



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, 2011

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 2011 HIGHLIGHTS

Total membership	74,148
Active contributing members	38,490
Inactive non-contributing members	14,201
Benefit recipients	21,457
Net assets held in trust for pension benefits	\$7,936,269,496
Actuarial value of assets	\$7,433,776,511
Actuarial accrued liability (AAL)	\$7,712,556,672
Investment return	25.8%
<u>Benefits and refunds paid</u>	
Benefits paid	\$ 345,942,871
Refunds paid	<u>25,824,829</u>
Total	\$ 371,767,700
<u>Contributions</u>	
Member	\$ 100,179,938
Employer	<u>98,624,738</u>
Total	\$ 198,804,676
Funding period	30 years
Funded ratio (actuarial value of assets/AAL)	96.4%



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A Pension Trust Fund of the State of South Dakota
for the Fiscal Year Ended June 30, 2011

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.

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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, 2010

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.



Linda C. Davison

President

Jeffrey R. Emer

Executive Director

PUBLIC PENSION STANDARDS AWARD



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2011***

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
Investment Council's Letter
Board of Trustees
Organizational Chart**

To Our Members:

During fiscal year 2011, the South Dakota Retirement System (SDRS) fully re-established its long-term actuarial soundness. The very favorable SDRS Trust Fund investment performance of 25.8% for fiscal year 2011 continued that of fiscal year 2010. These investment returns, when combined with the corrective actions recommended by the SDRS Board of Trustees and approved by the Legislature in fiscal year 2010, have returned the SDRS market value funded ratio to over 100% as of June 30, 2011.

With continual media reports regarding the dire financial condition of some public sector retirement plans, it is important to emphasize that the financial condition of SDRS is strong. While not back to the funding levels of 2007 and 2008, the SDRS Board of Trustees' long-term funding goals have been achieved in fiscal year 2011.

In order to maintain long-term strength and sustainability, the SDRS 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 SDRS Board of Trustees will continue to examine the plan's benefit structure in order to define 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 and the associated costs of these benefits.

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 \$370 million in benefits during the last year. (See the Statistical Summary of this report for more details.)

SDRS also continues its 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. During the next year, retirement planning workshops for women and new and mid-career members will be implemented.

A new SDRS website was introduced in 2011 that expanded web-based services. The *My SDRS* section continues 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 require 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 21, 2011

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, 2011. 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 74,000 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 25.84 percent for fiscal year (FY) 2011, the investment council benchmark return of 22.1 percent. The 10-year annualized return of 7.0 percent exceeds the benchmark return of 5.7 percent.

History of Benefit Improvements

Benefit Category	Status in 1974	Benefit Improvements
Benefit Formula * Class A Standard Alternate * Class B Public Safety * Class B Judicial	1.0% 2.0% 2.0% 3.333% / 2.0%	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 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 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 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 Improvement Factor	Variable 2% Simple	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 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, dependent 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 2011 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, 2011, was 96.4 percent.

Major Initiatives

SDRS has focused its work not only on challenges to retirement security for those who already enjoy some measure of it through SDRS and Social Security, but also on ways in which such security can be extended to and enhanced for South Dakota public employees. In addition to the educational seminars and workshops already presented to our membership throughout the state, SDRS has been hard at work designing and developing workshops specifically for women preparing for retirement and early to mid-career employees. SDRS will continue to explore avenues of reaching our membership in new and innovative ways.

The "Baby Boom Generation" has been advancing on retirement for several years now. SDRS members can sign on to *My SDRS* on our secure website and generate retirement estimates using their personal account data with the ability to project salary and service and choose different retirement dates. Retirement Planners met with over 3,700 members in one-on-one counseling sessions, group events, and requested visits in 94 locations during fiscal year 2011, despite budget cuts.

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. The concept of reasonable assurance is based on the assumption that the cost of internal accounting controls should not exceed the benefits expected to be derived from the implementation. 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, 2010. 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 16th 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 8th 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 Board of Regents employees
Board service began in July 2004
ABS fiscal officer
South Dakota State University
Brookings
Darwin Longjeliere

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 teachers
Board service began in July 2010
Public school teacher
Sioux Falls Schools
Sioux Falls
Bonnie Mehlbrech

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

Represents school boards
Board service began in September 2010
Member
Plankinton School Board
Plankinton
David Merrill

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

Represents elected municipal officials
Board service began in July 2010
City Commissioner
City of Vermillion
Vermillion
Kent Osborne

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

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

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

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

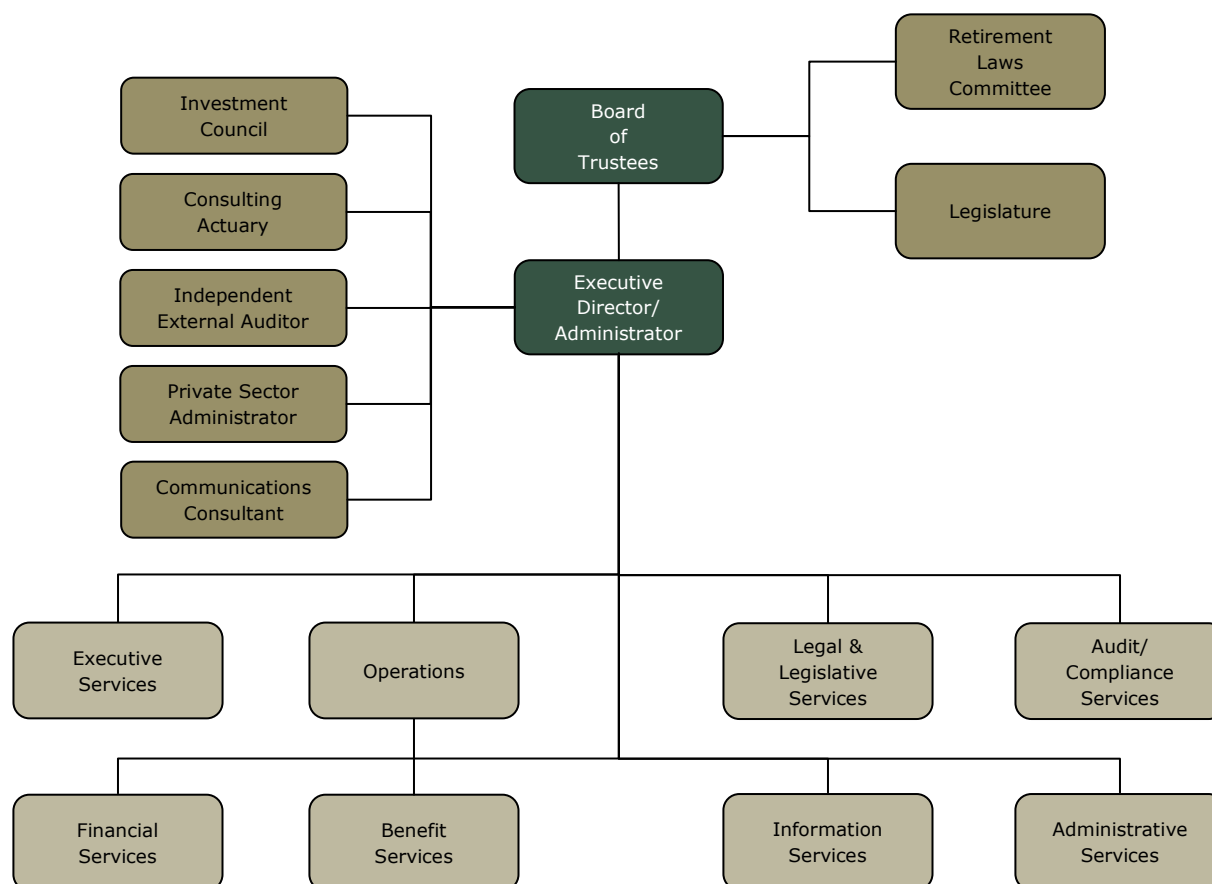
James Johns
Represents public safety members
Board service began in July 2006
Lieutenant
City of Rapid City
Black Hawk

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

Louise Loban
Represents classified employees
Board service began in July 1990
Assistant Director of Human Resources
South Dakota State University
Brookings



ORGANIZATIONAL CHART



Administration

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

Management Group

DIRECTOR OF OPERATIONS Damian Prunty
 GENERAL COUNSEL Jacquelyn Storm
 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**
 - Schedule of Funding Progress
 - Schedule of Employer Contributions
- 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, 2011, 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, 2011, 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, 2011, 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 \$2,602,278,677 (32.8% 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 21, 2011 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 21, 2011

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, 2011. 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 \$1.4 billion during fiscal year 2011. This increase was primarily due to the investment performance of 25.84 percent, which was significantly above the assumed rate of 7.75 percent.
- SDRS funded ratio increased to 96.4 percent in 2011 from 96.3 percent in 2010.
- SDRS paid \$345.9 million to benefit recipients in fiscal year 2011 compared to \$326.0 million in 2010. SDRS received \$198.8 million in member and employer contributions in fiscal year 2011 compared to \$195.3 million in 2010.

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, 2011, 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, 2010, and 2011

Assets	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 7,108,925	\$ 6,180,991
Receivables	31,755,965	23,367,973
Investments, at fair value	7,986,138,266	6,563,362,061
Other assets	37,941	46,680
Total assets	\$8,025,041,097	\$6,592,957,705
Liabilities		
Accounts payable and accrued expenses	\$ 2,621,179	\$ 2,649,600
Securities sold, but not yet purchased	75,896,079	78,940,680
Unsettled investment purchases	8,954,723	13,804,034
Due to brokers—futures transactions	1,299,620	928,402
Total liabilities	\$ 88,771,601	\$ 96,322,716
Net assets held in trust for pension benefits	<u>\$7,936,269,496</u>	<u>\$6,496,634,989</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 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

	2011	2010	Change
Funded ratio	96.4%	96.3%	0.1%

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, 2011. The investment returns were 25.84 percent for 2011 and 18.70 percent for 2010.

Deductions from plan net assets are primarily benefit payments. During 2011, SDRS paid \$345.9 million to benefit recipients, or 6.1 percent more than 2010. The increase is due to added recipients and the annual 2.1 percent cost-of-living adjustment. Refunds of accumulated contributions during 2011 decreased 11.4 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:

	2011	2010	% Change
Additions:			
Employee contributions	\$ 100,179,938	\$ 98,347,135	1.9%
Employer contributions	98,624,738	96,914,192	1.8
Investment income (loss)	<u>1,616,173,385</u>	<u>1,011,107,887</u>	<u>59.8</u>
Total additions	<u>1,814,978,061</u>	<u>1,206,369,214</u>	<u>50.4</u>
Deductions:			
Benefits	345,942,871	325,951,211	6.1
Refunds of contributions	25,824,829	29,148,085	(11.4)
Administrative expenses	<u>3,575,854</u>	<u>3,402,075</u>	<u>5.1</u>
Total deductions	<u>375,343,554</u>	<u>358,501,371</u>	<u>4.7</u>
Net increase (decrease) in plan net assets	1,439,634,507	847,867,843	69.8
Net assets held in trust for pension benefits:			
Beginning of year	<u>6,496,634,989</u>	<u>5,648,767,146</u>	<u>15.0</u>
End of year	<u>\$7,936,269,496</u>	<u>\$6,496,634,989</u>	<u>22.2%</u>

Investments

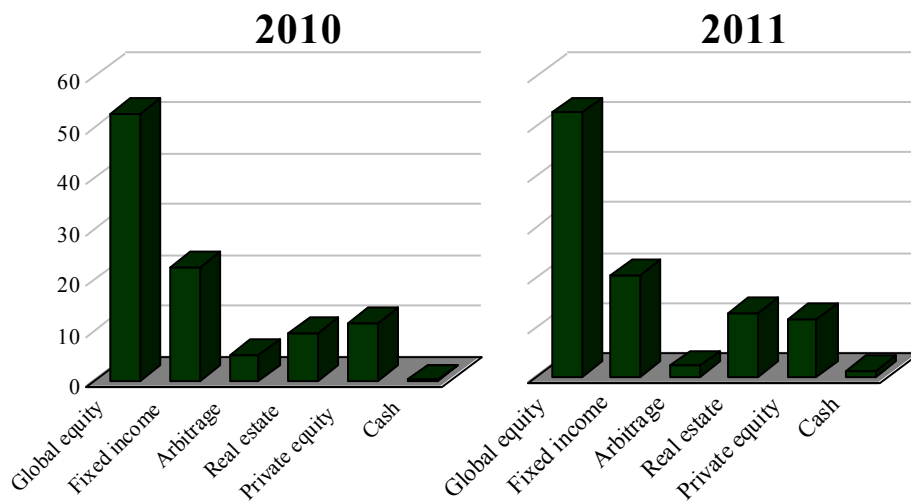
SDRS investment portfolio management is the statutory responsibility of the South Dakota Investment Council. The South Dakota Investment Office is the primary investment manager, but the Investment Council may utilize the services of external money managers.

Investment performance during 2011 and 2010 was 25.84 percent and 18.70 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, 2011	Assets	
	Cash and cash equivalents	\$7,108,925
	Receivables:	
	Employer	2,313,678
	Employee	3,132,891
	Benefits	51,561
	Unsettled investment sales	6,391,872
	Accrued interest and dividends	<u>19,865,963</u>
	Total receivables	<u>31,755,965</u>
	Investments, at fair value:	
	Fixed income	1,868,251,356
	Equities	4,188,040,363
	Real estate	1,013,530,933
	Private equity	<u>916,315,614</u>
	Total investments	<u>7,986,138,266</u>
	Other assets	<u>37,941</u>
	Total assets	<u>8,025,041,097</u>
	Liabilities	
	Accounts payable and accrued expenses	2,621,179
	Securities sold, but not yet purchased, at fair value	75,896,079
	Unsettled investment purchases	8,954,723
	Due to brokers—futures transactions	<u>1,299,620</u>
	Total liabilities	<u>88,771,601</u>
	Net assets held in trust for pension benefits	<u>\$7,936,269,496</u>

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



Additions		Statement of Changes in Plan Net Assets
Contributions:		
Employee	\$100,179,938	As of June 30, 2011
Employer	<u>98,624,738</u>	
Total contributions		\$198,804,676
Investment income:		
<i>From investing activities</i>		
Net appreciation in fair value of investments	1,459,543,460	
Interest	93,368,971	
Dividends	95,804,138	
Real estate	4,937,677	
Securities lending, net	<u>371,397</u>	
Investment income	1,654,025,643	
Less investment activity expense	<u>(37,852,258)</u>	
Total investment income		1,616,173,385
Total additions		1,814,978,061
Deductions		
Benefits	345,942,871	
Refunds of contributions	25,824,829	
Administrative expenses	<u>3,575,854</u>	
Total deductions		375,343,554
Net increase in plan net assets		1,439,634,507
Net assets held in trust for pension benefits		
Beginning of year		<u>6,496,634,989</u>
End of year		<u>\$7,936,269,496</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, 2011. 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 participates in the various programs administered by 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, 2011, the number of participating governmental employers is as follows:

School districts	168
State of South Dakota	1
Board of Regents	1
Municipalities	149
Counties	64
Boards and commissions	88
Total employers	<u>471</u>

At June 30, 2011, SDRS membership consisted of:

Retirees and beneficiaries currently receiving benefits:	
Class A (general employees)	20,210
Class B Public Safety and Judicial employees	1,247
Total retirees and beneficiaries	21,457
Terminated members entitled to benefits but not yet receiving them:	
Class A (general employees)	13,657
Class B Public Safety and Judicial employees	544
Total terminated members	14,201
Current active members:	
Vested:	
Class A (general employees)	29,314
Class B Public Safety and Judicial employees	2,076
Non-vested:	
Class A (general employees)	6,536
Class B Public Safety and Judicial employees	564
Total current active members	<u>38,490</u>
Grand total	<u>74,148</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.

(b) Method Used to Value Investments:

Investments are reported at fair value. The fair value of investments in securities is determined based on last reported prices for those securities traded on national and international stock exchanges. In general, fixed income securities not traded on a national or international exchange are valued based on comparable securities of issuers with similar yield and risk. 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 \$2,602,278,677 (32.8% of net assets) at June 30, 2011. 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 is accrued in the period in which it is earned and dividend income is recorded on the ex-dividend date.

(c) Use of Estimates

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.

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

All participating employers are required to contribute an amount equal to the member's contributions. Members may make an additional contribution of 1.5 percent of compensation for optional spouse coverage.

BASIC FINANCIAL STATEMENTS (CONTINUED)

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, 2011, actuarial valuation of the plan determined that the contractually required employer contributions equal 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*; and 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, 2011). 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>
2011	\$98,624,738	100
2010	96,914,192	100
2009	94,244,915	100
2008	89,766,090	100

Contributions during fiscal year 2011 totaling \$198,804,676 (\$100,179,938 employee and \$98,624,738 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>
2012	\$351,732
2013	269,274
2014	210,082
2015	21,172
2016	18,465
Later	<u>20,966</u>
	891,691
Less amount representing interest	<u>(107,880)</u>
Deferred contributions receivable at June 30, 2011	<u>\$783,811</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, 2011, the balance in the reserve for funding of long-term benefit goals is \$(764.2) million.

4. Funded Status and Funding Progress—Pension Plan:

As of June 30, 2011, the most recent actuarial valuation date, the plan was 96.4% funded. The actuarial accrued liability for benefits was \$7.7 billion, and the actuarial value of assets was \$7.4 billion, resulting in an UAAL of \$278.8 million. The covered payroll (annual payroll of active employees covered by the plan) was \$1.5 billion, and the ratio of the UAAL to the covered payroll was 18.7%.

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, 2011, 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 4.0% to 10.65. Both (a) and (b) include the inflation component of 4.0%. 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, 2011, was 30 years.

5. Cash and Investments:

Cash and Deposits

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.

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, 2011, SDRS has bank balances in various foreign currencies. These deposits are not collateralized or covered by depository insurance. As a result, \$7,277,694 was exposed to custodial credit risk, which are recorded in investments in the Statement of Plan Net Assets.

Investments

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 SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC 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	\$4,689,031,250	\$5,200,180,159
Sanders Capital	25,636,021	26,668,295
Sanders All Asset Value	15,339,039	16,262,025
Blackstone Real Estate Partners	755,483,357	885,020,619
Cargill North American Real Estate Partners	113,834,098	75,672,595
CINVIN	74,542,496	100,615,119
Pinebridge	14,388,631	11,017,768
CVI Global Value Fund	171,817,657	170,380,056
CVI Specialized Ventures Fund	10,152,217	6,417,386
PIMCO Distressed Mtg Fund II	158,000,609	170,211,018
TCW Specialized Mtg Credits	129,625,304	142,444,076
Oaktree Loan Fund 2x	25,047,635	25,249,943
Blackstone Distressed Securities	—	1,859,320
Blackstone Credit Liquidity	15,586,124	19,062,925
Silver Lake Partners LP	106,072,504	137,100,567
KKR Associates	53,886,243	55,854,800
Cypress Merchant Banking Partners LP	14,134,015	5,488,391
Capital International	30,001,054	37,511,778
Apollo Real Estate Advisors LP	36,768,388	21,676,618
Bridgewater Pure Alpha Fund II	42,904,841	74,996,216
Dimensional Fund Advisors, Inc.	8,918,381	49,222,373
Blackstone Private Equity	225,866,649	233,308,709
Doughty Hanson & Co. Private Equity IV	71,658,604	115,996,823
Brandes Global Mid-Cap	39,491,272	41,714,890
Doughty Hanson & Co. European Real Estate	45,748,000	28,824,013
CVC	48,375,956	77,167,969
Carlyle	41,342,711	56,815,550
Riverstone	23,054,495	33,275,710
GE Asset Management	59,920,000	82,370,734
Elevation Partners	18,066,283	35,054,807
Crossroads Investment Advisors LP	7,399,059	6,314,592
Lonestar Real Estate	2,561,191	2,337,088
GE Active Commodities	25,000,000	29,252,303
DLJ Merchant Banking Partners LP	586,955	793,031
Total investments	7,100,241,039	7,986,138,266
Securities sold, but not yet purchased	(58,197,914)	(75,896,079)
Total	\$7,042,043,125	\$7,910,242,187

(a) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. SDRS' investment grade fixed income portfolio's duration must fall between 70 percent and 130 percent of the duration of the

Citigroup Broad Investment Grade (BIG) Index. SDRS' internally managed high-yield fixed income portfolio's duration must fall between 70 percent and 130 percent of the Citigroup High-Yield Cash Pay Capped Index durations. 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	\$110,504,881	7.45
U.S. Treasury strips	37,345,825	11.89
U.S. Treasury Bills	8,999,240	0.22
U.S. agencies	37,874,726	3.27
Investment grade corporates	368,953,679	3.53
High-yield corporates	147,287,068	3.28
Mortgage-backed securities	307,116,647	3.58
Mutual funds	119,078,017	—
FDIC Temporary Liquidity Guarantee Program	22,420,297	1.35
Total	\$1,159,580,380	3.72

(b) 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, 2011, 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	\$418,258,901
Aa	52,533,296
A	134,087,542
Baa	135,501,478
Ba	54,431,880
B	36,656,220
Caa	22,714,584
Ca	1,914,091
C	69,588,540
Not rated	—
Total	\$925,686,532

(c) 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, 2011 (excluding those issued by or explicitly guaranteed by the U.S. Government).

(d) 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, 2011, 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	\$9,247,170	—	\$ 46,367	\$9,293,537
Brazilian Real	1,806,976	—	35,923	1,842,899
British Pound	249,092,452	—	1,616,831	250,709,283
Canadian Dollar	60,988,025	—	393,158	61,381,183
Danish Kroner	5,426,673	—	518	5,427,191
Euro	311,478,149	—	649,641	312,127,790
Hong Kong Dollar	3,903,286	—	85,425	3,988,711
Hungarian Forint	672,529	—	5	672,534
Israeli Shekel	445,495	—	—	455,495
Japanese Yen	207,931,492	—	4,159,460	212,090,952
Korean Won	14,024,408	—	9	14,024,417
New Zealand Dollar	1,112,937	—	—	1,112,937
Norwegian Krone	3,195,989	—	59,110	3,255,099
Singapore Dollar	308,384	—	—	308,384
Swedish Krona	—	—	6	6
Swiss Franc	200,714,239	—	231,240	200,945,479
Turkish Lira	501,328	—	—	501,328
Total fair value	\$1,070,849,532	—	\$7,277,693	\$1,078,127,225

Investments with limited partnerships and certain global equity investments with outside managers, which are not included in the table above, may expose SDRS' portfolio to additional foreign currency risk. The total fair value of investments in real estate and private equity limited partnerships as of June 30, 2011, was \$1,929,846,547. The total fair value of global equity, arbitrage equity, and distressed and high-yield fixed income investments managed by outside managers was \$199,976,291, \$91,258,241, and \$535,624,724, respectively.

(e) Return on Investments

During fiscal year 2011, SDRS' investments (including investments bought and sold, as well as held during the year) appreciated in value by \$1,459,543,460.

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, 2011
Appreciation in fair value of investments:	
Equities	\$662,564,713
Fixed-income	33,442,952
Real estate	306,829,508
Private equity	180,212,052
Commodities	4,252,303
Total increase in fair value	1,187,301,528
Realized gain (loss) on investments sold:	
Equities	172,296,767
Fixed-income	60,005,011
Real estate	(26,626,725)
Private equity	59,621,039
Total net realized gain	265,296,092
Net gain on futures contracts	6,945,840
Net appreciation in fair value of investments	\$1,459,543,460

(f) Securities Lending

State statutes and the SDRS policies permit the use of investments for securities lending transactions. These transactions involved the lending of corporate debt, foreign equity securities, and domestic equity securities to broker-dealers for collateral in the form of securities, with the simultaneous agreement to return the collateral for the same securities in the future. SDRS' securities custodian is an agent in lending securities and shall accept only U.S. government securities or it agencies as collateral for any loan or loaned securities. The collateral required must equal 102% of fair value plus accrued interest for corporate debt securities, 102% of fair value of U.S. equity securities, and 105% of fair value for foreign securities except in the case of loans of foreign securities, which are denominated and payable in U.S. dollars, in which event the collateral required is 102% of fair value. The earnings generated from the collateral investments result in the gross earnings from lending activities, which is then split on a percentage basis with the lending agent.

At year-end, SDRS has no credit risk exposure to borrowers because the amounts SDRS owes the borrowers exceed the amounts the borrowers owe SDRS. The contract with the lending agent requires the agent to indemnify SDRS if the borrowers fail to return the loaned securities and the collateral is inadequate to replace the securities lent.

All securities loans can be terminated on demand by either SDRS or the borrower. SDRS does not have the ability to pledge or sell collateral securities unless the borrower defaults; therefore, no asset and corresponding liability for the collateral value of securities received has been established on the Statement of Plan Net Assets. Regarding restrictions on loans, the securities lending agreement does limit the total value of securities that can be out on loan on any given day.

(g) 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 securities lending policies are detailed above. As of June 30, 2011, SDRS does not have custodial credit risk with regard to the security lending collateral due to the collateral not being reported as an asset on the financials.

6. Derivatives:

Derivatives are generally defined as contracts whose values depend on, or derive from, the value of an underlying asset, reference rate, or index. SDRS is exposed to various derivative products through the investment management of the SDIC and its outside managers. All of SDRS' 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 SDIC 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, 2011, 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, 2011, of \$(1,299,620) 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, 2011, was \$6,945,840. Futures contract positions at June 30, 2011, were as follows:

Description	Open position	Number of contracts	Fair value
U.S. Treasury note due September 2011	Long	1,000	\$616,001
S&P 500 Index due September 2011	Short	(280)	(3,250,000)

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, 2011, was \$32,135,218. At June 30, 2011, the foreign currency forward contracts outstanding were as follows:

Description	Notional amount	Maturity date	Fair value (US dollars)
Forward sale	(723,840) CAD	7/05/2011	\$3,276
Forward sale	(115,000,000) JPY	8/08/2011	7,000
Forward sale	(2,868,600) EUR	9/02/2011	(35,950)
Forward sale	(170,000,000) JPY	9/16/2011	1,390
Forward sale	(65,777,375) EUR	9/22/2011	1,011,642
Forward sale	(411,245) EUR	7/01/2011	(3,372)
Forward sale	(230,806) GBP	7/01/2011	81
Forward sale	(139,481,959) JPY	7/01/2011	(7,382)
Forward sale	(255,127) CHF	7/05/2011	(961)
Forward sale	(363,300) GBP	8/12/2011	6,280
Forward purchase	1,038,937 CAD	7/05/2011	10,274
Forward purchase	18,765 GBP	7/01/2011	(10)
Forward purchase	15,031 GBP	8/12/2011	(388)
Forward purchase	200,900,000 CNY	7/26/2011	3,076,422
Forward purchase	159,225,000 CNY	8/25/2011	2,641,571
Forward purchase	129,400,000 CNY	7/24/2014	304,409
Forward purchase	128,050,000 CNY	7/28/2014	92,578
Forward purchase	150,250,000 CNY	3/30/2015	(1,423,976)
Forward purchase	117,237,600 CNY	9/10/2015	395,983
Forward purchase	1,900,000,000 JPY	7/14/2011	1,023,133

(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, 2011, the net fair value of foreign currency forward contracts was \$7,102,000. 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:

Moody's credit rating	Number of counterparties	Fair value
A1	1	\$2,015,013
Aa2	1	5,086,987

(b) 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 \$7,102,000.

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, 2011, a liability existed for accumulated annual leave calculated at the employees' June 30, 2011, pay rate in the amount of \$122,666. 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, 2011, a liability existed for accumulated and accrued sick leave, calculated at the

BASIC FINANCIAL STATEMENTS (CONTINUED)

employees' June 30, 2011, pay rate in the amount of \$134,760.

	2011	2010	% change
Total compensated absences	\$257,426	\$249,697	0.03%

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, 2011, is as follows for the fiscal year ending June 30:

2012	\$ 105,389
Total remaining minimum payments	\$ 105,389

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.

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 \$165,807,614 net assets available for plan benefits at June 30, 2011, \$104,744,966 was held in trust for employees of the State, while the remaining \$61,062,649 represents the assets held in trust for employees of other jurisdictions. In order to avoid duplication in reporting, the SDRS total of \$780,661 is included in the State total and the State's comprehensive annual financial report for the year ended June 30, 2011.

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 \$23,576,722 net assets available for plan benefits at June 30, 2011, \$13,545,505 was held in trust for employees of the State, while the remaining \$10,031,217 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, 2011, SDRS had uncalled capital commitments to private equity limited partnerships totaling approximately \$347,080,345 and to real estate limited partnerships totaling approximately \$725,876,814. The commitments may be called at the discretion of the general partner or may never be called.

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 2010. Plaintiffs are seeking injunctive relief, damages, and attorney fees for themselves and a pled class. If successful, Plaintiffs' lawsuit does not represent a significant immediate negative contingency but would have a significant negative actuarial impact on the South Dakota Retirement System Member Trust Fund and its funded status. 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.

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]
6/30/2006	\$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
6/30/2011	7,433.8	7,712.6	278.8	96.4	1,490.5	18.7

For the year ended June 30	Annual required contributions	Percentage contributed
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
2011	98,624,738	100

Schedule of Employer Contributions

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Notes to Trend Data

Valuation date	6/30/2011
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% to 10.65%
based on age, with average of 5.4%	
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, 2011

	Accrual Basis
Personal services	
Salary and per diem	\$1,481,527
Employee benefits	394,445
Total personal services	<u>1,875,972</u>
Operating expenses	
Travel	58,153
Contractual services:	
Finance	38,140
Valuations	117,165
Consulting	193,970
Studies	87,433
Special studies	57,757
Legal	10,120
Communications	21,811
Medical	55,489
Operations	<u>735,052</u>
Total contractual services	1,316,937
Supplies and materials	268,458
Capital assets	<u>56,334</u>
Total operating expenses	<u>1,699,882</u>
Total administrative expenses	<u>\$3,575,854</u>

Schedule of Investment Activity Expenses for the Year Ended June 30, 2011

	Management expenses
Investment managers	
State of South Dakota Investment Council	\$5,003,466
Pinebridge	400,352
Apollo Real Estate Advisors LP	356,879
Blackstone Distressed Securities and Credit Liquidity	249,875
Blackstone Private Equity	1,595,385
Blackstone Real Estate Partners	8,668,702
Brandes Investment Partners	371,288
Capital International	508,854
Cargill North American Real Estate Partners	1,509,421
Carlyle	314,206
CINVIN	1,645,854
CVC	838,773
CVI	2,880,543
Cypress Merchant Banking Partners LP	66,416
Dimensional Fund Advisors, Inc.	201,312
Doughty Hanson & Co. European Real Estate	1,324,775
Doughty Hanson & Co. Private Equity IV	1,385,315
Elevation Partners	367,524
GE Asset Management China	1,153,623
GE Asset Management Commodities	132,408
KKR Associates	181,484
Crossroads Investment Advisors LP	379,936
Lonestar Real Estate	2,176,210
Oaktree Loan Fund 2x	216,733
PIMCO Distressed Mtg Fund II	2,525,128
Sanders All Asset Value	191,919
Sanders Capital	181,395
Riverstone	311,833
Silver Lake Partners LP	1,475,678
TCW Specialized Mtg Credits	<u>1,236,971</u>
Total investment activity expenses	<u>\$37,852,258</u>

ACTUARIAL SUMMARY



Actuary's Opinion
Actuarial Overview
Actuarial Valuation
Solvency Test
Schedule of Active Member Valuation Data
Schedule of Retirees and Beneficiaries Added to and Removed from Benefit Payroll
Summary of Benefit Provision Changes
Plan Summary

ACTUARY'S OPINION



A Xerox Company

November 13, 2011

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, 2011. Actuarial valuations of SDRS are performed annually.

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, 2011 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, 2011. The contractual Employer Contribution Rates to SDRS meet the requirements of the Annual Required Contributions of the Employers of GASB Statement No. 25.

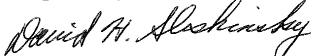
The SDRS Board of Trustees measures and compares the funding progress of SDRS on several bases. The Actuarial Accrued Liability Funded Ratio of SDRS as of June 30, 2011 is 96.4% on an Actuarial Value basis and 102.9% on a Market Value basis.


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

Tabor Center, 1200 17th Street, Suite 1200 • Denver, CO 80202
720.359.7700 • 720.359.7701 (fax)

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 2011 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.

	2011 actuarial valuation	2010 actuarial valuation
Actuarial accrued liability funded ratio (actuarial value of assets/AAL)	96.4%	96.3%
Funding period	30 years	30 years

Actuarial Accrued Liability

Measures of Actuarial Soundness

The time-weighted annualized investment performance based on the market value of assets of the system for the most recent year was 25.8 percent, significantly more than the assumed rate of 7.75 percent for fiscal year 2011. The dollar-weighted annualized investment performance based on the market value of assets for the period was 25.2 percent. This results in an actuarial investment gain of \$1,071 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, 2011, and decreased by the total liability gain of \$55 million. The reserve for funding of long-term benefits goals was increased from a balance of negative \$1,262 million as of June 30, 2010, to a balance of negative \$764 million as of June 30, 2011, as a result of investment returns above expectations for fiscal year 2011.

Actuarial Investment Return Gains/Losses

For the year ended
June 30, 2011

ACTUARIAL OVERVIEW (CONTINUED)

Actuarial Liability Gains/Losses

For the year ended
June 30, 2011

Item Gain	Amount of liability gain (loss)	Percentage of present value of all benefits
Due to compensation increases	\$73M	0.82%
(Loss) due to decrements	(45M)	(0.50)%
(Loss) due to rehired and new members	(4M)	(0.05)%
Due to COLA for continuing inactive	28M	0.31%
Miscellaneous	3M	0.03%
Total system gain	\$55M	0.61%

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 were no changes in the actuarial assumptions and methods since the 2010 actuarial valuation.

Summary of Actuarial Assumption and Method Changes

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

Cushion

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.

Reserve for Funding of Long-term Benefit Goals

Balance as of June 30, 2010	\$(1,262,374,138)
Fiscal year 2011 experience	225,146,518
Amortization of prior gain and losses	273,023,671
Less present value of all benefits for improvements enacted into law funded from reserve	0
Balance as of June 30, 2011	<u>\$(764,203,949)</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



There were no benefit improvements or substantive benefit provision changes during the 2011 fiscal year. The June 30, 2011, actuarial valuation directly reflects the provisions of the System as stated in the Plan Summary section of this report.

Benefit Changes

Summary of Key Actuarial Measures

	2010 actuarial valuation results	System investment and liability experience for year ¹	Membership changes and maturity of system ²	Benefit changes effective July 1, 2011	2011 actuarial valuation results
Normal cost rate with expense provision	11.502%	—	(0.003)%	—	11.499%
Funding period	30 years	—	—	—	30 years
Unfunded actuarial accrued liability	\$273M	—	\$6M	—	\$279M
Actuarial accrued liability funded ratio	96.3%	0.1%	—	—	96.4%

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.

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 2011, expressed as a percentage of payroll and total contributions, are based on the 2011 actuarial valuation and are summarized in the chart below.

SDRS 2011 Funding Requirements		
	As a percentage of payroll	As a percentage of contributions
Matching statutorily required employer/member contribution rate	12.477 ¹	100.0
Normal contribution rate at mid-period	11.249	90.2
Expense allowance	.250	2.0
Total funding requirement before amortization of frozen unfunded actuarial accrued liability	11.499	92.2
Contribution rate available to amortize frozen unfunded actuarial accrued liability as a level percent of member compensation (12.477%-11.499%)	.978 ²	7.8

The 2011 actuarial valuation indicates a contribution rate of 0.978 percent of payroll allocated to the unfunded actuarial accrued liability is sufficient to pay interest and amortize the principal over 30 years from 2011.

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, 2011, are 12.477 percent of considered compensation.

² Will amortize frozen unfunded actuarial accrued liability over 30 years from 2011.

The 2011 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 \$502 million and a balance of negative \$764 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 2011 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 2011 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 normal cost of 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. 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, 2011

Actuarial value of assets as of June 30, 2010	\$7,119,874,593
Contributions and disbursements	
Contributions	198,804,676
Benefit payments and refunds	(371,767,700)
Administrative expenses	<u>(3,575,854)</u>
Total	\$(176,538,878)
Expected investment return	\$544,949,399
SDRS liability gain/(loss)	\$54,508,603
Projected actuarial value of assets as of June 30, 2011	\$7,433,776,511
Present value of all benefits for improvements enacted into laws as of June 30, 2011, and funded from reserve	<u>0</u>
Preliminary actuarial value of assets as of June 30, 2011	\$7,433,776,511
Market value of assets as of June 30, 2011	\$7,936,269,496
Constraining values	
80% of market value of assets	\$6,349,015,597
120% of market value of assets	\$9,523,523,395
Actuarial value of assets as of June 30, 2011	<u>\$7,433,776,511</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
2011	7,712,556,672	7,433,776,511	96.4	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
2011	7,712,556,672	7,433,776,511	96.4	278,780,161	1,490.5	18.7



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		(1)	(2)	(3) ¹
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
2011	1,041,479,674	4,436,638,326	2,234,438,672	7,433,776,511	100.0	100.0	87.5

Valuation date	# of active members	Covered payroll (000,000)	Average annual pay	% increase in average pay
1987	27,906	500.2	17,924	1.9
1988	28,411	530.0	18,655	4.1
1989	28,749	554.9	19,302	3.5
1990	29,378	582.7	19,835	2.8
1991	30,524	616.8	20,207	1.9
1992	31,717	694.3	21,890	8.3
1993	32,512	731.1	22,487	2.7
1994	33,301	788.6	23,681	5.3
1995	33,390	811.1	24,292	2.6
1996	32,624	820.1	25,139	3.5
1997	32,397	835.1	25,776	2.5
1998	32,903	875.9	26,620	3.3
1999	33,664	902.5	26,810	0.7
2000	34,180	944.6	27,637	3.1
2001	34,887	1,029.7	29,515	6.8
2002	35,130	1,080.1	30,745	4.2
2003	35,114	1,117.2	31,818	3.5
2004	35,408	1,164.0	32,875	3.3
2005	35,774	1,206.1	33,715	2.6
2006	36,074	1,229.9	34,094	1.1
2007	37,311	1,297.2	34,769	2.0
2008	37,707	1,363.9	36,170	4.0
2009	38,596	1,450.7	37,586	3.9
2010	39,014	1,491.1	38,220	1.7
2011	38,490	1,490.5	38,725	1.3

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
2002	15,390	1,051	548	15,893	\$14,781,382	\$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
2011	20,561	1,575	679	21,457	27,164,131	8,006,912	359,385,525	16,749	2.8

Summary of Benefit Provision Changes

There were no benefit improvements or substantive benefit provision changes made to SDRS during the 2011 South Dakota Legislative session.



Comparison of Actuarial Valuation Results

	2010 actuarial valuation	2011 actuarial valuation	% change
Active members			
Number	39,014	38,490	(1.3)
Average age	45.9	45.9	0.0
Average credited service	11.3	11.4	0.9
Annual prior year's compensation of members	\$1,491,098,183	\$1,490,510,553	0.0
Average annual compensation	\$38,220	\$38,725	1.3
Benefit recipients			
RETIREED MEMBERS			
Number ¹	17,353	18,219	5.0
Average age	71.8	71.7	(0.1)
Total annualized benefits	\$304,133,198	\$326,961,468	7.5
Average annualized benefits	\$17,526	\$17,946	2.4
BENEFICIARIES			
Number ¹	2,892	2,915	0.8
Total annualized benefits	\$27,085,064	\$28,372,647	4.8
Average annualized benefits	\$9,366	\$9,733	3.9
DISABILITIES			
Number	316	323	2.2
Total annualized benefits	\$3,815,915	\$4,051,410	6.2
Average annualized benefits	\$12,076	\$12,543	3.9
Total benefit recipients			
Number	20,561	21,457	4.4
Total annual benefits	\$335,034,177	\$359,385,525	7.3
Average annual benefits	\$16,295	\$16,749	2.8
Terminated members			
Number—vested	7,382	7,789	5.5
Number—non-vested (entitled to accumulated contributions only)	6,275	6,412	2.2
Total terminated members	13,657	14,201	4.0
Total system members	73,232	74,148	1.3
Results of actuarial valuation			
Normal cost (without expenses)	11.253%	11.249%	0.0
(with expenses)	11.502%	11.499%	0.0
Frozen unfunded actuarial accrued liability	\$273,376,355	\$278,780,161	2.0
Market value of assets	\$6,496,634,989	\$7,936,269,496	22.2
Actuarial value of assets	\$7,119,874,593	\$7,433,776,511	4.4
Actuarial accrued liability (AAL)	\$7,393,250,948	\$7,712,556,672	4.3
Actuarial accrued liability funded ratio			
(actuarial value of assets/AAL)	96.3%	96.4%	0.1
(market value of assets/AAL)	87.9%	102.9%	17.1
Projected years to fund level funding requirements	30	30	0.0

¹ In addition, there are 47 and 45 members or beneficiaries as of July 1, 2010, and July 1, 2011, respectively, whose benefits are currently suspended, but who are entitled to future benefits.

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 94 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 contributions and 85 percent of employer contributions (or 50 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.

For members who terminated prior to July 1, 2010, the percentage of employer contributions is 100 percent with three or more years of contributory service or 75 percent with less than three years of contributory service.

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 percent 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, 2011.

Optional Forms of Retirement Payments

Administrative Expenses

Retired Members

INVESTMENT SUMMARY



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- Investment Analysis**
- The Investment Council
- Investment Objectives and Policy
- Prudent Man Standard
- Performance
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- Schedule of Investment Management Expenses
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- Summary of Investment Portfolios
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INVESTMENT COUNCIL'S LETTER

TO THE SOUTH DAKOTA RETIREMENT SYSTEM BOARD OF TRUSTEES:

This letter summarizes the South Dakota Investment Council's fiscal year 2011 investment performance for the assets of the South Dakota Retirement System, as well as the Council's focus on investing for the long term, future return expectations and investment objectives.

FISCAL YEAR 2011 PERFORMANCE

The fiscal year 2011 investment return for the South Dakota Retirement System (SDRS) was 25.8%. This exceeded the Investment Council's (Council) market index-based benchmark return of 22.1% and the median peer fund return of 19.7%. Return attribution analysis indicates the two largest contributors were (1) outperformance within the real estate category; and (2) having a higher allocation to equities as markets continued to recover from the 2008/09 financial crisis losses. Additional investments were made to both areas during the crisis.

The returns versus benchmarks and peers rank among the Council's best individual years. However, it is important to be mindful that the Council invests for the long term and believes performance should be judged over the long term. The actions taken in any year may impact performance several years down the road. There have been interim periods of underperformance in the Council's history, and there will be more in the future. Long-term success has primarily resulted from sticking to investment strategies during underperforming periods.

INVESTING FOR THE LONG TERM

The Council has managed SDRS assets since consolidation in 1974. The Council's goal is to add value over the long term versus market indexes and other similar funds. Since inception, investment returns have meaningfully exceeded the state fund universe and the Investment Council's capital markets benchmark.

The Council invests in assets believed to be undervalued from a long-term perspective. The investment valuation process is based on the view that the worth of an asset is the present value of its future cash flows. Internal research efforts focus on estimating future cash flows and risk which impact the rate used to discount to present value.

RETURN EXPECTATIONS

In the mid-1990s, the Investment Council began to caution against expecting continuation of the double-digit returns earned during up markets, such as from 1982 to 1999 and more recently 2003 to 2007. The Council believes market return expectations should be based on forward-looking long-term cash flows rather than extrapolation of past returns.

As of June 30, 2011, expected returns were 3.2% for bonds and 7.8% for stocks. Low interest rates foreshadow low future bond returns. The expected return for stocks is lower than earned on average in the post-World War II period but compares favorably to expectations for bonds and to near-zero money market yields. The expected long-term return for the overall SDRS portfolio, which is diversified across a number of asset categories, is roughly 6.9% assuming a 3.0% inflation rate.

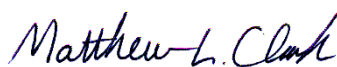
It is important to note the expected return is the mid-point of a range of possible outcomes. For a 10-year horizon, the standard deviation, which statistically encompasses the central two-thirds of potential outcomes, was plus or minus 4.8% around the expected return of 6.9%, for a return range of 2.1% to 11.7% per annum. For a 20-year horizon, it was plus or minus 3.4% for a return range of 3.5% to 10.3% per annum.

INVESTMENT OBJECTIVES

The Council's overall objective is to prudently manage SDRS assets to achieve and exceed the returns available over the long term from the broad capital markets (stocks, bonds, real estate, etc.). The Council has three specific objectives. The first relates to achieving and exceeding the actuarial estimated rate of return over the long term to help assure the financial health of SDRS. The other two objectives relate to adding value over the long term versus the index returns of the Council's capital markets benchmark and versus peer funds.

The Council values the excellent cooperative relationship with the SDRS Board of Trustees and staff. The Council believes this teamwork and a disciplined focus on long-term investment value will serve us well in the decades to come.

Sincerely,



Matthew L. Clark, CFA
State Investment Officer

INVESTMENT ANALYSIS

The Investment Council

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 the SDRS Executive Director/Administrator. 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 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 Institute 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.

Investment Objectives and Policy

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

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

- Achieve and exceed the actuarial required rate of return over the long-term

The actuarial rate of return is an estimate made by a retirement system's actuary of the investment return achievable over the long term through investing in the capital markets. The return estimate, along with other actuarial estimates relating to issues such as member longevity, salary changes, and turnover, are used by the actuary to assess the funding status and overall health of a retirement system. Achievement of the actuarial return estimate is important to continued financial strength of SDRS. Additional return above the actuarial estimate can strengthen the financial condition and/or provide additional resources to address SDRS benefit goals.

If investment markets do not allow the Investment Council, or the Investment Council simply fails, to achieve the estimated return over the long term, South Dakota law may require benefit reductions, contributions changes, or both. It is important that the actuarial estimated return be a reasonable expectation of what the capital markets can deliver, or it may not be realistic to expect to achieve this objective.

The remaining objectives relate to adding value over the long term versus the index returns of the Investment Council's capital markets benchmark and versus peer funds.

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

This is the most important specific investment objective in judging the Investment Council's delivery of a competitive rate of return. The objective is to achieve and exceed the indexed returns that would be earned if SDRS was invested in the Investment Council's selected capital markets benchmark. The key investment policy decision made by the Investment Council is asset allocation.

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 total fund performance over the long-term relative to professionally managed multi-billion dollar pension funds

The Investment Council compares its performance to public and corporate pension fund peers. While there is some variation in liability structure and risk preferences across funds, all pension funds are professionally managed and attempt to produce superior returns for their beneficiaries. Therefore, it makes sense to compare SDRS results to peers.

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 2011 was 25.8 percent. The Investment Council's benchmark return for FY 2011 was 22.1 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, 1 percent commodities and 1 percent cash. The 10-year annualized return was 7 percent versus the benchmark return of 5.7 percent.

The internal equity fund earned 28.1 percent in FY 2011 versus a benchmark return of 30.8 percent. The 10-year return for the internal equity fund was 4.1 percent versus a benchmark return of 4.3 percent.

SDRS' bond fund returned 4.7 percent in FY 2011 versus a benchmark return of 3.7 percent. The 10-year return for the internal bond fund was 6.8 percent versus a benchmark return of 6.3 percent.

Returns earned by other portfolios and outside managers in FY 2011 (included in total fund returns) were: 3.0 percent merger arbitrage; 8.4 percent convertible arbitrage; 24.3 percent Sanders Capital; 33.5 percent Brandes; 27.4 percent GE Asset Management; 33.2 percent Dimensional; 17.8 percent CVI Global Value Fund; 6.5 percent CVI Specialized Ventures; 22.4 percent TCW; 23.1 percent PIMCO; 14.1 percent Oaktree; 57.6 percent Blackstone Distressed Securities; 22.4 percent Blackstone Credit Liquidity; 26.8 percent Sanders All Asset; 29.6 percent Bridgewater; and 17.0 percent GE Commodities. Blackstone, Cypress, Apollo, Cargill, Capital International, Doughty Hanson, Lonestar, Kohlberg Kravis Roberts Associates, Silver Lake, Carlyle, Riverstone, CINVIN Fund 4, CVC, DLJ, Pineridge, Crossroads, 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.

During FY 2011 inflation averaged 3.6 percent while SDRS' total return was 25.8 percent. Over the last 10 years, inflation has averaged 2.4 percent and total returns 7.0 percent, creating a real return of 4.6 percent.

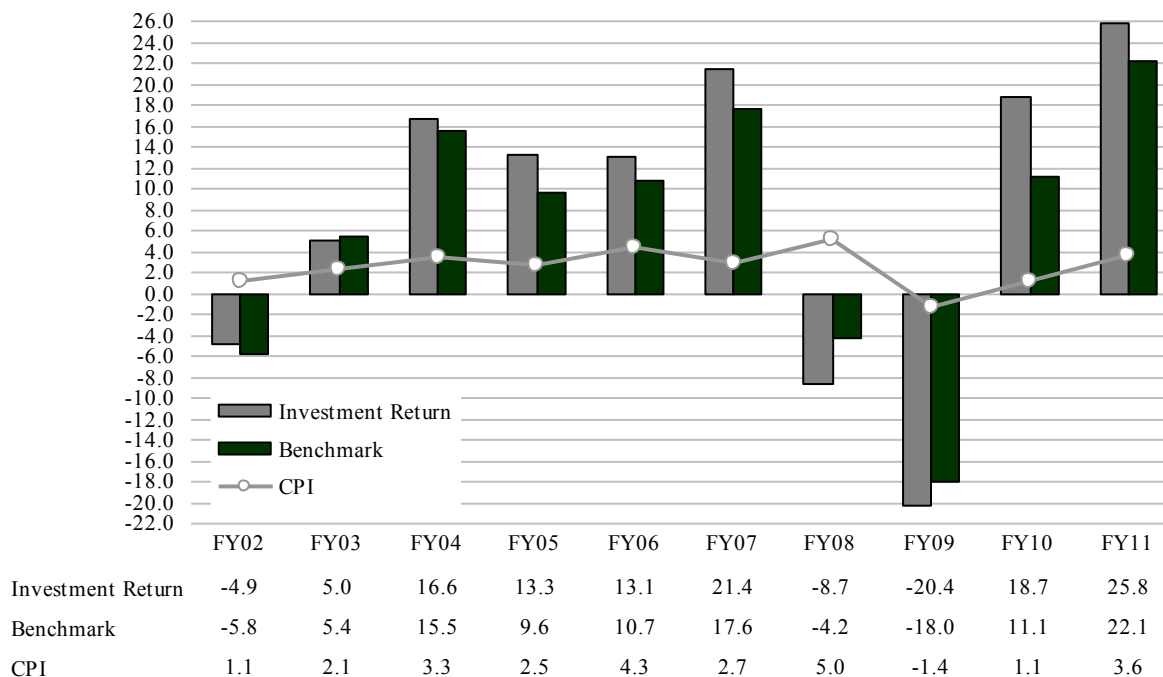
Prudent Man Standard

Performance

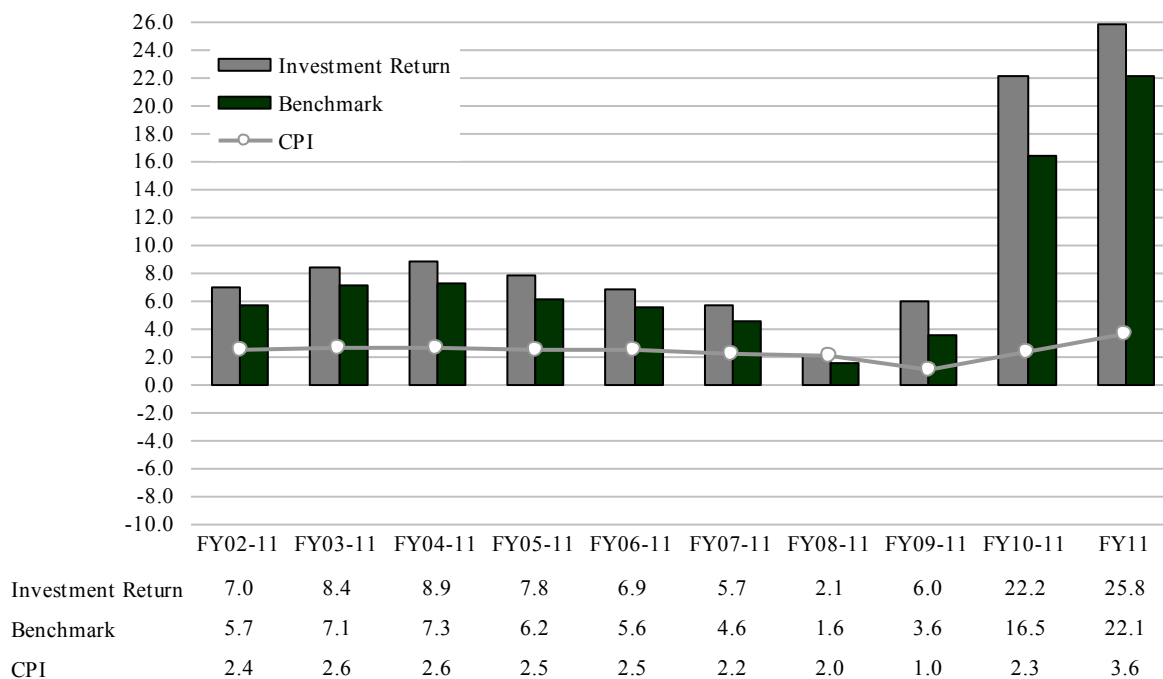
Real Rates of Return

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, 2011, 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 [\$6.4 million], PIMCO Distressed Mtg Fund II [\$170.2 million], TCW Specialized Mtg Credits [\$142.4 million], Oaktree Loan Fund 2x [\$25.2 million], Blackstone Distressed Securities [\$1.9 million], Blackstone Credit Liquidity [\$19.1 million], and Sanders All Asset Value [\$16.3 million] invest in distressed and high-yield fixed-income securities. Bridgewater Pure Alpha Fund II [\$75.0 million], Brandes Global Mid-Cap [\$41.7 million], CVI Global Value Fund [\$170.4 million], GE Asset Management [\$82.4 million], Dimensional Fund Advisors Inc. [\$49.2 million], and Sanders Capital [\$26.7 million] invest in global equities. Blackstone Real Estate Partners [\$885.0 million], Doughty Hanson & Co European Real Estate [\$28.8 million], Apollo Real Estate Advisors LP [\$21.7 million], Cargill North American Real Estate Partners [\$75.7 million], and Lonestar Real Estate [\$2.3 million] invest in real estate. CINVIN [\$110.6 million], DLJ Merchant Banking Partners LP [\$0.8 million], KKR Associates [\$55.9 million], Crossroads Investment Advisors LP [\$6.3 million], Silver Lake Partners LP [\$137.1 million], Doughty Hanson & Co Private Equity IV [\$116.0 million], Blackstone Private Equity [\$233.3 million], Elevation Partners [\$35.1 million], CVC [\$77.2 million], Carlyle [\$56.8 million], Riverstone [\$33.3 million], Cypress Merchant Banking Partners LP [\$5.5 million], Pinebridge [\$11.0 million], and Capital International [\$37.5 million] invest in private equity. GE Active Commodities [\$29.3 million] invest in commodities.

Investment Managers

Investment managers	Management expenses
State of South Dakota Investment Council	\$5,003,466
Pinebridge	400,352
Apollo Real Estate Advisors LP	356,879
Blackstone Distressed Securities and Credit Liquidity	249,875
Blackstone Private Equity	1,595,385
Blackstone Real Estate Partners	8,668,702
Brandes Investment Partners	371,288
Capital International	508,854
Cargill North American Real Estate Partners	1,509,421
Carlyle	314,206
CINVIN	1,645,854
CVC	838,773
CVI	2,880,543
Cypress Merchant Banking Partners LP	66,416
Dimensional Fund Advisors, Inc.	201,312
Doughty Hanson & Co. European Real Estate	1,324,775
Doughty Hanson & Co. Private Equity IV	1,385,315
Elevation Partners	367,524
GE Asset Management China	1,153,623
GE Asset Management Commodities	132,408
KKR Associates	181,484
Crossroads Investment Advisors LP	379,936
Loanstar Real Estate	2,176,210
Oaktree Loan Fund 2x	216,733
PIMCO Distressed Mtg Fund II	2,525,128
Sanders All Asset Value	191,919
Sanders Capital	181,395
Riverstone	311,833
Silver Lake Partners LP	1,475,678
TCW Specialized Mtg Credits	1,236,971
Total investment activity expenses	<u>\$37,852,258</u>

Schedule of Investment Management Expenses and Commissions

For the Year Ended
June 30, 2011

INVESTMENT ANALYSIS (CONTINUED)

Summary of Investment Portfolios

As of June 30, 2011	Market value	Futures Positions	Exposure with futures	Percentage with futures overlay on cash markets
Global Equity				
Internal Global Equity	\$3,743,517,058			
Internal High Quality Equity	156,915,481			
Internal Small/Mid Equity	44,145,561			
Brandes	41,677,698			
Dimensional Fund Advisors	49,222,373			
GE Asset Management	82,370,734			
Sanders Capital	26,719,312			
Equity Futures		\$(92,444,800)	\$4,052,123,417	51.1
Private Equity Limited Partnerships				
Blackstone	233,308,710			
Capital International	37,511,774			
Carlyle	90,091,261			
CINVIN	110,615,119			
Credit Suisse	793,032			
CVC	77,167,970			
Cypress	5,488,391			
Doughty Hanson	115,996,822			
Elevation	35,054,803			
KKR	55,854,800			
Neuberger Berman	6,314,593			
Pinebridge	11,017,768			
Silver Lake	137,100,567		916,315,610	11.6
Arbitrage & Hedge Fund-Like				
Internal Merger Arbitrage	19,813,110			
Internal Convertible Arbitrage	144,387,818			
Bridgewater	74,996,216			
Sanders Capital	16,262,025		255,459,169	3.2
Real Estate Limited Partnerships				
AREA Property Partners	21,676,620			
Blackstone	885,020,620			
CarVal	75,672,594			
Doughty Hanson	28,824,013			
Lonestar	2,337,088		1,013,530,935	12.8
Fixed Income—Investment Grade/TIPS				
Internal Investment Grade	849,181,166			
Treasury Financial Futures		156,307,000	1,005,488,166	12.7
Fixed Income—High Yield/Distressed Debt				
Internal High Yield	83,313,279			
Blackstone	20,922,245			
CarVal	176,797,442			
Oaktree	25,249,943			
PIMCO	170,211,018			
TCW	142,444,076		618,938,003	7.8
Commodities				
GE Asset Management	29,252,302		29,252,302	0.4
Cash and Cash Equivalents				
Internal Shift Account	98,949,067			
Cash from Futures		(63,862,200)	35,086,867	0.4
Total	<u>\$7,926,194,469</u>	<u>\$0</u>	<u>\$7,926,194,469</u>	<u>100%</u>



The South Dakota Retirement System trust fund's internal global equity portfolio characteristics as of June 30, 2011, are presented below. The SDRS internal equity portfolio is compared to the 2/3 S&P Global 1200 Index Ex-Iran plus 1/3 S&P 500 Index benchmark.

Internal Equity Profile

Distribution by Market Sector

Market sector	SDRS total equity	Bench
Consumer Discretionary	11.8%	10.1%
Consumer Staples	11.1	10.3
Energy	11.7	11.9
Financials	20.4	18.2
Health Care	14.0	10.1
Industrials	7.6	11.2
Information Technology	14.7	13.6
Materials	3.6	6.7
Telecommunications Services	2.1	4.2
Utilities	2.4	3.7
Cash equivalents	0.6	0.0
Total	100.0%	100.0%

Ten Largest Country Weights

	SDRS	Bench
United States	70.0%	65.5%
Great Britain	7.1	6.4
Switzerland	5.8	2.5
Japan	5.3	4.9
France	2.8	3.1
Germany	2.0	2.6
Canada	1.8	3.2
Netherlands	1.4	0.7
Finland	0.6	0.3
Ireland	0.6	0.1
Total	97.4%	89.3%

30 Largest Holdings

	Percent of Total
Exxon Mobil Corp.	2.7%
Pfizer, Inc.	2.2
Wells Fargo & Co.	2.1
JPMorgan Chase & Co.	2.0
Microsoft Corp.	1.9
Wal-Mart Stores	1.8
U.S. Bancorp	1.7
ConocoPhillips	1.7
General Electric Co.	1.7
Target Corp.	1.7
Honda Motor Co., Ltd.	1.6
Nestle SA	1.6
Chevron Corp.	1.5
Cisco Systems, Inc.	1.5
Intel Corp.	1.4
Sanofi	1.3
Bank of America Corp.	1.3
Lowe's Cos., Inc.	1.3
UnitedHealth Group, Inc.	1.3
CVS Caremark Corp.	1.2
Google, Inc.	1.2
Hewlett-Packard Co.	1.2
GlaxoSmithKline plc	1.2
Roche Holding AG	1.1
Johnson & Johnson	1.1
The Procter & Gamble Co.	1.0
BP plc—ADR	1.0
BB&T Corp.	0.9
PepsiCo, Inc.	0.9
Dell, Inc.	0.9
Total	44.0%

INVESTMENT ANALYSIS (CONTINUED)

Bond Profile

The South Dakota Retirement System internal bond fund portfolio characteristics for the past 10 years are presented below. The Bond Index is presented for comparative purposes.

South Dakota

Investment Office	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Yield to maturity	6.72%	4.73%	5.44%	4.70%	6.00%	6.00%	5.67%	5.17%	3.65%	2.60%
Average maturity (years)	8.40	7.46	7.50	5.80	5.47	6.14	6.60	5.20	5.41	5.00
Duration (years)	5.92	5.20	5.78	4.10	4.65	5.00	5.38	4.10	4.04	4.40

Bond Index

Yield to maturity	5.21%	3.60%	4.68%	4.51%	5.81%	5.69%	4.99%	3.82%	2.63%	2.6%
Average maturity (years)	6.91	6.70	7.47	6.21	7.28	7.39	7.80	6.27	5.96	6.50
Duration (years)	4.54	3.90	4.77	4.67	5.06	5.12	5.36	4.88	4.55	4.80

Distribution Profile

The South Dakota Retirement System's internal investment grade (IG) and high yield (HY) bond portfolio characteristics are presented below:

Distribution by Duration

	IG	HY
0 to 2 years	11.5%	22.7%
2 to 3 years	17.5	19.9
3 to 4 years	22.1	22.0
4 to 5 years	22.4	14.7
5 to 6 years	8.6	8.5
6 to 8 years	8.7	3.5
Above 8 years	9.2	8.7
Total	100.0%	100.0%

Distribution by Quality Rating

	IG	HY
U.S. Gov't/Aaa	63.3%	1.1%
Aa	6.2	0.0
A	14.9	0.0
Baa	14.9	0.0
Ba	0.7	25.4
B	0.0	44.0
Caa and lower	0.0	29.5
Total	100.0%	100.0%

Distribution by Coupon

	IG	HY
0.00% - 4.00%	35.0%	1.1%
4.01% - 5.00%	28.0	0.0
5.01% - 6.00%	24.5	2.9
6.01% - 7.00%	9.7	7.4
7.01% - 8.00%	1.8	28.8
8.01% - 9.00%	1.0	26.7
9.01% and over	0.0	33.1
Total	100.0%	100.0%

Distribution by Sector

	IG	HY
Cash/cash equivalents	1.6%	1.1%
U.S. Treasuries	17.4	0.0
Agency Debentures/FDIC	7.1	0.0
Agency Mortgage Backed Securities	36.2	0.0
Investment Grade Corporates	37.7	0.0
High Yield Corporates	0.0	98.9
Total	100.0%	100.0%

The allocation of assets to various categories such as stocks, bonds, real estate, and others, has the largest impact on investment outcomes. The Investment Council establishes a benchmark asset allocation which considers expected returns and risk as well as the likelihood of achieving the investment objectives for SDRS over the long term.

Asset Allocation

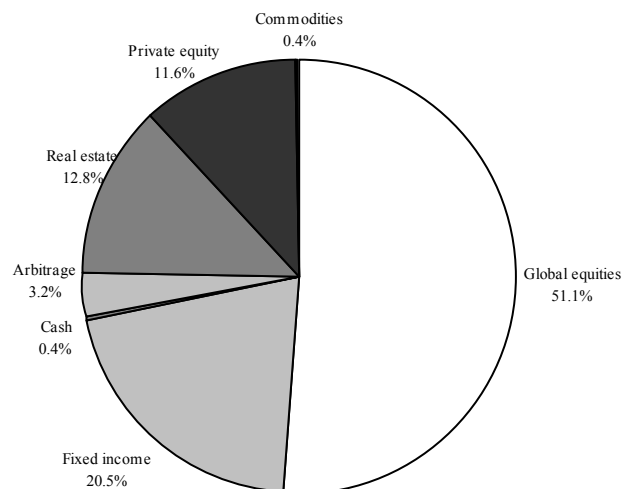
Asset category risk is measured by standard deviation, which is a measure of volatility. The degree that categories diversify each other is measured by correlation. Overall portfolio risk is a function of the standard deviation of the individual asset categories and the correlation among them. Portfolio liquidity is also monitored. Conventional statistical measures of standard deviation and correlation are helpful for understanding risk in normal times but understate real-world frequency and magnitude of severe market declines. The expected long-term return as of June 30, 2011, was 6.9%. This excludes any potential value added or detracted relative to index returns resulting from managing the portfolio. The rate of inflation embedded in the expected return was 2.6%. Standard deviation was estimated to be 15.3% after adjustments to capture real-world frequency of adverse events. These statistics indicate a 66% chance the return for any year would be between (8.4)% and 22.2%.

An additional risk measure is the amount of equity-like risk in the overall portfolio. It can be difficult to understand overall portfolio risk given multiple asset categories that can each behave uniquely. The current equity-like risk measure focuses on the sensitivity of each asset category to a severe stock market decline. The analysis is done separately for inflation and deflation-related stock market declines. The sensitivities are aggregated based on the percentage invested in each category to determine the overall portfolio equity-like risk. The equity-like risk level is adjusted in response to valuation attractiveness.

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, 2011

	6/30/09	6/30/10	6/30/11
Global equities	52.9%	52.2%	51.1%
Fixed income	24.1%	22.2%	20.5%
Cash	0.3%	0.1%	0.4%
Arbitrage	4.8%	4.9%	3.2%
Real estate	8.5%	9.3%	12.8%
Private equity	9.4%	11.3%	11.6%
Commodities	—	—	0.4%



INVESTMENT ANALYSIS (CONTINUED)

Time-Weighted Rates of Return

SOUTH DAKOTA RETIREMENT SYSTEM	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004
TOTAL INVESTMENT FUND	(2.9)%	(4.9)%	5.0%	16.6%
Cash equivalents	6.0%	2.5%	1.4%	0.9%
Internal bond fund	10.0%	5.9%	14.4%	1.3%
Internal high yield bond fund	—	—	—	—
Combined internal equity fund	(12.0%)	(12.2)%	(2.0)%	22.9%
Arbitrage convertible fund	6.5%	3.8%	13.1%	1.0%
Arbitrage merger fund	6.2%	2.1%	8.5%	7.4%
INDICES				
Bond index				
Internal bond fund benchmark	11.2%	7.0%	13.4%	1.3%
Internal high yield bond fund benchmark	—	—	—	—
COMBINED INTERNAL EQUITY BENCHMARK	(17.1)%	(15.0)%	(0.8)%	23.6%
TOTAL FUND BENCHMARKS				
Russell/Mellon total billion \$ fund	(5.8)%	(6.6)%	3.1%	16.9%
Capital market benchmark	(5.1)%	(5.8)%	5.4%	15.5%
CONSUMER PRICE INDEX	3.2%	1.1%	2.1%	3.3%

Time-Weighted Annualized Rates of Return

SOUTH DAKOTA RETIREMENT SYSTEM	Fiscal 2002-2011	Fiscal 2003-2011	Fiscal 2004-2011	Fiscal 2005-2011
TOTAL INVESTMENT FUND	7.0%	8.4%	8.9%	7.8%
Cash equivalents	2.1%	2.0%	2.1%	2.3%
Internal bond fund	6.8%	6.9%	6.0%	6.7%
Internal high yield bond fund	—	—	—	—
Combined internal equity fund	4.1%	6.1%	7.2%	5.1%
Arbitrage convertible fund	6.6%	6.9%	6.2%	6.9%
Arbitrage merger fund	3.3%	3.4%	2.8%	2.2%
INDICES				
Bond index				
Internal bond fund benchmark	6.3%	6.2%	5.3%	5.9%
Internal high yield bond fund benchmark	—	—	—	—
COMBINED INTERNAL EQUITY BENCHMARK	4.3%	6.7%	7.6%	5.5%
TOTAL FUND BENCHMARKS				
Russell/Mellon total billion \$ fund	5.6%	7.1%	7.6%	6.4%
Capital market benchmark	5.7%	7.1%	7.3%	6.2%
CONSUMER PRICE INDEX	2.4%	2.6%	2.6%	2.5%

Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011
13.3%	13.1%	21.39%	(8.65)%	(20.36)%	18.7%	25.8%
2.1%	4.2%	5.3%	4.2%	1.5%	(1.2)%	0.0%
9.1%	(0.2)%	6.5%	8.4%	9.2%	9.8%	4.7%
—	—	7.7%	0.1%	0.7%	17.5%	16.0%
9.9%	12.6%	22.0%	(21.0)%	(20.8)%	16.9%	28.1%
0.9%	5.5%	6.3%	6.5%	8.4%	13.0%	8.4%
3.0%	11.7%	8.7%	(17.4)%	1.4%	7.8%	3.0%
7.9%	0.2%	6.1%	7.8%	7.1%	9.0%	3.7%
—	—	9.2%	1.2%	2.3%	18.9%	14.8%
9.0%	14.7%	23.6%	(11.0)%	(27.9)%	12.3%	30.8%
14.8%	10.7%	17.7%	(5.0)%	(17.6)%	14.5%	19.7%
9.6%	10.7%	17.6%	(4.2)%	(18.0)%	11.1%	22.1%
2.5%	4.3%	2.7%	5.0%	(1.4)%	1.1%	3.6%

Fiscal 2006-2011	Fiscal 2007-2011	Fiscal 2008-2011	Fiscal 2009-2011	Fiscal 2010-2011	Fiscal 2011
6.9%	5.7%	2.1%	6.0%	22.2%	25.8%
2.3%	1.9%	1.1%	0.1%	(0.6)%	0.0%
6.3%	7.7%	8.0%	7.9%	7.2%	4.7%
—	8.2%	8.3%	11.2%	16.7%	16.0%
4.3%	2.7%	(1.6)%	5.8%	22.3%	28.1%
8.0%	8.5%	9.0%	9.9%	10.7%	8.4%
2.1%	0.2%	(1.8)%	4.0%	5.4%	3.0%
5.6%	6.7%	6.9%	6.6%	6.3%	3.7%
—	9.1%	9.0%	11.8%	16.7%	16.0%
5.0%	3.1%	(1.4)%	2.0%	21.2%	30.8%
5.7%	4.8%	1.8%	4.1%	17.1%	19.7%
5.6%	4.6%	1.6%	3.6%	16.5%	22.1%
2.5%	2.2%	2.0%	1.0%	2.3%	3.6%

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 38,490 total active members as of June 30, 2011.

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

Public Entities Participating in SDRS

School Districts Membership: 17,454

Percentage of total active
members: 45.4%
Units: 168

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: 8,064

Percentage of total active
members: 21.0%
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: 4,387

Percentage of total active
members: 11.4%
Units: 1

MEMBERSHIP PROFILE (CONTINUED)

Municipalities
Membership: 4,017

Percentage of total active members: 10.4%
Units: 149

Aberdeen	Clark	Gettysburg	Lake Andes	Onida	Tripp
Alcester	Clear Lake	Gregory	Lake Norden	Parker	Timber Lake
Arlington	Colman	Groton	Lake Preston	Parkston	Tyndall
Armour	Conde	Harrisburg	Langford	Philip	Valley Springs
Aurora	Corsica	Hartford	Lead	Pickstown	Vermillion
Avon	Crooks	Hayti	Lemmon	Pierre	Viborg
Baltic	Custer	Hecla	Lennox	Plankinton	Volga
Belle Fourche	Dallas	Hermosa	Leola	Platte	Wagner
Beresford	Deadwood	Herreid	Madison	Pollock	Wakonda
Big Stone City	Dell Rapids	Highmore	Marion	Presho	Wall
Bison	DeSmet	Hill City	Martin	Pukwana	Warner
Box Elder	Dupree	Hot Springs	McLaughlin	Rapid City	Watertown
Brandon	Edgemont	Hoven	Menno	Redfield	Waubay
Bridgewater	Elk Point	Howard	Midland	Roscoe	Webster
Britton	Elkton	Hudson	Milbank	Salem	Wessington
Brookings	Estelline	Humboldt	Miller	Scotland	Springs
Bruce	Ethan	Hurley	Mitchell	Selby	White
Buffalo	Eureka	Huron	Mobridge	Sisseton	White Lake
Burke	Faith	Ipswich	Mt. Vernon	Spearfish	White River
Bryant	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

Counties
Membership: 3,864

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: 704

Percentage of total active members: 1.8%
Units: 88

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



SDRS Benefits Paid

County	FY 2011 members receiving benefits	Annualized benefits	County	FY 2011 members receiving benefits	Annualized benefits
Aurora	103	1,274,787	Hyde	51	482,290
Beadle	456	6,993,492	Jackson	45	757,956
Bennett	33	424,082	Jerauld	57	697,180
Bon Homme	264	3,490,947	Jones	35	499,907
Brookings	1,130	22,793,244	Kingsbury	143	1,855,715
Brown	973	16,704,482	Lake	352	5,971,056
Brule	113	1,648,666	Lawrence	690	12,265,287
Buffalo	4	38,104	Lincoln	264	4,175,729
Butte	230	2,890,351	Lyman	62	1,085,533
Campbell	48	639,461	Marshall	142	1,968,376
Charles Mix	214	2,967,879	McCook	101	1,440,818
Clark	110	1,143,245	McPherson	64	733,515
Clay	547	11,138,418	Meade	466	7,502,780
Codington	636	11,744,669	Mellette	45	478,600
Corson	31	499,315	Miner	55	751,884
Custer	278	4,347,692	Minnehaha	2,432	50,671,291
Davison	496	8,397,025	Moody	150	1,885,639
Day	193	2,604,346	Pennington	2,349	44,107,776
Deuel	91	941,562	Perkins	77	960,008
Dewey	66	963,345	Potter	95	1,312,801
Douglas	68	840,022	Roberts	218	3,072,075
Edmunds	89	1,354,053	Sanborn	69	890,868
Fall River	239	2,750,199	Shannon	10	157,883
Faulk	107	1,214,009	Spink	374	4,756,947
Grant	182	2,554,559	Stanley	166	3,301,115
Gregory	133	1,812,304	Sully	44	492,040
Haakon	47	626,952	Todd	57	830,001
Hamlin	140	1,948,404	Tripp	163	2,246,563
Hand	99	1,329,553	Turner	192	2,415,294
Hanson	39	483,797	Union	252	3,846,489
Harding	22	229,858	Walworth	192	2,820,563
Hughes	1,185	25,278,203	Yankton	682	10,930,825
Hutchinson	219	3,157,238	Ziebach	12	145,132
Total benefits payable by county			18,691	\$320,734,199	

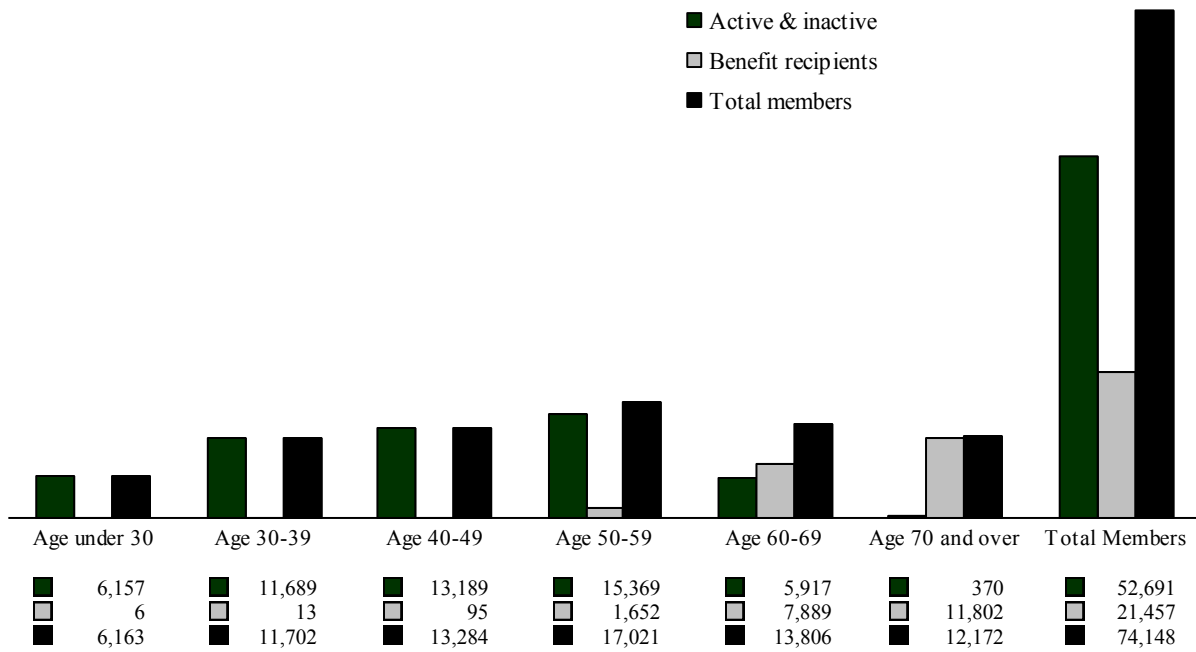
SDRS Benefits Paid by County of Residence

SDRS Benefits Paid Outside of South Dakota

State	Members receiving benefits	Annualized benefits	State	Members receiving benefits	Annualized benefits
Arizona	273	4,334,712	North Dakota	116	1,445,126
California	85	1,117,849	Texas	155	2,157,513
Colorado	131	1,855,808	Wisconsin	84	1,256,229
Florida	105	1,723,439	Wyoming	92	969,591
Iowa	183	2,204,112			
Minnesota	387	5,489,995	Other states and foreign countries	838	12,150,212
Montana	60	893,508			
Nebraska	257	3,053,233			
Total benefits payable outside South Dakota			2,766	\$38,651,327	
Total benefit recipients and benefit payable			21,457	\$359,385,526	

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	298	Faulk	332	Mellette	214
Beadle	1,320	Grant	496	Miner	208
Bennett	159	Gregory	405	Minnehaha	9,597
Bon Homme	792	Haakon	192	Moody	456
Brookings	4,130	Hamlin	524	Pennington	7,777
Brown	3,226	Hand	243	Perkins	240
Brule	425	Hanson	183	Potter	238
Buffalo	7	Harding	105	Roberts	669
Butte	837	Hughes	4,510	Sanborn	216
Campbell	135	Hutchinson	628	Shannon	109
Charles Mix	718	Hyde	146	Spink	1,194
Clark	298	Jackson	170	Stanley	632
Clay	1,953	Jerauld	180	Sully	160
Codington	2,112	Jones	116	Todd	443
Corson	164	Kingsbury	536	Tripp	556
Custer	862	Lake	1,122	Turner	644
Davison	1,332	Lawrence	2,334	Union	959
Day	507	Lincoln	1,350	Walworth	595
Deuel	340	Lyman	294	Yankton	2,313
Dewey	373	Marshall	430	Ziebach	118
Douglas	233	McCook	394	Out of state/ Other	8,859
Edmunds	270	McPherson	192		
Fall River	790	Meade	1,788		

Total membership 74,148



	Active members			Inactive members			Total members	Membership by Group
	Vested	Non-vested	Total active	Vested	Non-vested	Total inactive		
Board of Regents								
Female	1,019	265	1,284	422	214	636	1,920	
Male	1,140	351	1,491	431	213	644	2,135	
Total	2,159	616	2,775	853	427	1,280	4,055	
County General								
Female	1,326	305	1,631	288	244	532	2,163	
Male	1,133	273	1,406	177	188	365	1,771	
Total	2,459	578	3,037	465	432	897	3,934	
County Public Safety								
Female	118	51	169	15	31	46	215	
Male	517	141	658	49	68	117	775	
Total	635	192	827	64	99	163	990	
Judicial								
Female	9	3	12	1	0	1	13	
Male	41	3	44	3	0	3	47	
Total	50	6	56	4	0	4	60	
Municipal General								
Female	1,040	334	1,374	271	357	628	2,002	
Male	1,514	338	1,852	235	239	474	2,326	
Total	2,554	672	3,226	506	596	1,102	4,328	
Municipal Public Safety								
Female	32	11	43	3	13	16	59	
Male	595	153	748	73	69	142	890	
Total	627	164	791	76	82	158	949	
Public School & Board of Regents Classified								
Female	4,895	1,373	6,268	1,600	1,900	3,500	9,768	
Male	1,721	666	2,387	375	651	1,026	3,413	
Total	6,616	2,039	8,655	1,975	2,551	4,526	13,181	
State General								
Female	3,118	793	3,911	734	765	1,499	5,410	
Male	2,597	555	3,152	470	383	853	4,005	
Total	5,715	1,348	7,063	1,204	1,148	2,352	9,415	
State Public Safety and Penitentiary								
Female	151	43	194	15	35	50	244	
Male	601	150	751	53	109	162	913	
Total	752	193	945	68	144	212	1,157	
Teachers								
Female	7,317	918	8,235	1,890	699	2,589	10,824	
Male	2,506	374	2,880	684	234	918	3,798	
Total	9,823	1,292	11,115	2,574	933	3,507	14,622	
Grand Total								
Female	19,025	4,096	23,121	5,239	4,258	9,497	32,618	
Male	12,365	3,004	15,369	2,550	2,154	4,704	20,073	
Total	31,390	7,100	38,490	7,789	6,412	14,201	52,691	

MEMBERSHIP PROFILE (CONTINUED)

Benefit Recipients by Group	Retirement benefits		Disability benefits		Survivor benefits		Total benefits	
	2011	2010	2011	2010	2011	2010	2011	2010
Board of Regents								
Male	921	879	4	3	12	12	937	894
Female	374	347	8	7	220	216	602	570
Total	1,295	1,226	12	10	232	228	1,539	1,464
County General								
Male	621	594	29	30	45	42	695	666
Female	706	671	13	13	283	289	1,002	973
Total	1,327	1,265	42	43	328	331	1,697	1,639
County Public Safety								
Male	176	160	5	3	2	2	183	165
Female	18	15	2	2	24	25	44	42
Total	194	175	7	5	26	27	227	207
Judicial								
Male	38	37	0	0	0	0	38	37
Female	3	3	0	0	16	17	19	20
Total	41	40	0	0	16	17	57	57
Municipal General								
Male	647	621	29	26	34	36	710	683
Female	449	431	14	9	261	259	724	699
Total	1,096	1,052	43	35	295	295	1,434	1,382
Municipal Public Safety								
Male	428	409	11	10	0	0	439	419
Female	6	6	0	0	71	74	77	80
Total	434	415	11	10	71	74	516	499
Public School & Board of Regents Classified								
Male	870	814	33	34	148	139	1,051	987
Female	2,425	2,331	36	38	303	302	2,764	2,671
Total	3,295	3,145	69	72	451	441	3,815	3,658
State General								
Male	1,780	1,708	29	36	112	115	1,921	1,859
Female	1,678	1,604	51	50	643	649	2,372	2,303
Total	3,458	3,312	80	86	755	764	4,293	4,162
State Public Safety and Penitentiary								
Male	349	328	7	6	2	2	358	336
Female	30	28	5	3	49	44	84	75
Total	379	356	12	9	51	46	442	411
Teachers								
Male	2,232	2,151	14	13	262	258	2,508	2,422
Female	4,468	4,217	33	33	428	410	4,929	4,660
Total	6,700	6,368	47	46	690	668	7,437	7,082
Grand Total								
Male	8,062	7,701	161	161	617	606	8,840	8,468
Female	10,157	9,653	162	155	2,298	2,285	12,617	12,093
Total	18,219	17,354	323	316	2,915	2,891	21,457	20,561



**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 7/1/2001—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
Period 7/1/2010—6/30/2011							
Average monthly benefit	460	761	726	1,051	1,490	1,960	2,278
Average final average salary	34,708	39,038	37,032	41,887	44,039	46,463	52,846
Number of retired members	63	155	159	152	194	188	357

MEMBERSHIP PROFILE (CONTINUED)

Historical Views

Benefit Recipients and Benefits Paid

Group	2006	2007	2008	2009	2010	2011
Board of Regents	1,288	1,336	1,390	1,432	1,464	1,539
County general	1,513	1,537	1,569	1,609	1,639	1,697
County public safety	159	177	186	198	207	227
Judicial	50	54	55	58	57	57
Municipal general	1,203	1,232	1,265	1,316	1,382	1,434
Municipal public safety	439	458	465	473	499	516
Public school & Board of Regents classified	3,032	3,196	3,340	3,492	3,658	3,815
State general	3,855	3,930	3,971	4,077	4,162	4,293
State public safety & penitentiary	327	356	372	393	411	442
Teachers	6,210	6,443	6,708	6,901	7,082	7,437
Total benefit recipients	18,076	18,719	19,321	19,949	20,561	21,457
Total benefits paid during period	\$234,825,875	\$253,545,120	\$273,236,767	\$306,769,037	\$325,951,211	\$345,942,871
Average benefits paid during period	\$12,991	\$13,545	\$14,142	\$15,378	\$15,853	\$16,123

Active and Inactive Members

Group	2006	2007	2008	2009	2010	2011
Board of Regents	3,468	3,360	3,759	3,886	3,984	4,055
County general	3,913	3,981	4,011	3,943	3,930	3,934
County public safety	821	827	866	943	971	990
Judicial	58	56	58	59	60	60
Municipal general	4,066	4,169	4,235	4,308	4,310	4,328
Municipal public safety	874	886	921	936	951	949
Public school & Board of Regents classified	11,671	12,707	12,996	13,123	13,111	13,181
State general	9,381	9,374	9,496	9,510	9,447	9,415
State public safety & penitentiary	1,122	1,139	1,132	1,160	1,158	1,157
Teachers	14,490	14,517	14,639	14,714	14,749	14,622
Total active and inactive members	49,882	51,316	52,113	52,582	52,671	52,691



Benefit and Expenses by Type

	Benefits			Refund benefits	Total benefits & refunds	Administrative expenses
	Retirement benefits	Disability benefits	Survivor benefits			
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
Fiscal year 2011	313,157,736	4,383,174	28,401,961	25,824,829	371,767,700	3,575,854

Changes in Net Assets Last 10 Fiscal Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Additions										
Member contributions	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	100,179,938
Employer contributions	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	98,624,738
Investment income (loss) (net of expenses)	(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	1,616,173,385
Total additions (deductions) to plan net assets	(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	1,814,978,061
Deductions										
Benefit payments	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	345,942,871
Refunds	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	25,824,829
Administrative expenses	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	3,575,854
Total deductions from plan net assets	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	375,343,554
Change in net assets	(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	1,439,634,507

MEMBERSHIP PROFILE (CONTINUED)

Principal Participating Employers	2011			
	Participating government	Covered employees	Rank	Percentage of total system
State of South Dakota		8,064	1	21%
Board of Regents		4,387	2	11%
Sioux Falls Schools		2,823	3	7%
Rapid City Schools		1,887	4	5%
City of Rapid City		728	5	2%
Watertown Schools		643	6	2%
City of Brookings and Hospital		602	7	2%
Pennington County		588	8	2%
Minnehaha County		515	9	1%
Aberdeen Schools		510	10	1%
All Other		17,743		46%
Total (471 governments)		<u>38,490</u>		<u>100%</u>

	2001			
	Participating government	Covered employees	Rank	Percentage of total system
State of South Dakota		7,610	1	22%
Board of Regents		3,824	2	11%
Rapid City Schools		1,695	3	5%
Sioux Falls Schools		1,490	4	4%
Watertown Schools		601	5	2%
City of Rapid City		583	6	2%
City of Brookings and Hospital		569	7	2%
Pennington County		492	8	1%
Todd County Schools		456	9	1%
Aberdeen Schools		442	10	1%
All Other		17,125		49%
Total (444 governments)		<u>34,887</u>		<u>100%</u>



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

As of June 30, 2011

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	590	131	1,123	20	31	0	580	1	92
\$251—\$500	632	156	1,394	58	60	0	561	8	159
\$501—\$750	519	181	1,139	62	61	4	394	19	116
\$751—\$1,000	371	245	742	29	42	11	260	51	115
\$1,001—\$1,250	308	375	509	53	29	24	225	109	106
\$1,251—\$1,500	214	519	375	26	32	21	162	181	105
\$1,501—\$1,750	182	559	222	23	18	8	120	212	80
\$1,751—\$2,000	136	631	133	24	19	6	74	242	53
Over \$2,000	596	3,102	267	28	33	18	122	1,111	108
	<u>3,548</u>	<u>5,899</u>	<u>5,904</u>	<u>323</u>	<u>325</u>	<u>92</u>	<u>2,498</u>	<u>1,934</u>	<u>934</u>



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

South Dakota Retirement System
P.O. Box 1098
Pierre, South Dakota 57501-1098
Phone: (605) 773-3731
Fax: (605) 773-3949
Toll-Free: (888) 605-SDRS
(7377)

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



SOUTH DAKOTA RETIREMENT SYSTEM

222 East Capitol, Suite 8

P.O. Box 1098

Pierre, SD 57501-1098

Toll-Free (888) 605-SDRS

Local (605) 773-3731