

# **COLLEGEACCESS 529 PLAN PROPOSAL FOR 2022-23**

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# 2022-23 PROPOSAL

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### Themes

**Inflation** concerns persistent now and may moderate by 2023

- Expect supply chain and other supply-side drivers of inflation to begin to moderate by 2023, resulting in lower inflation breakevens and higher real yields.

Probability of **recession** in 2023 increasing

- Seek to reduce risk within equities.

Central Bank **tightening** globally

- Yields may continue to increase in the short term due to tightening but may peak and subsequently decline or stop increasing by 2023.

### Global Equities

- Seeking regional exposures in line with benchmark and balanced factor tilts, with a bias toward active managers where fees are not constraining.

**Commodities** prices (broadly) expected to normalize

- Energy, wheat prices and other commodities' prices spiked in late February with the Ukraine invasion. Commodity price inflation expected to moderate in next 12-18 months.

**Global REIT** exposure for diversification

- Medium term drivers of global REIT performance include reopening after COVID shutdowns in Europe and Asia.

**Emerging Market** equities could rally last in the recovery, but valuations lag

- EM Central Banks in some cases began tightening earlier than in developed countries but EM equities may be more exposed to geopolitical risks.

# 2022-23 PROPOSAL

## ASSET ALLOCATION CHANGES AND FUND LEVEL IMPLICATIONS



<b>Asset Classes</b>	<b>Positioning</b>	<b>Fund Level Implications</b>
<b>Global Equities</b>	Reduce to achieve neutral exposure	<ul style="list-style-type: none"><li>▪ Increase active management and dynamic allocation and decrease passive index funds. Adjust value vs. growth tilts to close to neutral with modest tilt to U.S. value.</li></ul>
<b>Regional Equities</b>	Increase U.S. equities to neutral and retain modest EM overweight	<ul style="list-style-type: none"><li>▪ Eliminate U.S. underweight and increase active management by reducing weight of equity index funds.</li></ul>
<b>Core Fixed Income</b>	Reduce prior modest duration underweight	<ul style="list-style-type: none"><li>▪ Increase Metropolitan West Total Return Bond Fund to increase duration while retaining a modest underweight to the benchmark (albeit less pronounced). Reallocate among the two low duration funds to contribute to modestly higher duration.</li></ul>
<b>TIPS</b>	Reduce to a larger underweight	<ul style="list-style-type: none"><li>▪ Reduce PIMCO Real Return Fund and DFA Inflation Protected Bond Fund due to desire to protect against rising real yields and expectation of inflation moderating by 2023.</li></ul>
<b>Commodities</b>	Reduce to modest underweight from neutral	<ul style="list-style-type: none"><li>▪ Reduce DFA Commodity Strategy Fund and re-allocate to dynamic fund – Virtus Global Allocation Fund – to provide more flexibility to decrease and increase risk in an uncertain environment.</li></ul>
<b>Global REITs</b>	Maintain neutral position	<ul style="list-style-type: none"><li>▪ Remain neutral to maintain exposure to the asset class, which serves as a diversifier.</li></ul>
<b>Cash and Short-Term Bonds</b>	Increase short-term bonds to a modest overweight	<ul style="list-style-type: none"><li>▪ Short term bonds are expected to benefit more than cash if the rise in yields on the short end moderates going forward.</li></ul>

# 2022-23 PROPOSAL

## PROPOSED EXPOSURES



### South Dakota CollegeAccess Portfolios – 2022-23 Proposed

		Updated Fees	0-8	9-10	11	12	13	14	15	16	17+	Div Equity	Div Bond	UltraShort Bond
Cash & Short-Term Bonds	PGYXX PIMCO Government Money Market	0.18%	-	-	-	-	-	-	4%	6%	8%	-	-	30%
	PAIDX PIMCO Short Asset Investment	0.34%	-	-	-	8%	12%	22%	20%	23%	27%	-	4%	20%
	PTSHX PIMCO Short-Term	0.45%	-	-	1%	3%	7%	7%	10%	16%	17%	-	4%	50%
	<b>Total Cash &amp; Short-Term Bonds</b>		-	-	1%	11%	19%	29%	34%	45%	52%	-	8%	100%
Nominal Bonds	MWTSX Metropolitan West Total Return Bond	0.37%	-	-	6%	6%	7%	8%	10%	14%	15%	-	38%	-
	PTTRX PIMCO Total Return Bond	0.46%	-	-	-	-	-	-	-	-	-	-	34%	-
	PFIIX PIMCO Low Duration Income	0.51%	-	2%	3%	3%	4%	4%	4%	3%	3%	-	6%	-
	VLDRX Virtus Newfleet Low Dur Core Plus	0.43%	3%	5%	7%	7%	7%	7%	7%	7%	7%	-	10%	-
	AGASX Virtus Global Allocation–Bond (40%)	0.42%	12%	14%	14%	14%	14%	13%	13%	8%	5%	0%	0%	0%
<b>Total Nominal Bonds</b>		15%	21%	30%	30%	32%	32%	34%	32%	30%	-	88%	-	
Inflation-Linked Bond	PRRIX PIMCO Real Return	0.45%	2%	4%	4%	4%	4%	4%	6%	5%	5%	-	2%	-
	DIPSX DFA Inflation-Protected Securities	0.11%	-	2%	2%	2%	2%	2%	3%	4%	4%	-	2%	-
	<b>Total Inflation-Linked Bonds</b>		2%	6%	6%	6%	6%	6%	9%	9%	9%	0%	4%	-
Global Equities	AGASX Virtus Global Allocation – Equity (60%)	0.42%	18%	20%	20%	20%	20%	20%	19%	11%	7%	0%	0%	0%
	RNPGX American Funds New Perspective	0.41%	11%	9%	6%	5%	5%	3%	-	-	-	14%	-	-
	AFGFX Virtus Silvant Focused Growth	0.62%	4%	3%	3%	3%	3%	1%	-	-	-	9%	-	-
	ANDVX Virtus NFJ Dividend Value	0.65%	7%	6%	6%	5%	4%	3%	1%	-	-	9%	-	-
	TCIEX TIAA-CREF International Equity Index	0.05%	11%	7%	5%	4%	3%	2%	-	-	-	22%	-	-
	TISPX TIAA-CREF S&P 500 Index	0.05%	13%	11%	8%	5%	1%	-	-	-	-	26%	-	-
	DODFX Dodge & Cox International Stock	0.62%	5%	4%	3%	2%	-	-	-	-	-	7%	-	-
	VREMX Virtus Emerging Market Opportunities	0.89%	4%	4%	4%	3%	2%	-	-	-	-	5%	-	-
<b>Total Global Equities</b>		73%	64%	55%	47%	38%	29%	20%	11%	7%	92%	-	-	
Commodities	DCMSX DFA Commodity Strategy	0.31%	5%	4%	4%	3%	2%	1%	1%	1%	1%	3%	-	-
<b>Total Commodities</b>			5%	4%	4%	3%	2%	1%	1%	1%	1%	3%	-	-
Real Estate	VRGEX Virtus Duff & Phelps Global Real Estate	0.89%	5%	5%	4%	3%	3%	3%	2%	2%	1%	5%	-	-
<b>Total Real Estate</b>			5%	5%	4%	3%	3%	3%	2%	2%	1%	5%	-	-
<b>Change from Disclosure Fee</b>			-0.02%	-0.02%	-0.03%	-0.04%	-0.05%	-0.06%	-0.06%	-0.06%	-0.05%	0.03%	-0.08%	-0.05%

Note that for asset class totals, Virtus Global Allocation splits 60% equity and 40% nominal bonds.

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# 2022-23 PROPOSAL

## DIFFERENCE FROM CURRENT 2021-22 PORTFOLIOS



### South Dakota CollegeAccess Portfolios – 2022-23 Proposed

			Updated Fees	0-8	9-10	11	12	13	14	15	16	17+	Div Equity	Div Bond	UltraShort Bond	
Cash & Short-Term Bonds	PGYXX	PIMCO Government Money Market	0.18%	-	-	-	-	-	-	-	-	-	-	-	-	
	PAIDX	PIMCO Short Asset Investment	0.34%	-	-	-	-	-	-	-	-	-	-	-1%	-	
	PTSHX	PIMCO Short-Term	0.45%	-	-	1%	1%	1%	1%	-	-	-	-	-1%	-	
<b>Total Cash &amp; Short-Term Bonds</b>				-	-	1%	1%	1%	1%	-	-	-	-	-2%	-	
Nominal Bonds	MWTSX	Metropolitan West Total Return Bond	0.37%	-	-	2%	2%	2%	3%	4%	5%	5%	-	2%	-	
	PTTRX	PIMCO Total Return Bond	0.46%	-	-	-	-	-	-	-	-	-	-	9%	-	
	PFIIX	PIMCO Low Duration Income	0.51%	-1%	-	-1%	-1%	-1%	-1%	-1%	-2%	-2%	-	-6%	-	
	VLDRX	Virtus Newfleet Low Dur Core Plus	0.43%	3%	3%	3%	3%	2%	2%	2%	2%	2%	-	-2%	-	
	AGASX	Virtus Global Allocation–Bond (40%)	0.42%	2%	2%	2%	2%	2%	1%	1%	-	-	-	-	-	
<b>Total Nominal Bonds</b>				4%	5%	6%	6%	5%	5%	6%	5%	5%	-	3%	-	
Inflation-Linked Bond	PRRIX	PIMCO Real Return	0.45%	-1%	-1%	-2%	-1%	-1%	-1%	-1%	-1%	-1%	-	-1%	-	
	DIPXS	DFA Inflation-Protected Securities	0.11%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-	-	-	
<b>Total Inflation-Linked Bonds</b>				-2%	-2%	-3%	-2%	-2%	-2%	-2%	-2%	-2%	-	-1%	-	
Global Equities	AGASX	Virtus Global Allocation – Equity (60%)	0.42%	2%	2%	2%	2%	2%	2%	1%	-1%	-	-	-	-	
	RNPGX	American Funds New Perspective	0.41%	-1%	-2%	-3%	-3%	-3%	-2%	-	-	-	-3%	-	-	
	AFGFY	Virtus Silvant Focused Growth	0.62%	1%	1%	1%	1%	1%	-1%	-	-	-	2%	-	-	
	ANDVX	Virtus NFJ Dividend Value	0.65%	4%	4%	4%	3%	2%	3%	1%	-	-	4%	-	-	
	TCIEY	TIAA-CREF International Equity Index	0.05%	-3%	-6%	-7%	-6%	-5%	-4%	-4%	-1%	-2%	-1%	-	-	
	TISPX	TIAA-CREF S&P 500 Index	0.05%	-3%	-	1%	-	1%	-	-	-	-	-1%	-	-	
	DODFX	Dodge & Cox International Stock	0.62%	-	-	-	-	-	-	-	-	-	-	-	-	
VREMX	Virtus Emerging Market Opportunities	0.89%	-	-	-	-	-	-	-	-	-	-	1%	-	-	
<b>Total Global Equities</b>				0%	-1%	-2%	-3%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-	-
Commodities	DCMSX	DFA Commodity Strategy	0.31%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-1%	-1%	-2%	-	-	
<b>Total Commodities</b>				-2%	-2%	-2%	-2%	-2%	-2%	-2%	-1%	-1%	-2%	-	-	
Real Estate	VRGEX	Virtus Duff & Phelps Global Real Estate	0.89%	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Total Real Estate</b>				-	-	-	-	-	-	-	-	-	-	-	-	

Note that for asset class totals, Virtus Global Allocation splits 60% equity and 40% nominal bonds.

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# STRATEGIC ASSET ALLOCATION

PORTFOLIO PROPOSAL 2022-23



## Glidepath Composition

	0-8	9-10	11	12	13	14	15	16	17+	Diversified Equity	Diversified Bond	UltraShort Bond
Cash & Short-Term Bonds	0%	0%	0%	10%	18%	28%	33%	43%	50%	0%	5%	100%
Nominal Bonds	10%	15%	23%	23%	25%	25%	27%	27%	25%	0%	85%	0%
TIPS	5%	10%	12%	12%	12%	12%	15%	15%	15%	0%	10%	0%
Global Equities	73%	64%	55%	47%	38%	29%	20%	11%	7%	90%	0%	0%
Commodities	7%	6%	6%	5%	4%	3%	3%	2%	2%	5%	0%	0%
Real Estate	5%	5%	4%	3%	3%	3%	2%	2%	1%	5%	0%	0%

## Proposed Asset Allocation Active Positioning Compared to Glidepath

	0-8	9-10	11	12	13	14	15	16	17+	Diversified Equity	Diversified Bond	UltraShort Bond
Cash & Short-Term Bonds	0%	0%	1%	1%	1%	1%	1%	2%	2%	0%	3%	0%
Nominal Bonds	5%	6%	7%	7%	7%	7%	7%	5%	5%	0%	3%	0%
TIPS	-3%	-4%	-6%	-6%	-6%	-6%	-6%	-6%	-6%	0%	-6%	0%
Global Equities	0%	0%	0%	0%	0%	0%	0%	0%	0%	2%	0%	0%
Commodities	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-1%	-1%	-2%	0%	0%
Real Estate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

### Outcome

- 
- |                                     |  |
|-------------------------------------|--|
| <b>Fees</b>                         | <ul style="list-style-type: none"><li>▪ Underlying fund fees are flat or down across all age-based and static portfolios with the exception of Diversified Equity.</li></ul>                                     |
| <b>Tactical Asset Allocation</b>    | <ul style="list-style-type: none"><li>▪ Decreased the underweight in nominal duration and reduced exposure to TIPs. Incorporated a modest underweight to commodities and equal weight global equities.</li></ul> |
| <b>Passive vs. Active</b>           | <ul style="list-style-type: none"><li>▪ Achieved improved mix of active managers in global equities.</li></ul>   |
| <b>Proposed Fund Additions Info</b> | <ul style="list-style-type: none"><li>▪ There are no fund changes.</li><li>▪ The Virtus Silvant Focused Growth Fund (AFGFX) had a change in subadvisor and portfolio management team.</li></ul>                  |
-