

2013-14

South Carolina State Treasurer's Office Annual Investment Plan



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Annual Investment Plan

2013-14

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INTRODUCTION

The South Carolina Office of the State Treasurer is responsible for the administration, management, and investment of the State's funds and the College Savings plans. The investment of State funds is managed through multiple investment portfolios to preserve the State's capital, while maintaining liquidity, and obtaining the best rates of return. The Future Scholar 529 and Tuition Prepayment plans are the two qualified college savings programs, which help families save for higher education on a tax advantaged basis.

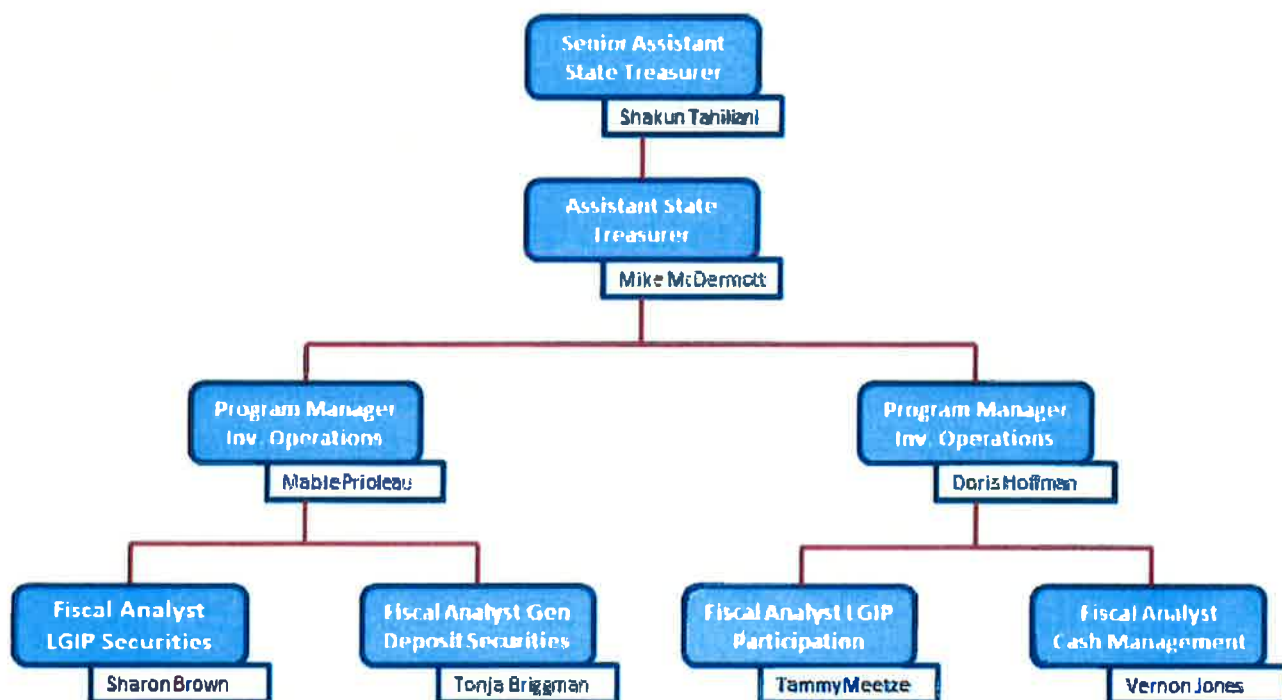
INVESTMENT MANAGEMENT DIVISION

Investment Management Division Overview:

The mission of the Investment Management Division within the State Treasurer's Office is to safely and effectively manage the funds for the State's agencies, local governments, and political subdivisions. The Investment Management staff lives by the motto "The return of principal is more important than the return on principal". The office manages multiple U.S. domestic fixed income portfolios. Investment Management staff consists of two front office personnel, who conduct the trading and portfolio management, and six back office personnel, who conduct the day to day operations.

The Investment Management staff manages between \$10,000,000,000 to \$12,500,000,000, dependent upon the cyclical nature of the cash flow's for the State's agencies, local governments, and political subdivisions and the revenues they receive. Over 1500 accounts are managed within all the portfolios.

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



Investment Management Division Objective:

As a steward of public funds, the Office of State Treasurer shall make investment decisions with three goals in mind:

- 1) Preservation of capital
- 2) Maintenance of adequate liquidity
- 3) Obtaining the best yield within prescribed parameters

This policy recognizes that investments decisions involve managing the state's daily cash flow and anticipating future revenues & expenditures. Staff manages cash balances available to anticipate the future use of these funds. Also, earning on investments provide one of the major sources of revenue for the State and 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:

Preservation of Capital – In order to minimize the potential for loss of principal, the highest investment grade fixed-income securities, i.e., U.S. Governments and Agencies or those rated at least investment grade by two leading national rating services, are to be purchased and held. A range of maturities and diversification among issuers is desirable as defense against the susceptibility to price change of Fund's assets.

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 100% of funds advanced), U.S. Treasury Bills and Federal Agency Discount Notes.

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. Specific performance measurement standards are provided in the PERFORMANCE MEASURES section of this annual investment plan.

Investment policies and procedure 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 shall 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.

Investment Management Division Authority:

The authority to invest 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.”

Investment Management Division Options:

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.

(C) The State Treasurer shall not invest in 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.

Investment Management Division Advisor:

It is the policy of this office to retain an investment advisor who is qualified to provide professional investment advice and guidance. The State Treasurer's Office currently utilizes the services of Jamison, Eaton, and Wood, Inc.

The responsibilities of the Investment Advisor are to:

- 1) Advise and counsel the State Treasurer on methods to achieve short and limited long-term investment objectives which will include, but not be limited to, guidelines on the following: Asset structure, cash and long-term investments; quality restrictions; diversification among investment sectors; turnover and restrictions on exchanges.
- 2) Make recommendations to the State Treasurer at least semi-annually an investment strategy consistent with objectives. Communicates with the State Treasurer immediately when revisions to the plan based on change in market conditions are warranted.
- 3) Assist the State Treasurer in performing research on broker/dealers through which investment transactions may be executed (see INVESTMENT PRACTICES).
- 4) Research and offer input on market trends and interest rate forecasts in preparation for the State Treasurer's projection for General Fund revenue for income earnings for the current and subsequent fiscal year.

Investment Management Division Practices:

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 falls below the Investment grade, securities will not be sold in fire sale. Each situation is to be reviewed and either the securities are held until maturity or sold during appropriate market conditions to minimize the impact on the portfolio.

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 Fund. Such criteria include, but are not limited to: net capital (of the firm, not if it's clearing agent), underwriting capability, research services, execution capabilities and commitment to secondary market trading.

Certificates of Deposit:

To assist in meeting local economic needs of communities in South Carolina, funds will be invested in certificates of deposits with financial institutions and branches throughout the State. To distribute these investments equitably, the funds are auctioned off every quarter via internet. 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.

Repurchase Agreements:

Local financial institutions will be polled each morning to determine what interest rate is being offered on overnight and term repurchase agreements. Placement of funds for repurchase agreements will be based on the competitiveness of these rates and the bank's ability to pledge required collateral.

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.

Given the nature of the Local Government Investment Pool ("LGIP") portfolio, greater liquidity, higher quality and shorter maturity is maintained in it.

Investment Management Division Performance Measures:

Benchmarks:

Each portfolio is evaluated by STO staff and the Investment Advisor to determine the appropriate benchmark to be used for comparison purposes. Benchmarks will be reviewed on (at least) an annual basis, conducted by the STO staff and the Investment Advisor. More frequent evaluations will be conducted as market conditions, portfolio adjustments, or other factors warrant.

Portfolio ID	Portfolio Name	Maturity	Benchmark
AA	Local Government Investment Pool	12 months, up to 10% 2 year max	90-day T-Bills
AD	USC Insurance & Stock Trust	N/A	N/A
CV	SC Housing Trust Fund	N/A	N/A
CZ	SC Housing Home Mortgages	N/A	N/A
C5	SHA Multi Mortgage Escrow Fund	N/A	N/A
C6	SHA Program Fund	N/A	N/A
DI	Long Term Disability Insurance - OPEB	Long-term bias	Barclay's Aggregate
EI	Education Improvement Fund	0-90 days	Fed Funds
GF	General Fund	50% 0-90 days, 50% intermediate	Barc 1-3y Gov/Cr
HI	SC Retirement Health Insurance - OPEB	Long-term bias	Barclay's Aggregate
SA	Ordinary Sinking Fund	Short-term bias	Fed Funds
SB	Insurance Reserve Fund	Long-term bias	Barclay's Aggregate
01	State Investment Pool	Medium-term bias, no restrictions	Barc 1-3y Gov/Cr
03	Long Term Pool	Long-term bias	Barclay's Aggregate
04	Treasury Fund	Medium-term bias	Fed Funds

Current Portfolio/Benchmark allocation guidelines can be found on pages 20-26.

Reporting:

The investment staff shall provide quarterly reports to the Treasurer and other executive staff. These reports 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 Report
- Internally generated report

Quarterly reports:

- Executive/Investment Staff Investment Meeting

Annual Audit reports

- External Audit reports
 - The Hobbs Group
 - Elliot Davis
- Internal Audit reports
 - State Auditor's Office

Annual GASB reports

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

Investment Management Division Market Valuation:**Market Valuation:**

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

- 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.

Investment Management Division Portfolio Summary/Asset Allocation Guidelines:

Local Government Investment Pool:

Portfolio Policy Allocation LOCAL GOVERNMENT INVESTMENT POOL		
Sector	Index % (90-day T-Bills)	Policy Allocation
US Treasury	100%	0 - 100%
US Agency		0 - 20%
Credit		0 - 20%
~ Industrial		0 - 5%
~ Financial		0 - 5%
~ Utility		0 - 5%
~ Sov/Supmtl		0 - 5%
~ Yankee		0 - 3%
~ 144a/Private		0 - 5%
Mortgage		0%
~ GNMA		0%
~ FNMA		0%
~ CMO		0%
SBA's		0%
Municipal		0%
Floating Rate Notes		0 - 30%
~ Agency		0 - 5%
~ Agency Backed		0 - 5%
~ Industrial		0 - 10%
~ Financial		0 - 15%
~ Utility		0 - 5%
~ Yankee		0 - 5%
~ 144a/Private		0 - 3%
~ Municipal		0 - 3%
~ Sov/Supmtl		0 - 3%
Cash Equivalent		0 - 40%
~ Commercial Paper		0 - 40%
Money Reserve		20 - 50%
~ Demand Deposit		0 - 10%
~ Repo		20 - 50%

General Fund:

Portfolio Policy Allocation GENERAL FUND		
Sector	Index % (Barc 1-3y Gov/Cr)	Policy Allocation
US Treasury	55%	0 - 50%
US Agency	8%	0 - 20%
Credit	39%	10 - 20%
~ Industrial		0 - 10%
~ Financial		0 - 5%
~ Utility		0 - 10%
~ Sov/Supmtl		0 - 5%
~ Yankee		0 - 3%
~ 144a/Private		0 - 3%
Mortgage		5 - 30%
~ GNMA		5 - 30%
~ FNMA		0%
~ CMO		0 - 5%
SBA's		5 - 20%
Municipal		0 - 2%
Floating Rate Notes		20 - 40%
~ Agency		0 - 5%
~ Industrial		0 - 10%
~ Financial		0 - 15%
~ Utility		0 - 3%
~ Sov/Supmtl		0 - 5%
~ Yankee		0 - 3%
~ 144a/Private		0 - 3%
~ Municipal		0 - 3%
Cash Equivalent		10 - 30%
~ Commercial Paper		10 - 30%
~ Certificates of Deposit		0 - 5%
Money Reserve		10 - 50%
~ Repo		10 - 40%

State Investment Pool:

Portfolio Policy Allocation STATE INVESTMENT POOL		
Sector	Index % (Barc 1-3y Gov/Cr)	Policy Allocation
US Treasury	53%	0 - 50%
US Agency	8%	0 - 10%
Credit	39%	20 - 50%
~ Industrial		0 - 10%
~ Financial		0 - 5%
~ Utility		0 - 10%
~ Sov/Supmtl		0 - 3%
~ Yankee		0 - 3%
~ 144a/Private		0 - 3%
Mortgage		5 - 30%
~ GNMA		5 - 30%
~ FNMA		0%
~ CMO		0 - 5%
SBA's		5 - 20%
Municipal		0 - 2%
Floating Rate Notes		20 - 40%
~ Agency		0 - 5%
~ Industrial		0 - 10%
~ Financial		0 - 15%
~ Utility		0 - 10%
~ Sov/Supmtl		0 - 3%
~ Yankee		0 - 3%
~ 144a/Private		0 - 3%
~ Municipal		0 - 3%
Cash Equivalent		10 - 30%
~ Commercial Paper		10 - 30%
~ Certificates of Deposit		0 - 5%
Money Reserve		0 - 10%
~ Demand Deposit		0 - 5%
~ Repo		0 - 10%

Insurance Reserve Fund:

Portfolio Policy Allocation INSURANCE RESERVE FUND		
Sector	Index % (Barclay's Aggregate)	Policy Allocation
US Treasury	35%	0 - 50%
US Agency	6%	0 - 20%
Credit	26%	30 - 60%
~ Industrial		10 - 35%
~ Financial		0 - 10%
~ Utility		10 - 20%
~ Sov/Supmtl		0 - 3%
~ Yankee		0 - 3%
~ 144a/Private		0 - 3%
Mortgage	31%	10 - 30%
~ GNMA		5 - 30%
~ FNMA		0 - 3%
~ CMO		0 - 5%
SBA's		10 - 30%
Municipal		0 - 2%
Floating Rate Notes		0 - 15%
~ Agency		0 - 5%
~ Industrial		0 - 10%
~ Financial		0 - 10%
~ Utility		0 - 10%
~ Yankee		0 - 5%
~ 144a/Private		0 - 5%
Cash Equivalent		0 - 5%
~ Commercial Paper		0 - 5%
~ Certificates of Deposit		0 - 5%
Money Reserve		0 - 10%
~ Repo		0 - 10%

Long Term Pool:

Portfolio Policy Allocation LONG TERM POOL		
Sector	Index % (Barclay's Aggregate)	Policy Allocation
US Treasury	35%	0 - 50%
US Agency	6%	0 - 20%
Credit	26%	30 - 60%
~ Industrial		10 - 35%
~ Financial		0 - 10%
~ Utility		10 - 20%
~ Sov/Supmntl		0 - 3%
~ Yankee		0 - 3%
~ 144a/Private		0 - 3%
Mortgage	31%	10 - 30%
~ GNMA		5 - 30%
~ FNMA		0 - 3%
~ CMO		0 - 5%
SBA's		10 - 30%
Municipal		0 - 2%
Floating Rate Notes		0 - 15%
~ Agency		0 - 5%
~ Industrial		0 - 10%
~ Financial		0 - 10%
~ Utility		0 - 10%
~ Yankee		0 - 5%
~ 144a/Private		0 - 5%
Cash Equivalent		0 - 5%
~ Commercial Paper		0 - 5%
~ Certificates of Deposit		0 - 5%
Money Reserve		0 - 10%
~ Repo		0 - 10%

South Carolina Retirement Health Insurance Trust Fund:

Portfolio Policy Allocation SC RETIREMENT HEALTH INSURANCE		
Sector	Index % (Barclay's Aggregate)	Policy Allocation
US Treasury	35%	0 - 50%
US Agency	6%	0 - 20%
Credit	26%	30 - 60%
~ Industrial		10 - 35%
~ Financial		0 - 10%
~ Utility		10 - 20%
~ Sov/Supmtl		0 - 3%
~ Yankee		0 - 3%
~ 144a/Private		0 - 3%
Mortgage	31%	10 - 30%
~ GNMA		5 - 30%
~ FNMA		0 - 3%
~ CMO		0 - 5%
SBA's		10 - 30%
Municipal		0 - 2%
Floating Rate Notes		0 - 15%
~ Agency		0 - 5%
~ Industrial		0 - 10%
~ Financial		0 - 10%
~ Utility		0 - 10%
~ Yankee		0 - 5%
~ 144a/Private		0 - 5%
Cash Equivalent		0 - 5%
~ Commercial Paper		0 - 5%
~ Certificates of Deposit		0 - 5%
Money Reserve		0 - 10%
~ Repo		0 - 10%

Long Term Disability Insurance Trust Fund:

Portfolio Policy Allocation LONG TERM DISABILITY INSURANCE		
Sector	Index % (Barclay's Aggregate)	Policy Allocation
US Treasury	35%	0 - 50%
US Agency	6%	0 - 20%
Credit	26%	30 - 60%
~ Industrial		10 - 35%
~ Financial		0 - 10%
~ Utility		10 - 20%
~ Sov/Supmtl		0 - 3%
~ Yankee		0 - 3%
~ 144a/Private		0 - 3%
Mortgage	31%	10 - 30%
~ GNMA		5 - 30%
~ FNMA		0 - 3%
~ CMO		0 - 5%
SBA's		10 - 30%
Municipal		0 - 2%
Floating Rate Notes		0 - 15%
~ Agency		0 - 5%
~ Industrial		0 - 10%
~ Financial		0 - 10%
~ Utility		0 - 10%
~ Yankee		0 - 5%
~ 144a/Private		0 - 5%
Cash Equivalent		0 - 5%
~ Commercial Paper		0 - 5%
~ Certificates of Deposit		0 - 5%
Money Reserve		0 - 10%
~ Repo		0 - 10%

FUTURE SCHOLAR 529 COLLEGE SAVINGS PROGRAM

Future Scholar 529 Overview:

In accordance with Section 529 of the Internal Revenue Code of 1986, as amended (the "Code"), and Title 59 of the South Carolina Code of Laws of 1976, as amended (the "SC Code"), the State Treasurer's Office (the "STO") offers two qualified tuition programs (together, the "Program") to help families save for higher education on a tax advantaged basis.

The Program is administered by the STO and, pursuant to Chapters 2 and 4 of Title 59 of the SC Code, includes two distinct programs: the South Carolina College Investment Program ("SCCIP" marketed as Future Scholar) and the South Carolina Tuition Prepayment Program (the "SCTPP").

The STO engages various professionals to assist with the Program. Columbia Management Investment Advisers, LLC, and Columbia Management Investment Distributors, Inc. currently serve as the Program Managers for the SCCIP and the SCTPP, with overall responsibility for the day-to-day operations of the Program. Program Manager duties include overall program management services for the SCCIP and SCTPP, including investment management services, records administration services, customer services, custody services, and other services. The STO also engages Pension Consulting Alliance to act as an advisor to provide advice to the STO and to monitor the Program.

Future Scholar 529 Objective:

Future Scholar 529 College Savings Program – "Future Scholar"

The Future Scholar 529 College Savings Program consists of two plans: a direct plan and a financial intermediary plan. Each plan includes three investment options: an age-based option, a target allocation option, and a single-fund option. Each investment option includes multiple groups of funds or investments or individual funds or investments across asset classes. In the age-based and target allocation options, each group of funds/investments and the associated asset allocation percentage is predefined (each group is a "Portfolio"). In the single-fund option, a list of funds/investments may be selected by the Account Owner (each fund/investment is a "Portfolio"). Each Portfolio includes one or more (i) mutual funds, (ii) guaranteed investment contracts, (iii) stable value funds, (iv) exchange-traded funds, (v) or an FDIC-insured bank product (together, the "Underlying Funds"). The Underlying Funds shall consist primarily of retail mutual funds.

The investment options, Portfolios, and Underlying Funds made available to account owners shall be selected and managed in accordance with the Contractual Obligations between the Investment Managers, the Program Managers and/or the STO, the Internal Revenue Code, the South Carolina Code of Laws, the Monitoring Procedures, and any applicable policies of the Future Scholar.

When performing their applicable duties regarding the Future Scholar, the STO, the Program Managers, and the Investment Consultant shall seek to achieve the following investment objectives:

- (a) Meet the various education savings needs of account owners and beneficiaries;
- (b) Provide investment options, Portfolios, and Underlying Funds which (i) are consistent with the objectives of the Future Scholar, (ii) in the age-based investment options, encompass a range of expected risk and return opportunities taking into account the age of the beneficiaries, and (iii) allow for an expected rate of return commensurate with an expected level of risk to meet the investment goals of account owners and beneficiaries;
- (c) Strive to be competitive with alternative investment options and with terms and investment choices which are easily communicated to, and understood by, account owners;
- (d) Assess the relative operating costs of each Underlying Fund against the relative benefit of utilizing that specific investment in the Future Scholar;
- (e) Include underlying mutual funds that are in the top half of their peer universe over a full market cycle;
- (f) Consider and potentially include Underlying Funds which are not mutual funds; and
- (g) Provide at least one "Direct Plan" and one "Financial Intermediary Plan" to accommodate account owners' different preferences for either managing their own investments or using a financial advisor to select the investment option and Portfolio(s) within their accounts.

Future Scholar 529 Authority:

Chapter 2 of Title 59 of the SC Code (the "Savings Act") established the Future Scholar and created a special fund designated as the South Carolina College Investment Trust Fund (the "SC FUTURE SCHOLAR Trust Fund") to hold the monies of Future Scholar and to be administered by the STO.

Pursuant to Section 59-2-90, the STO is authorized to establish a Comprehensive Investment Plan for the purposes of the Savings Act to invest any funds of the Future Scholar Trust Fund in any instrument, obligation, security, or property that constitutes legal investments, and to name and use depositories for its investments and holdings. This Comprehensive Investment Plan specifies the investment policies to be used by the STO, the Program Managers, and the Investment Consultant in the administration of the Future Scholar Trust Fund. The STO shall create and manage Future Scholar in a manner reasonable and appropriate to achieve the objectives of the Future Scholar, exercising the discretion and care of a prudent person in similar circumstances with similar objectives, giving due consideration to the risk, expected rate of return, term or maturity, diversification of total investments, liquidity, and anticipated investments in and withdrawals from the Future Scholar Trust Fund.

The purposes of the Savings Act are:

- (a) to provide wide and affordable access to public institutions of higher learning for the residents of South Carolina;
- (b) to encourage attendance at institutions of higher learning and help individuals plan for education expenses;
- (c) to provide a program of Investment Trust Agreements to apply distributions toward qualified higher education expenses at eligible educational institutions as defined in Section 529 of the Code or other applicable federal law;
- (d) to provide for the creation of a trust fund as an instrumentality of the State of South Carolina to assist qualified students in financing costs of attending institutions of higher education;

- (e) to encourage timely financial planning for higher education by the creation of Investment Trust Accounts;
- (f) to provide a choice of programs to persons who determine that the overall educational needs of their families are best suited to a prepaid tuition contract under the SCTPP or an Investment Trust Agreement under the Future Scholar, or both; and
- (g) to provide an investment program for those who wish to save to meet the cost of postsecondary education beyond the traditional baccalaureate program.

Future Scholar 529 Investment Options:

Traditional Classes:

For Future Scholar, the Underlying Funds shall draw from the following broad types of securities/investments:

- (a) Short-term marketable debt securities
- (b) U.S. fixed-income securities
- (c) Non-U.S. fixed income securities
- (d) U.S. equity securities
- (e) Non-U.S. equity securities
- (f) Bank certificates of deposit
- (g) Stable value investments

The Underlying Funds of the Future Scholar Trust Fund shall be limited to mutual funds, exchange-traded funds, stable value investments, direct holdings of bank certificates of deposit, FDIC-insured savings accounts, or separately managed accounts that hold the above-listed types of securities/investments. Investment instruments or asset classes which differ materially from these broad securities/investments would necessitate a revision to the Comprehensive Investment Plan.

The STO may at any time establish further guidelines or restrictions concerning authorized investments in Future Scholar. These further guidelines or restrictions may include, but are not limited to, specific prohibitions on certain investments or investments in certain geographic areas, limits on asset or asset class exposures, various risk constraints, benchmarks, and investment return objectives.

Use of Derivatives: There will be no categorical prohibition against the use of derivatives and/or other forms of leverage in mutual funds or exchange-traded funds, except as provided below.

- a. The Program may invest in an Underlying Fund or SCTPP Investment which uses derivative securities for the following reasons:
 - i. Hedging. An Underlying Fund or SCTPP Investment may use derivatives for hedging purposes, including cross-hedging of currency exposures, to the extent specified in its prospectus.

- ii. Creation of Market Exposures. An Underlying Fund or SCTPP Investment is permitted to use derivatives to replicate the risk/return profile of an asset or asset class provided that its prospectus allows for such exposures to that asset or asset class.
- b. The Program may not invest in an Underlying Fund or SCTPP Investment which uses derivative securities for the following reasons:
 - i. Leverage. Derivatives shall not be used to magnify the Underlying Fund's or SCTPP Investment's overall exposure to an asset, asset class, interest rate, or any other financial variable beyond that which would be allowed by an Underlying Fund's or SCTPP Investment's guidelines if derivatives were not used. The Investment Consultant will monitor the gross assets- to-net assets ratio on an ex post facto basis, when such information is legally available and if the gross assets-to-net assets ratio for an Underlying Fund or SCTPP Investment exceeds 110%, the Investment Consultant will bring this information to the attention of the STO in a timely manner.
 - ii. Unrelated Speculation. Derivatives shall not be used to create exposures to securities, currencies, indices, or any other financial variable unless such exposures would be allowed by an Underlying Fund's investment guidelines if created with non-derivative securities.

Future Scholar 529 Investment Practices:

The SCCIP (marketed as Future Scholar) and the SCTPP Comprehensive Investment Plan specifies the investment policies to be utilized by Columbia Management Investment Advisers (CMIA) in its investment management of the Future Scholar Trust Fund and the SCTPP Assets in accordance with the Act.

The Future Scholar and SCTPP Comprehensive Investment Plan defines the investment objectives of Future Scholar and the SCTPP and establishes policies and procedures so that investment objectives can be met in a prudent manner. The Future Scholar and SCTPP Comprehensive Investment Plan is intended to:

- Articulate the objectives of the Program and set forth in writing the expectations, objectives, and guidelines for the investment of Program assets;
- Formulate policies regarding permitted investments, benchmarks, and asset allocation strategies;
- Create or continue various age-based investment options within Future Scholar from which the contributor may choose;
- Establish the criteria and procedures for selecting investment options available to account owners under Future Scholar and investments available to the Program Manager under the SCTPP;
- Identify roles of specific entities having fiduciary responsibility to the Program;
- Establish guidelines, consistent with Monitoring Procedures defined below, for monitoring investment risk and evaluating investment performance; and

- Provide for an annual investment review of Future Scholar and SCTPP.

All assets in the Program must be invested in a manner that meets the requirements of the Comprehensive Investment Plan. In conjunction with the Comprehensive Investment Plan, the STO has also established the Monitoring Procedures and Criteria for the Program ("Monitoring Procedures") which provide guidance on the specific procedures to monitor investment risk and performance in order to help achieve consistent long-term investment success for participants of Future Scholar and to maximize the assets in the SCTPP.

Future Scholar 529 Performance Measures:

The STO determined it is necessary and reasonable to develop an investment monitoring program to advise the STO with regard to investment and compliance issues in Future Scholar and SCTPP and has delegated such a role to the Program Managers and the Investment Consultant. Additional information about the procedures used in the monitoring program can be found in the Monitoring Procedures and Criteria for Future Scholar and SCTPP.

The Program Manager will provide performance history for the Underlying Funds in Future Scholar and the Asset Classes and SCTPP Investments in the SCTPP to the STO and the Investment Consultant. The Investment Consultant will monitor the Underlying Funds in Future Scholar and Asset Classes and SCTPP Investments in the SCTPP, assign an investment status to Underlying Funds in Future Scholar and Asset Classes in the SCTPP, and make recommendations to the STO to add, remove, or change the Underlying Funds or the Asset Classes, as may be appropriate and as detailed in Section D above and the Monitoring Procedures. The Investment Consultant will report to the STO on issues directly affecting the prudent administration of the Program, on behalf of the STO and other Program stakeholders, and will perform its duties in a manner consistent with generally accepted standards of fiduciary responsibility.

Benchmarks:

All investment decisions made on behalf of the Program shall be made with due consideration of the objectives set forth in Comprehensive Investment Plan for Future Scholar and SCTPP (CIP). The Investment Consultant shall evaluate investment performance relative to assigned benchmarks. The Program Manager shall at all times seek to provide performance consistent with performance criteria as shown in the Monitoring Procedures and Criteria for Future Scholar and SCTPP. When evaluating investment performance, a benchmark will be used to provide relative results with the following stipulations:

- (a) Industry standard benchmarks shall be used;
- (b) Each Underlying Fund and Asset Class, as appropriate, is to be compared against an appropriate benchmark or policy benchmark as outlined in the Monitoring Procedures; and,
- (c) Each Underlying Fund and Asset Class, as appropriate, shall be considered against their respective benchmarks over an identical time period.

Each of the benchmarks to be utilized in performance evaluation is identified in the Monitoring Procedures.

Investment Status Report:

The Investment Consultant shall prepare and present to the STO an evaluation of the performance and status of all Underlying Funds in Future Scholar and all Asset Classes and SCTPP Investments in the SCTPP on a quarterly basis. Such reports shall address, among other matters, the ratings of the Underlying Funds in Future Scholar and Asset Classes in the SCTPP as "Positive", "Acceptable", "Caution" or "Watch." (See the Monitoring Procedures for additional information on these ratings.) The quarterly status report will also recommend changes in "Watch" status, and will include the timing of any status change and the reason for the change. The STO may impose unique reporting requirements on the Investment Consultant regarding any Underlying Fund or Asset Class on "Watch" status.

The criteria to determine whether an Underlying Fund or Asset Class is to be placed on, or removed from, "Watch" status is set forth in the Monitoring Procedures.

Annual Investment Review:

The Program Managers will present investment reviews for both Future Scholar and the SCTPP on an annual basis or more frequently as requested by the STO, in accordance with contractual requirements. Such reviews shall include performance monitoring and any proposed changes to approved benchmarks, investment options, Portfolios, Underlying Funds, SCTPP Investments, asset mix, fees, etc. Proposed changes will be reviewed by the Investment Consultant prior to presentation to the STO. To the extent consistent with any Contractual Obligations requiring mutual agreement of the Program Manager, the STO will retain the final decision-making authority to accept, reject, request modification to, or defer, any recommendations. Updates to all disclosure and customer documents to reflect approved changes will be prepared by the Program Managers and will be reviewed and approved as appropriate by the STO.

Future Scholar 529 Market Valuation:

The Program Manager calculates a Net Asset Value for each Pricing Alternative of a particular Portfolio, as of 4:00 p.m. Eastern time, on each day that the New York Stock Exchange ("NYSE") is open for trading. "Net Asset Value" is computed by dividing the value of the shares of each Underlying Fund held in a Portfolio, plus any receivables and less any liabilities of such Portfolio, by the number of outstanding Shares of the Portfolio. Each Pricing Alternative of a particular Portfolio may have a different Net Asset Value.

Future Scholar 529 Portfolio Summaries/Asset Allocations:

The SCCIP is marketed in-state and nationally as the Future Scholar 529 College Savings Plan. It includes two plans tailored for the two distinct delivery channels through which Future Scholar is offered: the Direct Plan, offered primarily to South Carolina residents, and the Financial Intermediary Plan, offered through financial intermediaries nationally.

(a) Future Scholar 529 College Savings Plan – Direct Plan

The Future Scholar Direct Plan offers Account Owners a selection among three investment options: the Age-Based Option; the Target Allocation Option, and the Single-Fund Option.

The policy target asset allocations and benchmarks for the Portfolios within the Age-Based and Target Allocation Options are shown below. The permissible asset class ranges for the Age-Based and Target Allocation Options can be found in Addendum 2.

Portfolios in the Age-Based Investment Option

The Direct Plan offers three Age-Based risk tracks (Aggressive; Moderate and Conservative) and seven Age-Based Portfolios (Aggressive Growth, Growth, Moderate Growth, Moderate, Moderate Conservative, Conservative, and College). The Age-Based Portfolios invest in a mix of equity, fixed income and/or cash and cash equivalents. The initial Age-Based Portfolio is determined according to the current age of the underlying beneficiary on the Account and the selected risk track. As the beneficiary ages, the account's assets move to an Age-Based Portfolio in which the allocation among Underlying Funds invested in equities, fixed income securities, and cash becomes more conservative relative to the existing allocation. The target asset allocation percentages by asset class for each Age-Based Portfolio are set forth below in the following table.

Asset Allocation Targets for Age-Based Funds – By Asset Class

Age-Based Portfolios	Age of Beneficiary						
	0-5	6-8	9-11	12-15	16-17	18+	
Aggressive							
Moderate		0-5	6-8	9-11	12-15	16-17	18+
Conservative			0-5	6-8	9-11	12-15	16+
Asset Class							
Domestic Equity*	70%	64%	48%	41%	25%	15%	0%
International Equity	20%	16%	12%	9%	5%	0%	0%
Fixed Income	10%	20%	40%	45%	50%	45%	50%
Cash & Cash Equivalents	0%	0%	0%	5%	20%	40%	50%

*Includes convertible securities

Portfolios in the Target Allocation Investment Option

The Direct Plan offers seven Target Allocation Portfolios. Each of the Target Allocation Portfolios consists of Underlying Funds invested in a mix of equity, fixed income and/or cash investments. Unlike the Age-Based Option, the Account Owners investment in a Target

Allocation Portfolio does not adjust over time as the beneficiary gets older; however, the Account Owner may decide to move the account's assets to a different Portfolio as the beneficiary ages. The target asset allocation percentages by asset class for each Portfolio are set forth in the following table.

Target Allocation Portfolios	Domestic Equity	Int'l Equity	Fixed Income	Cash / Equivalents
Aggressive Growth	70%	20%	10%	0%
Growth	64%	16%	20%	0%
Moderate Growth	48%	12%	40%	0%
Moderate	41%	9%	45%	5%
Moderate Conservative	25%	5%	50%	20%
Conservative	15%	0%	45%	40%
College	0%	0%	50%	50%

*Includes convertible securities

Portfolios in the Single-Fund Investment Option (see Addendum 3 for detailed description)

In addition to the Age-Based and Target Allocation Investment Options, an account owner in the Direct Plan may select to invest in the Single-Fund Investment Option in which he may choose investments from a menu of Single-Fund Portfolios to build a customized portfolio. The Direct Plan offers Single-Fund Portfolios covering the following broad asset classes: ultra-short term fixed income, short term fixed income, intermediary fixed income, Treasury inflation-protected, domestic equity and international equity (see Addendum 3 for a complete list).

(b) Future Scholar 529 College Savings Plan – Financial Intermediary Plan

The Future Scholar Financial Intermediary Plan offers Account Owners a selection among three investment options: the Age-Based Option; the Target Allocation Option, and the Single-Fund Option.

The policy target asset allocations and benchmarks for the Portfolios within the Age-Based and Target Allocation Options are shown below. The permissible asset class ranges for the Age-Based and Target Allocation Options can be found in Addendum 2.

Portfolios in the Age-Based Option

The Financial Intermediary Plan offers three Age-Based risk tracks (Aggressive; Moderate and Conservative) and seven Age-Based Portfolios (Aggressive Growth, Growth, Moderate Growth, Moderate, Moderate Conservative, Conservative, and College). The Age-Based Portfolios invest in a mix of equity, fixed income and/or cash and cash equivalents. The initial Age-Based Portfolio is determined according to the current age of the underlying beneficiary on the Account and the selected risk track. As the beneficiary ages, the account's assets move to an Age-Based Portfolio in which the allocation among equity, fixed income and cash becomes more conservative relative to the existing allocation. The target asset allocation

percentages by asset class for each Age-Based Portfolio are set forth below in the following table.

Asset Allocation for Age-Based Funds – By Asset Class

Age-Based Portfolios	Age of Beneficiary						
	0-5	6-8	9-11	12-15	16-17	18+	
Aggressive	0-5	6-8	9-11	12-15	16-17	18+	
Moderate		0-5	6-8	9-11	12-15	16-17	18+
Conservative			0-5	6-8	9-11	12-15	16+
Asset Class							
Domestic Equity *	72%	67%	51%	41%	25%	15%	0%
International Equity	20%	16%	12%	9%	5%	0%	0%
Fixed Income	8%	17%	37%	45%	50%	45%	50%
Cash & Cash Equivalents	0%	0%	0%	5%	20%	40%	50%

*Includes convertible securities

Portfolios in the Target Allocation Option

The Financial Intermediary Plan offers seven Target Allocation Portfolios. Each of the Target Allocation Portfolios consists of Underlying Funds invested in a mix of equity, fixed income and/or cash investments. Unlike the Age-Based Portfolios, the Account Owners investment in a Target Allocation Portfolio does not adjust over time as the beneficiary gets older. However, the Account Owner may decide to move the account's assets to a different Portfolio as the beneficiary ages. The target asset allocation percentages by asset class for each Portfolio are set forth in the following table.

Target Allocation Portfolios	Domestic Equity	Int'l Equity	Fixed Income	Cash / Equivalents
Aggressive Growth	72%	20%	8%	0%
Growth	67%	16%	17%	0%
Moderate Growth	51%	12%	37%	0%
Moderate	41%	9%	45%	5%
Moderate Conservative	25%	5%	50%	20%
Conservative	15%	0%	45%	40%
College	0%	0%	50%	50%

*Includes convertible securities

Portfolios in the Single-Fund Option (See Addendum 3 for detailed description)

In addition to the Age-Based and Target Allocation Investment Options, an account owner in the Financial Intermediary Plan may select to invest in the Single-Fund Investment Option in which he may choose investments from a menu of Single-Fund Portfolios to build a customized portfolio. The Financial Intermediary Plan offers Single-Fund Portfolios covering the following broad asset classes: ultra-short term fixed income, short term fixed income, intermediary fixed income, Treasury inflation-protected, domestic equity and international equity (see Addendum 3 for a complete list).

SOUTH CAROLINA TUITION PREPAYMENT PROGRAM

Tuition Prepayment Overview:

Please see "Future Scholar 529 Overview" section under the Future Scholars 529 College Savings portion of this document (p. 16).

Tuition Prepayment Objective:

The assets of the SCTPP shall be invested in various individual investments (the "SCTPP Investments") for each underlying asset classification. A single SCTPP Investment or the group of SCTPP Investments for each asset classification is referred to as an "Asset Class." Together, the SCTPP Investments in all of the Asset Classes are referred to as the "SCTPP Portfolio."

The investment objectives of the SCTPP assets are to:

- (a) Strive to achieve an investment rate of return and appropriate risk level in order to maximize the life of the SCTPP, which is currently closed to new participants, by doing the following:
 - (i) Balancing the SCTPP Portfolio's risk-return level by maintaining a balanced mix of liability-matched (LDI) assets and risk assets (consisting of equity and fixed income investments) within the constraints of state law; and
 - (ii) Regularly reviewing the asset allocation of the SCTPP Portfolio based on capital market expectations.
- (b) Invest in a manner which is appropriate and prudent for the SCTPP.
- (c) Reasonably anticipate liquidity needs of the SCTPP (as in the case of refunds to participants, administrative expenses, etc.).

Tuition Prepayment Authority:

The SCTPP was established by Chapter 4 of Title 59 of the SC Code (also known as the "South Carolina Tuition Prepayment Program Act" or the "Prepayment Act"). The SCTPP was established to assist South Carolina citizens with the expense of college by providing an advanced payment program for tuition at a fixed and guaranteed level for public colleges and universities.

Pursuant to the Prepayment Act, the STO established and maintains a nonpublic, special, revolving fund (the "SCTPP Fund"). The SCTPP Fund consists of monies received from contributors, other monies acquired from governmental and private sources, and proceeds from the investments of the SCTPP Fund.

The SCTPP Fund is invested as directed by the STO. Authorized investments include securities authorized by Section 11-9-660 of the SC Code, equity securities of a corporation that is registered on a national securities exchange or quoted through the National Association of Securities Dealers Automatic Quotations System or similar service, and securities issued by an investment company

registered under the Investment Company Act of 1940 (per Section 59-4-40). Pursuant to Section 11-9-660, authorized investments include the following:

- (a) Obligations of the United States, its agencies, and instrumentalities;
- (b) Obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, the African Development Bank, and the Asian Development Bank;
- (c) 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;
- (d) Certificates of deposit, as described in Section 11-9-660(A)(4);
- (e) Repurchase agreements, as described in Section 11-9-660(A)(5); and
- (f) 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.

Pursuant to Section 59-4-40, the custody and management of the SCTPP Fund is directed by the STO, and the SCTPP Fund is invested in accordance with written investment policies approved by the STO. Accordingly, pursuant to Section 59-4-30, the Prepayment Act established that the STO is responsible for developing and adopting the investment policies, guidelines, and strategies for the SCTPP, and the STO has adopted this CIP with respect to the SCTPP.

Tuition Prepayment Investment Options:

Traditional Classes:

The SCTPP Investments in the SCTPP shall comply with the authorized investments listed below:

Pursuant to Section 11-9-660, authorized investments include the following:

- (a) Obligations of the United States, its agencies, and instrumentalities;
- (b) Obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, the African Development Bank, and the Asian Development Bank;
- (c) 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;
- (d) Certificates of deposit, as described in Section 11-9-660(A)(4);
- (e) Repurchase agreements, as described in Section 11-9-660(A)(5); and
- (f) 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.

The STO may at any time establish further guidelines or restrictions concerning authorized investments in the SCTPP. These further guidelines or restrictions may include, but are not limited to, specific

prohibitions on certain investments or investments in certain geographic areas, limits on asset or asset class exposures, various risk constraints, benchmarks, and investment return objectives.

Use of Derivatives:

Please see “Use of Derivatives” section under the Future Scholars 529 College Savings portion of this document (p. 19-20).

Tuition Prepayment Investment Practices:

Please see “Future Scholar 529 Investment Practices” section under the Future Scholars 529 College Savings portion of this document (p. 20).

Tuition Prepayment Performance Measures:

Please see “Future Scholar 529 Performance Measures” section under the Future Scholars 529 College Savings portion of this document (p. 21-22).

Tuition Prepayment Market Valuation:

Please see “Future Scholar 529 Market Valuation Measures” section under the Future Scholars 529 College Savings portion of this document (p. 22).

Tuition Prepayment Portfolio Summaries/Asset Allocation:

The SCTPP portfolio design and asset allocation have been set up to provide the most appropriate structure and asset allocation from a risk and return perspective given the Program’s funding status and limited remaining life. The SCTPP shall be diversified both by asset class and within asset classes in order to reduce specific risk associated with any single security or class of securities. Asset allocation will be reviewed annually.

The STO hereby establishes the following asset allocation targets as presented in the following table. These targets may be adjusted annually as the STO deems appropriate or the STO will consider recommendations from the Program Manager and/or the Investment Consultant.

South Carolina Tuition Prepayment Program Asset Allocation

Asset Class	Target Allocation	Policy Benchmark
US Large Cap Equity	11.8%	Russell 1000 index
US Mid Cap Equity	3.4%	Russell MidCap Index
US Small Cap Equity	1.7%	Russell 2000 Index
Non-US Developed Markets Equity	5.1%	MSCI EAFE Net Index
Non-US Emerging Markets Equity	1.7%	MSCI EM Net Index
US Long Duration Govt/Credit Bonds	1.7%	Barclay's US Long Govt/Credit Index
US High Yield Bonds	1.7%	Merrill US high yield Master
Non-US Emerging Markets Bonds	1.7%	JP Morgan EMBI
Real Estate/REITs	1.7%	FTSE NAREIT All Equity REITs
Real Return/Inflation Protected	1.7%	Barclays US TIPS Index
Commodities	1.7%	DJ-AIG Commodity Index
Immunized Fixed Income	66.3%	Blend*

* 24% 3-month Tbill, 42% Credit 1-3 Year, 34% Credit 1-5 year. The Blended Policy Benchmark will be revised annually based on changing conditions.

In addition to the investments allocated to the above-listed asset classes, an appropriate, but not excessive, amount of cash will be held to pay expenses of the SCTPP, including tuition costs.

ANNUAL INVESTMENT PLAN REVIEW

State Treasurer's Office Executive/Investment Staff Review:

The annual investment plan is to be updated by staff and presented to the Executive staff in draft form no later than March for the upcoming fiscal year approval. Any and all changes to the Annual Investment Plan should be made, and accepted by no later than May for the upcoming fiscal year.

TREASURER'S QUARTERLY INVESTMENT MEETING

Treasurer's Quarterly Investment Meeting:

Meeting Schedule

A quarterly meeting called the Treasurer's Quarterly Investment Meeting will be held within six weeks after each quarter-end date. A Meeting will be scheduled in August, November, February, and May of each fiscal year.

Structure

The State Treasurer and various advisors will attend the Meeting. The advisors consist of the Staff Advisors, the Program Staff Advisors and the Professional Advisors. The Staff Advisors consist of the Chief of Staff, the General Counsel, and the Deputy State Treasurer. The Program Staff Advisors consist of the Senior Assistant State Treasurer for Investments, the Assistant State Treasurer for Investments and the Deputy State Treasurer. The Professional Advisors consist of the representatives from Jamison Eaton and Wood, Columbia Management Investment Advisors, Pension Consulting Alliance and Strategic Capital Solutions .

Purpose

The purpose of the Meeting is for the Treasurer to acquire necessary investment information from his various advisors and to make decisions as necessary. The Meeting provides a forum for the Staff Advisors, the Program Staff Advisors and the Professional Advisors to advise and assist the Treasurer on investment matters.

Roles of Advisors

The Program Staff Advisors will create and distribute the agenda and related materials one week prior to the Meeting. At each Meeting, the Program Staff Advisors will make investment presentations and will introduce investment issues for review and discussion. The Program Staff Advisors will offer recommendations concerning investment issues.

The Professional Advisors will advise the Program Staff Advisors and assist them in identifying investment issues to be reviewed and discussed at the Meeting. At each Meeting, the Professional Advisors will make investment presentations, and will answer questions concerning investment issues.

The Staff Advisors will review investment materials prior to the Meeting and at the Meeting will receive and consider investment information as presented by the Program Staff Advisors and the Professional Advisors in order to make recommendations concerning investment issues to the Treasurer.

Investment related decisions will be documented and a record of such decisions will be filed and maintained by the Senior Assistant State Treasurer for Investments.

QUARTERLY INVESTMENT MEETING SCHEDULE

Quarterly Meetings:

Frequency:

Meet quarterly within 6 weeks after quarter-end date.

FY 2013

<u>Quarter-End Date:</u>	<u>Meeting Date</u>
• September 2012	November 8, 2012
• December 2012	February 7, 2013
• March 2013	May 9, 2013
• June 2013	August 8, 2013

FY 2014

<u>Quarter-End Date:</u>	<u>Meeting Date</u>
• September 2013	November 7, 2013
• December 2013	February 6, 2014
• March 2014	May 8, 2014
• June 2014	August 7, 2014