SOUTH DAKOTA INVESTMENT COUNCIL

AUDIT REPORT

Fiscal Year Ended June 30, 2015

State of South Dakota
Department of Legislative Audit
427 South Chapelle
c/o 500 East Capitol
Pierre, SD 57501-5070

SOUTH DAKOTA INVESTMENT COUNCIL
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DEPARTMENT OF LEGISLATIVE AUDIT

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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

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

Executive Board
Legislative Research Council

and

Investment Council
State of South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Cash Flow, School and Public Lands, Dakota Cement Trust, Education Enhancement Trust, and Health Care Trust portfolios, which comprise the statement of net position as of June 30, 2015, and the related statement of changes in net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 22, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the South Dakota Investment Council's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the South Dakota Investment Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the South Dakota Investment Council's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Martin L. Guindon, CPA
Auditor General

September 22, 2015

STATE OF SOUTH DAKOTA
DEPARTMENT OF LEGISLATIVE AUDIT

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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

Executive Board
Legislative Research Council

and

Investment Council
State of South Dakota

Report on the Financial Statements
We have audited the accompanying financial statements of the Cash Flow, School and Public Lands, Dakota Cement Trust, Education Enhancement Trust, and Health Care Trust portfolios as of and for the fiscal year ended June 30, 2015, and related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the

entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the portfolios listed above as of June 30, 2015, and the changes in their financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

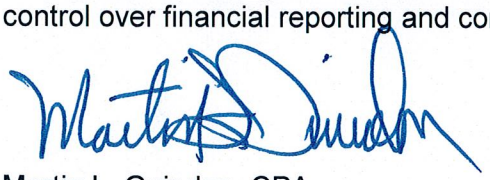
As explained in the following table and in Note 2 to the financial statements, the financial statements include investments whose carrying values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund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

Portfolio	Amount	Percent of Financial Position
School and Public Lands	$ 41,462,213	16%
Dakota Cement Trust	$ 55,666,041	18%
Education Enhancement Trust	$ 84,739,235	16%
Health Care Trust	$ 23,008,085	17%

The financial statements present only the above referenced investment portfolios managed by the South Dakota Investment Council and do not purport to, and do not, present fairly the financial position of the State of South Dakota, as of June 30, 2015, the changes in its financial position, or, where applicable, its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this manner.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2015, on our consideration of the South Dakota Investment Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Dakota Investment Council's internal control over financial reporting and compliance.



Martin L. Guindon, CPA
Auditor General

September 22, 2015

South Dakota Investment Council
Statement of Net Position
As of June 30, 2015

	Cash Flow Portfolio	School and Public Lands Portfolio	Dakota Cement Trust Portfolio	Education Enhancement Trust Portfolio	Health Care Trust Portfolio
Assets					
Cash & cash equivalents	$ 227,799,265	$ 50,491,002	$ 57,361,718	$ 108,739,999	$ 28,690,055
Receivables					
Investment income receivable	3,833,707	661,427	771,919	1,515,451	338,001
Total receivables	3,833,707	661,427	771,919	1,515,451	338,001
Investments, at fair value					
Fixed income	1,113,105,806	72,847,985	88,635,049	143,639,741	39,144,299
Equities	-	110,703,792	118,978,249	201,417,320	53,288,830
Real estate	-	21,035,093	29,835,292	44,454,946	12,062,313
Private equity	-	7,035,863	9,917,434	14,861,347	4,050,224
Total investments	1,113,105,806	211,622,733	247,366,024	404,373,354	108,545,666
Other assets	-	1,322,466	-	-	-
Total assets	1,344,738,778	264,097,628	305,499,661	514,628,804	137,573,722
Liabilities					
Unsettled investment purchases	40,160,347	87,740	105,288	462,061	45,625
Earnings distribution - declared	16,728,885	-	-	17,036,734	4,674,130
Total liabilities	56,889,232	87,740	105,288	17,498,795	4,719,755
Net Position	$ 1,287,849,546	$ 264,009,888	$ 305,394,373	$ 497,130,009	$ 132,853,967

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

South Dakota Investment Council
Statement of Changes in Net Position
For the fiscal year ended June 30, 2015

	Cash Flow Portfolio	School and Public Lands Portfolio	Dakota Cement Trust Portfolio	Education Enhancement Trust Portfolio	Health Care Trust Portfolio
Additions:					
Contributions	$ 46,710,713	$ 8,713,170	$ -	$ 5,520,853	$ -
Investment income (loss):					
From investing activities:					
Net appreciation (depreciation) in fair value of investments	(2,169,292)	5,075,214	7,545,860	10,447,025	3,062,949
Interest	14,992,005	2,228,555	2,712,816	4,785,521	1,194,624
Dividends	-	2,801,053	3,081,521	5,182,938	1,391,687
Real estate income	-	599,037	752,570	1,181,518	328,289
Investment income	12,822,713	10,703,859	14,092,767	21,597,002	5,977,549
Less investment activity expense	(1,752,475)	(48,631)	(269,411)	(627,173)	(148,667)
Net investment activity income	11,070,238	10,655,228	13,823,356	20,969,829	5,828,882
From security lending activities:					
Security lending income	-	20,260	17,677	30,025	7,723
Security lending expenses	-	(6,032)	(5,299)	(9,001)	(2,315)
Net security lending activity income	-	14,228	12,378	21,024	5,408
Total investment income	11,070,238	10,669,456	13,835,734	20,990,853	5,834,290
Total additions	57,780,951	19,382,626	13,835,734	26,511,706	5,834,290
Deductions:					
Statutorily Required Distributions	16,728,885	12,067,213	10,803,626	17,036,734	4,674,130
Total deductions	16,728,885	12,067,213	10,803,626	17,036,734	4,674,130
Net increase (decrease) in net position	41,052,066	7,315,413	3,032,108	9,474,972	1,160,160
Net position - Beginning of year	1,246,797,480	256,694,475	302,362,265	487,655,037	131,693,807
Net position - End of year	$ 1,287,849,546	$ 264,009,888	$ 305,394,373	$ 497,130,009	$ 132,853,967

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

SOUTH DAKOTA INVESTMENT COUNCIL
INVESTMENT PORTFOLIOS
NOTES TO THE FINANCIAL STATEMENTS

1. Reporting Entity:

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

The statements represent the financial activity of the Cash Flow, School and Public Lands, Dakota Cement Trust, Education Enhancement Trust, and Health Care Trust portfolios. The statements report investments by each portfolio. The Cash Flow portfolio represents the state's aggregate idle fund monies for all state funds, except certain funds for which separate portfolios have been established. The School and Public Lands portfolio represents assets held in permanent school funds. The Dakota Cement Trust portfolio represents proceeds from the sale of the South Dakota Cement Plant. The Education Enhancement Trust portfolio represents assets held in trust from the master settlement agreement between the State of South Dakota and major United States tobacco product manufacturers and other funds. The Health Care Trust portfolio represents assets held in trust from federal reimbursement for Medicaid and Medicare costs associated with publicly owned and operated nursing facilities.

2. Summary of Significant Accounting Policies:

a. Basis of Presentation:

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

b. Basis of Accounting:

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

c. Cash and Cash Equivalents:

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

d. Valuation of Securities:

Investments are reported at fair value, which approximates market value, in accordance with GASB Statement No. 31. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Certificates of deposit are reported at cost and U.S. Treasury bills are reported at cost plus accrued interest, which is a reasonable estimate of fair value. Fair values for the fixed income securities are index prices obtained from Bank of America Merrill Lynch for investment-grade and high-yield securities, Citigroup Global Markets for agency mortgage-backed securities, and Bloomberg Financial Markets for short-term (less than one year) fixed income securities. Domestic and Canadian equity security fair values are obtained from FT Interactive Data and are based on the composite price which is the last price transmitted for a security. Non-Canadian foreign equity security values are obtained from Exshare and are based on an exchange-specific closing price for a security. Spot foreign currency exchange rates are obtained from Reuters. Investments denominated in foreign currencies are translated into USD using the year-end spot foreign currency exchange rates.

Alternative investments consist of investments in a variety of markets and industries through limited partnerships, corporate entities, and other investment vehicles. For investments where no readily determinable fair value exists, the SDIC valuation estimates are based on valuations of the underlying companies as determined and reported by the fund manager or general partner. For alternative investments, the SDIC has determined that the net asset value reported by the underlying fund approximates the fair value of the investment. These fair values estimates are subjective and based on judgment. The alternative investments fair values as a percentage of net position on June 30, 2015 for Cash Flow, School and Public Lands, Dakota Cement Trust, Education Enhancement Trust, and Health Care Trust portfolios were 0%, 16%, 18%, 16%, and 17%, respectively.

Foreign exchange rate gains and losses are included with the net appreciation in fair value of investments.

e. Use of Estimates:

The preparation of financial statements in accordance with GAAP requires management to make estimates that affect the reported amounts of net position on June 30, 2015. Actual results could differ from those estimates.

3. Deposits, Investments and Securities Lending:

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

(1) Direct and indirect obligations of the United States government;

(2) Agencies and instrumentalities of the United States government;

(3) Direct obligations of the State of South Dakota and any of its political subdivisions;

(4) Obligations consisting of notes, bonds, debentures, and certificates which are direct obligations of a solvent corporation or trust existing under the laws of the United States or any state thereof, if such investments are rated in the four highest classifications established by at least two standard rating services at the time of purchase;

(5) Savings accounts, share accounts, certificates of deposit of banks, savings and loan associations, building and loan associations and bankers' acceptances;

(6) In addition to the investments authorized by subdivisions (1) to (5) of this section, inclusive, the investment council may also allocate a sum certain of state public funds for investment in the accounts and certificates of South Dakota banks and associations. This sum shall initially be offered to South Dakota banks and associations, and if not initially fully subscribed, the investment officer shall immediately reoffer the unsubscribed sum to other qualified public depositories. "Qualified public depository" is a state bank and loan association or federally chartered credit union located in this state which receives or holds public deposits and segregates eligible collateral for public deposits.

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

Deposits:

Custodial Credit Risk. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Cash Flow portfolio's certificates of deposit and other deposits in state financial institutions in excess of depository insurance must be 100% collateralized. Collateral is valued at the lower of cost or market as reported in the quarterly call reports prepared by the qualified public depositories pursuant to SDCL 4-6A-7. Collateral is required to be segregated by each depository as approved by the South Dakota Public Deposit Protection Commission. Collateral may not be held in any safety deposit vault owned or controlled either directly or indirectly by the pledging financial institution, but must be deposited for safekeeping in a financial institution that is a member of the Federal Reserve. On June 30, 2015, pledged collateral for two depositories did not equal at least

100 percent of the total public deposits in excess of depository insurance. As a result, $38,242 of the Cash Flow portfolio's certificates of deposit was exposed to custodial credit risk.

The SDIC has a formal deposit policy specific to custodial credit risk for the global equity portfolios of School and Public Lands, Dakota Cement Trust, Education Enhancement Trust, and Health Care Trust. The policy states that the USD equivalent of any non-USD currency cannot exceed 2.0% of the portfolio fair value on a trade date + 7 day basis. On June 30, 2015, these portfolios had bank balances in various foreign currencies. These deposits are not collateralized or covered by depository insurance. As a result, the following amounts were exposed to custodial credit risk:

	School & Public Lands Portfolio	Dakota Cement Trust Portfolio	Education Enhancement Trust Portfolio	Health Care Trust Portfolio
Foreign Currency Balances	$62,814	$288,803	$311,629	$98,256

Investments:

Securities Lending. State statutes and the SDIC policies permit the use of investments for securities lending transactions. These transactions involve the lending of corporate debt, foreign equity securities, and domestic equity securities to broker-dealers for collateral in the form of securities, with the simultaneous agreement to return the collateral for the same securities in the future. The SDIC's securities custodian is an agent in lending securities and shall accept only U.S. Government securities or its agencies as collateral for any loan or loaned securities. The collateral required must equal 102% of fair value plus accrued interest for corporate debt securities, 102% of fair value for U.S. equity securities and 105% of fair value for foreign securities except in the case of loans of foreign securities which are denominated and payable in USD, in which event the collateral required is 102% of fair value. The earnings generated from the collateral investments results in the gross earnings from lending activities, which is then split on a percentage basis with the lending agent.

The fair value of securities on loan as of June 30, 2015 was $6,033,219 and the collateral held on the same date was $6,193,339. The SDIC has no credit risk exposure to borrowers because the amounts the SDIC owes the borrowers exceed the amounts the borrowers owe the SDIC. The contract with the lending agent requires the agent to indemnify the SDIC if the borrowers fail to return the loaned securities and the collateral is inadequate to replace the securities lent.

All securities loans can be terminated on demand by either the SDIC or the borrower. The SDIC does not have the ability to pledge or sell collateral securities unless the borrower defaults, therefore no asset and corresponding liability for the collateral value of securities received has been established on the Statement of Net Position. Regarding restrictions on loans, the securities lending agreement does limit the total value of securities that can be out on loan on any given day.

Custodial Credit Risk. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The SDIC's securities lending policies are detailed in the preceding Securities

Lending section. As of June 30, 2015, the SDIC does not have custodial credit risk with regard to the security lending.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. SDIC policy limits or establishes ranges for the durations of the fixed income portfolios held by the various funds. Modified duration estimates the sensitivity of a bond's price to interest rate changes. The Cash Flow duration portfolio policy limits average portfolio duration to 2.88 years, and no holding's maturity can exceed 5.25 years. The investment grade fixed income portfolios of Dakota Cement Trust, Health Care Trust, Education Enhancement Trust, and School and Public Lands are benchmarked to the duration of the Citigroup Broad Investment Grade (BIG) Index. The trust funds' Treasury Inflation Protected Securities (TIPS) investments have a range of 5 to 10 years to maturity at purchase. The weighted modified durations (in years) of the various funds are listed in the following table.

	Cash Flow Portfolio		School & Public Lands Portfolio		Dakota Cement Trust Portfolio	
Investment Type	Fair Value	Wgtd. Mod. Dur.	Fair Value	Wgtd. Mod. Dur.	Fair Value	Wgtd. Mod. Dur.
U.S. Treasuries			$ 5,859,431	6.76	$ 7,207,647	6.76
U.S. Treasury Bills	$ 1,999,975	0.03				
U.S. Treasury STRIPS			709,653	10.24	872,888	10.24
U.S. Treasury Inflation Protected Securities			8,532,290	0.67	10,693,263	0.68
U.S. Agencies	266,169,849	2.00	5,158,870	7.09	6,687,050	7.27
U.S. Agency Discount Notes			419,999	0.15		
U.S. Government-Backed Loans			1,325,264	11.76		
Investment Grade Corporates	813,672,475	2.24	20,441,064	4.75	25,139,235	4.75
High Yield Corporates			430,760	7.30	531,271	7.30
High Yield Bond Mutual Fund			3,513,044	4.50	4,066,818	4.50
Agency Mortgage-Backed Securities			15,872,424	4.88	18,954,441	4.84
Non-Agency Mortgage-Backed Securities			11,864,640	0.54	14,239,240	0.55
TOTAL	$ 1,081,842,299		$ 74,127,439		$ 88,391,853	
Portfolio modified duration		2.18		4.11		4.01

	Education Enhancement Trust Portfolio		Health Care Trust Portfolio	
Investment Type	Fair Value	Wgtd. Mod. Dur.	Fair Value	Wgtd. Mod. Dur.
U.S. Treasuries	$ 5,973,343	6.76	$ 3,196,745	6.76
U.S. Treasury STRIPS	2,862,053	8.59	387,014	10.24
U.S. Treasury Inflation Protected Securities	16,836,885	0.68	4,653,969	0.68
U.S. Agencies	3,083,042	4.26	2,910,652	7.45
U.S. Agency Discount Notes	419,999	0.10		
Investment Grade Corporates	20,817,675	4.75	11,169,271	4.75
High Yield Corporates	438,965	7.30	235,893	7.30
High Yield Bond Mutual Fund	6,579,747	4.50	1,769,497	4.50
Agency Mortgage-Backed Securities	15,905,950	4.86	8,388,952	4.84
Non-Agency Mortgage-Backed Securities	22,579,193	0.53	6,382,197	0.53
Municipal Bonds	48,156,582	3.90		
TOTAL	$ 143,653,434		$ 39,094,190	
Portfolio modified duration		3.47		4.02

The School and Public Lands, Dakota Cement Trust, Education Enhancement Trust, and Health Care Trust fixed income portfolios invest in mortgage-backed securities. These securities are sensitive to prepayments by mortgagees, which is likely in declining interest rate environments, which can reduce the value of these securities.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. SDIC policy establishes a percentage range and a normal allocation to various credit risk categories. The Cash Flow duration portfolio can invest 4% of the portfolio into each corporate security rated Aaa or Aa, 2% in A-rated, 1% in Baa1 or Baa2, and 0.5% in individual holdings of corporate securities rated Baa3. The SDIC sets the investment policy annually for the Dakota Cement Trust, School and Public Lands, Education Enhancement Trust, and Health Care Trust portfolios. This policy establishes the benchmark percentage invested in each asset category and the minimum and maximum range that each asset category can vary during the fiscal year. On June 30, 2015, the portfolios held the following investments, excluding those issued by or explicitly guaranteed by the U.S. Government, which are not considered to have credit risk. The investments are grouped as rated by Moody's Investors Service (at fair value).

Moody's rating:	Cash Flow Portfolio	School & Public Lands Portfolio	Dakota Cement Trust Portfolio	Education Enhancement Trust Portfolio	Health Care Trust Portfolio
Aaa	$ 490,711,762	$ 64,473,299	$ 77,193,497	$ 126,221,442	$ 37,647,407
Aa	102,582,733	2,338,044	2,873,496	27,135,941	1,273,072
A	598,073,105	9,920,612	12,183,432	25,762,413	5,447,828
Baa	113,016,637	8,926,102	10,975,535	9,585,900	4,901,594
Ba		1,287,855	1,555,511	2,075,327	662,368
B		973,434	1,191,358	1,898,260	524,029
Caa		3,800,257	4,603,716	7,257,317	1,992,010
Ca		3,141,780	3,754,022	5,939,177	1,775,798
D		76,172	94,453	147,265	40,625
P-1		419,999		419,999	
Unrated		5,785,252	6,745,042	14,592,585	2,939,535
Total	$ 1,304,384,237	$ 101,142,806	$ 121,170,062	$ 221,035,626	$ 57,204,266

Concentration of Credit Risk. Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer. The Cash Flow portfolio has a policy in place limiting its investments in individual holdings. Information regarding the Cash Flow portfolio policy is located in the Credit Risk section. The SDIC does not have a formal policy in place to limit investments in any particular issuer for the Dakota Cement Trust, School and Public Lands, Education Enhancement Trust, and Health Care Trust portfolios. Additionally, there are no single issuer exposures (excluding those issued by or explicitly guaranteed by the U.S. Government, or involving mutual funds or investment pools) within the portfolios that comprise 5% of the overall portfolios on June 30, 2015.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The School and Public Lands, Dakota Cement Trust, Education Enhancement Trust, and Health Care Trust portfolios' exposure to foreign currency risk derives from their positions in foreign currency and foreign currency-denominated equity investments. To match the unhedged benchmark, the SDIC's normal policy is not to hedge foreign currency back to USD. SDIC's policy does allow hedging under certain circumstances when deemed appropriate by the State Investment Officer and portfolio manager. The portfolios' exposure to foreign currency risk on June 30, 2015 was as follows (in USD fair values):

Currency	School & Public Lands Portfolio Equities	School & Public Lands Portfolio Cash	Dakota Cement Trust Portfolio Equities	Dakota Cement Trust Portfolio Cash
British Pound	$ 6,603,147	$ 5,040	$ 7,932,269	$ 2,707
Canadian Dollar	1,327,197	10,258	1,385,274	11,599
Euro	5,254,997	17,635	6,389,935	20,095
Japanese Yen	3,341,996	29,881	2,365,830	254,402
South Korean Won	1,059,558		1,140,479	
Swiss Franc	7,571,457		8,211,152	
Total	$ 25,158,352	$ 62,814	$ 27,424,939	$ 288,803

Currency	Education Enhancement Trust Portfolio Equities	Education Enhancement Trust Portfolio Cash	Health Care Trust Portfolio Equities	Health Care Trust Portfolio Cash
British Pound	$ 13,917,585	$ 15,149	$ 3,620,791	$ 2,610
Canadian Dollar	2,277,494	19,460	676,010	5,350
Euro	10,699,495	33,672	2,797,956	9,112
Japanese Yen	3,832,450	243,348	972,113	81,184
South Korean Won	1,918,641		521,764	
Swiss Franc	13,288,163		3,571,114	
Total	$ 45,933,828	$ 311,629	$ 12,159,748	$ 98,256

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

	School & Public Lands Portfolio	Dakota Cement Trust Portfolio	Education Enhancement Trust Portfolio	Health Care Trust Portfolio
Distressed	$ 469,334	$ 765,619	$ 1,106,476	$ 280,552
Real Estate	21,035,093	29,835,292	44,454,946	12,062,313
Private Equity	7,035,863	9,917,434	14,861,347	4,050,224
Total	$ 28,540,290	$ 40,518,345	$ 60,422,769	$ 16,393,089

4. Rate of Return:

The percentage rates of return for fiscal year 2015 for the Cash Flow, School and Public Lands, Dakota Cement Trust, Education Enhancement Trust, and Health Care Trust portfolios were 1.3%, 4.2%, 4.6%, 4.3%, and 4.4%, respectively. The Cash Flow percentage was derived by dividing the total investment income by the average daily investment balances. The other percentages were derived using the net-of-fee time-weighted rate of return calculation and the geometric linking of those returns.

5. Derivatives:

Derivatives are generally defined as contracts whose values depend on, or derive from, the value of an underlying asset, reference rate, or index. The SDIC's portfolios may be exposed to various derivative products through the investment management of the SDIC and its external managers. During fiscal year 2015, no derivative instruments were utilized in the SDIC's internally-managed portfolios.

6. Proration of Investment Income:

The cash income received from pooled investments in the Cash Flow portfolio is prorated to state funds which have been certified as participating funds by the Legislative Appropriations Committee. The cash income is prorated to each individual participating fund using the ratio of its average daily cash balance to the total average daily cash balance of all funds. The income is distributed to the participating funds in the next fiscal year.

The cash income received from investments in the School and Public Lands portfolio is received and deposited into the trust fund. Annual distributions of the receipted income are distributed to the permanent school and other educational and charitable funds administered by the Commissioner of School and Public Lands.

The cash income from investments in the Dakota Cement Trust portfolio is received and deposited into the trust fund. By June 30th, annual distributions of four percent of the lesser of the average fair value of the sixteen most recent calendar quarter ends as of the prior December 31st or the fair value as of the prior December 31st are made from the Dakota Cement Trust to the State General Fund.

The cash income from investments in the Education Enhancement Trust and Health Care Trust portfolios is received and deposited into the respective trust funds. At the beginning of each fiscal year, amounts equal to four percent of the average fair value at the end of the sixteen most recent calendar quarter ends as of the prior December 31st are transferred from the Education Enhancement Trust and the Health Care Trust portfolios to the State General Fund. The transfer amount cannot invade the principal of either trust.

Per SDCL 4-5-30, amounts equal to the Dakota Cement Trust, Education Enhancement Trust, and Health Care Trust portfolios' pro rata shares of the SDIC fiscal year budgeted expenditures are transferred to the SDIC Operating Expense Fund. An amount equal to the Cash Flow and School and Public Lands portfolios' pro rata share of the SDIC fiscal year budgeted expenditures is deducted from the Cash Flow portfolio income and transferred to the SDIC Operating Expense Fund.

7. Commitments:

On June 30, 2015, the SDIC had uncalled capital commitments to private equity and real estate limited partnerships funds. The commitments may be called at the discretion of the general partner or may never be called. As capital is called, it is funded from capital and earnings returned by the limited partnerships or from other assets. Approximate uncalled capital commitments on June 30, 2015, were as follows:

	School & Public Lands Portfolio	Dakota Cement Trust Portfolio	Education Enhancement Trust Portfolio	Health Care Trust Portfolio
Private Equity	$ 11,748,802	$ 14,091,399	$ 22,617,511	$ 6,305,620
Real Estate	23,618,405	25,318,405	42,986,444	11,727,979
Total	$ 35,367,207	$ 39,409,804	$ 65,603,955	$ 18,033,599