

THE SOUTH DAKOTA INVESTMENT COUNCIL



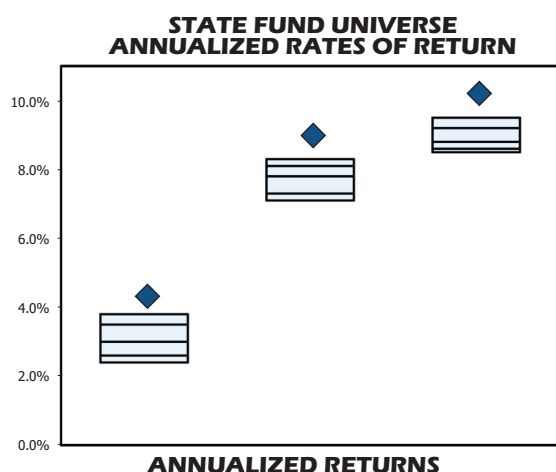
Table of Contents.....	1
Transmittal Letter	2
South Dakota Investment Council Members.....	4
South Dakota Investment Office Staff.....	5
Assets Managed	6
South Dakota Retirement System	
Total Fund.....	7
Bond Portfolio.....	14
Equity Portfolio.....	16
Arbitrage Portfolios.....	19
Cement Plant Retirement Fund	
Total Fund.....	20
Bond Portfolio.....	26
Equity Portfolio.....	28
South Dakota Cash Flow Fund	30
School & Public Lands	34
Dakota Cement Trust.....	36
Education Enhancement Trust	38
Health Care Trust.....	40
Higher Education Savings Plan.....	42
Appendix	
Higher Education Savings Plan Letter.....	43
Financial Statements with Auditor's Report.....	45
Portfolio Summaries.....	49
Certificate of Deposit Program.....	53
Glossary	54
Endnotes	56

TO THE GOVERNOR, LEGISLATURE AND PEOPLE OF SOUTH DAKOTA:

We are pleased to present the South Dakota Investment Council performance review for the fiscal year ended June 30, 2010. The Investment Council manages the financial assets of the State of South Dakota, including public retirement systems, public trust funds, and other financial assets.

LONG-TERM INVESTMENT PERFORMANCE

The South Dakota Investment Council has managed South Dakota Retirement System (SDRS) assets for the past 37 years. Over the long term, investment returns have meaningfully exceeded the state fund universe and the Investment Council's capital markets benchmark (index returns) as shown on the following exhibit.



	ANNUALIZED RETURNS		
	10 Years	20 Years	37 Years
	<u>2001-2010</u>	<u>1991-2010</u>	<u>1974-2010</u>
10th %tile	3.8	8.3	9.5
25th %tile	3.5	8.1	9.2
Median	3.0	7.8	8.8
75th %tile	2.6	7.3	8.6
90th %tile	2.4	7.1	8.5
◆ SDRS Fund	4.3	9.0	10.2
SDRS CMB	3.1	7.8	9.4
SDRS %tile Rank	4	1	1

The investment return for SDRS was 18.7% for Fiscal Year 2010. While this return is very favorable for short-term performance, the Investment Council's focus is on the long term. It is important to be mindful that there have been, and likely will be in the future, interim underperforming periods. The long-term success has primarily resulted from sticking to the long-term investment strategies during underperforming periods.

SDRS total fund and capital markets benchmark returns can be found on page 11 of the annual report for every fiscal year and various rolling time periods. The returns for the Cement Plant Retirement Fund and all of the trust funds can be found in their respective sections.

RETURN EXPECTATIONS

Since the mid 1990s, the Investment Council has cautioned against expecting continuation of the double-digit returns earned during up markets, such as from 1982 to 1999 and more recently 2003 to 2007. Market return expectations should be based on forward-looking long-term economic projections rather than extrapolation of past returns which tend to be inversely related to future results. As shown in the following exhibit, bond yields were 14.4% in 1982, and the Council's long-term expected return for stocks based on projected dividends and cash flows was 15.6%. These expected returns were so high because markets were very cheap, having performed poorly for many previous years. The subsequent 10-year actual returns of 13.7% for bonds and 18.3% for stocks were close to expectations. By June 30, 1992, bond yields had declined to 7.1%, and the Council's expected return for stocks was down to 9.5%. The subsequent 10-year actual returns were 7.4% for bonds and 11.5% for stocks. As of June 30, 2002, expected returns were 4.8% for bonds and 7.9% for stocks, much lower because interest rates were low for bonds and stocks were expensive. Eight years into the ten year period, the actual returns have been 5.8% for bonds and 2.5% for stocks.

AN UPDATE ON REALISTIC EXPECTATIONS

	<u>Bonds*</u>	<u>S&P 500</u>	<u>S&P 500 Yield</u>
Expected 10-Year Returns as of 6/30/82	14.4%	15.6%	6.1%
Actual Returns - 7/1/82 to 6/30/92	13.7%	18.3%	
Expected 10-Year Returns as of 6/30/92	7.1%	9.5%	3.0%
Actual Returns - 7/1/92 to 6/30/02	7.4%	11.5%	
Expected 10-Year Returns as of 6/30/02	4.8%	7.9%	1.6%
Actual Returns so far - 7/1/02 to 6/30/10	5.8%	2.5%	
Expected 10-Year Returns as of 6/30/10	2.9%	8.4%	2.1%

*Expected returns are for the 10-year Treasury note. Actual returns are for the Citigroup Broad Investment-Grade (BIG) Index.

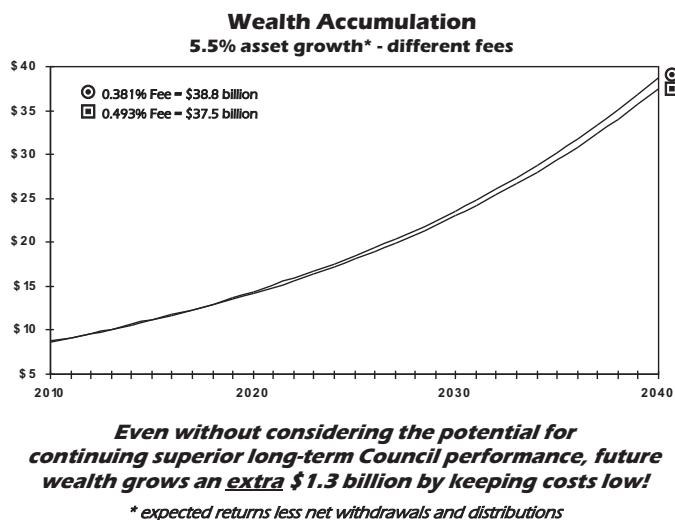
As of June 30, 2010, expected returns were 2.9% for bonds and 8.4% for stocks. Low interest rates foreshadow low future bond returns. The expected return for stocks is lower than earned on average in the latter half of the last century but compares favorably to expectations for bonds. The expected long-term return for the overall SDRS portfolio, which is diversified across a number of asset categories, is roughly 7.5%. This excludes consideration of any value added or detracted relative to index returns resulting from managing the portfolio, as well as the impact of the timing of withdrawals from the fund. As SDRS matures, benefit payments are increasingly funded from investment earnings rather than inflowing contributions. When markets are depressed, benefit payment withdrawals are a larger percentage of fund value. Removing more when markets are cheap and less when expensive reduces long-term fund growth.

It is important to note the expected return is the mid-point of a range of possible outcomes. For a 10-year horizon, the standard deviation, which statistically encompasses the central two-thirds of potential outcomes, was plus or minus 4.8% around the expected return of 7.5% for a range of 2.7% to 12.3% per annum. For a 20-year horizon, it was plus or minus 3.4% for a range of 4.1% to 10.9%.

A major concern is the unsustainable buildup of federal debt. This reduces confidence in the economy and financial markets and may ultimately lead to increased inflation and lower real returns.

IMPORTANCE OF LOW COSTS

The following exhibit illustrates the importance of keeping investment management costs low.



The Investment Council's internal management cost is \$1.06 per \$1,000 of assets. Including external management fees, the Council's cost is \$3.81 per \$1,000, which compares with the median industry cost of \$4.93 per \$1,000. This cost savings of \$1.12 per \$1,000 exceeds \$9.3 million per year. Compounding these savings over many years can result in hundreds of millions of dollars.

LONG-TERM APPROACH

The Investment Council has historically attempted to add value by investing in assets believed to be undervalued from a long-term perspective. Measurement of long-term value is based on estimated future cash flows. Risk is managed through diversification and by reducing amounts invested in assets considered overvalued. The Council believes patience and discipline are essential to implementing a long-term oriented investment approach, particularly during periods of underperformance.

A TEAM EFFORT

The Investment Council recognizes the importance of the consistent support of the Legislature, primarily through the LRC Executive Board and Appropriations Committee, and the Executive Branch. This support has made possible the Council's Long-Term Plan, which has guided the Council for more than two decades and allowed development of a stable, experienced, home-grown investment team. A key aspect of this support is an understanding of the long-term nature of the Council's investment strategies.

The Council values excellent working 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 would also like to acknowledge important contributions by the Legislative Research Council, the Attorney General's Office, the Department of Legislative Audit, and the Bureau of Information and Telecommunications.

The Council and investment team greatly appreciate all the help and support from each of these groups. This was critical in the previous couple years which were the most challenging to investment management since the 1930s. The Council believes its strengths of a supportive environment, an experienced and passionate investment team, and disciplined focus on long-term investment value will serve us well in the decades to come.

As the Investment Council embarks on its thirty-ninth year, we remain dedicated to retaining the trust and confidence necessary for this successful team effort to continue.

RESPECTFULLY SUBMITTED,

Paul C. Livermore

Paul C. Livermore, CFA
Chair

Matthew L. Clark

Matthew L. Clark, CFA
State Investment Officer

Paul Livermore, CFA, Chair**

Senior V.P. & Chief Financial Officer
First National Bank
Sioux Falls

Haven L. Stuck, Vice-Chair**

Attorney-At-Law
Lynn, Jackson, Shultz & Lebrun, P.C.
Rapid City

Joseph A. Anglin, CFA*

V.P. & Chief Financial Officer
Pioneer Bank & Trust
Spearfish

Wesley G. Tschetter*

V.P. of Finance & Business & CFO
South Dakota State University
Brookings

Hugh M. Bartels

President
Reliabank Dakota
Watertown

Jarrod Johnson*

Commissioner of School & Public Lands
State of South Dakota
Pierre

Vernon L. Larson**

State Treasurer
State of South Dakota
Pierre

Robert A. Wylie

Executive Director/Administrator
South Dakota Retirement System
Pierre

*Denotes member of Audit Committee

**Denotes member of Compensation Committee

History

- Established by the South Dakota Legislature in 1971 and became operative 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.
- Three members serve ex officio: the State Treasurer, the Commissioner of School and Public Lands and a designee of the South Dakota Retirement System Board of Trustees.

Responsibilities²⁵

- To develop investment policy and establish asset allocation guidelines.
- To monitor implementation of investment process.
- To oversee audit process through Audit Committee.

State Investment Officer

Matthew L. Clark, CFA

Assistant Investment OfficersBrett D. Fligge, CFA/CPA
Global Equity &
Alternative InvestmentsChristopher L. Nelson, CFA
Fixed Income &
Alternative InvestmentsTammy V. Otten, CFA/CPA
Fixed Income & Derivative

Fixed IncomeSherry Z. Nelson, CFA/CPA
Senior Portfolio Manager
HESP SpecialistRenae A. Randall, CFA
Associate Portfolio Manager
High Yield & Distressed Debt

Global EquityScott A. Hess, CFA/CPA
Senior Portfolio ManagerSteven W. Schultz, CFA
Senior Portfolio ManagerMelissa M. Hansen-Woidyla, CFA
Portfolio ManagerJarrod A. Edelen, CFA
Associate Portfolio ManagerJeffrey J. Ellefson, CFA
Associate Portfolio ManagerDarci L. Haug, CFA
Associate Portfolio ManagerArianna P. Rehfeldt, CFA
Associate Portfolio ManagerRandall J. Spinar, CFA
Associate Portfolio ManagerAdam D. Schwab, CFA
Assistant Portfolio ManagerAnne M. Doshier
Research AnalystLee W. Mielke
Research Analyst

ArbitrageJan E. Zeeck, CFA/CPA
Merger Arbitrage
Portfolio ManagerCandice S. Currier, CFA
Merger Arbitrage
Portfolio ManagerDan C. Frasier, CFA
Convertible Arbitrage
Associate Portfolio ManagerRoss D. Sandine, CFA
Convertible Arbitrage
Assistant Portfolio ManagerDanielle J. Schmidt
Convertible Arbitrage & High Yield
Research Analyst

Investment AccountingCynthia J. Pickering, CPA
Senior Investment AccountantJanet K. Schlueter, CPA
Senior Investment AccountantSamantha M. Kangas, CPA
Investment AccountantPeggy J. Naessig, CPA
Investment Accountant

Business Manager

Laurie A. Riss

Secretary/Receptionist

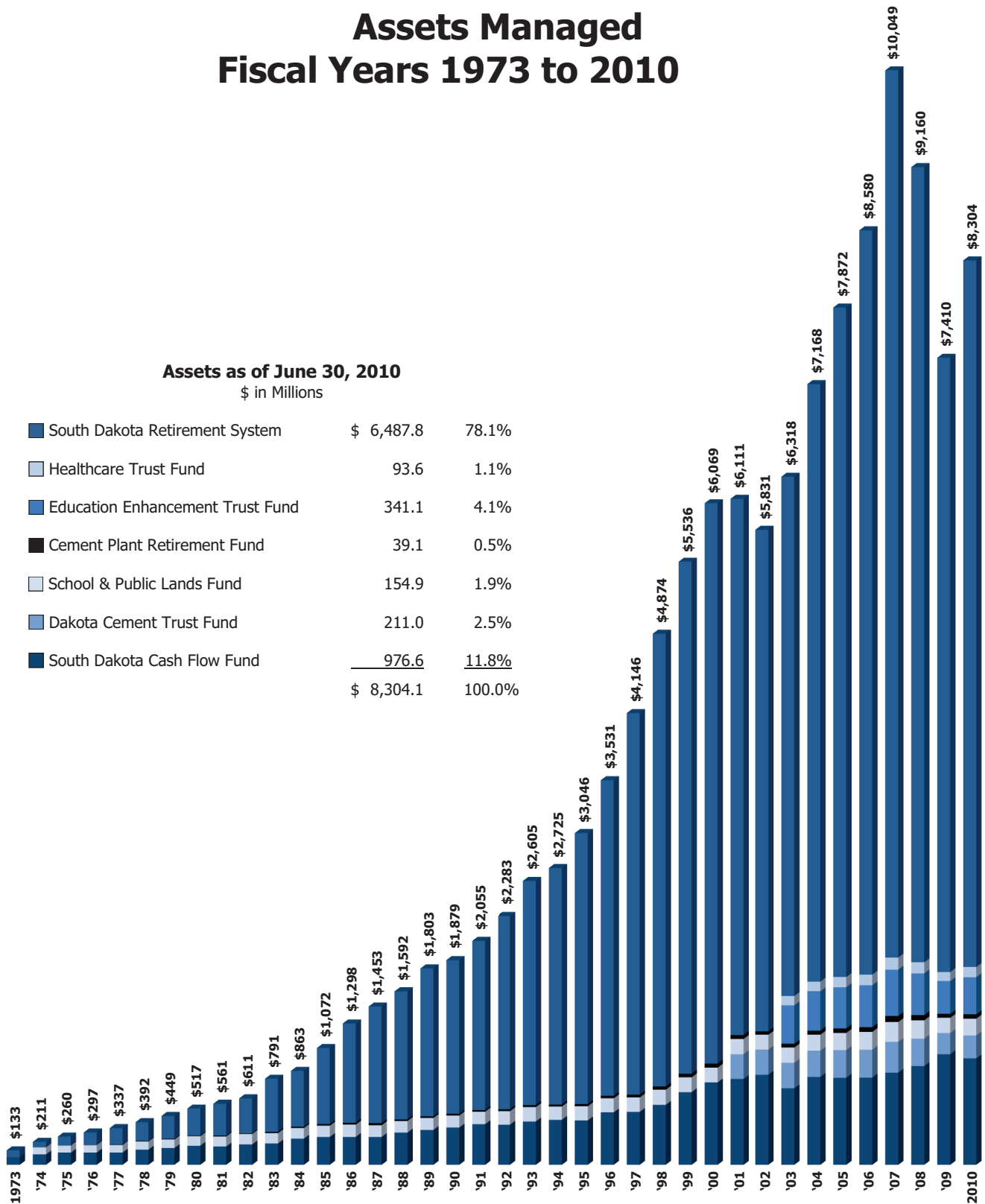
JoAnn Eidenshink

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 Investment Office has historically made extensive use of the student intern program. This has proven to be an excellent source of permanent investment team staffing over time.

South Dakota Investment Council Assets Managed Fiscal Years 1973 to 2010

Assets as of June 30, 2010
\$ in Millions

■ South Dakota Retirement System	\$ 6,487.8	78.1%
■ Healthcare Trust Fund	93.6	1.1%
■ Education Enhancement Trust Fund	341.1	4.1%
■ Cement Plant Retirement Fund	39.1	0.5%
■ School & Public Lands Fund	154.9	1.9%
■ Dakota Cement Trust Fund	211.0	2.5%
■ South Dakota Cash Flow Fund	<u>976.6</u>	<u>11.8%</u>
	\$ 8,304.1	100.0%



INVESTMENT OBJECTIVES AND RESULTS

The most important overall objective of the South Dakota Investment Council (Council) in managing the assets of the South Dakota Retirement System (SDRS) is to prudently manage the assets to achieve and exceed the returns that the broad capital markets provide over the long term. The Council has five specific objectives. The first two relate to achieving and exceeding the actuarial estimated rate of return over the very long term. This will help assure the financial health of SDRS. The remaining three investment objectives give the Council specific guidance as to how well the investment team is performing in attempting to provide competitive investment performance relative to reasonable alternatives for managing SDRS assets. Two of these objectives relate to achieving and exceeding the index returns of the Council's capital markets benchmark. The final objective involves comparison to the returns of other professional managers. The objectives and results are:

♦ Achieve the actuarial rate of return over the very long term.

The actuarial rate of return is an estimate made by a retirement system's actuary of the investment rate of return that is achievable over the very long term through investing in the capital markets. The return estimate along with other actuarial estimates relating to issues such as member longevity, salary changes, and turnover are used by the actuary to assess the funding status and overall health of a retirement system. The actuarial rate of return needs to be earned over the long term to pay projected future benefits. If the return estimate is achieved and the other actuarial estimates are accurate, the retirement system should remain financially strong. The initial funding status also affects the needed rate of return. If the investment markets do not allow the Council, or the Council simply fails, to achieve the estimated return over the long term, South Dakota law may require benefit reductions, contribution changes, or both. It is important that the actuarial estimated return be a reasonable expectation of what the capital markets can deliver or it may not be realistic to expect to achieve this objective. In December 2004, the SDRS Board of Trustees changed the actuarial rate of return from 8% to 7.75% effective July 1, 2005.

This objective has been exceeded.

The Council is most comfortable with viewing the long term in increments of 20 or 30 years. Others could suggest that the long term may be as short as 5 to 10 years. Using all of these definitions of long-term periods of time, the Council has met this objective 87% of the time for the SDRS total fund.

The following table summarizes the SDRS total fund performance versus the actuarial rate of return of 7.75%. A complete listing of the rolling 5, 10, 20 and 30-year returns for the SDRS total fund is located on page 11.

SDRS Total Fund vs. Actuarial Rate		
	# of successes	# of periods
5 years	25	33
10 years	25	28
20 years	18	18
30 years	8	8
Total	76	87

♦ Achieve a return in excess of the actuarial rate of return over the long term.

The reason for this objective is that some of the long-term goals adopted by the SDRS Board of Trustees relative to appropriate benefit levels for its members have not been accomplished. In order to accomplish these goals, additional wealth needs to be created through investment return above the actuarial rate. Additional return above the actuarial estimated return increases the likelihood that the retirement system will remain financially strong. Once again, if the capital markets do not provide an opportunity over the long term to accomplish this objective, even with superior performance, the

SDRS long-term goals will not be achievable.

This objective has been exceeded.

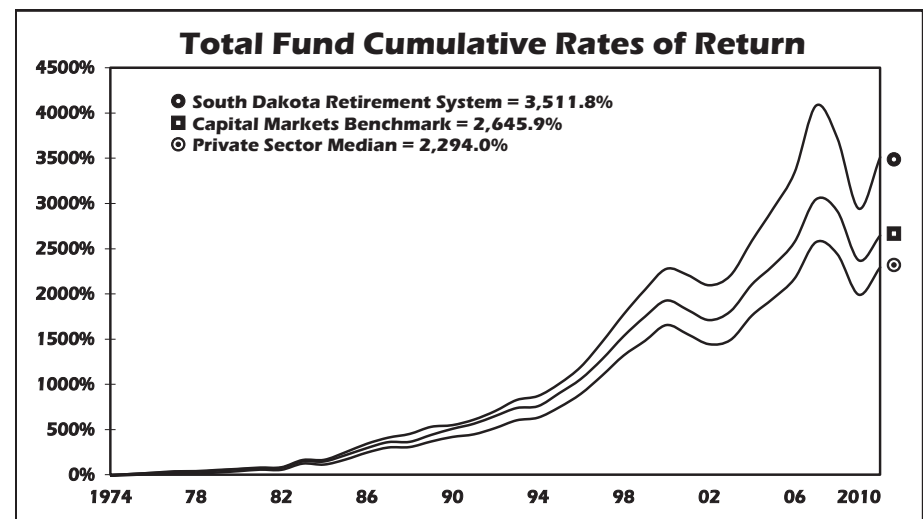
The Council has attempted to earn a return 1% greater than the actuarial rate of return. Using the same analysis as enumerated for the first objective, the Council has met this goal 83% of the 87 measurement periods for the SDRS total fund portfolio.

The following table summarizes the SDRS total fund performance versus the actuarial rate of return plus 1%.

SDRS Total Fund vs. Actuarial Rate +1%		
	# of successes	# of periods
5 years	22	33
10 years	25	28
20 years	17	18
30 years	8	8
Total	72	87

♦ Achieve favorable total fund performance relative to a capital markets benchmark reflective of the Investment Council's normal asset allocation policy.

This is the most important specific investment objective in judging the Council's delivery of a competitive rate of return. The objective is to achieve and exceed for the overall retirement system portfolio the indexed returns that would be earned if SDRS was invested in the Council's selected capital markets benchmark. The key investment policy decision made by the Council is asset allocation. The Council makes this decision based on an assessment of long-term expected rates of return, risk, and diversification



characteristics of stocks, bonds, cash and other capital market areas. Based on this, the Council establishes the normal portfolio which is used as the benchmark. For fiscal year 2010, the Council's normal portfolio was 57% global equities, 18% investment grade bonds/inflation protected Treasuries (TIPS), 6% high yield/distressed bonds, 5% arbitrage, 7% real estate, 5% private equities, 1% commodities and 1% cash. Prior fiscal years are shown on page 56. The long-term expected return of the fund as of June 30, 2010 was 7.5% with a volatility of 15.1%. This means that the return in any given year can fall within a range of -7.6 to 22.6% with 66% confidence or -22.7% to 37.7% with 95% confidence. To a large degree, this portfolio could be indexed in a passive manner essentially locking in the return of the benchmark. Alternatively, the Council has historically used active management in an attempt to outperform the benchmark portfolio.

This objective has been achieved.

This is a difficult objective to accomplish. The principal reason is that most investment managers do not outperform the capital markets over time. The industry's lack of performance is the result of the investment world being a zero-sum game as a whole. Each investment transaction has a seller and a buyer and a winner and a loser. All transactions also incur transaction costs which include commissions and a difficult to measure market impact cost.

The following table summarizes the SDRS total fund performance versus the capital markets benchmark (CMB). A complete listing of the rolling 5, 10, 20 and 30-year returns for the SDRS total fund and the CMB is located on page 11.

SDRS Total Fund vs. Capital Markets			
	# of successes	# of periods	% of success
5 years	27	33	82%
10 years	25	28	89%
20 years	18	18	100%
30 years	8	8	100%
Total	78	87	90%

♦ ***Achieve favorable specific asset category performance relative to the identified capital market benchmark.***

The Council strives to outperform the passive opportunity that exists in each of the asset categories in which SDRS assets are involved. That means the performance of actively managed assets

are to be measured against the indexed returns of the Council's selected capital market benchmark. As an example, the Council compares the return of the investment team's global equity portfolio to the indexed returns that would be available if those dollars were invested in the global equity benchmark.

This is an extremely difficult objective to achieve because of the zero-sum game issue and the transaction costs issue. As an example, over the past five years, 63.8% of active large cap equity fund managers under-performed the S&P 500 Index.

This objective has been achieved for most asset categories the majority of the time.

Prior to fiscal year 2005, domestic equity and international equity securities were internally managed separately and their returns were compared to separate benchmarks. On July 1, 2004, domestic and international equity securities were combined and are now managed together against one benchmark. The Council compared the internal domestic equity portfolio to the S&P 500 Index (1974-1995) and the Russell 1000 Index (1996-2004). The internal international portfolio has been compared to the $\frac{3}{4}$ MSCI EAFE + $\frac{1}{4}$ MSCI EASEA Index (1993-2001) and the MSCI All Country World ex-US Index (2002-2004). The combined internal equity fund has been compared to the International Equity benchmark and Domestic Equity benchmark weighted according to the beginning monthly portfolio weights, adjusted for cash transfers (1974-2004) and the $\frac{2}{3}$ S&P 1200 + $\frac{1}{3}$ S&P 500 Index (2005-2010). The internal global equity fund comprised 49.1% of SDRS assets on June 30, 2010.

The table below summarizes the SDRS combined internal equity fund versus its benchmark.

SDRS Internal Equity vs. Benchmark			
	# of successes	# of periods	% of success
5 years	23	33	70%
10 years	20	28	71%
20 years	15	18	83%
30 years	8	8	100%
Total	66	87	76%

A complete listing of the rolling 5, 10, 20 and 30-year returns is located on page 16. Historical return information for the internal domestic and international equity funds is located on page 18.

Prior to fiscal year 2007, the investment grade and high yield bond securities were internally managed together in one portfolio and their return was compared to one benchmark. On July 1, 2006, the investment grade and high yield bond securities were separated and are now managed individually against their own benchmarks. The Council compared the internal bond portfolio to the Lehman Brothers Government/Corporate Index (1974-1980), Citigroup Broad Investment Grade Bond Index (1981-1995) and the Internal Bond Benchmark (1996-2006). The combined internal bond fund (which is the Investment Grade portfolio weighted 80% + the High Yield portfolio weighted 20%) is compared to Combined Internal Bond Benchmark (2007-2010). As of June 30, 2010, 14.0% of SDRS assets were invested in internal bonds.

The following table summarizes the SDRS combined internal bond portfolio versus its benchmark. A complete listing of the rolling 5, 10, 20 and 30-year returns is located on page 14.

SDRS Internal Bonds vs. Benchmark			
	# of successes	# of periods	% of success
5 years	21	33	64%
10 years	19	28	68%
20 years	17	18	94%
30 years	8	8	100%
Total	65	87	75%

While the equity and bond asset categories continue to comprise the majority of the Council's normal portfolio and the SDRS portfolio, investments are made in a number of other asset categories to diversify the SDRS portfolio and achieve long-term expected rates of return.

One asset category that has been used since the inception of the Council is cash. For the 37 years since inception, the cash portfolio has outperformed the 3-month Treasury Bill Index with a 6.4% return versus 5.8%. On June 30, 2010, 0.1% of SDRS assets were invested in cash.

The internally managed merger and convertible arbitrage portfolios comprised 3.7% of SDRS assets as of June 30, 2010. SDRS also had 1.2% of assets invested in hedge fund-like funds on June 30, 2010. The merger arbitrage portfolio has been compared to the 3-month Treasury Bill Index plus 4.25% annually (1991-2007) and the Merger Custom Index (2008-2010). The convertible arbitrage portfolio is

compared to the custom Convertible Benchmark²¹.

The following table summarizes the SDRS Merger and Convertible Arbitrage portfolios versus their benchmarks. A complete listing of the 5 and 10-year returns is located on page 19.

SDRS Merger Arbitrage vs. Benchmark			
	# of successes	# of periods	% of success
5 years	12	16	75%
10 years	9	11	82%
20 years	1	1	100%
Total	22	28	79%

Convertible Arbitrage vs. Benchmark			
	# of successes	# of periods	% of success
5 years	9	13	69%
10 years	8	8	100%
Total	17	21	81%

The real estate asset category was added in fiscal year 1995. Real estate assets are measured on an Internal Rate of Return (IRR) basis and have been compared to the NCREIF Classic Property Index (1995-2001) and the NCREIF Property Index (2002-2010). On June 30, 2010, 9.3% of SDRS assets were invested in real estate.

The private equity asset category was added in fiscal year 1999. Private equity assets are measured on an IRR basis and have been compared to the Russell 1000 plus 5.0% (1999-2001), Russell 1000 plus 3.5% (2002-2004) and S&P 500 plus 3.5% (2005-2010). As of June 30, 2010, 11.3% of SDRS assets were invested in private equity.

The distressed debt asset category was added in fiscal year 2003. Distressed debt assets have been benchmarked against the Lehman Brothers Corporate CCC Index (2003-2006) and Citigroup High-Yield Market Index (2007-2010). 8.2% of SDRS assets were invested in distressed debt on June 30, 2010.

Equity investments in emerging market countries comprised 1.4% of the SDRS assets on June 30, 2010 and are compared to the MSCI Emerging Markets Index. Other special purpose equity funds are benchmarked with the internal equity fund and emerging markets funds against the $\frac{2}{3}$ MSCI All Country World Index + $\frac{1}{3}$ MSCI US Index. Special purpose equity funds comprised 1.7% of SDRS assets as of June 30, 2010.

Commodities were added to the CMB in fiscal year 2003. Currently, SDRS is not invested in this asset category though it

comprises 1% of the CMB. This asset category is benchmarked against the S&P GSCI.

A list of the externally managed funds is located on page 49.

♦ **Achieve favorable performance over the long term relative to professionally managed multi-billion dollar pension funds.**

As reported in the annual report for the past 19 years, this investment objective has become less important. The reason is because peer universes suffer survivorship bias which subjects the database to overstatement and inaccuracy. This means that the individual firms and plans making up a peer universe change over time as their results succeed or fail. Simply put, the losers drop out, and the peer universe is biased upwards by a preponderance of winners remaining. In addition, significant changes to the character and size of peer universes as well as their stated historical performance have resulted from a consolidation in the performance consulting industry. No performance consultant has kept intact a consistent peer universe database that covers the entire history of the SDRS. It is important to realize that all pension funds are managed with consideration given to their own risk and return levels (utility function). The asset allocation comfort level of each fund depends on the liability structure of the fund and amount of risk that individual boards of directors find appropriate. With all of the shortcomings referenced above, it is still important to attempt to measure and

compare SDRS's returns to both private sector and other state funds. Obviously, each of these pension funds is also attempting to produce superior returns for its beneficiaries. As a consequence, it makes sense to determine how SDRS's performance measures up compared to other professionally managed pension funds.

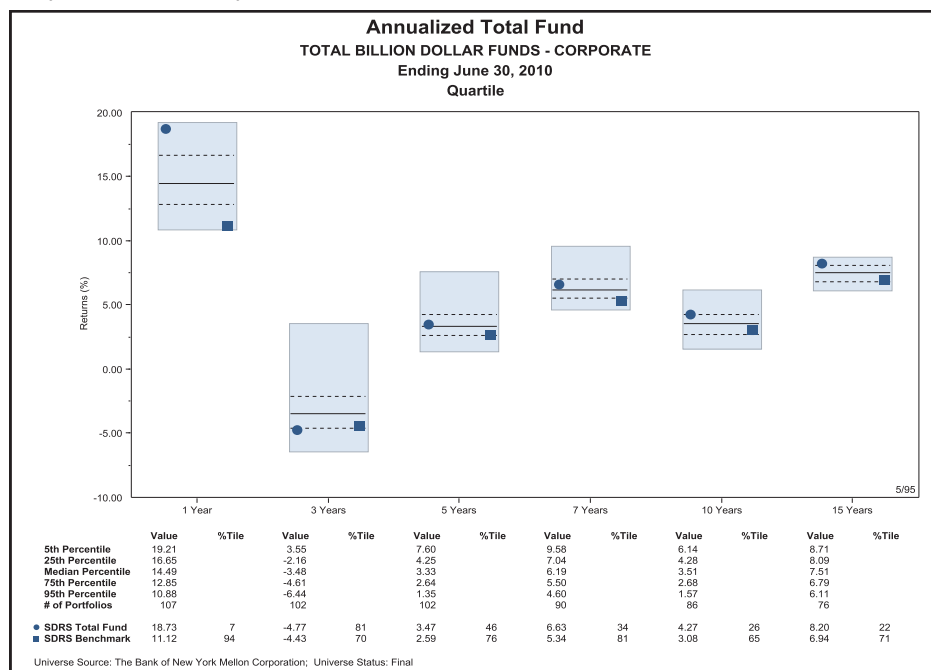
This objective has been achieved.

As mentioned in the objective, this has become less important due to the survivorship bias that peer universes suffer. This issue also makes tracking long-term results difficult. The individual firms comprising the universe change, making equitable comparisons practically impossible. The results in the following table are based on annualized median returns for that year.

SDRS Total Fund vs. Private Sector			
	# of successes	# of periods	% of success
5 years	28	33	85%
10 years	27	28	96%
20 years	18	18	100%
30 years	8	8	100%
Total	81	87	93%

SDRS Total Fund vs. State Funds			
	# of successes	# of periods	% of success
5 years	31	33	94%
10 years	28	28	100%
20 years	18	18	100%
30 years	8	8	100%
Total	85	87	98%

The chart below compares the SDRS total fund returns to the current private sector peer universe.



ASSET ALLOCATION FOCUS

Asset Allocation is an investor's most important investment issue. The Investment Council spends a significant amount of time dealing with complicated issues relating to the risk of the portfolio versus the likelihood of achieving the investment objectives for South Dakota Retirement System's assets.

The Investment Office prepares a risk return analysis for use by the Investment Council when establishing the Capital Markets Benchmark each year. The primary factors include the expected long-term return, the volatility for each asset category and the correlation (degree to which they move in the same direction) of the returns of each category to each of the others. This analysis indicates an expected long-term return of 7.5%. This excludes any value added or detracted relative to index returns resulting from managing the portfolio. When adjusted to capture real-world frequency of adverse events, the estimated annual standard deviation is 15.1%. The statistics suggest there is a 66% chance the return for any year would be between -7.6% and 22.6%. There would be a 95% chance that the return would be between -22.7% and 37.7%.

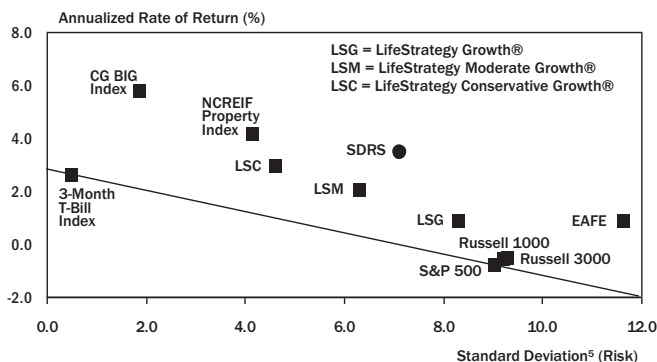
The second analysis deals with the amount of equity-like characteristics implicit in the overall portfolio. The analysis focuses on the risk to the portfolio of a decline in the U.S. equity market which is thought to be the single largest risk exposure. Most asset categories have at least some degree of sensitivity to a U.S. stock market decline. The analysis is performed for a moderate decline and again for severe decline scenarios.

As part of the asset allocation policy, the Investment Council also establishes a minimum and maximum allocation for each asset category, around the normal allocation. An important element of efforts to add value is to vary the allocation to asset categories in response to changing valuations. Risk and return potential is reassessed on an ongoing basis.

The volatility of returns for South Dakota's Retirement System assets are compared with the Vanguard LifeStrategy Conservative Growth® (LSC), Vanguard LifeStrategy Moderate Growth® (LSM) and Vanguard LifeStrategy Growth® (LSG) portfolios as shown below. The returns are also shown. The SDRS volatility of returns was less than the LSG portfolio, and higher than both the LSM portfolio and the LSC portfolio.

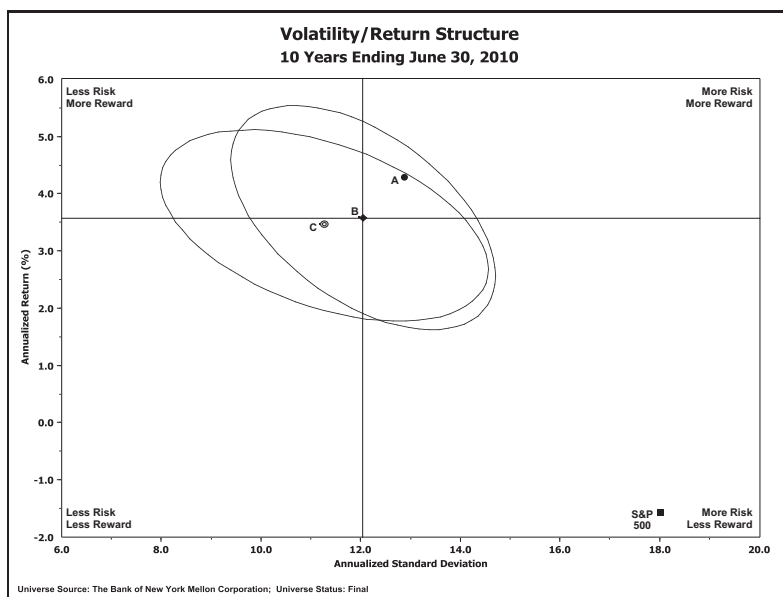
The table below shows the actual 1 and 5 year returns for these four portfolios.

ANNUALIZED TOTAL RETURN 5 Years Ending June 30, 2010



ANNUALIZED TOTAL RETURN & RISK Periods Ending June 30, 2010

	Return - <u>1 Year</u>	Return - <u>5 Years</u>	Risk - <u>5 Year</u>
Conservative	12.4%	3.0%	4.6%
Moderate	13.4%	2.1%	6.3%
Growth	14.2%	0.9%	8.3%
SDRS	18.7%	3.5%	7.1%

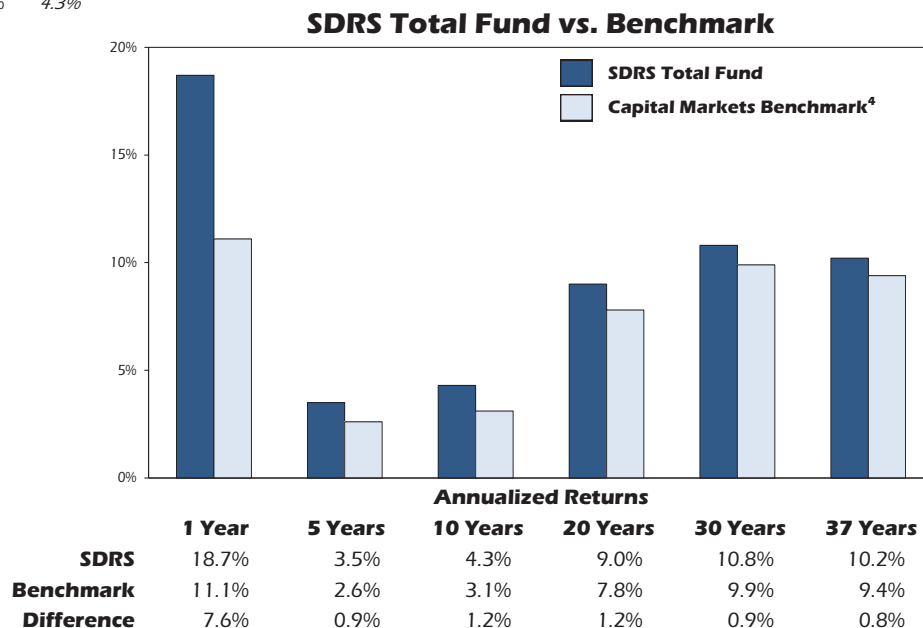


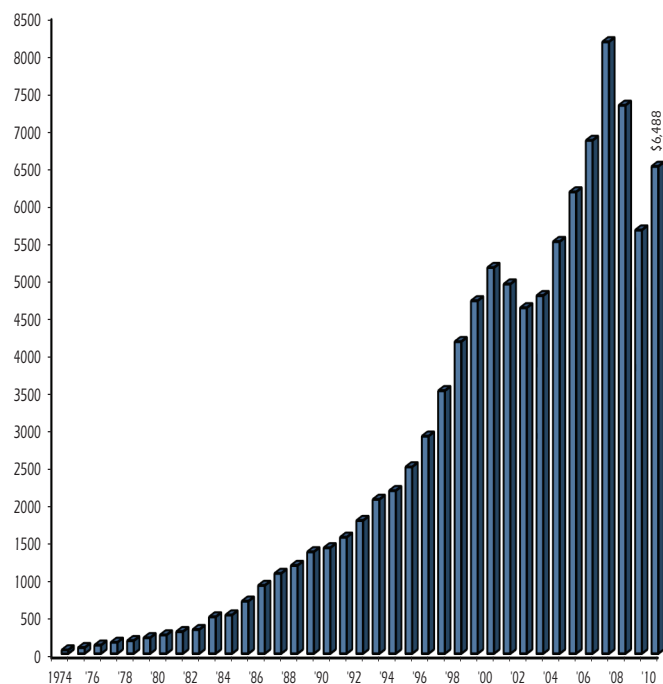
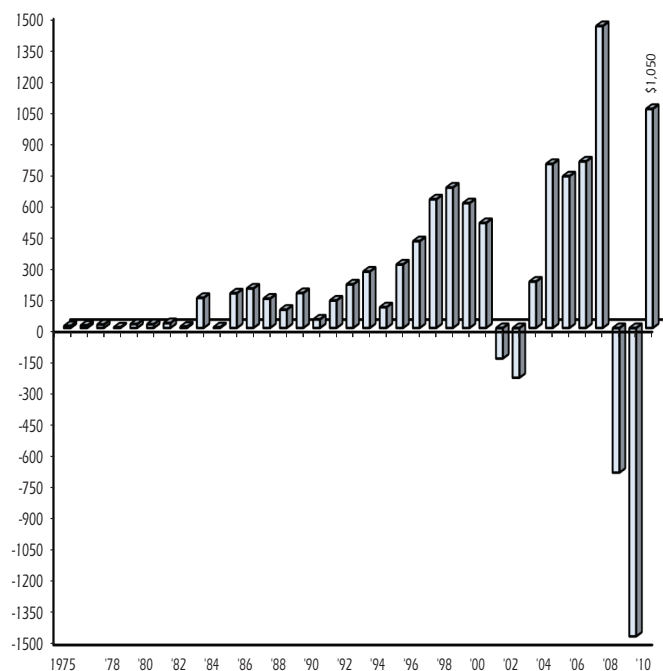
The picture on the left takes a look at the volatility versus return profile experienced by the SDRS fund. The SDRS fund (A) had an annualized return of 4.3% for the last ten years. This compares with the mean return of the Total Billion Dollars Funds - Corporate (B) for this period of 3.6% and the Total Funds - Public (C) of 3.4%. While the return has been higher, the volatility versus the private sector and public funds has also been higher.

South Dakota Retirement System Total Fund Performance¹⁰⁻¹²

	1 Year		2 Years		3 Years		4 Years		5 Years		10 Years		20 Years		30 Years		37 Years	
	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench
2010	18.7%	11.1%	(2.8%)	(4.5%)	(4.8%)	(4.4%)	1.2%	0.7%	3.5%	2.6%	4.3%	3.1%	9.0%	7.8%	10.8%	9.9%	10.2%	9.4%
2009	(20.4%)	(18.0%)	(14.7%)	(11.4%)	(4.1%)	(2.6%)	0.0%	0.6%	2.5%	2.3%	3.6%	2.9%	8.2%	7.9%	10.5%	9.9%		
2008	(8.7%)	(4.2%)	5.3%	6.1%	7.8%	7.6%	9.2%	8.1%	10.6%	9.6%	7.4%	6.3%	10.2%	9.8%	11.6%	11.0%		
2007	21.4%	17.6%	17.2%	14.1%	15.9%	12.6%	16.1%	13.3%	13.8%	11.7%	10.3%	8.6%	11.1%	10.1%	12.0%	11.2%		
2006	13.1%	10.7%	13.2%	10.2%	14.3%	11.9%	11.9%	10.3%	8.3%	6.8%	10.3%	8.7%	10.8%	10.0%	11.8%	10.9%		
2005	13.3%	9.6%	15.0%	12.5%	11.5%	10.1%	7.2%	5.9%	5.1%	3.6%	10.6%	9.2%	11.4%	10.7%	11.7%	10.9%		
2004	16.6%	15.5%	10.6%	10.3%	5.2%	4.7%	3.1%	2.1%	4.6%	3.6%	10.7%	9.9%	12.3%	11.6%	11.8%	11.0%		
2003	5.0%	5.4%	(0.1%)	(0.4%)	(1.0%)	(2.0%)	1.8%	0.8%	4.2%	3.2%	9.5%	8.6%	11.4%	10.7%	11.0%	10.3%		
2002	(4.9%)	(5.8%)	(3.9%)	(5.5%)	0.8%	(0.7%)	4.1%	2.6%	6.9%	5.6%	10.6%	9.2%	13.2%	12.3%				
2001	(2.9%)	(5.1%)	3.7%	2.0%	7.2%	5.6%	10.1%	8.7%	12.3%	10.6%	12.5%	11.2%	13.6%	12.8%				
2000	10.8%	9.7%	12.7%	11.5%	14.8%	13.7%	16.4%	15.0%	16.5%	15.1%	13.9%	12.8%	14.3%	13.5%				
1999	14.6%	13.3%	16.9%	15.8%	18.4%	16.8%	18.0%	16.5%	17.2%	16.6%	13.0%	13.1%	14.1%	13.5%				
1998	19.3%	18.4%	20.3%	18.6%	19.1%	17.6%	17.8%	17.4%	15.1%	14.2%	13.0%	13.4%	13.8%	13.3%				
1997	21.3%	18.9%	19.0%	17.2%	17.3%	17.1%	14.1%	13.2%	14.3%	12.9%	11.9%	11.6%	12.9%	12.5%				
1996	16.7%	15.5%	15.4%	16.2%	11.8%	11.4%	12.6%	11.5%	12.8%	11.8%	11.3%	11.3%	12.5%	12.0%				
1995	14.1%	16.9%	9.3%	9.4%	11.2%	10.2%	11.8%	10.9%	11.3%	10.5%	12.2%	12.2%	12.3%	11.8%				
1994	4.8%	2.4%	9.9%	7.0%	11.0%	8.9%	10.6%	9.0%	9.0%	9.7%	13.9%	13.2%	12.4%	11.6%				
1993	15.2%	11.8%	14.3%	12.3%	12.6%	11.3%	10.1%	11.6%	10.9%	12.5%	13.4%	13.0%	11.8%	11.2%				
1992	13.4%	12.9%	11.4%	11.0%	8.5%	11.5%	9.9%	12.7%	9.5%	10.2%	16.0%	15.5%						
1991	9.3%	9.2%	6.1%	10.9%	8.7%	12.7%	8.6%	9.5%	9.9%	10.9%	14.7%	14.4%						
1990	3.0%	12.5%	8.4%	14.5%	8.3%	9.7%	10.0%	11.3%	13.2%	13.9%	14.7%	14.1%						
1989	14.2%	16.4%	11.1%	8.2%	12.4%	11.0%	15.9%	14.3%	18.9%	16.9%	15.2%	13.9%						
1988	8.0%	0.7%	11.6%	8.3%	16.4%	13.5%	20.1%	17.0%	15.9%	13.4%	14.7%	13.3%						
1987	15.3%	16.6%	20.9%	20.6%	24.4%	23.1%	18.0%	16.8%	22.8%	21.1%	14.0%	13.4%						
1986	26.7%	24.7%	29.2%	26.5%	18.9%	16.9%	24.8%	22.2%	19.8%	18.0%	13.7%	12.6%						
1985	31.8%	28.2%	15.2%	13.2%	24.1%	21.4%	18.1%	16.4%	16.2%	14.4%	12.4%	11.3%						
1984	0.7%	(0.1%)	20.4%	18.1%	13.9%	12.7%	12.6%	11.2%	11.6%	11.0%	10.9%	10.0%						
1983	44.1%	39.6%	21.1%	19.8%	16.9%	15.2%	14.5%	14.0%	13.4%	13.2%	10.2%	9.5%						
1982	1.8%	2.8%	5.2%	4.7%	6.0%	6.5%	6.8%	7.4%	5.8%	6.2%								
1981	8.8%	6.6%	8.2%	8.5%	8.6%	9.0%	6.8%	7.1%	8.0%	7.4%								
1980	7.6%	10.4%	8.4%	10.3%	6.1%	7.2%	7.8%	7.6%	8.7%	8.3%								
1979	9.3%	10.2%	5.4%	5.7%	7.9%	6.7%	8.9%	7.8%	10.3%	9.1%								
1978	1.7%	1.4%	7.2%	4.9%	8.8%	7.0%	10.5%	8.8%	7.0%	5.9%								
1977	12.9%	8.6%	12.6%	9.9%	13.7%	11.3%	8.4%	7.1%										
1976	12.2%	11.2%	14.0%	12.7%	7.0%	6.5%												
1975	15.8%	14.2%	4.4%	4.3%														
1974	(5.9%)	(4.8%)																

Annualized total rate of returns for 1, 2, 3, 4, 5, 10, 20, 30 and 37 years through 2010 for the Total Fund. The Capital Markets Benchmark⁴ is provided for comparison.



Asset Growth²³ - \$ in MillionsInvestment Income²⁴ - \$ in Millions**Cash Flows and Fair Value Changes^a**

The South Dakota Retirement System began fiscal year 2010 with \$5.64 billion in assets which were decreased by \$202.1 million in net withdrawals and increased by \$1,050.3 million in investment returns. The result was an ending balance of \$6.488 billion.

Fair Value 6/30/09

\$ 5,639,582,194

Contributions/Withdrawals

Net Withdrawals

\$ (162,500,000)

Internal Management Fees

(4,314,676)

External Management Fees

(35,323,395)

Net Withdrawals

\$ (202,138,071)

Investment Return

Interest Income

\$ 99,877,308

Dividend Income

76,481,172

Real Estate Income

4,148,251

Change in Accrued Income

330,150

Net Investment Income

\$ 180,836,881

Capital Gain/Loss Income

Unrealized Gain/Loss Futures

\$ (1,704,971)

Unrealized Gain/Loss Securities

727,886,096

Realized Gain/Loss Futures

12,632,510

Realized Gain/Loss Securities

130,655,966

Net Capital Gain/Loss Income

\$ 869,469,601

Total Investment Return

\$ 1,050,306,482

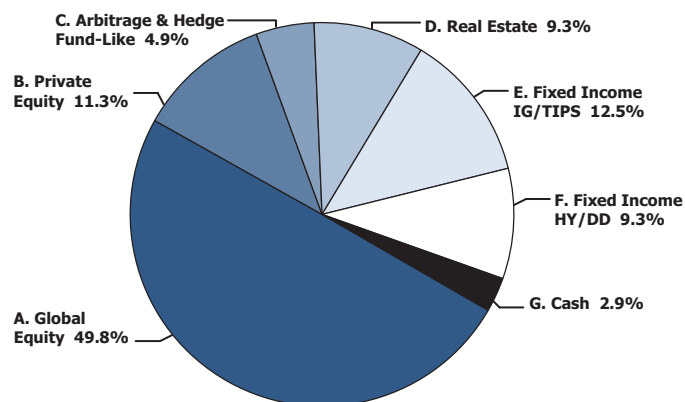
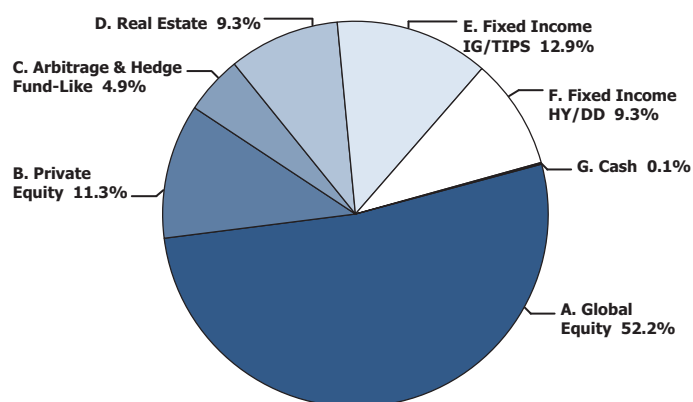
Fair Value 6/30/10

\$ 6,487,750,605

Investment Mix:

As of June 30, 2010, South Dakota Retirement System assets for which the Investment Council is responsible totaled \$6.488 billion. The broad asset categories and managers are listed below. The charts show the asset allocation of the South Dakota Retirement System, both excluding futures and Exchange-Traded Fund (ETF) positions and with futures & ETF overlay. The Capital Markets Benchmark allocation is also provided for comparison.

	Positions Excluding Futures & ETFs	Percentages Excluding Futures & ETFs	Futures & ETF Positions	Resultant Exposure with Futures & ETFs	Percentages with Futures & ETF overlay	Benchmark Percentages
A. Global Equity						
Internal Global Equity	\$ 3,032,634,501	46.7%				
Internal High Quality Equity	60,803,809	0.9%				
Brandes	31,521,952	0.5%				
Dimensional Fund Advisors	36,942,851	0.6%				
GE Asset Management	49,030,105	0.8%				
Sanders Capital	<u>21,646,312</u>	<u>0.3%</u>				
Equity Futures & ETFs			\$ 153,296,000	\$ 3,385,875,530	52.2%	57.0%
B. Private Equity Limited Partnerships						
Blackstone	\$ 200,404,510	3.1%				
Capital International	43,974,649	0.7%				
Carlyle	60,911,626	0.9%				
Cinven	60,347,511	0.9%				
Credit Suisse	2,072,580	0.1%				
CVC	52,571,780	0.8%				
Cypress	8,833,309	0.1%				
Doughty Hanson	71,686,785	1.1%				
Elevation	28,635,651	0.4%				
KKR	59,454,028	0.9%				
Neuberger Berman	11,554,507	0.2%				
PineBridge	14,065,416	0.2%				
Silver Lake	<u>119,510,114</u>	<u>1.9%</u>				
	734,022,466	11.3%		734,022,466	11.3%	5.0%
C. Arbitrage & Hedge Fund-Like						
Internal Merger Arbitrage	\$ 59,523,142	0.9%				
Internal Convertible Arbitrage	178,424,146	2.8%				
Bridgewater	67,438,315	1.0%				
Sanders Capital	<u>12,984,693</u>	<u>0.2%</u>				
	318,370,296	4.9%		318,370,296	4.9%	5.0%
D. Real Estate Limited Partnerships						
AREA Property Partners	\$ 24,860,072	0.4%				
Blackstone	470,964,184	7.2%				
CarVal	96,256,368	1.5%				
Doughty Hanson	<u>12,271,869</u>	<u>0.2%</u>				
	604,352,493	9.3%		604,352,493	9.3%	7.0%
E. Fixed Income – Investment Grade/TIPS						
Internal Investment Grade	\$ 810,719,625	12.5%				
Note Financial Futures		12.5%	28,715,400	839,435,025	12.9%	18.0%
F. Fixed Income – High Yield/Distressed Debt						
Internal High Yield	\$ 71,822,716	1.1%				
Blackstone	33,139,065	0.5%				
CarVal	163,670,246	2.5%				
Oaktree	32,934,514	0.5%				
PIMCO	140,510,723	2.2%				
TCW	<u>161,915,320</u>	<u>2.5%</u>				
	603,992,584	9.3%		603,992,584	9.3%	6.0%
G. Cash & Cash Equivalents/Commodities						
Internal Shift Account	\$ 183,713,611	2.9%				
Cash From Futures & ETFs	<u>183,713,611</u>	<u>2.9%</u>	<u>(182,011,400)</u>	<u>1,702,211</u>	<u>0.1%</u>	<u>2.0%</u>
Total	\$ 6,487,750,605	100.0%	\$ 0	\$ 6,487,750,605	100.0%	100.0%

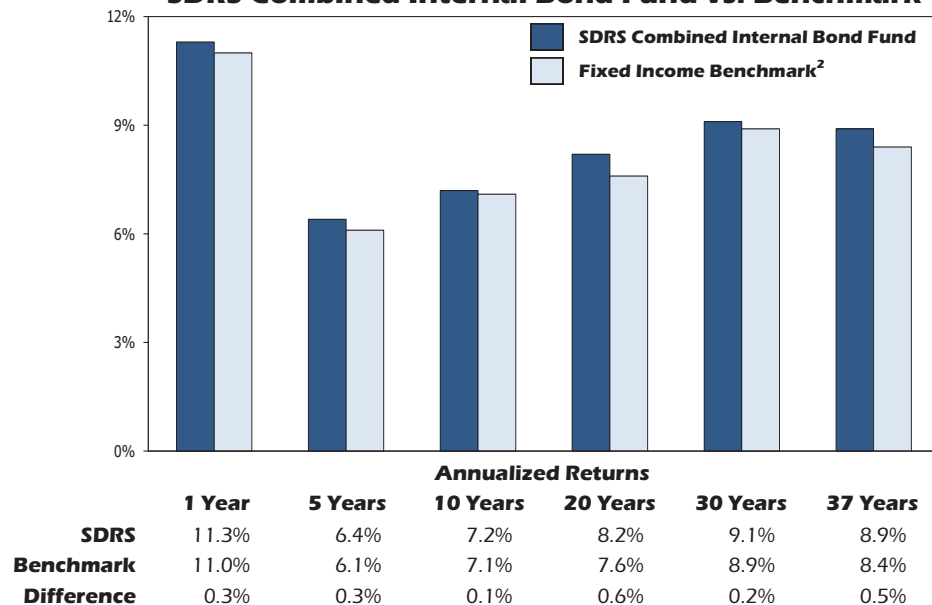
Allocation In Cash Markets**Allocation with Futures & ETF Overlay**

South Dakota Retirement System Combined Internal Bond Fund Performance

	1 Year		2 Years		3 Years		4 Years		5 Years		10 Years		20 Years		30 Years		37 Years	
	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench
2010	11.3%	11.0%	9.5%	8.7%	8.6%	7.9%	8.1%	7.6%	6.4%	6.1%	7.2%	7.1%	8.2%	7.6%	9.1%	8.9%	8.9%	8.4%
2009	7.8%	6.4%	7.3%	6.4%	7.1%	6.5%	5.2%	4.9%	6.0%	5.5%	6.5%	6.4%	8.0%	7.4%	8.8%	8.7%		
2008	6.7%	6.5%	6.7%	6.6%	4.4%	4.4%	5.5%	5.3%	4.7%	4.5%	6.0%	6.0%	8.2%	7.7%	8.8%	8.7%		
2007	6.7%	6.7%	3.2%	3.4%	5.1%	4.9%	4.2%	4.0%	6.1%	5.8%	6.6%	6.5%	8.3%	7.8%	8.6%	8.6%		
2006	(0.2%)	0.2%	4.3%	4.0%	3.3%	3.1%	6.0%	5.6%	6.0%	5.8%	6.9%	6.7%	8.4%	7.7%	8.9%	8.7%		
2005	9.1%	7.9%	5.1%	4.5%	8.1%	7.4%	7.6%	7.3%	8.1%	8.1%	7.5%	7.4%	9.3%	8.7%	9.4%	9.1%		
2004	1.3%	1.3%	7.7%	7.1%	7.1%	7.1%	7.8%	8.1%	7.1%	7.2%	8.0%	7.8%	10.3%	9.7%	9.6%	9.3%		
2003	14.4%	13.4%	10.1%	10.1%	10.0%	10.5%	8.6%	8.8%	7.3%	7.6%	7.8%	7.5%	10.1%	9.7%	9.6%	9.1%		
2002	5.9%	7.0%	7.9%	9.1%	6.7%	7.3%	5.6%	6.2%	7.0%	7.1%	8.0%	7.4%	10.8%	10.5%				
2001	10.0%	11.2%	7.1%	7.4%	5.5%	5.9%	7.2%	7.2%	7.8%	7.7%	9.0%	8.1%	11.1%	10.8%				
2000	4.3%	3.8%	3.3%	3.3%	6.3%	5.9%	7.2%	6.8%	7.0%	6.7%	9.1%	8.1%	10.1%	9.9%				
1999	2.4%	2.9%	7.4%	7.0%	8.2%	7.8%	7.6%	7.4%	8.9%	8.4%	9.5%	8.5%	10.0%	9.9%				
1998	12.6%	11.2%	11.3%	10.4%	9.4%	8.9%	10.6%	9.8%	8.3%	7.5%	10.5%	9.4%	10.3%	10.1%				
1997	9.9%	9.6%	7.9%	7.9%	9.9%	9.4%	7.3%	6.6%	9.0%	7.7%	10.1%	9.1%	9.6%	9.6%				
1996	5.9%	6.2%	9.9%	9.3%	6.4%	5.7%	8.8%	7.2%	10.2%	8.6%	9.9%	8.7%	9.9%	9.8%				
1995	14.0%	12.5%	6.7%	5.5%	9.8%	7.6%	11.4%	9.2%	11.3%	9.5%	11.1%	10.1%	10.3%	10.0%				
1994	(0.1%)	(1.2%)	7.7%	5.2%	10.5%	8.1%	10.6%	8.8%	10.1%	8.6%	12.6%	11.6%	10.4%	10.0%				
1993	16.1%	12.0%	16.2%	13.1%	14.5%	12.3%	12.8%	11.2%	12.7%	11.4%	12.4%	12.0%	10.5%	9.9%				
1992	16.3%	14.2%	13.7%	12.5%	11.7%	10.9%	11.9%	11.2%	11.2%	10.6%	13.7%	13.7%						
1991	11.1%	10.8%	9.5%	9.3%	10.5%	10.2%	10.0%	9.7%	9.5%	8.9%	13.2%	13.5%						
1990	7.9%	7.7%	10.2%	10.0%	9.7%	9.3%	9.1%	8.4%	10.9%	10.6%	11.1%	11.7%						
1989	12.5%	12.2%	10.6%	10.2%	9.5%	8.6%	11.7%	11.3%	15.1%	14.8%	10.5%	11.3%						
1988	8.6%	8.2%	8.1%	6.9%	11.4%	11.0%	15.8%	15.5%	12.1%	12.6%	10.1%	10.9%						
1987	7.5%	5.6%	12.8%	12.5%	18.3%	18.0%	12.9%	13.7%	16.2%	16.8%	9.1%	10.1%						
1986	18.5%	19.8%	24.1%	24.8%	14.8%	16.6%	18.5%	19.8%	17.0%	18.4%	9.9%	10.8%						
1985	29.9%	30.0%	13.0%	15.0%	18.6%	19.8%	16.7%	18.0%	11.2%	12.9%	9.5%	9.9%						
1984	(1.6%)	1.7%	13.3%	15.0%	12.6%	14.3%	7.0%	9.0%	6.0%	7.9%	8.2%	8.4%						
1983	30.5%	30.0%	20.4%	21.1%	10.1%	11.5%	8.0%	9.5%	8.1%	9.2%	8.7%	7.9%						
1982	11.2%	12.8%	1.1%	3.3%	1.5%	3.5%	3.1%	4.5%	2.4%	3.8%								
1981	(8.1%)	(5.4%)	(3.1%)	(0.9%)	0.6%	1.9%	0.3%	1.6%	3.3%	3.7%								
1980	2.2%	3.8%	5.2%	5.7%	3.3%	4.1%	6.3%	6.1%	7.9%	7.0%								
1979	8.3%	7.6%	3.8%	4.3%	7.7%	6.9%	9.3%	7.8%	10.4%	8.8%								
1978	(0.4%)	1.0%	7.4%	6.6%	9.7%	7.9%	11.0%	9.1%	9.3%	6.6%								
1977	15.9%	12.4%	15.1%	11.5%	15.0%	12.0%	11.9%	8.0%										
1976	14.2%	10.5%	14.6%	11.7%	10.6%	6.6%												
1975	14.9%	12.9%	8.8%	4.7%														
1974	3.1%	(2.9%)																

Annualized total rate of returns for 1, 2, 3, 4, 5, 10, 20, 30 and 37 years through 2010 for the Combined Internal Bond Fund. The Fixed Income Benchmark² is provided for comparison. The returns above the dark demarcation line include both bonds and allocated cash reserves. The returns below the dark demarcation line are bond only with no allocated cash reserves. Prior to Fiscal Year 2007, the investment grade and high yield bonds were managed together. The returns below the dotted demarcation line reflect these returns. On July 1, 2006, they were separated and are now managed individually. The return above the dotted demarcation line is investment grade weighted 80% and high yield weighted 20%.

SDRS Combined Internal Bond Fund vs. Benchmark



Internal Bond Profile

The South Dakota Retirement System's combined internal bond portfolio characteristics as of June 30, 2010, are presented below.

Distribution by Duration**%**

0 to 2 Years	25.9%
2 to 3 Years	26.7%
3 to 4 Years	9.1%
4 to 5 Years	12.5%
5 to 6 Years	6.5%
6 to 8 Years	10.0%
Above 8 Years	<u>9.3%</u>

Total	<u>100.0%</u>
-------	---------------

Distribution By Quality Rating**%**

Cash/Cash Equivalents	4.9%
U.S. Gov't/Aaa	53.7%
Aa	5.9%
A	12.1%
Baa	13.4%
Ba	8.5%
B	1.3%
Caa	<u>0.2%</u>

Total	<u>100.0%</u>
-------	---------------

Distribution By Coupon**%**

Cash/Cash Equivalents	4.9%
0.00% - 4.00%	17.4%
4.01% - 5.00%	27.7%
5.01% - 6.00%	29.2%
6.01% - 8.00%	18.0%
8.01% and over	<u>2.8%</u>

Total	<u>100.0%</u>
-------	---------------

Distribution By Issue**%**

Cash/Cash Equivalents	4.9%
U.S. Treasuries/Agencies/FDIC	20.1%
Mortgage Backed Securities	33.6%
Investment Grade Corporates	31.5%
High Yield Corporates	<u>9.9%</u>

Total	<u>100.0%</u>
-------	---------------

A history of the SDRS combined internally managed bond portfolio characteristics is presented below. Shown are 1975, the first year for which all characteristics are available, 1980, 1985, 1990, 1995, 2000, 2005 and the last four years. The Bond Index is presented for comparative purposes.

	<u>1975</u>	<u>1980</u>	<u>1985</u>	<u>1990</u>	<u>1995</u>	<u>2000</u>	<u>2005</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>South Dakota Retirement System</u>											
Number of Issues	120	18	18	52	47	60	74	100	120	129	122
Average Coupon	9.30%	8.96%	10.03%	8.62%	7.69%	6.23%	5.20%	5.50%	5.42%	5.39%	5.13%
Yield to Maturity	9.38%	10.41%	10.33%	9.29%	7.28%	7.76%	4.70%	6.00%	5.67%	5.17%	3.65%
Average Maturity	19.14 yr	17.49 yr	7.06 yr	7.93 yr	9.27 yr	6.88 yr	5.80 yr	6.14 yr	6.60 yr	5.20 yr	5.41 yr
Duration	7.83 yr	8.00 yr	4.03 yr	5.27 yr	5.56 yr	5.56 yr	4.10 yr	5.00 yr	5.38 yr	4.10 yr	4.04 yr
Average Quality*	2.39	3.91	4.00	3.68	3.24	3.22	3.38	3.37	3.29	2.98	3.00
Cash Equivalent	3.1%	23.5%	6.2%	4.6%	14.0%	5.8%	13.8%	7.6%	3.0%	3.0%	4.9%

Bond Index¹

Average Coupon	7.20%	8.73%	10.65%	8.98%	7.45%	6.85%	5.24%	5.41%	5.37%	4.91%	4.42%
Yield to Maturity	8.30%	10.18%	10.19%	9.19%	6.72%	7.26%	4.51%	5.69%	4.99%	3.87%	2.63%
Average Maturity	11.93 yr	11.24 yr	9.50 yr	9.80 yr	8.52 yr	8.83 yr	6.21 yr	7.39 yr	7.80 yr	6.27 yr	5.96 yr
Duration	6.12 yr	5.42 yr	4.74 yr	4.99 yr	5.13 yr	5.27 yr	4.67 yr	5.12 yr	5.36 yr	4.55 yr	4.55 yr

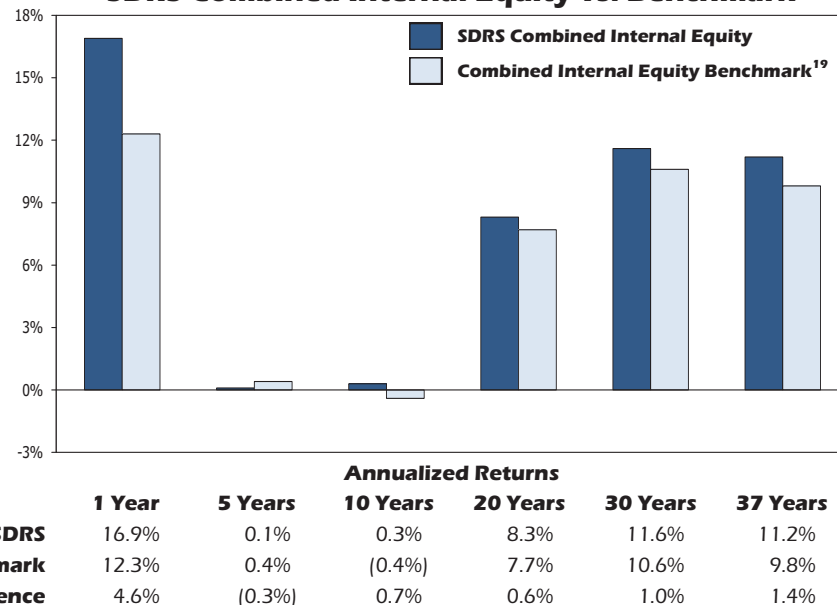
*(Aaa=4, Aa=3, A=2, Baa or lower =1)

South Dakota Retirement System Combined Internal Equity Fund Performance

	1 Year		2 Years		3 Years		4 Years		5 Years		10 Years		20 Years		30 Years		37 Years	
	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench
2010	16.9%	12.3%	(3.8%)	(10.0%)	(9.9%)	(10.3%)	(2.8%)	(2.8%)	0.1%	0.4%	0.3%	(0.4%)	8.3%	7.7%	11.6%	10.6%	11.2%	9.8%
2009	(20.8%)	(27.9%)	(20.9%)	(19.9%)	(8.6%)	(7.4%)	(3.7%)	(2.3%)	(1.1%)	(0.2%)	(0.3%)	(0.5%)	7.6%	7.9%	11.4%	10.8%		
2008	(21.0%)	(11.0%)	(1.8%)	4.9%	2.8%	8.1%	4.5%	8.3%	8.0%	11.2%	3.9%	4.6%	9.8%	10.7%	12.7%	12.5%		
2007	22.0%	23.6%	17.2%	19.1%	14.7%	15.6%	16.7%	17.6%	12.7%	13.6%	8.9%	8.2%	11.0%	10.9%	13.6%	12.9%		
2006	12.6%	14.7%	11.3%	11.8%	15.0%	15.6%	10.5%	11.3%	5.5%	5.4%	9.7%	8.7%	10.9%	11.0%	13.3%	12.1%		
2005	9.9%	9.0%	16.2%	16.1%	9.8%	10.2%	3.8%	3.2%	0.4%	(1.2%)	11.0%	9.4%	11.9%	11.9%	13.4%	12.1%		
2004	22.9%	23.6%	9.7%	10.7%	1.9%	1.4%	(1.8%)	(3.6%)	0.6%	(0.8%)	11.9%	10.6%	13.2%	12.9%	14.0%	12.3%		
2003	(2.0%)	(0.8%)	(7.3%)	(8.2%)	(8.9%)	(11.3%)	(4.3%)	(6.2%)	0.0%	(1.7%)	10.3%	8.6%	12.3%	11.4%	12.8%	11.0%		
2002	(12.2%)	(15.0%)	(12.1%)	(16.1%)	(5.1%)	(7.9%)	0.6%	(1.9%)	5.1%	3.1%	12.1%	10.2%	15.1%	14.2%				
2001	(12.0%)	(17.1%)	(1.2%)	(4.1%)	5.2%	2.9%	10.0%	8.1%	14.0%	12.0%	14.9%	13.4%	15.6%	14.4%				
2000	10.9%	11.0%	15.1%	14.6%	18.5%	18.2%	21.7%	20.7%	22.7%	21.2%	16.9%	16.4%	17.8%	16.6%				
1999	19.5%	18.3%	22.5%	21.9%	25.5%	24.1%	25.9%	23.9%	24.5%	23.4%	16.0%	16.9%	17.7%	16.9%				
1998	25.6%	25.6%	28.6%	27.1%	28.1%	25.8%	25.7%	24.6%	21.7%	20.1%	16.1%	17.1%	17.4%	16.6%				
1997	31.7%	28.6%	29.4%	25.9%	25.8%	24.3%	20.7%	18.7%	19.5%	17.7%	13.2%	13.6%	16.1%	15.3%				
1996	27.1%	23.3%	22.9%	22.2%	17.3%	15.6%	16.6%	15.2%	15.7%	14.8%	12.1%	13.3%	15.1%	13.9%				
1995	18.9%	21.2%	12.7%	11.9%	13.3%	12.6%	13.1%	12.8%	11.3%	11.7%	12.8%	14.4%	14.6%	13.5%				
1994	6.7%	3.3%	10.6%	8.5%	11.2%	10.1%	9.5%	9.4%	8.1%	10.8%	14.6%	15.3%	15.1%	13.2%				
1993	14.6%	13.9%	13.5%	13.7%	10.4%	11.6%	8.4%	12.7%	10.7%	14.2%	14.3%	14.3%	14.1%	12.2%				
1992	12.4%	13.5%	8.4%	10.4%	6.4%	12.3%	9.7%	14.3%	7.3%	9.7%	18.3%	18.3%						
1991	4.5%	7.4%	3.6%	11.8%	8.9%	14.6%	6.1%	8.7%	8.5%	11.8%	16.4%	15.4%						
1990	2.7%	16.3%	11.1%	18.3%	6.6%	9.2%	9.5%	12.9%	14.3%	17.1%	18.7%	16.8%						
1989	20.3%	20.4%	8.6%	5.8%	11.9%	11.8%	17.4%	17.3%	21.5%	19.9%	19.4%	16.9%						
1988	(1.9%)	(7.1%)	7.9%	7.8%	16.5%	16.3%	21.8%	19.8%	18.1%	14.4%	18.8%	16.2%						
1987	18.7%	25.1%	27.0%	30.1%	30.9%	30.4%	23.7%	20.5%	30.3%	27.7%	19.0%	17.1%						
1986	35.7%	35.4%	37.4%	33.1%	25.4%	19.1%	33.4%	28.4%	24.9%	19.2%	18.3%	14.5%						
1985	39.0%	30.8%	20.6%	11.6%	32.7%	26.1%	22.3%	15.5%	23.3%	16.4%	16.5%	12.6%						
1984	4.5%	(4.7%)	29.6%	23.9%	17.2%	10.8%	19.7%	13.1%	17.4%	13.9%	15.6%	11.2%						
1983	60.6%	61.0%	24.1%	19.4%	25.2%	19.8%	20.9%	19.1%	19.5%	18.0%	13.8%	10.1%						
1982	(4.1%)	(11.4%)	10.6%	3.3%	10.0%	7.7%	11.0%	9.2%	8.6%	7.3%								
1981	27.6%	20.5%	17.8%	18.8%	16.6%	17.0%	12.1%	12.6%	12.1%	10.0%								
1980	8.7%	17.1%	11.5%	15.4%	7.4%	10.0%	8.5%	7.6%	10.0%	8.8%								
1979	14.3%	13.6%	6.7%	6.7%	8.5%	4.6%	10.4%	6.9%	13.9%	8.6%								
1978	(0.4%)	0.1%	5.7%	0.3%	9.1%	4.7%	13.7%	7.4%	8.3%	2.6%								
1977	12.1%	0.5%	14.2%	7.0%	18.9%	10.0%	10.5%	3.3%										
1976	16.2%	14.0%	22.4%	15.0%	10.0%	4.2%												
1975	28.9%	16.1%	7.0%	(0.3%)														
1974	(11.1%)	(14.5%)																

Annualized total rate of returns for 1, 2, 3, 4, 5, 10, 20, 30 and 37 years through 2010 for the Combined Internal Equity Fund. The Combined Internal Equity Benchmark¹⁹ is provided for comparison. The returns above the solid demarcation line include both equities and allocated cash reserves. The returns below the dark demarcation line are equity only with no allocated cash reserves. The returns below the dotted demarcation line are domestic only returns. The returns above the dotted demarcation line 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 now managed together.

SDRS Combined Internal Equity vs. Benchmark



Internal Equity Profile

The South Dakota Retirement System's internal global equity portfolio characteristics as of June 30, 2010 are presented below. The SDRS internal equity portfolio is compared to the $\frac{2}{3}$ S&P Global 1200 Index plus $\frac{1}{3}$ S&P 500 Index benchmark.

Distribution by Market Sector

	<u>SDRS</u>	<u>Bench</u>
Consumer Discretionary	11.7%	9.6%
Consumer Staples	11.9%	11.0%
Energy	13.2%	10.4%
Financials	20.9%	19.2%
Health Care	13.6%	10.4%
Industrials	8.0%	10.4%
Information Technology	11.4%	14.5%
Materials	3.2%	6.2%
Telecommunications Services	2.5%	4.2%
Utilities	2.9%	4.1%
Cash Equivalents	<u>0.7%</u>	<u>0.0%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

Ten Largest Holdings

	<u>%</u>
JPMorgan Chase & Co.	2.8%
Exxon Mobil Corp.	2.5%
Pfizer, Inc.	2.4%
ConocoPhillips	2.3%
Wells Fargo & Co.	2.2%
Bank of America Corp.	2.1%
General Electric Co.	1.8%
Nestle SA/AG	1.8%
U.S. Bancorp	1.7%
Microsoft Corp.	<u>1.6%</u>
Total	<u>21.2%</u>

Distribution by Country

	<u>SDRS</u>	<u>Bench</u>
Australia	0.16%	2.43%
Austria	0.00%	0.07%
Belgium	0.01%	0.30%
Brazil	0.19%	0.80%
Canada	1.83%	3.17%
Chile	0.00%	0.17%
Denmark	0.02%	0.26%
Finland	0.96%	0.27%
France	3.17%	2.87%
Germany	1.89%	2.19%
Great Britain	5.92%	6.33%
Greece	0.01%	0.05%
Hong Kong	0.04%	1.19%
Ireland	0.00%	0.08%
Italy	0.16%	0.91%
Japan	4.80%	5.56%
Korea	0.30%	0.81%
Luxembourg	0.03%	0.11%
Mexico	0.14%	0.32%
Netherlands	1.49%	0.77%
Norway	0.13%	0.20%
Peru	0.00%	0.07%
Portugal	0.00%	0.10%
Singapore	0.00%	0.30%
Spain	0.19%	1.04%
Sweden	0.05%	0.84%
Switzerland	3.89%	2.48%
Taiwan	0.00%	0.60%
United States	73.93%	65.71%
Cash Equivalents	<u>0.69%</u>	<u>0.00%</u>
Total	<u>100.00%</u>	<u>100.00%</u>

Portfolio/Benchmark Characteristics as of June 30, 2010

	<u>SDRS</u>	<u>Bench</u>
# of Companies	334	1200
# of Countries	22	29
Price/Earnings Ratio	14.34	14.35
Dividend Yield	3.60%	3.11%
Return on Equity	20.93%	18.67%
Price/Book Value Ratio	3.00	2.68

Global Equity Composite⁷

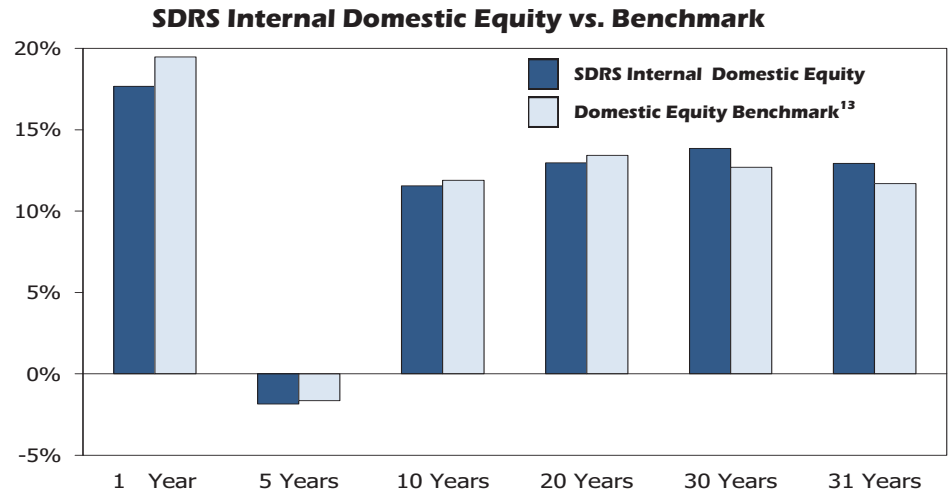
The South Dakota Retirement System's global equity composite is comprised of the internally managed global equity portfolio, the internally managed high quality equity portfolio and four externally managed portfolios as of June 30, 2010. The composite is compared to the $\frac{2}{3}$ MSCI All Country World Index plus $\frac{1}{3}$ MSCI US Index benchmark.

Performance Results for the fiscal year ended June 30, 2010

SDRS Global Equity Composite	16.27%
Benchmark	12.40%
Difference	3.87%

HISTORICAL INTERNAL DOMESTIC AND INTERNATIONAL EQUITY FUND INFORMATION**South Dakota Retirement System Internal Domestic Equity Fund FY 1974 - FY 2004**

	1 Year Returns		
	<u>SDRS</u>	<u>Bench</u>	<u>Diff</u>
2004	17.7%	19.5%	(1.8%)
2003	0.0%	1.0%	(1.0%)
2002	(18.3%)	(17.9%)	(0.4%)
2001	(14.9%)	(15.0%)	0.1%
2000	11.3%	9.2%	2.1%
1999	19.0%	21.9%	(2.9%)
1998	32.5%	30.2%	2.3%
1997	33.2%	32.3%	0.9%
1996	28.1%	26.3%	1.8%
1995	21.8%	26.1%	(4.3%)
1994	4.8%	1.3%	3.5%
1993	14.9%	13.6%	1.3%
1992	12.4%	13.5%	(1.1%)
1991	4.5%	7.4%	(2.9%)
1990	2.7%	16.3%	(13.6%)
1989	20.3%	20.4%	(0.1%)
1988	(1.9%)	(7.1%)	5.2%
1987	18.7%	25.1%	(6.4%)
1986	35.7%	35.4%	0.3%
1985	39.0%	30.8%	8.2%
1984	4.5%	(4.7%)	9.2%
1983	60.6%	61.0%	(0.4%)
1982	(4.1%)	(11.4%)	7.3%
1981	27.6%	20.5%	7.1%
1980	8.7%	17.1%	(8.4%)
1979	14.3%	13.6%	0.7%
1978	(0.4%)	0.1%	(0.5%)
1977	12.1%	0.5%	11.6%
1976	16.2%	14.0%	2.2%
1975	28.9%	16.1%	12.8%
1974	(11.1%)	(14.5%)	3.4%

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

	<u>SDRS</u>	<u>Benchmark</u>	<u>Difference</u>
1 Year	17.7%	19.5%	(1.8%)
5 Years	(1.9%)	(1.6%)	(0.3%)
10 Years	11.6%	11.9%	(0.3%)
20 Years	13.0%	13.4%	(0.4%)
30 Years	13.8%	12.7%	1.1%

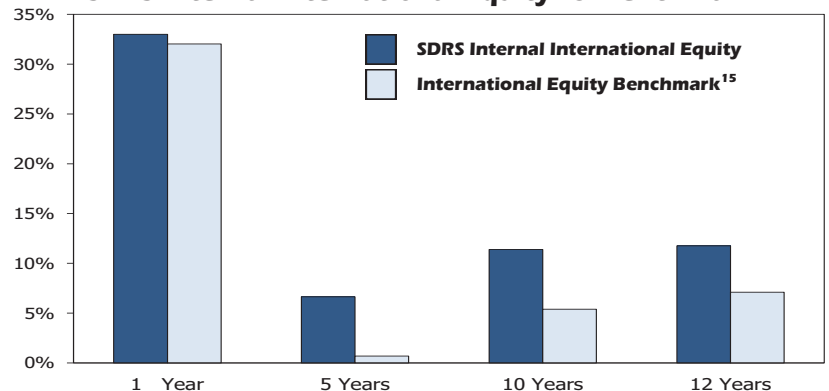
SDRS Internal Domestic Equity vs. Benchmark

	<u>5 years</u>	<u>10 years</u>	<u>20 years</u>	<u>30 years</u>	<u>Total</u>
# of successes	18	14	11	2	45
# of periods	27	22	12	2	63
# of success	67%	64%	92%	100%	71%

The returns above the demarcation include equity and allocated cash reserves. The returns below the line are equity only with no allocated cash reserves.

South Dakota Retirement System Internal International Equity Fund FY 1993 - FY 2004

	1 Year Returns		
	<u>SDRS</u>	<u>Bench</u>	<u>Diff</u>
2004	33.0%	32.0%	1.0%
2003	(6.3%)	(4.6%)	(1.7%)
2002	4.2%	(8.4%)	12.6%
2001	(3.0%)	(23.0%)	20.0%
2000	9.6%	16.4%	(6.8%)
1999	21.4%	6.2%	15.2%
1998	3.0%	10.5%	(7.5%)
1997	26.3%	16.3%	10.0%
1996	23.6%	13.7%	9.9%
1995	9.2%	5.3%	3.9%
1994	22.3%	17.5%	4.8%
1993	5.6%	14.6%	(9.0%)

SDRS Internal International Equity vs. Benchmark**Annualized Returns as of the Fiscal Year ended June 30, 2004**

SDRS Internal International Equity vs. Benchmark			
	<u>5 years</u>	<u>10 years</u>	<u>Total</u>
# of successes	8	3	11
# of periods	8	3	11
# of success	100%	100%	100%

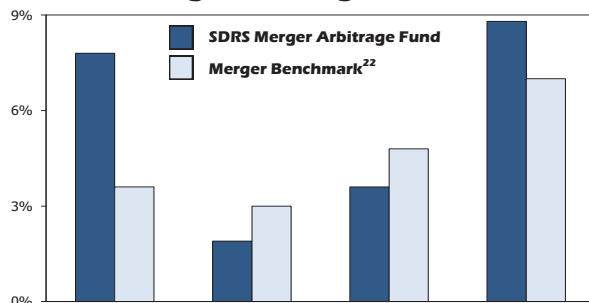
	<u>SDRS</u>	<u>Benchmark</u>	<u>Difference</u>
1 Year	33.0%	32.0%	1.0%
5 Years	6.6%	0.7%	5.9%
10 Years	11.4%	5.4%	6.0%
12 Years	11.8%	7.1%	4.7%

South Dakota Retirement System Internal Merger Arbitrage Fund Performance

	1 Year		2 Years		3 Years		4 Years		5 Years		10 Years		20 Years	
	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench
2010	7.8%	3.6%	4.5%	3.5%	(3.4%)	(0.7%)	(0.5%)	1.7%	1.9%	3.0%	3.6%	4.8%	8.8%	7.0%
2009	1.4%	3.3%	(8.5%)	(2.8%)	(3.1%)	1.1%	0.4%	2.8%	0.9%	3.5%	4.6%	5.4%		
2008	(17.4%)	(8.6%)	(5.2%)	0.0%	0.1%	2.6%	0.8%	3.5%	2.1%	3.9%	6.1%	6.0%		
2007	8.7%	9.3%	10.2%	8.8%	7.8%	7.9%	7.7%	7.2%	7.8%	6.9%	10.3%	7.9%		
2006	11.7%	8.2%	7.3%	7.2%	7.3%	6.6%	7.6%	6.3%	6.5%	6.4%	11.3%	7.9%		
2005	3.0%	6.3%	5.2%	5.7%	6.3%	5.7%	5.2%	6.0%	5.4%	6.7%	11.8%	8.1%		
2004	7.4%	5.2%	8.0%	5.4%	6.0%	5.9%	6.0%	6.8%	8.4%	7.4%	12.8%	8.4%		
2003	8.5%	5.7%	5.2%	6.2%	5.6%	7.4%	8.6%	7.9%	10.2%	8.1%	13.6%	8.7%		
2002	2.1%	6.7%	4.1%	8.3%	8.7%	8.7%	10.6%	8.8%	12.8%	8.9%	13.1%	8.8%		
2001	6.2%	9.9%	12.2%	9.7%	13.6%	9.5%	15.6%	9.5%	16.2%	9.5%	13.9%	9.1%		
2000	18.4%	9.6%	17.5%	9.3%	18.9%	9.3%	18.9%	9.4%	18.6%	9.4%	14.1%	9.2%		
1999	16.5%	9.0%	19.1%	9.2%	19.0%	9.3%	18.7%	9.4%	17.3%	9.5%				
1998	21.8%	9.5%	20.3%	9.5%	19.4%	9.6%	17.6%	9.6%	17.1%	9.2%				
1997	18.8%	9.5%	18.2%	9.6%	16.2%	9.6%	16.0%	9.1%	13.4%	8.8%				
1996	17.6%	9.7%	14.9%	9.7%	15.0%	9.0%	12.1%	8.6%	11.5%	8.6%				
1995	12.2%	9.6%	13.8%	8.6%	10.3%	8.2%	10.1%	8.4%	9.8%	8.9%				
1994	15.3%	7.6%	9.3%	7.5%	9.4%	7.9%	9.2%	8.7%						
1993*	3.7%	7.4%	6.5%	8.1%	7.3%	9.1%								
1992	9.5%	8.9%	9.1%	10.0%										
1991	8.8%	11.2%												

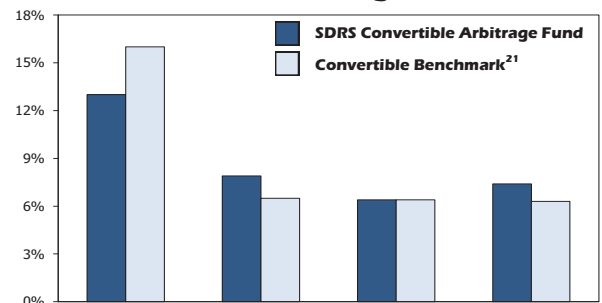
Annualized total rate of returns for 1, 2, 3, 4, 5, 10 and 20 years through 2010 for the Merger Arbitrage Fund. The Merger Benchmark²² is provided for comparison. The returns above the dark demarcation include both securities and allocated cash reserves. The returns below the dark demarcation line are securities only with no allocated cash reserves.

* Convertible Arbitrage positions were held in the Merger Arbitrage Fund during fiscal year 1993. On July 1, 1993, the positions were removed from the Merger Arbitrage Fund and a separate Convertible Arbitrage Fund was formed.

SDRS Merger Arbitrage vs. Benchmark**Annualized Returns**

1 Year 5 Years 10 Years 20 Years

SDRS	7.8%	1.9%	3.6%	8.8%
Benchmark	3.6%	3.0%	4.8%	7.0%
Difference	4.2%	(1.1%)	(1.2%)	1.8%

SDRS Convertible Arbitrage vs. Benchmark**Annualized Returns**

1 Year 5 Years 10 Years 17 Years

SDRS	13.0%	7.9%	6.4%	7.4%
Benchmark	16.0%	6.5%	6.4%	6.3%
Difference	(3.0%)	1.4%	0.0%	1.1%

South Dakota Retirement System Internal Convertible Arbitrage Fund Performance

	1 Year		2 Years		3 Years		4 Years		5 Years		10 Years		17 Years	
	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench
2010	13.0%	16.0%	10.6%	8.8%	9.2%	7.0%	8.5%	7.3%	7.9%	6.5%	6.4%	6.4%	7.4%	6.3%
2009	8.4%	2.0%	7.4%	2.7%	7.0%	4.5%	6.7%	4.3%	5.5%	4.9%	6.0%	5.2%		
2008	6.5%	3.5%	6.4%	5.7%	6.1%	5.0%	4.8%	5.7%	4.0%	5.4%	5.9%	5.2%		
2007	6.3%	8.0%	5.9%	5.8%	4.2%	6.4%	3.4%	5.8%	5.3%	7.0%	6.3%	5.8%		
2006	5.5%	3.7%	3.2%	5.7%	2.4%	5.1%	5.0%	6.8%	4.8%	5.8%	6.8%	5.8%		
2005	0.9%	7.7%	0.9%	5.9%	4.8%	7.8%	4.6%	6.3%	5.0%	6.2%	7.2%	6.1%		
2004	1.0%	4.0%	6.9%	7.9%	5.8%	5.8%	6.0%	5.9%	6.5%	5.4%	8.1%	6.3%		
2003	13.1%	11.9%	8.3%	6.8%	7.7%	6.5%	8.0%	5.7%	7.9%	5.1%	8.5%	6.2%		
2002	3.8%	1.9%	5.1%	3.9%	6.3%	3.7%	6.6%	3.5%	7.3%	4.5%				
2001	6.5%	6.0%	7.6%	4.7%	7.6%	4.0%	8.2%	5.2%	8.8%	5.8%				
2000	8.7%	3.4%	8.2%	3.1%	8.8%	4.9%	9.4%	5.8%	9.5%	5.9%				
1999	7.6%	2.8%	8.8%	5.7%	9.7%	6.6%	9.7%	6.6%	9.8%	7.1%				
1998	10.0%	8.7%	10.7%	8.6%	10.5%	7.9%	10.3%	8.3%	9.0%	7.3%				
1997	11.4%	8.5%	10.7%	7.5%	10.4%	8.1%	8.8%	7.0%						
1996	9.9%	6.6%	9.9%	8.0%	7.9%	6.5%								
1995	9.8%	9.4%	6.9%	6.4%										
1994	4.1%	3.5%												

Annualized total rate of returns for 1, 2, 3, 4, 5, 10 and 17 years through 2010 for the Convertible Arbitrage Fund. The Convertible Benchmark²¹ is provided for comparison. The returns above the dark demarcation include both securities and allocated cash reserves. The returns below the dark demarcation line are securities only with no allocated cash reserves.

CEMENT PLANT RETIREMENT FUND

CEMENT PLANT SALE - IMPORTANT IMPLICATIONS

On March 16, 2001, the State of South Dakota sold the Dakotah Cement Plant to GCC. Effective with the sale, the South Dakota Cement Plant Retirement Fund (CPRF) plan benefits were frozen and accrued benefits of active plan participants were calculated. The administration of the plan was transferred from the South Dakota Cement Plant Commission to the South Dakota Retirement System effective July 1, 2010. The investment responsibility of the fund remains with the South Dakota Investment Council (Council).

INVESTMENT OBJECTIVES AND RESULTS

The objectives and asset allocation of the fund in the future will include the effect of the freezing of the plan. The Council has four specific objectives. Achieving these objectives will enable the fund to meet future needs. The current objectives and results are:

♦ Achieve the actuarial rate of return over the long term.

The actuarial rate of return estimate needs to be earned over the life of the plan to pay projected future benefits based on the frozen benefit formula. The fund must meet all future liabilities with the assets currently available or made available before the termination of the Cement Plant Commission. The Council attempts to earn all potential return available in excess of the actuarial rate. This excess return will augment the financial security of the fund. Ultimately upon the final maturity of the fund, assets that remain, if any, will be transferred to the Dakota Cement Trust Fund.

This objective has been exceeded.

The Council is most comfortable with viewing the long term in increments of 20 or 30 years. Others could suggest that the long term may be as short as 5 to 10 years. Using all of these definitions of long-term periods of time, the Council has met this objective 85% of the time for the CPRF total fund.

The following table summarizes the CPRF total fund performance versus the actuarial rate of return of 8.0%. A complete listing of the rolling 5, 10, 20 and 30-year returns for the CPRF total fund is located on page 23.

CPRF Total Fund vs. Actuarial Rate

	# of successes	# of periods	% of success
5 years	24	33	73%
10 years	25	28	89%
20 years	17	18	94%
30 years	8	8	100%
Total	74	87	85%

♦ Achieve favorable total fund performance relative to a capital markets benchmark reflective of the Investment Council's normal asset allocation policy.

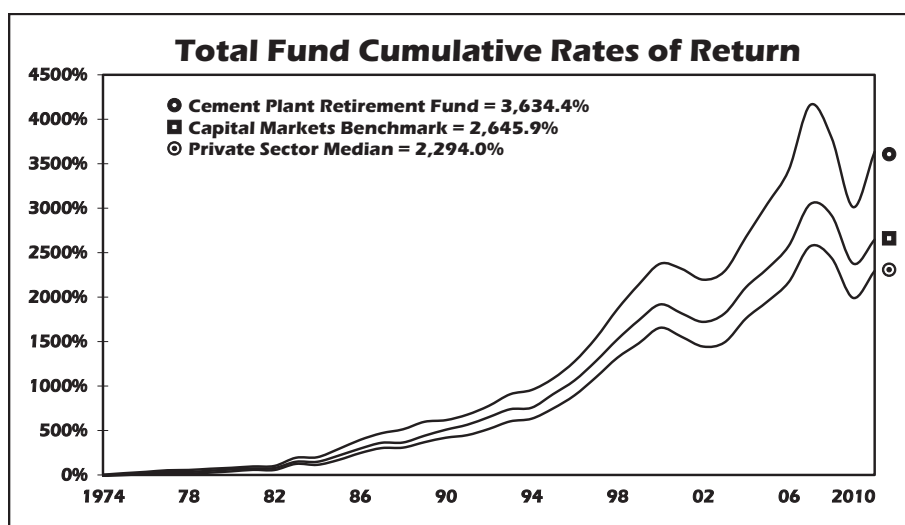
This is the most important specific investment objective in judging the Council's delivery of a competitive rate of return. This objective means that the performance of all actively managed assets are to be measured against the indexed returns that would be earned if the CPRF was invested in the Council's selected capital markets benchmark. The key investment policy decision made by the Council is asset allocation. The Council makes this decision based on an assessment of long-term future expected rates of return and in part on historical returns of stocks, bonds, cash and other capital market areas. Certain behavioral characteristics of these asset categories, such as standard deviation (measure of riskiness) and correlation (degree to which asset prices tend to move in the same or different direction) play an important role in making the asset allocation decision. Based on this, the Council establishes the normal portfolio which is used as the benchmark. For fiscal year 2010, the Council's normal portfolio was 57% global equities, 20% investment grade bonds/inflation protected Treasuries (TIPS), 6% high yield/distressed bonds,

2% arbitrage, 7% real estate, 5% private equities, 1% commodities, and 2% cash. Prior fiscal years are shown on page 56. The long-term expected return of the fund as of June 30, 2010 was 7.5% with a volatility of 15.1%. This means that the return in any given year can fall within a range of -7.6% to 22.6% with 66% confidence or -22.7% to 37.7% with 95% confidence.

The normal asset allocation of the fund will be adjusted over time as the average age of the participants increases. The average age of the active participants as of July 1, 2008 was 48.7 years with 21.8 years of service. Without new entrants, the average age will increase each year. Going forward, long-term commitments in real estate and private equity limited partnerships will be monitored on an individual basis to determine if the CPRF should participate in new partnerships. The asset allocation policy in these areas will be adjusted as the Council deems appropriate to meet the aging needs of the fund.

This objective has been achieved.

This is a difficult objective to accomplish. The principal reason is that most investment managers do not outperform the capital markets over time. The industry's lack of performance is the result of the investment world being a zero-sum game as a whole. Each investment transaction has a seller and a buyer and a winner and a loser. All transactions also incur transaction costs which include commissions and a difficult to measure market impact cost. The following table summarizes the CPRF total fund performance versus the capital markets benchmark. A complete



listing of the rolling 5, 10, 20 and 30-year returns for the CPRF total fund and the capital markets benchmark (CMB) is located on page 23.

CPRF Total Fund vs. Capital Markets			
	<u># of successes</u>	<u># of periods</u>	<u>% of success</u>
5 years	25	33	76%
10 years	23	28	82%
20 years	16	18	89%
30 years	8	8	100%
Total	72	87	83%

♦ ***Achieve favorable specific asset category performance relative to the identified capital market benchmark.***

The Council strives to outperform the passive opportunity that exists in each of the asset categories in which CPRF assets are involved. As an example, the Council measures the performance of the investment team's global equity portfolio performance and compares that performance with the indexed returns that would be available if those dollars were invested in the global equity benchmark that they have selected.

This is an extremely difficult objective to achieve because of the zero-sum game issue and the transaction costs issue. As an example, over the past five years, 63.8% of active large cap equity fund managers under-performed the S&P 500 Index.

This objective has been achieved for most asset categories the majority of the time.

Prior to fiscal year 2005, domestic equity and international equity securities were internally managed separately and their returns were compared to separate benchmarks. On July 1, 2004, domestic and international equity securities were combined and are now managed together against one benchmark. The Council compared the internal domestic equity portfolio to the S&P 500 Index (1974-1995) and the Russell 1000 Index (1996-2004). The internal international portfolio has been compared to the $\frac{3}{4}$ MSCI EAFE + $\frac{1}{4}$ MSCI EASEA Index (1999-2001) and the MSCI All Country World ex-US Index (2002-2004). The combined internal equity fund has been compared to the International Equity benchmark and Domestic Equity benchmark weighted according to the beginning monthly portfolio weights, adjusted for cash transfers (1974-2004) and the $\frac{3}{5}$ S&P 1200 + $\frac{1}{5}$ S&P 500 Index

(2005-2010). The internal global equity fund comprised 47.6% of CPRF assets as of June 30, 2010.

The table below summarizes the CPRF combined internal equity fund versus its benchmark. A complete listing of the rolling 5, 10, 20 and 30-year returns is located on page 28.

CPRF Internal Equity vs. Benchmark			
	<u># of successes</u>	<u># of periods</u>	<u>% of success</u>
5 years	22	33	67%
10 years	18	28	64%
20 years	13	18	72%
30 years	7	8	88%
Total	60	87	69%

Prior to fiscal year 2007, the investment grade and high yield bond securities were internally managed together in one portfolio and their return was compared to one benchmark. On July 1, 2006, the investment grade and high yield bond securities were separated and are now managed individually against their own benchmarks. The Council compared the internal bond portfolio to the Lehman Government/Corporate Index (1974-1980), Citigroup Broad Investment Grade Bond Index (1981-1995) and the Internal Bond Benchmark (1996-2006). The combined internal bond fund (which is the Investment Grade portfolio weighted 80% + the High Yield portfolio weighted 20%) is compared to Combined Internal Bond Benchmark (2007-2010). As of June 30, 2010, 17.3% of CPRF assets were invested in internal bonds.

The following table summarizes the CPRF combined internal bond portfolio versus its benchmark. A complete listing of the rolling 5, 10, 20 and 30-year returns is located on page 26.

CPRF Internal Bonds vs. Benchmark			
	<u># of successes</u>	<u># of periods</u>	<u>% of success</u>
5 years	21	33	64%
10 years	20	28	71%
20 years	18	18	100%
30 years	8	8	100%
Total	67	87	77%

While the equity and bond asset categories continue to comprise the majority of the Council's normal portfolio and the CPRF portfolio, investments are made in a number of other asset categories to diversify the CPRF portfolio and achieve long-term expected rates of return.

One asset category that has been used since the inception of the Investment Council is cash. For the 37 years since inception, the cash portfolio has outperformed the 3-month Treasury Bill Index with a 6.5% return versus 5.8%. As of June 30, 2010, 0.2% of CPRF assets were invested in cash.

The merger arbitrage portfolio comprised 0.9% of CPRF assets under management as of June 30, 2010. Because CPRF size creates accounting and trading issues, it is difficult to internally manage the arbitrage portfolio. In January 1996, The Merger Fund was selected by the Council to gain exposure in this asset category. The CPRF merger arbitrage portfolio has been compared to the 3-month Treasury Bill Index plus 4.25% annually (1997-2007) and the Merger Custom Index (2008-2010). For the 14 $\frac{1}{2}$ years that the CPRF has been invested in The Merger Fund, it has earned an annualized return of 6.2% versus the SDRS internally managed merger arbitrage portfolio of 8.0%. The benchmark returned 6.2% for the same period of time. The CPRF also had 1.2% of assets invested in a hedge fund-like fund on June 30, 2010.

The real estate asset category was added in fiscal year 1995. Real estate assets are measured on an Internal Rate of Return (IRR) basis and have been compared to the NCREIF Classic Property Index (1995-2001) and the NCREIF Property Index (2002-2010). As of June 30, 2010, 9.8% of CPRF assets were invested in real estate.

The private equity asset category was added in fiscal year 1999. Private equity assets are measured on an IRR basis and have been compared to the Russell 1000 plus 5.0% (1999-2001), Russell 1000 plus 3.5% (2002-2004) and S&P 500 plus 3.5% (2005-2010). As of June 30, 2010, 12.8% of CPRF assets were invested in private equity.

The distressed debt asset category was added in fiscal year 2007. Distressed debt assets are benchmarked against the Citigroup High-Yield Market Index. 8.2% of CPRF assets were invested in distressed debt on June 30, 2010.

Equity investments in emerging market countries comprised 1.5% of the CPRF assets as of June 30, 2010 and are compared to the MSCI Emerging Markets Index. Other special purpose equity funds are benchmarked with the internal equity fund and emerging

markets funds against the $\frac{2}{3}$ MSCI All Country World Index + $\frac{1}{3}$ MSCI US Index. Special purpose equity funds comprised 0.5% of CPRF assets on June 30, 2010.

Commodities were added to the CMB in fiscal year 2003. Currently, CPRF is not invested in this category though it comprises 1% of the CMB. This asset category is benchmarked against the S&P GSCI.

A list of the externally managed funds is located on page 50.

♦ **Achieve favorable performance over the long term relative to professionally managed multi-billion dollar pension funds.**

As reported in the annual report for the past 19 years, this investment objective has become less important. The reason is because peer universes suffer survivorship bias which subjects the database to overstatement and inaccuracy. This means that the individual firms and plans making up a peer universe change over time as their results succeed or fail. Simply put, the losers drop out, and the peer universe is biased upwards by a preponderance of winners remaining. In addition, significant changes to the character and size of peer universes as well as their stated historical performance have resulted from a consolidation in the performance consulting industry. No performance consultant has kept intact a consistent peer universe database that covers the entire history of the Council. It is important to realize that all pension funds are managed with consideration given to their own risk and return levels (utility function). The asset allocation comfort level of each fund depends on the liability structure of the fund and amount of risk that individual boards of directors find appropriate. With all of the shortcomings referenced above, it is still important to attempt to measure and compare CPRF's returns to both private sector and other state funds. Obviously, each of these pension funds are also attempting to produce superior returns for their beneficiaries. As a consequence, it makes sense to determine how CPRF's performance measures up compared to other professionally managed pension funds.

This objective has been achieved for the CPRF total fund.

As mentioned in the objective, this has become less important due to the survivorship bias that peer universes suffer. This issue also makes tracking long-term results difficult. The individual firms comprising the universe change, making equitable comparisons practically impossible. The results in the following table are based on annualized median returns for that year.

CPRF Total Fund vs. Private Sector

	# of successes	# of periods	% of success
5 years	21	33	64%
10 years	23	28	82%
20 years	17	18	94%
30 years	8	8	100%
Total	69	87	79%

CPRF Total Fund vs. State Funds

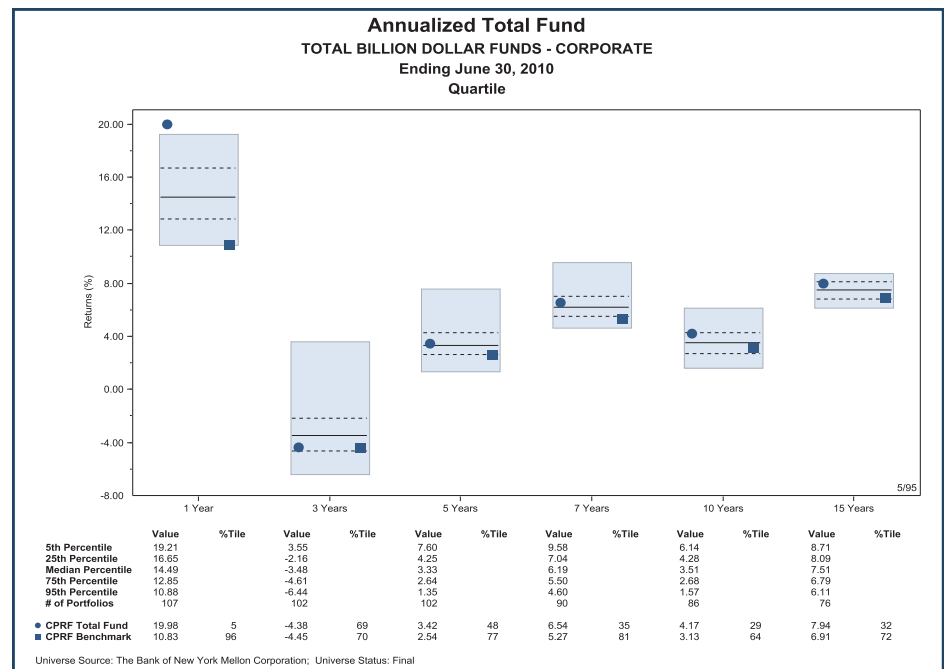
	# of successes	# of periods	% of success
5 years	28	33	85%
10 years	25	28	89%
20 years	18	18	100%
30 years	8	8	100%
Total	79	87	91%

The chart below compares the CPRF total fund returns to the current private sector peer universe.

CPRF VERSUS SDRS PERFORMANCE

The asset allocation changes required in the future to meet the needs of a frozen fund will result in a divergence with the South Dakota Retirement System asset allocation. Currently, every effort is made to have the CPRF participate in the same investments as the SDRS. Due to its size (0.6%) compared to the SDRS, CPRF does not participate in convertible arbitrage, a few externally managed funds and some of the real estate limited partnerships. This can result in a difference in total return between the two funds. In the most recent five year rolling period, the CPRF's return of 3.5% compares with the SDRS's return of 3.5%.

The Council will make every effort to continue to assure the highest level of performance for the CPRF. Because of the changes to the fund and differences in cash flow characteristics, it will be impossible to have identical results in the future. It is interesting to note that over the entire 37 year history of Council management of the two systems, the CPRF has had a similar compound annualized return of 10.3% versus the SDRS annualized return of 10.2%.

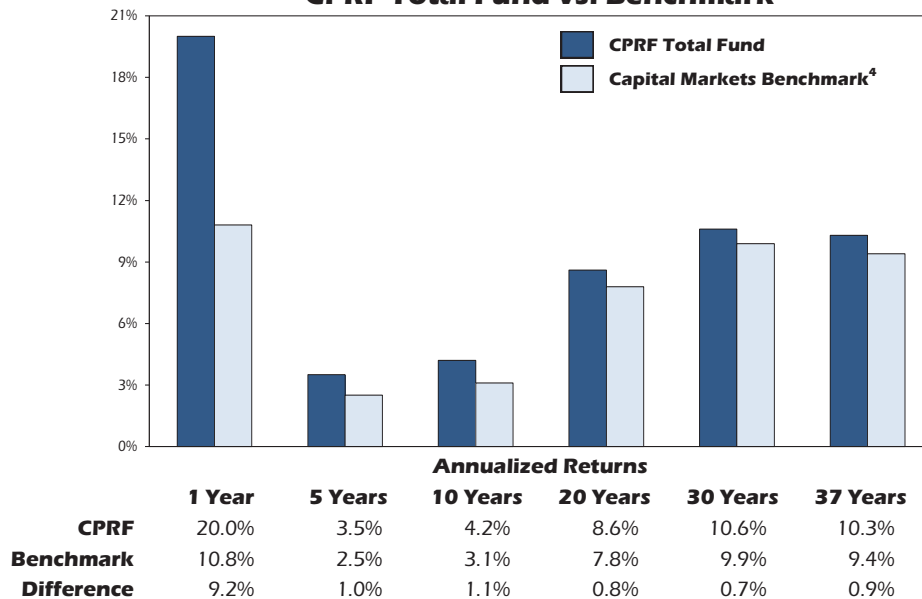


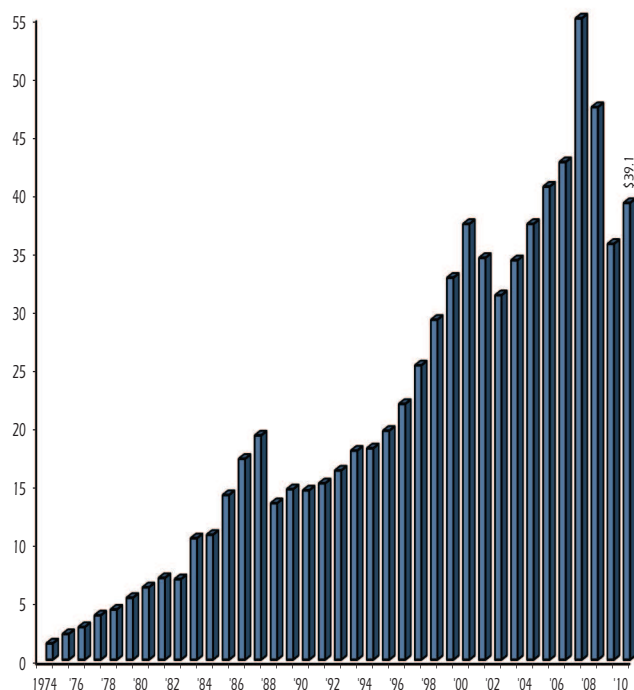
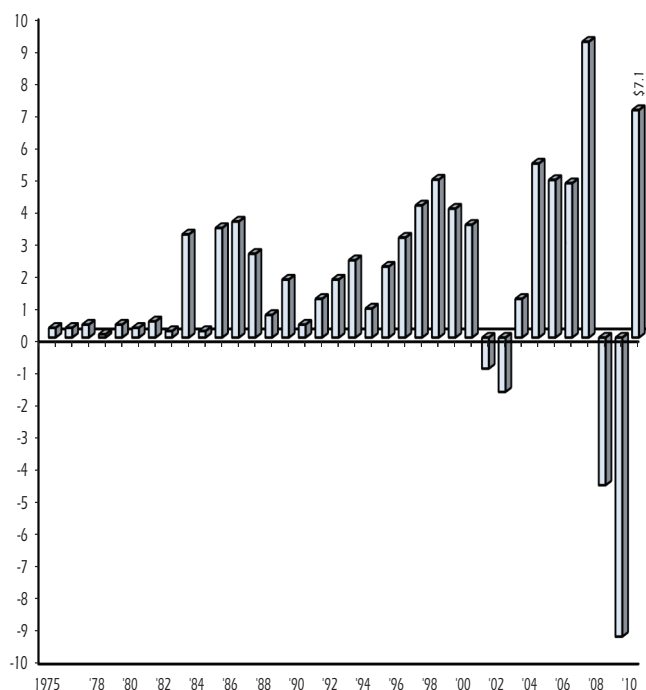
Cement Plant Retirement Fund Total Fund Performance⁹⁻¹²

	1 Year		2 Years		3 Years		4 Years		5 Years		10 Years		20 Years		30 Years		37 Years	
	CPRF	Bench	CPRF	Bench	CPRF	Bench	CPRF	Bench	CPRF	Bench	CPRF	Bench	CPRF	Bench	CPRF	Bench	CPRF	Bench
2010	20.0%	10.8%	(2.0%)	(4.6%)	(4.3%)	(4.4%)	1.4%	0.6%	3.5%	2.5%	4.2%	3.1%	8.6%	7.8%	10.6%	9.9%	10.3%	9.4%
2009	(20.0%)	(17.9%)	(14.6%)	(11.3%)	(4.1%)	(2.6%)	(0.3%)	0.6%	2.3%	2.3%	3.3%	3.0%	7.8%	7.9%	10.2%	9.9%		
2008	(8.8%)	(4.1%)	4.9%	6.1%	7.3%	7.6%	8.8%	8.1%	10.2%	9.5%	7.1%	6.4%	9.7%	9.8%	11.3%	11.0%		
2007	20.6%	17.5%	16.3%	14.0%	15.4%	12.5%	15.5%	13.2%	13.2%	11.6%	10.0%	8.6%	10.6%	10.1%	11.8%	11.2%		
2006	12.1%	10.6%	12.8%	10.1%	13.9%	11.8%	11.4%	10.1%	7.9%	6.9%	9.9%	8.7%	10.3%	10.0%	11.5%	10.9%		
2005	13.5%	9.5%	14.8%	12.4%	11.1%	10.0%	6.8%	6.0%	4.9%	3.7%	10.3%	9.2%	11.0%	10.7%	11.5%	10.9%		
2004	16.1%	15.4%	10.0%	10.2%	4.7%	4.9%	2.9%	2.3%	4.4%	3.7%	10.2%	10.0%	11.8%	11.6%	11.6%	11.1%		
2003	4.1%	5.2%	(0.6%)	0.0%	(1.2%)	(1.7%)	1.6%	1.0%	4.0%	3.4%	9.0%	8.6%	11.1%	10.8%	11.2%	10.3%		
2002	(5.0%)	(5.0%)	(3.7%)	(5.0%)	0.8%	(0.3%)	4.0%	2.9%	7.0%	5.7%	10.1%	9.3%	13.0%	12.3%				
2001	(2.3%)	(5.0%)	3.8%	2.1%	7.2%	5.7%	10.2%	8.6%	11.9%	10.5%	12.0%	11.2%	13.4%	12.8%				
2000	10.4%	9.7%	12.3%	11.5%	14.7%	13.5%	15.8%	14.8%	15.9%	14.9%	13.2%	12.7%	14.0%	13.4%				
1999	14.2%	13.3%	16.9%	15.4%	17.7%	16.5%	17.3%	16.2%	16.3%	16.5%	12.4%	13.0%	13.8%	13.5%				
1998	19.7%	17.7%	19.5%	18.2%	18.4%	17.2%	16.8%	17.4%	14.3%	14.1%	12.3%	13.3%	13.5%	13.3%				
1997	19.2%	18.7%	17.7%	17.0%	15.8%	17.3%	13.0%	13.3%	13.4%	13.0%	11.2%	11.6%	12.6%	12.5%				
1996	16.2%	15.3%	14.2%	16.5%	10.9%	11.5%	11.9%	11.6%	12.1%	11.8%	10.8%	11.4%	12.4%	12.0%				
1995	12.2%	17.8%	8.4%	9.6%	10.6%	10.4%	11.1%	11.0%	10.6%	10.6%	11.7%	12.3%	12.1%	11.8%				
1994	4.8%	2.0%	9.7%	6.8%	10.7%	8.8%	10.2%	8.9%	8.6%	9.6%	13.4%	13.2%	12.4%	11.6%				
1993	15.0%	11.9%	13.8%	12.4%	12.1%	11.3%	9.6%	11.6%	10.4%	12.6%	13.2%	13.0%	12.2%	11.2%				
1992	12.7%	12.9%	10.6%	11.0%	7.9%	11.5%	9.3%	12.7%	9.0%	10.2%	15.9%	15.5%						
1991	8.6%	9.2%	5.6%	10.9%	8.3%	12.7%	8.1%	9.5%	9.5%	10.9%	14.8%	14.4%						
1990	2.7%	12.5%	8.1%	14.5%	8.0%	9.7%	9.7%	11.3%	12.8%	13.9%	14.8%	14.1%						
1989	13.8%	16.4%	10.7%	8.2%	12.2%	11.0%	15.5%	14.3%	18.5%	16.9%	15.2%	13.9%						
1988	7.7%	0.7%	11.4%	8.3%	16.1%	13.5%	19.7%	17.0%	15.9%	13.4%	14.7%	13.3%						
1987	15.2%	16.6%	20.5%	20.6%	23.9%	23.1%	18.1%	16.8%	23.2%	21.1%	14.1%	13.4%						
1986	26.0%	24.7%	28.6%	26.5%	19.0%	16.9%	25.2%	22.2%	20.4%	18.0%	13.9%	12.6%						
1985	31.1%	28.2%	15.7%	13.2%	25.0%	21.4%	19.0%	16.4%	16.9%	14.4%	12.6%	11.3%						
1984	2.1%	(0.1%)	22.0%	18.1%	15.3%	12.7%	13.5%	11.2%	12.1%	11.0%	11.3%	10.0%						
1983	45.8%	39.6%	22.5%	19.8%	17.6%	15.2%	14.7%	14.0%	13.5%	13.2%	11.3%	9.5%						
1982	2.9%	2.8%	5.6%	4.7%	5.9%	6.5%	6.6%	7.4%	5.7%	6.2%								
1981	8.5%	6.6%	7.4%	8.5%	7.9%	9.0%	6.4%	7.1%	7.8%	7.4%								
1980	6.3%	10.4%	7.6%	10.3%	5.8%	7.2%	7.6%	7.6%	8.5%	8.3%								
1979	8.9%	10.2%	5.5%	5.7%	8.1%	6.7%	9.1%	7.8%	10.6%	9.1%								
1978	2.2%	1.4%	7.7%	4.9%	9.1%	7.0%	11.1%	8.8%	9.2%	5.9%								
1977	13.5%	8.6%	12.8%	9.9%	14.2%	11.3%	11.0%	7.1%										
1976	12.1%	11.2%	14.6%	12.7%	10.2%	6.5%												
1975	17.2%	14.2%	9.3%	4.3%														
1974	2.0%	(4.8%)																

Annualized total rate of returns for 1, 2, 3, 4, 5, 10, 20, 30 and 37 years through 2010 for the Total Fund. The Capital Markets Benchmark⁴ is provided for comparison.

CPRF Total Fund vs. Benchmark



Asset Growth²³ - \$ in MillionsInvestment Income²⁴ - \$ in Millions**Cash Flows and Fair Value Changes^a**

The Cement Plant Retirement Fund began fiscal year 2010 with \$35.6 million in assets which were decreased by \$3.6 million in net withdrawals and increased by \$7.1 million in investment returns. The result was an ending balance of \$39.1 million.

Fair Value 6/30/09

\$ 35,646,395

Contributions/Withdrawals

Net Withdrawals	\$ (3,321,950)
Internal Management Fees	(27,801)
External Management Fees	<u>(226,390)</u>

Net Withdrawals \$ (3,576,141)

Investment Return

Interest Income	\$ 605,625
Dividend Income	443,460
Real Estate Income	27,162
Change in Accrued Income	<u>3,767</u>

Net Investment Income \$ 1,080,014

Capital Gain/Loss Income

Unrealized Gain/Loss Futures	\$ 1,414
Unrealized Gain/Loss Securities	5,050,251
Realized Gain/Loss Futures	54,019
Realized Gain/Loss Securities	<u>875,611</u>

Net Capital Gain/Loss Income \$ 5,981,295

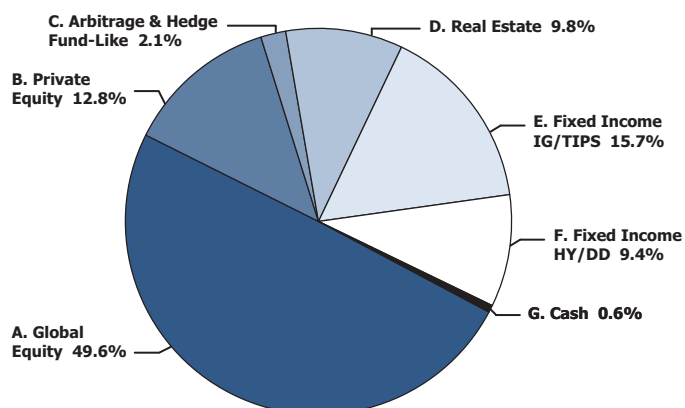
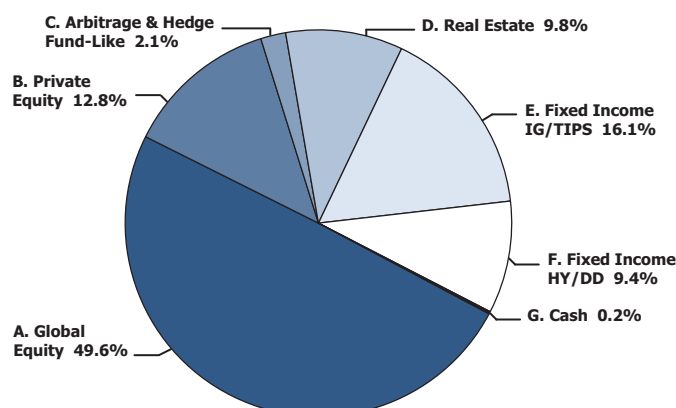
Total Investment Return \$ 7,061,309

Fair Value 6/30/10\$ 39,131,563

Investment Mix:

As of June 30, 2010, Cement Plant Retirement Fund assets for which the Investment Council is responsible totaled \$39.1 million. The broad asset categories and managers are listed below. The charts show the asset allocation of the Cement Plant Retirement Fund, both excluding futures positions and with futures overlay. The Capital Markets Benchmark allocation is also provided for comparison.

	<u>Positions Excluding Futures</u>		<u>Percentages Excluding Futures</u>		<u>Futures Positions</u>	<u>Resultant Exposure with Futures</u>	<u>Percentages with Futures Overlay</u>	<u>Benchmark Percentages</u>
A. Global Equity								
Internal Global Equity	\$ 18,619,296		47.6%					
Brandes	203,075		0.5%					
Dimensional Fund Advisors	244,728		0.6%					
GE Asset Management	<u>335,494</u>	\$ 19,402,593	<u>0.9%</u>	49.6%				
Equity Futures						\$ 19,402,593	49.6%	57.0%
B. Private Equity Limited Partnerships								
Blackstone	\$ 1,377,534		3.5%					
Capital International	303,266		0.8%					
Carlyle	408,397		1.0%					
Cinven	381,946		1.0%					
Credit Suisse	15,340		0.0%					
CVC	344,848		0.9%					
Cypress	52,999		0.1%					
Doughty Hanson	494,902		1.3%					
Elevation	190,369		0.5%					
KKR	423,206		1.1%					
Neuberger Berman	79,352		0.2%					
PineBridge	98,463		0.3%					
Silver Lake	<u>821,695</u>	4,992,317	<u>2.1%</u>	12.8%		4,992,317	12.8%	5.0%
C. Arbitrage & Hedge Fund-Like								
Bridgewater	\$ 472,068		1.2%					
Merger Fund	<u>345,863</u>	817,931	<u>0.9%</u>	2.1%		817,931	2.1%	2.0%
D. Real Estate Limited Partnerships								
AREA Properties	\$ 161,630		0.4%					
Blackstone	2,987,031		7.6%					
CarVal	622,721		1.6%					
Doughty Hanson	<u>81,019</u>	3,852,401	<u>0.2%</u>	9.8%		3,852,401	9.8%	7.0%
E. Fixed Income – Investment Grade/TIPS								
Internal Investment Grade	<u>\$ 6,165,206</u>	6,165,206	<u>15.7%</u>	15.7%				
Note Financial Futures					\$ 159,530	6,324,736	16.1%	20.0%
F. Fixed Income – High Yield/Distressed Debt								
Internal High Yield	\$ 476,572		1.2%					
Blackstone	221,576		0.6%					
CarVal	1,098,772		2.8%					
Oaktree	219,356		0.6%					
PIMCO	899,269		2.3%					
TCW	<u>752,569</u>	3,668,114	<u>1.9%</u>	9.4%		3,668,114	9.4%	6.0%
G. Cash & Cash Equivalents/Commodities								
Internal Shift Account	<u>\$ 233,001</u>	<u>233,001</u>	<u>0.6%</u>	<u>0.6%</u>				
Cash From Futures					<u>(159,530)</u>	<u>73,471</u>	<u>0.2%</u>	<u>3.0%</u>
Total	\$ 39,131,563		100.0%		\$ 0	\$ 39,131,563	100.0%	100.0%

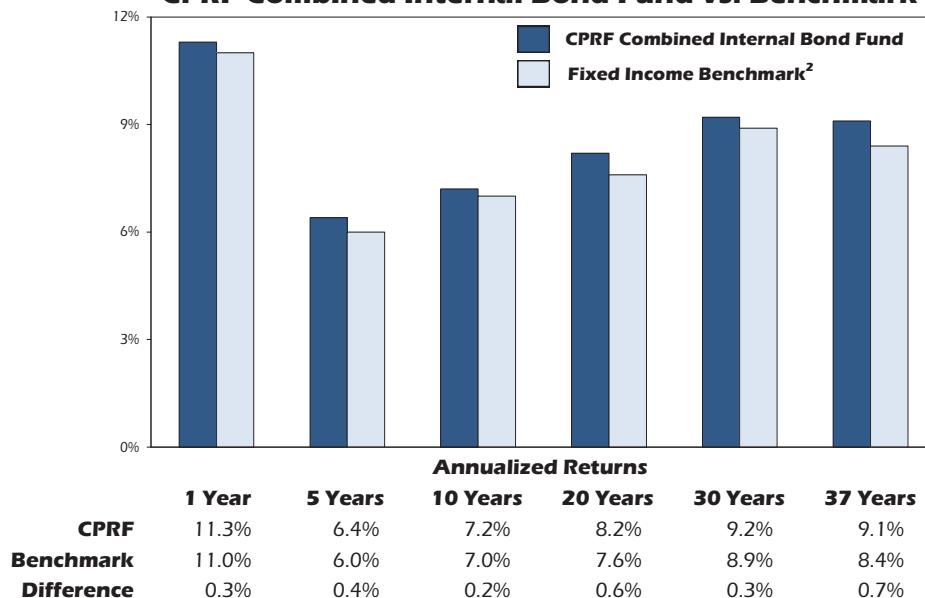
Allocation In Cash Markets**Allocation with Futures Overlay**

Cement Plant Retirement Fund Combined Internal Bond Fund Performance

	1 Year		2 Years		3 Years		4 Years		5 Years		10 Years		20 Years		30 Years		37 Years	
	CPRF	Bench	CPRF	Bench	CPRF	Bench	CPRF	Bench	CPRF	Bench	CPRF	Bench	CPRF	Bench	CPRF	Bench	CPRF	Bench
2010	11.3%	11.0%	9.5%	8.7%	8.5%	7.9%	8.1%	7.6%	6.4%	6.0%	7.2%	7.0%	8.2%	7.6%	9.2%	8.9%	9.1%	8.4%
2009	7.7%	6.4%	7.2%	6.4%	7.0%	6.5%	5.2%	4.8%	5.9%	5.4%	6.5%	6.3%	8.0%	7.4%	8.9%	8.7%		
2008	6.7%	6.5%	6.7%	6.6%	4.3%	4.3%	5.5%	5.2%	4.6%	4.4%	6.0%	6.0%	8.3%	7.7%	8.9%	8.7%		
2007	6.7%	6.7%	3.2%	3.2%	5.1%	4.8%	4.1%	3.9%	6.1%	5.7%	6.5%	6.4%	8.4%	7.8%	8.6%	8.5%		
2006	(0.2%)	(0.1%)	4.3%	3.8%	3.3%	3.0%	6.0%	5.5%	6.0%	5.8%	6.9%	6.7%	8.4%	7.7%	8.9%	8.7%		
2005	9.1%	7.9%	5.1%	4.5%	8.2%	7.4%	7.6%	7.3%	8.1%	8.1%	7.5%	7.4%	9.3%	8.7%	9.3%	9.1%		
2004	1.3%	1.3%	7.7%	7.1%	7.1%	7.1%	7.8%	8.1%	7.1%	7.2%	8.0%	7.8%	10.2%	9.7%	9.5%	9.3%		
2003	14.5%	13.4%	10.1%	10.1%	10.1%	10.5%	8.6%	8.8%	7.3%	7.6%	7.8%	7.5%	10.1%	9.7%	9.8%	9.1%		
2002	5.9%	7.0%	7.9%	9.1%	6.7%	7.3%	5.6%	6.2%	7.0%	7.1%	8.0%	7.4%	10.8%	10.5%				
2001	10.0%	11.2%	7.1%	7.4%	5.5%	5.9%	7.2%	7.2%	7.8%	7.7%	9.0%	8.1%	11.2%	10.8%				
2000	4.3%	3.8%	3.3%	3.3%	6.3%	5.9%	7.2%	6.8%	7.0%	6.7%	9.1%	8.1%	10.1%	9.9%				
1999	2.4%	2.9%	7.4%	7.0%	8.2%	7.8%	7.6%	7.4%	8.9%	8.4%	9.5%	8.5%	10.1%	9.9%				
1998	12.6%	11.2%	11.3%	10.4%	9.5%	8.9%	10.6%	9.8%	8.3%	7.5%	10.6%	9.4%	10.3%	10.1%				
1997	9.9%	9.6%	7.9%	7.9%	9.9%	9.4%	7.3%	6.6%	9.0%	7.7%	10.2%	9.1%	9.7%	9.6%				
1996	5.9%	6.2%	9.9%	9.3%	6.4%	5.7%	8.8%	7.2%	10.2%	8.6%	10.0%	8.7%	9.9%	9.8%				
1995	14.0%	12.5%	6.7%	5.5%	9.7%	7.6%	11.3%	9.2%	11.3%	9.5%	11.2%	10.1%	10.2%	10.0%				
1994	(0.2%)	(1.2%)	7.7%	5.2%	10.4%	8.1%	10.6%	8.8%	10.2%	8.6%	12.6%	11.6%	10.3%	10.0%				
1993	16.1%	12.0%	16.1%	13.1%	14.5%	12.3%	12.9%	11.2%	12.9%	11.4%	12.5%	12.0%	10.8%	9.9%				
1992	16.2%	14.2%	13.7%	12.5%	11.9%	10.9%	12.1%	11.2%	11.5%	10.6%	13.7%	13.7%						
1991	11.3%	10.8%	9.8%	9.3%	10.8%	10.2%	10.3%	9.7%	9.7%	8.9%	13.4%	13.5%						
1990	8.3%	7.7%	10.5%	10.0%	10.0%	9.3%	9.3%	8.4%	11.1%	10.6%	11.2%	11.7%						
1989	12.8%	12.2%	10.9%	10.2%	9.7%	8.6%	11.8%	11.3%	15.0%	14.8%	10.6%	11.3%						
1988	9.0%	8.2%	8.2%	6.9%	11.4%	11.0%	15.6%	15.5%	12.1%	12.6%	10.1%	10.9%						
1987	7.4%	5.6%	12.7%	12.5%	17.9%	18.0%	12.8%	13.7%	16.0%	16.8%	9.1%	10.1%						
1986	18.3%	19.8%	23.5%	24.8%	14.7%	16.6%	18.3%	19.8%	17.1%	18.4%	9.8%	10.8%						
1985	28.9%	30.0%	13.0%	15.0%	18.3%	19.8%	16.9%	18.0%	11.3%	12.9%	9.2%	9.9%						
1984	(0.9%)	1.7%	13.3%	15.0%	13.1%	14.3%	7.3%	9.0%	6.4%	7.9%	8.2%	8.4%						
1983	29.6%	30.0%	20.8%	21.1%	10.3%	11.5%	8.3%	9.5%	8.2%	9.2%	9.2%	7.9%						
1982	12.6%	12.8%	1.7%	3.3%	1.9%	3.5%	3.4%	4.5%	2.6%	3.8%								
1981	(8.2%)	(5.4%)	(3.0%)	(0.9%)	0.5%	1.9%	0.3%	1.6%	2.8%	3.7%								
1980	2.5%	3.8%	5.1%	5.7%	3.3%	4.1%	5.8%	6.1%	7.1%	7.0%								
1979	7.8%	7.6%	3.7%	4.3%	7.0%	6.9%	8.2%	7.8%	10.0%	8.8%								
1978	(0.3%)	1.0%	6.5%	6.6%	8.4%	7.9%	10.6%	9.1%	10.2%	6.6%								
1977	13.8%	12.4%	13.0%	11.5%	14.5%	12.0%	13.0%	8.0%										
1976	12.1%	10.5%	14.8%	11.7%	12.8%	6.6%												
1975	17.5%	12.9%	13.1%	4.7%														
1974	8.9%	(2.9%)																

Annualized total rate of returns for 1, 2, 3, 4, 5, 10, 20, 30 and 37 years through 2010 for the Combined Internal Bond Fund. The Fixed Income Benchmark² is provided for comparison. The returns above the dark demarcation line include both bonds and allocated cash reserves. The returns below the dark demarcation line are bond only with no allocated cash reserves. Prior to Fiscal Year 2007, the investment grade and high yield bonds were managed together. The returns below the dotted demarcation line reflect these returns. On July 1, 2006, they were separated and are now managed individually. The return above the dotted demarcation line is investment grade weighted 80% and high yield weighted 20%.

CPRF Combined Internal Bond Fund vs. Benchmark



Internal Bond Profile

The Cement Plant Retirement Fund's combined internal bond portfolio characteristics as of June 30, 2010, are presented below.

<u>Distribution by Duration</u>	<u>%</u>	<u>Distribution By Quality Rating</u>	<u>%</u>
0 to 2 Years	26.5%	Cash/Cash Equivalents	5.1%
2 to 3 Years	26.4%	U.S. Gov't/Aaa	54.0%
3 to 4 Years	9.2%	Aa	6.0%
4 to 5 Years	12.4%	A	12.2%
5 to 6 Years	6.3%	Baa	13.6%
6 to 8 Years	9.9%	Ba	7.8%
Above 8 Years	<u>9.3%</u>	B	1.1%
		Caa	<u>0.2%</u>
Total	<u>100.0%</u>	Total	<u>100.0%</u>

<u>Distribution By Coupon</u>	<u>%</u>	<u>Distribution By Issue</u>	<u>%</u>
Cash/Cash Equivalents	5.1%	Cash/Cash Equivalents	5.1%
0.00% - 4.00%	17.6%	U.S. Treasuries/Agencies/FDIC	20.2%
4.01% - 5.00%	27.7%	Mortgage Backed Securities	33.8%
5.01% - 6.00%	29.2%	Investment Grade Corporates	31.8%
6.01% - 8.00%	17.7%	High Yield Corporates	<u>9.1%</u>
8.01% and over	<u>2.7%</u>		
Total	<u>100.0%</u>	Total	<u>100.0%</u>

A history of the CPRF combined internally managed bond portfolio characteristics is presented below. Shown are 1975, the first year for which all characteristics are available, 1980, 1985, 1990, 1995, 2000, 2005 and the last four years. The Bond Index is presented for comparative purposes.

	<u>1975</u>	<u>1980</u>	<u>1985</u>	<u>1990</u>	<u>1995</u>	<u>2000</u>	<u>2005</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Cement Plant Retirement Fund											
Number of Issues	7	4	14	20	39	59	74	100	118	124	117
Average Coupon	10.07%	8.36%	9.98%	8.57%	7.71%	6.23%	5.21%	5.49%	5.43%	5.40%	5.13%
Yield to Maturity	9.45%	10.06%	10.27%	9.22%	7.32%	7.76%	4.70%	6.00%	5.68%	5.17%	3.64%
Average Maturity	19.29 yr	17.38 yr	7.00 yr	7.80 yr	9.27 yr	6.91 yr	5.81 yr	6.09 yr	6.22 yr	4.44 yr	5.39 yr
Duration	7.97 yr	7.57 yr	3.96 yr	5.28 yr	5.56 yr	5.57 yr	4.10 yr	5.01 yr	5.37 yr	4.09 yr	4.02 yr
Average Quality*	2.77	3.89	4.00	3.68	3.21	3.22	3.38	3.40	3.33	3.02	3.02
Cash Equivalent	1.1%	32.6%	4.9%	5.8%	12.7%	5.5%	13.9%	7.3%	3.1%	2.9%	5.1%

Bond Index¹

Average Coupon	7.20%	8.73%	10.65%	8.98%	7.45%	6.85%	5.24%	5.41%	5.37%	4.91%	4.42%
Yield to Maturity	8.30%	10.18%	10.19%	9.19%	6.72%	7.26%	4.51%	5.69%	4.99%	3.87%	2.63%
Average Maturity	11.93 yr	11.24 yr	9.50 yr	9.80 yr	8.52 yr	8.83 yr	6.21 yr	7.39 yr	7.80 yr	6.27 yr	5.96 yr
Duration	6.12 yr	5.42 yr	4.74 yr	4.99 yr	5.13 yr	5.27 yr	4.67 yr	5.12 yr	5.36 yr	4.55 yr	4.55 yr

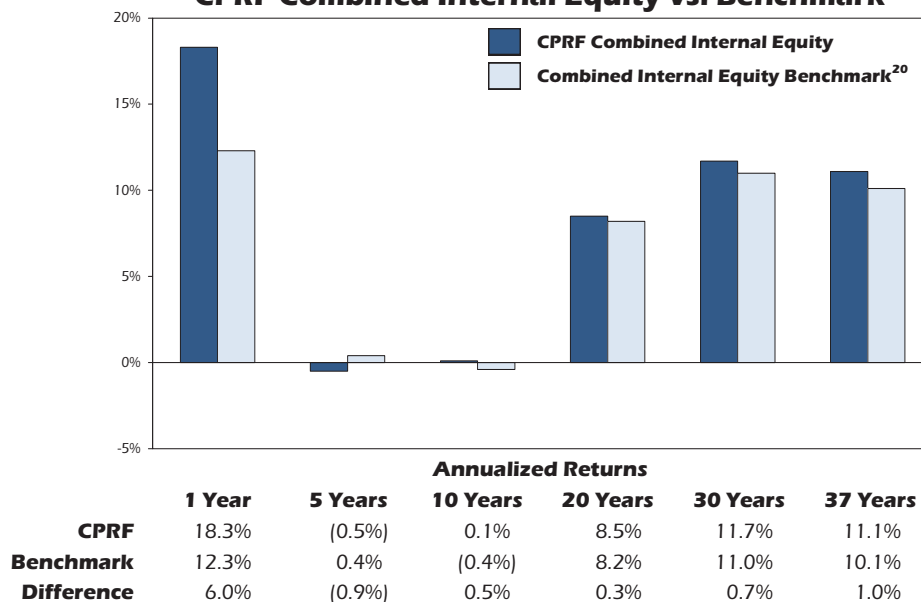
*(Aaa=4, Aa=3, A=2, Baa or lower=1)

Cement Plant Retirement Fund Combined Internal Equity Fund Performance

	1 Year		2 Years		3 Years		4 Years		5 Years		10 Years		20 Years		30 Years		37 Years	
	CPRF	Bench	CPRF	Bench	CPRF	Bench	CPRF	Bench	CPRF	Bench	CPRF	Bench	CPRF	Bench	CPRF	Bench	CPRF	Bench
2010	18.3%	12.3%	(4.0%)	(10.0%)	(10.4%)	(10.3%)	(3.5%)	(2.8%)	(0.5%)	0.4%	0.1%	(0.4%)	8.5%	8.2%	11.7%	11.0%	11.1%	10.1%
2009	(22.1%)	(27.9%)	(22.1%)	(19.9%)	(9.8%)	(7.4%)	(4.7%)	(2.3%)	(2.0%)	(0.2%)	(0.6%)	(0.5%)	7.8%	8.4%	11.5%	11.2%		
2008	(22.1%)	(11.0%)	(2.9%)	4.9%	1.9%	8.1%	3.8%	8.3%	7.4%	11.2%	3.7%	4.6%	10.0%	11.2%	12.8%	12.9%		
2007	20.9%	23.6%	16.5%	19.1%	14.2%	15.6%	16.3%	17.6%	12.3%	13.6%	9.4%	8.6%	11.3%	11.5%	13.9%	13.3%		
2006	12.3%	14.7%	11.1%	11.8%	14.8%	15.7%	10.3%	11.3%	5.5%	5.5%	10.6%	9.3%	11.2%	11.5%	13.7%	12.5%		
2005	9.9%	9.0%	16.1%	16.2%	9.7%	10.1%	3.9%	3.3%	0.7%	(1.2%)	12.1%	10.4%	12.3%	12.5%	13.7%	12.5%		
2004	22.7%	23.8%	9.6%	10.7%	1.9%	1.5%	(1.5%)	(3.6%)	0.8%	(0.8%)	13.0%	12.0%	13.6%	13.5%	14.4%	12.7%		
2003	(2.2%)	(1.0%)	(7.1%)	(8.1%)	(8.5%)	(11.3%)	(4.1%)	(6.1%)	0.2%	(1.7%)	11.3%	9.8%	12.7%	12.0%	12.8%	11.4%		
2002	(11.7%)	(14.8%)	(11.4%)	(16.0%)	(4.7%)	(7.8%)	0.8%	(1.9%)	6.6%	3.8%	13.1%	11.3%	15.5%	14.8%				
2001	(11.1%)	(17.2%)	(1.0%)	(4.1%)	5.4%	2.8%	11.7%	9.1%	15.9%	13.4%	15.8%	14.6%	15.9%	15.0%				
2000	10.3%	11.1%	14.7%	14.6%	20.6%	19.5%	23.9%	22.6%	24.9%	23.3%	17.7%	17.6%	18.1%	17.2%				
1999	19.3%	18.2%	26.1%	24.0%	28.8%	26.7%	28.9%	26.6%	26.7%	26.5%	16.8%	18.1%	18.0%	17.5%				
1998	33.3%	30.2%	33.8%	31.2%	32.2%	29.5%	28.7%	28.7%	23.6%	22.7%	16.7%	18.3%	17.6%	17.3%				
1997	34.2%	32.3%	31.7%	29.2%	27.2%	28.2%	21.3%	20.9%	20.0%	19.4%	13.2%	14.4%	16.2%	15.7%				
1996	29.2%	26.3%	23.8%	26.2%	17.3%	17.3%	16.6%	16.4%	15.7%	15.8%	11.9%	13.8%	15.3%	14.2%				
1995	18.6%	26.1%	11.8%	13.0%	12.7%	13.2%	12.6%	13.3%	10.9%	12.1%	12.4%	14.6%	14.5%	13.6%				
1994	5.3%	1.3%	9.9%	7.3%	10.6%	9.3%	9.0%	8.8%	7.7%	10.3%	14.1%	15.0%	15.1%	13.1%				
1993	14.7%	13.6%	13.4%	13.5%	10.3%	11.4%	8.3%	12.6%	10.1%	14.2%	14.0%	14.3%	13.6%	12.1%				
1992	12.1%	13.5%	8.1%	10.4%	6.2%	12.3%	9.0%	14.3%	6.9%	9.7%	18.1%	18.3%						
1991	4.4%	7.4%	3.4%	11.8%	8.0%	14.6%	5.6%	8.7%	8.2%	11.8%	16.0%	15.4%						
1990	2.5%	16.3%	9.9%	18.3%	6.1%	9.2%	9.1%	12.9%	13.9%	17.1%	18.5%	16.8%						
1989	17.8%	20.4%	7.9%	5.8%	11.4%	11.8%	17.0%	17.3%	21.0%	19.9%	19.2%	16.9%						
1988	(1.2%)	(7.1%)	8.4%	7.8%	16.7%	16.3%	21.8%	19.8%	18.1%	14.4%	18.5%	16.2%						
1987	18.9%	25.1%	26.8%	30.1%	30.5%	30.4%	23.5%	20.5%	30.4%	27.7%	19.2%	17.1%						
1986	35.4%	35.4%	36.8%	33.1%	25.0%	19.1%	33.5%	28.4%	24.3%	19.2%	18.7%	14.5%						
1985	38.2%	30.8%	20.2%	11.6%	32.9%	26.1%	21.7%	15.5%	23.2%	16.4%	16.6%	12.6%						
1984	4.4%	(4.7%)	30.3%	23.9%	16.6%	10.8%	19.7%	13.1%	17.5%	13.9%	16.0%	11.2%						
1983	62.5%	61.0%	23.3%	19.4%	25.3%	19.8%	21.1%	19.1%	18.9%	18.0%	13.1%	10.1%						
1982	(6.5%)	(11.4%)	10.0%	3.3%	9.7%	7.7%	10.0%	9.2%	8.9%	7.3%								
1981	29.4%	20.5%	18.9%	18.8%	16.1%	17.0%	13.1%	12.6%	13.4%	10.0%								
1980	9.1%	17.1%	10.0%	15.4%	8.1%	10.0%	9.7%	7.6%	10.4%	8.8%								
1979	10.8%	13.6%	7.6%	6.7%	9.9%	4.6%	10.7%	6.9%	14.5%	8.6%								
1978	4.5%	0.1%	9.5%	0.3%	10.7%	4.7%	15.5%	7.4%	7.5%	2.6%								
1977	14.8%	0.5%	14.0%	7.0%	19.4%	10.0%	8.3%	3.3%										
1976	13.2%	14.0%	21.7%	15.0%	6.2%	4.2%												
1975	31.0%	16.1%	3.0%	(0.3%)														
1974	(19.1%)	(14.5%)																

Annualized total rate of returns for 1, 2, 3, 4, 5, 10, 20, 30 and 37 years through 2010 for the Combined Internal Equity Fund. The Combined Internal Equity Benchmark²⁰ is provided for comparison. The returns above the solid demarcation line include both equities and allocated cash reserves. The returns below the dark demarcation line are equity only with no allocated cash reserves. The returns below the dotted demarcation line are domestic only returns. The returns above the dotted demarcation line 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 now managed together.

CPRF Combined Internal Equity vs. Benchmark



Internal Equity Profile

The Cement Plant Retirement Fund's internal global equity portfolio characteristics as of June 30, 2010 are presented below. The CPRF internal equity portfolio is compared to the $\frac{2}{3}$ S&P 1200 Global Index plus $\frac{1}{3}$ S&P 500 Index benchmark.

Distribution by Market Sector

	<u>CPRF</u>	<u>Bench</u>
Consumer Discretionary	12.0%	9.6%
Consumer Staples	12.0%	11.0%
Energy	13.2%	10.4%
Financials	23.1%	19.2%
Health Care	15.0%	10.4%
Industrials	6.6%	10.4%
Information Technology	12.2%	14.5%
Materials	1.7%	6.2%
Telecommunications Services	1.6%	4.2%
Utilities	2.4%	4.1%
Cash Equivalents	<u>0.2%</u>	<u>0.0%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

Ten Largest Holdings

	<u>%</u>
JPMorgan Chase & Co.	3.3%
ConocoPhillips	2.9%
Pfizer, Inc.	2.9%
Wells Fargo & Co.	2.7%
Exxon Mobil Corp.	2.7%
Bank of America Corp.	2.5%
U.S. Bancorp.	2.3%
Eli Lilly & Co.	2.2%
General Electric Co.	2.2%
Nestle SA/AG	<u>2.1%</u>
Total	<u>25.8%</u>

Distribution by Country

	<u>CPRF</u>	<u>Bench</u>
Australia	0.00%	2.43%
Austria	0.00%	0.07%
Belgium	0.01%	0.30%
Brazil	0.00%	0.80%
Canada	1.08%	3.17%
Chile	0.00%	0.17%
Denmark	0.00%	0.26%
Finland	1.03%	0.27%
France	3.65%	2.87%
Germany	1.91%	2.19%
Great Britain	5.74%	6.33%
Greece	0.00%	0.05%
Hong Kong	0.00%	1.19%
Ireland	0.00%	0.08%
Italy	0.00%	0.91%
Japan	5.26%	5.56%
Korea	0.00%	0.81%
Luxembourg	0.00%	0.11%
Mexico	0.00%	0.32%
Netherlands	1.26%	0.77%
Norway	0.00%	0.20%
Peru	0.00%	0.07%
Portugal	0.00%	0.10%
Singapore	0.00%	0.30%
Spain	0.00%	1.04%
Sweden	0.00%	0.84%
Switzerland	3.77%	2.48%
Taiwan	0.00%	0.60%
United States	76.07%	65.71%
Cash Equivalents	<u>0.22%</u>	<u>0.0%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

Portfolio/Benchmark Characteristics as of June 30, 2010

	<u>CPRF</u>	<u>Bench</u>
# of Companies	132	1200
# of Countries	10	29
Price/Earnings Ratio	14.00	14.35
Dividend Yield	3.74%	3.11%
Return on Equity	22.96%	18.67%
Price/Book Value Ratio	3.21	2.68

Global Equity Composite⁷

The Cement Plant Retirement Fund's global equity composite is comprised of the internally managed global equity portfolio and three externally managed portfolios as of June 30, 2010. 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, 2010

CPRF Global Equity Composite	17.75%
Benchmark	12.40%
Difference	5.35%

THE FUND

The South Dakota Cash Flow Fund (SDCFF) is comprised of more than 250 separately identified state accounts. During fiscal year 2010, the fund ranged from \$935 million to \$1.066 billion and averaged \$1.006 billion. The fund serves as the state checking account and is influenced by revenue collected from sales and use taxes, insurance and bank franchise taxes, tuition and fees, investment income and other income sources. Outflows occur by the payment of liabilities such as highway maintenance, payments to local governments and schools, salaries and many other obligations.

SDCL 4-5-26 provides the legal list of investments for the SDCFF. This includes U.S. Governments and Agencies, certificates of deposit, bankers' acceptances, investment grade corporate debt and commercial paper. High credit standards are maintained for the portfolio with an average quality of Aa2 as of June 30, 2010. Diversification by maturity, quality and market sector is closely monitored.

OBJECTIVES AND COMPONENTS

The SDCFF's objectives are to 1) provide income to state agencies, 2) be flexible to state cash needs, and 3) provide investment in state financial institutions for potential loans through the Certificate of Deposit (CD) Program.

The fund is composed of three parts. On June 30, 2010, 95.1% was in the actively managed duration portfolio. An active duration strategy was implemented in November of 1985. In May of 1993 the Investment Council changed the maturity restrictions from 3 years to 5 years for an individual security and the duration of the overall portfolio from 2 years to 2.88 years.

The money market portfolio represents 2.0% of the Cash Flow Fund. The money market fund is the most liquid of the three portfolios and absorbs the state's daily cash inflows and outflows.

The South Dakota CD Program is the third portion and represents 2.9% of the Cash Flow Fund. The CD rates were set at the corporate equivalent bond yield of a nine-month Treasury bill plus 0.5% shortly before the yearly issuance in December. On June 30, 2010, sixty-three banks, eleven credit unions and two savings and loans held \$27.835 million in CDs.

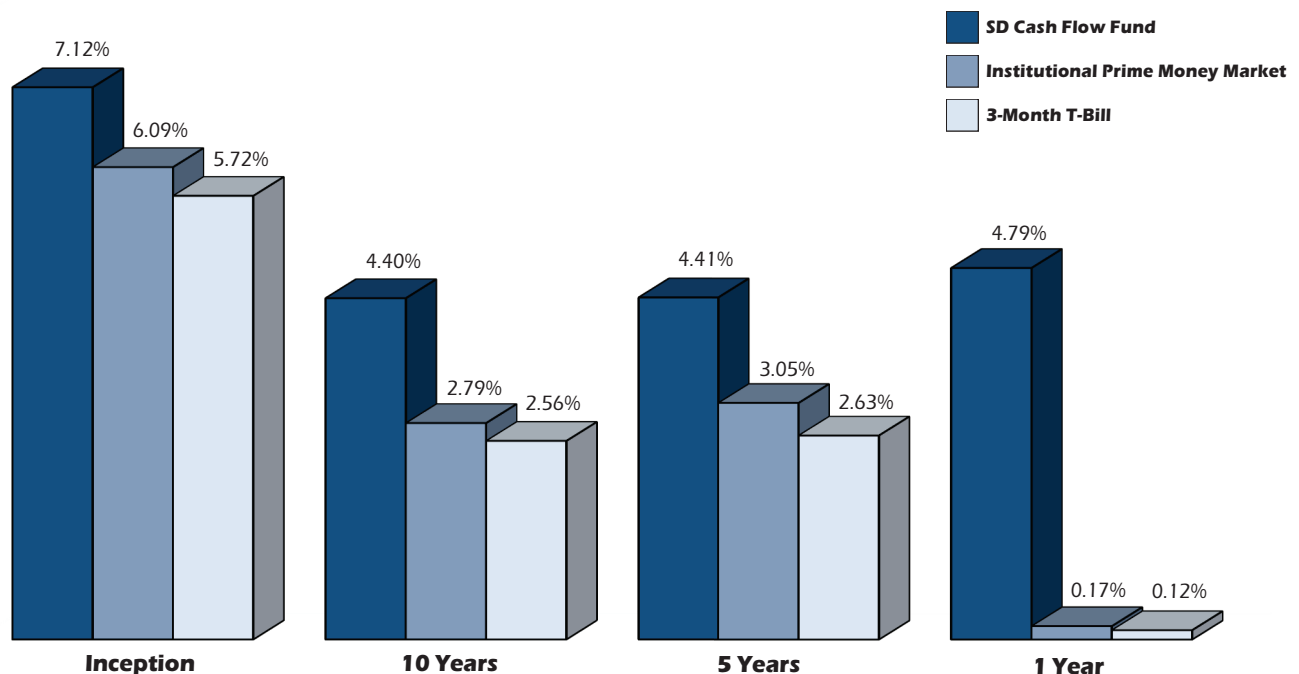
PRORATION

At fiscal year end, the SDCFF income is prorated to the individual state funds based on a ratio of their average daily cash balance to the total average daily cash balance. The general fund and other state agencies earned \$50.2 million for fiscal year 2010. South Dakota's state budget and taxpayers have received \$975 million of earnings from this important fund since its inception.

PERFORMANCE

The yield of the SDCFF for fiscal year 2010 was 4.79% versus an institutional prime money market yield of 0.17% and a 3-month Treasury bill return of 0.12%. Since the fund's inception in December of 1972, it has yielded 7.12% annually versus an institutional prime money market annual yield of 6.09% and a 3-month Treasury bill annual yield of 5.72%. For fiscal year 2010, the duration portion of the fund had a total return of 5.10% versus a benchmark⁶ return of 5.34%. Since the inception of the duration portfolio in November of 1985, its performance has been 6.08% annually versus 5.62% for the benchmark. In fiscal year 2010, the money market portion yielded 0.15% versus 0.17% for an institutional prime money market fund and 0.12% for Treasury bills. The CD Program yielded 0.54% for the fiscal year. The CD rate at June 30, 2010, was 0.855%.

Yield Analysis (Annualized)



Comparative Results⁹

The proration rate is the cash accounting yield. The managed accrued rate includes accrued interest. The 3-month T-bill and prime money market rates are provided for comparison. The graphs show the cumulative receipts earnings and cumulative returns versus the two comparisons.

	SDCFF Proration Amount	Total Receipted Rate (Proration Rate)	Managed Accrued Rate*	3-month Treasury Bill Rate	Institutional Prime Money Market Fund	Total Return SDCDP✓	SDCDP Index ⁶
2010	\$ 50,155,778	4.94%	4.79%	0.1%	0.2%	5.10%	5.34%
2009	43,568,535	4.59%	4.51%	0.8%	1.6%	6.58%	3.14%
2008	44,431,241	5.07%	4.96%	3.3%	4.2%	6.59%	6.05%
2007	34,578,213	4.23%	4.41%	5.1%	5.2%	5.56%	5.50%
2006	25,450,147	3.07%	3.40%	4.0%	4.1%	2.36%	2.09%
2005	21,652,806	2.66%	2.92%	2.0%	2.1%	2.62%	2.45%
2004	22,888,860	2.95%	3.02%	1.0%	1.0%	0.59%	-0.14%
2003	29,876,507	4.22%	4.35%	1.4%	1.4%	5.45%	4.09%
2002	41,972,001	5.54%	5.21%	2.5%	2.4%	5.55%	5.62%
2001	50,729,249	6.54%	6.50%	5.6%	5.9%	9.57%	8.94%
2000	36,459,873	5.18%	5.47%	5.3%	5.7%	4.94%	4.49%
1999	36,122,881	6.02%	6.01%	4.7%	5.1%	4.90%	5.02%
1998	31,533,466	6.11%	6.51%	5.3%	5.5%	7.11%	6.42%
1997	28,961,501	6.03%	6.12%	5.3%	5.3%	6.81%	6.09%
1996	27,987,169	6.18%	6.32%	5.4%	5.6%	5.29%	5.54%
1995	20,145,287	4.87%	5.41%	5.1%	5.4%	7.78%	6.41%
1994	15,309,074	3.73%	4.17%	3.2%	3.3%	2.73%	1.87%
1993	20,908,872	5.34%	5.05%	3.1%	3.2%	4.98%	4.71%
1992	26,680,663	7.23%	7.32%	4.7%	5.0%	7.98%	7.95%
1991	30,595,214	8.48%	8.50%	6.8%	7.2%	9.65%	9.43%
1990	30,876,016	8.81%	8.78%	7.9%	8.4%	8.66%	8.45%
1989	24,741,382	7.35%	8.51%	7.8%	8.6%	9.59%	8.22%
1988	19,634,393	6.52%	7.30%	5.5%	6.8%	7.70%	6.96%
1987	19,763,489	7.11%	6.84%	5.5%	6.0%	6.66%	5.72%
1986	22,702,888	8.69%	8.74%	7.1%	7.4%		
1985	24,805,620	9.91%	9.75%	9.1%	9.5%		
1984	22,179,507	9.02%	9.66%	9.4%	9.4%		
1983	25,178,343	12.11%	10.99%	8.6%	9.5%		
1982	30,488,779	15.51%	13.26%	13.5%	14.7%		
1981	26,148,927	11.50%	12.42%	12.7%	13.4%		
1980	23,762,605	11.78%	11.92%	11.2%	11.9%		
1979	14,661,310	7.82%	8.82%	9.0%	9.0%		
1978	11,069,889	6.96%	7.75%	6.0%	6.0%		
1977	9,853,216	8.37%	7.04%	4.9%	4.7%		
1976	8,378,771	7.92%	7.34%	5.5%	5.2%		
1975	11,490,970	11.00%	10.39%	6.8%	8.2%		
1974	7,966,372	8.35%	9.88%	8.0%	9.0%		
1973	1,674,845	4.90%	6.92%❖	6.1%❖	7.0%❖		
	<u>\$ 975,384,659</u>						

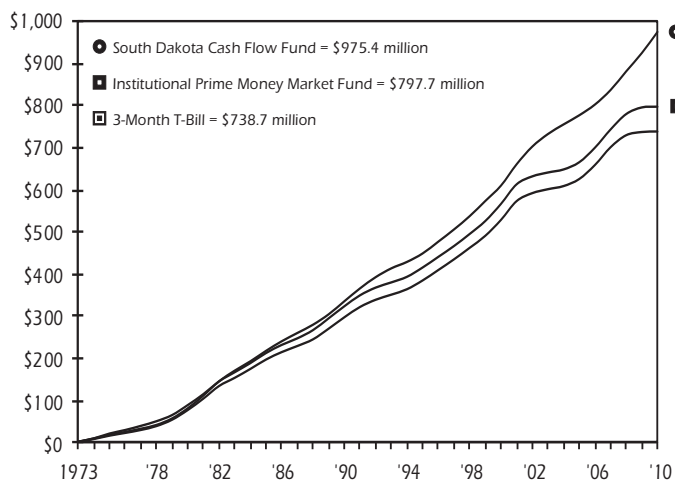
* Yield on funds managed by the Investment Office ex CDs.

✓ Total return of S.D. Cash Duration Portfolio.

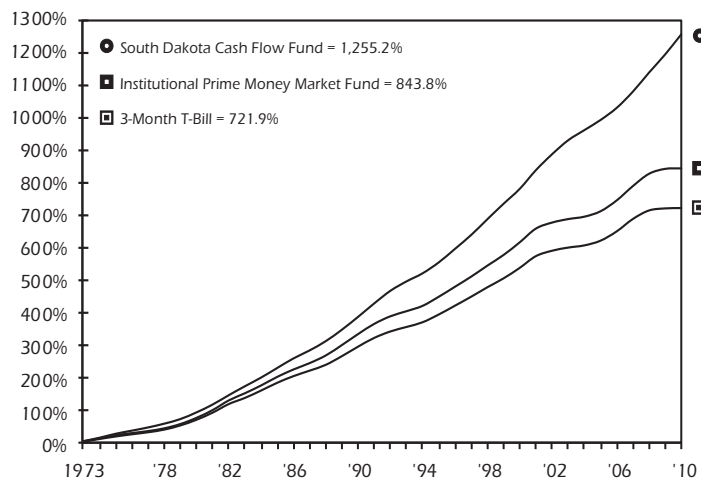
■ Prorated amount and rate are 7 month numbers.

❖ Rate is annualized.

Cumulative Receipted Earnings

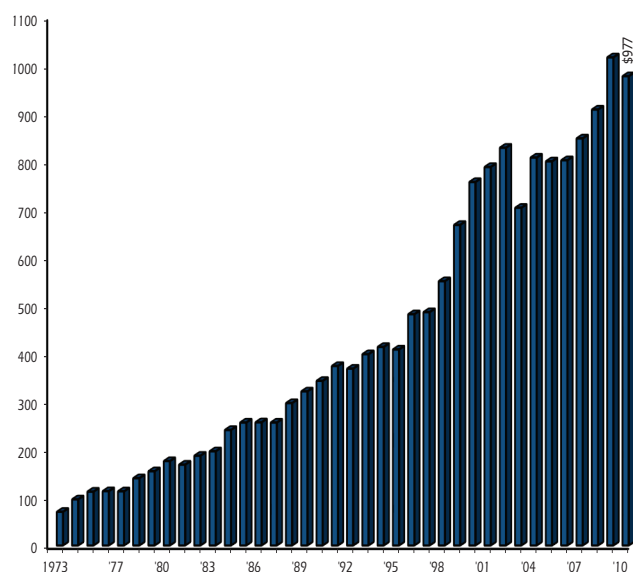


Cumulative Percentages

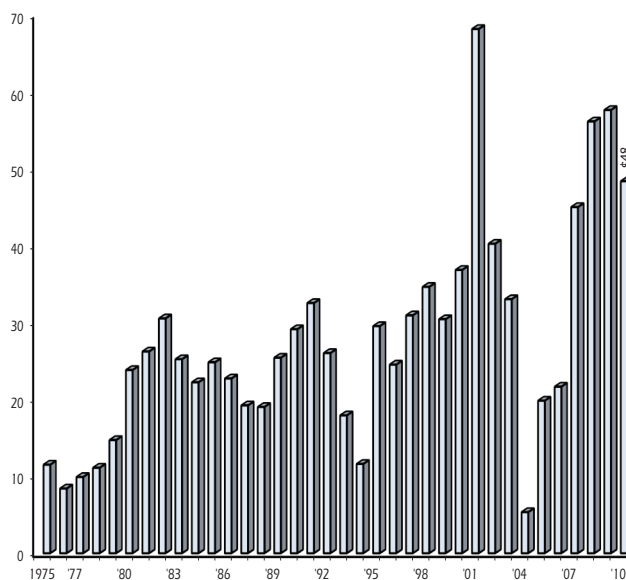


Growth in Assets

Asset Growth²³ - \$ in Millions



Investment Income²⁴ - \$ in Millions



Cash Flows and Fair Value Changes

The Cash Flow Fund began fiscal year 2010 with \$1,015.8 million in assets which were decreased by \$87.6 million in net withdrawals and increased by \$48.3 million in investment returns. The result was an ending balance of \$976.6 million.

Fair Value 6/30/09

\$1,015,825,459

Contributions/Withdrawals

Contributions/Withdrawals	\$ (79,759,467)
Internal Management Fees	(698,813)
Decrease in CD Program for FY 10	<u>(7,092,000)</u>

Net Withdrawals

\$ (87,550,280)

Investment Return

Interest Income - Managed		
Change in Accrued Interest	\$ (2,393,289)	
Receipted Interest	<u>34,779,769</u>	
Total Investment Income - Managed		\$ 32,386,480

Interest Income - CDs		
Change in Accrued Interest	\$ 68,163	
Receipted Interest	<u>101,307</u>	
Total Interest Income - CDs		\$ 169,470

Capital Gain/Loss		
Unrealized Gain/Loss	\$ (196,398)	
Realized Gain/Loss	<u>15,973,515</u>	
Net Capital Gain/Loss		\$ <u>15,777,117</u>

Total Investment Return \$ 48,333,067

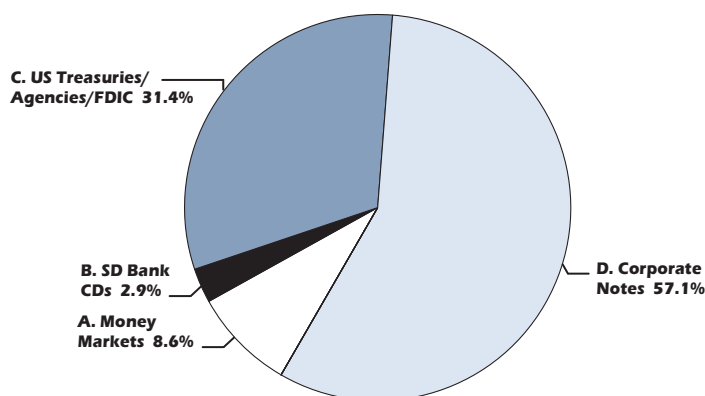
Fair Value 6/30/10

\$ 976,608,246

Investment Mix By Instrument

A breakdown of the assets shows Corporate Notes as the major holdings followed by U.S. Treasury Notes/Agencies/FDIC.

	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
A. Money Market Investments		
Money Market Funds	\$ 84,303,206	8.6%
B. South Dakota Bank CDs	27,953,668	2.9%
C. U.S. Treasuries/Agencies/FDIC	306,796,715	31.4%
D. Corporate Notes	<u>557,554,657</u>	<u>57.1%</u>
Total	<u>\$ 976,608,246</u>	<u>100.0%</u>

Asset Allocation**Distribution of Assets**

<u>Distribution By Duration</u>	<u>%</u>
0 to 1 year	21.6%
1 to 2 years	27.3%
2 to 3 years	37.2%
Above 3 years	<u>13.9%</u>
Total	<u>100.0%</u>
Average Duration	0.97

<u>Distribution By Issue</u>	<u>%</u>
Cash/Cash Equivalents	8.6%
Bank CDs	2.9%
U.S. Treasuries/Agencies/FDIC	31.4%
Investment Grade Corporates	<u>57.1%</u>
Total	<u>100.0%</u>
Number of Issues	80

<u>Distribution By Quality Rating</u>	<u>%</u>
Cash/Cash Equivalents	8.6%
U.S. Gov't/Aaa	34.3%
Aa	16.1%
A	38.8%
Baa	<u>2.2%</u>
Total	<u>100.0%</u>
Average Quality	Aa2

<u>Distribution By Coupon</u>	<u>%</u>
0.00% - 1.00%	13.6%
1.01% - 2.00%	29.4%
2.01% - 3.00%	19.5%
3.01% - 4.00%	11.7%
4.01% - 5.00%	10.6%
5.01% and over	<u>15.2%</u>
Total	<u>100.0%</u>
Average Coupon	2.7%

SCHOOL AND PUBLIC LANDS

THE FUND

The School and Public Lands (S&PL) fund is a permanent trust fund established by the South Dakota Constitution for the use and maintenance of public schools in 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 fund has resulted primarily from the sale of land over many decades that had been set aside to provide income to help support education.

In November of 2000, Constitutional Amendment E was passed by the people of South Dakota. The amendment allows investment in stocks, bonds, mutual funds, and other financial instruments and requires that sufficient income be retained to offset the effect of inflation³. Legislation allows realized capital gains to be considered as income for purposes of satisfying the inflation requirement. As a result of the constitutional amendment, the fund will grow at least at the rate of inflation. In the many decades ahead, this will greatly increase the dollars available for education. The shift away from an exclusive focus on current income and the requirement to offset inflation initially reduced the payout to schools. To lessen the impact of the reduction in payout and

to average in the exposure to the equity market, changes to the asset allocation policy were phased in over several fiscal years.

OBJECTIVES & COMPONENTS

The objectives of the School & Public Lands fund are to (1) provide a distribution of income to the common schools (K-12) on a per student basis each year, (2) provide a distribution of income to the schools of higher education, and (3) promote inflation-adjusted growth of the fund through a constitutionally-mandated CPI adjustment.

The S&PL assets were invested in a diversified portfolio during fiscal year 2010, as shown on the following page. The portfolio was invested primarily in U.S. Treasury and mortgage backed securities before the constitution change in 2000. Since then, the Investment Council has been shifting the asset allocation to be more similar to the South Dakota Retirement System.

The long-term expected return of the fund as of June 30, 2010 was 6.9% with a volatility of 11.7%. This means the return in any given year may fall within a range of -4.8% to 18.6% with 66% confidence or -16.5% to 30.3% with 95% confidence.

INVESTMENT PERFORMANCE

S&PL determines appropriated income on a cash basis accounting system, with income measurements from all sources being determined by the S&PL office in Pierre and reported separately in their annual report.

The fund ended fiscal year 2010 with a fair value of \$154,895,479. The principal is adjusted by the inflation factor each year as required by the Constitution. For the fiscal year ended June 30, 2010, the S&PL total return, including realized and unrealized gains and losses and accrued income, was 13.9%. The benchmark¹⁴ return was 10.8%. The difference resulted primarily from write-ups on the real estate limited partnership holdings, plus out-performance in the global equity holdings. The nine-year annualized total return was 4.2%. This compares with the annualized benchmark¹⁴ return of 5.0%. The difference resulted primarily from a conservative, phased-in implementation of the asset allocation policy. The fund distributed \$8,671,910.74 to the common schools in February 2010 and \$1,836,972.72 to the schools of higher education in June 2010.

INVESTMENT PERFORMANCE⁹⁻¹²

	1 Year		2 Years		3 Years		4 Years		5 Years		10 Years		20 Years		26 Years	
	SPL	Bench	SPL	Bench	SPL	Bench	SPL	Bench	SPL	Bench	SPL	Bench	SPL	Bench	SPL	Bench
2010	13.9%	10.8%	(1.4%)	(1.6%)	(2.9%)	(1.6%)	1.2%	2.4%	2.2%	3.3%	4.7%	5.4%	6.4%	6.6%	8.1%	8.1%
2009	(14.6%)	(12.7%)	(10.4%)	(7.3%)	(2.6%)	(0.3%)	(0.5%)	1.5%	1.2%	2.8%	3.9%	4.9%	6.2%	6.5%		
2008	(5.9%)	(1.5%)	4.0%	6.5%	4.7%	6.8%	5.6%	7.1%	5.9%	7.4%	5.8%	6.7%	7.6%	7.8%		
2007	14.8%	15.2%	10.4%	11.2%	9.7%	10.1%	9.0%	9.8%	8.8%	9.8%	7.6%	8.0%	8.4%	8.3%		
2006	6.1%	7.3%	7.2%	7.7%	7.1%	8.1%	7.4%	8.4%	6.6%	7.1%	7.0%	7.2%	8.0%	7.8%		
2005	8.2%	8.1%	7.6%	8.4%	7.8%	8.8%	6.7%	7.0%	7.3%	7.6%	6.9%	7.0%	8.6%	8.4%		
2004	7.1%	8.8%	7.6%	9.2%	6.2%	6.7%	7.0%	7.5%	6.8%	7.0%	7.3%	7.3%	9.6%	9.4%		
2003	8.1%	9.6%	5.8%	5.6%	7.0%	7.0%	6.7%	6.6%	5.8%	5.9%	6.4%	6.3%				
2002	3.6%	1.8%	6.4%	5.7%	6.2%	5.6%	5.2%	5.0%	6.5%	6.2%	6.9%	6.6%				
2001	9.4%	9.9%	7.6%	7.6%	5.8%	6.1%	7.2%	7.3%	7.4%	7.4%	8.0%	7.8%				
2000	5.8%	5.4%	4.0%	4.3%	6.5%	6.5%	6.9%	6.8%	6.6%	6.3%	8.1%	7.9%				
1999	2.2%	3.2%	6.8%	7.0%	7.3%	7.2%	6.8%	6.6%	7.9%	7.6%	8.4%	8.0%				
1998	11.6%	11.0%	10.0%	9.3%	8.3%	7.7%	9.4%	8.8%	7.0%	6.7%	9.4%	9.0%				
1997	8.4%	7.6%	6.7%	6.1%	8.7%	8.1%	5.9%	5.6%	7.3%	7.0%	9.1%	8.6%				
1996	5.1%	4.7%	8.9%	8.3%	5.1%	5.0%	7.0%	6.8%	8.5%	8.2%	9.1%	8.3%				
1995	12.8%	12.0%	5.2%	5.1%	7.6%	7.5%	9.4%	9.0%	9.7%	9.4%	10.4%	9.8%				
1994	(2.0%)	(1.3%)	5.1%	5.3%	8.3%	8.1%	9.0%	8.7%	8.9%	8.5%	12.0%	11.4%				
1993	12.8%	12.3%	13.9%	13.1%	12.9%	12.3%	11.8%	11.0%	11.9%	11.3%						
1992	15.0%	13.9%	13.0%	12.3%	11.5%	10.6%	11.7%	11.0%	11.0%	10.3%						
1991	11.0%	10.8%	9.8%	9.0%	10.6%	10.1%	10.0%	9.4%	9.6%	8.5%						
1990	8.6%	7.3%	10.4%	9.7%	9.7%	9.0%	9.2%	7.9%	11.1%	10.3%						
1989	12.3%	12.2%	10.3%	9.9%	9.5%	8.1%	11.8%	11.0%	15.1%	14.4%						
1988	8.3%	7.6%	8.1%	6.1%	11.6%	10.7%	15.8%	15.0%								
1987	7.8%	4.7%	13.2%	12.2%	18.5%	17.6%										
1986	18.9%	20.3%	24.2%	24.6%												
1985	29.7%	29.1%														

Prior to fiscal year 2002, the performance numbers included only the marketable securities portfolio. From fiscal year 2002 going forward, the performance numbers include both the marketable and non-marketable fixed income securities.

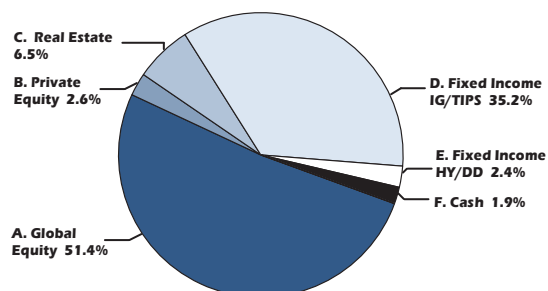
The benchmark¹⁴ is presented for comparison.

Investment Mix:

As of June 30, 2010, School & Public Lands assets for which the Investment Council is responsible totaled \$155 million. The broad asset categories and managers are listed below. The chart shows the asset allocation of School & Public Lands. The Capital Markets Benchmark allocation is also provided for comparison.

	Fair Value		Portfolio %		Benchmark %
A. Global Equity					
Internal Global Equity	\$ 79,158,446		51.1%		
Monument Park	<u>523,300</u>	\$ 79,681,746	<u>0.3%</u>	51.4%	48.0%
B. Private Equity Limited Partnerships					
Blackstone	\$ 2,410,194		1.5%		
Doughty Hanson	869,983		0.6%		
Silver Lake	<u>733,387</u>	4,013,564	<u>0.5%</u>	2.6%	2.0%
C. Real Estate Limited Partnerships					
Blackstone	\$ 8,176,185		5.3%		
CarVal	<u>1,877,693</u>	10,053,878	<u>1.2%</u>	6.5%	5.0%
D. Fixed Income - Investment Grade/TIPS					
Internal Investment Grade	\$ 42,900,105		27.7%		
Internal Treasury Inflation-Protected Securities (TIPS)	8,851,279		5.7%		
S.D. S.B.A. and Similar Assets	<u>2,741,951</u>	54,493,335	<u>1.8%</u>	35.2%	38.0%
E. Fixed Income - High Yield/Distressed Debt					
Blackstone	\$ 110,064		0.1%		
CarVal	1,877,401		1.2%		
Vanguard	<u>1,784,305</u>	3,771,770	<u>1.1%</u>	2.4%	5.0%
F. Cash & Cash Equivalents					
Internal Cash Portfolio	\$ <u>2,881,186</u>	<u>2,881,186</u>	<u>1.9%</u>	<u>1.9%</u>	<u>2.0%</u>
Total		<u>\$ 154,895,479</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Asset Allocation



Bond Profile

Distribution By Issue

	%
Cash/Cash Equivalents	8.0%
U.S. Treasuries/Agencies/FDIC	18.6%
Mortgage Backed Securities	26.5%
Investment Grade Corporates	20.5%
Treasury Inflation-Protected Securities (TIPS)	15.2%
S.D. S.B.A. and Similar Assets	4.7%
High Yield Corporates/Distressed Debt	<u>6.5%</u>
Total	<u>100.0%</u>

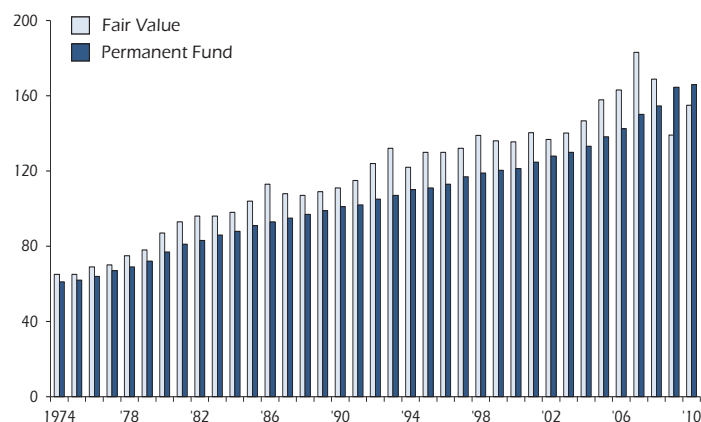
Equity Profile (Internal Global Equity)

Distribution by Market Sector

	%
Consumer Discretionary	12.9%
Consumer Staples	10.8%
Energy	12.8%
Financials	22.7%
Health Care	13.5%
Industrials	6.9%
Information Technology	12.1%
Materials	2.7%
Telecommunications Services	1.6%
Utilities	1.9%
Cash Equivalents	<u>2.1%</u>
Total	<u>100.0%</u>

Growth in Assets²³ (\$ in millions)

On June 30, 2010, the fair value of the School and Public Lands investment portfolio was \$155 million. The principal balance of the permanent fund was \$166 million.



Ten Largest Holdings

	%
ConocoPhillips	3.0%
JPMorgan Chase & Co.	2.8%
Pfizer, Inc.	2.6%
Wells Fargo & Co.	2.5%
Exxon Mobil Corp.	2.5%
U.S. Bancorp	2.4%
General Electric Co.	2.2%
Eli Lilly & Co.	2.1%
Bank of America Corp.	2.1%
Microsoft Corp.	<u>1.8%</u>
Total	<u>24.0%</u>

THE FUND

The Dakota Cement Trust (DCT) was established under the Constitution through a Joint Resolution submitted to South Dakota citizens at a special election designated by the 75th Legislature. Two sections of Article XIII were amended.

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 Investment Council to invest the trust funds in stocks, bonds, mutual funds and other financial instruments as provided by law. The Constitution requires a transfer of \$12 million each year from the trust fund to the general fund.

Section 21 of Article XIII provided that the original principal of the trust fund would remain inviolate except, as provided in Section 20, for the investment of the trust and the \$12 million annual transfer. It directed the legislature to "...make distributions from the difference between the twelve million dollar annual general fund transfer and five percent of the market value of the trust fund for the support of education, but not for the replacement of state aid to general education or special education..."

Additional payouts will be made over time based on the amount by which 5% of the market value exceeds \$12 million.

In order for additional payouts to be made, the fund balance must not, after the payouts, drop below the original \$238 million deposited into the DCT. Through fiscal year 2005, the 5% was applied to the fiscal year ended market value. Beginning with fiscal year 2006, the 5% was applied to the sixteen-quarter average market value. The average value should result in a smoother distribution in the future.

Senate Bill 229 was passed by the 76th Legislature to provide direction to the Investment Council in the investment of these assets as required by the Constitution. It specifically stated that the DCT assets be invested under South Dakota Codified Law 4-5-27, the prudent person law.

OBJECTIVES & COMPONENTS

The objectives of the DCT are to (1) provide a \$12 million annual payout to the general fund, and (2) provide the potential for additional distributions to education over the long term.

The DCT assets were invested in a diversified portfolio during fiscal year 2010, as shown on the following page. The Investment Council has been shifting the asset allocation to be more similar to the South Dakota Retirement System.

The long-term expected return of the fund as of June 30, 2010 was 6.9% with a volatility of 11.7%. This means that the return in any given year may fall

within a range of -4.8% to 18.6% with 66% confidence or -16.5% to 30.3% with 95% confidence.

INVESTMENT PERFORMANCE

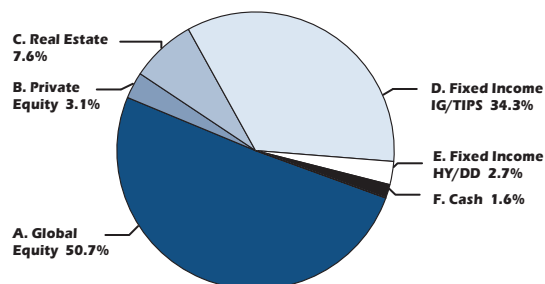
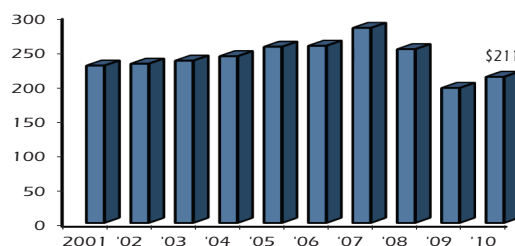
The fund ended fiscal year 2010 with a fair value of \$210,980,552, principal value of \$238,000,000, and inflation-adjusted principal of \$292,019,808. The fund distributed \$12,000,000 to the General Fund in April 2010. For the fiscal year ended June 30, 2010, the DCT's total return, including realized and unrealized gains and losses and accrued income, was 14.3%. The benchmark¹⁶ return was 10.8%. The difference resulted primarily from write-ups on the real estate limited partnership holdings, plus out-performance in the global equity holdings. The nine-year annualized total return was 4.6%. This compares with the annualized benchmark¹⁶ return of 5.4%. The difference resulted primarily from a conservative, phased-in implementation of the asset allocation policy. During the nine years, the trust fund has distributed \$120 million to the general fund and over \$5.2 million to support education.

INVESTMENT PERFORMANCE⁹⁻¹²[illegible]

Investment Mix:

As of June 30, 2010, Dakota Cement Trust assets for which the Investment Council is responsible totaled \$211 million. The broad asset categories and managers are listed below. The chart shows the asset allocation of the Dakota Cement Trust. The Capital Markets Benchmark allocation is also provided for comparison.

	<u>Fair Value</u>		<u>Portfolio %</u>	<u>Benchmark %</u>
A. Global Equity				
Internal Global Equity	\$ 106,095,402		50.3%	
Monument Park	<u>908,000</u>	\$ 107,003,402	<u>0.4%</u>	50.7%
				48.0%
B. Private Equity Limited Partnerships				
Blackstone	\$ 3,930,073		1.8%	
Doughty Hanson	1,418,844		0.7%	
Silver Lake	<u>1,196,389</u>	6,545,306	<u>0.6%</u>	3.1%
				2.0%
C. Real Estate Limited Partnerships				
Blackstone	\$ 13,024,477		6.2%	
CarVal	<u>3,063,605</u>	16,088,082	<u>1.4%</u>	7.6%
				5.0%
D. Fixed Income - Investment Grade/TIPS				
Internal Investment Grade	\$ 60,756,430		28.8%	
Internal Treasury Inflation-Protected Securities (TIPS)	<u>11,500,100</u>	72,256,530	<u>5.5%</u>	34.3%
				38.0%
E. Fixed Income - High Yield/Distressed Debt				
Internal High Yield	\$ 2,439,979		1.2%	
Blackstone	168,849		0.1%	
CarVal	<u>3,045,225</u>	5,654,053	<u>1.4%</u>	2.7%
				5.0%
F. Cash & Cash Equivalents				
Internal Cash Portfolio	\$ <u>3,433,179</u>	<u>3,433,179</u>	<u>1.6%</u>	<u>1.6%</u>
				<u>2.0%</u>
Total		<u>\$ 210,980,552</u>	<u>100.0%</u>	<u>100.0%</u>

Asset Allocation**Growth in Assets²³ (\$ in millions)****Bond Profile**

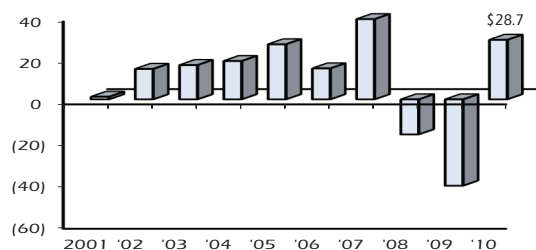
<u>Distribution By Issue</u>	<u>%</u>
Cash/Cash Equivalents	9.4%
U.S. Treasuries/Agencies/FDIC	19.3%
Mortgage Backed Securities	28.0%
Investment Grade Corporates	21.4%
Treasury Inflation-Protected Securities (TIPS)	14.8%
High Yield Corporates/Distressed Debt	<u>7.1%</u>
Total	<u>100.0%</u>

Equity Profile (Internal Global Equity)

<u>Distribution by Market Sector</u>	<u>%</u>
Consumer Discretionary	12.6%
Consumer Staples	11.3%
Energy	12.7%
Financials	23.3%
Health Care	14.3%
Industrials	6.9%
Information Technology	12.0%
Materials	1.9%
Telecommunications Services	1.5%
Utilities	2.0%
Cash Equivalents	<u>1.5%</u>
Total	<u>100.0%</u>

Investment Income²⁴ (\$ in millions)

(beg. April 18, 2001)

**Ten Largest Holdings**

	<u>%</u>
ConocoPhillips	3.0%
JPMorgan Chase & Co.	2.9%
Pfizer, Inc.	2.7%
Wells Fargo & Co.	2.7%
U.S. Bancorp	2.6%
Exxon Mobil Corp.	2.5%
General Electric Co.	2.3%
Eli Lilly & Co.	2.2%
Bank of America Corp.	2.1%
Nestle SA/AG	<u>2.0%</u>
Total	<u>25.0%</u>

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 the EET thereafter are placed in the EET. The constitutional change directed the Investment 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 to the general fund an amount appropriated by law for education enhancement programs. The distribution is defined in SDCL 4-5-29.2 (effective July 1, 2002, amended on March 3, 2004 and March 21, 2006). 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, as eligible for distribution 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.

In November 2006, the passage of a referred law increased the state tobacco tax with a provision that the EET received 33% of the tax after satisfying other specific funding requirements. This resulted in \$3,846,057 transferred in June and July 2007 to the principal of the fund. Effective July 1, 2007, the law was changed and additional principal deposits are not expected.

SECURITIZATION

On September 24, 2002, the fund was increased by net proceeds of \$131,380,790.76 from a taxable Tobacco Settlement Asset-Backed Bond and \$112,215,762.55 from a tax-exempt Tobacco Settlement Asset-Backed Bond.

OBJECTIVES & COMPONENTS

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

The EET assets were invested in a diversified portfolio during fiscal year 2010, as shown on the following page. In 2002, the portfolio was initially invested primarily in investment-grade fixed-income and high-yield fixed-income securities, REITs, and yield-oriented equities to lower the market volatility of the portfolio. 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 will be deallocated (removed) from the tax-exempt fund and placed into the taxable fund to

generate higher expected returns. This helps accomplish the second objective. The Investment Council has been shifting the asset allocation to be more similar to the South Dakota Retirement System.

The long-term expected return of the fund as of June 30, 2010 was 6.4% with a volatility of 13.2%. This means that the return in any given year can fall within a range of -6.8% to 19.6% with 66% confidence or -20.1% to 32.8% with 95% confidence.

INVESTMENT PERFORMANCE

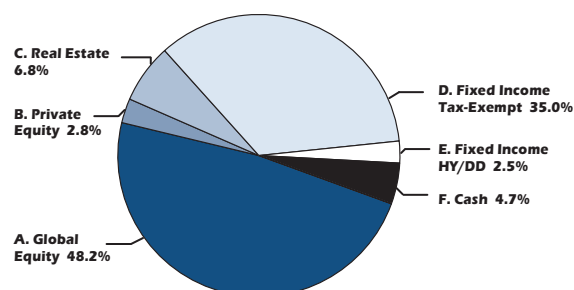
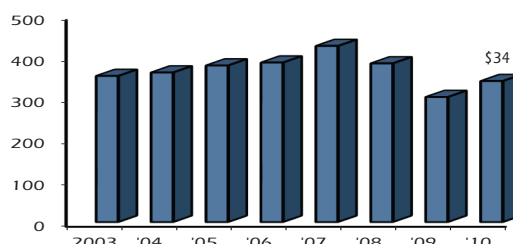
The fund ended its eighth year as a stand-alone portfolio with a fair value of \$341,082,078, principal value of \$329,329,930, and inflation-adjusted principal of \$394,981,514. For the fiscal year ended June 30, 2010, the EET's total return, including realized and unrealized gains and losses and accrued income, was 13.2%. The benchmark¹⁷ return was 10.4%. The difference resulted primarily from write-ups on the real estate limited partnership holdings, plus out-performance in the global equity holdings. The eight-year annualized total return was 3.5%. This compares with the annualized benchmark¹⁷ return of 5.5%. The difference resulted primarily from a conservative, phased-in implementation of the asset allocation policy. The fund distributed 4% of the sixteen-quarter average market value as of December 31, 2009, or \$14,802,790, to the general fund for education expenditures in early fiscal year 2011.

INVESTMENT PERFORMANCE⁹⁻¹²[illegible]

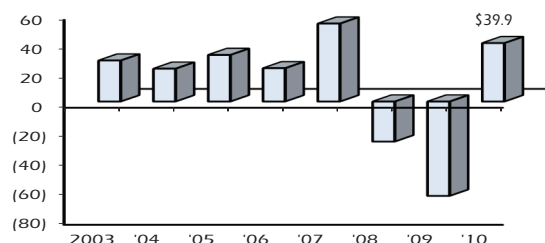
Investment Mix:

As of June 30, 2010, Education Enhancement Trust assets for which the Investment Council is responsible totaled \$341 million. The broad asset categories and managers are listed below. The chart shows the asset allocation of the Education Enhancement Trust. The Capital Markets Benchmark allocation is also provided for comparison.

	<u>Fair Value</u>		<u>Portfolio %</u>	<u>Benchmark %</u>
A. Global Equity				
Internal Global Equity	\$ 163,011,216		47.8%	
Monument Park	<u>1,309,100</u>	\$ 164,320,316	<u>0.4%</u>	48.2%
B. Private Equity Limited Partnerships				
Blackstone	\$ 5,689,269		1.7%	
Doughty Hanson	2,050,862		0.6%	
Silver Lake	<u>1,729,019</u>	9,469,150	<u>0.5%</u>	2.8%
C. Real Estate Limited Partnerships				
Blackstone	\$ 18,809,158		5.5%	
CarVal	<u>4,348,341</u>	23,157,499	<u>1.3%</u>	6.8%
D. Fixed Income - Tax-Exempt				
PIMCO	\$ <u>119,578,903</u>	119,578,903	<u>35.0%</u>	35.0%
E. Fixed Income - High Yield/Distressed Debt				
Blackstone	\$ 247,643		0.1%	
CarVal	4,406,852		1.3%	
Vanguard	<u>3,940,207</u>	8,594,702	<u>1.1%</u>	2.5%
F. Cash & Cash Equivalents				
Internal Cash Portfolio	\$ <u>15,961,508</u>	<u>15,961,508</u>	<u>4.7%</u>	<u>4.7%</u>
Total		<u>\$ 341,082,078</u>	<u>100.0%</u>	<u>100.0%</u>

Asset Allocation**Growth in Assets²³ (\$ in millions)****Bond Profile**

<u>Distribution By Issue</u>	<u>%</u>
Cash/Cash Equivalents	1.6%
Tax-exempt Bonds	92.1%
High Yield Corporates/Distressed Debt	<u>6.3%</u>
Total	<u>100.0%</u>

Investment Income²⁴ (\$ in millions)**Equity Profile (Internal Global Equity)**

<u>Distribution by Market Sector</u>	<u>%</u>
Consumer Discretionary	12.5%
Consumer Staples	11.6%
Energy	12.6%
Financials	23.3%
Health Care	14.6%
Industrials	6.3%
Information Technology	12.2%
Materials	2.5%
Telecommunications Services	1.7%
Utilities	2.0%
Cash Equivalents	<u>0.7%</u>
Total	<u>100.0%</u>

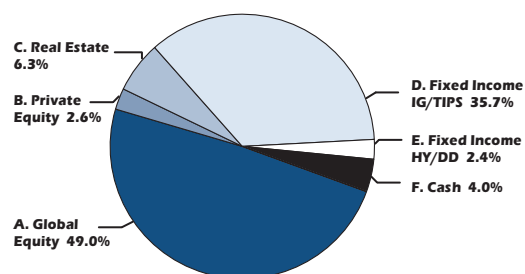
<u>Ten Largest Holdings</u>	<u>%</u>
JPMorgan Chase & Co.	3.2%
ConocoPhillips	3.1%
Pfizer, Inc.	2.9%
Exxon Mobil Corp.	2.7%
Wells Fargo & Co.	2.7%
U.S. Bancorp	2.4%
General Electric Co.	2.2%
Eli Lilly & Co.	2.2%
Bank of America Corp.	2.1%
Microsoft Corp.	<u>1.9%</u>
Total	<u>25.4%</u>

Investment Mix:

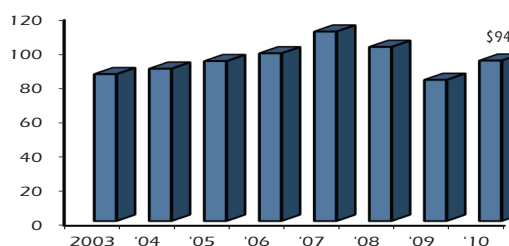
As of June 30, 2010, Health Care Trust assets for which the Investment Council is responsible totaled \$94 million. The broad asset categories and managers are listed below. The chart shows the asset allocation of the Health Care Trust. The Capital Markets Benchmark allocation is also provided for comparison.

	<u>Fair Value</u>		<u>Portfolio %</u>	<u>Benchmark %</u>
A. Global Equity				
Internal Global Equity	\$ 45,535,935		48.7%	
Monument Park	<u>319,600</u>	\$ 45,855,535	<u>0.3%</u>	49.0%
				48.0%
B. Private Equity Limited Partnerships				
Blackstone	\$ 1,445,074		1.5%	
Doughty Hanson	520,070		0.6%	
Silver Lake	<u>438,407</u>	2,403,551	<u>0.5%</u>	2.6%
				2.0%
C. Real Estate Limited Partnerships				
Blackstone	\$ 4,813,057		5.1%	
CarVal	<u>1,087,085</u>	5,900,142	<u>1.2%</u>	6.3%
				5.0%
D. Fixed Income - Investment Grade/TIPS				
Internal Investment Grade	\$ 28,329,895		30.3%	
Internal Treasury Inflation-Protected Securities (TIPS)	<u>5,032,083</u>	33,361,978	<u>5.4%</u>	35.7%
				38.0%
E. Fixed Income - High Yield/Distressed Debt				
Blackstone	\$ 65,041		0.1%	
CarVal	1,121,021		1.2%	
Vanguard	<u>1,087,169</u>	2,273,231	<u>1.1%</u>	2.4%
				5.0%
F. Cash & Cash Equivalents				
Internal Cash Portfolio	<u>\$ 3,785,765</u>	<u>3,785,765</u>	<u>4.0%</u>	<u>4.0%</u>
				2.0%
Total		<u>\$ 93,580,202</u>	<u>100.0%</u>	<u>100.0%</u>

Asset Allocation



Growth in Assets²³ (\$ in millions)

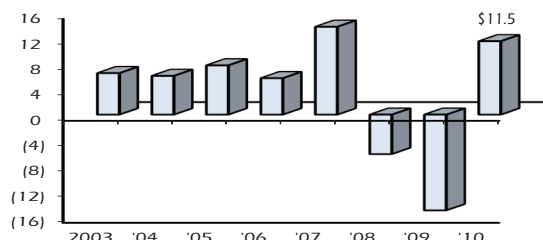


Bond Profile

Distribution By Issue

	<u>%</u>
Cash/Cash Equivalents	12.2%
U.S. Treasuries/Agencies/FDIC	18.8%
Mortgage Backed Securities	28.0%
Investment Grade Corporates	20.9%
Treasury Inflation-Protected Securities (TIPS)	14.1%
High Yield Corporates/Distressed Debt	<u>6.0%</u>
Total	<u>100.0%</u>

Investment Income²⁴ (\$ in millions)



Equity Profile (Internal Global Equity)

Distribution by Market Sector

	<u>%</u>
Consumer Discretionary	13.0%
Consumer Staples	11.3%
Energy	12.6%
Financials	23.4%
Health Care	14.3%
Industrials	6.4%
Information Technology	12.2%
Materials	2.8%
Telecommunications Services	1.6%
Utilities	2.0%
Cash Equivalents	<u>0.4%</u>
Total	<u>100.0%</u>

Ten Largest Holdings

	<u>%</u>
JPMorgan Chase & Co.	3.1%
ConocoPhillips	3.0%
Pfizer, Inc.	2.9%
Wells Fargo & Co.	2.6%
U.S. Bancorp	2.6%
Exxon Mobil Corp.	2.6%
General Electric Co.	2.3%
Eli Lilly & Co.	2.2%
Bank of America Corp.	2.1%
Microsoft Corp.	<u>1.9%</u>
Total	<u>25.3%</u>

HIGHER EDUCATION SAVINGS PLAN

In 2001, the Legislature assigned the Investment 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 of 2001, the Investment Council selected Allianz Global Investors Distributors LLC (formerly PIMCO Funds Distributors LLC) as the program manager for the Section 529 program from among 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. Contributions from every state and several countries have generated growth of Plan assets to over \$762 million on June 30, 2010.

The Investment Council and Allianz worked together to create a flexible 529 plan that has 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 age of the designated beneficiary of the account. A diversified group of five investment portfolios is designed to emphasize total return and capital appreciation when the designated beneficiary of an account is younger and increasingly emphasizes preservation of capital and income as the designated beneficiary approaches college age. The total annual operating expense ratios for South Dakotans investing directly in the age-based portfolios ranged from 0.52% to 0.65% last year. In addition, account owners can invest directly in two individual fund 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 0.65% for South Dakota residents.

In addition to the opportunity for South Dakotans to invest directly at a low cost, five age-based portfolios, fifteen individual mutual fund choices and three customized investment portfolios are available to South Dakota investors as well as 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 fee, which is currently \$20, or the annual program fee of 0.35%.

SCHOLARSHIP PROGRAM

The negotiations that led to the selection of Allianz included a scholarship opportunity for many of 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 \$3,301,353 have been directed from Allianz to the Dakota Corps Scholarship Fund. Based on the assets as of June 30, 2010 and the scholarship funding formula, the resulting 2010 contribution was \$823,112. 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 will 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 www.state.sd.us/dakotacorps/default.html.

ANNUAL REPORT

Each year the Investment 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 29, 2010, can be found in the Appendix on page 43.

MORE INFORMATION

Extensive information on this higher education savings program can be found on the www.CollegeAccess529.com or www.SouthDakota529.com web sites. A major section of the web site 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 29, 2010

Hon. Michael Rounds
Governor
500 E. Capitol Avenue
Pierre, SD 57501-5070

Hon. Timothy A. Rave, Speaker
South Dakota House of Representatives
500 E. Capitol Avenue
Pierre, SD 57501-5070

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

Dear Governor Rounds, Speaker Rave and President Pro Tempore Gray:

We are pleased to submit our ninth annual report on the Higher Education Savings Plan 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 (Allianz), formerly PIMCO Funds Distributors LLC, was selected by the Council to manage, invest, market, and administer the Plan. The global financial services leader, a member of Allianz Group, has a 119-year corporate history and a presence in more than 70 countries.

The Plan, offered and maintained at no cost to the State or taxpayers as mandated by law, features the following:

- Nationally competitive cost for residents of South Dakota 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.

The Plan is available to South Dakotans, either through qualified financial advisors or directly by calling the toll-free line (1-866-529-7462) or visiting the Plan web site www.southdakota529.com.

January 29, 2010
Page 2

As of December 31, 2009, the Plan had assets of approximately \$701 million, up 23.8% from \$566 million in assets at year-end 2008. For the Plan's most recent full Program Year (calendar year 2009), returns for South Dakota direct investment age-based alternatives ranged from 10.78% for the Capital Preservation Portfolio to 26.25% for the Aggressive Growth Portfolio.

Sixty percent of the 25 mutual funds utilized by the CollegeAccess 529 Plan and rated by Morningstar have an overall rating of 4 or 5 stars, with 5 the highest possible rating. 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 Plan has been the establishment of a scholarship program for South Dakota students to attend South Dakota public and private post-secondary institutions. This program is funded by Allianz. Scholarships totaling \$3.224 million were awarded to over 900 high school seniors during the six years of the original contract term.

In 2007 the Council investigated alternatives to the original scholarship program and, with input from the Governor and approval by the LRC Executive Board, decided to direct scholarship monies generated through the relationship with Allianz to The Dakota Corps Scholarship Program. In September of 2007, Allianz transferred \$1,027,334 to The Dakota Corps Scholarship Program, \$690,131 generated from fiscal year 2007 CollegeAccess 529 assets and \$337,203 carried over from previous years. In 2008 and 2009, Allianz transferred \$756,125 and \$662,032, respectively, to the Dakota Corps Scholarship Program.

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 www.state.sd.us/dakotacorps/default.html.

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

Sincerely,

Paul Livemore
Investment Council Chair

Matthew L. Clark, CFA
State Investment Officer



427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE SD 57501-5070
(605) 773-3595
FAX (605) 773-6454

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Executive Board
Legislative Research Council

and

Investment Council
State of South Dakota

We have audited the financial statements of the Cash Flow, School and Public Lands, Dakota Cement Trust, Cement Plant Retirement, Education Enhancement Trust and Health Care Trust portfolios as of and for the fiscal year ended June 30, 2010 and have issued our report thereon dated September 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the South Dakota Investment Council's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the South Dakota Investment Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the South Dakota Investment Council's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the South Dakota Investment Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the South Dakota Investment Council in a separate letter dated September 30, 2010.

This report is intended solely for the information and use of management and members of the South Dakota Legislature and is not intended to be and should not be used by anyone other than those specified. However, this report is a matter of public record and its distribution is not limited.

Martin L. Guindon, CPA
Auditor General

September 30, 2010



427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE SD 57501-5070
(605) 773-3595
FAX (605) 773-6454

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

Executive Board
Legislative Research Council

and

Investment Council
State of South Dakota

We have audited the accompanying financial statements of the Cash Flow, School and Public Lands, Dakota Cement Trust, Cement Plant Retirement, Education Enhancement Trust and Health Care Trust portfolios as of and for the fiscal year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the South Dakota Investment Council (SDIC). Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements present only the above referenced investment portfolios managed by the SDIC and do not purport to, and do not, present fairly the financial position of the State of South Dakota as of June 30, 2010 and the changes in its financial position and its cash flows, where applicable, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the portfolios listed above as of June 30, 2010, and the changes in net assets for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in the following table and in Note 2 to the financial statements, the financial statements include investments whose carrying values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners:

Portfolio	Amount	Percent of Net Assets
School and Public Lands	\$ 16,578,207	11%
Dakota Cement Trust	\$ 26,755,462	13%
Cement Plant Retirement	\$ 13,088,551	33%
Education Enhancement Trust	\$ 38,590,244	12%
Health Care Trust	\$ 9,809,355	11%

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2010, on our consideration of the SDIC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Martin L. Guindon, CPA
Auditor General

September 30, 2010

SOUTH DAKOTA INVESTMENT COUNCIL
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2010

	Cash Flow Portfolio	School and Public Lands Portfolio	Dakota Cement Trust Portfolio	Cement Plant Retirement Portfolio	Education Enhancement Trust Portfolio	Health Care Trust Portfolio
Assets						
Cash and cash equivalents	\$ 98,807,730	\$ 9,165,129	\$ 12,186,332	\$ 615,668	\$ 17,118,402	\$ 8,107,861
Receivables						
Investment income receivable	6,300,136	586,877	844,607	93,731	1,535,214	360,788
Unsettled investment sales	-	-	-	47,476	1,671,459	152,000
Forward foreign exchange contracts	-	-	-	27,331	-	-
Total receivables	6,300,136	586,877	844,607	168,538	3,206,673	512,788
Investments, at fair value						
Fixed income	886,004,905	50,372,066	69,923,709	9,434,658	124,866,720	30,995,640
Equities	-	77,969,763	105,392,515	20,152,193	163,263,633	45,660,220
Real estate	-	10,053,878	16,088,083	3,852,401	23,157,499	5,900,142
Private equity	-	4,013,564	6,545,306	4,992,317	9,469,150	2,403,551
Total investments	886,004,905	142,409,271	197,949,613	38,431,569	320,757,002	84,959,553
Other assets	-	2,734,202	-	-	-	-
Total assets	991,112,771	154,895,479	210,980,552	39,215,775	341,082,077	93,580,202
Liabilities						
Unsettled investment purchases	9,969,500	-	-	84,208	-	-
Due to brokers - futures transactions	-	-	-	4	-	-
Earnings distribution - declared	32,500,983	-	-	-	14,802,790	3,886,427
Total liabilities	42,470,483	-	-	84,212	14,802,790	3,886,427
Net assets	\$ 948,642,288	\$ 154,895,479	\$ 210,980,552	\$ 39,131,563	\$ 326,279,287	\$ 89,693,775

The accompanying notes are an integral part of the financial statements.

SOUTH DAKOTA INVESTMENT COUNCIL
STATEMENT OF CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Cash Flow Portfolio	School and Public Lands Portfolio	Dakota Cement Trust Portfolio	Cement Plant Retirement Portfolio	Education Enhancement Trust Portfolio	Health Care Trust Portfolio
Additions:						
Contributions	\$ -	\$ 7,324,539	\$ -	\$ -	\$ -	\$ -
Investment income:						
Net appreciation in fair value of investments	15,777,117	15,076,131	22,917,181	5,981,295	30,852,353	8,954,400
Interest	32,555,950	2,474,963	3,346,604	605,635	5,264,347	1,500,074
Dividends	-	1,728,076	2,382,814	447,217	3,678,475	1,028,329
Real estate income	-	54,591	88,853	27,162	126,401	31,512
Investment income	48,333,067	19,333,761	28,735,452	7,061,309	39,921,576	11,514,315
Less investment activity expense	(698,813)	(366,575)	(705,678)	(254,191)	(1,327,341)	(276,038)
Net investment activity income	47,634,254	18,967,186	28,029,774	6,807,118	38,594,235	11,238,277
Total investment income	47,634,254	18,967,186	28,029,774	6,807,118	38,594,235	11,238,277
Total additions	47,634,254	26,291,725	28,029,774	6,807,118	38,594,235	11,238,277
Deductions:						
Withdrawals	41,386,282	-	-	3,321,950	-	-
Statutorily required distributions	50,155,778	10,520,906	12,000,000	-	14,802,790	3,886,427
Total deductions	91,542,060	10,520,906	12,000,000	3,321,950	14,802,790	3,886,427
Net increase (decrease) in net assets	(43,907,806)	15,770,819	16,029,774	3,485,168	23,791,445	7,351,850
Net assets - beginning of year	992,550,094	139,124,660	194,950,778	35,646,395	302,487,842	82,341,925
Net assets - end of year	\$ 948,642,288	\$ 154,895,479	\$ 210,980,552	\$ 39,131,563	\$ 326,279,287	\$ 89,693,775

The accompanying notes are an integral part of the financial statements.

SOUTH DAKOTA INVESTMENT COUNCIL
INVESTMENT PORTFOLIOS
NOTES TO THE FINANCIAL STATEMENTS

1. Reporting Entity:

The South Dakota Investment Council (SDIC) is a principal, functional sub-unit of state government. The SDIC is responsible for the investment of the state's monies in the state treasury. The SDIC provides investment management services on a prefunded cost recovery basis as authorized by South Dakota Codified laws (SDCL) 4-5-30.

The statements represent the financial activity of the Cash Flow, School and Public Lands, Dakota Cement Trust, Cement Plant Retirement, Education Enhancement Trust, and Health Care Trust portfolios. The statements report investments by each portfolio. The Cash Flow portfolio represents the state's aggregate idle fund monies for all state funds, except for certain funds for which separate portfolios have been established. The School and Public Lands portfolio

represents assets held in permanent school funds. The Dakota Cement Trust portfolio represents proceeds from the sale of the South Dakota Cement Plant. The Cement Plant Retirement Fund pays retirement benefits to former employees of the previously owned State Cement Plant. The Education Enhancement Trust portfolio represents assets held in trust from the master settlement agreement between the State of South Dakota and major United States tobacco product manufacturers. The Health Care Trust portfolio represents assets held in trust from federal reimbursement for Medicaid and Medicare costs associated with publicly owned and operated nursing facilities.

2. Summary of Significant Accounting Policies:

a. Basis of Presentation:

The accompanying financial statements of the investment activity of the SDIC are prepared in accordance with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB).

b. Basis of Accounting:

The statements on the portfolios are reported on the full accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned, and expenses are recognized in the period incurred. Security transactions and the related gains and losses are recorded on a trade date basis, using the average cost method. Purchases and sales of foreign investments and the related income are translated at the rate of exchange on the respective transaction dates. Realized and unrealized gains and losses resulting from foreign currency changes are included in the Statement of Changes in Net Assets. Dividend income is recorded on the ex-dividend date and interest income is accrued as earned.

c. Change in Accounting Policy:

Distributions are made from Education Enhancement Trust and Health Care Trust, as described in the Proration of Investment Income section. Prior to fiscal year 2010, the distributions were reported in the fiscal year in which they were paid. Beginning in fiscal year 2010, the distributions were reported in the year in which the requirements for the annual distributions were met.

d. Cash and Cash Equivalents:

Cash includes demand deposits and foreign currency cash balances. Cash equivalents include short-term investments with original maturities of three months or less. Foreign currency cash balances are translated into U.S. dollars using the year-end spot foreign currency exchange rates. Other cash equivalents are valued at cost plus accrued interest.

e. Valuation of Securities:

Investments are reported at fair value, which approximates market value, in accordance with GASB Statement No. 31. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Certificates of deposit are reported at cost and U.S. Treasury bills at cost plus accrued interest, which is a reasonable estimate of fair value. Fair values for the fixed income securities are obtained from Bank of America Merrill Lynch, Citigroup Global Markets, and Bloomberg Financial Markets. Domestic and Canadian equity security fair values are obtained from FT Interactive Data, non-Canadian foreign equity security values are obtained from Exshare, and spot foreign currency exchange rates are obtained from Reuters. Investments denominated in foreign currencies are translated into U.S. dollars using the year-end spot foreign currency exchange rates. Fair values of foreign currency forward contracts are obtained from Bloomberg Financial Markets. Fair values of limited partnership investments are based on valuations on the underlying companies of the limited partnerships as reported by the general partner.

3. Deposits and Investments:

The State Investment Officer is responsible for the investment of state public funds. State public funds in the Cash Flow portfolio are invested using the pooled deposit and investment concept which preserves the integrity of the fund cash balances of each state fund while simultaneously allowing the deposit and investment of aggregate idle fund monies. The Cash Flow portfolio may be invested in the following classes of securities and investments and not otherwise:

- (1) Direct and indirect obligations of the United States government.
- (2) Agencies and instrumentalities of the United States government.
- (3) Direct obligations of the State of South Dakota and any of its political subdivisions.
- (4) Obligations consisting of notes, bonds, debentures, and certificates which are direct obligations of a solvent corporation or trust existing under the laws of the United States or any state thereof, if such investments are rated in the four highest classifications established by at least two standard rating services; or
- (5) Savings accounts, share accounts, certificates of deposit of banks, savings and loan associations, building and loan associations and bankers' acceptances.
- (6) In addition to the investments authorized by subdivisions (1) to (5) of this section, inclusive, the investment council may also allocate a sum certain of state public funds for investment in the accounts and certificates of South Dakota banks and associations. This sum shall initially be offered to South

Dakota banks and associations, and if not initially fully subscribed, the investment officer shall immediately reoffer the unsubscribed sum to other qualified public depositories. "Qualified public depository" is a state bank and loan association or federally chartered credit union located in this state which receives or holds public deposits and segregates eligible collateral for public deposits.

The remaining portfolios are governed by the prudent man rule; that is, the SDIC should use the same degree of care as a prudent man. The SDIC dictates the limits on the percent the portfolios invest in various asset classes.

Deposits:

Custodial Credit Risk. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Cash Flow portfolio's certificates of deposit and other deposits in state financial institutions in excess of depository insurance must be 100% collateralized. Collateral is valued at the lower of cost or market as reported in the quarterly call reports prepared by the qualified public depositories pursuant to SDCL 4-6A-7. Collateral is required to be segregated by each depository as approved by the South Dakota Public Deposit Protection Commission. Collateral may not be held in any safety deposit vault owned or controlled either directly or indirectly by the pledging financial institution but must be deposited for safekeeping in a financial institution that is a member of the Federal Reserve. At June 30, 2010, pledged collateral for all depositories equaled at least 100 percent of the total public deposits in excess of depository insurance. As a result, none of the Cash Flow portfolio's certificates of deposit was exposed to custodial credit risk.

The SDIC has no formal deposit policy specific to custodial credit risk for the School and Public Lands, Dakota Cement Trust, Cement Plant Retirement, Education Enhancement Trust, and Health Care Trust portfolios. At June 30, 2010, these portfolios had bank balances in various foreign currencies. These deposits are not collateralized or covered by depository insurance. As a result, the following amounts were exposed to custodial credit risk:

	School & Public Lands Portfolio	Dakota Cement Trust Portfolio	Cement Plant Retirement Portfolio	Education Enhancement Trust Portfolio	Health Care Trust Portfolio
Foreign Currency Balances	\$ 36,352	\$ 56,356	\$ 13,190	\$ 83,294	\$ 23,473

Investments:

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. SDIC policy limits or establishes ranges for the durations of the fixed income portfolios held by the various funds. Modified duration estimates the sensitivity of a bond's price to interest rate changes. The Cash Flow duration portfolio policy limits average portfolio duration to 2.88 years, and no holding's maturity can exceed 5 years. The Cement Plant Retirement investment-grade fixed income portfolio's duration must fall between 70% and 130% of the duration of the Citigroup Broad Investment Grade (BIG) Index. The investment-grade fixed income portfolios of Dakota Cement Trust, Health Care Trust, Education Enhancement Trust, and School and Public Lands are benchmarked to the duration of the Citigroup Broad Investment Grade (BIG) Index. The internally managed high yield fixed income portfolios have a duration range of 70% to 130% of the Citigroup BB Index duration. The trust funds' Treasury Inflation Protected Securities (TIPS) investments have a range of 5 to 10 years to maturity at purchase. The externally managed fixed income assets have duration ranges as specified in their prospectuses. The weighted modified durations (in years) of the various funds are listed in the following table.

Investment Type	Cash Flow Portfolio		School & Public Lands Portfolio		Dakota Cement Trust Portfolio	
	Fair Value	Wgt'd. Mod. Dur.	Fair Value	Wgt'd. Mod. Dur.	Fair Value	Wgt'd. Mod. Dur.
U.S. Treasuries	\$ 15,263,742	2.25	\$ 5,593,619	7.89	\$ 7,766,816	7.89
U.S. Treasury Inflation Protected Securities			8,851,279	2.69	11,500,100	2.70
U.S. Agencies	177,420,237	2.21	4,207,331	7.33	5,819,566	7.34
FDIC's Temporary Liquidity Guarantee Program	114,112,736	1.93	1,028,233	2.40	1,422,047	2.40
U.S. Government-backed loans			2,741,951	10.72		
Investment grade corporate notes & bonds	557,554,657	2.26	11,930,767	4.60	16,708,532	4.60
High-yield notes & bonds					2,307,182	4.41
High-yield bond mutual fund			1,784,305	4.70		
Mortgage-backed securities			15,440,664	2.61	21,835,941	1.91
Total	\$ 864,351,372		\$ 51,578,149		\$ 67,360,184	
Portfolio modified duration		2.20		4.54		3.97

Investment Type	Cement Plant Retirement Portfolio		Education Enhancement Trust Portfolio		Health Care Trust Portfolio	
	Fair Value	Wgt. Mod. Dur.	Fair Value	Wgt. Mod. Dur.	Fair Value	Wgt. Mod. Dur.
U.S. Treasuries	\$ 710,217	8.20			\$ 3,464,941	7.89
U.S. Treasury Bills		0.21	2,999			
U.S. Treasury STRIPS	285,480	12.88				
U.S. Treasury Inflation Protected Securities					5,032,083	2.70
U.S. Agencies	173,467	4.84			2,599,022	7.34
FDIC's Temporary Liquidity Guarantee Program	170,978	2.30			634,420	2.40
Investment grade corporate notes & bonds	2,109,393	3.99			7,433,535	4.59
High-yield notes & bonds	603,339	4.04				
High-yield bond mutual fund			\$ 3,415,207	4.70	935,169	4.70
Mortgage-backed securities	2,247,475	2.12			9,989,159	2.04
Municipal bonds			118,034,131	5.71		
Total	\$ 6,303,348		\$ 121,449,338		\$ 30,088,329	
Portfolio modified duration		4.18		5.68		4.00

The School and Public Lands, Cement Plant Retirement, Dakota Cement Trust, Education Enhancement Trust, and Health Care Trust fixed income portfolios invest in mortgage-backed securities in the form of GNMA's and FNMA's. These securities are sensitive to prepayments by mortgagees, which is likely in declining interest rate environments, thereby reducing the value of these securities. The SDIC invests in mortgage-backed securities to diversify the portfolio and increase the return while minimizing the extent of risk.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. SDIC policy establishes a percentage range and a normal allocation to various credit risk categories. The Cash Flow duration portfolio can invest 4% of the portfolio into each corporate security rated Aaa or Aa, 2% in A-rated, 1% in Baa1 or Baa2, and 0.5% in individual holdings of corporate securities rating Baa3. The maximum overweight of Baa3 rated holdings versus the benchmark is 5% of the Cash Flow duration portfolio. The SDIC sets the investment policy annually for the Dakota Cement Trust, School and Public Lands, Cement Plant Retirement, Education Enhancement Trust, and Health Care Trust portfolios. This policy establishes the average percentage invested in each asset category and the fund allocation range that each asset category can vary during the fiscal year. At June 30, 2010, the portfolios held the following investments, excluding those issued by or explicitly guaranteed by the U.S. Government, which are not considered to have credit risk. The investments are grouped as rated by Moody's Investors Service.

	Cash Flow Portfolio	School & Public Lands Portfolio	Dakota Cement Trust Portfolio	Cement Plant Retirement Portfolio	Education Enhancement Trust Portfolio	Health Care Trust Portfolio
Moody's ratings:	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value
Aaa	\$ 271,692,943	\$ 14,130,985	\$ 35,521,131	\$ 2,569,975	\$ 28,330,818	\$ 19,001,684
Aa	156,692,823	2,797,627	3,934,878	397,522	77,732,323	1,758,387
A	378,955,483	6,284,204	8,696,351	775,323	15,392,242	3,887,190
Baa	21,906,351	2,848,936	4,077,303	900,358	3,238,925	1,787,958
Ba			1,876,437	517,997	1,774,811	
B			368,832	72,960		
Caa			61,913	12,383		
Unrated		1,784,305		36,189	11,617,014	935,169
Total	\$ 829,247,600	\$ 27,846,057	\$ 54,536,845	\$ 5,282,707	\$ 138,086,133	\$ 27,370,388

Concentration of Credit Risk. Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer. The Cash Flow portfolio has a policy in place limiting its investments in individual holdings. Information regarding the Cash Flow portfolio policy is located in the Credit Risk section. The SDIC does not have a formal policy in place to limit investments in any particular issuer for the Dakota Cement Trust, School and Public Lands, Cement Plant Retirement, Education Enhancement Trust, and Health Care Trust portfolios. Additionally, there are no single issuer exposures (excluding those issued by or explicitly guaranteed by the U.S. Government, or involving mutual funds or investment pools) within the portfolios that comprise 5% of the overall portfolios at June 30, 2010.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The School and Public Lands, Dakota Cement Trust, Cement Plant Retirement, Education Enhancement Trust, and Health Care Trust portfolios' exposure to foreign currency risk derives from their positions in foreign currency and foreign currency-denominated equity investments. To match the unhedged benchmark, the SDIC's normal policy is not to hedge foreign currency back to U.S. dollars. SDIC's policy does allow hedging under certain circumstances when deemed

appropriate by the State Investment Officer and portfolio manager. The portfolios' exposure to foreign currency risk at June 30, 2010, was as follows (in U.S. dollar fair values):

Currency	School & Public Lands Portfolio		Dakota Cement Trust Portfolio		Cement Plant Retirement Portfolio	
	Equities	Cash	Equities	Cash	Equities	Cash
British Pound	\$ 2,714,168	\$ 30,813	\$ 4,503,139	\$ 49,011	\$ 878,408	\$ 1,629
Canadian Dollar	309,570	5,539	451,088	7,345	150,511	6,196
Danish Krone						133
Euro	6,014,593		7,870,017		1,415,361	2,426
Japanese Yen	3,026,368		4,024,075		957,166	2,804
Swedish Krona						2
Swiss Franc	1,656,844		3,653,004		658,845	
Total	\$ 13,721,543	\$ 36,352	\$ 20,501,323	\$ 56,356	\$ 4,060,291	\$ 13,190

Currency	Education Enhancement Trust Portfolio		Health Care Trust Portfolio	
	Equities	Cash	Equities	Cash
British Pound	\$ 7,015,052	\$ 71,942	\$ 2,069,269	\$ 20,567
Canadian Dollar	657,469	11,352	173,949	2,906
Euro	12,113,492		3,341,323	
Japanese Yen	6,321,605		1,717,699	
Swiss Franc	5,086,461		1,426,008	
Total	\$ 31,194,079	\$ 83,294	\$ 8,728,248	\$ 23,473

Investments with outside managers, which are not included in the table above, may expose the portfolios to additional foreign currency risk. The fair values of externally-managed global equity and arbitrage equity investments and investments in distressed, real estate and private equity limited partnerships were as follows (in U.S. dollar fair values):

	School & Public Lands Portfolio	Dakota Cement Trust Portfolio	Cement Plant Retirement Portfolio	Education Enhancement Trust Portfolio	Health Care Trust Portfolio
Global Equity			\$ 783,298		
Arbitrage Equity			817,931		
Distressed, Real Estate & Private Equity	\$ 16,054,907	\$ 25,847,462	\$ 12,036,260	\$ 37,281,144	\$ 9,489,755
Total	\$ 16,054,907	\$ 25,847,462	\$ 13,637,489	\$ 37,281,144	\$ 9,489,755

4. Rate of Return:

The percentage rates of return for fiscal year 2010 for the Cash Flow, School and Public Lands, Dakota Cement Trust, Cement Plant Retirement, Education Enhancement Trust and Health Care Trust portfolios were 4.8%, 13.9%, 14.3%, 20.0%, 13.2% and 14.0%, respectively. The Cash Flow percentage was derived by dividing the total investment income by the average daily investment balances. The other percentages were derived using the time-weighted rate of return calculation and the geometric linking of those returns.

5. Derivatives:

Derivatives are generally defined as contracts whose values depend on, or derive from, the value of an underlying asset, reference rate, or index. The SDIC's portfolios are exposed to various derivative products through the investment management of the SDIC and its outside managers. The following notes detail the derivatives instruments used in the SDIC's internally managed portfolios. All of the SDIC's derivatives are classified as investment derivatives.

Futures Contracts

A futures contract is a contract to buy or sell units of an index or financial instrument at a specified future date at a price agreed upon when the contract is originated. The SDIC purchases and sells futures contracts as a means of adjusting the Cement Plant Retirement portfolio mix at a lower transaction cost than the transactions which would otherwise occur in the underlying portfolios. During fiscal year ended June 30, 2010, S&P 500 futures and 10-year U.S. Treasury Note futures were utilized in the Cement Plant Retirement portfolio. Upon entering into such a contract, the Cement Plant Retirement portfolio pledges to the broker cash or U.S. Government securities equal to the minimum

initial margin requirement of the futures exchange. Additionally, the Cement Plant Retirement portfolio receives or pays a daily variation margin, which is an amount of cash equal to the daily fluctuation in value of the contract. The pending variation margin at June 30, 2010, of (\$4) is presented in the Statement of Net Assets as "Due to brokers – futures transactions." The change in fair value of the futures contracts is presented in the Statement of Changes in Net Assets as "Net appreciation in fair value of investments." The net change in fair value from futures contracts for fiscal year ended June 30, 2010, was \$55,434. Futures contract positions at June 30, 2010 were as follows:

Description	Expiration Date	Open Position	Number of Contracts	Contract Size	Fair Value (Exposure)
10-Year US Treasury Note future	September 2010	Long	1	100,000 par value 6% US Tsy note	\$ 122,547

Foreign Currency Forward Contracts

The SDIC enters into foreign exchange forward contracts for the Cement Plant Retirement portfolio to manage foreign currency exposure, as permitted by portfolio policies. The fair values of the contracts are presented in the Statement of Net Assets as "Forward foreign exchange contracts." The change in fair value of the forward contracts is presented in the Statement of Changes in Net Assets as "Net appreciation in fair value of investments." The net change in fair value from foreign currency forward contracts for fiscal year ended June 30, 2010, was \$155,820. At June 30, 2010, the foreign currency forward contracts outstanding were as follows:

Description	Notional Amount	Value Date	Fair Value
Forward sale	557,573 Euros	8/19/2010	\$ 7,100
Forward purchase	42,000,000 Japanese Yen	8/19/2010	\$ 20,231

Credit Risk. The SDIC is exposed to credit risk on derivative instruments that are in asset positions. The SDIC attempts to minimize credit risk by entering into derivatives contracts with major financial institutions. At June 30, 2010, the aggregate fair value of foreign currency forward contracts in asset positions was \$27,331. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. The credit ratings of the counterparties are as follows:

Moody's Credit Rating	Number of Counterparties	Fair Value
A1	1	\$ 27,331

Interest Rate Risk. The SDIC is exposed to interest rate risk on its 10-year U.S. Treasury Note futures contract. As interest rates increase, the value of the futures contract decreases.

Foreign Currency Risk. The Cement Plant Retirement portfolio is exposed to foreign currency risk on its foreign currency forward contracts because they are denominated in foreign currencies. The net fair value of the foreign currency forward contracts in U.S. dollars is \$27,331.

6. Proration of Investment Income:

The cash income received from pooled investments in the Cash Flow portfolio is prorated to state funds which have been certified as participating funds by the Legislative Appropriations Committee. The cash income is prorated to each individual participating fund using the ratio of its average daily cash balance to the total average daily cash balance of all funds. The income is distributed to the participating funds, except the General Fund, in the next fiscal year. The General Fund is credited 90% of the estimated proration in June and the remaining portion in the following fiscal year as provided by law.

The cash income received from investments in the School and Public Lands portfolio is distributed to the trust funds administered by the Department of School and Public Lands.

The cash income from investments in the Dakota Cement Trust portfolio is received and deposited into the trust fund. Annual distributions of twelve million dollars or five percent of the average market value of the sixteen most recent calendar quarter ends as of June thirtieth are made from the Dakota Cement Trust to the State General Fund.

The cash income from investments in the Cement Plant Retirement portfolio is received and deposited into the fund. Monthly distributions are made from the Cement Plant Retirement Fund to former Cement Plant employees for retirement benefits.

The cash income from investments in the Education Enhancement Trust and Health Care Trust portfolios is received and deposited into the respective trust funds. At the end of each fiscal year, amounts equal to four percent of the average market value at the end of the sixteen most recent calendar quarters as of December thirty-first of the Education Enhancement Trust and the Health Care Trust portfolios are transferred to the State General Fund. The transfer amount cannot invade the principal of either trust.

Amounts equal to the Cement Plant Retirement, Dakota Cement Trust, Education Enhancement Trust, and Health Care Trust portfolios' pro rata shares of the SDIC fiscal year budgeted expenditures are transferred to the SDIC Operating Expense Fund. An amount equal to the Cash Flow and School and Public Lands portfolios' pro rata share of the SDIC fiscal year budgeted expenditures is deducted from the Cash Flow portfolio income and transferred to the SDIC Operating Expense Fund.

7. Commitments:

At June 30, 2010, the SDIC had uncalled capital commitments to private equity and real estate limited partnerships and other external funds. The commitments may be called at the discretion of the general partner or may never be called. As capital is called, it is funded from capital and earnings returned by the limited partnerships or from other assets. Approximate uncalled capital commitments at June 30, 2010, were as follows:

	School & Public Lands Portfolio	Dakota Cement Trust Portfolio	Cement Plant Retirement Portfolio	Education Enhancement Trust Portfolio	Health Care Trust Portfolio
Private Equity	\$ 3,863,010	\$ 5,291,628	\$ 2,862,562	\$ 7,960,571	\$ 2,247,150
Real Estate	9,083,993	12,038,989	3,080,682	17,882,691	5,266,892
Other External Funds	221,500	348,500	160,883	508,000	131,500
Total	\$ 13,168,503	\$ 17,679,117	\$ 6,104,127	\$ 26,351,262	\$ 7,645,542

SOUTH DAKOTA RETIREMENT SYSTEM

SOUTH DAKOTA INVESTMENT COUNCIL: INTERNAL MANAGERS

Security Name	Shares/PV	Cost Value	Fair Value
Global Equity Portfolio			
JPMorgan Chase & Co.	2,322,677	\$ 78,094,635	\$ 85,033,205
Exxon Mobil Corp.	1,360,246	89,101,140	77,629,242
Pfizer, Inc.	5,213,289	119,785,499	74,341,501
ConocoPhillips	1,455,754	64,333,195	71,462,964
Wells Fargo & Co.	2,685,994	58,358,712	68,761,446
Bank of America Corp.	4,442,225	93,734,392	63,834,773
General Electric Co.	3,922,996	95,372,552	56,569,602
Nestle SA/AG	1,126,422	26,784,381	54,527,035
U.S. Bancorp	2,377,751	37,546,290	53,142,735
Microsoft Corp.	2,205,332	56,525,087	50,744,689
Eli Lilly & Co.	1,510,314	64,386,642	50,595,519
Wal-Mart Stores, Inc.	1,046,377	53,054,631	50,299,342
Cisco Systems, Inc.	2,303,532	39,914,408	49,088,267
Honda Motor Co., Ltd.	1,653,454	37,953,887	48,525,484
Sanofi-Aventis	749,288	55,729,090	45,458,786
The Procter & Gamble Co.	733,838	37,038,103	44,015,603
Johnson & Johnson	693,099	41,893,321	40,934,427
Lowe's Cos., Inc.	1,860,948	50,468,302	38,000,558
Comcast Corp.-CI A	2,251,917	33,958,911	36,998,996
AT&T, Inc.	1,503,083	43,191,207	36,359,578
Target Corp.	723,122	23,540,873	35,555,909
Texas Instruments, Inc.	1,496,864	28,197,202	34,846,994
Capital One Financial Corp.	816,085	41,914,627	32,888,226
Dell, Inc.	2,668,148	62,627,243	32,177,865
Chevron Corp.	467,019	25,510,428	31,691,909
GlaxoSmithKline plc	1,804,790	42,118,758	30,862,650
eBay, Inc.	1,560,743	38,402,713	30,606,170
Walgreen Co.	1,127,499	33,299,983	30,104,223
UnitedHealth Group, Inc.	1,049,417	30,500,794	29,803,443
Citigroup, Inc.	7,615,895	14,891,564	28,635,765
BP plc-ADR	922,733	30,152,144	26,648,529
Toyota Motor Corp.	764,135	25,883,077	26,596,630
Devon Energy Corp.	432,689	29,376,730	26,359,414
Medtronic, Inc.	696,022	26,197,453	25,244,718
MetLife, Inc.	665,613	14,154,122	25,133,547
State Street Corp.	738,775	26,348,096	24,985,371
The Allstate Corp.	858,083	19,238,384	24,652,725
Kraft Foods, Inc.	873,266	21,920,696	24,451,448
Suncor Energy, Inc.	801,449	20,067,322	23,629,038
CVS Caremark Corp.	800,679	23,508,674	23,475,908
Morgan Stanley	1,001,917	26,778,281	23,254,494
Nokia Corp.	2,675,614	32,002,500	21,991,088
BB&T Corp.	804,867	19,537,528	21,176,051
Pulte Group, Inc.	2,500,012	43,592,215	20,700,099
Roche Holding AG	145,462	22,706,250	20,112,565
Lockheed Martin Corp.	268,367	19,793,669	19,993,342
SAP AG	435,449	19,481,007	19,564,437
PepsiCo, Inc.	318,070	17,211,357	19,386,367
Carrefour SA	478,693	21,478,116	19,197,138
Nucor Corp.	499,096	20,005,973	19,105,395
Total Top 50 Securities		\$ 1,997,662,164	\$ 1,869,155,210
Remaining Global Equity Portfolio		1,234,922,370	1,163,479,291
Global Equity Portfolio		\$ 3,232,584,534	\$ 3,032,634,501
High Quality Equity Portfolio		\$ 61,811,166	\$ 60,803,809
Fixed Income Investment Grade Portfolio		\$ 744,382,033	\$ 810,719,625
Fixed Income High Yield Portfolio		\$ 68,295,245	\$ 71,822,716
Merger Arbitrage Portfolio		\$ 60,443,621	\$ 59,523,142
Convertible Arbitrage Portfolio		\$ 166,869,590	\$ 178,424,146
Shift Portfolio		\$ 186,261,408	\$ 183,713,611
Total SDRS Internally Managed		\$ 4,520,647,597	\$ 4,397,641,550

SOUTH DAKOTA RETIREMENT SYSTEM

SOUTH DAKOTA INVESTMENT COUNCIL: EXTERNAL MANAGERS

	Cost Value	Fair Value
Hedge Fund-Like		
Bridgewater Pure Alpha Fund II, Ltd.	\$ 50,000,000	\$ 67,438,315
Sanders All Asset Value Fund, L.P.	14,999,265	12,984,693
Total Hedge Fund-Like	\$ 64,999,265	\$ 80,423,008
Real Estate		
Apollo European Real Estate Fund II, L.P.	\$ 19,918,625	\$ 14,581,610
Apollo Real Estate Investment Fund III, L.P.	11,290,581	5,093,629
Apollo Real Estate Investment Fund IV, L.P.	7,207,478	5,184,833
Blackstone Real Estate Partners II	0	330,815
Blackstone Real Estate Partners III	13,436,304	1,999,541
Blackstone Real Estate Partners IV	151,597,827	104,265,933
Blackstone Real Estate Partners V	197,751,089	163,748,589
Blackstone Real Estate Partners VI	153,895,890	130,446,776
Blackstone Real Estate Partners International I	8,501,826	6,172,392
Blackstone Real Estate Partners International II	88,067,102	52,185,544
Blackstone Real Estate Partners Europe III	4,937,318	11,814,594
North American Real Estate Partners, L.P.	38,821,082	37,812,223
North American Real Estate Partners II, L.P.	89,562,805	54,354,286
NAREP II Land Entitlement Sidecar, L.P.	34,210,871	4,089,859
Doughty Hanson & Co. European Real Estate I	1,659,808	1,976,789
Doughty Hanson & Co. European Real Estate II	31,187,496	10,295,080
Total Real Estate	\$ 852,046,102	\$ 604,352,493
Private Equity		
Blackstone Capital Partners IV, L.P.	\$ 9,784,615	\$ 14,853,741
Blackstone Capital Partners V, L.P.	208,477,959	185,550,769
Capital International Private Equity Fund III, L.P.	2,002,612	3,285,277
Capital International Private Equity Fund IV, L.P.	15,817,701	23,350,086
Capital International Private Equity Fund V, L.P.	16,806,847	17,339,286
Carlyle Partners IV, L.P.	19,812,291	26,810,111
Carlyle Partners V, L.P.	14,369,828	15,818,769
Riverstone/Carlyle Global Energy & Power Fund IV	15,016,634	18,282,746
Cinven Fund 4	61,685,554	60,347,511
Crossroads Cornerstone Private Equity XV-B, L.P.	13,667,216	11,554,507
CVC European Equity Partners IV, L.P.	29,998,401	36,958,279
CVC European Equity Partners V, L.P.	13,884,663	15,613,501
Cypress Merchant Banking Partners II, L.P.	20,905,207	8,833,309
DLJ Merchant Banking Partners II, L.P.	3,822,222	2,072,580
Doughty Hanson & Co. IV	44,481,939	47,382,977
Doughty Hanson & Co. V	22,274,559	24,303,808
Elevation Partners	32,614,456	28,635,651
KKR European Fund I	14,727,979	25,374,317
KKR European Fund II	47,723,413	34,079,711
PineBridge Global Emerging Markets	13,886,616	14,065,416
Silver Lake Partners I, L.P.	412,595	532,630
Silver Lake Partners II, L.P.	61,603,076	67,812,276
Silver Lake Partners III, L.P.	31,151,532	30,729,004
Silver Lake Sumeru Fund, L.P.	12,366,642	20,436,204
Total Private Equity	\$ 727,294,557	\$ 734,022,466
Distressed Debt		
Blackstone Distressed Securities Fund, L.P.	\$ 385,144	\$ 5,002,920
Blackstone Credit Liquidity Partners, L.P.	25,880,855	28,136,145
CVI Global Value Fund A, L.P.	170,160,571	155,554,605
CVI Specialized Ventures Fund A, L.P.	17,846,694	8,115,641
Oaktree Loan Fund 2x, L.P.	35,046,235	32,934,514
PIMCO Distressed Mortgage Fund II, L.P.	114,535,836	140,510,723
TCW Special Mortgage Credits Master Fund, L.P.	45,709,745	41,497,332
TCW/SD Special Mortgage Credits Investment, L.P.	103,479,737	120,244,758
TCW Special Mortgage Credits Fund III, L.P.	173,230	173,230
Total Distressed Debt	\$ 513,218,047	\$ 532,169,868
Emerging Markets		
Dimensional Fund Advisors, Inc.	\$ 8,918,381	\$ 36,942,851
GE Asset Management China A-Shares Equity	40,920,000	49,030,105
Total Emerging Markets	\$ 49,838,381	\$ 85,972,956
Special Purpose Equity		
Brandes International Mid Cap Portfolio	\$ 37,299,420	\$ 31,521,952
Sanders Capital, L.L.C.	25,207,239	21,646,312
Total Special Purpose Equity	\$ 62,506,659	\$ 53,168,264
Total SDRS Externally Managed	\$ 2,269,903,011	\$ 2,090,109,055

CEMENT PLANT RETIREMENT FUND**SOUTH DAKOTA INVESTMENT COUNCIL: INTERNAL MANAGERS**

Security Name	Shares/PV	Cost Value	Fair Value
Global Equity Portfolio			
JPMorgan Chase & Co.	16,776	\$ 573,628	\$ 614,169
ConocoPhillips	11,141	479,129	546,912
Pfizer, Inc.	37,919	850,400	540,725
Wells Fargo & Co.	19,604	444,737	501,862
Exxon Mobil Corp.	8,702	584,956	496,643
Bank of America Corp.	32,408	687,740	465,703
U.S. Bancorp	19,167	290,164	428,382
Eli Lilly & Co.	12,226	511,477	409,571
General Electric Co.	28,373	692,796	409,139
Nestle SA/AG	8,188	206,418	396,359
Honda Motor Co., Ltd.	13,446	342,951	394,613
Sanofi-Aventis	5,747	424,523	348,667
Wal-Mart Stores, Inc.	6,905	353,921	331,923
Microsoft Corp.	14,273	381,560	328,422
Cisco Systems, Inc.	15,323	308,930	326,533
Texas Instruments, Inc.	12,082	218,885	281,269
Lowe's Cos., Inc.	13,668	382,391	279,101
Comcast Corp. -CI A	15,854	252,164	260,481
eBay, Inc.	12,714	315,580	249,322
Chevron Corp.	3,629	201,592	246,264
Johnson & Johnson	4,106	259,166	242,500
The Procter & Gamble Co.	4,020	227,144	241,120
Capital One Financial Corp.	5,908	289,490	238,092
Target Corp.	4,726	153,891	232,377
Walgreen Co.	8,509	241,712	227,190
Dell, Inc.	18,440	457,863	222,386
Citigroup, Inc.	59,074	110,576	222,118
The Allstate Corp.	7,317	160,600	210,217
GlaxoSmithKline plc	12,265	295,615	209,737
UnitedHealth Group, Inc.	7,231	196,374	205,360
AT&T, Inc.	8,284	232,502	200,390
Devon Energy Corp.	3,211	203,148	195,614
State Street Corp.	5,625	207,351	190,238
BP plc -ADR	6,540	209,982	188,875
MetLife, Inc.	4,887	92,677	184,533
Morgan Stanley	7,699	198,365	178,694
Medtronic, Inc.	4,891	193,400	177,397
Toyota Motor Corp.	5,065	176,991	176,293
SAP AG	3,879	177,376	174,281
Kraft Foods, Inc.	6,140	169,380	171,920
Pulte Group, Inc.	20,409	331,658	168,987
BB&T Corp.	6,349	151,952	167,042
Unilever plc	6,040	168,235	162,746
Lockheed Martin Corp.	2,182	167,242	162,559
CVS Caremark Corp.	5,221	159,152	153,080
Carrefour SA	3,811	170,906	152,833
Nokia Corp.	17,855	204,165	146,752
Nucor Corp.	3,804	141,099	145,617
Sumitomo Mitsui Financial Group, Inc.	4,853	162,502	139,190
Roche Holding AG	996	160,140	137,714
Total Top 50 Securities		\$ 14,574,596	\$ 13,481,912
Remaining Global Equity Portfolio		5,897,009	5,137,384
Global Equity Portfolio		\$ 20,471,605	\$ 18,619,296
Fixed Income Investment Grade Portfolio		\$ 5,666,820	\$ 6,165,206
Fixed Income High Yield Portfolio		\$ 453,182	\$ 476,572
Shift Portfolio		\$ 232,941	\$ 233,001
Total CPRF Internally Managed		\$ 26,824,548	\$ 25,494,075

CEMENT PLANT RETIREMENT FUND**SOUTH DAKOTA INVESTMENT COUNCIL: INTERNAL MANAGERS**

	Cost Value	Fair Value
Arbitrage & Hedge Fund-Like		
Bridgewater Pure Alpha Fund II, Ltd.	\$ 350,000	\$ 472,068
Merger Fund	346,033	345,863
Total Arbitrage & Hedge Fund-Like	\$ 696,033	\$ 817,931
Real Estate		
Apollo European Real Estate Fund II, L.P.	\$ 130,891	\$ 95,820
Apollo Real Estate Investment Fund III, L.P.	67,734	30,559
Apollo Real Estate Investment Fund IV, L.P.	48,994	35,251
Blackstone Real Estate Partners II	0	1,983
Blackstone Real Estate Partners III	113,875	16,950
Blackstone Real Estate Partners IV	757,992	521,334
Blackstone Real Estate Partners V	1,344,705	1,113,489
Blackstone Real Estate Partners VI	1,077,274	913,129
Blackstone Real Estate Partners International II	576,839	341,817
Blackstone Real Estate Partners Europe III	32,734	78,329
North American Real Estate Partners, L.P.	257,599	250,905
North American Real Estate Partners II, L.P.	569,945	345,891
NAREP II Land Entitlement Sidecar, L.P.	216,870	25,925
Doughty Hanson & Co. European Real Estate I	12,908	15,372
Doughty Hanson & Co. European Real Estate II	198,737	65,647
Total Real Estate	\$ 5,407,097	\$ 3,852,401
Private Equity		
Blackstone Capital Partners IV, L.P.	\$ 68,959	\$ 104,713
Blackstone Capital Partners V, L.P.	1,429,968	1,272,821
Capital International Private Equity Fund III, L.P.	13,349	21,895
Capital International Private Equity Fund IV, L.P.	110,729	163,459
Capital International Private Equity Fund V, L.P.	114,290	117,912
Carlyle Partners IV, L.P.	131,628	178,122
Carlyle Partners V, L.P.	99,149	109,147
Riverstone/Carlyle Global Energy & Power Fund IV	99,940	121,128
Cinven Fund 4	390,413	381,946
Crossroads Cornerstone Private Equity XV-B, L.P.	93,938	79,352
CVC European Equity Partners IV, L.P.	196,272	241,799
CVC European Equity Partners V, L.P.	91,632	103,049
Cypress Merchant Banking Partners II, L.P.	125,432	52,999
DLJ Merchant Banking Partners II, L.P.	28,280	15,340
Doughty Hanson & Co. IV	307,267	327,301
Doughty Hanson & Co. V	153,608	167,601
Elevation Partners	216,820	190,369
KKR European Fund I	114,263	198,448
KKR European Fund II	315,179	224,758
PineBridge Global Emerging Markets	96,696	98,463
Silver Lake Partners I, L.P.	2,837	3,662
Silver Lake Partners II, L.P.	424,041	469,661
Silver Lake Partners III, L.P.	215,987	213,066
Silver Lake Sumeru Fund, L.P.	81,924	135,306
Total Private Equity	\$ 4,922,151	\$ 4,992,317
Distressed Debt		
Blackstone Distressed Securities Fund, L.P.	\$ 2,602	\$ 33,770
Blackstone Credit Liquidity Partners, L.P.	172,753	187,806
CVI Global Value Fund A, L.P.	1,142,017	1,043,992
CVI Specialized Ventures Fund A, L.P.	120,481	54,780
Oaktree Loan Fund 2x, L.P.	233,412	219,356
PIMCO Distressed Mortgage Fund II, L.P.	733,030	899,269
TCW/SD Special Mortgage Credits Investment, L.P.	645,538	751,530
TCW Special Mortgage Credits Fund III, L.P.	1,039	1,039
Total Distressed Debt	\$ 3,050,872	\$ 3,191,542
Emerging Markets		
Dimensional Fund Advisors, Inc.	\$ 59,080	\$ 244,728
GE Asset Management China A-Shares Equity	280,000	335,494
Total Emerging Markets	\$ 339,080	\$ 580,222
Special Purpose Equity		
Brandes Non-U.S. Mid Cap Portfolio	\$ 130,337	\$ 203,075
Total Special Purpose Equity	\$ 130,337	\$ 203,075
Total CPRF Externally Managed	\$ 14,545,570	\$ 13,637,488

SCHOOL AND PUBLIC LANDS**SOUTH DAKOTA INVESTMENT COUNCIL: INTERNAL MANAGERS**

Security Name	Shares/PV	Cost Value	Fair Value
Global Equity Portfolio			
ConocoPhillips	47,909	\$ 1,900,340	\$ 2,351,853
JPMorgan Chase & Co.	60,504	2,042,004	2,215,051
Pfizer, Inc.	144,944	3,830,902	2,066,901
Wells Fargo & Co.	78,169	1,954,995	2,001,126
Exxon Mobil Corp.	33,993	2,306,653	1,939,984
U.S. Bancorp	86,000	1,494,610	1,922,100
General Electric Co.	122,297	3,319,720	1,763,523
Eli Lilly & Co.	49,997	2,239,293	1,674,900
Bank of America Corp.	113,466	3,392,845	1,630,506
Microsoft Corp.	61,599	<u>1,679,295</u>	<u>1,417,393</u>
Total Top 10 Securities		\$ 24,160,657	\$ 18,983,337
Remaining Global Equity Portfolio		<u>67,272,555</u>	<u>60,175,109</u>
Global Equity Portfolio		\$ 91,433,212	\$ 79,158,446
Fixed Income Investment Grade Portfolio		\$ 40,323,605	\$ 42,900,105
TIPS Portfolio		\$ 7,361,958	\$ 8,851,279
Money Market Portfolio		\$ 2,880,734	\$ 2,881,186
S.D. S.B.A. & Similar Assets		<u>\$ 2,734,202</u>	<u>\$ 2,741,951</u>
Total SPL Internally Managed		<u>\$ 144,733,711</u>	<u>\$ 136,532,967</u>

SOUTH DAKOTA INVESTMENT COUNCIL: EXTERNAL MANAGERS

	Cost Value	Fair Value
Real Estate		
Blackstone Real Estate Partners V	\$ 4,034,123	\$ 3,340,474
Blackstone Real Estate Partners VI	3,026,619	2,565,454
Blackstone Real Estate Partners International II	3,346,550	1,983,051
Blackstone Real Estate Partners Europe III	120,023	287,206
North American Real Estate Partners II, L.P.	<u>3,093,989</u>	<u>1,877,693</u>
Total Real Estate	\$ 13,621,304	\$ 10,053,878
Private Equity		
Blackstone Capital Partners V, L.P.	\$ 2,582,493	\$ 2,410,194
Doughty Hanson & Co. V	797,344	869,983
Silver Lake Partners III, L.P.	<u>743,472</u>	<u>733,387</u>
Total Private Equity	\$ 4,123,309	\$ 4,013,564
Distressed Debt		
Blackstone Distressed Securities Fund, L.P.	\$ 8,473	\$ 110,064
CVI Global Value Fund A, L.P.	1,858,375	1,698,857
CVI Specialized Ventures Fund A, L.P.	<u>392,635</u>	<u>178,544</u>
Total Distressed Debt	\$ 2,259,483	\$ 1,987,465
Monument Park CDO	\$ 2,235,944	\$ 523,300
Vanguard High-Yield Corporate Fund	<u>\$ 1,908,058</u>	<u>\$ 1,784,305</u>
Total SPL Externally Managed	<u>\$ 24,148,098</u>	<u>\$ 18,362,512</u>

DAKOTA CEMENT TRUST**SOUTH DAKOTA INVESTMENT COUNCIL: INTERNAL MANAGERS**

Security Name	Shares/PV	Cost Value	Fair Value
Global Equity Portfolio			
ConocoPhillips	65,614	\$ 3,023,596	\$ 3,220,991
JPMorgan Chase & Co.	85,457	2,901,841	3,128,581
Pfizer, Inc.	203,412	5,100,974	2,900,655
Wells Fargo & Co.	110,988	2,869,151	2,841,293
U.S. Bancorp	122,100	2,122,800	2,728,935
Exxon Mobil Corp.	47,070	3,122,879	2,686,299
General Electric Co.	170,558	4,777,447	2,459,446
Eli Lilly & Co.	69,567	3,164,727	2,330,495
Bank of America Corp.	157,880	5,137,295	2,268,736
Nestle SA/AG	42,800	<u>1,190,012</u>	<u>2,071,832</u>
Total Top 10 Securities		\$ 33,410,722	\$ 26,637,263
Remaining Global Equity Portfolio		<u>91,605,256</u>	<u>79,458,139</u>
Global Equity Portfolio		\$ 125,015,978	\$ 106,095,402
Fixed Income Investment Grade Portfolio		\$ 56,541,192	\$ 60,756,430
Fixed Income High Yield Portfolio		\$ 2,320,913	\$ 2,439,979
TIPS Portfolio		\$ 9,565,369	\$ 11,500,100
Money Market Portfolio		<u>\$ 3,432,692</u>	<u>\$ 3,433,179</u>
Total DCT Internally Managed		<u>\$ 196,876,144</u>	<u>\$ 184,225,090</u>

SOUTH DAKOTA INVESTMENT COUNCIL: EXTERNAL MANAGERS

	Cost Value	Fair Value
Real Estate		
Blackstone Real Estate Partners V	\$ 6,486,237	\$ 5,370,954
Blackstone Real Estate Partners VI	4,873,368	4,130,814
Blackstone Real Estate Partners International II	5,460,160	3,235,503
Blackstone Real Estate Partners Europe III	120,023	287,206
North American Real Estate Partners II, L.P.	<u>5,048,085</u>	<u>3,063,605</u>
Total Real Estate	\$ 21,987,873	\$ 16,088,082
Private Equity		
Blackstone Capital Partners V, L.P.	\$ 4,199,205	\$ 3,930,073
Doughty Hanson & Co. V	1,300,377	1,418,844
Silver Lake Partners III, L.P.	<u>1,212,833</u>	<u>1,196,389</u>
Total Private Equity	\$ 6,712,415	\$ 6,545,306
Distressed Debt		
Blackstone Distressed Securities Fund, L.P.	\$ 13,000	\$ 168,849
CVI Global Value Fund A, L.P.	3,031,539	2,771,322
CVI Specialized Ventures Fund A, L.P.	<u>602,341</u>	<u>273,903</u>
Total Distressed Debt	\$ 3,646,880	\$ 3,214,074
Monument Park CDO	<u>\$ 3,880,534</u>	<u>\$ 908,000</u>
Total DCT Externally Managed	<u>\$ 36,227,702</u>	<u>\$ 26,755,462</u>

EDUCATION ENHANCEMENT TRUST**SOUTH DAKOTA INVESTMENT COUNCIL: INTERNAL MANAGERS**

Security Name	Shares/PV	Cost Value	Fair Value
Global Equity Portfolio			
JPMorgan Chase & Co.	143,535	\$ 4,833,049	\$ 5,254,816
ConocoPhillips	103,078	4,447,122	5,060,099
Pfizer, Inc.	331,784	8,170,978	4,731,240
Exxon Mobil Corp.	77,249	5,157,683	4,408,644
Wells Fargo & Co.	170,875	4,384,049	4,374,400
U.S. Bancorp	175,600	3,053,535	3,924,660
General Electric Co.	253,826	6,516,051	3,660,171
Eli Lilly & Co.	107,037	4,775,569	3,585,740
Bank of America Corp.	242,917	7,429,931	3,490,717
Microsoft Corp.	131,878	3,413,700	3,034,513
Total Top 10 Securities		\$ 52,181,667	\$ 41,525,000
Remaining Global Equity Portfolio		139,660,168	121,486,216
Global Equity Portfolio		\$ 191,841,835	\$ 163,011,216
Money Market Portfolio		\$ 15,960,429	\$ 15,961,508
Total EET Internally Managed		\$ 207,802,264	\$ 178,972,724

SOUTH DAKOTA INVESTMENT COUNCIL: EXTERNAL MANAGERS

	Cost Value	Fair Value
Real Estate		
Blackstone Real Estate Partners V	\$ 9,333,852	\$ 7,728,933
Blackstone Real Estate Partners VI	7,130,508	6,044,033
Blackstone Real Estate Partners International II	7,749,907	4,592,329
Blackstone Real Estate Partners Europe III	185,491	443,863
North American Real Estate Partners II, L.P.	7,165,025	4,348,341
Total Real Estate	\$ 31,564,783	\$ 23,157,499
Private Equity		
Blackstone Capital Partners V, L.P.	\$ 6,078,751	\$ 5,689,269
Doughty Hanson & Co. V	1,879,625	2,050,862
Silver Lake Partners III, L.P.	1,752,797	1,729,019
Total Private Equity	\$ 9,711,173	\$ 9,469,150
Distressed Debt		
Blackstone Distressed Securities Fund, L.P.	\$ 19,064	\$ 247,643
CVI Global Value Fund A, L.P.	4,381,192	4,005,128
CVI Specialized Ventures Fund A, L.P.	883,443	401,724
Total Distressed Debt	\$ 5,283,699	\$ 4,654,495
Monument Park CDO	\$ 5,594,283	\$ 1,309,100
PIMCO Tax-Exempt Fund	\$ 112,936,139	\$ 119,578,903
Vanguard High-Yield Corporate Fund	\$ 3,973,998	\$ 3,940,207
Total EET Externally Managed	\$ 169,064,075	\$ 162,109,354

CASH FLOW FUND**SOUTH DAKOTA INVESTMENT COUNCIL: INTERNAL MANAGERS**

	Cost Value	Fair Value
Duration Portfolio	\$ 903,030,419	\$ 929,147,363
Money Market Portfolio	\$ 19,502,442	\$ 19,507,214
Certificates of Deposit, 0.855% due 09/30/10	\$ 27,835,000	\$ 27,953,669
Total CFF Internally Managed	\$ 950,367,861	\$ 976,608,246

HEALTH CARE TRUST**SOUTH DAKOTA INVESTMENT COUNCIL: INTERNAL MANAGERS**

Security Name	Shares/PV	Cost Value	Fair Value
Global Equity Portfolio			
JPMorgan Chase & Co.	38,212	\$ 1,271,713	\$ 1,398,941
ConocoPhillips	28,046	1,317,210	1,376,778
Pfizer, Inc.	91,324	2,214,425	1,302,280
Wells Fargo & Co.	47,053	1,193,587	1,204,557
U.S. Bancorp	53,500	927,203	1,195,725
Exxon Mobil Corp.	20,734	1,407,272	1,183,337
General Electric Co.	71,561	1,686,915	1,031,910
Eli Lilly & Co.	29,474	1,361,212	987,379
Bank of America Corp.	66,891	2,009,665	961,224
Microsoft Corp.	37,235	972,708	856,777
Total Top 10 Securities		\$ 14,361,910	\$ 11,498,908
Remaining Global Equity Portfolio		38,689,498	34,037,027
Global Equity Portfolio		\$ 53,051,408	\$ 45,535,935
Fixed Income Investment Grade Portfolio		\$ 26,795,429	\$ 28,329,895
TIPS Portfolio		\$ 4,180,556	\$ 5,032,083
Money Market Portfolio		\$ 3,785,476	\$ 3,785,765
Total HCT Internally Managed		\$ 87,812,869	\$ 82,683,678

SOUTH DAKOTA INVESTMENT COUNCIL: EXTERNAL MANAGERS

	Cost Value	Fair Value
Real Estate		
Blackstone Real Estate Partners V	\$ 2,293,909	\$ 1,899,478
Blackstone Real Estate Partners VI	1,898,047	1,608,841
Blackstone Real Estate Partners International II	1,937,475	1,148,080
Blackstone Real Estate Partners Europe III	65,467	156,658
North American Real Estate Partners II, L.P.	1,791,256	1,087,085
Total Real Estate	\$ 7,986,154	\$ 5,900,142
Private Equity		
Blackstone Capital Partners V, L.P.	\$ 1,533,957	\$ 1,445,074
Doughty Hanson & Co. V	476,646	520,070
Silver Lake Partners III, L.P.	444,436	438,407
Total Private Equity	\$ 2,455,039	\$ 2,403,551
Distressed Debt		
Blackstone Distressed Securities Fund, L.P.	\$ 5,009	\$ 65,041
CVI Global Value Fund A, L.P.	1,110,874	1,015,518
CVI Specialized Ventures Fund A, L.P.	232,015	105,503
Total Distressed Debt	\$ 1,347,898	\$ 1,186,062
Monument Park CDO	\$ 1,366,654	\$ 319,600
Vanguard High-Yield Corporate Fund	\$ 1,099,981	\$ 1,087,169
Total HCT Externally Managed	\$ 14,255,726	\$ 10,896,524

On June 30, 2010, there was \$27,835,000 in Certificates of Deposit outstanding with South Dakota banks, savings and loan institutions and credit unions. Sixty-three South Dakota banks hold \$22,951,000 in CDs, two savings and loan institutions have \$1,614,000 invested in CDs and eleven credit unions have \$3,270,000 invested in CDs. The CDs carry an interest rate of 0.855%, and mature September 30, 2010. The original allocation made in December 2009 was to eighty-two banks and four savings and loans. Nineteen banks and two savings and loans did not participate this year. This is the ninth year a reoffering was made to other qualified public depositories in the state. In the reoffering, eleven credit unions accepted \$3,270,000 in CDs, leaving \$7,156,000 in CDs unassigned. The size of the certificates ranged from \$100,000 to \$2,608,000.

Summary of Statistics for Certificates Outstanding

Certificates of Deposit Issued to Banks

CDs maturing 9/30/10 \$ 22,951,000

Interest earned during Fiscal 2010 \$ 143,439

Average CDs Outstanding During Fiscal 2010 \$ 27,158,997

Rate of Return 0.5%

Certificates of Deposit Issued to Savings and Loans

CDs maturing 9/30/10 \$ 1,614,000

Interest earned during Fiscal 2010 \$ 9,258

Average CDs Outstanding During Fiscal 2010 \$ 1,624,529

Rate of Return 0.6%

Certificates of Deposit Issued to Credit Unions

CDs maturing 9/30/10 \$ 3,270,000

Interest earned during Fiscal 2010 \$ 16,773

Average CDs Outstanding During Fiscal 2010 \$ 2,607,189

Rate of Return 0.6%

Total Certificates of Deposit

CDs maturing 9/30/10 \$ 27,835,000

Interest earned during Fiscal 2010 \$ 169,470

Average CDs Outstanding During Fiscal 2010 \$ 31,390,715

Rate of Return 0.5%

South Dakota Certificates of Deposit due 9/30/10

<u>Bank</u>	<u>Location</u>	<u>C.D.</u>
Dacotah Bank	Aberdeen	\$ 2,608,000
State Bank of Alcester	Alcester	130,000
Citizens State Bank	Arlington	129,000
Community Bank	Avon	100,000
Pioneer Bank & Trust/Spearfish	Belle Fourche	421,000
Dakota State Bank	Blunt	100,000
First Bank & Trust	Brookings	1,368,000
Richland State Bank	Bruce	100,000
Bryant State Bank	Bryant	100,000
First Fidelity Bank	Burke	235,000
Farmers State Bank	Canton	100,000
First Midwest Bank	Centerville	250,000
Dakota Heritage State Bank	Chancellor	100,000
Peoples State Bank	DeSmet	100,000
First Financial Bank	Dupree	378,000
Liberty Financial Services	Elk Point	253,000
BankStar Financial	Elkton	100,000
Security State Bank	Emery	100,000
Reliabank Dakota	Estelline	266,000
Great Plains Bank	Eureka	137,000
Farmers State Bank	Faith	100,000
First National Bank	Frederick	100,000
Merchants State Bank	Freeman	176,000
Fulton State Bank	Fulton	100,000
First State Bank	Groton	100,000

<u>Bank</u>	<u>Location</u>	<u>C.D.</u>
Campbell County Bank	Herreid	100,000
Farmers State Bank	Hosmer	100,000
Plains Commerce Bank	Hoven	575,000
Miner County Bank	Howard	100,000
Premier Bank of Hudson	Hudson	319,000
Ipswich State Bank	Ipswich	100,000
Farmers & Merchants State Bank	Iroquois	100,000
First Bank & Trust/Sioux Falls	Madison	572,000
First Bank & Trust/Stockholm	Milbank	241,000
Quoin Financial Bank	Miller	196,000
CorTrust Bank	Mitchell	806,000
American State Bank	Oldham	100,000
Sunrise Bank Dakota	Onida	100,000
Farmers State Bank	Parkston	129,000
First National Bank	Philip	230,000
BankWest	Pierre	1,217,000
First National Bank	Pierre	912,000
Farmers & Merchants State Bank	Plankinton	117,000
Security First Bank	Rapid City	908,000
Heartland State Bank	Redfield	100,000
First State Bank of Roscoe	Roscoe	114,000
Farmers & Merchants State Bank	Scotland	100,000
First National Bank	Sioux Falls	1,450,000
Great Western Bank	Sioux Falls	2,543,000
Minnwest Bank	Sioux Falls	172,000
Roberts County National Bank	Sisseton	100,000
Farmers State Bank	Stickney	100,000
First Interstate Bank	Sturgis	686,000
Peoples State Bank	Summit	100,000
Farmers State Bank	Turton	100,000
Security State Bank	Tyndall	100,000
First National Bank	Volga	100,000
Commercial State Bank	Wagner	143,000
First Interstate Bank	Wall	674,000
American Bank & Trust	Wessington Springs	404,000
First Bank of White	White	103,000
First State Bank	Wilmot	100,000
First Dakota National Bank	Yankton	1,189,000
Total		\$ 22,951,000

<u>Savings & Loan</u>	<u>Location</u>	<u>C.D.</u>
Bank 360	Beresford	\$ 100,000
Home Federal Bank	Sioux Falls	1,514,000
Total		\$ 1,614,000

<u>Credit Union</u>	<u>Location</u>	<u>C.D.</u>
HealthCare Plus Federal CU	Aberdeen	\$ 250,000
Dakota Territory Federal CU	Deadwood	250,000
Consumer's Federal CU	Gregory	300,000
Dakotaland Federal CU	Huron	250,000
East River Federal CU	Madison	250,000
Black Hills Federal CU	Rapid City	802,000
Minuteman Community Federal CU	Rapid City	250,000
Air Guard Federal CU	Sioux Falls	250,000
Midwest Partners Federal CU	Sioux Falls	168,000
Service First Federal CU	Sioux Falls	250,000
Sioux Empire Federal CU	Sioux Falls	250,000
Total		\$ 3,270,000

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.

BARCLAYS CAPITAL MUNICIPAL 7 YEAR INDEX: The 7-year (6-8 Years to Maturity) component of the U.S. 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.

BENCHMARK RETURN: The corresponding index returns for each asset category applied to a portfolio's normal asset allocation policy.

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

CITIGROUP 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 1973.

CITIGROUP ALL BB-RATED INDEX: The index includes those bonds in the Citigroup High-Yield Market Index with an index quality of BB+, BB or BB- rating. It has been used for benchmarking purposes since fiscal year 1996.

CITIGROUP BROAD INVESTMENT-GRADE (BIG) BOND INDEX: The index is market capitalization weighted and includes fixed-rate Treasury, government-sponsored, mortgage, asset-backed and investment-grade issues (BBB or Baa3) with a maturity of one year or longer. It has been used for benchmarking purposes since fiscal year 1981.

CITIGROUP 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.

CITIGROUP 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 (CPI). It is separate and distinct from the Broad Investment-Grade (BIG) Bond Index and currently comprises Treasury securities. It has been used for benchmarking purposes since fiscal year 2003.

COMBINED INTERNAL BOND BENCHMARK: Citigroup BIG Bond Index weighted 80% and Citigroup All BB-Rated Index weighted 20%.

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

DEALLOCATION: 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.

DURATION: The weighted average maturity of the stream of payments associated with a bond. It is a measure of the price volatility of a bond for a given change in yield.

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

EXCHANGE-TRADED FUND (ETF): A security that tracks an index, a commodity or a basket of assets like an index but trades like a stock on an exchange.

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.

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.

INSTITUTIONAL PRIME MONEY MARKET FUND: The TempFund, which is managed by the BlackRock Advisors, Inc., is highly respected in the financial industry as having one of the leading short-term portfolios. The fund's inception was October of 1973, and estimates are used for prior periods.

INTERNAL BOND BENCHMARK: Citigroup BIG Bond Index duration adjusted weighted 80% and Citigroup All BB-Rated Index weighted 20%.

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.

MELLON ANALYTICAL SOLUTIONS: Among the nation's top investment advisory firms to the private sector.

MELLON TOTAL BILLION DOLLAR FUNDS-CORPORATE: A total plan universe of very large private sector pension funds. This universe measures the performance of each total plan and is used on a comparison basis.

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 INDEXSM: 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. As of May 2010, the index consisted of 45 developed and emerging market country indices. It has been used for benchmarking purposes since fiscal year 2005.

MSCI EMERGING MARKETS INDEXSM: The index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of May 2010, the index consisted of 21 emerging market country indices. It has been used for benchmarking purposes since fiscal year 1993.

MSCI US INDEX: The index is the US component of the MSCI World Index. 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. As of May 2010, the index consisted of 24 developed market country indices. It has been used for benchmarking purposes since fiscal year 2005.

NCREIF PROPERTY INDEX: The National Council of Real Estate Investment Fiduciaries (NCREIF) Property 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 has been used for benchmarking purposes since fiscal year 2002.

PEER UNIVERSES: Databases comprised of total pension plan or asset categories used for comparison purposes.

PRICE/BOOK VALUE RATIO: The ratio of a stock's current price to the company's net worth (assets minus liabilities) per share. A lower price/book value ratio than that of the average stock may be an indication of superior investment value, and vice versa.

PRICE/EARNINGS RATIO (P/E): The ratio of a stock's current price to its earnings per share, either actual or forecasted. A lower P/E ratio than that of the average stock may be associated with a superior investment value, and vice versa.

PRIVATE SECTOR UNIVERSE MEDIAN: Median rate of return for large private sector funds. Uses Mellon data (formerly known as Frank Russell and Russell/Mellon) for FY1987 to present and SEI data for prior 13 years.

REAL RETURN: Real return is actual return minus inflation.

RETURN ON EQUITY: Net profit less preferred dividends divided by common equity expressed as a percentage.

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

STANDARD AND POOR'S 500® INDEX: The S&P 500 Index is a broadly-based index of 500 stocks. It is the US component of the S&P Global 1200 Index. It has been used for benchmarking purposes since fiscal year 1973.

STANDARD AND POOR'S GLOBAL 1200 INDEX: The S&P Global 1200 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: The S&P GSCI index is calculated primarily on a world production-weighted basis. Commodity components include energy, agriculture, livestock, industrial metals, and precious metals. It has been used for benchmarking purposes since fiscal year 2003.

STANDARD DEVIATION: A measure of the volatility of returns often used in the investment world as a measure of risk. Observations for less than 5 years are not statistically significant.

STATE FUND UNIVERSE: A universe linking two state fund universe medians to form a 37-year performance history. The most recent 28 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.

TRANSACTION COST ANALYSIS: Measures the cost of trading securities. For stocks, the measured cost includes commissions and the market impact, which is the impact of trading itself on the market price that was achieved.

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.

UTILITY FUNCTION: An investor's level of risk tolerance for an expected return.

VANGUARD LIFESTRATEGY® CONSERVATIVE GROWTH FUND: Invests in other Vanguard mutual funds according to a fixed formula that typically results in an allocation of about 40% of assets to common stocks, 40% to bonds and 20% to short-term fixed income reserves. The fund's assets are invested in the underlying funds as follows: 30% Vanguard Total Bond Market II Index Fund, 25% Vanguard Asset Allocation Fund, 20% Vanguard Short-Term Investment-Grade Fund, 20% Vanguard Total Stock Market Index Fund and 5% Vanguard Total International Stock Market Index Fund.

VANGUARD LIFESTRATEGY® GROWTH FUND: Invests in other Vanguard mutual funds according to a fixed formula that typically results in an allocation of about 80% of assets to common stocks and 20% to bonds. The fund's assets are invested in the underlying funds as follows: 50% Vanguard Total Stock Market Index Fund, 25% Vanguard Asset Allocation Fund, 15% Vanguard Total International Stock Index Fund and 10% Vanguard Total Bond Market II Index Fund.

VANGUARD LIFESTRATEGY® MODERATE GROWTH FUND: Invests in other Vanguard mutual funds according to a fixed formula that typically results in an allocation of about 60% of assets to common stocks and 40% to bonds. The fund's assets are invested in the underlying funds as follows: 35% Vanguard Total Stock Market Index Fund, 30% Vanguard Total Bond Market II Index Fund, 25% Vanguard Asset Allocation Fund and 10% Vanguard Total International Stock Index Fund.

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.

- 1 Citigroup Broad Investment Grade (BIG) Bond Index in fiscal years 1990-2010 and Lehman Brothers U.S. Aggregate Bond Index in prior periods.
- 2 Combined Internal Bond Benchmark in fiscal years 2007-2010, Internal Bond Benchmark in fiscal years 1996-2006, Citigroup BIG 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 37 year annualized returns as of 6/30/10 are as follows:

Fiscal Year	Annual Return	Fiscal Year	Annual Return	Annualized Returns of as 6/30/10
2010	1.1%	2003	2.1%	5 years 2.3%
2009	(1.4%)	2002	1.1%	10 years 2.4%
2008	5.0%	2001	3.2%	15 years 2.4%
2007	2.7%	2000	3.7%	20 years 2.6%
2006	4.3%	1999	2.0%	25 years 2.9%
2005	2.5%	1998	1.7%	30 Years 3.3%
2004	3.3%	1997	2.3%	37 Years 4.4%

- 4 **Fixed Income/TIPS:** Citigroup BIG Bond Index (1981-2010), Lehman Brothers Gov/Corp Index (1973-1980). **Domestic Equity:** Russell 1000 Index (1996-2004), S&P 500 Index (1973-1995). **Cash:** 3-Month Treasury Bill Index (1973-2010). **International Equity:** MSCI ACWI ex-US Index (2002-2004), $\frac{3}{4}$ MSCI EAFE + $\frac{1}{4}$ MSCI EASEA Index (SDRS: 1997-2001, CPRF: 1999-2001), MSCI EAFE Index (SDRS: 1996, CPRF: 1996-1998), MSCI EAFE $\frac{1}{2}$ Japan Index (1993-1995). **Arbitrage:** weighted index (SDRS: 1999-2010), Merger Custom Index (2008-2010), 3-Month Treasury Bill Index +4.25% (1993-2007), Convertible Benchmark (SDRS: 1999-2010). **Real Estate:** NCREIF Property Index (2002-2010), NCREIF Classic Property Index (1995-2001). **Private Equity:** S&P 500 +3.5% (2005-2010), Russell 1000 +3.5% (2002-2004), Russell 1000 +5.0% (1999-2001). **High Yield/Distressed Debt:** Citigroup High-Yield Market Index (2003-2010). **Commodities:** S&P GSCI (2003-2010). **Global Equity:** $\frac{3}{5}$ MSCI ACWI + $\frac{1}{5}$ MSCI US Index (2005-2010).

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

	FI/ TIPS	Dom Equity	Cash	Intl Equity	Arb	Real Estate	Private Equity	High Yield	Comm	Global Equity
7/1/09 - 6/30/10	18%	0%	1%	0%	5%	7%	5%	6%	1%	57%
7/1/06 - 6/30/09	18%	0%	1%	0%	7%	5%	5%	6%	1%	57%
7/1/05 - 6/30/06	18%	0%	1%	0%	7%	6%	4%	6%	1%	57%
7/1/04 - 6/30/05	19%	0%	1%	0%	5%	6%	4%	7%	1%	57%
7/1/03 - 6/30/04	19%	40%	1%	16%	6%	7%	4%	6%	1%	0%
7/1/02 - 6/30/03	19%	40%	1%	16%	7%	7%	3%	6%	1%	0%
7/1/01 - 6/30/02	23%	40%	1%	16%	9%	8%	3%	0%	0%	0%
7/1/99 - 6/30/01	23%	36%	5%	16%	9%	8%	3%	0%	0%	0%
7/1/98 - 6/30/99	23%	40%	4%	16%	8%	7%	2%	0%	0%	0%
7/1/97 - 6/30/98	23%	40%	7%	16%	7%	7%	0%	0%	0%	0%
7/1/96 - 6/30/97	25%	40%	7%	15%	6%	7%	0%	0%	0%	0%
7/1/95 - 6/30/96	25%	42%	6%	15%	8%	4%	0%	0%	0%	0%
7/1/94 - 6/30/95	31%	41%	5%	13%	9%	1%	0%	0%	0%	0%
7/1/93 - 6/30/94	33%	45%	7%	9%	6%	0%	0%	0%	0%	0%
7/1/92 - 6/30/93	35%	49%	9%	5%	2%	0%	0%	0%	0%	0%
7/1/90 - 6/30/92	38%	52%	10%	0%	0%	0%	0%	0%	0%	0%
7/1/86 - 6/30/90	38%	55%	7%	0%	0%	0%	0%	0%	0%	0%
7/1/78 - 6/30/86	50%	40%	10%	0%	0%	0%	0%	0%	0%	0%
7/1/73 - 6/30/78	65%	25%	10%	0%	0%	0%	0%	0%	0%	0%

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

	FI/ TIPS	Dom Equity	Cash	Intl Equity	Arb	Real Estate	Private Equity	High Yield	Comm	Global Equity
7/1/09 - 6/30/10	20%	0%	2%	0%	2%	7%	5%	6%	1%	57%
7/1/06 - 6/30/09	20%	0%	2%	0%	4%	5%	5%	6%	1%	57%
7/1/05 - 6/30/06	21%	0%	1%	0%	4%	6%	4%	6%	1%	57%
7/1/04 - 6/30/05	21%	0%	2%	0%	2%	6%	4%	7%	1%	57%
7/1/03 - 6/30/04	20%	40%	4%	16%	2%	7%	4%	6%	1%	0%
7/1/02 - 6/30/03	20%	40%	3%	16%	4%	7%	3%	6%	1%	0%
11/1/01 - 6/30/02	26%	40%	2%	16%	6%	7%	3%	0%	0%	0%
7/1/99 - 10/31/01	26%	36%	5%	16%	6%	8%	3%	0%	0%	0%
7/1/98 - 6/30/99	26%	40%	4%	16%	5%	7%	2%	0%	0%	0%
7/1/97 - 6/30/98	25%	40%	7%	16%	5%	7%	0%	0%	0%	0%

7/1/96 - 6/30/97	29%	42%	6%	15%	4%	4%	0%	0%	0%	0%
7/1/95 - 6/30/96	29%	42%	6%	15%	4%	4%	0%	0%	0%	0%
7/1/94 - 6/30/95	35%	46%	5%	13%	0%	1%	0%	0%	0%	0%
7/1/93 - 6/30/94	36%	45%	10%	9%	0%	0%	0%	0%	0%	0%
7/1/92 - 6/30/93	37%	49%	9%	5%	0%	0%	0%	0%	0%	0%
7/1/90 - 6/30/92	38%	52%	10%	0%	0%	0%	0%	0%	0%	0%
7/1/86 - 6/30/90	38%	55%	7%	0%	0%	0%	0%	0%	0%	0%
7/1/78 - 6/30/86	50%	40%	10%	0%	0%	0%	0%	0%	0%	0%
7/1/73 - 6/30/78	65%	25%	10%	0%	0%	0%	0%	0%	0%	0%

- 5 Standard Deviation is calculated using quarterly returns.
- 6 Weighted index of Bank of America Merrill Lynch 1-5 year U.S. Treasuries, 1-3 year A-AAA rated U.S. Corporates, and 3-6 month U.S. Treasury Bills (2005-2010); 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 the limited partnerships in private equity and real estate are adjusted in the reporting period when received by the Investment Council.
- 9 The SDIC audit for fiscal year 2010 was conducted by the Department of Legislative Audit. The fee paid in fiscal year 2010 was \$35,656.
- 10 Performance results are presented before management and custodial fees.
- 11 Management Fees for fiscal year 2010 in basis points (bp):

Investment Office	10.0 bp
Apollo European Real Estate Fund II	150 bp
Apollo Real Estate Investments III	0 bp
Apollo Real Estate Investments IV	0 bp
Blackstone Capital Partners IV	75 bp
Blackstone Capital Partners V	118.03 bp
Blackstone Credit Liquidity Partners	100 bp
Blackstone Distressed Securities Fund	75 bp
Blackstone Real Estate Partners II	0 bp
Blackstone Real Estate Partners III	0 bp
Blackstone Real Estate Partners IV	100 bp
Blackstone Real Estate Partners IV - ML	150 bp
Blackstone Real Estate Partners V	125 bp
Blackstone Real Estate Partners V - ML	150 bp
Blackstone Real Estate Partners VI	125 bp
Blackstone Real Estate Partners VI - LC	150 bp
Blackstone Real Estate Partners Europe III	125 bp
Blackstone Real Estate Partners International I	150 bp
Blackstone Real Estate Partners International II	125 bp
Brandes Non-U.S. Mid Cap Portfolio	125 bp
Brandes International Mid Cap Portfolio	\$0-\$10 Million - 115 bp \$10-\$20 Million - 100 bp \$20-\$50 Million - 90 bp
Bridgewater Pure Alpha Fund II (embedded)	300 bp + incentive
Capital International Private Equity Fund III	0 bp
Capital International Private Equity Fund IV	100 bp
Capital International Private Equity Fund V	150 bp
Carlyle Partners IV	75 bp
Carlyle Partners V	119 bp
Cinven Fund 4	150 bp
Crossroads Cornerstone P.E. XV-B	
public securities	7 bp
private securities	95 bp
CVC European Equity Partners IV	75 bp
CVC European Equity Partners V	133.43 bp

CVI Global Value Fund	185 bp
CVI Specialized Ventures Fund	0 bp
Cypress Merchant Banking Partners II	fixed fee
DLJ Merchant Banking Overseas Partners II	0 bp
Dimensional Fund Advisors, Inc. embedded	45 bp 20 bp
Doughty Hanson & Co. European Real Estate I	250 bp
Doughty Hanson & Co. European Real Estate II	200 bp
Doughty Hanson & Co. IV	150 bp
Doughty Hanson & Co. V	175 bp
Elevation Partners, L.P.	150 bp
GE Asset Management China Fund A	150 bp
KKR European Fund I	75 bp
KKR European Fund II	75 bp
Merger Fund (embedded)	147 bp
Monument Park CDO, Ltd Senior (embedded)	20 bp
Subordinate (embedded)	55 bp
North American Real Estate Partners I	125 bp
North American Real Estate Partners II	125 bp
North American Real Estate Partners II Sidecar	0 bp
Oaktree Loan Fund 2x	50 bp
PineBridge Global Emerging Markets Partners I	250 bp
PineBridge Global Emerging Markets Partners II	200 bp
PIMCO (tax-exempt)	25 bp
PIMCO Distressed Mortgage Fund II	150 bp
Riverstone/Carlyle Global Energy & Power Fund IV	143 bp
Sanders Capital All Asset Value Fund	125 bp
Sanders Capital (Value Equities)	\$0-\$15 Million - 90 bp \$15-\$50 Million - 50 bp
Silver Lake I	0 bp
Silver Lake II	100 bp
Silver Lake III	132 bp
Silver Lake Sumeru	200 bp
TCW Special Mortgage Credits Fund	100 bp
TCW/SD Special Mortgage Credits Fund	100 bp
TCW Special Mortgage Credits Fund III	0 bp
Vanguard High Yield Corporate Fund (embedded)	15 bp

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

13 Russell 1000 Index in fiscal years 1996-2004 and S&P 500 Index in prior periods.

14 **Fixed Income:** Citigroup BIG Bond Index (February 2001-2010), Salomon Smith Barney Treasury/GNMA Index (1985 - January 2001). **Domestic Equity:** S&P 500 Index (2005), Russell 1000 Index (February 2001-2004). **High Yield/Distressed Debt:** Citigroup High-Yield Market Index (2010 and February 2001-2006), Citigroup All BB-Rated Index (2007-2009). **Cash/Commodities:** 3-Month Treasury Bill Index (February 2001-2010). **International Equity:** MSCI ACWI ex-US Index (2005). **Global Equity:** $\frac{2}{3}$ S&P Global 1200 + $\frac{1}{3}$ S&P 500 Index (2007-2010), $\frac{2}{3}$ MSCI ACWI + $\frac{1}{3}$ MSCI US Index (2006). **TIPS:** Citigroup US-ILSI (2007-2010). **Real Estate:** NCREIF Property Index (2007-2010). **Private Equity:** S&P 500 +3.5% (2007-2010).

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

	Fixed Income	Dom Equity	High Yield	Cash/Comm	Intl Equity	Global Equity	TIPS	Real Estate	Private Equity
7/1/06 - 6/30/10	33%	0%	5%	2%	0%	48%	5%	5%	2%
7/1/05 - 6/30/06	40%	0%	10%	0%	0%	50%	0%	0%	0%
7/1/04 - 6/30/05	40%	40%	10%	0%	10%	0%	0%	0%	0%

7/1/03 - 6/30/04	50%	40%	10%	0%	0%	0%	0%	0%	0%
7/1/02 - 6/30/03	60%	30%	10%	0%	0%	0%	0%	0%	0%
7/1/01 - 6/30/02	70%	20%	10%	0%	0%	0%	0%	0%	0%
2/1/01 - 6/30/01	Weighted based on Investment Council asset allocation.								
7/1/84 - 1/31/01	100%	0%	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 **Fixed Income:** Citigroup BIG Bond Index (2002-2010). **Domestic Equity:** S&P 500 Index (2005), Russell 1000 Index (2002-2004). **Real Estate:** weighted index (2006), NCREIF Property Index (2006-2010), MSCI US REIT Index (2005-2006), REIT Benchmark (2002-2004). **High Yield/Distressed Debt:** Citigroup High-Yield Market Index (2010), Citigroup All BB-Rated Index (2002-2009). **Cash/Commodities:** 3-Month Treasury Bill Index (2007-2010). **International Equity:** MSCI ACWI ex-US Index (2005). **Global Equity:** $\frac{2}{3}$ S&P Global 1200 + $\frac{1}{3}$ S&P 500 Index (2007-2010), $\frac{2}{3}$ MSCI ACWI + $\frac{1}{3}$ MSCI US Index (2006). **TIPS:** Citigroup US-ILSI (2007-2010). **Private Equity:** S&P 500 +3.5% (2007-2010).

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

	Fixed Income	Dom Equity	Real Estate	High Yield	Cash/Comm	Intl Equity	Global Equity	TIPS	Private Equity
7/1/06 - 6/30/10	33%	0%	5%	5%	2%	0%	48%	5%	2%
7/1/05 - 6/30/06	40%	0%	10%	10%	0%	0%	40%	0%	0%
7/1/04 - 6/30/05	50%	20%	15%	10%	0%	5%	0%	0%	0%
7/1/01 - 6/30/04	55%	20%	15%	10%	0%	0%	0%	0%	0%

17 **Fixed Income:** Citigroup BIG Bond Index (2003-2010). **Tax-Exempt Fixed Income:** Barclays Capital Municipal 7 Year Index (2003-2010). **Domestic Equity:** S&P 500 Index (2005), Russell 1000 Index (2003-2004). **Real Estate:** weighted index (2006), NCREIF Property Index (2006-2010), MSCI US REIT Index (2005-2006), REIT Benchmark (2003-2004). **High Yield/Distressed Debt:** Citigroup High-Yield Market Index (2010 and 2003-2006), Citigroup All BB-Rated Index (2007-2009). **TIPS:** Citigroup US-ILSI (2003-2010). **Cash/Commodities:** 3-Month Treasury Bill Index (2007-2010). **International Equity:** MSCI ACWI ex-US Index (2005). **Global Equity:** $\frac{2}{3}$ S&P Global 1200 + $\frac{1}{3}$ S&P 500 Index (2007-2010), $\frac{2}{3}$ MSCI ACWI + $\frac{1}{3}$ MSCI US Index (2006). **Private Equity:** S&P 500 +3.5% (2007-2010).

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

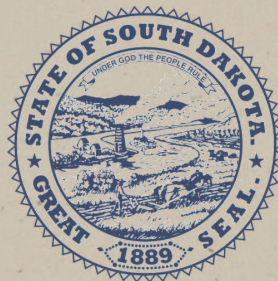
	Tax-exempt FI	Dom Equity	Real Estate	High Yield	Cash/Comm	Intl Equity	Global Equity	Private Equity
7/1/09 - 6/30/10	0%	37%	0%	5%	5%	1%	2%	0%
7/1/08 - 6/30/09	3%	30%	0%	5%	5%	5%	2%	0%
7/1/07 - 6/30/08	8%	25%	0%	5%	5%	5%	2%	0%
7/1/06 - 6/30/07	3%	30%	0%	5%	5%	5%	2%	0%
7/1/05 - 6/30/06	3%	32%	0%	10%	10%	5%	0%	0%
7/1/04 - 6/30/05	7%	33%	24%	10%	10%	10%	0%	0%
7/1/02 - 6/30/04	10%	35%	25%	10%	10%	10%	0%	0%

18 **Fixed Income:** Citigroup BIG Bond Index (2003-2010). **Domestic Equity:** S&P 500 Index (2005), Russell 1000 Index (2003-2004). **Real Estate:** weighted index (2006), NCREIF Property Index (2006-2010), MSCI US REIT Index (2005-2006), REIT Benchmark (2003-2004). **High Yield/Distressed Debt:** Citigroup High-Yield Market Index (2010 and 2003-2006), Citigroup All BB-Rated Index (2007-2009). **TIPS:** Citigroup US-ILSI (2003-2010). **Cash/Commodities:** 3-Month Treasury Bill Index (2007-2010). **International Equity:** MSCI ACWI ex-US Index (2005). **Global Equity:** $\frac{2}{3}$ S&P Global 1200 + $\frac{1}{3}$ S&P 500 Index (2007-2010), $\frac{2}{3}$ MSCI ACWI + $\frac{1}{3}$ MSCI US Index (2006). **Private Equity:** S&P 500 +3.5% (2007-2010).

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

	Fixed Income	Dom Equity	Real Estate	High Yield	Cash/Comm	Intl Equity	Global Equity	Private Equity
7/1/06 - 6/30/10	33%	0%	5%	5%	2%	0%	48%	2%
7/1/05 - 6/30/06	35%	0%	10%	10%	5%	0%	40%	0%
7/1/04 - 6/30/05	40%	24%	10%	10%	10%	0%	6%	0%
7/1/02 - 6/30/04	45%	25%	10%	10%	10%	0%	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 2005-2010. In prior periods, it 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 The CPRF Combined Internal Equity Benchmark consists of the $\frac{2}{3}$ S&P Global 1200 + $\frac{1}{3}$ S&P 500 Index in fiscal years 2005-2010. In prior periods, it 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 1999-2001) 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.
- 21 The Convertible Benchmark is 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 is based on the risk characteristics of the portfolio.
- 22 The Merger Benchmark is the Merger Custom Index in fiscal years 2008-2010 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 gains and losses and receipted and accrued income.
- 25 The South Dakota Investment Council has implemented a Code of Conduct.



SOUTH DAKOTA INVESTMENT COUNCIL

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

The South Dakota Investment Council printed 250 copies of this annual report
at a cost of \$1.27 per copy.

All paper used for this project complies with requirements specified in the
"South Dakota Recycled Paper Requirements" document.