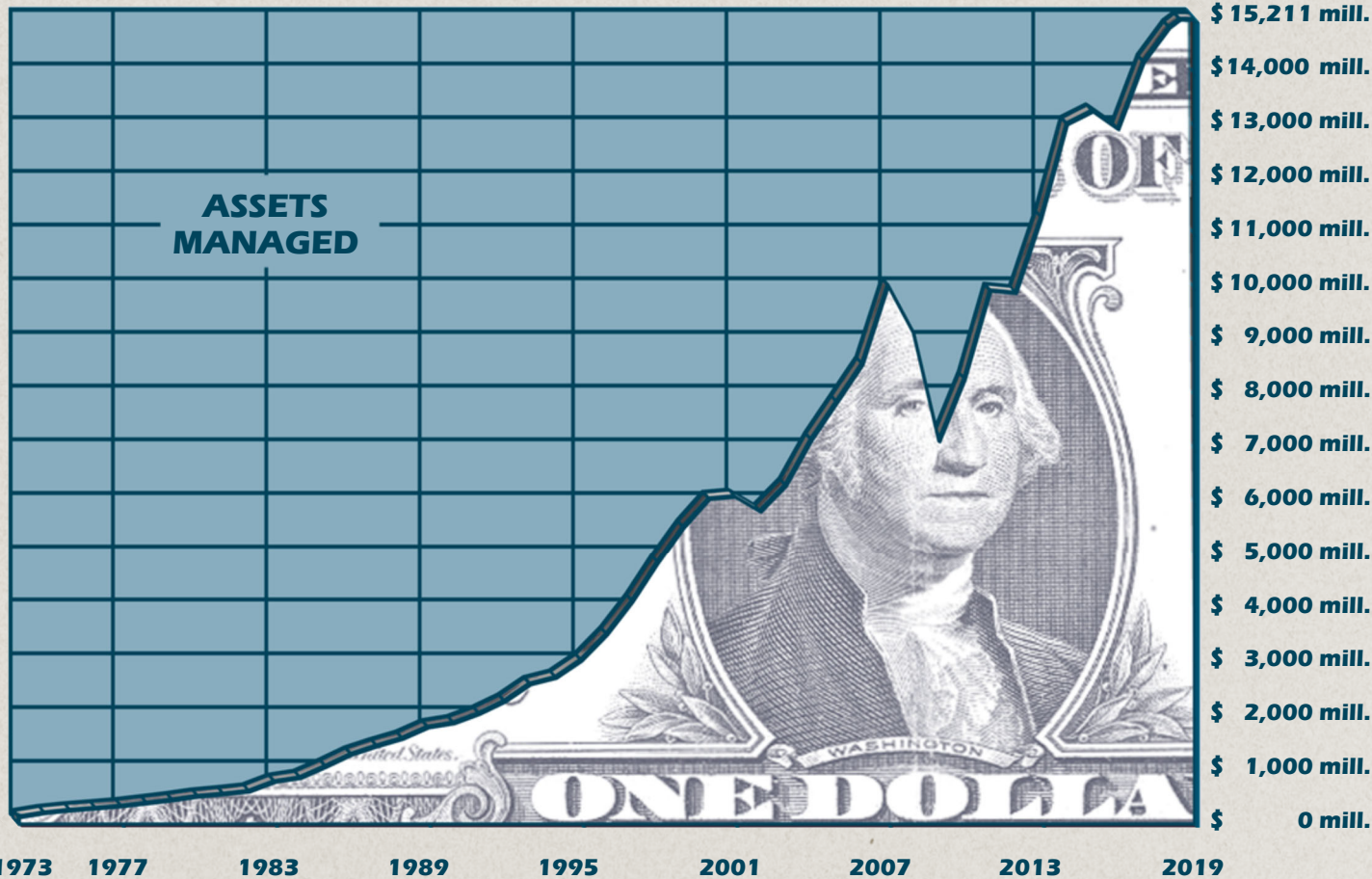


# THE SOUTH DAKOTA INVESTMENT COUNCIL



**ANNUAL REPORT  
FISCAL YEAR 2019**

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The Financial Statements with Auditor’s Report for South Dakota Cash Flow Fund, School and Public Lands, Dakota Cement Trust, Education Enhancement Trust, and Health Care Trust portfolios can be found at <http://sdic.sd.gov>.

The Financial Statements with Auditor’s Report for South Dakota Retirement System can be found at [www.sdrs.sd.gov](http://www.sdrs.sd.gov).

# TRANSMITTAL LETTER

## TO THE GOVERNOR, LEGISLATURE, AND PEOPLE OF SOUTH DAKOTA:

The South Dakota Investment Council annual report provides information about the investment of South Dakota Retirement System assets, state trust funds, and other financial assets of the State of South Dakota. This letter summarizes fiscal year 2019 performance and discusses the Council's long-term approach; future return expectations; importance of low costs; and productive working relationships with the Legislature, the Executive Branch, and others.

### FISCAL YEAR 2019 PERFORMANCE

The fiscal year 2019 investment return for the South Dakota Retirement System (SDRS) was 4.9% net of investment management cost. This was less than the Council's market indexed Capital Markets Benchmark (CMB) return of 7.9%. The largest detractors from performance were the global equity and private equity categories which underperformed market indexes.

The net returns for the trust funds, which include School and Public Lands, Dakota Cement Trust, Health Care Trust, and Education Enhancement Trust, were 5.6% to 6.0%. The South Dakota Cash Flow Fund yield was 2.2%.

### INVESTING FOR THE LONG TERM

The Council's goal is to add value over the long term compared to market indexes. Accomplishment of this goal for SDRS provides additional resources to pay retirement benefits for the more than 89,000 members. Added value for the trust funds and cash flow fund provides additional revenues to the state.

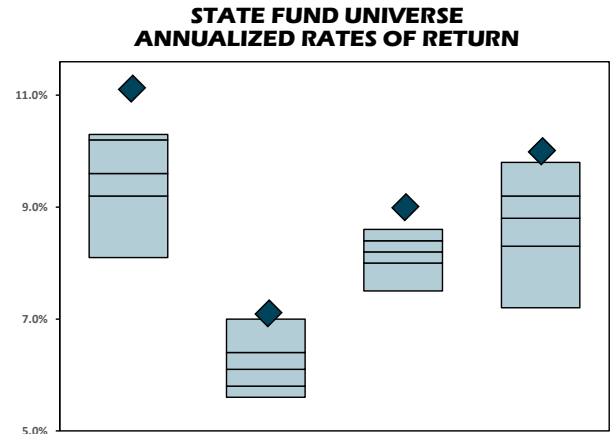
Results vary significantly from year to year with many interim periods of underperformance in the Council's history. Whether an individual year is good, bad, or average, it is important to be mindful that the Council invests for the long term and that actions taken in one year may impact performance several years down the road. Success has resulted primarily from adhering to strategies during the underperforming periods.

The Council invests in assets believed to be undervalued from a long-term perspective. The valuation process is based on the view that the worth of an asset is the present value of future cash flows. Internal research efforts focus on estimating future cash flows and assessing risk which impacts the rate used to discount cash flows to present value.

Disciplined adherence to the long-term value approach is essential. This is most difficult following underperforming periods. Performing the research function internally and using a sensible valuation process can strengthen conviction. Experience in prior difficult periods adds confidence. Contingency planning also improves the likelihood of adhering to the plan.

Risk is managed by diversifying across multiple asset categories and reducing exposure to expensive assets. Conventional statistical risk measures, such as standard deviation and correlation, help measure volatility and diversification. Conventional measures are good for understanding risk in normal times but tend to understate real-world frequency and magnitude of severe market declines. Since before the financial crisis, the Council has adjusted risk measures to better reflect risk during periods of market stress. Standard deviations are increased to reflect higher frequency of severe declines, and correlations are adjusted to reflect that most asset categories are less diversifying during severe declines.

The Council has managed SDRS assets for the past 46 years. The return over the full period has exceeded other state retirement systems across the nation as shown on the following exhibit.



|                 | NET ANNUALIZED RETURNS |           |           |           |
|-----------------|------------------------|-----------|-----------|-----------|
|                 | 10 Years               | 20 Years  | 30 years  | 46 Years  |
|                 | 2010-2019              | 2000-2019 | 1990-2019 | 1974-2019 |
| 10th %tile      | 10.3                   | 7.0       | 8.6       | 9.8       |
| 25th %tile      | 10.2                   | 6.4       | 8.4       | 9.2       |
| Median          | 9.6                    | 6.1       | 8.2       | 8.8       |
| 75th %tile      | 9.2                    | 5.8       | 8.0       | 8.3       |
| 90th %tile      | 8.1                    | 5.6       | 7.5       | 7.2       |
| ◆ SDRS Fund     | 11.1                   | 7.1       | 9.0       | 10.0      |
| SDRS %tile Rank | 1                      | 5         | 1         | 1         |

SDRS total fund and capital markets benchmark returns can be found on page 8 of the annual report for every fiscal year since inception and various rolling time periods. Trust fund returns can be found in their respective sections.

### RETURN EXPECTATIONS

The Council believes market return expectations should be based on forward-looking, long-term cash flows rather than extrapolation of past returns, which tend to relate inversely to future results. The Council began developing long-term expected returns in the early 1980s. The following exhibit shows expected returns resulting from the Council's process for bonds and stocks as of 6/30/82, 6/30/92, 6/30/02, and 6/30/19.

| UPDATE ON RETURN EXPECTATIONS              |        |         |               |
|--|--------|---------|---------------|
|  | Bonds* | S&P 500 | S&P 500 Yield |
| Expected Long-Term Returns as of 6/30/82   | 14.4%  | 15.6%   | 6.2%          |
| Actual 10-year Returns - 7/1/82 to 6/30/92 | 13.7%  | 18.3%   |               |
| Actual 20-year Returns - 7/1/82 to 6/30/02 | 10.5%  | 14.9%   |               |
| Expected Long-Term Returns as of 6/30/92   | 7.1%   | 9.5%    | 3.0%          |
| Actual 10-year Returns - 7/1/92 to 6/30/02 | 7.4%   | 11.5%   |               |
| Actual 20-year Returns - 7/1/92 to 6/30/12 | 6.6%   | 8.4%    |               |
| Expected Long-Term Returns as of 6/30/02   | 4.8%   | 7.9%    | 1.6%          |
| Actual 10-year Returns - 7/1/02 to 6/30/12 | 5.8%   | 5.3%    |               |
| Actual 17-year Returns - 7/1/02 to 6/30/19 | 4.5%   | 8.8%    |               |
| Expected Long-Term Returns as of 6/30/19   | 2.0%   | 7.4%    | 1.9%          |

\*Expected returns are the 10-year Treasury yield. Actual returns are the FTSE US Broad Investment-Grade (USBIG) Index.

In 1982, bond yields were 14.4%, and the Council’s long-term expected return for stocks, based on projected dividends and growth, was 15.6%. Expected returns were high because markets were very cheap, having performed poorly for many years. Subsequent actual 10-year and 20-year returns were 13.7% and 10.5% for bonds and 18.3% and 14.9% for stocks. By June 30, 1992, bond yields were 7.1%, and the expected stock return was 9.5%. Subsequent actual 10-year and 20-year returns were 7.4% and 6.6% for bonds and 11.5% and 8.4% for stocks. As of June 30, 2002, expected returns were 4.8% for bonds and 7.9% for stocks. Subsequent actual returns for the 10 years ending June 30, 2012, were 5.8% for bonds and 5.3% for stocks and the returns for the 17 years ending June 30, 2019 were 4.5% for bonds and 8.8% for stocks.

As of June 30, 2019, expected returns were 2.0% for bonds and 7.4% for stocks. Low interest rates foreshadow very low future bond returns. The expected return for stocks is also lower than earned on average historically. The expected long-term return for the overall SDRS fund, which is diversified across several asset categories, was 6.3%. This excludes consideration of potential value added or detracted relative to index returns. The expected return also excludes the impact of timing of withdrawals to pay benefits. As SDRS matures, benefit payments are increasingly funded from investment earnings. These withdrawals are larger as a percentage of the fund when markets are depressed which can reduce long-term asset growth.

The expected return is the mid-point of a range of possible outcomes. The one standard deviation range, which statistically encompasses the central two-thirds of potential outcomes, is 1.4% to 11.2% per annum for a 10-year horizon and 2.9% to 9.7% for a 20-year horizon.

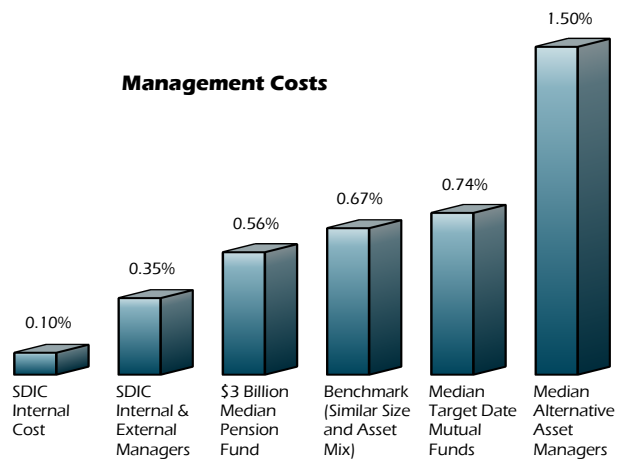
History has shown that following large market increases, opportunities may be sparse for a time. Chasing lesser opportunities has tended to backfire when assets became much cheaper later. The lesson learned is to wait for worthwhile opportunities, and when absent, be satisfied with modest results until better opportunities come along.

**IMPORTANCE OF LOW COSTS**

The Investment Council manages the majority of assets internally to save money and to try to earn higher returns. Managing assets internally is cheaper than using external managers, especially for more expensive categories such as global equity, high yield, and arbitrage. Index funds are another low-cost alternative but would preclude any opportunity to add value above index returns. The Council believes historic success of internal management efforts relate to greater focus on long-term value and increased conviction from performing research in-house.

The Council began investing in real estate and private equity partnerships in the mid 1990s. Management costs are generally 1% to 2% of partnership assets per year. Partnership managers are also typically allocated 20% of profits. These investments can be more expensive than traditional external managers and much more expensive than the Council’s internal cost. Unlike traditional managers that buy and sell securities, partnership managers have hands-on involvement with underlying investments which complicates cost comparisons. Real estate partnership managers buy and manage underlying properties. Private equity partnership managers buy and operate whole companies. The Council evaluates partnership returns compared to traditional real estate and stock market indexes. Partnership returns are net of all fees and profit allocations.

The following exhibit shows Council management costs compared to other funds.



Internal management cost is projected to average 0.10% of assets. Including external management, total cost is expected to average 0.35%. The total cost fluctuates from year to year primarily due to variation in amounts invested in partnerships, and in some cases, the return of partnership fees if the investment is profitable. This compares to the median industry cost of 0.56% and benchmark cost of 0.67%, which is the median industry cost adjusted for fund size and asset mix. The difference of 0.32% versus the benchmark results in approximately \$49 million of savings per year. Compounding these savings over many years can result in hundreds of millions of dollars.

**A TEAM EFFORT**

The Investment Council’s historic success has been a team effort. Consistent support by the Legislature, the Executive Branch, and others over multiple decades has allowed the Council to pursue a long-term investment approach and implement a long-term business plan to develop an internal investment team. The Council recognizes the unique challenges and patience required to support an internal investment organization and long-term investment approach. The Council is very appreciative of the significant efforts of Legislators, the Governor and her team, and their predecessors, to provide the Council with the opportunity to succeed.

The Council benefits from cooperative relationships with other state entities related to the funds managed, including the South Dakota Retirement System, the State Treasurer’s Office, the School and Public Lands’ Office, and the Bureau of Finance and Management. The Council also benefits from important contributions by the Legislative Research Council, the Attorney General’s Office, the Department of Legislative Audit, the Bureau of Information and Telecommunications, and other agencies.

The Council believes its strengths of a disciplined focus on long-term investment value, an exceptionally supportive environment, and a stable internal investment team will serve us well in the decades to come.

Respectfully submitted by:

Lorin L. Brass, Chair  
South Dakota Investment Council

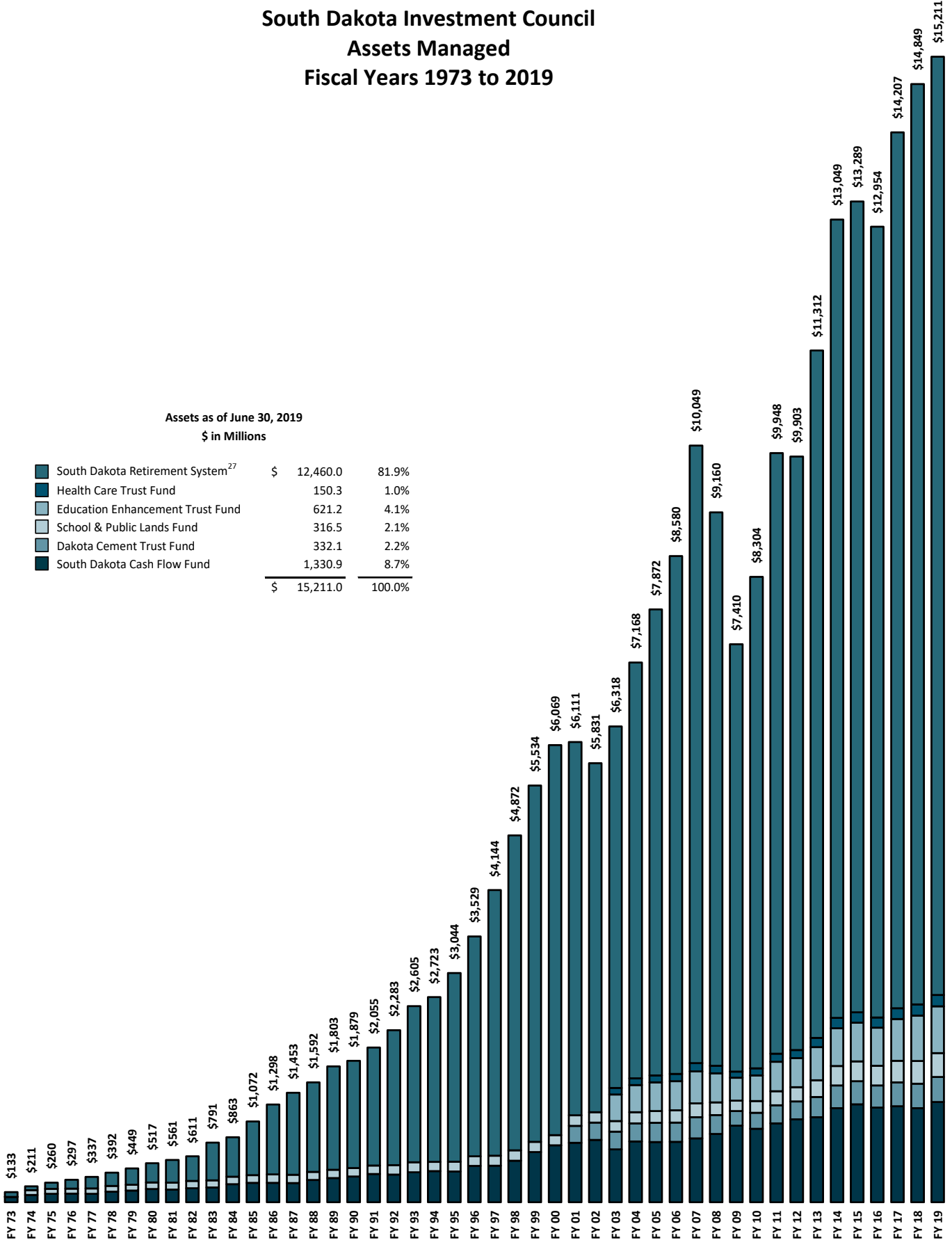
Matthew L. Clark, CFA  
State Investment Officer

# ASSETS MANAGED

## South Dakota Investment Council Assets Managed Fiscal Years 1973 to 2019

Assets as of June 30, 2019  
\$ in Millions

|  |                    |               |
|--|--------------------|---------------|
| South Dakota Retirement System <sup>27</sup> | \$ 12,460.0        | 81.9%         |
| Health Care Trust Fund                       | 150.3              | 1.0%          |
| Education Enhancement Trust Fund             | 621.2              | 4.1%          |
| School & Public Lands Fund                   | 316.5              | 2.1%          |
| Dakota Cement Trust Fund                     | 332.1              | 2.2%          |
| South Dakota Cash Flow Fund                  | 1,330.9            | 8.7%          |
|  | <u>\$ 15,211.0</u> | <u>100.0%</u> |



## Investment Council Members as of June 30, 2019

### **Lorin L. Brass, Chair\*\***

Dir of Strategy & Business Development, Retired  
Royal Dutch Shell plc  
Lennox

### **Jeffrey L. Nelson\* \*\***

General Manager, Retired  
East River Electric Power Cooperative  
Wentworth

### **Greg P. Kulesa\***

President  
ANZA, Inc.  
Watertown

### **Josh R. Haeder**

State Treasurer  
State of South Dakota  
Pierre

### **Loren G. Koepsell, Vice-Chair\*\***

Assistant Professor-Business Administration  
Augustana University  
Sioux Falls

### **Paul J. Bisson\***

President, Retired  
Wells Fargo Bank  
Sturgis

### **Ryan L. Brunner**

Commissioner of School & Public Lands  
State of South Dakota  
Pierre

### **Robert A. Wylie**

Executive Director  
South Dakota Retirement System  
Pierre

\*Denotes member of Audit Committee

\*\*Denotes member of Compensation Committee

#### **History**

- Established by the South Dakota Legislature in 1971. Operations began on July 1, 1972.

#### **Membership**

- Consists of eight voting members.
- South Dakota law stipulates that, *"The members of the state investment council shall be qualified by training and experience in the field of investment or finance."*
- Five members are chosen by the Executive Board of the Legislative Research Council, a bipartisan board composed of members from both houses of the Legislature, to serve rolling five-year terms.
- Three members serve ex officio: the State Treasurer, the Commissioner of School & Public Lands, and the Executive Director of the South Dakota Retirement System.

#### **Responsibilities**

- Appoint and evaluate State Investment Officer.
- Develop investment policy and establish asset allocation guidelines for the long term.
- Monitor implementation of investment process.
- Oversee audit process through SDIC Audit Committee.
- Comply with and monitor Code of Ethics and Personal Investing Guidelines.
- Approve annual budget and long-term plan.

#### **Investment Policy**

- Abide by Prudent-Man Standard as defined by South Dakota Codified Law 4-5-27 below.

*Any investments under the provisions of SDCL 4-5-12 to 4-5-39, inclusive, shall be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of their capital as well as the probable income to be derived.*

#### **Investment Council Staff**

- Staff includes 28 investment professionals across a variety of asset classes, four investment accountants, two administrative staff, and one part-time legal counsel. Of the investment professionals, 24 are Chartered Financial Analyst® charterholders. The investment accountants are Certified Public Accountants.
- The function of the staff is to advise and recommend investment policies and strategies to the Investment Council and to implement the Investment Council's adopted investment policies.

## THE FUND

The South Dakota Retirement System (SDRS) provides retirement, disability, and survivor benefits to over 89,000 South Dakota public employees. SDRS is a cost-sharing, multiple-employer public retirement system funded through member and employer contributions and investment income. Per state statute, the South Dakota Investment Council (Council) is responsible for managing SDRS investment assets. This section discusses investment objectives and intermediate and long-term results. Detailed information about SDRS can be found on their website, [www.sdrs.sd.gov](http://www.sdrs.sd.gov).

## INVESTMENT OBJECTIVES

The primary investment objective for SDRS assets is to achieve and exceed over the long term the return of the Council's capital markets benchmark. Accomplishment of this objective provides the best opportunity to earn returns sufficient to maintain the financial strength of SDRS. An estimate of the long-term return of the benchmark is used by the SDRS actuary to assess the funding status of SDRS. If investment markets prove disappointing or the Council underperforms, benefit reductions may be statutorily required.

The capital markets benchmark reflects the Council's benchmark asset allocation applied to index returns for each asset category. The key investment policy decision relates to asset allocation as discussed in the SDRS Asset Allocation Focus on page 7. The index-based capital markets benchmark is believed to represent

a challenging comparison as the average investor tends to underperform market indexes over time due to management fees and transactions costs.

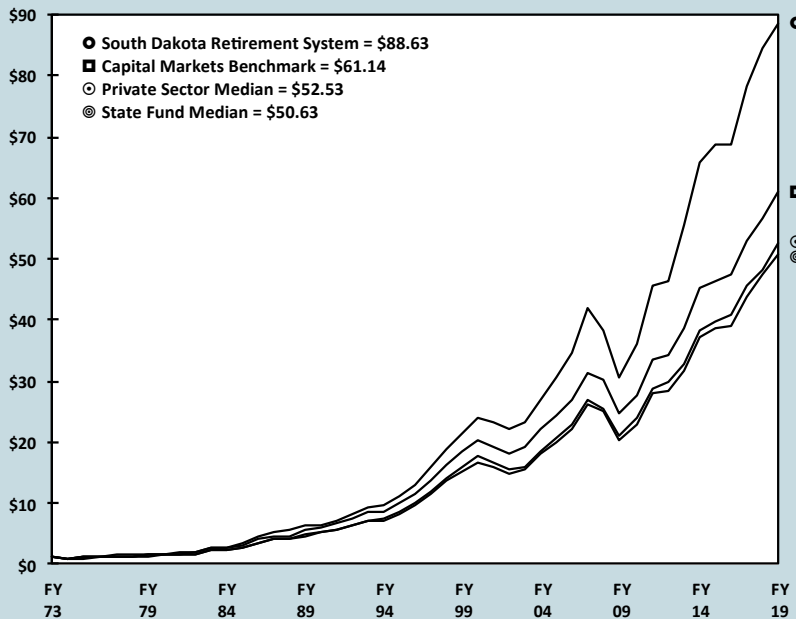
This objective has been achieved for the majority of rolling 5 and 10-year periods and all 20-year and 30-year periods. The following table summarizes SDRS total fund performance versus the Council's capital markets benchmark. A complete listing of rolling 5, 10, 20, and 30-year return comparisons is located on page 8.

| <b>SDRS Total Fund versus Capital Markets Benchmark</b> |                |                 |                 |                 |
|---|----------------|-----------------|-----------------|-----------------|
|   | <u>5 years</u> | <u>10 years</u> | <u>20 years</u> | <u>30 years</u> |
| # of Successes  | 35             | 34              | 27              | 17              |
| # of Periods  | 42             | 37              | 27              | 17              |
| % of Success  | 83%            | 92%             | 100%            | 100%            |

A secondary objective is to achieve and exceed over the long term the median return earned by peer funds. Comparison to peer funds can help in assessing performance as most peer funds have similar long-term return objectives. The following table shows that SDRS returns have exceeded the median state fund results for the majority of rolling 5-year periods and all 10, 20, and 30-year timeframes.

| <b>SDRS Total Fund versus State Fund Median</b> |                |                 |                 |                 |
|---|----------------|-----------------|-----------------|-----------------|
|   | <u>5 years</u> | <u>10 years</u> | <u>20 years</u> | <u>30 years</u> |
| # of Successes                                  | 39             | 37              | 27              | 17              |
| # of Periods                                    | 42             | 37              | 27              | 17              |
| % of Success                                    | 93%            | 100%            | 100%            | 100%            |

### Growth of a Dollar



The chart to the left shows that compounding superior returns over the long term can really add up. A dollar invested at SDRS returns starting in 1973 would have increased to \$88.63 by June 30, 2019. A dollar invested in the Council's Capital Markets Benchmark would have grown to \$61.14. A dollar invested in the typical private sector pension plan and state fund would have grown to \$52.53 and \$50.63, respectively.

## Asset Allocation Focus

Allocation of assets to categories may be the most impactful investment decision. The Council establishes a benchmark asset allocation which considers expected long-term returns and risk. Categories included in the benchmark are those that are significant in size and can be passively implemented. These include global equity, real estate, high yield debt, investment grade debt, and cash. The Council's capital markets benchmark is based on the benchmark asset allocation and is intended to represent what is achievable through index funds without requiring exceptional skill. The capital markets benchmark is used to compare against actual results to assess whether value has been added. The benchmark is viewed as a challenging hurdle as it is difficult for most investors to exceed index returns. The Council also establishes a minimum and maximum for each category. Niche or skill-based categories are not included in the benchmark but can have a permitted range for when it is believed that valuation of a category is depressed or if superior managers have been identified.

Use of multiple asset categories can complicate understanding of total fund risk as categories may have varying sensitivities to changing economic and market conditions. When the Council began managing assets in the early 1970's, most institutional portfolios consisted of bonds, some stocks, and cash. Investors back then could understand the level of risk by simply looking at the percentage invested in stocks. To help in understanding the risk of today's more complicated portfolios, the Council focuses on equity-like and bond-like risk. Equity-like risk is the percentage invested in stocks plus any embedded equity exposure of other categories, particularly during times of market stress. Bond-like risk is the percentage invested in investment grade bonds plus any embedded bond exposure of other categories. The benchmark equity-like risk is 70% with a permitted range of 50% to 85%. The benchmark bond-like risk is 27% with a permitted range of 15% to 50%. There are also ranges around the benchmark allocation to individual asset categories.

The valuation process which drives allocations within the ranges is based on the present value of estimated future cash flows. Internal research efforts focus on estimating cash flows and risk-based discount rates.

Conventional statistical measures of risk are calculated. These include standard deviation as a measure of volatility and correlation as a measure of the degree that categories provide diversification. Conventional measures are helpful for understanding risk in normal times but can understate real-world frequency and magnitude of severe declines. The Council adjusts statistical measures to better reflect risk during severe declines. Liquidity is monitored to minimize risk of forced liquidations.

On June 30, 2019, the target equity-like risk of the SDRS fund was 56.7% compared to the fiscal year 2019 capital markets benchmark level of 70.0%. The target equity-like risk began the fiscal year at 50.0%, then moved to 63.3% in December 2018 as valuations became more attractive and ended the fiscal year at 56.7% as valuations became less attractive. The actual level can fluctuate within a small rebalance band around the target.

The expected long-term return for the benchmark allocation as of June 30, 2019, was 6.3%. The actual portfolio can be significantly different than the benchmark at any point in time, but the long-term average level of equity-like risk is expected to be close to the 70.0% benchmark level. The expected return for the benchmark excludes any potential value added or detracted relative to index returns resulting from actively managing the fund. The estimated rate of inflation embedded in the expected return was 2.3%. Standard deviation was estimated to be 15.4% after adjustments to capture real-world frequency of adverse events. These statistics indicate a 66% chance the return for any year would be between (9.1%) and 21.7% and a 95% chance the return would be between (24.5%) and 37.1%.

The greatest risk to markets may be unsustainable buildup of global debt. The consequence is likely muted growth and heightened risk down the road of either inflation to inflate away the debt or deflationary debt liquidation. The Council is mindful of these risks as it continues to invest for the long term.

### Fiscal Year 2019 Asset Allocation Policy Summary

| Asset Category                | CMB Allocation | Min - Max Range |
|-------------------------------|----------------|-----------------|
| Global Equity                 | 58%            | 25% - 75%       |
| Real Estate                   | 10%            | 2% - 20%        |
| High Yield Debt (Corporate)   | 7%             | 0% - 15%        |
| Investment Grade FI           | 23%            | 13% - 50%       |
| Cash                          | 2%             | 0% - 50%        |
| Private Equity                | 0%             | 0% - 12%        |
| Opportunistic Real Estate     | 0%             | 0% - 15%        |
| High Yield Debt (Real Estate) | 0%             | 0% - 10%        |
| Aggressive Absolute Return    | 0%             | 0% - 5%         |
| TIPS                          | 0%             | 0% - 5%         |
| Commodities                   | 0%             | 0% - 5%         |
| Merger Arbitrage              | 0%             | 0% - 10%        |
| Convertible Arbitrage         | 0%             | 0% - 5%         |



**SDRS Total Fund Performance<sup>10-13</sup>**

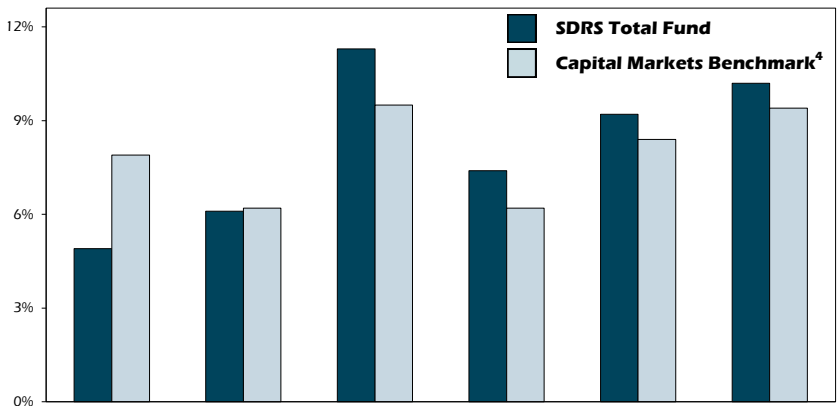
| Fiscal Year | 1 Year  |         | 5 Years |       | 10 Years |       | 20 Years |       | 30 Years |       | 46 Years |       |
|-------------|---------|---------|---------|-------|----------|-------|----------|-------|----------|-------|----------|-------|
|             | SDRS    | Bench   | SDRS    | Bench | SDRS     | Bench | SDRS     | Bench | SDRS     | Bench | SDRS     | Bench |
| 2019        | 4.9%    | 7.9%    | 6.1%    | 6.2%  | 11.3%    | 9.5%  | 7.4%     | 6.2%  | 9.2%     | 8.4%  | 10.2%    | 9.4%  |
| 2018        | 7.9%    | 7.3%    | 8.8%    | 8.0%  | 8.3%     | 6.5%  | 7.8%     | 6.4%  | 9.5%     | 8.7%  |          |       |
| 2017        | 13.8%   | 11.0%   | 11.1%   | 9.1%  | 6.5%     | 5.3%  | 8.4%     | 6.9%  | 9.5%     | 8.5%  |          |       |
| 2016        | 0.3%    | 2.9%    | 8.6%    | 7.3%  | 7.2%     | 5.9%  | 8.7%     | 7.3%  | 9.6%     | 8.6%  |          |       |
| 2015        | 4.2%    | 2.1%    | 13.7%   | 11.0% | 8.5%     | 6.7%  | 9.5%     | 7.9%  | 10.4%    | 9.3%  |          |       |
| 2014        | 18.9%   | 17.5%   | 16.7%   | 12.9% | 9.4%     | 7.5%  | 10.0%    | 8.7%  | 11.3%    | 10.2% |          |       |
| 2013        | 19.5%   | 12.7%   | 7.7%    | 5.0%  | 9.2%     | 7.3%  | 9.3%     | 7.9%  | 10.7%    | 9.6%  |          |       |
| 2012        | 1.9%    | 2.0%    | 2.1%    | 1.7%  | 7.8%     | 6.6%  | 9.1%     | 7.9%  | 11.4%    | 10.4% |          |       |
| 2011        | 25.8%   | 22.1%   | 5.7%    | 4.6%  | 7.0%     | 5.7%  | 9.7%     | 8.4%  | 11.4%    | 10.4% |          |       |
| 2010        | 18.7%   | 11.1%   | 3.5%    | 2.6%  | 4.3%     | 3.1%  | 9.0%     | 7.8%  | 10.8%    | 9.9%  |          |       |
| 2009        | (20.4%) | (18.0%) | 2.5%    | 2.3%  | 3.6%     | 2.9%  | 8.2%     | 7.9%  | 10.5%    | 9.9%  |          |       |
| 2008        | (8.7%)  | (4.2%)  | 10.6%   | 9.6%  | 7.4%     | 6.3%  | 10.2%    | 9.8%  | 11.6%    | 11.0% |          |       |
| 2007        | 21.4%   | 17.6%   | 13.8%   | 11.7% | 10.3%    | 8.6%  | 11.1%    | 10.1% | 12.0%    | 11.2% |          |       |
| 2006        | 13.1%   | 10.7%   | 8.3%    | 6.8%  | 10.3%    | 8.7%  | 10.8%    | 10.0% | 11.8%    | 10.9% |          |       |
| 2005        | 13.3%   | 9.6%    | 5.1%    | 3.6%  | 10.6%    | 9.2%  | 11.4%    | 10.7% | 11.7%    | 10.9% |          |       |
| 2004        | 16.6%   | 15.5%   | 4.6%    | 3.6%  | 10.7%    | 9.9%  | 12.3%    | 11.6% | 11.8%    | 11.0% |          |       |
| 2003        | 5.0%    | 5.4%    | 4.2%    | 3.2%  | 9.5%     | 8.6%  | 11.4%    | 10.7% | 11.0%    | 10.3% |          |       |
| 2002        | (4.9%)  | (5.8%)  | 6.9%    | 5.6%  | 10.6%    | 9.2%  | 13.2%    | 12.3% |          |       |          |       |
| 2001        | (2.9%)  | (5.1%)  | 12.3%   | 10.6% | 12.5%    | 11.2% | 13.6%    | 12.8% |          |       |          |       |
| 2000        | 10.8%   | 9.7%    | 16.5%   | 15.1% | 13.9%    | 12.8% | 14.3%    | 13.5% |          |       |          |       |
| 1999        | 14.6%   | 13.3%   | 17.2%   | 16.6% | 13.0%    | 13.1% | 14.1%    | 13.5% |          |       |          |       |
| 1998        | 19.3%   | 18.4%   | 15.1%   | 14.2% | 13.0%    | 13.4% | 13.8%    | 13.3% |          |       |          |       |
| 1997        | 21.3%   | 18.9%   | 14.3%   | 12.9% | 11.9%    | 11.6% | 12.9%    | 12.5% |          |       |          |       |
| 1996        | 16.7%   | 15.5%   | 12.8%   | 11.8% | 11.3%    | 11.3% | 12.5%    | 12.0% |          |       |          |       |
| 1995        | 14.1%   | 16.9%   | 11.3%   | 10.5% | 12.2%    | 12.2% | 12.3%    | 11.8% |          |       |          |       |
| 1994        | 4.8%    | 2.4%    | 9.0%    | 9.7%  | 13.9%    | 13.2% | 12.4%    | 11.6% |          |       |          |       |
| 1993        | 15.2%   | 11.8%   | 10.9%   | 12.5% | 13.4%    | 13.0% | 11.8%    | 11.2% |          |       |          |       |
| 1992        | 13.4%   | 12.9%   | 9.5%    | 10.2% | 16.0%    | 15.5% |          |       |          |       |          |       |
| 1991        | 9.3%    | 9.2%    | 9.9%    | 10.9% | 14.7%    | 14.4% |          |       |          |       |          |       |
| 1990        | 3.0%    | 12.5%   | 13.2%   | 13.9% | 14.7%    | 14.1% |          |       |          |       |          |       |
| 1989        | 14.2%   | 16.4%   | 18.9%   | 16.9% | 15.2%    | 13.9% |          |       |          |       |          |       |
| 1988        | 8.0%    | 0.7%    | 15.9%   | 13.4% | 14.7%    | 13.3% |          |       |          |       |          |       |
| 1987        | 15.3%   | 16.6%   | 22.8%   | 21.1% | 14.0%    | 13.4% |          |       |          |       |          |       |
| 1986        | 26.7%   | 24.7%   | 19.8%   | 18.0% | 13.7%    | 12.6% |          |       |          |       |          |       |
| 1985        | 31.8%   | 28.2%   | 16.2%   | 14.4% | 12.4%    | 11.3% |          |       |          |       |          |       |
| 1984        | 0.7%    | (0.1%)  | 11.6%   | 11.0% | 10.9%    | 10.0% |          |       |          |       |          |       |
| 1983        | 44.1%   | 39.6%   | 13.4%   | 13.2% | 10.2%    | 9.5%  |          |       |          |       |          |       |
| 1982        | 1.8%    | 2.8%    | 5.8%    | 6.2%  |          |       |          |       |          |       |          |       |
| 1981        | 8.8%    | 6.6%    | 8.0%    | 7.4%  |          |       |          |       |          |       |          |       |
| 1980        | 7.6%    | 10.4%   | 8.7%    | 8.3%  |          |       |          |       |          |       |          |       |
| 1979        | 9.3%    | 10.2%   | 10.3%   | 9.1%  |          |       |          |       |          |       |          |       |
| 1978        | 1.7%    | 1.4%    | 7.0%    | 5.9%  |          |       |          |       |          |       |          |       |
| 1977        | 12.9%   | 8.6%    |         |       |          |       |          |       |          |       |          |       |
| 1976        | 12.2%   | 11.2%   |         |       |          |       |          |       |          |       |          |       |
| 1975        | 15.8%   | 14.2%   |         |       |          |       |          |       |          |       |          |       |
| 1974        | (5.9%)  | (4.8%)  |         |       |          |       |          |       |          |       |          |       |

The chart to the left shows the annualized total rate of returns for 1, 5, 10, 20, 30, and 46 years through fiscal year 2019 for the Total Fund. The Capital Markets Benchmark<sup>4</sup> is provided for comparison.

The one-year Total Fund returns above the solid demarcation line are net-of-fees, the returns below are gross-of-fees.

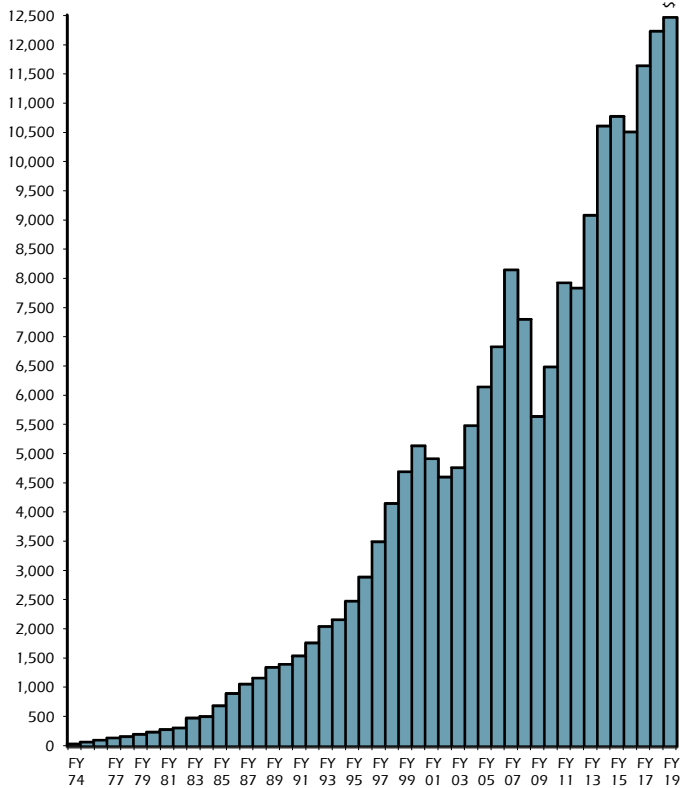
Past performance is no guarantee of future results.

**SDRS Total Fund vs. Benchmark**

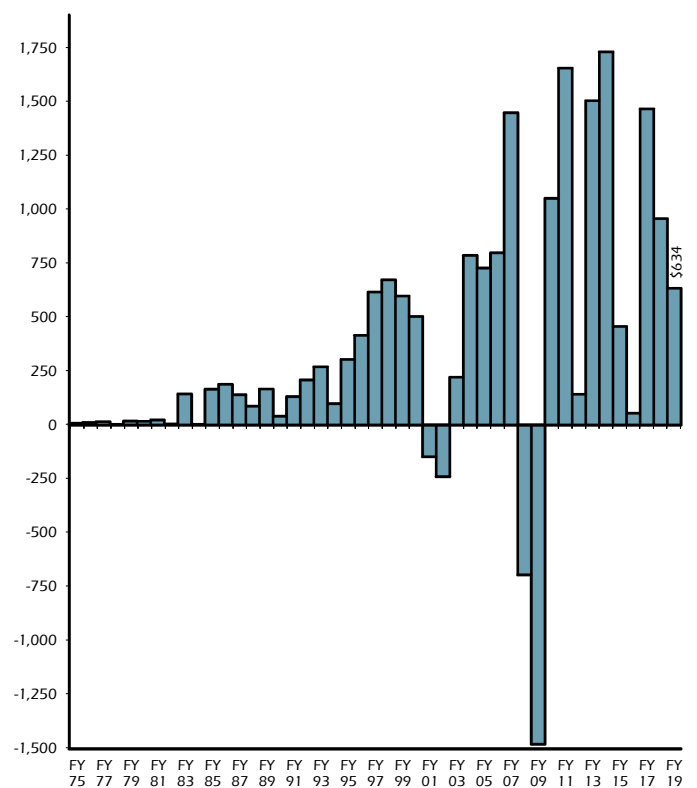


|                   | 1 Year | 5 Years | 10 Years | 20 Years | 30 Years | 46 Years |
|-------------------|--------|---------|----------|----------|----------|----------|
| <b>SDRS</b>       | 4.9%   | 6.1%    | 11.3%    | 7.4%     | 9.2%     | 10.2%    |
| <b>Benchmark</b>  | 7.9%   | 6.2%    | 9.5%     | 6.2%     | 8.4%     | 9.4%     |
| <b>Difference</b> | (3.0%) | (0.1%)  | 1.8%     | 1.2%     | 0.8%     | 0.8%     |

**Asset Growth<sup>23</sup> (\$ in millions)**



**Investment Income<sup>24</sup> (\$ in millions)**



**Cash Flows and Fair Value Changes**

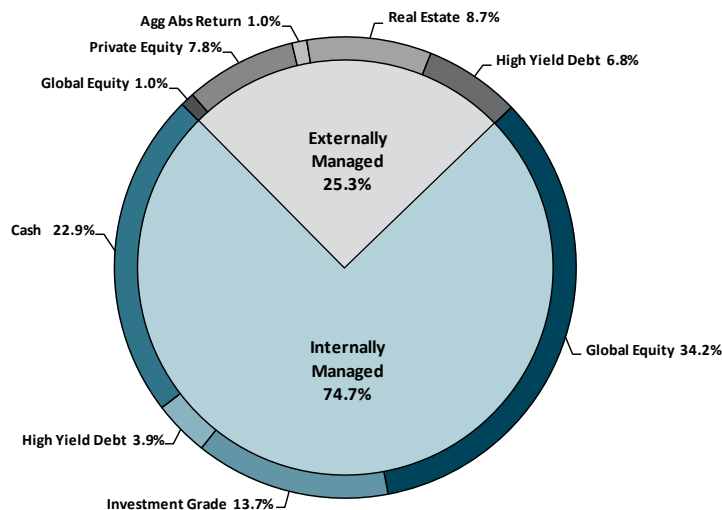
The South Dakota Retirement System began fiscal year 2019 with \$12.222 billion in assets. During the fiscal year, net contributions/withdrawals and fees decreased the fund by \$396.5 million and investment income increased it by \$634.0 million, resulting in an ending fair value of \$12.460 billion.

|                                |                     |                          |
|--------------------------------|---------------------|--------------------------|
| <b>Fair Value 6/30/18</b>      |                     | \$ 12,222,471,571        |
| <b>Increases/Decreases</b>     |                     |                          |
| Net Contributions/Withdrawals  | \$ (345,469,242)    |                          |
| Internal Management Fees       | (11,266,586)        |                          |
| External Management Fees       | <u>(39,711,188)</u> |                          |
| Total Increases/Decreases      |                     | \$ (396,447,016)         |
| <b>Investment Income</b>       |                     |                          |
| Securities Income              |                     |                          |
| Interest Income                | \$ 142,201,011      |                          |
| Dividend Income                | 132,255,600         |                          |
| Securities Lending Income      | 778,842             |                          |
| Real Estate Income             | 44,797,745          |                          |
| Change in Accrued Income       | <u>5,736,591</u>    |                          |
| Total Securities Income        |                     | \$ 325,769,789           |
| Total Capital Gain/Loss Income |                     | <u>\$ 308,193,170</u>    |
| Total Investment Income        |                     | <u>\$ 633,962,959</u>    |
| <b>Fair Value 6/30/19</b>      |                     | <u>\$ 12,459,987,514</u> |

**Asset Allocation**<sup>8</sup>

As of June 30, 2019, South Dakota Retirement System assets totaled \$12.460 billion. The broad asset categories and managers are listed below. The Capital Markets Benchmark allocation is also provided for comparison. The chart shows the asset allocation of the broad asset categories of the South Dakota Retirement System broken out by internally and externally managed.

|  | <u>Fair Value Excluding Futures</u> |                         | <u>% of Fund Excluding Futures</u> |              | <u>Futures Exposure</u> | <u>Fair Value with Futures</u> | <u>% of Fund with Futures</u> | <u>Capital Markets Benchmark %</u> |
|--|-------------------------------------|-------------------------|------------------------------------|--------------|-------------------------|--------------------------------|-------------------------------|------------------------------------|
| <b>Global Equity</b>                                 |                                     |                         |                                    |              |                         |                                |                               |                                    |
| Internal Global Equity                               | \$ 4,859,535,020                    |                         | 39.0%                              |              |                         |                                |                               |                                    |
| Internal Global Emerging Markets                     | 399,223,250                         |                         | 3.2%                               |              |                         |                                |                               |                                    |
| Internal Small/Mid Equity                            | 654,446,235                         |                         | 5.3%                               |              |                         |                                |                               |                                    |
| Brandes  | 388,097                             |                         | 0.0%                               |              |                         |                                |                               |                                    |
| Dimensional Fund Advisors                            | 61,584,998                          |                         | 0.5%                               |              |                         |                                |                               |                                    |
| Sanders Capital Equity Index Futures                 | <u>58,975,103</u>                   | \$ 6,034,152,703        | <u>0.5%</u>                        | 48.5%        | \$ (1,645,179,280)      | \$ 4,388,973,423               | 35.2%                         | 58.0%                              |
| <b>Private Equity</b>                                |                                     |                         |                                    |              |                         |                                |                               |                                    |
| Blackstone Capital Partners                          | \$ 155,475,441                      |                         | 1.3%                               |              |                         |                                |                               |                                    |
| Blackstone Energy Partners                           | 74,354,945                          |                         | 0.6%                               |              |                         |                                |                               |                                    |
| Capital International                                | 43,506,885                          |                         | 0.3%                               |              |                         |                                |                               |                                    |
| Carlyle  | 98,626,435                          |                         | 0.8%                               |              |                         |                                |                               |                                    |
| Cinven   | 100,675,027                         |                         | 0.8%                               |              |                         |                                |                               |                                    |
| CVC  | 38,064,496                          |                         | 0.3%                               |              |                         |                                |                               |                                    |
| Cypress  | 26,315                              |                         | 0.0%                               |              |                         |                                |                               |                                    |
| Doughty Hanson                                       | 1,812,554                           |                         | 0.0%                               |              |                         |                                |                               |                                    |
| Elevation  | 96,628                              |                         | 0.0%                               |              |                         |                                |                               |                                    |
| EnCap Energy Capital                                 | 7,370,873                           |                         | 0.1%                               |              |                         |                                |                               |                                    |
| KKR  | 533,049                             |                         | 0.0%                               |              |                         |                                |                               |                                    |
| PineBridge   | 3,319,317                           |                         | 0.0%                               |              |                         |                                |                               |                                    |
| Riverstone   | 144,083,623                         |                         | 1.2%                               |              |                         |                                |                               |                                    |
| Silver Lake  | <u>303,985,214</u>                  | 971,930,802             | <u>2.4%</u>                        | 7.8%         |                         | 971,930,802                    | 7.8%                          | 0.0%                               |
| <b>Aggressive Absolute Return</b>                    |                                     |                         |                                    |              |                         |                                |                               |                                    |
| Bridgewater  | \$ 96,025,726                       |                         | 0.8%                               |              |                         |                                |                               |                                    |
| Sanders Capital                                      | <u>33,673,721</u>                   | 129,699,447             | <u>0.2%</u>                        | 1.0%         |                         | 129,699,447                    | 1.0%                          | 0.0%                               |
| <b>Real Estate</b>                                   |                                     |                         |                                    |              |                         |                                |                               |                                    |
| Ares Management                                      | \$ 2,823,515                        |                         | 0.0%                               |              |                         |                                |                               |                                    |
| Blackstone Real Estate Partners                      | 704,886,328                         |                         | 5.6%                               |              |                         |                                |                               |                                    |
| Brookfield Strategic Partners                        | 21,378,452                          |                         | 0.2%                               |              |                         |                                |                               |                                    |
| Cargill N.A. Real Estate Partners                    | 19,443                              |                         | 0.0%                               |              |                         |                                |                               |                                    |
| Doughty Hanson                                       | 700,170                             |                         | 0.0%                               |              |                         |                                |                               |                                    |
| Lone Star  | 133,617,592                         |                         | 1.1%                               |              |                         |                                |                               |                                    |
| Rockpoint  | 132,143,027                         |                         | 1.1%                               |              |                         |                                |                               |                                    |
| Starwood   | <u>91,169,307</u>                   | 1,086,737,834           | <u>0.7%</u>                        | 8.7%         |                         | 1,086,737,834                  | 8.7%                          | 10.0%                              |
| <b>Investment Grade Fixed Income</b>                 |                                     |                         |                                    |              |                         |                                |                               |                                    |
| Internal Investment Grade                            | \$ <u>1,112,079,032</u>             | 1,112,079,032           | <u>8.9%</u>                        | 8.9%         |                         |                                |                               |                                    |
| Treasury Financial Futures                           |                                     |                         |                                    |              | 590,578,750             | 1,702,657,782                  | 13.7%                         | 23.0%                              |
| <b>High Yield Debt (Corporate &amp; Real Estate)</b> |                                     |                         |                                    |              |                         |                                |                               |                                    |
| Internal High Yield                                  | \$ 488,343,492                      |                         | 3.9%                               |              |                         |                                |                               |                                    |
| CarVal   | 7,077,318                           |                         | 0.1%                               |              |                         |                                |                               |                                    |
| TCW  | <u>831,541,061</u>                  | 1,326,961,871           | <u>6.7%</u>                        | 10.7%        |                         | 1,326,961,871                  | 10.7%                         | 7.0%                               |
| <b>Cash &amp; Cash Equivalents</b>                   |                                     |                         |                                    |              |                         |                                |                               |                                    |
| Internal Shift Account                               | \$ <u>1,798,425,825</u>             | <u>1,798,425,825</u>    | <u>14.4%</u>                       | <u>14.4%</u> |                         |                                |                               |                                    |
| Cash From Futures                                    |                                     |                         |                                    |              | <u>1,054,600,530</u>    | <u>2,853,026,355</u>           | <u>22.9%</u>                  | <u>2.0%</u>                        |
| <b>Total</b>   |                                     | <u>\$12,459,987,514</u> | <u>100.0%</u>                      |              | <u>\$ 0</u>             | <u>\$12,459,987,514</u>        | <u>100.0%</u>                 | <u>100.0%</u>                      |



**SDRS Internal Bond Portfolio Performance**

| Fiscal Year | 1 Year |        | 5 Years |       | 10 Years |       | 20 Years |       | 30 Years |       | 46 Years |       |
|-------------|--------|--------|---------|-------|----------|-------|----------|-------|----------|-------|----------|-------|
|             | SDRS   | Bench  | SDRS    | Bench | SDRS     | Bench | SDRS     | Bench | SDRS     | Bench | SDRS     | Bench |
| 2019        | 8.5%   | 7.9%   | 3.2%    | 3.0%  | 4.1%     | 3.8%  | 5.4%     | 5.2%  | 6.8%     | 6.3%  | 7.9%     | 7.4%  |
| 2018        | (0.5%) | (0.4%) | 2.3%    | 2.3%  | 4.2%     | 3.8%  | 5.1%     | 4.9%  | 6.9%     | 6.4%  |          |       |
| 2017        | (0.4%) | (0.3%) | 2.4%    | 2.2%  | 5.1%     | 4.6%  | 5.8%     | 5.5%  | 7.2%     | 6.7%  |          |       |
| 2016        | 6.1%   | 6.0%   | 3.9%    | 3.8%  | 5.8%     | 5.2%  | 6.3%     | 6.0%  | 7.5%     | 6.9%  |          |       |
| 2015        | 2.4%   | 1.9%   | 3.6%    | 3.3%  | 5.1%     | 4.6%  | 6.3%     | 6.0%  | 7.9%     | 7.3%  |          |       |
| 2014        | 4.2%   | 4.3%   | 5.0%    | 4.7%  | 5.8%     | 5.2%  | 6.9%     | 6.5%  | 8.7%     | 8.2%  |          |       |
| 2013        | (0.3%) | (0.6%) | 6.0%    | 5.3%  | 5.5%     | 4.9%  | 6.7%     | 6.2%  | 8.5%     | 8.1%  |          |       |
| 2012        | 7.1%   | 7.5%   | 7.8%    | 7.0%  | 7.0%     | 6.3%  | 7.5%     | 6.9%  | 9.5%     | 9.1%  |          |       |
| 2011        | 4.7%   | 3.7%   | 7.7%    | 6.7%  | 6.8%     | 6.3%  | 7.9%     | 7.2%  | 9.7%     | 9.3%  |          |       |
| 2010        | 9.8%   | 9.0%   | 6.7%    | 6.0%  | 7.4%     | 7.0%  | 8.2%     | 7.5%  | 9.2%     | 8.9%  |          |       |
| 2009        | 9.2%   | 7.1%   | 6.5%    | 5.8%  | 6.8%     | 6.5%  | 8.1%     | 7.5%  | 8.9%     | 8.7%  |          |       |
| 2008        | 8.4%   | 7.8%   | 4.9%    | 4.6%  | 6.1%     | 6.1%  | 8.3%     | 7.7%  | 8.9%     | 8.8%  |          |       |
| 2007        | 6.5%   | 6.1%   | 6.1%    | 5.7%  | 6.5%     | 6.4%  | 8.3%     | 7.8%  | 8.6%     | 8.5%  |          |       |
| 2006        | (0.2%) | 0.2%   | 6.0%    | 5.8%  | 6.9%     | 6.7%  | 8.4%     | 7.7%  | 8.9%     | 8.7%  |          |       |
| 2005        | 9.1%   | 7.9%   | 8.1%    | 8.1%  | 7.5%     | 7.4%  | 9.3%     | 8.7%  | 9.4%     | 9.1%  |          |       |
| 2004        | 1.3%   | 1.3%   | 7.1%    | 7.2%  | 8.0%     | 7.8%  | 10.3%    | 9.7%  | 9.6%     | 9.3%  |          |       |
| 2003        | 14.4%  | 13.4%  | 7.3%    | 7.6%  | 7.8%     | 7.5%  | 10.1%    | 9.7%  | 9.6%     | 9.1%  |          |       |
| 2002        | 5.9%   | 7.0%   | 7.0%    | 7.1%  | 8.0%     | 7.4%  | 10.8%    | 10.5% |          |       |          |       |
| 2001        | 10.0%  | 11.2%  | 7.8%    | 7.7%  | 9.0%     | 8.1%  | 11.1%    | 10.8% |          |       |          |       |
| 2000        | 4.3%   | 3.8%   | 7.0%    | 6.7%  | 9.1%     | 8.1%  | 10.1%    | 9.9%  |          |       |          |       |
| 1999        | 2.4%   | 2.9%   | 8.9%    | 8.4%  | 9.5%     | 8.5%  | 10.0%    | 9.9%  |          |       |          |       |
| 1998        | 12.6%  | 11.2%  | 8.3%    | 7.5%  | 10.5%    | 9.4%  | 10.3%    | 10.1% |          |       |          |       |
| 1997        | 9.9%   | 9.6%   | 9.0%    | 7.7%  | 10.1%    | 9.1%  | 9.6%     | 9.6%  |          |       |          |       |
| 1996        | 5.9%   | 6.2%   | 10.2%   | 8.6%  | 9.9%     | 8.7%  | 9.9%     | 9.8%  |          |       |          |       |
| 1995        | 14.0%  | 12.5%  | 11.3%   | 9.5%  | 11.1%    | 10.1% | 10.3%    | 10.0% |          |       |          |       |
| 1994        | (0.1%) | (1.2%) | 10.1%   | 8.6%  | 12.6%    | 11.6% | 10.4%    | 10.0% |          |       |          |       |
| 1993        | 16.1%  | 12.0%  | 12.7%   | 11.4% | 12.4%    | 12.0% | 10.5%    | 9.9%  |          |       |          |       |
| 1992        | 16.3%  | 14.2%  | 11.2%   | 10.6% | 13.7%    | 13.7% |          |       |          |       |          |       |
| 1991        | 11.1%  | 10.8%  | 9.5%    | 8.9%  | 13.2%    | 13.5% |          |       |          |       |          |       |
| 1990        | 7.9%   | 7.7%   | 10.9%   | 10.6% | 11.1%    | 11.7% |          |       |          |       |          |       |
| 1989        | 12.5%  | 12.2%  | 15.1%   | 14.8% | 10.5%    | 11.3% |          |       |          |       |          |       |
| 1988        | 8.6%   | 8.2%   | 12.1%   | 12.6% | 10.1%    | 10.9% |          |       |          |       |          |       |
| 1987        | 7.5%   | 5.6%   | 16.2%   | 16.8% | 9.1%     | 10.1% |          |       |          |       |          |       |
| 1986        | 18.5%  | 19.8%  | 17.0%   | 18.4% | 9.9%     | 10.8% |          |       |          |       |          |       |
| 1985        | 29.9%  | 30.0%  | 11.2%   | 12.9% | 9.5%     | 9.9%  |          |       |          |       |          |       |
| 1984        | (1.6%) | 1.7%   | 6.0%    | 7.9%  | 8.2%     | 8.4%  |          |       |          |       |          |       |
| 1983        | 30.5%  | 30.0%  | 8.1%    | 9.2%  | 8.7%     | 7.9%  |          |       |          |       |          |       |
| 1982        | 11.2%  | 12.8%  | 2.4%    | 3.8%  |          |       |          |       |          |       |          |       |
| 1981        | (8.1%) | (5.4%) | 3.3%    | 3.7%  |          |       |          |       |          |       |          |       |
| 1980        | 2.2%   | 3.8%   | 7.9%    | 7.0%  |          |       |          |       |          |       |          |       |
| 1979        | 8.3%   | 7.6%   | 10.4%   | 8.8%  |          |       |          |       |          |       |          |       |
| 1978        | (0.4%) | 1.0%   | 9.3%    | 6.6%  |          |       |          |       |          |       |          |       |
| 1977        | 15.9%  | 12.4%  |         |       |          |       |          |       |          |       |          |       |
| 1976        | 14.2%  | 10.5%  |         |       |          |       |          |       |          |       |          |       |
| 1975        | 14.9%  | 12.9%  |         |       |          |       |          |       |          |       |          |       |
| 1974        | 3.1%   | (2.9%) |         |       |          |       |          |       |          |       |          |       |

The chart to the left shows the annualized total rate of returns for 1, 5, 10, 20, 30, and 46 years through fiscal year 2019 for the Internal Bond Portfolio. The Fixed Income Benchmark<sup>2</sup> is provided for comparison.

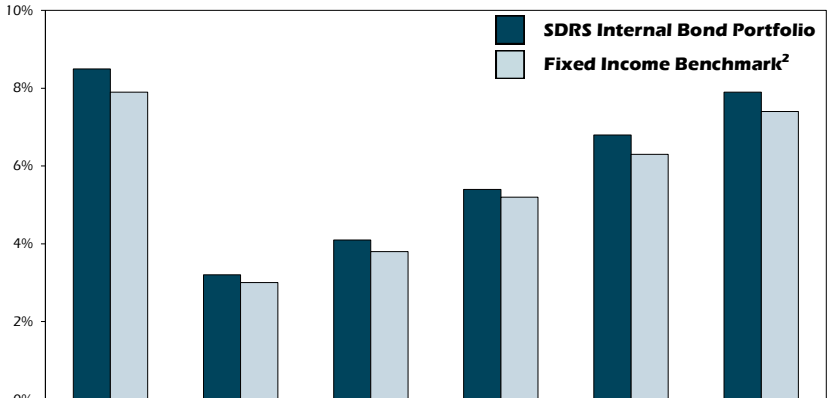
The one-year returns above the solid demarcation line include both bonds and allocated cash reserves; the returns below are bonds only with no allocated cash reserves.

Prior to fiscal year 2007, the investment grade and high yield bonds were managed together. On July 1, 2006, they were separated and are now managed individually. The one-year returns below the dotted demarcation line reflect the investment grade and high yield returns; the returns above are investment grade-only returns. The high yield-only returns are presented on the next page.

| Characteristic    | SDRS     | Bond Index <sup>1</sup> |
|-------------------|----------|-------------------------|
| Yield to Maturity | 2.40%    | 2.52%                   |
| Average Maturity  | 5.54 yrs | 7.71 yrs                |
| Duration          | 5.36 yrs | 6.06 yrs                |

The Bond Index is presented for comparative purposes.

**SDRS Internal Bond Portfolio vs. Benchmark**



|                   | 1 Year | 5 Years | 10 Years | 20 Years | 30 Years | 46 Years |
|-------------------|--------|---------|----------|----------|----------|----------|
| <b>SDRS</b>       | 8.5%   | 3.2%    | 4.1%     | 5.4%     | 6.8%     | 7.9%     |
| <b>Benchmark</b>  | 7.9%   | 3.0%    | 3.8%     | 5.2%     | 6.3%     | 7.4%     |
| <b>Difference</b> | 0.6%   | 0.2%    | 0.3%     | 0.2%     | 0.5%     | 0.5%     |

**SDRS Internal High Yield Bond Portfolio Performance**

| Fiscal Year | 1 Year  |        | 2 Years |       | 3 Years |       | 5 Years |       | 10 Years |       | 13 Years |       |
|-------------|---------|--------|---------|-------|---------|-------|---------|-------|----------|-------|----------|-------|
|             | SDRS    | Bench  | SDRS    | Bench | SDRS    | Bench | SDRS    | Bench | SDRS     | Bench | SDRS     | Bench |
| 2019        | (0.4%)  | 7.1%   | 4.8%    | 4.9%  | 10.5%   | 7.2%  | 1.7%    | 4.3%  | 7.1%     | 8.2%  | 6.1%     | 7.3%  |
| 2018        | 10.2%   | 2.7%   | 16.3%   | 7.3%  | 7.0%    | 5.1%  | 3.7%    | 5.1%  | 7.2%     | 7.7%  |          |       |
| 2017        | 22.7%   | 12.0%  | 5.4%    | 6.3%  | (0.2%)  | 3.9%  | 3.9%    | 6.3%  | 6.2%     | 7.5%  |          |       |
| 2016        | (9.6%)  | 0.9%   | (10.1%) | 0.0%  | (4.0%)  | 3.6%  | 1.5%    | 5.5%  | 4.8%     | 7.3%  |          |       |
| 2015        | (10.6%) | (0.8%) | (1.1%)  | 5.0%  | 3.0%    | 6.3%  | 6.7%    | 8.2%  |          |       |          |       |
| 2014        | 9.5%    | 11.2%  | 10.5%   | 10.0% | 10.1%   | 9.3%  | 12.7%   | 12.2% |          |       |          |       |
| 2013        | 11.5%   | 8.9%   | 10.4%   | 8.4%  | 12.2%   | 10.5% | 10.8%   | 10.4% |          |       |          |       |
| 2012        | 9.2%    | 7.9%   | 12.6%   | 11.3% | 14.2%   | 13.7% | 8.5%    | 8.8%  |          |       |          |       |
| 2011        | 16.0%   | 14.8%  | 16.7%   | 16.8% | 11.2%   | 11.8% | 8.2%    | 9.1%  |          |       |          |       |
| 2010        | 17.5%   | 18.9%  | 8.8%    | 10.3% | 5.8%    | 7.2%  |         |       |          |       |          |       |
| 2009        | 0.7%    | 2.3%   | 0.4%    | 1.8%  | 2.8%    | 4.2%  |         |       |          |       |          |       |
| 2008        | 0.1%    | 1.2%   | 3.8%    | 5.2%  |         |       |         |       |          |       |          |       |
| 2007        | 7.7%    | 9.2%   |         |       |         |       |         |       |          |       |          |       |

The chart to the left shows the annualized total rate of returns for 1, 2, 3, 5, 10 and 13 years through fiscal year 2019 for the Internal High Yield Bond Portfolio. The High Yield benchmark<sup>2</sup> is provided for comparison.

On July 1, 2006, the investment grade and high yield bonds were separated and are now managed individually.

**Internal Bond Profiles**

The South Dakota Retirement System's internal Investment Grade (IG) and High Yield (HY) bond portfolio characteristics as of June 30, 2019, are presented below.

**Distribution by Duration**

|               | IG     | HY     | Distribution by Quality Rating | IG     | HY     |
|---------------|--------|--------|--------------------------------|--------|--------|
| 0 to 2 Years  | 1.2%   | 37.7%  | U.S. Gov't/Aaa                 | 65.0%  | 3.1%   |
| 2 to 3 Years  | 7.9%   | 13.7%  | Aa                             | 9.4%   | 0.0%   |
| 3 to 4 Years  | 20.4%  | 20.9%  | A                              | 10.0%  | 0.0%   |
| 4 to 5 Years  | 20.3%  | 19.8%  | Baa                            | 14.8%  | 0.2%   |
| 5 to 6 Years  | 11.1%  | 5.9%   | Ba                             | 0.8%   | 34.0%  |
| 6 to 8 Years  | 22.8%  | 2.0%   | B                              | 0.0%   | 42.7%  |
| Above 8 Years | 16.3%  | 0.0%   | Caa and lower                  | 0.0%   | 20.0%  |
| Total         | 100.0% | 100.0% | Total                          | 100.0% | 100.0% |

**Distribution by Coupon**

|                | IG     | HY     | Distribution by Sector            | IG     | HY     |
|----------------|--------|--------|-----------------------------------|--------|--------|
| 0.00% - 2.00%  | 6.8%   | 6.5%   | Cash/Cash Equivalents             | 0.1%   | 3.1%   |
| 2.01% - 3.00%  | 38.8%  | 0.2%   | U.S. Treasuries                   | 29.1%  | 0.0%   |
| 3.01% - 4.00%  | 33.6%  | 1.9%   | Agency Debentures                 | 4.9%   | 0.0%   |
| 4.01% - 6.00%  | 17.0%  | 47.5%  | Agency Mortgage-Backed Securities | 30.2%  | 0.0%   |
| 6.01% - 7.00%  | 3.8%   | 22.8%  | Investment Grade Corporates       | 34.9%  | 0.0%   |
| 7.01% - 8.00%  | 0.0%   | 12.5%  | High Yield Securities             | 0.8%   | 96.9%  |
| 8.01% and over | 0.0%   | 8.6%   |                                   |        |        |
| Total          | 100.0% | 100.0% | Total                             | 100.0% | 100.0% |

**Investment Grade Bond Portfolio Ten Largest Corporates by Issuer**

|                                   | % of Total |
|-----------------------------------|------------|
| Ontario (Province Of)             | 2.4%       |
| Dell Technologies, Inc.           | 1.8%       |
| Starbucks Corp.                   | 1.6%       |
| Alberta (Province Of)             | 1.6%       |
| Walmart, Inc.                     | 1.3%       |
| Philip Morris International, Inc. | 1.2%       |
| Morgan Stanley                    | 1.2%       |
| BP plc                            | 1.2%       |
| Quebec (Province Of)              | 1.2%       |
| Tyson Foods, Inc.                 | 1.1%       |
| Total                             | 14.6%      |

**High Yield Bond Portfolio Ten Largest Corporates by Issuer**

|                                  | % of Total |
|----------------------------------|------------|
| Bristow Group, Inc.              | 3.2%       |
| Frontier Communications Corp.    | 2.7%       |
| California Resources Corp.       | 2.7%       |
| Hornbeck Offshore Services, Inc. | 2.2%       |
| CenturyLink, Inc.                | 1.9%       |
| CSC Holdings LLC                 | 1.9%       |
| CCO Holdings LLC                 | 1.8%       |
| Bausch Health Cos., Inc.         | 1.6%       |
| HCA, Inc.                        | 1.6%       |
| Lee Enterprises, Inc.            | 1.3%       |
| Total                            | 20.9%      |

**SDRS Combined Internal Equity Portfolio Performance**

| Fiscal Year | 1 Year  |         | 5 Years |        | 10 Years |        | 20 Years |       | 30 Years |       | 46 Years |       |
|-------------|---------|---------|---------|--------|----------|--------|----------|-------|----------|-------|----------|-------|
|             | SDRS    | Bench   | SDRS    | Bench  | SDRS     | Bench  | SDRS     | Bench | SDRS     | Bench | SDRS     | Bench |
| 2019        | 3.1%    | 8.1%    | 7.3%    | 8.4%   | 12.8%    | 12.4%  | 6.1%     | 5.8%  | 9.3%     | 9.4%  | 11.4%    | 10.3% |
| 2018        | 12.8%   | 12.5%   | 11.4%   | 11.5%  | 9.9%     | 8.0%   | 6.9%     | 6.2%  | 9.8%     | 9.7%  |          |       |
| 2017        | 22.5%   | 19.0%   | 14.0%   | 12.8%  | 6.0%     | 5.5%   | 7.4%     | 6.8%  | 9.3%     | 9.0%  |          |       |
| 2016        | (2.9%)  | (0.1%)  | 9.3%    | 8.7%   | 6.0%     | 5.9%   | 7.8%     | 7.2%  | 9.2%     | 9.2%  |          |       |
| 2015        | 2.9%    | 3.6%    | 15.6%   | 14.7%  | 7.6%     | 7.3%   | 9.3%     | 8.4%  | 10.4%    | 10.3% |          |       |
| 2014        | 24.1%   | 24.4%   | 18.5%   | 16.6%  | 8.3%     | 7.9%   | 10.1%    | 9.2%  | 11.6%    | 11.2% |          |       |
| 2013        | 26.6%   | 19.3%   | 8.4%    | 4.5%   | 8.2%     | 7.8%   | 9.2%     | 8.2%  | 10.9%    | 10.2% |          |       |
| 2012        | (0.4%)  | (1.3%)  | (1.4%)  | (1.4%) | 5.4%     | 5.8%   | 8.7%     | 8.0%  | 11.8%    | 11.3% |          |       |
| 2011        | 28.1%   | 30.8%   | 2.7%    | 3.1%   | 4.1%     | 4.3%   | 9.4%     | 8.7%  | 11.7%    | 10.9% |          |       |
| 2010        | 16.9%   | 12.3%   | 0.1%    | 0.4%   | 0.3%     | (0.4%) | 8.3%     | 7.7%  | 11.6%    | 10.6% |          |       |
| 2009        | (20.8%) | (27.9%) | (1.1%)  | (0.2%) | (0.3%)   | (0.5%) | 7.6%     | 7.9%  | 11.4%    | 10.8% |          |       |
| 2008        | (21.0%) | (11.0%) | 8.0%    | 11.2%  | 3.9%     | 4.6%   | 9.8%     | 10.7% | 12.7%    | 12.5% |          |       |
| 2007        | 22.0%   | 23.6%   | 12.7%   | 13.6%  | 8.9%     | 8.2%   | 11.0%    | 10.9% | 13.6%    | 12.9% |          |       |
| 2006        | 12.6%   | 14.7%   | 5.5%    | 5.4%   | 9.7%     | 8.7%   | 10.9%    | 11.0% | 13.3%    | 12.1% |          |       |
| 2005        | 9.9%    | 9.0%    | 0.4%    | (1.2%) | 11.0%    | 9.4%   | 11.9%    | 11.9% | 13.4%    | 12.1% |          |       |
| 2004        | 22.9%   | 23.6%   | 0.6%    | (0.8%) | 11.9%    | 10.6%  | 13.2%    | 12.9% | 14.0%    | 12.3% |          |       |
| 2003        | (2.0%)  | (0.8%)  | 0.0%    | (1.7%) | 10.3%    | 8.6%   | 12.3%    | 11.4% | 12.8%    | 11.0% |          |       |
| 2002        | (12.2%) | (15.0%) | 5.1%    | 3.1%   | 12.1%    | 10.2%  | 15.1%    | 14.2% |          |       |          |       |
| 2001        | (12.0%) | (17.1%) | 14.0%   | 12.0%  | 14.9%    | 13.4%  | 15.6%    | 14.4% |          |       |          |       |
| 2000        | 10.9%   | 11.0%   | 22.7%   | 21.2%  | 16.9%    | 16.4%  | 17.8%    | 16.6% |          |       |          |       |
| 1999        | 19.5%   | 18.3%   | 24.5%   | 23.4%  | 16.0%    | 16.9%  | 17.7%    | 16.9% |          |       |          |       |
| 1998        | 25.6%   | 25.6%   | 21.7%   | 20.1%  | 16.1%    | 17.1%  | 17.4%    | 16.6% |          |       |          |       |
| 1997        | 31.7%   | 28.6%   | 19.5%   | 17.7%  | 13.2%    | 13.6%  | 16.1%    | 15.3% |          |       |          |       |
| 1996        | 27.1%   | 23.3%   | 15.7%   | 14.8%  | 12.1%    | 13.3%  | 15.1%    | 13.9% |          |       |          |       |
| 1995        | 18.9%   | 21.2%   | 11.3%   | 11.7%  | 12.8%    | 14.4%  | 14.6%    | 13.5% |          |       |          |       |
| 1994        | 6.7%    | 3.3%    | 8.1%    | 10.8%  | 14.6%    | 15.3%  | 15.1%    | 13.2% |          |       |          |       |
| 1993        | 14.6%   | 13.9%   | 10.7%   | 14.2%  | 14.3%    | 14.3%  | 14.1%    | 12.2% |          |       |          |       |
| 1992        | 12.4%   | 13.5%   | 7.3%    | 9.7%   | 18.3%    | 18.3%  |          |       |          |       |          |       |
| 1991        | 4.5%    | 7.4%    | 8.5%    | 11.8%  | 16.4%    | 15.4%  |          |       |          |       |          |       |
| 1990        | 2.7%    | 16.3%   | 14.3%   | 17.1%  | 18.7%    | 16.8%  |          |       |          |       |          |       |
| 1989        | 20.3%   | 20.4%   | 21.5%   | 19.9%  | 19.4%    | 16.9%  |          |       |          |       |          |       |
| 1988        | (1.9%)  | (7.1%)  | 18.1%   | 14.4%  | 18.8%    | 16.2%  |          |       |          |       |          |       |
| 1987        | 18.7%   | 25.1%   | 30.3%   | 27.7%  | 19.0%    | 17.1%  |          |       |          |       |          |       |
| 1986        | 35.7%   | 35.4%   | 24.9%   | 19.2%  | 18.3%    | 14.5%  |          |       |          |       |          |       |
| 1985        | 39.0%   | 30.8%   | 23.3%   | 16.4%  | 16.5%    | 12.6%  |          |       |          |       |          |       |
| 1984        | 4.5%    | (4.7%)  | 17.4%   | 13.9%  | 15.6%    | 11.2%  |          |       |          |       |          |       |
| 1983        | 60.6%   | 61.0%   | 19.5%   | 18.0%  | 13.8%    | 10.1%  |          |       |          |       |          |       |
| 1982        | (4.1%)  | (11.4%) | 8.6%    | 7.3%   |          |        |          |       |          |       |          |       |
| 1981        | 27.6%   | 20.5%   | 12.1%   | 10.0%  |          |        |          |       |          |       |          |       |
| 1980        | 8.7%    | 17.1%   | 10.0%   | 8.8%   |          |        |          |       |          |       |          |       |
| 1979        | 14.3%   | 13.6%   | 13.9%   | 8.6%   |          |        |          |       |          |       |          |       |
| 1978        | (0.4%)  | 0.1%    | 8.3%    | 2.6%   |          |        |          |       |          |       |          |       |
| 1977        | 12.1%   | 0.5%    |         |        |          |        |          |       |          |       |          |       |
| 1976        | 16.2%   | 14.0%   |         |        |          |        |          |       |          |       |          |       |
| 1975        | 28.9%   | 16.1%   |         |        |          |        |          |       |          |       |          |       |
| 1974        | (11.1%) | (14.5%) |         |        |          |        |          |       |          |       |          |       |

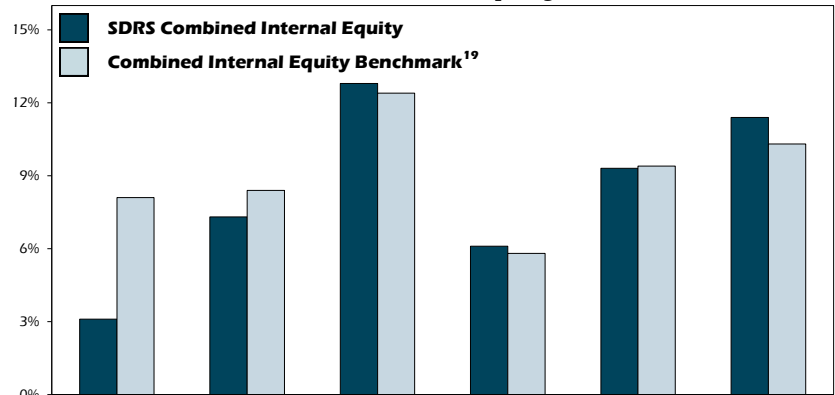
The chart to the left shows the annualized total rate of returns for 1, 5, 10, 20, 30, and 46 years through fiscal year 2019 for the Combined Internal Equity Portfolio. The Combined Internal Equity Benchmark<sup>19</sup> is provided for comparison.

The one-year returns above the solid demarcation line include both equities and allocated cash reserves; the returns below are equities only with no allocated cash reserves.

The one-year returns below the dotted demarcation line are domestic-only returns; the returns above are global equity returns.

Prior to fiscal year 2005, the domestic and international equities were managed separately. On July 1, 2004, they were merged and are managed together. Historical information is presented on page 16.

**SDRS Combined Internal Equity vs. Benchmark**



|                   | 1 Year | 5 Years | 10 Years | 20 Years | 30 Years | 46 Years |
|-------------------|--------|---------|----------|----------|----------|----------|
| <b>SDRS</b>       | 3.1%   | 7.3%    | 12.8%    | 6.1%     | 9.3%     | 11.4%    |
| <b>Benchmark</b>  | 8.1%   | 8.4%    | 12.4%    | 5.8%     | 9.4%     | 10.3%    |
| <b>Difference</b> | (5.0%) | (1.1%)  | 0.4%     | 0.3%     | (0.1%)   | 1.1%     |

## **Internal Equity Profile**

The South Dakota Retirement System's internal global equity portfolio characteristics as of June 30, 2019, are presented below. The SDRS internal global equity portfolio is compared to the  $\frac{2}{3}$  S&P Global 1200 Index plus  $\frac{1}{3}$  S&P 500 Index benchmark. A listing of the 30 largest global equity company holdings is also provided.

### **Distribution by Market Sector**

|                             | <b><u>SDRS</u></b> | <b><u>Bench</u></b> |
|-----------------------------|--------------------|---------------------|
| Consumer Discretionary      | 9.0%               | 10.1%               |
| Consumer Staples            | 7.1%               | 8.1%                |
| Energy                      | 10.3%              | 5.5%                |
| Financials                  | 16.5%              | 15.4%               |
| Health Care                 | 15.1%              | 12.9%               |
| Industrials                 | 7.2%               | 10.3%               |
| Information Technology      | 14.4%              | 18.1%               |
| Materials                   | 3.5%               | 4.1%                |
| Real Estate                 | 1.6%               | 2.9%                |
| Telecommunications Services | 8.7%               | 9.3%                |
| Utilities                   | 1.8%               | 3.3%                |
| Cash Equivalents            | <u>4.8%</u>        | <u>0.0%</u>         |
| Total                       | <u>100.0%</u>      | <u>100.0%</u>       |

### **Ten Largest Country Weights**

|               | <b><u>SDRS</u></b> | <b><u>Bench</u></b> |
|---------------|--------------------|---------------------|
| United States | 69.0%              | 71.6%               |
| Great Britain | 5.0%               | 4.3%                |
| Switzerland   | 4.3%               | 2.2%                |
| Japan         | 4.1%               | 5.2%                |
| Germany       | 3.4%               | 2.2%                |
| France        | 2.2%               | 2.4%                |
| Canada        | 2.0%               | 2.2%                |
| South Korea   | 1.7%               | 0.8%                |
| Netherlands   | 0.8%               | 0.8%                |
| Belgium       | <u>0.6%</u>        | <u>0.3%</u>         |
| Total         | <u>93.1%</u>       | <u>92.0%</u>        |

### **30 Largest Company Holdings**

|                                  | <b><u>% of Total</u></b> |
|----------------------------------|--------------------------|
| Microsoft Corp.                  | 3.0%                     |
| Apple, Inc.                      | 2.9%                     |
| Alphabet, Inc.                   | 2.5%                     |
| Facebook, Inc.                   | 1.8%                     |
| Berkshire Hathaway, Inc.         | 1.6%                     |
| Wells Fargo & Co.                | 1.3%                     |
| UnitedHealth Group, Inc.         | 1.3%                     |
| Citigroup, Inc.                  | 1.1%                     |
| Nestle SA                        | 1.1%                     |
| Pfizer, Inc.                     | 1.1%                     |
| Samsung Electronics Co., Ltd.    | 1.1%                     |
| JPMorgan Chase & Co.             | 1.1%                     |
| BP plc                           | 1.0%                     |
| Walt Disney Co.                  | 1.0%                     |
| Schlumberger, Ltd.               | 1.0%                     |
| Humana, Inc.                     | 0.9%                     |
| Novartis AG                      | 0.9%                     |
| Visa, Inc.                       | 0.9%                     |
| Gilead Sciences, Inc.            | 0.9%                     |
| Medtronic plc                    | 0.9%                     |
| U.S. Bancorp                     | 0.9%                     |
| Halliburton Co.                  | 0.9%                     |
| Roche Holding, Ltd.              | 0.8%                     |
| Celgene Corp.                    | 0.8%                     |
| Johnson & Johnson                | 0.8%                     |
| Canadian Natural Resources, Ltd. | 0.8%                     |
| Amazon.com, Inc.                 | 0.8%                     |
| Wal-Mart, Inc.                   | 0.8%                     |
| Verizon Communications, Inc.     | 0.7%                     |
| Lennar Corp.                     | <u>0.7%</u>              |
| Total                            | <u>35.4%</u>             |

## **Global Equity Composite<sup>7</sup>**

The South Dakota Retirement System's global equity composite is comprised of the following internally managed equity portfolios: global, global emerging markets, and small/mid along with three externally managed portfolios as of June 30, 2019. The composite is compared to the  $\frac{2}{3}$  MSCI All Country World Index plus  $\frac{1}{3}$  MSCI US Index benchmark.

### **Performance Results for the Fiscal Year Ended June 30, 2019**

|                                     |        |
|-------------------------------------|--------|
| <b>SDRS Global Equity Composite</b> | 2.1%   |
| <b>Benchmark</b>                    | 7.0%   |
| <b>Difference</b>                   | (4.9%) |

## Private Equity and Real Estate Limited Partnership Investments

The Council has invested in real estate (RE) and private equity (PE) limited partnerships since the mid-1990s. Although these investments are illiquid and have higher fees, the Council believes that they offer diversification and the opportunity for added value net-of-fees over public market investments. The funding of these investments is made over several years as the partnerships call money from investors to buy assets and later return it when assets are sold. According to industry standards, the return analysis for these investments requires the use of a since inception internal rate of return (SI-IRR).

SI-IRR is the calculation that equates the present value of all cash flows (capital calls and distributions) with the period-end value. The public market equivalent (PME) is a method where a public market index is expressed in terms of a SI-IRR, using the same cash flows and timing as those of the partnership investment over the same time period. The partnership SI-IRR is calculated net-of-fees (management fees, performance based fees, and general

partner carried interest). Also, a composite SI-IRR that combines the partnerships in each category is calculated.

From November of 1995 through June of 2019, the net-of-fees SI-IRR for the composite PE limited partnership investments was 9.3%. This can be compared to the S&P 500 Index PME of 6.2% for the same period. RE limited partnerships net-of-fees SI-IRR composite from December 1994 through June 2019 was 20.7%. A PME using the MSCI US REIT Index could not be calculated using the same cash flows because the return of the RE limited partnerships was significantly higher than the index. The annualized time-weighted rate of return for the MSCI US REIT index was 10.4% for the same period of time.

The composite return of the RE limited partnerships has significantly exceeded and the PE limited partnerships has slightly exceeded Council expectations. The Council will continue its ongoing evaluation of RE & PE limited partnerships. See page 35 for a listing of the partnership investments.

### SDRS Real Estate Net Internal Rate of Return Performance Comparison

| Fiscal Year | Fiscal Year |       |        | Fiscal Year |         |         | Since Inception* |       |       |       |
|-------------|-------------|-------|--------|-------------|---------|---------|------------------|-------|-------|-------|
|             | SDRS        | Bench | Diff   | Year        | SDRS    | Bench   | Diff             | SDRS  | Bench | Diff  |
| 1995*       | 16.4%       | 4.6%  | 11.8%  | 2008        | 3.2%    | 13.6%   | (10.4%)          | 20.7% | 9.6%  | 11.1% |
| 1996        | 38.3%       | 9.6%  | 28.7%  | 2009        | (52.5%) | (14.7%) | (37.8%)          |       |       |       |
| 1997        | 30.9%       | 11.4% | 19.5%  | 2010        | 11.7%   | (9.6%)  | 21.3%            |       |       |       |
| 1998        | 37.2%       | 17.9% | 19.3%  | 2011        | 40.9%   | 17.5%   | 23.4%            |       |       |       |
| 1999        | 28.5%       | 13.2% | 15.3%  | 2012        | 3.7%    | 14.8%   | (11.1%)          |       |       |       |
| 2000        | 13.4%       | 11.6% | 1.8%   | 2013        | 15.4%   | 11.9%   | 3.5%             |       |       |       |
| 2001        | 20.1%       | 12.4% | 7.7%   | 2014        | 24.3%   | 13.4%   | 10.9%            |       |       |       |
| 2002        | 6.4%        | 6.6%  | (0.2%) | 2015        | 18.9%   | 3.9%    | 15.0%            |       |       |       |
| 2003        | 5.7%        | 7.1%  | (1.4%) | 2016        | 3.2%    | 24.1%   | (20.9%)          |       |       |       |
| 2004        | 19.4%       | 9.7%  | 9.7%   | 2017        | 16.8%   | (1.8%)  | 18.6%            |       |       |       |
| 2005        | 66.4%       | 15.6% | 50.8%  | 2018        | 14.1%   | 3.6%    | 10.5%            |       |       |       |
| 2006        | 36.7%       | 20.2% | 16.5%  | 2019        | 9.4%    | 11.1%   | (1.7%)           |       |       |       |
| 2007        | 60.0%       | 16.6% | 43.4%  |             |         |         |                  |       |       |       |

The chart shows the yearly and since inception net internal rate of return for the composite of the Real Estate limited partnerships. The Real Estate Benchmark<sup>25</sup> is provided for comparison.

\* Initial real estate investment was funded in December 1994. The since inception internal rate of return is from December 1994 - June 2019.

### SDRS Private Equity Net Internal Rate of Return Performance Comparison

| Fiscal Year | Fiscal Year |         |         | Fiscal Year |        |        | Since Fiscal Year 1999* |      |       |      |
|-------------|-------------|---------|---------|-------------|--------|--------|-------------------------|------|-------|------|
|             | SDRS        | Bench   | Diff    | Year        | SDRS   | Bench  | Diff                    | SDRS | Bench | Diff |
| 1999        | 5.9%        | 27.9%   | (22.0%) | 2010        | 32.7%  | 18.4%  | 14.3%                   | 9.4% | 8.6%  | 0.8% |
| 2000        | 9.5%        | 14.7%   | (5.2%)  | 2011        | 32.3%  | 32.8%  | (0.5%)                  |      |       |      |
| 2001        | (16.4%)     | (10.4%) | (6.0%)  | 2012        | (1.0%) | 7.3%   | (8.3%)                  |      |       |      |
| 2002        | (9.7%)      | (14.8%) | 5.1%    | 2013        | 13.9%  | 22.6%  | (8.7%)                  |      |       |      |
| 2003        | 4.2%        | 4.6%    | (0.4%)  | 2014        | 24.8%  | 24.6%  | 0.2%                    |      |       |      |
| 2004        | 30.0%       | 23.5%   | 6.5%    | 2015        | 7.8%   | 2.8%   | 5.0%                    |      |       |      |
| 2005        | 26.0%       | 10.0%   | 16.0%   | 2016        | 2.6%   | (1.7%) | 4.3%                    |      |       |      |
| 2006        | 26.5%       | 12.4%   | 14.1%   | 2017        | 22.6%  | 18.3%  | 4.3%                    |      |       |      |
| 2007        | 22.6%       | 24.7%   | (2.1%)  | 2018        | 21.6%  | 11.8%  | 9.8%                    |      |       |      |
| 2008        | 9.9%        | (9.9%)  | 19.8%   | 2019        | 2.3%   | 7.0%   | (4.7%)                  |      |       |      |
| 2009        | (35.4%)     | (23.4%) | (12.0%) |             |        |        |                         |      |       |      |

The chart shows the yearly and net internal rate of return from fiscal year 1999-2019 for the composite of the Private Equity limited partnerships. The Private Equity Benchmark<sup>26</sup> is provided for comparison.

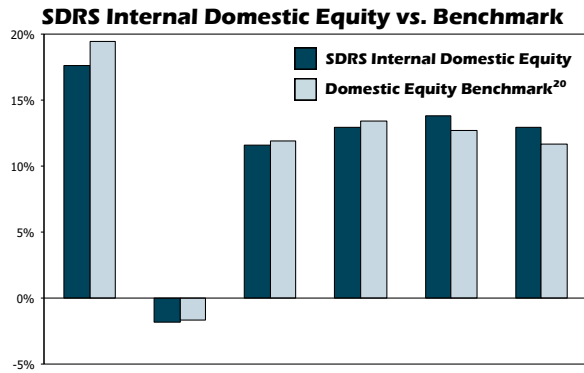
\* Initial private equity investment was funded in November 1995. Private Equity was added to the Capital Markets Benchmark in fiscal year 1999.



**Historical Performance**

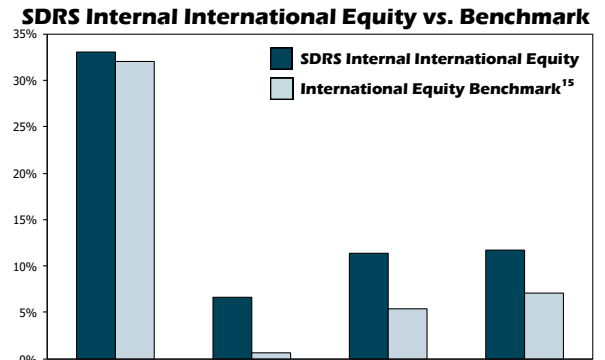
The historical performance information presented in the first box below is for the time periods that the South Dakota Retirement System internally managed domestic and international equities separately. The second box contains historical performance information for the time periods of the internally managed convertible and merger arbitrage portfolios.

**Historical SDRS Internal Domestic and International Equity Portfolio Performance Information**



Annualized Returns as of the Fiscal Year ended June 30, 2004

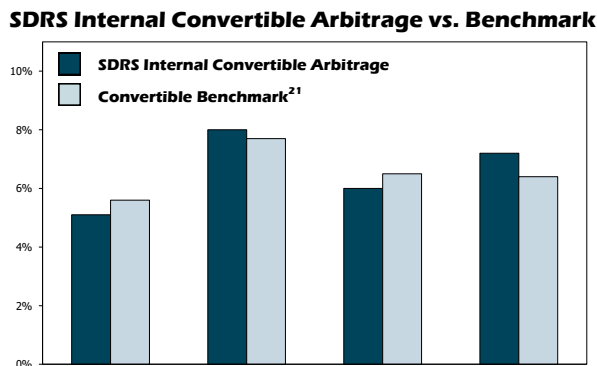
|                   | 1 Year | 5 Years | 10 Years | 20 Years | 30 Years | 31 Years |
|-------------------|--------|---------|----------|----------|----------|----------|
| <b>SDRS</b>       | 17.7%  | (1.9%)  | 11.6%    | 13.0%    | 13.8%    | 12.9%    |
| <b>Benchmark</b>  | 19.5%  | (1.6%)  | 11.9%    | 13.4%    | 12.7%    | 11.7%    |
| <b>Difference</b> | (1.8%) | (0.3%)  | (0.3%)   | (0.4%)   | 1.1%     | 1.2%     |



Annualized Returns as of the Fiscal Year ended June 30, 2004

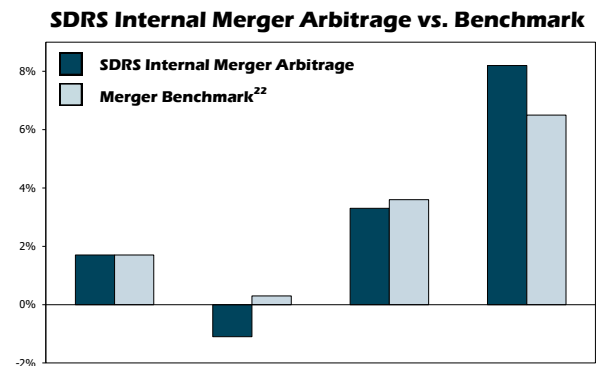
|                   | 1 Year | 5 Years | 10 Years | 12 Years |
|-------------------|--------|---------|----------|----------|
| <b>SDRS</b>       | 33.0%  | 6.6%    | 11.4%    | 11.8%    |
| <b>Benchmark</b>  | 32.0%  | 0.7%    | 5.4%     | 7.1%     |
| <b>Difference</b> | 1.0%   | 5.9%    | 6.0%     | 4.7%     |

**Historical SDRS Internal Convertible and Merger Arbitrage Portfolio Performance Information**



Annualized Returns as of the Fiscal Year ended June 30, 2013

|                   | 1 Year | 5 Years | 10 Years | 20 Years |
|-------------------|--------|---------|----------|----------|
| <b>SDRS</b>       | 5.1%   | 8.0%    | 6.0%     | 7.2%     |
| <b>Benchmark</b>  | 5.6%   | 7.7%    | 6.5%     | 6.4%     |
| <b>Difference</b> | (0.5%) | 0.3%    | (0.5%)   | 0.8%     |



Annualized Returns as of the Fiscal Year ended June 30, 2012

|                   | 1 Year | 5 Years | 10 Years | 22 Years |
|-------------------|--------|---------|----------|----------|
| <b>SDRS</b>       | 1.7%   | (1.1%)  | 3.3%     | 8.2%     |
| <b>Benchmark</b>  | 1.7%   | 0.3%    | 3.6%     | 6.5%     |
| <b>Difference</b> | 0.0%   | (1.4%)  | (0.3%)   | 1.7%     |

## THE FUND

The South Dakota Cash Flow Fund (SDCFF) is comprised of more than 500 separately-identified state accounts. During fiscal year 2019, the fund ranged in size from \$1.263 billion to \$1.425 billion and averaged \$1.333 billion. The fund serves as the state checking account, holding various reserves and contingency funds as well as absorbing the state's daily cash inflows and outflows.

South Dakota Codified Law (SDCL) 4-5-26 lists permissible investments for SDCFF. This includes U.S. government and agency debt, investment grade corporate debt, certificates of deposit, and commercial paper. The portfolio's average quality on June 30, 2019 was Aa3. The portfolio guidelines establish ranges and limits on position size, security maturity, portfolio duration, credit quality, and fixed income sector.

## OBJECTIVES AND COMPONENTS

The objectives of SDCFF are 1) safety of principal, 2) return on investments, and 3) liquidity.

The fund is comprised of four portfolios. On June 30, 2019, 56.2% was in the actively-managed short-term fixed income portfolio. This strategy was implemented in November 1985. The Council's portfolio guidelines set the maturity limit for the short-term portfolio at 5.25 years for an individual security and the duration limit for the overall portfolio at 2.88 years.

An intermediate-term fixed income portfolio strategy was implemented in November 2015. As of June 30, 2019, this portfolio represented 24.5% of the SDCFF. This portfolio's expected benefits include an increase in the long-term expected return of the SDCFF and increased stability of income flow at the expense of potential increase in market value volatility. This portfolio was phased in over time in \$50 million increments with the total size of \$300 million limited to a conservative estimate of the minimum balances in the SDCFF. The intermediate-term portfolio guidelines have an individual security maturity limit of 30 years, a limit on corporate position size, permitted ranges for each market sector, and a portfolio duration range of 70% to 130% of the FTSE US Broad Investment-Grade (USBIG) Bond Index duration.

The money market portfolio represented 17.6% of SDCFF as of June 30, 2019. This portfolio is the most liquid of the SDCFF portfolios. Its size can vary significantly over the course of the year depending on the cash needs of the State.

The South Dakota Certificate of Deposit Program is the smallest portion of the SDCFF representing 1.7%. The CDs are for a one-year term beginning the last business day of September each year. The rate is based on the one-year Treasury note yield plus 0.25%. On June 30, 2019, \$22.571 million in CDs was held in twenty-six banks, five credit unions, and one savings association.

## PRORATION

Each fiscal year, the receipted income is prorated to individual state agencies based on a ratio of their average daily cash balance to the total average daily cash balance. The general fund and other state agencies' receipted income was \$28.0 million for fiscal year 2019. The fund has distributed over \$1.1 billion of earnings since its inception. The proration rate for fiscal year 2019 was 2.08%.

## INVESTMENT PERFORMANCE - FISCAL YEAR 2019

The yield of the total SDCFF for fiscal year 2019 was 2.18%. Since the fund's inception in December 1972, it has yielded 6.06% annualized. For fiscal year 2019, the short-term fixed income portfolio portion of the fund had a time-weighted rate of return of 5.25% compared to a Capital Markets Benchmark<sup>6</sup> return of 4.52%. Since the inception of the short-term portfolio in November 1985, the time-weighted rate of return has been 4.92% annually compared to 4.57% for the benchmark. For fiscal year 2019, the intermediate-term fixed income portfolio had a time-weighted rate of return of 8.48% compared to 7.91% for the FTSE USBIG Bond Index. Since the inception of the intermediate-term portfolio in November 2015, the time-weighted rate of return has been 2.64% annually compared to 2.92% for the benchmark. During fiscal year 2019, the money market portion yielded 2.13%. The CD rate on June 30, 2019, was 2.90% for the CDs issued in September 2018.

### Cash Flows and Fair Value Changes

*The South Dakota Cash Flow Fund began fiscal year 2019 with \$1,248.7 million in assets. During the fiscal year, net contributions/withdrawals and fees increased the fund by \$9.8 million and investment income increased it by \$72.4 million, resulting in an ending fair value of \$1,330.9 million.*

|                                |                  |                         |
|--------------------------------|------------------|-------------------------|
| <b>Fair Value 6/30/18</b>      |                  | \$ 1,248,713,095        |
| <b>Increases/Decreases</b>     |                  |                         |
| Net Contributions/Withdrawals  | \$ 10,329,044    |                         |
| Internal Management Fees       | <u>(549,278)</u> |                         |
| Total Increases/Decreases      |                  | \$ 9,779,766            |
| <b>Investment Income</b>       |                  |                         |
| Securities Income              |                  |                         |
| Interest Income - Managed      | \$ 30,299,317    |                         |
| Interest Income - CDs          | 372,304          |                         |
| Change in Accrued Income       | <u>1,950,874</u> |                         |
| Total Securities Income        |                  | \$ 32,622,495           |
| Total Capital Gain/Loss Income |                  | <u>\$ 39,792,444</u>    |
| Total Investment Income        |                  | <u>\$ 72,414,939</u>    |
| <b>Fair Value 6/30/19</b>      |                  | <u>\$ 1,330,907,800</u> |

**Comparative Results<sup>9</sup>**

The proration rate is the cash accounting yield. The managed accrued rate includes accrued interest.  
The 3-month T-bill and institutional prime money market rates are provided for comparison.

|                   | SDCFF<br>Proration<br>Amount | Total<br>Receipted Rate<br>(Proration Rate) | Managed<br>Accrued<br>Rate* | 3-month<br>Treasury<br>Bill Rate | Institutional Prime<br>Money Market<br>Fund | Total<br>Return<br>CFFST <sup>✓</sup> | CFFST<br>Index <sup>6</sup> |
|-------------------|------------------------------|---|-----------------------------|----------------------------------|---|---------------------------------------|-----------------------------|
| 2019              | \$ 27,957,976                | 2.08%                                       | 2.18%                       | 2.30%                            | 2.35%                                       | 5.25%                                 | 4.52%                       |
| 2018              | 15,914,986                   | 1.19%                                       | 1.26%                       | 1.33%                            | 1.47%                                       | 0.31%                                 | 0.43%                       |
| 2017              | 16,116,484                   | 1.25%                                       | 1.32%                       | 0.46%                            | 0.73%                                       | 0.53%                                 | 0.55%                       |
| 2016              | 18,018,069                   | 1.35%                                       | 1.41%                       | 0.14%                            | 0.26%                                       | 2.32%                                 | 2.04%                       |
| 2015              | 16,728,885                   | 1.25%                                       | 1.36%                       | 0.02%                            | 0.06%                                       | 1.03%                                 | 1.00%                       |
| 2014              | 12,516,162                   | 0.99%                                       | 1.12%                       | 0.04%                            | 0.04%                                       | 1.65%                                 | 1.59%                       |
| 2013              | 17,429,182                   | 1.47%                                       | 1.51%                       | 0.08%                            | 0.12%                                       | 0.98%                                 | 1.30%                       |
| 2012              | 25,829,546                   | 2.33%                                       | 2.27%                       | 0.04%                            | 0.12%                                       | 1.88%                                 | 1.82%                       |
| 2011              | 35,573,830                   | 3.37%                                       | 3.43%                       | 0.14%                            | 0.17%                                       | 2.71%                                 | 2.84%                       |
| 2010              | 50,155,778                   | 4.94%                                       | 4.79%                       | 0.12%                            | 0.17%                                       | 5.10%                                 | 5.34%                       |
| 2009              | 43,568,535                   | 4.59%                                       | 4.51%                       | 0.78%                            | 1.63%                                       | 6.58%                                 | 3.14%                       |
| 2008              | 44,431,241                   | 5.07%                                       | 4.96%                       | 3.32%                            | 4.25%                                       | 6.59%                                 | 6.05%                       |
| 2007              | 34,578,213                   | 4.23%                                       | 4.41%                       | 5.07%                            | 5.19%                                       | 5.56%                                 | 5.50%                       |
| 2006              | 25,450,147                   | 3.07%                                       | 3.40%                       | 3.95%                            | 4.10%                                       | 2.36%                                 | 2.09%                       |
| 2005              | 21,652,806                   | 2.66%                                       | 2.92%                       | 2.04%                            | 2.08%                                       | 2.62%                                 | 2.45%                       |
| 2004              | 22,888,860                   | 2.95%                                       | 3.02%                       | 0.96%                            | 0.94%                                       | 0.59%                                 | (0.14%)                     |
| 2003              | 29,876,507                   | 4.22%                                       | 4.35%                       | 1.41%                            | 1.39%                                       | 5.45%                                 | 4.09%                       |
| 2002              | 41,972,001                   | 5.54%                                       | 5.21%                       | 2.45%                            | 2.44%                                       | 5.55%                                 | 5.62%                       |
| 2001              | 50,729,249                   | 6.54%                                       | 6.50%                       | 5.64%                            | 5.88%                                       | 9.57%                                 | 8.94%                       |
| 2000              | 36,459,873                   | 5.18%                                       | 5.47%                       | 5.30%                            | 5.71%                                       | 4.94%                                 | 4.49%                       |
| 1999              | 36,122,881                   | 6.02%                                       | 6.01%                       | 4.71%                            | 5.07%                                       | 4.90%                                 | 5.02%                       |
| 1998              | 31,533,466                   | 6.11%                                       | 6.51%                       | 5.25%                            | 5.50%                                       | 7.11%                                 | 6.42%                       |
| 1997              | 28,961,501                   | 6.03%                                       | 6.12%                       | 5.26%                            | 5.33%                                       | 6.81%                                 | 6.09%                       |
| 1996              | 27,987,169                   | 6.18%                                       | 6.32%                       | 5.44%                            | 5.55%                                       | 5.29%                                 | 5.54%                       |
| 1995              | 20,145,287                   | 4.87%                                       | 5.41%                       | 5.05%                            | 5.36%                                       | 7.78%                                 | 6.41%                       |
| 1994              | 15,309,074                   | 3.73%                                       | 4.17%                       | 3.18%                            | 3.27%                                       | 2.73%                                 | 1.87%                       |
| 1993              | 20,908,872                   | 5.34%                                       | 5.05%                       | 3.12%                            | 3.19%                                       | 4.98%                                 | 4.71%                       |
| 1992              | 26,680,663                   | 7.23%                                       | 7.32%                       | 4.67%                            | 4.98%                                       | 7.98%                                 | 7.95%                       |
| 1991              | 30,595,214                   | 8.48%                                       | 8.50%                       | 6.76%                            | 7.20%                                       | 9.65%                                 | 9.43%                       |
| 1990              | 30,876,016                   | 8.81%                                       | 8.78%                       | 7.93%                            | 8.39%                                       | 8.66%                                 | 8.45%                       |
| 1989              | 24,741,382                   | 7.35%                                       | 8.51%                       | 7.82%                            | 8.64%                                       | 9.59%                                 | 8.22%                       |
| 1988              | 19,634,393                   | 6.52%                                       | 7.30%                       | 5.51%                            | 6.78%                                       | 7.70%                                 | 6.96%                       |
| 1987              | 19,763,489                   | 7.11%                                       | 6.84%                       | 5.51%                            | 5.98%                                       | 6.66%                                 | 5.72%                       |
| 1986              | 22,702,888                   | 8.69%                                       | 8.74%                       | 7.08%                            | 7.43%                                       |                                       |                             |
| 1985              | 24,805,620                   | 9.91%                                       | 9.75%                       | 9.09%                            | 9.47%                                       |                                       |                             |
| 1984              | 22,179,507                   | 9.02%                                       | 9.66%                       | 9.42%                            | 9.40%                                       |                                       |                             |
| 1983              | 25,178,343                   | 12.11%                                      | 10.99%                      | 8.56%                            | 9.49%                                       |                                       |                             |
| 1982              | 30,488,779                   | 15.51%                                      | 13.26%                      | 13.53%                           | 14.66%                                      |                                       |                             |
| 1981              | 26,148,927                   | 11.50%                                      | 12.42%                      | 12.65%                           | 13.37%                                      |                                       |                             |
| 1980              | 23,762,605                   | 11.78%                                      | 11.92%                      | 11.24%                           | 11.95%                                      |                                       |                             |
| 1979              | 14,661,310                   | 7.82%                                       | 8.82%                       | 8.99%                            | 9.02%                                       |                                       |                             |
| 1978              | 11,069,889                   | 6.96%                                       | 7.75%                       | 6.03%                            | 6.03%                                       |                                       |                             |
| 1977              | 9,853,216                    | 8.37%                                       | 7.04%                       | 4.89%                            | 4.71%                                       |                                       |                             |
| 1976              | 8,378,771                    | 7.92%                                       | 7.34%                       | 5.51%                            | 5.23%                                       |                                       |                             |
| 1975              | 11,490,970                   | 11.00%                                      | 10.39%                      | 6.76%                            | 8.15%                                       |                                       |                             |
| 1974              | 7,966,372                    | 8.35%                                       | 9.88%                       | 8.03%                            | 8.90%                                       |                                       |                             |
| 1973 <sup>☐</sup> | 1,674,845                    | 4.90%                                       | 6.92% <sup>❖</sup>          | 6.10% <sup>❖</sup>               | 7.00% <sup>❖</sup>                          |                                       |                             |
|                   | <u>\$1,161,469,779</u>       |   |                             |                                  |   |                                       |                             |

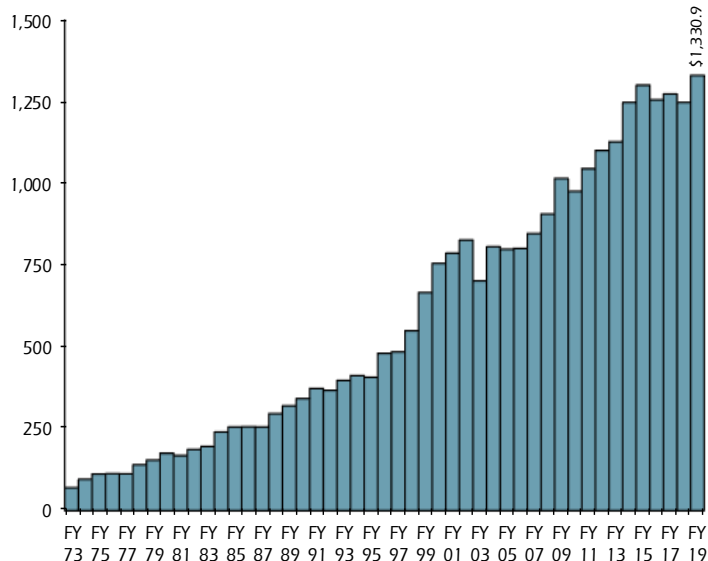
\* Yield on funds managed by the Investment Office excluding CDs.

✓ Total return of SDCFF Short-Term Portfolio (CFFST).

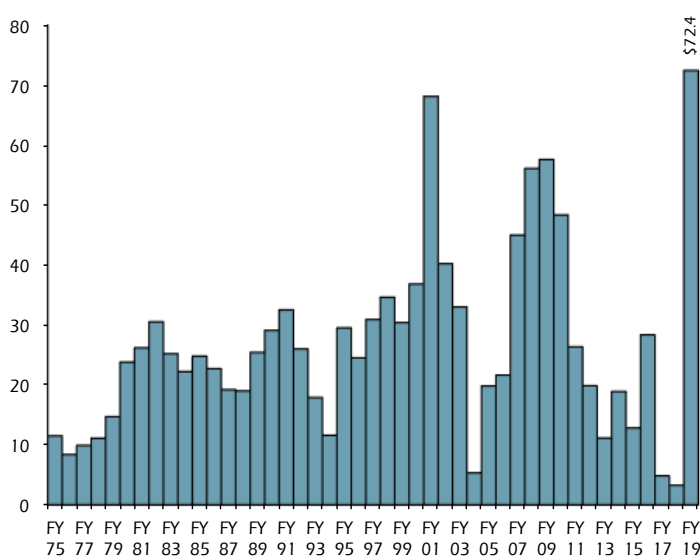
☐ Prorated amount and rate are 7-month numbers.

❖ Rate is annualized.

**Asset Growth<sup>23</sup> (\$ in millions)**



**Investment Income<sup>24</sup> (\$ in millions)**



**Distribution of Assets**

The South Dakota Cash Flow Fund's internal portfolios of Short-Term Fixed Income, Intermediate-Term Fixed Income, Money Market, and CD Program characteristics as of June 30, 2019, are presented below.

**Distribution by Duration**

|               | <b>%</b>      |
|---------------|---------------|
| 0 to 1 year   | 28.8%         |
| 1 to 2 years  | 19.2%         |
| 2 to 3 years  | 16.0%         |
| 3 to 4 years  | 14.3%         |
| Above 4 years | <u>21.7%</u>  |
| Total         | <u>100.0%</u> |

**Distribution by Quality Rating**

|                | <b>%</b>      |
|----------------|---------------|
| U.S. Gov't/Aaa | 51.6%         |
| Aa             | 10.3%         |
| A              | 30.4%         |
| Baa            | <u>7.7%</u>   |
| Total          | <u>100.0%</u> |

**Distribution by Coupon**

|                | <b>%</b>      |
|----------------|---------------|
| 0.00% - 1.00%  | 23.2%         |
| 1.01% - 2.00%  | 12.6%         |
| 2.01% - 3.00%  | 38.8%         |
| 3.01% - 4.00%  | 23.5%         |
| 4.01% and over | <u>1.9%</u>   |
| Total          | <u>100.0%</u> |

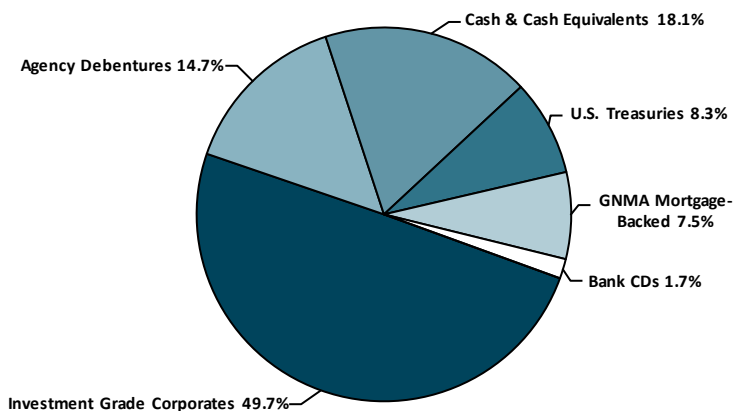
**Distribution by Sector**

|                                 | <b>%</b>      |
|---------------------------------|---------------|
| Cash/Cash Equivalents           | 18.1%         |
| Bank CDs                        | 1.7%          |
| U.S. Treasuries                 | 8.3%          |
| Agency Debentures               | 14.7%         |
| GNMA Mortgage-Backed Securities | 7.5%          |
| Investment Grade Corporates     | <u>49.7%</u>  |
| Total                           | <u>100.0%</u> |

**Ten Largest Corporates by Issuer**

|                               | <b>% of Total</b> |
|-------------------------------|-------------------|
| Wal-Mart, Inc.                | 2.8%              |
| Toyota Motor Corp.            | 2.2%              |
| Bank of New York Mellon Corp. | 2.2%              |
| Apple, Inc.                   | 2.2%              |
| Morgan Stanley                | 2.1%              |
| U.S. Bancorp                  | 2.1%              |
| Bank of America Corp.         | 2.0%              |
| General Dynamics Corp.        | 1.9%              |
| Citigroup, Inc.               | 1.9%              |
| American Express Co.          | <u>1.7%</u>       |
| Total                         | <u>21.1%</u>      |

**Asset Allocation**



# SCHOOL AND PUBLIC LANDS

## THE FUND

The School and Public Lands (SPL) fund is a permanent trust fund established by the South Dakota Constitution. Article VIII Sec. 3 of the Constitution requires all interest and income to be faithfully used and applied each year for the benefit of the public schools of the state. The principal shall never be diverted by legislative enactment for any purpose. The income from the fund is paid out annually to South Dakota primary, secondary, and higher education schools. The principal of the fund resulted primarily from the sale of land over many decades.

Constitutional Amendment E, passed in November 2000, allows the fund to be invested in stocks, bonds, mutual funds, and other financial instruments. South Dakota Codified Law (SDCL) 5-10-18 states that the provisions of SDCL 4-5-27, prudent-man standard, govern the moneys in the trust. The constitutional amendment requires that sufficient income be retained to offset the effect of inflation<sup>3</sup> assuring the fund will grow at least at the rate of inflation. State statute allows realized capital gains to be used to satisfy the inflation requirement. The shift away from an exclusive focus on current income and the requirement to offset inflation initially reduced the payout to schools but has allowed the payout to increase over the long term. The change to the asset allocation policy resulting from the Constitutional Amendment was phased in over several fiscal years.

## OBJECTIVES AND COMPONENTS

The objectives of SPL are to 1) provide a distribution of income and 2) promote inflation-adjusted growth of the fund through the constitutionally-mandated CPI adjustment.

SPL assets were invested in diversified portfolios during fiscal year 2019, as shown on the following page. The fund was invested primarily in U.S. Treasury and mortgage-backed securities before the constitutional amendment in 2000. Since then, the South Dakota Investment Council has gradually shifted the asset allocation to be more like that of the South Dakota Retirement System.

The long-term expected return of the fund as of June 30, 2019, was 6.06% with a volatility of 13.9%. This means the return in any given year is expected to fall within a range of (7.9%) to 20.0% with 66% confidence or (21.8%) to 33.9% with 95% confidence.

## INVESTMENT PERFORMANCE - FISCAL YEAR 2019

The fund ended fiscal year 2019 with a fair value of \$316,481,430. The principal is adjusted by the inflation factor each year as required by the constitutional amendment. SPL's fiscal year total return, including realized and unrealized gains and losses and accrued income, was 5.9% net of fees. The Capital Markets Benchmark<sup>14</sup> return was 8.6%. The difference relative to the benchmark resulted from underperformance of global equities, real estate and private equity limited partnerships, and asset allocation. The ten-year annualized total return was 9.7%. This compares with the ten-year Capital Markets Benchmark<sup>14</sup> return of 9.1%. The fund distributed \$12,112,218 to the common schools in February 2019 and \$2,812,731 to the schools of higher education in June 2019.

Appropriated income from all sources is determined by the School and Public Lands office in Pierre and reported in their annual report.

### Cash Flows and Fair Value Changes

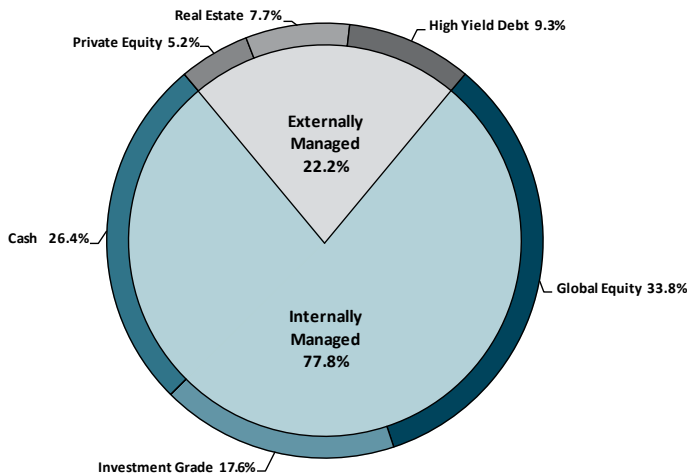
*The School and Public Lands fund began fiscal year 2019 with \$302.2 million in assets. During the fiscal year, net contributions/withdrawals and fees decreased the fund by \$4.3 million and investment income increased it by \$18.6 million, resulting in an ending fair value of \$316.5 million.*

|                                |                   |                       |
|--------------------------------|-------------------|-----------------------|
| <b>Fair Value 6/30/18</b>      |                   | \$ 302,239,678        |
| <b>Increases/Decreases</b>     |                   |                       |
| Net Contributions/Withdrawals  | \$ (3,548,553)    |                       |
| External Management Fees       | <u>(814,656)</u>  |                       |
| Total Increases/Decreases      |                   | \$ (4,363,209)        |
| <b>Investment Income</b>       |                   |                       |
| Securities Income              |                   |                       |
| Interest Income                | \$ 4,612,497      |                       |
| Dividend Income                | 2,506,594         |                       |
| Securities Lending Income      | 7,312             |                       |
| Real Estate Income             | 1,038,357         |                       |
| Change in Accrued Income       | <u>116,338</u>    |                       |
| Total Securities Income        |                   | \$ 8,281,098          |
| Capital Gain/Loss Income       |                   |                       |
| Change in Unrealized Gain/Loss | \$ (2,088,512)    |                       |
| Realized Gain/Loss             | <u>12,412,375</u> |                       |
| Total Capital Gain/Loss Income |                   | <u>\$ 10,323,863</u>  |
| Total Investment Income        |                   | \$ 18,604,961         |
| <b>Fair Value 6/30/19</b>      |                   | <u>\$ 316,481,430</u> |

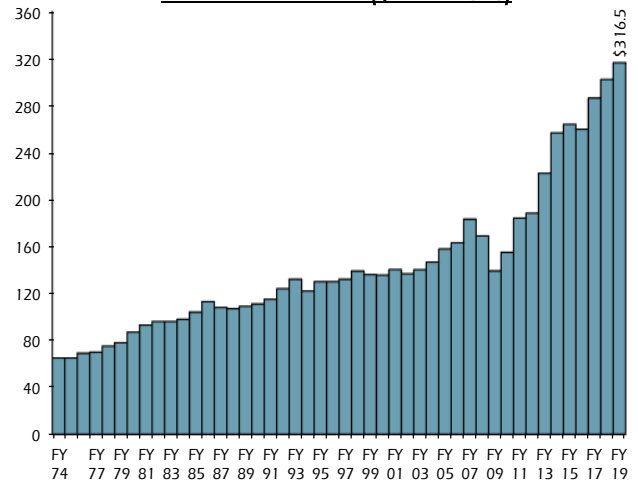
**Asset Allocation<sup>8</sup>**

As of June 30, 2019, School and Public Lands' assets totaled \$316.5 million. The broad asset categories and managers are listed below. The Capital Markets Benchmark allocation is also provided for comparison.

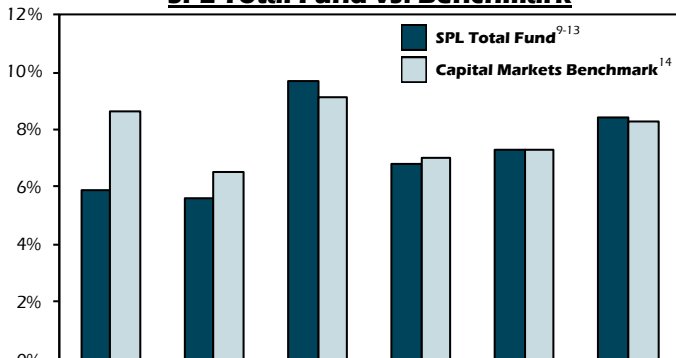
|  | Fair Value        |                      | % of Fund     | Capital Markets Benchmark % |
|--|-------------------|----------------------|---------------|-----------------------------|
| <b>Global Equity</b>                                 |                   |                      |               |                             |
| Internal Global Equity                               | \$ 104,235,858    |                      | 33.0%         |                             |
| Internal Global Emerging Markets                     | <u>2,657,274</u>  | \$ 106,893,132       | <u>0.8%</u>   | 51.0%                       |
| <b>Private Equity</b>                                |                   |                      |               |                             |
| Blackstone Capital Partners                          | \$ 2,258,549      |                      | 0.7%          |                             |
| Carlyle  | 2,268,761         |                      | 0.7%          |                             |
| Cinven   | 1,677,234         |                      | 0.5%          |                             |
| CVC  | 584,110           |                      | 0.2%          |                             |
| Doughty Hanson                                       | 42,176            |                      | 0.0%          |                             |
| Riverstone   | 2,728,250         |                      | 0.9%          |                             |
| Silver Lake  | <u>7,068,532</u>  | 16,627,612           | <u>2.2%</u>   | 0.0%                        |
| <b>Real Estate</b>                                   |                   |                      |               |                             |
| Blackstone Real Estate Partners                      | \$ 16,349,106     |                      | 5.2%          |                             |
| Cargill N.A. Real Estate Partners                    | 583               |                      | 0.0%          |                             |
| Lone Star  | 3,259,822         |                      | 1.0%          |                             |
| Rockpoint  | 2,749,992         |                      | 0.9%          |                             |
| Starwood   | <u>2,015,022</u>  | 24,374,525           | <u>0.6%</u>   | 10.0%                       |
| <b>Investment Grade Fixed Income</b>                 |                   |                      |               |                             |
| Internal Investment Grade                            | \$ 55,753,162     | 55,753,162           | <u>17.6%</u>  | 17.6%                       |
| <b>High Yield Debt (Corporate &amp; Real Estate)</b> |                   |                      |               |                             |
| Vanguard High Yield Fund                             | \$ 12,839,446     |                      | 4.1%          |                             |
| CarVal   | 76,778            |                      | 0.0%          |                             |
| TCW  | <u>16,494,852</u> | 29,411,076           | <u>5.2%</u>   | 7.0%                        |
| <b>Cash &amp; Cash Equivalents</b>                   |                   |                      |               |                             |
| Internal Cash Account                                | \$ 83,421,923     | <u>83,421,923</u>    | <u>26.4%</u>  | <u>26.4%</u>                |
| <b>Total</b>   |                   | <u>\$316,481,430</u> | <u>100.0%</u> | <u>100.0%</u>               |



**Asset Growth<sup>23</sup> (\$ in millions)**

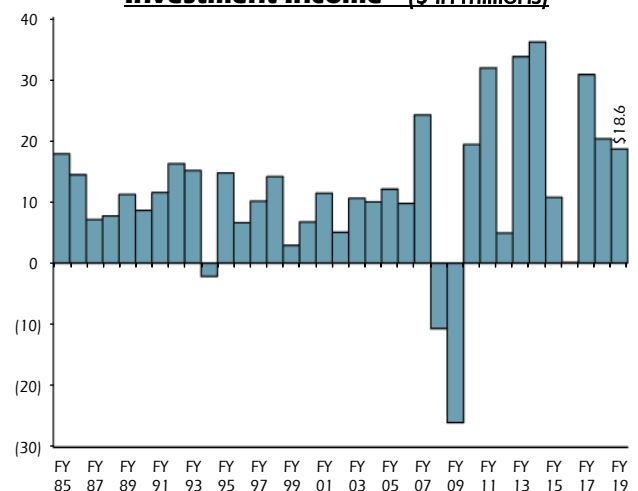


**SPL Total Fund vs. Benchmark**



|                   | 1 Year | 5 Years | 10 Years | 20 Years | 30 Years | 35 Years |
|-------------------|--------|---------|----------|----------|----------|----------|
| <b>SPL</b>        | 5.9%   | 5.6%    | 9.7%     | 6.8%     | 7.3%     | 8.4%     |
| <b>Benchmark</b>  | 8.6%   | 6.5%    | 9.1%     | 7.0%     | 7.3%     | 8.3%     |
| <b>Difference</b> | (2.7%) | (0.9%)  | 0.6%     | (0.2%)   | 0.0%     | 0.1%     |

**Investment Income<sup>24</sup> (\$ in millions)**



Annualized Returns and Investment Income started calculating/tracking in FY 1985.

**Internal Global Equity Profile** *The School and Public Lands' internal Global Equity portfolio characteristics as of June 30, 2019, are presented below.*

| <b>Distribution by Market Sector</b> | <b>%</b>      | <b>Five Largest Country Weights</b> | <b>% of Total</b> |
|--------------------------------------|---------------|-------------------------------------|-------------------|
| Consumer Discretionary               | 9.9%          | United States                       | 74.4%             |
| Consumer Staples                     | 7.1%          | Switzerland                         | 4.9%              |
| Energy                               | 11.5%         | Great Britain                       | 4.8%              |
| Financials                           | 18.6%         | Germany                             | 3.6%              |
| Health Care                          | 17.3%         | Japan                               | <u>2.7%</u>       |
| Industrials                          | 5.7%          | Total                               | <u>90.4%</u>      |
| Information Technology               | 15.4%         |                                     |                   |
| Materials                            | 3.2%          |                                     |                   |
| Real Estate                          | 0.9%          |                                     |                   |
| Telecommunications Services          | 9.4%          |                                     |                   |
| Utilities                            | 1.0%          |                                     |                   |
| Cash Equivalents                     | <u>0.0%</u>   |                                     |                   |
| Total                                | <u>100.0%</u> |                                     |                   |

**Internal Bond Profiles** *The School and Public Lands' internal Investment Grade (IG) bond portfolio characteristics as of June 30, 2019, are presented below.*

| <b>Distribution by Duration</b> | <b>IG</b>     | <b>Distribution by Quality Rating</b> | <b>IG</b>     |
|---------------------------------|---------------|---------------------------------------|---------------|
| 0 to 2 Years                    | 2.6%          | U.S. Gov't/Aaa                        | 66.2%         |
| 2 to 3 Years                    | 8.5%          | Aa                                    | 8.6%          |
| 3 to 4 Years                    | 19.4%         | A                                     | 12.9%         |
| 4 to 5 Years                    | 20.5%         | Baa                                   | 11.5%         |
| 5 to 6 Years                    | 10.2%         | Ba                                    | 0.8%          |
| 6 to 8 Years                    | 22.5%         | B                                     | 0.0%          |
| Above 8 Years                   | <u>16.3%</u>  | Caa and lower                         | <u>0.0%</u>   |
| Total                           | <u>100.0%</u> | Total                                 | <u>100.0%</u> |

| <b>Distribution by Coupon</b> | <b>IG</b>     | <b>Distribution by Sector</b>     | <b>IG</b>     |
|-------------------------------|---------------|-----------------------------------|---------------|
| 0.00% - 1.00%                 | 22.1%         | Cash/Cash Equivalents             | 1.3%          |
| 1.01% - 2.00%                 | 7.8%          | U.S. Treasuries                   | 29.1%         |
| 2.01% - 3.00%                 | 27.1%         | Agency Debentures                 | 4.9%          |
| 3.01% - 4.00%                 | 33.0%         | Agency Mortgage-Backed Securities | 30.2%         |
| 4.01% - 5.00%                 | 9.6%          | Investment Grade Corporates       | 33.7%         |
| 5.01% - 6.00%                 | 0.2%          | High Yield Corporates             | <u>0.8%</u>   |
| 6.01% and over                | <u>0.2%</u>   | Total                             | <u>100.0%</u> |
| Total                         | <u>100.0%</u> | Total                             | <u>100.0%</u> |

**Top Ten Holdings** *The School and Public Lands' internal Global Equity and internal Investment Grade portfolios' Top Ten Holdings as of June 30, 2019, are presented below.*

| <b>Global Equity Company Holdings</b> | <b>% of Total</b> | <b>Investment Grade Corporates by Issuer</b> | <b>% of Total</b> |
|---------------------------------------|-------------------|--|-------------------|
| Microsoft Corp.                       | 3.8%              | Ontario (Province Of)                        | 2.4%              |
| Apple, Inc.                           | 3.3%              | Starbucks Corp.                              | 1.6%              |
| Alphabet, Inc.                        | 2.8%              | Alberta (Province Of)                        | 1.6%              |
| Berkshire Hathaway, Inc.              | 2.0%              | Walmart, Inc.                                | 1.3%              |
| Facebook, Inc.                        | 1.9%              | Dell Technologies, Inc.                      | 1.3%              |
| UnitedHealth Group, Inc.              | 1.7%              | Philip Morris International, Inc.            | 1.2%              |
| Wells Fargo & Co.                     | 1.6%              | Morgan Stanley                               | 1.2%              |
| Citigroup, Inc.                       | 1.5%              | BP plc                                       | 1.2%              |
| Nestle SA                             | 1.3%              | Quebec (Province Of)                         | 1.2%              |
| BP plc                                | <u>1.3%</u>       | Tyson Foods, Inc.                            | <u>1.1%</u>       |
| Total                                 | <u>21.2%</u>      | Total  | <u>14.1%</u>      |

## THE FUND

The Dakota Cement Trust Fund (DCT) was established under the Constitution in 2001 and amended in 2012. Two sections of Article XIII of the Constitution were changed.

Section 20 of Article XIII provided that the net proceeds from the sale of state cement enterprises be deposited into a trust fund created to benefit the citizens of South Dakota. It directed the South Dakota Investment Council (Council) to invest the trust fund in stocks, bonds, mutual funds, and other financial instruments as provided by law. South Dakota Codified Law (SDCL) 5-17-42 states that the provisions of SDCL 4-5-27, prudent-man standard, govern the moneys in the trust.

Section 21 of Article XIII of the South Dakota Constitution was amended in November 2012. The amendment changed the distribution calculation to "...four percent of the lesser of the average market value of the trust fund determined by adding the market value of the trust fund at the end of the sixteen most recent calendar quarters as of December 31 of that year and dividing that sum by sixteen, or the market value of the trust fund at the end of that calendar year for the support of education in South Dakota."

Each year the state treasurer is directed to distribute from the trust fund to the general fund the amount calculated per the South Dakota Constitution.

## OBJECTIVES AND COMPONENTS

The objectives of DCT are to 1) provide a distribution of 4% of the market value and 2) promote inflation-adjusted growth of the fund and a steadily growing distribution amount.

DCT assets were invested in diversified portfolios during fiscal year 2019, as shown on the following page. Since the establishment of the fund, the Council has gradually shifted the asset allocation to be more like that of the South Dakota Retirement System.

The long-term expected return of the fund as of June 30, 2019, was 6.06% with a volatility of 13.9%. This means that the return in any given year is expected to fall within a range of (7.9%) to 20.0% with 66% confidence or (21.8%) to 33.9% with 95% confidence.

## INVESTMENT PERFORMANCE - FISCAL YEAR 2019

The fund ended fiscal year 2019 with a fair value of \$332,141,897, principal value of \$238,000,000, and inflation-adjusted principal of \$343,679,808. DCT's fiscal year total return, including realized and unrealized gains and losses and accrued income, was 6.0% net of fees. The Capital Markets Benchmark<sup>16</sup> return was 8.6%. The difference relative to the benchmark resulted from underperformance of global equities, real estate and private equity limited partnerships, and asset allocation. The ten-year annualized total return was 9.9%. This compares with the ten-year Capital Markets Benchmark<sup>16</sup> return of 9.1%. In May 2019, the fund distributed \$12,682,857 to the general fund. Since inception, the fund has distributed \$227.89 million to the general fund.

### Cash Flows and Fair Value Changes

*The Dakota Cement Trust Fund began fiscal year 2019 with \$325.5 million in assets. During the fiscal year, net contributions/withdrawals and fees decreased the fund by \$13.9 million and investment income increased it by \$20.5 million, resulting in an ending fair value of \$332.1 million.*

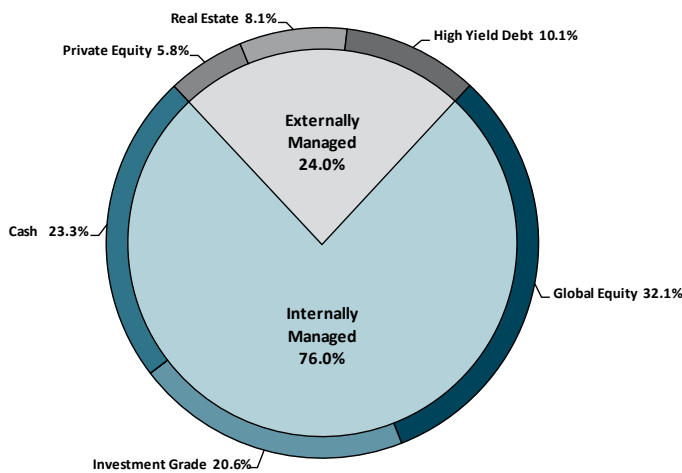
|                                |                      |                       |
|--------------------------------|----------------------|-----------------------|
| <b>Fair Value 6/30/18</b>      |                      | \$ 325,465,103        |
| <b>Increases/Decreases</b>     |                      |                       |
| Net Contributions/Withdrawals  | \$ (12,682,857)      |                       |
| Internal Management Fees       | (309,244)            |                       |
| External Management Fees       | <u>(874,593)</u>     |                       |
| Total Increases/Decreases      |                      | \$ (13,866,694)       |
| <b>Investment Income</b>       |                      |                       |
| Securities Income              |                      |                       |
| Interest Income                | \$ 5,092,905         |                       |
| Dividend Income                | 2,606,684            |                       |
| Securities Lending Income      | 5,521                |                       |
| Real Estate Income             | 1,147,413            |                       |
| Change in Accrued Income       | <u>91,413</u>        |                       |
| Total Securities Income        | \$ 8,944,936         |                       |
| Total Capital Gain/Loss Income | <u>\$ 11,598,552</u> |                       |
| Total Investment Income        |                      | <u>\$ 20,543,488</u>  |
| <b>Fair Value 6/30/19</b>      |                      | <u>\$ 332,141,897</u> |



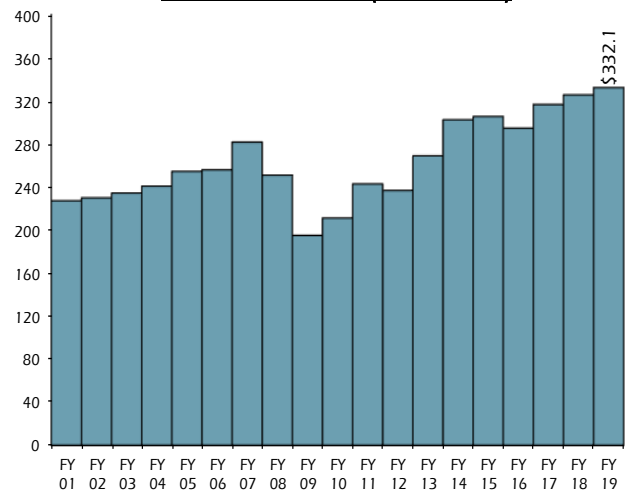
**Asset Allocation<sup>8</sup>**

As of June 30, 2019, Dakota Cement Trust's assets totaled \$332.1 million. The broad asset categories and managers are listed below. The Capital Markets Benchmark allocation is also provided for comparison.

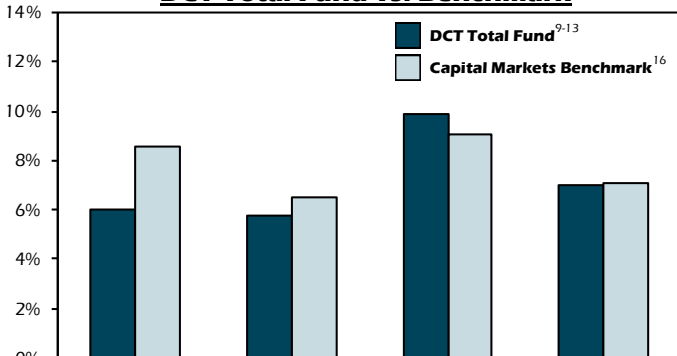
|  | <b>Fair Value</b>    |                      | <b>% of Fund</b> | <b>Capital Markets Benchmark %</b> |
|--|----------------------|----------------------|------------------|------------------------------------|
| <b>Global Equity</b>                                 |                      |                      |                  |                                    |
| Internal Global Equity                               | \$ 103,702,550       |                      | 31.2%            |                                    |
| Internal Global Emerging Markets                     | <u>2,855,464</u>     | \$ 106,558,014       | <u>0.9%</u>      | 32.1%                              |
| <b>Private Equity</b>                                |                      |                      |                  |                                    |
| Blackstone Capital Partners                          | \$ 2,341,265         |                      | 0.8%             |                                    |
| Carlyle  | 2,722,513            |                      | 0.8%             |                                    |
| Cinven   | 1,773,997            |                      | 0.5%             |                                    |
| CVC  | 627,377              |                      | 0.2%             |                                    |
| Doughty Hanson                                       | 68,785               |                      | 0.0%             |                                    |
| Riverstone   | 3,126,112            |                      | 0.9%             |                                    |
| Silver Lake  | <u>8,639,599</u>     | 19,299,648           | <u>2.6%</u>      | 5.8%                               |
| <b>Real Estate</b>                                   |                      |                      |                  |                                    |
| Blackstone Real Estate Partners                      | \$ 18,442,490        |                      | 5.6%             |                                    |
| Cargill N.A. Real Estate Partners                    | 952                  |                      | 0.0%             |                                    |
| Lone Star  | 3,661,574            |                      | 1.1%             |                                    |
| Rockpoint  | 3,007,802            |                      | 0.9%             |                                    |
| Starwood   | <u>1,613,361</u>     | 26,726,179           | <u>0.5%</u>      | 8.1%                               |
| <b>Investment Grade Fixed Income</b>                 |                      |                      |                  |                                    |
| Internal Investment Grade                            | <u>\$ 68,513,898</u> | 68,513,898           | <u>20.6%</u>     | 20.6%                              |
| <b>High Yield Debt (Corporate &amp; Real Estate)</b> |                      |                      |                  |                                    |
| Vanguard High Yield Fund                             | \$ 14,094,399        |                      | 4.2%             |                                    |
| CarVal   | 125,248              |                      | 0.1%             |                                    |
| TCW  | <u>19,364,855</u>    | 33,584,502           | <u>5.8%</u>      | 10.1%                              |
| <b>Cash &amp; Cash Equivalents</b>                   |                      |                      |                  |                                    |
| Internal Cash Account                                | <u>\$ 77,459,656</u> | <u>77,459,656</u>    | <u>23.3%</u>     | <u>23.3%</u>                       |
| <b>Total</b>   |                      | <u>\$332,141,897</u> | <u>100.0%</u>    | <u>100.0%</u>                      |



**Asset Growth<sup>23</sup> (\$ in millions)**

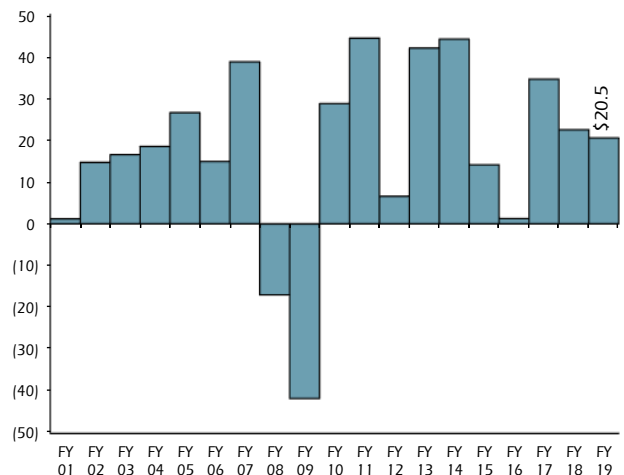


**DCT Total Fund vs. Benchmark**



|                   | 1 Year | 5 Years | 10 Years | 18 Years |
|-------------------|--------|---------|----------|----------|
| <b>DCT</b>        | 6.0%   | 5.8%    | 9.9%     | 7.0%     |
| <b>Benchmark</b>  | 8.6%   | 6.5%    | 9.1%     | 7.1%     |
| <b>Difference</b> | (2.6%) | (0.7%)  | 0.8%     | (0.1%)   |

**Investment Income<sup>24</sup> (\$ in millions)**



**Internal Global Equity Profile**

The Dakota Cement Trust's internal Global Equity portfolio characteristics as of June 30, 2019, are presented below.

| <b>Distribution by Market Sector</b> | <b>%</b>      | <b>Five Largest Country Weights</b> | <b>% of Total</b> |
|--------------------------------------|---------------|-------------------------------------|-------------------|
| Consumer Discretionary               | 9.9%          | United States                       | 74.3%             |
| Consumer Staples                     | 7.0%          | Great Britain                       | 4.8%              |
| Energy                               | 11.5%         | Switzerland                         | 4.8%              |
| Financials                           | 18.7%         | Germany                             | 3.5%              |
| Health Care                          | 17.3%         | Japan                               | <u>2.7%</u>       |
| Industrials                          | 5.7%          | Total                               | <u>90.1%</u>      |
| Information Technology               | 15.4%         |                                     |                   |
| Materials                            | 3.3%          |                                     |                   |
| Real Estate                          | 0.9%          |                                     |                   |
| Telecommunications Services          | 9.3%          |                                     |                   |
| Utilities                            | 1.0%          |                                     |                   |
| Cash Equivalents                     | <u>0.0%</u>   |                                     |                   |
| Total                                | <u>100.0%</u> |                                     |                   |

**Internal Bond Profiles**

The Dakota Cement Trust's internal Investment Grade (IG) bond portfolio characteristics as of June 30, 2019, are presented below.

| <b>Distribution by Duration</b> | <b>IG</b>     | <b>Distribution by Quality Rating</b> | <b>IG</b>     |
|---------------------------------|---------------|---------------------------------------|---------------|
| 0 to 2 Years                    | 1.9%          | U.S. Gov't/Aaa                        | 66.2%         |
| 2 to 3 Years                    | 8.6%          | Aa                                    | 8.6%          |
| 3 to 4 Years                    | 20.3%         | A                                     | 12.9%         |
| 4 to 5 Years                    | 20.2%         | Baa                                   | 11.5%         |
| 5 to 6 Years                    | 10.2%         | Ba                                    | 0.8%          |
| 6 to 8 Years                    | 22.5%         | B                                     | 0.0%          |
| Above 8 Years                   | <u>16.3%</u>  | Caa and lower                         | <u>0.0%</u>   |
| Total                           | <u>100.0%</u> | Total                                 | <u>100.0%</u> |

| <b>Distribution by Coupon</b> | <b>IG</b>     | <b>Distribution by Sector</b>     | <b>IG</b>     |
|-------------------------------|---------------|-----------------------------------|---------------|
| 0.00% - 1.00%                 | 21.6%         | Cash/Cash Equivalents             | 0.8%          |
| 1.01% - 2.00%                 | 7.8%          | U.S. Treasuries                   | 29.1%         |
| 2.01% - 3.00%                 | 27.1%         | Agency Debentures                 | 4.9%          |
| 3.01% - 4.00%                 | 34.1%         | Agency Mortgage-Backed Securities | 30.7%         |
| 4.01% - 5.00%                 | 7.8%          | Investment Grade Corporates       | 33.7%         |
| 5.01% - 6.00%                 | 1.3%          | High Yield Corporates             | <u>0.8%</u>   |
| 6.01% and over                | <u>0.3%</u>   | Total                             | <u>100.0%</u> |
| Total                         | <u>100.0%</u> | Total                             | <u>100.0%</u> |

**Top Ten Holdings**

The Dakota Cement Trust's internal Global Equity and internal Investment Grade portfolios' Top Ten Holdings as of June 30, 2019, are presented below.

| <b>Global Equity Company Holdings</b> | <b>% of Total</b> | <b>Investment Grade Corporates by Issuer</b> | <b>% of Total</b> |
|---------------------------------------|-------------------|--|-------------------|
| Microsoft Corp.                       | 3.8%              | Ontario (Province Of)                        | 2.4%              |
| Apple, Inc.                           | 3.3%              | Starbucks Corp.                              | 1.6%              |
| Alphabet, Inc.                        | 2.8%              | Alberta (Province Of)                        | 1.6%              |
| Berkshire Hathaway, Inc.              | 2.0%              | Walmart, Inc.                                | 1.3%              |
| Facebook, Inc.                        | 1.9%              | Dell Technologies, Inc.                      | 1.3%              |
| UnitedHealth Group, Inc.              | 1.7%              | Philip Morris International, Inc.            | 1.2%              |
| Wells Fargo & Co.                     | 1.6%              | Morgan Stanley                               | 1.2%              |
| Citigroup, Inc.                       | 1.5%              | BP plc                                       | 1.2%              |
| BP plc                                | 1.3%              | Quebec (Province Of)                         | 1.2%              |
| Nestle SA                             | <u>1.3%</u>       | Tyson Foods, Inc.                            | <u>1.1%</u>       |
| Total                                 | <u>21.2%</u>      | Total  | <u>14.1%</u>      |

# EDUCATION ENHANCEMENT TRUST

## THE FUND

The Education Enhancement Trust Fund (EET) was established under the Constitution through a Joint Resolution submitted to South Dakota citizens at a special election on April 10, 2001. Article XII §6 provided that any funds received as of July 1, 2001, and thereafter pursuant to the Master Settlement Agreement entered into on November 23, 1998, by the State of South Dakota and major United States tobacco product manufacturers or the net proceeds of any sale or securitization of rights to receive payments pursuant to the Master Settlement Agreement, any fund in the youth-at-risk trust fund, and any funds appropriated to EET thereafter are placed in EET. During fiscal year 2013, \$3 million was placed in the fund for scholarship purposes per Senate Bills 233 and 237. During fiscal year 2016, \$3.5 million was placed in the fund for scholarship purposes per Senate Bill 67. The constitution directs the South Dakota Investment Council (Council) to invest the trust funds in stocks, bonds, mutual funds, and other financial instruments as provided by law. South Dakota Codified Law (SDCL) 10-50B-11.1 states that the provisions of SDCL 4-5-27, prudent-man standard, govern the moneys in the trust.

Each year the state treasurer is directed to distribute from the trust fund to the general fund an amount appropriated by law for education enhancement programs. The distribution is defined in SDCL 4-5-29.2. The state investment officer shall determine the sixteen-quarter average market value of the fund as of December 31 and calculate an amount equal to 4%, without invading principal, that is eligible for distribution at the beginning of the next fiscal year. The fund principal may not be diverted for other purposes unless appropriated by a three-fourths vote of all the members-elect of each house of the Legislature.

### SECURITIZATION

On September 24, 2002, the fund was increased by net proceeds of \$243,596,553.31 from Tobacco Settlement Asset-Backed Bonds. In fiscal year 2013, the 2002 Bonds were refunded and new bonds were issued with a lower interest rate. The Bonds mature over time as payments from the Master Settlement Agreement are received with a final maturity date of June 1, 2027.

## OBJECTIVES AND COMPONENTS

The objectives of EET are to 1) provide a distribution of 4% of market value and 2) promote inflation-adjusted growth of the fund and a steadily growing distribution amount.

EET assets were invested in diversified portfolios during fiscal year 2019, as shown on the following page. The tax-exempt municipal bonds are invested per the requirements of the bond indenture for the asset-backed securitization. PIMCO Asset Management manages the tax-exempt portfolio. As the tax-exempt bonds are redeemed, assets are deallocated (removed) from the tax-exempt portfolio and placed into the taxable portfolio to generate higher expected returns. Since the inception of the fund, the Council has shifted the asset allocation to be more like that of the South Dakota Retirement System.

The long-term expected return of the fund as of June 30, 2019, was 6.0% with a volatility of 13.9%. The return in any given year is expected to fall within a range of (8.0%) to 19.9% with 66% confidence or (21.9%) to 33.8% with 95% confidence.

## INVESTMENT PERFORMANCE - FISCAL YEAR 2019

The fund ended fiscal year 2019 with a fair value of \$621,227,029, principal value of \$403,606,621, and inflation-adjusted principal of \$542,486,518. EET's fiscal year total return, including realized and unrealized gains and losses and accrued income, was 5.6% net of fees. The Capital Markets Benchmark<sup>17</sup> return was 8.5%. The difference relative to the benchmark resulted from underperformance of global equities, real estate and private equity limited partnerships, and asset allocation. The ten-year annualized total return was 9.6%. This compares with the ten-year Capital Markets Benchmark<sup>17</sup> return of 9.2%. The fund's return has been impacted by the required use of tax-exempt securities. In July 2019, the fund distributed 4% of the sixteen-quarter average market value as of December 31, 2018, totaling \$21,334,593, to the general fund for education expenditures. Since inception, the fund has distributed \$261.97 million.

### Cash Flows and Fair Value Changes

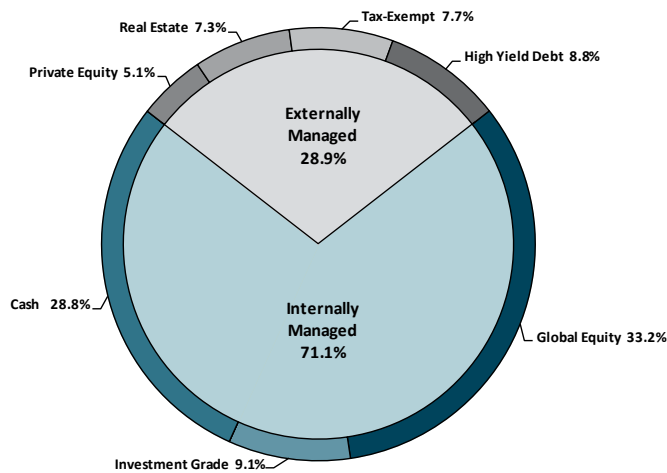
*The Education Enhancement Trust Fund began fiscal year 2019 with \$602.6 million in assets. During the fiscal year, net contributions/withdrawals and fees decreased the fund by \$16.2 million and investment income increased it by \$34.8 million, resulting in an ending fair value of \$621.2 million.*

|                                |                    |                       |
|--------------------------------|--------------------|-----------------------|
| <b>Fair Value 6/30/18</b>      |                    | \$ 602,643,318        |
| <b>Increases/Decreases</b>     |                    |                       |
| Net Contributions/Withdrawals  | \$ (14,058,785)    |                       |
| Internal Management Fees       | (529,138)          |                       |
| External Management Fees       | <u>(1,618,009)</u> |                       |
| Total Increases/Decreases      |                    | \$ (16,205,932)       |
| <b>Investment Income</b>       |                    |                       |
| Securities Income              |                    |                       |
| Interest Income                | \$ 9,458,226       |                       |
| Dividend Income                | 4,946,133          |                       |
| Securities Lending Income      | 10,641             |                       |
| Real Estate Income             | 1,930,348          |                       |
| Change in Accrued Income       | <u>279,596</u>     |                       |
| Total Securities Income        |                    | \$ 16,624,944         |
| Total Capital Gain/Loss Income |                    | <u>\$ 18,164,699</u>  |
| Total Investment Income        |                    | <u>\$ 34,789,643</u>  |
| <b>Fair Value 6/30/19</b>      |                    | <u>\$ 621,227,029</u> |

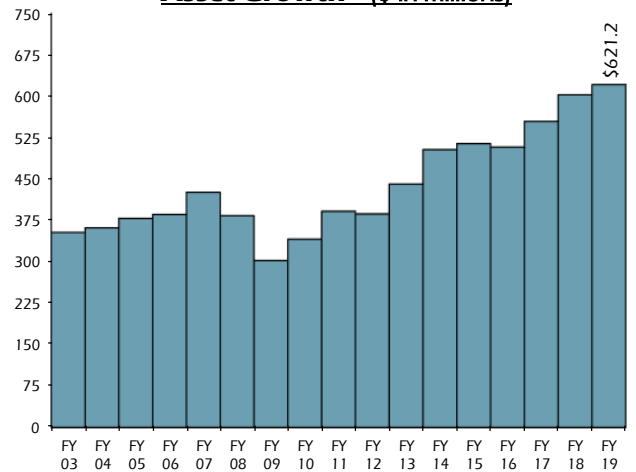
**Asset Allocation<sup>8</sup>**

As of June 30, 2019, Education Enhancement Trust's assets totaled \$621.2 million. The broad asset categories and managers are listed below. The Capital Markets Benchmark allocation is also provided for comparison.

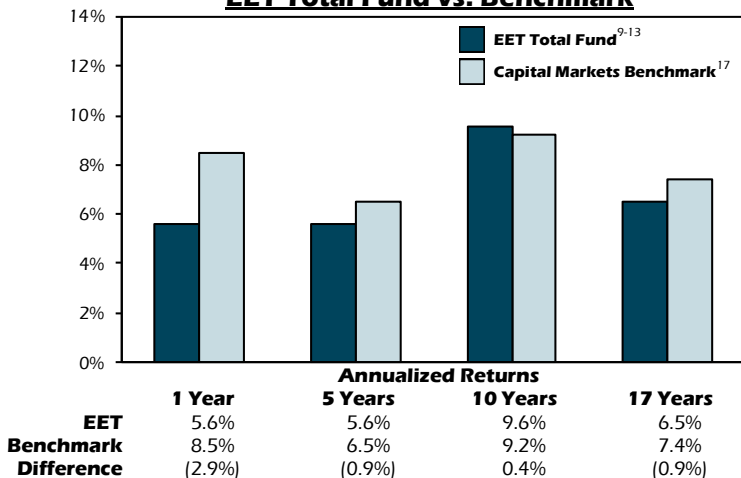
|   | <b>Fair Value</b>     |                      | <b>% of Fund</b> | <b>Capital Markets Benchmark %</b> |
|---|-----------------------|----------------------|------------------|------------------------------------|
| <b>Global Equity</b>                                  |                       |                      |                  |                                    |
| Internal Global Equity                                | \$ 201,357,648        |                      | 32.4%            |                                    |
| Internal Global Emerging Markets                      | <u>4,833,109</u>      | \$206,190,757        | <u>0.8%</u>      | 33.2%                              |
| <b>Private Equity</b>                                 |                       |                      |                  |                                    |
| Blackstone Capital Partners                           | \$ 3,833,928          |                      | 0.7%             |                                    |
| Carlyle   | 4,265,267             |                      | 0.7%             |                                    |
| Cinven  | 3,031,917             |                      | 0.5%             |                                    |
| CVC   | 1,103,318             |                      | 0.2%             |                                    |
| Doughty Hanson  | 99,427                |                      | 0.0%             |                                    |
| Riverstone  | 5,229,139             |                      | 0.8%             |                                    |
| Silver Lake   | <u>13,825,558</u>     | 31,388,554           | <u>2.2%</u>      | 5.1%                               |
| <b>Real Estate</b>                                    |                       |                      |                  |                                    |
| Blackstone Real Estate Partners                       | \$ 30,822,507         |                      | 5.0%             |                                    |
| Cargill N.A. Real Estate Partners                     | 1,351                 |                      | 0.0%             |                                    |
| Lone Star   | 6,115,216             |                      | 1.0%             |                                    |
| Rockpoint   | 5,070,295             |                      | 0.8%             |                                    |
| Starwood  | <u>3,141,249</u>      | 45,150,618           | <u>0.5%</u>      | 7.3%                               |
| <b>Investment Grade &amp; Tax-Exempt Fixed Income</b> |                       |                      |                  |                                    |
| Internal Investment Grade                             | \$ 56,613,294         |                      | 9.1%             |                                    |
| PIMCO Tax-Exempt Portfolio                            | <u>48,029,917</u>     | 104,643,211          | <u>7.7%</u>      | 16.8%                              |
| <b>High Yield Debt (Corporate &amp; Real Estate)</b>  |                       |                      |                  |                                    |
| Vanguard High Yield Fund                              | \$ 23,911,972         |                      | 3.8%             |                                    |
| CarVal  | 181,008               |                      | 0.0%             |                                    |
| TCW   | <u>30,997,811</u>     | 55,090,791           | <u>5.0%</u>      | 8.8%                               |
| <b>Cash &amp; Cash Equivalents</b>                    |                       |                      |                  |                                    |
| Internal Cash Account                                 | <u>\$ 178,763,098</u> | <u>178,763,098</u>   | <u>28.8%</u>     | <u>28.8%</u>                       |
| <b>Total</b>  |                       | <u>\$621,227,029</u> | <u>100.0%</u>    | <u>100.0%</u>                      |



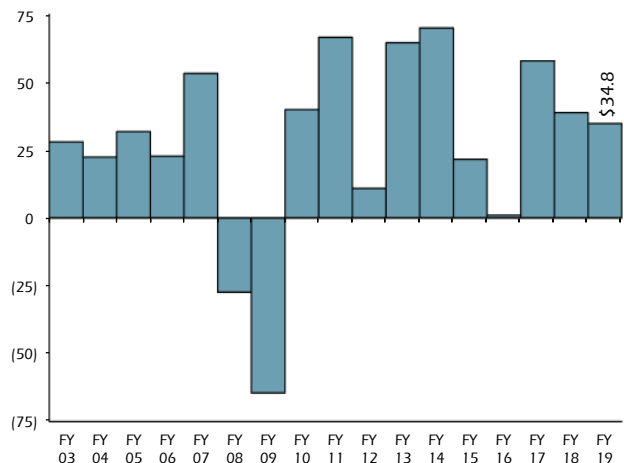
**Asset Growth<sup>23</sup> (\$ in millions)**



**EET Total Fund vs. Benchmark**



**Investment Income<sup>24</sup> (\$ in millions)**



**Internal Global Equity Profile**

The Education Enhancement Trust's internal Global Equity portfolio characteristics as of June 30, 2019, are presented below.

| <b>Distribution by Market Sector</b> | <b>%</b>      | <b>Five Largest Country Weights</b> | <b>% of Total</b> |
|--------------------------------------|---------------|-------------------------------------|-------------------|
| Consumer Discretionary               | 10.0%         | United States                       | 73.5%             |
| Consumer Staples                     | 7.1%          | Great Britain                       | 4.9%              |
| Energy                               | 11.7%         | Switzerland                         | 4.9%              |
| Financials                           | 18.6%         | Germany                             | 3.7%              |
| Health Care                          | 17.3%         | Japan                               | <u>2.8%</u>       |
| Industrials                          | 5.7%          |                                     |                   |
| Information Technology               | 15.3%         | Total                               | <u>89.8%</u>      |
| Materials                            | 3.3%          |                                     |                   |
| Real Estate                          | 0.9%          |                                     |                   |
| Telecommunications Services          | 9.2%          |                                     |                   |
| Utilities                            | 0.9%          |                                     |                   |
| Cash Equivalents                     | <u>0.0%</u>   |                                     |                   |
| Total                                | <u>100.0%</u> |                                     |                   |

**Internal Bond Profiles**

The Education Enhancement Trust's internal Investment Grade (IG) bond portfolio characteristics as of June 30, 2019, are presented below.

| <b>Distribution by Duration</b> | <b>IG</b>     | <b>Distribution by Quality Rating</b> | <b>IG</b>     |
|---------------------------------|---------------|---------------------------------------|---------------|
| 0 to 2 Years                    | 2.1%          | U.S. Gov't/Aaa                        | 66.2%         |
| 2 to 3 Years                    | 8.5%          | Aa                                    | 8.6%          |
| 3 to 4 Years                    | 19.6%         | A                                     | 12.9%         |
| 4 to 5 Years                    | 20.5%         | Baa                                   | 11.5%         |
| 5 to 6 Years                    | 10.5%         | Ba                                    | 0.8%          |
| 6 to 8 Years                    | 22.5%         | B                                     | 0.0%          |
| Above 8 Years                   | <u>16.3%</u>  | Caa and lower                         | <u>0.0%</u>   |
| Total                           | <u>100.0%</u> | Total                                 | <u>100.0%</u> |

| <b>Distribution by Coupon</b> | <b>IG</b>     | <b>Distribution by Sector</b>     | <b>IG</b>     |
|-------------------------------|---------------|-----------------------------------|---------------|
| 0.00% - 1.00%                 | 21.8%         | Cash/Cash Equivalents             | 1.0%          |
| 1.01% - 2.00%                 | 7.8%          | U.S. Treasuries                   | 29.1%         |
| 2.01% - 3.00%                 | 27.1%         | Agency Debentures                 | 4.9%          |
| 3.01% - 4.00%                 | 33.9%         | Agency Mortgage-Backed Securities | 30.5%         |
| 4.01% - 5.00%                 | 8.3%          | Investment Grade Corporates       | 33.7%         |
| 5.01% - 6.00%                 | 0.9%          | High Yield Corporates             | <u>0.8%</u>   |
| 6.01% and over                | <u>0.2%</u>   |                                   |               |
| Total                         | <u>100.0%</u> | Total                             | <u>100.0%</u> |

**Top Ten Holdings**

The Education Enhancement Trust's internal Global Equity and internal Investment Grade portfolios' Top Ten Holdings as of June 30, 2019, are presented below.

| <b>Global Equity Company Holdings</b> | <b>% of Total</b> | <b>Investment Grade Corporates by Issuer</b> | <b>% of Total</b> |
|---------------------------------------|-------------------|--|-------------------|
| Microsoft Corp.                       | 3.8%              | Ontario (Province Of)                        | 2.4%              |
| Apple, Inc.                           | 3.3%              | Starbucks Corp.                              | 1.6%              |
| Alphabet, Inc.                        | 2.7%              | Alberta (Province Of)                        | 1.6%              |
| Berkshire Hathaway, Inc.              | 2.0%              | Walmart, Inc.                                | 1.3%              |
| Facebook, Inc.                        | 1.9%              | Dell Technologies, Inc.                      | 1.3%              |
| UnitedHealth Group, Inc.              | 1.7%              | Philip Morris International, Inc.            | 1.2%              |
| Wells Fargo & Co.                     | 1.6%              | Morgan Stanley                               | 1.2%              |
| Citigroup, Inc.                       | 1.5%              | BP plc                                       | 1.2%              |
| BP plc                                | 1.4%              | Quebec (Province Of)                         | 1.2%              |
| Walt Disney Co.                       | <u>1.3%</u>       | Tyson Foods, Inc.                            | <u>1.1%</u>       |
| Total                                 | <u>21.2%</u>      | Total  | <u>14.1%</u>      |

## THE FUND

The Health Care Trust Fund (HCT) was established under the Constitution through a Joint Resolution submitted to South Dakota citizens at a special election on April 10, 2001. Article XII §5 provided that any funds on deposit in the intergovernmental transfer fund as of July 1, 2001, and any funds appropriated to HCT thereafter are placed in HCT. The constitutional change directed the South Dakota Investment Council (Council) to invest the trust fund in stocks, bonds, mutual funds, and other financial instruments as provided by law. South Dakota Codified Law (SDCL) 28-6-33 states that the provisions of SDCL 4-5-27, prudent-man standard, govern the moneys in the trust.

Each year the state treasurer is directed to distribute from the trust fund to the general fund an amount appropriated by law for health care related programs. The distribution is defined in SDCL 4-5-29.1. The state investment officer shall determine the sixteen-quarter average market value of the fund as of December 31 and calculate an amount equal to 4%, without invading principal, that is eligible for distribution at the beginning of the next fiscal year. The fund principal may not be diverted for other purposes unless appropriated by a three-fourths vote of all the members-elect of each house of the Legislature.

## OBJECTIVES AND COMPONENTS

The objectives of HCT are to 1) provide a distribution of 4% of market value and 2) promote inflation-adjusted growth of the fund and a steadily growing distribution amount.

HCT assets were invested in diversified portfolios during fiscal year 2019, as shown on the following page. Since the inception of the fund, the Council has shifted the asset allocation to be more like that of the South Dakota Retirement System.

The long-term expected return of the fund as of June 30, 2019, was 6.06% with a volatility of 13.9%. This means that the return in any given year is expected to fall within a range of (7.9%) to 20.0% with 66% confidence or (21.8%) to 33.9% with 95% confidence.

## INVESTMENT PERFORMANCE - FISCAL YEAR 2019

The fund ended fiscal year 2019 with a fair value of \$150,272,736, principal value of \$85,631,024, and inflation-adjusted principal of \$120,690,948. HCT's fiscal year total return, including realized and unrealized gains and losses and accrued income, was 6.0% net of fees. The Capital Markets Benchmark<sup>18</sup> return was 8.6%. The difference relative to the benchmark resulted from underperformance of global equities, real estate and private equity limited partnerships, and asset allocation. The ten-year annualized total return was 9.9%. This compares with the ten-year Capital Markets Benchmark<sup>18</sup> return of 9.1%. In July 2019, the fund distributed 4% of the sixteen-quarter average market value as of December 31, 2018, totaling \$5,520,073, to the general fund for health care related expenditures. Since inception, the fund has distributed \$70.27 million.

### Cash Flows and Fair Value Changes

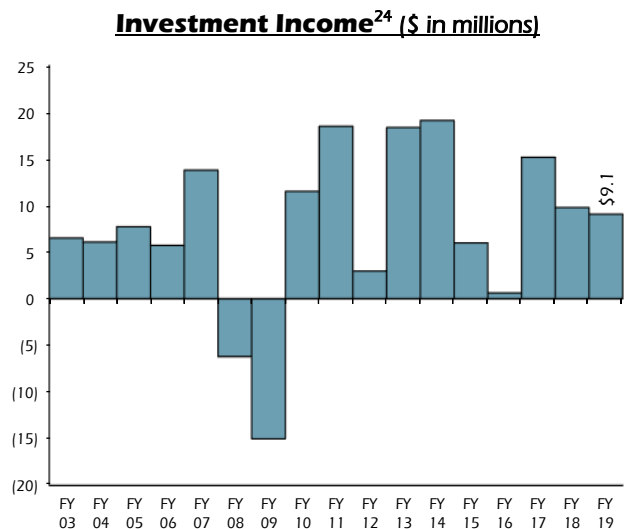
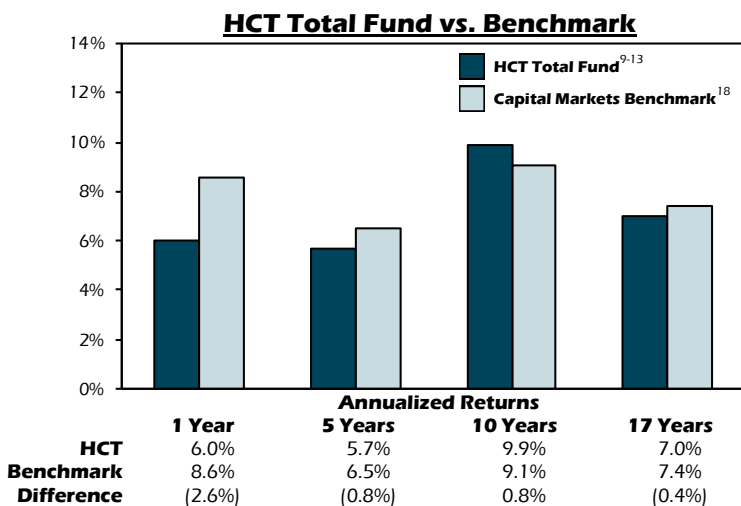
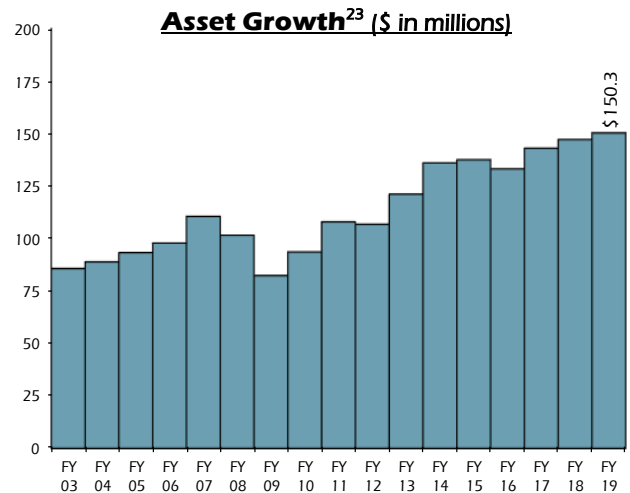
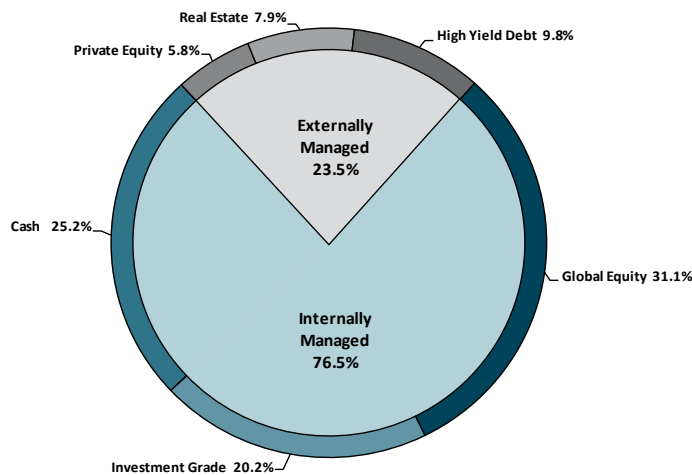
*The Health Care Trust Fund began fiscal year 2019 with \$147.1 million in assets. During the fiscal year, net contributions/withdrawals and fees decreased the fund by \$5.9 million and investment income increased it by \$9.1 million, resulting in an ending fair value of \$150.3 million.*

|                                |                     |                       |
|--------------------------------|---------------------|-----------------------|
| <b>Fair Value 6/30/18</b>      |                     | \$ 147,135,167        |
| <b>Increases/Decreases</b>     |                     |                       |
| Net Contributions/Withdrawals  | \$ (5,414,857)      |                       |
| Internal Management Fees       | (134,880)           |                       |
| External Management Fees       | <u>(380,581)</u>    |                       |
| Total Increases/Decreases      |                     | \$ (5,930,318)        |
| <b>Investment Income</b>       |                     |                       |
| Securities Income              |                     |                       |
| Interest Income                | \$ 2,182,389        |                       |
| Dividend Income                | 1,151,421           |                       |
| Securities Lending Income      | 2,469               |                       |
| Real Estate Income             | 533,692             |                       |
| Change in Accrued Income       | <u>42,024</u>       |                       |
| Total Securities Income        | \$ 3,911,995        |                       |
| Total Capital Gain/Loss Income | <u>\$ 5,155,892</u> |                       |
| Total Investment Income        |                     | <u>\$ 9,067,887</u>   |
| <b>Fair Value 6/30/19</b>      |                     | <u>\$ 150,272,736</u> |

**Asset Allocation<sup>8</sup>**

As of June 30, 2019, Health Care Trust's assets totaled \$150.3 million. The broad asset categories and managers are listed below. The Capital Markets Benchmark allocation is also provided for comparison.

|  | <u>Fair Value</u>    |                      | <u>% of Fund</u> | <u>Capital Markets Benchmark %</u> |
|--|----------------------|----------------------|------------------|------------------------------------|
| <b>Global Equity</b>                                 |                      |                      |                  |                                    |
| Internal Global Equity                               | \$ 45,393,450        |                      | 30.2%            |                                    |
| Internal Global Emerging Markets                     | <u>1,278,877</u>     | \$ 46,672,327        | <u>0.9%</u>      | 31.1%                              |
| <b>Private Equity</b>                                |                      |                      |                  |                                    |
| Blackstone Capital Partners                          | \$ 1,214,702         |                      | 0.9%             |                                    |
| Carlyle  | 1,179,753            |                      | 0.8%             |                                    |
| Cinven   | 774,118              |                      | 0.5%             |                                    |
| CVC  | 281,238              |                      | 0.2%             |                                    |
| Doughty Hanson                                       | 25,212               |                      | 0.0%             |                                    |
| Riverstone   | 1,420,954            |                      | 0.9%             |                                    |
| Silver Lake  | <u>3,783,932</u>     | 8,679,909            | <u>2.5%</u>      | 5.8%                               |
| <b>Real Estate</b>                                   |                      |                      |                  |                                    |
| Blackstone Real Estate Partners                      | \$ 8,087,733         |                      | 5.4%             |                                    |
| Cargill N.A. Real Estate Partners                    | 338                  |                      | 0.0%             |                                    |
| Lone Star  | 1,573,994            |                      | 1.0%             |                                    |
| Rockpoint  | 1,289,057            |                      | 0.8%             |                                    |
| Starwood   | <u>993,267</u>       | 11,944,389           | <u>0.7%</u>      | 7.9%                               |
| <b>Investment Grade Fixed Income</b>                 |                      |                      |                  |                                    |
| Internal Investment Grade                            | \$ <u>30,377,786</u> | 30,377,786           | <u>20.2%</u>     | 20.2%                              |
| <b>High Yield Debt (Corporate &amp; Real Estate)</b> |                      |                      |                  |                                    |
| Vanguard High Yield Fund                             | \$ 6,158,849         |                      | 4.1%             |                                    |
| CarVal   | 45,895               |                      | 0.0%             |                                    |
| TCW  | <u>8,495,614</u>     | 14,700,358           | <u>5.7%</u>      | 9.8%                               |
| <b>Cash &amp; Cash Equivalents</b>                   |                      |                      |                  |                                    |
| Internal Cash Account                                | \$ <u>37,897,967</u> | <u>37,897,967</u>    | <u>25.2%</u>     | <u>25.2%</u>                       |
| <b>Total</b>   |                      | <u>\$150,272,736</u> | <u>100.0%</u>    | <u>100.0%</u>                      |



**Internal Global Equity Profile**

The Health Care Trust's internal Global Equity portfolio characteristics as of June 30, 2019, are presented below.

| <b>Distribution by Market Sector</b> | <b>%</b>      | <b>Five Largest Country Weights</b> | <b>% of Total</b> |
|--------------------------------------|---------------|-------------------------------------|-------------------|
| Consumer Discretionary               | 10.0%         | United States                       | 73.1%             |
| Consumer Staples                     | 7.2%          | Switzerland                         | 5.1%              |
| Energy                               | 11.8%         | Great Britain                       | 5.0%              |
| Financials                           | 18.5%         | Germany                             | 3.7%              |
| Health Care                          | 17.3%         | Japan                               | <u>2.9%</u>       |
| Industrials                          | 5.7%          |                                     |                   |
| Information Technology               | 15.2%         | Total                               | <u>89.8%</u>      |
| Materials                            | 3.3%          |                                     |                   |
| Real Estate                          | 0.9%          |                                     |                   |
| Telecommunications Services          | 9.2%          |                                     |                   |
| Utilities                            | 0.9%          |                                     |                   |
| Cash Equivalents                     | <u>0.0%</u>   |                                     |                   |
| Total                                | <u>100.0%</u> |                                     |                   |

**Internal Bond Profiles**

The Health Care Trust's internal Investment Grade (IG) bond portfolio characteristics as of June 30, 2019, are presented below.

| <b>Distribution by Duration</b> | <b>IG</b>     | <b>Distribution by Quality Rating</b> | <b>IG</b>     |
|---------------------------------|---------------|---------------------------------------|---------------|
| 0 to 2 Years                    | 2.3%          | U.S. Gov't/Aaa                        | 66.2%         |
| 2 to 3 Years                    | 8.5%          | Aa                                    | 8.6%          |
| 3 to 4 Years                    | 19.7%         | A                                     | 12.9%         |
| 4 to 5 Years                    | 20.3%         | Baa                                   | 11.5%         |
| 5 to 6 Years                    | 10.3%         | Ba                                    | 0.8%          |
| 6 to 8 Years                    | 22.5%         | B                                     | 0.0%          |
| Above 8 Years                   | <u>16.4%</u>  | Caa and lower                         | <u>0.0%</u>   |
| Total                           | <u>100.0%</u> | Total                                 | <u>100.0%</u> |

| <b>Distribution by Coupon</b> | <b>IG</b>     | <b>Distribution by Sector</b>     | <b>IG</b>     |
|-------------------------------|---------------|-----------------------------------|---------------|
| 0.00% - 1.00%                 | 22.0%         | Cash/Cash Equivalents             | 1.2%          |
| 1.01% - 2.00%                 | 7.8%          | U.S. Treasuries                   | 29.1%         |
| 2.01% - 3.00%                 | 27.1%         | Agency Debentures                 | 4.9%          |
| 3.01% - 4.00%                 | 33.9%         | Agency Mortgage-Backed Securities | 30.3%         |
| 4.01% - 5.00%                 | 7.9%          | Investment Grade Corporates       | 33.7%         |
| 5.01% - 6.00%                 | 1.1%          | High Yield Corporates             | <u>0.8%</u>   |
| 6.01% and over                | <u>0.2%</u>   |                                   |               |
| Total                         | <u>100.0%</u> | Total                             | <u>100.0%</u> |

**Top Ten Holdings**

The Health Care Trust's internal Global Equity and internal Investment Grade portfolios' Top Ten Holdings as of June 30, 2019, are presented below.

| <b>Global Equity Company Holdings</b> | <b>% of Total</b> | <b>Investment Grade Corporates by Issuer</b> | <b>% of Total</b> |
|---------------------------------------|-------------------|--|-------------------|
| Microsoft Corp.                       | 3.7%              | Ontario (Province Of)                        | 2.4%              |
| Apple, Inc.                           | 3.2%              | Starbucks Corp.                              | 1.6%              |
| Alphabet, Inc.                        | 2.7%              | Alberta (Province Of)                        | 1.6%              |
| Facebook, Inc.                        | 2.0%              | Dell Technologies, Inc.                      | 1.3%              |
| Berkshire Hathaway, Inc.              | 1.9%              | Walmart, Inc.                                | 1.3%              |
| UnitedHealth Group, Inc.              | 1.6%              | Philip Morris International, Inc.            | 1.2%              |
| Wells Fargo & Co.                     | 1.6%              | Morgan Stanley                               | 1.2%              |
| Citigroup, Inc.                       | 1.4%              | BP plc                                       | 1.2%              |
| BP plc                                | 1.4%              | Quebec (Province Of)                         | 1.2%              |
| Samsung Electronics Co., Ltd.         | <u>1.3%</u>       | Tyson Foods, Inc.                            | <u>1.1%</u>       |
| Total                                 | <u>20.8%</u>      | Total  | <u>14.1%</u>      |



## HIGHER EDUCATION SAVINGS PLAN

In 2001, the Legislature assigned the South Dakota Investment Council (Council) the responsibility of establishing South Dakota's Higher Education Savings Plan. The Legislature took advantage of federal tax law changes made in 1996 regarding the Internal Revenue Code Section 529 qualified tuition programs. These changes created significant incentives for a new investment vehicle for those attempting to save for future higher education costs.

In November 2001, the Council selected Allianz Global Investors Distributors LLC (formerly PIMCO Funds Distributors LLC) as the program manager for the Section 529 program from seven candidates. Significant negotiations led to a unique "Best of Breed" multi-manager higher education savings plan. South Dakota's plan is entitled *CollegeAccess 529 Plan*. In 2007, the contract with Allianz Global Investors Distributors LLC (Allianz) was renegotiated with substantially the same terms as the original contract. The new seven year contract was signed on December 11, 2007. In 2014, the existing contract was extended to December 1, 2021. Contributions from every state and several countries have generated growth of Plan assets to over \$1 billion on June 30, 2019.

The Council and Allianz worked together to create a flexible 529 plan that would have special advantages for South Dakota citizens. This was accomplished by offering several investment choices for South Dakota residents investing directly (i.e. without a financial advisor) at a maximum total annual cost no greater than 0.65%. The Age-Based Investment Portfolios use shifting asset allocations based on the designated account beneficiary's age. A diversified group of nine investment portfolios is designed to emphasize total return and capital appreciation when the beneficiary is younger and increasingly emphasize preservation of capital and income as the beneficiary approaches college age. The total annual operating expense ratios for South Dakotans investing directly in the age-based portfolios ranged from 0.46% to 0.54% last year.

Account owners can also invest directly in two individual investment portfolios: the PIMCO All Asset Fund and the PIMCO Real Return Fund. The PIMCO Real Return Fund emphasizes the preservation of capital through investing primarily in high credit quality fixed income instruments and inflation-indexed bonds with minimum volatility, while seeking returns higher than those generally offered by short-term funds. The total annual operating expense ratio for last year was 0.65% for South Dakota residents investing directly in the portfolio. The PIMCO All Asset Fund emphasizes maximum real return (total return less inflation) by utilizing a dynamic asset allocation approach to invest in a portfolio of mutual funds managed by PIMCO. The total annual operating expense ratio for last year was 0.65% for South Dakota residents. South Dakota residents can also invest directly in a multi-fund customized investment portfolio called the Diversified Bond Portfolio. This portfolio seeks to maximize total return through two or more core bond funds. The total annual operating expense ratio for last year was 0.47% for South Dakota residents.

In addition to the opportunity for South Dakotans to invest directly at a low cost, nine age-based portfolios, twelve individual mutual fund choices, and three customized investment portfolios are available to South Dakota investors as well as to investors nationwide. These selections can be accessed by using the services of a financial advisor. Although all investors will encounter a fee when investing with the assistance of a financial advisor, South Dakota residents do not pay the annual account maintenance fee, which is currently \$20, or the annual program management fee of 0.25%.

## SCHOLARSHIP PROGRAM

The negotiations that led to the selection of Allianz included a scholarship opportunity for South Dakota's outstanding high school seniors. For each of the first three years of the scholarship program, Allianz guaranteed funding for 70 \$2,000 four-year scholarships, totaling \$8,000 each. Additionally, over 500 \$1,500 one-time scholarships were awarded. Starting with fiscal year 2005, the availability of funding for the scholarship program has been dependent upon the amount of assets in South Dakota's *CollegeAccess 529 Plan*. In total, 279 \$2,000 four-year scholarships, 70 \$2,000 two-year scholarships, and 564 \$1,500 one-time scholarships were awarded over the first six years of the Allianz South Dakota Scholarship Program.

When the Allianz South Dakota Scholarship Program began in 2002, there were no other state scholarship programs available. Currently, the state has other programs with the infrastructure necessary to administer a quality scholarship program. Since fiscal year 2007, scholarship funds totaling \$15,792,539 have been directed from Allianz to the Dakota Corps Scholarship Fund. Based on the assets as of June 30, 2019, and the scholarship funding formula, the resulting 2019 contribution was \$1,187,352. The Allianz program and the Dakota Corps programs share a common goal of keeping our talented young people in the state in order to foster South Dakota's economic well-being. The Dakota Corps program is unique because it is geared toward students who plan to work toward a degree in a critical need occupation in South Dakota. To be eligible, students must meet academic requirements and attend a participating South Dakota post-secondary institution. The scholarship recipients must agree in writing to stay in South Dakota and work in a critical need occupation after graduation for as many years as the scholarship was received, plus one year. These students receive four-year scholarships equal to tuition and fees for 16 credit hours per semester at a public South Dakota college, public technical college, or tribal college. The scholarship amount for attendance at a participating private college in South Dakota would be the same amount that would be paid at a public South Dakota college, with the college covering the remaining tuition and fees if needed. A description of the program can be found at <https://www.sdbor.edu/dakotacorps/>.

## ANNUAL REPORT

Each year the Council is required by law to submit an annual report letter by February 1. This letter is to go to the Governor, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate. The letter, dated January 31, 2019, can be found in the Appendix on the following page.

## MORE INFORMATION

Extensive information on this higher education savings program can be found at the following websites: [www.CollegeAccess529.com](http://www.CollegeAccess529.com) or [www.SouthDakota529.com](http://www.SouthDakota529.com). A major section of the website has been custom-developed for South Dakota residents.



## **SOUTH DAKOTA INVESTMENT COUNCIL**

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

January 31, 2019

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

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

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

Dear Governor Noem, Speaker Haugaard and President Pro Tempore Greenfield:

We are pleased to submit our eighteenth annual report on the Higher Education Savings Program as required by South Dakota Codified Laws, Chapter 13-63, originally passed into law by the Legislature in 2001.

The CollegeAccess 529 Plan was implemented by the Investment 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. Allianz Global Investors Distributors LLC (AGID), originally known as PIMCO Funds Distributors LLC, was selected by the Council to manage, invest, market, and administer the plan. AGID is a part of the Allianz Group, which is a global financial services leader with lengthy corporate history and a presence in more than 70 countries.

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 product offering from the PIMCO family of funds, the Allianz family of funds and funds from 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.

January 31, 2019  
Page 2

The plan is available to South Dakotans, either through qualified financial advisors or directly by calling toll-free (1-866-529-7462) or visiting the web site [www.southdakota529.com](http://www.southdakota529.com). As of December 31, 2018, the plan had assets of \$957,203,008, down 13% from last year. For the most recent full program year (calendar year 2018), returns for South Dakota direct investment age-based alternatives ranged from -10.8% for the Age-Based 0-8 Portfolio to .53% for the Diversified Bond Portfolio.

Of the 20 mutual funds utilized by the plan and rated by Morningstar, 55 percent have an overall rating of 4 or 5 stars, with 5 being the highest possible rating. Additionally, 9 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. The Funds have been provided as part of the agreement with Allianz, the program manager. 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.

In 2007, the Council investigated alternatives to the original scholarship program. With input from former Governor Rounds and approval by the LRC Executive Board, the Council began to direct scholarship monies generated through the relationship with Allianz to The Dakota Corps Scholarship Program. The amount contributed to The Dakota Corps Scholarship Program since 2007 total \$11.4 million. The amount provided in calendar year 2018 was \$1.2 million. This is down more than \$.5 million from 2017. The decline is due to the end of an Allianz contract with another state whose 529 assets were included in our scholarship calculation and from the negative impact of competition from index-based 529 programs.

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 their 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/>.

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

Sincerely,

*Lorin L. Brass*  
*Investment Council Chair*

*Matthew L. Clark, CFA*  
*State Investment Officer*

**SOUTH DAKOTA RETIREMENT SYSTEM  
INTERNALLY MANAGED**

|                                      | <u>Cost Value</u> | <u>Fair Value</u> |
|--------------------------------------|-------------------|-------------------|
| <b>Global Equity</b>                 |                   |                   |
| Microsoft Corp.                      | 1,082,828         | \$ 145,055,639    |
| Apple, Inc.                          | 709,836           | 140,490,741       |
| Facebook, Inc.                       | 443,650           | 85,624,450        |
| Berkshire Hathaway, Inc.             | 346,632           | 73,891,543        |
| Alphabet, Inc. - Cl. C               | 61,660            | 66,648,911        |
| Wells Fargo & Co.                    | 1,352,173         | 63,984,826        |
| UnitedHealth Group, Inc.             | 249,570           | 60,897,576        |
| Alphabet, Inc. - Cl. A               | 50,199            | 54,355,477        |
| Citigroup, Inc.                      | 761,061           | 53,297,102        |
| Nestle SA                            | 512,300           | 53,100,552        |
| Pfizer, Inc.                         | 1,200,425         | 52,002,411        |
| Samsung Electronics Co., Ltd.        | 1,262,250         | 51,379,855        |
| JPMorgan Chase & Co.                 | 459,509           | 51,373,106        |
| Walt Disney Co.                      | 349,671           | 48,828,058        |
| Schlumberger, Ltd.                   | 1,193,444         | 47,427,465        |
| Humana, Inc.                         | 172,463           | 45,754,434        |
| Novartis AG                          | 498,100           | 45,569,764        |
| Visa, Inc.                           | 258,900           | 44,932,095        |
| Gilead Sciences, Inc.                | 646,792           | 43,697,268        |
| Medtronic plc                        | 436,077           | 42,469,539        |
| U.S. Bancorp                         | 805,605           | 42,213,702        |
| Halliburton Co.                      | 1,853,102         | 42,139,539        |
| Roche Holding, Ltd.                  | 142,700           | 40,197,492        |
| Celgene Corp.                        | 430,220           | 39,769,537        |
| Johnson & Johnson                    | 282,885           | 39,400,223        |
| Amazon.com, Inc.                     | 20,065            | 37,995,686        |
| Wal-Mart, Inc.                       | 335,500           | 37,069,395        |
| Verizon Communications, Inc.         | 634,680           | 36,259,268        |
| Lennar Corp.                         | 735,100           | 35,622,946        |
| Cimarex Energy Co.                   | 596,087           | 35,365,842        |
| LyondellBasell Industries NV         | 391,500           | 33,719,895        |
| Noble Energy, Inc.                   | 1,504,498         | 33,700,755        |
| Comcast Corp.                        | 796,510           | 33,676,443        |
| Allergan plc                         | 200,900           | 33,636,687        |
| Canadian Natural Resources, Ltd.     | 1,173,600         | 31,712,122        |
| Oracle Corp.                         | 547,596           | 31,196,544        |
| Suncor Energy, Inc.                  | 974,700           | 30,469,864        |
| Intel Corp.                          | 628,909           | 30,105,874        |
| BP plc                               | 4,285,099         | 29,918,704        |
| Western Digital Corp.                | 588,000           | 27,959,400        |
| Anheuser Busch Inbev NV              | 313,406           | 27,781,632        |
| Hess Corp.                           | 436,417           | 27,743,029        |
| GlaxoSmithKline plc                  | 1,379,500         | 27,680,207        |
| Eastman Chemical Co.                 | 348,700           | 27,139,321        |
| Bank of America Corp.                | 924,552           | 26,812,008        |
| Applied Materials, Inc.              | 595,085           | 26,725,267        |
| SAP SE                               | 192,800           | 26,514,152        |
| Devon Energy Corp.                   | 907,835           | 25,891,454        |
| Barclays plc                         | 13,327,859        | 25,409,628        |
| AT&T, Inc.                           | 757,561           | 25,385,869        |
| Total Top 50 Securities              | \$ 1,574,048,975  | \$ 2,239,993,297  |
| Remaining Global Equity              | 2,442,191,929     | 2,619,541,723     |
| <b>Global Equity</b>                 | \$ 4,016,240,904  | \$ 4,859,535,020  |
| <b>Global Emerging Markets</b>       | \$ 378,988,778    | \$ 399,223,250    |
| <b>Small/Mid Equity</b>              | \$ 636,901,636    | \$ 654,446,235    |
| <b>Investment Grade Fixed Income</b> | \$ 1,069,229,733  | \$ 1,112,079,032  |
| <b>High Yield Fixed Income</b>       | \$ 500,199,966    | \$ 488,343,492    |
| <b>Shift Account</b>                 | \$ 1,794,041,986  | \$ 1,798,425,825  |
| <b>Total SDRS Internally Managed</b> | \$ 8,395,603,003  | \$ 9,312,052,854  |

**SOUTH DAKOTA RETIREMENT SYSTEM  
EXTERNALLY MANAGED**

|  | <u>Cost Value</u> | <u>Fair Value</u> |
|--|-------------------|-------------------|
| <b>Emerging Markets</b>                                    |                   |                   |
| Dimensional Emerging Markets Small Cap                     | \$ 14,949,080     | \$ 61,584,998     |
| Total Emerging Markets                                     | \$ 14,949,080     | \$ 61,584,998     |
| <b>Special Purpose Equity</b>                              |                   |                   |
| Brandes International Mid Cap Portfolio                    | \$ 70,545         | \$ 388,097        |
| Sanders Capital, L.L.C.                                    | 48,815,795        | 58,975,103        |
| Total Special Purpose Equity                               | \$ 48,886,340     | \$ 59,363,200     |
| <b>Private Equity</b>                                      |                   |                   |
| Blackstone Capital Partners IV & V, L.P.                   | \$ 7,440,543      | \$ 9,815,378      |
| Blackstone Capital Partners VI, L.P.                       | 50,846,364        | 86,936,204        |
| Blackstone Capital Partners VII, L.P.                      | 43,251,036        | 58,723,859        |
| Blackstone Energy Partners II, L.P.                        | 58,100,873        | 74,354,945        |
| Capital International Private Equity Fund IV & V, L.P.     | 7,852,800         | 637,532           |
| Capital International Private Equity Fund VI, L.P.         | 38,526,901        | 42,869,353        |
| Carlyle Partners IV & V, L.P.                              | 10,387,211        | 7,422,327         |
| Carlyle Partners VI, L.P.                                  | 80,356,587        | 91,204,108        |
| EnCap Energy Capital Fund XI, L.P.                         | 7,265,091         | 7,370,873         |
| The Fourth Cinven Fund                                     | 4,129,665         | 79,533            |
| The Fifth Cinven Fund                                      | 43,745,401        | 36,892,880        |
| The Sixth Cinven Fund                                      | 52,649,553        | 63,702,614        |
| CVC European Equity Partners IV, L.P.                      | 10,697,213        | 44,287            |
| CVC European Equity Partners V, L.P.                       | 30,153,807        | 14,655,831        |
| CVC Capital Partners VII, L.P.                             | 14,921,706        | 23,364,378        |
| Cypress Merchant Banking Partners II, L.P.                 | 26,315            | 26,315            |
| Doughty Hanson & Co. IV & V, L.P.                          | 3,806,350         | 1,812,554         |
| Elevation Partners, L.P.                                   | 288,267           | 96,628            |
| KKR European Fund II, L.P.                                 | 834,840           | 533,049           |
| PineBridge Capital Management Corp.                        | 5,322,335         | 3,319,317         |
| Riverstone/Carlyle Global Energy & Power Fund IV, L.P.     | 6,025,905         | 12,149,760        |
| Riverstone Global Energy & Power Fund V, L.P.              | 65,936,659        | 46,676,110        |
| Riverstone Global Energy & Power Fund VI, L.P.             | 99,123,874        | 85,257,753        |
| Silver Lake Partners II, L.P.                              | 9,668             | 595,700           |
| Silver Lake Partners III, L.P.                             | 12,518,852        | 24,086,788        |
| Silver Lake Partners IV, L.P.                              | 104,285,079       | 189,252,314       |
| Silver Lake Partners V, L.P.                               | 68,361,741        | 78,388,346        |
| Silver Lake Sumeru Fund, L.P.                              | 12,892,656        | 11,662,066        |
| Total Private Equity                                       | \$ 839,757,292    | \$ 971,930,802    |
| <b>Aggressive Absolute Return</b>                          |                   |                   |
| Bridgewater Pure Alpha Fund II, Ltd.                       | \$ 36,742,005     | \$ 96,025,726     |
| Sanders Capital All Asset Value Fund, L.P.                 | 28,909,856        | 33,673,721        |
| Total Aggressive Absolute Return                           | \$ 65,651,861     | \$ 129,699,447    |
| <b>Real Estate</b>   |                   |                   |
| Ares Management LLC  | \$ 5,158,015      | \$ 2,823,515      |
| Blackstone Real Estate Partners IV, L.P.                   | 62,132,712        | 7,634,392         |
| Blackstone Real Estate Partners V, L.P.                    | 17,455,547        | 22,157,610        |
| Blackstone Real Estate Partners VI, L.P.                   | 17,310,098        | 32,908,616        |
| Blackstone Real Estate Partners VII, L.P.                  | 30,028,546        | 46,432,517        |
| Blackstone Real Estate Partners VIII, L.P.                 | 210,492,110       | 296,916,288       |
| Blackstone Real Estate Partners International I & II, L.P. | 4,482,763         | 4,967,585         |
| Blackstone Real Estate Partners Europe III, L.P.           | 42,733,096        | 34,024,439        |
| Blackstone Real Estate Partners Europe V, L.P.             | 157,651,989       | 199,122,319       |
| Blackstone Real Estate Partners Asia II, L.P.              | 56,923,117        | 60,722,562        |
| Brookfield Strategic Real Estate Partners III              | 20,020,131        | 21,378,452        |
| North American Real Estate Partners II, L.P.               | 0                 | 19,443            |
| Doughty Hanson & Co. European Real Estate II, L.P.         | 442,225           | 700,170           |
| Lone Star Real Estate Fund II, L.P.                        | 5,686,158         | 4,099,233         |
| Lone Star Real Estate Fund III, L.P.                       | 21,143,651        | 20,903,520        |
| Lone Star Real Estate Fund IV, L.P.                        | 81,643,551        | 96,951,266        |
| Lone Star Real Estate Fund V, L.P.                         | 12,124,254        | 11,663,573        |
| Rockpoint Real Estate Fund IV, L.P.                        | 23,898,775        | 24,721,512        |
| Rockpoint Real Estate Fund V, L.P.                         | 86,444,630        | 107,421,515       |
| Starwood Distressed Opportunity Fund IX Global             | 14,553,578        | 17,412,137        |
| Starwood Distressed Opportunity Fund X Global              | 65,748,231        | 60,964,551        |
| Starwood Distressed Opportunity Fund XI Global             | 7,508,263         | 12,792,619        |
| Total Real Estate  | \$ 943,581,440    | \$ 1,086,737,834  |
| <b>High Yield Debt (Corporate &amp; Real Estate)</b>       |                   |                   |
| CVI Global Value Fund A, L.P.                              | \$ 27,247,784     | \$ 7,077,318      |
| TCW Opportunistic MBS Strategy                             | 745,008,190       | 831,541,061       |
| Total High Yield Debt                                      | \$ 772,255,974    | \$ 838,618,379    |
| <b>Total SDRS Externally Managed</b>                       | \$ 2,685,081,987  | \$ 3,147,934,660  |

**SCHOOL AND PUBLIC LANDS  
INTERNALLY MANAGED**

|                                      | <u>Cost Value</u>     | <u>Fair Value</u>     |
|--------------------------------------|-----------------------|-----------------------|
| <b>Global Equity</b>                 | \$ 90,643,689         | \$ 104,235,858        |
| <b>Global Emerging Markets</b>       | \$ 2,085,363          | \$ 2,657,274          |
| <b>Investment Grade Fixed Income</b> | \$ 53,611,157         | \$ 55,753,162         |
| <b>Cash Account</b>                  | \$ 83,263,948         | \$ 83,421,923         |
| <b>Total SPL Internally Managed</b>  | <u>\$ 229,604,157</u> | <u>\$ 246,068,217</u> |

**SCHOOL AND PUBLIC LANDS  
EXTERNALLY MANAGED**

|  | <u>Cost Value</u>    | <u>Fair Value</u>    |
|--|----------------------|----------------------|
| <b>Private Equity</b>                                  |                      |                      |
| Blackstone Capital Partners V, L.P.                    | \$ 101,382           | \$ 137,516           |
| Blackstone Capital Partners VI, L.P.                   | 656,732              | 1,122,726            |
| Blackstone Capital Partners VII, L.P.                  | 735,269              | 998,307              |
| Carlyle Partners VI, L.P.                              | 1,998,917            | 2,268,761            |
| The Sixth Cinven Fund                                  | 1,386,217            | 1,677,234            |
| CVC Capital Partners VII, L.P.                         | 373,043              | 584,110              |
| Doughty Hanson & Co. V, L.P.                           | 130,076              | 42,176               |
| Riverstone Global Energy & Power Fund VI, L.P.         | 3,171,966            | 2,728,250            |
| Silver Lake Partners III, L.P.                         | 296,730              | 570,915              |
| Silver Lake Partners IV, L.P.                          | 2,476,581            | 4,494,354            |
| Silver Lake Partners V, L.P.                           | 1,747,027            | 2,003,263            |
| Total Private Equity                                   | \$ 13,073,940        | \$ 16,627,612        |
| <b>Real Estate</b>                                     |                      |                      |
| Blackstone Real Estate Partners V, L.P.                | \$ 353,689           | \$ 448,981           |
| Blackstone Real Estate Partners VI, L.P.               | 338,065              | 642,718              |
| Blackstone Real Estate Partners VII, L.P.              | 647,381              | 1,001,037            |
| Blackstone Real Estate Partners VIII, L.P.             | 4,909,451            | 6,514,772            |
| Blackstone Real Estate Partners International II, L.P. | 120,512              | 171,719              |
| Blackstone Real Estate Partners Europe III, L.P.       | 1,031,973            | 821,662              |
| Blackstone Real Estate Partners Europe V, L.P.         | 4,096,377            | 5,173,929            |
| Blackstone Real Estate Partners Asia II, L.P.          | 1,475,785            | 1,574,288            |
| North American Real Estate Partners II, L.P.           | 0                    | 583                  |
| Lone Star Real Estate Fund III, L.P.                   | 521,543              | 515,619              |
| Lone Star Real Estate Fund IV, L.P.                    | 2,059,259            | 2,445,358            |
| Lone Star Real Estate Fund V, L.P.                     | 310,649              | 298,845              |
| Rockpoint Real Estate Fund V, L.P.                     | 2,212,984            | 2,749,992            |
| Starwood Distressed Opportunity Fund X Global          | 1,849,590            | 1,682,624            |
| Starwood Distressed Opportunity Fund XI Global         | 195,092              | 332,398              |
| Total Real Estate                                      | \$ 20,122,350        | \$ 24,374,525        |
| <b>High Yield Debt (Corporate &amp; Real Estate)</b>   |                      |                      |
| Vanguard High Yield Fund                               | \$ 12,388,390        | \$ 12,839,446        |
| CVI Global Value Fund A, L.P.                          | 295,576              | 76,778               |
| TCW Opportunistic MBS Strategy                         | 14,896,074           | 16,494,852           |
| Total High Yield Debt                                  | \$ 27,580,040        | \$ 29,411,076        |
| <b>Total SPL Externally Managed</b>                    | <u>\$ 60,776,330</u> | <u>\$ 70,413,213</u> |

**DAKOTA CEMENT TRUST  
INTERNALLY MANAGED**

|                                      | <u>Cost Value</u>     | <u>Fair Value</u>     |
|--------------------------------------|-----------------------|-----------------------|
| <b>Global Equity</b>                 | \$ 89,737,963         | \$ 103,702,550        |
| <b>Global Emerging Markets</b>       | \$ 2,240,647          | \$ 2,855,464          |
| <b>Investment Grade Fixed Income</b> | \$ 65,905,830         | \$ 68,513,898         |
| <b>Cash Account</b>                  | \$ 77,314,727         | \$ 77,459,656         |
| <b>Total DCT Internally Managed</b>  | <u>\$ 235,199,167</u> | <u>\$ 252,531,568</u> |

**DAKOTA CEMENT TRUST  
EXTERNALLY MANAGED**

|  | <u>Cost Value</u>    | <u>Fair Value</u>    |
|--|----------------------|----------------------|
| <b>Private Equity</b>                                  |                      |                      |
| Blackstone Capital Partners V, L.P.                    | \$ 163,028           | \$ 216,774           |
| Blackstone Capital Partners VI, L.P.                   | 555,698              | 950,012              |
| Blackstone Capital Partners VII, L.P.                  | 865,021              | 1,174,479            |
| Carlyle Partners VI, L.P.                              | 2,398,701            | 2,722,513            |
| The Sixth Cinven Fund                                  | 1,466,190            | 1,773,997            |
| CVC Capital Partners VII, L.P.                         | 400,675              | 627,377              |
| Doughty Hanson & Co. V, L.P.                           | 212,141              | 68,785               |
| Riverstone Global Energy & Power Fund VI, L.P.         | 3,634,539            | 3,126,112            |
| Silver Lake Partners III, L.P.                         | 484,055              | 931,327              |
| Silver Lake Partners IV, L.P.                          | 3,095,692            | 5,617,909            |
| Silver Lake Partners V, L.P.                           | 1,822,987            | 2,090,363            |
| Total Private Equity                                   | \$ 15,098,727        | \$ 19,299,648        |
| <b>Real Estate</b>                                     |                      |                      |
| Blackstone Real Estate Partners V, L.P.                | \$ 568,675           | \$ 721,865           |
| Blackstone Real Estate Partners VI, L.P.               | 544,343              | 1,034,901            |
| Blackstone Real Estate Partners VII, L.P.              | 756,939              | 1,170,448            |
| Blackstone Real Estate Partners VIII, L.P.             | 5,498,586            | 7,296,536            |
| Blackstone Real Estate Partners International II, L.P. | 196,626              | 279,296              |
| Blackstone Real Estate Partners Europe III, L.P.       | 1,475,785            | 1,574,288            |
| Blackstone Real Estate Partners Europe V, L.P.         | 1,031,973            | 821,662              |
| Blackstone Real Estate Partners Asia II, L.P.          | 4,388,975            | 5,543,494            |
| North American Real Estate Partners II, L.P.           | 0                    | 952                  |
| Lone Star Real Estate Fund III, L.P.                   | 606,114              | 599,231              |
| Lone Star Real Estate Fund IV, L.P.                    | 2,301,532            | 2,733,053            |
| Lone Star Real Estate Fund V, L.P.                     | 342,298              | 329,290              |
| Rockpoint Real Estate Fund V, L.P.                     | 2,420,449            | 3,007,802            |
| Starwood Distressed Opportunity Fund X Global          | 1,387,193            | 1,261,968            |
| Starwood Distressed Opportunity Fund XI Global         | 206,240              | 351,393              |
| Total Real Estate                                      | \$ 21,725,728        | \$ 26,726,179        |
| <b>High Yield Debt (Corporate &amp; Real Estate)</b>   |                      |                      |
| Vanguard High Yield Fund                               | \$ 13,604,219        | \$ 14,094,399        |
| CVI Global Value Fund A, L.P.                          | 482,066              | 125,248              |
| TCW Opportunistic MBS Strategy                         | 17,451,959           | 19,364,855           |
| Total High Yield Debt                                  | \$ 31,538,244        | \$ 33,584,502        |
| <b>Total DCT Externally Managed</b>                    | <u>\$ 68,362,699</u> | <u>\$ 79,610,329</u> |

**EDUCATION ENHANCEMENT TRUST**  
**INTERNALLY MANAGED**

|                                      | <u>Cost Value</u>     | <u>Fair Value</u>     |
|--------------------------------------|-----------------------|-----------------------|
| <b>Global Equity</b>                 | \$ 175,133,183        | \$ 201,357,648        |
| <b>Global Emerging Markets</b>       | \$ 3,792,715          | \$ 4,833,109          |
| <b>Investment Grade Fixed Income</b> | \$ 54,612,083         | \$ 56,613,294         |
| <b>Cash Account</b>                  | \$ 178,439,191        | \$ 178,763,098        |
| <b>Total EET Internally Managed</b>  | <u>\$ 411,977,172</u> | <u>\$ 441,567,149</u> |

**EDUCATION ENHANCEMENT TRUST**  
**EXTERNALLY MANAGED**

|  | <u>Cost Value</u>     | <u>Fair Value</u>     |
|--|-----------------------|-----------------------|
| <b>Private Equity</b>                                  |                       |                       |
| Blackstone Capital Partners V, L.P.                    | \$ 235,980            | \$ 313,838            |
| Blackstone Capital Partners VI, L.P.                   | 959,844               | 1,640,926             |
| Blackstone Capital Partners VII, L.P.                  | 1,384,034             | 1,879,164             |
| Carlyle Partners VI, L.P.                              | 3,757,970             | 4,265,267             |
| The Sixth Cinven Fund                                  | 2,505,848             | 3,031,917             |
| CVC Capital Partners VII, L.P.                         | 704,636               | 1,103,318             |
| Doughty Hanson & Co. V, L.P.                           | 306,635               | 99,427                |
| Riverstone Global Energy & Power Fund VI, L.P.         | 6,079,593             | 5,229,139             |
| Silver Lake Partners III, L.P.                         | 699,540               | 1,345,947             |
| Silver Lake Partners IV, L.P.                          | 4,836,972             | 8,777,936             |
| Silver Lake Partners V, L.P.                           | 3,228,201             | 3,701,675             |
| Total Private Equity                                   | \$ 24,699,253         | \$ 31,388,554         |
| <b>Real Estate</b>                                     |                       |                       |
| Blackstone Real Estate Partners V, L.P.                | \$ 818,337            | \$ 1,038,792          |
| Blackstone Real Estate Partners VI, L.P.               | 796,459               | 1,514,160             |
| Blackstone Real Estate Partners VII, L.P.              | 1,274,844             | 1,971,259             |
| Blackstone Real Estate Partners VIII, L.P.             | 9,229,769             | 12,247,756            |
| Blackstone Real Estate Partners International II, L.P. | 279,081               | 396,111               |
| Blackstone Real Estate Partners Europe III, L.P.       | 1,594,868             | 1,269,853             |
| Blackstone Real Estate Partners Europe V, L.P.         | 7,490,517             | 9,460,898             |
| Blackstone Real Estate Partners Asia II, L.P.          | 2,740,743             | 2,923,678             |
| North American Real Estate Partners II, L.P.           | 0                     | 1,351                 |
| Lone Star Real Estate Fund III, L.P.                   | 1,000,808             | 989,439               |
| Lone Star Real Estate Fund IV, L.P.                    | 3,845,968             | 4,567,067             |
| Lone Star Real Estate Fund V, L.P.                     | 580,778               | 558,710               |
| Rockpoint Real Estate Fund V, L.P.                     | 4,080,187             | 5,070,295             |
| Starwood Distressed Opportunity Fund X Global          | 2,774,386             | 2,523,936             |
| Starwood Distressed Opportunity Fund XI Global         | 362,316               | 617,313               |
| Total Real Estate                                      | \$ 36,869,061         | \$ 45,150,618         |
| <b>PIMCO Tax-Exempt Fund</b>                           | \$ 46,896,872         | \$ 48,029,917         |
| <b>High Yield Debt (Corporate &amp; Real Estate)</b>   |                       |                       |
| Vanguard High Yield Fund                               | \$ 23,077,457         | \$ 23,911,972         |
| CVI Global Value Fund A, L.P.                          | 696,875               | 181,008               |
| TCW Opportunistic MBS Strategy                         | 27,997,342            | 30,997,811            |
| Total High Yield Debt                                  | \$ 51,771,674         | \$ 55,090,791         |
| <b>Total EET Externally Managed</b>                    | <u>\$ 160,236,860</u> | <u>\$ 179,659,880</u> |

**HEALTH CARE TRUST**  
**INTERNALLY MANAGED**

|                                      | <u>Cost Value</u>     | <u>Fair Value</u>     |
|--------------------------------------|-----------------------|-----------------------|
| <b>Global Equity</b>                 | \$ 39,590,904         | \$ 45,393,450         |
| <b>Global Emerging Markets</b>       | \$ 1,003,563          | \$ 1,278,877          |
| <b>Investment Grade Fixed Income</b> | \$ 29,222,669         | \$ 30,377,786         |
| <b>Cash Account</b>                  | \$ 37,829,648         | \$ 37,897,967         |
| <b>Total HCT Internally Managed</b>  | <u>\$ 107,646,784</u> | <u>\$ 114,948,080</u> |

**HEALTH CARE TRUST**  
**EXTERNALLY MANAGED**

|  | <u>Cost Value</u>    | <u>Fair Value</u>    |
|--|----------------------|----------------------|
| <b>Private Equity</b>                                  |                      |                      |
| Blackstone Capital Partners V, L.P.                    | \$ 57,991            | \$ 81,633            |
| Blackstone Capital Partners VI, L.P.                   | 353,626              | 604,556              |
| Blackstone Capital Partners VII, L.P.                  | 389,258              | 528,513              |
| Carlyle Partners VI, L.P.                              | 1,039,436            | 1,179,753            |
| The Sixth Cinven Fund                                  | 639,803              | 774,118              |
| CVC Capital Partners VII, L.P.                         | 179,613              | 281,238              |
| Doughty Hanson & Co. V, L.P.                           | 77,759               | 25,212               |
| Riverstone Global Energy & Power Fund VI, L.P.         | 1,652,057            | 1,420,954            |
| Silver Lake Partners III, L.P.                         | 177,401              | 341,301              |
| Silver Lake Partners IV, L.P.                          | 1,393,106            | 2,528,100            |
| Silver Lake Partners V, L.P.                           | 797,555              | 914,531              |
| Total Private Equity                                   | \$ 6,757,605         | \$ 8,679,909         |
| <b>Real Estate</b>                                     |                      |                      |
| Blackstone Real Estate Partners V, L.P.                | \$ 201,117           | \$ 255,327           |
| Blackstone Real Estate Partners VI, L.P.               | 212,007              | 403,060              |
| Blackstone Real Estate Partners VII, L.P.              | 358,550              | 554,443              |
| Blackstone Real Estate Partners VIII, L.P.             | 2,421,996            | 3,213,952            |
| Blackstone Real Estate Partners International II, L.P. | 69,771               | 98,938               |
| Blackstone Real Estate Partners Europe III, L.P.       | 562,895              | 448,184              |
| Blackstone Real Estate Partners Europe V, L.P.         | 1,931,149            | 2,439,135            |
| Blackstone Real Estate Partners Asia II, L.P.          | 632,479              | 674,694              |
| North American Real Estate Partners II, L.P.           | 0                    | 338                  |
| Lone Star Real Estate Fund III, L.P.                   | 267,814              | 264,773              |
| Lone Star Real Estate Fund IV, L.P.                    | 999,343              | 1,186,714            |
| Lone Star Real Estate Fund V, L.P.                     | 127,345              | 122,507              |
| Rockpoint Real Estate Fund V, L.P.                     | 1,037,335            | 1,289,057            |
| Starwood Distressed Opportunity Fund X Global          | 924,796              | 841,312              |
| Starwood Distressed Opportunity Fund XI Global         | 89,184               | 151,955              |
| Total Real Estate                                      | \$ 9,835,781         | \$ 11,944,389        |
| <b>High Yield Debt (Corporate &amp; Real Estate)</b>   |                      |                      |
| Vanguard High Yield Fund                               | \$ 5,944,514         | \$ 6,158,849         |
| CVI Global Value Fund A, L.P.                          | 176,812              | 45,895               |
| TCW Opportunistic MBS Strategy                         | 7,636,778            | 8,495,614            |
| Total High Yield Debt                                  | \$ 13,758,104        | \$ 14,700,358        |
| <b>Total HCT Externally Managed</b>                    | <u>\$ 30,351,490</u> | <u>\$ 35,324,656</u> |

**SOUTH DAKOTA CASH FLOW FUND**  
**INTERNALLY MANAGED**

|                                       | <u>Cost Value</u>       | <u>Fair Value</u>       |
|---------------------------------------|-------------------------|-------------------------|
| <b>Intermediate-Term Fixed Income</b> | \$ 312,611,683          | \$ 326,362,326          |
| <b>Short-Term Fixed Income</b>        | \$ 730,156,821          | \$ 747,691,969          |
| <b>Cash Account</b>                   | \$ 233,440,859          | \$ 233,787,551          |
| <b>Certificates of Deposit</b>        | \$ 22,571,000           | \$ 23,065,954           |
| <b>Total SDCFF Internally Managed</b> | <u>\$ 1,298,780,363</u> | <u>\$ 1,330,907,800</u> |

On June 30, 2019, there was \$22,571,000 in Certificates of Deposit (CDs) outstanding with South Dakota banks, savings associations, and credit unions. Twenty-six South Dakota banks hold \$20,583,000 in CDs, one savings association held \$250,000 in CDs, and five credit unions hold \$1,738,000 in CDs. The CDs carry an interest rate of 2.90% and mature September 30, 2019.

The original allocation made in September of 2018 was to forty-three banks and one savings associations. Seventeen banks did not participate this year. This is the eighteenth year a reoffering was made to other qualified public depositories in the state. In the reoffering, five credit unions accepted \$1,738,000 in CDs, leaving \$12,429,000 in CDs unassigned. The size of the certificates ranged from \$250,000 to \$4,360,000.

**Summary of Statistics**  
**Certificates of Deposit Outstanding**

**CDs Issued to Banks**

|  |                      |
|--|----------------------|
| CDs maturing 9/30/19                   | \$ <u>20,583,000</u> |
| Interest earned during FY 2019         | \$ 536,593           |
| Average CDs Outstanding During FY 2019 | \$ 20,923,151        |
| Rate of Return                         | 2.6%                 |

**CDs Issued to Savings Associations**

|  |                   |
|--|-------------------|
| CDs maturing 9/30/19                   | \$ <u>250,000</u> |
| Interest earned during FY 2019         | \$ 6,452          |
| Average CDs Outstanding During FY 2019 | \$ 250,000        |
| Rate of Return                         | 2.6%              |

**CDs Issued to Credit Unions**

|  |                     |
|--|---------------------|
| CDs maturing 9/30/19                   | \$ <u>1,738,000</u> |
| Interest earned during FY 2019         | \$ 42,960           |
| Average CDs Outstanding During FY 2019 | \$ 1,619,008        |
| Rate of Return                         | 2.7%                |

**Total Certificates of Deposit**

|  |                      |
|--|----------------------|
| CDs maturing 9/30/19                   | \$ <u>22,571,000</u> |
| Interest earned during FY 2019         | \$ 586,005           |
| Average CDs Outstanding During FY 2019 | \$ 22,792,159        |
| Rate of Return                         | 2.6%                 |

**South Dakota Certificates of Deposit**  
**Due 9/30/19**

| <b>Banks</b>                         | <b>Location</b> | <b>CD Amount</b>            |
|--------------------------------------|-----------------|-----------------------------|
| Dacotah Bank                         | Aberdeen        | \$ 4,360,000                |
| Citizens State Bank                  | Arlington       | 250,000                     |
| Community Bank                       | Avon            | 250,000                     |
| First Bank & Trust                   | Brookings       | 4,180,000                   |
| Bryant State Bank                    | Bryant          | 250,000                     |
| First Financial Bank                 | Dupree          | 250,000                     |
| BankStar Financial                   | Elkton          | 416,000                     |
| Security State Bank                  | Emery           | 250,000                     |
| Reliabank Dakota                     | Estelline       | 864,000                     |
| Great Plains Bank                    | Eureka          | 290,000                     |
| Merchants State Bank                 | Freeman         | 378,000                     |
| Premier Bank of Hudson               | Hudson          | 304,000                     |
| Ipswich State Bank                   | Ipswich         | 250,000                     |
| First Bank & Trust                   | Madison         | 2,326,000                   |
| Menno State Bank                     | Menno           | 250,000                     |
| Quoin Financial Bank                 | Miller          | 395,000                     |
| CorTrust Bank                        | Mitchell        | 1,900,000                   |
| First National Bank                  | Pierre          | 1,120,000                   |
| Farmers & Merchants State Bank       | Plankinton      | 280,000                     |
| Heartland State Bank                 | Redfield        | 250,000                     |
| First State Bank of Roscoe           | Roscoe          | 250,000                     |
| Farmers & Merchants State Bank       | Scotland        | 250,000                     |
| Peoples State Bank                   | Summit          | 250,000                     |
| Farmers State Bank                   | Turton          | 250,000                     |
| Security State Bank                  | Tyndall         | 520,000                     |
| First State Bank                     | Wilmot          | <u>250,000</u>              |
| <b>Total Banks</b>                   |                 | <b>\$ 20,583,000</b>        |
| <b>Savings Association</b>           |                 |                             |
| Security Savings Bank                | Canton          | \$ <u>250,000</u>           |
| <b>Total Savings Association</b>     |                 | <b>\$ 250,000</b>           |
| <b>Credit Unions</b>                 |                 |                             |
| Healthcare Plus Federal CU           | Aberdeen        | \$ 250,000                  |
| Consumers Federal CU                 | Gregory         | 251,000                     |
| Minuteman Community Federal CU       | Rapid City      | 394,000                     |
| Voyage Federal CU                    | Sioux Falls     | 500,000                     |
| Avanti Federal CU                    | Watertown       | <u>343,000</u>              |
| <b>Total Credit Unions</b>           |                 | <b>\$ <u>1,738,000</u></b>  |
| <b>Total Certificates of Deposit</b> |                 | <b>\$ <u>22,571,000</u></b> |

**AGGRESSIVE ABSOLUTE RETURN:** A non-directional strategy designed to generate a steady return no matter what the market does.

**ALTERNATIVE INVESTMENTS:** Investments that are not one of the three traditional asset types (stocks, bonds, and cash). Alternative investments include hedge funds, real estate, private equity, and commodities.

**ARBITRAGE:** Acting on disparities between the existing price of a security and the estimated present value of consideration to be received at a later time as a result of restructuring activity.

**ASSET ALLOCATION:** The mix of stocks, bonds, cash equivalents, and other assets in which capital is invested.

**BLOOMBERG BARCLAYS US MUNICIPAL 7 YEAR INDEX:** The 7-year (6-8 Years to Maturity) component of the US Municipal Bond Index which covers the USD-denominated long-term tax exempt bond market. It has been used for benchmarking purposes since fiscal year 2003.

**CAPITAL MARKETS BENCHMARK (CMB):** The asset allocation policy approved by the Investment Council applied to the appropriate index returns.

**CARRIED INTEREST:** A share of the profits of a fund paid to the fund manager which is not received until the investors' contributed capital is returned and a previously agreed-upon preferred return is earned.

**CASH EQUIVALENT:** Cash or assets that can be converted to cash quickly.

**CERTIFICATES OF DEPOSIT (CDs):** Relatively low-risk debt instruments purchased directly through a commercial bank or savings and loan institution. CDs are insured by the FDIC (Federal Deposit Insurance Corp.) up to \$250,000.

**COMMODITY:** Basic materials that are reasonably interchangeable with others of the same type. Examples include oil, metals, and grains.

**CORRELATION:** The degree to which the fluctuations of one asset are similar to those of another.

**DEALLOCATE:** Funds that are no longer treated as gross proceeds of tax-exempt bonds for arbitrage purposes under Section 148 of the Internal Revenue Code of 1986, as amended, and for hedge bond purposes under Section 149(g) of the Code as a result of the application of the Universal Cap under Treasury Regulation Section 1.14806.

**DEFLATION:** A general decline in prices or reduction in spending.

**DERIVATIVES:** Securities with a price that is dependent upon or derived from one or more underlying assets. The most common underlying assets include stocks, bonds, commodities, interest rates, and market indexes.

**DURATION (MODIFIED):** The weighted average maturity of the stream of payments associated with a bond. It is a measure of the bond price volatility for a given change in interest rates.

**EMERGING MARKET:** Emerging market is a term that investors use to describe a developing country. Investments in emerging markets may be accompanied by greater risk.

**EQUITIES (STOCKS):** Securities representing shares of ownership in the issuing enterprise.

**EQUITY-LIKE RISK:** A measure of the sensitivity of a fund to downturns in the equity market. The measure includes the percentage invested in equities (stocks) plus the percentage invested in other asset categories scaled to reflect the degree of embedded equity sensitivity during severe market downturns.

**FIXED INCOME SECURITIES (BONDS, NOTES, BILLS, ETC.):** Securities representing loans to governments, agencies, corporations, and banks for a stated period at a stated interest rate.

**FTSE US ALL BB-RATED INDEX:** The index includes those bonds in the FTSE US High-Yield Market Index with an index quality of BB+, BB, or BB- rating. It was used for benchmarking purposes during fiscal years 1996 - 2010.

**FTSE US HIGH-YIELD CASH-PAY CAPPED INDEX:** The index represents the cash-pay securities of the FTSE US High-Yield Market Capped Index, which is a modified version of the FTSE US High-Yield Market Index by delaying the entry of fallen angel (formerly investment grade bonds that have been reduced to high-yield status) issues and capping the par value of individual issuers. It has been used for benchmarking purposes since fiscal year 2011.

**FTSE US HIGH-YIELD MARKET INDEX:** The index includes cash-pay, deferred-interest, and Rule 144A bonds with a remaining maturity of at least one year and a speculative-grade rating by both Moody's Investor Service and Standard & Poor's. It has been used for benchmarking purposes since fiscal year 2001.

**FTSE US 3-MONTH TREASURY BILL INDEX:** The index measures monthly return equivalents of yield averages that are not marked to market. The 3-Month Treasury Bill Index is an average of the last three 3-month Treasury bill month-end rates. It has been used for benchmarking purposes since fiscal year 1974.

**FTSE US BROAD INVESTMENT-GRADE (USBIG<sup>®</sup>) BOND INDEX:** The index is market capitalization weighted and includes fixed-rate Treasury, government-sponsored, mortgage, asset-backed, and investment-grade issues (minimum quality BBB- or Baa3) with a maturity of one year or longer. It has been used for benchmarking purposes since fiscal year 1981.

**FTSE US INFLATION-LINKED SECURITIES INDEX (US-ILSI):** The index includes debentures with fixed-rate coupon payments that adjust for inflation as measured by the Consumer Price Index. It is separate and distinct from the FTSE USBIG Bond Index and comprises of Treasury Inflation-Protected securities. It was used for benchmarking purposes during fiscal years 2003-2015.

**FUTURES CONTRACTS:** An obligation to accept or make future delivery of securities or cash at a specified price and date. The contracts are marked-to-market daily with the resulting gains/losses settled in cash. An initial margin is required as a good faith deposit.

**GROSS-OF-FEES:** Indicates that the impact of fees (management fees and performance-based fees) has not been reflected in the return.

**HEDGE FUNDS:** Alternative investments that may use a number of different strategies. Hedge funds may be aggressively managed or make use of derivatives and leverage. A manager typically receives a percentage of profits, commonly 20%, in addition to management fees.

**HIGH-YIELD CORPORATE DEBT SECURITIES:** Issues with a financial rating of BB or lower because of high relative default risk.

**HIGH-YIELD REAL ESTATE DEBT SECURITIES:** Debt securities that have a higher risk of default and are collateralized by real estate.

**INFLATION:** The rate at which the general level of prices of goods and services are rising.

**INSTITUTIONAL PRIME MONEY MARKET FUND:** The TempFund, which is managed by the BlackRock Advisors, Inc., is a leading short-term portfolio. The predecessor firm's fund inception was October 1973, and estimates are used for prior periods.

**INTERNAL RATE OF RETURN (IRR):** The annualized implied discount rate calculated from a series of cash flows. IRR is the return that equates the present value of all invested capital in an investment to the present value of all cash flows equal to zero.



**INVESTMENT GRADE FIXED INCOME SECURITIES:** Issues with a financial rating of BBB or higher because of low relative default risk.

**MERGER CUSTOM INDEX:** The index is a representative sample of transactions that exposes one to a merger arbitrage strategy. It employs an indexing approach that utilizes factual information and index guidelines.

**MSCI ALL COUNTRY WORLD INDEX<sup>SM</sup> (ACWI):** The index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The index currently consists of 49 developed and emerging market country indices. It has been used for benchmarking purposes since fiscal year 2005.

**MSCI US REIT INDEX:** The index is a free float-adjusted market capitalization weighted index that is comprised of US equity REITs, which generate a majority of their revenue and income from rents, mortgages, and sales of property. It has been used for benchmarking purposes since fiscal year 2005.

**MSCI USA INDEX:** The index is the US component of the MSCI World Index and is designed to measure the performance of the large and mid cap segments of the US Market. The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The index currently consists of 23 developed market country indices. The MSCI USA Index has been used for benchmarking purposes since fiscal year 2005.

**NCREIF PROPERTY INDEX:** NCREIF stands for the National Council of Real Estate Investment Fiduciaries. The index is a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. It is used as an industry benchmark to compare an investor's own returns against the industry average. It was used for benchmarking purposes during fiscal years 2002-2013.

**NET-OF-FEES:** Indicates that the impact of fees (management fees, performance-based fees, and general partner carried interest) has been reflected in the return.

**OPPORTUNISTIC REAL ESTATE:** A high-risk/high-return real estate strategy. Investments are tactical and involve properties that require a high degree of enhancements.

**PEER FUNDS:** Databases comprised of state pension plans used for comparison purposes.

**PRIVATE EQUITY:** Investments made directly into a private company not quoted on a public exchange.

**PRIVATE SECTOR MEDIAN:** Median rate of return for large private sector funds. BNY Mellon Master Trust data was used for fiscal years 2017-2019, Callan data was used fiscal years 2014-2016, Mellon Analytical data was used fiscal years 1987-2013, and SEI data was used fiscal years 1974-1986. All the returns are reported gross-of-fees.

**PUBLIC MARKET EQUIVALENT (PME):** The PME is a method where a public market index is expressed in terms of a since inception internal rate of return (SI-IRR), using the same cash flows and timing as those of the alternative investment composite over the same time period.

**QUALITY RATING:** Rating of a company's credit by a rating service.

**REAL ESTATE:** Property holdings used to generate ongoing rental income and capital gains as property values increase over time.

**REAL RETURN:** Actual return minus inflation.

**SHIFT ACCOUNT:** Portfolio of cash equivalent securities that supports the cash flows and the futures positions used to adjust the allocation of the total assets among stocks, bonds, and cash.

**STANDARD AND POOR'S 500<sup>®</sup> INDEX:** The index is a market-capitalization-weighted index of 500 large-cap U.S. companies. It is the US component of the S&P Global 1200 Index. It has been used for benchmarking purposes since fiscal year 1974.

**STANDARD AND POOR'S GLOBAL 1200 INDEX:** The index is a composite index, comprised of seven regional and country indices - S&P 500 (US), S&P Europe 350, S&P TOPIX 150 (Japan), S&P/TSX 60 (Canada), S&P/ASX All Australian 50, S&P Asia 50 (ex-Japan), and S&P Latin America 40. It has been used for benchmarking purposes since fiscal year 2005.

**STANDARD AND POOR'S GSCI INDEX (COMMODITIES):** The index is calculated primarily on a world production-weighted basis. Commodity components include energy, agriculture, livestock, industrial metals, and precious metals. It was used for benchmarking purposes during fiscal years 2003-2015.

**STANDARD DEVIATION:** A measure of the volatility of returns often used as a measure of risk.

**STATE FUND MEDIAN:** Median rate of return for the state fund universe. The returns are reported net-of-fees fiscal years 2014-2019 and gross-of-fees fiscal years 1974-2013.

**STATE FUND UNIVERSE:** A universe linking two state fund universe medians to form a 46-year performance history. The most recent 37 years represents a group of over 50 state funds. The prior nine years of the universe represent the SEI state universe. This universe was the largest state universe available at the time.

**TIME-WEIGHTED RATE OF RETURN:** The rate of investment growth earned on a unit of assets held continuously for the entire period measured.

**TREASURY INFLATION-PROTECTED SECURITIES (TIPS):** A U.S. Treasury security that protects the bondholder from inflation by automatically increasing its principal according to the inflation rate as tracked by the Consumer Price Index.

**US CONSUMER PRICE INDEX—ALL URBAN CONSUMERS (CPI-U):** The index is compiled monthly by the Bureau of Labor Statistics for the purpose of calculating inflation rates.

**VOLATILITY:** Variability, fluctuation. In investing, the range of likely outcomes for a given investment over a period of time. The smaller the estimated range of an investment's future returns, the lower the investment's volatility and vice versa. One of the most common measures of investment risk.

**YIELD TO MATURITY (YTM):** The rate of return anticipated on a fixed income security if held until the maturity date.

- 1 FTSE US Broad Investment-Grade (USBIG) Bond Index in fiscal years 1990-2019 and Lehman Brothers US Aggregate Bond Index in prior periods.
- 2 FTSE USBIG Bond Index in fiscal years 2007-2019, FTSE USBIG Bond Index duration adjusted weighted 80% and FTSE US All BB-Rated Index weighted 20% in fiscal years 1996-2006, FTSE USBIG Bond Index in fiscal years 1981-1995, and Lehman Brothers Government/Corporate Index in prior periods.
- 3 The annual returns for the US Consumer Price Index-All Urban Consumers (CPI-U) for the most recent 14 years and the 5, 10, 15, 20, 25, 30, and 46-year annualized returns as of 6/30/19 are as follows:

| Fiscal Year | Annual Return | Fiscal Year | Annual Return | Annualized Returns of as of 6/30/19 |      |
|-------------|---------------|-------------|---------------|-------------------------------------|------|
| 2019        | 1.6%          | 2012        | 1.7%          | 5 Years                             | 1.5% |
| 2018        | 2.9%          | 2011        | 3.6%          | 10 Years                            | 1.7% |
| 2017        | 1.6%          | 2010        | 1.1%          | 15 Years                            | 2.0% |
| 2016        | 1.0%          | 2009        | (1.4%)        | 20 Years                            | 2.2% |
| 2015        | 0.1%          | 2008        | 5.0%          | 25 Years                            | 2.2% |
| 2014        | 2.1%          | 2007        | 2.7%          | 30 Years                            | 2.4% |
| 2013        | 1.8%          | 2006        | 4.3%          | 46 Years                            | 3.9% |

- 4 **Investment Grade Fixed Income:** FTSE USBIG Bond Index (1981-2019), Lehman Brothers Gov/Corp Index (1974-1980). **Cash:** FTSE US 3-Month Treasury Bill Index (1974-2019). **Global Equity:** 2/3 MSCI ACWI + 1/3 MSCI US Index (2005-2019). **Domestic Equity:** Russell 1000 Index (1996-2004), S&P 500 Index (1974-1995). **International Equity:** MSCI ACWI ex-US Index (2002-2004), 3/4 MSCI EAFE + 1/4 MSCI EASEA Index (1997-2001), MSCI EAFE Index (1996), MSCI EAFE 1/2 Japan Index (1993-1995). **Arbitrage:** weighted index (1999-2011), Merger Custom Index (2008-2011), 3-Month Treasury Bill Index +4.25% (1993-2007), Convertible Benchmark (1999-2011). **Real Estate:** MSCI US REIT Index (2014-2019), NCREIF Property Index +1.25% (2011-2013), NCREIF Property Index (2002-2010), NCREIF Classic Property Index (1995-2001). **Private Equity:** S&P 500 (2014), S&P 500 +1.75% (2011-2013), S&P 500 +3.5% (2005-2010), Russell 1000 +3.5% (2002-2004), Russell 1000 +5.0% (1999-2001). **High Yield Debt (Corporate & Real Estate):** FTSE US High-Yield Market Index (2003-2019). **Commodities:** S&P GSCI (2003-2015). **TIPS:** FTSE US-ILSI (2012-2015).

The Capital Markets Benchmark (policy) weightings for the South Dakota Retirement System were as follows:

|               | IG FI | Cash | Gbl EQ & Dom/Intl | Arb | RE  | PE | HY Debt | Comm | TIPS |
|---------------|-------|------|-------------------|-----|-----|----|---------|------|------|
| 07/15 - 06/19 | 23%   | 2%   | 58%               | 0%  | 10% | 0% | 7%      | 0%   | 0%   |
| 07/14 - 06/15 | 19%   | 2%   | 60%               | 0%  | 10% | 0% | 7%      | 1%   | 1%   |
| 07/12 - 06/14 | 18%   | 2%   | 56%               | 0%  | 8%  | 7% | 7%      | 1%   | 1%   |
| 07/11 - 06/12 | 18%   | 2%   | 58%               | 0%  | 8%  | 5% | 7%      | 1%   | 1%   |
| 07/09 - 06/11 | 18%   | 1%   | 57%               | 5%  | 7%  | 5% | 6%      | 1%   | 0%   |
| 07/06 - 06/09 | 18%   | 1%   | 57%               | 7%  | 5%  | 5% | 6%      | 1%   | 0%   |
| 07/05 - 06/06 | 18%   | 1%   | 57%               | 7%  | 6%  | 4% | 6%      | 1%   | 0%   |
| 07/04 - 06/05 | 19%   | 1%   | 57%               | 5%  | 6%  | 4% | 7%      | 1%   | 0%   |
| 07/03 - 06/04 | 19%   | 1%   | 40% / 16%         | 6%  | 7%  | 4% | 6%      | 1%   | 0%   |
| 07/02 - 06/03 | 19%   | 1%   | 40% / 16%         | 7%  | 7%  | 3% | 6%      | 1%   | 0%   |
| 07/01 - 06/02 | 23%   | 1%   | 40% / 16%         | 9%  | 8%  | 3% | 0%      | 0%   | 0%   |
| 07/99 - 06/01 | 23%   | 5%   | 36% / 16%         | 9%  | 8%  | 3% | 0%      | 0%   | 0%   |
| 07/98 - 06/99 | 23%   | 4%   | 40% / 16%         | 8%  | 7%  | 2% | 0%      | 0%   | 0%   |
| 07/97 - 06/98 | 23%   | 7%   | 40% / 16%         | 7%  | 7%  | 0% | 0%      | 0%   | 0%   |
| 07/96 - 06/97 | 25%   | 7%   | 40% / 15%         | 6%  | 7%  | 0% | 0%      | 0%   | 0%   |
| 07/95 - 06/96 | 25%   | 6%   | 42% / 15%         | 8%  | 4%  | 0% | 0%      | 0%   | 0%   |
| 07/94 - 06/95 | 31%   | 5%   | 41% / 13%         | 9%  | 1%  | 0% | 0%      | 0%   | 0%   |
| 07/93 - 06/94 | 33%   | 7%   | 45% / 9%          | 6%  | 0%  | 0% | 0%      | 0%   | 0%   |
| 07/92 - 06/93 | 35%   | 9%   | 49% / 5%          | 2%  | 0%  | 0% | 0%      | 0%   | 0%   |
| 07/90 - 06/92 | 38%   | 10%  | 52% / 0%          | 0%  | 0%  | 0% | 0%      | 0%   | 0%   |
| 07/86 - 06/90 | 38%   | 7%   | 55% / 0%          | 0%  | 0%  | 0% | 0%      | 0%   | 0%   |
| 07/78 - 06/86 | 50%   | 10%  | 40% / 0%          | 0%  | 0%  | 0% | 0%      | 0%   | 0%   |
| 07/73 - 06/78 | 65%   | 10%  | 25% / 0%          | 0%  | 0%  | 0% | 0%      | 0%   | 0%   |

- 5 FTSE US High-Yield Cash-Pay Capped Index in fiscal years 2011-2019 and the FTSE US All BB-Rated Index in fiscal years 2007-2010.
- 6 Weighted index of FTSE 1-5 year US Treasuries, 1-3 year US BIG Credit, and 3-6 month US Treasury Bills (2019), Bank of America Merrill Lynch 1-5 year US Treasuries, 1-3 year A-AAA rated US Corporates, and 3-6 month US Treasury Bills (2005-2018); equal-weighted yields of the 3-month and 6-month Treasury Bills and the 1-year, 2-year, 3-year, and 5-year Treasury Bonds (1987-2004).

- 7 Composites are valued monthly and portfolio returns are weighted by using beginning-of-month fair values or weighted cash flows.
- 8 Fair values for private equity and real estate limited partnerships are adjusted in the reporting period when received by the Council.
- 9 The South Dakota Department of Legislative Audit conducted the South Dakota Investment Council fiscal year 2019 annual and interim procedures audit work for total fees of \$53,403.
- 10 The 1-year total fund performance results are presented net-of-fees for fiscal years 2014-2019 and gross-of-fees in prior periods.
- 11 Management fee rates (excluding profit sharing) as of June 30, 2019 in basis points (bp):
 

|  |                    |
|--|--------------------|
| Investment Office (expected average)                 | 10 bp              |
| Ares European Real Estate Fund II                    | 0 bp               |
| Apollo Real Estate Investments Fund III & IV         | 0 bp               |
| Blackstone Capital Partners IV & V                   | 0 bp               |
| Blackstone Capital Partners VI                       | 75 bp              |
| Blackstone Capital Partners VII                      | 150 bp             |
| Blackstone Energy Partners II                        | 150 bp             |
| Blackstone Real Estate Partners IV & IV - ML         | 0 bp               |
| Blackstone Real Estate Partners V & V - ML           | 0 bp               |
| Blackstone Real Estate Partners VI & VI - LC         | 0 bp               |
| Blackstone Real Estate Partners VII                  | 150 bp             |
| Blackstone Real Estate Partners VIII                 | 125 bp             |
| Blackstone Real Estate Partners VIII - BMR           | 100 bp             |
| Blackstone Real Estate Partners Asia II              | 125 bp             |
| Blackstone Real Estate Partners Europe III           | 125 bp             |
| Blackstone Real Estate Partners Europe V             | 125 bp             |
| Blackstone Real Estate Partners International I & II | 0 bp               |
| Brandes International Mid Cap Portfolio              |                    |
| \$0-\$25 Million -                                   | 95 bp              |
| \$25-\$50 Million -                                  | 90 bp              |
| over \$50 Million -                                  | 80 bp              |
| Bridgewater Pure Alpha Fund II (embedded)            | 150 bp + incentive |
| Brookfield Strategic Real Estate Partners III        | 150 bp             |
| Capital International Private Equity Fund IV & V     | 0 bp               |
| Capital International Private Equity Fund VI         | 100 bp             |
| Carlyle Partners IV                                  | 0 bp               |
| Carlyle Partners V                                   | 20 bp              |
| Carlyle Partners VI                                  | 75 bp              |
| The Fourth Cinven Fund                               | 0 bp               |
| The Fifth Cinven Fund                                | 125 bp             |
| The Sixth Cinven Fund                                | 143 bp             |
| CVC European Equity Partners IV & V                  | 0 bp               |
| CVC European Equity Partners VII                     | 150 bp             |
| CVI Global Value Fund A                              | 0 bp               |
| Cypress Merchant Banking Partners II                 | 0 bp               |
| Dimensional Emerging Markets Small Cap (embedded)    | 70 bp              |
| Doughty Hanson & Co. European Real Estate II         | 0 bp               |
| Doughty Hanson & Co. IV & V                          | 0 bp               |
| Elevation Partners                                   | 0 bp               |
| EnCap Energy Capital Fund XI                         | 150 bp             |
| KKR European Fund II                                 | 0 bp               |
| Lone Star Real Estate Fund II                        | 45 bp              |
| Lone Star Real Estate Fund III                       | 60 bp              |
| Lone Star Real Estate Fund IV                        | 60 bp              |
| Lone Star Real Estate Fund V                         | 60 bp              |
| North American Real Estate Partners II & II - HF     | 0 bp               |
| PineBridge Global Emerging Markets Partners I & II   | 0 bp               |
| PIMCO (tax-exempt)                                   | 25 bp              |
| Riverstone/Carlyle Global Energy & Power Fund IV     | 75 bp              |
| Riverstone Global Energy & Power Fund V              | 100 bp             |

|  |        |
|--|--------|
| Riverstone Global Energy & Power Fund VI       | 150 bp |
| Rockpoint Real Estate Fund IV                  | 142 bp |
| Rockpoint Real Estate Fund V                   | 131 bp |
| Sanders Capital All Asset Value Fund           | 125 bp |
| Sanders Capital (Global Value Equities)        |        |
| \$0-\$15 Million -                             | 90 bp  |
| \$15-\$50 Million -                            | 50 bp  |
| over \$50 Million -                            | 40 bp  |
| Silver Lake Partners II                        | 0 bp   |
| Silver Lake Partners III                       | 100 bp |
| Silver Lake Partners IV                        | 100 bp |
| Silver Lake Partners V                         | 143 bp |
| Silver Lake Sumeru Fund                        | 150 bp |
| Starwood Distressed Opportunity Fund IX Global | 125 bp |
| Starwood Opportunity Fund X Global             | 100 bp |
| Starwood Opportunity Fund X Global - TMI       | 125 bp |
| Starwood Opportunity Fund XI Global            | 100 bp |
| TCW Opportunistic MBS Strategy                 | 50 bp  |
| Vanguard High-Yield Fund (embedded)            | 13 bp  |

12 There have been no changes in investment personnel that would alter the returns presented.

13 Past performance is no guarantee of future results.

14 **Investment Grade Fixed Income:** FTSE USBIG Bond Index (February 2001-2019), Salomon Smith Barney Treasury/GNMA Index (1985 - January 2001). **Global Equity:**  $\frac{2}{3}$  S&P Global 1200 +  $\frac{1}{3}$  S&P 500 Index (2012-2019 and 2007-2010),  $\frac{2}{3}$  S&P Global 1200 Ex-Iran +  $\frac{1}{3}$  S&P 500 Index (2011),  $\frac{2}{3}$  MSCI ACWI +  $\frac{1}{3}$  MSCI US Index (2006). **Domestic Equity:** S&P 500 Index (2005), Russell 1000 Index (February 2001-2004). **International Equity:** MSCI ACWI ex-US Index (2005). **High Yield Debt (Corporate & Real Estate):** FTSE US High-Yield Market Index (2010-2019 and February 2001-2006), FTSE US All BB-Rated Index (2007-2009). **TIPS:** FTSE US-ILSI (2007-2015). **Cash/Commodities:** FTSE US 3-Month Treasury Bill Index (2007-2019). **Real Estate:** MSCI US REIT Index (2014-2019 and 2005-2006), NCREIF Property Index +1.25% (2011-2013), NCREIF Property Index (2007-2010). **Private Equity:** S&P 500 (2014), S&P 500 +1.75% (2011-2013), S&P 500 +3.5% (2007-2010).

The Capital Markets Benchmark (policy) weightings for the School and Public Lands Fund were as follows:

|               | IG<br>FI   | Gibl EO &<br>Dom / Intl | HY<br>Debt | TIPS | Cash/<br>Comm | RE  | PE |
|---------------|--|-------------------------|------------|------|---------------|-----|----|
| 07/15 - 06/19 | 30%  | 51%                     | 7%         | 0%   | 2%            | 10% | 0% |
| 07/14 - 06/15 | 26%  | 53%                     | 7%         | 2%   | 2%            | 10% | 0% |
| 07/11 - 06/14 | 28%  | 52%                     | 5%         | 5%   | 2%            | 6%  | 2% |
| 07/06 - 06/11 | 33%  | 48%                     | 5%         | 5%   | 2%            | 5%  | 2% |
| 07/05 - 06/06 | 40%  | 50%                     | 10%        | 0%   | 0%            | 0%  | 0% |
| 07/04 - 06/05 | 40%  | 40% / 10%               | 10%        | 0%   | 0%            | 0%  | 0% |
| 07/03 - 06/04 | 50%  | 40% / 0%                | 10%        | 0%   | 0%            | 0%  | 0% |
| 07/02 - 06/03 | 60%  | 30% / 0%                | 10%        | 0%   | 0%            | 0%  | 0% |
| 07/01 - 06/02 | 70%  | 20% / 0%                | 10%        | 0%   | 0%            | 0%  | 0% |
| 02/01 - 06/01 | Weighted based on Investment Council asset allocation. |                         |            |      |               |     |    |
| 07/84 - 01/01 | 100%   | 0% / 0%                 | 0%         | 0%   | 0%            | 0%  | 0% |

15 MSCI All Country World ex-US Index in fiscal years 2002-2004 and  $\frac{3}{4}$  MSCI EAFE +  $\frac{1}{4}$  MSCI EASEA Index in prior periods.

16 **Investment Grade Fixed Income:** FTSE USBIG Bond Index (2002-2019). **Global Equity:**  $\frac{2}{3}$  S&P Global 1200 +  $\frac{1}{3}$  S&P 500 Index (2012-2019 and 2007-2010),  $\frac{2}{3}$  S&P Global 1200 Ex-Iran +  $\frac{1}{3}$  S&P 500 Index (2011),  $\frac{2}{3}$  MSCI ACWI +  $\frac{1}{3}$  MSCI US Index (2006). **Domestic Equity:** S&P 500 Index (2005), Russell 1000 Index (2002-2004). **International Equity:** MSCI ACWI ex-US Index (2005). **Real Estate:** weighted index (2006), MSCI US REIT Index (2014-2019 and 2005-2006), NCREIF Property Index +1.25% (2011-2013), NCREIF Property Index (2006-2010), REIT Benchmark (2002-2004). **High Yield Debt (Corporate & Real Estate):** FTSE US High-Yield Market Index (2010-2019), FTSE US All BB-Rated Index (2002-2009). **TIPS:** FTSE US-ILSI (2007-2015). **Cash/Commodities:** FTSE US 3-Month Treasury Bill Index (2007-2019). **Private Equity:** S&P 500 (2014), S&P 500 +1.75% (2011-2013), S&P 500 +3.5% (2007-2010).

The Capital Markets Benchmark (policy) weightings for the Dakota Cement Trust Fund were as follows:

|               | IG<br>FI | Gibl EO &<br>Dom / Intl | RE  | HY<br>Debt | TIPS | Cash/<br>Comm | PE |
|---------------|----------|-------------------------|-----|------------|------|---------------|----|
| 07/15 - 06/19 | 30%      | 51%                     | 10% | 7%         | 0%   | 2%            | 0% |
| 07/14 - 06/15 | 26%      | 53%                     | 10% | 7%         | 2%   | 2%            | 0% |
| 07/11 - 06/14 | 28%      | 52%                     | 6%  | 5%         | 5%   | 2%            | 2% |
| 07/06 - 06/11 | 33%      | 48%                     | 5%  | 5%         | 5%   | 2%            | 2% |
| 07/05 - 06/06 | 40%      | 40%                     | 10% | 10%        | 0%   | 0%            | 0% |
| 07/04 - 06/05 | 50%      | 20% / 5%                | 15% | 10%        | 0%   | 0%            | 0% |
| 07/01 - 06/04 | 55%      | 20% / 0%                | 15% | 10%        | 0%   | 0%            | 0% |

17 **Investment Grade Fixed Income:** FTSE USBIG Bond Index (2003-2019). **Tax-Exempt Fixed Income:** Bloomberg Barclays Municipal 7 Year Index (2003-2019). **Global Equity:**  $\frac{2}{3}$  S&P Global 1200 +  $\frac{1}{3}$  S&P 500 Index (2012-2019 and 2007-2010),  $\frac{2}{3}$  S&P Global 1200 Ex-Iran +  $\frac{1}{3}$  S&P 500 Index (2011),  $\frac{2}{3}$  MSCI ACWI +  $\frac{1}{3}$  MSCI US Index (2006). **Domestic Equity:** S&P 500 Index (2005), Russell 1000 Index (2003-2004). **International Equity:** MSCI ACWI ex-US Index (2005). **Real Estate:** weighted index (2006), MSCI US REIT Index (2014-2019 and 2005-2006), NCREIF Property Index +1.25% (2011-2013), NCREIF Property Index (2006-2010), REIT Benchmark (2003-2004). **High Yield Debt (Corporate & Real Estate):** FTSE US High-Yield Market Index (2010-2019 and 2003-2006), FTSE US All BB-Rated Index (2007-2009). **TIPS:** FTSE US-ILSI (2003-2015). **Cash/Commodities:** FTSE US 3-Month Treasury Bill Index (2007-2019). **Private Equity:** S&P 500 (2014), S&P 500 +1.75% (2011-2013), S&P 500 +3.5% (2007-2010).

The Capital Markets Benchmark (policy) weightings for the Education Enhancement Trust Fund were as follows:

|               | IG<br>FI | Tax-<br>Exempt<br>FI | Gibl EO &<br>Dom / Intl | RE  | HY<br>Debt | TIPS | Cash/<br>Comm | PE |
|---------------|----------|----------------------|-------------------------|-----|------------|------|---------------|----|
| 07/18 - 06/19 | 22%      | 8%                   | 51%                     | 10% | 7%         | 0%   | 2%            | 0% |
| 07/15 - 06/18 | 20%      | 10%                  | 51%                     | 10% | 7%         | 0%   | 2%            | 0% |
| 07/14 - 06/15 | 16%      | 10%                  | 53%                     | 10% | 7%         | 2%   | 2%            | 0% |
| 07/13 - 06/14 | 17%      | 11%                  | 52%                     | 6%  | 5%         | 5%   | 2%            | 2% |
| 07/11 - 06/13 | 0%       | 30%                  | 52%                     | 6%  | 5%         | 3%   | 2%            | 2% |
| 07/10 - 06/11 | 0%       | 35%                  | 48%                     | 5%  | 5%         | 3%   | 2%            | 2% |
| 07/09 - 06/10 | 0%       | 37%                  | 48%                     | 5%  | 5%         | 1%   | 2%            | 2% |
| 07/08 - 06/09 | 3%       | 30%                  | 48%                     | 5%  | 5%         | 5%   | 2%            | 2% |
| 07/07 - 06/08 | 8%       | 25%                  | 48%                     | 5%  | 5%         | 5%   | 2%            | 2% |
| 07/06 - 06/07 | 3%       | 30%                  | 48%                     | 5%  | 5%         | 5%   | 2%            | 2% |
| 07/05 - 06/06 | 3%       | 32%                  | 40%                     | 10% | 10%        | 5%   | 0%            | 0% |
| 07/04 - 06/05 | 7%       | 33%                  | 24% / 6%                | 10% | 10%        | 10%  | 0%            | 0% |
| 07/02 - 06/04 | 10%      | 35%                  | 25% / 0%                | 10% | 10%        | 10%  | 0%            | 0% |

18 **Investment Grade Fixed Income:** FTSE USBIG Bond Index (2003-2019). **Global Equity:**  $\frac{2}{3}$  S&P Global 1200 +  $\frac{1}{3}$  S&P 500 Index (2012-2019 and 2007-2010),  $\frac{2}{3}$  S&P Global 1200 Ex-Iran +  $\frac{1}{3}$  S&P 500 Index (2011),  $\frac{2}{3}$  MSCI ACWI +  $\frac{1}{3}$  MSCI US Index (2006). **Domestic Equity:** S&P 500 Index (2005), Russell 1000 Index (2003-2004). **International Equity:** MSCI ACWI ex-US Index (2005). **Real Estate:** weighted index (2006), MSCI US REIT Index (2014-2019 and 2005-2006), NCREIF Property Index +1.25% (2011-2013), NCREIF Property Index (2006-2010), REIT Benchmark (2003-2004). **High Yield Debt (Corporate & Real Estate):** FTSE US High-Yield Market Index (2010-2019 and 2003-2006), FTSE US All BB-Rated Index (2007-2009). **TIPS:** FTSE US-ILSI (2003-2015). **Cash/Commodities:** FTSE US 3-Month Treasury Bill Index (2007-2019). **Private Equity:** S&P 500 (2014), S&P 500 +1.75% (2011-2013), S&P 500 +3.5% (2007-2010).

The Capital Markets Benchmark (policy) weightings for the Health Care Trust Fund were as follows:

|               | IG<br>FI | Gibl EO &<br>Dom / Intl | RE  | HY<br>Debt | TIPS | Cash/<br>Comm | PE |
|---------------|----------|-------------------------|-----|------------|------|---------------|----|
| 07/15 - 06/19 | 30%      | 51%                     | 10% | 7%         | 0%   | 2%            | 0% |
| 07/14 - 06/15 | 26%      | 53%                     | 10% | 7%         | 2%   | 2%            | 0% |
| 07/11 - 06/14 | 28%      | 52%                     | 6%  | 5%         | 5%   | 2%            | 2% |
| 07/06 - 06/11 | 33%      | 48%                     | 5%  | 5%         | 5%   | 2%            | 2% |
| 07/05 - 06/06 | 35%      | 40%                     | 10% | 10%        | 5%   | 0%            | 0% |
| 07/04 - 06/05 | 40%      | 24% / 6%                | 10% | 10%        | 10%  | 0%            | 0% |
| 07/02 - 06/04 | 45%      | 25% / 0%                | 10% | 10%        | 10%  | 0%            | 0% |

19 The SDRS Combined Internal Equity Benchmark consists of the  $\frac{2}{3}$  S&P Global 1200 +  $\frac{1}{3}$  S&P 500 Index in fiscal years 2012-2019 and 2005-2010; in fiscal year 2011 the  $\frac{2}{3}$  S&P Global 1200 Ex-Iran +  $\frac{1}{3}$  S&P 500 Index was used. Prior to fiscal year 2010, the benchmark consisted of

the International Equity Benchmark (MSCI ACWI ex-US Index in fiscal years 2002-2004 and  $\frac{3}{4}$  MSCI EAFE +  $\frac{1}{4}$  MSCI EASEA Index in fiscal years 1993-2001) and the Domestic Equity Benchmark (Russell 1000 Index in fiscal years 1996-2004 and S&P 500 Index in fiscal years 1974-1995) weighted according to the beginning monthly portfolio weights, adjusted for cash transfers.

- 20 Russell 1000 Index in fiscal years 1996-2004 and S&P 500 Index in prior periods.
- 21 The Convertible Benchmark was calculated using the duration-adjusted Bank of America Merrill Lynch Corporate Bond Indices for each rating category for the bond portion and the prime money market rate plus 100 basis points annually for the hedged equity option portion. It was based on the risk characteristics of the portfolio.
- 22 The Merger Benchmark was the implemented Merger index portfolio from January 1, 2011 - June 30, 2012, the Merger Custom Index from July 1, 2007 - December 31, 2010, and the 3-Month Treasury Bill Index return plus 4.25% annually in prior periods.
- 23 Asset growth is affected by contributions, withdrawals, management fees, and investment income.
- 24 Investment income includes realized and unrealized capital gain/loss income and receipted and accrued securities income.
- 25 The Real Estate Benchmark consists of the MSCI US REIT Index in fiscal years 2014-2019, NCREIF Property Index + 1.25% in fiscal years 2011-2013, NCREIF Property Index in fiscal years 2002-2010, and NCREIF Classic Property Index from December 1994 - June 2001.
- 26 The Private Equity Benchmark consists of the  $\frac{3}{5}$  MSCI ACWI +  $\frac{1}{5}$  MSCI US Index in fiscal year 2015-2019, S&P 500 Index in fiscal year 2014, S&P 500 Index + 1.75% in fiscal years 2011-2013, S&P 500 + 3.5% in fiscal years 2005-2010, Russell 1000 + 3.5% in fiscal years 2002-2004, and Russell 1000 + 5.0% in fiscal years 1999-2001.
- 27 The South Dakota Cement Plant Retirement Fund (CPRF) was consolidated into the South Dakota Retirement System (SDRS) on April 1, 2014, per SDCL 3-12C-1642. For fiscal years 1973-2013, CPRF assets are included with SDRS.





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