

**SOUTH DAKOTA INVESTMENT COUNCIL
INVESTMENT POLICY FOR THE
SOUTH DAKOTA RETIREMENT SYSTEM
(South Dakota Codified Law 4-5-28)**

1. PURPOSE

The purpose is to define the objectives and policies related to the South Dakota Retirement System (SDRS) investment assets. The investment policies conform with laws governing SDRS investment assets.

2. PRUDENCE

Assets are invested according to a prudent person standard. (SDCL 4-5-27)

3. OBJECTIVES

The investment objectives are:

A. Return

The primary return objective is to achieve and exceed the rate of return of the benchmark over the long term. A secondary return objective is to achieve and exceed the median rate of return of peer funds over the long term.

B. Risk

The fund is focused on the long term and is tolerant of short-term volatility. Risk is managed through diversification across and within asset categories and by adjustments within ranges approved by the Investment Council (Council).

4. DELEGATION OF AUTHORITY

The Council, through the State Investment Officer and staff, is responsible for the investment of SDRS assets. (SDCL 3-12C-223) Assets are invested according to established written procedures and internal controls consistent with investment policies adopted by the Council. (SDCL 4-5-29)

5. ETHICS AND CONFLICT OF INTEREST

The Council members will adhere to the Code of Ethics and Personal Investing Guidelines South Dakota Investment Council and the South Dakota Investment Council Conflict Waiver Policy. (SDCL 4-5-14)

All Council staff will adhere to the Conflict Waiver Policy and *The Code of Ethics and Personal Investing Guidelines for SDIC Staff* which includes *The Code of Ethics and Standards of Professional Conduct* established by the CFA Institute for the investment staff members.

6. AUTHORIZED FINANCIAL DEALER AND INSTITUTION

Security transactions are executed with broker/dealers approved by the State Investment Officer. Safekeeping of securities is provided by a custodial agent selected by the state treasurer and approved by the Council. (SDCL 4-5-31)

7. AUTHORIZED AND SUITABLE INVESTMENTS

Investment of SDRS assets is subject to a prudent person standard. Financial derivative use is permitted for hedging and asset category exposure adjustments.

8. INTERNAL CONTROLS/ANNUAL AUDIT

The Council and staff are responsible for establishing and maintaining an internal control structure designed to ensure that the assets of SDRS are protected from loss by fraud, theft, or misuse. The SDRS Board of Trustees is responsible for engaging an auditor to conduct an audit of investments and make the report available to the Council.

9. PERFORMANCE STANDARDS

Benchmarks for the fund are determined each fiscal year by the Council.

10. REPORTING

State statute requires that monthly transactions be provided to the Council on a timely basis. (*SDCL 4-5-32*)

Statue requires the Council to report annually to the Legislature with respect to a review of Council activities. (*SDCL 4-5-36*)

Other reports are provided to the Council for their information.

Open Records laws exempt the Council from disclosure of certain financial and commercial information relating to potential or existing investments and/or strategies. (*SDCL 1-27-1.6(5) and 1-27-30*)

11. POLICY AMENDMENT

This policy shall be periodically reviewed. Any changes require Council approval.

**SOUTH DAKOTA INVESTMENT COUNCIL
INVESTMENT POLICY FOR
DAKOTA CEMENT TRUST FUND ASSETS
(South Dakota Codified Law 4-5-28)**

1. PURPOSE

The purpose is to define the objectives and policies related to the Dakota Cement Trust Fund investment assets. The investment policies conform with laws governing the investment assets of the fund.

2. PRUDENCE

Assets are invested according to a prudent person standard. (SDCL 4-5-27)

3. OBJECTIVES

The investment objectives are:

A. Return

Assets are invested with the return objective to achieve and exceed the rate of return of the benchmark over the long term to:

- 1) provide a distribution to the State's general fund to support education (SD Const. art. XIII § 21) and
- 2) promote inflation-adjusted growth of the fund with a steadily growing distribution amount.

B. Risk

The fund is focused on the long term and is tolerant of short-term volatility. Risk is managed through diversification across and within asset categories and by adjustments within ranges approved by the Investment Council (Council).

4. DELEGATION OF AUTHORITY

The Council, through the State Investment Officer and staff, is responsible for the investment of the trust fund assets. (SD Const. art. XIII §20) Assets are invested according to established written procedures and internal controls consistent with investment policies adopted by the Council. (SDCL 4-5-29)

5. ETHICS AND CONFLICT OF INTEREST

The Council members will adhere to the Code of Ethics and Personal Investing Guidelines South Dakota Investment Council and the South Dakota Investment Council Conflict Waiver Policy. (SDCL 4-5-14)

All Council staff will adhere to the Conflict Waiver Policy and *The Code of Ethics and Personal Investing Guidelines for SDIC Staff* which includes *The Code of Ethics and Standards of Professional Conduct* established by the CFA Institute for the investment staff members.

6. AUTHORIZED FINANCIAL DEALER AND INSTITUTION

Security transactions are executed with broker/dealers approved by the State Investment Officer. Safekeeping of securities is provided by a custodial agent **selected by the state treasurer and** approved by the Council. (SDCL 4-5-31)

7. AUTHORIZED AND SUITABLE INVESTMENTS

Investment of trust fund assets is subject to a prudent person standard. Financial derivative use is permitted for hedging and asset category exposure adjustments.

8. INTERNAL CONTROLS/ANNUAL AUDIT

The Council and staff are responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the fund are protected from loss by fraud, theft, or misuse. The Auditor General is responsible for conducting an audit of investments and will submit an annual audit report to the Council. (SDCL 4-5-35)

9. PERFORMANCE STANDARDS

Benchmarks for the fund are established each fiscal year by the Council.

10. REPORTING

State statute requires that monthly transactions be provided to the Council on a timely basis. (SDCL 4-5-32)

Statute requires the Council to report annually to the Legislature with respect to a review of Council activities. (SDCL 4-5-36)

Other reports are provided to the Council for their information.

Open Records laws exempt the Council from disclosure of certain financial and commercial information relating to potential or existing investments and/or strategies. (SDCL 1-27-1.6(5) and 1-27-30)

11. POLICY AMENDMENT

This policy shall be periodically reviewed. Any changes require Council approval.

**SOUTH DAKOTA INVESTMENT COUNCIL
INVESTMENT POLICY FOR
EDUCATION ENHANCEMENT TRUST FUND ASSETS
(South Dakota Codified Law 4-5-28)**

1. PURPOSE

The purpose is to define the objectives and policies related to the Education Enhancement Trust Fund investment assets. The investment policies conform with laws governing the investment assets of the fund.

2. PRUDENCE

Assets are invested according to a prudent person standard. (SDCL 4-5-27)

3. OBJECTIVES

The investment objectives are:

A. Return

Assets are invested with the return objective to achieve and exceed the rate of return of the benchmark over the long term to:

- 1) provide a distribution for the State's education enhancement programs (SDCL 4-5-29.2) and
- 2) promote inflation-adjusted growth of the fund with a steadily growing distribution amount.

B. Risk

The fund is focused on the long term and is tolerant of short-term volatility. Risk is managed through diversification across and within asset categories and by adjustments within ranges approved by the Investment Council (Council).

4. DELEGATION OF AUTHORITY

The Council, through the State Investment Officer and staff, is responsible for the investment of the trust fund assets. (SD Const. art. XII §6) Assets are invested according to established written procedures and internal controls consistent with investment policies adopted by the Council. (SDCL 4-5-29)

5. ETHICS AND CONFLICT OF INTEREST

The Council members will adhere to the Code of Ethics and Personal Investing Guidelines South Dakota Investment Council and the South Dakota Investment Council Conflict Waiver Policy. (SDCL 4-5-14)

All Council staff will adhere to the Conflict Waiver Policy and *The Code of Ethics and Personal Investing Guidelines for SDIC Staff* which includes *The Code of Ethics and Standards of Professional Conduct* established by the CFA Institute for the investment staff members.

6. AUTHORIZED FINANCIAL DEALER AND INSTITUTION

Security transactions are executed with broker/dealers approved by the State Investment Officer. Safekeeping of securities is provided by a custodial agent **selected by the state treasurer and** approved by the Council. (SDCL 4-5-31)

7. AUTHORIZED AND SUITABLE INVESTMENTS

Investment of trust fund assets is subject to a prudent person standard. Financial derivatives use is permitted for hedging and asset category exposure adjustments.

8. INTERNAL CONTROLS/ANNUAL REPORT

The Council and staff are responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the fund are protected from loss by fraud, theft, or misuse. The Auditor General is responsible for conducting an audit of investments and will submit an annual audit report to the Council. (SDCL 4-5-35)

9. PERFORMANCE STANDARDS

Benchmarks for the fund are established each fiscal year by the Council.

10. REPORTING

State statute requires that monthly transactions be provided to the Council on a timely basis. (SDCL 4-5-32)

Statute requires the Council to report annually to the Legislature with respect to a review of Council activities. (SDCL 4-5-36)

Other reports are provided to the Council for their information.

Open Records laws exempt the Council from disclosure of certain financial and commercial information relating to potential or existing investments and/or strategies. (SDCL 1-27-1.6(5) and 1-27-30)

11. POLICY AMENDMENT

This policy shall be periodically reviewed. Any changes require Council approval.

**SOUTH DAKOTA INVESTMENT COUNCIL
INVESTMENT POLICY FOR
HEALTH CARE TRUST FUND ASSETS
(South Dakota Codified Law 4-5-28)**

1. PURPOSE

The purpose is to define the objective and policies related to the Health Care Trust Fund investment assets. The investment policies conform with laws governing the investment assets of the fund.

2. PRUDENCE

Assets are invested according to a prudent person standard. (SDCL 4-5-27)

3. OBJECTIVES

The investment objectives are:

A. Return

Assets are invested with the return objective to achieve and exceed the rate of return of the benchmark over the long term to:

- 1) provide a distribution for the State's health care related programs (SDCL 4-5-29.1) and
- 2) promote inflation-adjusted growth of the fund with a steadily growing distribution amount.

B. Risk

The fund is focused on the long term and is tolerant of short-term volatility. Risk is managed through diversification across and within asset categories and by adjustments within ranges approved by the Investment Council (Council).

4. DELEGATION OF AUTHORITY

The Council, through the State Investment Officer and staff, is responsible for the investment of the trust fund assets. (SD Const. art. XII, §5) Assets are invested according to established written procedures and internal controls consistent with investment policies adopted by the Council. (SDCL 4-5-29)

5. ETHICS AND CONFLICT OF INTEREST

The Council members will adhere to the Code of Ethics and Personal Investing Guidelines South Dakota Investment Council and the South Dakota Investment Council Conflict Waiver Policy. (SDCL 4-5-14)

All Council staff will adhere to the Conflict Waiver Policy and *The Code of Ethics and Personal Investing Guidelines for SDIC Staff* which includes *The Code of Ethics and Standards of Professional Conduct* established by the CFA Institute for the investment staff members.

6. AUTHORIZED FINANCIAL DEALER AND INSTITUTION

Security transactions are executed with broker/dealers approved by the State Investment Officer. Safekeeping of securities will be provided by a custodial agent selected by the state treasurer and approved by the Council. (SDCL 4-5-31)

7. AUTHORIZED AND SUITABLE INVESTMENTS

Investment of trust fund assets is subject to a prudent person standard. Financial derivatives use is permitted for hedging and asset category exposure adjustments.

8. INTERNAL CONTROLS/ANNUAL AUDIT

The Council and staff are responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the fund are protected from loss by fraud, theft, or misuse. The Auditor General is responsible for conducting an audit of investments and will submit an annual audit report to the Council. (SDCL 4-5-35)

9. PERFORMANCE STANDARDS

Benchmarks for the fund are established each fiscal year by the Council.

10. REPORTING

State statute requires that monthly transactions be provided to the Council on a timely basis. (SDCL 4-5-32)

Statute requires the Council to report annually to the Legislature with respect to a review of Council activities. (SDCL 4-5-36)

Other reports are provided to the Council for their information.

Open Records laws exempt the Council from disclosure of certain financial and commercial information relating to potential or existing investments and/or strategies. (SDCL 1-27-1.6(5) and 1-27-30)

11. POLICY AMENDMENT

This policy shall be periodically reviewed. Any changes require Council approval.

**SOUTH DAKOTA INVESTMENT COUNCIL
INVESTMENT POLICY FOR
SCHOOL AND PUBLIC LANDS FUND ASSETS
(South Dakota Codified Law 4-5-28)**

1. PURPOSE

The purpose is to define the objectives and policies related to the School and Public Lands Fund investment assets. The investment policies conform with laws governing the investment assets of permanent school and other educational and charitable funds.

2. PRUDENCE

Assets are invested according to a prudent person standard. (SDCL 4-5-27)

3. OBJECTIVES

The investment objectives are:

A. Return

Assets are invested with the return objective to achieve and exceed the rate of return of the benchmark over the long term to:

- 1) provide a distribution of income to the common schools (K-12) on a per student basis each year (SD Const. art. VIII §3)
- 2) provide a distribution of income to the schools of higher education (SDCL 5-10-1.2) and
- 3) promote inflation-adjusted growth of the fund through the constitutionally mandated CPI adjustment. (SD Const. art. VIII §3)

B. Risk

The fund is focused on the long term and is tolerant of short-term volatility. Risk is managed through diversification across and within asset categories and by adjustments within ranges approved by the Investment Council (Council).

4. DELEGATION OF AUTHORITY

The Council, through the State Investment Officer and staff, is responsible for the investment of the trust fund assets. (SD Const. art. VIII §11) (SDCL 5-10-18) Assets are invested according to established written procedures and internal controls consistent with investment policies adopted by the Council. (SDCL 4-5-29)

The Governor may disapprove any sale, lease or investment other than such as are intrusted to the counties. (SD Const. art. VIII §12)

5. ETHICS AND CONFLICT OF INTEREST

The Council members will adhere to the Code of Ethics and Personal Investing Guidelines South Dakota Investment Council and the South Dakota Investment Council Conflict Waiver Policy. (SDCL 4-5-14)

All Council staff will adhere to the Conflict Waiver Policy and *The Code of Ethics and Personal Investing Guidelines for SDIC Staff* which includes *The Code of Ethics and Standards of Professional Conduct* established by the CFA Institute for the investment staff members.

6. AUTHORIZED FINANCIAL DEALER AND INSTITUTION

Security transactions are executed with broker/dealers approved by the State Investment Officer. Safekeeping of securities are provided by a custodial agent selected by the state treasurer and approved by the Council. (SDCL 4-5-31)

7. AUTHORIZED AND SUITABLE INVESTMENTS

Investment of trust fund assets is subject to a prudent person standard. Financial derivatives use is permitted for hedging and asset category exposure adjustments.

8. INTERNAL CONTROLS/ANNUAL REPORT

The Council and staff are responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the fund are protected from loss by fraud, theft, or misuse. The Auditor General is responsible for conducting an audit of investments and will submit an annual audit report to the Council. (SDCL 4-5-35)

9. PERFORMANCE STANDARDS

Benchmarks for the fund are established each fiscal year by the Council.

10. REPORTING

State statute requires that monthly transactions be provided to the Council on a timely basis. (SDCL 4-5-32)

Statute requires the Council to report annually to the Legislature with respect to a review of Council activities (SDCL 4-5-36)

Other reports are provided to the Council for their information.

Open Records laws exempt the Council from disclosure of certain financial and commercial information relating to potential or existing investments and/or strategies. (SDCL 1-27-1.6(5) and 1-27-30)

11. POLICY AMENDMENT

This policy shall be periodically reviewed. Any changes require Council approval.

**SOUTH DAKOTA INVESTMENT COUNCIL
INVESTMENT POLICY FOR
SOUTH DAKOTA CASH FLOW FUND ASSETS
(South Dakota Codified Law 4-5-28)**

1. PURPOSE

The purpose is to define the objectives and policies related to the State of South Dakota Cash Flow Fund investment assets. The investment policies conform with laws governing the investment assets of the fund.

2. PRUDENCE

Assets are invested according to a prudent person standard. (SDCL 4-5-27)

3. OBJECTIVES

The investment objectives are:

A. Safety of Principal

Investment purchases are limited to investment grade fixed income securities.

B. Liquidity

The fund is managed with liquidity tiers to enable the state to meet all reasonably anticipated cash requirements.

C. Return

The return objective is to achieve and exceed the rate of return of the benchmark over the short to intermediate term.

4. DELEGATION OF AUTHORITY

The State Investment Officer is responsible for investment of state public funds as defined in SDCL 4-4. (SDCL 4-5-23) Assets are invested according to established written procedures and internal controls consistent with investment policies adopted by the Council. (SDCL 4-5-29)

5. ETHICS AND CONFLICT OF INTEREST

The Council members will adhere to the Code of Ethics and Personal Investing Guidelines South Dakota Investment Council and the South Dakota Investment Council Conflict Waiver Policy. (SDCL 4-5-14)

All Council staff shall adhere to the Conflict Waiver Policy and *The Code of Ethics and Personal Investing Guidelines for SDIC Staff* which includes *The Code of Ethics and Standards of Professional Conduct* established by the CFA Institute for the investment staff members.

6. AUTHORIZED FINANCIAL DEALER AND INSTITUTION

Security transactions are executed with broker/dealers approved by the State Investment Officer. Safekeeping of securities is provided by a custodial agent **selected by the state treasurer and** approved by the Council. (SDCL 4-5-31)

7. AUTHORIZED AND SUITABLE INVESTMENTS

Approved investment securities are listed in SDCL 4-5-26 ([legal list](#)).

[\(1\) Direct and indirect obligations of the United States government;](#)

[\(2\) Agencies and instrumentalities of the United States government;](#)

(3) Mortgage-backed securities of United States government-sponsored enterprises;

(4) Direct obligations of the State of South Dakota and any of its political subdivisions;

(5) Obligations consisting of notes, bonds, debentures, and certificates which are direct obligations of a solvent corporation or trust existing under the laws of the United States or any state thereof, if such investments are rated in the four highest classifications established by at least two standard rating services at the time of purchase;

(6) Savings accounts, share accounts, certificates of deposit of banks, savings and loan associations, building and loan associations, and bankers' acceptances;

(7) Repurchase agreements fully collateralized by securities described in this section;

(8) Shares in exchange-traded funds and open-end, no-load funds that are administered by an investment company registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933 and investments are predominantly in securities described in this section; or

(9) In addition to the investments authorized by subdivisions (1) to (8) of this section, inclusive, the investment council may also allocate a sum certain of state public funds for investment in the accounts and certificates of South Dakota banks and associations. This sum shall initially be offered to South Dakota banks and associations, and if not initially fully subscribed, the investment officer shall immediately reoffer the unsubscribed sum to other qualified public depositories defined by subdivision 4-6A-1(7).

8. INTERNAL CONTROLS/ANNUAL AUDIT

The Council and staff are responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the fund are protected from loss by fraud, theft, or misuse. The Auditor General is responsible for conducting an audit of investments and shall submit an annual audit report to the Council. (SDCL 4-5-35)

9. PERFORMANCE STANDARDS

Benchmarks for the components of the fund are established by the Council.

10. REPORTING

State statute requires that monthly transactions be provided to the Council on a timely basis. (SDCL 4-5-32)

State statute requires the Council to report annually to the Legislature with respect to a review of Council activities. (SDCL 4-5-36)

Other reports are provided to the Council for their information.

~~Public Records and Files laws exempt the Council from disclosure of certain financial and proprietary information.~~ **Open Records laws exempt the Council from disclosure of certain financial and commercial information relating to potential or existing investments and or strategies (SDCL 1-27-1.6(5) and 1-27-30)**

11. POLICY AMENDMENT

This policy shall be periodically reviewed. Any changes require Council approval.

EXTERNAL MANAGER HIRE, TERMINATE, and REBALANCE AUTHORIZATION POLICY

HIRE:

External managers may be hired by the State Investment Officer with prior authorization of the South Dakota Investment Council (Council). External managers are used for areas where Council staff lacks capability to directly manage internally, such as private equity and real estate, and to provide educational input to enhance internal investment insights.

TERMINATE:

External managers may be terminated by the State Investment Officer with prior email notification to the Council explaining the termination. Any Council member may request the Chair convene a meeting to discuss the planned termination.

REBALANCE/ADJUSTMENTS:

a) Externally managed assets, excluding limited partnerships, may be adjusted by the State Investment Officer within limits without prior notification to the Council.

Cumulative adjustments for any external manager made since the most recent Council meeting are limited to an increase of 25% or a decrease of 33% of that manager's value prior to the adjustment. Any increase beyond the limit requires prior Council authorization. Any decrease beyond the limit requires prior notification to the Council.

b) Limited Partnerships may be increased by the State Investment Officer when other limited partners offer their share for sale through a right of first refusal provision.

Increases are limited to 15% of the commitment for each partnership fund. Any such increase, as well as any decrease of a limited partnership interest, requires prior notification to the Council. Any increase beyond the limit requires prior Council authorization.

REPORTING:

All changes resulting from this policy will be reported to the Council at the next scheduled Council meeting.

Adopted: 4/25/07

Amended: 11/14/07, 6/21/10, 12/9/14, 11/16/17, 11/21/19

Most recent review: 4/6/23

PRE-AUTHORIZED CO-INVESTMENT POLICY

Co-investments are additional investments offered by Real Estate and Private Equity General Partners that generally arise when a transaction exceeds the partnership size limit.

To facilitate co-investment opportunities on a timely basis, the South Dakota Investment Council (Council) pre-authorizes the State Investment Officer to invest in co-investments up to 10% of the original commitment to the related partnership fund subject to the following limitations:

- No co-investment may be made if the current outstanding pre-authorized co-investments exceed 1% of assets for SDRS or the trust funds.
- No co-investment may be made if the peak of the five-year base case projected fair value for the category exceeds the base-case category maximum.
- No co-investment may be made if the worst case (assume all committed capital called) projected fair value exceeds the worst-case category maximum.
- An explanation of any investment planned under this policy will be emailed to the Council prior to finalization. A reasonable attempt will be made to confirm receipt of email. Any Council member may request the Chair convene a meeting to discuss the proposed co-investment.

Any co-investments made under this policy will be reviewed at the next Council meeting.

Adopted: 11/17/05

Amended: 11/15/06, 6/13/07, 12/9/14, 11/16/17

Most recent review: 4/6/23

South Dakota Investment Council

Shareholder Activism Policy for Federal Divestiture Enactments

SDCL 3-12C-223 requires the South Dakota Investment Council (SDIC) to “establish a shareholder activism policy to engage and promote compliance with federal divestiture enactments by the United States Congress and to recognize the risks associated with companies doing business in the countries identified.”

This Shareholder Activism Policy applies to foreign companies whose securities are held by South Dakota public funds and may be subject to permissive divestiture enactments by the U.S. Government.

The SDIC will make reasonable efforts, using publicly available information, to determine whether foreign companies whose securities are held by South Dakota public funds are on recognized lists in relation to the Sudan Accountability and Divestiture Act of 2007 or other federal divestiture enactments.

The SDIC will make efforts to formally engage identified companies to urge constructive change in company activities in identified countries. The shareholder activism engagement shall include:

1. **Annual written communication.** The annual written communication shall be repeated until the company is removed from recognized lists or the SDIC no longer invests in the company.
2. **Shareholder resolutions and proxies.** The SDIC shall consider the objectives of this policy when voting on shareholder resolutions and proxies.
3. **Risk Analysis.** The SDIC shall recognize, as part of the company valuation process, the risk inherent in business activities in the identified countries, which could lead to sale through the normal investment process.

The State Investment Officer shall maintain a record of written communications and report to the SDIC annually concerning communications and company responses.

Adopted: 4/20/10

Most recent review: 4/10/25