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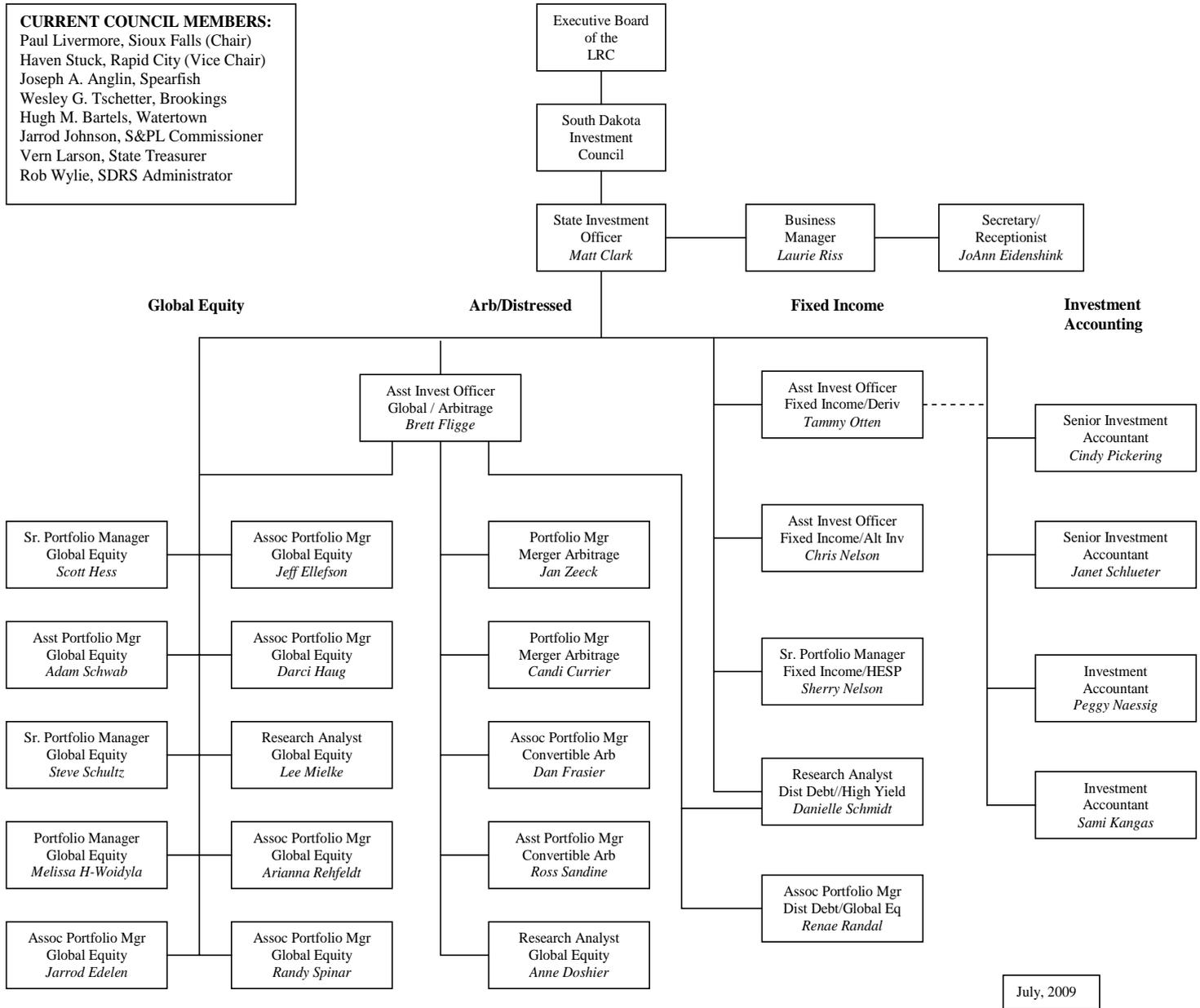
Joint Committee on  
Appropriations  
Fiscal Year 2011

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South Dakota Investment Council  
February 3, 2010

**CURRENT COUNCIL MEMBERS:**

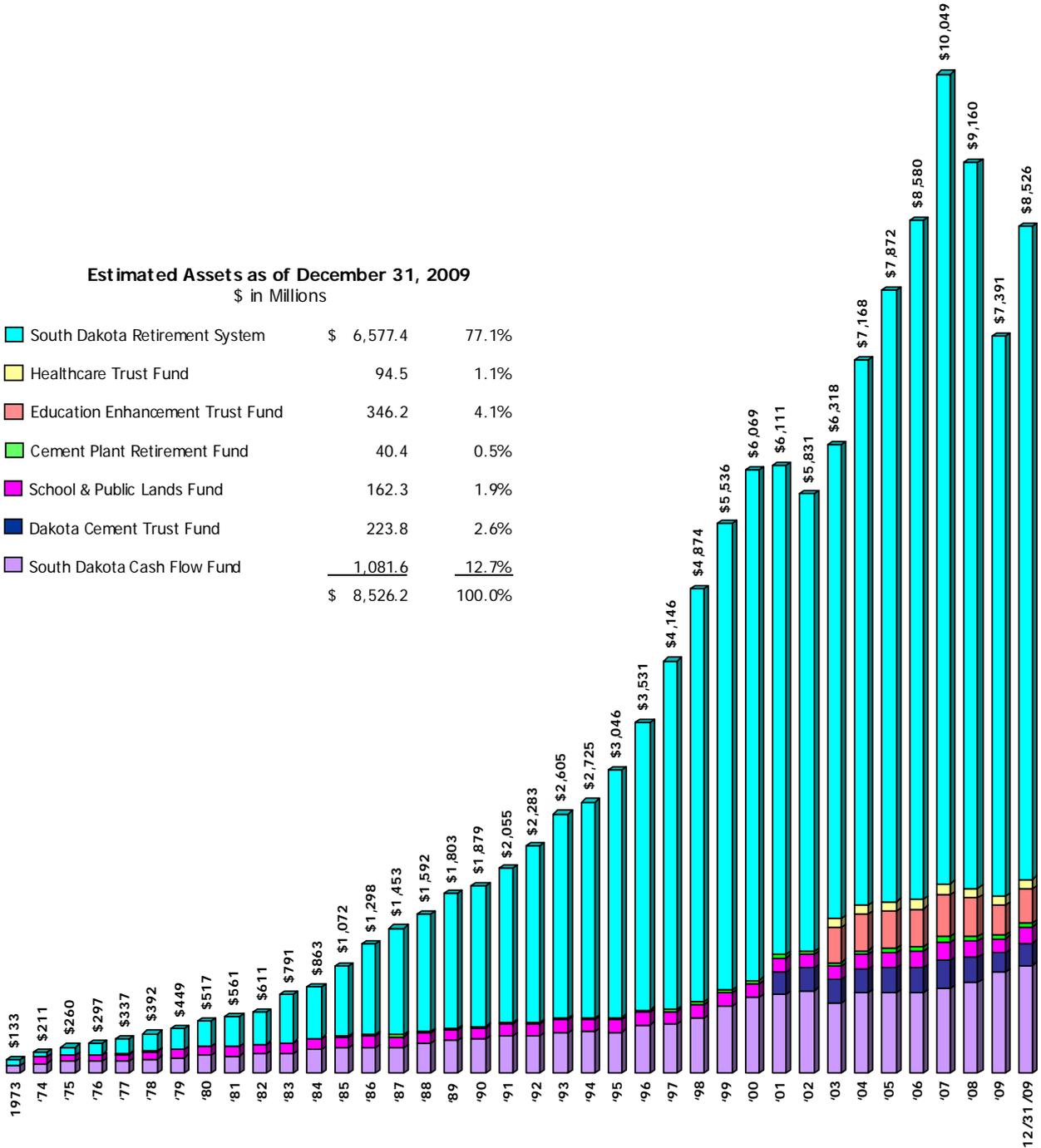
Paul Livermore, Sioux Falls (Chair)  
 Haven Stuck, Rapid City (Vice Chair)  
 Joseph A. Anglin, Spearfish  
 Wesley G. Tschetter, Brookings  
 Hugh M. Bartels, Watertown  
 Jarrod Johnson, S&PL Commissioner  
 Vern Larson, State Treasurer  
 Rob Wylie, SDRS Administrator



# South Dakota Investment Council Assets Managed Fiscal Years 1973 to 2009 and Fiscal Year 2010 through 12/31/09 (Estimated)

**Estimated Assets as of December 31, 2009**  
\$ in Millions

South Dakota Retirement System	\$ 6,577.4	77.1%
Healthcare Trust Fund	94.5	1.1%
Education Enhancement Trust Fund	346.2	4.1%
Cement Plant Retirement Fund	40.4	0.5%
School & Public Lands Fund	162.3	1.9%
Dakota Cement Trust Fund	223.8	2.6%
South Dakota Cash Flow Fund	<u>1,081.6</u>	<u>12.7%</u>
	<b>\$ 8,526.2</b>	<b>100.0%</b>



# **SOUTH DAKOTA INVESTMENT COUNCIL**

## **Budget Process & Long-Term Plan**

- I. Investment Council Budget Process
  - A) Budget approved by LRC Executive Board before presenting to Bureau of Finance and Management and Appropriations Committee - SDCL 4-5-22
  - B) Budget deducted from assets under management - no general fund appropriation - SDCL 4-5-30
  
- II. Developed Long-Term Plan – began in 1987
  - A) Recommended by Appropriations Committee to encourage internal management and recognize the potential need for outside management
  - B) Supported by LRC Executive Board

**SOUTH DAKOTA INVESTMENT COUNCIL  
Long-Term Plan  
Executive Summary**

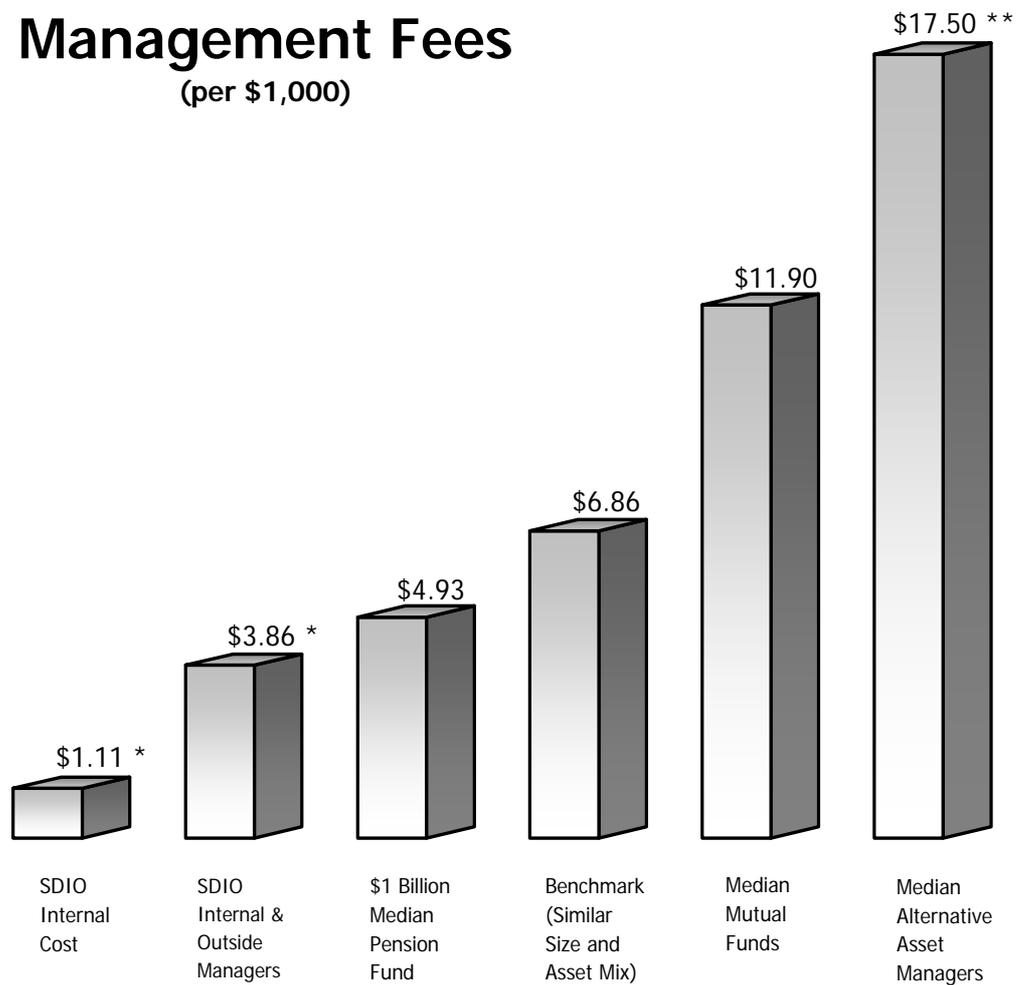
	<u>FY 2011</u>	<u>FY 2016</u>	<u>FY 2020</u>
<b>INVESTMENT OFFICE BUDGET</b>			
<b>Personal Services</b>			
Number of Employees	[28]	[29]	[30]
Base Salaries	3,461,156	5,455,356	7,272,713
Intern	19,884	23,051	25,944
Council	7,875	7,875	7,875
Longevity	6,335	10,203	14,938
Incentive Maximum	2,808,345	4,545,585	6,271,086
Benefits	1,026,722	1,640,874	2,221,024
Total Personal Services	7,330,317	11,682,943	15,813,579
<b>Operating Expenses</b>			
Contractual - Investment Services	1,094,945	1,346,275	1,577,563
Contractual - Administrative Services	530,845	644,255	760,531
Travel	73,000	92,285	117,559
Office Supplies & Postage	14,148	17,886	23,116
Capital Assets	31,380	42,900	50,213
Total Operating Expenses	1,744,318	2,143,600	2,528,982
<b>Total Investment Council Budget</b>	<b>9,074,635</b>	<b>13,826,544</b>	<b>18,342,561</b>
<b>ASSET SUMMARY *</b>			
Internal Assets	6,139,665,613	7,934,411,450	9,805,690,629
External Assets	2,046,555,204	2,644,803,817	3,268,563,543
Total Retirement System Assets	6,406,801,488	8,675,329,152	11,056,093,843
Total Assets	8,186,220,817	10,579,215,267	13,074,254,172
<b>EXPENSE SUMMARY</b>			
Internal Expenses	9,074,635	13,826,544	18,342,561
External Manager Fees	22,512,107	29,092,842	35,954,199
Total Expenses	31,586,743	42,919,386	54,296,760
<b>UNIT COST SUMMARY</b>			
Internal Expenses as % of Total Assets	0.111%	0.131%	0.140%
Internal Exp as % of Total Assets (1/2 assumed incentives)	0.094%	0.109%	0.116%
Total Expenses as % of Total Assets	0.386%	0.406%	0.415%

\* Projections based on long-term assumed returns applied to 6/30/09 assets. Updated each June 30.

8/2009

# Management Fees

(per \$1,000)

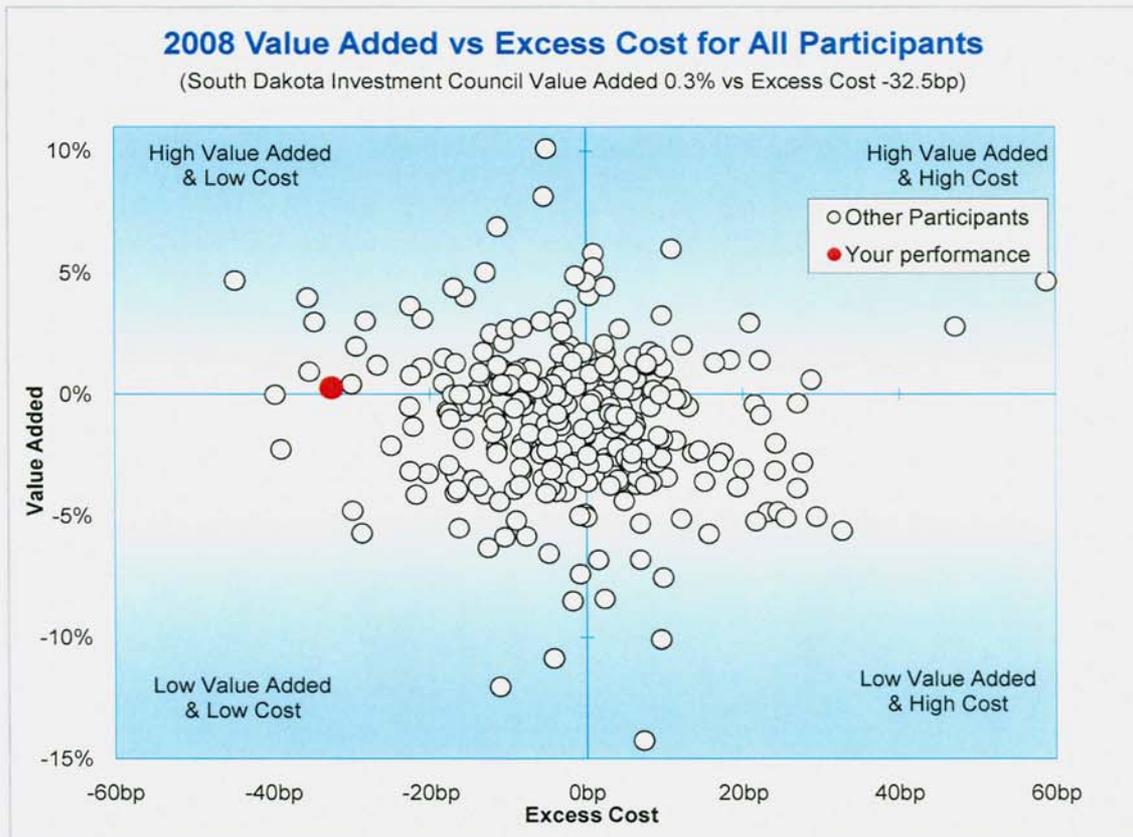


\* Using fully budgeted maximum incentives.

\*\* Plus 20% participation in all profits after a preferred returned to the investor.

8/09

## Cost Effectiveness Ranking



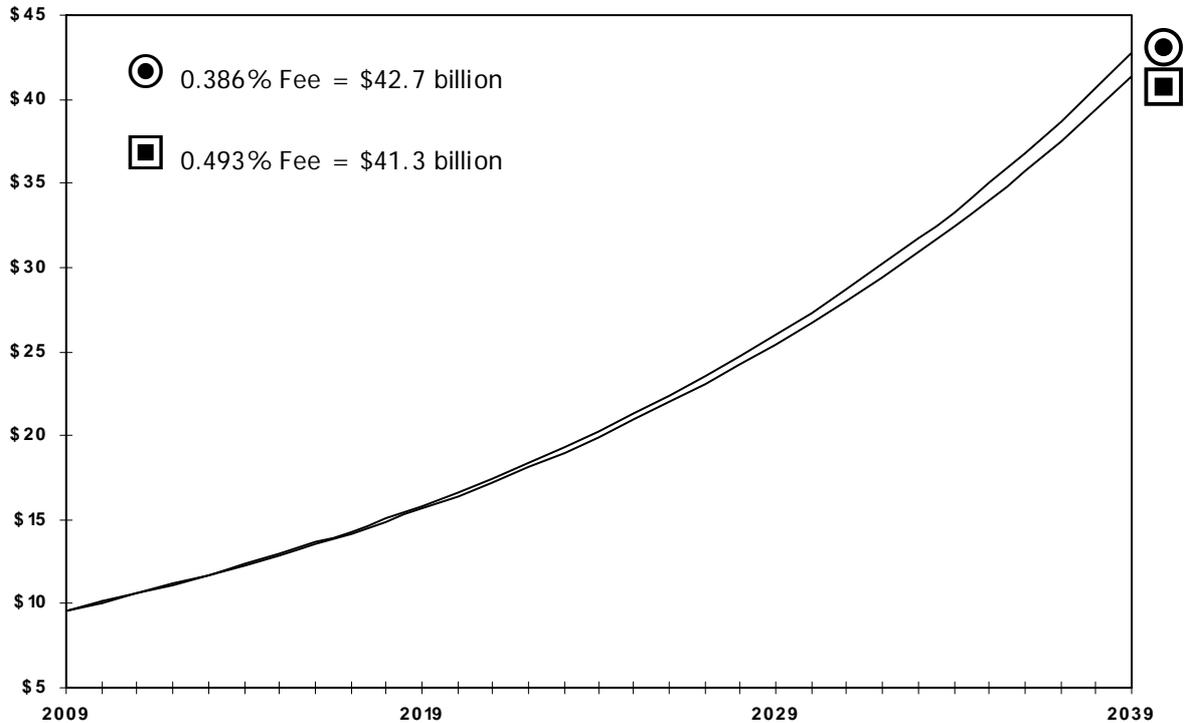
Being high- or low-cost is neither good nor bad. The more important question is, are you receiving sufficient value for your excess cost? At the total fund level, we provide insight to this question by combining your value added and your excess cost to create a snapshot of your 2008 Cost Effectiveness performance relative to that of the survey universe.

For the 2008 year, your fund ranked in the high value added, low cost quadrant.

In an ideal world, the more you pay (i.e., the higher your excess cost) the more you would get (i.e., the higher your value added). If this were true, you would see an upward sloping trend in the scattergram above. Clearly, this is not the case. Our research over the past 18 years shows no consistent relationship between what funds pay and the value added they achieve.

# Wealth Accumulation

5.5% return\* - different fees



***Even without considering the potential for continuing superior Council performance, future wealth grows an extra \$1.4 billion by keeping costs low!***

\* Expected returns less net withdrawals and distributions

# SOUTH DAKOTA INVESTMENT COUNCIL

## FISCAL YEAR 2009 Budget Summary

	Received	Spent	Available	% Remaining of Budget
PERSONNEL	<u>6,553,353.00</u>	<u>4,263,770.93</u>	<u>2,289,582.07</u>	<u>34.9%</u>
OPERATING BUDGET				
Travel	80,000.00	45,131.78	34,868.22	43.6%
Contractual				
Investment	1,044,040.00	754,020.29 *	290,019.71	27.8%
Administrative	508,072.00	518,048.12	(9,976.12)	-2.0%
Supplies	14,148.00	12,654.76	1,493.24	10.6%
Capital Assets	<u>32,200.00</u>	<u>19,400.64</u>	<u>12,799.36</u>	<u>39.7%</u>
Total Operating	<u>1,678,460.00</u>	<u>1,349,255.59</u>	<u>329,204.41</u>	<u>19.6%</u>

\* Includes \$60,828.70 of waived Bloomberg fees due to trading through B-Trade

### Cash Balance Summary:

Personnel Budget:		
Unearned incentives	1,914,335.97	
Unused intern funds	11,896.93	
Unused Council comp	5,325.00	
Unspent salary funds	82,847.20 **	
Unused benefits	<u>275,176.97</u>	
Total Unexpended Personnel		2,289,582.07
Unexpended Operating (see attached details)		329,204.41
Savings from waived Bloomberg fees		<u>60,828.70</u>
<b>FY2009 Cash Balance</b>		<u><u>2,679,615.18</u></u>

\*\*\$49,300 Allianz reimbursement & \$33,500 FTE to 1/2FTE

### Budget Funding (SDCL 4-5-30)

FY 2010 Authorized Budget	8,273,037.00
less FY 2009 Cash Balance	<u>(2,679,615.18)</u>
Remaining FY 2010 balance to be funded	<u><u>5,593,421.82</u></u>

**South Dakota Investment Council**

**FY 2009 OPERATING BUDGET**

**Received versus Actual Expenditures**

	<b>Received FY 2009</b>	<b>Actual Exp FY 2009</b>
<b>Contractual - Investment Services</b>		
Consultant/Performance Eval/Comp Analysis	55,000	25,000.00
Consultant-Steve Myers (80,000 + up to 15,000 expenses)	95,000	92,000.23
Pension Fund Data Exchange	3,250	3,750.00
IDC - S&P 1200	10,000	12,000.00
Portia	50,000	34,974.45
Stone McCarthy	4,000	4,140.00
Bloomberg	125,640	130,601.50 *
KDP High Yield	20,000	15,600.00
Eq Quote Sys (Thomson One - cancelled 8/09)	27,500	30,831.00
Factset (eff 9/08 - 10 mos in FY09)	0	128,520.00
Reuters	0	0.00
Thomson Analytics (First Call - cancelled 7/08)	60,000	9,662.72
Quote Fees (incl. Bloomberg/Thomson One/Factset)	68,500	51,509.39
Dow Jones News Service	0	33,231.00
Research Insight (S&P Comp/S&P1200-cancelled 11/09)	75,000	25,000.00
Center for Financial Research/Analysis (cancelled 12/08)	40,200	12,600.00
PCS Securities-Global Mergers & Acquisitions	12,600	12,000.00
Credit Sights	24,000	38,000.00
Indie Research-Insider Score	14,000	14,000.00
PCS Securities - Merger Insight & European Res	28,350	27,000.00
Gimme Credit FI Research	25,000	22,050.00
Citigroup Yield Book / BB Index	10,000	0.00
First Rain (1 year eff 8/08)	0	14,000.00
Morningstar Equity (6 mos - eff 03/09)	0	15,000.00
The Markets.com (3 mos - eff 04/09)	0	2,550.00
Vista Research / Gerson Lehrman	60,000	0.00
Flexibility - From Brokerage to Independent Research	236,000	0.00
	<hr/>	<hr/>
Total Contractual-Investment	1,044,040	754,020.29
		incl waived 60,828 *
<b>Contractual - Administrative</b>		
Office Rent	99,732	101,541.84
Bond/Liability Insurance	6,840	7,120.80
Telephone	10,000	4,225.78
Office Equip Rental/Maintenance	6,000	16,877.73
Bureau of Info & Telecommunications (BIT)	33,000	37,988.40
State Central Services	9,000	7,494.61
Legislative Audit	28,000	34,944.00
Custodial Fees - Global	288,750	275,975.82
Seminars/Educational Programs	22,750	27,688.25
Business Publications	4,000	4,190.89
	<hr/>	<hr/>
Total Contractual-Administrative	508,072	518,048.12
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Contractual Total	1,552,112	1,272,068.41
Travel	80,000	45,131.78
Office Supplies & Postage	14,148	12,654.76
Capital Assets	32,200	19,400.64
	<hr/>	<hr/>
<b>TOTAL OPERATING EXPENSES</b>	<b>1,678,460</b>	<b>1,349,255.59</b>

## SOUTH DAKOTA INVESTMENT COUNCIL

### BUDGET REQUEST SUMMARY Fiscal Year 2011

- ◆ Overall FY 2011 budget request is a 9.69% increase.
- ◆ The unit cost for internally managed assets is budgeted at \$1.11 per \$1,000 of assets for FY 2011 compared to a median industry cost of \$4.93 per \$1,000 of assets.
- ◆ **Personal Services:**  
NOTE: The Personal Services items in the budget request and this summary reflect the budget approved by the Investment Council in June of 2009 and the LRC Executive Board in August of 2009. Both approvals were given with the understanding that base salaries would be adjusted with state salary policy in mind.

- ◇ **Salary budget:** Total compensation for investment positions consists of two components, base salary and incentive compensation.

**For the original budget approved by the Investment Council and LRC Executive Board:** The base salaries budget is increasing 8.92%. This includes a 3% increase for all 28 positions. The senior investment positions (7) increase by an additional 1.8% to keep up with investment industry compensation. The newer to intermediate level investment team members (15) increase the additional 1.8% plus a further 5.2% to 15% for promotion increases as they transition through the steep learning curve from entry level to senior investment team members. The investment accounting positions (4) are increasing an additional 2.6% to 5.4% above the 3% to reflect CPA designations and increased responsibilities.

**For the adjusted request to reflect zero salary policy:** The 3% across the board increase was removed for all positions, as well as the 1.8% percent portion of increases for all investment positions. The bottom line for senior investment positions, including Investment Officer, is no base salary increase of any kind.

- ◇ **Incentive compensation:** Investment Performance incentives encourage outperformance of capital market benchmarks and the private sector corporate universe and range from 0% to a maximum of 100% of base salary. Incentives are paid only if earned by superior performance. The unearned incentive funds are not spent. They remain part of the cash balance and are used to offset the next year's budget authorization. Typically, due to historically superior performance, the average earned incentive across all positions in total has averaged 40% to 60% of the maximum.
- ◇ **Compensation Study:** The Investment Council established new target compensation levels for investment positions upon completion of an independent compensation analysis by Deloitte Consulting in April, 2006. The new levels attempted to balance the desire to get a good deal for South Dakota (quality results and low cost) with the risk of losing the good deal if we cannot keep our people. Deloitte is currently in the process of updating the compensation analysis, and the results will be taken into account for the FY 2012 budget process.
- ◇ **Employee benefits:** Benefits were increased according to the calculations provided by the Bureau of Finance and Management.

- ◆ **Operating Expenses:** The overall operating budget is slated to increase by 1.43%. Within the operating budget, Contractual services are increasing by \$24,634 or 1.54% due primarily to changes in investment services netting to an increase of \$20,674 and expected costs as provided by BIT, PEPL Fund and Legislative Audit totaling \$3,760. No increase is being requested for Travel, Office Supplies, and Capital Assets. The major purchases in Capital Assets will include computer upgrades, replacement chairs and Chartered Financial Analyst books.

In FY 2008, the Investment Office began shifting some of its brokerage research (provided through brokerage relationships/trading commissions) to independent research and has used \$104,000 of the \$310,000 designated for this purpose. Because the brokerage industry is shifting away from providing research, it is believed necessary to improve our research sources through independent services. No additional increase is being requested in the FY 2011 budget request, although it is expected that over time we will continue to shift further toward independent research and additional funding will be needed.

In FY 2003, at the request of the Investment Council members, a \$150,000 line item was added to the budget for consulting services. Since then, the Council has hired consultants in the areas of benchmarking, investments, performance evaluation, compensation analysis, and asset allocation. Even though a portion of the funds are often not used, this line item has since remained at \$150,000 to maintain flexibility. A portion has been used for the Myers consultant contract, which is being reduced to \$50,000 (\$40,000 comp plus cap of \$10,000 for expenses) in the FY 2011 budget request or may be discontinued depending upon Legislative support.

- ◆ The long-term business plan continues to provide an excellent roadmap.
  - Provides excellent foundation for stability of South Dakota's professional investment function.
  - Continues the long-term focus on low unit cost management.
  - A key ingredient to long-term superior investment performance.

# STATE TREASURER

## 3210 Investment of State Funds

### MISSION:

To professionally manage the South Dakota Retirement System and South Dakota Cement Plant Retirement Fund portfolios in order to obtain long-term maximum total returns consistent with prudent risk; to professionally manage the state's cash flow fund in order to obtain long-term maximum total returns consistent with the liquidity needs of the fund, the legal list and prudent risk; to professionally manage within the framework established by the South Dakota Investment Council the investment portfolios of the School and Public Lands Fund, the Dakota Cement Trust, the Health Care Trust and the Education Enhancement Trust to obtain the highest risk adjusted return over the long term and to provide income payouts; to oversee the Higher Education Savings Plan per SDCL 13-63-1 to 13-63-31 by establishing the program and monitoring the selected program manager, Allianz Global Investors Distributors LLC; and, to comply with the requirements of SDCL 4-5-12 to 4-5-39, "Investment of State Funds Law".

	ACTUAL FY 2008	ACTUAL FY 2009	BUDGETED FY 2010	REQUESTED FY 2011	GOVERNOR'S RECOMMENDED FY 2011	RECOMMENDED INC/(DEC) FY 2011
<b>FUNDING SOURCE:</b>						
General Funds	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Federal Funds	0	0	0	0	0	0
Other Funds	5,690,048	5,552,198	8,273,037	9,074,633	8,917,882	644,845
<b>Total</b>	<b>\$ 5,690,048</b>	<b>\$ 5,552,198</b>	<b>\$ 8,273,037</b>	<b>\$ 9,074,633</b>	<b>\$ 8,917,882</b>	<b>\$ 644,845</b>
<b>EXPENDITURE DETAIL:</b>						
Personal Services	\$ 4,476,932	\$ 4,263,771	\$ 6,553,353	\$ 7,330,315	\$ 7,173,564	\$ 620,211
Operating Expenses	1,213,117	1,288,427	1,719,684	1,744,318	1,744,318	24,634
<b>Total</b>	<b>\$ 5,690,048</b>	<b>\$ 5,552,198</b>	<b>\$ 8,273,037</b>	<b>\$ 9,074,633</b>	<b>\$ 8,917,882</b>	<b>\$ 644,845</b>
<b>Staffing Level FTE:</b>	<b>28.0</b>	<b>27.7</b>	<b>28.0</b>	<b>28.0</b>	<b>28.0</b>	<b>0.0</b>

	ACTUAL FY 2008	ACTUAL FY 2009	ESTIMATED FY 2010	ESTIMATED FY 2011
<b>REVENUES</b>				
Investment Management Fees:				
Retirement System (SDRS)	4,698,633	5,121,712	4,314,676	7,000,173
Cement Plant	29,549	33,970	27,801	45,373
Cash Flow Fund (CFF)	522,557	580,583	698,813	1,133,422
School and Public Lands (S&PL)	111,196	118,081	108,178	175,140
Dakota Cement Trust (DCT)	173,404	179,930	155,655	253,182
Education Enhancement Trust (EET)	250,581	262,232	227,174	368,430
Health Care Trust (HCT)	63,660	69,159	61,125	98,913
<b>Total</b>	<b>5,849,580</b>	<b>6,365,667</b>	<b>5,593,422</b>	<b>9,074,633</b>

<b>PERFORMANCE INDICATORS</b>	
SDRS Yr-End Assets/Inv Income (Millions)	\$7,300/\$-693
SDRS Total Fund Return	-8.65%
SDRS Capital Mkt Benchmark/Mellon Corp	-4.20%/-5.02%
CPRF Yr-End Assets/Inv Income (Millions)	\$47.3/\$-4.6
CPRF Total Fund Return/Benchmark Return	-8.35%/-4.12%
CFF Average Amount Invested (Millions)	\$898
CFF Investment Income (Millions)	\$56.1
CFF Average Yield/Benchmark Yield	4.96%/4.25%
S&PL Yr-End Assets/Invest Income (Millions)	\$168.9/\$-10.6
S&PL Total Fund Return/Benchmark Return	-5.85%/-1.51%
DCT Yr-End Assets/Invest Income (Millions)	\$250.9/\$-16.9
DCT Total Fund Return/Benchmark Return	-6.13%/-1.51%
EET Yr-End Assets/Invest Income (Millions)	\$383.8/\$-27.3
EET Total Fund Return/Benchmark Return	-6.65%/-2.02%
HCT Yr-End Assets/Invest Income (Millions)	\$101.5/\$-6.2
HCT Total Fund Return/Benchmark Return	-5.74%/-1.51%

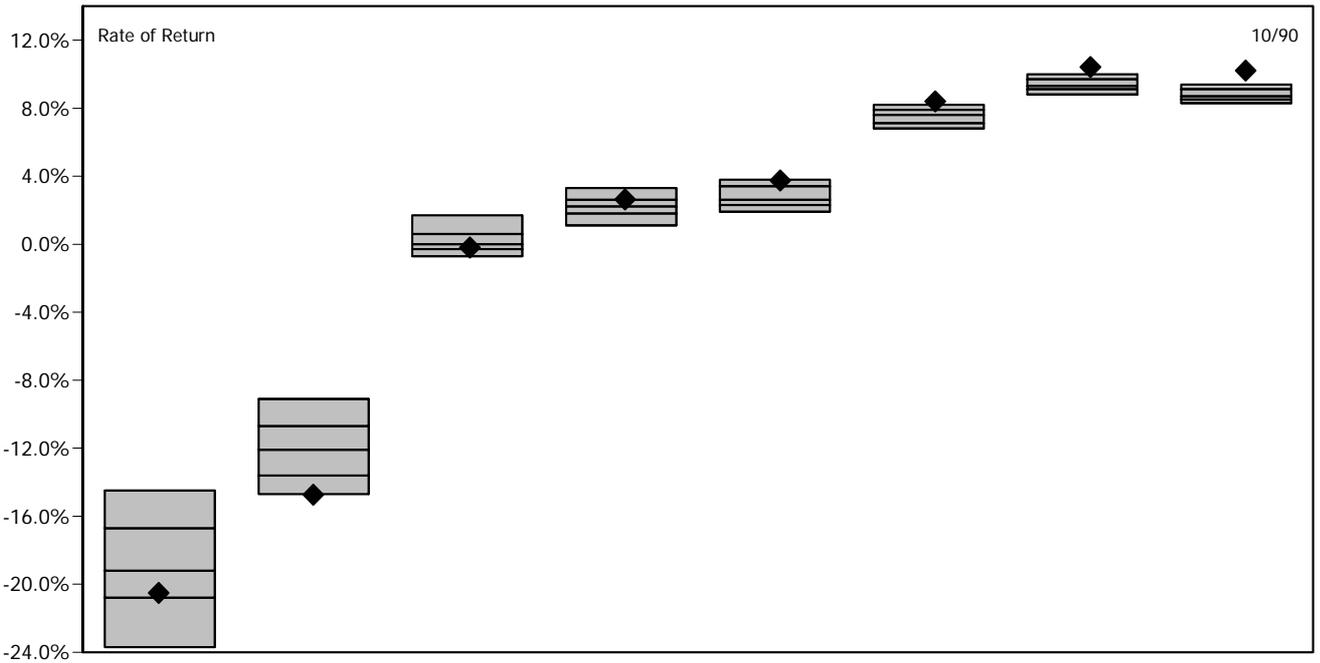
**SOUTH DAKOTA INVESTMENT COUNCIL  
FY 2011 Budget Request**

	Received FY 2010	Original Request FY 2011 *		Adjusted Request FY 2011 **	
<b>PERSONAL SERVICES</b>					
Total Salary Budget	3,177,640	3,461,154	8.92%	3,314,440	4.31%
Total Intern, Council, Longevity	32,499	34,094	4.91%	34,094	4.91%
Total Incentive Maximum	2,410,412	2,808,345	16.51%	2,808,345	16.51%
Personal Benefits	932,804	1,026,722	10.07%	1,016,685	8.99%
<b>TOTAL PERSONAL SERVICES</b>	<u>6,553,353</u>	<u>7,330,315</u>	11.86%	<u>7,173,564</u>	9.46%
<b>OPERATING EXPENSES</b>					
<b>Contractual - Investment Services</b>					
Consultant/Performance Eval/Comp Analysis	55,000	100,000		100,000	
Consultant-Steve Myers (40,000 + up to 10,000 expenses)	95,000	50,000		50,000	
Pension Fund Data Exchange	3,250	3,750		3,750	
IDC - S&P 1200	10,000	12,000		12,000	
Portia	50,000	50,000		50,000	
Stone McCarthy	4,305	4,305		4,305	
Bloomberg	138,537	146,475		146,475	
KDP High Yield	20,000	20,000		20,000	
Thomson One Equity	31,600	0		0	
Factset	0	160,315		160,315	
Reuters	0	24,000		24,000	
Thomson Analytics	60,000	0		0	
Quote Fees (incl. Bloomberg/Factset)	42,699	54,086		54,086	
Dow Jones News Service	33,147	34,804		34,804	
Research Insight	75,000	0		0	
Center for Financial Research/Analysis	27,783	0		0	
PCS Securities-Global Mergers & Acquisitions	12,600	12,600		12,600	
Credit Sights	42,000	42,000		42,000	
Indie Research-Insider Score	14,000	14,000		14,000	
PCS Securities - Merger Insight & European Res	28,350	28,350		28,350	
Gimme Credit FI Research	25,000	25,000		25,000	
Citigroup Yield Book / BB Index	10,000	10,000		10,000	
First Rain	0	14,000		14,000	
Morningstar Equity	0	30,000		30,000	
The Markets.com	0	13,260		13,260	
Vista Research	60,000	40,000		40,000	
Flexibility - From Brokerage to Independent Research	236,000	206,000		206,000	
<b>Total Contractual-Investment</b>	<u>1,074,271</u>	<u>1,094,945</u>	1.92%	<u>1,094,945</u>	1.92%
<b>Contractual - Administrative</b>					
Office Rent	101,542	101,542		101,542	
Bond/Liability Insurance	6,840	7,020		7,020	
Telephone	10,000	10,000		10,000	
Office Equip Rental/Maintenance	6,000	6,000		6,000	
Bureau of Info & Telecommunications (BIT)	34,950	37,448		37,448	
State Central Services	9,000	9,000		9,000	
Legislative Audit	36,053	37,135		37,135	
Custodial Fees - Global	288,750	288,750		288,750	
Seminars/Educational Programs	29,750	29,750		29,750	
Business Publications	4,000	4,200		4,200	
<b>Total Contractual-Administrative</b>	<u>526,885</u>	<u>530,845</u>	0.75%	<u>530,845</u>	0.75%
<b>Contractual Total</b>	<u>1,601,156</u>	<u>1,625,790</u>	1.54%	<u>1,625,790</u>	1.54%
Travel	73,000	73,000	0.00%	73,000	0.00%
Office Supplies & Postage	14,148	14,148	0.00%	14,148	0.00%
Capital Assets	31,380	31,380	0.00%	31,380	0.00%
<b>TOTAL OPERATING EXPENSES</b>	<u>1,719,684</u>	<u>1,744,318</u>	1.43%	<u>1,744,318</u>	1.43%
<b>TOTAL BUDGET</b>	<u>8,273,037</u>	<u>9,074,633</u>	9.69%	<u>8,917,882</u>	7.79%

\* Approved by Inv Council in June of 2009 based on Long-Term Plan.  
Approved by LRC Executive Board in August 2009 with understanding that base salaries would be adjusted with state salary policy.

\*\* Adjusted to reflect zero state salary policy per Governor's budget recommendations. Includes promotional increases only for younger & intermediate investment positions

## Annualized Total Fund STATE FUND UNIVERSE Ending June 30, 2009



	1 year	2 years	4 years	5 years	10 years	20 years	25 years	36 years
<b>Median</b>	-19.2%	-12.1%	0.3%	2.2%	2.6%	7.6%	9.3%	8.7%
<b>◆ SDRS Total Fund Return</b>	-20.4%	-14.7%	0.0%	2.5%	3.6%	8.2%	10.2%	10.0%
<b>% Ranking</b>	69	89	61	35	15	10	4	1

## DOLLAR & PERCENTAGE IMPACT of INVESTMENT PERFORMANCE

### Total Returns

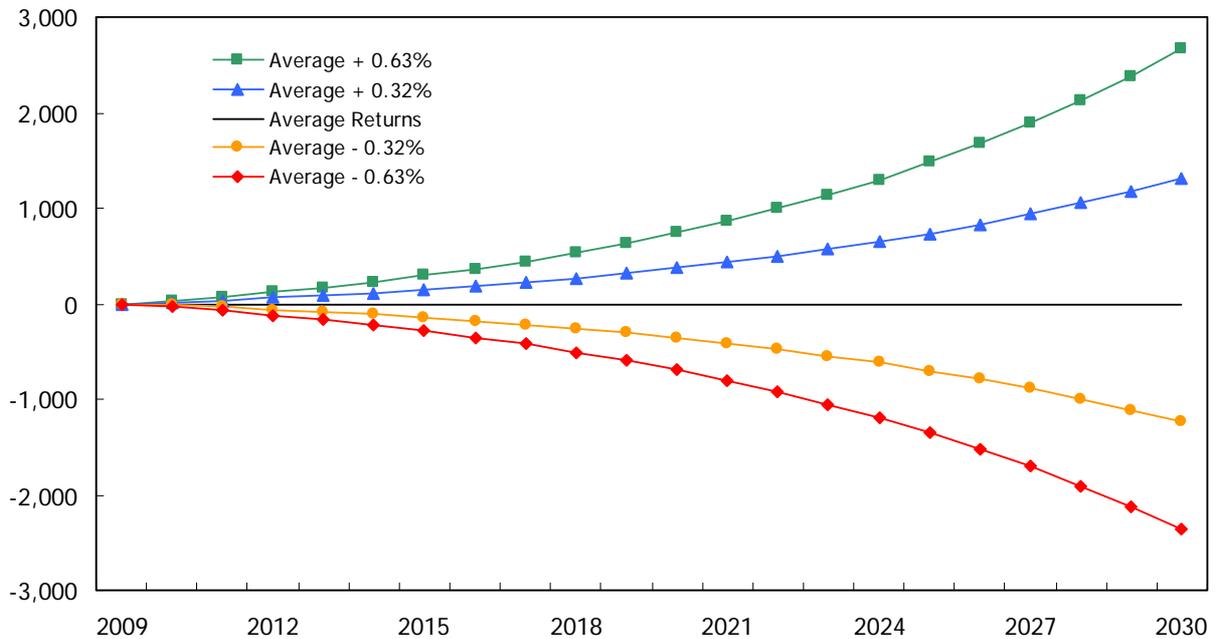
	<u>FY 2009</u>	5 Years Annualized <u>FY 05 – 09</u>	10 Years Annualized <u>FY 00 – 09</u>
SDRS Total Fund	-20.36%	2.51%	3.56%
Mellon Analytics Billion \$ Corp Plan % Difference	-17.64% <b>-2.72%</b>	2.67% <b>-0.16%</b>	3.33% <b>.23%</b>
Capital Market Benchmark % Difference	-18.00% <b>-2.36%</b>	2.31% <b>0.20%</b>	2.95% <b>0.61%</b>
State Fund Universe % Difference	-19.20% <b>-1.16%</b>	2.20% <b>0.31%</b>	2.60% <b>.96%</b>
SDRS Beginning FY09 Assets		\$7.301 billion	
SDRS Ending 6/30/09 Assets		\$5.640 billion	

### EARNINGS

- Total SDRS dollars earned Fiscal Year 2009: \$-1.478 billion
- Total SDRS dollars earned last 5 years: \$801 million
- Total SDRS dollars earned last 10 years: \$1.928 billion
- **Extra earnings** resulting from last 1, 5 and 10 years of performance:

	<u>1 year</u>	<u>5 years</u>	<u>10 years</u>
➤ vs. Mellon Analytics Corporate:	<b>\$-199 million</b>	<b>\$ 74 million</b>	<b>\$339 million</b>
➤ vs. Capital Market Benchmark:	<b>\$-172 million</b>	<b>\$ 77 million</b>	<b>\$324 million</b>
➤ vs. State Funds:	<b>\$ - 85 million</b>	<b>\$ 59 million</b>	<b>\$336 million</b>

## Potential Excess Earnings



SDIC outperformance for the last 36 years has been .63% annualized versus benchmark. By the year 2030, a continued .63% outperformance would earn an extra \$2.7 billion. Outperformance of even half that amount would make a large difference by additional earnings of \$1.3 billion. In contrast, a .63% underperformance would cost the retirement systems \$2.4 billion relative to average returns.

**SUMMARY OF TRUST FUND VALUE AND ASSET ALLOCATION**  
**12/31/2009**  
**ESTIMATE**

(Unaudited)

**Health Care Trust**

Principal as of 12/31/09	\$ 85,631,024
Principal as of 12/31/09 adjusted for inflation	\$ 102,011,400
Fair Value as of 12/31/09	\$ 94,480,000
Difference - FV less principal	\$ 8,848,976
Difference - FV less infl. adj. principal	\$ (7,531,400)
Fiscal year to date return	15.00%
Longterm expected mean return	7.55%
Payout of 4% plus expected inflation of 3%	7.00%
Expected return cushion/shortfall	0.55%
Distribution for FY 10 (July 1, 2009)	<b>0</b>
Estimated distribution for FY 11 (July 1, 2010)	<b>3,880,000</b>

<u>Asset Allocation</u>	<u>Current</u>	<u>Benchmark</u>
Global Equity	54%	48%
Private Equity	2%	2%
Real Estate	5%	5%
Fixed Income-IG	29%	33%
Fixed Income-HY	3%	5%
Fixed Income-Tips	5%	5%
Money Market	<u>1%</u>	<u>2%</u>
Total	100%	100%

Law allows up to 4% of the 16 quarter average to be distributed as long as principal is not violated as of December 31 each year

**Education Enhancement Trust**

Principal as of 12/31/09	\$ 329,329,930
Principal as of 12/31/09 adjusted for inflation	\$ 392,909,459
Fair Value as of 12/31/09	\$ 346,200,000
Difference - FV less principal	\$ 16,870,070
Difference - FV less infl. adj. principal	\$ (46,709,459)
Fiscal year to date return	14.70%
Longterm expected return (lower due to tax exempts)	7.10%
Payout of 4% plus expected inflation of 3%	7.00%
Expected return cushion/shortfall	0.10%
Distribution for FY 10 (July 1, 2009)	<b>0</b>
Estimated distribution for FY 11 (July 1, 2010)	<b>14,800,000</b>

<u>Asset Allocation</u>	<u>Current</u>	<u>Benchmark</u>
Global Equity	53%	48%
Private Equity	2%	2%
Real Estate	5%	5%
Fixed Income-IG	0%	0%
Fixed Income-tax ex	35%	37%
Fixed Income-HY	3%	5%
Fixed Income-Tips	0%	1%
Money Market	<u>1%</u>	<u>2%</u>
Total	100%	100%

Law allows up to 4% of the 16 quarter average to be distributed as long as principal is not violated as of December 31 each year

**Dakota Cement Trust**

Principal as of 12/31/09	\$ 238,000,000
Principal as of 12/31/09 adjusted for inflation	\$ 290,487,885
Fair Value as of 12/31/09	\$ 223,800,000
Difference - FV less principal	\$ (14,200,000)
Difference - FV less infl. adj. principal	\$ (66,687,885)
Fiscal year to date return	15.00%
Longterm expected mean return	7.55%
Payout of 5% plus expected inflation of 3%	8.00%
Expected return cushion/shortfall	-0.45%
Distribution for FY 10 (June 2010 to Gen. Fund)	<b>12,000,000</b>
Distribution for FY 10 for education	<b>0</b>

<u>Asset Allocation</u>	<u>Current</u>	<u>Benchmark</u>
Global Equity	54%	48%
Private Equity	3%	2%
Real Estate	6%	5%
Fixed Income-IG	28%	33%
Fixed Income-HY	2%	5%
Fixed Income-Tips	6%	5%
Money Market	<u>2%</u>	<u>2%</u>
Total	100%	100%

Pays out 5% of average balance with \$12 million always paid. Education money distributed as long as principal not violated as of June 30 each year

**School & Public Lands**

Inflation protection mandated by Constitutional Amendment - (payout is reduced by inflation to extent inflation not offset by realized gains)

Fair Value as of 12/31/09	\$ 162,300,000
Fiscal year to date return	14.90%
Longterm expected mean return	7.55%
Distribution for FY 10 (pay in Feb 2010 to K-12)	<b>8,671,911</b>
Distribution for FY 09 to Board of Regents (June)	<b>1,974,654</b>

<u>Asset Allocation</u>	<u>Current</u>	<u>Benchmark</u>
Global Equity	54%	48%
Private Equity	2%	2%
Real Estate	5%	5%
Fixed Income-IG	26%	33%
Fixed Income-non-mk	2%	
Fixed Income-HY	3%	5%
Fixed Income-Tips	5%	5%
Money Market	<u>3%</u>	<u>2%</u>
Total	100%	100%

Pays out all received income after inflation adjustment