

July 1, 2023

Mr. Matt Clark
South Dakota Investment Council
4009 West 49 Street, Suite 300
Sioux Falls, SD 57106

Dear Mr. Clark,

In our role as Program Manager for the CollegeAccess 529 Plan, VP Distributors, LLC would like to recommend a series of proposals to enhance the investment profile of the Plan. The recommendations, which are attached for your consideration, were developed by Virtus Fund Advisers.

If approved, the following changes will alter the current asset allocations of the Age-Based and Static Portfolios: (1) decrease cash and ultra-short and short bonds; (2) increase overall duration (3) increase allocation to inflation-protected bonds; (4) reduce allocation to global equities, and within equities tilt to US growth and reduce exposure to US value; (5) increase diversification by adding to commodities and global real estate

As part of the recommendation, and in particular to increase the nominal duration positioning, we recommend adding one additional fund to the Plan: The Virtus Newfleet Multisector Intermediate Fund will replace the Virtus Newfleet Low Duration Core Plus Fund (same sub-advisor). There are no other Fund additions to the Plan or manager changes to report.

As a result of implementing the changes, as outlined, underlying fund fees are down or flat across most age-based and static portfolios. The exceptions are age-based 9-10, 11 and Diversified Equity.

Subject to your approval, as well as the Board's, these changes would take effect on or around September 15, 2023.

Thank you for considering our recommendations for the CollegeAccess 529 Plan. VP Distributors, in collaboration with our colleagues at Virtus Fund Advisers, would be pleased to answer any questions you or your staff may have.

Regards,

Michael G. Sebesta, CFA (404.845.7664)
Managing Director
Virtus Investment Partners

cc:
Heather Bergman (619.687.2785)
Paul Pietranico (619.687.2798)
Michelle Gallo (201.802.2367)

COLLEGEACCESS 529 PLAN PROPOSAL FOR 2023-24

Paul Pietranico, CFA
Chief Investment Officer and Senior Managing Director
Virtus Multi-Asset, Virtus Fund Advisers, LLC

Heather Bergman, Ph.D.
Managing Director and Senior Portfolio Manager
Virtus Multi-Asset, Virtus Fund Advisers, LLC

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2023-24 PROPOSAL

Macro Themes

Significant Risk of Mild-to-Moderate Recession

- We expect growth to continue to slow through the second half of 2023 and first half of 2024. Our base case is a mild recession. We then expect a recovery to take hold in mid-to-late 2024.

Sticky, but Moderating Inflation

- While inflation is moderating and should continue to do so, we do not expect the Fed's preferred price index, PCE, to converge to the 2% Fed target 12 months (although modeling suggests it could get to within a half a percentage point).

Hiking Completed, Uncertainty around Timing of Easing

- We expect that the Fed peak rate will be 5.25-5.50% and that, while the Fed may be slower to start easing than what is currently priced in, it will eventually pivot to an easing cycle by the second half of 2024.

Developed Market ex-US Rates Higher for Longer

- Despite slowing growth and the risk of a more severe recession in Europe, persistent inflation pressures will keep the European Central Bank hiking rates for longer. In Japan, the end of the Bank of Japan's yield curve control policy will push long term rates higher eventually.

Avoid a Full-Blown Bank Crisis, But Tighter Credit Conditions Possible

- Recent volatility in the banking sector, which started in the US, has raised the prospect of a significant tightening of credit conditions globally.

2023-24 PROPOSAL

ASSET ALLOCATION CHANGES AND FUND LEVEL IMPLICATIONS



Allocation Change	Rationale	Fund Exposure Addition and Increase	Fund Exposure Decrease	Range of reallocation per Fund (Age-Based)
Reduce Cash and Short-Term Bonds from current allocation. Within Cash and Short-Term Bonds, reallocate to cash.	Given our expectations for a mild recession and the Fed to hold short-term rates higher than current priced by markets, we reduce our overall allocation to cash and short-term bonds, in order to increase portfolio duration, and within the asset class, increase the allocation to the government money market fund to reduce credit risk exposure. This applies particularly in the near-college Age-Based portfolios.	<ul style="list-style-type: none"> ▪ PIMCO Government Money Market 	<ul style="list-style-type: none"> ▪ PIMCO Short Asset Investment ▪ PIMCO Short Term 	Maximum reallocation is +/- 11%
Increase Nominal Bonds (core US Bonds) to add nominal duration against a backdrop of expected easing of monetary policy.	The combination of a higher cost of lending and early signs of easing inflation likely puts global central banks at or near the end of their tightening cycles. In the US, we expect that the Fed peak rate will be 5.25-5.50% and that, while the Fed may be slower to start easing than what markets are currently pricing in, it will pivot to an easing cycle by late 2024. We increase duration in part by swapping two low duration strategies for standard duration versions of those strategies.	<ul style="list-style-type: none"> ▪ Metropolitan West Total Return, PIMCO Total Return, PIMCO Income ▪ Add: Virtus Newfleet Multisector Intermediate 	<ul style="list-style-type: none"> ▪ PIMCO Low Duration Income ▪ Virtus Newfleet Low Duration Core Plus 	Maximum reallocation is +/- 11%
Increase TIPs from current underweight to benchmark weight	Current long-term breakeven levels suggest that TIPs are fairly-valued and may appreciate if inflation fails to converge to the 2% target. In addition, in a hard recession scenario with outright deflation in the US (which is not our base case), TIPs could be a hedge as the Fed would have to force real yields into negative territory to support markets.	<ul style="list-style-type: none"> ▪ DFA Inflation Protected Bond ▪ PIMCO Real Return 		Maximum reallocation is +/- 3%
Reduce Global Equities (to a small underweight relative to the benchmark.) Within Global Equities, increase exposure to US and Growth strategies	In the medium term, in a slower growth environment, we prefer to be modestly underweight global equities, particularly non-US developed market equities. We expect the recession in Europe will be longer and deeper than in the US. Within equities, we increase exposure to US equities and emerging markets, with a tilt toward US growth and away from value because in a low growth environment, we expect a growth premium.	<ul style="list-style-type: none"> ▪ Virtus Silvant Focused Growth ▪ Virtus Emerging Markets Opportunities ▪ TIAA CREF S&P 500 Index 	<ul style="list-style-type: none"> ▪ Virtus NFJ Dividend Value ▪ TIA CREF International Equity Index 	Maximum reallocation is +/- 5%
Modestly increase Global Real Estate and Commodities relative to current allocation, but maintain a small underweight to commodities compared to benchmark.	<p>We increase exposure to global REITs, given strong balance sheets and the expectation that rate sensitive segments of Global REITs should benefit as interest rates stabilize and decrease.</p> <p>We expect that in a mild recessionary scenario, commodity prices will continue to decline but will stabilize and appreciate once economic growth picks up in mid-to-late 2024.</p>	<ul style="list-style-type: none"> ▪ Virtus Duff & Phelps Global Real Estate Securities ▪ DFA Commodity Strategy 		Maximum reallocation is +/- 1%

As of July 1, 2023; ¹ positioning descriptions are in relation to the program benchmark, which is static.

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2023-24 PROPOSAL

PROPOSED EXPOSURES



			South Dakota CollegeAccess Portfolios – 2023-24 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%	-	-	-	5%	9%	12%	14%	17%	19%	-	-	40%
	PAIDX	PIMCO Short Asset Investment	0.35%	-	-	-	3%	6%	11%	13%	13%	15%	-	-	40%
	PTSHX	PIMCO Short-Term	0.45%	-	-	-	-	-	-	-	6%	7%	-	-	20%
Total Cash & Short-Term Bonds							8%	15%	23%	27%	36%	41%	100%		
Nominal Bonds	MWTSX	Metropolitan West TR Bond P	0.36%	1%	3%	11%	11%	13%	13%	14%	15%	17%	-	50%	-
	PTTRX	PIMCO Total Return Fund Instl	0.46%	-	-	-	-	-	2%	5%	11%	11%	-	35%	-
	VMFRX	Virtus Newfleet Multisector Intermediate	0.61%	1%	1%	2%	3%	3%	3%	2%	2%	2%	-	3%	-
	PIMIX	PIMCO Income Fund	0.50%	-	-	-	-	1%	2%	2%	2%	2%	-	2%	-
	PFIIX	PIMCO Low Dur Income Instl	0.50%	-	-	-	-	-	-	-	-	-	-	-	-
	VLDRX	Virtus Newfleet Low Dur CorePlus	0.43%	-	-	-	-	-	-	-	-	-	-	-	-
	AGASX	Virtus Global Allocation–Bond (40%)		11%	12%	12%	13%	13%	12%	12%	6%	4%	-	-	-
Total Nominal Bonds				13%	16%	25%	27%	30%	32%	35%	36%	36%	90%		
Inflation-Linked Bond	PRRIX	PIMCO Real Return	0.45%	2%	6%	7%	7%	7%	7%	9%	8%	8%	-	5%	
	DIPSX	DFA Inflation-Protected Securities	0.11%	1%	4%	5%	5%	5%	5%	6%	7%	7%	-	5%	
	Total Inflation-Linked Bonds			3%	10%	12%	12%	12%	12%	15%	15%	15%		10%	
Global Equities	AGASX	Virtus Global Allocation – Equity (60%)	0.47%	17%	19%	19%	19%	19%	18%	17%	9%	5%	-	-	-
	RNPGX	American Funds New Perspective	0.41%	11%	9%	6%	5%	5%	3%	-	-	-	14%	-	-
	AFGFX	Virtus Silvant Focused Growth	0.62%	6%	5%	5%	5%	5%	2%	-	-	-	12%	-	-
	ANDVX	Virtus NFJ Dividend Value	0.63%	2%	2%	2%	1%	-	-	-	-	-	4%	-	-
	TCIEX	TIAA-CREF International Equity Index	0.05%	8%	5%	2%	1%	-	-	-	-	-	17%	-	-
	TISPX	TIAA-CREF S&P 500 Index	0.05%	18%	14%	11%	8%	4%	3%	1%	-	-	30%	-	-
	DODFX	Dodge & Cox International Stock	0.62%	5%	4%	3%	2%	-	-	-	-	-	7%	-	-
	VREMX	Virtus Emerging Market Opportunities	0.89%	5%	5%	5%	4%	3%	1%	-	-	-	6%	-	-
Total Global Equities				72%	63%	53%	45%	36%	27%	18%	9%	5%	90%		
Commodities	DCMSX	DFA Commodity Strategy	0.30%	6%	5%	5%	4%	3%	2%	2%	1%	1%	4%	0%	0%
Total Commodities				6%	5%	5%	4%	3%	2%	2%	1%	1%	4%	0%	0%
Real Estate	VRGEX	Virtus Duff & Phelps Global Real Estate	0.89%	6%	6%	5%	4%	4%	4%	3%	3%	2%	6%	0%	0%
Total Real Estate				6%	6%	5%	4%	4%	4%	3%	3%	2%	6%	0%	0%
Change from Disclosure Fee				0.00%	0.01%	0.01%	0.00%	-0.01%	-0.01%	-0.02%	-0.01%	-0.01%	0.01%	-0.02%	-0.05%

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

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2023-24 PROPOSAL

DIFFERENCES FROM CURRENT 2022-23 PORTFOLIOS



			South Dakota CollegeAccess Portfolios – 2023-24 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%	-	-	-	5%	9%	12%	10%	11%	11%	-		10%
	PAIDX	PIMCO Short Asset Investment	0.35%	-	-	-	-5%	-6%	-11%	-7%	-10%	-12%	-	-4%	20%
	PTSHX	PIMCO Short-Term	0.45%	-	-	-1%	-3%	-7%	-7%	-10%	-10%	-10%	-	-4%	-30%
	Total Cash & Short-Term Bonds					-1%	-3%	-4%	-6%	-7%	-9%	-11%		-8%	
Nominal Bonds	MWTSX	Metropolitan West TR Bond P	0.36%	1%	3%	5%	5%	6%	5%	4%	1%	2%	-	12%	-
	PTTRX	PIMCO Total Return Fund Instl	0.46%	-	-	-	-	-	2%	5%	11%	11%	-	1%	-
	VMFRX	Virtus Newfleet Multisector Intermediate	0.61%	1%	1%	2%	3%	3%	3%	2%	2%	2%	-	3%	-
	PIMIX	PIMCO Income Fund	0.50%	-	-	-	-	1%	2%	2%	2%	2%	-	2%	-
	PFIIX	PIMCO Low Dur Income Instl	0.50%	-	-2%	-3%	-3%	-4%	-4%	-4%	-3%	-3%	-	-6%	-
	VLDRX	Virtus Newfleet Low Dur CorePlus	0.43%	-3%	-5%	-7%	-7%	-7%	-7%	-7%	-7%	-7%	-	-10%	-
	AGASX	Virtus Global Allocation–Bond (40%)		-1%	-1%	-1%	-1%	-1%	-1%	-1%	-2%	-1%	-		-
Total Nominal Bonds				-2%	-4%	-4%	-3%	-2%	-%	1%	4%	6%		2%	
Inflation-Linked Bond	PRRIX	PIMCO Real Return	0.45%		2%	3%	3%	3%	3%	3%	3%	3%	-	3%	-
	DIPSX	DFA Inflation-Protected Securities	0.11%	1%	2%	3%	3%	3%	3%	3%	3%	3%	-	3%	-
	Total Inflation-Linked Bonds			1%	4%	6%	6%	6%	6%	6%	6%	6%		6%	
Global Equities	AGASX	Virtus Global Allocation – Equity (60%)	0.47%	-1%	-2%	-2%	-1%	-1%	-2%	-2%	-2%	-2%	-	-	-
	RNPGX	American Funds New Perspective	0.41%	-	-	-	-	-	-	-	-	-	-	-	-
	AFGFX	Virtus Silvant Focused Growth	0.62%	2%	2%	2%	2%	2%	1%		-	-	3%	-	-
	ANDVX	Virtus NFJ Dividend Value	0.63%	-5%	-4%	-4%	-4%	-4%	-3%	-1%	-	-	-5%	-	-
	TCIEX	TIAA-CREF International Equity Index	0.05%	-3%	-2%	-3%	-3%	-3%	-2%		-	-	-5%	-	-
	TISPX	TIAA-CREF S&P 500 Index	0.05%	5%	3%	3%	3%	3%	3%	1%	-	-	4%	-	-
	DODFX	Dodge & Cox International Stock	0.62%	-	-	-	-	-	-	-	-	-	-	-	-
	VREMX	Virtus Emerging Market Opportunities	0.89%	1%	1%	1%	1%	1%	1%	-	-	-	1%	-	-
	Total Global Equities			-1%	-2%	-3%	-2%	-2%	-2%	-2%	-2%	-2%	-2%		
Commodities	DCMSX	DFA Commodity Strategy	0.30%	1%	1%	1%	1%	1%	1%	1%	-	-	1%	-	-
Total Commodities				1%	1%	1%	1%	1%	1%	1%	0%	0%	1%	0%	0%
Real Estate	VRGEX	Virtus Duff & Phelps Global Real Estate	0.89%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	-	-
Total Real Estate				1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	0%	0%

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 2023-24



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%	0%	-2%	-3%	-5%	-6%	-7%	-9%	0%	-5%	0%
Nominal Bonds	3%	1%	2%	4%	5%	7%	8%	9%	11%	0%	5%	0%
TIPS	-2%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Global Equities	-1%	-1%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	0%	0%	0%
Commodities	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	0%	0%
Real Estate	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	0%	0%

2023-24 PROPOSAL

SUMMARY OF PROPOSED CHANGES

Outcome

Fees	Underlying fund fees are flat or down across most age-based and static portfolios. The exceptions are age-based 9-10, 11 and Diversified Equity. In these cases, fees increased at least in part due to higher allocation to Global REITs and an active emerging market equities strategy.
Tactical Asset Allocation	<p>The overriding goal of the changes is to eliminate the current nominal duration underweight compared to the benchmark and to shift to a modestly overweight duration position across the portfolios. We increase exposure to TIPs to return the allocation to benchmark weight.</p> <p>We also increase diversification overall, moving to a small overweight for Global REITs and increase commodities closer to benchmark weight. We modestly reduce global equity exposure and, within equities, increase exposure to US compared to non-US developed market equities.</p>
Passive vs. Active	Maintain mix of active and passive managers in global equities.
Proposed Fund Additions Info	We propose to exchange the low duration version of two nominal bond strategies for their standard duration versions. We add Virtus Newfleet Multisector Intermediate Bond Fund and PIMCO Income Fund (which is currently held as a standalone fund and had previously been held in the age-based portfolios). Therefore, there is one fund, which is new to the program: Virtus Newfleet Multisector Intermediate Bond Fund (ticker: VMFRX).