

South Carolina State Treasurer's Investment Portfolios

Investment Policy Statement



Revised: December 30, 2016



MISSION

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

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

PURPOSE OF THIS INVESTMENT POLICY STATEMENT (IPS)

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

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

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

DELEGATION OF AUTHORITY

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

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

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

BROAD OBJECTIVES

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

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



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 and 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 Short/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.



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 Year	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.



OBJECTIVES & PARAMETERS OF SPECIFIC INVESTMENT PORTFOLIOS

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

General Deposit Portfolios

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

Separate Funds

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

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



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	Local Government Investment Pool	State General Fund	State Investment Pool	Insurance Reserve Fund
Sub-portfolios				
Ultrashort Fixed Income	15-75%	35-70%	10-30%	0-25%
Short/Intermediate	25-85%	30-65%	25-90%	20-80%
Long-term	0%	0-10%	0-20%	0-50%
Benchmark	80% T-bills 20% BC Sht G/C	50% T-bills 30% 1-3 Yr G/C 20% BC Inter Agg	40% T-bills 30% 1-3 Yr G/C 30% BC Inter Agg	20% T-bills 80% BC Agg
Liquidity				
Ultrashort Fixed Income – daily liquid assets	10%	10%	10%	---
Min % Monthly liquid assets	---	---	---	10%
Non-government Securities				
a. CD's	10%	10%	10%	10%
b. Repurchase Agreements	50%	50%	50%	50%
c. Credit ^{1, 2, 3}	85%	70%	70%	75%
Diversification				
Minimum # of Holdings	50	50	50	50
Maximum Position Size ⁴	3%	3%	3%	3%
Max US\$ Foreign Govt & Intl Org	20%	20%	20%	20%
Maturity	1 – 28 days ≤ 100% 29 days – 12 mos ≤ 50% 12 mos – 2 yrs ≤ 10%	90 days or less ≤ 100% 5yrs or less ≤ 50% 5 yrs or more ≤ 10%	90 days or less ≤ 100% 5yrs or less ≤ 90% 5 yrs or more ≤ 20%	Full Range
Repurchase Agreements				
Maximum term	30 days	30 days	30 days	30 days
Collateral of Principal & Interest	102%	102%	102%	102%
Commercial Paper⁵				
Ratings	A-1/P-1/F-1 A-2/P-2/F-2	A-1/P-1/F-1 A-2/P-2/F-2	A-1/P-1/F-1 A-2/P-2/F-2	A-1/P-1/F-1 A-2/P-2/F-2
Split Ratings	Allowed	Allowed	Allowed	Allowed
Maximum Allocation to Tier 2	20%	100%	100%	100%
Maximum Maturity	180 days	180 days	180 days	180 days
Maximum Allocation per Issuer	3%	3%	3%	3%
Portfolio Characteristics				
Minimum Quality	A3/A-	A3/A-	A3/A-	A3/A-
Effective Duration	±30% of index	±30% of index	±30% of index	±30% of BC Agg
Average Maturity	±30% of index	±30% of index	±30% of index	±30% of BC Agg

¹ Including commercial paper, corporates, and fixed and floating rate securities

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

³ 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.

⁴ Obligations issued or guaranteed by the US government, US agencies, or US government-sponsored enterprises are eligible for inclusion without limit.

⁵ Eligible paper is further limited to issuing corporations that have a total commercial paper program size in excess of \$250 million.



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	Long Term Pool	SC Retirement Health Insurance - OPEB	Long-Term Disability Insurance
Sub-portfolios			
Ultrashort Fixed Income	0-25%	0-30%	0-30%
Short/Intermediate	20-80%	25-80%	25-80%
Long-term	0-55%	0-50%	0-50%
Benchmark	20% T-bills 80% BC Agg	20% T-bills 80% BC Agg	20% T-bills 80% BC Agg
Liquidity			
Ultrashort Fixed Income – daily liquid assets	---	---	---
Min % Monthly liquid assets	10%	10%	10%
Non-government Securities			
a. CD's	10%	10%	10%
b. Repurchase Agreements	50%	50%	50%
c. Credit ^{6,7}	75%	75% ⁹	75% ⁹
i. Private Placements	2% ⁸	2%	2%
Diversification			
Minimum # of Holdings	50	50	50
Maximum Position Size ¹⁰	3%	3%	3%
Max US\$ Foreign Gov t& Intl Org	20%	20%	20%
Maturity	Full Range	Full Range	Full Range
Repurchase Agreements			
Maximum term	30 days	30 days	30 days
Collateral of Principal & Interest	102%	102%	102%
Commercial Paper¹¹			
Ratings	A-1/P-1/F-1 A-2/P-2/F-2	A-1/P-1/F-1 A-2/P-2/F-2	A-1/P-1/F-1 A-2/P-2/F-2
Split Ratings	Allowed	Allowed	Allowed
Maximum Allocation to Tier 2	100%	100%	100%
Maximum Maturity	180 days	180 days	180 days
Maximum Allocation per Issuer	3%	3%	3%
Portfolio Characteristics			
Minimum Quality	A3/A-	A3/A-	A3/A-
Effective Duration	±30% of BC Agg	±30% of BC Agg	±30% of BC Agg
Average Maturity	±30% of BC Agg	±30% of BC Agg	±30% of BC Agg

⁶ Including commercial paper, corporates, and fixed and floating rate securities

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

⁸ 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.

⁹ Including commercial paper, corporates, fixed and floating rate securities

¹⁰ Obligations issued or guaranteed by the US government, US agencies, or US government-sponsored enterprises are eligible for inclusion without limit.

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	Education Improvement Fund	Ordinary Sinking Fund	Treasury Fund
Sub-portfolios			
Ultrashort Fixed Income	15-75%	0-100%	0-30%
Short/Intermediate	25-60%	0-100%	25-80%
Long-term	0%	0%	0-55%
Benchmark	Fed Funds Rate	Fed Funds Rate	BC 1-3 Yr Govt
Liquidity			
Minimum Daily liquid assets	10%	10%	10%
Min % Monthly liquid assets	—	—	—
Non-government Securities			
d. CD's	10%	10%	—
e. Repurchase Agreements	50%	50%	100%
f. Credit ^{12, 13, 14}	90%	70%	—
Diversification			
Minimum # of Holdings	—	—	—
Maximum Position Size ¹⁵	3%	3%	—
Max US\$ Foreign Govt & Intl Org	20%	20%	—
Maturity	90 days or less	90 days or less	Full Range
Repurchase Agreements			
Maximum term	30 days	30 days	30 days
Collateral of Principal & Interest	102%	102%	102%
Commercial Paper¹⁶			
Ratings	A-1/P-1/F-1 A-2/P-2/F-2	A-1/P-1/F-1 A-2/P-2/F-2	A-1/P-1/F-1 A-2/P-2/F-2
Split Ratings	Allowed	Allowed	Allowed
Maximum Allocation to Tier 2	100%	100%	100%
Maximum Maturity	90 days	90s days	180 days
Maximum Allocation per Issuer	3%	3%	3%
Portfolio Characteristics			
Minimum Quality	A3/A-	A3/A-	A3/A-
Effective Duration	—	—	±30% of BC 1-3 Yr Govt
Average Maturity	Max: No < 3 months	Max: No < 3 months	±30% of BC 1-3 Yr Govt

¹² Including commercial paper, corporates, and fixed and floating rate securities

¹³ Corporates include Floating Rate Notes, Yankee Bonds / CD's and Private Placements

¹⁴ 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

¹⁵ Obligations issued or guaranteed by the US government, US agencies, or US government-sponsored enterprises are eligible for inclusion without limit.

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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 35% BC 1-3 Yr Govt/Credit 20% BC Aggregate
3/1/16 - 12/31/16 ¹⁷	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 35% 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

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

	Edu. Improvement Fund	Ord. Sinking Fund	Treasury Fund
Previously	100% Fed Funds Rate	100% Fed Funds Rate	100% Fed Funds Rate
10/1/15 - current	100% Fed Funds Rate	100% Fed Funds Rate	100% BC Govt 1-3 Yr

¹⁷ Benchmarks were revised as the S&P US CP Index was discontinued. Allocations to this benchmark were reallocated to the BofAML 3 mo T-Bills Index.