

# THE SOUTH DAKOTA INVESTMENT COUNCIL



**ANNUAL REPORT  
FISCAL YEAR 2013**

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

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

# TRANSMITTAL LETTER

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

The South Dakota Investment Council annual report provides information about management of State of South Dakota financial assets, including the South Dakota Retirement System, trust funds, and other financial assets. This letter summarizes investment performance for fiscal year 2013. Additional topics include the Council's focus on investing for the long term; future return expectations; the importance of keeping costs low; and productive working relationships with the Legislature, the Executive Branch, and others.

### FISCAL YEAR 2013 PERFORMANCE

The fiscal year 2013 investment return for the South Dakota Retirement System (SDRS) was 19.5% before deducting investment management cost. This significantly exceeded the Council's market index-based Capital Markets Benchmark (CMB) return of 12.7% and the median corporate defined benefit pension fund return of 10.0%, also reported gross of cost. The return net of all investment management cost was 19.0%. This exceeded the median state fund net return of 12.3%. The equity category was the largest positive contributor to relative performance.

Beginning with fiscal year 2014, the Council will deemphasize use of corporate plans as a peer comparison. In recent years, the number of corporate defined benefit plans has diminished in a shift toward defined contribution plans. Many remaining corporate plans have shifted investments away from stocks toward fixed income due to changes in accounting rules and to minimize impact on balance sheets. This divergence of investment approach diminishes relevance of performance comparisons, especially over shorter timeframes. Focus will also switch to returns net of all investment cost.

The Cement Plant Retirement Fund (CPRF) returned 19.0% before deducting investment management cost. This fund is managed similarly to SDRS but with a little less in stocks due to the higher distribution requirements of the fund. The returns of the trust funds, which include School and Public Lands, Dakota Cement Trust, Health Care Trust, and Education Enhancement Trust ranged from 17.3% to 17.9% before deducting investment management cost. These funds are gradually transitioning to being managed similarly to SDRS. The South Dakota Cash Flow Fund (SDCFF) earned a return of 1.5%, which is above other short-term funds due to older higher-yielding fixed income securities. The SDCFF return has declined significantly in the past several years. The yield will continue to drop as remaining higher-yielding securities mature until interest rates increase from current very low levels.

Since the financial crisis began, there have been numerous highly consequential years. Results were very favorable in fiscal years 2010, 2011, and 2013 and very painful in fiscal years 2008 and 2009. Whether any year is good, bad or average, it is important to be mindful that the Council invests for the long term and believes performance should be judged over the long term. The actions taken in any one year may impact performance several years down the road. There have been many interim periods of underperformance in the Council's history. Long-term success has resulted primarily from adherence to investment strategies during those underperforming periods.

History has shown that following large out-performances, opportunities may be sparse for a time. Chasing lesser

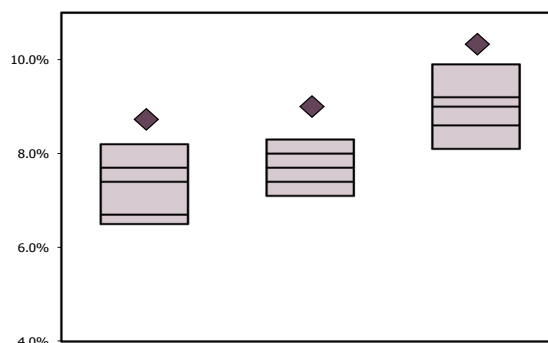
opportunities tends to backfire when those assets become much cheaper later. The lesson is to wait for worthwhile opportunities, and when absent, to be satisfied with modest results until better opportunities come along.

### INVESTING FOR THE LONG TERM

The Council's goal is to add value over the long term compared to market indexes and other similar funds. Accomplishment of this goal for the retirement systems provides additional resources to pay retirement benefits for the more than 77,500 members. Added value for the trust funds and SDCFF provides additional revenues to the state.

The Council has managed SDRS assets for the past 40 years. Long-term returns have meaningfully exceeded the state fund universe as shown on the following exhibit.

**STATE FUND UNIVERSE  
ANNUALIZED RATES OF RETURN**



**ANNUALIZED RETURNS (Net)**

	10 Years 2004-2013	20 Years 1994-2013	40 Years 1974-2013
10th %tile	8.2	8.3	9.9
25th %tile	7.7	8.0	9.2
Median	7.4	7.7	9.0
75th %tile	6.7	7.4	8.6
90th %tile	6.5	7.1	8.1
◆ SDRS Fund	8.7	9.0	10.3
SDRS %tile Rank	1	1	1

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

In a world where most prefer immediate gratification and the comfort of the crowd, it can be difficult to be one of few to stick to a long-term investment approach, especially during underperforming periods. The Council has developed advantages to help maintain discipline. Measures of long-term value provide a solid focal point. Internal research increases conviction. Decades of successful experience in difficult markets provide confidence to stay the course. Contingency planning provides a roadmap when tough times come.

Risk is managed by diversifying across multiple asset categories and by reducing exposure to expensive assets. Conventional statistical risk measures are calculated, such as standard deviation as a measure of volatility and correlation as a measure of diversification. Conventional measures are good for



understanding risk in normal times but understate real world frequency and magnitude of severe market declines. Since before the financial crisis, the Council has made adjustments to better reflect risk when it matters most, which is during stock market crashes. Standard deviations are increased to reflect higher frequency of severe market declines. Correlations are adjusted to reflect that most asset categories are less diversifying at such times. Correlations are measured separately for inflation and deflation related market crises as behavior of some asset categories depends on the kind of crisis.

SDRS total fund and capital markets benchmark returns can be found on page 10 of the annual report for every fiscal year and various rolling time periods. The returns for the CPRF and all of the trust funds can be found in their respective sections.

## RETURN EXPECTATIONS

The Council believes market return expectations should be based on forward-looking, long-term cash flows rather than extrapolation of past returns, which tend to be inversely related to future results. The Council began to develop long-term expected returns in the early 1980's. The following exhibit shows the expected returns that result from the Council's process for bonds and stocks as of 6/30/82, 6/30/92, 6/30/02, and 6/30/13.

AN UPDATE ON RETURN EXPECTATIONS			
	Bonds*	S&P 500	S&P 500 Yield
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 - 7/1/02 to 6/30/13	5.2%	6.6%	
Expected 10-Year Returns as of 6/30/13	2.5%	7.9%	2.1%

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

In 1982, bond yields were 14.4%, and the Council's long-term expected return for stocks, based on projected dividends and growth, was 15.6%. Expected returns were high because markets were very cheap, having performed poorly for many years. Subsequent actual 10-year returns were 13.7% for bonds and 18.3% for stocks. By June 30, 1992, bond yields were 7.1%, and the expected stock return was 9.5%. Subsequent actual 10-year 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. Subsequent actual returns for the 11 years through June 30, 2013, were 5.2% for bonds and 6.6% for stocks.

As of June 30, 2013, expected returns were 2.5% for bonds and 7.9% for stocks. Low interest rates foreshadow low future bond returns. The expected return for stocks is lower than earned on average in the post-World War II period, but compares favorably to expectations for bonds and to near zero money market yields. The expected long-term return for the overall SDRS fund, which is diversified across a number of asset categories, is 6.8%. This excludes consideration of potential value added or detracted relative to index returns resulting from managing the fund. As SDRS matures, benefit payments are increasingly funded from investment earnings. These withdrawals are larger as a percentage of the fund when markets are depressed which reduces long-term growth.

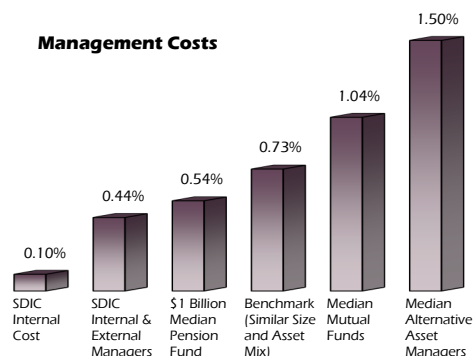
The expected return is the mid-point of a range of possible outcomes. The one standard deviation range, which statistically encompasses the central two-thirds of potential outcomes, is 1.8% to 11.8% per annum for a ten year horizon and 3.2% to 10.4% for a 20-year horizon.

## IMPORTANCE OF LOW COSTS

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

The Council began investing in real estate and private equity partnerships in the mid 1990s. Management costs for these partnerships are generally 1% to 2% per year plus up to 20% of profits. This is more expensive than traditional external manager costs and much higher than the Council's internal cost of about 0.10%. Unlike traditional investment managers that buy and sell securities, partnership managers have hands-on involvement with underlying investments which complicates cost comparisons. Real estate partnership managers buy and manage underlying properties. Private equity partnership managers buy and operate whole companies, typically providing assistance with operations, business strategy, and financing. In determining whether to invest in partnerships, the Council evaluates returns compared to traditional stock and real estate indices. The returns of partnerships are net of all fees.

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



Internal management cost is projected to remain at or below 0.10% of assets. Including external management fees, total cost is 0.44%. This compares to the median industry cost of 0.54% and benchmark cost of 0.73%, which is the median industry cost adjusted for fund size and asset mix. The difference of 0.29% versus the benchmark results in \$32.8 million of savings per year. Compounding these savings over many years can result in hundreds of millions of dollars.

## A TEAM EFFORT

The Investment Council depends on the support of the Legislature and Executive Branch. Consistent support over multiple decades has allowed the Council to pursue a long-term investment approach and implement a long-term business plan to build a stable, experienced, home-grown investment team. The Council recognizes the unique challenges and patience

required to support an internal investment organization and long-term investment approach. The Council is very appreciative of the significant efforts of Legislators, the Governor and his team, and the predecessors of each, to provide the Council with the opportunity to succeed.

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

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

Respectfully submitted by:

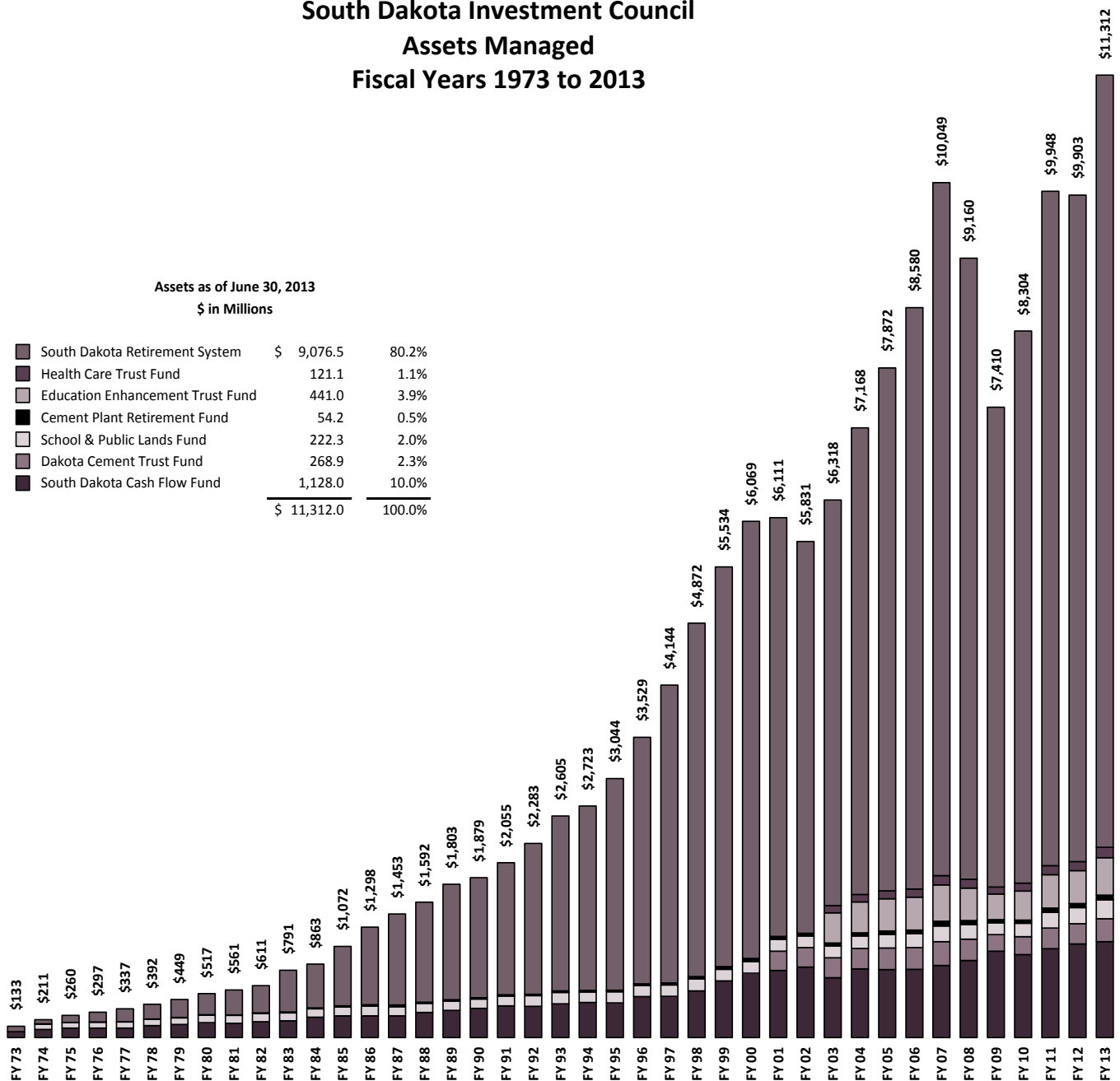
Wesley G. Tschetter, Chair  
South Dakota Investment Council

Matthew L. Clark, CFA  
State Investment Officer

### South Dakota Investment Council Assets Managed Fiscal Years 1973 to 2013

Assets as of June 30, 2013  
\$ in Millions

South Dakota Retirement System	\$ 9,076.5	80.2%
Health Care Trust Fund	121.1	1.1%
Education Enhancement Trust Fund	441.0	3.9%
Cement Plant Retirement Fund	54.2	0.5%
School & Public Lands Fund	222.3	2.0%
Dakota Cement Trust Fund	268.9	2.3%
South Dakota Cash Flow Fund	1,128.0	10.0%
	<u>\$ 11,312.0</u>	<u>100.0%</u>



**Wesley G. Tschetter, CFA, Chair\*\***

Vice President of Finance & Business/CFO  
South Dakota State University  
Brookings

**Hugh M. Bartels, Vice-Chair\* \*\***

President  
Reliabank Dakota  
Watertown

**Jon M. Hunter, CFA\***

President  
Hunter Publishing, Inc.  
Madison

**Jim E. Means\***

Senior Vice President & Trust Officer  
First Dakota National Bank  
Yankton

**David T. Hillard**

Senior Vice President & Branch Director  
RBC Wealth Management  
Rapid City

**Jarrold Johnson\*\***

Commissioner of School & Public Lands  
State of South Dakota  
Pierre

**Richard L. Sattgast\***

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. Operations began on July 1, 1972.

## Membership

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

## Responsibilities

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

## Investment Policy

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

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

# SOUTH DAKOTA INVESTMENT OFFICE

## State Investment Officer

Matthew L. Clark, CFA

## Assistant Investment Officers

Brett D. Fligge, CFA  
Global Equity &  
Alternative Investments

Christopher L. Nelson, CFA  
Fixed Income &  
Alternative Investments

Tammy V. Otten, CFA/CPA  
Fixed Income &  
Derivatives

## Global Equity

Steven W. Schultz, CFA  
Senior Portfolio Manager

Jan E. Zeeck, CFA/CPA  
Portfolio Manager

Melissa M. Hansen-Woidyla, CFA  
Portfolio Manager

Candice S. Currier, CFA  
Portfolio Manager

Darci L. Haug, CFA  
Associate Portfolio Manager

Arianna P. Rehfeldt, CFA  
Associate Portfolio Manager

Jeffry J. Ellefson, CFA  
Associate Portfolio Manager

Renae A. Randall, CFA  
Associate Portfolio Manager

Randall J. Spinar, CFA  
Associate Portfolio Manager

Lee W. Mielke, CFA  
Assistant Portfolio Manager

## Small/Mid-Cap Equity

Scott A. Hess, CFA/CPA  
Senior Portfolio Manager

Jarrod A. Edelen, CFA  
Associate Portfolio Manager

Adam D. Schwab, CFA/CPA  
Associate Portfolio Manager

## Fixed Income

Sherry Z. Nelson, CFA/CPA  
Senior Portfolio Manager  
HESP Specialist

Ross D. Sandine, CFA  
Convertible Arbitrage & High Yield  
Associate Portfolio Manager

Danielle J. Mourer, CFA  
Convertible Arbitrage & High Yield  
Assistant Portfolio Manager

Anne M. Doshier, CFA  
Convertible Arbitrage & High Yield  
Research Analyst

## Investment Accounting

Cynthia J. Pickering, CPA  
Senior Investment Accountant

Samantha M. Kangas, CPA  
Investment Accountant

Krystal R. Seeley, CPA  
Investment Accountant

Brandy A. Eisma  
Investment Accountant

## Business Manager

Laurie A. Riss

## Secretary/Receptionist

JoAnn Callahan

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.

## THE FUND

The South Dakota Retirement System (SDRS) is a cost-sharing, multiple-employer, public employee retirement system providing retirement, disability, and survivor benefits to over 77,500 public employees in South Dakota. The benefits are funded through member and employer contributions and investment income. Per state statute, responsibility for SDRS investment portfolio management belongs to the South Dakota Investment Council (Council). This section discusses the investment objectives with intermediate and long-term results for SDRS. Financial statements for SDRS are published in SDRS's annual report.

## INVESTMENT OBJECTIVES

The Council's overall objective is to prudently manage SDRS assets to achieve and exceed the returns available over the long term from the broad capital markets (stocks, bonds, real estate, etc.). The Council has three specific objectives. The first relates to achieving and exceeding the actuarial estimated rate of return over the long term to help assure the financial health of SDRS. The other two objectives relate to adding value over the long term versus the index returns of the Council's capital markets benchmark and versus peer funds.

### ♦ Achieve and exceed the actuarial rate of return over the long term.

The actuarial rate of return is an estimate made by a retirement system's actuary of the investment return achievable over the 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. Achievement of the actuarial return estimate is important to continued financial strength of SDRS. Additional return above the actuarial estimate can strengthen the financial condition and/or provide additional resources to address SDRS benefit goals.

If 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.

These objectives have been achieved for the majority of rolling time periods. The following table summarizes SDRS total fund performance versus the actuarial rate of return of 7.5%\* and the actuarial rate of return plus 1%.

<b>SDRS Total Fund vs. Actuarial Rate of 7.5%*</b>				
	<u>5 years</u>	<u>10 years</u>	<u>20 years</u>	<u>30 years</u>
# of Successes	26	27	21	11
# of Periods	36	31	21	11
% of Success	72%	87%	100%	100%
<b>SDRS Total Fund vs. Actuarial Rate + 1%</b>				
	<u>5 years</u>	<u>10 years</u>	<u>20 years</u>	<u>30 years</u>
# of Successes	23	26	20	11
# of Periods	36	31	21	11
% of Success	64%	84%	95%	100%
*The actuarial rate of return is currently 7.25% through fiscal year 2017, and 7.50% thereafter.				

The transmittal letter discussed the Council's long-term expected rate of return as of June 30, 2013, which was 6.8%. This is less than the actuarial assumed return of 7.5%\*. The Council's expectation does not assume any added value versus market indexes and is the midpoint of a possible range. It should be noted that the long-term inflation assumption embedded in the Council's expected return is less than the actuarial inflation assumption which can explain some of the difference in return expectations. The SDRS Board of Trustees periodically reviews each of the actuarial assumptions.

### ♦ Achieve favorable total fund performance over the long term relative to a capital markets benchmark reflective of the 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 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 as discussed in the SDRS Asset Allocation Focus on page 9.

This is difficult to accomplish as most investment managers do not outperform the capital markets over time. The zero sum nature of markets, with each investment transaction having a winner and a loser, means investors collectively will merely match the overall market return before expenses. After taking into account investment manager fees and transactions costs, including commissions and market impact cost, most managers underperform.

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

<b>SDRS Total Fund vs. Capital Markets Benchmark</b>				
	<u>5 years</u>	<u>10 years</u>	<u>20 years</u>	<u>30 years</u>
# of Successes	30	28	21	11
# of Periods	36	31	21	11
% of Success	83%	90%	100%	100%

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

Historically, the Council emphasized comparison against corporate pension funds because they had historically performed better than public plans and were a more compelling measure of whether investment excellence was achieved. However, in recent years, the Council has lessened emphasis on corporate plan peer comparisons. These databases suffer from survivorship bias as some pension plans making up the universes change over time in part as their results succeed or fail. Simply put, losers tend to drop out and the peer universe is biased upwards by a preponderance of remaining winners. Consolidation in the performance consulting industry has also impacted database retention of long-term historical returns. A consistent peer universe database for the entire SDRS history has not been kept intact by any performance consultant. Also affecting corporate peer databases are changes in corporate pension accounting rules that have caused a shift by some corporate plans away from equities toward a combination of



hedge funds and fixed income and caused other corporate plans to simply disappear.

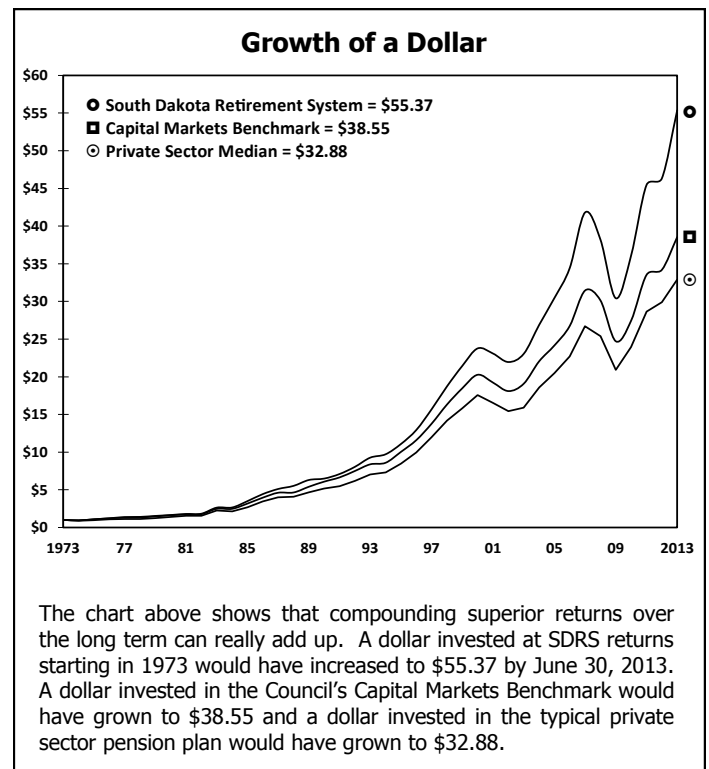
In recent years, public plans have begun to match or even outperform many corporate plans. Beginning in fiscal year 2014, the comparisons to corporate pension plans will be deemphasized.

The following table shows that SDRS returns have exceeded the median private sector and state fund results for most rolling 5 and 10-year periods and all 20 and 30-year timeframes.

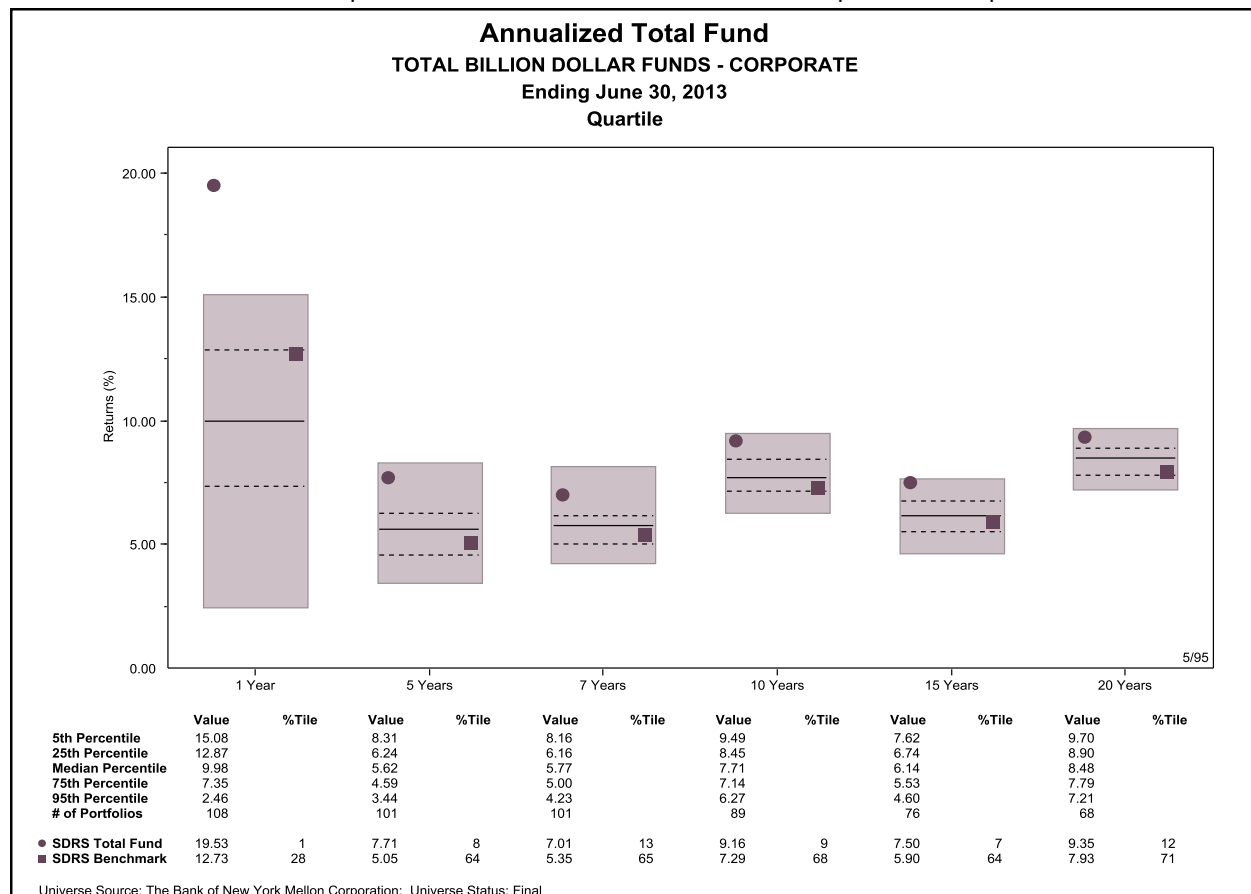
<b><u>SDRS Total Fund vs. Private Sector</u></b>				
	<u>5 years</u>	<u>10 years</u>	<u>20 years</u>	<u>30 years</u>
# of Successes	30	30	21	11
# of Periods	36	31	21	11
% of Success	83%	97%	100%	100%

<b><u>SDRS Total Fund vs. State Funds</u></b>				
	<u>5 years</u>	<u>10 years</u>	<u>20 years</u>	<u>30 years</u>
# of Successes	34	31	21	11
# of Periods	36	31	21	11
% of Success	94%	100%	100%	100%



The chart below compares SDRS Total Fund returns to the current private sector peer universe.



## Asset Allocation Focus

The allocation of assets to various categories such as stocks, bonds, real estate, and others, has the largest impact on investment outcomes. The Council establishes a benchmark asset allocation which considers expected returns and risk as well as the likelihood of achieving the investment objectives for SDRS over the long term. This capital markets benchmark represents the anticipated asset allocation when asset category expected returns are normal. The Council also establishes minimum and maximum ranges around the benchmark allocation for each category. Actual allocations are adjusted within the ranges on an ongoing basis in response to changing valuations. Allocations are increased as categories become more attractively valued relative to the others and decreased as they become more expensive. Asset categories are valued based on the present value of future cash flows. Estimates for risk and inflation impact the rate used to discount to present value. Research efforts focus on estimating cash flows and risk.

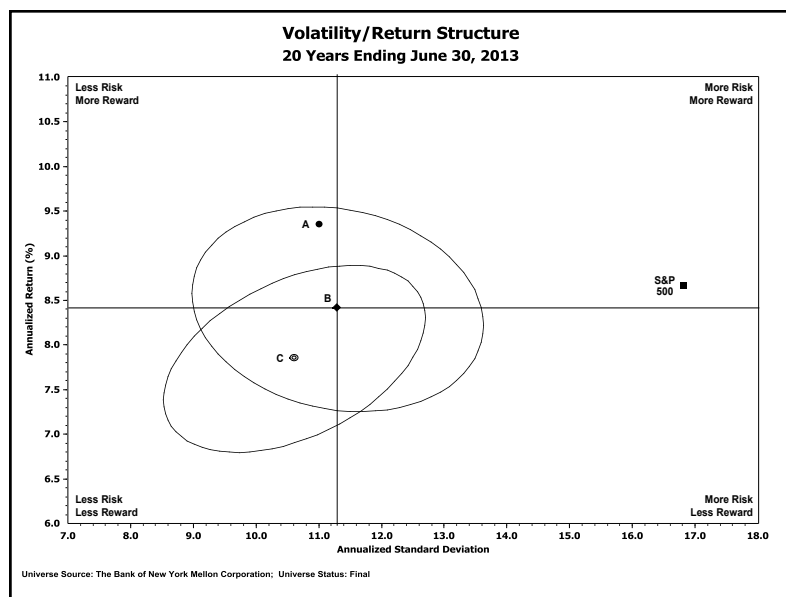
Asset category risk is measured by standard deviation, which is a measure of volatility. The degree that categories diversify each other is measured by correlation. Overall fund risk is a function of the standard deviation of the individual asset categories and the correlation among them. Fund liquidity is also monitored. Conventional statistical measures of standard deviation and correlation are helpful for understanding risk in normal times but understate real-world frequency and magnitude of severe market declines. The Council also uses adjusted versions of these measures to better reflect risk behavior when it matters most, which is during a stock market crash. Standard deviations are increased to reflect higher frequency of severe market declines, and correlations are adjusted to reflect that most asset categories are less diversifying during such declines. Correlations are measured separately for inflation and deflation related market crises as behavior of some asset categories depends on the kind of crisis. For example,

bonds perform better in deflationary stock market crashes than in inflation-linked stock market crashes.

The expected long-term return as of June 30, 2013 was 6.8%. This excludes any potential value added or detracted relative to index returns resulting from managing the fund. The rate of inflation embedded in the expected return was 2.5%. Standard deviation was estimated to be 15.8% after adjustments to capture real-world frequency of adverse events. These statistics indicate a 66% chance the return for any year would be between -9.0% and 22.6% and a 95% chance the return would be between -24.8% and 38.4%.

An additional risk measure is the amount of equity-like risk in the overall fund. It can be difficult to understand overall fund risk given multiple asset categories that can each behave uniquely. When the Council first began managing assets, most institutional funds consisted of stocks, investment grade bonds, and cash. Investors back then could quickly understand their risk by looking at the percentage of their fund invested in stocks. The current equity-like risk measure focuses on the sensitivity of each asset category to a severe stock market decline. The analysis is done separately for inflation and deflation-related stock market declines. The sensitivities are aggregated based on the percentage invested in each category to determine the overall fund equity-like risk. The equity-like risk level is adjusted in response to valuation attractiveness. On June 30, 2013, the equity-like risk of the SDRS fund was 75% compared to 73% for the capital markets benchmark. In recent years, it has ranged from 70% in November 2007 to 78% in April 2013.

Perhaps the greatest risk to markets is the unsustainable buildup of federal debt. The consequence may be muted growth, increased inflation or both. The Council will be mindful of this risk as it continues to invest for the long term.



The picture to the left presents the volatility versus return structure for the 20 years ended June 30, 2013 for two peer universes. The size and shape of the ellipses reflect the area in which 68% of the funds in the universes fall.

SDRS **(A)** had an annualized return of 9.3% with a volatility of 11.0 for the 20 years. This compares with the mean return of the Total Billion Dollar Funds - Corporate **(B)** of 8.5% with a volatility of 11.2 and the Total Funds - Public **(C)** mean return of 7.8% with a volatility of 10.6.

**SDRS Total Fund Performance<sup>10-12</sup>**

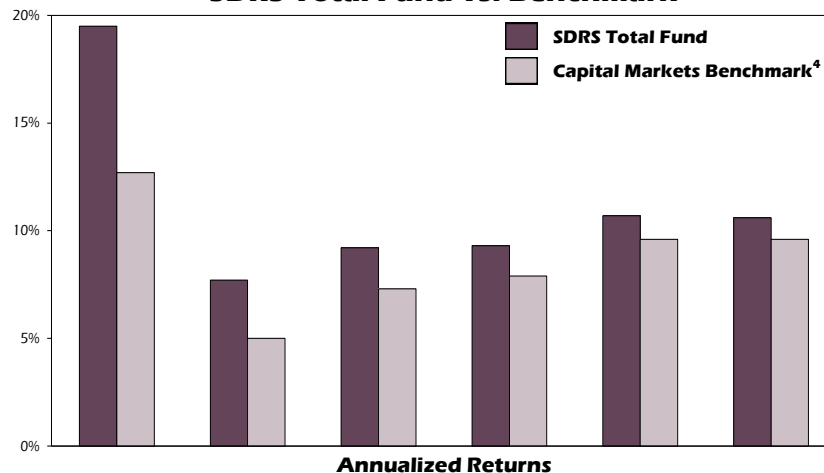
Fiscal Year	1 Year		5 Years		10 Years		20 Years		30 Years		40 Years	
	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench
2013	19.5%	12.7%	7.7%	5.0%	9.2%	7.3%	9.3%	7.9%	10.7%	9.6%	10.6%	9.6%
2012	1.9%	2.0%	2.1%	1.7%	7.8%	6.6%	9.1%	7.9%	11.4%	10.4%		
2011	25.8%	22.1%	5.7%	4.6%	7.0%	5.7%	9.7%	8.4%	11.4%	10.4%		
2010	18.7%	11.1%	3.5%	2.6%	4.3%	3.1%	9.0%	7.8%	10.8%	9.9%		
2009	(20.4%)	(18.0%)	2.5%	2.3%	3.6%	2.9%	8.2%	7.9%	10.5%	9.9%		
2008	(8.7%)	(4.2%)	10.6%	9.6%	7.4%	6.3%	10.2%	9.8%	11.6%	11.0%		
2007	21.4%	17.6%	13.8%	11.7%	10.3%	8.6%	11.1%	10.1%	12.0%	11.2%		
2006	13.1%	10.7%	8.3%	6.8%	10.3%	8.7%	10.8%	10.0%	11.8%	10.9%		
2005	13.3%	9.6%	5.1%	3.6%	10.6%	9.2%	11.4%	10.7%	11.7%	10.9%		
2004	16.6%	15.5%	4.6%	3.6%	10.7%	9.9%	12.3%	11.6%	11.8%	11.0%		
2003	5.0%	5.4%	4.2%	3.2%	9.5%	8.6%	11.4%	10.7%	11.0%	10.3%		
2002	(4.9%)	(5.8%)	6.9%	5.6%	10.6%	9.2%	13.2%	12.3%				
2001	(2.9%)	(5.1%)	12.3%	10.6%	12.5%	11.2%	13.6%	12.8%				
2000	10.8%	9.7%	16.5%	15.1%	13.9%	12.8%	14.3%	13.5%				
1999	14.6%	13.3%	17.2%	16.6%	13.0%	13.1%	14.1%	13.5%				
1998	19.3%	18.4%	15.1%	14.2%	13.0%	13.4%	13.8%	13.3%				
1997	21.3%	18.9%	14.3%	12.9%	11.9%	11.6%	12.9%	12.5%				
1996	16.7%	15.5%	12.8%	11.8%	11.3%	11.3%	12.5%	12.0%				
1995	14.1%	16.9%	11.3%	10.5%	12.2%	12.2%	12.3%	11.8%				
1994	4.8%	2.4%	9.0%	9.7%	13.9%	13.2%	12.4%	11.6%				
1993	15.2%	11.8%	10.9%	12.5%	13.4%	13.0%	11.8%	11.2%				
1992	13.4%	12.9%	9.5%	10.2%	16.0%	15.5%						
1991	9.3%	9.2%	9.9%	10.9%	14.7%	14.4%						
1990	3.0%	12.5%	13.2%	13.9%	14.7%	14.1%						
1989	14.2%	16.4%	18.9%	16.9%	15.2%	13.9%						
1988	8.0%	0.7%	15.9%	13.4%	14.7%	13.3%						
1987	15.3%	16.6%	22.8%	21.1%	14.0%	13.4%						
1986	26.7%	24.7%	19.8%	18.0%	13.7%	12.6%						
1985	31.8%	28.2%	16.2%	14.4%	12.4%	11.3%						
1984	0.7%	(0.1%)	11.6%	11.0%	10.9%	10.0%						
1983	44.1%	39.6%	13.4%	13.2%	10.2%	9.5%						
1982	1.8%	2.8%	5.8%	6.2%								
1981	8.8%	6.6%	8.0%	7.4%								
1980	7.6%	10.4%	8.7%	8.3%								
1979	9.3%	10.2%	10.3%	9.1%								
1978	1.7%	1.4%	7.0%	5.9%								
1977	12.9%	8.6%										
1976	12.2%	11.2%										
1975	15.8%	14.2%										
1974	(5.9%)	(4.8%)										

The chart to the left shows the annualized total rate of returns for 1, 5, 10, 20, 30 and 40 years through fiscal year 2013 for the Total Fund. The Capital Markets Benchmark<sup>4</sup> is provided for comparison.

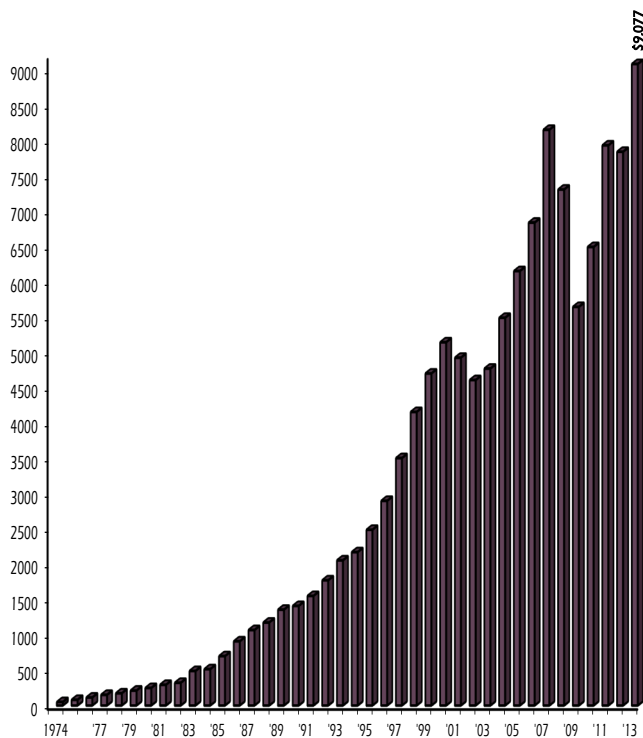
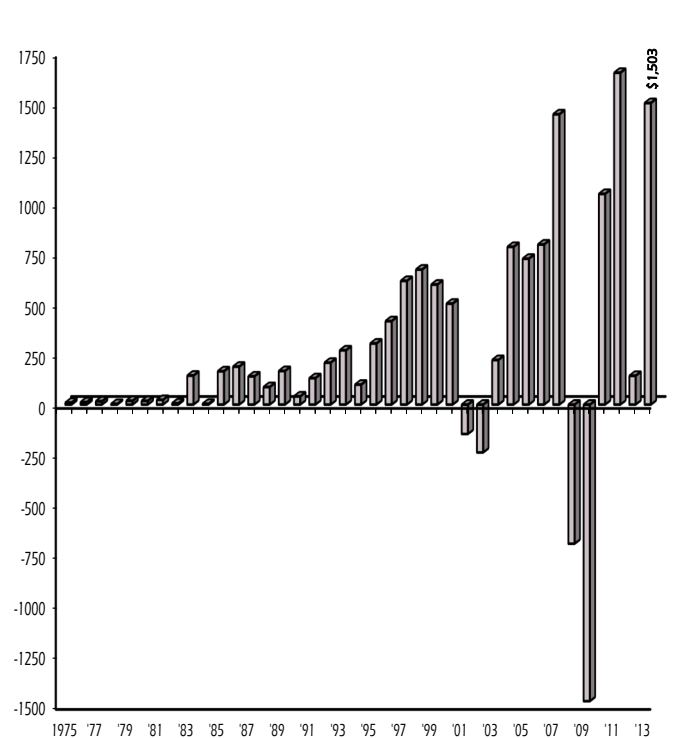
Past performance is no guarantee of future results.

**Fiscal Year 2013  
Asset Allocation Policy Summary**

Asset Category	CMB Allocation	Min - Max Range
Global Equity	56%	35% - 75%
Private Equity	7%	0% - 12%
Merger Arbitrage	0%	0% - 10%
Convertible Arbitrage	0%	0% - 5%
Aggressive Absolute Return	0%	0% - 5%
Real Estate	8%	2% - 15%
Fixed Income - IG	18%	13% - 50%
Fixed Income - TIPS	1%	0% - 5%
High Yield/Distressed	7%	0% - 15%
Commodities	1%	0% - 5%
Cash	2%	0% - 50%

**SDRS Total Fund vs. Benchmark**

	1 Year	5 Years	10 Years	20 Years	30 Years	40 Years
<b>SDRS</b>	19.5%	7.7%	9.2%	9.3%	10.7%	10.6%
<b>Benchmark</b>	12.7%	5.0%	7.3%	7.9%	9.6%	9.6%
<b>Difference</b>	6.8%	2.7%	1.9%	1.4%	1.1%	1.0%

**Asset Growth<sup>23</sup> (\$ in Millions)****Investment Income<sup>24</sup> (\$ in Millions)****Cash Flows and Fair Value Changes**

The South Dakota Retirement System began fiscal year 2013 with \$7.835 billion in assets. During the fiscal year, net contributions/withdrawals and fees decreased the fund by \$261.7 million and investment income increased it by \$1,503.1 million, resulting in an ending fair value of \$9.077 billion.

**Fair Value 6/30/12**

\$ 7,835,111,321

**Increases/Decreases**

Net Contributions/Withdrawals	\$ (226,000,000)
Internal Management Fees	(5,713,364)
External Management Fees	<u>(29,952,456)</u>

**Total Increases/Decreases**

\$ (261,665,820)

**Investment Income**

Securities Income	
Interest Income	\$ 75,293,955
Dividend Income	125,295,913
Securities Lending Income	916,507
Real Estate Income	23,274,159
Change in Accrued Income	<u>471,141</u>

Total Securities Income \$ 225,251,675

Capital Gain/Loss Income	
Unrealized Gain/Loss Futures	\$ 1,913,940
Unrealized Gain/Loss Securities	958,115,606
Realized Gain/Loss Futures	(2,966,477)
Realized Gain/Loss Securities	<u>320,775,244</u>

Total Capital Gain/Loss Income \$ 1,277,838,313

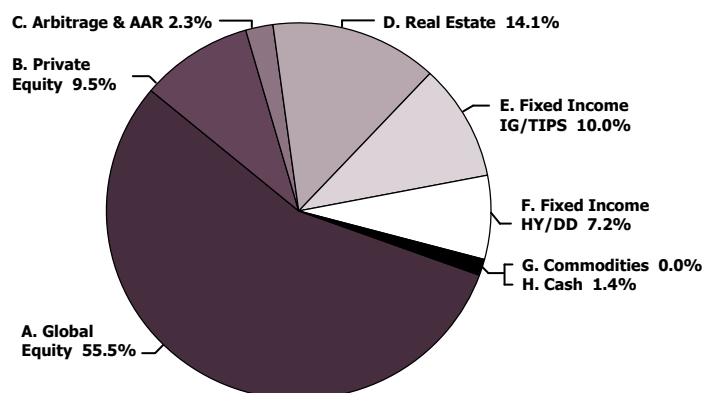
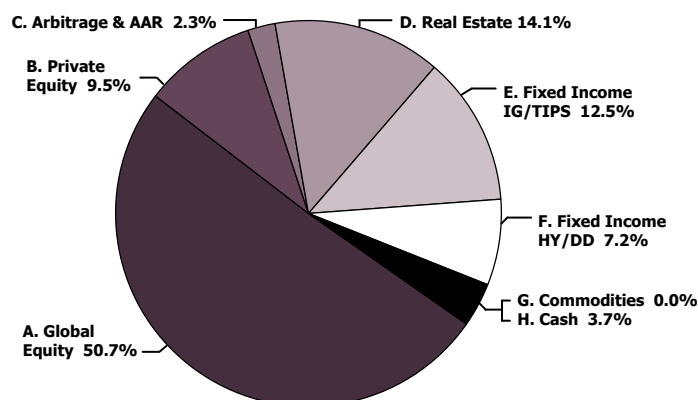
**Total Investment Income**\$ 1,503,089,988**Fair Value 6/30/13**\$ 9,076,535,489



**Investment Mix<sup>8</sup>**

As of June 30, 2013, South Dakota Retirement System assets totaled \$9.077 billion. The broad asset categories and managers are listed below. The charts show the asset allocation of the South Dakota Retirement System, excluding futures as well as with futures exposure. The Capital Markets Benchmark allocation is also provided for comparison.

	<u>Fair Value Excluding Futures</u>		<u>% of Fund Excluding Futures</u>		<u>Futures Exposure</u>	<u>Fair Value with Futures</u>	<u>% of Fund with Futures</u>	<u>Capital Markets Benchmark %</u>
<b>A. Global Equity</b>								
Internal Global Equity	\$ 4,367,530,626		48.1%					
Internal High Quality Equity	201,036,745		2.2%					
Internal Small/Mid Equity	258,664,265		2.8%					
Brandes	46,999,793		0.5%					
Dimensional Fund Advisors	44,964,081		0.5%					
GE Asset Management	91,575,888		1.0%					
Sanders Capital	<u>33,639,703</u>	\$ 5,044,411,101	<u>0.4%</u>	55.5%				
Equity Index Futures					\$ (437,711,300)	\$ 4,606,699,801	50.7%	56.0%
<b>B. Private Equity Limited Partnerships</b>								
Blackstone Capital Partners	\$ 264,217,262		2.9%					
Capital International	31,651,052		0.3%					
Carlyle	58,353,534		0.6%					
Cinven	98,477,586		1.1%					
Credit Suisse	351,449		0.0%					
CVC	68,283,857		0.8%					
Cypress	4,711,982		0.1%					
Doughty Hanson	86,422,927		1.0%					
Elevation	13,122,569		0.1%					
KKR	42,500,790		0.5%					
Neuberger Berman	3,213,150		0.0%					
PineBridge	4,806,819		0.1%					
Riverstone	57,289,887		0.6%					
Silver Lake	<u>125,952,530</u>	859,355,394	<u>1.4%</u>	9.5%		859,355,394	9.5%	7.0%
<b>C. Arbitrage &amp; Aggressive Absolute Return (AAR)</b>								
Internal Convertible Arbitrage	\$ 114,151,808		1.3%					
Bridgewater	72,183,617		0.8%					
Sanders Capital	<u>19,693,158</u>	206,028,583	<u>0.2%</u>	2.3%		206,028,583	2.3%	0.0%
<b>D. Real Estate Limited Partnerships</b>								
AREA Property Partners	\$ 17,144,354		0.2%					
Blackstone Real Estate Partners	1,138,390,843		12.6%					
Cargill N.A. Real Estate Partners	29,543,770		0.3%					
Doughty Hanson	19,609,720		0.2%					
Lone Star	48,133,307		0.5%					
Rockpoint	19,183,471		0.2%					
Starwood	<u>12,329,122</u>	1,284,334,587	<u>0.1%</u>	14.1%		1,284,334,587	14.1%	8.0%
<b>E. Fixed Income – Investment Grade/TIPS</b>								
Internal Investment Grade	\$ 906,562,476	906,562,476	<u>10.0%</u>	10.0%				
Treasury Financial Futures					227,106,050	1,133,668,526	12.5%	19.0%
<b>F. Fixed Income – High Yield/Distressed Debt</b>								
Internal High Yield	\$ 108,040,119		1.2%					
Blackstone	1,360,337		0.0%					
CarVal	99,634,608		1.1%					
PIMCO	116,244		0.0%					
TCW	<u>444,188,004</u>	653,339,312	<u>4.9%</u>	7.2%		653,339,312	7.2%	7.0%
<b>G. Commodities</b>								
	\$ 0	0	<u>0.0%</u>	0.0%		0	0.0%	1.0%
<b>H. Cash &amp; Cash Equivalents</b>								
Internal Shift Account	\$ 122,504,036	122,504,036	<u>1.4%</u>	1.4%				
Cash From Futures					210,605,250	333,109,286	3.7%	2.0%
<b>Total</b>	<b>\$ 9,076,535,489</b>		<b>100.0%</b>		<b>\$ 0</b>	<b>\$ 9,076,535,489</b>	<b>100.0%</b>	<b>100.0%</b>

**Allocation Excluding Futures****Allocation with Futures Exposure**

**SDRS Internal Bond Fund Performance**

Fiscal Year	1 Year		5 Years		10 Years		20 Years		30 Years		40 Years	
	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench
2013	(0.3%)	(0.6%)	6.0%	5.3%	5.5%	4.9%	6.7%	6.2%	8.5%	8.1%	8.6%	8.1%
2012	7.1%	7.5%	7.8%	7.0%	7.0%	6.3%	7.5%	6.9%	9.5%	9.1%		
2011	4.7%	3.7%	7.7%	6.7%	6.8%	6.3%	7.9%	7.2%	9.7%	9.3%		
2010	9.8%	9.0%	6.7%	6.0%	7.4%	7.0%	8.2%	7.5%	9.2%	8.9%		
2009	9.2%	7.1%	6.5%	5.8%	6.8%	6.5%	8.1%	7.5%	8.9%	8.7%		
2008	8.4%	7.8%	4.9%	4.6%	6.1%	6.1%	8.3%	7.7%	8.9%	8.8%		
2007	6.5%	6.1%	6.1%	5.7%	6.5%	6.4%	8.3%	7.8%	8.6%	8.5%		
2006	(0.2%)	0.2%	6.0%	5.8%	6.9%	6.7%	8.4%	7.7%	8.9%	8.7%		
2005	9.1%	7.9%	8.1%	8.1%	7.5%	7.4%	9.3%	8.7%	9.4%	9.1%		
2004	1.3%	1.3%	7.1%	7.2%	8.0%	7.8%	10.3%	9.7%	9.6%	9.3%		
2003	14.4%	13.4%	7.3%	7.6%	7.8%	7.5%	10.1%	9.7%	9.6%	9.1%		
2002	5.9%	7.0%	7.0%	7.1%	8.0%	7.4%	10.8%	10.5%				
2001	10.0%	11.2%	7.8%	7.7%	9.0%	8.1%	11.1%	10.8%				
2000	4.3%	3.8%	7.0%	6.7%	9.1%	8.1%	10.1%	9.9%				
1999	2.4%	2.9%	8.9%	8.4%	9.5%	8.5%	10.0%	9.9%				
1998	12.6%	11.2%	8.3%	7.5%	10.5%	9.4%	10.3%	10.1%				
1997	9.9%	9.6%	9.0%	7.7%	10.1%	9.1%	9.6%	9.6%				
1996	5.9%	6.2%	10.2%	8.6%	9.9%	8.7%	9.9%	9.8%				
1995	14.0%	12.5%	11.3%	9.5%	11.1%	10.1%	10.3%	10.0%				
1994	(0.1%)	(1.2%)	10.1%	8.6%	12.6%	11.6%	10.4%	10.0%				
1993	16.1%	12.0%	12.7%	11.4%	12.4%	12.0%	10.5%	9.9%				
1992	16.3%	14.2%	11.2%	10.6%	13.7%	13.7%						
1991	11.1%	10.8%	9.5%	8.9%	13.2%	13.5%						
1990	7.9%	7.7%	10.9%	10.6%	11.1%	11.7%						
1989	12.5%	12.2%	15.1%	14.8%	10.5%	11.3%						
1988	8.6%	8.2%	12.1%	12.6%	10.1%	10.9%						
1987	7.5%	5.6%	16.2%	16.8%	9.1%	10.1%						
1986	18.5%	19.8%	17.0%	18.4%	9.9%	10.8%						
1985	29.9%	30.0%	11.2%	12.9%	9.5%	9.9%						
1984	(1.6%)	1.7%	6.0%	7.9%	8.2%	8.4%						
1983	30.5%	30.0%	8.1%	9.2%	8.7%	7.9%						
1982	11.2%	12.8%	2.4%	3.8%								
1981	(8.1%)	(5.4%)	3.3%	3.7%								
1980	2.2%	3.8%	7.9%	7.0%								
1979	8.3%	7.6%	10.4%	8.8%								
1978	(0.4%)	1.0%	9.3%	6.6%								
1977	15.9%	12.4%										
1976	14.2%	10.5%										
1975	14.9%	12.9%										
1974	3.1%	(2.9%)										

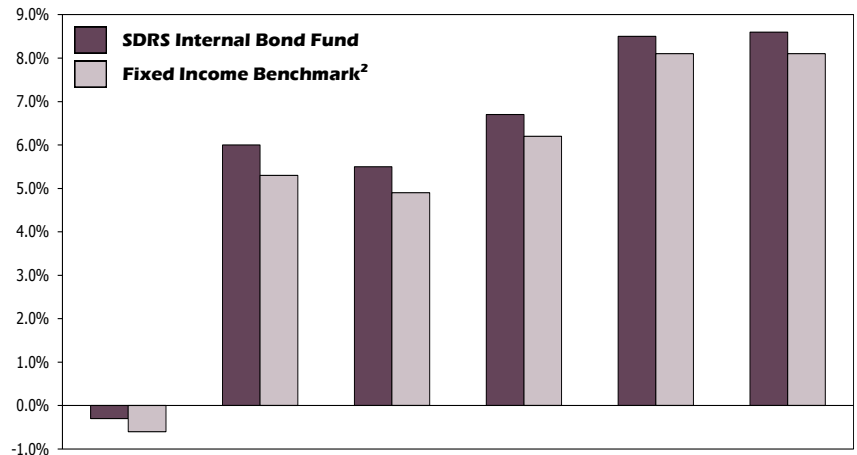
  

	1 Year	5 Years	10 Years	20 Years	30 Years	40 Years
<b>SDRS</b>	(0.3%)	6.0%	5.5%	6.7%	8.5%	8.6%
<b>Benchmark</b>	(0.6%)	5.3%	4.9%	6.2%	8.1%	8.1%
<b>Difference</b>	0.3%	0.7%	0.6%	0.5%	0.4%	0.5%

The chart to the left shows the annualized total rate of returns for 1, 5, 10, 20, 30 and 40 years through fiscal year 2013 for the Internal Bond Fund. The Fixed Income Benchmark<sup>2</sup> is provided for comparison.

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

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

**SDRS Internal Bond Fund vs. Benchmark****SDRS Internal High Yield Bond Fund Performance**

Fiscal Year	1 Year		2 Years		3 Years		4 Years		5 Years		7 Years	
	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench
2013	11.5%	8.9%	10.4%	8.4%	12.2%	10.5%	13.5%	12.5%	10.8%	10.4%	8.8%	8.9%
2012	9.2%	7.9%	12.6%	11.3%	14.2%	13.7%	10.7%	10.8%	8.5%	8.8%		
2011	16.0%	14.8%	16.7%	16.8%	11.2%	11.8%	8.3%	9.0%	8.2%	9.1%		
2010	17.5%	18.9%	8.8%	10.3%	5.8%	7.2%	6.3%	7.7%				
2009	0.7%	2.3%	0.4%	1.8%	2.8%	4.2%						
2008	0.1%	1.2%	3.8%	5.2%								
2007	7.7%	9.2%										

The chart to the left shows the annualized total rate of returns for 1, 2, 3, 4, 5 and 7 years through fiscal year 2013 for the Internal High Yield Bond Fund. The High Yield benchmark<sup>5</sup> is provided for comparison.

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

## Internal Bond Profiles

The South Dakota Retirement System's internal Investment Grade (IG) and High Yield (HY) bond portfolio characteristics as of June 30, 2013, are presented below.

### **Distribution by Duration**

	<b><u>IG</u></b>	<b><u>HY</u></b>
0 to 2 Years	7.5%	22.9%
2 to 3 Years	11.8%	13.9%
3 to 4 Years	21.0%	12.6%
4 to 5 Years	18.7%	17.3%
5 to 6 Years	8.3%	20.4%
6 to 8 Years	20.7%	9.2%
Above 8 Years	<u>12.0%</u>	<u>3.7%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

### **Distribution by Quality Rating**

	<b><u>IG</u></b>	<b><u>HY</u></b>
U.S. Gov't/Aaa	63.8%	4.6%
Aa	7.2%	0.0%
A	11.3%	0.0%
Baa	17.7%	0.4%
Ba	0.0%	25.7%
B	0.0%	51.3%
Caa and lower	<u>0.0%</u>	<u>18.0%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

### **Distribution by Coupon**

	<b><u>IG</u></b>	<b><u>HY</u></b>
0.00% - 4.00%	64.9%	5.2%
4.01% - 5.00%	16.4%	0.0%
5.01% - 6.00%	13.8%	4.8%
6.01% - 7.00%	3.9%	15.5%
7.01% - 8.00%	0.0%	32.4%
8.01% - 9.00%	1.0%	22.4%
9.01% and over	<u>0.0%</u>	<u>19.7%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

### **Distribution by Sector**

	<b><u>IG</u></b>	<b><u>HY</u></b>
Cash/Cash Equivalents	3.0%	4.6%
U.S. Treasuries	19.0%	0.0%
Agency Debentures/FDIC	6.3%	0.0%
Agency Mortgage-Backed Securities	34.5%	0.0%
Investment Grade Corporates	37.2%	0.4%
High Yield Corporates	<u>0.0%</u>	<u>95.0%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

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

	<b><u>% of Total</u></b>
Ontario (Province Of)	1.9%
Berkshire Hathaway, Inc.	1.9%
DIRECTV	1.8%
American Express Co.	1.6%
Altria Group, Inc.	1.5%
Morgan Stanley	1.4%
Metlife, Inc.	1.3%
Hewlett-Packard Co.	1.2%
Goldman Sachs Group, Inc.	1.2%
JPMorgan Chase & Co.	<u>1.1%</u>
Total	<u>14.9%</u>

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

	<b><u>% of Total</u></b>
NRG Energy, Inc.	2.5%
CC Media Holdings, Inc.	2.3%
R.R. Donnelley & Sons Co.	2.3%
JBS S.A.	2.2%
Frontier Communications Corp.	2.2%
Niska Gas Storage Partners LLC	2.2%
Service Corp International	2.1%
JC Penney Co., Inc.	2.1%
Cheniere Energy, Inc.	2.0%
Peabody Energy Corp.	<u>2.0%</u>
Total	<u>21.9%</u>

SDRS Internal Bond Fund portfolio characteristics as of June 30<sup>th</sup> are presented below for various fiscal years. The Bond Index is presented for comparative purposes.

	<b><u>1975</u></b>	<b><u>1980</u></b>	<b><u>1985</u></b>	<b><u>1990</u></b>	<b><u>1995</u></b>	<b><u>2000</u></b>	<b><u>2005</u></b>	<b><u>2010</u></b>	<b><u>2013</u></b>
<b><u>South Dakota Retirement System</u></b>									
Yield to Maturity	9.4%	10.4%	10.3%	9.3%	7.3%	7.8%	4.7%	3.7%	2.4%
Average Maturity	19.1 yrs	17.5 yrs	7.1 yrs	7.9 yrs	9.3 yrs	6.9 yrs	5.8 yrs	5.4 yrs	5.0 yrs
Duration	7.8 yrs	8.0 yrs	4.0 yrs	5.3 yrs	5.6 yrs	5.6 yrs	4.1 yrs	4.0 yrs	4.9 yrs
<b><u>Bond Index<sup>1</sup></u></b>									
Yield to Maturity	8.3%	10.2%	10.2%	9.2%	6.7%	7.3%	4.5%	2.6%	2.3%
Average Maturity	11.9 yrs	11.2 yrs	9.5 yrs	9.8 yrs	8.5 yrs	8.8 yrs	6.2 yrs	6.0 yrs	6.9 yrs
Duration	6.1 yrs	5.4 yrs	4.7 yrs	5.0 yrs	5.1 yrs	5.3 yrs	4.7 yrs	4.6 yrs	5.3 yrs

# SDRS Combined Internal Equity Fund Performance

Fiscal Year	1 Year		5 Years		10 Years		20 Years		30 Years		40 Years	
	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench
2013	26.6%	19.3%	8.4%	4.5%	8.2%	7.8%	9.2%	8.2%	10.9%	10.2%	11.6%	10.2%
2012	(0.4%)	(1.3%)	(1.4%)	(1.4%)	5.4%	5.8%	8.7%	8.0%	11.8%	11.3%		
2011	28.1%	30.8%	2.7%	3.1%	4.1%	4.3%	9.4%	8.7%	11.7%	10.9%		
2010	16.9%	12.3%	0.1%	0.4%	0.3%	(0.4%)	8.3%	7.7%	11.6%	10.6%		
2009	(20.8%)	(27.9%)	(1.1%)	(0.2%)	(0.3%)	(0.5%)	7.6%	7.9%	11.4%	10.8%		
2008	(21.0%)	(11.0%)	8.0%	11.2%	3.9%	4.6%	9.8%	10.7%	12.7%	12.5%		
2007	22.0%	23.6%	12.7%	13.6%	8.9%	8.2%	11.0%	10.9%	13.6%	12.9%		
2006	12.6%	14.7%	5.5%	5.4%	9.7%	8.7%	10.9%	11.0%	13.3%	12.1%		
2005	9.9%	9.0%	0.4%	(1.2%)	11.0%	9.4%	11.9%	11.9%	13.4%	12.1%		
2004	22.9%	23.6%	0.6%	(0.8%)	11.9%	10.6%	13.2%	12.9%	14.0%	12.3%		
2003	(2.0%)	(0.8%)	0.0%	(1.7%)	10.3%	8.6%	12.3%	11.4%	12.8%	11.0%		
2002	(12.2%)	(15.0%)	5.1%	3.1%	12.1%	10.2%	15.1%	14.2%				
2001	(12.0%)	(17.1%)	14.0%	12.0%	14.9%	13.4%	15.6%	14.4%				
2000	10.9%	11.0%	22.7%	21.2%	16.9%	16.4%	17.8%	16.6%				
1999	19.5%	18.3%	24.5%	23.4%	16.0%	16.9%	17.7%	16.9%				
1998	25.6%	25.6%	21.7%	20.1%	16.1%	17.1%	17.4%	16.6%				
1997	31.7%	28.6%	19.5%	17.7%	13.2%	13.6%	16.1%	15.3%				
1996	27.1%	23.3%	15.7%	14.8%	12.1%	13.3%	15.1%	13.9%				
1995	18.9%	21.2%	11.3%	11.7%	12.8%	14.4%	14.6%	13.5%				
1994	6.7%	3.3%	8.1%	10.8%	14.6%	15.3%	15.1%	13.2%				
1993	14.6%	13.9%	10.7%	14.2%	14.3%	14.3%	14.1%	12.2%				
1992	12.4%	13.5%	7.3%	9.7%	18.3%	18.3%						
1991	4.5%	7.4%	8.5%	11.8%	16.4%	15.4%						
1990	2.7%	16.3%	14.3%	17.1%	18.7%	16.8%						
1989	20.3%	20.4%	21.5%	19.9%	19.4%	16.9%						
1988	(1.9%)	(7.1%)	18.1%	14.4%	18.8%	16.2%						
1987	18.7%	25.1%	30.3%	27.7%	19.0%	17.1%						
1986	35.7%	35.4%	24.9%	19.2%	18.3%	14.5%						
1985	39.0%	30.8%	23.3%	16.4%	16.5%	12.6%						
1984	4.5%	(4.7%)	17.4%	13.9%	15.6%	11.2%						
1983	60.6%	61.0%	19.5%	18.0%	13.8%	10.1%						
1982	(4.1%)	(11.4%)	8.6%	7.3%								
1981	27.6%	20.5%	12.1%	10.0%								
1980	8.7%	17.1%	10.0%	8.8%								
1979	14.3%	13.6%	13.9%	8.6%								
1978	(0.4%)	0.1%	8.3%	2.6%								
1977	12.1%	0.5%										
1976	16.2%	14.0%										
1975	28.9%	16.1%										
1974	(11.1%)	(14.5%)										

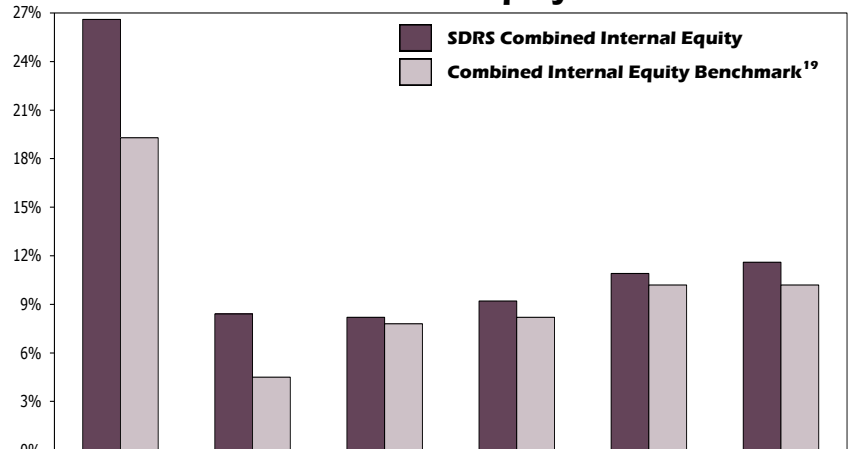
The chart to the left shows the annualized total rate of returns for 1, 5, 10, 20, 30 and 40 years through fiscal year 2013 for the Combined Internal Equity Fund. The Combined Internal Equity Benchmark<sup>19</sup> is provided for comparison.

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

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

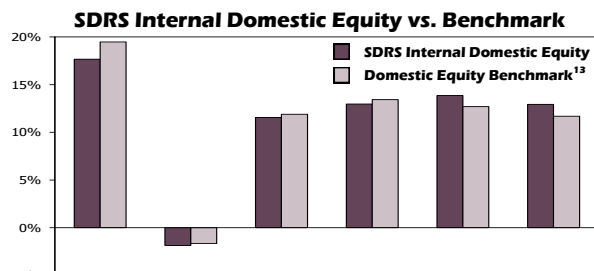
Prior to fiscal year 2005, the domestic and international equities were managed separately. On July 1, 2004, they were merged and are managed together. Historical information is presented below.

## SDRS Combined Internal Equity vs. Benchmark

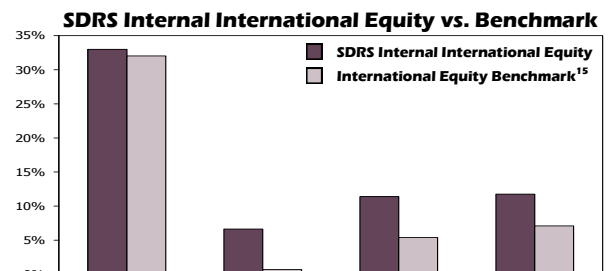


	1 Year	5 Years	10 Years	20 Years	30 Years	40 Years
<b>SDRS</b>	26.6%	8.4%	8.2%	9.2%	10.9%	11.6%
<b>Benchmark</b>	19.3%	4.5%	7.8%	8.2%	10.2%	10.2%
<b>Difference</b>	7.3%	3.9%	0.4%	1.0%	0.7%	1.4%

## Historical SDRS Internal Domestic and International Equity Fund information as of June 30, 2004



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



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

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

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



## **Internal Equity Profile**

*The South Dakota Retirement System's internal global equity portfolio characteristics as of June 30, 2013 are presented below. The SDRS internal global equity portfolio is compared to the ⅓ S&P Global 1200 Index plus ⅓ S&P 500 Index benchmark. A listing of the 50 largest global equity holdings can be found on page 45.*

### **Distribution by Market Sector**

	<b><u>SDRS</u></b>	<b><u>Bench</u></b>
Consumer Discretionary	13.1%	11.7%
Consumer Staples	9.3%	10.7%
Energy	13.0%	10.0%
Financials	20.6%	19.3%
Health Care	14.9%	11.6%
Industrials	7.3%	10.5%
Information Technology	14.8%	14.0%
Materials	3.3%	5.0%
Telecommunications Services	1.4%	3.8%
Utilities	1.6%	3.4%
Cash Equivalents	<u>0.7%</u>	<u>0.0%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

### **Ten Largest Country Weights**

	<b><u>SDRS</u></b>	<b><u>Bench</u></b>
United States	73.6%	68.7%
Great Britain	6.0%	6.0%
Switzerland	5.3%	2.5%
Japan	3.9%	5.5%
Germany	2.5%	2.3%
France	2.4%	2.5%
Canada	2.0%	2.6%
Netherlands	1.1%	0.7%
South Korea	0.6%	0.7%
Ireland	<u>0.5%</u>	<u>0.1%</u>
Total	<u>97.9%</u>	<u>91.6%</u>

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

*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, the internally managed small/mid-cap portfolio and five externally managed portfolios as of June 30, 2013. The composite is compared to the ⅓ MSCI All Country World Index plus ⅓ MSCI US Index benchmark.*

### **Performance Results for the Fiscal Year Ended June 30, 2013**

<b>SDRS Global Equity Composite</b>	25.8%
<b>Benchmark</b>	17.7%
<b>Difference</b>	8.1%

## **Private Equity and Real Estate Limited Partnership Investments**

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

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

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

From November 1995 through June 2013, the net-of-fees SI-IRR for the composite PE limited partnership investments was 8.0%. This can be compared to the S&P 500 Index PME of 4.5% for the same period. RE limited partnerships net-of-fees SI-IRR composite from December 1994 through June 2013 was 21.4%. A PME using the MSCI US REIT Index could not be calculated using the same cash flows because the return of the RE limited partnerships was significantly higher than the index. The annualized time-weighted rate of return for the MSCI US REIT index was 10.9% for the same period of time.

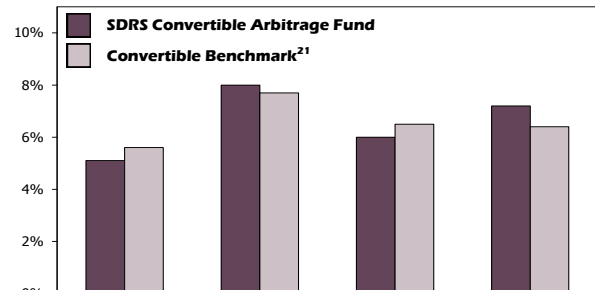
The composite return of the RE limited partnerships has significantly exceeded and the PE limited partnerships has slightly exceeded Council expectations. The Council will continue its ongoing evaluation of RE & PE limited partnerships. See page 45 for a listing of the partnership investments.

**SDRS Internal Convertible Arbitrage Fund Performance**

Fiscal Year	1 Year		5 Years		10 Years		20 Years	
	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench
2013	5.1%	5.6%	8.0%	7.7%	6.0%	6.5%	7.2%	6.4%
2012	5.1%	6.9%	8.2%	7.3%	6.7%	7.2%		
2011	8.4%	8.6%	8.5%	7.5%	6.6%	6.6%		
2010	13.0%	16.0%	7.9%	6.5%	6.4%	6.4%		
2009	8.4%	2.0%	5.5%	4.9%	6.0%	5.2%		
2008	6.5%	3.5%	4.0%	5.4%	5.9%	5.2%		
2007	6.3%	8.0%	5.3%	7.0%	6.3%	5.8%		
2006	5.5%	3.7%	4.8%	5.8%	6.8%	5.8%		
2005	0.9%	7.7%	5.0%	6.2%	7.2%	6.1%		
2004	1.0%	4.0%	6.5%	5.4%	8.1%	6.3%		
2003	13.1%	11.9%	7.9%	5.1%	8.5%	6.2%		
2002	3.8%	1.9%	7.3%	4.5%				
2001	6.5%	6.0%	8.8%	5.8%				
2000	8.7%	3.4%	9.5%	5.9%				
1999	7.6%	2.8%	9.8%	7.1%				
1998	10.0%	8.7%	9.0%	7.3%				
1997	11.4%	8.5%						
1996	9.9%	6.6%						
1995	9.8%	9.4%						
1994	4.1%	3.5%						

The chart to the left shows the annualized total rate of returns for 1, 5, 10 and 20 years through fiscal year 2013 for the Convertible Arbitrage Fund. The Convertible Benchmark<sup>21</sup> is provided for comparison.

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

**SDRS Convertible Arbitrage vs. Benchmark**

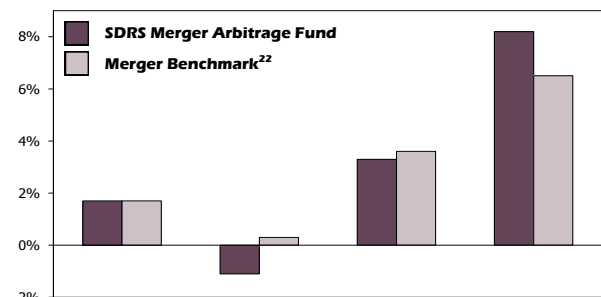
	1 Year	5 Years	10 Years	20 Years
<b>SDRS</b>	5.1%	8.0%	6.0%	7.2%
<b>Benchmark</b>	5.6%	7.7%	6.5%	6.4%
<b>Difference</b>	(0.5%)	0.3%	(0.5%)	0.8%

**Historical SDRS Internal Merger Arbitrage Fund Performance through June 30, 2012**

Fiscal Year	1 Year		5 Years		10 Years		22 Years	
	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench
2012	1.7%	1.7%	(1.1%)	0.3%	3.3%	3.6%	8.2%	6.5%
2011	3.0%	2.1%	0.2%	1.8%	3.3%	4.1%		
2010	7.8%	3.6%	1.9%	3.0%	3.6%	4.8%		
2009	1.4%	3.3%	0.9%	3.5%	4.6%	5.4%		
2008	(17.4%)	(8.6%)	2.1%	3.9%	6.1%	6.0%		
2007	8.7%	9.3%	7.8%	6.9%	10.3%	7.9%		
2006	11.7%	8.2%	6.5%	6.4%	11.3%	7.9%		
2005	3.0%	6.3%	5.4%	6.7%	11.8%	8.1%		
2004	7.4%	5.2%	8.4%	7.4%	12.8%	8.4%		
2003	8.5%	5.7%	10.2%	8.1%	13.6%	8.7%		
2002	2.1%	6.7%	12.8%	8.9%	13.1%	8.8%		
2001	6.2%	9.9%	16.2%	9.5%	13.9%	9.1%		
2000	18.4%	9.6%	18.6%	9.4%	14.1%	9.2%		
1999	16.5%	9.0%	17.3%	9.5%				
1998	21.8%	9.5%	17.1%	9.2%				
1997	18.8%	9.5%	13.4%	8.8%				
1996	17.6%	9.7%	11.5%	8.6%				
1995	12.2%	9.6%	9.8%	8.9%				
1994	15.3%	7.6%						
1993*	3.7%	7.4%						
1992	9.5%	8.9%						
1991	8.8%	11.2%						

The chart to the left shows the annualized total rate of returns for 1, 5, 10 and 22 years through fiscal year 2012 for the Merger Arbitrage Fund. The Merger Benchmark<sup>22</sup> is provided for comparison.

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

**SDRS Merger Arbitrage vs. Benchmark**

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

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

\*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.

# CEMENT PLANT RETIREMENT FUND

## THE FUND

The South Dakota Cement Plant Retirement Fund (CPRF) is a public employee retirement plan providing retirement benefits to over 350 former employees of the previously state-owned cement plant located in Rapid City. On March 16, 2001, the State of South Dakota sold the plant to GCC. Effective with the sale, CPRF employee 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

The Council's overall objective is to prudently manage CPRF assets to achieve and exceed the returns available over the long term from the broad capital markets (stocks, bonds, real estate, etc.). The objectives and asset allocation of the fund include the effect of the freezing of the plan. The Council has three specific objectives. The first relates to achieving the actuarial estimated rate of return over the long term to help meet the obligations of CPRF. The other two objectives relate to adding value over the long term versus the index returns of the Council's capital markets benchmark and versus peer funds.

### ♦ 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. 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, any assets that remain will be transferred to the Dakota Cement Trust Fund.

This objective has been achieved for the majority of rolling 5 and 10-year periods and all 20-year and longer periods. The following table summarizes CPRF total fund performance versus the actuarial rate of return of 6.75%.

<b>CPRF Total Fund vs. Actuarial Rate of 6.75%</b>				
	<u>5 years</u>	<u>10 years</u>	<u>20 years</u>	<u>30 years</u>
# of Successes	28	29	21	11
# of Periods	36	31	21	11
% of Success	78%	94%	100%	100%

The Council's long-term expected rate of return for CPRF as of June 30, 2013 was 6.65%. This is close to the current actuarial assumed return of 6.75%. The Council's expectation does not assume any added value versus market indexes and is the midpoint of a possible range.

### ♦ Achieve favorable total fund performance over the long term relative to a capital markets benchmark reflective of the 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 the indexed returns that would be earned if CPRF was invested in the Council's selected capital markets benchmark. The key investment policy decision made by the Council is asset allocation as discussed in the SDRS Asset Allocation Focus on page 9. The normal asset allocation of the fund will be adjusted over time as the average age of the participants increase. As of July 1, 2013, the average age of the 26 active participants was 48 years with 21 years of service. The Plan has 337 members with 239 collecting retirement benefits. There are no new plan entrants and more retired members than active. Going forward, long-term commitments in real estate and private equity limited partnerships will be monitored on an individual basis to determine to what extent 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 is difficult to accomplish as most investment managers do not outperform the capital markets over time. The zero sum nature of markets, with each investment transaction having a winner and a loser, means investors collectively will merely match the overall market return before expenses. After taking into account investment manager fees and transactions costs, including commissions and market impact cost, most managers underperform.

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

<b>CPRF Total Fund vs. Capital Markets Benchmark</b>				
	<u>5 years</u>	<u>10 years</u>	<u>20 years</u>	<u>30 years</u>
# of Successes	28	26	19	11
# of Periods	36	31	21	11
% of Success	78%	84%	90%	100%

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

Historically, the Council emphasized comparison against corporate pension funds because they had historically performed better than public plans and were a more compelling measure of whether investment excellence was achieved. However, in recent years, the Council has lessened emphasis on corporate plan peer comparisons. These databases suffer from survivorship bias as some pension plans making up the universes change over time in part as their results succeed or fail. Simply put, losers tend to drop out, and the peer universe is biased upwards by a preponderance of remaining winners. Consolidation in the performance consulting industry has also impacted database retention of long-term historical returns. A consistent peer universe database for the entire CPRF history has not been kept intact by any performance consultant. Also affecting corporate peer databases are changes in corporate pension accounting rules that have caused a shift by some corporate plans away from equities toward a combination of hedge funds and fixed income and caused other corporate plans to simply disappear.

In recent years, public plans have begun to match or even outperform many corporate plans. Beginning in fiscal year 2014, the comparisons to corporate plans will be deemphasized.

The following table shows that CPRF returns have exceeded the median private sector and state fund results for most rolling 5, 10 and 20-year periods and all 30-year timeframes.

<b><u>CPRF Total Fund vs. Private Sector</u></b>				
	<u>5 years</u>	<u>10 years</u>	<u>20 years</u>	<u>30 years</u>
# of Successes	22	26	20	11
# of Periods	36	31	21	11
% of Success	61%	84%	95%	100%

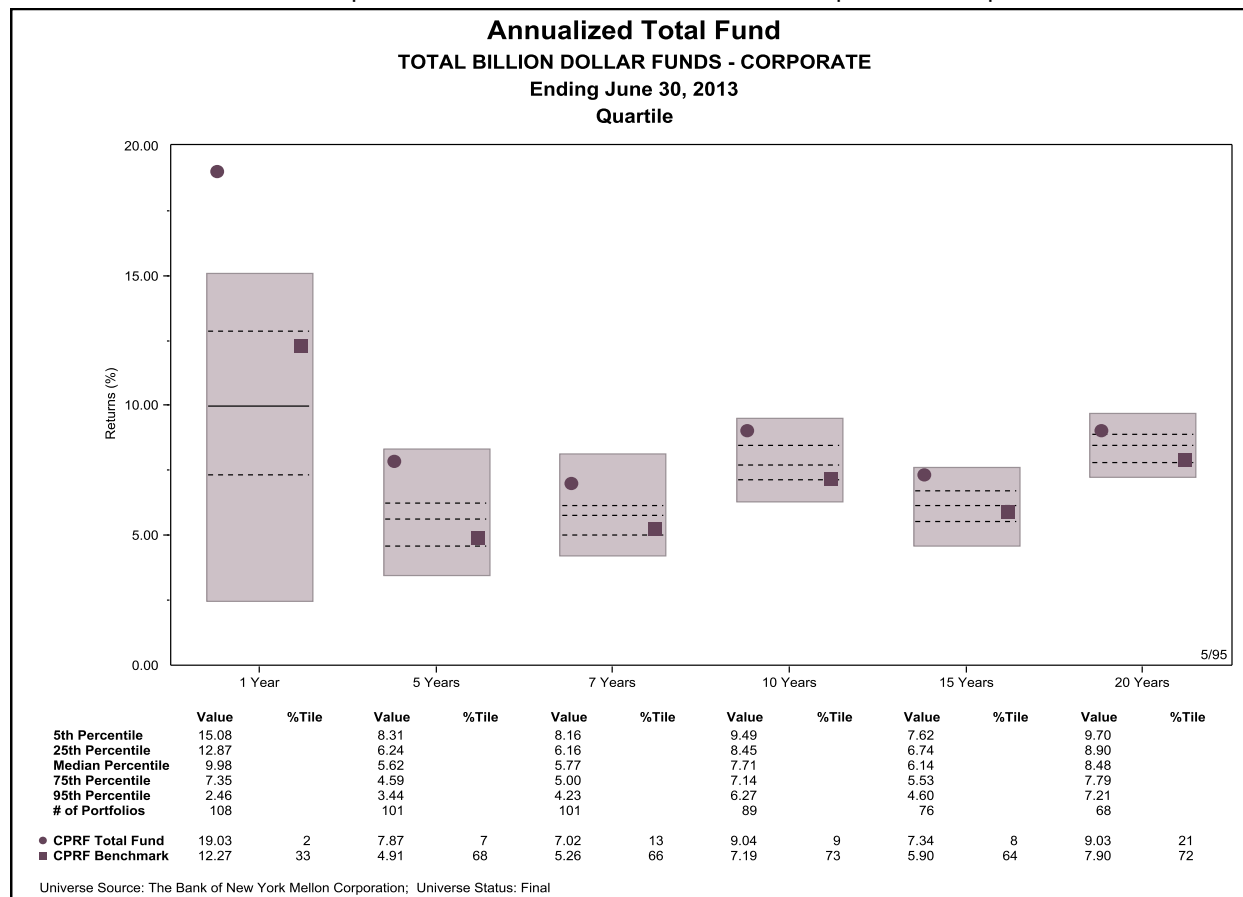
<b><u>CPRF Total Fund vs. State Funds</u></b>				
	<u>5 years</u>	<u>10 years</u>	<u>20 years</u>	<u>30 years</u>
# of Successes	29	28	21	11
# of Periods	36	31	21	11
% of Success	81%	90%	100%	100%

## CPRF VERSUS SDRS PERFORMANCE

The asset allocation required to meet the needs of CPRF with its frozen participation is beginning to diverge with the ongoing asset allocation of SDRS. Efforts are made to have CPRF participate in the same investments as SDRS, but not necessarily in the same proportion. As the fund's size is only 0.6% of SDRS, CPRF does not participate in arbitrage, a few internally and externally managed funds, as well as some of the real estate limited partnerships. This will most likely result in a difference in total return between the two funds in the future. In the most recent five-year rolling period, the CPRF return of 7.9% compares with the SDRS return of 7.7%.

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 relative to SDRS, the returns may diverge between the two in the future. It is interesting to note that over the entire 40-year history of Council management of the two systems, the CPRF has a compound annualized return of 10.6% versus the SDRS annualized return of 10.6%.

The chart below compares CPRF Total Fund returns to the current private sector peer universe.





## CPRF Total Fund Performance<sup>9-12</sup>

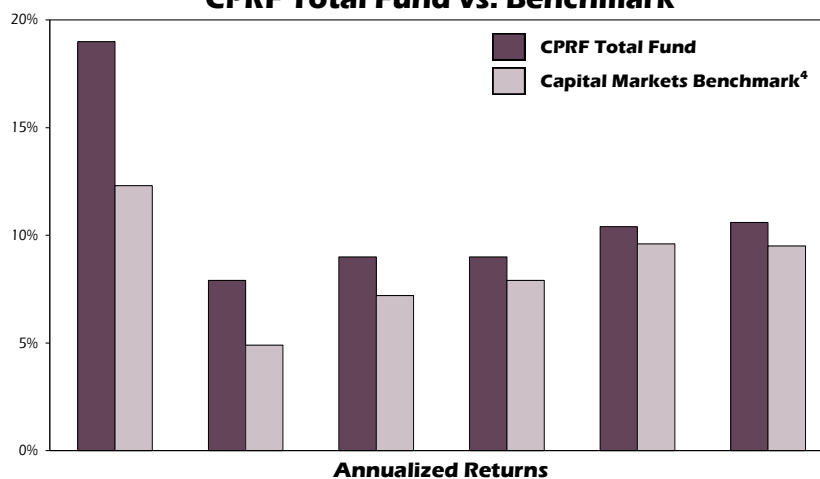
Fiscal Year	1 Year		5 Years		10 Years		20 Years		30 Years		40 Years	
	CPRF	Bench	CPRF	Bench	CPRF	Bench	CPRF	Bench	CPRF	Bench	CPRF	Bench
2013	19.0%	12.3%	7.9%	4.9%	9.0%	7.2%	9.0%	7.9%	10.4%	9.6%	10.6%	9.5%
2012	2.4%	2.1%	2.3%	1.7%	7.6%	6.5%	8.8%	7.9%	11.1%	10.4%		
2011	24.8%	21.9%	5.7%	4.6%	6.8%	5.7%	9.4%	8.4%	11.2%	10.4%		
2010	20.0%	10.8%	3.5%	2.5%	4.2%	3.1%	8.6%	7.8%	10.6%	9.9%		
2009	(20.0%)	(17.9%)	2.3%	2.3%	3.3%	3.0%	7.8%	7.9%	10.2%	9.9%		
2008	(8.8%)	(4.1%)	10.2%	9.5%	7.1%	6.4%	9.7%	9.8%	11.3%	11.0%		
2007	20.6%	17.5%	13.2%	11.6%	10.0%	8.6%	10.6%	10.1%	11.8%	11.2%		
2006	12.1%	10.6%	7.9%	6.9%	9.9%	8.7%	10.3%	10.0%	11.5%	10.9%		
2005	13.5%	9.5%	4.9%	3.7%	10.3%	9.2%	11.0%	10.7%	11.5%	10.9%		
2004	16.1%	15.4%	4.4%	3.7%	10.2%	10.0%	11.8%	11.6%	11.6%	11.1%		
2003	4.1%	5.2%	4.0%	3.4%	9.0%	8.6%	11.1%	10.8%	11.2%	10.3%		
2002	(5.0%)	(5.0%)	7.0%	5.7%	10.1%	9.3%	13.0%	12.3%				
2001	(2.3%)	(5.0%)	11.9%	10.5%	12.0%	11.2%	13.4%	12.8%				
2000	10.4%	9.7%	15.9%	14.9%	13.2%	12.7%	14.0%	13.4%				
1999	14.2%	13.3%	16.3%	16.5%	12.4%	13.0%	13.8%	13.5%				
1998	19.7%	17.7%	14.3%	14.1%	12.3%	13.3%	13.5%	13.3%				
1997	19.2%	18.7%	13.4%	13.0%	11.2%	11.6%	12.6%	12.5%				
1996	16.2%	15.3%	12.1%	11.8%	10.8%	11.4%	12.4%	12.0%				
1995	12.2%	17.8%	10.6%	10.6%	11.7%	12.3%	12.1%	11.8%				
1994	4.8%	2.0%	8.6%	9.6%	13.4%	13.2%	12.4%	11.6%				
1993	15.0%	11.9%	10.4%	12.6%	13.2%	13.0%	12.2%	11.2%				
1992	12.7%	12.9%	9.0%	10.2%	15.9%	15.5%						
1991	8.6%	9.2%	9.5%	10.9%	14.8%	14.4%						
1990	2.7%	12.5%	12.8%	13.9%	14.8%	14.1%						
1989	13.8%	16.4%	18.5%	16.9%	15.2%	13.9%						
1988	7.7%	0.7%	15.9%	13.4%	14.7%	13.3%						
1987	15.2%	16.6%	23.2%	21.1%	14.1%	13.4%						
1986	26.0%	24.7%	20.4%	18.0%	13.9%	12.6%						
1985	31.1%	28.2%	16.9%	14.4%	12.6%	11.3%						
1984	2.1%	(0.1%)	12.1%	11.0%	11.3%	10.0%						
1983	45.8%	39.6%	13.5%	13.2%	11.3%	9.5%						
1982	2.9%	2.8%	5.7%	6.2%								
1981	8.5%	6.6%	7.8%	7.4%								
1980	6.3%	10.4%	8.5%	8.3%								
1979	8.9%	10.2%	10.6%	9.1%								
1978	2.2%	1.4%	9.2%	5.9%								
1977	13.5%	8.6%										
1976	12.1%	11.2%										
1975	17.2%	14.2%										
1974	2.0%	(4.8%)										

The chart to the left shows the annualized total rate of returns for 1, 5, 10, 20, 30 and 40 years through fiscal year 2013 for the Total Fund. The Capital Markets Benchmark<sup>4</sup> is provided for comparison.

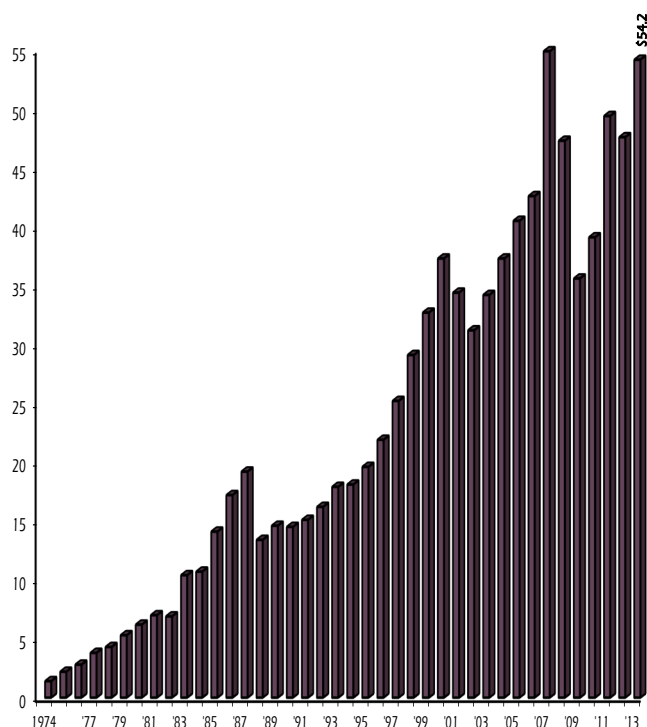
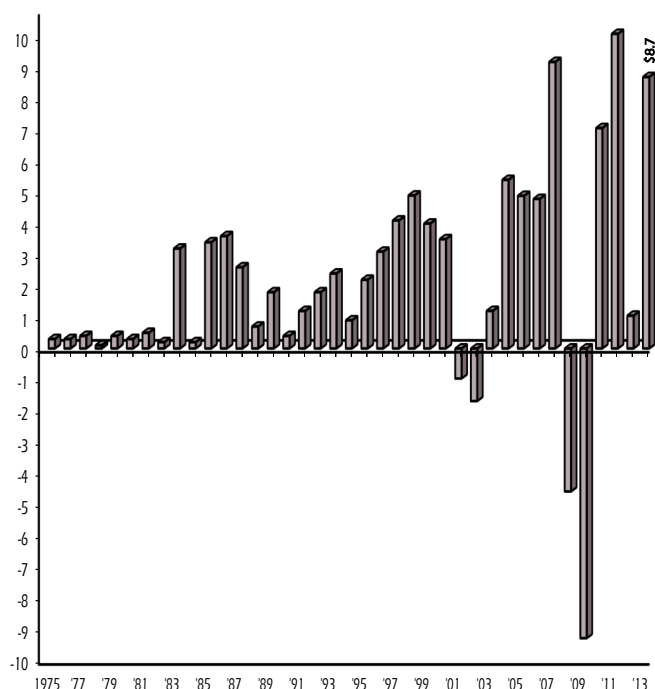
### Fiscal Year 2013 Asset Allocation Policy Summary

Asset Category	CMB Allocation	Min - Max Range
Global Equity	56%	35% - 75%
Private Equity	5%	0% - 11%
Merger Arbitrage	0%	0% - 10%
Convertible Arbitrage	0%	0% - 5%
Aggressive Absolute Return	0%	0% - 5%
Real Estate	8%	2% - 14%
Fixed Income - IG	18%	13% - 50%
Fixed Income - TIPS	1%	0% - 5%
High Yield/Distressed	7%	0% - 15%
Commodities	1%	0% - 5%
Cash	4%	0% - 50%

### CPRF Total Fund vs. Benchmark



	1 Year	5 Years	10 Years	20 Years	30 Years	40 Years
<b>CPRF</b>	19.0%	7.9%	9.0%	9.0%	10.4%	10.6%
<b>Benchmark</b>	12.3%	4.9%	7.2%	7.9%	9.6%	9.5%
<b>Difference</b>	6.7%	3.0%	1.8%	1.1%	0.8%	1.1%

**Asset Growth<sup>23</sup>** (\$ in Millions)**Investment Income<sup>24</sup>** (\$ in Millions)**Cash Flows and Fair Value Changes**

The Cement Plant Retirement Fund began fiscal year 2013 with \$47.6 million in assets. During the fiscal year, net contributions/withdrawals and fees decreased the fund by \$2.1 million and investment income increased it by \$8.7 million resulting in an ending fair value of \$54.2 million.

**Fair Value 6/30/12**

\$ 47,574,668

**Increase/Decreases**

Net Contributions/Withdrawals  
Internal Management Fees  
External Management Fees

\$ (1,896,079)  
(34,900)  
(158,581)

**Total Increases/Decreases**

\$ (2,089,560)

**Investment Income****Securities Income**

Interest Income \$ 478,931  
Dividend Income 669,323  
Securities Lending Income 4,963  
Real Estate Income 132,081  
Change in Accrued Income 21,357

**Total Securities Income**

\$ 1,306,655

**Capital Gain/Loss Income**

Unrealized Gain/Loss Futures \$ 22,219  
Unrealized Gain/Loss Securities 4,996,889  
Realized Gain/Loss Futures 101,159  
Realized Gain/Loss Securities 2,268,852

**Total Capital Gain/Loss Income**

\$ 7,389,119

**Total Investment Income**

\$ 8,695,774

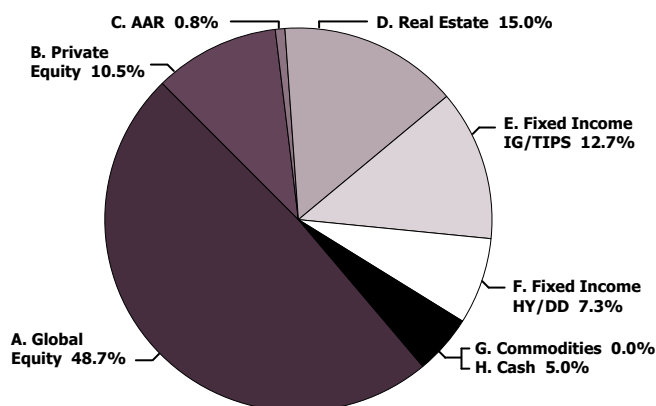
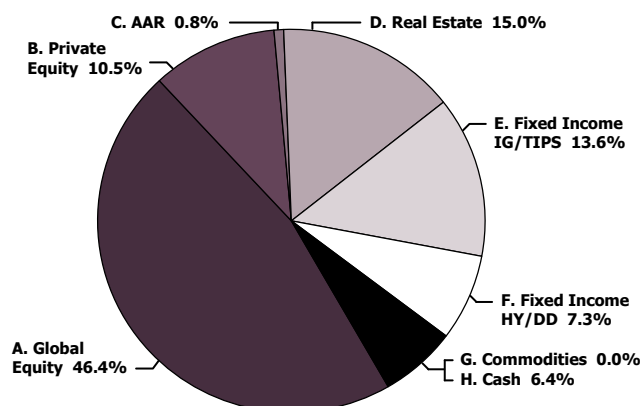
**Fair Value 6/30/13**

\$ 54,180,882

**Investment Mix<sup>8</sup>**

As of June 30, 2013, Cement Plant Retirement Fund assets totaled \$54.2 million. The broad asset categories and managers are listed below. The charts show the asset allocation of the Cement Plant Retirement Fund, excluding futures as well as with futures overlay. The Capital Markets Benchmark allocation is also provided for comparison.

	<u>Fair Value Excluding Futures</u>		<u>% of Fund Excluding Futures</u>		<u>Futures Exposure</u>	<u>Fair Value with Futures</u>	<u>% of Fund with Futures</u>	<u>Capital Markets Benchmark %</u>
<b>A. Global Equity</b>								
Internal Global Equity	\$ 25,262,391		46.6%					
Brandes	298,379		0.6%					
Dimensional Fund Advisors	297,865		0.6%					
GE Asset Management	<u>501,782</u>	\$ 26,360,417	<u>0.9%</u>	48.7%	\$ (1,204,710)	\$ 25,155,707	46.4%	56.0%
Equity Index Futures								
<b>B. Private Equity Limited Partnerships</b>								
Blackstone Capital Partners	\$ 1,805,773		3.3%					
Capital International	201,782		0.4%					
Carlyle	398,651		0.7%					
Cinven	602,535		1.1%					
Credit Suisse	2,655		0.0%					
CVC	449,401		0.8%					
Cypress	28,273		0.1%					
Doughty Hanson	596,531		1.1%					
Elevation	87,236		0.2%					
KKR	281,802		0.5%					
Neuberger Berman	21,967		0.0%					
PineBridge	33,647		0.1%					
Riverstone	333,220		0.6%					
Silver Lake	<u>860,037</u>	5,703,510	<u>1.6%</u>	10.5%		5,703,510	10.5%	5.0%
<b>C. Aggressive Absolute Return (AAR)</b>								
Bridgewater	\$ 458,092	458,092	<u>0.8%</u>	0.8%		458,092	0.8%	0.0%
<b>D. Real Estate Limited Partnerships</b>								
AREA Properties Partners	\$ 112,651		0.2%					
Blackstone Real Estate Partners	7,442,103		13.8%					
Cargill N.A. Real Estate Partners	190,109		0.4%					
Doughty Hanson	126,469		0.2%					
Lone Star	<u>240,664</u>	8,111,996	<u>0.4%</u>	15.0%		8,111,996	15.0%	8.0%
<b>E. Fixed Income – Investment Grade/TIPS</b>								
Internal Investment Grade	\$ 6,896,905	6,896,905	<u>12.7%</u>	12.7%				
Treasury Financial Futures					446,766	7,343,671	13.6%	19.0%
<b>F. Fixed Income – High Yield/Distressed Debt</b>								
Internal High Yield	\$ 715,381		1.3%					
Blackstone	9,071		0.0%					
CarVal	668,852		1.2%					
PIMCO	743		0.0%					
TCW	<u>2,567,080</u>	3,961,127	<u>4.8%</u>	7.3%		3,961,127	7.3%	7.0%
<b>G. Commodities</b>								
	\$ 0	0	<u>0.0%</u>	0.0%		0	0.0%	1.0%
<b>H. Cash &amp; Cash Equivalents</b>								
Internal Shift Account	\$ 2,688,835	2,688,835	<u>5.0%</u>	5.0%				
Cash From Futures					757,944	3,446,779	6.4%	4.0%
<b>Total</b>		\$ 54,180,882	<u>100.0%</u>		\$ 0	\$ 54,180,882	<u>100.0%</u>	<u>100.0%</u>

**Allocation Excluding Futures****Allocation with Futures Exposure**

**CPRF Internal Bond Fund Performance**

Fiscal Year	1 Year		5 Years		10 Years		20 Years		30 Years		40 Years	
	CPRF	Bench	CPRF	Bench	CPRF	Bench	CPRF	Bench	CPRF	Bench	CPRF	Bench
2013	(0.2%)	(0.6%)	6.0%	5.3%	5.5%	4.9%	6.6%	6.2%	8.5%	8.1%	8.7%	8.1%
2012	7.1%	7.5%	7.8%	7.0%	6.9%	6.3%	7.4%	6.9%	9.5%	9.1%		
2011	4.7%	3.7%	7.6%	6.7%	6.8%	6.3%	7.9%	7.2%	9.7%	9.3%		
2010	9.7%	9.0%	6.6%	6.0%	7.3%	7.0%	8.2%	7.5%	9.2%	8.9%		
2009	9.1%	7.1%	6.5%	5.8%	6.8%	6.5%	8.1%	7.5%	9.0%	8.7%		
2008	8.4%	7.8%	4.9%	4.6%	6.1%	6.1%	8.3%	7.7%	8.9%	8.8%		
2007	6.4%	6.1%	6.1%	5.7%	6.5%	6.4%	8.4%	7.8%	8.6%	8.5%		
2006	(0.2%)	0.2%	6.0%	5.8%	6.9%	6.7%	8.4%	7.7%	8.9%	8.7%		
2005	9.1%	7.9%	8.1%	8.1%	7.5%	7.4%	9.3%	8.7%	9.3%	9.1%		
2004	1.3%	1.3%	7.1%	7.2%	8.0%	7.8%	10.2%	9.7%	9.5%	9.3%		
2003	14.5%	13.4%	7.3%	7.6%	7.8%	7.5%	10.1%	9.7%	9.8%	9.1%		
2002	5.9%	7.0%	7.0%	7.1%	8.0%	7.4%	10.8%	10.5%				
2001	10.0%	11.2%	7.8%	7.7%	9.0%	8.1%	11.2%	10.8%				
2000	4.3%	3.8%	7.0%	6.7%	9.1%	8.1%	10.1%	9.9%				
1999	2.4%	2.9%	8.9%	8.4%	9.5%	8.5%	10.1%	9.9%				
1998	12.6%	11.2%	8.3%	7.5%	10.6%	9.4%	10.3%	10.1%				
1997	9.9%	9.6%	9.0%	7.7%	10.2%	9.1%	9.7%	9.6%				
1996	5.9%	6.2%	10.2%	8.6%	10.0%	8.7%	9.9%	9.8%				
1995	14.0%	12.5%	11.3%	9.5%	11.2%	10.1%	10.2%	10.0%				
1994	(0.2%)	(1.2%)	10.2%	8.6%	12.6%	11.6%	10.3%	10.0%				
1993	16.1%	12.0%	12.9%	11.4%	12.5%	12.0%	10.8%	9.9%				
1992	16.2%	14.2%	11.5%	10.6%	13.7%	13.7%						
1991	11.3%	10.8%	9.7%	8.9%	13.4%	13.5%						
1990	8.3%	7.7%	11.1%	10.6%	11.2%	11.7%						
1989	12.8%	12.2%	15.0%	14.8%	10.6%	11.3%						
1988	9.0%	8.2%	12.1%	12.6%	10.1%	10.9%						
1987	7.4%	5.6%	16.0%	16.8%	9.1%	10.1%						
1986	18.3%	19.8%	17.1%	18.4%	9.8%	10.8%						
1985	28.9%	30.0%	11.3%	12.9%	9.2%	9.9%						
1984	(0.9%)	1.7%	6.4%	7.9%	8.2%	8.4%						
1983	29.6%	30.0%	8.2%	9.2%	9.2%	7.9%						
1982	12.6%	12.8%	2.6%	3.8%								
1981	(8.2%)	(5.4%)	2.8%	3.7%								
1980	2.5%	3.8%	7.1%	7.0%								
1979	7.8%	7.6%	10.0%	8.8%								
1978	(0.3%)	1.0%	10.2%	6.6%								
1977	13.8%	12.4%										
1976	12.1%	10.5%										
1975	17.5%	12.9%										
1974	8.9%	(2.9%)										

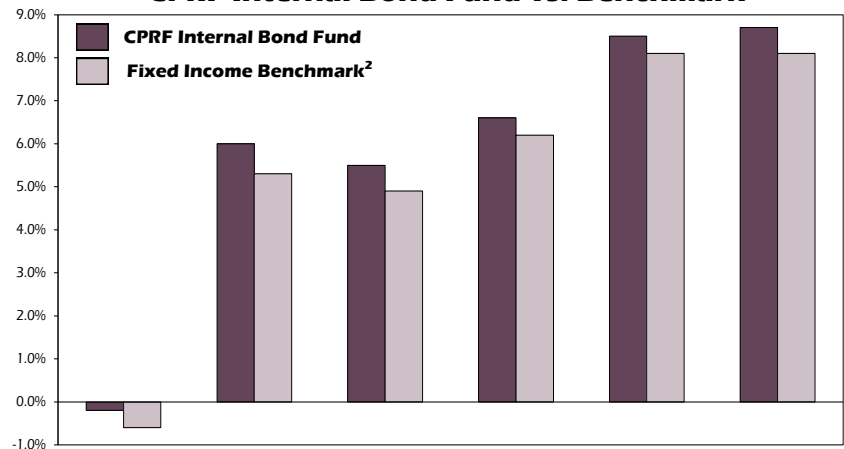
  

	1 Year	5 Years	10 Years	20 Years	30 Years	40 Years
<b>CPRF</b>	(0.2%)	6.0%	5.5%	6.6%	8.5%	8.7%
<b>Benchmark</b>	(0.6%)	5.3%	4.9%	6.2%	8.1%	8.1%
<b>Difference</b>	0.4%	0.7%	0.6%	0.4%	0.4%	0.6%

The chart to the left shows the annualized total rate of returns for 1, 5, 10, 20, 30 and 40 years through fiscal year 2013 for the Internal Bond Fund. The Fixed Income Benchmark<sup>2</sup> is provided for comparison.

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

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

**CPRF Internal Bond Fund vs. Benchmark****CPRF Internal High Yield Bond Fund Performance**

Fiscal Year	1 Year		2 Years		3 Years		4 Years		5 Years		7 Years	
	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench
2013	11.5%	8.9%	10.4%	8.4%	12.1%	10.5%	13.5%	12.5%	10.8%	10.4%	8.7%	8.9%
2012	9.3%	7.9%	12.5%	11.3%	14.1%	13.7%	10.6%	10.8%	8.4%	8.8%		
2011	15.8%	14.8%	16.7%	16.8%	11.1%	11.8%	8.2%	9.0%	8.1%	9.1%		
2010	17.5%	18.9%	8.8%	10.3%	5.8%	7.2%	6.2%	7.7%				
2009	0.6%	2.3%	0.3%	1.8%	2.7%	4.2%						
2008	0.0%	1.2%	3.8%	5.2%								
2007	7.7%	9.2%										

The chart to the left shows the annualized total rate of returns for 1, 2, 3, 4, 5 and 7 years through fiscal year 2013 for the Internal High Yield Bond Fund. The High Yield benchmark<sup>5</sup> is provided for comparison.

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



## Internal Bond Profiles

The Cement Plant Retirement Fund's internal Investment Grade (IG) and High Yield (HY) bond portfolio characteristics as of June 30, 2013, are presented below.

<b><u>Distribution by Duration</u></b>	<b><u>IG</u></b>	<b><u>HY</u></b>	<b><u>Distribution by Quality Rating</u></b>	<b><u>IG</u></b>	<b><u>HY</u></b>
0 to 2 Years	7.6%	22.7%	U.S. Gov't/Aaa	63.9%	4.3%
2 to 3 Years	11.6%	13.7%	Aa	7.1%	0.0%
3 to 4 Years	21.0%	12.8%	A	11.3%	0.0%
4 to 5 Years	18.3%	17.5%	Baa	17.7%	0.4%
5 to 6 Years	9.9%	20.3%	Ba	0.0%	25.7%
6 to 8 Years	19.6%	9.2%	B	0.0%	51.6%
Above 8 Years	<u>12.0%</u>	<u>3.8%</u>	Caa and lower	<u>0.0%</u>	<u>18.0%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	Total	<u>100.0%</u>	<u>100.0%</u>

<b><u>Distribution by Coupon</u></b>	<b><u>IG</u></b>	<b><u>HY</u></b>	<b><u>Distribution by Sector</u></b>	<b><u>IG</u></b>	<b><u>HY</u></b>
0.00% - 4.00%	64.2%	4.8%	Cash/Cash Equivalents	3.1%	4.3%
4.01% - 5.00%	16.8%	0.0%	U.S. Treasuries	19.0%	0.0%
5.01% - 6.00%	14.1%	4.8%	Agency Debentures/FDIC	6.3%	0.0%
6.01% - 7.00%	3.9%	15.5%	Agency Mortgage Backed Securities	34.5%	0.0%
7.01% - 8.00%	0.0%	32.5%	Investment Grade Corporates	37.1%	0.4%
8.01% - 9.00%	1.0%	22.8%	High Yield Corporates	<u>0.0%</u>	<u>95.3%</u>
9.01% and over	<u>0.0%</u>	<u>19.6%</u>	Total	<u>100.0%</u>	<u>100.0%</u>
Total	<u>100.0%</u>	<u>100.0%</u>			

<b><u>Investment Grade Bond Portfolio Ten Largest Corporates by Issuer</u></b>	<b><u>% of Total</u></b>	<b><u>High Yield Bond Portfolio Ten Largest Corporates by Issuer</u></b>	<b><u>% of Total</u></b>
Ontario (Province Of)	1.9%	NRG Energy, Inc.	2.6%
Berkshire Hathaway, Inc.	1.9%	CC Media Holdings, Inc.	2.4%
DIRECTV	1.8%	R.R. Donnelley & Sons Co.	2.3%
American Express Co.	1.6%	JBS S.A.	2.3%
Altria Group, Inc.	1.5%	Frontier Communications Corp.	2.3%
Morgan Stanley	1.4%	Niska Gas Storage Partners	2.2%
Metlife, Inc.	1.3%	Service Corp International	2.2%
Hewlett-Packard Co.	1.2%	JC Penney Co., Inc.	2.1%
Goldman Sachs Group, Inc.	1.2%	Peabody Energy Corp.	2.0%
JPMorgan Chase & Co.	<u>1.1%</u>	Cheniere Energy, Inc.	<u>2.0%</u>
Total	<u>14.9%</u>	Total	<u>22.4%</u>

CPRF Internal Bond Fund portfolio characteristics as of June 30<sup>th</sup> are presented below for various fiscal years. The Bond Index is presented for comparative purposes.

	<b><u>1975</u></b>	<b><u>1980</u></b>	<b><u>1985</u></b>	<b><u>1990</u></b>	<b><u>1995</u></b>	<b><u>2000</u></b>	<b><u>2005</u></b>	<b><u>2010</u></b>	<b><u>2013</u></b>
<b><u>Cement Plant Retirement Fund</u></b>									
Yield to Maturity	9.5%	10.1%	10.3%	9.2%	7.3%	7.8%	4.7%	3.6%	2.4%
Average Maturity	19.3 yrs	17.4 yrs	7.0 yrs	7.8 yrs	9.3 yrs	6.9 yrs	5.8 yrs	5.4 yrs	5.0 yrs
Duration	8.0 yrs	7.6 yrs	4.0 yrs	5.3 yrs	5.6 yrs	5.6 yrs	4.1 yrs	4.0 yrs	4.9 yrs
<b><u>Bond Index<sup>1</sup></u></b>									
Yield to Maturity	8.3%	10.2%	10.2%	9.2%	6.7%	7.3%	4.5%	2.6%	2.3%
Average Maturity	11.9 yrs	11.2 yrs	9.5 yrs	9.8 yrs	8.5 yrs	8.8 yrs	6.2 yrs	6.0 yrs	6.9 yrs
Duration	6.1 yrs	5.4 yrs	4.7 yrs	5.0 yrs	5.1 yrs	5.3 yrs	4.7 yrs	4.6 yrs	5.3 yrs

## CPRF Combined Internal Equity Fund Performance

Fiscal Year	1 Year		5 Years		10 Years		20 Years		30 Years		40 Years	
	CPRF	Bench	CPRF	Bench	CPRF	Bench	CPRF	Bench	CPRF	Bench	CPRF	Bench
2013	27.8%	19.3%	8.4%	4.5%	7.9%	7.8%	9.6%	8.8%	11.0%	10.6%	11.6%	10.5%
2012	0.7%	(1.3%)	(1.8%)	(1.4%)	5.1%	5.8%	9.0%	8.5%	11.9%	11.7%		
2011	26.4%	30.8%	1.9%	3.1%	3.7%	4.3%	9.6%	9.3%	11.7%	11.3%		
2010	18.3%	12.3%	(0.5%)	0.4%	0.1%	(0.4%)	8.5%	8.2%	11.7%	11.0%		
2009	(22.1%)	(27.9%)	(2.0%)	(0.2%)	(0.6%)	(0.5%)	7.8%	8.4%	11.5%	11.2%		
2008	(22.1%)	(11.0%)	7.4%	11.2%	3.7%	4.6%	10.0%	11.2%	12.8%	12.9%		
2007	20.9%	23.6%	12.3%	13.6%	9.4%	8.6%	11.3%	11.5%	13.9%	13.3%		
2006	12.3%	14.7%	5.5%	5.5%	10.6%	9.3%	11.2%	11.5%	13.7%	12.5%		
2005	9.9%	9.0%	0.7%	(1.2%)	12.1%	10.4%	12.3%	12.5%	13.7%	12.5%		
2004	22.7%	23.8%	0.8%	(0.8%)	13.0%	12.0%	13.6%	13.5%	14.4%	12.7%		
2003	(2.2%)	(1.0%)	0.2%	(1.7%)	11.3%	9.8%	12.7%	12.0%	12.8%	11.4%		
2002	(11.7%)	(14.8%)	6.6%	3.8%	13.1%	11.3%	15.5%	14.8%				
2001	(11.1%)	(17.2%)	15.9%	13.4%	15.8%	14.6%	15.9%	15.0%				
2000	10.3%	11.1%	24.9%	23.3%	17.7%	17.6%	18.1%	17.2%				
1999	19.3%	18.2%	26.7%	26.5%	16.8%	18.1%	18.0%	17.5%				
1998	33.3%	30.2%	23.6%	22.7%	16.7%	18.3%	17.6%	17.3%				
1997	34.2%	32.3%	20.0%	19.4%	13.2%	14.4%	16.2%	15.7%				
1996	29.2%	26.3%	15.7%	15.8%	11.9%	13.8%	15.3%	14.2%				
1995	18.6%	26.1%	10.9%	12.1%	12.4%	14.6%	14.5%	13.6%				
1994	5.3%	1.3%	7.7%	10.3%	14.1%	15.0%	15.1%	13.1%				
1993	14.7%	13.6%	10.1%	14.2%	14.0%	14.3%	13.6%	12.1%				
1992	12.1%	13.5%	6.9%	9.7%	18.1%	18.3%						
1991	4.4%	7.4%	8.2%	11.8%	16.0%	15.4%						
1990	2.5%	16.3%	13.9%	17.1%	18.5%	16.8%						
1989	17.8%	20.4%	21.0%	19.9%	19.2%	16.9%						
1988	(1.2%)	(7.1%)	18.1%	14.4%	18.5%	16.2%						
1987	18.9%	25.1%	30.4%	27.7%	19.2%	17.1%						
1986	35.4%	35.4%	24.3%	19.2%	18.7%	14.5%						
1985	38.2%	30.8%	23.2%	16.4%	16.6%	12.6%						
1984	4.4%	(4.7%)	17.5%	13.9%	16.0%	11.2%						
1983	62.5%	61.0%	18.9%	18.0%	13.1%	10.1%						
1982	(6.5%)	(11.4%)	8.9%	7.3%								
1981	29.4%	20.5%	13.4%	10.0%								
1980	9.1%	17.1%	10.4%	8.8%								
1979	10.8%	13.6%	14.5%	8.6%								
1978	4.5%	0.1%	7.5%	2.6%								
1977	14.8%	0.5%										
1976	13.2%	14.0%										
1975	31.0%	16.1%										
1974	(19.1%)	(14.5%)										

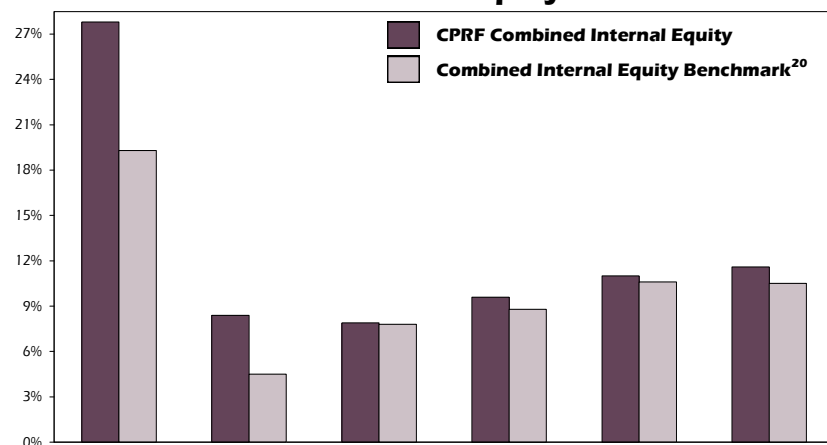
The chart to the left shows the annualized total rate of returns for 1, 5, 10, 20, 30 and 40 years through fiscal year 2013 for the Combined Internal Equity Fund. The Combined Internal Equity Benchmark<sup>20</sup> is provided for comparison.

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

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

Prior to fiscal year 2005, the domestic and international equities were managed separately. On July 1, 2004, they were merged and are managed together.

### CPRF Combined Internal Equity vs. Benchmark



	1 Year	5 Years	10 Years	20 Years	30 Years	40 Years
<b>CPRF</b>	27.8%	8.4%	7.9%	9.6%	11.0%	11.6%
<b>Benchmark</b>	19.3%	4.5%	7.8%	8.8%	10.6%	10.5%
<b>Difference</b>	8.5%	3.9%	0.1%	0.8%	0.4%	1.1%

## **Internal Equity Profile**

The Cement Plant Retirement Fund's internal global equity portfolio characteristics as of June 30, 2013 are presented below. The CPRF internal global equity portfolio is compared to the  $\frac{2}{3}$  S&P Global 1200 Index plus  $\frac{1}{3}$  S&P 500 Index benchmark.

### **Distribution by Market Sector**

	<b><u>CPRF</u></b>	<b><u>Bench</u></b>
Consumer Discretionary	14.3%	11.7%
Consumer Staples	8.6%	10.7%
Energy	13.1%	10.0%
Financials	22.2%	19.3%
Health Care	16.0%	11.6%
Industrials	5.7%	10.5%
Information Technology	15.0%	14.0%
Materials	2.7%	5.0%
Telecommunications Services	0.8%	3.8%
Utilities	1.3%	3.4%
Cash Equivalents	<u>0.3%</u>	<u>0.0%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

### **Ten Largest Country Weights**

	<b><u>CPRF</u></b>	<b><u>Bench</u></b>
United States	73.7%	68.7%
Great Britain	6.2%	6.0%
Switzerland	6.1%	2.5%
Japan	4.2%	5.5%
Germany	2.7%	2.3%
France	2.4%	2.5%
Canada	1.8%	2.6%
Netherlands	1.0%	0.7%
Ireland	0.6%	0.1%
Italy	<u>0.4%</u>	<u>0.6%</u>
Total	<u>99.1%</u>	<u>91.5%</u>

### **30 Largest Company Holdings**

	<b><u>% of Total</u></b>
Wells Fargo & Co.	3.2%
Microsoft Corp.	2.9%
Target Corp.	2.8%
JPMorgan Chase & Co.	2.4%
Wal-Mart Stores, Inc.	2.2%
Pfizer, Inc.	2.2%
Google, Inc.	2.0%
Honda Motor Co., Ltd.	2.0%
Intel Corp.	1.8%
Lowe's Cos., Inc.	1.7%
MetLife, Inc.	1.7%
UnitedHealth Group, Inc.	1.7%
Roche Holding, Ltd.	1.6%
Nestle SA	1.5%
Bank of America Corp.	1.5%
U.S. Bancorp	1.5%
Apache Corp.	1.5%
PepsiCo, Inc.	1.5%
Cisco Systems, Inc.	1.4%
Exxon Mobil Corp.	1.3%
Novartis AG	1.3%
BP plc	1.3%
The Bank of New York Mellon Corp.	1.3%
ConocoPhillips	1.3%
Chevron Corp.	1.2%
Sanofi SA	1.2%
Texas Instruments, Inc.	1.2%
Gilead Sciences, Inc.	1.1%
Goldman Sachs Group, Inc.	1.0%
Hewlett-Packard Co.	<u>1.0%</u>
Total	<u>50.3%</u>

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

The Cement Plant Retirement System's global equity composite is comprised of the internally managed global equity portfolio and three externally managed portfolios as of June 30, 2013. 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, 2013**

<b>CPRF Global Equity Composite</b>	27.0%
<b>Benchmark</b>	17.7%
<b>Difference</b>	9.3%

## THE FUND

The South Dakota Cash Flow Fund (SDCFF) is comprised of more than 250 separately identified state accounts. During fiscal year 2013, the fund ranged from \$1.069 billion to \$1.253 billion and averaged \$1.167 billion. The fund serves as the state checking account. Inflows consist of 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.

South Dakota Codified Law (SDCL) 4-5-26 provides the legal list of investments for 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 A1 as of June 30, 2013. Diversification by maturity, quality and market sector is closely monitored.

## OBJECTIVES AND COMPONENTS

The objectives of SDCFF 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 portfolios. On June 30, 2013, 91.0% was in the actively-managed duration portfolio. An active duration strategy was implemented in November 1985. In May 1993, the South Dakota 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 7.1% of SDCFF. This portfolio 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 1.9% of SDCFF. The CD rate was based on the one-year Treasury note plus 0.25% shortly before the yearly issuance in September. On June 30, 2013, \$20.977 million in CDs were held in forty-eight banks, two credit unions and one savings and loan association.

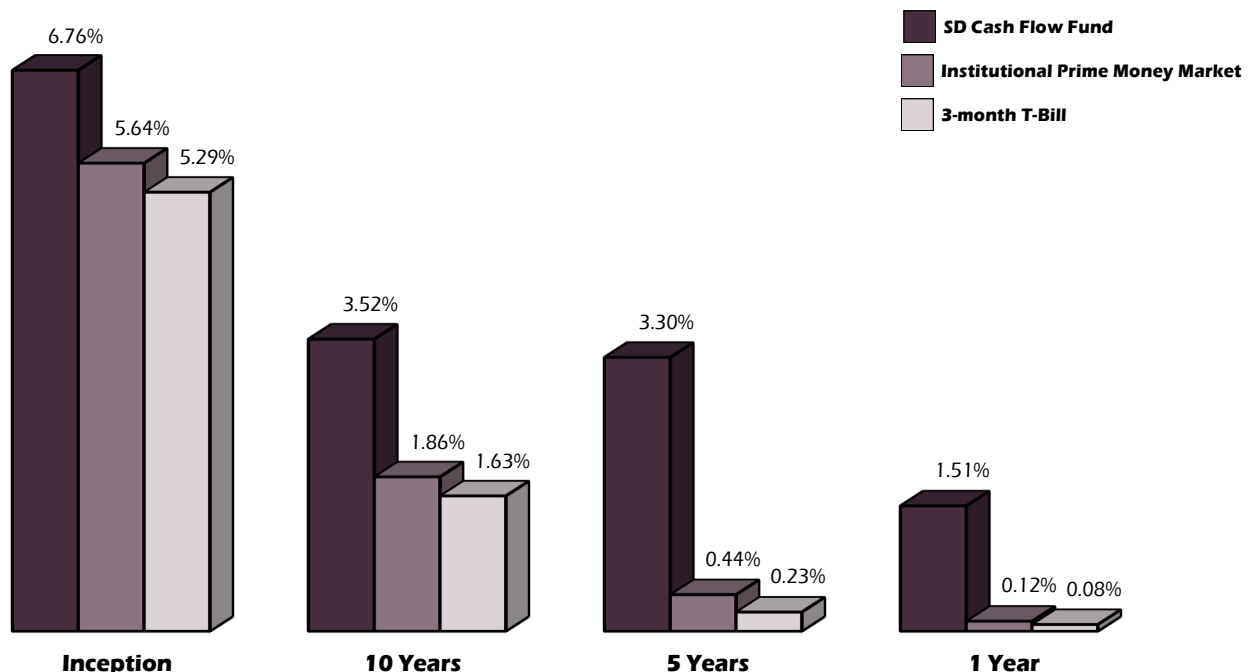
## PRORATION

Each fiscal year, the receipted 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 receipted income was \$17.4 million for fiscal year 2013. South Dakota's state budget and taxpayers have received over \$1 billion of earnings from this important fund since its inception.

## INVESTMENT PERFORMANCE - FISCAL YEAR 2013

The yield of SDCFF for fiscal year 2013 was 1.51% versus an institutional prime money market yield of 0.12% and a 3-month Treasury bill return of 0.08%. The difference resulted primarily from coupon rates of securities held in the portfolio before interest rates fell. As these securities mature, the overall yield on the portfolio will decrease. Since the fund's inception in December 1972, it has yielded 6.76% annually versus an institutional prime money market annual yield of 5.64% and a 3-month Treasury bill annual yield of 5.29%. For fiscal year 2013, the duration portfolio of the fund had a total return of 0.98% versus a benchmark<sup>6</sup> return of 1.30%. Since the inception of the duration portfolio in November 1985, its performance has been 5.61% annually versus 5.22% for the benchmark. During fiscal year 2013, the money market portion yielded 0.01% versus 0.12% for an institutional prime money market fund and 0.08% for 3-month Treasury bills. The CD Program yielded 0.51% for the fiscal year. The CD rate at June 30, 2013, was 0.46%.

## Yield Analysis (Annualized)



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

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

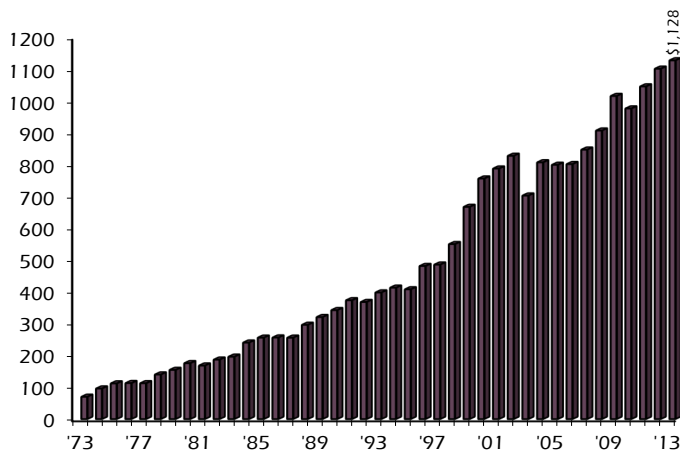
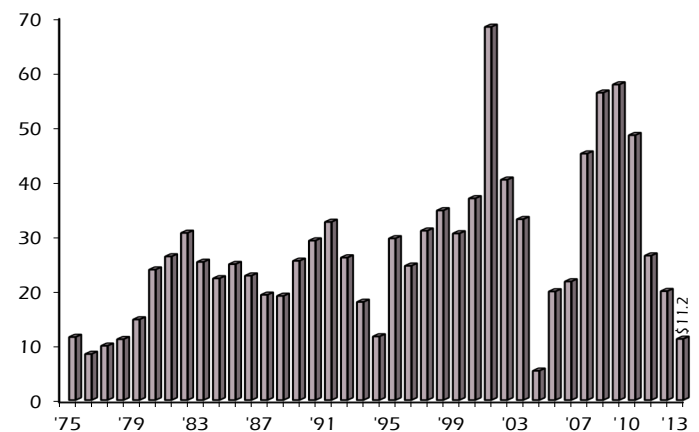
	SDCFF Proration Amount	Total Receipted Rate (Proration Rate)	Managed Accrued Rate*	3-month Treasury Bill Rate	Institutional Prime Money Market Fund	Total Return SDCDP✓	SDCDP Index <sup>6</sup>
2013	\$ 17,429,182	1.47%	1.51%	0.1%	0.1%	0.98%	1.30%
2012	25,829,546	2.33%	2.27%	0.0%	0.1%	1.88%	1.82%
2011	35,573,830	3.37%	3.43%	0.1%	0.2%	2.71%	2.84%
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>\$1,054,217,217</u>						

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

✓ Total return of SDCFF Duration Portfolio (SDCDP).

▣ Prorated amount and rate are 7-month numbers.

❖ Rate is annualized.

**Asset Growth<sup>23</sup> (\$ in millions)****Investment Income<sup>24</sup> (\$ in millions)**



**Cash Flows and Fair Value Changes**

The South Dakota Cash Flow Fund began fiscal year 2013 with \$1,101.6 million in assets. During the fiscal year, net contributions/withdrawals and fees increased the fund by \$15.2 million and investment income increased it by \$11.2 million, resulting in an ending fair value of \$1,128.0 million.

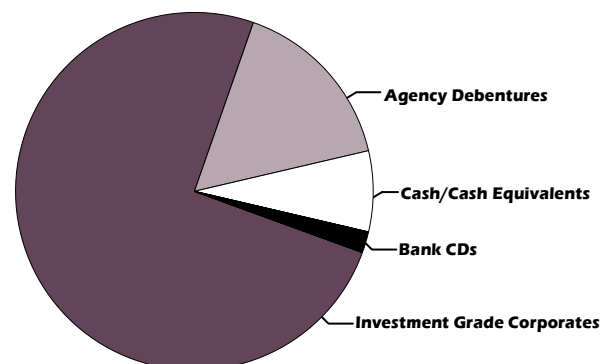
<b>Fair Value 6/30/12</b>			\$1,101,662,328
<b>Increases/Decreases</b>			
Net Contributions/Withdrawals		\$ 16,172,572	
Internal Management Fees		<u>(971,699)</u>	
Total Increases/Decreases			\$ 15,200,873
<b>Investment Income</b>			
Securities Income			
Interest Income - Managed	\$ 15,713,541		
Interest Income - CDs	142,918		
Change in Accrued Income	<u>(503,025)</u>		
Total Securities Income		\$ 15,353,434	
Capital Gain/Loss Income			
Unrealized Gain/Loss Securities	\$ (6,605,188)		
Realized Gain/Loss Securities	<u>2,406,764</u>		
Total Capital Gain/Loss Income		\$ <u>(4,198,424)</u>	
Total Investment Income			\$ <u>11,155,010</u>
<b>Fair Value 6/30/13</b>			<u>\$1,128,018,211</u>

**Distribution of Assets**

The South Dakota Cash Flow Fund's internal Duration Portfolio, internal Money Market and CD Program characteristics as of June 30, 2013, are presented below.

<b><u>Distribution by Duration</u></b>	<b><u>%</u></b>	<b><u>Distribution by Quality Rating</u></b>	<b><u>%</u></b>
0 to 1 year	23.1%	U.S. Gov't/Aaa	26.5%
1 to 2 years	27.3%	Aa	14.9%
2 to 3 years	31.7%	A	52.6%
3 to 4 years	10.0%	Baa	<u>6.0%</u>
Above 4 years	<u>7.9%</u>		
Total	<u>100.0%</u>	Total	<u>100.0%</u>
<b><u>Distribution by Coupon</u></b>	<b><u>%</u></b>	<b><u>Distribution by Sector</u></b>	<b><u>%</u></b>
0.00% - 1.00%	51.1%	Cash/Cash Equivalents	7.3%
1.01% - 2.00%	36.7%	Bank CDs	1.9%
2.01% - 3.00%	5.6%	U.S. Treasuries	0.0%
3.01% - 4.00%	5.9%	Agency Debentures	16.0%
4.01% and over	<u>0.7%</u>	Investment Grade Corporates	<u>74.8%</u>
Total	<u>100.0%</u>	Total	<u>100.0%</u>

<b><u>Ten Largest Corporates by Issuer</u></b>	<b><u>% of Total</u></b>
General Electric Co.	4.4%
Wells Fargo & Co.	3.4%
Verizon Communications, Inc.	3.4%
JPMorgan Chase & Co.	3.3%
Toyota Motor Corp.	3.3%
Caterpillar, Inc.	3.3%
U.S. Bancorp	3.3%
IBM Corp.	2.9%
Pfizer, Inc.	2.9%
Goldman Sachs Group, Inc.	<u>2.9%</u>
Total	<u>33.1%</u>

**Asset Allocation**

## THE FUND

The School and Public Lands (SPL) 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, primarily resulting from the sale of land over many decades, has been set aside to provide income to help support public education.

In November 2000, Constitutional Amendment E was passed by the people of South Dakota. The amendment allows the fund to be invested in stocks, bonds, mutual funds and other financial instruments. South Dakota Codified Law (SDCL) 5-10-18 states that the provisions of SDCL 4-5-27, prudent-man standard, govern the moneys in the trust. The Constitution requires that sufficient income be retained to offset the effect of inflation<sup>3</sup>. State statute allows realized capital gains to be used to satisfy 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 increase the dollars available for education relative to before the constitutional change. 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 AND COMPONENTS

The objectives of SPL 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 the constitutionally-mandated CPI adjustment.

SPL assets were invested in diversified portfolios during fiscal year 2013, as shown on the following page. The fund was invested primarily in U.S. Treasury and mortgage-backed securities before the constitutional change in 2000. Since then, the South Dakota Investment Council has been shifting the asset allocation to be more similar to the South Dakota Retirement System's asset allocation over the last several years.

The long-term expected return of the fund as of June 30, 2013 was 5.9% with a volatility of 11.7%. This means the return in any given year may fall within a range of (5.8%) to 17.6% with 66% confidence or (17.6%) to 29.3% with 95% confidence.

## INVESTMENT PERFORMANCE - FISCAL YEAR 2013

The fund ended fiscal year 2013 with a fair value of \$222,342,174. The principal is adjusted by the inflation factor each year as required by the Constitution. SPL's total return, including realized and unrealized gains and losses and accrued income, was 17.6% for the fiscal year. The benchmark<sup>14</sup> return was 10.9%. The difference resulted primarily from outperformance in the global equity and real estate limited partnership holdings. The ten-year annualized total return was 6.5%. This compares with the ten-year annualized benchmark<sup>14</sup> return of 6.6%. The fund distributed \$7,422,432 to the common schools in February 2013 and \$1,980,791 to the schools of higher education in June 2013.

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

### Cash Flows and Fair Value Changes

*The School and Public Lands fund began fiscal year 2013 with \$188.4 million in assets. During the fiscal year, net contributions/withdrawals and fees increased the fund by \$0.3 million and investment income increased it by \$33.6 million, resulting in an ending fair value of \$222.3 million.*

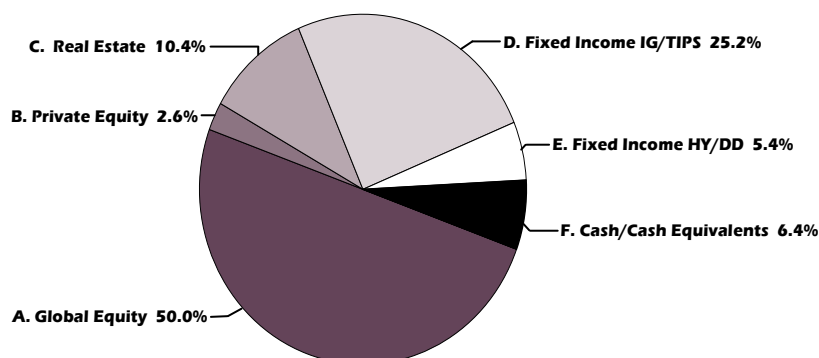
<b>Fair Value 6/30/12</b>		\$	188,364,816
<b>Increases/Decreases</b>			
Net Contributions/Withdrawals	\$	581,433	
External Management Fees		<u>(249,438)</u>	
Total Increases/Decreases		\$	331,995
<b>Investment Income</b>			
Securities Income			
Interest Income	\$	2,388,622	
Dividend Income		2,718,222	
Securities Lending Income		17,898	
Real Estate Income		214,116	
Change in Accrued Income		<u>27,407</u>	
Total Securities Income		\$	5,366,265
Capital Gain/Loss Income			
Unrealized Gain/Loss Securities	\$	23,052,294	
Realized Gain/Loss Securities		<u>5,226,804</u>	
Total Capital Gain/Loss Income		\$	<u>28,279,098</u>
Total Investment Income		\$	<u>33,645,363</u>
<b>Fair Value 6/30/13</b>		\$	<u>222,342,174</u>

# Investment Mix<sup>8</sup>

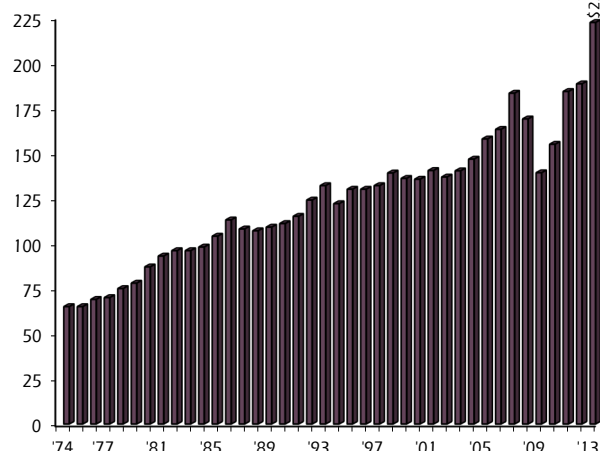
As of June 30, 2013, School and Public Lands' assets totaled \$222.3 million. The broad asset categories and managers are listed below. The Capital Markets Benchmark allocation is also provided for comparison.

	<u>Fair Value</u>		<u>% of Fund</u>		<u>Capital Markets Benchmark %</u>
<b>A. Global Equity</b>					
Internal Global Equity	\$ 110,009,048		49.5%		
Monument Park CDO, Ltd.	<u>1,071,216</u>	\$ 111,080,264	<u>0.5%</u>	50.0%	52.0%
<b>B. Private Equity Limited Partnerships</b>					
Blackstone Capital Partners	\$ 3,436,090		1.5%		
Doughty Hanson	1,392,929		0.6%		
Silver Lake	<u>1,096,235</u>	5,925,254	<u>0.5%</u>	2.6%	2.0%
<b>C. Real Estate Limited Partnerships</b>					
Blackstone Real Estate Partners	\$ 22,402,880		10.1%		
Cargill N.A. Real Estate Partners	<u>728,101</u>	23,130,981	<u>0.3%</u>	10.4%	6.0%
<b>D. Fixed Income - Investment Grade/TIPS</b>					
Internal Investment Grade	\$ 45,676,657		20.5%		
Internal Treasury Inflation-Protected Securities (TIPS)	8,882,582		4.0%		
S.D. S.B.A. and Similar Assets	<u>1,475,637</u>	56,034,876	<u>0.7%</u>	25.2%	33.0%
<b>E. Fixed Income - High Yield/Distressed Debt</b>					
Internal High Yield	\$ 2,353,331		1.1%		
CarVal	1,134,887		0.5%		
TCW	<u>8,476,280</u>	11,964,498	<u>3.8%</u>	5.4%	5.0%
<b>F. Cash &amp; Cash Equivalents</b>					
Internal Cash Account	<u>\$ 14,206,301</u>	<u>14,206,301</u>	<u>6.4%</u>	<u>6.4%</u>	<u>2.0%</u>
<b>Total</b>		<b>\$ 222,342,174</b>		<b>100.0%</b>	<b>100.0%</b>

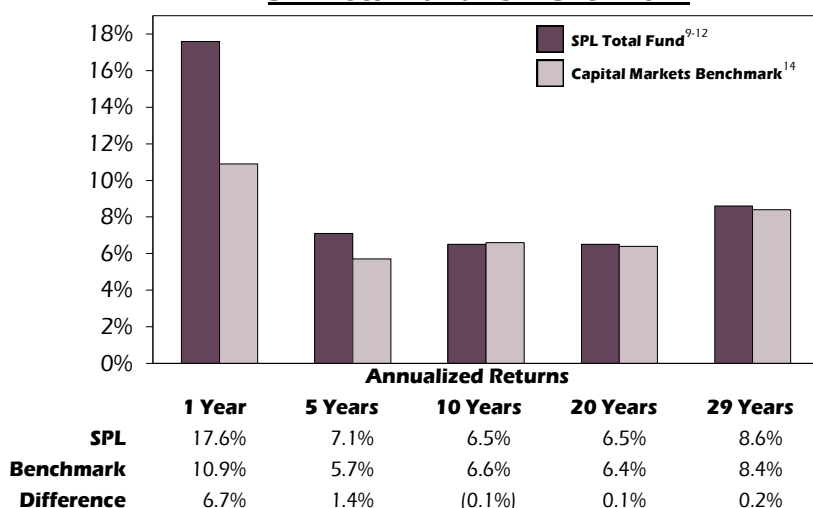
## Asset Allocation



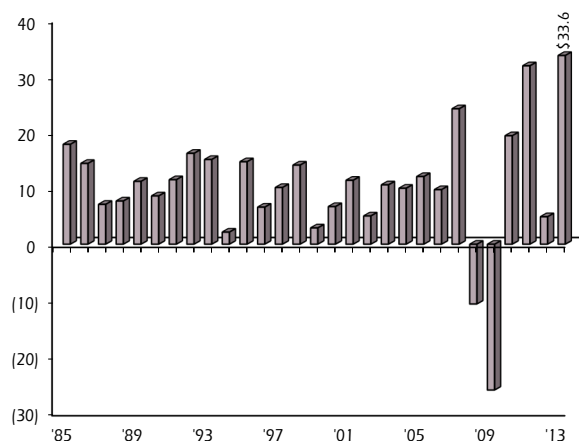
## Asset Growth<sup>23</sup> (\$ in millions)



## SPL Total Fund vs. Benchmark



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



**Internal Bond Profiles**

The School and Public Lands' internal Investment Grade (IG), High Yield (HY) and Treasury Inflation-Protected Securities bond portfolio characteristics as of June 30, 2013, are presented below.

**Distribution by Duration**

	<b>IG</b>	<b>HY</b>
0 to 2 Years	8.2%	22.9%
2 to 3 Years	7.0%	14.0%
3 to 4 Years	29.0%	12.6%
4 to 5 Years	15.0%	17.4%
5 to 6 Years	10.0%	20.2%
6 to 8 Years	18.9%	9.3%
Above 8 Years	<u>11.9%</u>	<u>3.6%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

**Distribution by Quality Rating**

	<b>IG</b>	<b>HY</b>
U.S. Gov't/Aaa	65.4%	4.7%
Aa	7.2%	0.0%
A	11.3%	0.0%
Baa	16.1%	0.4%
Ba	0.0%	25.5%
B	0.0%	51.4%
Caa and lower	<u>0.0%</u>	<u>18.0%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

**Distribution by Coupon**

	<b>IG</b>	<b>HY</b>
0.00% - 4.00%	57.2%	5.1%
4.01% - 5.00%	23.0%	0.0%
5.01% - 6.00%	12.1%	4.8%
6.01% - 7.00%	7.7%	15.4%
7.01% - 8.00%	0.0%	32.4%
8.01% - 9.00%	0.0%	22.5%
9.01% and over	<u>0.0%</u>	<u>19.8%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

**Distribution by Sector (Consolidated)**

	<b>%</b>
Cash/Cash Equivalents	2.6%
U.S. Treasuries	11.1%
Agency Debentures	8.6%
Agency Mortgage-Backed Securities	28.4%
Investment Grade Corporates	27.8%
High Yield Corporates	3.8%
Treasury Inflation-Protected Securities	15.2%
S.D. S.B.A. and Similar Assets	<u>2.5%</u>
Total	<u>100.0%</u>

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

	<b>% of Total</b>
Ontario (Province Of)	1.9%
Berkshire Hathaway, Inc.	1.9%
DIRECTV	1.8%
American Express Co.	1.6%
Altria Group, Inc.	1.5%
Morgan Stanley	1.4%
Metlife, Inc.	1.3%
Hewlett-Packard Co.	1.2%
Goldman Sachs Group, Inc.	1.2%
JPMorgan Chase & Co.	<u>1.1%</u>
Total	<u>14.9%</u>

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

	<b>% of Total</b>
NRG Energy, Inc.	2.6%
R.R. Donnelley & Sons Co.	2.3%
CC Media Holdings, Inc.	2.3%
JBS S.A.	2.3%
Frontier Communications Corp.	2.2%
Niska Gas Storage Partners LLC	2.2%
Service Corp. International	2.1%
JC Penney Co., Inc.	2.0%
Peabody Energy Corp.	2.0%
Cheniere Energy, Inc.	<u>2.0%</u>
Total	<u>22.0%</u>

**Internal Global Equity Profile**

The School and Public Lands' internal Global Equity portfolio characteristics as of June 30, 2013, are presented below.

**Distribution by Market Sector**

	<b>%</b>
Consumer Discretionary	13.5%
Consumer Staples	8.8%
Energy	13.1%
Financials	22.1%
Health Care	16.5%
Industrials	5.8%
Information Technology	15.1%
Materials	2.6%
Telecommunications Services	0.8%
Utilities	1.3%
Cash Equivalents	<u>0.4%</u>
Total	<u>100.0%</u>

**Ten Largest Company Holdings**

	<b>% of Total</b>
Wells Fargo & Co.	3.1%
Microsoft Corp.	2.9%
Target Corp.	2.8%
JPMorgan Chase & Co.	2.7%
Wal-Mart Stores, Inc.	2.3%
Pfizer, Inc.	2.1%
Google, Inc.	1.9%
Honda Motor Co., Ltd.	1.9%
Intel Corp.	1.8%
Metlife, Inc.	<u>1.7%</u>
Total	<u>23.2%</u>

**Five Largest Country Weights**

	<b>% of Total</b>
United States	73.4%
Switzerland	6.4%
Great Britain	6.0%
Japan	4.2%
Germany	<u>2.7%</u>
Total	<u>92.7%</u>

## THE FUND

The Dakota Cement Trust Fund (DCT) was established under the Constitution in 2001 through a Joint Resolution submitted to the South Dakota citizens at a special election designed by the 75th Legislature. Two sections of Article XIII of the Constitution were amended. These sections were further amended by a constitutional change passed in November 2012.

Section 20 of Article XIII provided that the net proceeds from the sale of state cement enterprises be deposited into a trust fund created to benefit the citizens of South Dakota. It directed the South Dakota Investment Council (Council) to invest the trust fund in stocks, bonds, mutual funds and other financial instruments as provided by law. South Dakota Codified Law (SDCL) 5-17-42 states that the provisions of SDCL 4-5-27, prudent-man standard, govern the moneys in the trust. Prior to November 2012, the Constitution required a transfer of \$12 million each year from the trust fund to the general fund. The November 2012 amendment removed the \$12 million transfer requirement from Section 20.

Section 21 of Article XIII originally provided for additional distributions from the fund over the \$12 million when specific valuations were achieved. The November 2012 Constitutional amendment changed the distribution calculation to "...four percent of the lesser of the average market value of the trust fund determined by adding the market value of the trust fund at the end of the sixteen most recent calendar quarters as of December 31 of that year and dividing that sum by sixteen, or the market value of the trust fund at the end of that calendar year for the support of education in South Dakota."

## OBJECTIVES AND COMPONENTS

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

DCT assets were invested in diversified portfolios during fiscal year 2013, as shown on the following page. The Council has been shifting the asset allocation to be more similar to the South Dakota Retirement System's asset allocation over the last several years.

The long-term expected return of the fund as of June 30, 2013 was 5.9% with a volatility of 11.7%. This means that the return in any given year may fall within a range of (5.8%) to 17.6% with 66% confidence or (17.6%) to 29.3% with 95% confidence.

## INVESTMENT PERFORMANCE - FISCAL YEAR 2013

The fund ended fiscal year 2013 with a fair value of \$268,843,154, principal value of \$238,000,000, and inflation-adjusted principal of \$313,578,462. DCT's total return, including realized and unrealized gains and losses and accrued income, was 17.8% for the fiscal year. The benchmark<sup>16</sup> return was 10.9%. The difference resulted primarily from outperformance in the global equity and real estate limited partnership holdings. The ten-year annualized total return was 6.7%. This compares with the ten-year annualized benchmark<sup>16</sup> return of 6.9%. In June 2013, the fund distributed \$9,356,955 to the general fund. Since inception, the fund has distributed \$153 million to the general fund and over \$5.1 million to support education.

## Cash Flows and Fair Value Changes

*The Dakota Cement Trust Fund began fiscal year 2013 with \$236.7 million in assets. During the fiscal year, net contributions/withdrawals and fees decreased the fund by \$9.9 million and investment income increased it by \$42.0 million, resulting in an ending fair value of \$268.8 million.*

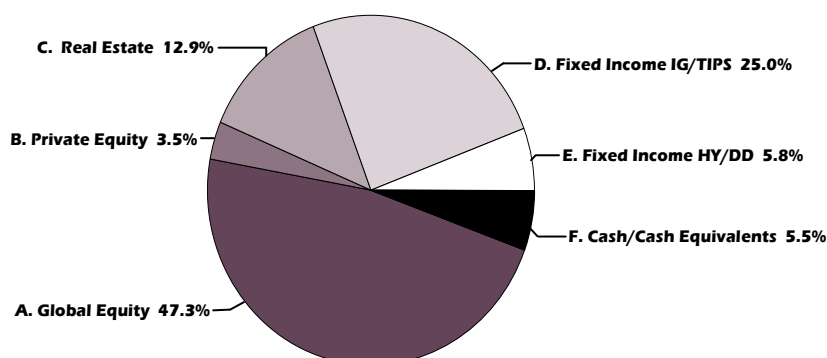
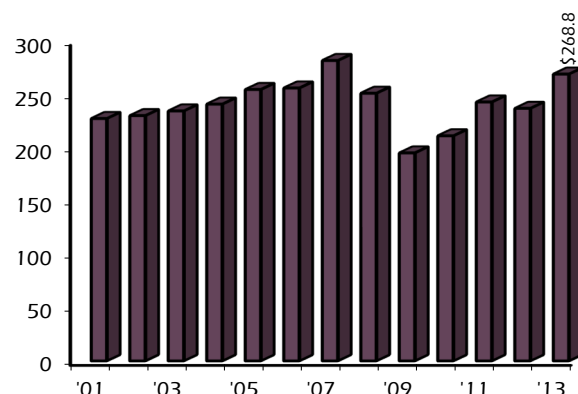
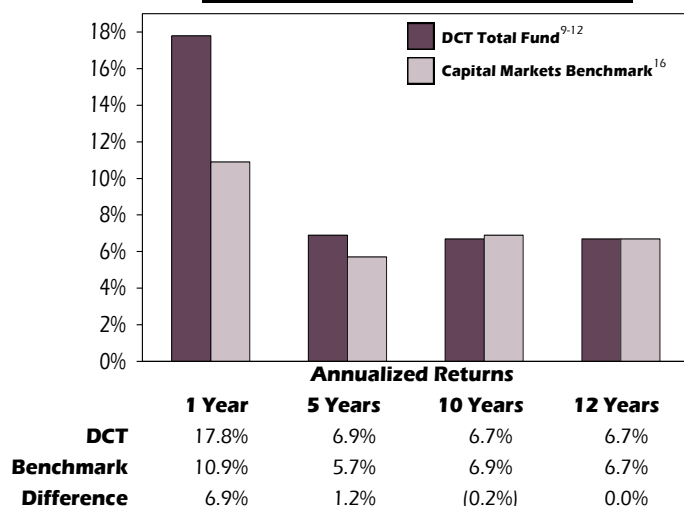
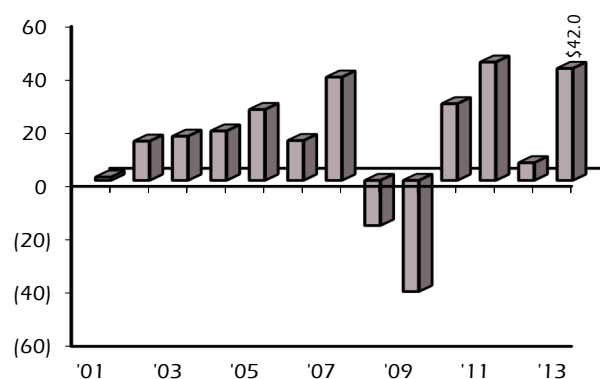
<b>Fair Value 6/30/12</b>		\$	236,725,026
<b>Increases/Decreases</b>			
Net Contributions/Withdrawals	\$	(9,356,955)	
Internal Management Fees		(179,148)	
External Management Fees		<u>(341,349)</u>	
Total Increases/Decreases		\$	(9,877,452)
<b>Investment Income</b>			
Securities Income			
Interest Income	\$	2,969,910	
Dividend Income		3,264,023	
Securities Lending Income		22,307	
Real Estate Income		295,231	
Change in Accrued Income		<u>20,980</u>	
Total Securities Income	\$	6,572,451	
Capital Gain/Loss Income			
Unrealized Gain/Loss Securities	\$	28,290,929	
Realized Gain/Loss Securities		<u>7,132,200</u>	
Total Capital Gain/Loss Income	\$	<u>35,423,129</u>	
Total Investment Income		\$	<u>41,995,580</u>
<b>Fair Value 6/30/13</b>		\$	<u>268,843,154</u>



**Investment Mix<sup>8</sup>**

As of June 30, 2013, Dakota Cement Trust's assets totaled \$268.8 million. The broad asset categories and managers are listed below. The Capital Markets Benchmark allocation is also provided for comparison.

	<b>Fair Value</b>		<b>% of Fund</b>	<b>Capital Markets Benchmark %</b>
<b>A. Global Equity</b>				
Internal Global Equity	\$ 125,282,415		46.6%	
Monument Park CDO, Ltd.	<u>1,859,182</u>	\$ 127,141,597	<u>0.7%</u>	52.0%
<b>B. Private Equity Limited Partnerships</b>				
Blackstone Capital Partners	\$ 5,329,635		2.0%	
Doughty Hanson	2,271,707		0.8%	
Silver Lake	<u>1,788,286</u>	9,389,628	<u>0.7%</u>	2.0%
<b>C. Real Estate Limited Partnerships</b>				
Blackstone Real Estate Partners	\$ 33,403,612		12.4%	
Cargill N.A. Real Estate Partners	<u>1,187,954</u>	34,591,566	<u>0.5%</u>	6.0%
<b>D. Fixed Income - Investment Grade/TIPS</b>				
Internal Investment Grade	\$ 56,160,889		20.9%	
Internal Treasury Inflation-Protected Securities (TIPS)	<u>11,137,341</u>	67,298,230	<u>4.1%</u>	33.0%
<b>E. Fixed Income - High Yield/Distressed Debt</b>				
Internal High Yield	\$ 3,191,061		1.2%	
CarVal	1,842,301		0.7%	
TCW	<u>10,569,192</u>	15,602,554	<u>3.9%</u>	5.0%
<b>F. Cash &amp; Cash Equivalents</b>				
Internal Cash Account	<u>\$ 14,819,579</u>	<u>14,819,579</u>	<u>5.5%</u>	<u>2.0%</u>
<b>Total</b>		<u>\$ 268,843,154</u>	<u>100.0%</u>	<u>100.0%</u>

**Asset Allocation****Asset Growth<sup>23</sup> (\$ in millions)****DCT Total Fund vs. Benchmark****Investment Income<sup>24</sup> (\$ in millions)**

**Internal Bond Profiles**

The Dakota Cement Trust's internal Investment Grade (IG), High Yield (HY) and Treasury Inflation-Protected Securities bond portfolio characteristics as of June 30, 2013, are presented below.

**Distribution by Duration**

	<b>IG</b>	<b>HY</b>
0 to 2 Years	10.6%	22.8%
2 to 3 Years	9.2%	14.0%
3 to 4 Years	23.7%	12.6%
4 to 5 Years	14.8%	17.3%
5 to 6 Years	10.2%	20.4%
6 to 8 Years	19.0%	9.2%
Above 8 Years	<u>12.5%</u>	<u>3.7%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

**Distribution by Quality Rating**

	<b>IG</b>	<b>HY</b>
U.S. Gov't/Aaa	65.4%	4.6%
Aa	7.2%	0.0%
A	11.3%	0.0%
Baa	16.1%	0.4%
Ba	0.0%	25.6%
B	0.0%	51.4%
Caa and lower	<u>0.0%</u>	<u>18.0%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

**Distribution by Coupon**

	<b>IG</b>	<b>HY</b>
0.00% - 4.00%	58.7%	5.1%
4.01% - 5.00%	16.6%	0.0%
5.01% - 6.00%	16.5%	4.8%
6.01% - 7.00%	8.2%	15.4%
7.01% - 8.00%	0.0%	32.5%
8.01% - 9.00%	0.0%	22.5%
9.01% and over	<u>0.0%</u>	<u>19.7%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

**Distribution by Sector (Consolidated)**

	<b>%</b>
Cash/Cash Equivalents	3.3%
U.S. Treasuries	11.3%
Agency Debentures	9.2%
Agency Mortgage-Backed Securities	27.8%
Investment Grade Corporates	28.3%
High Yield Corporates	4.3%
Treasury Inflation-Protected Securities	<u>15.8%</u>
Total	<u>100.0%</u>

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

	<b>% of Total</b>
Ontario (Province Of)	1.9%
Berkshire Hathaway, Inc.	1.9%
DIRECTV	1.8%
American Express Co.	1.6%
Altria Group, Inc.	1.5%
Morgan Stanley	1.4%
Metlife, Inc.	1.3%
Hewlett-Packard Co.	1.2%
Goldman Sachs Group, Inc.	1.2%
JPMorgan Chase & Co.	<u>1.1%</u>
Total	<u>14.9%</u>

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

	<b>% of Total</b>
NRG Energy, Inc.	2.5%
R.R. Donnelley & Sons Co.	2.3%
CC Media Holdings, Inc.	2.3%
JBS S.A.	2.2%
Frontier Communications Corp.	2.2%
Niska Gas Storage Partners LLC	2.2%
Service Corp. International	2.1%
Cheniere Energy, Inc.	2.0%
JC Penney Co., Inc.	2.0%
Peabody Energy Corp.	<u>2.0%</u>
Total	<u>21.8%</u>

**Internal Global Equity Profile**

The Dakota Cement Trust's internal Global Equity portfolio characteristics as of June 30, 2013, are presented below.

**Distribution by Market Sector**

	<b>%</b>
Consumer Discretionary	13.8%
Consumer Staples	8.7%
Energy	13.5%
Financials	22.2%
Health Care	16.3%
Industrials	5.6%
Information Technology	14.8%
Materials	2.5%
Telecommunications Services	0.9%
Utilities	1.3%
Cash Equivalents	<u>0.4%</u>
Total	<u>100.0%</u>

**Ten Largest Company Holdings**

	<b>% of Total</b>
Wells Fargo & Co.	3.1%
Microsoft Corp.	2.9%
Target Corp.	2.8%
JPMorgan Chase & Co.	2.7%
Wal-Mart Stores, Inc.	2.3%
Pfizer, Inc.	2.1%
Google, Inc.	1.9%
Honda Motor Co., Ltd.	1.9%
Intel Corp.	1.8%
Metlife, Inc.	<u>1.7%</u>
Total	<u>23.2%</u>

**Five Largest Country Weights**

	<b>% of Total</b>
United States	73.5%
Great Britain	6.6%
Switzerland	6.3%
Japan	4.3%
Germany	<u>2.5%</u>
Total	<u>93.2%</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 EET thereafter are placed in EET. During fiscal year 2013, \$3 million was placed in the fund for scholarship purposes per Senate Bills 233 and 237. The constitution directs the South Dakota Investment Council (Council) to invest the trust funds in stocks, bonds, mutual funds and other financial instruments as provided by law. South Dakota Codified Law (SDCL) 10-50B-11.1 states that the provisions of SDCL 4-5-27, prudent-man standard, govern the moneys in the trust.

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

## SECURITIZATION

On September 24, 2002, the fund was increased by net proceeds of \$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. During fiscal year 2013, the 2002 Bonds were refunded and new bonds were issued with a lower interest rate.

## OBJECTIVES AND COMPONENTS

The objectives of 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.

EET assets were invested in diversified portfolios during fiscal year 2013, as shown on the following page. The tax-exempt municipal bonds are invested per the requirements of the bond indenture for the asset-backed securitization. PIMCO Asset Management manages the tax-exempt portfolio. As the tax-exempt bonds are redeemed, assets are deallocated (removed) from the tax-exempt portfolio and placed into the taxable portfolio to generate higher expected returns. The Council has been shifting the asset allocation to be more similar to the South Dakota Retirement System's asset allocation over the last several years.

The long-term expected return of the fund as of June 30, 2013 was 5.9% with a volatility of 11.7%. The return in any given year can fall within a range of (5.8%) to 17.6% with 66% confidence or (17.6%) to 29.3% with 95% confidence.

## INVESTMENT PERFORMANCE - FISCAL YEAR 2013

The fund ended fiscal year 2013 with a fair value of \$441,011,625, principal value of \$334,012,613, and inflation-adjusted principal of \$428,842,498. EET's total return, including realized and unrealized gains and losses and accrued income, was 17.3%. The benchmark<sup>17</sup> return was 11.3%. The difference resulted primarily from outperformance in the global equity and real estate limited partnership holdings. The ten-year annualized total return was 6.0%. This compares with the ten-year annualized benchmark<sup>17</sup> return of 6.8%. The fund's return has been impacted by the required use of tax-exempt securities. In July 2013, the fund distributed 4% of the sixteen-quarter average market value as of December 31, 2012, totaling \$14,413,354, to the general fund for education expenditures.

### Cash Flows and Fair Value Changes

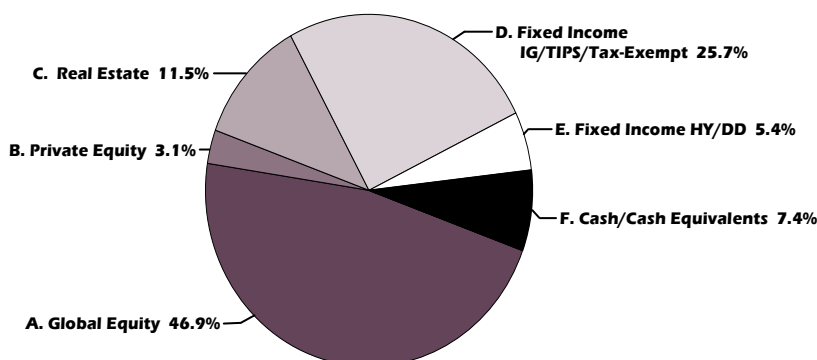
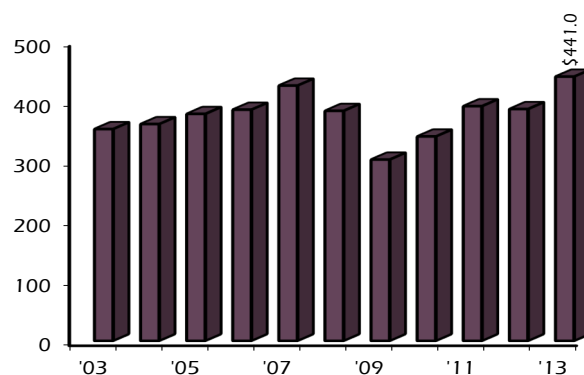
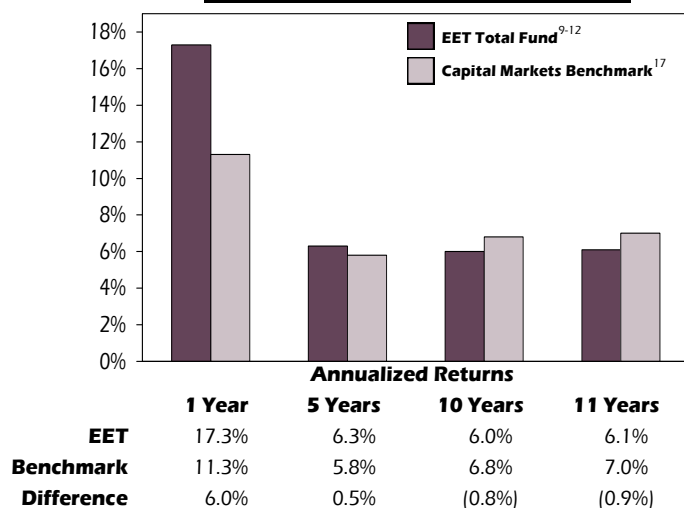
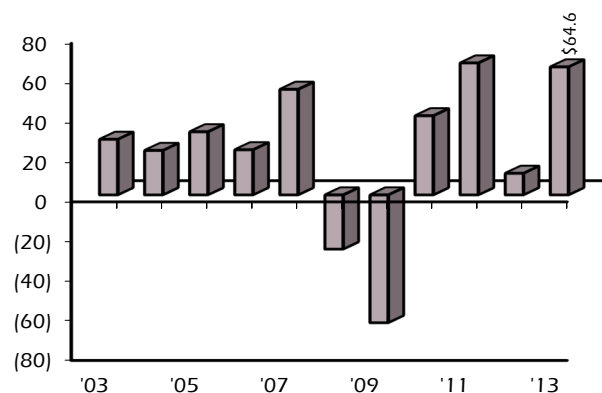
*The Education Enhancement Trust Fund began fiscal year 2013 with \$386.9 million in assets. During the fiscal year, net contributions/withdrawals and fees decreased the fund by \$10.4 million and investment income increased it by \$64.6 million, resulting in an ending fair value of \$441.0 million.*

<b>Fair Value 6/30/12</b>		\$ 386,854,918
<b>Increases/Decreases</b>		
Net Contributions/Withdrawals	\$ (9,370,018)	
Internal Management Fees	(279,836)	
External Management Fees	<u>(772,487)</u>	
Total Increases/Decreases		\$ (10,422,341)
<b>Investment Income</b>		
Securities Income		
Interest Income	\$ 5,576,835	
Dividend Income	5,061,064	
Securities Lending Income	33,150	
Real Estate Income	439,391	
Change in Accrued Income	<u>(254,211)</u>	
Total Securities Income		\$ 10,856,229
Capital Gain/Loss Income		
Unrealized Gain/Loss Securities	\$ 39,658,904	
Realized Gain/Loss Securities	<u>14,063,915</u>	
Total Capital Gain/Loss Income		\$ 53,722,819
Total Investment Income		\$ 64,579,048
<b>Fair Value 6/30/13</b>		\$ 441,011,625

**Investment Mix<sup>8</sup>**

As of June 30, 2013, Education Enhancement Trust's assets totaled \$441.0 million. The broad asset categories and managers are listed below. The Capital Markets Benchmark allocation is also provided for comparison.

	<b>Fair Value</b>		<b>% of Fund</b>	<b>Capital Markets Benchmark %</b>
<b>A. Global Equity</b>				
Internal Global Equity	\$ 204,261,321		46.3%	
Monument Park CDO, Ltd.	<u>2,680,216</u>	\$206,941,537	<u>0.6%</u>	46.9%
				52.0%
<b>B. Private Equity Limited Partnerships</b>				
Blackstone Capital Partners	\$ 7,801,726		1.8%	
Doughty Hanson	3,283,627		0.7%	
Silver Lake	<u>2,584,430</u>	13,669,783	<u>0.6%</u>	3.1%
				2.0%
<b>C. Real Estate Limited Partnerships</b>				
Blackstone Real Estate Partners	\$ 48,945,334		11.1%	
Cargill N.A. Real Estate Partners	<u>1,686,129</u>	50,631,463	<u>0.4%</u>	11.5%
				6.0%
<b>D. Fixed Income - Investment Grade/TIPS/Tax-Exempt</b>				
Internal Investment Grade	\$ 46,599,595		10.6%	
Internal Treasury Inflation-Protected Securities (TIPS)	17,536,660		4.0%	
PIMCO Tax-Exempt Portfolio	<u>48,887,346</u>	113,023,601	<u>11.1%</u>	25.7%
				33.0%
<b>E. Fixed Income - High Yield/Distressed Debt</b>				
Internal High Yield	\$ 5,028,340		1.1%	
CarVal	2,665,561		0.6%	
TCW	<u>16,593,432</u>	24,287,333	<u>3.7%</u>	5.4%
				5.0%
<b>F. Cash &amp; Cash Equivalents</b>				
Internal Cash Account	<u>\$ 32,457,908</u>	<u>32,457,908</u>	<u>7.4%</u>	<u>7.4%</u>
				<u>2.0%</u>
<b>Total</b>		<u>\$441,011,625</u>	<u>100.0%</u>	<u>100.0%</u>

**Asset Allocation****Asset Growth<sup>23</sup> (\$ in millions)****EET Total Fund vs. Benchmark****Investment Income<sup>24</sup> (\$ in millions)**

**Internal Bond Profiles**

The Education Enhancement Trust's internal Investment Grade (IG), High Yield (HY) and Treasury Inflation-Protected Securities bond portfolio characteristics as of June 30, 2013 are presented below.

<b>Distribution by Duration</b>	<b>IG</b>	<b>HY</b>	<b>Distribution by Quality Rating</b>	<b>IG</b>	<b>HY</b>
0 to 2 Years	9.9%	22.9%	U.S. Gov't/Aaa	65.4%	4.7%
2 to 3 Years	11.8%	14.0%	Aa	7.2%	0.0%
3 to 4 Years	21.1%	12.6%	A	11.3%	0.0%
4 to 5 Years	18.5%	17.3%	Baa	16.1%	0.4%
5 to 6 Years	8.6%	20.4%	Ba	0.0%	25.6%
6 to 8 Years	18.7%	9.2%	B	0.0%	51.3%
Above 8 Years	<u>11.4%</u>	<u>3.6%</u>	Caa and lower	<u>0.0%</u>	<u>18.0%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	Total	<u>100.0%</u>	<u>100.0%</u>

<b>Distribution by Coupon</b>	<b>IG</b>	<b>HY</b>	<b>Distribution by Sector (Consolidated)</b>	<b>%</b>
0.00% - 4.00%	65.9%	5.1%	Cash/Cash Equivalents	4.3%
4.01% - 5.00%	16.8%	0.0%	U.S. Treasuries	7.3%
5.01% - 6.00%	14.0%	4.8%	Agency Debentures	2.5%
6.01% - 7.00%	3.3%	15.4%	Agency Mortgage-Backed Securities	13.4%
7.01% - 8.00%	0.0%	32.5%	Investment Grade Corporates	14.0%
8.01% - 9.00%	0.0%	22.5%	High Yield Corporates	4.0%
9.01% and over	<u>0.0%</u>	<u>19.7%</u>	Treasury Inflation-Protected Securities	14.9%
			Tax-Exempt Bonds	<u>39.6%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	Total	<u>100.0%</u>

**Investment Grade Bond Portfolio**  
**Ten Largest Corporates by Issuer**
**% of Total**

Ontario (Province Of)	1.9%
Berkshire Hathaway, Inc.	1.9%
DIRECTV	1.8%
American Express Co.	1.6%
Altria Group, Inc.	1.5%
Morgan Stanley	1.4%
Metlife, Inc.	1.3%
Hewlett-Packard Co.	1.2%
Goldman Sachs Group, Inc.	1.2%
JPMorgan Chase & Co.	<u>1.1%</u>
Total	<u>14.9%</u>

**High Yield Bond Portfolio****Ten Largest Corporates by Issuer****% of Total**

NRG Energy, Inc.	2.6%
R.R. Donnelley & Sons Co.	2.3%
CC Media Holdings, Inc.	2.3%
JBS S.A.	2.2%
Frontier Communications Corp.	2.2%
Niska Gas Storage Partners LLC	2.2%
Service Corp. International	2.1%
JC Penney Co., Inc.	2.1%
Cheniere Energy, Inc.	2.0%
Peabody Energy Corp.	<u>2.0%</u>
Total	<u>22.0%</u>

**Internal Global Equity Profile**

The Education Enhancement Trust's internal Global Equity portfolio characteristics as of June 30, 2013, are presented below.

<b>Distribution by Market Sector</b>	<b>%</b>	<b>Ten Largest Company Holdings</b>	<b>% of Total</b>
Consumer Discretionary	13.8%	Wells Fargo & Co.	3.1%
Consumer Staples	8.9%	Microsoft Corp.	2.9%
Energy	13.3%	Target Corp.	2.8%
Financials	21.5%	Wal-Mart Stores, Inc.	2.4%
Health Care	16.7%	JPMorgan Chase & Co.	2.1%
Industrials	5.5%	Pfizer, Inc.	2.1%
Information Technology	15.0%	Google, Inc.	1.9%
Materials	2.5%	Honda Motor Co., Ltd.	1.9%
Telecommunications Services	1.0%	Intel Corp.	1.8%
Utilities	1.3%	Metlife, Inc.	<u>1.7%</u>
Cash Equivalents	<u>0.5%</u>		
Total	<u>100.0%</u>	Total	<u>22.7%</u>

**Five Largest Country Weights****% of Total**

United States	73.4%
Great Britain	6.5%
Switzerland	6.3%
Japan	4.3%
Germany	<u>2.7%</u>
Total	<u>93.2%</u>



## THE FUND

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

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

## OBJECTIVES AND COMPONENTS

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

HCT assets were invested in diversified portfolios during fiscal year 2013, as shown on the following page. The Council has been shifting the asset allocation to be more similar to the South Dakota Retirement System's asset allocation over the last several years.

The long-term expected return of the fund as of June 30, 2013 was 5.9% with a volatility of 11.7%. This means that the return in any given year may fall within a range of (5.8%) to 17.6% with 66% confidence or (17.6%) to 29.3% with 95% confidence.

## INVESTMENT PERFORMANCE - FISCAL YEAR 2013

The fund ended fiscal year 2013 with a fair value of \$121,106,711, principal value of \$85,631,024, and inflation-adjusted principal of \$110,120,179. HCT's total return, including realized and unrealized gains and losses and accrued income, was 17.9% for the fiscal year. The benchmark<sup>18</sup> return was 10.9%. The difference resulted primarily from outperformance in the global equity and real estate limited partnership holdings. The ten-year annualized total return was 6.6%. This compares with the ten-year annualized benchmark<sup>18</sup> return of 6.9%. In July 2013, the fund distributed 4% of the sixteen-quarter average market value as of December 31, 2012, totaling \$3,959,754, to the general fund for health care related expenditures.

### Cash Flows and Fair Value Changes

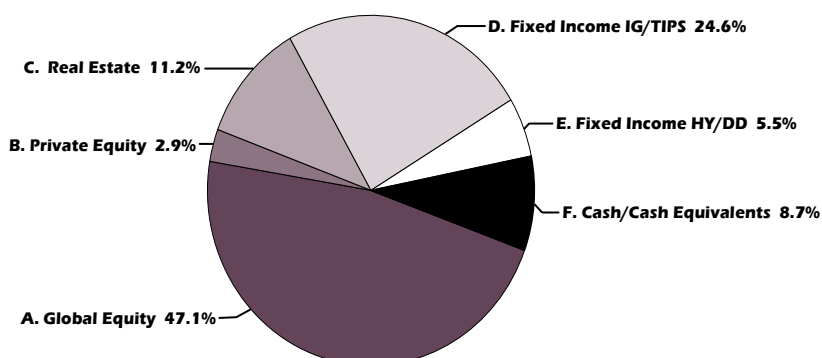
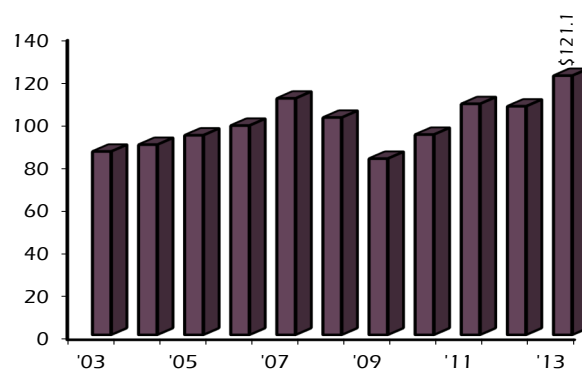
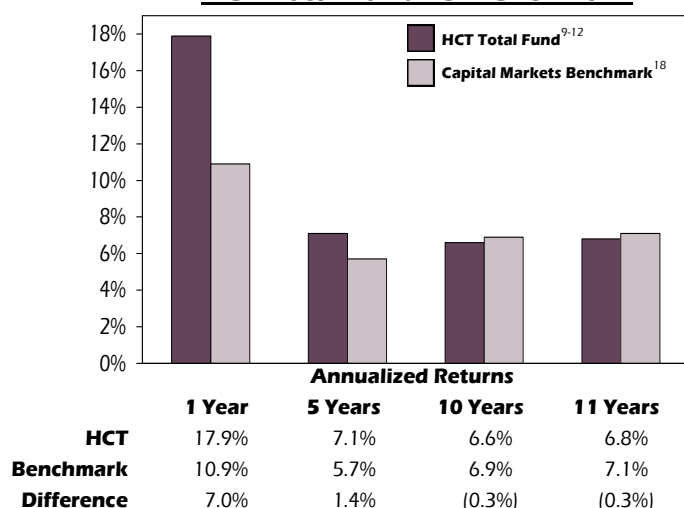
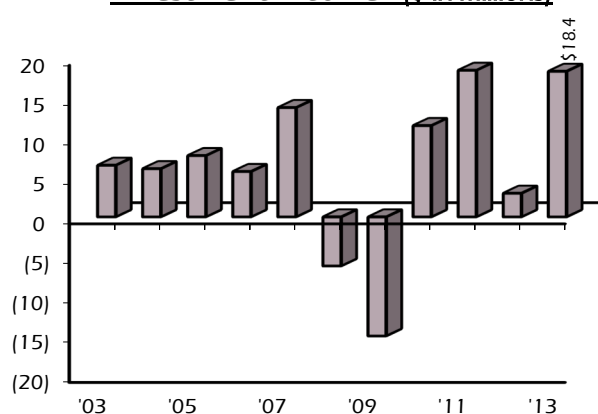
*The Health Care Trust Fund began fiscal year 2013 with \$106.8 million in assets. During the fiscal year, net contributions/withdrawals and fees decreased the fund by \$4.1 million and investment income increased it by \$18.4 million, resulting in an ending fair value of \$121.1 million.*

<b>Fair Value 6/30/12</b>		\$	106,790,271
<b>Increases/Decreases</b>			
Net Contributions/Withdrawals	\$	(3,825,385)	
Internal Management Fees		(77,008)	
External Management Fees		<u>(142,753)</u>	
Total Increases/Decreases		\$	(4,045,146)
<b>Investment Income</b>			
Securities Income			
Interest Income	\$	1,299,837	
Dividend Income		1,464,174	
Securities Lending Income		9,691	
Real Estate Income		124,727	
Change in Accrued Income		<u>14,271</u>	
Total Securities Income	\$	2,912,700	
Capital Gain/Loss Income			
Unrealized Gain/Loss Securities	\$	11,871,742	
Realized Gain/Loss Securities		<u>3,577,144</u>	
Total Capital Gain/Loss Income	\$	<u>15,448,886</u>	
Total Investment Income		\$	<u>18,361,586</u>
<b>Fair Value 6/30/13</b>		\$	<u>121,106,711</u>

**Investment Mix<sup>8</sup>**

As of June 30, 2013, Health Care Trust's assets totaled \$121.1 million. The broad asset categories and managers are listed below. The Capital Markets Benchmark allocation is also provided for comparison.

	<u>Fair Value</u>		<u>% of Fund</u>	<u>Capital Markets Benchmark %</u>
<b>A. Global Equity</b>				
Internal Global Equity	\$ 56,405,555		46.6%	
Monument Park CDO, Ltd.	<u>654,825</u>	\$ 57,060,380	<u>0.5%</u>	52.0%
<b>B. Private Equity Limited Partnerships</b>				
Blackstone Capital Partners	\$ 2,053,607		1.7%	
Doughty Hanson	832,686		0.7%	
Silver Lake	<u>655,299</u>	3,541,592	<u>0.5%</u>	2.0%
<b>C. Real Estate Limited Partnerships</b>				
Blackstone Real Estate Partners	\$ 13,131,365		10.8%	
Cargill N.A. Real Estate Partners	<u>421,531</u>	13,552,896	<u>0.4%</u>	6.0%
<b>D. Fixed Income - Investment Grade/TIPS</b>				
Internal Investment Grade	\$ 24,895,748		20.6%	
Internal Treasury Inflation-Protected Securities (TIPS)	<u>4,846,916</u>	29,742,664	<u>4.0%</u>	33.0%
<b>E. Fixed Income - High Yield/Distressed Debt</b>				
Internal High Yield	\$ 1,376,507		1.1%	
CarVal	677,760		0.6%	
TCW	<u>4,607,486</u>	6,661,753	<u>3.8%</u>	5.0%
<b>F. Cash &amp; Cash Equivalents</b>				
Internal Cash Account	<u>\$ 10,547,426</u>	<u>10,547,426</u>	<u>8.7%</u>	<u>2.0%</u>
<b>Total</b>		<u>\$ 121,106,711</u>	<u>100.0%</u>	<u>100.0%</u>

**Asset Allocation****Asset Growth<sup>23</sup> (\$ in millions)****HCT Total Fund vs. Benchmark****Investment Income<sup>24</sup> (\$ in millions)**

**Internal Bond Profiles**

The Health Care Trust's internal Investment Grade (IG), High Yield (HY) and Treasury Inflation-Protected Securities bond portfolio characteristics as of June 30, 2013, are presented below.

<b>Distribution by Duration</b>	<b>IG</b>	<b>HY</b>	<b>Distribution by Quality Rating</b>	<b>IG</b>	<b>HY</b>
0 to 2 Years	10.7%	22.8%	U.S. Gov't/Aaa	65.4%	4.5%
2 to 3 Years	9.9%	14.0%	Aa	7.2%	0.0%
3 to 4 Years	22.8%	12.6%	A	11.3%	0.0%
4 to 5 Years	14.8%	17.4%	Baa	16.1%	0.4%
5 to 6 Years	10.2%	20.3%	Ba	0.0%	25.7%
6 to 8 Years	19.1%	9.2%	B	0.0%	51.4%
Above 8 Years	<u>12.5%</u>	<u>3.7%</u>	Caa and lower	<u>0.0%</u>	<u>18.0%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	Total	<u>100.0%</u>	<u>100.0%</u>

<b>Distribution by Coupon</b>	<b>IG</b>	<b>HY</b>	<b>Distribution by Sector (Consolidated)</b>	<b>%</b>
0.00% - 4.00%	59.4%	5.0%	Cash/Cash Equivalents	3.8%
4.01% - 5.00%	16.9%	0.0%	U.S. Treasuries	11.4%
5.01% - 6.00%	15.1%	4.8%	Agency Debentures	9.3%
6.01% - 7.00%	8.6%	15.6%	Agency Mortgage-Backed Securities	27.2%
7.01% - 8.00%	0.0%	32.5%	Investment Grade Corporates	28.5%
8.01% - 9.00%	0.0%	22.4%	High Yield Corporates	4.2%
9.01% and over	<u>0.0%</u>	<u>19.7%</u>	Treasury Inflation-Protected Securities	<u>15.6%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	Total	<u>100.0%</u>

**Investment Grade Bond Portfolio**  
**Ten Largest Corporates by Issuer**
**% of Total**

Ontario (Province Of)	1.9%
Berkshire Hathaway, Inc.	1.9%
DIRECTV	1.8%
American Express Co.	1.6%
Altria Group, Inc.	1.5%
Morgan Stanley	1.4%
Metlife, Inc.	1.3%
Hewlett-Packard Co.	1.2%
Goldman Sachs Group, Inc.	1.2%
JPMorgan Chase & Co.	<u>1.1%</u>
Total	<u>14.9%</u>

**High Yield Bond Portfolio****Ten Largest Corporates by Issuer****% of Total**

NRG Energy, Inc.	2.6%
CC Media Holdings, Inc.	2.3%
R.R. Donnelley & Sons Co.	2.3%
JBS S.A.	2.3%
Frontier Communications Corp.	2.3%
Niska Gas Storage Partners LLC	2.2%
Service Corp. International	2.1%
JC Penney Co., Inc.	2.1%
Cheniere Energy, Inc.	2.0%
Peabody Energy Corp.	<u>2.0%</u>
Total	<u>22.2%</u>

**Internal Global Equity Profile**

The Health Care Trust's internal Global Equity portfolio characteristics as of June 30, 2013, are presented below.

<b>Distribution by Market Sector</b>	<b>%</b>	<b>Ten Largest Company Holdings</b>	<b>% of Total</b>
Consumer Discretionary	13.9%	Wells Fargo & Co.	3.1%
Consumer Staples	8.6%	Microsoft Corp.	2.9%
Energy	13.3%	Target Corp.	2.8%
Financials	21.8%	Wal-Mart Stores, Inc.	2.3%
Health Care	16.5%	JPMorgan Chase & Co.	2.1%
Industrials	5.9%	Pfizer, Inc.	2.1%
Information Technology	14.8%	Google, Inc.	1.9%
Materials	2.5%	Honda Motor Co., Ltd.	1.9%
Telecommunications Services	1.0%	Intel Corp.	1.8%
Utilities	1.2%	Metlife, Inc.	<u>1.7%</u>
Cash Equivalents	<u>0.5%</u>		
Total	<u>100.0%</u>	Total	<u>22.6%</u>

**Five Largest Country Weights****% of Total**

United States	73.4%
Great Britain	6.5%
Switzerland	6.2%
Japan	4.3%
France	<u>2.5%</u>
Total	<u>92.9%</u>

## HIGHER EDUCATION SAVINGS PLAN

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

In November 2001, the Council selected Allianz Global Investors Distributors LLC (formerly PIMCO Funds Distributors LLC) as the program manager for the Section 529 program from seven candidates. Significant negotiations led to a unique "Best of Breed" multi-manager higher education savings plan. South Dakota's plan is entitled *CollegeAccess 529 Plan*. In 2007, the contract with Allianz Global Investors Distributors LLC (Allianz) was renegotiated with substantially the same terms as the original contract. The new seven year contract was signed on December 11, 2007. Contributions from every state and several countries have generated growth of Plan assets to over \$1.097 billion on June 30, 2013.

The 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 designated account beneficiary's age. A diversified group of five investment portfolios is designed to emphasize total return and capital appreciation when the beneficiary is younger and increasingly emphasizes preservation of capital and income as the beneficiary approaches college age. The total annual operating expense ratios for South Dakotans investing directly in the age-based portfolios ranged from 0.45% to 0.62% last year.

Account owners can also 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 0.45% 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 0.48% for South Dakota residents.

In addition to the opportunity for South Dakotans to invest directly at a low cost, five age-based portfolios, sixteen individual mutual fund choices and three customized investment portfolios are available to South Dakota investors as well as to investors nationwide. These selections can be accessed by using the services of a financial advisor. Although all investors will encounter a fee when investing with the assistance of a financial advisor, South Dakota residents do not pay the annual account 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 \$6,889,452 have been directed from Allianz to the Dakota Corps Scholarship Fund. Based on the assets as of June 30, 2013 and the scholarship funding formula, the resulting 2013 contribution was \$1,363,392. The Allianz program and the Dakota Corps programs share a common goal of keeping our talented young people in the state in order to foster South Dakota's economic well-being. The Dakota Corps program is unique because it is geared toward students who plan to work toward a degree in a critical need occupation in South Dakota. To be eligible, students must meet academic requirements and attend a participating South Dakota post-secondary institution. The scholarship recipients must agree in writing to stay in South Dakota and work in a critical need occupation after graduation for as many years as the scholarship was received, plus one year. These students receive four-year scholarships equal to tuition and fees for 16 credit hours per semester at a public South Dakota college, public technical college, or tribal college. The scholarship amount for attendance at a participating private college in South Dakota would be the same amount that would be paid at a public South Dakota college, with the college covering the remaining tuition and fees if needed. A description of the program can be found at [www.state.sd.us/dakotacorps/default.html](http://www.state.sd.us/dakotacorps/default.html).

## ANNUAL REPORT

Each year the Council is required by law to submit an annual report letter by February 1. This letter is to go to the Governor, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate. The letter, dated January 31, 2013, can be found in the Appendix on page 43.

## MORE INFORMATION

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

**SOUTH DAKOTA INVESTMENT COUNCIL**

4009 West 49th Street, Suite 300

Sioux Falls, SD 57106-3784 USA

Phone: (605) 362-2820

January 31, 2013

Hon. Dennis Daugaard  
Governor  
500 E. Capitol Avenue  
Pierre, SD 57501-5070

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

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

Dear Governor Daugaard, Speaker Gosch and President Pro Tempore Brown:

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

The CollegeAccess 529 Plan (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), originally known as PIMCO Funds Distributors LLC, was selected by the Council to manage, invest, market, and administer the Plan. This global financial services leader, a member of Allianz Group, has a 123-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 toll-free (1-866-529-7462) or visiting the Plan web site [www.southdakota529.com](http://www.southdakota529.com).



January 31, 2013  
Page 2

As of December 31, 2012, the Plan had assets of approximately \$1.046 billion, up 15% from \$909.1 million in assets at year-end 2011. For the Plan's most recent full program year (calendar year 2012), returns for South Dakota direct investment age-based alternatives ranged from 7.14% for the Age-based 18+ portfolio to 15.96% for the PIMCO All Asset portfolio.

Fifty-five percent of the 33 mutual funds utilized by the 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 Governor Rounds 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, including \$690,131 generated from fiscal year 2007 CollegeAccess 529 Plan assets and \$337,203 carried over from previous years. In 2008, 2009, 2010, 2011, and 2012, Allianz contributed \$756,125, \$694,782, \$823,112, \$1,059,271, and \$1,165,435 respectively, to the Dakota Corps Scholarship Program, totaling \$5,526,060.

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](http://www.state.sd.us/dakotacorps/default.html).

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

Sincerely,

*Wesley G. Tschetter*  
*Investment Council Chair*

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

### SOUTH DAKOTA RETIREMENT SYSTEM INTERNAL MANAGERS

		<u>Cost Value</u>	<u>Fair Value</u>
<b>Global Equity Portfolio</b>			
Microsoft Corp.	3,405,547	\$ 88,963,442	\$ 117,644,621
Wells Fargo & Co.	2,667,805	59,654,030	110,100,312
Target Corp.	1,321,559	54,427,162	91,002,553
Pfizer, Inc.	2,919,001	69,360,334	81,761,218
JPMorgan Chase & Co.	1,508,167	50,288,780	79,616,136
Wal-Mart Stores, Inc.	1,062,948	53,953,749	79,178,997
Google, Inc.	82,463	43,941,662	72,597,951
Intel Corp.	2,922,277	59,962,098	70,806,772
MetLife, Inc.	1,355,037	37,650,689	62,006,493
Apache Corp.	706,448	62,243,700	59,221,536
PepsiCo, Inc.	719,632	42,983,381	58,858,701
Lowe's Cos., Inc.	1,416,749	36,681,797	57,945,034
Roche Holding, Ltd.	232,514	35,282,867	57,750,663
UnitedHealth Group, Inc.	876,260	31,433,038	57,377,505
Exxon Mobil Corp.	619,542	40,109,900	55,975,620
Bank of America Corp.	4,333,418	86,865,588	55,727,755
Nestle SA	849,602	19,608,341	55,628,435
Honda Motor Co., Ltd.	1,488,614	34,332,066	55,222,657
U.S. Bancorp	1,469,904	27,486,313	53,137,030
Cisco Systems, Inc.	2,102,634	36,062,318	51,167,598
Novartis AG	706,772	39,523,207	50,123,555
Apple, Inc.	122,550	47,284,978	48,594,752
Sanofi SA	444,245	35,283,320	45,976,690
Gilead Sciences, Inc.	894,478	16,129,522	45,859,887
ConocoPhillips	757,742	26,922,876	45,843,391
Chevron Corp.	371,188	21,291,759	43,926,388
General Electric Co.	1,817,528	47,017,077	42,148,474
The Bank of New York Mellon Corp.	1,435,934	34,846,316	40,277,949
The Procter & Gamble Co.	517,476	25,513,817	39,840,477
Hewlett-Packard Co.	1,593,653	46,789,629	39,522,594
Devon Energy Corp.	740,387	44,912,780	38,411,278
Toyota Motor Corp.	629,177	21,314,575	37,940,003
Goldman Sachs Group, Inc.	247,095	29,724,007	37,373,119
Schlumberger, Ltd.	518,911	36,064,438	37,185,162
Morgan Stanley	1,498,652	35,473,351	36,612,068
WellPoint, Inc.	444,968	22,772,151	36,416,181
Texas Instruments, Inc.	1,009,855	22,778,597	35,193,447
BP plc -ADR	812,185	27,825,950	33,900,602
Newfield Exploration Co.	1,418,179	41,879,269	33,880,296
Medtronic, Inc.	645,388	23,800,828	33,218,120
Coach, Inc.	581,208	29,998,252	33,181,165
Staples, Inc.	2,032,358	35,066,872	32,253,521
General Dynamics Corp.	405,180	21,637,926	31,737,749
PNC Financial Services Group, Inc.	434,127	21,348,902	31,656,541
Lennar Corp.	865,503	17,686,168	31,192,728
Oracle Corp.	1,015,513	27,205,669	31,186,404
Johnson & Johnson	361,761	21,476,956	31,060,799
The Allstate Corp.	640,129	14,817,687	30,803,007
AstraZeneca plc	642,254	29,882,896	30,343,430
Boston Scientific Corp.	3,266,480	28,272,984	30,280,270
Total Top 50 Securities		\$ 1,865,834,014	\$ 2,498,667,634
Remaining Global Equity Portfolio		<u>1,649,427,149</u>	<u>1,868,862,992</u>
<b>Global Equity Portfolio</b>		\$ 3,515,261,163	\$ 4,367,530,626
<b>High Quality Equity Portfolio</b>		\$ 150,777,132	\$ 201,036,745
<b>Small/Mid Equity Portfolio</b>		\$ 230,010,195	\$ 258,664,265
<b>Investment Grade Portfolio</b>		\$ 866,057,102	\$ 906,562,476
<b>High Yield Portfolio</b>		\$ 104,996,488	\$ 108,040,119
<b>Convertible Arbitrage Portfolio</b>		\$ 109,106,784	\$ 114,151,808
<b>Shift Portfolio</b>		<u>\$ 122,502,439</u>	<u>\$ 122,504,036</u>
<b>Total SDRS Internal Managers</b>		<u>\$ 5,098,711,303</u>	<u>\$ 6,078,490,075</u>

### SOUTH DAKOTA RETIREMENT SYSTEM EXTERNAL MANAGERS

	<u>Cost Value</u>	<u>Fair Value</u>
<b>Hedge Fund-Like</b>		
Bridgewater Pure Alpha Fund II, Ltd.	\$ 36,510,303	\$ 72,183,617
Sanders Capital All Asset Value Fund, L.P.	<u>17,206,955</u>	<u>19,693,158</u>
Total Hedge Fund-Like	\$ 53,717,258	\$ 91,876,775
<b>Real Estate</b>		
Ares European Real Estate Fund II, L.P.	\$ 21,468,655	\$ 12,741,091
Apollo Real Estate Investment Fund III, L.P.	2,249,134	1,262,068
Apollo Real Estate Investment Fund IV, L.P.	4,257,652	3,141,195
Blackstone Real Estate Partners III, L.P.	13,436,304	1,974,642
Blackstone Real Estate Partners IV, L.P.	141,574,167	128,695,697
Blackstone Real Estate Partners V, L.P.	200,195,428	317,635,471
Blackstone Real Estate Partners VI, L.P.	267,382,504	399,644,734
Blackstone Real Estate Partners VII, L.P.	35,280,854	44,623,377
Blackstone Real Estate Partners International, L.P.	2,316,214	3,230,411
Blackstone Real Estate Partners International II, L.P.	84,192,809	87,612,401
Blackstone Real Estate Partners Europe III, L.P.	115,251,389	154,974,110
North American Real Estate Partners, L.P.	7,161,973	7,799,549
North American Real Estate Partners II, L.P.	36,015,866	21,076,603
NAREP II Land Entitlement Sidecar, L.P.	2,225,391	667,618
Doughty Hanson & Co. European Real Estate I, L.P.	735,823	1,022,759
Doughty Hanson & Co. European Real Estate II, L.P.	33,731,037	18,586,961
Lone Star Real Estate Fund II, L.P.	44,195,123	48,133,307
Rockpoint Real Estate Fund IV, L.P.	15,509,890	19,183,471
Starwood Distressed Opportunity Fund IX Global	<u>10,446,662</u>	<u>12,329,122</u>
Total Real Estate	\$ 1,037,626,875	\$ 1,284,334,587
<b>Private Equity</b>		
Blackstone Capital Partners IV, L.P.	\$ 5,461,397	\$ 11,101,026
Blackstone Capital Partners V, L.P.	188,240,544	225,054,231
Blackstone Capital Partners VI, L.P.	22,623,507	28,062,005
Capital International Private Equity Fund IV, L.P.	6,967,006	9,481,197
Capital International Private Equity Fund V, L.P.	14,877,052	13,634,604
Capital International Private Equity Fund VI, L.P.	9,550,490	8,535,251
Carlyle Partners IV, L.P.	9,586,225	15,549,457
Carlyle Partners V, L.P.	31,080,305	42,804,077
Riverstone/Carlyle Global Energy & Power Fund IV, L.P.	23,382,726	31,143,703
Riverstone Global Energy & Power Fund V, L.P.	22,791,766	26,146,184
The Fourth Cinven Fund	74,021,990	84,453,239
The Fifth Cinven Fund	14,024,347	14,024,347
Crossroads Cornerstone Private Equity XV-B, L.P.	5,175,182	3,213,150
CVC European Equity Partners IV, L.P.	18,071,112	22,274,554
CVC European Equity Partners V, L.P.	39,394,880	46,009,303
Cypress Merchant Banking Partners II, L.P.	5,815,153	4,711,982
DLJ Merchant Banking Partners II, L.P.	388,412	351,449
Doughty Hanson & Co. IV, L.P.	30,515,536	47,510,078
Doughty Hanson & Co. V, L.P.	35,779,796	38,912,849
Elevation Partners, L.P.	12,113,359	13,122,569
KKR European Fund, L.P.	6,095,000	640,411
KKR European Fund II, L.P.	36,412,636	41,860,379
PineBridge Capital Management Corp.	7,104,044	4,806,819
Silver Lake Partners, L.P.	42,385	58,711
Silver Lake Partners II, L.P.	46,339,258	41,892,753
Silver Lake Partners III, L.P.	39,609,704	45,933,948
Silver Lake Sumeru Fund, L.P.	<u>27,024,199</u>	<u>38,067,118</u>
Total Private Equity	\$ 732,488,011	\$ 859,355,394
<b>Distressed Debt</b>		
Blackstone Credit Liquidity Partners, L.P.	\$ 2,431,586	\$ 1,360,337
CVI Global Value Fund A, L.P.	85,430,213	95,414,971
CVI Specialized Ventures Fund A, L.P.	5,739,053	4,219,637
PIMCO Distressed Mortgage Fund II, L.P.	145,992	116,244
TCW Opportunistic MBS Strategy	<u>395,687,010</u>	<u>444,188,004</u>
Total Distressed Debt	\$ 489,433,854	\$ 545,299,193
<b>Emerging Markets</b>		
Dimensional Emerging Markets Small Cap	\$ 8,918,381	\$ 44,964,081
GE Asset Management China A-Shares Equity	<u>92,730,000</u>	<u>91,575,888</u>
Total Emerging Markets	\$ 101,648,381	\$ 136,539,969
<b>Special Purpose Equity</b>		
Brandes International Mid Cap Portfolio	\$ 42,473,707	\$ 46,999,793
Sanders Capital, L.L.C.	<u>27,799,765</u>	<u>33,639,703</u>
Total Special Purpose Equity	\$ 70,273,472	\$ 80,639,496
<b>Total SDRS External Managers</b>	<u>\$ 2,485,187,851</u>	<u>\$ 2,998,045,414</u>

**CEMENT PLANT RETIREMENT FUND**  
**INTERNAL MANAGERS**

		<u>Cost Value</u>	<u>Fair Value</u>
<b>Global Equity Portfolio</b>			
Wells Fargo & Co.	19,775	\$ 461,741	\$ 816,114
Microsoft Corp.	21,428	569,032	740,230
Target Corp.	10,441	448,947	718,967
Wal-Mart Stores, Inc.	7,566	388,534	563,591
Pfizer, Inc.	19,955	453,799	558,940
JPMorgan Chase & Co.	9,803	335,852	517,500
Google, Inc.	583	321,240	513,256
Honda Motor Co., Ltd.	12,786	326,117	474,318
Intel Corp.	18,397	377,890	445,759
Lowe's Cos., Inc.	10,532	277,579	430,759
MetLife, Inc.	9,413	252,546	430,739
UnitedHealth Group, Inc.	6,576	234,443	430,596
Roche Holding, Ltd.	1,629	249,129	404,603
Nestle SA	5,974	150,604	391,153
Bank of America Corp.	30,347	626,988	390,262
U.S. Bancorp	10,592	188,059	382,901
Apache Corp.	4,509	389,489	377,989
PepsiCo, Inc.	4,619	291,085	377,788
Cisco Systems, Inc.	14,264	271,264	347,114
Exxon Mobil Corp.	3,771	252,483	340,710
Novartis AG	4,745	286,482	336,511
The Bank of New York Mellon Corp.	11,755	276,417	329,728
ConocoPhillips	5,367	179,944	324,704
Chevron Corp.	2,586	146,323	306,027
Sanofi SA	2,836	223,548	293,509
Texas Instruments, Inc.	8,337	194,697	290,544
Gilead Sciences, Inc.	5,452	96,259	279,524
BP plc -ADR	6,665	224,296	278,197
Goldman Sachs Group, Inc.	1,688	214,347	255,310
Hewlett-Packard Co.	10,283	291,635	255,018
Devon Energy Corp.	4,904	288,747	254,420
Morgan Stanley	10,290	246,074	251,385
General Dynamics Corp.	3,157	180,147	247,288
Toyota Motor Corp.	4,023	140,580	242,591
Lennar Corp.	6,648	138,627	239,594
WellPoint, Inc.	2,911	154,442	238,236
Schlumberger, Ltd.	3,189	216,017	228,524
Staples, Inc.	14,309	244,644	227,084
Newfield Exploration Co.	9,163	266,177	218,904
BB&T Corp.	6,460	150,264	218,865
Apple, Inc.	550	226,055	218,092
The Allstate Corp.	4,511	100,101	217,069
AstraZeneca plc	4,562	212,311	215,533
Medtronic, Inc.	4,158	159,115	214,012
Coach, Inc.	3,670	190,922	209,520
PNC Financial Services Group, Inc.	2,873	138,495	209,499
Sumitomo Mitsui Financial Group, Inc.	4,543	149,487	208,090
Lincoln National Corp.	5,616	140,353	204,816
PulteGroup, Inc.	10,584	149,486	200,778
Raytheon Co.	3,005	144,979	198,691
Total Top 50 Securities		\$ 12,637,792	\$ 17,065,352
Remaining Global Equity Portfolio		7,986,142	8,197,039
<b>Global Equity Portfolio</b>		\$ 20,623,934	\$ 25,262,391
<b>Investment Grade Portfolio</b>		\$ 6,611,402	\$ 6,896,905
<b>High Yield Portfolio</b>		\$ 695,331	\$ 715,381
<b>Shift Portfolio</b>		\$ 2,688,821	\$ 2,688,835
<b>Total CPRF Internal Managers</b>		\$ 30,619,488	\$ 35,563,512

**CEMENT PLANT RETIREMENT FUND**  
**EXTERNAL MANAGERS**

	<u>Cost Value</u>	<u>Fair Value</u>
<b><u>Hedge Fund-Like</u></b>		
Bridgewater Pure Alpha Fund II, Ltd.	\$ 231,702	\$ 458,092
Total Hedge Fund-Like	\$ 231,702	\$ 458,092
<b><u>Real Estate</u></b>		
Ares European Real Estate Fund II, L.P.	\$ 141,079	\$ 83,728
Apollo Real Estate Investment Fund III, L.P.	13,485	7,570
Apollo Real Estate Investment Fund IV, L.P.	28,935	21,353
Blackstone Real Estate Partners III, L.P.	113,875	16,739
Blackstone Real Estate Partners IV, L.P.	707,880	643,492
Blackstone Real Estate Partners V, L.P.	1,361,328	2,159,922
Blackstone Real Estate Partners VI, L.P.	1,871,679	2,797,514
Blackstone Real Estate Partners VII, L.P.	176,408	223,121
Blackstone Real Estate Partners International II, L.P.	551,462	573,862
Blackstone Real Estate Partners Europe III, L.P.	764,095	1,027,453
North American Real Estate Partners, L.P.	47,526	51,756
North American Real Estate Partners II, L.P.	229,192	134,123
NAREP II Land Entitlement Sidecar, L.P.	14,106	4,230
Doughty Hanson & Co. European Real Estate I, L.P.	5,722	7,948
Doughty Hanson & Co. European Real Estate II, L.P.	214,959	118,521
Lone Star Real Estate Fund II, L.P.	220,977	240,664
Total Real Estate	\$ 6,462,708	\$ 8,111,996
<b><u>Private Equity</u></b>		
Blackstone Capital Partners IV, L.P.	\$ 38,484	\$ 78,240
Blackstone Capital Partners V, L.P.	1,290,728	1,545,123
Blackstone Capital Partners VI, L.P.	147,053	182,410
Capital International Private Equity Fund IV, L.P.	48,780	66,381
Capital International Private Equity Fund V, L.P.	101,176	92,728
Capital International Private Equity Fund VI, L.P.	47,749	42,673
Carlyle Partners IV, L.P.	63,686	103,306
Carlyle Partners V, L.P.	214,450	295,345
Riverstone/Carlyle Global Energy & Power Fund IV, L.P.	154,911	206,326
Riverstone Global Energy & Power Fund V, L.P.	110,614	126,894
The Fourth Civen Fund	468,495	534,517
The Fifth Civen Fund	68,018	68,018
Crossroads Cornerstone Private Equity XV-B, L.P.	35,512	21,967
CVC European Equity Partners IV, L.P.	118,238	145,736
CVC European Equity Partners V, L.P.	260,005	303,665
Cypress Merchant Banking Partners II, L.P.	34,892	28,273
DLJ Merchant Banking Partners II, L.P.	2,873	2,655
Doughty Hanson & Co. IV, L.P.	210,794	328,185
Doughty Hanson & Co. V, L.P.	246,742	268,346
Elevation Partners, L.P.	80,526	87,236
KKR European Fund, L.P.	47,000	4,930
KKR European Fund II, L.P.	240,949	276,872
PineBridge Capital Management Corp.	49,720	33,647
Silver Lake Partners, L.P.	291	404
Silver Lake Partners II, L.P.	317,195	288,943
Silver Lake Partners III, L.P.	274,637	318,491
Silver Lake Sumeru Fund, L.P.	179,038	252,199
Total Private Equity	\$ 4,852,556	\$ 5,703,510
<b><u>Distressed Debt</u></b>		
Blackstone Credit Liquidity Partners, L.P.	\$ 16,223	\$ 9,071
CVI Global Value Fund A, L.P.	573,354	640,370
CVI Specialized Ventures Fund A, L.P.	38,744	28,482
PIMCO Distressed Mortgage Fund II, L.P.	932	743
TCW Opportunistic MBS Strategy	2,373,841	2,567,080
Total Distressed Debt	\$ 3,003,094	\$ 3,245,746
<b><u>Emerging Markets</u></b>		
Dimensional Emerging Markets Small Cap	\$ 59,080	\$ 297,865
GE Asset Management China A-Shares Equity	470,000	501,782
Total Emerging Markets	\$ 529,080	\$ 799,647
<b><u>Special Purpose Equity</u></b>		
Brandes Non-U.S. Mid Cap Portfolio	\$ 143,163	\$ 298,379
Total Special Purpose Equity	\$ 143,163	\$ 298,379
<b>Total CPRF External Managers</b>	<b>\$ 15,222,303</b>	<b>\$ 18,617,370</b>

### SCHOOL AND PUBLIC LANDS INTERNAL MANAGERS

		<u>Cost Value</u>	<u>Fair Value</u>
<b>Global Equity Portfolio</b>			
Wells Fargo & Co.	83,839	\$ 2,123,628	\$ 3,460,036
Microsoft Corp.	91,785	2,546,257	3,170,713
Target Corp.	45,328	2,078,980	3,121,286
JPMorgan Chase & Co.	56,154	1,899,321	2,964,370
Wal-Mart Stores, Inc.	33,536	1,778,606	2,498,097
Pfizer, Inc.	80,855	2,137,016	2,264,749
Google, Inc.	2,430	1,344,845	2,139,299
Honda Motor Co., Ltd.	55,000	1,921,175	2,040,318
Intel Corp.	80,083	1,701,568	1,940,411
MetLife, Inc.	41,816	<u>1,275,043</u>	<u>1,913,500</u>
Total Top 10 Securities		\$ 18,806,439	\$ 25,512,779
Remaining Global Equity Portfolio		<u>76,179,614</u>	<u>84,496,269</u>
<b>Global Equity Portfolio</b>		\$ 94,986,053	\$ 110,009,048
<b>Investment Grade Portfolio</b>		\$ 44,898,927	\$ 45,676,657
<b>High Yield Portfolio</b>		\$ 2,311,263	\$ 2,353,331
<b>TIPS Portfolio</b>		\$ 7,183,995	\$ 8,882,582
<b>Money Market Portfolio</b>		\$ 14,204,546	\$ 14,206,301
<b>S.D. S.B.A. &amp; Similar Assets</b>		<u>\$ 1,472,057</u>	<u>\$ 1,475,637</u>
<b>Total SPL Internal Managers</b>		<u>\$ 165,056,841</u>	<u>\$ 182,603,556</u>

### SCHOOL AND PUBLIC LANDS EXTERNAL MANAGERS

		<u>Cost Value</u>	<u>Fair Value</u>
<b>Real Estate</b>			
Blackstone Real Estate Partners V, L.P.	\$ 4,083,988	\$ 6,479,770	
Blackstone Real Estate Partners VI, L.P.	5,258,520	7,859,676	
Blackstone Real Estate Partners VII, L.P.	764,416	966,835	
Blackstone Real Estate Partners International II, L.P.	3,199,327	3,329,273	
Blackstone Real Estate Partners Europe III, L.P.	2,801,693	3,767,326	
North American Real Estate Partners II, L.P.	<u>1,244,172</u>	<u>728,101</u>	
Total Real Estate	\$ 17,352,116	\$ 23,130,981	
<b>Private Equity</b>			
Blackstone Capital Partners V, L.P.	\$ 2,294,218	\$ 3,071,290	
Blackstone Capital Partners VI, L.P.	294,106	364,800	
Doughty Hanson & Co. V, L.P.	1,280,780	1,392,929	
Silver Lake Partners III, L.P.	<u>945,298</u>	<u>1,096,235</u>	
Total Private Equity	\$ 4,814,402	\$ 5,925,254	
<b>Distressed Debt</b>			
CVI Global Value Fund A, L.P.	\$ 933,007	\$ 1,042,055	
CVI Specialized Ventures Fund A, L.P.	126,236	92,832	
TCW Opportunistic MBS Strategy	<u>7,803,759</u>	<u>8,476,280</u>	
Total Distressed Debt	\$ 8,863,002	\$ 9,611,167	
<b>Monument Park CDO, Ltd.</b>	<u>\$ 2,070,085</u>	<u>\$ 1,071,216</u>	
<b>Total SPL External Managers</b>	<u>\$ 33,099,605</u>	<u>\$ 39,738,618</u>	

### DAKOTA CEMENT TRUST INTERNAL MANAGERS

		<u>Cost Value</u>	<u>Fair Value</u>
<b>Global Equity Portfolio</b>			
Wells Fargo & Co.	94,998	\$ 2,463,773	\$ 3,920,567
Microsoft Corp.	104,005	2,759,373	3,592,853
Target Corp.	51,316	2,334,989	3,533,620
JPMorgan Chase & Co.	63,777	2,165,659	3,366,788
Wal-Mart Stores, Inc.	38,070	2,015,385	2,835,834
Pfizer, Inc.	92,910	2,329,909	2,602,409
Google, Inc.	2,742	1,510,601	2,413,975
Intel Corp.	90,617	1,933,534	2,195,650
MetLife, Inc.	47,312	1,453,921	2,164,997
Nestle SA	32,329	<u>898,876</u>	<u>2,116,770</u>
Total Top 10 Securities		\$ 19,866,020	\$ 28,743,463
Remaining Global Equity Portfolio		<u>86,759,041</u>	<u>96,538,952</u>
<b>Global Equity Portfolio</b>		\$ 106,625,061	\$ 125,282,415
<b>Investment Grade Portfolio</b>		\$ 54,550,730	\$ 56,160,889
<b>High Yield Portfolio</b>		\$ 3,102,243	\$ 3,191,061
<b>TIPS Portfolio</b>		\$ 9,009,125	\$ 11,137,341
<b>Money Market Portfolio</b>		<u>\$ 14,818,050</u>	<u>\$ 14,819,579</u>
<b>Total DCT Internal Managers</b>		<u>\$ 188,105,209</u>	<u>\$ 210,591,285</u>

### DAKOTA CEMENT TRUST EXTERNAL MANAGERS

		<u>Cost Value</u>	<u>Fair Value</u>
<b>Real Estate</b>			
Blackstone Real Estate Partners V, L.P.	\$ 6,566,414	\$ 10,418,448	
Blackstone Real Estate Partners VI, L.P.	8,467,110	12,655,415	
Blackstone Real Estate Partners VII, L.P.	893,778	1,130,455	
Blackstone Real Estate Partners International II, L.P.	5,219,954	5,431,968	
Blackstone Real Estate Partners Europe III, L.P.	2,801,693	3,767,326	
North American Real Estate Partners II, L.P.	<u>2,029,999</u>	<u>1,187,954</u>	
Total Real Estate	\$ 25,978,948	\$ 34,591,566	
<b>Private Equity</b>			
Blackstone Capital Partners V, L.P.	\$ 3,725,929	\$ 5,020,945	
Blackstone Capital Partners VI, L.P.	248,859	308,690	
Doughty Hanson & Co. V, L.P.	2,088,802	2,271,707	
Silver Lake Partners III, L.P.	<u>1,542,061</u>	<u>1,788,286</u>	
Total Private Equity	\$ 7,605,651	\$ 9,389,628	
<b>Distressed Debt</b>			
CVI Global Value Fund A, L.P.	\$ 1,521,966	\$ 1,699,888	
CVI Specialized Ventures Fund A, L.P.	193,690	142,413	
TCW Opportunistic MBS Strategy	<u>9,707,329</u>	<u>10,569,192</u>	
Total Distressed Debt	\$ 11,422,985	\$ 12,411,493	
<b>Monument Park CDO, Ltd.</b>	<u>\$ 3,592,679</u>	<u>\$ 1,859,182</u>	
<b>Total DCT External Managers</b>	<u>\$ 48,600,263</u>	<u>\$ 58,251,869</u>	



### EDUCATION ENHANCEMENT TRUST INTERNAL MANAGERS

		<u>Cost Value</u>	<u>Fair Value</u>
<b>Global Equity Portfolio</b>			
Wells Fargo & Co.	155,657	\$ 4,011,268	\$ 6,423,964
Microsoft Corp.	170,388	4,493,876	5,886,053
Target Corp.	84,158	3,976,879	5,795,120
Wal-Mart Stores, Inc.	64,837	3,447,732	4,829,708
JPMorgan Chase & Co.	81,515	2,744,738	4,303,177
Pfizer, Inc.	151,185	3,723,294	4,234,692
Google, Inc.	4,505	2,472,475	3,966,067
Intel Corp.	148,677	3,156,718	3,602,444
MetLife, Inc.	77,626	2,403,852	3,552,166
UnitedHealth Group, Inc.	52,095	1,888,422	3,411,181
Total Top 10 Securities		\$ 32,319,254	\$ 46,004,572
Remaining Global Equity Portfolio		<u>141,641,211</u>	<u>158,256,749</u>
<b>Global Equity Portfolio</b>		\$ 173,960,465	\$ 204,261,321
<b>Investment Grade Portfolio</b>		\$ 47,686,220	\$ 46,599,595
<b>High Yield Portfolio</b>		\$ 4,938,079	\$ 5,028,340
<b>TIPS Portfolio</b>		\$ 18,158,006	\$ 17,536,660
<b>Money Market Portfolio</b>		<u>\$ 32,455,524</u>	<u>\$ 32,457,908</u>
<b>Total EET Internal Managers</b>		<u>\$ 277,198,294</u>	<u>\$ 305,883,824</u>

### EDUCATION ENHANCEMENT TRUST EXTERNAL MANAGERS

		<u>Cost Value</u>	<u>Fair Value</u>
<b>Real Estate</b>			
Blackstone Real Estate Partners V, L.P.	\$ 9,449,228	\$ 14,992,398	
Blackstone Real Estate Partners VI, L.P.	12,388,725	18,516,877	
Blackstone Real Estate Partners VII, L.P.	1,505,318	1,903,932	
Blackstone Real Estate Partners International II, L.P.	7,408,969	7,709,895	
Blackstone Real Estate Partners Europe III, L.P.	4,329,890	5,822,232	
North American Real Estate Partners II, L.P.	2,881,279	1,686,129	
Total Real Estate	\$ 37,963,409	\$ 50,631,463	
<b>Private Equity</b>			
Blackstone Capital Partners V, L.P.	\$ 5,393,652	\$ 7,268,552	
Blackstone Capital Partners VI, L.P.	429,847	533,174	
Doughty Hanson & Co. V, L.P.	3,019,248	3,283,627	
Silver Lake Partners III, L.P.	2,228,585	2,584,430	
Total Private Equity	\$ 11,071,332	\$ 13,669,783	
<b>Distressed Debt</b>			
CVI Global Value Fund A, L.P.	\$ 2,199,606	\$ 2,456,689	
CVI Specialized Ventures Fund A, L.P.	284,109	208,872	
TCW Opportunistic MBS Strategy	15,226,623	16,593,432	
Total Distressed Debt	\$ 17,710,338	\$ 19,258,993	
<b>Monument Park CDO, Ltd.</b>	\$ 5,179,299	\$ 2,680,216	
<b>PIMCO Tax-Exempt Fund</b>	<u>\$ 46,859,562</u>	<u>\$ 48,887,346</u>	
<b>Total EET External Managers</b>	<u>\$ 118,783,940</u>	<u>\$ 135,127,801</u>	

### HEALTH CARE TRUST INTERNAL MANAGERS

		<u>Cost Value</u>	<u>Fair Value</u>
<b>Global Equity Portfolio</b>			
Wells Fargo & Co.	42,988	\$ 1,097,442	\$ 1,774,115
Microsoft Corp.	47,059	1,259,585	1,625,653
Target Corp.	23,245	1,081,727	1,600,651
Wal-Mart Stores, Inc.	17,195	910,907	1,280,856
JPMorgan Chase & Co.	22,512	749,210	1,188,408
Pfizer, Inc.	41,893	1,015,822	1,173,423
Google, Inc.	1,245	690,466	1,096,061
Intel Corp.	41,061	875,994	994,908
MetLife, Inc.	21,444	649,865	981,277
Roche Holdings, Ltd.	3,804	595,589	944,818
Total Top 10 Securities		\$ 8,926,607	\$ 12,660,170
Remaining Global Equity Portfolio		<u>38,588,689</u>	<u>43,745,385</u>
<b>Global Equity Portfolio</b>		\$ 47,515,296	\$ 56,405,555
<b>Investment Grade Portfolio</b>		\$ 24,517,358	\$ 24,895,748
<b>High Yield Portfolio</b>		\$ 1,352,070	\$ 1,376,507
<b>TIPS Portfolio</b>		\$ 3,918,591	\$ 4,846,916
<b>Money Market Portfolio</b>		<u>\$ 10,546,750</u>	<u>\$ 10,547,426</u>
<b>Total HCT Internal Managers</b>		<u>\$ 87,850,065</u>	<u>\$ 98,072,152</u>

### HEALTH CARE TRUST EXTERNAL MANAGERS

		<u>Cost Value</u>	<u>Fair Value</u>
<b>Real Estate</b>			
Blackstone Real Estate Partners V, L.P.	\$ 2,322,264	\$ 3,684,570	
Blackstone Real Estate Partners VI, L.P.	3,297,711	4,928,942	
Blackstone Real Estate Partners VII, L.P.	423,368	535,478	
Blackstone Real Estate Partners International II, L.P.	1,852,241	1,927,470	
Blackstone Real Estate Partners Europe III, L.P.	1,528,189	2,054,905	
North American Real Estate Partners II, L.P.	720,327	421,531	
Total Real Estate	\$ 10,144,100	\$ 13,552,896	
<b>Private Equity</b>			
Blackstone Capital Partners V, L.P.	\$ 1,356,787	\$ 1,857,178	
Blackstone Capital Partners VI, L.P.	158,365	196,429	
Doughty Hanson & Co. V, L.P.	765,642	832,686	
Silver Lake Partners III, L.P.	565,074	655,299	
Total Private Equity	\$ 2,845,868	\$ 3,541,592	
<b>Distressed Debt</b>			
CVI Global Value Fund A, L.P.	\$ 557,721	\$ 622,905	
CVI Specialized Ventures Fund A, L.P.	74,629	54,855	
TCW Opportunistic MBS Strategy	4,220,789	4,607,486	
Total Distressed Debt	\$ 4,853,139	\$ 5,285,246	
<b>Monument Park CDO, Ltd.</b>	<u>\$ 1,265,314</u>	<u>\$ 654,825</u>	
<b>Total HCT External Managers</b>	<u>\$ 19,108,421</u>	<u>\$ 23,034,559</u>	

### SOUTH DAKOTA CASH FLOW FUND INTERNAL MANAGERS

	<u>Cost Value</u>	<u>Fair Value</u>
<b>Duration Portfolio</b>	\$ 1,024,686,213	\$ 1,026,992,156
<b>Money Market Portfolio</b>	\$ 79,975,665	\$ 79,976,090
<b>Certificates of Deposit, 0.46% due 09/30/13</b>	<u>\$ 20,977,000</u>	<u>\$ 21,049,965</u>
<b>Total SDCFF Internal Managers</b>	<u>\$ 1,125,638,878</u>	<u>\$ 1,128,018,211</u>



On June 30, 2013, there was \$20,977,000 in Certificates of Deposit (CDs) outstanding with South Dakota banks, savings and loan associations, and credit unions. Forty-eight South Dakota banks hold \$16,742,000 in CDs, one savings and loan association has \$1,485,000 invested in CDs, and two credit unions have \$2,750,000 invested in CDs. The CDs carry an interest rate of 0.46% and mature September 30, 2013.

The original allocation made in September 2012 was to seventy-nine banks and four savings and loan associations. Thirty-one banks and three savings and loan associations did not participate this year. This is the twelfth year a reoffering was made to other qualified public depositories in the state. In the reoffering, two credit unions accepted \$2,750,000 in CDs, leaving \$14,023,000 in CDs unassigned. The size of the certificates ranged from \$100,000 to \$3,101,000.

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

##### **CDs Issued to Banks**

CDs maturing 9/30/13 \$ 16,724,000

Interest earned during FY 2013 \$ 85,412

Average CDs Outstanding During FY 2013 \$ 16,904,956

Rate of Return 0.5%

##### **CDs Issued to Savings & Loan Associations**

CDs maturing 9/30/13 \$ 1,485,000

Interest earned during FY 2013 \$ 7,569

Average CDs Outstanding During FY 2013 \$ 1,498,358

Rate of Return 0.5%

##### **CDs Issued to Credit Unions**

CDs maturing 9/30/13 \$ 2,750,000

Interest earned during FY 2013 \$ 14,936

Average CDs Outstanding During FY 2013 \$ 2,918,386

Rate of Return 0.5%

##### **Total Certificates of Deposit**

CDs maturing 9/30/13 \$ 20,977,000

Interest earned during FY 2013 \$ 107,917

Average CDs Outstanding During FY 2013 \$ 21,321,700

Rate of Return 0.5%

#### **South Dakota Certificates of Deposit** **Due 9/30/13**

<b><u>Banks</u></b>	<b><u>Location</u></b>	<b><u>CD Amount</u></b>
Dacotah Bank	Aberdeen	\$ 2,889,000
State Bank of Alcester	Alcester	194,000
Citizens State Bank	Arlington	141,000
Community Bank	Avon	100,000
Dakota State Bank	Blunt	100,000
First Bank & Trust	Brookings	1,265,000
Richland State Bank	Bruce	100,000
Bryant State Bank	Bryant	100,000
Farmers State Bank	Canton	100,000
One American Bank	Centerville	115,000
First Financial Bank	Dupree	177,000
Liberty Financial Services	Elk Point	298,000
BankStar Financial	Elkton	101,000
Security State Bank	Emery	100,000
Reliabank Dakota	Estelline	328,000
Great Plains Bank	Eureka	168,000
Farmers State Bank	Faith	100,000
First National Bank	Frederick	100,000
Merchants State Bank	Freeman	159,000
Fulton State Bank	Fulton	100,000
First State Bank	Groton	100,000
Farmers State Bank	Hosmer	100,000
Plains Commerce Bank	Hoven	618,000
Miner County Bank	Howard	100,000
Premier Bank of Hudson	Hudson	449,000
Ipswich State Bank	Ipswich	100,000
First Bank & Trust/Sioux Falls	Madison	863,000
First Bank & Trust/Stockholm	Milbank	300,000
Quoin Financial Bank	Miller	190,000
CorTrust Bank	Mitchell	736,000
American State Bank	Oldham	100,000
Sunrise Bank Dakota	Onida	100,000
First National Bank	Philip	238,000
Farmers & Merchants State Bank	Plankinton	146,000
Security First Bank	Rapid City	894,000
Heartland State Bank	Redfield	129,000
First State Bank of Roscoe	Roscoe	130,000
Farmers & Merchants State Bank	Scotland	100,000
Great Western Bank	Sioux Falls	3,101,000
Minnwest Bank	Sioux Falls	172,000
Farmers State Bank	Stickney	145,000
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	148,000
American Bank & Trust	Wessington Springs	548,000
First State Bank	Wilmot	100,000
<b>Total Banks</b>		<u>\$ 16,742,000</u>
<b><u>Savings &amp; Loan Associations</u></b>		
Home Federal Bank	Sioux Falls	<u>\$ 1,485,000</u>
<b>Total Savings &amp; Loan Associations</b>		<u>\$ 1,485,000</u>
<b><u>Credit Unions</u></b>		
HealthCare Plus Federal CU	Aberdeen	\$ 250,000
Black Hills Federal CU	Rapid City	<u>2,500,000</u>
<b>Total Credit Unions</b>		<u>\$ 2,750,000</u>
<b>Total Certificates of Deposit</b>		<u>\$ 20,977,000</u>

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

**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 US Municipal Bond Index which covers the USD-denominated long term tax exempt bond market. It has been used for benchmarking purposes since fiscal year 2003.

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

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

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

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

**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 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 was used for benchmarking purposes during fiscal years 1996 - 2010.

**CITIGROUP US 3-MONTH TREASURY BILL INDEX:** The index measures monthly return equivalents of yield averages that are not marked to market. The 3-Month Treasury Bill Index is an average of the last three 3-month Treasury bill month-end rates. It has been used for benchmarking purposes since fiscal year 1973.

**CITIGROUP US BROAD INVESTMENT-GRADE (USBIG) 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 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 Inflation Protected (TIPS) securities. It has been used for benchmarking purposes since fiscal year 2003.

**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.

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

**DISTRESSED SECURITIES:** Securities of companies or government entities that are either already in default, under bankruptcy protection, or in distress and heading toward such a condition.

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

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

**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.

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

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

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

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

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

**MELLON ANALYTICAL SOLUTIONS:** A provider of performance and risk analytics tools.

**MELLON TOTAL BILLION DOLLAR FUNDS-CORPORATE:** A total plan universe of large private sector pension funds with assets greater than one billion dollars. 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 INDEX<sup>SM</sup> (ACWI):** The index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The index currently consists of 45 developed and emerging market country indices. It has been used for benchmarking purposes since fiscal year 2005.

**MSCI USA INDEX:** The index is the US component of the MSCI World Index and is designed to measure the performance of the large and mid cap segments of the US Market. The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The index currently consists of 24 developed market country indices. The MSCI USA Index has been used for benchmarking purposes since fiscal year 2005.

**MSCI US REIT INDEX:** The index is a free float-adjusted market capitalization weighted index that is comprised of US equity REITs, which generate a majority of their revenue and income from real estate rental and leasing operations. It was used for benchmarking purposes during fiscal years 2005-2006.

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

**PEER UNIVERSES:** Databases comprised of total pension plans used for comparison purposes.

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

**PRIVATE SECTOR UNIVERSE MEDIAN:** Median rate of return for large private sector funds. Uses Mellon Analytical data from fiscal year 1987 to present and SEI data for prior 13 years.

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

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

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

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

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

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

**STANDARD AND POOR'S GSCI® INDEX (COMMODITIES):** The index is calculated primarily on a world production-weighted basis. Commodity components include energy, agriculture, livestock, industrial metals, and precious metals. It 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.

**STATE FUND UNIVERSE:** A universe linking two state fund universe medians to form a 40-year performance history. The most recent 31 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.

**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.

**VOLATILITY:** Variability, fluctuation. In investing, the range of likely outcomes for a given investment over a period of time. The smaller

the estimated range of an investment's future returns, the lower the investment's volatility, and vice versa. One of the most common measures of investment risk.

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

- 1 Citigroup US Broad Investment Grade (USBIG) Bond Index in fiscal years 1990-2013 and Lehman Brothers US Aggregate Bond Index in prior periods.
- 2 Citigroup USBIG Bond Index in fiscal years 2007-2013, Citigroup USBIG Bond Index duration adjusted weighted 80% and Citigroup All BB-Rated Index weighted 20% in fiscal years 1996-2006, Citigroup USBIG Bond Index in fiscal years 1981-1995, and Lehman Brothers Government/Corporate Index in prior periods.
- 3 The annual returns for the US Consumer Price Index-All Urban Consumers (CPI-U) for the most recent 14 years and the 5, 10, 15, 20, 25, 30 and 40-year annualized returns as of 6/30/13 are as follows:

Fiscal Year	Annual Return	Fiscal Year	Annual Return	Annualized Returns of as 6/30/13
2013	1.8%	2006	4.3%	5 Years 1.3%
2012	1.7%	2005	2.5%	10 Years 2.4%
2011	3.6%	2004	3.3%	15 Years 2.4%
2010	1.1%	2003	2.1%	20 Years 2.4%
2009	(1.4%)	2002	1.1%	25 Years 2.8%
2008	5.0%	2001	3.2%	30 Years 2.9%
2007	2.7%	2000	3.7%	40 Years 4.2%

- 4 **Fixed Income:** Citigroup USBIG Bond Index (1981-2013), Lehman Brothers Gov/Corp Index (1973-1980). **Cash:** Citigroup US 3-Month Treasury Bill Index (1973-2013). **Global Equity:**  $\frac{2}{3}$  MSCI ACWI +  $\frac{1}{3}$  MSCI US Index (2005-2013). **Domestic Equity:** Russell 1000 Index (1996-2004), S&P 500 Index (1973-1995). **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: 1999-2011), Merger Custom Index (2008-2011), 3-Month Treasury Bill Index +4.25% (1993-2007), Convertible Benchmark (SDRS: 1999-2011). **Real Estate:** NCREIF Property Index +1.25% (2011-2013), NCREIF Property Index (2002-2010), NCREIF Classic Property Index (1995-2001). **Private Equity:** S&P 500 +1.75% (2011-2013), S&P 500 +3.5% (2005-2010), Russell 1000 +3.5% (2002-2004), Russell 1000 +5.0% (1999-2001). **High Yield/Distressed Debt:** Citigroup High-Yield Market Index (2003-2013). **Commodities:** S&P GSCI (2003-2013). **TIPS:** Citigroup US-ILSI (2012-2013).

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

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

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

	FI	Cash	Gbl EQ & Dom / Intl	Arb	RE	PE	HY/ DD	Comm	TIPS
07/11 - 06/13	18%	4%	56%	0%	8%	5%	7%	1%	1%
07/09 - 06/11	20%	2%	57%	2%	7%	5%	6%	1%	0%
07/06 - 06/09	20%	2%	57%	4%	5%	5%	6%	1%	0%
07/05 - 06/06	21%	1%	57%	4%	6%	4%	6%	1%	0%
07/04 - 06/05	21%	2%	57%	2%	6%	4%	7%	1%	0%
07/03 - 06/04	20%	4%	40% / 16%	2%	7%	4%	6%	1%	0%
07/02 - 06/03	20%	3%	40% / 16%	4%	7%	3%	6%	1%	0%
11/01 - 06/02	26%	2%	40% / 16%	6%	7%	3%	0%	0%	0%

	FI	Cash	Gbl EQ & Dom / Intl	Arb	RE	PE	HY/ DD	Comm	TIPS
07/99 - 10/01	26%	5%	36% / 16%	6%	8%	3%	0%	0%	0%
07/98 - 06/99	26%	4%	40% / 16%	5%	7%	2%	0%	0%	0%
07/97 - 06/98	25%	7%	40% / 16%	5%	7%	0%	0%	0%	0%
07/96 - 06/97	29%	6%	42% / 15%	4%	4%	0%	0%	0%	0%
07/95 - 06/96	29%	6%	42% / 15%	4%	4%	0%	0%	0%	0%
07/94 - 06/95	35%	5%	46% / 13%	0%	1%	0%	0%	0%	0%
07/93 - 06/94	36%	10%	45% / 9%	0%	0%	0%	0%	0%	0%
07/92 - 06/93	37%	9%	49% / 5%	0%	0%	0%	0%	0%	0%
07/90 - 06/92	38%	10%	52% / 0%	0%	0%	0%	0%	0%	0%
07/86 - 06/90	38%	7%	55% / 0%	0%	0%	0%	0%	0%	0%
07/78 - 06/86	50%	10%	40% / 0%	0%	0%	0%	0%	0%	0%
07/73 - 06/78	65%	10%	25% / 0%	0%	0%	0%	0%	0%	0%

- 5 Citigroup High-Yield Cash-Pay Capped Index in fiscal years 2011-2013 and the Citigroup All BB-Rated Index fiscal years 2007-2010.

- 6 Weighted index of Bank of America Merrill Lynch 1-5 year US Treasuries, 1-3 year A-AAA rated US Corporates, and 3-6 month US Treasury Bills (2005-2013); equal-weighted yields of the 3-month and 6-month Treasury Bills and the 1-year, 2-year, 3-year, and 5-year Treasury Bonds (1987-2004).

- 7 Composites are valued monthly and portfolio returns are weighted by using beginning-of-month fair values or weighted cash flows.

- 8 Fair values for private equity and real estate limited partnerships are adjusted in the reporting period when received by the Council.

- 9 The South Dakota Department of Legislative Audit conducted the South Dakota Investment Council fiscal year 2013 annual and interim procedures audit work for total fees of \$40,798.

- 10 Performance results are presented before management and custodial fees.

- 11 Management fee rates as of June 30, 2013 in basis points (bp):

Investment Office	7.3 bp
Ares European Real Estate Fund II	150 bp
Apollo Real Estate Investments Fund III	0 bp
Apollo Real Estate Investments Fund IV	0 bp
Blackstone Capital Partners IV	75 bp
Blackstone Capital Partners V	75 bp
Blackstone Capital Partners VI	126 bp
Blackstone Credit Liquidity Partners	100 bp
Blackstone Distressed Securities Fund	0 bp
Blackstone Real Estate Partners III	0 bp
Blackstone Real Estate Partners IV	0 bp
Blackstone Real Estate Partners IV - ML	0 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 VII	150 bp
Blackstone Real Estate Partners Europe III	125 bp
Blackstone Real Estate Partners International I	0 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)	150 bp + incentive
Capital International Private Equity Fund IV	100 bp
Capital International Private Equity Fund V	100 bp
Capital International Private Equity Fund VI	150 bp
Carlyle Partners IV	75 bp
Carlyle Partners V	59 bp
The Fourth Cinven Fund	125 bp
The Fifth Cinven Fund	150 bp



Crossroads Cornerstone P.E. XV-B	125 bp
CVC European Equity Partners IV	75 bp
CVC European Equity Partners V	133 bp
CVI Global Value Fund A	185 bp
CVI Specialized Ventures Fund A	0 bp
Cypress Merchant Banking Partners II	0 bp
DLJ Merchant Banking Partners II	0 bp
Dimensional Emerging Markets Small Cap embedded	45 bp 20 bp
Doughty Hanson & Co. European Real Estate I	0 bp
Doughty Hanson & Co. European Real Estate II	200 bp
Doughty Hanson & Co. IV	150 bp
Doughty Hanson & Co. V	175 bp
Elevation Partners	125 bp
GE Asset Mgmt Trust China A Shares Fund	150 bp
GE Asset Mgmt Trust China A Shares Fund II	150 bp
KKR European Fund I	75 bp
KKR European Fund II	75 bp
Lone Star Real Estate Fund II	110 bp
Monument Park CDO	
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
PineBridge Global Emerging Markets Partners I	0 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	75 bp
Riverstone Global Energy & Power Fund V	130 bp
Rockpoint Real Estate Fund IV	142 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 Partners I	0 bp
Silver Lake Partners II	100 bp
Silver Lake Partners III	100 bp
Silver Lake Sumeru Fund	200 bp
Starwood Distressed Opportunity Fund IX Global	125 bp
TCW Opportunistic MBS Strategy	50 bp

12 There have been no changes in investment personnel that would alter the returns presented. Past performance is no guarantee of future results.

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

14 **Fixed Income:** Citigroup USBIG Bond Index (February 2001-2013), Salomon Smith Barney Treasury/GNMA Index (1985 - January 2001). **Global Equity:** ⅓ S&P Global 1200 + ⅓ S&P 500 Index (2012-2013 and 2007-2010), ⅓ S&P Global 1200 Ex-Iran + ⅓ S&P 500 Index (2011), ⅓ MSCI ACWI + ⅓ MSCI US Index (2006). **Domestic Equity:** S&P 500 Index (2005), Russell 1000 Index (February 2001-2004). **International Equity:** MSCI ACWI ex-US Index (2005). **High Yield/Distressed Debt:** Citigroup High-Yield Market Index (2010-2013 and February 2001-2006), Citigroup All BB-Rated Index (2007-2009). **TIPS:** Citigroup US-ILSI (2007-2013). **Cash/Commodities:** Citigroup US 3-Month Treasury Bill Index (February 2001-2013). **Real Estate:** NCREIF Property Index +1.25% (2011-2013), NCREIF Property Index (2007-2010). **Private Equity:** S&P 500 +1.75% (2011-2013), S&P 500 +3.5% (2007-2010).

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

	FI	Globl EQ & Dom / Intl	HY/ DD	TIPS	Cash/ Comm	RE	PE
07/11 - 06/13	28%	52%	5%	5%	2%	6%	2%
07/06 - 06/11	33%	48%	5%	5%	2%	5%	2%
07/05 - 06/06	40%	50%	10%	0%	0%	0%	0%
07/04 - 06/05	40%	40% / 10%	10%	0%	0%	0%	0%
07/03 - 06/04	50%	40% / 0%	10%	0%	0%	0%	0%
07/02 - 06/03	60%	30% / 0%	10%	0%	0%	0%	0%
07/01 - 06/02	70%	20% / 0%	10%	0%	0%	0%	0%
02/01 - 06/01	Weighted based on Investment Council asset allocation.						
07/84 - 01/01	100%	0% / 0%	0%	0%	0%	0%	0%

15 MSCI All Country World ex-US Index in fiscal years 2002-2004 and ⅓ MSCI EAFE + ⅓ MSCI EASEA Index in prior periods.

16 **Fixed Income:** Citigroup USBIG Bond Index (2002-2013). **Global Equity:** ⅓ S&P Global 1200 + ⅓ S&P 500 Index (2012-2013 and 2007-2010), ⅓ S&P Global 1200 Ex-Iran + ⅓ S&P 500 Index (2011), ⅓ MSCI ACWI + ⅓ MSCI US Index (2006). **Domestic Equity:** S&P 500 Index (2005), Russell 1000 Index (2002-2004). **International Equity:** MSCI ACWI ex-US Index (2005). **Real Estate:** weighted index (2006), NCREIF Property Index +1.25% (2011-2013), NCREIF Property Index (2006-2010), MSCI US REIT Index (2005-2006), REIT Benchmark (2002-2004). **High Yield/Distressed Debt:** Citigroup High-Yield Market Index (2010-2013), Citigroup All BB-Rated Index (2002-2009). **TIPS:** Citigroup US-ILSI (2007-2013). **Cash/Commodities:** Citigroup US 3-Month Treasury Bill Index (2007-2013). **Private Equity:** S&P 500 +1.75% (2011-2013), S&P 500 +3.5% (2007-2010).

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

	FI	Globl EQ & Dom / Intl	RE	HY/ DD	TIPS	Cash/ Comm	PE
07/11 - 06/13	28%	52%	6%	5%	5%	2%	2%
07/06 - 06/11	33%	48%	5%	5%	5%	2%	2%
07/05 - 06/06	40%	40%	10%	10%	0%	0%	0%
07/04 - 06/05	50%	20% / 5%	15%	10%	0%	0%	0%
07/01 - 06/04	55%	20% / 0%	15%	10%	0%	0%	0%

17 **Fixed Income:** Citigroup USBIG Bond Index (2003-2013). **Tax-Exempt Fixed Income:** Barclays Capital Municipal 7 Year Index (2003-2013). **Global Equity:** ⅓ S&P Global 1200 + ⅓ S&P 500 Index (2012-2013 and 2007-2010), ⅓ S&P Global 1200 Ex-Iran + ⅓ S&P 500 Index (2011), ⅓ MSCI ACWI + ⅓ MSCI US Index (2006). **Domestic Equity:** S&P 500 Index (2005), Russell 1000 Index (2003-2004). **International Equity:** MSCI ACWI ex-US Index (2005). **Real Estate:** weighted index (2006), NCREIF Property Index +1.25% (2011-2013), NCREIF Property Index (2006-2010), MSCI US REIT Index (2005-2006), REIT Benchmark (2003-2004). **High Yield/Distressed Debt:** Citigroup High-Yield Market Index (2010-2013 and 2003-2006), Citigroup All BB-Rated Index (2007-2009). **TIPS:** Citigroup US-ILSI (2003-2013). **Cash/Commodities:** Citigroup US 3-Month Treasury Bill Index (2007-2013). **Private Equity:** S&P 500 +1.75% (2011-2013), S&P 500 +3.5% (2007-2010).

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

	FI	Tax-Exempt FI	Globl EQ & Dom / Intl	RE	HY/ DD	TIPS	Cash/ Comm	PE
07/11 - 06/13	0%	30%	52%	6%	5%	3%	2%	2%
07/10 - 06/11	0%	35%	48%	5%	5%	3%	2%	2%
07/09 - 06/10	0%	37%	48%	5%	5%	1%	2%	2%
07/08 - 06/09	3%	30%	48%	5%	5%	5%	2%	2%
07/07 - 06/08	8%	25%	48%	5%	5%	5%	2%	2%
07/06 - 06/07	3%	30%	48%	5%	5%	5%	2%	2%
07/05 - 06/06	3%	32%	40%	10%	10%	5%	0%	0%
07/04 - 06/05	7%	33%	24% / 6%	10%	10%	10%	0%	0%
07/02 - 06/04	10%	35%	25% / 0%	10%	10%	10%	0%	0%

18 **Fixed Income:** Citigroup USBIG Bond Index (2003-2013). **Global Equity:** ⅓ S&P Global 1200 + ⅓ S&P 500 Index (2012-2013 and 2007-2010), ⅓ S&P Global 1200 Ex-Iran + ⅓ S&P 500 Index (2011), ⅓ MSCI ACWI + ⅓ MSCI US Index (2006). **Domestic Equity:** S&P 500 Index (2005), Russell 1000 Index (2003-2004). **International Equity:** MSCI ACWI ex-US Index (2005). **Real Estate:** weighted index (2006), NCREIF Property Index +1.25% (2011-2013), NCREIF Property Index (2006-2010), MSCI US REIT Index (2005-2006), REIT Benchmark (2003-

2004). **High Yield/Distressed Debt:** Citigroup High-Yield Market Index (2010-2013 and 2003-2006), Citigroup All BB-Rated Index (2007-2009). **TIPS:** Citigroup US-ILSI (2003-2013). **Cash/Commodities:** Citigroup US 3-Month Treasury Bill Index (2007-2013). **Private Equity:** S&P 500 +1.75% (2011-2013), S&P 500 +3.5% (2007-2010).

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

	FI	Gbl EO & Dom / Intl	RE	HY/ DD	TIPS	Cash/ Comm	PE
07/06 - 06/13	28%	52%	6%	5%	5%	2%	2%
07/06 - 06/11	33%	48%	5%	5%	5%	2%	2%
07/05 - 06/06	35%	40%	10%	10%	5%	0%	0%
07/04 - 06/05	40%	24% / 6%	10%	10%	10%	0%	0%
07/02 - 06/04	45%	25% / 0%	10%	10%	10%	0%	0%

- 19 The SDRS Combined Internal Equity Benchmark consists of the  $\frac{2}{3}$  S&P Global 1200 +  $\frac{1}{3}$  S&P 500 Index in fiscal years 2012-2013 and 2005-2010; in fiscal year 2011 the  $\frac{2}{3}$  S&P Global 1200 Ex-Iran +  $\frac{1}{3}$  S&P 500 Index was used. Prior to fiscal year 2010, the benchmark consisted of the International Equity Benchmark (MSCI ACWI ex-US Index in fiscal years 2002-2004 and  $\frac{3}{4}$  MSCI EAFE +  $\frac{1}{4}$  MSCI EASEA Index in fiscal years 1993-2001) and the Domestic Equity Benchmark (Russell 1000 Index in fiscal years 1996-2004 and S&P 500 Index in fiscal years 1974-1995) weighted according to the beginning monthly portfolio weights, adjusted for cash transfers.
- 20 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 2012-2013 and 2005-2010; in fiscal year 2011 the  $\frac{2}{3}$  S&P Global 1200 Ex-Iran +  $\frac{1}{3}$  S&P 500 Index was used. Prior to fiscal year 2010, the benchmark consisted of the International Equity Benchmark (MSCI ACWI ex-US Index in fiscal years 2002-2004 and  $\frac{3}{4}$  MSCI EAFE +  $\frac{1}{4}$  MSCI EASEA Index in fiscal years 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 was the implemented Merger index portfolio January 1, 2011 - June 30, 2012, the Merger Custom Index in fiscal years 2008-2010 and July 1, 2010 - December 31, 2010 and the 3-Month Treasury Bill Index return plus 4.25% annually in prior periods.
- 23 Asset growth is affected by contributions, withdrawals, management fees and investment income.
- 24 Investment income includes realized and unrealized capital gain/loss income and receipted and accrued securities income.





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