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THE FUND

The School and Public Lands (SPL) fund is a permanent trust fund established by the South Dakota Constitution. Article VIII Sec. 3 of the Constitution requires all interest and income to be faithfully used and applied each year for the benefit of the public schools of 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 principal of the fund resulted primarily from the sale of land over many decades.

Constitutional Amendment E, passed in November 2000, allows the fund to be invested in stocks, bonds, mutual funds, and other financial instruments. South Dakota Codified Law (SDCL) 5-10-18 states that the provisions of SDCL 4-5-27, prudent-man standard, govern the moneys in the trust. The constitutional amendment requires that sufficient income be retained to offset the effect of 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 2021, as shown on the following page. The fund was invested primarily in U.S. Treasury and mortgage-backed securities before the constitutional amendment in 2000. Since then, the South Dakota Investment Council has gradually shifted the asset allocation to be more like that of the South Dakota Retirement System.

The long-term expected return of the fund as of June 30, 2021, was 5.63% with a volatility of 13.9%. This means the return in any given year is expected to fall within a range of (8.3%) to 19.6% with 66% confidence or (22.2%) to 33.4% with 95% confidence.

INVESTMENT PERFORMANCE - FISCAL YEAR 2021

The fund ended fiscal year 2021 with a fair value of $378,763,803. The principal is adjusted by the inflation factor each year as required by the constitutional amendment. SPL's fiscal year total return, including realized and unrealized gains and losses and accrued income, was 17.6% net of fees. The Capital Markets Benchmark[14] return was 24.9%. The difference relative to the benchmark resulted from an asset allocation underweight in equities and underperformance of real estate limited partnerships. The total fund return was positively impacted by the outperformance of public equity compared to its benchmark. The ten-year annualized total return was 8.6%. This compares with the ten-year Capital Markets Benchmark[14] return of 8.9%. The fund distributed $12,823,388 to the common schools in February 2021 and $3,193,107 to the schools of higher education in June 2021.

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 2021 with $327.9 million in assets. During the fiscal year, net contributions/withdrawals and fees decreased the fund by $7.4 million and investment income increased it by $58.3 million, resulting in an ending fair value of $378.8 million.

Fair Value 6/30/20			$ 327,870,736
Increases/Decreases			
Net Contributions/Withdrawals		$ (6,512,768)	
External Management Fees		(855,622)	
Total Increases/Decreases			$ (7,368,390)
Investment Income			
Securities Income			
Interest Income	$ 2,264,023		
Dividend Income	1,877,216		
Securities Lending Income	9,786		
Real Estate Income	622,584		
Change in Accrued Income	(37,826)		
Total Securities Income		$ 4,735,783	
Capital Gain/Loss Income			
Change in Unrealized Gain/Loss	$ 35,883,779		
Realized Gain/Loss	17,641,895		
Total Capital Gain/Loss Income		$ 53,525,674	
Total Investment Income			$ 58,261,457
Fair Value 6/30/21			$ 378,763,803