South Dakota INVESTMENT COUNCIL

4009 West 49th Street, Suite 300
Sioux Falls, SD 57106-3784 USA
605-362-2820 – https://sdic.sd.gov

January 20, 2023

Hon. Kristi Noem
Governor of South Dakota
500 E. Capitol Avenue
Pierre, SD 57501-5070

Hon. Hugh Bartels, Speaker
South Dakota House of Representatives
500 E. Capitol Avenue
Pierre, SD 57501-5070

Hon. Lee Schoenbeck, President Pro Tempore
South Dakota Senate
500 E. Capitol Avenue
Pierre, SD 57501-5070

Dear Governor Noem, Speaker Bartels and President Pro Tempore Schoenbeck:

The South Dakota Investment Council (Council) is pleased to submit our twenty-second annual report on the Higher Education Savings Program as required by South Dakota Codified Law, Chapter 13-63, originally passed into law by the Legislature in 2001. The CollegeAccess 529 Plan was implemented by the Council in April of 2002. The plan allows South Dakota citizens, as well as citizens across the nation, to save and invest for post-secondary educational expenses with federal tax benefits.

VP Distributors, LLC (VPD) is the current program manager for CollegeAccess 529 and is responsible for managing, marketing, investing, and administering the plan. Virtus Fund Advisors, an affiliate of VPD, is responsible for fund selection and asset allocation for the plan. Virtus Investment Partners (NASDAQ: VRTS), the parent company of VPD, operates through affiliated advisors, including well-recognized names like Duff & Phelps and Kayne Anderson Rudnick. The $1.5 billion market-cap firm was formed in 1995 and has more than $149 billion in assets under management.

Allianz Global Investors Distributors (originally known as PIMCO Fund Distributors), the previous program manager for CollegeAccess 529, transferred its program management duties to VPD as part of a strategic partnership between Allianz Global Investors (AGI) and Virtus Investment Partners, effective February 1, 2021. Fund selection and asset allocation duties remained at AGI until July 25, 2022, after which those duties were transferred to Virtus Fund Advisors, an affiliate of VPD. This transfer was due to Allianz pleading guilty to a fraudulent scheme that concealed the downside risks of an options trading strategy. SEC sanctions disqualified them from providing advisory services to US Investment Funds for 10 years.

CollegeAccess 529 is offered and maintained at no cost to the State or taxpayers, as mandated by law, and features the following:

- Nationally competitive cost versus actively-managed funds for South Dakota residents who choose to invest directly;
- High quality and diversified offering of funds from PIMCO, Virtus, Dodge & Cox, and other nationally-recognized investment firms;
- Scholarship funding for South Dakota students who enroll in South Dakota post-secondary institutions as undergraduate students in programs that will prepare them to work in critical need occupations in South Dakota following graduation.

The plan is available to South Dakotans directly by calling toll-free (1-866-529-7462) or visiting the web site www.collegeaccess529.com. The plan is also available through qualified financial advisors.

As of December 31, 2022, the plan had assets of $822,903,594, down 20% from last year. For the most recent full program year (calendar year 2022), returns for South Dakota direct investors ranged from -5.33% for the Age-Based 17+ portfolio to -15.84% for the Age-Based 0-8 portfolio.

Of the 24 mutual funds utilized by the plan and rated by Morningstar, 50 percent have an overall rating of 4 or 5 stars, with 5 being the highest possible rating. Additionally, 14 of the funds were deemed Morningstar Medalists. Morningstar, a leading provider of independent investment research, provides strictly quantitative mutual fund ratings that measure how well a fund has balanced return and risk in the past.

Scholarship Program

A benefit of implementing the higher education savings plan has been to provide scholarship funds for South Dakota students to attend South Dakota public and private post-secondary institutions. Since 2001, over $22 million in scholarships has been awarded to South Dakota high school seniors as part of the Council's agreement with the program manager for CollegeAccess 529.

Starting in 2007, with input from then Governor Rounds and approval by the LRC Executive Board, the Council began to direct scholarship monies generated through the program management agreement to the Dakota Corps Scholarship Program. The amount contributed to the Dakota Corps Scholarship Program since 2007 totals $18.86 million. The contribution for calendar year 2022 was $894,438. The Dakota Corps Scholarship Program is designed to encourage South Dakota high school graduates to obtain their post-secondary education in South Dakota, remain in the state upon graduation, and contribute to the state and its citizens by working in critical need occupations. The scholarship pays for four years of tuition and generally applicable fees. More information is available at https://www.sdbor.edu/dakotacorps/.

Scholarships totaling $3.2 million were awarded to over 900 high school seniors during the six years of the original contract term, 2001 to 2007, through a scholarship program managed by the Investment Council.

Thank you for your interest in the Higher Education Savings Program.

Sincerely,

Matthew L. Clark, CFA
State Investment Officer