
March 24, 2025

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 Multi-Asset, a division of Virtus Advisers, LLC.

Below is an overall summary of the proposed changes:

PROGRAM CHANGES

- | | |
|---|---|
| Glidepath Update | <ul style="list-style-type: none">▪ Modestly increase target equity allocations up until age 18 to increase potential returns and investors' ability to pay college costs.▪ In practice, rename the "Ages 0-8" portfolio "Ages 0-9," the "Age 17+" to "Age 17-18," and add a 19+ portfolio. |
| Strategic Asset Allocation (SAA) | <ul style="list-style-type: none">▪ Reallocate TIPS and global REIT exposures to nominal bonds and global equities, respectively. Allocation to commodities replaced by "real assets," which includes commodity futures, commodity equities, global REITs, global infrastructure-related equities and TIPS.▪ The new SAAs have four main asset classes: cash/short term bond, nominal bonds, global equities, real assets. |
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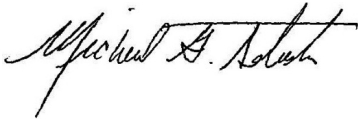
ALLOCATION CHANGES

- | | |
|---------------------------|---|
| Asset Allocation | <ul style="list-style-type: none">▪ The portfolios are aligned with the SAAs with a modest underweight to real assets and within global equities, a tilt toward U.S. and a modest tilt toward growth equities, consistent with current positioning. |
| Fund Level Changes | <ul style="list-style-type: none">▪ Reduce total number of funds in the age-based and static portfolios from 18 to 15, with an emphasis on Virtus Funds.▪ Take advantage of diverse lineup of Virtus Fund offerings to achieve target allocation exposures. |
| Fees | <ul style="list-style-type: none">▪ The asset-weighted fees for all portfolios are below the 65-basis point (bp) cap.▪ In the bond-heavy, near-college portfolio, the fee is unchanged at 35 bps; the fee for the Diversified Bond is 38 bps.▪ In the equity-heavy portfolios, the 0-8 portfolio fee is 56 bps; the fee for Diversified Equity is 61 bps.▪ In the Ultra Short Bond portfolio, the fee decreased to 30 bps. |
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Subject to your approval, as well as the Council's, these changes would take effect on or about June 13, 2025.

Thank you for considering our recommendations for the CollegeAccess 529 Plan. VP Distributors, in collaboration with our colleagues at Virtus Multi-Asset, 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 (646-923-9784)

Paul Pietranico (646-923-9782)

Michael Rothstein (860-560-8747)

COLLEGEACCESS 529 PLAN 2025 UPDATE PROPOSAL

Paul Pietranico, CFA, Virtus Multi-Asset

Heather Bergman, Ph.D., Virtus Multi-Asset

Michael Rothstein, CFA, FRM, CAIA, Virtus Multi-Asset

March 2025

Indicated portfolios are preliminary and subject to change

GLIDEPATH PROPOSAL

SUMMARY

ADJUSTING THE GLIDEPATH TO IMPROVE SUCCESS



Based on our research, we recommend prudently adjusting the glidepath for the following reasons:

- 1. Under saving** 529 investors, on average, under save for college costs with the CollegeAccess 529 program.¹

- 2. Improve success rate** In the pre-college period, higher allocations to equities can improve success rates in most, but not all, environments. During the in-college period, low allocations to equities and high allocations to cash are necessary to increase the likelihood of delivering the assets needed to pay college costs due to less time to recover from adverse volatility.

- 3. Comparative analysis** The current glidepath takes less risk than many glidepaths in other states' 529 programs for the 15- to 18-year-old beneficiary period.

- 4. Asset class exposures** Reduced allocations to real estate and commodities can potentially help manage overall risk.

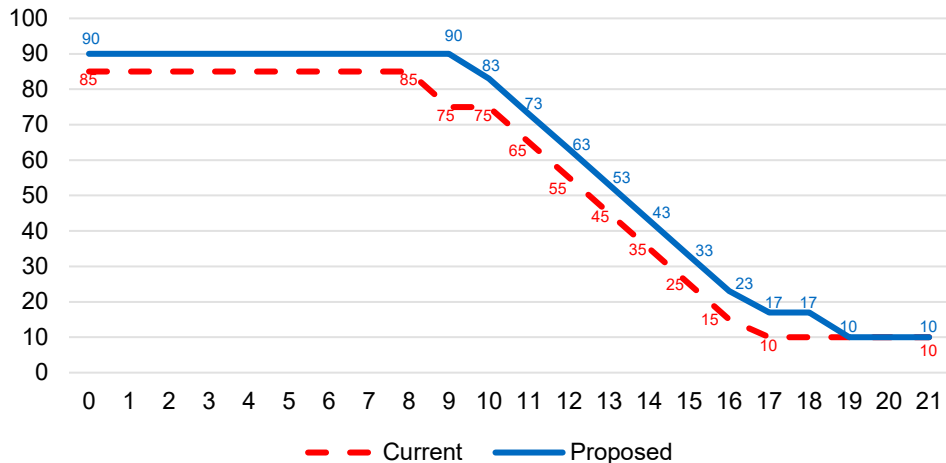
As a result, the glidepath would change in the following ways:

- Rename the “Ages 0-8” portfolio to the “Ages 0-9” portfolio and increase the target equity allocation to 90% from 85% for those first eight years and to 90% from 75% for the ninth
- For the “Age 10” through “Age 16” portfolios, increase the target equity allocation for each portfolio by 8%
- Divide the 17+ portfolio into “Ages 17-18” and “Ages 19 and Over” portfolios
- For the “Ages 17-18” portfolio, increase the target equity allocation to 17% from 10%
- Leave the “Ages 19 and Over” at 10% target equity exposure

¹Source: For the Age Based Portfolio 16, plan savings data as of December 2024 show 71% of account balances are less than or equal to 1 year of average college expenses and only 14% of account balances cover four or more years of college. Average college costs estimated from NCES.ed.gov data, weighted as 70% in-state public (South Dakota), 18% public out of state (national) and 13% private (national). Using national average for in-state Public would result in \$26,000 / year (vs. \$23,000 using South Dakota in-state college costs).

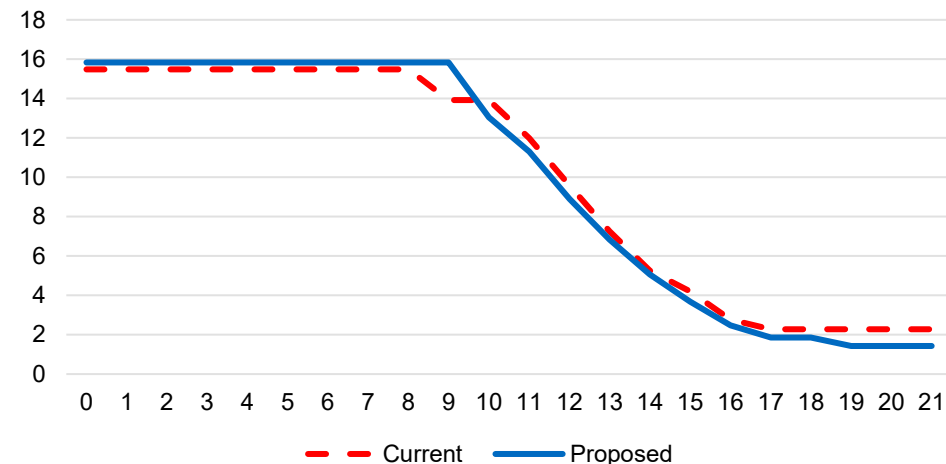
PROPOSED GLIDEPATH

ALLOCATION TO EQUITIES AND REAL ASSETS ALONG THE GLIDEPATH



- Increase equity and real asset allocations across the glidepath by 5 to 8 percentage points for ages 0-18, except for age 9, which increases 15 percentage points
- From “10” to “16,” decrease equity exposure in increments of 10 percentage points
- For 19+, where lower volatility is more important than higher expected returns, remain at 10% equity & real assets
- A new portfolio for 19+ will need to be created and the 17+ portfolio will become 17-18

VOLATILITIES OF THE STRATEGIC AA ALONG THE GLIDEPATH



- The higher equity allocations do not increase portfolio volatilities along the glidepath since:
 - The lower (or zero) allocations to the more volatile asset classes – commodities, REITs and TIPS – offset the risk of higher global equity allocations
 - For 16-to-18 year old beneficiaries, the risk from modestly higher equity allocations gets diversified away, given the low starting level of equities
- Volatilities are measured by the covariance matrix of 20 years of monthly returns for the SAA asset classes

Covariance matrix computed using monthly returns over 1/2005-12/20024.

Glidepath modeling based on probabilistic framework with conservative return distributions based on 100,000 simulations. Source: Morningstar Direct and Virtus Multi-Asset.

ALL MATERIALS ARE PRESENTED FOR THE STATE OF SOUTH DAKOTA INVESTMENT COUNCIL.

AGE-BASED AND STATIC PORTFOLIOS PROPOSAL

UPDATE AGE-BASED AND STATIC PORTFOLIO

OUTCOMES OF PROPOSED CHANGES



Strategic Asset Allocation (SAA) Change and Simplification

- Reallocate TIPS and Global Real Estate weights to Nominal Bonds and Global Equities, respectively.
- Replace the commodity allocation with a blend of real assets, including commodity futures, commodity equities, global REITs, infrastructure-related equities, and TIPS.
- As a result, the new SAA has four main asset classes: Cash/Short Term Bond, Nominal Bonds, Global Equities, Real Assets.

Underlying Fund Changes

- Reduce total number of funds in the age-based and static lineup from 18 to 15, with an emphasis on Virtus Funds.
- Take advantage of diverse lineup of Virtus offerings to achieve target allocation exposures.

Fee Changes

- The asset weighted fees for all portfolios are below the 65-basis point cap.
- The asset-weighted fee for the age-based program increases from 37 basis points (bps) to 43 bps.
- In the UltraShort Bond portfolio, the fee decreases by 1 bp.
- In the bond-heavy, near-college portfolio, the fee is unchanged at 35 bps. The fee in the Diversified Bond portfolio is 38 bps.
- In the equity-heavy portfolios, the 0-8 portfolio fee is 56 bps. The fee for the Diversified Equity portfolio is 61 bps.

UPDATE AGE-BASED AND STATIC PORTFOLIO

PROPOSED STRATEGIC ASSET ALLOCATION



Strategic Asset Allocation (Neutral Positioning) in place since 2017

| | 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 Strategic Asset Allocation (Update)

| | 0-9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17-18 | 19+ | Diversified Equity | Diversified Bond | UltraShort Bond |
|------------------------------------|-----|-----|-----|-----|-----|-----|-----|-----|-------|-----|--------------------|------------------|-----------------|
| Cash & Short-Term Bonds | 0% | 0% | 0% | 0% | 8% | 17% | 22% | 32% | 38% | 50% | 0% | 5% | 100% |
| Nominal Bonds | 10% | 17% | 27% | 37% | 39% | 40% | 45% | 45% | 45% | 40% | 0% | 95% | 0% |
| TIPS | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Global Equities | 83% | 77% | 68% | 58% | 49% | 40% | 31% | 21% | 17% | 10% | 95% | 0% | 0% |
| Commodities | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Real Estate | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Real Assets | 7% | 6% | 5% | 5% | 4% | 3% | 2% | 2% | 0% | 0% | 5% | 0% | 0% |

- The SAA allocations to TIPS are re-allocated to nominal bonds; TIPS will still be used on a more tactical basis in the portfolios
- The SAA allocations to Real Estate are re-allocated to Global Equities; REITs are in MSCI ACWI and used in the Real Asset Fund

Proposed Active Positioning (Update)

| | 0-9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17-18 | 19+ | Diversified Equity | Diversified Bond | UltraShort Bond |
|------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----|--------------------|------------------|-----------------|
| Cash & Short-Term Bonds | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Nominal Bonds | 0.0% | 0.0% | 0.0% | -0.2% | -0.2% | 0.0% | 0.2% | 0.2% | -0.2% | - | - | - | - |
| Global Equities | 1.0% | 1.0% | 1.0% | 1.2% | 1.2% | 1.0% | 0.8% | 0.8% | +0.2% | - | 2.0% | - | - |
| Real Assets | -1.0% | -1.0% | -1.0% | -1.0% | -1.0% | -1.0% | -1.0% | -1.0% | - | - | -2.0% | - | - |

UPDATE AGE-BASED AND STATIC PORTFOLIO

PROPOSED EXPOSURES



| | | Expense Ratio | 0-9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17-18 | 19+ | Div. Equity | Div. Bond | UltraShort Bond |
|--|--|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------------|
| Cash and Short Term Bond | PAIDX PIMCO Short Asset Investment | 0.34% | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | VMSSX Virtus Newfleet Multi-Sector Short | 0.52% | - | - | - | - | 2% | 3% | 4% | 6% | 8% | 10% | - | 1% | 15% |
| | SIGZX Virtus Seix U.S. Govt Secs Ultra Short | 0.26% | - | - | - | - | 6% | 14% | 18% | 26% | 30% | 40% | - | 4% | 85% |
| Total Cash & Short-Term Bonds | | | | | | | 8% | 17% | 22% | 32% | 38% | 50% | | 5% | 100% |
| Nominal Bond | STGZX Virtus Seix Core Bond | 0.36% | - | 2% | 8% | 12% | 14% | 14% | 17% | 20% | 21% | 19% | - | 49% | - |
| | PTTRX PIMCO Total Return | 0.46% | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | FUAMX Fidelity Intermediate Treasury | 0.03% | - | 2% | 2% | 4% | 4% | 5% | 5% | 6% | 7% | 6% | - | 16% | - |
| | VMFRX Virtus Newfleet Multi-Sector Intermedi | 0.60% | - | 1% | 5% | 8% | 8% | 9% | 10% | 12% | 12% | 11% | - | 30% | - |
| | AGASX Virtus Global Allocation-Bond (40%) | 0.42% | 10% | 12% | 12% | 13% | 13% | 12% | 13% | 7% | 5% | 4% | - | - | - |
| Total Nominal Bonds | | | 10% | 17% | 27% | 37% | 39% | 40% | 45% | 45% | 45% | 40% | | 95% | |
| Inflation-Linked Bonds | PRRIX PIMCO Real Return | 0.45% | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | DIPSX DFA Inflation-Protected Securities | 0.11% | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | Total Inflation-Linked Bonds | | | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Global Equities | AGASX Virtus Global Allocation – Eq (60%) | 0.42% | 15% | 19% | 19% | 19% | 19% | 18% | 20% | 11% | 7% | 6% | 0% | 0% | 0% |
| | FNPFX American Funds New Perspective | 0.42% | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | AFGFY Virtus Silvant Focused Growth | 0.62% | 13% | 12% | 11% | 8% | 5% | 4% | 2% | 2% | 2% | 1% | 18% | - | - |
| | STVZX Virtus Ceredex Large-Cap Value | 0.72% | 6% | 5% | 4% | 3% | 3% | 2% | 1% | 1% | 1% | - | 8% | - | - |
| | VCGRX Virtus KAR Capital Growth | 0.73% | 8% | 7% | 6% | 5% | 4% | 3% | 1% | 1% | 1% | - | 12% | - | - |
| | VRMCX Virtus KAR Mid-Cap Core | 0.87% | 5% | 5% | 3% | 3% | 2% | 1% | 1% | 1% | 1% | - | 8% | - | - |
| | SCIZX Virtus SGA International Growth | 0.95% | 11% | 10% | 8% | 6% | 5% | 4% | 2% | 2% | 1% | 1% | 16% | - | - |
| | TISPX Nuveen S&P 500 Index | 0.05% | 11% | 8% | 8% | 7% | 6% | 4% | 3% | 2% | 1% | 1% | 13% | - | - |
| | VPKIX Vanguard Pacific Stock Index | 0.08% | 9% | 8% | 7% | 5% | 4% | 4% | 1% | 1% | 1% | 1% | 13% | - | - |
| | AEMOX Virtus Emerging Markets Opportunities | 0.89% | 6% | 5% | 4% | 3% | 2% | 1% | 1% | 1% | 1% | - | 9% | - | - |
| Total Global Equities | | | 84% | 78% | 69% | 59% | 50% | 41% | 32% | 22% | 17% | 10% | 97% | 0% | 0% |
| Real Assets | DCMSX DFA Commodity Strategy | 0.32% | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | VRGEX Virtus Duff & Phelps Global Real Est | 0.89% | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | VAABX Virtus Duff & Phelps Real Asset | 1.00% | 6% | 5% | 4% | 4% | 3% | 2% | 1% | 1% | | | 3% | | |
| Total Real Assets | | | 6% | 5% | 4% | 4% | 3% | 2% | 1% | 1% | 0% | 0% | 3% | 0% | 0% |
| Weighted Average Fund Fees | | | 0.56% | 0.54% | 0.51% | 0.49% | 0.46% | 0.43% | 0.41% | 0.40% | 0.38% | 0.35% | 0.61% | 0.38% | 0.30% |

Simplification: SAA removes TIPS, replaces Commodities and Real Estate with “Real Asset;” total number of funds reduced to 15 from 18

**Additions
Deletions**

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

ALL MATERIALS ARE PRESENTED FOR THE STATE OF SOUTH DAKOTA INVESTMENT COUNCIL.

UPDATE AGE-BASED AND STATIC PORTFOLIO

DIFFERENCES FROM CURRENT 2025 PORTFOLIOS



| | | Expense Ratio | 0-9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17-18 | 19+ | Div. Equity | Div. Bond | UltraShort Bond | |
|--|-------|--|-------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------------|---------------|
| Cash and Short Term Bond | PAIDX | PIMCO Short Asset Investment | 0.34% | | | | -4% | -8% | -13% | -15% | -20% | -23% | | -2% | -50% | |
| | VMSSX | Virtus Newfleet Multi-Sector Short | 0.52% | | | | | 2% | 3% | 4% | 6% | 8% | 10% | | 1% | 15% |
| | SIGZX | Virtus Seix U.S. Govt Secs Ultra Short | 0.26% | | | | -4% | -2% | 1% | 3% | 7% | 8% | 40% | | 1% | 35% |
| Total Cash & Short-Term Bonds | | | | | | | -8% | -8% | -9% | -8.0% | -7% | -7% | 50% | | | |
| Nominal Bond | STGZX | Virtus Seix Core Bond | 0.36% | -1% | -1% | 4% | 9% | 10% | 9% | 11% | 13% | 14% | 19% | | 21% | |
| | PTRX | PIMCO Total Return | 0.46% | -2% | -2% | -5% | -5% | -5% | -5% | -6% | -8% | -9% | | | -28% | |
| | FUAMX | Fidelity Intermediate Treasury | 0.03% | | 1% | | 2% | 1% | 2% | 2% | 1% | 2% | 6% | | | |
| | VMFRX | Virtus Newfleet Multi-Sector Intermedi | 0.60% | -1% | -1% | | 3% | 3% | 4% | 4% | 4% | 3% | 11% | | 14% | |
| | AGASX | Virtus Global Allocation–Bond (40%) | | -1% | -% | -% | | | | | | | | 4% | | |
| Total Nominal Bonds | | | | -5% | -3% | -1% | 9% | 9% | 10% | 11% | 10% | 10% | 40% | | 7% | |
| | PRRIX | PIMCO Real Return | 0.45% | | -1% | -2% | -3% | -3% | -3% | -4% | -4% | -3% | | | -2% | |
| | DIPSX | DFA Inflation-Protected Securities | 0.11% | | -4% | -5% | -7% | -7% | -7% | -8% | -8% | -8% | | | -5% | |
| Total Inflation-Linked Bonds | | | | | -5% | -7% | -10% | -10% | -10% | -12% | -12% | -11% | | | -7% | |
| | AGASX | Virtus Global Allocation – Eq (60%) | 0.42% | -2% | -1% | -1% | | | | | | | 6% | | | |
| | FNPFX | American Funds New Perspective | 0.42% | -8% | -7% | -6% | -4% | -3% | -2% | -1% | | | | | -15% | |
| Global Equities | AFGFX | Virtus Silvant Focused Growth | 0.62% | 4% | 4% | 5% | 3% | 2% | 2% | 2% | 2% | 2% | 1% | 4% | | |
| | STVZX | Virtus Ceredex Large-Cap Value | 0.72% | 6% | 5% | 4% | 3% | 3% | 2% | 1% | 1% | 1% | | | 8% | |
| | VCGRX | Virtus KAR Capital Growth | 0.73% | 8% | 7% | 6% | 5% | 4% | 3% | 1% | 1% | 1% | | | 12% | |
| | VRMCX | Virtus KAR Mid-Cap Core | 0.87% | 2% | 3% | 1% | 1% | 1% | 1% | 1% | 1% | 1% | | | 3% | |
| | SCIZX | Virtus SGA International Growth | 0.95% | 5% | 6% | 4% | 3% | 3% | 3% | 2% | 2% | 2% | 1% | 7% | | |
| | TISPX | Nuveen S&P 500 Index | 0.05% | -6% | -6% | -2% | -1% | | | 3% | 2% | 1% | 1% | | -14% | |
| | VPKIX | Vanguard Pacific Stock Index | 0.08% | | 1% | 1% | 1% | 1% | 2% | 1% | 1% | 1% | 1% | | | |
| | AEMOX | Virtus Emerging Markets Opportunities | 0.89% | | | | | | | 1% | 1% | 1% | | | | |
| Total Global Equities | | | | 9% | 12% | 12% | 11% | 11% | 11% | 11% | 11% | 10% | 10% | 5% | | |
| Real Assets | DCMSX | DFA Commodity Strategy | 0.32% | -6% | -5% | -5% | -4% | -3% | -2% | -2% | -2% | -2% | | | -4% | |
| | VRGEX | Virtus Duff & Phelps Global Real Est | 0.89% | -4% | -4% | -3% | -2% | -2% | -2% | -1% | -1% | | | | -4% | |
| | VAABX | Virtus Duff & Phelps Real Asset | 1.00% | 6% | 5% | 4% | 4% | 3% | 2% | 1% | 1% | | | | 3% | |
| Total Real Assets | | | | -4% | -4% | -4% | -2% | -2% | -2% | -2% | -2% | -2% | | | -5% | |
| Change Weighted Average Fees | | | | 0.13% | 0.12% | 0.09% | 0.08% | 0.07% | 0.06% | 0.04% | 0.04% | 0.04% | 0.00% | 0.17% | 0.00% | -0.01% |

Additions
Deletions

Note that for asset class totals, Virtus Global Allocation splits 60% equity and 40% nominal bonds. For the 19+ portfolio, the change in fee calculation is based on the previous near-college portfolio (17+ portfolio).

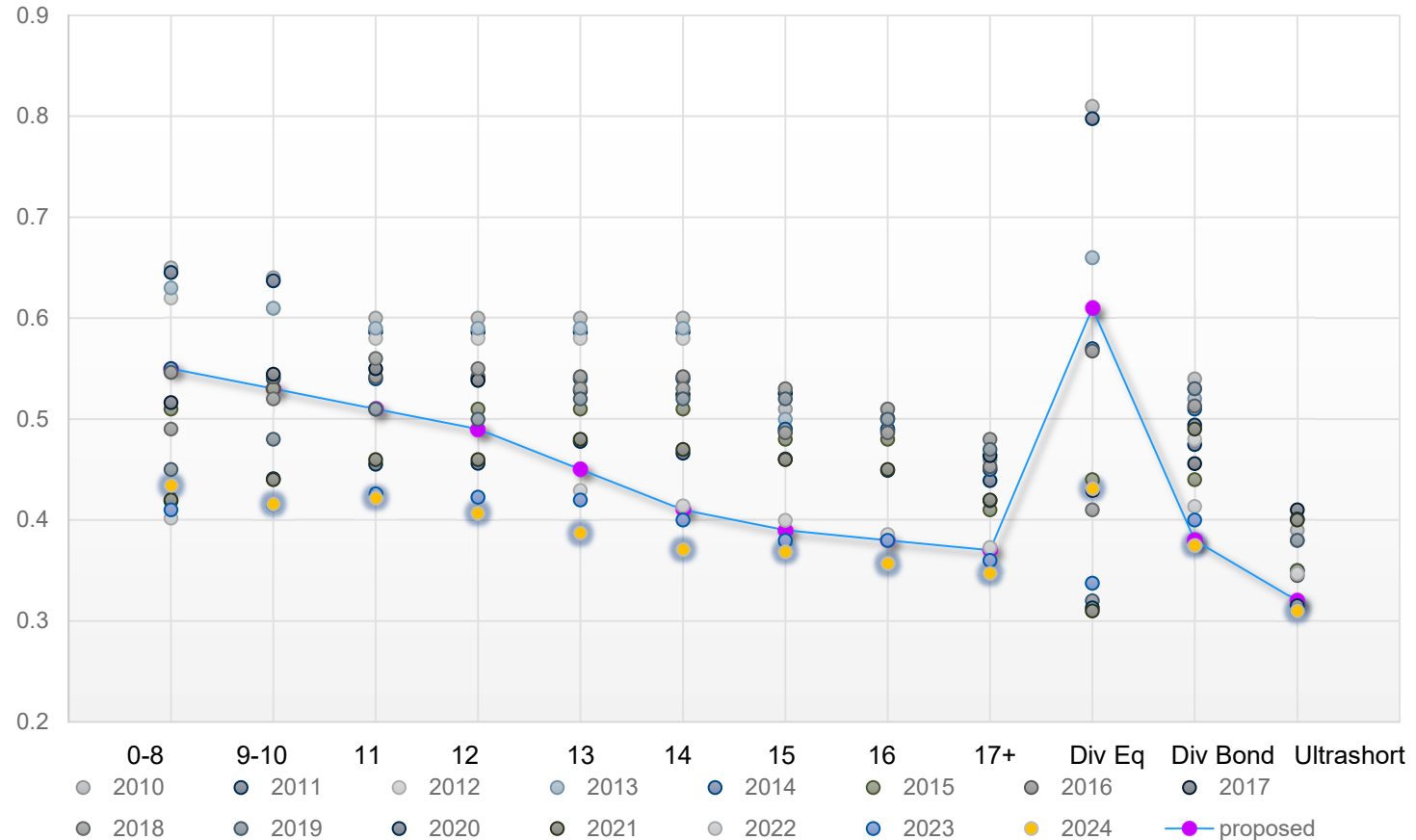
ALL MATERIALS ARE PRESENTED FOR THE STATE OF SOUTH DAKOTA INVESTMENT COUNCIL.

UPDATE AGE-BASED AND STATIC PORTFOLIO

WEIGHTED AVERAGE UNDERLYING FUND FEES



WEIGHTED AVERAGE FUND FEES: HISTORICAL PERSPECTIVE



Fees: Weighted average underlying fund fees were historically higher than they are today.

UPDATE AGE-BASED AND STATIC PORTFOLIO

SUMMARY OF PROPOSED FUND CHANGES



| Proposed Fund Additions | | Fee | AUM (mm) | Inception | Rationale |
|--------------------------|--|-------|----------|------------------------|--|
| Ticker | Fund name | | | | |
| Cash and Short Term Bond | VMSSX Virtus Newfleet Multi-Sector Short Term | 0.52% | \$4,500 | 6/6/2008 | <p>The Fund complements the Virtus Seix U.S. Government Securities Ultra-Short Bond Fund.</p> <ul style="list-style-type: none"> Use Case: The Fund is not considered a replacement for the PIMCO Short Asset Investment Fund. Rather, it is proposed as a complement to the currently held, Virtus Seix U.S. Govt Secs Ultra-Short Fund. Blending the two Funds achieves desired characteristics and may deliver superior performance. Rationale: In the proposed Ultra Short Bond portfolio, the portfolio is expected to have less downside compared to the current portfolio and the blended fees are lower than the current fees. Additionally, the Fund is more appropriately categorized as a low duration fund as opposed to a short-term bond fund. The Fund's fees (0.52%) are in line with other low duration funds, including the PIMCO Low Duration Fund (0.46%). |
| Global Equities | STVZX Virtus Ceredex Large-Cap Value | 0.72% | \$582.5 | 2/12/1993 ¹ | <p>The Fund serves as a diversifier in U.S. Large Cap and a balance to the U.S. growth positions.</p> <ul style="list-style-type: none"> The Fund has a long-established process and consistent portfolio manager since 1995. The Fund has outperformed 66% of 3-year rolling periods over the last 25 years. However, the market selloff in response to the invasion of Ukraine in Q1 2022 resulted in 700 bps of underperformance, as the Fund was pro-cyclically overweight sectors such as industrials and materials and underweight energy and defensives. Since 2022, the narrow momentum-driven market has made it difficult to fully earn back that underperformance because the Fund is consistently underweight momentum versus its benchmark. However, we expect the Fund may provide diversification once the momentum driven rally ends. |
| | VCGRX Virtus KAR Capital Growth | 0.73% | \$604.6 | 9/29/2006 ² | <p>The Fund Serves as a diversifier in U.S. Large Cap.</p> <ul style="list-style-type: none"> The Fund complements the Silvant Focused Growth Fund because it is less concentrated, underweight momentum, overweight smaller large-cap and mid-cap stocks and has a strong quality style bias. The Fund has been structurally underweight the Magnificent 7 stocks ("Mag 7"), which has driven its underperformance since 2021, and is therefore well positioned for improved market breadth. As the Mag 7 stocks have underperformed year to date, the Fund has outperformed its Russell 1000 Growth benchmark and is in the 21% percentile in its category (as of 3/17/2025). |
| Real Asset | VAABX Virtus Duff & Phelps Real Asset | 1.00% | \$20.2 | 10/1/2009 ³ | <p>The Fund, a Multi-Manager portfolio that includes global real estate, global infrastructure, natural resources, commodities securities and TIPS, provides efficient access to a range of real assets. The Fund is managed by David Grumhaus, the CIO of Duff & Phelps and actively allocates across real assets within targeted allocation ranges, utilizing both passive and active strategies and leveraging the Duff & Phelps' extensive experience.</p> |

¹The institutional share class and overall strategy inception is 2/12/1993, while inception for R6 shares is 8/1/2014. Mills Riddick has been portfolio manager since December 1995.

²The institutional share class and overall strategy inception is 9/29/2006, while inception for R6 shares is 1/30/2018. KAR began managing the Fund 12/31/2011.

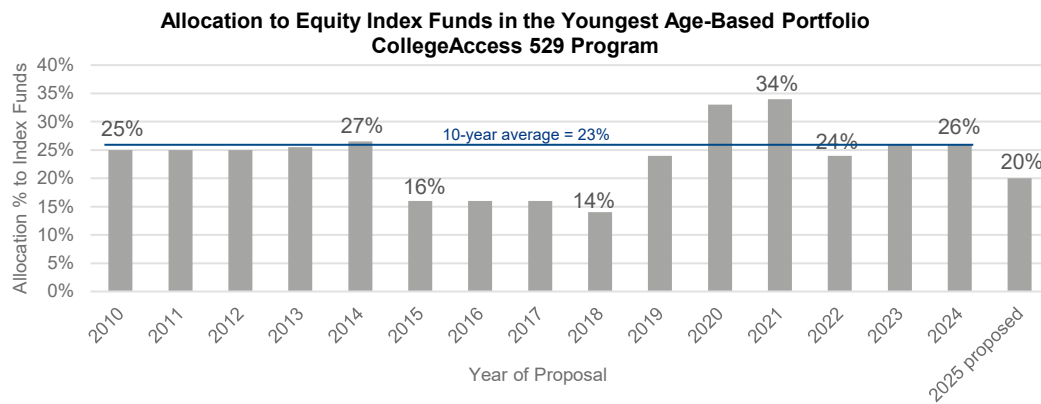
³The institutional share class and overall strategy inception is 10/1/2009, while inception for R6 shares is 1/31/2022.

UPDATE AGE-BASED AND STATIC PORTFOLIO

PROPOSED EQUITY FUND CHANGES

➤ The passive equity exposure across portfolios is in line with historic averages

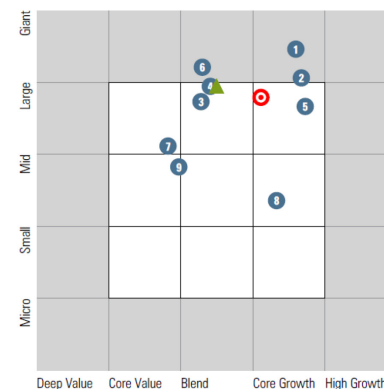
- During the last ten years, in the youngest age-based portfolio¹, the average equity index fund exposure was 23%. The proposed equity index fund exposure is 20%. See the first chart below.
- Historically, equity index funds have been used in efficient asset classes such as US Large Cap Equities in typical markets. While the portfolios continue to use index funds, we do not view the current US equity market backdrop as typical: the Magnificent 7 (“Mag 7”) stocks², which are disproportionately represented in the large cap equity benchmarks, have dominated performance and become a defining feature of the market and US equity benchmarks since 2023. Extreme crowding and concentrated positioning in mega-cap stocks has fueled the momentum trade. Reducing passive equity exposure in US Large Cap equities helps mitigate an overexposure to the Mag 7 and the momentum factor.



➤ The proposed combination of active US equity funds achieves targeted portfolio characteristics

- The global equity portfolio is comprised of a group of active managers with varying style, cap and sector exposures that are actively managed and may be expected to outperform the broader US equity market. See the chart on the right.
- Including an active US value strategy, Ceredex Large Cap Value, tilts the portfolio towards value exposure, while incorporating an additional US growth strategy, KAR Capital Growth, which is overweight quality, underweight momentum and overweight mid-cap stocks similarly tilts the aggregate portfolio.

Proposed Diversified Equity Portfolio: Morningstar Style Box



● Global equity portfolio ▲ Benchmark: MSCI ACWI Index

● Proposed Individual Equity Funds

Source: Morningstar

¹The age-based portfolio 1 is “0-9” and was previously “0-8” since 2018 and previously “0-6.”

²The Magnificent 7, “Mag 7”, includes Tesla, Nvidia, Apple, Google, Meta, Microsoft and Amazon.

UPDATE AGE-BASED AND STATIC PORTFOLIO

PROPOSED FUND CHANGES



Virtus KAR Capital Growth

Use Case: The Fund is intended to serve as a diversifying complement to the Virtus Silvant Focused Growth Fund. In contrast to the Silvant strategy, the Capital Growth Fund is less concentrated (41 holdings versus 29 holdings), underweight momentum, overweight smaller large-cap and mid-cap stocks and has a strong quality style bias.

Approach: The Fund applies the longstanding KAR investment process, where the portfolio managers allocate to quality large-cap growth companies with solid balance sheets, consistent growth and market dominant business models. In addition, the team leverages the firm's mid-cap expertise by identifying mid-cap firms on strong growth trajectories as those firms transition into large cap, so the Fund tends to be underweight the largest companies.

Performance: The KAR investment approach has been out of favor for the past four years, especially in US growth, after many years of strong performance as shown in the table below but is likely to potentially revert in the near term given the reasons below:

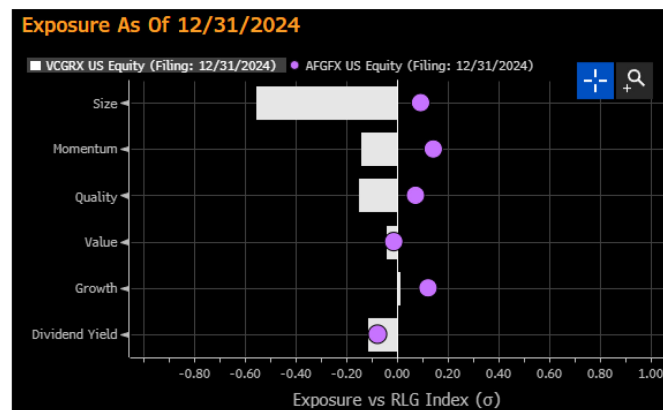
- Both the KAR Small-Cap Growth Fund and the Mid-Cap Growth Fund were top decile performers in their respective Morningstar categories for 2011-2020 but have since fallen into the bottom quartile for 2021-2024.
- Similarly, the KAR Capital Growth Fund outperformed its benchmark and was in the top 21st percentile vs. peers for 2015-2020 (the lead PM joined the team in 2015) but has fallen into the bottom decile for 2021-2024.

Rationale: Over the last few years, the strong performance of the US stock market has largely been driven by the largest U.S. companies, especially by the Magnificent 7. Small-cap, mid-cap and smaller large-cap equities have underperformed given elevated financing rates for capital raised to fund growth as the US Fed hiked rates to the highest levels in many years.

We do not expect this narrowness of equity performance to continue, along with the potential boost from lower rates as the US Fed continues to cut. Going forward, we believe that Capital Growth could potentially deliver results more in line with KAR's performance prior to 2021

| | 12/31/2010 | | 12/31/2014 | | 12/31/2020 | |
|----------------------------------|------------|--------------|------------|--------------|------------|--------------|
| | Return | Morning star | Return | Morning star | Return | Morning star |
| Virtus KAR Small-Cap Growth Fund | 22.11 | 1 | 23.67 | 2 | -0.98 | 74 |
| Russell 2000 Growth TR USD | 13.48 | | 15.28 | | 0.86 | |
| Virtus KAR Mid Cap Growth Fund | 17.46 | 8 | 28.32 | 3 | -2.84 | 92 |
| Russell Mid Cap Growth TR USD | 15.04 | | 18.66 | | 6.15 | |
| Virtus KAR Capital Growth Fund | | | 18.91 | 21 | 5.08 | 91 |
| Russell 1000 Growth TR USD | | | 18.3 | | 14.53 | |

Source: Morningstar, Institutional share class performance



Source: Bloomberg

UPDATE AGE-BASED AND STATIC PORTFOLIO

PROPOSED FUND CHANGES



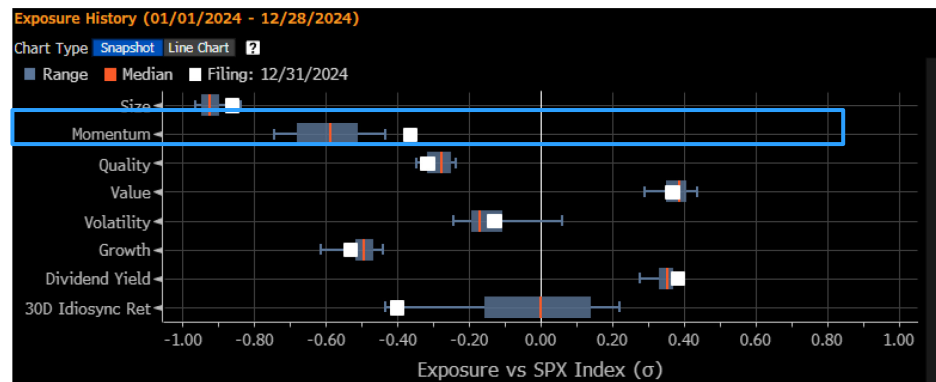
Virtus Ceredex Large Cap Value

- Use Case:** The Fund is intended to serve as a source of diversification to the growth-oriented active strategies included in the portfolios and provide potential excess return when the momentum-driven rally fades. The Fund is currently underweight large cap stocks, overweight mid-cap and underweight momentum compared to the broader US equity market.
- Approach:** The Fund has a long-established, traditional value process and consistent portfolio manager (Mills Riddick) since 1995. Ceredex is differentiated in its dividend focus, emphasis on identifying companies with solid valuations accompanied by improving fundamentals and seasoned investment management team. In recent years, the team’s risk management process has been more formalized and integrated into the process.
- Performance:** The Fund outperformed its benchmark 80% of the time based on 3-year rolling averages for the 10-year period through December 2021 (based on gross returns). However, the Fund’s recent underperformance can be traced back to its positioning in early 2022, at the time of the Russian invasion of Ukraine: (i) an overweight to cyclicals based on their bottom-up approach in an environment in which defensive names outperformed and (ii) a significant underweight to energy-related stocks, utilities, staples and pharmaceuticals, most of which rallied.
- As a result, in the 90-day period from 1/18/22 through 4/18/22, the Fund posted 700 basis points of underperformance.
- Rationale:** Since 2022, in a momentum driven market, the Fund managed to outperform its benchmark in 2023 (by roughly 300 bps) and then lagged in 2024 (by roughly 350 bps) as the Mag 7 mega-cap stocks dominated the market. The strategy is expected to outperform should market breadth widen. In addition, the portfolio managers have implemented additional risk controls that seek to identify when they are over extended relative to potential market events and when correlations among holdings are excessive.

| Sector | Momentum | |
|----------------|--------------------|-------------------------|
| | Outperform ance | Momentum Factor Rank |
| Staples | 61.10% | 2 |
| Technology | 50.84% | 1 |
| Energy | 50.90% | 3 |
| Industrials | 26.97% | 2 |
| S&P 1500 Index | 26.28% | 1 |
| Discretionary | 19.15% | 4 |
| Materials | 17.27% | 10 |
| Real Estate | 16.63% | 3 |
| Finance | 16.55% | 6 |
| Communication | 16.44% | 14 |
| Utilities | 12.11% | 27 |
| Healthcare | 8.47% | 42 |

In 2024, Momentum was the top factor for the S&P1500 (out of 118 Factors tracked)

*Momentum relative performance is High to Low (Q1 vs Q5), Sector Neutral



Source: Bloomberg

UPDATE AGE-BASED AND STATIC PORTFOLIO

SUMMARY OF PROPOSED FUND CHANGES



| Proposed Fund Deletions | | | Fee | Rationale |
|-------------------------|-----------|---|-------|--|
| Ticker | Fund name | | | |
| Cash and Short Term | PAIDX | PIMCO Short Asset Investment | 0.34% | Reduce allocation to strategy. The combination of the two proposed funds achieves the desired exposures with historically more limited downside and has lower weighted average fees. |
| Nominal Bonds | PTTRX | PIMCO Total Return | 0.46% | Reduce allocation to strategy |
| TIPS | PRRIX | PIMCO Real Return | 0.45% | Removed to align with glidepath research to exclude TIPS from strategic allocation |
| | DIPSX | DFA Inflation-Protected Securities | 0.11% | Removed to align with glidepath research to exclude TIPS from strategic allocation |
| Global Equities | FNPFX | American Funds New Perspective | 0.42% | Efficiency; replace active global manger with a combination of active U.S. and international strategies that may potentially provide for broader diversification as well as desired style exposures. |
| Commodities | DCMSX | DFA Commodity Strategy | 0.32% | Removed to align with glidepath research to exclude commodities from strategic allocation |
| Real Estate | VRGEX | Virtus Duff & Phelps Global Real Estate | 0.89% | Removed to align with glidepath research to exclude real estate from strategic allocation |

2025 AGE-BASED AND STATIC PORTFOLIO PROPOSAL

UPDATE ASSET ALLOCATION POSITIONING



| Allocation Change | Rationale |
|---|---|
| Remain neutral on Cash and Short-Term Bonds , relative to benchmarks | In an environment in which we expect rates to eventually stabilize at higher levels, relative to recent history, we see value in ultra-short bond strategies. |
| Maintain Nominal Bonds (core U.S. Bonds) at a roughly duration neutral position | We had anticipated that global central banks would pivot to an easing cycle against a backdrop of moderating inflation, which has occurred. Currently, the future trajectory of inflation is not clear given the backdrop of fiscal, trade and immigration policy uncertainty, which compels us to remain closer to the strategic benchmark. |
| Remove explicit TIPS exposure from portfolios in line with SAA changes. | Given that breakeven rates are approximating the Fed's target, in a soft-landing scenario, we expect TIPS and Nominal bonds to behave similarly. TIPS duration has been converging to that of the aggregate bond index. However, in a recession, nominal bonds are likely to outperform TIPS as deflation occurs |
| Maintain a small overweight in Global Equities , relative to the benchmark. Within Global Equities, maintain exposure to Japan and Emerging Markets, as well as a modest tilt toward growth away from value. | We expect global equities to benefit from a moderate – but positive – growth environment, along with the recent rate cutting cycle. Given valuations, as interest rates fall, small and mid-cap stocks may benefit and outperform large-cap equities. We expect equities in Japan to be a bright spot, given a reflation trend and strong nominal growth, rising productivity at the macro level, and improved corporate governance at the micro level. A stronger yen versus U.S. dollar will also be supportive. We expect Europe to continue to confront structural challenges to the area's potential growth. |
| Seek exposure to global real estate and commodities through the Virtus Duff & Phelps Real Asset Fund. | Compared to the SAA, we move to a small underweight on Real Assets, given that inflation is currently falling back to Fed target and rely on the active manager of the Duff & Phelps Real Asset Fund to gain exposure to global real estate, global infrastructure, natural resources, and TIPS. We expect REITs and infrastructure equities to perform well in a falling rate environment. |

As of February 28, 2025

Note: Positioning descriptions are in relation to the program benchmark, which is static.

ALL MATERIALS ARE PRESENTED FOR THE STATE OF SOUTH DAKOTA INVESTMENT COUNCIL.

INDIVIDUAL INVESTMENT OPTIONS

We propose to add multi-manager standalone options, similar to the static portfolios, to replace some of the existing single-manager options

- This offers advisors core investment options to build portfolios for their clients that do not rely on a single active manager, while still offering the opportunity to benefit from active management
- Each portfolio will be offered as a multi-manager strategy and will include a blend of mutual funds with exposures that remain constant between annual program updates

Benefits of Multi Manager

- Management of Active Risk**
 - We believe combining strategies of different styles should decrease active risk and give more reliable outcomes vs. benchmarks
- Flexibility**
 - Able to adjust weights of actively managed strategies to align with macro and market views via the same process applied to the age-based and static portfolios
- Stability**
 - Lower turnover over time in the list of investment options in the advisor-sold program
- Robust Portfolio Construction**
 - Leverage the Virtus Multi Asset team's approach to portfolio construction
- Best of Virtus**
 - Harvest selection benefits of specialist managers within equities and fixed income

UPDATE INDIVIDUAL INVESTMENT OPTIONS

PROPOSED LINEUP



| | Ticker | Current Name | Proposed Name | Structure ¹ | Rationale |
|------------|--------|-----------------------------------|--------------------------------------|------------------------|--|
| No Changes | AGASX | Virtus Global Allocation | Virtus Global Allocation | Mutual Fund | |
| | ANDVX | Virtus NFJ Dividend Value | Virtus NFJ Dividend Value | Mutual Fund | |
| | VVERX | Virtus Ceredex Small-Cap Value | Virtus Ceredex Small-Cap Value | Mutual Fund | |
| | AFGFX | Virtus Silvant Focused Growth | Virtus Silvant Focused Growth | Mutual Fund | |
| | VRMCX | Virtus KAR Mid-Cap Core | Virtus KAR Mid-Cap Core | Mutual Fund | |
| | VMFRX | Virtus Newfleet Multi-Sect Inter | Virtus Newfleet Multi-Sect Inter | Mutual Fund | |
| Replace | PTTRX | PIMCO Total Return | Virtus Seix Core Bond | Mutual Fund | <ul style="list-style-type: none"> Replace with mutual fund used in the age-based and static portfolios |
| | DODFX | Dodge & Cox International Stock | Virtus International Equity Strategy | Multi manager | <ul style="list-style-type: none"> Seeks to achieve potentially optimal results with blend of active managers |
| | TCIEX | Nuveen International Equity Index | | | |
| | PSPTX | PIMCO StocksPLUS Absolute Return | Virtus US Equity Strategy | Multi Manager | <ul style="list-style-type: none"> Seeks to achieve potentially optimal results with blend of active managers |
| | PAAIX | PIMCO All Asset | Virtus All Asset Strategy | Multi Manager | <ul style="list-style-type: none"> Seeks to achieve potentially optimal results with blend of active managers |
| | PAIDX | PIMCO Short Asset Investment | Virtus UltraShort Bond | Multi Manager | <ul style="list-style-type: none"> Replace with Virtus strategies already used in the static Ultrashort portfolio |

Summary of Changes

- Reduce the number of standalone funds offered
- Offer more flexibility using multi-manager strategies for sub-asset classes
- Allows for changes in underlying managers without a change in the name of the municipal fund security

¹Multi manager strategies structured as municipal fund securities holding more than one mutual fund with static weights between rebalances.

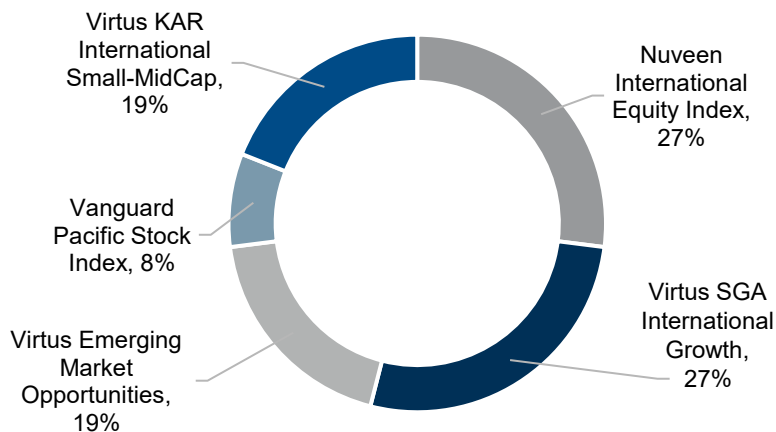
UPDATE INDIVIDUAL INVESTMENT OPTIONS

PROPOSED MULTI-MANAGER STRATEGY

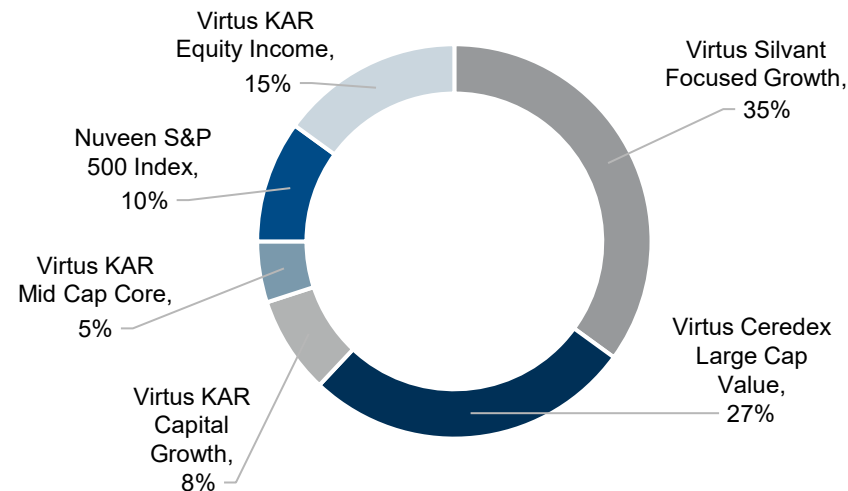


The construction of the multi-manager strategies adheres to the same process as is used in the age-based and static portfolio construction

VIRTUS INTERNATIONAL EQUITY MULTI-MANAGER STRATEGY



VIRTUS U.S. EQUITY MULTI-MANAGER STRATEGY



| Ticker | Fund Name | % | Fee |
|-----------------------------|-------------------------------------|-----------|--------------|
| TCIEX | Nuveen International Equity Index | 27 | 0.05% |
| SCIZX | Virtus SGA International Growth | 27 | 0.95% |
| AEMOX | Virtus Emerging Markets Opps | 19 | 0.89% |
| VPKIX | Vanguard Pacific Stock Index | 8 | 0.08% |
| VRISX | Virtus KAR Intl Small-MidCap | 19 | 1.10% |
| Weighted average fee | | | 0.65% |

| Ticker | Fund Name | % | Fee |
|-----------------------------|----------------------------------|-----------|--------------|
| AFGFX | Virtus Silvant Focused Growth | 35 | 0.62% |
| STVZX | Virtus Ceredex Large-Cap Value | 27 | 0.72% |
| VCGRX | Virtus KAR Capital Growth | 8 | 0.73% |
| VRMCX | Virtus KAR Mid-Cap Core | 5 | 0.87% |
| TISPX | Nuveen S&P 500 Index | 10 | 0.05% |
| VECRX | Virtus KAR Equity Income | 15 | 0.91% |
| Weighted average fee | | | 0.65% |

Note: Mutual Funds in bold text are proposed additions to the program

ALL MATERIALS ARE PRESENTED FOR THE STATE OF SOUTH DAKOTA INVESTMENT COUNCIL.

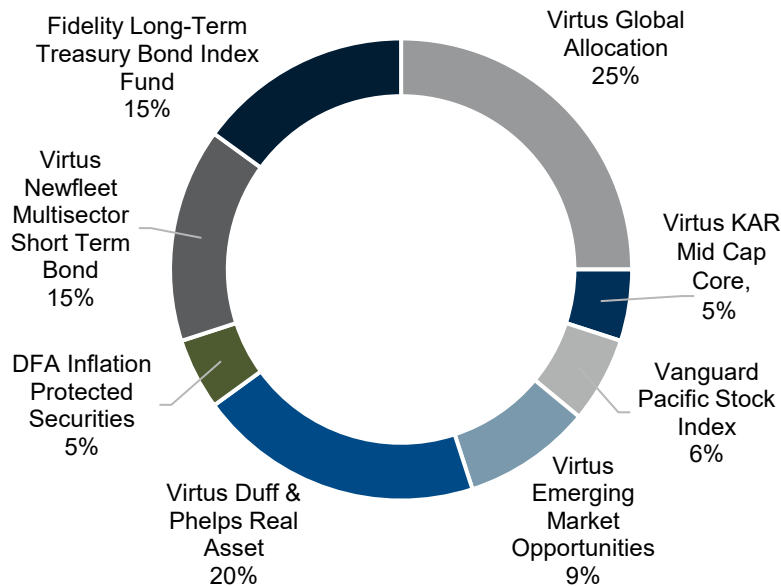
UPDATE INDIVIDUAL INVESTMENT OPTIONS

PROPOSED MULTI-MANAGER STRATEGY



- Objective**
 - Deliver attractive real returns, provide inflation protection and diversify away from core equity risk
- Implementation**
 - Exposure to real assets, diversifiers, core equities, and core bonds
- Universe**
 - Comprised of mutual funds already in the CollegeAccess 529 Program
- Process**
 - Risk budgeted process that prioritizes allocations to real assets and value-oriented asset classes

VIRTUS ALL ASSET – MULTI-MANAGER STRATEGY



The weighted average fee is 0.54%

PORTFOLIO STRUCTURE

| Asset Class | Current | Target Range | Asset Classes |
|--------------|---------|--------------|--|
| Real Assets | 25% | 0-35% | Infrastructure, REITs, commodity equities, TIPS |
| Diversifiers | 0% | 0-25% | EM Debt, HY bonds, loans, convertible bonds, liquid alts |
| Core Bonds | 40% | 10-50% | Core bonds, incl. positioning on duration and spread |
| Core Equity | 35% | 15-50% | Tilt towards equity asset classes and regions with attractive valuations |

Note: Mutual Funds in bold text are proposed additions to the program

UPDATE INDIVIDUAL INVESTMENT OPTIONS

SUMMARY OF PROPOSED FUND CHANGES



| Proposed Fund Additions ¹ | | | |
|--------------------------------------|--|-------|--|
| Ticker | Fund Name | Fee | Rationale |
| VRISX | Virtus KAR International Small-Mid Cap | 1.12% | Held in Intl. Equity Multi-Manager ² Strategy as diversifier |
| VCGRX | Virtus KAR Capital Growth | 0.73% | Held in U.S. Equity Multi-Manager Strategy as diversifier in U.S. Large Cap; also added to age-based |
| VECRX | Virtus KAR Equity Income | 0.91% | Held in U.S. Equity Multi-Manager Strategy and enables access to high-quality dividend payers |
| FNBGX | Fidelity Long Term Treasury Index | 0.03% | Held in All Asset Multi-Manager Strategy as a core fixed income holding to adjust duration |

| Proposed Fund Deletions | | | |
|-------------------------|-----------------------------------|-------|---|
| Ticker | Fund Name | Fee | Rationale |
| DODFX | Dodge & Cox International Stock | 0.62% | Consolidation of options; replace specific style bias with more balanced multi-manager strategy |
| TCIEX | Nuveen International Equity Index | 0.05% | Consolidation of options; replace with more active multi-manager strategy |
| PAAIX | PIMCO All Asset | 0.87% | Replace with blend of Virtus strategies to achieve objectives of inflation protection and diversify away from core equity risk. |
| PTTRX | PIMCO Total Return | 0.46% | Replace with Virtus strategy currently in the age-based portfolios |
| PAIDX | PIMCO Short Asset Investment | 0.34% | Replace with Virtus strategies to align with the static Ultrashort portfolio |
| PSPTX | PIMCO StocksPLUS Abs Ret | 0.64% | Consolidation of options; replace specific style bias with more balanced multi-manager strategy |

¹Proposed fund additions to Program (i.e. are not currently held in age-based or static portfolios).

²Multi-manager strategies structured as municipal fund securities holding more than one mutual fund with static weights between rebalances

THE PROPOSED CHANGES SEEK TO ACHIEVE THE FOLLOWING:

Program Changes

- Glidepath Update**
- Modestly increase target equity allocations up until age 18 to increase potential returns and investors' ability to pay college costs.
 - In practice, rename the "Ages 0-8" portfolio "Ages 0-9," the "Age 17+" to "Age 17-18," and add a 19+ portfolio.
-

- Strategic Asset Allocation**
- Reallocate TIPS and global REIT exposures to nominal bonds and global equities, respectively. Allocation to commodities replaced by "real assets," which includes commodity futures, commodity equities, global REITs, global infrastructure-related equities and TIPS.
 - The new SAAs have four main asset classes: Cash/Short Term Bond, Nominal Bonds, Global Equities, Real Assets.
-

Allocation Changes

- Asset Allocation**
- The portfolios are aligned with the SAA with a modest underweight to real assets and within global equities, a tilt toward U.S. and a modest tilt toward growth equities, consistent with current positioning.
-

- Fund Level Changes**
- Reduce total number of funds in the age-based and static portfolios from 18 to 15, with an emphasis on Virtus Funds.
 - Take advantage of diverse lineup of Virtus Fund offerings to achieve target allocation exposures
-

- Fees**
- The asset-weighted fees for all portfolios are below the 65-basis point cap.
 - In the bond-heavy, near-college portfolio, the fee is unchanged at 35 bps; the fee for the Diversified Bond is 38 bps.
 - In the equity-heavy portfolios, the 0-8 portfolio fee is 56 bps; the fee for Diversified Equity is 61 bps.
 - In the Ultra Short Bond portfolio, the fee decreased to 30 bps.
-

