THE SOUTH DAKOTA INVESTMENT COUNCIL

ANNUAL REPORT FISCAL YEAR 2016

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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 2016 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 2016 PERFORMANCE

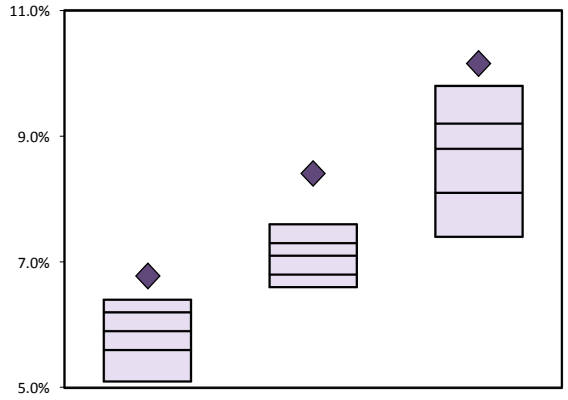
The fiscal year 2016 investment return for the South Dakota Retirement System (SDRS) was 0.3% net of investment management cost. This was less than the Council's market index-based Capital Markets Benchmark (CMB) return of 2.9%. The real estate category contributed most significantly to the underperformance.

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 (0.1%) to 0.2%. Trust fund management is gradually transitioning to being similar to SDRS. The yield for the South Dakota Cash Flow Fund was 1.4%.

INVESTING FOR THE LONG TERM

The Council has managed SDRS assets for the past 43 years. The return over the full period has exceeded other state retirement systems across the nation as shown on the following exhibit.

STATE FUND UNIVERSE ANNUALIZED RATES OF RETURN



NET ANNUALIZED RETURNS

	10 Years 2007-2016	20 Years 1997-2016	43 Years 1974-2016
10th %tile	6.4	7.6	9.8
25th %tile	6.2	7.3	9.2
Median	5.9	7.1	8.8
75th %tile	5.6	6.8	8.1
90th %tile	5.1	6.6	7.4
◆ SDRS Fund	6.8	8.4	10.1
SDRS %tile Rank	1	1	1

The Council's goal is to add value over the long term compared to market indexes. Accomplishment of this goal for SDRS provides additional resources to pay retirement benefits for the more than 84,000 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. Actions taken in one year may impact performance several years down the road. The long-term success has resulted primarily from adhering to long-term strategies during the underperforming periods.

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

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

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 assess 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 when it matters most, 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.

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 6/30/16.

AN UPDATE ON RETURN EXPECTATIONS

	Bonds*	S&P 500	S&P 500 Yield
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 6/30/16	4.9%	7.7%	
Expected Long-Term Returns as of 6/30/16	1.5%	7.1%	2.1%

*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 14 years through June 30, 2016, were 4.9% for bonds and 7.7% for stocks.

As of June 30, 2016, expected returns were 1.5% 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 a number of 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.

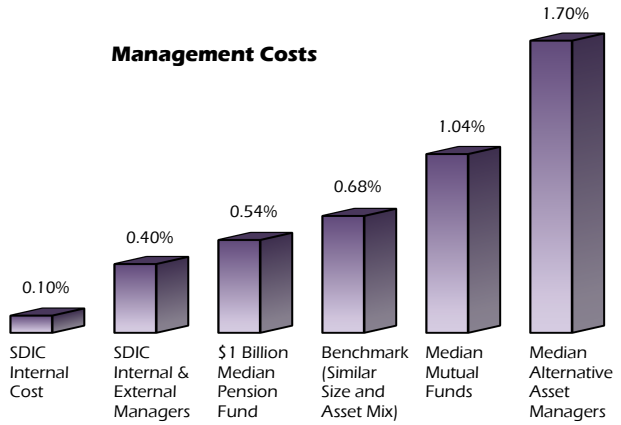
History has shown that following large market increases, opportunities may be sparse for a time. Chasing lesser opportunities has tended to backfire when assets became much cheaper later. The lesson learned is to wait for worthwhile opportunities, and when absent, to be satisfied with modest results until better opportunities come along.

IMPORTANCE OF LOW COSTS

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

The Council began investing in real estate and private equity partnerships in the mid 1990's. Partnership management costs are generally 1% to 2% of 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 Council 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%. This compares to the median industry cost of 0.54% and benchmark cost of 0.68%, which is the median industry cost adjusted for fund size and asset mix. The difference of 0.28% versus the benchmark results in approximately $36 million of savings per year. Compounding these savings over many years can result in hundreds of millions of dollars.

A TEAM EFFORT

The 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 build a stable, experienced, home-grown investment team. The Council recognizes the unique challenges and patience required to support an internal investment organization and long-term investment approach. The Council is very appreciative of the significant efforts of Legislators, the Governor and his team, and their predecessors, to provide the Council with the opportunity to succeed.

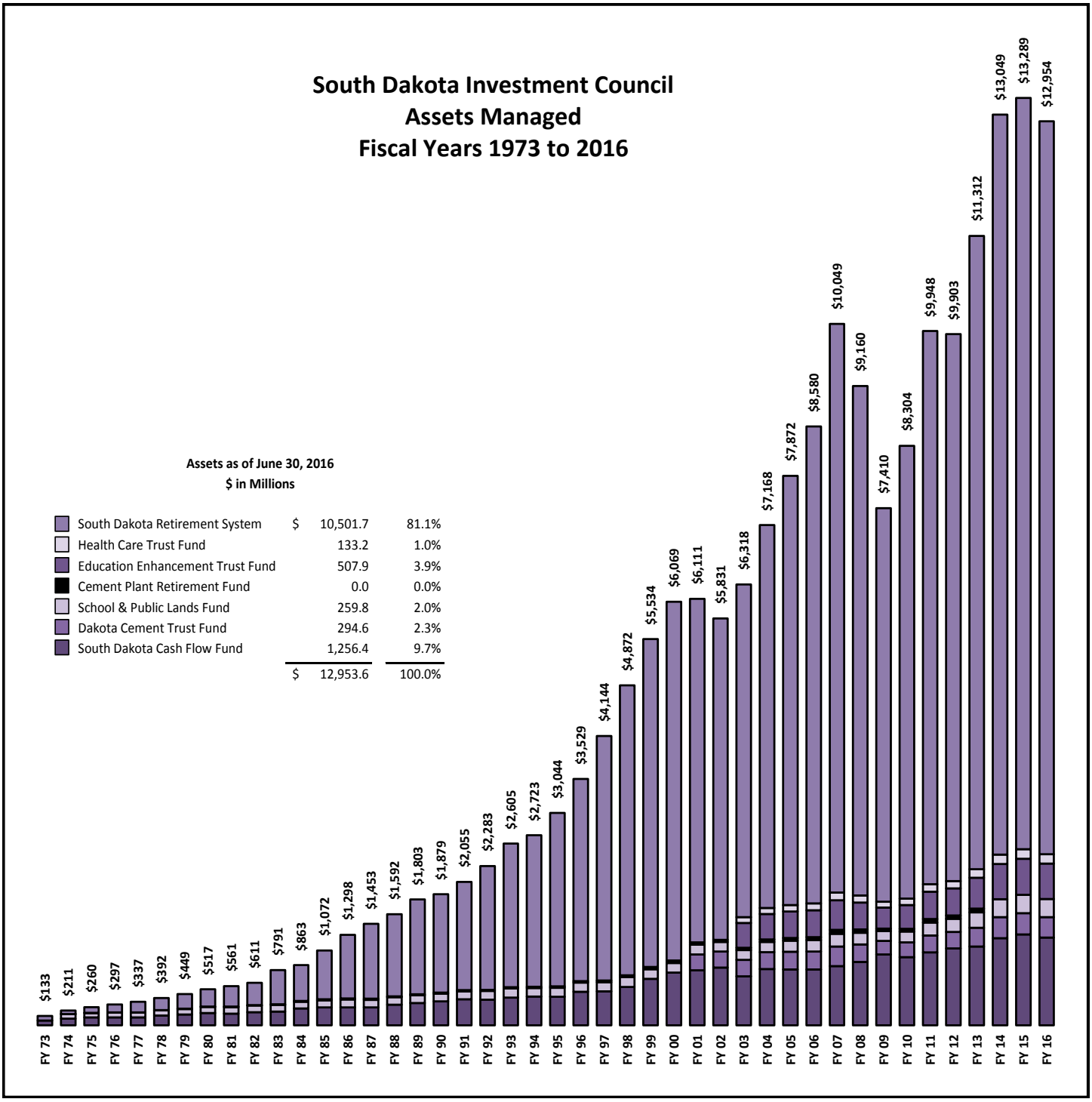
The Council benefits from cooperative relationships with other state entities related to the funds managed, including the South Dakota Retirement System, the State Treasurer's Office, the School and Public Lands' Office, and the Bureau of Finance and Management. The Council also benefits from important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

Respectfully submitted by:

James E. Means, Chair
South Dakota Investment Council

Matthew L. Clark, CFA
State Investment Officer



James E. Means, Chair**
Senior Vice President & Trust Officer
First Dakota National Bank
Yankton

David T. Hillard, Vice-Chair**
Senior Vice President & Branch Director
RBC Wealth Management
Rapid City

Steve T. Kirby* **
President/Founding Partner
Bluestem Capital Company
Sioux Falls

Lorin L. Brass*
Dir of Strategy & Business Development, Retired
Royal Dutch Shell plc
Lennox

Laura McNally, CPA*
Owner
Laura McNally, CPA Prof. LLC
Belle Fourche

Ryan 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 a designee of the South Dakota Retirement System Board of Trustees.

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 *(alphabetical order)*	Title	Asset Categories
Matthew L. Carey	Research Analyst	Equity & High Yield
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
Jarrod A. Edelen, CFA	Portfolio Manager	Small/Mid Equity
Jeffry J. Ellefson, CFA	Portfolio Manager	Global Equity
Daniel H. Elmer	Research Analyst	Equity & High Yield
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	Equity & High Yield
Tammy V. Otten, CFA, CPA	Assistant Investment Officer	Fixed Income & Derivatives
Renae A. Randall, CFA	Portfolio Manager	Global Equity
Arianna P. Rehfeldt, CFA	Portfolio Manager	Global Equity
Ross D. Sandine, CFA	Associate Portfolio Manager	High Yield
Steven W. Schultz, CFA	Senior Portfolio Manager	Global Equity
Randall J. Spinar, CFA	Portfolio Manager	Global Equity
Oless V. Voznyuk	Research Analyst	Equity & High Yield
Jan E. Zeeck, CFA	Senior Portfolio Manager	Global Equity
Makenzie K. Zomers	Research Analyst	Equity & High Yield

INVESTMENT ACCOUNTING & ADMINISTRATION

Name *(alphabetical order)*	Title
JoAnn Callahan	Secretary/Receptionist
Brandy A. Eisma, CPA	Investment Accountant
Jeffrey P. Hallem	General Counsel
Cynthia J. Pickering, CPA	Senior Investment Accountant
Samantha M. Rains, CPA	Investment Accountant
Laurie A. Riss	Business Manager
Krystal R. Seeley, CPA	Investment 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) is a cost-sharing, multiple-employer, public employee retirement system providing retirement, disability, and survivor benefits to over 84,000 public employees in South Dakota. The benefits are 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 the investment objectives for SDRS along with intermediate and long-term results. Financial statements for SDRS are published in SDRS's annual report.

INVESTMENT OBJECTIVES

The Council's overall objective is to prudently manage SDRS assets to achieve and exceed the returns available over the long term from the broad capital markets (stocks, bonds, real estate, etc.). The Council has three specific objectives. The first relates to achieving and exceeding the actuarial estimated rate of return over the long term to help assure the financial health of SDRS. The other two objectives relate to adding value over the long term versus the index returns of the Council's capital markets benchmark and versus peer funds.

- **Achieve and exceed the actuarial rate of return over the long term.**

The actuarial rate of return is an estimate of the investment return achievable over the long term through investing in the capital markets. The return estimate, along with other actuarial estimates such as member longevity, salary changes, and turnover are used by the actuary to assess the funding status and overall health of a retirement system. Achievement of the actuarial return estimate is important to continued financial strength of SDRS. Any additional return can strengthen the financial condition and/or provide resources to address SDRS benefit goals.

If investment markets do not allow the Council or the Council simply fails to achieve the estimated return over the long term, South Dakota law may require benefit reductions. It is important that the actuarial estimated return be a reasonable expectation of what capital markets can deliver or it may not be realistic to achieve this objective.

This objective has been achieved for the majority of rolling time periods. The following table summarizes SDRS total fund performance versus the actuarial rate of return of 7.5%* and the actuarial rate of return plus 1%.

SDRS Total Fund vs. Actuarial Rate of 7.5%*

	5 years	10 years	20 years	30 years
# of Successes	29	29	24	14
# of Periods	39	34	24	14
% of Success	74%	85%	100%	100%

SDRS Total Fund vs. Actuarial Rate + 1%

	5 years	10 years	20 years	30 years
# of Successes	26	27	23	14
# of Periods	39	34	24	14
% of Success	67%	79%	96%	100%

*The actuarial rate of return is currently 7.25% through fiscal year 2017 and 7.5% thereafter.

The transmittal letter discussed the Council's long-term expected return which was 6.1% as of June 30, 2016. The Council's expectation does not assume any added value versus market indexes and is the midpoint of a possible range. This is less than the actuarial assumed return of 7.5%*. It should be noted that the long-term inflation assumption embedded in the Council's expected return is less than the actuarial inflation assumption which can explain some of the difference. The SDRS Board of Trustees periodically reviews each of the actuarial assumptions.

- **Achieve favorable total fund performance over the long term relative to a capital markets benchmark reflective of the Council's normal asset allocation policy.**

This is the most important specific investment objective in judging the Council's delivery of a competitive rate of return. The objective is to achieve and exceed the indexed returns that would be earned if SDRS was invested in the Council's selected capital markets benchmark. The key investment policy decision made by the Council relates to asset allocation as discussed in the SDRS Asset Allocation Focus on page 8.

This is difficult to accomplish as most investment managers do not outperform the capital markets over time. The zero sum nature of markets, with each investment transaction having a winner and a loser, means investors collectively merely match the overall market return before expenses. After taking into account investment manager fees and transactions costs, most managers underperform.

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

SDRS Total Fund vs. Capital Markets Benchmark

	5 years	10 years	20 years	30 years
# of Successes	33	31	24	14
# of Periods	39	34	24	14
% of Success	85%	91%	100%	100%

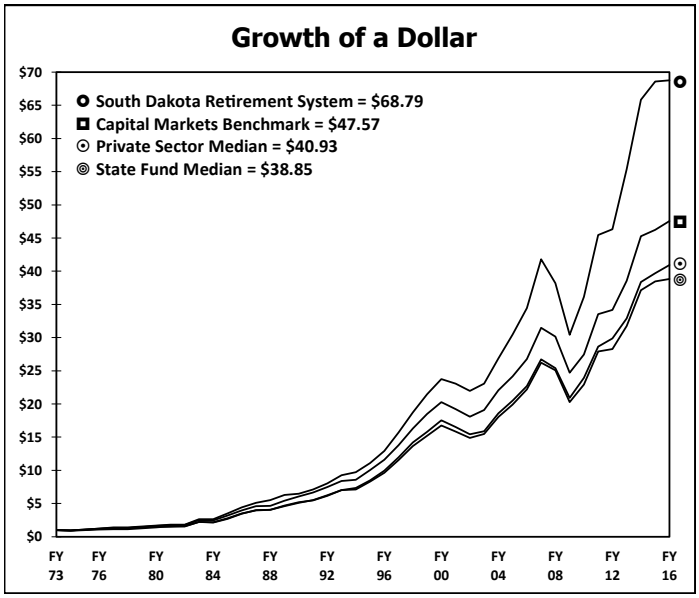
- **Achieve favorable total fund performance over the long term relative to peer pension funds.**

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

SDRS Total Fund vs. State Fund Median

	5 years	10 years	20 years	30 years
# of Successes	37	34	24	14
# of Periods	39	34	24	14
% of Success	95%	100%	100%	100%

The chart to the right shows that compounding superior returns over the long term can really add up. A dollar invested at SDRS returns starting in 1973 would have increased to $68.79 by June 30, 2016. A dollar invested in the Council's Capital Markets Benchmark would have grown to $47.57. A dollar invested in the typical private sector pension plan and state fund would have grown to $40.93 and $38.85, respectively.



Asset Allocation Focus

The decision most impactful to investment outcomes is the allocation of assets to categories such as stocks, bonds, real estate, and others. The Council establishes a benchmark asset allocation which considers expected long-term returns and risk to achieve SDRS investment objectives over the long term. This capital markets benchmark includes categories that are significant in size and can be passively implemented. The benchmark is intended to represent what is achievable through index funds without requiring exceptional skill. The benchmark is used to compare against actual results to assess whether value has been added. The benchmark itself is viewed as a challenging hurdle as most investors fail to keep up with index returns. The Council also establishes a minimum and maximum for each category. Niche or skill-based categories do not have weight in the benchmark but can have a permitted range for when the category valuation is depressed or superior managers are believed to have been identified.

It can be difficult to understand overall fund risk given multiple asset categories that can each behave uniquely. When the Council first began managing assets, most institutional portfolios consisted solely of stocks, investment grade bonds, and cash. Investors back then could quickly understand the level of risk by looking at the percentage of their fund invested in stocks. The Council focus today is on measurement and management of 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 30%, including a small amount of cash exposure, with a permitted range of 15% to 50%.

Allocations to equity-like and bond-like risk, as well as individual asset categories, vary within permitted ranges. The valuation process which drives the allocations within the ranges is based on the present value of estimated future cash flows. Research efforts focus on estimating cash flows and risk based discount rates.

Conventional statistical measures of risk are also calculated. Standard deviation is a measure of volatility and correlation is 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 when it matters most, which is during severe declines. Liquidity is monitored to minimize risk of forced liquidations.

On June 30, 2016, the equity-like risk of the SDRS fund was 63.4% compared to the fiscal year 2016 capital markets benchmark level of 70.0%. The difference is due to a reduction in equity-like risk based on stock market valuations having become somewhat expensive.

The expected long-term return for the benchmark allocation as of June 30, 2016, was 6.1%. This 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.

SDRS Total Fund Performance[10-13]

Fiscal	1 Year		5 Years		10 Years		20 Years		30 Years		43 Years	
Year	SDRS	*Bench*	SDRS	*Bench*	SDRS	*Bench*	SDRS	*Bench*	SDRS	*Bench*	SDRS	*Bench*
2016	0.3%	*2.9%*	8.6%	*7.3%*	7.2%	*5.9%*	8.7%	*7.3%*	9.6%	*8.6%*	10.3%	*9.4%*
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 43 years through fiscal year 2016 for the Total Fund. The Capital Markets Benchmark[4] is provided for comparison.

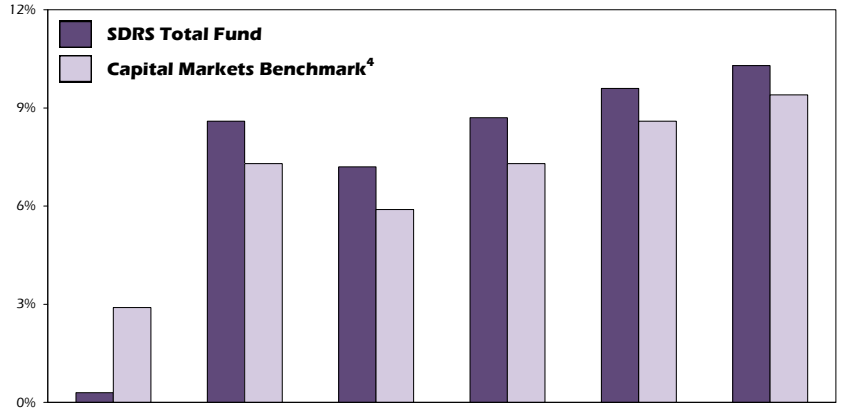
The one-year Total Fund returns above the solid demarcation line are net-of-fees, the returns below are gross-of-fees.

Past performance is no guarantee of future results.

Fiscal Year 2016
Asset Allocation Policy Summary

Asset Category	CMB Allocation	Min - Max Range
Global Equity	58%	25% - 75%
Private Equity	0%	0% - 12%
Merger Arbitrage	0%	0% - 10%
Convertible Arbitrage	0%	0% - 5%
Aggressive Absolute Return	0%	0% - 5%
Real Estate	10%	2% - 20%
Fixed Income - IG	23%	13% - 50%
Fixed Income - TIPS	0%	0% - 5%
High Yield/Distressed	7%	0% - 15%
Commodities	0%	0% - 5%
Cash	2%	0% - 50%

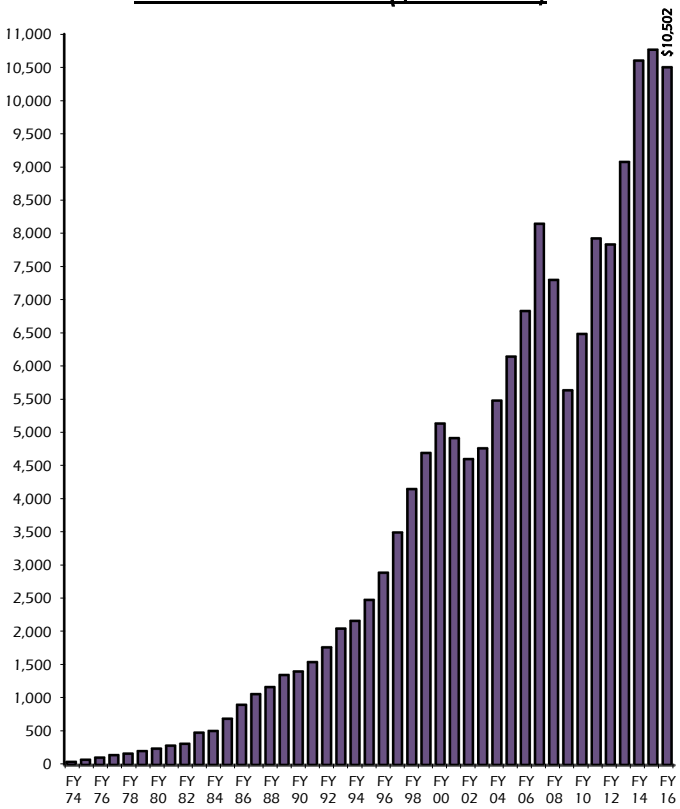
SDRS Total Fund vs. Benchmark



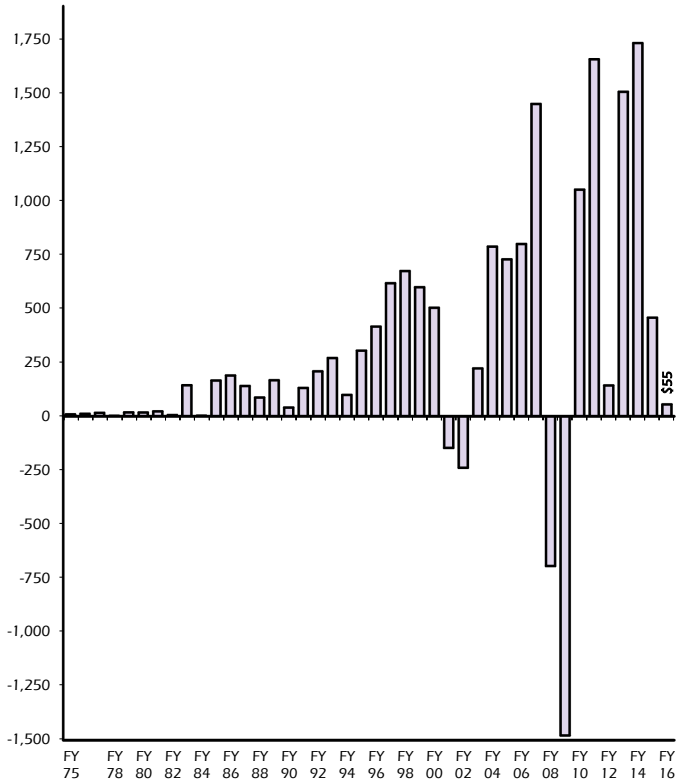
Annualized Returns

	1 Year	5 Years	10 Years	20 Years	30 Years	43 Years
SDRS	0.3%	8.6%	7.2%	8.7%	9.6%	10.3%
Benchmark	2.9%	7.3%	5.9%	7.3%	8.6%	9.4%
Difference	(2.6%)	1.3%	1.3%	1.4%	1.0%	0.9%

Asset Growth[23] ($ in millions)



Investment Income[24] ($ in millions)



Cash Flows and Fair Value Changes

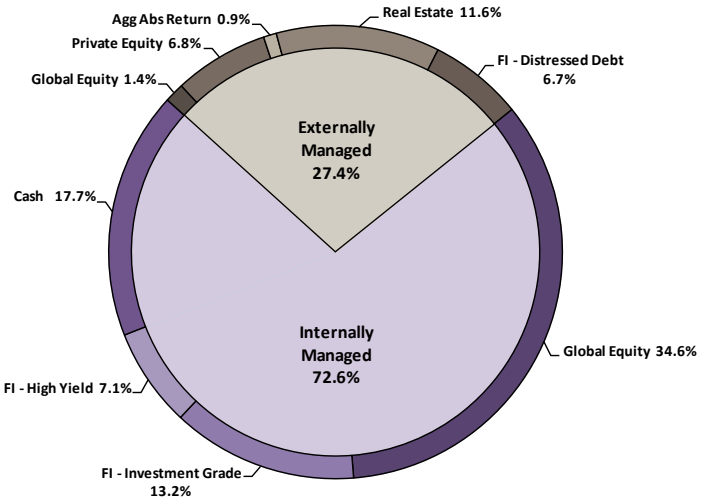
The South Dakota Retirement System began fiscal year 2016 with $10.766 billion in assets. During the fiscal year, net contributions/withdrawals and fees decreased the fund by $320.1 million and investment income increased it by $55.5 million, resulting in an ending fair value of $10.502 billion.

Fair Value 6/30/15			$ 10,766,345,961
Increases/Decreases			
Net Contributions/Withdrawals		$ (287,319,165)	
Internal Management Fees		(9,106,658)	
External Management Fees		(23,709,964)	
Total Increases/Decreases			$ (320,135,787)
Investment Income			
Securities Income			
Interest Income	$ 108,178,467		
Dividend Income	100,482,773		
Securities Lending Income	2,637,541		
Real Estate Income	54,191,540		
Change in Accrued Income	8,263,124		
Total Securities Income		$ 273,753,445	
Total Capital Gain/Loss Income		$ (218,282,755)	
Total Investment Income			$ 55,470,690
Fair Value 6/30/16			$ 10,501,680,864

Asset Allocation[8]

As of June 30, 2016, South Dakota Retirement System assets totaled $10.502 billion. The broad asset categories and managers are listed below. The Capital Markets Benchmark allocation is also provided for comparison. The chart shows the asset allocation of the broad asset categories of the South Dakota Retirement System broken out by internally and externally managed.

	Fair Value Excluding Futures		% of Fund Excluding Futures		Futures Exposure	Fair Value with Futures	% of Fund with Futures	Capital Markets Benchmark %
Global Equity								
Internal Global Equity	$ 4,266,891,570		40.7%					
Internal High Quality Equity	233,711,657		2.2%					
Internal Global Emerging Markets	117,139,750		1.1%					
Internal Small/Mid Equity	565,029,474		5.4%					
Brandes	57,465,534		0.5%					
Dimensional Fund Advisors	49,312,252		0.5%					
Sanders Capital	40,236,939	$ 5,329,787,176	0.4%	50.8%				
Equity Index Futures					$(1,553,156,400)	$ 3,776,630,776	36.0%	58.0%
Private Equity Limited Partnerships								
Blackstone Capital Partners	$ 184,581,006		1.8%					
Blackstone Energy Partners	556,525		0.0%					
Capital International	32,367,908		0.3%					
Carlyle	80,613,111		0.8%					
Cinven	68,878,864		0.7%					
CVC	45,482,367		0.4%					
Cypress	170,972		0.0%					
Doughty Hanson	27,212,225		0.3%					
Elevation	822,130		0.0%					
KKR	11,314,081		0.1%					
Neuberger Berman	1,065,438		0.0%					
PineBridge	3,102,291		0.0%					
Riverstone	76,093,482		0.7%					
Silver Lake	177,349,872	709,610,272	1.7%	6.8%		709,610,272	6.8%	0.0%
Aggressive Absolute Return								
Bridgewater	$ 73,490,885		0.7%					
Sanders Capital	23,886,798	97,377,683	0.2%	0.9%		97,377,683	0.9%	0.0%
Real Estate Limited Partnerships								
Ares Management	$ 5,595,961		0.0%					
Blackstone Real Estate Partners	794,750,606		7.6%					
Cargill N.A. Real Estate Partners	10,754,569		0.1%					
Doughty Hanson	5,058,183		0.0%					
Lone Star	203,453,076		1.9%					
Rockpoint	61,971,165		0.6%					
Starwood	144,033,378	1,225,616,938	1.4%	11.6%		1,225,616,938	11.6%	10.0%
Fixed Income – Investment Grade								
Internal Investment Grade	$ 1,034,098,257	1,034,098,257	9.8%	9.8%				
Treasury Financial Futures					357,558,550	1,391,656,807	13.2%	23.0%
Fixed Income – High Yield/Distressed Debt								
Internal High Yield	$ 740,901,757		7.1%					
Blackstone	80,159		0.0%					
CarVal	33,721,114		0.3%					
TCW	670,405,116	1,445,108,146	6.4%	13.8%		1,445,108,146	13.8%	7.0%
Cash & Cash Equivalents								
Internal Shift Account	$ 660,082,392	660,082,392	6.3%	6.3%				
Cash From Futures					1,195,597,850	1,855,680,242	17.7%	2.0%
Total		$10,501,680,864		100.0%	$ 0	$10,501,680,864	100.0%	100.0%



SDRS Internal Bond Portfolio Performance

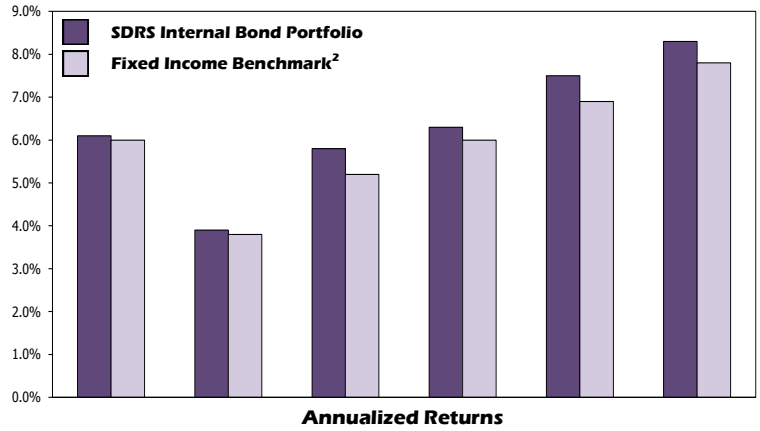
Fiscal	1 Year		5 Years		10 Years		20 Years		30 Years		43 Years	
Year	SDRS	*Bench*	SDRS	*Bench*	SDRS	*Bench*	SDRS	*Bench*	SDRS	*Bench*	SDRS	*Bench*
2016	6.1%	*6.0%*	3.9%	*3.8%*	5.8%	*5.2%*	6.3%	*6.0%*	7.5%	*6.9%*	8.3%	*7.8%*
2015	2.4%	*1.9%*	3.6%	*3.3%*	5.1%	*4.6%*	6.3%	*6.0%*	7.9%	*7.3%*		
2014	4.2%	*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 43 years through fiscal year 2016 for the Internal Bond Portfolio. The Fixed Income Benchmark[2] 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

	1 Year	5 Years	10 Years	20 Years	30 Years	43 Years
SDRS	6.1%	3.9%	5.8%	6.3%	7.5%	8.3%
Benchmark	6.0%	3.8%	5.2%	6.0%	6.9%	7.8%
Difference	0.1%	0.1%	0.6%	0.3%	0.6%	0.5%

SDRS Internal High Yield Bond Portfolio Performance

Fiscal	1 Year		2 Years		3 Years		4 Years		5 Years		10 Years	
Year	SDRS	*Bench*	SDRS	*Bench*	SDRS	*Bench*	SDRS	*Bench*	SDRS	*Bench*	SDRS	*Bench*
2016	(9.6%)	*0.9%*	(10.1%)	*0.0%*	(4.0%)	*3.6%*	(0.3%)	*4.9%*	1.5%	*5.5%*	4.8%	*7.3%*
2015	(10.6%)	*(0.8%)*	(1.1%)	*5.0%*	3.0%	*6.3%*	4.5%	*6.7%*	6.7%	*8.2%*		
2014	9.5%	*11.2%*	10.5%	*10.0%*	10.1%	*9.3%*	11.5%	*10.6%*	12.7%	*12.2%*		
2013	11.5%	*8.9%*	10.4%	*8.4%*	12.2%	*10.5%*	13.5%	*12.5%*	10.8%	*10.4%*		
2012	9.2%	*7.9%*	12.6%	*11.3%*	14.2%	*13.7%*	10.7%	*10.8%*	8.5%	*8.8%*		
2011	16.0%	*14.8%*	16.7%	*16.8%*	11.2%	*11.8%*	8.3%	*9.0%*	8.2%	*9.1%*		
2010	17.5%	*18.9%*	8.8%	*10.3%*	5.8%	*7.2%*	6.3%	*7.7%*				
2009	0.7%	*2.3%*	0.4%	*1.8%*	2.8%	*4.2%*						
2008	0.1%	*1.2%*	3.8%	*5.2%*								
2007	7.7%	*9.2%*										

The chart to the left shows the annualized total rate of returns for 1, 2, 3, 4, 5, and 10 years through fiscal year 2016 for the Internal High Yield Bond Portfolio. The High Yield benchmark[5] 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, 2016, are presented below.

Distribution by Duration	IG	HY
0 to 2 Years	5.5%	9.3%
2 to 3 Years	6.0%	15.9%
3 to 4 Years	31.3%	25.0%
4 to 5 Years	13.4%	33.3%
5 to 6 Years	14.5%	15.5%
6 to 8 Years	13.2%	0.9%
Above 8 Years	16.1%	0.1%
Total	100.0%	100.0%

Distribution by Quality Rating	IG	HY
U.S. Gov't/Aaa	63.0%	0.4%
Aa	7.2%	0.0%
A	11.7%	0.0%
Baa	17.3%	0.0%
Ba	0.8%	21.5%
B	0.0%	30.3%
Caa and lower	0.0%	47.8%
Total	100.0%	100.0%

Distribution by Coupon	IG	HY
0.00% - 2.00%	27.6%	1.2%
2.01% - 3.00%	29.4%	0.0%
3.01% - 4.00%	30.5%	1.7%
4.01% - 6.00%	12.1%	22.0%
6.01% - 7.00%	0.4%	29.9%
7.01% - 8.00%	0.0%	20.7%
8.01% and over	0.0%	24.5%
Total	100.0%	100.0%

Distribution by Sector	IG	HY
Cash/Cash Equivalents	0.3%	0.4%
U.S. Treasuries	22.4%	0.0%
Agency Debentures	4.6%	0.0%
Agency Mortgage-Backed Securities	34.0%	0.0%
Investment Grade Corporates	37.8%	0.0%
High Yield Corporates	0.9%	99.6%
Total	100.0%	100.0%

Investment Grade Bond Portfolio Ten Largest Corporates by Issuer	% of Total
Ontario (Province Of)	1.7%
Morgan Stanley	1.4%
CSX Corp.	1.3%
Toyota Motor Co.	1.3%
eBay, Inc.	1.3%
Apple, Inc.	1.3%
Quebec (Province Of)	1.3%
Hewlett Packard Enterprise Co.	1.3%
Verizon Communications	1.2%
Ford Motor Co.	1.2%
Total	13.3%

High Yield Bond Portfolio Ten Largest Corporates by Issuer	% of Total
Frontier Communications Corp.	5.5%
Chesapeake Energy Corp.	3.9%
Atwood Oceanics, Inc.	3.5%
California Resources Corp.	3.5%
CenturyLink, Inc.	2.9%
EP Energy Corp.	2.9%
Hornbeck Offshore Services, Inc.	2.6%
Calfrac Well Services, Ltd.	2.6%
First Quantum Minerals, Ltd.	2.5%
Whiting Petroleum Corp.	2.5%
Total	32.4%

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

	1975	1980	1985	1990	1995	2000	2005	2010	2015	2016
South Dakota Retirement System										
Yield to Maturity	9.4%	10.4%	10.3%	9.3%	7.3%	7.8%	4.7%	3.7%	2.5%	1.9%
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	5.1 yrs
Bond Index[1]										
Yield to Maturity	8.3%	10.2%	10.2%	9.2%	6.7%	7.3%	4.5%	2.6%	2.3%	1.8%
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	7.2 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	5.7 yrs

SDRS Combined Internal Equity Portfolio Performance

Fiscal	1 Year		5 Years		10 Years		20 Years		30 Years		43 Years	
Year	SDRS	*Bench*	SDRS	*Bench*	SDRS	*Bench*	SDRS	*Bench*	SDRS	*Bench*	SDRS	*Bench*
2016	(2.9%)	*(0.1%)*	9.3%	*8.7%*	6.0%	*5.9%*	7.8%	*7.2%*	9.2%	*9.2%*	11.3%	*10.1%*
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%)*										

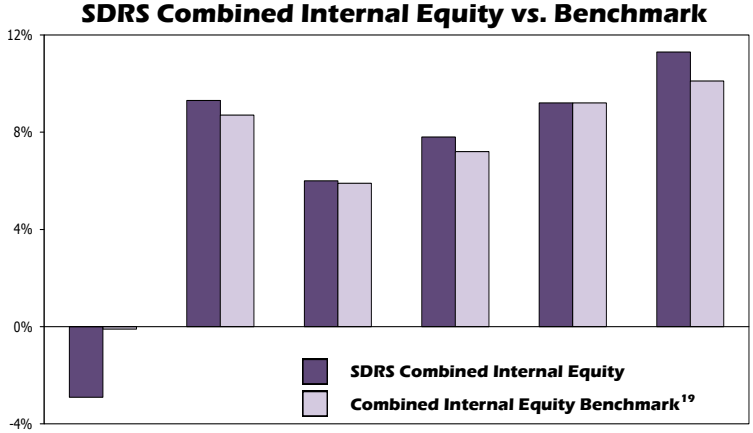
The chart to the left shows the annualized total rate of returns for 1, 5, 10, 20, 30, and 43 years through fiscal year 2016 for the Combined Internal Equity Portfolio. The Combined Internal Equity Benchmark[19] is provided for comparison.

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

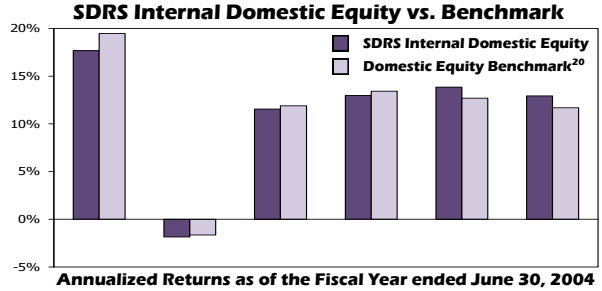


Annualized Returns

	1 Year	5 Years	10 Years	20 Years	30 Years	43 Years
SDRS	(2.9%)	9.3%	6.0%	7.8%	9.2%	11.3%
Benchmark	(0.1%)	8.7%	5.9%	7.2%	9.2%	10.1%
Difference	(2.8%)	0.6%	0.1%	0.6%	0.0%	1.2%

Historical SDRS Internal Domestic and International Equity Portfolio Performance Information

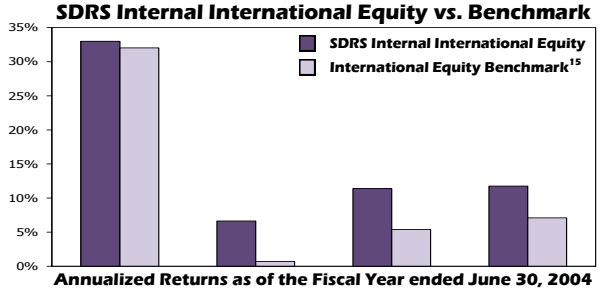
SDRS Internal Domestic Equity vs. Benchmark



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

	1 Year	5 Years	10 Years	20 Years	30 Years	31 Years
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

	1 Year	5 Years	10 Years	12 Years
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, 2016, are presented below. The SDRS internal global equity portfolio is compared to the ⅔ S&P Global 1200 Index plus ⅓ S&P 500 Index benchmark. A listing of the 50 largest global equity securities can be found on page 35.

Distribution by Market Sector

	SDRS	Bench
Consumer Discretionary	10.7%	11.8%
Consumer Staples	9.8%	11.1%
Energy	14.1%	7.3%
Financials	17.5%	17.7%
Health Care	16.0%	13.5%
Industrials	8.6%	10.7%
Information Technology	16.4%	16.3%
Materials	2.4%	4.2%
Telecommunications Services	1.9%	3.8%
Utilities	1.8%	3.6%
Cash Equivalents	0.8%	0.0%
Total	100.0%	100.0%

Ten Largest Country Weights

	SDRS	Bench
United States	76.8%	72.3%
Great Britain	6.2%	4.7%
Switzerland	4.7%	2.3%
Japan	2.4%	5.1%
Canada	2.1%	2.2%
France	2.0%	2.2%
Germany	1.5%	2.0%
South Korea	1.3%	0.7%
Netherlands	0.9%	0.7%
Italy	0.4%	0.5%
Total	98.3%	92.7%

Global Equity Composite[7]

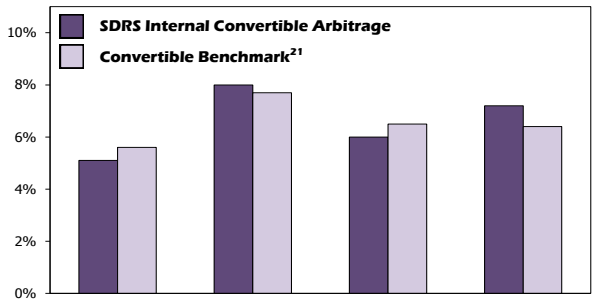
The South Dakota Retirement System's global equity composite is comprised of the following internally managed equity portfolios: global, high quality, global emerging markets, and small/mid along with three externally managed portfolios as of June 30, 2016. The composite is compared to the ⅔ MSCI All Country World Index plus ⅓ MSCI US Index benchmark.

Performance Results for the Fiscal Year Ended June 30, 2016

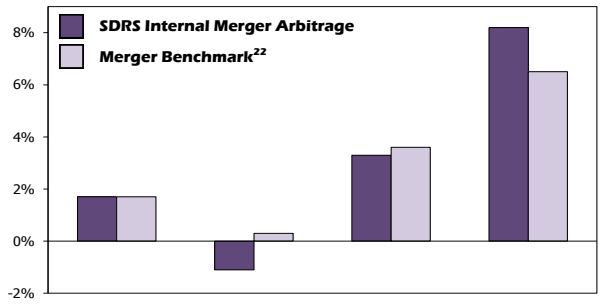
SDRS Global Equity Composite	(2.5%)
Benchmark	(1.7%)
Difference	(0.8%)

Historical SDRS Internal Convertible and Merger Arbitrage Portfolio Performance Information

SDRS Internal Convertible Arbitrage vs. Benchmark



SDRS Internal Merger 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%

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 2016, the net-of-fees SI-IRR for the composite PE limited partnership investments was 8.7%. This can be compared to the S&P 500 Index PME of 5.7% for the same period. RE limited partnerships net-of-fees SI-IRR composite from December of 1994 through June of 2016 was 21.0%. A PME using the MSCI US REIT Index could not be calculated using the same cash flows because the return of the RE limited partnerships was significantly higher than the index. The annualized time-weighted rate of return for the MSCI US REIT index was 11.3% 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
1995*	16.4%	4.6%	11.8%
1996	38.3%	9.6%	28.7%
1997	30.9%	11.4%	19.5%
1998	37.2%	17.9%	19.3%
1999	28.5%	13.2%	15.3%
2000	13.4%	11.6%	1.8%
2001	20.1%	12.4%	7.7%
2002	6.4%	6.6%	(0.2%)
2003	5.7%	7.1%	(1.4%)
2004	19.4%	9.7%	9.7%
2005	66.4%	15.6%	50.8%
2006	36.7%	20.2%	16.5%
2007	60.0%	16.6%	43.4%
2008	3.2%	13.6%	(10.4%)
2009	(52.5%)	(14.7%)	(37.8%)
2010	11.7%	(9.6%)	21.3%
2011	40.9%	17.5%	23.4%
2012	3.7%	14.8%	(11.1%)
2013	15.4%	11.9%	3.5%
2014	24.3%	13.4%	10.9%
2015	18.9%	3.9%	15.0%
2016	3.2%	24.1%	(20.9%)

Since Inception*		
SDRS	Bench	Diff
21.0%	10.4%	10.6%

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 Benchmark[26] 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 2016.*

SDRS Private Equity Net Internal Rate of Return Performance Comparison

Fiscal Year	SDRS	Bench	Diff
1999	5.9%	27.9%	(22.0%)
2000	9.5%	14.7%	(5.2%)
2001	(16.4%)	(10.4%)	(6.0%)
2002	(9.7%)	(14.8%)	5.1%
2003	4.2%	4.6%	(-0.4%)
2004	30.0%	23.5%	6.5%
2005	26.0%	10.0%	16.0%
2006	26.5%	12.4%	14.1%
2007	22.6%	24.7%	(2.1%)
2008	9.9%	(9.9%)	19.8%
2009	(35.4%)	(23.4%)	(12.0%)
2010	32.7%	18.4%	14.3%
2011	32.3%	32.8%	(0.5%)
2012	(1.0%)	7.3%	(8.3%)
2013	13.9%	22.6%	(8.7%)
2014	24.8%	24.6%	0.2%
2015	7.8%	2.8%	5.0%
2016	2.6%	(1.7%)	4.3%

Since Fiscal Year 1999*		
SDRS	Bench	Diff
8.8%	8.0%	0.8%

The chart shows the yearly and net internal rate of return from fiscal year 1999-2016 for the composite of the Private Equity limited partnerships. The Private Equity Benchmark[27] 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 2016, the fund ranged in size from $1.181 billion to $1.377 billion and averaged $1.304 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, 2016, 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, 3) Sufficient Liquidity, and 4) provide investment in state financial institutions for potential loans through the Certificate of Deposit (CD) Program.

The fund is composed of four portfolios. On June 30, 2016, 77.2% 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, 2016, this portfolio represented 8.2% of the SDCFF. This portfolio's expected benefits include 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 USBIG Bond Index duration.

The money market portfolio represents 12.2% of SDCFF as of June 30, 2016. This portfolio is the most liquid of the SDCFF portfolios and its size can vary significantly during the course of the year.

The South Dakota Certificate of Deposit Program is the smallest portion of the SDCFF representing 2.4%. 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% at the time of issuance. On June 30, 2016, $30.554 million in CDs was held in forty-two banks, four credit unions, and two savings associations.

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 $18.0 million for fiscal year 2016. The fund has distributed over $1.1 billion of earnings since its inception. The proration rate for fiscal year 2016 was 1.35%.

INVESTMENT PERFORMANCE - FISCAL YEAR 2016

The yield of the total SDCFF for fiscal year 2016 was 1.41%. Since the fund's inception in December of 1972, it has yielded 6.38% annually. For fiscal year 2016, the short-term fixed income portfolio portion of the fund had a time-weighted rate of return of 2.32% compared to a benchmark[6] return of 2.04%. Since the inception of the short-term portfolio in November of 1985, the time-weighted rate of return has been 5.22% annually compared to 4.85% for the benchmark. The intermediate-term fixed income portfolio was implemented in November of 2015 and had a time-weighted rate of return of 4.32% for the eight months compared to 4.72% for the Citigroup USBIG Bond Index. During fiscal year 2016, the money market portion yielded 0.12%. The CD Program yielded 0.56% for the fiscal year. The CD rate on June 30, 2016, was 0.626% for the CDs issued in September of 2015.

Cash Flows and Fair Value Changes

The South Dakota Cash Flow Fund began fiscal year 2016 with $1,301.3 million in assets. During the fiscal year, net contributions/withdrawals and fees decreased the fund by $73.1 million and investment income increased it by $28.3 million, resulting in an ending fair value of $1,256.5 million.

Fair Value 6/30/15			$1,301,321,079
Increases/Decreases			
Net Contributions/Withdrawals		$ (72,696,197)	
Internal Management Fees		(494,003)	
Total Increases/Decreases			$ (73,190,200)
Investment Income			
Securities Income			
Interest Income - Managed	$ 16,657,398		
Interest Income - CDs	129,512		
Change in Accrued Income	233,750		
Total Securities Income		$ 17,020,660	
Total Capital Gain/Loss Income		$ 11,315,489	
Total Investment Income			$ 28,336,149
Fair Value 6/30/16			$1,256,467,028

Comparative Results[9]

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]
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%❖		
	$1,101,480,333						

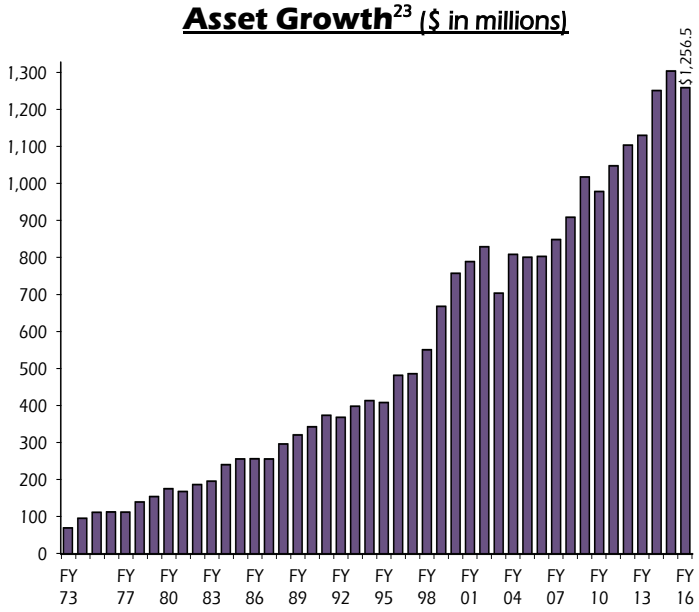
× Yield on funds managed by the Investment Office excluding CDs.

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

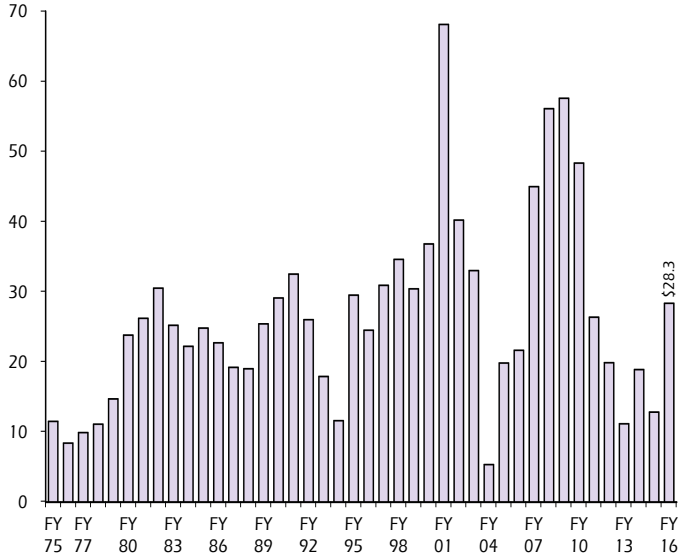
▣ Prorated amount and rate are 7-month numbers.

❖ Rate is annualized.

Asset Growth[23] ($ in millions)



Investment Income[24] ($ 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, 2016, are presented below.

Distribution by Duration	%
0 to 1 year	25.9%
1 to 2 years	35.3%
2 to 3 years	22.4%
3 to 4 years	6.8%
Above 4 years	9.6%
Total	100.0%

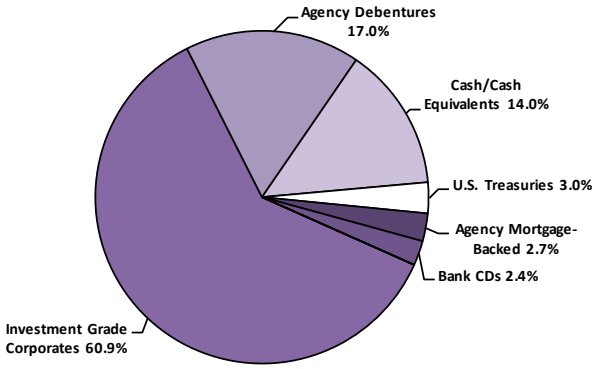
Distribution by Quality Rating	%
U.S. Gov't/Aaa	41.2%
Aa	7.5%
A	41.5%
Baa	9.8%
Total	100.0%

Distribution by Coupon	%
0.00% - 1.00%	24.7%
1.01% - 2.00%	59.7%
2.01% - 3.00%	13.6%
3.01% - 4.00%	2.0%
4.01% and over	0.0%
Total	100.0%

Distribution by Sector	%
Cash/Cash Equivalents	14.0%
Bank CDs	2.4%
U.S. Treasuries	3.0%
Agency Debentures	17.0%
Agency Mortgage-Backed Securities	2.7%
Investment Grade Corporates	60.9%
Total	100.0%

Ten Largest Corporates by Issuer	% of Total
JPMorgan Chase & Co.	2.4%
PNC Financial Services Group, Inc.	2.3%
PepsiCo, Inc.	2.2%
American Express Co.	1.9%
Goldman Sachs Group, Inc.	1.9%
Oracle Corp.	1.7%
U.S. Bancorp	1.6%
UnitedHealth Group, Inc.	1.6%
Deere & Co.	1.6%
Bank of America Corp.	1.6%
Total	18.8%

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 inflation[3] 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 2016, 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 similar to the South Dakota Retirement System's asset allocation.

The long-term expected return of the fund as of June 30, 2016, was 5.87% 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 2016

The fund ended fiscal year 2016 with a fair value of $259,767,962. The principal is adjusted by the inflation factor each year as required by the constitutional amendment. SPL's total return, including realized and unrealized gains and losses and accrued income, was 0.0% for the fiscal year. The benchmark[14] return was 4.3%. The difference resulted from underperformance of the real estate limited partnerships and the global equity portfolio. The ten-year annualized total return was 6.3%. This compares with the ten-year benchmark[14] return of 6.4%. The fund distributed $10,227,405 to the common schools in February of 2016 and $2,264,613 to the schools of higher education in June of 2016.

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

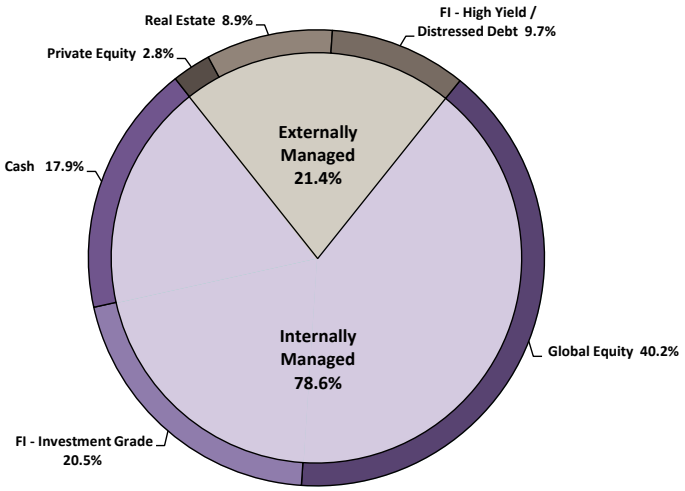
The School and Public Lands fund began fiscal year 2016 with $264.0 million in assets. During the fiscal year, net contributions/withdrawals and fees decreased the fund by $4.3 million and investment income increased it by $0.1 million, resulting in an ending fair value of $259.8 million.

Fair Value 6/30/15			$ 264,009,888
Increases/Decreases			
Net Contributions/Withdrawals		$ (3,937,823)	
External Management Fees		(420,645)	
Total Increases/Decreases			$ (4,358,468)
Investment Income			
Securities Income			
Interest Income	$ 2,518,059		
Dividend Income	2,660,355		
Securities Lending Income	54,401		
Real Estate Income	1,108,286		
Change in Accrued Income	(137,372)		
Total Securities Income		$ 6,203,729	
Capital Gain/Loss Income			
Change in Unrealized Gain/Loss	$ (14,283,298)		
Realized Gain/Loss	8,196,111		
Total Capital Gain/Loss Income		$ (6,087,187)	
Total Investment Income			$ 116,542
Fair Value 6/30/16			$ 259,767,962

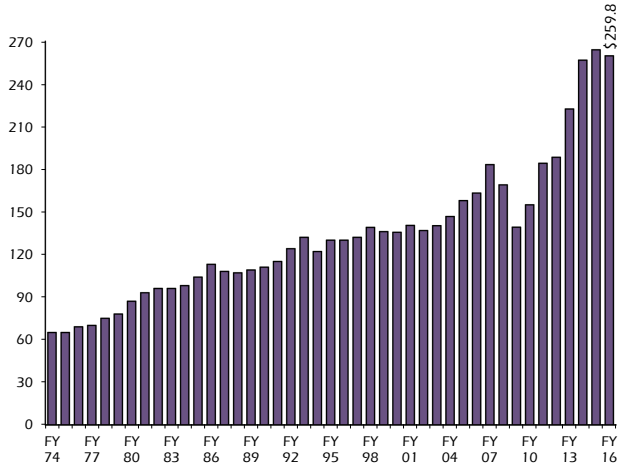
Asset Allocation[8]

As of June 30, 2016, School and Public Lands' assets totaled $259.8 million. The broad asset categories and managers are listed below. The Capital Markets Benchmark allocation is also provided for comparison.

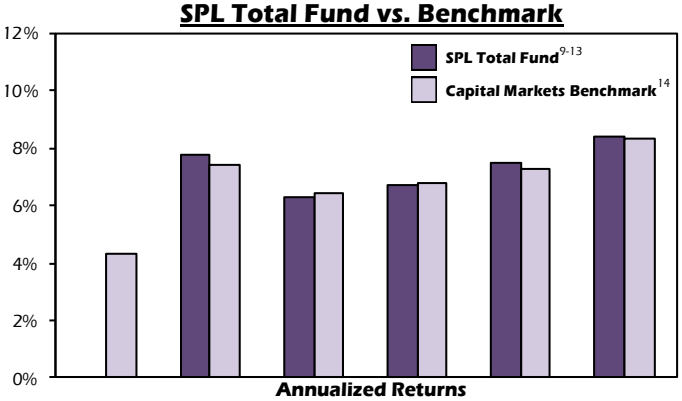
	Fair Value		% of Fund		Capital Markets Benchmark %
Global Equity					
Internal Global Equity	$ 102,271,651		39.4%		
Internal Global Emerging Markets	2,201,170	$ 104,472,821	0.8%	40.2%	51.0%
Private Equity Limited Partnerships					
Blackstone Capital Partners	$ 2,369,305		0.9%		
Carlyle	1,358,541		0.5%		
Doughty Hanson	492,725		0.2%		
Riverstone[25]	(106,770)		0.0%		
Silver Lake	3,042,107	7,155,908	1.2%	2.8%	0.0%
Real Estate Limited Partnerships					
Blackstone Real Estate Partners	$ 15,859,218		6.1%		
Cargill N.A. Real Estate Partners	250,690		0.1%		
Lone Star	4,514,495		1.7%		
Rockpoint	367,403		0.1%		
Starwood	2,341,866	23,333,672	0.9%	8.9%	10.0%
Fixed Income - Investment Grade					
Internal Investment Grade	$ 51,930,551		20.0%		
S.D. S.B.A. and Similar Assets	1,247,185	53,177,736	0.5%	20.5%	30.0%
Fixed Income - High Yield/Distressed Debt					
Vanguard High Yield Fund	$ 11,635,562		4.5%		
CarVal	365,823		0.1%		
TCW	13,228,669	25,230,054	5.1%	9.7%	7.0%
Cash & Cash Equivalents					
Internal Cash Account	$ 46,397,771	46,397,771	17.9%	17.9%	2.0%
Total		$ 259,767,962		100.0%	100.0%



Asset Growth[23] ($ in millions)



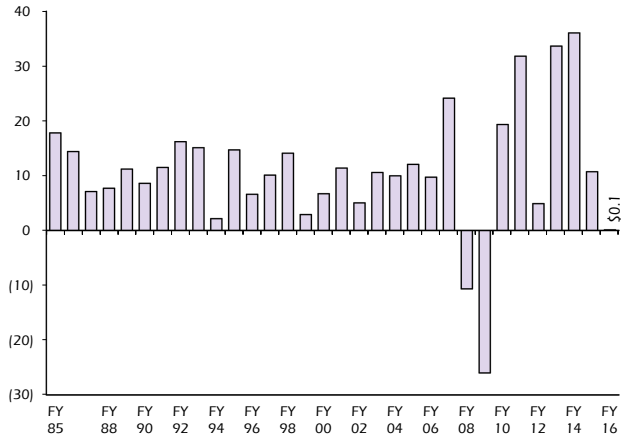
SPL Total Fund vs. Benchmark



Annualized Returns

	1 Year	5 Years	10 Years	20 Years	30 Years	32 Years
SPL	0.0%	7.8%	6.3%	6.7%	7.5%	8.4%
Benchmark	4.3%	7.4%	6.4%	6.8%	7.3%	8.3%
Difference	(4.3%)	0.4%	(0.1%)	(0.1%)	0.2%	0.1%

Investment Income[24] ($ 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, 2016, are presented below.

Distribution by Market Sector	%
Consumer Discretionary	9.6%
Consumer Staples	9.9%
Energy	16.2%
Financials	18.3%
Health Care	16.9%
Industrials	7.5%
Information Technology	16.5%
Materials	2.1%
Telecommunications Services	1.2%
Utilities	1.3%
Cash Equivalents	0.5%
Total	100.0%

Five Largest Country Weights	% of Total
United States	76.0%
Great Britain	6.7%
Switzerland	5.4%
Canada	2.5%
Japan	2.4%
Total	93.0%

Internal Bond Profiles

The School and Public Lands' internal Investment Grade (IG) bond portfolio characteristics as of June 30, 2016, are presented below.

Distribution by Duration	IG
0 to 2 Years	6.7%
2 to 3 Years	6.9%
3 to 4 Years	28.5%
4 to 5 Years	14.9%
5 to 6 Years	13.7%
6 to 8 Years	13.3%
Above 8 Years	16.0%
Total	100.0%

Distribution by Quality Rating	IG
U.S. Gov't/Aaa	63.7%
Aa	7.2%
A	12.0%
Baa	16.2%
Ba	0.9%
B	0.0%
Caa and lower	0.0%
Total	100.0%

Distribution by Coupon	IG
0.00% - 2.00%	28.8%
2.01% - 3.00%	29.7%
3.01% - 4.00%	27.2%
4.01% - 6.00%	13.8%
6.01% - 7.00%	0.5%
7.01% - 8.00%	0.0%
8.01% and over	0.0%
Total	100.0%

Distribution by Sector (Consolidated)	%
Cash/Cash Equivalents	1.3%
U.S. Treasuries	17.9%
Agency Debentures	3.7%
Agency Mortgage-Backed Securities	26.9%
Investment Grade Corporates	29.7%
High Yield Corporates/Bond Mutual Fund	18.6%
S.D. S.B.A. and Similar Assets	1.9%
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, 2016, are presented below.

Global Equity Company Holdings	% of Total
Microsoft Corp.	2.8%
UnitedHealth Group, Inc.	2.7%
Alphabet, Inc.	2.6%
JPMorgan Chase & Co.	2.2%
BP plc	2.1%
Wal-Mart Stores, Inc.	2.0%
Apple, Inc.	2.0%
Chevron Corp.	1.9%
Pfizer, Inc.	1.8%
U.S. Bancorp	1.8%
Total	21.9%

Investment Grade Corporates by Issuer	% of Total
Ontario (Province Of)	1.7%
Morgan Stanley	1.5%
Apple, Inc.	1.3%
CSX Corp.	1.3%
Toyota Motor Co.	1.3%
eBay, Inc.	1.3%
Quebec (Province Of)	1.3%
Hewlett Packard Enterprise Co.	1.3%
Verizon Communications	1.2%
Ford Motor Co.	1.2%
Total	13.4%

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 2016, as shown on the following page. Since the establishment of the fund, the Council has gradually shifted the asset allocation to be more similar to the South Dakota Retirement System's asset allocation.

The long-term expected return of the fund as of June 30, 2016, was 5.87% 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 2016

The fund ended fiscal year 2016 with a fair value of $294,571,755, principal value of $238,000,000, and inflation-adjusted principal of $322,978,654. DCT's total return, including realized and unrealized gains and losses and accrued income, was 0.2% for the fiscal year. The benchmark[16] return was 4.3%. The difference resulted from underperformance of the real estate limited partnerships and the global equity portfolio. The ten-year annualized total return was 6.3%. This compares with the ten-year benchmark[16] return of 6.4%. In May of 2016, the fund distributed $11,436,003 to the general fund. Since inception, the fund has distributed $190.7 million to the general fund.

Cash Flows and Fair Value Changes

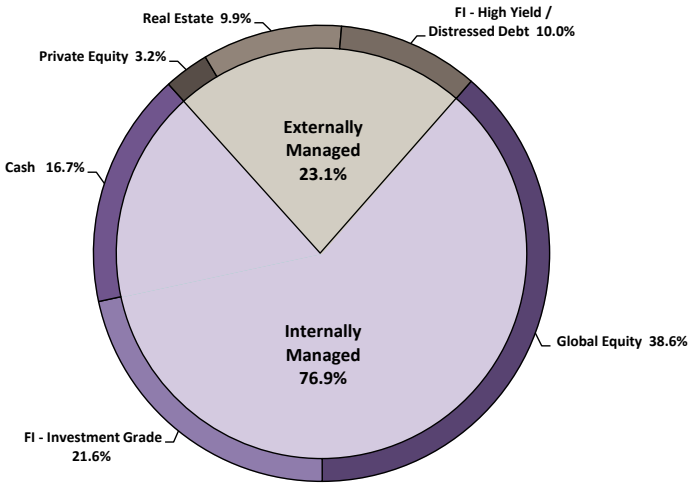
The Dakota Cement Trust Fund began fiscal year 2016 with $305.4 million in assets. During the fiscal year, net contributions/withdrawals and fees decreased the fund by $12.1 million and investment income increased it by $1.3 million, resulting in an ending fair value of $294.6 million.

Fair Value 6/30/15			$ 305,394,373
Increases/Decreases			
Net Contributions/Withdrawals		$ (11,436,003)	
Internal Management Fees		(264,752)	
External Management Fees		(390,619)	
Total Increases/Decreases			$ (12,091,374)
Investment Income			
Securities Income			
Interest Income	$ 3,024,531		
Dividend Income	2,927,456		
Securities Lending Income	54,970		
Real Estate Income	1,274,238		
Change in Accrued Income	(180,217)		
Total Securities Income		$ 7,100,978	
Total Capital Gain/Loss Income		$ (5,832,222)	
Total Investment Income			$ 1,268,756
Fair Value 6/30/16			$ 294,571,755

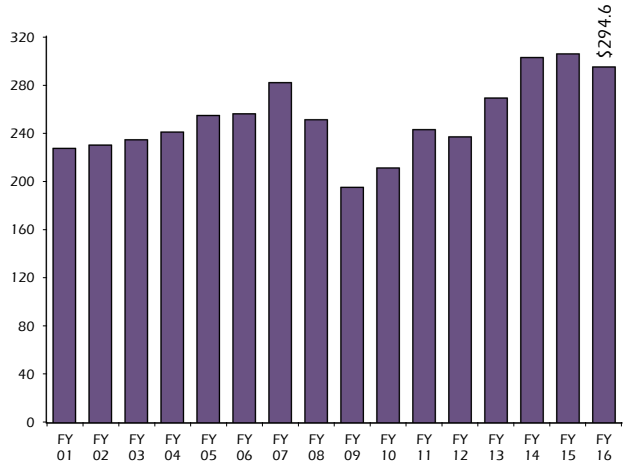
Asset Allocation[8]

As of June 30, 2016, Dakota Cement Trust's assets totaled $294.6 million. The broad asset categories and managers are listed below. The Capital Markets Benchmark allocation is also provided for comparison.

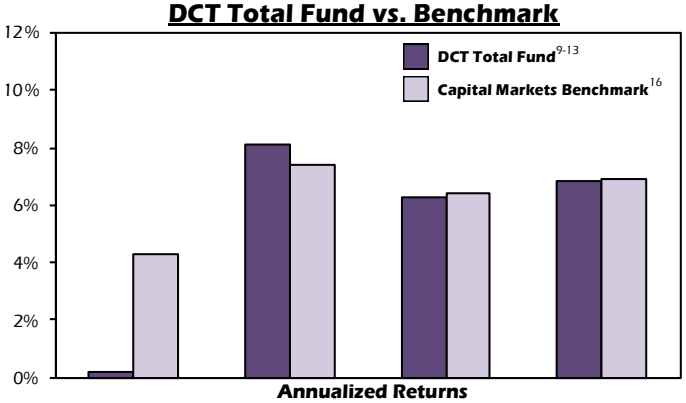
	Fair Value		% of Fund		Capital Markets Benchmark %
Global Equity					
Internal Global Equity	$ 111,226,987		37.8%		
Internal Global Emerging Markets	2,365,342	$ 113,592,329	0.8%	38.6%	51.0%
Private Equity Limited Partnerships					
Blackstone Capital Partners	$ 2,883,995		1.0%		
Carlyle	1,630,320		0.5%		
Doughty Hanson	803,577		0.3%		
Riverstone[25]	(122,342)		0.0%		
Silver Lake	4,224,237	9,419,787	1.4%	3.2%	0.0%
Real Estate Limited Partnerships					
Blackstone Real Estate Partners	$ 21,451,316		7.3%		
Cargill N.A. Real Estate Partners	409,022		0.1%		
Lone Star	5,178,331		1.8%		
Rockpoint	401,848		0.1%		
Starwood	1,756,399	29,196,916	0.6%	9.9%	10.0%
Fixed Income - Investment Grade					
Internal Investment Grade	$ 63,803,924	63,803,924	21.6%	21.6%	30.0%
Fixed Income - High Yield/Distressed Debt					
Vanguard High Yield Fund	$ 13,291,279		4.5%		
CarVal	596,763		0.2%		
TCW	15,515,349	29,403,391	5.3%	10.0%	7.0%
Cash & Cash Equivalents					
Internal Cash Account	$ 49,155,408	49,155,408	16.7%	16.7%	2.0%
Total		$ 294,571,755		100.0%	100.0%



Asset Growth[23] ($ in millions)

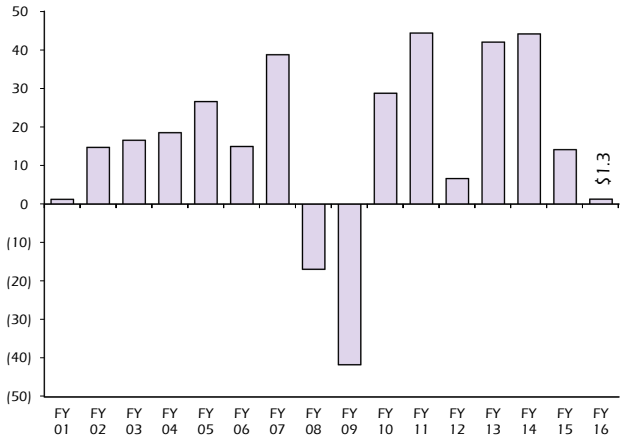


DCT Total Fund vs. Benchmark



	1 Year	5 Years	10 Years	15 Years
DCT	0.2%	8.1%	6.3%	6.8%
Benchmark	4.3%	7.4%	6.4%	6.9%
Difference	(4.1%)	0.7%	(0.1%)	(0.1%)

Investment Income[24] ($ in millions)



Internal Global Equity Profile

The Dakota Cement Trust's internal Global Equity portfolio characteristics as of June 30, 2016, are presented below.

Distribution by Market Sector	%
Consumer Discretionary	9.9%
Consumer Staples	9.9%
Energy	16.2%
Financials	18.3%
Health Care	16.8%
Industrials	7.4%
Information Technology	16.3%
Materials	2.0%
Telecommunications Services	1.3%
Utilities	1.4%
Cash Equivalents	0.5%
Total	100.0%

Five Largest Country Weights	% of Total
United States	75.9%
Great Britain	6.8%
Switzerland	5.5%
Japan	2.5%
Canada	2.4%
Total	93.1%

Internal Bond Profiles

The Dakota Cement Trust's internal Investment Grade (IG) bond portfolio characteristics as of June 30, 2016, are presented below.

Distribution by Duration	IG
0 to 2 Years	7.0%
2 to 3 Years	6.2%
3 to 4 Years	29.4%
4 to 5 Years	14.6%
5 to 6 Years	13.5%
6 to 8 Years	13.3%
Above 8 Years	16.0%
Total	100.0%

Distribution by Quality Rating	IG
U.S. Gov't/Aaa	63.9%
Aa	7.2%
A	11.8%
Baa	16.2%
Ba	0.9%
B	0.0%
Caa and lower	0.0%
Total	100.0%

Distribution by Coupon	IG
0.00% - 2.00%	29.0%
2.01% - 3.00%	29.8%
3.01% - 4.00%	29.1%
4.01% - 6.00%	11.7%
6.01% - 7.00%	0.4%
7.01% - 8.00%	0.0%
8.01% and over	0.0%
Total	100.0%

Distribution by Sector (Consolidated)	%
Cash/Cash Equivalents	1.5%
U.S. Treasuries	18.5%
Agency Debentures	3.8%
Agency Mortgage-Backed Securities	27.8%
Investment Grade Corporates	30.5%
High Yield Corporates/Bond Mutual Fund	17.9%
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, 2016, are presented below.

Global Equity Company Holdings	% of Total
Microsoft Corp.	2.8%
Alphabet, Inc.	2.7%
UnitedHealth Group, Inc.	2.7%
JPMorgan Chase & Co.	2.3%
Wal-Mart Stores, Inc.	2.1%
BP plc	2.1%
Apple, Inc.	1.9%
Pfizer, Inc.	1.9%
Chevron Corp.	1.9%
U.S. Bancorp	1.8%
Total	22.2%

Investment Grade Corporates by Issuer	% of Total
Ontario (Province Of)	1.7%
Morgan Stanley	1.5%
Apple, Inc.	1.3%
CSX Corp.	1.3%
Toyota Motor Co.	1.3%
eBay, Inc.	1.3%
Quebec (Province Of)	1.3%
Hewlett Packard Enterprise Co.	1.3%
Verizon Communications	1.2%
Ford Motor Co.	1.2%
Total	13.4%

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 2016, 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 similar to the South Dakota Retirement System's asset allocation.

The long-term expected return of the fund as of June 30, 2016, was 5.82% 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 2016

The fund ended fiscal year 2016 with a fair value of $507,946,208, principal value of $358,320,995, and inflation-adjusted principal of $466,281,046. EET's total return, including realized and unrealized gains and losses and accrued income, was (0.1%). The benchmark[17] return was 4.3%. The difference resulted from underperformance of the real estate limited partnerships and the global equity portfolio. The ten-year annualized total return was 5.8%. This compares with the ten-year benchmark[17] return of 6.4%. The fund's return has been impacted by the required use of tax-exempt securities. In July of 2016, the fund distributed 4% of the sixteen-quarter average market value as of December 31, 2015, totaling $18,242,854, to the general fund for education expenditures.

Cash Flows and Fair Value Changes

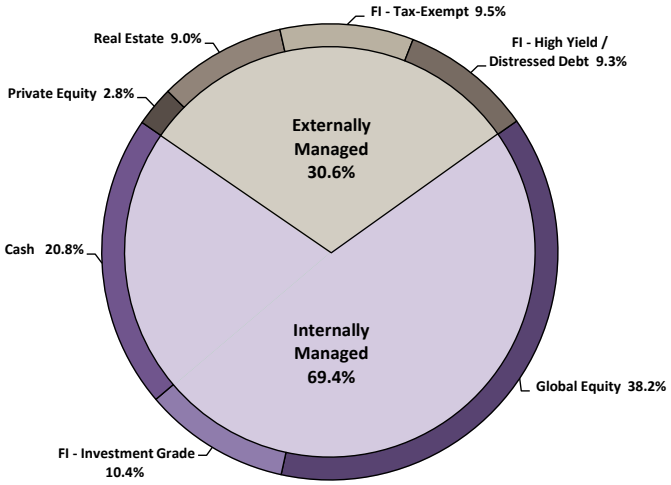
The Education Enhancement Trust Fund began fiscal year 2016 with $514.2 million in assets. During the fiscal year, net contributions/withdrawals and fees decreased the fund by $7.2 million and investment income increased it by $1.0 million, resulting in an ending fair value of $507.9 million.

Fair Value 6/30/15			$ 514,166,745
Increases/Decreases			
Net Contributions/Withdrawals		$ (5,968,747)	
Internal Management Fees		(427,749)	
External Management Fees		(829,806)	
Total Increases/Decreases			$ (7,226,302)
Investment Income			
Securities Income			
Interest Income	$ 5,519,005		
Dividend Income	4,924,200		
Securities Lending Income	92,990		
Real Estate Income	2,096,918		
Change in Accrued Income	(215,183)		
Total Securities Income		$ 12,417,930	
Total Capital Gain/Loss Income		$ (11,412,165)	
Total Investment Income			$ 1,005,765
Fair Value 6/30/16			$ 507,946,208

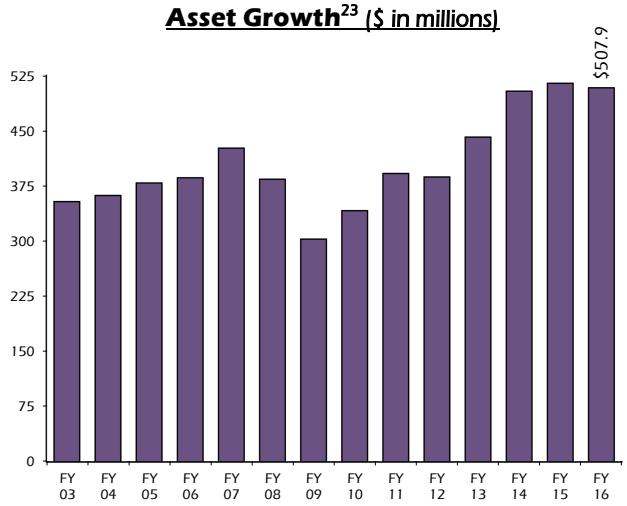
Asset Allocation[8]

As of June 30, 2016, Education Enhancement Trust's assets totaled $507.9 million. The broad asset categories and managers are listed below. The Capital Markets Benchmark allocation is also provided for comparison.

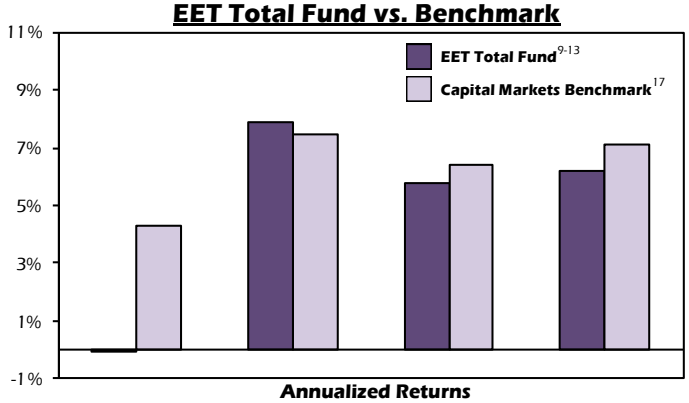
	Fair Value		% of Fund		Capital Markets Benchmark %
Global Equity					
Internal Global Equity	$ 189,768,138		37.4%		
Internal Global Emerging Markets	4,003,537	$ 193,771,675	0.8%	38.2%	51.0%
Private Equity Limited Partnerships					
Blackstone Capital Partners	$ 4,470,834		0.9%		
Carlyle	2,554,059		0.5%		
Doughty Hanson	1,161,525		0.2%		
Riverstone[25]	(204,644)		0.0%		
Silver Lake	6,388,769	14,370,543	1.2%	2.8%	0.0%
Real Estate Limited Partnerships					
Blackstone Real Estate Partners	$ 32,603,719		6.4%		
Cargill N.A. Real Estate Partners	580,546		0.1%		
Lone Star	8,584,348		1.7%		
Rockpoint	677,400		0.1%		
Starwood	3,512,800	45,958,813	0.7%	9.0%	10.0%
Fixed Income - Investment Grade/Tax-Exempt					
Internal Investment Grade	$ 52,724,708		10.4%		
PIMCO Tax-Exempt Portfolio	48,049,066	100,773,774	9.5%	19.9%	30.0%
Fixed Income - High Yield/Distressed Debt					
Vanguard High Yield Fund	$ 21,638,862		4.2%		
CarVal	862,444		0.2%		
TCW	24,907,063	47,408,369	4.9%	9.3%	7.0%
Cash & Cash Equivalents					
Internal Cash Account	$ 105,663,034	105,663,034	20.8%	20.8%	2.0%
Total		$ 507,946,208		100.0%	100.0%



Asset Growth[23] ($ in millions)



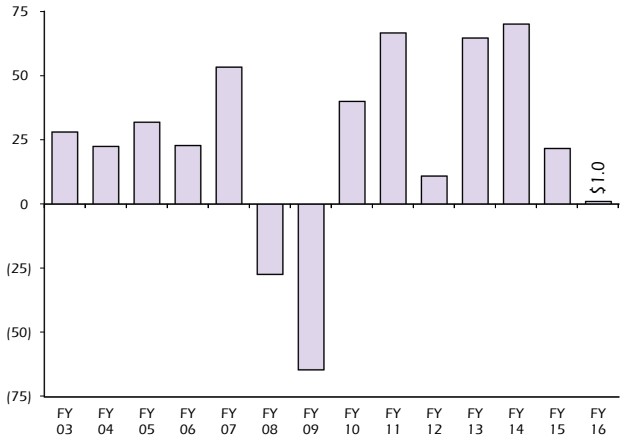
EET Total Fund vs. Benchmark



Annualized Returns

	1 Year	5 Years	10 Years	14 Years
EET	(0.1%)	7.9%	5.8%	6.2%
Benchmark	4.3%	7.5%	6.4%	7.1%
Difference	(4.4%)	0.4%	(0.6%)	(0.9%)

Investment Income[24] ($ in millions)



Internal Global Equity Profile

The Education Enhancement Trust's internal Global Equity portfolio characteristics as of June 30, 2016, are presented below.

Distribution by Market Sector	%
Consumer Discretionary	10.0%
Consumer Staples	9.9%
Energy	16.0%
Financials	18.2%
Health Care	16.9%
Industrials	7.4%
Information Technology	16.3%
Materials	2.1%
Telecommunications Services	1.3%
Utilities	1.4%
Cash Equivalents	0.5%
Total	100.0%

Five Largest Country Weights	% of Total
United States	75.9%
Great Britain	6.9%
Switzerland	5.5%
Japan	2.5%
France	2.4%
Total	93.2%

Internal Bond Profiles

The Education Enhancement Trust's internal Investment Grade (IG) bond portfolio characteristics as of June 30, 2016, are presented below.

Distribution by Duration	IG
0 to 2 Years	6.4%
2 to 3 Years	6.1%
3 to 4 Years	30.9%
4 to 5 Years	13.7%
5 to 6 Years	13.5%
6 to 8 Years	13.3%
Above 8 Years	16.1%
Total	100.0%

Distribution by Quality Rating	IG
U.S. Gov't/Aaa	63.8%
Aa	7.2%
A	11.8%
Baa	16.3%
Ba	0.9%
B	0.0%
Caa and lower	0.0%
Total	100.0%

Distribution by Coupon	IG
0.00% - 2.00%	28.3%
2.01% - 3.00%	29.8%
3.01% - 4.00%	29.8%
4.01% - 6.00%	11.7%
6.01% - 7.00%	0.4%
7.01% - 8.00%	0.0%
8.01% and over	0.0%
Total	100.0%

Distribution by Sector (Consolidated)	%
Cash/Cash Equivalents	0.1%
U.S. Treasuries	9.6%
Agency Debentures	2.0%
Agency Mortgage-Backed Securities	14.7%
Investment Grade Corporates	15.9%
High Yield Corporates/Bond Mutual Fund	18.0%
Tax-Exempt Bonds	39.7%
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, 2016, are presented below.

Global Equity Company Holdings	% of Total
Microsoft Corp.	2.8%
UnitedHealth Group, Inc.	2.7%
Alphabet, Inc.	2.6%
JPMorgan Chase & Co.	2.3%
Wal-Mart Stores, Inc.	2.1%
BP plc	2.1%
Apple, Inc.	2.0%
Pfizer, Inc.	1.9%
Chevron Corp.	1.9%
U.S. Bancorp	1.8%
Total	22.2%

Investment Grade Corporates by Issuer	% of Total
Ontario (Province Of)	1.7%
Morgan Stanley	1.5%
Apple, Inc.	1.3%
CSX Corp.	1.3%
Toyota Motor Co.	1.3%
eBay, Inc.	1.3%
Quebec (Province Of)	1.3%
Hewlett Packard Enterprise Co.	1.3%
Verizon Communications	1.2%
Ford Motor Co.	1.2%
Total	13.4%

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 2016, as shown on the following page. Since the inception of the fund, the Council has shifted the asset allocation to be more similar to the South Dakota Retirement System's asset allocation.

The long-term expected return of the fund as of June 30, 2016, was 5.87% 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 2016

The fund ended fiscal year 2016 with a fair value of $133,161,442, principal value of $85,631,024, and inflation-adjusted principal of $113,421,269. HCT's total return, including realized and unrealized gains and losses and accrued income, was 0.2% for the fiscal year. The benchmark[18] return was 4.3%. The difference resulted from underperformance of the real estate limited partnerships and the global equity portfolio. The ten-year annualized total return was 6.4%. This compares with the ten-year benchmark[18] return of 6.4%. In July of 2016, the fund distributed 4% of the sixteen-quarter average market value as of December 31, 2015, totaling $4,970,123, to the general fund for health care related expenditures.

Cash Flows and Fair Value Changes

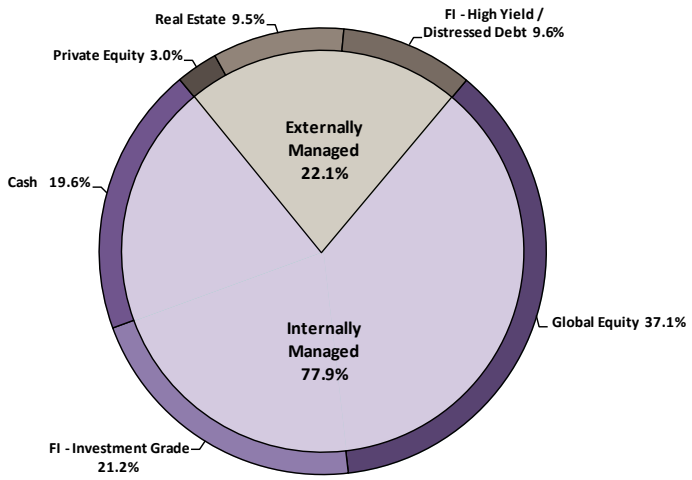
The Health Care Trust Fund began fiscal year 2016 with $137.5 million in assets. During the fiscal year, net contributions/withdrawals and fees decreased the fund by $4.9 million and investment income increased it by $0.6 million, resulting in an ending fair value of $133.2 million.

Fair Value 6/30/15			$ 137,528,097
Increases/Decreases			
Net Contributions/Withdrawals		$ (4,674,130)	
Internal Management Fees		(115,385)	
External Management Fees		(199,875)	
Total Increases/Decreases			$ (4,989,390)
Investment Income			
Securities Income			
Interest Income	$ 1,326,139		
Dividend Income	1,307,761		
Securities Lending Income	25,194		
Real Estate Income	577,223		
Change in Accrued Income	(78,677)		
Total Securities Income		$ 3,157,640	
Total Capital Gain/Loss Income		$ (2,534,905)	
Total Investment Income			$ 622,735
Fair Value 6/30/16			$ 133,161,442

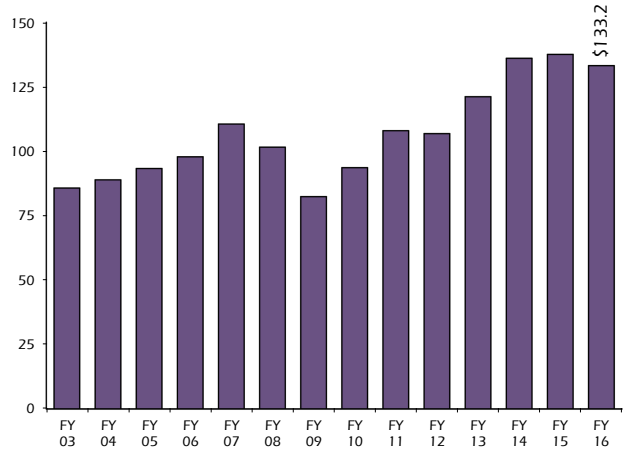
Asset Allocation[8]

As of June 30, 2016, Health Care Trust's assets totaled $133.2 million. The broad asset categories and managers are listed below. The Capital Markets Benchmark allocation is also provided for comparison.

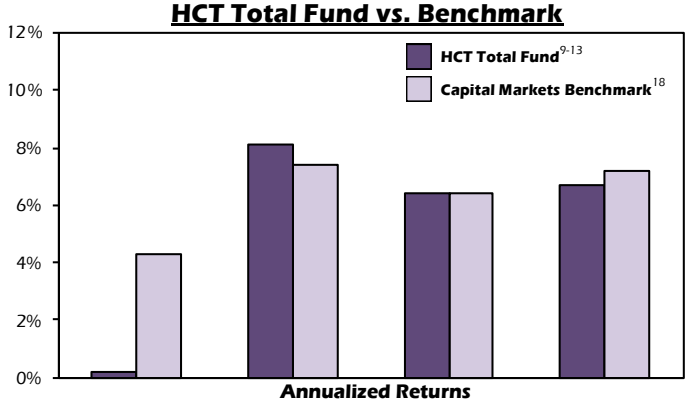
	Fair Value		% of Fund		Capital Markets Benchmark %
Global Equity					
Internal Global Equity	$ 48,291,534		36.3%		
Internal Global Emerging Markets	1,059,366	$ 49,350,900	0.8%	37.1%	51.0%
Private Equity Limited Partnerships					
Blackstone Capital Partners	$ 1,346,111		1.0%		
Carlyle	706,443		0.5%		
Doughty Hanson	294,550		0.2%		
Riverstone[25]	(55,609)		0.0%		
Silver Lake	1,750,213	4,041,708	1.3%	3.0%	0.0%
Real Estate Limited Partnerships					
Blackstone Real Estate Partners	$ 8,917,071		6.7%		
Cargill N.A. Real Estate Partners	145,136		0.1%		
Lone Star	2,274,987		1.7%		
Rockpoint	172,220		0.1%		
Starwood	1,170,934	12,680,348	0.9%	9.5%	10.0%
Fixed Income - Investment Grade					
Internal Investment Grade	$ 28,293,864	28,293,864	21.2%	21.2%	30.0%
Fixed Income - High Yield/Distressed Debt					
Vanguard High Yield Fund	$ 5,780,999		4.3%		
CarVal	218,676		0.2%		
TCW	6,779,678	12,779,353	5.1%	9.6%	7.0%
Cash & Cash Equivalents					
Internal Cash Account	$ 26,015,269	26,015,269	19.6%	19.6%	2.0%
Total		$ 133,161,442		100.0%	100.0%



Asset Growth[23] ($ in millions)

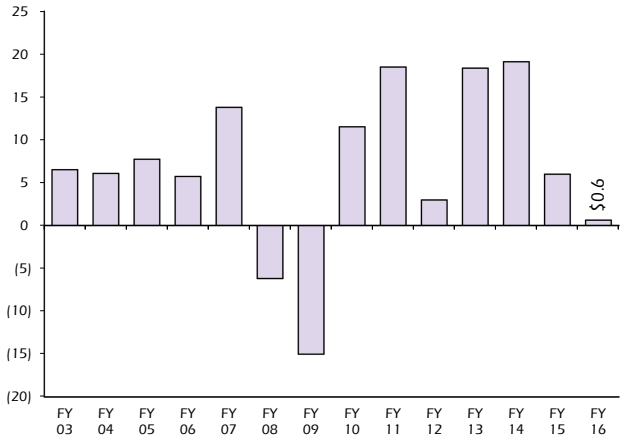


HCT Total Fund vs. Benchmark



	1 Year	5 Years	10 Years	14 Years
HCT	0.2%	8.1%	6.4%	6.7%
Benchmark	4.3%	7.4%	6.4%	7.2%
Difference	(4.1%)	0.7%	0.0%	(0.5%)

Investment Income[24] ($ in millions)



Internal Global Equity Profile

The Health Care Trust's internal Global Equity portfolio characteristics as of June 30, 2016, are presented below.

Distribution by Market Sector	%
Consumer Discretionary	9.8%
Consumer Staples	9.9%
Energy	16.3%
Financials	18.5%
Health Care	17.0%
Industrials	7.2%
Information Technology	16.4%
Materials	1.9%
Telecommunications Services	1.2%
Utilities	1.3%
Cash Equivalents	0.5%
Total	100.0%

Five Largest Country Weights	% of Total
United States	75.7%
Great Britain	6.9%
Switzerland	5.5%
Japan	2.5%
France	2.5%
Total	93.1%

Internal Bond Profiles

The Health Care Trust's internal Investment Grade (IG) bond portfolio characteristics as of June 30, 2016, are presented below.

Distribution by Duration	IG
0 to 2 Years	7.1%
2 to 3 Years	6.3%
3 to 4 Years	30.1%
4 to 5 Years	14.1%
5 to 6 Years	13.1%
6 to 8 Years	13.3%
Above 8 Years	16.0%
Total	100.0%

Distribution by Quality Rating	IG
U.S. Gov't/Aaa	64.2%
Aa	7.2%
A	11.4%
Baa	16.3%
Ba	0.9%
B	0.0%
Caa and lower	0.0%
Total	100.0%

Distribution by Coupon	IG
0.00% - 2.00%	29.2%
2.01% - 3.00%	29.8%
3.01% - 4.00%	29.1%
4.01% - 6.00%	11.4%
6.01% - 7.00%	0.5%
7.01% - 8.00%	0.0%
8.01% and over	0.0%
Total	100.0%

Distribution by Sector (Consolidated)	%
Cash/Cash Equivalents	1.6%
U.S. Treasuries	18.6%
Agency Debentures	3.8%
Agency Mortgage-Backed Securities	27.9%
Investment Grade Corporates	30.4%
High Yield Corporates/Bond Mutual Fund	17.7%
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, 2016, are presented below.

Global Equity Company Holdings	% of Total
Microsoft Corp.	2.9%
UnitedHealth Group, Inc.	2.8%
Alphabet, Inc.	2.8%
JPMorgan Chase & Co.	2.4%
Wal-Mart Stores, Inc.	2.2%
BP plc	2.2%
Pfizer, Inc.	2.0%
Chevron Corp.	1.9%
Apple, Inc.	1.9%
U.S. Bancorp	1.8%
Total	22.9%

Investment Grade Corporates by Issuer	% of Total
Ontario (Province Of)	1.7%
Morgan Stanley	1.5%
Apple, Inc.	1.3%
CSX Corp.	1.3%
Toyota Motor Co.	1.3%
eBay, Inc.	1.3%
Quebec (Province Of)	1.3%
Hewlett Packard Enterprise Co.	1.3%
Verizon Communications	1.2%
Ford Motor Co.	1.2%
Total	13.4%

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 $1.06 billion on June 30, 2016.

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 0.53% 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 fee, which is currently $20, or the annual program fee of 0.35%.

SCHOLARSHIP PROGRAM

The negotiations that led to the selection of Allianz included a scholarship opportunity for 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 $11,677,498 have been directed from Allianz to the Dakota Corps Scholarship Fund. Based on the assets as of June 30, 2016, and the scholarship funding formula, the resulting 2016 contribution was $1,588,174. The Allianz program and the Dakota Corps programs share a common goal of keeping our talented young people in the state in order to foster South Dakota's economic well-being. The Dakota Corps program is unique because it is geared toward students who plan to work toward a degree in a critical need occupation in South Dakota. To be eligible, students must meet academic requirements and attend a participating South Dakota post-secondary institution. The scholarship recipients must agree in writing to stay in South Dakota and work in a critical need occupation after graduation for as many years as the scholarship was received, plus one year. These students receive four-year scholarships equal to tuition and fees for 16 credit hours per semester at a public South Dakota college, public technical college, or tribal college. The scholarship amount for attendance at a participating private college in South Dakota would be the same amount that would be paid at a public South Dakota college, with the college covering the remaining tuition and fees if needed. A description of the program can be found at *www.state.sd.us/dakotacorps/default.html*.

ANNUAL REPORT

Each year the Council is required by law to submit an annual report letter by February 1. This letter is to go to the Governor, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate. The letter, dated January 29, 2016, can be found in the Appendix on page 33.

MORE INFORMATION

Extensive information on this higher education savings program can be found at the following websites: *www.CollegeAccess529.com* or *www.SouthDakota529.com*. A major section of the website has been custom-developed for South Dakota residents.

NOTICE: CollegeAccess 529 Plan accounts are not insured by any state, and neither the principal deposited nor the investment return is guaranteed by any state. Furthermore, the accounts are not insured, nor the principal or investment return guaranteed, by the Federal Government or any Federal agency.

SOUTH DAKOTA INVESTMENT COUNCIL

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January 29, 2016

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

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

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

Dear Governor Daugaard, Speaker Wink and President Pro Tempore Cammack:

We are pleased to submit our fifteenth 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.

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As of December 31, 2015, the Plan had assets of approximately $1.065 billion, down 8.5% from last year. For the Plan's most recent full program year (calendar year 2015), returns for South Dakota direct investment age-based alternatives ranged from 0.32% for the Age-based 18+ portfolio to -3.59% for the Age-based 0-6 portfolio.

Of the 35 mutual funds utilized by the Plan and rated by Morningstar, 54 percent have an overall rating of 4 or 5 stars, with 5 the highest possible rating. Additionally, 17 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, and 2015, Allianz contributed $756,125, $694,782, $823,112, $1,059,271, $1,165,435, $1,363,392, $1,583,037, and $1,616,835, respectively, to the Dakota Corps Scholarship Program, totaling $10,089,323.

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,

Jim Means
Investment Council Chair

Matthew L. Clark, CFA
State Investment Officer

SOUTH DAKOTA RETIREMENT SYSTEM
INTERNALLY MANAGED

		Cost Value	Fair Value
Global Equity			
Microsoft Corp.	2,020,345	$ 53,739,747	$ 103,381,054
Apple, Inc.	946,700	60,967,311	90,504,520
UnitedHealth Group, Inc.	569,246	20,572,045	80,377,535
Wal-Mart Stores, Inc.	1,041,929	54,852,483	76,081,656
Pfizer, Inc.	2,046,467	49,182,062	72,056,103
Chevron Corp.	680,698	57,901,101	71,357,571
Gilead Sciences, Inc.	758,896	19,340,521	63,307,104
Wells Fargo & Co.	1,336,720	29,738,707	63,266,958
JPMorgan Chase & Co.	1,007,670	34,958,722	62,616,614
U.S. Bancorp	1,494,096	29,558,948	60,256,892
Citigroup, Inc.	1,373,115	54,673,229	58,206,345
Alphabet, Inc. - Cl. C	82,800	26,854,583	57,305,880
Roche Holding, Ltd.	207,625	34,618,156	54,580,951
Novartis AG	637,417	36,240,358	52,441,976
Oracle Corp.	1,253,896	38,158,640	51,321,963
Intel Corp.	1,494,374	30,428,963	49,015,467
BP plc - ADR	1,365,821	46,544,091	48,500,304
Apache Corp.	835,482	61,902,843	46,511,283
Devon Energy Corp.	1,239,096	56,318,901	44,917,230
Honda Motor Co., Ltd.	1,789,900	44,719,950	44,882,715
Johnson & Johnson	369,140	27,752,971	44,776,682
Nestle SA	562,487	13,342,189	43,390,370
Alphabet, Inc. - Cl. A	60,704	17,058,885	42,707,085
Philip Morris International, Inc.	417,088	30,680,535	42,426,191
The Procter & Gamble Co.	460,156	23,406,098	38,961,409
Marathon Oil Corp.	2,587,029	53,004,597	38,831,305
Lennar Corp.	839,856	21,556,433	38,717,362
MetLife, Inc.	969,250	27,651,584	38,605,228
Bank of America Corp.	2,812,165	54,245,911	37,317,430
PepsiCo, Inc.	348,616	20,942,593	36,932,379
American International Group, Inc.	686,000	37,267,068	36,282,540
International Business Machines Corp.	237,360	42,850,051	36,026,501
Union Pacific Corp.	411,900	34,065,271	35,938,275
Target Corp.	503,464	22,505,959	35,151,856
Aetna, Inc.	286,092	13,637,489	34,940,416
Medtronic plc	391,336	14,682,060	33,956,225
Samsung Electronics Co., Ltd.	27,186	30,346,743	33,632,895
Anadarko Petroleum Corp.	631,010	25,414,076	33,601,283
Verizon Communications, Inc.	599,199	25,299,048	33,459,272
Berkshire Hathaway, Inc.	229,537	27,849,546	33,234,662
ConocoPhillips	734,455	29,304,101	32,022,238
General Electric Co.	1,008,096	26,902,647	31,734,862
Halliburton Co.	673,038	27,001,615	30,481,891
Barclays plc	16,189,364	60,506,983	29,995,734
AT&T, Inc.	693,345	21,313,933	29,959,437
Cenovus Energy, Inc.	2,155,200	46,374,193	29,655,366
Qualcomm, Inc.	550,222	34,774,410	29,475,393
Diageo plc	1,036,024	26,962,270	28,897,128
Twenty-First Century Fox, Inc.	1,042,317	31,884,422	28,194,675
The Bank of New York Mellon Corp.	717,289	17,566,606	27,866,678
Total Top 50 Securities		$ 1,727,421,648	$ 2,298,062,889
Remaining Global Equity		1,883,106,435	1,968,828,681
Global Equity		$ 3,610,528,083	$ 4,266,891,570
High Quality Equity		$ 178,620,625	$ 233,711,657
Global Emerging Markets		$ 124,134,257	$ 117,139,750
Small/Mid Equity		$ 552,372,001	$ 565,029,474
Investment Grade Fixed Income		$ 995,990,234	$ 1,034,098,257
High Yield Fixed Income		$ 665,524,905	$ 740,901,757
Shift Account		$ 659,960,045	$ 660,082,392
Total SDRS Internally Managed		$ 6,787,130,150	$ 7,617,854,857

SOUTH DAKOTA RETIREMENT SYSTEM
EXTERNALLY MANAGED

	Cost Value	Fair Value
Emerging Markets		
Dimensional Emerging Markets Small Cap	$ 8,977,461	$ 49,312,252
Total Emerging Markets	$ 8,977,461	$ 49,312,252
Special Purpose Equity		
Brandes International Mid Cap Portfolio	$ 61,844,637	$ 57,465,534
Sanders Capital, L.L.C.	40,790,550	40,236,939
Total Special Purpose Equity	$ 102,635,187	$ 97,702,473
Private Equity		
Blackstone Capital Partners IV, L.P.	$ 2,680,533	$ 4,046,592
Blackstone Capital Partners V, L.P.	45,228,918	83,719,129
Blackstone Capital Partners VI, L.P.	75,022,693	96,847,650
Blackstone Capital Partners VII, L.P.[25]	0	(32,365)
Blackstone Energy Partners II, L.P.	1,073,128	556,525
Capital International Private Equity Fund IV, L.P.	1,629,392	1,073,424
Capital International Private Equity Fund V, L.P.	10,075,348	5,622,987
Capital International Private Equity Fund VI, L.P.	28,080,312	25,671,497
Carlyle Partners IV, L.P.	1,689,603	2,103,174
Carlyle Partners V, L.P.	18,113,233	23,894,190
Carlyle Partners VI, L.P.	46,000,692	54,615,747
Riverstone/Carlyle Global Energy & Power Fund IV, L.P.	25,150,543	20,130,950
Riverstone Global Energy & Power Fund V, L.P.	61,689,350	59,299,123
Riverstone Global Energy & Power Fund VI, L.P.[25]	(4,611,776)	(3,336,591)
The Fourth Cinven Fund	39,252,553	7,776,647
The Fifth Cinven Fund	56,350,978	61,102,217
Crossroads Cornerstone Private Equity XV-B, L.P.	1,219,686	1,065,438
CVC European Equity Partners IV, L.P.	12,642,901	9,166,334
CVC European Equity Partners V, L.P.	34,243,283	36,316,033
Cypress Merchant Banking Partners II, L.P.	170,972	170,972
Doughty Hanson & Co. IV, L.P.	14,962,526	13,352,606
Doughty Hanson & Co. V, L.P.	17,939,002	13,859,619
Elevation Partners, L.P.	1,013,769	822,130
KKR European Fund I & II, L.P.	8,814,039	11,314,081
PineBridge Capital Management Corp.	5,910,843	3,102,291
Silver Lake Partners II, L.P.	7,736,269	14,647,387
Silver Lake Partners III, L.P.	28,045,406	46,652,586
Silver Lake Partners IV, L.P.	62,718,759	81,537,076
Silver Lake Sumeru Fund, L.P.	24,767,437	34,512,823
Total Private Equity	$ 627,610,392	$ 709,610,272
Aggressive Absolute Return		
Bridgewater Pure Alpha Fund II, Ltd.	$ 36,742,005	$ 73,490,885
Sanders Capital All Asset Value Fund, L.P.	21,397,766	23,886,798
Total Aggressive Absolute Return	$ 58,139,771	$ 97,377,683
Real Estate		
Ares European Real Estate Fund II, L.P.	$ 8,055,285	$ 4,981,135
Apollo Real Estate Advisors III & IV, L.P.	711,817	614,826
Blackstone Real Estate Partners IV, L.P.	99,310,296	64,428,581
Blackstone Real Estate Partners V, L.P.	80,534,317	150,644,919
Blackstone Real Estate Partners VI, L.P.	98,326,842	187,299,948
Blackstone Real Estate Partners VII, L.P.	55,416,012	77,743,812
Blackstone Real Estate Partners VIII, L.P.	135,162,576	153,398,539
Blackstone Real Estate Partners International I & II, L.P.	34,888,227	36,053,231
Blackstone Real Estate Partners Europe III, L.P.	94,832,533	125,181,576
North American Real Estate Partners, L.P.	0	2,128,566
North American Real Estate Partners II, L.P.	9,038,609	8,355,277
NAREP II Land Entitlement Sidecar, L.P.	2,230,415	270,726
Doughty Hanson & Co. European Real Estate I & II, L.P.	9,333,729	5,058,183
Lone Star Real Estate Fund II, L.P.	17,959,089	21,802,785
Lone Star Real Estate Fund III, L.P.	114,058,023	120,867,044
Lone Star Real Estate Fund IV, L.P.	63,156,699	60,783,247
Rockpoint Real Estate Fund IV, L.P.	38,447,872	47,619,473
Rockpoint Real Estate Fund V, L.P.	11,935,188	14,351,692
Starwood Distressed Opportunity Fund IX Global	30,612,044	43,871,325
Starwood Distressed Opportunity Fund X Global	84,319,835	100,162,053
Total Real Estate	$ 988,329,408	$ 1,225,616,938
Distressed Debt		
Blackstone Credit Liquidity Partners, L.P.	$ 1,539,353	$ 80,159
CVI Global Value Fund A, L.P.	56,815,984	33,721,114
TCW Opportunistic MBS Strategy	618,590,813	670,405,116
Total Distressed Debt	$ 676,946,150	$ 704,206,389
Total SDRS Externally Managed	$ 2,462,638,369	$ 2,883,826,007

SCHOOL AND PUBLIC LANDS
INTERNALLY MANAGED

	Cost Value	Fair Value
Global Equity	$ 90,770,145	$ 102,271,651
Global Emerging Markets	$ 2,085,363	$ 2,201,170
Investment Grade Fixed Income	$ 49,916,583	$ 51,930,551
Cash Account	$ 46,387,385	$ 46,397,771
S.D. S.B.A. & Similar Assets	$ 1,244,553	$ 1,247,185
Total SPL Internally Managed	$ 190,404,029	$ 204,048,328

DAKOTA CEMENT TRUST
INTERNALLY MANAGED

	Cost Value	Fair Value
Global Equity	$ 95,844,590	$ 111,226,987
Global Emerging Markets	$ 2,240,647	$ 2,365,342
Investment Grade Fixed Income	$ 61,407,222	$ 63,803,924
Cash Account	$ 49,145,612	$ 49,155,408
Total DCT Internally Managed	$ 208,638,071	$ 226,551,661

SCHOOL AND PUBLIC LANDS
EXTERNALLY MANAGED

	Cost Value	Fair Value
Private Equity		
Blackstone Capital Partners V, L.P.	$ 585,759	$ 1,118,973
Blackstone Capital Partners VI, L.P.	968,996	1,250,882
Blackstone Capital Partners VII, L.P.[25]	0	(550)
Carlyle Partners VI, L.P.	1,144,295	1,358,541
Doughty Hanson & Co. V, L.P.	637,752	492,725
Riverstone Global Energy & Power Fund VI, L.P.[25]	(147,576)	(106,770)
Silver Lake Partners III, L.P.	664,740	1,105,775
Silver Lake Partners IV, L.P.	1,489,440	1,936,332
Total Private Equity	$ 5,343,406	$ 7,155,908
Real Estate		
Blackstone Real Estate Partners V, L.P.	$ 1,631,808	$ 3,052,400
Blackstone Real Estate Partners VI, L.P.	1,920,320	3,657,960
Blackstone Real Estate Partners VII, L.P.	1,194,703	1,676,069
Blackstone Real Estate Partners VIII, L.P.	2,746,466	3,106,584
Blackstone Real Estate Partners International II, L.P.	1,262,721	1,343,159
Blackstone Real Estate Partners Europe III, L.P.	2,290,133	3,023,046
North American Real Estate Partners II, L.P.	309,803	250,690
Lone Star Real Estate Fund III, L.P.	2,813,431	2,981,386
Lone Star Real Estate Fund IV, L.P.	1,592,973	1,533,109
Rockpoint Real Estate Fund V, L.P.	305,541	367,403
Starwood Distressed Opportunity Fund X Global	2,093,127	2,341,866
Total Real Estate	$ 18,161,026	$ 23,333,672
High Yield/Distressed Debt		
Vanguard High Yield Fund	$ 11,495,391	$ 11,635,562
CVI Global Value Fund A, L.P.	616,328	365,823
TCW Opportunistic MBS Strategy	12,466,771	13,228,669
Total High Yield/Distressed Debt	$ 24,578,490	$ 25,230,054
Total SPL Externally Managed	$ 48,082,922	$ 55,719,634

DAKOTA CEMENT TRUST
EXTERNALLY MANAGED

	Cost Value	Fair Value
Private Equity		
Blackstone Capital Partners V, L.P.	$ 954,319	$ 1,826,192
Blackstone Capital Partners VI, L.P.	819,920	1,058,450
Blackstone Capital Partners VII, L.P.[25]	0	(647)
Carlyle Partners VI, L.P.	1,373,154	1,630,320
Doughty Hanson & Co. V, L.P.	1,040,098	803,577
Riverstone Global Energy & Power Fund VI, L.P.[25]	(169,099)	(122,342)
Silver Lake Partners III, L.P.	1,084,382	1,803,831
Silver Lake Partners IV, L.P.	1,861,789	2,420,406
Total Private Equity	$ 6,964,563	$ 9,419,787
Real Estate		
Blackstone Real Estate Partners V, L.P.	$ 2,623,686	$ 4,907,781
Blackstone Real Estate Partners VI, L.P.	3,092,049	5,889,935
Blackstone Real Estate Partners VII, L.P.	1,396,891	1,959,711
Blackstone Real Estate Partners VIII, L.P.	3,076,042	3,479,374
Blackstone Real Estate Partners International II, L.P.	2,060,234	2,191,469
Blackstone Real Estate Partners Europe III, L.P.	2,290,133	3,023,046
North American Real Estate Partners II, L.P.	505,503	409,022
Lone Star Real Estate Fund III, L.P.	3,269,661	3,464,855
Lone Star Real Estate Fund IV, L.P.	1,780,383	1,713,476
Rockpoint Real Estate Fund V, L.P.	334,185	401,848
Starwood Distressed Opportunity Fund X Global	1,569,847	1,756,399
Total Real Estate	$ 21,998,614	$ 29,196,916
High Yield/Distressed Debt		
Vanguard High Yield Fund	$ 13,136,733	$ 13,291,279
CVI Global Value Fund A, L.P.	1,005,417	596,763
TCW Opportunistic MBS Strategy	14,558,578	15,515,349
Total High Yield/Distressed Debt	$ 28,700,728	$ 29,403,391
Total DCT Externally Managed	$ 57,663,905	$ 68,020,094

EDUCATION ENHANCEMENT TRUST
INTERNALLY MANAGED

	Cost Value	Fair Value
Global Equity	$ 164,385,257	$ 189,768,138
Global Emerging Markets	$ 3,792,715	$ 4,003,537
Investment Grade Fixed Income	$ 51,060,876	$ 52,724,708
Cash Account	$ 105,641,017	$ 105,663,034
Total EET Internally Managed	$ 324,879,865	$ 352,159,417

EDUCATION ENHANCEMENT TRUST
EXTERNALLY MANAGED

	Cost Value	Fair Value
Private Equity		
Blackstone Capital Partners V, L.P.	$ 1,381,466	$ 2,643,656
Blackstone Capital Partners VI, L.P.	1,416,226	1,828,214
Blackstone Capital Partners VII, L.P.[25]	0	(1,036)
Carlyle Partners VI, L.P.	2,151,276	2,554,059
Doughty Hanson & Co. V, L.P.	1,503,402	1,161,525
Riverstone Global Energy & Power Fund VI, L.P.[25]	(282,855)	(204,644)
Silver Lake Partners III, L.P.	1,567,153	2,606,907
Silver Lake Partners IV, L.P.	2,909,026	3,781,862
Total Private Equity	$ 10,645,694	$ 14,370,543
Real Estate		
Blackstone Real Estate Partners V, L.P.	$ 3,775,545	$ 7,062,416
Blackstone Real Estate Partners VI, L.P.	4,524,146	8,617,906
Blackstone Real Estate Partners VII, L.P.	2,352,651	3,300,566
Blackstone Real Estate Partners VIII, L.P.	5,163,350	5,840,378
Blackstone Real Estate Partners International II, L.P.	2,924,205	3,110,473
Blackstone Real Estate Partners Europe III, L.P.	3,539,309	4,671,980
North American Real Estate Partners II, L.P.	717,474	580,546
Lone Star Real Estate Fund III, L.P.	5,398,750	5,721,042
Lone Star Real Estate Fund IV, L.P.	2,975,111	2,863,306
Rockpoint Real Estate Fund V, L.P.	563,341	677,400
Starwood Distressed Opportunity Fund X Global	3,139,687	3,512,800
Total Real Estate	$ 35,073,569	$ 45,958,813
PIMCO Tax-Exempt Fund	$ 46,146,298	$ 48,049,066
High Yield/Distressed Debt		
Vanguard High Yield Fund	$ 21,384,267	$ 21,638,862
CVI Global Value Fund A, L.P.	1,453,140	862,444
TCW Opportunistic MBS Strategy	23,375,934	24,907,063
Total High Yield/Distressed Debt	$ 46,213,341	$ 47,408,369
Total EET Externally Managed	$ 138,078,902	$ 155,786,791

HEALTH CARE TRUST
INTERNALLY MANAGED

	Cost Value	Fair Value
Global Equity	$ 41,401,893	$ 48,291,534
Global Emerging Markets	$ 1,003,563	$ 1,059,366
Investment Grade Fixed Income	$ 27,235,098	$ 28,293,864
Cash Account	$ 26,009,982	$ 26,015,269
Total HCT Internally Managed	$ 95,650,536	$ 103,660,033

HEALTH CARE TRUST
EXTERNALLY MANAGED

	Cost Value	Fair Value
Private Equity		
Blackstone Capital Partners V, L.P.	$ 350,165	$ 672,852
Blackstone Capital Partners VI, L.P.	521,768	673,550
Blackstone Capital Partners VII, L.P.[25]	0	(291)
Carlyle Partners VI, L.P.	595,035	706,443
Doughty Hanson & Co. V, L.P.	381,244	294,550
Riverstone Global Energy & Power Fund VI, L.P.[25]	(76,862)	(55,609)
Silver Lake Partners III, L.P.	397,386	661,022
Silver Lake Partners IV, L.P.	837,816	1,089,191
Total Private Equity	$ 3,006,552	$ 4,041,708
Real Estate		
Blackstone Real Estate Partners V, L.P.	$ 927,885	$ 1,735,679
Blackstone Real Estate Partners VI, L.P.	1,204,264	2,293,975
Blackstone Real Estate Partners VII, L.P.	661,677	928,284
Blackstone Real Estate Partners VIII, L.P.	1,354,924	1,532,581
Blackstone Real Estate Partners International II, L.P.	731,048	777,618
Blackstone Real Estate Partners Europe III, L.P.	1,249,158	1,648,934
North American Real Estate Partners II, L.P.	179,377	145,136
Lone Star Real Estate Fund III, L.P.	1,444,732	1,530,980
Lone Star Real Estate Fund IV, L.P.	773,060	744,007
Rockpoint Real Estate Fund V, L.P.	143,222	172,220
Starwood Distressed Opportunity Fund X Global	1,046,560	1,170,934
Total Real Estate	$ 9,715,907	$ 12,680,348
High Yield/Distressed Debt		
Vanguard High Yield Fund	$ 5,713,626	$ 5,780,999
CVI Global Value Fund A, L.P.	368,440	218,676
TCW Opportunistic MBS Strategy	6,344,039	6,779,678
Total High Yield/Distressed Debt	$ 12,426,105	$ 12,779,353
Total HCT Externally Managed	$ 25,148,564	$ 29,501,409

SOUTH DAKOTA CASH FLOW FUND
INTERNALLY MANAGED

	Cost Value	Fair Value
Intermediate-Term Fixed Income	$ 100,602,865	$ 102,896,093
Short-Term Fixed Income	$ 959,624,345	$ 969,544,043
Cash Account	$ 153,302,780	$ 153,328,786
Certificates of Deposit, 0.626% due 09/30/16	$ 30,554,000	$ 30,698,106
Total SDCFF Internally Managed	$ 1,244,083,990	$ 1,256,467,028

On June 30, 2016, there was $30,554,000 in Certificates of Deposit (CDs) outstanding with South Dakota banks, savings associations, and credit unions. Forty-two South Dakota banks hold $25,453,000 in CDs, two savings associations hold $2,351,000 in CDs, and four credit unions hold $2,750,000 in CDs. The CDs carry an interest rate of 0.626% and mature September 30, 2016.

The original allocation made in September of 2015 was to fifty-one banks and two savings associations. Nine banks did not participate this year. This is the fifteenth year a reoffering was made to other qualified public depositories in the state. In the reoffering, four credit unions accepted $2,750,000 in CDs, leaving $4,446,000 in CDs unassigned. The size of the certificates ranged from $100,000 to $4,239,000.

Summary of Statistics
Certificates of Deposit Outstanding

CDs Issued to Banks	
CDs maturing 9/30/16	$ 25,453,000
Interest earned during FY 2016	$ 145,560
Average CDs Outstanding During FY 2016	$ 26,069,482
Rate of Return	0.6%
CDs Issued to Savings Associations	
CDs maturing 9/30/16	$ 2,351,000
Interest earned during FY 2016	$ 13,313
Average CDs Outstanding During FY 2016	$ 2,372,400
Rate of Return	0.6%
CDs Issued to Credit Unions	
CDs maturing 9/30/16	$ 2,750,000
Interest earned during FY 2016	$ 17,532
Average CDs Outstanding During FY 2016	$ 3,304,282
Rate of Return	0.5%
Total Certificates of Deposit	
CDs maturing 9/30/16	$ 30,554,000
Interest earned during FY 2016	$ 176,405
Average CDs Outstanding During FY 2016	$ 31,746,164
Rate of Return	0.6%

South Dakota Certificates of Deposit
Due 9/30/16

	Location	CD Amount
Banks		
Dacotah Bank	Aberdeen	$ 2,878,000
State Bank of Alcester	Alcester	250,000
Citizens State Bank	Arlington	250,000
Community Bank	Avon	250,000
Dakota State Bank	Blunt	250,000
First Bank & Trust	Brookings	2,079,000
Bryant State Bank	Bryant	250,000
One American Bank	Centerville	250,000
First Financial Bank	Dupree	250,000
Liberty Financial Services	Elk Point	327,000
BankStar Financial	Elkton	250,000
Security State Bank	Emery	250,000
Reliabank Dakota	Estelline	504,000
Great Plains Bank	Eureka	250,000
First National Bank	Frederick	250,000
Farmers State Bank	Hosmer	250,000
Plains Commerce Bank	Hoven	1,103,000
Miner County Bank	Howard	250,000
Premier Bank of Hudson	Hudson	250,000
Ipswich State Bank	Ipswich	250,000
Quoin Financial Bank	Miller	276,000
CorTrust Bank	Mitchell	1,166,000
American State Bank	Oldham	100,000
Sunrise Bank Dakota	Onida	250,000
Farmers State Bank	Parkston	250,000
BankWest	Pierre	1,560,000
First National Bank	Pierre	763,000
Farmers & Merchants State Bank	Plankinton	250,000
Dakota Prairie Bank	Presho	250,000
Heartland State Bank	Redfield	250,000
First State Bank of Roscoe	Roscoe	250,000
Farmers & Merchants State Bank	Scotland	250,000
Great Western Bank	Sioux Falls	4,239,000
Farmers State Bank	Stickney	250,000
Peoples State Bank	Summit	250,000
Farmers State Bank	Turton	250,000
Security State Bank	Tyndall	263,000
Commercial State Bank	Wagner	250,000
First State Bank	Warner	250,000
American Bank & Trust	Wessington Springs	1,012,000
First State Bank	Wilmot	250,000
First Dakota National Bank	Yankton	2,183,000
Total Banks		$ 25,453,000
Savings Associations		
Home Federal Savings Bank	Sioux Falls	$ 2,101,000
Security Savings Bank	Canton	250,000
Total Savings Associations		$ 2,351,000
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
Total Credit Unions		$ 2,750,000
Total Certificates of Deposit		$ 30,554,000

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. The investor deposits a sum of money for a specified period of time and at a specified rate of interest. 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.

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

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

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

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.

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: Hedge funds are 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 FIXED INCOME SECURITIES: Issues with a financial rating of BB or lower because of high relative default risk.

INFLATION: The rate at which the general level of prices or goods and services are rising.

INSTITUTIONAL PRIME MONEY MARKET FUND: The TempFund, which is managed by the BlackRock Advisors, Inc., is a leading short-term portfolio. The predecessor firm's fund inception was October of 1973, and estimates are used for prior periods.

INTERNAL RATE OF RETURN (IRR): The annualized implied discount rate calculated from a series of cash flows. IRR is the return that equates the present value of all invested capital in an investment to the present value of all cash flows equal to zero.

INVESTMENT GRADE FIXED INCOME SECURITIES: Issues with a financial rating of BBB or higher because of low relative default risk.

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

MSCI ALL COUNTRY WORLD INDEX℠ (ACWI): The index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The index currently consists of 46 developed and emerging market country indices. It has been used for benchmarking purposes since fiscal year 2005.

MSCI 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.

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

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

PRIVATE SECTOR UNIVERSE MEDIAN: Median rate of return for large private sector funds. Callan data was used 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 in the investment world 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 2014-2016 and gross-of-fees fiscal years 1974-2013.

STATE FUND UNIVERSE: A universe linking two state fund universe medians to form a 43-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.

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

UTILITY FUNCTION: An investor's level of risk tolerance for an expected return.

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

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

ENDNOTES

1 Citigroup US Broad Investment Grade (USBIG) Bond Index in fiscal years 1990-2016 and Lehman Brothers US Aggregate Bond Index in prior periods.

2 Citigroup USBIG Bond Index in fiscal years 2007-2016, 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 43-year annualized returns as of 6/30/16 are as follows:

Fiscal Year	Annual Return	Fiscal Year	Annual Return	Annualized Returns of as 6/30/16	
2016	1.0%	2009	(1.4%)	5 Years	1.3%
2015	0.1%	2008	5.0%	10 Years	1.7%
2014	2.1%	2007	2.7%	15 Years	2.0%
2013	1.8%	2006	4.3%	20 Years	2.2%
2012	1.7%	2005	2.5%	25 Years	2.3%
2011	3.6%	2004	3.3%	30 Years	2.7%
2010	1.1%	2003	2.1%	43 Years	4.0%

4 **Fixed Income:** Citigroup USBIG Bond Index (1981-2016), Lehman Brothers Gov/Corp Index (1974-1980). **Cash:** Citigroup US 3-Month Treasury Bill Index (1974-2016). **Global Equity:** ⅔ MSCI ACWI + ⅓ MSCI US Index (2005-2016). **Domestic Equity:** Russell 1000 Index (1996-2004), S&P 500 Index (1974-1995). **International Equity:** MSCI ACWI ex-US Index (2002-2004), ¾ MSCI EAFE + ¼ MSCI EASEA Index (1997-2001), MSCI EAFE Index (1996), MSCI EAFE ½ 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 (2014-2016), NCREIF Property Index +1.25% (2011-2013), NCREIF Property Index (2002-2010), NCREIF Classic Property Index (1995-2001). **Private Equity:** S&P 500 (2014), S&P 500 +1.75% (2011-2013), S&P 500 +3.5% (2005-2010), Russell 1000 +3.5% (2002-2004), Russell 1000 +5.0% (1999-2001). **High Yield/Distressed Debt:** Citigroup High-Yield Market Index (2003-2016). **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:

	FI	Cash	Glbl EQ & Dom / Intl	Arb	RE	PE	HY/ DD	Comm	TIPS
07/15 - 06/16	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 2011-2016 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 (2005-2016); 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 2016 annual and interim procedures audit work for total fees of $42,069.

10 The 1-year total fund performance results are presented net-of-fees for fiscal years 2014-2016 and gross-of-fees in prior periods.

11 Management fee rates (excluding profit sharing) as of June 30, 2016 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	75 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 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	150 bp
Carlyle Partners IV	0 bp
Carlyle Partners V	59 bp
Carlyle Partners VI	130 bp
The Fourth Cinven Fund	63 bp
The Fifth Cinven Fund	150 bp
Crossroads Cornerstone P.E. XV-B	125 bp
CVC European Equity Partners IV	75 bp
CVC European Equity Partners V	100 bp
CVI Global Value Fund A	185 bp
Cypress Merchant Banking Partners II	0 bp
Dimensional Emerging Markets Small Cap	45 bp
embedded	20 bp
Doughty Hanson & Co. European Real Estate I	0 bp
Doughty Hanson & Co. European Real Estate II	200 bp
Doughty Hanson & Co. IV	0 bp
Doughty Hanson & Co. V	175 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
North American Real Estate Partners I, II & II - HF	0 bp
North American Real Estate Partners II Sidecar	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
Silver Lake Partners II	100 bp
Silver Lake Partners III	100 bp
Silver Lake Partners IV	150 bp
Silver Lake Sumeru Fund	150 bp
Starwood Distressed Opportunity Fund IX Global	125 bp
Starwood Opportunity Fund X Global	100 bp
Starwood Opportunity Fund X Global - TMI	125 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 **Fixed Income:** Citigroup USBIG Bond Index (February 2001-2016), Salomon Smith Barney Treasury/GNMA Index (1985 - January 2001). **Global Equity:** ⅔ S&P Global 1200 + ⅓ S&P 500 Index (2012-2016 and 2007-2010), ⅔ S&P Global 1200 Ex-Iran + ⅓ S&P 500 Index (2011), ⅔ MSCI ACWI + ⅓ MSCI US Index (2006). **Domestic Equity:** S&P 500 Index (2005), Russell 1000 Index (February 2001-2004). **International Equity:** MSCI ACWI ex-US Index (2005). **High Yield/ Distressed Debt:** Citigroup High-Yield Market Index (2010-2016 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 (2007-2016). **Real Estate:** MSCI US REIT Index (2014-2016), NCREIF Property Index +1.25% (2011-2013), NCREIF Property Index (2007-2010). **Private Equity:** S&P 500 (2014), S&P 500 +1.75% (2011-2013), S&P 500 +3.5% (2007-2010).

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

	FI	Glbl EQ & Dom / Intl	HY/ DD	TIPS	Cash/ Comm	RE	PE
07/15 - 06/16	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 ¾ MSCI EAFE + ¼ MSCI EASEA Index in prior periods.

16 **Fixed Income:** Citigroup USBIG Bond Index (2002-2016). **Global Equity:** ⅔ S&P Global 1200 + ⅓ S&P 500 Index (2012-2016 and 2007-2010), ⅔ S&P Global 1200 Ex-Iran + ⅓ S&P 500 Index (2011), ⅔ MSCI ACWI + ⅓ MSCI US Index (2006). **Domestic Equity:** S&P 500 Index (2005), Russell 1000 Index (2002-2004). **International Equity:** MSCI ACWI ex-US Index (2005). **Real Estate:** weighted index (2006), MSCI US REIT Index (2014-2016 and 2005-2006), NCREIF Property Index +1.25% (2011-2013), NCREIF Property Index (2006-2010), REIT Benchmark (2002-2004). **High Yield/Distressed Debt:** Citigroup High-Yield Market Index (2010-2016), Citigroup All BB-Rated Index (2002-2009). **TIPS:** Citigroup US-ILSI (2007-2015). **Cash/ Commodities:** Citigroup US 3-Month Treasury Bill Index (2007-2016). **Private Equity:** S&P 500 (2014), S&P 500 +1.75% (2011-2013), S&P 500 +3.5% (2007-2010).

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

	FI	Glbl EQ & Dom / Intl	RE	HY/ DD	TIPS	Cash/ Comm	PE
07/15 - 06/16	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 **Fixed Income:** Citigroup USBIG Bond Index (2003-2016). **Tax-Exempt Fixed Income:** Barclays Capital Municipal 7 Year Index (2003-2016). **Global Equity:** ⅔ S&P Global 1200 + ⅓ S&P 500 Index (2012-2016 and 2007-2010), ⅔ S&P Global 1200 Ex-Iran + ⅓ S&P 500 Index (2011), ⅔ MSCI ACWI + ⅓ MSCI US Index (2006). **Domestic Equity:** S&P 500 Index (2005), Russell 1000 Index (2003-2004). **International Equity:** MSCI ACWI ex-US Index (2005). **Real Estate:** weighted index (2006), MSCI US REIT Index (2014-2016 and 2005-2006), NCREIF Property Index +1.25% (2011-2013), NCREIF Property Index (2006-2010), REIT Benchmark (2003-2004). **High Yield/Distressed Debt:** Citigroup High-Yield Market Index (2010-2016 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 (2007-2016). **Private Equity:** S&P 500 (2014), S&P 500 +1.75% (2011-2013), S&P 500 +3.5% (2007-2010).

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

	FI	Tax-Exempt FI	Glbl EQ & Dom / Intl	RE	HY/ DD	TIPS	Cash/ Comm	PE
07/15 - 06/16	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 **Fixed Income:** Citigroup USBIG Bond Index (2003-2016). **Global Equity:** ⅔ S&P Global 1200 + ⅓ S&P 500 Index (2012-2016 and 2007-2010), ⅔ S&P Global 1200 Ex-Iran + ⅓ S&P 500 Index (2011), ⅔ MSCI ACWI + ⅓ MSCI US Index (2006). **Domestic Equity:** S&P 500 Index (2005), Russell 1000 Index (2003-2004). **International Equity:** MSCI ACWI ex-US Index (2005). **Real Estate:** weighted index (2006), MSCI US REIT Index (2014-2016 and 2005-2006), NCREIF Property Index +1.25% (2011-2013), NCREIF Property Index (2006-2010), REIT Benchmark (2003-2004). **High Yield/Distressed Debt:** Citigroup High-Yield Market Index (2010-2016 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 (2007-2016). **Private Equity:** S&P 500 (2014), S&P 500 +1.75% (2011-2013), S&P 500 +3.5% (2007-2010).

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

	FI	Glbl EQ & Dom / Intl	RE	HY/ DD	TIPS	Cash/ Comm	PE
07/15 - 06/16	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 ⅔ S&P Global 1200 + ⅓ S&P 500 Index in fiscal years 2012-2016 and 2005-2010; in fiscal year 2011 the ⅔ S&P Global 1200 Ex-Iran + ⅓ S&P 500 Index was used. Prior to fiscal year 2010, the benchmark consisted of the International Equity Benchmark (MSCI ACWI ex-US Index in fiscal

years 2002-2004 and ¾ MSCI EAFE + ¼ 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, 2016.

26 The Real Estate Benchmark consists of the MSCI US REIT Index in fiscal years 2014-2016, 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 ⅔ MSCI ACWI + ⅓ MSCI US Index in fiscal year 2015-2016, 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.

NOTES

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The South Dakota Investment Council printed 300 copies of this annual report at a cost of $1.33 per copy.

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