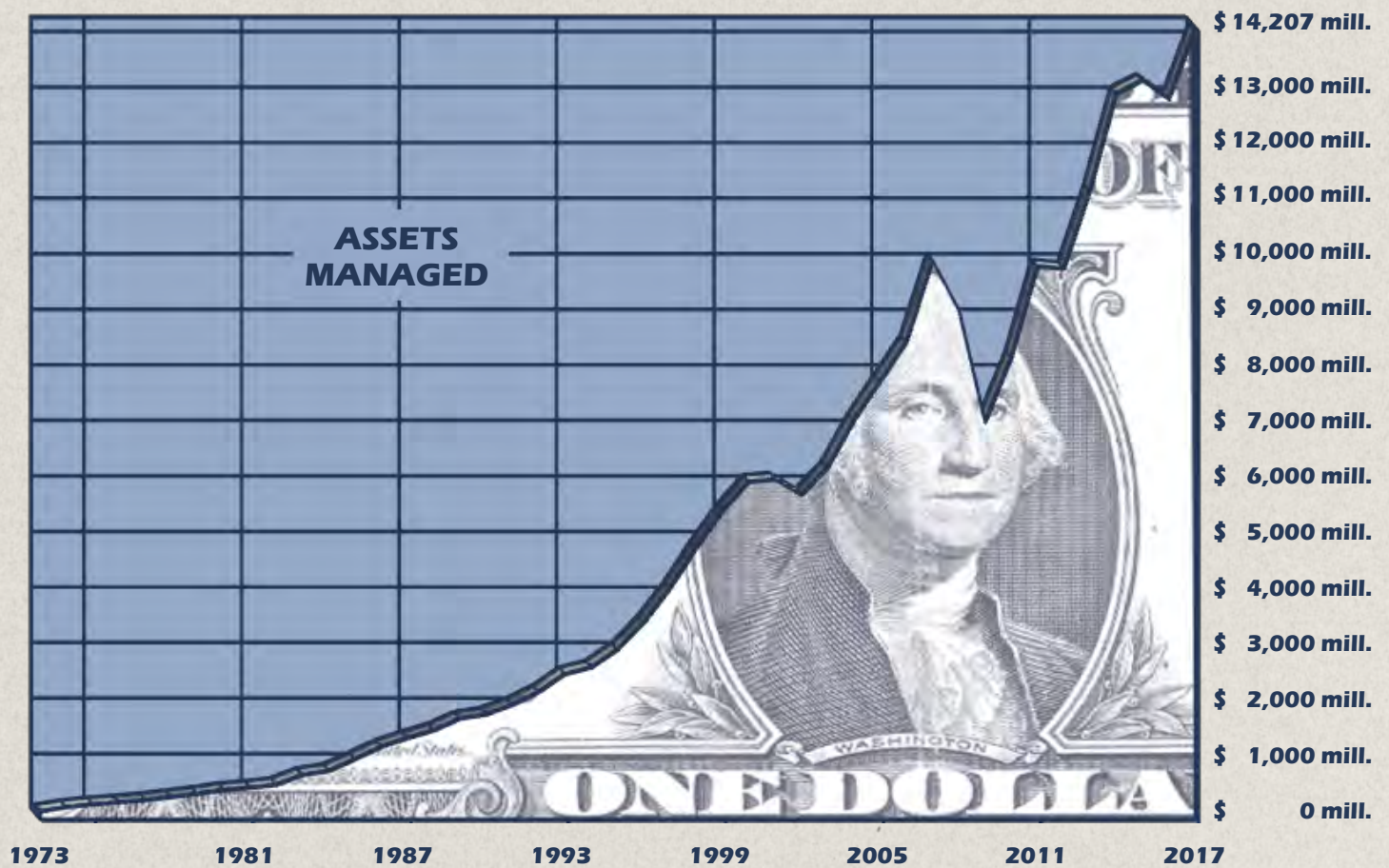


THE SOUTH DAKOTA INVESTMENT COUNCIL



**ANNUAL REPORT
FISCAL YEAR 2017**

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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.

TRANSMITTAL LETTER

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

The South Dakota Investment Council annual report provides information about the investment of South Dakota Retirement System assets, state trust funds, and other financial assets of the State of South Dakota. This letter summarizes fiscal year 2017 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 2017 PERFORMANCE

The fiscal year 2017 investment return for the South Dakota Retirement System (SDRS) was 13.8% net of investment management cost. This exceeded the Council's market index-based Capital Markets Benchmark (CMB) return of 11.0%. The largest contributors to the outperformance were the global equity and real estate categories. The largest detractor from performance relative to the CMB was a more conservative allocation to equities.

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 11.5% to 11.7%. The South Dakota Cash Flow Fund yield was 1.3%.

INVESTING FOR THE LONG TERM

The Council's goal is to add value over the long term compared to market indexes. Accomplishment of this goal for SDRS provides additional resources to pay retirement benefits for the more than 86,000 members. Added value for the trust funds and cash flow fund provides additional revenues to the state.

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

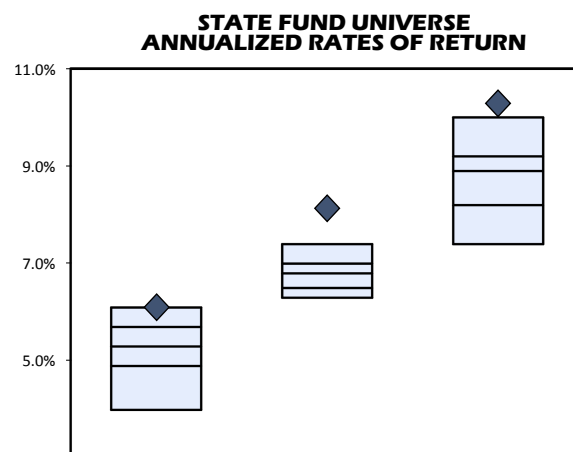
The Council invests in assets believed to be undervalued from a long-term perspective. The valuation process is based on the view that the worth of an asset is the present value of future cash flows. Internal research efforts focus on estimating future cash flows and assessing risk which impacts the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

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

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

increased to reflect higher frequency of severe declines, and correlations are adjusted to reflect that most asset categories are less diversifying during severe declines.

The Council has managed SDRS assets for the past 44 years. The return over the full period has exceeded other state retirement systems across the nation as shown on the following exhibit.



	NET ANNUALIZED RETURNS		
	10 Years	20 Years	44 Years
	<u>2008-2017</u>	<u>1998-2017</u>	<u>1974-2017</u>
10th %tile	6.1	7.4	10.0
25th %tile	5.7	7.0	9.2
Median	5.3	6.8	8.9
75th %tile	4.9	6.5	8.2
90th %tile	4.0	6.3	7.4
◆ SDRS Fund	6.1	8.1	10.2
SDRS %tile Rank	7	1	1

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. Trust fund returns can be found in their respective sections.

RETURN EXPECTATIONS

The Council believes market return expectations should be based on forward-looking, long-term cash flows rather than extrapolation of past returns, which tend to relate inversely to future results. The Council began developing long-term expected returns in the early 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 6/30/17.

AN UPDATE ON RETURN EXPECTATIONS			
	<u>Bonds*</u>	<u>S&P 500</u>	<u>Yield</u>
Expected Long-Term 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 Long-Term 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 Long-Term Returns as of 6/30/02	4.8%	7.9%	1.6%
Actual Returns - 7/1/02 to 6/30/12	5.8%	5.3%	
Actual Returns - 7/1/02 to 6/30/17	4.6%	8.3%	
Expected Long-Term Returns as of 6/30/17	2.3%	7.1%	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 15 years through June 30, 2017, were 4.6% for bonds and 8.3% for stocks.

As of June 30, 2017, expected returns were 2.3% for bonds and 7.1% for stocks. Low interest rates foreshadow very low future bond returns. The expected return for stocks is also lower than earned on average historically. The expected long-term return for the overall SDRS fund, which is diversified across several asset categories, was 6.1%. This excludes consideration of potential value added or detracted relative to index returns and 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.

The expected return is the mid-point of a range of possible outcomes. The one standard deviation range, which statistically encompasses the central two-thirds of potential outcomes, is 1.2% to 11.0% per annum for a ten-year horizon and 2.7% to 9.5% for a 20-year horizon.

Written in the depths of the financial crisis, the Council's fiscal year 2008 Annual Report Transmittal Letter observed that massive injections of liquidity had been provided by governments across the globe to lessen the severity of the financial crisis. It was expected that deleveraging would eventually exhaust itself aided by low interest rates, stimulus, and the allure of bargain prices; and that if history was any guide, financial markets may recover in anticipation of later economic recovery. It was expressed that there were many challenges and potential headwinds to future economic growth, but that there have always been challenges to face. Additionally, future national and global economic policy mistakes may be made, but mistakes were also made in the past yet the economy still grew over time due to a strong work ethic, entrepreneurial spirit, and rapid pace of innovation. The belief was expressed that long-term optimism was warranted compared to then prevailing pessimism.

Looking forward from today, the prevailing pessimism of 2008 has been replaced by widespread optimism. Corporate profits are strong, unemployment is low, and markets are at record levels. These conditions are believed to have been aided by unprecedented stimulation by monetary policy makers around the world through low interest rates and quantitative easing. The wisdom of continuing high levels of stimulus is now receiving greater scrutiny. Sustained stimulus may have counterproductive long-term effects on incentives to save, investment in productive rather than financial activity, and creation of new financial bubbles. Steps toward gradual shrinkage of stimulus have now begun. Expensive valuations suggest muted long-term return prospects and heightened risk. A shift from stimulus tailwind to headwind may further increase risk.

History has shown that following large market increases, opportunities may be sparse for a time. Chasing lesser

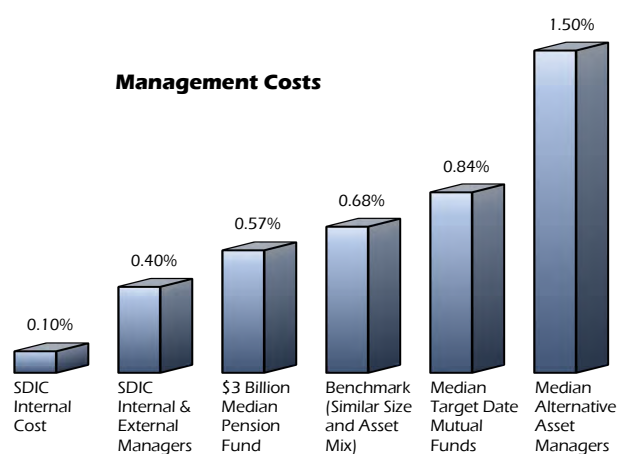
opportunities has tended to backfire when assets became much cheaper later. The lesson learned is to wait for worthwhile opportunities, and when absent, be satisfied with modest results until better opportunities come along.

IMPORTANCE OF LOW COSTS

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

The Council began investing in real estate and private equity partnerships in the mid 1990's. Management costs are generally 1% to 2% of partnership assets per year. Partnership managers are also typically allocated 20% of profits. These investments can be more expensive than traditional external managers and much more expensive than the Council's internal cost. Unlike traditional managers that buy and sell securities, partnership managers have hands-on involvement with underlying investments which complicates cost comparisons. Real estate partnership managers buy and manage underlying properties. Private equity partnership managers buy and operate whole companies. The Council evaluates partnership returns compared to traditional real estate and stock market 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%. The total cost fluctuates from year to year primarily due to variation in amounts invested in partnerships, and in some cases, the return of partnership fees if the investment is profitable. This compares to the median industry cost of 0.57% 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 \$39 million of savings per year. Compounding these savings over many years can result in hundreds of millions of dollars.

A TEAM EFFORT

The Investment Council's historic success has been a team effort. Consistent support by the Legislature, the Executive Branch, and others over multiple decades has allowed the Council to pursue a long-term investment approach and implement a long-term business plan to develop an internal investment team. The Council recognizes the unique challenges and patience required to support an internal investment organization and long-term investment approach. The Council is very appreciative of the significant efforts of Legislators, the Governor and 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 benefits from important contributions by the Legislative Research Council, the Attorney General's Office, the Department of Legislative Audit, the Bureau of Information and Telecommunications, and other agencies.

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

Respectfully submitted by:

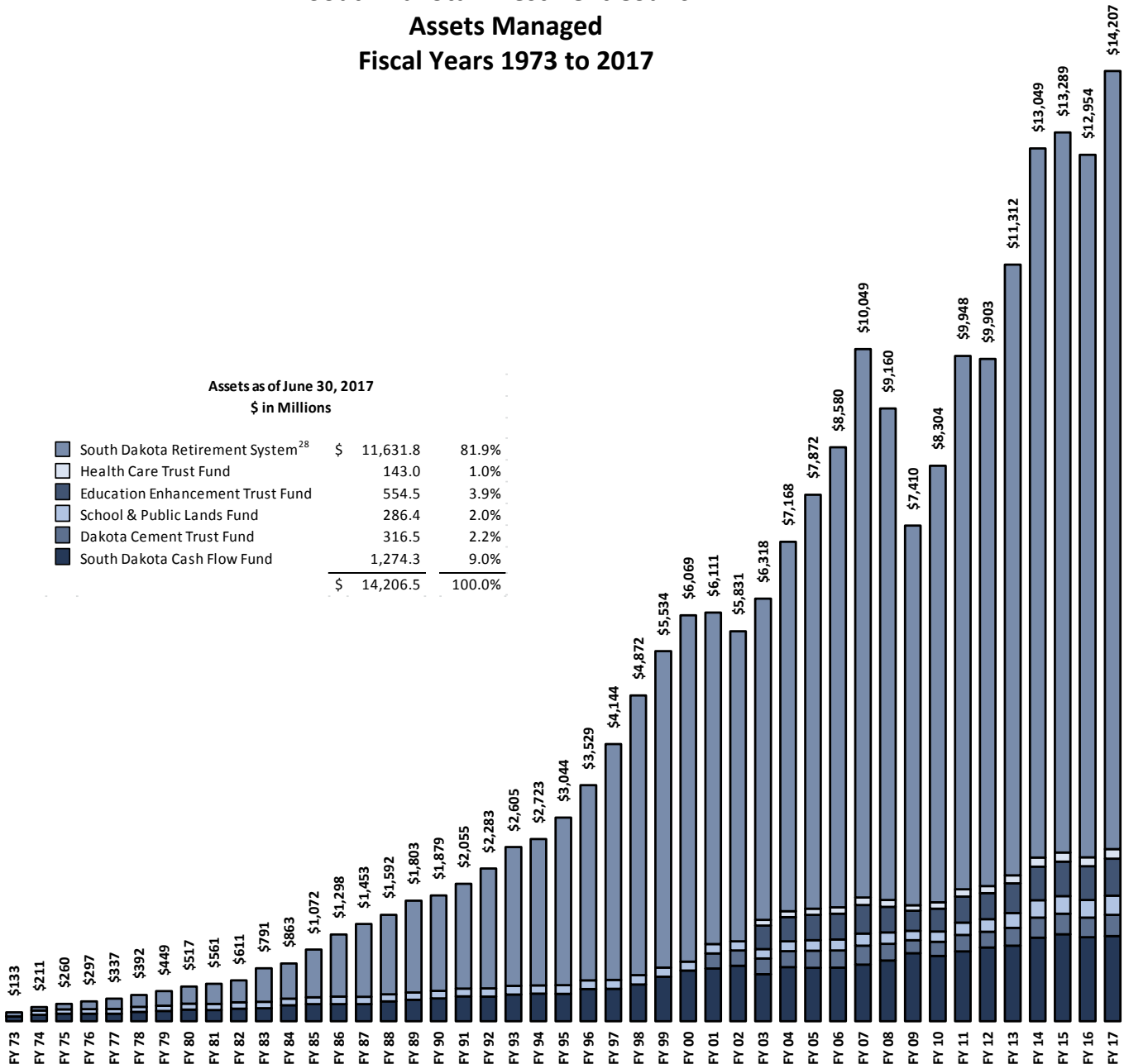
David T. Hillard, Chair
South Dakota Investment Council

Matthew L. Clark, CFA
State Investment Officer

South Dakota Investment Council Assets Managed Fiscal Years 1973 to 2017

Assets as of June 30, 2017
\$ in Millions

South Dakota Retirement System ²⁸	\$ 11,631.8	81.9%
Health Care Trust Fund	143.0	1.0%
Education Enhancement Trust Fund	554.5	3.9%
School & Public Lands Fund	286.4	2.0%
Dakota Cement Trust Fund	316.5	2.2%
South Dakota Cash Flow Fund	1,274.3	9.0%
	<u>\$ 14,206.5</u>	<u>100.0%</u>



David T. Hillard, Chair**

Senior Vice President & Branch Director
RBC Wealth Management
Rapid City

Steve T. Kirby, Vice-Chair**

President/Founding Partner
Bluestem Capital Company
Sioux Falls

Lorin L. Brass* **

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

Laura M. McNally, CPA*

Owner
Laura McNally, CPA Prof. LLC
Belle Fourche

Jeffrey L. Nelson

General Manager, Retired
East River Electric Power Cooperative
Wentworth

Ryan L. Brunner

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
South Dakota Retirement System
Pierre

*Denotes member of Audit Committee

**Denotes member of Compensation Committee

History

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

Membership

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

Responsibilities

- Select and evaluate State Investment Officer.
- Develop investment policy and establish asset allocation guidelines for the long term.
- Monitor implementation of investment process.
- Oversee audit process through 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 COUNCIL STAFF

INVESTMENT MANAGEMENT & RESEARCH

Name <i>(alphabetical order)</i>	Title	Asset Categories
Matthew L. Carey	Research Analyst	Global Equity
Anne D. Cipperley, CFA	Associate Portfolio Manager	High Yield
Matthew L. Clark, CFA	State Investment Officer	All
Candice S. Currier, CFA	Senior Portfolio Manager	Global Equity
Jarrold A. Edelen, CFA	Portfolio Manager	Small/Mid Equity
Jeffrey J. Ellefson, CFA	Portfolio Manager	Global Equity
Daniel H. Elmer	Research Analyst	Small/Mid Equity
Brett D. Fligge, CFA	Assistant Investment Officer	Global Equity & Alternative Investments
Melissa Hansen-Woidyla, CFA	Senior Portfolio Manager	Global Equity
Darci L. Haug, CFA	Portfolio Manager	Small/Mid Equity
Scott A. Hess, CFA	Senior Portfolio Manager	Small/Mid Equity
Lee W. Mielke, CFA	Associate Portfolio Manager	Global Equity
Danielle J. Mourer, CFA	Associate Portfolio Manager	High Yield
Christopher L. Nelson, CFA	Assistant Investment Officer	Fixed Income & Alternative Investments
Sherry Z. Nelson, CFA, CPA	Senior Portfolio Manager	Fixed Income/Short-Term
Zachary M. Nipp	Research Analyst	High Yield
Tammy V. Otten, CFA, CPA	Assistant Investment Officer	Fixed Income & Derivatives
Rena A. Randall, CFA	Portfolio Manager	Global Equity
Arianna P. Rehfeldt, CFA	Portfolio Manager	Global Equity
Ross D. Sandine, CFA	Portfolio Manager	High Yield
Steven W. Schultz, CFA	Senior Portfolio Manager	Global Equity
Makenzie K. Smook	Research Analyst	Small/Mid Equity
Randall J. Spinar, CFA	Portfolio Manager	Global Equity
Oless V. Voznyuk	Research Analyst	High Yield
Jan E. Zeeck, CFA	Senior Portfolio Manager	Global Equity

INVESTMENT ACCOUNTING & ADMINISTRATION

Name <i>(alphabetical order)</i>	Title
Brandy A. Eisma, CPA	Investment Accountant
Jeffrey P. Hallem	General Counsel
Cynthia J. Pickering, CPA	Senior Investment Accountant
Samantha M. Rains, CPA	Senior Investment Accountant
Laurie A. Riss	Business Manager
Krystal R. Seeley, CPA	Investment Accountant
Christa J. Sites	Assistant Business Manager/Accountant

The function of the staff is to advise and recommend investment policies and strategies to the Investment Council and to implement the Investment Council's adopted investment policies.

THE FUND

The South Dakota Retirement System (SDRS) provides retirement, disability, and survivor benefits to over 86,000 South Dakota public employees. SDRS is a cost-sharing, multiple-employer public retirement system funded through member and employer contributions and investment income. Per state statute, the South Dakota Investment Council (Council) is responsible for managing SDRS investment assets. This section discusses investment objectives and intermediate and long-term results. Detailed information about SDRS may be found on their website, www.sdrs.sd.gov.

INVESTMENT OBJECTIVES

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

The capital markets benchmark reflects the Council's benchmark asset allocation applied to index returns for each asset category. The key investment policy decision relates to asset allocation as discussed in the SDRS Asset Allocation Focus on page 8. The index-based capital markets benchmark is believed to represent

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

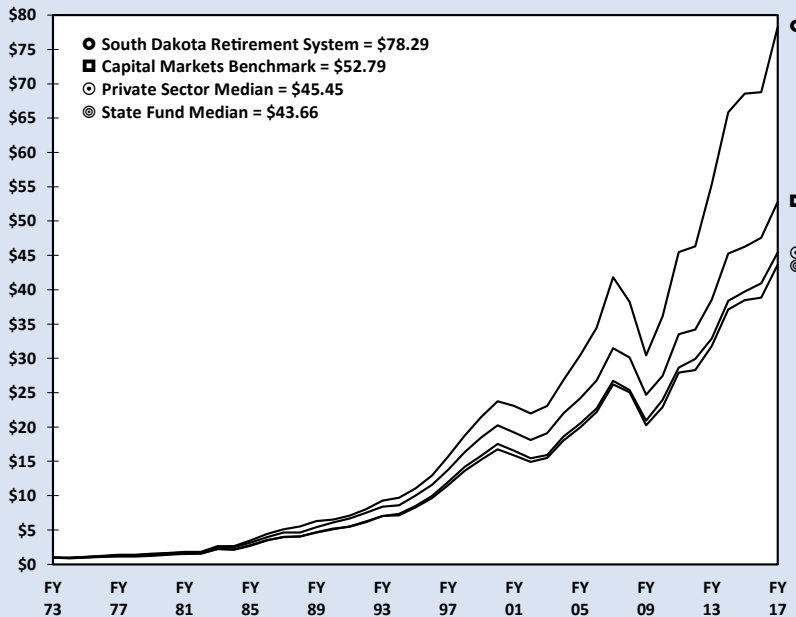
This objective has been achieved for the majority of rolling 5 and 10-year periods and all 20-year and longer periods. The following table summarizes SDRS total fund performance versus the Council's capital markets benchmark. A complete listing of rolling 5, 10, 20, and 30-year return comparisons is located on page 9.

SDRS Total Fund versus Capital Markets Benchmark				
	<u>5 years</u>	<u>10 years</u>	<u>20 years</u>	<u>30 years</u>
# of Successes	34	32	25	15
# of Periods	40	35	25	15
% of Success	85%	91%	100%	100%

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

SDRS Total Fund versus State Fund Median				
	<u>5 years</u>	<u>10 years</u>	<u>20 years</u>	<u>30 years</u>
# of Successes	38	35	25	15
# of Periods	40	35	25	15
% of Success	95%	100%	100%	100%

Growth of a Dollar



The chart to the left shows that compounding superior returns over the long term can really add up. A dollar invested at SDRS returns starting in 1973 would have increased to \$78.29 by June 30, 2017. A dollar invested in the Council's Capital Markets Benchmark would have grown to \$52.79. A dollar invested in the typical private sector pension plan and state fund would have grown to \$45.45 and \$43.66, respectively.

Asset Allocation Focus

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

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

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

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

On June 30, 2017, the target equity-like risk of the SDRS fund was 56.7% compared to the fiscal year 2017 capital markets benchmark level of 70.0%. The actual level can fluctuate within a small rebalance band around the target. The equity-like risk target is below the benchmark in response to unattractive valuation.

The expected long-term return for the benchmark allocation as of June 30, 2017, was 6.1%. The actual portfolio can be significantly different than the benchmark at any point in time, but the expected long-term average level of equity-like risk is close to the 70% benchmark level. The expected return for the benchmark excludes any potential value added or detracted relative to index returns resulting from managing the fund. The estimated rate of inflation embedded in the expected return was 2.3%. Standard deviation was estimated to be 15.4% after adjustments to capture real-world frequency of adverse events. These statistics indicate a 66% chance the return for any year would be between (9.3%) and 21.5% and a 95% chance the return would be between (24.7%) and 36.9%.

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

Fiscal Year 2017 Asset Allocation Policy Summary

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

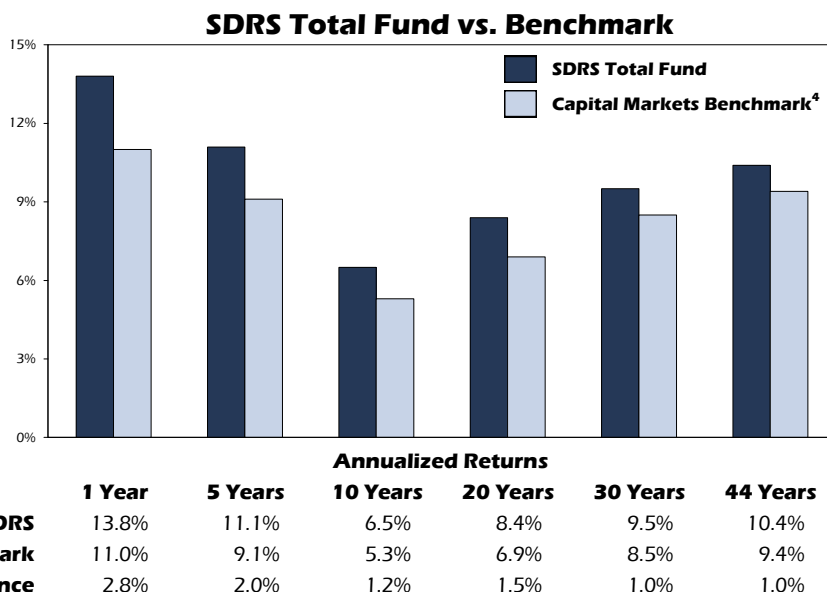
SDRS Total Fund Performance¹⁰⁻¹³

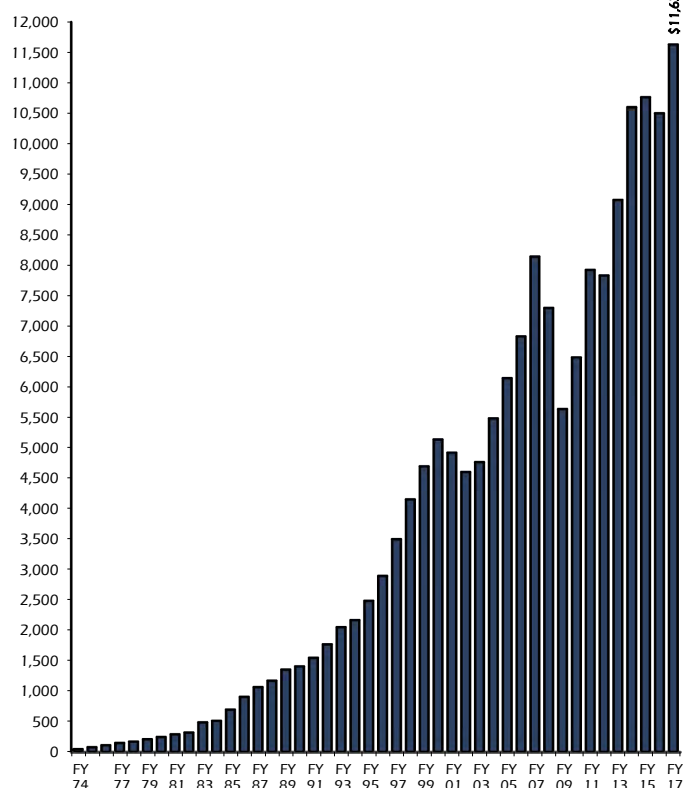
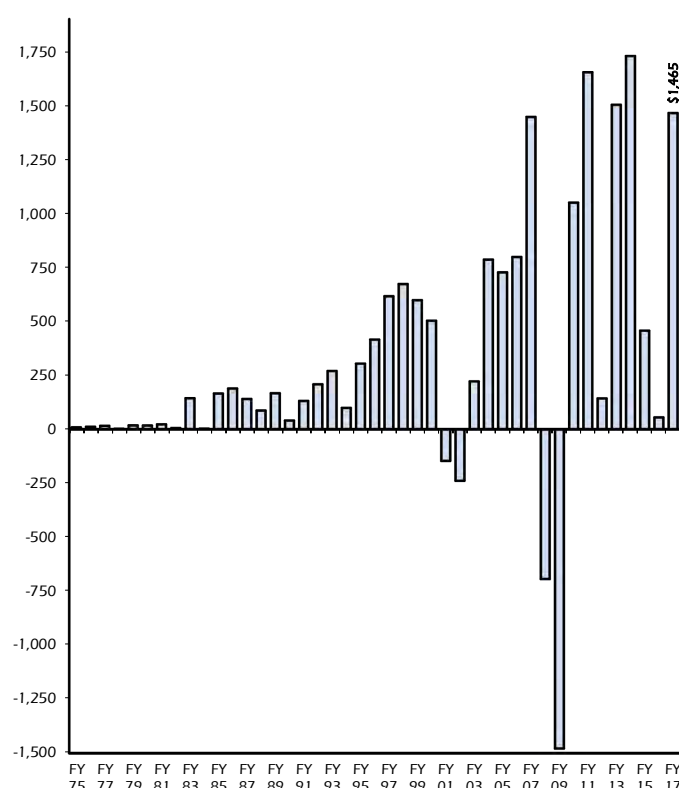
Fiscal Year	1 Year		5 Years		10 Years		20 Years		30 Years		44 Years	
	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench
2017	13.8%	11.0%	11.1%	9.1%	6.5%	5.3%	8.4%	6.9%	9.5%	8.5%	10.4%	9.4%
2016	0.3%	2.9%	8.6%	7.3%	7.2%	5.9%	8.7%	7.3%	9.6%	8.6%		
2015	4.2%	2.1%	13.7%	11.0%	8.5%	6.7%	9.5%	7.9%	10.4%	9.3%		
2014	18.9%	17.5%	16.7%	12.9%	9.4%	7.5%	10.0%	8.7%	11.3%	10.2%		
2013	19.5%	12.7%	7.7%	5.0%	9.2%	7.3%	9.3%	7.9%	10.7%	9.6%		
2012	1.9%	2.0%	2.1%	1.7%	7.8%	6.6%	9.1%	7.9%	11.4%	10.4%		
2011	25.8%	22.1%	5.7%	4.6%	7.0%	5.7%	9.7%	8.4%	11.4%	10.4%		
2010	18.7%	11.1%	3.5%	2.6%	4.3%	3.1%	9.0%	7.8%	10.8%	9.9%		
2009	(20.4%)	(18.0%)	2.5%	2.3%	3.6%	2.9%	8.2%	7.9%	10.5%	9.9%		
2008	(8.7%)	(4.2%)	10.6%	9.6%	7.4%	6.3%	10.2%	9.8%	11.6%	11.0%		
2007	21.4%	17.6%	13.8%	11.7%	10.3%	8.6%	11.1%	10.1%	12.0%	11.2%		
2006	13.1%	10.7%	8.3%	6.8%	10.3%	8.7%	10.8%	10.0%	11.8%	10.9%		
2005	13.3%	9.6%	5.1%	3.6%	10.6%	9.2%	11.4%	10.7%	11.7%	10.9%		
2004	16.6%	15.5%	4.6%	3.6%	10.7%	9.9%	12.3%	11.6%	11.8%	11.0%		
2003	5.0%	5.4%	4.2%	3.2%	9.5%	8.6%	11.4%	10.7%	11.0%	10.3%		
2002	(4.9%)	(5.8%)	6.9%	5.6%	10.6%	9.2%	13.2%	12.3%				
2001	(2.9%)	(5.1%)	12.3%	10.6%	12.5%	11.2%	13.6%	12.8%				
2000	10.8%	9.7%	16.5%	15.1%	13.9%	12.8%	14.3%	13.5%				
1999	14.6%	13.3%	17.2%	16.6%	13.0%	13.1%	14.1%	13.5%				
1998	19.3%	18.4%	15.1%	14.2%	13.0%	13.4%	13.8%	13.3%				
1997	21.3%	18.9%	14.3%	12.9%	11.9%	11.6%	12.9%	12.5%				
1996	16.7%	15.5%	12.8%	11.8%	11.3%	11.3%	12.5%	12.0%				
1995	14.1%	16.9%	11.3%	10.5%	12.2%	12.2%	12.3%	11.8%				
1994	4.8%	2.4%	9.0%	9.7%	13.9%	13.2%	12.4%	11.6%				
1993	15.2%	11.8%	10.9%	12.5%	13.4%	13.0%	11.8%	11.2%				
1992	13.4%	12.9%	9.5%	10.2%	16.0%	15.5%						
1991	9.3%	9.2%	9.9%	10.9%	14.7%	14.4%						
1990	3.0%	12.5%	13.2%	13.9%	14.7%	14.1%						
1989	14.2%	16.4%	18.9%	16.9%	15.2%	13.9%						
1988	8.0%	0.7%	15.9%	13.4%	14.7%	13.3%						
1987	15.3%	16.6%	22.8%	21.1%	14.0%	13.4%						
1986	26.7%	24.7%	19.8%	18.0%	13.7%	12.6%						
1985	31.8%	28.2%	16.2%	14.4%	12.4%	11.3%						
1984	0.7%	(0.1%)	11.6%	11.0%	10.9%	10.0%						
1983	44.1%	39.6%	13.4%	13.2%	10.2%	9.5%						
1982	1.8%	2.8%	5.8%	6.2%								
1981	8.8%	6.6%	8.0%	7.4%								
1980	7.6%	10.4%	8.7%	8.3%								
1979	9.3%	10.2%	10.3%	9.1%								
1978	1.7%	1.4%	7.0%	5.9%								
1977	12.9%	8.6%										
1976	12.2%	11.2%										
1975	15.8%	14.2%										
1974	(5.9%)	(4.8%)										

The chart to the left shows the annualized total rate of returns for 1, 5, 10, 20, 30, and 44 years through fiscal year 2017 for the Total Fund. The Capital Markets Benchmark⁴ is provided for comparison.

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

Past performance is no guarantee of future results.



Asset Growth²³ (\$ in millions)**Investment Income²⁴ (\$ in millions)****Cash Flows and Fair Value Changes**

The South Dakota Retirement System began fiscal year 2017 with \$10.502 billion in assets. During the fiscal year, net contributions/withdrawals and fees decreased the fund by \$335.1 million and investment income increased it by \$1,465.2 million, resulting in an ending fair value of \$11.632 billion.

Fair Value 6/30/16

\$ 10,501,680,864

Increases/Decreases

Net Contributions/Withdrawals
Internal Management Fees
External Management Fees

\$ (301,784,735)
(10,443,697)
(22,852,622)

Total Increases/Decreases

\$ (335,081,054)

Investment Income

Securities Income

Interest Income \$ 119,309,332
Dividend Income 129,518,850
Securities Lending Income 877,784
Real Estate Income 74,208,882
Change in Accrued Income (1,774,186)

Total Securities Income

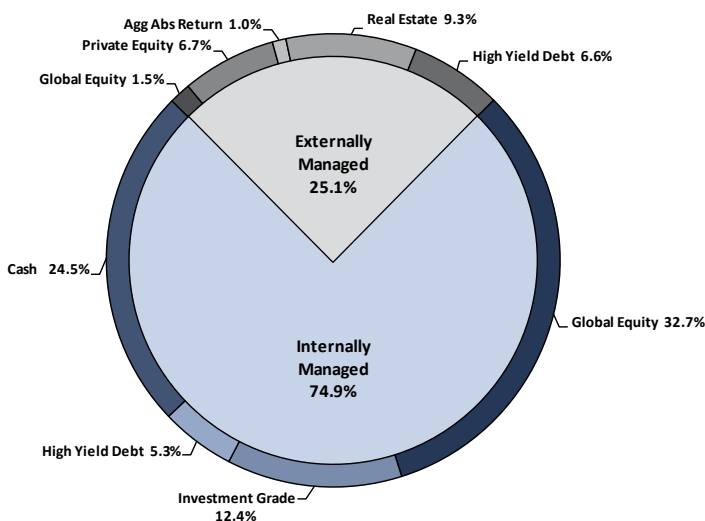
\$ 322,140,662

Total Capital Gain/Loss Income\$ 1,143,080,935**Total Investment Income**\$ 1,465,221,597**Fair Value 6/30/17**\$ 11,631,821,407

Asset Allocation⁸

As of June 30, 2017, South Dakota Retirement System assets totaled \$11.632 billion. The broad asset categories and managers are listed below. The Capital Markets Benchmark allocation is also provided for comparison. The chart shows the asset allocation of the broad asset categories of the South Dakota Retirement System broken out by internally and externally managed.

	<u>Fair Value Excluding Futures</u>		<u>% of Fund Excluding Futures</u>	<u>Futures Exposure</u>	<u>Fair Value with Futures</u>	<u>% of Fund with Futures</u>	<u>Capital Markets Benchmark %</u>
Global Equity							
Internal Global Equity	\$ 4,683,639,654		40.3%				
Internal Global Emerging Markets	135,759,750		1.2%				
Internal Small/Mid Equity	650,480,587		5.6%				
Brandes	67,279,527		0.6%				
Dimensional Fund Advisors	59,162,137		0.5%				
Sanders Capital	<u>51,712,995</u>	\$ 5,648,034,650	<u>0.4%</u>	48.6%			
Equity Index Futures					\$ (1,675,788,015)	\$ 3,972,246,635	34.2%
							58.0%
Private Equity							
Blackstone Capital Partners	\$ 134,927,802		1.1%				
Blackstone Energy Partners	31,771,089		0.3%				
Capital International	35,448,869		0.3%				
Carlyle	88,586,605		0.8%				
Cinven	93,269,469		0.8%				
CVC	32,993,760		0.3%				
Cypress	28,998		0.0%				
Doughty Hanson	22,446,329		0.2%				
Elevation	365,400		0.0%				
KKR	668,229		0.0%				
Neuberger Berman	702,777		0.0%				
PineBridge	3,037,895		0.0%				
Riverstone	128,861,004		1.1%				
Silver Lake	<u>208,878,984</u>	781,987,210	<u>1.8%</u>	6.7%		781,987,210	6.7%
							0.0%
Aggressive Absolute Return							
Bridgewater	\$ 84,522,416		0.7%				
Sanders Capital	<u>28,908,279</u>	113,430,695	<u>0.3%</u>	1.0%		113,430,695	1.0%
							0.0%
Real Estate							
Ares Management	\$ 3,814,977		0.0%				
Blackstone Real Estate Partners	592,644,568		5.2%				
Cargill N.A. Real Estate Partners	1,415,875		0.0%				
Doughty Hanson	1,353,370		0.0%				
Lone Star	265,205,615		2.3%				
Rockpoint	83,960,380		0.7%				
Starwood	<u>133,405,129</u>	1,081,799,914	<u>1.1%</u>	9.3%		1,081,799,914	9.3%
							10.0%
Investment Grade Fixed Income							
Internal Investment Grade	\$ <u>1,030,103,762</u>	1,030,103,762	<u>8.8%</u>	8.8%			
Treasury Financial Futures					422,634,375	1,452,738,137	12.4%
							23.0%
High Yield Debt (Corporate & Real Estate)							
Internal High Yield	\$ 617,978,528		5.3%				
Blackstone	63,072		0.0%				
CarVal	23,727,911		0.2%				
TCW	<u>737,651,548</u>	1,379,421,059	<u>6.4%</u>	11.9%		1,379,421,059	11.9%
							7.0%
Cash & Cash Equivalents							
Internal Shift Account	\$ <u>1,597,044,117</u>	<u>1,597,044,117</u>	<u>13.7%</u>	<u>13.7%</u>			
Cash From Futures					<u>1,253,153,640</u>	<u>2,850,197,757</u>	<u>24.5%</u>
							<u>2.0%</u>
Total		<u>\$11,631,821,407</u>	<u>100.0%</u>		<u>\$ 0</u>	<u>\$11,631,821,407</u>	<u>100.0%</u>



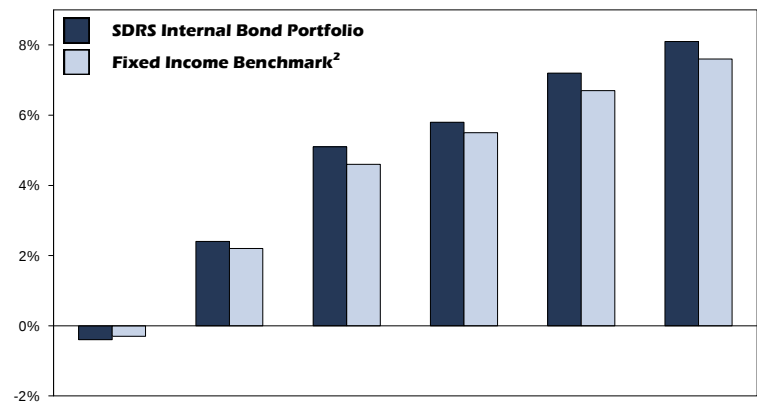
SDRS Internal Bond Portfolio Performance

Fiscal Year	1 Year		5 Years		10 Years		20 Years		30 Years		44 Years	
	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench
2017	(0.4%)	(0.3%)	2.4%	2.2%	5.1%	4.6%	5.8%	5.5%	7.2%	6.7%	8.1%	7.6%
2016	6.1%	6.0%	3.9%	3.8%	5.8%	5.2%	6.3%	6.0%	7.5%	6.9%		
2015	2.4%	1.9%	3.6%	3.3%	5.1%	4.6%	6.3%	6.0%	7.9%	7.3%		
2014	4.2%	4.3%	5.0%	4.7%	5.8%	5.2%	6.9%	6.5%	8.7%	8.2%		
2013	(0.3%)	(0.6%)	6.0%	5.3%	5.5%	4.9%	6.7%	6.2%	8.5%	8.1%		
2012	7.1%	7.5%	7.8%	7.0%	7.0%	6.3%	7.5%	6.9%	9.5%	9.1%		
2011	4.7%	3.7%	7.7%	6.7%	6.8%	6.3%	7.9%	7.2%	9.7%	9.3%		
2010	9.8%	9.0%	6.7%	6.0%	7.4%	7.0%	8.2%	7.5%	9.2%	8.9%		
2009	9.2%	7.1%	6.5%	5.8%	6.8%	6.5%	8.1%	7.5%	8.9%	8.7%		
2008	8.4%	7.8%	4.9%	4.6%	6.1%	6.1%	8.3%	7.7%	8.9%	8.8%		
2007	6.5%	6.1%	6.1%	5.7%	6.5%	6.4%	8.3%	7.8%	8.6%	8.5%		
2006	(0.2%)	0.2%	6.0%	5.8%	6.9%	6.7%	8.4%	7.7%	8.9%	8.7%		
2005	9.1%	7.9%	8.1%	8.1%	7.5%	7.4%	9.3%	8.7%	9.4%	9.1%		
2004	1.3%	1.3%	7.1%	7.2%	8.0%	7.8%	10.3%	9.7%	9.6%	9.3%		
2003	14.4%	13.4%	7.3%	7.6%	7.8%	7.5%	10.1%	9.7%	9.6%	9.1%		
2002	5.9%	7.0%	7.0%	7.1%	8.0%	7.4%	10.8%	10.5%				
2001	10.0%	11.2%	7.8%	7.7%	9.0%	8.1%	11.1%	10.8%				
2000	4.3%	3.8%	7.0%	6.7%	9.1%	8.1%	10.1%	9.9%				
1999	2.4%	2.9%	8.9%	8.4%	9.5%	8.5%	10.0%	9.9%				
1998	12.6%	11.2%	8.3%	7.5%	10.5%	9.4%	10.3%	10.1%				
1997	9.9%	9.6%	9.0%	7.7%	10.1%	9.1%	9.6%	9.6%				
1996	5.9%	6.2%	10.2%	8.6%	9.9%	8.7%	9.9%	9.8%				
1995	14.0%	12.5%	11.3%	9.5%	11.1%	10.1%	10.3%	10.0%				
1994	(0.1%)	(1.2%)	10.1%	8.6%	12.6%	11.6%	10.4%	10.0%				
1993	16.1%	12.0%	12.7%	11.4%	12.4%	12.0%	10.5%	9.9%				
1992	16.3%	14.2%	11.2%	10.6%	13.7%	13.7%						
1991	11.1%	10.8%	9.5%	8.9%	13.2%	13.5%						
1990	7.9%	7.7%	10.9%	10.6%	11.1%	11.7%						
1989	12.5%	12.2%	15.1%	14.8%	10.5%	11.3%						
1988	8.6%	8.2%	12.1%	12.6%	10.1%	10.9%						
1987	7.5%	5.6%	16.2%	16.8%	9.1%	10.1%						
1986	18.5%	19.8%	17.0%	18.4%	9.9%	10.8%						
1985	29.9%	30.0%	11.2%	12.9%	9.5%	9.9%						
1984	(1.6%)	1.7%	6.0%	7.9%	8.2%	8.4%						
1983	30.5%	30.0%	8.1%	9.2%	8.7%	7.9%						
1982	11.2%	12.8%	2.4%	3.8%								
1981	(8.1%)	(5.4%)	3.3%	3.7%								
1980	2.2%	3.8%	7.9%	7.0%								
1979	8.3%	7.6%	10.4%	8.8%								
1978	(0.4%)	1.0%	9.3%	6.6%								
1977	15.9%	12.4%										
1976	14.2%	10.5%										
1975	14.9%	12.9%										
1974	3.1%	(2.9%)										

The chart to the left shows the annualized total rate of returns for 1, 5, 10, 20, 30, and 44 years through fiscal year 2017 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

	Annualized Returns					
SDRS	1 Year	5 Years	10 Years	20 Years	30 Years	44 Years
	(0.4%)	2.4%	5.1%	5.8%	7.2%	8.1%
Benchmark	(0.3%)	2.2%	4.6%	5.5%	6.7%	7.6%
Difference	(0.1%)	0.2%	0.5%	0.3%	0.5%	0.5%

SDRS Internal High Yield Bond Portfolio Performance

Fiscal Year	1 Year		2 Years		3 Years		5 Years		10 Years		11 Years	
	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench
2017	22.7%	12.0%	5.4%	6.3%	(0.2%)	3.9%	3.9%	6.3%	6.2%	7.5%	6.3%	7.7%
2016	(9.6%)	0.9%	(10.1%)	0.0%	(4.0%)	3.6%	1.5%	5.5%	4.8%	7.3%		
2015	(10.6%)	(0.8%)	(1.1%)	5.0%	3.0%	6.3%	6.7%	8.2%				
2014	9.5%	11.2%	10.5%	10.0%	10.1%	9.3%	12.7%	12.2%				
2013	11.5%	8.9%	10.4%	8.4%	12.2%	10.5%	10.8%	10.4%				
2012	9.2%	7.9%	12.6%	11.3%	14.2%	13.7%	8.5%	8.8%				
2011	16.0%	14.8%	16.7%	16.8%	11.2%	11.8%	8.2%	9.1%				
2010	17.5%	18.9%	8.8%	10.3%	5.8%	7.2%						
2009	0.7%	2.3%	0.4%	1.8%	2.8%	4.2%						
2008	0.1%	1.2%	3.8%	5.2%								
2007	7.7%	9.2%										

The chart to the left shows the annualized total rate of returns for 1, 2, 3, 5, 10 and 11 years through fiscal year 2017 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, 2017, are presented below.

<u>Distribution by Duration</u>	<u>IG</u>	<u>HY</u>	<u>Distribution by Quality Rating</u>	<u>IG</u>	<u>HY</u>
0 to 2 Years	4.2%	25.3%	U.S. Gov't/Aaa	62.0%	1.6%
2 to 3 Years	5.4%	10.5%	Aa	7.3%	0.0%
3 to 4 Years	9.8%	27.2%	A	12.3%	0.0%
4 to 5 Years	25.3%	15.6%	Baa	17.5%	0.0%
5 to 6 Years	20.9%	15.4%	Ba	0.9%	23.6%
6 to 8 Years	21.7%	6.0%	B	0.0%	44.1%
Above 8 Years	<u>12.7%</u>	<u>0.0%</u>	Caa and lower	<u>0.0%</u>	<u>30.7%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	Total	<u>100.0%</u>	<u>100.0%</u>

<u>Distribution by Coupon</u>	<u>IG</u>	<u>HY</u>	<u>Distribution by Sector</u>	<u>IG</u>	<u>HY</u>
0.00% - 2.00%	27.9%	11.8%	Cash/Cash Equivalents	0.9%	1.6%
2.01% - 3.00%	31.2%	0.5%	U.S. Treasuries	23.9%	0.0%
3.01% - 4.00%	30.5%	1.2%	Agency Debentures	5.2%	0.0%
4.01% - 6.00%	10.1%	33.4%	Agency Mortgage-Backed Securities	30.4%	0.0%
6.01% - 7.00%	0.3%	23.1%	Investment Grade Corporates	38.7%	0.0%
7.01% - 8.00%	0.0%	13.9%	High Yield Securities	<u>0.9%</u>	<u>98.4%</u>
8.01% and over	<u>0.0%</u>	<u>16.1%</u>			
Total	<u>100.0%</u>	<u>100.0%</u>	Total	<u>100.0%</u>	<u>100.0%</u>

<u>Investment Grade Bond Portfolio Ten Largest Corporates by Issuer</u>	<u>% of Total</u>	<u>High Yield Bond Portfolio Ten Largest Corporates by Issuer</u>	<u>% of Total</u>
BP plc	2.1%	Frontier Communications Corp.	3.7%
Ontario (Province Of)	1.7%	Hornbeck Offshore Services, Inc.	3.0%
Morgan Stanley	1.4%	Bristow Group, Inc.	2.7%
Williams Cos, Inc.	1.3%	Westmoreland Coal Co.	2.3%
Hewlett Packard Enterprise Co.	1.2%	Valeant Pharmaceuticals International, Inc.	2.2%
Quebec (Province Of)	1.2%	Lee Enterprises, Inc.	1.8%
Ford Motor Co.	1.2%	CenturyLink, Inc.	1.6%
Verizon Communications	1.2%	California Resources Corp.	1.5%
Wells Fargo & Co.	1.2%	Charter Communications, Inc.	1.5%
Bank of America Corp.	<u>1.2%</u>	Dell Technologies, Inc.	<u>1.3%</u>
Total	<u>13.7%</u>	Total	<u>21.6%</u>

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

	<u>1975</u>	<u>1980</u>	<u>1985</u>	<u>1990</u>	<u>1995</u>	<u>2000</u>	<u>2005</u>	<u>2010</u>	<u>2015</u>	<u>2017</u>
<u>South Dakota Retirement System</u>										
Yield to Maturity	9.4%	10.4%	10.3%	9.3%	7.3%	7.8%	4.7%	3.7%	2.5%	2.6%
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	5.4 yrs	5.4 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	5.3 yrs	5.4 yrs
<u>Bond Index¹</u>										
Yield to Maturity	8.3%	10.2%	10.2%	9.2%	6.7%	7.3%	4.5%	2.6%	2.3%	2.5%
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	7.3 yrs	7.8 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	5.6 yrs	6.1 yrs

SDRS Combined Internal Equity Portfolio Performance

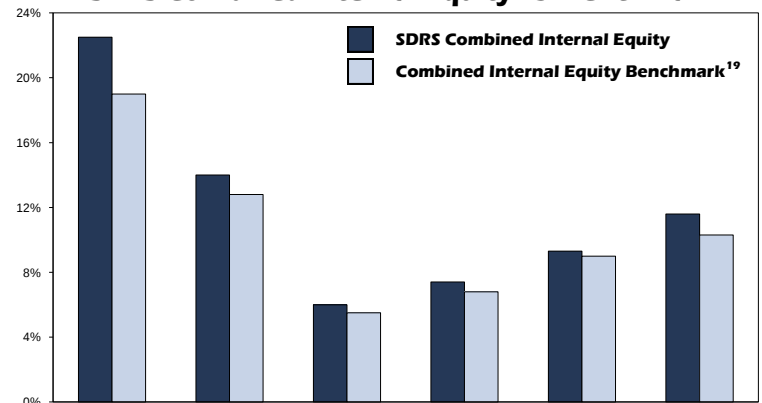
Fiscal Year	1 Year		5 Years		10 Years		20 Years		30 Years		44 Years	
	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench	SDRS	Bench
2017	22.5%	19.0%	14.0%	12.8%	6.0%	5.5%	7.4%	6.8%	9.3%	9.0%	11.6%	10.3%
2016	(2.9%)	(0.1%)	9.3%	8.7%	6.0%	5.9%	7.8%	7.2%	9.2%	9.2%		
2015	2.9%	3.6%	15.6%	14.7%	7.6%	7.3%	9.3%	8.4%	10.4%	10.3%		
2014	24.1%	24.4%	18.5%	16.6%	8.3%	7.9%	10.1%	9.2%	11.6%	11.2%		
2013	26.6%	19.3%	8.4%	4.5%	8.2%	7.8%	9.2%	8.2%	10.9%	10.2%		
2012	(0.4%)	(1.3%)	(1.4%)	(1.4%)	5.4%	5.8%	8.7%	8.0%	11.8%	11.3%		
2011	28.1%	30.8%	2.7%	3.1%	4.1%	4.3%	9.4%	8.7%	11.7%	10.9%		
2010	16.9%	12.3%	0.1%	0.4%	0.3%	(0.4%)	8.3%	7.7%	11.6%	10.6%		
2009	(20.8%)	(27.9%)	(1.1%)	(0.2%)	(0.3%)	(0.5%)	7.6%	7.9%	11.4%	10.8%		
2008	(21.0%)	(11.0%)	8.0%	11.2%	3.9%	4.6%	9.8%	10.7%	12.7%	12.5%		
2007	22.0%	23.6%	12.7%	13.6%	8.9%	8.2%	11.0%	10.9%	13.6%	12.9%		
2006	12.6%	14.7%	5.5%	5.4%	9.7%	8.7%	10.9%	11.0%	13.3%	12.1%		
2005	9.9%	9.0%	0.4%	(1.2%)	11.0%	9.4%	11.9%	11.9%	13.4%	12.1%		
2004	22.9%	23.6%	0.6%	(0.8%)	11.9%	10.6%	13.2%	12.9%	14.0%	12.3%		
2003	(2.0%)	(0.8%)	0.0%	(1.7%)	10.3%	8.6%	12.3%	11.4%	12.8%	11.0%		
2002	(12.2%)	(15.0%)	5.1%	3.1%	12.1%	10.2%	15.1%	14.2%				
2001	(12.0%)	(17.1%)	14.0%	12.0%	14.9%	13.4%	15.6%	14.4%				
2000	10.9%	11.0%	22.7%	21.2%	16.9%	16.4%	17.8%	16.6%				
1999	19.5%	18.3%	24.5%	23.4%	16.0%	16.9%	17.7%	16.9%				
1998	25.6%	25.6%	21.7%	20.1%	16.1%	17.1%	17.4%	16.6%				
1997	31.7%	28.6%	19.5%	17.7%	13.2%	13.6%	16.1%	15.3%				
1996	27.1%	23.3%	15.7%	14.8%	12.1%	13.3%	15.1%	13.9%				
1995	18.9%	21.2%	11.3%	11.7%	12.8%	14.4%	14.6%	13.5%				
1994	6.7%	3.3%	8.1%	10.8%	14.6%	15.3%	15.1%	13.2%				
1993	14.6%	13.9%	10.7%	14.2%	14.3%	14.3%	14.1%	12.2%				
1992	12.4%	13.5%	7.3%	9.7%	18.3%	18.3%						
1991	4.5%	7.4%	8.5%	11.8%	16.4%	15.4%						
1990	2.7%	16.3%	14.3%	17.1%	18.7%	16.8%						
1989	20.3%	20.4%	21.5%	19.9%	19.4%	16.9%						
1988	(1.9%)	(7.1%)	18.1%	14.4%	18.8%	16.2%						
1987	18.7%	25.1%	30.3%	27.7%	19.0%	17.1%						
1986	35.7%	35.4%	24.9%	19.2%	18.3%	14.5%						
1985	39.0%	30.8%	23.3%	16.4%	16.5%	12.6%						
1984	4.5%	(4.7%)	17.4%	13.9%	15.6%	11.2%						
1983	60.6%	61.0%	19.5%	18.0%	13.8%	10.1%						
1982	(4.1%)	(11.4%)	8.6%	7.3%								
1981	27.6%	20.5%	12.1%	10.0%								
1980	8.7%	17.1%	10.0%	8.8%								
1979	14.3%	13.6%	13.9%	8.6%								
1978	(0.4%)	0.1%	8.3%	2.6%								
1977	12.1%	0.5%										
1976	16.2%	14.0%										
1975	28.9%	16.1%										
1974	(11.1%)	(14.5%)										

The chart to the left shows the annualized total rate of returns for 1, 5, 10, 20, 30, and 44 years through fiscal year 2017 for the Combined Internal Equity Portfolio. The Combined Internal Equity Benchmark¹⁹ is provided for comparison.

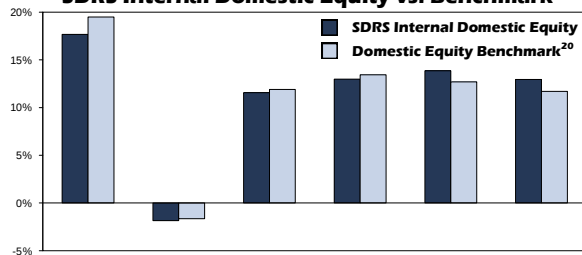
The one-year returns above the solid demarcation line include both equities and allocated cash reserves; the returns below are equities only with no allocated cash reserves.

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.

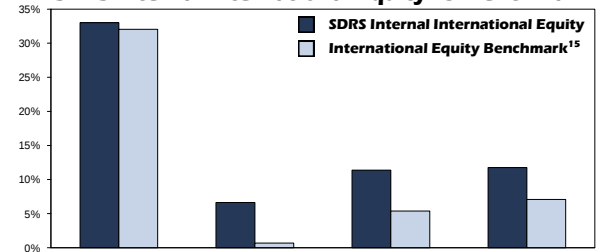
SDRS Combined Internal Equity vs. Benchmark

	1 Year	5 Years	10 Years	20 Years	30 Years	44 Years
SDRS	22.5%	14.0%	6.0%	7.4%	9.3%	11.6%
Benchmark	19.0%	12.8%	5.5%	6.8%	9.0%	10.3%
Difference	3.5%	1.2%	0.5%	0.6%	0.3%	1.3%

Historical SDRS Internal Domestic and International Equity Portfolio Performance Information**SDRS Internal Domestic Equity vs. Benchmark**

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

SDRS	17.7%	(1.9%)	11.6%	13.0%	13.8%	12.9%
Benchmark	19.5%	(1.6%)	11.9%	13.4%	12.7%	11.7%
Difference	(1.8%)	(0.3%)	(0.3%)	(0.4%)	1.1%	1.2%

SDRS Internal International Equity vs. Benchmark

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

SDRS	33.0%	6.6%	11.4%	11.8%
Benchmark	32.0%	0.7%	5.4%	7.1%
Difference	1.0%	5.9%	6.0%	4.7%

Internal Equity Profile

The South Dakota Retirement System's internal global equity portfolio characteristics as of June 30, 2017, are presented below. The SDRS internal global equity portfolio is compared to the $\frac{2}{3}$ S&P Global 1200 Index plus $\frac{1}{3}$ S&P 500 Index benchmark. A listing of the 50 largest global equity securities can be found on page 35.

Distribution by Market Sector

	<u>SDRS</u>	<u>Bench</u>
Consumer Discretionary	10.0%	11.7%
Consumer Staples	8.7%	9.5%
Energy	10.8%	6.1%
Financials	18.7%	17.2%
Health Care	17.0%	12.9%
Industrials	8.7%	11.0%
Information Technology	18.0%	18.5%
Materials	2.9%	4.2%
Real Estate	0.7%	2.7%
Telecommunications Services	1.5%	3.0%
Utilities	1.6%	3.2%
Cash Equivalents	<u>1.4%</u>	<u>0.0%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

Ten Largest Country Weights

	<u>SDRS</u>	<u>Bench</u>
United States	75.9%	71.6%
Great Britain	5.6%	4.3%
Switzerland	5.0%	2.2%
Japan	2.7%	5.2%
France	2.2%	2.4%
Canada	1.9%	2.2%
South Korea	1.5%	0.8%
Germany	1.5%	2.2%
Netherlands	0.7%	0.8%
Belgium	<u>0.4%</u>	<u>0.3%</u>
Total	<u>97.4%</u>	<u>92.0%</u>

Global Equity Composite⁷

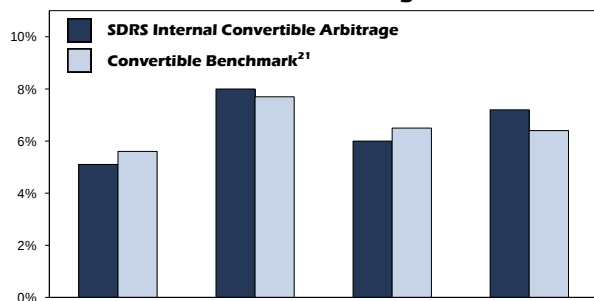
The South Dakota Retirement System's global equity composite is comprised of the following internally managed equity portfolios: global, global emerging markets, and small/mid along with three externally managed portfolios as of June 30, 2017. The composite is compared to the $\frac{2}{3}$ MSCI All Country World Index plus $\frac{1}{3}$ MSCI US Index benchmark.

Performance Results for the Fiscal Year Ended June 30, 2017

SDRS Global Equity Composite	22.3%
Benchmark	18.3%
Difference	4.0%

Historical SDRS Internal Convertible and Merger Arbitrage Portfolio Performance Information

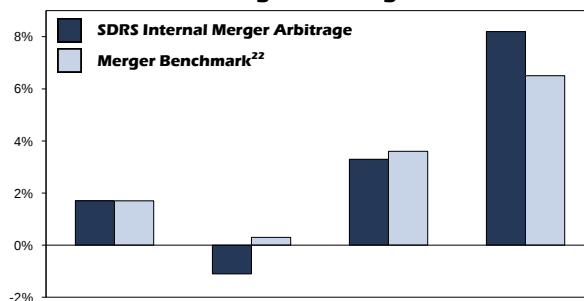
SDRS Internal Convertible Arbitrage vs. Benchmark



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%

SDRS Internal 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%

Private Equity and Real Estate Limited Partnership Investments

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

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

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

From November of 1995 through June of 2017, the net-of-fees SI-IRR for the composite PE limited partnership investments was 9.1%. This can be compared to the S&P 500 Index PME of 6.0% for the same period. RE limited partnerships net-of-fees SI-IRR composite from December of 1994 through June of 2017 was 20.9%. A PME using the MSCI US REIT Index could not be calculated using the same cash flows because the return of the RE limited partnerships was significantly higher than the index. The annualized time-weighted rate of return for the MSCI US REIT index was 10.7% for the same period of time.

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

SDRS Real Estate Net Internal Rate of Return Performance Comparison

Fiscal Year	SDRS	Bench	Diff	Fiscal Year	SDRS	Bench	Diff	Since Inception*		
								SDRS	Bench	Diff
1995*	16.4%	4.6%	11.8%	2007	60.0%	16.6%	43.4%	20.9%	9.8%	11.1%
1996	38.3%	9.6%	28.7%	2008	3.2%	13.6%	(10.4%)	The chart shows the yearly inception net internal rate of return for the composite of the Real Estate Benchmark and the Real Estate Benchmark partnerships. The Real Estate Benchmark is provided for comparison.		
1997	30.9%	11.4%	19.5%	2009	(52.5%)	(14.7%)	(37.8%)			
1998	37.2%	17.9%	19.3%	2010	11.7%	(9.6%)	21.3%			
1999	28.5%	13.2%	15.3%	2011	40.9%	17.5%	23.4%			
2000	13.4%	11.6%	1.8%	2012	3.7%	14.8%	(11.1%)			
2001	20.1%	12.4%	7.7%	2013	15.4%	11.9%	3.5%	* Initial real estate investment was made in December 1994. The since inception internal rate of return is from December 1994 - June 2017.		
2002	6.4%	6.6%	(0.2%)	2014	24.3%	13.4%	10.9%			
2003	5.7%	7.1%	(1.4%)	2015	18.9%	3.9%	15.0%			
2004	19.4%	9.7%	9.7%	2016	3.2%	24.1%	(20.9%)			
2005	66.4%	15.6%	50.8%	2017	16.8%	(1.8%)	18.6%			
2006	36.7%	20.2%	16.5%							

The chart shows the yearly and since inception net internal rate of return for the composite of the Real Estate limited partnerships. The Real Estate Benchmark²⁶ is provided for comparison.

** Initial real estate investment was funded in December 1994. The since inception internal rate of return is from December 1994 - June 2017.*

SDRS Private Equity Net Internal Rate of Return Performance Comparison

Fiscal Year	SDRS	Bench	Diff	Fiscal Year	SDRS	Bench	Diff	Since Fiscal Year 1999*	SDRS	Bench	Diff
1999	5.9%	27.9%	(22.0%)	2009	(35.4%)	(23.4%)	(12.0%)	9.3%	8.5%	0.8%	
2000	9.5%	14.7%	(5.2%)	2010	32.7%	18.4%	14.3%	The chart shows the yearly and cumulative rate of return from fiscal year 1995 for the composite of the Private limited partnerships. The Private Benchmark ²⁷ is provided for comparison.			
2001	(16.4%)	(10.4%)	(6.0%)	2011	32.3%	32.8%	(0.5%)				
2002	(9.7%)	(14.8%)	5.1%	2012	(1.0%)	7.3%	(8.3%)				
2003	4.2%	4.6%	(0.4%)	2013	13.9%	22.6%	(8.7%)				
2004	30.0%	23.5%	6.5%	2014	24.8%	24.6%	0.2%				
2005	26.0%	10.0%	16.0%	2015	7.8%	2.8%	5.0%	* Initial private equity investment was funded in November 1995. Private Equity was added to the Capital Benchmark in fiscal year 1999.			
2006	26.5%	12.4%	14.1%	2016	2.6%	(1.7%)	4.3%				
2007	22.6%	24.7%	(2.1%)	2017	22.6%	18.3%	4.3%				
2008	9.9%	(9.9%)	19.8%								

The chart shows the yearly and net internal rate of return from fiscal year 1999-2017 for the composite of the Private Equity limited partnerships. The Private Equity Benchmark²⁷ is provided for comparison.

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

THE FUND

The South Dakota Cash Flow Fund (SDCFF) is comprised of more than 500 separately-identified state accounts. During fiscal year 2017, the fund ranged in size from \$1.207 billion to \$1.337 billion and averaged \$1.270 billion. The fund serves as the state checking account, holding various reserves and contingency funds as well as absorbing the state's daily cash inflows and outflows.

South Dakota Codified Law (SDCL) 4-5-26 lists permissible investments for SDCFF. This includes U.S. government and agency debt, investment grade corporate debt, certificates of deposit, and commercial paper. The portfolio's average quality on June 30, 2017, was Aa3. The portfolio guidelines establish ranges and limits on position size, security maturity, portfolio duration, credit quality, and fixed income sector.

OBJECTIVES AND COMPONENTS

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

The fund is comprised of four portfolios. On June 30, 2017, 71.7% was in the actively-managed short-term fixed income portfolio. This strategy was implemented in November of 1985. The Council's portfolio guidelines set the maturity limit for the short-term portfolio at 5.25 years for an individual security and the duration limit for the overall portfolio at 2.88 years.

An intermediate-term fixed income portfolio strategy was implemented in November of 2015. As of June 30, 2017, this portfolio represented 15.9% of the SDCFF. This portfolio's expected benefits include an increase in the long-term expected return of the SDCFF and increased stability of income flow at the expense of potential increase in market value volatility. This portfolio is being phased in over time with the ultimate size limited to a conservative estimate of the minimum balances in the SDCFF. The current limit estimated by the Council is \$300 million. The intermediate-term portfolio guidelines have an individual security maturity limit of 30 years, a limit on corporate position size, permitted ranges for each market sector, and a portfolio duration range of 70% to 130% of the Citigroup US Broad Investment Grade (USBIG) Bond Index duration.

The money market portfolio represented 10.1% of SDCFF as of June 30, 2017. This portfolio is the most liquid of the SDCFF portfolios. Its size can vary significantly over the course of the year depending on the cash needs of the State.

The South Dakota Certificate of Deposit Program is the smallest portion of the SDCFF representing 2.3%. The CDs are for a one-year term beginning the last business day of September each year. The rate is based on the one-year Treasury note yield plus 0.25%. On June 30, 2017, \$29.211 million in CDs was held in forty banks, five credit unions, and one savings association.

PRORATION

Each fiscal year, the receipted income is prorated to individual state agencies based on a ratio of their average daily cash balance to the total average daily cash balance. The general fund and other state agencies' receipted income was \$16.1 million for fiscal year 2017. The fund has distributed over \$1.1 billion of earnings since its inception. The proration rate for fiscal year 2017 was 1.25%.

INVESTMENT PERFORMANCE - FISCAL YEAR 2017

The yield of the total SDCFF for fiscal year 2017 was 0.59%. Since the fund's inception in December of 1972, it has yielded 6.24% annualized. For fiscal year 2017, the short-term fixed income portfolio portion of the fund had a time-weighted rate of return of 0.53% compared to a benchmark⁶ return of 0.55%. Since the inception of the short-term portfolio in November of 1985, the time-weighted rate of return has been 5.06% annually compared to 4.71% for the benchmark. For fiscal year 2017, the intermediate-term fixed income portfolio had a time-weighted rate of return of (1.32%) compared to (0.28%) for the Citigroup USBIG Bond Index. Since the inception of the intermediate-term portfolio in November of 2015, the time-weighted rate of return has been 1.46% annually compared to 2.19% for the benchmark. During fiscal year 2017, the money market portion yielded 0.46%. The CD rate on June 30, 2017, was 0.90% for the CDs issued in September of 2016.

Cash Flows and Fair Value Changes

The South Dakota Cash Flow Fund began fiscal year 2017 with \$1,256.5 million in assets. During the fiscal year, net contributions/withdrawals and fees increased the fund by \$13.0 million and investment income increased it by \$4.8 million, resulting in an ending fair value of \$1,274.3 million.

Fair Value 6/30/16		\$1,256,467,028
Increases/Decreases		
Net Contributions/Withdrawals	\$ 13,501,169	
Internal Management Fees	<u>(528,774)</u>	
Total Increases/Decreases		\$ 12,972,395
Investment Income		
Securities Income		
Interest Income - Managed	\$ 18,248,420	
Interest Income - CDs	191,792	
Change in Accrued Income	<u>645,090</u>	
Total Securities Income		\$ 19,085,302
Total Capital Gain/Loss Income		\$ <u>(14,233,249)</u>
Total Investment Income		\$ 4,852,053
Fair Value 6/30/17		<u>\$1,274,291,476</u>

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

\$1,117,596,817

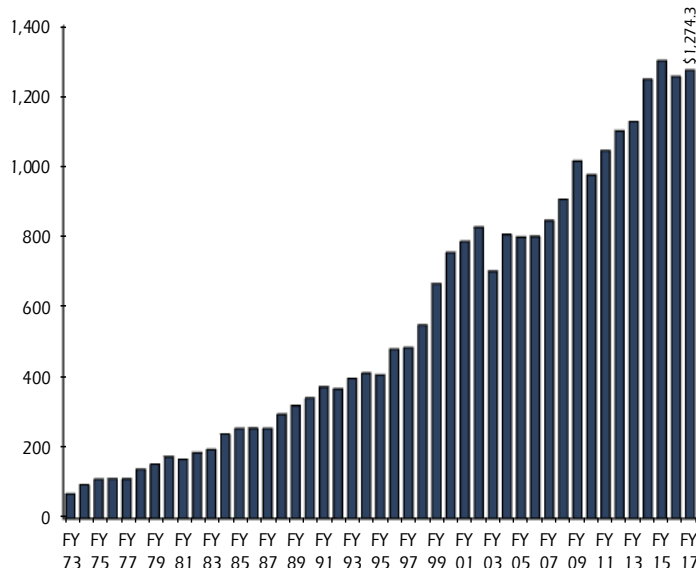
* Yield on funds managed by the Investment Office excluding CDs.

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

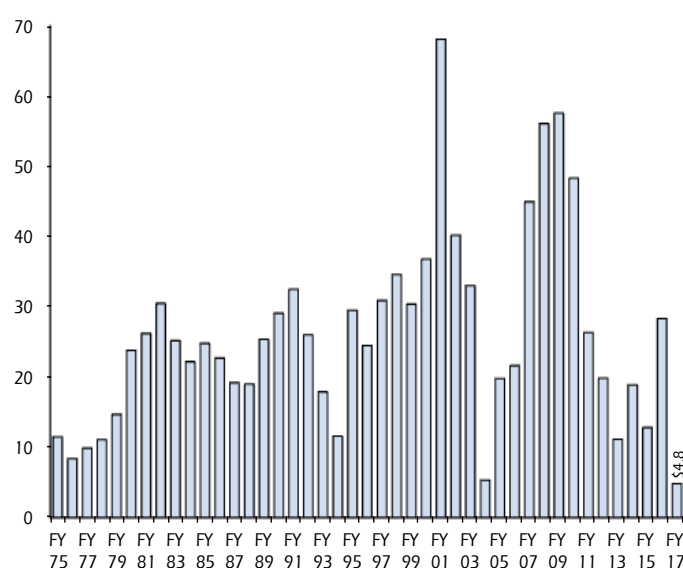
⊠ Prorated amount and rate are 7-month numbers.

❖ Rate is annualized.

Asset Growth²³ (\$ in millions)



Investment Income²⁴ (\$ in millions)



Distribution of Assets

The South Dakota Cash Flow Fund's internal portfolios of Short-Term Fixed Income, Intermediate-Term Fixed Income, Money Market, and CD Program characteristics as of June 30, 2017, are presented below.

Distribution by Duration

	%
0 to 1 year	28.1%
1 to 2 years	26.8%
2 to 3 years	23.2%
3 to 4 years	6.1%
Above 4 years	15.8%
Total	100.0%

Distribution by Quality Rating

	%
U.S. Gov't/Aaa	50.8%
Aa	6.3%
A	35.7%
Baa	7.2%
Total	100.0%

Distribution by Coupon

	%
0.00% - 1.00%	28.1%
1.01% - 2.00%	43.6%
2.01% - 3.00%	22.3%
3.01% - 4.00%	5.8%
4.01% and over	0.2%
Total	100.0%

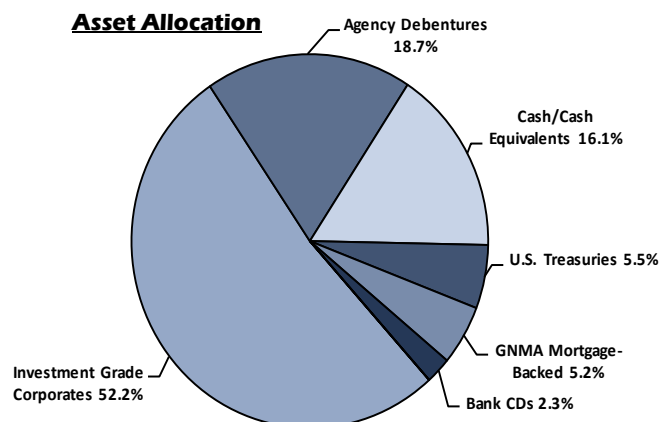
Distribution by Sector

	%
Cash/Cash Equivalents	16.1%
Bank CDs	2.3%
U.S. Treasuries	5.5%
Agency Debentures	18.7%
GNMA Mortgage-Backed Securities	5.2%
Investment Grade Corporates	52.2%
Total	100.0%

Ten Largest Corporates by Issuer

	% of Total
Apple, Inc.	2.6%
American Express Co.	2.2%
JPMorgan Chase & Co.	1.9%
General Electric Co.	1.9%
U.S. Bancorp	1.8%
Bank of New York Mellon Corp.	1.8%
Wells Fargo & Co.	1.8%
PNC Financial Services Group, Inc.	1.7%
Deere & Co.	1.7%
Goldman Sachs Group, Inc.	1.6%
Total	19.0%

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 of 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 inflation³ assuring the fund will grow at least at the rate of inflation. State statute allows realized capital gains to be used to satisfy the inflation requirement. The shift away from an exclusive focus on current income and the requirement to offset inflation initially reduced the payout to schools but has allowed the payout to increase over the long term. The change to the asset allocation policy resulting from the Constitutional Amendment was phased in over several fiscal years.

OBJECTIVES AND COMPONENTS

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

SPL assets were invested in diversified portfolios during fiscal year 2017, as shown on the following page. The fund was invested primarily in U.S. Treasury and mortgage-backed securities before the constitutional amendment in 2000. Since then, the South Dakota Investment Council has gradually shifted the asset allocation to be more like that of the South Dakota Retirement System.

The long-term expected return of the fund as of June 30, 2017, was 5.86% with a volatility of 13.9%. This means the return in any given year is expected to fall within a range of (8.1%) to 19.8% with 66% confidence or (22.0%) to 33.7% with 95% confidence.

INVESTMENT PERFORMANCE - FISCAL YEAR 2017

The fund ended fiscal year 2017 with a fair value of \$286,383,911. The principal is adjusted by the inflation factor each year as required by the constitutional amendment. SPL's fiscal year total return, including realized and unrealized gains and losses and accrued income, was 11.7% net of fees. The benchmark¹⁴ return was 10.0%. The difference resulted from outperformance of the real estate limited partnerships and the global equity portfolio. The ten-year annualized total return was 6.0%. This compares with the ten-year benchmark¹⁴ return of 5.9%. The fund distributed \$10,196,471 to the common schools in February of 2017 and \$2,409,329 to the schools of higher education in June of 2017.

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

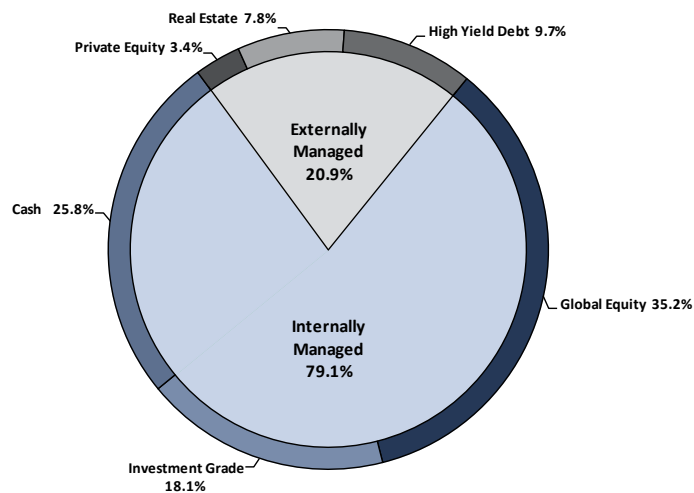
The School and Public Lands fund began fiscal year 2017 with \$259.8 million in assets. During the fiscal year, net contributions/withdrawals and fees decreased the fund by \$4.1 million and investment income increased it by \$30.7 million, resulting in an ending fair value of \$286.4 million.

Fair Value 6/30/16		\$ 259,767,962
Increases/Decreases		
Net Contributions/Withdrawals	\$ (3,702,896)	
External Management Fees	<u>(415,728)</u>	
Total Increases/Decreases		\$ (4,118,624)
Investment Income		
Securities Income		
Interest Income	\$ 2,582,740	
Dividend Income	2,355,116	
Securities Lending Income	4,576	
Real Estate Income	1,577,514	
Change in Accrued Income	<u>17,611</u>	
Total Securities Income		\$ 6,537,557
Capital Gain/Loss Income		
Change in Unrealized Gain/Loss	\$ 9,913,923	
Realized Gain/Loss	<u>14,283,093</u>	
Total Capital Gain/Loss Income		\$ 24,197,016
Total Investment Income		\$ 30,734,573
Fair Value 6/30/17		<u>\$ 286,383,911</u>

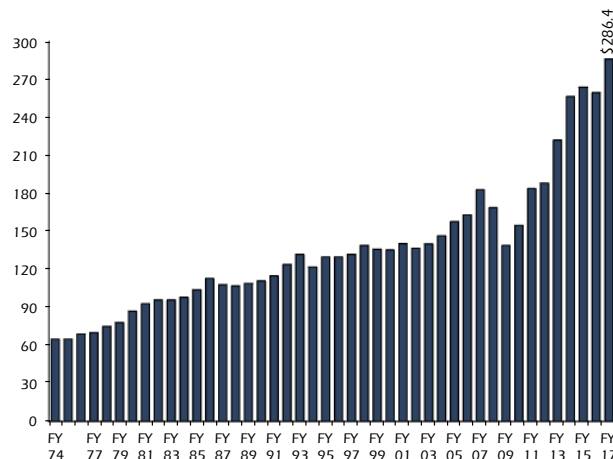
Asset Allocation⁸

As of June 30, 2017, School and Public Lands' assets totaled \$286.4 million. The broad asset categories and managers are listed below. The Capital Markets Benchmark allocation is also provided for comparison.

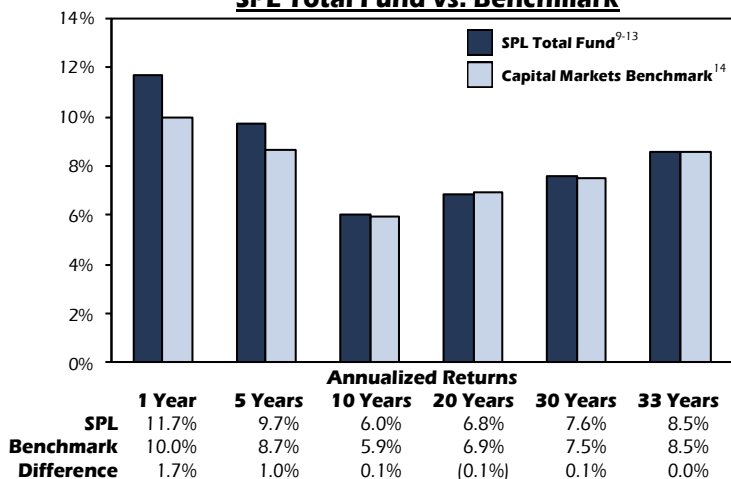
	Fair Value		% of Fund	Capital Markets Benchmark %
Global Equity				
Internal Global Equity	\$ 98,228,065		34.3%	
Internal Global Emerging Markets	<u>2,551,058</u>	\$ 100,779,123	<u>0.9%</u>	35.2%
Private Equity				
Blackstone Capital Partners	\$ 1,781,716		0.6%	
Carlyle	1,763,097		0.6%	
Cinven	218,261		0.1%	
Doughty Hanson	438,172		0.2%	
Riverstone	1,833,842		0.6%	
Silver Lake	<u>3,704,112</u>	9,739,200	<u>1.3%</u>	3.4%
Real Estate				
Blackstone Real Estate Partners	\$ 12,317,672		4.2%	
Cargill N.A. Real Estate Partners	42,481		0.0%	
Lone Star	6,233,434		2.2%	
Rockpoint	1,085,595		0.4%	
Starwood	<u>2,847,382</u>	22,526,564	<u>1.0%</u>	7.8%
Investment Grade Fixed Income				
Internal Investment Grade	<u>\$ 51,707,946</u>	51,707,946	<u>18.1%</u>	18.1%
High Yield Debt (Corporate & Real Estate)				
Vanguard High Yield Fund	\$ 12,837,900		4.5%	
CarVal	257,412		0.1%	
TCW	<u>14,598,154</u>	27,693,466	<u>5.1%</u>	9.7%
Cash & Cash Equivalents				
Internal Cash Account	<u>\$ 73,937,612</u>	<u>73,937,612</u>	<u>25.8%</u>	<u>25.8%</u>
Total		<u>\$ 286,383,911</u>	<u>100.0%</u>	<u>100.0%</u>



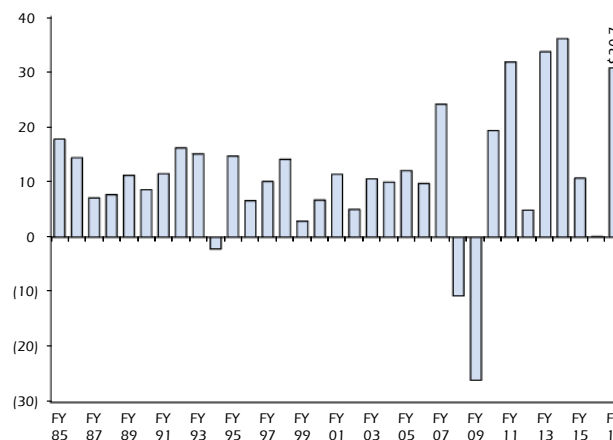
Asset Growth²³ (\$ in millions)



SPL Total Fund vs. Benchmark



Investment Income²⁴ (\$ in millions)



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

Internal Global Equity Profile

The School and Public Lands' internal Global Equity portfolio characteristics as of June 30, 2017, are presented below.

<u>Distribution by Market Sector</u>	<u>%</u>	<u>Five Largest Country Weights</u>	<u>% of Total</u>
Consumer Discretionary	9.1%	United States	75.1%
Consumer Staples	8.5%	Switzerland	6.0%
Energy	11.8%	Great Britain	5.9%
Financials	20.7%	Japan	2.6%
Health Care	18.7%	France	2.4%
Industrials	7.9%		
Information Technology	17.9%	Total	92.0%
Materials	2.5%		
Real Estate	0.0%		
Telecommunications Services	0.7%		
Utilities	1.2%		
Cash Equivalents	1.0%		
Total	100.0%		

Internal Bond Profiles

The School and Public Lands' internal Investment Grade (IG) bond portfolio characteristics as of June 30, 2017, are presented below.

<u>Distribution by Duration</u>	<u>IG</u>	<u>Distribution by Quality Rating</u>	<u>IG</u>
0 to 2 Years	5.9%	U.S. Gov't/Aaa	62.9%
2 to 3 Years	5.5%	Aa	7.3%
3 to 4 Years	10.8%	A	12.5%
4 to 5 Years	24.5%	Baa	16.4%
5 to 6 Years	18.7%	Ba	0.9%
6 to 8 Years	21.9%	B	0.0%
Above 8 Years	12.7%	Caa and lower	0.0%
Total	100.0%	Total	100.0%

<u>Distribution by Coupon</u>	<u>IG</u>	<u>Distribution by Sector (Consolidated)</u>	<u>%</u>
0.00% - 1.00%	18.7%	Cash/Cash Equivalents	1.7%
1.01% - 2.00%	10.4%	U.S. Treasuries	19.1%
2.01% - 3.00%	31.4%	Agency Debentures	4.2%
3.01% - 4.00%	28.0%	Agency Mortgage-Backed Securities	24.1%
4.01% - 5.00%	10.5%	Investment Grade Corporates	30.3%
5.01% - 6.00%	0.6%	High Yield Corporates/Bond Mutual Fund	20.6%
6.01% and over	0.4%		
Total	100.0%	Total	100.0%

Top Ten Holdings

The School and Public Lands' internal Global Equity and internal Investment Grade portfolios' Top Ten Holdings as of June 30, 2017, are presented below.

<u>Global Equity Company Holdings</u>	<u>% of Total</u>	<u>Investment Grade Corporates by Issuer</u>	<u>% of Total</u>
Apple, Inc.	3.5%	BP plc	2.1%
Alphabet, Inc.	2.9%	Ontario (Province Of)	1.7%
Microsoft Corp.	2.9%	Morgan Stanley	1.4%
JPMorgan Chase & Co.	2.5%	Williams Cos, Inc.	1.3%
Citigroup, Inc.	2.2%	Hewlett Packard Enterprise Co.	1.2%
Wells Fargo & Co.	2.1%	Quebec (Province Of)	1.2%
UnitedHealth Group, Inc.	1.7%	Ford Motor Co.	1.2%
Pfizer, Inc.	1.7%	Verizon Communications	1.2%
BP plc	1.6%	Wells Fargo & Co.	1.2%
Honda Motor Co., Ltd.	1.6%	Bank of American Corp.	1.2%
Total	22.7%	Total	13.7%

THE FUND

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

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

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

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

OBJECTIVES AND COMPONENTS

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

DCT assets were invested in diversified portfolios during fiscal year 2017, as shown on the following page. Since the establishment of the fund, the Council has gradually shifted the asset allocation to be more like that of the South Dakota Retirement System.

The long-term expected return of the fund as of June 30, 2017, was 5.86% with a volatility of 13.9%. This means that the return in any given year is expected to fall within a range of (8.1%) to 19.8% with 66% confidence or (22.0%) to 33.7% with 95% confidence.

INVESTMENT PERFORMANCE - FISCAL YEAR 2017

The fund ended fiscal year 2017 with a fair value of \$316,483,727, principal value of \$238,000,000, and inflation-adjusted principal of \$328,178,846. DCT's fiscal year total return, including realized and unrealized gains and losses and accrued income, was 11.6% net of fees. The benchmark¹⁶ return was 10.0%. The difference resulted from outperformance of the real estate limited partnerships and the global equity portfolio. The ten-year annualized total return was 5.9%. This compares with the ten-year benchmark¹⁶ return of 5.9%. In May of 2017, the fund distributed \$11,981,721 to the general fund. Since inception, the fund has distributed \$202.8 million to the general fund.

Cash Flows and Fair Value Changes

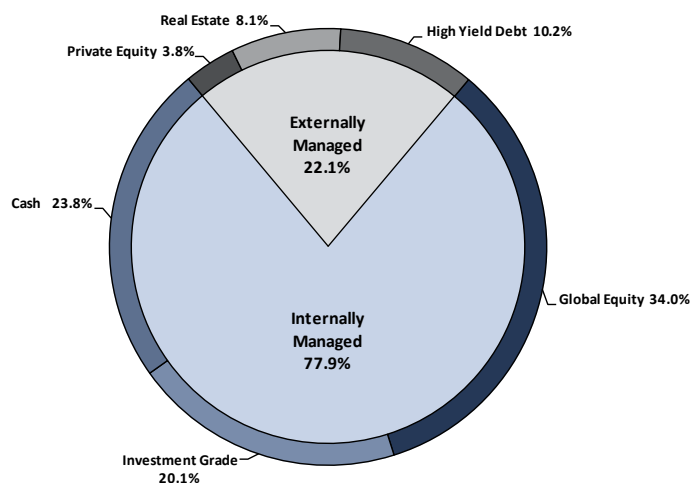
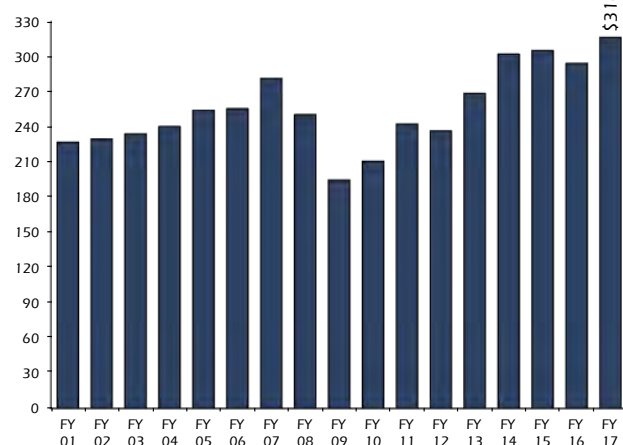
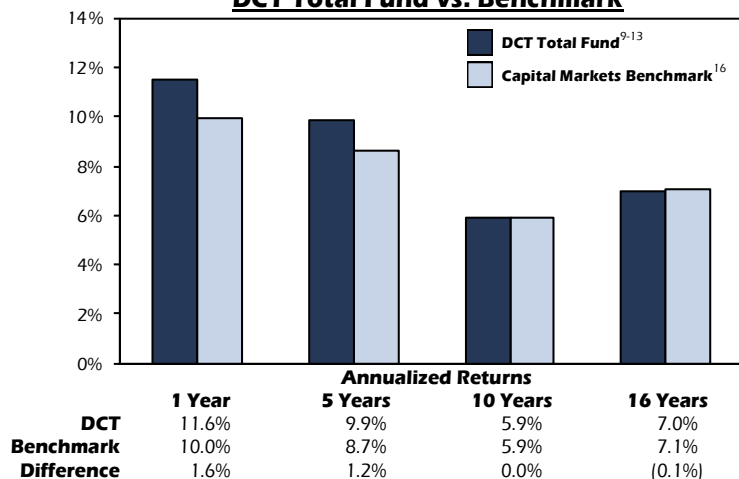
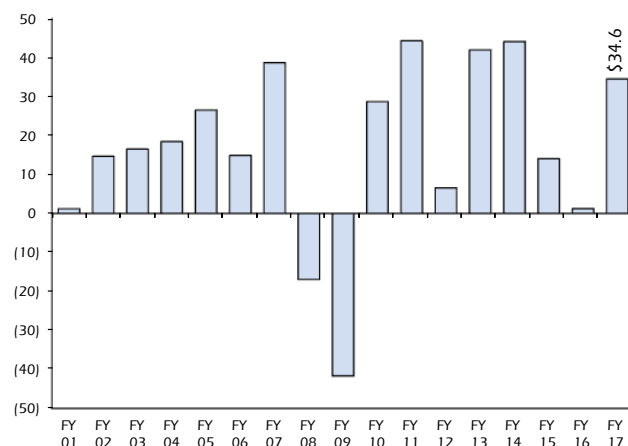
The Dakota Cement Trust Fund began fiscal year 2017 with \$294.6 million in assets. During the fiscal year, net contributions/withdrawals and fees decreased the fund by \$12.7 million and investment income increased it by \$34.6 million, resulting in an ending fair value of \$316.5 million.

Fair Value 6/30/16		\$ 294,571,755
Increases/Decreases		
Net Contributions/Withdrawals	\$ (11,981,721)	
Internal Management Fees	(302,082)	
External Management Fees	<u>(368,422)</u>	
Total Increases/Decreases		\$ (12,652,225)
Investment Income		
Securities Income		
Interest Income	\$ 3,035,281	
Dividend Income	2,581,608	
Securities Lending Income	1,915	
Real Estate Income	1,770,225	
Change in Accrued Income	<u>37,770</u>	
Total Securities Income		\$ 7,426,799
Total Capital Gain/Loss Income		<u>\$ 27,137,398</u>
Total Investment Income		\$ 34,564,197
Fair Value 6/30/17		<u>\$ 316,483,727</u>

Asset Allocation⁸

As of June 30, 2017, Dakota Cement Trust's assets totaled \$316.5 million. The broad asset categories and managers are listed below. The Capital Markets Benchmark allocation is also provided for comparison.

	Fair Value		% of Fund	Capital Markets Benchmark %
Global Equity				
Internal Global Equity	\$ 104,885,150		33.1%	
Internal Global Emerging Markets	<u>2,741,326</u>	\$ 107,626,476	<u>0.9%</u>	34.0%
Private Equity				
Blackstone Capital Partners	\$ 1,853,751		0.6%	
Carlyle	2,115,719		0.7%	
Cinven	230,854		0.1%	
Doughty Hanson	714,608		0.2%	
Riverstone	2,101,276		0.6%	
Silver Lake	<u>5,041,908</u>	12,058,116	<u>1.6%</u>	3.8%
Real Estate				
Blackstone Real Estate Partners	\$ 15,300,782		4.8%	
Cargill N.A. Real Estate Partners	69,312		0.0%	
Lone Star	7,073,133		2.2%	
Rockpoint	1,187,367		0.4%	
Starwood	<u>2,137,804</u>	25,768,398	<u>0.7%</u>	10.0%
Investment Grade Fixed Income				
Internal Investment Grade	<u>\$ 63,510,015</u>	63,510,015	<u>20.1%</u>	20.1%
High Yield Debt (Corporate & Real Estate)				
Vanguard High Yield Fund	\$ 14,664,709		4.7%	
CarVal	419,912		0.1%	
TCW	<u>17,141,287</u>	32,225,908	<u>5.4%</u>	10.2%
Cash & Cash Equivalents				
Internal Cash Account	<u>\$ 75,294,814</u>	<u>75,294,814</u>	<u>23.8%</u>	<u>23.8%</u>
Total		<u>\$ 316,483,727</u>	<u>100.0%</u>	<u>100.0%</u>

**Asset Growth²³ (\$ in millions)****DCT Total Fund vs. Benchmark****Investment Income²⁴ (\$ in millions)**

Internal Global Equity Profile

The Dakota Cement Trust's internal Global Equity portfolio characteristics as of June 30, 2017, are presented below.

<u>Distribution by Market Sector</u>	<u>%</u>	<u>Five Largest Country Weights</u>	<u>% of Total</u>
Consumer Discretionary	9.2%	United States	75.4%
Consumer Staples	8.5%	Great Britain	6.2%
Energy	11.9%	Switzerland	5.8%
Financials	20.9%	Japan	2.7%
Health Care	18.6%	France	2.4%
Industrials	7.9%		
Information Technology	17.7%	Total	92.5%
Materials	2.5%		
Real Estate	0.0%		
Telecommunications Services	0.7%		
Utilities	1.3%		
Cash Equivalents	0.8%		
Total	100.0%		

Internal Bond Profiles

The Dakota Cement Trust's internal Investment Grade (IG) bond portfolio characteristics as of June 30, 2017, are presented below.

<u>Distribution by Duration</u>	<u>IG</u>	<u>Distribution by Quality Rating</u>	<u>IG</u>
0 to 2 Years	5.5%	U.S. Gov't/Aaa	63.0%
2 to 3 Years	5.5%	Aa	7.3%
3 to 4 Years	9.3%	A	12.4%
4 to 5 Years	25.3%	Baa	16.4%
5 to 6 Years	19.8%	Ba	0.9%
6 to 8 Years	21.9%	B	0.0%
Above 8 Years	12.7%	Caa and lower	0.0%
Total	100.0%	Total	100.0%

<u>Distribution by Coupon</u>	<u>IG</u>	<u>Distribution by Sector (Consolidated)</u>	<u>%</u>
0.00% - 1.00%	18.8%	Cash/Cash Equivalents	1.8%
1.01% - 2.00%	10.4%	U.S. Treasuries	19.4%
2.01% - 3.00%	31.5%	Agency Debentures	4.2%
3.01% - 4.00%	29.5%	Agency Mortgage-Backed Securities	24.5%
4.01% - 5.00%	7.4%	Investment Grade Corporates	30.6%
5.01% - 6.00%	2.1%	High Yield Corporates/Bond Mutual Fund	19.5%
6.01% and over	0.3%		
Total	100.0%	Total	100.0%

Top Ten Holdings

The Dakota Cement Trust's internal Global Equity and internal Investment Grade portfolios' Top Ten Holdings as of June 30, 2017, are presented below.

<u>Global Equity Company Holdings</u>	<u>% of Total</u>	<u>Investment Grade Corporates by Issuer</u>	<u>% of Total</u>
Apple, Inc.	3.4%	BP plc	2.1%
Alphabet, Inc.	2.9%	Ontario (Province Of)	1.7%
Microsoft Corp.	2.9%	Morgan Stanley	1.4%
JPMorgan Chase & Co.	2.4%	Williams Cos, Inc.	1.3%
Citigroup, Inc.	2.2%	Hewlett Packard Enterprise Co.	1.2%
Wells Fargo & Co.	2.1%	Quebec (Province Of)	1.2%
UnitedHealth Group, Inc.	1.7%	Ford Motor Co.	1.2%
Pfizer, Inc.	1.7%	Verizon Communications	1.2%
BP plc	1.6%	Wells Fargo & Co.	1.2%
Honda Motor Co., Ltd.	1.5%	Bank of American Corp.	1.2%
Total	22.4%	Total	13.7%

EDUCATION ENHANCEMENT TRUST

THE FUND

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

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

SECURITIZATION

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

OBJECTIVES AND COMPONENTS

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

EET assets were invested in diversified portfolios during fiscal year 2017, as shown on the following page. The tax-exempt municipal bonds are invested per the requirements of the bond indenture for the asset-backed securitization. PIMCO Asset Management manages the tax-exempt portfolio. As the tax-exempt bonds are redeemed, assets are deallocated (removed) from the tax-exempt portfolio and placed into the taxable portfolio to generate higher expected returns. Since the inception of the fund, the Council has shifted the asset allocation to be more like that of the South Dakota Retirement System.

The long-term expected return of the fund as of June 30, 2017, was 5.81% with a volatility of 14.0%. The return in any given year is expected to fall within a range of (8.1%) to 19.8% with 66% confidence or (22.1%) to 33.8% with 95% confidence.

INVESTMENT PERFORMANCE - FISCAL YEAR 2017

The fund ended fiscal year 2017 with a fair value of \$554,492,395, principal value of \$366,546,780, and inflation-adjusted principal of \$482,001,898. EET's fiscal year total return, including realized and unrealized gains and losses and accrued income, was 11.5% net of fees. The benchmark¹⁷ return was 10.0%. The difference resulted from outperformance of the real estate limited partnerships and the global equity portfolio. The ten-year annualized total return was 5.5%. This compares with the ten-year benchmark¹⁷ return of 5.9%. The fund's return has been impacted by the required use of tax-exempt securities. In July of 2017, the fund distributed 4% of the sixteen-quarter average market value as of December 31, 2016, totaling \$19,377,842, to the general fund for education expenditures. Since inception, the fund has distributed \$220.2 million.

Cash Flows and Fair Value Changes

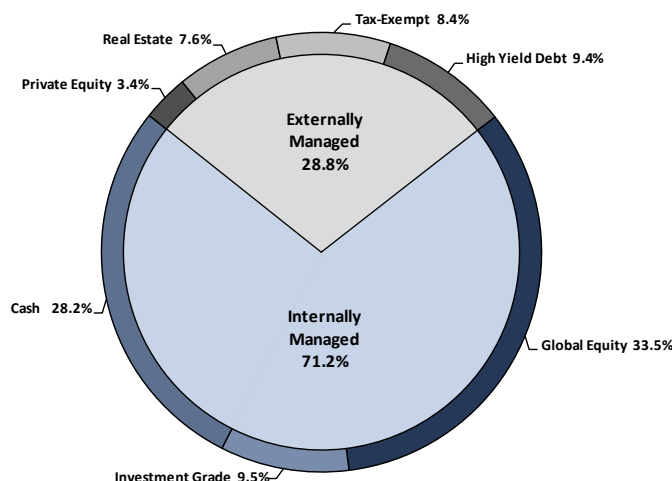
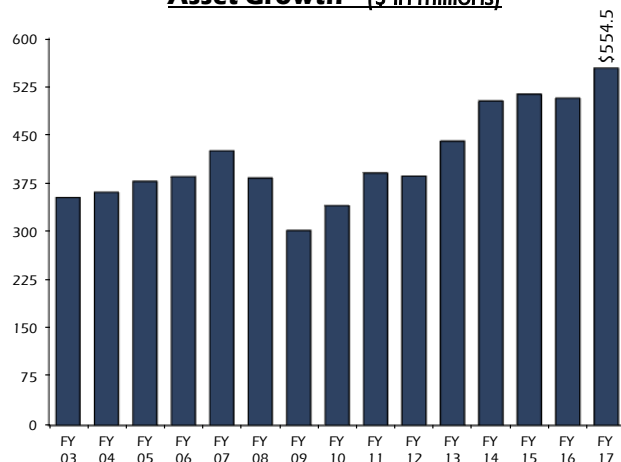
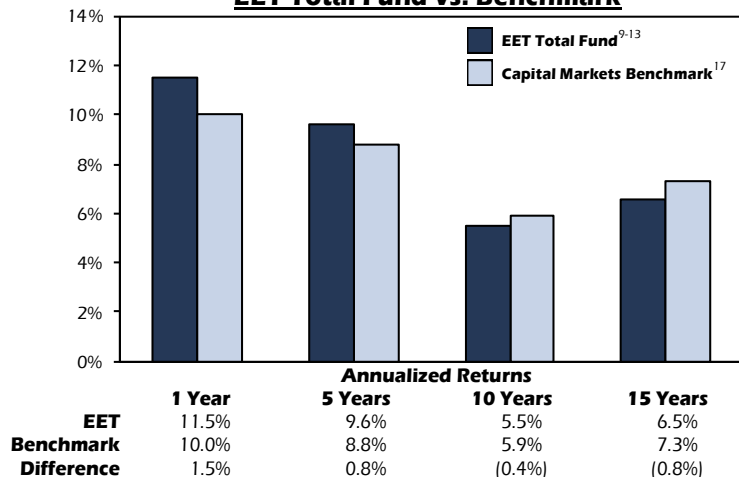
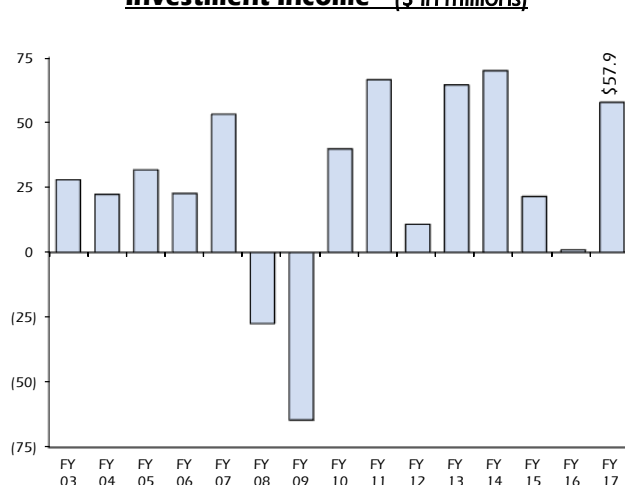
The Education Enhancement Trust Fund began fiscal year 2017 with \$507.9 million in assets. During the fiscal year, net contributions/withdrawals and fees decreased the fund by \$11.3 million and investment income increased it by \$57.9 million, resulting in an ending fair value of \$554.5 million.

Fair Value 6/30/16		\$ 507,946,208
Increases/Decreases		
Net Contributions/Withdrawals	\$ (10,017,069)	
Internal Management Fees	(494,188)	
External Management Fees	<u>(800,445)</u>	
Total Increases/Decreases		\$ (11,311,702)
Investment Income		
Securities Income		
Interest Income	\$ 5,716,380	
Dividend Income	4,424,918	
Securities Lending Income	3,410	
Real Estate Income	2,946,196	
Change in Accrued Income	<u>1,018</u>	
Total Securities Income		\$ 13,091,922
Total Capital Gain/Loss Income		<u>\$ 44,765,967</u>
Total Investment Income		\$ 57,857,889
Fair Value 6/30/17		<u>\$ 554,492,395</u>

Asset Allocation⁸

As of June 30, 2017, Education Enhancement Trust's assets totaled \$554.5 million. The broad asset categories and managers are listed below. The Capital Markets Benchmark allocation is also provided for comparison.

	Fair Value		% of Fund	Capital Markets Benchmark %
Global Equity				
Internal Global Equity	\$ 181,455,018		32.7%	
Internal Global Emerging Markets	<u>4,639,921</u>	\$ 186,094,939	<u>0.8%</u>	33.5%
Private Equity				
Blackstone Capital Partners	\$ 3,005,831		0.5%	
Carlyle	3,314,628		0.6%	
Cinven	394,548		0.1%	
Doughty Hanson	1,032,927		0.2%	
Riverstone	3,514,861		0.6%	
Silver Lake	<u>7,671,291</u>	18,934,086	<u>1.4%</u>	3.4%
Real Estate				
Blackstone Real Estate Partners	\$ 23,911,837		4.3%	
Cargill N.A. Real Estate Partners	98,379		0.0%	
Lone Star	11,762,982		2.1%	
Rockpoint	2,001,563		0.4%	
Starwood	<u>4,273,707</u>	42,048,468	<u>0.8%</u>	7.6%
Investment Grade & Tax-Exempt Fixed Income				
Internal Investment Grade	\$ 52,480,148		9.5%	
PIMCO Tax-Exempt Portfolio	<u>46,535,013</u>	99,015,161	<u>8.4%</u>	17.9%
High Yield Debt (Corporate & Real Estate)				
Vanguard High Yield Fund	\$ 23,874,873		4.3%	
CarVal	606,859		0.1%	
TCW	<u>27,469,992</u>	51,951,724	<u>5.0%</u>	9.4%
Cash & Cash Equivalents				
Internal Cash Account	<u>\$ 156,448,017</u>	<u>156,448,017</u>	<u>28.2%</u>	<u>28.2%</u>
Total		<u>\$ 554,492,395</u>	<u>100.0%</u>	<u>100.0%</u>

**Asset Growth²³ (\$ in millions)****EET Total Fund vs. Benchmark****Investment Income²⁴ (\$ in millions)**

Internal Global Equity Profile

The Education Enhancement Trust's internal Global Equity portfolio characteristics as of June 30, 2017, are presented below.

Distribution by Market Sector	%	Five Largest Country Weights	% of Total
Consumer Discretionary	9.2%	United States	75.2%
Consumer Staples	8.5%	Great Britain	6.3%
Energy	11.9%	Switzerland	5.9%
Financials	20.9%	Japan	2.6%
Health Care	18.6%	France	2.4%
Industrials	7.8%		
Information Technology	17.8%	Total	92.4%
Materials	2.5%		
Real Estate	0.0%		
Telecommunications Services	0.7%		
Utilities	1.3%		
Cash Equivalents	0.8%		
Total	100.0%		

Internal Bond Profiles

The Education Enhancement Trust's internal Investment Grade (IG) bond portfolio characteristics as of June 30, 2017, are presented below.

Distribution by Duration	IG	Distribution by Quality Rating	IG
0 to 2 Years	5.0%	U.S. Gov't/Aaa	63.0%
2 to 3 Years	5.4%	Aa	7.3%
3 to 4 Years	9.7%	A	12.4%
4 to 5 Years	25.5%	Baa	16.5%
5 to 6 Years	19.8%	Ba	0.8%
6 to 8 Years	21.9%	B	0.0%
Above 8 Years	12.7%	Caa and lower	0.0%
Total	100.0%	Total	100.0%

Distribution by Coupon	IG	Distribution by Sector (Consolidated)	%
0.00% - 1.00%	18.2%	Cash/Cash Equivalents	1.0%
1.01% - 2.00%	10.4%	U.S. Treasuries	10.2%
2.01% - 3.00%	31.5%	Agency Debentures	2.2%
3.01% - 4.00%	30.0%	Agency Mortgage-Backed Securities	13.1%
4.01% - 5.00%	8.1%	Investment Grade Corporates	16.1%
5.01% - 6.00%	1.5%	High Yield Corporates/Bond Mutual Fund	19.8%
6.01% and over	0.3%	Tax-Exempt Bonds	37.6%
Total	100.0%	Total	100.0%

Top Ten Holdings

The Education Enhancement Trust's internal Global Equity and internal Investment Grade portfolios' Top Ten Holdings as of June 30, 2017, are presented below.

Global Equity Company Holdings	% of Total	Investment Grade Corporates by Issuer	% of Total
Apple, Inc.	3.4%	BP plc	2.1%
Alphabet, Inc.	2.9%	Ontario (Province Of)	1.7%
Microsoft Corp.	2.9%	Morgan Stanley	1.5%
JPMorgan Chase & Co.	2.4%	Williams Cos, Inc.	1.3%
Citigroup, Inc.	2.2%	Hewlett Packard Enterprise Co.	1.2%
Wells Fargo & Co.	2.1%	Quebec (Province Of)	1.2%
UnitedHealth Group, Inc.	1.7%	Verizon Communications	1.2%
Pfizer, Inc.	1.7%	Ford Motor Co.	1.2%
BP plc	1.6%	Wells Fargo & Co.	1.2%
Novartis AG	1.5%	Bank of American Corp.	1.2%
Total	22.4%	Total	13.8%

THE FUND

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

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

OBJECTIVES AND COMPONENTS

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

HCT assets were invested in diversified portfolios during fiscal year 2017, as shown on the following page. Since the inception of the fund, the Council has shifted the asset allocation to be more like that of the South Dakota Retirement System.

The long-term expected return of the fund as of June 30, 2017, was 5.86% with a volatility of 13.9%. This means that the return in any given year is expected to fall within a range of (8.1%) to 19.8% with 66% confidence or (22.0%) to 33.7% with 95% confidence.

INVESTMENT PERFORMANCE - FISCAL YEAR 2017

The fund ended fiscal year 2017 with a fair value of \$143,034,115, principal value of \$85,631,024, and inflation-adjusted principal of \$115,247,435. HCT's fiscal year total return, including realized and unrealized gains and losses and accrued income, was 11.6% net of fees. The benchmark¹⁸ return was 10.0%. The difference resulted from outperformance of the real estate limited partnerships and the global equity portfolio. The ten-year annualized total return was 6.1%. This compares with the ten-year benchmark¹⁸ return of 5.9%. In July of 2017, the fund distributed 4% of the sixteen-quarter average market value as of December 31, 2016, totaling \$5,214,739, to the general fund for health care related expenditures. Since inception, the fund has distributed \$59.3 million.

Cash Flows and Fair Value Changes

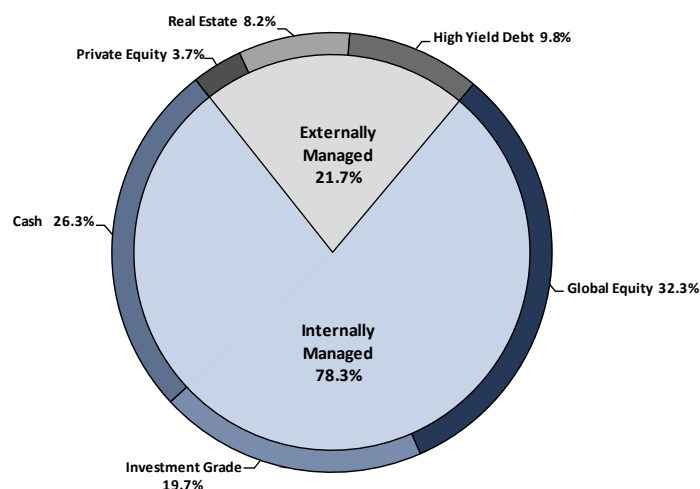
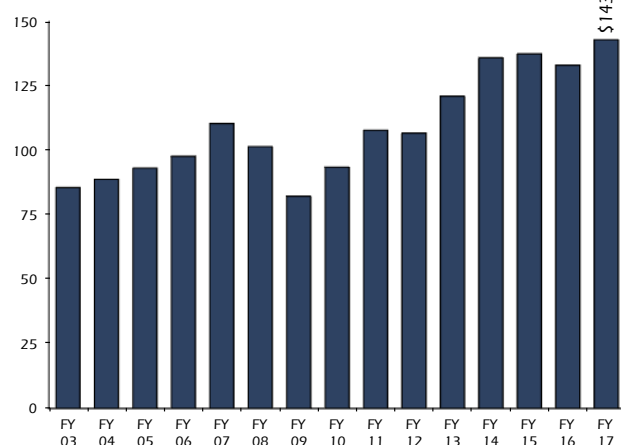
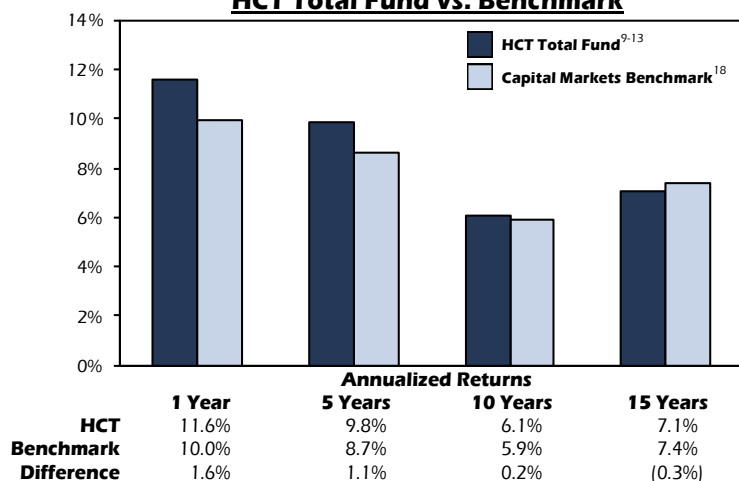
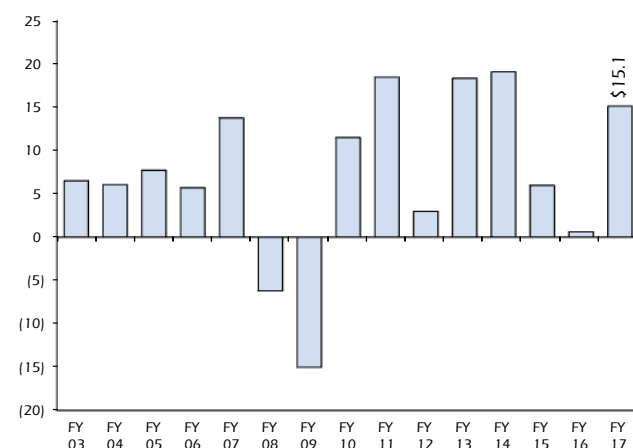
The Health Care Trust Fund began fiscal year 2017 with \$133.2 million in assets. During the fiscal year, net contributions/withdrawals and fees decreased the fund by \$5.3 million and investment income increased it by \$15.1 million, resulting in an ending fair value of \$143.0 million.

Fair Value 6/30/16		\$ 133,161,442
Increases/Decreases		
Net Contributions/Withdrawals	\$ (4,970,123)	
Internal Management Fees	(131,874)	
External Management Fees	<u>(180,213)</u>	
Total Increases/Decreases		\$ (5,282,210)
Investment Income		
Securities Income		
Interest Income	\$ 1,334,060	
Dividend Income	1,124,677	
Securities Lending Income	848	
Real Estate Income	798,016	
Change in Accrued Income	<u>18,796</u>	
Total Securities Income	\$ 3,276,397	
Total Capital Gain/Loss Income	<u>\$ 11,878,486</u>	
Total Investment Income		\$ 15,154,883
Fair Value 6/30/17		<u>\$ 143,034,115</u>

Asset Allocation⁸

As of June 30, 2017, Health Care Trust's assets totaled \$143.0 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	\$ 44,981,482		31.4%	
Internal Global Emerging Markets	<u>1,227,758</u>	\$ 46,209,240	<u>0.9%</u>	51.0%
Private Equity				
Blackstone Capital Partners	\$ 975,313		0.6%	
Carlyle	916,810		0.6%	
Cinven	100,735		0.1%	
Doughty Hanson	261,936		0.2%	
Riverstone	955,124		0.7%	
Silver Lake	<u>2,121,678</u>	5,331,596	<u>1.5%</u>	0.0%
Real Estate				
Blackstone Real Estate Partners	\$ 6,667,503		4.6%	
Cargill N.A. Real Estate Partners	24,594		0.0%	
Lone Star	3,096,905		2.2%	
Rockpoint	508,872		0.4%	
Starwood	<u>1,423,375</u>	11,721,249	<u>1.0%</u>	10.0%
Investment Grade Fixed Income				
Internal Investment Grade	<u>\$ 28,163,175</u>	28,163,175	<u>19.7%</u>	30.0%
High Yield Debt (Corporate & Real Estate)				
Vanguard High Yield Fund	\$ 6,378,368		4.5%	
CarVal	153,872		0.1%	
TCW	<u>7,500,776</u>	14,033,016	<u>5.2%</u>	7.0%
Cash & Cash Equivalents				
Internal Cash Account	<u>\$ 37,575,839</u>	<u>37,575,839</u>	<u>26.3%</u>	<u>2.0%</u>
Total		<u>\$ 143,034,115</u>	<u>100.0%</u>	<u>100.0%</u>

**Asset Growth²³ (\$ in millions)****HCT Total Fund vs. Benchmark****Investment Income²⁴ (\$ in millions)**

Internal Global Equity Profile

The Health Care Trust's internal Global Equity portfolio characteristics as of June 30, 2017, are presented below.

<u>Distribution by Market Sector</u>	<u>%</u>	<u>Five Largest Country Weights</u>	<u>% of Total</u>
Consumer Discretionary	9.3%	United States	75.4%
Consumer Staples	8.5%	Great Britain	6.2%
Energy	11.7%	Switzerland	5.9%
Financials	20.9%	Japan	2.7%
Health Care	18.7%	France	2.2%
Industrials	7.8%		
Information Technology	17.6%	Total	92.4%
Materials	2.5%		
Real Estate	0.0%		
Telecommunications Services	0.8%		
Utilities	1.3%		
Cash Equivalents	0.9%		
Total	100.0%		

Internal Bond Profiles

The Health Care Trust's internal Investment Grade (IG) bond portfolio characteristics as of June 30, 2017, are presented below.

<u>Distribution by Duration</u>	<u>IG</u>	<u>Distribution by Quality Rating</u>	<u>IG</u>
0 to 2 Years	5.7%	U.S. Gov't/Aaa	63.3%
2 to 3 Years	5.5%	Aa	7.3%
3 to 4 Years	9.3%	A	12.0%
4 to 5 Years	24.6%	Baa	16.5%
5 to 6 Years	20.3%	Ba	0.9%
6 to 8 Years	21.9%	B	0.0%
Above 8 Years	12.7%	Caa and lower	0.0%
Total	100.0%	Total	100.0%

<u>Distribution by Coupon</u>	<u>IG</u>	<u>Distribution by Sector (Consolidated)</u>	<u>%</u>
0.00% - 1.00%	18.9%	Cash/Cash Equivalents	1.9%
1.01% - 2.00%	10.4%	U.S. Treasuries	19.5%
2.01% - 3.00%	31.6%	Agency Debentures	4.2%
3.01% - 4.00%	29.4%	Agency Mortgage-Backed Securities	24.7%
4.01% - 5.00%	7.5%	Investment Grade Corporates	30.5%
5.01% - 6.00%	1.8%	High Yield Corporates/Bond Mutual Fund	19.2%
6.01% and over	0.4%		
Total	100.0%	Total	100.0%

Top Ten Holdings

The Health Care Trust's internal Global Equity and internal Investment Grade portfolios' Top Ten Holdings as of June 30, 2017, are presented below.

<u>Global Equity Company Holdings</u>	<u>% of Total</u>	<u>Investment Grade Corporates by Issuer</u>	<u>% of Total</u>
Apple, Inc.	3.4%	BP plc	2.1%
Alphabet, Inc.	2.9%	Ontario (Province Of)	1.7%
Microsoft Corp.	2.9%	Morgan Stanley	1.5%
JPMorgan Chase & Co.	2.4%	Williams Cos, Inc.	1.3%
Citigroup, Inc.	2.2%	Hewlett Packard Enterprise Co.	1.2%
Wells Fargo & Co.	2.1%	Quebec (Province Of)	1.2%
Pfizer, Inc.	1.7%	Verizon Communications	1.2%
UnitedHealth Group, Inc.	1.7%	Ford Motor Co.	1.2%
BP plc	1.6%	Wells Fargo & Co.	1.2%
Novartis AG	1.5%	Bank of American Corp.	1.2%
Total	22.4%	Total	13.8%

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 of 2001, the Council selected Allianz Global Investors Distributors LLC (formerly PIMCO Funds Distributors LLC) as the program manager for the Section 529 program from seven candidates. Significant negotiations led to a unique "Best of Breed" multi-manager higher education savings plan. South Dakota's plan is entitled *CollegeAccess 529 Plan*. In 2007, the contract with Allianz Global Investors Distributors LLC (Allianz) was renegotiated with substantially the same terms as the original contract. The new seven year contract was signed on December 11, 2007. In 2014, the existing contract was extended to December 1, 2021. Contributions from every state and several countries have generated growth of Plan assets to over \$1.09 billion on June 30, 2017.

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 emphasize preservation of capital and income as the beneficiary approaches college age. The total annual operating expense ratios for South Dakotans investing directly in the age-based portfolios ranged from 0.42% to 0.51% 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 0.50% 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 0.45% for South Dakota residents.

In addition to the opportunity for South Dakotans to invest directly at a low cost, five age-based portfolios, twelve individual mutual fund choices, and three customized investment portfolios are available to South Dakota investors as well as to investors nationwide. These selections can be accessed by using the services of a financial advisor. Although all investors will encounter a fee when investing with the assistance of a financial advisor, South Dakota residents do not pay the annual account maintenance fee, which is currently \$20, or the annual program management fee of 0.35%.

SCHOLARSHIP PROGRAM

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

When the Allianz South Dakota Scholarship Program began in 2002, there were no other state scholarship programs available. Currently, the state has other programs with the infrastructure necessary to administer a quality scholarship program. Since fiscal year 2007, scholarship funds totaling \$13,399,510 have been directed from Allianz to the Dakota Corps Scholarship Fund. Based on the assets as of June 30, 2017, and the scholarship funding formula, the resulting 2017 contribution was \$1,722,012. The Allianz program and the Dakota Corps programs share a common goal of keeping our talented young people in the state in order to foster South Dakota's economic well-being. The Dakota Corps program is unique because it is geared toward students who plan to work toward a degree in a critical need occupation in South Dakota. To be eligible, students must meet academic requirements and attend a participating South Dakota post-secondary institution. The scholarship recipients must agree in writing to stay in South Dakota and work in a critical need occupation after graduation for as many years as the scholarship was received, plus one year. These students receive four-year scholarships equal to tuition and fees for 16 credit hours per semester at a public South Dakota college, public technical college, or tribal college. The scholarship amount for attendance at a participating private college in South Dakota would be the same amount that would be paid at a public South Dakota college, with the college covering the remaining tuition and fees if needed. A description of the program can be found at <https://www.sdbor.edu/dakotacorps/>.

ANNUAL REPORT

Each year the Council is required by law to submit an annual report letter by February 1. This letter is to go to the Governor, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate. The letter, dated January 31, 2017, can be found in the Appendix on the following page.

MORE INFORMATION

Extensive information on this higher education savings program can be found at the following websites: www.CollegeAccess529.com 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, 2017

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

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

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

Dear Governor Daugaard, Speaker Mickelson and President Pro Tempore Greenfield:

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

The CollegeAccess 529 Plan (Plan) was implemented by the Investment Council in April of 2002. The Plan allows South Dakota citizens, as well as citizens across the nation, to save and invest for post-secondary educational expenses with federal tax benefits. Allianz Global Investors Distributors LLC (AGID), originally known as PIMCO Funds Distributors LLC, was selected by the Council to manage, invest, market, and administer the Plan. AGID is a part of the Allianz Group, which is a global financial services leader with lengthy corporate history and a presence in more than 70 countries.

The Plan is offered and maintained at no cost to the State or taxpayers, as mandated by law, and 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, 2017
Page 2

As of December 31, 2016, the Plan had assets of approximately \$1.045 billion, down 1.9% from last year. For the Plan's most recent full program year (calendar year 2016), returns for South Dakota direct investment age-based alternatives ranged from 13.56% for the PIMCO All Asset Fund to 3.89% for the Age-based 15-17 Portfolio.

Of the 19 mutual funds utilized by the Plan and rated by Morningstar, 68 percent have an overall rating of 4 or 5 stars, with 5 the highest possible rating. Additionally, 13 of the funds were deemed Morningstar Medalists. Morningstar, a leading provider of independent investment research, provides strictly quantitative mutual fund ratings that measure how well a fund has balanced return and risk in the past.

Scholarship Program

A benefit of implementing the 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, 2013, 2014, 2015, and 2016, Allianz contributed \$756,125, \$694,782, \$823,112, \$1,059,271, \$1,165,435, \$1,363,392, \$1,583,037, \$1,616,835, and \$1,588,174, respectively, to the Dakota Corps Scholarship Program, totaling \$11,677,497.

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,

David T. Hillard
Investment Council Chair

Matthew L. Clark, CFA
State Investment Officer

**SOUTH DAKOTA RETIREMENT SYSTEM
INTERNALLY MANAGED**

		<u>Cost Value</u>	<u>Fair Value</u>
Global Equity			
Apple, Inc.	1,034,900	\$ 72,335,519	\$ 149,046,298
Microsoft Corp.	1,725,965	45,928,197	118,970,767
Citigroup, Inc.	1,290,055	51,475,467	86,278,878
Wells Fargo & Co.	1,449,570	38,522,029	80,320,674
Pfizer, Inc.	1,980,567	47,398,788	66,527,246
Alphabet, Inc. - Cl. C	71,410	23,159,871	64,892,409
UnitedHealth Group, Inc.	340,608	13,490,434	63,155,535
Gilead Sciences, Inc.	867,796	28,277,811	61,422,601
Oracle Corp.	1,203,096	37,113,738	60,323,233
Novartis AG	718,917	42,706,180	59,906,622
Wal-Mart Stores, Inc.	782,719	41,219,668	59,236,174
JPMorgan Chase & Co.	640,650	22,321,461	58,555,410
U.S. Bancorp	1,107,605	21,997,353	57,506,852
Alphabet, Inc. - Cl. A	71,410	16,324,463	53,841,488
Nestle SA	606,187	16,492,247	52,823,375
Honda Motor Co., Ltd.	1,769,700	44,242,731	48,258,818
MetLife, Inc.	876,110	25,769,766	48,133,483
Intel Corp.	1,401,494	28,538,137	47,286,408
Roche Holding, Ltd.	182,835	30,507,859	46,622,782
Medtronic plc	524,136	25,117,771	46,517,070
Berkshire Hathaway, Inc.	270,837	35,270,776	45,871,663
Lennar Corp.	842,546	22,312,835	44,924,553
Allergan plc	183,900	41,802,536	44,704,251
Samsung Electronics Co., Ltd.	20,715	22,967,821	43,035,926
Union Pacific Corp.	387,870	32,108,591	42,242,922
Bank of America Corp.	1,741,175	33,479,327	42,240,906
Johnson & Johnson	312,380	23,463,863	41,324,750
Chevron Corp.	383,035	32,499,380	39,962,042
American International Group, Inc.	636,870	34,600,557	39,817,112
Devon Energy Corp.	1,184,590	49,425,001	37,871,342
Philip Morris International, Inc.	313,958	23,031,940	36,874,367
Visa, Inc.	391,400	27,998,977	36,705,492
Twentieth Century Fox, Inc.	1,292,417	38,001,903	36,627,098
Credit Suisse Group AG	2,525,416	52,259,157	36,550,165
BP plc - ADR	1,049,311	35,417,119	36,358,626
Amgen, Inc.	210,700	28,120,071	36,288,861
Anadarko Petroleum Corp.	797,190	34,808,179	36,144,595
Delta Air Lines, Inc.	666,022	28,718,300	35,792,022
ConocoPhillips	814,058	33,152,934	35,785,990
Procter & Gamble Co.	408,656	20,769,558	35,614,370
Bank of New York Mellon Corp.	689,859	17,051,573	35,196,606
Barclays plc	13,261,144	49,566,375	34,924,810
Synchrony Financial	1,157,934	30,443,342	34,529,592
PepsiCo, Inc.	297,526	17,849,295	34,361,278
LyondellBasell Industries NV	397,613	32,774,335	33,554,561
Anthem, Inc.	175,987	11,652,290	33,108,434
Aetna, Inc.	212,683	10,119,732	32,291,660
Canadian Natural Resources, Ltd.	1,119,773	28,778,276	32,264,500
Eastman Chemical Co.	383,557	26,147,498	32,214,952
Apache Corp.	633,102	<u>45,243,825</u>	<u>30,344,579</u>
Total Top 50 Securities		\$ 1,592,774,856	\$ 2,447,154,148
Remaining Global Equity		<u>1,958,006,500</u>	<u>2,236,485,506</u>
Global Equity		\$ 3,550,781,356	\$ 4,683,639,654
Global Emerging Markets		\$ 124,134,257	\$ 135,759,750
Small/Mid Equity		\$ 582,280,456	\$ 650,480,587
Investment Grade Fixed Income		\$ 1,016,633,378	\$ 1,030,103,762
High Yield Fixed Income		\$ 565,915,187	\$ 617,978,528
Shift Account		<u>\$ 1,596,099,416</u>	<u>\$ 1,597,044,117</u>
Total SDRS Internally Managed		<u>\$ 7,435,844,050</u>	<u>\$ 8,715,006,398</u>

**SOUTH DAKOTA RETIREMENT SYSTEM
EXTERNALLY MANAGED**

	<u>Cost Value</u>	<u>Fair Value</u>
Emerging Markets		
Dimensional Emerging Markets Small Cap	\$ 9,152,789	\$ 59,162,137
Total Emerging Markets	\$ 9,152,789	\$ 59,162,137
Special Purpose Equity		
Brandes International Mid Cap Portfolio	\$ 64,574,995	\$ 67,279,527
Sanders Capital, L.L.C.	<u>42,695,069</u>	<u>51,712,995</u>
Total Special Purpose Equity	\$ 107,270,064	\$ 118,992,522
Private Equity		
Blackstone Capital Partners IV, L.P.	\$ 1,028,115	\$ 1,694,456
Blackstone Capital Partners V, L.P.	14,180,910	27,739,225
Blackstone Capital Partners VI, L.P.	63,474,464	93,609,712
Blackstone Capital Partners VII, L.P.	11,227,978	11,884,409
Blackstone Energy Partners II, L.P.	26,971,405	31,771,089
Capital International Private Equity Fund IV & V, L.P.	8,675,117	1,562,116
Capital International Private Equity Fund VI, L.P.	33,144,331	33,886,753
Carlyle Partners IV, L.P.	295,214	648,727
Carlyle Partners V, L.P.	21,327,435	17,061,323
Carlyle Partners VI, L.P.	60,588,747	70,876,555
Riverstone/Carlyle Global Energy & Power Fund IV, L.P.	19,376,046	22,708,458
Riverstone Global Energy & Power Fund V, L.P.	54,478,894	48,845,033
Riverstone Global Energy & Power Fund VI, L.P.	33,457,254	57,307,513
The Fourth Cinven Fund	26,476,006	11,217,940
The Fifth Cinven Fund	66,406,043	73,761,830
The Sixth Cinven Fund	8,227,928	8,289,698
Crossroads Cornerstone Private Equity XV-B, L.P.	682,997	702,777
CVC European Equity Partners IV, L.P.	14,971,798	2,570,952
CVC European Equity Partners V, L.P.	31,347,346	30,422,808
Cypress Merchant Banking Partners II, L.P.	28,998	28,998
Doughty Hanson & Co. IV & V, L.P.	28,525,635	22,446,330
Elevation Partners, L.P.	557,039	365,400
KKR European Fund I & II, L.P.	4,796,455	668,229
PineBridge Capital Management Corp.	5,412,068	3,037,895
Silver Lake Partners II, L.P.	3,042,847	11,268,513
Silver Lake Partners III, L.P.	21,864,996	45,564,405
Silver Lake Partners IV, L.P.	79,431,278	110,499,280
Silver Lake Sumeru Fund, L.P.	<u>23,867,559</u>	<u>41,546,786</u>
Total Private Equity	\$ 663,864,903	\$ 781,987,210
Aggressive Absolute Return		
Bridgewater Pure Alpha Fund II, Ltd.	\$ 36,742,005	\$ 84,522,416
Sanders Capital All Asset Value Fund, L.P.	<u>24,178,668</u>	<u>28,908,279</u>
Total Aggressive Absolute Return	\$ 60,920,673	\$ 113,430,695
Real Estate		
Ares European Real Estate Fund II, L.P.	\$ 6,102,413	\$ 3,351,158
Apollo Real Estate Advisors III & IV, L.P.	587,278	463,819
Blackstone Real Estate Partners IV, L.P.	77,471,939	31,854,142
Blackstone Real Estate Partners V, L.P.	53,647,807	90,563,187
Blackstone Real Estate Partners VI, L.P.	36,885,537	66,601,948
Blackstone Real Estate Partners VII, L.P.	46,519,141	66,448,492
Blackstone Real Estate Partners VIII, L.P.	130,192,337	173,220,196
Blackstone Real Estate Partners International I & II, L.P.	23,589,566	15,497,449
Blackstone Real Estate Partners Europe III, L.P.	84,839,615	124,428,067
Blackstone Real Estate Partners Europe V, L.P.	23,043,833	24,031,087
North American Real Estate Partners II, L.P.	815,668	1,415,875
Doughty Hanson & Co. European Real Estate II, L.P.	2,536,822	1,353,370
Lone Star Real Estate Fund II, L.P.	13,037,462	15,913,131
Lone Star Real Estate Fund III, L.P.	83,021,974	95,870,581
Lone Star Real Estate Fund IV, L.P.	151,091,157	156,076,815
Lone Star Real Estate Fund V, L.P. ²⁵	(2,654,912)	(2,654,912)
Rockpoint Real Estate Fund IV, L.P.	34,974,358	41,554,395
Rockpoint Real Estate Fund V, L.P.	36,133,478	42,405,985
Starwood Distressed Opportunity Fund IX Global	29,016,886	33,902,808
Starwood Distressed Opportunity Fund X Global	89,881,754	99,218,549
Starwood Distressed Opportunity Fund XI Global	<u>63,473</u>	<u>283,772</u>
Total Real Estate	\$ 920,797,586	\$ 1,081,799,914
High Yield Debt (Corporate & Real Estate)		
Blackstone Credit Liquidity Partners, L.P.	\$ 1,597,516	\$ 63,072
CVI Global Value Fund A, L.P.	37,353,780	23,727,911
TCW Opportunistic MBS Strategy	<u>656,370,825</u>	<u>737,651,548</u>
Total High Yield Debt	\$ 695,322,121	\$ 761,442,531
Total SDRS Externally Managed	<u>\$ 2,457,328,136</u>	<u>\$ 2,916,815,009</u>

**SCHOOL AND PUBLIC LANDS
INTERNALLY MANAGED**

	<u>Cost Value</u>	<u>Fair Value</u>
Global Equity	\$ 77,213,439	\$ 98,228,065
Global Emerging Markets	\$ 2,085,363	\$ 2,551,058
Investment Grade Fixed Income	\$ 50,962,694	\$ 51,707,946
Cash Account	<u>\$ 73,889,155</u>	<u>\$ 73,937,612</u>
Total SPL Internally Managed	<u>\$ 204,150,651</u>	<u>\$ 226,424,681</u>

**SCHOOL AND PUBLIC LANDS
EXTERNALLY MANAGED**

	<u>Cost Value</u>	<u>Fair Value</u>
Private Equity		
Blackstone Capital Partners V, L.P.	\$ 202,489	\$ 370,621
Blackstone Capital Partners VI, L.P.	819,838	1,209,060
Blackstone Capital Partners VII, L.P.	190,876	202,035
Carlyle Partners VI, L.P.	1,507,181	1,763,097
The Sixth Cinven Fund	216,635	218,261
Doughty Hanson & Co. V, L.P.	489,898	438,172
Riverstone Global Energy & Power Fund VI, L.P.	1,070,634	1,833,842
Silver Lake Partners III, L.P.	518,251	1,079,981
Silver Lake Partners IV, L.P.	<u>1,886,337</u>	<u>2,624,131</u>
Total Private Equity	\$ 6,902,139	\$ 9,739,200
Real Estate		
Blackstone Real Estate Partners V, L.P.	\$ 1,087,024	\$ 1,835,030
Blackstone Real Estate Partners VI, L.P.	720,373	1,300,739
Blackstone Real Estate Partners VII, L.P.	1,002,900	1,432,553
Blackstone Real Estate Partners VIII, L.P.	2,786,463	3,548,152
Blackstone Real Estate Partners International II, L.P.	841,846	571,934
Blackstone Real Estate Partners Europe III, L.P.	2,048,815	3,004,847
Blackstone Real Estate Partners Europe V, L.P.	598,763	624,417
North American Real Estate Partners II, L.P.	27,772	42,481
Lone Star Real Estate Fund III, L.P.	2,047,874	2,364,806
Lone Star Real Estate Fund IV, L.P.	3,810,904	3,936,655
Lone Star Real Estate Fund V, L.P. ²⁵	(68,027)	(68,027)
Rockpoint Real Estate Fund V, L.P.	925,019	1,085,595
Starwood Distressed Opportunity Fund X Global	2,537,856	2,840,009
Starwood Distressed Opportunity Fund XI Global	<u>1,649</u>	<u>7,373</u>
Total Real Estate	\$ 18,369,231	\$ 22,526,564
High Yield Debt (Corporate & Real Estate)		
Vanguard High Yield Fund	\$ 12,173,592	\$ 12,837,900
CVI Global Value Fund A, L.P.	405,181	257,412
TCW Opportunistic MBS Strategy	<u>13,170,573</u>	<u>14,598,154</u>
Total High Yield Debt	\$ 25,749,346	\$ 27,693,466
Total SPL Externally Managed	<u>\$ 51,020,716</u>	<u>\$ 59,959,230</u>

**DAKOTA CEMENT TRUST
INTERNALLY MANAGED**

	<u>Cost Value</u>	<u>Fair Value</u>
Global Equity	\$ 80,561,383	\$ 104,885,150
Global Emerging Markets	\$ 2,240,647	\$ 2,741,326
Investment Grade Fixed Income	\$ 62,669,166	\$ 63,510,015
Cash Account	<u>\$ 75,246,211</u>	<u>\$ 75,294,814</u>
Total DCT Internally Managed	<u>\$ 220,717,407</u>	<u>\$ 246,431,305</u>

**DAKOTA CEMENT TRUST
EXTERNALLY MANAGED**

	<u>Cost Value</u>	<u>Fair Value</u>
Private Equity		
Blackstone Capital Partners V, L.P.	\$ 327,476	\$ 592,999
Blackstone Capital Partners VI, L.P.	693,711	1,023,062
Blackstone Capital Partners VII, L.P.	224,560	237,690
Carlyle Partners VI, L.P.	1,808,618	2,115,719
The Sixth Cinven Fund	229,134	230,854
Doughty Hanson & Co. V, L.P.	798,966	714,608
Riverstone Global Energy & Power Fund VI, L.P.	1,226,766	2,101,276
Silver Lake Partners III, L.P.	845,423	1,761,762
Silver Lake Partners IV, L.P.	<u>2,357,906</u>	<u>3,280,146</u>
Total Private Equity	\$ 8,512,560	\$ 12,058,116
Real Estate		
Blackstone Real Estate Partners V, L.P.	\$ 1,747,763	\$ 2,950,420
Blackstone Real Estate Partners VI, L.P.	1,159,923	2,094,430
Blackstone Real Estate Partners VII, L.P.	1,172,622	1,674,983
Blackstone Real Estate Partners VIII, L.P.	3,120,839	3,973,925
Blackstone Real Estate Partners International II, L.P.	1,373,538	933,160
Blackstone Real Estate Partners Europe III, L.P.	2,048,815	3,004,847
Blackstone Real Estate Partners Europe V, L.P.	641,532	669,017
North American Real Estate Partners II, L.P.	45,347	69,312
Lone Star Real Estate Fund III, L.P.	2,379,962	2,748,290
Lone Star Real Estate Fund IV, L.P.	4,259,251	4,399,796
Lone Star Real Estate Fund V, L.P. ²⁵	(74,953)	(74,953)
Rockpoint Real Estate Fund V, L.P.	1,011,737	1,187,367
Starwood Distressed Opportunity Fund X Global	1,903,396	2,130,009
Starwood Distressed Opportunity Fund XI Global	<u>1,744</u>	<u>7,795</u>
Total Real Estate	\$ 20,791,516	\$ 25,768,398
High Yield Debt (Corporate & Real Estate)		
Vanguard High Yield Fund	\$ 13,911,441	\$ 14,664,709
CVI Global Value Fund A, L.P.	661,008	419,912
TCW Opportunistic MBS Strategy	<u>15,404,098</u>	<u>17,141,287</u>
Total High Yield Debt	\$ 29,976,547	\$ 32,225,908
Total DCT Externally Managed	<u>\$ 59,280,623</u>	<u>\$ 70,052,422</u>

**EDUCATION ENHANCEMENT TRUST
INTERNALLY MANAGED**

	<u>Cost Value</u>	<u>Fair Value</u>
Global Equity	\$ 140,275,360	\$ 181,455,018
Global Emerging Markets	\$ 3,792,715	\$ 4,639,921
Investment Grade Fixed Income	\$ 52,000,506	\$ 52,480,148
Cash Account	<u>\$ 156,347,313</u>	<u>\$ 156,448,017</u>
Total EET Internally Managed	<u>\$ 352,415,894</u>	<u>\$ 395,023,104</u>

**EDUCATION ENHANCEMENT TRUST
EXTERNALLY MANAGED**

	<u>Cost Value</u>	<u>Fair Value</u>
Private Equity		
Blackstone Capital Partners V, L.P.	\$ 474,025	\$ 858,439
Blackstone Capital Partners VI, L.P.	1,198,228	1,767,091
Blackstone Capital Partners VII, L.P.	359,296	380,301
Carlyle Partners VI, L.P.	2,833,507	3,314,628
The Sixth Civen Fund	391,608	394,548
Doughty Hanson & Co. V, L.P.	1,154,859	1,032,927
Riverstone Global Energy & Power Fund VI, L.P.	2,052,044	3,514,861
Silver Lake Partners III, L.P.	1,221,794	2,546,095
Silver Lake Partners IV, L.P.	<u>3,684,193</u>	<u>5,125,196</u>
Total Private Equity	\$ 13,369,554	\$ 18,934,086
Real Estate		
Blackstone Real Estate Partners V, L.P.	\$ 2,515,074	\$ 4,245,714
Blackstone Real Estate Partners VI, L.P.	1,697,150	3,064,434
Blackstone Real Estate Partners VII, L.P.	1,974,942	2,821,022
Blackstone Real Estate Partners VIII, L.P.	5,238,550	6,670,519
Blackstone Real Estate Partners International II, L.P.	1,949,538	1,324,496
Blackstone Real Estate Partners Europe III, L.P.	3,166,352	4,643,863
Blackstone Real Estate Partners Europe V, L.P.	1,094,881	1,141,789
North American Real Estate Partners II, L.P.	64,352	98,379
Lone Star Real Estate Fund III, L.P.	3,929,712	4,537,877
Lone Star Real Estate Fund IV, L.P.	7,117,424	7,352,284
Lone Star Real Estate Fund V, L.P. ²⁵	(127,179)	(127,179)
Rockpoint Real Estate Fund V, L.P.	1,705,501	2,001,563
Starwood Distressed Opportunity Fund X Global	3,806,786	4,260,013
Starwood Distressed Opportunity Fund XI Global	<u>3,063</u>	<u>13,694</u>
Total Real Estate	\$ 34,136,146	\$ 42,048,468
PIMCO Tax-Exempt Fund	\$ 45,599,549	\$ 46,535,013
High Yield Debt (Corporate & Real Estate)		
Vanguard High Yield Fund	\$ 22,645,529	\$ 23,874,873
CVI Global Value Fund A, L.P.	955,393	606,859
TCW Opportunistic MBS Strategy	<u>24,725,939</u>	<u>27,469,992</u>
Total High Yield Debt	\$ 48,326,861	\$ 51,951,724
Total EET Externally Managed	<u>\$ 141,432,110</u>	<u>\$ 159,469,291</u>

**HEALTH CARE TRUST
INTERNALLY MANAGED**

	<u>Cost Value</u>	<u>Fair Value</u>
Global Equity	\$ 34,527,516	\$ 44,981,482
Global Emerging Markets	\$ 1,003,563	\$ 1,227,758
Investment Grade Fixed Income	\$ 27,794,315	\$ 28,163,175
Cash Account	<u>\$ 37,551,538</u>	<u>\$ 37,575,839</u>
Total HCT Internally Managed	<u>\$ 100,876,932</u>	<u>\$ 111,948,254</u>

**HEALTH CARE TRUST
EXTERNALLY MANAGED**

	<u>Cost Value</u>	<u>Fair Value</u>
Private Equity		
Blackstone Capital Partners V, L.P.	\$ 118,067	\$ 217,324
Blackstone Capital Partners VI, L.P.	441,450	651,030
Blackstone Capital Partners VII, L.P.	101,051	106,959
Carlyle Partners VI, L.P.	783,734	916,810
The Sixth Civen Fund	99,984	100,735
Doughty Hanson & Co. V, L.P.	292,858	261,936
Riverstone Global Energy & Power Fund VI, L.P.	557,619	955,124
Silver Lake Partners III, L.P.	309,822	645,608
Silver Lake Partners IV, L.P.	<u>1,061,071</u>	<u>1,476,070</u>
Total Private Equity	\$ 3,765,656	\$ 5,331,596
Real Estate		
Blackstone Real Estate Partners V, L.P.	\$ 618,112	\$ 1,043,454
Blackstone Real Estate Partners VI, L.P.	451,760	815,719
Blackstone Real Estate Partners VII, L.P.	555,453	793,421
Blackstone Real Estate Partners VIII, L.P.	1,374,655	1,750,418
Blackstone Real Estate Partners International II, L.P.	487,385	331,117
Blackstone Real Estate Partners Europe III, L.P.	1,117,536	1,639,008
Blackstone Real Estate Partners Europe V, L.P.	282,274	294,366
North American Real Estate Partners II, L.P.	16,097	24,594
Lone Star Real Estate Fund III, L.P.	1,051,607	1,214,358
Lone Star Real Estate Fund IV, L.P.	1,849,408	1,910,434
Lone Star Real Estate Fund V, L.P. ²⁵	(27,887)	(27,887)
Rockpoint Real Estate Fund V, L.P.	433,603	508,872
Starwood Distressed Opportunity Fund X Global	1,268,928	1,420,004
Starwood Distressed Opportunity Fund XI Global	<u>754</u>	<u>3,371</u>
Total Real Estate	\$ 9,479,685	\$ 11,721,249
High Yield Debt (Corporate & Real Estate)		
Vanguard High Yield Fund	\$ 6,050,583	\$ 6,378,368
CVI Global Value Fund A, L.P.	242,219	153,872
TCW Opportunistic MBS Strategy	<u>6,723,014</u>	<u>7,500,776</u>
Total High Yield Debt	\$ 13,015,816	\$ 14,033,016
Total HCT Externally Managed	<u>\$ 26,261,157</u>	<u>\$ 31,085,861</u>

**SOUTH DAKOTA CASH FLOW FUND
INTERNALLY MANAGED**

	<u>Cost Value</u>	<u>Fair Value</u>
Intermediate-Term Fixed Income	\$ 202,529,731	\$ 202,617,925
Short-Term Fixed Income	\$ 913,187,804	\$ 913,683,707
Cash Account	\$ 128,504,395	\$ 128,581,490
Certificates of Deposit	<u>\$ 29,211,000</u>	<u>\$ 29,408,354</u>
Total SDCFF Internally Managed	<u>\$ 1,273,432,930</u>	<u>\$ 1,274,291,476</u>

On June 30, 2017, there was \$29,211,000 in Certificates of Deposit (CDs) outstanding with South Dakota banks, savings associations, and credit unions. Forty South Dakota banks hold \$25,961,000 in CDs, one savings association held \$250,000 in CDs, and five credit unions hold \$3,000,000 in CDs. The CDs carry an interest rate of 0.90% and mature September 29, 2017.

The original allocation made in September of 2016 was to forty-nine banks and one savings associations. Nine banks did not participate this year. This is the sixteenth year a reoffering was made to other qualified public depositories in the state. In the reoffering, five credit unions accepted \$3,000,000 in CDs, leaving \$5,789,000 in CDs unassigned. The size of the certificates ranged from \$250,000 to \$6,352,000.

Summary of Statistics Certificates of Deposit Outstanding

CDs Issued to Banks

CDs maturing 9/29/17	\$ 25,961,000
Interest earned during FY 2017	\$ 215,122
Average CDs Outstanding During FY 2017	\$ 25,834,348
Rate of Return	0.8%

CDs Issued to Savings Associations

CDs maturing 9/29/17	\$ 250,000
Interest earned during FY 2017	\$ 5,358
Average CDs Outstanding During FY 2017	\$ 773,811
Rate of Return	0.7%

CDs Issued to Credit Unions

CDs maturing 9/29/17	\$ 3,000,000
Interest earned during FY 2017	\$ 24,560
Average CDs Outstanding During FY 2017	\$ 2,937,671
Rate of Return	0.8%

Total Certificates of Deposit

CDs maturing 9/29/17	\$ 29,211,000
Interest earned during FY 2017	\$ 245,040
Average CDs Outstanding During FY 2017	\$ 29,545,830
Rate of Return	0.8%

South Dakota Certificates of Deposit **Due 9/29/17**

Banks	Location	CD Amount
Dacotah Bank	Aberdeen	\$ 3,308,000
State Bank of Alcester	Alcester	250,000
Citizens State Bank	Arlington	250,000
Community Bank	Avon	250,000
First Bank & Trust	Brookings	2,614,000
Bryant State Bank	Bryant	250,000
One American Bank	Centerville	250,000
First Financial Bank	Dupree	250,000
Liberty Financial Services	Elk Point	342,000
BankStar Financial	Elkton	304,000
Security State Bank	Emery	250,000
Reliabank Dakota	Estelline	585,000
Great Plains Bank	Eureka	250,000
First National Bank	Frederick	250,000
Farmers State Bank	Hosmer	250,000
Plains Commerce Bank	Hoven	1,256,000
Miner County Bank	Howard	250,000
Premier Bank of Hudson	Hudson	250,000
Ipswich State Bank	Ipswich	250,000
Menno State Bank	Menno	250,000
Quoin Financial Bank	Miller	277,000
CorTrust Bank	Mitchell	1,472,000
Sunrise Bank Dakota	Onida	250,000
Farmers State Bank	Parkston	273,000
First National Bank	Pierre	937,000
Farmers & Merchants State Bank	Plankinton	250,000
Dakota Prairie Bank	Presho	250,000
Heartland State Bank	Redfield	250,000
Frontier Bank/IA	Rock Rapids	250,000
First State Bank of Roscoe	Roscoe	250,000
Farmers & Merchants State Bank	Scotland	250,000
Great Western Bank	Sioux Falls	6,352,000
Farmers State Bank	Stickney	252,000
Peoples State Bank	Summit	250,000
Farmers State Bank	Turton	250,000
Security State Bank	Tyndall	299,000
Commercial State Bank	Wagner	250,000
First State Bank	Warner	250,000
American Bank & Trust	Wessington Springs	1,190,000
First State Bank	Wilmot	250,000
Total Banks		\$ 25,961,000

Savings Association

Security Savings Bank	Canton	\$ 250,000
Total Savings Association		\$ 250,000

Credit Unions

Black Hills Federal CU	Rapid City	\$ 2,000,000
Healthcare Plus Federal CU	Aberdeen	250,000
Avanti Federal CU	Watertown	250,000
Minuteman Community Federal CU	Rapid City	250,000
Sioux Empire Federal CU	Sioux Falls	250,000
Total Credit Unions		\$ 3,000,000

Total Certificates of Deposit	\$ 29,211,000
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AGGRESSIVE ABSOLUTE RETURN: A non-directional strategy designed to generate a steady return no matter what the market does.

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

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

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

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.

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

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

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 was used for benchmarking purposes during fiscal years 2003-2015.

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

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

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

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

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

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.

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

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

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

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

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

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

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

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

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

INFLATION: The rate at which the general level of prices 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 47 developed and emerging market country indices. It has been used for benchmarking purposes since fiscal year 2005.

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

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

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

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

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

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

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

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

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

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

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

REAL RETURN: Actual return minus inflation.

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

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

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

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

STANDARD AND POOR'S MIDCAP 400[®] INDEX: The index is a market-capitalization-weighted index of 400 mid-cap U.S. companies. It has been used for benchmarking purposes since fiscal year 2011.

STANDARD AND POOR'S SMALLCAP 600[®] INDEX: The index is a market-capitalization-weighted index of 600 small-cap U.S. companies. It has been used for benchmarking purposes since fiscal year 2011.

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

STATE FUND MEDIAN: Median rate of return for the state fund universe. The returns are reported net-of-fees fiscal years 2014-2017 and gross-of-fees fiscal years 1974-2013.

STATE FUND UNIVERSE: A universe linking two state fund universe medians to form a 44-year performance history. The most recent 34 years represents a group of over 50 state funds. The prior nine years of the universe represent the SEI state universe. This universe was the largest state universe available at the time.

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

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

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

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

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

1 Citigroup US Broad Investment Grade (USBIG) Bond Index in fiscal years 1990-2017 and Lehman Brothers US Aggregate Bond Index in prior periods.

2 Citigroup USBIG Bond Index in fiscal years 2007-2017, Citigroup USBIG Bond Index duration adjusted weighted 80% and Citigroup All BB-Rated Index weighted 20% in fiscal years 1996-2006, Citigroup USBIG Bond Index in fiscal years 1981-1995, and Lehman Brothers Government/Corporate Index in prior periods.

3 The annual returns for the US Consumer Price Index-All Urban Consumers (CPI-U) for the most recent 14 years and the 5, 10, 15, 20, 25, 30, and 44-year annualized returns as of 6/30/17 are as follows:

Fiscal Year	Annual Return	Fiscal Year	Annual Return	Annualized Returns of as 6/30/17
2017	1.6%	2010	1.1%	5 Years 1.3%
2016	1.0%	2009	(1.4%)	10 Years 1.6%
2015	0.1%	2008	5.0%	15 Years 2.1%
2014	2.1%	2007	2.7%	20 Years 2.1%
2013	1.8%	2006	4.3%	25 Years 2.3%
2012	1.7%	2005	2.5%	30 Years 2.6%
2011	3.6%	2004	3.3%	44 Years 4.0%

4 **Investment Grade Fixed Income:** Citigroup USBIG Bond Index (1981-2017), Lehman Brothers Gov/Corp Index (1974-1980). **Cash:** Citigroup US 3-Month Treasury Bill Index (1974-2017). **Global Equity:** $\frac{2}{3}$ MSCI ACWI + $\frac{1}{3}$ MSCI US Index (2005-2017). **Domestic Equity:** Russell 1000 Index (1996-2004), S&P 500 Index (1974-1995). **International Equity:** MSCI ACWI ex-US Index (2002-2004), $\frac{3}{4}$ MSCI EAFE + $\frac{1}{4}$ MSCI EASEA Index (1997-2001), MSCI EAFE Index (1996), MSCI EAFE $\frac{1}{2}$ Japan Index (1993-1995). **Arbitrage:** weighted index (1999-2011), Merger Custom Index (2008-2011), 3-Month Treasury Bill Index +4.25% (1993-2007), Convertible Benchmark (1999-2011). **Real Estate:** MSCI US REIT Index (2014-2017), NCREIF Property Index +1.25% (2011-2013), NCREIF Property Index (2002-2010), NCREIF Classic Property Index (1995-2001). **Private Equity:** S&P 500 (2014), S&P 500 +1.75% (2011-2013), S&P 500 +3.5% (2005-2010), Russell 1000 +3.5% (2002-2004), Russell 1000 +5.0% (1999-2001). **High Yield Debt (Corporate & Real Estate):** Citigroup High-Yield Market Index (2003-2017). **Commodities:** S&P GSCI (2003-2015). **TIPS:** Citigroup US-ILSI (2012-2015).

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

	IG FI	Cash	Gbl EQ & Dom/Intl	Arb	RE	PE	HY Debt	Comm	TIPS
07/15 - 06/17	23%	2%	58%	0%	10%	0%	7%	0%	0%
07/14 - 06/15	19%	2%	60%	0%	10%	0%	7%	1%	1%
07/12 - 06/14	18%	2%	56%	0%	8%	7%	7%	1%	1%
07/11 - 06/12	18%	2%	58%	0%	8%	5%	7%	1%	1%
07/09 - 06/11	18%	1%	57%	5%	7%	5%	6%	1%	0%
07/06 - 06/09	18%	1%	57%	7%	5%	5%	6%	1%	0%
07/05 - 06/06	18%	1%	57%	7%	6%	4%	6%	1%	0%
07/04 - 06/05	19%	1%	57%	5%	6%	4%	7%	1%	0%
07/03 - 06/04	19%	1%	40% / 16%	6%	7%	4%	6%	1%	0%
07/02 - 06/03	19%	1%	40% / 16%	7%	7%	3%	6%	1%	0%
07/01 - 06/02	23%	1%	40% / 16%	9%	8%	3%	0%	0%	0%
07/99 - 06/01	23%	5%	36% / 16%	9%	8%	3%	0%	0%	0%
07/98 - 06/99	23%	4%	40% / 16%	8%	7%	2%	0%	0%	0%
07/97 - 06/98	23%	7%	40% / 16%	7%	7%	0%	0%	0%	0%
07/96 - 06/97	25%	7%	40% / 15%	6%	7%	0%	0%	0%	0%
07/95 - 06/96	25%	6%	42% / 15%	8%	4%	0%	0%	0%	0%
07/94 - 06/95	31%	5%	41% / 13%	9%	1%	0%	0%	0%	0%
07/93 - 06/94	33%	7%	45% / 9%	6%	0%	0%	0%	0%	0%
07/92 - 06/93	35%	9%	49% / 5%	2%	0%	0%	0%	0%	0%
07/90 - 06/92	38%	10%	52% / 0%	0%	0%	0%	0%	0%	0%
07/86 - 06/90	38%	7%	55% / 0%	0%	0%	0%	0%	0%	0%
07/78 - 06/86	50%	10%	40% / 0%	0%	0%	0%	0%	0%	0%
07/73 - 06/78	65%	10%	25% / 0%	0%	0%	0%	0%	0%	0%

5 Citigroup High-Yield Cash-Pay Capped Index in fiscal years 2011-2017 and the Citigroup All BB-Rated Index in fiscal years 2007-2010.

6 Weighted index of Bank of America Merrill Lynch 1-5 year US Treasuries, 1-3 year A-AAA rated US Corporates, and 3-6 month US Treasury Bills (2005-2017); equal-weighted yields of the 3-month and 6-month Treasury Bills and the 1-year, 2-year, 3-year, and 5-year Treasury Bonds (1987-2004).

7 Composites are valued monthly and portfolio returns are weighted by

using beginning-of-month fair values or weighted cash flows.

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

9 The South Dakota Department of Legislative Audit conducted the South Dakota Investment Council fiscal year 2017 annual and interim procedures audit work for total fees of \$42,669.

10 The 1-year total fund performance results are presented net-of-fees for fiscal years 2014-2017 and gross-of-fees in prior periods.

11 Management fee rates (excluding profit sharing) as of June 30, 2017 in basis points (bp):

Investment Office (expected average)	10 bp
Ares European Real Estate Fund II	0 bp
Apollo Real Estate Investments Fund III & IV	0 bp
Blackstone Capital Partners IV	0 bp
Blackstone Capital Partners V	25 bp
Blackstone Capital Partners VI	75 bp
Blackstone Capital Partners VII	150 bp
Blackstone Credit Liquidity Partners	0 bp
Blackstone Distressed Securities Fund	0 bp
Blackstone Energy Partners II	150 bp
Blackstone Real Estate Partners IV & IV - ML	0 bp
Blackstone Real Estate Partners V & V - ML	0 bp
Blackstone Real Estate Partners VI	125 bp
Blackstone Real Estate Partners VI - LC	150 bp
Blackstone Real Estate Partners VII	150 bp
Blackstone Real Estate Partners VIII	125 bp
Blackstone Real Estate Partners VIII - BMR	100 bp
Blackstone Real Estate Partners Europe III	125 bp
Blackstone Real Estate Partners Europe V	125 bp
Blackstone Real Estate Partners International I & II	0 bp
Brandes International Mid Cap Portfolio	
\$0-\$25 Million -	95 bp
\$25-\$50 Million -	90 bp
over \$50 Million -	80 bp
Bridgewater Pure Alpha Fund II (embedded)	150 bp + incentive
Capital International Private Equity Fund IV	0 bp
Capital International Private Equity Fund V	100 bp
Capital International Private Equity Fund VI	100 bp
Carlyle Partners IV	0 bp
Carlyle Partners V	59 bp
Carlyle Partners VI	130 bp
The Fourth Cinven Fund	0 bp
The Fifth Cinven Fund	125 bp
The Sixth Cinven Fund	143 bp
Crossroads Cornerstone P.E. XV-B	125 bp
CVC European Equity Partners IV	0 bp
CVC European Equity Partners V	100 bp
CVI Global Value Fund A	0 bp
Cypress Merchant Banking Partners II	0 bp
Dimensional Emerging Markets Small Cap (embedded)	72 bp
Doughty Hanson & Co. European Real Estate II	0 bp
Doughty Hanson & Co. IV	0 bp
Doughty Hanson & Co. V	75 bp
Elevation Partners	0 bp
KKR European Fund I	0 bp
KKR European Fund II	75 bp
Lone Star Real Estate Fund II	45 bp
Lone Star Real Estate Fund III	60 bp
Lone Star Real Estate Fund IV	60 bp
Lone Star Real Estate Fund V	120 bp
North American Real Estate Partners II & II - HF	0 bp

PineBridge Global Emerging Markets Partners I & II	0 bp
PIMCO (tax-exempt)	25 bp
Riverstone/Carlyle Global Energy & Power Fund IV	75 bp
Riverstone Global Energy & Power Fund V	100 bp
Riverstone Global Energy & Power Fund VI	150 bp
Rockpoint Real Estate Fund IV	142 bp
Rockpoint Real Estate Fund V	131 bp
Sanders Capital All Asset Value Fund	125 bp
Sanders Capital (Global Value Equities)	
\$0-\$15 Million -	90 bp
\$15-\$50 Million -	50 bp
over \$50 Million -	40 bp
Silver Lake Partners II	0 bp
Silver Lake Partners III	100 bp
Silver Lake Partners IV	150 bp
Silver Lake Sumeru Fund	150 bp
Starwood Distressed Opportunity Fund IX Global	125 bp
Starwood Opportunity Fund X Global	100 bp
Starwood Opportunity Fund X Global - TMI	125 bp
Starwood Opportunity Fund XI Global	100 bp
TCW Opportunistic MBS Strategy	50 bp
Vanguard High-Yield Fund (embedded)	13 bp

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

13 Past performance is no guarantee of future results.

14 **Investment Grade Fixed Income:** Citigroup USBIG Bond Index (February 2001-2017), Salomon Smith Barney Treasury/GNMA Index (1985 - January 2001). **Global Equity:** $\frac{2}{3}$ S&P Global 1200 + $\frac{1}{3}$ S&P 500 Index (2012-2017 and 2007-2010), $\frac{2}{3}$ S&P Global 1200 Ex-Iran + $\frac{1}{3}$ S&P 500 Index (2011), $\frac{2}{3}$ MSCI ACWI + $\frac{1}{3}$ MSCI US Index (2006). **Domestic Equity:** S&P 500 Index (2005), Russell 1000 Index (February 2001-2004). **International Equity:** MSCI ACWI ex-US Index (2005). **High Yield Debt (Corporate & Real Estate):** Citigroup High-Yield Market Index (2010-2017 and February 2001-2006), Citigroup All BB-Rated Index (2007-2009). **TIPS:** Citigroup US-ILSI (2007-2015). **Cash/Commodities:** Citigroup US 3-Month Treasury Bill Index (2007-2017). **Real Estate:** MSCI US REIT Index (2014-2017), NCREIF Property Index +1.25% (2011-2013), NCREIF Property Index (2007-2010). **Private Equity:** S&P 500 (2014), S&P 500 +1.75% (2011-2013), S&P 500 +3.5% (2007-2010).

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

	IG FI	Globl EQ & Dom / Intl	HY Debt	TIPS	Cash/Comm	RE	PE
07/15 - 06/17	30%	51%	7%	0%	2%	10%	0%
07/14 - 06/15	26%	53%	7%	2%	2%	10%	0%
07/11 - 06/14	28%	52%	5%	5%	2%	6%	2%
07/06 - 06/11	33%	48%	5%	5%	2%	5%	2%
07/05 - 06/06	40%	50%	10%	0%	0%	0%	0%
07/04 - 06/05	40%	40% / 10%	10%	0%	0%	0%	0%
07/03 - 06/04	50%	40% / 0%	10%	0%	0%	0%	0%
07/02 - 06/03	60%	30% / 0%	10%	0%	0%	0%	0%
07/01 - 06/02	70%	20% / 0%	10%	0%	0%	0%	0%
02/01 - 06/01	Weighted based on Investment Council asset allocation.						
07/84 - 01/01	100%	0% / 0%	0%	0%	0%	0%	0%

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

16 **Investment Grade Fixed Income:** Citigroup USBIG Bond Index (2002-2017). **Global Equity:** $\frac{2}{3}$ S&P Global 1200 + $\frac{1}{3}$ S&P 500 Index (2012-2017 and 2007-2010), $\frac{2}{3}$ S&P Global 1200 Ex-Iran + $\frac{1}{3}$ S&P 500 Index (2011), $\frac{2}{3}$ MSCI ACWI + $\frac{1}{3}$ MSCI US Index (2006). **Domestic Equity:** S&P 500 Index (2005), Russell 1000 Index (2002-2004). **International Equity:** MSCI ACWI ex-US Index (2005). **Real Estate:** weighted index (2006), MSCI US REIT Index (2014-2017 and 2005-2006), NCREIF Property Index +1.25% (2011-2013), NCREIF Property Index (2006-2010), REIT Benchmark (2002-2004). **High Yield Debt (Corporate & Real Estate):** Citigroup High-Yield Market Index (2010-2017),

Citigroup All BB-Rated Index (2002-2009). **TIPS:** Citigroup US-ILSI (2007-2015). **Cash/Commodities:** Citigroup US 3-Month Treasury Bill Index (2007-2017). **Private Equity:** S&P 500 (2014), S&P 500 +1.75% (2011-2013), S&P 500 +3.5% (2007-2010).

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

	IG FI	Globl EQ & Dom / Intl	RE	HY Debt	TIPS	Cash/Comm	PE
07/15 - 06/17	30%	51%	10%	7%	0%	2%	0%
07/14 - 06/15	26%	53%	10%	7%	2%	2%	0%
07/11 - 06/14	28%	52%	6%	5%	5%	2%	2%
07/06 - 06/11	33%	48%	5%	5%	5%	2%	2%
07/05 - 06/06	40%	40%	10%	10%	0%	0%	0%
07/04 - 06/05	50%	20% / 5%	15%	10%	0%	0%	0%
07/01 - 06/04	55%	20% / 0%	15%	10%	0%	0%	0%

17 **Investment Grade Fixed Income:** Citigroup USBIG Bond Index (2003-2017). **Tax-Exempt Fixed Income:** Barclays Capital Municipal 7 Year Index (2003-2017). **Global Equity:** $\frac{2}{3}$ S&P Global 1200 + $\frac{1}{3}$ S&P 500 Index (2012-2017 and 2007-2010), $\frac{2}{3}$ S&P Global 1200 Ex-Iran + $\frac{1}{3}$ S&P 500 Index (2011), $\frac{2}{3}$ MSCI ACWI + $\frac{1}{3}$ MSCI US Index (2006). **Domestic Equity:** S&P 500 Index (2005), Russell 1000 Index (2003-2004). **International Equity:** MSCI ACWI ex-US Index (2005). **Real Estate:** weighted index (2006), MSCI US REIT Index (2014-2017 and 2005-2006), NCREIF Property Index +1.25% (2011-2013), NCREIF Property Index (2006-2010), REIT Benchmark (2003-2004). **High Yield Debt (Corporate & Real Estate):** Citigroup High-Yield Market Index (2010-2017 and 2003-2006), Citigroup All BB-Rated Index (2007-2009). **TIPS:** Citigroup US-ILSI (2003-2015). **Cash/Commodities:** Citigroup US 3-Month Treasury Bill Index (2007-2017). **Private Equity:** S&P 500 (2014), S&P 500 +1.75% (2011-2013), S&P 500 +3.5% (2007-2010).

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

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

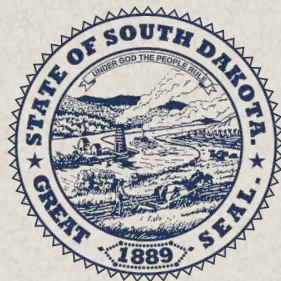
18 **Investment Grade Fixed Income:** Citigroup USBIG Bond Index (2003-2017). **Global Equity:** $\frac{2}{3}$ S&P Global 1200 + $\frac{1}{3}$ S&P 500 Index (2012-2017 and 2007-2010), $\frac{2}{3}$ S&P Global 1200 Ex-Iran + $\frac{1}{3}$ S&P 500 Index (2011), $\frac{2}{3}$ MSCI ACWI + $\frac{1}{3}$ MSCI US Index (2006). **Domestic Equity:** S&P 500 Index (2005), Russell 1000 Index (2003-2004). **International Equity:** MSCI ACWI ex-US Index (2005). **Real Estate:** weighted index (2006), MSCI US REIT Index (2014-2017 and 2005-2006), NCREIF Property Index +1.25% (2011-2013), NCREIF Property Index (2006-2010), REIT Benchmark (2003-2004). **High Yield Debt (Corporate & Real Estate):** Citigroup High-Yield Market Index (2010-2017 and 2003-2006), Citigroup All BB-Rated Index (2007-2009). **TIPS:** Citigroup US-ILSI (2003-2015). **Cash/Commodities:** Citigroup US 3-Month Treasury Bill Index (2007-2017). **Private Equity:** S&P 500 (2014), S&P 500 +1.75% (2011-2013), S&P 500 +3.5% (2007-2010).

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

	IG FI	Globl EQ & Dom / Intl	RE	HY Debt	TIPS	Cash/Comm	PE
07/15 - 06/17	30%	51%	10%	7%	0%	2%	0%
07/14 - 06/15	26%	53%	10%	7%	2%	2%	0%
07/11 - 06/14	28%	52%	6%	5%	5%	2%	2%
07/06 - 06/11	33%	48%	5%	5%	5%	2%	2%
07/05 - 06/06	35%	40%	10%	10%	5%	0%	0%
07/04 - 06/05	40%	24% / 6%	10%	10%	10%	0%	0%
07/02 - 06/04	45%	25% / 0%	10%	10%	10%	0%	0%

- 19 The SDRS Combined Internal Equity Benchmark consists of the $\frac{2}{3}$ S&P Global 1200 + $\frac{1}{3}$ S&P 500 Index in fiscal years 2012-2017 and 2005-2010; in fiscal year 2011 the $\frac{2}{3}$ S&P Global 1200 Ex-Iran + $\frac{1}{3}$ S&P 500 Index was used. Prior to fiscal year 2010, the benchmark consisted of the International Equity Benchmark (MSCI ACWI ex-US Index in fiscal years 2002-2004 and $\frac{3}{4}$ MSCI EAFE + $\frac{1}{4}$ MSCI EASEA Index in fiscal years 1993-2001) and the Domestic Equity Benchmark (Russell 1000 Index in fiscal years 1996-2004 and S&P 500 Index in fiscal years 1974-1995) weighted according to the beginning monthly portfolio weights, adjusted for cash transfers.
- 20 Russell 1000 Index in fiscal years 1996-2004 and S&P 500 Index in prior periods.
- 21 The Convertible Benchmark was calculated using the duration-adjusted Bank of America Merrill Lynch Corporate Bond Indices for each rating category for the bond portion and the prime money market rate plus 100 basis points annually for the hedged equity option portion. It was based on the risk characteristics of the portfolio.
- 22 The Merger Benchmark was the implemented Merger index portfolio from January 1, 2011 - June 30, 2012, the Merger Custom Index from July 1, 2007 - December 31, 2010, and the 3-Month Treasury Bill Index return plus 4.25% annually in prior periods.
- 23 Asset growth is affected by contributions, withdrawals, management fees, and investment income.
- 24 Investment income includes realized and unrealized capital gain/loss income and receipted and accrued securities income.
- 25 New fund with manager accruing fees and/or expenses but no capital called as of June 30, 2017.
- 26 The Real Estate Benchmark consists of the MSCI US REIT Index in fiscal years 2014-2017, NCREIF Property Index + 1.25% in fiscal years 2011-2013, NCREIF Property Index in fiscal years 2002-2010, and NCREIF Classic Property Index from December 1994 - June 2001.
- 27 The Private Equity Benchmark consists of the $\frac{2}{3}$ MSCI ACWI + $\frac{1}{3}$ MSCI US Index in fiscal year 2015-2017, S&P 500 Index in fiscal year 2014, S&P 500 Index + 1.75% in fiscal years 2011-2013, S&P 500 + 3.5% in fiscal years 2005-2010, Russell 1000 + 3.5% in fiscal years 2002-2004, and Russell 1000 + 5.0% in fiscal years 1999-2001.
- 28 The South Dakota Cement Plant Retirement Fund (CPRF) was consolidated into the South Dakota Retirement System (SDRS) on April 1, 2014, per SDCL 3-12-217. For fiscal years 1973-2013, CPRF assets are included with SDRS.

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The South Dakota Investment Council printed 250 copies of this annual report at a cost of \$1.35 per copy.

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