasurer and were invested in the state's pooled investment fund. Investment in the state's pooled investment fund consist primarily of commercial paper rated A1 or P2 or better, short-term U.S. Treasury obligations, bank certificates of deposit, and money market funds.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. The South Dakota Investment Council is governed by the Prudent Man Rule (that is, the council should use the same degree of care as a prudent man). Current South Dakota Investment Council investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). Below is a detail of the investment balances and amounts managed by the respective fund managers:

	<u>Cost</u>	<u>Fair Value</u>
State of South Dakota Investment Council	\$4,609,008,319	\$4,472,828,292
Sanders Capital	25,175,661	21,572,765
Sanders All Asset Value	14,999,265	12,984,693
Blackstone Real Estate Partners	618,187,359	470,964,184
Cargill North American Real Estate Partners	162,594,758	96,256,368
CINVIN Fund 4	61,685,555	60,347,511
Pinebridge	13,886,615	14,065,416
CVI Global Value Fund	170,160,571	155,554,605
CVI Specialized Ventures Fund	17,846,694	8,115,641
PIMCO Distressed Mtg Fund II	114,535,836	140,510,723
TCW Specialized Mtg Credits	149,362,713	161,915,321
Oaktree Loan Fund 2x	35,046,235	32,934,514
Blackstone Distressed Securities	385,144	5,002,920
Blackstone Credit Liquidity	25,880,855	28,136,145
Silver Lake Partners LP	105,533,845	119,510,114
KKR Associates	62,451,392	59,454,028
Cypress Merchant Banking Partners LP	20,905,207	8,833,309
Capital International	34,627,160	43,974,649
Apollo	38,416,684	24,860,072
Bridgewater Pure Alpha Fund II	50,000,000	67,438,315
Dimensional Fund Advisors, Inc.	8,918,381	36,942,851
Blackstone Private Equity	218,262,574	200,404,510
Doughty Hanson & Co. Private Equity IV	66,756,498	71,686,785
Brandes Global Mid-Cap	37,881,714	32,020,215
Doughty Hanson	32,847,303	12,271,869
CVC	43,883,065	52,571,780
Carlyle IV	34,182,119	42,628,880
Riverstone	15,016,634	18,282,746
GE Asset Management	40,920,000	49,030,105
Elevation Partners	32,614,456	28,635,651
Crossroads	13,667,216	11,554,506
DLJ Merchant Banking Partners LP	3,822,221	2,072,578
Total investments	6,879,462,049	6,563,362,061
Securities sold, but not yet purchased	(75,880,202)	(78,940,680)
Total	\$6,803,581,847	\$6,484,421,381

(a) Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are held in the possession of an outside party. SDRS has no formal deposit policy specific to custodial credit risk. At June 30, 2010, SDRS has bank balances in various foreign currencies. These deposits are not collateralized or covered by depository insurance. As a result, \$6,386,440 was exposed to custodial credit risk.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. SDRS has no formal policy for investment custodial credit risk. No collateral securities were held at June 30, 2010.

(b) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The SDRS's investment grade fixed income portfolio's duration must fall between 70% and 130% of the duration on the Citigroup Broad Investment Grade (BIG) Index. Modified duration estimates the sensitivity of a bond's price to interest rate changes. The durations of the various investment types are listed in the following table:

<u>Investment type</u>	<u>Fair value</u>	<u>Duration</u>
U.S. Treasuries	\$95,143,461	8.23
U.S. Treasury strips	36,600,000	12.88
U.S. Treasury Bills	12,097,115	0.22
U.S. agencies	22,822,295	4.84
Investment grade corporates	355,360,921	3.78
High-yield corporates	152,259,393	3.63
Mortgage-backed securities	296,635,570	2.15
Mutual funds	192,024,832	—
FDIC Temporary Liquidity Guarantee Program	22,488,467	2.30
Total	\$1,185,432,054	3.33

(c) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to SDRS. The South Dakota Investment Council sets the investment policy annually for the SDRS. This policy establishes the average percentage invested in each asset category and the fund allocation range that each asset category can vary during the fiscal year. As of June 30, 2009, the portfolios held the following investments, excluding those issued by or explicitly guaranteed by the U. S. government, which are not considered to have credit risk. The investments are grouped as rated by Moody's Investors Service.

<u>Moody's rating</u>	<u>Fair value</u>
Aaa	\$452,655,382
Aa	52,323,650
A	116,179,666
Baa	138,325,610
Ba	94,005,225
B	10,988,413
Caa	1,830,705
Ca	—
C	—
Not rated	93,967,046
Total	\$960,275,697

(d) Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of SDRS' investment in a single issuer. SDRS does not have guidelines to limit its investments in any particular investment. SDRS does not have investments in any one issuer which represent 5 percent or more of the total fair value of investments as of

BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2010 (excluding those issued by or explicitly guaranteed by the U.S. Government).

(e) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. SDRS' exposure to foreign currency risk derives from its positions in foreign currency and foreign-currency-denominated equity and fixed income investments. SDRS does not hedge foreign currency back to U.S. dollars (to match the unhedged benchmark), but does allow hedging under certain circumstances, when deemed appropriate. The portfolio's exposure to foreign currency risk at June 30, 2010, is as follows (in U.S. dollar fair value):

Currency	Equities	Fixed income	Cash	Total
	U.S. dollar fair value	U.S. dollar fair value	U.S. dollar fair value	
Australian Dollar	\$4,861,929	—	\$ —	\$4,861,929
Brazilian Real	1,478,522	—	13,820	1,492,342
British Pound	161,999,425	—	179,530	162,178,955
Canadian Dollar	51,074,020	—	1,578,454	52,652,474
Danish Kroner	1,405,441	—	626	1,406,067
Euro	238,272,963	—	3,650,127	241,923,090
Hong Kong Dollar	3,439,703	—	—	3,439,703
Hungarian Forint	192,667	—	—	192,667
Israeli Shekel	814,594	—	—	814,594
Japanese Yen	151,779,520	—	963,099	152,742,619
Korean Won	9,668,058	—	—	9,668,058
New Zealand Dollar	779,841	—	—	779,841
Norwegian Krone	4,165,993	—	15	4,166,008
Singapore Dollar	102,696	—	—	102,696
South African Rand	16,885	—	764	17,649
Swedish Krona	1,671,482	—	5	1,671,487
Swiss Franc	113,222,225	—	—	113,222,225
Turkish Lira	955,030	—	—	955,030
Total fair value	\$745,900,994	—	\$6,386,440	\$752,287,434

Investments with limited partnerships and certain global equity investments with outside managers, which are not included in the table above, may expose SDRS's portfolio to additional foreign currency risk. The total fair value of investments in real estate and private equity limited partnerships as of June 30, 2010, was \$1,338,374,957. The total fair value of global equity, arbitrage equity, and distressed and high yield fixed income investments managed by outside managers was \$102,623,084, \$104,381,166, and \$532,169,869, respectively.

(f) Return on Investments

During fiscal year 2010, SDRS' investments (including investments bought and sold, as well as held during the year) appreciated in value by \$869,457,065.

The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior years and current year.

Change in Fair Value of Investments

	Year ended June 30, 2010
Appreciation in fair value of investments:	
Equities	\$287,234,207
Fixed-income	154,735,975
Real estate	90,062,280
Private equity	<u>195,853,634</u>
Total increase in fair value	727,886,096
Realized gain (loss) on investments sold:	
Equities	136,965,388
Fixed-income	25,575,299
Real estate	(17,718,783)
Private equity	<u>(14,178,474)</u>
Total net realized gain	130,643,430
Net gain on futures contracts	10,927,539
Net appreciation in fair value of investments	<u>\$869,457,065</u>

6. Derivatives:

Derivatives are generally defined as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. SDRS is exposed to various derivative products through the investment management of the South Dakota Investment Council and its outside managers. All of SDRS's derivatives are classified as investment derivatives.

Futures Contracts

A futures contract is a contract to buy or sell units of an index or financial instrument at a specified future date at a price agreed upon when the contract is originated. The South Dakota Investment Council purchases and sells futures contracts as a means of adjusting the SDRS portfolio mix at a lower transaction cost than the transactions, which would otherwise occur in the underlying portfolios. During fiscal year ended June 30, 2010, S&P 500 futures and 10-year U.S. Treasury note futures were utilized. Upon entering into such a contract, SDRS pledges to the broker cash or U.S. government securities equal to the minimum initial margin requirement of the futures exchange. Additionally, SDRS receives or pays a daily variation margin, which is an amount of cash equal to the daily fluctuation in value of the contract. The pending variation margin at June 30, 2010, of \$(928,402) is presented in the statement of net assets as "Due to brokers—futures transactions." The change in fair value of the futures contracts is presented in the statement of changes in net assets as "Net appreciation in fair value of investments." The net change in fair value from futures contracts for fiscal year ended June 30, 2010, was \$10,927,539. Futures contract positions at June 30, 2010, were as follows:

<u>Description</u>	<u>Open position</u>	<u>Number of contracts</u>	<u>Fair value</u>
U.S. Treasury note due September 2010	Long	180	\$332,110
S&P 500 Index due September 2010	Long	386	(2,799,025)

Foreign Currency Forward Contracts

The SDIC enters into foreign exchange forward contracts for SDRS to manage foreign currency exposure, as permitted by portfolio policies. The fair values of the contracts are presented in the statement of net assets as investments—equities. The change in fair value of the forward contracts is presented in the statement of changes in net assets as “Net appreciation in fair value of investments.” The net change in fair value from foreign currency forward contracts for fiscal year ended June 30, 2010, was \$8,492,143. At June 30, 2010, the foreign currency forward contracts outstanding were as follows:

<u>Description</u>	<u>Notional amount</u>	<u>Maturity date</u>	<u>Fair value (US dollars)</u>
Forward sale	(660,384) AUD	7/30/2010	\$(8,345)
Forward sale	(14,000,000) EURO	7/22/2010	1,708,160
Forward sale	2,868,600 EURO	9/02/2010	37,379
Forward sale	(64,554,750) GBP	9/22/2010	858,756
Forward sale	(198,851) GBP	7/22/2010	2,395
Forward sale	(1,540,195) GBP	8/16/2010	49,173
Forward sale	(971,852) GBP	9/02/2010	(37,484)
Forward sale	(707,726) GBP	5/16/2011	3,424
Forward purchase	200,900,000 CNY	7/26/2011	2,062,048
Forward purchase	159,225,000 CNY	8/25/2011	1,827,516
Forward purchase	129,400,000 CNY	7/24/2014	(635,698)
Forward purchase	128,050,000 CNY	7/28/2014	(837,722)
Forward purchase	150,250,000 CNY	3/30/2015	(2,515,562)
Forward purchase	1,500,000 EURO	7/22/2010	(44,826)
Forward purchase	3,799,562,200 JPY	7/15/2010	2,030,363

(a) Credit Risk

SDRS is exposed to credit risk on derivative instruments that are in asset positions. The SDIC attempts to minimize credit risk by entering into derivatives contracts with major financial institutions. At June 30, 2010, the net fair value of foreign currency forward contracts was \$4,499,577. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. The credit ratings of the counterparties are as follows:

<u>Moody's credit rating</u>	<u>Number of counterparties</u>	<u>Fair value</u>
A1	1	\$4,598,995
Aa2	1	(99,418)

(b) Interest Rate Risk

SDRS is exposed to interest rate risk on its 10-year U.S. Treasury note futures contract. As interest rates increase, the value of the futures contract decreases. The fair value of futures contracts with notionals priced to the 10-year U.S. Treasury note were \$332,110.

(c) Foreign Currency Risk

SDRS is exposed to foreign currency risk on its foreign currency forward contracts because they are denominated in foreign currencies. The net fair value of the foreign currency forward contracts in U.S. dollars is \$4,499,577.

7. Compensated Absences:

Annual leave is earned by all SDRS employees. Upon termination, SDRS employees are eligible to receive compensation for their accrued annual leave balances. At June 30, 2010, a liability existed for accumulated annual leave calculated at the employees' June 30, 2010, pay rate in the amount of \$114,776. Employees who have been continuously employed by SDRS and the State for at least seven years prior to the date of their retirement, voluntary resignation, or death will receive payment for one-fourth of their accumulated sick leave balance with such payment not to exceed the sum of 12 weeks of the employee's annual compensation. For employees who have not been employed for seven continuous years, an accrued liability is calculated assuming the likelihood that they will meet the seven-year threshold in the future. At June 30, 2010, a liability existed for accumulated and accrued sick leave, calculated at the employees' June 30, 2010, pay rate in the amount of \$134,921.

	2010	2009	% change
Total compensated absences	\$249,697	\$244,814	2%

The total leave liability for the current year is on the Statement of Net Assets Available for Benefits in accounts payable and accrued expenses.

8. Operating Leases:

The SDRS has entered into an agreement to lease office space. The lease was effective September 2007 and has a term of five years. A schedule of minimum office rental payments as of June 30, 2010, is as follows for the fiscal year ending June 30:

2011	\$105,389
2012	105,389
Total remaining minimum payments	\$210,778

9. Supplemental Retirement Plan:

SDRS offers a deferred compensation plan known as the Supplemental Retirement Plan (SRP), created in accordance with Internal Revenue Code Section 457. SRP is available to all public employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseen emergency.

BASIC FINANCIAL STATEMENTS (CONTINUED)

All amounts of compensation deferred under the SRP, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are at all times held in trust for the exclusive benefit of the participants until made available to a participant or the participant's beneficiary.

Of the \$132,425,979 net assets available for plan benefits at June 30, 2010, \$83,073,567 was held in trust for employees of the State, while the remaining \$49,352,412 represents the assets held in trust for employees of other jurisdictions. In order to avoid duplication in reporting, the SDRS total of \$507,589 is included in the State total and the State's comprehensive annual financial report for the year ended June 30, 2010.

10. Special Pay Plan:

The Special Pay Plan (SPP) was established in July 2004 as a qualified plan pursuant to Internal Revenue Code Section 401 (a) under the administrative responsibility of the SDRS Board of Trustees. South Dakota state government and the South Dakota Board of Regents are participating units and every state political subdivision may become a participating unit in the plan. The SPP mandates that qualifying employees (over age 55 and \$600 or more in "special" pay) of participating units defer 100 percent of their special lump-sum termination pay to the plan. The participating unit transfers the deferred pay to the fund. This deferred pay is available to a participant immediately after termination, upon later retirement, or to beneficiaries or an estate upon the participant's death.

Of the \$19,448,990 net assets available for plan benefits at June 30, 2010, \$11,014,372 was held in trust for employees of the State, while the remaining \$8,434,618 represents the assets held in trust for employees of other jurisdictions.

11. Plan Termination:

SDRS is administered in accordance with South Dakota statutes. The statutes provide for full vesting in accrued benefits upon termination of the plan (SDCL 3 12 72.2).

12. Commitments:

At June 30, 2010, SDRS had uncalled capital commitments to private equity limited partnerships totaling approximately \$428,047,852 and to real estate limited partnerships totaling approximately \$456,628,093. The commitments may be called at the discretion of the general partner or may never be called. As capital is called, it is funded from capital and earnings returned by the limited partnerships or from other assets.

13. Litigation:

Four SDRS retirees initiated a class action challenging the constitutionality of a portion of Senate Bill (SB) 20 from the 2010 state Legislative Session, which reduced the annual cost-of-living increases to retirement benefit participants for state fiscal year 2011 and may negatively impact increases in future years. *Merton B. Tice Jr. et. al. v. State of South Dakota et. al.* Civ. No. 10-225 was filed in the Sixth Judicial Circuit Hughes County in June of this year. Plaintiffs are seeking injunctive relief, damages, and attorney fees for themselves and a pled class. If successful, Plaintiffs' lawsuit could have a significant negative actuarial impact on the South Dakota Retirement System Member Trust Fund. SDRS contends it has strong defenses to class certification and to the merits of the Plaintiffs' claims, and its counsel are vigorously defending the action. The pending legal action does not represent a significant immediate negative contingency. At this stage of the litigation, it is not possible for SDRS to assess the potential effect, if any, to SDRS Member Trust Fund.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

(Dollar amounts in millions)

Actuarial valuation date	(a) Actuarial value of assets	(b) Actuarial accrued liability—entry age [AAL]	Unfunded actuarial accrued liability [UAAL] (b-a)	Funded ratio (a/b)	(c) Covered payroll	UAAL as a percentage of covered payroll [(b-a)/c]
6/30/2005	\$5,381.0	5,571.8	190.8	96.6%	\$1,206.1	15.8%
6/30/2006	5,668.5	5,859.9	191.4	96.7	1,229.9	15.6
6/30/2007	6,526.5	6,718.8	192.3	97.1	1,297.3	14.8
6/30/2008	6,784.3	6,976.8	192.5	97.2	1,363.9	14.1
6/30/2009	6,778.5	7,387.4	608.9	91.8	1,450.7	42.0
6/30/2010	7,119.9	7,393.3	273.4	96.3	1,491.1	18.3

Schedule of Employer Contributions

For the year ended June 30	Annual required contributions	Percentage contributed
2005	\$77,474,967	100%
2006	80,829,338	100
2007	85,361,762	100
2008	89,766,090	100
2009	94,244,915	100
2010	96,914,192	100

Notes to Trend Data

Valuation date	6/30/2010
Actuarial cost method	Entry age with frozen unfunded actuarial accrued liability
Amortization method	Level percentage-open
Remaining amortization period	30 years
Asset valuation method	Assets credited with assumed rate of investment return, debited/credited with liability gain/loss for the year, and constrained to a range of 80 percent to 120 percent of market
Actuarial assumptions:	
Investment rate of return¹	7.75%
Projected salary increase¹	4.15% to 8.13%
Cost-of-living adjustments	2.80%

¹ Includes inflation at 4.0 percent.

SUPPORTING SCHEDULES

Schedule of Administrative Expenses for the Year Ended June 30, 2010

Personal services	Accrual Basis
Salary and per diem	\$1,431,901
Employee benefits	376,734
Total personal services	1,808,635
Operating expenses	
Travel	62,436
Contractual services:	
Finance	103,376
Valuations	103,770
Consulting	131,335
Studies	10,806
Special studies	11,587
Legal	5,886
Communications	22,700
Medical	53,475
Operations	766,611
Total contractual services	1,209,546
Supplies and materials	277,020
Capital assets	44,438
Total operating expenses	1,593,440
Total administrative expenses	\$3,402,075

Schedule of Investment Activity Expenses for the Year Ended June 30, 2010

Investment managers	Management expenses
State of South Dakota Investment Council	\$4,314,852
Pinebridge	122,410
Apollo Real Estate Advisors LP	482,754
Blackstone Distressed Debt	258,967
Blackstone Private Equity	(319,873)
Blackstone Real Estate Partners	12,492,118
Brandes Investment Partners	326,342
Capital International	1,222,497
Cargill North American Real Estate Partners	2,018,564
Carlyle	1,012,082
CINVIN	1,772,921
CVC	820,302
CVI	2,880,542
Cypress Merchant Banking Partners LP	126,283
Dimensional Fund Advisors, Inc.	153,993
DLJ Merchant Bankers	59,247
Doughty Hanson & Co. European Real Estate	1,575,357
Doughty Hanson & Co. Private Equity IV	1,967,574
Elevation Partners	763,938
GE Asset Management China	940,731
KKR Associates	264,008
Lehman Crossroads Investment Advisors LP	475,736
Oaktree Loan Fund 2x	278,025
PIMCO Distressed Mtg Fund II	1,775,631
Research Affiliates	86,624
Sanders All Asset Value	55,586
Sanders Capital	44,039
Riverstone	554,886
Silver Lake Partners LP	1,430,076
TCW Specialized Mtg Credits	1,681,858
Total investment activity expenses	\$39,638,070

ACTUARIAL SUMMARY



Actuary's Opinion
Actuarial Overview
Actuarial Valuation
Summary of Benefit Provision Changes
Plan Summary

ACTUARY'S OPINION



A Xerox Company

November 12, 2010

Board of Trustees
South Dakota Retirement System
Post Office Box 1098
Pierre, SD 57501-1098

This report summarizes the results of Buck Consultants, LLC's annual Actuarial Valuation of the South Dakota Retirement System (SDRS) as of June 30, 2010.

This Actuarial Valuation is based on financial and Member data provided by SDRS and summarized in this report. The actuary did not verify the data submitted, but did perform tests for consistency and reasonableness.

All Members of Participating Units of SDRS and all benefits in effect on July 1, 2010 have been considered in this Actuarial Valuation. SDRS benefit provisions considered, Member data, and Trust Fund information are summarized in the Appendices in this report.

The assumptions and methods used to determine the Annual Required Contributions of the Employers to SDRS as outlined in this report and all supporting schedules meet the parameters and requirements for disclosure of Governmental Accounting Standards Board (GASB) Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans. Buck Consultants, LLC is solely responsible for the actuarial data presented in this report.

SDRS is funded by Employer and Member Contribution Rates as established by South Dakota law. The funding objective for SDRS is that the required contributions remain level as a percent of Member Compensation at the statutory rates. The SDRS Board of Trustees has also established a funding policy objective that the statutorily required contributions be sufficient to pay the Normal Costs of SDRS, System Expenses, and amortize the Unfunded Actuarial Accrued Liability as a level percent of Member Compensation over a period not to exceed 30 years.

As noted below, this objective is currently being met and is projected to continue to be met.

Our calculations and analysis indicate that the System is meeting its funding objectives and is in actuarial balance. The combined statutory Employer/Member Contributions are sufficient to pay the current Normal Costs and Expenses of the System and amortize the Unfunded Actuarial Accrued Liability over 30 years or less from July 1, 2010. The contractual Employer Contribution Rates to SDRS meet the requirements of the Annual Required Contributions of the Employers of GASB Statement No. 25.


The SDRS Board of Trustees measures and compares the funding progress of SDRS on several bases. The Actuarial Accrued Liability Funded Ratio of SDRS as of June 30, 2010 is 96.3% on an Actuarial Value basis and 87.9% on a Market Value basis.


Based on member data and asset information provided by SDRS, we have prepared the Schedule of Funding Progress and Schedule of Employer Contributions that are included in the Financial section of the CAFR.

The undersigned are Enrolled Actuaries, Associates of the Society of Actuaries and Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained in this report. This report has been prepared in accordance with all Applicable Standards of Practice. We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate.

SDRS is actuarially sound.

Respectfully submitted,


David H. Slushinsky, ASA, EA, MAAA
Principal and Consulting Actuary


Douglas J. Fiddler, ASA, EA, MAAA
Director, Retirement Actuary

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ACTUARIAL OVERVIEW

An actuarial valuation of SDRS is performed as of June 30 each year. Prior to 1996, in odd-numbered years, an update was made which considered expected changes in the actuarial measures due to the assumed experience of the system as well as the effect of any changes in value of assets, actuarial valuation methods, or benefit provisions.

In the 2010 actuarial valuation, two important actuarial measures have been calculated in evaluating the actuarial soundness and funding progress of SDRS. They are:

- actuarial accrued liability funded ratio
- funding period

The actuarial accrued liability (AAL) is the present value of all benefits currently being paid and expected to be paid in the future, to all members, less the present value of future normal cost contributions. The actuarial accrued liability funded ratio is a required accounting disclosure. The measure is equal to the actuarial value of assets divided by the AAL. A ratio in excess of 100 percent indicates that projected accrued benefits are funded.

The funding period measures the length of time required to amortize unfunded actuarial accrued liabilities as well as pay the on-going normal costs, interest charges and expenses with the current contributions. The shorter the funding period the more favorable the actuarial measure.

	2010 actuarial valuation	2009 actuarial valuation
Actuarial accrued liability funded ratio (actuarial value of assets/AAL)	96.3%	91.8%
Funding period	30 years	N/A*

*Member and employer contributions were not sufficient to amortize the frozen unfunded actuarial accrued liability over any period.

The time-weighted annualized investment performance based on the market value of assets of the system for the most recent year was 18.7 percent, significantly more than the assumed rate of 7.75 percent for fiscal year 2010. The dollar-weighted annualized investment performance based on the market value of assets for the period was 18.2 percent. This results in an actuarial investment gain of \$492 million. The actuarial value of assets was credited with the assumed rate of return of 7.75 percent for the one-year period ending June 30, 2010, and decreased by the total liability gain of \$14 million. The reserve for funding of long-term benefits goals was increased from a balance of negative \$2,031 million as of June 30, 2009, to a balance of negative \$1,262 million as of June 30, 2010, as a result of investment returns above expectations for fiscal year 2010.

Actuarial Accrued Liability

Measures of Actuarial Soundness

Actuarial Investment Return Gains/Losses

For the year ended June 30, 2010

ACTUARIAL OVERVIEW (CONTINUED)

Actuarial Liability Gains/Losses

For the year ended
June 30, 2010

Item Gain	Amount of liability gain (loss)	Percentage of present value of all benefits
Due to compensation increases	\$67M	0.77%
(Loss) due to decrements	(30M)	(0.34)%
(Loss) due to rehired and new members	(15M)	(0.17)%
Miscellaneous (loss)	(8 M)	(0.09)%
Total system gain	\$14M	0.17%

Actuarial Assumptions

Significant actuarial assumptions used include: a) a rate of return on the present and future assets of 7.75 percent a year compounded annually plus prefunding of improvement factor; b) projected Social Security cost-of-living increases of 4.0 percent and wage base increases of 5.5 percent per year compounded annually; c) post-retirement benefit increases of 2.8 percent per year compounded annually; d) active participant experience including projected salary increases that average 5.5 percent per year compounded annually; e) 80 percent of active members and 75 percent of retired and terminated members are assumed to be married; f) the male spouse is assumed to be three years older than the female spouse; g) mortality rates for active and non-disabled pensioners are based upon the 1995 Buck Mortality Table; and h) at termination of employment, members will elect the more valuable of the accumulated contributions or the deferred vested benefit payable at retirement.

A detailed experience analysis was conducted in 2003 and 2004, and appropriate modifications in the demographic assumptions regarding assumed rates of member termination, retirement, and disability were made effective with the June 30, 2004, actuarial valuation.

Also as a result of the experience analysis in 2003 and 2004, and further study and debate of the SDRS Board of Trustees, changes were made to the economic actuarial assumptions effective for the June 30, 2005, actuarial valuation. These changes increased the unfunded actuarial accrued liability by slightly more than \$75 million and created a liability loss of \$98 million to the system based on the present value of all benefits.

Effective with the year ended June 30, 1995, the actuarial costs defined under the entry age normal method were modified to freeze unfunded liabilities and recognize plan gains and losses directly in the normal cost by amortizing them over the assumed future payroll of the membership. The calculation of the actuarial value of assets was also modified at that time.

The actuarial value of assets is credited each year with the assumed rate of investment return plus non-investment cash flow and reduced by liability gains and increased by liability losses for the year.

The reserve for funding of long-term benefit goals was first implemented as of the year ended June 30, 1995, to fund benefit improvements and provide the system with protection against adverse experience. When implemented, actuarial investment gains (returns above the assumed investment return assumption) and actuarial investment losses (returns below the assumed investment return assumption) were recognized at the

rate of 20 percent per year over a five-year period. Effective June 30, 1998, liability gains and losses were reflected in the same manner as investment gains and losses. The reserve was modified again as of June 30, 2001, to immediately recognize actuarial investment losses while still spreading the recognition of actuarial investment gains over five-year periods.

The reserve for funding of long-term benefit goals (if positive), was included in the actuarial value of assets, the actuarial accrued liability and the present value of all benefits from June 30, 1995, through June 30, 2003. Effective June 30, 2004, the reserve was no longer added to the actuarial assets or liabilities. This change was made to more accurately reflect the funded status of the system.

There was one change in the actuarial assumptions and methods since the 2009 actuarial valuation. The cost-of-living adjustment assumption was decreased from 3.1% compounded annually to 2.8% compounded annually. This change is effective July 1, 2010 and reflects our best long-term estimate of future cost-of-living adjustments considering the changes in benefit provisions enacted during the 2010 South Dakota Legislative Session.

The cushion is the excess of the market value of assets over the actuarial value of assets. The cushion represents fund not currently required to maintain the actuarial soundness of SDRS, and available to protect the system against future unfavorable experience.

SDRS gains and losses are allocated to the reserve for funding of long-term benefit goals. The amounts currently in the reserve and remaining to be allocated in the next four years are an important indicator of the system's recent cumulative experience. The reserve for funding of long-term benefit goals is also a source of funds to provide future benefit improvements or to protect the system against future unfavorable experience.

Summary of Actuarial Assumption and Method Changes

Cushion

Reserve for Funding of Long-term Benefit Goals

Balance as of June 30, 2009	\$(2,030,892,306)
Fiscal year 2010 experience	101,302,765
Amortization of prior gain and losses	251,152,715
Less present value of all benefits for improvements enacted into law funded from reserve	0
Plus adjustment to Reserve for Corridor application as of June 30, 2009, and corresponding corrective action effective July 1, 2010	416,062,688
Balance as of June 30, 2010	<u>\$(1,262,374,138)</u>

ACTUARIAL OVERVIEW (CONTINUED)

Actuarial Assumption Tables

Sample Separation Rates

Annual Rate per 100 Members

Age	Mortality		Disabled	Disablement	
	Male	Female	Mortality	Male	Female
25	0.07	0.02	0.68	0.08	0.10
30	0.06	0.02	1.06	0.08	0.11
35	0.07	0.04	1.14	0.10	0.12
40	0.10	0.06	1.35	0.12	0.15
45	0.14	0.09	2.00	0.16	0.22
50	0.22	0.14	3.16	0.24	0.23
55	0.35	0.21	3.78	0.40	0.38
60	0.64	0.32	4.25	0.84	0.80
65	1.24	0.66	5.12	1.71	1.55

Annual Turnover Rate per 100 Members

Age	Teachers	Judicial, municipal, and general members	Class B Public Safety members
25	18.20	22.40	16.80
30	13.70	16.40	13.20
35	8.60	12.60	9.60
40	6.78	9.50	7.00
45	5.13	7.70	4.80
50	3.98	6.00	7.25
55	2.30	3.06	2.04

Retirement Age Class B Public Safety

Age	Annual rate per 100 members eligible to retire
<50	0
50	10
51	8
52	8
53	8
54	10
55	15
56	20
57	25
58	30
59	35
60	40
61	45
62	100

Retirement Age Class A and B Judicial

Age	Annual rate per 100 members eligible to retire
55	8
56	8
57	8
58	8
59	8
60	10
61	10
62	20
63	25
64	25
65	50
66	50
67	50
68	50
69	50
70	100

Compensation Progression Sample Rates

Age	Ratio of compensation at age 65 to salary at current age	Percentage increase in year following indicated age
25	8.39	8.13%
30	5.76	6.83
35	4.15	6.63
40	3.07	5.63
45	2.37	4.84
50	1.89	4.51
55	1.52	4.37
60	1.23	4.25
64	1.04	4.15

During the 2010 South Dakota Legislative Session, benefit changes were made to SDRS that have been reflected in the 2010 Actuarial Valuation. The benefit changes are as follows:

Benefit Changes

- Eliminated all first year pro-rated cost-of-living adjustments (COLA) for retirees and all other pro-rated benefits including interest credits.
- Modified employer refunds for vested members from 100 percent to 85 percent and for non-vested members from 75 percent to 50 percent for any terminations after July 1, 2010.
- Reduced the COLA to 2.1 percent for the adjustment made June 20, 2010.
- Indexed the COLA to CPI and based it on SDRS funded status:
 - * If the SDRS market value funded ratio is 100 percent or more—3.1 percent COLA
 - * If the SDRS market value funded ratio is 80 percent to 99.9 percent, index with the CPI
 - ⇒ 90 percent to 99.9 percent funded—2.1 percent minimum and 2.8 percent maximum COLA
 - ⇒ 80 percent to 90 percent funded—2.1 percent minimum and 2.4 percent maximum COLA
 - * If the SDRS market value funded ratio is less than 80 percent—2.1% COLA

Summary of Key Actuarial Measures

	2009 actuarial valuation results	System investment and liability experience for year ¹	Membership changes and maturity of system ²	Benefit changes effective July 1, 2010 ³	2010 actuarial valuation results
Normal cost rate with expense provision	11.547%	—	(0.045)%	—	11.502%
Funding period	N/A ⁴	—	—	— ⁵	30 years
Unfunded actuarial accrued liability	\$609M	—	\$32M	\$(368)M	\$273M
Actuarial accrued liability funded ratio	91.8%	—	(0.1)%	4.6%	96.3%

¹ SDRS actuarial investment gains and liability gains and losses are smoothed and allocated directly to the reserve for funding of long-term benefit goals over five years. All SDRS actuarial investment losses are allocated immediately to the reserve.

² Future SDRS membership changes will cause minor changes in the normal cost rate even with smoothing of asset and liability gains and losses. The actuarial accrued liability funded ratio will gradually increase as the frozen unfunded actuarial accrued liability becomes a smaller percentage of the total SDRS liabilities.

³ Effective June 30, 2010, the present value of all benefits and the frozen unfunded actuarial accrued liability were reduced by \$368 million, the reduction in liability resulting from the benefit changes enacted during the 2010 South Dakota Legislative session. In addition, actuarial assumption and method changes had a \$61 million favorable impact to the System effective June 30, 2009. Total corrective actions eliminated the \$416 million increase in the frozen unfunded actuarial accrued liability as of June 30 2009, due to unfavorable investment results.

⁴ Member and employer contributions were not sufficient to amortize the frozen unfunded actuarial accrued liability.

⁵ Member and employer contributions were not sufficient to amortize the frozen unfunded actuarial accrued liability as of June 30, 2009. The corrective actions taken reduced the SDRS future liability sufficiently to achieve a 30-year funding objective as of June 30, 2010.

ACTUARIAL VALUATION

This section analyzes the ability of member and employer contributions to fund the obligations of the system. These obligations include both past and future liabilities.

In order for the system to be actuarially sound, the combined employer/member contribution rate must be adequate to pay the normal cost¹ of the system, system expenses, amortize the unfunded actuarial accrued liability² over a limited time, and pay interest on that liability.

SDRS' funding requirements for 2010, expressed as a percentage of payroll and total contributions, are based on the 2010 actuarial valuation and are summarized in the chart below.

	SDRS 2010 Funding Requirements	
	As a percentage of payroll	As a percentage of contributions
Matching statutorily required employer/member contribution rate	12.460 ¹	100.0
Normal contribution rate at mid-period	11.253	90.3
Expense allowance	.249	2.0
Total funding requirement before amortization of frozen unfunded actuarial accrued liability	11.502	92.3
Contribution rate available to amortize frozen unfunded actuarial accrued liability as a level percent of member compensation (12.460%-11.502%)	.958 ²	7.7

The 2010 actuarial valuation indicates a contribution rate of 0.958 percent of payroll allocated to the unfunded actuarial accrued liability is sufficient to pay interest and amortize the principal over 30 years from 2010.

Given the current system benefits and the present actuarial assumptions and methods, a small percentage of the contributions is allocated to payment of interest.

¹ Class A employers and members each statutorily contribute 6 percent of compensation. Class B employers and members each statutorily contribute 8 percent or 9 percent of compensation. Participating members also contribute for the optional spouse coverage and Class A employers contribute 6.2 percent of member's compensation in excess of the Social Security maximum taxable compensation. The total statutory contributions to SDRS as of July 1, 2010, are 12.460 percent of considered compensation.

² Will amortize frozen unfunded actuarial accrued liability over 30 years from 2010.

The 2010 actuarial valuation confirms that:

- a. Funding of current benefit levels for active members and expenses requires 92 percent of the total contributions under the current actuarial assumptions and methods.
- b. The unfunded actuarial accrued liability is only 3 percent of the present value of all benefits of the system.
- c. Excess investment income has been the most significant element of favorable experience in the past, even considering the actuarial investment losses in fiscal years 2001 through 2003 and 2008 through 2009.
- d. SDRS currently has a cushion of negative \$623 million and a balance of negative \$1,262 million in the reserve for funding of long-term benefit goals.

The actuarial valuation methodology results in the reduction of volatility in the actuarial measures because:

- a. The expected investment return of 7.75 percent of the actuarial value of assets and liability gains and losses are allocated to the actuarial value of assets.
- b. Twenty percent of actuarial investment gains and liability gains and losses each year are allocated to the reserve for funding of long-term benefit goals for five years. All actuarial investment losses are allocated immediately to the reserve. In periods of sustained gains, the reserve will accumulate sufficient assets for pre-funding benefit improvements. In the event of sustained losses, the reserve will be available to offset negative experience and dampen the volatility of short-term negative experience.

The 2010 actuarial valuation indicates that the employer-member contribution rates are sufficient to pay the current costs of the system (normal cost plus expenses) and amortize the unfunded actuarial accrued liability over 30 years or less. The SDRS funding period will remain at 30 years or less in accordance with the Board of Trustees funding policy.

The conclusions reached under the determinations made in the actuarial valuation are the most important indicators of the long-term actuarial soundness of the system. The soundness is measured by the relationship of the normal cost to the total contributions available, by the length of the funding period—a shorter period being more favorable, by the cushion, the current balance in the reserve for long-term benefit goals, and the net amount remaining to be allocated in the future.

The current SDRS benefits combined with the present financing and the frozen unfunded actuarial accrued liability result in a well-funded system that is providing benefits essentially equal to the resources available.

Actuarial Soundness

ACTUARIAL VALUATION (CONTINUED)

SDRS is a consolidated, multiple-employer, cost-sharing retirement system that does not attempt to determine separate or unique funding requirements for entities within SDRS. However, the 2010 actuarial valuation confirmed that the two major employee groups within SDRS with different funding and benefit provisions (Class A and Class B) are self-supporting (i.e., the member and employer contributions are funding the benefits provided under these classifications).

SDRS is a well-funded retirement system. The volatility in funding period resulting from asset and liability gains and losses has been minimized by the methods adopted for development of the actuarial value of assets. With the benefit changes enacted by the 2010 South Dakota Legislature, current member and employer contributions are sufficient to pay the normal costs and fund the frozen unfunded actuarial accrued liability over 30 years.

Development of the SDRS Actuarial Value of Assets

As of June 30, 2010

Actuarial value of assets as of June 30, 2009	\$6,778,520,575
Contributions and disbursements	
Contributions	195,261,327
Benefit payments and refunds	(355,099,296)
Administrative expenses	<u>(3,402,075)</u>
Total	\$(163,240,044)
Expected investment return	\$519,009,793
SDRS liability gain/(loss)	\$14,415,731
Projected actuarial value of assets as of June 30, 2010	\$7,119,874,593
Present value of all benefits for improvements enacted into laws as of June 30, 2010, and funded from reserve	<u>0</u>
Preliminary actuarial value of assets as of June 30, 2010	\$7,119,874,593
Market value of assets as of June 30, 2010	\$6,496,634,989
Constraining values	
80% of market value of assets	\$5,197,307,991
120% of market value of assets	\$7,795,961,987
Actuarial value of assets as of June 30, 2010	<u>\$7,119,874,593</u>



The benefit objectives of SDRS are to meet the needs of short- and long-term members by providing:

- Lifetime income replacement of at least 85 percent of final pay for career employees (including Social Security)
- Income replacement of at least 55% of final average compensation from SDRS defined benefits
- Inflation protection before and after retirement
- Early retirement opportunities
- Vesting after three years of contributory service
- Disability and survivor income protection
- A portable retirement option that allows members to elect a refund of both member and employer contributions, plus interest
- Risk-free market interest rate credited on member and employer contributions

Benefit and Funding Objectives and Historical Summary

The funded ratio and funding period are the primary measures of SDRS' soundness.

The SDRS objective is to maintain a funding ratio in excess of 95 percent and a funding period of 30 years or less.

The schedule below presents the actuarial accrued liability funded ratio and the funding period as of each actuarial valuation since 1988.

Valuation date	Actuarial accrued liability	Actuarial value of assets	Actuarial accrued liability funded ratio	Funding period
1988	\$1,078,235,569	\$1,050,836,113	97.5%	6 years
1990	1,404,616,511	1,275,091,534	90.8	46 years
1992	1,714,482,245	1,605,481,514	93.6	16 years
1994	2,108,309,129	1,945,856,251	92.3	38 years
1996	2,539,008,893	2,390,236,436	94.1	30 years
1997	2,956,497,152	2,813,304,611	95.2	23 years
1998	3,471,898,003	3,337,293,439	96.1	22 years
1999	3,997,927,795	3,875,171,467	96.9	21 years
2000	4,611,913,087	4,427,102,390	96.0	20 years
2001	4,688,408,562	4,521,403,578	96.4	20 years
2002	4,576,948,810	4,425,392,396	96.7	20 years
2003	4,818,943,695	4,685,890,770	97.2	20 years
2004	5,051,728,157	4,937,493,861	97.7	20 years
2005	5,571,842,384	5,380,999,357	96.6	20 years
2006	5,859,994,198	5,668,535,060	96.7	20 years
2007	6,718,761,091	6,526,534,941	97.1	20 years
2008	6,976,811,927	6,784,291,685	97.2	20 years
2009	7,387,406,340	6,778,520,575	91.8	N/A*
2010	7,393,250,948	7,119,874,593	96.3	30 years

*Member and employer contributions were not sufficient to amortize the frozen unfunded accrued liability.

ACTUARIAL VALUATION (CONTINUED)

Summary of Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability

The schedule below compares total actuarial accrued liabilities to smoothed assets at actuarial value and unfunded actuarial accrued liabilities to payroll over time.

The smoothed assets to total liabilities ratios show the growth of assets compared to the growth of liabilities. The unfunded liabilities to covered payroll ratios are a measure of the ability of SDRS to meet its long-term obligations.

Level or increasing values for the first ratio and level or declining values for the second ratio are an indication of stable or improving funding.

Fiscal year	Actuarial accrued liability	Actuarial value of assets	Actuarial as a % of accrued actuarial liability	Unfunded actuarial accrued liability	Total covered payroll (000,000)	Unfunded liability as a % of payroll
1987-88	\$1,078,235,569	\$1,050,836,113	97.5	\$27,399,456	\$530.0	5.2
1989-90	1,404,616,511	1,275,091,534	90.8	129,524,977	582.7	22.2
1991-92	1,714,482,245	1,605,481,514	93.6	109,000,731	694.3	15.7
1993-94	2,108,309,129	1,945,856,251	92.3	162,452,878	788.6	20.6
1995-96	2,539,008,893	2,390,236,436	94.1	148,772,457	820.1	18.1
1997	2,956,497,152	2,813,304,611	95.2	143,192,541	835.1	17.1
1998	3,471,898,003	3,337,293,439	96.1	134,604,564	875.9	15.4
1999	3,997,927,795	3,875,171,467	96.9	122,756,328	902.5	13.6
2000	4,611,913,087	4,427,102,390	96.0	184,810,697	944.6	19.6
2001	4,688,408,562	4,521,403,578	96.4	167,004,984	1,029.7	16.2
2002	4,576,948,810	4,425,392,396	96.7	151,556,414	1,080.1	14.0
2003	4,818,943,695	4,685,890,770	97.2	133,052,925	1,117.2	11.9
2004	5,051,728,157	4,937,493,861	97.7	114,234,296	1,164.0	9.8
2005	5,571,842,384	5,380,999,357	96.6	190,843,027	1,206.1	15.8
2006	5,859,994,198	5,668,535,060	96.7	191,459,138	1,229.9	15.6
2007	6,718,761,091	6,526,534,941	97.1	192,226,150	1,297.2	14.8
2008	6,976,811,927	6,784,291,685	97.2	192,520,242	1,363.9	14.1
2009	7,387,406,340	6,778,520,575	91.8	608,885,765	1,450.7	42.0
2010	7,393,250,948	7,119,874,593	96.3	273,376,355	1,491.1	18.3



The solvency test is a comparison of the adequacy of SDRS smoothed assets to the AAL for: 1) active member contributions; 2) benefits for present benefit recipients; and 3) employer-financed active member benefits.

Solvency Test

Fiscal year	Actuarial accrued liability for				Portion of actuarial accrued liability covered by actuarial value of assets for		
	(1)	(2)	(3)	Actuarial value of assets	(1)	(2)	(3) ¹
	Member contributions	Current retirees and beneficiaries and terminated employees	Current employees: employer financed				
1987-88	\$231,163,590	\$397,780,471	\$449,291,508	\$1,050,836,113	100.0	100.0	93.9
1989-90	283,584,495	524,168,024	596,863,992	1,275,091,534	100.0	100.0	78.3
1991-92	350,130,362	685,091,034	679,260,849	1,605,481,514	100.0	100.0	84.0
1993-94	421,403,799	834,896,391	852,008,939	1,945,856,251	100.0	100.0	80.9
1995-96	484,228,278	1,017,938,827	1,036,841,788	2,390,236,436	100.0	100.0	85.7
1997	517,164,580	1,158,342,002	1,280,990,570	2,813,304,611	100.0	100.0	88.8
1998	553,386,759	1,375,461,393	1,543,049,851	3,337,293,439	100.0	100.0	91.3
1999	560,276,444	1,595,941,304	1,841,710,047	3,875,171,467	100.0	100.0	93.3
2000	618,625,484	1,889,571,734	2,103,715,869	4,427,102,390	100.0	100.0	91.2
2001	624,310,539	2,045,346,869	2,018,751,154	4,521,403,578	100.0	100.0	91.7
2002	691,820,949	2,236,330,911	1,648,796,950	4,425,392,396	100.0	100.0	90.8
2003	741,729,358	2,435,411,371	1,641,802,966	4,685,890,770	100.0	100.0	91.9
2004	807,055,387	2,637,073,090	1,607,599,680	4,937,493,861	100.0	100.0	92.9
2005	831,968,303	2,987,636,584	1,752,237,497	5,380,999,357	100.0	100.0	89.1
2006	854,928,129	3,174,042,596	1,831,023,473	5,668,535,060	100.0	100.0	89.5
2007	894,141,271	3,405,374,537	2,419,245,283	6,526,534,941	100.0	100.0	92.1
2008	946,604,328	3,811,968,488	2,218,239,111	6,784,291,685	100.0	100.0	91.3
2009	1,008,833,732	4,041,735,745	2,336,836,863	6,778,520,575	100.0	100.0	73.9
2010	1,042,639,270	4,125,804,303	2,224,807,375	7,119,874,593	100.0	100.0	87.7

Valuation date	# of active members	Covered payroll (000,000)	Average annual pay	% increase in average pay
1987				
1988	27,906	500.2	17,924	1.9
1989	28,411	530.0	18,655	4.1
1990	28,749	554.9	19,302	3.5
1991	29,378	582.7	19,835	2.8
1992	30,524	616.8	20,207	1.9
1993	31,717	694.3	21,890	8.3
1994	32,512	731.1	22,487	2.7
1995	33,301	788.6	23,681	5.3
1996	33,390	811.1	24,292	2.6
1997	32,624	820.1	25,139	3.5
1998	32,397	835.1	25,776	2.5
1999	32,903	875.9	26,620	3.3
2000	33,664	902.5	26,810	0.7
2001	34,180	944.6	27,637	3.1
2002	34,887	1,029.7	29,515	6.8
2003	35,130	1,080.1	30,745	4.2
2004	35,114	1,117.2	31,818	3.5
2005	35,408	1,164.0	32,875	3.3
2006	35,774	1,206.1	33,715	2.6
2007	36,074	1,229.9	34,094	1.1
2008	37,311	1,297.2	34,769	2.0
2009	37,707	1,363.9	36,170	4.0
2010	38,596	1,450.7	37,586	3.9

Schedule of Active Member Valuation Data

¹ Indicates the percentage of liabilities in this category currently funded, after fully funding categories (1) and (2).

ACTUARIAL VALUATION (CONTINUED)

Schedule of Retirees and Beneficiaries Added to and Removed from Benefit Payroll

The schedule below identifies retirees' and beneficiaries' benefits considered in the current and previous actuarial valuations.

Valuation date	Beginning of year balance	Number added to payroll	Number removed from payroll	End of year balance	Annual pension added to payroll	Annual pension removed from payroll	Annual pension benefit amount	Average annual benefit	% increase in average benefit
					\$14,781,38				
2002	15,390	1,051	548	15,893	2	\$4,286,698	\$175,339,813	\$11,033	5.4
2003	15,893	1,112	564	16,441	16,904,111	4,612,777	191,738,495	11,662	5.7
2004	16,441	1,207	619	17,029	19,647,803	4,991,607	211,424,721	12,416	6.5
2005	17,029	1,121	602	17,458	16,955,458	4,970,672	228,469,621	13,020	4.9
2006	17,458	1,130	602	18,076	17,273,416	5,866,751	245,707,324	13,593	4.4
2007	18,076	1,306	663	18,719	20,128,796	5,699,854	265,922,928	14,206	4.5
2008	18,719	1,279	677	19,321	20,931,066	6,957,387	297,672,788	15,407	8.5
2009	19,321	1,295	667	19,949	21,285,086	7,429,345	318,556,151	15,969	3.6
2010	19,949	1,318	706	20,561	20,287,505	8,415,997	335,034,177	16,295	2.0

Summary of Benefit Provision Changes

During the 2010 South Dakota Legislative session, benefit changes were made to SDRS that have been reflected in the 2010 Actuarial Valuation. The benefit changes are as follows:

- Eliminated all first year pro-rated cost-of-living adjustments (COLA) for retirees and all other pro-rated benefits including interest credits.
- Modified employer refunds for vested members from 100 percent to 85 percent and for non-vested members from 75 percent to 50 percent for any terminations after July 1, 2010.
- Reduced the COLA to 2.1 percent for the adjustment made June 20, 2010.
- Indexed the COLA to CPI and based it on SDRS funded status:
 - * If the SDRS market value funded ratio is 100 percent or more—3.1 percent COLA
 - * If the SDRS market value funded ratio is 80 percent to 99.9 percent, index with the CPI
 - ⇒ 90 percent to 99.9 percent funded—2.1 percent minimum and 2.8 percent maximum COLA
 - ⇒ 80 percent to 90 percent funded—2.1 percent minimum and 2.4 percent maximum COLA
 - * If the SDRS market value funded ratio is less than 80 percent—2.1% COLA



Comparison of Actuarial Valuation Results

	2010 actuarial valuation	2009 actuarial valuation	% change
Active members			
Number	39,014	38,596	1.1
Average age	45.9	45.8	0.2
Average credited service	11.3	11.2	0.9
Annual prior year's compensation of members	\$1,491,098,183	\$1,450,681,887	2.8
Average annual compensation	\$38,220	\$37,586	1.7
Benefit recipients			
RETIREED MEMBERS			
Number ¹	17,353	16,762	3.5
Average age	71.8	71.8	0.0
Total annualized benefits	\$304,133,198	\$288,788,959	5.3
Average annualized benefits	\$17,526	\$17,229	1.7
BENEFICIARIES			
Number ¹	2,892	2,862	1.0
Total annualized benefits	\$27,085,064	\$25,733,263	5.3
Average annualized benefits	9,366	\$8,991	4.2
DISABILITIES			
Number	316	325	(2.8)
Total annualized benefits	\$3,815,915	\$4,033,929	(5.4)
Average annualized benefits	\$12,076	\$12,412	(2.7)
Total benefit recipients			
Number	20,561	19,949	3.1
Total annual benefits	\$335,034,177	\$318,556,151	5.2
Average annual benefits	\$16,295	\$15,969	2.0
Terminated members			
Number—vested	7,382	7,418	(0.5)
Number—non-vested (entitled to accumulated contributions only)	6,275	6,568	(4.5)
Total terminated members	13,657	13,986	(2.4)
Total system members	73,232	72,531	1.0
Results of actuarial valuation			
Normal cost (without expenses)	11.253%	11.298%	(0.4)
(with expenses)	11.502%	11.547%	(0.4)
Frozen unfunded actuarial accrued liability	\$273,376,355	\$608,885,765	(55.1)
Market value of assets	\$6,496,634,989	\$5,648,767,146	15.0
Actuarial value of assets	\$7,119,874,593	\$6,778,520,575	5.0
Actuarial accrued liability (AAL)	\$7,393,250,948	\$7,387,406,340	0.1
Actuarial accrued liability funded ratio			
(actuarial value of assets/AAL)	96.3%	91.8%	4.9
(market value of assets/AAL)	87.9%	76.5%	14.9
Projected years to fund level funding requirements	30	N/A ²	N/A

¹ In addition, there are 48 and 47 members or beneficiaries as of July 1, 2009, and July 1, 2010, respectively, whose benefits are currently suspended, but who are entitled to future benefits.

² Member and employer contributions were not sufficient to amortize the frozen unfunded actuarial accrued liability.

PLAN SUMMARY

South Dakota Retirement System (SDRS)

Effective Date

SDRS was established effective July 1, 1974. The Supreme and Circuit Court Judicial Retirement System, District County Court and Municipal Court Judges' Retirement Program, South Dakota Teachers' Retirement System, South Dakota Municipal Retirement System, South Dakota Law Enforcement Retirement System, South Dakota Public Employees' Retirement System, and South Dakota Board of Regents Retirement System (effective July 1, 1975) were consolidated into SDRS.

Type of System

SDRS is a governmental retirement system created by Act of the State of South Dakota. The retirement system is administered by the board of trustees, consisting of two state government members; two teacher members; a participating municipality member; a participating county member; a currently contributing Class B member other than a justice, judge, or magistrate judge; a justice, judge, or magistrate judge; a participating classified employee member; one head of a principal department or one head of a bureau under the office of executive management; an individual appointed by the governor; a county commissioner of a participating county; a school district board member; an elected municipal official of a participating municipality; a faculty or administrative member employed by the Board of Regents; a retiree; and an investment council representative, ex-officio non-voting.

The board of trustees appoints an administrator as the system's chief executive officer.

Employers Included

Employers include the State of South Dakota and its departments, bureaus, boards, or commissions, and any of its governmental or political subdivisions or any public corporation of the State of South Dakota that elects to become a participating unit.

Members

All of the following permanent full-time employees are included as members in the system:

- All state employees
- All teachers
- All justices, judges, and magistrate judges
- All law enforcement employees of counties and municipalities that are participating with their Class B employees
- All general employees of counties and municipalities that are participating with their Class A employees
- All classified employees of school districts that are participating with their classified employees
- All employees of the Board of Regents
- All state law enforcement officers

Employees of the Department of Labor hired before July 1, 1980, who elected to remain covered under a former retirement plan, and members of the governing body of any participating county, municipality, or other public subdivision are excluded from SDRS membership.

Membership is immediate upon hire and is subdivided into two classes as follow:

- Class A member: all members other than Class B members.
- Class B member: members who are justices, judges, and magistrate judges (Class B Judicial members) and state law enforcement officers, municipal police, municipal firefighters, penitentiary correctional staff, county sheriffs, deputy county sheriffs, conservation officers, parole agents, air rescue firefighters, campus security officers, court services officers, certain park rangers and certain jailers (Class B Public Safety members).

Class A members constitute 93 percent of SDRS membership.

Credited service is the period of employment for an SDRS member which is considered in determining the amount of benefits. It includes the following:

- Years and fractional years for which member contributions were made (contributory service).
- The period of non-contributory service credited prior to July 1, 1974, under the prior retirement systems consolidated under this system.
- For employees of the Board of Regents, the period of service between April 1, 1964, and June 30, 1975, for which purchase was made to Bankers Life and the period of service prior to April 1, 1964, up to a maximum of 20 years, for which purchase was made.
- Periods of non-contributory service credited due to specific legislation since 1974.

Credited service may be purchased for public employment for which members are not entitled to retirement benefits, at a cost reflecting an actuarially determined sliding scale based on age, subject to a minimum of 100 percent of combined member and employer contributions. Credited service purchased after July 1, 2004, shall not be considered contributory service for eligibility purposes.

Credited service is purchased with an after-tax payment unless the member's employer elects to permit purchase on a pre-tax basis under Section 414(h) of the Internal Revenue Code.

Compensation is W-2 wages, plus any amount used to purchase a member's individual retirement plan, plus a member's contribution to SDRS made on a before-tax basis, plus any amount contributed to a Section 125 cafeteria plan, paid during the period of credited service. Compensation does not include lump-sum termination pay. Compensation for members hired after June 30, 1996, is limited as prescribed in Section 401(a)(17) of the Internal Revenue Code.

Service Considered

Compensation

PLAN SUMMARY (CONTINUED)

Final Average Compensation

Final average compensation is the highest average annual compensation earned by a member during 12 consecutive calendar quarters of the last 40 such quarters during periods of credited service. The final average compensation is limited by statutory provisions that prevent extraordinary increases in compensation immediately before retirement.

Employer Contributions

Employer contributions equal those amounts contributed by members except for the additional contributions noted below.

Member Contributions

Class A members: 6 percent of compensation
Class B Public Safety members: 8 percent of compensation
Class B Judicial members: 9 percent of compensation

Member contributions are made on a pre-tax basis as permitted under Section 414(h) of the Internal Revenue Code.

Accumulated Contributions

Accumulated contributions are equal to member and employer contributions (or 75 percent of employer contributions for members with less than three years of contributory service) credited with interest on a monthly basis at a rate annually established by the board of trustees, that is no greater than 90 percent of the average 91-day I.S. Treasury Bill rate for the immediately preceding calendar year. Such rate shall have no minimum limitation and shall not be greater than the assumed rate of investment return, which is currently 7.75 percent.

Additional Contributions

Effective July 1, 2002, employers contribute 6.2 percent of Class A member's calendar year compensation in excess of the maximum taxable amount for Social Security for the calendar year. These additional contributions are not included in accumulated contributions.

Other Public Benefits

Eighty percent of the benefits provided as "primary insurance amount or primary Social Security" under the Federal Social Security Act.

Cost-of-Living Adjustment (COLA)

The annual increase in the amount of the SDRS benefits payable on each July 1st is indexed to CPI and based on SDRS funded status:

- If the SDRS market value funded ratio is 100 percent or more—3.1 percent COLA
- If the SDRS market value funded ratio is 80 percent to 99.9 percent, index with the CPI
 - * 90 percent to 99.9 percent funded—2.1 percent minimum and 2.8 percent maximum COLA
 - * 80 percent to 90 percent funded—2.1 percent minimum and 2.4 percent maximum COLA
- If the SDRS market value funded ratio is less than 80 percent—2.1% COLA

All benefits except those depending on the member's accumulated contributions are annually increased by the cost-of-living adjustment.



The normal retirement date is age 65 with three years of contributory service for Class A and Class B Judicial members of the system. Normal retirement date is age 55 with three years of contributory service for Class B Public Safety members.

Normal Retirement Date

Members are entitled to retire with a benefit commencing the first of the month in which they reach normal retirement date and are payable for life, with an automatic 60 percent surviving spouse's benefit paid for the spouse's lifetime.

Normal Retirement Benefit

Class A Benefit

The Class A benefit is the larger of that provided by the following standard formula or alternate formula:

Standard Formula

Enhanced Benefit

1.7 percent times final average compensation times years of credited service as a Class A member before July 1, 2008, plus

Base Benefit

1.55 percent times final average compensation times years of credited service as a Class A member after July 1, 2008.

OR

Alternate Formula

Enhanced Benefit

2.4 percent times final average compensation times years of credited service as a Class A member before July 1, 2008, plus

Base Benefit

2.25 percent times final average compensation times years of credited service as a Class A member after July 1, 2008, less

80 percent of primary Social Security benefit.

Class B Public Safety Benefit

The Class B benefit for Class B Public Safety members is:

Enhanced Benefit

2.4 percent times final average compensation times years of credited service as a Class B Public Safety member before July 1, 2008, plus

Base Benefit

2.0 percent times final average compensation times years of credited service as a Class B Public Safety member after July 1, 2008.

PLAN SUMMARY (CONTINUED)

Class B Judicial Benefit

The Class B benefit for Class B Judicial members is determined by adding the enhanced and base benefit for both the first 15 years of credited service and years of credited service in excess of 15 years, as follows:

First 15 Years of Credited Service

Enhanced Benefit

3.733 percent times final average compensation times the first 15 years of credited service as a Class B Judicial member before July 1, 2008, plus

Base Benefit

3.333 percent times final average compensation times all other such years of credited service as a Class B Judicial member after July 1, 2008.

PLUS

Years of Credited Service in Excess of 15 Years

Enhanced Benefit

2.4 percent times final average compensation times years of credited service as a Class B Judicial member before July 1, 2008, in excess of 15 years, plus

Base Benefit

2.0 percent times final average compensation times all other such years of credited service as a Class B Judicial member after July 1, 2008.

All of the above benefits are paid monthly.

SDRS benefits are limited to the maximum benefit under Section 415 of the Internal Revenue Code, except for the portion of benefits attributable to any after-tax contributions made prior to July 1, 1984.

Delayed Retirement Benefit

The monthly benefit payable upon retirement after normal retirement date is based on credited service and final average compensation to date of actual retirement.

Special Early Retirement Date (Rule of 85, Rule of 80, and Rule of 75)

The special early retirement date for Class A members is the date at which a member's age plus credited service total 85, but not less than age 55. The special early retirement date for Class B Judicial members is the date at which age plus credited service total 80, but not less than age 55. The special early retirement date for Class B Public Safety members is the date at which age plus credited service total 75, but not less than age 45.

Members are entitled to retire at special early retirement date with a benefit equal to the normal retirement benefit based on credited service and final average compensation to date of retirement, with no reduction for early payment.

Any member with at least three years of contributory service can retire in the ten years preceding their normal retirement date. The member will be entitled to receive the normal retirement benefit based on credited service and final average compensation to date of retirement, reduced by 1/4 of 1 percent for each full month by which commencement of payments precedes the earlier of the normal retirement date or the special early retirement date. Benefits commence on the first of the month following retirement (or the date chosen for payment to commence) and 30 days after the application for retirement benefits has been received by SDRS.

Early Retirement Benefit

A terminated member with at least three years of contributory service will be entitled to receive the normal or early retirement benefit payable at either normal or early retirement based on the member's credited service at the time of termination of employment and increased by the cost-of-living adjustment from the date of termination to the date benefits commence.

Vested Benefit and Portable Retirement Option

In lieu of any monthly lifetime retirement benefits under the system, a terminating member may receive a lump-sum of his accumulated contributions under the portable retirement option. Members who are rehired may redeposit their accumulated contributions plus interest within two years of rehire to reinstate their credited service.

A contributing member, who becomes disabled with at least three years of contributory service, or was disabled by accidental means while performing the usual duties of his job, is entitled to an immediate monthly disability benefit.

Disability Benefit

The disability benefit is equal to:

- For the first 36 months, 50 percent of the member's final average compensation, increased 10 percent for each eligible child to a maximum of four children. The maximum benefit payable is 90 percent of such compensation (increased by the cost-of-living adjustment) reduced by earned income.
- Starting with the 37th month,
 - if the member is receiving disability benefits from Social Security, the greater of:
 - 50 percent of final average compensation plus 10 percent for each eligible child to a maximum of 90 percent less the amount of primary Social Security.
 - 20 percent of final average compensation increased by the COLA
 - if the member is not receiving disability benefits from Social Security, the greater of:
 - 20 percent of final average compensation increased by the COLA
 - the unreduced accrued retirement benefit at date of disability

The maximum benefit is 100 percent of final average compensation (increased by the cost-of-living adjustment) reduced by earned income and primary Social Security.

The above benefits are payable monthly.

At age 65 (or when there are no eligible children, if later), but not before five years of disability, the benefit payable is converted to the normal retirement benefits based on compensation increased by the cost-of-living adjustment for the period between the date of disability and normal retirement date (projected compensation), and credited service as if employment had continued uninterrupted to normal retirement date (projected credited service).

Survivor Benefits

Pre-Normal Retirement Age and Post-Disability Deaths

If an active member with at least one year of contributory service, or a member receiving a disability benefit commencing after July 1, 1974, dies, the surviving spouse having the care of eligible dependent children will receive an immediate benefit equal to 40 percent of the member's final average compensation, increased 10 percent for each child to a maximum of six children. If the surviving eligible dependent children are under the care of a guardian, the benefit payable will be 20 percent of the member's final average compensation for each child (to a maximum of five children).

The above survivor benefits are all payable monthly without improvements and reduced by 75 percent of primary Social Security benefit.

If no benefit is payable as defined above or payment has ceased, and the member's accumulated contributions have not been withdrawn, the spouse is entitled to receive at the spouse's age 65 a benefit equal to 60 percent of the normal retirement benefit that would have been payable to the deceased member at normal retirement date based on projected credited service and projected compensation, and further increased by the cost-of-living adjustment for any time between normal retirement date and payment commencement date.

Post-Normal Retirement Age and Post-Retirement Deaths

Upon the death of a retiree or any member at or beyond normal retirement age, the surviving spouse is entitled to receive 60 percent of the monthly retirement benefit the member was receiving or was eligible to receive.



Terminated Member

If a member dies prior to benefit commencement, the accumulated contributions are refunded to the designated beneficiary, children, or estate in a lump sum.

Optional Spouse Coverage

Prior to June 30, 2010, a member could have elected to provide an additional benefit payable to the surviving spouse within 365 days after becoming a member, within 90 days following attainment of age 35, or within 90 days after the first anniversary of marriage. This optional coverage may continue until the member's spouse attains age 65, the death or disability of the member, the death of the member's spouse, termination of the member's marriage to his spouse, or the member's termination of employment. The elected additional monthly benefit is equal to 40 percent of the member's final average compensation multiplied by the cost-of-living adjustment for each full year between the date of death or disability of the member to payment commencement. Such benefit is paid upon the member's death from the time there are no eligible children until the spouse dies or attains age 65. The cost of this protection is paid by the member through an additional contribution of 1.5 percent of compensation, which will not be matched by the employer and is not refundable.

Accumulated Contributions as Minimum Benefits

If the aggregate benefit payments received by a member and the member's beneficiary (excluding benefits received under the optional spouse coverage benefit provisions) do not equal the sum of the accumulated contributions, then the difference will be paid to the member's designated beneficiary, children, or estate in a lump sum.

The monthly retirement benefits may be modified to an optional form of payment which is the actuarial equivalent of the benefit due under the system. A Social Security level income payment option is available for members who retire before age 62.

Administrative expenses are paid from the system's assets in an amount not to exceed 3 percent of the annual member and employer contributions received by the system.

Retired members' and terminated vested members' benefits have been increased to reflect the benefit formula currently in effect for active members.

This plan summary is effective July 1, 2010.

Optional Forms of Retirement Payments

Administrative Expenses

Retired Members

INVESTMENT SUMMARY



Investment Analysis

- The Investment Council
- Investment Objectives and Policy
- Prudent Man Standard
- Performance
- Real Rates of Return
- Investment Managers
- Schedule of Investment Management Expenses
and Commissions
- Summary of Investment Portfolios
 - Equity Profile
 - Bond Profile
 - Distribution Profile
 - Asset Allocation
- Time-Weighted Rates of Return
- Time-Weighted Annualized Rates of Return

The SDRS trust fund is invested under the direction of the South Dakota Investment Council. The council is composed of five members at large with financial backgrounds, the state treasurer, the school and public lands commissioner, and an appointee from SDRS. The council is a policy-making board and attends to matters such as asset allocation, portfolio strategy, and the selection or dismissal of outside investment managers.

The Investment Council

The data in the investment section of this report was prepared by the South Dakota Investment Council, using time-weighted rates of return as defined by CFA standards. The South Dakota Retirement System in conjunction with the South Dakota Investment Council and external auditors, KPMG LLP, prepared the investment section of this report.

The South Dakota Investment Council has five objectives for managing the assets of the South Dakota Retirement System. The goal is to assure the continued financial health of SDRS.

Investment Objectives and Policy

Meeting the first two objectives as follows will assure that this goal is met:

- Achieve the actuarial required rate of return over the long-term
- Achieve a return in excess of the actuarial rate of return over the long-term

By meeting or exceeding the first objective, SDRS will be able to pay current and projected benefits. By meeting or exceeding the second objective over the long term, SDRS will be able to improve benefits and ultimately reach the system's long-term goals for benefit levels.

The remaining three objectives attempt to measure performance on a relative basis. The final three objectives are important in judging the Investment Council's delivery of competitive returns as compared to established benchmarks and to large pension plans making up a peer universe.

- Achieve favorable total fund performance relative to a capital market benchmark reflective of the Investment Council's normal asset allocation policy

The third objective is important in judging the Investment Council's delivery of a competitive rate of return. This objective means that the performance of all actively managed assets are to be measured against the indexed returns that would be earned if the assets were invested in the Investment Council's selected capital market benchmarks.

INVESTMENT ANALYSIS (CONTINUED)

- Achieve favorable specific asset category performance relative to the identified capital market benchmark.

The investment council strives to outperform the passive opportunity that exists in each of the asset categories in which SDRS assets are involved.

- Achieve favorable performance over the long-term relative to professionally managed multi-billion dollar pension funds

The key investment policy decision made by the Investment Council is asset allocation. The policy reflects their best judgment of the risk versus return trade-off that all investors must make. The Investment Council makes this judgment based on an assessment of long-term future expected rates of return and, in part, on historical returns of stocks, bonds, cash, and other capital market areas. Certain behavioral characteristics of these asset categories, such as standard deviation (measure of risk) and correlation (the degree that asset prices tend to move in the same or different direction) play an important role in making the asset allocation decision.

Prudent Man Standard

State law requires that the South Dakota Retirement System trust fund be invested according to the Prudent Man Standard. South Dakota Codified Law defines the Prudent Man Standard as follows:

Any investment under the provisions of SD Codified Law Sections 4-5-12 to 4-5-39, inclusive, shall be made with the exercise of the degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercised in the management of their own affairs, not for speculation but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Though monthly benefit payments exceed monthly contributions, the South Dakota Retirement System is not subject to sudden, substantial, and unexpected withdrawals. As a result, it is not necessary to have a high percentage of assets in short-term investments unless this is deemed to be the best investment strategy. This allows the trust fund to be as fully invested in stocks, bonds, and other alternatives as investment strategy dictates.

The total fund return for FY 2010 was 18.7 percent. The Investment Council's benchmark return for FY 2010 was 11.1 percent. This capital market benchmark was 57 percent global equity, 24 percent fixed income, 5 percent arbitrage, 7 percent real estate, 5 percent private equity, and 2 percent cash. The 10-year annualized return was 4.3 percent versus the benchmark return of 3.1 percent.

Performance

The internal equity fund earned 16.9 percent in FY 2010 versus a benchmark return of 12.3 percent. The 10-year return for the internal equity fund was 0.3 percent versus a benchmark return of (0.4) percent.

SDRS' bond fund returned 11.3 percent in FY 2010 versus a benchmark return of 11.0 percent. The 10-year return for the internal bond fund was 7.2 percent versus a benchmark return of 7.1 percent.

Returns earned by other portfolios and outside managers in FY 2010 (included in total fund returns) were: 7.8 percent merger arbitrage; 13.0 percent convertible arbitrage; 37.0 percent DFA; 5.6 percent AllianceBernstein Global Strategic; 18.7 percent Brandes; 19.9 percent Capital Guardian; (11.9) percent GE Asset Management; 23.6 percent Research Affiliates; 5.6 percent Bernstein; 20.6 percent CVI Global Value Fund; 7.5 percent CVI Specialized Ventures; 48.0 percent TCW; 11.2 percent Oaktree; 22.1 percent Blackstone Distressed Securities; 73.2 percent Blackstone Credit Liquidity; and 27.4 percent Bridgewater. Blackstone, Cypress, Apollo, AIG, Capital International, Doughty Hanson, Kohlberg Kravis Roberts Associates, Lehman Brothers, Silver Lake, Carlyle, CINVIN Fund 4, CVC, and Elevation do not have time-weighted rates of return because of the nature of their investments.

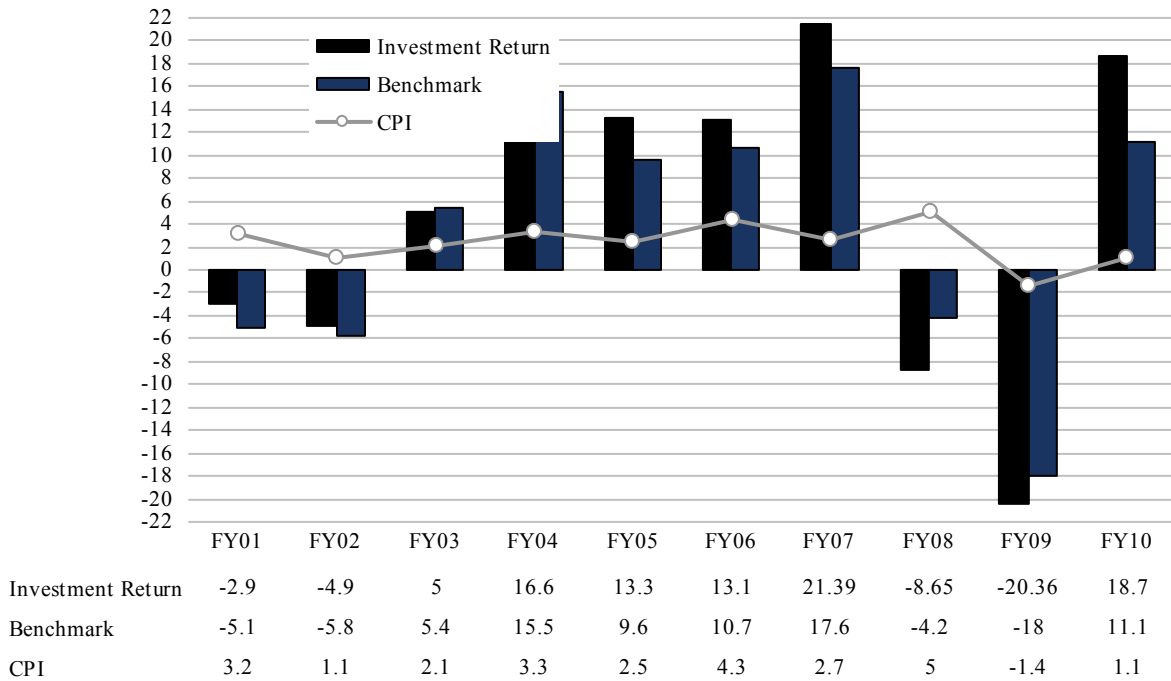
The liabilities of SDRS are directly related to inflation. The difference between inflation and SDRS' total return over time is a key indicator of the financial strength of the system.

Real Rates of Return

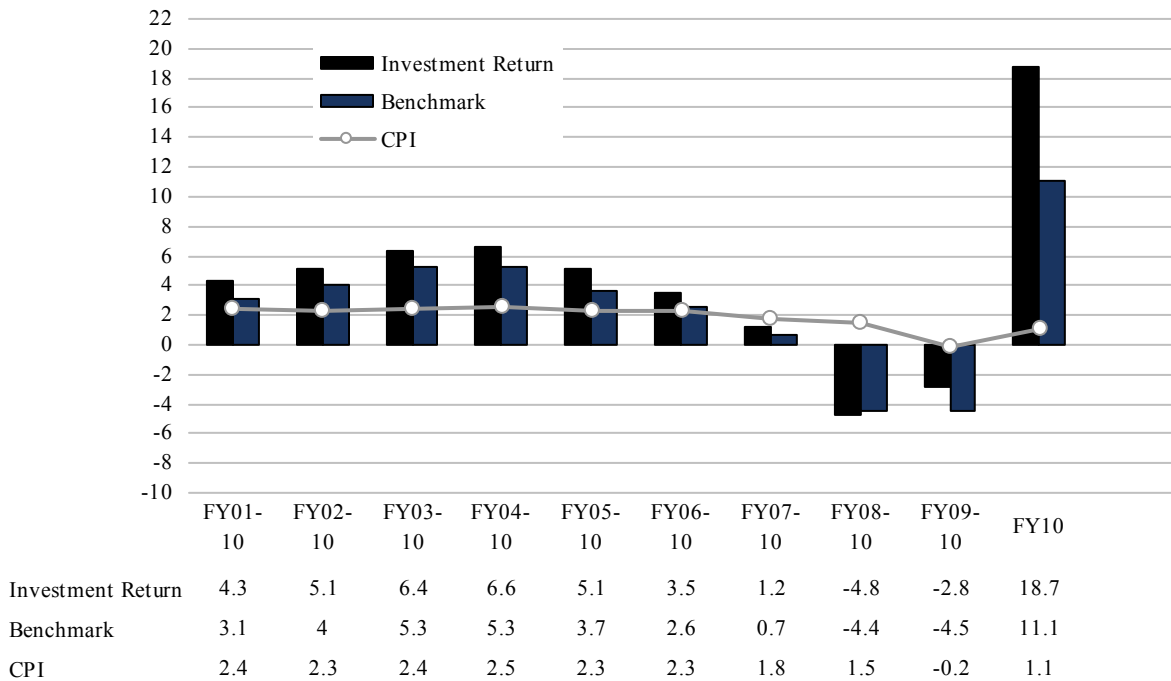
During FY 2010 inflation averaged 1.1 percent while SDRS' total return was 18.7 percent. Over the last 10 years, inflation has averaged 2.4 percent and total returns 4.3 percent, creating a real return of 1.9 percent.

INVESTMENT ANALYSIS (CONTINUED)

Investment Performance Compared to Capital Market Benchmark and Inflation



Cumulative Investment Performance Compared to Capital Market Benchmark and Inflation



As of June 30, 2010, the South Dakota Investment Office managed 70 percent of SDRS' investments. The remaining 30 percent was invested by outside managers selected and monitored by the South Dakota Investment Council. The following are the outside managers that were selected by the Investment Council. The CVI Specialized Ventures Fund [\$8.1 million], PIMCO Distressed Mtg Fund II [\$140.5 million], TCW Specialized Mtg Credits [\$334.9 million], Oaktree Loan Fund 2x [\$32.9 million], Blackstone Distressed Securities [\$5.0 million], Blackstone Credit Liquidity [\$28.1 million], and Sanders All Asset Value [12.9 million] invest in distressed and high-yield fixed-income securities. Bridgewater Pure Alpha Fund II [\$67.4 million], Brandes Investment Partners [\$31.5 million], CVI Global Value Fund II [\$155.5 million], GE Asset Management [\$49.0 million], and Dimensional Fund Advisors Inc. [\$36.9 million] invest in global equities. Blackstone Real Estate Partners [\$470.9 million], Doughty Hanson & Co European Real Estate [\$12.3 million], Apollo Real Estate Advisors LP [\$24.6 million], and Cargill North American Real Estate Partners [\$96.2 million] invest in real estate. CINVIN Fund IV [\$80.3 million], DLJ Merchant Banking Partners LP [\$2.1 million], KKR Associates [\$59.0 million], Lehman Crossroads Investment Advisors LP [\$11.6 million], Silver Lake Partners LP [\$119.5 million], Doughty Hanson Private Equity [\$71.6 million], Blackstone Private Equity [\$200.4 million], AIG Capital Partners [\$14.0 million], Elevation Partners [\$28.6 million], CVC [\$52.6 million], Carlyle IV [\$42.6 million], Riverstone [\$18.3 million], and Cypress Merchant Banking Partners LP [\$8.8 million] invest in private equity.

Investment Managers

Investment managers	Management expenses
State of South Dakota Investment Council	\$4,314,852
Pinebridge	122,410
Apollo Real Estate Advisors LP	482,754
Blackstone Distressed Debt	258,967
Blackstone Private Equity	(319,873)
Blackstone Real Estate Partners	12,492,118
Brandes Investment Partners	326,342
Capital International	1,222,497
Cargill North American Real Estate Partners	2,018,564
Carlyle	1,012,082
CINVIN	1,772,921
CVC	820,302
CVI	2,880,542
Cypress Merchant Banking Partners LP	126,283
Dimensional Fund Advisors, Inc.	153,993
DLJ Merchant Bankers	59,247
Doughty Hanson & Co. European Real Estate	1,575,357
Doughty Hanson & Co. Private Equity IV	1,967,574
Elevation Partners	763,938
GE Asset Management China	940,731
KKR Associates	264,008
Lehman Crossroads Investment Advisors LP	475,736
Oaktree Loan Fund 2x	278,025
PIMCO Distressed Mtg Fund II	1,775,631
Research Affiliates	86,624
Sanders All Asset Value	55,586
Sanders Capital	44,039
Riverstone	554,886
Silver Lake Partners LP	1,430,076
TCW Specialized Mtg Credits	1,681,858
Total investment activity expenses	<u>\$39,638,070</u>

Schedule of Investment Management Expenses and Commissions

For the Year Ended
June 30, 2010

INVESTMENT ANALYSIS (CONTINUED)

Summary of Investment Portfolios

As of June 30, 2010	Market value	Future Positions	Exposure with futures	Percentage with futures overlay on cash markets
Fixed Income				
Internal Investment Grade	\$810,719,625	\$28,715,400		
Internal High Yield	71,822,716			
Blackstone	33,139,065			
CarVal	163,670,246			
Oaktree	32,934,514			
PIMCO	140,510,723			
TCW	161,915,320		1,443,427,609	22.2
Global Equity				
Internal Global Equity	3,032,634,501			
Internal High Quality Equity	60,803,809			
Brandes	31,521,952			
Dimensional Fund Advisors	36,942,851			
GE Asset Management	49,030,105			
Sanders Capital	21,646,312			
Equity Futures		153,296,000	3,385,875,530	52.2
Arbitrage Equity				
Internal Merger Arbitrage	59,523,142			
Internal Convertible Arbitrage	178,424,146			
Bridgewater	67,438,315			
Sanders Capital	12,984,693		318,370,296	4.9
Real Estate				
AREA Property Partners	24,860,072			
Blackstone	470,964,184			
CarVal	96,256,368			
Doughty Hanson	12,271,869		604,352,493	9.3
Private Equities				
Blackstone	200,404,510			
Capital International	43,974,649			
Carlyle	60,911,626			
CINVIN	60,347,511			
Credit Suisse	2,072,580			
CVC	52,571,780			
Cypress	8,833,309			
Doughty Hanson	71,686,785			
Elevation	28,635,651			
KKR	59,454,028			
Neuberger Berman	11,554,507			
Pinebridge	14,065,416			
Silver Lake	119,510,114		734,022,466	11.3
Cash and Cash Equivalents				
Internal Shift Account	183,713,611	(182,011,400)	1,702,211	0.1
Total	\$6,487,750,605	\$0	\$6,487,750,605	100%



The South Dakota Retirement System trust fund's internal global equity portfolio characteristics for the past 10 years are presented below. The SDRS internal equity portfolio is compared to the 2/3 S&P Global 1200 Index plus 1/3 S&P 500 Index benchmark.

Internal Equity Profile

South Dakota Investment Office	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Price/earnings ratio	26.0	26.8	22.9	19.2	15.6	16.6	16.0	13.67	12.87	14.34
Dividend yield	1.4%	1.8%	1.9%	2.0%	2.3%	2.5%	2.3%	2.91%	3.33%	3.60%
Price/book value ratio	5.4	4.2	4.0	3.8	3.1	3.5	3.7	2.66	2.76	3.00
Benchmark										
Price/earnings ratio	25.6	26.2	23.5	21.5	20.8	19.2	20.1	17.57	12.42	14.35
Dividend yield	1.3%	1.6%	1.7%	1.7%	2.2%	2.2%	2.0%	2.48%	3.05%	3.11%
Price/book value ratio	5.7	4.5	4.2	4.1	4.0	3.6	4.0	3.80	3.01	2.68

Glossary

Price/earnings ratio: Ratio derived from price divided by earnings

Dividend yield: Current dividends divided by current price expressed as a percentage.

Price/book value ratio: Ratio derived from price divided by book value per share.

Beta (market sensitivity): The historical relation between market movements and movements in the prices of securities in a current portfolio.

Ten Largest Holdings

	Percent of equity portfolio
JPMorgan Chase & Co.	2.8%
Exxon Mobil Corp.	2.5
Pfizer, Inc.	2.4
ConocoPhillips	2.3
Wells Fargo & Co.	2.2
Bank of America Corp.	2.1
General Electric Co.	1.8
Nestle SA/AG	1.8
U.S. Bancorp	1.7
Microsoft Corp.	1.6
Total	21.2%

Distribution by Market Sector

Market sector	SDRS total equity	Bench
Consumer discretionary	11.7%	9.6%
Consumer staples	11.9	11.0
Energy	13.2	10.4
Financials	20.9	19.2
Health care	13.6	10.4
Industrials	8.0	10.4
Information technology	11.4	14.5
Materials	3.2	6.2
Telecommunications services	2.5	4.2
Utilities	2.9	4.1
Cash equivalents	0.7	0.0
Total	100.0%	100.0%

Additional holdings are available in the annual report of the South Dakota Investment Council.

South Dakota Investment Council
4009 West 49th Street, Suite 300
Sioux Falls, South Dakota 57106-3784

INVESTMENT ANALYSIS (CONTINUED)

Bond Profile

The South Dakota Retirement System trust fund's internally managed fixed-income (bond) portfolio characteristics for the past 10 years are presented below. The Citigroup Broad Investment Grade Bond Index is presented for comparative purposes. The cash equivalents percent represents the percentage of the total bond portfolio invested in cash equivalents.

South Dakota Investment Office	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Number of issues	67	76	77	83	74	86	100	120	129	122
Average coupon	6.68%	6.41%	5.87%	5.62%	5.20%	5.38%	5.50%	5.42%	5.39%	5.13%
Yield to maturity	7.01%	6.72%	4.73%	5.44%	4.70%	6.00%	6.00%	5.67%	5.17%	3.65%
Average maturity (years)	7.02	8.40	7.46	7.50	5.80	5.47	6.14	6.60	5.20	5.41
Duration (years)	5.56	5.92	5.20	5.78	4.10	4.65	5.00	5.38	4.10	4.04
Average quality ¹	3.33	3.01	3.24	3.24	3.38	3.49	3.37	3.29	2.98	3.00
Cash equivalent %	0.50%	0.50%	4.70%	1.2%	13.8%	12.3%	7.6%	3.0%	3.0%	4.9%

Bond Index

Average coupon	6.75%	6.44%	6.00%	5.32%	5.24%	5.30%	5.41%	5.37%	4.91%	4.42%
Yield to maturity	6.10%	5.21%	3.60%	4.68%	4.51%	5.81%	5.69%	4.99%	3.82%	2.63%
Average maturity (years)	8.24	6.91	6.70	7.47	6.21	7.28	7.39	7.80	6.27	5.96
Duration (years)	4.74	4.54	3.90	4.77	4.67	5.06	5.12	5.36	4.88	4.55

Distribution Profile

The South Dakota Retirement System fixed income portfolio profile distribution is as follows:

Distribution by Duration

	Percent
0 to 2 years	25.9%
2 to 3 years	26.7
3 to 4 years	9.1
4 to 5 years	12.5
5 to 6 years	6.5
6 to 8 years	10.0
Above 8 years	9.3
Total	100.0%

Distribution by Quality Rating

	Percent
Cash/cash equivalents	4.9%
U.S. Gov't/Aaa	53.7
Aa	5.9
A	12.1
Baa	13.4
Ba	8.5
B	1.3
Caa	0.2
Total	100.0%

Distribution by Coupon

	Percent
Cash/cash equivalents	4.9%
0.00% - 4.00%	17.4
4.01% - 5.00%	27.7
5.01% - 6.00%	29.2
6.01% - 8.00%	18.0
8.01% and over	2.8
Total	100.0%

Distribution by Issue

	Percent
Cash/cash equivalents	4.9%
U.S. Treasuries/Agencies/FDIC	20.1
Mortgage backed securities	33.6
Investment grade corporates	31.5
High yield corporates	9.9
Total	100.0%

¹ (Aaa=4, Aa=3, A=2, Baa or lower=1)

Asset allocation is an investor’s most important investment issue. The South Dakota Investment Council and Office spend a significant amount of time dealing with complicated issues relating to the risk of the portfolio versus the likelihood of achieving the investment objectives for the South Dakota Retirement System.

Asset Allocation

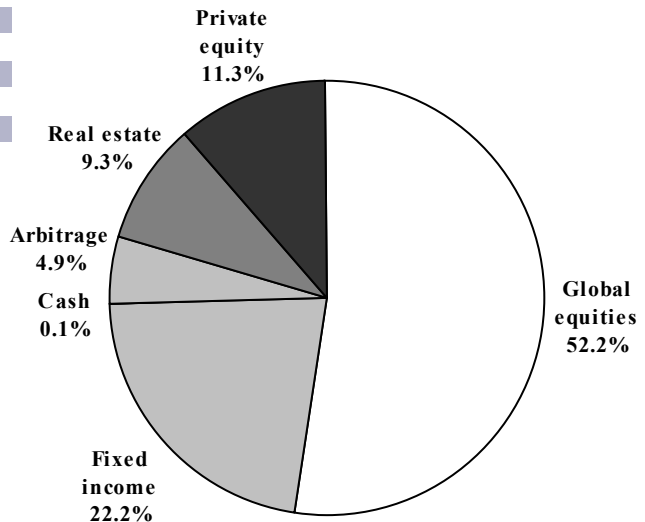
The Investment Office prepares a risk return analysis for use by the Investment Council when establishing the Capital Markets Benchmark each year. The primary factors include the expected long-term return, the volatility for each asset category and the correlation (degree to which they move in the same direction) of the returns of each category to each of the others. This analysis indicates an expected long-term return of 8.2%. This excludes any value added or detracted relative to index returns resulting from managing the portfolio. When adjusted to capture real-world frequency of adverse events, the estimated annual standard deviation is 15.1%. The statistics suggest there is a 66% chance the return for any year would be between (6.9)% and 23.3%. There would be a 95% chance that the return would be between (22.0)% and 38.4%.

The second analysis deals with the amount of equity-like characteristics implicit in the overall portfolio. The analysis focuses on the risk to the portfolio of a decline in the U.S. equity market which is thought to be the single largest risk exposure. Most asset categories have at least some degree of sensitivity to a U.S. stock market decline. The analysis is performed for a moderate decline and again for severe decline scenarios.

SDRS’ asset allocation and underlying asset performance have continued to generate an attractive risk versus return profile. Ongoing analysis dealing with both the risk and return potential inherent in the Investment Council’s asset allocation is an important element of continuing successful asset management for SDRS.

Asset Allocation as of June 30, 2010

	6/30/08	6/30/09	6/30/10
Global equities	49.8%	52.9%	52.2%
Fixed income	19.6%	24.1%	22.2%
Cash	1.3%	0.3%	0.1%
Arbitrage	6.5%	4.8%	4.9%
Real estate	13.0%	8.5%	9.3%
Private equity	9.8%	9.4%	11.3%



INVESTMENT ANALYSIS (CONTINUED)

Time-Weighted Rates of Return

SOUTH DAKOTA RETIREMENT SYSTEM	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003
TOTAL INVESTMENT FUND	10.8%	(2.9)%	(4.9)%	5.0%
Cash equivalents	5.7%	6.0%	2.5%	1.4%
Investment office bond fund	4.3%	10.0%	5.9%	14.4%
Combined internal equity fund	10.9%	(12.0%)	(12.2)%	(2.0)%
Arbitrage convertible fund	8.7%	6.5%	3.8%	13.1%
Arbitrage merger fund	18.4%	6.2%	2.1%	8.5%
INDICES				
Bond index				
Fixed income benchmark	3.8%	11.2%	7.0%	13.4%
COMBINED INTERNAL EQUITY BENCHMARK	11.0%	(17.1)%	(15.0)%	(0.8)%
TOTAL FUND BENCHMARKS				
Russell/Mellon total billion \$ fund	11.1%	(5.8)%	(6.6)%	3.1%
Capital market benchmark	9.7%	(5.1)%	(5.8)%	5.4%
CONSUMER PRICE INDEX	3.7%	3.2%	1.1%	2.1%

Time-Weighted Annualized Rates of Return

SOUTH DAKOTA RETIREMENT SYSTEM	Fiscal 2001-2010	Fiscal 2002-2010	Fiscal 2003-2010	Fiscal 2004-2010
TOTAL INVESTMENT FUND	4.3%	5.1%	6.4%	6.6%
Cash equivalents	2.7%	2.3%	2.3%	2.4%
Investment office bond fund	7.2%	6.9%	7.1%	6.0%
Combined internal equity fund	0.3%	1.7%	3.6%	4.5%
Arbitrage convertible fund	6.4%	6.4%	6.7%	5.9%
Arbitrage merger fund	3.6%	3.3%	3.5%	2.8%
INDICES				
Bond index				
Fixed income benchmark	7.1%	6.6%	6.6%	5.6%
COMBINED INTERNAL EQUITY BENCHMARK	(0.4)%	1.7%	4.0%	4.7%
TOTAL FUND BENCHMARKS				
Russell/Mellon total billion \$ fund	3.2%	4.2%	5.6%	6.0%
Capital market benchmark	3.1%	4.0%	5.3%	5.3%
CONSUMER PRICE INDEX	2.4%	2.3%	2.4%	2.5%

Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010
16.6%	13.3%	13.1%	21.39%	(8.65)%	(20.36)%	18.7%
0.9%	2.1%	4.2%	5.3%	4.2%	1.5%	(1.2)%
1.3%	9.1%	(0.2)%	6.7%	6.7%	7.8%	11.3%
22.9%	9.9%	12.6%	22.0%	(21.0)%	(20.8)%	16.9%
1.0%	0.9%	5.5%	6.3%	6.5%	8.4%	13.0%
7.4%	3.0%	11.7%	8.7%	(17.4)%	1.4%	7.8%
1.3%	7.9%	0.2%	6.7%	6.5%	6.4%	11.0%
23.6%	9.0%	14.7%	23.6%	(11.0)%	(27.9)%	12.3%
16.9%	14.8%	10.7%	17.7%	(5.0)%	(17.6)%	14.5%
15.5%	9.6%	10.7%	17.6%	(4.2)%	(18.0)%	11.1%
3.3%	2.5%	4.3%	2.7%	5.0%	(1.4)%	1.1%

Fiscal 2005-2010	Fiscal 2006-2010	Fiscal 2007-2010	Fiscal 2008-2010	Fiscal 2009-2010	Fiscal 2010
5.1%	3.5%	1.2%	(4.8)%	(2.8)%	18.7%
3.0%	2.8%	2.4%	1.5%	0.1%	(1.2)%
6.8%	6.4%	8.1%	8.6%	9.5%	11.3%
1.7%	0.1%	(2.8)%	(9.9)%	(3.8)%	16.9%
6.7%	7.9%	8.5%	9.2%	10.6%	13.0%
2.1%	1.9%	(0.5)%	(3.4)%	4.5%	7.8%
6.4%	6.1%	7.6%	7.9%	8.7%	11.0%
1.8%	0.4%	(2.8)%	(10.3)%	(10.0)%	12.3%
4.3%	3.1%	1.3%	(3.6)%	(2.9)%	14.5%
3.7%	2.6%	0.7%	(4.4)%	(4.5)%	11.1%
2.3%	2.3%	1.8%	1.5%	(0.2)%	1.1%

STATISTICAL SUMMARY



Membership Profile

- Public Entities Participating in SDRS
- SDRS Benefits Paid
- Membership by Age
- Membership by County of Residence
- Membership by Group
- Benefit Recipients by Group
- Historical Views

MEMBERSHIP PROFILE

All teachers, higher education personnel, and legislative, executive, and judicial employees are required to participate in SDRS. Counties, municipalities, and other public entities, however, have the option of participating, and school districts may choose whether or not to include their classified employees.

The following schedules list SDRS participating entities by group, the number of active members in each group, and each group's percentage of the 39,014 total active members as of June 30, 2010.

Aberdeen	Dakota Valley	Harrisburg	Milbank	South Central
Agar-Blunt-Onida	Dell Rapids	Henry	Miller	South East Area
Alcester-Hudson	DeSmet	Herreid	Mitchell	Spearfish
Andes Central	Deubrook Area	Hill City	Mobridge-Pollock	Stanley County
Arlington	Deuel	Hitchcock-Tulare	Montrose	Stickney
Armour	Doland	Hot Springs	Mt. Vernon	Summit
Avon	Douglas	Hoven	Newell	Tea
Baltic	Dupree	Howard	New Underwood	Three Rivers
Belle Fourche	Eagle Butte	Hurley	North Central Coop	Timber Lake
Bennett County	East Central	Huron	Northeast Ed Serv	Todd County
Beresford	East Dakota Ed	Hyde County	Northwest Area	Tripp-Delmont
Big Stone City	Edgemont	Ipswich	Northwestern	Tri-Valley
Bison	Edmunds Central	Irene-Wakonda	Oahe Special Ed	Vermillion
Black Hills Special	Elk Mountain	Iroquois	Oelrichs	Viborg
Serv Coop	Elk Point-Jefferson	James Valley Ed	Oldham-Ramona	Wagner
Bon Homme	Elkton	Coop	Parker	Wall
Bowdle	Emery	Jones County	Parkston	Warner
Brandon Valley	Estelline	Kadoka Area	Pierre	Watertown
Bridgewater	Ethan	Kimball	Plankinton	Waubay
Britton-Hecla	Eureka	Lake Area Multi	Platte-Geddes	Waverly
Brookings	Faith	Lake Preston	Prairie Lakes Ed	Webster
Burke	Faulkton	Langford	Coop	Wessington Springs
Canistota	Flandreau	Lead-Deadwood	Rapid City	West Central
Canton	Florence	Lemmon	Redfield	White Lake
Castlewood	Freeman	Lennox	Rosholt	White River
Centerville	Frederick Area	Leola	Roslyn	Willow Lake
Chamberlain	Garretson	Lyman	Rutland	Wilmot
Chester	Gayville-Volin	Madison Central	Sanborn Central	Winner
Children's Hosp &	Gettysburg	McCook Central	Scotland	Wolsey-Wessington
Schools	Grant-Deuel	McIntosh	Selby Area	Woonsocket
Clark	Gregory	McLaughlin	Shannon County	Yankton
Colman-Egan	Groton	Marion	Sioux Falls	
Colome	Haakon	Meade County	Sioux Valley	
Cornbelt Coop	Hamlin	Menno	Sisseton	
Corsica	Hanson	Mid-Central Multi	Smee	
Custer	Harding County	Service Coop	South Central Coop	

Public Entities Participating in SDRS

School Districts Membership: 17,738

Percentage of total active
members: 45.5%
Units: 170

Executive Management	Lottery	School and Public Lands
Agriculture	Military and Veterans Affairs	Secretary of State
Commerce and Regulation	Revenue & Regulation	State Auditor
Corrections Dept. of Public Safety	Social Services	State Treasurer
Education & Cultural Affairs	Tourism & State Development	Legislative Audit
Game, Fish and Parks	Transportation	Legislative Research Council
Governor's Office	Vocational Rehabilitation	Unified Judicial System
Health	Enviro. and Natural Resources	SD Investment Council
Human Services	Attorney General	SD Retirement System
Labor	Public Utilities Commission	

Legislative, Executive, and Judicial Agencies Membership: 8,173

Percentage of total active
members: 20.9%
Units: 1

Board of Regents Central Office	Black Hills State University
University of South Dakota	Dakota State University
South Dakota State University	South Dakota School for the Visually Impaired
South Dakota School of Mines and Technology	South Dakota School for the Deaf
Northern State University	

Institutions of Higher Education Membership: 4,453

Percentage of total active
members: 11.4%
Units: 1

MEMBERSHIP PROFILE (CONTINUED)

Municipalities
Membership: 4,044

Percentage of total active members: 10.4%
Units: 147

Aberdeen	Colman	Groton	Lake Preston	Parkston	Tyndall
Alcester	Conde	Harrisburg	Langford	Philip	Valley Springs
Arlington	Corsica	Hartford	Lead	Pickstown	Vermillion
Armour	Crooks	Hayti	Lemmon	Pierre	Viborg
Aurora	Custer	Hecla	Lennox	Plankinton	Volga
Avon	Dallas	Hermosa	Leola	Platte	Wagner
Baltic	Deadwood	Herreid	Madison	Pollock	Wakonda
Belle Fourche	Dell Rapids	Highmore	Marion	Presho	Wall
Beresford	DeSmet	Hill City	Martin	Pukwana	Warner
Big Stone City	Dupree	Hot Springs	McLaughlin	Rapid City	Watertown
Bison	Edgemont	Hoven	Menno	Redfield	Waubay
Box Elder	Elk Point	Howard	Midland	Roscoe	Webster
Brandon	Elkton	Hudson	Milbank	Salem	Wessington
Britton	Estelline	Humboldt	Miller	Scotland	Springs
Brookings	Ethan	Hurley	Mitchell	Selby	White
Bruce	Eureka	Huron	Mobridge	Sisseton	White Lake
Buffalo	Faith	Ipswich	Mt. Vernon	Spearfish	White River
Burke	Faulkton	Irene	Murdo	Springfield	Whitewood
Canton	Flandreau	Jefferson	New Effington	Stickney	Wilmot
Castlewood	Ft. Pierre	Kadoka	New Underwood	Sturgis	Winner
Centerville	Freeman	Kennebec	Newell	Summerset	Woonsocket
Chamberlain	Garretson	Keystone	North Sioux City	Tabor	Worthing
Chancellor	Gary	Kimball	Oacoma	Tea	Yankton
Clark	Gettysburg	Lake Andes	Onida	Tripp	
Clear Lake	Gregory	Lake Norden	Parker	Timber Lake	

Counties
Membership: 3,901

Percentage of total active members: 10.0%
Units: 64

Aurora	Clay	Shannon	Hyde	McPherson	Spink
Beadle	Codington	Faulk	Jackson	Meade	Springdale
Bennett	Corson	Grant	Jerauld	Mellette	Township
Bon Homme	Custer	Gregory	Jones	Miner	Stanley
Brookings	Davison	Haakon	Kingsbury	Minnehaha	Sully
Brown	Day	Hamlin	Lake	Moody	Tripp
Brule	Deuel	Hand	Lawrence	Pennington	Turner
Butte	Dewey	Hanson	Lincoln	Perkins	Union
Campbell	Douglas	Harding	Lyman	Potter	Walworth
Charles Mix	Edmunds	Hughes	Marshall	Roberts	Yankton
Clark	Fall River—	Hutchinson	McCook	Sanborn	Ziebach

Other Public Entities
Membership: 705

Percentage of total active members: 1.8%
Units: 87

Aberdeen Housing	First District Assoc. of Local Gov.	Minnehaha Cty Cons
Assoc School Boards	Grant Cty Cons	Mitchell Housing
B-Y Water Dist	Haakon Cty Cons Dist	N.E. Council of Govt
Beadle Cty Cons	Hamlin Cty Cons	Pennington Cty Housing Dev
Belle Fourche Irrigation	Hanson-McCook Reg Library	Perkins Cty Cons
Black Hawk Water Dist	Harding Cty Cons	Pierre Housing & Redev
Black Hills Local Govt	Heartland Consumer Power	Planning & Dev Dist III
Brookings County Cons Dist	Hill City Ambulance	Potter County Cons Dist
Brown-Marshall Cons	Hill City Fire Protection	Randall Community Water
Brule-Buffalo Cons	Hot Springs Housing	Rapid Valley Sanitary Dist
Burke Housing & Redev	Hutchinson Cty Cons Dist	Redfield Housing
Butte-Meade Sanitary Dist	Hyde Cty Cons Dist	School Admin. Of SD
Campbell County Cons Dist	James River Water Dev Dist	Sioux Falls Airport Authority
Canton Housing and Redev	Jerauld Cons Dist	Sisseton Housing
Central Plains Water	Kingsbury Cty Cons	South Brown Cty Cons
Central SD Enhancement Dist	Lake Madison Sanitary Dist	SD Assoc of Cty Commissioners
Charles Mix Cons Dist	Lead-Deadwood Sanitary Dist	SD Assoc of Co Officials
Clark Cty Cons	Lemmon Housing Authority	SD Building Authority
Codington Cty Cons	Lennox Housing	SD High School Activities Assoc.
Dakota Dunes Improvement	Lincoln Cty Cons	SD Housing Authority
Dakota Valley Fire	Marshall Cty Cons	SD Municipal League
Davison Cons Dist	Marshall Cty Hospital	SD Pharmacists Assoc.
Day Cty Cons	McPherson Cty Cons Dist	SD Science & Technology Auth
Deuel Cty Cons	Meade Cty Housing & Redev	Southeastern Council of Gov.
East Dakota Water Dev	Metro Communications	Southern Missouri Recycle
Edmunds Cty Cons	Milbank Housing	Spink Cty Cons Dist
Fall River Water	Miller Housing & Redev	State Bar of SD
Faulk Cty Cons	Mina Lake Water Dist	Walworth Cty Cons
Faulkton Area Med Center	Miner Cty Cons	Watertown Housing



SDRS Benefits Paid

County	FY 2010 members receiving benefits	Annualized benefits	County	FY 2010 members receiving benefits	Annualized benefits
Aurora	99	1,155,693	Hyde	48	441,859
Beadle	447	6,670,065	Jackson	45	730,048
Bennett	34	425,974	Jerauld	55	656,502
Bon Homme	256	3,347,657	Jones	33	455,112
Brookings	1,079	21,024,610	Kingsbury	123	1,573,046
Brown	948	15,932,901	Lake	344	5,711,548
Brule	114	1,567,621	Lawrence	668	11,669,445
Buffalo	3	20,932	Lincoln	252	3,707,110
Butte	220	2,687,334	Lyman	63	1,094,159
Campbell	46	587,517	Marshall	140	1,886,431
Charles Mix	212	2,868,469	McCook	93	1,275,189
Clark	108	1,110,436	McPherson	65	726,947
Clay	510	9,929,831	Meade	456	7,168,998
Codington	619	11,031,912	Mellette	44	452,069
Corson	30	450,240	Miner	52	653,083
Custer	249	3,808,196	Minnehaha	2,217	45,008,048
Davison	495	8,215,194	Moody	143	1,740,238
Day	192	2,580,788	Pennington	2,243	41,004,807
Deuel	90	888,395	Perkins	75	936,257
Dewey	65	917,199	Potter	90	1,239,475
Douglas	63	758,533	Roberts	212	2,978,513
Edmunds	87	1,306,889	Sanborn	63	776,232
Fall River	235	2,605,799	Shannon	10	134,599
Faulk	106	1,215,130	Spink	382	4,651,029
Grant	178	2,445,675	Stanley	158	2,922,977
Gregory	127	1,765,890	Sully	43	453,280
Haakon	46	609,751	Todd	56	796,876
Hamlin	132	1,808,105	Tripp	160	2,114,028
Hand	96	1,289,372	Turner	188	2,208,453
Hanson	35	455,331	Union	239	3,516,582
Harding	25	228,008	Walworth	191	2,750,379
Hughes	1,162	24,299,883	Yankton	679	10,543,873
Hutchinson	211	3,031,245	Ziebach	13	146,599
Total benefits payable by county			17,962	\$299,164,366	

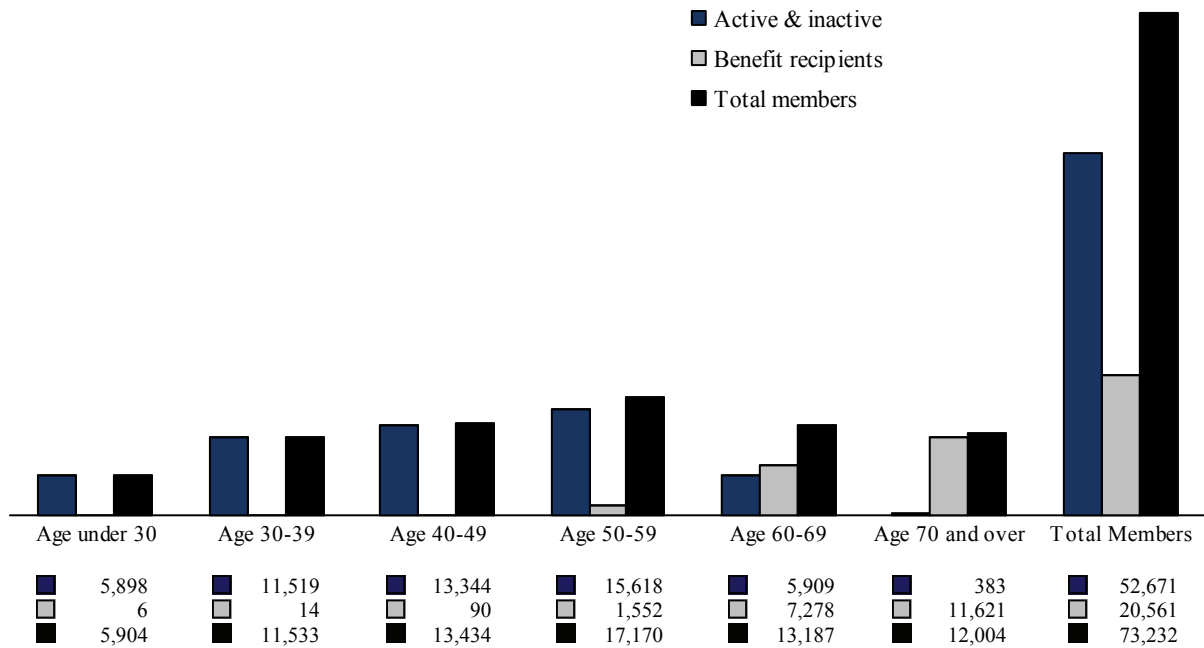
SDRS Benefits Paid by County of Residence

SDRS Benefits Paid Outside of South Dakota

State	Members receiving benefits	Annualized benefits	State	Members receiving benefits	Annualized benefits
Arizona	259	4,207,854	North Dakota	111	1,349,556
California	82	1,082,933	Texas	154	2,139,508
Colorado	128	1,800,516	Wisconsin	79	1,152,962
Florida	93	1,474,354	Wyoming	94	932,900
Iowa	178	2,044,684			
Minnesota	380	5,418,358	Other states and foreign countries	740	10,577,791
Montana	58	863,175			
Nebraska	243	2,825,220			
Total benefits payable outside South Dakota			2,599	35,869,811	
Total benefit recipients and benefit payable			<u>20,561</u>	<u>\$335,034,177</u>	

MEMBERSHIP PROFILE (CONTINUED)

Membership by Age



Membership by County of Residence

Active, Inactive, and Retired Members

County	Total members	County	Total members	County	Total members
Aurora	304	Faulk	328	Mellette	217
Beadle	1,295	Grant	499	Miner	203
Bennett	163	Gregory	400	Minnehaha	9,318
Bon Homme	781	Haakon	187	Moody	440
Brookings	4,060	Hamlin	522	Pennington	7,601
Brown	3,161	Hand	237	Perkins	238
Brule	418	Hanson	174	Potter	237
Buffalo	7	Harding	113	Roberts	668
Butte	819	Hughes	4,458	Sanborn	216
Campbell	136	Hutchinson	624	Shannon	115
Charles Mix	708	Hyde	145	Spink	1,220
Clark	301	Jackson	170	Stanley	616
Clay	1,883	Jerauld	175	Sully	164
Codington	2,098	Jones	115	Todd	447
Corson	168	Kingsbury	520	Tripp	550
Custer	852	Lake	1,112	Turner	623
Davison	1,331	Lawrence	2,293	Union	936
Day	507	Lincoln	1,306	Walworth	591
Deuel	335	Lyman	293	Yankton	2,309
Dewey	363	Marshall	431	Ziebach	116
Douglas	232	McCook	389	Out of state/ Other	8,975
Edmunds	273	McPherson	200		
Fall River	780	Meade	1,766		

Total membership 73,232

	Active members			Inactive members			Total members	Membership by Group
	Vested	Non-vested	Total active	Vested	Non-vested	Total inactive		
Board of Regents								
Female	1,007	293	1,300	381	193	574	1,874	
Male	1,134	364	1,498	417	195	612	2,110	
Total	2,141	657	2,798	798	388	1,186	3,984	
County General								
Female	1,316	344	1,660	263	240	503	2,163	
Male	1,118	289	1,407	173	187	360	1,767	
Total	2,434	633	3,067	436	427	863	3,930	
County Public Safety								
Female	129	49	178	12	31	43	221	
Male	505	151	656	37	57	94	750	
Total	634	200	834	49	88	137	971	
Judicial								
Female	10	2	12	0	0	0	12	
Male	42	4	46	2	0	2	48	
Total	52	6	58	2	0	2	60	
Municipal General								
Female	1,015	376	1,391	257	348	605	1,996	
Male	1,474	374	1,848	229	237	466	2,314	
Total	2,489	750	3,239	486	585	1,071	4,310	
Municipal Public Safety								
Female	33	10	43	5	13	18	61	
Male	588	174	762	65	63	128	890	
Total	621	184	805	70	76	146	951	
Public School & Board of Regents Classified								
Female	4,865	1,558	6,423	1,423	1,859	3,282	9,705	
Male	1,703	711	2,414	368	624	992	3,406	
Total	6,568	2,269	8,837	1,791	2,483	4,274	13,111	
State General								
Female	3,115	857	3,972	695	751	1,446	5,418	
Male	2,579	599	3,178	469	382	851	4,029	
Total	5,694	1,456	7,150	1,164	1,133	2,297	9,447	
State Public Safety and Penitentiary								
Female	151	56	207	13	32	45	252	
Male	598	160	758	44	104	148	906	
Total	749	216	965	57	136	193	1,158	
Teachers								
Female	7,360	1,001	8,361	1,833	722	2,555	10,916	
Male	2,482	418	2,900	696	237	933	3,833	
Total	9,842	1,419	11,261	2,529	959	3,488	14,749	
Grand Total								
Female	19,001	4,546	23,547	4,882	4,189	9,071	32,618	
Male	12,223	3,244	15,467	2,500	2,086	4,586	20,053	
Total	31,224	7,790	39,014	7,382	6,275	13,657	52,671	

MEMBERSHIP PROFILE (CONTINUED)

Benefit Recipients by Group	Retirement benefits		Disability benefits		Survivor benefits		Total benefits	
	2010	2009	2010	2009	2010	2009	2010	2009
Board of Regents								
Male	879	868	3	5	12	10	894	883
Female	347	330	7	7	216	212	570	549
Total	1,226	1,198	10	12	228	222	1,464	1,432
County General								
Male	594	586	30	28	42	42	666	656
Female	671	652	13	17	289	284	973	953
Total	1,265	1,238	43	45	331	326	1,639	1,609
County Public Safety								
Male	160	154	3	3	2	2	165	159
Female	15	12	2	3	25	24	42	39
Total	175	166	5	6	27	26	207	198
Judicial								
Male	37	36	0	0	0	0	37	36
Female	3	3	0	0	17	19	20	22
Total	40	39	0	0	17	19	57	58
Municipal General								
Male	621	582	26	24	36	34	683	640
Female	431	402	9	8	259	266	699	676
Total	1,052	984	35	32	295	300	1,382	1,316
Municipal Public Safety								
Male	409	391	10	10	0	0	419	401
Female	6	6	0	0	74	66	80	72
Total	415	397	10	10	74	66	499	473
Public School & Board of Regents Classified								
Male	814	784	34	32	139	139	987	955
Female	2,331	2,199	38	41	302	297	2,671	2,537
Total	3,145	2,983	72	73	441	436	3,658	3,492
State General								
Male	1,708	1,683	36	38	115	108	1,859	1,829
Female	1,604	1,554	50	50	649	644	2,303	2,248
Total	3,312	3,237	86	88	764	752	4,162	4,077
State Public Safety and Penitentiary								
Male	328	318	6	3	2	2	336	323
Female	28	24	3	2	44	44	75	70
Total	356	342	9	5	46	46	411	393
Teachers								
Male	2,151	2,092	13	17	258	259	2,422	2,368
Female	4,217	4,086	33	37	410	410	4,660	4,533
Total	6,368	6,178	46	54	668	669	7,082	6,901
Grand Total								
Male	7,701	7,494	161	160	606	596	8,468	8,250
Female	9,653	9,268	155	165	2,285	2,266	12,093	11,699
Total	17,354	16,762	316	325	2,891	2,862	20,561	19,949



**Average Benefits
Payments
Last 10 Fiscal Years**

Retirement effective dates	Years of credited service						
	0-4	5-9	10-14	15-19	20-24	25-29	30+
Period 7/1/2000—6/30/2001							
Average monthly benefit	881	402	600	872	1,333	2,056	2,501
Average final average salary	25,961	24,188	24,919	25,985	30,194	38,279	40,420
Number of retired members	33	83	106	88	96	140	187
Period 7/1/2001—6/30/2002							
Average monthly benefit	690	472	673	933	1,349	1,985	2,761
Average final average salary	25,310	27,501	27,282	28,324	31,939	38,308	44,043
Number of retired members	40	81	106	96	106	142	193
Period 7/1/2002—6/30/2003							
Average monthly benefit	773	512	672	875	1,356	2,151	2,690
Average final average salary	25,569	28,462	29,910	30,175	32,724	42,045	45,382
Number of retired members	37	94	116	105	115	170	221
Period 7/1/2003—6/30/2004							
Average monthly benefit	757	452	615	897	1,286	1,973	2,714
Average final average salary	26,563	26,159	27,981	30,539	33,381	39,403	45,930
Number of retired members	41	99	99	105	119	185	294
Period 7/1/2004—6/30/2005							
Average monthly benefit	1,397	538	651	888	1,476	1,884	2,748
Average final average salary	35,696	29,434	28,721	31,397	37,459	39,472	48,086
Number of retired members	60	107	110	101	118	174	272
Period 7/1/2005—6/30/2006							
Average monthly benefit	743	550	858	922	1,392	1,940	2,789
Average final average salary	27,869	31,382	35,882	31,482	37,098	41,452	48,863
Number of retired members	43	131	127	106	139	166	250
Period 7/1/2006—6/30/2007							
Average monthly benefit	1,256	473	620	976	1,516	1,946	2,725
Average final average salary	35,644	30,282	32,042	34,194	40,863	41,666	48,330
Number of retired members	55	160	137	151	147	175	319
Period 7/1/2007—6/30/2008							
Average monthly benefit	812	640	622	905	1,335	1,968	2,741
Average final average salary	34,087	31,758	31,048	35,318	37,144	43,770	49,329
Number of retired members	56	137	123	134	164	184	308
Period 7/1/2008—6/30/2009							
Average monthly benefit	556	696	746	1,019	1,492	1,994	2,637
Average final average salary	33,520	35,083	35,457	38,381	41,543	46,246	48,688
Number of retired members	50	180	136	143	175	186	291
Period 7/1/2009—6/30/2010							
Average monthly benefit	563	558	682	1,010	1,476	1,994	2,683
Average final average salary	31,782	31,647	33,854	39,245	44,464	46,812	50,377
Number of retired members	83	227	141	150	170	183	278

MEMBERSHIP PROFILE (CONTINUED)

Historical Views

Benefit Recipients and Benefits Paid

Group	2005	2006	2007	2008	2009	2010
Board of Regents	1,237	1,288	1,336	1,390	1,432	1,464
County general	1,475	1,513	1,537	1,569	1,609	1,639
County public safety	153	159	177	186	198	207
Judicial	46	50	54	55	58	57
Municipal general	1,179	1,203	1,232	1,265	1,316	1,382
Municipal public safety	430	439	458	465	473	499
Public school & Board of Regents classified	2,900	3,032	3,196	3,340	3,492	3,658
State general	3,780	3,855	3,930	3,971	4,077	4,162
State public safety & penitentiary	302	327	356	372	393	411
Teachers	6,046	6,210	6,443	6,708	6,901	7,082
Total benefit recipients	17,548	18,076	18,719	19,321	19,949	20,561
Total benefits paid during period	\$217,550,207	\$234,825,875	\$253,545,120	\$273,236,767	\$306,769,037	\$325,951,211
Average benefits paid during period	\$12,397	\$12,991	\$13,545	\$14,142	\$15,378	\$15,853

Active and Inactive Members

Group	2005	2006	2007	2008	2009	2010
Board of Regents	3,403	3,468	3,360	3,759	3,886	3,984
County general	3,857	3,913	3,981	4,011	3,943	3,930
County public safety	771	821	827	866	943	971
Judicial	62	58	56	58	59	60
Municipal general	3,975	4,066	4,169	4,235	4,308	4,310
Municipal public safety	876	874	886	921	936	951
Public school & Board of Regents classified	11,492	11,671	12,707	12,996	13,123	13,111
State general	9,328	9,381	9,374	9,496	9,510	9,447
State public safety & penitentiary	1,069	1,122	1,139	1,132	1,160	1,158
Teachers	14,450	14,490	14,517	14,639	14,714	14,749
Total active and inactive members	49,283	49,882	51,316	52,113	52,582	52,671



Benefit and Expenses by Type

	Benefits			Refund benefits	Total benefits & refunds	Administrative expenses
	Retirement benefits	Disability benefits	Survivor benefits			
Fiscal year 2000	118,415,493	3,816,883	11,543,273	26,213,018	159,988,667	2,348,991
Fiscal year 2001	135,507,333	3,999,932	13,685,690	24,227,022	177,419,977	2,403,024
Fiscal year 2002	147,517,321	3,925,986	14,822,332	22,130,027	188,395,666	2,440,353
Fiscal year 2003	161,214,537	4,126,182	15,934,568	19,338,147	200,613,434	2,796,941
Fiscal year 2004	177,038,538	4,129,953	17,285,919	21,414,639	219,869,049	2,493,039
Fiscal year 2005	194,749,213	4,081,290	18,719,704	20,840,323	238,390,530	2,772,121
Fiscal year 2006	210,773,603	4,269,897	19,782,375	25,069,548	259,895,423	2,697,571
Fiscal year 2007	228,311,937	4,070,439	21,162,743	28,777,398	282,322,518	3,033,519
Fiscal year 2008	246,422,506	4,133,578	22,680,683	28,203,655	301,440,421	3,352,380
Fiscal year 2009	277,258,613	4,116,984	25,393,440	24,225,249	330,994,286	3,428,853
Fiscal year 2010	294,880,495	4,182,082	26,888,634	29,148,085	355,099,296	3,402,075

Changes in Net Assets Last 10 Fiscal Years

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Additions										
Member contributions	62,310,957	66,311,285	80,806,422	104,655,550	89,158,629	82,464,727	86,932,782	91,978,502	95,457,518	98,347,135
Employer contributions	55,697,940	58,544,918	71,989,308	74,854,496	77,474,967	80,829,338	85,361,762	89,766,090	94,244,915	96,914,192
Investment income (loss) (net of expenses)	(154,774,807)	(248,826,201)	209,901,823	776,890,949	716,237,979	783,993,684	1,426,600,535	(723,013,005)	(1,518,619,609)	1,011,107,887
Total additions (deductions) to plan net assets	(36,765,910)	(123,969,988)	362,697,553	956,400,995	882,871,575	947,287,749	1,598,895,079	(541,268,413)	(1,328,917,176)	1,206,369,214
Deductions										
Benefit payments	153,192,955	166,265,639	181,265,287	198,454,410	217,550,207	234,825,875	253,545,120	273,236,767	306,769,037	325,951,211
Refunds	24,227,022	22,130,027	19,338,147	21,414,639	20,840,323	25,069,548	28,777,398	28,203,655	24,225,249	29,148,085
Administrative expenses	2,403,024	2,440,353	2,796,941	2,493,039	2,772,121	2,697,571	3,033,519	3,352,380	3,428,853	3,402,075
Total deductions from plan net assets	179,823,001	190,836,019	203,400,375	222,362,088	241,162,651	262,592,994	285,356,037	304,792,802	334,423,139	358,501,371
Change in net assets	(216,588,911)	(314,806,017)	159,297,178	734,038,907	641,708,924	684,694,755	1,313,539,042	(846,061,215)	(1,663,340,315)	847,867,843

MEMBERSHIP PROFILE (CONTINUED)

Principal Participating Employers	2010			
	Participating government	Covered employees	Rank	Percentage of total system
State of South Dakota		8,173	1	21%
Board of Regents		4,453	2	11%
Sioux Falls Schools		2,846	3	7%
Rapid City Schools		1,862	4	5%
City of Rapid City		727	5	2%
Watertown Schools		654	6	2%
City of Brookings and Hospital		608	7	2%
Pennington County		606	8	2%
Minnehaha County		520	9	1%
Aberdeen Schools		515	10	1%
All Other		18,050		46%
Total (470 governments)		<u>39,014</u>		<u>100%</u>

	2000			
	Participating government	Covered employees	Rank	Percentage of total system
State of South Dakota		7,427	1	22%
Board of Regents		3,736	2	11%
Rapid City Schools		1,726	3	5%
Sioux Falls Schools		1,482	4	4%
Watertown Schools		598	5	2%
City of Rapid City		565	6	2%
City of Brookings and Hospital		545	7	2%
Pennington County		479	8	1%
Aberdeen Schools		459	9	1%
Todd County Schools		438	10	1%
All Other		16,725		49%
Total (444 governments)		<u>34,180</u>		<u>100%</u>



**Retired Members
By Type and
Amount of Benefit**

As of June 30, 2010

Amount of monthly benefit	Normal	Early Unreduced	Early Reduced	Disability	Survivor of Active Member	Spouse Option	Survivor of Retired Member	Level Income Unreduced	Level Income Reduced
\$1—\$250	579	130	1,087	21	32	0	603	1	91
\$251—\$500	703	149	1,362	59	59	0	561	8	159
\$501—\$750	497	180	1,055	66	65	5	394	18	122
\$751—\$1,000	376	249	693	31	41	10	267	50	119
\$1,001—\$1,250	279	370	485	46	27	25	219	107	104
\$1,251—\$1,500	206	496	336	29	30	18	141	181	115
\$1,501—\$1,750	168	544	201	24	17	9	120	214	79
\$1,751—\$2,000	125	560	124	13	15	9	66	237	47
Over \$2,000	541	2,786	248	26	26	18	103	1,080	105
	<u>3,474</u>	<u>5,464</u>	<u>5,591</u>	<u>315</u>	<u>312</u>	<u>94</u>	<u>2,474</u>	<u>1,896</u>	<u>941</u>

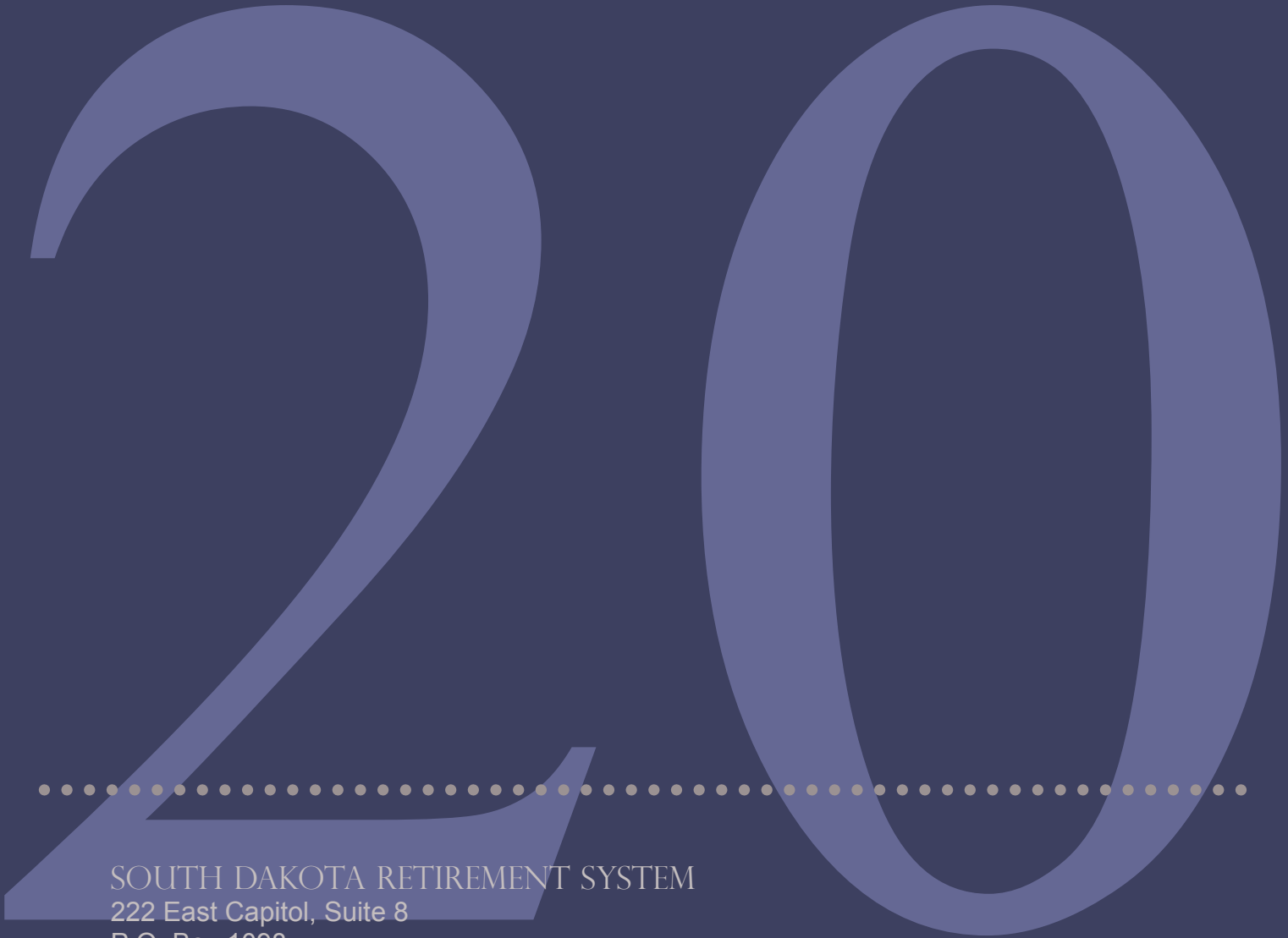


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For more information on the South Dakota Retirement System, please write or call:

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A comprehensive brochure explaining the system's provisions is available upon request.



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