

THE SOUTH DAKOTA INVESTMENT COUNCIL



**ANNUAL REPORT
FISCAL YEAR 2014**

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

The Financial Statements with Auditor’s Report for South Dakota Retirement System can be found at www.sdrs.sd.gov.

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

The South Dakota Investment Council annual report provides information about the investment of South Dakota Retirement System assets, state trust funds' assets, and other financial assets of the State of South Dakota. This letter summarizes fiscal year 2014 performance and discusses the Council's long-term approach; future return expectations; importance of low costs; and productive working relationships with the Legislature, the Executive Branch, and others.

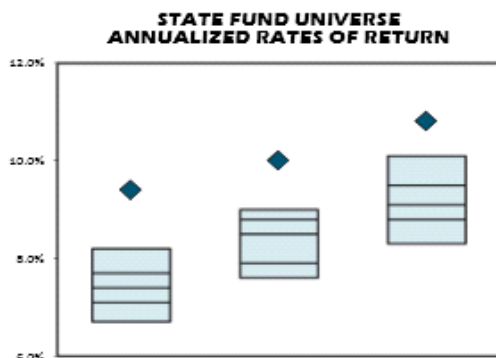
FISCAL YEAR 2014 PERFORMANCE

The fiscal year 2014 investment return for the South Dakota Retirement System (SDRS) was 18.9% net of investment management cost. This exceeded the Council's market index-based Capital Markets Benchmark (CMB) return of 17.5%. The real estate category contributed most significantly to the outperformance followed by global equity. The other categories and allocation across categories did not significantly impact performance relative to the benchmark.

The net returns for the trust funds, which include School and Public Lands, Dakota Cement Trust, Health Care Trust, and Education Enhancement Trust, ranged from 16.1% to 16.3%. Trust fund management is gradually transitioning to being similar to SDRS. The South Dakota Cash Flow Fund (SDCFF) earned a return of 1.0%. The SDCFF return has declined significantly in the past several years as higher-yielding securities matured. The yield may continue to drop until market rates increase from current near zero levels.

INVESTING FOR THE LONG TERM

The Council has managed SDRS assets for the past 41 years. The return over the full period has meaningfully exceeded other state retirement systems across the nation as shown on the following exhibit.



	ANNUALIZED RETURNS		
	10 Years	20 Years	41 Years
	2005-2014	1995-2014	1974-2014
10th %tile	8.2	9.0	10.1
25th %tile	7.7	8.8	9.5
Median	7.4	8.5	9.1
75th %tile	7.1	7.9	8.8
90th %tile	6.7	7.6	8.3
◆ SDRS Fund	9.4	10.0	10.8
SDRS %tile Rank	1	1	1

The Council's goal is to add value over the long term compared to market indexes. Accomplishment of this goal for SDRS provides additional resources to pay retirement benefits for the more than 79,000 members. Added value for the trust funds and the cash flow fund provides additional revenues to the state.

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

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

It can be difficult to stick to a long-term investment approach, especially during underperforming periods when most others chase immediate gratification and comfort of the crowd. The Council has developed several advantages to help maintain discipline. Measures of long-term value provide a solid focal point, like a lighthouse in rough seas. Internal research increases conviction, as it is easier to understand your own work. Decades of successful experience in difficult markets provides confidence to stay the course due to a more robust understanding of what is required to successfully come out the other side. Contingency planning provides a roadmap for when tough times come to avoid trying to figure out what to do under duress and in a hurry.

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 adjustment risk measures to better reflect risk when it matters most, during market crashes. Standard deviations are increased to reflect higher frequency of severe declines. Correlations are adjusted to reflect that most asset categories are less diversifying during severe declines. Correlations are measured separately for inflation and deflation related severe declines 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 9 of the annual report for every fiscal year since inception and various rolling time periods. The returns for 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 relate inversely to future results. The Council began developing long-term expected returns in the early 1980's. The following exhibit shows expected returns resulting from the Council's process for bonds and stocks as of 6/30/82, 6/30/92, 6/30/02, and 6/30/14.

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%	6.2%
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 6/30/14	5.1%	8.0%	
Expected 10-Year Returns as of 6/30/14	2.5%	7.5%	1.9%

*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 10 years through June 30, 2012 were 5.8% for bonds and 5.3% for stocks, and for the 12 years through June 30, 2014, were 5.1% for bonds and 8.0% for stocks.

As of June 30, 2014, expected returns were 2.5% for bonds and 7.5% for stocks. Low interest rates foreshadow low future bond returns. The expected return for stocks is also lower than earned on average historically. The expected long-term return for the overall SDRS fund, which is diversified across a number of asset categories, is 6.8%. This excludes consideration of potential value added or detracted relative to index returns and any impact of withdrawals to pay benefits. As SDRS matures, benefit payments are increasingly funded from investment earnings. These withdrawals are larger as a percentage of the fund when markets are depressed which reduces long-term growth of the fund.

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 2.0% to 11.6% per annum for a ten-year horizon and 3.4% to 10.2% for a 20-year horizon.

History has shown that following large out-performances, like experienced in the past couple years, opportunities may be sparse for a time. Chasing lesser opportunities has tended to backfire when those assets became much cheaper later. The lesson learned is to wait for worthwhile opportunities, and when absent, to be satisfied with modest results until better opportunities come along.

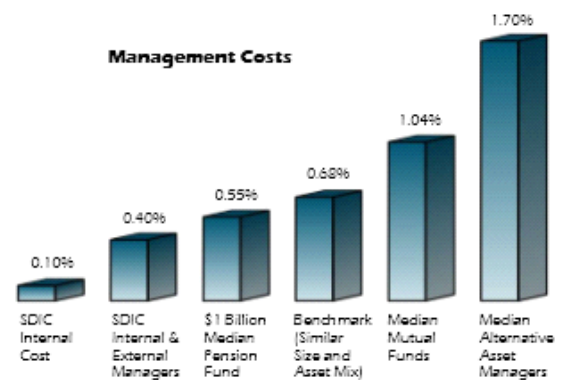
IMPORTANCE OF LOW COSTS

The Investment Council manages the majority of assets internally to save money and to try to earn higher returns. 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 are generally 1% to 2% per year. Partnership managers are typically allocated 20% of profits. These investments are more expensive than traditional external managers and much more expensive than Council 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. The Council evaluates partnership returns compared to traditional real estate and stock market indices. Partnership returns are net of all fees and profit allocations.

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



Internal management cost is projected to average 0.10% of assets. Including external management, total cost is expected to average 0.40%. This compares to the median industry cost of 0.55% and benchmark cost of 0.68%, which is the median industry cost adjusted for fund size and asset mix. The difference of 0.28% versus the benchmark results in approximately \$36 million of savings per year. Compounding these savings over many years can result in hundreds of millions of dollars.

A TEAM EFFORT

The historic success of the Investment Council has been a team effort. Consistent support by the Legislature and Executive Branch and others over multiple decades has allowed the Council to pursue a long-term investment approach and implement a long-term business plan to 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 their predecessors, to provide the Council with the opportunity to succeed.

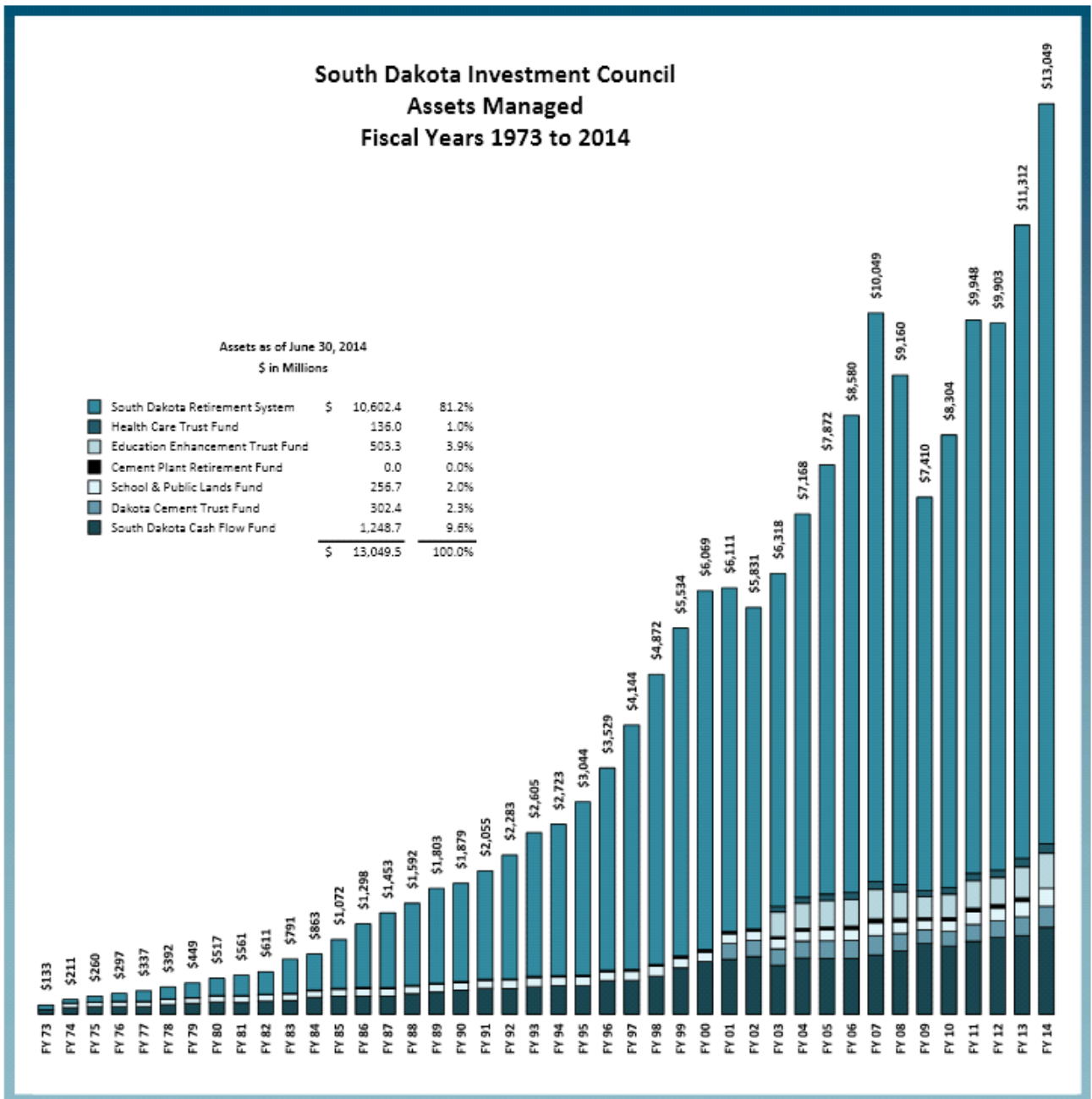
The Council benefits from cooperative relationships with other state entities related to the funds managed, including the South Dakota Retirement System, the State Treasurer's Office, the School and Public Lands' Office, and the Bureau of Finance and Management. The Council also appreciates important 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 an exceptionally supportive environment, a stable internal investment team, and disciplined focus on long-term investment value will serve us well in the decades to come.

Respectfully submitted by:

Hugh M. Bartels, Chair
South Dakota Investment Council

Matthew L. Clark, CFA
State Investment Officer



Hugh M. Bartels, Chair**

President
Reliabank Dakota
Watertown

Jon M. Hunter, CFA, Vice-Chair**

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

Steve T. Kirby

President/Founding Partner
Bluestem Capital Company
Sioux Falls

Vern Larson

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
Senior Portfolio Manager

Melissa M. Hansen-Woidyla, CFA
Senior Portfolio Manager

Candice S. Currier, CFA
Portfolio Manager

Arianna P. Rehfeldt, CFA
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
Associate Portfolio Manager

Small/Mid-Cap Equity

Scott A. Hess, CFA
Senior Portfolio Manager

Darci L. Haug, CFA
Portfolio Manager

Jarrod A. Edelen, CFA
Associate Portfolio Manager

Fixed Income

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

Ross D. Sandine, CFA
Associate Portfolio Manager
High Yield

Danielle J. Mourer, CFA
Associate Portfolio Manager
High Yield

Anne M. Cipperley, CFA
Assistant Portfolio Manager
High Yield

Investment Accounting

Cynthia J. Pickering, CPA
Senior Investment Accountant

Samantha M. Rains, 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 79,000 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 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%.

SDRS Total Fund vs. Actuarial Rate of 7.5%*				
	<u>5 years</u>	<u>10 years</u>	<u>20 years</u>	<u>30 years</u>
# of Successes	27	28	22	12
# of Periods	37	32	22	12
% of Success	73%	88%	100%	100%

SDRS Total Fund vs. Actuarial Rate + 1%				
	<u>5 years</u>	<u>10 years</u>	<u>20 years</u>	<u>30 years</u>
# of Successes	24	27	21	12
# of Periods	37	32	22	12
% of Success	65%	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, 2014, 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 8.

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 9.

SDRS Total Fund vs. Capital Markets Benchmark				
	<u>5 years</u>	<u>10 years</u>	<u>20 years</u>	<u>30 years</u>
# of Successes	31	29	22	12
# of Periods	37	32	22	12
% of Success	84%	91%	100%	100%

♦ **Achieve favorable total fund performance over the long term relative to peer pension funds.**

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

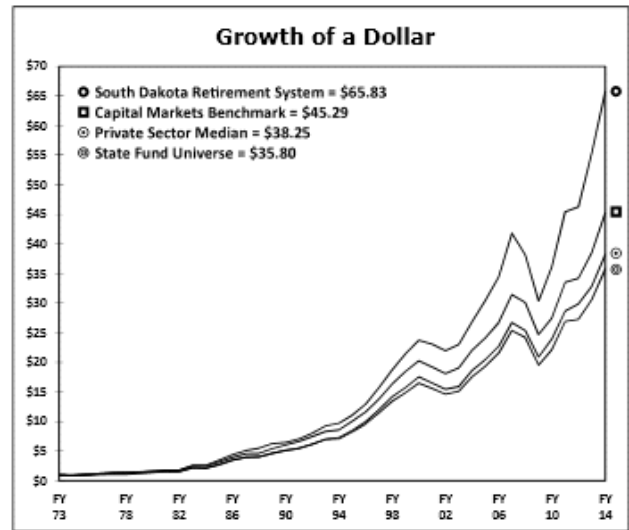
SDRS Total Fund vs. State Fund Universe				
	<u>5 years</u>	<u>10 years</u>	<u>20 years</u>	<u>30 years</u>
# of Successes	36	32	22	12
# of Periods	37	32	22	12
% of Success	97%	100%	100%	100%

CEMENT PLANT RETIREMENT FUND - THE CONSOLIDATION

The South Dakota Cement Plant Retirement Fund (CPRF) was a public employee retirement plan providing retirement benefits to former employees of the previously state-owned cement plant located in Rapid City.

On April 1, 2014, CPRF was consolidated into SDRS per SDCL 3-12-217. The CPRF investments, with a fair value of \$66,451,840 as of March 31, 2014, were transferred to SDRS. The annualized return for the 40.75 years of Council management was 10.7% compared to the Capital Markets Benchmark of 9.6%. Additional information can be found in the fiscal year 2014 SDRS Annual Report.

The chart to the right shows that compounding superior returns over the long term can really add up. A dollar invested at SDRS returns starting in 1973 would have increased to \$65.83 by June 30, 2014. A dollar invested in the Council's Capital Markets Benchmark would have grown to \$45.29. A dollar invested in the typical private sector pension plan and state fund universe would have grown to \$38.25 and \$35.80 respectively.



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 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, 2014 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 15.4% after adjustments to capture real-world frequency of adverse events. These statistics indicate a 66% chance the return for any year would be between -8.6% and 22.1% and a 95% chance the return would be between -23.9% and 37.5%.

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, 2014, the equity-like risk of the SDRS fund was 70% compared to 70% for the fiscal year 2015 capital markets benchmark. In recent years, it has ranged from 66% in November 2007 to 80% in October 2013.

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

SDRS Total Fund Performance¹⁰⁻¹³

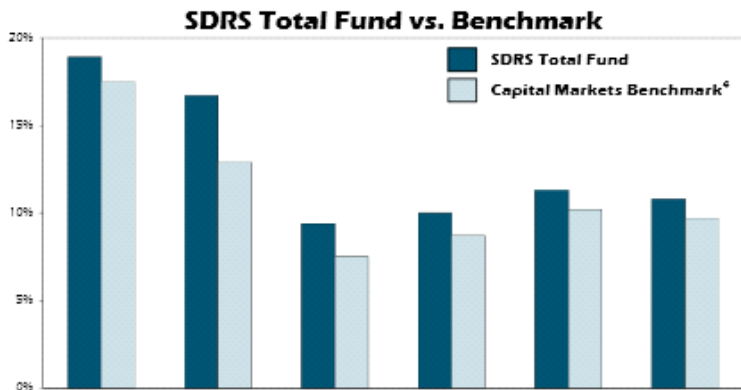
Fiscal Year	1 Year		5 Years		10 Years		20 Years		30 Years		41 Years	
	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench
2014	18.9%	17.5%	16.7%	12.9%	9.4%	7.5%	10.0%	8.7%	11.3%	10.2%	10.8%	9.7%
2013	19.5%	12.7%	7.7%	5.0%	9.2%	7.3%	9.3%	7.9%	10.7%	9.6%		
2012	1.9%	2.0%	2.1%	1.7%	7.8%	6.6%	9.1%	7.9%	11.4%	10.4%		
2011	25.8%	22.1%	5.7%	4.6%	7.0%	5.7%	9.7%	8.4%	11.4%	10.4%		
2010	18.7%	11.1%	3.5%	2.6%	4.3%	3.1%	9.0%	7.8%	10.8%	9.9%		
2009	20.4%	(18.0%)	2.5%	2.3%	3.6%	2.9%	8.2%	7.9%	10.5%	9.9%		
2008	(8.7%)	(4.2%)	10.6%	9.6%	7.4%	6.3%	10.2%	9.8%	11.6%	11.0%		
2007	21.4%	17.6%	13.8%	11.7%	10.3%	8.6%	11.1%	10.1%	12.0%	11.2%		
2006	13.1%	10.7%	8.3%	6.8%	10.3%	8.7%	10.8%	10.0%	11.8%	10.9%		
2005	13.3%	9.6%	5.1%	3.6%	10.6%	9.2%	11.4%	10.7%	11.7%	10.9%		
2004	16.6%	15.5%	4.6%	3.6%	10.7%	9.9%	12.3%	11.6%	11.8%	11.0%		
2003	5.0%	5.4%	4.2%	3.2%	9.5%	8.6%	11.4%	10.7%	11.0%	10.3%		
2002	(4.9%)	(5.8%)	6.9%	5.6%	10.6%	9.2%	13.2%	12.3%				
2001	(2.9%)	(5.1%)	12.3%	10.6%	12.5%	11.2%	13.6%	12.8%				
2000	10.8%	9.7%	16.5%	15.1%	13.9%	12.8%	14.3%	13.5%				
1999	14.6%	13.3%	17.2%	16.6%	13.0%	13.1%	14.1%	13.5%				
1998	19.3%	18.4%	15.1%	14.2%	13.0%	13.4%	13.8%	13.3%				
1997	21.3%	18.9%	14.3%	12.9%	11.9%	11.6%	12.9%	12.5%				
1996	16.7%	15.5%	12.8%	11.8%	11.3%	11.3%	12.5%	12.0%				
1995	14.1%	16.9%	11.3%	10.5%	12.2%	12.2%	12.3%	11.8%				
1994	4.8%	2.4%	9.0%	9.7%	13.9%	13.2%	12.4%	11.6%				
1993	15.2%	11.8%	10.9%	12.5%	13.4%	13.0%	11.8%	11.2%				
1992	13.4%	12.9%	9.5%	10.2%	16.0%	15.5%						
1991	9.3%	9.2%	9.9%	10.9%	14.7%	14.4%						
1990	3.0%	12.5%	13.2%	13.9%	14.7%	14.1%						
1989	14.2%	16.4%	18.9%	16.9%	15.2%	13.9%						
1988	8.0%	0.7%	15.9%	13.4%	14.7%	13.3%						
1987	15.3%	16.6%	22.8%	21.1%	14.0%	13.4%						
1986	26.7%	24.7%	19.8%	18.0%	13.7%	12.6%						
1985	31.8%	28.2%	16.2%	14.4%	12.4%	11.3%						
1984	0.7%	(0.1%)	11.6%	11.0%	10.9%	10.0%						
1983	44.1%	39.6%	13.4%	13.2%	10.2%	9.5%						
1982	1.8%	2.8%	5.8%	6.2%								
1981	8.8%	6.6%	8.0%	7.4%								
1980	7.6%	10.4%	8.7%	8.3%								
1979	9.3%	10.2%	10.3%	9.1%								
1978	1.7%	1.4%	7.0%	5.9%								
1977	12.9%	8.6%										
1976	12.2%	11.2%										
1975	15.8%	14.2%										
1974	(5.9%)	(4.8%)										

The chart to the left shows the annualized total rate of returns for 1, 5, 10, 20, 30 and 41 years through fiscal year 2014 for the Total Fund. The Capital Markets Benchmark⁴ is provided for comparison.

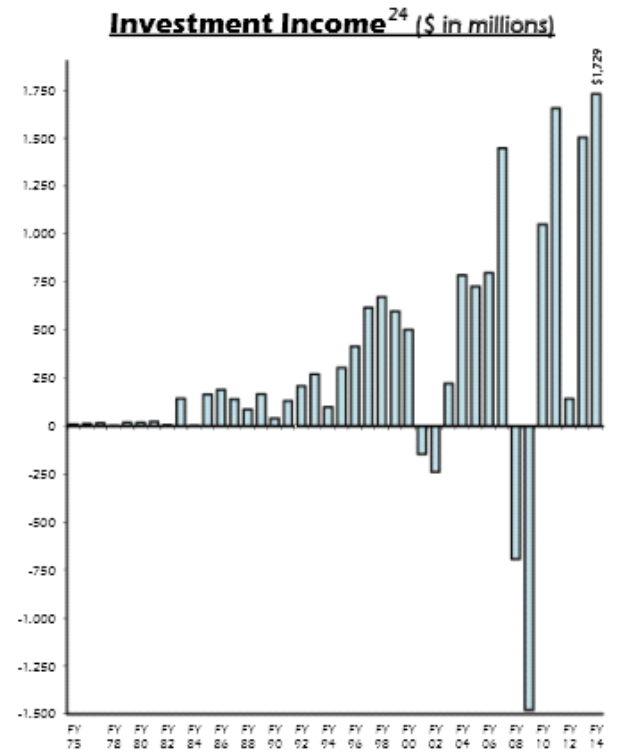
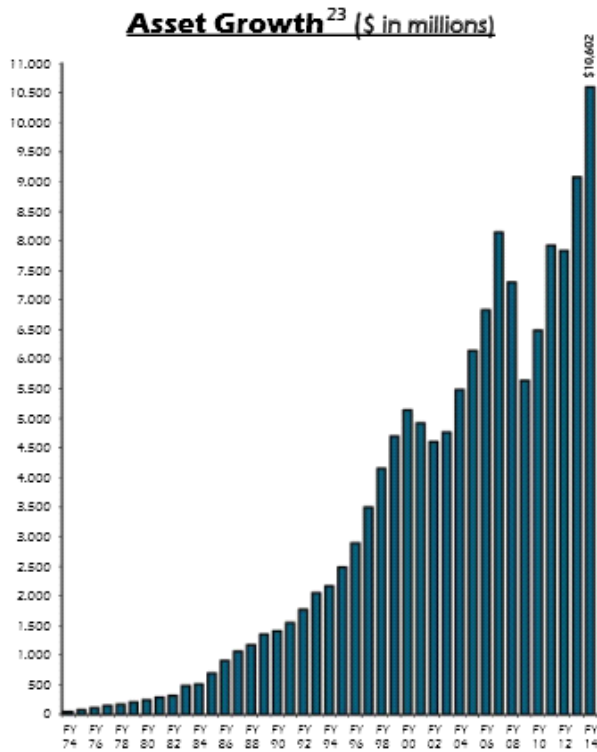
The one-year Total Fund return above the solid demarcation line is net-of-fees, the returns below are gross-of-fees.

Past performance is no guarantee of future results.

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%



	1 Year	5 Years	10 Years	20 Years	30 Years	41 Years
SDRS	18.9%	16.7%	9.4%	10.0%	11.3%	10.8%
Benchmark	17.5%	12.9%	7.5%	8.7%	10.2%	9.7%
Difference	1.4%	3.8%	1.9%	1.3%	1.1%	1.1%



Cash Flows and Fair Value Changes

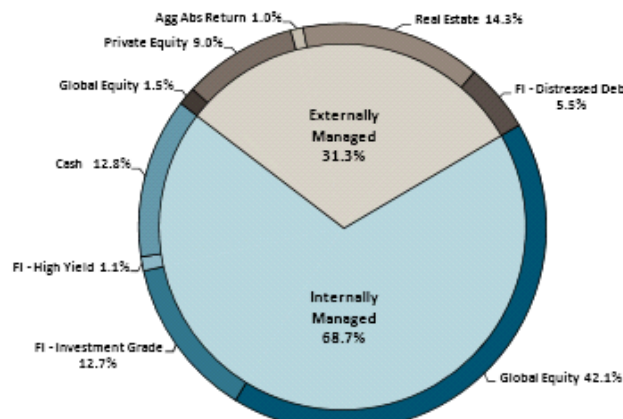
The South Dakota Retirement System began fiscal year 2014 with \$9.077 billion in assets. During the fiscal year, net contributions/withdrawals and fees decreased the fund by \$203.1 million and investment income increased it by \$1,728.9 million, resulting in an ending fair value of \$10.602 billion.

Fair Value 6/30/13		\$ 9,076,535,489
Increases/Decreases		
4/1/14 Transfer from CPRF	\$ 66,451,840	
Net Contributions/Withdrawals	(236,006,985)	
Internal Management Fees	(7,309,995)	
External Management Fees	<u>(26,193,257)</u>	
Total Increases/Decreases		\$ (203,058,397)
Investment Income		
Securities Income		
Interest Income	\$ 58,693,781	
Dividend Income	141,201,461	
Securities Lending Income	725,584	
Real Estate Income	43,653,715	
Change in Accrued Income	<u>520,690</u>	
Total Securities Income		\$ 244,795,231
Total Capital Gain/Loss Income		<u>\$ 1,484,117,173</u>
Total Investment Income		\$ 1,728,912,404
Fair Value 6/30/14		<u>\$ 10,602,389,496</u>

Asset Allocation⁸

As of June 30, 2014, South Dakota Retirement System assets totaled \$10.602 billion. The broad asset categories and managers are listed below. The Capital Markets Benchmark allocation is also provided for comparison. The chart shows the asset allocation of the broad asset categories of the South Dakota Retirement System broken out by internally and externally managed.

	Fair Value Excluding Futures	% of Fund Excluding Futures	Futures Exposure	Fair Value with Futures	% of Fund with Futures	Capital Markets Benchmark %
Global Equity						
Internal Global Equity	\$ 5,182,893,241	48.9%				
Internal High Quality Equity	244,012,146	2.3%				
Internal Small/Mid Equity	461,395,215	4.3%				
Brandy	59,549,976	0.5%				
Dimensional Fund Advisors	52,706,460	0.5%				
Sanders Capital	41,246,649	0.4%	57.0%			
Equity Index Futures				\$(1,421,166,750)	\$ 4,620,636,937	43.6%
Private Equity Limited Partnerships						
Blackstone Capital Partners	\$ 298,816,019	2.8%				
Capital International	45,585,552	0.4%				
Carlyle	71,669,444	0.7%				
Cinven	117,588,711	1.1%				
Credit Suisse	334,846	0.0%				
CVC	73,850,991	0.7%				
Cypress	6,134,105	0.1%				
Doughty Hanson	71,043,656	0.7%				
Elevation	8,178,637	0.1%				
KKR	25,494,557	0.2%				
Neuberger Berman	3,033,345	0.0%				
PineBridge	5,019,618	0.0%				
Riverstone	84,105,942	0.8%				
Silver Lake	149,299,246	1.4%	9.0%	960,154,669	9.0%	7.0%
Aggressive Absolute Return (AAR)						
Bridgewater	\$ 82,115,450	0.8%				
Sanders Capital	22,005,112	0.2%	1.0%	104,120,562	1.0%	0.0%
Real Estate Limited Partnerships						
AREA Property Partners	\$ 14,698,636	0.1%				
Blackstone Real Estate Partners	1,281,422,340	12.1%				
Cargill N.A. Real Estate Partners	31,337,741	0.3%				
Doughty Hanson	28,294,274	0.3%				
Lone Star	96,812,104	0.9%				
Rockpoint	25,080,513	0.2%				
Starwood	40,875,107	0.4%	14.3%	1,518,520,715	14.3%	8.0%
Fixed Income – Investment Grade/TIPS						
Internal Investment Grade	\$ 951,811,089	9.0%	9.0%			
Treasury Financial Futures				398,511,380	1,350,322,469	12.7%
Fixed Income – High Yield/Distressed Debt						
Internal High Yield	\$ 119,053,270	1.1%				
Blackstone	532,377	0.0%				
CarVal	74,443,560	0.7%				
TCW	502,593,171	4.8%	6.6%	696,622,378	6.6%	7.0%
Commodities						
	\$ 0	0.0%	0.0%		0	0.0%
Cash & Cash Equivalents						
Internal Shift Account	\$ 329,356,396	3.1%	3.1%			
Cash From Futures				1,022,655,370	1,352,011,766	12.8%
Total	\$10,602,389,496	100.0%	\$ 0	\$10,602,389,496	100.0%	100.0%



SDRS Internal Bond Portfolio Performance

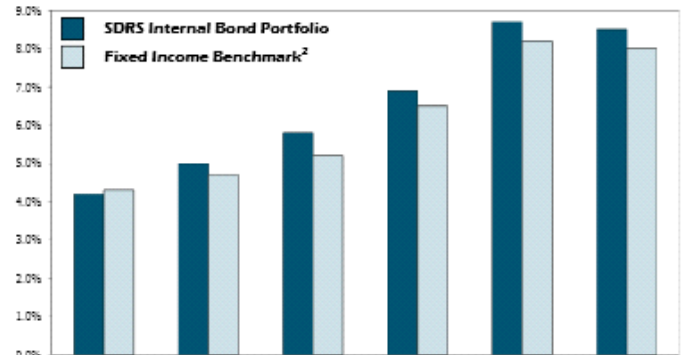
Fiscal Year	1 Year		5 Years		10 Years		20 Years		30 Years		41 Years	
	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench
2014	4.2%	4.3%	5.0%	4.7%	5.8%	5.2%	6.9%	6.5%	8.7%	8.2%	8.5%	8.0%
2013	(0.3%)	(0.6%)	6.0%	5.3%	5.5%	4.9%	6.7%	6.2%	8.5%	8.1%		
2012	7.1%	7.5%	7.8%	7.0%	7.0%	6.3%	7.5%	6.9%	9.5%	9.1%		
2011	4.7%	3.7%	7.7%	6.7%	6.8%	6.3%	7.9%	7.2%	9.7%	9.3%		
2010	9.8%	9.0%	6.7%	6.0%	7.4%	7.0%	8.2%	7.5%	9.2%	8.9%		
2009	9.2%	7.1%	6.5%	5.8%	6.8%	6.5%	8.1%	7.5%	8.9%	8.7%		
2008	8.4%	7.8%	4.9%	4.6%	6.1%	6.1%	8.3%	7.7%	8.9%	8.8%		
2007	6.5%	6.1%	6.1%	5.7%	6.5%	6.4%	8.3%	7.8%	8.6%	8.5%		
2006	(0.2%)	(0.2%)	6.0%	5.8%	6.9%	6.7%	8.4%	7.7%	8.9%	8.7%		
2005	9.1%	7.9%	8.1%	8.1%	7.5%	7.4%	9.3%	8.7%	9.4%	9.1%		
2004	1.3%	1.3%	7.1%	7.2%	8.0%	7.8%	10.3%	9.7%	9.6%	9.3%		
2003	14.4%	13.4%	7.3%	7.6%	7.8%	7.5%	10.1%	9.7%	9.6%	9.1%		
2002	5.9%	7.0%	7.0%	7.1%	8.0%	7.4%	10.8%	10.5%				
2001	10.0%	11.2%	7.8%	7.7%	9.0%	8.1%	11.1%	10.8%				
2000	4.3%	3.8%	7.0%	6.7%	9.1%	8.1%	10.1%	9.9%				
1999	2.4%	2.9%	8.9%	8.4%	9.5%	8.5%	10.0%	9.9%				
1998	12.6%	11.2%	8.3%	7.5%	10.5%	9.4%	10.3%	10.1%				
1997	9.9%	9.6%	9.0%	7.7%	10.1%	9.1%	9.6%	9.6%				
1996	5.9%	6.2%	10.2%	8.6%	9.9%	8.7%	9.9%	9.8%				
1995	14.0%	12.5%	11.3%	9.5%	11.1%	10.1%	10.3%	10.0%				
1994	(0.1%)	(1.2%)	10.1%	8.6%	12.6%	11.6%	10.4%	10.0%				
1993	16.1%	12.0%	12.7%	11.4%	12.4%	12.0%	10.5%	9.9%				
1992	16.3%	14.2%	11.2%	10.6%	13.7%	13.7%						
1991	11.1%	10.8%	9.5%	8.9%	13.2%	13.5%						
1990	7.9%	7.7%	10.9%	10.6%	11.1%	11.7%						
1989	12.5%	12.2%	15.1%	14.8%	10.5%	11.3%						
1988	8.6%	8.2%	12.1%	12.6%	10.1%	10.9%						
1987	7.5%	5.6%	16.2%	16.8%	9.1%	10.1%						
1986	18.5%	19.8%	17.0%	18.4%	9.9%	10.8%						
1985	29.9%	30.0%	11.2%	12.9%	9.5%	9.9%						
1984	(1.6%)	1.7%	6.0%	7.9%	8.2%	8.4%						
1983	30.5%	30.0%	8.1%	9.2%	8.7%	7.9%						
1982	11.2%	12.8%	2.4%	3.8%								
1981	(8.1%)	(5.4%)	3.3%	3.7%								
1980	2.2%	3.8%	7.9%	7.0%								
1979	8.3%	7.6%	10.4%	8.8%								
1978	(0.4%)	1.0%	9.3%	6.6%								
1977	15.9%	12.4%										
1976	14.2%	10.5%										
1975	14.9%	12.9%										
1974	3.1%	(2.9%)										

The chart to the left shows the annualized total rate of returns for 1, 5, 10, 20, 30 and 41 years through fiscal year 2014 for the Internal Bond Portfolio. The Fixed Income Benchmark² 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 Portfolio vs. Benchmark



	1 Year	5 Years	10 Years	20 Years	30 Years	41 Years
SDRS	4.2%	5.0%	5.8%	6.9%	8.7%	8.5%
Benchmark	4.3%	4.7%	5.2%	6.5%	8.2%	8.0%
Difference	(0.1%)	0.3%	0.6%	0.4%	0.5%	0.5%

SDRS Internal High Yield Bond Portfolio Performance

Fiscal Year	1 Year		2 Years		3 Years		4 Years		5 Years		8 Years	
	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench
2014	9.5%	11.2%	10.5%	10.0%	10.1%	9.3%	11.5%	10.6%	12.7%	12.2%	8.9%	9.2%
2013	11.5%	8.9%	10.4%	8.4%	12.2%	10.5%	13.5%	12.5%	10.8%	10.4%		
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 8 years through fiscal year 2014 for the Internal High Yield Bond Portfolio. The High Yield benchmark⁵ 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, 2014, are presented below.

Distribution by Duration	IG	HY	Distribution by Quality Rating	IG	HY
0 to 2 Years	10.0%	27.4%	U.S. Gov't/Aaa	56.3%	3.8%
2 to 3 Years	15.7%	21.5%	Aa	7.9%	0.0%
3 to 4 Years	13.8%	10.6%	A	15.0%	0.0%
4 to 5 Years	17.2%	9.3%	Baa	20.6%	0.0%
5 to 6 Years	8.7%	17.4%	Ba	0.2%	38.0%
6 to 8 Years	17.4%	11.4%	B	0.0%	37.7%
Above 8 Years	17.2%	2.4%	Caa and lower	0.0%	20.5%
Total	100.0%	100.0%	Total	100.0%	100.0%

Distribution by Coupon	IG	HY	Distribution by Sector	IG	HY
0.00% - 2.00%	29.9%	3.9%	Cash/Cash Equivalents	0.2%	3.9%
2.01% - 3.00%	20.4%	0.0%	U.S. Treasuries	18.5%	0.0%
3.01% - 4.00%	24.5%	0.0%	Agency Debentures/FDIC	6.1%	0.0%
4.01% - 6.00%	21.9%	14.2%	Agency Mortgage-Backed Securities	31.5%	0.0%
6.01% - 7.00%	2.4%	23.3%	Investment Grade Corporates	43.5%	0.0%
7.01% - 8.00%	0.0%	35.2%	High Yield Corporates	0.2%	96.1%
8.01% and over	0.9%	23.4%			
Total	100.0%	100.0%	Total	100.0%	100.0%

Investment Grade Bond Portfolio Ten Largest Corporates by Issuer	% of Total	High Yield Bond Portfolio Ten Largest Corporates by Issuer	% of Total
Ontario (Province Of)	1.8%	Frontier Communications Corp.	4.5%
Berkshire Hathaway, Inc.	1.8%	Windstream Holdings, Inc.	2.9%
DIRECTV	1.8%	Peabody Energy Corp.	2.5%
Amgen, Inc.	1.8%	Arch Coal, Inc.	2.4%
American Express Co.	1.5%	Swift Energy Co.	2.4%
Morgan Stanley	1.5%	JC Penney Co., Inc.	2.4%
Altria Group, Inc.	1.4%	Niska Gas Storage Partners, LLC	2.2%
Apple, Inc.	1.3%	Toys R Us, Inc.	2.2%
MetLife, Inc.	1.3%	JBS S.A.	2.1%
Verizon Communications, Inc.	1.2%	Bombardier, Inc.	2.1%
Total	15.4%	Total	25.7%

SDRS Internal Bond Portfolio characteristics as of June 30th are presented below for various fiscal years. The Bond Index is presented for comparative purposes.

	1975	1980	1985	1990	1995	2000	2005	2010	2014
South Dakota Retirement System									
Yield to Maturity	9.4%	10.4%	10.3%	9.3%	7.3%	7.8%	4.7%	3.7%	2.1%
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	5.1 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	5.0 yrs
Bond Index¹									
Yield to Maturity	8.3%	10.2%	10.2%	9.2%	6.7%	7.3%	4.5%	2.6%	2.1%
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	7.0 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	5.4 yrs

SDRS Combined Internal Equity Portfolio Performance

Fiscal Year	1 Year		5 Years		10 Years		20 Years		30 Years		41 Years	
	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench
2014	24.1%	24.4%	18.5%	16.6%	8.3%	7.9%	10.1%	9.2%	11.6%	11.2%	11.9%	10.5%
2013	26.6%	19.3%	8.4%	4.5%	8.2%	7.8%	9.2%	8.2%	10.9%	10.2%		
2012	(0.4%)	(1.3%)	(1.4%)	(1.4%)	5.4%	5.8%	8.7%	8.0%	11.8%	11.3%		
2011	28.1%	30.8%	2.7%	3.1%	4.1%	4.3%	9.4%	8.7%	11.7%	10.9%		
2010	16.9%	12.3%	0.1%	0.4%	0.3%	(0.4%)	8.3%	7.7%	11.6%	10.6%		
2009	20.8%	(27.9%)	(1.1%)	(0.2%)	(0.3%)	(0.5%)	7.6%	7.9%	11.4%	10.8%		
2008	21.0%	(11.0%)	8.0%	11.2%	3.9%	4.6%	9.8%	10.7%	12.7%	12.5%		
2007	22.0%	23.6%	12.7%	13.6%	8.9%	8.2%	11.0%	10.9%	13.6%	12.9%		
2006	12.6%	14.7%	5.5%	5.4%	9.7%	8.7%	10.9%	11.0%	13.3%	12.1%		
2005	9.9%	9.0%	0.4%	(1.2%)	11.0%	9.4%	11.9%	11.9%	13.4%	12.1%		
2004	22.9%	23.6%	0.6%	(0.8%)	11.9%	10.6%	13.2%	12.9%	14.0%	12.3%		
2003	(2.0%)	(0.8%)	0.0%	(1.7%)	10.3%	8.6%	12.3%	11.4%	12.8%	11.0%		
2002	(12.2%)	(15.0%)	5.1%	3.1%	12.1%	10.2%	15.1%	14.2%				
2001	(12.0%)	(17.1%)	14.0%	12.0%	14.9%	13.4%	15.6%	14.4%				
2000	10.9%	11.0%	22.7%	21.2%	16.9%	16.4%	17.8%	16.6%				
1999	19.5%	18.3%	24.5%	23.4%	16.0%	16.9%	17.7%	16.9%				
1998	25.6%	25.6%	21.7%	20.1%	16.1%	17.1%	17.4%	16.6%				
1997	31.7%	28.6%	19.5%	17.7%	13.2%	13.6%	16.1%	15.3%				
1996	27.1%	23.3%	15.7%	14.8%	12.1%	13.3%	15.1%	13.9%				
1995	18.9%	21.2%	11.3%	11.7%	12.8%	14.4%	14.6%	13.5%				
1994	6.7%	3.3%	8.1%	10.8%	14.6%	15.3%	15.1%	13.2%				
1993	14.6%	13.9%	10.7%	14.2%	14.3%	14.3%	14.1%	12.2%				
1992	12.4%	13.5%	7.3%	9.7%	18.3%	18.3%						
1991	4.5%	7.4%	8.5%	11.8%	16.4%	15.4%						
1990	2.7%	16.3%	14.3%	17.1%	18.7%	16.8%						
1989	20.3%	20.4%	21.5%	19.9%	19.4%	16.9%						
1988	(1.9%)	(7.1%)	18.1%	14.4%	18.8%	16.2%						
1987	18.7%	25.1%	30.3%	27.7%	19.0%	17.1%						
1986	35.7%	35.4%	24.9%	19.2%	18.3%	14.5%						
1985	39.0%	30.8%	23.3%	16.4%	16.5%	12.6%						
1984	4.5%	(4.7%)	17.4%	13.9%	15.6%	11.2%						
1983	60.6%	61.0%	19.5%	18.0%	13.8%	10.1%						
1982	(4.1%)	(11.4%)	8.6%	7.3%								
1981	27.6%	20.5%	12.1%	10.0%								
1980	8.7%	17.1%	10.0%	8.8%								
1979	14.3%	13.6%	13.9%	8.6%								
1978	(0.4%)	0.1%	8.3%	2.6%								
1977	12.1%	0.5%										
1976	16.2%	14.0%										
1975	28.9%	16.1%										
1974	(11.1%)	(14.5%)										

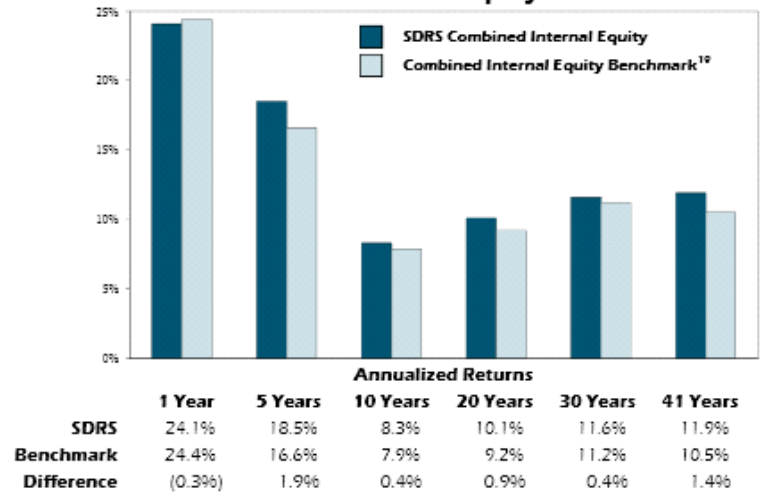
The chart to the left shows the annualized total rate of returns for 1, 5, 10, 20, 30 and 41 years through fiscal year 2014 for the Combined Internal Equity Portfolio. The Combined Internal Equity Benchmark¹⁹ is provided for comparison.

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.

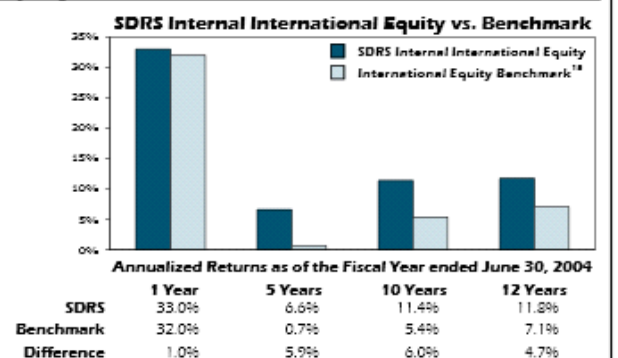
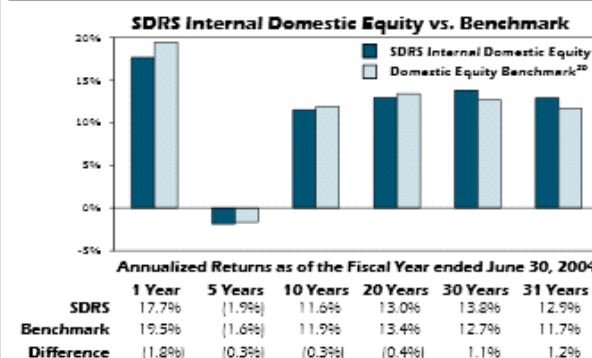
The one-year returns below the dotted demarcation line are domestic-only returns; the returns above are global equity returns.

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



Historical SDRS Internal Domestic and International Equity Portfolio Information as of June 30, 2004



Internal Equity Profile

The South Dakota Retirement System's internal global equity portfolio characteristics as of June 30, 2014 are presented below. The SDRS internal global equity portfolio is compared to the 1/3 S&P Global 1200 Index plus 1/3 S&P 500 Index benchmark. A listing of the 50 largest global equity securities can be found on page 35.

Distribution by Market Sector

	SDRS	Bench
Consumer Discretionary	12.2%	11.4%
Consumer Staples	9.4%	9.8%
Energy	14.6%	10.4%
Financials	18.2%	19.1%
Health Care	15.2%	12.0%
Industrials	7.5%	10.8%
Information Technology	14.3%	14.8%
Materials	3.7%	5.1%
Telecommunications Services	1.8%	3.3%
Utilities	2.2%	3.3%
Cash Equivalents	0.9%	0.0%
Total	100.0%	100.0%

Ten Largest Country Weights

	SDRS	Bench
United States	71.8%	68.8%
Great Britain	6.5%	5.9%
Switzerland	5.7%	2.4%
Japan	3.1%	5.0%
Canada	2.9%	2.6%
France	2.8%	2.7%
Germany	2.0%	2.4%
Netherlands	1.5%	0.7%
South Korea	1.0%	0.7%
Ireland	0.5%	0.1%
Total	97.8%	91.3%

Global Equity Composite⁷

The South Dakota Retirement System's global equity composite is comprised of the internally managed global equity portfolio, the internally managed high quality equity portfolio, the internally managed small/mid equity portfolio and three externally managed portfolios as of June 30, 2014. The composite is compared to the 1/3 MSCI All Country World Index plus 1/3 MSCI US Index benchmark.

Performance Results for the Fiscal Year Ended June 30, 2014

SDRS Global Equity Composite	24.1%
Benchmark	23.4%
Difference	0.7%

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 2014, the net-of-fees SI-IRR for the composite PE limited partnership investments was 9.0%. This can be compared to the S&P 500 Index PME of 5.7% for the same period. RE limited partnerships net-of-fees SI-IRR composite from December 1994 through June 2014 was 21.5%. 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 11.1% for the same period of time.

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

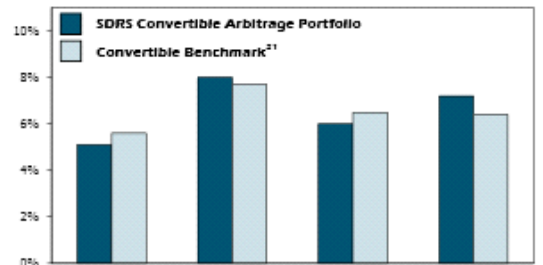
Historical SDRS Internal Convertible Arbitrage Portfolio Performance through June 30, 2013

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 Portfolio. The Convertible Benchmark²¹ 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



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

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

*The Convertible Arbitrage Portfolio was liquidated during fiscal year 2014.

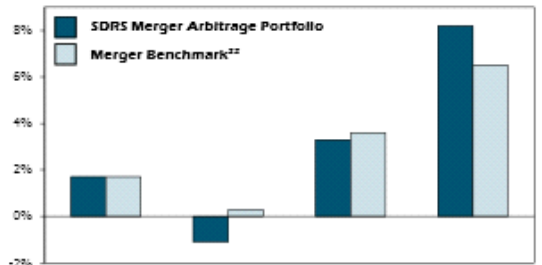
Historical SDRS Internal Merger Arbitrage Portfolio Performance through June 30, 2012

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%	1.5%	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 Portfolio. The Merger Benchmark²² 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 June 30, 2012

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

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

THE FUND

The South Dakota Cash Flow Fund (SDCFF) is comprised of more than 500 separately identified state accounts. During fiscal year 2014, the fund ranged from \$1.106 billion to \$1.405 billion and averaged \$1.248 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, 2014. 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, 2014, 92.6% 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 5.5% of SDCFF. This portfolio is the most liquid of the three portfolios and absorbs the state's daily cash inflows and outflows.

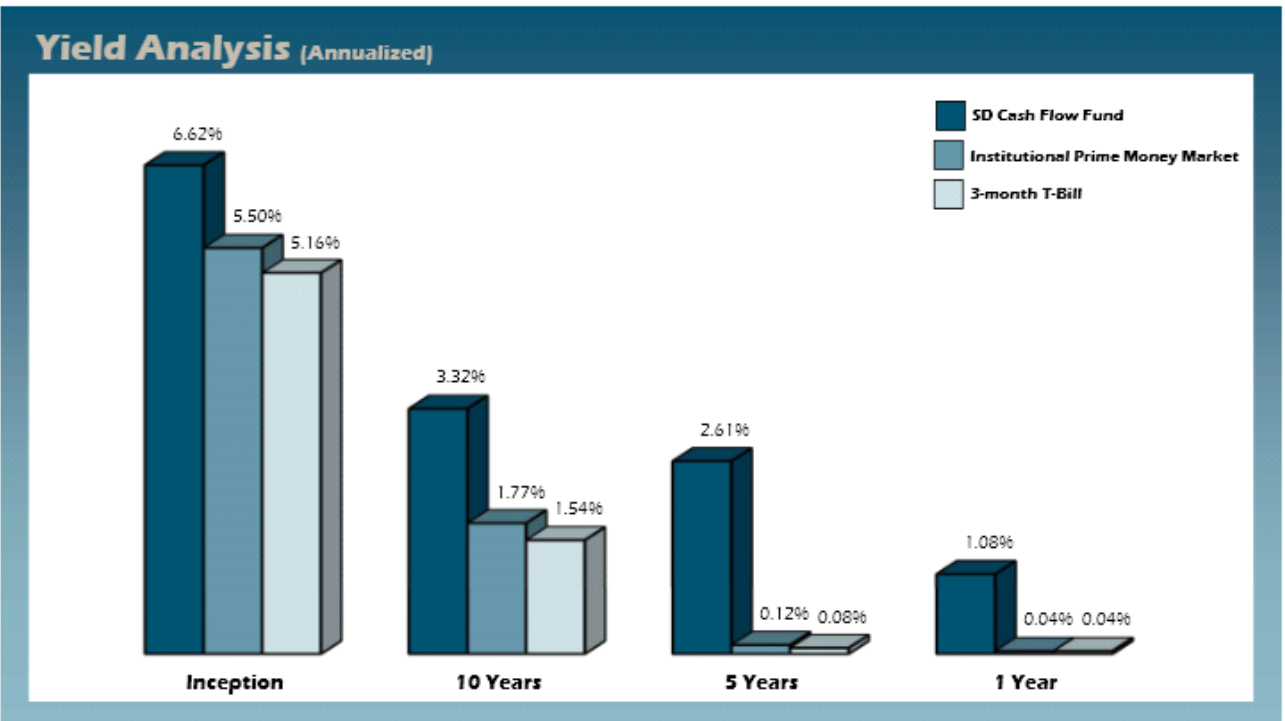
The South Dakota CD Program is the third portion and represents 1.9% of SDCFF. The CD rate was based on the one-year Treasury note plus 0.25% shortly before the yearly issuance in September. On June 30, 2014, \$23.657 million in CDs were held in forty-seven banks, four credit unions and two savings and loan associations.

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 \$12.5 million for fiscal year 2014. 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 2014

The yield of SDCFF for fiscal year 2014 was 1.08% versus an institutional prime money market yield of 0.04% and a 3-month Treasury bill return of 0.04%. 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 6.62% annually versus an institutional prime money market annual yield of 5.50% and a 3-month Treasury bill annual yield of 5.16%. For fiscal year 2014, the duration portfolio of the fund had a total return of 1.65% versus a benchmark⁶ return of 1.59%. Since the inception of the duration portfolio in November 1985, its performance has been 5.47% annually versus 5.09% for the benchmark. During fiscal year 2014, the money market portion yielded 0.01% versus 0.04% for an institutional prime money market fund and 0.04% for 3-month Treasury bills. The CD Program yielded 0.39% for the fiscal year. The CD rate at June 30, 2014, was 0.37%.



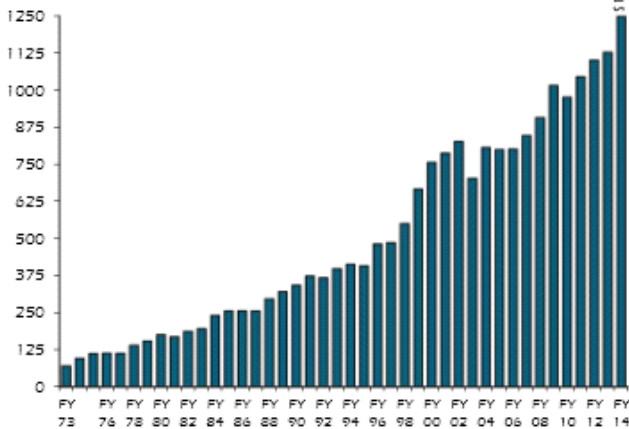
Comparative Results⁹

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.

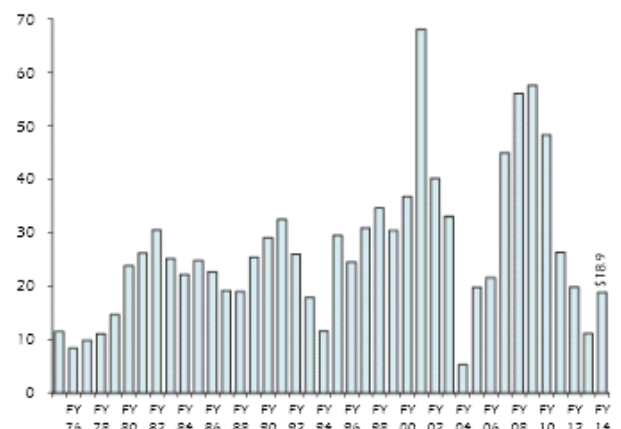
	SDCFF Proration Amount	Total Received Rate (Proration Rate)	Managed Accrued Rate*	3-month Treasury Bill Rate	Institutional Prime Money Market Fund	Total Return SDCDP	SDCDP Index ⁶
2014	\$ 12,516,162	0.99%	1.08%	0.04%	0.04%	1.65%	1.59%
2013	17,429,182	1.47%	1.51%	0.08%	0.12%	0.98%	1.30%
2012	25,829,546	2.33%	2.27%	0.04%	0.12%	1.88%	1.82%
2011	35,573,830	3.37%	3.43%	0.14%	0.17%	2.71%	2.84%
2010	50,155,778	4.94%	4.79%	0.12%	0.17%	5.10%	5.34%
2009	43,568,535	4.59%	4.51%	0.78%	1.63%	6.58%	3.14%
2008	44,431,241	5.07%	4.96%	3.32%	4.25%	6.59%	6.05%
2007	34,578,213	4.23%	4.41%	5.07%	5.19%	5.56%	5.50%
2006	25,450,147	3.07%	3.40%	3.95%	4.10%	2.36%	2.09%
2005	21,652,806	2.66%	2.92%	2.04%	2.08%	2.62%	2.45%
2004	22,888,860	2.95%	3.02%	0.96%	0.94%	0.59%	-0.14%
2003	29,876,507	4.22%	4.35%	1.41%	1.39%	5.45%	4.09%
2002	41,972,001	5.54%	5.21%	2.45%	2.44%	5.55%	5.62%
2001	50,729,249	6.54%	6.50%	5.64%	5.88%	9.57%	8.94%
2000	36,459,873	5.18%	5.47%	5.30%	5.71%	4.94%	4.49%
1999	36,122,881	6.02%	6.01%	4.71%	5.07%	4.90%	5.02%
1998	31,533,466	6.11%	6.51%	5.25%	5.50%	7.11%	6.42%
1997	28,961,501	6.03%	6.12%	5.26%	5.33%	6.81%	6.09%
1996	27,987,169	6.18%	6.32%	5.44%	5.55%	5.29%	5.54%
1995	20,145,287	4.87%	5.41%	5.05%	5.36%	7.78%	6.41%
1994	15,309,074	3.73%	4.17%	3.18%	3.27%	2.73%	1.87%
1993	20,908,872	5.34%	5.05%	3.12%	3.19%	4.98%	4.71%
1992	26,680,663	7.23%	7.32%	4.67%	4.98%	7.98%	7.95%
1991	30,595,214	8.48%	8.50%	6.76%	7.20%	9.65%	9.43%
1990	30,876,016	8.81%	8.78%	7.93%	8.39%	8.66%	8.45%
1989	24,741,382	7.35%	8.51%	7.82%	8.64%	9.59%	8.22%
1988	19,634,393	6.52%	7.30%	5.51%	6.78%	7.70%	6.96%
1987	19,763,489	7.11%	6.84%	5.51%	5.98%	6.66%	5.72%
1986	22,702,888	8.69%	8.74%	7.08%	7.43%		
1985	24,805,620	9.91%	9.75%	9.09%	9.47%		
1984	22,179,507	9.02%	9.66%	9.42%	9.40%		
1983	25,178,343	12.11%	10.99%	8.56%	9.49%		
1982	30,488,779	15.51%	13.26%	13.53%	14.66%		
1981	26,148,927	11.50%	12.42%	12.65%	13.37%		
1980	23,762,605	11.78%	11.92%	11.24%	11.95%		
1979	14,661,310	7.82%	8.82%	8.99%	9.02%		
1978	11,069,889	6.96%	7.75%	6.03%	6.03%		
1977	9,853,216	8.37%	7.04%	4.89%	4.71%		
1976	8,378,771	7.92%	7.34%	5.51%	5.23%		
1975	11,490,970	11.00%	10.39%	6.76%	8.15%		
1974	7,966,372	8.35%	9.88%	8.03%	8.90%		
1973	1,674,845	4.90%	6.92%	6.10%	7.00%		
	\$1,066,733,379						

* 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 Growth²³ (\$ in millions)



Investment Income²⁴ (\$ in millions)



Cash Flows and Fair Value Changes

The South Dakota Cash Flow Fund began fiscal year 2014 with \$1,128.0 million in assets. During the fiscal year, net contributions/withdrawals and fees increased the fund by \$101.8 million and investment income increased it by \$18.9 million, resulting in an ending fair value of \$1,248.7 million.

Fair Value 6/30/13		\$1,128,018,211
Increases/Decreases		
Net Contributions/Withdrawals	\$ 102,982,001	
Internal Management Fees	<u>(1,207,498)</u>	
Total Increases/Decreases		\$ 101,774,503
Investment Income		
Securities Income		
Interest Income - Managed	\$ 13,007,466	
Interest Income - CDs	97,022	
Change in Accrued Income	<u>408,713</u>	
Total Securities Income		\$ 13,513,201
Total Capital Gain/Loss Income		<u>\$ 5,370,408</u>
Total Investment Income		<u>\$ 18,883,609</u>
Fair Value 6/30/14		<u>\$1,248,676,323</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, 2014, are presented below.

Distribution by Duration

	%
0 to 1 year	18.6%
1 to 2 years	39.2%
2 to 3 years	28.9%
3 to 4 years	5.1%
Above 4 years	<u>8.2%</u>
Total	<u>100.0%</u>

Distribution by Quality Rating

	%
U.S. Gov't/Aaa	28.9%
Aa	12.2%
A	51.5%
Baa	<u>7.4%</u>
Total	<u>100.0%</u>

Distribution by Coupon

	%
0.00% - 1.00%	56.0%
1.01% - 2.00%	35.5%
2.01% - 3.00%	3.8%
3.01% - 4.00%	4.7%
4.01% and over	<u>0.0%</u>
Total	<u>100.0%</u>

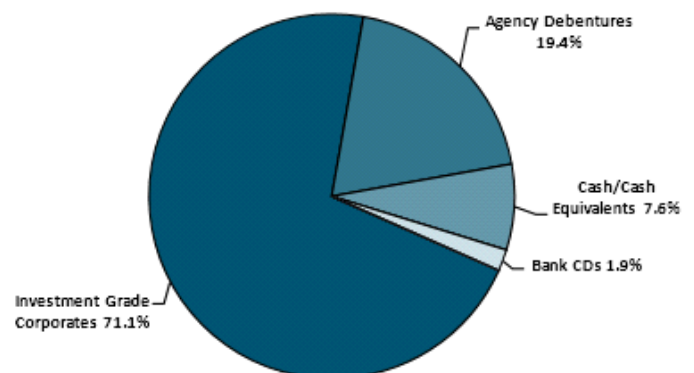
Distribution by Sector

	%
Cash/Cash Equivalents	7.6%
Bank CDs	1.9%
U.S. Treasuries	0.0%
Agency Debentures	19.4%
Investment Grade Corporates	<u>71.1%</u>
Total	<u>100.0%</u>

Ten Largest Corporates by Issuer

	% of Total
Deere & Co.	3.5%
JPMorgan Chase & Co.	3.5%
IBM Corp.	3.5%
Apple, Inc.	3.5%
Wells Fargo & Co.	3.1%
AT&T, Inc.	3.1%
PepsiCo, Inc.	3.0%
American Express Co.	2.7%
Pfizer, Inc.	2.6%
Goldman Sachs Group, Inc.	<u>2.6%</u>
Total	<u>31.1%</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 resulted primarily from the sale of land over many decades.

Constitutional Amendment E, passed in November 2000, allows the fund to be invested in stocks, bonds, mutual funds and other financial instruments. South Dakota Codified Law (SDCL) 5-10-18 states that the provisions of SDCL 4-5-27, prudent-man standard, govern the moneys in the trust. The constitutional amendment requires that sufficient income be retained to offset the effect of inflation² assuring the fund will grow at least at the rate of inflation. State statute allows realized capital gains to be used to satisfy the inflation requirement. The shift away from an exclusive focus on current income and the requirement to offset inflation initially reduced the payout to schools but will increase the payout substantially over the long term. To lessen the near term 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 and to the schools of higher education and (2) promote inflation-adjusted growth of the fund through the constitutionally-mandated CPI adjustment.

SPL assets were invested in diversified portfolios during fiscal year 2014, as shown on the following page. The fund was invested primarily in U.S. Treasury and mortgage-backed securities before the constitutional amendment in 2000. Since then, the South Dakota Investment Council has 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, 2014 was 6.6% with a volatility of 13.8%. This means the return in any given year may fall within a range of (7.2%) to 20.3% with 66% confidence or (20.9%) to 34.1% with 95% confidence.

INVESTMENT PERFORMANCE - FISCAL YEAR 2014

The fund ended fiscal year 2014 with a fair value of \$256,694,475. The principal is adjusted by the inflation factor each year as required by the constitutional amendment. SPL's total return, including realized and unrealized gains and losses and accrued income, was 16.1% for the fiscal year. The benchmark^{1*} return was 15.8%. The difference resulted primarily from outperformance in the real estate limited partnership holdings. The ten-year annualized total return was 7.4%. This compares with the ten-year annualized benchmark^{1*} return of 7.2%. The fund distributed \$8,773,822 to the common schools in February 2014 and \$2,043,790 to the schools of higher education in June 2014.

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

Cash Flows and Fair Value Changes

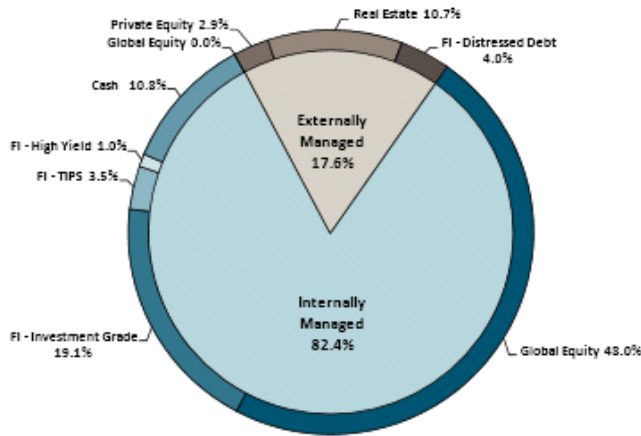
The School and Public Lands fund began fiscal year 2014 with \$222.3 million in assets. During the fiscal year, net contributions/withdrawals and fees decreased the fund by \$1.7 million and investment income increased it by \$36.1 million, resulting in an ending fair value of \$256.7 million.

Fair Value 6/30/13		\$ 222,342,174
Increases/Decreases		
Net Contributions/Withdrawals	\$ (1,439,674)	
External Management Fees	<u>(253,895)</u>	
Total Increases/Decreases		\$ (1,693,569)
Investment Income		
Securities Income		
Interest Income	\$ 2,189,791	
Dividend Income	2,841,414	
Securities Lending Income	13,805	
Real Estate Income	374,925	
Change in Accrued Income	<u>673</u>	
Total Securities Income		\$ 5,420,608
Capital Gain/Loss Income		
Change in Unrealized Gain/Loss	\$ 20,501,098	
Realized Gain/Loss	<u>10,124,164</u>	
Total Capital Gain/Loss Income		\$ 30,625,262
Total Investment Income		\$ 36,045,870
Fair Value 6/30/14		<u>\$ 256,694,475</u>

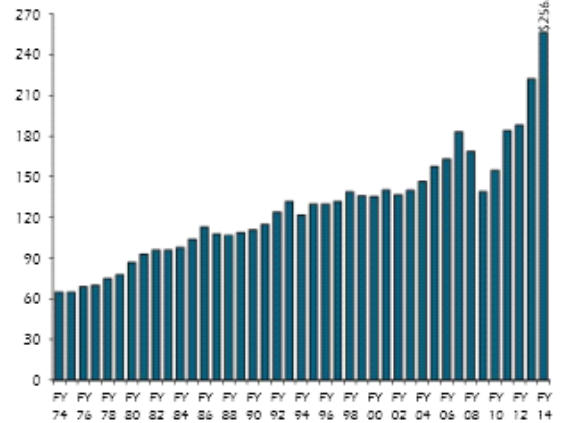
Asset Allocation⁸

As of June 30, 2014, School and Public Lands' assets totaled \$256.7 million. The broad asset categories and managers are listed below. The Capital Markets Benchmark allocation is also provided for comparison.

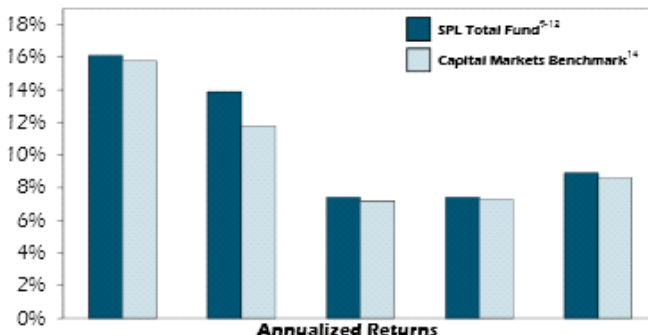
	Fair Value		% of Fund		Capital Markets Benchmark %
Global Equity					
Internal Global Equity	\$ 123,149,517		48.0%		
Monument Park CDO, Ltd.	<u>19,942</u>	\$ 123,169,459	<u>0.0%</u>	48.0%	52.0%
Private Equity Limited Partnerships					
Blackstone Capital Partners	\$ 3,726,119		1.5%		
Carlyle	461,513		0.2%		
Doughty Hanson	1,256,806		0.5%		
Silver Lake	<u>1,844,839</u>	7,289,277	<u>0.7%</u>	2.9%	2.0%
Real Estate Limited Partnerships					
Blackstone Real Estate Partners	\$ 25,840,629		10.1%		
Cargill N.A. Real Estate Partners	818,441		0.3%		
Lone Star	<u>897,232</u>	27,556,302	<u>0.3%</u>	10.7%	6.0%
Fixed Income - Investment Grade/TIPS					
Internal Investment Grade	\$ 47,688,746		18.6%		
Internal Treasury Inflation-Protected Securities (TIPS)	8,914,332		3.5%		
S.D. S.B.A. and Similar Assets	<u>1,401,315</u>	58,004,393	<u>0.5%</u>	22.6%	33.0%
Fixed Income - High Yield/Distressed Debt					
Internal High Yield	\$ 2,574,388		1.0%		
CarVal	807,599		0.3%		
TCW	<u>9,508,081</u>	12,890,068	<u>3.7%</u>	5.0%	5.0%
Cash & Cash Equivalents					
Internal Cash Account	\$ <u>27,784,976</u>	<u>27,784,976</u>	<u>10.8%</u>	<u>10.8%</u>	<u>2.0%</u>
Total		<u>\$ 256,694,475</u>		<u>100.0%</u>	<u>100.0%</u>



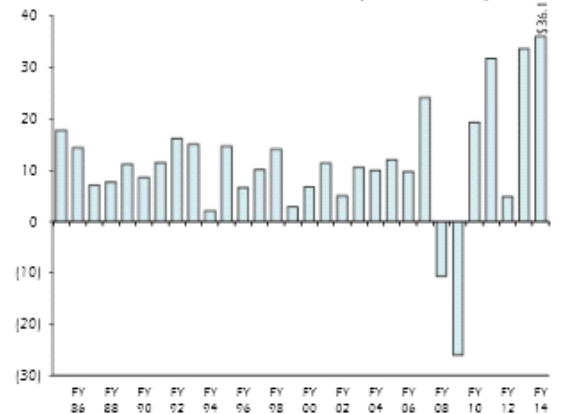
Asset Growth²³ (\$ in millions)



SPL Total Fund vs. Benchmark



Investment Income²⁴ (\$ in millions)



	1 Year	5 Years	10 Years	20 Years	30 Years
SPL	16.1%	13.9%	7.4%	7.4%	8.9%
Benchmark	15.8%	11.8%	7.2%	7.3%	8.6%
Difference	0.3%	2.1%	0.2%	0.1%	0.3%

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, 2014, are presented below.

Distribution by Duration	IG	HY	Distribution by Quality Rating	IG	HY
0 to 2 Years	9.6%	27.3%	U.S. Gov't/Aaa	58.0%	3.8%
2 to 3 Years	12.1%	21.6%	Aa	7.9%	0.0%
3 to 4 Years	21.5%	10.6%	A	15.0%	0.0%
4 to 5 Years	14.5%	9.3%	Baa	19.1%	0.0%
5 to 6 Years	7.3%	17.4%	Ba	0.0%	37.7%
6 to 8 Years	17.9%	11.4%	B	0.0%	38.0%
Above 8 Years	17.1%	2.4%	Caa and lower	0.0%	20.5%
Total	100.0%	100.0%	Total	100.0%	100.0%

Distribution by Coupon	IG	HY	Distribution by Sector (Consolidated)	%
0.00% - 2.00%	25.5%	4.4%	Cash/Cash Equivalents	0.7%
2.01% - 3.00%	20.8%	0.0%	U.S. Treasuries	10.8%
3.01% - 4.00%	21.3%	0.0%	Agency Debentures	8.5%
4.01% - 6.00%	25.9%	14.2%	Agency Mortgage-Backed Securities	25.9%
6.01% - 7.00%	6.5%	23.2%	Investment Grade Corporates	33.0%
7.01% - 8.00%	0.0%	35.2%	High Yield Corporates	4.1%
8.01% and over	0.0%	23.0%	Treasury Inflation-Protected Securities	14.7%
Total	100.0%	100.0%	S.D. S.B.A. and Similar Assets	2.3%
			Total	100.0%

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

Ontario (Province Of)	1.8%
Berkshire Hathaway, Inc.	1.8%
DIRECTV	1.8%
Amgen, Inc.	1.8%
American Express Co.	1.5%
Morgan Stanley	1.5%
Altria Group, Inc.	1.4%
Apple, Inc.	1.3%
MetLife, Inc.	1.3%
Verizon Communications, Inc.	1.2%
Total	15.4%

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

Frontier Communications Corp.	4.5%
Windstream Holdings, Inc.	2.9%
Peabody Energy Corp.	2.5%
Swift Energy Co.	2.5%
Arch Coal, Inc.	2.5%
JC Penney Co., Inc.	2.4%
Niska Gas Storage Partners, LLC	2.2%
Toys R Us, Inc.	2.2%
JBS S.A.	2.1%
Bombardier, Inc.	2.1%
Total	25.9%

Internal Global Equity Profile

The School and Public Lands' internal Global Equity portfolio characteristics as of June 30, 2014, are presented below.

Distribution by Market Sector	%	Ten Largest Company Holdings	% of Total
Consumer Discretionary	11.6%	Microsoft Corp.	3.0%
Consumer Staples	9.6%	Wells Fargo & Co.	2.5%
Energy	15.1%	Target Corp.	2.3%
Financials	19.4%	JPMorgan Chase & Co.	2.1%
Health Care	16.5%	Pfizer, Inc.	2.1%
Industrials	6.0%	Google, Inc.	2.0%
Information Technology	14.8%	Wal-Mart Stores, Inc.	1.9%
Materials	3.2%	UnitedHealth Group, Inc.	1.8%
Telecommunications Services	1.1%	Nestle SA	1.7%
Utilities	2.0%	Roche Holding, Ltd.	1.6%
Cash Equivalents	0.7%		
Total	100.0%	Total	21.0%

Five Largest Country Weights**% of Total**

United States	70.8%
Switzerland	7.0%
Great Britain	6.6%
Japan	3.2%
France	3.1%
Total	90.7%

THE FUND

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

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

Section 21 of Article XIII 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."

DCT assets were invested in diversified portfolios during fiscal year 2014, 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, 2014 was 6.6% with a volatility of 13.8%. This means that the return in any given year may fall within a range of (7.2%) to 20.3% with 66% confidence or (20.9%) to 34.1% with 95% confidence.

INVESTMENT PERFORMANCE - FISCAL YEAR 2014

The fund ended fiscal year 2014 with a fair value of \$302,362,265, principal value of \$238,000,000, and inflation-adjusted principal of \$319,971,346. DCT's total return, including realized and unrealized gains and losses and accrued income, was 16.3% for the fiscal year. The benchmark¹⁶ return was 15.8%. The difference resulted primarily from outperformance in the real estate limited partnership holdings. The ten-year annualized total return was 7.5%. This compares with the ten-year annualized benchmark¹⁶ return of 7.6%. In June 2014, the fund distributed \$10,063,456 to the general fund. Since inception, the fund has distributed \$168.5 million to the general fund.

OBJECTIVES AND COMPONENTS

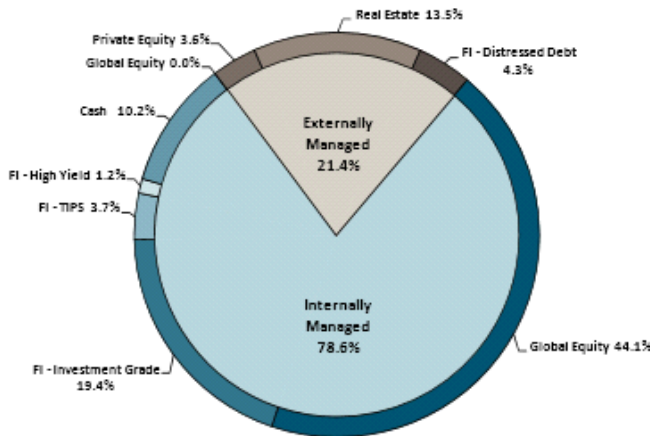
The objectives of DCT are to (1) provide a distribution of 4% of the market value to the general fund and (2) promote inflation-adjusted growth of the fund and a steadily growing distribution amount.

Cash Flows and Fair Value Changes		<i>The Dakota Cement Trust Fund began fiscal year 2014 with \$268.8 million in assets. During the fiscal year, net contributions/withdrawals and fees decreased the fund by \$10.6 million and investment income increased it by \$44.2 million, resulting in an ending fair value of \$302.4 million.</i>	
Fair Value 6/30/13			\$ 268,843,154
Increases/Decreases			
Net Contributions/Withdrawals		\$ (10,063,456)	
Internal Management Fees		(222,411)	
External Management Fees		<u>(313,893)</u>	
Total Increases/Decreases			\$ (10,599,760)
Investment Income			
Securities Income			
Interest Income	\$ 2,680,489		
Dividend Income	3,313,993		
Securities Lending Income	10,616		
Real Estate Income	511,911		
Change in Accrued Income	<u>(19,811)</u>		
Total Securities Income		\$ 6,497,198	
Total Capital Gain/Loss Income		\$ <u>37,621,673</u>	
Total Investment Income			\$ 44,118,871
Fair Value 6/30/14			\$ 302,362,265

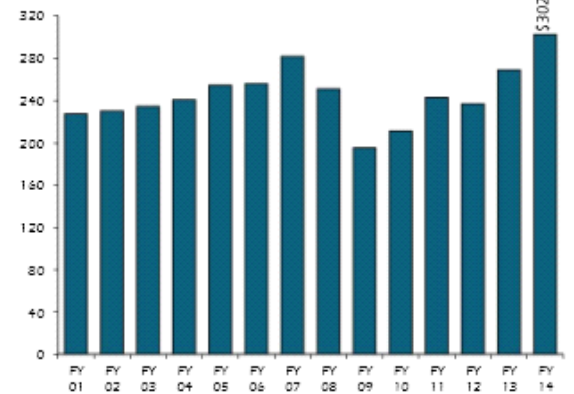
Asset Allocation³

As of June 30, 2014, Dakota Cement Trust's assets totaled \$302.4 million. The broad asset categories and managers are listed below. The Capital Markets Benchmark allocation is also provided for comparison.

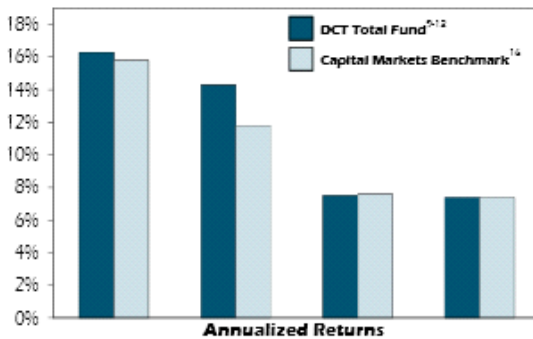
	<u>Fair Value</u>		<u>% of Fund</u>		<u>Capital Markets Benchmark %</u>
Global Equity					
Internal Global Equity	\$ 133,375,977		44.1%		
Monument Park CDO, Ltd.	<u>34,611</u>	\$ 133,410,588	<u>0.0%</u>	44.1%	52.0%
Private Equity Limited Partnerships					
Blackstone Capital Partners	\$ 5,472,657		1.8%		
Carlyle	553,816		0.2%		
Doughy Hanson	2,049,704		0.7%		
Silver Lake	<u>2,782,439</u>	10,858,616	<u>0.9%</u>	3.6%	2.0%
Real Estate Limited Partnerships					
Blackstone Real Estate Partners	\$ 38,278,650		12.7%		
Cargill N.A. Real Estate Partners	1,335,352		0.5%		
Lone Star	<u>1,042,731</u>	40,656,733	<u>0.3%</u>	13.5%	6.0%
Fixed Income - Investment Grade/TIPS					
Internal Investment Grade	\$ 58,643,950		19.4%		
Internal Treasury Inflation-Protected Securities (TIPS)	<u>11,176,866</u>	69,820,816	<u>3.7%</u>	23.1%	33.0%
Fixed Income - High Yield/Distressed Debt					
Internal High Yield	\$ 3,490,408		1.2%		
CarVal	1,317,427		0.4%		
TCW	<u>11,843,955</u>	16,651,790	<u>3.9%</u>	5.5%	5.0%
Cash & Cash Equivalents					
Internal Cash Account	\$ 30,963,722	<u>30,963,722</u>	<u>10.2%</u>	<u>10.2%</u>	<u>2.0%</u>
Total		<u>\$ 302,362,265</u>		<u>100.0%</u>	<u>100.0%</u>



Asset Growth²³ (\$ in millions)

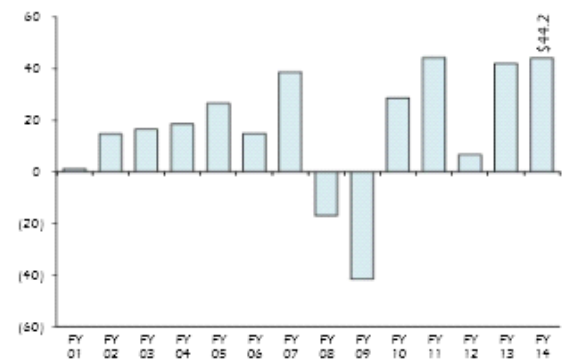


DCT Total Fund vs. Benchmark



	1 Year	5 Years	10 Years	12 Years
DCT	16.3%	14.3%	7.5%	7.4%
Benchmark	15.8%	11.8%	7.6%	7.4%
Difference	0.5%	2.5%	(0.1%)	0.0%

Investment Income²⁴ (\$ 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, 2014, are presented below.

Distribution by Duration	IG	HY	Distribution by Quality Rating	IG	HY
0 to 2 Years	11.1%	27.4%	U.S. Govt/Aaa	58.0%	3.8%
2 to 3 Years	14.5%	21.5%	Aa	7.9%	0.0%
3 to 4 Years	16.2%	10.6%	A	15.0%	0.0%
4 to 5 Years	14.9%	9.3%	Baa	19.1%	0.0%
5 to 6 Years	7.5%	17.4%	Ba	0.0%	37.9%
6 to 8 Years	18.1%	11.4%	B	0.0%	37.8%
Above 8 Years	17.7%	2.4%	Caa and lower	0.0%	20.5%
Total	100.0%	100.0%	Total	100.0%	100.0%

Distribution by Coupon	IG	HY	Distribution by Sector (Consolidated)	%
0.00% - 2.00%	26.2%	4.4%	Cash/Cash Equivalents	1.3%
2.01% - 3.00%	20.9%	0.0%	U.S. Treasuries	11.0%
3.01% - 4.00%	22.0%	0.0%	Agency Debentures	9.0%
4.01% - 6.00%	23.9%	14.3%	Agency Mortgage-Backed Securities	25.3%
6.01% - 7.00%	7.0%	23.2%	Investment Grade Corporates	33.6%
7.01% - 8.00%	0.0%	35.2%	High Yield Corporates	4.6%
8.01% and over	0.0%	22.9%	Treasury Inflation-Protected Securities	15.2%
Total	100.0%	100.0%	Total	100.0%

Investment Grade Bond Portfolio

Ten Largest Corporates by Issuer	% of Total
Ontario (Province Of)	1.8%
Berkshire Hathaway, Inc.	1.8%
DIRECTV	1.8%
Amgen, Inc.	1.8%
American Express Co.	1.5%
Morgan Stanley	1.5%
Altria Group, Inc.	1.4%
Apple, Inc.	1.3%
MetLife, Inc.	1.3%
Verizon Communications, Inc.	1.2%
Total	15.4%

High Yield Bond Portfolio

Ten Largest Corporates by Issuer	% of Total
Frontier Communications Corp.	4.5%
Windstream Holdings, Inc.	2.9%
Peabody Energy Corp.	2.5%
Arch Coal, Inc.	2.4%
Swift Energy Co.	2.4%
JC Penney Co., Inc.	2.4%
Niska Gas Storage Partners, LLC	2.2%
Toys R Us, Inc.	2.2%
JBS S.A.	2.1%
Bombardier, Inc.	2.1%
Total	25.7%

Internal Global Equity Profile

The Dakota Cement Trust's internal Global Equity portfolio characteristics as of June 30, 2014, are presented below.

Distribution by Market Sector	%	Ten Largest Company Holdings	% of Total
Consumer Discretionary	11.7%	Microsoft Corp.	2.9%
Consumer Staples	9.3%	Wells Fargo & Co.	2.5%
Energy	14.7%	Target Corp.	2.4%
Financials	19.6%	Pfizer, Inc.	2.2%
Health Care	17.0%	JPMorgan Chase & Co.	2.1%
Industrials	6.0%	Google, Inc.	2.0%
Information Technology	14.7%	Wal-Mart Stores, Inc.	1.9%
Materials	3.2%	UnitedHealth Group, Inc.	1.9%
Telecommunications Services	1.2%	Nestle SA	1.7%
Utilities	1.9%	Roche Holding, Ltd.	1.7%
Cash Equivalents	0.7%		
Total	100.0%	Total	21.3%

Five Largest Country Weights	% of Total
United States	70.5%
Great Britain	7.0%
Switzerland	6.9%
Japan	3.4%
France	3.4%
Total	91.2%

EDUCATION ENHANCEMENT TRUST

THE FUND

The Education Enhancement Trust Fund (EET) was established under the Constitution through a Joint Resolution submitted to South Dakota citizens at a special election on April 10, 2001. Article XII §6 provided that any funds received as of July 1, 2001 and thereafter pursuant to the Master Settlement Agreement entered into on November 23, 1998, by the State of South Dakota and major United States tobacco product manufacturers or the net proceeds of any sale or securitization of rights to receive payments pursuant to the Master Settlement Agreement, any fund in the youth-at-risk trust fund and any funds appropriated to EET thereafter are placed in EET. During fiscal year 2013, \$3 million was placed in the fund for scholarship purposes per Senate Bills 233 and 237. 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. In 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 2014, 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, 2014 was 6.5% with a volatility of 13.7%. The return in any given year can fall within a range of (7.2%) to 20.2% with 66% confidence or (20.9%) to 33.9% with 95% confidence.

INVESTMENT PERFORMANCE - FISCAL YEAR 2014

The fund ended fiscal year 2014 with a fair value of \$503,354,908, principal value of \$341,732,154, and inflation-adjusted principal of \$445,351,817. EET's total return, including realized and unrealized gains and losses and accrued income, was 16.1%. The benchmark¹⁷ return was 15.9%. The difference resulted primarily from outperformance in the real estate limited partnership holdings. The ten-year annualized total return was 6.9%. This compares with the ten-year annualized benchmark¹⁷ return of 7.5%. The fund's return has been impacted by the required use of tax-exempt securities. In July 2014, the fund distributed 4% of the sixteen-quarter average market value as of December 31, 2013, totaling \$15,699,869, to the general fund for education expenditures.

Cash Flows and Fair Value Changes

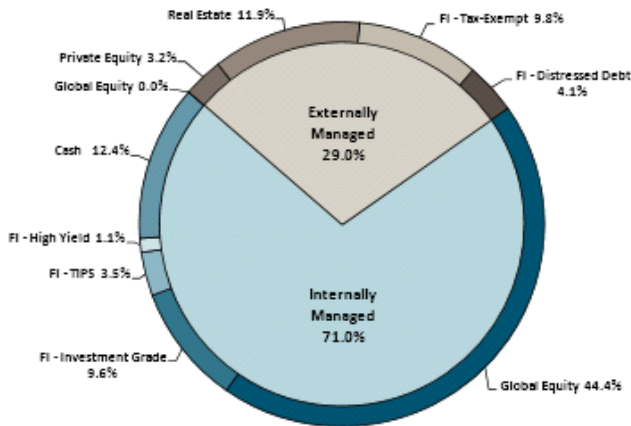
The Education Enhancement Trust Fund began fiscal year 2014 with \$441.0 million in assets. During the fiscal year, net contributions/withdrawals and fees decreased the fund by \$7.6 million and investment income increased it by \$70.0 million, resulting in an ending fair value of \$503.4 million.

Fair Value 6/30/13		\$ 441,011,625
Increases/Decreases		
Net Contributions/Withdrawals	\$ (6,693,812)	
Internal Management Fees	(350,913)	
External Management Fees	<u>(618,295)</u>	
Total Increases/Decreases		\$ (7,663,020)
Investment Income		
Securities Income		
Interest Income	\$ 4,616,537	
Dividend Income	5,332,064	
Securities Lending Income	17,921	
Real Estate Income	764,410	
Change in Accrued Income	<u>178,320</u>	
Total Securities Income	\$ 10,909,252	
Total Capital Gain/Loss Income	<u>\$ 59,097,051</u>	
Total Investment Income		\$ 70,006,303
Fair Value 6/30/14		<u>\$ 503,354,908</u>

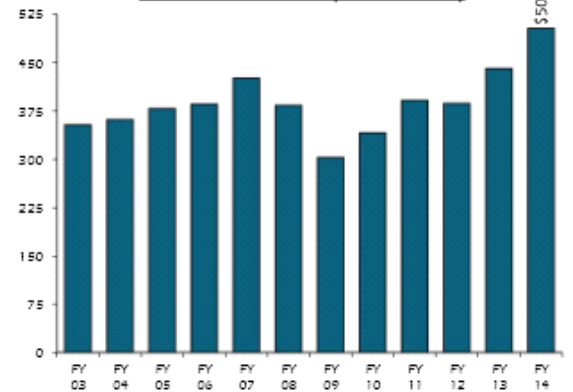
Asset Allocation⁸

As of June 30, 2014, Education Enhancement Trust's assets totaled \$503.4 million. The broad asset categories and managers are listed below. The Capital Markets Benchmark allocation is also provided for comparison.

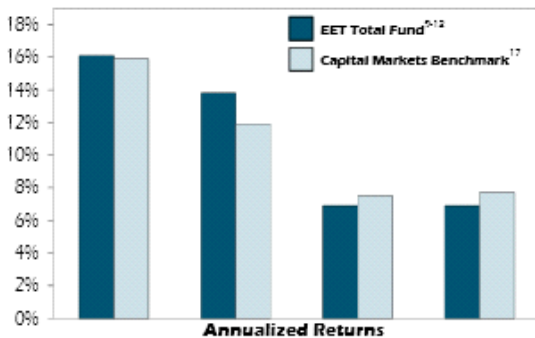
	Fair Value		% of Fund	Capital Markets Benchmark %
Global Equity				
Internal Global Equity	\$ 223,356,937		44.4%	
Monument Park CDO, Ltd.	49,896	\$223,406,833	0.0%	52.0%
Private Equity Limited Partnerships				
Blackstone Capital Partners	\$ 8,095,987		1.6%	
Carlyle	867,646		0.2%	
Doughty Hanson	2,962,737		0.6%	
Silver Lake	4,108,487	16,034,857	0.8%	2.0%
Real Estate Limited Partnerships				
Blackstone Real Estate Partners	\$ 56,209,077		11.2%	
Cargill N.A. Real Estate Partners	1,895,335		0.4%	
Lone Star	1,721,721	59,826,133	0.3%	6.0%
Fixed Income - Investment Grade/TIPS/Tax-Exempt				
Internal Investment Grade	\$ 48,482,344		9.6%	
Internal Treasury Inflation-Protected Securities (TIPS)	17,598,119		3.5%	
PIMCO Tax-Exempt Portfolio	49,241,441	115,321,904	9.8%	33.0%
Fixed Income - High Yield/Distressed Debt				
Internal High Yield	\$ 5,499,217		1.1%	
CarVal	1,903,950		0.4%	
TCW	18,630,176	26,033,343	3.7%	5.0%
Cash & Cash Equivalents				
Internal Cash Account	\$ 62,731,838	62,731,838	12.4%	2.0%
Total		\$ 503,354,908	100.0%	100.0%



Asset Growth²³ (\$ in millions)

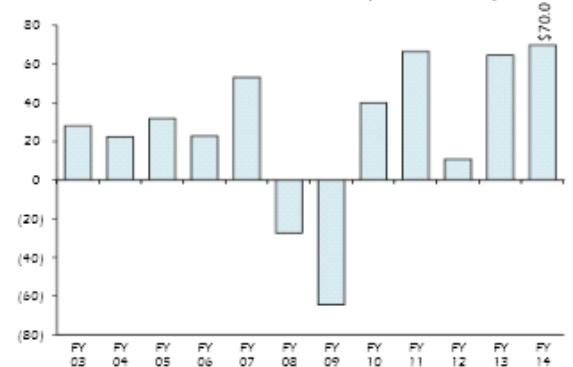


EET Total Fund vs. Benchmark



	1 Year	5 Years	10 Years	12 Years
EET	16.1%	13.8%	6.9%	6.9%
Benchmark	15.9%	11.9%	7.5%	7.7%
Difference	0.2%	1.9%	(0.6%)	(0.8%)

Investment Income²⁴ (\$ 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, 2014 are presented below.

Distribution by Duration	IG	HY	Distribution by Quality Rating	IG	HY
0 to 2 Years	11.3%	27.3%	U.S. Govt/Aaa	58.0%	3.7%
2 to 3 Years	15.8%	21.5%	Aa	7.9%	0.0%
3 to 4 Years	14.1%	10.6%	A	15.0%	0.0%
4 to 5 Years	15.9%	9.3%	Baa	19.1%	0.0%
5 to 6 Years	8.3%	17.5%	Ba	0.0%	37.9%
6 to 8 Years	17.9%	11.4%	B	0.0%	37.9%
Above 8 Years	<u>16.7%</u>	<u>2.4%</u>	Caa and lower	<u>0.0%</u>	<u>20.5%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	Total	<u>100.0%</u>	<u>100.0%</u>

Distribution by Coupon	IG	HY	Distribution by Sector (Consolidated)	%
0.00% - 2.00%	31.1%	4.3%	Cash/Cash Equivalents	0.9%
2.01% - 3.00%	20.8%	0.0%	U.S. Treasuries	7.2%
3.01% - 4.00%	23.8%	0.0%	Agency Debentures	2.4%
4.01% - 6.00%	22.4%	14.3%	Agency Mortgage-Backed Securities	12.8%
6.01% - 7.00%	1.9%	23.2%	Investment Grade Corporates	16.9%
7.01% - 8.00%	0.0%	35.3%	High Yield Corporates	4.4%
8.01% and over	<u>0.0%</u>	<u>22.9%</u>	Treasury Inflation-Protected Securities	14.6%
Total	<u>100.0%</u>	<u>100.0%</u>	Tax-Exempt Bonds	<u>40.8%</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)	1.8%
Berkshire Hathaway, Inc.	1.8%
DIRECTV	1.8%
Amgen, Inc.	1.8%
American Express Co.	1.5%
Morgan Stanley	1.5%
Altria Group, Inc.	1.4%
Apple, Inc.	1.3%
MetLife, Inc.	1.3%
Verizon Communications, Inc.	<u>1.2%</u>
Total	<u>15.4%</u>

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

	% of Total
Frontier Communications Corp.	4.5%
Windstream Holdings, Inc.	2.9%
Peabody Energy Corp.	2.5%
Arch Coal, Inc.	2.4%
Swift Energy Co.	2.4%
JC Penney Co., Inc.	2.4%
Niska Gas Storage Partners, LLC	2.2%
Toys R Us, Inc.	2.2%
JBS S.A.	2.1%
Bombardier, Inc.	<u>2.1%</u>
Total	<u>25.7%</u>

Internal Global Equity Profile

The Education Enhancement Trust's internal Global Equity portfolio characteristics as of June 30, 2014, are presented below.

Distribution by Market Sector	%	Ten Largest Company Holdings	% of Total
Consumer Discretionary	11.8%	Microsoft Corp.	3.0%
Consumer Staples	9.5%	Wells Fargo & Co.	2.5%
Energy	15.1%	Target Corp.	2.4%
Financials	19.5%	Pfizer, Inc.	2.1%
Health Care	16.6%	JPMorgan Chase & Co.	2.1%
Industrials	5.8%	Google, Inc.	2.0%
Information Technology	14.6%	Wal-Mart Stores, Inc.	1.9%
Materials	3.1%	UnitedHealth Group, Inc.	1.8%
Telecommunications Services	1.2%	Roche Holding, Ltd.	1.7%
Utilities	2.1%	Intel Corp.	<u>1.6%</u>
Cash Equivalents	<u>0.7%</u>	Total	<u>21.1%</u>
Total	<u>100.0%</u>	Total	<u>21.1%</u>

Five Largest Country Weights

	% of Total
United States	70.8%
Great Britain	7.2%
Switzerland	6.7%
Japan	3.3%
France	<u>3.2%</u>
Total	<u>91.2%</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 2014, 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, 2014 was 6.6% with a volatility of 13.8%. This means that the return in any given year may fall within a range of (7.2%) to 20.3% with 66% confidence or (20.9%) to 34.1% with 95% confidence.

INVESTMENT PERFORMANCE - FISCAL YEAR 2014

The fund ended fiscal year 2014 with a fair value of \$136,016,642, principal value of \$85,631,024, and inflation-adjusted principal of \$112,365,185. HCT's total return, including realized and unrealized gains and losses and accrued income, was 16.1% for the fiscal year. The benchmark¹⁸ return was 15.8%. The difference resulted primarily from outperformance in the real estate limited partnership holdings. The ten-year annualized total return was 7.5%. This compares with the ten-year annualized benchmark¹⁸ return of 7.5%. In July 2014, the fund distributed 4% of the sixteen-quarter average market value as of December 31, 2013, totaling \$4,322,835, to the general fund for health care related expenditures.

Cash Flows and Fair Value Changes

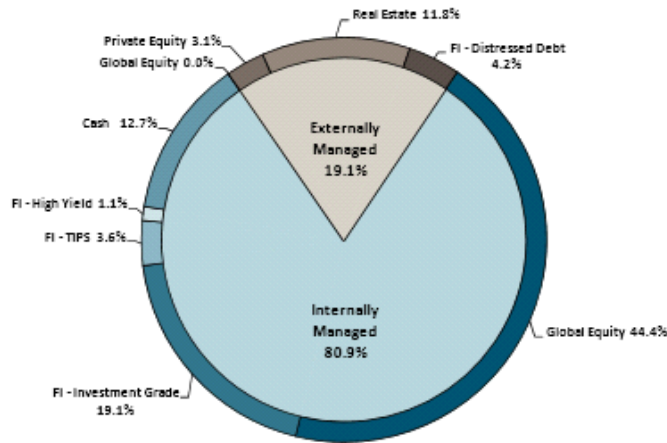
The Health Care Trust Fund began fiscal year 2014 with \$121.1 million in assets. During the fiscal year, net contributions/withdrawals and fees decreased the fund by \$4.2 million and investment income increased it by \$19.1 million, resulting in an ending fair value of \$136.0 million.

Fair Value 6/30/13		\$ 121,106,711
Increases/Decreases		
Net Contributions/Withdrawals	\$ (3,959,754)	
Internal Management Fees	(96,966)	
External Management Fees	<u>(139,423)</u>	
Total Increases/Decreases		\$ (4,196,143)
Investment Income		
Securities Income		
Interest Income	\$ 1,177,363	
Dividend Income	1,473,661	
Securities Lending Income	4,801	
Real Estate Income	216,047	
Change in Accrued Income	<u>(8,805)</u>	
Total Securities Income	\$ 2,863,067	
Total Capital Gain/Loss Income	<u>\$ 16,243,007</u>	
Total Investment Income		<u>\$ 19,106,074</u>
Fair Value 6/30/14		<u>\$ 136,016,642</u>

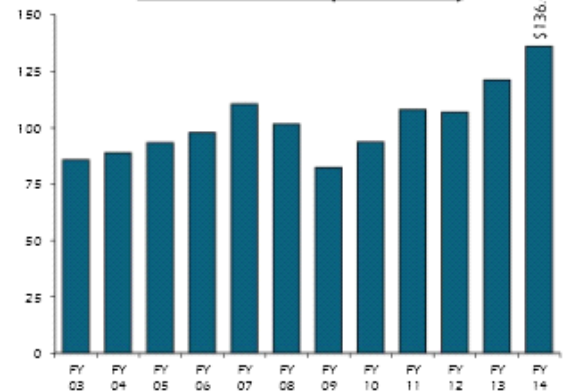
Asset Allocation⁸

As of June 30, 2014, Health Care Trust's assets totaled \$136.0 million. The broad asset categories and managers are listed below. The Capital Markets Benchmark allocation is also provided for comparison.

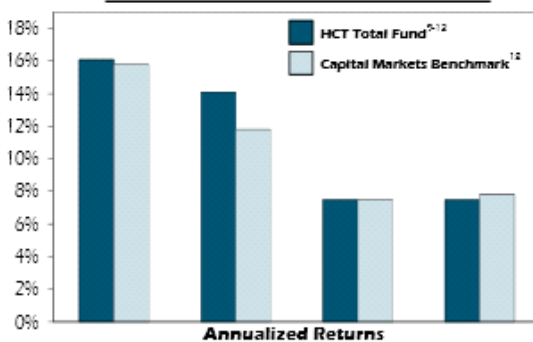
	<u>Fair Value</u>		<u>% of Fund</u>		<u>Capital Markets Benchmark %</u>
Global Equity					
Internal Global Equity	\$ 60,380,200		44.4%		
Monument Park CDO, Ltd.	<u>12,190</u>	\$ 60,392,390	<u>0.0%</u>	44.4%	52.0%
Private Equity Limited Partnerships					
Blackstone Capital Partners	\$ 2,156,423		1.6%		
Carlyle	239,987		0.2%		
Doughy Hanson	751,312		0.5%		
Silver Lake	<u>1,081,787</u>	4,229,509	<u>0.8%</u>	3.1%	2.0%
Real Estate Limited Partnerships					
Blackstone Real Estate Partners	\$ 15,170,470		11.2%		
Cargill N.A. Real Estate Partners	473,833		0.3%		
Lone Star	<u>460,742</u>	16,105,045	<u>0.3%</u>	11.8%	6.0%
Fixed Income - Investment Grade/TIPS					
Internal Investment Grade	\$ 26,006,116		19.1%		
Internal Treasury Inflation-Protected Securities (TIPS)	<u>4,864,116</u>	30,870,232	<u>3.6%</u>	22.7%	33.0%
Fixed Income - High Yield/Distressed Debt					
Internal High Yield	\$ 1,505,524		1.1%		
CarVal	482,756		0.4%		
TCW	<u>5,183,439</u>	7,171,719	<u>3.8%</u>	5.3%	5.0%
Cash & Cash Equivalents					
Internal Cash Account	\$ 17,247,747	<u>17,247,747</u>	<u>12.7%</u>	<u>12.7%</u>	<u>2.0%</u>
Total		<u>\$ 136,016,642</u>		<u>100.0%</u>	<u>100.0%</u>



Asset Growth²³ (\$ in millions)

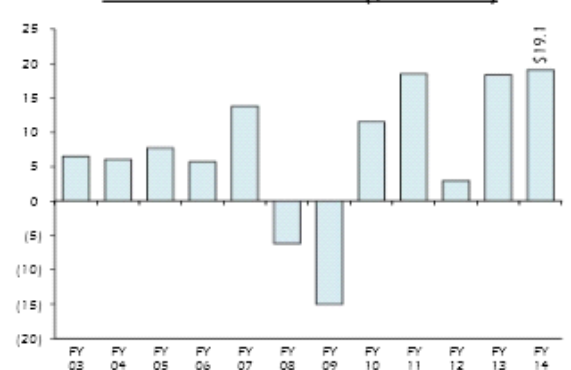


HCT Total Fund vs. Benchmark



	1 Year	5 Years	10 Years	12 Years
HCT	16.1%	14.1%	7.5%	7.5%
Benchmark	15.8%	11.8%	7.5%	7.8%
Difference	0.3%	2.3%	0.0%	(0.3%)

Investment Income²⁴ (\$ 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, 2014, are presented below.

Distribution by Duration	IG	HY	Distribution by Quality Rating	IG	HY
0 to 2 Years	10.2%	27.5%	U.S. Govt/Aaa	58.0%	3.8%
2 to 3 Years	15.9%	21.6%	Aa	7.9%	0.0%
3 to 4 Years	15.1%	10.5%	A	15.0%	0.0%
4 to 5 Years	14.8%	9.3%	Baa	19.1%	0.0%
5 to 6 Years	8.1%	17.2%	Ba	0.0%	37.7%
6 to 8 Years	18.1%	11.5%	B	0.0%	38.0%
Above 8 Years	17.8%	2.4%	Caa and lower	0.0%	20.5%
Total	100.0%	100.0%	Total	100.0%	100.0%

Distribution by Coupon	IG	HY	Distribution by Sector (Consolidated)	%
0.00% - 2.00%	25.8%	4.4%	Cash/Cash Equivalents	0.9%
2.01% - 3.00%	21.0%	0.0%	U.S. Treasuries	11.0%
3.01% - 4.00%	22.6%	0.0%	Agency Debentures	9.1%
4.01% - 6.00%	23.3%	14.2%	Agency Mortgage-Backed Securities	25.7%
6.01% - 7.00%	7.3%	23.3%	Investment Grade Corporates	33.8%
7.01% - 8.00%	0.0%	35.3%	High Yield Corporates	4.5%
8.01% and over	0.0%	22.8%	Treasury Inflation-Protected Securities	15.0%
Total	100.0%	100.0%	Total	100.0%

Investment Grade Bond Portfolio

Ten Largest Corporates by Issuer	% of Total
Ontario (Province Of)	1.8%
Berkshire Hathaway, Inc.	1.8%
DIRECTV	1.8%
Amgen, Inc.	1.8%
American Express Co.	1.5%
Morgan Stanley	1.5%
Altria Group, Inc.	1.4%
Apple, Inc.	1.3%
MetLife, Inc.	1.3%
Verizon Communications, Inc.	1.2%
Total	15.4%

High Yield Bond Portfolio

Ten Largest Corporates by Issuer	% of Total
Frontier Communications Corp.	4.5%
Windstream Holdings, Inc.	2.9%
Peabody Energy Corp.	2.5%
Arch Coal, Inc.	2.4%
Swift Energy Co.	2.4%
JC Penney Co., Inc.	2.4%
Niska Gas Storage Partners, LLC	2.2%
Toys R Us, Inc.	2.2%
JBS S.A.	2.2%
Bombardier, Inc.	2.1%
Total	25.8%

Internal Global Equity Profile

The Health Care Trust's internal Global Equity portfolio characteristics as of June 30, 2014, are presented below.

Distribution by Market Sector	%	Ten Largest Company Holdings	% of Total
Consumer Discretionary	11.6%	Microsoft Corp.	2.9%
Consumer Staples	9.3%	Wells Fargo & Co.	2.5%
Energy	14.8%	Target Corp.	2.4%
Financials	19.8%	JPMorgan Chase & Co.	2.1%
Health Care	16.9%	Pfizer, Inc.	2.1%
Industrials	6.1%	Google, Inc.	2.0%
Information Technology	14.6%	Wal-Mart Stores, Inc.	1.9%
Materials	3.2%	UnitedHealth Group, Inc.	1.9%
Telecommunications Services	1.2%	Roche Holdings, Ltd.	1.7%
Utilities	1.8%	Intel Corp.	1.6%
Cash Equivalents	0.7%		
Total	100.0%	Total	21.1%

Five Largest Country Weights	% of Total
United States	70.8%
Great Britain	7.0%
Switzerland	6.8%
France	3.3%
Japan	3.3%
Total	91.2%

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 (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 (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 \$1.22 billion on June 30, 2014.

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 0.46% to 0.63% last year.

Account owners can also invest directly in two individual investment portfolios: the PIMCO All Asset Fund and the PIMCO Real Return Fund. The PIMCO Real Return Fund emphasizes the preservation of capital through investing primarily in high credit quality fixed income instruments and inflation-indexed bonds with minimum volatility, while seeking returns higher than those generally offered by short-term funds. The total annual operating expense ratio for last year was 0.45% 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 0.52% 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 \$8,472,488 have been directed from Allianz to the Dakota Corps Scholarship Fund. Based on the assets as of June 30, 2014 and the scholarship funding formula, the resulting 2014 contribution was \$1,583,037. 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.

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, 2014, can be found in the Appendix on page 33.

MORE INFORMATION

Extensive information on this higher education savings program can be found at the following websites: www.CollegeAccess529.com or 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, 2014

Hon. Dennis Dugaard
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 Dugaard, Speaker Gosch and President Pro Tempore Brown:

We are pleased to submit our thirteenth 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, 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 lengthy 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.

January 31, 2014
Page 2

As of December 31, 2013, the Plan had assets of approximately \$1.165 billion, up 11% from \$1.046 billion in assets at year-end 2012. For the Plan's most recent full program year (calendar year 2013), returns for South Dakota direct investment age-based alternatives ranged from .33% for the Age-based 18+ portfolio to 18.50% for the Age-based 0-6 portfolio.

Fifty percent of the 34 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, 2012, and 2013, Allianz contributed \$756,125, \$694,782, \$823,112, \$1,059,271, \$1,165,435, and \$1,363,392 respectively, to the Dakota Corps Scholarship Program, totaling \$6,889,452.

The Dakota Corps Scholarship Program is designed to encourage South Dakota high school graduates to obtain their post-secondary education in South Dakota, remain in the state upon their graduation, and contribute to the state and its citizens by working in critical need occupations. The scholarship pays for four years of tuition and generally applicable fees. More information is available at www.state.sd.us/dakotacorps/default.html.

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

Sincerely,

Hugh M. Bartels
Investment Council Chair

Matthew L. Clark, CFA
State Investment Officer

SOUTH DAKOTA RETIREMENT SYSTEM INTERNALLY MANAGED			
		Cost Value	Fair Value
Global Equity Portfolio			
Microsoft Corp.	3,165,975	\$ 82,728,293	\$ 132,021,158
Wells Fargo & Co.	2,022,490	45,188,981	106,302,074
Target Corp.	1,716,720	78,369,519	99,483,924
Pfizer, Inc.	2,949,599	70,260,356	87,544,098
Apple, Inc.	921,900	51,879,555	85,672,167
Gilead Sciences, Inc.	989,180	25,613,625	82,012,914
JPMorgan Chase & Co.	1,416,170	48,741,335	81,599,715
Wal-Mart Stores, Inc.	1,060,329	53,836,713	79,598,898
Roche Holding, Ltd.	249,515	41,590,537	74,421,197
UnitedHealth Group, Inc.	872,686	31,525,891	71,342,081
Apache Corp.	676,012	59,309,480	68,020,327
Novartis AG	747,517	42,627,610	67,687,884
Nestle SA	860,337	20,524,415	66,649,923
Intel Corp.	2,154,774	43,954,361	66,582,517
Chevron Corp.	499,298	38,658,698	65,183,354
U.S. Bancorp	1,469,896	27,547,384	63,675,895
PepsiCo, Inc.	696,581	41,793,835	62,232,547
Exxon Mobil Corp.	611,113	39,624,662	61,526,857
Lennox Corp.	1,434,977	37,572,110	60,240,334
MetLife, Inc.	1,068,650	29,529,447	59,374,194
Devon Energy Corp.	707,406	42,865,818	56,168,036
Honda Motor Co., Ltd.	1,585,200	37,735,781	55,346,255
Sanoofi SA	506,281	41,530,059	53,776,500
The Bank of New York Mellon Corp.	1,417,089	34,536,041	53,112,496
Cisco Systems, Inc.	2,115,898	36,388,517	52,580,065
Bank of America Corp.	3,345,765	67,140,047	51,424,408
Citigroup, Inc.	1,087,415	40,030,692	51,217,247
Newfield Exploration Co.	1,155,942	33,653,941	51,092,636
AstraZeneca plc	673,176	35,463,531	49,960,424
BP plc - ADR	924,090	32,580,123	48,745,748
General Electric Co.	1,830,099	47,229,405	48,095,002
International Business Machines Corp.	258,060	46,522,919	46,778,536
Google, Inc.	76,511	20,735,756	44,733,686
Canadian Natural Resources, Ltd.	957,083	23,572,184	44,055,560
Google, Inc. - Cl C	76,511	20,695,605	44,015,248
The Procter & Gamble Co.	512,856	25,487,557	40,305,353
Oracle Corp.	993,996	27,518,228	40,286,658
Goldman Sachs Group, Inc.	236,555	28,735,142	39,608,769
Philip Morris International, Inc.	455,100	31,930,989	38,369,481
WellPoint, Inc.	355,363	18,290,702	38,240,612
Schlumberger, Ltd.	323,700	22,626,080	38,180,415
ConocoPhillips	443,105	15,784,149	37,987,392
Lowe's Cos., Inc.	767,872	19,751,783	36,850,177
Toyota Motor Corp.	612,200	20,754,453	36,766,446
General Dynamics Corp.	308,327	16,425,887	35,935,512
Joh nson & Joh nson	341,380	20,339,013	35,715,176
Capital One Financial Corp.	424,101	22,036,277	35,030,743
BB&T Corp.	878,873	21,168,427	34,653,962
Chesapeake Energy Corp.	1,096,075	28,904,585	34,066,011
Texas Instruments, Inc.	704,062	15,878,784	33,647,123
Total Top 50 Securities		\$ 1,807,189,282	\$ 2,847,917,735
Remaining Global Equity Portfolio		1,899,518,344	2,334,975,506
Global Equity Portfolio		\$ 3,706,707,626	\$ 5,182,893,241
High Quality Equity Portfolio		\$ 166,512,402	\$ 244,012,146
Small/Mid Equity Portfolio		\$ 375,971,950	\$ 461,395,215
Investment Grade Portfolio		\$ 903,318,699	\$ 951,811,089
High Yield Portfolio		\$ 115,802,295	\$ 119,053,270
Shift Portfolio		\$ 329,352,659	\$ 329,356,396
Total SDRS Internally Managed		\$ 5,597,665,631	\$ 7,288,521,357

SOUTH DAKOTA RETIREMENT SYSTEM EXTERNALLY MANAGED			
		Cost Value	Fair Value
Aggressive Absolute Return			
Bridgewater Pure Alpha Fund II, Ltd.		\$ 36,742,005	\$ 82,115,450
Sanders Capital All Asset Value Fund, L.P.		18,068,858	22,005,112
Total Aggressive Absolute Return		\$ 54,810,863	\$ 104,120,562
Real Estate			
Ares European Real Estate Fund II, L.P.		\$ 20,485,253	\$ 10,144,675
Apollo Real Estate Advisors III, L.P.		1,499,662	709,122
Apollo Real Estate Advisors IV, L.P.		3,512,520	3,844,839
Blackstone Real Estate Partners III, L.P.		13,550,179	1,991,377
Blackstone Real Estate Partners IV, L.P.		134,305,801	126,327,217
Blackstone Real Estate Partners V, L.P.		168,876,587	286,534,718
Blackstone Real Estate Partners VI, L.P.		252,146,341	487,520,949
Blackstone Real Estate Partners VII, L.P.		48,666,525	67,432,871
Blackstone Real Estate Partners International, L.P.		1,786,163	3,868,905
Blackstone Real Estate Partners International II, L.P.		85,470,242	119,669,123
Blackstone Real Estate Partners Europe III, L.P.		135,726,394	188,077,180
North American Real Estate Partners, L.P.		0	3,430,420
North American Real Estate Partners II, L.P.		33,452,612	27,277,757
NAREP II Land Entitlement Sidecar, L.P.		2,240,816	629,564
Doughy Hanson & Co. European Real Estate I, L.P.		741,545	1,124,597
Doughy Hanson & Co. European Real Estate II, L.P.		36,022,166	27,169,677
Lone Star Real Estate Fund II, L.P.		56,955,768	60,437,753
Lone Star Real Estate Fund III, L.P.		36,374,351	36,374,351
Rockpoint Real Estate Fund IV, L.P.		17,932,084	25,080,513
Starwood Distressed Opportunity Fund IX Global		33,694,272	40,875,107
Total Real Estate		\$ 1,083,439,281	\$ 1,518,520,715
Private Equity			
Blackstone Capital Partners IV, L.P.		\$ 3,977,003	\$ 7,712,130
Blackstone Capital Partners V, L.P.		140,739,039	234,225,668
Blackstone Capital Partners VI, L.P.		42,734,991	56,878,221
Capital International Private Equity Fund IV, L.P.		4,991,571	10,068,736
Capital International Private Equity Fund V, L.P.		15,305,509	15,289,238
Capital International Private Equity Fund VI, L.P.		21,332,145	20,227,578
Carlyle Partners IV, L.P.		5,756,279	7,219,173
Carlyle Partners V, L.P.		28,520,258	45,897,431
Carlyle Partners VI, L.P.		19,343,272	18,552,840
Riverstone/Carlyle Global Energy & Power Fund IV, L.P.		20,846,844	27,476,761
Riverstone Global Energy & Power Fund V, L.P.		42,461,244	56,629,181
The Fourth Cinven Fund		70,662,469	84,892,182
The Fifth Cinven Fund		27,668,526	32,696,529
Crossroads Cornerstone Private Equity XV-B, L.P.		3,347,538	3,033,345
CVC European Equity Partners IV, L.P.		16,419,584	18,644,617
CVC European Equity Partners V, L.P.		45,380,605	55,206,374
Cypress Merchant Banking Partners II, L.P.		5,615,915	6,134,105
DLJ Merchant Banking Partners II, L.P.		314,197	334,846
Doughy Hanson & Co. IV, L.P.		24,382,122	35,691,441
Doughy Hanson & Co. V, L.P.		27,354,206	35,352,215
Elevation Partners, L.P.		8,410,768	8,178,637
KKR European Fund, L.P.		0	499,412
KKR European Fund II, L.P.		20,751,228	24,995,145
PineBridge Capital Management Corp.		6,994,859	5,019,618
Silver Lake Partners II, L.P.		27,763,376	40,240,011
Silver Lake Partners III, L.P.		38,847,117	52,714,913
Silver Lake Partners IV, L.P.		18,519,296	25,070,324
Silver Lake Sumeru Fund, L.P.		27,775,427	31,273,998
Total Private Equity		\$ 716,215,388	\$ 960,154,669
Distressed Debt			
Blackstone Credit Liquidity Partners, L.P.		\$ 2,294,600	\$ 532,377
CVI Global Value Fund A, L.P.		71,447,826	74,443,560
TCW Opportunistic MBS Strategy		430,496,146	502,593,171
Total Distressed Debt		\$ 504,238,572	\$ 577,569,108
Emerging Markets			
Dimensional Emerging Markets Small Cap		\$ 8,977,461	\$ 52,706,460
Total Emerging Markets		\$ 8,977,461	\$ 52,706,460
Special Purpose Equity			
Brandes International Mid Cap Portfolio		\$ 54,907,913	\$ 59,549,976
Sanders Capital, LLC		39,636,291	41,246,649
Total Special Purpose Equity		\$ 94,544,204	\$ 100,796,625
Total SDRS Externally Managed		\$ 2,462,225,769	\$ 3,313,868,139

**SCHOOL AND PUBLIC LANDS
INTERNALLY MANAGED**

	Cost Value	Fair Value
Global Equity Portfolio		
Microsoft Corp.	88,595 \$ 2,457,761	\$ 3,694,412
Wells Fargo & Co.	59,358 1,503,528	3,119,856
Target Corp.	49,018 2,314,180	2,840,593
JPMorgan Chase & Co.	45,679 1,545,020	2,632,024
Pfizer, Inc.	86,452 2,302,677	2,565,895
Wal-Mart Stores, Inc.	31,906 1,692,158	2,395,183
UnitedHealth Group, Inc.	27,358 1,097,934	2,236,517
Nestle SA	27,332 1,421,205	2,117,398
Roche Holding, Ltd.	6,767 1,061,083	2,018,349
Novartis AG	21,468 1,332,706	1,943,934
Total Top 10 Securities	\$ 16,728,252	\$ 25,564,161
Remaining Global Equity Portfolio	76,815,745	97,585,356
Global Equity Portfolio	\$ 93,543,997	\$ 123,149,517
Investment Grade Portfolio	\$ 46,556,687	\$ 47,688,746
High Yield Portfolio	\$ 2,515,113	\$ 2,574,388
TIPS Portfolio	\$ 7,183,995	\$ 8,914,332
Money Market Portfolio	\$ 27,781,681	\$ 27,784,976
S.D. S.B.A. & Similar Assets	\$ 1,398,356	\$ 1,401,315
Total SPL Internally Managed	\$ 178,979,829	\$ 211,513,274

**SCHOOL AND PUBLIC LANDS
EXTERNALLY MANAGED**

	Cost Value	Fair Value
Real Estate		
Blackstone Real Estate Partners V, L.P.	\$ 3,421,815	\$ 5,805,835
Blackstone Real Estate Partners VI, L.P.	4,924,404	9,521,258
Blackstone Real Estate Partners VII, L.P.	1,049,192	1,453,770
Blackstone Real Estate Partners International II, L.P.	3,226,733	4,517,836
Blackstone Real Estate Partners Europe III, L.P.	3,277,695	4,541,930
North American Real Estate Partners II, L.P.	1,057,915	818,441
Lone Star Real Estate Fund III, L.P.	897,232	897,232
Total Real Estate	\$ 17,854,986	\$ 27,556,302
Private Equity		
Blackstone Capital Partners V, L.P.	\$ 1,614,989	\$ 2,991,467
Blackstone Capital Partners VI, L.P.	551,966	734,652
Carlyle Partners VI, L.P.	481,176	461,513
Doughty Hanson & Co. V, L.P.	972,471	1,256,806
Silver Lake Partners III, L.P.	920,771	1,249,472
Silver Lake Partners IV, L.P.	439,795	595,367
Total Private Equity	\$ 4,981,168	\$ 7,289,277
Distressed Debt		
CVI Global Value Fund A, L.P.	\$ 775,095	\$ 807,599
TCW Opportunistic MBS Strategy	8,349,533	9,508,081
Total Distressed Debt	\$ 9,124,628	\$ 10,315,680
Monument Park CDO, Ltd.	\$ 1,066,366	\$ 19,942
Total SPL Externally Managed	\$ 33,027,148	\$ 45,181,201

**DAKOTA CEMENT TRUST
INTERNALLY MANAGED**

	Cost Value	Fair Value
Global Equity Portfolio		
Microsoft Corp.	93,827 \$ 2,489,339	\$ 3,912,586
Wells Fargo & Co.	63,688 1,651,748	3,347,441
Target Corp.	55,106 2,576,562	3,193,393
Pfizer, Inc.	97,557 2,475,905	2,895,492
JPMorgan Chase & Co.	48,682 1,653,082	2,805,057
Wal-Mart Stores, Inc.	34,200 1,810,512	2,567,394
UnitedHealth Group, Inc.	30,723 958,572	2,511,605
Nestle SA	29,700 825,779	2,300,846
Roche Holding, Ltd.	7,652 1,199,680	2,282,312
Intel Corp.	71,367 1,522,789	2,205,240
Total Top 10 Securities	\$ 17,163,968	\$ 28,021,366
Remaining Global Equity Portfolio	81,851,026	105,354,611
Global Equity Portfolio	\$ 99,014,994	\$ 133,375,977
Investment Grade Portfolio	\$ 56,527,016	\$ 58,643,950
High Yield Portfolio	\$ 3,397,137	\$ 3,490,408
TIPS Portfolio	\$ 9,009,125	\$ 11,176,866
Money Market Portfolio	\$ 30,960,134	\$ 30,963,722
Total DCT Internally Managed	\$ 198,908,406	\$ 237,650,923

**DAKOTA CEMENT TRUST
EXTERNALLY MANAGED**

	Cost Value	Fair Value
Real Estate		
Blackstone Real Estate Partners V, L.P.	\$ 5,501,743	\$ 9,334,866
Blackstone Real Estate Partners VI, L.P.	7,929,127	15,330,843
Blackstone Real Estate Partners VII, L.P.	1,226,755	1,699,806
Blackstone Real Estate Partners International II, L.P.	5,264,672	7,371,205
Blackstone Real Estate Partners Europe III, L.P.	3,277,695	4,541,930
North American Real Estate Partners II, L.P.	1,726,106	1,335,352
Lone Star Real Estate Fund III, L.P.	1,042,731	1,042,731
Total Real Estate	\$ 25,968,829	\$ 40,656,733
Private Equity		
Blackstone Capital Partners V, L.P.	\$ 2,632,189	\$ 4,851,029
Blackstone Capital Partners VI, L.P.	467,050	621,628
Carlyle Partners VI, L.P.	577,411	553,816
Doughty Hanson & Co. V, L.P.	1,585,986	2,049,704
Silver Lake Partners III, L.P.	1,502,036	2,038,234
Silver Lake Partners IV, L.P.	549,740	744,205
Total Private Equity	\$ 7,314,412	\$ 10,858,616
Distressed Debt		
CVI Global Value Fund A, L.P.	\$ 1,264,374	\$ 1,317,427
TCW Opportunistic MBS Strategy	10,392,130	11,843,955
Total Distressed Debt	\$ 11,656,504	\$ 13,161,382
Monument Park CDO, Ltd.	\$ 1,850,644	\$ 34,611
Total DCT Externally Managed	\$ 46,790,389	\$ 64,711,342

EDUCATION ENHANCEMENT TRUST
INTERNALLY MANAGED

	Cost Value	Fair Value
Global Equity Portfolio		
Microsoft Corp.	161,717 \$ 4,265,183	\$ 6,743,599
Wells Fargo & Co.	107,660 2,774,389	5,658,610
Target Corp.	90,978 4,411,677	5,272,175
Pfizer, Inc.	158,688 3,951,662	4,709,860
JPMorgan Chase & Co.	81,515 2,744,738	4,696,894
Wal-Mart Stores, Inc.	57,869 3,077,206	4,344,226
United-Health Group, Inc.	50,131 1,817,228	4,098,209
Roche Holding, Ltd.	12,393 1,942,964	3,696,379
Intel Corp.	115,867 2,460,094	3,580,290
Gilead Sciences, Inc.	41,900 824,549	3,473,929
Total Top 10 Securities	\$ 28,269,690	\$ 46,274,171
Remaining Global Equity Portfolio	138,609,928	177,082,766
Global Equity Portfolio	\$ 166,879,618	\$ 223,356,937
Investment Grade Portfolio	\$ 48,727,308	\$ 48,482,344
High Yield Portfolio	\$ 5,373,208	\$ 5,499,217
TIPS Portfolio	\$ 18,073,409	\$ 17,598,119
Money Market Portfolio	\$ 62,726,107	\$ 62,731,838
Total EET Internally Managed	\$ 301,779,650	\$ 357,668,455

EDUCATION ENHANCEMENT TRUST
EXTERNALLY MANAGED

	Cost Value	Fair Value
Real Estate		
Blackstone Real Estate Partners V, L.P.	\$ 7,917,142	\$ 13,433,097
Blackstone Real Estate Partners VI, L.P.	11,601,573	22,431,458
Blackstone Real Estate Partners VII, L.P.	2,066,105	2,862,817
Blackstone Real Estate Partners International II, L.P.	7,472,439	10,462,359
Blackstone Real Estate Partners Europe III, L.P.	5,065,532	7,019,346
North American Real Estate Partners II, L.P.	2,449,941	1,895,335
Lone Star Real Estate Fund III, L.P.	1,721,720	1,721,721
Total Real Estate	\$ 38,294,452	\$ 59,826,133
Private Equity		
Blackstone Capital Partners V, L.P.	\$ 3,810,388	\$ 7,022,264
Blackstone Capital Partners VI, L.P.	806,722	1,073,723
Carlyle Partners VI, L.P.	904,611	867,646
Doughty Hanson & Co. V, L.P.	2,292,455	2,962,737
Silver Lake Partners III, L.P.	2,170,746	2,945,668
Silver Lake Partners IV, L.P.	858,968	1,162,819
Total Private Equity	\$ 10,843,890	\$ 16,034,857
Distressed Debt		
CVI Global Value Fund A, L.P.	\$ 1,827,328	\$ 1,903,950
TCW Opportunistic MBS Strategy	16,309,239	18,630,176
Total Distressed Debt	\$ 18,136,567	\$ 20,534,126
Monument Park CDO, Ltd.	\$ 2,667,962	\$ 49,896
PIMCO Tax-Exempt Fund	\$ 46,786,760	\$ 49,241,441
Total EET Externally Managed	\$ 116,729,631	\$ 145,686,453

HEALTH CARE TRUST
INTERNALLY MANAGED

	Cost Value	Fair Value
Global Equity Portfolio		
Microsoft Corp.	42,522 \$ 1,138,148	\$ 1,773,167
Wells Fargo & Co.	28,837 736,180	1,515,673
Target Corp.	25,125 1,201,583	1,455,994
JPMorgan Chase & Co.	22,512 749,210	1,297,141
Pfizer, Inc.	43,583 1,071,607	1,293,543
Wal-Mart Stores, Inc.	15,646 828,849	1,174,545
United-Health Group, Inc.	13,856 412,141	1,132,728
Roche Holding, Ltd.	3,425 536,249	1,021,552
Intel Corp.	32,011 682,922	989,140
Gilead Sciences, Inc.	11,581 227,999	960,181
Total Top 10 Securities	\$ 7,584,888	\$ 12,613,664
Remaining Global Equity Portfolio	36,873,232	47,766,536
Global Equity Portfolio	\$ 44,458,120	\$ 60,380,200
Investment Grade Portfolio	\$ 25,397,221	\$ 26,006,116
High Yield Portfolio	\$ 1,470,947	\$ 1,505,524
TIPS Portfolio	\$ 3,918,591	\$ 4,864,116
Money Market Portfolio	\$ 17,246,154	\$ 17,247,747
Total HCT Internally Managed	\$ 92,491,033	\$ 110,003,703

HEALTH CARE TRUST
EXTERNALLY MANAGED

	Cost Value	Fair Value
Real Estate		
Blackstone Real Estate Partners V, L.P.	\$ 1,945,733	\$ 3,301,349
Blackstone Real Estate Partners VI, L.P.	3,088,184	5,970,956
Blackstone Real Estate Partners VII, L.P.	581,088	805,162
Blackstone Real Estate Partners International II, L.P.	1,868,109	2,615,587
Blackstone Real Estate Partners Europe III, L.P.	1,787,827	2,477,416
North American Real Estate Partners II, L.P.	612,495	473,833
Lone Star Real Estate Fund III, L.P.	460,742	460,742
Total Real Estate	\$ 10,344,178	\$ 16,105,045
Private Equity		
Blackstone Capital Partners V, L.P.	\$ 966,843	\$ 1,760,841
Blackstone Capital Partners VI, L.P.	297,215	395,582
Carlyle Partners VI, L.P.	250,212	239,987
Doughty Hanson & Co. V, L.P.	581,336	751,312
Silver Lake Partners III, L.P.	550,411	746,893
Silver Lake Partners IV, L.P.	247,382	334,894
Total Private Equity	\$ 2,893,399	\$ 4,229,509
Distressed Debt		
CVI Global Value Fund A, L.P.	\$ 463,335	\$ 482,756
TCW Opportunistic MBS Strategy	4,534,253	5,183,439
Total Distressed Debt	\$ 4,997,588	\$ 5,666,195
Monument Park CDO, Ltd.	\$ 651,748	\$ 12,190
Total HCT Externally Managed	\$ 18,886,913	\$ 26,012,939

SOUTH DAKOTA CASH FLOW FUND
INTERNALLY MANAGED

	Cost Value	Fair Value
Duration Portfolio	\$ 1,149,123,754	\$ 1,156,775,566
Money Market Portfolio	\$ 68,176,526	\$ 68,178,049
Certificates of Deposit, 0.37% due 09/30/14	\$ 23,657,000	\$ 23,722,708
Total SDCFF Internally Managed	\$ 1,240,957,280	\$ 1,248,676,323

On June 30, 2014, there was \$23,657,000 in Certificates of Deposit (CDs) outstanding with South Dakota banks, savings associations, and credit unions. Forty-seven South Dakota banks hold \$18,113,000 in CDs, two savings associations have \$1,544,000 invested in CDs, and four credit unions have \$4,000,000 invested in CDs. The CDs carry an interest rate of 0.37% and mature September 30, 2014.

The original allocation made in September 2013 was to eighty banks and four savings associations. Thirty-three banks and two savings associations did not participate this year. This is the thirteenth year a reoffering was made to other qualified public depositories in the state. In the reoffering, four credit unions accepted \$4,000,000 in CDs, leaving \$11,343,000 in CDs unassigned. The size of the certificates ranged from \$100,000 to \$3,000,000.

Summary of Statistics
Certificates of Deposit Outstanding

CDs Issued to Banks

CDs maturing 9/30/14	\$ 18,113,000
Interest earned during FY 2014	\$ 69,509
Average CDs Outstanding During FY 2014	\$ 17,771,189
Rate of Return	0.4%

CDs Issued to Savings Associations

CDs maturing 9/30/14	\$ 1,544,000
Interest earned during FY 2014	\$ 5,992
Average CDs Outstanding During FY 2014	\$ 1,529,290
Rate of Return	0.4%

CDs Issued to Credit Unions

CDs maturing 9/30/14	\$ 4,000,000
Interest earned during FY 2014	\$ 14,264
Average CDs Outstanding During FY 2014	\$ 3,688,356
Rate of Return	0.4%

Total Certificates of Deposit

CDs maturing 9/30/14	\$ 23,657,000
Interest earned during FY 2014	\$ 89,765
Average CDs Outstanding During FY 2014	\$ 22,988,835
Rate of Return	0.4%

South Dakota Certificates of Deposit
Due 9/30/14

Banks	Location	CD Amount
Dacotah Bank	Aberdeen	\$ 2,847,000
State Bank of Alcester	Alcester	189,000
Community Bank	Avon	100,000
Dakota State Bank	Blunt	100,000
First Bank & Trust	Brookings	1,224,000
Bryant State Bank	Bryant	100,000
Farmers State Bank	Canton	100,000
One American Bank	Centerville	106,000
First Financial Bank	Dupree	563,000
Liberty Financial Services	Elk Point	305,000
BankStar Financial	Elkton	102,000
Security State Bank	Emery	100,000
Reliabank Dakota	Estelline	320,000
Great Plains Bank	Eureka	162,000
First National Bank	Frederick	100,000
Merchants State Bank	Freeman	151,000
Fulton State Bank	Fulton	100,000
First State Bank	Groton	100,000
Farmers State Bank	Hosmer	100,000
Plains Commerce Bank	Hoven	667,000
Miner County Bank	Howard	100,000
Premier Bank of Hudson	Hudson	459,000
Ipswich State Bank	Ipswich	100,000
First Bank & Trust/Sioux Falls	Madison	854,000
First Bank & Trust/Stockholm	Milbank	204,000
Quoin Financial Bank	Miller	196,000
CorTrust Bank	Mitchell	827,000
American State Bank	Oldham	100,000
Sunrise Bank Dakota	Onida	100,000
Farmers State Bank	Parkston	134,000
BankWest	Pierre	1,116,000
Farmers & Merchants State Bank	Plankinton	143,000
Security First Bank	Rapid City	922,000
Heartland State Bank	Redfield	129,000
First State Bank of Roscoe	Roscoe	119,000
Farmers & Merchants State Bank	Scotland	100,000
Great Western Bank	Sioux Falls	2,964,000
Minnwest Bank	Sioux Falls	156,000
Roberts County National Bank	Sisseton	100,000
Farmers State Bank	Stickney	144,000
Peoples State Bank	Summit	100,000
Farmers State Bank	Turton	100,000
Security State Bank	Tyndall	143,000
First National Bank	Volga	100,000
American Bank & Trust	Wessington Springs	536,000
First State Bank	Wilmot	100,000
First National Bank	Yankton	531,000
Total Banks		\$ 18,113,000
Savings Associations		
Home Federal Savings Bank	Sioux Falls	\$ 1,294,000
Security Savings Bank	Canton	250,000
Total Savings & Loan Associations		\$ 1,544,000
Credit Unions		
Black Hills Federal CU	Rapid City	\$ 3,000,000
Healthcare Plus Federal CU	Aberdeen	250,000
East River Federal CU	Madison	250,000
Minuteman Community Federal CU	Rapid City	500,000
Total Credit Unions		\$ 4,000,000
Total Certificates of Deposit		\$ 23,657,000

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.

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

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

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.

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

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.

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

MSCI ALL COUNTRY WORLD INDEXSM (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 46 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 23 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 rents, mortgages and sales of property. It has been used for benchmarking purposes since fiscal year 2005.

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

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

PEER PENSION FUNDS: 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. Callan data was used for fiscal year 2014, Mellon Analytical data was used fiscal years 1987-2013 and SEI data was used fiscal years 1973-1986. All the returns are reported gross-of-fees.

PUBLIC MARKET EQUIVALENT (PME): The PME is a method where a public market index is expressed in terms of a since inception internal rate of return (SHRR), 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 market-capitalization-weighted index of 500 large-cap U.S. companies. It is the US component of the S&P Global 1200 Index. It has been used for benchmarking purposes since fiscal year 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 41-year performance history. The most recent 32 years represents a group of over 50 state funds. The returns are reported net-of-fees. The prior nine years of the universe represent the SEI state universe. This universe was the largest state universe available at the time. The SEI state universe returns are reported gross-of-fees.

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.

- Citigroup US Broad Investment Grade (USBIG) Bond Index in fiscal years 1990-2014 and Lehman Brothers US Aggregate Bond Index in prior periods.
- Citigroup USBIG Bond Index in fiscal years 2007-2014, 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.
- 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 41-year annualized returns as of 6/30/14 are as follows:

Fiscal Year	Annual Return	Fiscal Year	Annual Return	Annualized Returns as of 6/30/14	
2014	2.1%	2007	2.7%	5 Years	2.0%
2013	1.8%	2006	4.3%	10 Years	2.3%
2012	1.7%	2005	2.5%	15 Years	2.4%
2011	3.6%	2004	3.3%	20 Years	2.4%
2010	1.1%	2003	2.1%	25 Years	2.6%
2009	(1.4%)	2002	1.1%	30 Years	2.8%
2008	5.0%	2001	3.2%	41 Years	4.2%

- Fixed Income:** Citigroup USBIG Bond Index (1981-2014), Lehman Brothers Gov/Corp Index (1973-1980). **Cash:** Citigroup US 3-Month Treasury Bill Index (1973-2014). **Global Equity:** 1/3 MSCI ACWI + 1/3 MSCI US Index (2005-2014). **Domestic Equity:** Russell 1000 Index (1996-2004), S&P 500 Index (1973-1995). **International Equity:** MSCI ACWI ex-US Index (2002-2004), 1/4 MSCI EAFE + 1/4 MSCI EASEA Index (1997-2001), MSCI EAFE Index (1996), MSCI EAFE 1/3 Japan Index (1993-1995). **Arbitrage:** weighted index (1999-2011), Merger Custom Index (2008-2011), 3-Month Treasury Bill Index +4.25% (1993-2007), Convertible Benchmark (1999-2011). **Real Estate:** MSCI US REIT Index (2014), NCREIF Property Index +1.25% (2011-2013), NCREIF Property Index (2002-2010), NCREIF Classic Property Index (1995-2001). **Private Equity:** S&P 500 (2014), S&P 500 +1.75% (2011-2013), S&P 500 +3.5% (2005-2010), Russell 1000 +3.5% (2002-2004), Russell 1000 +5.0% (1999-2001). **High Yield/Distressed Debt:** Citigroup High-Yield Market Index (2003-2014). **Commodities:** S&P GSCI (2003-2014). **TIPS:** Citigroup US-ILSI (2012-2014).

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

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

- Citigroup High-Yield Cash-Pay Capped Index in fiscal years 2011-2014 and the Citigroup All BB-Rated Index in fiscal years 2007-2010.
- 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 (2005-2014); 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).
- Composites are valued monthly and portfolio returns are weighted by using beginning-of-month fair values or weighted cash flows.

- Fair values for private equity and real estate limited partnerships are adjusted in the reporting period when received by the Council.
- The South Dakota Department of Legislative Audit conducted the South Dakota Investment Council fiscal year 2014 annual and interim procedures audit work for total fees of \$36,115.
- The 1-year total fund performance results are presented net-of-fees for fiscal year 2014 and gross-of-fees in prior periods.
- Management fee rates (excluding profit sharing) as of June 30, 2014 in basis points (bp):

Investment Office (expected average)	10 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	50 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 & IV - ML	0 bp
Blackstone Real Estate Partners V & V - ML	0 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 International Mid Cap Portfolio	
\$0-\$10 Million -	115 bp
\$10-\$20 Million -	100 bp
\$20-\$50 Million -	90 bp
over\$50 Million -	80 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
Carlyle Partners VI	130 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	100 bp
CVI Global Value Fund A	185 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	75 bp
Doughty Hanson & Co. V	175 bp
Elevation Partners	125 bp
KKR European Fund I	75 bp
KKR European Fund II	75 bp
Lone Star Real Estate Fund II	45 bp
Lone Star Real Estate Fund III	100 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 & II - HF	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
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 II	100 bp
Silver Lake Partners III	100 bp
Silver Lake Partners IV	150 bp
Silver Lake Sumeru Fund	150 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.

13 Past performance is no guarantee of future results.

14 **Fixed Income:** Citigroup USBIG Bond Index (February 2001-2014), Salomon Smith Barney Treasury/GNMA Index (1985 - January 2001). **Global Equity:** ⅓ S&P Global 1200 + ⅓ S&P 500 Index (2012-2014 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 (2010-2014 and February 2001-2006), Citigroup All BB-Rated Index (2007-2009). **TIPS:** Citigroup US-ILSI (2007-2014). **Cash/Commodities:** Citigroup US 3-Month Treasury Bill Index (February 2001-2014). **Real Estate:** MSCI US REIT Index (2014), NCREIF Property Index +1.25% (2011-2013), NCREIF Property Index (2007-2010). **Private Equity:** S&P 500 (2014), S&P 500 +1.75% (2011-2013), S&P 500 +3.5% (2007-2010).

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

	FI	Gbl EQ & Dom / Intl	HY/ DD	TIPS	Cash/ Comm	RE	FE
07/11 - 06/14	28%	52%	5%	5%	2%	6%	2%
07/06 - 06/11	33%	48%	5%	5%	2%	5%	2%
07/05 - 06/06	40%	50%	10%	0%	0%	0%	0%
07/04 - 06/05	40%	40% / 10%	10%	0%	0%	0%	0%
07/03 - 06/04	50%	40% / 0%	10%	0%	0%	0%	0%
07/02 - 06/03	60%	30% / 0%	10%	0%	0%	0%	0%
07/01 - 06/02	70%	20% / 0%	10%	0%	0%	0%	0%
02/01 - 06/01	Weighted based on Investment Council asset allocation.						
07/84 - 01/01	100%	0% / 0%	0%	0%	0%	0%	0%

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

16 **Fixed Income:** Citigroup USBIG Bond Index (2002-2014). **Global Equity:** ⅓ S&P Global 1200 + ⅓ S&P 500 Index (2012-2014 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), MSCI US REIT Index (2014 and 2005-2006), NCREIF Property Index +1.25% (2011-2013), NCREIF Property Index (2006-2010), REIT Benchmark (2002-2004). **High Yield/Distressed Debt:** Citigroup High-Yield Market Index (2010-2014), Citigroup All BB-Rated Index (2002-2009). **TIPS:** Citigroup US-ILSI (2007-2014). **Cash/Commodities:** Citigroup US 3-Month Treasury Bill Index (2007-2014). **Private Equity:** S&P 500 (2014), S&P 500 +1.75% (2011-2013), S&P 500 +3.5% (2007-2010).

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

	FI	Gbl EQ & Dom / Intl	RE	HY/ DD	TIPS	Cash/ Comm	FE
07/11 - 06/14	28%	52%	6%	5%	5%	2%	2%
07/06 - 06/11	33%	48%	5%	5%	5%	2%	2%
07/05 - 06/06	40%	40%	10%	10%	0%	0%	0%
07/04 - 06/05	50%	20% / 5%	15%	10%	0%	0%	0%
07/01 - 06/04	55%	20% / 0%	15%	10%	0%	0%	0%

17 **Fixed Income:** Citigroup USBIG Bond Index (2003-2014). **Tax-Exempt Fixed Income:** Barclays Capital Municipal 7 Year Index (2003-2014). **Global Equity:** ⅓ S&P Global 1200 + ⅓ S&P 500 Index (2012-2014 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), MSCI US REIT Index (2014 and 2005-2006), NCREIF Property Index +1.25% (2011-2013), NCREIF Property Index (2006-2010), REIT Benchmark (2003-2004). **High Yield/Distressed Debt:** Citigroup High-Yield Market Index (2010-2014 and 2003-2006), Citigroup All BB-Rated Index (2007-2009). **TIPS:** Citigroup US-ILSI (2003-2014). **Cash/Commodities:** Citigroup US 3-Month Treasury Bill Index (2007-2014). **Private Equity:** S&P 500 (2014), S&P 500 +1.75% (2011-2013), S&P 500 +3.5% (2007-2010).

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

	FI	FI	Gbl EQ & Dom / Intl	RE	HY/ DD	TIPS	Cash/ Comm	FE
07/13 - 06/14	17%	11%	52%	6%	5%	5%	2%	2%
07/11 - 06/13	0%	30%	52%	6%	5%	3%	2%	2%
07/10 - 06/11	0%	35%	48%	5%	5%	3%	2%	2%
07/09 - 06/10	0%	37%	48%	5%	5%	1%	2%	2%
07/08 - 06/09	3%	30%	48%	5%	5%	5%	2%	2%
07/07 - 06/08	8%	25%	48%	5%	5%	5%	2%	2%
07/06 - 06/07	3%	30%	48%	5%	5%	5%	2%	2%
07/05 - 06/06	3%	32%	40%	10%	10%	5%	0%	0%
07/04 - 06/05	7%	33%	24% / 6%	10%	10%	10%	0%	0%
07/02 - 06/04	10%	35%	25% / 0%	10%	10%	10%	0%	0%

18 **Fixed Income:** Citigroup USBIG Bond Index (2003-2014). **Global Equity:** ⅓ S&P Global 1200 + ⅓ S&P 500 Index (2012-2014 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), MSCI US REIT Index (2014 and 2005-2006), NCREIF Property Index +1.25% (2011-2013), NCREIF Property Index (2006-2010), REIT Benchmark (2003-2004). **High Yield/Distressed Debt:** Citigroup High-Yield Market Index (2010-2014 and 2003-2006), Citigroup All BB-Rated Index (2007-2009). **TIPS:** Citigroup US-ILSI (2003-2014). **Cash/Commodities:** Citigroup US 3-Month Treasury Bill Index (2007-2014). **Private Equity:** S&P 500 (2014), S&P 500 +1.75% (2011-2013), S&P 500 +3.5% (2007-2010).

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

	FI	Gbl EQ & Dom / Intl	RE	HY/ DD	TIPS	Cash/ Comm	FE
07/11 - 06/14	28%	52%	6%	5%	5%	2%	2%
07/06 - 06/11	33%	48%	5%	5%	5%	2%	2%
07/05 - 06/06	35%	40%	10%	10%	5%	0%	0%
07/04 - 06/05	40%	24% / 6%	10%	10%	10%	0%	0%
07/02 - 06/04	45%	25% / 0%	10%	10%	10%	0%	0%

19 The SDRS Combined Internal Equity Benchmark consists of the ⅓ S&P Global 1200 + ⅓ S&P 500 Index in fiscal years 2012-2014 and 2005-2010; in fiscal year 2011 the ⅓ S&P Global 1200 Ex-Iran + ⅓ 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 ⅓ MSCI EAFE + ⅓ MSCI EASEA Index in fiscal years 1993-2001) and the Domestic Equity Benchmark (Russell 1000 Index in fiscal years 1996-2004 and S&P 500 Index in fiscal years 1974-1995) weighted according to the beginning monthly portfolio weights, adjusted for cash transfers.

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

- 21 The Convertible Benchmark was calculated using the duration-adjusted Bank of America Merrill Lynch Corporate Bond Indices for each rating category for the bond portion and the prime money market rate plus 100 basis points annually for the hedged equity option portion. It was based on the risk characteristics of the portfolio.
- 22 The Merger Benchmark was the implemented Merger index portfolio 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.





SOUTH DAKOTA INVESTMENT COUNCIL

4009 West 49th Street, Suite 300

Sioux Falls, SD 57106-2784

(605) 362-2820

<http://sdic.sd.gov>

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