



# Asset Allocation

## South Dakota Trust Funds

Dakota Cement Trust  
Education Enhancement Trust  
Health Care Trust  
School & Public Lands

JUNE 5, 2025

# Discussion Topics

- Fund Overviews
  - Dakota Cement Trust
  - Education Enhancement Trust
  - Health Care Trust
  - School & Public Lands
- Benchmark Risk Overview
- Expected Return and Volatility
- Proposed FY26 Capital Markets Benchmark

# Dakota Cement Trust Fund

## Fund Source

- ▶ \$238m from the sale of the South Dakota Cement Plant in Rapid City in 2001

## Investment Considerations

- ▶ SD Const. Art. XIII § 20: allows for stocks, bonds, mutual funds and other financial instruments as provided by law
- ▶ SDCL 4-5-47: applies the prudent person standard

## Distributions

- ▶ Transfer to general fund in support of education
- ▶ SD Const. Art. XIII § 21: changed distribution calculation to 4% of the lesser of the 16-quarter average or the Dec. 31 market value, from prior \$12m or 5% if higher
- ▶ Not limited by principal balance
- ▶ Paid prior to June 30

# Education Enhancement Trust Fund

## Fund Source

- ▶ Established in 2001 with annual payments of South Dakota's share from the 1998 national tobacco lawsuit settlement plus some youth at risk funds.
- ▶ In 2002, fund increased substantially from securitization of future annual tobacco lawsuit settlement payments

## Investment Considerations

- ▶ SD Const. Art. XIII § 20: allows for stocks, bonds, mutual funds and other financial instruments as provided by law
- ▶ SDCL 4-5-47: applies the prudent person standard

## Distributions

- ▶ Transfer to state general fund to be appropriated by law for education enhancement programs
- ▶ SDCL 4-5-29.2: 4% of the 4-year average fair value of the fund, as of Dec. 31, distributed on July 1 of the following year as appropriated by the Legislature
- ▶ SD Const. Art XII § 6: 4% distribution contingent upon the Dec. 31 fair value being above the principal of the fund (est. principal as of 3/31/25: \$454m)

# Heath Care Trust Fund

## Fund Source

- ▶ Established in 2001 with proceeds from federal money for Medicare and Medicaid repayments to nursing home patients
- ▶ Additional funds from state tobacco tax in 2007, and \$50m from SD Legislature in 2021

## Investment Considerations

- ▶ SD Const. Art. XII § 5: allows for stocks, bonds, mutual funds and other financial instruments as provided by law
- ▶ SDCL 4-5-47: applies the prudent person standard

## Distributions

- ▶ Transfer to state general fund to be appropriated by law for health care related programs
- ▶ SDCL 4-5-29.1: annual distribution is 4% of the 4-year average fair value of the fund, as of Dec. 31, distributed on July 1 of the following year as appropriated by the Legislature
- ▶ SD Const. Art. XII § 5: 4% distribution contingent upon the Dec. 31 fair value being above the principal of the fund (est. principal of 3/31/25: \$135.6m)

# School & Public Lands Fund

## Fund Source

- ▶ Proceeds from sales of school lands provided at statehood and other designated amounts

## Investment Considerations

- ▶ SD Const. Art. VIII § 11: Amended in 2000 - allows stocks, bonds, mutual funds and other financial instruments as provided by law
  - ▶ Previously, investments were limited to government fixed income investments, including SBA & other non-marketable securities
- ▶ SDCL 5-10-18 references the prudent man standard applies
- ▶ SD Const. Art. VIII § 12: Governor may disapprove any investment
  - ▶ BFM is notified prior to committing to illiquid investments

## Distributions

- ▶ Transfer to public K-12 schools and state universities annually
- ▶ SD Const. Art. VIII § 3: all interest and income to be faithfully used and applied each year for the benefit of the public schools of the state after the principal is increased by an amount equal to the rate of inflation from realized gains or investment income.
- ▶ SDCL 5-10-18.3(4) allows the inflation offset to be satisfied by realized net capital gains if available, otherwise income

# Benchmark Risk Overview

- Equity-Like Risk (ELR) targeted at 90% of SDRS
  - ELR increase phase in began near 20% of SDRS and reached 80% prior to '08 crisis (GFC)
  - During GFC, ELR was increased to 90%
  - Intend to propose an increase to 100% during next significant market downturn
- Bond-Like Risk is commensurately higher

# Trust Funds Return and Volatility Analysis

## Using SDIC inputs

	Expected Return	Est. Volatility*
Public Equity	6.4%	21%
Hedge Funds	4.1%	11%
Investment Grade Debt	4.8%	8%
Cash	3.3%	2%
High Yield Debt	5.5%	12%
REITs	6.5%	25%
Private Equity	7.0%	30%
Real Estate Opportunistic	8.0%	33%

	Public Equity	Hedge Funds	IG Debt	Cash	HY Debt	REITs	Private Equity	RE Opp	Expected Return	Est. Volatility (1yr)*
100:0 Equity/Debt	100%								6.41%	21.00%
70:27:3 Equity/Debt/Cash	70%		27%	3%					5.89%	14.84%
add REITs						11%			5.93%	14.94%
add High Yield Debt					7%				5.93%	14.93%
<b>Proposed Benchmark FY26**</b>	50.1%		30%	1.9%	7%	11%			5.81%	13.56%

\* Standard deviation is a measure of volatility. There is a 68% chance of being within +/-1 standard deviation and a 95% chance of being within +/-2 standard deviations. This measure has been adjusted to better reflect frequency and magnitude of adverse events.

\*\* As of 3/31/25



# Trust Funds Capital Markets Benchmark

## Proposed FY26

		Primary Asset Categories					Secondary Asset Categories <sup>4</sup>			Other Categories <sup>5</sup>	
	<u>Equity Like Risk</u>	<u>Public Equity</u> <sup>1</sup>	<u>Real Estate REIT/Core</u> <sup>2</sup>	<u>HY Corp Debt</u>	<u>Investment Grade Debt</u> <sup>1</sup>	<u>Cash</u> <sup>3</sup>	<u>Private Equity</u>	<u>Opportunistic Real Estate</u> <sup>2</sup>	<u>HY Real Estate Debt</u>		
	Minimum	18%	0%	0%	13%	0%	0%	0%	0%	0%	
	Maximum	77%	75%	20%	15%	60%	45%	11%	14%	10%	5%
Proposed 2026 BM		63%	50.1%	11%	7%	30%	1.9%				
Benchmark Index		(3/4) custom MSCI ACWI IMI ex Real Estate + (1/4) custom MSCI USA IMI ex Real Estate									
			MSCI US REIT	FTSE US High Yield Market	FTSE US BIG Bond	FTSE US 3-mo Treasury Bill					
Benchmark History											
		2023-2025	50%	11%	7%	30%	2%				
		2016-2022	51%	10%	7%	30%	2%				

1. Buffer for market drift of 1% for public equity and 1/2% for debt (example: Investment Grade debt minimum of 13% can drift to 12.5%)

2. Real Estate(RE) min/max applies to REITS/Core RE and Opportunistic combined. Opportunistic RE counts 1.3x against RE max. Projected base case allocation used for partnerships

3. Cash to provide liquidity for benefits payments and rebalancing

4. Since 2015, secondary asset categories have not been included in the BM. This change allowed the BM to consist solely of well fitting, investable indexes. These categories continue to have a permitted range to invest in opportunistically.

5. Other categories, such as TIPS, Commodities, and Arbitrage have been considered or used in the past. They are not in the BM. Future use would be limited to 5% or less.