

# **South Carolina State Treasurer's Investment Portfolios Investment Policy Statement**



**Adopted: October 19, 2015**

**Revised: December 19, 2017**



## **MISSION**

The South Carolina Office of the State Treasurer is responsible for the administration, management, and investment of the State's funds. The investment of State funds is managed through multiple investment portfolios to preserve the State's capital, while maintaining liquidity and obtaining the best relative rates of return.

The mission of the Investment Management Division within the State Treasurer's Office (STO) is to safely and effectively manage the funds for the State's agencies, local governments, and political subdivisions. The office manages multiple U.S. domestic fixed income portfolios.

## **PURPOSE OF THIS INVESTMENT POLICY STATEMENT (IPS)**

This IPS defines the investment objectives of the STO Investment Portfolios and establishes policies and procedures so that investment objectives can be met in a prudent manner. This IPS is intended to:

- Articulate the objectives of the STO Investment Portfolios and set forth in writing the expectations, Objectives, and guidelines for the investment of the STO Investment Portfolios' assets;
- Formulate policies regarding permitted investments, benchmarks, and asset allocation strategies;
- Identify roles of specific entities having fiduciary responsibility to the STO;
- Establish guidelines, consistent with Performance Standards defined herein, for monitoring investment risk and evaluating investment performance.

All assets in the STO Investment Portfolios must be invested in a manner that meets the requirements of this IPS. In conjunction with this IPS, the STO has also established Performance Standards, which provide guidance on the specific procedures to monitor investment performance and risk. These performance standards help achieve short-term and long-term investment objectives and maximize the investment returns in the STO Investment Portfolios.

## **DELEGATION OF AUTHORITY**

The authority to invest State Funds is limited to the State Treasurer under S.C. Code of Laws § 11-13-30:

§ 11-13-30. Only the State Treasurer may invest and deposit funds.

To facilitate the management, investment, and disbursement of public funds, no board, commission, agency or officer within State government except the State Treasurer shall be authorized to invest and deposit funds from any source, including, but not limited to, funds for which he is custodian, such funds to draw the best rate of interest obtainable.

## **BROAD OBJECTIVES**

As a steward of public funds, the Office of State Treasurer seeks to generate the best rate of return within prescribed parameters while maintaining liquidity and attempting to preserve capital.

This policy recognizes that investment decisions involve managing the State's daily fluctuating cash flows and anticipating future revenues and expenditures. STO Staff manages cash balances available to anticipate the future use of these funds. Also, earnings on investments provide one of the major sources of revenue for the State and State agencies annually. Consequently, the soundness and success of an investment program is of primary importance to meet the State's funding needs.



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The three investment goals are based on the following principles:

**Liquidity** – Securities that qualify as liquid assets are defined within each portfolio's liquid asset requirements.

**Preservation of Capital** – In order to minimize the potential for loss of principal, investment grade fixed income securities are to be purchased. A range of maturities and diversification among issuers is desirable as a defense against the susceptibility to price change of the STO Investment Portfolios' assets.

**Rates of Return** – Enhancement of purchasing power through consistent compounding of underlying principal at rates exceeding the economy's underlying inflation rate is the ultimate objective.

Investment policies and procedures shall comply with applicable state law and are designed to guide and assist the STO Staff toward achieving the stated objectives. To meet these objectives, various resources may be used, including an Investment Advisor, an Electronic Marketing Communications Network (i.e. Bloomberg), various economic reports, and daily communication with various brokers and financial institution investment officers.



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**PERFORMANCE STANDARDS**

The STO staff has developed investment performance standards as a management tool to monitor performance and compliance issues in the Investment Portfolios. STO may delegate such a role to the Investment Consultant.

*Performance Evaluation*

Investment Portfolios will be evaluated against their stated investment objectives and investment performance standards, and it is expected that each Investment Portfolio meet or exceed these investment objectives over a complete market cycle (generally three to five years). Performance will be compared relative to the Investment Portfolios' benchmarks. A list of the STO Investment Portfolios and their respective benchmarks is provided below. Performance will be measured and analyzed quarterly. Evaluation will take into consideration both rates of return and volatility of returns.

Portfolio ID	Portfolio Name	Maturity	Benchmark
AA	Local Government Investment Pool	Short-term bias	Primary: iMoneyNet Taxable Instl Reference: 80% 90-day T-Bills 20% BC Short-term Govt/Credit
GF	State General Fund / General Deposit	Short/intermediate bias	BBC 1-3 Yr Govt/Credit
01	State Investment Pool / General Deposit	Medium-term bias	BBC 1-5yr Govt/Credit
SB	Insurance Reserve Fund / General Deposit	Long-term bias	BBC Intermediate Govt/Credit
03	Long Term Pool / General Deposit	Long-term bias	BBC Govt/Credit
HI	SC Retirement Health Insurance – OPEB	Long-term bias	BBC Intermediate Govt/Credit
DI	Long Term Disability Insurance – OPEB	Long-term bias	BBC Govt/Credit
AD	USC Insurance & Stock Trust*	1 day	n/a
CV	SC Housing Trust Fund	1 day	Overnight Bank Funding Rate (OBFR)
CZ	SC Housing Home Mortgages	1 day	Overnight Bank Funding Rate (OBFR)
C5	SHA Multi Mortgage Escrow Fund	1 day	Overnight Bank Funding Rate (OBFR)
C6	SHA Program Fund	1 day	Overnight Bank Funding Rate (OBFR)
CRA	Composite Reservoir Account	1 day	Overnight Bank Funding Rate (OBFR)
EI	Education Improvement Fund / General Deposit	0-90 days	Overnight Bank Funding Rate (OBFR)
SA	Ordinary Sinking Fund	Short-term bias	Overnight Bank Funding Rate (OBFR)
04	Treasury Fund/ General Deposit	Medium-term bias	BC 1-3 Yr Government

Shading indicates Investment Portfolios being monitored and reviewed by Investment Consultant.

\*Given the portfolio structure, these portfolios are not measured against a benchmark.



## **OBJECTIVES & PARAMETERS OF SPECIFIC INVESTMENT PORTFOLIOS**

Each STO Investment Portfolio possesses unique purposes and cash flows. As a result, the STO has developed custom guidelines for each STO Investment Portfolio that reflects their respective attributes. Some STO Investment Portfolios are *General Deposit Portfolios* while others are *Separate Funds*. All are eligible for block trading.

### **General Deposit Portfolios**

- State General Fund
- State Investment Pool
- Insurance Reserve Fund
- Long Term Pool
- Education Improvement Fund
- Ordinary Sinking Fund
- Treasury Fund

### **Separate Funds**

- Local Government Investment Pool
- SC Retirement Health Insurance - OPEB
- Long Term Disability Insurance - OPEB

A summary of the guidelines pertaining to each STO Investment Portfolio are provided on the following pages.



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	Local Government Investment Pool	State General Fund	State Investment Pool	Insurance Reserve Fund
<b>Benchmark</b>	Primary: iMoneyNet Taxable Instl Reference: 80% BofAML 90d T-bills 20% BBC Short Term G/C	BBC 1-3 Yr Govt/Credit	BBC 1-5 Yr Govt/Credit	BBC Inter Govt/Credit
<b>Liquidity</b> Min % Daily liquid assets Min % Monthly liquid assets	10% ---	10% ---	10% ---	--- 10%
<b>Non-government Securities</b> a. CD's b. Repurchase Agreements c. Credit <sup>1,2</sup>	0-100% 0-100% 0-100%	0-10% 0-50% Up to +50% of index	0-10% 0-50% Up to +50% of index	0-10% 0-50% Up to +50% of index
<b>Diversification</b> Maximum Position Size <sup>3</sup> Max US\$ Foreign Govt & Intl Org Maximum Allocation per Industry <sup>6</sup>	5% 20% 25% (financials: 70%)	3% 20% 25%	3% 20% 25%	3% 20% 25%
<b>Maturity</b>	Corporate: 397 days or less US Government: 2 years or less	Full Range	Full Range	Full Range
<b>Repurchase Agreements</b> Maximum term Collateral of Principal & Interest	30 days 102%	30 days 102%	30 days 102%	30 days 102%
<b>Commercial Paper<sup>4</sup></b> Ratings  Split Ratings Maximum Allocation to Tier 2 Maximum Allocation per Issuer Maximum Allocation per Industry	A-1/P-1/F1 A-2/P-2/F2 Allowed 10% <sup>5</sup> 5% 25% (financials: 70%)	A-1/P-1/F1 A-2/P-2/F2 Allowed 10% 3% 25% (financials: 70%)	A-1/P-1/F1 A-2/P-2/F2 Allowed 10% 3% 25% (financials: 70%)	A-1/P-1/F1 A-2/P-2/F2 Allowed 10% 3% 25% (financials: 70%)
<b>Portfolio Characteristics</b> Minimum Quality <sup>24</sup> Effective Duration Weighted Average Maturity Weighted Average Life	P-1/A-1 ±30% of index <90 days <120 days	A- ±30% of index --- ---	A- ±30% of index --- ---	A- ±30% of index --- ---

<sup>1</sup> Including commercial paper, corporates, and fixed and floating rate securities

<sup>2</sup> Corporates include Floating Rate Notes, Yankee Bonds / CD's and Private Placements

<sup>3</sup> Obligations issued or guaranteed by the US government, US agencies, or US government-sponsored enterprises are eligible for inclusion without limit.

<sup>4</sup> Eligible paper is further limited to issuing corporations that have a total commercial paper program size in excess of \$750 million.

<sup>5</sup> No more than 10% to be held in second-tier securities: Split paper (e.g. A-1/P-2 or A-2/P-2/F-1 or tier 2 (e.g. A2/P2, A2/P2/F2).

<sup>24</sup> Portfolio Minimum Quality for the Local Government Investment Pool, Ordinary Sinking Fund, and Education Improvement Fund refer to Short-Term Credit Ratings. Portfolio Minimum Quality for all other portfolios refer to Long-Term Credit Ratings.



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	Long Term Pool	SC Retirement Health Insurance - OPEB	Long-Term Disability Insurance
<b>Benchmark</b>	BBC Govt/Credit	BBC Inter Govt/Credit	BBC Govt/Credit
<b>Liquidity</b>			
Min % Daily liquid assets	---	---	---
Min % Monthly liquid assets	10%	10%	10%
<b>Non-government Securities</b>			
a. CD's	0-10%	0-10%	0-10%
b. Repurchase Agreements	0-50%	0-50%	0-50%
c. Credit <sup>6, 7</sup>	Up to +50% of index	Up to +50% of index	Up to +50% of index
d. Private Placements	--	0-10%	0-10%
<b>Diversification</b>			
Maximum Position Size <sup>8</sup>	3%	3%	3%
Max US\$ Foreign Gov t& Intl Org	20%	20%	20%
Maximum Allocation per Industry <sup>15</sup>	25%	25%	25%
<b>Maturity</b>	Full Range	Full Range	Full Range
<b>Repurchase Agreements</b>			
Maximum term	30 days	30 days	30 days
Collateral of Principal & Interest	102%	102%	102%
<b>Commercial Paper<sup>9</sup></b>			
Ratings	A-1/P-1/F1 A-2/P-2/F2	A-1/P-1/F1 A-2/P-2/F2	A-1/P-1/F1 A-2/P-2/F2
Split Ratings	Allowed	Allowed	Allowed
Maximum Allocation to Tier 2	10%	10%	10%
Maximum Allocation per Issuer	3%	3%	3%
Maximum Allocation per Industry	25% (financials: 70%)	25% (financials: 70%)	25% (financials: 70%)
<b>Portfolio Characteristics</b>			
Minimum Quality <sup>24</sup>	A3/A-	A3/A-	A3/A-
Effective Duration	±30% of index	±30% of index	±30% of index
Average Maturity	---	---	---

<sup>6</sup> Including commercial paper, corporates, and fixed and floating rate securities

<sup>7</sup> Corporates include Floating Rate Notes, Yankee Bonds / CD's and Private Placements

<sup>8</sup> Obligations issued or guaranteed by the US government, US agencies, or US government-sponsored enterprises are eligible for inclusion without limit.

<sup>9</sup> Eligible paper is further limited to issuing corporations that have a total commercial paper program size in excess of \$750 million.

<sup>24</sup> Portfolio Minimum Quality for the Local Government Investment Pool, Ordinary Sinking Fund, and Education Improvement Fund refer to Short-Term Credit Ratings. Portfolio Minimum Quality for all other portfolios refer to Long-Term Credit Ratings.



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	Education Improvement Fund	Ordinary Sinking Fund	Treasury Fund
<b>Benchmark</b>	Overnight Bank Funding Rate (OBFR)	Overnight Bank Funding Rate (OBFR)	BBC 1-3 Yr Government
<b>Liquidity</b>			
Minimum Daily liquid assets	10%	10%	10%
Min % Monthly liquid assets	---	---	---
<b>Non-government Securities</b>			
a. CD's	0-100%	0-100%	0%
b. Repurchase Agreements	0-100%	0-100%	0-100%
c. Credit <sup>10, 11</sup>	0-100%	0-100%	0%
<b>Diversification</b>			
Maximum Position Size <sup>12</sup>	5%	3%	---
Max US\$ Foreign Govt & Intl Org	20%	20%	---
Maximum Allocation per Industry <sup>22</sup>	25% (financials: 70%)	25% (financials: 70%)	---
<b>Maturity</b>	90 days or less	90 days or less	Full Range
<b>Repurchase Agreements</b>			
Maximum term	30 days	30 days	30 days
Collateral of Principal & Interest	102%	102%	102%
<b>Commercial Paper<sup>13</sup></b>			
Ratings	A-1/P-1/F1 A-2/P-2/F2	A-1/P-1/F1 A-2/P-2/F2	---
Split Ratings	Allowed	Allowed	---
Maximum Allocation to Tier 2	10%	10%	---
Maximum Allocation per Issuer	5%	3%	---
Maximum Allocation per Industry	25% (financials: 70%)	25% (financials: 70%)	---
<b>Portfolio Characteristics</b>			
Minimum Quality <sup>24</sup>	P-1/A-1	P-1/A-1	Aa1/AA+
Effective Duration	---	---	±30% of index
Average Maturity	---	---	---

<sup>10</sup> Including commercial paper, corporates, and fixed and floating rate securities

<sup>11</sup> Corporates include Floating Rate Notes, Yankee Bonds / CD's and Private Placements

<sup>12</sup> Obligations issued or guaranteed by the US government, US agencies, or US government-sponsored enterprises are eligible for inclusion without limit.

<sup>13</sup> Eligible paper is further limited to issuing corporations that have a total commercial paper program size in excess of \$750 million.

<sup>24</sup> Portfolio Minimum Quality for the Local Government Investment Pool, Ordinary Sinking Fund, and Education Improvement Fund refer to Short-Term Credit Ratings. Portfolio Minimum Quality for all other portfolios refer to Long-Term Credit Ratings.



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**STO Portfolio Benchmark Definitions:**

	<b>LGIP</b>	<b>General Fund</b>	<b>State Investment Pool</b>
Previously	100% BofAML 3 mo T-Bills	100% BC 1-3 Yr Govt/Credit	100% BC 1-3 Yr Govt/Credit
10/1/15 - 2/28/16	35% BofAML 3 mo T-Bills 35% S&P US CP 30% BC Short-term Gov/Corp	40% BofAML 3 mo T-Bills 25% S&P US CP 25% BC 1-3 Yr Govt/Credit 10% BC Aggregate	15% BofAML 3 mo T-Bills 30% S&P US CP 30% BC 1-3 Yr Govt/Credit 20% BC Aggregate
3/1/16 - 12/31/16	70% BofAML 3 mo T-Bills 30% BCs Short-term Gov/Corp	65% BofAML 3 mo T-Bills 30% BC 1-3 Yr Govt/Credit 10% BC Aggregate	45% BofAML 3 mo T-Bills 30% BC 1-3 Yr Govt/Credit 20% BC Aggregate
1/1/17 - 10/31/17	80% BofAML 3 mo T-Bills 20% BC Short-term Gov/Corp	50% BofAML 3 mo T-Bills 30% BC 1-3 Yr Govt/Credit 20% BC Inter Aggregate	40% BofAML 3 mo T-Bills 30% BC 1-3 Yr Govt/Credit 30% BC Inter Aggregate
11/01/17 - current	Primary: iMoneyNet Taxable Inst. Reference: 80%BofAML 3mo T-Bills 20% BBC Short-term Govt/Credit	BBC 1-3 Yr Govt/Credit	BBC 1-5 Yr Govt/Credit

	<b>Insurance Reserve</b>	<b>Long-Term Pool</b>	<b>SCRHI</b>	<b>LTDI</b>
Previously	100% BC Aggregate	100% BC Aggregate	100% BC Aggregate	100% BC Aggregate
10/1/15 - 2/28/16	15% BofAML 3 mo T-Bills 5% S&P US CP 80% BC Aggregate	10% BofAML 3 mo T-Bills 90% BC Aggregate	20% BofAML 3 mo T-Bills 5% S&P US CP 75% BC Aggregate	20% BofAML 3 mo T-Bills 5% S&P US CP 75% BC Aggregate
3/1/16 - 12/31/16	20% BofAML 3 mo T-Bills 80% BC Aggregate	20% BofAML 3 mo T-Bills 80% BC Aggregate	25% BofAML 3 mo T-Bills 75% BC Aggregate	25% BofAML 3 mo T-Bills 75% BC Aggregate
1/1/17 - 10/31/17			20% BofAML 3 mo T-Bills 80% BC Aggregate	20% BofAML 3 mo T-Bills 80% BC Aggregate
11/01/17 - current	BBC Intermediate Govt/Credit	BBC Govt/Credit	BBC Intermediate Govt/Credit	BBC Govt/Credit



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	<b>Edu. Improvement Fund</b>	<b>Ord. Sinking Fund</b>	<b>Treasury Fund</b>
Previous	100% Fed Funds Rate	100% Fed Funds Rate	100% BC Govt 1-3 Yr
11/01/17 - current	Overnight Bank Funding Rate (OBFR)	Overnight Bank Funding Rate (OBFR)	BBC 1-3 Yr Government