



SOUTH DAKOTA INVESTMENT COUNCIL

**4009 West 49th Street, Suite 300
Sioux Falls, SD 57106-3784 USA
Phone: (605) 362-2820**

MEMORANDUM

TO: South Dakota Investment Council
FROM: Sherry Nelson
DATE: October 2, 2020
RE: CollegeAccess 529 Fund Change Proposal

Each year Allianz Global Investors Distributors (AGID), as program manager for the CollegeAccess 529 plan, is required to request approval for any proposed changes to the asset allocation or roster of funds included in the plan. A memo from AGID summarizing the proposed changes is attached. Also included is a detailed memo from Allianz Global Investors Multi-Asset U.S. (AGIMA) who is responsible for asset allocation and fund selection for the plan.

The State Investment Officer believes the changes proposed by Allianz Global Investors to be reasonable and recommends Council approval.

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Enclosures

October 1, 2020

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

Dear Mr. Clark,

In Allianz Global Investors Distributors' (AGID) role as Program Manager for the CollegeAccess 529 Plan, we are recommending changes to the Plan for your consideration. The attached recommendations, developed by Allianz Global Investors Multi-Asset U.S., detail the changes that we are proposing. These changes, if approved, will maintain the current asset allocations of the age-based portfolios with two modest exceptions, an underweight to nominal US bonds and a reallocation to global equities. Additionally, we recommend adding two new underlying mutual funds into the Plan, the American Funds New Perspective Fund and the Parametric International Equity Fund.

On or around December 18th, three underlying mutual funds within the Plan will be closed to investors. If approved, the proposed recommendations will allow Allianz Global Investors the ability to remove these three underlying funds prior to their scheduled liquidations.

The effect of the recommended changes will reduce the weighted average underlying fund fees by a minimum of one to two basis points in the Age-Based Portfolios and by 1 basis point in the Diversified Equity Static Investment Portfolio.

Subject to your approval, as well as the Board's, these changes would be implemented on or around December 1, 2020.

Thank you for considering our proposed changes to the CollegeAccess 529 Plan. We, and our colleagues at Allianz Global Investors Multi-Asset U.S., would be pleased to answer any questions you or your staff may have about these recommendations.

Regards,

Steven M. Piekara – 212.739.4130

cc:

Heather Bergman – 619.687.2785
Paul Pietranico – 619.687.2798

Allianz Global Investors U.S. LLC

Date: October 01, 2020
 To: South Dakota Investment Council
 From: Allianz Global Investors Multi-Asset US
 Claudio Marsala, Paul Pietranico, Heather Bergman
 Subject: Recommendations to the South Dakota Investment Council

I. Executive Summary

Allianz Global Investors (AllianzGI) proposes to maintain the current asset allocations in line with the portfolios’ respective benchmarks (approved in November 2015), with two exceptions. First, we propose a modest underweight to nominal US bonds offset by an overweight to TIPS. Second, we propose a modest reallocation to global equities, funded by a decrease in exposure to commodities and real estate.

We also propose changes to the underlying funds in the CollegeAccess 529 Plan (“Plan”), replacing two funds that are expected to liquidate in December: the AllianzGI Best Styles Global Equity Fund and the AllianzGI Multi Asset Income Fund. In the global equity portion, the proceeds of the sale of the AllianzGI Best Styles Global Equity Fund will be reallocated to two funds currently utilized as Standalone Portfolios and one new underlying mutual fund. The rationales for the replacements are to: (i) maintain exposure to the global equities benchmark in alignment with the strategic asset allocation; (ii) maintain a consistent equity style tilt; and (iii) achieve greater cost efficiency in the fund lineup. In the near-college portfolios, the proceeds from the sale of the AllianzGI Multi Asset Income Fund will be allocated to the AllianzGI Global Allocation Fund and to two funds in the nominal bond asset class.

We expect that the proposed changes will be implemented in December 2020 and are expected to remain throughout 2021.

Summary of Fund Changes

Age-Based Portfolios: We propose replacing two funds from the Age-Based portfolios and adding two US equity funds: The AllianzGI Focused Growth Fund and the AllianzGI Dividend Value Fund. In addition, we propose adding one new fund to the Plan, the American Funds New Perspective Fund. The proposed changes are shown in Table 1.

Standalone Portfolios: We propose replacing the TIAA-CREF Quant International Equity Fund, which is expected to close in December, with the Parametric International Equity Fund. The proposed changes are shown in Table 1.

Fund Fees

As a result of the recommended changes, Underlying Fund Fees (“fees”) will *decrease* across the nine Age-Based portfolios by 1 to 2 basis points and *decrease* by 1 basis point in the static Diversified Equity Portfolio. The allocation to passive equity index strategies will increase in the 0-8 portfolio and the Diversified Equity portfolio by 10%, leading to the reduction in overall fund fees.

Table 1: Summary of Proposed Fund Changes

Age-Based Portfolios

Asset Class	Ticker	Proposed Fund Additions	Fee (%)
Global Equities	AFGFX	AllianzGI Focused Growth	0.62%
	ANDVX	AllianzGI Dividend Value	0.65%
	FNPFX	American Funds New Perspective	0.42%

Ticker	Proposed Fund Deletions	Fee (%)
AGERX	AllianzGI Best Styles Global Equity	0.40%
AVRIX	AllianzGI Multi Asset Income	0.55%

Standalone Portfolios

Asset Class	Ticker	Proposed Fund Additions	Fee (%)
Global Equities	ESISX	Parametric International Equity	0.47%

Ticker	Proposed Fund Deletions	Fee (%)
TFIX	TIAA-CREF Quant Intl. Equity	0.40%

Table 2: Fund Additions/Deletions and Meaningful Reductions with Rationales
Age-Based Portfolios

	Asset Class	Fund	Ticker	Description and Rationale
Deletions	Multi Asset	AllianzGI Multi Asset Income	AVRIX	<ul style="list-style-type: none"> Fund closure scheduled for December 14, 2020. Reallocate to AllianzGI Global Allocation, Metropolitan West Total Return Bond and PIMCO Income.
	Global Equities	AllianzGI Best Styles Global Equity	AGERX	<ul style="list-style-type: none"> Fund closure scheduled for December 14, 2020. Reallocate to a combination of the global equity funds listed below in <i>Additions</i> section along with TIAA-CREF International Equity Index.
Additions	Global Equities	American Funds New Perspective	FNPFX	<ul style="list-style-type: none"> The addition of a growth-oriented global strategy also helps offset the value tilt of the Dodge & Cox International Stock Fund. The Fund seeks exposure to multinational companies. It has a longstanding performance track record based on a consistent process since 1973, is managed by an experienced team of tenured PMs and supported by a sizeable analyst team.
		AllianzGI Focused Growth	PGFIX	<ul style="list-style-type: none"> The Fund partially replaces the active US equity exposure achieved through the AllianzGI Best Styles Global Equity Fund. The Fund is currently utilized as a Standalone Portfolio and is a concentrated large cap growth strategy holding 25-45 of the team's highest conviction ideas.
		AllianzGI Dividend Value	ANDVX	<ul style="list-style-type: none"> The Fund partially replaces the active US equity exposure achieved through the AllianzGI Best Styles Global Equity Fund. The Fund is currently utilized as a Standalone Portfolio in the Plan and is value-oriented, investing primarily in dividend paying stocks with capitalizations greater than \$3.5 billion.
Reduction		Dodge & Cox International Stock	DODFX	<ul style="list-style-type: none"> Reduce exposure to the Fund by half and reallocate to TIAA-CREF International Equity Index. The Fund's deep value focus and concentrated portfolio has weighed on performance. However, the strategy and process remain sound and consistent. We expect that over a longer time horizon, the value orientation will be beneficial.

Standalone Portfolios

Deletion	Global Equities	TIAA-CREF Quant International Equity	TFIIX	<ul style="list-style-type: none"> Fund closure scheduled for December 18, 2020.
Addition	Global Equities	Parametric International Equity	ESISX	<ul style="list-style-type: none"> The Fund's profile is consistent with the TIAA-CREF International Equity Fund in terms of beta, tracking error and style exposure. The Fund uses a rules-based approach to invest in international equities. The process is expected to deliver systematic alpha in a quantitative approach designed to outperform the MSCI EAFE benchmark.

Note: Additional information for each proposed fund addition is appended.

Asset Allocation Changes

The asset allocation recommendations are primarily based on the fundamental analysis from various working groups within the AllianzGI Global Multi Asset Team. Additional inputs were provided by the AllianzGI Risklab team, which ran portfolio optimizations based on modeling returns for the six asset class constituents of the Plan benchmark. Consequently, the US Multi Asset Team, is proposing two active allocation positions across the portfolios shown in Table 3.

Table 3: Asset Allocation Recommendations

Active Allocation	Rationale	Fund Exposure Increase	Fund Exposure Decrease	Range of reallocation
Reallocate away from Nominal Bonds and into TIPS	Nominal yields on US Treasuries are at record lows, making core bonds a less attractive asset class currently. Duration will provide less diversification within a multi asset portfolio. We expect that the combination of monetary and fiscal expansion in combination with a recovery in the economy, will fuel inflation expectations, benefitting inflation-protected bonds. Allocating to TIPS offers diversification and optimal return potential.	<ul style="list-style-type: none"> DFA Inflation Protected Securities, the relatively more cost-efficient TIPS fund Incremental increase of PIMCO Income Fund relative to Metropolitan West Total Return Bond 	<ul style="list-style-type: none"> Metropolitan West Total Return Bond 	Maximum reallocation is +/- 4%
Reallocate away from Commodities and Global Real Estate and into Global Equities	Over time, global equities are expected to provide inflation protection and the potential for better returns, considering the cheap valuations in international equities. The reduction in commodities and global REITs is justified as we anticipate that the current negative factors weighing on both asset classes will continue to persist.	<ul style="list-style-type: none"> TIAA -CREF International Equity Index 	<ul style="list-style-type: none"> DFA Commodity Strategy AB Global Real Estate Investment 	Maximum reallocation is +/- 3%

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II. Summary of Proposed Changes and Comparison of Current vs Proposed Portfolios

Figure 1: Age-Based Portfolios

Asset Allocation Change	Asset Class	Ticker	Fund	Expense	0-8	9-10	11	12	13	14	15	16	17+	
Increase	Short Term Bond	PTSHX	PIMCO Short-Term	0.55%							1%	2%	2%	
Decrease	Nominal Bonds	MWTSX	Metropolitan West Total Return Bond	0.38%		-1%	-2%	-2%	-2%	-2%	-2%	-1%		
		PIMIX	PIMCO Income	1.09%							1%	1%	1%	
Increase	TIPS	PRRIX	PIMCO Real Return	0.53%							-1%	-1%	-1%	
		DIP SX	DFA Inflation-Protected Securities	0.11%		1%	2%	2%	2%	2%	4%	5%	5%	
No Change	Multi Asset	AVRIX	AllianzGI Multi Asset Income	0.55%							-8%	-11%	-12%	
		AGASX	AllianzGI Global Allocation	0.71%							5%	5%	5%	
Increase	Global Equities	AGERX	AllianzGI Best Styles Global Equity	0.40%	-22%	-18%	-15%	-13%	-15%	-7%	-3%			
		FNPFX	American Funds New Perspective	0.42%	12%	11%	9%	8%	8%	4%				
		AFGFX	AllianzGI Focused Growth	0.62%	3%	2%	2%	2%	2%	2%	1%			
		ANDVX	AllianzGI Dividend Value	0.65%	3%	2%	2%	2%	2%	1%				
		TCIEX	TIAA-CREF International Equity Index	0.06%	10%	8%	7%	5%	6%	3%	2%	1%	1%	
		TISPX	TIAA-CREF S&P 500 Index	0.05%								1%		
		DODFX	Dodge & Cox International Stock	0.63%	-5%	-4%	-4%	-3%	-2%	-2%				
		MGEMX	Morgan Stanley Emerging Mkts	1.05%	2%	2%	2%	2%	1%					
Decrease	Commodities	DCMSX	DFA Commodity Strategy	0.31%	-2%	-2%	-2%	-2%	-1%	-1%	-1%	-1%	-1%	
	Real Estate	ARIIX	AB Global Real Estate Investment	0.70%	-1%	-1%	-1%	-1%	-1%					
Change in Fees					-0.02%	-0.02%	-0.02%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	

Percentage (%) is the change from current portfolio to proposed. The tables account for both asset allocation changes and fund additions and deletions. Proposed fund addition shaded. Current fees calculated using current holdings and current fees as of September 23, 2020.

Figure 2: Static Portfolios

Asset Allocation Change	Asset Class	Ticker	Fund	Expense	Diversified Bond
Decrease	Nominal Bonds	MWTSX	Metropolitan West Total Return Bond	0.38%	-6%
		PIMIX	PIMCO Income	1.09%	2%
Increase	TIPS	PRRIX	PIMCO Real Return	0.53%	
		DIPSX	DFA Inflation-Protected Securities	0.11%	4%

				Expense	Diversified Equity
Increase	Global Equities	AGERX	AllianzGI Best Styles Global Equity	0.40%	-32%
		FNPFX	American Funds New Perspective	0.42%	17%
		AFGFX	AllianzGI Focused Growth	0.62%	7%
		ANDVX	AllianzGI Dividend Value	0.65%	5%
		TCIEX	TIAA-CREF International Equity Index	0.06%	12%
		TISPX	TIAA-CREF S&P 500 Index	0.05%	-2%
		DODFX	Dodge & Cox International Stock	0.63%	-6%
		MGEMX	Morgan Stanley Emerging Mkts	1.05%	1%
Decrease	Commodities	DCMSX	DFA Commodity Strategy	0.31%	-2%
	Real Estate	ARIIX	AB Global Real Estate Investment	0.70%	

Percentage (%) is the Change from current portfolio to proposed. The tables account for both asset allocation changes and fund additions and deletions. Proposed Fund Addition shaded. Current fees calculated using current holdings and current fees as of September 23, 2020.

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Figure 3: Asset Allocation & Underlying Funds: Proposal

			Expense Ratio	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%	-	-	-	3%	5%	8%	9%	10%	12%	-	10%	30%
	PAIDX	PIMCO Short Asset Investment	0.36%	-	-	-	5%	11%	17%	18%	20%	24%	-	-	20%
	PTSHX	PIMCO Short-Term	0.55%	-	-	-	2%	2%	3%	7%	14%	16%	-	-	50%
Nominal Bonds	MWTSX	Metropolitan West Total Return Bond	0.38%	-	2%	7%	7%	9%	9%	8%	11%	12%	-	39%	-
	PTTRX	PIMCO Total Return Bond	0.70%	-	-	-	-	-	-	-	-	-	-	25%	-
	PIMIX	PIMCO Income	1.09%	-	-	2%	2%	2%	2%	3%	3%	3%	-	12%	-
Inflation-Linked Bond	PRRIX	PIMCO Real Return	0.53%	3%	7%	8%	8%	8%	8%	9%	9%	9%	-	6%	-
	DIPSX	DFA Inflation-Protected Securities	0.11%	2%	4%	6%	6%	6%	6%	9%	10%	10%	-	8%	-
Multi-Asset	AGASX	AllianzGI Global Allocation	0.71%	26%	30%	30%	30%	30%	30%	30%	20%	12%	-	-	-
Global Equities	FNPFX	American Funds New Perspective	0.42%	12%	11%	9%	8%	8%	4%	-	-	-	17%	-	-
	AFGFX	AllianzGI Focused Growth	0.62%	3%	2%	2%	2%	2%	2%	1%	-	-	7%	-	-
	ANDVX	AllianzGI Dividend Value	0.65%	3%	2%	2%	2%	2%	1%	-	-	-	5%	-	-
	TCIEX	TIAA-CREF International Equity Index	0.06%	13%	11%	9%	7%	6%	3%	2%	1%	1%	22%	-	-
	TISPX	TIAA-CREF S&P 500 Index	0.05%	21%	17%	13%	10%	3%	2%	1%	-	-	30%	-	-
	DODFX	Dodge & Cox International Stock	0.63%	4%	3%	2%	1%	-	-	-	-	-	6%	-	-
	MGEMX	Morgan Stanley Emerging Mkts	1.05%	4%	3%	3%	2%	1%	-	-	-	-	5%	-	-
Commodities	DCMSX	DFA Commodity Strategy	0.31%	5%	4%	4%	3%	3%	2%	2%	1%	1%	3%	-	-
Real Estate	ARIIX	AB Global Real Estate Investment	0.70%	4%	4%	3%	2%	2%	3%	1%	1%	-	5%	-	-
Proposed Fees				0.42%	0.44%	0.46%	0.46%	0.48%	0.48%	0.47%	0.45%	0.42%	0.31%	0.51%	0.40%
Change in Fees (compared to disclosure) ¹				-0.02%	-0.02%	-0.02%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	0.00%	0.00%

Figure 4: Asset Allocation & Underlying Funds: Current (as of 2020)

			Expense Ratio	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%	-	-	-	3%	5%	8%	9%	10%	12%	-	10%	30%
	PAIDX	PIMCO Short Asset Investment	0.36%	-	-	-	5%	11%	17%	18%	20%	24%	-	-	20%
	PTSHX	PIMCO Short-Term	0.55%	-	-	-	2%	2%	3%	6%	12%	14%	-	-	50%
Nominal Bonds	MWTSX	Metropolitan West Total Return Bond	0.38%		3%	9%	9%	11%	11%	10%	12%	12%	-	45%	-
	PTTRX	PIMCO Total Return Bond	0.70%	-	-	-	-	-	-	-	-	-	-	25%	-
	PIMIX	PIMCO Income	1.09%	-	-	2%	2%	2%	2%	2%	2%	2%	-	10%	-
Inflation-Linked Bonds	PRRIX	PIMCO Real Return	0.53%	3%	7%	8%	8%	8%	8%	10%	10%	10%	-	6%	-
	DIPSX	DFA Inflation-Protected Securities	0.11%	2%	3%	4%	4%	4%	4%	5%	5%	5%	-	4%	-
Multi-Asset	AVRIX	AllianzGI Multi Asset Income	0.55%	-	-	-	-	-	-	8%	11%	12%	-	-	-
	AGASX	AllianzGI Global Allocation	0.71%	26%	30%	30%	30%	30%	30%	25%	15%	7%	-	-	-
Global Equities	AGERX	AllianzGI Best Styles Global Equity	0.40%	22%	18%	15%	13%	15%	7%	3%	-	-	32%	-	-
	TCIEX	TIAA-CREF International Equity Index	0.06%	3%	3%	2%	2%	-	-	-	-	-	10%	-	-
	TISPX	TIAA-CREF S&P 500 Index	0.05%	21%	17%	13%	10%	3%	2%	-	-	-	32%	-	-
	DODFX	Dodge & Cox International Stock	0.63%	9%	7%	6%	4%	2%	2%	-	-	-	12%	-	-
	MGEMX	Morgan Stanley Emerging Mkts	1.05%	2%	1%	1%	-	-	-	-	-	-	4%	-	-
Commodities	DCMSX	DFA Commodity Strategy	0.31%	7%	6%	6%	5%	4%	3%	3%	2%	2%	5%	-	-
Real Estate	ARIIX	AB Global Real Estate Investment	0.70%	5%	5%	4%	3%	3%	3%	1%	1%	-	5%	-	-
Current Fees ¹				0.44%	0.46%	0.48%	0.47%	0.49%	0.49%	0.48%	0.46%	0.43%	0.32%	0.51%	0.40%

¹ Current portfolio expense ratios calculated using current holdings and current underlying mutual fund fees as of September 23, 2020.