Comprehensive Investment Policy

for the

SOUTH CAROLINA STATE TREASURER'S INVESTMENT PORTFOLIOS

State Treasurer's Office of South Carolina

Adopted: October 19, 2015
Revised: January 30, 2017

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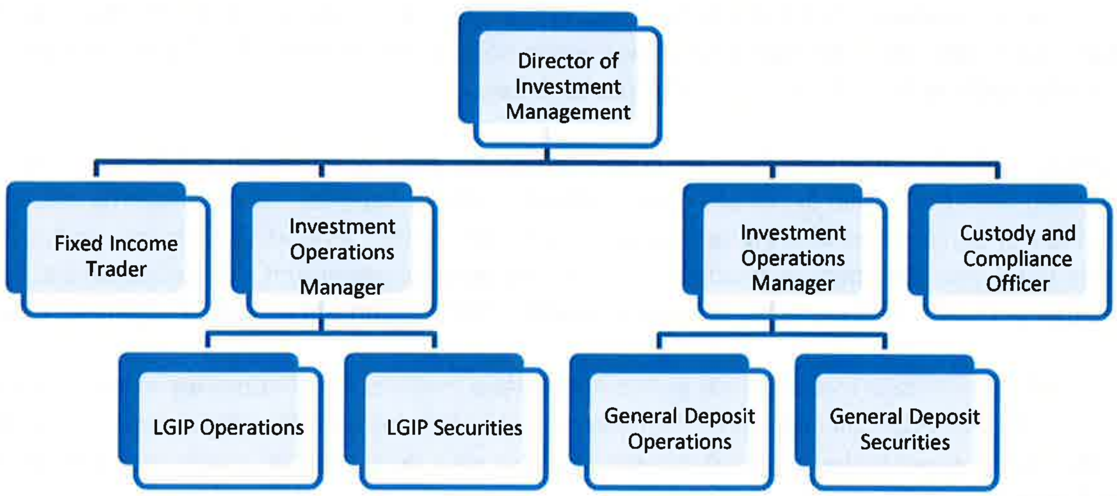
A. MISSION AND PURPOSE

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. The Staff consists of three front office personnel, who conduct the trading and portfolio management, and five back office personnel, who conduct the day-to-day operations.

The Staff manages between $10,000,000,000 and $14,000,000,000, depending upon the cyclical nature of the cash flows for the State's agencies, local governments, and political subdivisions and the revenues they receive. Over 1,500 accounts are managed within all the portfolios.

The current structure of the Investment Management division within the State Treasurer's Office is illustrated below.



B. SCOPE

This investment policy applies to all financial assets deposited and retained in the South Carolina Office of the State Treasurer's STO Investment Portfolios.

C. ETHICS AND CONFLICT OF INTEREST

The South Carolina State Treasurer and STO Staff involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions.

The South Carolina State Treasurer and STO Staff are required to abide by the South Carolina State Ethics Commission's 'Rules of Conduct'. Regarding the subject of receiving gifts and objects of monetary value, the Rules of Conduct state that:

"A public official, public member, or public employee may not knowingly use his official office, membership, or employment to influence a government decision to obtain an economic interest for himself, a family member, an individual with whom he is associated, or a business with which he is associated.

A person may not directly or indirectly give, offer, or promise anything of value to a public official, public member, or public employee with intent to influence the public official's, public member's, or public employee's official responsibilities, nor is the public official, public member, or public employee to ask, demand, solicit, or accept anything of value for himself or for another person in return for fulfilling his official responsibilities or duties.

A public official, public member, or public employee may not receive anything of value for speaking before a public or private group in his/her official capacity. A meal can be accepted if provided in conjunction with the speaking engagement where all participants are entitled to the same meal and the meal is incidental to the speaking engagement. A public official, public member or public employee may receive payment or reimbursement for actual expenses incurred.

Public officials, public members, or public employees may not receive money in addition to that received by the public official, public member, or public employee in his official capacity for advice or assistance given in the course of his employment as a public official, public member, or public employee."

D. PRUDENCE

Investments shall be made with judgment and care, under the prevailing circumstances, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs. Investments shall not be made for speculation. Further, the probable safety of capital as well as the probable income derived shall be considered.

The standard of prudence to be used by the Staff **shall be the** "fiduciary" **standard and shall be** applied in the context of managing an overall portfolio. The Staff, acting in accordance with the investment policy and exercising due diligence, shall be relieved of personal responsibility for an **individual security's credit risk or** market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

E. PURPOSE OF THIS COMPREHENSIVE INVESTMENT POLICY (CIP)

This CIP 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 CIP 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 CIP. In conjunction with this CIP, 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.

F. 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.

Attorney General's Opinion

The State Treasurer is authorized to invest and deposit funds as provided in section §11-13-30 of the Code and is further authorized to employ an investment advisory service.
1988 S.C. Op. Atty. Gen. 168, 1988 S.C. Op. Atty. Gen. No. 88-60, (Aug. 16, 1988 WL 383543)

Various professionals may be engaged to assist the STO with the STO Investment Portfolios. The STO may employ a qualified firm **(the** "Investment Advisor") **to provide** investment management services for the STO Investment Portfolios. The STO may also engage an Investment Consultant to provide advice to the STO and to monitor the STO Investment Portfolios.

The Comprehensive Investment Policy (CIP) for the South Carolina State STO Investment Portfolios includes the investment policies of the STO Investment Portfolios, which shall be followed by the STO Staff, the Investment Advisor, Investment Consultant and all other entities engaged by the STO to provide investment advice and/or consulting services.

To the extent that there is any conflict between i) this CIP and ii) any contractual relationships between any entity and the STO -, the terms of such contractual relationship(s) **(the "Contractual Obligations")** will control. However, applicable law supersedes this CIP and any Contractual Obligations.

G. MANAGEMENT FEES

98.4 (Treas: Management Fees) The State Treasurer is authorized to charge a fee for the operating and management costs associated with the Local Government Investment Pool, the Deferred Compensation Program, the Tuition Prepayment Program, and the College Investment Program and is further authorized to retain and expend the fees to provide these services. The fees assessed may not exceed the cost of the provision of such services.

98.5 (Treas: Investment Management Fees) Unless otherwise prohibited by law, the State Treasurer may charge a fee for the operating and management costs associated with the investment management and support operations of various state funds and programs, and further, may retain and expend the fees to provide these services. The fees assessed may not exceed the actual cost of the provision of these services or the earnings on these investments.

H. ROLES AND RESPONSIBILITIES

1. **The STO:** The STO will operate the STO Investment Portfolios in compliance with the SC Code, and this CIP. The STO also will conduct its responsibilities as a trustee and fiduciary of the STO Investment Portfolios. The STO may delegate functions that a prudent entity acting in a like capacity and familiar with those matters could properly delegate under the circumstances. It will also ensure that the Investment Advisor and

Investment Consultant are similarly in compliance with the SC Code and this CIP. Pursuant to this CIP, the STO will:

(a) develop a sound and consistent statement of investment policies;
(b) review and refine the CIP as needed;
(c) establish criteria for the selection of the Investment Advisor and/or the Investment Consultant;
(d) review and approve investment proposals by the Investment Advisor;
(e) approve procedures for monitoring investment performance and investment-related contractual obligations of the Investment Advisor and other vendors; and
(f) monitor adherence to policies, procedures, and criteria as set forth in the Performance Standards approved by the STO.

2. **Investment Consultant:** The STO may determine that it is necessary and reasonable to retain an Investment Consultant to provide general advice and recommendations on matters including, but not limited to, investment performance, investment strategy, objectives, and risk characteristics of the portfolios. Under this CIP, the Investment Consultant works for the benefit of the STO and shall be responsible for the following:

(a) Provide independent and unbiased information to the STO;
(b) Assist in the development and amendment of this Comprehensive Investment Policy;
(c) Assist in the establishment of strategic asset allocation targets/guidelines;
(d) Assist in the development of performance measurement standards;
(e) Propose appropriate benchmarks, which are congruent with STO's CIP, and analyze current benchmarks and provide advice regarding their appropriateness as well as potential changes;
(f) Report quarterly investment performance results and risk characteristics of the STO Investment Portfolio's investments to the STO;
(g) Monitor and evaluate the Investment Advisor's performance on an ongoing basis;
(h) Provide clarification and assistance to the STO in understanding various investment climate or market conditions that could affect investments held in the STO Investment Portfolios;
(i) Attend quarterly Investment meetings of the STO unless notified otherwise by the STO;
(j) Be available to consult and provide research and advice as necessary;
(k) Participate in conference calls to review current performance or other matters in advance of quarterly meetings of the STO and/or other investment meetings as requested by the STO;
(l) Participate in conference calls with the STO Staff and/or Investment Advisor as needed; and
(m) Provide independent monitoring of the Investment Advisor, including, but not limited to, changes in company structure, investment professionals, investment styles, compensation of investment personnel, litigation, headline risks, growth of assets under management and investment staff, industry competitive position, real and

potential conflicts of interest, and immediately notify the STO if a relevant development or change occurs.

3. **Investment Advisor:** The STO may determine that it is necessary and reasonable to retain an investment advisor who is qualified to provide professional investment advice and guidance. Investment Advisor has certain fiduciary responsibilities as defined by the Investment Management Agreement with the STO and defined by the Investment Act of 1940. The responsibilities of the Investment Advisor are to:

   (a) advise and counsel the STO on methods to achieve investment objectives, which will include, but not be limited to, guidelines on the following: asset allocation, short-term and long-term investments, quality restrictions, diversification among investment sectors, turnover, and restrictions on exchanges;
   (b) at least quarterly, formally review the investment strategy to verify it is consistent with objectives and make recommendations to the State Treasurer if necessary;
   (c) communicate with the STO immediately when revisions to the CIP are warranted based on structural change in market conditions;
   (d) assist the STO in performing research on broker/dealers through which investment transactions may be executed (see STO INVESTMENT MANAGEMENT STAFF INVESTMENT PRACTICES);
   (e) research and offer input on market trends and interest rate forecasts in preparation for the State Treasurer's Investment projection for General Fund income earnings for the current and subsequent fiscal year;
   (f) comply with the guidelines for the STO Investment Portfolios (as expressed in this CIP and the Performance Standards) relating to asset mix, quality, etc.;
   (g) monitor ongoing adherence to the SC Code and this CIP;
   (h) promptly communicate to the STO any material organizational changes;
   (i) provide any customized reports as contractually permitted and as reasonably requested by the STO in a format acceptable to the STO and, if necessary, following consultation with the Investment Consultant; and
   (j) provide quarterly compliance certification detailing any deviations from policy.

4. **Custodian Bank:** The Custodian's fiduciary responsibility shall involve the proper safekeeping, valuation, pricing, accounting, and reporting of the STO Investment Portfolios' assets across multiple portfolios and asset classes. As co-fiduciary of the STO Investment Portfolios, the Custodian shall apply investment prudence to short-term cash management and securities lending functions.

   The Custodian is hired by, and responsible to, the State Treasurer.

The Custodian Bank ("Custodian") for the STO Investment Portfolios is responsible for:

Main Responsibilities

(a) Fulfilling all the regular duties of a custodian as required by applicable state and federal laws (as further defined in the custodial services agreement);
(b) Safekeeping of assets, timely settlement of securities transactions, timely crediting of all income and principal realizable by the STO Investment Portfolios, and the daily sweep of excess cash from the STO Investment Portfolios' accounts into suitable cash management vehicles;
(c) Pricing all securities at least on a monthly basis, preferably on a daily basis, contingent on strategic class and types of securities;
(d) Providing access to performance history for the specified STO Investment Portfolios to the Investment Advisor and Investment Consultant;
(e) Providing monthly, quarterly and annual reports; and
(f) Managing a securities lending program.

Ancillary Services

(a) Performance & Risk Analytics;
(b) Monthly Risk Analytics and Reporting;
(c) Collateral Management System;
(d) Transfer Agency Services; and
(e) Cash Management

I. SELECTION PROCESS OF INVESTMENT ADVISOR

The process of selecting an Investment Advisor shall originate with the State Treasurer. Unless the State Treasurer decides otherwise, all searches shall be conducted by the Staff and/or the Investment Consultant.

The Investment Advisor shall be a bank, insurance company, investment management company, or investment advisor as defined by the Investment Advisors Act of 1940.

The first step may involve the establishment of appropriate minimum criteria such as minimum asset base, performance history, special firm qualifications, years of experience, etc. that reflect an appropriate level of institutional investment service. Based upon these criteria, the Staff and/or Investment Consultant may design the appropriate request for proposal (RFP) or request for information (RFI) to be delivered to the institutional marketplace.

The STO Staff and/or Investment Consultant may devise a ranking system to evaluate the qualifications of the RFP/RFI respondents. Their objective shall be to narrow the field to several firms for in-depth review and finalist selection. The finalists may then be scheduled to make presentations to the State Treasurer and/or the Staff. Following the State Treasurer's selection, the Staff may negotiate final terms and conditions with the chosen Investment Advisor and complete the review and negotiation of all appropriate contracts and agreements.

J. SELECTION PROCESS OF INVESTMENT CONSULTANT

The process of Investment Consultant selection shall originate with the State Treasurer. Unless the State Treasurer decides otherwise, the Staff shall conduct all searches.

The first step may involve the establishment of appropriate minimum criteria such as clients of similar size and type, special firm qualifications, years of experience, etc. that reflect an appropriate level of institutional investment service. Based upon these criteria, the Staff may design the appropriate request for proposal (RFP) or request for information (RFI) to be delivered to the institutional marketplace.

The STO Staff may devise a ranking system to evaluate the qualifications of the RFP/RFI respondents. Their objective shall be to narrow the field to several firms for in-depth review and finalist selection. The finalists may then be scheduled to make presentations to the State Treasurer and/or the Staff. Following the State Treasurer's selection, the Staff may negotiate final terms and conditions with the chosen Investment Consultant and complete the review and negotiation of all appropriate contracts and agreements.

K. 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.

The three investment goals are based on the following principles:

Liquidity – Liquid assets shall be defined as cash and securities with maturities not exceeding one year. To achieve liquidity goals, liquid investments will be limited to cash, repurchase agreements (when collateralized by U.S. Treasury or Federal Agency obligations having a market value in excess of 102 percent of funds advanced), U.S. Treasury Bills, Commercial Paper, and Federal Agency Discount Notes.

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.

The STO investment portfolios are actively managed and may conceptually be segmented into a maximum of three separate components (or sub-portfolios) where the assets are segregated by **the time horizon of each portfolio's respective liabilities.** The sub-portfolios may include an Ultrashort fixed income portfolio, Short/Intermediate Residual portfolio, and a Long-term Residual portfolio.

In general, the components (or sub-portfolios) may be comprised of the following types of assets.

Ultrashort Fixed Income Portfolio	Short/Intermediate Residual Portfolio	Long-term Residual Portfolio
Repurchase Agreements Treasury Bills CDs Agency & Agency Mortgages Cash Commercial Paper	Treasury Notes CDs Agency & Agency Mortgages Commercial Paper Floating Rate Notes Short-term Credit	Treasury Notes & Bonds Agency & Agency Mortgages TIPS (Inflation Protected Securities) Intermediate- & Long-term Credit Yankee Bonds / CD's GICS (Government Insured Contract Securities)

The percentage allocations of the sub-portfolios within each investment portfolio will reflect the strategic allocations as approved by the Treasurer. This structure is designed to better delineate responsibilities between internal and external resources and more directly match liabilities with portfolio assets. It is expected that the Ultrashort Fixed Income and Intermediate Residual portfolios will be managed internally by the STO Staff, and the Long-term Residual portfolio may be managed externally by the Investment Advisor.

Investment policies and procedures shall comply with applicable state law and are designed to guide and assist Staff toward achieving the stated objectives. To meet these objectives, the Staff may use various resources, 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.

L. ASSET ALLOCATION GUIDELINES

Asset allocation refers to the strategic deployment of assets among the major classes and/or sectors of investments permitted under the S.C. Code of Laws § 11-9-660: Investment of Funds. It is the primary determinant of success in meeting long-term investment objectives. The asset allocations for the STO Investment Portfolios are established by the State Treasurer, STO Staff, and the Investment Advisor, with input from the Investment Consultant. It is a function of the State Treasurer's expectations of current and future liquidity and income needs, eligible investment types under the S.C. Codes of Laws § 11-9-660, expectations of asset class investment performance likely to be achieved over the short-term, medium/intermediate and long-term, and risk tolerance.

Monitoring
The asset allocations of the STO Investment Portfolios are expected to remain within the stated policy guidelines. As markets move over time, the actual asset mix of the Investment Portfolios may diverge from the policy ranges established by the State Treasurer. If the Investment Portfolios' **allocations** are allowed to deviate too far from the acceptable ranges, there is a risk that the Investment Portfolios will fail to meet the investment objectives set by the State Treasurer.

The investment guidelines for each individual STO Investment Portfolio can be found in *Section T: Objectives & Parameters of Specific Investment Portfolios*.

M. PERMITTED PROGRAM INVESTMENTS

Investment options are described under S.C. Code of Laws § 11-9-660:

§ 11-9-660. Investment of Funds.

A. The State Treasurer has full power to invest and reinvest all funds of the State in any of the following:

    1. Obligations of the United States, its agencies and instrumentalities;
    2. Obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, the African Development Bank, and the Asian Development Bank;
    3. Obligations of a corporation, state, or political subdivision denominated in United States dollars if the obligations bear an investment grade rating of at least two nationally recognized rating services;
    4. Certificates of deposit if the certificates are secured collaterally by securities of the types described in items (1) and (3) of this section and held by a third party as escrow agent or custodian and are of a market value not less than the amount of the certificates of deposit so secured, including interest; except that this collateral is not required to the extent the certificates of deposit are insured by an agency of the federal government;
    5. Repurchase agreements if collateralized by securities of the types described in items (1) and (3) of this section and held by a third party as escrow agent or custodian and of a market value not less than the amount of the repurchase agreement so collateralized, including interest; and

6. guaranteed investment contracts issued by a domestic or foreign insurance company or other financial institution whose long-term unsecured debt rating bears the two highest ratings of at least two nationally recognized rating services.

B. The State Treasurer may contract to lend securities invested pursuant to this section.

N. EXCLUDED INVESTMENTS

The STO will not knowingly invest in the following types of securities unless otherwise denoted.

1. Human Rights Violators: Obligations issued by any country or corporation principally located in any country which the United States Department of State determines commits major human rights violations based on the Country Reports on Human Rights Practices by the Bureau of Democracy, Human Rights and Labor of the U.S. Department of State.

2. Terrorist Sponsors: Any security or obligation issued by a company or a corporation that is a known sponsor of terrorist organizations or of a company domiciled in a country that is a recognized sponsor of terrorism or terrorist organizations as based on reports from the Office of Terrorism and Financial Intelligence of the Department of Treasury and the Country Reports on Terrorism by the Office of the Coordinator for Counterterrorism of the U.S. Department of State.

3. Sudan and Iran Divestment Laws: The managers of the Portfolio's accounts other than index funds, commingled funds, limited partnerships, derivative instruments or the like are required to assist the STO in meeting its obligations under the following laws: (1) S.C. Code Ann. §9-16-55 sets forth limitations on investment in certain types of companies that are engaged in active business operations in Sudan. (2) S.C. Code Ann. §11-57-10 et seq. sets forth limitations on investment in certain types of companies that are engaged in business operations in Iran.

O. STO INVESTMENT MANAGEMENT STAFF INVESTMENT PRACTICES

1. Investment Procedures and Internal Controls:
   The State Treasurer will establish written procedures detailing the operation and regulation of the investment program. The procedures set forth the trading authorization of the Staff, the daily responsibilities of implementing the investment program, and segregation of investment duties, among others. A system of controls will be established to ensure that investment transactions and associated activities (e.g., banking) are monitored. These controls are created to safeguard against fraud, Staff error, or other actions that could result in a loss of public money. Independent audits may be conducted to determine that investment activities adhere to State statutes, administrative rules, and investment policies.

2. Sale of Assets:
From time to time, as economic and interest rate conditions warrant, outright sales of assets will be made to take profits or to otherwise enhance the investment position of the portfolios. In the event that the credit rating of securities held fall below investment grade, securities may be sold based upon market conditions. Each situation is to be reviewed and the securities are either held until maturity or sold during appropriate market conditions to minimize the impact on the portfolio.

3. Selection of Broker/Dealers:
The proliferation of investment dealers requires that they be selected based on an evaluation of their actual and/or potential contribution to the STO Investment Portfolios. Such criteria include, but are not limited to, net capital (of the firm, not of its clearing agent), underwriting capability, research services, execution capabilities and commitment to secondary market trading. An approved broker list will be maintained.

4. Certificates of Deposit:
To assist in meeting local economic needs of communities in South Carolina, funds will be invested in certificates of deposit with financial institutions and branches throughout the State. To distribute these investments equitably, the funds are auctioned off every quarter via internet auction. The guidelines can be reviewed at the web address www.BidSC.com. Collateral for these securities must be placed on deposit with a third party institution.

5. Repurchase Agreements:
Financial institutions will be polled each morning to determine what interest rates are offered on overnight and/or term repurchase agreements. Rates will include DVP and Tri-Party rates. Investment of funds for repurchase agreements will be based on the competitiveness of these rates and the bank's ability to pledge required collateral. Permitted collateral must meet the following minimum criteria:

    - Types of Repos and how collateral is held: DVP or Tri-Party
    - Custody Agent must be BNY Mellon
    - Collateral must be no less than 102 percent of principal and interest
    - Allowable collateral includes: Treasuries, and/or U.S. Agencies to include FFCB, FHLB, GNMA, FNMA

    The Operations Desks will review the collateral confirmations daily to confirm collateral meets the minimum criteria.

    The percentage of daily funds invested in repurchase agreements will be determined in the context of the State's liquidity needs, cash flow projections, and investment strategy.

6. Underwriting Credit:
   STO Staff and/or the investment advisor are expected to have performed thorough due diligence on the issuer of each security purchased (which may include, but is not limited to, the analysis of company audited financial statements in the case of corporate holdings, relevant government reports and records, etc.), and such due diligence must be available for each investment in case of an audit.

P. MARKET VALUATION

The market valuation of investments shall be priced monthly, as of each quarter-end date. Market pricing is determined by the custodian bank.

1) The current value as determined by the custodial bank for all bonds, notes, certificates of indebtedness, and commercial paper.

2) Par value for certificates of deposit, and repurchase agreements.

Q. SAFEKEEPING AND CUSTODY

Investments, except vault assets (i.e., gifted securities), shall be held in custody with the custodian bank, or other institutions approved by the State Treasurer.

R. 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	12 months, up to 10% 2 years	80% 90-day T-Bills 20% BC Short-term Govt/Credit
GF	State General Fund / General Deposit	Short/intermediate bias	50% 90-day T-Bills 30% BC 1-3 Yr Govt/Credit 20% BC Intermediate Aggregate
01	State Investment Pool / General Deposit	Medium-term bias	40% 90-day T-Bills 30% BC 1-3 Yr Govt/Credit 30% BC Intermediate Aggregate
SB	Insurance Reserve Fund / General Deposit	Long-term bias	20% 90-day T-Bills 80% BC Aggregate
03	Long Term Pool / General Deposit	Long-term bias	20% 90-day T-Bills 80% BC Aggregate
HI	SC Retirement Health Insurance – OPEB	Long-term bias	20% 90-day T-Bills 80% BC Aggregate
DI	Long Term Disability Insurance – OPEB	Long-term bias	20% 90-day T-Bills 80% BC Aggregate
AD	USC Insurance & Stock Trust*	1 day	n/a
CV	SC Housing Trust Fund*	1 day	n/a
CZ	SC Housing Home Mortgages*	1 day	n/a
C5	SHA Multi Mortgage Escrow Fund*	1 day	n/a
C6	SHA Program Fund*	1 day	n/a
EI	Education Improvement Fund / General Deposit	0-90 days	Fed Funds
SA	Ordinary Sinking Fund	Short-term bias	Fed Funds
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.

A. Benchmarks:

All investment decisions made on behalf of the STO Investment Portfolios shall be made with due consideration of the objectives set forth in this CIP. The STO Staff shall evaluate investment performance relative to assigned benchmarks but may also delegate this task to a third party such as an investment consultant. The STO Staff and any Investment Advisor, shall at all times, seek to provide performance consistent with performance objectives as shown in *Section T. Objectives & Parameters of Specific Investment Portfolios*. When evaluating investment performance, a benchmark will be used to provide relative results with the following stipulations:

Each Investment Portfolio is evaluated by STO Staff, which may seek consultation from an Investment Consultant, to determine the appropriate benchmark to be used for comparison purposes. Benchmarks will be reviewed on (at least) an annual basis, reviews will be conducted by the STO Staff, as well as any Investment Advisor(s), or Investment Consultant(s) engaged by the STO. More frequent evaluations will be conducted as market conditions, portfolio adjustments, or other factors warrant.

Benchmark Parameters

(a) Industry standard benchmarks may be used;

(b) Customized or blended benchmarks are also acceptable, provided the component indexes are industry standard benchmarks;
(c) Each Investment Portfolio is to be compared against an appropriate benchmark as outlined in the Performance Standards; and
(d) Each Investment Portfolio shall be considered against their respective benchmarks over multiple time periods.

Each of the benchmarks to be utilized in performance evaluation is identified in the Performance Standards and Section S.

B. Portfolio Characteristics:

Each STO Investment Portfolio will be monitored with respect to the following characteristics:

- Diversification
- Duration
- Quality
- Marketability

Parameters for these characteristics corresponding to specific STO Investment Portfolios can be found in Section S.

Reporting

A. STO Staff Reports:

The STO Staff shall provide quarterly reports to the State Treasurer and other executive Staff. These reports may include economic updates, portfolio characteristics and performance updates, as well as any other relevant market or portfolio topics relating to the Treasurer's Office investments.

Monthly Reports:
- Investment Advisor Monthly Reports
- Internally generated reports

Quarterly Reports:
- Executive/Investment Staff Investment Meeting
- Investment Advisor Quarterly Reports

Annual Audit Reports, when applicable:
- External Audit reports
- Internal Audit reports
- State Auditor's Office reports

Annual GASB Reports by Custodian:

- GASB 28 – Securities Lending collateral/income reports
- GASB 40 – Fair Market Value of Investments reports

B. Investment Monitoring Report:

The STO Staff or an investment consultant shall prepare and present to the Treasurer an evaluation of the performance and status of the stipulated STO Investment Portfolios[1] on a quarterly basis. The investment monitoring report shall include an overview of the capital markets, performance and allocation comparisons of the STO Investment Portfolios versus their respective benchmarks, current allocation versus policy ranges, and portfolio characteristics. The quarterly Investment Monitoring Report will also provide an executive summary highlighting the STO Investment Portfolios' relative performance and compliance with policy ranges.

S. SECURITIES LENDING

The policies and guidelines governing the securities lending program shall pertain to the Custodian, unless such services are contracted otherwise. A separate contract, distinct from the custody relationship, detailing the type of securities lending relationship and program is both mandatory and essential, as the treatment of securities lending is, foremost, an investment function with associated risk and return implications and fiduciary responsibility.

Objectives, guidelines, and policies regarding the securities lending program are detailed the Securities Lending Agreement dated May 7, 2014. Procedures for the securities lending program are detailed in a separate document titled: SC STO Securities Lending Comprehensive Policy.

T. ADOPTION AND REVIEW OF COMPREHENSIVE INVESTMENT POLICY

The STO will review this CIP at least annually. Changes to this CIP can be made at any time by the STO to the extent such changes would be in the best interest of the State's funds; however, material changes are expected to be infrequent as the CIP reflects long-term considerations, rather than short-term changes in the financial markets. The STO will communicate any proposed modifications in writing on a timely basis to interested parties, including any Investment Advisor(s) and/or Investment Consultant(s), who shall have a reasonable amount of time to respond to such proposals.

[1] Stipulated STO Investment Portfolios include: 1) Local Government Investment Pool, 2) Long Term Disability Insurance – OPEB, 3) State General Fund, 4) SC Retirement Health Insurance – OPEB, 5) Insurance Reserve Fund, 6) State investment Pool, 7) Long Term Pool, 8) Education Improvement Fund, 9) Ordinary Sinking Fund, and 10) Treasury Fund.

U. 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

Guidelines pertaining to each STO Investment Portfolio are provided on the following pages.

1. Local Government Investment Pool (LGIP)

Overview:

The Local Government Investment Pool (LGIP) is a voluntary investment vehicle authorized by SC State Legislation and operated by the STO. It was signed into law in 1983 to provide local governments and other political subdivisions a conservative, liquid, and competitive investment option.

Section 6-6-10, Section 12-45-220 and Section 11-1-60 of the 1976 Code of Laws of South Carolina authorize the State Treasurer to sell to all political subdivisions of the State participation units in the Pool, which shall be legal investments for the subdivisions.

The LGIP lets local governments use the State Treasurer's resources to conservatively invest their funds while enjoying the economies of scale available from a multi-billion dollar pooled fund investment portfolio. Local governments that are eligible to join include: cities and towns, counties, special purpose districts, municipal corporations, political subdivisions, community and technical colleges, and four-year universities, etc.

LGIP's investment objectives are: 1) preservation of capital, 2) maintaining adequate liquidity to meet cash flow needs, and 3) providing a competitive interest rate relative to other comparable investment alternatives. LGIP offers liquidity to its participants.

The STO may appoint an investment advisor to aid in the management of the LGIP portfolio. These assets will be managed in conformity with the objectives and guidelines delineated below and in accordance with a formal contract with the STO.

The LGIP will conceptually be segmented into two separate components (Immunized sub-portfolio and Short/Intermediate Residual sub-portfolio) where the assets are segregated by the time horizon of each portfolio's respective liabilities as outlined under *Section J. Broad Objectives*.

The percentage allocations of the sub-portfolios within LGIP are as follows.

Sub-portfolios	Allocation
Ultrashort Fixed Income	15 - 75%
Short/Intermediate Residual	25 - 85%
Long-term Residual	0%

For the purposes of this policy, the following definitions shall apply to the LGIP:

- Ultrashort Fixed Income: Cash Deposits, Repurchase Agreements, CDs, Commercial Paper, and direct U.S. Treasuries (notes and bonds) with similar maturity characteristics.
- Short/Intermediate Residual: Securities with a maturity of two years or less (see the section titled "Investment Maturity" for LGIP for clarification).

Performance Objective and Benchmark:

The STO Staff and/or any investment advisor(s) will manage an active portfolio for the STO that will utilize investment grade fixed income securities with a shorter duration portfolio positioning than the broad fixed income market. The LGIP portfolio will be structured with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk parameters and the cash flow characteristics of the portfolio.

Given this orientation, the goal of the LGIP portfolio is to provide superior performance as compared to a customized benchmark consisting of:

- 80% T-Bills and
- 20% BC Short-term Government/Credit Index.

Investment Parameters:

To provide for the safety and liquidity of LGIP funds, the investment portfolio will be subject to the restrictions listed below. These represent minimum investment restrictions under this formal investment policy.

Minimum/maximum percentages for a particular issuer, investment type or liquidity constraints may on occasion be exceeded (e.g., fluctuations in fund balances and/or settlement issues/rollover dates). Securities need not be liquidated to realign the portfolio; however, consideration will be given to this matter when future purchases are made. Additionally, the STO Staff and/or the Investment Advisor are required to notify the State Treasurer, in writing, if the policy breach exceeds the stated minimum/maximum and to provide an explanation of the rationale for the deviation in policy, including the duration of time the portfolio is expected to be misaligned with the policy guidelines. If the policy minimum/maximum is exceeded by 10 percent or more, approval from the State Treasurer is required. Once the State Treasurer is notified, a determination will be made if an exception is granted for the temporary policy exemption. If the exemption is not granted, STO Staff will realign the portfolio to be within policy limits within 30 days. Temporary policy exceptions are limited to three months. The Treasurer may extend these exceptions at his/her discretion. (For example, if the maximum limit is 50%, approval would be needed at 55%.)

<u>Liquidity</u>

The investment portfolio will be structured to maintain a sufficient degree of liquidity necessary to meet reasonable redemption requests and reduce the likelihood that the investment portfolio will have to meet redemptions by selling portfolio securities into a declining market.

1. For the "Ultrashort Fixed Income Sub Portfolio", a minimum of 10 percent will be maintained in "daily liquid assets", which includes (i) cash, (ii) direct obligations of the U.S. Government to include U.S. Treasury bills, notes, or bonds, and agencies, with maturities of 1 year or less, (iii) demand deposits, (iv) overnight repurchase agreements, and (v) securities that mature the following business day.

Diversification and Percentage Limitations:

1. Non-government Securities

   Investments in non-government securities will not exceed the following percentages of the total daily portfolio balance at an amortized cost:

   a. Certificates of Deposit 10%
   b. Repurchase Agreements 50%
   c. Credit[2, 3, 4] 85%

2. Holdings are subject to the following limitations by issuer:

   a. For prudent diversification, the portfolio shall have a minimum of 50 positions. Further, no more than three percent of the market value of the portfolio shall be invested in any one issuer with the following exceptions:

      i. Obligations issued or guaranteed by the U.S. government, U.S. agencies, or U.S. government-sponsored enterprises are eligible for inclusion without limit.

   b. Government-Supported securities, excluding U.S. Debt, are defined as Supranationals, Local Authorities, sovereign debt of Organization for Economic Cooperation and Development (OECD) governments, and equivalently rated agencies of OECD governments.

   c. Investment in U.S. dollar denominated issues of foreign governments and international organizations are permitted; however, these shall not exceed 20 percent of the lesser of cost or market value of the aggregate portfolio.

   d. Permissible securities also include government and government agency bonds, GNMAs, U.S. dollar denominated Eurobonds, Yankee Bonds / CD's, and corporate bonds subject to individual manager guidelines.

[2] Including commercial paper, corporates, and fixed and floating rate securities
[3] Corporates include Floating Rate Notes, Yankee Bonds / CD's and Private Placements
[4] Rule 144A investment-grade bonds with registration rights are considered prohibited investments. Current 144A positions represent legacy holdings that were purchased prior to the exclusion.

e. Prohibited securities include: mortgage bonds (including CMOs), mortgage-backed securities, asset-backed securities, Rule 144A investment-grade bonds with registration rights, financial futures, forward foreign exchange contracts, currency futures, derivatives, and all security types outlined in *Section M. Excluded Investments*.

Investment Maturity

1. Maximum Final Maturity

   The maximum final maturity of any security will not exceed two years.

   a. Up to 100 percent of portfolio invested in securities with maturities of one-day to 28 days.
   b. Up to 50 percent of the portfolio may be invested in securities with maturities of 29 days to twelve months.
   c. Up to 10 percent of the portfolio may be invested in securities with maturities greater than 12 months and less than or equal to two years.

Repurchase Agreements

Repurchase agreements will be subject to the following additional restrictions:

1. Transactions will be conducted only with primary dealers, the Federal Reserve Bank of New York, the State's bank of record, or master custodial bank, and under the terms of a written master repurchase agreement; and

2. The maximum term of repurchase agreements will be 30 days.

Securities utilized in repurchase agreements will be subject to the following additional restrictions:

1. Securities utilized in a repurchase agreement with a maturity date longer than seven days will be priced daily;

2. The market value, plus accrued income, of treasury and agency securities utilized in repurchase agreements will be at least 102 percent of the value of the repurchase agreement plus accrued income; and

3. Only securities authorized in the statute for the investment of public funds will be utilized in repurchase agreements as described in *Section O. STO Investment Management Staff Investment Practices, 5. Repurchase Agreements*.

Commercial Paper

Commercial paper will be subjected to the following additional restrictions:

1. Commercial paper must be rated at the time of purchase in either of the two highest short-term rating categories (e.g. A-1/P-1/F1, A-2/P-2/F2) by at least two nationally recognized statistical rating organizations (NRSROs). Ratings may be tier 1 or tier 2 "across the board" but may also be split rated paper (e.g. A-1/P-2 or A-2/P-2/F1).

2. Eligible paper is further limited to issuing corporations that have a total commercial paper program size in excess of $250,000,000.

3. Commercial paper must be issued by a corporation organized and/or operating in the United States or by a depository institution licensed by the United States or any state and operating in the United States. Commercial Paper of foreign companies must be U.S. Dollar denominated.

4. No more than 20 percent of commercial paper holdings may be placed in second-tier securities (e.g. A2/P2, A2/P2/F2), which shall mean any security that is rated by at least two NRSROs as tier 2 and does not have any tier 3 ratings.

5. Commercial paper backed by a direct letter of credit from a financial institution must have a long-term credit rating at the time of purchase in one of the three highest rating categories (within which there may be subcategories or gradations indicating relative standing) by at least two NRSROs.

6. Commercial paper holdings may not have maturities exceeding 180 days.

7. Approved commercial paper programs should provide some diversification by industry. Purchases of commercial paper in industry sectors subject to undue risk and illiquidity should be avoided.

8. No more than three (3) percent of total par value of the total portfolio may be in one issuer. There may be deviations to the policy maximum due to settlement issues.

Commercial paper may be purchased directly from the issuers.

Portfolio Characteristics:

Quality

The total portfolio's weighted average credit rating will be A3/A- or better as rated by Moody's, Standard & Poor's (S&P), and/or Fitch.

1. Rated Securities: The portfolio shall be 100 percent comprised of investment-grade, fixed-income securities as defined by at least two of the Nationally Recognized Statistical Rating Organizations (NRSRO).

2. Unrated Securities: Securities not covered by the standards in (1) above are not permissible investments.

3. Downgraded Securities: Securities which fall below the stated minimum credit requirements subsequent to initial purchase may be held at the STO Staff/Investment Advisor's discretion. All downgraded securities below the minimum credit requirement held in the portfolio must be reported to the Treasurer on at least a monthly basis.

Duration Exposure

The effective duration of portfolio security holdings should be within ±30 percent of the customized benchmark.

Maturity

The effective duration of the LGIP portfolio will be ±30 percent of the customized benchmark.

Administrative Reserve Account:

A prorated portion of the LGIP's total assets have been designated to be held in reserve to i) cover the administrative expenses associated with the management of the portfolio and ii) serve as a contingency reserve for losses.

The administrative fee, currently five basis points and established by the Proviso 98.4, is set by the Division Director with the approval of the State Treasurer. This fee may change upon recommendation by the Division Director to the State Treasurer.

Individual Accounts:

From time to time the STO may also be engaged to create participant specific portfolios. In these instances, the assets are segregated into a separate account and managed to unique guidelines agreed upon by the STO and the local government or political subdivision.

2. State General Fund (General Deposit Portfolio)

Overview:

This policy applies to all money that comprises the State General Fund, the purpose of which is to finance the ordinary operations of the State and to finance those operations not provided for in other funds. It also applies to money deposited in special revenue funds, debt service funds, proprietary fund types, fiduciary fund types, and capital projects funds. All funds are reported in the State's Comprehensive Annual Financial Report (CAFR), which is audited annually by an independent accounting firm.

Section 6-6-10, Section 12-45-220 and Section 11-1-60 of the 1976 Code of Laws of South Carolina authorize the State Treasurer to receive, keep and invest all money of the State of South Carolina, which is not expressly required by law to be received and kept by another party.

The State General Fund's investment objectives are: 1) preservation of capital, 2) maintaining adequate liquidity to meet cash flow needs, 3) attaining a competitive interest rate in relation to prevailing budgetary and economic environments while taking into account the State's investment risk constraints and cash flow characteristics of the portfolio, and 4) legality, where the State Treasurer will invest the State's excess funds only within the legal guidelines set forth by the laws of the State. Any investment alternative outside these guidelines is not permissible.

The STO may appoint an investment advisor to aid in the management of the State General Fund's assets. These assets will be managed in conformity with the objectives and guidelines delineated below and in accordance with a formal contract with the STO.

The State General Fund will conceptually be segmented into three separate components (Ultrashort Fixed Income sub-portfolio, Short/Intermediate Residual sub-portfolio, and Long-term Residual sub-portfolio) where the assets are segregated by the time horizon of each portfolio's respective liabilities as outlined under *Section J. Broad Objectives.*

The percentage allocations of the sub-portfolios within the State General Fund are as follows.

Sub-portfolios	Allocation
Ultrashort Fixed Income	35 - 70%
Short/Intermediate Residual	30 - 65%
Long-term Residual	0 - 10%

For the purposes of this policy, the following definitions shall apply to the State General Fund:

- Ultrashort Fixed Income: Cash Deposits, Repurchase Agreements, CDs, Commercial Paper, and direct U.S. Treasuries (notes and bonds) with similar maturity characteristics.

- Short/Intermediate Residual: Securities with a maturity of five years or less (see the section titled "Investment Maturity" for the State General Fund for clarification).
- Long-term Residual: Securities with a maturity of greater than five years (see the section titled "Investment Maturity" for the State General Fund for clarification).

Performance Objective and Benchmark:

The STO Staff, and/or any investment advisor(s) engaged by the STO, will manage an active portfolio for the STO that will utilize investment grade fixed income securities with a shorter duration portfolio positioning than the broad fixed income market. The State General Fund will be structured with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk parameters and the cash flow characteristics of the portfolio.

Given this orientation, the goal of the State General Fund portfolio is to provide superior performance as compared to a customized benchmark consisting of:

- 50% T-Bills,
- 30% BC 1-3 Year Government/Credit, and
- 20% BC Intermediate Aggregate Index.

Investment Parameters:

To provide for the safety and liquidity of the State General Fund, the investment portfolio will be subject to the restrictions listed below. These represent minimum investment restrictions under this formal investment policy.

Minimum/maximum percentages for a particular issuer, investment type or liquidity constraints may on occasion be exceeded (e.g., fluctuations in fund balances and/or settlement issues/rollover dates). Securities need not be liquidated to realign the portfolio; however, consideration will be given to this matter when future purchases are made. Additionally, the STO Staff and/or the Investment Advisor are required to notify the State Treasurer, in writing, if the policy breach exceeds the stated minimum/maximum and to provide an explanation of the rationale for the deviation in policy, including the duration of time the portfolio is expected to be misaligned with the policy guidelines. If the policy minimum/maximum is exceeded by 10 percent or more, approval from the State Treasurer is required. Once the State Treasurer is notified, a determination will be made if an exception is granted for the temporary policy exemption. If the exemption is not granted, STO Staff will realign the portfolio to be within policy limits within 30 days. Temporary policy exceptions are limited to three months. The Treasurer may extend these exceptions at his/her discretion. (For example, if the maximum limit is 50%, approval would be needed at 55%.)

Liquidity

The investment portfolio will be structured to maintain a sufficient degree of liquidity necessary to meet reasonable redemption requests and reduce the likelihood that the investment portfolio will have to meet redemptions by selling portfolio securities into a declining market.

1. For the "Ultrashort Fixed Income Sub Portfolio", a minimum of 10 percent will be maintained in "daily liquid assets", which includes (i) cash, (ii) direct obligations of the U.S. Government to include U.S. Treasury bills, notes, or bonds, and agencies, with maturities of 1 year or less, (iii) demand deposits, (iv) overnight repurchase agreements, and (v) securities that mature the following business day.

Diversification and Percentage Limitations:

1. Non-government Securities

   Investments in non-government securities will not exceed the following percentages of the total daily portfolio balance at an amortized cost:

a.	Certificates of Deposit	10%
b.	Repurchase Agreements	50%
c.	Credit[5, 6, 7]	70%

2. Holdings are subject to the following limitations by issuer:

   a. For prudent diversification, the portfolio shall have a minimum of 50 positions. Further, no more than 3 percent of the market value of the portfolio shall be invested in any one issuer with the following exceptions:

      i. Obligations issued or guaranteed by the U.S. government, U.S. agencies, or U.S. government-sponsored enterprises are eligible for inclusion without limit.

   b. Government-Supported securities, excluding U.S. Debt, are defined as Supranationals, Local Authorities, sovereign debt of Organization for Economic Cooperation and Development (OECD) governments, and equivalently rated agencies of OECD governments.

[5] Including commercial paper, corporates, and fixed and floating rate securities

[6] Corporates include Floating Rate Notes, Yankee Bonds / CD's and Private Placements

[7] Rule 144A investment-grade bonds with registration rights are considered prohibited investments. Current 144A positions represent legacy holdings that were purchased prior to the exclusion.

c. Investment in U.S. dollar denominated issues of foreign governments and international organizations are permitted; however, these shall not exceed 20 percent of the lesser of cost or market value of the aggregate portfolio.

d. Permissible securities also include government and government agency bonds, GNMAs, U.S. dollar denominated Eurobonds, Yankee Bonds / CD's, and corporate bonds subject to individual manager guidelines.

e. Prohibited securities include: commercial mortgage bonds (including CMOs), mortgage-backed securities, asset-backed securities, Rule 144A investment-grade bonds with registration rights, financial futures, forward foreign exchange contracts, currency futures, derivatives, and all security types outlined in *Section M. Excluded Investments*.

Investment Maturity

1. Maximum Final Maturity

   a. Up to 100 percent of the portfolio may be invested in securities with maturities of 90 days or less
   b. Up to 50 percent of the portfolio may be invested in securities with maturities less than five years
   c. Up to 10 percent of the portfolio may be invested in securities with a maturity of five years or greater

Repurchase Agreements

Repurchase agreements will be subject to the following additional restrictions:

1. Transactions will be conducted only with primary dealers, the Federal Reserve Bank of New York, the State's bank of record or master custodial bank, and under the terms of a written master repurchase agreement.

2. The maximum term of repurchase agreements will be 30 days.

Securities utilized in repurchase agreements will be subject to the following additional restrictions:

1. Securities utilized in a repurchase agreement with a maturity date longer than seven days will be priced daily;

2. The market value, plus accrued income, of treasury and agency securities utilized in repurchase agreements will be 102 percent of the value of the repurchase agreement, plus accrued income;

3. The market value, plus accrued income, of mortgage-backed securities utilized in repurchase agreements with more than seven days remaining until maturity will be 102 percent of the value of the repurchase agreement; and

4. Only securities authorized in the statute for the investment of public funds will be utilized in repurchase agreements as described in *Section O. STO Investment Management Staff Investment Practices, 5. Repurchase Agreements*.

Commercial Paper

Commercial paper will be subjected to the following additional restrictions:

1. Commercial paper must be rated at the time of purchase in either of the two highest short-term rating categories (e.g. A-1/P-1/F1, A-2/P-2/F2) by at least two nationally recognized statistical rating organizations (NRSROs). Ratings may be tier 1 or tier 2 "across the board" but may also be split rated paper (e.g. A-1/P-2 or A-2/P-2/F1).

2. Eligible paper is further limited to issuing corporations that have a total commercial paper program size in excess of $250,000,000.

3. Commercial paper must be issued by a corporation organized and/or operating in the United States or by a depository institution licensed by the United States or any state and operating in the United States. Commercial Paper of foreign companies must be U.S. Dollar denominated.

4. Up to 100 percent of commercial paper holdings may be placed in second-tier securities or better, which shall mean any security that is rated by at least two NRSROs as tier 2 and does not have any tier 3 ratings.

5. Commercial paper backed by a direct letter of credit from a financial institution must have a long-term credit rating at the time of purchase in one of the three highest rating categories (within which there may be subcategories or gradations indicating relative standing) by at least two NRSROs.

6. Commercial paper holdings may not have maturities exceeding 180 days.

7. Approved commercial paper programs should provide some diversification by industry. Purchases of commercial paper in industry sectors subject to undue risk and illiquidity should be avoided.

8. No more than three (3) percent of total par value of the total portfolio may be in one issuer. There may be deviations to the policy maximum due to settlement issues.

Commercial paper may be purchased directly from the issuers.

Portfolio Characteristics:

Quality

The total portfolio's average rating will be A3/A- or better as rated by Moody's, Standard & Poor's (S&P), and/or Fitch.

1. Rated Securities: The portfolio shall be 100 percent comprised of investment-grade, fixed-income securities as defined by two of the Nationally Recognized Statistical Rating Organizations (NRSRO).

2. Unrated Securities: Securities not covered by the standards in (1) above are not permissible investments.

3. Downgraded Securities: Securities which fall below the stated minimum credit requirements subsequent to initial purchase may be held at the STO Staff/Investment Advisor's discretion. All downgraded securities below the minimum credit requirement held in the portfolio must be reported to the Treasurer on at least a monthly basis.

Duration Exposure

The effective duration of the State General Fund will be ±30 percent of the customized benchmark.

Maturity

The average maturity of the State General Fund will be ±30 percent of the customized benchmark.

Administrative:

The administrative fee, established by the Proviso 98.4, is set by the Division Director with the approval of the State Treasurer. This fee may change upon recommendation by the Division Director to the State Treasurer.

3. State Investment Pool (General Deposit Portfolio)

Overview:

This portfolio is comprised of State funds and State Agency funds. Agencies include colleges, universities, tech schools and their affiliated organizations. These agency funds are partially comprised of bond proceeds.

Section 6-6-10, Section 12-45-220 and Section 11-1-60 of the 1976 Code of Laws of South Carolina authorize the State Treasurer to receive, keep and invest all money of the State of South Carolina, which is not expressly required by law to be received and kept by another party.

The State Investment Pool's investment objectives are: 1) preservation of capital, 2) maintaining adequate liquidity to meet cash flow needs, 3) attaining a competitive interest rate in relation to prevailing budgetary and economic environments while taking into account the State's investment risk constraints and cash flow characteristics of the portfolio, and 4) legality, where the State Treasurer will invest the State's excess funds only within the legal guidelines set forth by the laws of the State. Any investment alternative outside these guidelines is not permissible.

The STO may appoint an investment advisor to aid in the management of the State Investment Pool's assets. These assets will be managed in conformity with the objectives and guidelines delineated below and in accordance with a formal contract with the STO.

The State Investment Pool will conceptually be segmented into three separate components Ultrashort Fixed Income sub-portfolio, Short/Intermediate Residual sub-portfolio, and Long-term Residual sub-portfolio) where the assets are segregated by the time horizon of each portfolio's respective liabilities as outlined under *Section J. Broad Objectives*.

The percentage allocations of the sub-portfolios within State Investment Pool are as follows.

Sub-portfolios	Allocation
Ultrashort Fixed Income	10 - 30%
Short/Intermediate Residual	25 - 90%
Long-term Residual	0 - 20%

For the purposes of this policy, the following definitions shall apply to the State Investment Pool:

- Ultrashort Fixed Income: Cash Deposits, Repurchase Agreements, CDs, Commercial Paper, and direct U.S. Treasuries (notes and bonds) with similar maturity characteristics.
- Short/Intermediate Residual: Securities with a maturity of five years or less (see the section titled "Investment Maturity" for the State Investment Pool for clarification).
- Long-term Residual: Securities with a maturity of greater than five years (see the section titled "Investment Maturity" for the State Investment Pool for clarification).

Performance Objective and Benchmark:

The STO Staff, and/or any investment advisor(s) engaged by the STO, will manage an active portfolio for the STO that will utilize investment grade fixed income securities with a shorter duration portfolio positioning than the broad fixed income market. The State Investment Pool will be structured with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk parameters and the cash flow characteristics of the portfolio.

Given this orientation, the goal of the State Investment Pool portfolio is to provide superior performance as compared to a customized benchmark consisting of:

- 40% T-Bills,
- 30% BC 1-3 Year Government/Credit Index, and
- 30% BC Intermediate Aggregate Index.

Investment Parameters:

To provide for the safety and liquidity of the State Investment Pool, the investment portfolio will be subject to the restrictions listed below. These represent minimum investment restrictions under this formal investment policy.

Minimum/maximum percentages for a particular issuer, investment type or liquidity constraints may on occasion be exceeded (e.g., due to fluctuations in fund balances and/or settlement issues/rollover dates). Securities need not be liquidated to realign the portfolio; however, consideration will be given to this matter when future purchases are made. Additionally, the STO Staff and/or the Investment Advisor are required to notify the State Treasurer, in writing, if the policy breach exceeds the stated minimum/maximum and to provide an explanation of the rationale for the deviation in policy, including the duration of time the portfolio is expected to be misaligned with the policy guidelines. If the policy minimum/maximum is exceeded by 10 percent or more, approval from the State Treasurer is required. Once the State Treasurer is notified, a determination will be made if an exception is granted for the temporary policy exemption. If the exemption is not granted, STO Staff will realign the portfolio to be within policy limits within 30 days. Temporary policy exceptions are limited to three months, although the Treasurer can extend these exceptions at his/her discretion. (For example, if the maximum limit is 50%, approval would be needed at 55%.)

<u>Liquidity</u>

The investment portfolio will be structured to maintain a sufficient degree of liquidity necessary to meet reasonable redemption requests and reduce the likelihood that the investment portfolio will have to meet redemptions by selling portfolio securities into a declining market.

1. For the "Ultrashort Fixed Income Sub Portfolio", a minimum of 10 percent will be maintained in "daily liquid assets", which includes (i) cash, (ii) direct obligations of the U.S. Government to include U.S. Treasury bills, notes, or bonds, and agencies, with maturities of 1 year or less, (iii) demand deposits, (iv) overnight repurchase agreements, and (v) securities that mature the following business day.

Diversification and Percentage Limitations:

1. Non-government Securities

   Investments in non-government securities will not exceed the following percentages of the total daily portfolio balance at an amortized cost:

   a. Certificates of Deposit 10%
   b. Repurchase Agreements 50%
   c. Credit[8, 9, 10] 70%

2. Holdings are subject to the following limitations by issuer:

   a. For prudent diversification, the portfolio shall have a minimum of 50 positions. Further, no more than three percent of the market value of the portfolio shall be invested in any one issuer with the following exceptions:

      i. Obligations issued or guaranteed by the U.S. government, U.S. agencies, or U.S. government-sponsored enterprises are eligible for inclusion without limit.

   b. Government-Supported securities, excluding U.S. Debt, are defined as Supranationals, Local Authorities, sovereign debt of Organization for Economic Cooperation and Development (OECD) governments, and equivalently rated agencies of OECD governments.

   c. Investment in U.S. dollar denominated issues of foreign governments and international organizations are permitted; however, these shall not exceed 20 percent of the lesser of cost or market value of the aggregate portfolio.

   d. Permissible securities also include government and government agency bonds, GNMAs, U.S. dollar denominated Eurobonds, Yankee Bonds / CD's, and corporate bonds subject to individual manager guidelines.

   e. Prohibited securities include: commercial mortgage bonds (including CMOs),

[8] Including commercial paper, corporates, and fixed and floating rate securities
[9] Corporates include Floating Rate Notes, Yankee Bonds / CD's and Private Placements
[10] Rule 144A investment-grade bonds with registration rights are considered prohibited investments. Current 144A positions represent legacy holdings that were purchased prior to the exclusion.

mortgage-backed securities, asset-backed securities, Rule 144A investment-grade bonds with registration rights, financial futures, forward foreign exchange contracts, currency futures, derivatives, and all security types outlined in *Section M. Excluded Investments*.

Investment Maturity

1. Maximum Final Maturity

   a. Up to 100 percent of the portfolio may be invested in securities with maturities of 90 days or less
   b. Up to 90 percent of the portfolio may be invested in securities with maturities less than five years
   c. Up to 20 percent of the portfolio may be invested in securities with a maturity of five years or greater

Repurchase Agreements

Repurchase agreements will be subject to the following additional restrictions:

1. Transactions will be conducted only with primary dealers, the Federal Reserve Bank of New York, the State's bank of record, or master custodial bank, and under the terms of a written master repurchase agreement; and

2. The maximum term of repurchase agreements will be 30 days.

Securities utilized in repurchase agreements will be subject to the following additional restrictions:

1. Securities utilized in a repurchase agreement with a maturity date longer than seven days will be priced daily;

2. The market value, plus accrued income, of treasury and agency securities utilized in repurchase agreements will be 102 percent of the value of the repurchase agreement, plus accrued income;

3. The market value, plus accrued income, of mortgage-backed securities utilized in repurchase agreements with more than seven days remaining until maturity will be 102 percent of the value of the repurchase agreement; and

4. Only securities authorized in the statute for the investment of public funds will be utilized in repurchase agreements as described in *Section O. STO Investment Management Staff Investment Practices, 5. Repurchase Agreements*.

Commercial Paper

Commercial paper will be subjected to the following additional restrictions:

1. Commercial paper must be rated at the time of purchase in either of the two highest short-term rating categories (e.g. A-1/P-1/F1, A-2/P-2/F2) by at least two nationally recognized statistical rating organizations (NRSROs). Ratings may be tier 1 or tier 2 "across the board" but may also be split rated paper (e.g. A-1/P-2 or A-2/P-2/F1).

2. Eligible paper is further limited to issuing corporations that have a total commercial paper program size in excess of $250,000,000.

3. Commercial paper must be issued by a corporation organized and/or operating in the United States or by a depository institution licensed by the United States or any state and operating in the United States. Commercial Paper of foreign companies must be U.S. Dollar denominated.

4. Up to 100 percent of commercial paper holdings may be placed in second-tier securities or better, which shall mean any security that is rated by at least two NRSROs as tier 2 and does not have any tier 3 ratings.

5. Commercial paper backed by a direct letter of credit from a financial institution must have a long-term credit rating at the time of purchase in one or the three highest rating categories (within which there may be subcategories or gradations indicating relative standing) by at least two NRSROs.

6. Commercial paper holdings may not have maturities exceeding 180 days.

7. Approved commercial paper programs should provide some diversification by industry. Purchases of commercial paper in industry sectors subject to undue risk and illiquidity should be avoided.

8. No more than three (3) percent of total par value of the total portfolio may be in one issuer. There may be deviations to the policy maximum due to settlement issues.

Commercial paper may be purchased directly from the issuers.

Portfolio Characteristics:

Quality

The total portfolio's average rating will be A3/A- or better as rated by Moody's, Standard & Poor's (S&P), and/or Fitch.

1. Rated Securities: The portfolio shall be 100 percent comprised of investment-grade, fixed-income securities as defined by at least two of the Nationally Recognized Statistical Rating Organizations (NRSRO).

2. Unrated Securities: Securities not covered by the standards in (1) above are not permissible investments.

3. Downgraded Securities: Securities which fall below the stated minimum credit requirements subsequent to initial purchase may be held at the STO Staff/Investment Advisor's discretion. All downgraded securities below the minimum credit requirement held in the portfolio must be reported to the Treasurer on at least a monthly basis.

Duration Exposure

The effective duration of the State Investment Pool will be within ±30 percent of the customized benchmark.

Maturity

The average maturity of the State Investment Pool will be within ±30 percent of the customized benchmark.

Administrative:

The administrative fee, established by the Proviso 98.4, is set by the Division Director with the approval of the State Treasurer. This fee may change upon recommendation by the Division Director to the State Treasurer.

4. Insurance Reserve Fund (General Deposit Portfolio)

Overview:

The purpose of the South Carolina Insurance Reserve Fund is to provide property and liability insurance products to governmental entities in South Carolina. Governmental entities include state agencies, counties, municipalities, school districts, regional transportation authorities, special purpose districts and governmental and eleemosynary hospitals.

The Insurance Reserve Fund is an Office of the South Carolina State Fiscal Accountability Authority and reports to the five-member board through the Division of Insurance and Grants Services and the Office of the Executive Director. The State Fiscal Accountability Authority is authorized and required to provide insurance to governmental entities by a number of statutes. Those statutes are:

Section 1-11-140	Authority to provide tort liability insurance to governmental entities, their employees, and charitable medical facilities
Section 10-7-10 through 10-7-40	Authority to insure public buildings and contents
Section 10-7-120	Authority to purchase reinsurance
Section 10-7-130	Authority to hold monies paid as premiums for the purpose of paying Insured losses
Section 15-78-10 through 15-78-150	S.C. Governmental Tort Claims Act. Authority to provide liability insurance
Section 59-67-710 / 59-67-790	Authority to insure school buses and pupils transported by school bus
Section 59-67-790	Pupil Injury Fund
Section 1-11-147	Automobile Liability Reinsurance
Section 11-9-75	Debt Collection Procedures
Section 38-13-190	Requires South Carolina Insurance Department audits of Insurance Reserve Fund finances

The Insurance Reserve Fund functions as a governmental insurance operation with the mission to provide insurance specifically designed to meet the needs of governmental entities at the lowest possible cost. The Insurance Reserve Fund operates like an insurance company by issuing policies, collecting premiums (based on actuarially calculated rates), and paying claims from the accumulated premiums in accordance with the terms and conditions of the insurance policies it has issued. The Insurance Reserve Fund uses its consulting actuaries in determining rates, IBNR reserves, adequacy of loss reserves, and adequacy of policyholder's equity in making management recommendations to the State Fiscal Accountability Authority regarding the financial management of the Fund. The Insurance Reserve Fund is a revenue agency and does not receive any appropriation from the General Fund.

The Insurance Reserve Fund files a National Association of Insurance Commissioners (NAIC) Annual Statement with the South Carolina Department of Insurance, as required by law, reflecting the annual financial status of its insurance operation. Also, the Insurance Reserve Fund is audited by the South Carolina Department of Insurance every three years, or more often as needed, pursuant to Section 38-13-190 of the South Carolina Code of Laws. The South Carolina Fiscal Accountability Authority and the Insurance Reserve Fund are also audited annually by an independent CPA firm.

All premiums received by the Insurance Reserve Fund are deposited with the Office of the State Treasurer where the funds are maintained as the Insurance Reserve Fund Trust Account. By statutory requirement, these funds are to be used to pay claims and operating expenses of the Insurance Reserve Fund. The Office of the State Treasurer is responsible for investing these funds.

The Insurance Reserve Fund uses no agents, brokers, or advertising, and does not actively solicit accounts. The lack of a profit motive and the lack of acquisition expenses such as agents' commissions, along with the use of the investment income in rate determination allows the Insurance Reserve Fund to maintain the lowest possible rate structure. Not all governmental entities elect to purchase their insurance through the Insurance Reserve Fund. The South Carolina Tort Claims Act allows political subdivisions of the State access to other mechanisms to meet their insurance needs at their discretion. Some entities participate in other self-insurance pools, some purchase commercial insurance, and some elect to self-insure their insurance exposures.

The Insurance Reserve Fund offers the following lines of insurance:

Liability Insurance:	Automobile Liability School Bus Liability General Tort Liability Medical Professional Liability
Property Insurance:	"All Risk" Coverage on Buildings and Contents Builders' Risk Data Processing Equipment and Media Inland Marine Business Interruption and Extra Expense

Because South Carolina has significant hurricane and earthquake exposures, all Insurance Reserve Fund property insurance policies include coverage for wind, flood, and earthquakes. All Insurance Reserve Fund liability policies are designed to meet the needs of governmental entities and to comply with applicable statutes.

The South Carolina Insurance Reserve Fund also provides risk management services such as driver improvement training, real property appraisals, boiler and machinery inspections, and property engineering inspections for its participants.

The investment objectives of the Insurance Reserve Fund are, as a priority, to accumulate and preserve assets from ongoing premiums received in order to meet all claim payments and operating expenses of the Insurance Reserve Fund. Secondarily, the Insurance Reserve Fund seeks growth of assets using a diversified portfolio of fixed-income investments, as allowed under S.C. Code of Laws § 11-9-660, that emphasizes current income and capital appreciation, while minimizing risk when possible.

The STO may appoint an investment advisor to aid in the management of the Insurance Reserve Fund assets. These assets will be managed in conformity with the objectives and guidelines delineated below and in accordance with a formal contract with the STO.

The Insurance Reserve Fund will conceptually be segmented into three separate components (Ultrashort Fixed Income sub-portfolio, Short/Intermediate Residual sub-portfolio, and Long-term Residual sub-portfolio) where the assets are segregated by the time horizon of each portfolio's respective liabilities as outlined under *Section J. Broad Objectives*.

The percentage allocations of the sub-portfolios within the Insurance Reserve Fund are as follows.

Sub-portfolios	Allocation
Ultrashort Fixed Income	0 - 25%
Short/Intermediate Residual	20 - 80%
Long-term Residual	0 - 50%

For the purposes of this policy, the following definitions shall apply to the Insurance Reserve Fund:

- Ultrashort Fixed Income: Cash Deposits, Repurchase Agreements, CDs, Commercial Paper, and direct U.S. Treasuries (notes and bonds) with similar maturity characteristics.
- Short/Intermediate Residual: Securities with a maturity of five years or less (see the section titled "Investment Maturity" for the Insurance Reserve Fund for clarification).
- Long-term Residual: Securities with a maturity of greater than five years (see the section titled "Investment Maturity" for the Insurance Reserve Fund for clarification).

Performance Objective and Benchmark:

The STO Staff, and/or any investment advisor(s) engaged by the STO, will manage an active portfolio for the STO that will utilize investment grade fixed income securities. The Insurance Reserve Fund will be structured with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk parameters and the cash flow characteristics of the portfolio.

Given this orientation, the goal of the Insurance Reserve Fund is to provide superior performance as compared to a customized benchmark consisting of:

- 20% T-Bills and
- 80%% BC Aggregate Index.

Investment Parameters:

To protect capital and meet benefit and expense obligations when due, the Insurance Reserve Fund will be subject to the restrictions listed below. These represent minimum investment restrictions under this formal investment policy.

Minimum/maximum percentages for a particular issuer, investment type or liquidity constraints may on occasion be exceeded (e.g., fluctuations in fund balances and/or settlement issues/rollover dates). Securities need not be liquidated to realign the portfolio; however, consideration will be given to this matter when future purchases are made. Additionally, the STO Staff and/or the Investment Advisor are required to notify the State Treasurer, in writing, if the policy breach exceeds the stated minimum/maximum and to provide an explanation of the rationale for the deviation in policy, including the duration of time the portfolio is expected to be misaligned with the policy guidelines. If the policy minimum/maximum is exceeded by 10 percent or more, approval from the State Treasurer is required. Once the State Treasurer is notified, a determination will be made if an exception is granted for the temporary policy exemption. If the exemption is not granted, STO Staff will realign the portfolio to be within policy limits within 30 days. Temporary policy exceptions are limited to three months. The Treasurer can extend these exceptions at his/her discretion. (For example, if the maximum limit is 50%, approval would be needed at 55%.)

<u>Liquidity</u>

The investment portfolio will be structured to maintain a sufficient degree of liquidity necessary to meet reasonable redemption requests and reduce the likelihood that the investment portfolio will have to meet redemptions by selling portfolio securities into a declining market.

1. A minimum of 10 percent of the portfolio will be maintained in "monthly liquid assets" – and includes (i) cash, (ii) direct obligations of the U.S. Government, to include U.S. Treasury bills, notes, or bonds, and agencies, with maturities of 1 year or less, (iii) commercial paper, and (iv) securities that will mature or have a demand feature exercisable and payable to meet immediate cash flow needs.

<u>Diversification and Percentage Limitations:</u>

1. Non-government Securities

   Investments in non-government securities will not exceed the following percentages of the total daily portfolio balance at an amortized cost:

   a. Certificates of Deposit 10%
   b. Repurchase Agreements 50%

c. Credit[11, 12, 13] 75%

2. Holdings are subject to the following limitations by issuer:

   a. For prudent diversification, the portfolio shall have a minimum of 50 positions. Further, no more than three percent of the market value of the portfolio shall be invested in any one issuer with the following exceptions:

      i. Obligations issued or guaranteed by the U.S. government, U.S. agencies, or U.S. government-sponsored enterprises are eligible for inclusion without limit.

   b. Government-Supported securities, excluding U.S. Debt, are defined as Supranationals, Local Authorities, sovereign debt of Organization for Economic Cooperation and Development (OECD) governments, and equivalently rated agencies of OECD governments.

   c. Investment in U.S. dollar denominated issues of foreign governments and international organizations are permitted; however, these shall not exceed 20 percent of the lesser of cost or market value of the aggregate portfolio.

   d. Permissible securities also include government and government agency bonds, GNMAs, U.S. dollar denominated Eurobonds, Yankee Bonds / CD's, and corporate bonds subject to individual manager guidelines.

   e. Prohibited securities include: commercial mortgage bonds (including CMOs), mortgage-backed securities, asset-backed securities, Rule 144A investment-grade bonds with registration rights, financial futures, forward foreign exchange contracts, currency futures, derivatives, and all security types outlined in *Section M. Excluded Investments*.

[11] Including commercial paper, corporates, and fixed and floating rate securities
[12] Corporates include Floating Rate Notes, Yankee Bonds / CD's and Private Placements
[13] Rule 144A investment-grade bonds with registration rights are prohibited investments. Current 144A positions represent legacy holdings that were purchased prior to the exclusion.

Investment Maturity

1. Securities covering the full range of available maturities are acceptable as long as the maturities are within the maturity bands provided for the sub portfolios' allocations.

Repurchase Agreements

Repurchase agreements will be subject to the following additional restrictions:

1. Transactions will be conducted only with primary dealers, the Federal Reserve Bank of New York, the State's bank of record, or master custodial bank, and under the terms of a written master repurchase agreement;

2. The maximum term of repurchase agreements will be 30 days.

Securities utilized in repurchase agreements will be subject to the following additional restrictions:

1. Securities utilized in a repurchase agreement with a maturity date longer than seven days will be priced daily;

2. The market value, plus accrued income, of treasury and agency securities utilized in repurchase agreements will be 102 percent of the value of the repurchase agreement, plus accrued income;

3. The market value, plus accrued income, of mortgage-backed securities utilized in repurchase agreements with more than seven days remaining until maturity will be 102 percent of the value of the repurchase agreement; and

4Only securities authorized in the statute for the investment of public funds will be utilized in repurchase agreements as described in *Section O. STO Investment Management Staff Investment Practices, 5. Repurchase Agreements.*

Commercial Paper

Commercial paper will be subjected to the following additional restrictions:

1. Commercial paper must be rated at the time of purchase in either of the two highest short-term rating categories (e.g. A-1/P-1/F1, A-2/P-2/F2) by at least two nationally recognized statistical rating organizations (NRSROs). Ratings may be tier 1 or tier 2 "across the board" but may also be split rated paper (e.g. A-1/P-2 or A-2/P-2/F1).

2. Eligible paper is further limited to issuing corporations that have a total commercial paper program size in excess of $250,000,000.

3. Commercial paper must be issued by a corporation organized and/or operating in the United States or by a depository institution licensed by the United States or any state and operating in the United States. Commercial Paper of foreign companies must be U.S. Dollar denominated.

4. Up to 100 percent of commercial paper holdings may be placed in second-tier securities or better, which shall mean any security that is rated by at least two NRSROs as tier 2 and does not have any tier 3 ratings.

5. Commercial paper backed by a direct letter of credit from a financial institution must have a long-term credit rating at the time of purchase in one or the three highest rating categories (within which there may be subcategories or gradations indicating relative standing) by at least two NRSROs.

6. Commercial paper holdings may not have maturities exceeding 180 days.

7. Approved commercial paper programs should provide some diversification by industry. Purchases of commercial paper in industry sectors subject to undue risk and illiquidity should be avoided.

8. No more than three (3) percent of total par value of the total portfolio may be in one issuer. There may be deviations to the policy maximum due to settlement issues.

Commercial paper may be purchased directly from the issuers.

Portfolio Characteristics:

<u>Quality</u>

The total portfolio's average rating will be A3/A- or better as rated by Moody's, Standard & Poor's (S&P), and/or Fitch.

1. Rated Securities: The portfolio shall be 100 percent comprised of investment-grade, fixed-income securities as defined by at least two of the Nationally Recognized Statistical Rating Organizations (NRSRO).

2. Unrated Securities: Securities not covered by the standards in (1) above are not permissible investments.

3. Downgraded Securities: Securities which fall below the stated minimum credit requirements subsequent to initial purchase may be held at the STO Staff/Investment Advisor's discretion. All downgraded securities below the minimum credit requirement held in the portfolio must be reported to the Treasurer on at least a monthly basis.

Duration Exposure

The effective duration of the Insurance Reserve Fund Trust will be within ± 30 percent of the BC Aggregate Index.

Maturity

The average maturity of the Insurance Reserve Fund Trust will be within ± 30 percent of the BC Aggregate Index.

Administrative:

The administrative fee, established by the Proviso 98.4, is set by the Division Director with the approval of the State Treasurer. This fee may change upon recommendation by the Division Director to the State Treasurer.

5. Long Term Pool (General Deposit Portfolio)

Overview:

Participants in this portfolio include trusts, endowments and scholarships. Beneficiaries may be the State, an Agency or an educational entity.

Section 6-6-10, Section 12-45-220 and Section 11-1-60 of the 1976 Code of Laws of South Carolina authorize the State Treasurer to receive, keep and invest all money of the State of South Carolina, which is not expressly required by law to be received and kept by another party.

The **Long Term Pool's** investment objectives are: 1) preservation of capital, 2) maintaining adequate liquidity to meet cash flow needs, 3) attaining a competitive interest rate in relation to prevailing budgetary and economic environments, while taking into account the State's investment risk constraints, the cash flow characteristics of the portfolio, and 4) legality, where the State Treasurer will invest the State's excess funds only within the legal guidelines set forth by the laws of the State. Any investment alternative outside these guidelines is not permissible.

The STO may appoint an investment advisor to aid in the management of the **Long Term Pool's** assets. These assets will be managed in conformity with the objectives and guidelines delineated below and in accordance with a formal contract with the STO.

The Long Term Pool will conceptually be segmented into three separate components (Ultrashort Fixed Income sub-portfolio, Short/Intermediate Residual sub-portfolio, and Long-term Residual sub-portfolio) where the assets are segregated by the time horizon of each portfolio's respective liabilities as outlined under *Section J. Broad Objectives*.

The percentage allocations of the sub-portfolios within the Long Term Pool are as follows.

Sub-portfolios	Allocation
Ultrashort Fixed Income	0 - 25%
Short/Intermediate Residual	20 - 80%
Long-term Residual	0 - 55%

For the purposes of this policy, the following definitions shall apply to the Long Term Pool:

- Ultrashort Fixed Income: Cash Deposits, Repurchase Agreements, CDs, Commercial Paper, and direct U.S. Treasuries (notes and bonds) with similar maturity characteristics.
- Short/Intermediate Residual: Securities with a maturity of five years or less (see the section titled "Investment Maturity" for the Long Term Pool for clarification).
- Long-term Residual: Securities with a maturity of greater than five years. (See the section titled "Investment Maturity" for the Long Term Pool for clarification).

Performance Objective and Benchmark:

The STO Staff, and/or investment advisor(s) engaged by the STO, will manage an active portfolio for the STO that will utilize investment grade fixed income securities. The Long Term Pool will be structured with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk parameters and the cash flow characteristics of the portfolio.

Given this orientation, the goal of the Long Term Pool is to provide superior performance as compared to a customized benchmark consisting of:

- 20% T-Bills and
- 80%BC Aggregate Index.

Investment Parameters:

To provide for the safety and liquidity of the Long Term Pool, the investment portfolio will be subject to the restrictions listed below. These represent minimum investment restrictions under this formal investment policy.

Minimum/maximum percentages for a particular issuer, investment type or liquidity constraints may on occasion be exceeded (e.g., due to fluctuations in fund balances and/or settlement issues/rollover dollars). Securities need not be liquidated to realign the portfolio; however, consideration will be given to this matter when future purchases are made. Additionally, the STO Staff and/or the Investment Advisor are required to notify the State Treasurer, in writing, if the policy breach exceeds the stated minimum/maximum and to provide an explanation of the rationale for the deviation in policy, including the duration of time the portfolio is expected to be misaligned with the policy guidelines. If the policy minimum/maximum is exceeded by 10 percent or more, approval from the State Treasurer is required. Once the State Treasurer is notified, a determination will be made if an exception is granted for the temporary policy exemption. If the exemption is not granted, STO Staff will realign the portfolio to be within policy limits within 30 days. Temporary policy exceptions are limited to three months. The Treasurer can extend these exceptions at his/her discretion. (For example, if the maximum limit is 50%, approval would be needed at 55%.)

<u>Liquidity</u>

The investment portfolio will be structured to maintain a sufficient degree of liquidity necessary to meet reasonable redemption requests and reduce the likelihood that the investment portfolio will have to meet redemptions by selling portfolio securities into a declining market.

1. A minimum of 10 percent will be maintained in "monthly liquid assets", which includes (i) cash, (ii) direct obligations of the U.S. Government, to include U.S. Treasury bills, notes,

or bonds, and agencies, with maturities of 1 year or less, (iii) commercial paper, and (iv) securities that will mature or have a demand feature exercisable and payable to meet immediate cash flow needs.

Diversification and Percentage Limitations:

1. Non-government Securities

   Investments in non-government securities will not exceed the following percentages of the total daily portfolio balance at an amortized cost:

a.	Certificates of Deposit	10%
b.	Repurchase Agreements	50%
c.	Credit[14, 15, 16]	75%

2. Holdings are subject to the following limitations by issuer:

   a. For prudent diversification, the portfolio shall have a minimum of 50 positions. Further, no more than three percent of the market value of the portfolio shall be invested in any one issuer with the following exceptions:

      i. Obligations issued or guaranteed by the U.S. government, U.S. agencies, or U.S. government-sponsored enterprises are eligible for inclusion without limit.

   b. Government-Supported securities, excluding U.S. Debt, are defined as Supranationals, Local Authorities, sovereign debt of Organization for Economic Cooperation and Development (OECD) governments, and equivalently rated agencies of OECD governments.

   c. Investment in U.S. dollar denominated issues of foreign governments and international organizations are permitted; however, these shall not exceed 20 percent of the lesser of cost or market value of the aggregate portfolio.

   d. Permissible securities also include government and government agency bonds, GNMAs, U.S. dollar denominated Eurobonds, Yankee Bonds / CD's, and corporate bonds subject to individual manager guidelines.

[14] Including commercial paper, corporates, and fixed and floating rate securities
[15]Corporates include Floating Rate Notes, Yankee Bonds / CD's and Private Placements
[16] Rule 144A investment-grade bonds with registration rights are considered prohibited investments. Current 144A positions represent legacy holdings that were purchased prior to the exclusion.

e. Prohibited securities include: commercial mortgage bonds (including CMOs), mortgage-backed securities, asset-backed securities, Rule 144A investment-grade bonds with registration rights, financial futures, forward foreign exchange contracts, currency futures, derivatives, and all security types outlined in *Section M. Excluded Investments*.

Investment Maturity

1. Securities covering the full range of available maturities are acceptable.

Repurchase Agreements

Repurchase agreements will be subject to the following additional restrictions:

1. Transactions will be conducted only with primary dealers, the Federal Reserve Bank of New York, the State's bank of record, or master custodial bank, and under the terms of a written master repurchase agreement;

2. The maximum term of repurchase agreements will be 30 days.

Securities utilized in repurchase agreements will be subject to the following additional restrictions:

1. Securities utilized in a repurchase agreement with a maturity date longer than seven days will be priced daily;

2. The market value, plus accrued income, of treasury and agency securities utilized in repurchase agreements will be 102 percent of the value of the repurchase agreement, plus accrued income;

3. The market value, plus accrued income, of mortgage-backed securities utilized in repurchase agreements with more than seven days remaining until maturity will be 102 percent of the value of the repurchase agreement; and

4. Only securities authorized in the statute for the investment of public funds will be utilized in repurchase agreements as described in *Section O. STO Investment Management Staff Investment Practices, 5. Repurchase Agreements*.

Commercial Paper

Commercial paper will be subjected to the following additional restrictions:

1. Commercial paper must be rated at the time of purchase in either of the two highest short-term rating categories (e.g. A-1/P-1/F1, A-2/P-2/F2) by at least two nationally recognized statistical rating organizations (NRSROs). Ratings may be tier 1 or tier 2 "across the board"

but may also be split rated paper (e.g. A-1/P-2 or A-2/P-2/F1).

2. Eligible paper is further limited to issuing corporations that have a total commercial paper program size in excess of $250,000,000.

3. Commercial paper must be issued by a corporation organized and/or operating in the United States or by a depository institution licensed by the United States or any state and operating in the United States. Commercial Paper of foreign companies must be U.S. Dollar denominated.

4. Up to 100 percent of commercial paper holdings may be placed in second-tier securities or better, which shall mean any security that is rated by at least two NRSROs as tier 2 and does not have any tier 3 ratings.

5. Commercial paper backed by a direct letter of credit from a financial institution must have a long-term credit rating at the time of purchase in one or the three highest rating categories (within which there may be subcategories or gradations indicating relative standing) by at least two NRSROs.

6. Commercial paper holdings may not have maturities exceeding 180 days.

7. Approved commercial paper programs should provide some diversification by industry. Purchases of commercial paper in industry sectors subject to undue risk and illiquidity should be avoided.

8. No more than three (3) percent of total par value of the total portfolio may be in one issuer. There may be deviations to the policy maximum due to settlement issues.

Commercial paper may be purchased directly from the issuers.

Portfolio Characteristics:

Quality

The total portfolio's average rating will be A3/A- or better as rated by Moody's, Standard & Poor's (S&P), and/or Fitch.

1. Rated Securities: The portfolio shall be 100 percent comprised of investment-grade, fixed-income securities as defined by at least two of the Nationally Recognized Statistical Rating Organizations (NRSRO).

2. Unrated Securities: Securities not covered by the standards in (1) above are not permissible investments.

3. Downgraded Securities: Securities which fall below the stated minimum credit requirements subsequent to initial purchase may be held at the STO Staff/Investment Advisor's discretion. All downgraded securities below the minimum credit requirement held in the portfolio must be reported to the Treasurer on at least a monthly basis.

Duration Exposure

The effective duration of the Long Term Pool will be within ± 30 percent of the BC Aggregate Index.

Maturity

The average maturity of the Long Term Pool will be within ± 30 percent of the BC Aggregate Index.

Administrative:

The administrative fee, established by the Proviso 98.4, is set by the Division Director with the approval of the State Treasurer. This fee may change upon recommendation by the Division Director to the State Treasurer.

6. SC Retirees Health Insurance Trust Fund – OPEB (RHI Trust)

Overview:

The South Carolina Retirees Health Insurance Trust Fund (RHI Trust) was established by the State of South Carolina through Act 195 on May 1, 2008. In accordance with Act 195, the RHI Trust was created to provide for the employer costs of retiree post-employment health and dental insurance benefits for retired state employees and retired employees of public school districts. The South Carolina Public Employee Benefit Authority (PEBA) administers the RHI Trust and the PEBA Board has been designated as the Trustee. The State Treasurer is the custodian of the funds held in the RHI Trust and invests those funds in accordance with the statutes of the State.

The investment objectives of the RHI Trust are primarily to accumulate and preserve assets from ongoing employer and participant contributions in order to meet benefit and expense obligations when due. Secondarily, the RHI Trust seeks growth of assets using a diversified portfolio of investments, as allowed under S.C. Code of Laws § 11-9-660, that emphasizes current income and capital appreciation, while minimizing risk when possible.

The General Assembly determines the funding of the RHI Trust and the amount funded by the General Assembly has resulted in a $9.34 billion unfunded liability as of June 30, 2015.

PEBA executes and manages the benefits, services, expenditures, and costs associated with the RHI Trust, including plan options, vendors, and authorized service providers. PEBA's controlled costs and expenditures impact the size of the unfunded liability as well. Moreover, the RHI Trust is "pay-as-you-go"; therefore, PEBA's monthly disbursements to pay bills prevent the STO from investing the entirety of the funds.

The STO invests the RHI Trust funds dedicated for benefit services in accordance with strict, conservative statutory mandates and can only invest the amount of funds provided by the General Assembly. The STO has no input whatsoever on funding decisions made by the General Assembly or the management and expenditure of services by PEBA.

The STO may appoint an investment advisor to aid in the management of the RHI Trust's assets. These assets will be managed in conformity with the objectives and guidelines delineated below and in accordance with a formal contract with the STO.

To meet the objectives outlined above, the RHI Trust will conceptually be segmented into three separate components (Ultrashort Fixed Income sub-portfolio, Short/Intermediate Residual sub-portfolio, and Long-term Residual sub-portfolio) where the assets are segregated by the time horizon of each portfolio's respective liabilities as outlined under *Section J. Broad Objectives*.

The percentage allocations of the sub-portfolios within the RHI Trust are as follows.

Sub-portfolios	Allocation
Ultrashort Fixed Income	0 - 30%
Short/Intermediate Residual	25 - 80%
Long-term Residual	0 - 50%

For the purposes of this policy, the following definitions shall apply to the RHI Trust:

- Ultrashort Fixed Income: Cash Deposits, Repurchase Agreements, CDs, Commercial Paper, and direct U.S. Treasuries (notes and bonds) with similar maturity characteristics.
- Short/Intermediate Residual: Securities with a maturity of five years or less (see the **section titled "Investment Maturity"** for the RHI Trust for clarification).
- Long-term Residual: Securities with a maturity of greater than five years (see the section **titled "Investment Maturity"** for the RHI Trust for clarification).

Performance Objective and Benchmark:

The STO Staff, and/or any investment advisor(s) engaged by the STO, will manage an active portfolio for the STO that will utilize investment grade fixed income[17] securities.

The RHI Trust will be structured with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk parameters and the cash flow characteristics of the portfolio.

Given this orientation, the total return of the RHI Trust portfolio over a market cycle is expected to match or exceed the return of a custom benchmark that comprises:

- 20% T-Bills and
- 80% BC Aggregate Index.

Investment Parameters:

To protect capital and meet all benefit and expense obligations as they come due, the RHI Trust investment portfolio will be subject to the restrictions listed below. These represent minimum investment restrictions under this formal investment policy.

Minimum/maximum percentages for a particular issuer, investment type or liquidity constraints may on occasion be exceeded (e.g., fluctuations in fund balances and/or settlement

[17] State officials have advised that the State Constitution currently would prohibit the investment policy of such a Trust from investing in equities.

issues/rollover dates). Securities need not be liquidated to realign the portfolio; however, consideration will be given to this matter when future purchases are made. Additionally, the STO Staff and/or the Investment Advisor are required to notify the State Treasurer, in writing, if the policy breach exceeds the stated minimum/maximum and to provide an explanation of the rationale for the deviation in policy, including the duration of time the portfolio is expected to be misaligned with the policy guidelines. If the policy minimum/maximum is exceeded by 10 percent or more, approval from the State Treasurer is required. Once the State Treasurer is notified, a determination will be made if an exception is granted for the temporary policy exemption. If the exemption is not granted, STO Staff will realign the portfolio to be within policy limits within 30 days. Temporary policy exceptions are limited to three months. The Treasurer can extend these exceptions at their discretion. (For example, if the maximum limit is 50%, approval would be needed at 55%.)

Liquidity

The investment portfolio will be structured to maintain a sufficient degree of liquidity necessary to meet reasonable redemption requests and reduce the likelihood that the investment portfolio will have to meet redemptions by selling portfolio securities into a declining market.

1. A minimum of 10 percent of the portfolio will be maintained in "monthly liquid assets", which includes (i) cash, (ii) direct obligations of the U.S. Government, to include U.S. Treasury bills, notes, or bonds, and agencies, with maturities of 1 year or less, (iii) commercial paper, and (iv) securities that will mature, or have a demand feature exercisable and payable to meet immediate cash flow needs.

Diversification and Percentage Limitations:

1. Non-government Securities

   Investments in non-government securities will not exceed the following percentages of the total daily portfolio balance at an amortized cost:

   a. Certificates of Deposit 10%
   b. Repurchase Agreements 50%
   c. Credit[18] 75%
      i. Private Placements 2%

2. Holdings are subject to the following limitations by issuer:

   a. For prudent diversification, the portfolio shall have a minimum of 50 positions. Further, no more than 3 percent of the market value of the portfolio shall be invested in any one issuer with the following exceptions:

[18] Including commercial paper, corporates, and fixed and floating rate securities

i. Obligations issued or guaranteed by the U.S. government, U.S. agencies, or U.S. government-sponsored enterprises are eligible for inclusion without limit.

b. Government-Supported securities, excluding U.S. Debt, are defined as Supranationals, Local Authorities, sovereign debt of Organization for Economic Cooperation and Development (OECD) governments, and equivalently rated agencies of OECD governments.

c. Investment in U.S. dollar denominated issues of foreign governments and international organizations are permitted; however, these shall not exceed 20 percent of the lesser of cost or market value of the aggregate portfolio.

d. Permissible securities also include government and government agency bonds, GNMAs, U.S. dollar denominated Eurobonds, Yankee Bonds / CD's, and corporate bonds subject to individual manager guidelines.

e. Prohibited securities include: commercial mortgage bonds (including CMOs), mortgage-backed securities, asset-backed securities, financial futures, forward foreign exchange contracts, currency futures, derivatives, and all security types outlined in *Section M. Excluded Investments.*

Investment Maturity

1. Securities covering the full range of available maturities are acceptable.

Repurchase Agreements

Repurchase agreements will be subject to the following additional restrictions:

1. Transactions will be conducted only with primary dealers, the Federal Reserve Bank of New York, the State's bank of record or master custodial bank, and under the terms of a written master repurchase agreement;

2. The maximum term of repurchase agreements will be 30 days.

Securities utilized in repurchase agreements will be subject to the following additional restrictions:

1. Securities utilized in a repurchase agreement with a maturity date longer than seven days will be priced daily;

2. The market value, plus accrued income, of treasury and agency securities utilized in repurchase agreements will be 102 percent of the value of the repurchase agreement,

plus accrued income;

3. The market value, plus accrued income, of mortgage-backed securities utilized in repurchase agreements with more than seven days remaining until maturity will be 102 percent of the value of the repurchase agreement; and

4. Only securities authorized in the statute for the investment of public funds will be utilized in repurchase agreements as described in *Section O. STO Investment Management Staff Investment Practices, 5. Repurchase Agreements.*

Commercial Paper

Commercial paper will be subjected to the following additional restrictions:

1. Commercial paper must be rated at the time of purchase in either of the two highest short-term rating categories (e.g. A-1/P-1/F1, A-2/P-2/F2) by at least two nationally recognized statistical rating organizations (NRSROs). Ratings may be tier 1 or tier 2 "across the board" but may also be split rated paper (e.g. A-1/P-2 or A-2/P-2/F1).

2. Eligible paper is further limited to issuing corporations that have a total commercial paper program size in excess of $250,000,000.

3. Commercial paper must be issued by a corporation organized and/or operating in the United States or by a depository institution licensed by the United States or any state and operating in the United States. Commercial Paper of foreign companies must be U.S. Dollar denominated.

4. Up to 100 percent of commercial paper holdings may be placed in second-tier securities or better, which shall mean any security that is rated by at least two NRSROs as tier 2 and does not have any tier 3 ratings.

5. Commercial paper backed by a direct letter of credit from a financial institution must have a long-term credit rating at the time of purchase in one or the three highest rating categories (within which there may be subcategories or gradations indicating relative standing) by at least two NRSROs.

6. Commercial paper holdings may not have maturities exceeding 180 days.

7. Approved commercial paper programs should provide some diversification by industry. Purchases of commercial paper in industry sectors subject to undue risk and illiquidity should be avoided.

8. No more than three (3) percent of total par value of the total portfolio may be in one issuer. There may be deviations to the policy maximum due to settlement issues.

Commercial paper may be purchased directly from the issuers.

Portfolio Characteristics:

Quality

The total portfolio's average rating will be A3/A- or better as rated by Moody's, Standard & Poor's (S&P), and/or Fitch.

1. Rated Securities: The portfolio shall be 100 percent comprised of investment-grade, fixed-income securities as defined by at least two of the Nationally Recognized Statistical Rating Organizations (NRSRO).

2. Unrated Securities: Securities not covered by the standards in (1) above are not permissible investments.

3. Downgraded Securities: Securities which fall below the stated minimum credit requirements subsequent to initial purchase may be held at the STO Staff/Investment Advisor's discretion. All downgraded securities below the minimum credit requirement held in the portfolio must be reported to the Treasurer on at least a monthly basis.

Duration Exposure

The effective duration of the RHI Trust will be within ± 30 percent of the BC Aggregate Index.

Maturity

The average maturity of the RHI Trust will be within ± 30 percent of the BC Aggregate Index.

Administrative:

The administrative fee, established by the Proviso 98.4, is set by the Division Director with the approval of the State Treasurer. This fee may change upon recommendation by the Division Director to the State Treasurer.

7. Long-Term Disability Insurance – OPEB Trust Fund (LTDI Trust)

Overview:

The Long-Term Disability Insurance Trust Fund (LTDI Trust) was established by the State of South Carolina through Act 195 on May 1, 2008. In accordance with Act 195, the LTDI Trust was created to fund and account for the employer costs of the State's Basic Long-Term Disability Income Benefit Plan. The Employee Insurance Program administers the Trust, and the State Fiscal Accountability Authority is the Trustee. The State Treasurer is the custodian of the funds held in the Trust and invests those funds in accordance with the statutes of the State.

The investment objectives of the LTDI Trust are primarily to accumulate and preserve assets from ongoing employer and participant contributions in order to meet all benefit and expense obligations when due. Secondarily, the LTDI Trust seeks growth of assets using a diversified portfolio of fixed-income investments, as allowed under S.C. Code of Laws § 11-9-660, that emphasizes current income and capital appreciation, while minimizing risk when possible.

The STO may appoint an investment advisor to aid in the management of the LTDI Trust's assets. These assets will be managed in conformity with the objectives and guidelines delineated below and in accordance with a formal contract with the STO.

To meet the objectives outlined above, the LTDI Trust will conceptually be segmented into three separate components (Ultrashort Fixed Income sub-portfolio, Short/Intermediate Residual sub-portfolio, and Long-term Residual sub-portfolio) where the assets are segregated by the time horizon of each portfolio's respective liabilities as outlined under *Section J. Broad Objectives*.

The percentage allocations of the sub-portfolios within the LTDI Trust are as follows.

Sub-portfolios	Allocation
Ultrashort Fixed Income	0 - 30%
Short/Intermediate Residual	25 - 80%
Long-term Residual	0 - 50%

For the purposes of this policy, the following definitions shall apply to the LTDI Trust:

- Ultrashort Fixed Income: Cash Deposits, Repurchase Agreements, CDs, Commercial Paper, and direct U.S. Treasuries (notes and bonds) with similar maturity characteristics.
- Short/Intermediate Residual: Securities with a maturity of five years or less (see the section titled "Investment Maturity" for the LTDI Trust for clarification).
- Long-term Residual: Securities with a maturity of greater than five years (see the section titled "Investment Maturity" for the LTDI Trust for clarification).

Performance Objective and Benchmark:

The STO Staff, and/or investment advisor(s) engaged by the STO, will manage an active portfolio for the STO that will utilize investment grade fixed income[19] securities.

The LTDI Trust will be structured with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk parameters and the cash flow characteristics of the portfolio.

Given this orientation, the total return of the LTDI Trust portfolio over a market cycle is expected to match or exceed the return of a custom benchmark that comprises:

- 20% T-Bills and
- 80% BC Aggregate Index.

Investment Parameters:

To protect capital and meet all benefit and expense obligations as they come, due the LTDI Trust investment portfolio will be subject to the restrictions listed below. These represent minimum investment restrictions under this formal investment policy.

Minimum/maximum percentages for a particular issuer, investment type or liquidity constraints may on occasion be exceeded (e.g., fluctuations in fund balances and/or settlement issues/rollover dates). Securities need not be liquidated to realign the portfolio; however, consideration will be given to this matter when future purchases are made. Additionally, the STO Staff and/or the Investment Advisor are required to notify the State Treasurer, in writing, if the policy breach exceeds the stated minimum/maximum and to provide an explanation of the rationale for the deviation in policy, including the duration of time the portfolio is expected to be misaligned with the policy guidelines. If the policy minimum/maximum is exceeded by 10 percent or more, approval from the State Treasurer is required. Once the State Treasurer is notified, a determination will be made if an exception is granted for the temporary policy exemption. If the exemption is not granted, STO Staff will realign the portfolio to be within policy limits within 30 days. Temporary policy exceptions are limited to three months. The Treasurer can extend these exceptions at his/her discretion. (For example, if the maximum limit is 50%, approval would be needed at 55%.)

Liquidity

The investment portfolio will be structured to maintain a sufficient degree of liquidity necessary to meet reasonable redemption requests and reduce the likelihood that the investment portfolio will have to meet redemptions by selling portfolio securities into a declining market.

[19] State officials have advised that the State Constitution currently would prohibit the investment policy of such a Trust from investing in equities.

1. A minimum of 10 percent of the portfolio will be maintained in “monthly liquid assets”, which includes (i) cash, (ii) direct obligations of the U.S. Government, to include U.S. Treasury bills, notes, or bonds, and agencies, with maturities of 1 year or less, (iii) commercial paper, and (iv) securities that will mature, or have a demand feature exercisable and payable within 31 days.

Diversification and Percentage Limitations:

1. Non-government Securities

   Investments in non-government securities will not exceed the following percentages of the total daily portfolio balance at an amortized cost:

a. Certificates of Deposit	10%
b. Repurchase Agreements	50%
c. Credit[20]	75%
i. Private Placements	2%

2. Holdings are subject to the following limitations by issuer:

   a. For prudent diversification, the portfolio shall have a minimum of 50 positions, further no more than 3 percent of the market value of the portfolio shall be invested in any one issuer with the following exceptions:

      i. Obligations issued or guaranteed by the U.S. government, U.S. agencies, or U.S. government-sponsored enterprises are eligible for inclusion without limit.

   b. Government-Supported securities, excluding U.S. Debt, are defined as Supranationals, Local Authorities, sovereign debt of Organization for Economic Cooperation and Development (OECD) governments, and equivalently rated agencies of OECD governments.

   c. Investment in U.S. dollar denominated issues of foreign governments and international organizations and are permitted; however, these shall not exceed 20 percent of the lesser of cost or market value of the aggregate portfolio.

   d. Permissible securities also include government and government agency bonds, GNMAs, U.S. dollar denominated Eurobonds, Yankee Bonds / CD's, and corporate bonds subject to individual manager guidelines.

[20] Including commercial paper, corporates, and fixed and floating rate securities

e. Prohibited securities include: commercial mortgage bonds (including CMOs), mortgage-backed securities, asset-backed securities, financial futures, forward foreign exchange contracts, currency futures, derivatives, and all security types outlined in *Section M. Excluded Investments*.

Investment Maturity

1. Securities covering the full range of available maturities are acceptable.

Repurchase Agreements

Repurchase agreements will be subject to the following additional restrictions:

1. Transactions will be conducted only with primary dealers, the Federal Reserve Bank of New York, the State's bank of record or master custodial bank, and under the terms of a written master repurchase agreement; and

2. The maximum term of repurchase agreements will be 30 days.

Securities utilized in repurchase agreements will be subject to the following additional restrictions:

1. Securities utilized in a repurchase agreement with a maturity date longer than seven days will be priced daily;

2. The market value, plus accrued income, of treasury and agency securities utilized in repurchase agreements will be 102 percent of the value of the repurchase agreement, plus accrued income;

3. The market value, plus accrued income, of mortgage-backed securities utilized in repurchase agreements with more than seven days remaining until maturity will be 102 percent of the value of the repurchase agreement; and

4. Only securities authorized in the statute for the investment of public funds will be utilized in repurchase agreements as described in *Section O. STO Investment Management Staff Investment Practices, 5. Repurchase Agreements*.

<u>Commercial Paper</u>

Commercial paper will be subjected to the following additional restrictions:

1. Commercial paper must be rated at the time of purchase in either of the two highest short-term rating categories (e.g. A-1/P-1/F1, A-2/P-2F2) by at least two nationally recognized statistical rating organizations (NRSROs). Ratings may be tier 1 or tier 2 "across the board" but may also be split rated paper (e.g. A-1/P-2 or A-2/P-2/F1).

2. Eligible paper is further limited to issuing corporations that have a total commercial paper program size in excess of $250,000,000.

3. Commercial paper must be issued by a corporation organized and/or operating in the United States or by a depository institution licensed by the United States or any state and operating in the United States. Commercial Paper of foreign companies must be U.S. Dollar denominated.

4. Up to 100 percent of commercial paper holdings may be placed in second-tier securities or better, which shall mean any security that is rated by at least two NRSROs as tier 2 and does not have any tier 3 ratings.

5. Commercial paper backed by a direct letter of credit from a financial institution must have a long-term credit rating at the time of purchase in one or the three highest rating categories (within which there may be subcategories or gradations indicating relative standing) by at least two NRSROs.

6. Commercial paper holdings may not have maturities exceeding 180 days.

7. Approved commercial paper programs should provide some diversification by industry. Purchases of commercial paper in industry sectors subject to undue risk and illiquidity should be avoided.

8. No more than three (3) percent of total par value of the total portfolio may be in one issuer. There may be deviations to the policy maximum due to settlement issues.

Commercial paper may be purchased directly from the issuers.

Portfolio Characteristics:

Quality

The total portfolio's average rating will be A3/A- or better as rated by Moody's, Standard & Poor's (S&P), and/or Fitch.

1. Rated Securities: The portfolio shall be 100 percent comprised of investment-grade, fixed-income securities as defined by at least two of the Nationally Recognized Statistical Rating Organizations (NRSRO).

2. Unrated Securities: Securities not covered by the standards in (1) above are not permissible investments

3. Downgraded Securities: Securities which fall below the stated minimum credit requirements subsequent to initial purchase may be held at the STO Staff/Investment Advisor's discretion. All downgraded securities below the minimum credit requirement held in the portfolio must be reported to the Treasurer on at least a monthly basis.

Duration Exposure

The effective duration of the LTDI Trust will be within ± 30 percent of the BC Aggregate.

Maturity

The average maturity of the LTDI Trust will be within ± 30 percent of the BC Aggregate.

Administrative:

The administrative fee, established by the Proviso 98.4, is set by the Division Director with the approval of the State Treasurer. This fee may change upon recommendation by the Division Director to the State Treasurer.

8. Education Improvement Fund (General Deposit)

Overview:

The Education Capital Improvements Sales and Use Tax Act was established by the State of South Carolina through Act 316 on June 12, 2008. In accordance with Act 316, revenues of the sales and use tax collected must be remitted to the State Treasurer and credited to a fund separate and distinct from the State General Fund. The State Treasurer is the custodian of the funds held in the Trust and invests those funds in accordance with the statutes of the State.

The Education Improvement Fund's investment objectives are: 1) preservation of capital, 2) maintaining adequate liquidity to meet cash flow needs, and 3) providing a competitive interest rate relative to other comparable investment alternatives.

The STO may appoint an investment advisor to aid in the management of the Education Improvement Fund. These assets will be managed in conformity with the objectives and guidelines delineated below and in accordance with a formal contract with the STO.

The Education Improvement Fund will conceptually be segmented into two separate components (Ultrashort Fixed Income sub-portfolio and Short Residual sub-portfolio) where the assets are **segregated by the time horizon of each portfolio's respective liabilities** as outlined under *Section J. Broad Objectives*.

The percentage allocations of the sub-portfolios within the Education Improvement Fund are as follows.

Sub-portfolios	Allocation
Ultrashort Fixed Income	15 - 75%
Short Residual	25 - 60%
Long-term Residual	0%

For the purposes of this policy, the following definitions shall apply to the Education Improvement Fund:

- Ultrashort Fixed Income: Cash Deposits, Repurchase Agreements, CDs, Commercial Paper, and direct U.S. Treasuries (notes and bonds) with similar maturity characteristics.
- Short Residual: Securities with a maturity of three months or less (see the section titled **"Investment Maturity"** for the Education Improvement Fund for clarification).

Performance Objective and Benchmark:

The STO Staff, and/or any investment advisor(s) engaged by the STO, will manage an active portfolio for the STO that will utilize investment grade fixed income securities with a shorter duration portfolio positioning than the broad fixed income market. The Education Improvement Fund will be structured with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk parameters and the cash flow characteristics of the portfolio.

Given this orientation, the goal of the Education Improvement Fund is to provide superior performance as compared to the Fed Funds Rate.

Investment Parameters:

To provide for the safety and liquidity of the Education Improvement Fund, the investment portfolio will be subject to the restrictions listed below. These represent minimum investment restrictions under this formal investment policy.

Minimum/maximum percentages for a particular issuer, investment type or liquidity constraints may on occasion be exceeded (e.g., fluctuations in fund balances and/or settlement issues/rollover dates). Securities need not be liquidated to realign the portfolio; however, consideration will be given to this matter when future purchases are made. Additionally, the STO Staff and/or the Investment Advisor are required to notify the State Treasurer, in writing, if the policy breach exceeds the stated minimum/maximum and to provide an explanation of the rationale for the deviation in policy, including the duration of time the portfolio is expected to be misaligned with the policy guidelines. If the policy minimum/maximum is exceeded by 10 percent or more, approval from the State Treasurer is required. Once the State Treasurer is notified, a determination will be made if an exception is granted for the temporary policy exemption. If the exemption is not granted, STO Staff will realign the portfolio to be within policy limits within 30 days. Temporary policy exceptions are limited to three months. The Treasurer can extend these exceptions at their discretion. (For example, if the maximum limit is 50%, approval would be needed at 55%.)

Liquidity

The investment portfolio will be structured to maintain a sufficient degree of liquidity necessary to meet reasonable redemption requests and reduce the likelihood that the investment portfolio will have to meet redemptions by selling portfolio securities into a declining market.

1. A minimum of 10 percent will be maintained in "daily liquid assets", which includes (i) cash, (ii) direct obligations of the U.S. Government, to include U.S. Treasury bills, notes, or bonds, and agencies, with maturities of 3 months or less, (iii) demand deposits, (iv) overnight repurchase agreements, and (v) securities that mature the following business day.

Diversification and Percentage Limitations:

1. Non-government Securities

   Investments in non-government securities will not exceed the following percentages of the total daily portfolio balance at an amortized cost:

   a. Certificates of Deposit 10%
   b. Repo 50%
   c. Credit[21, 22] 90%

2. Holdings are subject to the following limitations by issuer:

   a. For prudent diversification, the portfolio shall have a sufficient number of issuers and no more than three percent of the market value of the portfolio shall be invested in any one issuer.

      i. Obligations issued or guaranteed by the U.S. government, U.S. agencies, or U.S. government-sponsored enterprises are eligible for inclusion without limit.

   b. Government-Supported securities, excluding U.S. Debt, are defined as Supranationals, Local Authorities, sovereign debt of Organization for Economic Cooperation and Development (OECD) governments, and equivalently-rated agencies of OECD governments.

   c. Investment in U.S. dollar denominated issues of foreign governments and international organizations are permitted; however, these shall not exceed 20 percent of the lesser of cost or market value of the aggregate portfolio.

   d. Permissible securities also include government and government agency bonds, GNMAs, U.S. dollar denominated Eurobonds, Yankee Bonds / CD's, and corporate bonds subject to individual manager guidelines.

[21] Including commercial paper, corporates, and fixed and floating rate securities
[22] Corporates includes Floating Rate Notes, Yankee Bonds / CD's and Private Placements

e. Prohibited securities include: commercial mortgage bonds (including CMOs), mortgage-backed securities, asset-backed securities, Rule 144A investment-grade bonds with registration rights, financial futures, forward foreign exchange contracts, currency futures, derivatives, and all security types outlined in *Section M. Excluded Investments*.

Investment Maturity

1. Maximum Final Maturity

    a. One-hundred percent of the portfolio will be invested in securities with maturities of 90 days or less.

Repurchase Agreements

Repurchase agreements will be subject to the following additional restrictions:

1. Transactions will be conducted only with primary dealers, the Federal Reserve Bank of New York, the State's bank of record or master custodial bank, and under the terms of a written master repurchase agreement.

2. The maximum term of repurchase agreements will be 30 days.

Securities utilized in repurchase agreements will be subject to the following additional restrictions:

1. Securities utilized in a repurchase agreement with a maturity date longer than seven days will be priced daily;

2. The market value, plus accrued income, of treasury and agency securities utilized in repurchase agreements will be 102 percent of the value of the repurchase agreement, plus accrued income;

3. The market value, plus accrued income, of mortgage-backed securities utilized in repurchase agreements with more than seven days remaining until maturity will be 102 percent of the value of the repurchase agreement; and

4. Only securities authorized in the statute for the investment of public funds will be utilized in repurchase agreements as described in *Section O. STO Investment Management Staff Investment Practices, 5. Repurchase Agreements*.

Commercial Paper

Commercial paper will be subjected to the following additional restrictions:

1. Commercial paper must be rated at the time of purchase in either of the two highest short-term rating categories (e.g. A-1/P-1/F1, A-2/P-2/F2) by at least two nationally recognized statistical rating organizations (NRSROs). Ratings may be tier 1 or tier 2 "across the board" but may also be split rated paper (e.g. A-1/P-2 or A-2/P-2/F1).

2. Eligible paper is further limited to issuing corporations that have a total commercial paper program size in excess of $250,000,000.

3. Commercial paper must be issued by a corporation organized and/or operating in the United States or by a depository institution licensed by the United States or any state and operating in the United States. Commercial Paper of foreign companies must be U.S. Dollar denominated.

4. Up to 100 percent of commercial paper holdings may be placed in second-tier securities or better, which shall mean any security that is rated by at least two NRSROs as tier 2 and does not have any tier 3 ratings.

5. Commercial paper backed by a direct letter of credit from a financial institution must have a long-term credit rating at the time of purchase in one or the three highest rating categories (within which there may be subcategories or gradations indicating relative standing) by at least two NRSROs.

6. Commercial paper holdings may not have maturities exceeding 90 days.

7. Approved commercial paper programs should provide some diversification by industry. Purchases of commercial paper in industry sectors subject to undue risk and illiquidity should be avoided.

8. No more than three (3) percent of total par value of the total portfolio may be in one issuer. There may be deviations to the policy maximum due to settlement issues.

Commercial paper may be purchased directly from the issuers.

Portfolio Characteristics:

<u>Quality</u>

The total portfolio's average rating will be A3/A- or better as rated by Moody's, Standard & Poor's (S&P), and/or Fitch.

1. Rated Securities: The portfolio shall be 100 percent comprised of investment-grade, fixed-income securities as defined by two of the Nationally Recognized Statistical Rating Organizations (NRSRO).

2. Unrated Securities: Securities not covered by the standards in (1) above are not permissible investments.

3. Downgraded Securities: Securities which fall below the stated minimum credit requirements subsequent to initial purchase may be held at the STO Staff/Investment Advisor's discretion. All downgraded securities below the minimum credit requirement held in the portfolio must be reported to the Treasurer on at least a monthly basis.

Duration Exposure

Given the allocation guidelines, duration exposure will be minimal.

Maturity

The maximum maturity will be no greater than three months.

Administrative:

The administrative fee, established by the Proviso 98.4, is set by the Division Director with the approval of the State Treasurer. This fee may change upon recommendation by the Division Director to the State Treasurer.

9. Ordinary Sinking Fund

Overview:

The Ordinary Sinking Fund is derived from receipts from the sale and/or income of public lands. All monies arising from the redemption of lands, leases, and sales of property or otherwise coming to the authority for the Ordinary Sinking Fund must be paid into the State Treasury. These monies must be kept on a separate account by the Treasurer as a fund to be drawn upon the warrants of the department for the exclusive uses and purposes which have been or shall be declared in relation to the Ordinary Sinking Fund.

In accordance with S.C. Code of Laws § 11-9-610, the Ordinary Sinking Fund is controlled by the State Fiscal Accountability Authority. Proceeds are used for emergency purposes.

The Ordinary Sinking Fund's investment objectives are: 1) preservation of capital, 2) maintaining adequate liquidity to meet cash flows, and 3) providing a competitive interest rate relative to other comparable investment alternatives.

The STO may appoint an investment advisor to aide in the management of the Ordinary Sinking Fund. These assets will be managed in conformity with the objectives and guidelines delineated below and in accordance with a formal contract with the STO.

All of the Ordinary Sinking Fund's assets will conceptually be segmented into two separate components (Ultrashort Fixed Income sub-portfolio and Short Residual sub-portfolio) where the assets are segregated by the time horizon of each portfolio's respective liabilities as outlined under *Section J. Broad Objectives*.

The percentage allocations of the sub-portfolios within the Ordinary Ordinary Sinking Fund are as follows.

Sub-portfolios	Allocation
Ultrashort Fixed Income	0 - 100%
Short Residual	0 - 100%
Long-term Residual	0%

For the purposes of this policy, the following definitions shall apply to the Ordinary Sinking Fund:

- Ultrashort Fixed Income: Cash Deposits, Repurchase Agreements, CDs, Commercial Paper, and direct U.S. Treasuries (notes and bonds) with similar maturity characteristics.
- Short Residual: Securities with a maturity of three months or less (see the section titled "Investment Maturity" for the Ordinary Sinking Fund for clarification.

Performance Objective and Benchmark:

The STO Staff, and/or investment advisor(s) engaged by the STO, will manage an active portfolio for the STO that will utilize investment grade fixed income securities with a shorter duration portfolio positioning than the broad fixed income market. The Ordinary Sinking Fund will be structured with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk parameters and the cash flow characteristics of the portfolio.

Given this orientation, the goal of the Ordinary Sinking Fund is to provide superior performance as compared to the Fed Funds Rate.

Investment Parameters:

To protect capital and meet all expense obligations when due, the Ordinary Sinking Fund investment portfolio will be subject to the restrictions listed below. These represent minimum investment restrictions under this formal investment policy.

Minimum/maximum percentages for a particular issuer, investment type or liquidity constraints may on occasion be exceeded (e.g., fluctuations in fund balances and/or settlement issues/rollover dates). Securities need not be liquidated to realign the portfolio; however, consideration will be given to this matter when future purchases are made. Additionally, the STO Staff and/or the Investment Advisor are required to notify the State Treasurer, in writing, if the policy breach exceeds the stated minimum/maximum and to provide an explanation of the rationale for the deviation in policy, including the duration of time the portfolio is expected to be misaligned with the policy guidelines. If the policy minimum/maximum is exceeded by 10 percent or more, approval from the State Treasurer is required. Once the State Treasurer is notified, a determination will be made if an exception is granted for the temporary policy exemption. If the exemption is not granted, STO Staff will realign the portfolio to be within policy limits within 30 days. Temporary policy exceptions are limited to three months. The Treasurer can extend these exceptions at his/her discretion. (For example, if the maximum limit is 50%, approval would be needed at 55%.)

Liquidity

The investment portfolio will be structured to maintain a sufficient degree of liquidity necessary to meet reasonable redemption requests and reduce the likelihood that the investment portfolio will have to meet redemptions by selling portfolio securities into a declining market.

1. A minimum of 10 percent will be maintained in "daily liquid assets", which includes (i) cash, (ii) direct obligations of the U.S. Government, to include U.S. Treasury bills, notes, or bonds, and agencies, with maturities of 3 months or less, (iii) demand deposits, (iv)

overnight repurchase agreements, and (v) securities that mature the following business day.

Diversification and Percentage Limitations:

1. Non-government Securities

   Investments in non-government securities will not exceed the following percentages of the total daily portfolio balance at amortized cost:

a. Certificates of Deposit	10%
b. Repurchase Agreements	50%
c. Credit[23, 24, 25]	70%

2. Holdings are subject to the following limitations by issuer:

   a. For prudent diversification, the portfolio shall have adequate position diversification relative to the portfolio balance and no more than three percent of the market value of the portfolio shall be invested in any one issuer.

      i. Obligations issued or guaranteed by the U.S. government, U.S. agencies, or U.S. government-sponsored enterprises are eligible for inclusion without limit.

   b. Government-Supported securities, excluding U.S. Debt, are defined as Supranationals, Local Authorities, sovereign debt of Organization for Economic Cooperation and Development (OECD) governments, and equivalently rated agencies of OECD governments.

   c. Investment in U.S. dollar denominated issues of foreign governments and international organizations are permitted; however, these shall not exceed 20 percent of the lesser of cost or market value of the aggregate portfolio.

   d. Permissible securities also include GNMAs, U.S. dollar denominated Eurobonds, Yankee Bonds / CD's, and corporate bonds subject to individual manager guidelines.

[23] Including commercial paper, corporates, and fixed and floating rate securities
[24] Corporates include Floating Rate Notes, Yankee Bonds / CD's and Private Placements
[25] Rule 144A investment-grade bonds with registration rights are considered prohibited investments. Current 144A positions represent legacy holdings that were purchased prior to the exclusion.

e. Prohibited securities include: commercial mortgage bonds (including CMOs), mortgage-backed securities, asset-backed securities, Rule 144A investment-grade bonds with registration rights, financial futures, forward foreign exchange contracts, currency futures, derivatives, and all security types outlined in *Section M. Excluded Investments*.

Investment Maturity

1. Maximum Final Maturity

    a. One-hundred percent of the portfolio will be invested in securities with maturities of 90 days or less

Repurchase Agreements

Repurchase agreements will be subject to the following additional restrictions:

1. Transactions will be conducted only with primary dealers, the Federal Reserve Bank of New York, the State's bank of record or master custodial bank, and under the terms of a written master repurchase agreement.
2. The maximum term of repurchase agreements will be 30 days.

Securities utilized in repurchase agreements will be subject to the following additional restrictions:

1. Securities utilized in a repurchase agreement with a maturity date longer than seven days will be priced daily;
2. The market value, plus accrued income, of treasury and agency securities utilized in repurchase agreements will be 102 percent of the value of the repurchase agreement, plus accrued income;
3. The market value, plus accrued income, of mortgage-backed securities utilized in repurchase agreements with more than seven days remaining until maturity will be 102 percent of the value of the repurchase agreement; and

5. Only securities authorized in the statute for the investment of public funds will be utilized in repurchase agreements as described in *Section O. STO Investment Management Staff Investment Practices, 5. Repurchase Agreements*.

Commercial Paper

Commercial paper will be subjected to the following additional restrictions:

1. Commercial paper must be rated at the time of purchase in either of the two highest short-term rating categories (e.g., A-1/P-1/F1, A-2/P-2/F2) by at least two nationally recognized statistical rating organizations (NRSROs). Ratings may be tier 1 or tier 2 “across the board”, but may also be split rated paper (e.g., A-1/P-2 or A-2/P-2/F1).

2. Eligible paper is further limited to issuing corporations that have a total commercial paper program size in excess of $250,000,000.

3. Commercial paper must be issued by a corporation organized and/or operating in the United States or by a depository institution licensed by the United States or any state and operating in the United States. Commercial Paper of foreign companies must be U.S. Dollar denominated.

4. Up to 100 percent of commercial paper holdings may be placed in second-tier securities or better, which shall mean any security that is rated by at least NRSROs as tier 2 and does not have any tier 3 ratings.

5. Commercial paper backed by a direct letter of credit from a financial institution must have a long-term credit rating at the time of purchase in one or the three highest rating categories (within which there may be subcategories or gradations indicating relative standing) by at least two NRSROs.

6. Commercial paper holdings may not have maturities exceeding 90 days.

7. Approved commercial paper programs should provide some diversification by industry. Purchases of commercial paper in industry sectors subject to undue risk and illiquidity should be avoided.

8. No more than three (3) percent of total par value of the total portfolio may be in one issuer. There may be deviations to the policy maximum due to settlement issues.

Commercial paper may be purchased directly from the issuers.

Portfolio Characteristics:

Quality

The total portfolio's average rating will be A3/A- or better as rated by Moody's, Standard & Poor's (S&P), or Fitch.

1. Rated Securities: The portfolio shall be 100 percent comprised of investment-grade, fixed-income securities as defined by at least two of the Nationally Recognized Statistical Rating Organizations (NRSRO).

2. Unrated Securities: Securities not covered by the standards in (1) above are not permissible investments.

3. Downgraded Securities: Securities which fall below the stated minimum credit requirements subsequent to initial purchase may be held at the STO Staff/Investment Advisor's discretion. All downgraded securities below the minimum credit requirement held in the portfolio must be reported to the Treasurer on at least a monthly basis.

Duration Exposure

Given the allocation guidelines, duration exposure will be minimal.

Maturity

The maximum maturity will be no greater than three months.

Administrative:

The administrative fee, established by the Proviso 98.4, is set by the Division Director with the approval of the State Treasurer. This fee may change upon recommendation by the Division Director to the State Treasurer.

10. Treasury Fund (General Deposit)

Overview:

The Treasury Fund was established by the State of South Carolina in 1989 to provide a vehicle to invest the reserve funds of The Medical University of South Carolina that are restricted to U.S. Treasuries.

The investment objectives of the Treasury Fund are primarily to accumulate and preserve assets, growth of assets, as allowed under S.C. Code of Laws § 11-9-660, while emphasizing current income and capital appreciation, while minimizing risk when possible.

The STO may appoint an investment advisor to aid in the management of the Treasury Fund assets. These assets will be managed in conformity with the objectives and guidelines delineated below and in accordance with a formal contract with the STO.

To meet the objectives outlined above, the Treasury Fund will conceptually be segmented into three separate components (Ultrashort Fixed Income sub-portfolio, Short/Intermediate Residual sub-portfolio, and Long-term Residual sub-portfolio) where the assets are segregated by the time horizon of each portfolio's respective liabilities as outlined under *Section J. Broad Objectives.*

The percentage allocations of the sub-portfolios within the Treasury Fund are as follows.

Sub-portfolios	Allocation
Ultrashort Fixed Income	0-30%
Short/Intermediate Residual	25-80%
Long-term Residual	0-55%

For the purposes of this policy, the following definitions shall apply to the Treasury Fund:

- Ultrashort Fixed Income: T-bills and Repurchase Agreements.
- Short/Intermediate Residual: U.S. Treasury Securities with a maturity of five years or less (see the section titled "Investment Maturity" for the Treasury Fund for clarification).
- Long-Term Residual: U.S. Treasuries with a maturity of greater than five years (see the section titled "Investment Maturity" for the Treasury Fund for clarification).

Performance Objective and Benchmark:

The STO Staff will manage an active portfolio for the STO that will utilize U.S. Treasury Securities (see the section titled "Investment Maturity" for the Treasury Fund for clarification). The Treasury Fund will be structured with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk parameters and the cash flow characteristics of the portfolio.

Given this orientation, the goal of the Treasury Fund is to provide superior performance as compared to the BC 1-3 Year Government.

Investment Parameters:

To protect capital and meet all obligations when due, the Treasury Fund's investment portfolio will be subject to the restrictions listed below. These represent minimum investment restrictions under this formal investment policy.

Minimum/maximum percentages for a particular issuer, investment type or liquidity constraints may on occasion be exceeded (e.g., fluctuations in fund balances and/or settlement issues/rollover dates). Securities need not be liquidated to realign the portfolio; however, consideration will be given to this matter when future purchases are made. Additionally, the STO Staff and/or the Investment Advisor are required to notify the State Treasurer, in writing, if the policy breach exceeds the stated minimum/maximum and to provide an explanation of the rationale for the deviation in policy, including the duration of time the portfolio is expected to be misaligned with the policy guidelines. If the policy minimum/maximum is exceeded by 10 percent or more, approval from the State Treasurer is required. Once the State Treasurer is notified, a determination will be made if an exception is granted for the temporary policy exemption. If the exemption is not granted, STO Staff will realign the portfolio to be within policy limits within 30 days. Temporary policy exceptions are limited to three months. The Treasurer can extend these exceptions at his/her discretion. (For example, if the maximum limit is 50%, approval would be needed at 55%.)

<u>Liquidity</u>

The investment portfolio will be structured to maintain a sufficient degree of liquidity necessary to meet reasonable redemption requests and reduce the likelihood that the investment portfolio will have to meet redemptions by selling portfolio securities into a declining market.

1. A minimum of 10 percent will be maintained in "daily liquid assets", which includes (i) cash, (ii) direct obligations of the U.S. Government, to include U.S. Treasury bills, notes, or bonds, and agencies, with maturities of 1 year or less, (iii) demand deposits, (iv) overnight repurchase agreements, and (v) securities that mature the following business day.

<u>Repurchase Agreements</u>

<u>Repurchase agreements will be subject to the following additional restrictions:</u>

1. Transactions will be conducted only with primary dealers, the Federal Reserve Bank of New York, the State's bank of record or master custodial bank, and under the terms of a written master repurchase agreement.

2. The maximum term of repurchase agreements will be 30 days.

Securities utilized in repurchase agreements will be subject to the following additional restrictions:

1. Securities utilized in a repurchase agreement with a maturity date longer than seven days will be priced daily;
2. The market value, plus accrued income, of treasury and agency securities utilized in repurchase agreements will be 102 percent of the value of the repurchase agreement, plus accrued income;
3. The market value, plus accrued income, of mortgage-backed securities utilized in repurchase agreements with more than seven days remaining until maturity will be 102 percent of the value of the repurchase agreement; and
5. Only securities authorized in the statute for the investment of public funds will be utilized in repurchase agreements as described in Section O. STO Investment Management Staff Investment Practices, 5. Repurchase Agreements.

Investment Maturity

1. Securities covering the full range of available maturities are acceptable

Portfolio Characteristics:

Quality

The total portfolio's average rating will be AA+, or equal to the current credit rating of the U.S. Government, as rated by Moody's, Standard & Poor's (S&P), and/or Fitch.

1. All downgraded securities below the minimum credit requirement held in the portfolio must be reported to the Treasurer on at least a monthly basis.

Duration Exposure

The effective duration of the Treasury Fund will be within ± 30 percent of the BC 1-3 Year Government Index.

Maturity

The average maturity of the Treasury Fund will be within ± 30 percent of the BC 1-3 Year Government Index.

Administrative:

The administrative fee, established by the Proviso 98.4, is set by the Division Director with the approval of the State Treasurer. This fee may change upon recommendation by the Division Director to the State Treasurer.

GLOSSARY

ASSET- BACKED SECURITY (ABS) - A security backed by notes or receivables against assets other than real estate. Examples are automobiles and credit card receivables.

AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS - Broker/dealers and financial institutions approved by the State Treasurer to provide investment services.

BANKERS' ACCEPTANCES (BA) - Negotiable short-term financial instruments, which are unconditional obligations of the accepting bank. They are issued on a discount basis.

BASIS POINT - 1/100 of one (1) percent. (decimally .0001 and displayed as 0.01% in percentage terms)

BENCHMARK - A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BROKER - A party who brings buyers and sellers together and charges a commission, fee, or "mark-up" for this service.

CERTIFICATE OF DEPOSIT (CD) - A negotiable time deposit issued by a bank in certificate form. A CD is issued with a specific maturity date and pays interest at maturity.

COLLATERAL - Securities or cash for which a borrower pledges to secure repayment of a loan.

COLLATERALIZED MORTGAGE OBLIGATION (CMO) - A security that pools together mortgages and separates them into short, medium, and long-term "tranches". Tranches are set up to pay different rates of interest depending upon their maturity. Interest is usually received on a monthly basis.

COMMERCIAL PAPER (CP) - A short-term promissory note issued by a corporation. Commercial paper is issued on a discount basis and has specific maturity dates. The STO maximum maturity when purchasing Commercial Paper is 180 days.

CORPORATE NOTE/BOND - A negotiable security issued by a corporation.

DEALER – An enterprise that buys and sells for its own account.

DELIVERY VS. PAYMENT (DVP) - The exchange of securities and cash at settlement date.

DISCOUNT BASIS - The price of a security expressed as an annualized rate of discount. Discounted securities are purchased at a dollar price below face value and mature at face value.

DIVERSIFICATION - Allocating investment funds to a variety of securities to minimize market risk.

DURATION - The weighted average maturity of the security's cash flows, where the present values of the cash flows serve as the weights. The greater the duration of a security, the greater it's percentage price volatility.

FAIR VALUE - The amount at which an investment can be exchanged between buyer and seller.

FANNIE MAE (FNMA) - Established by Congress in 1938 to provide liquidity to the mortgage market, especially the secondary market for residential mortgages. Legislation in 1968 transformed the agency into a publicly owned, privately managed corporation but which still requires government regulation. Previously known as the Federal National Mortgage Association.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION ("FARMER MAC") - A federally chartered agency of the United States. It was established to provide a secondary market for agricultural real estate mortgage loans.

FEDERAL FARM CREDIT BANK (FFCB) - The Federal Farm Credit Administration, a federal agency, is responsible for regulating the banks and associations that comprise the Federal Farm Credit System. This System provides credit solely to the United States agricultural sector.

FEDERAL FUNDS RATE - The interest rate charged by banks having excess reserves to banks needing the money to meet reserve requirements.

FEDERAL HOME LOAN BANK (FHLB) - The Federal Home Loan Bank Board, established by Congress in 1932, is comprised of 12 Federal Home Loan Banks. The Board is authorized to provide support and liquidity to savings and loans, banks, and insurance companies engaged in home financing.

FEDERAL HOME LOAN MORTGAGE CORPORATION ("FREDDIE MAC") - Established by Congress in 1970 to enhance the liquidity of mortgage investments and to improve the distribution of investment capital available for home mortgage financing. Legislation in 1989 transformed the agency into a publicly owned, privately managed corporation but which still requires government regulation.

FIDUCIARY STANDARD - Investment advisors are bound to a fiduciary standard that was established as part of the Investment Advisors Act of 1940. They can be regulated by the SEC or state securities regulators, both of which hold advisors to a fiduciary standard that requires them to put their client's interests above their own.

FLOATING RATE NOTES ("FLOATERS") – Securities issued with a variable rate that resets (daily, weekly, monthly, quarterly, etc.), according to the index it is benchmarked against. When issued, the security can either be benchmarked to an index with no spread, a positive spread, or a negative spread which will hold steady through the life of the security.

GOVERNMENT AGENCIES - Refers to securities issued by agencies of the United States government and United States government sponsored enterprises. Securities issued range in maturity from overnight to longer than 10 years. Securities may be issued on a discount basis or may be interest bearing. Agencies would include FARMER MAC, FFCB, FHLB, FREDDIE MAC, and FANNIE MAE.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA OR "GINNIE MAE") - Established in 1986 to take over some of the functions performed by FNMA. GNMA is an agency controlled by the Department of Housing and Urban Development (HUD). GNMA is authorized to confer a full faith and credit guarantee of the United States government for the timely payment of both principal and interest on packages of mortgages it creates in its mortgage pass-through securities program.

LIBOR - LIBOR or ICE LIBOR (previously BBA LIBOR) (London Interbank Offering Rate) is a benchmark rate that some of the world's leading banks charge each other for short-term loans. It stands for Intercontinental Exchange London Interbank Offered Rate and serves as the first step to calculating interest rates on various loans throughout the world. LIBOR is administered by the ICE Benchmark Administration (IBA) and is based on five currencies: U.S. dollar (USD), Euro (EUR), pound sterling (GBP), Japanese yen (JPY) and Swiss franc (CHF). Further, it serves seven different maturities: overnight, one week, and one, two, three, six and 12 months. There are a total of 35 different LIBOR rates each business day. The most commonly quoted rate is the three-month U.S. dollar rate.

LIQUIDITY - The capacity to meet future financial obligations from available resources.

MASTER REPURCHASE AGREEMENT - A written contract between the State Treasurer and an approved counter-party, which details each party's obligations in a repurchase agreement transaction. Among other things, it will specify the right of the buyer to liquidate the underlying securities in the event of default by the seller.

MONEY MARKET FUNDS - A fund that invests only in money market instruments, or those securities having a maturity of 397 days and under.

PREMIUM - The amount by which the market price of an issue exceeds face value, or par.

PRUDENT PERSON RULE - An investment standard which may be adopted by an investment organization to guide those with the responsibility for the investment of money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and in general, avoid speculative investments.

RATINGS - The evaluation of an issuer's credit standing published by Moody's, Standard & Poor's, Fitch or other rating services.

REPURCHASE AGREEMENT - A simultaneous sale of securities by a bank or broker/dealer with an agreement to repurchase those securities at an agreed upon date and an agreed-upon rate of interest.

SAFEKEEPING - A fee arrangement whereby an approved financial institution holds a customer's securities in its vaults, or in the case of book-entry securities, maintains a safekeeping receipt recorded in the customer's name as evidence of ownership.

SECURITIES INDUSTRY ASSOCIATION - An organization which offers premiere educational programs to member securities firms.

SEQUENTIAL PAY - A type of collateralized mortgage obligation (CMO) in which there are several tranches. Each tranche's holder receives interest payments as long as the tranche's principal amount has not been completely paid off. The senior tranche receives all initial principal payments until it is completely paid off, after which the next most senior tranche receives all the principle payments, and so on.

STUDENT LOAN MARKETING ASSOCIATION (SALLIE MAE) - Established in 1972 by Congress as a publically owned, government sponsored enterprise (GSE), created to provide liquidity for originators of student loans made under federally sponsored student loan programs. In 1997, shareholders voted to privatize Sallie Mae, although the GSE remains the obligor in all pre and post privatization public debt issued.

UNITED STATES TREASURY BILLS (T-BILLS) - Short-term government securities with maturities ranging from a few days to 52 weeks. Bills are sold at a discount from their face value. For purposes of this CIP, the STO considers all United States Treasury securities with a remaining maturity of one year or less to be Treasury Bills, regardless of issue date.

UNITED STATES TREASURY NOTES - Government securities that are issued with maturities of 2, 3, 5, 7, and 10 years and pay interest every six months.

UNITED STATES TREASURY BONDS – Government securities that are issued with a maturity of 30 years and pay interest every six months.

YIELD / YIELD TO MATURITY - The rate of annual return on an investment expressed as a percentage. The total money earned from investment date to maturity date assuming: 1) semi-annual interest payments, 2) interest is reinvested at same rate security was purchased at, and 3) the premium is subtracted or discount is added to final money.

STO PORTFOLIO BENCHMARK DEFINITIONS

	LGIP	General Fund	State Investment Pool
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 25% 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 - current	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

<table>
<tr><th></th><th>Insurance Reserve</th><th>Long-Term Pool</th><th>SCRHI</th><th>LTDI</th></tr>
<tr><td>Previously</td><td>100% BC Aggregate</td><td>100% BC Aggregate</td><td>100% BC Aggregate</td><td>100% BC Aggregate</td></tr>
<tr><td>10/1/15 - 2/28/16</td><td>15% BofAML 3 mo T-Bills
5% S&P US CP
80% BC Aggregate</td><td>10% BofAML 3 mo T-Bills
90% BC Aggregate</td><td>20% BofAML 3 mo T-Bills
5% S&P US CP
75% BC Aggregate</td><td>20% BofAML 3 mo T-Bills
5% S&P US CP
75% BC Aggregate</td></tr>
<tr><td>3/1/16 - 12/31/16</td><td rowspan="2">20% BofAML 3 mo T-Bills
80% BC Aggregate</td><td rowspan="2">20% BofAML 3 mo T-Bills
80% BC Aggregate</td><td>25% BofAML 3 mo T-Bills
75% BC Aggregate</td><td>25% BofAML 3 mo T-Bills
75% BC Aggregate</td></tr>
<tr><td>1/1/17 - current</td><td>20% BofAML 3 mo T-Bills
80% BC Aggregate</td><td>20% BofAML 3 mo T-Bills
80% BC Aggregate</td></tr>
</table>

	Edu. Improvement Fund	Ord. Sinking Fund	Treasury Fund
Current	100% Fed Funds Rate	100% Fed Funds Rate	100% BC Govt 1-3 Yr