

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

1. PURPOSE

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

2. PRUDENCE

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

3. OBJECTIVES

The investment objectives are:

A. Safety of Principal

Investment purchases are limited to investment grade fixed income securities.

B. Liquidity

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

C. Return

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

4. DELEGATION OF AUTHORITY

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

5. ETHICS AND CONFLICT OF INTEREST

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

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

6. AUTHORIZED FINANCIAL DEALER AND INSTITUTION

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

7. AUTHORIZED AND SUITABLE INVESTMENTS

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

- (1) Direct and indirect obligations of the United States government;
- (2) Agencies and instrumentalities of the United States government;

- (3) Mortgage-backed securities of United States government-sponsored enterprises;
- (4) Direct obligations of the State of South Dakota and any of its political subdivisions;
- (5) Obligations consisting of notes, bonds, debentures, and certificates which are direct obligations of a solvent corporation or trust existing under the laws of the United States or any state thereof, if such investments are rated in the four highest classifications established by at least two standard rating services at the time of purchase;
- (6) Savings accounts, share accounts, certificates of deposit of banks, savings and loan associations, building and loan associations, and bankers' acceptances;
- (7) Repurchase agreements fully collateralized by securities described in this section;
- (8) Shares in exchange-traded funds and open-end, no-load funds that are administered by an investment company registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933 and investments are predominantly in securities described in this section; or
- (9) In addition to the investments authorized by subdivisions (1) to (8) of this section, inclusive, the investment council may also allocate a sum certain of state public funds for investment in the accounts and certificates of South Dakota banks and associations. This sum shall initially be offered to South Dakota banks and associations, and if not initially fully subscribed, the investment officer shall immediately reoffer the unsubscribed sum to other qualified public depositories defined by subdivision 4-6A-1(7).

8. INTERNAL CONTROLS/ANNUAL AUDIT

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

9. PERFORMANCE STANDARDS

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

10. REPORTING

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

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

Other reports are provided to the Council for their information.

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

11. POLICY AMENDMENT

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