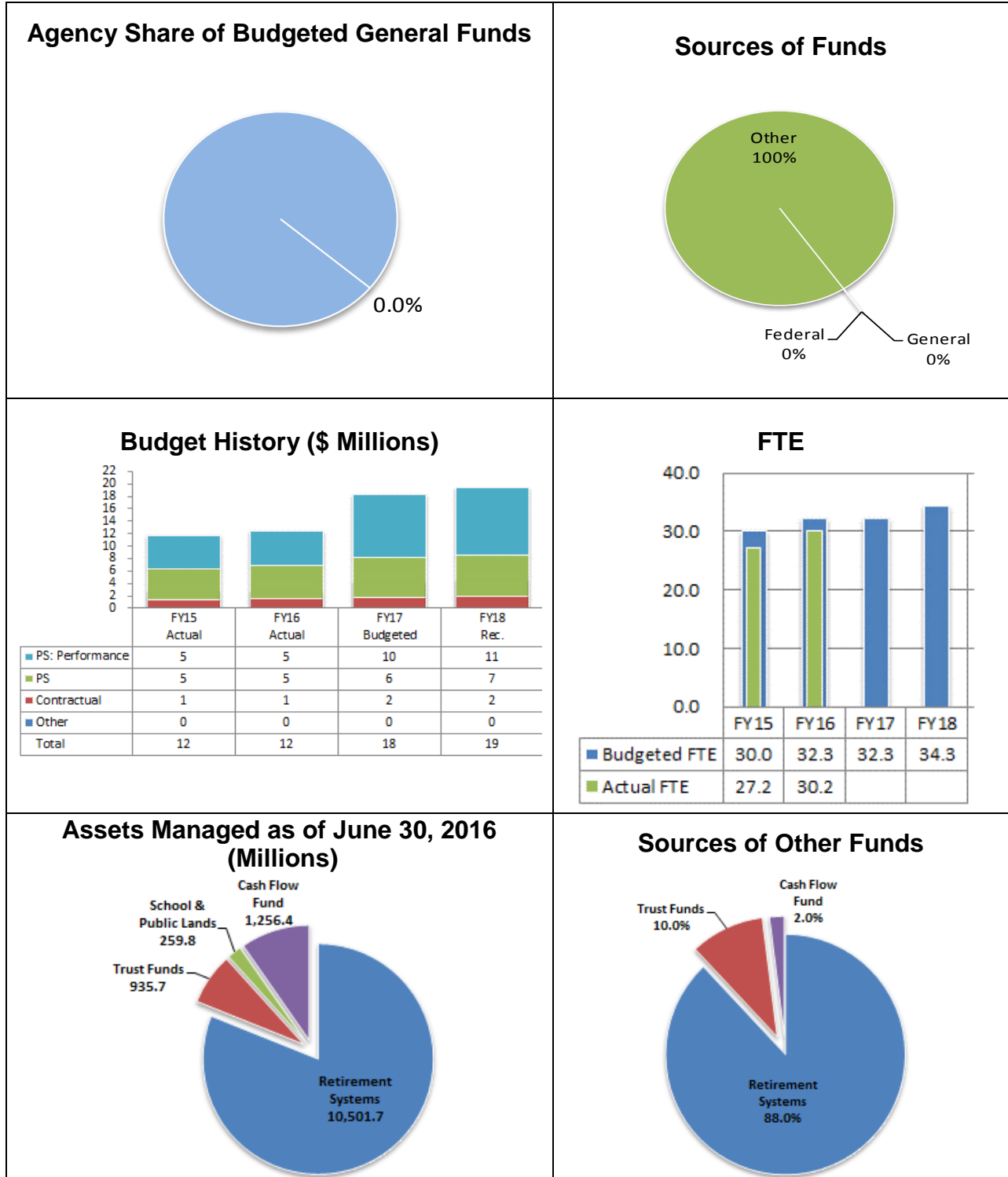


FY18 Budget Briefing

State Investment Council

Information contained in this document is based on the Governor's original FY18 recommended budget.
This document may not correspond with the final FY18 budget adopted by the Legislature.



Key Personnel

- Matthew L. Clark, State Investment Officer
- Christopher L. Nelson, Assistant Investment Officer
- Laurie A. Riss, Business Manager
- Brett D. Fligge, Assistant Investment Officer
- Tammy V. Otten, Assistant Investment Officer

Total by Program, Fund and Object

	FY 2016 Actual	FY 2017 Approp	FY 2018 Request	FY 2018 Gov Rec	Δ From FY 2017
BY PROGRAM					
Investment of State Funds	6,907,849	8,175,588	8,623,123	8,530,259	354,671
Performance Based Compensation	5,471,634	10,152,724	10,766,990	10,766,990	614,266
Total:	12,379,483	18,328,312	19,390,113	19,297,249	968,937
BY FUND CATEGORY					
General	0	0	0	0	0
Federal	0	0	0	0	0
Other	12,379,483	18,328,312	19,390,113	19,297,249	968,937
Total:	12,379,483	18,328,312	19,390,113	19,297,249	968,937
BY OBJECT EXPENDITURE					
Personnel Costs	10,873,430	16,524,047	17,525,536	17,432,672	908,625
Operating Expenditures	1,506,053	1,804,265	1,864,577	1,864,577	60,312
Total:	12,379,483	18,328,312	19,390,113	19,297,249	968,937
Full-Time Equivalent (FTE)	30.3	32.3	34.3	34.3	2.0

Request and Recommendation Summary

	Agency Request			Governor's Recommendation		
	FTE	General	Total	FTE	General	Total
FY 2017 Original Appropriation	32.3	0	18,170,252	32.3	0	18,170,252
Pool Distributions/Transfers	0.0	0	158,060	0.0	0	158,060
FY 2017 Estm. Expenditures	32.3	0	18,328,312	32.3	0	18,328,312
FY 2018 Base	32.3	0	18,328,312	32.3	0	18,328,312
Operating Expense Inflation	0.0	0	(56)	0.0	0	(56)
Change in Employee Compensation	0.0	0	858,820	0.0	0	765,956
Other Adjustments	0.0	0	(3,880)	0.0	0	(3,880)
FY 2018 Program Maintenance (MCO)	32.3	0	19,183,196	32.3	0	19,090,332
1. Additional Investment FTEs	2.0	0	151,817	2.0	0	151,817
2. Investment Research Services	0.0	0	55,100	0.0	0	55,100
FY 2018 Total	34.3	0	19,390,113	34.3	0	19,297,249
Change from Original Appropriation	2.0	0	1,061,801	2.0	0	968,937
% Change from Original Appropriation	6.2%	0.0%	5.8%	6.2%	0.0%	5.3%

Budget by Decision Unit

Budget by Decision Unit	FTE	General	Federal	Other	Total
FY 2017 GBill Appropriation	32.3			18,170,252	18,170,252
Pool Distributions/Transfers	0.0	0	0	158,060	158,060
FY 2017 Estm. Expenditures	32.3	0	0	18,328,312	18,328,312
FY 2018 Base					
Agency Request	32.3	0	0	18,328,312	18,328,312
Governor's Rec.	32.3	0	0	18,328,312	18,328,312
Operating Expense Inflation					
Agency Request	0.0	0	0	(56)	(56)
Governor's Rec.	0.0	0	0	(56)	(56)
Change in Employee Compensation					
Agency Request	0.0	0	0	858,820	858,820
Governor's Rec.	0.0	0	0	765,956	765,956
Other Adjustments					
Agency Request	0.0	0	0	(3,880)	(3,880)
Governor's Rec.	0.0	0	0	(3,880)	(3,880)
FY 2018 Maintenance of Current Operations (MCO)					
Agency Request	32.3	32.3	0	19,183,196	19,183,196
Governor's Rec.	0	0	0	19,090,332	19,090,332
1. Additional Investment FTEs					
Agency Request	2.0	0	0	151,817	151,817
Governor's Rec.	2.0	0	0	151,817	151,817
2. Investment Research Services					
Agency Request	0.0	0	0	55,100	55,100
Governor's Rec.	0.0	0	0	55,100	55,100
FY 2018 Total					
Agency Request	34.3	34.3	0	19,390,113	19,390,113
Governor's Rec.	0	0	0	19,297,249	19,297,249
Agency Request					
Chg from Original Approp.	2.0	0	0	1,061,801	1,061,801
% Chg. from Original Approp.	6.2%	0.0%	0.0%	5.8%	5.8%
<i>Governor's Recommendation</i>					
Chg. from Original Approp.	2.0	0	0	968,937	968,937
% Chg. from Original Approp.	6.2%	0.0%	0.0%	5.3%	5.3%

INVESTMENT OF STATE FUNDS

The mission of the Investment council is to:

- To professionally manage the South Dakota Retirement System and South Dakota Cement Plant Retirement Fund portfolios in order to obtain long-term maximum total returns consistent with prudent risk;
- To professionally manage the state's cash flow fund in order to obtain long-term maximum total returns consistent with the liquidity needs of the fund, the legal list and prudent risk;
- To professionally manage the investment portfolios of the School and Public Lands Fund, the Dakota Cement Trust, the Health Care Trust and the Education Enhancement Trust to obtain the highest risk adjusted return over the long term and to provide income payouts;
- To oversee the Higher Education Savings Plan per SDCL 13-63-1 to 13-63-31 by establishing the program and monitoring the selected program manager, Allianz Global Investors Distributors LLC; and
- To comply with SDCL 3-13-51.2 regarding Section 457 deferred compensation plan investment options; and, to comply with the requirements of SDCL 4-5-12 to 4-5-39, "Investment of State Funds Law".

Budget Request

	FY 2016 Actual	FY 2017 Approp	FY 2018 Request	FY 2018 Gov Rec	Δ From FY 2017
BY PROGRAM					
Investment of State Funds	6,907,849	8,175,588	8,623,123	8,530,259	354,671
Total:	6,907,849	8,175,588	8,623,123	8,530,259	354,671
BY FUND CATEGORY					
General	0	0	0	0	0
Federal	0	0	0	0	0
Other	6,907,849	8,175,588	8,623,123	8,530,259	354,671
Total:	6,907,849	8,175,588	8,623,123	8,530,259	354,671
BY OBJECT EXPENDITURE					
Personnel Costs	5,401,796	6,371,323	6,758,546	6,665,682	294,359
Operating Expenditures	1,506,053	1,804,265	1,864,577	1,864,577	60,312
Total:	6,907,849	8,175,588	8,623,123	8,530,259	354,671
Full-Time Equivalent (FTE)	30.3	32.3	34.3	34.3	2.0

Request and Recommendation Summary

Decision Unit	Agency Request			Governor's Recommendation		
	FTE	General	Total	FTE	General	Total
FY 2017 Original Appropriation	32.3	0	8,017,528	32.3	0	8,017,528
Pool Distributions/Transfers	0.0	0	158,060	0.0	0	158,060
FY 2017 Estm. Expenditures	32.3	0	8,175,588	32.3	0	8,175,588
FY 2018 Base	32.3	0	8,175,588	32.3	0	8,175,588
Operating Expense Inflation	0.0	0	(56)	0.0	0	(56)
Change in Employee Compensation	0.0	0	244,554	0.0	0	151,690
Other Adjustments	0.0	0	(3,880)	0.0	0	(3,880)
FY 2018 Program Maintenance (MCO)	32.3	0	8,416,206	32.3	0	8,323,342
1. Additional Investment FTEs	2.0	0	151,817	2.0	0	151,817
2. Investment Research Services	0.0	0	55,100	0.0	0	55,100
FY 2018 Total	34.3	0	8,623,123	34.3	0	8,530,259
Change from Original Appropriation	2.0	0	447,535	2.0	0	354,671
% Change from Original Appropriation	6.2%	0.0%	5.5%	6.2%	0.0%	4.3%

Budget by Decision Unit

	FTE	General	Federal	Other	Total
FY 2017 GBill Appropriation	32.3			8,017,528	8,017,528
Pool Distributions/Transfers	0.0	0	0	158,060	158,060
FY 2017 Estm. Expenditures	32.3	0	0	8,175,588	8,175,588
FY 2018 Base					
Agency Request	32.3	0	0	8,175,588	8,175,588
Governor's Rec.	32.3	0	0	8,175,588	8,175,588

Operating Expense Inflation

The agency requested a decrease of \$56 in other fund authority. The reduction aligns the budget with a reduction in maintenance expense.

The Governor recommends the full request.

Agency Request	0.0	0	0	(56)	(56)
Governor's Recommendation	0.0	0	0	(56)	(56)

Change in Employee Compensation

The agency requested an increase of \$244,554 in other fund authority for a base increase to salary and benefits. The Investment Council targets 70% of the cost-of-living adjusted private sector median for investment positions' total compensation, including average expected incentives (see Performance Base Compensation). The requested increase for base salaries and benefits (not including state salary policy or performance pay) increases the budget for full-time staff by 3.84% over FY17 budgeted.

The Governor recommends an increase of \$151,690 in other fund authority, which is a 2.38% increase over FY17 budgeted.

	FY17 Budgeted	FY18 Requested	Increase over FY17	FY18 Gov Rec.	Increase over FY17
Base Salaries & Benefits	6,371,323	6,758,546	6.08%	6,665,682	4.62%
Performance Pay	10,152,724	10,766,990	6.05%	10,766,990	6.05%
Total Salaries & Benefits	16,524,047	17,525,536	6.06%	17,432,672	5.50%

Agency Request	0.0	0	0	244,554	244,554
Governor's Recommendation	0.0	0	0	151,690	151,690

Other Adjustments

The agency requested a decrease of \$3,880 in other fund authority. The reduction aligns the capital outlay budget with a reduction in computer replacement.

The Governor recommends this request.

Agency Request	0.0	0	0	(3,880)	(3,880)
Governor's Recommendation	0.0	0	0	(3,880)	(3,880)

FY 2018 Maintenance of Current Operations (MCO)

Agency Request	32.3	32.3	0	8,416,206	8,416,206
Governor's Rec.	0	0	0	8,323,342	8,323,342

	FTE	General	Federal	Other	Total
Additional Investment FTEs					
The agency requested an increase of \$151,817 in other fund authority and two additional FTEs. The new FTEs would be entry level investment positions with a base salary of \$55,314 after a probation period, plus related full-time benefits for a total of \$142,669. The remaining \$9,148 in authority is for operating expenses related to the new FTEs. The agency request is the final step in the plan initiated in 2012 to add six new FTEs over several years to expand areas of investment focus.					
<i>The Governor recommends this request.</i>					
Agency Request	2.0	0	0	151,817	151,817
<i>Governor's Recommendation</i>	<i>2.0</i>	<i>0</i>	<i>0</i>	<i>151,817</i>	<i>151,817</i>
Investment Research Services					
The agency requested an increase of \$55,100 in other fund authority. The increased authority is needed for additional investment research services that have been added recently, including Boyars Intrinsic Value, Rystad Energy, and S&P Cusip.					
<i>The Governor recommends this request.</i>					
Agency Request	0.0	0	0	55,100	55,100
<i>Governor's Recommendation</i>	<i>0.0</i>	<i>0</i>	<i>0</i>	<i>55,100</i>	<i>55,100</i>
FY 2018 Total					
Agency Request	34.3	34.3	0	8,623,123	8,623,123
<i>Governor's Rec.</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>8,530,259</i>	<i>8,530,259</i>
Agency Request					
Chg from Original Approp.	2.0	0	0	447,535	447,535
% Chg. from Original Approp.	6.2%	0.0%	0.0%	5.5%	5.5%
<i>Governor's Recommendation</i>					
<i>Chg. from Original Approp.</i>	<i>2.0</i>	<i>0</i>	<i>0</i>	<i>354,671</i>	<i>354,671</i>
<i>% Chg. from Original Approp.</i>	<i>6.2%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>4.3%</i>	<i>4.3%</i>

PERFORMANCE BASED COMPENSATION

To focus on adding value over the long term in all financial market conditions and to motivate and retain successful investment team members by linking a portion of total compensation to investment return performance relative to benchmarks.

Budget Request

	FY 2016 Actual	FY 2017 Approp	FY 2018 Request	FY 2018 Gov Rec	Δ From FY 2017
BY PROGRAM					
Performance Based Compensation	5,471,634	10,152,724	10,766,990	10,766,990	614,266
Total:	5,471,634	10,152,724	10,766,990	10,766,990	614,266
BY FUND CATEGORY					
General	0	0	0	0	0
Federal	0	0	0	0	0
Other	5,471,634	10,152,724	10,766,990	10,766,990	614,266
Total:	5,471,634	10,152,724	10,766,990	10,766,990	614,266
BY OBJECT EXPENDITURE					
Personnel Costs	5,471,634	10,152,724	10,766,990	10,766,990	614,266
Operating Expenditures	0	0	0	0	0
Total:	5,471,634	10,152,724	10,766,990	10,766,990	614,266
Full-Time Equivalent (FTE)	0.0	0.0	0.0	0.0	0.0

Request and Recommendation Summary

Decision Unit	Agency Request			Governor's Recommendation		
	FTE	General	Total	FTE	General	Total
FY 2017 Original Appropriation	0.0	0	10,152,724	0.0	0	10,152,724
Pool Distributions/Transfers	0.0	0	0	0.0	0	0
FY 2017 Estm. Expenditures	0.0	0	10,152,724	0.0	0	10,152,724
FY 2018 Base	0.0	0	10,152,724	0.0	0	10,152,724
Performance Based Compensation	0.0	0	614,266	0.0	0	614,266
FY 2018 Program Maintenance (MCO)	0.0	0	10,766,990	0.0	0	10,766,990
FY 2018 Total	0.0	0	10,766,990	0.0	0	10,766,990
Change from Original Appropriation	0.0	0	614,266	0.0	0	614,266
% Change from Original Appropriation	0.0%	0.0%	6.1%	0.0%	0.0%	6.1%

Budget by Decision Unit

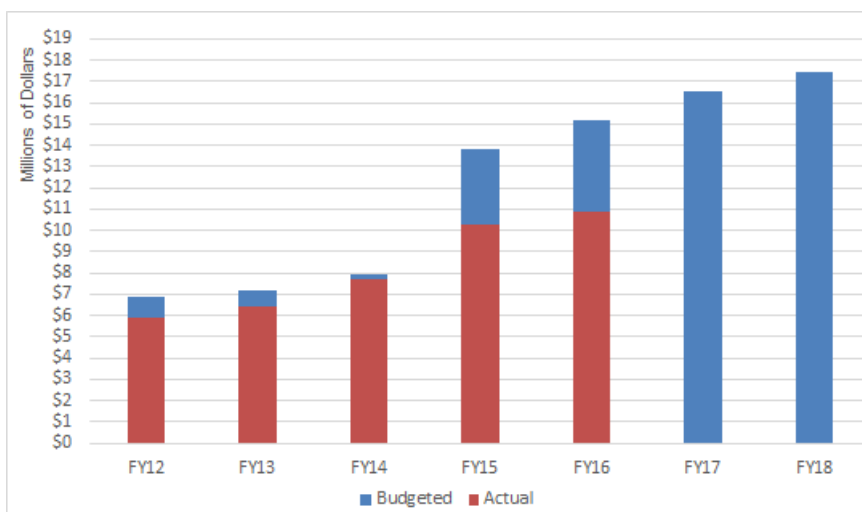
	FTE	General	Federal	Other	Total
FY 2017 GBill Appropriation	0.0			10,152,724	10,152,724
Pool Distributions/Transfers	0.0	0	0	0	0
FY 2017 Estm. Expenditures	0.0	0	0	10,152,724	10,152,724
FY 2018 Base					
Agency Request	0.0	0	0	10,152,724	10,152,724
Governor's Rec.	0.0	0	0	10,152,724	10,152,724

Performance Based Compensation

The agency requested an increase of \$614,266 in other fund authority for expected performance based compensation. The incentive plan includes funding for potential maximum incentives of 200% of FY17 base

salaries of investment positions. Incentive compensation is based on a formula that pays only for outperformance versus capital market benchmarks tied to one-year and multi-year returns. Incentive performances is rewarded on a range of 0% to a maximum of 200%. Unearned incentive funds remain unexpended.

The Governor recommends this request.



Investment Council Actual vs Budgeted Personal Services & Performance Pay							
	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Budgeted	6,890,403	7,204,966	7,901,633	13,800,492	15,182,797	16,524,047	17,432,672
Actual	5,878,966	6,422,861	7,673,525	10,242,860	10,873,430		
FTE	27.9	27.2	26.6	27.2	30.2	32.3	34.3

	FTE	General	Federal	Other	Total
Agency Request	0.0	0	0	614,266	614,266
Governor's Recommendation	0.0	0	0	614,266	614,266
FY 2018 Maintenance of Current Operations (MCO)					
Agency Request	0.0	0.0	0	10,766,990	10,766,990
Governor's Rec.	0	0	0	10,766,990	10,766,990
FY 2018 Total					
Agency Request	0.0	0.0	0	10,766,990	10,766,990
Governor's Rec.	0	0	0	10,766,990	10,766,990
Agency Request					
Chg from Original Approp.	0.0	0	0	614,266	614,266
% Chg. from Original Approp.	0.0%	0.0%	0.0%	6.1%	6.1%
Governor's Recommendation					
Chg. from Original Approp.	0.0	0	0	614,266	614,266
% Chg. from Original Approp.	0.0%	0.0%	0.0%	6.1%	6.1%

FY18 Funding Source

State General Fund	\$ -
Investment Council Other Funds	
INVESTMENT COUNCIL OPERATING	\$ 19,297,249
Total General, Federal, and Other Funds	\$19,297,249

Other Fund Balances

	Ending Cash and Investment Balance		60-month average cash balance	Minimum Balance	Most Recent Occurrence of Minimum
	FY2015	FY2016			
Investment Council	\$20,313,323	\$19,687,620	\$ 14,248,428	\$ 1,189,918	July 2014
Company 3017 - INVESTMENT OF STATE FUNDS	\$ 3,865,242	\$ 1,894,306	\$ 3,605,383	\$ (115,382)	August 2014
Company 8000 - INVESTMENT OF STATE FUNDS	\$16,448,082	\$17,793,314	\$ 10,643,045	\$ 708,303	July 2014

The Agency Fund (8000) is used for deposit of pooled investment earnings of the Cash Flow Portfolio. These earnings are distributed to the participating agency funds based upon their average daily cash balance in the portfolio in accordance with SDCL 4-5-30.

Cash & Investment Balances in State Reserve & Trust Funds as of October 31, 2016

**State of South Dakota
Cash and Investment Balances in State Reserve
and Trust Funds as of October 31, 2016
Total Balance \$1,095,839,297**

