



SDCERS Commentary on the Current Investment Climate

October 13, 2008

SDCERS has been in the investment business since 1927 and has never missed a benefit payment. Even with the recent market downturn, SDCERS has billions of dollars of assets, more than enough to pay retiree benefits when they come due. SDCERS is actuarially sound, and its financial statements are current and audited. The Board of Administration's Investment Committee and SDCERS' investment staff regularly and closely monitor the activities of our 30 professional money managers and custodial bank.

The current turmoil in the global financial markets has impacted SDCERS' investments just as it has every other institutional and individual investor. However, it is important to understand that SDCERS' mission is significantly different than that of most other investors who may have shorter investment time horizons or lack the ability to ride out turbulent market cycles.

SDCERS invests for the very long term. For example, we invest contributions for a newly-hired employee who might work for thirty years and then, based on their life expectancy at retirement in 2038, for another thirty years until 2068. As a result of this sixty-year time period, SDCERS' investment philosophy and strategy is geared to long-term results. Short-term market dislocations - even those as severe as what we are experiencing today - are, in relation to SDCERS' time horizon, just that: short-term.

To keep current events in proper perspective, it is the fiscal year's final investment return (as of June 30) that SDCERS' actuary uses to determine a Plan Sponsor's Annually Required Contribution (ARC). The ARC that the Plan Sponsors will pay for the fiscal year beginning on July 1, 2009 will be based on last fiscal year's investment returns (July 1, 2007 through June 30, 2008). Therefore, the market downturn from July 1 through September 30, 2008 reflects only one quarter of SDCERS' four-quarter fiscal 2009 year. Only when all four fiscal quarters have been concluded - on June 30, 2009 - and the ARC payment calculated, will the impact of the current market condition be known. Once calculated, that ARC will not be paid by our Plan Sponsors until the following fiscal year, beginning in July 2010.

Because of the long-term nature of SDCERS' obligations and investment strategies, overreaction to short-term results can lead to emotional or irrational investment decisions. SDCERS has never - and should never - manage its portfolio for the short term. Indeed, because recent declines in SDCERS' equity portfolio have pushed those asset levels below our investment targets for equities, SDCERS is rebalancing its portfolio by buying additional equity securities. This disciplined strategy of a well-balanced portfolio has and will continue to work over the long haul.